Bank Indonesia holds rates, prioritises rupiah stability

Bank Indonesia kept its policy rate unchanged at 4.75% in line with expectations. With fuel subsidies continuing to contain inflation, BI struck a largely neutral tone, while seeking to limit downside risks to the currency by emphasising that the rupiah is undervalued and reaffirming its commitment to ongoing intervention to support it

Bank Indonesia has opted to keep policy rates unchanged at 4.75%

Bank Indonesia keeps policy rate unchanged

Bank Indonesia left its policy rate unchanged at 4.75%, in line with expectations, underscoring its priority for maintaining currency stability. The rupiah remains under pressure amid concerns around fiscal sustainability and MSCI related uncertainty – risks that are unlikely to dissipate in the near term. Earlier this week, MSCI delayed Indonesia's market status review and warned that it could remove major Indonesian stocks with tightly held ownership structures from its indices, adding to investor caution.

Policy to remain on hold; no hawkish pivot yet

Fuel subsidies have so far helped cap inflationary pressures, reducing the need for a hawkish policy response. As a result, BI is likely to rely on non rate tools to manage rupiah stability. While we expect CPI to rise to around 3.5% in the coming months, this remains well below the 2022 peak of around 5% that triggered aggressive tightening. BI also remains comfortable with inflation as it expects it to remain within the target of 1.5-3.5%. With growth weakening, the central bank is unlikely to hike and is expected to stay on hold into 2026, limiting monetary support for the currency.

As such, we continue to expect policy rates to remain unchanged through the third quarter this year, with softening growth potentially opening the door to rate cuts rather than hikes by year end.

Further weakness in the rupiah likely

Despite manageable subsidies, a renewed oil price surge above US$100/bbl could quickly widen fiscal risks, intensify bond outflows, and add pressure on the rupiah in our base case risk scenario. External balances remain a key constraint: low oil reserves, limited FX buffers, a wider current account deficit, and seasonal dividend outflows are likely to keep the IDR trading on the weaker side, leaving BI with limited room to defend the currency through intervention.

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