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Global Economics & Market Strategy

Indonesia: BI-Rate Cuts Expected to Resume in June

- **We maintain our forecast that Bank Indonesia (BI) will implement three additional 25-bps rate cuts in 2025—one per quarter—bringing the benchmark interest rate to 5.00% by year-end.**
- **Our policy rate trajectory outlook is driven by three key factors: (1) the IDR stability, (2) economic growth momentum, and (3) a stabilised inflationary trend.**
- **Bank Indonesia maintain the benchmark interest rate unchanged at 5.75% in the March policy meeting, in line with our expectations and the Bloomberg consensus forecast.**

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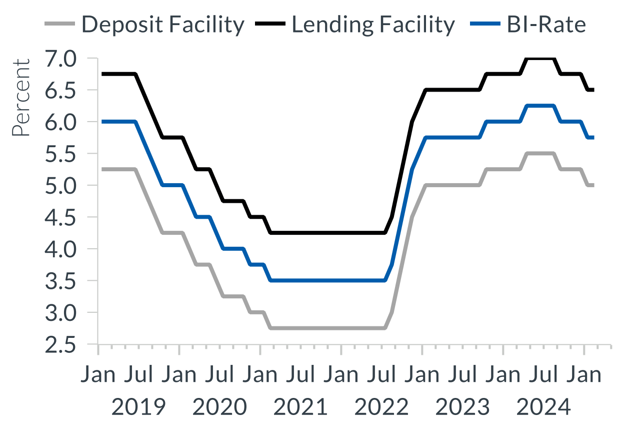
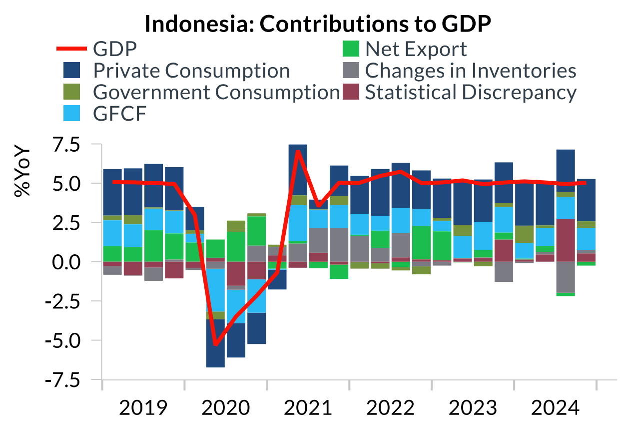
Figure 1: Bank Indonesia maintain the policy rate unchanged in the March meeting...



Source: Macrobond, RHB Economics & Market Strategy.

Figure 2: ... while the growth momentum still depends on both fiscal and monetary support to stimulate growth further



Source: Macrobond, RHB Economics & Market Strategy.

BI-Rate Forecast is Maintained at 5.00% in Year-End

We maintain our forecast that Bank Indonesia (BI) will implement three additional 25-bps rate cuts in 2025—one per quarter—bringing the benchmark interest rate to 5.00% by year-end. Our policy rate trajectory outlook is driven by three key factors: (1) the IDR stability, (2) economic growth momentum, and (3) a stabilised inflationary trend. Our key takeaway from today's policy announcement is that BI's stance remains slightly dovish, leaving room for further cuts to support economic growth momentum. However, rising financial market uncertainty has prompted a pause in easing measures to preserve financial and exchange rate stability.

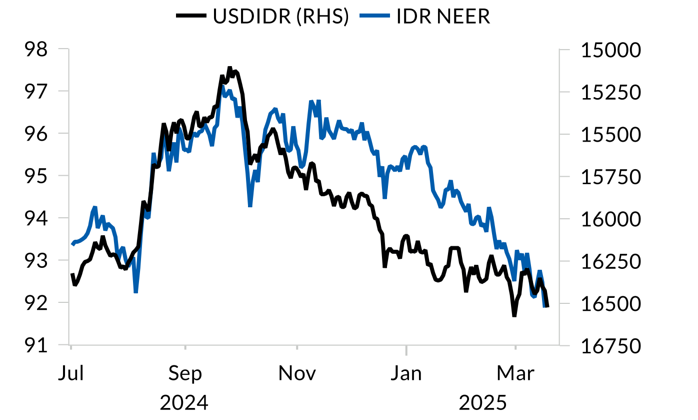
From a currency perspective, we observe a growing divergence between the strength of the DXY and the IDR level, as the latter's weakness appears to be driven more by domestic idiosyncratic risks than by the US Dollar itself. Notably, the DXY has softened sharply to 103–104 from its earlier average of 107–108 in February. This trend is partly attributable to escalating trade tensions among major economies, with Trump's protectionist policies fuelling concerns over US growth prospects and expectations of higher US inflation. On the domestic front, Indonesia's financial markets have been under pressure since early February, driven by a continuous sell-off of equity instruments as foreign investors shift toward safe-haven assets. Furthermore, a delayed fiscal update in February revealed an unusual early-year budget deficit and a 20% decline in YTD state revenue, amplifying market concerns and contributing to a sell-off that pushed the JCI index down to 6,200 in yesterday's close. Given the current financial market conditions, we anticipate that BI will likely resume its easing cycle in June, as maintaining the policy rate unchanged in the near term would be a more prudent approach. This delay would allow markets additional time to digest domestic fiscal developments and gain more clarity on US tariff policies.

