Indonesia: Warjiyo whips out preemptive cut against global headwinds

Bank Indonesia surprised markets on the timing for a second rate cut to help spur economic growth amidst global headwinds

Perry Warjiyo being sworn in as governor of Bank Indonesia in 2018

5.5% 7-day repurchase rate

Lower than expected

Warjiyo surprises with the timing but not the move

Wary of brewing headwinds given the US-China trade war, the Bank Indonesia (BI) Governor opted to cut policy rates once more in a bid to boost growth momentum. In line with re-elected President Jokowi's bid to stimulate growth, it looks like BI has joined up with the rest of the economic cluster to insulate Indonesia's economy and to push forward to help lift growth away from the lower end of the 5% handle. Warjiyo now sees growth for Indonesia to settle between 5.1% and 5.5% with the upper end of that range now increasingly possible given the stimulus from the monetary side to help stir household consumption and investment.

BI's preemptive strike

Governor Warjiyo indicated that the rate cut was a preemptive move to support economic growth as he vowed to ensure ample liquidity to help foster accelerated growth. Recent trade numbers illustrate how Indonesia has returned to a trade deficit, indicating the ill effects of the US-China trade spat are already weighing on Indonesia's export engine. Warjiyo hints that Bank Indonesia will retain its accommodative monetary policy mix but we expect BI to monitor closely the next moves of the Fed as well as the stability of IDR before seriously considering further rate cuts in the near term. In the meantime, it does appear that it's all hands on deck for Jokowi's bid to give growth a decent shot in the arm, which could entice some interest from foreign players to return (and prop up IDR) as Jokowi and his party chase faster growth going into 2020.

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