BI-Rate

On 19th August 2016, Bank Indonesia (BI) strengthened its monetary operations (MO) framework by implementing a new reference rate, namely the BI 7-Day Reverse Repo Rate (BI7DRR). The BI7DRR instrument was a new reference rate that had a stronger relationship with money market rates, was also transactional and nurtured financial market deepening, particularly the use of repo instruments.

The strengthening measure was typical of various central banks and recognised as an international best practice in terms of implementing monetary operations. Meanwhile, Bank Indonesia regularly refines its MO framework to strengthen policy effectiveness in achieving the predetermined inflation target. The BI7DRR instrument was deployed as the new policy rate because of its ability to influence the money market, banking industry and real sector quickly.

As expected, applying the BI7DRR instrument as the new policy rate had three major impacts as follows:

1. Strengthening the monetary policy signal with the BI7DRR as the main reference in the financial markets.
2. Increasing monetary policy transmission through its impact on interest rate movements in the money market and banking industry.
3. Deepening financial markets, particularly the transactions and forming interbank rate structures for tenors of 3-12 months.

It should be noted that, commencing 21st December 2023, Bank Indonesia changed the name of its policy rate to the BI-Rate, replacing the BI 7-Day Reverse Repo Rate (BI7DRR), to strengthen monetary policy communication. The new name does not change the meaning or objectives of the BI-Rate as the monetary policy stance of Bank Indonesia, with operationalisation still referring to Bank Indonesia reverse repo transactions with a tenor of 7 (seven) days.