

Bank Indonesia pauses on rate cuts to support currency

The weaker Indonesian rupiah has forced the central bank to hold back from cutting interest rates despite pressure to provide monetary support to the ailing economy



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

4.0% 7-day reverse repurchase rate

As expected

Central bank stands pat as expected

Bank Indonesia (BI) kept its 7-day reverse repurchase rate at 4.0%, a move expected by the majority of analysts and the first pause after two straight meetings of rate cuts. BI did have some space to cut policy rates given below-target inflation and stalling growth momentum (2Q GDP at -5.3%) but Governor Perry Warjiyo ultimately opted to provide support to the IDR which pulled back roughly 1% in August. The IDR has been the worst performing currency in the region for the

month, largely due to concerns about the 2021 budget and the prospect for another round of debt monetisation next year.

BI likely still looking to cut policy rates in 2H

With the economy contracting in the second quarter, BI Governor Warjiyo will likely be open to providing additional monetary stimulus to complement the fiscal push in the second half. President Jokowi has called on officials to speed up government spending in the second half of the year to salvage GDP and Governor Warjiyo expects an improvement in GDP as early as the third quarter. The key decision factor for further easing will likely remain currency stability with Warjiyo indicating he believes the IDR remains “undervalued”. We expect BI to refrain from cutting policy until the IDR achieves more stability but look for BI to quickly provide an additional boost to offset sagging economic momentum.