BI and Fed Policy:
Same moves, different motives

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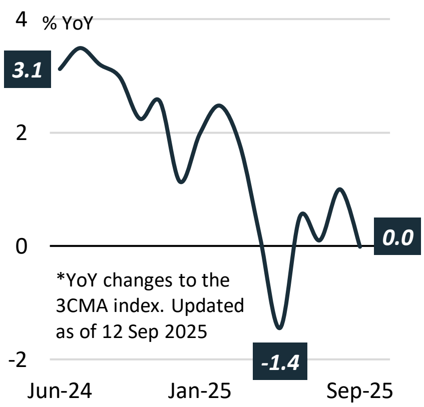
BCA Consumer Spending Index*



BCA Business Transaction Index*

- Bank Indonesia and the Federal Reserve concluded their policy meetings yesterday, with both central banks cutting their policy rates by 25 bps; to 4.75% for BI and 4.00-4.25% for the Fed. **Despite the similar policy action, the two rate cuts were undertaken under differing circumstances**. BI has lowered its policy rate by 125 bps since December 2024, whereas this marks the Fed's first rate cut of the year.

- The weakening US labour market (non-farm payroll fell to 22k in August 2025, ***see Chart 10***) justifies the recent rate cut action, with the market expecting two more cuts in 2025. Despite this, **the updated Summary of Economic Projections[1] indicates that FOMC members do not foresee a moderating US economy in the periods ahead** (the real GDP growth projection is revised upward to 1.6%, for further reference ***see Chart 8***), **implying that yesterday's rate cut was seen as a pre-emptive rather than a corrective move**.

- **Framing the recent rate cut as pre-emptive allows the Fed to maintain its data-driven approach to policymaking**, implying that additional FFR cuts in 2025 may not be warranted if the labour market regains strength. There is a notable divergence among FOMC members' rate signals, with seven members seeing no further rate cuts in 2025. The inflation question, of course, remains open for the Fed to answer, which may explain why some FOMC officials have refrained from providing a more definitive signal on further rate cuts.

- Given the anticipative tone in the recent FFR cut action, it is no surprise that the market appears unfazed by the now-lower policy rate. For instance, the USD index appreciated by 0.15% following the meeting, while the 2Y UST yield gained 2.9 bps ***(see Chart 6)***. It is worth noting, however, that the elevated UST yield is driven largely by a higher term premium ***(see Chart 9)***, shaped by concerns over US fiscal sustainability despite the exponential rise in tariff revenue.

- The now-tighter credit spreads further underscore the ongoing global uncertainty ***(see Chart 7)***, as the recent narrowing has been driven primarily by rising sovereign bond yields catching up with

[1] https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20250917.pdf

corporate bond rates. Hence, the global financial market may continue to operate in a high-rate environment, rendering the Fed's (and other global central banks') recent rate-cutting signal blunt.

- **The elevated global yield environment may continue to pressure other financial markets, particularly those with heightened idiosyncratic risks, such as Indonesia**. Indeed, the Rupiah has depreciated by 1.80% against the USD over the past month, more than other comparably sized economies ***(see Chart 5)***. This ongoing pressure on the Rupiah likely explains why most analysts had expected BI to hold its policy rate at yesterday's meeting, making the rate cut a surprising move.

- **BI's decision to lower the policy rate despite the current weakness in the exchange rate confirms a shift in the central bank's policy priorities, from safeguarding exchange rate stability to boosting credit disbursement** and accelerating economic growth by supporting the government's Asta Cita programme. BI's efforts have shown some early success, with loan growth in August 2025 reaching 7.56% YoY, up from 7.03% YoY in the previous month ***(see Chart 4)***.

- BI's next task, then, is to build on this early success. To that end, BI has implemented a deeper 50 bps cut to the deposit facility rate ***(see Chart 2)***, creating an asymmetric policy rate corridor aimed at discouraging banks from parking liquidity in BI's facility. The resulting lower interbank rates may compel banks to be more proactive in expanding their lending portfolios, potentially encouraging them to provide lending support for government programmes (which typically generate modest returns in the short-term) if lending opportunities in other segments remain scarce.

- At the same time, the government has proposed widening the 2026 deficit target to 2.68% of GDP, creating the necessary fiscal space to support spending at the regional level. Consequently, the additional SBN supply could put upward pressure on yields, potentially making the SBN market more attractive to banks ***(see Chart 3)***. To mitigate this effect, BI may maintain its presence in the SBN market, thereby reducing its appeal to banks.

BI appears to be gauging the effectiveness of its policy through loan growth, implying that additional rate cuts may remain on the table until loan demand substantially recovers.

