



# 2026 Indonesia Economic Outlook

*Inching towards higher growth*

**BCA Economic and Industry Research**

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# General Summary

- **The global economy may become more accommodative to Indonesia's growth as lower policy rates influence commodity prices.** Alas, the transmission remains uncertain, given challenges in both the US' and China's domestic economy.
- Apart from front-loaded export demand, tariff advantages help to propel Indonesia's exports in 2025. However, **the balance of payment may moderate in 2026**, given the improving outlook on aggregate demand and investments.
- The recent upward trend in household consumption and investments may continue in 2026. Even so, **the acceleration in GDP growth may remain modest**, as the driving factor remains dependent on the government's programmes and intervention packages, while the fiscal capacity to address structural challenges may become increasingly limited.
- The expansive spending budget necessitates higher debt issuance, which may feed into Bank Indonesia's consideration to maintain its dovish policy signals. However, **the benchmark SBN yield may settle higher relative to the level seen in 2025**, given the uncertain outlook on foreign and domestic demand for SBN.
- **The moderating balance of payment position and narrowing rate spread underscore the lack of improvement in the Rupiah's fundamentals**, potentially posing the currency to episodic pressures that may limit BI's policy flexibility.

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# Part 1: Global Backdrop

More accommodative,  
but still challenging

## Chapter summary

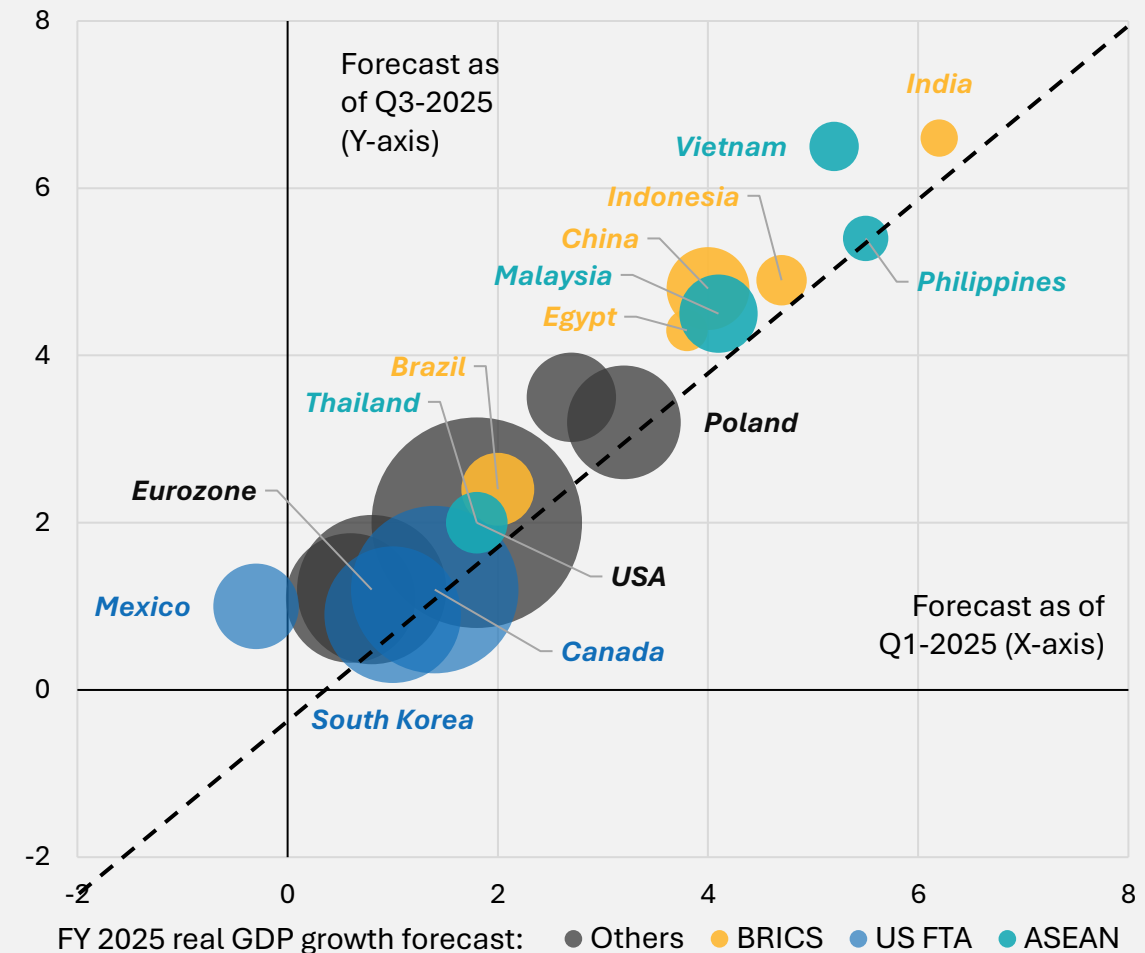
- **Global and regional growth have proven more resilient than expected**, supported by strong US consumer spending, adaptive policies, and shifting trade flows that benefit ASEAN exporters, though rising tariffs and US consumption risks may weaken momentum ahead.
- **Higher US tariffs are beginning to lift inflation and reshape trade patterns**, with firms relocating production to lower-tariff economies. This boosts ASEAN investment but intensifies local competition as China diverts exports to its regional markets and leverages cost advantages in doing so.
- **China's oversupply, weakening global demand, and policy tilt toward industrial support may continue to shape global conditions**. However, the expected Fed easing may results in a stronger commodity price in 2026, creating a more favourable external environment for Indonesia through stronger exports and improved financial conditions.

# Growth in Indonesia and most other economies is better than first expected

- Despite the historical level of uncertainties it caused in Q1-2025, the sharp increase in US tariffs has not materially disrupted global trade flows. While China's access to the US market has weakened, the broader spillovers to global demand have remained limited.
- A key factor behind this resilience is the continued strength of US consumer spending. Robust household balance sheets, thanks to the AI-driven equity rally, have kept import demand relatively stable, offsetting the drag from higher tariff rates.
- This has helped sustain export performance across several emerging markets, including Indonesia, Vietnam, Malaysia, and the Philippines – all of which recorded upward revisions to their 2025 GDP projections.
- Overall, the data suggest that global growth momentum remains intact, supported by adaptive policy responses, resilient consumption in major importing economies, and the ability of many emerging markets to pivot effectively amid shifting trade patterns.

Chart 1.1 – FY 2025 GDP growth forecast, Q3-2025 vs Q1-2025

GDP forecasts were revised upwards, as the impact of US tariffs turned out to be milder than previously expected, while most governments quickly expanded their fiscal measures amid the risk of a slowdown.



The size of each bubble represents the GDP of the corresponding country.

Source: IMF, World Bank, BCA Economic Research

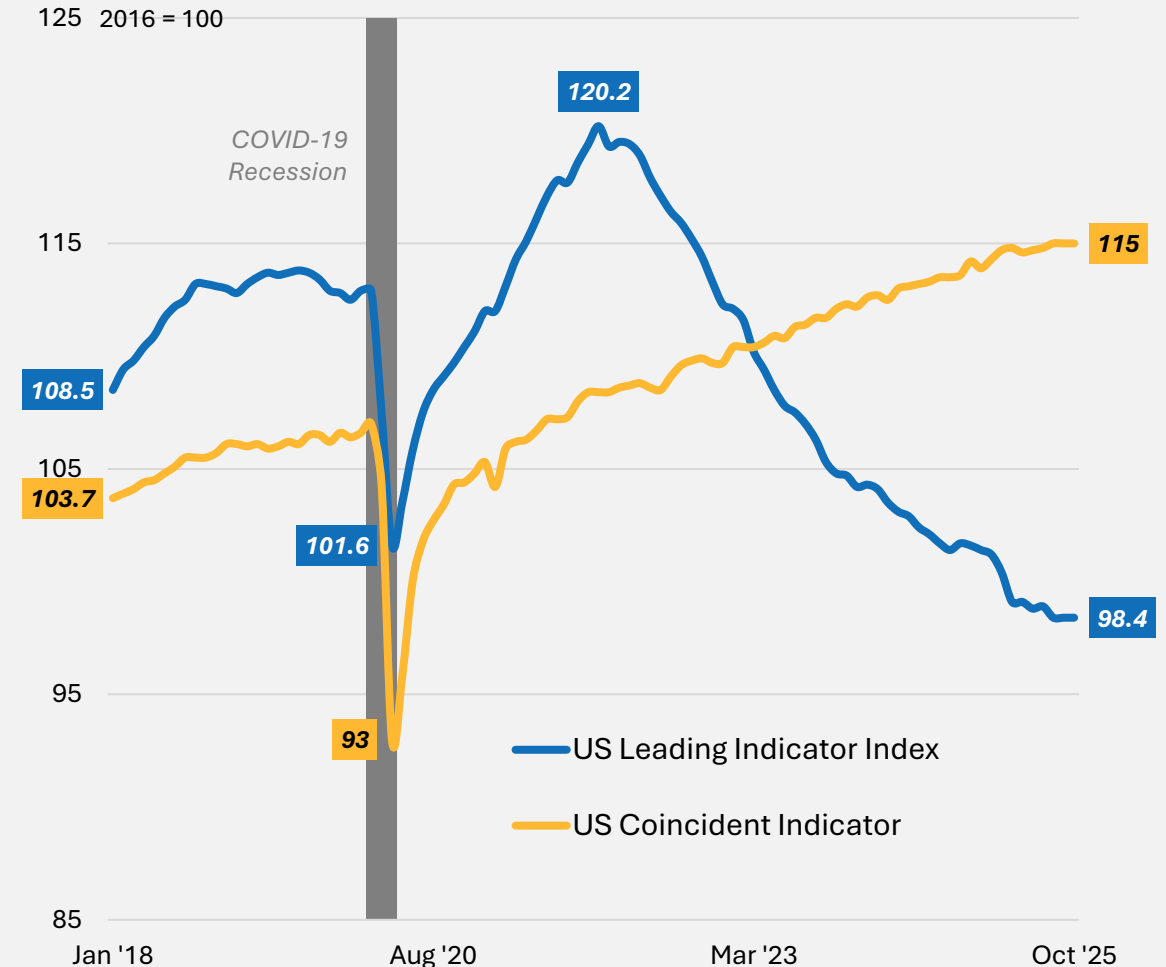


# The Fed continue to see strength in the US economy, although uncertainty remains

- The US economy continues to show pockets of resilience, supported in part by a positive wealth effect from rising asset prices. **However, this strength is uneven, as asset price appreciation is largely confined to the stock market**, while concerns for a valuation bubble are not uncommon.
- Notably, residential property prices have been virtually flat, underscoring **the narrow base of the current wealth effect**. At the same time, the labour market is cooling, signalling a growing macroeconomic risk.
- **Slower job creation and easing wage pressures point to softer household income growth**, which could gradually erode spending power.
- As US import demand weakens in line with softer consumption, the spillover effects could weigh on global trade and dampen growth momentum across major economies. Taken together, while near-term economic conditions remain stable, **the underlying trends point to increased fragility in the US outlook and rising risks for the global economy**.

Chart 1.2 – US leading and coincident indices, Jan 2018 – Oct 2025

Fed Chairman Powell downplays the probability for a Dec-2025 rate cut thanks to the strong coincident indicator. However, the LEI continue to point southward

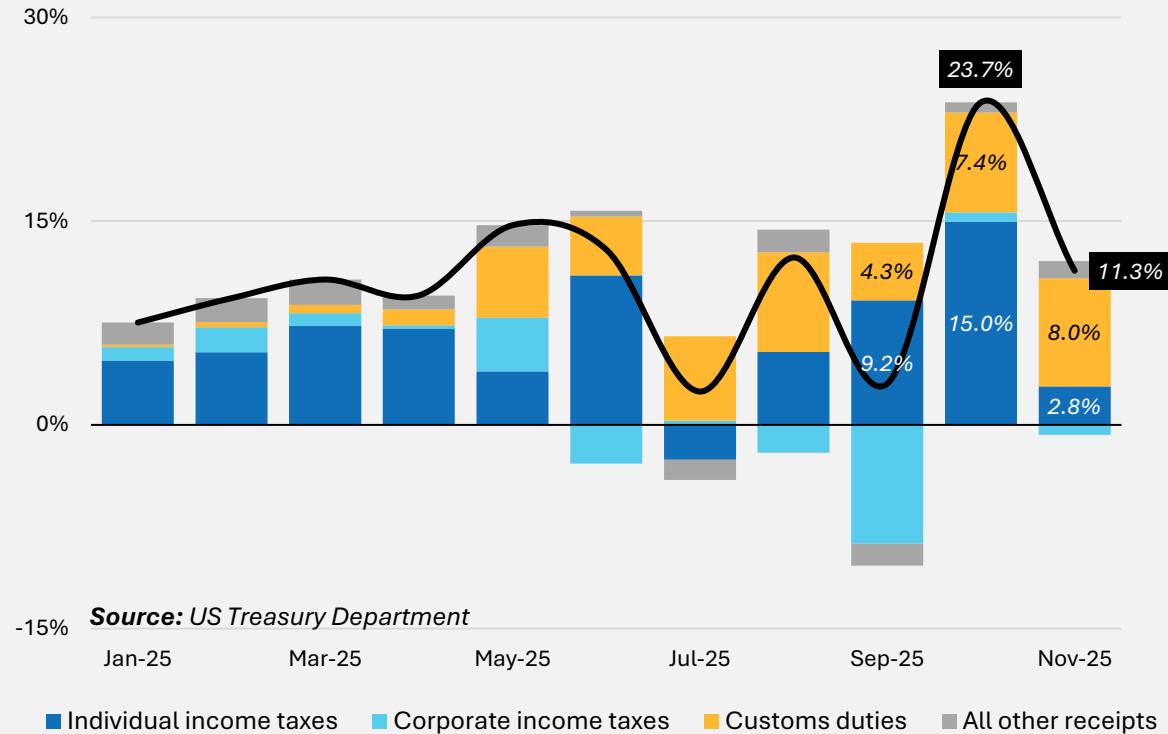


Source: The Conference Board

# Higher tariffs may not significantly feed into US inflation

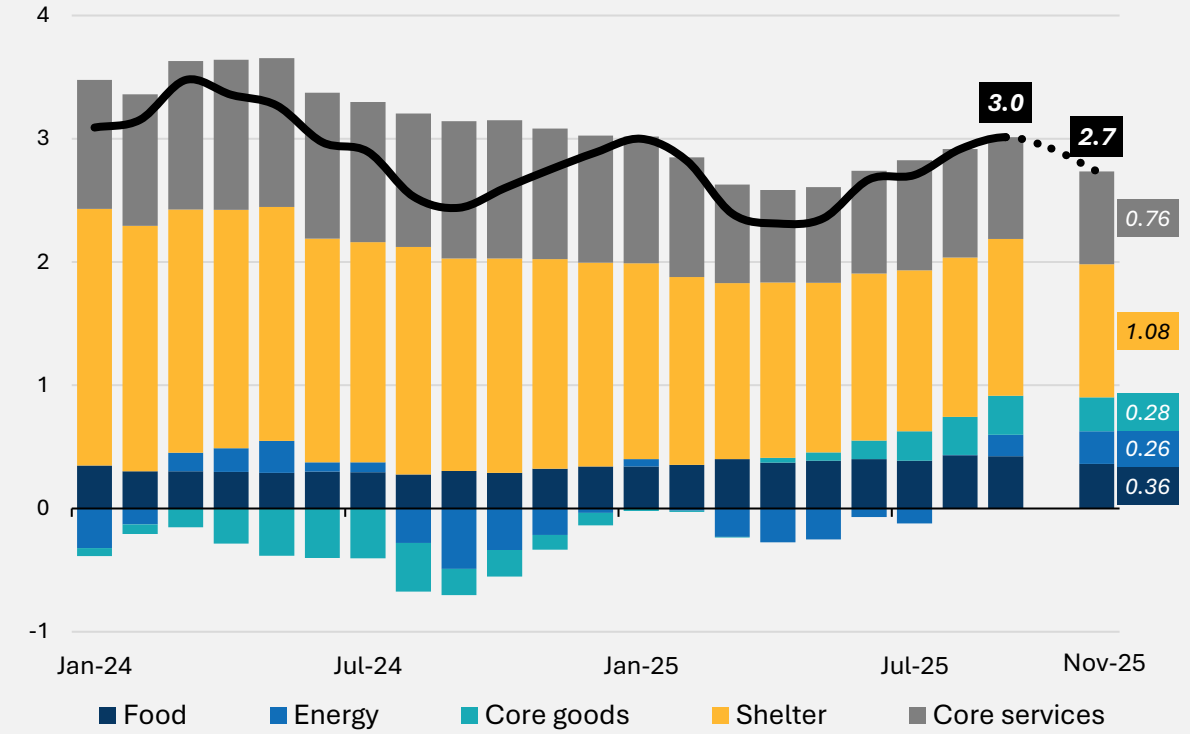
**Charts 1.3 – YoY growth in the US federal government receipts**

Higher tariffs may help to fill some gaps in the US government's fiscal posture



**Charts 1.4 – US CPI inflation (YoY, %), breakdown by components**

Core goods has not significantly translated to the US inflation reading despite tariffs



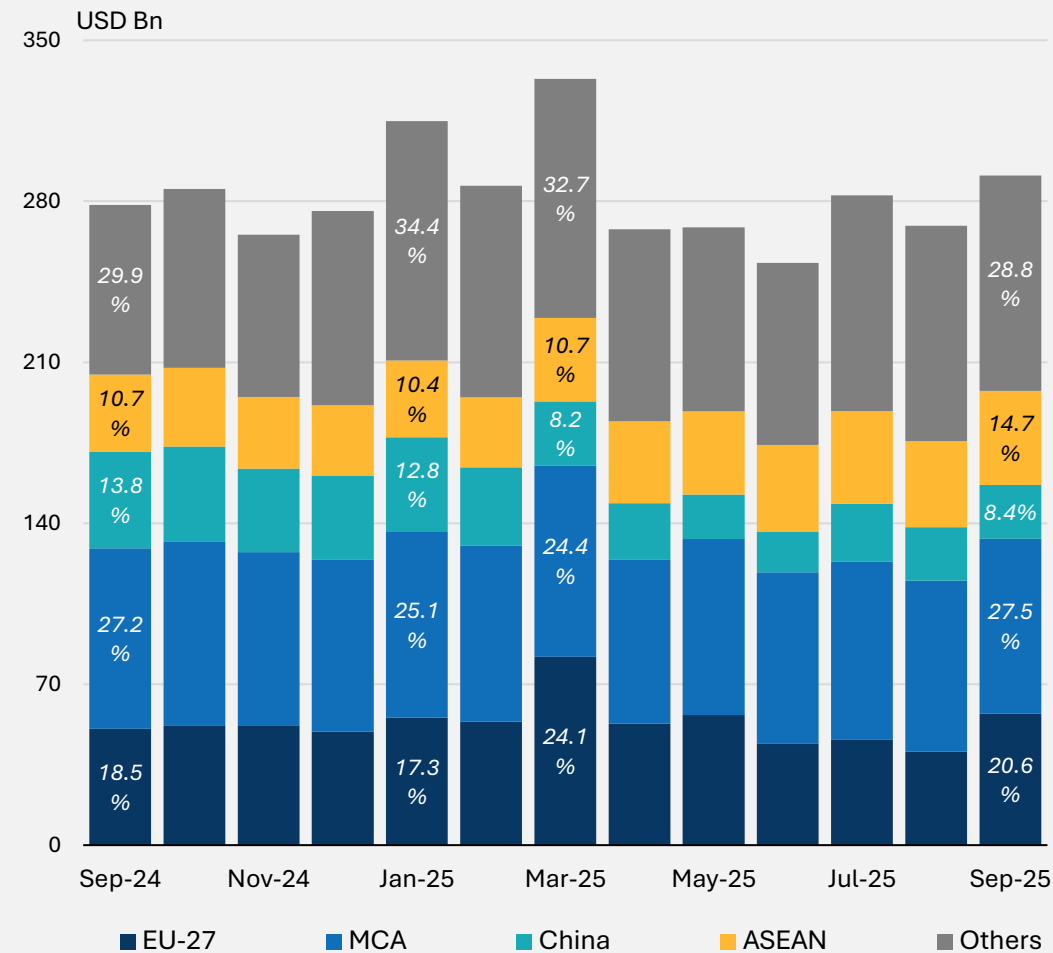
- Meanwhile, the “reciprocal” tariffs may not significantly translate to higher US inflation. **Earlier rounds of tariff adjustments had relatively muted pass-through effects**, partly because firms were able to rely on pre-emptive stockpiles and inventory buffers to stabilise retail prices. The lack of improvement in households’ purchasing power may discourage importers to pass-on costs, indicating that the current uptrend in core goods may prove to be transitory.
- **Signs of resurging inflation may also prompt the Fed to walk back its rate cut signal, thus strengthening the USD that will depress imported goods prices.** Until then, the lower supply of labour would be enough to bring service inflation lower, while the combination of higher housing supply and lower owner’s equivalent of rent (OER, due to lower rates) cools shelter inflation.

# The impact of tariffs is more visible in shifting global trade patterns

- While the inflationary effects of reciprocal tariffs have not yet fully materialised in US inflation data, their impact is increasingly evident in the composition of US imports. The US has continued to scale back purchases from China, redirecting demand toward regional partners (USMCA) and ASEAN economies.
- In response, Chinese manufacturers have begun relocating parts of their production to lower-tariff economies to preserve access to the US market.
- This relocation has supported a steady inflow of investment into ASEAN and several emerging economies, reinforcing their near-term growth momentum.
- However, the shift is not without complications. Higher presence of Chinese manufacturers and exporters lead to local manufacturers increasingly find themselves in a race to the bottom, squeezed by China's ability to undercut prices while leveraging scale and supply-chain depth.

**Chart 1.5 – US imports, % share of exporters**

Higher tariffs bring ASEAN exporters closer to the US import market, while pushing Chinese and European exporters away

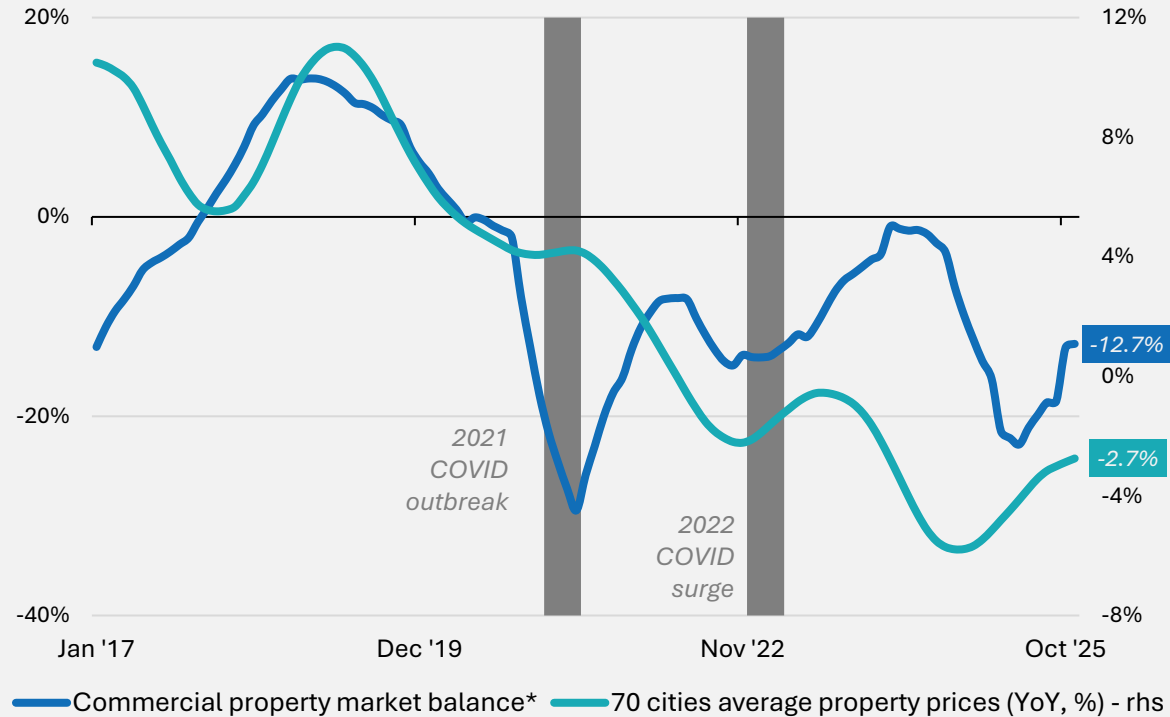


Source: US TIC

# Oversupply problem curbs China's growth potential

Charts 1.6 – China property market, 7CMA

The Chinese property market is still miles away for a full recovery.

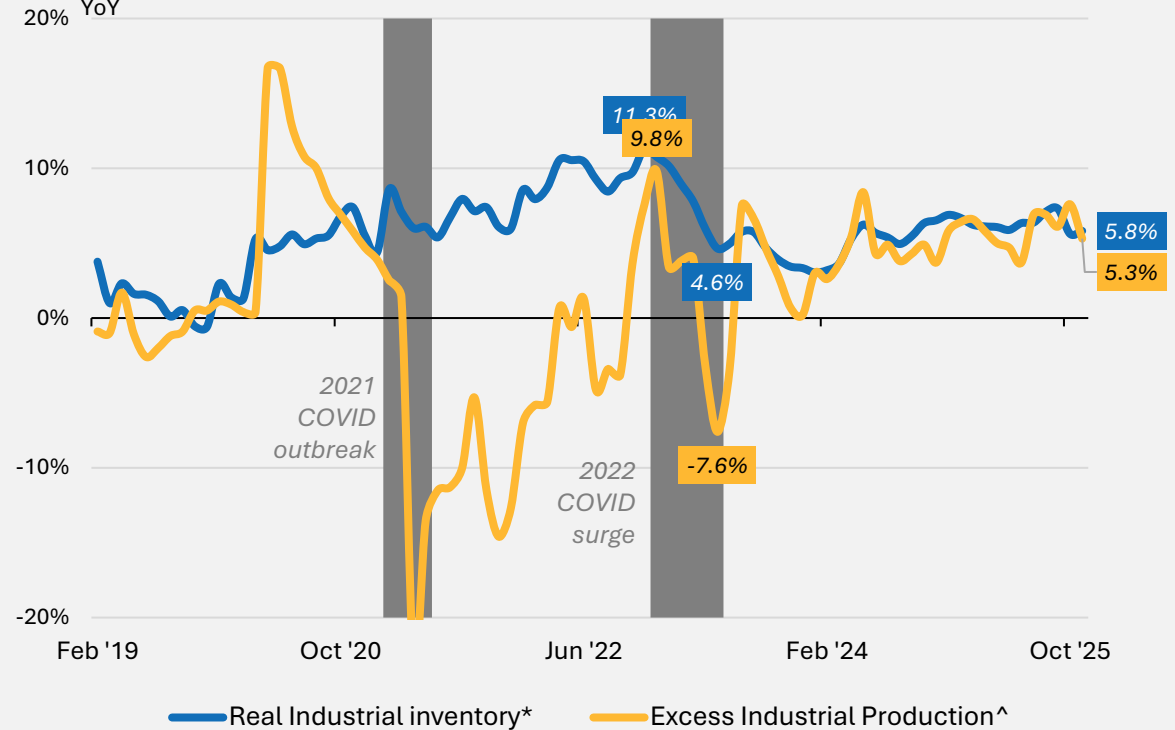


\*) Total commercial building newly built minus sold

Source: National Bureau of Statistics of China, BCA Economic Research.

Charts 1.7 – China industrial production

China is turning into industrial consolidation to address its oversupply problem.



Source: National Bureau of Statistics of China, BCA Economic Research

- The lingering oversupply problem underscores China's urgent need to sustain export demand. **The country's magnanimous industrial output stands in stark contrast to its anaemic domestic demand, creating a supply-demand mismatch that explains the economy's ongoing disinflation.** A negative shock to export demand could worsen the disinflation trend into a spiral, further undermining China's growth prospects.
- China's weak domestic demand is rooted, in part, in the persistent imbalance in the residential property market, where declining property prices have generated a negative wealth effect. **The structurally high saving rate underscores the challenge of stimulating domestic demand,** as evident from Chinese households' strong demand for gold and other assets.

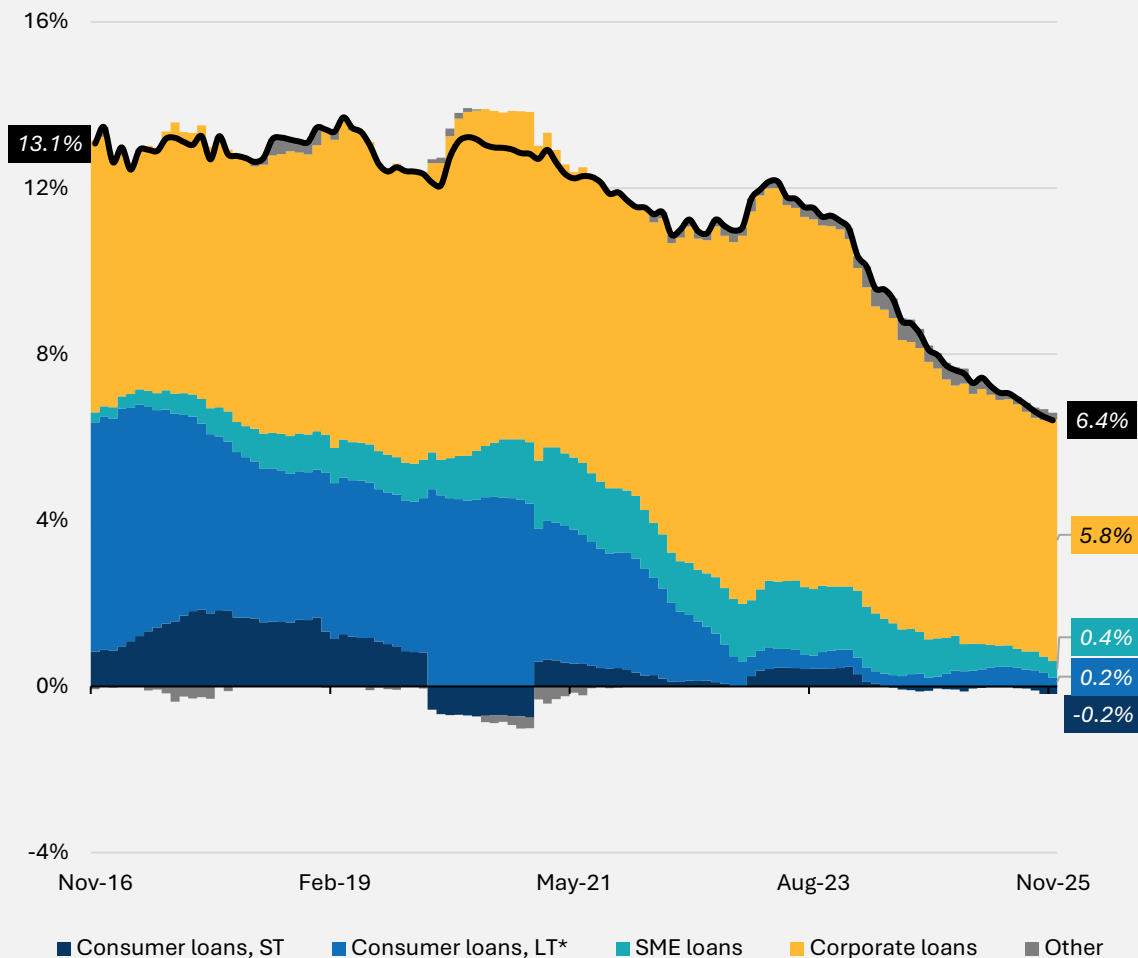


# China may continue to “manufacture” its way out of a slow down

- Chinese authorities have signalled consumption expansion as their priority for 2025, underpinned by a general public budget deficit projected at 5.5% of GDP. The Politburo has also expressed readiness to deploy more “proactive” fiscal measures in 2026, **implying scope for even deeper deficits ahead.**
- Yet, consumption-oriented programmes remain modest when compared with the overall fiscal push.** For instance, the flagship consumer goods trade-in programme, for example, is estimated to cost around CNY 300 Bn – relatively small despite the planned issuance of CNY 1.3 Tn in ultra-long treasury bonds in 2025.
- Indeed, China’s trade-in and broader consumption subsidies programmes are highly targeted toward sectors such as EV and consumer electronics, **aligning more closely with industrial upgrading objectives.**
- This policy tilt is further reflected in bank lending patterns, as credit growth continues to be directed predominantly to the corporate sector.
- Given this pattern, we may expect that China’s deeper deficits will be geared primarily toward local-government debt stabilisation and supply-side measures; keeping China’s export-focused assembly line running rather than stimulating consumption.

**Chart 1.8 – YoY changes in China bank loans, by type of loans**

Financial supports continue to be directed primarily to the corporate sector, as the Chinese administration continue to count on exports to sustain their growth due to the persistent weakness in their domestic demand.



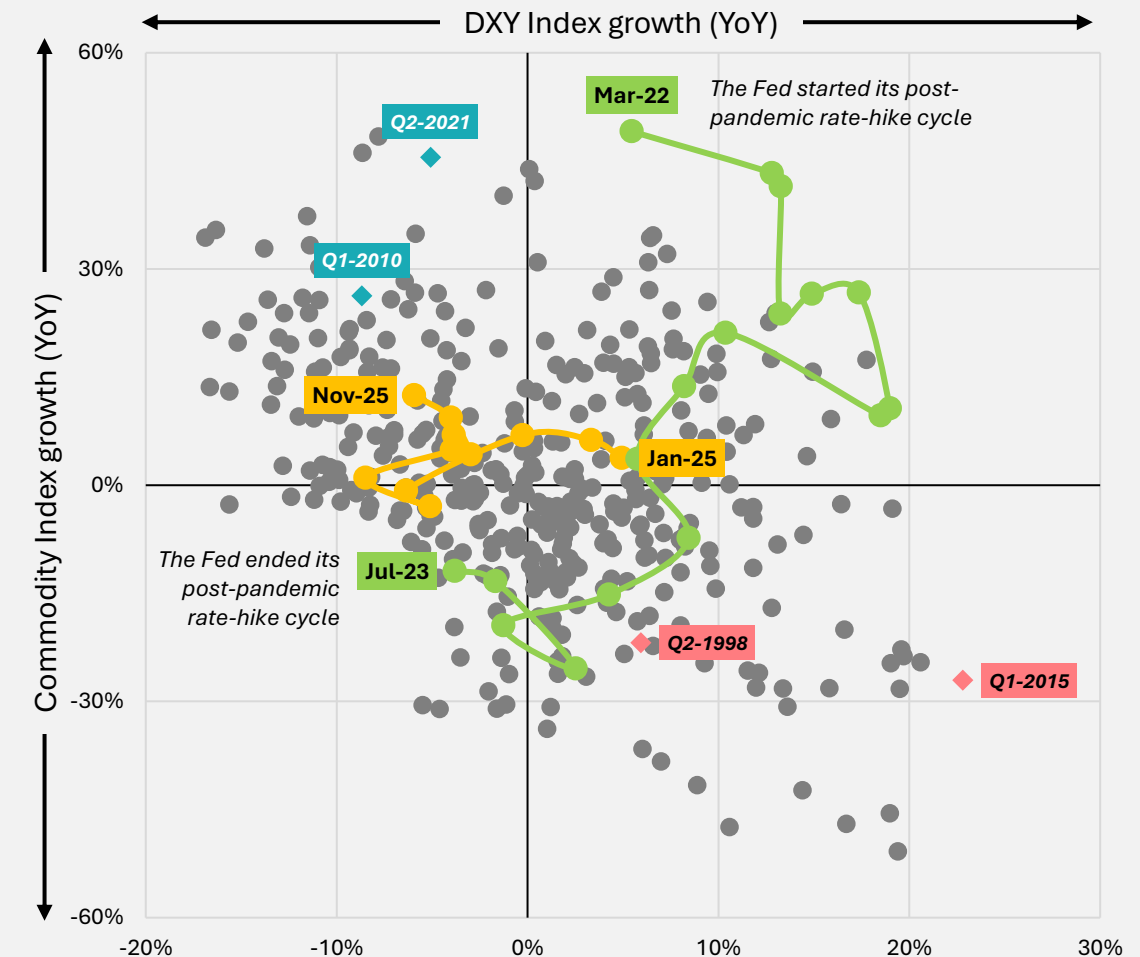
**Source:** People’s Bank of China, BCA Economic Research

# The global landscape in 2026 could be more accommodative to Indonesia's growth

- Persistent oversupply and disinflationary pressures have prompted Chinese authorities to accelerate industrial consolidation, particularly in traditional sectors such as steel and upstream industrial inputs. **The combination of consolidation and ongoing industrial upgrading may lift China's demand for imported raw materials**, providing a boost to commodity producers.
- At the same time, the softening macroeconomic conditions in the United States have also kept expectations of Fed rate cuts alive. **The prospect of policy easing is further amplified by political developments**, with President Trump set to appoint his Federal Reserve Chair in May 2026.
- As shown in the chart, commodity prices have begun to firm while the US dollar has weakened, a combination historically associated with more accommodative global financial conditions for emerging markets.
- **Together, these trends point to a potentially more supportive external backdrop for Indonesia in 2026.** Stronger commodity prices would lift export earnings, while a softer US dollar and reduced global financial tightening pressures could ease capital flow and currency risks.

**Chart 1.9 – Commodity and DXY indices**

Commodity prices are improving in Q4-2025 while the USD weakens, lowering the global pressure on the Indonesian economy



**Source:** Bloomberg, BCA Economic Research



# Part 2: Trade and Investment

Disparity in performance

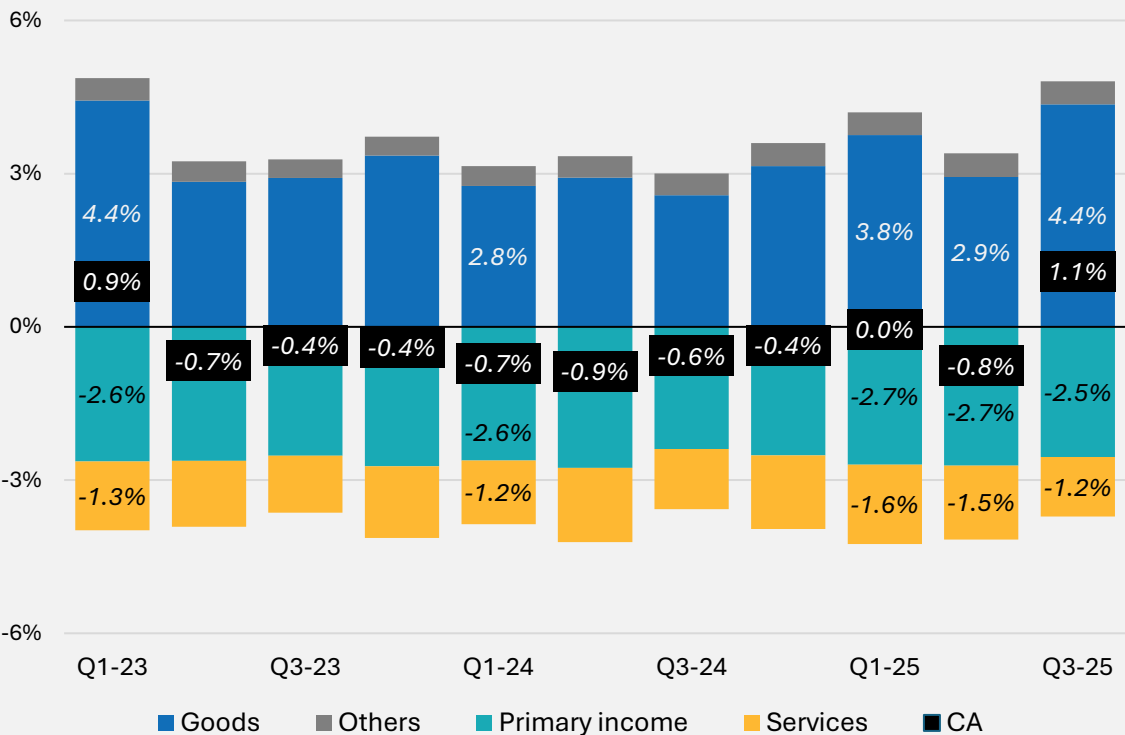
## Chapter summary

- **Indonesia's trade surplus has outperformed expectations this year.** Exports growth remain robust post-'Liberation Day', supported by lower tariff rates even amidst a general decline in commodity prices. On the other hand, imports growth have slowed down, weighed by decline in raw materials.
- **Overall Fixed Asset Investments remains stable,** with shifting growth from structures towards machinery. Investments has also been concentrated in capital-intensive industries, partially helped by the recent monetary stimulus and government-driven demand.
- **Faltering FDI has been mitigated by accelerating DDI.** Increasing global uncertainty and faltering nickel prices has stunted overall FDI growth, which are primarily concentrated in capital-intensive sectors. However, DDI growth in select sectors has helped stem overall decline.

# Indonesia recorded a better-than-expected trade surplus in 2025...

Charts 2.1 – Indonesia CA balance, % of GDP

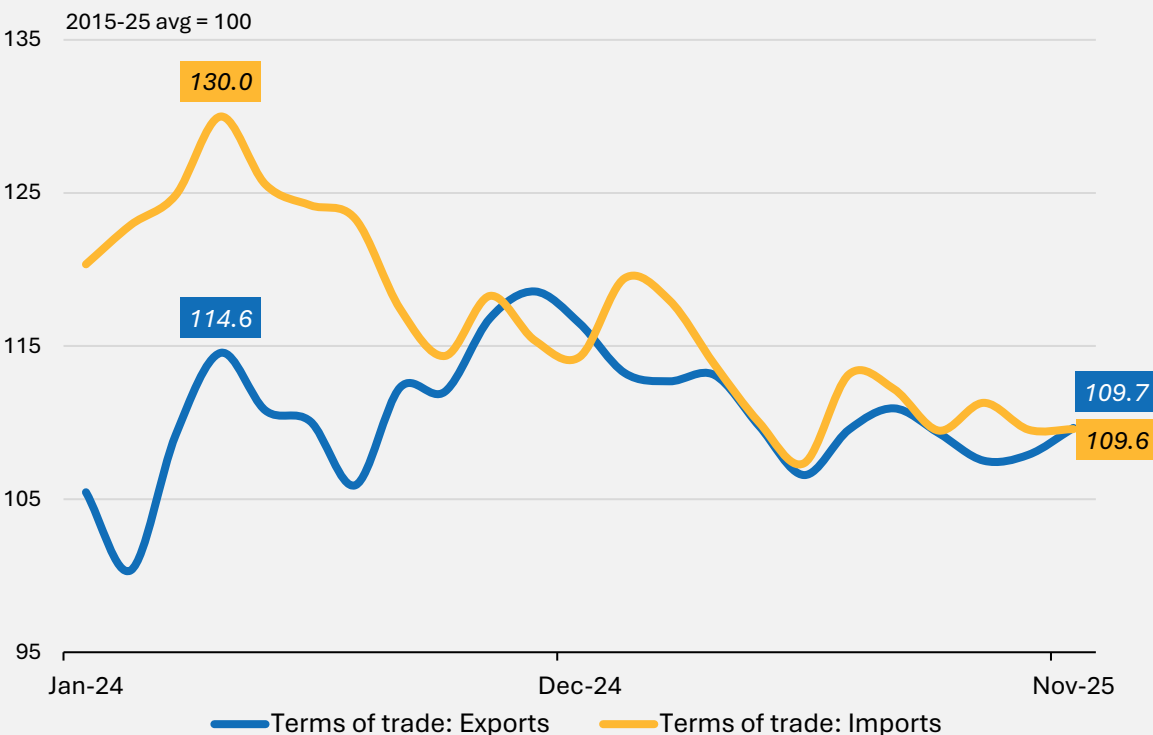
Higher merchandise exports boost Indonesia’s CA balance



Source: Bank Indonesia

Charts 2.2 – Indonesia terms of trade index

Indonesia maintain its trade surplus as import prices move lower relative to exports



Source: Bloomberg, BCA Economic Research

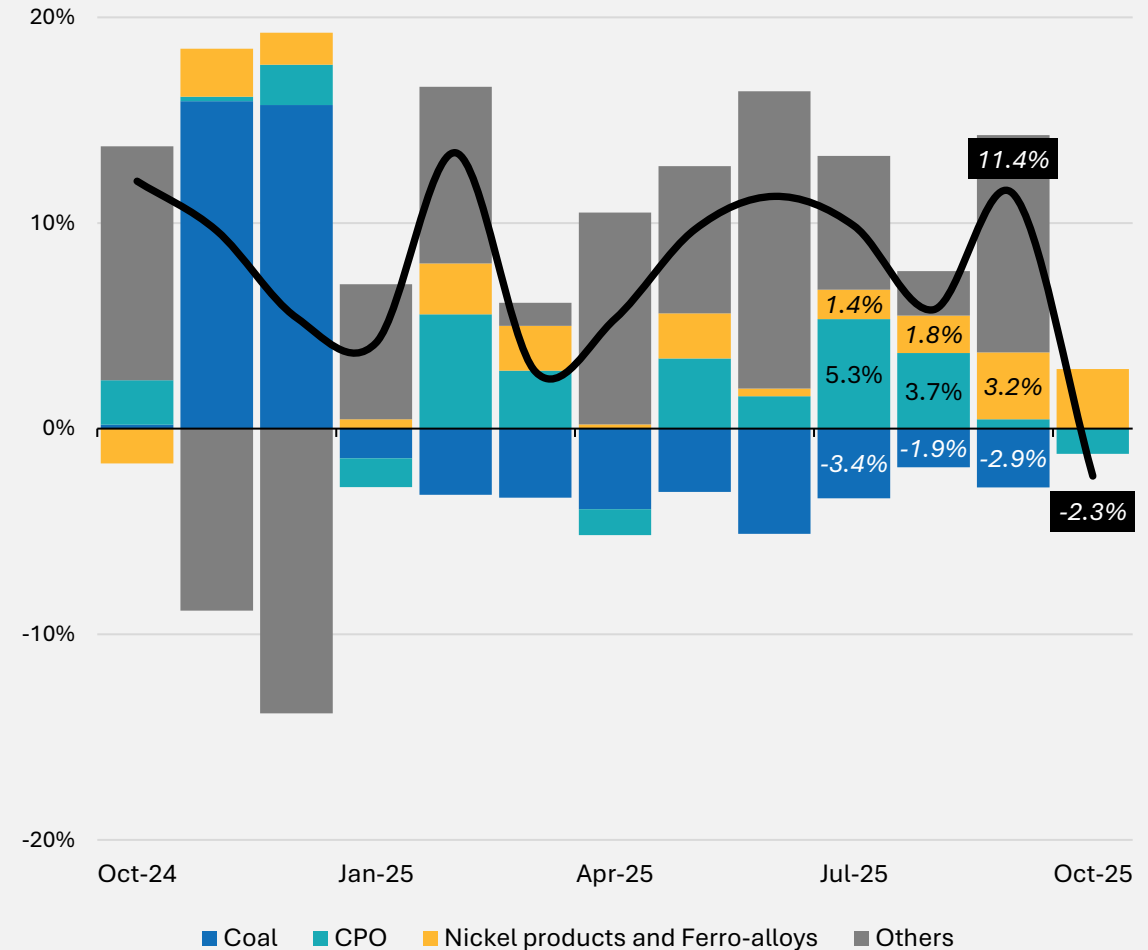
- Declining commodity prices in the lead-up to 2025 and tariff uncertainties darkened the outlook for Indonesia’s goods surplus, a trend that materialised in Q2 2025. Thankfully, **Indonesia’s CA balance recovered quickly in Q3 2025 as import prices moved substantially lower** (such as fuel prices and most consumer goods), while tariff anticipation also boosted export demand.
- The combination of tariff advantages and stabilising commodity prices may continue to support Indonesia’s exports. **However, we expect FY 2026 trade surplus to moderate**, as improving domestic aggregate demand and a firmer investment outlook are likely to lift import demand.

