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Bank Indonesia Maintains Policy Rate Amid Currency Pressures and Seasonal Inflation Risk

Bank Indonesia (BI) decided to keep the BI Rate unchanged at 4.75% as part of its commitment to safeguarding Rupiah stability amid persistent global financial market uncertainty. In our assessment, two key considerations underpinned this decision: (1) the ongoing depreciation trend of the Rupiah, and (2) rising inflation expectations ahead of the Ramadan and Eid festive season. The combination of these factors poses upside risks to inflation, particularly through core inflation and volatile food components.

Rupiah depreciation remains the primary transmission channel for imported inflation. The weaker currency directly raises prices of imported consumer goods while also increasing input costs—both goods and services—for production factors reliant on imports. Food inflation is especially sensitive during the Ramadan-Eid period due to distribution bottlenecks, higher logistics costs, and potential supply constraints in key commodities such as rice, poultry, meat, and cooking oil. Seasonal demand for food, beverages, transportation, and hospitality services typically surges, driven by religious gatherings, travel, and celebrations. This demand spike often creates temporary supply-demand imbalances in staple commodities, placing upward pressure on prices and potentially accelerating headline inflation.

In this environment, a premature policy rate cut could amplify inflation expectations and further weaken currency stability. Maintaining a steady policy stance therefore allows BI to anchor inflation expectations and prevent seasonal price pressures from evolving into more persistent inflationary trends.

At the same time, Indonesia's macroeconomic fundamentals remain relatively resilient. Economic growth reached 5.39% YoY in 4Q25 and is projected to moderate within the range of 4.7%-4.97% YoY going forward. Foreign exchange reserves remain solid at USD154.58 bn, equivalent to 6.3 months of imports or 6.1 months of imports and government external debt servicing. Indonesia has also recorded a trade surplus for 68 consecutive months through Dec '25, with prospects for continued surplus supported by natural resource exports. Consequently, the current account balance in 2025 is expected to remain manageable, ranging from a deficit of -0.5% of GDP to a surplus of 0.3% of GDP. **These fundamentals support Bank Indonesia's view that the Rupiah is currently undervalued.**

Nevertheless, external pressures remain elevated. Heightened global geopolitical tensions have sustained risk-off sentiment and capital flight to safe-haven assets. The policy rate pause maintained by major global central banks over the past three months also necessitates preserving an adequate interest rate differential to sustain investor confidence and limit excessive currency volatility. Domestically, warnings from MSCI and FTSE Russell regarding market accountability, coupled with Moody's recent revision of Indonesia's sovereign outlook in early February, appear to have weakened investor sentiment in the equity market. This has contributed to foreign net sell-offs amounting to IDR14.81 tn ytd, as of 14 Feb '26.

The urgency of BI's stabilization mandate is reflected in recent foreign exchange market dynamics. As of 18 Feb '26, the Rupiah closed at IDR16,880 per US dollar, representing a 0.56% ptp depreciation compared with end-January levels. Allowing further currency weakness without credible monetary defense could risk triggering a self-reinforcing cycle of imported inflation and increased corporate hedging demand. This validates BI's decision to refrain from initiating rate cuts in the current quarter.

Strategic Outlook: Intensified Stabilization Measures and Policy Coordination

To structurally defend the Rupiah, Bank Indonesia is expected to intensify its stabilization measures through a comprehensive "triple intervention" strategy. This includes calibrated intervention in the offshore Non-Deliverable Forward (NDF) market to anchor offshore investor sentiment, alongside direct intervention in the domestic spot market and Domestic Non-Deliverable Forward (DNDF) transactions. This multi-layered approach enables BI to manage volatility effectively while ensuring adequate US dollar liquidity for the corporate sector.

Concurrently, to mitigate seasonal inflationary pressures, BI will strengthen coordination with central and regional inflation control teams (TPID). These efforts will focus on improving supply-chain logistics, resolving distribution bottlenecks, and ensuring adequate availability of essential food commodities. Such administrative and operational coordination is critical to ensuring that headline inflation remains anchored within BI's target range of 2.5% ± 1%.

