



Bank Indonesia Board of Governors Meeting

March 2025

Highlights

- Bank Indonesia should maintain the BI Rate unchanged at 5,75%.
- Headline inflation in February 2025 marked the first annual deflation since 2000 and fell below Bank Indonesia's target range, mainly driven by sizable electricity bills discount.
- Uncertainty over Trump's trade policy and the Fed's stance has pressured the Rupiah through capital outflows and risk aversion.

Macroeconomics, Finance & Political Economy Research Group

Jahen F. Rezki, Ph.D.

jahen.fr@ui.ac.id

Teuku Riefky

teuku.riefky@lpem-feui.org

Faradina Alifia Maizar

faradina.alifia@ui.ac.id

Difa Fitriani

difa.fitriani@ui.ac.id

Mervin Goklas Hamonangan

mervin.goklas@ui.ac.id

Alif Ihsan A Fahta

alif.ihsan@ui.ac.id

Indonesia experienced a 0.09% (y.o.y) deflation in February 2025, falling below Bank Indonesia's target range of 1.5%–3.5%, primarily due to electricity tariff adjustments. Core inflation remained stable, indicating that the decline was not driven by weakening demand. Inflationary pressures are expected to rise in the coming months as demand increases during Ramadan and the expiration of electricity subsidies takes effect. Meanwhile, the Federal Reserve is expected to keep the Fed Funds Rate unchanged at 4.25%–4.50% in its upcoming March meeting, as inflation in the United States remains above target despite signs of moderation. Rising trade uncertainties under President Trump, including escalating tariff disputes with the European Union and North American trading partners, could sustain inflationary pressures and weigh on business sentiment. While inflation is currently below target, it is expected to return to Bank Indonesia's target range in the coming months. At the same time, external risks from global financial market volatility and US trade policies remain elevated. Considering these factors, Bank Indonesia should maintain its policy rate at 5.75% to ensure Rupiah stability and safeguard financial market resilience.

The First Annual Deflation Occurrence in the Last 25 Years

In February 2025, Indonesia experienced a headline deflation of 0.09% (y.o.y), down from an inflation of 0.76% (y.o.y) in January 2025 (**Figure 1**), marking the first annual deflation that has occurred since 2000 and fall below Bank Indonesia's target of 1.5%–3.5%. This condition was mainly contributed by the prolonging deflation of the housing, water, electricity, and other fuel group with 12.08% (y.o.y) deflation in February 2025, sink further from 8.75% (y.o.y) deflation in January 2025. Furthermore, the deflationary contribution of the housing, water, electricity, and other fuel group to headline inflation rose from 1.39 percentage points in January 2025 to 1.92 percentage points in February 2025. The 50% discounts on electricity bills, which is a continuation from the previous month as per the Ministry of Energy and Mineral Resources' decision, was the primary factor driving deflation in February 2025. This deflationary pressure is expected to subside next month as the discount for electricity will no longer be in effect in March 2025.

Meanwhile, several factors exerted upward inflationary pressure, however, these forces were insufficient to offset the deflationary impact from the housing, water, electricity, and other fuel group. due to various reasons. The food, beverage, and tobacco group experienced an inflation of 2.25% (y.o.y) in February 2025, down from

Key Figures

BI-Rate (Feb '25)

5.75%

GDP Growth (y.o.y, Q4 '24)

5.02%

Inflation (y.o.y, Feb '25)

-0.09%

Core Inflation (y.o.y, Feb '25)

2.48%

Inflation (m.t.m, Feb '25)

-0.48%

Core Inflation (m.t.m, Feb '25)

0.24%

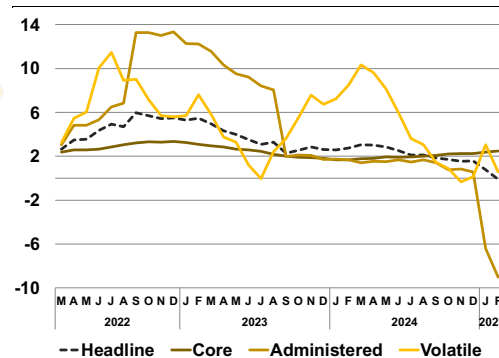
FX Reserve (Feb '25)

