

Getting hooked to interventions

29 June 2026

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Summary

- Despite the more aggressive SRBI issuance, the recent monetary policy tightening appears to play only a limited role in explaining the tightening of interbank liquidity conditions.
- Instead, the increasingly debt-driven growth model better explains the tightening in funding conditions, with higher yields serving largely as a consequence rather than the underlying cause.
- Fund disbursement from the public sector may become increasingly crucial to support banks' intermediation function.

- Conflicts around the Strait of Hormuz and in Lebanon continue to simmer, yet conditions in global financial markets have steadily improved over the past week. The VIX index retreated below 20 after a temporary spike in the middle of the week, as reports indicated that US and Iranian officials are scheduled to meet again this week. Growing optimism over the end of the Iran war has pushed oil prices to within touching distance of their pre-war levels, moderating the market's hawkish expectations, although FFR futures is still pricing in a 25-bps rate hike in 2026.
- Similarly, the Indonesian financial market has return to a state of equanimity, at least relative

to the highly volatile period a few weeks ago. The now-elevated yield curve has attracted foreign capital back into the Indonesian market, with foreign purchases of SRBI and SBN throughout the past week (totalling around IDR 7.38 Tn) more than offsetting the IDR 2.32 Tn outflows from the equities market.

- At the same time, the USDIDR spot rate appears to have solidified itself below the 18,000/USD psychological level, although the widening spot-NDF rate (153.3 points in the past week, +46.1 points relative to the June 2026 average) highlights the depreciatory pressure still facing the Rupiah.

Fiscal cycle as the liquidity cycle

- The still-going depreciation pressure on the Rupiah should raise some questions, considering that Bank Indonesia's recent policy announcements (both scheduled and off-cycle) are designed to lend support to the Rupiah. As we recall, in addition to the 100-bps policy rate hikes, the central bank has

announced plans to issue more SRBI at market-determined yields, scale back its operations in the SBN secondary market, and begin transferring the government's cash balance back to its coffers. Many analysts interpreted these measures as a U-turn from a coordinated liquidity-injection strategy toward one centred

on liquidity absorption, helping the Rupiah recover from its historic low of IDR 18,178/USD (+1.43% since then).

- A shift in the central bank’s policy stance inevitably comes with trade-offs. As it appears, the period following the first BI rate hike (the 50-bps rate hike in May 2026) saw the interbank rate surge above the policy rate for the first time since June 2025 (*see Chart 1*), flashing a warning sign that funding conditions in the banking sector have substantially deteriorated after nearly a year of ample liquidity. **The tightening liquidity conditions left us pondering whether the central bank could build on its pro-stability message**, which is crucial to protecting the Rupiah should global conditions turn volatile again.
- However, we should question whether BI is fully behind the recent tightening in the interbank liquidity condition. While most analysts are pointing at the aggressive SRBI issuance as the reason, a further look at the other side of the sovereign bond market reveals that banks mainly generate the liquidity to absorb SRBI by reducing their SBN holdings (*see Chart 2*), while higher demand from BI is more than offset by banks’ SBN sell-offs. Hence, **despite its aggressiveness, the effect of SRBI issuance on the interbank market may prove liquidity-neutral**, as BI has similarly been aggressive in providing liquidity through its operations in the SBN market.
- Other factors, then, must be at play in explaining the tightened liquidity condition within the domestic banking system. BI first recorded a spike in banks’ excess reserve

“The increasing dependence of liquidity conditions on the fiscal cycle could exacerbate the risk of crowding out effects.”

position around September 2025, which coincides with the government’s decision to deliver the first tranche of its cash reserves to SOE banks (*see Chart 3*). **While the recent spike in banks’ excess reserves placement at BI has not been as significant as in September 2025, it remains largely consistent with the concurring fiscal events**, supporting another argument that the liquidity condition is largely a product of the fiscal cycle.