# ...however, reliance on Big-three commodities may need to be reduced to maintain exports

- While prospects of further global monetary policy setting tend to help commodity prices, there remains uncertainty regarding the price trajectory for Indonesia's three mainstay export products: coal, CPO, and nickel products.
- For instance, the weaker growth outlook in China – amidst its lingering property oversupply – may continue to depress global demand for nickel products, although Indonesia's superior cost structure means **domestic producers may extend their global dominance.**
- Likewise, rising domestic production in major import markets (such as China and India) may continue to suppress demand for seaborne coal, potentially forcing Indonesian coal producers to curb output.
- Meanwhile, wetter weather conditions and a potential review of practices in the CPO sector may cap production just as the rollout of the B50 fuel programme raises domestic demand. Higher domestic absorption may prompt the government to put up measures for CPO producers to prioritise domestic needs, drawing on lessons from the 2022-2023 food-driven inflation episode.

Chart 2.3 – YoY Exports growth

The combination of lower prices and higher domestic demand (especially for coal and CPO) may reduce Indonesia's exports from Big-3 commodities



Source: Statistics Indonesia, Bloomberg

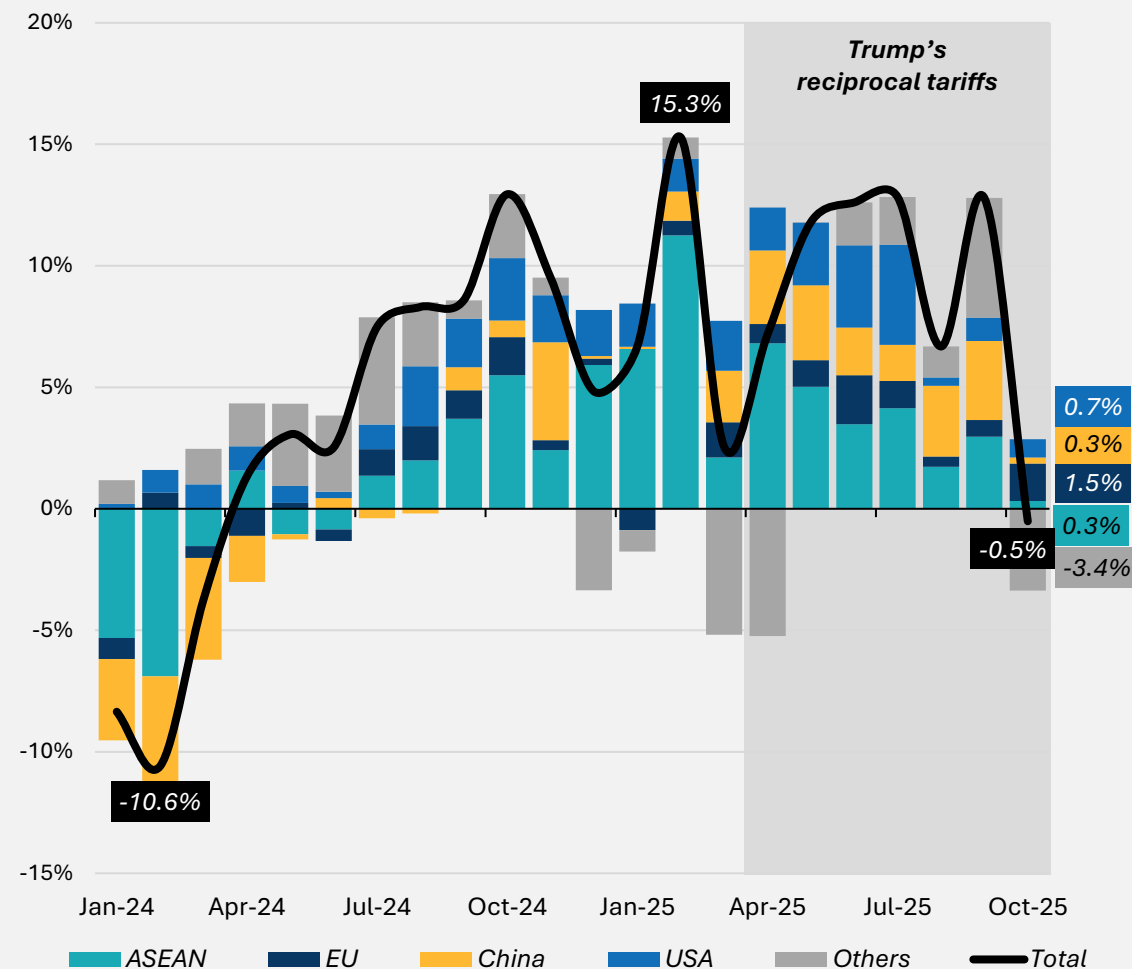


# ID's exports performance has remained robust post 'Liberation Day' tariffs

- Indonesia's exports heavily relies on select commodities, such as CPO, coal, and nickel. One fear is that while the US reciprocal tariffs may have limited impact due to the relatively low amount of exports going to the US (9.9% as of 2024), the resulting global slowdown are likely to **trigger a decline in commodity prices** (commonly called 'bullwhip effect').
- This decline in prices have borne out for metals and energy commodities, resulting in a challenging year for Indonesia's coal miners and nickel smelters.
- On the other hand, headline exports remained robust, mainly driven by the increase in CPO prices and export volume.
- Its also important to note that while Oct-25 marks the first export contraction this year, part of the decline was **the high base effect** of Oct 24 exports. Looking at August-Oct (post July trade deal announcement), exports has grown 6.1%.
- Looking forward, there remains potential catalyst for exports to rise further, such as the trade agreements Indonesia has established (such as IEU-CEPA, ICA-CEPA, and IEAEU-FTA).

Chart 2.4 – Non-O&G exports YoY growth, breakdown by countries

Indonesia's exports growth remains robust post "Liberation Day" tariffs, as relatively low tariff rate (19%) and frontloading have limited effects to US exports for now.



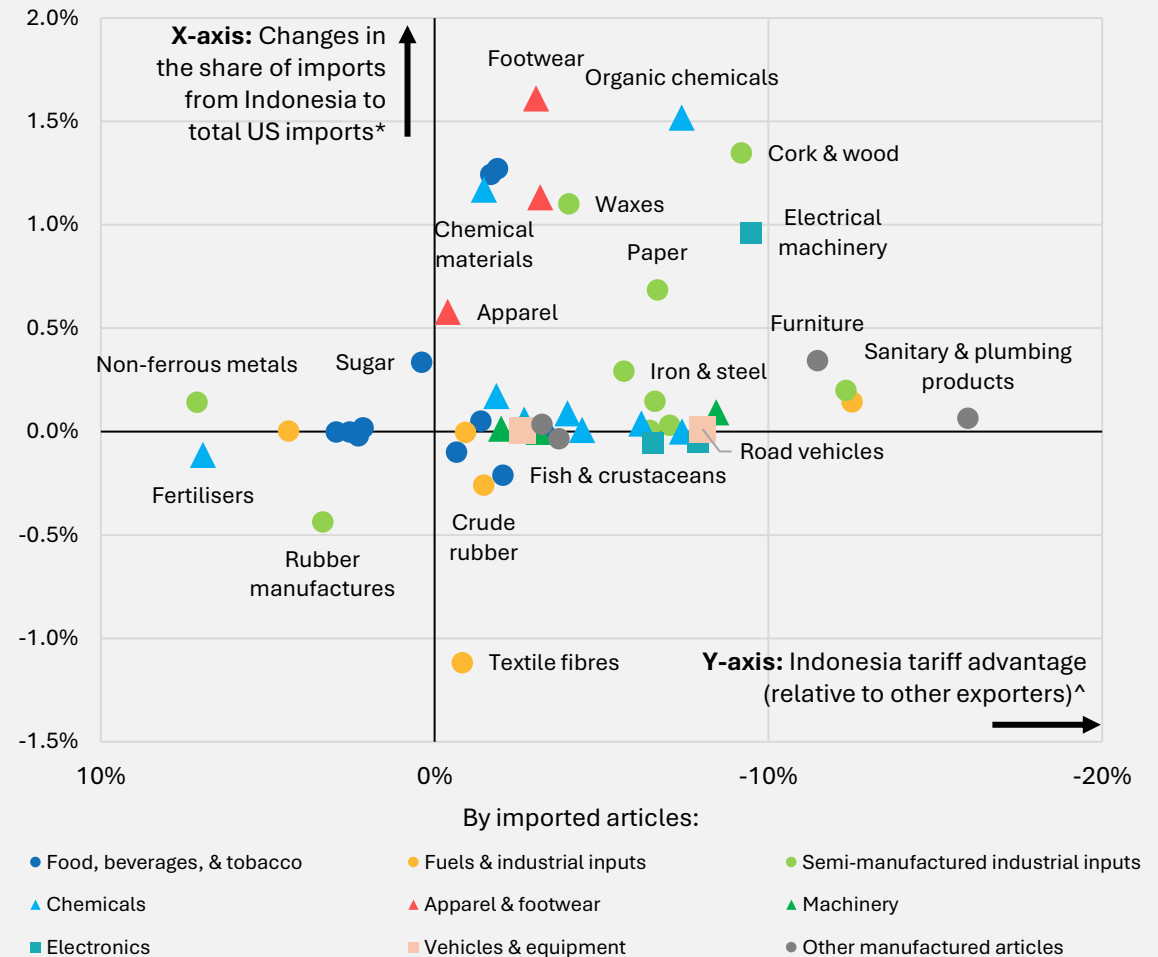
Source: Statistics Indonesia

# Tariff advantages help Indonesian exporters expand their lot in the US market

- While US tariff rate on Indonesia have remained higher than select countries with which it enjoys a trade surplus, the trade deal has brought Indonesia's headline tariff rate to 19%, considerably lower compared to China, Viet Nam, and a few South Asian countries.
- Indonesia have benefited from this imbalance in most goods**, as reflected by the rising share of imports demand from the US in many products. Moreover, its possible overall imports may remain stable moving forward, as uncertainty over the longevity of Trump's tariffs are likely to scare-off domestic attempt to reshore production.
- However, it is important to note that this "tariff advantage" may disappear, as Trump's country-specific tariffs are currently pending a Supreme Court decision, while reports of US threats to annul the trade deal with Indonesia have also emerged.
- Another source of uncertainty would be the longevity of ID-US trade deal itself. Recent news have spoken of a somewhat protracted negotiating process, potentially leading to a snap back in towards the original 32% tariff rate if negotiations to review the deal were to fail.

**Chart 2.5 – Indonesia import tariffs and share of total US imports**

Indonesia's mainstay export products benefit from lower US import tariffs, which may sustain demand from the US



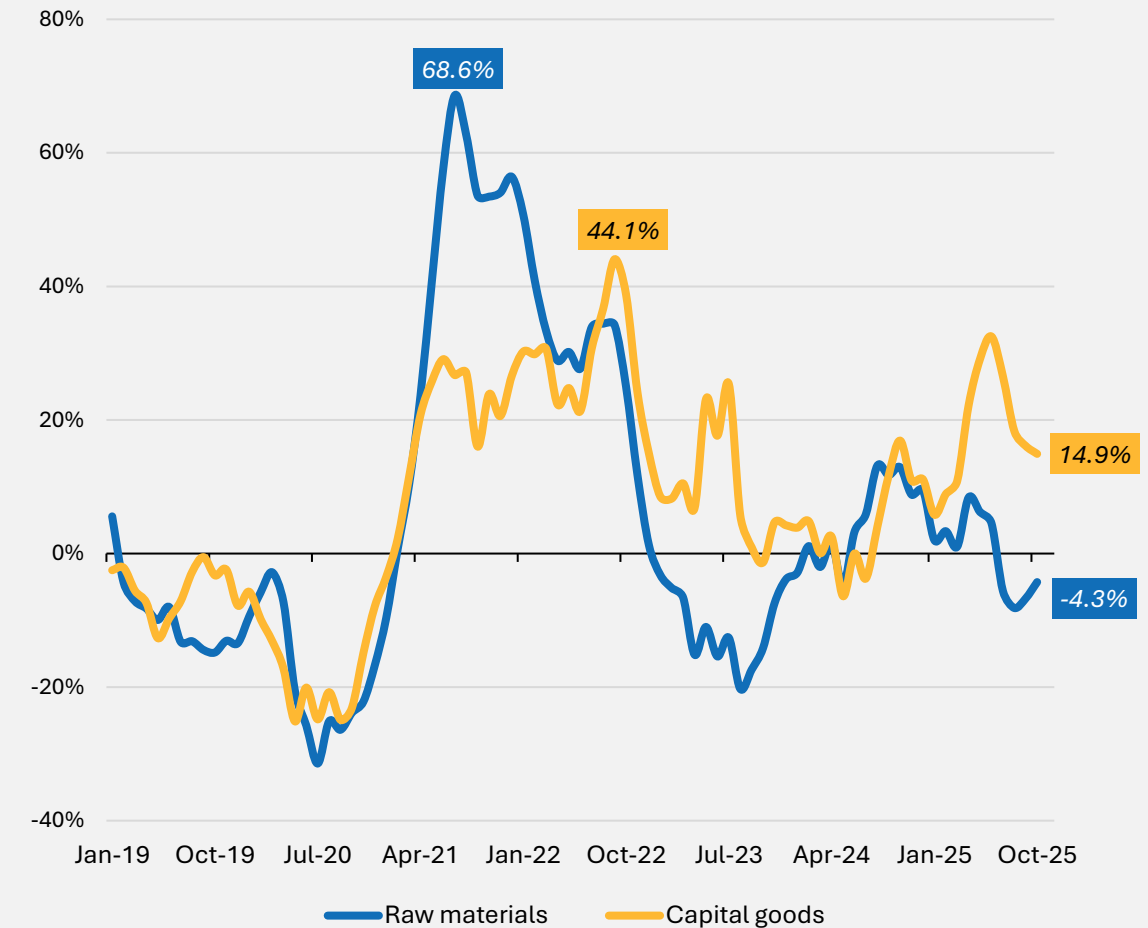
\*9M2025 vs. 9M 2024. ^Indonesia's effective US tariff rate – average US tariff rate for each SITC codes. **Source:** USITC, BCA Economic Research

# Diverging capital goods & raw materials imports signals industrial relocation

- Throughout 2025, there has been a divergent trend between capital goods imports and raw materials, especially post-Liberation Day.
- The boost in capital goods imports may be caused by a few domestic factors; government-related spending, and the continued development of Special Economic Zones.
- **Another point to consider are the increased FDI from China**, as Chinese manufacturers seek to relocate factories to secure lower tariffs and tap into domestic market. We have seen a similar and larger dynamic play out in Viet Nam, where both imports from CN and exports to US have risen considerably. Some of this is borne out in the data; Chinese & Hong Kong FDI throughout 2025 have risen by 7.3%, while overall FDI contracted by 7.7%
- Ergo, maintaining (and possibly lowering) Indonesia's tariff rate towards the US should be a potent approach to further spur investment towards the domestic market, in addition to the usual mixture of simplified regulations and tax incentives.
- Fortunately, the contraction in raw material imports doesn't necessarily indicate sluggishness for domestic producers but is partly due to their preference to use up existing inventory first.
- Additionally, it is likely for this dry spell to end in the coming months. **Previous deviations between raw materials and capital goods imports tends to close after a few months**, as manufacturing capacity takes a few months before coming online.

**Chart 2.6 – YoY imports growth depending on usage**

Capital goods imports have surged throughout 2025, while raw materials imports slid into contraction territory

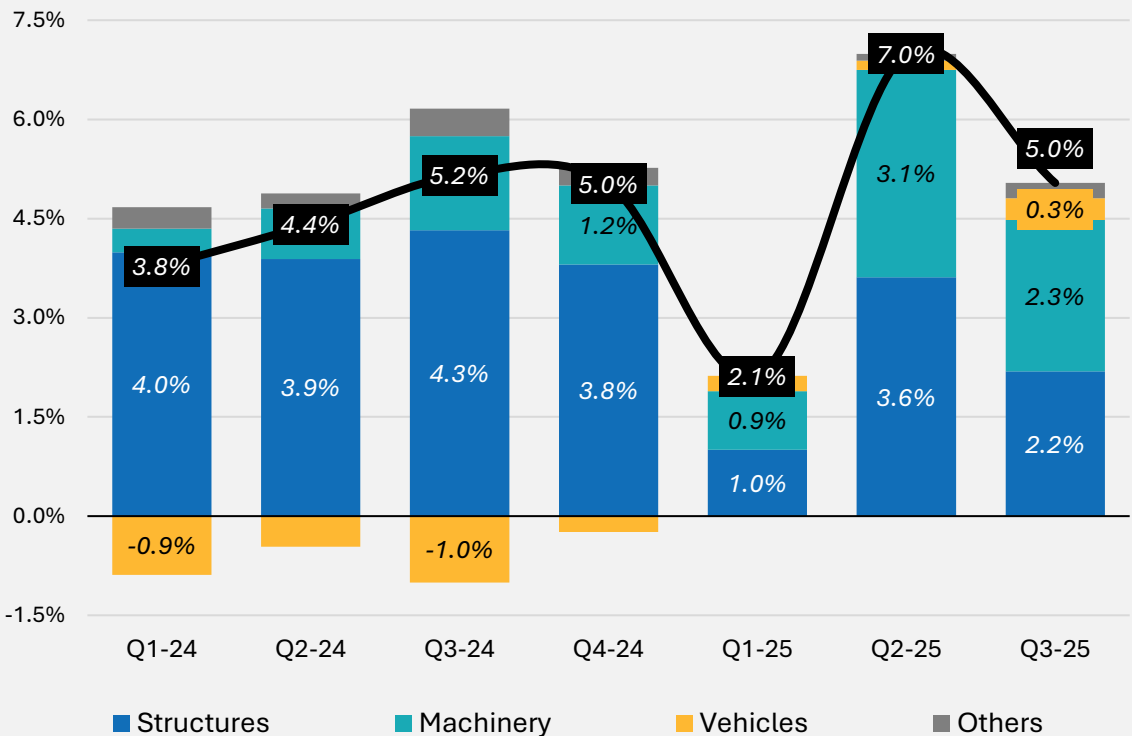


**Source:** Statistics Indonesia  
All figures are smoothed with 3-month moving average

# FAI growth have some room to accelerate at the end of 2025

Charts 2.7 – Fixed Asset Investment YoY growth, by contribution

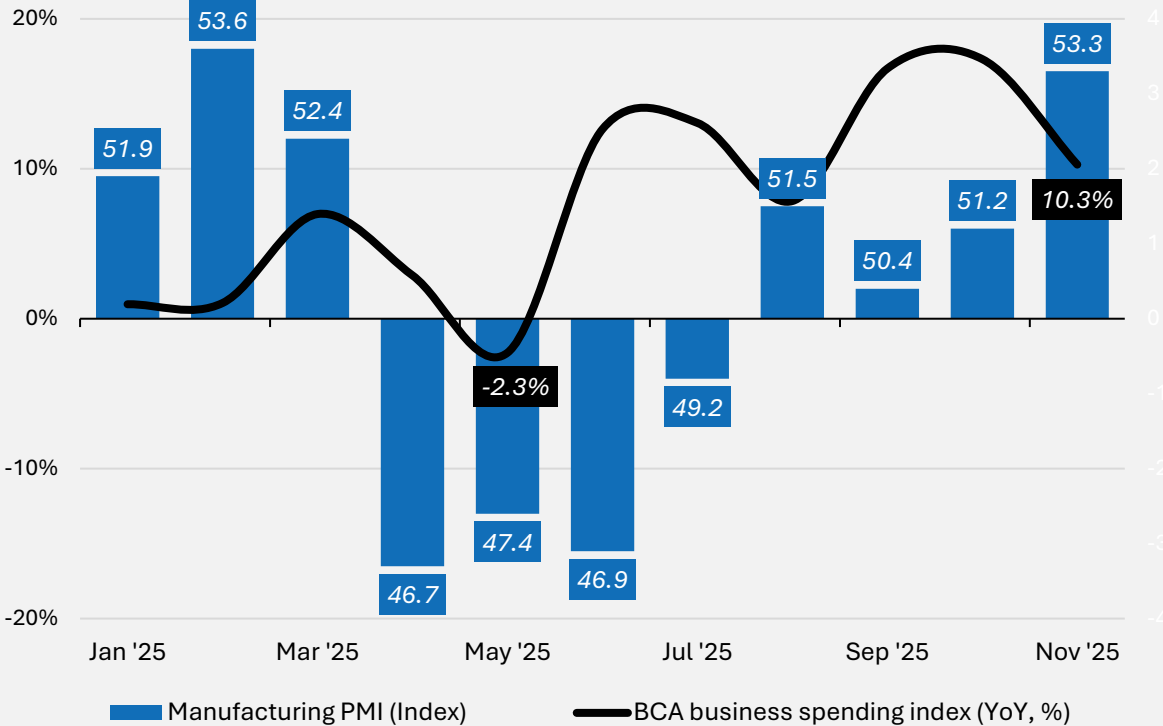
FAI has uncharacteristically been driven by machinery in the past two quarters



Source: Statistics Indonesia

Charts 2.8 – Leading Indicators for Investments

Leading private data has indicated stronger growth FAI growth in Q4-25



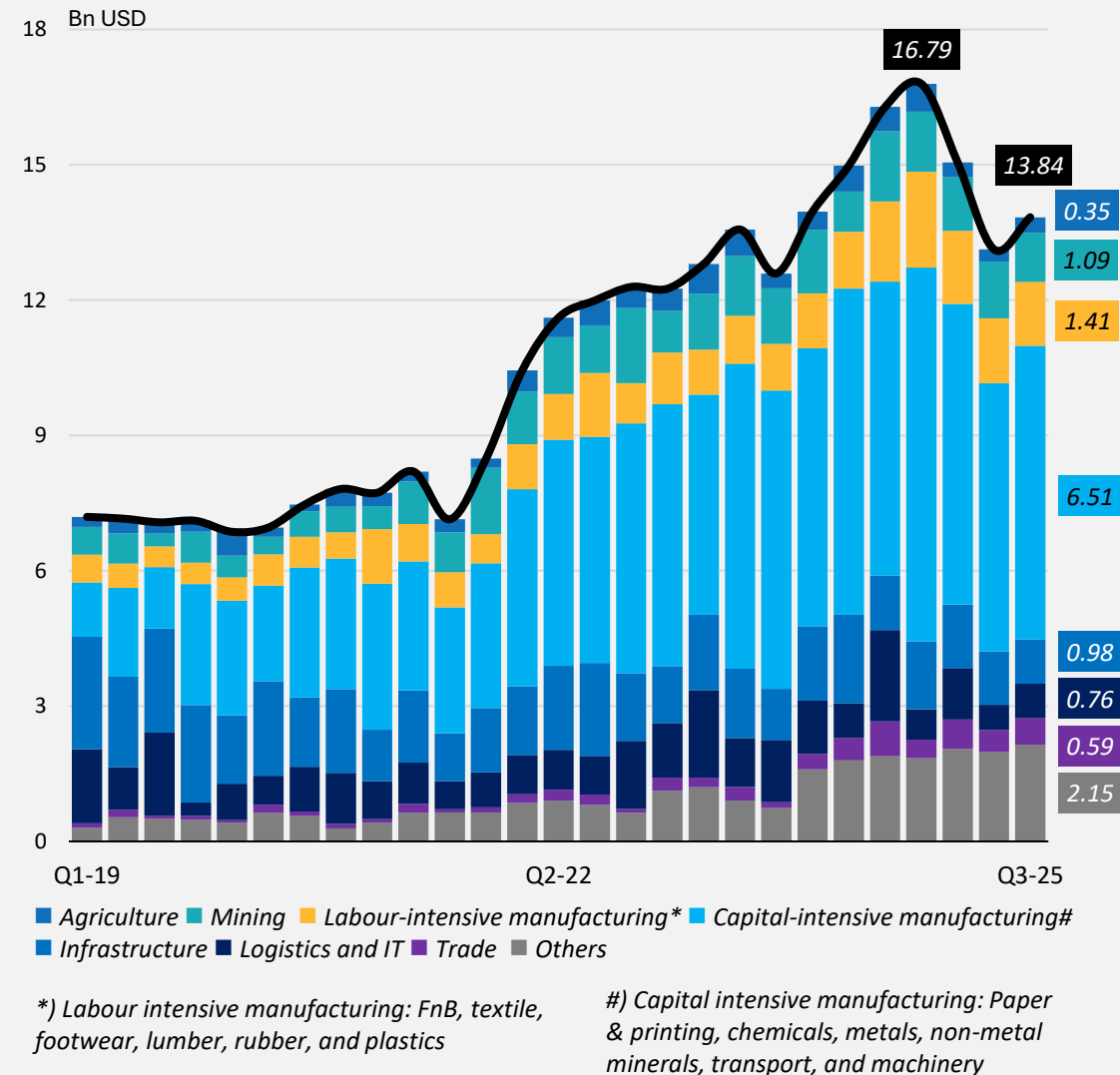
Source: SnP Global, BCA Economic Research

- FAI growth throughout 2025 is roughly in-line with historical averages, barring some fluctuations in H1-25. However, the composition has had a notable shift so far, with **structures investments lagging behind machinery investments**. This shift was further reinforced with robust manufacturing growth combined with weak constructions growth, underscoring the shift towards capital-intensive industries.
- Some leading indicators has indicated a robust performance in FAI to come in Q4-25. While there has been a divergence between private and official data in Q2-25, its likely the discrepancy was caused by the acceleration in government capital spending during Q2, which increased by 30.3%.

