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MacroInsight

18 September 2025

Macroeconomics Indicator

	2023	2024	2025F
GDP growth (%YoY)	5.05	5.03	5.02
Inflation (%YoY)	2.61	1.57	1.97
BI rate (% Year-end)	6.00	6.00	4.25
Rp/US$ (Average)	15,244	15,853	16,571
CA deficit (% of GDP)	-0.1	-0.7	-1.5
Fiscal deficit (% of GDP)	1.65	2.3	2.8

F: forecast, P: preliminary; all baseline scenario

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Simultaneous easing cycle by BI and the Fed

- BI cut 25bps to 4.75% as fiscal support and liquidity easing are expected to improve weak transmission and lower lending rates.
- Fed also cut 25bps to 4.00–4.25%, citing labor weakness while inflation risks persist; gradual easing remains split across policymakers.
- Simultaneous cut by Fed and BI shall narrow rate differentials; aggressive Fed easing may weaken US$, limiting pressure on Rupiah

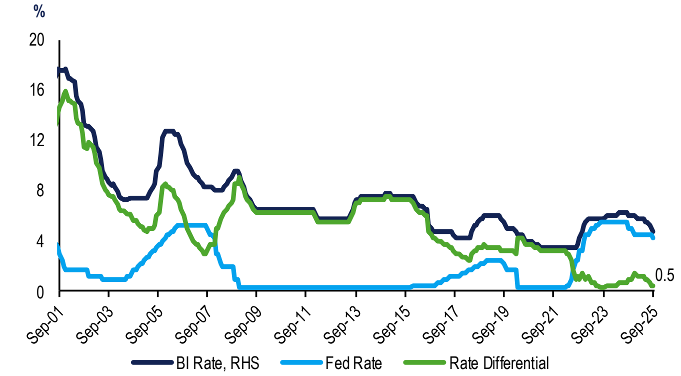
BI cut 25bp as it expects fiscal support to help monetary transmission
Bank Indonesia lowered its policy rate by 25bps to 4.75%, totaling 125bps YTD. The move reflects low inflationary pressure from a negative output gap and modest Rupiah appreciation of 0.38% MTD. However, lending transmission remains weak. Despite 125bps of earlier cuts, lending rates declined just 7bps, while 1-month TD rates fell 16bps, held up by special deposit rates. With additional liquidity from MoF placement and stronger fiscal spending, banks may hopefully able to reduce CoF.

Room for further easing remains in 2025
Further easing in 2025 remains likely, supported by two factors: (1) real rates are still high at 2.44% versus the 1.67% average since 2010 amid subdued inflation, and (2) the current pace is slower than past easing cycles in 2015/16 and 2019/20, which delivered 175bps in 12 months. While Rupiah support from yield differentials is fading, stronger growth from fiscal–monetary coordination, high conversion rate of export earnings (87% converted to Rupiah), and weakening US$ should help maintain medium-term stability. Coordinated policies now play a greater role in sustaining confidence.

Fed begins gradual easing on labor risks; inflation remains a concern
The Fed lowered rates by 25bps to 4.00–4.25%, with Chair Powell pointing to rising risks in the labor market. Payroll growth has slowed, unemployment increased to 4.3%, and both labor demand and supply are softening, though demand is falling faster. Powell emphasized this pre-emptive cut was appropriate, while dismissing a larger 50bps move, noting GDP growth of 1.5% still shows no contraction. On inflation, Powell highlighted that tariffs added 0.3-0.4pp to Core PCE, which now stands at 2.9%. Companies have so far absorbed much of the tariff costs, but Beige Book reports suggest greater pass-through to consumers is coming, keeping upside risk to Inflation. Service disinflation helps offset some goods inflation, but pressures remain. Policy views inside the Fed remain divided, with the dot plot showing anywhere from no further cuts to 100bps this year, and a gradual path of 25–50bps cuts in 2025 plus 50bps in 2026.

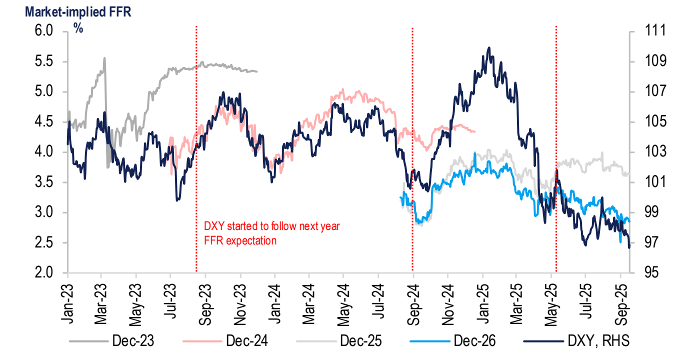
The Fed' cuts ease pressure on Rupiah but risks remain
Despite the rate cut, inflation risk in US remained elevated as firms absorb tariff costs through lower margins. Fiscal stimulus in 2026, expected form Trump's One Big Beautiful Bill Act (OBBBA), should ease the Fed's burden in cushioning labor market moderation. For Indonesia, a politically driven aggressive Fed rate cut would weaken the US$, reducing pressure on the Rupiah despite BI's easing stance. However, risks remain. If the Fed stays data-dependent and inflation spikes higher, rate cuts could be smaller than expected, strengthening the US$ and creating renewed volatility.

