

## BI Rate Maintained to Balance Inflation Risks, Rupiah Depreciation, and Growth Momentum

**Bank Indonesia (BI) decided to keep the BI Rate unchanged at 4.75% (Cons: 4.75%, KBVS: 4.75%, Prev: 4.75%) and officially removed forward guidance on future rate cuts, signaling a prolonged hold to safeguard Rupiah stability amid severe global shocks.** This defensive decision is driven by two primary external risks: (1) the escalating Middle East war that began in late-Feb '26, which is pushing up global oil prices and tightening global financial conditions, and (2) the resulting massive capital outflows from emerging markets as panicking investors secure their assets. By removing the signal for near-term rate cuts, Bank Indonesia is explicitly prioritizing external currency stability over domestic monetary easing.

**The transmission of this global geopolitical shock to the domestic market operates through a clear chain of imported inflation and capital flight.** The surge in global oil prices has disrupted supply chains and pushed global inflation projections up to 4.1%. This sticky inflation narrows the room for global monetary easing, meaning the US Federal Reserve will likely keep interest rates higher for longer. This dynamic forces a rise in the global risk premium, causing foreign investors to seek safety in the US Dollar. As a direct result, Indonesia recorded a portfolio investment net outflow of USD1.1 bn in Mar '26, which pressured the Rupiah down to IDR16,985/USD as of 16 Mar '26, representing a 1.29% ptp depreciation from end-February levels.

**In this high-volatility environment, a premature policy rate cut could amplify capital flight and further devastate currency stability, even though underlying domestic inflation remains well-contained.** While headline inflation for Feb '26 appears frighteningly high at 4.76% yoy, Bank Indonesia emphasized that this is largely a statistical base-effect distortion stemming from a 50% household electricity tariff discount applied in Jan-Feb '25. Stripping away this anomaly, underlying demand pressures remain stable. Core inflation sits at a highly controlled 2.63% yoy, and volatile food inflation is at 4.64% yoy despite seasonal Eid demand and weather-disrupted supplies. Maintaining a steady benchmark rate allows the central bank to firmly anchor market expectations while preventing imported inflation from taking root in the broader economy.

**Despite the external turmoil, Indonesia's domestic macroeconomic fundamentals remain remarkably resilient and provide a robust cushion for the central bank to maneuver defensively.** Economic growth for 1Q26 is projected to accelerate past 4Q25 levels, heavily driven by strong domestic demand welcoming the Ramadan and Eid festive season. This consumption engine is further fueled by the disbursement of holiday allowances (THR) and aggressive government spending on national strategic projects. Furthermore, external buffers remain exceptionally strong to weather the storm; foreign exchange reserves stand solid at USD151.9 bn as of end-Feb '26, equivalent to 6.1 months of imports, which is well above the international adequacy standard.

### Strategic Outlook: Intensified Stabilization Measures, Liquidity Support, and Inflation Control

**To structurally defend the Rupiah without sacrificing domestic economic growth, Bank Indonesia is actively deploying alternative policy instruments and intensifying its stabilization measures.** The central bank is executing a comprehensive "triple intervention" strategy across the offshore Non-Deliverable Forward (NDF) market, the domestic spot market, and Domestic Non-Deliverable Forward (DNDF) transactions. To further mitigate currency speculation, BI tightened foreign exchange regulations effective Apr '26, drastically cutting the cash FX buy threshold from USD100k to USD50k per participant per month while raising the DNDF sell threshold to USD10.0 mn to improve domestic derivative liquidity.

**Concurrently, BI is highly vigilant regarding the rising inflation risks in Mar '26 driven by seasonal consumption spikes during Ramadan and Eid.** To control these sensitive food prices, BI is strengthening its synergy with the Central and Regional Inflation Control Teams (TPIP/TPID) to ensure smooth logistics distribution, resolve regional supply bottlenecks, and secure staple commodity stocks in the market.

