# Indonesia: Central bank to stay on hold

Indonesia's central bank is likely to keep its policy rate steady at this Thursday's meeting, as it focuses on maintaining stability after a recent bout of FX volatility


Source: istock

4.25%

BI 7-day Repo Rate

No compelling reason to change monetary policy rate

## BI is likely to maintain its neutral stance despite uncertainties

Bank Indonesia is likely to maintain a neutral stance after its 50bps rate cut in 2H 2017. BI continues to consider GDP growth, inflation and the Indonesian rupiah as important factors in determining monetary policy. Both the central bank and the market expect GDP growth to improve in 2018.

- The consensus forecast of 5.3% GDP growth in 2018 is within the BI's forecast range of 5.1% to 5.5%. We expect GDP growth that is in line with the government's target of 5.4%.
- Inflation is low with January inflation moderating to 3.25% from December's 3.6% rate. Low

inflation is expected to spur consumer spending, which also benefits from higher wages, faster economic activity, higher government expenditures and election spending. BI expects inflation to average 3.5% in 2018 although the consensus expects an inflation rate of 3.8%. We expect an average inflation rate of 3.6% for 2018, which is within the BI's target range.

- However, USD/IDR delivered some instability recently with the currency swinging from IDR13280 late last month to IDR13648 last week. Direct intervention and steady policy settings are seen to stabilise the currency, especially with US monetary tightening and the uncertainty that accompanies elections as well as the selection of the BI governor.
- Indonesia election uncertainty starts with June regional and local elections. The President appoints a new BI governor in the next few months. We expect the President to appoint a candidate who would continue the current monetary policy path and is respected in the local and global capital markets. Governor Agus Martowardojo's term ends in three months but the market still considers a second term as possible.