

## Some are still expanding by borrowing

25 August 2025

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### Summary

- Fed Chair Powell signalled a dovish shift in policy outlook, citing concerns over weakening US economic growth as the key driver.
- Falling commodity prices amid softer global demand seem to have weakened Indonesian commodity producers' balance sheets, pushing them to increase liabilities to sustain CAPEX expansion.
- Meanwhile, still-elevated real rates, uncertain domestic conditions, and generally healthy balance sheets may continue to dampen loan appetite across other segments of Indonesia's corporate sector.

- Bank Indonesia lowered the BI rate to 5.00% in last week's meeting, a move that the market seems to appreciate, per our argument. The domestic stock market recorded about USD 167.94 Mn in foreign portfolio inflows last week, helping sustain the net foreign inflow momentum into Indonesia's financial market. The lower yield on the benchmark 10Y SBN (6.34%, -4 bps WoW) also continues to highlight the strong demand for debt assets, albeit foreign flow data from the sovereign debt market remains inconclusive.
- Meanwhile, the Rupiah stood at 16,345/USD as the market closed on Friday, dropping by 1.14% WoW by still well below the level in early August 2025. **As we have argued, the depreciating IDR suggests that BI should exercise caution in executing its rate-cut signal**, acting tactically if the shift in global market sentiments provides room to guide rates lower.
- Fortunately, the coast seems to be clear for BI to maintain its dovish signal. In his (final) Jackson Hole remarks, **Fed Chairman Jerome Powell has signalled that the FOMC is leaning towards a rate cut in the upcoming meeting in mid-September 2025**, allowing the Rupiah and other Asian currencies to open the week stronger as the DXY slides down to 97.96 (-0.21% WoW).
- However, it remains uncertain whether this FFR cut signal should be met with a sombre or celebratory mood. On the one hand, Fed Chairman Powell stated that the inflationary impact of tariffs is likely to be one-off, a view that could prompt the Fed to revise down its long-term rate outlook. On the other hand, **the Fed Chairman also pointed to the weakening US labour market as the key factor behind his shifting policy stance**, signalling expectations of slower US economic growth in periods ahead.

## Borrowing some boosters

- Slowing US economic growth momentum will tick another box in the economic bad news bingo. Despite tariff uncertainties, strong US consumer demand has been the linchpin behind robust export growth, benefiting Indonesia and other Asian manufacturing hubs. As widely reported, American importers have been frontloading orders ahead of tariff deadlines, building stockpiles to meet the (previously expected) resilient consumer demand. **A weakened US demand profile may further freeze global manufacturing activities**, reverberating negatively into the commodity market.
- The positive correlation between global commodity prices, particularly industrial commodities such as minerals and coal, and Indonesia's growth momentum is evident. What is less clear, however, is how the commodity market is shaping the recent CAPEX cycle in the business sector. While Q2-2025 GDP figures reported strong investment numbers, **data from publicly listed companies suggest that such investments remain concentrated in a few commodity-related sectors**, led by coal producers and diversified metals and mining firms.
- To be clear, commodity-processing sectors are not the only ones reporting a significant increase in CAPEX realisation last quarter. Companies in the packaged foods and meats industry recorded a notable 110.4% YoY growth in their CAPEX growth, perhaps

***"Higher urgency to spend on CAPEX explain commodity-processing companies' demand for loans"***

influenced by the continued rollout of the government's free nutritious meals (MBG) programme. However, commodity-processing sectors stand out in our sample, as they account for 63.3% of the 28.1% YoY increase in Q2-2025 CAPEX growth recorded in the sample.

- Apart from its heavy concentration, what also makes the recent investment cycle unique is the reported use of 'internal funds' to finance the CAPEX. **Unlike in the previous cycle (around 2017-2018), the higher CAPEX growth has not been followed by higher liabilities growth (see Chart 1)**, indicating

that most companies are indeed funding their expansion projects on their own.

