

BI Rate Held at 4.75% Amid Efforts to Alleviate Negative Sentiment on the Rupiah

Bank Indonesia (BI) reaffirmed its commitment to macroeconomic and financial stability by maintaining the BI Rate at 4.75% at the Board of Governors' Meeting (RDG-BI) held on 20–21 Jan '26. In line with this decision, the Deposit Facility rate was kept at 3.75% and the Lending Facility rate at 5.50%, thereby preserving the interest rate corridor. This policy stance underscores BI's continued stability-over-growth orientation, with a particular emphasis on safeguarding exchange rate stability.

Notably, during the meeting, BI Governor Perry Warjiyo highlighted **that the depreciation trend of the Rupiah observed since early Dec '25 has not been only driven by a deterioration in domestic economic fundamentals**. Instead, it has largely reflected adverse global conditions and negative, non-fundamental sentiment toward the Rupiah.

From a fundamental perspective, the Rupiah remains well supported. Indonesia continues to record a manageable current account deficit (CAD), FX reserves stood at USD156.5 bn (Prev: USD150.06 bn) at end-Dec '25, and the trade balance has posted a surplus for 67 consecutive months as of Nov '25. On the fiscal side, however, pressures have emerged toward the end of 2025, with the fiscal deficit widening to 2.92% of GDP alongside a tax revenue shortfall of IDR271.1 tn. These developments have weighed on fiscal credibility and increased the burden on BI to help stabilize the government bond (SBN) market. Meanwhile, headline CPI inflation rose to 2.92% YoY by end-2025. Nevertheless, we view both the fiscal and inflationary pressures as still manageable, given the government's pro-growth fiscal measures aimed at supporting consumption and aggregate demand, particularly in the aftermath of natural disasters.

Externally, heightened global uncertainty—stemming from escalating geopolitical tensions involving Iran, the United States, and Israel, as well as renewed frictions between the US and the EU related to Greenland—**has contributed to a global risk-off environment**, exerting additional pressure on the Rupiah. **Beyond these factors, market concerns have also emerged regarding corporate governance and the independence of monetary authorities.** These concerns are linked to the continuation of the burden-sharing program into 2026, the still-limited effectiveness of export proceeds repatriation (DHE), and the nomination of the Vice Minister of Finance as a candidate for Deputy Governor of BI overseeing financial system stability and macroprudential policy.

Against this backdrop, **BI's statement that it will act decisively to stabilize the Rupiah is particularly important.** The central bank outlined a comprehensive policy response, including: 1) strengthening its triple intervention strategy in the FX market, including purchases of government bonds in the secondary market; 2) reinforcing pro-market monetary operations; 3) enhancing the effectiveness of accommodative macroprudential policies through deeper transmission to lending rates; 4) expanding international cooperation in central banking, including the development of onshore FX markets for CNY and JPY; 5) strengthening policy synergy between monetary and fiscal authorities, as well as within the Financial System Stability Committee (KSSK); and 6) emphasizing that the nomination of the Deputy Governor candidate originated from within BI, which is expected to help alleviate both fundamental and non-fundamental concerns surrounding the Rupiah going forward.

Outlook: Stability Measures to Persist Amid Resilient Fundamentals

Looking ahead, Bank Indonesia is expected to intensify exchange rate stabilization efforts in the near term to prevent a further deterioration in market sentiment, particularly amid concerns over imported inflation ahead of the Lunar New Year, Ramadan, and Eid al-Fitr in the coming months. At the same time, stronger coordination between central and regional inflation control teams is expected to support food price stability, despite the extreme rainy season experienced across Indonesia over the past two months. These measures should help mitigate inflation risks and preserve household purchasing power.

