

Indonesia: Central bank cautious but looks to support growth

Bank Indonesia (BI) kept its main policy rate unchanged as it looks to further strengthen its external position



Perry Warjiyo,
Governor of Bank
Indonesia

Source: IMF/Flickr

Bank Indonesia on hold for 5th meeting

Bank Indonesia (BI) opted to keep its 7-day reverse repo rate at 6.0%, unchanged for a fifth time, as the rupiah has been under less pressure with global sentiment much improved compared to the 3Q of 2018. Although down year-to-date, the IDR has recovered significantly from the lows seen in 2018, up roughly 7% from the height of the emerging market rout of last year. With the Fed now seemingly on hold for the rest of the year and the US and China making headway, pressure on emerging market currencies has reversed, with foreign funds flooding the region and boosting currencies in turn. The reversal in flows has helped regional central banks shore up reserves after drawing from their stock pile at the height of the 2018 turbulence. Indonesia has seen reserves rise roughly \$10 billion in the last few months with gross international reserves now at \$124.5 billion.

6.0%

7-day reverse repurchase rate

Unchanged

As expected

Warjiyo stays cautious but looks to support growth momentum

Governor Perry Warjiyo has shot down expectations of a reversal in BI's policy stance, citing external risks for the need to retain the attractiveness of Indonesian financial assets. Despite retaining his hawkish stance, Warjiyo, however, does appear to be supportive of growth, indicating a possible infusion of liquidity to help shore up growth momentum as President Jokowi looks poised to secure a second term. However, if the IDR remains stable and the central bank is able to build up reserves further, we do expect a possible reversal in the current stance sometime in the 3Q, as long as the Federal Reserve remains on hold until then.