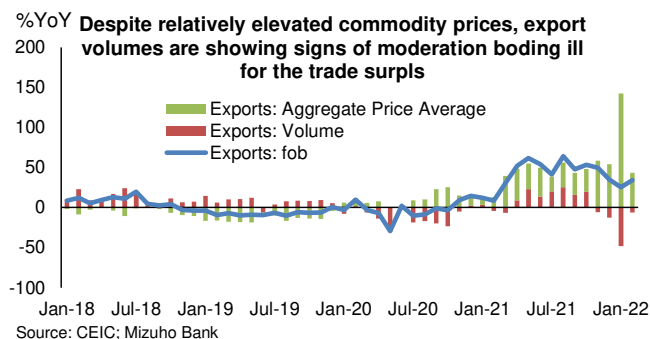
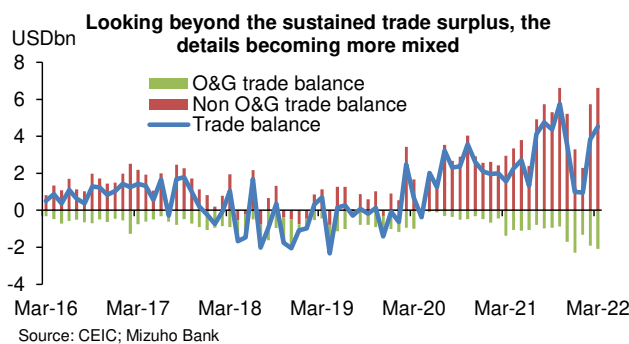


## Bank Indonesia: Emphasizing Growth Over Inflation

**In a nutshell:** BI kept its policy rate unchanged at 3.50%, in line with consensus and our expectations. However, the statement from BI was more sanguine on inflation and financial stability risks than we had expected while focussing on growth risks. This suggests BI is still some time way from starting with rate hikes, potentially in Q3 as opposed to Q2.

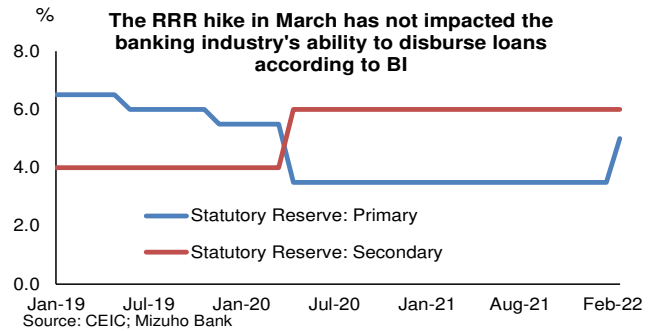
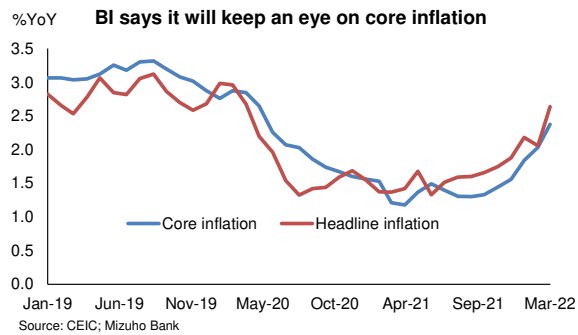
BI kept its policy rate unchanged at 3.50%, in line with consensus and our expectations. However, the statement was more sanguine on inflation and financial stability risks than we had expected while emphasizing growth risks. BI lowered its 2022 GDP growth forecast range to 4.5%-5.3% from 4.7%-5.5% as the Russia-Ukraine conflict weighs on Indonesia's exports from reduced global demand. This comes despite March exports hitting the highest on record in value terms and the trade surplus sustaining. However, as we previously pointed out earlier, export volumes are declining while import volumes, especially of oil are rising, with non-oil&gas import volumes still low. This points to weak domestic demand, which BI expects may weaken further.



This weaker domestic demand will keep core inflation in check while headline inflation remains 'manageable' within BI's 2-4% headline inflation target range. At the press conference, Governor Perry Warjiyo placed emphasis on core inflation stating that BI will not directly respond to an upward adjustment of subsidised prices but will watch core inflation to judge the second-round effects. The government has indicated that some subsidised retail fuel prices of fuel and electricity will be adjusted upwards to take account rising global oil prices. Core inflation, however, has been rising in line with headline inflation suggesting inflationary pressures are building.

Even so BI highlighted that it will be 'very careful' in addressing inflation risks and supporting growth. To that end, it said the Rupiah Reserve Requirement hike implemented in March had shown limited signs of hurting loan growth. Even in the face of more aggressive rate hikes from the US Fed and IDR depreciation risks, BI was emphatic

about supporting growth. This suggests that BI wants a longer runway to start the rate normalisation process, commencing in all likelihood in Q3 with more measured cumulative hikes of 50bp.



**The upshot is that some degree of IDR depreciation will likely be tolerated by BI as inflation risks have risen in the face of tighter global liquidity.** Moreover, there is a risk that BI's emphasis on growth rather than inflation, especially at time of rising global inflation, could signal that BI is 'falling behind the curve' on addressing price risks. In turn, this may accentuate latent vulnerabilities in the rupiah further down the road.

**Important Information**

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

**Disclaimer**

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice. This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

**Singapore:** Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

**Japan:** Mizuho is authorised and regulated by the Financial Services Agency of Japan.

**United Kingdom / European Economic Area:** In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

**United States:** This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd