Bank Indonesia rate cut signals pro-growth stance, with more easing likely ahead

Bank Indonesia's rate cut today surprised markets, but the overnight announcement of a trade deal with Indonesia by President Trump likely provided the confidence needed to proceed without delay. We continue to anticipate an additional 50 basis points of rate cuts by the first quarter of 2026

Bank of Indonesia Governor Perry Warjiyo (right)

BI lowers policy rate to boost growth

Bank Indonesia lowered its policy rate by 25 basis points to 5.25%, surprising the market. We had anticipated a more cautious approach, expecting BI to delay rate cuts until there was greater clarity on potential US tariffs on Indonesian exports. While we did foresee a dovish tone -given the downside risks to growth and subdued inflation - we believed the central bank would hold off on easing due to the prevailing trade uncertainty. However, overnight, President Trump unexpectedly announced a trade deal with Indonesia, which likely gave BI the confidence to proceed with the rate cut.

The recently announced 19% tariff rate on Indonesian goods exported to the United States is significantly lower than the previously indicated 32% rate outlined in earlier tariff notifications sent to nine Asian countries, including Indonesia, which were set to take effect on August 1. While Indonesia remains relatively insulated due to its domestic demand-driven economy - with only around 10% of its exports directed to the US - the reduced tariff alleviates a key source of uncertainty that had been a concern for the central bank. Moreover, a tariff rate lower than that imposed on Vietnam could provide a competitive advantage for Indonesian sectors such as agriculture, textiles, and electronics, which face intense pressure from Vietnamese exports.

With softer inflation prints helping real policy rates stay high and close to 3.4%, we continue to expect BI to deliver another 50bp of rate cuts by the first quarter of 2026. Rising risks to growth from weak household spending and an uncertain investment climate, combined with domestic policy uncertainty, increase the risks of higher-than-expected rate cuts.

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