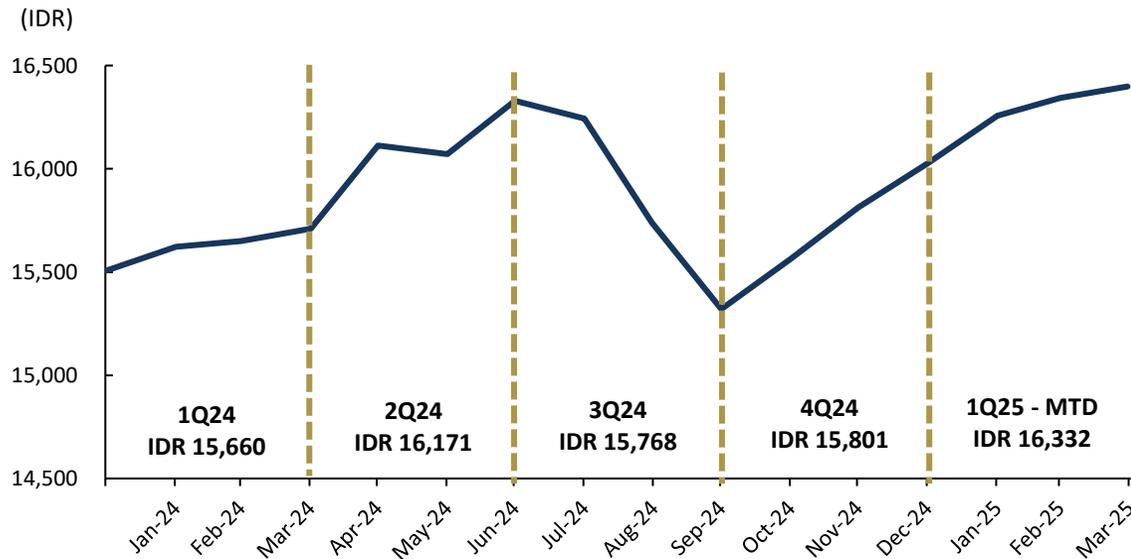


BI's 7-Day Repo Rate: 19 March 2025

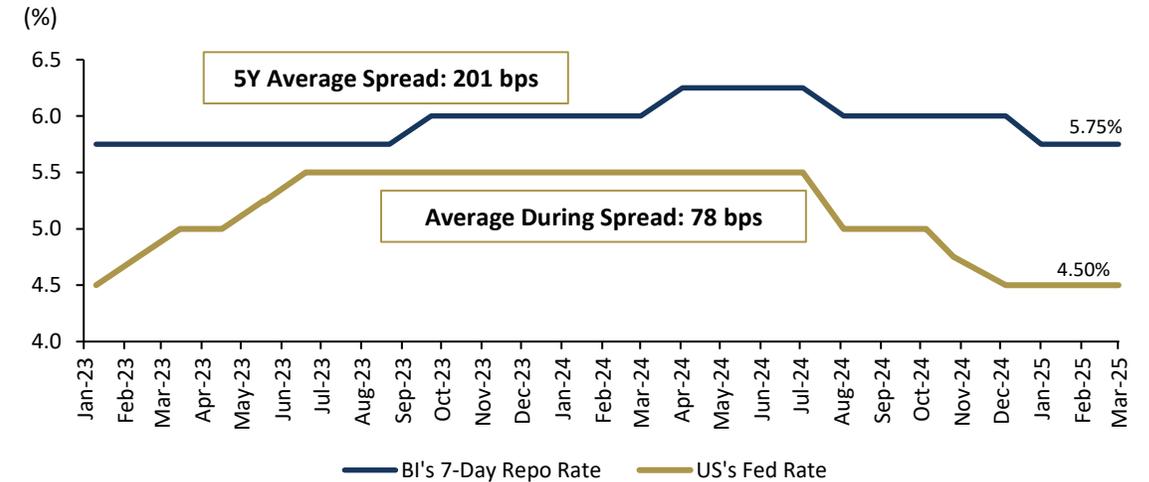
- In line with our expectation, BI decided to maintain its benchmark interest rate at 5.75% in its Mar-25 meeting. This policy stance reflects the central bank's commitment to balancing multiple macroeconomic objectives—ensuring inflation remains within the 2.5±1% target range for 2025 and 2026, safeguarding the stability of the IDR, and sustaining economic growth amid persistent global uncertainties. The unchanged stance on the overnight deposit and lending facility rates at 5% and 6.5%, respectively, further reinforces BI's measured approach to monetary policy, aiming to maintain a conducive liquidity environment without fueling excessive inflationary pressures.
- The surprising deflationary trend in Feb-25, with consumer prices dipping to 0.09%—the first instance of deflation since March 2000—was largely driven by temporary factors such as the electricity tariff discount policy for specific household categories. While this suggests that inflationary pressures remain contained, it also raises concerns about subdued domestic demand and potential disinflationary risks if underlying economic activity fails to pick up in the coming months. However, BI is likely to view this as a short-term anomaly rather than a structural shift, keeping its focus on medium-term inflation expectations.
- We see that the monetary policy outlook remains data-dependent. If inflation remains muted and domestic economic momentum slows, BI may consider more accommodative stance later in the year, particularly if external conditions were to stabilize. However, with lingering uncertainties surrounding global monetary policies and capital flows, the central bank is likely to maintain a cautious stance to avoid excessive IDR volatility. Fiscal policy measures, including continued government stimulus and targeted subsidies, will also play a crucial role in shaping domestic demand and inflation dynamics in the months ahead.
- Looking forward, BI is likely to take a cautious and measured approach, closely monitoring inflation trends and global financial conditions. With inflation well within its target range, any potential adjustments to interest rates will largely depend on external factors, particularly shifts in global interest rates and capital flows. Given the likelihood that the Federal Reserve will maintain its current stance and refrain from rate cuts this year—partly due to inflationary pressures stemming from Trump's policies, including intensified trade tensions with China—global financial conditions may remain tight.
- As a result, the IDR could face further depreciation, particularly as declining commodity prices weigh on Indonesia's export revenues amid broader global economic slowdown. At the same time, weaker purchasing power may lead to lower tax revenues, exacerbating the country's twin-deficit concerns. These factors could apply additional pressures on BI to sustain its hawkish stance for an extended period.

