Indonesia

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Bank Indonesia stands pat amid shaky sentiment

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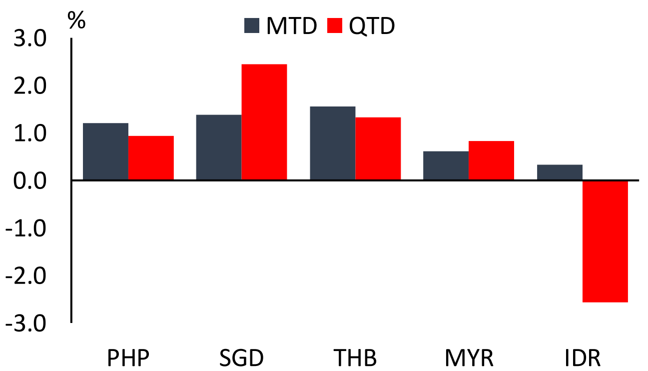
- Bank Indonesia (BI) held its policy rate unchanged at 5.75%, in line with consensus but against our expectations.
- We still see room for BI to lower its policy rate by 25bp this year, but the timing is less certain.
- This suggests that BI's trade-off between growth and IDR stability could become more acute in the coming months.

BI kept its policy rate unchanged at 5.75%, in line with consensus but against our expectations of a 25bp rate cut. We had expected growth considerations to take precedence but that was not to be.

BI's focus remained on IDR stability, even as sentiment remains shaky, following the Jakarta Composite Index hitting an intra-day circuit breaker on 18 March. BI noted that the stock market witnessed "a major correction…influenced by global economic sentiment" and that "Indonesian assets remain fundamentally attractive".

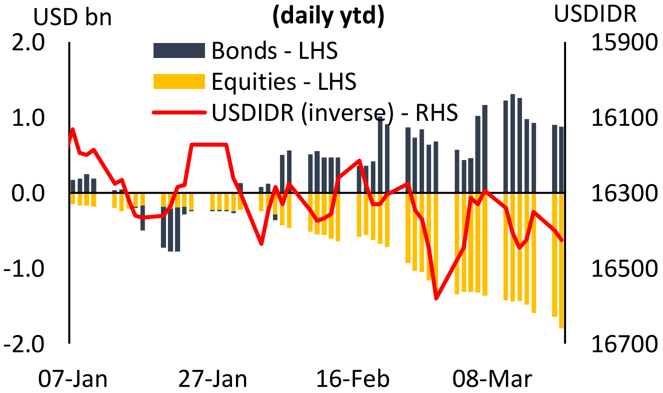
BI's expectation regards to most key variables was unchanged relative to its previous meeting on 19 February. BI still expects the US Federal Reserve to cut its policy rate one time, likely in 2H25. BI's assessment on global and domestic growth was broadly unchanged from its previous meeting. Governor Perry Warjiyo noted that global uncertainty remains high on account of potential US tariffs but maintained that domestic economic growth would hold within the 4.7-5.5% forecast range.

Selected ASEAN FX performance againts USD



Note: Last updated: 19 March 2025, 16.10 SGT.
Source: Bloomberg, OCBC.

USDIDR and net foreign purchase (daily ytd)



Source: Bloomberg, OCBC.

While the currency, IDR, was under pressure the past month, and underperformed regional peers, even before 18 March, the macroeconomic fundamentals including twin deficits, weakening growth, and domestic policy uncertainties may not do IDR any favours. Moreover, the external backdrop remains uncertain. Our house view is that risks of broadening tariff war may potentially weigh on global growth, trade, undermine market sentiment in the short term.

This suggests that BI's trade-off between growth and IDR stability could become more acute in the coming months. Growth momentum is likely slowing, as corroborated by high frequency data activity. We reduced our 1Q25 GDP growth forecast to 4.8% YoY and for 2025, we expect GDP growth forecast of 4.9% YoY versus 5.0% in 2024.

We still see room for BI to lower its policy rate by 25bp this year, but the timing is less certain. We had seen merit in delivering the cut sooner rather than later to counter downside risks to growth, but BI continues to place greater emphasis on external risks.

BI is likely waiting for a better time to deliver rate cuts, but this is not without risk. The risk is that BI is perceived as doing 'too little, too late' particularly if rate cuts are seen as a reaction to weaker data or sentiment moves. Moreover, there is limited clarity on the window of opportunities for rate cuts, leaving BI's decision more focused on external developments rather than the more fundamental growth-inflation-sentiment nexus.

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