# High policy uncertainty may have hindered FDI inflow this year...

- From 2019-2024, FDI into Indonesia has grown by an average of 16.3% each year, primarily supported by the rapid growth in the capital-intensive industry.
- This rapid growth was triggered by the government’s ban on raw nickel exports, which helped attract overseas investments to refine nickel within Indonesia.
- **Unfortunately, nickel demand so far has ended up lower than initial expectations,** suffering from the demand glut of Chinese stainless steel makers. Moreover, the preference in Chinese EVs for LFP batteries may dampen long-term demand for the metal.
- This glut partially contributed to the 7.7% decline in FDI throughout 2025, as nickel prices continued to soften and compress producers’ margins, disincentivising further investment into the sector.
- However, there’s still some pockets of growth in other sectors, such as trades (+8.1%) and other services (34.7%).
- Looking ahead, **the government’s flagship programmes (such as industrial down-streaming and Free Lunch Program) may spur further increase in FDI,** especially for food agriculture and capital-intensive manufacturing.

**Chart 2.9 – Foreign Direct Investment to Indonesia, breakdown by sectors:**  
A notable decrease in FDI flows were observed during the entirety of 2025, indicating wait-and-see sentiment among foreign investors



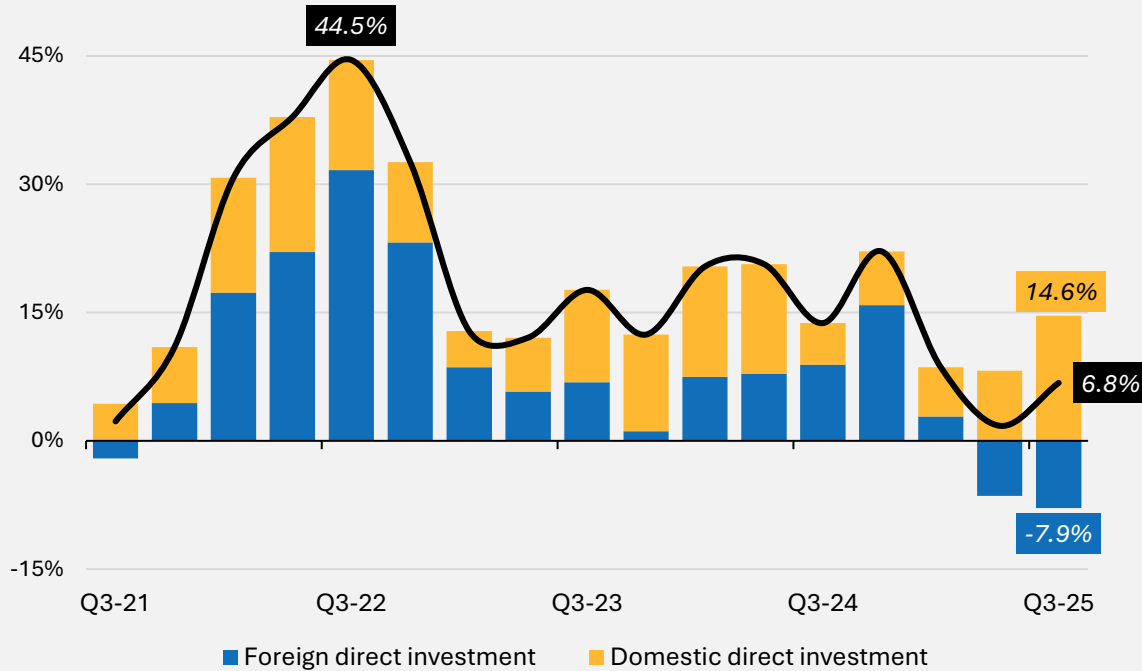
Source: Ministry of Investment and Downstream Industry



# ...thankfully, domestic investment remains strong, albeit concentrated

Charts 2.10 – Direct investments growth (YoY), contributions from FDI and DDI

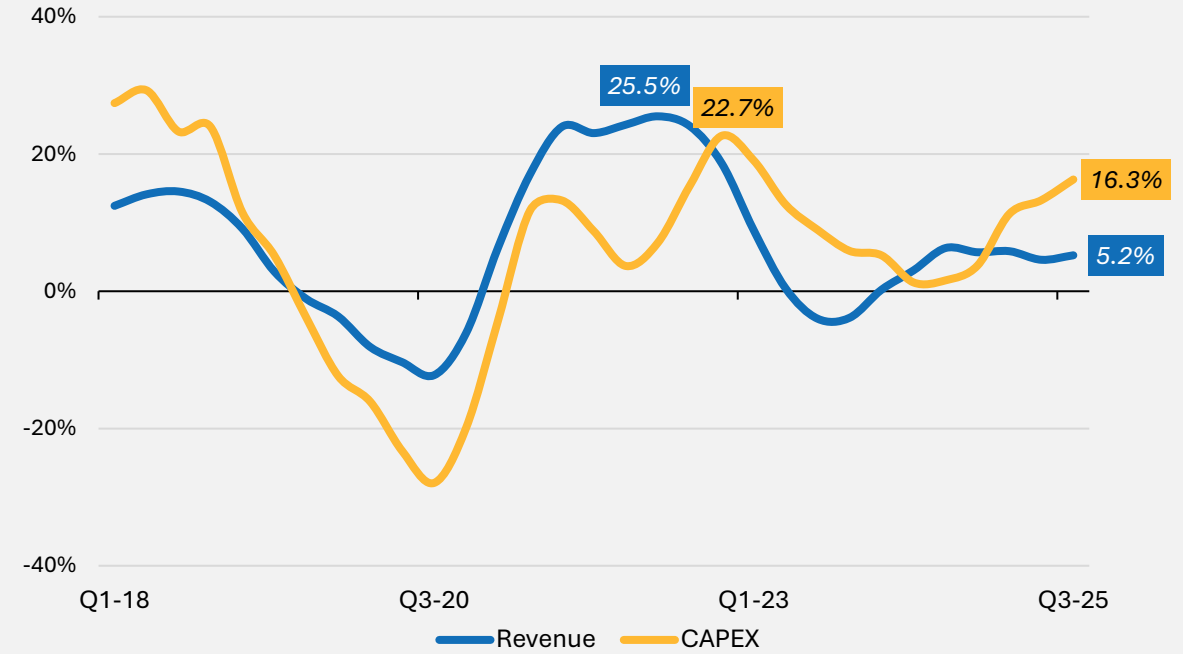
Accelerating DDI growth helps offset a contraction in FDI



Source: Ministry of Investment and Downstream Industry

Charts 2.11 – YoY changes in listed companies' financial data (3CMA)

Revenue growth currently trails below CAPEX growth, indicating possible slowdown to come



Source: Corporate financial reports via Bloomberg, BCA Economic Research

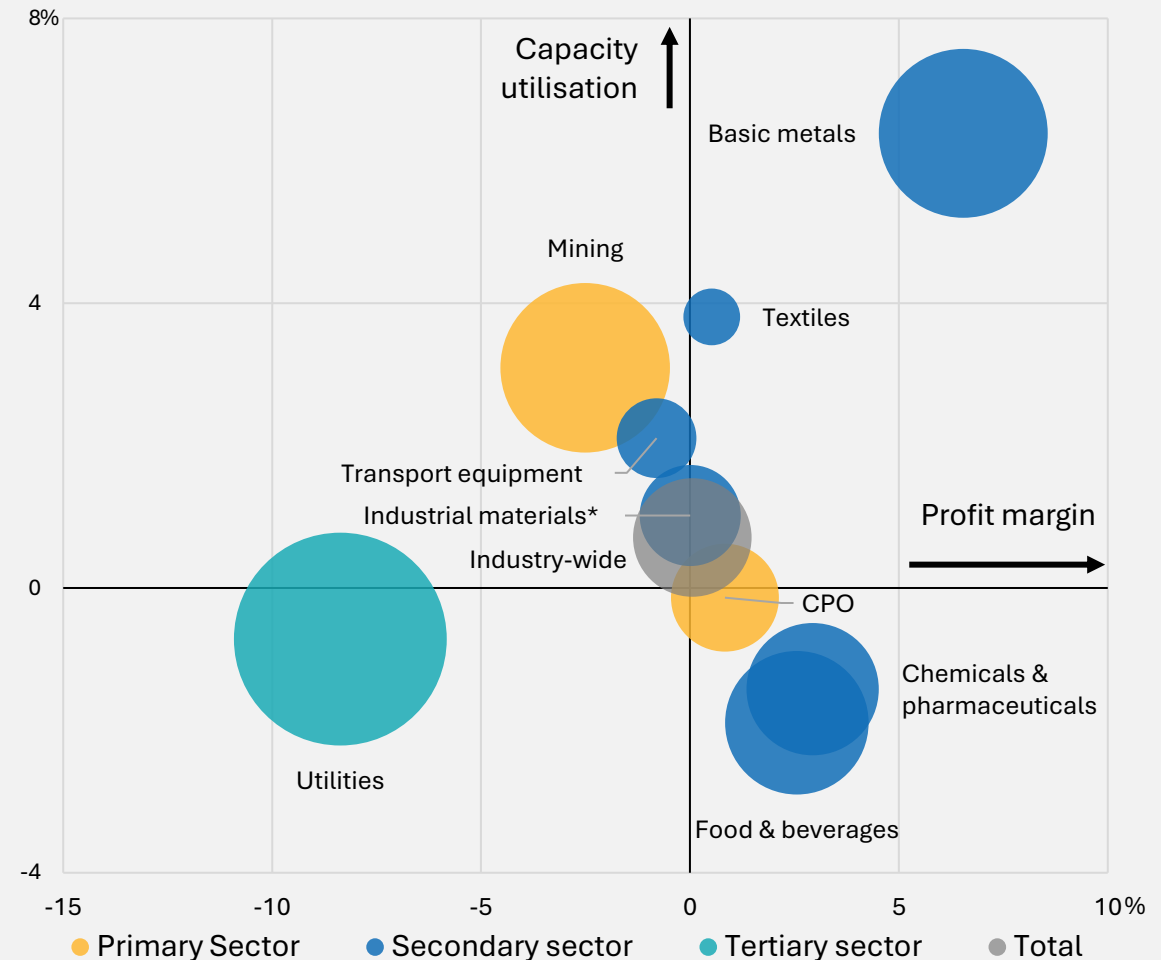
- Apart from policy uncertainties, the weak outlook for global commodity demand may help explain the decline in foreign investment. Fortunately, **Indonesia may still rely on domestic companies to sustain the investment growth momentum.**
- Interestingly, there appears to be a disconnection between the revenue and CAPEX trends in 2025. Part of this is due to CAPEX growth's tendency to follow revenue growth (granger cause), meaning the recovery of CAPEX in early 2025 is a lagging effect of the revenue recovery in mid-2024. Another factor is that most investment in 2025 comes from capital-intensive industries, which will take time to yield returns and raise revenue to levels comparable with established industries.
- Still, the deceleration in revenue growth is what we should watch out for, as it could signal trouble for CAPEX realization if it keeps going.

# Improving profit margin and revenue growth may encourage investments

- Recent investments, especially in the corporate sector, are concentrated in industries such as industrial materials and IT-related infrastructures, where structural tailwinds (such as the government's push on industrial downstreaming and digitalisation) have allowed them to expand even in a climate of weak domestic demand.
- However, investments may start spreading more evenly in periods ahead, conditional on whether signs of firmer demand may continue to emerge.
- Indeed, several labour-intensive sectors, most notably food manufacturing, have begun to show stronger revenue growth, albeit a further recovery in household consumption may still be needed before producers and retailers can confidently improve their margins.
- The uptrend in utilisation rate (now 73.9%, up from 72.9% in Q1-25) may also signal a broad-based industrial expansion,** although the utilisation rate for the manufacturing sector (especially labour-intensive manufacturing such as textiles) remains low compared to the pre-pandemic level.

Chart 2.12 – YoY changes in capacity utilisation and profit margins, Q3-2025

Investments are still concentrated in capital-intensive sectors, but improving revenue outlook may encourage companies in other sectors to expand

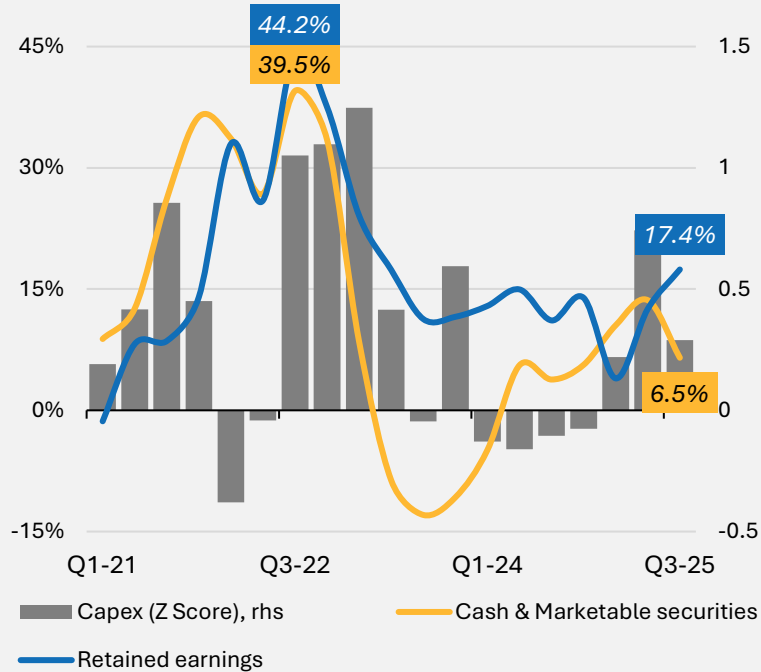


**Source:** Bloomberg, Bank Indonesia, BCA Economic Research. Bubble size reflects average asset size per company in the sample, used as a proxy on whether the sector is capital-intensive (bigger bubble) or labour-intensive (smaller bubble). \*Rubber, Paper, and other manufacturing

# Discouraging financialisation may help to boost real investments

**Charts 2.13 – Retained earnings growth**

The uptrend in retained earnings signify the corporate sector's ability to expand

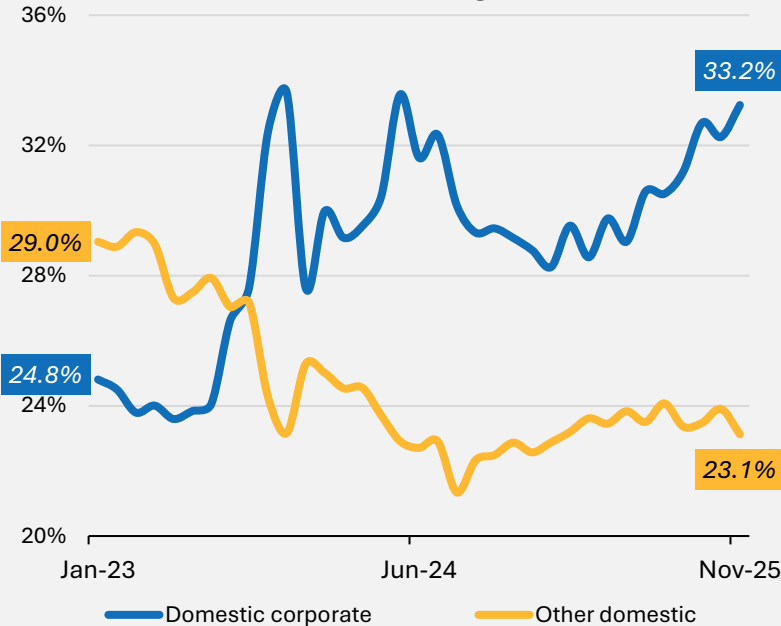


A negative Z-score merely indicates a slow down relative to the 2015-2025 trend. **Source:** Corporate financial reports via Bloomberg. BCA Economic Research

**Charts 2.14 & 2.15 – Corporate ownership of equities and sovereign bonds**

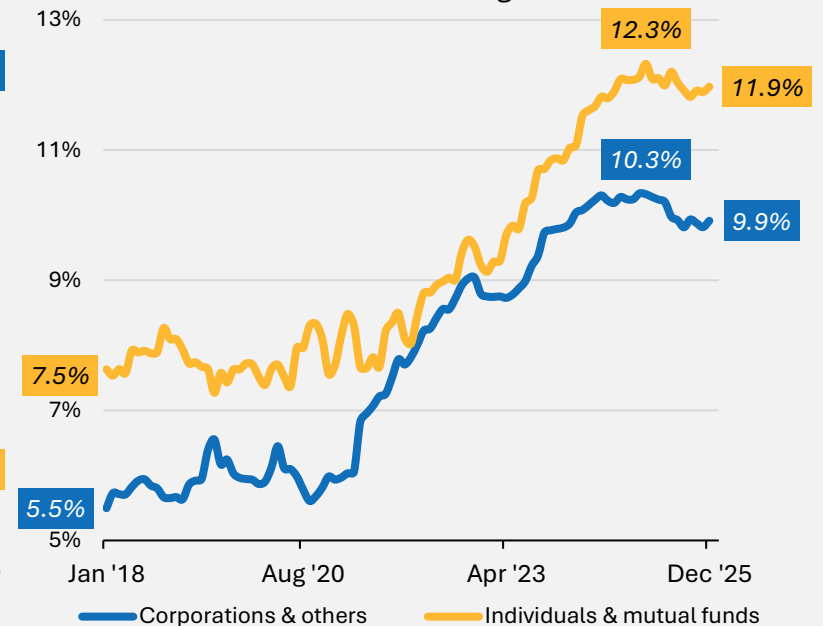
Still-uncertain conditions in the real sector discourage more widespread growth in fixed-asset investments in favor of portfolio investments. However, the now-lower returns on paper assets may help to reverse the trend

**Shares ownership, % of total shares outstanding**



**Source:** KSEI, BCA Economic Research

**Marketable SBN ownership, % of total SBN outstanding**



**Source:** DJPPR, BCA Economic Research

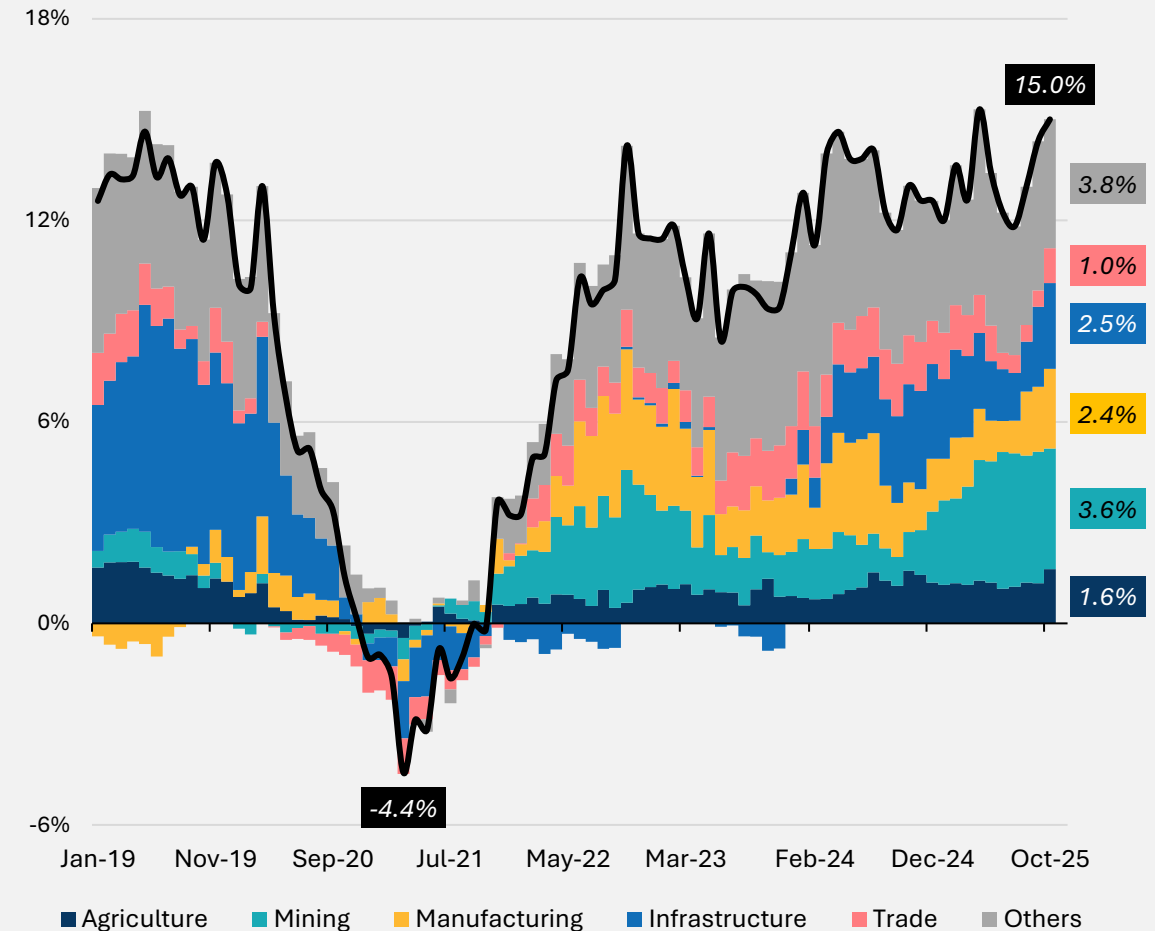
- Another encouraging signal for real investments is the steady rise in retained earnings, even though this balance sheet strength has not translated to a broad-based increase in investment. Instead, **companies have been channelling this excess liquidity into portfolio investments**, as financialisation emerged as a rational strategy when returns on paper investments are relatively attractive, while risks in the real sector appeared elevated.
- Discouraging excessive financialisation, then, may be a necessary condition for reviving real investments.** Alas, the transition may not be straightforward, as the expected higher supply of government debts and uncertain demand outlook may push yields to a more attractive level.

# Investment loans growth remains robust after contracting mid-year

- Investment loans growth have had a rocky start in 2025. Post Liberation Day, growth contracted as firms **adopted a wait-and-see attitude**, supported by the significantly lower global growth forecast.
- However, the trade war has quieted down compared to its crescendo in April. The US has announced a flurry of trade deals since then, with Indonesia's own deal announced in July.
- The government has also **increased its stimulus measures to counter the decline**. BI had also embarked on one of its longest rate cutting campaign, further supported with the government's liquidity injection.
- This surge in stimulus is expected to disproportionately benefit capital-intensive sectors, due to their higher capital expenditure requirements.
- We can see this plays out in the chart. Mining, manufacturing, and infrastructure growth has accelerated, while trade remains largely stagnant.
- This growth may reflect private businesses' response to public policy priorities, such as downstreaming. However, for investments to achieve sustainable growth, consumption and exports would need to be revitalised before government demand "runs out of fuel", considering Indonesia's limited fiscal space.

