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Bank Indonesia Prioritizes Stability Amidst Global Volatility

As widely anticipated, Bank Indonesia (BI) opted to maintain its benchmark policy rate (Cons: 4.75%, KBVS: 4.75%, Prev: 4.75%) alongside the Deposit Facility (3.75%) and Lending Facility (5.50%). **We see that with the steady rate, the Indonesia market remains attractive, with the 12-month Interbank Money Market (JIBOR) remaining stable at 5.65% to 5.85%, ensuring liquidity remains ample.** Furthermore, **portfolio yields in Indonesia remain compelling, with the 10-year SUN yield currently ranging between 6.00% - 6.20%.**

Several key considerations shaped this decision. First, **intensified external pressure on the Rupiah, driven by a "less dovish" Fed outlook after the ended of the US government shutdown, weighed heavily on the currency.** With the Rupiah depreciating 0.26% month-to-date (mtd, as of 18 Nov) to IDR 16,759 per USD amidst a strengthening DXY and rising US Treasury yields, BI's hold aims to maintain an attractive yield differential.

Second, **potential inflationary pressures remain a primary constraint, compelling Bank Indonesia to maintain a cautious stance.** While headline inflation appeared controlled at 2.86% YoY in October, volatile food inflation surged to 6.59% YoY due to weather-related supply disruptions. The decision to hold rates underscores the central bank's strict adherence to the 2.5% ±1% target corridor amidst these upside risks. A premature rate cut could dangerously narrow the spread between domestic inflation and the policy rate; this thinner real interest rate would diminish the attractiveness of Indonesian assets, potentially triggering capital outflows and currency volatility.

Third, **the transmission of previous monetary easing to the banking sector remains sluggish.** Despite BI lowering the benchmark rate by -125 bps year-to-date (ytd, as of Nov), the banking sector's response has been rigid. The 1-month deposit rate has only declined by roughly -56 bps, while credit rates have adjusted by a mere -20 bps. This stickiness is largely attributed to the persistence of "Special Rates" offered to large depositors (corporations and SOEs), which keeps the Cost of Funds elevated. To address this, BI is actively utilizing macroprudential incentives (KLM) and open market operations—reducing SRBI positions to IDR699.30 tn and buying SBN totaling IDR289.91 tn.

Fourth, **rising concerns over Indonesia's external balance have reinforced BI's cautious stance.** Although the trade surplus remains strong—reaching USD14.0 bn in 3Q25 and USD4.34 bn in Sep '25—this strength has not been sufficient to offset a persistent financial account deficit, now running for nearly 10 consecutive quarters. With global sentiment turning more risk-off, this structural imbalance heightens Indonesia's reliance on portfolio inflows.

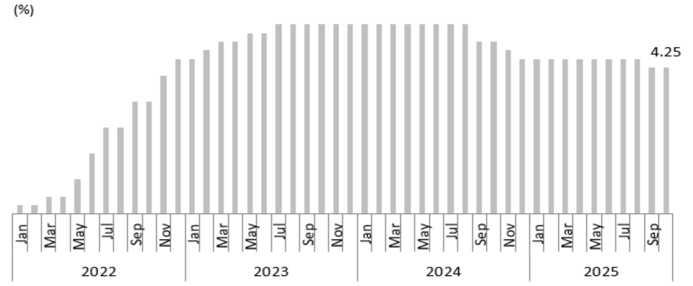
Looking ahead, in the short term, **Rupiah assets remain attractive, supporting currency stability**. We maintain our expectation for a potential 25 bps cut in both the Fed Funds Rate and the BI rate by year-end. **However, this BI rate cut projection relies on the assumption that there are no harvest failures that would threaten volatile food supplies**—specifically rice, chicken meat, eggs, red chili, shallots, and garlic. In addition, any escalation in geopolitical tensions and trade war risks would likely compel BI to maintain its pause longer than anticipated.