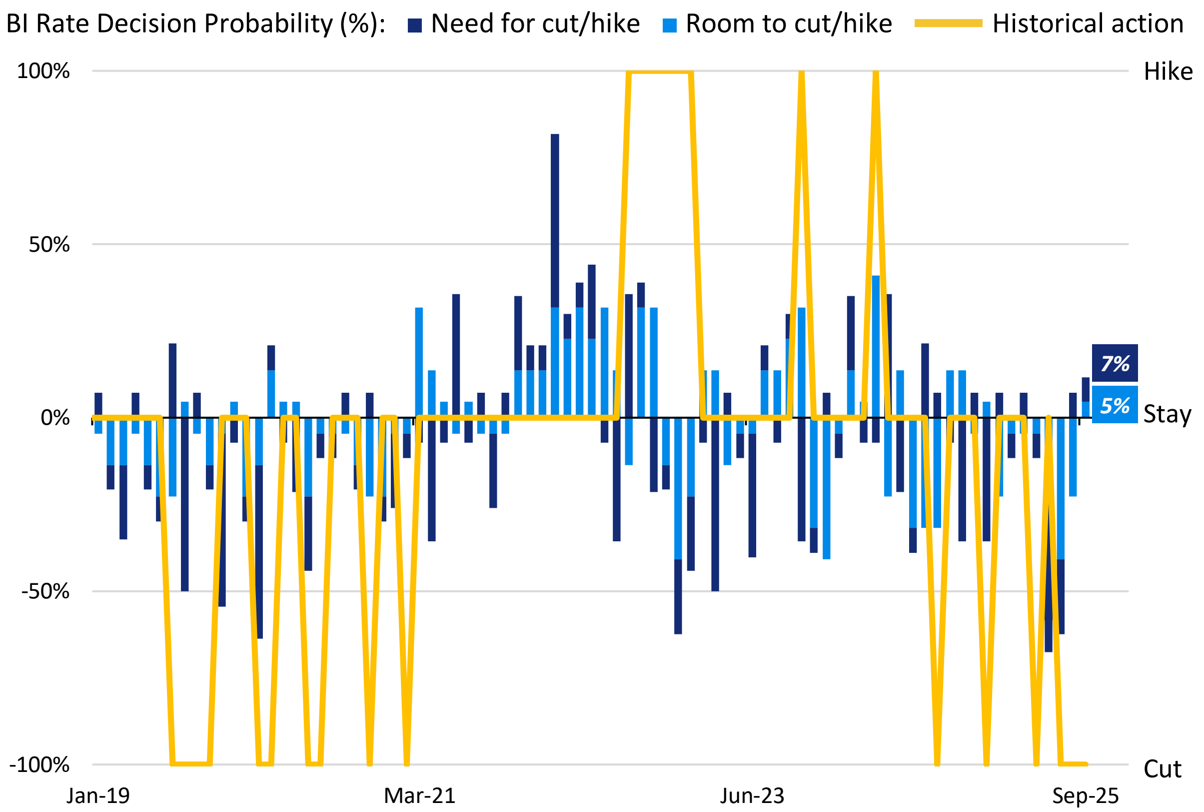
- **This monetary–fiscal policy setting implies that a low-yield environment may continue in the Indonesian market**, potentially dampening foreign investors' appetite given the high global yields. Fortunately, BI appears well-equipped to manage this short-term capital outflow risk, thanks to its ample FX reserves.

- **Despite this short-term risk, we should remember that the Indonesian economy is typically fiscal-driven**, meaning that, despite its low short-term returns, fiscal programmes such as the 8+4+5 stimulus package and the FLPP housing program may help unlock more lucrative private-sector activities in the periods ahead. The returning growth story may attract foreign investors back, thereby enhancing BI's ability to stabilise the Rupiah.

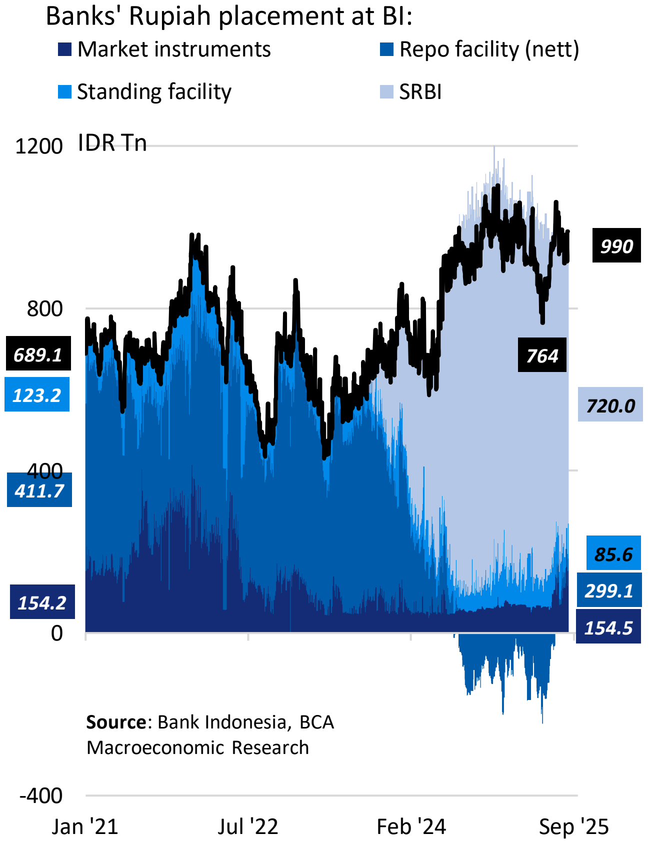
- However, until that happens, BI may continue to strengthen its 'three-arrow[2]' support for the government, including a further 25-50 bps cut in the BI rate. The pressure, however, is also on the government to effectively execute its priority programmes, given their importance in rejuvenating activity in the private sector.

