

Indonesia's central bank takes a pause as rupiah comes under pressure

Bank Indonesia kept rates unchanged again today making extra effort to highlight their independence



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

4.0%

7-day reverse repurchase rate

BI policy rate

As expected

Bank Indonesia pauses for the second time

Indonesia's central bank decided to keep rates on hold again today despite below-target inflation and a dimming growth outlook.

Price pressures have fallen sharply with August inflation at 1.3%, well below the 2-4% inflation target for the year. Meanwhile, the need for additional monetary stimulus remains apparent as growth prospects dimmed further with authorities expecting 3Q GDP to fall close to the lower end

of the forecast range of -2.0 to 0.0%.

Pressure on the currency was undoubtedly the reason for Thursday's pause with IDR down roughly 2% for the month with concerns about central bank independence acting as the main drag on sentiment and the currency.

Central bank hopes to convince markets that bond purchases will end in 2020

Monetary authorities took extra effort to highlight their independence after the decision, indicating that "burden-sharing" bond purchases would undoubtedly end in 2020.

Officials however admitted that they would remain on "standby" for potential financing, but reiterated that President Jokowi and finance minister Indrawati had clearly stated that BI would remain independent.

We expect the central bank to keep rates unchanged until the currency stabilises which will likely only surface when concerns about potential follow-on bond purchases are put to rest for good.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com