- However, the same thing cannot be said for commodity-processing sectors. While CAPEX growth in these sectors far outpaces other sectors,

**commodity-processing firms (including commodified chemicals) have also reported an acceleration in their liabilities growth over the past couple of quarters**, indicating demand for loans to sustain their CAPEX expansion (*see Chart 2*).

- The question, however, is why this co-directional trend between CAPEX and liabilities growth appears limited to commodity-processing sectors. **One explanation may lie in the stronger urgency for these sectors to invest, driven by the need to diversify amidst a potential structural shift in the economy**, along with the

government's commodity down-streaming push.

- By contrast, the government's industrialisation blueprint has yet to clearly extend beyond bringing the domestic commodity supply chain downstream, allowing companies in other sectors to expand at a more organic pace. Global factors also explain the less pressing need to expand, as the deflationary impact due to China's manufactured goods inventory further reduces domestic manufacturers' need to expand productive capacity.
- Unfortunately, current global commodity market conditions are not particularly supportive of the ongoing CAPEX cycle in commodity-processing sectors. Commodity prices have been trending downward since 2024, especially for coal and nickel, which producers are central to the government's down-streaming agenda. **Despite its sustained margins, lower earnings may have weakened commodity-processing firms' balance sheets**, making it difficult to sustain CAPEX growth at the required expeditious pace without additional liquidity support (*see Chart 3*). As a result, these commodity-processing firms are seeking external funding, while high real rates and uncertain demand conditions are prompting companies in other sectors to curb their appetite for loans.
- While weak earnings growth is not unique to commodity-processing sectors, there is no guarantee that firms in other industries will follow their lead by expanding liabilities to

support CAPEX growth. First, as mentioned earlier, the urgency to spend on CAPEX does not seem to be too significant in other sectors, as the domestic demand condition is still in its early stage of recovery.

- Second, the coal mining sector is unique in its limited ability to internally finance CAPEX expansion, even relative to other commodity-processing sectors (*see Chart 4*). **Firms in other sectors are still reporting a hefty increase in their cash and equivalent buffers**, which could be wound down if the need to expand arises and rates remain unattractive for borrowers.
- Another question, then, is how long this trend will persist. Normalising fiscal spending realisation is helping sustain domestic activities, which may eventually prompt companies (especially those in domestic-oriented sectors) to plan for expansion if the trend continues.
- At the same time, lower nominal rates and higher inflationary pressures will be needed to bring real interest rates closer to their neutral level, making loans a more attractive financing option. Ergo, a simultaneous fiscal and monetary expansion might be needed to spur investments and loans, which is appropriate given the expectedly slower global economic growth.

***"High real rates and uncertain demand condition limit CAPEX growth in other sectors and translates negatively to the demand for loans"***

Chart 1

### Borrowing some boosters

Companies in commodity-producing sectors are more aggressive in their CAPEX spending, leading to them adding more liabilities while other sectors are growing organically

