MNI Bank Indonesia Preview – August 2025

Meeting Date: Wednesday, 20 August 2025

Announcement Time: 08:20 BST/14:20 WIB

Link To Statement: https://www.bi.go.id/en/publikasi/ruang-media/news-release/Pages/sp_251323.aspx

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MNI POV (Point Of View): BI To Watch & Wait

Bank Indonesia (BI) cut rates 25bp at its July meeting but is likely to leave them at 5.25% on August 20. It holds monthly meetings and so has the flexibility to choose its timing for further easing, especially given that inflation remains around the mid-point of its 1.5-3.5% target band and Q2 growth was slightly stronger than expected. FX stability remains the focus and with the rupiah broadly stronger since the July meeting and bond and SRBI yields lower, it could ease again in August, which 6/34 analysts on Bloomberg are forecasting. The currency remains broadly weaker compared to a year ago though and the NEER has been moving sideways. So BI is likely to maintain its gradual approach and monitor the Fed, rupiah, global developments, the transmission of its previous 100bp of cuts and the domestic economy, while maintaining its easing bias. With four meetings left after this one, at least one more cut before end-2025 is highly likely.

Figure 1: Inflation at target band mid-point

Source: MNI – Market News/Refinitiv

USDIDR fell to 16090 last week, the lowest since mid-December 2024, but has rebounded today to 16235. This is still below the level post the July decision, but shows that the pair remains dependent on Fed expectations. However, USDIDR and the BIS IDR NEER month averages are down in the four months to August, although the latter is flat since the last BI meeting and both are still weaker compared to a year ago. Importantly, portfolio flows into Indonesian fixed income and equities are higher. It has been one of the region's best performers.

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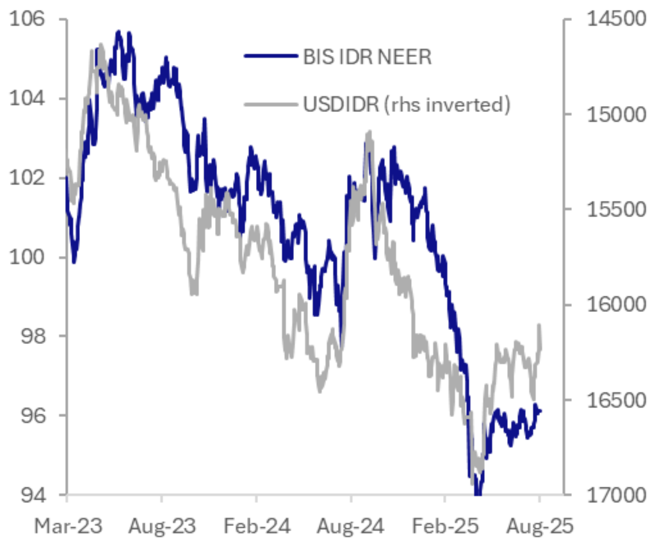
Headline inflation rose to 2.4% y/y in July up from 1.9% boosted by food, while core eased 0.1pp to 2.3% helped by lower gold prices. Going forward the stronger currency may put downward pressure on the CPI through lower imported inflation. The July S&P Global manufacturing PMI showed that while input costs rose and they were still being passed onto customers, although only at a “modest” rate.

Some of the activity data have been more positive with exports remaining strong in Q2 and currently there seems little payback for frontloading of shipments to the US ahead of tariff deadlines. June merchandise exports rose 11.3% y/y with those to the US up 36.1% y/y. There was also strength to China, ASEAN and Europe. Indonesia will face US import duties of 19% down from the originally proposed 32%, which does improve the outlook given that 10.6% of 2024 exports went there worth almost 2% of GDP. That is one of the lower exposures in the region though. Import growth has also been robust signalling solid demand.

