GLOBAL MARKETS RESEARCH

Indonesia

17 September 2025

BI cuts by 25bps, in an 'all out pro-growth' move

- Bank Indonesia (BI) cut its policy rate by 25bps, against consensus and our expectations of a hold, at its 17 September meeting.
- Poor transmission of past rate cuts and currency pressures did not hinder BI's growth focus. In fact, BI noted that it is "all out pro-growth".
- We add another 50bps of rate cut to our profile considering BI's clearly dovish bias. We now expect the policy rate to be 4.25% by end 2025.

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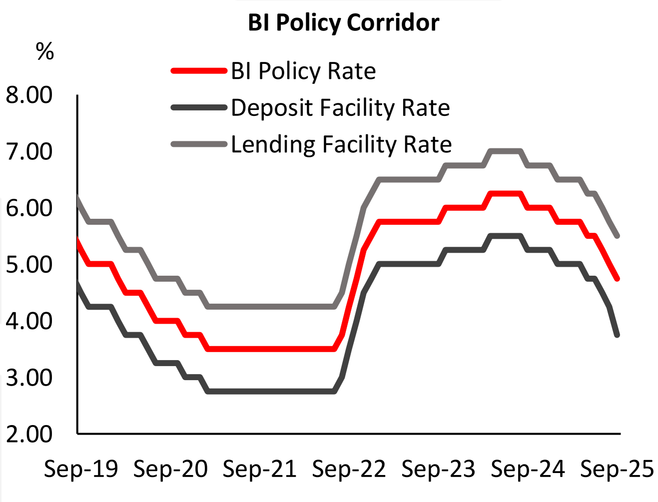
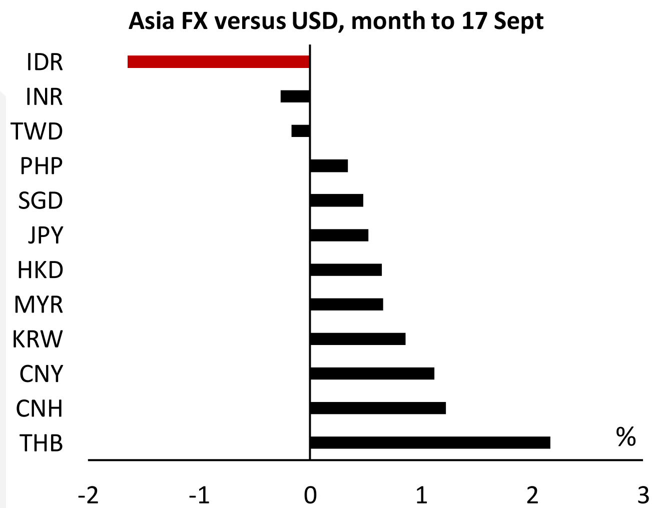
BI delivered its third consecutive 25bps rate cut at its 17 September meeting, surprising consensus and our expectations of no change, taking the policy rate to 4.75%. BI has cut the policy rate by a cumulative 125bps so far in 2025 in a bid to support economic growth momentum. The 25bps rate cut today was also likely supported by BI's expectation that the US Federal Reserve will deliver a 25bp rate cut at its 17 September FOMC meeting, containing IDR depreciation pressures. IDR depreciated 1.64% versus USD in the last month, underperforming regional peers.

Importantly, BI adjusted the monetary policy corridor to make it asymmetric. The deposit rate was lowered by 50bps to 3.75% while the lending rate was lowered by 25bps, similar to the policy rate. BI, in its investor conference call following the rate decision, explained that this move was intended to support liquidity conditions, against a backdrop of manageable inflation. BI is also looking to boost liquidity through a 'measured reduction in Bank Indonesia Rupiah Securities (SRBI) and the purchase of Government Securities (SBN) in the secondary market.' These will complement BI's macroprudential policies geared towards the same objective.



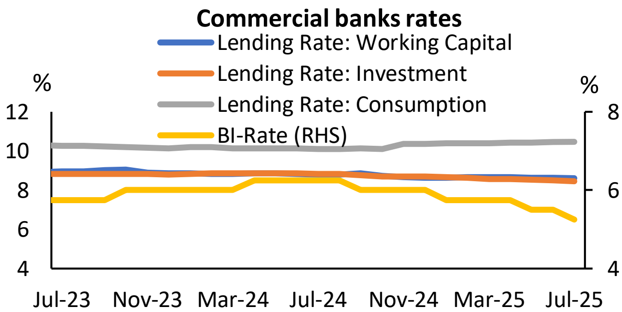
Source: Bank Indonesia, CEIC, OCBC



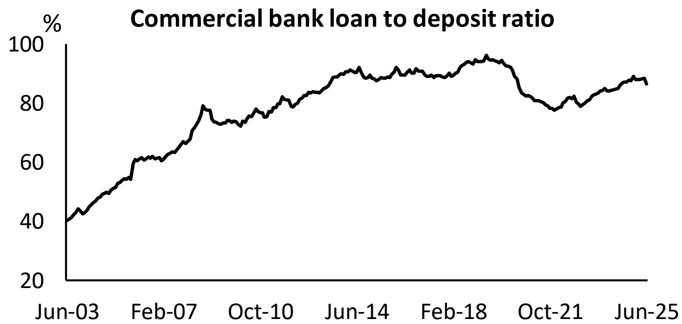
Source: Bloomberg, OCBC.

BI Governor Perry Warjiyo stated in no uncertain terms that policy would be 'all out pro-growth' and directed towards pushing economic growth. BI's rate cut will complement the government's efforts to the same end. The newly appointed finance minister, Purbaya Yudhi Sadewa, transferred IDR200trn into five state owned banks – BRI (55trn), BNI (IDR55trn), Mandiri (IDR55trn), BTN (IDR25trn), and BSI (IDR10trn) – to boost lending and growth. In addition, fiscal support worth IDR7trn has been earmarked for rice aid in the months of October and November, alongside tax exemptions, and cash aid for 20,000 fresh graduates for 6 months. BI maintained that 2025 GDP growth would come in 'above the midpoint of 4.6-5.4%' forecast range.

The success of recently announced government policies and BI rate cuts hinges on a few factors. For the government, the perception that prudent fiscal policies are the cornerstone of budget reallocations and broader growth supportive measures will lend credibility to the decision-making process. From BI's perspective, the pass through of lower policy rates onto retail lending rates has been poor. In fact, retail lending rates for working capital, investment and consumption loans have been quite sticky since the start of 2025. In addition, the lower loan-to-deposit rate suggests that liquidity may not be as much of a constraint as demand for loans. The latter will also constitute a challenge for domestic banks trying to increase disbursements.



Source: CEIC, OCBC.



Source: CEIC, OCBC.

Looking ahead, BI has clearly left the door open for further rate cuts. We add another 50bps in rate cuts from BI for the remainder of the year, taking the policy rate to 4.25% by end-2025. Lower interest rates will be supported by headline inflation, remaining at BI's 1.5 to 3.5% target range. That said, we expect headline inflation to rise in the coming months to 3.0% YoY from Sep-Dec 2025 from 1.5% Jan-August 2025. Meanwhile, the timing of the rate cuts will be subject to IDR moves. To that end, BI noted that it will continue to stabilise the IDR "in line with fundamentals" and that it will maintain macroeconomic stability.

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