Indonesia

18 June 2025

BI on hold, keeps door open for more easing

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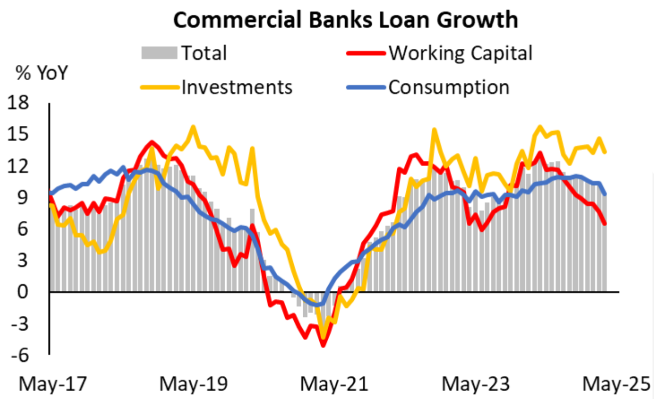
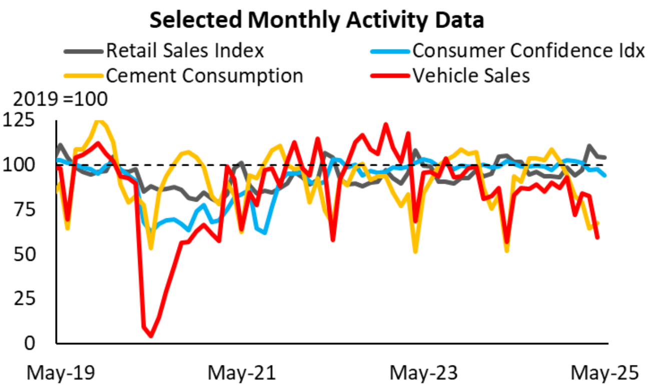
- Bank Indonesia (BI) kept policy rate at 5.50% at its 18 June meeting, following a 25bp cut at its 21 May meeting, in line with consensus and our expectations.
- BI kept its growth outlook unchanged from its previous meeting even as loan growth slowed further in May 2025.
- The tone of policy statement and press conference was dovish, with BI noting that it will look for room to ease further. Our baseline is for another 25bp rate cut for the remainder of 2025.

Bank Indonesia (BI) kept its policy rate unchanged at 5.50% at its 18 June meeting, in line with consensus and our expectations. This follows a 25bp rate cut by BI at its 21 May meeting. The pause at this meeting comes against a backdrop of heightened geopolitical tensions even as BI looks to assess the impact of earlier easing. BI stance remained dovish, as Governor Perry Warijiyo reiterated that BI would "continue to monitor the scope for reducing the BI rate to support economic growth".

On the global front, BI highlighted renewed geopolitical tensions and evolving US tariff negotiation outcomes as key risks to its 2025 global growth forecast of 3.0%. As such, BI acknowledged that uncertainty remains elevated. BI expects the US Federal Reserve to begin easing in 2H25; this was cited by Governor Perry as a potential factor supporting future domestic easing.



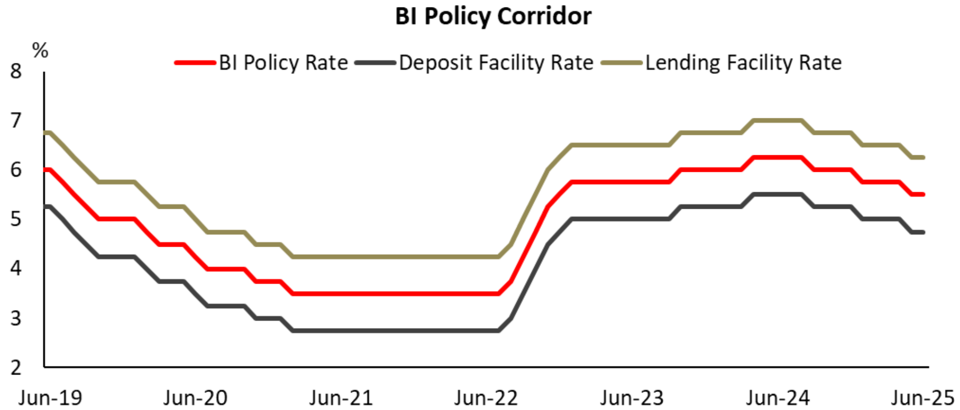
Source: OJK, BI, CEIC, OCBC



Source: Bank Indonesia, GAIKINDO, Indonesia Cement Association, CEIC, OCBC.

On the domestic front, BI maintained its growth forecast of 4.6%–5.4% in 2025, as well as its forecasts for inflation (1.5%–3.5%) and the current account deficit (0.5% to 1.3% of GDP). Interestingly, BI sounded relatively upbeat about 2Q25 growth prospects on account of higher non-oil and gas exports from front-loading to the

US, the additional (13th) month salary disbursement, and social spending support from the government. Nonetheless, incoming data activity data for 2Q25 has remained notably weak. Specifically, credit growth softened further to 8.4% in May 2025 from 8.9% in April. Governor Perry Warjiyo urged banks to lower their lending rates to boost loan growth, in line with his 8%–11% target for 2025.



Source: Bank Indonesia, CEIC, OCBC

Our baseline is for an additional 25bp rate cut for the remainder of the year. The pace of rate cuts will be slow and considered rather than rapid, given BI's objective of balancing economic growth and macro stability. IDR remained broadly stable, appreciating 0.9% versus USD, since the 21 May meeting. Narrower interest rate differentials to the US, still skittish risk sentiment and a higher than usual degree of uncertainty will keep BI vigilant of IDR depreciation risks. That said, should IDR appreciation trends look more durable into 2H25, BI could be opportunistic in delivering more rate cuts than is pencilled into our baseline.

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