

Indonesian central bank extends pause again to preserve FX stability

Bank Indonesia held rates steady for a seventh straight meeting



Bank of Indonesia
Governor Perry Warjiyo
(right)

5.75%

 BI policy rate

As expected

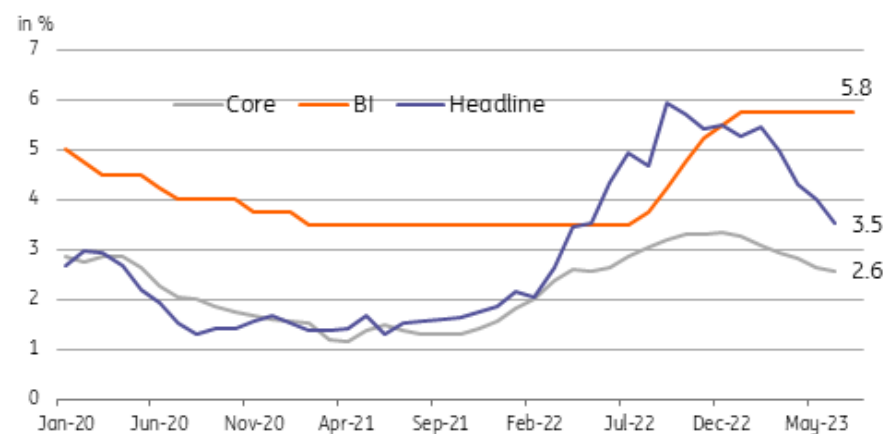
BI keeps rates at 5.75%

Bank Indonesia (BI) extended its pause for a seventh meeting today. The central bank retained its growth forecast for the year (4.5-5.3% year-on-year) expecting 2Q GDP to pick up from the first quarter as inflation has moved back within its target band. Inflation has quickly moved back to target after spiking last year after global commodity prices normalised. The decision to pause yet again is likely tied to BI's focus on shoring up the rupiah, which has come under pressure of late.

BI Governor Perry Warjiyo believes that providing FX stability supports the Bank's price stability

goal as a stable IDR helps limit imported inflation. Warjiyo also pointed to possible slowing bank lending growth due to fading demand given elevated borrowing costs with the policy rate steady at 5.75%. BI now expects loan growth to settle between 9-11% YoY, down from its previous estimate of 10-12%.

BI on hold for a seventh time



Source: Badan Pusat Statistik and Bank Indonesia

BI likely on hold for just a bit longer

Governor Warjiyo said he expects the Fed to possibly hike rates in July and September, after which he expects Fed rates to “stabilise”. We doubt BI will resort to additional tightening just yet and believe the Bank will likely be on hold for at least two more meetings. Any decision to cut rates will likely be tied to IDR stability and we expect Governor Warjiyo to be very open to rate cuts by October.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com