BI Policy:

Staying put amid lingering threats

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Executive Summary

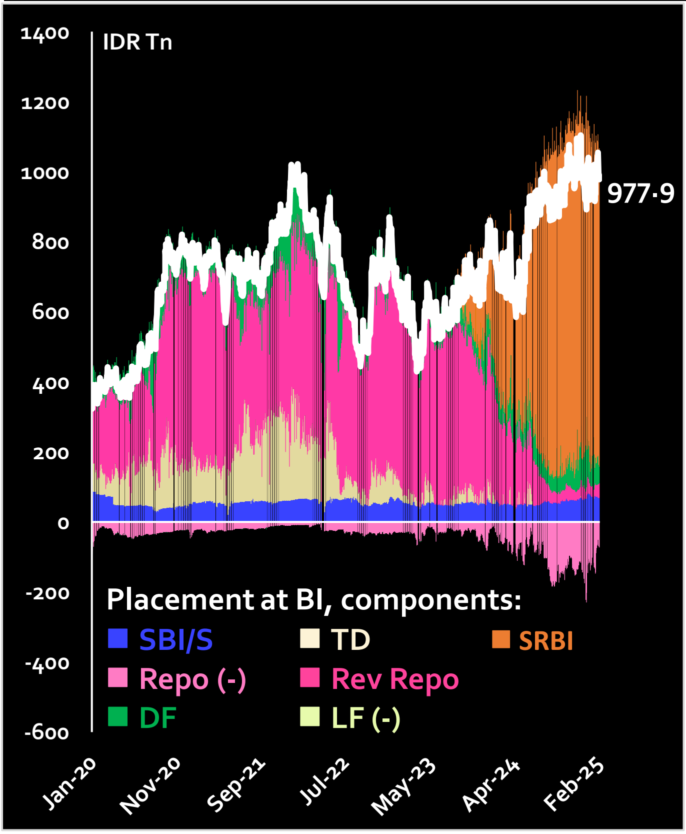
- BI kept its policy rate at 5.75% in February 2025, signaling caution amid expectations of a delayed Fed rate cut and significant equity outflows.
- To support economic growth, BI introduced an additional round of the Macroprudential Liquidity Incentive (KLM) for the housing sector, allowing banks to lower their reserve requirement ratio (RRR) to as little as 4%, down from the standard 9%.
- BI also reaffirmed its commitment to bond purchases as a means of injecting liquidity into the financial system.
- BI (in concert with the government) also announced a revision of the DHE policy, now requiring 100% of DHE from natural resources to be held domestically for 12 months starting Mar 1st. This measure is expected to improve FX liquidity and support Rupiah stability.

