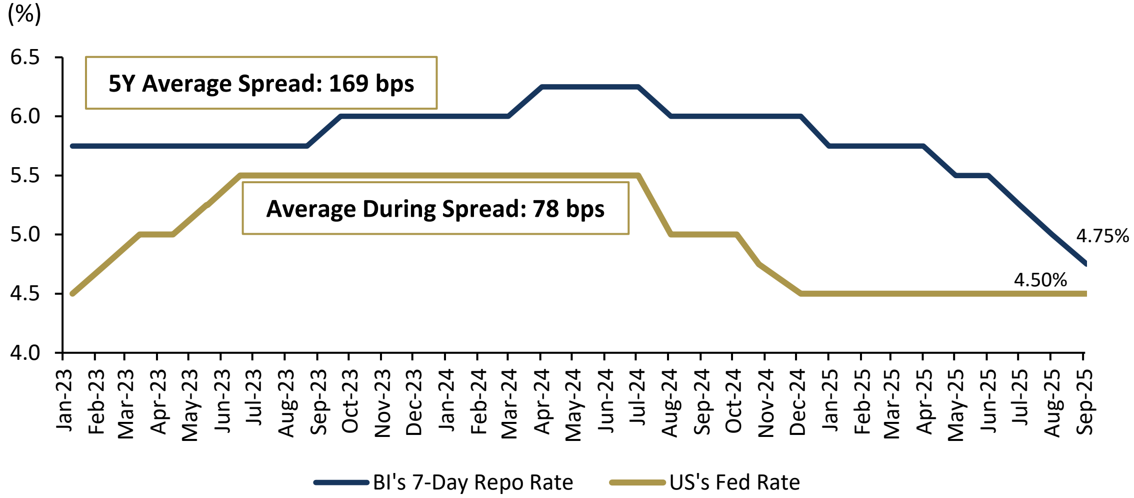
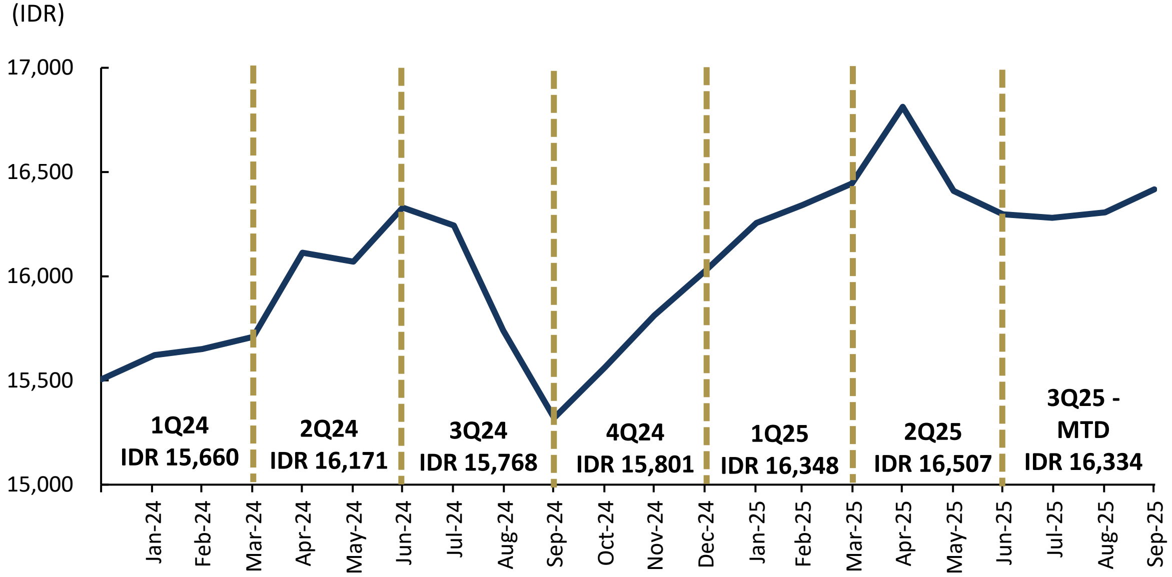
BI's 7-Day Repo Rate: 17 September 2025

