

BI Policy:

Counting on banks to run faster

22 October 2025

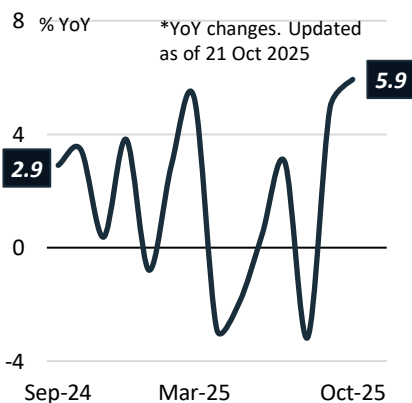
Lazuardin Thariq Hamzah

lazuardin_hamzah@bca.co.id

Victor George Petrus Matindas

Victor_matindas@bca.co.id

BCA Consumer Spending Index*



BCA Business Transaction Index*



- **Bank Indonesia kept its BI rate stable at 4.75%**, running against most analysts' expectations, but remains in line with our expectation. BI's recent decision reflects a cautious attitude amidst increasing global uncertainty, as trade tensions between the US and China are flaring up again, while the US federal government is in a shutdown.

- The policy decision may also reflect BI's intention in allowing its policy mix to further percolate through the economy. After all, **the monetary-fiscal coordination in lowering interest rates by improving liquidity conditions within the banking system appears to be working (see figures 2 & 3)**, as highlighted by the 11.81% YoY deposits growth (up from 8.51% YoY in Aug-2025).

- BI's recent decision does not signal a breakdown in monetary-fiscal policy coordination. Keeping the BI Rate at its current level may restore Indonesia's policy rate differential, especially as the Fed is expected to cut rates later this month. **A healthy rate differential could shield the Rupiah from further depreciation, thereby reducing risks to the government's fiscal balance as it intensifies ad-hoc spending measures to bolster consumption.**

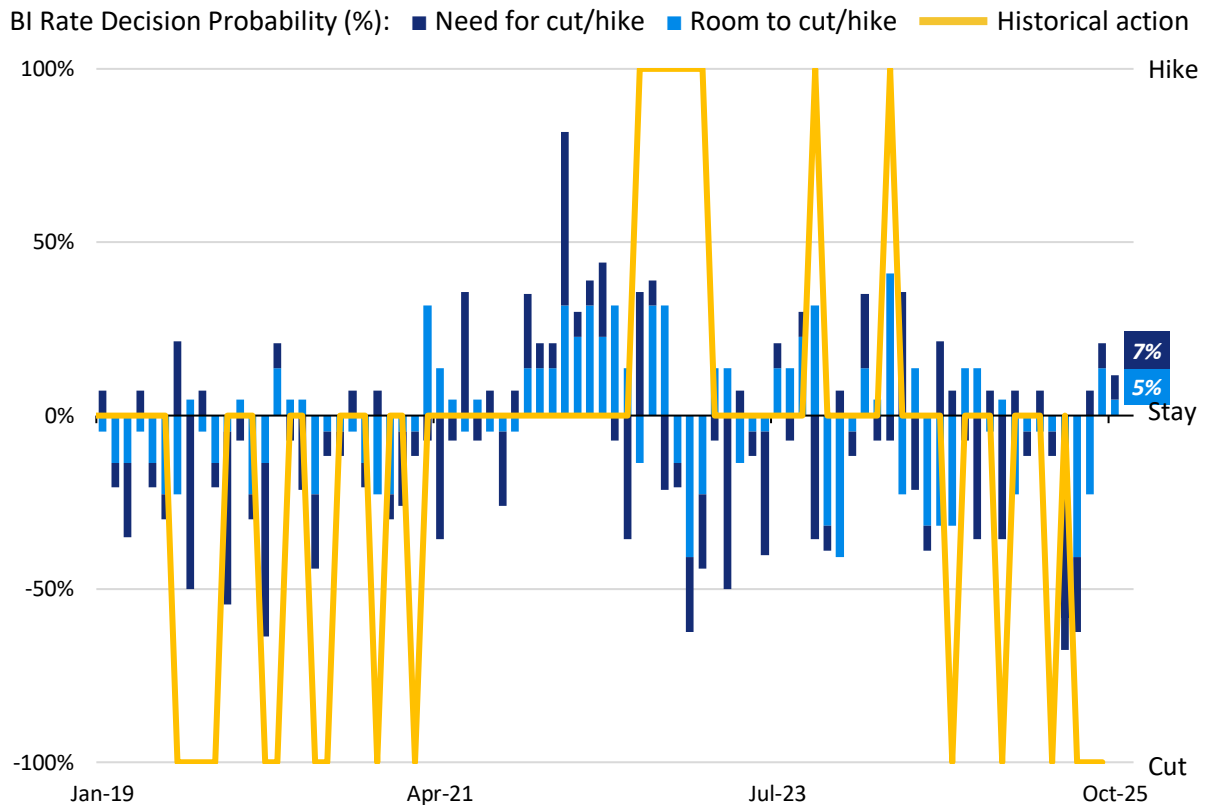
- While exchange rate stability is back to the official communique, **BI's focus remains squarely on loan growth**. After all, BI continue to grapple with stagnant loan growth (7.70% YoY in Sep-2025, 7.56% YoY previously), as business sentiment on the economy has yet to improve. Consequently, BI expects loan growth to settle at the lower end of its 8-11% target by year-end, though further ascent is anticipated next year.