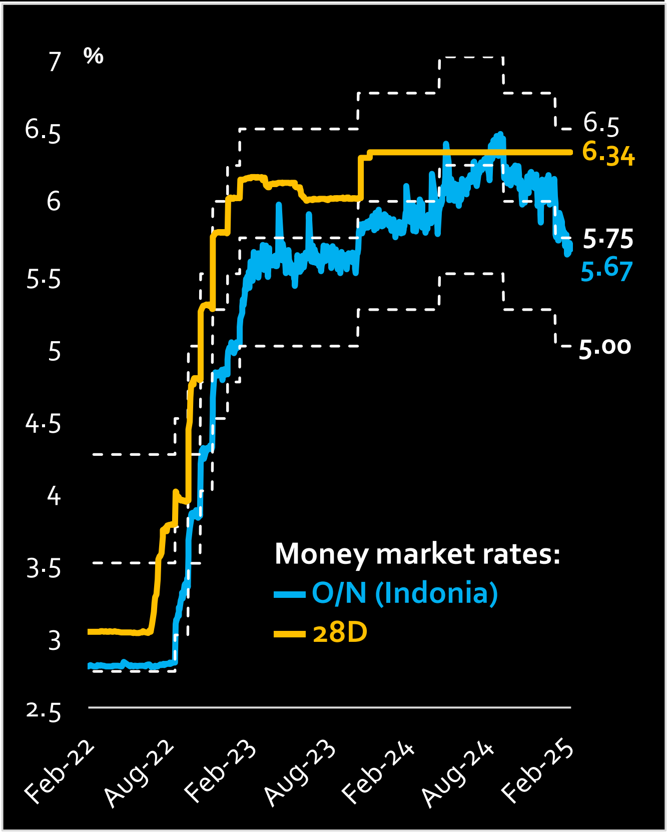
- Bank Indonesia (BI) kept its policy rate unchanged at 5.75% in February 2025, signaling a wait-and-see approach in response to global volatility. Instead, BI plumps for other measures – further macroprudential easing, more stringent export receipts (DHE) policy – in its bid to balance the need to spur growth with maintaining Rupiah stability.
- Ahead of the meeting, analysts were divided on the rate decision, with about 1/3 (mostly from capital market) anticipating a cut. While this turned out not to be, this bet was not without reason. The "Trump trade" has reversed in recent weeks, with tariffs now appearing to be more of a negotiation tactic and the fear of Federal deficits postponed amid debt ceiling – pushing down the US 10Y from its recent peak (4.79% to 4.52%).
- But BI has clear reasons to opt for the more prudent choice for now. Expectations of Fed rate cut have been postponed to July or later, with hotter-than-expected US inflation rate (3% YoY in Jan-25) making the Fed more inclined to wait out the impact of Trumponomics before easing further. Recent large-scale outflows from equities (USD 400 Bn MTD) may have also raised concerns of Indonesia's resilience should global pressures intensify once more.
- To be sure, BI has clearly modified its stance from the end of last year, with supporting growth now high on its list of priorities. This is quite justified, with recent consumption data pointing generally south. Even our Consumer Spending Index (Intrabel BCA) shows slightly negative growth (-0.5% YoY) in early February, although this is partly due to high-base effect from last year's Elections.
- Low inflation (0.76% YoY) is a red herring, since – as we mentioned previously – it was mostly the product of temporary electricity discounts. Outside of this, inflation is likely to be around 2.2%, and probably rising further as the government restricts (or plans to restrict) imports of certain items in a bid for self-sufficiency – foodstuffs like rice, corn, sugar, and salt, but also

potentially goods produced by labor-intensive manufacturing like textiles and furniture. So even without outright rate cut by BI, we expect real rates to gradually decline in the coming months.

- And BI does have one more ace up its sleeve, with extra Macroprudential Liquidity Incentives (KLM). As we know, KLM acts as a targeted discount on reserve requirement ratio (RRR), and the latest round of incentive increases the maximum discount from 4% to 5% – meaning that banks could enjoy an RRR of only 4% instead of the regular 9%.
- Of course, the difference between KLM and regular RRR cut is the strings attached. This time, BI specifically aims the incentives at the housing sector, as part of its support to the government's goal of building 3 Mn housing units per year. The amount of liquidity freed up in the short-term, estimated at IDR 86 Tn, is certainly considerable – the question is whether the deposit growth will be sufficient to sustain the momentum in the longer-run. Remember that last year, banks' third-party funds only grew by IDR 336 Tn – if they keep growing at the same pace in the coming years, the incentives will be worth only IDR 3-4 Tn per annum.
- BI also reaffirmed its plan to purchase IDR 150 Tn worth of government bonds (SBN) this year, partly to offset maturing pandemic-era bonds. As of Feb 17th, it had already acquired IDR 32.5 Tn – over 20% of the planned total. This relatively assertive bond-buying strategy serves as another means of injecting liquidity into the financial system without resorting to rate cuts. In theory, BI's purchase could "crowd out" households and corporates who are increasingly buying bonds instead of spending into the real economy (see, for example, our latest TFP).
- Finally, BI (in concert with the government) also announced a revision of the DHE policy, now requiring 100% of DHE from natural resources to be held domestically for 12 months starting Mar 1st – a significant shift from the previous requirement of 30% for 3 months. In theory, this could boost FX liquidity in the domestic financial system by up to USD 80 Bn, but we reserve our caution given the low compliance and various practices (transfer pricing, mis-invoicing, etc.) used by exporters to misrepresent their export earnings. Still, if the authorities successfully clamp down such shenanigans, it could add to BI's already ample lines of defence against the risk of Rupiah depreciation.

