

Bank Indonesia keeps rates unchanged as expected

Citing mounting global risks, Governor Perry Warjiyo keeps rates unchanged



6.0% 7-day reverse repo rate

As expected

Trade tensions heap pressure on IDR yet again

After performing relatively well in the first four months of the year, the Indonesian rupiah has come under renewed pressure on concerns about a protracted trade war between the US and China. Already we are seeing a negative spillover from the ongoing tariff slinging, with Indonesia reporting worse than expected trade deficit numbers for the month of April. With a fresh round of tariffs levied across borders, the IDR was pushed back, which was enough to convince Governor Warjiyo and the rest of Bank Indonesia to keep rates unchanged at 6.0%.

BI will monitor external developments and the current account

In tandem with the central bank, the government has attempted to roll out several measures to help alleviate concerns about the current account deficit. Meanwhile, BI has kept its presence in the bond and spot market to help slow the retreat of the IDR in the face of this risk off environment. Central bank officials will look to continue participating in the market to maintain the stability of the IDR, which remains their key strategy for overall financial stability. Moving forward, the government will remain committed to bringing down the current account deficit to lower external vulnerabilities, with Warjiyo indicating that the current account should improve in the third quarter. For now, we expect Warjiyo to retain his neutral stance until we see how the global trade issues play out and if the Federal Reserve reverses course to hike policy rates in 2019.