

Indonesia

BI watchful of external risks

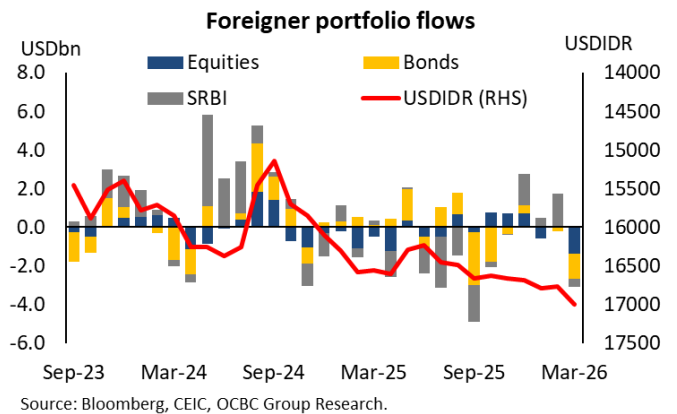
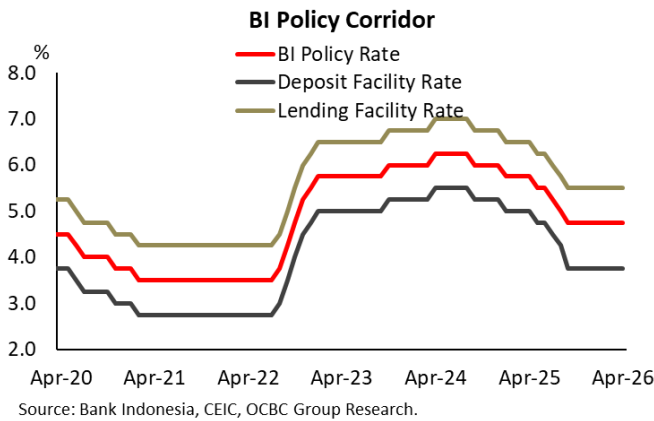
- Bank Indonesia (BI) kept its policy rate unchanged at 4.75% in its April meeting, in line with consensus and our expectations.
- External considerations remain central to BI's policy calculus, with BI focusing on IDR stability amid volatile capital flows and 'twin deficits'.
- BI's bias remains neutral, in our view, supporting our baseline of no change to the policy rate this year. However, should external pressures build, rate hikes cannot be ruled out.

Lavanya Venkateswaran
Senior ASEAN Economist

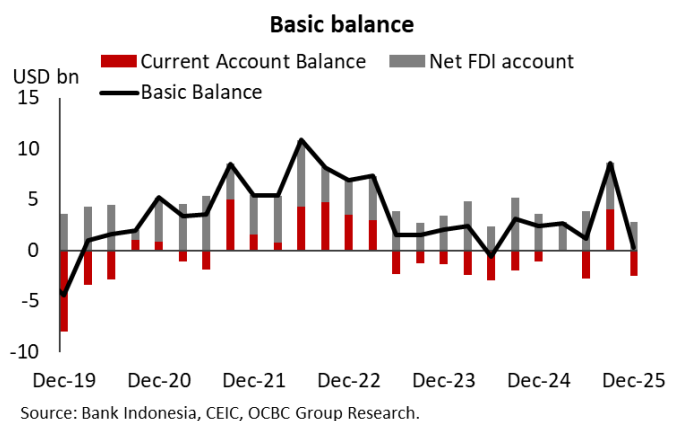
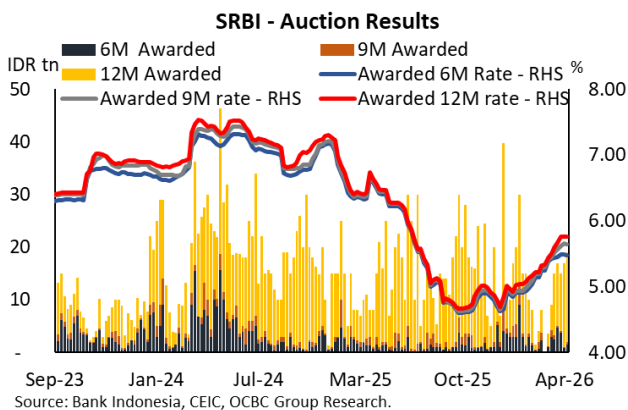
Ahmad A Enver
ASEAN Economist

Bank Indonesia (BI) held its policy rate unchanged at 4.75% for a seventh consecutive month, in line with both consensus and our expectations. Policy deliberations continued to be dominated by heightened global uncertainty, with BI emphasising the need to preserve rupiah stability while maintaining sufficient policy support for domestic growth.

