

Indonesia cuts rates to boost economy as Fed turns dovish

With the Fed poised to cut rates in July, Indonesia's central bank cut policy rate after pausing for seven meetings



5.75% 7-day reverse repo rate

As expected

BI slashes rates to boost economy with IDR stable

Indonesia's central bank cut its key rate after keeping policy unchanged for seven meetings in a bid to boost the economy as the rupiah has been performing relatively well in 2019.

With the Fed all but promising to deliver a rate cut at the end of the month, Governor Warjiyo was finally afforded proper scope to walk back a part of his 175 bps rate hike from 2018. The two key developments that sealed the deal were IDR's strength in 2019, up 3.73%, and confirmation that a Fed rate cut was on the cards.

With inflation at 2.8% and well-within the BI's target band of 2.5-4.5%, there was little reason to

hold off on rate cuts as Warjiyo looks to do his part in President Jokowi's bid to boost growth momentum.

One and done or have they just begun?

After BI's first rate reduction, the next question would naturally be: will there be more?

Global headwinds continue to swirl with the US-China trade spat festering and any escalation in tension has the ability to knock back the IDR with the May episode enough evidence of this as the rupiah fell 1.08% for the month. The decision for further easing would likely rest on the stability of the currency with Governor Warjiyo clearly highlighting its importance in providing financial market stability.

However, it does appear that Governor Warjiyo is very open to easing further as he described BI's stance as "accommodative" and we believe further rate cuts can be carried out if IDR remains stable despite potential global headwinds and if growth data remains uninspiring to justify additional accommodation to boost the economy.