A small ripple beneath the tranquil pond of domestic debt

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Summary

- The SBN market continues to record net foreign selling despite returning inflows into the equities market, indicating foreign concerns over Indonesia's fiscal position.
- Indonesia's interest payments as a share of total revenue are expected to reach a record high in 2025, underscoring fiscal risks despite a stable debt-to-GDP ratio.
- However, the now-lower share of foreign investors in the SBN market means the government mostly pays interest domestically, making the fiscal position more defensible.

- US President Trump signed the bill that ended the longest federal government shutdown in history on Thursday last week, positively impacting the short-term outlook on the US economy as furloughed federal workers are coming back to work, while low-income households retain access to benefits necessary to sustain their consumption. Consequently, the recovering US macroeconomic momentum encourages FOMC officials to downplay the FFR cut signal in the upcoming FOMC meeting, exposing the global financial market to policy uncertainties.
- The dialled-back FFR cut expectations are not the only factor dampening investor sentiment. Growing concerns over AI valuations and weak economic data have translated into weakness across Asian markets, leading to a 0.80% correction in an index tracking Asian equities. Fortunately, the Indonesian stock market fared better, moving on a sideline as Indonesian equities attracted foreign inflows of USD 229.9 Mn throughout the past week.
- Unfortunately, the relative equanimity observed in the domestic equities market does not extend to the domestic sovereign bond market. While the benchmark 10Y SBN yield has remained stable at around 6.11-6.15%, this stability masks foreign outflows that have continued since the start of Q3-2025 **(see Chart 1).**
- The outgoing outflows from the SBN market mirror developments in the Rupiah, whose value against the USD has returned to its 2025 nadir, first reached in April, following a 0.31% WTD depreciation last week. Continued pressure on the Rupiah may narrow Bank Indonesia's room to fine-tune its policy stance to a more accommodative level, lowering the expectation for another BI rate cut in 2025 to a toss-up.

Running on an interest wheel

- The persistent foreign outflows from the SBN market are somewhat notable, especially given the improving outlook on domestic real sector conditions that have attracted foreign investors back to the equities market.
- **One argument likened the continued foreign outflows from the SBN market in H2-2025 to a post-party "hangover", as SBN prices have appreciated significantly since the start of the year**, and the resulting lower yields may have encouraged some foreign investors to rotate back into equities or other assets. If that is the case, foreign outflows from the SBN market may simply reflect investors' search for more attractive returns, implying that a gradual correction in SBN prices may help to draw them back into the market.
- On the other hand, there is also an argument pointing to a more structural issue in the SBN market, with concerns over the government's fiscal management becoming the focal point. To put some context, long-term fiscal sustainability has become one of the hottest debated economic and financial topics in 2025, making investors increasingly sensitive to signs of loosening fiscal discipline – be it in Indonesia or globally.
- This concern appears to contrast with the Indonesian government's commitment to prudent fiscal management. **The government has gone to great lengths to highlight its commitment to the 3%-of-GDP fiscal cap in H2-2025**, including redirecting funds from underperforming programmes and reducing transfers to regional governments as fiscal revenues are falling short of target (as indicated by the data per September 2025). The government attributes its success in managing debt risks to Indonesia's low and stable debt-to-GDP ratio, which – unlike in some other economies – has remained well below its pandemic-era peak.
- However, the low and stable debt-to-GDP ratio does not appear to do much to assuage foreign investors' concerns about Indonesia's debt-servicing capacity. The often-cited figure of 39.96% of GDP (as of June 2025) reflects only public-sector debt, whereas the government has demonstrated expertise in shifting debt burdens off their budget. Other indicators, such as the ratio of interest expenses to total fiscal revenue, may provide a more fitting picture, as **the ability of one country (or other entity) to service debt ultimately depends on the strength of its revenue base**.

"Difficulties in expanding the revenue base explain Indonesia's growing interest burden relative to total revenue"

- Unfortunately, the picture for Indonesia looks particularly challenging ***(see Chart 2)***. Data from the most recent state budget announcement reveal that Indonesia will spend 19.27% of its total fiscal revenue on interest payments, higher than 19.06% during the pandemic. **The amount of debts maturing in the short term adds to the sense of risk for investors**, discouraging them from shopping around in the Indonesian sovereign debt market.
- The high interest burden reveals some of Indonesia's pain points. First, **the historically high interest payments have curbed Indonesia's fiscal space, as indicated by the lower primary balance since 2022 (-0.12% of GDP on average, compared to -0.74% 2015-2019 average)**. The narrowing fiscal space may reduce the government's ability to react to short-term challenges, limiting its responses to piecemeal

