Swinging through a narrowing path

4 August 2026

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Summary

- Volatility in the FX market as Warsh refusal to offer forward guidance triggered steepening of the UST yield curve, while a rare joint US-Japan FX intervention steadied the Yen.
- Indonesia Q2-26 GDP growth is expected at 5.12%, supported by an investment surge channelled through state-owned banks and Danantara rather than direct government spending.
- We maintain our full year 2026 GDP growth at 5.0%-5.2%, with risks tilted downside should global liquidity tighten further.

- The closing week of July marked one of the busiest periods for global central banks, with both the Fed and BoJ announcing their latest monetary policy decisions. As widely anticipated, both held their respective policy rate unchanged. These decisions themselves were not surprising, what followed afterward proved to be more eventful. Warsh's deliberate refusal to offer forward guidance triggered a sharp market reaction – the 30-year UST yield surged to its highest level since 2007, reaching 5.27% while the 1-year yield fell to 4.03%, steepening the curve sharply (***see Chart 1***).
- Meanwhile, the Yen staged a sharp reversal after months of persistent weakness, though not through the conventional channel of higher interest rate. Japanese authorities have instead resorted to direct intervention in the FX market. More notably, the intervention was done jointly with the United States – the first joint intervention since the aftermath of Japan 2011 earthquake and tsunami. Though critically for a different purpose – in 2011, the two countries acted to weaken the Yen, this time around, they acted to strengthen the Yen. Following the intervention, Yen had rose 3.82% against USD in the last 2 trading days. As the largest foreign holder of UST (***Chart 2***), a further uncontrolled depreciation of the Yen could eventually compel Japan to repatriate overseas assets, including UST – an unwinding that would amplify the steepening that is already set in motion.
- The quite winner of this week scramble may well have been China. While most currencies were pulled into volatility, Yuan's more independent rate regime kept them insulated from the turbulence – while the controlled depreciation continued to support Chinese export. Yet China's Q2-26 GDP only grew 4.3% – the weakest since Q4-22. While indeed the consumption is slowing down, Chinese export still grew by 34.76%. As the Chinese let go of US treasuries (***see Chart 2***), gold have become their go to safe-haven which saw a surge of 91.9% YoY import increase in Q2 – dragging down the net trade contribution toward GDP. Theoretically, China manufacturing and trade balance might actually be better – justifying the government's decision of not responding through large stimulus injections but instead pledging to accelerate spending on already approved infrastructure budget – which might support the slowing construction sector.

Different growth driver

- As the war drags into its second quarter, its macroeconomic footprint is becoming harder to ignore. Global growth is broadly slowing, and while elevated prices have provided some nominal support, the real picture is softening. Indonesia is not immune to this trend – **we expect Q2-2026 real GDP growth of 5.12% YoY**, slightly above the market consensus of 5.10%.
- Household consumption, the economy's largest contributor, is sending mixed signals. Our BCA consumer spending index continued to grow at 8.97% YoY in Q2, and car sales showed further acceleration (25.50% YoY) – but both are increasingly flattered by consumption inflation and a low base rather than genuine volume expansion. BI's retail sales survey tells a more sobering story, with growth turning negative in real terms.
- Government expenditure, the unambiguous growth pillar of Q1, cannot be relied upon to the same extent this quarter. Amid growing fiscal deficit concerns, central government spending growth slowed sharply to 16.58% YoY in Q2, compared to Q1's extraordinary 47.70% surge.
- The driver, however, appears to have been passed on to investment. **Rather than direct budget spending, the government is supporting growth through indirect channel** – state-owned banks and Danantara – accelerating flagship programmes such as the red-white village cooperatives behind the scenes. The clearest evidence is a Rp 92 trillion jump in state owned bank's outstanding productive loans in the month of May alone, while latest growth concentrated in the construction sector (***see Chart 3***), consistent with large-scale programme-linked activity rather than organic private sector expansion. Thus, this investment surge is not yet visible in conventional indicators. Manufacturing PMI remains subdued, unsurprisingly, as newly constructed facilities do not register in existing production surveys and the acceleration in our BCA indicator index remains only modest.