We see a greater need for support from both fiscal and monetary fronts to stimulate economic growth further. Bank Indonesia's sentiment on growth has turned more cautious, citing that "Household consumption remains stable, although it needs to be continuously encouraged to leverage consumer confidence, supported by government spending related to the distribution of holiday allowances (THR) and social spending, as well as a seasonal increase in demand ahead of the Eid al-Fitr festive period." This statement signals weaker-than-usual sentiment during Ramadan and Eid, which typically experience strong seasonal effects. The weakening purchasing power is also reflected in Bank Indonesia's Consumer Confidence Index (CCI), which edged down to 126.4 in February from 127.2 in January 2025. Furthermore, mass layoffs in the manufacturing sector have further dampened consumer optimism. Manpower Ministry recorded 77,965 job losses in 2024, with 22% occurring in Jakarta alone. In early 2025, at least six manufacturing companies conducted mass layoffs, affecting approximately 16,000 workers. In our view, a key driver of Indonesia's growth this year is government spending, particularly social aid and Prabowo's signature free meal program. However, the utilisation of these allocated funds remains lower than expected. While the year-end target aims to cover 83 million eligible recipients, only 3 million recipients have benefited as of February 2025. Additionally, we observe a decline in ministerial spending in the YTD February fiscal update. Prabowo has instructed ministries to optimise spending to reallocate funds toward the free meal program and the newly established sovereign wealth fund, Danantara. If these funds are not fully utilised within the stated period, we may see downside risks to Indonesia's growth outlook 2025, as the expected fiscal multiplier effect may not materialise fully.

Indonesia's inflation trajectory remains supportive of further rate cuts, as softer consumer price levels create additional policy space for easing. We have recently revised our 2025 headline inflation forecast downward to 2.00% YoY from our previous estimate of 3.00% YoY. This revision is driven primarily by significant downside pressure from recent government policy adjustments. Notably, these adjustments include a diminished likelihood of subsidy reform—Minister of Energy and Mineral Resources Bahlil Lahadalia confirmed that fuel subsidies will remain in place for this year while leaving open the possibility of phasing out the program by 2027—complemented by a 50% electricity tariff discount targeting 81.4 million households. Consequently, the Headline CPI's Housing, Water, Electricity, and Other Fuel subcategories have declined sharply, leading to the February print's lowest headline inflation reading in more than two decades. Beyond the policy landscape, we anticipate that demand-pull inflation will remain modest, following typical seasonal trends with no significant deviations expected. Since core inflation excludes government-administered prices and volatile food products, these adjustments have little impact on the core CPI. Moreover, core inflation is closely tied to seasonal factors, with household demand increasing during festive periods. Accordingly, we expect core inflation to build ahead of the Lebaran festivities, followed by moderation afterwards, as illustrated by historical trends. With these dynamics in place, we expect demand-pull inflation to remain stable throughout the year, hovering around 2.4% YoY.

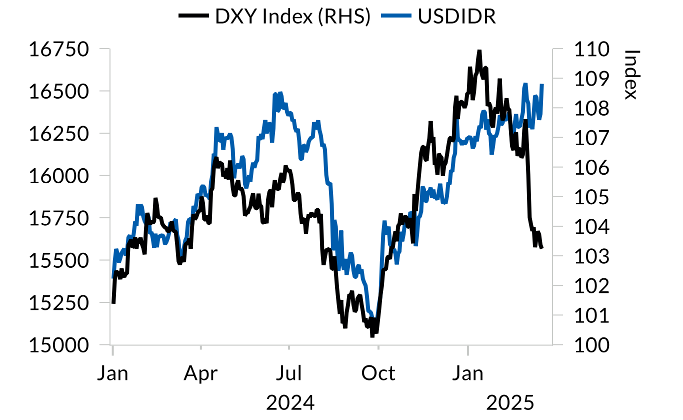
Bank Indonesia maintain the benchmark interest rate unchanged at 5.75% in the March policy meeting, in line with our expectations and the Bloomberg consensus forecast. Following the announcement, the IDR level remains relatively muted at 16,525 per USD. Bank Indonesia Governor Perry Warjiyo indicated that the decision is consistent with efforts to keep inflation within the target range of 1.5–3.5%, stabilise the rupiah in line with fundamentals amid persistent global uncertainty, and support economic growth.