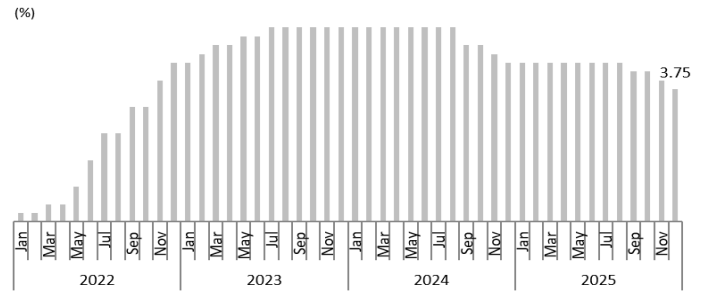
In addition, easing global geopolitical risks—particularly as indications emerge that the US administration under President Trump may reduce its interventionist stance toward the EU on the Greenland issue—**could help improve global risk sentiment.** Under these conditions, we expect the Rupiah to stabilize toward the IDR 16,700 level within the coming week, supported by improving public confidence in economic authorities. Nevertheless, rising financing needs ahead of the seasonal demand associated with major religious and festive holidays warrant close monitoring. **Overall, these dynamics suggest that BI is likely to maintain the BI Rate at 4.75% at the February 2026 Board of Governors' Meeting, unless there is a pronounced shift toward a stronger risk-on environment accompanied by a more aggressive pro-growth policy stance from the government.**

Table 1. Interest Rate Data

Indicators	21-Jan-26		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	3.75	3.75	0.0	(175.0)
European Union	2.15	2.15	0.0	(235.0)
United Kingdom	3.75	4.00	(25.0)	(150.0)
Japan	0.75	0.50	25.0	85.0
China	3.00	3.00	0.0	(45.0)
India	5.25	5.25	0.0	(125.0)
Thailand	1.25	1.50	(25.0)	(125.0)
Philippines	4.50	4.50	0.0	(200.0)
Indonesia	4.75	4.75	0.0	(125.0)
Global Monetary Policy Change (in number of countries)				
Easing	3	20		
Unchanged	8	20		
Tightening	1	0		

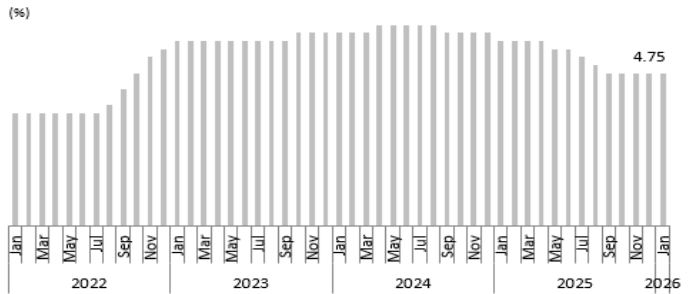
Sources: Each Central Bank and GlobalRates – treated (2026)

Fig 1. Fed Rate



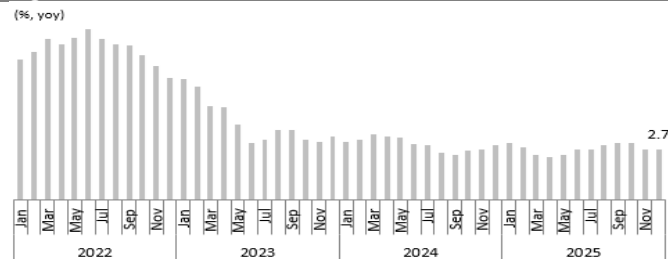
Source: The Fed – treated (2026)

Fig 2. BI Rate



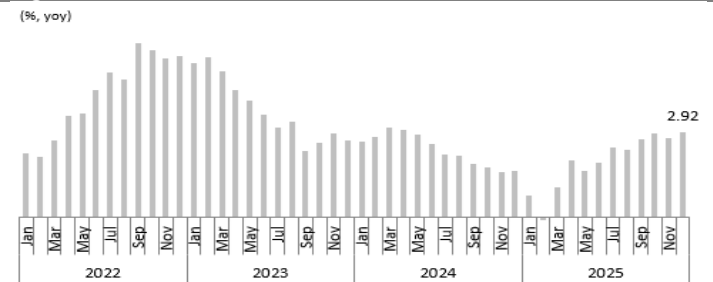
Source: Bank Indonesia – treated (2026)