[2] Burden-sharing agreement, bond market intervention, and currency market intervention

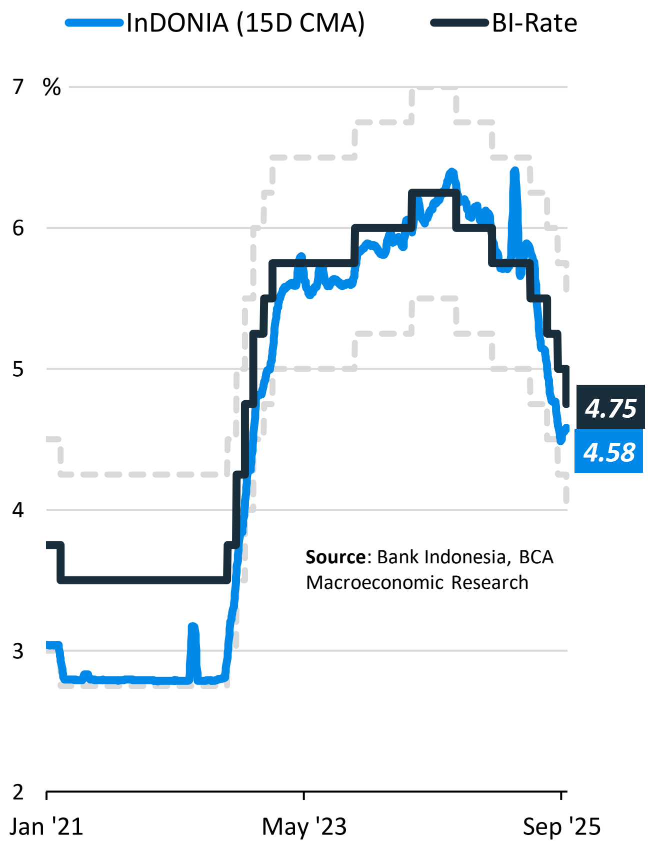
1 **The need to boost loan** compels BI to cut the policy rate despite the pressure on the IDR



2 **BI skewed its policy rate corridor** to discourage liquidity placement at its facility

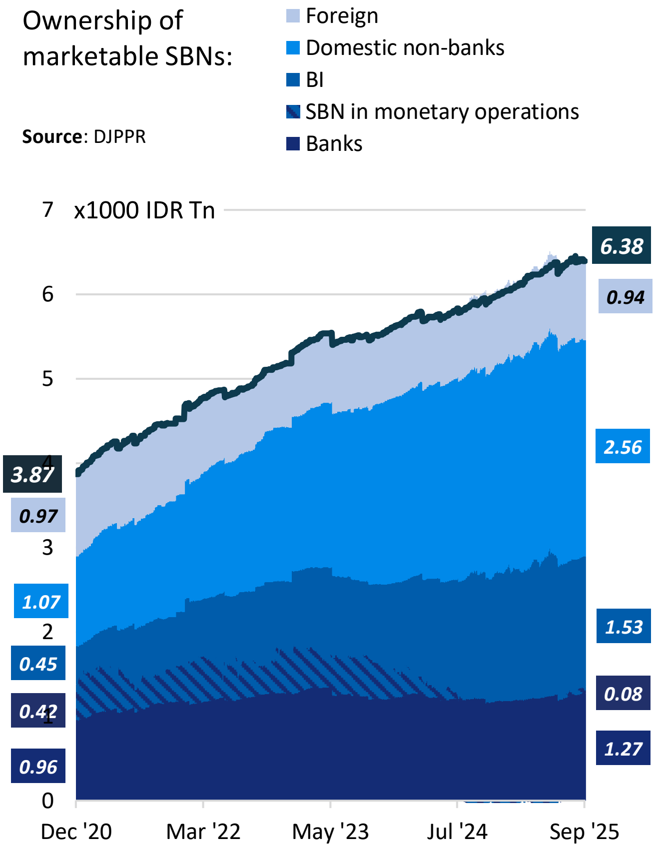


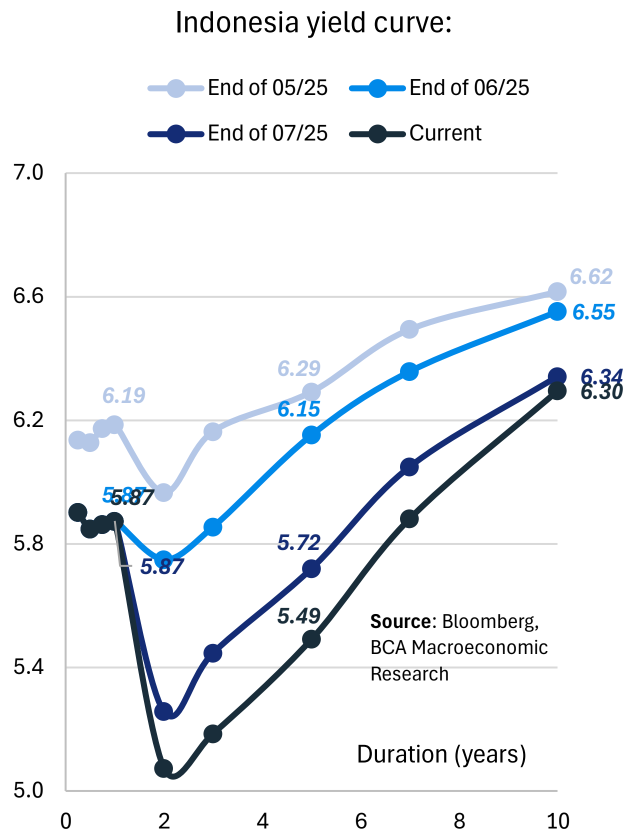
Source: Bank Indonesia, BCA Macroeconomic Research



