

BI's Continued Tightening Reinforces Pro-Stability Commitment

Bank Indonesia (BI) decided to raise the BI Rate by 25 basis points to 5.75% (Cons: 5.75%, KBVS: 5.50%, Prev: 5.50%), marking its third consecutive hike since May '26 and reaffirming a decisive pro-stability monetary policy stance. Simultaneously, BI also increased the Deposit Facility and Lending Facility rates by 25bps to 4.75% and 6.50%, respectively. The move continues BI's efforts to further reinforce Rupiah stabilization amid the increasing likelihood of a Federal Reserve rate hike by year-end, alongside persistently elevated global uncertainty from the ongoing Middle East conflict. This move also serves as a pre-emptive measure to keep inflation within the 2.5±1% target range set by the Government for 2026–2027. In addition, BI reaffirmed its strong commitment to safeguarding currency stability, preserving global investor confidence, and reinforcing its institutional independence.

Global financial conditions remain challenging despite tentative signs of easing geopolitical tensions. BI highlighted persistent uncertainty stemming from the Middle East conflict as a key consideration behind its latest policy decision, although risks have moderated somewhat following the US–Iran interim agreement reached on 14 Jun '26. Since escalating in late Feb '26, the conflict has disrupted global supply chains, weakened trade activity, and contributed to elevated inflationary pressures, with global inflation projected at around 4.4% in 2026 and world economic growth expected to slow to 3.0%. Against this backdrop, several major central banks have maintained a tightening bias, while the Fed Funds Rate, currently at 3.75%, still faces a credible risk of another hike by year-end. Meanwhile, UST yields remained elevated, with the 10Y and 2Y standing at 4.49% and 4.18%, respectively, as of 17 Jun '26, reflecting persistent fiscal and inflation concerns. The continued strength of both the DXY and ADXY indices further underscores the prevailing risk-off environment, which continues to constrain capital flows toward Emerging Market assets.

Improving foreign capital inflows and sustained policy support have strengthened the Rupiah's resilience amid a challenging external environment. The IDR appreciated by 0.76% (ptp) from end-May to IDR17,730/USD as of 17 Jun '26, supported by BI's intensified interventions across the offshore NDF, domestic spot, and DNDF markets. A notable reversal in capital flows has also emerged, with net foreign inflows reaching USD3.9 bn in 2Q26 through 15 Jun, compared with net outflows of USD0.8 bn in 1Q26, primarily driven by investments in SRBI and SBN. Reflecting strong foreign participation, SRBI outstanding stood at IDR1,021.13 tn as of 15 Jun '26, with non-resident holdings accounting for IDR238.09 tn or 23.32% of total outstanding. Meanwhile, the continuation of the 10% hedging swap incentive has provided additional support for inflow momentum. Indonesia's external buffer also remained solid, with FX reserves standing at USD144.9 bn at end-May, equivalent to 5.6 months of imports.

BI's latest measures indicate a deliberate effort to preserve liquidity conditions and sustain credit growth despite a higher interest rate environment. To support this objective, BI reopened the repo auction window for 3-, 6-, 9-, and 12-month tenors as its primary instrument for monetary liquidity expansion, limiting the risk of excessive monetary tightening being transmitted into domestic financing conditions. Liquidity remained ample, with primary money (M0) growing 14.8% YoY in May, while BI's SBN purchases reached IDR156.98 tn YTD as of 17 Jun '26, including IDR76.62tn in the secondary

market. At the same time, SRBI yields were repriced upward across all tenors following the BI Rate hike, helping maintain the attractiveness of Rupiah-denominated assets amid elevated UST yields. Further supporting financial intermediation, BI increased the RPLN limit from 35% to 40% of bank capital effective 1 Jul '26, providing banks with greater access to offshore funding and additional capacity to expand lending.

Rising inflationary pressures have reinforced the need for BI to maintain a proactive policy stance. CPI inflation accelerated to 3.08% YoY in May '26 from 2.42% in Apr '26, although it remained within BI's target range of $2.5\pm 1\%$. Core inflation increased modestly to 2.59% YoY, while volatile food inflation rose sharply to 6.24% YoY, driven by weather-related supply disruptions and the end of the main harvest season. Looking ahead, imported inflation remains the key upside risk, particularly amid Rupiah volatility and elevated global energy prices. Against this backdrop, the latest rate hike serves as a pre-emptive measure to contain potential inflation pass-through effects, complemented by BI's continued coordination with TPIP and TPID to manage food price pressures.

