Economist: Fikri C Permana Email: *fikri.permana@kbvalbury.com*

BI Rate Maintained at 5.75% : Indonesia-U.S. Trade Negotiations Seen as a Key Forward-Looking Factor

As expected, Bank Indonesia (BI) has decided to maintain its BI Rate at 5.75% (Cons: 5.75%, KBVS: 5.75%, Prev: 5.75%). The Deposit Facility and Lending Facility rates were also kept unchanged at 5.00% and 6.50%, respectively. This decision aligns with BI's ongoing pro-stability and pro-growth policy stance, which has been in place since last year. It aims to maintain inflation within the target range of 2.5±1%, support Rupiah stability in line with its fundamentals amid rising global uncertainty, and bolster economic growth.

However, domestic liquidity conditions are tightening, mainly due to slowing third-party fund (DPK) growth. At the same time, BI is striving to optimize monetary policy transmission to further stimulate bank lending and financing to priority sectors that support economic growth and job creation. These efforts are aligned with the government's *Asta Cita* program and are being implemented through various macroprudential relaxations. Among these is the increase in the Macroprudential Liquidity Incentive Ratio (KLM) from 4% to 5%, which took effect on 1 Apr '25. In addition, BI has maintained: (i) the Countercyclical Capital Buffer (CCyB) Ratio at 0%; (ii) the Macroprudential Intermediation Ratio (RIM) within the range of 84-94%; (iii) the Macroprudential Liquidity Buffer (PLM) at 5% with a 5% repo flexibility; and (iv) the Sharia PLM ratio at 3.5% with 3.5% repo flexibility.

BI is also enhancing the implementation of the Foreign Funding Ratio (RPLN) to encourage banks to strengthen liquidity management and increase credit disbursement to the real sector. This is in line with the mandatory 100% placement of Natural Resource Export Proceeds (DHE SDA) in the domestic financial system for a one-year holding period, effective 1 Mar '25, as stipulated in Government Regulation No. 8/2025, which revises Regulation No. 36/2023.

Meanwhile, **BI notes that rising global trade tensions remain a potential source of volatility, posing risks to the domestic economy via both trade and financial channels.** On the trade front, the risks include: (i) first (direct) effects, such as heightened U.S. inflation risks and slower U.S. economic growth (the IMF recently cut its 2025 U.S. growth forecast to 1.8% YoY from 2.5% YoY), which may reduce demand for Indonesian exports; (ii) secondary effects, including a broader slowdown in global trade; and (iii) tertiary effects from potential shifts in global supply chains, as countries respond to the "Trump tariffs" through reciprocal tariffs or trade negotiations. From the financial channel perspective, this uncertainty may further fuel global risk-off sentiment, resulting in: (i) capital flight to safe-haven assets, particularly gold; (ii) sell-offs in U.S. financial markets amid concerns over declining corporate earnings and rising fiscal deficits; and (iii) a stronger inclination toward interest rate cuts by the Federal Reserve and other central banks as countercyclical measures to cushion real sector downturns.

Additionally, we foresee price channel risks, particularly from increased import prices for raw and intermediary goods—categories that represented 72.50% of Indonesia's total imports as of Mar '25. Against this backdrop, it is not surprising that BI continues to prioritize inflation control and enhance the effectiveness of monetary policy transmission to safeguard Rupiah stability. This includes a range of market-based instruments—such as Repo, SRBI, SVBI, SuVBI, and SukBI—and active intervention in the Rupiah exchange rate through the spot, DNDF, and offshore markets since 7 Apr '25. BI has also supported government bond purchases to ensure SBN market stability and help contain the overall cost of domestic funding. These combined efforts have led BI to project that Indonesia's economic growth in 2025 will likely fall below the midpoint of its target range of 4.7%-5.5%, in line with our own projection of 4.9%-5.0% for the year.