"Governement is supporting growth through indirect channel"

- The clearest evidence of this investment push, however, shows up in the trade account. Imports grew 33.71% YoY in Q2, driven by raw materials and capital goods, with currency weakness providing an additional uplift nominally. Exports, meanwhile, grew just 14.13% – leaving net trade as the dominant drag on Q2 growth, and likely its first negative contribution since 2019.
- There is, however, a technical silver lining embedded in this dynamic. With imported inflation running materially above domestic consumption inflation (***see Chart 4***), the negative trade balance effectively acts as a smaller drag in real terms than in nominal terms – providing a modest cushion when deflating nominal GDP and partly explaining why real growth remains resilient even as the external account deteriorates.

Web of dwindling options

- Looking toward the remainder of 2026, we stand by our view from the previous report that Q1-26 would mark the high-water point for this year's trajectory. While the government has shown considerable resourcefulness in sustaining momentum through alternative channels, **the room to manoeuvre is visibly narrowing on multiple fronts simultaneously.**
- On the fiscal side, efficiency measures signal that the direct expenditure channel has front loaded

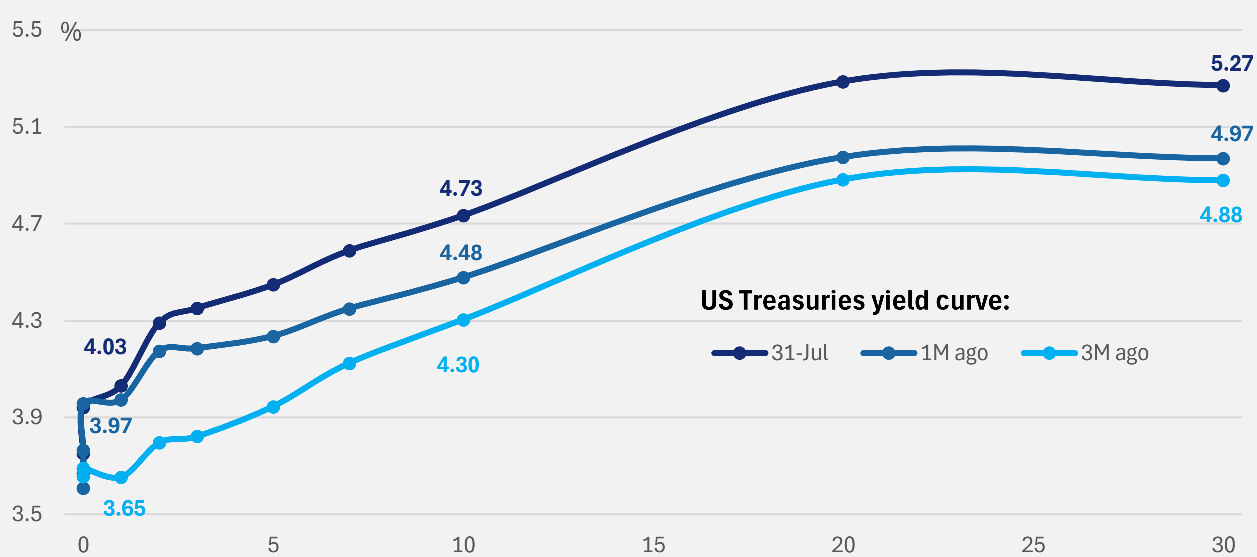
its course. The pivot toward indirect lever – state owned banks – is itself showing signs of strain. State owned banks loan-to-deposit ratio have climbed to 90.83% as of May-26. The pressure is beginning to spill into the interbank market, where rates have intermittently breached the lending facility ceiling – an early warning that liquidity buffer is thinning.

- The consequences of this liquidity squeeze would limit the capacity to fund government programme-related loans in the near future – whilst competing with the need to absorb government bonds at a time when broader demand for SBN is already weakening. Bank Indonesia will likely be compelled to respond, with most probable avenue being further adjustment to its macroprudential liquidity policy to inject extra liquidity. The relief, however, does not come without cost – the side effects of extra liquidity are already becoming visible in a further depreciation of the Rupiah.
- Indonesia's economy remains resilient – but sustaining that resilience is becoming increasingly costly. The banking transmission channel is tightening and the external environment offers no near-term retrieval. **We maintain our full year 2026 real GDP growth forecast at 5.0-5.2%** - expecting a slower H2 growth following a decent H1 run – **with risk could tilted downside should global liquidity conditions tighten further**.