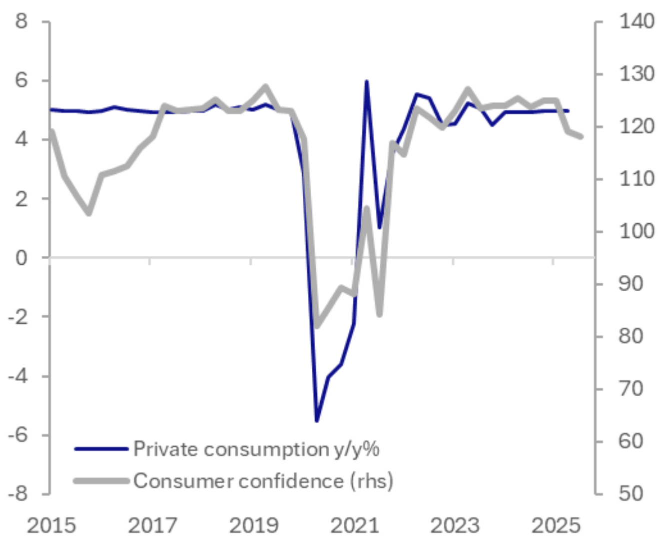
Q2 GDP was stronger than expected rising 5.1% y/y up from 4.9% in Q1. This result was back in line with Q4 after Q1’s dip and was driven by improvements across components. Risks to the growth outlook persist though, especially from global factors and their impact on confidence. Indonesia’s government reduced its 2025 growth forecast to 4.7-5% from 5.2%. Consumption was steady at 5.0% y/y, while consumer confidence in July rose to 118.1, its highest since April, the level is signalling that it could slow in Q3 if there aren’t further improvements. There could be some support from government spending as less than half of its plans were implemented in H1. The 2026 deficit though is projected to be 2.5% of GDP after 2.8% this year, suggesting fiscal policy is unlikely to provide significant support. Thus, monetary easing is likely to continue.

Figure 2: IDR still relatively soft



Source: MNI – Market News/Refinitiv

Figure 3: Consumption outlook weaker



Source: MNI – Market News/Refinitiv

With monthly meetings, BI can be gradual in its approach to monetary easing allowing it to monitor FX, global and domestic developments. It also has macroprudential policies which it has been using for some time to support growth and lending. Assuming the rupiah remains stable or even appreciates further, it could cut at alternate meetings. It announces its next decision on September 17, hours before the Fed. Currently over an 80% chance of a Fed cut is priced in and with expectations at those levels another BI rate reduction on that day is clearly possible.

Bank Indonesia July 2025 Meeting Statement

The Bank Indonesia Board of Governors decided on 15-16th July 2025 to lower the BI-Rate by 25 bps to 5.25%, while also lowering the Deposit Facility (DF) rate by 25 bps to 4.50% and the Lending Facility (LF) rate by 25 bps to 6.00%. The decision is consistent with decreasing projection of inflation in 2025 and 2026 within the 2.5±1% target corridor, maintained rupiah exchange rate stability in line with economic fundamentals and the need to drive economic growth. Moving forward, Bank Indonesia will continue considering further room for interest rate reduction to nurture economic growth, while maintaining rupiah exchange rate stability and orienting monetary policy towards managing inflation within the target corridor based on global and domestic economic dynamics. Meanwhile, Bank Indonesia continues optimising accommodative macroprudential policy, using various strategies to increase credit/financing, lower interest rates and enhance liquidity management flexibility in the banking industry in pursuit of sustainable economic growth. Payment system policy is also oriented towards supporting economic growth by expanding the acceptance of digital payments, while strengthening the infrastructure and consolidating the structure of the payment system industry.

Bank Indonesia has, therefore, strengthened its monetary, macroprudential and payment system policy mix to maintain stability in order to strengthen sustainable economic growth through the following policy measures:

1. Strengthening the rupiah stabilisation strategy in line with economic fundamentals, primarily through domestic foreign exchange market intervention with a focus on spot and domestic non-deliverable forward (DNDF) transactions as well as intervention in offshore non-deliverable forward (NDF) transactions, while also purchasing government securities (SBN) in the secondary market to maintain financial market stability.
2. Strengthening the pro-market monetary operations strategy to enhance monetary policy transmission effectiveness, maintain adequate liquidity, accelerate money market and foreign exchange market deepening and attract foreign capital inflows by:
    i. strengthening the effective transmission of lower interest rates by managing the interest rate structure of monetary instruments and forex swaps by attracting portfolio inflows to domestic financial assets,
    ii. maintaining adequate liquidity in the money market and banking industry through Bank Indonesia Rupiah Securities (SRBI) auctions and purchasing government securities (SBN) in the secondary market, and
    iii. strengthening the function of Primary Dealers (PD) to increase Bank Indonesia Rupiah Securities (SRBI) transactions in the secondary market and repurchase agreement (repo) transactions between market players.
3. Strengthening prime lending rate (PLR) publication transparency with a focus on interest rates based on priority sectors in accordance with the scope of Macroprudential Liquidity Incentive Policy (KLM) policy (Appendix).
4. Expanding digital acceptance by: (i) launching QRIS Cross-Border cooperation with Japan and initiating the QRIS Cross-Border sandbox with China on 17th August 2025, and (ii) strengthening education and socialisation of QRIS Tap, targeting users and merchants, and
5. Strengthening and expanding international cooperation among central banks, including payment system connectivity and Local Currency Transactions (LCT), while promoting trade and investment in priority sectors in synergy with relevant institutions.

Bank Indonesia is also strengthening policy synergy with the Government to maintain stability and nurture economic growth in line with the Government's Asta Cita program. In addition, Bank Indonesia will continue strengthening policy synergy with the Financial System Stability Committee (KSSK) to maintain the stability of the financial system.

Global economic uncertainty is escalating again, stoked by the announcement of higher reciprocal import tariffs imposed by the United States (US) on a number of advanced and developing economies. The US plans to impose higher reciprocal tariffs commencing on 1st August 2025, which is expected to impact the world economic growth outlook, particularly in advanced economies. Economic growth in the US, Europe and Japan is tracking a downward trend despite expansionary fiscal policy and accommodative monetary policy in the affected countries. Economic performance in China also remains sluggish amid various export diversification strategies. On the other hand, India's economy is projected to remain sound on the back of domestic demand. Bank Indonesia projects flat global economic growth in 2025 at approximately 3.0%. Milder inflationary pressures in the US are sustaining strong expectations of a future reduction in the Federal Funds Rate (FFR). Meanwhile, a rebalancing of capital flows from the US to Europe and emerging markets as well as safe-haven assets, such as gold, continues in line with escalating economic risk in the US, including fiscal risk. Such developments have continued pressuring the DXY Index and ADXY Index. Moving forward, greater vigilance as well as a stronger policy response and coordination are required to mitigate persistently high global economic and financial market uncertainty, while maintaining external resilience, economic stability and sustainable growth at home.

Economic growth in Indonesia must be strengthened constantly against a backdrop of global economic moderation. In the second quarter of 2025, economic growth was underpinned by non-building investment related to activities in the transportation sector. Export performance remained solid, supported by exports based on natural resources and manufacturing products. Meanwhile, household consumption must be strengthened further, as reflected by slower retail sales growth. By sector, the plantation subsector along with government program support helped to maintain agricultural sector growth, while the performance of several other key sectors, including the manufacturing industry as well as accommodation and food service activities, remains soft. Regionally, the economy of Sulawesi-Maluku-Papua (Sulampua) maintained growth above 5%, with growth in other regions thus far failing to increase. Moving forward, national economic growth in the second semester of 2025 is projected to improve, with Bank Indonesia forecasting 4.6-5.4% growth overall in 2025. In addition to stronger domestic demand, the improvements will also stem from positive export performance as a result of tariff negotiations with the US Administration. The strong policy mix response of the Government and Bank Indonesia has bolstered economic confidence and, ultimately, boosted economic activity. In this regard, the Government has introduced fiscal stimuli in the form of social protection and the implementation of flagship programs under the auspices of Asta Cita. In addition to maintaining stability, Bank Indonesia has also oriented policy towards nurturing sustainable economic growth by lowering the BI-Rate, increasing liquidity and strengthening macroprudential incentives for the banking industry to revive lending/financing to priority sectors. Furthermore, Bank Indonesia will continue strengthening its monetary, macroprudential and payment system policy mix in close synergy with the fiscal and real sector policies of the Government in pursuit of economic growth.