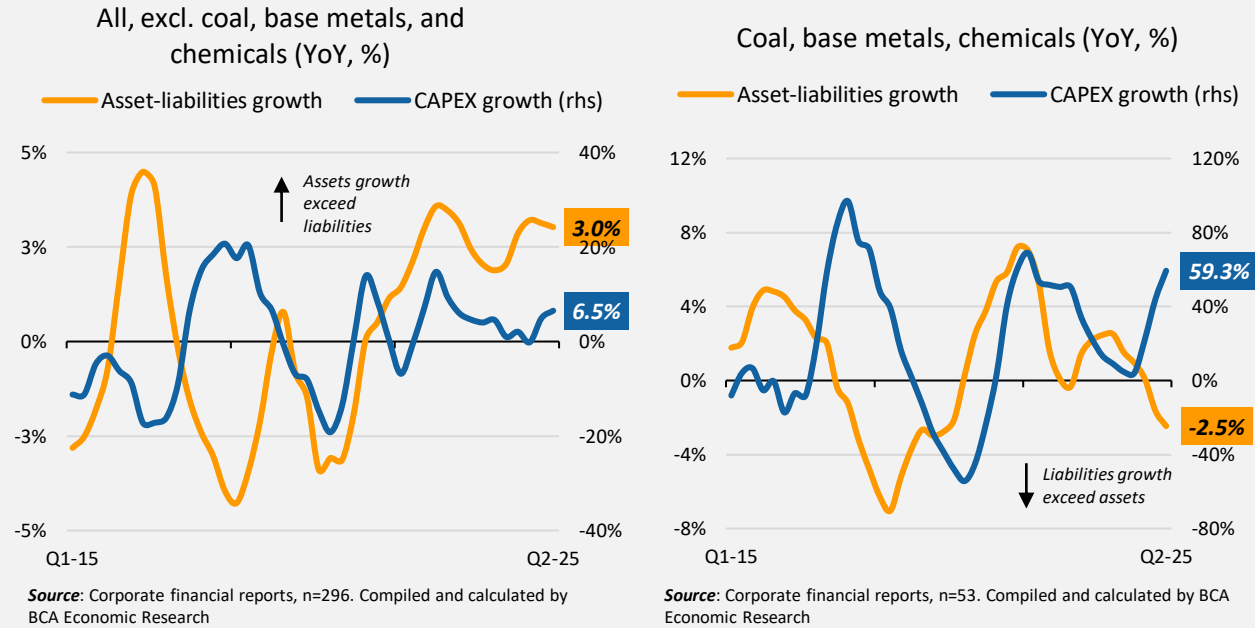


Chart 2

### Mining meets banking

Companies in commodity-processing sectors are taking on more loans to sustain their CAPEX growth, while high real rates may discourage companies in other sectors to add more loans

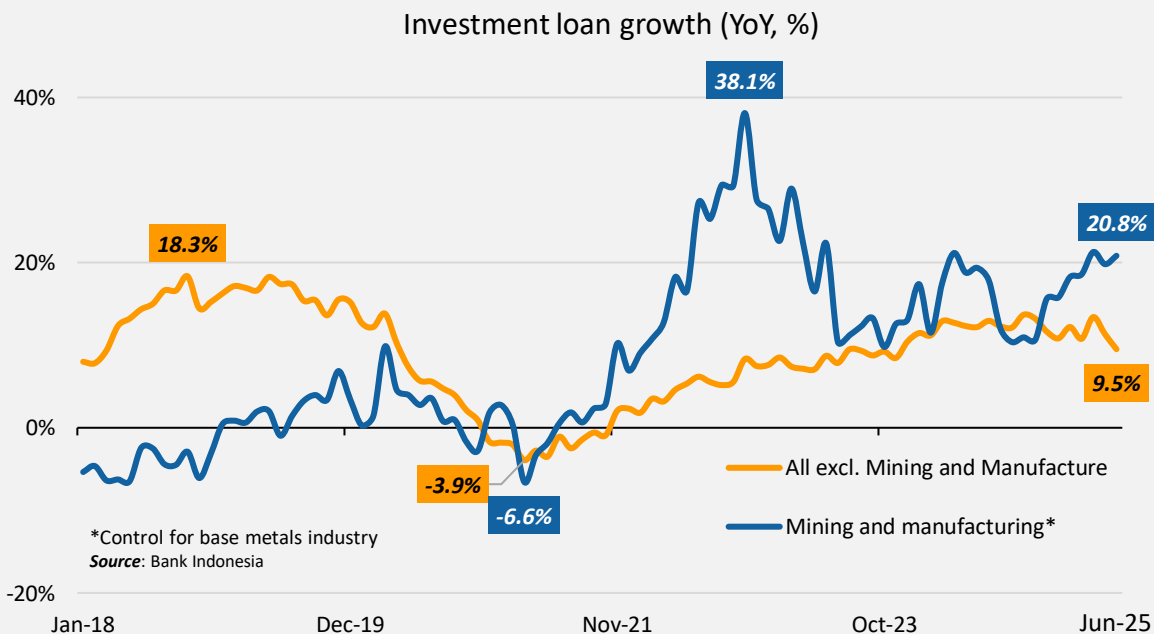


Chart 3

### Some are looking at the bottom of a coffer

Lower reported earnings in the past two quarters could reduce the coffers available for companies to fund their expansion, explaining the need for loans to sustain the expansion