**Chart 2.16 – Investment loans YoY growth, contribution by sectors**

Investment loans growth have recovered from the slump post-Liberation Day, mainly driven in capital-intensive sectors.



**Source:** Bank Indonesia (headline growth figure differs from FCA publication)

# Part 3: Domestic demand conditions

Building on the LLM\*  
recovery

\*Late, limited, and modest

## Chapter summary

- **Domestic demand began to improve only late in the year**, as fiscal expenditures have only recently picked up following the stall in H1-2025, while tight lending standards mean that bank loans cannot be relied upon to cushion shocks to household purchasing power.
- Private consumption has improved relative to its nadir in Q3-2025. However, **recent improvements remain limited**, as household spending remains dependent on fiscal support or concentrated among better-off households.
- **Private demand may continue to grow at a modest pace**, as limited outlook for improvement in households' balance sheet means further recovery will depend on fiscal supports.

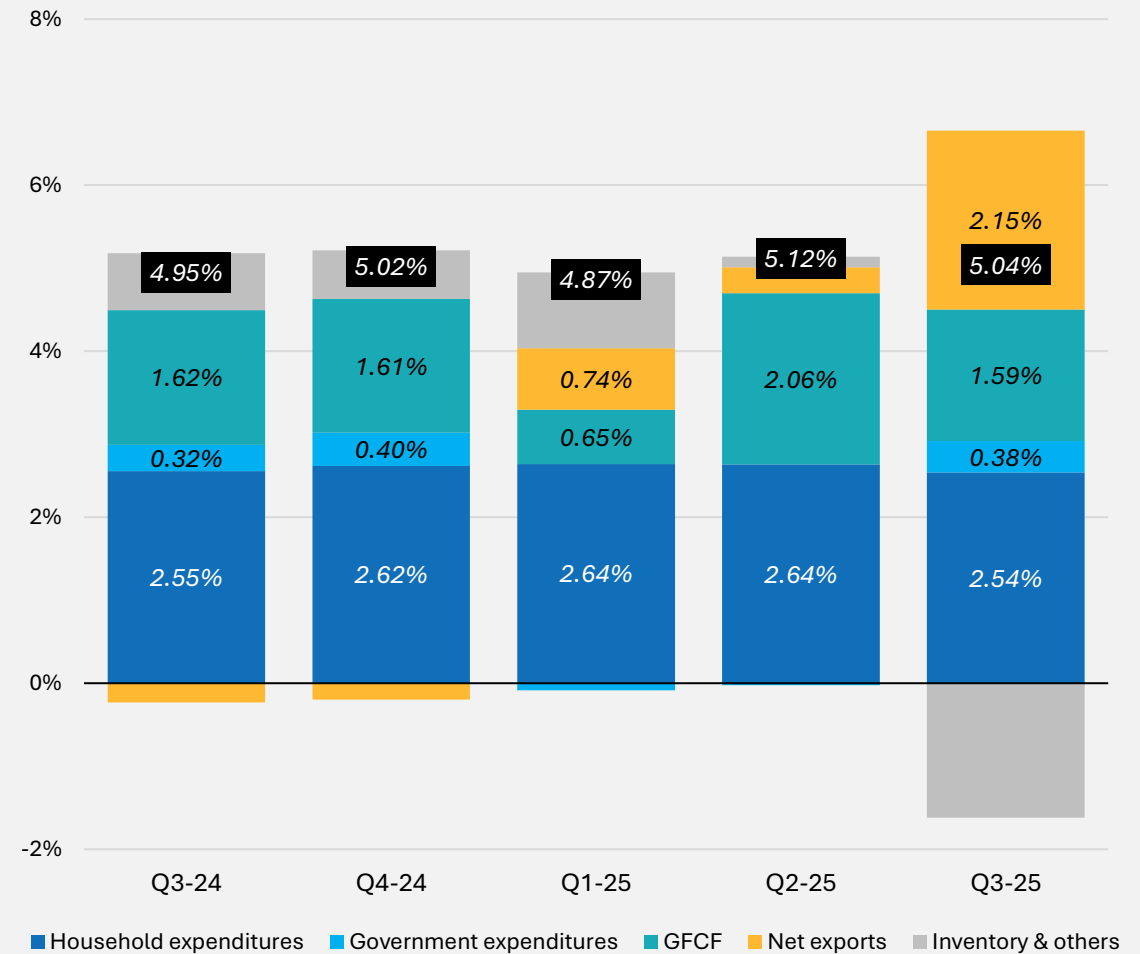


# Private consumption steadily weakened despite the stable GDP growth...

- Against all odds, Indonesia's GDP growth remained stable throughout 2025, with strong investment performance and higher net exports (due to lower imports) instrumental in keeping growth above the 5% threshold in Q2 and Q3 of 2025.
- **Beneath this resilience, however, private consumption continued to weaken.** The chart shows that household expenditures contributed progressively less to the GDP growth, evidence of a persistent fragility in consumer demand.
- **A key factor behind this weakness was the stalled disbursement of government spending early in the year,** which created a scarring effect. Many households rely on fiscal programmes and public-sector activity to stabilise income and maintain their consumption basket.
- Compounding these pressures, policy uncertainty has weighed on sentiment among businesses and households. The resulting cautious attitude has dampened investments and spending decisions, further restraining the recovery of private consumption.

Chart 3.1 – Real GDP YoY growth, by contributors

Household consumption contributes less to the GDP growth throughout 2025, while investments alternate with net exports to maintain the GDP growth above the 5% level.

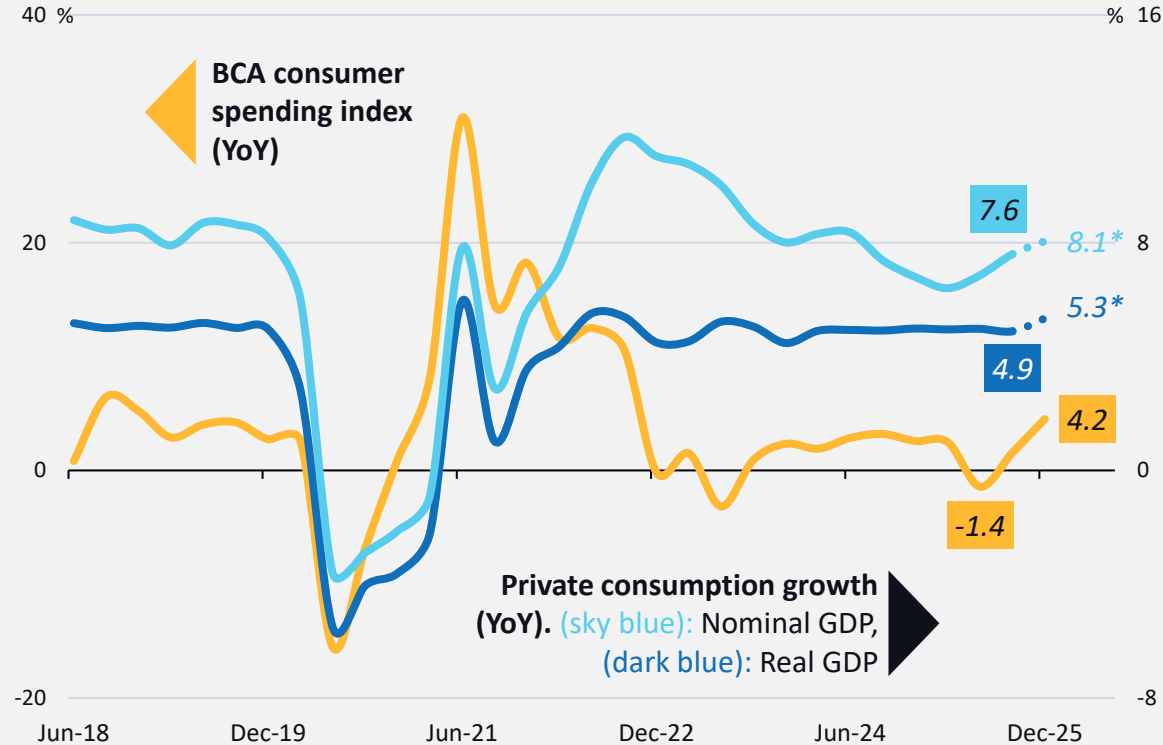


Source: Statistics Indonesia, CEIC

# ...thankfully, consumer transaction is picking up in Q4-2025

**Chart 3.2 – BCA consumer spending index and consumption nowcasts**

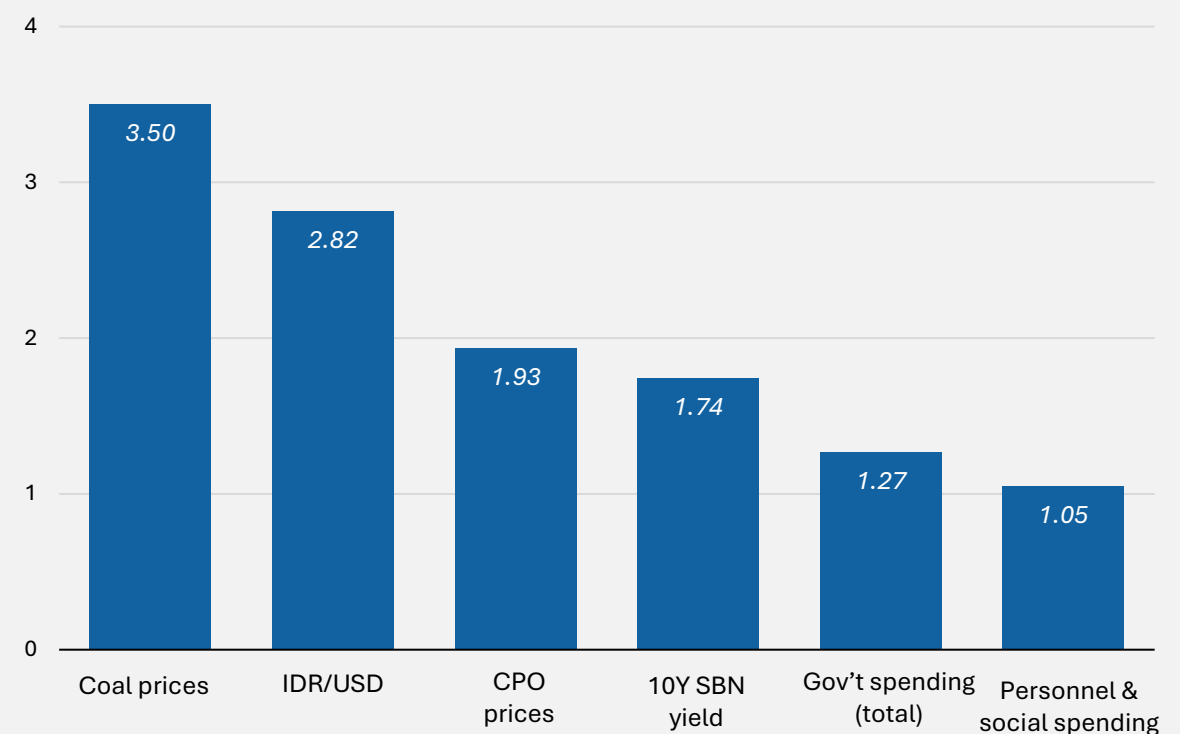
Consumer transactions are ticking up again in Q4-2025, partly due to government interventions although structural issues remains



\*Forecast number. Source: Statistics Indonesia, BCA Economic Research

**Chart 3.3 – Impact score\* on Indonesia's household consumption**

Coal and CPO prices are increasing relative to its April 2025 nadir, creating a spillover impact on households' consumption



Source: BCA Economic Research. \*Higher scores indicate more positive impact on household consumption growth

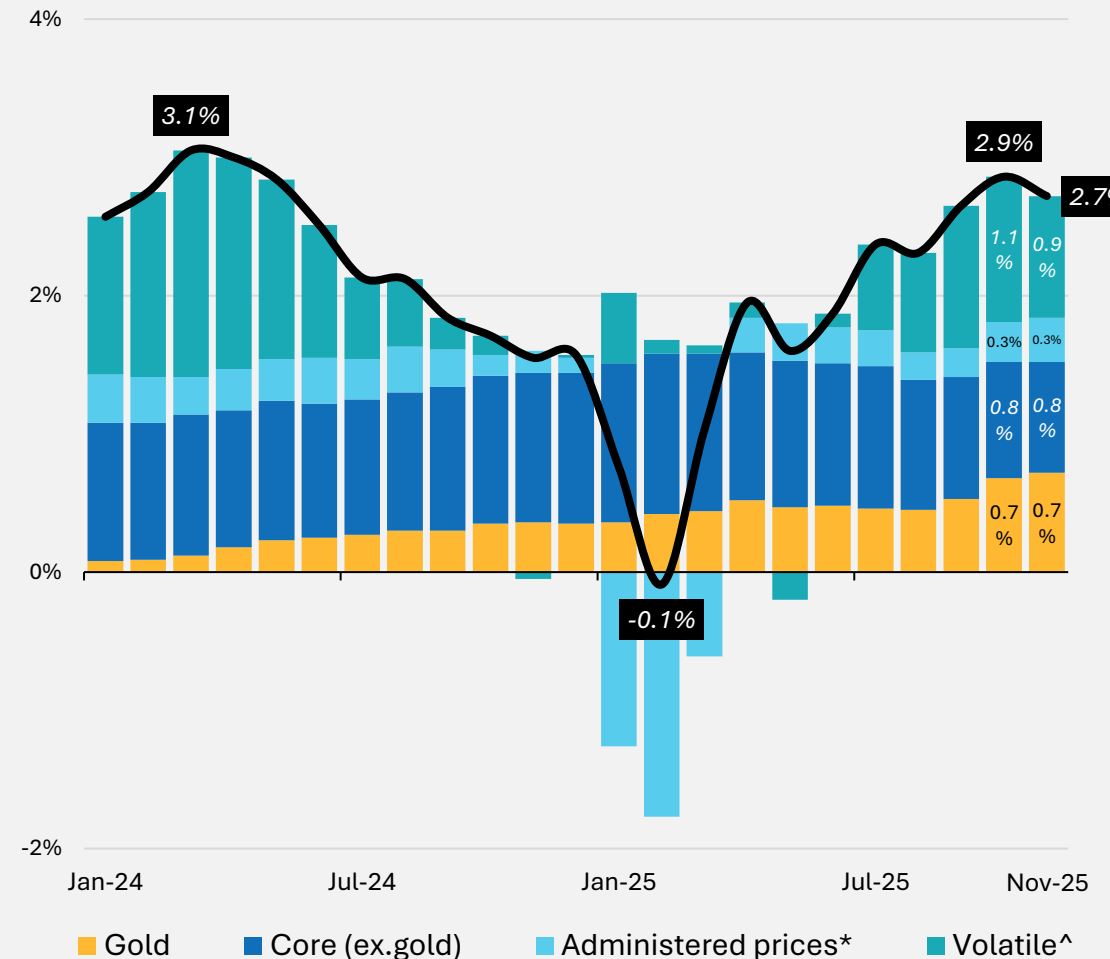
- Consumer transactions tanked amid the widespread unrest in late August 2025. Fortunately, **the unrest does not appear to have left a lasting effect on the economy, as evidenced by the recent pick-up in BCA's big data indices** (albeit the consumer spending data is skewed upward by higher demand for gold. *See p.58 for more detail*).
- Multiple factors explain the improvement in household consumption, including rebounding commodity prices (especially CPO) and a stabilising Rupiah. **The government's various ad-hoc interventions have also helped sustain consumption**, although their impact may be concentrated among the worst-off households.

# Stable inflation helps to steady households' purchasing power

- While inflation has been inching towards 3% amid rising gold prices, **the underlying inflation environment in Indonesia has largely benefited households.** Several consumption-oriented stimulus measures were designed explicitly to reduce the cost of essential goods, effectively increasing households' disposable income.
- At the same time, **efforts to boost domestic food production have given the government greater capacity to intervene through market operations**, helping to smooth volatility in food prices.
- **Alas, the spectre of inflation is still looming around the corner.** Wetter-than-normal weather conditions threatened to disrupt food production, while further expansion of the government's flagship programmes (such as the free nutritious meals and B50 fuels) will lift demand for foodstuffs and agricultural products. **Without adequate supply-side responses, these forces could rekindle inflationary pressures,** threatening households' ability to consume in periods ahead.

Chart 3.4 – ID CPI inflation (YoY, %), breakdown by components

Spiking gold prices overstated Indonesia's inflation reading, but a more valid threat may still come through rising food prices

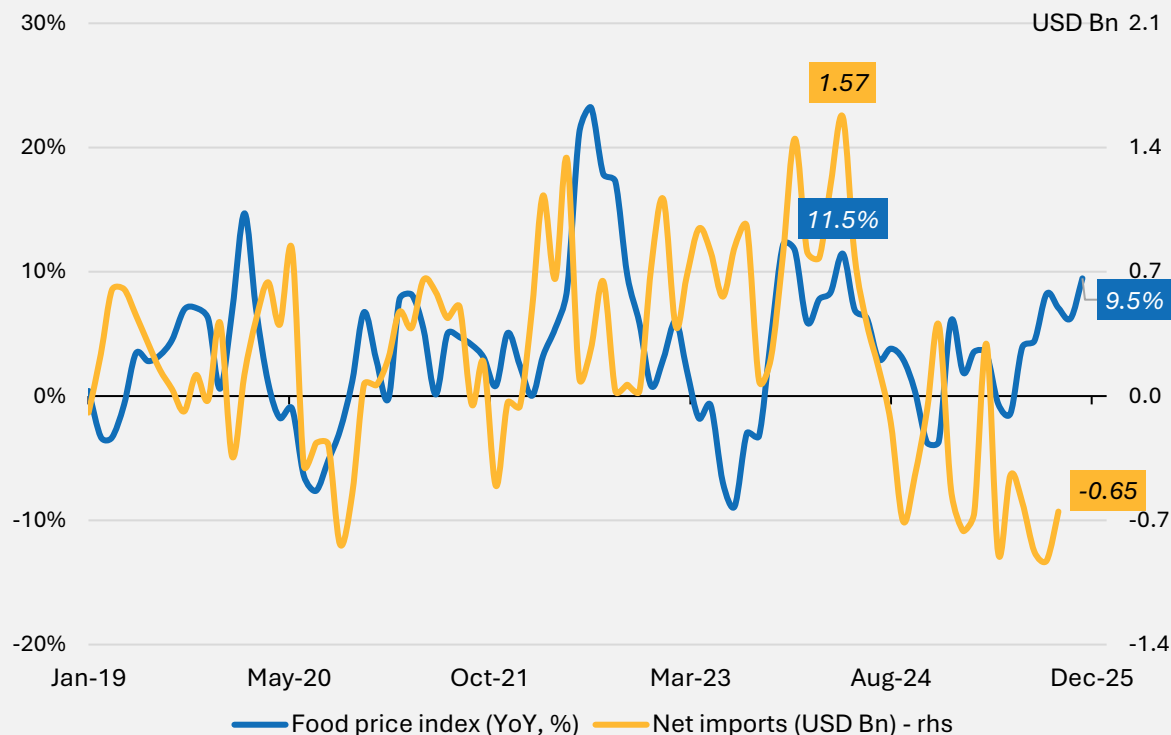


Source: Statistics Indonesia. \*Including fuels and electricity. ^Including foodstuffs

# Imports could be counted on to maintain domestic price stability

**Charts 3.5 – YoY changes in food price index and net food imports (M-X)**

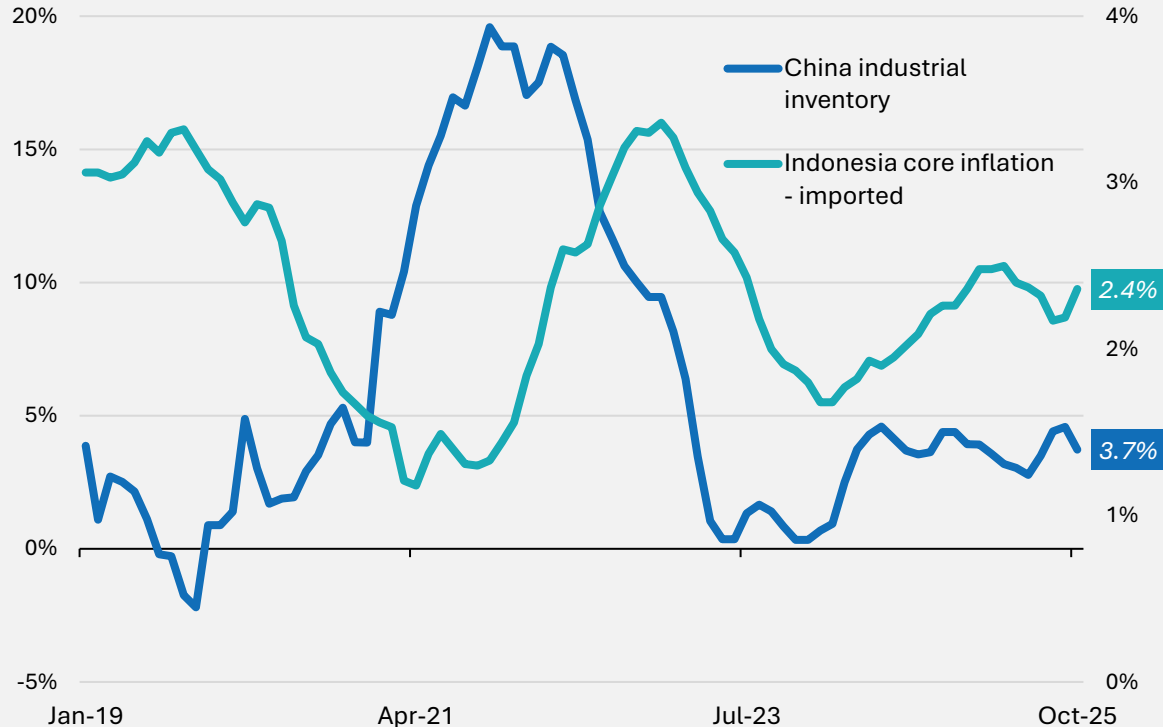
More sustained food price increase may force the government to loosen its food import restrictions



Source: BI, CEIC, BCA Economic Research

**Charts 3.6 – YoY changes in CN industrial inventory and ID core inflation**

Cheaper imports from China plays an important role in keeping domestic goods prices affordable, despite its adverse impact on domestic manufacturers



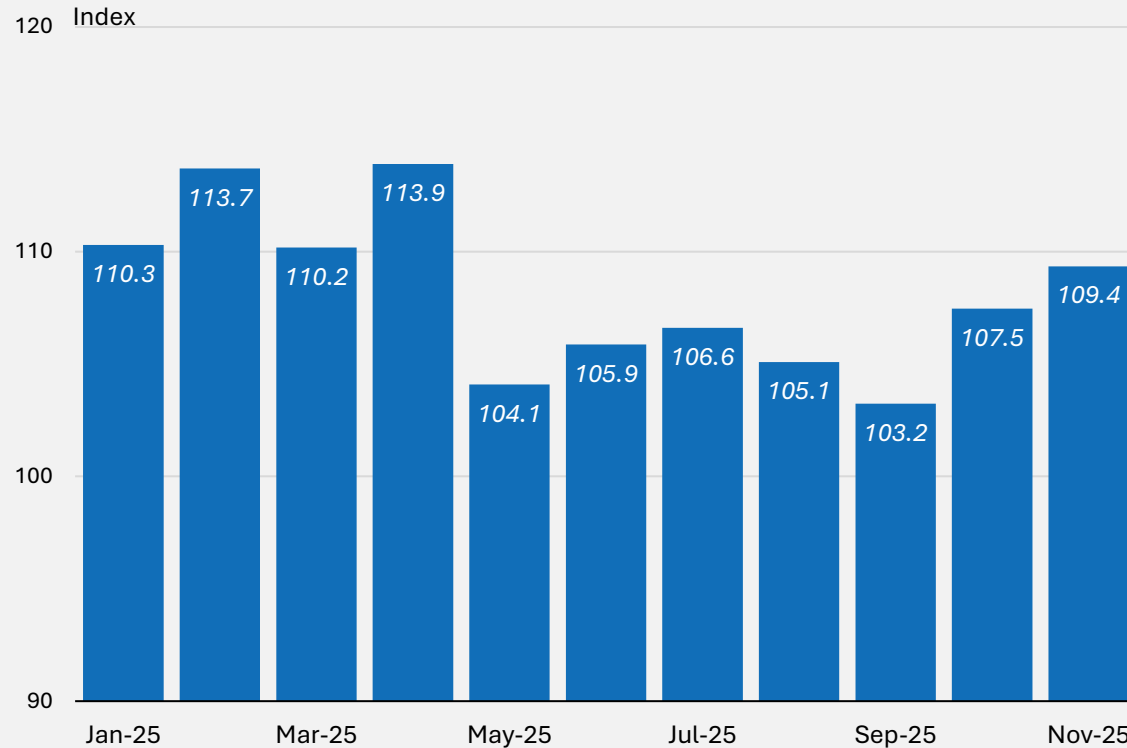
Source: China NBS, Statistics Indonesia, BCA Economic Research

- Despite the impending risks mentioned earlier, **strategic use of imports may help soften Indonesia's inflationary pressures in 2026**. While higher food production in 2025 has led the government to re-tighten its import regulations, a more persistent rise in food prices – potentially triggered by shocks to domestic production – has historically prompted the government to relax food import restrictions.
- Beyond food, Indonesia may also rely on a continued stream of cheap imported manufactured goods to help stabilise domestic prices**, given the lingering oversupply problem in China. However, while this pattern benefits consumers, sustained reliance on such imports may raise concerns for domestic producers.