- Bank Indonesia implemented a bold and unexpected move by cutting its benchmark interest rate by 25 basis points to 4.75% at its September 2025 meeting, coming at a time when markets had widely anticipated a hold at 5.0%. This latest cut, the third in as many months, brought the policy rate to its lowest level since October 2022 and extended a cycle of six reductions since last year. With GDP growth accelerating to 5.12% year-on-year in the second quarter—the fastest in two years—the central bank has judged that further monetary stimulus is warranted to sustain this momentum.
- The accompanying liquidity measures reinforce this accommodative stance with the overnight deposit rate cut by 50 basis points to 3.75% and the lending facility rate lowered to 5.50%. These steps are designed to inject more liquidity into the financial system, reduce funding costs for banks, and ultimately ease borrowing costs across the economy. Such a policy mix should stimulate credit growth in both consumer and corporate segments, providing an important boost to household spending and business investment at a time when global headwinds remain a risk factor.
- From a macroeconomic perspective, the rate cuts strengthen the growth outlook while inflation risks remain subdued. Lower financing costs are expected to underpin consumption, still the main driver of Indonesia's economy, while investment should benefit from improved access to cheaper credit. Inflation, meanwhile, is projected to stay comfortably within the 2.0–3.0% range, giving Bank Indonesia further policy space if needed. Nevertheless, the stability of the IDR remains a critical watchpoint, particularly amid persistent global dynamics. We note that in September the DXY has dropped from a recent peak of 98.4 to 96.8 while the USD/IDR has remained flat at above the 16.4K level, reflecting that our local currency has weakened against the USD.
- This monetary easing comes at a time when the government is also rolling out fiscal support through a IDR 16.23 tn stimulus package comprising 8 + 4 + 5 programs. At its core, this package targets the creation of 3.5 mn jobs, while also strengthening consumption through direct household support and enabling long-term transformation via supply-side programs. Financial markets are likely to respond positively, with equities supported by stronger domestic demand and bonds benefiting from lower yields. Overall, the combination of accommodative monetary policy and active fiscal measures suggests that Indonesia is well positioned to sustain growth above 5%, while shielding itself from global uncertainties through carefully managed policy mix.

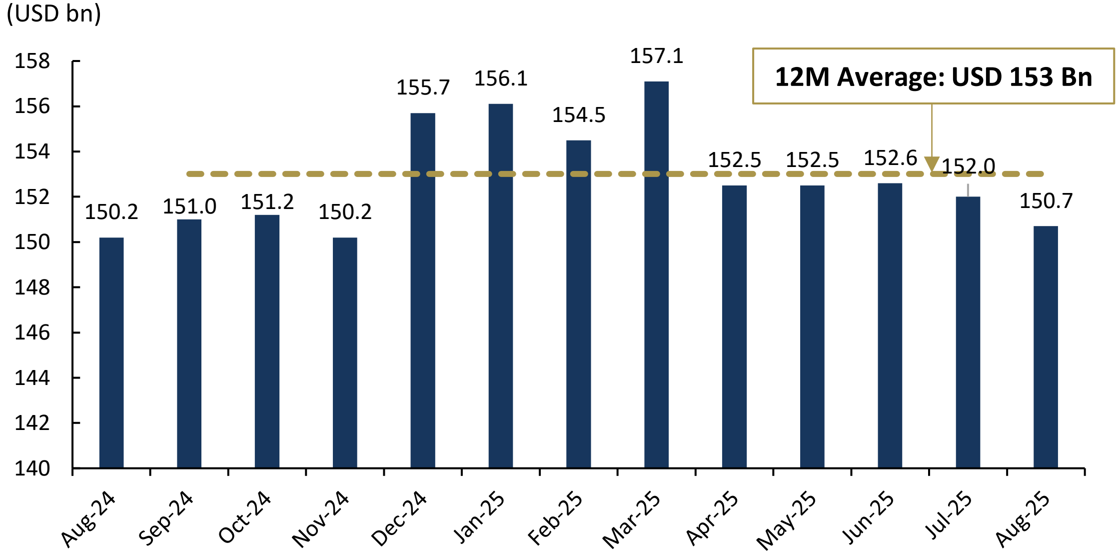
Fed Rate vs BI's Rate



Quarterly USD/IDR Rate 1Q24 – 3Q25 MTD



Monthly FX Reserves



Sources: Bloomberg, Bank Indonesia, SSI Research

Macro Strategy Team