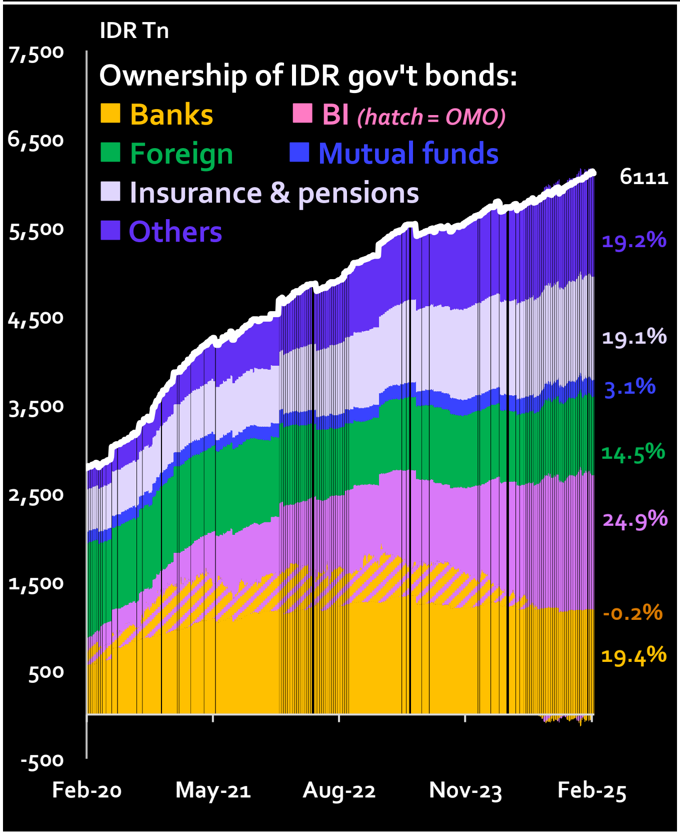
Panel 1. Domestic banks have continued to increase their SRBI holdings.

