BI Policy:

BI's Odyssean Maneuver

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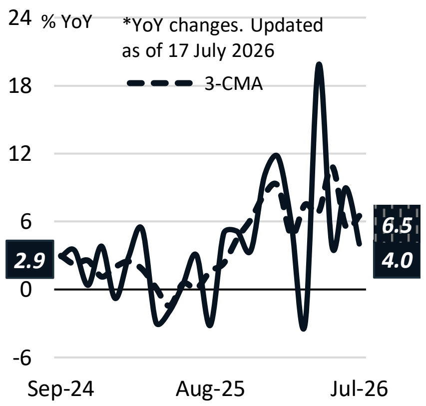
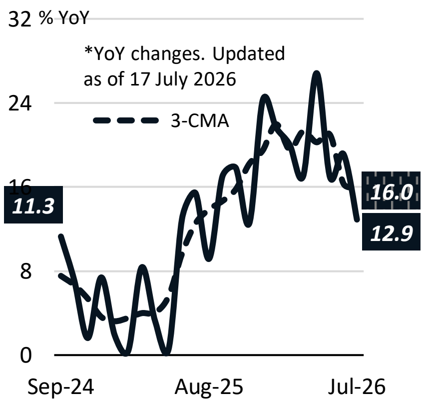
BCA Consumer Spending Index*

