BI Rate Update

22 July 2026

BI Rate - Holds at 5.75% as Rupiah Defense Shifts

BI-Rate (held)	June CPI (YoY)	Q2 Portfolio Inflow	FX Reserves (Jun)
5.75%	**3.34%**	**USD 8.5B**	**USD 145.6B**
DF 4.75% / LF 6.50%; consensus 6.00%	16 bps below the 3.5% ceiling	SBN and SRBI; Q3 USD 0.1B to 20 Jul	5.5 months of import cover

KEY TAKEAWAYS

- Bank Indonesia held the BI-Rate at 5.75% (Deposit Facility 4.75%, Lending Facility 6.50%) at the 21–22 July RDG, defying a market that had priced a hike: the Bloomberg consensus looked for 6.00%. Rather than tighten further after the +100 bps burst of May–June, BI chose to defend the Rupiah with a widened package of portfolio-inflow incentives and macroprudential measures. The Governor was explicit that not moving the rate does not mean BI cannot support the currency; the incentives are more targeted and more effective than another rate step (release No.28/142/DKom).
- The hold rests on an inflation read BI judges energy-driven and exogenous, not demand-led. June headline CPI was 3.34% YoY, just 16 bps below the 3.5% ceiling, but core held at 2.76% and volatile food eased to 5.58% from 6.24%; the entire step-up came from administered prices at 3.42% YoY as the Pertamax pass-through landed. With the real policy rate still positive near +2.4% and core contained, BI reads the overshoot as one it can ride out without another hike, absent a fresh commodity shock.
- The action sits in the policy package, not the rate. BI lifted the hedging-swap incentive to 12.5% from 10% and set a 15% DNDF hedging incentive, improving the after-hedge return on SBN and SRBI for foreign investors; it raised the KLM liquidity-incentive cap to 6.0% of third-party funds and introduced a KLM money-market-deepening tranche that rewards only banks holding SRBI and SBN below an optimal threshold, forcing large holders to redeploy and making room for fresh foreign inflows. Nonresident SRBI holdings had already climbed to IDR 288.65T (27.11%) by 20 July, and Q2 booked USD 8.5B of portfolio inflows.
- The strategy de-links Rupiah defense from the policy rate, sparing credit growth of 12.67% YoY a further squeeze, but it leans on foreign money that is sensitive to a hawkish global turn and to fiscal credibility. The Fed is now expected to hike into Q4, Brent is back near USD 89 on the renewed Strait of Hormuz conflict, and the full-year fiscal deficit is projected to widen toward 2.85% of GDP, close to the 3% cap. *Key watch: the July CPI print on 1 August, which we estimate at 3.5–3.8% YoY; a clear breach of the 3.5% ceiling, together with a firmer Fed and Brent in the high USD 80s, would move a +25 bps hike to 6.00% back to the base case at the August RDG.*

The substance of the hold sits in that package rather than in the rate itself: the July RDG is better read as a redesign of the liquidity plumbing than as a pause. Alongside the hedging-swap and DNDF incentives, BI widened Local Currency Transaction incentives with its six partner countries (Malaysia, Thailand, China, Japan, South Korea and the UAE) and added offshore Renminbi spot and swap instruments to its FX operations, all aimed at diversifying settlement demand away from the US dollar.

Inflation Decomposition · May vs June 2026 (percent, year on year unless noted)

Component	May (YoY)	Jun (YoY)	Jun (MtM)	Δ YoY (pp)	Driver
Headline	3.08	3.34	0.44	+0.26	Sharpest MtM of 2026
Core	2.59	2.76	0.23	+0.17	
Volatile Food	6.24	5.58	0.14	-0.66	
Administered	**2.07**	**3.42**	**1.41**	**+1.35**	Pertamax pass-through

Source: BPS Berita Resmi Statistik No.61/07/Th.XXIX (1 July 2026); Bank Indonesia RDG release No.28/142/DKom (22 July 2026).

