Indonesia: Central bank keeps policy rate unchanged

Bank Indonesia keeps rates unchanged, as expected. Governor Warjiyo is looking to monitor global and domestic economy for cues on future policy stance

Perry Warjiyo, Governor of Bank Indonesia

Source: IMF/Flickr

5.0%

7-day reverse repurchase rate

Bank Indonesia

As expected

Bank Indonesia opts to pause, likely monitoring external position

With the Fed and most regional central banks opting to stay neutral to close out the year, Bank Indonesia decided to keep policy setting untouched for a second straight meeting as they monitor developments related to the external account. Last Monday, Indonesia's trade deficit swelled to

$1.33bn, much wider than market expectations for -$105mn, as exports fell by 5.7% amidst the ongoing US-China trade war. Given these recent developments, the central bank now expects the current account deficit to inch up to 2.7-2.8% of GDP while President Jokowi vowed to solve the economy's current account woes within the next three to four years. Market players had expected Indonesia to post an improved external position with the government instituting measures designed for import compression but the current account gap has remained close to 3% for most of the year.

Central bank on hold but open to easing in 2020

Despite the pause on Thursday, we expect Bank Indonesia to remain open to further easing in 2020 with dovish comments from both Deputy Governors Waluyo and Damayanti in the past weeks. Deputy Governor Waluyo shared that the central bank continued to have ample scope to cut rates further but also noted that monetary policy would need to be complemented by fiscal stimulus. Meanwhile, Governor Warjiyo indicated that domestic growth should improve in 4Q 2019 and 2020 with the potential for further rate cuts hinging largely on the external sector. We expect the central bank to resume its rate cut cycle next year given President Jokowi's directive for faster growth via investments but we believe that policy easing would be timed during periods of IDR stability and when economic data such as export growth are positive.

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