Market Implications and Strategic Outlook

The latest decision represents BI's third consecutive rate hike. Moreover, BI indicated that policy rates may remain on an upward trajectory, suggesting the current level is not necessarily the terminal rate. This underscores the central bank's continued focus on maintaining stability through Rupiah stabilization and liquidity management via INDONIA and SRBI.

Recent policy measures have strengthened market confidence and reinforced Indonesia's external stability. The currency was further supported by the SRBI rate adjustment following the BI Rate hike and the continuation of the 10% hedging swap discount for foreign investors. In addition, BI expanded its FX operations toolkit to include CNH-IDR spot and swap instruments, in line with the broader adoption of Local Currency Transactions (LCT).

BI's liquidity measures are designed to preserve banking system liquidity and support credit expansion despite a tighter interest rate environment. We expect short-end money market rates, including INDONIA and JIBOR, to gradually adjust upward in line with the BI Rate following the usual transmission lag. Nevertheless, the reopened repo facility and KLM incentives, with cumulative disbursements reaching IDR418.1 tn as of early Jun '26, should help cushion liquidity conditions and sustain credit growth momentum going forward.

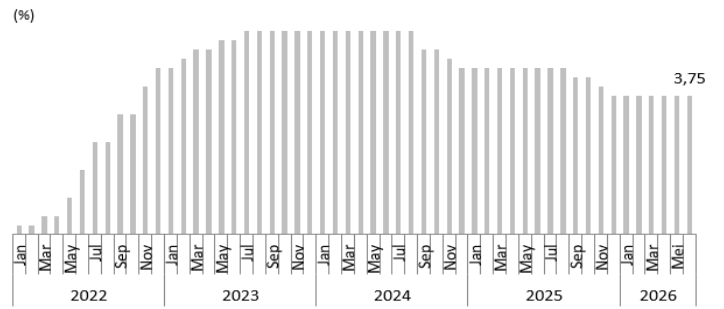
Going forward, we expect BI to maintain its pro-stability stance, with room for an additional 50 bps of tightening (2x25 bps) through year-end. Such a path, however, would likely depend on several key conditions: (i) Rupiah stabilization proving durable as seasonal dividend repatriation and external debt servicing pressures ease after June; (ii) foreign portfolio inflows into SRBI and SBN turning consistently positive on a weekly basis; and (iii) clearer de-escalation of Middle East geopolitical tensions following the 14 Jun '26 US-Iran interim deal. Until these conditions are firmly established, premature expectations of policy easing could risk undermining BI's credibility and reversing recent gains in Rupiah stability.

Table 1. Interest Rate Data

Indicators	18-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	2,40	2,15	25,0	(210,0)
United Kingdom	3,75	3,75	0,0	(150,0)
Japan	1,00	0,75	25,0	110,0
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	4,75	4,50	25,0	(175,0)
Indonesia	5,75	5,50	25,0	(25,0)
Global Monetary Policy Change (in number of countries)				
Easing	6	3		
Unchanged	17	15		
Tightening	3	5		

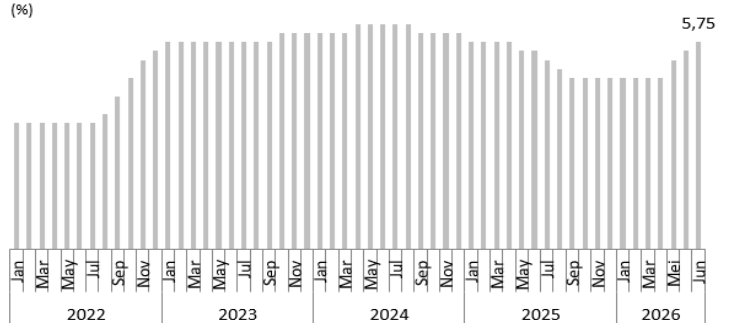
Sources: Each Central Bank and GlobalRates – treated (2026)

Fig 1. Fed Rate



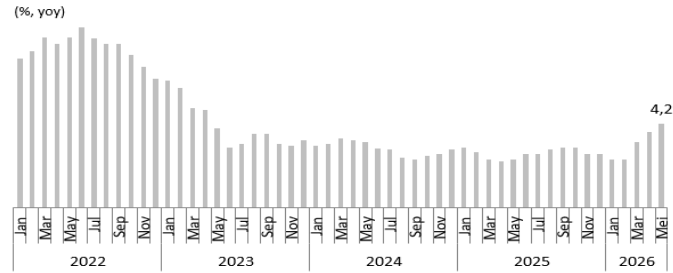
Source: The Fed – treated (2026)

