

Bank Indonesia Rate Decision (19-20 May)

Surprises with jumbo 50 bps hike as Rupiah defence takes priority

- **Bank Indonesia (BI) hiked its policy rate by 50 bps to 5.25%** at its fifth Board of Governors meeting of 2026, ending a six-month policy pause. The decision defied market expectations for a 25 bps hike

- **BI also raised the deposit and Lending Facility Rates** to 4.25% and 6.00%, respectively.
- **Statement highlight:** BI shifted to a pro-stability stance, describing the move as “a further step to strengthen Rupiah stabilisation... and a pre-emptive measure to keep inflation remains within the 1.5% – 3.5% target in 2026-2027.” Policy focus is now clearly on external stability, while macroprudential and payment policies remain pro-growth.

- **Growth resilient, inflation easing, but external risks intensifying**

- **GDP:** BI maintained its 2026 growth forecast at 4.9% – 5.7%, underpinned by firm domestic demand and growth acceleration in 1Q26 (5.61%; 4Q25: 5.39%). BI continues to stress the need to sustain domestic demand amid rising external headwinds.
- **Inflation:** Headline inflation eased to 2.42% in April (Mar: 3.48%) with core at 2.44%, reflecting anchored expectations on lower food prices and fading administered price effects. However, BI warned that higher oil and commodity prices could lift domestic inflation, particularly through import costs and energy prices. Nonetheless, BI still expects inflation to remain within the 1.5% – 3.5% target band in 2026-2027.
- **Rupiah:** As of 19 May, the Rupiah weakened by 6.3% YTD to 17,742 against the USD, hovering at record low, reflecting a stronger USD, rising US yields, and capital outflows. It underperformed the Peso (-5.1%) and Baht (-3.9%), while the Ringgit (+2.0%) bucked the trend. BI highlighted that global volatility is driving capital flight to safe-haven assets and broad EM currency pressure.

- **Prolonged Middle East conflict and its second-round effects on global shocks force a policy shift to tightening**

- **Policy outlook:** BI’s global tone remains cautious. It maintained 2026 global growth forecast at 3.0% but revised global inflation up to 4.3% from 4.2%. BI also expects no Fed rate cuts through 2026 and a potential Fed hike in 2027 amid rising inflation, a shift from its previous earlier view delayed easing. It also expects continued USD strength, elevated UST yields, and ongoing EM capital outflow pressure. Against this backdrop, we think BI has shifted to anchoring policy on FX stability and external resilience, while relying on macroprudential easing and liquidity support to sustain growth. While we do not rule out another hike at the next meeting, the likelihood hinges on Rupiah stability and the upcoming inflation print.

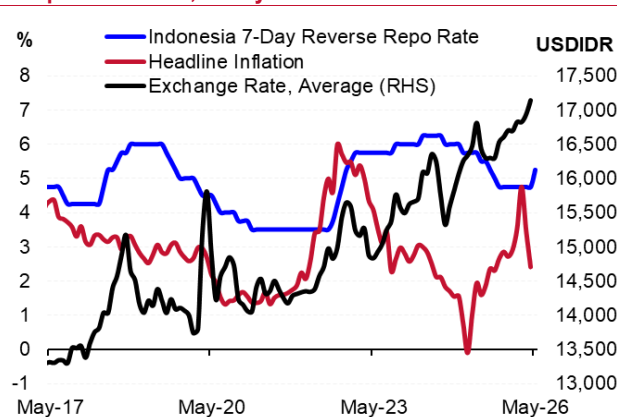
USDD IDR year-end forecast (17,200; 2025: 16,694): We have revised our forecast up from 16,480, reflecting persistent downside risks, as Rupiah upside is capped by the prolonged Middle East conflict, elevated oil prices, a potentially delayed Fed easing cycle, and persistent global risk aversion weighing on capital flows and raising the risk of higher domestic inflation.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.25% (+0.50%)	Indonesia	BI Rate	May-26
4.35% (+0.25%)	Australia	Cash Rate	May-26
4.50% (+0.25%)	Philippines	Target Reverse Repurchase	Apr-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
0.75% (+0.25%)	Japan	Overnight Call Rate	Dec-25
3.75% (-0.25%)	UK	Base Rate	Dec-25
3.50% - 3.75% (-0.25%)	USA	Funds Rate Target	Dec-25
2.25% (-0.25%)	New Zealand	Official Cash Rate	Nov-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

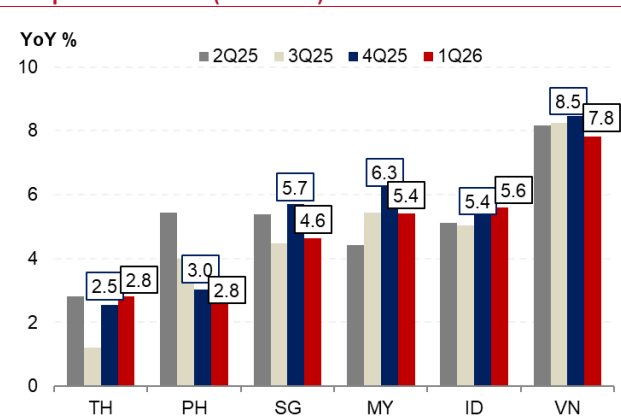
Source: Bloomberg, Kenanga Research

Graph 1: Inflation, Policy Rate and USDD IDR trend



Source: Bank Indonesia, Macrobond, Kenanga Research

Graph 2: ASEAN-5 (+Vietnam) GDP Growth



Source: Macrobond, Kenanga Research

21 May 2026

Table 2: Board of Governor (BOG) Meeting Schedule for 2026/ KIBB Outlook

No.	Date		KIBB Research Outlook	BI Decision
1st	20-21 January (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
2nd	18-19 February (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	16-17 March (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
4th	21-22 April (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
5th	19-20 May (Tue and Wed)	<input checked="" type="checkbox"/>	25 bps hike	50 bps hike
6th	17-18 Jun (Wed and Thu)	<input type="checkbox"/>	50% chance of 25 bps hike	
7th	21-22 July (Tue and Wed)	<input type="checkbox"/>	No change	
8th	18-19 August (Tue and Wed)	<input type="checkbox"/>	No change	
9th	22-23 September (Tue and Wed)	<input type="checkbox"/>	No change	
10th	20-21 October (Tue and Wed)	<input type="checkbox"/>	No change	
11th	17-18 November (Tue and Wed)	<input type="checkbox"/>	No change	
12th	15-16 December (Tue and Wed)	<input type="checkbox"/>	No change	

Source: Bank Indonesia, Kenanga Research

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my