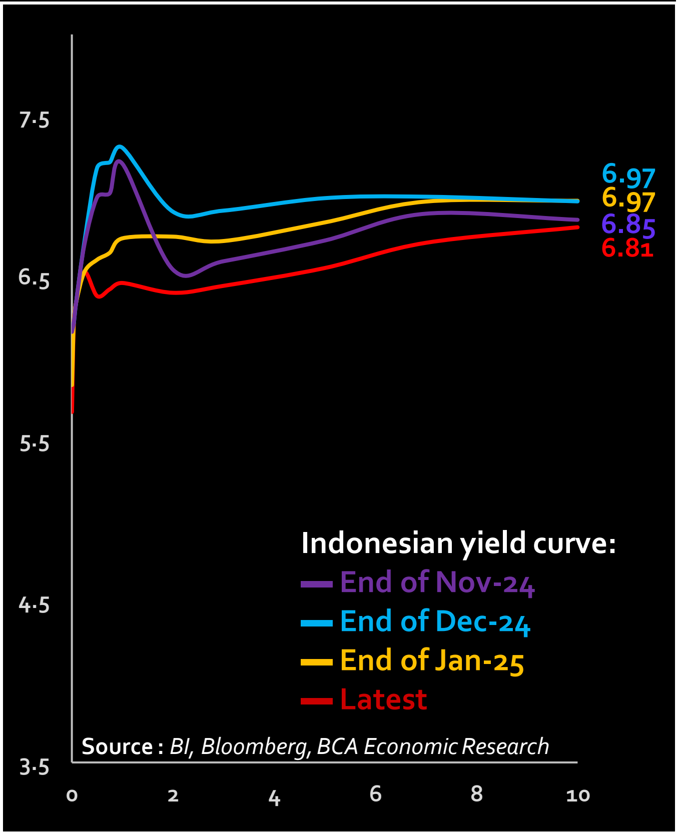




Source: BI, Bloomberg, BCA Economist

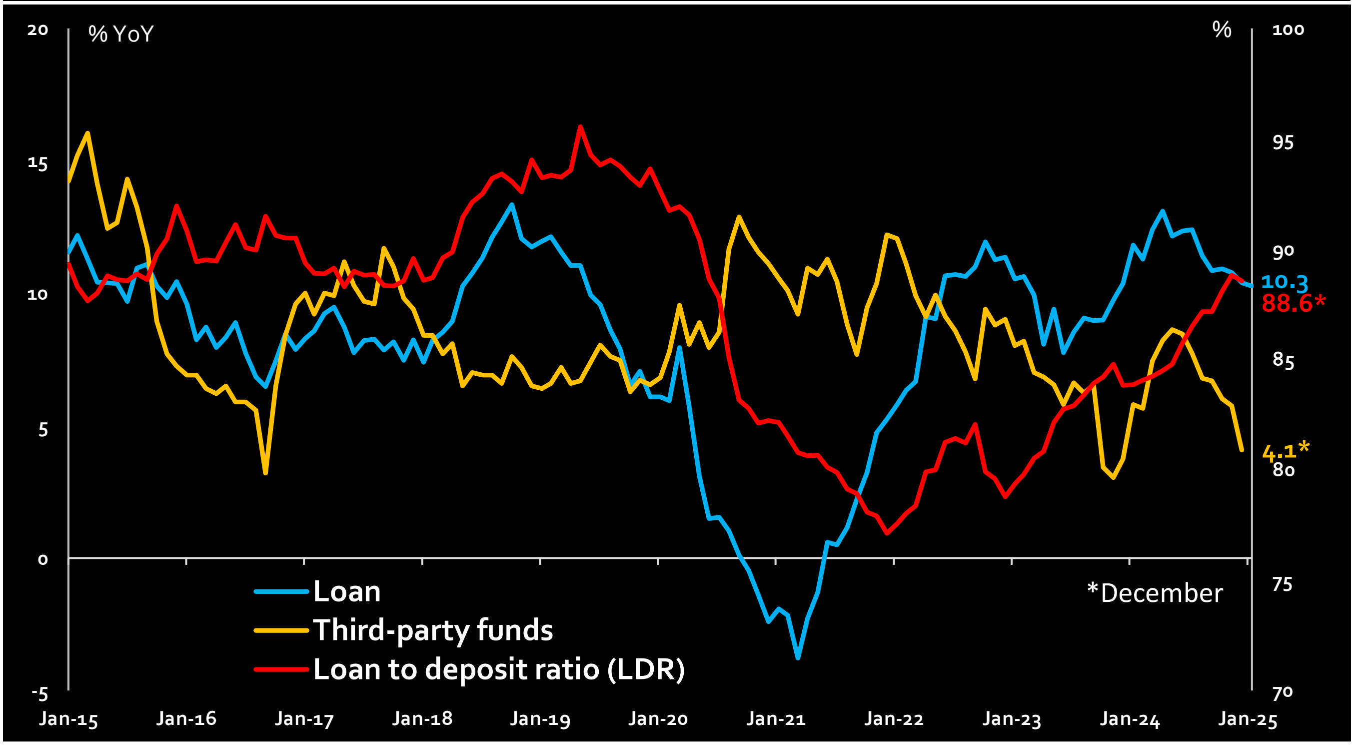
Panel 2. Indo's yield curve is flattening in-line with global conditions





