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Indonesia Macro Update

22 May 2025

BI Rate has been lowered to 5.50% : A Shift Toward More Accommodative Policy

Bank Indonesia (BI) has lowered its benchmark interest rate by 25bps to 5.50% (prev: 5.75%), marking a shift toward a more accommodative policy stance. The decision comes amid improving global conditions, notably a 90-day tariff reduction agreement between the U.S. and China, which is expected to ease global inflationary pressures and support trade sentiment. Additionally, Moody's recent downgrade of the U.S. sovereign credit rating has reinforced BI's expectation that the Federal Reserve may begin lowering the Fed Funds Rate in 2H25. BI views this as an opportunity to maintain external stability while pursuing domestic growth objectives in a sustainable manner.

The domestic macroeconomic backdrop also supported the policy adjustment. Inflation remained subdued at 1.95% yoy in April 2025—comfortably within BI's target range of 2.5% ±1%. **The low headline figure was largely driven by a moderate increase in volatile food prices at 0.64% yoy supported by the adequate supply of key food commodities and strong synergy in inflation control** by the Central/Regional Inflation Control Teams (TPIP/TPID) through the National Movement for Food Inflation Control (GNPIP), **while core inflation remained stable at 2.5% yoy**, in line with the consistency of Bank Indonesia's policy to guide inflation expectations. **Simultaneously, GDP expanded by 4.87% yoy in 1Q25**, driven by seasonal momentum from New Year and Eid festivities. Economic activity is expected to accelerate further in 2Q25, supported by higher government spending and a more accommodative policy environment that fosters resilient and inclusive growth.

Within the banking sector, liquidity pressures have emerged as growth in third-party funds (DPK) moderated to 4.55% yoy in April (prev: 5.51% yoy in Jan '25), intensifying competition for funding. In response to the declining DPK liquidity, BI is expanding funding sources for banks—not only domestically, but also internationally. The Foreign Borrowing Ratio (RPLN) limit has been raised to 35% (prev: 30%), providing broader room for external funding. Additionally, the Macroprudential Liquidity Buffer (PLM) requirement was lowered to 4% (prev: 5%) for conventional banks and to 2.5% (prev: 3.5%) for Islamic banks, offering greater flexibility to the banking sector and encouraging sustainable financial intermediation.

Credit growth currently stands at 8.88% yoy, and BI forecasts it to reach 8–11% in FY25 (vs 11–13% prev). This outlook is supported by the policy rate cut, additional liquidity injections, looser macroprudential regulations, and external funding via foreign borrowings (RPLN). Meanwhile, persistently high bank lending rates at 9.92% have continued to weigh on credit transmission, reinforcing BI's decision to ease policy. BI expects these measures to enhance access to credit and promote sustainable economic development. Despite these challenges, Indonesia's banking fundamentals remain solid, with a Capital Adequacy Ratio (CAR) of 25.38% and a Non-Performing Loan (NPL) ratio of 2.17%. However, interest rates at the retail level remain sticky, with the 1-month deposit rate slightly rising to 4.83% (prev: 4.81%) and lending rates holding steady at 9.19% (prev: 9.20%). In response, Bank Indonesia has called on commercial banks to gradually lower their lending rates in order to improve credit transmission and support broader and more sustainable economic recovery.

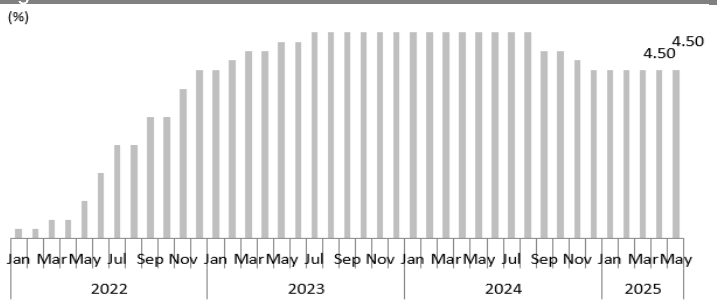
We expect Bank Indonesia (BI) to continue steering its monetary policy to maintain inflation within its target range **due to the synergy in inflation control** between Bank Indonesia and the Central and Regional Governments **and stabilize the exchange rate** in line with fundamentals **by strengthening stabilization policy responses**, including calibrated interventions in the offshore NDF market and the triple intervention strategy involving spot transactions, DNDFs, and SBN in the secondary market, while remaining attentive to opportunities for promoting economic growth in response to both global and domestic dynamics. **Bank Indonesia will also optimize monetary instruments**, including strengthening the pro-market monetary operations strategy through the optimization of SRBI, SVBI, and SUVBI instruments, **to enhance the effectiveness of policies in attracting foreign portfolio investment inflows** and supporting the stability of the Rupiah exchange rate. Meanwhile, macroprudential and payment system policies will continue to be directed toward supporting sustainable economic growth. These policies are expected to encourage bank lending to priority sectors and create employment opportunities. **One key area BI needs to monitor going forward is the use of SRBI once rupiah stability is achieved.** Market participants hope that liquidity conditions in the money market will improve if SRBI yields are lowered and the awarded amounts are adjusted.

