

Indonesia: Central bank likely to stay put on Tuesday

Pressure on the rupiah has eased somewhat after securing a repurchase agreement deal with the US Fed, but Bank Indonesia could opt to stay on hold with the number of Covid-19 cases on the rise



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

Bank Indonesia could hold even as IDR recovers

The Indonesia rupiah dropped to historical weakness in March at the height of uncertainty sparked by the current Covid-19 pandemic. Bank Indonesia had almost reluctantly cut policy rates at the March meeting as Governor Warjiyo attempted to balance interest rate support for the already beleaguered IDR with the need to help shore up the economy for the impending fallout caused by the virus. IDR depreciated by a startling 19.3% in late March but has clawed its way back to 15,800. We think it may be too early for the central bank to withdraw its support for the IDR until it secures surer footing.

Covid cases on the rise

Indonesia recently recorded a spike in fatalities from Covid-19 even as Jakarta and other neighbouring towns hunker down with enhanced measures to limit the spread of the virus. BI may opt to wait until there is more clarity on the number of virus cases before acting as a sustained

increase in cases or fatalities could spark another round of foreign selling, exerting renewed depreciation pressure on IDR.

Fed repurchase agreement deal

Meanwhile, the central bank announced in early April that it had secured a US\$60bn repurchase agreement with the US Fed to help shore up dollar liquidity should BI need it. The announcement was good enough to help IDR recover, appreciating almost 5% from its weakest point in March and the assurance provided by the Fed deal could be the only factor that convinces Governor Warjiyo to cut policy rates this month. Our baseline expectation is for BI to keep rates unchanged but remain open to further easing should IDR continue to appreciate.

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