

Indonesia: Central bank keeps rates unchanged at 6%

Bank Indonesia left its key policy rate at 6%, looking to macroprudential measures to bolster the economy



Source: Stenly Lam

6.0% 7-day reverse repurchase rate

As expected

Bank Indonesia holds as IDR rebounds

The central bank opted to keep policy rates unchanged, a move expected by the market given the relative strength of the Indonesian rupiah in 2019. A dovish Federal Reserve has helped push funds back into emerging markets this year, lending strength to the IDR and helping it to post the second best performance year-to-date among its peers. In 2018, Bank Indonesia (BI) unleashed a flurry of rate hikes to help steady the currency but with the currency enjoying renewed strength, the central bank was not called into play. With concerns about Indonesia's current account struggles still fresh on investors' minds, BI Governor Perry Warjiyo will likely refrain from reversing course in the near term as he preaches stability while the government works to jumpstart reforms in the trade and tourism sectors to alleviate pressure on the current account.

With the Fed seen to be on hold at least for the time being, we can expect the IDR to enjoy some

short term appreciation with BI likely to retain its current stance until we see some improvements on the current account balance. Warjiyo has also indicated that BI will likely rely on soon-to-be announced macroprudential measures to bolster the economy after raising rates aggressively last year.