

Aiming for a different kind of stability

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Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Victor George Petrus Matindas
victor_matindas@bca.co.id



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Summary

- Improving liquidity conditions following BI's recent policy meeting have helped keep SBN yield stable amid the uptrend in global yields.
- Changes to BI's mandate, along with the government's fiscal condition, may explain the shift in the central bank's policy priorities.
- The Rupiah's downward trend and continued outflows from the domestic financial market may eventually force BI to refocus its efforts on exchange rate stability.

- On last week's note, we argued that Bank Indonesia was unlikely to adjust its policy rate despite the concerted rate hikes by the Fed and two other major central banks. Our argument, it turns out, has fallen short of the outcome. Not only did BI maintain the BI-Rate at 5.75%, but the central bank also introduced measures to normalise the benchmark overnight rate (*see Chart 1*), partly by keeping SRBI issuance on a tighter leash while leaving the repo facility wide open.
- BI's continued liquidity accommodation stands in contrast to the direction taken by the Fed and other major central banks in recent weeks. As widely reported, the lingering Middle East conflict is interwoven into expectations of domestic inflation, while fierce competition for funds to accommodate fiscal expansion and AI

capex has left other central banks with limited options but to let their interest rates swing northwards.

- What followed thereafter is hardly surprising. The Rupiah shed 0.73% of its value against the USD in days following the BI policy meeting (-1.27% MoM), with BI once again having to delay the Rupiah from breaching the 18,000/USD psychological level. However, the ongoing downtrend in USDIDR may not necessarily prompt BI to restart its tightening campaign, as the central bank may have counted its success in keeping the benchmark sovereign bond yield stable at around 7.0-7.1% throughout the month (*see Chart 2*).

From currency to yield stability

- We could argue, then, that while BI continues to put stability at the centre of its *raison d'être* amid the monumental changes to its mandate, it has

become increasingly clear what kind of stability the central bank may currently prioritise. **Judging by its lower variance, a stable and low 10Y SBN**

yield appears to take precedence over the more volatile and downward-trending Rupiah exchange rate. This argument helps explain BI's recent policy actions, with the central bank apparently unwilling to let Indonesia's yield curve to adjust upwards despite the DXY index and oil prices returning to triple-digit territory.

- BI's apparent decision to rank interest rate stability above exchange rate stability may be influenced by three factors. First, **keeping domestic interest rate stable is more aligned with its new mandate to support growth**, as the central bank may increasingly be judged on its ability to sustain loan and money supply growth. This scenario reflects our expectation that the government will increasingly rely on off-budget spending and non-public (private and quasi-public) investment to pursue its growth agenda, making access to cheap domestic funding crucial for accommodating investors.
- Second, **BI may be increasingly sanguine that a weaker Rupiah will have a more limited impact on the state budget.** Self-reliance, particularly in food and energy, has been a cornerstone of the government's growth agenda, reflected in programmes such as food estates, B50 biodiesel, CNG adoption, and the development of a domestic electronic motorcycle ecosystem. Depending on its success, these programmes will help reduce the government's import burden, eventually lowering the state budget's sensitivity to exchange rate volatility.
- The third and most crucial factor, however, is that **the government may find itself increasingly in need of support to manage its budget.** According to one estimate, interest payments accounted for more than 19% of government spending as of 8M 2026, up from 14.7% in FY

"While yield stability appears to take precedence now, Rupiah's exchange rate may remain a source of concern for BI and the government"

2022 and increasingly constraining the government's room to manoeuvre as it seeks to deliver on its many fiscal commitments. Figures from the FY 2027 state budget proposal indicate that the government plans to keep interest payments below 19% of total revenue, highlighting the need of keeping benchmark yields at or below the 6.90% target.

- While we argue that BI may have prioritise yield stability over the exchange rate in recent policy decisions, continued currency interventions by BI and the increasing number of FX bond issuance by the government reveals that currency stability remains a cause for concern. **Efforts to attract foreign inflows also remain ongoing to help stabilising the Rupiah**, although the strategy has clearly shifted from offering higher yields through SRBI to doubling down on hedging discounts to eliminate foreign investors' exchange rate risk (*see Chart 3*).
- Alas, BI's move to assume foreign investors' exchange rate risk has yet to stem outflows from the domestic equity and sovereign debt markets, with net outflows totalling USD 234.6 Mn since the additional discount on the hedging facility being announced.
- The aforementioned shift in BI's focus on yield stability may contribute to the apparent weakness in the demand for Rupiah assets, as higher global yields reflect more attractive opportunities elsewhere. Indeed, interpreting the narrowing SBN-UST spread (or spreads against other global bond yields) as a sign of a positive repricing in Indonesia's sovereign debt could be misleading, as **the narrower spread has not been accompanied by a commensurate improvement in the country's risk premium** (*see Chart 4*).

