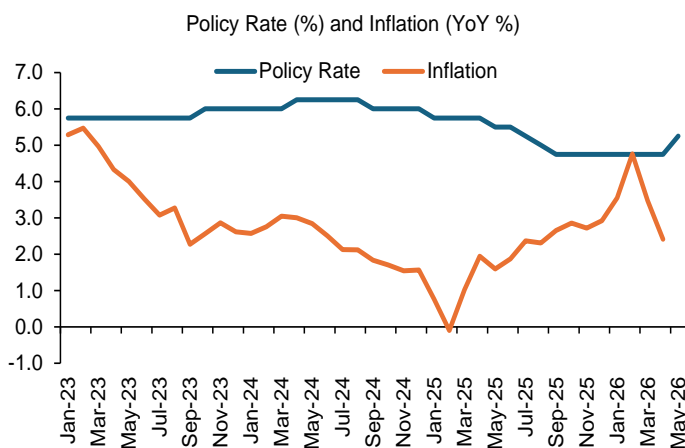


Bank Indonesia: IDR Stability Takes Precedence

- Bank Indonesia **delivered a 50bps rate hike to raise their policy rate to 5.25%** at its monetary policy meeting today. While a rate hike was anticipated by many (Mizuho included), the magnitude of the hike was a surprise.
- To be clear, an upsized hike was not entirely unforeseen given the rupiah has depreciated to successive historic levels against the USD recently. What is notable was the **hike was expressly aimed at rupiah stability** whereas previous inclinations were more neutral.
- BI also alluded to **complementary, if not coordinated, government measures to support rupiah stability** that includes intensified FX intervention, bond purchases in the secondary market and caps on domestic purchases of USD. The purchase of government bonds in the secondary market is an effort to contain longer end yields, helping to stem foreign outflows from the domestic bond markets.
- Admittedly, such coordinated efforts could have significant impact containing rupiah and yields and the USDIDR has clawed back some losses since BI's rate hike.
- However, if extraneous circumstances that underpin fundamental pressures are not alleviated, such as concerns on its fiscal position, **these measures would likely not be sufficient to durably reverse course for the IDR.**
- We expect Bank Indonesia to hike its policy rate by another 100bps to reach 6.25% by end-2026, balancing moderating economic growth and stabilising the rupiah amid likely bouts of weakness engendered by both external geopolitical flare ups as well as domestic wobbles (fiscal, equities reforms), in view of the previous water mark of 6.25% in the past decade.



Sources: CEIC, Mizuho



	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
Policy Rate (%)	4.75%	5.25%	5.75%	6.25%	6.25%	6.25%	6.25%	6.25%
USD/IDR	16690-17015	16950-18150	17300-18300	17300-18100	17200-18000	17200-18000	17200-18000	17200-18000
	16995	17800	17950	17850	17700	17600	17700	17600
GDP (% YoY)	5.6	4.6	4.4	4.6	5.1	5.1	4.9	5.1
CPI (% YoY)	3.9	2.8	3.2	3.3	2.8	3.0	2.4	2.2

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