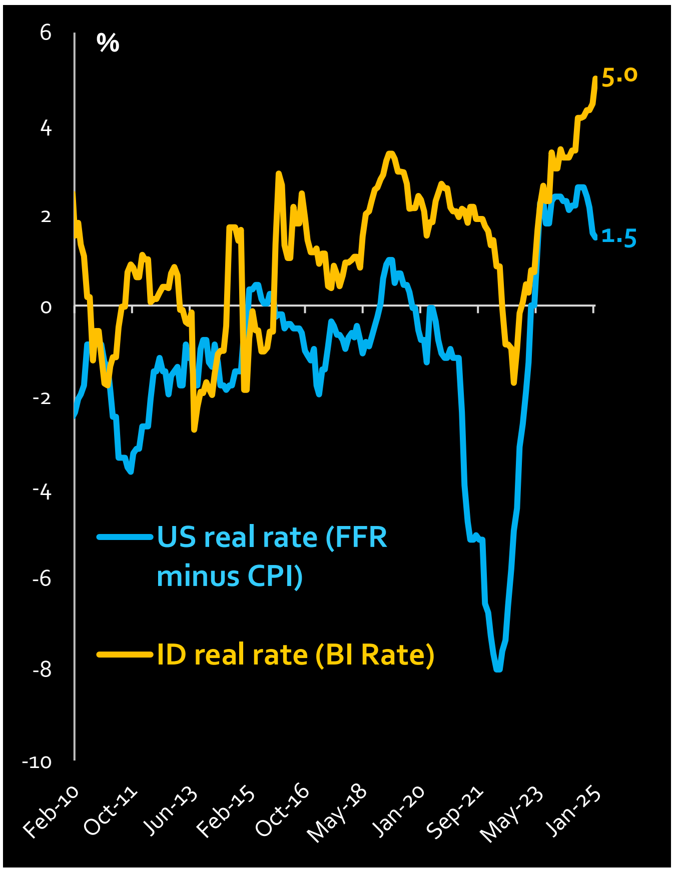
Source: MoF, BI, Bloomberg, BCA Economist

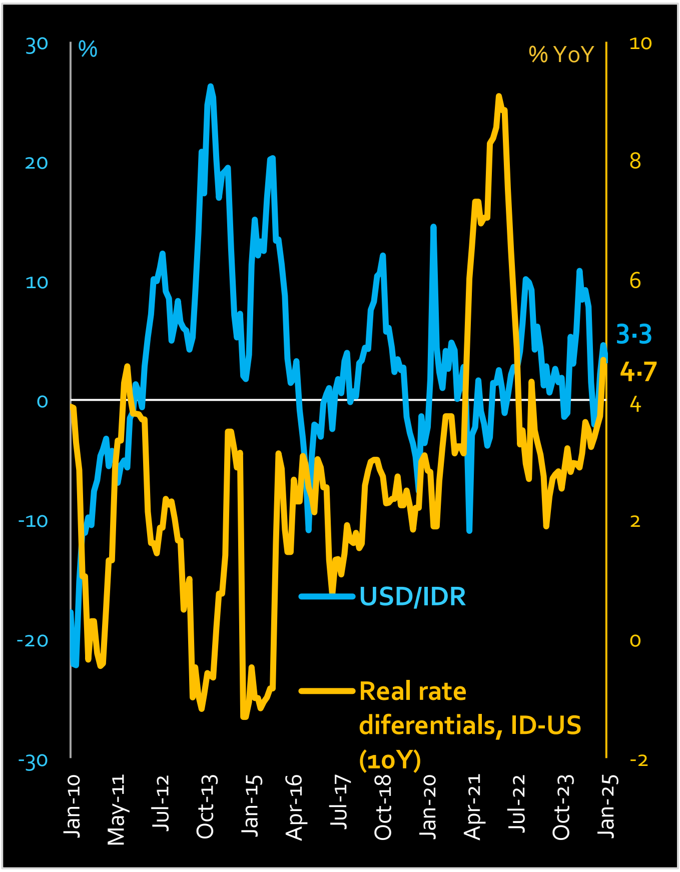
Panel 3. Banking liquidity is tightening due to the still-strong loan growth but slowing deposit growth.