Table 1. Interest Rate Data

Indicators	21-May-25 Latest	21-May-25 M-1	Monthly Changes (in bps)	Ytd Changes (in bps)
Policy Rate (in %)				
United States	4.50	4.50	0.0	(100.0)
European Union	2.40	2.40	0.0	(210.0)
United Kingdom	4.25	4.50	(25.0)	(100.0)
Japan	0.50	0.50	0.0	60.0
China	3.00	3.10	(10.0)	(45.0)
India	6.00	6.00	0.0	(50.0)
Thailand	1.75	2.00	(25.0)	(75.0)
Philippines	5.50	5.50	0.0	(100.0)
Indonesia	5.50	5.75	(25.0)	(25.0)
Global Monetary Policy Change (in number of countries)				
Easing	11	9		
Unchanged	19	22		
Tightening	3	2		
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	5.71	5.84	(12.2)	(28.5)
JIBOR - 1 Month	6.01	6.38	(36.4)	(37.5)
JIBOR - 3 Months	6.38	6.68	(30.1)	(36.8)
JIBOR - 6 Months	6.69	6.78	(9.3)	(18.3)
JIBOR - 12 Months	6.97	6.97	0.5	(7.7)

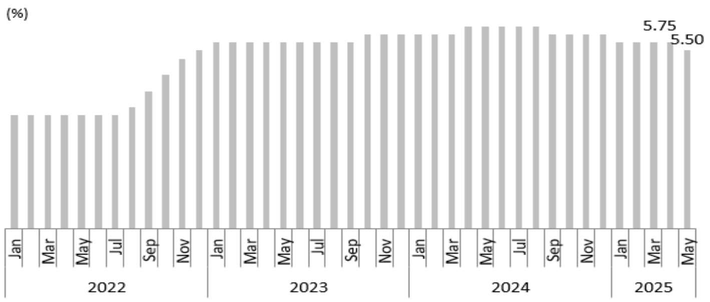
Sources: Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



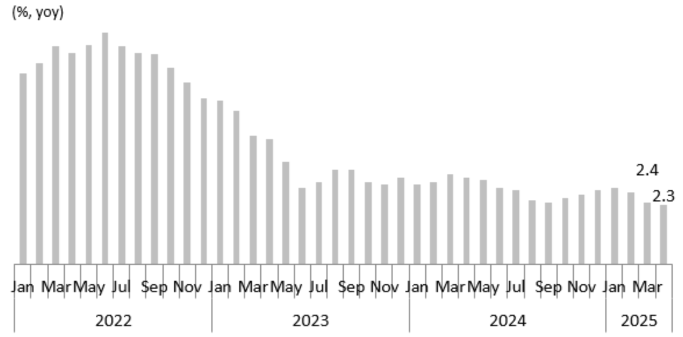
Source: The Fed – treated (2025)

Fig 2. BI Rate



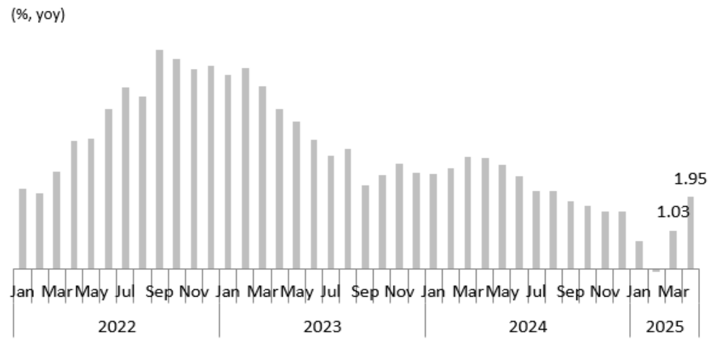
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