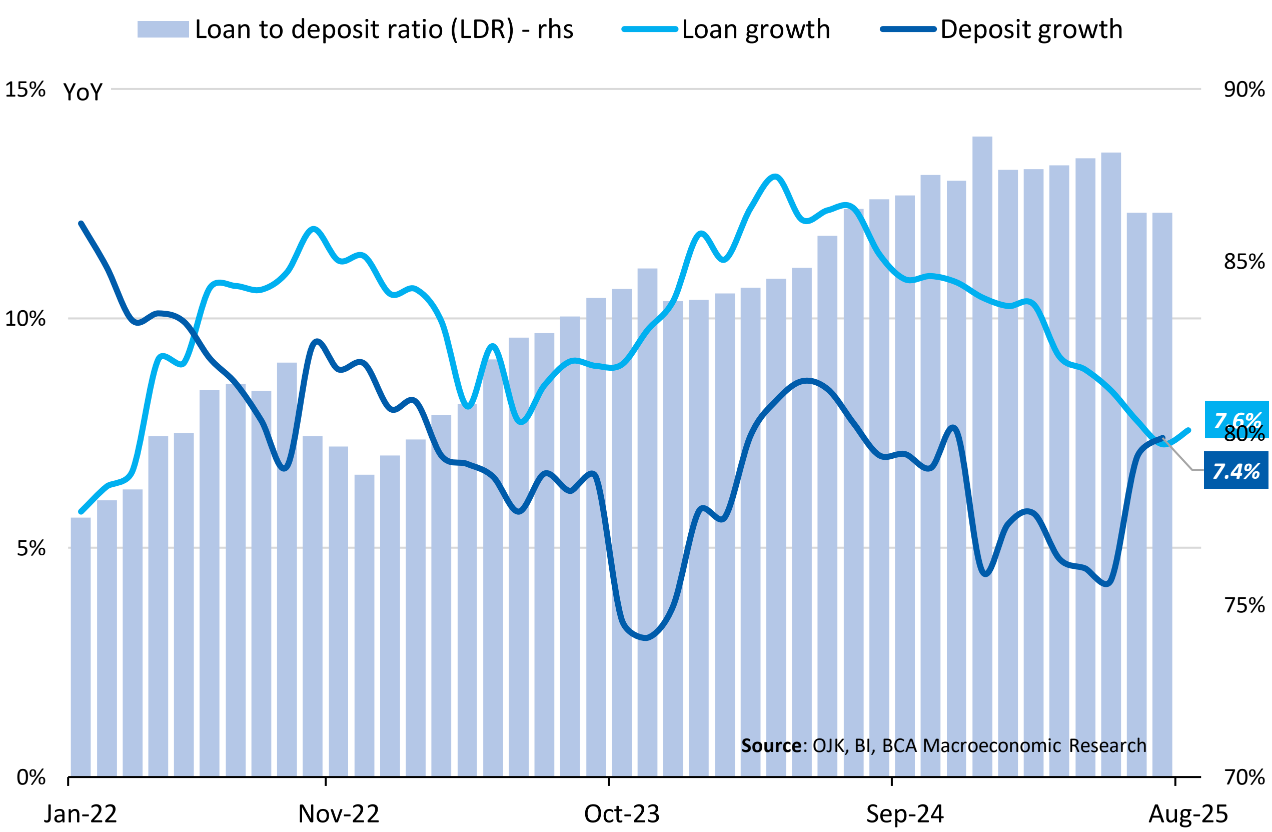
Source: Bank Indonesia, BCA Macroeconomic Research

3 **Banks' higher demand for SBN** seems to justify BI's concern over loan growth



