

Unexpectedly, BI Rate Lowered by 25 bps

In a surprising move, Bank Indonesia (BI) adopted a pro-growth stance by reducing the BI Rate by 25 bps to 5.75% (Cons: 6.00%, KBVS: 6.00%, Prev: 6.00%). This decision was accompanied by a corresponding 25 bps reduction in the Deposit Facility Rate to 5.00% and the Lending Facility Rate to 6.50%. This marks a departure from BI's cautious pro-stability approach over the past year, during which it has been focused on minimizing Rupiah volatility to avoid higher financial market transmission risks, including capital outflows and imported inflation concerns in the domestic real sector.

The shift in policy from pro-stability to pro-growth reflects BI's intent to stimulate the economy. This rate cut is expected to lower domestic yields and funding costs, encouraging greater credit disbursement and supporting stronger economic growth. BI's discretionary monetary policy aligns with the nation's need for economic stimulus, aiming to bolster investment, create jobs, increase disposable income, and enhance tax revenue and tax ratios in the long term.

The decision also takes into account Indonesia's inflation, which reached a record low of 1.57% YoY in Dec '24. This unprecedented low inflation level raises concerns about weakening consumer purchasing power, particularly given Indonesia's consumption-driven economy and its status as an emerging market, which typically experiences higher inflation and growth rates compared to advanced economies. With economic growth expectations for 2024 leaning toward the lower end of BI's target range of 4.7%–5.5% YoY, the rate cut could serve as a timely intervention to reinvigorate growth.

However, challenges remain. Indonesia's trade surplus for 4Q24 stood at only USD9.18 bn, and the current account deficit (CAD), ongoing since 2Q23, persists as a key concern. Although BI projects the CAD to remain between 0.5%–1.3% of GDP, the narrowing interest rate differential between the BI Rate and the Federal Reserve's rate—now at just 125 bps—has increased the risk of Rupiah depreciation. This concern materialized shortly after the announcement, with the JISDOR Rupiah weakening to IDR 16,311 per USD (Prev: IDR 16,265 per USD) by Jan 15, 2024.

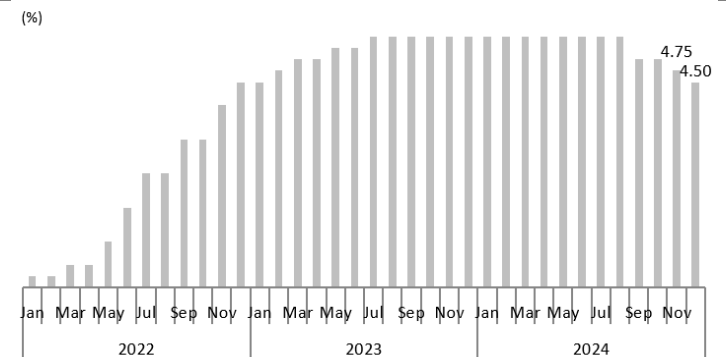
While the adoption of a more inward-looking monetary policy may elevate short-term risks of capital outflows and Rupiah volatility amidst global imbalances and a flight to quality, the move could yield positive long-term impacts. It provides an opportunity to foster investment optimism and strengthen consumer purchasing power, paving the way for sustained economic growth. As BI navigates these trade-offs, its decision underscores the delicate balance between addressing immediate market dynamics and nurturing an environment conducive to robust, inclusive growth.

