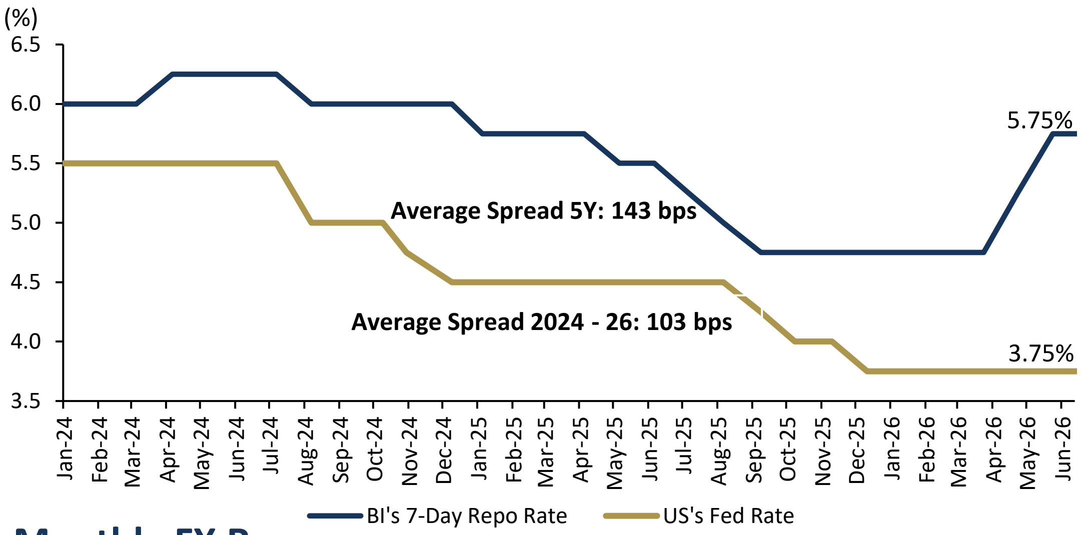
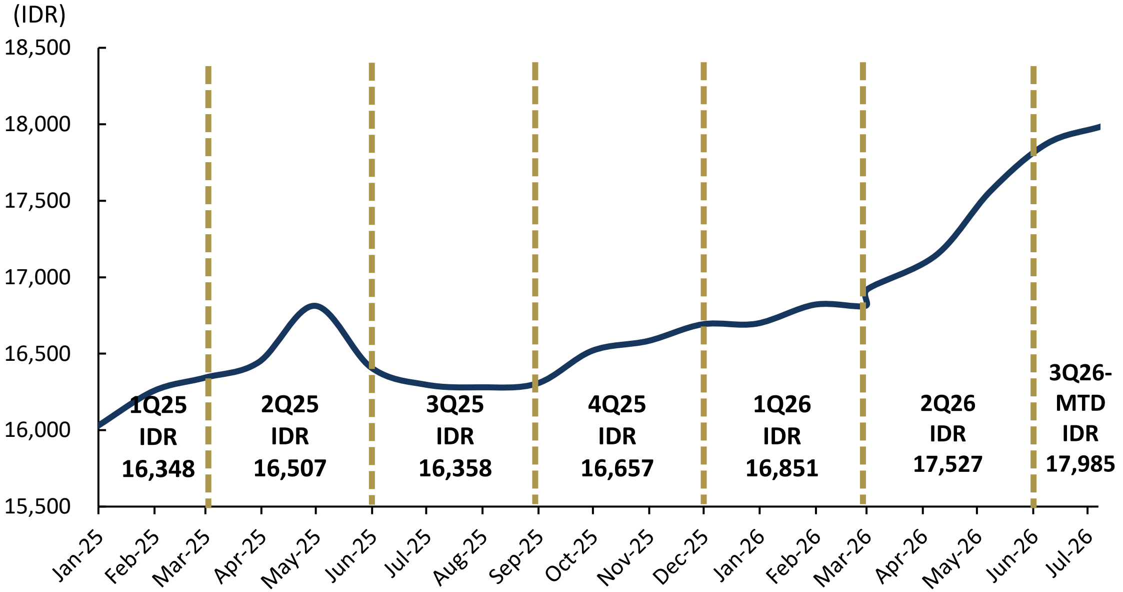
Bank Indonesia's 7-Day Reverse Repo Rate: 22 July 2026