USD154.5 billion

3.69% (y.o.y) in January 2025, with the biggest inflationary contribution of 0.66 percentage points to headline inflation. Several commodities in this group experienced price increases, adding to inflationary pressure. Cooking oil was affected by rising global crude palm oil (CPO) prices, machine-made clove cigarettes were influenced by adjustments in the retail selling price, and the production of bird's eye chili and ground coffee faced disruptions due to weather challenges. Additionally, demand for food commodities increased as Indonesia enters the Ramadan period. However, the inflationary impact of this seasonal factor was relatively lower compared to previous years, during which the food, beverage, and tobacco group typically experiences around 6% of annual inflation. The relatively subdued year-on-year inflation of the food, beverage, and tobacco group is attributed to surplus reserves of several key food commodities at the beginning of 2025, particularly rice, ruminant meat, and chillies.

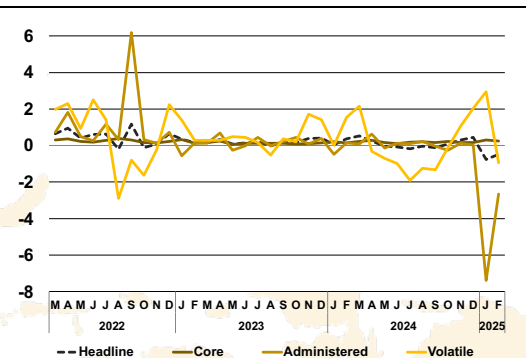
Indonesia's monthly headline inflation also recorded a deflation of 0.48 (m.t.m) in February 2025, moderating slightly from a deflation of 0.76% (m.t.m) in the previous period (**Figure 2**). Aligned with the yearly trend, this deflation was mainly attributed to the housing, water, electricity, and other fuel due to electricity bills discount, with a 3.59% (m.t.m) deflation in February 2025 easing from a sharper deflation of 9.16% (m.t.m) in January 2025. Moreover, the food, beverage and tobacco group also encountered a deflation with a rate of 0.40% (m.t.m) in February 2025 compared to an inflation of 1.94% (m.t.m) in January 2025. The key commodities contributing to deflation in this group were broiler chicken meat and shallots, driven by stable production despite a slight rise in production costs.

Figure 1: Inflation Rate (% , y.o.y)



Source: CEIC

Figure 2: Inflation Rate (% , m.t.m)



Source: CEIC

Core inflation increased to 2.48% (y.o.y) in February 2025 from 2.36% (y.o.y) in January 2025. However, the monthly inflationary trend moderately declined to 0.24% (m.t.m) in February 2025 compared to 0.30% (m.t.m) in the previous period. The upward trend of core inflation suggests that the occurrence of annual deflation

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was not primarily driven by declining purchasing power but was instead largely attributed to the electricity tariff discount. Similar to previous months, several commodities have steadily contributed to this inflationary trend, namely gold jewellery, cooking oil, ground coffee, and rice with side dishes.

Administered prices experienced a deflation in February 2025, with a rate of 9.02% (y.o.y) from 6.41% (y.o.y) in January 2025. The monthly figure of administered prices encountered a moderating deflationary trend, amounting 2.65% (m.t.m) in February 2025 from 7.38% (m.t.m) in January 2025, which indicated the ongoing effect of electricity discount since January 2025. The volatile goods inflation declined to 0.56% (y.o.y) in February 2025 from 3.07% (y.o.y) in January 2025. The monthly volatile goods trend recorded a deflation of 0.93% (m.t.m) in February 2025, compared to an inflation of 2.95% (m.t.m) in January 2025. This inflationary trend was mainly attributed to bird's eye chillies and garlic. Bird's eye chillies' experienced production disruptions affected by heavy rainfall which caused a hike in price. Meanwhile, the increase in garlic prices was influenced by import-related factors, as rising prices in exporting countries and delays in import realization constrained domestic supply.

