BI Policy:

Facing Sophie's choice

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24 April 2025

Executive Summary

- BI kept its policy rate at 5.75% in April 2025, signaling caution amid increased global uncertainties following Trump's tariffs.
- BI's triple interventions have been quite successful in balancing the need to dampen Rupiah volatility with domestic liquidity.
- Increased uncertainty and the need for SRBI/SBN refinancing limits the room for cuts in the short-term.
- In the meantime, support for growth rely on "passive" measures: letting KLM incentive run its course, and a controlled depreciation of the Rupiah in relative terms.

- BI kept its policy rate unchanged at 5.75% in its April 23rd presser, which was unsurprising given the dynamics of the past few weeks. Pres. Trump's "reciprocal" tariffs has whipsawed markets across the globe, causing outflows from EM assets including Indonesia's.

- Over the Lebaran long holidays, Rupiah threatened to breach 17,000 versus the USD, which forced BI into stronger interventions. Per BI's statement, it has continued to provide round-the-clock intervention in both the spot and forward markets. And it works—the Rupiah now shows much lower variance, while the spread between spot and non-deliverable forward (NDF) contracts has narrowed.

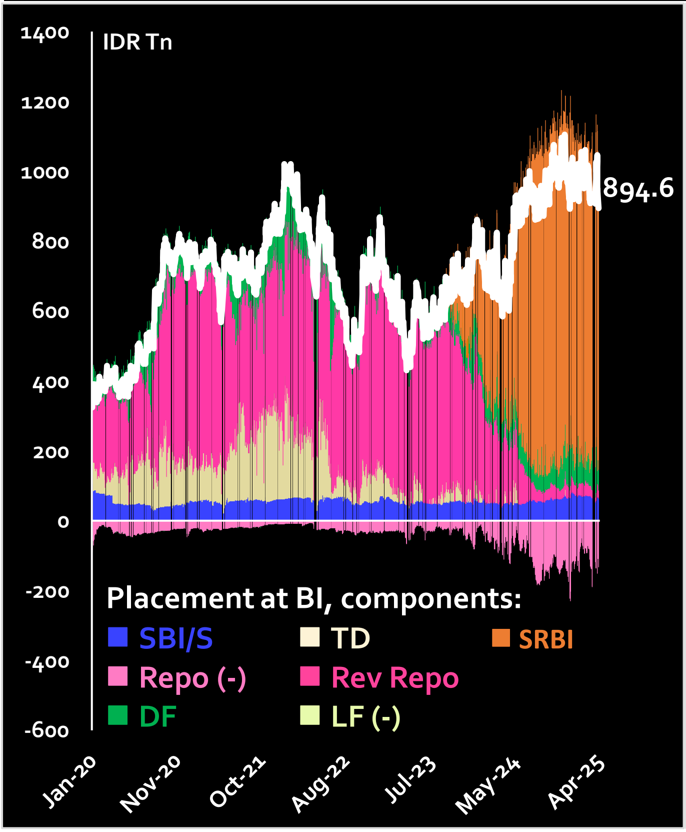
- BI also maintained operations in the bonds and money markets. SRBI yield was increased to 6.74% (12M) in early April, although it has since declined to 6.64%. On the bond market, meanwhile, the pace of BI's purchase has eased somewhat (now at IDR 80.98 Tn YTD). On the whole, BI maintained its share of tradable SBN (net) at around 25-26%.

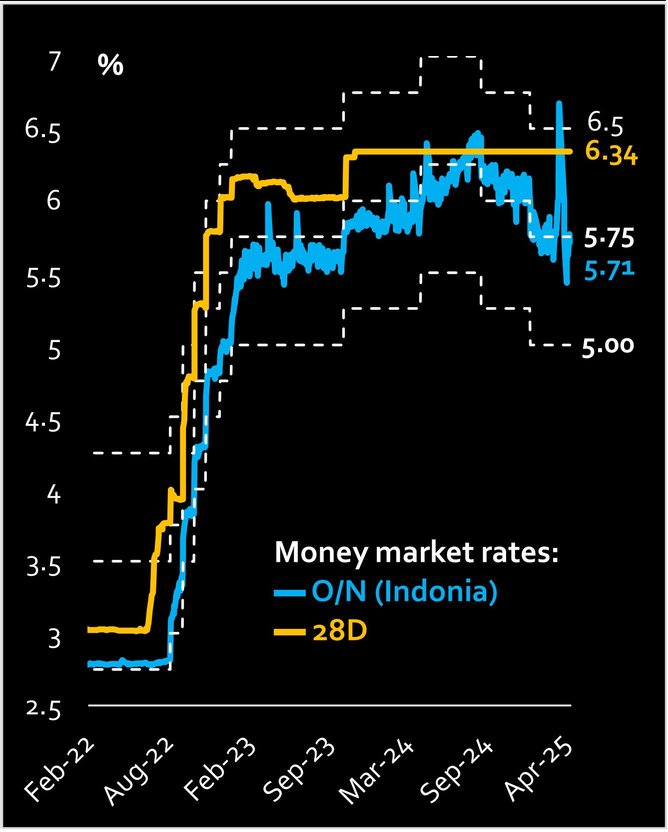
- These wild swings and erratic tariff policies further highlights the unpalatable choices faced by BI and other central banks worldwide. In the case of the Fed, of course, the dilemma is straightforward: tariffs threaten stagflation in the US, in which neither cuts nor hikes would be a good option in calming the economic waters.