Chart 1

Steepening yield curve

Warsh's refusal to offer forward guidance triggered a sharp market reaction as investor questioning Fed's future credibility.

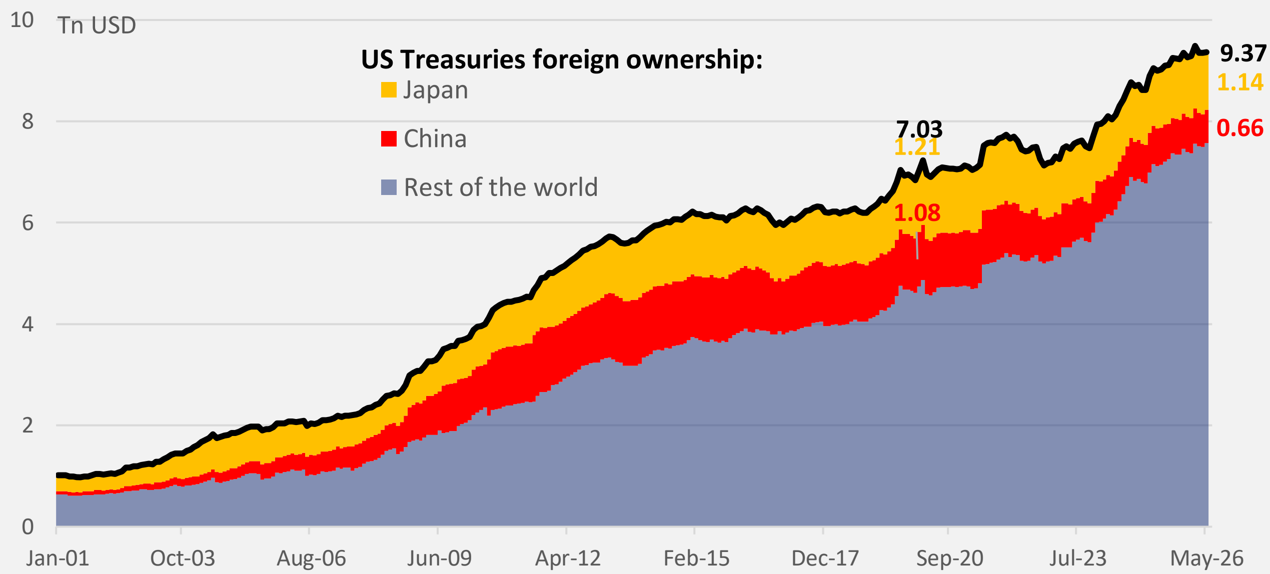


Source: Bloomberg, BCA Economic Research

Chart 2

Still a big player

Despite having its market share shrinking in recent years, Japan remains the largest foreign ownership of US Treasuries – while Chinese ownership keeps on shrinking drastically.