Figure 3: Both USD-IDR and IDR NEER suggest a continuous depreciation of IDR…



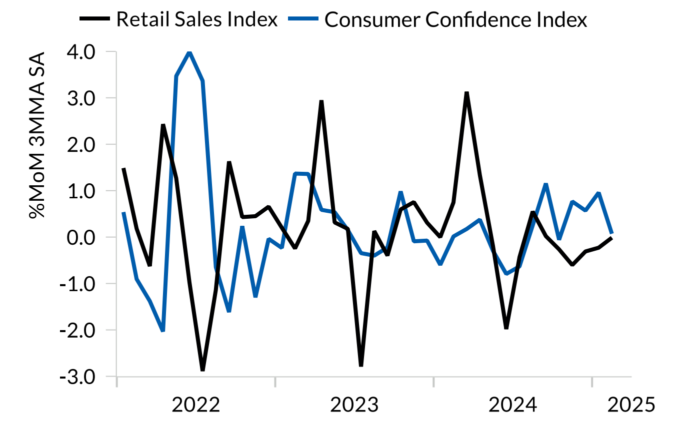
Source: Macrobond, RHB Economics & Market Strategy.

Figure 4: …which the weakness has shifted more toward domestic idiosyncratic risk rather solely due to DXY strength as DXY level has eased to 103-104 level



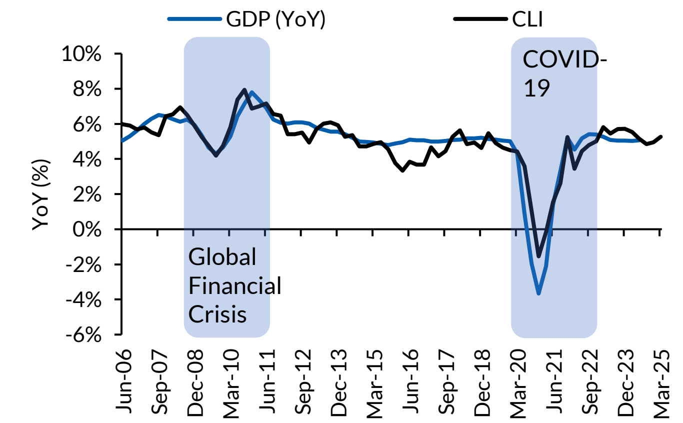
Source: Macrobond, RHB Economics & Market Strategy.

Figure 5: The concerns arising on the prolonged economic slowdown have reaccelerated



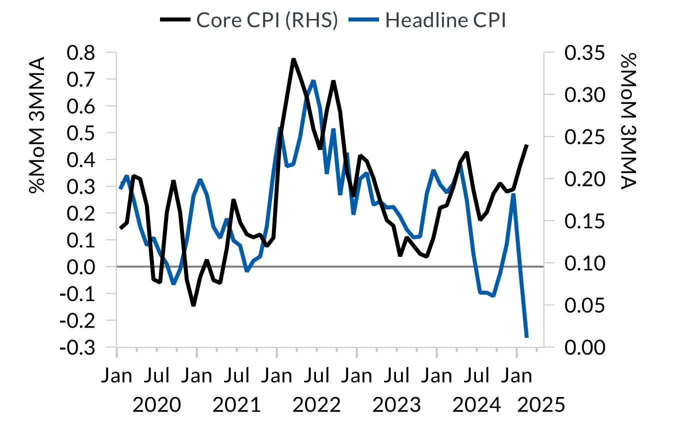
Source: Macrobond, RHB Economics & Market Strategy.

Figure 6: Our leading indicator model still points to a resilient print for 1H25



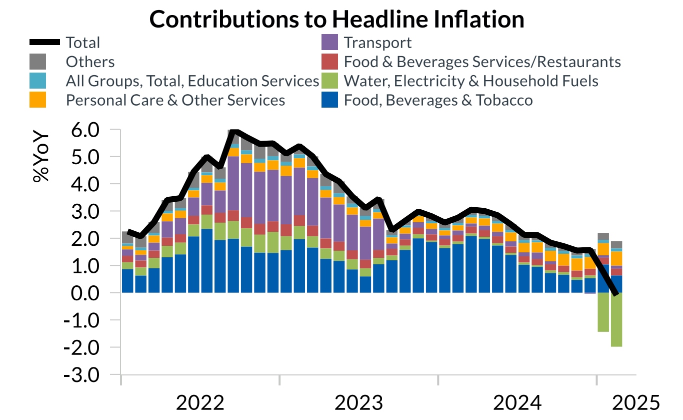
Source: CEIC, RHB Economics & Market Strategy.

Figure 7: We see room for further rate cuts as the inflation momentum remains subdued…



Source: Macrobond, RHB Economics & Market Strategy.

Figure 8: …leading by a disinflationary trend in the headline CPI and moderate core inflation print



Source: Macrobond, RHB Economics & Market Strategy.

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