

## BI Stands Pat While BSP Hikes By 25bp

**In a nutshell:** Neither BI nor BSP delivered any surprise rate moves - BI stayed on hold and BSP hiked by 25bp. We had expected BI to deliver a 25bp hike, which did not materialise. Instead, BI chose to sound marginally more hawkish alluding to building inflationary pressures. In effect, BI is delaying the inevitable rate hikes into Q3 as means to buy itself more time to support growth. By contrast, BSP has indicated that it is "just starting" the normalisation cycle and it remains focused on inflation containment. We expect that BSP will hike its policy rate by another 75bp this year, taking the policy rate to 3.25% by end-2022.

- **Neither BI nor BSP delivered any surprise rate moves** - BI stayed on hold and BSP hiked by 25bp. We had expected BI to deliver a 25bp hike, which did not materialise.
- **Instead, BI chose to sound marginally more hawkish alluding to building inflationary pressures.** It highlighted that rate hikes were in the pipeline but would only be triggered based on data and the situation. To that end, the June inflation print to be released on 1 July will be closely watched.
- **BI is persisting with its strategy to adopt multiple policies levers within its toolkit to support growth**, such as macroprudential policies **while delaying with liquidity issues**, through Reserve Requirement Ratio hikes.
- **In effect, BI is delaying the inevitable rate hikes into Q3 as means to buy itself more time to support growth.** The absence of wild swings in the currency (IDR) so far has allowed BI to adopt the multi-pronged strategy. But this is not to say that the risk is not live.
- By contrast, **BSP has indicated that it is "just starting" the normalisation cycle and it remains focused on inflation containment.**
- **We expect that BSP will hike its policy rate by another 75bp this year**, 25bp at each of the three remaining meetings from August to November. **This will take the policy rate to 3.25% by end-2022 from 2.50% presently.**
- **The risks for BSP are skewed towards more hikes** as inflation remains sticky given elevated global food and energy prices.
- **Both BI and BSP reiterated that they would allow FX moves to be market driven with intervention as the first line of defence in case of volatile moves.**

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