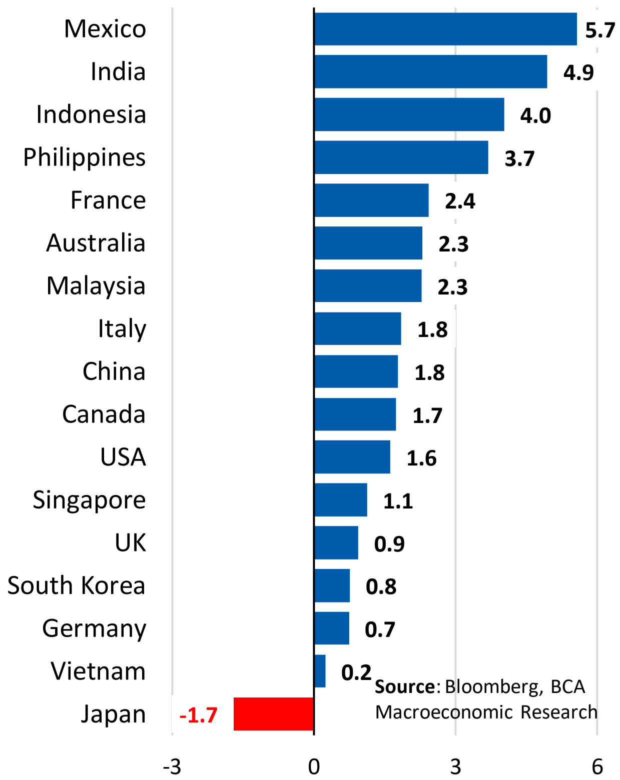


4 BI's effort appears to have borne fruit, **encouraging the central bank to build on its success**

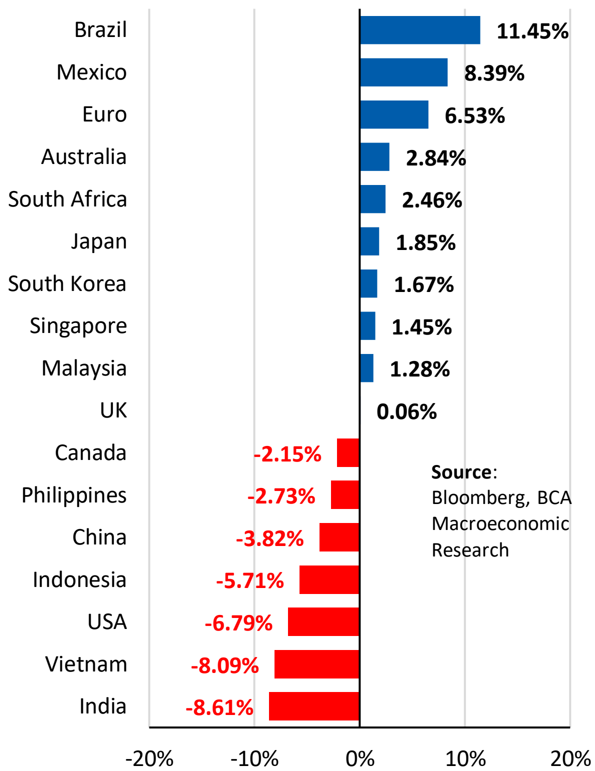


5 **The shift in focus** means that BI's FX rate stability tool will be limited to market interventions

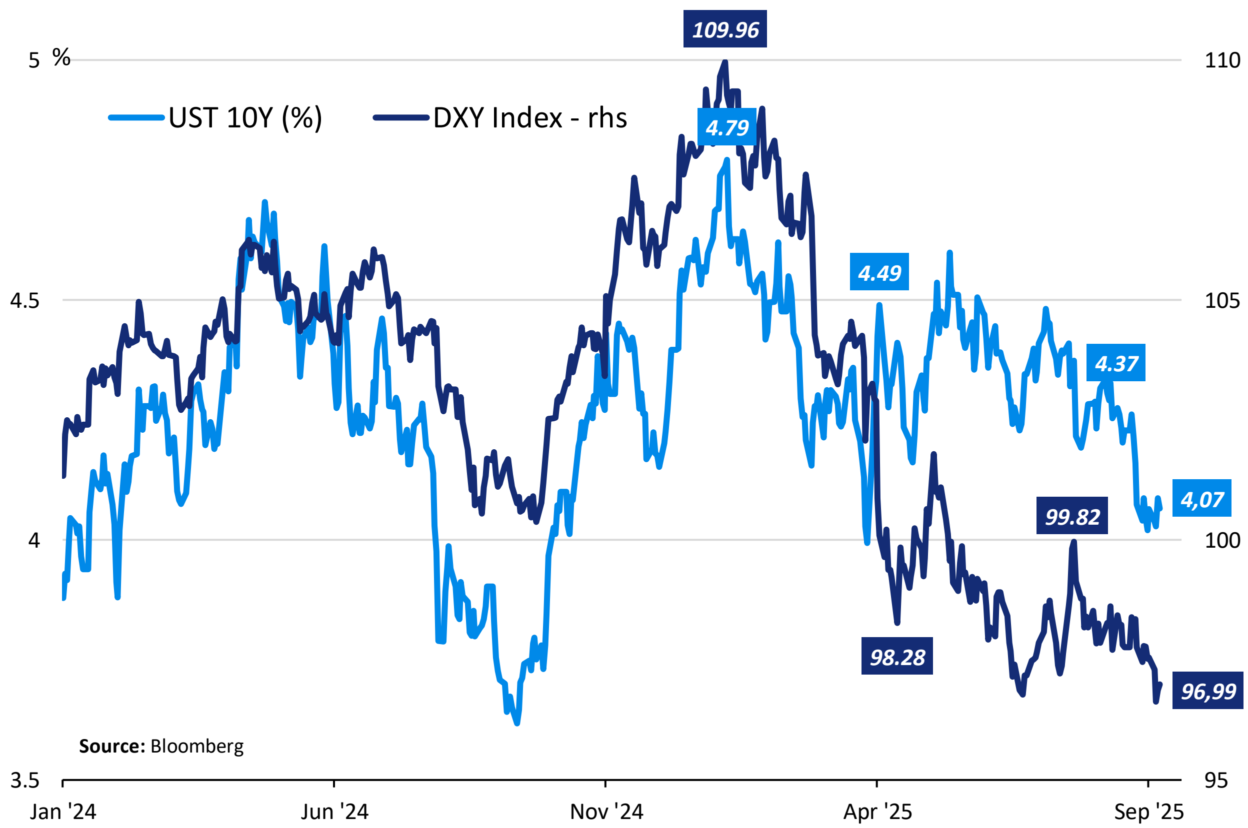
Real interest rates (10Y Sovereign bond yield - CPI inflation), per country:



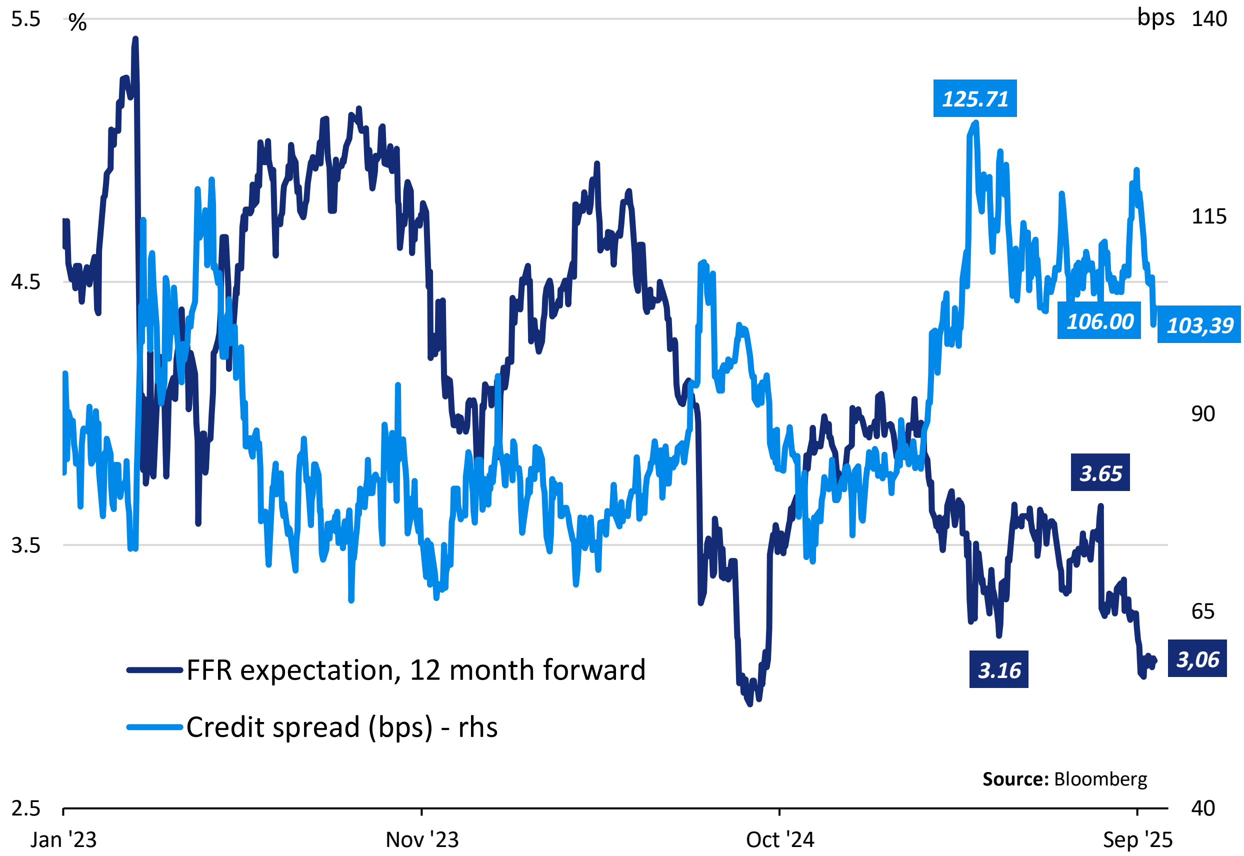
Nominal effective exchange rate (NEER), YTD % changes per country:



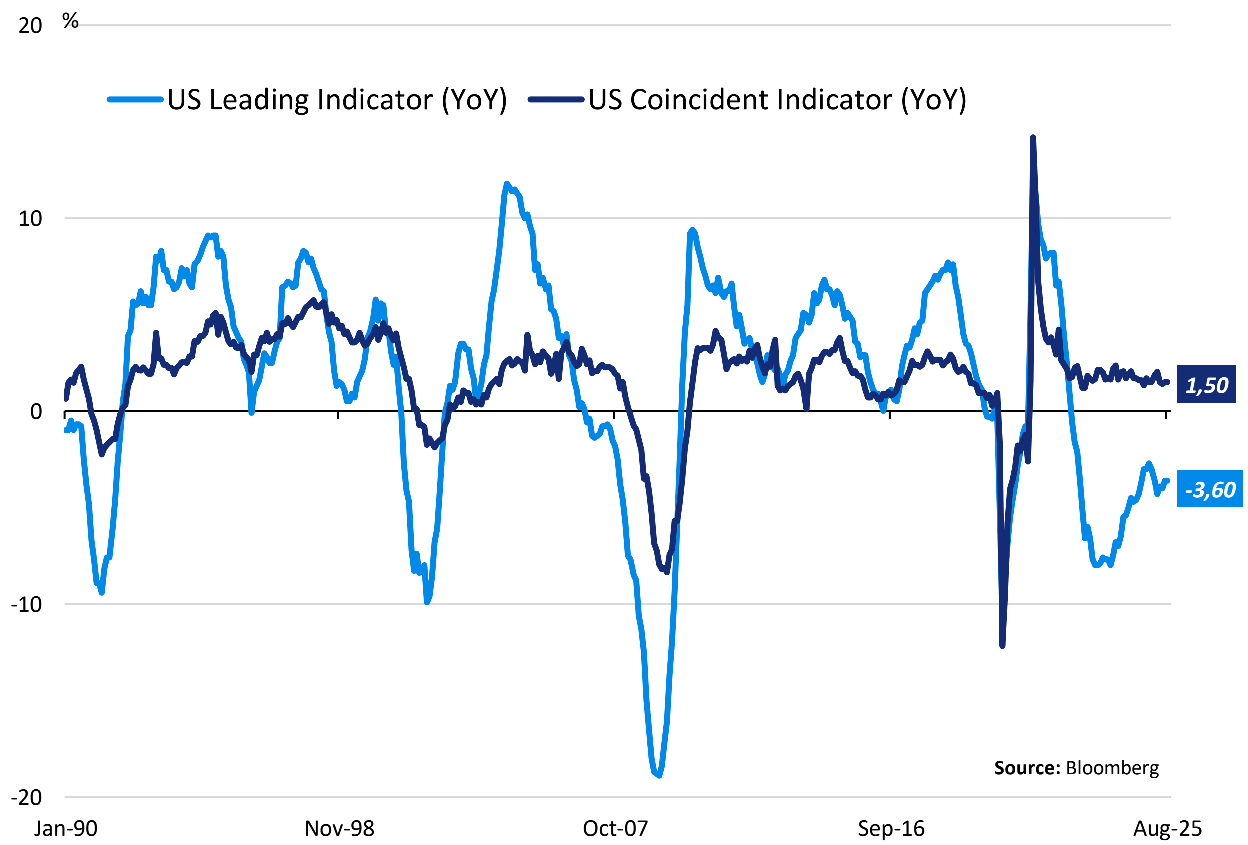
6 **UST yields and the DXY index move upward** in the day following the FOMC meeting