Indonesia's Balance of Payments (BOP) remains sound, thereby supporting external resilience. In May 2025, the trade balance amassed a USD4.3 billion surplus, increasing from a USD0.2 billion surplus in April 2025. The positive trade balance is supported by exports of electrical machinery as well as iron and steel. Furthermore, export performance is expected to remain positive as a result of tariff negotiations with the US Administration. Meanwhile, portfolio investment inflows have also been maintained in line with the promising domestic economic outlook for Indonesia, high yields on domestic financial instruments and the rebalancing of capital flows to developing economies, including Indonesia, as economic risk intensifies in the US. Foreign capital inflows to SBN instruments at the beginning of the third quarter of 2025 (as of 14th July 2025) recorded net inflows totalling USD 0.9 billion, thereby maintaining the net inflows of USD1.6 billion recorded in the second quarter of 2025. The position of foreign reserves at the end of June 2025 remained high at USD152.6 billion, equivalent to 6.4 months of imports or 6.2 months of imports and servicing government external debt, which is well above the international adequacy standard of around 3 months of imports. In 2025, Bank Indonesia projects 2025 BOP to record a lower current account deficit in the range of 0.5% to 1.3% of GDP range, accompanied by a maintained capital and financial account surplus despite persistently high global uncertainty.

Rupiah exchange rates are appreciating, underpinned by Bank Indonesia's stabilisation policy and maintained foreign capital inflows. The value of the rupiah in June 2025 (as of 30th June 2025) appreciated by 0.34% (ptp) compared with the level recorded at the end of May 2025. The latest developments in the middle of July 2025 (as of 15th July 2025) indicate rupiah stability despite increasing global uncertainty. In general, rupiah exchange rates are relatively stable against a basket of developing economies (DE) currencies, as major trading partners of Indonesia, and advanced economies (AE) currencies, excluding the US dollar, thereby supporting the competitiveness of Indonesia's exports. Exchange rate performance is supported by consistent stabilisation policy instituted by Bank Indonesia, coupled with maintained foreign capital inflows, primarily to SBN instruments, and the conversion of foreign exchange into rupiah by exporters after the Government strengthened policy concerning the foreign exchange proceeds of exports of natural resources (DHE SDA). Moving forward, Bank Indonesia expects the rupiah to remain stable, underpinned by Bank Indonesia's commitment to maintain rupiah stability, together with attractive yields, low inflation and the positive economic growth outlook for Indonesia. Furthermore, Bank Indonesia continues strengthening its stabilisation policy response, including measured intervention in offshore NDF markets and triple intervention strategy with a focus on spot and DNDF transactions, while also purchasing SBN in the secondary market. Bank Indonesia also continues optimising the full panoply of monetary instruments available, which includes strengthening its pro-market monetary operations strategy through the SRBI, Bank Indonesia

Foreign Exchange Securities (SVBI) and Bank Indonesia Foreign Exchange Sukuk (SUVBI) instruments, to boost policy effectiveness in terms of attracting portfolio inflows and supporting rupiah exchange rate stability.

Low Consumer Price Index (CPI) inflation was maintained in June 2025, thereby bolstering economic stability. CPI inflation in June 2025 was recorded low at 1.87% (yoy), underpinned by lower core inflation, low volatile food (VF) inflation and manageable administered prices (AP) inflation. Core inflation decreased to 2.37% (yoy) as a result of monetary policy consistency to anchor inflation expectations to the target corridor, accompanied by lower demand. VF inflation remained low at 0.57% (yoy), supported by the adequate supply of key food commodities and close synergy to manage inflation between Bank Indonesia and the Central and Regional Government Inflation Control Teams through the National Movement for Food Inflation Control (GNPIP). Meanwhile, AP inflation remained under control at 1.34% (yoy) despite higher prices of potable water and excise taxes on tobacco products. Looking ahead, Bank Indonesia is confident that CPI inflation will remain under control and within the 2.5%±1% target corridor in 2025 and 2026. Core inflation is projected to remain manageable in line with anchored inflation expectations, adequate economic capacity, managed imported inflation, as well as the positive impact of digitalisation. Bank Indonesia also expects VF inflation to remain manageable, supported by inflation control synergy between Bank Indonesia and the central and regional Government.