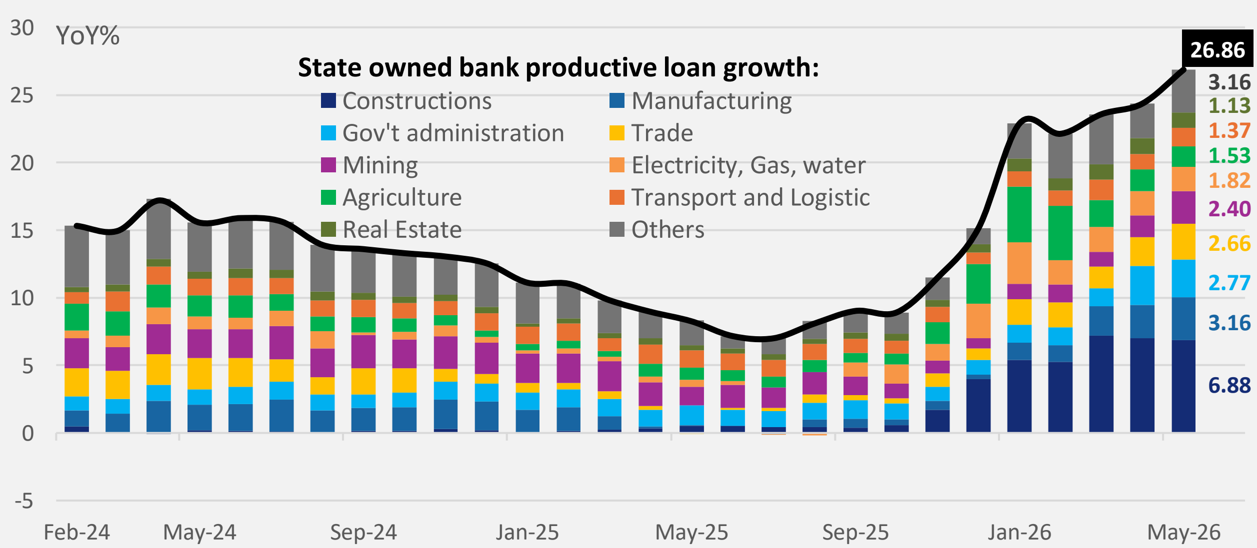


Source: Bloomberg, BCA Economic Research

Chart 3

State support

State-owned bank productive loan have been accelerating recently in support toward government related programs.

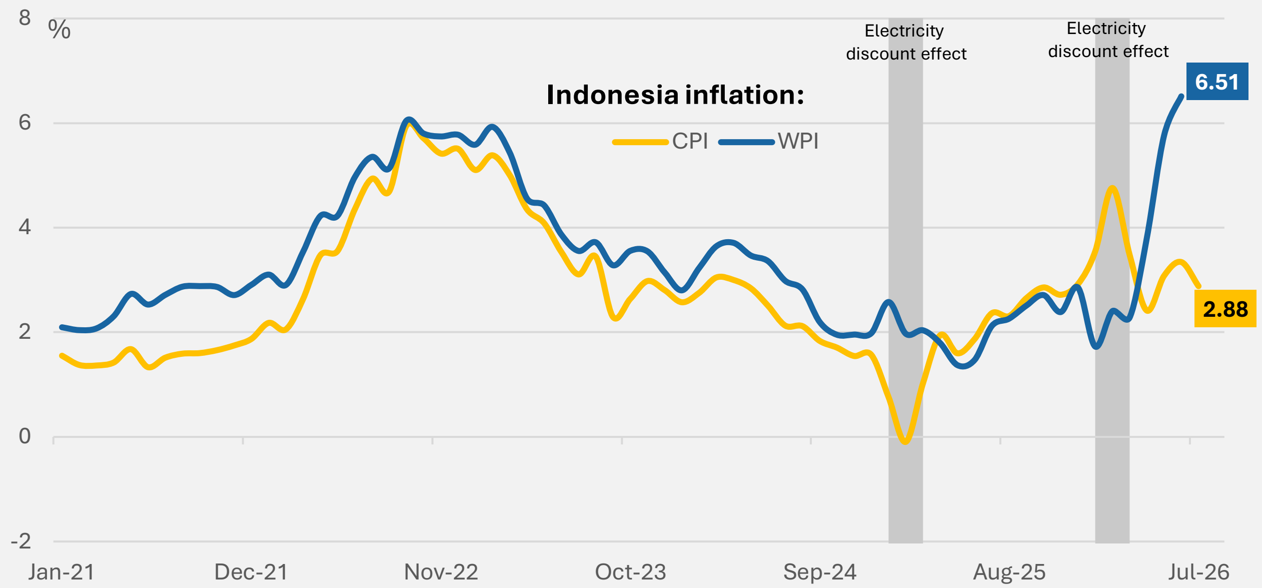


Source:OJK, BCA Economic Research

Chart 4

Difference in inflation

Wholesale inflation diverged from consumer inflation as a weakening currency drove import price pressures, while consumer inflation remained shielded by subsidies – which does not occur in previous energy crisis.

