

Snap | 19 May 2020

Indonesia holds fire as it looks to support currency

Bank Indonesia holds off on cutting rates to keep the rupiah stable



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

4.5% policy rate

Higher than expected

Central bank surprises market with a pause

In an unexpected move, Indonesia's central bank kept policy rates unchanged to support the IDR amidst the uncertainty brought about by the Covid-19 pandemic.

Most analysts had expected Governor Warjiyo to slash rates again after taking a break at the last two meetings and with the currency stabilising somewhat from the March swoon when the currency touched the 16500 level. Economic indicators have shown signs of a slowing economy with consumer confidence and manufacturing PMI both stalling.

Recently, Governor Warjiyo has admitted that GDP is likely to fall below previous forecasts.

Dovish pause

Despite holding off on slashing policy rates, Indonesia's central bank Governor Warjiyo has kept the door open for further rate cuts in the near term as he highlighted benign inflation.

The central bank also noted that the current account deficit is likely to improve to below 2% for 2020, likely due to a narrowing trade gap induced by import compression.

With BI retaining its accommodative stance we continue to expect more rate cuts in the coming months given expectations for a contraction in GDP as early as the 2Q.

IDR should receive a boost after the surprising pause from the central bank and stability of the IDR will remain the key determinant for another policy rate cut.