Indonesia's central bank trims policy rate to help bolster the recovery

Bank Indonesia opted to cut its policy rate with an eye on growth as IDR stabilises

Perry Warjiyo, Governor of Bank Indonesia

Source: IMF/Flickr

3.75% 7-day reverse repurchase rate

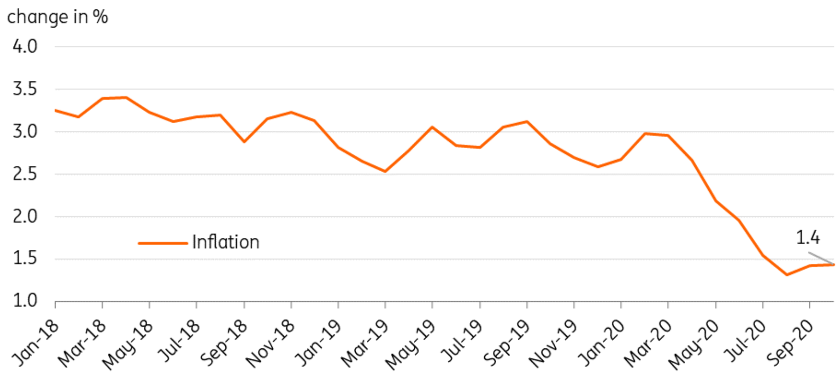
Lower than expected

Economic recession and low inflation outlook prods central bank to act

Bank Indonesia trimmed its 7-day reverse repurchase rate to 3.75% in a bid to help bolster the economic recovery.

With inflation at 1.4%, well below the central bank's 2-4% inflation target and the economy in recession, Governor Warjiyo pushed through with a rate cut now that the Indonesian rupiah has found some solid footing, up 3.3% for the month. Bank lending remains stuck in loan gear with October loan growth posting a mere 0.12% increase on a year-on-year basis and we expect a modest pickup in lending in the coming months as this latest round of easing begins to take hold.

Indonesia inflation



Source: Badan Pusat Statistik

Bank to maintain accommodative stance, additional rate cuts depend on IDR stability

Today's rate reduction was carried out in a bid to hasten the economy's bounce back with Governor Warjiyo confident that 4Q GDP will revert to expansion. Still elevated daily infections of Covid-19 will likely weigh on overall sentiment with President Jokowi banking on a strong fiscal push in the 4Q to help lift sentiment.

We expect the central bank to keep the door open to further rate cuts with Governor Warjiyo having sufficient space to do so with inflation and growth still below respective targets.

The decision point will remain IDR stability as the central bank believes that the IDR continues to be undervalued and we expect a possible rate cut in the near term for as long as IDR remains on its current appreciation bias.

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