**Furthermore, to ensure the real sector maintains adequate access to funding and business operations continue smoothly during this "higher for longer" era, BI poured IDR427.1 tn in Macroprudential Liquidity Incentives (KLM) into the banking system by the first week of Mar '26.** These massive incentives are specifically targeted at labor-intensive drivers such as downstream industries, housing, and MSMEs, while simultaneously encouraging banks to be more competitive in lowering their lending rates. This targeted approach allows BI to protect the currency while ensuring bank credit, which grew by a solid 9.37% yoy in Feb '26, continues to fuel our economic momentum.

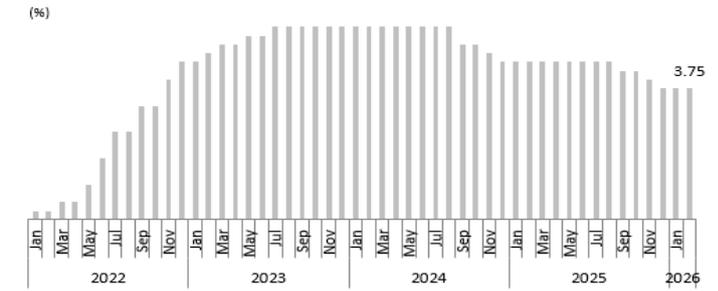
**Overall, maintaining the policy rate at this time reflects a careful and forward-looking stance, perfectly balancing currency defense, seasonal inflation control, and macroeconomic resilience amid an uncertain global environment.**

**Table 1. Interest Rate Data**

Indicators	17-Mar-26		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
<b>Policy Rate (in %)</b>				
United States	3.75	3.75	0.0	(175.0)
European Union	2.15	2.15	0.0	(235.0)
United Kingdom	3.75	3.75	0.0	(150.0)
Japan	0.75	0.75	0.0	85.0
China	3.00	3.00	0.0	(45.0)
India	5.25	5.25	0.0	(125.0)
Thailand	1.00	1.25	(25.0)	(150.0)
Philippines	4.25	4.25	0.0	(225.0)
Indonesia	4.75	4.75	0.0	(125.0)
<b>Global Monetary Policy Change (in number of countries)</b>				
Easing	12	2		
Unchanged	4	22		
Tightening	15	6		

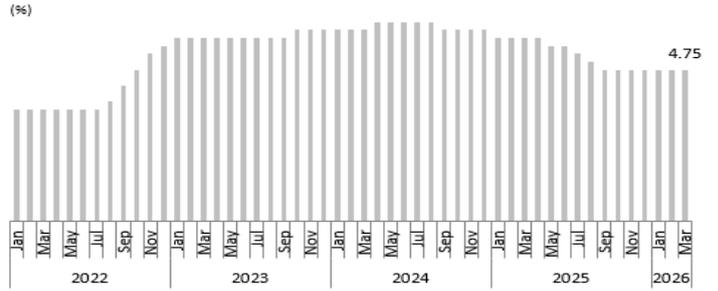
Sources: Each Central Bank and GlobalRates – treated (2026)

**Fig 1. Fed Rate**



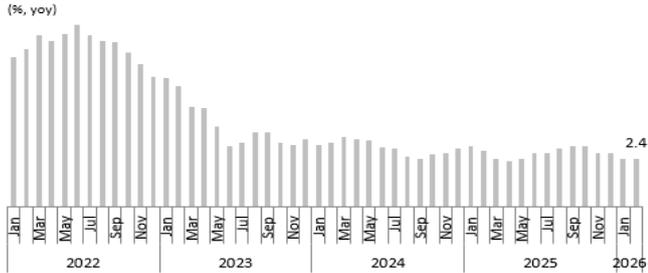
Source: The Fed – treated (2026)

**Fig 2. BI Rate**



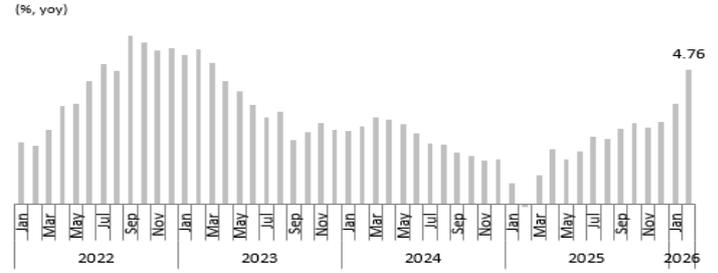
Source: Bank Indonesia – treated (2026)