Bank Indonesia continues strengthening its monetary policy response to maintain stability and drive economic growth. Bank Indonesia is constantly optimising its monetary operations strategy to strengthen the effective transmission of lower interest rates. In the money market, consistent with the BI-Rate reduction implemented in May 2025 and the monetary operations strategy instituted by Bank Indonesia, the IndONIA money market reference rate also trended downwards to 5.14% on 15th July 2025 from 5.77% prior to the BI-Rate reduction announced in May 2025. Meanwhile, SRBI rates for tenors of 6, 9 and 12 months, as of 11th July 2025, also tracked downward trends, namely from 6.22%, 6.26% and 6.27% before the BI-Rate reduction in May 2025 to 5.85%, 5.86% and 5.87%. On the other hand, SBN yields on tenors of 2 years decreased from 6.13% to 5.86%, while yields on 10-year tenors retreated from 6.71% to 6.56%. In contrast, however, the 1-month term deposit rate increased from 4.81% in May 2025 to 4.85% in June 2025 given competition in the banking industry to secure funding. Lending rates in the banking industry also remain high, namely at 9.16% in June 2025, relatively stable compared with 9.18% in May 2025. Moving forward, Bank Indonesia acknowledges a further opportunity for the banking industry to lower interest rates and increase new loan disbursements to support stronger economic growth.

Bank Indonesia continues optimising its pro-market monetary operations strategy to support adequate liquidity in the money market and banking industry. As of 14th July 2025, the position of SRBI was recorded at Rp782.62 trillion, down from Rp923.53 at the beginning of January 2025, thereby supporting monetary policy to expand liquidity. Meanwhile, the respective positions of SVBI and SUVBI instruments in the same period were recorded at USD3.53 billion and USD491 million. The implementation of Primary Dealers (PD) since May 2024 has also increased SRBI transactions in the secondary market along with repurchase agreement (repo) transactions between market players. In addition, Bank Indonesia is also buying SBN in the secondary market to strengthen monetary policy to expand liquidity, while simultaneously reflecting close synergy with the fiscal policy of the Government. In 2025 (as of 15th July 2025), Bank Indonesia has purchased SBN to the tune of Rp144.90 trillion, through the secondary market totalling Rp102.58 trillion and the primary market totalling Rp42.32 trillion in treasury bills (SPN), including sharia SPN. Moving forward, Bank Indonesia will continue optimising its pro-market monetary operations strategy to maintain adequate liquidity and boost the effectiveness of monetary policy transmission towards achieving the inflation target and maintaining rupiah exchange rate stability.

Click here for [full statement]

Sell-Side Analyst Views

ANZ (unch): "We expect Bank Indonesia (BI) will keep its policy rate on hold at 5.25% at its upcoming meeting (Wednesday 20 August at ~15:20 SGT), as prevailing conditions do not necessitate immediate back-to-back rate cuts following the 25bp reduction in July.

- Indonesia's Q2 GDP growth of 5.12% y/y surprised to the upside. This resilience gives BI scope to pause to assess the impact of earlier policy rate cuts (100bp since September 2024) and easing liquidity conditions, without risking external stability. Holding the rate maintains a favourable interest differential with the Fed, mitigating investor risk if global sentiment changes.
- Overall, we think BI's commitment to currency stability indicates a measured approach, and monthly meetings allow BI to respond flexibly. That said, BI is expected to maintain an easing bias, and further rate cuts are a matter of time. The risks to our terminal BI policy rate forecast of 4.75% by Q1 2026, which assumed a US terminal policy rate of 3.75% by Q1 2026, are tilted toward earlier and deeper cuts."

