MNI Bank Indonesia Preview – June 2025

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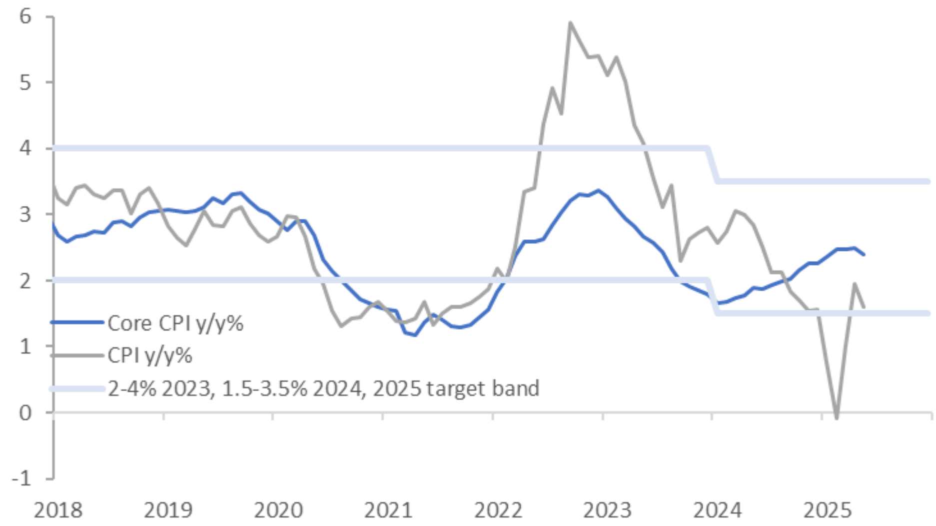
MNI POV (Point Of View): Consecutive Cuts Unlikely

Bank Indonesia's (BI) decision is announced on June 18 and it is likely to keep rates at 5.5% after cutting them 25bp in May, although 9 out of 31 analysts on Bloomberg expect another 25bp reduction. With inflation ex special factors firmly in the 1.5-3.5% corridor, the focus has been on FX stability and some rupiah appreciation allowed BI to ease last month to support growth. With the focus remaining on the currency, we believe that BI will be cautious regarding back-to-back easing given that the Fed is widely expected to be on hold this month and it isn't expected to resume cutting until later this year and only 50bp by year end. Also IDR is vulnerable to a deterioration in risk appetite given ongoing trade negotiations and the Israel-Iran conflict. With domestic developments little different from May, BI can wait for clarity on global events as it continues to optimise "accommodative macroprudential policy to foster sustainable economic growth".

Figure 1: Inflation "controlled"



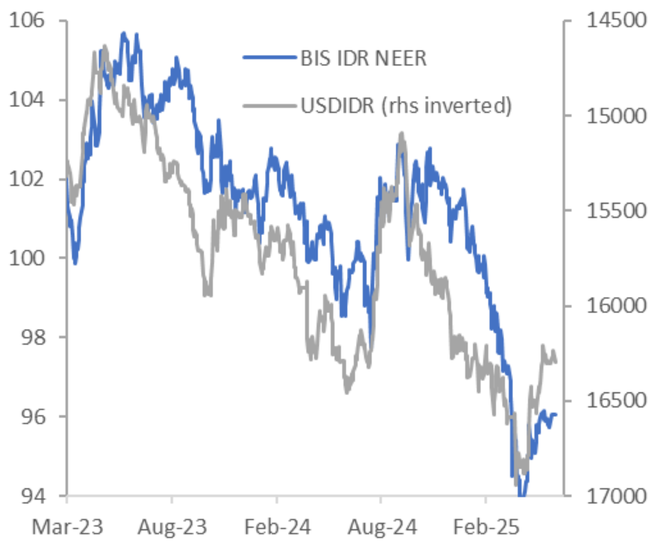
Source: MNI – Market News/Refinitiv

The rupiah has remained "stable and appreciating" since May, which is a condition for further easing but we don't think BI will risk this by driving a narrowing in the rate differential with the US, especially as the IDR has stabilised recently. USDIDR has benefited from the weaker US dollar with the pair falling 0.7% since the May 21 meeting and down 0.9% in June, the second straight monthly decline, but up 0.2% since Israel first struck Iran. The IDR NEER though is little changed since the last BI decision but is 0.4% higher on the month in June. Bond inflows have been helped by the weaker US dollar and lower Indonesian yields. It also continues to intervene in the offshore NDF markets and utilise its money market deepening tools SVBI, SRBI and SUVBI to support the currency. The stabilisation in FX reserves in May and the narrowing of the current account deficit in Q1 should also reassure BI that the rupiah has stabilised.

