

Indonesia's central bank hikes rates by 50bp to steady rupiah

Bank Indonesia hiked rates aggressively despite softer-than-expected inflation



Indonesia's central bank governor Perry Warjiyo

5.25% BI policy rate

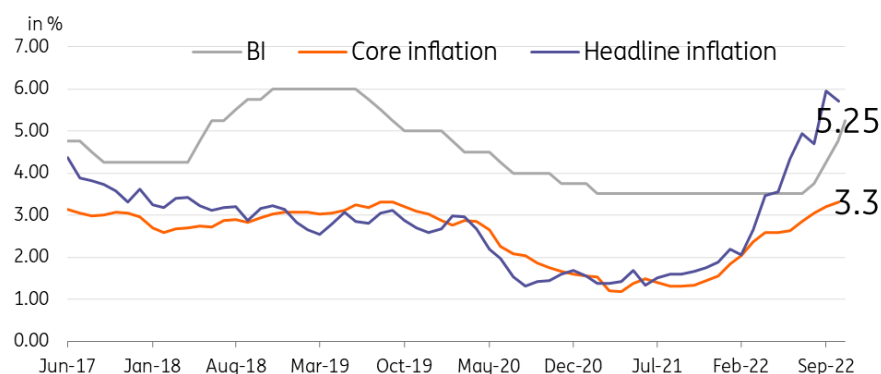
As expected

BI hikes rates by 50bp

Bank Indonesia hiked policy rates by 50bp, a move widely expected by market participants. The 50bp rate increase was dubbed as “pre-emptive” and “front-loaded” by BI Governor Perry Warjiyo as the central bank attempts to cap inflation pressures and shore up the currency.

BI expects growth to remain robust, retaining its 4.5-5.3% year-on-year growth forecast for the year. With growth momentum intact, Governor Warjiyo decided to continue on with aggressive tightening to help maintain a healthy differential with the Fed funds target rate.

BI likely keeping hawkish tone amid IDR struggles and core inflation trends



Source: Badan Pusat Statistik and Bank Indonesia

Core inflation trends and IDR struggles to keep BI hawkish

Indonesia’s core inflation has been steadily on the uptick (October at 3.3%) and should likely sustain this trend in the coming months. The price increase for subsidised fuel, recently implemented, will likely feed through to the rest of the CPI inflation basket to keep inflation elevated. Furthermore, the recent struggles of the Indonesian rupiah should keep BI hawkish going into 2023.

We expect BI to hike rates by 50bp at the December policy meeting, matching the likely increase by the Fed at the end of the year.