# Bank Indonesia surprises with rate hike to steady IDR

Bank Indonesia decided to hike rates today after the IDR came under intense pressure

Indonesia's central bank governor Perry Warjiyo

6.0% BI policy rate

Higher than expected

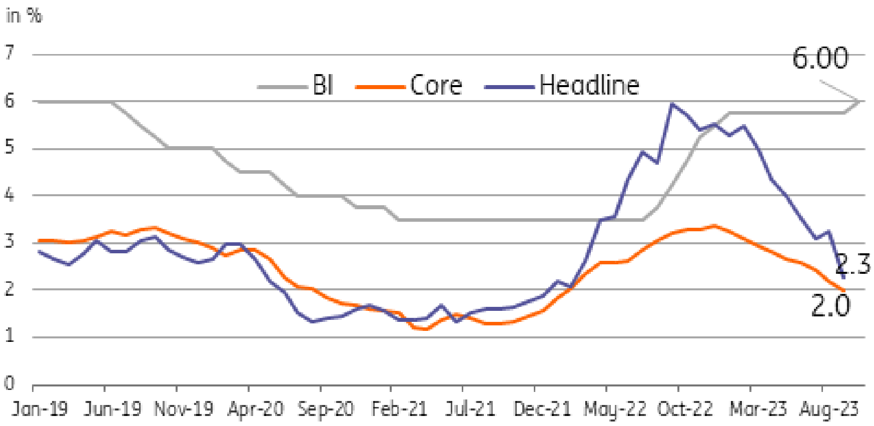
## BI surprises with rate hike

Bank Indonesia (BI) surprised market participants with a rate hike today in a bid to help shore up the IDR.

The central bank believes that the global economy is set to face increasing headwinds with uncertainty on the uptick, and indicated that a “stronger policy response” was needed given the heightened uncertainty in the financial markets. It now predicts that global growth should settle around 2.9% year-on-year in 2023 and 2.8% next year with the US Federal Reserve now set to keep rates higher for longer. Given the backdrop, BI sees capital outflow persisting for the rest of the year.

With the Rupiah down 1.77% for the month, BI had little choice but to whip out additional policy support for the currency.

### BI whips out "surprise" rate hike after IDR slide




Source: Badan Pusat Statistik and Bank Indonesia

## Pressure on IDR prompts BI hike

With growth momentum apparently intact, BI felt it had the space to carry out "a preemptive and forward-looking move" to ensure that inflation remains manageable. It indicated that it would maintain "loose macroprudential policies" to provide some support after today's rate hike. Bank lending remains robust (8.9% YoY as of September) with BI expecting this pace to accelerate to 9-11% YoY by next year.

Today's move will likely provide some relief for the IDR by taking the still-narrow interest rate differential to 50bp over the Fed. We believe that Bank Indonesia will remain open to further tightening should the Fed carry out a hike of its own, with IDR stability set to remain a likely decision point for the rest of the year.

### Author

**Nicholas Mapa**
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com