

Indonesia's central bank keeps rates unchanged to support growth

Despite recent geopolitical developments, the Indonesian rupiah has remained surprisingly stable and inflation remains subdued



Inflation in Indonesia has remained subdued

3.5% 7-day reverse repurchase rate

As expected

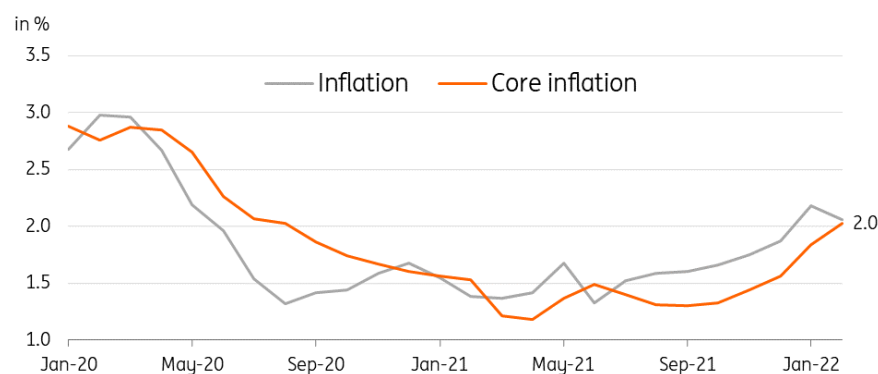
Bank Indonesia keeps rates at 3.5% to support recovery

Bank Indonesia (BI) kept its main policy rate unchanged at 3.5% as it monitors the fallout from the ongoing geopolitical developments. BI indicated it was less optimistic over global growth prospects but remained confident in the domestic economy's recovery, retaining its growth projection of 4.7-5.5% for the year.

Meanwhile, the central bank also retained its outlook for the current account deficit for 2022 (1.1-1.9% of GDP) with the trade balance staying in a healthy surplus due to increased prices for its

commodity exports. BI expects inflation to remain within the target of 2-4% but also indicated it would monitor inflation risks related to rising commodity and food prices. With inflation still in check and the Indonesian rupiah (IDR) supported by favourable dynamics for exports, BI retained its accommodative stance to bolster the economic recovery.

Inflation is well behaved, for now



Source: Badan Pusat Statistik

No pressure to hike just yet but inflation outlook will be key

Given the uncertainty surrounding global growth, BI remains in a comfortable position to retain its accommodative stance in the near term. BI Governor Perry Warjiyo had singled out currency stability and worrisome inflation as potential triggers for a reversal, but neither appear to be of concern just yet. Domestic inflation has remained subdued in large part due to fuel subsidies that keep transport costs controlled, although we are unsure if fiscal authorities will be expanding such measures as they chase fiscal consolidation targets. Nevertheless, it appears that BI does have room to retain its accommodative stance for just a little longer as inflation has yet to threaten the upper end of its 2-4% target.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com