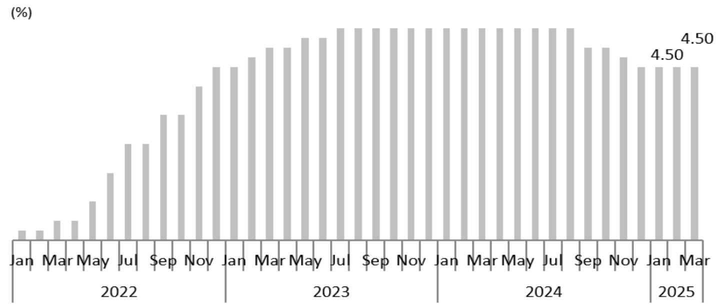
Given these conditions, **we view progress in Indonesia-U.S. trade negotiations as a critical factor for maintaining macroeconomic stability. On the trade side, such negotiations are essential to safeguard Indonesia's export market,** as the U.S. is Indonesia's second-largest export destination with a share of 11.60% in Mar '25. They also offer opportunities to diversify export markets, such as through the acceleration of the Indonesia-EU Comprehensive Economic Partnership Agreement (IEU-CEPA), which is targeted for completion in mid-2025. **From an investment standpoint, we hope these negotiations will open doors to increased U.S. direct and portfolio investment in Indonesia**, supporting capital inflows and expanding domestic liquidity. **Furthermore, improved trade ties could help stabilize Rupiah sentiment and reduce imported inflation risks, thereby preserving room for future BI Rate cuts.** This outlook is supported by current inflation dynamics, with core inflation at 2.48% YoY and headline inflation at 1.03% YoY as of Mar '25.

Table 1. Interest Rate Data

Indicators	23-Apr-25 Latest	23-Apr-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	2.65	(25.0)	(210.0)
United Kingdom	4.50	4.50	0.0	(75.0)
Japan	0.50	0.50	0.0	60.0
China	3.10	3.10	0.0	(35.0)
India	6.00	6.25	(25.0)	(50.0)
Thailand	2.00	2.00	0.0	(50.0)
Philippines	5.50	5.75	(25.0)	(100.0)
Indonesia	5.75	5.75	0.0	(25.0)
Global Monetary Policy Change (in number of countries)				
Easing	2	2		
Unchanged	22	22		
Tightening	9	7		
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	5.84	5.73	11.0	(16.4)
JIBOR - 1 Month	6.38	6.39	(0.6)	(1.1)
JIBOR - 3 Months	6.68	6.69	(0.7)	(6.7)
JIBOR - 6 Months	6.78	6.79	(1.1)	(9.0)
JIBOR - 12 Months	6.97	6.98	(1.2)	(8.2)

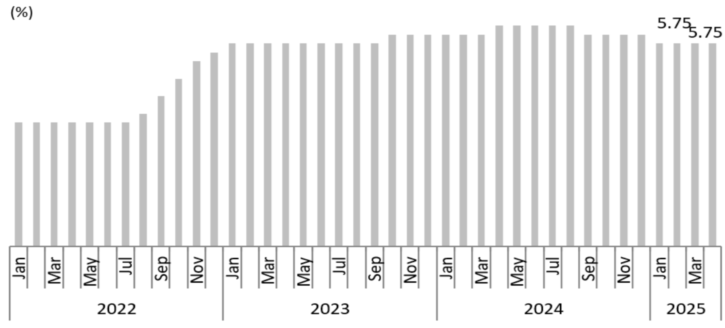
Sources: Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



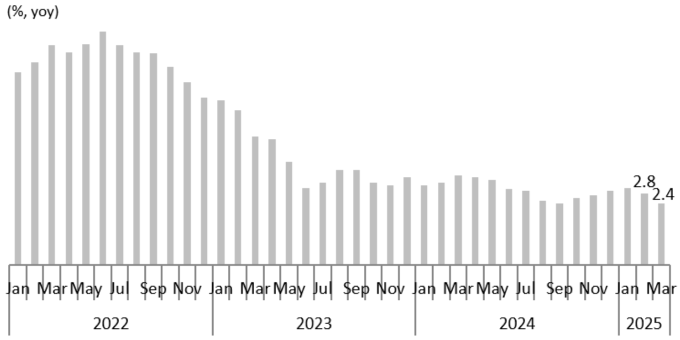
Source: The Fed – treated (2025)

Fig 2. BI Rate



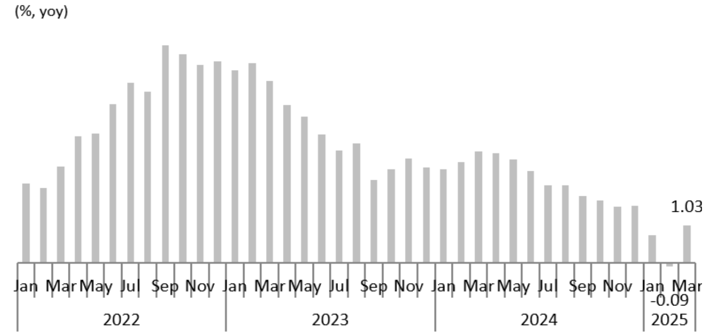
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



