

**Bank Indonesia Maintains BI Rate at 5.75%, Balancing Growth and Stability Amid Global Dovish Trends**

As anticipated, Bank Indonesia (BI) decided to keep the BI Rate unchanged at 5.75% during this month's Board of Governors Meeting (RDG), aligning with consensus expectations (Cons: 5.75%, KBVS: 5.75%, Prev: 5.75%). This decision reflects BI's ongoing effort to strike a balance between pro-growth and pro-stability policies, despite the increasing dovish stance of various global central banks. However, the significant sell-off in the equity market over the past month—totaling a net sell of IDR18.19 tn—warrants attention. Meanwhile, pressures in the fixed income market and Bank Indonesia's Rupiah securities (SRBI) remain relatively controlled, helping to sustain domestic liquidity, maintain Rupiah stability, and mitigate inflation risks.

Bank Indonesia continues to optimize macroprudential policies and the payment system to support sustainable economic growth, particularly through macroprudential liquidity incentives (KLM) that encourage credit allocation to priority sectors and digitalization of the payment system. The policy strategies implemented include strengthening pro-market monetary operations to enhance policy transmission effectiveness and attract foreign capital inflows, stabilizing the Rupiah exchange rate through market interventions, and ensuring credit interest rate transparency based on priority sectors. Additionally, the digitalization of the payment system is reinforced by expanding the use of QRIS, including in cross-border transactions and financial literacy programs for Indonesian Migrant Workers (PMI). Moving forward, Bank Indonesia will increase the KLM from 4% to 5% of Third-Party Funds (DPK) starting in April 2025 to further boost bank financing for strategic sectors, in line with the Asta Cita Government program to accelerate economic growth and job creation.

Despite these developments, we concur with Bank Indonesia's assessment that Indonesia's economic fundamentals remain intact. Core inflation in February 2025 stood at 2.48% YoY, reflecting a stable balance between supply and demand for domestic food and energy prices. Additionally, Indonesia's external debt (ULN) reached USD 427.5 billion in January 2025, growing by 5.1% YoY, mainly driven by an increase in public sector debt, which remains manageable. The fiscal deficit, at -0.13% of GDP as of February, is also within a reasonable range.

On the real sector front, demand appears to have weakened compared to previous Ramadan and Eid cycles, as indicated by a modest 0.8% MoM growth in the Real Sales Index (IPR) for February 2025. Likewise, the Consumer Confidence Index (CCI) declined to 126.4 (Prev: 127.2), possibly reflecting a cautious stance among consumers amid structural economic shifts, including budget reallocations and government initiatives to strengthen the food, infrastructure, and natural resource-based manufacturing sectors.

Globally, markets are awaiting the Federal Open Market Committee (FOMC) decision later tonight, with expectations that the Federal Reserve will maintain its policy rate. Recent remarks by Fed officials, including Chairman Jerome Powell, suggest a cautious "wait-and-see" approach, given prevailing uncertainties in economic policy. One key concern is the potential impact of U.S. trade policies, particularly President Donald Trump's tariff threats, which could influence inflation dynamics and overall economic performance. While most economists and forecasters still consider a recession unlikely, downside risks remain elevated.

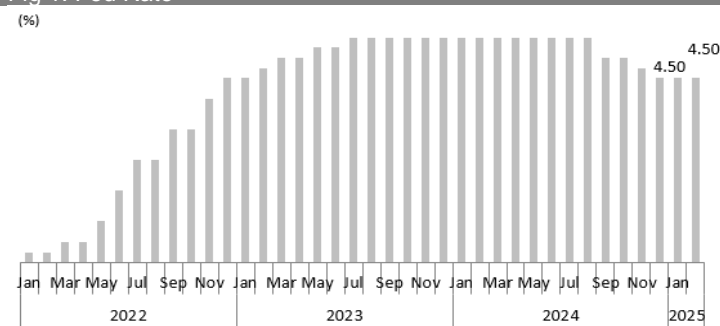
Looking ahead, we expect the Rupiah to remain undervalued while awaiting the materialization of ongoing structural economic adjustments. Consequently, we believe BI will maintain the BI Rate until these structural changes take effect, which we anticipate will become more evident by the end of the first half of 2025. In the meantime, domestic purchasing power may remain under pressure, although this could be partially offset by the government's expanded free nutritious meal program in the coming quarters. As a result, we expect core inflation to remain stable, with Indonesia's economic growth projected at 4.9% YoY in the first quarter of 2025.