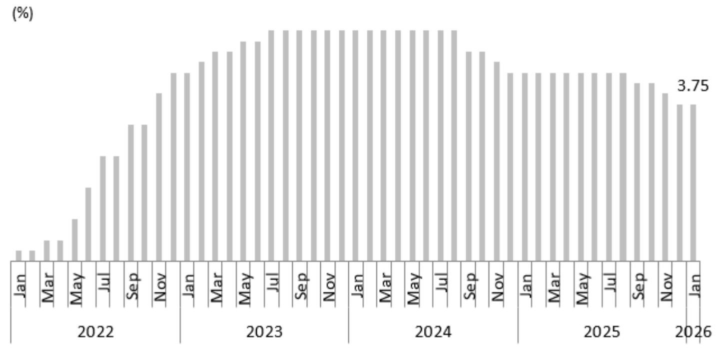
Overall, maintaining the policy rate at this juncture reflects a prudent and forward-looking stance, balancing currency stability, inflation control, and macroeconomic resilience amid an uncertain global environment.

Table 1. Interest Rate Data

Indicators	19-Feb-26 Latest	19-Feb-26 M-1	Monthly Changes (in bps)	Ytd Changes (in bps)
Policy Rate (in %)				
United States	3.75	3.75	0.0	0.0
European Union	2.15	2.15	0.0	0.0
United Kingdom	3.75	3.75	0.0	0.0
Japan	0.75	0.75	0.0	0.0
China	3.00	3.00	0.0	0.0
India	5.25	5.25	0.0	0.0
Thailand	1.25	1.25	0.0	0.0
Philippines	4.50	4.50	0.0	0.0
Indonesia	4.75	4.75	0.0	0.0
Global Monetary Policy Change (in number of countries)				
Easing	2	3		
Unchanged	22	8		
Tightening	6	1		

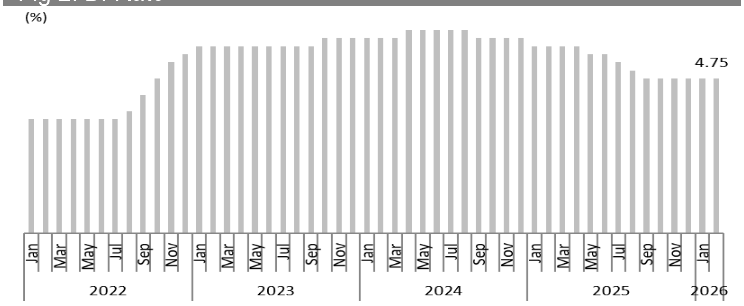
Sources: Each Central Bank and GlobalRates – treated (2026)

Fig 1. Fed Rate



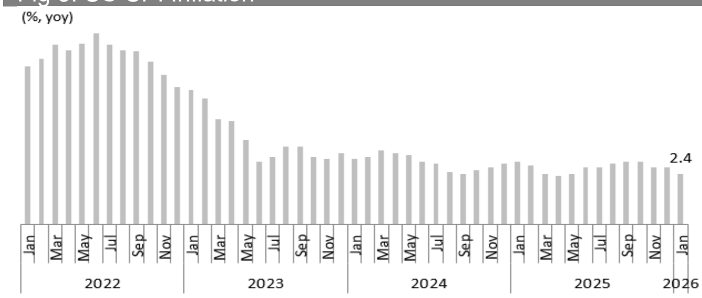
Source: The Fed – treated (2026)

Fig 2. BI Rate



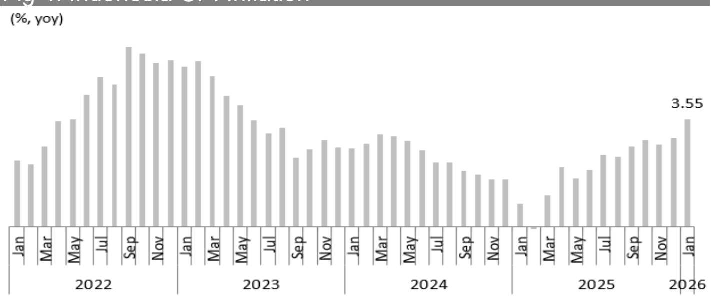
Source: Bank Indonesia – treated (2026)