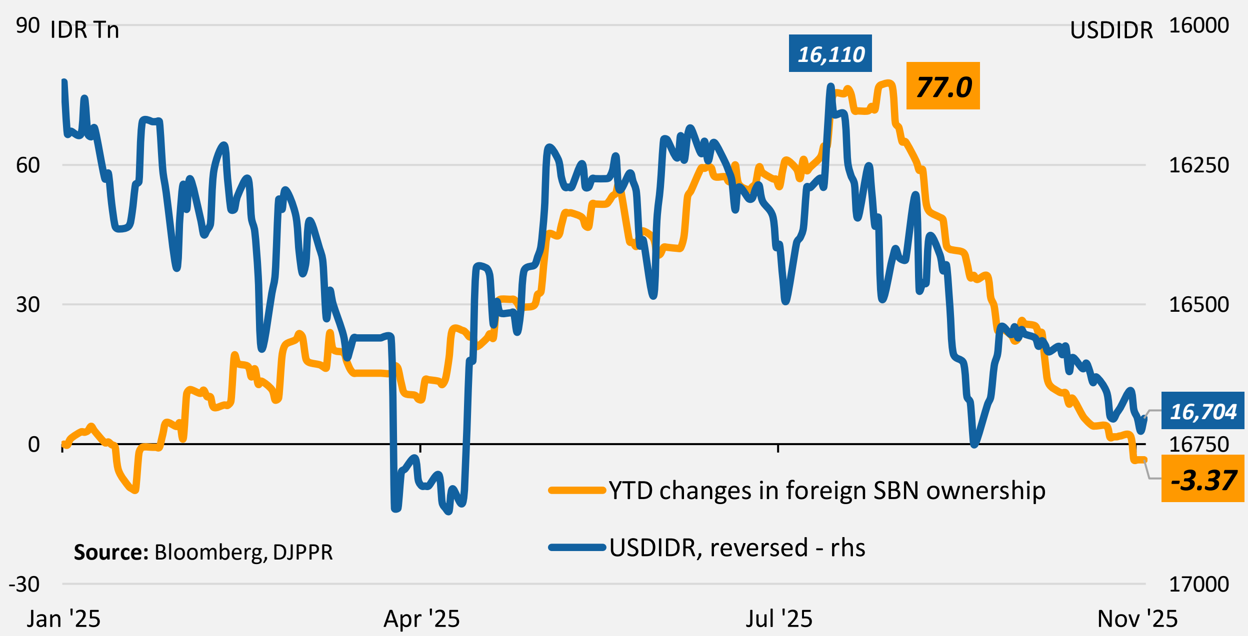
and temporary intervention packages, as has happened a couple of times this year.

- Second, **the increase in the ratio of interest payments to total fiscal revenue to 19.27% this year from 10.35% a decade ago reveals Indonesia's stunted revenue base**, as deindustrialisation (particularly in labour-intensive manufacturing sectors) and the resulting informal employment do not help much in generating new taxpayers.
- Alas, the government is trapped between a rock and a hard place when it comes to raising its revenue potential. Growing the revenue base will be the more sensible option, but the promise of "not hunting in a zoo" is easier said than done, especially in the short term. On the other hand, introducing new taxes or raising tariffs is also not an ideal option, given the evident weakness in domestic aggregate demand. The difficulty of increasing Indonesia's fiscal revenue potential in the short term adds another argument to foreign investors' concern about the country's long-term fiscal sustainability, as reflected in the rising term premium ***(see Chart 3)***.
- Despite those complications, some positives could be taken from the current situation. For instance, the government appears to be aware of the situation, as indicated by the projected lower share of interest payments to total revenue in the 2026 budget. **Moreover, foreign investors' lower presence in the SBN market means that the government is mostly paying interests at home *(see Chart 4)***, creating a surplus for domestic institutional and household investors. This condition should make Indonesia's fiscal condition more defensible, given that the dry powder needed to absorb further debt issuance is largely preserved domestically.

Chart 1

Foreigners outbound

Stable yields due to robust domestic demand amidst lower net issuance masked foreign selloffs in the SBN market, dragging the Rupiah closer to its YTD low.

