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Bank Indonesia Governor Warjiyo's shock exit revives fiscal-dominance and sovereign-rating concerns.

Warjiyo Resignation	Rupiah (27 Jul close)	Rating Outlook	Acting Governor
First Ever	**IDR18,009**	**2 of 3 Negative**	**Destry Damayanti**
First voluntary BI-governor resignation on record · 2 years early	Near record low · USD breached IDR18,100 intraday · weakest in Asia YTD	Moody's & Fitch Negative · S&P Stable but the outlier	Senior Deputy auto-elevated under BI Law · continuity signal

KEY TAKEAWAYS

- Bank Indonesia Governor Perry Warjiyo submitted his resignation on 25 July citing personal reasons, and President Prabowo accepted it the following day. It is the first voluntary resignation by a sitting Bank Indonesia governor on record; the only prior mid-term exit was a dismissal in 1998, and it comes 2 years before his term was due to end. Senior Deputy Governor Destry Damayanti was automatically elevated to acting governor under the Bank Indonesia Law. A definitive successor requires the President to submit candidates to parliament for a fit-and-proper test; none has been confirmed, and the legislature is in recess.
- All three major rating agencies responded within 48 hours. Fitch flagged risks of further external pressure on rupiah stability, government borrowing costs, and external buffers, stemming from fragile investor sentiment and uncertainty over both the monetary-policy trajectory and central-bank independence, having already cited eroding policy-mix credibility when it revised the outlook to Negative. Moody's warned of higher volatility in capital flows and the rupiah, stressing that the long-term rating impact hinges on preserving monetary-policy credibility. S&P saw no direct rating impact but cautioned that if fiscal or external deterioration proves structural rather than temporary, downside risk to the rating would build over time. Two of the three agencies already carry a Negative outlook.
- The core market concern is fiscal dominance, the risk that a new governor, appointed while the government pushes hard for growth, tilts monetary policy toward financing the state's spending agenda rather than defending price and currency stability. Warjiyo was widely regarded as the steady, independent counterweight in that dynamic, so his early exit reopens the question. The mechanics, and the legal guardrails that bound its most extreme form, are set out in the section below.
- The Rupiah, which had clawed back modest ground after Bank Indonesia's three rate hikes to 5.75% in May and June and a series of non-rate stabilisation measures, gave up those gains and closed near its record low at IDR18,009 per USD. It was perceived that the leadership change could bring profound operational changes to how the central bank manages liquidity, foreign exchange, and capital flows, and flagged an overhang on bond-portfolio inflows, while noting that the law-defined mandate rules out the most extreme step of primary-market bond-buying. Acting Governor Damayanti reassured markets that the policy stance is unchanged and that Bank Indonesia remains active across spot, NDF, and domestic-NDF markets. *Key watch: the identity of the definitive governor and whether the fiscal-monetary policy mix retains its credibility.*

FISCAL DOMINANCE: WHY AND HOW

Fiscal dominance describes a situation in which monetary policy becomes subordinate to the government's fiscal needs, where a central bank's decisions on interest rates, liquidity, and bond purchases are driven by the need to finance state spending and debt rather than by its mandate to keep prices and the currency stable.

The concern is topical because Warjiyo was regarded as an independent counterweight to a government pursuing an aggressive growth-and-spending agenda, and his early departure raises the question of whether a successor would be more willing to align monetary policy with that agenda. It also lands against a backdrop the rating agencies have repeatedly flagged as reduced policy predictability, following a wave of senior financial-official departures earlier in 2026 and a change of finance minister in late 2025.

In practice, fiscal dominance could surface through several channels. First, burden sharing: Bank Indonesia has previously absorbed part of the government's borrowing costs to fund priority programmes, a step last used during the pandemic, and this could be expanded. Second, and most extreme, direct primary-market purchases of government bonds, which Citi notes is ruled out by the central bank's law-defined mandate, an important guardrail. Third, pressure to cut interest rates to support growth even when the rupiah needs defending. Fourth, friction with the Finance Ministry over who steers borrowing costs, a fault line already visible earlier this year.

Why it matters: any perceived erosion of independence tends to lift inflation expectations, weaken the currency, raise the risk premium on government bonds, and, as Moody's stated explicitly, bears directly on the sovereign rating. The offsetting anchors are the statutory mandate, the primacy of currency stability within it, and the acting governor's signal of policy continuity.

