

## BI Policy:

# Strike while the iron is hot

Samuel Theophilus Artha  
Economist/Analyst

Barra Kukuh Mamia  
Head of Macroeconomic Research

22 May 2025

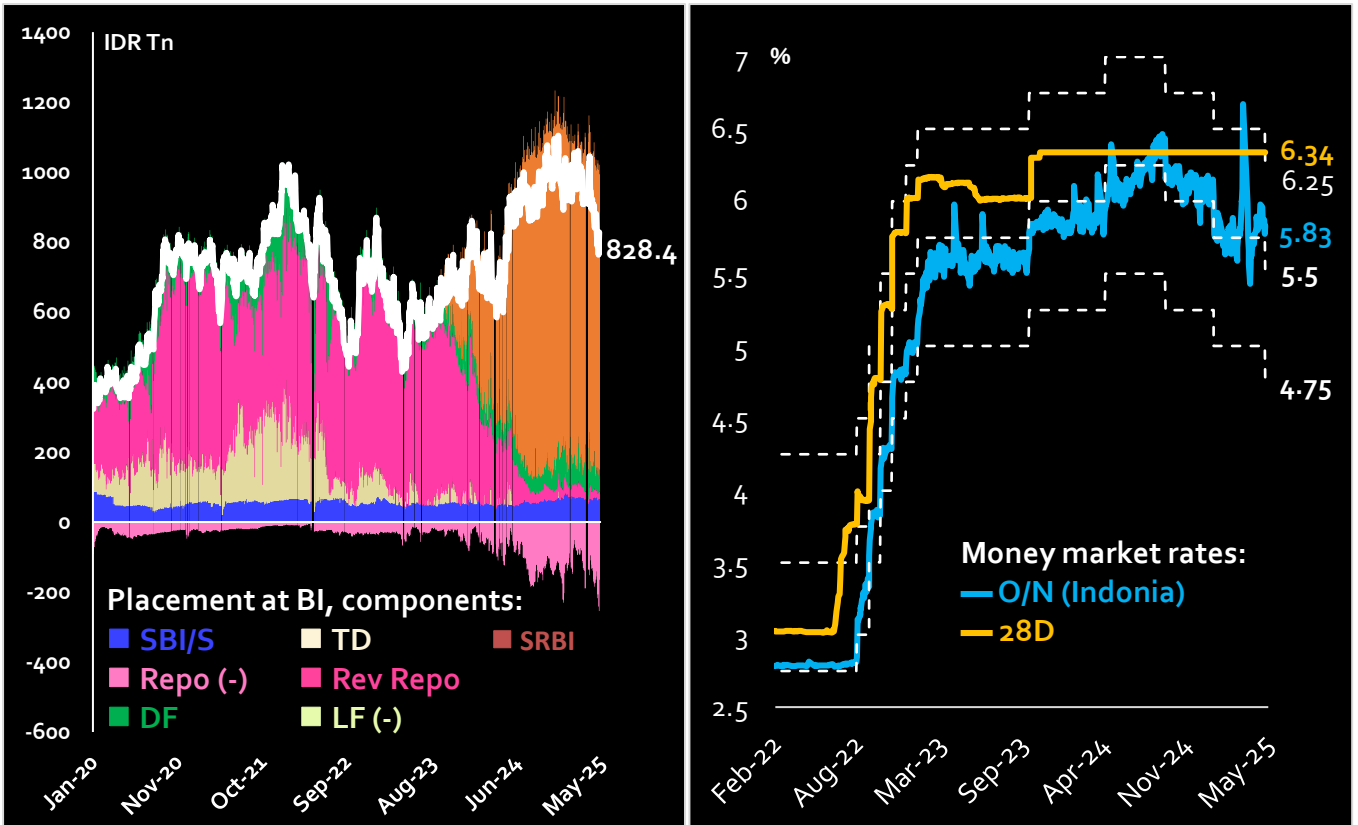
### Executive Summary

- BI lowers its policy rate to 5.50% in May 2025 amidst growth and liquidity concerns and USD weakness.
- Controlled depreciation against Asian currencies and stability against USD is ideal for Indonesia, given the need to maintain both trade competitiveness and financial stability.
- BI has lowered secondary reserves ratio (PLM) by 1% as well as increasing cap on banks' borrowing limit to 35% (RPLN) amidst slowing credit and third-party funds growth.
- Maturity "wall" and policy uncertainty may limit the chance for further tactical rate cuts by BI in the near-term.

