

BI Rate Cut as A Signal of Consistent Pro-Growth Policy

As expected, Bank Indonesia (BI) reaffirmed its accommodative and pro-growth stance this year by cutting the policy rate by 25 bps to 4.75% (Cons: 5.00%, KBVS: 4.75%, Prev: 5.00%). This decision was driven by several factors: a) the rising probability of a Fed rate cut, alongside accommodative policies from other central banks; b) the rigidity of domestic banking rates, both on deposits and lending; c) inflation currently at the lower bound of BI's target range, with expectations remaining stable through end-2026; and d) a stable Rupiah.

Policymakers on the FOMC are expected to cut the federal funds rate by 25 bps tonight—the first since Dec '24—bringing the target range to 4.00%–4.25%. Investors also anticipate further cuts through 2025, with the Fed rate projected to reach 3.75% (from the current 4.50%). This outlook is reinforced by weakening U.S. labor market data. The Bureau of Labor Statistics reported that job creation slowed to just 22K jobs (prev: 79K jobs) created in Aug '25 and weekly jobless claims consistently above 220K since late Jul '25.

On the domestic side, despite BI having already cut rates five times this year, **banking rates remain stubbornly rigid, both for deposits and credit**. This has fueled BI's frustration, especially as undisbursed loans remain elevated at IDR2,372 tn (22.7% of available credit ceiling). The government's liquidity injections via state-owned banks have had only a limited effect, leaving stimulus measures with muted impact on credit demand, real sector investment, and job creation. Against this backdrop, the latest BI Rate cut is expected to amplify the effectiveness of the Government's 2025 Economic Policy Package (stimulus package 8+4+5).

Another key factor supporting the cut is subdued inflation. In Aug '25, core inflation stood at 2.17% YoY, while headline inflation was 2.31% YoY—both comfortably within BI's target range. Looking ahead, food estate projects, distribution improvements, and relatively favorable weather conditions are expected to support supply stability and help contain inflation across all components, including core, administered prices, and volatile foods.

The Rupiah has also provided a supportive backdrop, appreciating 0.30% (*ptp*) as of 16 Sep '25 compared to Aug '25. BI expect Rupiah stability through year-end, with inflation well-contained into late 2026. This stability is partly attributable to a softer U.S. dollar, as DXY declines on the back of Fed rate cut expectations, reducing relative demand for USD-denominated assets.

Looking forward, we see further scope for BI to lower rates in line with its pro-growth stance and consistent with the employment creation mandate outlined in the revised P2SK Bill. We also expect this to gradually lower domestic funding costs, including banking and multifinance lending rates, alongside a downward adjustment in yields for both government securities and corporate bonds. At the same time, stronger momentum in job creation would help support credit demand, aligning liquidity growth with real sector expansion.

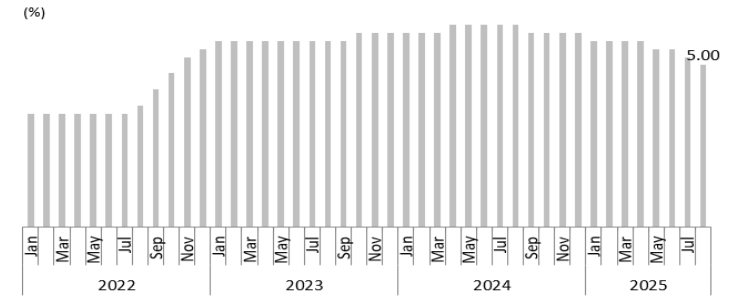
If these dynamics unfold as expected, we also anticipate that Indonesia's economic growth could strengthen toward the upper end of Bank Indonesia's forecast range, reaching 4.6%–5.4% YoY by the end of 2025. This projection, however, remains contingent upon the continuation of easing geopolitical tensions and the sustained trajectory of the Fed's rate cuts, which together could provide a more supportive external environment for Indonesia's growth momentum.

Table 1. Interest Rate Data

Indicators	17-Sep-25		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	4.50	4.50	0.0	(100.0)
European Union	2.15	2.15	0.0	(235.0)
United Kingdom	4.00	4.25	(25.0)	(125.0)
Japan	0.50	0.50	0.0	60.0
China	3.00	3.00	0.0	(45.0)
India	5.50	5.50	0.0	(100.0)
Thailand	1.50	1.75	(25.0)	(100.0)
Philippines	5.00	5.25	(25.0)	(150.0)
Indonesia	4.75	5.00	(25.0)	(125.0)
Global Monetary Policy Change (in number of countries)				
Easing	2	0		
Unchanged	8	6		
Tightening	0	3		
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 %)				
INDONESIA	4.59	4.97	(38.2)	(141.1)
JIBOR - 1 Month	5.50	6.02	(51.2)	(88.6)
JIBOR - 3 Months	5.88	6.31	(42.5)	(86.5)
JIBOR - 6 Months	6.00	6.41	(41.1)	(87.4)
JIBOR - 12 Months	6.60	6.74	(14.2)	(45.2)

