

Indonesia's central bank remains on hold for the sixth consecutive time

Bank Indonesia kept policy rates unchanged at 3.5% as expected balancing growth and FX stability



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

3.5%

7-day reverse repurchase rate

6th straight pause

As expected

BI sounding very confident

Indonesia's central bank retained its seven-day reverse repurchase rate at 3.5%, with Governor Warjiyo maintaining his "pro-growth" stance while balancing FX and financial market stability.

The central bank retained its previous growth forecast of 3.5 - 4.3% for the year, highlighting signs of recovery despite the ongoing state of heightened restrictions in the country. Warjiyo was also upbeat about the global recovery despite the proliferation of the Delta Covid-19 variant while also

downplaying potential volatility from the projected Federal Reserve taper.

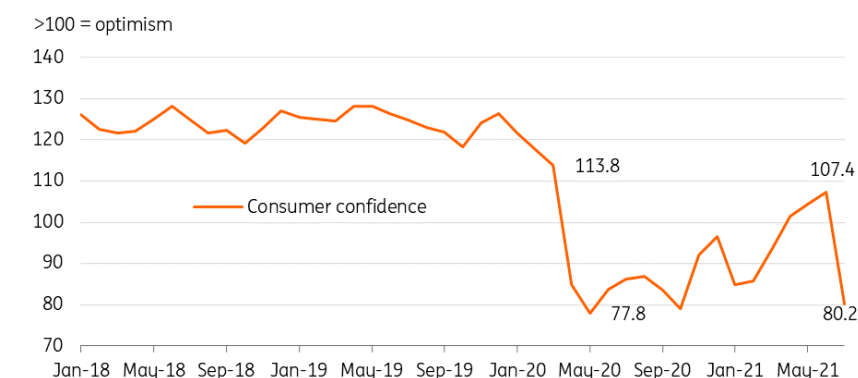
Given this outlook, the central bank expects the Indonesian economy to sustain its growth momentum and the currency to stabilise and strengthen in the coming months.

More half empty than half full?

The overall assessment painted by the central bank appears to be optimistic, and we note the challenges that may result from the ongoing state of heightened restrictions until 16 August. We've previously cited signs that the Delta variant and the resulting partial lockdowns have begun to surface with manufacturing PMI, retail sales and now consumer sentiment reacting negatively to recent developments.

Meanwhile, Governor Warjiyo shared that the central bank had prepared for the Fed taper as early as the start of 2021; however, we are sceptical that the market reception to the actual Fed Taper 2.0 will be as orderly as they expect it to be.

Delta variant weighing on consumer sentiment?



Source: Bank Indonesia and Badan Pusat Statistik

BI on hold for remainder of 2020 but will get creative with additional stimulus

Given the likely negative impact on Indonesia's growth trajectory, we expect the central bank to keep policy rates on hold for the rest of the year. The extended pause will allow Governor Warjiyo to balance support for the economy while also helping deliver FX stability.

Given our expectations for sustained pressure on IDR, we do not believe that BI has any room to trim policy rates further, especially as we edge closer to the eventual Fed taper event. The good news is that bank lending has finally reverted to growth (+0.5% in June) after nine months of contraction, with BI suggesting plans to help boost lending to smaller firms (macroprudential inclusive financing ratio).

With the central bank on hold for the rest of the year, we expect the focus to shift back to the issue of the "burden-sharing agreement" between the central bank and the ministry of finance with Governor Warjiyo indicating discussions with Finance Minister Indrawati were ongoing.

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