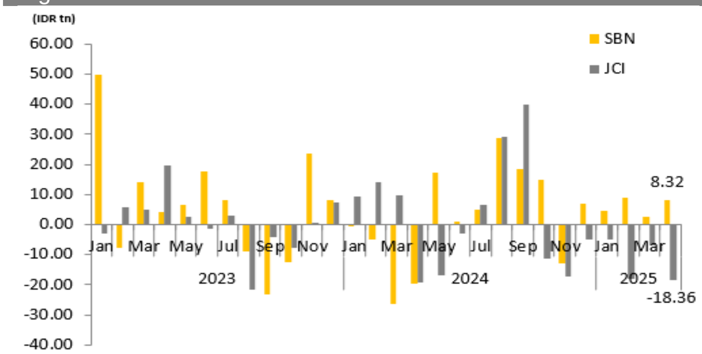
Source: US BLS– treated (2025)

Fig 4. Indonesia CPI Inflation



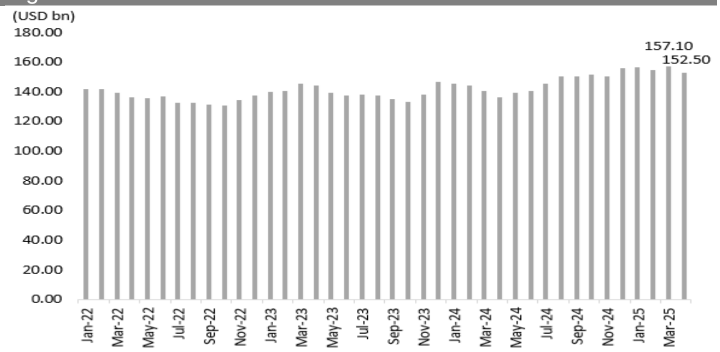
Source: BPS – treated (2025)

Fig 5. Indonesia Portofolio Flow



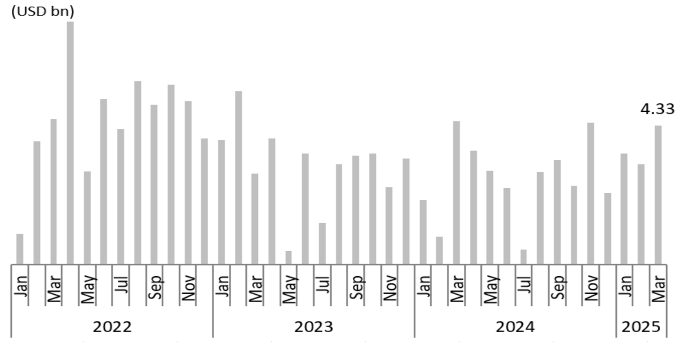
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



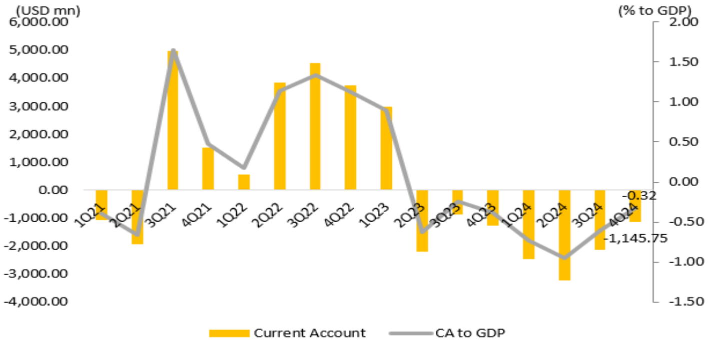
Source: BI – treated (2025)

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 21 May '25

MEETING DATE	MEETING PROBABILITIES					
	300-325	325-350	350-375	375-400	400-425	425-450
18-Jun-25	0.0%	0.0%	0.0%	0.0%	5.3%	94.7%
30-Jul-25	0.0%	0.0%	0.0%	1.3%	27.5%	71.2%
17-Sep-25	0.0%	0.0%	0.7%	15.6%	51.3%	32.5%
29-Oct-25	0.0%	0.4%	9.0%	35.4%	40.8%	14.4%
10-Dec-25	0.3%	6.4%	27.5%	39.2%	22.4%	4.3%

Source: CME Group – treated (2025)

Disclaimer

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