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BI Prioritizes Liquidity While Preserving Rupiah Stability

Bank Indonesia (BI) unexpectedly left the BI Rate unchanged at 5.75% (Cons: 6.00%; KBVS: 6.00%; Prev: 5.75%), surprising markets that had largely priced in another 25bps rate hike amid renewed global geopolitical tensions and persistent Rupiah weakness. The Deposit Facility and Lending Facility rates were also left unchanged at 4.75% and 6.50%, respectively. Rather than signaling an outright pivot toward easing or a shift in policy stance, the decision reflects a measured and cautious approach to assess incoming momentum, allowing BI to evaluate global market developments and Fed policy trajectory ahead of the September 2026 FOMC meeting before committing to further monetary tightening. While the decision narrows the near-term interest rate differential with the US, BI remains committed to preserving Rupiah stability and maintaining inflation within its 2.5±1% target range for 2026–2027 through a broader policy mix.

External conditions have become materially more challenging since the June policy meeting, strengthening the case for vigilance. The re-escalation of the US-Iran conflict in early July once again disrupted shipping through the Strait of Hormuz, pushing global energy prices higher and reversing the disinflation narrative that had briefly emerged after the June ceasefire. At the same time, BI now expects global inflation to accelerate to around 4.5% in 2026 while bringing forward its expectation for the Fed Funds Rate to increase by 25bps at the Sep' 26 FOMC meeting. Higher UST yields, a firmer US Dollar, and continued capital rotation toward US assets have further tightened global financial conditions for Emerging Markets. Against this backdrop, BI's decision to leave the policy rate unchanged reflects a deliberate, instrument-based stabilization strategy rather than a change in its cautious stance regarding external risks.

Domestic considerations, particularly liquidity management and credit transmission, played a central role in BI's policy calculus. With interbank money market rates remaining tight—as reflected by the PUAB ON / INDONIA rate around ~4.60%—and SRBI yields at elevated levels, delivering an additional rate hike risked further straining domestic liquidity conditions and increasing funding costs across the banking system. At the same time, credit transmission remains constrained, with undisbursed loans staying elevated at IDR2,576 tn (22.41% of the total credit ceiling), indicating that private sector borrowing demand is already subdued. Under such conditions, another policy rate hike would have risked tightening domestic financial conditions further and delaying the recovery of private investment. Maintaining the policy rate therefore reflects BI's attempt to balance external stability against domestic liquidity and growth considerations.

Going forward, BI is expected to place greater emphasis on its broader policy mix rather than relying solely on additional policy rate adjustments to preserve macroeconomic stability. To protect Rupiah stability, BI is leveraging targeted FX stabilization tools—including intensified spot, NDF, and DNDF interventions—while maintaining attractive SRBI yields, which helped raise non-resident holdings to IDR288.65 tn (27.11% of outstanding securities) as of 20 Jul '26. Concurrently, BI is keeping macroprudential and liquidity policies supportive—such as expanding the KLM incentive up to 6.0% of DPK—to ensure adequate banking liquidity, lower short-term liquidity friction, and foster credit expansion without compromising exchange rate stability.

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Market Implications and Strategic Outlook

The decision represents a calculated hold relative to market consensus and our expectation of a 25bp rate hike, marking a shift in BI's near-term execution tools. Rather than relying on additional policy rate increases to preserve the BI–Fed interest rate differential, BI is signaling greater confidence in a broader policy mix centered on FX interventions, portfolio inflow incentives, money market deepening, and accommodative liquidity measures. This approach should help preserve domestic financial conditions by supporting credit growth and reducing pressure on an already subdued private investment cycle. However, it also implies that exchange rate stability will increasingly depend on the effectiveness of BI's FX stabilization framework, foreign portfolio inflows, and the adequacy of FX reserves should geopolitical tensions intensify or Fed tightening expectations strengthen further.

