

Indonesia: Central bank holds rates steady, trims reserve requirement

Bank Indonesia kept policy rates unchanged as expected but announced a January 2020 reduction to reserve requirements to ensure sufficient liquidity



Source: Stenly Lam

5.0%

7-day reverse repurchase rate

1st pause after 4 straight cuts

As expected

Bank Indonesia holds fire after four straight cuts

Bank Indonesia (BI) Governor Perry Warjiyo opted to keep policy rates steady, a move anticipated by market analysts, but unexpectedly trimmed the amount banks are asked to set aside as reserves. BI held its policy rate at 5% but will lower the reserve requirement ratio (RRR) beginning January 2020 for commercial banks to 5.5% to ensure ample liquidity in the system. With the Federal Reserve turning neutral after its last policy meeting, BI officials opted to monitor the impact of their recent rate cutting cycle.

Door open for further easing in 2020

Despite the pause, the central bank retained its policy stance as “accommodative” signalling that it

remains open to further rate cuts given the benign inflation outlook (2019 inflation forecast pegged at 3.1%) and relative underperformance in terms of GDP. In his statement, Warjiyo did note that the current policy setting is consistent with the Bank's outlook on inflation as the central bank looks to provide the economy with a shot in the arm after its recent string of rate cuts.

We expect the central bank to monitor GDP performance in the coming months while also keeping a close eye on the Indonesian rupiah, should it stray from its appreciation bias in 2019. With inflation expected to remain within target going into 2020, BI may resume its easing cycle in early 2020 to give growth momentum an added boost, given the possibility of an escalation in global headwinds.