Headline inflation had been impacted through Q1 by temporary electricity discounts which have unwound over Q2. It eased in May to 1.6% y/y from 1.9% due to lower food inflation and a stabilisation in gold prices. Core CPI has been relatively stable around the mid-point of BI's corridor through 2025. It moderated 0.1pp to 2.4% y/y in May. The May S&P Global PMI report noted that businesses are discounting to attract customers and absorbing higher costs. Thus it is unsurprising that the central bank is "confident" that inflation will stay within its band this year and next, which should allow it to ease policy further going forward but with core stable there is no hurry.

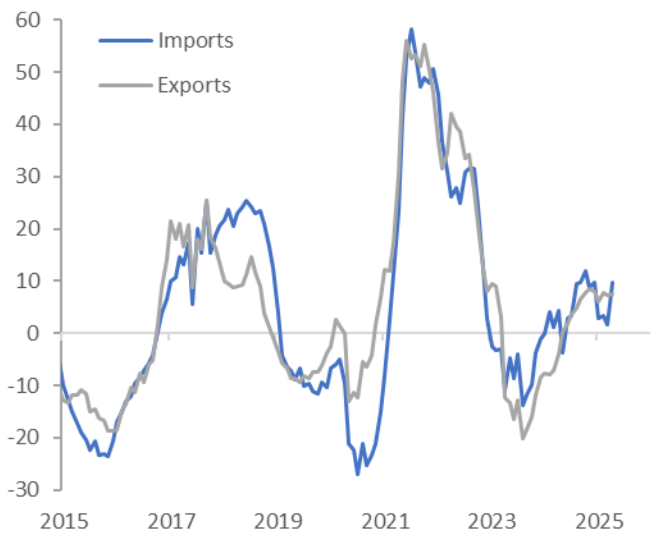
BI is likely to retain its easing bias after reducing its 2025 growth forecast by 0.1pp to 4.6-5.4%. It said in May that growth "must be strengthened constantly to overcome the deleterious impact of global uncertainty caused by the rediprocal tariffs introduced by the US". It will be monitoring global trade developments closely as 10.6% of 2024 exports go the US but 24% to China. Global uncertainty appears to have impacted indonesian survey data with the manufacturing PMI below the breakeven-50 level for two straight months pressured by contracting orders including from overseas. However, merchandise export growth is holding up rising 7.6% y/y 3-month moving average with shipments to China, the US (frontloading ahead of possible tariffs), Europe and ASEAN robust. S&P Global noted though that there is optimism regarding the outlook.

Figure 2: IDR recovery stabilising



Source: MNI – Market News/Refinitiv

Figure 3: Import growth recovering (y/y% 3-mth ma)



Source: MNI – Market News/Refinitiv

On the domestic front, world developments appear to have impacted consumer confidence but strong import growth suggests still solid domestic demand. Consumer confidence fell sharply in May to its lowest since September 2022 pressued by an uncertain oulook, subdued disposable income growth and cost-of-living pressures. The economic conditions component of the survey was also down substantially. Average Q2 confidence is suggesting that spending will slow in the quarter. Tourism is also trending lower. Fiscal announcements in May should support growth though and BI will continue to optimise its macroprudential policy to boost activity and lending.

When BI cut rates in May it noted its intention to consider further easing dependent on inflation staying in its target band, the rupiah stable in line with economic fundamentals and domestic and global "economic dynamics". While there have been few changes to these in the last month, we believe that there is enough uncertainty and chance of a pullback in risk for BI to avoid back-to-back rate cuts, especially as the Fed appears on hold for now. IDR stability has been a long time coming and a BI rate cut narrowing the differential with the US could risk that in the current environment. With the economy slowing and inflation "controlled", BI is likely to retain its easing bias, be cautious and look for opportunities to ease further going forward depending on global and Fed developments.

