

## Indonesia

### BI hits a mindful note

- Bank Indonesia (BI) kept its policy rate unchanged at 4.75% for a sixth consecutive month, in line with both consensus and our expectations.
- BI removed its reference to assessing further room for rate cuts. This suggests to us that BI will remain on hold for the foreseeable future. Importantly, inflationary pressures from higher fuel prices, logistics costs following the Hari Raya celebrations will be monitored closely.
- Our baseline assumed one 25bp rate cut in 2Q26 and one 25bp cut in 3Q26. We remove this call for the moment and will reassess should tensions in the Middle East ease in the coming months.

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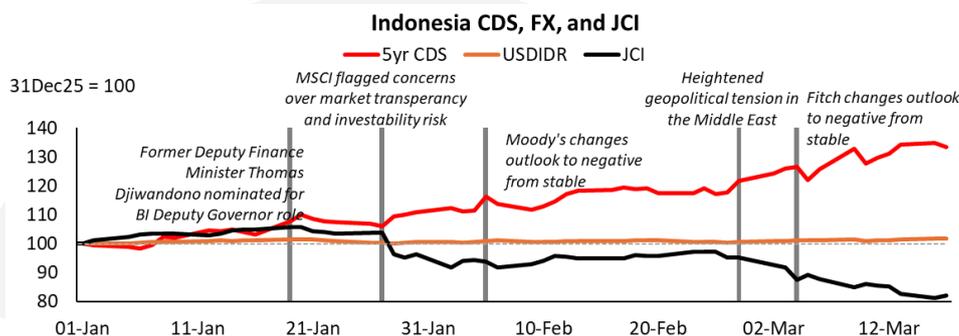
Bank Indonesia (BI) kept its policy rate unchanged at 4.75% for a sixth consecutive month, in line with both consensus and our expectations. Against the backdrop of geopolitical tensions and persistent volatility, the currency IDR depreciated versus USD, well in line with regional peers.

Heightened geopolitical risks stemming from the Middle East conflict prompted BI to lower its global growth forecast for 2026 to 3.1%, from 3.2% previously, while higher oil prices led the central bank to revise its global inflation forecast up to 4.1%, from 3.8%. These developments have narrowed “the scope for further global monetary policy easing, including the likelihood of additional delays in Fed Funds Rate (FFR) cuts,” according to BI.

On domestic fundamentals, BI noted that 1Q26 growth likely “improved,” supported by firmer domestic demand, including stronger household consumption during the festive period, and “acceleration” in government investment. For the full year, BI maintained its 2026 economic growth forecast at 4.9–5.7%.

BI faces increasingly visible policy trade-offs, as the tension between supporting growth, safeguarding external balances, and containing inflation was underscored at this month’s meeting. Although BI kept its projected CPI range unchanged at 1.5–3.5%, it noted that inflation could be higher than previously expected. The current account deficit forecast range remains at 0.1–0.9% of GDP but BI cautioned that a prolonged period of elevated oil prices could exert additional pressure on the current account balance going forward.

Moreover, fundamental policy choices remain in question pressured by potential fiscal slippage, exacerbated by rising oil prices and a ballooning fuel subsidy bill. Rating agencies are on alert, given recent outlook revisions to negative from stable by Moody’s and Fitch. That said, higher energy prices globally will offer Indonesian authorities some room to manoeuvre, similar to the pandemic period.



Note: Last updated on 17 March 2026. Source: Bloomberg, OCBC Group Research.

The forward guidance was clear. BI removed reference to looking for further monetary policy space to cut rates. We have taken BI’s cue and removed our forecast for a cumulative 50bp rate cut at this juncture. We will continue to assess the situation as it remains fluid.

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