

Indonesia Investments

Monetary Policy Indonesia

- Bank Indonesia Raises Its Key Interest Rate by 25 bps to 3.75% in August 2022
- For the First Time since 2018 Bank Indonesia Opts for an Interest Rate Hike
- Surprisingly, the Rate Hike Comes at a Time When Inflation & Rupiah Pressures Seemed Easing
- More Rate Hikes Expected to Follow in the Months Ahead in Indonesia as Fed & ECB Are Expected to Remain Hawkish
- Indonesia to Raise Subsidized Fuel Prices? If Yes, Inflation Bound to Soar

27 AUGUST 2022

Van Der Schaar Investments B.V.
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Update – 27 August 2022

‘Monetary Policy of Indonesia; Bank Indonesia Raises Key Interest Rate’



Preface

In addition to our reports, Indonesia Investments sends updates on key economic, political or social developments to our subscribers to make sure that our subscribers do not miss out on vital information. Topics in these updates will often be discussed in more detail (and in an updated form) in forthcoming monthly reports.

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- Monetary Policy -

Monetary Policy of Indonesia; Bank Indonesia Raises Benchmark Interest Rate to 3.75% in August 2022

Indonesia's central bank (Bank Indonesia) – finally – decided to raise its benchmark interest rate by 25 basis points to 3.75 percent after concluding its two-day policy meeting on 23 August 2022, thereby joining the global wave of rate hikes as central banks need to combat accelerated inflation, while –especially in emerging markets– higher rates also function to prevent too much capital outflows as US assets become more attractive amid aggressive US Federal Reserve tightening.

Meanwhile, Bank Indonesia also raised its deposit facility and lending facility rates by 25 basis points to 3.00 percent and 4.50 percent, respectively.

Based on a statement in the press release that was issued by Bank Indonesia shortly after concluding its monetary policy meeting, the rate hike:

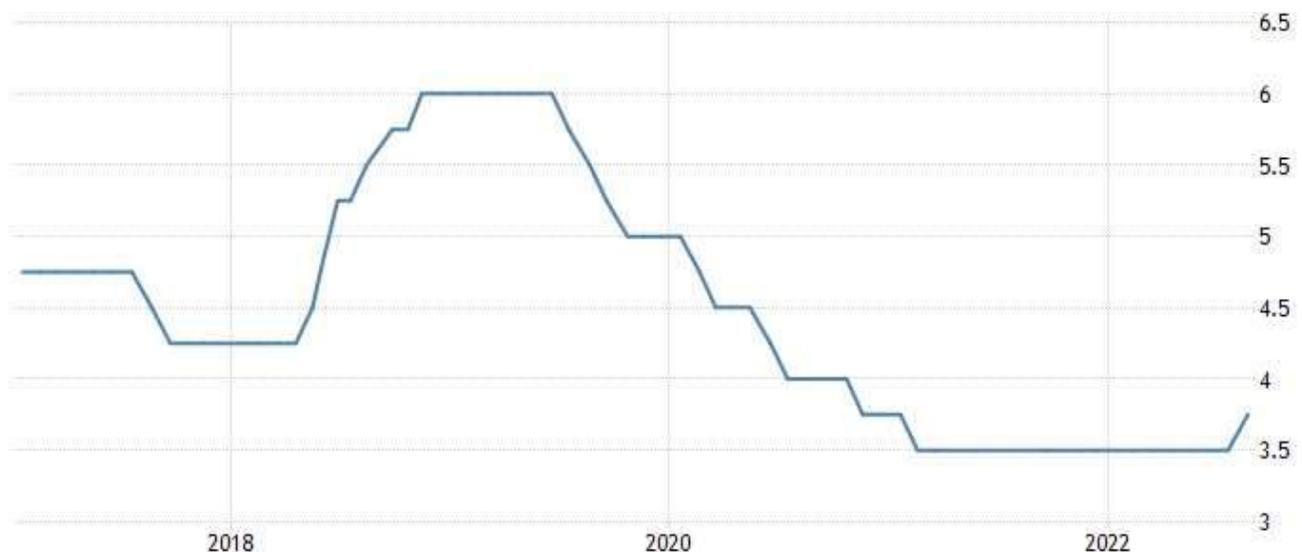
“Represents a pre-emptive and forward-looking measure to mitigate the risks posed by rising core inflation, and inflation expectations caused by higher non-subsidized fuel prices and a build-up of inflationary pressures on volatile food products, while strengthening rupiah exchange rate stabilization policy in line with the rupiah rate's

fundamental value amid persistently elevated global financial market uncertainty, and stronger domestic economic growth momentum.”

It is interesting that Bank Indonesia calls this decision a “pre-emptive and forward-looking measure” because for months it had been clear that headline inflation would rise well above the central bank’s target range, while the rupiah rate has been under pressure since the second half of April 2022. Central banks in the US, Europe, Canada and parts of Asia have already acted by lifting interest rates over the past couple of months. So, one can certainly argue that Bank Indonesia is well behind the curve.

It is the first time since the second half of 2018 that Bank Indonesia raised its key interest rate. From February 2021 to July 2022 the rate was kept at 3.50 percent.

BI 7-Day Reverse Repo Rate:



Sources: www.tradingeconomics.com and Bank Indonesia

As is made clear in Bank Indonesia's statement, the interest rate hike is fully related to Indonesia's inflation rate and the rupiah exchange rate. And therefore, we need to take a quick look at inflation and the rupiah.

[...]

This is the introduction of the article. To read the full analysis, you can buy the August 2022 edition of our monthly report. For more information please contact us through info@indonesia-investments.com or +62.882.9875.1125 (including WhatsApp chat messages).