

Indonesia: Central bank leaves rates unchanged

Bank Indonesia kept policy levers unchanged given a more dovish outlook from the Federal Reserve and a stable rupiah



Central bank pauses as IDR remains stable

Bank Indonesia (BI) kept policy rates untouched to start the year, a move widely expected by the market, after Governor Perry Warjiyo took on a dovish tone by saying that key rates were “close to peak”. With the Fed expected to hike at a less aggressive pace in 2019 compared to 2018, the central bank felt it had space to refrain from hiking rates with the Indonesian rupiah (IDR) being one of the best-performing currencies for the year.

Curbing import appetite and stable IDR

BI also noted that it would work with the national government to control the current account deficit, citing the recent slowing trend in imports, although the bank admitted that export growth may remain tepid in the near-term given slowing global growth. Surging imports in 2018 and a stark widening of the current account were tagged as reasons for the IDR's weakness in 2018.

Governor Warjiyo vowed to safeguard the IDR and keep it in line with the economy's fundamentals while remaining vigilant against factors that could affect the currency's path. The central bank also expects the currency to remain broadly stable with a strengthening bias for the year.

Dovish outlook

With inflation expected to remain within target to average 2.5-4.5% for the year and the IDR outperforming most of the region, the central bank left rates at 6.00% to open the year. Given Warjiyo's dovish tilt on Wednesday and IDR's recent stability, we expect the BI to remain dovish unless we see a stark reversal in the currency's trajectory in the next few months.