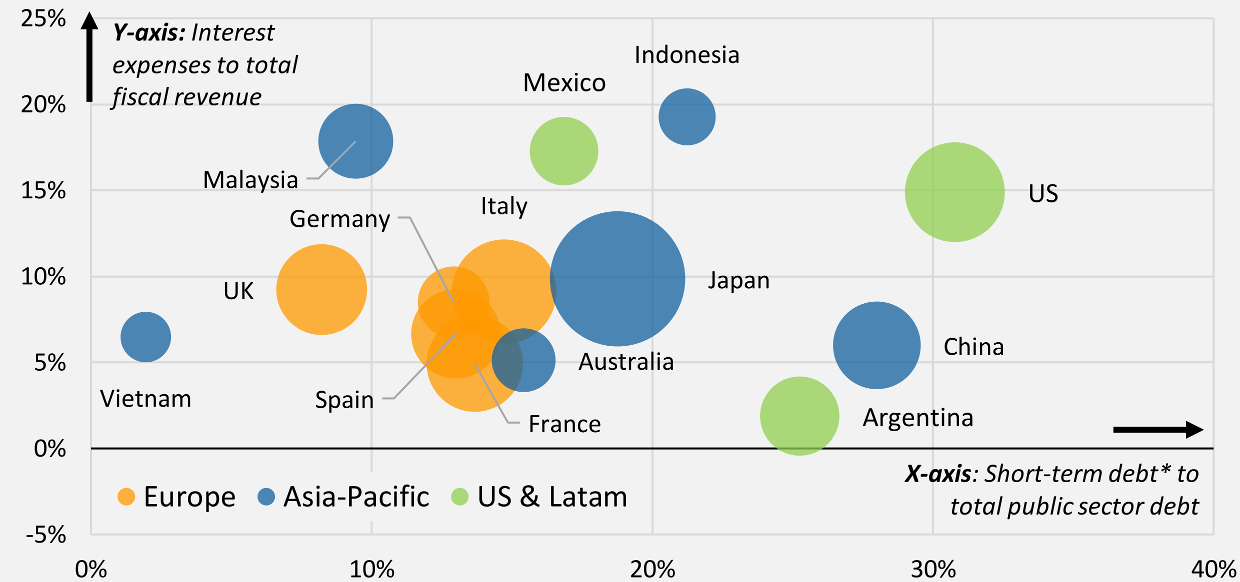


Source: Bloomberg, DJPPR

Chart 2

Burdened by interest

High share of interest expenses and piling short-term debt highlight Indonesia's fiscal risks, which may explain the diminishing foreign demand despite the still-low debt-to-GDP ratio



Bubble size: debt-to-GDP ratio. *Sovereign debts maturing within a year. **Source:** Bloomberg, BCA Economic Research

Chart 3

Higher term premium

Rising term premium (yellow) highlight investors' perception of SBN's long-term risks, although the lower short-term rate lowers the benchmark SBN yield.

