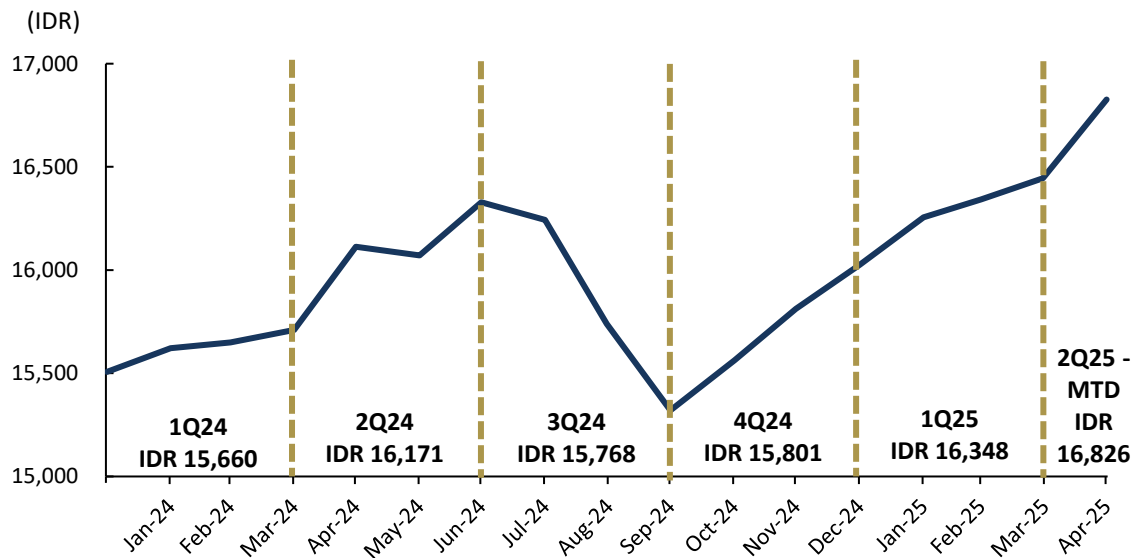


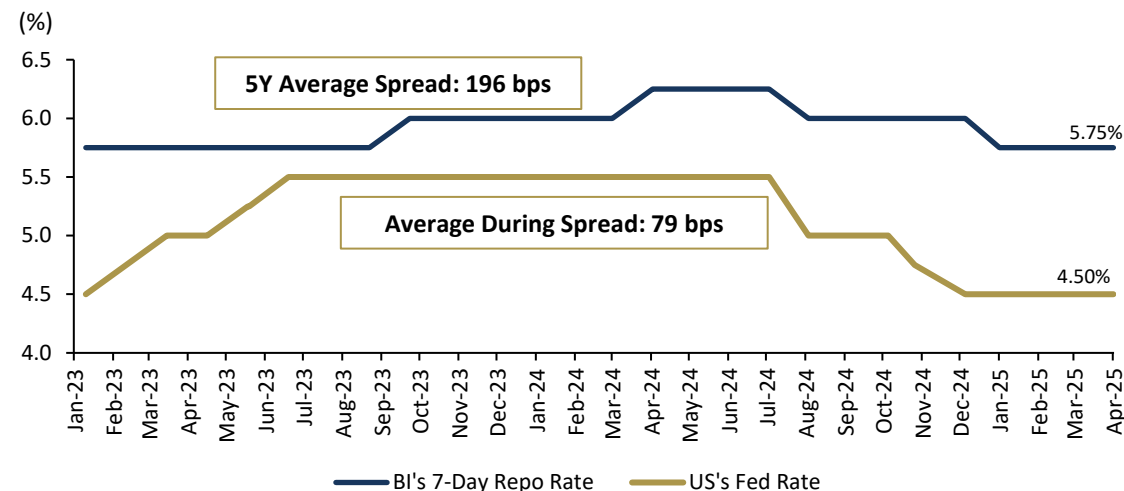
BI's 7-Day Repo Rate: 23 April 2025

- In line with our expectation, Bank Indonesia (BI) opted to keep its benchmark interest rate unchanged at 5.75% in its Apr-25 policy meeting, reinforcing its dual commitment to monetary stability and economic resilience. The central bank's stance reflects a delicate balancing act between anchoring inflation within its target corridor of 2.5% \pm 1% for both 2025 and 2026 and ensuring exchange rate stability amid a volatile global macro-financial landscape. The decision also underscores BI's ongoing support for economic growth without triggering capital outflows or weakening the currency.
- Recent inflation developments have added nuance to the policy outlook. After falling into negative territory in February, Indonesia's annual inflation rebounded to a three-month high of 1.03% in March. This bounce-back remains comfortably below the mid-point of BI's target, providing the central bank some policy space to remain accommodative if required. Nonetheless, the inflation trend will need to be watched closely in the coming months, particularly with potential imported inflation stemming from IDR depreciation and trade-driven supply pressures.
- On the currency front, in order to stabilize the IDR, which is currently under pressure, we propose a targeted monetary intervention aimed at bringing the exchange rate down to the IDR 16,500-16,600 level. Based on impulse response function (IRF) analysis, it is estimated that every USD 1 bn of foreign reserve injection can appreciate our local currency by approximately 100 IDR points. BI would need to inject approximately USD 4 bn into the foreign exchange market. A two-phased strategy is advisable. In the first phase (April), an immediate injection of USD 2 bn would serve as a strong signal to markets, anchoring expectations and reducing speculative pressures. The second phase (May) would involve a follow-up injection of USD 2 bn, contingent upon observed market developments, macroeconomic indicators, and behavior of capital flows.
- Moving forward, Bank Indonesia is expected to maintain its cautious bias. The prospect of a prolonged global high-interest-rate environment, coupled with ongoing geopolitical and trade tensions, suggests that BI will likely lean toward a data-dependent and risk-sensitive posture for the remainder of the year. Should external risks—such as further heightened trade war—increase, BI must be prepared to scale its interventions accordingly. Any further pressure on the IDR should be countered with 25 basis point hike in the first semester of the year to ensure local currency stability. We note that failure to anchor down the IDR, would also result in economic slowdown with similar effect of higher interest rates.

Quarterly USD/IDR Rate 1Q24 – 2Q25 MTD



Fed Rate vs BI's Rate



Monthly FX Reserves

