

# 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](mailto:nicholas.antonio.mapa@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.