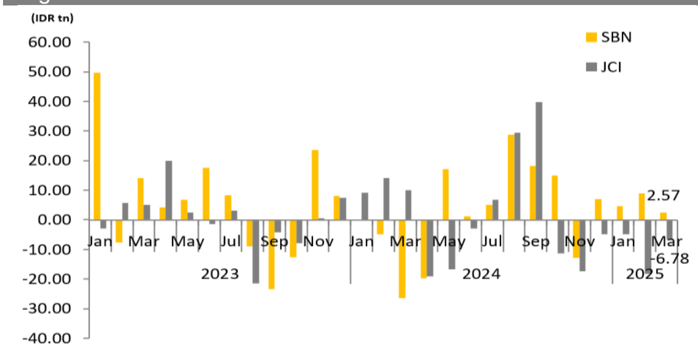
Source: US BLS– treated (2025)

Fig 4. Indonesia CPI Inflation



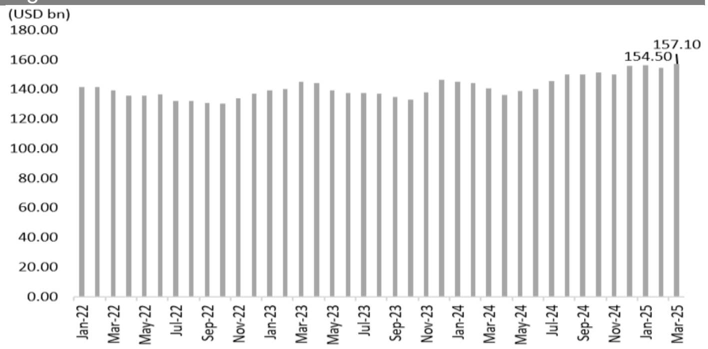
Source: BPS – treated (2025)

Fig 5. Indonesia Portofolio Flow



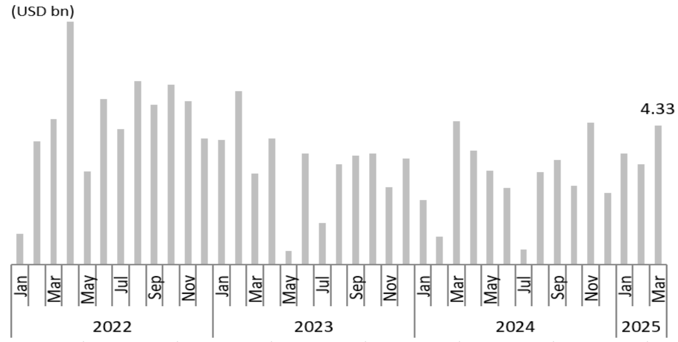
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



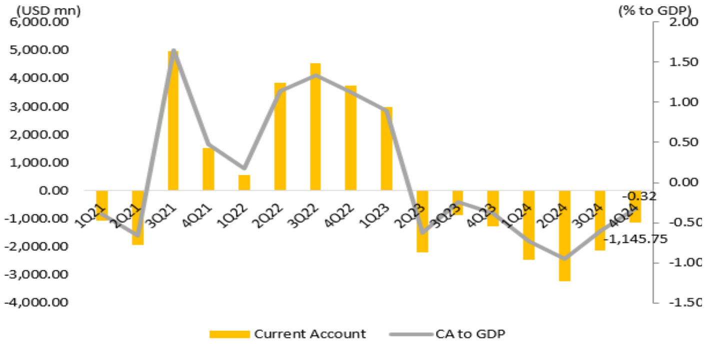
Source: BI – treated (2025)

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 23 Apr '25

MEETING DATE	MEETING PROBABILITIES						
	275-300	300-325	325-350	350-375	375-400	400-425	425-450
30-Apr-25	0.0%	0.0%	0.0%	0.1%	0.0%	6.8%	93.2%
18-Jun-25	0.0%	0.0%	0.0%	0.1%	4.0%	58.0%	38.0%
30-Jul-25	0.0%	0.0%	0.0%	3.1%	45.3%	42.7%	8.9%
17-Sep-25	0.0%	0.0%	2.2%	33.6%	43.4%	18.3%	2.5%
29-Oct-25	0.0%	1.2%	19.7%	39.1%	29.4%	9.5%	1.1%
10-Dec-25	0.7%	12.1%	31.1%	33.4%	17.7%	4.6%	0.5%

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

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

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

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

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

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

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

Pekanbaru
Jl. Tuanku Tambusai, Komplek CNN
Blok A No. 3 Pekanbaru 28291
T. (0761) 839393

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

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

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

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

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

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

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

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

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

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,
Srondol Wetan, Banyumanik,
Semarang 50263
T. (024) 8415195

Salatiga
Jl. Diponegoro No. 68
Salatiga 50711
T. (0298) 313007

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

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

KB Valbury Sekuritas