

Indonesia: A surprise 50 basis point rate hike

Bank Indonesia (BI) is aggressively promoting stability with a surprise 50 basis point rate hike. The move, together with a continued aggressive hawkish stance, will moderate the currency's weakness



5.25%

BI 7-day reverse repurchase rate

Market expected only a 25 bps hike to 5%

Higher than expected

Precipitous slide of IDR required a more aggressive BI response

Bank Indonesia, under the leadership of the new BI Governor Perry Warjiyo, responded decisively to the urgency of the situation. BI has acted pre-emptively to stabilise Indonesia's financial markets in general and the Indonesian rupiah in particular. IDR has fallen by as much as 4.4% from the highs posted early this month following an out of cycle policy rate hike in late May. BI responded to the recent IDR slide with a surprise 50 basis point rate hike today. The market considers the surprise move akin to the aggressiveness that the Central Bank of Turkey demonstrated early this month to successfully stabilise the country's currency.

BI's move is not surprising and reflects the aggressiveness that the bank governor demonstrated in late May when, in his first action as governor not only called for an emergency policy rate meeting just two weeks after the normal monthly BI meeting but also followed through with a 25 basis point hike.

In the past two months, BI has raised policy rates by 100 basis points, which reverses the easing from September 2016 to September 2017, in a bid to pro-actively address risks from developments in the global economic environment. There are still around 100 basis points of policy rate easing still in the system from the easing cycle of January 2016 to September 2017. We expect BI to remain vigilant and to act pre-emptively to risks. We believe that the surprise 50 basis point hike together with other BI actions will help moderate IDR's weakness and allow the financial system to adjust to the challenges of the new global economic environment.

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