The administered prices deflation, driven by adjustments in electricity tariffs, was the primary contributor to February 2025 deflation. This effect is expected to be temporary as the electricity tariff adjustment will no longer be in effect next month. Furthermore, the Ramadan period has not exerted as much pressure on inflation as the previous years. This trend is largely driven by supply side rather than demand side as several key food commodities experience excess supply. Core inflation, which serves as an indicator of purchasing power, remained stable, suggesting steady underlying demand. Adjustment in electricity tariffs, which initially aimed to boost purchasing power, has had a greater impact in driving deflation, whereas purchasing power itself, as reflected in core inflation, has remained relatively unchanged.

Looking ahead, inflation in coming month is expected to be mainly influenced by rising demand associated with the ongoing Ramadan period and the approaching Eid Al-Fitr. The distribution of religious holiday allowance (*Tunjangan Hari Raya/THR*), increased mobility for homecoming (*mudik*), and purchase of various goods and services will likely heightened the demand during this period. However, discounts on toll roads and airline ticket during Eid Al-Fitr period may help moderate inflation. Additionally, inflationary pressure will also stem from the reinstatement of electricity tariff. Consequently, inflation is expected to return to Bank Indonesia's target range in the coming months. Externally, the government should anticipate the potential effect of international trade policies and weakening Rupiah, which poses a further risk on global prices and imported inflation, respectively.

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Persistent Surplus Amid Underlying Challenges

In February 2025, Indonesia maintained its trade surplus at USD3.12 billion, increasing significantly by USD2.28 billion, or with a growth of 274.31% (y.o.y), compared to February 2024's surplus of USD0.83. However, this figure was slightly lower than the previous month's surplus of USD 3.49 billion, reflecting a -10.75% (m.t.m) decline or USD 0.38 billion decrease. Despite this, both exports and imports continued to grow, sustaining Indonesia's trade surplus for the 58th consecutive months.

Indonesia's exports totalled USD21.98 billion in February 2025, rising by 14.05% (y.o.y) compared to USD19.27 billion in February 2024 and by 2.58% (m.t.m) compared to USD21.43 billion in January 2025. This growth is mainly attributed to the growth of non-oil and gas commodities, with animal or vegetable fats and oils (HS 15) making the largest contribution expanding by 37.04% (m.t.m) and accounting for 3.71 percentage points of the overall monthly export growth. The increase was primarily driven by higher crude palm oil and its derivatives exports, supported by lower export taxes that boosted exports volume. Additionally, machinery, mechanical equipment, and their parts (HS 84) saw a 37.85% (m.t.m) increase in export value, contributing 0.92 percentage points to the overall monthly growth. However, export volume for this category declined by 17.62% (m.t.m), indicating that the increase in value was primarily driven by rising prices rather than higher shipment volumes. Meanwhile, precious metals and jewellery/gemstones (HS 71) grew by 16.45% (m.t.m), with a contribution of 0.66 percentage points, largely attributed to the increased in demand for safe-haven assets. Total exports value of various commodities is expected to increase due to the changes in international commodity prices which experienced both monthly and annual increases, except for energy commodities. Additionally, Indonesia's main commodities for exports continued to revolve around crude palm oil and its derivatives, coal, and iron and steel. However, global commodities price for these commodities continued to fluctuate. In February 2025, global coal price saw a decline resulted in decreasing coal exports which contributed 10.01% to total export value, underlining the risk of dependence on raw commodity-based exports.

On imports front, the value rose to USD18.86 billion in February 2025, marking a 2.30% (y.o.y) growth from USD18.44 billion in February 2024 and 5.18% (m.t.m) growth from USD17.94 billion in the previous month. Mirroring the trend in exports, import growth was primarily driven by non-oil and gas commodities. Notably, imports of precious metals and jewelry/gemstones (HS 71) surged by 262.12% (y.o.y) and 110.26% (m.t.m), fueled by a sustained upward trend in global gold prices throughout the period. Furthermore, import was also driven by capital goods imports which grew by 5.48% (y.o.y). This aligned with the rising manufacturing activity, particularly in the automotive sector, as indicated by rising Indonesia's

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Manufacturing Purchasing Manager's Index (PMI) to 53.6 in February 2025 from 51.9 in the previous month. Nevertheless, Indonesia should remain vigilant regarding the influx of imported goods from China due to the ongoing trade war between China and the United States. China remained as the largest contributor to Indonesia's deficit and a further surge in imports from the country could place another pressure on the trade balance.

