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Bank Indonesia Cut the BI Rate by 25 bps to 5.25%, Reinforcing Its Pro-Growth Stance

Bank Indonesia (BI) has once again lowered its benchmark interest rate (BI Rate) by 25 bps to 5.25% (Cons: 5.50%; KBVS: 5.50%; Prev: 5.50%) as part of its ongoing pro-growth monetary stance for 2025. This move was accompanied by corresponding cuts to the Deposit Facility rate, which was reduced by 25 bps to 4.50%, and the Lending Facility rate, also lowered by 25 bps to 6.00%. **We believe this decision was driven by three key considerations**. First, BI is maintaining its **pro-growth posture** in line with coordinated fiscal efforts and the Asta Cita development agenda to support economic expansion. Second, **inflation remains well within target**, with headline CPI at just 1.87% YoY and core inflation at 2.37% YoY in June 2025, alongside BI's expectation that inflation will remain relatively subdued through the end of 2026, likely staying in the lower bound of its target range. Third, **capital flows are beginning to shift out of the United States** and into other emerging markets, including Indonesia, as the outlook for U.S. growth dims and fiscal risks increase.

To further solidify its pro-growth monetary stance, **BI is set to implement a series of follow-up strategies**. These include: **a) optimizing monetary operations** to enhance the transmission of lower policy rates into the broader economy, particularly through its use of monetary securities such as SRBI, SVBI, and SUVBI, with the aim of lowering interbank funding costs—reflected in the IndONIA rate—which should subsequently be passed through to reduced lending rates. In addition, **b) BI is pushing for stronger bank credit growth** by reinforcing the implementation of the Macroprudential Liquidity Incentive Policy (KLM), designed to spur lending activity; **c) A stable infrastructure and a healthy financial industry structure** are also being emphasized, notably through a robust and reliable Bank Indonesia Payment System (SPBI) and adequate currency supply in both quantity and quality; and **d) BI has also issued a call to businesses to align with its forward-looking pro-growth stance** and contribute to national economic momentum.

Looking ahead, further rate cuts remain on the table. **We project between one and two more 25 bps reductions before the end of 2025.** BI also continues to support economic financing by encouraging credit expansion and addressing excess liquidity in the market, at a time when banks are showing heightened risk aversion and increased caution in lending. Despite the easing, BI remains firmly committed to maintaining Rupiah stability through measured interventions in the offshore NDF market and its triple intervention strategy in the spot, DNDF, and secondary SBN markets. It is also optimizing the use of its monetary instruments, including the conversion of export proceeds from natural resource exports (DHE SDA) into Rupiah, following the government's recent policy reinforcement on foreign exchange repatriation.

However, **we remain cautious that this latest rate cut may limit the potential for Rupiah appreciation**, especially as the interest rate differential between the BI Rate and the Fed Funds Rate narrows to just 75 bps (Prev: 100 bps). **The likelihood of a Fed rate cut this year is becoming increasingly limited** following the release of several strong U.S. economic indicators. Notably, the unemployment rate in Jun 25 dropped to 4.1% (Prev: 4.2%); inflation remains well above the Fed's long-term target with headline CPI rising to 2.7% YoY (Prev: 2.4%); and ongoing macroeconomic uncertainty tied to the implementation of Trump's tariffs on 1 Aug '25, which are expected to be met with retaliatory measures from affected countries. Additionally, geopolitical tensions are escalating, with Russia rejecting U.S. tariff and peace proposals related to the Ukraine conflict.

