Indonesia

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BI's opportunistic dovish deluge

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- Bank Indonesia (BI) delivered a 25bp rate cut at its 21 May meeting and complemented it by further easing certain macroprudential measures.
- BI reduced its 2025 GDP growth and loan growth forecasts. BI's mid-point forecast for 2025 GDP growth at 5.0% still higher than our forecast of 4.7%.
- Our baseline is for another 25bp rate cut for the remainder of the year. We expect BI could cut by more if the opportunity presents itself.

Bank Indonesia (BI) lowered its benchmark rate by 25bp to 5.50% on Wednesday (21 May), in line with expectations (Consensus & OCBC: 5.50%). The confirmation of slowing growth momentum underscored in the 1Q25 GDP print (4.9% YoY versus 5.0% in 4Q24) and the recent appreciation of IDR versus USD (~2.6% since BI's 23 April meeting) provided BI with room to lower its policy rate.

Complementing the lower policy rate, BI eased certain macroprudential policy tools to further support growth. These changes will be effective 1 June 2025. Specifically, BI raised the Foreign Funding Ratio (RPLN) to 35% from 30%. This refers to the ratio of short-term liabilities to bank capital. A higher ratio allows banks greater flexibility in increasing short-term liabilities, i.e. foreign funding sources. BI also reduced the macroprudential liquidity buffer[1] (PLM) ratio by 100bps to 4% for conventional commercial banks, allowing for banks to hold less in liquid assets as reserves and encourage lending.

The policy rate cut and looser macroprudential measures were supported by BI's downgrades to its 2025 GDP and loan growth forecasts. BI lowered its 2025 GDP growth forecast to a range of 4.6-5.4% (average 5.0%) from 4.7% - 5.5% (average 5.1%) previously. This is despite BI turning more optimistic about the global economy following the 90-day tariff agreement between the US and China; BI modestly revised higher its 2025 global growth forecast to 3.0% from 2.9%. This suggests that the drag to economic growth is mainly from domestic demand while risks on the external front persist.

[1] The MPLB requires banks to hold a certain percentage of their rupiah deposits as liquid assets (e.g., government securities) to meet BI's liquidity buffer requirements.

Notable macroprudential measures announced in 2025					
Measures	**Jan-25**	**Feb-25**	**Mar-25**	**Apr-25**	**May-25**
Macroprudential Liquidity Incentive Measures	400bp maximum. *No change from previous meeting.*	-	Raised to a maximum of 5% (500bps) from 4.0% previously.	-	-
Loan/Financing Ratio and Downpayment requirements	100% LTV/FTV, and 0% for down payment, effective 1 Jan 2025* *No change from previous meeting.*	-	-	-	-
Countercyclical Capital Buffer	0%. *No change from previous meeting.*	-	-	-	-
Macroprudential Liquidity Buffer/ Sharia Macroprudential Liquidity Buffer	5%. *No change from previous meeting.*	-	-	-	Lowered to 4.0% from 5.0% for conventional banks, and to 2.5% from 3.5% for syariah banks.
Bank Foreign Funding Ratio	30%. *No change from previous meeting.*	-	-	-	Raised to a maximum to 35% from 30%.

Source: Bank Indonesia, OCBC.

For loan growth, BI lowered its 2025 loan growth forecast to a range of 8% - 11%, down from 11% - 13% previously. Loan growth has slowed in 2025 so far to 8.9% YoY in April from 9.2% in March and 10.3% in January. BI noted that commercial banks' lending rates remained "relatively high" at 9.19% in April, similar to 9.20% in January. Governor Perry Warijiyo encouraged banks to lower lending rates "to support higher economic growth."

BI's watchfulness of policy action from the US Federal Reserve will continue, albeit assuming marginally reduced significance given choppy USD price action. BI still expects the Fed to cut its policy rate two more times this year (potentially September and December), which gives it some leeway for lower rates during the remainder of the year. Meanwhile, domestic inflationary pressures remain in check although headline inflation has risen back to within BI's 1.5-3.5% target range in April as the impact of electricity discounts in January/February faded.

We see the bias for monetary policy as focussed on growth risks. With GDP growth likely to slow to 4.7% YoY in 2025 by our forecasts, we see room for BI to deliver on additional rate cuts. Our baseline is for an additional 25bp rate cut for the remainder of the year. We expect BI will remain opportunistic and cut by more if rupiah stability can be upheld for longer periods of time.

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