- Meanwhile in BI's case, the risk to Rupiah and the bond market precludes it from acting on its clear dovish stance. Options to defend the Rupiah's spot value (FX intervention, issuing SRBI) generally tightens domestic liquidity, which slows economic momentum going forward. Softening loan growth (at 9.16% YoY in March, versus BI's 11-13% target) seems to be a point in this direction, especially with still-limited liquidity growth in Q1.

- Without much room for "active" accommodation measures, most of what we are seeing now are rather "passive" ones. The clearest passive path is, of course, the increased KLM incentive in March, which is starting to work its way into the system. This would bring much needed stimulus to the construction sector, which has had stagnant loan growth recently. Still, the impact of this incentive will take some time, given the process of loan underwriting and the time it takes for the additional funds to cycle through the economy.
- Another "passive" mechanism for monetary accommodation is the relative depreciation of the Rupiah. Even though the USD/IDR has held relatively steady since 9th of April, it's important to note that Dollar has weakened by 3.2% against other hard currencies, and 2.3% against emerging currencies in that period.
- Amidst this dearth of domestic liquidity, as well as a flight from foreign flows (given bond and equity outflows), the clearest avenue to obtain additional liquidity would be external loans. BI had confirmed this was indeed the case, pointing to some banks who had faced shortages of third-party funds. It's possible this trend led BI to strengthen the implementation of RPLN, a policy intended to prevent excessive foreign debt risk.
- Another potential catalyst for liquidity may be the recent revision of TD-DHE, now requiring 100% of proceeds to be held for 12 months. This initiative may provide a big boon in FX reserves, possibly providing enough room for BI to cut and still maintain Rupiah's stability. Though it's important to note that its impact had been limited so far, with TD-DHE and SVBI (BI's instrument to hold these funds) declining during March. Additionally, the ongoing global volatility is expected to dampen commodity prices.
- Unfortunately, this possible lack of catalyst is ill-timed with the upcoming need for FX liquidity, especially in May-July where large amounts of SRBI (IDR 387.5 Tn) and SBN (IDR 256 Tn) are set to mature. With these ailing factors in mind, it's possible the government may opt to lean into external loans, following the trend we have highlighted in prior quarters.

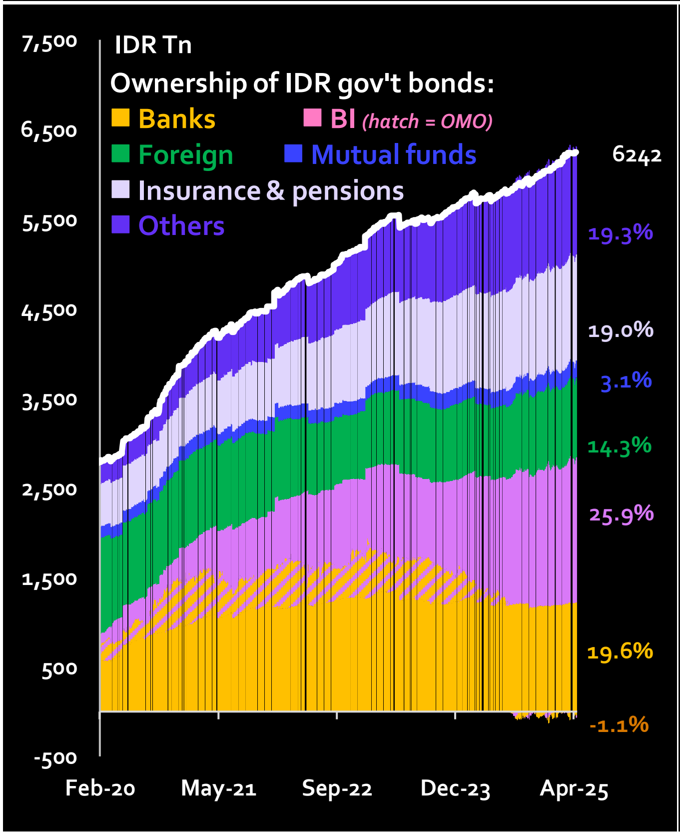
Panel 1. Domestic banks ownership of SRBI had declined