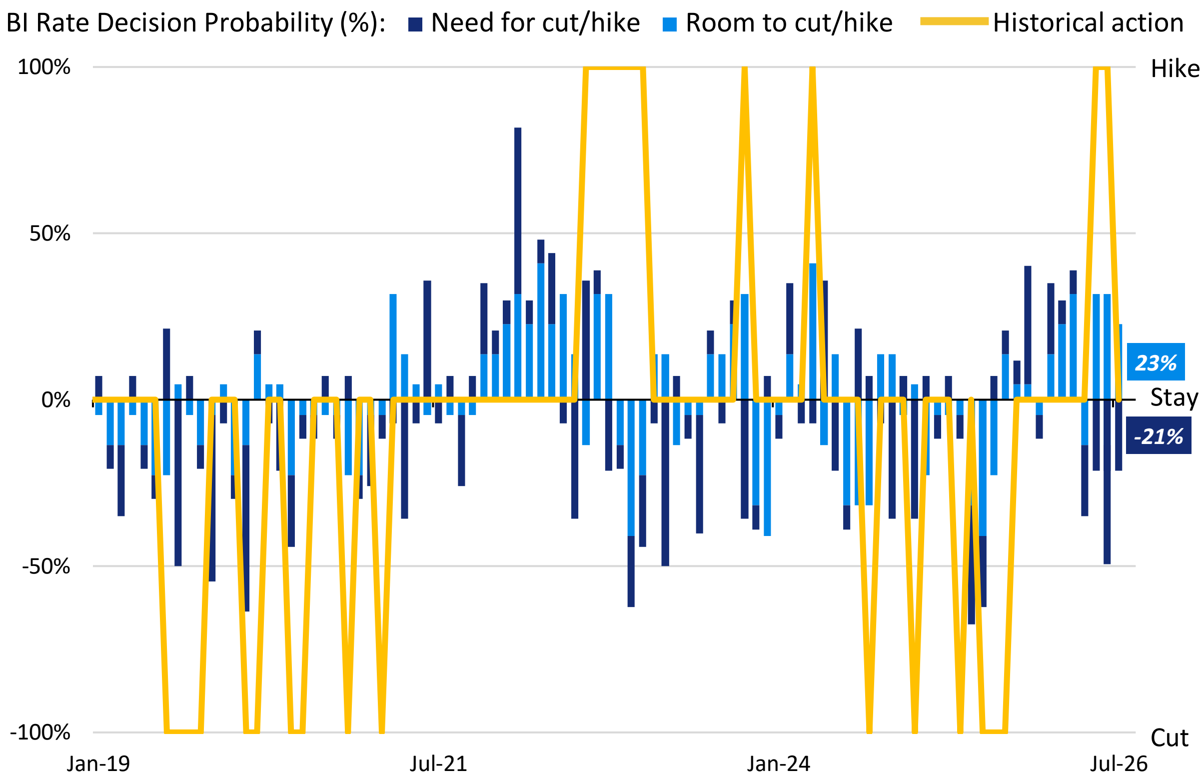


BCA Business Transaction Index*

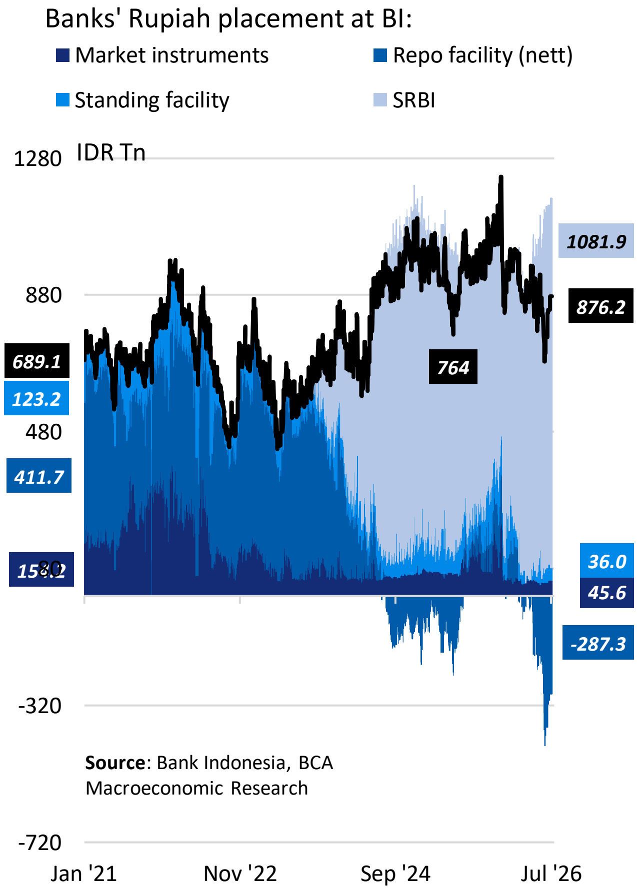


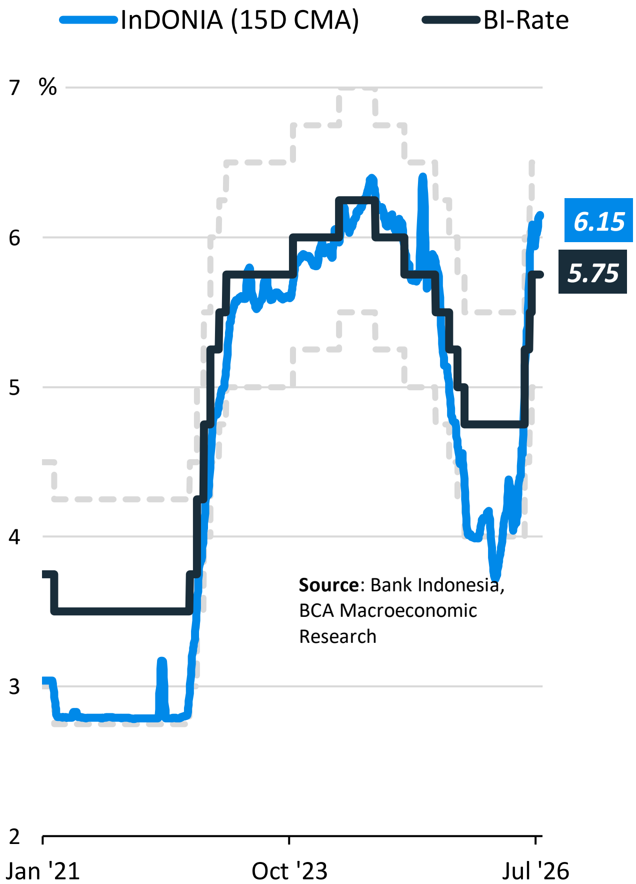
- **Bank Indonesia (BI) maintained the BI Rate at 5.75% at its Jul-26 policy meeting.** This decision aligns with the relatively favorable conditions in the domestic capital market in recent days, with S&P's unchanged rating for Indonesia and a recent rotation from global AI stocks to EMs.
- Nevertheless, **BI actually had ample reasons to move ahead of the curve**. Geopolitical tensions remain high, thus keeping oil prices elevated. El-Niño is also a concern, and the Fed is likely to raise FFR at least one more time. Furthermore, **credit growth in June sharply accelerated to 12.67% YoY** (up from 11.51% YoY in May), leading to the INDONIA rate persisting at an elevated level.
- So, what's the rationale? The answer probably lies in the **government's focus for the next six months**. There appear to be three priorities: the Red-White Cooperatives, the establishment of PT DSI, and PFII. Some of them will **require credit support from SOE banks**, and to some extent explain why credit growth in June accelerated sharply, as well as why the government's SAL must remain in SOE banks.
- So here, BI is making a creative move with three objectives: **increasing banks' lending capacity, keeping the Rupiah stable, without raising interest rates**. BI revised its Macroprudential Liquidity Incentive (KLM) framework by removing the interest channel, reducing the financial channel to 4.0% of total deposits, and introducing a Money Market Deepening (PPU) incentive to 2.0% of total deposits.
- **The new framework encourages banks with securities holdings exceeding 19% of total deposits to reallocate part of their SBN and SRBI portfolio toward lending**. As a counterbalance, to absorb the SRBI and SBN sold, BI increased incentives for foreign inflows by increasing the FX Swap incentive to 12.5% and expanding the DNDF hedging incentive to 15.0%.
- The direction of this policy combination, which may continue until year-end, generally **shifts the cost of stability deeper into BI's revenue**, which, on one hand, carries its own risk. Meanwhile, as credit growth continues to be spurred, we may still see a pass-through of higher core inflation into increased yields. At the end, **we still see a case for BI to raise interest rates again this year, with a probability of 1-2 more hikes**, but this could be lower if the Fed becomes increasingly less hawkish due to US labor market conditions.