The global growth backdrop has been under pressure given heightened tensions in the Middle East, prompting BI to modestly lower its 2026 global growth forecast further to 3.0% from 3.1% previously. BI also revised higher its global inflation forecast to 4.2% from 4.1% previously, reflecting elevated oil and commodity prices. According to BI, these developments further narrow the scope for global monetary easing, with the likelihood that US Fed Funds Rate (FFR) cuts may be delayed until late 2026 or potentially postponed altogether.



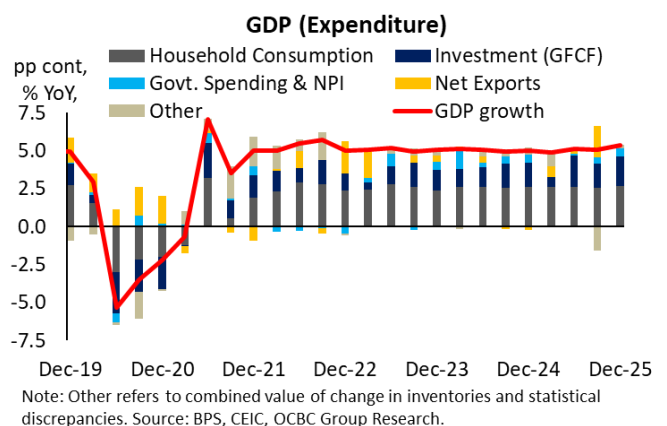
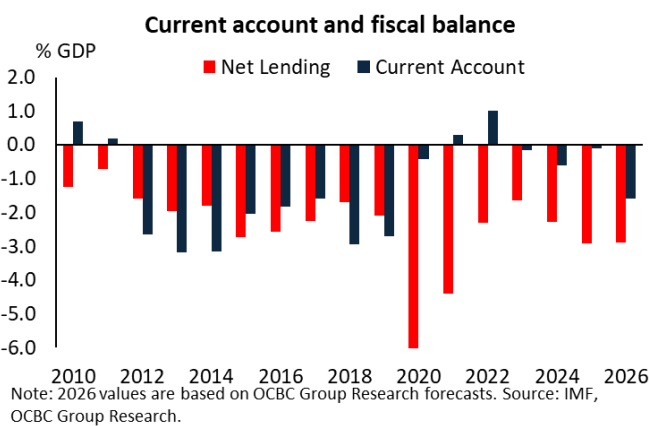
External considerations remain central to BI's policy calculus. The economy experienced net equity (USD1.9bn) and bond (USD1.5bn) outflows with net SRBI inflows (USD1.8bn) in 1Q26, with outflows intensifying in March. According to BI, as of April 20, 2026, capital flows again recorded net inflows of USD1.9bn, primarily supported by foreign capital inflows into Bank Indonesia Rupiah Securities (SRBI) and SBN. BI also noted that continues to actively manage IDR stability through FX interventions across offshore NDF, onshore spot, and DNDF markets. Measures to tighten FX transaction thresholds, first communicated last month, were formally implemented from April.



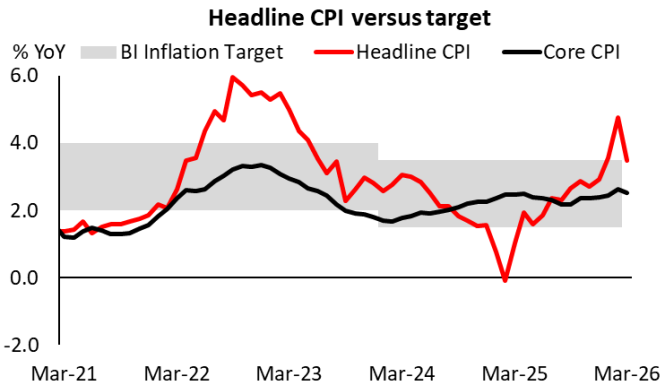
More fundamentally, BI widened its current account deficit forecast for 2026 to 0.5–1.3% of GDP, from 0.1–0.9% at the 17 March meeting. The adjustment underscores ongoing external vulnerabilities, particularly in the context of elevated global energy prices. BI’s repeated emphasis on strengthening the balance of payments (BOP) reinforces the importance of external stability in its policy framework and is consistent with our view that Indonesia remains susceptible to fiscal and external risks stemming from higher oil prices (see *ASEAN-5 & India: Higher inflation and marginally slower growth*, 27 March 2026).