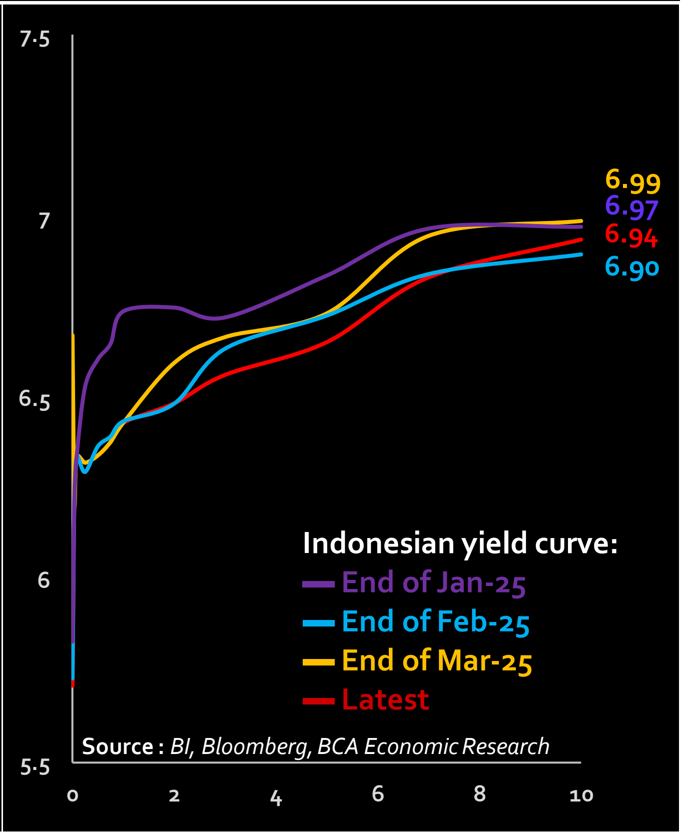




Source: BI, Bloomberg, BCA Economist

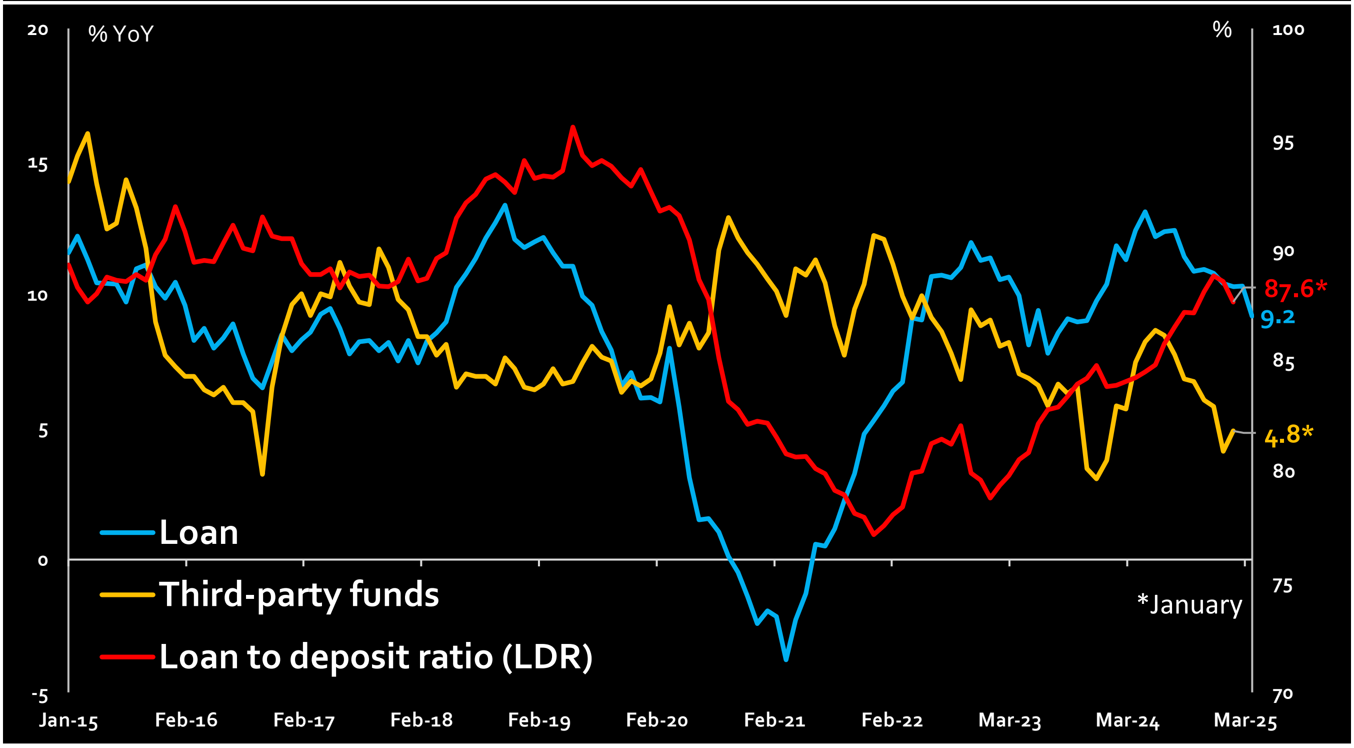
Panel 2. BI slowed down purchase of government bonds