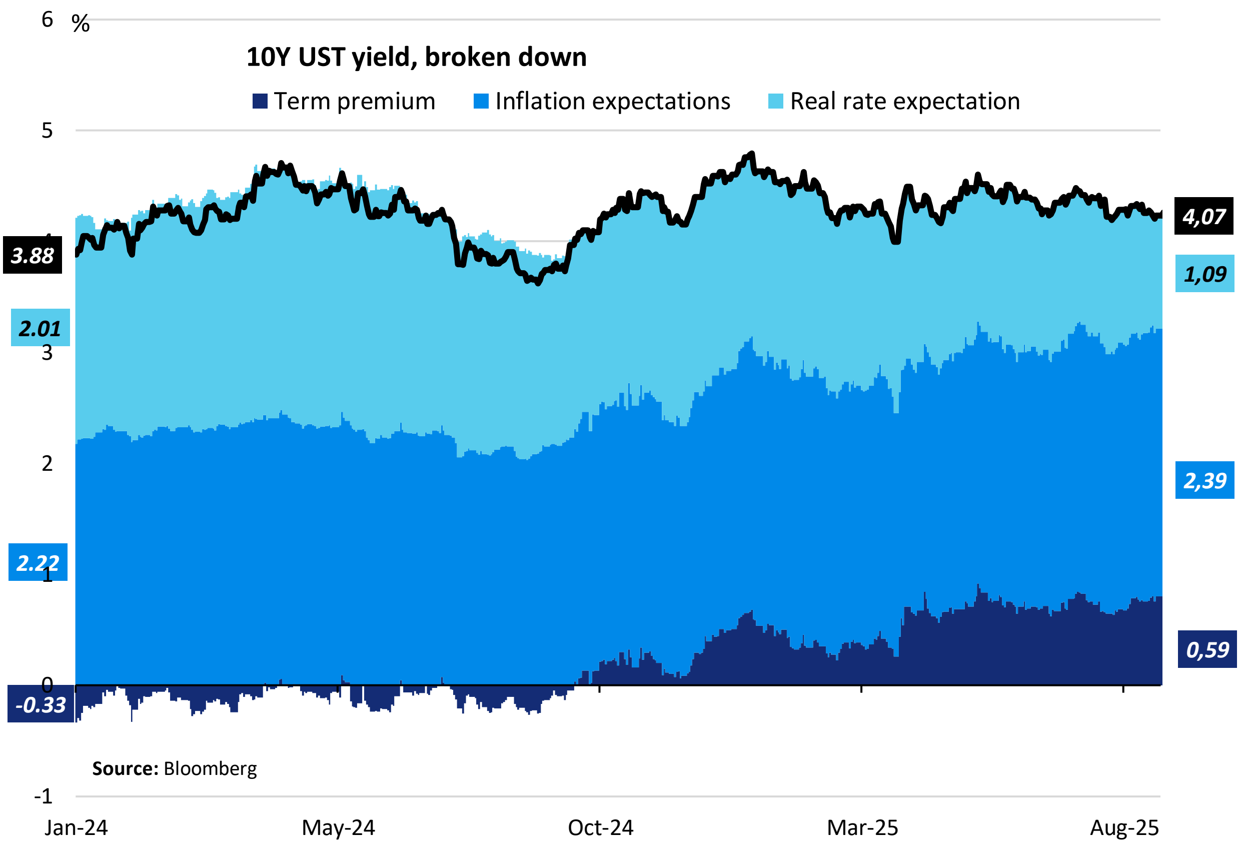
7	The credit spread is narrowing as **the 'risk-free' sovereign bond yield is being repriced**