‘Twin deficit’ pressures on the current account and fiscal side continue to exacerbate external vulnerabilities. The authorities are committed to keeping the fiscal deficit within the 3% of GDP legal limit and have introduced various measures to do so. Notwithstanding, the fiscal equation will be watched closely considering that the fiscal deficit until March reached ~35% of the annual deficit.

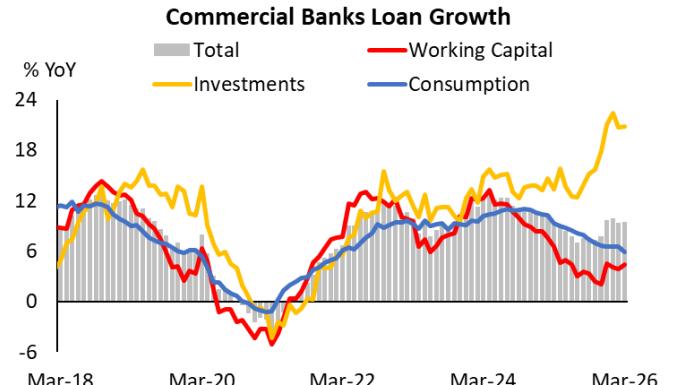
On the domestic front, BI signalled a more constructive tone. Incoming indicators suggest that economic growth in 1Q26 has improved, supported by resilient domestic demand. Household consumption is expected to remain firm in line with the Idulfitri period, alongside sustained government spending including social transfers and cash transfers, while investment momentum tied to priority government programmes continues to provide additional support. Statistics Indonesia (BPS) will release the 1Q26 GDP data on 5 May 2026, while Coordinating Minister for Economic Affairs Airlangga Hartarto has previously noted that he is “optimistic” that the economy will grow by “around 5.5%” in 1Q26. The economy grew 5.4% in 4Q25 and 5.1% in 2025. BI maintained its 2026 growth forecast at 4.9–5.7%, signalling confidence in domestic demand as the primary growth anchor amid external headwinds. We expect 2026 GDP growth to average 5%.



BI was relatively comfortable with the inflation outlook noting that headline CPI had eased materially to 3.5% YoY in March from 4.8% in February. While this was largely due to base effects from the expiration of electricity discounts provided in 1Q26 supporting lower utilities CPI of 7.2% in March from 16.2% in February. Transportation CPI, however, rose to 0.6% YoY from 0.1%, though remain modest as subsidized fuel prices remain unchanged. We expect headline CPI to average 3.0% in 2026 versus 1.9% in 2025.



Source: BPS, Bank Indonesia, CEIC, OCBC Group Research.



Source: OJK, BI, CEIC, OCBC Group Research.

From a policy standpoint, while no new macroprudential measures were announced, BI reiterated its accommodative policy settings. This includes (i) a Countercyclical Capital Buffer (CCyB) ratio of 0%, (ii) a Macroprudential Intermediation Ratio (RIM) in the range of 84–94%, (iii) a Net Open Position on Foreign Funding (RPLN) capped at 35% of bank capital, (iv) a Macroprudential Liquidity Buffer (PLM) ratio of 4%, with repo flexibility of 4%, and (v) a Sharia Macroprudential Liquidity Buffer (PLM Syariah) ratio of 2.5%, with repo flexibility of 2.5%. BI also reaffirmed its commitment to optimising the implementation of existing instruments, particularly the Macroprudential Liquidity Incentive (KLM), to further support credit growth and policy transmission. Loan growth remained stable in March, improving slightly to 9.5% YoY from 9.4% in February. BI kept its credit growth target of 8-12% in 2026.

As such, BI's bias remains neutral underscoring our baseline of no change in the policy rate this year. However, should external pressures build, rate hikes cannot be ruled out.



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