Table 1. Interest Rate Data

Indicators	19-Mar-25		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
United States	4.50	4.50	0.0	(100.0)
European Union	2.65	2.90	(25.0)	(185.0)
United Kingdom	4.50	4.75	(25.0)	(75.0)
Japan	0.50	0.50	0.0	60.0
China	3.10	3.10	0.0	(35.0)
India	6.25	6.50	(25.0)	(25.0)
Thailand	2.00	2.25	(25.0)	(50.0)
Philippines	5.75	5.75	0.0	(75.0)
Indonesia	5.75	5.75	0.0	(25.0)
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	2	3		
Unchanged	22	15		
Tightening	7	6		
<b>Average International Interest Rate (in %)</b>				
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)
<b>Domestic Interbank Money Market (in %)</b>				
INDONIA	5.73	5.93	(20.2)	(27.4)
JIBOR - 1 Month	6.39	6.51	(12.6)	(0.4)
JIBOR - 3 Months	6.69	6.81	(12.3)	(6.0)
JIBOR - 6 Months	6.79	6.94	(15.3)	(7.9)
JIBOR - 12 Months	6.98	7.12	(13.5)	(7.0)

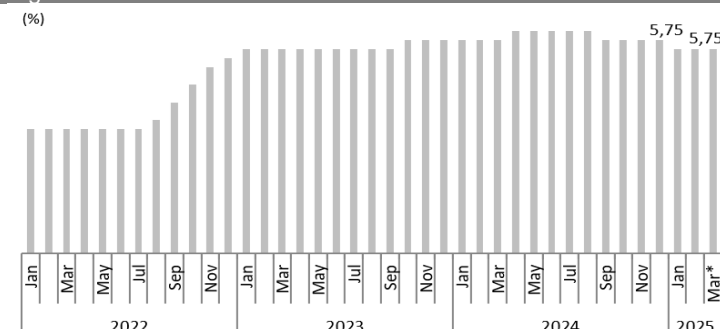
Sources: Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



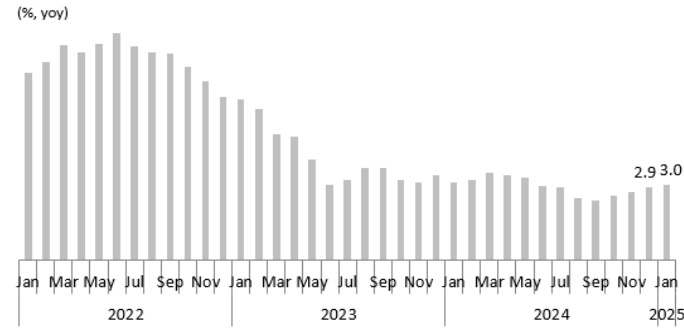
Source: The Fed – treated (2025)

Fig 2. BI Rate



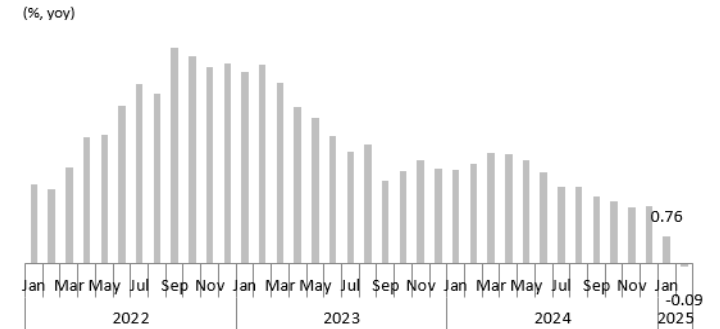
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



