

Snap | 28 May 2018

Indonesia: Another policy rate hike this Wednesday?

Gov. Perry Warjiyo has called for an emergency BI meeting this Wednesday. We expect at least a 25bp rate hike.



Source: istock

4.5 Prevailing BI 7-day reverse repo policy rate (%)
Another hike at this Wednesday's meeting

Governor Perry Warjiyo likely to shepherd a rate hike decision at this Wednesday's meeting.

The Bank Indonesia (BI) governor pledged last week to stabilize the economic and financial environment and called for an inter-meeting emergency meeting of BI's board this Wednesday. Stabilizing the environment remains the major objective for now and would likely result to another policy rate hike at this week's meeting. If this materializes then the hike would be the second in two weeks. On May 17 it raised its policy rate by 25bp. The pre-emptive move is to safeguard inflation targets and protect the economy. But we still think that an aggressive tightening cycle

similar to that seen from June to November 2013 is not warranted. BI has raised policy rates by 175bp in five months with five policy rate decisions from June 2013. The aggressive tightening cycle started with a modest 25bp rate hike followed by two 50bp rate hikes in July and in August and 25bp rate hikes at the September and November meetings. BI faced a very different and difficult environment then. Inflation accelerated and peaked at 8.8% in August, from 4.6% at the start of 2013. This breached the inflation target range of 4.5% to 7.5%. The benchmark crude oil price remained elevated at around \$112/bl. IDR weakened by a total of 16% in five months to September 2013. BI today faces modest inflation which would likely remain within the target range of 2.5% to 4.5%. We expect inflation of 3.25-3.3% for this month. IDR has started to stabilize as ARS and TRY have stabilized in the past week or so. Recent developments point to some moderation of crude oil prices with benchmark oil prices easing from recent highs. With these pre-emptive actions, a less aggressive tightening cycle is likely.

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