Indonesia: Central bank pauses yet again to support the currency

Bank Indonesia opted to keep policy rates steady to help stabilise the rupiah

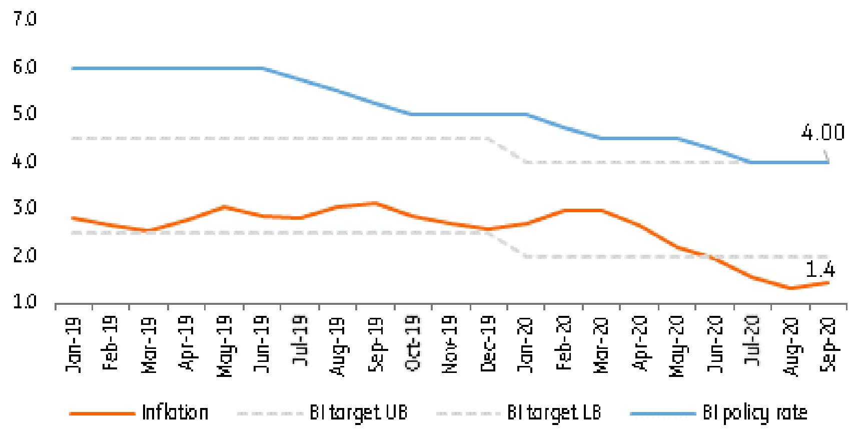
4.0% 7-day Reverse repurchase rate

As expected

Central bank talks up IDR

Bank Indonesia (BI) maintained its current policy stance as expected, with the 7-day reverse repurchase rate left at 4% despite inflation falling well below the current 2-4% inflation target. The pause from the central bank was likely an attempt to support the rupiah which is down 5.7% year-to-date. The central bank tried to talk up the currency, forecasting a sustained appreciation for IDR with the current account likely in surplus by 3Q 2020 due to import compression. BI noted that inflation would likely settle below 2% in 2020 due to ample supply of food items while at the same time reassuring market players that liquidity remained ample. IDR has received some reprieve of late with market players reacting to optimism over the passage of the omnibus law although monetary officials said the IDR remained undervalued.

Bank Indonesia policy rate, inflation target and CPI inflation



Source: Badan Pusat Statistik and Bank Indonesia

Hands tied yet again with IDR still vulnerable

Governor Perry Warjiyo vowed to keep the currency stable while also forecasting a sustained appreciation to close out the year, with the pause at today's meeting reflecting this strategy to stabilise the currency. BI remains constrained from cutting policy rates further with IDR only briefly recovering (+0.64% month-to-date) in light of the omnibus law passage. The IDR remains the region's worst performing currency and remains susceptible to potential weakness given investor anxiety over BI's recent burden sharing agreement with the national government. BI did vow to step up coordination with the government and the financial committee, with the central bank turning to quantitative easing measures to shore up liquidity in the financial market. We expect BI to remain on hold in the near term with IDR still vulnerable as the window to cut policy rates further in 2020 closes fast.

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