- BI is set to deploy another tool in its monetary policy arsenal to address this challenge. The central bank will raise the loan growth tiering for KLM incentives by ~200 bps, thereby compelling banks to accelerate lending to remain eligible for the up-to-5% RRR discount. BI is also offering an extra 0.5% RRR discount for banks that successfully lower their rates relative to the BI rate – a measure aimed

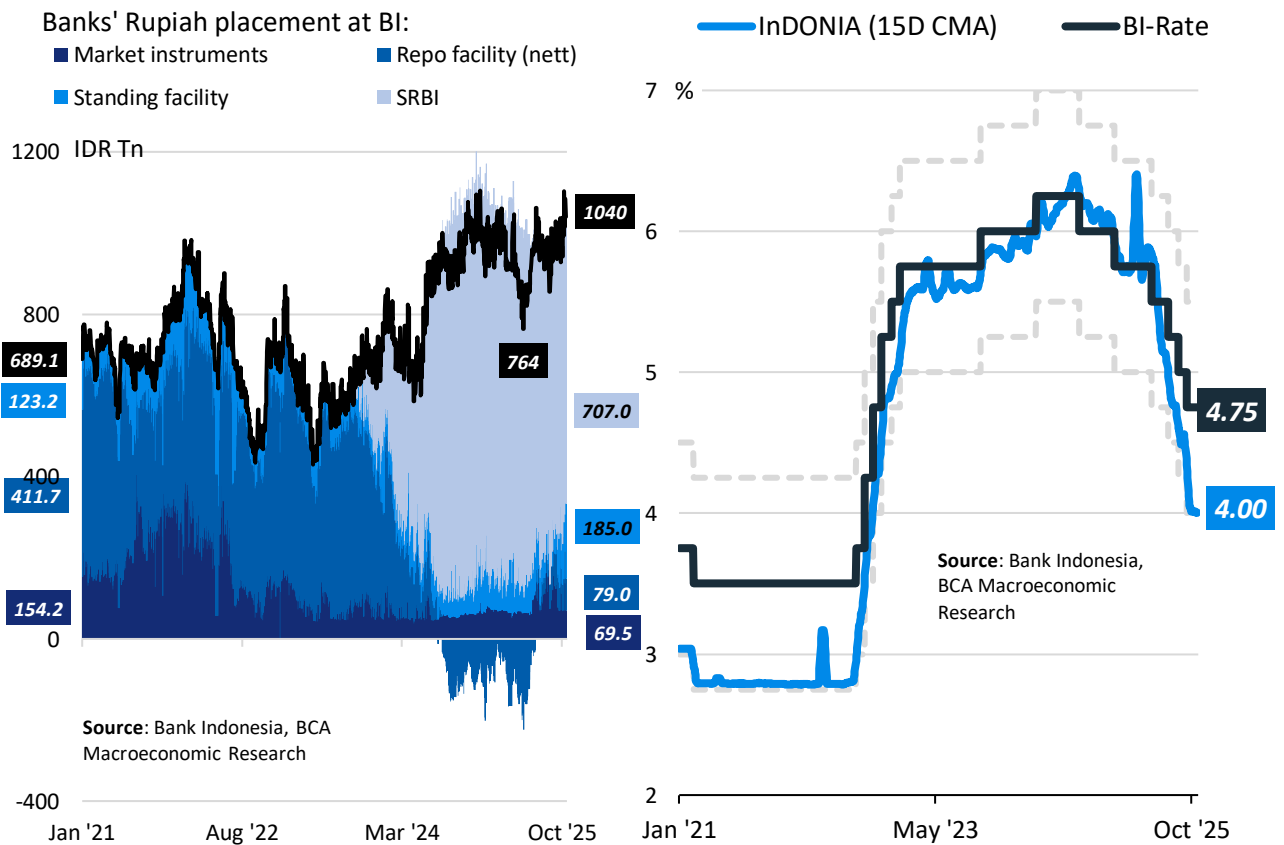
at strengthening policy transmission.