# Households are getting confident in purchasing big-ticket items...

**Charts 3.7 – Consumer confidence index: Buying condition for durable goods**

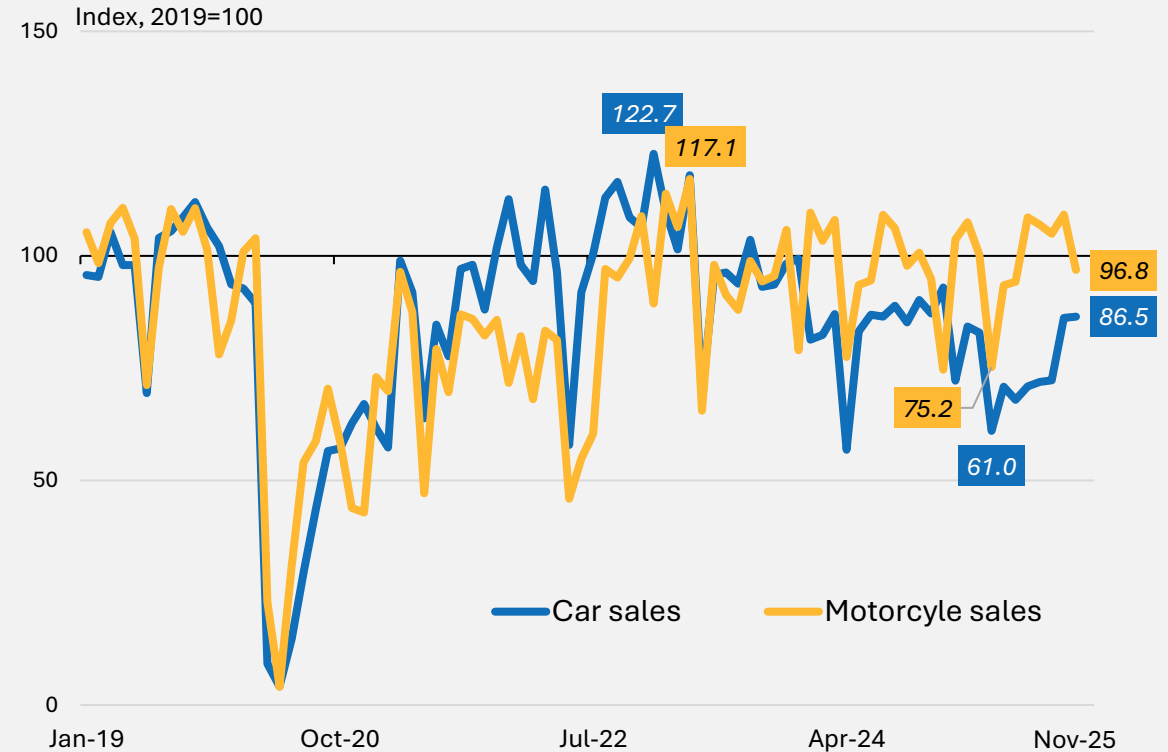
Households' confidence of purchasing durable goods starts to improve from its Q3-2025 nadir



Source: Bank Indonesia

**Charts 3.8 – Vehicle sales (indexed)**

Recovering demand for small cars (<1500 cc) push car sales higher, while motorcycle sales have improved earlier thanks to rising commodity prices (CPO)



Source: Gaikindo, AISI, CEIC

- **The improving outlook for private consumption is further reinforced by households' growing confidence in purchasing big-ticket items**, with vehicle sales providing a vivid example. Indeed, car sales are narrowing the gap with motorcycle sales, the latter having rebounded earlier on the back of recovering commodity prices.
- However, as shown in the chart, household confidence has not fully recovered. Car sales have been driven primarily by mid-sized vehicles, while **the continued downward trend in LCGC sales portends lingering weakness among aspiring middle-class households**.

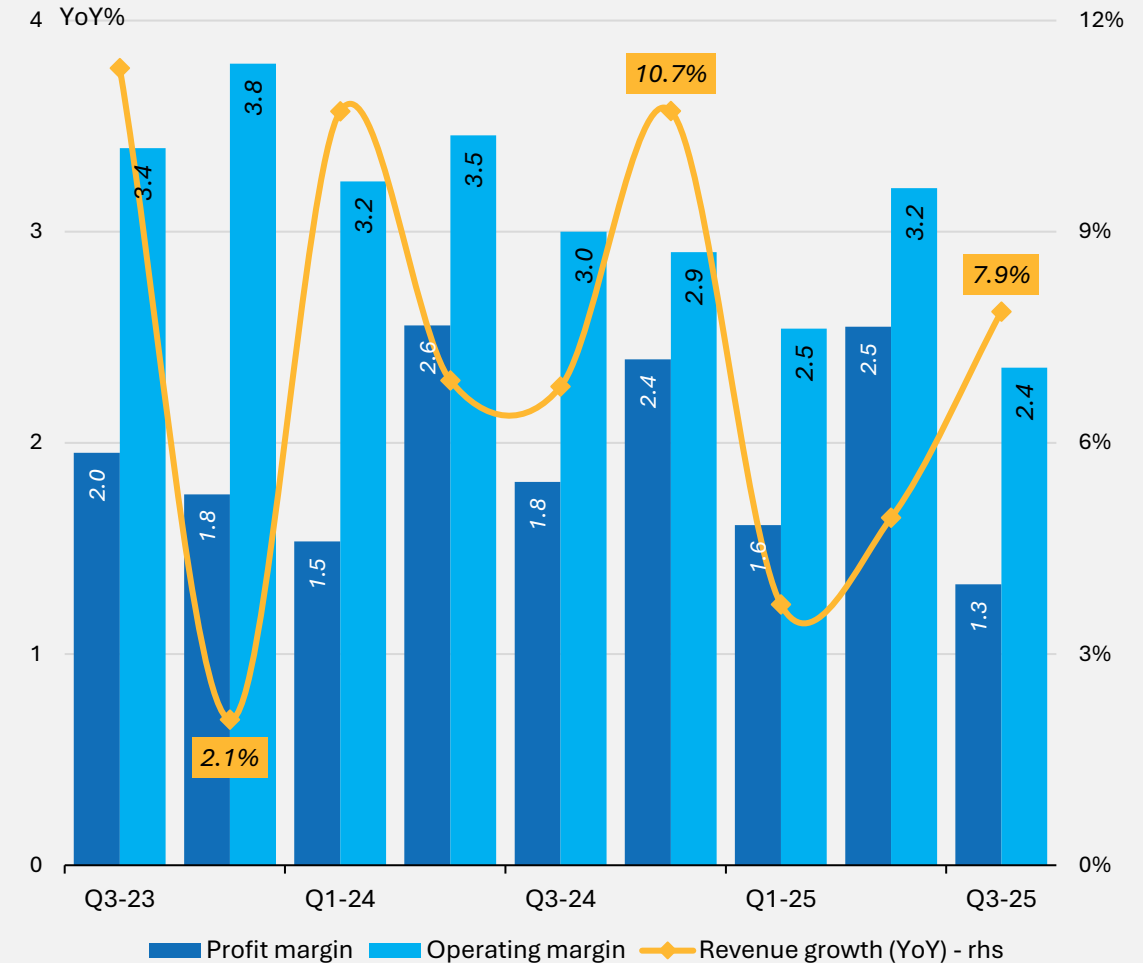


# ...however, businesses are still wary of passing costs onto customers

- At the same time, our readings on the latest corporate financial data reveal that domestic trading companies continued to face pressure on profitability in Q3-2025. Both operating and profit margins declined further, underscoring **the difficulty businesses face in passing higher costs onto consumers**, given that household demand has not fully recovered.
- In other words, even as transaction volumes have inched upward, **consumers appear increasingly price-sensitive**, forcing retailers – especially in food and consumer goods – to compete on price rather than expand margins.
- **This erosion of margins signals that the recent improvement in consumption remains fragile**, as households' consumption is still vulnerable to price shocks or any further weakening in demand conditions. The still-fragile demand condition led businesses to remain cautious in their pricing strategies, as the broader consumption outlook continues to rely heavily on accommodative fiscal policy measures.

Chart 3.9 – Corporate financial data, food and other retailers

Food and consumer goods retailers took another hit on their profit margin, as uncertain demand condition force them to compete on price



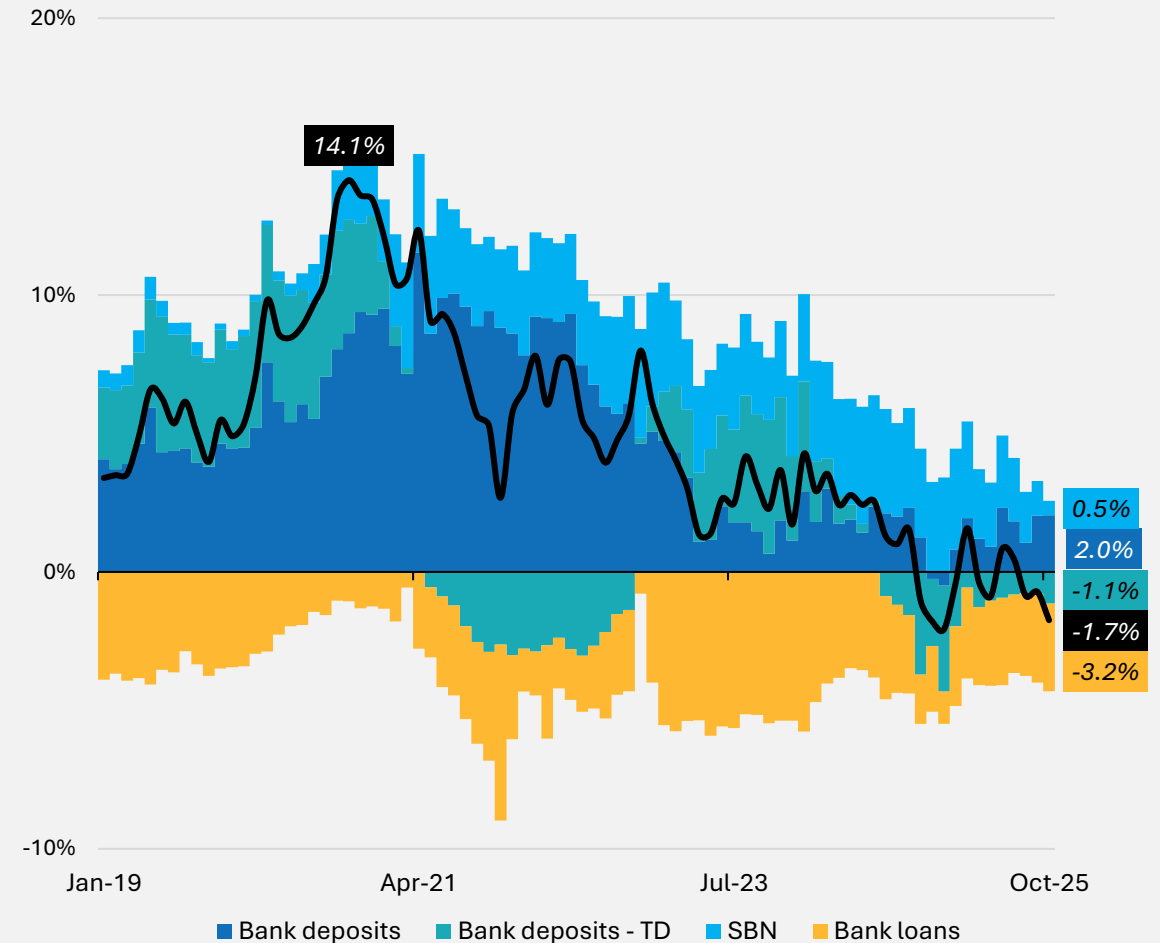
Source: Corporate financial report via Bloomberg, BCA Economic Research

# Liquidity conditions in the household sector have not meaningfully recovered

- One factor that continues to fuel households' anxiety about increasing their consumption rate is perhaps **the lack of significant improvement in their liquidity condition.**
- Previously, we examined the SBN market to explain the negative growth in households' net bank balance, as attractive coupon rates prompted individual investors to shift their liquidity away from banks.
- However, households' appetite for SBN seems to have declined recently, as policy rate cuts and banks' more active presence in the SBN market have pushed yields lower, although returning SRBI issuance may draw banks out of the SBN market again.
- Despite that, **households' bank deposit growth has not shown a promising sign of acceleration**, indicating that lack of liquidity – coupled with higher demand for physical assets such as gold – is the factor behind the hitherto limited recovery in household consumption.

Chart 3.10 – YoY changes in net bank balance, household sector

Households' deposit growth remains stagnant while access to credits narrows, limiting the dry powder to sustain further increase in consumption

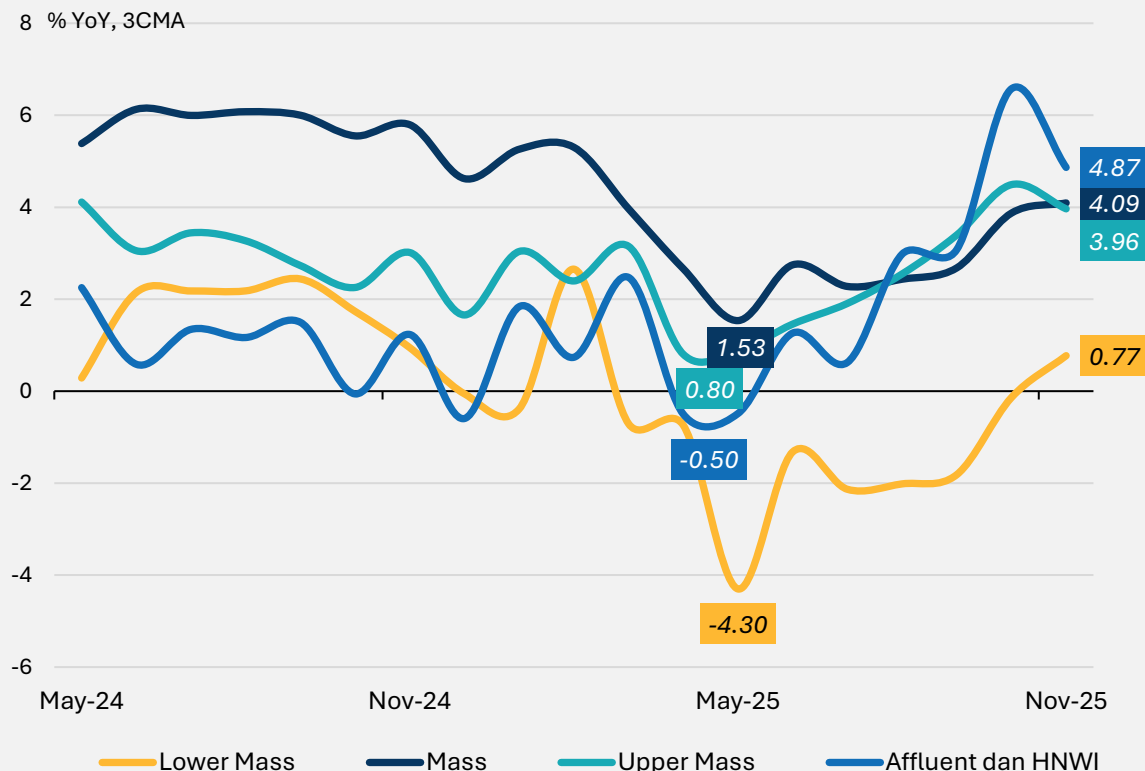


Source: BI, OJK, BCA Economic Research

# Consumption remains concentrated on better-off households

**Chart 3.11 – BCA consumer spending growth, contribution by segments**

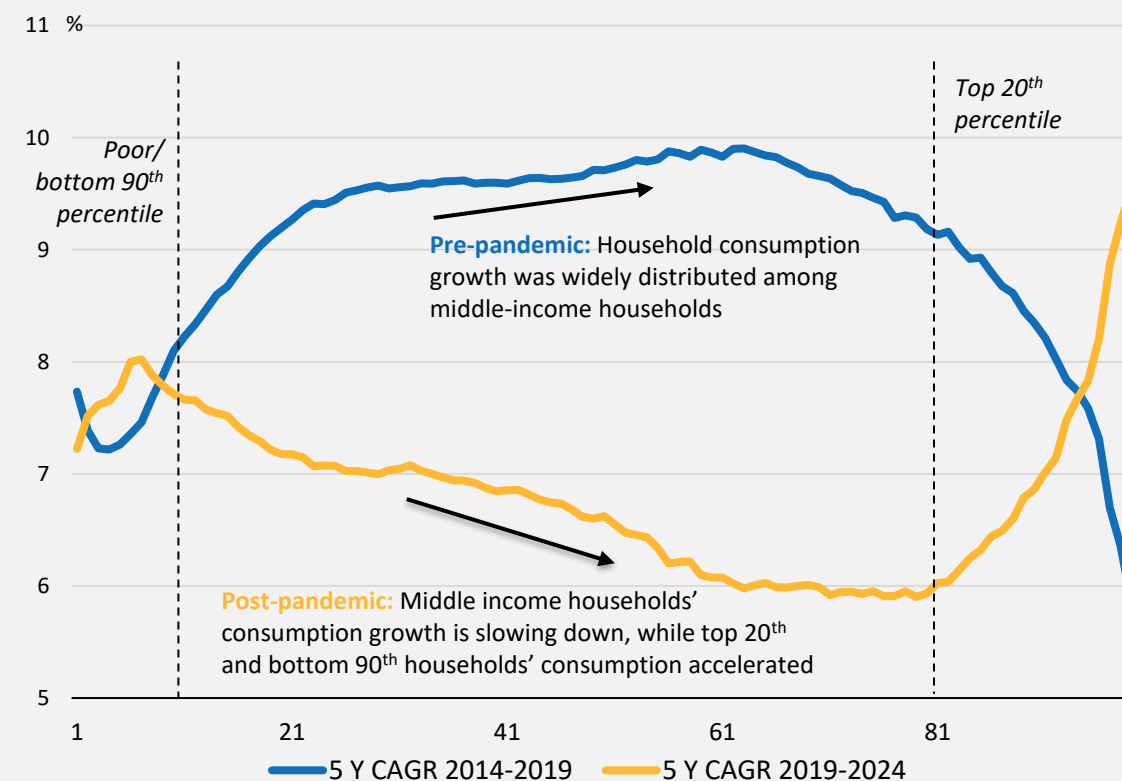
Household spending is primarily driven by the upper segment of the population



Source: BCA Economic Research

**Chart 3.12 – Consumption growth, per household consumption percentile**

The post-pandemic economic model benefits the upper-crest of the population



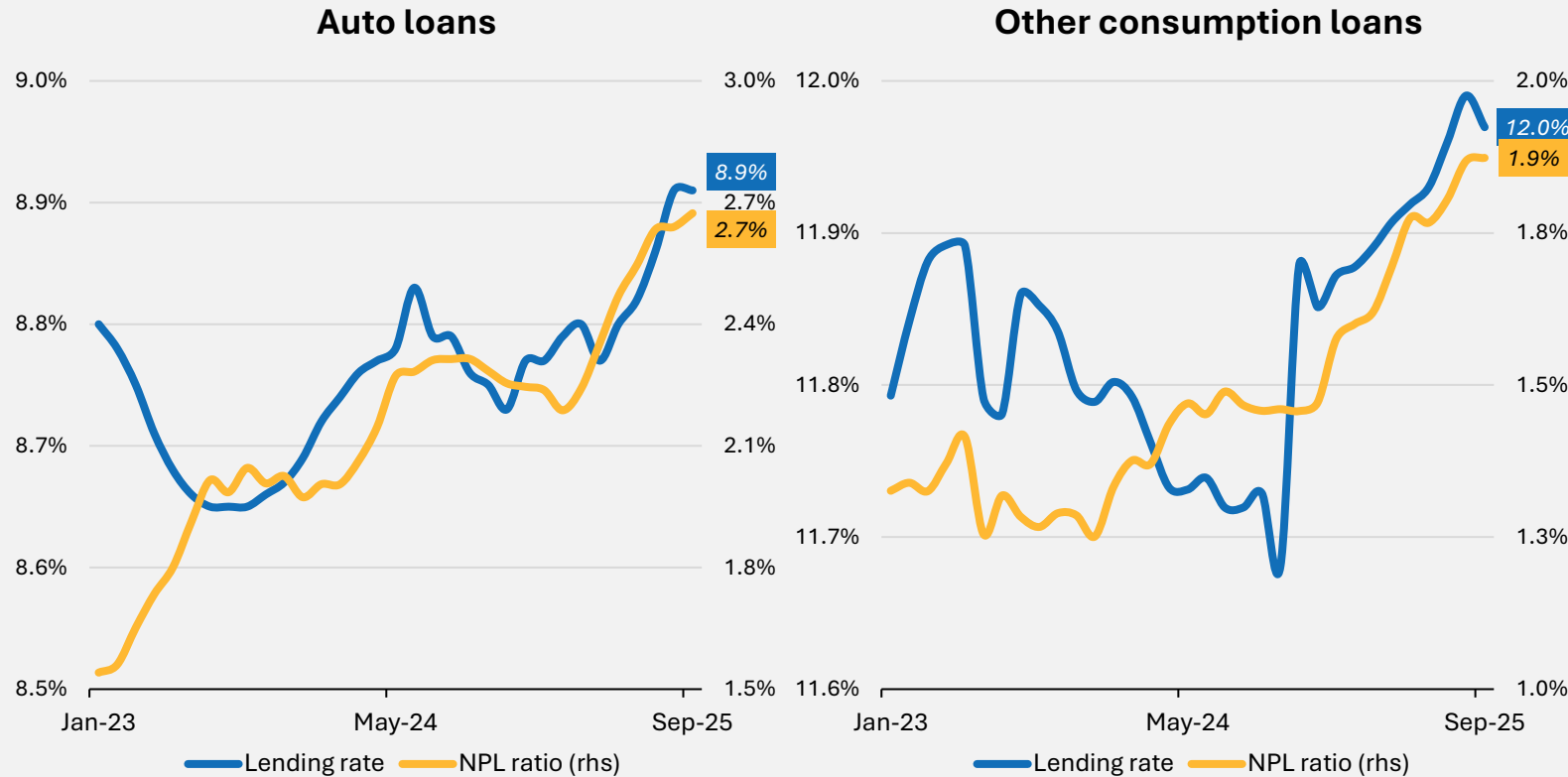
Source: Statistics Indonesia, BCA Economic Research

- Given the not-so-stellar liquidity growth, it is understandable that the recent recovery in consumption has not been broad-based. **BCA Big Data indicates that spending has been primarily driven by better-off households, which command over a significant chunk of liquidity must play a factor.** Meanwhile, consumption among lower-income groups has inched up as well, supported by the government's consumption-focused stimulus measures.
- The current trend highlights a significant departure from the pre-COVID trend, when consumption growth had been concentrated among middle-income groups.

