Snap | 19 March 2020

Indonesia: Bank Indonesia trims policy rate to 4.5%

With coronavirus cases on the rise, BI cuts policy rates despite IDR woes.

4.5% BI policy rate

As expected

Bank Indonesia cuts policy rate by 25 bps as growth prospects dip

With prospects of weaker economic output given the Covid-19 outbreak, Bank Indonesia (BI) has cut policy rates by 25 bps to help bolster sagging growth momentum. BI has lowered its growth forecast for 2020 to 4.2-4.6% (previously 5.0-5.4%) with inflation seen as broadly stable for the next two years and reflecting depressed energy prices. Governor Warjiyo indicated that the central bank would retain its accommodative stance, given the need to stimulate growth, but also vowed to step up his “triple intervention” to stabilize the IDR alongside fundamentals. In the meantime we expect the central bank to continue its intervention to support the currency and to assure ample liquidity in the financial system. We do not think they will be able to cut rates in the near term.

IDR to remain pressured

The BI move was expected by most analysts, particularly given the need to bolster the economy as the number of Covid-19 cases have risen of late. Foreign selling was noted in Indonesian bond and equity markets and this will likely continue to weigh on the currency. The resultant risk-off tone induced by the virus has left the IDR pressured - we can expect the currency to remain threatened after the policy rate cut and until market sentiment improves.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com