The new KLM money-market-deepening tranche, effective 1 September, is the centrepiece: by granting the liquidity incentive only to banks whose SRBI and SBN holdings sit below a BI-set optimum, it pushes large holders to redeploy securities into the repo and interbank markets, attacks liquidity segmentation, and vacates SRBI and SBN space for the fresh foreign inflows the swap incentives are meant to attract. Repo-eligible collateral was widened to SMI and SMF paper, and the inclusive-financing (RPIM) rules were strengthened from 1 October. BI also clarified at the press conference that it has not banned dollar purchases: buyers need supporting documents only above USD 10,000 per month, an anti-speculation measure rather than a capital control.

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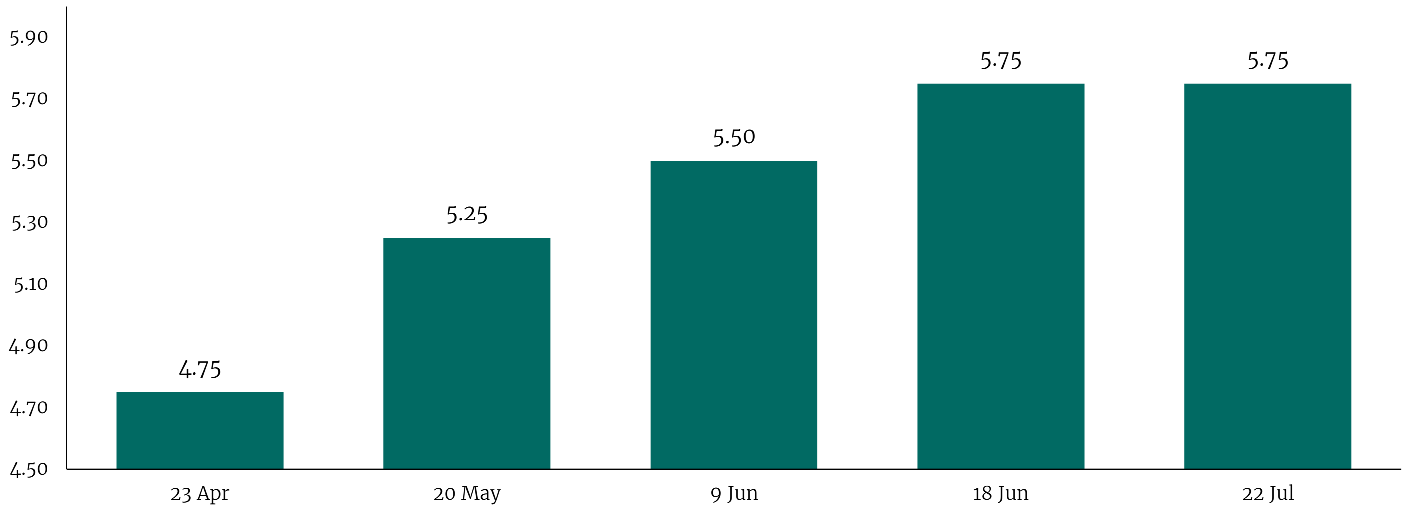
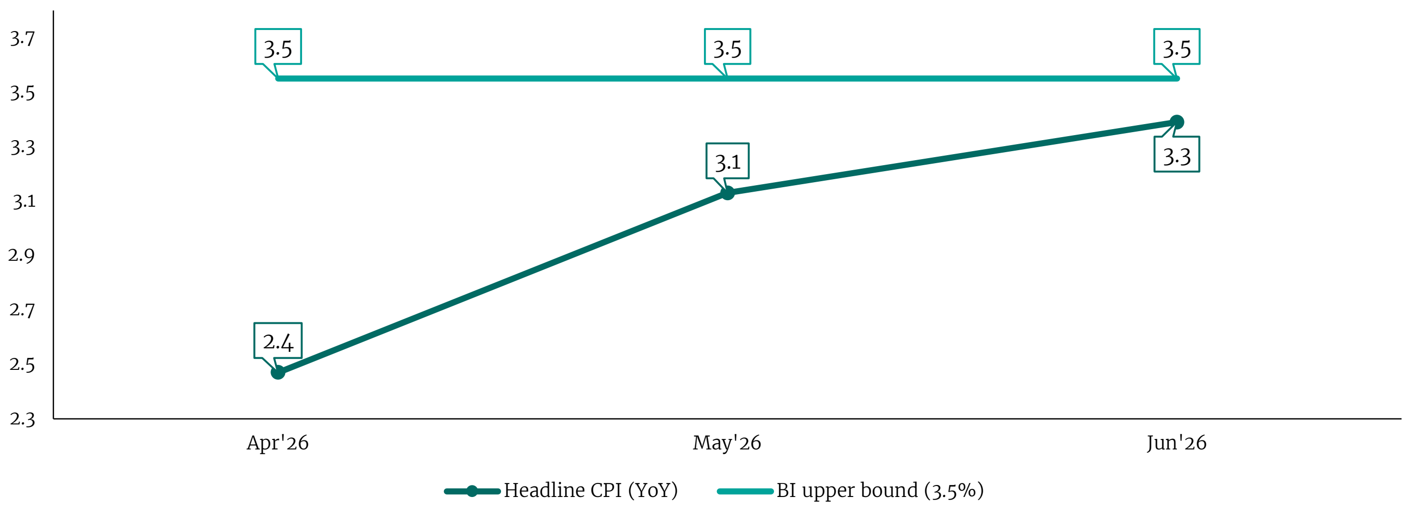
BI-Rate: +100 bps in May–June, Then a Hold at 5.75%