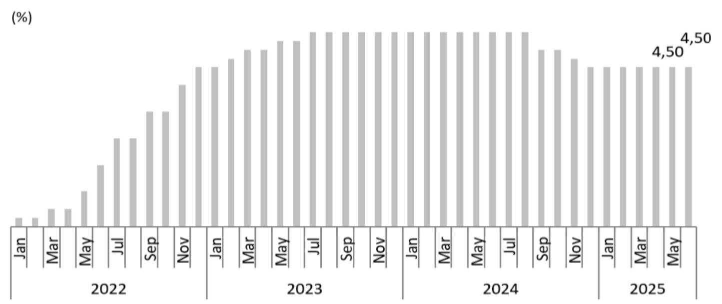
Given BI's continued pro-growth stance and the potential positive impact on funding costs, liquidity conditions, and overall economic momentum, **we also expect SUN yields to gradually decline in the months ahead. Our forecast places 10-year SUN yields in the range of 5.85% to 6.25% by the end of 2025**. At the same time, improved liquidity, expanding bank credit, and continued fiscal stimulus are expected to support **GDP growth in the range of 4.72% to 5.02% YoY by 4Q25**. **Inflation** is projected to remain under control, reaching **1.55% YoY by year-end**, or averaging 1.53% for the full year—well within the target range and consistent with BI's accommodative policy approach.

Table 1. Interest Rate Data

Indicators	16-Jul-25 Latest	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	2,15	2,40	(25,0)	(235,0)
United Kingdom	4,25	4,25	0,0	(100,0)
Japan	0,50	0,50	0,0	60,0
China	3,00	3,00	0,0	(45,0)
India	5,50	6,00	(50,0)	(100,0)
Thailand	1,75	1,75	0,0	(75,0)
Philippines	5,25	5,50	(25,0)	(125,0)
Indonesia	5,25	5,50	(25,0)	(75,0)
Global Monetary Policy Change (in number of countries)				
Easing	0	1		
Unchanged	9	21		
Tightening	7	13		
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	5,38	5,83	(44,8)	(61,6)
JIBOR - 1 Month	6,16	6,31	(15,8)	(23,4)
JIBOR - 3 Months	6,44	6,61	(17,0)	(30,7)
JIBOR - 6 Months	6,54	6,71	(17,1)	(32,7)
JIBOR - 12 Months	6,74	6,91	(16,3)	(30,7)

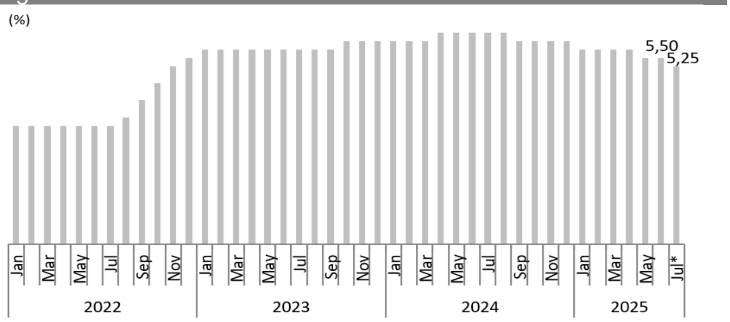
Sources: Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



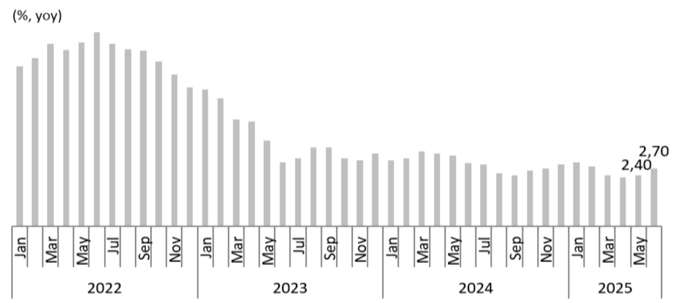
Source: The Fed – treated (2025)

Fig 2. BI Rate



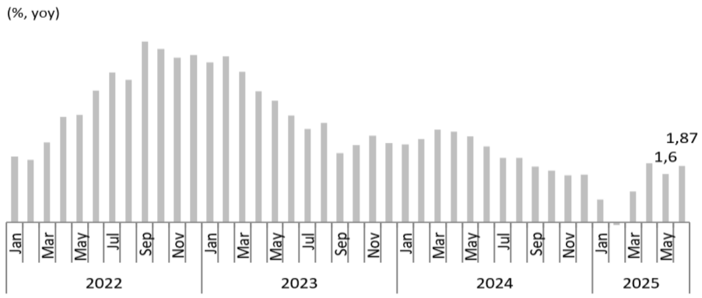
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