- The market (expecting 56% rate hike vs 44% unchanged) experienced a mild surprise as BI kept its benchmark 7-Day Reverse Repo Rate unaltered at 5.75% at its July 22 policy meeting. However, the decision was in line with SSI's forecast, as we had anticipated BI to pause post 100bps tightening since May and to evaluate FX stability and economic growth. By leaving rates unchanged this month, BI appears confident of adequate buffer against external risks with previous rate increases have yet to be fully transmitted onto the broader economy.
- In our assessment, market's focus will now shift to the fiscal front given recent relatively stable monetary management. Going forward, maintaining investor confidence will hinge on the government's ability to keep fiscal deficit below 3% of GDP with the biggest near-term risks being high energy prices. We note that the current 2026 budget assumes USD70/bbl average oil price while YTD average has reached USD88/bbl with current Brent oil price c.USD94/bbl, reflecting significantly higher costs of importing fuels for Indonesia (2025: 60% of domestic gasoline demand were imported). That said, it is imperative for the government to continue trimming its expenditures (MBG was recently further cut to IDR229tn from IDR268tn and IDR335tn originally), and secure greater tax revenues amid potential slower GDP growth in 2H26.
- Looking ahead, we expect BI to maintain the policy rate at 5.75% with future decisions continuing to depend primarily on developments in global financial markets, particularly the Federal Reserve's policy trajectory, US Treasury yields, capital flows, local inflation and IDR stability. With inflation already hovering near the upper end of the target band, BI is expected to retain a tightening bias, meaning any renewed IDR depreciation or stronger-than-expected inflationary pressures could quickly revive the case for additional policy tightening in order to contain Indonesia's risk premium. Finally, given fiscal concerns, balancing of the state budget will require both domestic and overseas debt refinancing, which necessitates continued investor confidence and risk appetite.

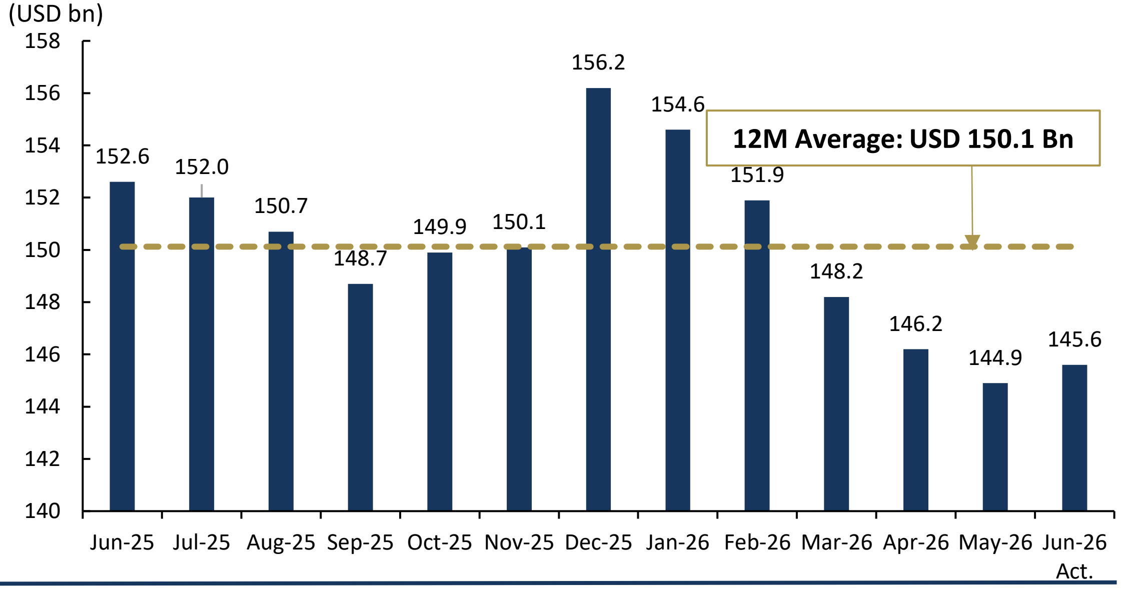
Fed Rate vs BI's Rate



Quarterly USD/IDR Rate 1Q25 – 3Q26 MTD



Monthly FX Reserves



Sources: Bloomberg, Bank Indonesia, SSI Research

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