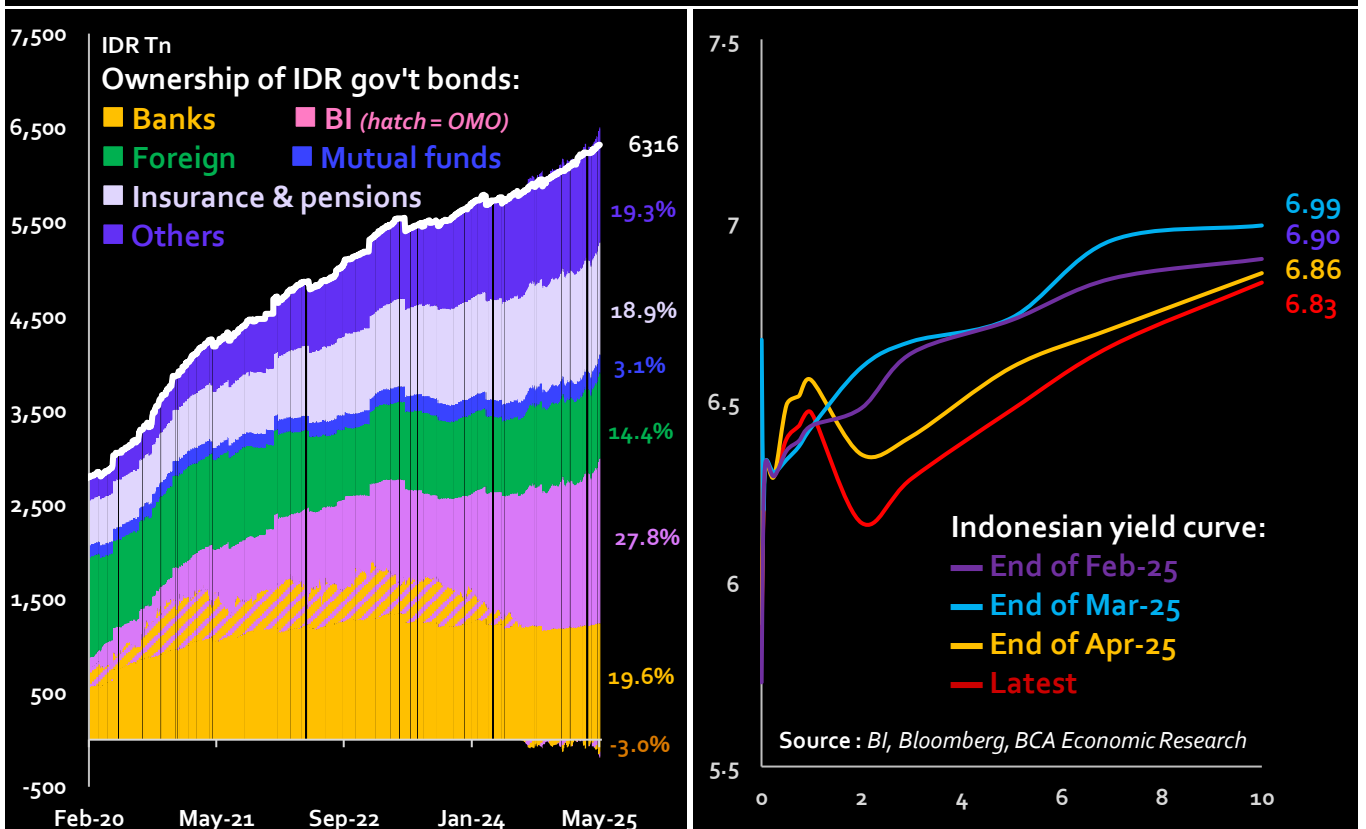
- BI lowered its policy rate from 5.75% to 5.50% in its latest meeting (May 21<sup>st</sup>), in line with market expectations. BI's rate cut echoed earlier decisions by RBA and PBoC, which both adopted softer monetary policies amidst concerns regarding growth amid tariff wranglings, which greatly affect growth especially among Asia-Pacific's trade-dependent economies.
- What also helped—especially in BI's case—is the weakness of the US Dollar. This followed the reversal of carry trades to the US, most notably from Taiwan, and then the growing chorus of concern over the sustainability of the US debt burden, accelerated by President Trump's latest budget proposal and Moody's recent downgrade of USTs.
- BI, then, is in a good position to cut. Rupiah's stability against the USD is paramount for BI given its effect on public debt and yields; on the other hand, the Rupiah has been (and may need to remain) slightly weaker compared to other Asian currencies. This is crucial to preserve our trade competitiveness, especially with early trade data (from China, Singapore, and other countries) indicating heightened exports to Indonesia following Trump's tariffs.
- Of course, BI has also had a dovish bent since January, given growing concerns on the domestic front. Not only had GDP growth slowed in Q1-25 (at 4.87% YoY), but loan growth has also slowed to 8.88% YoY, prompting BI to adjust its growth target from 11-13% to a more reasonable 8-11%.
- The liquidity situation is even more alarming, with bank deposit growing by only 4.55% YoY. Even more, outstanding repo loans by banks to BI has reached an unusually high level (IDR 233 Tn per May 19<sup>th</sup>), while the overnight interbank lending rate (Indonia) has consistently surpassed BI rate in recent weeks.

