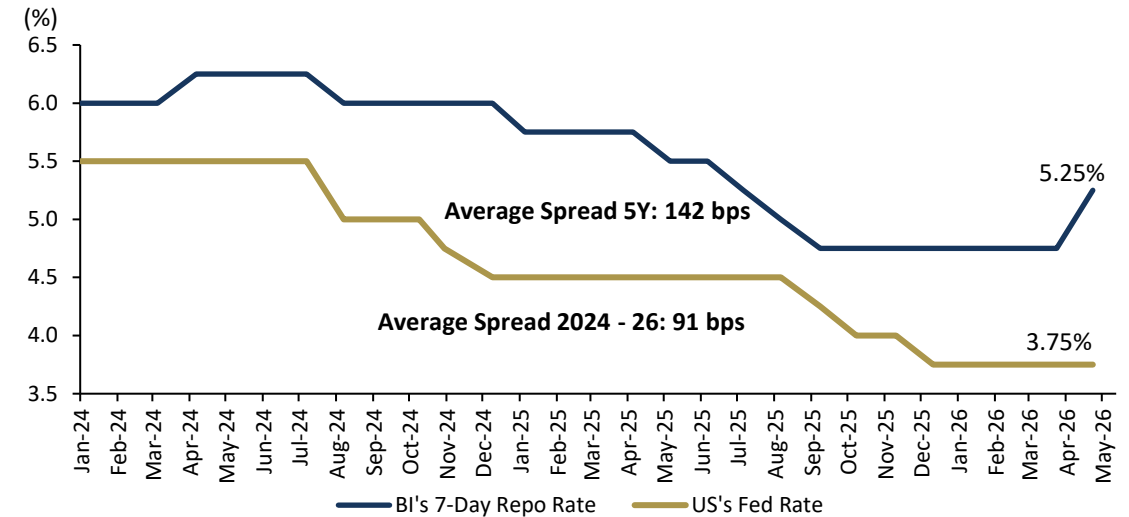


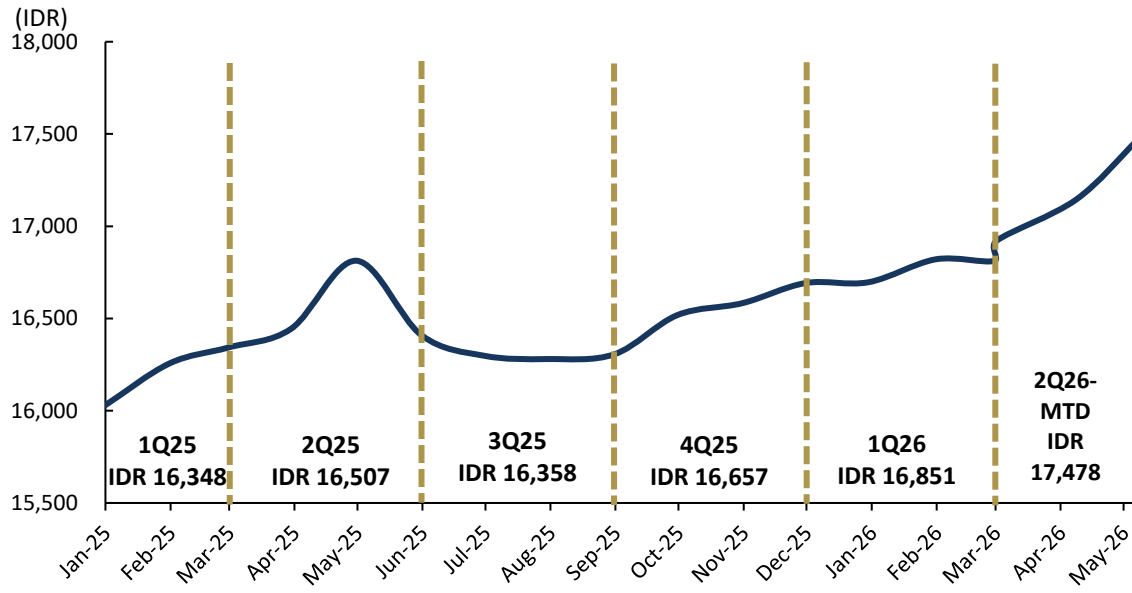
BI's 7-Day Repo Rate: 20 May 2026

- Amid persistent IDR depreciation, Bank Indonesia delivered a much needed and decisive tightening move at its May 2026 policy meeting by raising its benchmark BI Rate by 50 bps to 5.25%, in line with SSI's expectation. The move, which exceeded market expectations of a 25-bps increase, signals that the central bank is placing greater emphasis on external stability amid intensifying global uncertainty and acute pressure on the local currency. The IDR's depreciation of c. 2.2% since end-April to Rp17,700 per US dollar likely reinforced the urgency for stronger policy response, particularly as currency players focus on both internal (widening budget and current account deficits) as well as external concerns (geopolitical tensions and tighter external financial conditions).
- Despite inflation moderating sharply to 2.42% yoy in April from 3.48% previously—comfortably within the government's target range—the policy tightening underscores that the current challenge is less about domestic demand overheating and more about preventing imported inflation risks and maintaining investor confidence. In this context, the policy decision reflects Bank Indonesia's continued "pro-stability" orientation, prioritizing exchange rate stabilization and external resilience as key anchors of macroeconomic credibility. The simultaneous increase in the deposit and lending facility rates further strengthens the monetary transmission mechanism and reinforces BI's commitment to defending macro stability.