Fig 3. US CPI Inflation



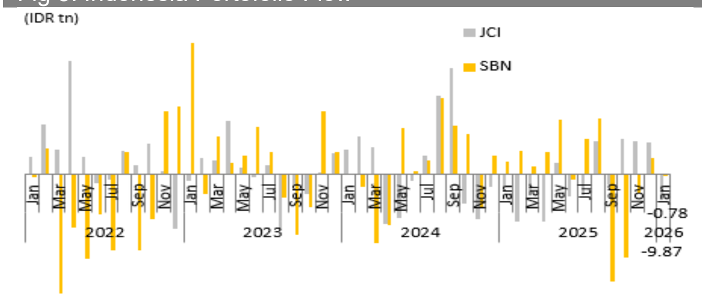
Source: US BLS– treated (2026)

Fig 4. Indonesia CPI Inflation



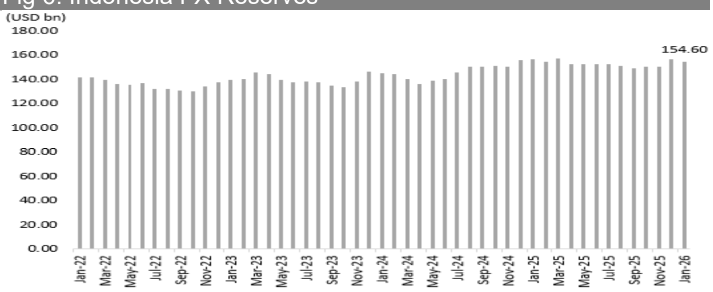
Source: BPS – treated (2026)

Fig 5. Indonesia Portofolio Flow



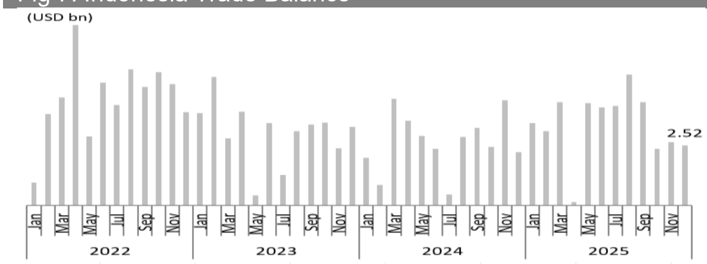
Source: Bloomberg – treated (2026)

Fig 6. Indonesia FX Reserves



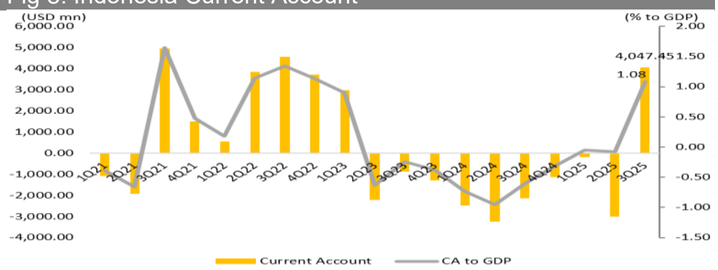
Source: BI – treated (2026)

Fig 7. Indonesia Trade Balance



Source: BI – treated (2026)

Fig 8. Indonesia Current Account



Source: BI – treated (2026)

Table 2. Fed Rate Probabilities, as of 19 Feb '26

MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375
18-Mar-26	0.0%	0.0%	0.0%	0.0%	0.0%	5.9%	94.1%
29-Apr-26	0.0%	0.0%	0.0%	0.2%	1.0%	20.5%	78.5%
17-Jun-26	0.0%	0.0%	0.0%	0.5%	10.7%	49.3%	39.5%
29-Jul-26	0.0%	0.0%	0.2%	4.2%	24.7%	45.7%	25.2%
16-Sep-26	0.0%	0.1%	2.3%	15.1%	35.9%	34.8%	11.8%
28-Oct-26	0.0%	0.8%	6.3%	21.5%	35.5%	27.7%	8.2%
9-Dec-26	0.3%	2.6%	11.2%	26.1%	33.0%	21.3%	5.5%
27-Jan-27	0.5%	3.5%	12.8%	26.8%	31.8%	19.7%	4.9%

Source: CME Group – treated (2026)

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