Trump's Trade Policy Keeps Markets on Edge

In the upcoming Federal Open Market Committee (FOMC) meeting on 18–19 March 2025, markets widely expect the Federal Reserve to keep the Fed Funds Rate (FFR) unchanged at 4.25%–4.50%. This expectation is primarily driven by inflation, which remains above the Fed's 2% target despite showing signs of moderation. The latest data indicates that US inflation eased to 2.8% in February from 3.0% in January. While this downward trend is encouraging, inflation remains elevated enough to warrant a cautious stance from the Fed. Rising inflation expectations, driven by escalating trade tensions, tariff uncertainties, and consumer expectation over prolonged price pressures, could sustain inflationary pressures in the near term. Beyond inflation, labour market conditions add another layer of complexity. Nonfarm payrolls grew by 151,000 in February, but the unemployment rate inched up to 4.1% from 4.0% in the previous month. One factor contributing to this rise is the government's efficiency measures, which have led to job cuts in the public sector. Government employment declined by 10,000 jobs in February and this number is expected to increase as the survey did not yet capture the full impact of recent layoff announcements.

Adding to the economic uncertainty is President Trump's increasingly aggressive trade policy, which has led to rapid shifts in tariffs. Between February and March, his administration imposed and later lifted tariffs on Canada and Mexico, temporarily suspending duties on goods that comply with the United States-Mexico-Canada Agreement (USMCA). However, tensions escalated in early March when Trump threatened steep tariffs on European alcohol in response to the European Union's reaction to US steel and aluminium tariffs. The tit-for-tat escalation raises concerns about a broader trade war, which could push inflation higher by increasing import costs. At the same time, prolonged trade uncertainty may dampen business sentiment and investment, potentially slowing job creation and economic activity. Given these dynamics, the Fed is likely to maintain a wait-and-see approach, balancing inflation risks against signs of labour market softening and trade-related volatility.

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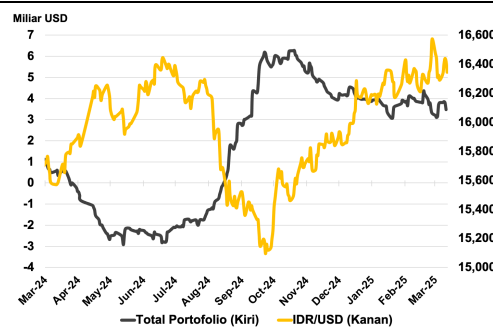
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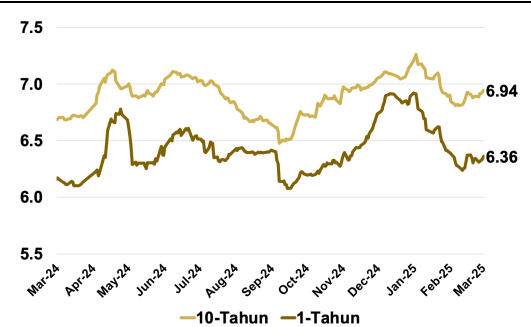
These uncertainties have influenced capital movements in Indonesia over the past few weeks. Between mid-February and mid-March 2025, the Indonesian stock market recorded capital outflows totalling USD0.87 billion (**Figure 3**). Investor sentiment has been weighed down by global factors, particularly uncertainty over the Fed's monetary policy and escalating trade tensions, which have heightened risk aversion toward emerging markets. Domestic policy developments have also played a role, particularly concerns surrounding government initiatives. For example, the lack of clarity regarding the structure and effectiveness of *Badan Pengelola Investasi Daya Anagata Nusantara* (BPI Danantara) has raised questions about the need for such investment body, its operational framework, investment strategy, and ability to generate returns. These concerns were reflected in capital movements on 24 February, when the official launch of BPI Danantara coincided with a USD0.21 billion outflow from the stock market. In light of these uncertainties, the market has largely adopted a cautious approach.