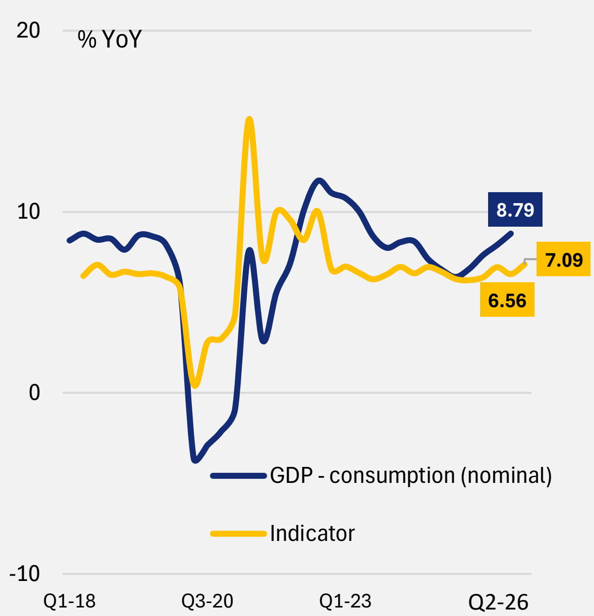


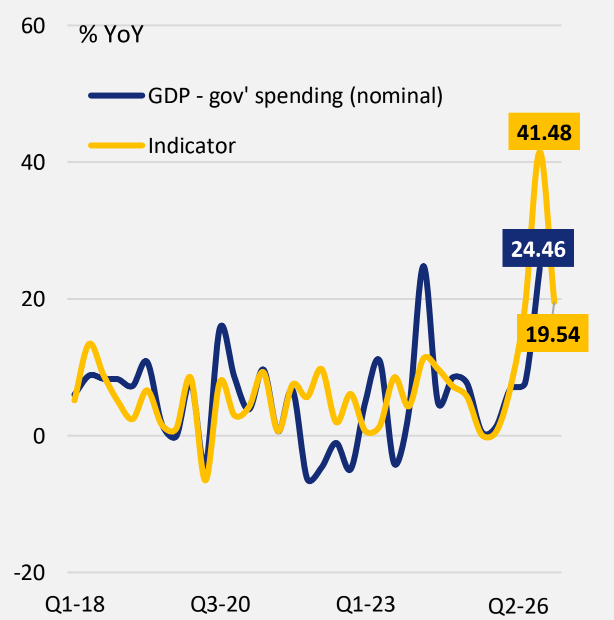
Source: BPS, BCA Economic Research

Chart 5

Fiscal cools

Household consumption is expected to remain resilient, supported by a low base effect, while government consumption is expected to moderate following a sharp surge in Q1-26.



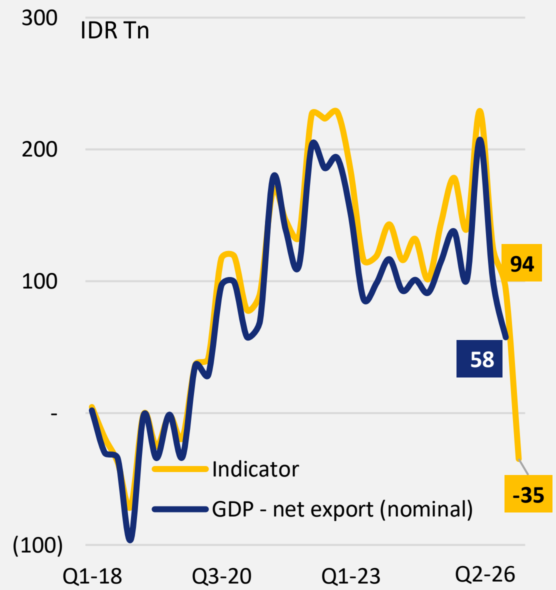


Source: BPS, BCA Economic Research

Chart 6

The drag of the group

Net export are expected to contribute negatively for the first time since 2019 as export growth slowed significantly despite modest commodity price.