- **The net bank balance indicator further points to a system-wide increase in leverage as a key factor behind banks’ tighter funding conditions** (*see Chart 4*), with total domestic borrowing continuing to outpace domestic savings. Viewed in this light, the growing reliance on debt-financed growth (especially by quasi-public institutions) appears to be the primary driver of the current tightening in funding conditions. The earlier decision to return government funds to BI merely presses the accelerator, while the central bank’s rate hikes serve largely as the rear-view mirror, reflecting strains that had already been building within the banking system.
- It is unsurprising, then, that the government has been quick to ease off the accelerator. Despite running counter to BI’s earlier policy signals, **the Ministry of Finance has more recently announced another round of cash placements in SOE banks, which should help arrest the ongoing rise in interbank rates**, ease banks’ cost-of-fund pressures, and, in turn, strengthen their intermediation function.
- The MoF’s most recent policy decisions highlight the government’s unrelenting pursuit of higher GDP growth, as nearly every policy

lever has been kept engaged to enable the economy to take on more leverage and channel capital in support of the government’s development agenda. The question, however, is how long it will before the market readjusts and yet another policy lever must be pulled?

- Alas, the answer may not be particularly encouraging, as made clear by banking stocks’ downward movements following the recent policy announcement. **Despite the bigger cash placements, continued reliance on debt-financed growth implies that the gap between domestic borrowing and savings will widen,**

meaning that the spectre of tighter interbank funding conditions is never far away.

- Positive returns from these public-directed investments – reflected in a stronger CA surplus rather than merely higher GDP growth – will be necessary to restore this structural gap in liquidity conditions. Until then, interbank liquidity conditions are likely to remain closely tied to the fiscal cycle, increasing the risk that public (and quasi-public) spending will crowd out private investments.

Chart 1

Jumping up the ceiling

The overnight rate spikes higher following the recent monetary policy tightening, but the higher yield merely acts as a consequence rather than a catalyst

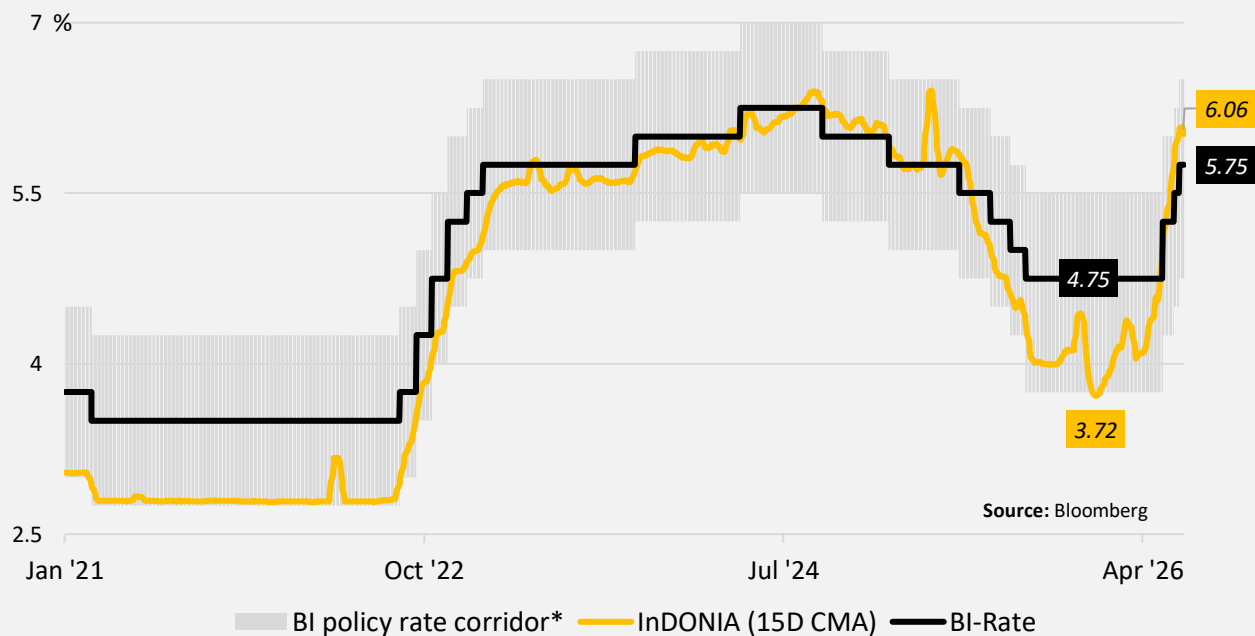


Chart 2

Heavy rotation

Banks are increasingly rotating from SRBI to the SBN market, meaning that more aggressive SRBI issuance may not be at fault in tightening interbank liquidity conditions

