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Indonesia: Central bank trims policy rate ahead of virus impact

With inflation well within target and growth momentum fading, Bank Indonesia cut its 7-day rate by 25 basis points to shield the economy from the impending economic slowdown caused by the coronavirus

Source: Stenly Lam

Central bank looks to shield economy via monetary easing

Bank Indonesia (BI) moved quickly to shield the economy from the impending economic slowdown induced by COVID-19, slashing its 7-day policy rate to 4.75%. The move was anticipated by a majority of analysts as growth momentum stalled at the end of 2019 with fourth quarter GDP slipping below 5% and full year growth well below the government's target of 5.3%. The central bank lowered its growth forecast for the year to 5.0-5.4% from 5.1-5.5% as the coronavirus will undoubtedly slow tourist arrivals and hit Indonesia's export sector in the coming months. On top of trimming its policy rate, BI also lowered the macroprudential intermediary ratio rule, a sign that monetary authorities would like to support sluggish bank lending activity.

More easing down the line?

BI Governor Perry Warjiyo indicated that the central bank remained committed to keeping the Indonesian rupiah stable, as evidenced by the Bank's "triple intervention" to steady the currency while the central bank's stance remains "accommodative". Warjiyo also indicated that the Bank's baseline scenario takes into account up to two months of travel restrictions from China and a pullback in foreign tourist arrivals for another six months. Meanwhile, BI expects the Federal Reserve to keep policy rates unchanged although Warjiyo did admit that the chances for a Fed rate cut in September may be increasing. If the economic fallout from the coronavirus becomes more evident or the Fed is indeed pressured to continue its rate cutting cycle, we believe BI will be open to easing policy rates further to help support the economy in light of President Jokowi's 5.3% growth aspiration.