

Bank Indonesia keeps rates steady, as rupiah weakness threatens to delay easing

Bank Indonesia kept its policy rate at 4.75% as rupiah weakness and fragile investor sentiment left little room to ease. With narrowing rate differentials, ongoing Foreign Institutional Investor outflows, and heightened policy uncertainty, currency pressures are likely to delay further cuts



Indonesia's central bank governor Perry Warjiyo

Bank Indonesia leaves policy rate unchanged

BI kept its policy rate unchanged at 4.75%, in line with our expectations. The decision underscores the central bank's focus on maintaining currency stability through FX intervention. The rupiah has been under pressure amid concerns over fiscal sustainability, with recent policy unpredictability and weaker communication unsettling foreign investors.

Rupiah weakness could persist, delaying rate cuts

Moody's recently lowered Indonesia's credit rating outlook to negative from stable, citing rising

uncertainty in policy direction. This followed MSCI's earlier comments on transparency shortcomings, which had already triggered a sharp equity market sell off and heightened investor sensitivity.

Real rate differentials between Indonesia and the US have narrowed significantly – by more than one percentage point in January 2026 compared with November 2025 – adding additional pressure on the rupiah. Alongside sizeable FII outflows from debt since September 2025, foreign investor appetite for Indonesian equities has also weakened in 2026, further weighing on the currency. Against this backdrop, we expect additional IDR depreciation as investor caution keeps FII inflows muted.

Recovery in GDP growth reduces urgency - but not the need - for easing

Indonesia's GDP growth picked up to 5.4% year on year in the fourth quarter, from 5.0% in the third, supported mainly by stronger investment and consumption growth. However, we do not expect this momentum to be sustained through 2026. BI projects GDP growth in the 4.9–5.7% range, while our own forecast sits towards the lower end of that band, as fiscal crowding out continues to suppress private investment and weak monetary policy transmission limits the pass through of BI's rate cuts to bank lending rates, constraining a broader recovery in consumption.

Given this soft domestic growth outlook, we believe BI's easing cycle is not yet complete. Once the currency stabilises, further rate reduction remains likely to support growth. We currently expect two additional 25bp cuts in the first half of 2026, though the risks are skewed toward a delay.

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