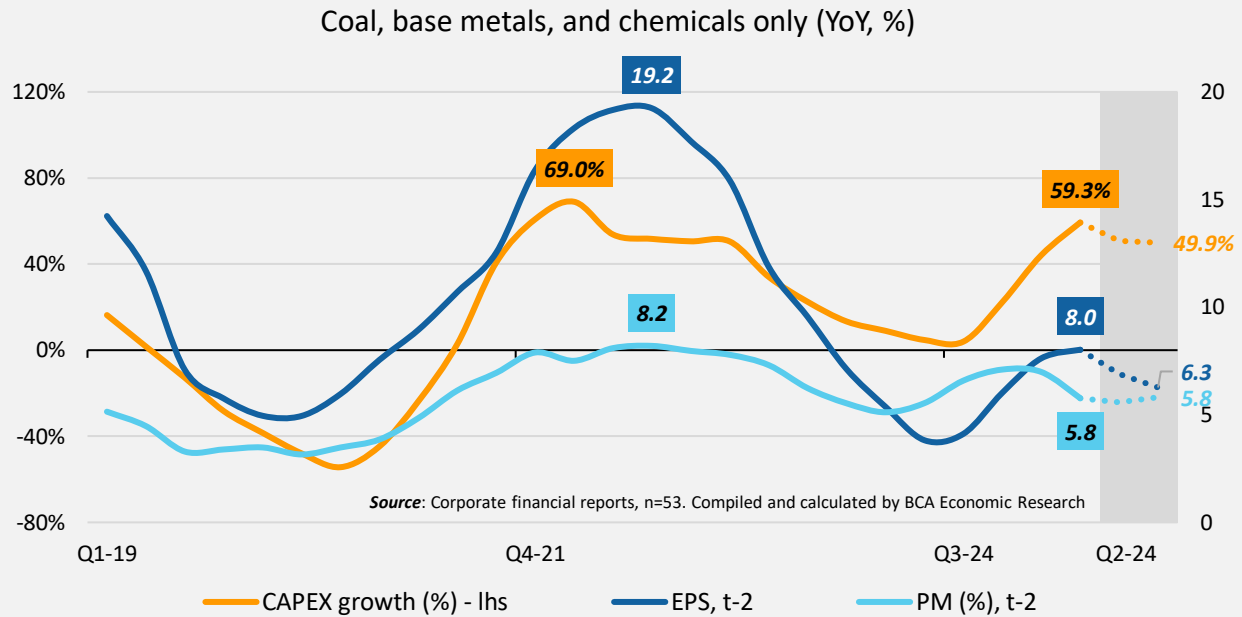
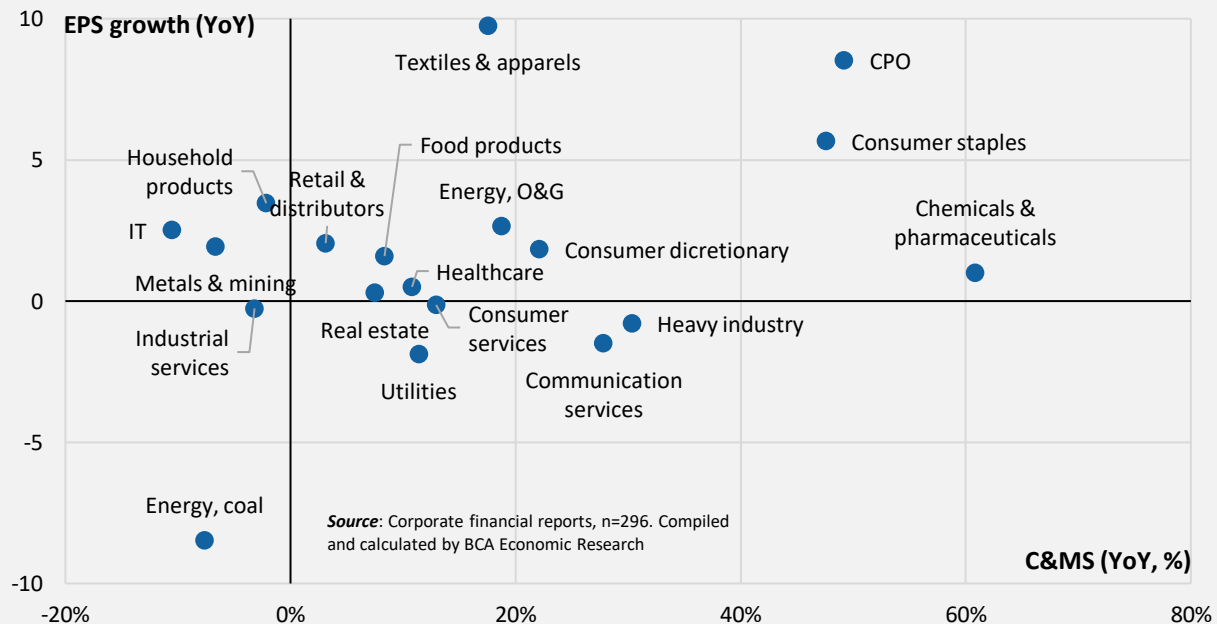