Fig 3. US CPI Inflation



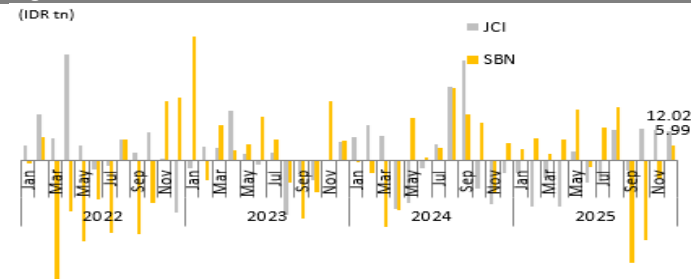
Source: US BLS – treated (2026)

Fig 4. Indonesia CPI Inflation



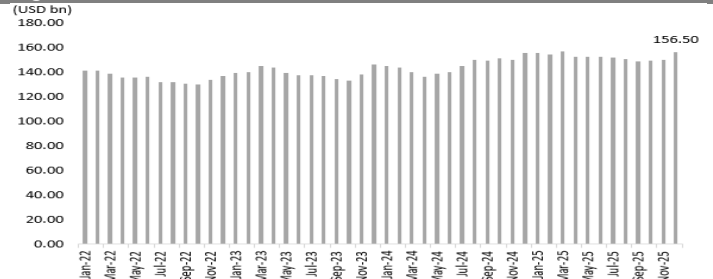
Source: BPS – treated (2026)

Fig 5. Indonesia Portfolio Flow



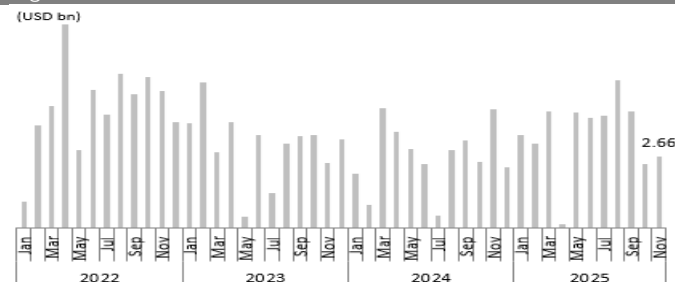
Source: Bloomberg – treated (2026)

Fig 6. Indonesia FX Reserves



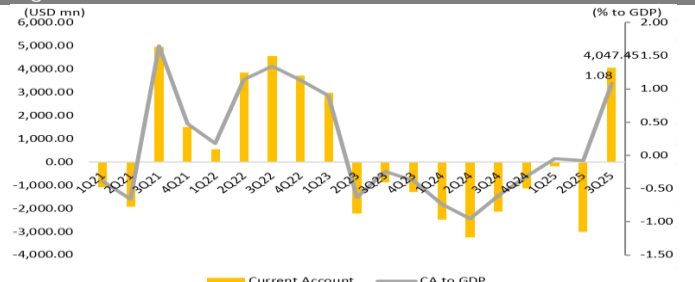
Source: BI – treated (2026)

Fig 7. Indonesia Trade Balance



Source: BI – treated (2026)

Fig 8. Indonesia Current Account



Source: BI – treated (2026)

Table 2. Fed Rate Probabilities, as of 21 Jan '26

MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375
28-Jan-26	0.0%	0.0%	0.0%	0.0%	0.0%	5.0%	95.0%
18-Mar-26	0.0%	0.0%	0.0%	0.0%	0.9%	20.6%	78.6%
29-Apr-26	0.0%	0.0%	0.0%	0.2%	4.9%	32.6%	62.3%
17-Jun-26	0.0%	0.0%	0.1%	2.3%	17.2%	45.8%	34.7%
29-Jul-26	0.0%	0.0%	0.6%	6.1%	24.5%	42.9%	25.8%
16-Sep-26	0.0%	0.3%	2.8%	13.3%	31.7%	36.2%	15.7%
28-Oct-26	0.1%	0.7%	4.8%	16.8%	32.6%	32.3%	12.7%
9-Dec-26	0.2%	1.5%	7.1%	19.8%	32.5%	28.6%	10.3%

Source: CME Group – treated (2026)

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