Bank of America (unch): "We see BI spacing out rate cuts and pausing in this meeting, after cutting by 25bp in Jul. However, we don't entirely rule out possibility of another rate cut, with strong demand for SRBI and domestic government bonds providing BI room to manoeuvre. Over the past weeks, this has led to domestic yields sharply lower (and spread vs. US yields widening)."

DBS (-25bp): "In continuation of BI's preference to be opportunistic in lowering rates during periods of market stability, we expect a second consecutive rate cut in August. This would take the benchmark rate to 5%, after a 25bp cut in July, when policymakers leaned towards a growth-supportive stance. External caution was negated by fresh news over the trade deal back then. Inflation is off lows to rise 2.4% YoY in July vs average 1.2% in 1H25, but still within the central bank's target range. Meanwhile, the rupiah pared its post-Liberation Day weakness, and strengthened this week, tracking the weak dollar. With a subdued inflation profile, if rupiah retains its recent gains (IDR rallied to levels last seen in Dec24), the window for a cut will reopen this month."

Goldman Sachs (unch): "We expect Bank Indonesia (BI) to keep its policy rate unchanged at 5.25% at its upcoming meeting (Bloomberg consensus: 5.25%). BI had lowered its policy rate by 25bp at its July meeting, citing low inflation, a stable IDR in line with fundamentals, and the need to support growth.

- Since the July meeting, headline CPI inflation has edged up, but remains comfortably within BI's inflation target of 1.5-3.5%. Growth surprised to the upside in Q2, and the IDR has appreciated slightly relative to the USD month-to-date, partly driven by foreign portfolio inflows. Meanwhile, the SRBI rates continued to fall, down around 16bp to 5.4% in the August 8th auction.
- The governor has also reiterated that BI continues to monitor the room for further monetary policy easing. Such developments have increased the odds for rate cuts in August, in our view. However, we think that BI is likely to take a pause next week as it assesses the pass-through from the July rate cut amid loosening liquidity in the interbank market (IndoNia rate is now ~50bp below the BI rate).
- We continue to expect another 50bp cut from BI in this cycle (25bp each in Q4 and Q1 2026) with risks tilted towards a faster cutting pace (including a significant risk of a 25bp cut next week), especially if we see a more dovish Fed."

MUFG (unch): "We expect BI to hold its policy rate steady next week, given resilient Q2 GDP and following a recent 25bps rate cut in July. But BI remains in a policy easing cycle. We expect the next rate cut to occur in Q4, bringing the policy rate to 5% by end-year, with the terminal rate of this easing cycle, estimated at 4.50%, to be reached in Q2 2026. Ultimately, we anticipate BI will shift its policy stance to neutral by H1 2026."

Societe Generale (unch): "With inflation rising sharply in July and Bank Indonesia having already announced a policy rate cut last month following the imposition of a 19% tariff by the US, we believe the central bank will remain on hold in August, keeping the policy rate unchanged at 5.25%."

- "We anticipate that headline inflation will rise due to upcoming festive periods, including the year-end holidays. However, with domestic demand likely to remain weak and government support cushioning price pressures, we expect average headline inflation for 2025 to be around 2.1% year-on-year, well below the central bank's target."

- “The recent appreciation of the currency helped contain imported inflation, while weak domestic demand also contributed to this stability. It is important to note that a significant factor keeping core inflation above the headline rate is the surge in gold prices. Excluding gold, core inflation is better managed.”

UOB (unch): “According to the Bloomberg survey (as of 8 Aug), of the 6 economists polled, five of them expect the BI to keep its policy BI rate unchanged at 5.25% but there is one economist who expects the BI to cut its policy rate by 25-bps to 5.00%. Our economist, Enrico Tanuwidjaja, is with the majority, expecting a pause from BI as our forecast has been met that BI cut an additional 25bps to 5.25% in 3Q25 and we expect for BI rate to stay on hold until the end of the year. BI is likely to resume cutting in 1Q26 to 5%. Nevertheless, there is a possibility that contingent upon the timing and direction of Fed’s rate cut in due time, BI may bring forward its next rate cut.”

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