

Choosing between a stable floor or a higher ceiling

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Summary

- The Rupiah staged a relief rally following BI's surprise rate hike, coinciding with the decline in global oil prices, even as foreign capital inflows remained limited.
- Market movements last Friday appear to support the argument that fiscal concerns, rather than low yields, are the primary factor behind foreign investors' subdued appetite for Indonesian sovereign bonds.
- The tension between foreign capital inflows and the government's fiscal posture highlights the trade-off between pursuing higher GDP growth and maintaining financial-market stability.

- News from the geopolitical arena has finally turned in favour of the global economy. Reports suggest that the US and Iran are nearing an agreement to halt the conflict in the Middle East, sending oil prices to their lowest level since early March 2026 (USD 82.3/bl, USD 81.4/bl before the closure of the Strait of Hormuz). As part of the deal to reopen the Strait of Hormuz, the US government is also reported to have agreed to ease sanctions on Iranian oil, adding further supply to the market just as global oil demand is entering its seasonally strong summer period.
- While the US and Iranian governments have left the more complicated issues surrounding Iran's nuclear and ballistic missile programmes to a subsequent round of negotiations, the market appears increasingly confident in the prospect of peace in the Middle East. Traders in the Fed Funds futures market are unwinding their bets on a 25-bps FFR hike in 2026, reflecting a

moderation in inflation expectations. Improving liquidity conditions should also help suppress market volatility, which may aid the pipeline of upcoming mega-IPOs in the US equity market.

- The improving global newsflow also appears to be benefiting the Indonesian market. The Jakarta Composite Index (IHSG) recovered above the 6,000 level as the market closed last Friday, erasing most of its losses since early June 2026. The USD IDR spot rate also rallied to IDR 17,870/USD following Bank Indonesia's surprise policy announcement on Tuesday, with the currency recording its sharpest day-to-day appreciation of the year last Friday (+123 bps). Notably, the move coincided with student movements voicing concerns over the recent increase in non-subsidised fuel prices and the overall fiscal agenda, implying an interesting anecdote about the dynamics between the market and the economy.

Highlighting the policy trade-off

- The peculiar relationship between market performance and the recently heightened

dynamic of domestic politics becomes even clearer when we examine foreign investor

behaviour over the past week. In that regard, little has changed relative to weeks prior. Foreign investors continued to record net capital outflows from both the domestic equity and sovereign bond markets (*see Chart 1*), with only modest inflows into equities recorded on the final trading day of the last week.

- At the same time, the additional yield generated by BI’s surprise rate hike, aggressive SRBI issuance, and the apparent U-turn on SBN yield-curve control has, insofar, failed to stimulate foreign investors’ appetite for the domestic sovereign bond market. Nevertheless, Indonesia’s risk premium, as measured by the CDS spread, has been priced lower on the day the student took place (*see Chart 2*), which may eventually encourage foreign inflows if the trend continues.
- However, whether this trend will continue may depend on how the government interpret the peculiar sequence of events and market reactions last Friday. One possibility is that the government views the market’s strength amid the student demonstrations as evidence of legitimate concerns over its present fiscal agenda and, in turn, seizes the opportunity to rationalise its fiscal commitments.
- Indeed, the decline in Indonesia’s CDS spread following last Friday’s events reveals that foreign investors may believe growing scrutiny of the fiscal agenda could, paradoxically, bring greater clarity to the fiscal outlook – a phenomenon reminiscent of the relative calm in the UST market during the US federal government shutdown between October and November 2025. **Presenting a solid plan to reform and rationalise its fiscal commitments may therefore be the most straightforward way for**

“The government may continue to seek higher growth, even at the cost of higher SBN yields and continued market volatility”

the government to restore market confidence, which may help attract foreign capital inflows and strengthen the Rupiah.

