

Bank Indonesia front-loads easing amid growth concerns

Bank Indonesia (BI) delivered a surprise second consecutive rate cut, signalling a clear focus on growth despite recent strong data. With inflation still below target and US Federal Reserve easing expected from September, we now see BI front-loading its final 25bp cut to the fourth quarter of this year



Jakarta, Indonesia

BI cuts policy rate again to support growth

Bank Indonesia has lowered its policy rate by 25 basis points to 5.00%, marking a second consecutive surprise cut. While we had expected BI to hold off on further easing until the fourth quarter – given the recent strength in GDP and CPI data, as well as weak transmission to lending rates – the move signals BI's increasing concern over the growth outlook.

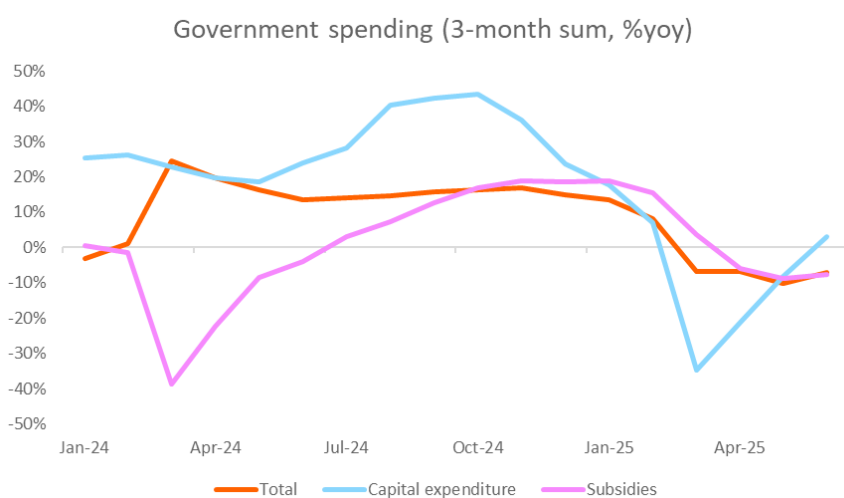
The decision also suggests that BI is taking advantage of periods of Indonesian rupiah (IDR) strength to ease policy without risking currency instability. Despite headline inflation ticking higher, it remains well below BI's upper target of 3.5%, giving the central bank room to act pre-emptively to support domestic demand.

Second quarter GDP surge likely to reverse in the second half of 2025

The stronger-than-expected GDP growth in Q2 was largely driven by a sharp pickup in investment, which rose 7% year-on-year compared to just 2.1% in Q1. This momentum appears to have been fueled by a significant jump in government capital expenditure, which surged 18% YoY in June 2025. However, we believe this pace is unlikely to be sustained. The revised 2025 budget projects a 3% decline in government capex for the full year.

Combined with subdued consumer spending and a projected slowdown in exports in the second half, we expect GDP growth to moderate, in line with our full-year forecast of 4.8% YoY.

Government capital spending surge appears to be a one-off



Source: CEIC

Food-driven CPI spike likely temporary, but 2H CPI range to be higher

BI appeared largely unconcerned by the rise in headline CPI inflation to 2.4% YoY in July, indicating that it does not view the increase as a threat to longer-term inflation expectations. While we're also not concerned by the July print, we expect inflation to stay above 2% in the second half of 2025 – up from 1.2% in the first half – due to reflecting seasonal trends and the fading of favourable base effects.

That said, this level of inflation remains comfortably below BI's upper target of 3.5%, and is unlikely to derail further rate cuts.

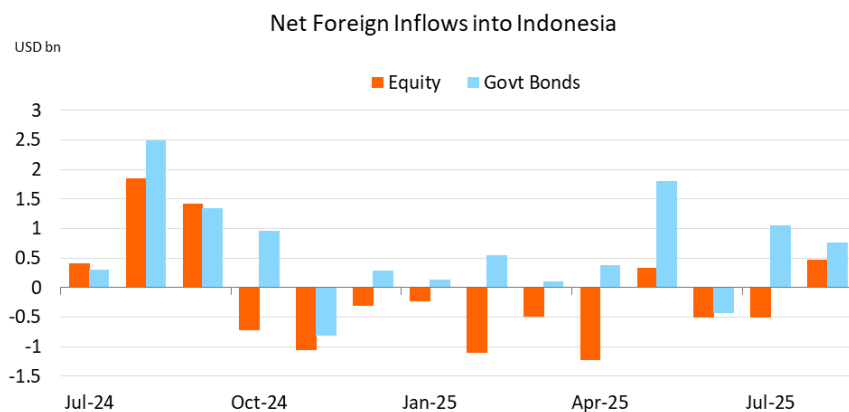
IDR stability will need continued foreign inflows as current account weakens

Although there were signs of export frontloading and a modest rebound in Q2, Indonesia's overall trade balance deteriorated compared to Q1. This points to a likely widening of the current account deficit – not just in Q2, but also through the second half of the year – as global demand softens

and terms of trade become less favourable for commodity exporters like Indonesia.

However, BI's commitment to currency stability and foreign inflows in both government bonds and equity markets has helped IDR stabilise in a narrow range since June.

Foreign inflows recovered in July



Source: Bloomberg

BI likely to continue easing amid weak domestic backdrop

Given the soft domestic growth outlook and our expectation that the Fed will begin cutting rates from September 2025, we believe Bank Indonesia is not yet done with its easing cycle. While the timing of the next move remains uncertain, BI may opt to front-load further rate cuts to address growth concerns, especially amid ongoing weakness in global trade and domestic consumption.

Reflecting this view, we are revising our forecast and now expect BI's final 25bp rate cut to be brought forward from the first quarter of 2026 to the fourth quarter of 2025.

Author

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.