

BI Delivers Surprise Inter-Meeting Hike, Reinforces Rupiah Stability Mandate

Bank Indonesia (BI) raised the BI Rate by 25bps to 5.50% at its Weekly Board of Governors Meeting (RDG) on 9 Jun '26, alongside symmetric increases in the Deposit Facility and Lending Facility rates by 25bps to 4.50% and 6.25%, respectively. This rate hike continues BI's efforts to reinforce Rupiah stabilization amid heightened global volatility from the ongoing Middle East conflict and serves as a pre-emptive measure to keep inflation within the $2.5 \pm 1\%$ target range for 2026 – 2027. In addition, this policy aims to maximize returns and provide additional incentives to attract foreign investment inflows, thereby safeguarding the Rupiah's stability and Indonesia's external economic resilience.

Notably, this 25bps rate hike was delivered through a Weekly Board of Governors Meeting (RDG) rather than the scheduled Monthly RDG, underscoring BI's decisive pro-stability stance. Under BI's governance framework, the Weekly RDG, held every Tuesday, retains full authority to adjust policy rates when immediate action is required. BI triggered this mechanism because the Rupiah depreciation since May '26 Monthly RDG significantly exceeded projections. Coming just 20 days after May's surprise 50bps hawkish hike, this inter-meeting move signals that BI will not tolerate entrenched currency weakness and stands ready to act decisively between regular sessions to defend the Rupiah.

Beyond the headline rate hike, BI unveiled a broader package of complementary measures to boost market liquidity and improve the risk-adjusted attractiveness of Indonesian assets relative to emerging-market peers. First, SRBI rates across all tenors (6, 9, and 12 months) were raised via market mechanisms to maximize real yield competitiveness and attract foreign portfolio inflows. Second, BI introduced a meaningful 10% discount on prevailing hedging swap rates for foreign investors, effectively lowering costs to offset current hedging obligations, which had historically deterred longer-duration allocations. Third, to ensure adequate money market and banking liquidity, BI reopened repo auction windows for 3-, 6-, 9-, and 12-month tenors. This facility will now supersede secondary-market SBN purchases as the primary liquidity management tool, with the explicit aim of sustaining double-digit growth in the monetary base (M0), which expanded 14.2% YoY in May '26. Lastly, BI is intensifying its dual-currency monetary operations by doubling SRBI auctions to a twice-weekly cadence and stepping up FX interventions via spot, DNDF, and offshore NDF markets to firmly stabilize the Rupiah.

Going forward, BI will focus on improving the attractiveness and returns of Indonesian financial assets to encourage foreign portfolio inflows, while also ensuring adequate liquidity in the money market and banking system. Crucial to this outlook is the heightened coordination between monetary policy and the Government's fiscal policy, as reaffirmed by the Minister of Finance and the Governor of Bank Indonesia on June 6, 2026. This formalized synergy is strategically designed to bolster Rupiah stabilization and macroeconomic resilience through two primary pillars. First, it will harmonize market mechanisms to maximize the yield attractiveness of both SRBI and Government Securities (SBN), effectively securing foreign portfolio inflows. Second, it optimizes the management of Government cash balances held at BI to ensure that fiscal and monetary liquidity operations mutually reinforce, rather than disrupt, banking system stability. By institutionalizing this continuous and synchronized policy framework, authorities aim to maintain a unified front against global volatility, safeguarding Indonesia's resilient economic growth and underlying fundamentals.

Market Implications and Strategic Outlook

BI's inter-meeting 25bps hike confirms a strict pro-stability regime that prioritizes Rupiah defense over near-term economic growth. This move will rapidly push short-end money market rates (INDONIA and JIBOR) higher while also exerting upward pressure on long-term SBN yields, as investors increasingly rotate into short-duration SBNs and SRBI that now offer more attractive risk-adjusted returns with lower duration risk amid elevated volatility. This shift in demand toward front-end government securities reduces appetite for longer-tenor SBNs, forcing long-end yields to rise further to attract buyers and normalizing the yield curve.

Higher interest rates are also expected to slow credit expansion as banks become more selective in loan disbursement and prioritize liquidity preservation, while corporates may delay long-term bond issuance due to rising borrowing costs in the debt market. Nevertheless, the banking sector's liquidity conditions should remain relatively resilient as Bank Indonesia's reopening of repo auction windows and still-accommodative Giro Wajib Minimum (GWM) framework help cushion liquidity tightening and preserve funding flexibility.

