Bank Indonesia Rate Decision (16-17 Mar)

Stays on hold as Middle East escalation delays easing path

- **Bank Indonesia (BI) kept its policy rate at 4.75%** at its third Board of Governors meeting of 2026, marking the fifth straight month of policy pause, in line with our view and market expectations
  - **Deposit and Lending Facility Rates** were also maintained at 3.75% and 5.50%, respectively.
  - **BI statement:** BI noted that its latest decision aims to "strengthen the stability of the Rupiah exchange rate from the impact of worsening global conditions due to the war in the Middle East and to maintain the 2026-2027 inflation target of 1.5%-3.5%." It also reiterated that it will take "necessary adjustment measures to remain consistent in maintaining national economic stability" signalling its continued focus on maintaining stability while supporting growth.

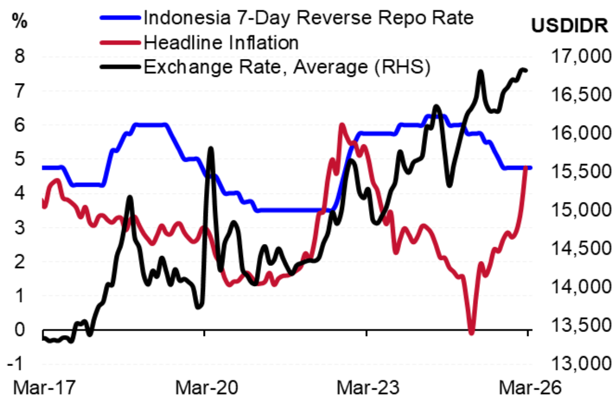
Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.10% (+0.25%)	Australia	Cash Rate	Mar-26
1.00% (-0.25%)	Thailand	Repo Rate	Feb-26
4.25% (-0.25%)	Philippines	Target Reverse Repurchase	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
4.75% (-0.25%)	Indonesia	BI Rate	Sep-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

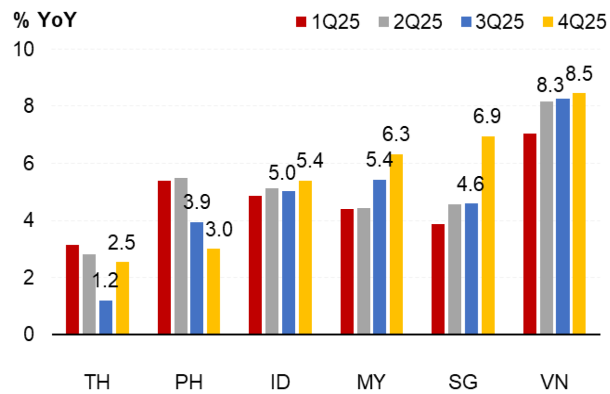
- **Growth momentum remains steady, inflation risks tilt higher, and the Rupiah stays under pressure**
  - **GDP:** BI maintained its 2026 growth forecast at 4.9% – 5.7%, supported by resilient domestic demand, with 1Q26 activity driven by stronger household spending. BI highlighted the need to sustain growth momentum amid the ongoing Middle East conflict.
  - **Inflation:** BI expects inflation in 2026 and 2027 to remain within the 1.5% – 3.5% target band, although upside risks have increased amid the prospect of rising global commodity prices.
  - **Rupiah:** As of 16 March, the Rupiah weakened 1.7% YTD to 16,973 against the USD. This is slightly better than the Baht (-2.8%), but weaker than Peso (-1.5%). In contrast, the Ringgit (+3.1%) outperformed regional peers. BI remains confident the Rupiah will stay stable, supported by attractive yields, and growth prospects.
- **Continued US-Israel military offensive on Iran prevent BI from near-term easing bias**
  - **Policy outlook:** The window for rate cuts in the near term has narrowed as external risks rise. The sharp escalation in the Middle East over the past week has disrupted key energy and shipping routes, heightening geopolitical uncertainty. The situation remains volatile, and a prolonged conflict poses increasing risks to Indonesia's outlook. Higher oil prices and persistent supply disruptions would lift domestic fuel and transport costs, while heightened global volatility continues to pressure the Rupiah. This is likely to delay any rate-easing decision. Our view remains dependent on Rupiah stability, with cuts potentially pushed back until external environment stabilises.
  - **USDIDR year-end forecast (16,480; 2025: 16,694):** We maintain our view of a stronger Rupiah, supported by expectations of a Fed easing cycle. However, Rupiah's upside is now more limited due to disruption to Gulf maritime routes, higher oil prices, and renewed global volatility. These risks could also delay Fed easing cycle, increase global inflation uncertainty, and reinforce a more cautious outlook.

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	
5th	19-20 May (Tue and Wed)	☐	No change	
6th	17-18 Jun (Wed and Thu)	☐	25 bps cut	
7th	21-22 July (Tue and Wed)	☐	No change	
8th	18-19 August (Tue and Wed)	☐	No change	
9th	22-23 September (Tue and Wed)	☐	No change	
10th	20-21 October (Tue and Wed)	☐	No change	
11th	17-18 November (Tue and Wed)	☐	No change	
12th	15-16 December (Tue and Wed)	☐	No change	

Source: Bank Indonesia, Kenanga Research

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