Figure 3: IDR/USD and Accumulated Portfolio Capital Inflow (since Jan-24)



Source: CEIC

Figure 4: Government Bonds Yield (% p.a.)



Source: CEIC

At the sametime, however, Indonesia's bond market recorded net inflows of USD0.50 billion over the same period, driven primarily by increased demand for short-term government securities. Heightened geopolitical uncertainty and weaker-than-expected corporate earnings in Indonesia further contributed to this shift, prompting foreign investors to favour fixed-income instruments over equities. Investor sentiment was also weighed down by downgrades and lower growth expectations from several credit rating agencies and investment banks. For example, Morgan Stanley lowered Indonesia's stock market rating from equal weight to underweight, while Goldman Sachs downgraded it from overweight to market weight, and Fitch estimated that Indonesia's GDP growth could reach below 5%, further heightening investor caution. As a result, the 1-year government bond yield declined by 0.02bps between mid-February and mid-March (**Figure 4**). In contrast, the 10-year government yield rose by 0.10 bps, suggesting that investors remained

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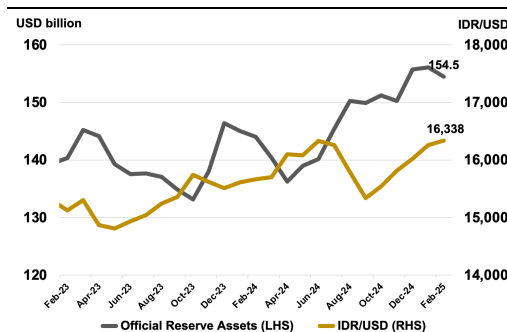
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cautious about longer-term risks, including fiscal policy direction and inflation expectations.

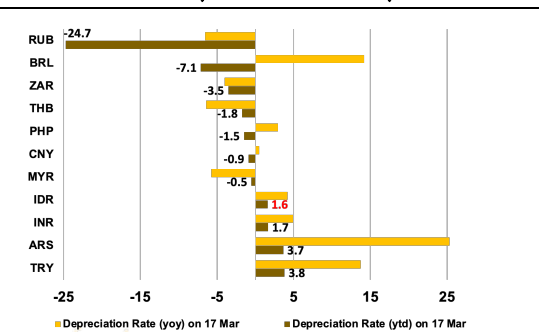
The continued capital outflows from Indonesia's financial markets have exerted pressure on Rupiah, which depreciated by 1.02% to IDR16,420 per US dollar on 13 March 2025, compared to IDR16,255 per US dollar a month earlier. On a year-to-date basis, Rupiah has weakened by 1.59%, lagging behind most regional currencies and only performing better than the Turkish Lira, Argentine Peso, and Indian Rupee (**Figure 6**). In contrast, other regional currencies have recorded year-to-date gains against the US dollar. Meanwhile, Indonesia's foreign exchange reserves stood at USD154.5 billion at the end of February 2025, down from USD156.1 billion at the end of January, a decline of USD1.6 billion (**Figure 5**). The decline was largely driven by government external debt repayments and Bank Indonesia's measures to stabilize Rupiah in response persistent global financial market uncertainty. Despite the decrease, the current level of reserves remains adequate, covering 6.6 months of imports or 6.4 months of imports and government external debt payments, well above the international adequacy standard of around three months of imports.

Figure 5: IDR/USD and Official Reserve Assets



Source: CEIC

Figure 6: Depreciation Rates of Selected EMs (17 March 2025)



Source: Investing.com

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While inflation remains below Bank Indonesia's target range, the upcoming Ramadan and Eid Al-Fitr period may introduce temporary price pressures. External risks continue to weigh on sentiment, particularly the Federal Reserve's cautious approach to monetary easing and the unpredictability of President Trump's trade policies. Moreover, the Fed's policy decision will be announced around the same time as Bank Indonesia's meeting, with markets widely expecting the Fed to keep rates unchanged. In this context, a rate cut by Bank Indonesia could add pressure on the Rupiah. Given these dynamics, we view that Bank Indonesia should prioritize exchange rate stability and financial market resilience by keeping its policy stance unchanged at 5.75% in the March 2025 Board of Governors Meeting.