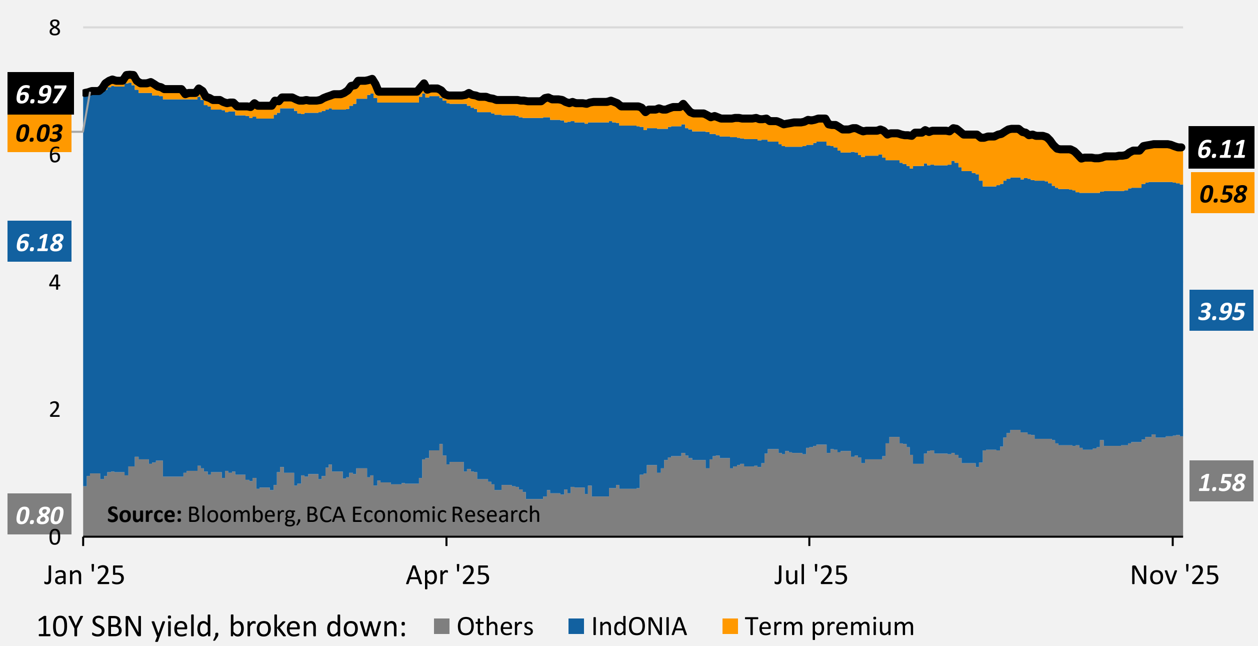
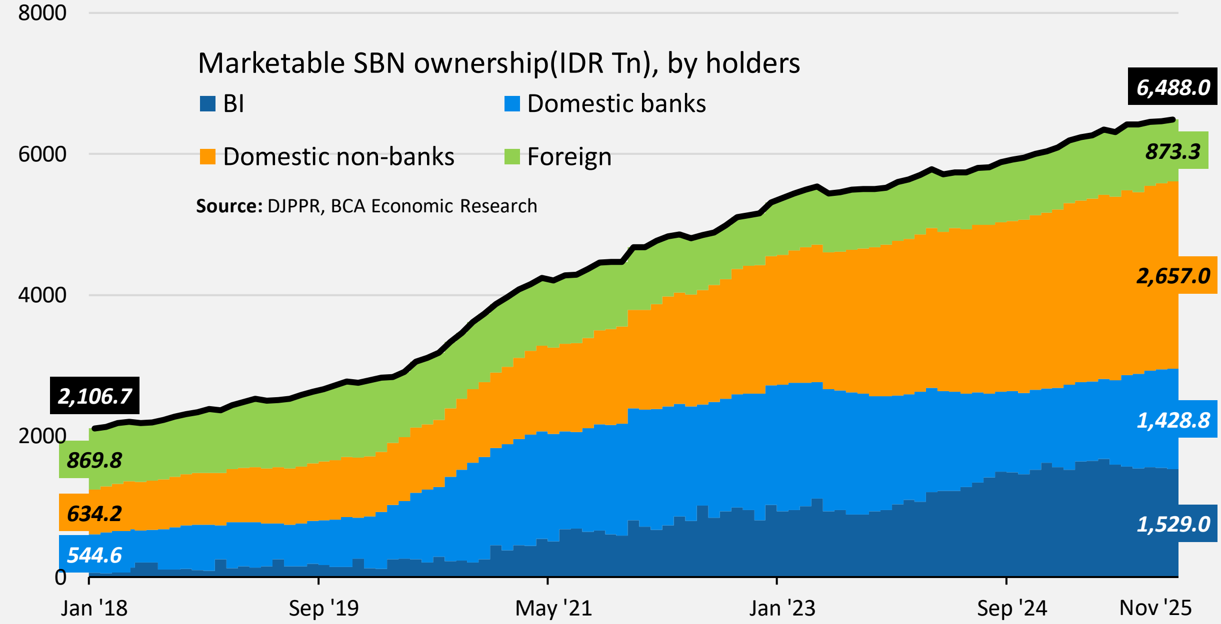


Chart 4

Paying interest at home

While interest payments are at historic high relative to revenue, Indonesia now mostly pays interest domestically, providing surplus for local institutional and household investors



