

Indonesia: Bank Indonesia on hold at final meeting of 2020

Bank Indonesia keeps rates steady at 3.75%, keeping its powder dry for potential action in 2021



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

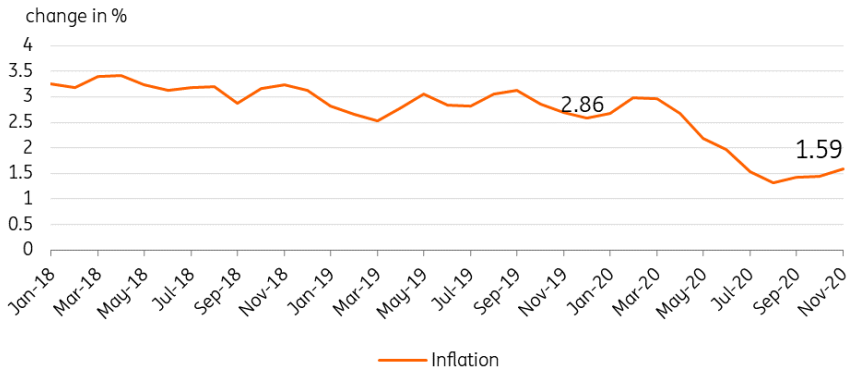
3.75% Policy rate

As expected

No surprises this time

Bank Indonesia (BI) kept its 7-day reverse repurchase policy rate at 3.75% on Thursday as widely expected by market analysts. After surprising investors at the November meeting, Governor Perry Warjiyo opted to pause and keep the bank's powder dry for potential easing in 2021, retaining his accommodative stance given benign inflation (2.1% year-to-date average) and negative GDP. BI has cut policy rates by a cumulative 125 bps and only did so when the Indonesian rupiah displayed stability, which will remain a key decision variable for rate cuts in the future.

Indonesia inflation



Source: Badan Pusat Statistik

Jokowi calls on BI to do more, Warjiyo just might

We expect Governor Warjiyo to remain open to additional monetary easing measures in 2021 with President Jokowi recently calling on the central bank to play a major role in “driving the real sector”. With the latest inflation reading below the 2-4% target, growth still in negative territory and the IDR enjoying a 3.7% appreciation of late, we do expect BI to cut policy rates again in early 2021. BI has more than ample space to cut rates further in 2021 with the policy rate ending the year at 3.75%, and we forecast a gradual pickup in economic activity as Indonesia benefits from a well-coordinated fiscal and monetary response to the ongoing recession.