- However, fiscal moderation is far easier for economists to say than for politicians to do. **The current macroeconomic backdrop may not permit a significant reduction in fiscal support.** Signs of weakening household consumption continue to emerge, as evidenced by recent softness in retail sales and the ongoing decline in consumer confidence (*see Chart 3*). Our Big Data indicators paint a similar picture, with consumers continuing to record a smaller average ticket size per transaction.
- Government consumption may therefore play an expanded role in preventing a notable drop in domestic aggregate demand.** Most crucially, sustained public spending will likely be required to stabilise food prices and avert further increases in fuel prices, with the recent adjustment in non-subsidised fuel prices may add 0.8-1.25% to the headline inflation number (*see Chart 4*). Keeping the subsidised fuel price stable is sine qua non for further growth in household consumption, a challenge fortunately eased by the recent downturn in global oil prices.
- The need for an expansive fiscal posture extends beyond stabilising domestic prices. For instance, the ongoing CAPEX downcycle in the corporate sector, coupled with moderating FDI inflows, may shift a greater share of the burden of job creation onto the public sector, necessitating further fiscal commitments. **Continued acceleration in GDP growth, therefore, appears to go hand in hand with an expansive fiscal stance.** At the same time, however, such a stance may continue to incite volatility in the domestic financial market.

- The government, then, may need to confront a difficult trade-off. Listening to the market requires a step back from popular policies at a time when an increasing number of households require more fiscal support. Meanwhile, **continuing to pursue higher GDP growth could keep Indonesia’s yield curve elevated, without necessarily strengthening the Rupiah’s fundamentals**, as faster growth alone may do little to address the currency’s widening triple-deficit problem.
- Alas, it might have been too late for a U-turn. Significant investments have already been made to support the government’s flagship programmes, with capital coming from public funds and private investors alike. **A significant departure from these programmes may therefore risk**

leaving behind a significant stock of stranded assets, which may also detrimentally hit the banking sector given its exposure to the government’s many priority programmes.

- **Fortunately, the lower global bond yield recently presents an opportunity for the government to load up on debts**, with Danantara’s recent global bond issuance has been described as a success. Meanwhile, support from BI (via burden-sharing agreement on interest costs, higher deposit rate for the government’s cash reserves) and other quasi-public institutions may also lessen the need to face this growth and stability trade-off, meaning that the government may continue its quest for higher GDP growth instead.

Chart 1

Still heading out for now

The recent U-turn in monetary policy enable Indonesia’s exchange rate and equity market to recover, yet foreign capitals are still heading for the exit

