

Indonesia keeps rates on hold but leaves door open for more cuts in 2021

Bank Indonesia held its key rate steady at 3.75% to help maintain currency stability amidst the benign inflation environment



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

3.75% 7-day reverse repurchase rate
Policy rate

As expected

Central bank takes a pause with IDR stability in mind

Indonesia's central bank kept its key rate unchanged at 3.75% as expected, to provide stability to the Indonesian rupiah, which has been under some depreciation pressure.

Despite the slide in early January, the central bank indicates that the currency remains "undervalued" with the rupiah likely to appreciate in the coming months "in-line with the economy's fundamentals".

Governor Perry Warjiyo also provided updated economic outlook with growth forecast to gradually recover and settle between 4.8-5.8% this year while inflation is expected to remain benign and settle within the 2-4% target.

Door remains open for rate cuts in 2021

While the central bank kept rates unchanged, Governor Warjiyo retained his accommodative policy stance, citing the need to support the economic recovery amidst a benign inflation situation.

We believe the central bank will remain open to easing policy further in the near term if inflation remains subdued with IDR stability likely the main decision point

Activity indicators showed some improvement in recent months but a recent spike in Covid-19 infections has forced Java and Bali to impose stricter lockdown measures to slow the spread of the virus.

The series of rate cuts in 2020 have yet to bear fruit with bank lending grinding to a halt but improved economic conditions in the coming months should help lift bank loan expansion. We believe the central bank will remain open to easing policy further in the near term if inflation remains subdued with IDR stability likely the main decision point.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com