Bank Indonesia extends pause for eighth consecutive meeting

Bank Indonesia kept rates at 5.75%, but could consider a rate hike moving forward should the Federal Reserve pull the trigger on one

Bank of Indonesia Governor Perry Warjiyo (right)

5.75% Policy rate

As expected

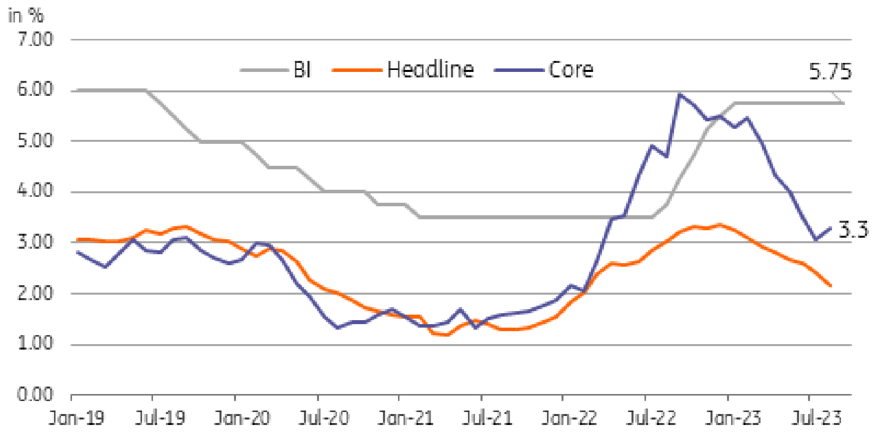
BI extends pause

Bank Indonesia (BI) held policy rates at 5.75% today in a move widely expected by market participants. This was the eighth consecutive meeting where the central bank held firm, with Governor Perry Warjiyo looking to balance support for the currency and the growth outlook.

BI retained its global growth projection at 2.8% year-on-year, with the projected slowdown in growth in China possibly offset by better than expected growth from the United States. Likewise, BI expects domestic growth to settle between 4.5-5.3% YoY, unchanged from the previous meeting.

A recent flare-up in food inflation and sustained pressure on the IDR ruled out potential rate cuts, while additional rate hikes were not likely to be considered given the challenging growth environment both in Indonesia and the world market.

BI on hold until the Fed is ready to hike anew



Source: Badan Pusat Statistik and Bank Indonesia

Leaning heavily on the SRBI

Today's decision featured the need for Bank Indonesia to balance a budding food price spike, slowing growth momentum and the need to support a currency that is down 1% for the month. BI previously suggested it would rely heavily on its newly minted instrument, the Rupiah Securities of Bank Indonesia (SRBI), to tighten monetary conditions and simultaneously attract foreign investors.

The central bank's SRBI tool replaces its previous bond purchase program which was designed to sell short-dated bonds while buying up longer-dated securities. The SRBI tool would allow the BI to extend its pause to provide support to the domestic economy while working to tighten liquidity and shore up the IDR.

After today's pause, we expect BI to maintain policy rates at 5.75% for the rest of the year – unless the Fed opts to carry out a rate increase of its own.