- Remedying this situation, then, requires several additional tools from BI. Starting June 1<sup>st</sup>, it is also lowering the secondary reserves ratio (PLM) by 1%, lessening the requirement for banks to allocate funds in government or BI securities and (hopefully) reallocating it to loans.
- However, this policy may not have a quick, one-to-one relationship with credit growth, seeing as credit risk—especially in consumer and SME segments—has been rising, which means that banks may still opt for safer securities instead of loans. Likewise, our recent reports have also highlighted some weakness in loan demand, with corporations opting to increase their share buybacks and short-term investments instead of expanding their business.
- To address the liquidity shortage, BI have also allowed foreign liquidity to plug the gap, with the cap on banks' foreign borrowing limit expanded from 30% to 35%, providing more room for cash-strapped banks to issue more external debt. Our previous report regarding external debt has shown robust external loan growth among SOE banks.
- However, with BI trying to nudge banks to lend to the corporate/private sector, there is the big question of who will finance the liquidity needs of the public sector. Earlier this year, the main answer would have been domestic households and corporations, and even BI itself. Luckily in recent weeks, foreign investors have stepped up, with net inflow of (USD 729 Mn) to the SBN market MTD.
- May, as such, provided the perfect background for BI's "tactical" rate cut, as its pro-growth stance is now matched by a weaker USD outlook. Still, the outlook for the rest of the year may not be as clear. The high amount of maturing FX bonds (USD 2 Bn) and SRBI (IDR 269.9 Tn) in June and July combined with the Hajj pilgrimage will provide a stern test for the Rupiah. Furthermore, the looming deadline Trump's tariffs and a more hawkish Fed outlook (with only two cuts forecasted to year-end) may mean narrower opportunities for BI to maneuver in the future.