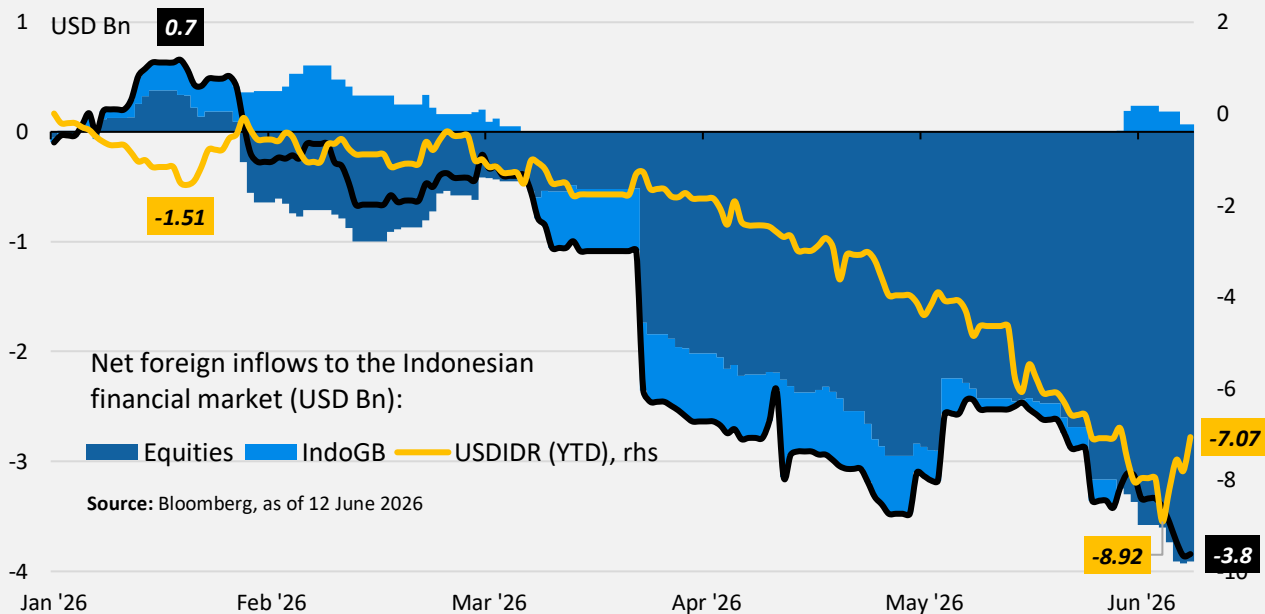


Chart 2

Clarity thanks to noises

Last Friday marks a decline in Indonesia’s risk premium, signaling the view among investors that rising concerns over the fiscal agenda may add more clarity to the fiscal posture

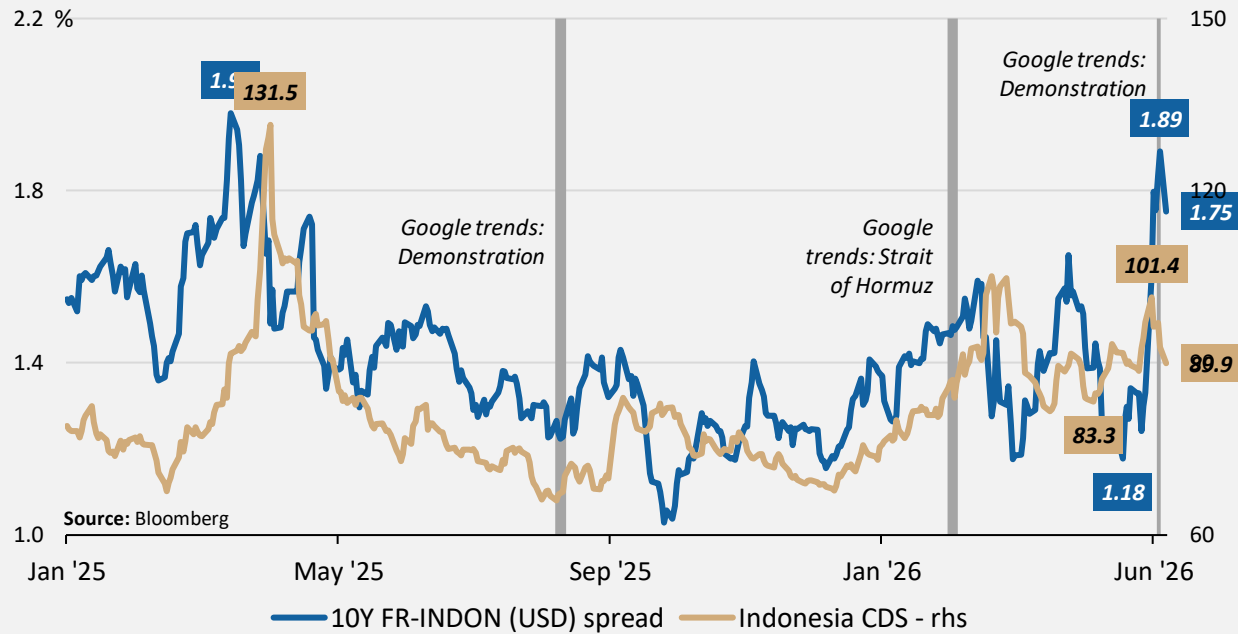


Chart 3

In need of fiscal support

Retail sales have not recover following the seasonal post-Eid al Fitr drop, signaling lower household consumption amid the similar decline in confidence