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

Fig 1. Fed Rate



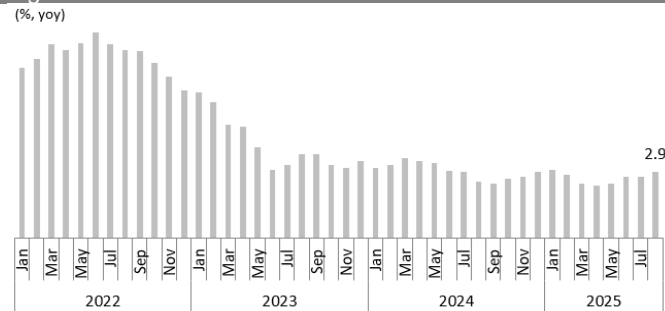
Source: The Fed – treated (2025)

Fig 2. BI Rate



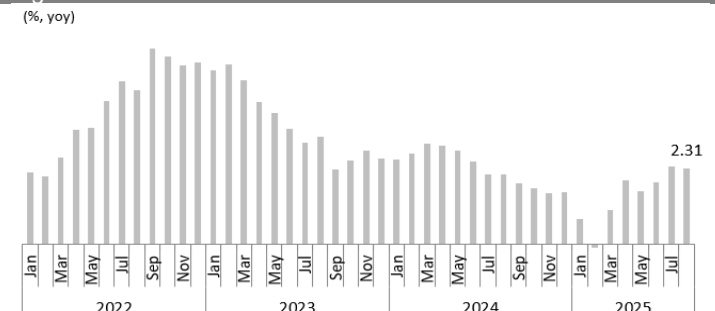
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



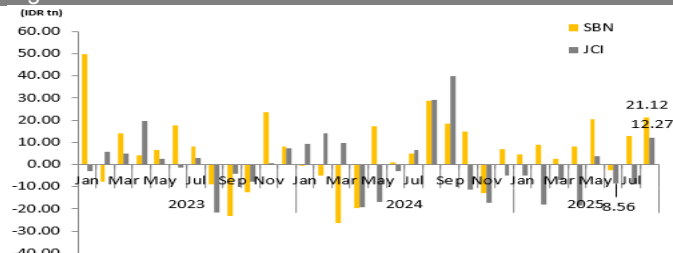
Source: US BLS – treated (2025)

Fig 4. Indonesia CPI Inflation



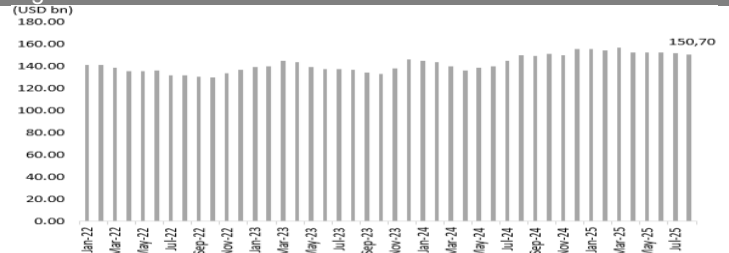
Source: BPS – treated (2025)

Fig 5. Indonesia Portfolio Flow



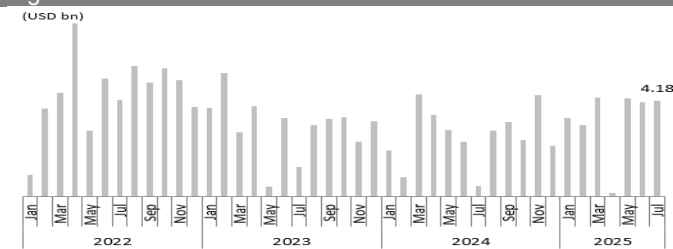
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



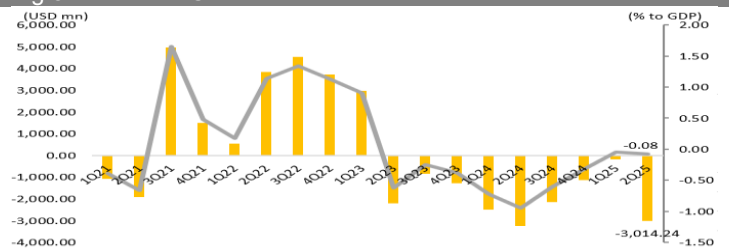
Source: BI – treated (2025)

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 17 Sep '25

MEETING DATE	225-250	250-275	275-300	330-325	325-350	350-375	375-400	400-425
17-Sep-25	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%	96.1%
29-Oct-25	0.0%	0.0%	0.0%	0.0%	0.0%	3.1%	76.8%	20.1%
10-Dec-25	0.0%	0.0%	0.0%	0.0%	2.8%	70.7%	24.8%	1.7%
28-Jan-26	0.0%	0.0%	0.0%	1.6%	40.4%	45.3%	12.0%	0.7%
18-Mar-26	0.0%	0.0%	0.9%	24.4%	43.3%	25.7%	5.4%	0.3%
29-Apr-26	0.0%	0.4%	8.5%	29.9%	37.5%	19.6%	3.9%	0.2%
17-Jun-26	0.2%	5.7%	22.6%	34.9%	25.7%	9.3%	1.5%	0.1%
29-Jul-26	1.9%	11.1%	26.7%	32.1%	20.4%	6.7%	1.0%	0.0%

Source: CME Group – treated (2025)

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