**Fig 3. US CPI Inflation**



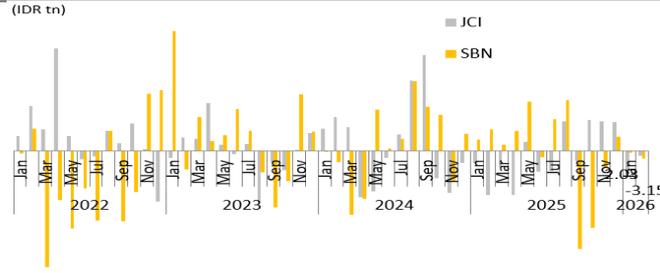
Source: US BLS – treated (2026)

**Fig 4. Indonesia CPI Inflation**



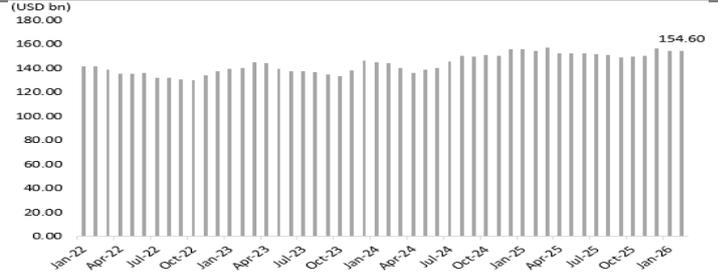
Source: BPS – treated (2026)

**Fig 5. Indonesia Portfolio Flow**



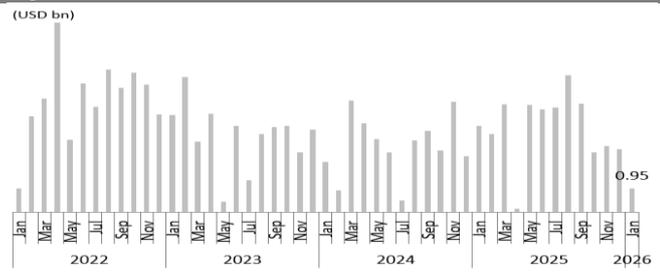
Source: Bloomberg – treated (2026)

**Fig 6. Indonesia FX Reserves**



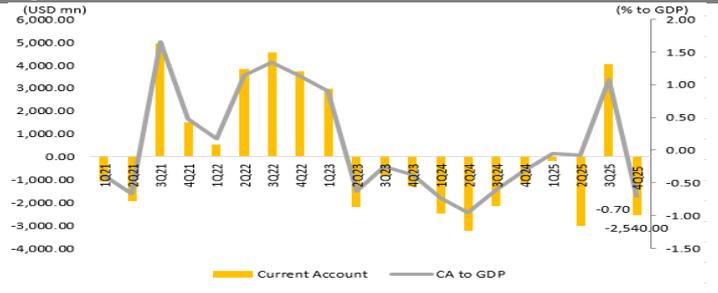
Source: BI – treated (2026)

**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 17 Mar '26

MEETING DATE	225-250	250-275	275-300	300-325	325-350	350-375
18-Mar-26	0.0%	0.0%	0.0%	0.0%	0.9%	99.1%
29-Apr-26	0.0%	0.0%	0.0%	0.0%	3.0%	97.0%
17-Jun-26	0.0%	0.0%	0.0%	0.6%	22.6%	76.8%
29-Jul-26	0.0%	0.0%	0.1%	4.6%	32.4%	62.9%
16-Sep-26	0.0%	0.0%	1.0%	10.1%	38.4%	50.5%
28-Oct-26	0.0%	0.2%	2.2%	13.9%	40.0%	43.8%
9-Dec-26	0.0%	0.7%	5.2%	20.5%	41.0%	32.7%
27-Jan-27	0.1%	0.9%	6.0%	21.6%	40.5%	30.8%

Source: CME Group – treated (2026)

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