- **A stronger policy transmission reduces the urgency for BI to issue a stronger rate-cut signal, allowing the central bank to implement easing measures more tactically.** Nevertheless, the case for lower rates remains strong, given the need to safeguard the ongoing fiscal-driven growth narrative. Accordingly, another rate cut is expected in 2025, with the easing cycle likely to extend in 2026, conditional on the Fed's policy stance.

1 Improving real sector indicators point our model to a no-cut scenario



2 Government interventions lead to a sizable improvement in banks' liquidity

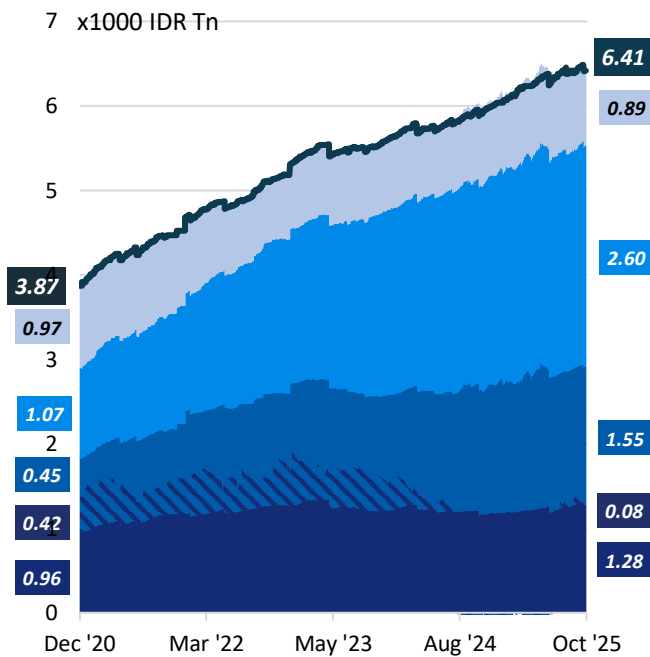


3 Yield curve moves lower as the liquidity condition improves

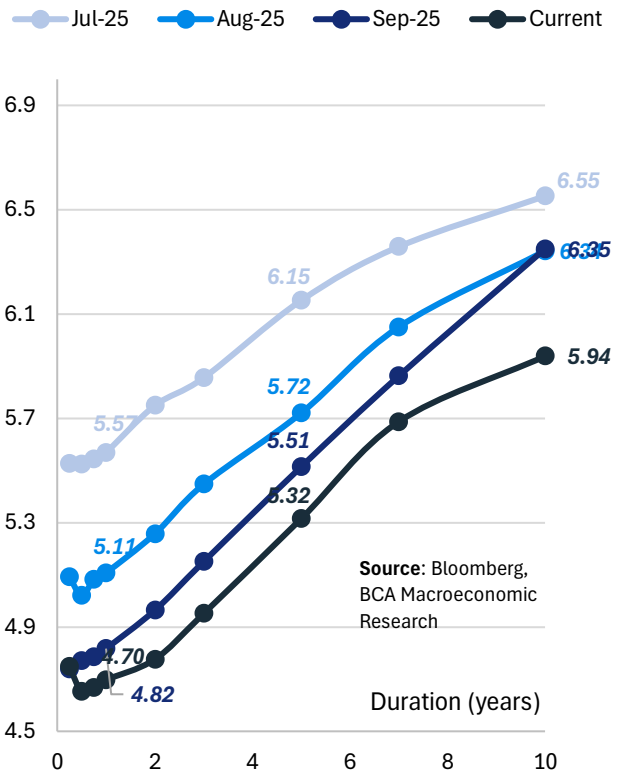
Ownership of marketable SBNs:

- Foreign
- Domestic non-banks
- BI
- SBN in monetary operations
- Banks

Source: DJPPR



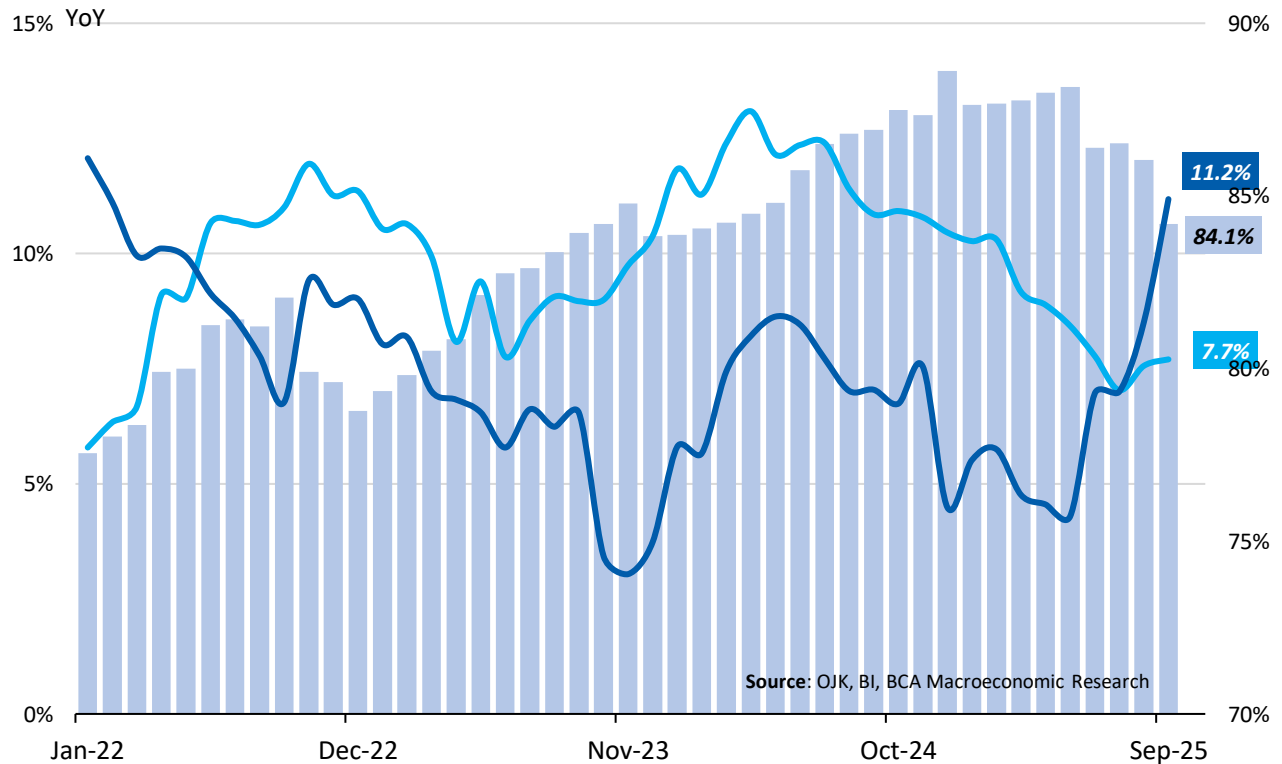
Indonesia yield curve:



Source: Bloomberg, BCA Macroeconomic Research

4 Loan growth is not picking up despite spiking deposit growth

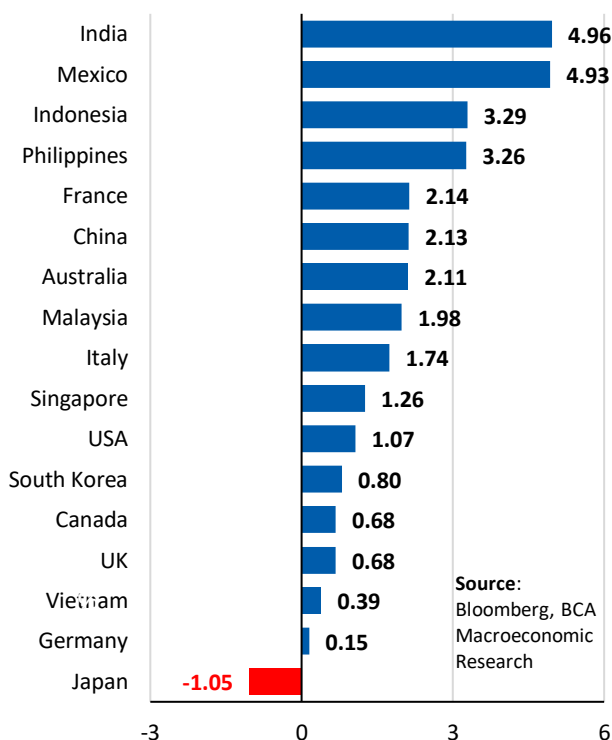
Loan to deposit ratio (LDR) - rhs Loan growth Deposit growth



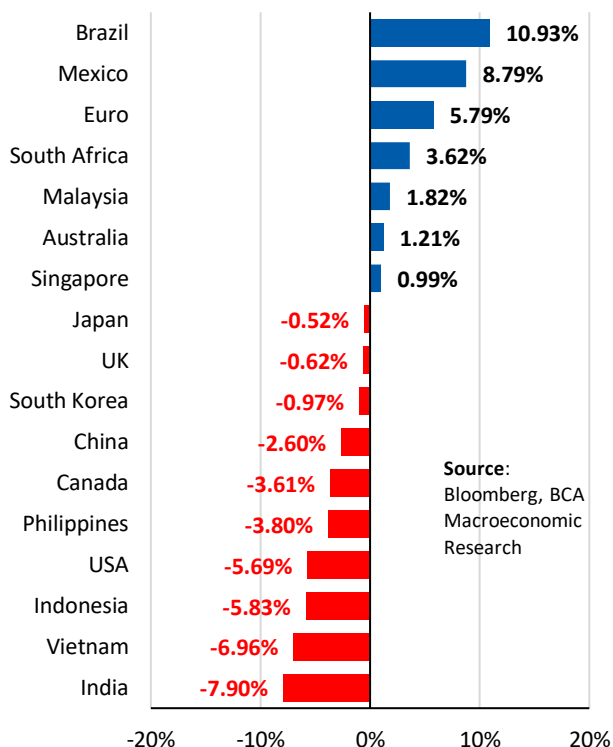
Source: OJK, BI, BCA Macroeconomic Research

5 A healthy real rate differential may help to stabilise the Rupiah

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



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



6 Banks need to accelerate their loan growth faster to qualify for the new KLM incentives

Covered sectors	Loan growth tier (upper tier)		RRR incentives (upper tier, bps)	
	Old	New	Old	New
Agriculture, Manufacture, and Down-streaming	5%	>7%	150	150
Services, Tourism, and Creative industries	5%	>12%	30	60
Construction, Real Estate, and Housing	5%	>7%	110 (housing, else 30)	140
MSMEs, Green and Inclusive industries	NA*	>4%	100	150

