Bank Indonesia Rate Decision (22-23 September)

Keeps rates steady, step-up FX defence as Rupiah pressures persist

- **Bank Indonesia (BI) held its policy rate at 5.75%** at the September meeting, in line with house and market expectations. The decision underscores BI's continued focus on safeguarding Rupiah stability amid persistent external headwinds.
  - **BI also left the Deposit Facility and Lending Facility Rates unchanged** at 4.75% and 6.50% respectively.
  - **Statement highlight:** BI reiterated that the current policy rate remains consistent with efforts to "stabilise the Rupiah amid persistent external headwinds, maintain inflation within the 1.5% – 3.5% target range in 2026-2027, and support sustainable growth". Compared with the August statement, BI announced additional measures to attract foreign capital inflows, including enhanced hedging incentives for portfolio inflows, foreign loans and FDI-related transactions, while continuing to deepen domestic money and FX markets. BI also reaffirmed its accommodative macroprudential stance to support credit growth and economic activity.

Table 1: Policy Rates in Selected Countries

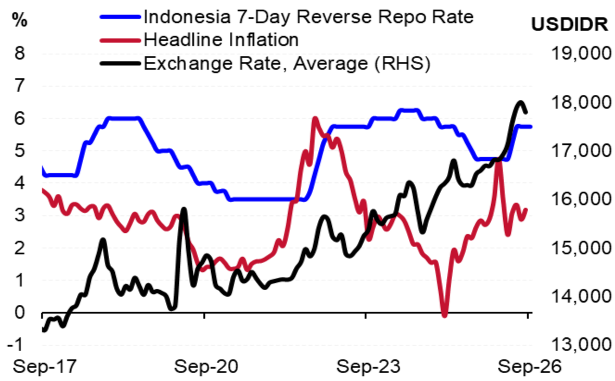
Rate (Last Change)	Country	Central Bank Interest Rate	Date
1.25% (+0.25%)	Japan	Overnight Call Rate	Sep-26
3.75% - 4.00% (+0.25%)	USA	Funds Rate Target	Sep-26
2.50% (+0.25%)	Euro Area	Key Deposit Facility Rate	Sep-26
2.75% (+0.25%)	New Zealand	Official Cash Rate	Sep-26
5.00% (+0.25%)	Philippines	Target Reverse Repurchase	Aug-26
3.00% (+0.25%)	South Korea	Base Rate	Aug-26
5.75% (+0.25%)	Indonesia	BI Rate	Jun-26
4.35% (+0.25%)	Australia	Cash Rate	May-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
3.75% (-0.25%)	UK	Base Rate	Dec-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

Source: Bloomberg, Kenanga Research

- **Rupiah stability remains the key policy priority amid persistent external pressures**
  - **GDP:** BI retained its 2026 growth forecast at 4.9% – 5.7%, while maintaining that domestic growth remains resilient. BI highlighted stable household consumption supported by government fiscal stimulus, improving consumer confidence and income expectations. Investment growth remains strong, driven by government-led investment, although it emphasised the need for stronger private-sector investment. Export performance has also improved amid higher commodity prices and stronger demand from selected trading partners.
  - **Inflation:** BI maintained its commitment to keep inflation within the 1.5% – 3.5% target range in 2026-2027. Headline CPI accelerated slightly to 3.18% YoY in August (Jul: 2.88%), while core inflation also edged higher to 2.92% (Jul: 2.76%). Inflation, nevertheless, remains within BI's target range.
  - **Rupiah:** The Rupiah remained under pressure, it weakened slightly to IDR17,876/USD as of 23 September, compared to IDR17,720 level at the end-August, reflecting renewed external pressures from heightened Middle East tensions, a stronger US Dollar and rising US Treasury yields. It remains down 7.1% YTD against the USD, underperforming most regional currencies, including the Peso (-6.5%), Baht (-6.1%), and Ringgit (-0.5%). BI noted that recent FX stabilisation measures had helped support the currency.
- **BI retains a tightening bias on FX stability, with targeted measures likely to take precedence over rate hikes**
  - **Policy outlook:** While exchange rate stability remains BI's primary concern, the September statement reinforces its preference for targeted FX, liquidity and macroprudential tools over an immediate rate hike. Nevertheless, risks remain elevated amid the ongoing Middle East conflict, prospects of further Fed tightening, higher US Treasury yields and potential portfolio outflows from emerging markets.

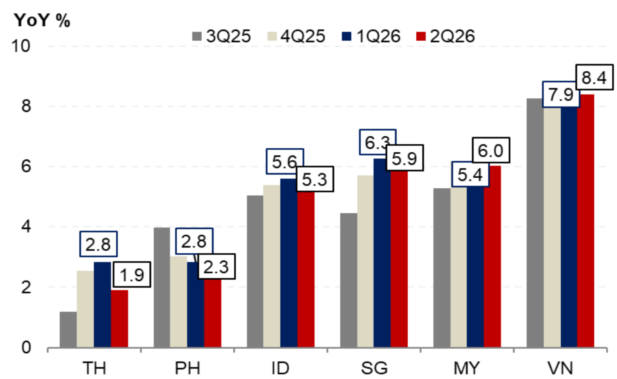
  USDIDR year-end forecast (17,500; 2025: 16,694): We revise our forecast from 17,200, reflecting expectations that Rupiah gains will remain constrained by persistent external headwinds. BI's proactive FX stabilisation measures should provide some support, but sustained US Dollar strength, elevated global yields and geopolitical uncertainty are likely to limit the scope for meaningful Rupiah recovery.

Graph 1: Inflation, Policy Rate and USDIDR trend



Source: Bank Indonesia, Macrobond, Kenanga Research

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



Source: Macrobond, Kenanga Research

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)	☑	No change	No change
2nd	18-19 February (Wed and Thu)	☑	No change	No change
3rd	16-17 March (Mon and Tue)	☑	No change	No change
4th	21-22 April (Tue and Wed)	☑	No change	No change
5th	19-20 May (Tue and Wed)	☑	25 bps hike	50 bps hike
6th	9 June (Tue) – Off schedule	☑	N/A	25 bps hike
7th	17-18 Jun (Wed and Thu)	☑	25 bps hike	25 bps hike
8th	21-22 July (Tue and Wed)	☑	50% chance of 25 bps hike	No change
9th	18-19 August (Tue and Wed)	☑	No change	No change
10th	22-23 September (Tue and Wed)	☑	No change	No change
11th	20-21 October (Tue and Wed)	☐	No change	
12th	17-18 November (Tue and Wed)	☐	No change	
13th	15-16 December (Tue and Wed)	☐	No change	

Source: Bank Indonesia, Kenanga Research

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