Bank Indonesia holds rates; easing remains likely, but risks tilt toward a delay

Bank Indonesia held its policy rate at 4.75% amid inflation pressures and rupiah weakness, but we expect a cut in December to support growth. Risks remain skewed toward delays if currency pressures persist or the Fed postpones easing

Bank of Indonesia Governor Perry Warjiyo (right)

Bank Indonesia left policy rate unchanged

Bank Indonesia (BI) kept its policy rate unchanged at 4.75%, in line with our expectations. The decision reflects the recent uptick in headline inflation, rupiah weakness, BI's commitment to currency stability through FX intervention, and the Federal Reserve's hawkish stance. However, given the soft domestic growth outlook and our expectation of another Fed rate cut in December 2025, we believe BI's easing cycle is not yet complete. Once inflation stabilises, further rate reductions remain likely to support growth. In addition, the central bank continues to prioritise effective monetary policy transmission, as the decline in bank lending rates still lags behind policy rate cuts.

GDP growth momentum likely to slow in 4Q

Indonesia's GDP growth moderated to 5.0% year-on-year in the third quarter from 5.1% in the second quarter, largely due to slower investment growth, while private consumption remained subdued. We believe this pace is unlikely to hold in the fourth quarter.

The revised 2025 budget projects a 3% decline in government capital expenditure for the year. Coupled with weak consumer spending and an expected slowdown in exports in the second half, we forecast GDP growth to ease to 4.9% YoY in this year's final quarter.

To support activity, the government has introduced additional growth-oriented measures, including a third stimulus package and transferring surplus funds to state-owned banks to accelerate priority programmes. While these steps signal a shift toward a more accommodative fiscal stance under Finance Minister Purbaya Yudhi Sadewa, their near-term impact on growth appears limited. Meanwhile, sluggish revenue growth keeps fiscal risks in focus.

Rupiah weakness could persist, delaying rate cuts

Real rate differentials between Indonesia and the US have narrowed, adding pressure on the rupiah. Currency weakness could persist given its high sensitivity to rate gaps and our expectation of another 50bp rate cut by Bank Indonesia this cycle. Foreign investor appetite for Indonesian debt has also weakened; robust foreign institutional investor (FII) inflows that previously supported the IDR have reversed following changes by the Finance Ministry and the rollout of a large fiscal stimulus, triggering significant outflows in September and October that may continue.

Indonesia's current account swung to a $3bn deficit in the second quarter of 2025 from near balance in the first quarter, and external pressures are likely to intensify. Export growth to the US, which surged over 26% YoY in the second quarter, slowed sharply to 6% YoY in August-September. At the same time, foreign bond investors remain cautious about Indonesia's fiscal outlook. This combination of weaker trade performance, worsening rate differentials, and fiscal concerns could drive further IDR depreciation against the US dollar. Risks to our weak IDR profile remain skewed to the downside, given investor concerns around institutional independence, which is likely to keep FII inflows subdued.

While our base case assumes that BI will cut rates in December to support growth, risks remain skewed toward a delay if IDR stays under pressure, or if the Federal Reserve postpones its own rate cuts beyond December.

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