Table 1. Interest Rate Data

Indicators	15-Jan-25		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	4.50	4.75	(25.0)	(100.0)
European Union	3.15	3.40	(25.0)	(135.0)
United Kingdom	4.75	4.75	0.0	(50.0)
Japan	0.25	0.25	0.0	35.0
China	3.10	3.10	0.0	(35.0)
India	6.50	6.50	0.0	0.0
Thailand	2.25	2.25	0.0	(25.0)
Philippines	5.75	6.00	(25.0)	(75.0)
Indonesia	5.75	6.00	(25.0)	(25.0)
Global Monetary Policy Change (in number of countries)				
Easing	2	2		
Unchanged	3	14		
Tightening	3	14		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	4.96	4.96	0.0	(45.0)
USD LIBOR -3 Months	4.85	4.85	0.0	(75.6)
USD LIBOR -6 Months	4.68	4.68	0.0	(117.8)
Domestic Interbank Money Market (in %)				
INDONIA	6.07	6.12	(4.8)	7.1
JIBOR - 1 Month	6.63	6.63	(0.1)	23.8
JIBOR - 3 Months	6.92	6.92	0.1	16.7
JIBOR - 6 Months	7.06	7.05	0.8	18.9
JIBOR - 12 Months	7.22	7.20	1.3	16.5

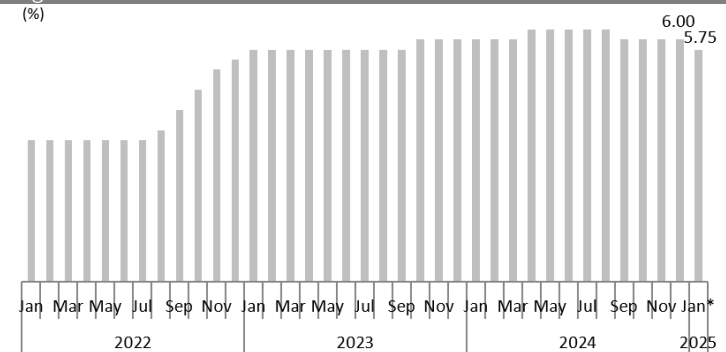
Sources : Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



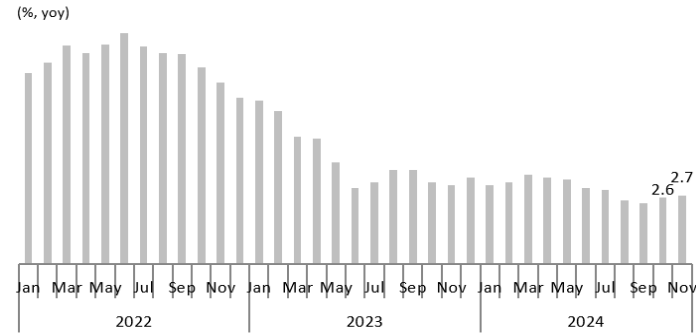
Source: The Fed – treated (2025)

Fig 2. BI Rate



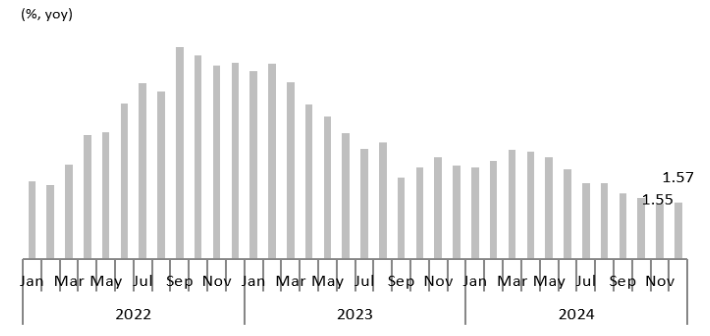
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



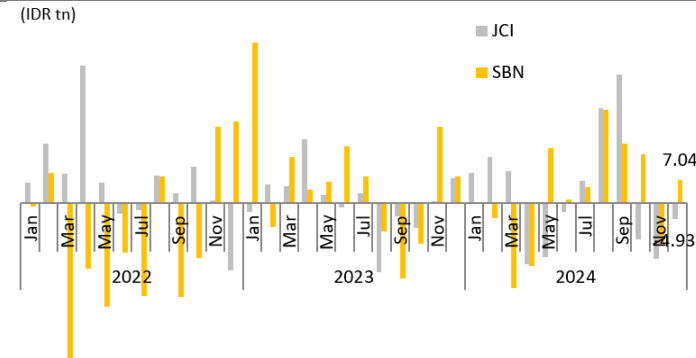
Source : US BLS- treated (2025)

