Indonesia's central bank keeps policy rates unchanged

Bank Indonesia leaves its policy rates unchanged even though it's slashed its growth forecasts to 2.3%

Source: Stenly Lam

4.5% Indonesia policy rate

Higher than expected

Central bank expects slower growth

Bank Indonesia (BI) expects growth to take a sharp turn lower in 2Q and 3Q as the economy wilts under the impact of the Covid-19 virus and the recent measures implemented to prevent its spread in the country. BI forecasts growth to dip to 2.3%, a sharp drop off from the 5.3% expected at the start of the year, essentially aligning with the national government's best-case scenario for growth amidst the virus. The central bank likewise expects growth to pick up to 4.5-5.5% in 2021 on a combination of base effects and improved economic conditions once the pandemic has been contained. Despite the expected downturn, BI opted to keep policy rates unchanged as it awaits more stability from IDR, which received a boost after BI announced its repurchase deal worth $60 bn with the Fed.

Currency stability to be cue for BI to pull trigger on rate cut

BI Governor, Perry Warjiyo, indicated that the external position should improve with the current account deficit forecast to slide to -1.5% of GDP from -2.7% in 2019. BI also expects to replenish its gross international reserves in April after a steep drop off in March, when IDR hit an all-time low and we expect a gradual sustained appreciation of the currency will be the cue for the central bank to cut rates further. For now, BI looks to help support IDR via triple intervention while looking to fiscal policy to roll out spending to help bolster economic growth against the virus.

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