1 **BI maintains the policy rate** to support real sector growth

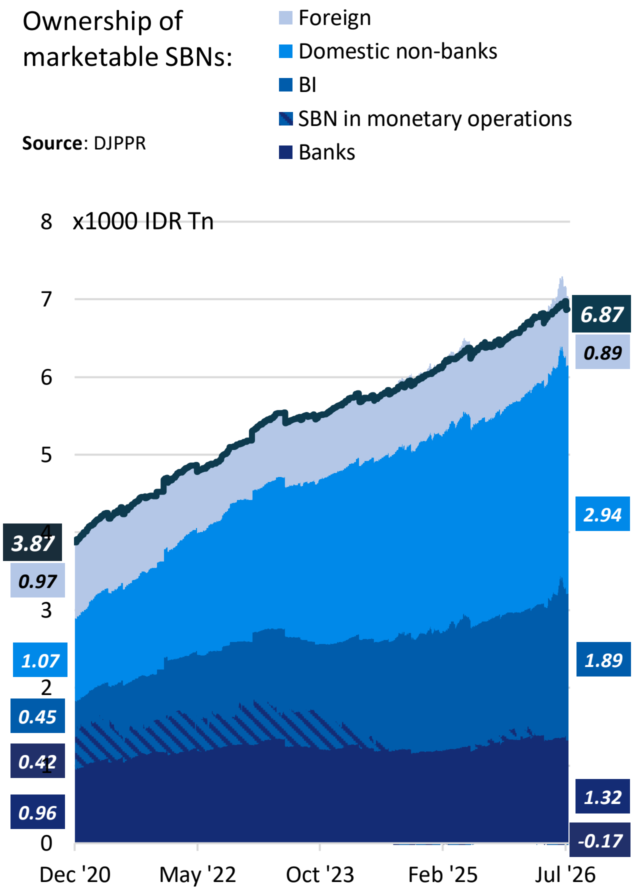


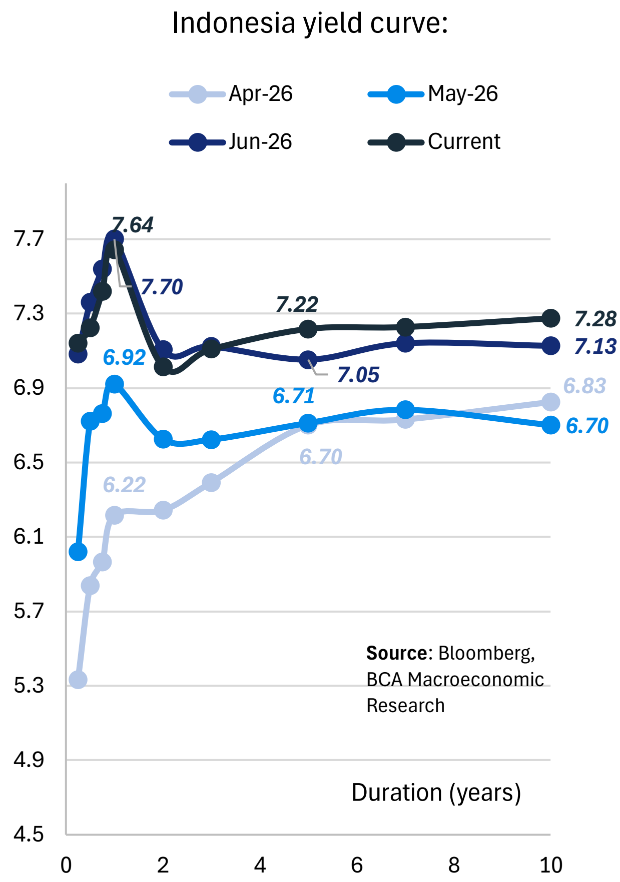
2 **IndoNIA rises** as SRBI issuance and credit growth outpace repo liquidity.