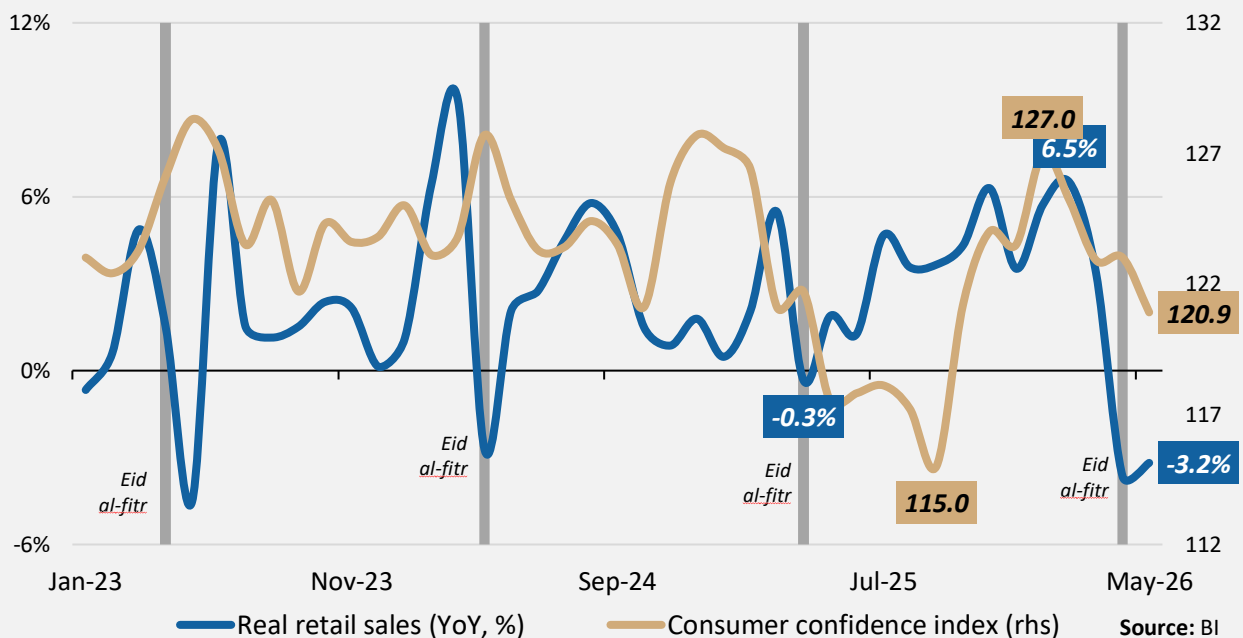
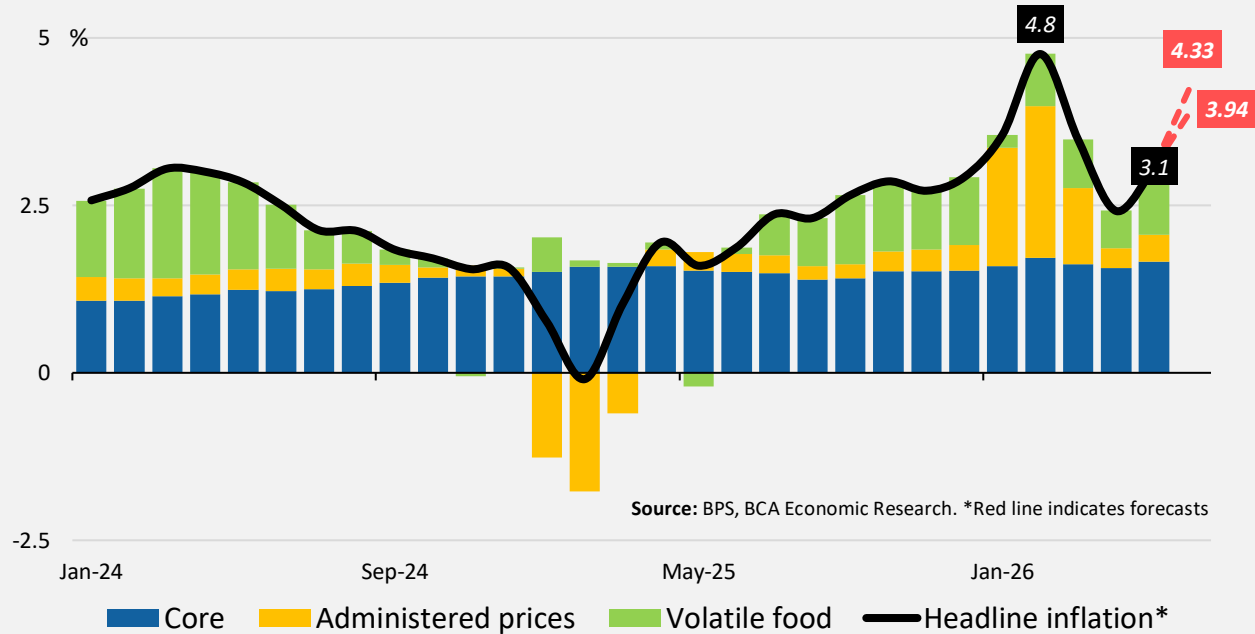


