

Bank Indonesia Holds Rate Steady Ahead of the Fed's Imminent Easing Cycle

In a move that surprised markets, Bank Indonesia (BI) decided to maintain its benchmark policy rate at 4.75% (Cons: 4.50%, KBVS: 4.50%, Prev: 4.75%), defying widespread expectations of a 25 bps cut. The decision underscores BI's unwavering commitment to its dual mandate of price and currency stability, while demonstrating a strong sense of independence from short-term fiscal impulses and pro-growth pressures.

Several key considerations shaped this decision. First, rising inflationary pressures have emerged as a constraint, with headline inflation climbing to 2.65% YoY in September 2025—the highest level since May 2024. On a monthly basis, inflation rose 0.21% MoM, largely driven by the Food, Beverages, and Tobacco expenditure group, which recorded 0.38% MoM or 5.01% YoY. This pattern prompted BI to adopt a more cautious stance to ensure inflation remains anchored within the 2.5% $\pm$ 1% target band through 2025–2026. Maintaining this trajectory requires a preemptive and forward-looking approach, especially as fiscal-driven liquidity injections risk fueling additional price pressures in the coming quarters.

Second, the rigidity of domestic banking rates has continued to frustrate policymakers. Despite BI having implemented a cumulative 150 bps of rate cuts, both lending and deposit rates have proven largely unresponsive. The latest data show undisbursed loans reaching IDR 2,374.8 trillion, while the 1-month deposit rate has only fallen by 29 bps to 4.52% despite significant monetary easing. Liquidity support from state-owned banks has offered only modest relief, with limited transmission to credit demand, investment, or employment creation. This persistent stickiness in the financial sector explains BI's decision to pause and evaluate the effectiveness of its previous easing measures.

Third, BI's stance reflects its sensitivity to global policy dynamics, particularly the upcoming decisions by the U.S. Federal Reserve. Policymakers on the Federal Open Market Committee (FOMC) are widely expected to deliver another 25 bps rate cut later this month—marking the second consecutive reduction following the September cut—and bringing the target range to 4.00%–4.25%. Markets also anticipate an additional 25 bps reduction in December 2025, with further easing expected in 2026 as U.S. growth momentum cools. This expectation is reinforced by a softening U.S. labor market, where job creation remains weak and weekly jobless claims have persistently hovered above 220K since late July 2025.

However, BI remains alert to the asymmetric risks in global markets. Renewed concerns over a U.S. government shutdown and rising China–U.S. geopolitical tensions have kept the DXY Index from declining further, even bringing it back near the 99 level. These developments have heightened concerns over potential Rupiah depreciation, prompting BI to adopt a *wait-and-see* approach until the Fed's trajectory becomes clearer and global capital flow volatility subsides.

Against this backdrop, BI's current policy mix is designed to strike a balance between stability and growth. While policy rates remain on hold, the central bank continues to deploy macroprudential tools—including targeted liquidity

support and sectoral credit incentives—to sustain economic expansion. With inflation expectations anchored and external balances manageable, Indonesia’s GDP growth is projected to remain resilient, aligned with BI’s 2025 forecast range of 4.6%–5.4% YoY. Nonetheless, this outlook depends heavily on BI’s continued ability to mitigate global financial market risks and preserve Rupiah stability.