- Ergo, two questions may need to be answered before the next BI policy meeting. **The first is whether yield stability will continue to take precedence over exchange rate stability**, particularly with the Rupiah already closing above 18,000/USD less than a week after the previous BI policy meeting. **The second is whether the hedging discount should start complementing the earlier policy of offering higher rates**, rather than serve as a substitute for

it. Given the current environment of mercurial oil prices – which may continue to pose a heavy burden on the state budget in the short term – and the rising risk of imported inflation, currency stability may need to return to the top of BI's priority, meaning that another rate hike remains a possibility.

Chart 1

Swimming against the tide

BI opted to accommodate the domestic liquidity condition during the recent policy meeting, while the Fed and other major central banks are taking measures to tighten their policy mix

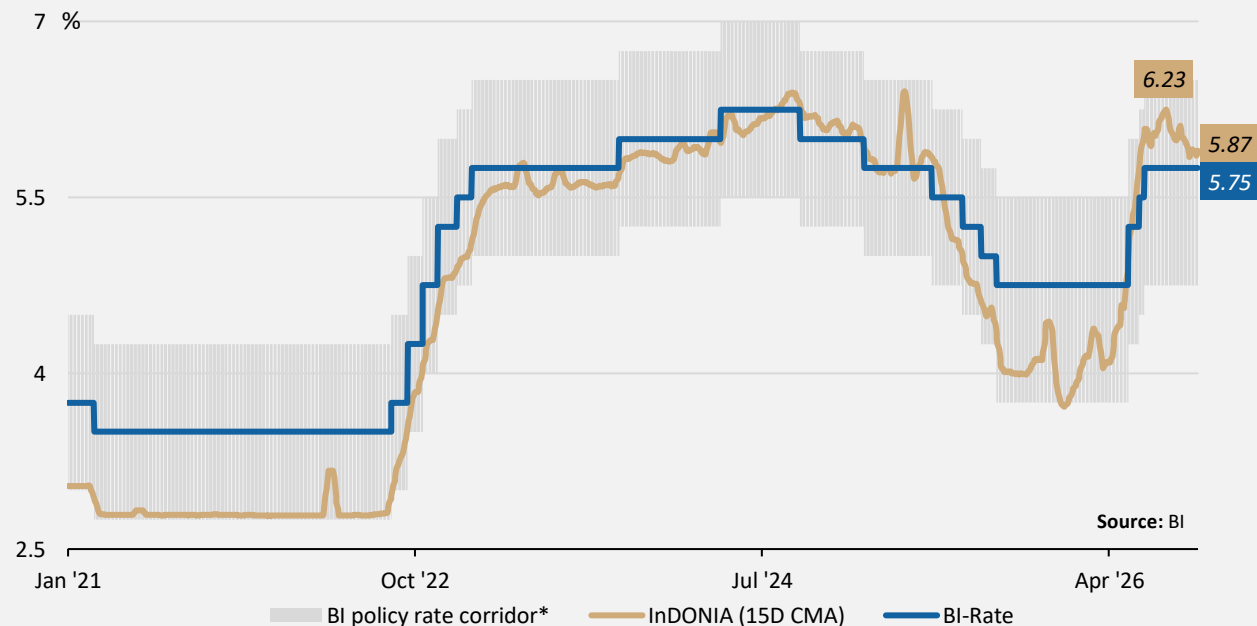


Chart 2

Yield over currency stability

BI's policy appears to be geared towards keeping the SBN yield stable, albeit at the cost of more volatile Rupiah exchange rate

