Indonesia's central bank keeps rates steady as expected, wary of recent Covid surge

Bank Indonesia left rates untouched but an evolving landscape could change the narrative

Bank Indonesia Governor Perry Warjiyo is hoping to retain his 'pro-growth' stance for as long as possible

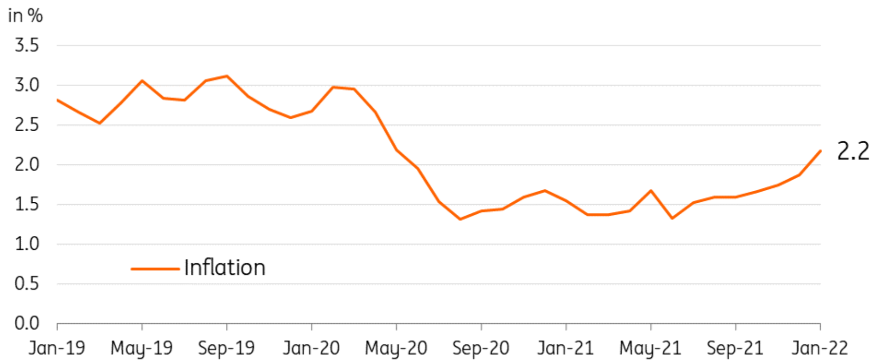
3.5% Policy rate

As expected

BI on hold for now

Bank Indonesia (BI) kept policy rates at 3.5% with an eye to supporting the economy's recovery. BI Governor, Perry Warjiyo, has repeatedly voiced his support for the recovery efforts, even adopting a "pro-growth" stance to help spur GDP last year. The Indonesian economy managed to post full-year GDP growth of 3.7%, within expectations, bouncing back from the 2.1% contraction the year before. After three quarters of solid expansion, one can argue that the recovery is underway although a recent surge in Covid infections may dampen growth momentum in the near term.

Inflation creeps back into target band but could factor into policy decisions later in the year



Source: Badan Pusat Statistik

Time to head for the exit?

But even as BI retains its accommodation, the central bank quietly charted its exit from its pandemic level monetary stimulus. Governor Warjiyo previously signalled that the central bank was carefully crafting its exit strategy which could be kicked off with an adjustment to liquidity support followed by an eventual reversal in its policy rate. Last January, BI surprised market participants with a pre-announced hike in the reserve requirement, suggesting that BI is in the early stages of its exit plan.

With the Federal Reserve priming to hike rates as early as March and with the Indonesian rupiah coming under pressure in the early goings of 2022 (-0.53%), we believe BI could be closing in on a potential reversal of its stance in the near term. The trigger points for any such reversal would be the gradual acceleration of inflation and heightened depreciation of IDR with the first rate hike by BI possibly happening by 2Q.