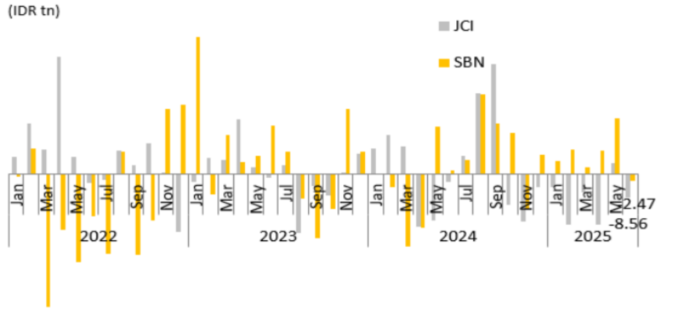
Source: US BLS– treated (2025)

Fig 4. Indonesia CPI Inflation



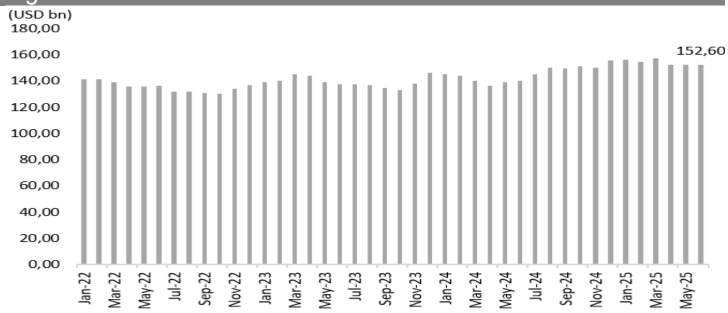
Source: BPS – treated (2025)

Fig 5. Indonesia Portofolio Flow



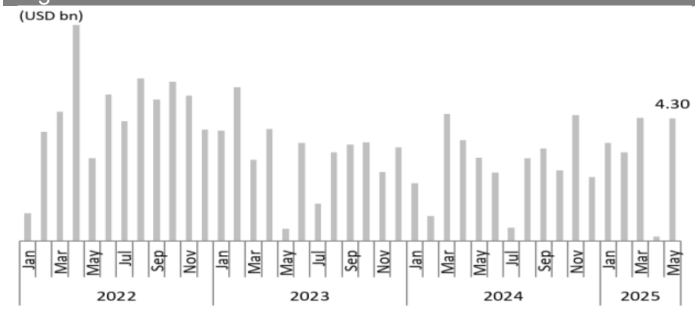
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



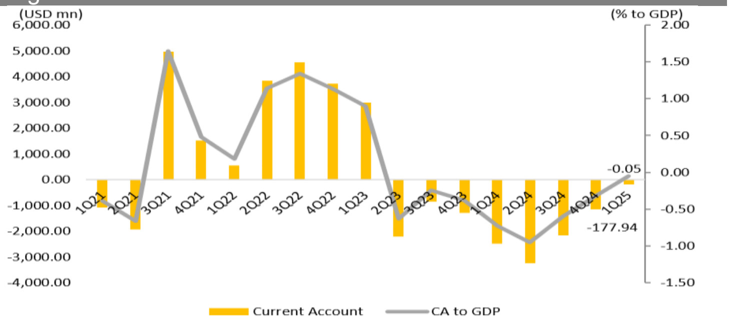
Source: BI – treated (2025)

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 16 Jul '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%	3,1%	96,9%
30-Jul-25	0,0%	0,0%	0,0%	1,6%	52,4%	46,0%
17-Sep-25	0,0%	0,0%	0,9%	28.8%	49,0%	21,4%
29-Oct-25	0,0%	0,6%	19,4%	42,2%	30,7%	7,2%
10-Dec-25	0,2%	7,7%	28,0%	37,8%	21,8%	4,5%

Source: CME Group – treated (2025)

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