# Elevated credit risks discourage banks to extend consumption loans

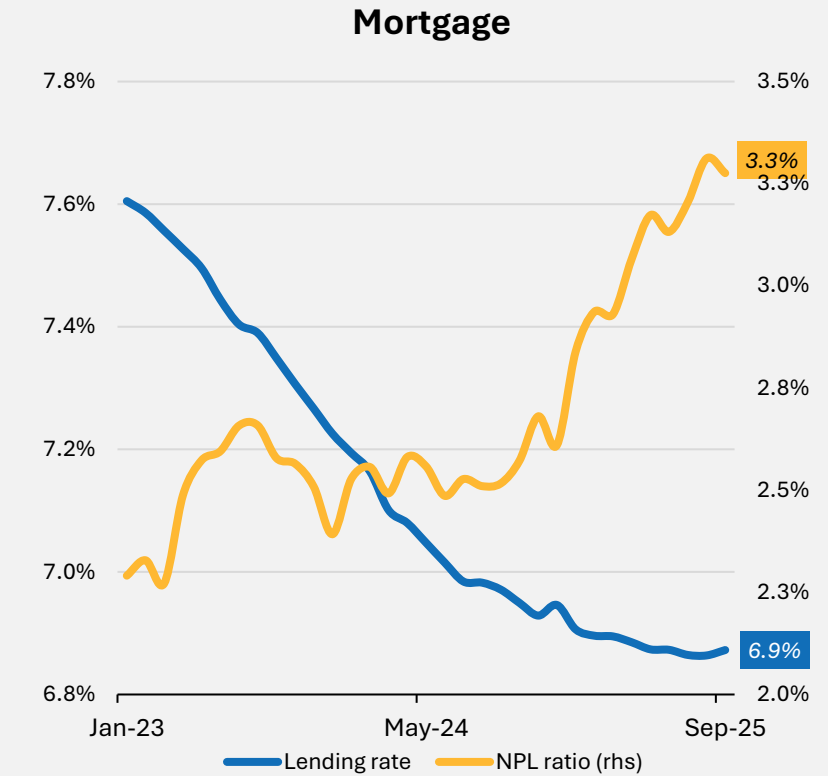
Charts 3.13 & 3.14 – Lending rate and NPL ratio for auto loans and other consumptive loans

Lending rates for auto loans and other consumption loans are rising despite banks' improving liquidity conditions



Charts 3.15 – Lending rate and NPL ratio for mortgages

Government interventions yanked mortgage rates lower



Source: OJK, BCA Economic Research

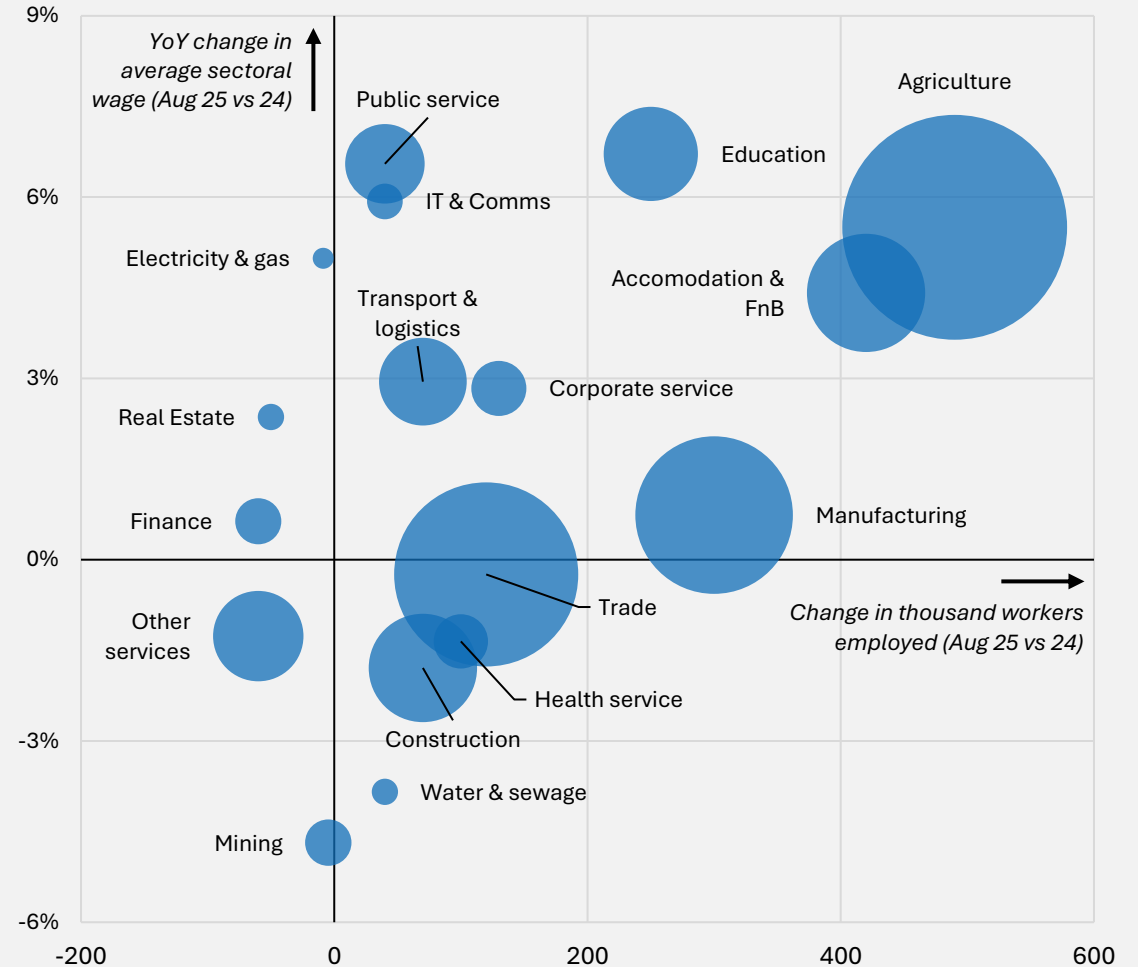
- **The widespread lament over middle-income households' inability to consume is made worse by banks' narrowing their access to credit.** Despite improving liquidity within the banking system, the elevated NPL ratio for consumptive loans discourages banks from lowering their lending rate, reducing demand for such loans.
- Meanwhile, guidance from the government has led to a lower mortgage rate, despite the similarly elevated NPL. Even so, **mortgage growth remains stagnant, as consumption patterns among middle-income households have shifted towards compensatory consumption.**

# The challenging labour market remains the crux of households' problems

- While the dearth of liquidity and the emerging trend of compensatory consumption – whereby households opt for more affordable “experiences” rather than unaffordable “assets” – help explain the limited growth in household spending, **greater attention must be given to the root cause of households' thinning wallets: the labour market mismatch.**
- The government has emphasised job creation as the centrepiece of its agenda, and the latest labour market data offer evidence of progress on this front. However, **these gains come with important limitations**, as many of the sectors showing the strongest labour growth typically offer lower wages.
- Compounding this challenge is the declining education premium observed in recent years, as **wage differentials between skilled and unskilled workers have declined.**
- Ergo, while job creation has improved, the structure and quality of employment – along with muted wage gains in higher-skilled sectors – may continue to put a question mark on household incomes and private consumption.

**Chart 3.16 – YoY changes in sectoral labour absorption and wages**

Agriculture becomes the sole major sector with above-average wage growth, underscoring the administration's focus on farmers' welfare



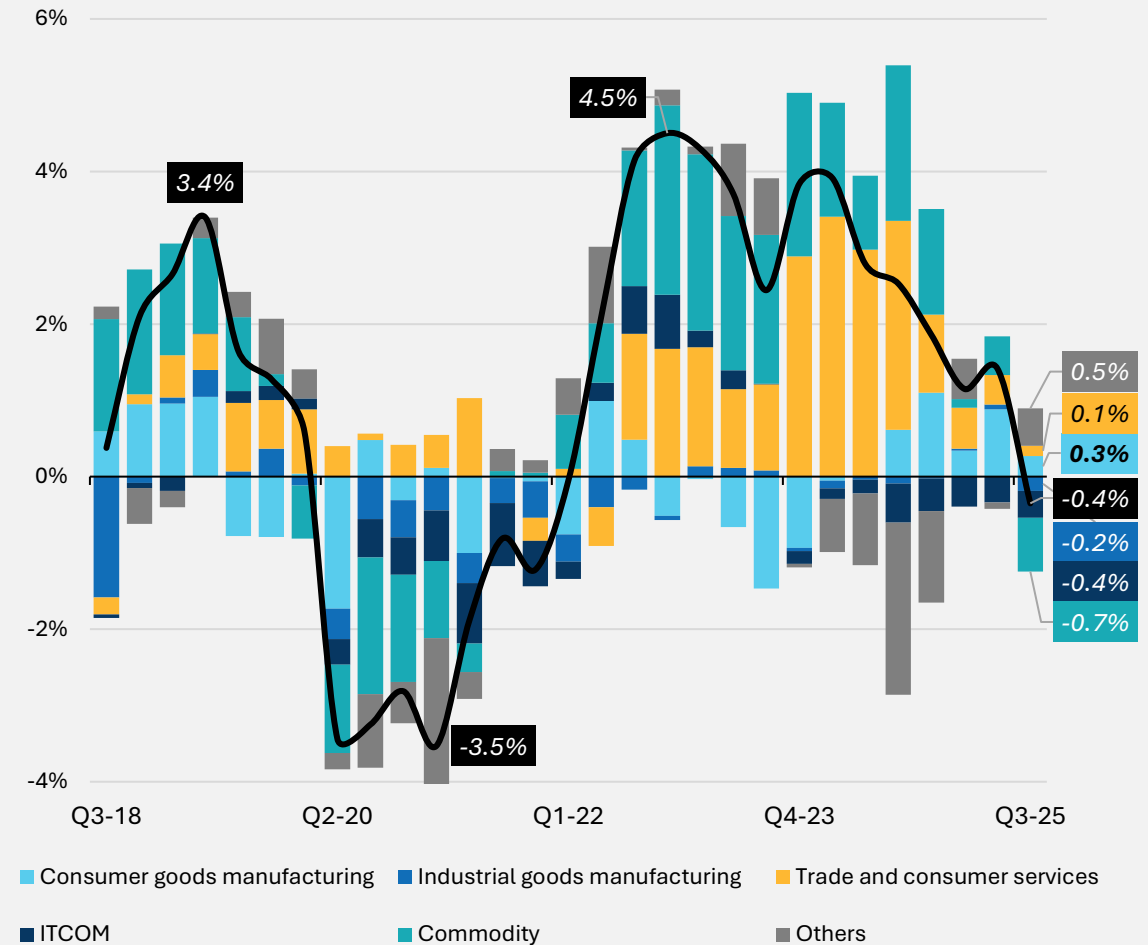
Bubble size indicates the size of active workers in each sector. **Source:** Statistics Indonesia

# Corporate sectors' hiring freeze further quashes the supply of “decent” jobs

- **The recession of decent jobs is particularly evident in the corporate sector.** Our observations of corporate financial data indicate negative workforce growth, driven by commodity-related industries (including base metals in our sample), which continue to grapple with oversupply conditions.
- As in the broader business sector, **corporate employment remain concentrated in trade and consumer services**, where relatively low wages offer limited support for household consumption.
- Other sectors that have continued to grow are predominantly capital-intensive, favouring specialised roles over broad-based hiring. As a result, demand has increasingly concentrated on high-skilled, premium talent, **while opportunities for mid- and lower-skilled workers have diminished.**
- This divergence deepens labour market segmentation, pushing many displaced workers into the informal sector, where job quality and income stability are significantly lower.
- This restraint risks prolonging the weakness in formal employment, **making the task of boosting household consumption structurally challenging.**

Chart 3.17 – Corporate sector workforce YoY growth, breakdown by sectors

Corporate workforce shrunk for the first time since the pandemic as commodity producing sectors shed workers amid the oversupply problem



Source: Corporate financial reports via Bloomberg, BCA Economic Research





# Part 4: Fiscal and monetary responses

**Walking side-by-side  
towards growth**

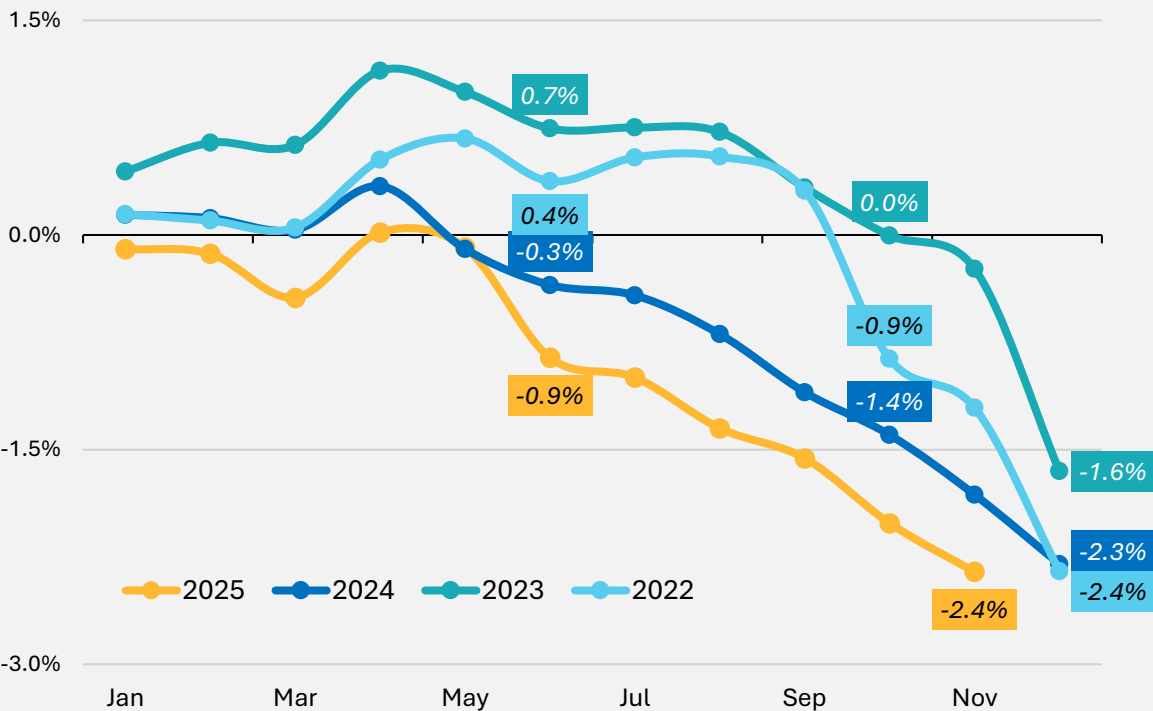
## Chapter summary

- **Fiscal support remains crucial but increasingly constrained**, as the government boosts flagship programmes to sustain demand while weak revenue and sizable interest costs strain fiscal space.
- **The expected higher debt issuance in 2026 amidst depleted cash reserves heighten fiscal and market risks**, with heavy reliance on domestic buyers and competition between SRBI and SBN influencing yields. BI's balancing efforts stabilise the Rupiah but may weaken efforts to accelerate loan growth.
- **Tighter FX regulations and capital controls aim to strengthen external stability**, yet may pressure banks' profitability and deter foreign investors. Despite stabilisation efforts, Indonesia's short-term vulnerabilities and limited structural improvements leave the Rupiah and financing conditions exposed.

# The government has been doing what it can to support consumption in 2025

Charts 4.1 – Primary balance, % of NGDP

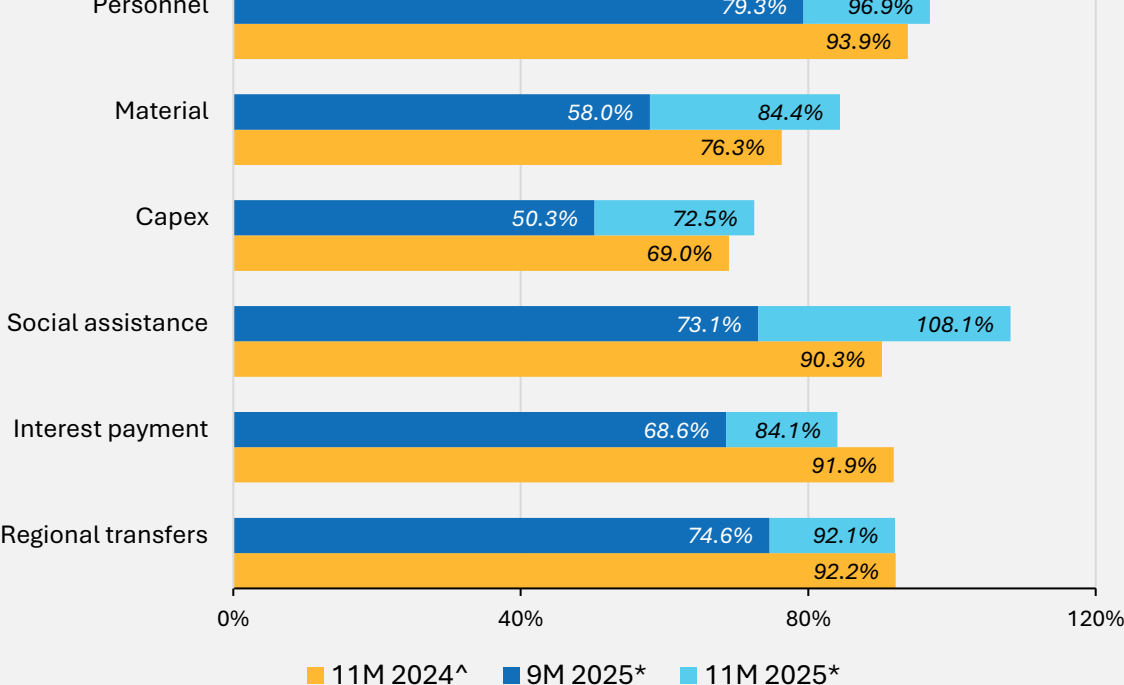
The government managed to bring its spending realisation largely back on track while revenue remains weak, which explains the deepening primary deficit



Source: Indonesia MoF, BCA Economic Research

Charts 4.2 – Fiscal spending realisation, as of November

The broad-based acceleration in fiscal spending is particularly noticeable since 9M 2025



Source: Indonesia MoF, BCA Economic Research. \*2025 realisation data is relative to the outlook as presented in Aug-2025. ^2024 realisation data is relative to 2024 LKPP

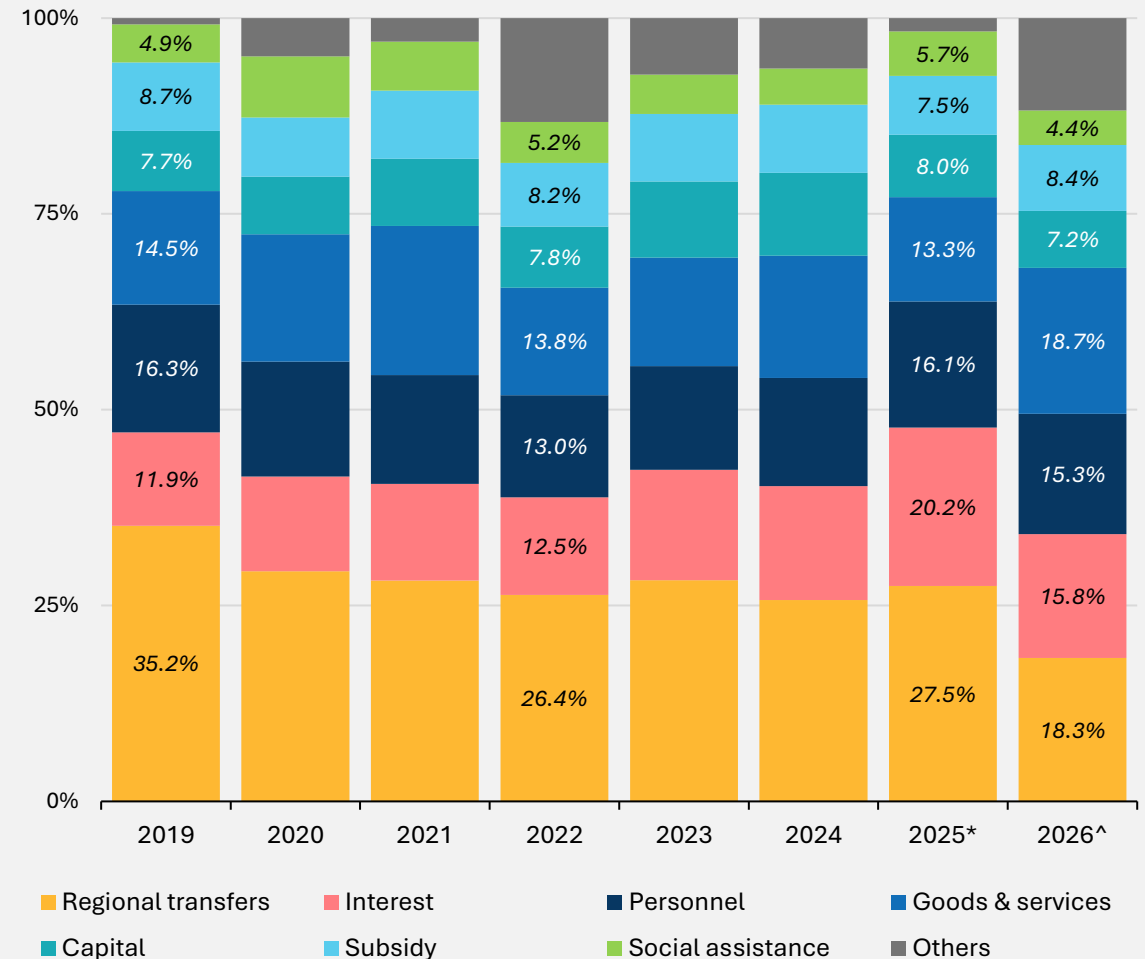
- Structural challenges in boosting private consumption, rooted in sclerotic household income growth, have placed the burden of supporting aggregate demand primarily on the government’s shoulders.
- This is evident in the government’s efforts to bring spending realisation back on track after the stall in H1 2025, particularly with respect to spending on social assistance.

# Priorities may remain directed to support consumption and flagship programmes...

- The government has signalled that strengthening household consumption will remain a central policy objective heading into 2026. **However, the declining share of social spending suggests that support may primarily come through the continued rollout of flagship programmes.**
- This shift is reflected in the rising allocation for goods and materials spending. Such spending not only underpins the government’s flagship initiatives but also feeds into domestic demand through higher purchases of locally produced goods and services, thereby sustaining aggregate demand growth.
- However, the government’s fiscal flexibility remains constrained, as reflected by the still-high share of interest payments on the total spending budget.
- To accommodate these rising obligations, the budget allocates a smaller proportion toward regional transfers, which may weigh on subnational governments’ ability to execute development programmes and support local economic activity.