Bank Indonesia May 2025 Meeting Statement

The Bank Indonesia Board of Governors decided on 20th-21st May 2025 to lower the BI-Rate by 25bps to 5.50%, while also lowering the Deposit Facility (DF) rate by 25bps to 4.75% and the Lending Facility (LF) rate by 25bps to 6.25%. The decision is consistent with low and controlled inflation projected in 2025 and 2026 within the 2.5±1% target corridor, along with efforts to maintain rupiah exchange rate stability in line with economic fundamentals and drive economic growth. Moving forward, Bank Indonesia will continue orienting monetary policy towards maintaining inflation within the target corridor and rupiah exchange rate stability in line with economic fundamentals, while considering further room to nurture economic growth based on global and domestic economic dynamics. Meanwhile, Bank Indonesia continues optimising accommodative macroprudential policy to foster sustainable economic growth, using various strategies to revive credit growth and enhance liquidity management flexibility in the banking industry. Payment system policy is also oriented towards supporting economic growth, particularly the trade sector as well as micro, small and medium enterprises (MSMEs), 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 intervention in offshore non-deliverable forward (NDF) transactions as well as domestic foreign exchange market intervention with a focus on spot and domestic non-deliverable forward (DNDF) transactions, while also purchasing government securities (SBN) in the secondary market to maintain financial market stability and sufficient liquidity in the banking industry.

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. managing the interest rate structure of monetary instruments and forex swaps to strengthen the effective transmission of lower interest rates, while attracting portfolio inflows to domestic financial assets,

   II. strengthening the strategies for term-repo and forex swap transactions to maintain sufficient liquidity in the money market and banking industry, 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. Raising the Bank Foreign Funding Ratio (RPLN) from a maximum of 30% to 35% of bank capital. This strengthening measure aims to increase bank foreign funding sources in line with economic needs, while maintaining prudential principles, by applying a countercyclical parameter of 5% on top of the RPLN. This is effective from 1st June 2025 and will be regulated further in the provisions concerning RPLN.

4. Loosening liquidity by lowering the Macroprudential Liquidity Buffer (PLM) by 100bps from 5% to 4% for conventional commercial banks, with repo flexibility of 4%, and the sharia PLM by 100bps from 3.5% to 2.5% for sharia commercial banks, with repo flexibility of 2.5%. The reduction also aims to provide greater liquidity management flexibility in the banking industry, effective from 1st June 2025.

5. Strengthening prime lending rate (PLR) transparency policy with a focus on interest rates by Macroprudential Liquidity Incentive Policy (KLM) policy priority sector (Appendix).

6. Expanding digital acceptance by accelerating preparations for the implementation of QRIS Cross-Border between Indonesia and Japan and initiating QRIS Cross-Border trials between Indonesia and China.

7. 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 coordination 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 eased slightly with the temporary deal struck between the United States (US) and China to significantly lower import tariffs for 90 days. The agreement improved the world economic outlook to 3.0% from the 2.9% forecast in April 2025. Economic growth projections for the US and China were upgraded from April 2025, which also impacted various other countries positively, including Europe, Japan and India. The lower tariffs are also predicted to reduce US inflation, thereby maintaining strong expectations of a reduction to the Federal Funds Rate (FFR). Meanwhile, US Treasury yields are higher than expected in line with the growing risk to US fiscal sustainability. In the global financial markets, the rebalancing of capital flows from the US to safe haven assets and countries continues, with early signs of increasing capital flows to emerging markets (EM). Consequently, the DXY Index continued to weaken, accompanied by US dollar depreciation against emerging Asian currencies (ADXY Index). Moving forward, however, highly dynamic import tariff negotiations between the US and China as well as various other countries will maintain elevated global economic uncertainty. Such inauspicious conditions demand vigilance and a strong coordinated policy response to maintain external resilience, control stability and drive domestic economic growth.