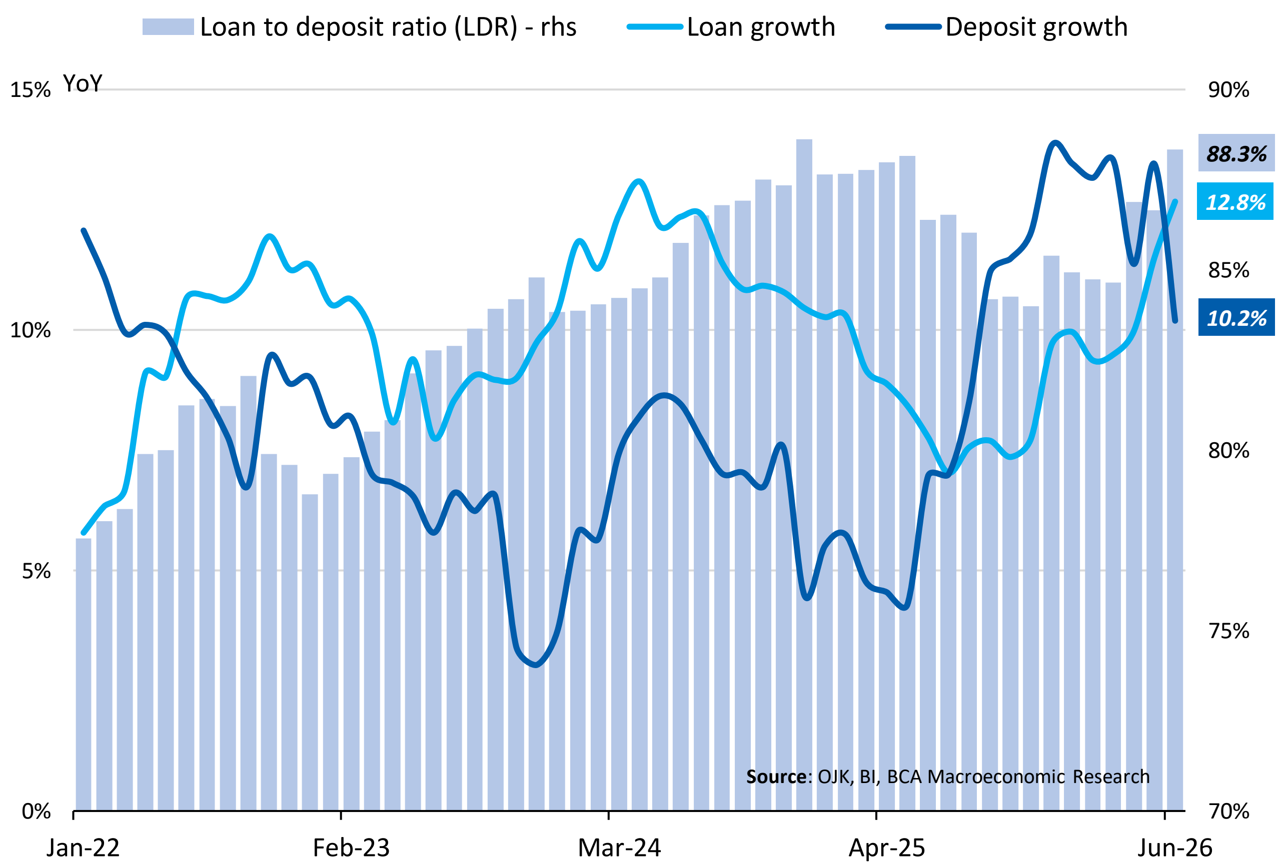


3 **BI signals greater tolerance for higher yields,** aimed at attracting capital inflows



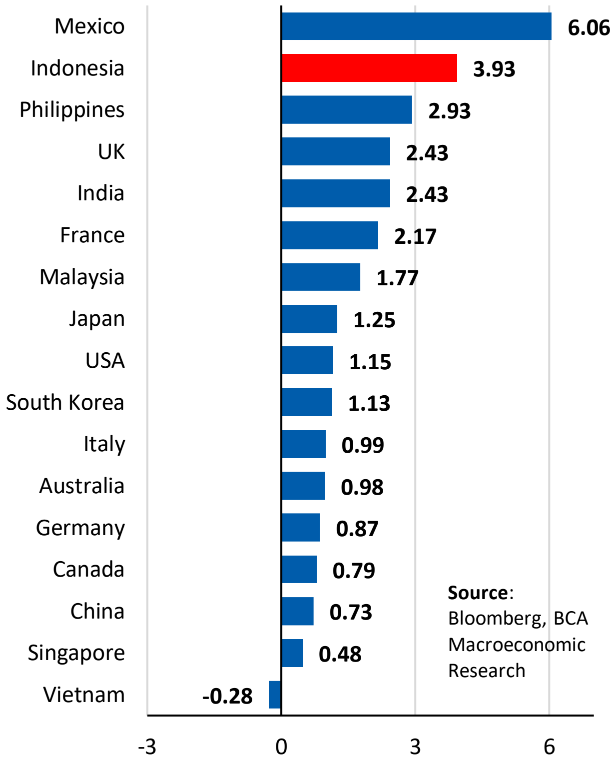


4 **Accelerating loan growth continues to outpace deposit growth**, driving the LDR higher.

