

Indonesia's central bank keeps rates on hold as economic recovery gathers pace

Bank Indonesia holds rates steady again as inflation remains subdued even though the economic recovery is gathering pace



Governor of Bank Indonesia, Perry Warjiyo, pictured in 2019

3.5% BI policy rate

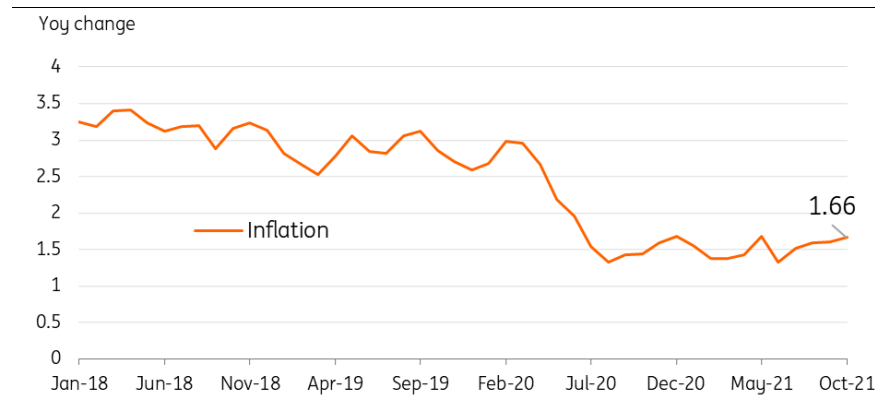
As expected

Central bank retains policy settings to provide added boost to recovery

Bank Indonesia (BI) kept policy rates untouched as expected at today's policy meeting. Governor, Warjiyo suggested that growth prospects for the global and domestic economy remain upbeat. BI forecasts 2021 GDP growth to hit 5.7% as the recovery enters a higher gear after mobility restrictions were relaxed following the Delta Covid-19 wave. All signs point to a stark pickup in domestic activity with recent manufacturing indices heading higher alongside surging demand for

Indonesia's exports. Subdued inflation allows the BI additional leeway to keep monetary settings untouched with inflation staying below target.

Indonesia's inflation stays below target in 2021



Source: Badan Pusat Statistik

BI on hold for a bit longer

Governor Warjiyo has indicated his preference for a “pro-growth stance” and he did just that today by leaving rates untouched. The currency has remained relatively resilient, even in the face of the Fed taper, suggesting that BI can bide its time and be patient with regard to its tightening cycle. We expect BI to remain on hold for the rest of the year and for at least the first half of 2022. With inflation expected to stay in check and growth likely to recover, we expect the decision point for the first BI rate hike will be the rupiah's stability. Should IDR remain stable in early 2022, we could see BI retaining its current stance for at least the first half of next year.