Source: MoF, Bloomberg, BCA Economist

Panel 4. Real rate differentials have been ticking up due to hotter-than-expected US inflation.





Source: BI, Bloomberg, BCA Economist

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.50	Dec-24	1.50
UK	4.50	Feb-25	1.50
EU	2.90	Jan-25	0.40
Japan	0.50	Jan-25	-3.70
China (lending)	2.00	Sep-24	3.85
Korea	3.00	Nov-24	0.80
India	6.25	Feb-25	1.94
Indonesia	5.75	Jan-25	4.99

Money Mkt Rates	19-Feb	-1 mth	Chg (bps)
SPN (1Y)	6.12	6.85	-73.0
SUN (10Y)	6.81	7.12	-31.2
INDONIA (O/N, Rp)	5.67	5.75	-8.7
JIBOR 1M (Rp)	6.38	6.39	-0.8

Bank Rates (Rp)	Nov	Oct	Chg (bps)
Lending (WC)	8.68	8.72	-3.69
Deposit 1M	4.78	4.78	-0.49
Savings	0.67	0.66	0.37

Currency/USD	19-Feb	-1 mth	Chg (%)
UK Pound	0.795	0.822	3.43
Euro	0.959	0.973	1.46
Japanese Yen	151.5	156.3	3.19
Chinese RMB	7.279	7.325	0.64
Indonesia Rupiah	16,330	16,365	0.21

Capital Mkt	19-Feb	-1 mth	Chg (%)
JCI	6,794.9	7,154.7	-5.03
DJIA	44,627.6	43,487.8	2.62
FTSE	8,712.5	8,505.2	2.44
Nikkei 225	39,164.6	38,451.5	1.85
Hang Seng	22,944.2	19,584.1	17.16

Foreign portfolio ownership (Rp Tn)	Jan	Dec	Chg (Rp Tn)
Stock	3,531.1	3,521.3	9.76
Govt. Bond	881.3	876.6	4.65
Corp. Bond	6.0	5.9	0.10

Trade & Commodities	19-Feb	-1 mth	Chg (%)
Baltic Dry Index	904.0	987.0	-8.4
S&P GSCI Index	577.3	578.0	-0.1
Oil (Brent, $/brl)	76.0	80.8	-5.9
Coal ($/MT)	110.3	122.7	-10.1
Gas ($/MMBtu)	7.79	9.33	-16.5
Gold ($/oz.)	2,933.4	2,703.3	8.5
Copper ($/MT)	9,425.9	9,081.9	3.8
Nickel ($/MT)	15,183.7	15,885.6	-4.4
CPO ($/MT)	1,073.6	1,016.3	5.6
Rubber ($/kg)	2.05	1.96	4.6

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	21.45	23.46	-8.56
Import ($ bn)	18.00	21.22	-15.18
Trade bal. ($ bn)	3.45	2.24	54.17
Central bank reserves ($ bn)*	156.1	155.7	0.23

Prompt Indicators	Jan	Dec	Oct
Consumer confidence index (CCI)	127.2	127.7	121.1
Car sales (%YoY)	-11.3	-6.4	-3.7
Motorcycle sales (%YoY)	-6.0	-5.5	5.4

Manufacturing PMI	Jan	Dec	Chg (bps)
USA	51.2	49.4	180
Eurozone	46.6	45.1	150
Japan	48.7	49.6	-90
China	50.1	50.5	-40
Korea	50.3	49.0	130
Indonesia	51.9	51.2	70

Source: Bloomberg, BI, BPS
Notes:
*Data from earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7*	-0.9

Notes:
- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*
- *Numbers marked with (*) for 2024 are our projections; other numbers for 2024 are final*

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