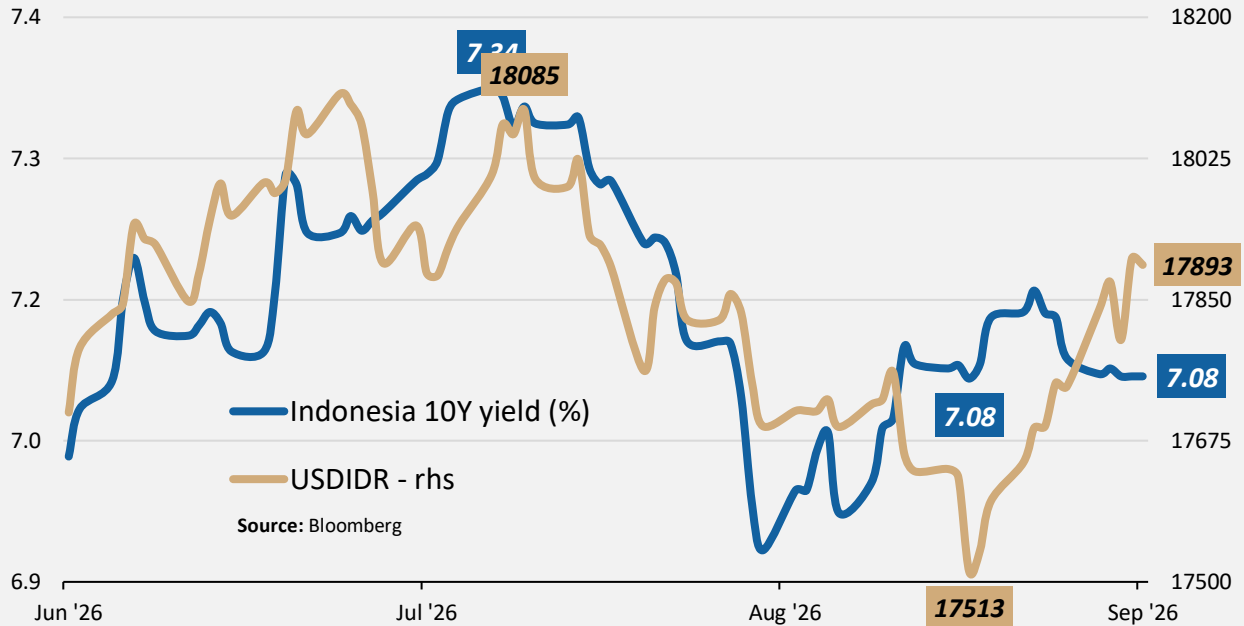


Chart 3

More discount on assurance

BI is doubling down on its hedging discount to eliminate investors' exchange risks, which is crucial to sustain foreign inflows especially amid periods of DXY strengthening