Lending rates on new credits, elasticity to BI rate	RRR incentives (bps)
<0.3	0
0.3 - 0.6	40
>0.6	50

*KLM incentives previously tied to the 30% inclusive macroprudential financing ratio (RPIM)
Source: Bank Indonesia

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	21-Oct	-1 mth	Chg (%)
US	4.25	Sep-25	1.35	Baltic Dry Index	2,094.0	2,203.0	-4.9
UK	4.00	Aug-25	0.20	S&P GSCI Index	541.9	545.9	-0.7
EU	2.15	Jun-25	-0.05	Oil (Brent, \$/bbl)	61.3	66.7	-8.0
Japan	0.50	Jan-25	-2.20	Coal (\$/MT)	114.4	115.7	-1.1
China (lending)	2.00	Sep-24	4.65	Gas (\$/MMBtu)	3.27	2.89	13.1
Korea	2.50	May-25	0.40	Gold (\$/oz.)	4,125.2	3,685.3	11.9
India	5.50	Jun-25	3.96	Copper (\$/MT)	10,593.3	9,924.1	6.7
Indonesia	4.75	Sep-25	2.10	Nickel (\$/MT)	14,968.7	15,091.6	-0.8
Money Mkt Rates	21-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	1,054.9	1,040.7	1.4
SPN (1Y)	4.69	4.98	-28.9	Rubber (\$/kg)	1.76	1.73	1.7
SUN (10Y)	5.94	6.29	-34.6	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	3.99	4.13	-13.7	Export (\$ bn)	24.96	24.75	0.87
JIBOR 1M (Rp)	5.13	5.20	-7.4	Import (\$ bn)	19.48	20.58	-5.35
Bank Rates (Rp)	Jun	May	Chg (bps)	Trade bal. (\$ bn)	5.49	4.17	31.50
Lending (WC)	8.62	8.64	-1.78	Central bank reserves (\$ bn)*	150.7	152.0	-0.84
Deposit 1M	4.89	4.86	2.28	Prompt Indicators	Sep	Aug	Jul
Savings	0.71	0.70	0.82	Consumer confidence index (CCI)	115.0	117.2	118.1
Currency/USD	21-Oct	-1 mth	Chg (%)	Car sales (%YoY)	-15.1	-19.0	-18.4
UK Pound	0.748	0.742	-0.75	Motorcycle sales (%YoY)	7.3	0.7	-0.5
Euro	0.862	0.851	-1.24	Manufacturing PMI	Sep	Aug	Chg (bps)
Japanese Yen	151.9	148.0	-2.62	USA	52.0	53.0	-100
Chinese RMB	7.125	7.118	-0.09	Eurozone	49.8	50.7	-90
Indonesia Rupiah	16,590	16,588	-0.01	Japan	48.5	49.7	-120
Capital Mkt	21-Oct	-1 mth	Chg (%)	China	51.2	50.5	70
JCI	8,238.1	8,051.1	2.32	Korea	50.7	48.3	240
DJIA	46,924.7	46,315.3	1.32	Indonesia	50.4	51.5	-110
FTSE	9,427.0	9,216.7	2.28				
Nikkei 225	49,316.1	45,045.8	9.48				
Hang Seng	26,027.6	26,545.1	-1.95				
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)				
Stock	3,846.5	3,760.3	86.20				
Govt. Bond	912.8	1,213.4	-300.66				
Corp. Bond	4.1	4.5	-0.40				

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	16,461
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

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Agus Salim Hardjodinoto
Head of Industry and Regional
Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Jennifer Calysta Farrell
Economist / Analyst
jennifer_farrell@bca.co.id
+6221 2358 8000 Ext: 1082423

Victor George Petrus Matindas
Head of Banking Research and
Analytics
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

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

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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