Quarterly USD/IDR Rate 1Q24 – 1Q25 MTD

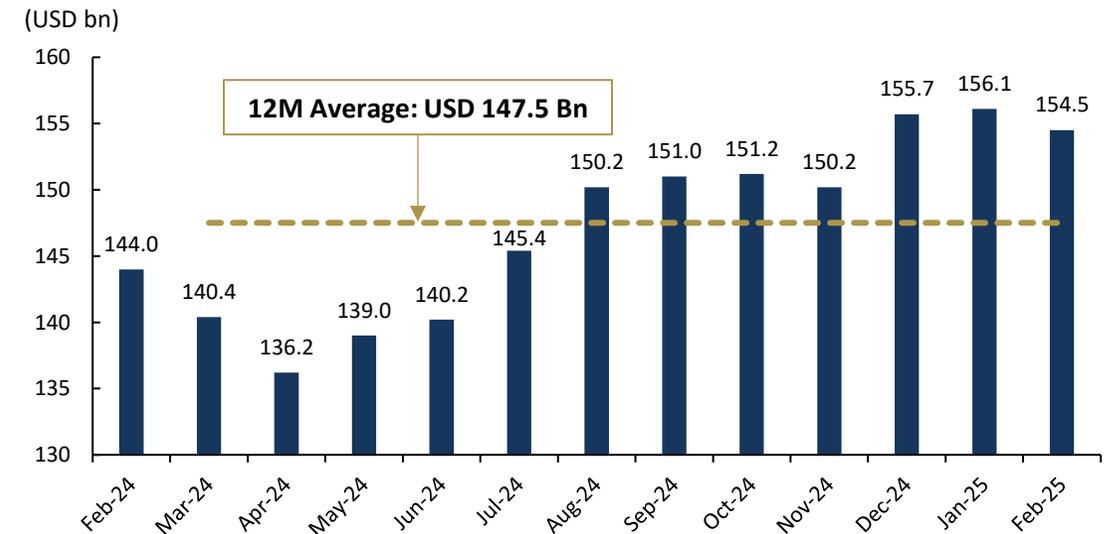


Sources: Bloomberg, Bank Indonesia, SSI Research

Fed Rate vs BI's Rate



Monthly FX Reserves



Analyst: Fithra Faisal