Table 1. Interest Rate Data

Indicators	19-Nov-25 Latest	19-Nov-25 M-1	Monthly Changes (in bps)	Ytd Changes (in bps)
Policy Rate (in %)				
United States	4.00	4.25	(25.0)	(150.0)
European Union	2.15	2.15	0.0	(235.0)
United Kingdom	4.00	4.00	0.0	(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	1.50	0.0	(100.0)
Philippines	4.75	5.00	(25.0)	(175.0)
Indonesia	4.75	5.00	(25.0)	(125.0)
Global Monetary Policy Change (in number of countries)				
Easing	6	1		
Unchanged	18	8		
Tightening	0	0		
Average International Interest Rate (in %)				
USD LIBOR -1 Month	4.21	4.00	21.0	(12.0)
USD LIBOR -3 Months	4.49	3.86	63.0	19.0
USD LIBOR -6 Months	4.74	3.69	105.0	50.0
Domestic Interbank Money Market (in %)				
INDONIA	4.01	3.99	2.0	(202.0)
JIBOR - 1 Month	5.14	5.13	0.6	(148.4)
JIBOR - 3 Months	5.53	5.52	1.2	(138.8)
JIBOR - 6 Months	5.66	5.66	0.1	(139.9)
JIBOR - 12 Months	5.78	5.78	(0.1)	(144.1)

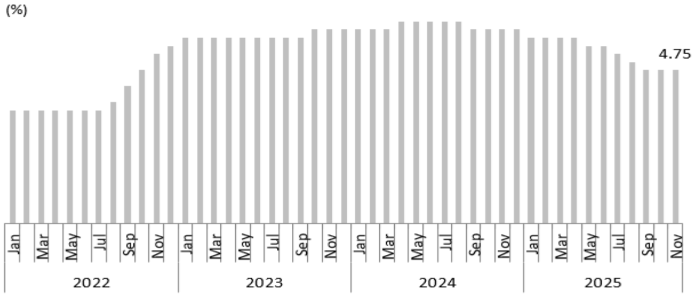
Sources: Each Central Bank and GlobalRates – treated (2025)

Fig 1. Fed Rate



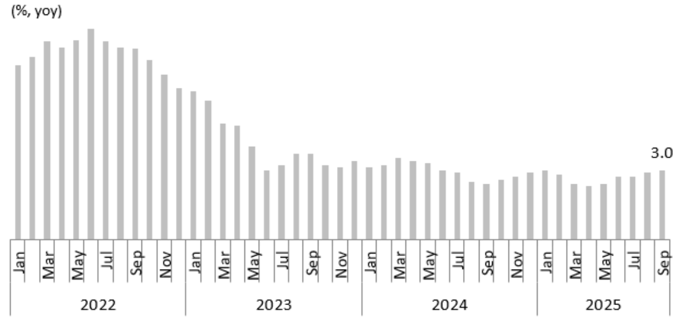
Source: The Fed – treated (2025)

Fig 2. BI Rate



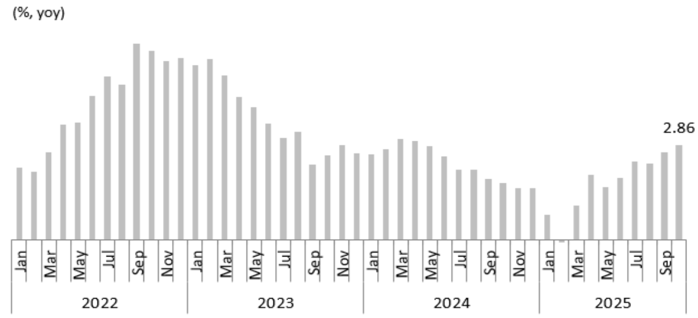
Source: Bank Indonesia – treated (2025)

