LIQUIDITY IN THE ECONOMY

1. Base Money (M0) represents central bank liabilities to commercial banks, rural banks and the domestic private sector, excluding the central government and non-residents. By component, base money consists of: (i) currency in circulation, namely rupiah banknotes and coins issued and circulated by Bank Indonesia as legal tender; (ii) commercial bank demand deposits at Bank Indonesia, namely commercial bank placements in the form of demand deposits in rupiah held at Bank Indonesia. These demand deposit balances are held to meet the reserve requirement , (iii) private sector demand deposits, namely private sector demand deposits denominated in rupiah at Bank Indonesia, and (iv) securities issued by Bank Indonesia and held by the private sector, namely securities denominated in rupiah or a foreign currency issued by Bank Indonesia as recognition of short-term debt, and held by non-bank third parties (excluding the central government and non-residents).

2. Macroprudential Liquidity Incentive Policy (KLM) instituted by Bank Indonesia since March 2022 necessitates an additional analytical approach to ensure M0 statistics can explain the function of monetary policy in terms of influencing the economy through M0. KLM policy includes incentives set by Bank Indonesia to lower demand deposit balances held at Bank Indonesia to meet statutory reserve requirements for banks that lend to priority sectors. In this respect, KLM incentives will lower the position of commercial bank demand deposits at Bank Indonesia and M0 statistics, which could be interpreted as a decrease in liquidity expansion by Bank Indonesia. Another approach is required, therefore, to capture the role of stimuli implemented by Bank Indonesia.

3. The Adjusted M0 approach is used, therefore, to capture the role of monetary policy through the provision of KLM incentives. Adjusted M0 is calculated by isolating the

impact of the decline in commercial bank reserve requirement at Bank Indonesia due to the provision of macroprudential liquidity incentives (KLM). Starting in January 2025, Bank Indonesia publishes the Adjusted M0 aggregate to provide a more comprehensive overview of the impact liquidity incentives have on base money.[1]

4. In general, the approach indicates that Adjusted M0 is typically higher than traditional M0 (without taking into account the impact of KLM), as a reflection of expansionary monetary policy. In August 2025, Adjusted M0 growth was recorded at 7.34% (yoy), significantly higher than traditional M0 growth of 0.34% (yoy), indicating the expansionary impact of KLM policy on liquidity (Graph 1). Based on the affecting factors, Adjusted M0 was influenced by an increase of Net Foreign Assets (NFA), in line with the increase in foreign reserves, coupled with a contraction of net claims on central government (NCG) (Graph 2).

Graph 1. M0 and Components

Graph 2. M0 and Affecting Factors

5. Expansionary monetary policy is also reflected in growth of broad money (M2). M2 growth accelerated from 5.46% (yoy) in January 2025 to 6.53% (yoy) in July 2025. By component, stronger M2 growth was influenced by an uptick in narrow money (M1), namely from 7.25% (yoy) in January 2025 to 8.72% (yoy) in July 2025 as currency outside banks accelerated from 10.30% (yoy) in January 2025 to 10.98% (yoy) in July 2025 (Graph 3).

[1] The data is accessible via Indonesian Economic and Financial Statistics (SEKI), Monetary Sector - Table I.2 at the following link: https://www.bi.go.id/id/statistik/ekonomi-keuangan/seki/default.aspx#headingOne

6. Based on the affecting factors, M2 growth was primarily driven by an increase of Net Foreign Assets (NFA) from 2.44% (yoy) in January 2025 to 7.28% (yoy) in July 2025, in line with the increase in foreign reserves. Meanwhile, NCG has maintained a contraction in 2025, declining by 6.24% (yoy) in July 2025. In addition, credit growth has also tracked a downward trend in line with restrained demand (Graph 4).

Graph 3. M2 and Components

Graph 4. M2 and Affecting Factors