Fig. 1: Despite the historical low from rate differential…



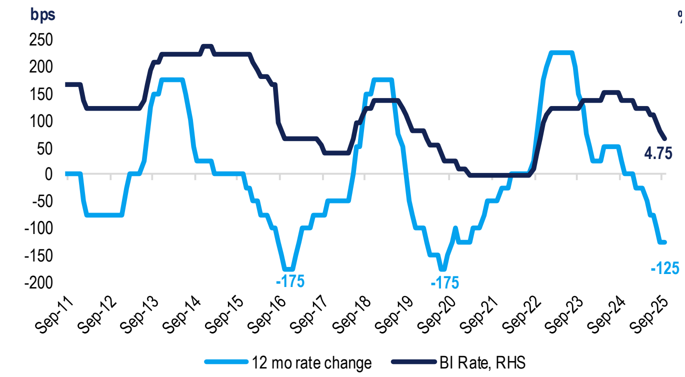
Source: BI, Bloomberg, Indo Premier

Fig. 2: …further weakening in US$ might limit pressure on Rupiah



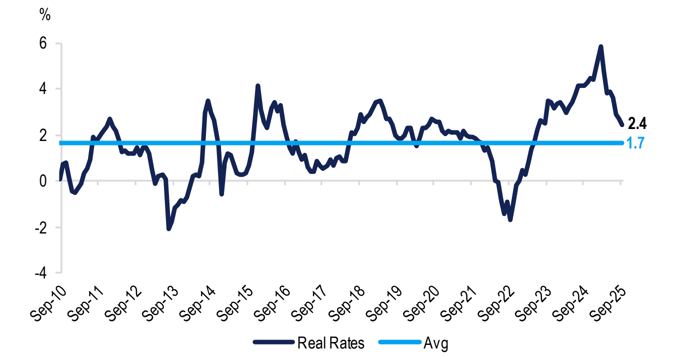
Source: Bloomberg, Indo Premier

Fig. 3: Current easing cycle pace is still slower



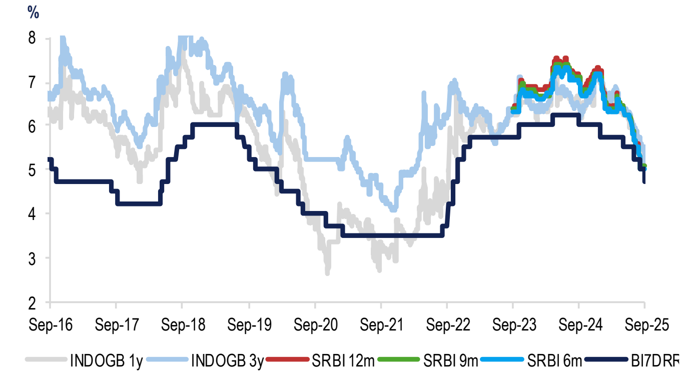
Source: BI, Indo Premier

Fig. 4: Real rate is still above historical average



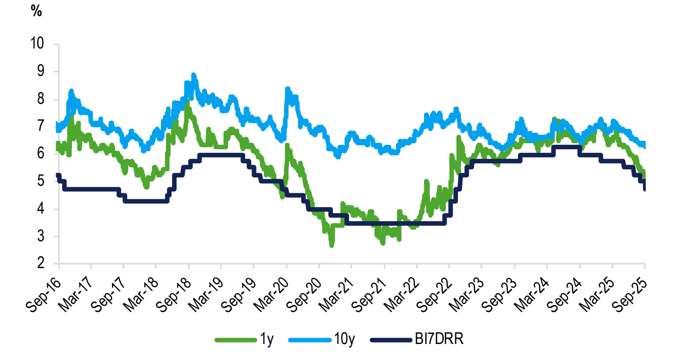
Source: BI, BPS, Indo Premier

Fig. 5: Rate cut hopes may prompt banks seek capital gains…



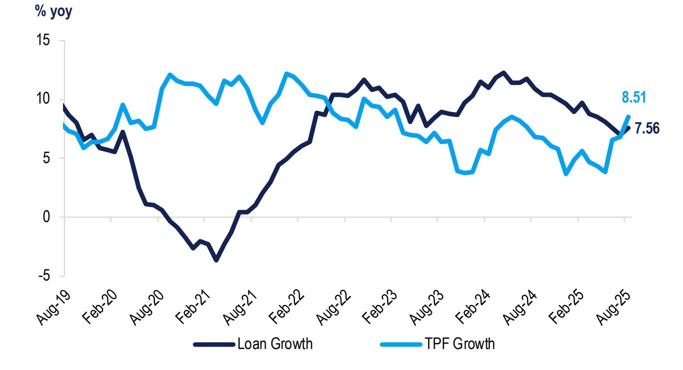
Source: BI, Bloomberg, Indo Premier

Fig. 6: …as curve steepens during rate cut cycle



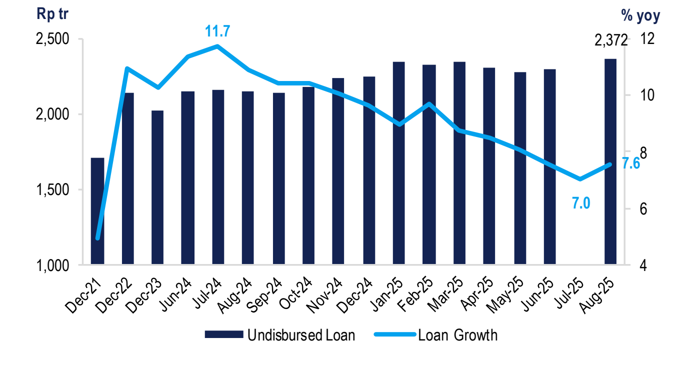
Source: BI, Bloomberg, Indo Premier

Fig. 7: TPF growth has outpace Loan growth



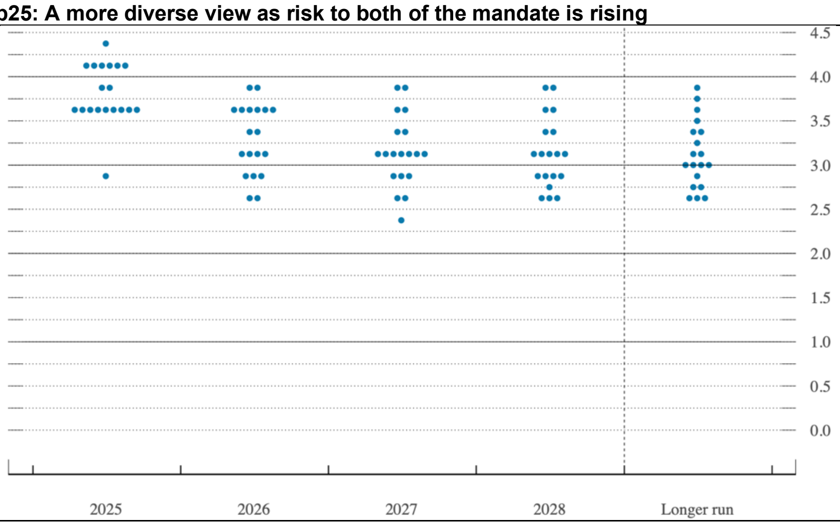
Source: BI, Bloomberg, Indo Premier

Fig. 8: Undisbursed loan remains high despite loan growth uptick



Source: BI, OJK, Indo Premier

Fig. 9: FOMC Dot Plot in Sep25: A more diverse view as risk to both of the mandate is rising



Source: Federal Reserve