- The decision also highlights Bank Indonesia's increasingly balanced policy mix. While monetary policy has turned more hawkish, BI still expects Indonesia's 2026 GDP growth to at least still grow 4.9%. This suggests that BI is attempting to avoid an excessive drag on domestic economic momentum, especially as Indonesia's economy had previously shown relatively solid growth dynamics in 1Q26. BI appears to be pursuing a calibrated approach: tightening sufficiently to stabilize the IDR and preserve financial market confidence, while still allowing liquidity support and macroprudential flexibility to cushion the broader economy.
- From a market perspective, the larger-than-expected hike could help restore confidence in Indonesian financial assets, particularly if global risk sentiment remains volatile. The move may provide temporary support for the IDR and help narrow pressure stemming from capital outflows. At the same time, higher domestic rates could increase the attractiveness of Indonesian bonds relative to regional peers, especially as investors continue searching for yield amid elevated global uncertainty. Nonetheless, the effectiveness of the policy will still depend heavily on external developments, particularly the trajectory of US Treasury yields, the Fed's policy outlook, and geopolitical tensions.
- Looking ahead, we view Bank Indonesia's latest move as a pre-emptive stabilization measure. Whether this action is the beginning of a continued and prolonged tightening cycle will hinge on both internal and external developments. We are of the view that IDR stability which depends on the progress of Indonesia's twin deficits, coupled with capital flow dynamics and global volatility will determine BI's ability to eventually shift back towards a more balanced stance between stability and growth. However, in the near term, maintaining currency stability will likely remain the central bank's primary policy priority.

Fed Rate vs BI's Rate

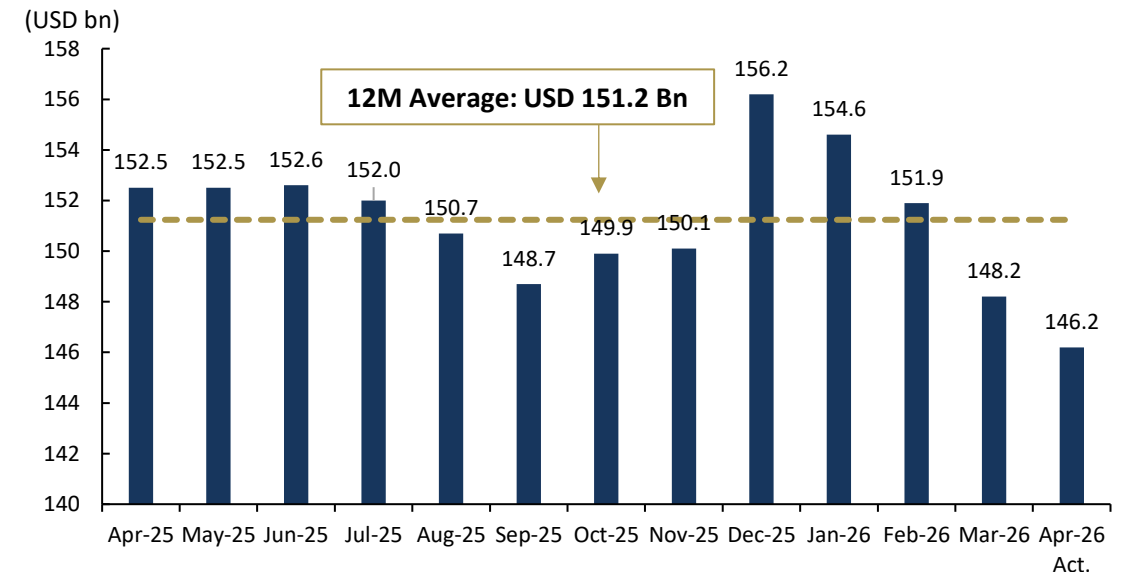


Quarterly USD/IDR Rate 1Q25 – 2Q26 MTD



Sources: Bloomberg, Bank Indonesia, SSI Research

Monthly FX Reserves



Macro Strategy Team