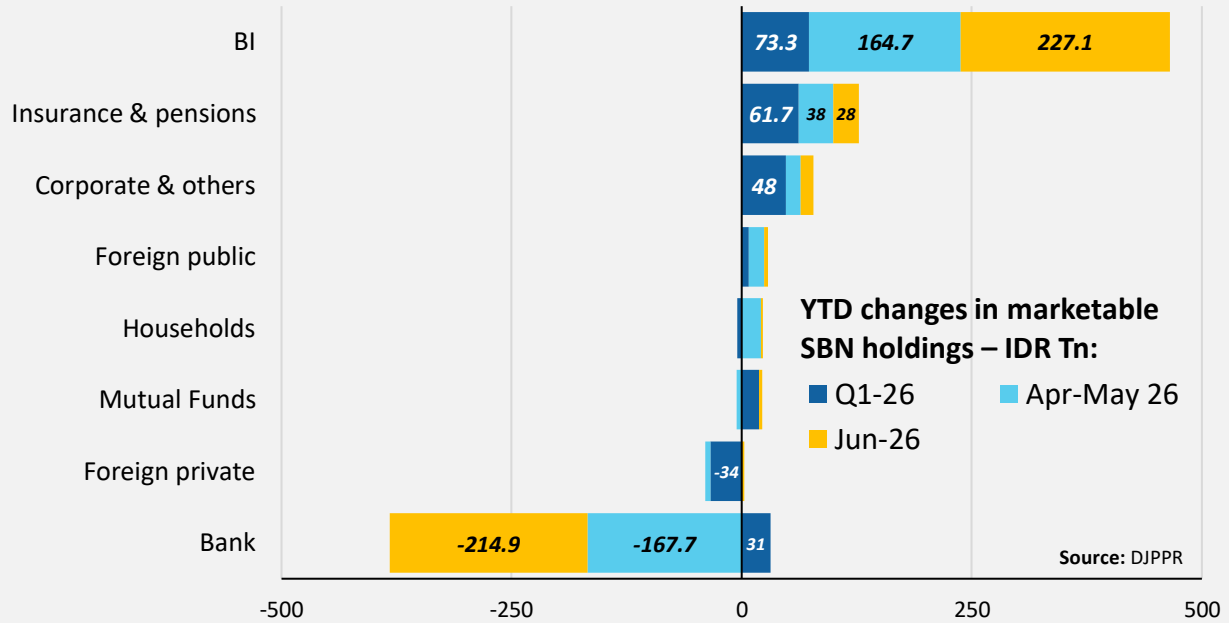


Chart 3

Fiscal dependent

Bank's excess reserves at BI are depleting as the government is reported to have withdrawn some of its funds from SOE banks, prompting a U-turn from that policy decision