At home, economic growth in Indonesia must be strengthened constantly to overcome the deleterious impact of global uncertainty caused by the reciprocal tariffs introduced by the US. Domestic economic growth in the first quarter of 2025 was recorded at 4.87% (yoy), down from 5.02% (yoy) in the fourth quarter of 2024. First-quarter GDP growth in 2025 was supported by household consumption in line with increasing community activity and mobility during the New Year festive period and Eid-ul-Fitr national religious holiday. Investment maintained growth given the realisation of capital investment, while export growth was supported by demand from Indonesia's main trading partners and services exports. By sector, the manufacturing industry, trade sector, transportation and storage as well as agriculture performed well. The latest developments in the second quarter of 2025 indicate the ongoing need to strengthen efforts to foster economic activity. Economic growth in Indonesia is forecast to improve in the latter half of the year on the back of increasing domestic demand, which includes a bump in government spending. Based on GDP realisation in the first quarter of 2025 and monitoring global economic dynamics, Bank Indonesia projects national economic growth in 2025 within the 4.6-5.4% range, retreating slightly from the previous projection of 4.7-5.5%. The policy response must be strengthened to drive economic growth, which includes strengthening domestic demand and optimising all opportunities to boost exports. To that end, Bank Indonesia continues strengthening its monetary and macroprudential policy mix, underpinned by accelerating payment system digitalisation, in synergy with the fiscal stimuli of the Government, while supporting implementation of the Government's Asta Cita program.

Indonesia's Balance of Payments (BOP) remains sound, with portfolio inflows returning in May 2025, thereby supporting external resilience. In the first quarter of 2025, a narrow current account deficit is expected to be maintained, supported by a goods trade surplus, primarily non-oil and gas. The capital and financial account also remains under control, bolstered by a direct investment surplus and increasing portfolio investment in line with maintained positive investor perception of the promising domestic economic outlook. In the second quarter of 2025, portfolio investment inflows in May 2025 increased again, particularly in terms of SBN and equity, in response to less global uncertainty and the persistently solid domestic economic outlook for Indonesia. This positive developments reinforces external resilience following the net outflows of portfolio investment recorded in April 2025, amid cumulative net outflows for the second quarter of 2025, which, as of May 19, 2025, remained at USD 3.1 billion. The position of foreign reserves at the end of April 2025 was recorded at USD152.5 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 expects solid BOP performance to be maintained, supported by a manageable current account deficit in the 0.5-1.3% of GDP range, accompanied by a capital and financial account surplus despite persistently high global uncertainty.

Rupiah exchange rates remain stable and appreciating, underpinned by Bank Indonesia's stabilisation policy and slightly lower global financial market uncertainty. Against the US dollar, the value of the rupiah in May 2025 (as of 20th May 2025) appreciated by 1.13% (ptp) compared with the level recorded at the end of April 2025. The rupiah also tended to appreciate against a basket of developing economies (DE) currencies, as major trading partners of Indonesia, and advance economies (AE) currencies, excluding the US dollar. Overall, rupiah movements remain consistent with domestic economic fundamentals to maintain economic stability. Moving forward, Bank Indonesia expects the rupiah will 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.