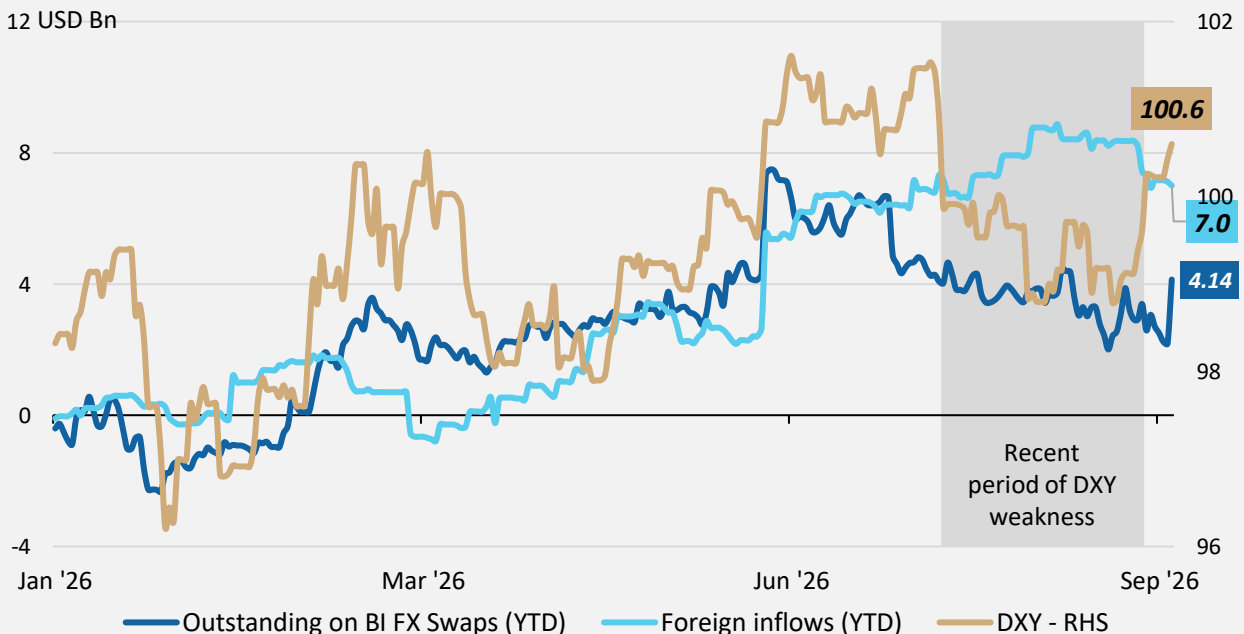
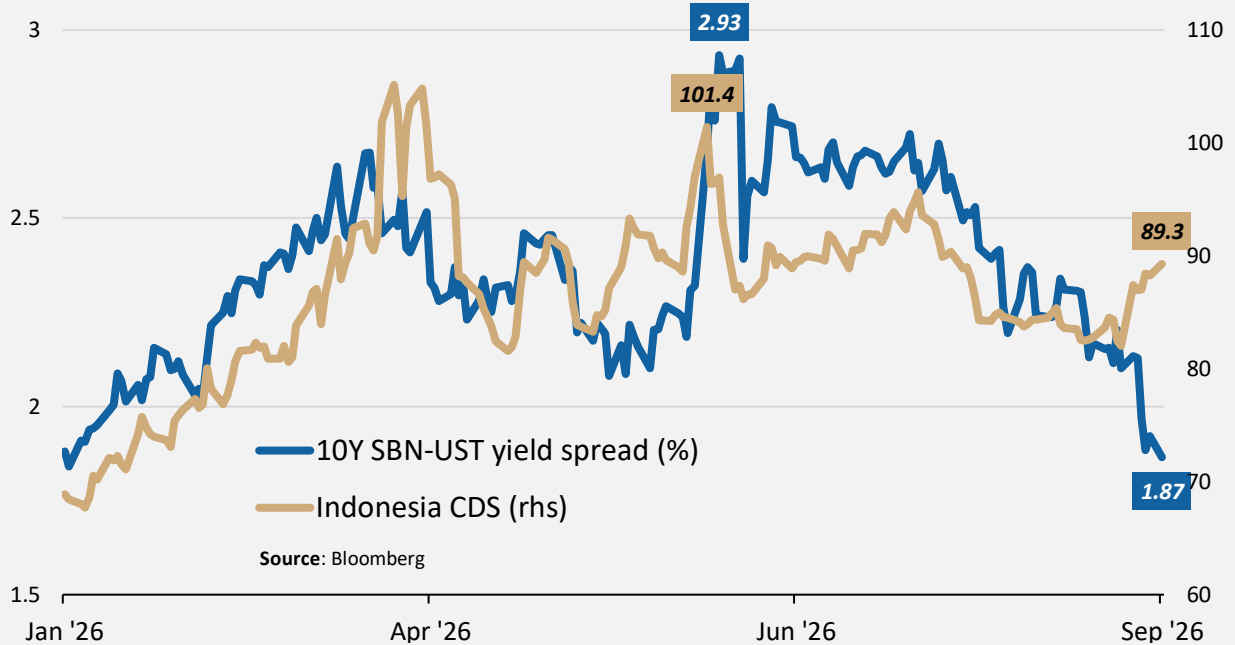


Chart 4

Lower yield without lower risks

Indonesia's narrowing yield spread has been a product of BI's diverging policy moves rather than investors' improving risk perceptions, which has weakened demand for Rupiah assets



Economic Calendar				
		Actual	Previous	Forecast*
01 September 2026				
ID	S&P Global Manufacturing PMI	49.8	50.2	50.5
ID	Trade balance (Aug-26), USD Bn	0.13	-0.45	-0.3
ID	Inflation Rate YoY, %	3.19	2.88	3.2
US	S&P Global Manufacturing PMI	53.9	53.9	53.2
03 September 2026				
US	Trade balance (Jul-26), USD Bn	-88.6	-71.2	-91.2
04 September 2026				
EA	Retail Sales YoY, %	0.6	1.4	0.9
US	Non Farm Payrolls, th	162	21	42.0
07 September 2026				
ID	Foreign Exchange Reserves, USD Bn	146.5	145.3	-
08 September 2026				
CN	Trade balance, USD Bn	119.1	112.5	120.0
09 September 2026				
ID	Car Sales YoY, %	32.4	33.3	-
ID	Motorbike Sales YoY, %	3.18	8.3	-
CN	Inflation Rate YoY, %	0.8	0.5	0.7
ID	Consumer Confidence	118.5	116.8	117
10 September 2026				
ID	Retail Sales YoY, %	1.1	-3	-3.3
11 September 2026				
US	Inflation Rate YoY, %	3.4	3.4	3.4
15 September 2026				
CN	Retail Sales YoY, %	0.4	0.6	1.0
16 September 2026				
US	Retail Sales YoY, %	6	5.03	4.7
17 September 2026				
US	Fed Interest Rate Decision, %	4	3.75	4
23 September 2026				
ID	BI-Rate Decision, %	5.75	5.75	5.75
ID	Loan Growth YoY, %	13.36	13.58	15.0
24 September 2026				
ID	M2 Money Supply YoY, %	8.2	8.3	-
30 September 2026				
US	PCE Price Index YoY, %		3.7	-