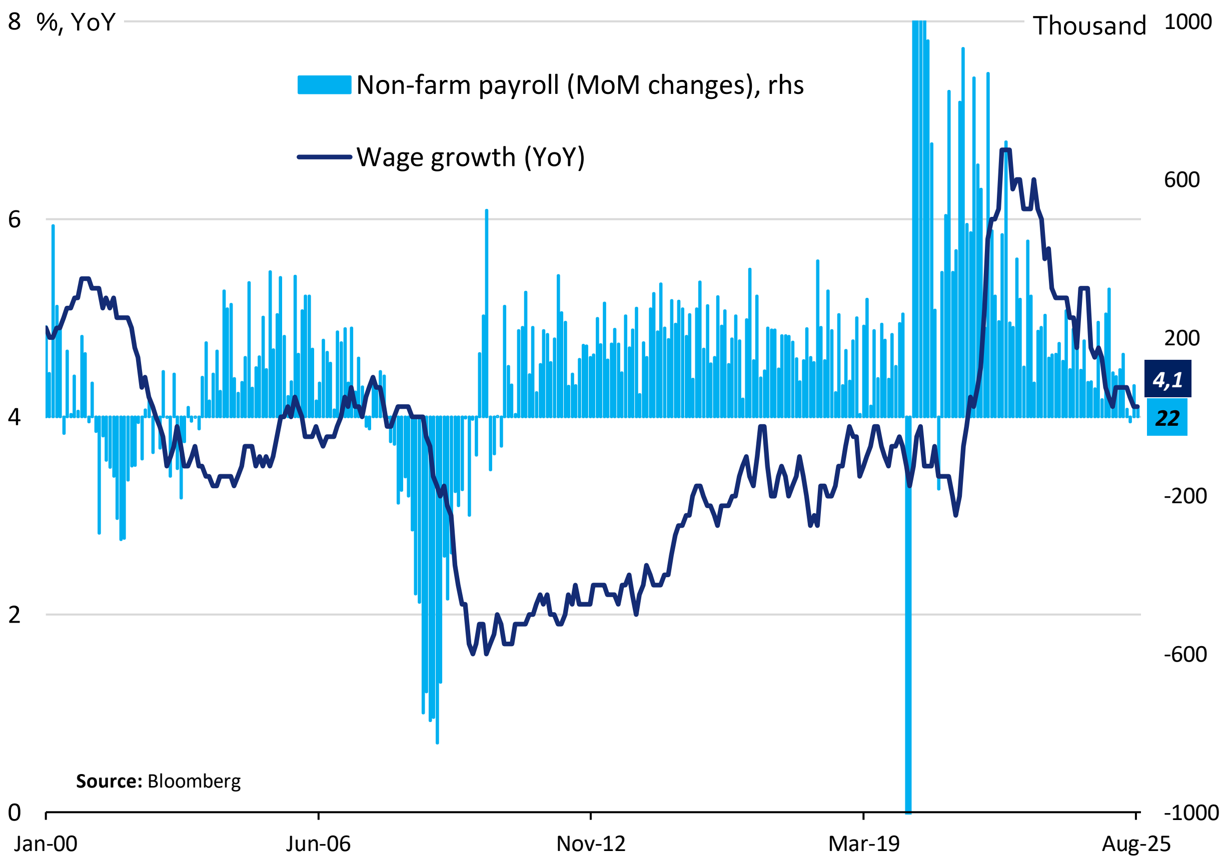
8	**The US economy remains substantially robust,** echoing most FOMC officials' expectations



9 **US Treasuries are no longer deemed as 'risk-free' as it was,** which explains their higher yield



10 **The US labour market continues to weaken,** compelling the Fed to loosen its stance



Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	4.25	Sep-25	1.35
UK	4.00	Aug-25	0.20
EU	2.15	Jun-25	0.15
Japan	0.50	Jan-25	-2.20
China (lending)	2.00	Sep-24	4.75
Korea	2.50	May-25	0.80
India	5.50	Jun-25	3.43
Indonesia	4.75	Sep-25	2.44

Money Mkt Rates	18-Sep	-1 mth	Chg (bps)
SPN (1Y)	5.07	5.13	-5.7
SUN (10Y)	6.26	6.38	-11.6
INDONIA (O/N, Rp)	4.14	4.77	-62.4
JIBOR 1M (Rp)	5.22	5.86	-64.1

Bank Rates (Rp)	Jun	May	Chg (bps)
Lending (WC)	8.62	8.64	-1.78
Deposit 1M	4.89	4.86	2.28
Savings	0.71	0.70	0.82

Currency/USD	18-Sep	-1 mth	Chg (%)
UK Pound	0.738	0.741	0.38
Euro	0.848	0.858	1.09
Japanese Yen	148.0	147.9	-0.07
Chinese RMB	7.112	7.185	1.02
Indonesia Rupiah	16,505	16,160	-2.09

Capital Mkt	18-Sep	-1 mth	Chg (%)
JCI	8,008.4	7,898.4	1.39
DJIA	46,142.4	44,911.8	2.74
FTSE	9,228.1	9,157.7	0.77
Nikkei 225	45,303.4	43,714.3	3.64
Hang Seng	26,544.9	25,176.9	5.43

Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)
Stock	3,760.3	3,539.4	220.93
Govt. Bond	953.9	1,213.4	-259.57
Corp. Bond	4.5	4.7	-0.16

Trade & Commodities	18-Sep	-1 mth	Chg (%)
Baltic Dry Index	2,205.0	2,022.0	9.1
S&P GSCI Index	549.6	535.9	2.6
Oil (Brent, $/brl)	67.4	66.6	1.3
Coal ($/MT)	107.9	111.3	-3.0
Gas ($/MMBtu)	3.08	2.95	4.4
Gold ($/oz.)	3,644.3	3,332.7	9.3
Copper ($/MT)	9,868.9	9,636.3	2.4
Nickel ($/MT)	15,094.2	14,956.4	0.9
CPO ($/MT)	1,039.3	1,055.2	-1.5
Rubber ($/kg)	1.73	1.73	0.0

External Sector	Jul	Jun	Chg (%)
Export ($ bn)	24.75	23.44	5.60
Import ($ bn)	20.58	19.33	6.43
Trade bal. ($ bn)	4.17	4.10	1.71
Central bank reserves ($ bn)*	152.0	152.6	-0.38

Prompt Indicators	Aug	Jul	Jun
Consumer confidence index (CCI)	117.2	118.1	117.8
Car sales (%YoY)	-19.0	-18.4	-22.5
Motorcycle sales (%YoY)	0.7	-0.5	-0.3

Manufacturing PMI	Aug	Jul	Chg (bps)
USA	53.0	49.8	320
Eurozone	50.7	49.8	90
Japan	49.7	48.9	80
China	50.5	49.5	100
Korea	48.3	48.0	30
Indonesia	51.5	49.2	230

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	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
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	-0.75

Notes:

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

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