Consumer Price Index (CPI) inflation was controlled in April 2025, thus strengthening economic stability. CPI inflation in April 2025 was recorded at 1.95% (yoy), accompanied by manageable core inflation recorded at 2.50% (yoy), in line with BI-Rate policy consistency to anchor inflation expectations. Volatile food (VF) inflation stood at 0.64% (yoy), supported by the adequate supply of major 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) in various regions. Meanwhile, administered prices recorded 1.25% (yoy) inflation in the reporting period, following 3.16% (yoy) deflation the month earlier, which was primarily affected by the discontinuation of government policy to discount electricity rates for households with an installed electrical capacity of <2,200VA. Looking ahead, Bank Indonesia is confident 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 volatile food (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 achieve the inflation target of 2.5%±1% in 2025 and 2026, maintain rupiah stability in line with the currency's fundamental value, and drive sustainable economic growth. To that end, Bank Indonesia continues optimising its pro-market monetary operations strategy to strengthen monetary policy transmission through the interest rate channel, particularly in the banking industry. In the money market, consistent with the BI-Rate reduction implemented in January 2025 and the monetary operations strategy instituted by Bank Indonesia, the IndONIA money market reference rate also trended downwards, namely to 5.77% on 20th May 2025 from 6.03% at the beginning of January 2025. Meanwhile, SRBI rates for tenors of 6, 9 and 12 months, as of 16th May 2025, also tracked downward trends, namely to 6.40%, 6.44% and 6.47% from 7.16%, 7.20% and 7.27% at the beginning of January 2025. On the other hand, SBN yields on tenors of 2 years decreased from 6.96% to 6.16%, while yields on 10-year tenors decreased to 6.84% from 6.98%. Notwithstanding, interest rates in the banking industry remained comparatively high. In April 2025, the 1-month term deposit rate was recorded at 4.83%, increasing from 4.81% at the beginning of January 2025, with a number of banks tending to offer higher deposit rates than the published rate. The aggregate lending rate in the banking industry was also comparatively high, remaining relatively stable at 9.19% in April 2025 compared with 9.20% at the beginning of January 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 effective monetary policy transmission through adequate liquidity. In that context, Bank Indonesia continues optimising it is pro-market SRBI, SVBI and SUVBI monetary instruments. As of 19th May 2025, the position of SRBI was recorded at Rp869.67 trillion, retreating from Rp923.53 trillion at the beginning of January 2025, thereby supporting monetary policy to expand liquidity. Meanwhile, the respective positions of SVBI and SUVBI instruments on 19th May 2025 were recorded at USD1.97 billion and USD306 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 also reflecting close synergy with the fiscal policy of the Government. In 2025 (as of 20th May 2025), Bank Indonesia has purchased SBN to the tune of Rp96.41 trillion, namely through the secondary market totalling Rp64.99 trillion and the primary market totalling Rp31.42 trillion in treasury bills (SPN), including sharia SPN. Moving forward, Bank Indonesia will continue optimising its pro-market monetary operations strategy to 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):

Bank of America (unch):

Bank of NY (unch): “We expect Bank Indonesia (BI) to maintain the status quo at 5.5% while taking a relatively dovish stance. Low inflationary pressure and high-positive real yield warrant further rate reductions, but the pace of easing ahead is likely to hinge on the development of USDIDR — an increasing pace of IDR strength might see greater room for cuts. We expect BI to maintain its current triple intervention strategy, including offshore non-deliverable forwards (NDFs).”

Barclays (unch):

Credit Agricole (unch):

DBS (unch): “Bank Indonesia is expected to pause this week after a rate cut last month. Inflation developments are conducive, just as further stimulus could help improve the growth momentum. The government had also announced further economic stimulus last month to aid demand, with benign core readings reflecting slack in the economy. In the near-term, policymakers are likely to view the recent increase in Middle east tensions and its impact on the regional currencies, with trepidation. Even though the rupiah has gained ground since the May rate review, tracking the broader dollar sell-off, fresh risk off moves have limited room for further appreciation. We expect BI to stay on an easing path but enter a temporary pause in June. The door remains open for 50bp more cuts this year.”

Goldman Sachs (-25bp): “We expect Bank Indonesia (BI) to deliver a 25bp rate cut at its meeting next week, bringing the policy rate to 5.25% (Bloomberg consensus: 5.5%). In the May meeting, BI cut its growth projection for 2025 by 10 basis points to 4.6-5.4% (GSe: 4.7%) after a weak Q1 print. Headline CPI inflation has normalized after the one-off electricity tariff discounts but remains soft in the lower half of BI’s inflation target band of 1.5-3.5%. On the currency front, USD/IDR has appreciated ~3% month-to-date, outperforming its peer currencies like PHP, INR, MYR, and THB. Given the rate cut last month which raised expectations for more cuts to follow, and lower Securities Rupiah Bank Indonesia (SRBI) yields, there have been more foreign inflows into the Indonesian bond market. We think this opens room for BI to cut the policy rate again next week especially amid the still soft domestic activity.”

ING (unch): “We expect Bank Indonesia to leave the policy rate unchanged at 5.5%. Inflation remains well under control, and the local currency has been rather stable. This indicates there’s still room for the BI to cut rates. However, given the uncertainty around the Federal Reserve’s rate cut path, we don’t see the BI carrying out back-to-back rate cuts in June. Rather, the central bank is likely to wait for further clarity on the Fed’s path and use the policy space to cut rates again in the third quarter.”