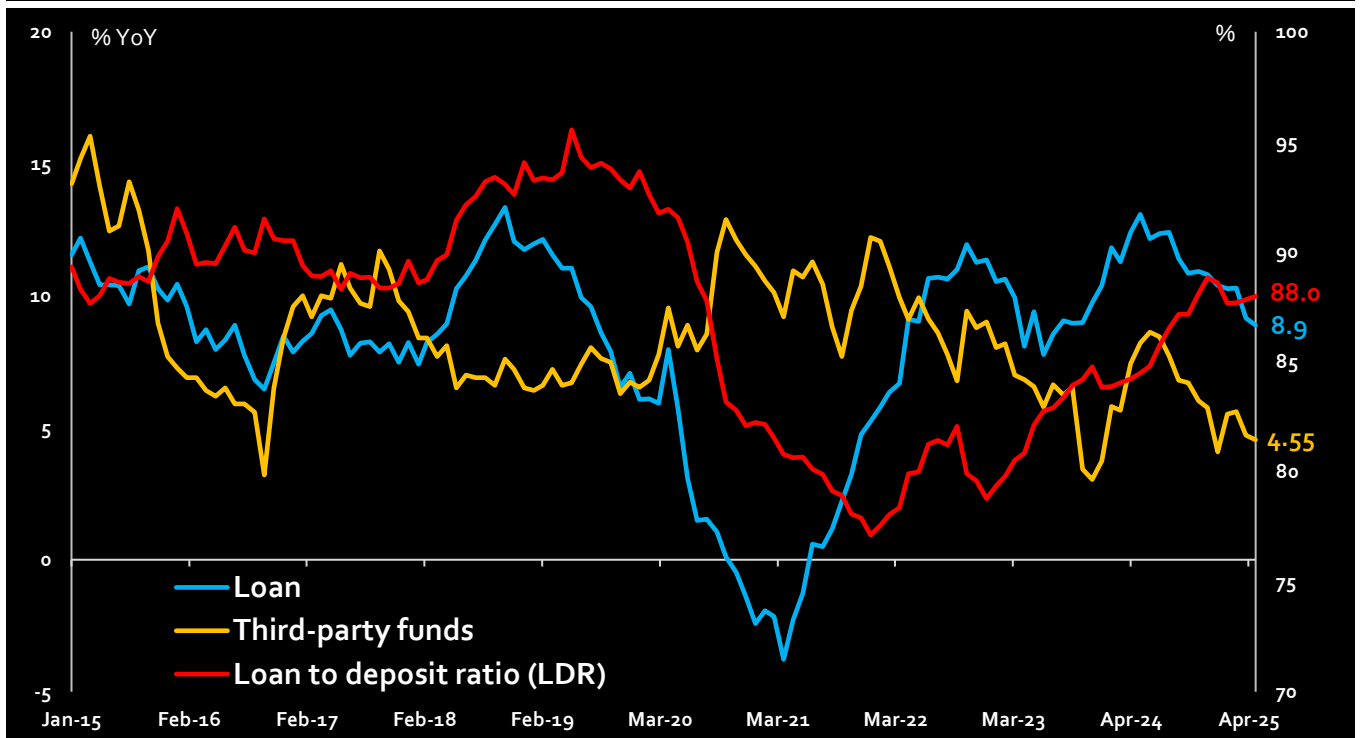
**Panel 1. Tight liquidity condition indicated by high Indonesia rates**