Source: DJPPR, BCA Economic Research

Economic Calendar

		Actual	Previous	Forecast*
03 November 2025				
ID	S&P Global Manufacturing PMI	51.2	50.4	50.6
ID	**Trade balance (Sep-25), USD Bn**	**4.34**	**5.49**	**5.2**
ID	**Inflation Rate YoY, %**	**2.86**	**2.65**	**2.7**
US	S&P Global Manufacturing PMI	52.5	52.0	52.2
05 November 2025				
ID	**GDP Growth Rate YoY, %**	**5.04**	**5.12**	**5.2**
06 November 2025				
EA	Retail Sales YoY, %	1	1.6	1.5
07 November 2025				
ID	Property Price Index YoY, %	0.84	0.90	0.7
CN	Trade balance, USD Bn	90.07	90.45	97.0
ID	**Foreign Exchange Reserves, USD Bn**	149.9	**148.7**	**-**
09 November 2025				
CN	Inflation Rate YoY, %	0.2	-0.3	0.0
ID	Motorbike Sales YoY, %	8.4	7.3	-
10 November 2025				
ID	Consumer Confidence	121.2	115.0	115.5
11 November 2025				
ID	Car Sales YoY, %	-4.4	-15.1	-
ID	Retail Sales YoY, %	3.7	3.5	3.2
14 November 2025				
CN	Retail Sales YoY, %	2.9	3	2.2
19 November 2025				
ID	**BI-Rate Decision, %**		**4.75**	**-**
20 November 2025				
ID	Loan Growth YoY, %		7.7	-
21 November 2025				
ID	Current Account, (USD Bn)		-3.0	0.8
ID	M2 Money Supply YoY, %		8.0	-
26 November 2025				
US	PCE Price Index YoY, %		2.7	2.8

*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 (%)
US	4.00	Oct-25	1.00
UK	4.00	Aug-25	0.20
EU	2.15	Jun-25	0.05
Japan	0.50	Jan-25	-2.40
China (lending)	2.00	Sep-24	4.15
Korea	2.50	May-25	0.10
India	5.50	Jun-25	5.25
Indonesia	4.75	Sep-25	1.89
Money Mkt Rates	**14-Nov**	**-1 mth**	**Chg (bps)**
SPN (1Y)	4.50	4.94	-44.2
SUN (10Y)	6.11	6.05	5.8
INDONIA (O/N, Rp)	4.00	4.02	-2.2
JIBOR 1M (Rp)	5.05	5.16	-10.6
Bank Rates (Rp)	**Aug**	**Jul**	**Chg (bps)**
Lending (WC)	8.55	8.61	-6.00
Deposit 1M	5.24	5.36	-12.00
Savings	0.70	0.68	2.00
Currency/USD	**14-Nov**	**-1 mth**	**Chg (%)**
UK Pound	0.759	0.751	-1.12
Euro	0.861	0.862	0.12
Japanese Yen	154.6	151.8	-1.75
Chinese RMB	7.099	7.137	0.53
Indonesia Rupiah	16,704	16,575	-0.77
Capital Mkt	**14-Nov**	**-1 mth**	**Chg (%)**
JCI	8,370.4	8,066.5	3.77
DJIA	47,147.5	46,270.5	1.90
FTSE	9,698.4	9,452.8	2.60
Nikkei 225	50,376.5	46,847.3	7.53
Hang Seng	26,572.5	25,441.4	4.45
Foreign portfolio ownership (Rp Tn)	**Oct**	**Sep**	**Chg (Rp Tn)**
Stock	3,823.5	3,846.5	-23.05
Govt. Bond	880.5	1,213.4	-332.89
Corp. Bond	4.1	4.1	-0.02

Trade & Commodities	14-Nov	-1 mth	Chg (%)
Baltic Dry Index	2,125.0	2,022.0	5.1
S&P GSCI Index	559.3	542.6	3.1
Oil (Brent, $/brl)	64.4	62.4	3.2
Coal ($/MT)	113.9	108.2	5.3
Gas ($/MMBtu)	3.49	2.84	22.9
Gold ($/oz.)	4,084.1	4,142.9	-1.4
Copper ($/MT)	10,855.9	10,632.9	2.1
Nickel ($/MT)	14,696.9	14,926.3	-1.5
CPO ($/MT)	980.5	1,040.4	-5.8
Rubber ($/kg)	1.75	1.73	1.2
External Sector	**Sep**	**Aug**	**Chg (%)**
Export ($ bn)	24.68	24.96	-1.14
Import ($ bn)	20.34	19.48	4.42
Trade bal. ($ bn)	4.34	5.49	-20.85
Central bank reserves ($ bn)*	148.7	150.7	-1.31
Prompt Indicators	**Oct**	**Sep**	**Aug**
Consumer confidence index (CCI)	121.2	115.0	117.2
Car sales (%YoY)	-4.4	-15.1	-19.0
Motorcycle sales (%YoY)	8.4	7.3	0.7
Manufacturing PMI	**Oct**	**Sep**	**Chg (bps)**
USA	52.5	52.0	50
Eurozone	50.0	49.8	20
Japan	48.2	48.5	-30
China	50.6	51.2	-60
Korea	49.4	50.7	-130
Indonesia	51.2	50.4	80

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	2.8
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,461
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	-0.75

Notes:

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

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