MUFG (unch): “We expect Bank Indonesia to keep its policy rate unchanged at 5.50% at the upcoming 18 June policy meeting, following the 25bps rate cut in May. A back-to-back rate cut appears unlikely, as rupiah stability remains a key policy priority. The Fed has kept its policy rate high for longer this year, as it maintains a wait-and-see approach amid uncertainty about the impact of President Trump’s economic policies. The Fed is expected to stand pat at the FOMC meeting next week.

- Meanwhile, geopolitical tensions have escalated following Israel’s pre-emptive attack on Iran’s nuclear facilities, with Iran vowing to retaliate. This has weighed on global risk sentiment, with the rupiah weakening by 0.4% against the US dollar. Any prolonged or further escalation of conflict in the Middle East could push oil prices higher, which would weigh on Indonesia’s terms of trade and trade balances. Notably, Indonesia’s trade surplus narrowed sharply to $159mn in April, from $4.3bn in March, as import growth of 21.8%yoy outpaced exports (+5.8%yoy).
- Despite ongoing global uncertainties, rupiah has still gained by 0.6% against the US dollar since the 21 May policy meeting, broadly in line with the 0.4% appreciation in the Bloomberg Asia Dollar Index. While

the rupiah has stabilised, policymakers are likely to remain cautious amid heightened global geopolitical risks and Trump signalling that he will unilaterally set tariffs on trading partners within 2 weeks.

- To be sure, Bank Indonesia has adopted a dovish stance, as it seeks to reduce policy restrictiveness on economic activity. We continue to expect another rate cut to come, but more likely to be in Q3, possibly in September.
- Economic growth has moderated, with bank credit growth slowing to 8.9%yoy in April. Headline inflation eased to 1.6%yoy in May, from 2.0%yoy in April, while core inflation eased to 2.4%, from 2.5% in April.
- Meanwhile, the rupiah is supported by foreign bond inflows and a weak US dollar. Indonesia's 10-year government bond yield fell to 6.748%, its lowest level in seven months. Net foreign bond inflows extended to a sixth straight month in May, with inflows totalling $1.8 billion last month. While geopolitical tensions and a potential rebound in the US dollar could exert some upward pressure on USD/IDR, sharp rupiah weakness is unlikely, given these supportive factors."

Natwest (unch):

Pantheon (unch):

Scotiabank (unch): "Bank Indonesia faces a tough call on Wednesday. Consensus leans toward hold the policy rate at 5.5% with a significant minority calling for a 25bps cut. The rupiah has been steady since the last decision on May 21st and inflation fell further to 1.6% y/y (1.95% prior, 1.9% consensus) in May with core CPI slipping a tick to 2.4% y/y. That could merit an easing bias given that guidance on May 21st pointed toward "closely monitoring room to support economic growth further in line with global and domestic dynamics.""

Societe Generale (unch): "Bank Indonesia (BI) is likely to remain cautious due to elevated global economic uncertainties, particularly stemming from challenges related to Trump's tariffs. Although the currency has appreciated by 3.9% from the all-time low of 16,943 reached in April following President Trump's 'liberation day' tariff announcement, it is down by 0.1% year-to-date.

- BI's second rate cut of 25 basis points announced in May was influenced by recent dollar weakness, which has eased some pressure on government bond yields and SRBI pricing. However, bond yields remain elevated at 6.8%, although this is a decrease of 20 basis points from the 7.0% level at the beginning of the year.
- The transmission of monetary policy actions—totalling 50 basis points of cumulative rate cuts in 2025—into lending rates remains weak, as liquidity conditions in the banking sector are still tight. We anticipate this trend to continue, as banks are currently prioritising deposit-driven expansion strategies. Furthermore, the increase in SRBI issuances in May is likely to further stress system liquidity. We expect BI to maintain its current stance during its meeting next week."

TD (unch):

UOB (unch): "Our economist, Enrico Tanuwidjaja, expects the BI to pause in Jun. That said, he still expects the BI rate to be cut once more in 3Q25 by 25bps to reach 5.25% and stay at that level till the end of the year."

Business Address - MNI Market News, 3rd Floor, 1 Great Tower Street, London, EC3R 5AA