**Panel 2. BI increased swap of government bonds to inject liquidity**

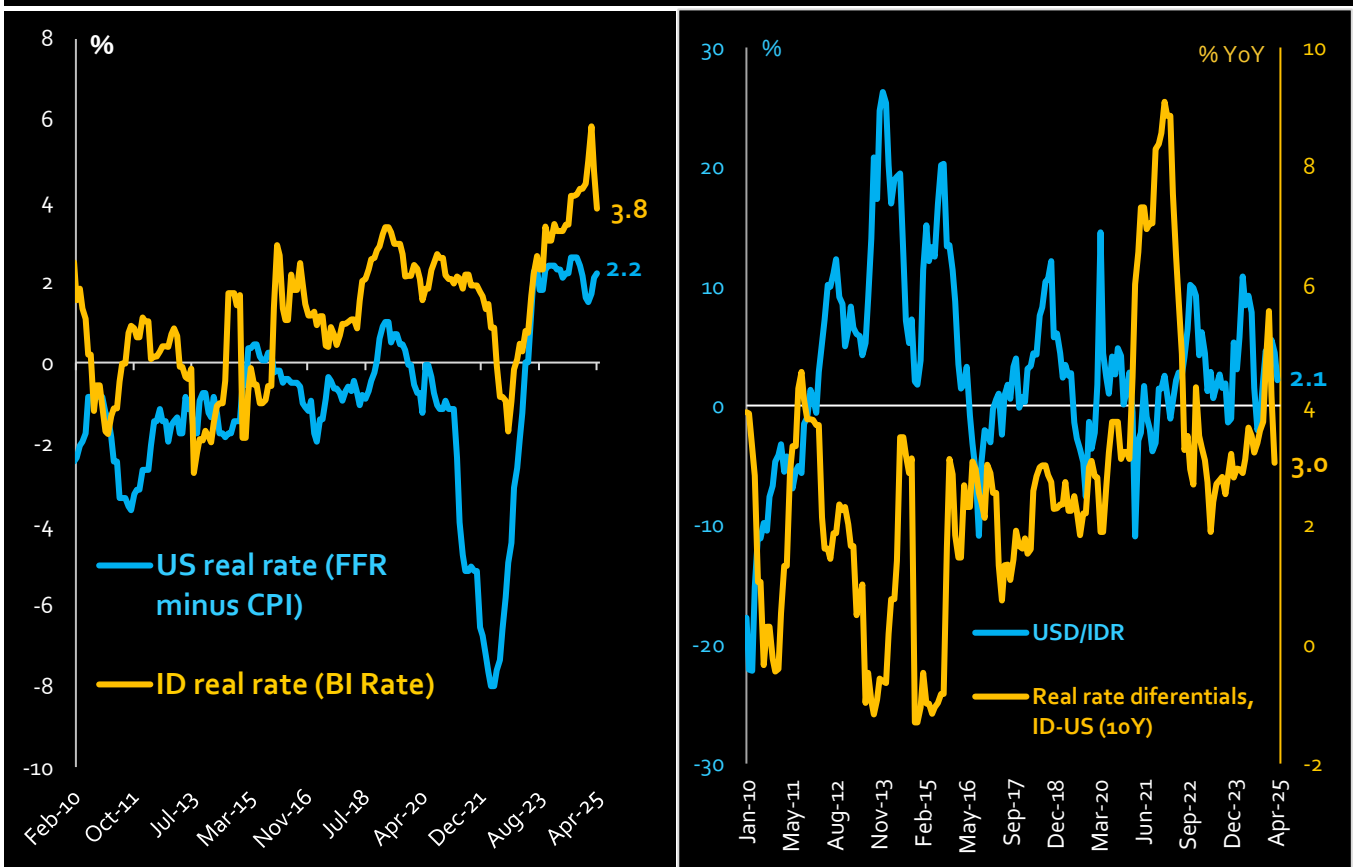


**Panel 3. Loan growth slowed as third-party funds growth remain sluggish**



Source: MoF, Bloomberg, BCA Economist

**Panel 4. Real rate differential falls due to increased US uncertainty**



Source: BI, Bloomberg, BCA Economist

## Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	21-May	-1 mth	Chg (%)
US	4.50	Dec-24	2.20	Baltic Dry Index	1,337.0	1,261.0	6.0
UK	4.25	May-25	0.75	S&P GSCI Index	536.2	538.5	-0.4
EU	2.40	Apr-25	0.20	Oil (Brent, \$/bbl)	64.9	68.0	-4.5
Japan	0.50	Jan-25	-3.10	Coal (\$/MT)	105.9	101.0	4.8
China (lending)	2.00	Sep-24	4.45	Gas (\$/MMBtu)	3.19	2.93	8.9
Korea	2.75	Feb-25	0.65	Gold (\$/oz.)	3,315.0	3,326.9	-0.4
India	6.00	Apr-25	2.84	Copper (\$/MT)	9,547.5	9,161.0	4.2
Indonesia	5.50	May-25	3.55	Nickel (\$/MT)	15,400.9	15,420.2	-0.1
Money Mkt Rates	21-May	-1 mth	Chg (bps)	CPO (\$/MT)	915.2	948.5	-3.5
SPN (1Y)	6.00	6.17	-17.0	Rubber (\$/kg)	1.75	1.70	2.9
SUN (10Y)	6.81	6.93	-11.4	External Sector	Mar	Feb	Chg (%)
INDONIA (O/N, Rp)	5.83	5.62	21.3	Export (\$ bn)	23.25	21.94	5.95
JIBOR 1M (Rp)	6.38	6.38	0.3	Import (\$ bn)	18.92	18.86	0.30
Bank Rates (Rp)	Feb	Jan	Chg (bps)	Trade bal. (\$ bn)	4.33	3.08	40.56
Lending (WC)	8.67	8.62	5.00	Central bank reserves (\$ bn)*	157.1	154.5	1.67
Deposit 1M	5.02	4.87	15.00	Prompt Indicators	Apr	Mar	Feb
Savings	0.68	0.68	0.00	Consumer confidence index (CCI)	121.7	121.1	126.4
Currency/USD	21-May	-1 mth	Chg (%)	Car sales (%YoY)	5.0	-5.1	2.2
UK Pound	0.745	0.752	0.93	Motorcycle sales (%YoY)	-3.0	-7.2	4.0
Euro	0.883	0.878	-0.54	Manufacturing PMI	Apr	Mar	Chg (bps)
Japanese Yen	143.7	142.2	-1.04	USA	50.2	50.2	0
Chinese RMB	7.202	7.300	1.36	Eurozone	49.0	48.6	40
Indonesia Rupiah	16,395	16,825	2.62	Japan	48.7	48.4	30
Capital Mkt	21-May	-1 mth	Chg (%)	China	50.4	51.2	-80
JCI	7,142.5	6,438.3	10.94	Korea	47.5	49.1	-160
DJIA	41,860.4	39,142.2	6.94	Indonesia	46.7	52.4	-570
FTSE	8,786.5	8,275.7	6.17				
Nikkei 225	37,299.0	34,730.3	7.40				