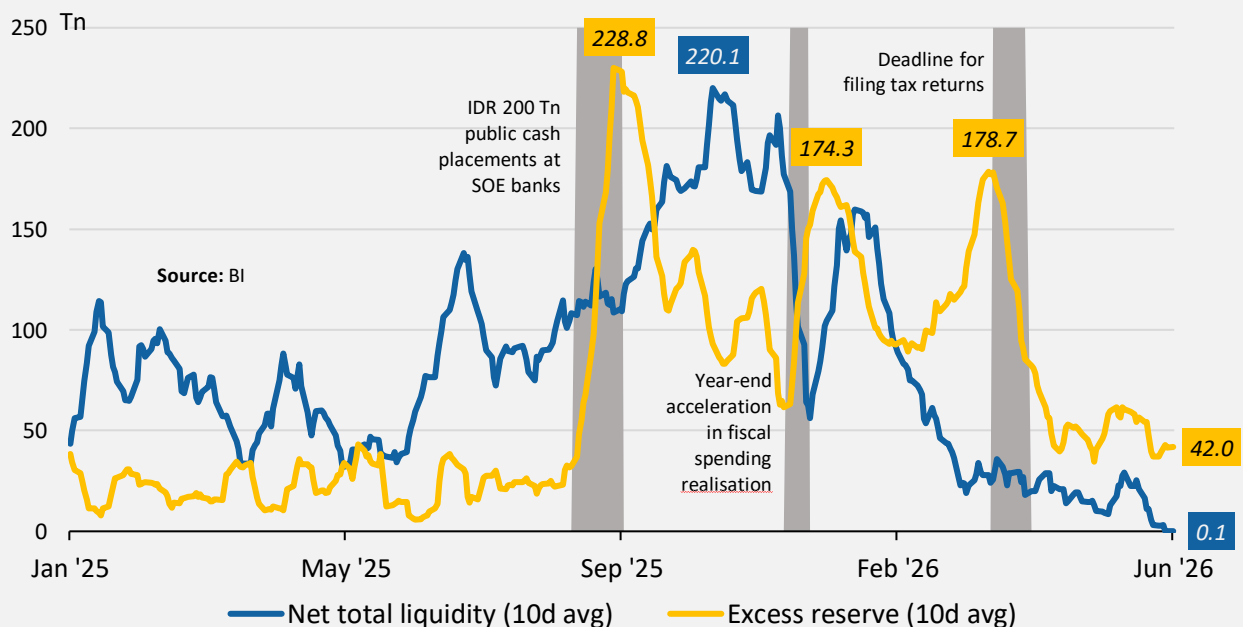
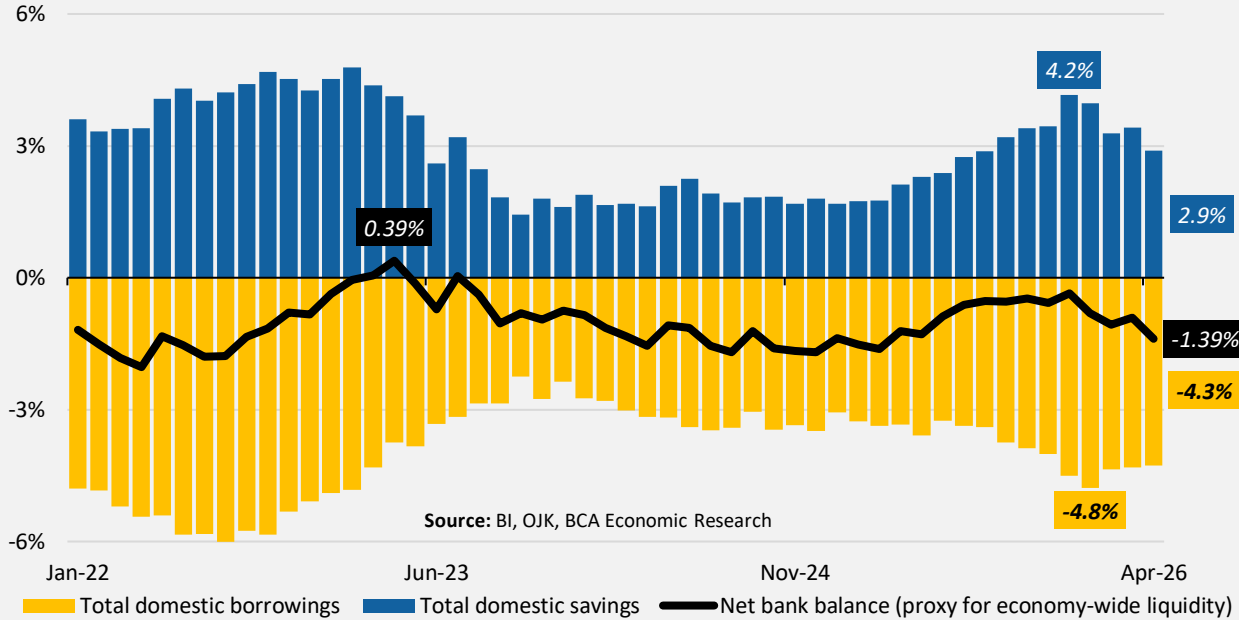


Chart 4

Fewer borrowers, even fewer savers

Domestic borrowings are slowing down as only the public sector is leveraging, yet economy-wide liquidity remains tight given the more noticeable fall in savings