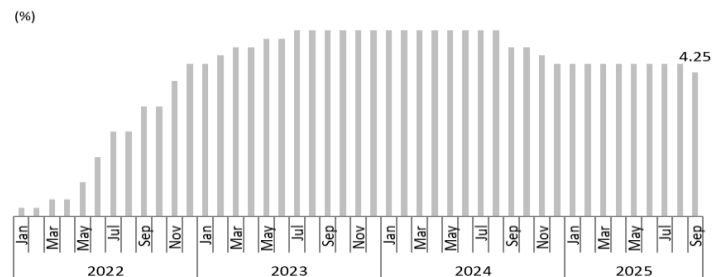
Looking ahead, once the Fed’s easing path becomes more definitive and domestic inflation pressures subside, further BI rate cuts could be back on the table. Such a scenario would help lower domestic funding costs and government bond yields, potentially driving the 10-year yield below KBVS’s earlier projection of 5.85% by year-end. A move toward this level would signify a meaningful improvement in Indonesia’s financial conditions and investor sentiment. Ultimately, BI’s decision to hold rates this month reflects strategic prudence rather than hesitation. It conveys confidence in Indonesia’s macroeconomic fundamentals, reinforces its credibility in managing inflation and currency stability, and underscores the central bank’s commitment to fostering a sustainable and inclusive economic recovery—one that is built on stability, not short-term stimulus.

Table 1. Interest Rate Data

Indicators	22-Oct-25	Monthly Changes (in bps)	Ytd Changes (in bps)
Policy Rate (in %)			
United States	4.50	4.50	0.0
European Union	2.15	2.15	0.0
United Kingdom	4.00	4.25	(25.0)
Japan	0.50	0.50	0.0
China	3.00	3.00	0.0
India	5.50	5.50	0.0
Thailand	1.50	1.75	(25.0)
Philippines	5.00	5.25	(25.0)
Indonesia	5.00	5.25	(25.0)
Global Monetary Policy Change (in number of countries)			
Easing	1	0	
Unchanged	8	6	
Tightening	0	3	
Average International Interest Rate (in %)			
USD LIBOR -1 Month	4.00	4.96	(96.0)
USD LIBOR -3 Months	3.86	4.85	(99.4)
USD LIBOR -6 Months	3.69	4.68	(99.2)
Domestic Interbank Money Market (in %)			
INDONIA	3.99	4.13	(14.0)
JIBOR - 1 Month	5.13	5.20	(7.0)
JIBOR - 3 Months	5.52	5.59	(7.0)
JIBOR - 6 Months	5.66	5.72	(6.0)
JIBOR - 12 Months	5.78	5.87	(9.0)

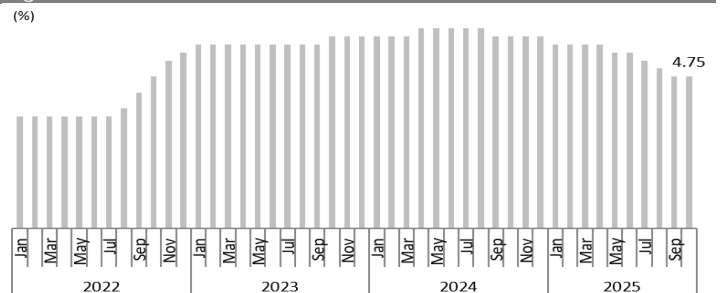
Sources: Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



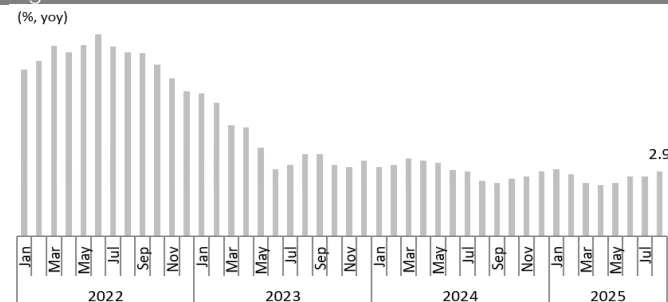
Source: The Fed – treated (2025)

Fig 2. BI Rate



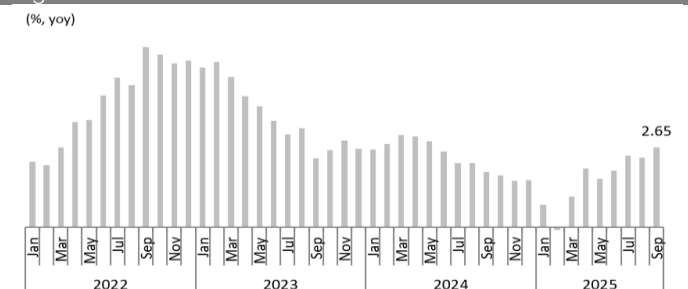
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