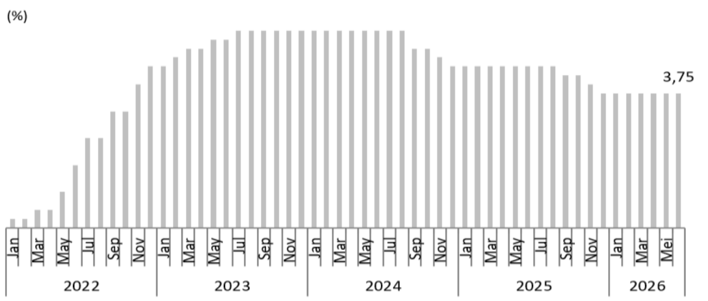
Looking ahead, we see four key factors determining whether BI can sustain its current policy strategy. First, the durability of Rupiah stability following the easing of seasonal dividend repatriation and external debt-servicing pressures highlighted by BI in June. Second, the ability of portfolio inflows into SBN and SRBI to recover from their softer pace in early 3Q26, ensuring continued support for domestic financial markets. Third, the evolution of Fed policy expectations alongside elevated US Treasury yields, which could further tighten global financial conditions and narrow the Indonesia–US interest rate differential. Fourth, domestic liquidity conditions and credit transmission, as excessive liquidity tightening could weigh on loan disbursement and domestic economic growth. **We view the July decision as a temporary, instrument-based calibration rather than the start of an easing cycle, although a material deterioration in these four risks—particularly persistent Rupiah weakness, softer portfolio inflows, tighter global financial conditions, or worsening domestic liquidity—could still prompt BI to deliver an inter-meeting rate hike.**

Table 1. Interest Rate Data

Indicators	22-Jul-26 Latest	22-Jul-26 M-1	Monthly Changes (in bps)	Ytd Changes (in bps)
Policy Rate (in %)				
United States	3,75	3,75	0,0	(175,0)
European Union	2,40	2,40	0,0	(210,0)
United Kingdom	3,75	3,75	0,0	(150,0)
Japan	1,00	1,00	0,0	110,0
China	3,00	3,00	0,0	(45,0)
India	5,25	5,25	0,0	(125,0)
Thailand	1,00	1,00	0,0	(150,0)
Philippines	4,75	4,75	0,0	(175,0)
Indonesia	5,75	5,75	0,0	(25,0)
Global Monetary Policy Change (in number of countries)				
Easing	6	3		
Unchanged	17	15		
Tightening	3	5		

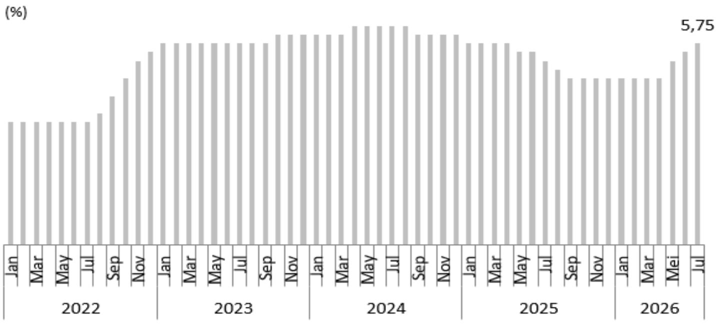
Sources: Each Central Bank and GlobalRates – treated (2026)

Fig 1. Fed Rate



Source: The Fed – treated (2026)

Fig 2. BI Rate



Source: Bank Indonesia – treated (2026)

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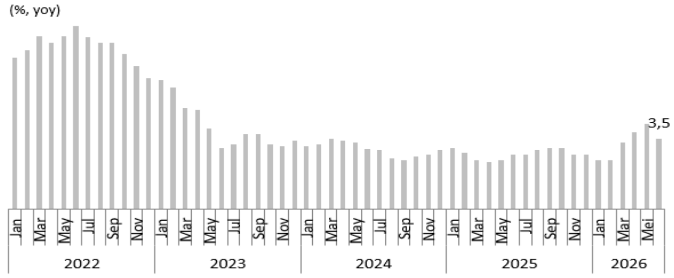
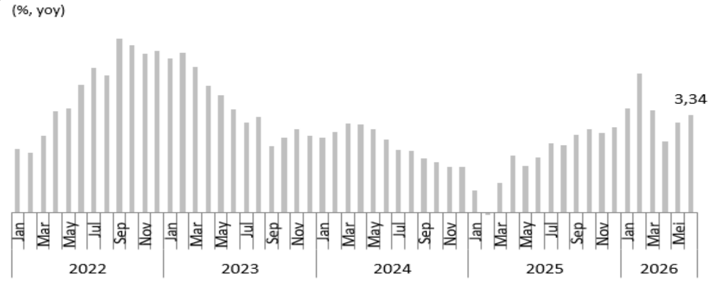
23 July 2026