Chart 4

### Some are still sitting on cash piles

Commodity-producing sectors (especially coal) are unique in their need for loans to sustain investment, while other sectors may still finance such a project on their own.



Economic Calendar				
		Actual	Previous	Forecast*
01 August 2025				
ID	S&P Global Manufacturing PMI	49.2	46.9	48.5
<b>ID</b>	<b>Trade balance (Jun-25), USD Bn</b>	<b>4.11</b>	<b>4.3</b>	<b>4.0</b>
<b>ID</b>	<b>Inflation Rate YoY, %</b>	<b>2.37</b>	<b>1.87</b>	<b>2.1</b>
US	S&P Global Manufacturing PMI	49.8	52.9	49.5
US	Non Farm Payrolls, th	73	14	110
05 August 2025				
<b>ID</b>	<b>GDP Growth Rate YoY, %</b>	<b>5.12</b>	<b>4.87</b>	<b>5</b>
US	Trade balance, USD Bn	-60.2	-71.7	-61.4
06 August 2025				
EA	Retail Sales YoY, %	3.1	1.9	2.5
ID	Property Price Index YoY, %	0.90	1.07	-
07 August 2025				
CN	Trade balance, USD Bn	98.24	114.77	117.3
<b>ID</b>	<b>Foreign Exchange Reserves, USD Bn</b>	<b>152</b>	<b>152.6</b>	-
08 August 2025				
ID	Consumer Confidence	118.1	117.8	118.4
ID	Motorbike Sales YoY, %	-2.0	-0.3	-
09 August 2025				
CN	Inflation Rate YoY, %	0.0	0.1	-0.1
11 August 2025				
ID	Retail Sales YoY, %	1.3	1.9	1.7
ID	Car Sales YoY, %	-18.4	-22.6	-
12 August 2025				
US	Inflation Rate YoY, %	2.7	2.7	2.7
15 August 2025				
CN	Retail Sales YoY, %	3.7	4.8	5.0
US	Retail Sales YoY, %	3.9	4.4	3.5
20 August 2025				
<b>ID</b>	<b>BI-Rate Decision, %</b>	<b>5.0</b>	<b>5.25</b>	<b>5.25</b>
ID	Loan Growth YoY, %	7.03	7.77	7.8
21 August 2025				
ID	Current Account, (USD Bn)	-3.0	-0.2	0.5
22 August 2025				
ID	M2 Money Supply YoY, %	6.5	6.4	6.7
29 August 2025				
US	PCE Price Index YoY, %		2.6	2.6