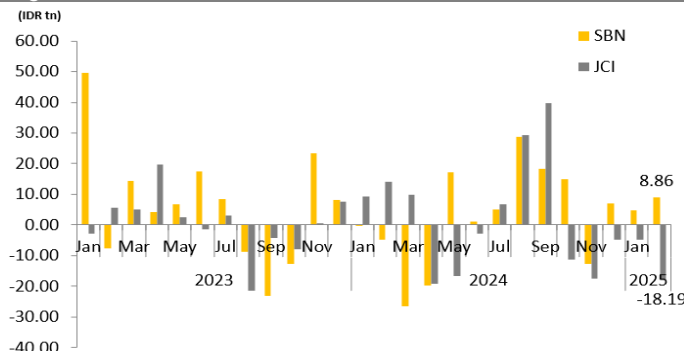
Source: US BLS – treated (2025)

Fig 4. Indonesia CPI Inflation



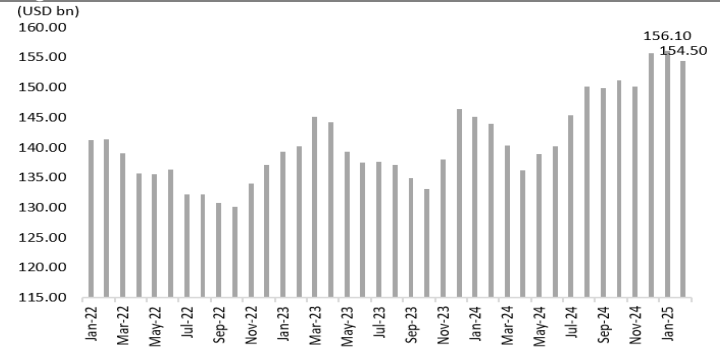
Source: BPS – treated (2025)

Fig 5. Indonesia Portofolio Flow



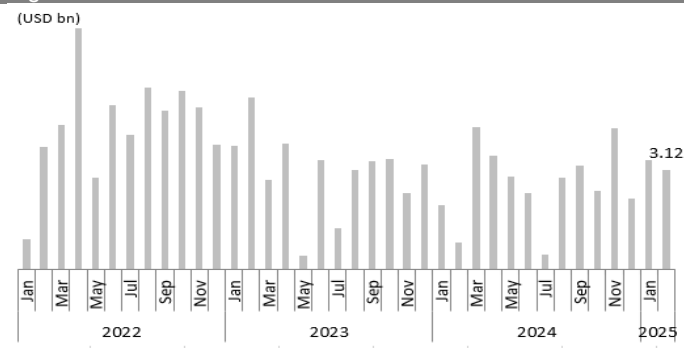
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



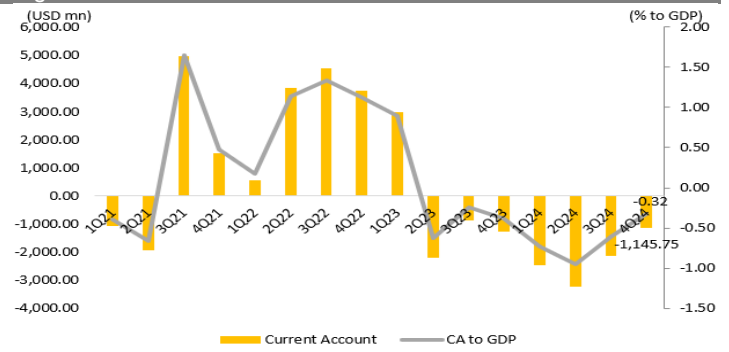
Source: BI – treated (2025)

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 19 Mar '25

MEETING DATE	MEETING PROBABILITIES						
	275-300	300-325	325-350	350-375	375-400	400-425	425-450
19-Mar-25	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	99.0%
30-Apr-25	0.0%	0.0%	0.0%	0.1%	0.1%	15.4%	84.5%
18-Jun-25	0.0%	0.0%	0.0%	0.1%	9.0%	55.7%	35.2%
30-Jul-25	0.0%	0.0%	0.0%	2.9%	23.5%	49.3%	24.3%
17-Sep-25	0.0%	0.0%	1.7%	14.8%	38.5%	34.8%	10.2%
29-Oct-25	0.0%	0.5%	5.6%	21.9%	37.4%	27.4%	7.1%
10-Dec-25	0.2%	2.6%	12.2%	28.2%	33.3%	19.2%	4.2%