*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	25-Sep	-1 mth	Chg (%)
US	4.00	Sep-26	0.60	Baltic Dry Index	3,426.0	2,926.0	17.1
UK	3.75	Dec-25	0.65	S&P GSCI Index	737.7	697.0	5.8
EU	2.65	Sep-26	-0.55	Oil (Brent, \$/bbl)	104.3	88.6	17.8
Japan	1.25	Jun-26	-0.65	Coal (\$/MT)	143.8	139.4	3.1
China (lending)	2.00	Sep-24	3.55	Gas (\$/MMBtu)	3.24	2.69	20.2
Korea	3.00	Aug-26	-0.10	Gold (\$/oz.)	4,284.8	4,657.2	-8.0
India	5.25	Dec-25	0.43	Copper (\$/MT)	14,728.4	14,505.9	1.5
Indonesia	5.75	Jun-26	2.56	Nickel (\$/MT)	16,150.1	16,868.1	-4.3
Money Mkt Rates	25-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	1,097.3	1,149.7	-4.6
SPN (1Y)	6.61	6.75	-13.9	Rubber (\$/kg)	2.55	2.37	7.6
SUN (10Y)	7.08	6.98	10.1	External Sector	Jul	Jun	Chg (%)
INDONIA (O/N, Rp)	5.91	6.14	-23.1	Export (\$ bn)	26.22	25.46	2.98
JIBOR 1M (Rp)	5.03	5.03	0.0	Import (\$ bn)	26.09	25.91	0.72
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Trade bal. (\$ bn)	0.12	-0.45	-127.06
Lending (WC)	8.14	8.07	7.00	Central bank reserves (\$ bn)*	145.3	145.6	-0.17
Deposit 1M	5.35	4.96	39.00	Prompt Indicators	Aug	Jul	Jun
Savings	0.68	0.68	0.00	Consumer confidence index (CCI)	118.5	116.8	117.8
Currency/USD	25-Sep	-1 mth	Chg (%)	UK Pound	0.755	0.733	-2.95
UK Pound	0.755	0.733	-2.95	Euro	0.878	0.857	-2.43
Euro	0.878	0.857	-2.43	Japanese Yen	157.3	159.2	1.21
Japanese Yen	157.3	159.2	1.21	Chinese RMB	6.713	6.720	0.11
Chinese RMB	6.713	6.720	0.11	Indonesia Rupiah	17,893	17,712	-1.01
Indonesia Rupiah	17,893	17,712	-1.01	Capital Mkt	25-Sep	-1 mth	Chg (%)
Capital Mkt	25-Sep	-1 mth	Chg (%)	Manufacturing PMI	Aug	Jul	Chg (bps)
JCI	6,241.9	6,501.7	-4.00	USA	53.9	53.9	0
DJIA	51,828.6	53,577.4	-3.26	Eurozone	52.7	51.9	80
FTSE	10,695.3	10,886.2	-1.75	Japan	54.9	54.5	40
Nikkei 225	66,364.2	65,856.4	0.77	China	51.5	50.9	60
Hang Seng	24,510.1	25,511.1	-3.92	Korea	52.3	53.1	-80
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)	Indonesia	49.8	50.2	-40
Stock	2,949.5	2,805.0	144.49				
Govt. Bond	907.8	892.4	15.35				
Corp. Bond	4.8	5.6	-0.74				

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	5.3
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.1
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5126
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.2
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.00
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	7.31
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,621
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,238
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2

Notes:

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

BCA Economic & Industry Research

David E. Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext: 1051352

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

Arif Agung Wibowo

Economist / Analyst

arif_agung@bca.co.id

+6221 2358 8000 Ext: 1080926

Samuel Theophilus Artha

Economist / Analyst

samuel_artha@bca.co.id

+6221 2358 8000 Ext: 1080373

Agus Salim Hardjodinoto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1007431

Jennifer Calysta Farrell

Economist / Analyst

jennifer_farrell@bca.co.id

+6221 2358 8000 Ext: 1082423

Victor George Petrus Matindas

Head of Banking Research and Analytics

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Nicholas Husni

Economist / Analyst

nicholas_husni@bca.co.id

+6221 2358 8000 Ext: 1079839

PT Bank Central Asia Tbk

BCA Economic & Industry Research

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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