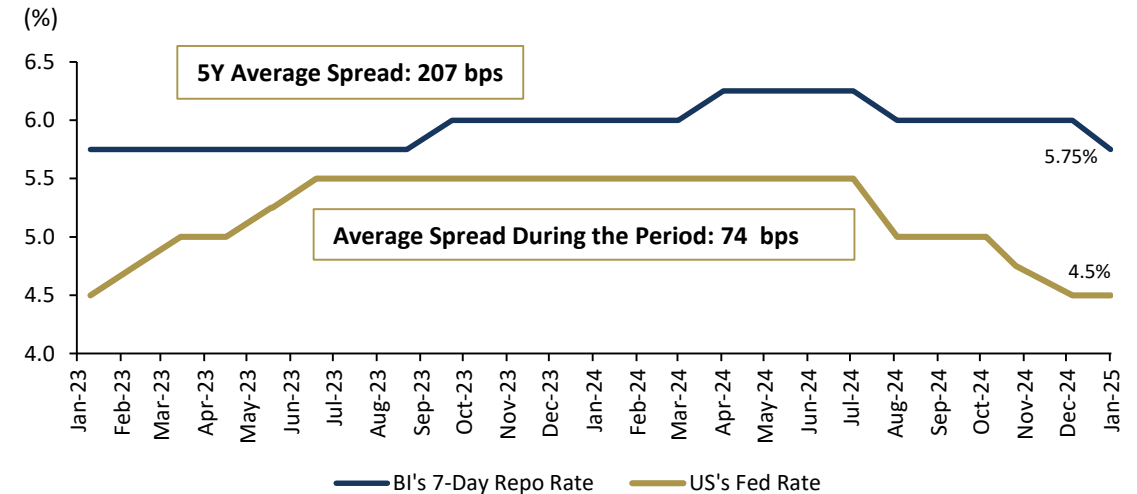


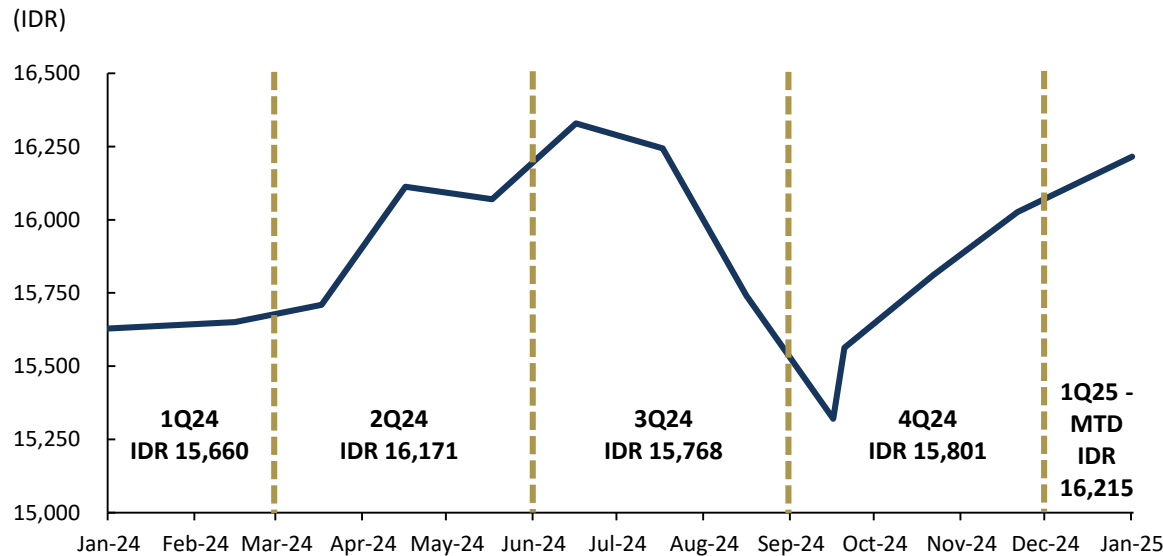
BI's 7-Day Repo Rate: 15 January 2025

- Bank Indonesia (BI), armed with the all-time high forex reserves of USD 155.7 bn, unexpectedly lowered its benchmark interest rate by 25 bps to 5.75% during its January 2025 meeting, defying market expectations of a pause. The move highlights the central bank's multifaceted strategy to address global and local uncertainties. By easing monetary policy, BI aims to stimulate domestic economic growth, a move that has already generated positive sentiment, as evidenced by an uptick in the stock market following the announcement. The decision also seeks to alleviate pressure on the bond market, where the 10-year government yield has reached 7.4%.
- However, the rate cut poses potential risks for Indonesia, particularly the possibility of weaker IDR coupled with capital outflows as the interest rate spread with the Federal Reserve's fund rate becomes smaller. Additionally, rising tensions in the US 10-year Treasury yield—driven by strong US economic data and persistent inflation pressures linked to factors like tariffs and fiscal expansion—could further strain emerging markets like Indonesia.
- While this pro-growth stance could provide much-needed boost to the economy, the timing adds complexity to broader economic outlook. This policy shift comes at a time when IDR is already under pressure from external forces, particularly US Treasury yields. Persistently high US yields remain a downside risk for the local currency, as higher returns abroad could divert capital from Indonesia. Although the central bank's dovish stance aims to spur economic momentum, it risks exacerbating currency pressures and hence, imported inflation ahead.
- Looking ahead, the Fed may maintain the status quo by refraining from a rate cut this year, given Trump's various inflationary policies, including intensified trade wars, particularly with China. Consequently, the IDR may weaken further on declining commodity prices amid global economic slowdown, while tax revenue shortfall could widen due to weak purchasing power, exacerbating Indonesia's twin-deficit problems.

Fed Rate vs BI's Rate



Quarterly USD/IDR Rate 1Q24 – 1Q25 MTD



Monthly FX Reserves