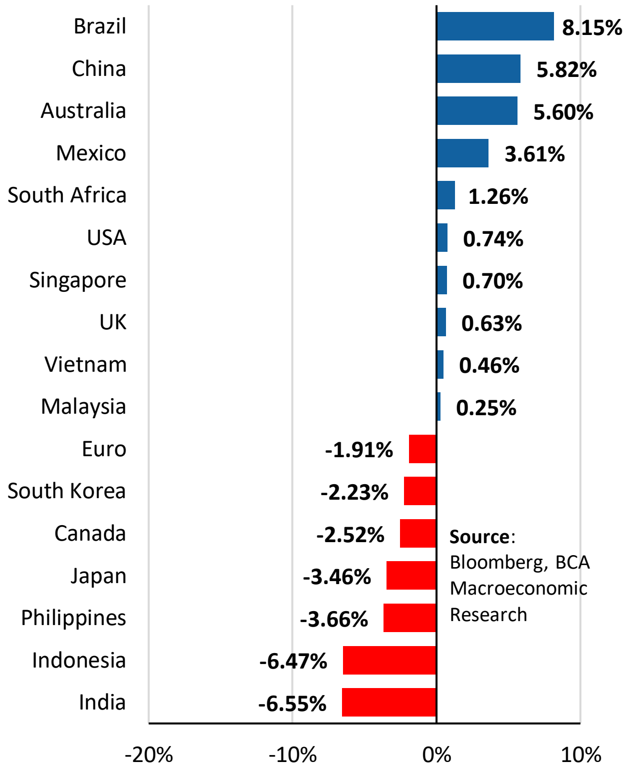


5 BI may need to keep its policy rate high as inflation risks may gnaw on the real interest rate

Real interest rates (10Y Sovereign bond yield - CPI inflation, %), per country:



Nominal effective exchange rate (NEER), YTD % changes per country:



Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	3.75	Dec-25	0.25
UK	3.75	Dec-25	1.15
EU	2.40	Jun-26	-0.40
Japan	1.00	Jun-26	-0.50
China (lending)	2.00	Sep-24	3.35
Korea	2.75	Jul-26	-0.45
India	5.25	Dec-25	0.87
Indonesia	5.75	Jun-26	2.41

Money Mkt Rates	22-Jul	-1 mth	Chg (bps)
SPN (1Y)	7.01	7.05	-4.0
SUN (10Y)	7.27	7.05	22.0
INDONIA (O/N, Rp)	6.18	6.17	1.8
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	May	Apr	Chg (bps)
Lending (WC)	7.95	7.96	-1.00
Deposit 1M	4.52	4.48	4.00
Savings	0.68	0.68	0.00

Currency/USD	22-Jul	-1 mth	Chg (%)
UK Pound	0.748	0.756	1.08
Euro	0.876	0.872	-0.51
Japanese Yen	163.2	161.3	-1.13
Chinese RMB	6.774	6.768	-0.09
Indonesia Rupiah	17,880	17,790	-0.50

Capital Mkt	22-Jul	-1 mth	Chg (%)
JCI	6,334.5	6,177.1	2.55
DJIA	52,218.6	51,564.7	1.27
FTSE	10,717.0	10,363.3	3.41
Nikkei 225	66,115.6	71,250.1	-7.21
Hang Seng	24,892.7	23,924.8	4.05

Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)
Stock	2,573.5	2,820.6	-247.08
Govt. Bond	885.7	863.2	22.43
Corp. Bond	5.7	5.8	-0.09

Trade & Commodities	22-Jul	-1 mth	Chg (%)
Baltic Dry Index	2,715.0	2,722.0	-0.3
S&P GSCI Index	696.6	642.2	8.5
Oil (Brent, $/brl)	94.1	80.6	16.8
Coal ($/MT)	138.6	131.2	5.7
Gas ($/MMBtu)	2.96	3.09	-4.2
Gold ($/oz.)	4,130.3	4,155.7	-0.6
Copper ($/MT)	13,812.7	13,526.6	2.1
Nickel ($/MT)	17,026.0	17,395.0	-2.1
CPO ($/MT)	1,100.5	1,097.5	0.3
Rubber ($/kg)	2.20	2.29	-3.9

External Sector	May	Apr	Chg (%)
Export ($ bn)	23.20	25.30	-8.30
Import ($ bn)	24.81	25.21	-1.59
Trade bal. ($ bn)	-1.61	0.09	-1,907.18
Central bank reserves ($ bn)*	144.9	146.2	-0.89

Prompt Indicators	Jun	May	Apr
Consumer confidence index (CCI)	117.8	120.9	123.0
Car sales (%YoY)	32.9	14.0	55.0
Motorcycle sales (%YoY)	1.1	-5.1	28.1

Manufacturing PMI	Jun	May	Chg (bps)
USA	53.9	55.1	-120
Eurozone	51.4	51.6	-20
Japan	54.8	54.5	30
China	51.7	51.8	-10
Korea	52.1	54.8	-270
Indonesia	46.9	50.0	-310

Source: Bloomberg, BI, BPS
Notes:
*Data from earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

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Indonesia – Economic Indicators Projection

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5128
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.25
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	8.01
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.3

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*

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