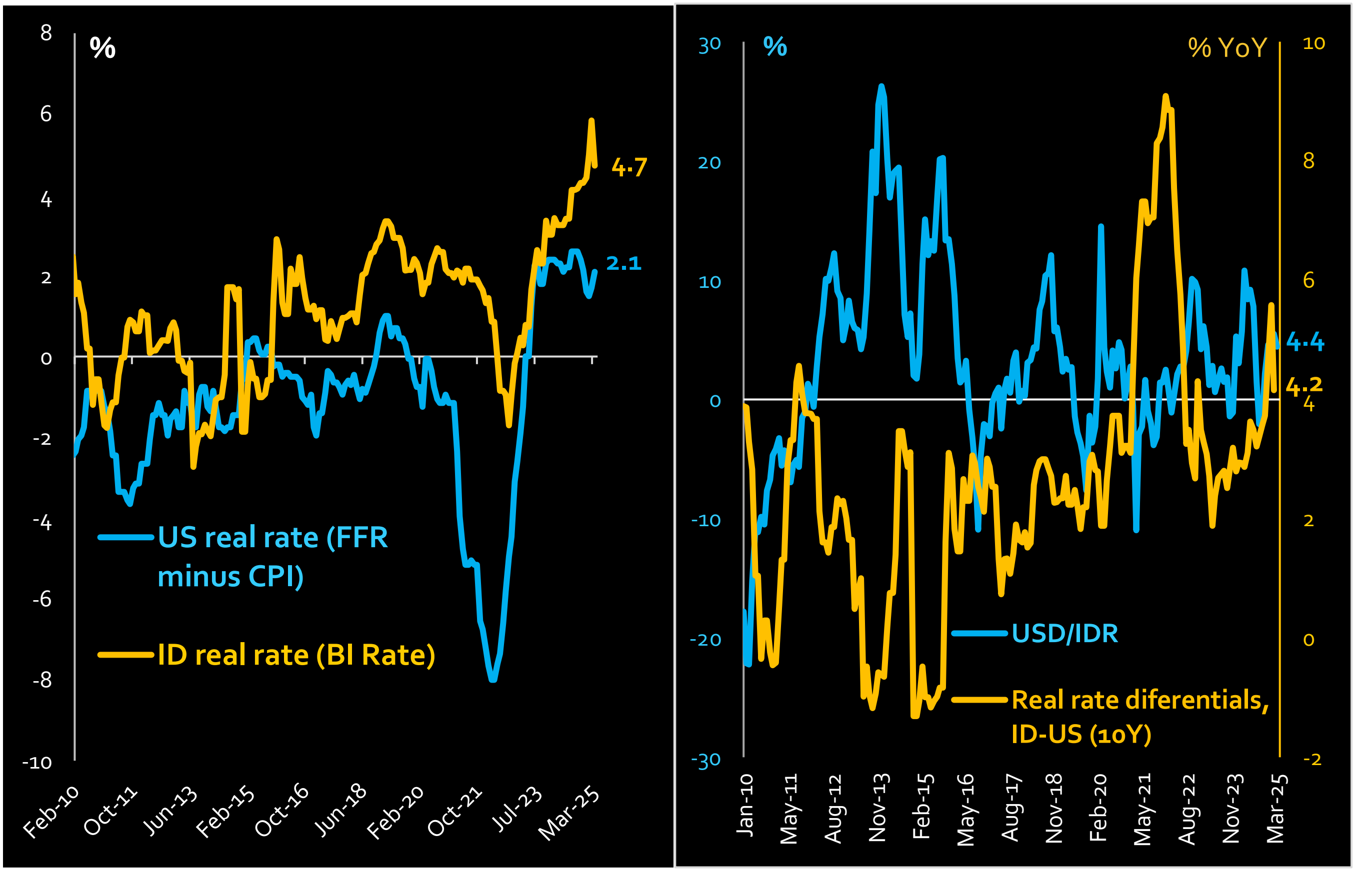
Source: MoF, BI, Bloomberg, BCA Economist

