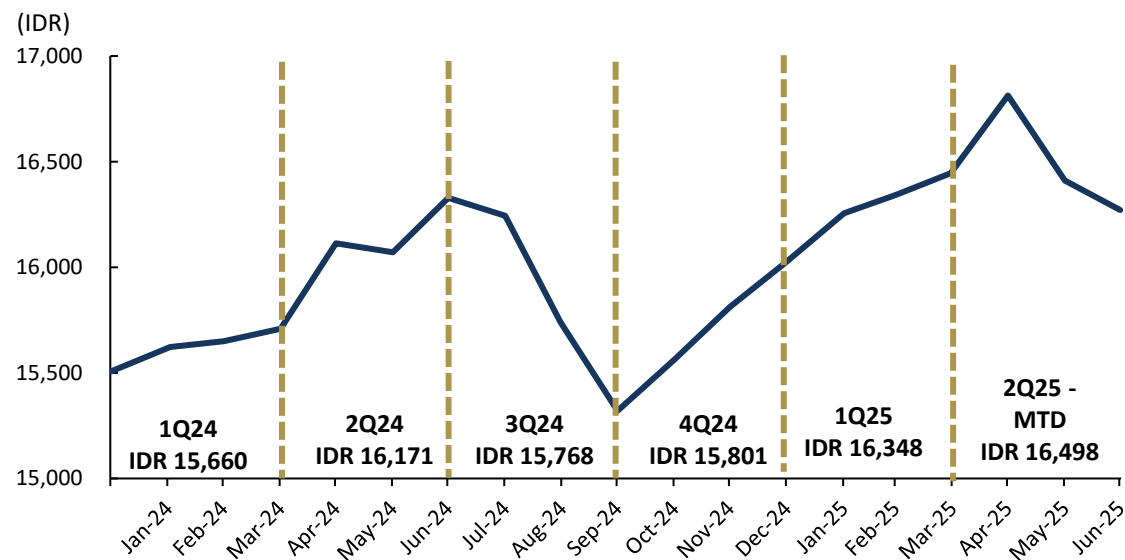


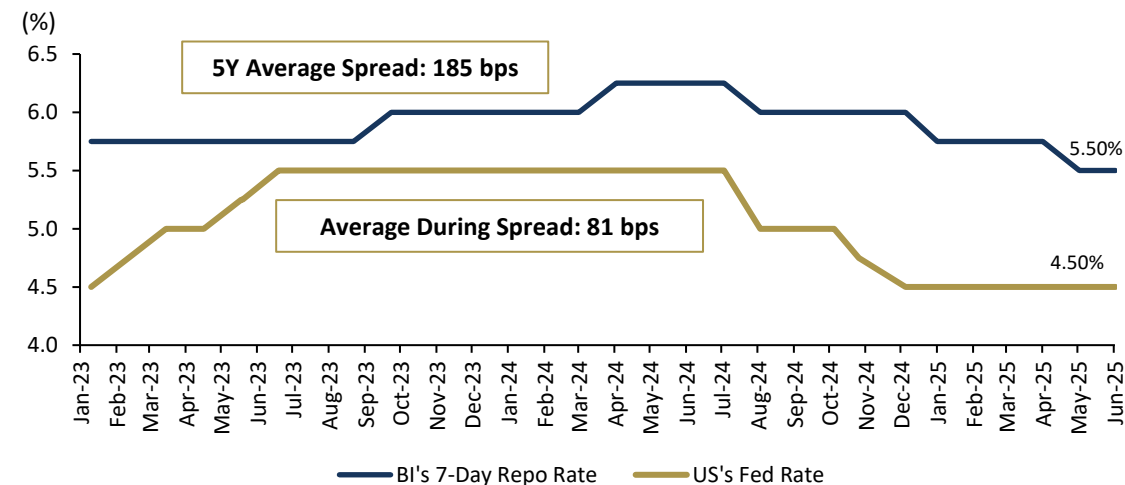
BI's 7-Day Repo Rate: 18 June 2025

- Inline with our expectation, Bank Indonesia (BI) maintained its benchmark 7-day reverse repo rate at 5.50% in its Jun-25 policy meeting, pausing after a 25 bps cut in May. Inflation in May eased to 1.60%, down from April's 1.95%, primarily due to seasonal normalization after the Eid al-Fitr holiday. This decline suggests soft underlying demand and contained cost-push pressures. However, inflation expectations remain sensitive to imported pressures, especially in the context of potential global supply chain disruptions.
- Although the Rupiah appreciated slightly—rising 0.06% on a point-to-point basis against the US dollar as of mid-June—and also strengthened against other major and emerging market currencies, risks of a widening current account deficit continue to loom in the 2nd half of 2025. This concern stems from a likely increase in capital goods imports, driven by accelerating infrastructure projects and a gradual pickup in domestic demand. At the same time, the current commodity price cycle—particularly for palm oil and coal—may not hold, as external demand begins to soften, potentially eroding the trade surplus that has supported external stability in recent quarters.
- At the same time, global risks have intensified, posing downside threats to emerging markets like Indonesia. The resumption of Israel-Iran hostilities has triggered renewed volatility in global oil and energy prices, raising concerns about imported inflation. Meanwhile, the re-emergence of U.S. tariff threats under Trump's second-term policy shift—targeting key Asian economies—may disrupt regional supply chains and affect Indonesia's trade balance and investment sentiment. Additionally, global capital markets remain on edge as uncertainty surrounds the U.S. Federal Reserve's monetary path. Although expectations for Fed rate cuts in late 2025 have firmed following softer CPI and PPI data, the timing and magnitude remain conditional on global geopolitical and fiscal developments forecast of 4.7%.
- Domestically, the impact of May's rate cut on credit transmission has been modest and sluggish, especially in banking sector. Lending rates have not adjusted downward proportionally, constraining stimulus effect on private sector borrowing. The slow response also raises the risk of misalignment between BI's monetary stance and actual credit conditions—reinforcing the central bank's decision to pause and reassess.
- Looking ahead, BI is expected to stay on hold in the near term, awaiting clearer signs of credit normalization, external stability, and inflation trajectory. While room remains for further easing—especially if global monetary policy begins to relax—BI must first ensure that prior rate cuts are effectively transmitted to the real economy. Risks of a widening current account, fragile global demand, and escalating geopolitical tensions argue for a prudent, data-dependent approach. Policy coordination with fiscal authorities will be critical to ensure that macroeconomic stimulus translates into inclusive and sustainable growth. BI's current posture reflects not only tactical patience, but also strategic prudence amid a fluid and uncertain global environment.

Quarterly USD/IDR Rate 1Q24 – 2Q25 MTD



Fed Rate vs BI's Rate



Monthly FX Reserves