Fig 2. BI Rate



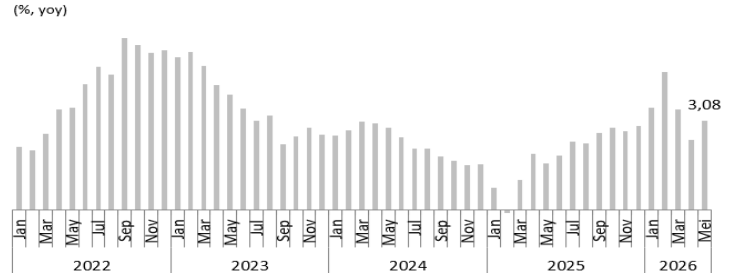
Source: Bank Indonesia – treated (2026)

Fig 3. US CPI Inflation



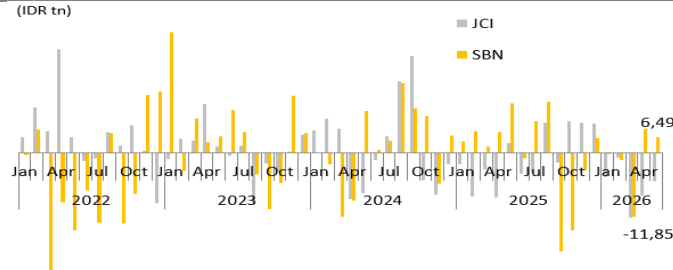
Source: US BLS – treated (2026)

Fig 4. Indonesia CPI Inflation



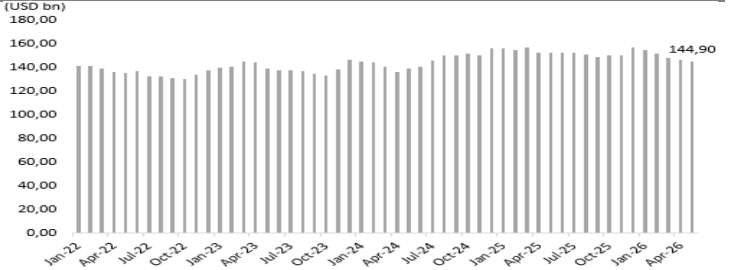
Source: BPS – treated (2026)

Fig 5. Indonesia Portfolio Flow



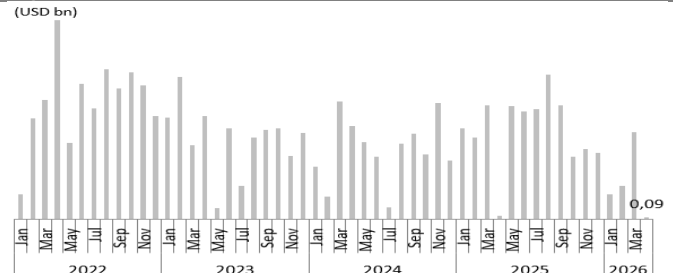
Source: Bloomberg – treated (2026)

Fig 6. Indonesia FX Reserves



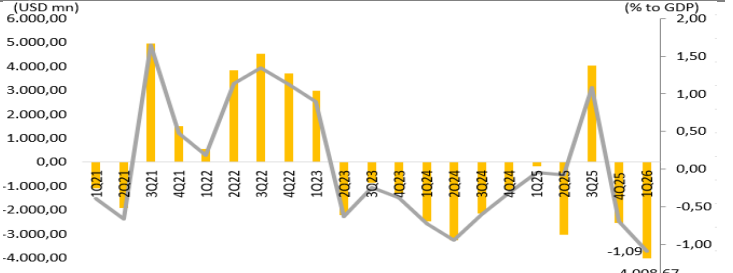
Source: BI – treated (2026)

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 18 June '26

MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500
29-Jul-26	0,0%	0,0%	72,2%	27,8%	0,0%	0,0%	0,0%	0,0%
16-Sep-26	0,0%	0,0%	37,8%	49,0%	13,2%	0,0%	0,0%	0,0%
28-Oct-26	0,0%	0,0%	28,6%	46,2%	21,9%	3,2%	0,0%	0,0%
09-Dec-26	0,0%	0,0%	15,1%	37,9%	33,4%	12,0%	1,5%	0,0%
27-Jan-27	0,0%	0,0%	12,9%	34,5%	34,1%	15,2%	3,1%	0,2%
17-Mar-27	0,0%	0,0%	10,6%	30,6%	34,1%	18,6%	5,3%	0,7%
28-Apr-27	0,0%	0,0%	10,6%	30,6%	34,1%	18,6%	5,3%	0,7%
09-Jun-27	0,0%	0,9%	12,3%	30,9%	32,8%	17,4%	4,9%	0,7%

Source: CME Group – treated (2026)

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