Panel 3. **Loan growth slowed as third-party funds growth remain sluggish**



Source: MoF, Bloomberg, BCA Economist

Panel 4. **Real rate spike in both countries mainly caused by fall in inflation**



Source: BI, Bloomberg, BCA Economist

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.50	Dec-24	2.10
UK	4.50	Feb-25	1.90
EU	2.40	Mar-25	0.20
Japan	0.50	Jan-25	-3.10
China (lending)	2.00	Sep-24	4.45
Korea	2.75	Feb-25	0.65
India	6.00	Apr-25	2.66
Indonesia	5.75	Jan-25	4.72

Money Mkt Rates	23-Apr	-1 mth	Chg (bps)
SPN (1Y)	6.17	6.01	15.7
SUN (10Y)	6.94	7.17	-22.4
INDONIA (O/N, Rp)	5.71	5.80	-9.3
JIBOR 1M (Rp)	6.38	6.38	0.0

Bank Rates (Rp)	Jan	Dec	Chg (bps)
Lending (WC)	8.62	8.62	0.57
Deposit 1M	4.87	4.92	-4.27
Savings	0.68	0.68	-0.18

Currency/USD	23-Apr	-1 mth	Chg (%)
UK Pound	0.754	0.774	2.59
Euro	0.884	0.924	4.60
Japanese Yen	143.5	149.3	4.09
Chinese RMB	7.287	7.252	-0.48
Indonesia Rupiah	16,865	16,500	-2.16

Capital Mkt	23-Apr	-1 mth	Chg (%)
JCI	6,634.4	6,258.2	6.01
DJIA	39,606.6	41,985.4	-5.67
FTSE	8,403.2	8,646.8	-2.82
Nikkei 225	34,868.6	37,677.1	-7.45
Hang Seng	22,072.6	23,689.7	-6.83

Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)
Stock	3,144.7	3,083.7	61.05
Govt. Bond	891.9	890.2	1.72
Corp. Bond	5.2	5.1	0.06

Trade & Commodities	23-Apr	-1 mth	Chg (%)
Baltic Dry Index	1,300.0	1,643.0	-20.9
S&P GSCI Index	532.8	558.2	-4.6
Oil (Brent, $/brl)	66.1	72.2	-8.4
Coal ($/MT)	94.5	104.0	-9.1
Gas ($/MMBtu)	2.92	3.94	-25.9
Gold ($/oz.)	3,288.3	3,022.2	8.8
Copper ($/MT)	9,363.4	9,813.5	-4.6
Nickel ($/MT)	15,454.7	15,833.3	-2.4
CPO ($/MT)	943.6	1,068.0	-11.7
Rubber ($/kg)	1.71	1.99	-14.1

External Sector	Mar	Feb	Chg (%)
Export ($ bn)	23.25	21.94	5.95
Import ($ bn)	18.92	18.86	0.30
Trade bal. ($ bn)	4.33	3.08	40.56
Central bank reserves ($ bn)*	157.1	154.5	1.67

Prompt Indicators	Mar	Feb	Jan
Consumer confidence index (CCI)	121.1	126.4	127.2
Car sales (%YoY)	-5.1	2.2	-11.3
Motorcycle sales (%YoY)	-7.2	4.0	-5.5

Manufacturing PMI	Mar	Feb	Chg (bps)
USA	50.2	52.7	-250
Eurozone	48.6	47.6	100
Japan	48.4	49.0	-60
China	51.2	50.8	40
Korea	49.1	49.9	-80
Indonesia	52.4	53.6	-120

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	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.1
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	7.68
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,943
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*

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