Fig 3. US CPI Inflation



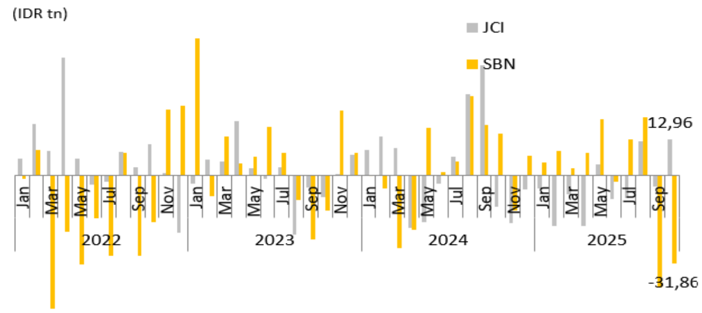
Source: US BLS– treated (2025)

Fig 4. Indonesia CPI Inflation



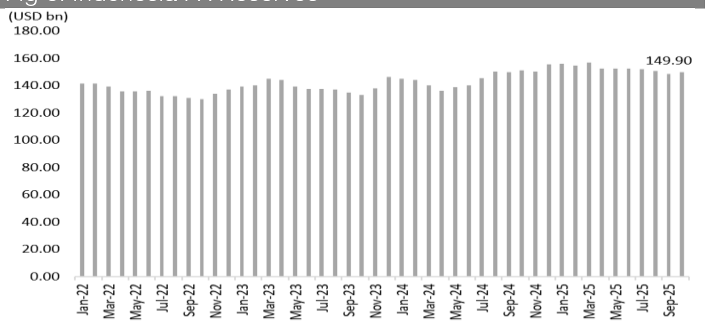
Source: BPS – treated (2025)

Fig 5. Indonesia Portofolio Flow



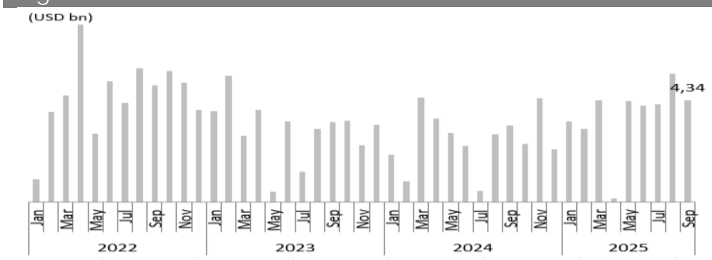
Source: Bloomberg – treated (2025)

Fig 6. Indonesia FX Reserves



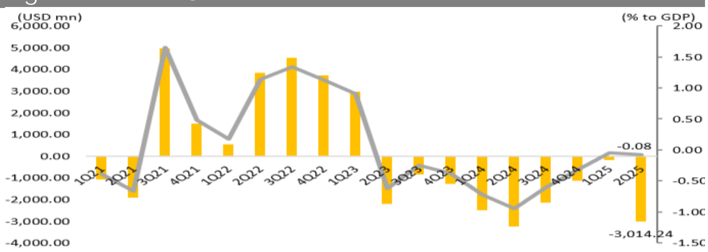
Source: BI – treated (2025)

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 19 Nov '25

MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400
10-Dec-25	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	46.6%	53.4%
28-Jan-26	0.0%	0.0%	0.0%	0.0%	0.0%	18.6%	49.3%	32.1%
18-Mar-26	0.0%	0.0%	0.0%	0.0%	8.4%	32.4%	41.6%	17.6%
29-Apr-26	0.0%	0.0%	0.0%	2.4%	15.3%	35.1%	34.6%	12.5%
17-Jun-26	0.0%	0.0%	1.5%	10.7%	27.9%	34.8%	20.5%	4.5%
29-Jul-26	0.0%	0.5%	4.7%	16.6%	30.3%	29.9%	15.0%	3.0%
16-Sep-26	0.2%	2.2%	9.4%	22.1%	30.1%	24.0%	10.2%	1.8%

Source: CME Group – treated (2025)

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