Source: BPS, BCA Economic Research

Economic Calendar

		Actual	Previous	Forecast*
03 August 2026				
ID	S&P Global Manufacturing PMI	50.2	46.9	47.4
ID	**Trade balance (Jun-26), USD Bn**	**-0.45**	**-1.61**	**-0.6**
ID	**Inflation Rate YoY, %**	**2.88**	**3.34**	**3.3**
04 August 2026				
US	Trade balance (Jun-26), USD Bn		-77.6	-73.0
05 August 2026				
ID	**GDP Growth Rate YoY, %**		**5.61**	**5.3**
06 August 2026				
EA	Retail Sales YoY, %		1.6	0.9
07 August 2026				
CN	Trade balance, USD Bn		125.62	105.0
ID	**Foreign Exchange Reserves, USD Bn**		**145.6**	**-**
ID	Property Price Indeks YoY, %		0.62	0.8
US	Non Farm Payrolls, th		57	79.0
09 August 2026				
CN	Inflation Rate YoY, %		1	0.9
10 August 2026				
ID	Consumer Confidence		117.8	-
11 August 2026				
ID	Retail Sales YoY, %		-3.9	5.8
ID	Motorbike Sales YoY, %		1.1	-
12 August 2026				
US	Inflation Rate YoY, %		3.5	3.4
14 August 2026				
US	Retail Sales YoY, %		6.7	6.0
ID	Car Sales YoY, %		12.0	-
17 August 2026				
CN	Retail Sales YoY, %		1	1.5
19 August 2026				
ID	**BI-Rate Decision, %**		**5.75**	**6**
ID	Loan Growth YoY, %		12.67	-
21 August 2026				
ID	Current Account, (USD Bn)		-4.0	-1.8
ID	M2 Money Supply YoY, %		8.7	-

*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 (%)
US	3.75	Dec-25	0.25
UK	3.75	Dec-25	1.15
EU	2.40	Jun-26	-0.50
Japan	1.00	Jun-26	-0.70
China (lending)	2.00	Sep-24	3.35
Korea	2.75	Jul-26	-0.05
India	5.25	Dec-25	0.87
Indonesia	5.75	Jun-26	2.87

Money Mkt Rates	03-Aug	-1 mth	Chg (bps)
SPN (1Y)	7.44	6.86	58.1
SUN (10Y)	7.31	7.10	20.1
INDONIA (O/N, Rp)	6.30	5.67	63.8
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	03-Aug	-1 mth	Chg (%)
UK Pound	0.744	0.749	0.62
Euro	0.869	0.874	0.63
Japanese Yen	157.2	161.3	2.65
Chinese RMB	6.756	6.779	0.34
Indonesia Rupiah	17,990	17,954	-0.20

Capital Mkt	03-Aug	-1 mth	Chg (%)
JCI	6,234.5	5,875.8	6.11
DJIA	53,178.4	52,900.1	0.53
FTSE	10,857.7	10,679.0	1.67
Nikkei 225	63,754.9	69,744.1	-8.59
Hang Seng	26,009.4	23,350.0	11.39

Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)
Stock	2,805.0	2,573.5	231.50
Govt. Bond	892.0	885.7	6.39
Corp. Bond	5.6	5.7	-0.08

Trade & Commodities	03-Aug	-1 mth	Chg (%)
Baltic Dry Index	2,843.0	2,717.0	4.6
S&P GSCI Index	668.7	617.1	8.4
Oil (Brent, $/brl)	83.8	72.1	16.2
Coal ($/MT)	137.9	131.3	5.0
Gas ($/MMBtu)	2.77	3.37	-17.9
Gold ($/oz.)	4,054.3	4,176.9	-2.9
Copper ($/MT)	13,943.6	13,317.4	4.7
Nickel ($/MT)	16,872.6	16,219.3	4.0
CPO ($/MT)	1,099.3	1,091.6	0.7
Rubber ($/kg)	2.15	2.14	0.5

External Sector	Jun	May	Chg (%)
Export ($ bn)	25.46	23.20	9.72
Import ($ bn)	25.91	24.81	4.41
Trade bal. ($ bn)	-0.45	-1.61	-72.02
Central bank reserves ($ bn)*	145.6	144.9	0.48

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	Jul	Jun	Chg (bps)
USA	53.9	53.9	0
Eurozone	51.9	51.4	50
Japan	54.5	54.8	-30
China	50.9	51.7	-80
Korea	53.1	52.1	100
Indonesia	50.2	46.9	330

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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