Fig. 10: FOMC Dot Plot in Sep25: A more diverse view as risk to both of the mandate is rising

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0	1.3–2.0	1.5–2.6	1.7–2.7	1.6–2.6	1.7–2.5
June projection	1.4	1.6	1.8		1.8	1.2–1.5	1.5–1.8	1.7–2.0		1.7–2.0	1.1–2.1	0.6–2.5	0.6–2.5		1.5–2.5
Unemployment rate	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3	4.2–4.6	4.0–4.6	4.0–4.5	4.0–4.5	3.8–4.5
June projection	4.5	4.5	4.4		4.2	4.4–4.5	4.3–4.6	4.2–4.6		4.0–4.3	4.3–4.6	4.3–4.7	4.0–4.7		3.5–4.5
PCE inflation	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0	2.5–3.2	2.2–2.8	2.0–2.4	2.0	2.0
June projection	3.0	2.4	2.1		2.0	2.8–3.2	2.3–2.6	2.0–2.2		2.0	2.5–3.3	2.1–3.1	2.0–2.8		2.0
Core PCE inflation[4]	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0		2.7–3.4	2.2–2.9	2.0–2.4	2.0–2.2	
June projection	3.1	2.4	2.1			2.9–3.4	2.3–2.7	2.0–2.2			2.5–3.5	2.1–3.2	2.0–2.9		
Memo: Projected appropriate policy path															
Federal funds rate	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5	2.9–4.4	2.6–3.9	2.4–3.9	2.6–3.9	2.6–3.9
June projection	3.9	3.6	3.4		3.0	3.9–4.4	3.1–3.9	2.9–3.6		2.6–3.6	3.6–4.4	2.6–4.1	2.6–3.9		2.5–3.9

Source: Federal Reserve

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