

## Path of Least Resistance Indonesia holds rate, as expected

May 18, 2017

- Another month marks another hold for Bank Indonesia's monetary policy decision. Its 7-day reverse repo policy rate remains stuck at 4.75% for now.
- That should not come as a surprise. Facing recalcitrant domestic inflation pressure and a hint of global risk aversion, cutting rate today would have been feckless. Given that growth is doing alright, there is little need for such act too.
- On the flip side, there is hardly any case for a rate hike anytime soon, as well. Its currency is stable. Relatedly, the Fed looks to have even less gumption to hike more than anticipated now than before, with all the drama in Washington.

### Steady does it

If it's not broken, why fix it? That seems to be the spirit that is guiding Bank Indonesia's monetary policy decision over the past few months, and it looks set to remain so for the rest of the year from the current vantage point.

For the seventh consecutive month now, BI kept its 7-day reverse repo policy rate unchanged at 4.75%, and our sense is that it will remain stuck at the same level for the rest of this year.

To understand why there is such an apparent inertia, it is easiest to think of it less as a result of casual indifference than of an active consideration because of two equal but opposing forces.

First, as alluded to at the start, a number of factors keep BI from easing its monetary policy. The most in-your-face one has to be the recent uptick in inflation. April saw headline prices picking up by 4.17% yoy, when it was below 3% just half a year back. This wave has been driven by a motley crew of adjustments in electricity prices, dearer airline tickets, petrol prices and cigarettes.

With just weeks to go before the Ramadan fasting month, we are likely to see further uptick in food- and transport-driven prices for the next few prints. While the one-off and seasonal factors are hardly a reason to freak out over more generalized inflation risks, they would nonetheless minimize the chances of a rate cut in the near term.

Meanwhile, while Q1 GDP growth was not much to write home about at 5.01%yoy – a barely noticeable uptick from 4.94% of the previous quarter – the momentum remains positive enough for the central bank to refrain from easing. This is especially so given that there appears to be relatively low chances of a fiscal pullback by the government, unlike the same period last year.

On the flip side, there is not much impetus for the central bank to nudge its policy rate upward. For one, as mentioned earlier, even as inflation remains something to look out for, there is little sign that price upticks are spreading broadly enough to warrant a classic monetary policy reaction just yet.

### Treasury Advisory

#### Corporate FX &

#### Structured Products

Tel: 6349-1888 / 1881

#### Fixed Income &

#### Structured Products

Tel: 6349-1810

#### Interest Rate

#### Derivatives

Tel: 6349-1899

#### Investments &

#### Structured Products

Tel: 6349-1886

### **Wellian Wiranto**

*Economist*

Treasury Research &  
Strategy,  
Global Treasury,  
OCBC Bank

+65 6530-5949

[wellianwiranto@ocbc.com](mailto:wellianwiranto@ocbc.com)

On top of that, Rupiah has also been trading around a comfortably narrow range, which means BI is unlikely to be forced to come in forcefully to support the currency via rate hikes.

This relatively dormant situation, of course, remains in large part a function of global factors, as well.

Overnight, we saw a whiff of risk aversion because of a roster of captivating developments in the US domestic politics. Thus far, this has translated more into USD weakness – which is, narrowly defined, a boon to EM currencies including Rupiah. To be sure, in what remains a rapidly evolving situation, Bank Indonesia is probably not alone in being cognizant that, if the risk aversion deepens further, EM currencies may well come under pressure as well. However, the likelihood of BI having to tighten primarily to stabilize its currency remains low at this point.

For now, the lack of compelling reasons to hike rate, or to ease it, will keep BI on hold. Overall, steady rates look to us to remain the path of least resistance for now.

---

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

---

Co.Reg.no.:193200032W