

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.

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>.