

Indonesia: Central bank cuts rates to support economic rebound

Bank Indonesia cut its main policy rate with 2Q GDP likely in contraction



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

4.0% BI policy rate

As expected

Central bank trims policy rate to bolster recovery

Bank Indonesia (BI) cut its main policy rate by 25 basis points to 4.0% to help give sagging economic growth a boost. President Jokowi earlier announced that 2Q GDP likely contracted by 4.3% as economic activity slowed considerably during partial lockdown measures implemented from April to June. The move was expected by the majority of analysts with inflation subdued, giving Bank Governor Perry Warjiyo scope to cut policy rates at today's meeting.

Warjiyo vows currency stability

Governor Warjiyo reiterated his expectation for the Indonesian rupiah to strengthen in the near term, citing uncertainty in global markets for recent weakness in the currency. He also vowed to “continue currency stabilising measures,” with the central bank expected to step up its triple intervention during bouts of IDR weakness. BI also expects an improvement in the country’s external position, with the current account deficit-to-GDP ratio expected to improve to -1.5% (from -2.5% in 1Q). Despite the improvement, the IDR may be susceptible in the near term during bouts of market uncertainty after the recent policy rate cut.

BI likely to take its cue from 2Q GDP

Governor Warjiyo highlighted how economic activity appears to be returning since the government reopened the economy in June, suggesting that economic growth would likely improve in the coming quarters. He also made mention of an accelerated pace in fiscal spending in the second half of the year, which would in turn help support sagging GDP momentum. We expect BI to be cautiously monitoring 2Q GDP data (8 August release) as well as other growth indicators for cues on its next move. If 2Q GDP settles close to the forecast of -4.3% we can expect Warjiyo to focus on IDR stability at the 19 August policy meeting.