Economic Calendar				
		Actual	Previous	Forecast*
02 June 2026				
ID	S&P Global Manufacturing PMI	50.0	49.1	49.5
ID	Trade balance (Apr-26), USD Bn	0.09	3.32	0.5
ID	Inflation Rate YoY, %	3.08	2.42	3.1
04 June 2026				
EA	Retail Sales YoY, %	1	2.1	0.7
05 June 2026				
US	Non Farm Payrolls, th	172	179	102.0
08 June 2026				
ID	Foreign Exchange Reserves, USD Bn	144.9	146.2	-
ID	Motorbike Sales YoY, %	-5.1	28.1	-
09 June 2026				
CN	Trade balance, USD Bn	105.43	84.8	89.0
ID	BI-Rate Decision, %	5.50	5.25	-
US	Trade balance (Apr-26), USD Bn	-55.9	-56.6	-57.9
10 June 2026				
CN	Inflation Rate YoY, %	1.2	1.2	1.4
ID	Consumer Confidence	120.9	123.0	124
ID	Car Sales YoY, %	14.0	55.0	-
US	Inflation Rate YoY, %	4.2	3.8	4.0
11 June 2026				
ID	Retail Sales YoY, %	-3.7	3.4	3.6
16 June 2026				
CN	Retail Sales YoY, %	-0.6	0.2	0.8
17 June 2026				
US	Retail Sales YoY, %	6.9	4.8	4.0
18 June 2026				
US	Fed Interest Rate Decision, %	3.75	3.75	3.75
ID	BI-Rate Decision, %	5.75	5.50	6
ID	Loan Growth YoY, %	11.51	9.98	-
23 June 2026				
ID	M2 Money Supply YoY, %	10.8	9.2	-
25 June 2026				
US	PCE Price Index YoY, %	4.1	3.8	4.0

*Forecasts of some indicators are simply based on market consensus
 Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	26-Jun	-1 mth	Chg (%)
US	3.75	Dec-25	-0.45	Baltic Dry Index	2,524.0	3,085.0	-18.2
UK	3.75	Dec-25	0.95	S&P GSCI Index	616.3	716.8	-14.0
EU	2.40	Jun-26	-0.80	Oil (Brent, \$/brl)	72.0	99.6	-27.7
Japan	1.00	Jun-26	-0.50	Coal (\$/MT)	126.0	142.8	-11.8
China (lending)	2.00	Sep-24	3.15	Gas (\$/MMBtu)	3.29	3.11	6.0
Korea	2.50	May-25	-0.60	Gold (\$/oz.)	4,088.7	4,507.9	-9.3
India	5.25	Dec-25	1.32	Copper (\$/MT)	13,335.9	13,565.7	-1.7
Indonesia	5.75	Jun-26	2.67	Nickel (\$/MT)	16,518.8	18,770.2	-12.0
Money Mkt Rates	26-Jun	-1 mth	Chg (bps)	CPO (\$/MT)	1,098.3	1,119.5	-1.9
				Rubber (\$/kg)	2.15	2.22	-3.2
Bank Rates (Rp)	Apr	Mar	Chg (bps)	External Sector	Apr	Mar	Chg (%)
SPN (1Y)	7.62	6.19	142.7	Export (\$ bn)	25.30	22.53	12.32
SUN (10Y)	7.12	6.69	43.4	Import (\$ bn)	25.21	19.21	31.28
INDONIA (O/N, Rp)	6.23	5.31	92.1	Trade bal. (\$ bn)	0.09	3.32	-97.32
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	146.2	148.2	-1.32
Bank Rates (Rp)	Apr	Mar	Chg (bps)	Prompt Indicators	May	Apr	Mar
Lending (WC)	7.96	8.00	-4.00	Consumer confidence index (CCI)	120.9	123.0	122.9
Deposit 1M	4.48	4.47	1.00	Car sales (%YoY)	14.0	55.0	-13.8
Savings	0.68	0.67	1.00	Motorcycle sales (%YoY)	-5.1	28.1	-17.1
Currency/USD	26-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
UK Pound	0.758	0.744	-1.83	USA	55.1	54.5	60
Euro	0.878	0.860	-2.12	Eurozone	51.6	52.2	-60
Japanese Yen	161.7	159.3	-1.51	Japan	54.5	55.1	-60
Chinese RMB	6.800	6.786	-0.21	China	51.8	52.2	-40
Indonesia Rupiah	17,918	17,789	-0.72	Korea	54.8	53.6	120
Capital Mkt	26-Jun	-1 mth	Chg (%)	Indonesia	50.0	49.1	90
JCI	5,896.1	6,130.2	-3.82				
DJIA	51,876.1	50,461.7	2.80				
FTSE	10,508.0	10,491.4	0.16				
Nikkei 225	69,360.9	64,996.1	6.72				
Hang Seng	22,671.9	25,599.5	-11.44				
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)				
Stock	2,820.6	3,158.9	-338.29				
Govt. Bond	865.2	866.9	-1.77				
Corp. Bond	5.8	5.8	-0.01				

Source: Bloomberg, BI, BPS

Notes:

*Data from an earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise

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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