Rating Agency Reactions to the BI Governor Resignation

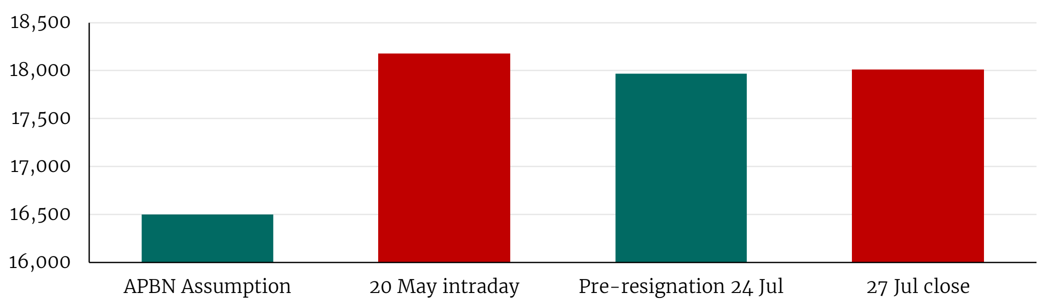
Agency	Rating / Outlook	Reaction to Resignation	Key Risk Flagged
Fitch	BBB / Negative	Risks of further external pressure	Rupiah stability, higher borrowing costs, eroding external buffers
Moody's	Baa2 / Negative	Higher capital-flow and rupiah volatility	Long-term rating hinges on monetary-policy credibility
S&P	BBB / Stable	No direct rating impact; elevated policy risk	Downside if fiscal/external deterioration turns structural

Market Implications

Dimension	Assessment	Analysis
Rupiah / FX	Elevated Risk	The rupiah closed near a record low at IDR18,009 per USD as the resignation erased its post-rate-hike recovery; with the policy outlook in question, near-term two-way volatility is likely to stay high even as Bank Indonesia intervenes across spot and forward markets.
SBN / Rates	Cautious	Both Fitch and S&P flagged higher government borrowing costs, and Citi warned of an overhang on bond-portfolio inflows; yields face upward pressure until the successor and policy direction are clarified, though the statutory mandate limits the most extreme financing steps.
Sovereign Rating	Cautious	Two of three agencies (Moody's, Fitch) already hold Negative outlooks and S&P, though Stable, signalled downside if deterioration turns structural; all three named monetary-policy credibility as the decisive factor for the rating path.

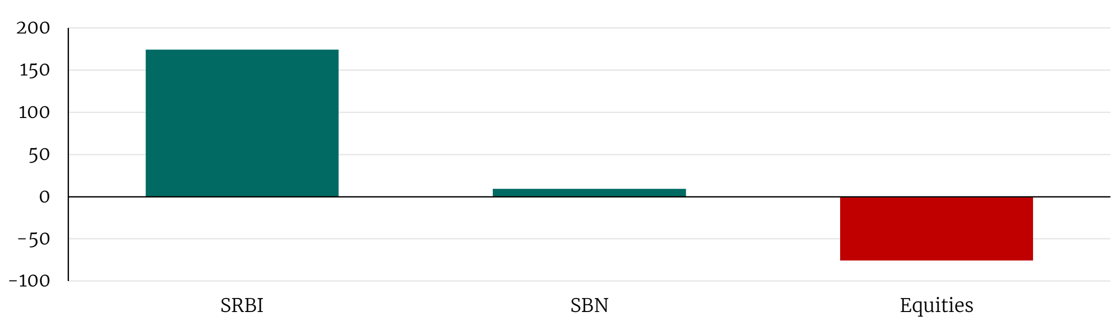
Source: Bloomberg; Fitch, Moody's, S&P Global Ratings; Citi, ING; Bank Indonesia; Aldiracita Research. For informational purposes only.

Rupiah (IDR/USD) · Key Reference Levels, 2026



The rupiah blew through its APBN planning assumption early in 2026, spiked to a record low near IDR18,175 in May during the rate-hike episode, briefly recovered, then relapsed to IDR18,009 at Monday's close after the resignation. "Assumption" is the budget planning rate; other points are spot. Source: Bloomberg, Bank Indonesia.

Foreign Portfolio Flows into Indonesia, 2026 YTD (IDR trillion)



2026 inflows have concentrated in short-term SRBI instruments · more prone to sudden reversal · while equities saw sustained net outflows; a fragile inflow mix now facing renewed policy uncertainty. Source: Bloomberg, Bank Indonesia.

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