

Indonesia: Central bank maintains policy stance as growth outlook dims

Bank Indonesia retains its accommodative stance after trimming its GDP forecast



3.5%

7-day reverse repurchase rate

5th straight pause from BI

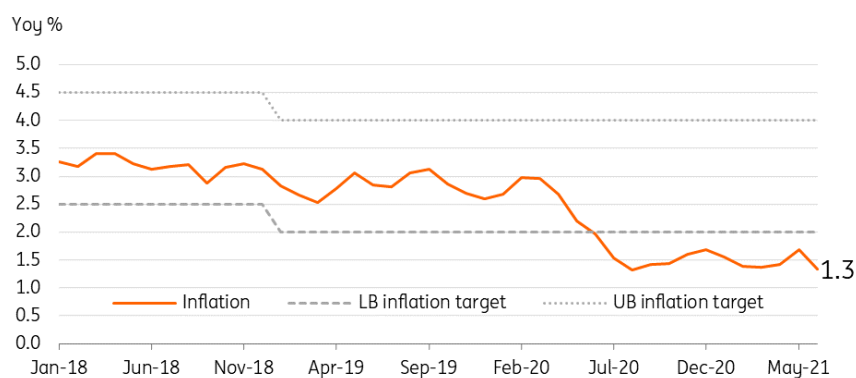
As expected

5 in a row

Bank Indonesia (BI) kept policy rates unchanged at 3.5% for a fifth straight meeting to help provide support for the economy. Indonesia's growth outlook has dimmed somewhat as the country deals with a surge in Covid-19 infections, with BI trimming its growth outlook to 3.5-4.3% (previously 4.1-5.1%). BI predicts global growth prospects will improve but also admitted that domestic economic trends appear headed for a slowdown amidst the 3-week lockdown period implemented to prevent the spread of infection. BI may have wanted to trim policy rates given below-target inflation and slowing growth - monetary authorities may have been constrained from doing so by the recent depreciation spell for the IDR. Governor Warjiyo has highlighted the importance of

currency stability and he expects the currency to be broadly stable and in-line with the economy's fundamentals.

Indonesia sees inflation below target but BI constrained from cutting rates further



Source: Badan Pusat Statistik

On hold for longer?

BI was expected to be on hold for most of, if not all of, 2021 given previous comments from Governor Warjiyo suggesting an extended pause. However, with the recent Covid-19 spike and the accompanying downgrade to the growth outlook, we now expect BI to be on hold for an extended period of time. The authorities are confident of a quick rebound by 4Q, with hopes for a turnaround pinned on ongoing vaccination efforts, additional fiscal stimulus and a pickup in global demand for the country's exports. Going forward, Warjiyo indicated he would like to calibrate monetary policy to be "pro-growth", with the central bank monitoring the pace of economic recovery and price pressures in 2022. This suggests that BI will likely extend its current pause deep into 2022, with IDR likely under pressure during bouts of risk-off.

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