

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.