Chart 4

Pushed down by prices

Recent adjustments in domestic fuel prices may push inflation above Bank Indonesia’s target range, suppressing households’ disposable income, which may lower consumption even more



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, %		0.2	-
17 June 2026				
US	Retail Sales YoY, %		4.9	4.0
18 June 2026				
US	Fed Interest Rate Decision, %		3.75	3.75
ID	BI-Rate Decision, %		5.50	-
ID	Loan Growth YoY, %		9.98	-
23 June 2026				
ID	M2 Money Supply YoY, %		9.2	-
25 June 2026				
US	PCE Price Index YoY, %		3.8	-

*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	12-Jun	-1 mth	Chg (%)
US	3.75	Dec-25	-0.45	Baltic Dry Index	2,729.0	3,063.0	-10.9
UK	3.75	Dec-25	0.95	S&P GSCI Index	667.2	756.9	-11.9
EU	2.40	Jun-25	-0.80	Oil (Brent, \$/brl)	87.3	107.8	-19.0
Japan	0.75	Dec-25	-0.65	Coal (\$/MT)	144.0	139.7	3.1
China (lending)	2.00	Sep-24	3.15	Gas (\$/MMBtu)	3.06	2.90	5.5
Korea	2.50	May-25	-0.60	Gold (\$/oz.)	4,219.3	4,715.1	-10.5
India	5.25	Dec-25	1.32	Copper (\$/MT)	13,645.3	13,958.9	-2.2
Indonesia	5.50	May-26	2.42	Nickel (\$/MT)	17,614.4	18,754.7	-6.1
				CPO (\$/MT)	1,099.2	1,136.6	-3.3
				Rubber (\$/kg)	2.29	2.24	2.2
Money Mkt Rates	12-Jun	-1 mth	Chg (bps)	External Sector	Apr	Mar	Chg (%)
SPN (1Y)	6.99	5.80	118.6	Export (\$ bn)	25.30	22.53	12.32
SUN (10Y)	7.36	6.69	67.9	Import (\$ bn)	25.21	19.21	31.28
INDONIA (O/N, Rp)	6.03	4.19	184.6	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)	Mar	Feb	Chg (bps)	Prompt Indicators	May	Apr	Mar
Lending (WC)	8.00	8.05	-5.00	Consumer confidence index (CCI)	120.9	123.0	122.9
Deposit 1M	4.47	4.47	0.00	Car sales (%YoY)	14.0	55.0	-13.8
Savings	0.67	0.68	-1.00	Motorcycle sales (%YoY)	-5.1	28.1	-17.1
Currency/USD	12-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
UK Pound	0.746	0.739	-0.99	USA	55.1	54.5	60
Euro	0.864	0.852	-1.46	Eurozone	51.6	52.2	-60
Japanese Yen	160.2	157.6	-1.63	Japan	54.5	55.1	-60
Chinese RMB	6.763	6.797	0.51	China	51.8	52.2	-40
Indonesia Rupiah	17,870	17,500	-2.07	Korea	54.8	53.6	120
Capital Mkt	12-Jun	-1 mth	Chg (%)	Indonesia	50.0	49.1	90
JCI	6,007.7	6,858.9	-12.41				
DJIA	51,202.3	49,760.6	2.90				
FTSE	10,471.7	10,265.3	2.01				
Nikkei 225	66,020.0	62,742.6	5.22				
Hang Seng	24,718.1	26,347.9	-6.19				
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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