Hang Seng	23,827.8	21,395.1	11.37				
Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)				
Stock	3,244.2	3,144.7	99.51				
Govt. Bond	899.7	995.6	-95.98				
Corp. Bond	5.1	5.2	-0.05				

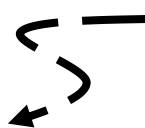
Source: Bloomberg, BI, BPS

Notes:

\*Data from earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, **>50** indicates economic expansion, **<50** otherwise



Scan for the link to our report depository or click:

[https://s.id/BCA\\_REI](https://s.id/BCA_REI)

## 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

### Economic, Banking & Industry Research Team

**David E.Sumual**

Chief Economist

david\_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

**Victor George Petrus Matindas**

Head of Banking Research and Analytics

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Keely Julia Hasim**

Economist / Analyst

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

**Nicholas Husni**

Economist / Analyst

nicholas\_husni@bca.co.id

+6221 2358 8000 Ext: 1079839

**Agus Salim Hardjodinto**

Head of Industry and Regional Research

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Gabriella Yolivia**

Industry Analyst

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Elbert Timothy Lasiman**

Economist / Analyst

Elbert\_lasiman@bca.co.id

+6221 2358 8000 Ext: 1007431

**Samuel Theophilus Artha**

Economist / Analyst

samuel\_artha@bca.co.id

+6221 2358 8000 Ext: 1080373

**Barra Kukuh Mamia**

Head of Macroeconomic Research

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Lazuardin Thariq Hamzah**

Economist / Analyst

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

**Thierris Nora Kusuma**

Economist / Analyst

thierris\_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

## PT Bank Central Asia Tbk

### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

### DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 1020451 or fax to: (62-21) 2358 8343 or email: [eri\\_tristanto@bca.co.id](mailto:eri_tristanto@bca.co.id)