Four moves in under a month took the rate from 4.75% to 5.75%; the 21–22 July RDG left it unchanged. Source: Bank Indonesia RDG releases, April–July 2026.

That strategy leans on a fiscal partner that is, for now, cooperative. The first-half 2026 budget ran a deficit of IDR 196.5 trillion (0.76% of GDP), narrower than a year earlier, with revenue up 21.4% to IDR 1,459.4 trillion, spending up 17.8% to IDR 1,656.0 trillion, and a primary surplus of about IDR 85.1 trillion; front-loaded issuance (IDR 452 trillion, 65.6% of the full-year target) and government cash placements into banks are part of what kept base money growing 14.1%.

Headline CPI Climbing Toward BI's 3.5% Ceiling



Headline inflation rose from 2.42% in April to 3.34% in June, leaving 16 bps of headroom; we estimate July at 3.5–3.8% YoY. Source: BPS BRS No.61/07; Aldiracita estimates.

Government consumption, the thirteenth-month salary for civil servants, social transfers and priority-programme construction are underpinning the domestic demand BI is counting on. The caveat, and the reason the inflow strategy is not risk-free, is that the Finance Ministry projects the full-year deficit widening toward 2.85% of GDP, close to the 3% legal cap, while subsidy and compensation spending has ballooned to roughly IDR 233 trillion. Fiscal credibility is precisely what foreign investors weigh, so any slippage would blunt the very incentives BI has just enhanced.

Forward Scenarios · Next BI-Rate Move

Scenario	Probability / next move	Triggers
Base · extended hold	~55%; hold at 5.75%	Incentives and higher SRBI yields keep SBN and SRBI inflows positive; July–August CPI peaks near 3.6% then eases as volatile food normalizes; Rupiah holds around 17,800–18,100; Brent steadies in the low-to-mid USD 80s.
Hawkish · hike to 6.00%	~30–35%; +25 bps (Aug–Sep)	July CPI breaches 3.5% and holds; the Fed delivers or signals Q4 hikes; Rupiah breaks toward 18,300–18,500; the incentive package fails to stem SBN and SRBI outflows. Consensus already sits at 6.00%; DBS flagged 6.00% by Q3–Q4 if oil pressure persists.
Dovish · eventual easing	~10–15%; cut in 2027+	Strait of Hormuz conflict resolves, Brent falls below USD 70, the Fed pivots back to cuts, and headline CPI converges toward the 2.5% midpoint. Least likely given the hawkish global turn.

Source: Aldiracita Research; Bank Indonesia; Bloomberg consensus; DBS Group Research. For informational purposes only.

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