The medium-term outlook turns constructive as BI's comprehensive policy package gains traction. With the BI Rate at 5.50% against a US Fed Funds target of 3.75% and low domestic inflation, Indonesia's real yield differential has widened significantly, making SRBI and SBN instruments highly attractive to global yield-seekers. Furthermore, the 10% hedging swap discount effectively reduces entry costs for foreign investors, mitigating structural currency risks that historically deterred long-duration allocations. As seasonal corporate FX demand fades toward July–August, these combined yield and cost incentives are expected to reverse portfolio outflows and establish a durable floor for the Rupiah.

BI rate hike also signals the independence and policy flexibility of Bank Indonesia, reinforcing that monetary policy decisions are driven by its mandate to maintain Rupiah stability and keep inflation within target, while still supporting growth in a balanced manner. It also highlights that the current BI Rate level should not necessarily be viewed as the peak, as policy remains data-dependent and can adjust further if macro conditions shift.

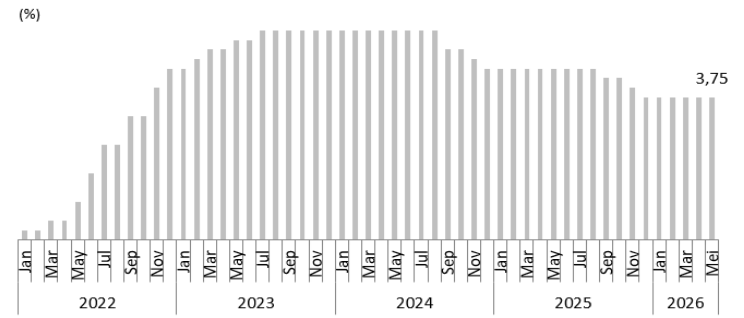
Looking ahead, BI is expected to maintain a firm pro-stability stance until three key triggers materialize: (i) sustained Rupiah stabilization as seasonal pressures from dividend repatriation and external debt servicing ease post-June; (ii) consistent and durable weekly foreign portfolio inflows into SRBI and SBN; and (iii) a clear de-escalation of geopolitical tensions in the Middle East, leading to lower global energy prices and reduced risk premia. Until these conditions are met, any premature expectation of rate cuts would risk undermining BI's policy credibility and could weaken recent gains in currency stability and investor confidence.

Table 1. Interest Rate Data

Indicators	9-Jun-26		Monthly Changes (in bps)	Ytd Changes (in bps)
	Latest	M-1		
Policy Rate (in %)				
United States	3,75	3,75	0,0	(175,0)
European Union	2,15	2,15	0,0	(235,0)
United Kingdom	3,75	3,75	0,0	(150,0)
Japan	0,75	0,75	0,0	85,0
China	3,00	3,00	0,0	(45,0)
India	5,25	5,25	0,0	(125,0)
Thailand	1,00	1,00	0,0	(150,0)
Philippines	4,50	4,50	0,0	(200,0)
Indonesia	5,50	5,25	25,0	(50,0)
Global Monetary Policy Change (in number of countries)				
Easing	2	3		
Unchanged	5	15		
Tightening	1	5		

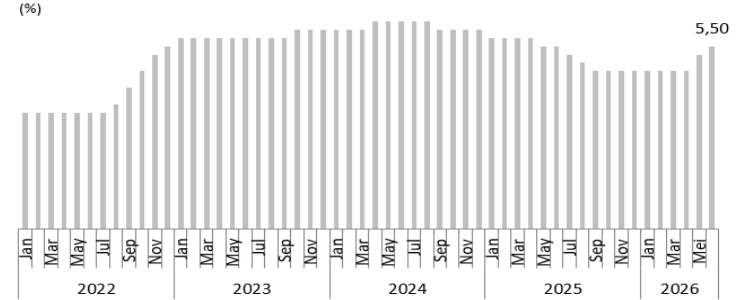
Sources: Each Central Bank and GlobalRates – treated (2026)

Fig 1. Fed Rate



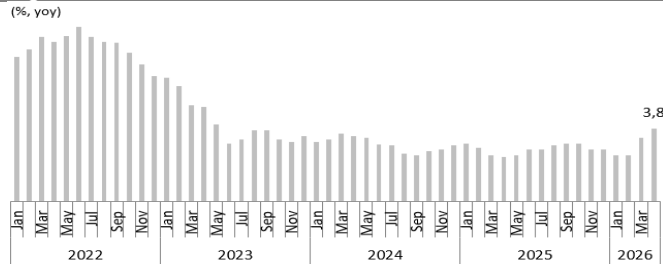
Source: The Fed – treated (2026)