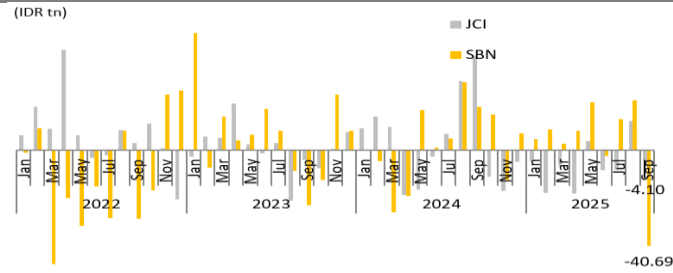
Source: US BLS – treated (2025)

Fig 4. Indonesia CPI Inflation



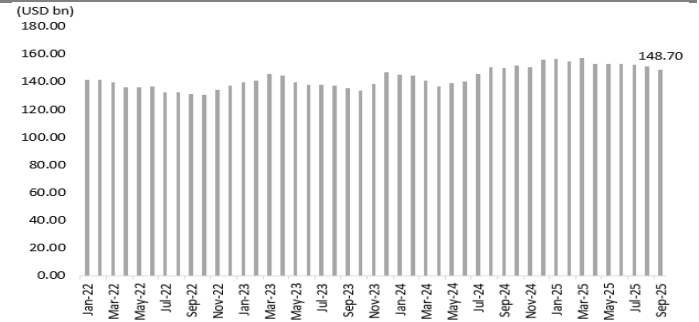
Source: BPS – treated (2025)

Fig 5. Indonesia Portfolio Flow



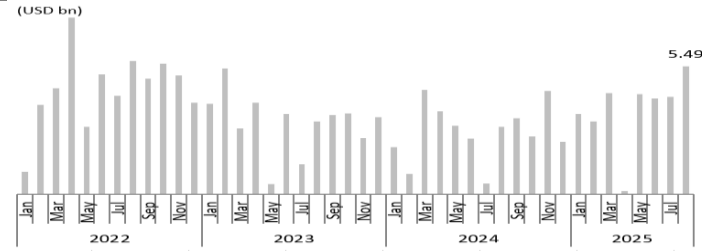
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



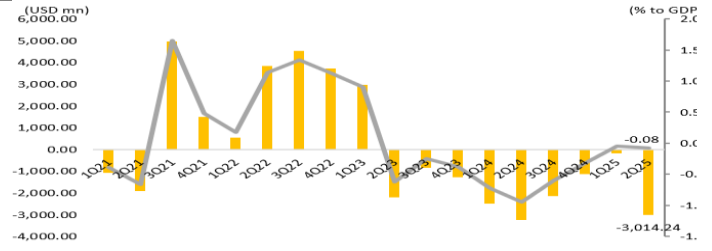
Source: BI – treated (2025)

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 22 Oct '25

MEETING DATE	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425
29-Oct-25	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	98.9%	1.1%
10-Dec-25	0.0%	0.0%	0.0%	0.0%	0.2%	98.7%	1.1%	0.0%
28-Jan-26	0.0%	0.0%	0.0%	0.1%	59.1%	40.3%	0.4%	0.0%
18-Mar-26	0.0%	0.0%	0.1%	31.4%	49.1%	19.2%	0.2%	0.0%
29-Apr-26	0.0%	0.0%	9.5%	36.7%	40.2%	13.5%	0.1%	0.0%
17-Jun-26	0.0%	5.7%	25.8%	38.8%	24.2%	5.5%	0.1%	0.0%
29-Jul-26	1.7%	11.7%	29.7%	34.4%	18.6%	3.9%	0.0%	0.0%

Source: CME Group – treated (2025)

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