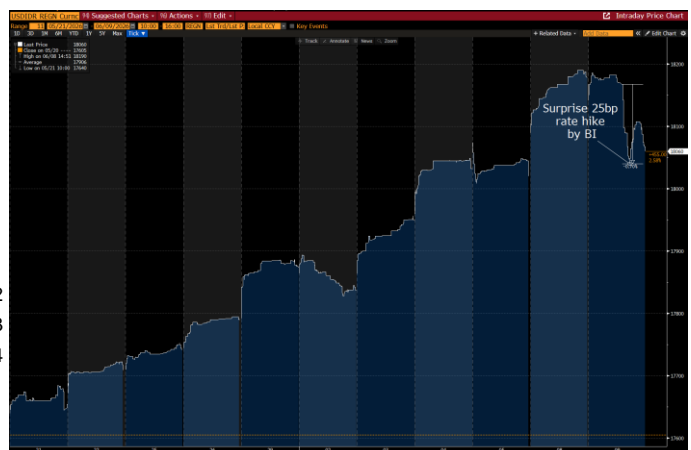
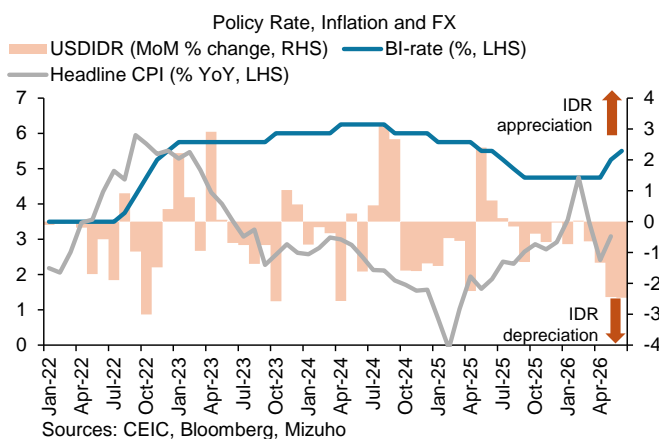


Bank Indonesia: Off Cycle, Not End Cycle

- Bank Indonesia **delivered an off cycle 25bp rate hike** today ostensibly with IDR and corresponding wider asset market stability in mind. Although BI has also framed this as a pre-emptive hike to keep 2026-2027 inflation within its target range of 1.5-3.5%, rupiah weakness is undoubtedly the main reason for the surprise hike as headline inflation risks are not urgent.
- What's more, they **announced additional complementary measures** to support the rupiah that include increasing the yields of Bank Indonesia Rupiah Securities (SRBI) across tenors, intensification of FX intervention, and the lowering of hedging swap rate for foreign investors by 10%.
- The barrage of measures as well as the **rate hike is a welcome move** that would help to alleviate rupiah depreciation pressures. But despite knee jerk IDR traction, this is not a panacea as-is.
- Point being, the incrementally more favourable rate differential vis-à-vis the US will backstop capital flows but fall short of addressing fundamental pressures from eroding investor confidence and doubts around fiscal viability.
- Furthermore, rate hike gains may be easily overwhelmed by external headwinds from US inflation and potential Fed policy moves as well as domestic upheavals such as the outcome of MSCI's review of its equity market is due later this month and S&P's review of its sovereign credit rating outlook is due in July.
- Hence, this is likely just the beginning of more rate hikes by Bank Indonesia. And with **"sooner rather than later"** hikes likely to be more effective, we **expect BI to hike its policy rate further by 50 bp to retain the benefits of nascent stability gains in its scheduled meeting next week.**
- Looking further out, we **expect BI to hike its policy rate by another 75 bp in Q3 2026 to reach 6.75% by end-2026**, going beyond the previous high-water mark of 6.25% as BI will likely need to go further to support the rupiah amid deteriorating sentiments.



	Q1 2026	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027	Q3 2027	Q4 2027
Policy Rate (%)	4.75%	6.00%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
USD/IDR	16690-17015	16950-18750	17900-19200	17800-19450	17700-19250	17600-19180	17500-19280	17500-19400
	16995	18400	18700	18900	18600	18400	18500	18450
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	2.4	2.2

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