

Indonesia: BI walks the talk, hikes rates by 25bps

Bank Indonesia (BI) followed through on its pledge for pre-emptive steps by carrying out a 25 basis point rate hike. The bank's decisive stance has calmed markets as it promised to remain hawkish into 2019



5.75%

BI 7-day reverse repurchase rate

25bps hike

As expected

Governor Warjiyo looks to remain ahead of the curve

Following through on his 5 September pledge to take “pre-emptive” steps to stay ahead of the curve as Indonesia faces new developments, the Bank of Indonesia nudged its 7-day reverse repurchase rate by 25 basis points higher to 5.75%. The move was widely expected and predicted by 27 out of 37 economists in the latest Bloomberg survey.

BI has increased its policy rate a total of 150 basis points for the year with Governor Perry Warjiyo

looking to stabilise the Indonesian Rupiah (IDR) and keep local bond yields attractive to draw in foreign funds. In addition to rate hikes, Indonesia looks to roll out non-monetary measures to curb IDR weakness, expanding its policy toolkit to include measures such as limiting luxury goods imports, hedging instruments for corporates, and enticing exporters to convert half of their earnings to IDR.

IDR stabilises after decisive BI

The Indonesian rupiah has depreciated by roughly 9.9% year-to-date as Indonesia's current account deficit to GDP deteriorated to -2.36% in 2H 2018 from -1.71% at the end of 2017. In the wake of the emerging market contagion at the start of September, the IDR slumped to 14935, the weakest level since the Asian financial crisis, prompting Governor Warjiyo to signal immediate countermeasures to stem the tide. Since then, the IDR has stabilised with the government deploying further measures to stem the foreign currency outflows.

Hawkish now, hawkish again tomorrow

With BI officials telegraphing that monetary authorities will maintain their current stance until next year, we can expect BI to remain busy deploying a host of measures to address IDR volatility. Central bank rate hikes moving in tandem with its planned hedging programmes and tax incentives for exporters will likely contribute to IDR stability in the near term, especially as Governor Warjiyo appears to enjoy a degree of credibility from the market.