

Please Pass It On!

Wellian Wiranto

+65 6530 6818

WellianWiranto@ocbc.com

Bank Indonesia urges banks to pass on previous rate cuts

- It would have been surprising if BI moved on its policy rate today, given the still-unsettled global interest rate environment that remains a weight on the currency. Indeed, as widely expected, it held its rate unchanged – and does not signal that there would be any shift from that stance anytime soon.
- Instead, it is evident that BI's focus is squarely on cajoling the banks to pass on its previous rate cuts. The governor spent considerable time focusing on the minutiae of how state-owned banks have started to dutifully trim their lending rates, including by trimming their margins – something that the private-sector banks have yet to do, apparently.
- Still, despite the valiant interest cuts by some banks, loans growth has remained abysmal, contracting by 4.1% yoy in March, putting into question whether it is the lack of demand, not supply, that is the ultimate culprit. With the economy yet to recover robustly – BI has just cut its 2021 GDP forecast by 20bps to 4.1-5.1% – resuscitating growth may thus need more than just guilt-tripping banks to cut their lending rates.

Supply and Demand

We've done our part, now please do yours. To us, that is the one-line summary of the press conference surrounding Bank Indonesia's monetary policy decision today.

The decision itself, to hold its policy rate again at 3.5%, is widely expected and should not be a surprise to the market. As we highlighted in our Mar 18th report, "[End of the Cycle](#)", we are likely to have seen the last of rate cuts from Bank Indonesia this year.

On the surface, the fact that further easing is no longer in the pipeline might seem a tad odd, given that the economic recovery momentum has yet to pick up robustly. As a case in point, BI has just revised down its 2021 GDP growth forecast to 4.1-5.1% from 4.3-5.3% previously.

When quizzed about the move by the press, the Governor was keen to point out that the economy is still growing – but just by less. The nuance, however, is that owing to continued pandemic concerns, the all-important private consumption has yet to recover strongly. While specific segments such as automotive sales have jumped in March due to the lure of tax incentives and 0% down-payment initiatives, the broader consumption has been a lot less gung-ho. Retail sales figure continued to be contracting at a hefty 17% yoy in March, not much of a recovery from 18.1% yoy drop of the month before, for instance.

However, if the need to ease has arguably gotten stronger because of the lack of energetic growth momentum, the space to do so has not become wider,

unfortunately. The fact that the US Treasury yields have gone up present some challenges to Indonesian sovereign bonds attractiveness and hence the exchange rate movement. At a time when the situation remains far from settled, for BI to keep its policy rate unchanged despite the weaker growth outlook is thus a prudent choice.

If BI cannot ease policy rate further, what can it do to signal that it is doing its utmost to help the country's economy then, especially since it had already pulled the levers of [macroprudential policy loosening](#) quite forcefully earlier?

Here, BI appears to be adopting a policy of jaw-jaw in persuading and cajoling the banks to transmit its previous rate cuts more forcefully. In both the press conference and published statement thereafter, BI spent considerable time and effort detailing the breakdown of how some banks have dutifully started to trim their lending rates, while others have not.

The SOE banks, for instance, are said to have cut their base lending rate by 266bps yoy in February to 8.70% while the private-sector banks have only trimmed theirs by 88bps over the same period to 9.42%. As a measure of just how deeply BI cares about this, it further broke down how the SOE banks have selflessly cut their profit margins to help pull the credit rates down – something that is yet to be emulated by the private-sector financiers.

All in all, however, despite the system-wide decrease in lending rates, which declined by 171bps yoy overall, the fact of the matter is that credit growth remained stuck in the abyss, with a contraction of 4.13% yoy going by the March data.

Hence, one natural open question would therefore be: if the cost of loans supply has come down, but the level of completed transactions that is credit growth remains low, could we assume it is due to still-curtailed demand then? That indeed has been the long-time refrain of banks, which argued that there are simply fewer takers for their credit due to confidence issue.

If that is indeed the case, it begets a deeper conundrum. Confidence has a circuitous relationship with growth; the better the outlook, the more confident businesses will be to undertake new investments and the more ready consumers will be to buy that new shiny car – setting in motion where demand begets more demand. The dynamics work in the reverse too unfortunately, and until confidence returns more robustly to engender net increase in demand for credit, it might take a lot more than spirited prodding by the central bank for banks to pass on the rate cuts for loans growth and therefore broader economic growth to pick up.

To that end, we remain hopeful that despite the near-term challenges, the ongoing vaccination efforts by the authorities can start to tackle the root issue of the pandemic more fundamentally – to pave the way for a robust recovery. In the same breath, the news that the parallel vaccines import initiative by major companies might start to deliver shots next month should help too.

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Tommy Xie Dongming***Head of Greater China Research*XieD@ocbc.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com**Howie Lee***Thailand, Korea & Commodities*HowieLee@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Herbert Wong***Hong Kong & Macau*herberhtwong@ocbcwh.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

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 Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).