Source: CME Group – treated (2025)

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## KB Valbury Sekuritas Head Office

Sahid Sudirman Center 41st Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Kelurahan Karet Tengsin,  
Kecamatan Tanah Abang, Jakarta Pusat 10220, Indonesia  
T. (021) 25098300  
F. (021) 25098400

### Branch Office

#### Jakarta – Sudirman

Sahid Sudirman Center 41st Floor Unit A-C  
Jalan Jenderal Sudirman No. 86 Karet Tengsin,  
Tanah Abang, Jakarta Pusat 10220  
T. (021) 25098300/301

#### Bandung

Jl. Abdul Rivai No. 1A, Kel. Pasirkaliki,  
Kec. Cicendo Bandung 40171  
T. (022) 3003133

#### Palembang

Komplek PTC Mall Blok I No. 7  
Jl. R. Sukamto  
Palembang 30114  
T. (0711) 2005050

#### Semarang

Jl. Gajahmada 23A,  
Kecamatan Semarang Tengah,  
Kelurahan Kembang Sari 50241  
T. (024) 40098080

#### Pontianak

Jl. Prof. M Yamin No. 14  
Kotabaru, Pontianak Selatan  
Kalimantan Barat 78116  
T. (0561) 8069000

#### Jakarta – Kelapa Gading

Rukan Plaza Pasifik  
Jl. Boulevard Barat Raya Blok A1 No. 10  
Jakarta Utara 14240  
T. (021) 29451577

#### Malang

Jl. Pahlawan Trip No. 7  
Malang 65112  
T. (0341) 585888

#### Surabaya

Pakuwon Center Lt 21  
Jl. Embong Malang No.1  
Surabaya 60261  
T. (031) 21008080

#### Makassar

Komplek Ruko Citraland City Losari  
Business Park, Blok B2 No. 09  
Jl. Citraland Boulevard Makassar 90111  
T. (0411) 6000818

#### Jakarta – Puri Indah

Rukan Grand Aries Niaga Blok E1 No. IV  
Jl. Taman Aries, Kembangan  
Jakarta Barat 11620  
T. (021) 22542390

#### Banjarmasin

Jl. Gatot Subroto No. 33  
Banjarmasin 70235  
T. (0511) 3265918

#### Padang

Jl. Proklamasi No. 60A  
Padang Timur 25121  
T. (0751) 8688080

#### Medan

Komplek Golden Trade Center  
Jl. Jenderal Gatot Subroto No. 18-19  
Medan 20112  
T. (061) 50339090

#### Jakarta – Pluit

Jl. Pluit Putra Raya No. 2  
Jakarta Utara 14450  
T. (021) 6692119

#### Pekanbaru

Jl. Tuanku Tambusai, Komplek CNN  
Blok A No. 3 Pekanbaru 28291  
T. (0761) 859593

#### Yogyakarta

Jl. Magelang KM 5.5 No. 75  
Yogyakarta 55000  
T. (0274) 8099090

#### Denpasar

Jl. Teuku Umar No. 177  
Komplek Ibis Styles Hotel  
Denpasar Bali 80114  
T. (0361) 225229

### Investment Gallery

#### Jakarta

Citra Garden 6 Ruko Sixth Avenue  
Blok J.1 A/18, Cengkareng  
Jakarta Barat 11820  
T. (021) 52392181

#### Tangerang

Ruko Aniva Junction Blok D No. 32  
Gading Serpong, Tangerang,  
Banten 15334  
T. (021) 35293147

#### Semarang

Jl. Jati Raya No. D6,  
Srandol Wetan, Banyumanik,  
Semarang 50265  
T. (024) 8415195

#### Salatiga

Jl. Diponegoro No. 68  
Salatiga 50711  
T. (0298) 513007

#### Solo

Jl. Ronggowarsito No. 34  
Surakarta 57118  
T. (0271) 3199090

#### Jambi

Jl. Orang Kayo Hitam No. 48 B  
Jambi Timur 36123  
T. (0741) 3068533