Fig 4. Indonesia CPI Inflation



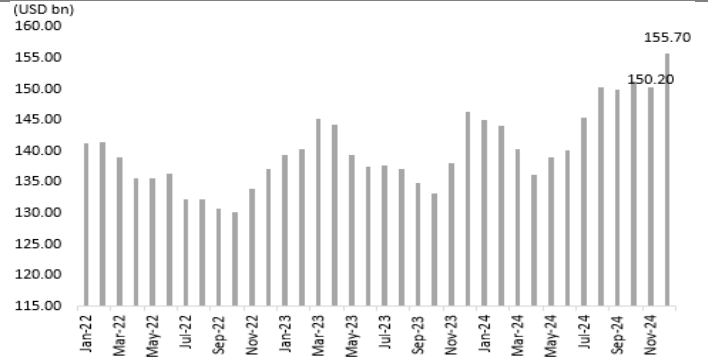
Source : BPS - treated (2025)

Fig 5. Indonesia Portfolio Flow



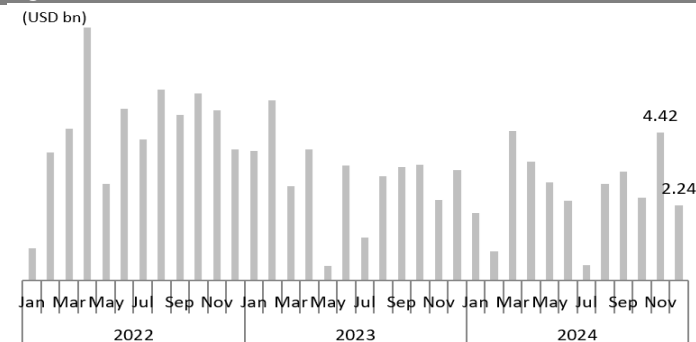
Source : Bloomberg - treated (2025)

Fig 6. Indonesia FX Reserves



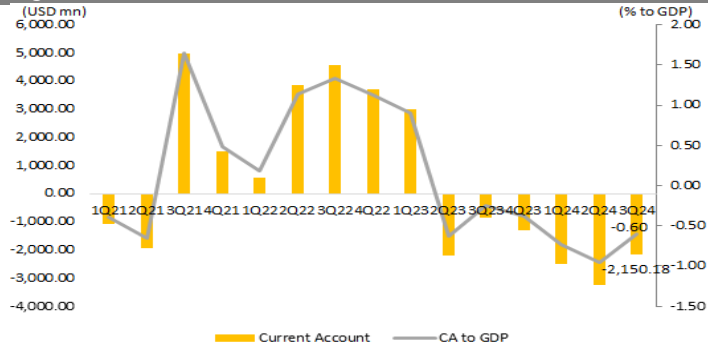
Source : BI - treated (2025)

Fig 7. Indonesia Trade Balance



Source : BI - treated (2025)

Fig 8. Indonesia Current Account



Source : BI - treated (2025)

Table 2. Fed Rate Probabilities, as of 15 Jan '25

MEETING DATE	MEETING PROBABILITIES					
	300-325	325-350	350-375	375-400	400-425	425-450
29-Jan-25	0.0%	0.0%	0.0%	0.0%	2.7%	97.3%
19-Mar-25	0.0%	0.0%	0.0%	0.5%	19.7%	79.8%
30-Apr-25	0.0%	0.0%	0.1%	3.7%	29.9%	66.3%
18-Jun-25	0.0%	0.0%	1.3%	12.3%	41.8%	44.6%
30-Jul-25	0.0%	0.2%	2.6%	15.9%	42.1%	39.1%
17-Sep-25	0.1%	0.6%	5.1%	20.8%	41.6%	31.9%
29-Oct-25	0.1%	1.1%	6.6%	22.8%	40.6%	28.8%
10-Dec-25	0.2%	1.6%	8.0%	24.3%	39.6%	26.3%

Source : CME Group - treated (2025)

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