Fig 3. US CPI Inflation



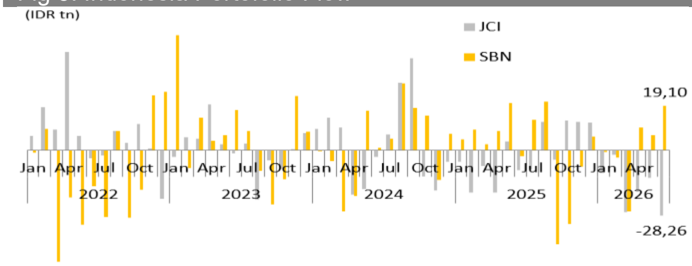
Source: US BLS– treated (2026)

Fig 4. Indonesia CPI Inflation



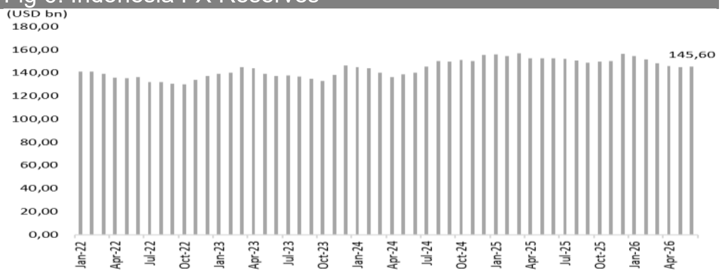
Source: BPS – treated (2026)

Fig 5. Indonesia Portofolio Flow



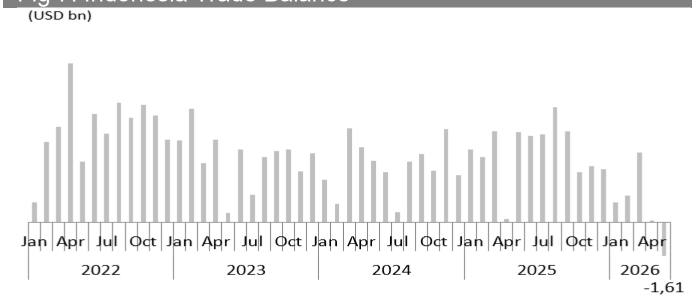
Source: Bloomberg – treated (2026)

Fig 6. Indonesia FX Reserves



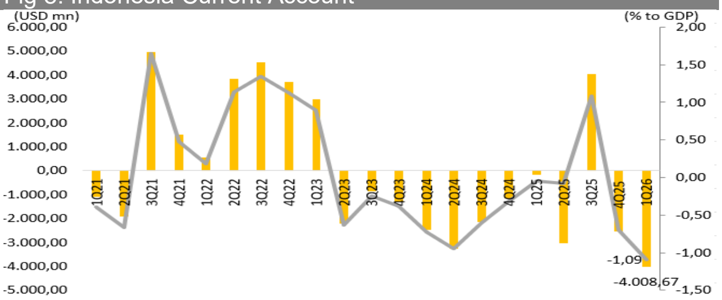
Source: BI – treated (2026)

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 22 July '26

MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500
29-Jul-26	0,0%	0,0%	74,9%	25,1%	0,0%	0,0%	0,0%	0,0%
16-Sep-26	0,0%	0,0%	28,9%	55,7%	15,4%	0,0%	0,0%	0,0%
28-Oct-26	0,0%	0,0%	21,2%	48,6%	26,1%	4,1%	0,0%	0,0%
09-Dec-26	0,0%	0,0%	12,6%	37,4%	35,3%	13,1%	1,7%	0,0%
27-Jan-27	0,0%	0,0%	10,4%	33,1%	35,0%	16,9%	3,6%	0,3%
17-Mar-27	0,0%	0,0%	7,7%	27,2%	34,4%	21,8%	7,1%	1,2%
28-Apr-27	0,0%	0,3%	8,5%	27,5%	33,8%	21,2%	6,9%	1,1%
09-Jun-27	0,0%	0,3%	7,8%	25,8%	32,8%	22,4%	8,1%	1,6%

Source: CME Group – treated (2026)

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