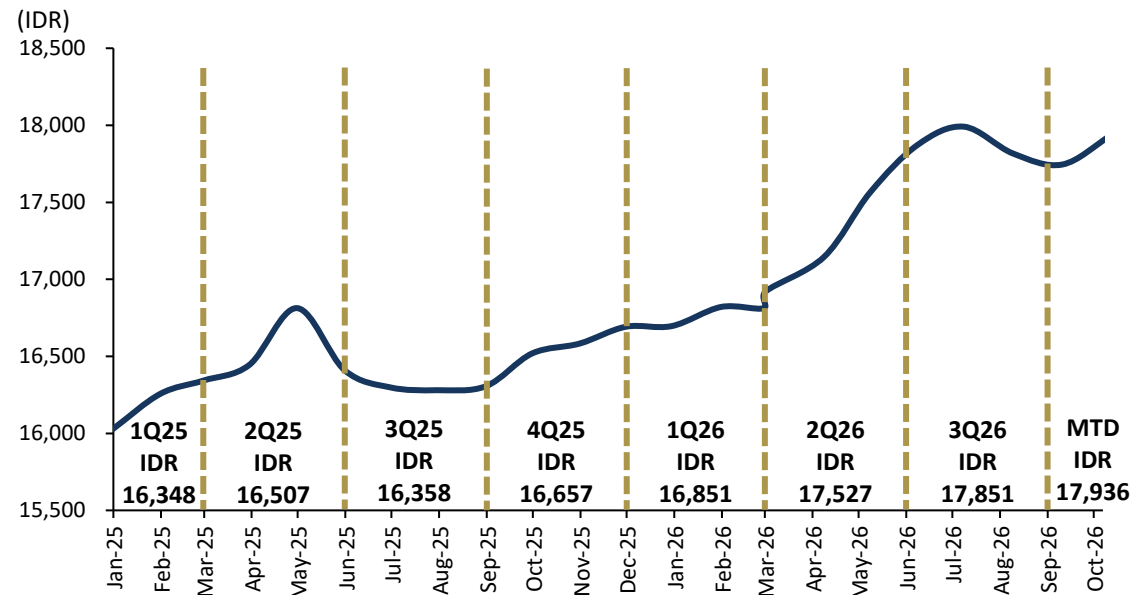


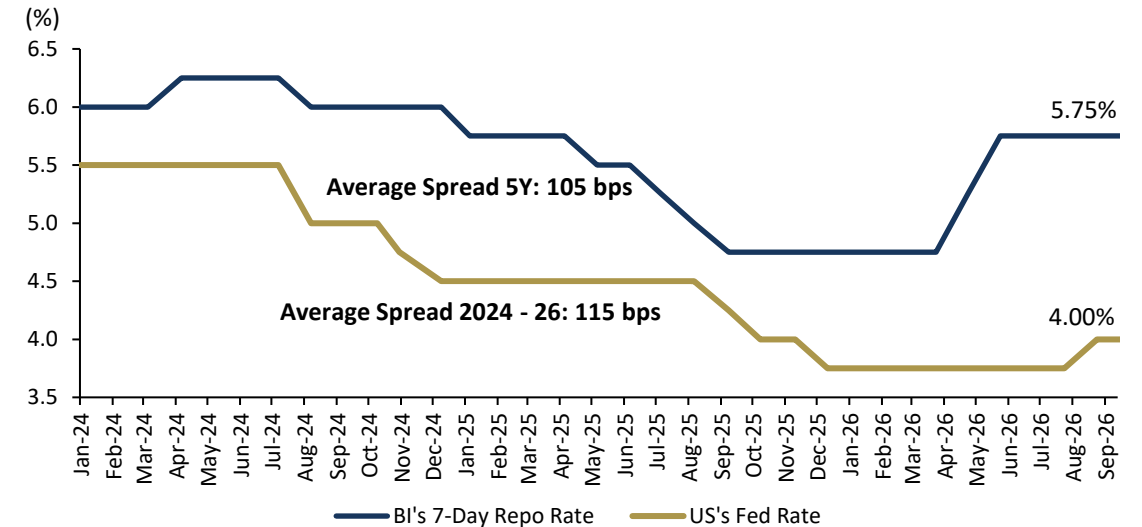
Bank Indonesia's 7-Day Reverse Repo Rate: 21 October 2026

- With currency and inflation risks constraining BI's policy flexibility in supporting growth through lower interest rates, the central bank maintains its benchmark interest rate at 5.75% at its September 23, c2026, policy meeting, marking the third consecutive hold following cumulative tightening of 100 bps in May–June. *The decision was in line with Samuel Sekuritas Indonesia's (SSI) forecast*, with deposit and lending facility rates unchanged at 4.75% and 6.50%, respectively.
- The decision highlights BI's difficult trade-off between protecting IDR stability and managing the economic cost of higher interest rates. Although improving capital inflows have provided some relief, their durability remains uncertain, leaving the IDR vulnerable to shifts in global risk appetite. Previous tightening also continues to filter through borrowing costs and debt servicing, potentially weakening credit demand and corporate expansion. Consequently, unchanged policy rate should not be interpreted as easing in financial conditions.
- Inflation accelerated to 3.19% YoY in August from 2.88% in July, remaining within BI's 2.5% ± 1% target but narrowing the buffer against further price shocks. Food and energy pressures could erode household purchasing power, while renewed rupiah depreciation would add to imported inflation risks. Although supply-driven inflation may respond only modestly to higher interest rates, persistent price pressures could still force BI to maintain restrictive policy for longer, increasing the downside risk to domestic demand.
- BI maintained its 2026 GDP growth projection at 4.9%–5.7%, while SSI's full-year forecast stands at 5.35%. *We see downside risks to our forecast*, particularly if elevated financing costs restrain private investment and weaker purchasing power slows consumption. Government spending could provide support, but its effectiveness will depend on timely execution and the composition of expenditure. Macroprudential measures may cushion the slowdown, although their impact could be limited if households and businesses remain reluctant to borrow.
- Looking ahead, SSI expects BI to maintain its benchmark rate at 5.75% in the near term, with limited scope for easing until inflation and exchange rate pressures subside sustainably. Additional tightening remains a risk if renewed capital outflows or IDR weakness threaten stability, even as domestic activity softens. Our baseline therefore implies a prolonged period of restrictive financial conditions, with pressure on consumption, investment, and corporate earnings. The key downside risk is that BI may need to defend monetary stability at the expense of near-term growth.

Quarterly USD/IDR Rate 1Q25 – MTD



Fed Rate vs BI's Rate



Monthly FX Reserves

