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Indonesia

Bank Indonesia on hold

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- Bank Indonesia (BI) kept its policy rate unchanged at 4.75%, in line with consensus and our expectations. BI's decision will help assuage recent market perceptions.
- BI reiterated its focus on IDR stability and placed emphasis on inflation, particularly core inflation, providing room for rate cuts.
- Our base case is for BI to deliver one 25bp in 2Q26 and one 25bp cut in 3Q26. The window to ease, however, depends on IDR moves, inflation remaining target and GDP growth remaining subdued.

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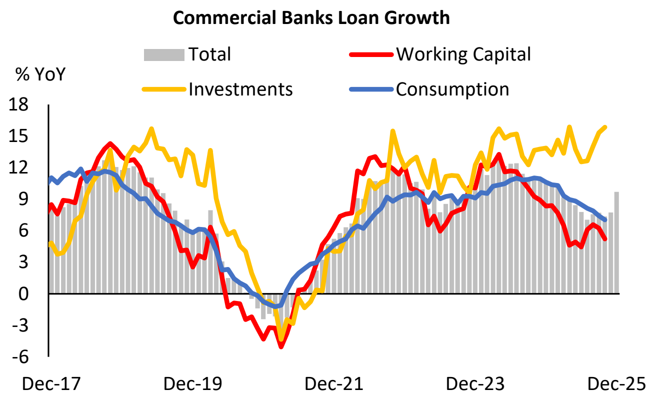
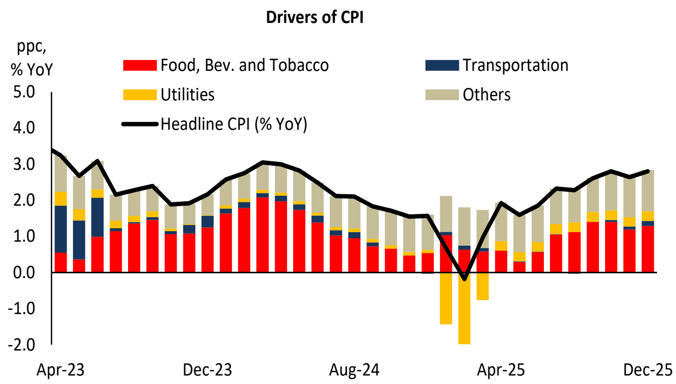
Bank Indonesia kept its policy rate unchanged at 4.75%, in line with consensus and our expectations. Ahead of the meeting, investor sentiment has been impacted by the recent news flow on fiscal slippage risks, personnel changes and domestic policy direction (see *Indonesia: Perception pains*, 20 January 2026). BI's decision will help assuage recent market perceptions. Governor Perry Warijiyo reaffirmed BI's focus on IDR stability and noted that BI will not "hesitate to do large interventions" to stabilise IDR. USD/IDR moved lower and closed at 16945 levels.

On the fundamentals, BI noted that 4Q25 GDP growth likely improved on the back of stronger consumer demand and higher fiscal expenditures. BI expects better economic growth of 4.9-5.7% in 2026 versus 4.7-5.5% in 2025. BI expects CPI inflation to remain within the 1.5-3.5% policy range while the current account deficit is forecasted with the range of 0.1-0.9% of GDP.



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



Source: BPS, CEIC, OCBC Group Research.

BI noted that the transmission of monetary policy easing needs to be 'continuously encouraged' and banks will need to follow through with more rapid reductions in their interest rates. While market interest rates have reflected the cumulative 125bp in rate cuts in 2025, the 1-month deposit rate fell only by 56bp while lending rates fell by 39bp with some traction in December. Notwithstanding, BI noted that loan growth improved to 9.7% YoY in December, reaching its 8-11% target range. For 2026, BI projects credit growth of 8-12%.

During the Q&A session, BI placed emphasis on inflation, particularly core inflation, providing room for rate cuts. This is consistent with our view that inflationary pressures are re-emerging not least because of unfavourable base effects from 1Q25 but also sticky food price pressures (see *Indonesia: Higher inflation, disappointing trade data*, 5 January 2026). BI noted that the timing of future rate cuts will remain data dependent. Our base case is for BI to deliver one 25bp in 2Q26 and one 25bp cut in 3Q26. The window to ease, however, depends on IDR moves, inflation remaining target and GDP growth remaining subdued.