\*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	22-Aug	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	1,944.0	2,035.0	-4.5
UK	4.00	Aug-25	0.20	S&P GSCI Index	545.1	548.6	-0.6
EU	2.15	Jun-25	0.15	Oil (Brent, \$/bbl)	67.7	68.6	-1.3
Japan	0.50	Jan-25	-2.60	Coal (\$/MT)	112.3	117.2	-4.2
China (lending)	2.00	Sep-24	4.35	Gas (\$/MMBtu)	2.77	3.08	-10.2
Korea	2.50	May-25	0.40	Gold (\$/oz.)	3,371.9	3,431.5	-1.7
India	5.50	Jun-25	3.95	Copper (\$/MT)	9,718.1	9,851.3	-1.4
Indonesia	5.00	Aug-25	2.63	Nickel (\$/MT)	14,924.2	15,320.5	-2.6
Money Mkt Rates	22-Aug	-1 mth	Chg (bps)	CPO (\$/MT)	1,051.7	990.4	6.2
SPN (1Y)	4.92	5.38	-46.1	Rubber (\$/kg)	1.72	1.75	-1.7
SUN (10Y)	6.34	6.48	-13.8	External Sector	Jun	May	Chg (%)
INDONIA (O/N, Rp)	4.35	4.84	-49.5	Export (\$ bn)	23.44	24.61	-4.78
JIBOR 1M (Rp)	5.57	5.89	-32.3	Import (\$ bn)	19.33	20.31	-4.82
Bank Rates (Rp)	May	Apr	Chg (bps)	Trade bal. (\$ bn)	4.10	4.30	-4.60
Lending (WC)	8.64	8.66	-1.72	Central bank reserves (\$ bn)*	152.6	152.5	0.05
Deposit 1M	4.86	5.02	-15.57	Prompt Indicators	Jul	Jun	May
Savings	0.70	0.69	1.18	Consumer confidence index (CCI)	118.1	117.8	117.5
Currency/USD	22-Aug	-1 mth	Chg (%)	UK Pound	0.739	0.739	-0.06
UK Pound	0.739	0.739	-0.06	Euro	0.853	0.851	-0.31
Euro	0.853	0.851	-0.31	Japanese Yen	146.9	146.6	-0.21
Japanese Yen	146.9	146.6	-0.21	Chinese RMB	7.168	7.169	0.02
Chinese RMB	7.168	7.169	0.02	Indonesia Rupiah	16,345	16,310	-0.21
Indonesia Rupiah	16,345	16,310	-0.21	Capital Mkt	22-Aug	-1 mth	Chg (%)
Capital Mkt	22-Aug	-1 mth	Chg (%)	JCI	7,858.9	7,344.7	7.00
JCI	7,858.9	7,344.7	7.00	DJIA	45,631.7	44,502.4	2.54
DJIA	45,631.7	44,502.4	2.54	FTSE	9,321.4	9,023.8	3.30
FTSE	9,321.4	9,023.8	3.30	Nikkei 225	42,633.3	39,774.9	7.19
Nikkei 225	42,633.3	39,774.9	7.19	Hang Seng	25,339.1	25,130.0	0.83
Hang Seng	25,339.1	25,130.0	0.83	Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)
Foreign portfolio ownership (Rp Tn)	Jul	Jun	Chg (Rp Tn)	Stock	3,539.4	3,336.8	202.60
Stock	3,539.4	3,336.8	202.60	Govt. Bond	935.7	995.6	-59.93
Govt. Bond	935.7	995.6	-59.93	Corp. Bond	4.7	4.3	0.39
Corp. Bond	4.7	4.3	0.39				

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

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.2
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.75
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.57
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

**Notes:**

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

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