Fig 2. BI Rate



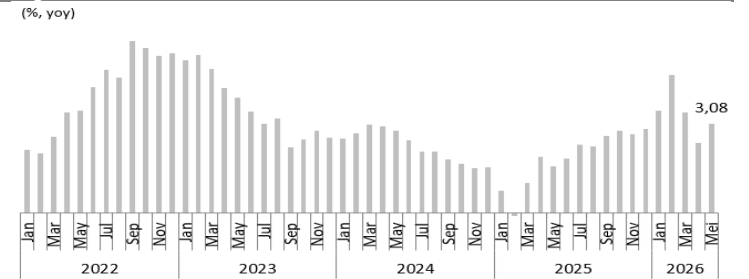
Source: Bank Indonesia – treated (2026)

Fig 3. US CPI Inflation



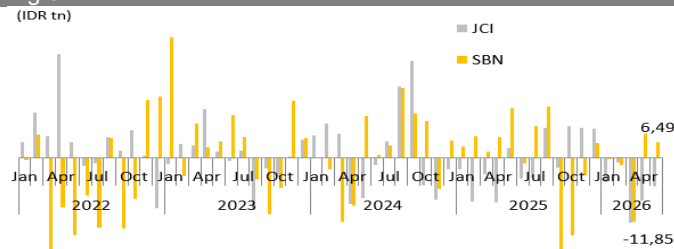
Source: US BLS – treated (2026)

Fig 4. Indonesia CPI Inflation



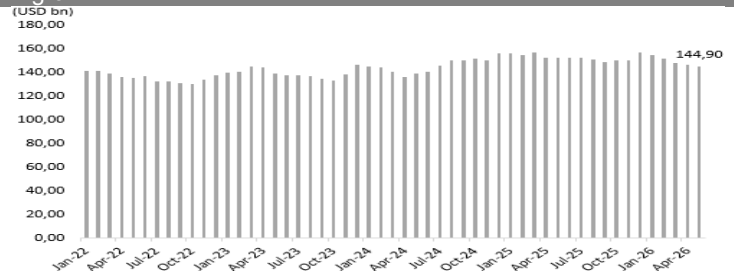
Source: BPS – treated (2026)

Fig 5. Indonesia Portfolio Flow



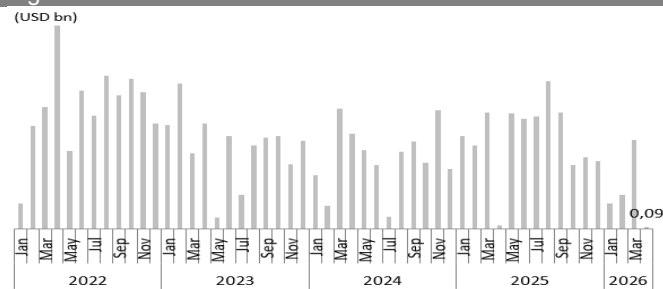
Source: Bloomberg – treated (2026)

Fig 6. Indonesia FX Reserves



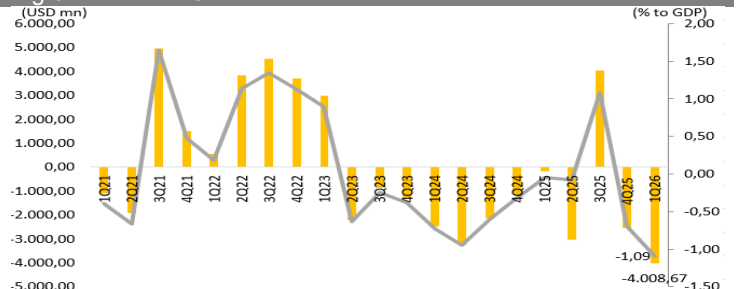
Source: BI – treated (2026)

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 9 June '26

MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500
17-Jun-26	1,8%	98,2%	0,0%	0,0%	0,0%	0,0%	0,0%
29-Jul-26	1,6%	85,8%	12,6%	0,0%	0,0%	0,0%	0,0%
16-Sep-26	1,1%	59,0%	35,9%	4,0%	0,0%	0,0%	0,0%
28-Oct-26	0,8%	46,2%	41,0%	11,1%	0,9%	0,0%	0,0%
09-Dec-26	0,5%	28,7%	43,0%	22,6%	4,8%	0,3%	0,0%
27-Jan-27	0,4%	23,2%	40,2%	26,6%	8,3%	1,2%	0,1%
17-Mar-27	0,3%	16,8%	35,4%	30,4%	13,4%	3,2%	0,4%
28-Apr-27	0,3%	14,7%	33,0%	31,1%	15,6%	4,5%	0,8%

Source: CME Group – treated (2026)

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