**Chart 4.3 – Central government budget allocation, % of total expenditures**

The government looks to spend more on goods and services, signalling further rollouts of its flagship programmes



**Source:** Indonesia MoF, BCA Economic Research

\*) 2025 Budget Outlook

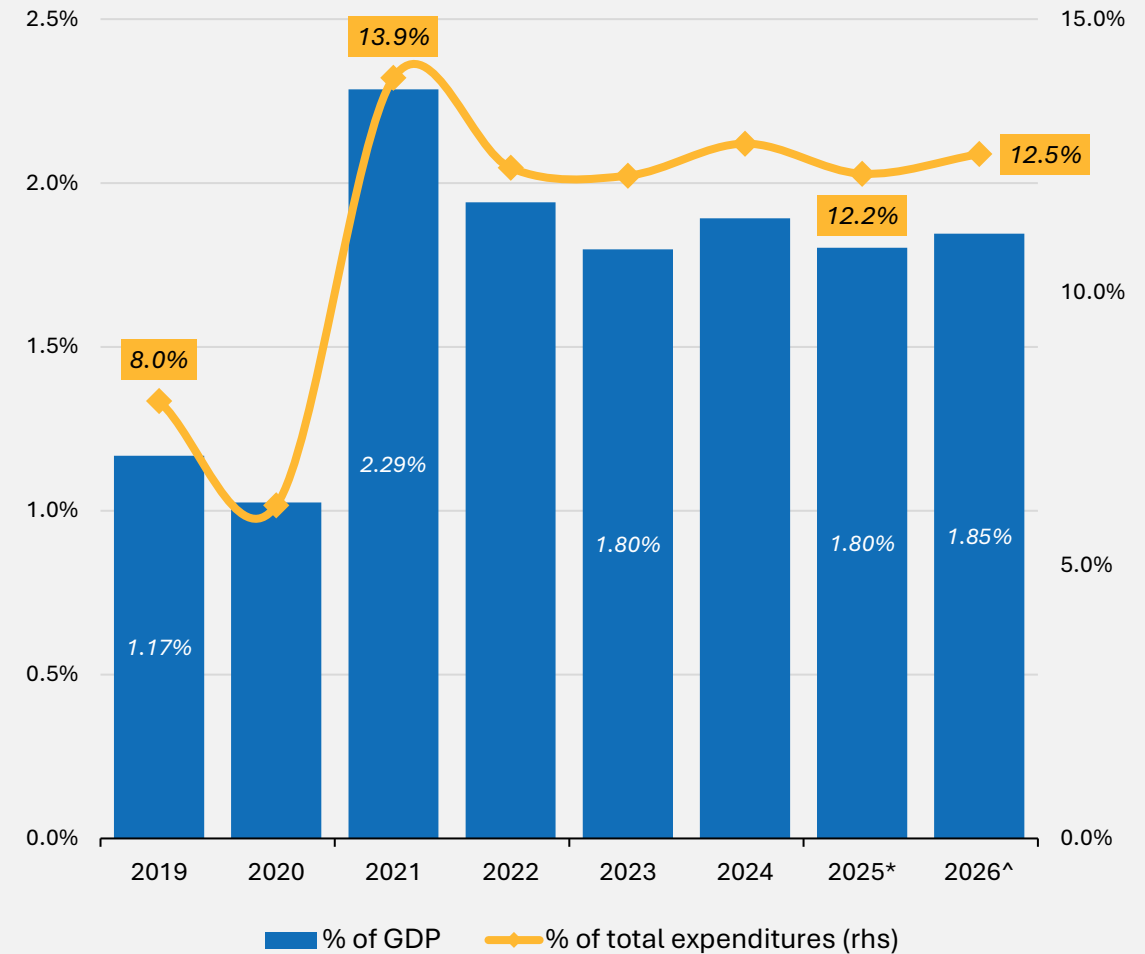
^) 2026 State Revenue and Expenditure Budget

# ...albeit non-programme spending\* remains high relative to the historical level

- Aware of its limited fiscal space, the government conducted a self-audit to trim non-essential expenditures and redirect resources toward priority programmes. While well-intentioned, the process stalled budget realisation, which in turn weakened economic momentum in the first half of the year.
- Despite the costly process, **the budget review may not leave a lasting legacy**. Indeed, central government non-programme spending is projected to rise again in 2026, leaving a non-lasting impact on spending discipline.
- Persisting non-programme spending underscores the difficulty of enacting durable fiscal reforms, particularly when spending commitments are deeply entrenched. The complexity of the budget review process – as evident with the central government – also helps explain the policy decision to reduce transfers to regional governments.
- Even so, the limited adjustments in the central government’s spending pattern still yield some benefits, notably by lowering the risk of another stall in fiscal spending realisation.

**Chart 4.4 – Central government budget: managerial support programme**

The impact of the budget review held in H1-2025 appears to be short-lived as non-programme spending is expected to increase again in 2026



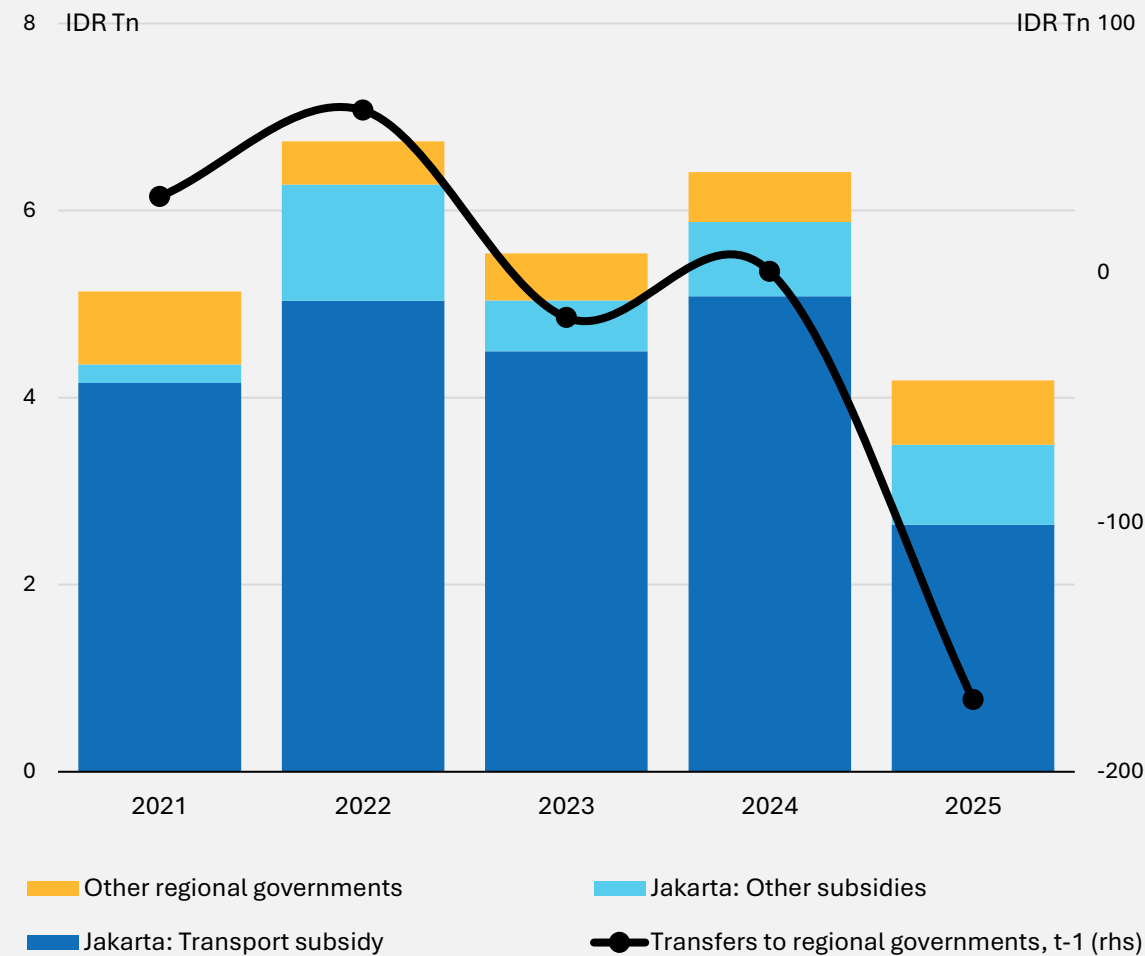
**Source:** Indonesia MoF, BCA Economic Research. \*Budget allocated for the managerial support programme.

# Weaker support for regional governments may impact households...

- The policy decision to pool more resources for the central government reflects the administration’s confidence in its ability to deliver growth through further rollouts of its flagship programmes. However, leaving state governments with limited resources may also lead to a problem.
- **The sharp decline in regional transfers projected for 2025 raises concerns about the capacity of state governments to sustain their discretionary spending**, including subsidies. While similar subsidies are less prevalent outside Jakarta, limiting the immediate nationwide fallout, the broader implications for household welfare cannot be ignored.
- As transfer revenues shrink, **regional governments may be compelled to seek alternative revenue sources to maintain essential services**. This pressure could manifest as higher local taxes, increased fees for utilities, or other service charges that directly affect household expenses.
- Such adjustments could erode purchasing power and offset some of the benefits from stable national inflation and central government consumption-supporting policies, underscoring the importance of coordinated fiscal policy across all levels of government.

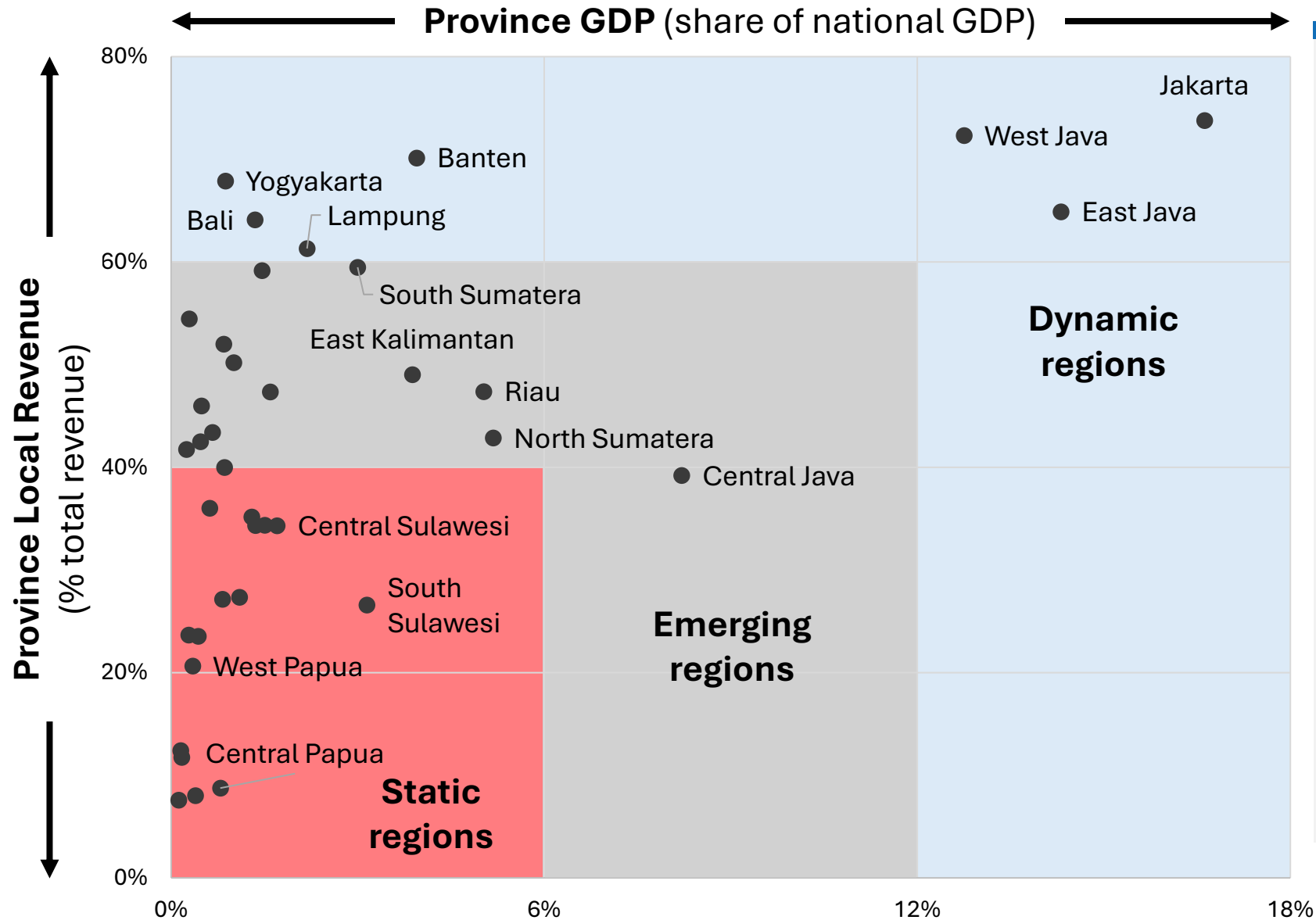
Chart 4.5 – State government subsidy spending & YoY changes to TKD

State governments often anticipate a decline in their transfer revenues by cutting discretionary spending commitments, such as subsidies



Source: Indonesia MoF, PPID DKI Jakarta, BCA Economic Research

# ...while economic gaps between regions may also widen



**Chart 4.6 – State government subsidy spending & YoY changes to TKD**

Lower transfers to regional governments mean that investments may become more concentrated in fiscally-independent regions, as stagnating regions lack the fiscal room to execute their development plan.

**Dynamic regions** are fiscally independent, populous, and are centres of economic activity.

**Emerging regions** are economically important but requires central government's support to expand.

**Static regions** lack the income base to expand and rely on central government support for day-to-day functions.

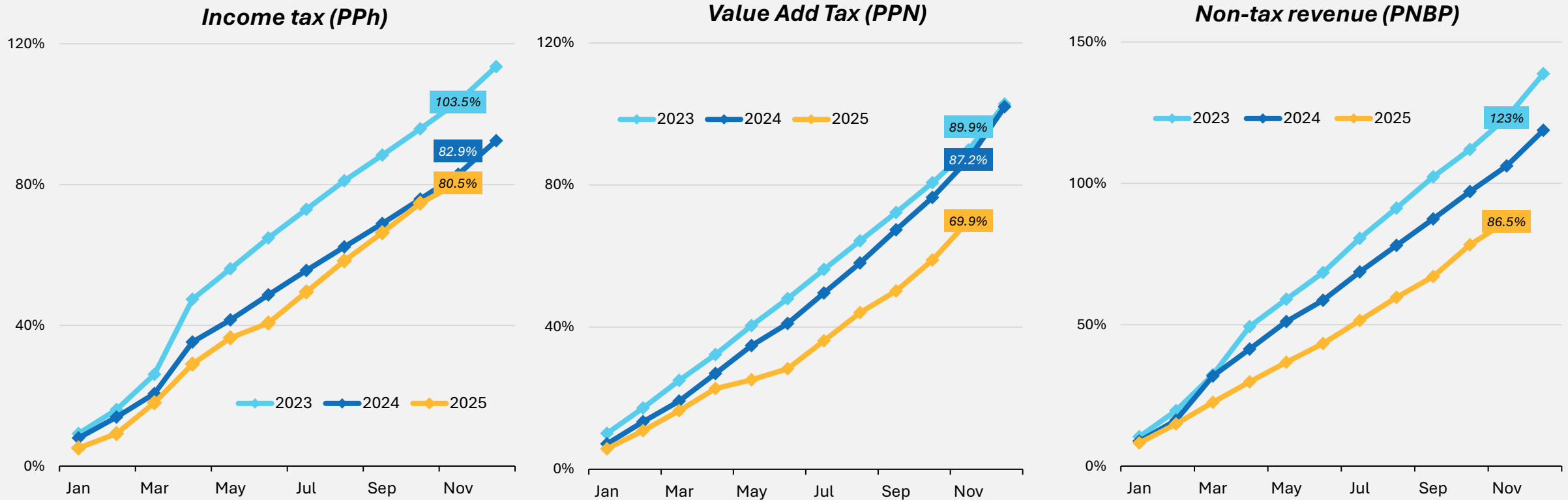
**Source:** Indonesia MoF, Statistics Indonesia, BCA Economic Research



# Soft revenue performance necessitates fiscal manoeuvres

Charts 4.7, 4.8 & 4.9 – State revenue realisation, % to annual target

Income tax realisation have recovered amidst the government's tax drive. However, lower commodity prices and consumption still left a void on the fiscal coffers



**Source:** Indonesia MoF. The 2025 realisation data is relative to the outlook as presented in Aug-2025, while the 2023-2024 data is relative to the target in respective years.

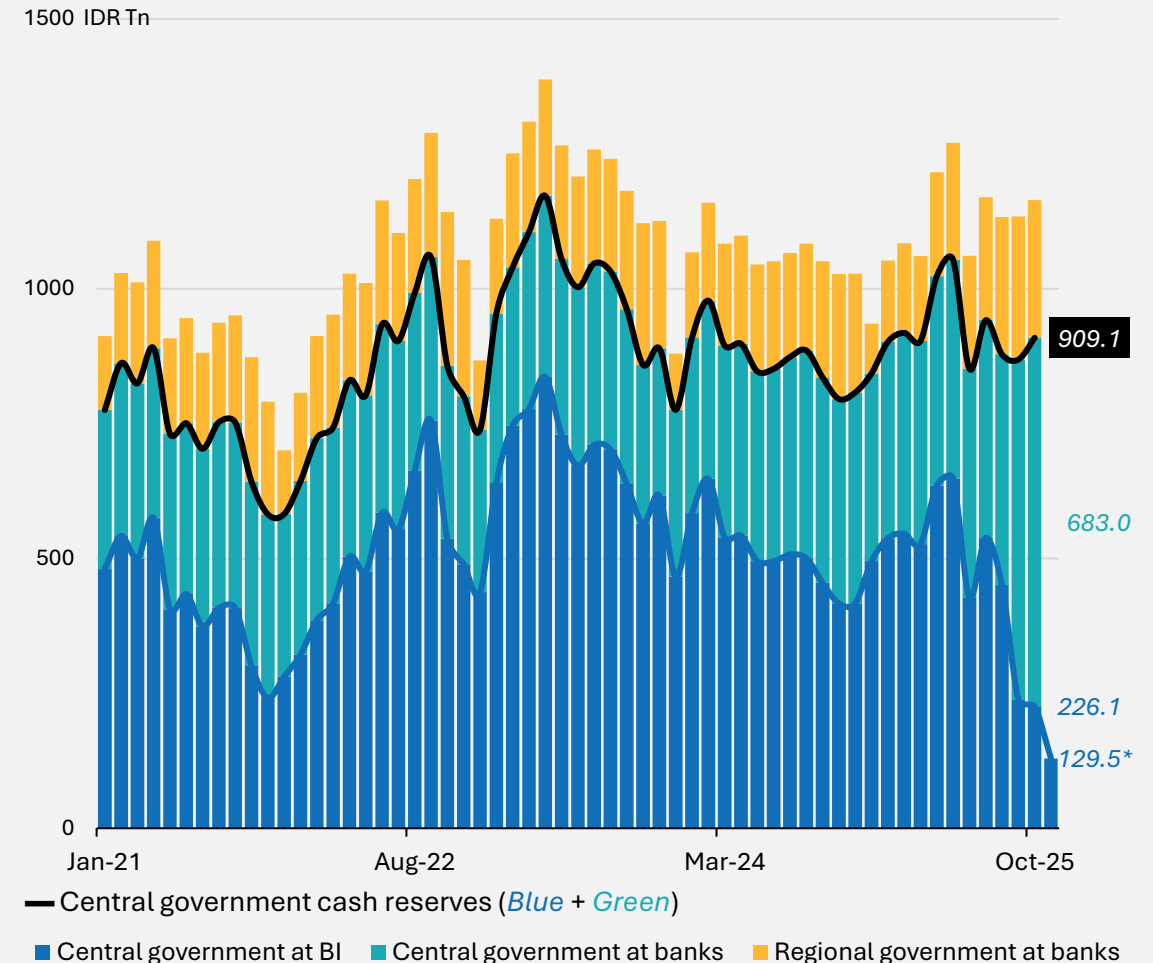
- Apart from its ambitious flagship programmes, **the central government's limited fiscal room is also a function of its weakening revenue performance.**
- Efforts may have been made to bring income tax revenue back on track. However, **persistent weakness in private consumption and soft commodity prices continues to leave a void in other revenue sources**, resulting in expectations of a deeper fiscal deficit – especially as subdued consumption also necessitates higher spending.

# The government has been burning through its cash piles in H2-2025...

- Indonesia's fiscal position came under increasing pressure entering the second half of 2025 as overall revenue collection failed to pick up, pushing the government into a deeper deficit. However, rather than leaning more heavily on bond issuance – which would have been costly amid elevated global yields and an already burdensome interest bill – **the government chose to finance the shortfall by drawing down its accumulated cash reserves.**
- Apart from covering the widening fiscal gap, the government have also decided to withdraw its cash reserves at BI to inject liquidity into the banking system, aimed to ease liquidity conditions and support credit flows at a time when domestic demand was weakening.
- Alas, **this strategy may not be replicable in 2026**, given the government's already low cash reserves at BI. While the government still have a sizable cash pile in the commercial banking system, withdrawals may lead to a negative liquidity shock, which will be unaccommodative for growth.

**Chart 4.10 – Central and state governments' cash deposits**

Softer revenue performance force the government to withdrew its excess budget balance, while half of the remaining savings were also transferred to banks to lower rates.

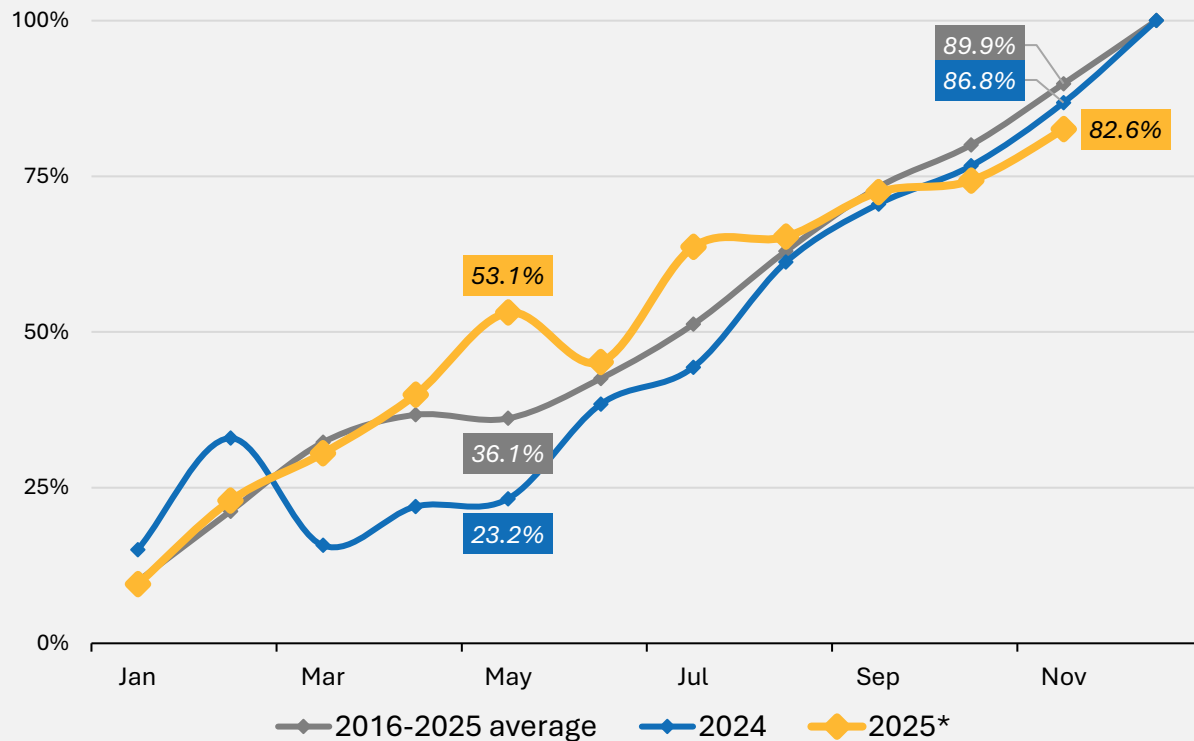


**Source:** Bank Indonesia. \*Data as of October 2025, other than BI's liabilities on the central government, which has been updated to November 2025

# ...which may prompt a quick return to the SBN market

**Charts 4.11 – YTD changes to the total SBN outstanding (% of annual changes)**

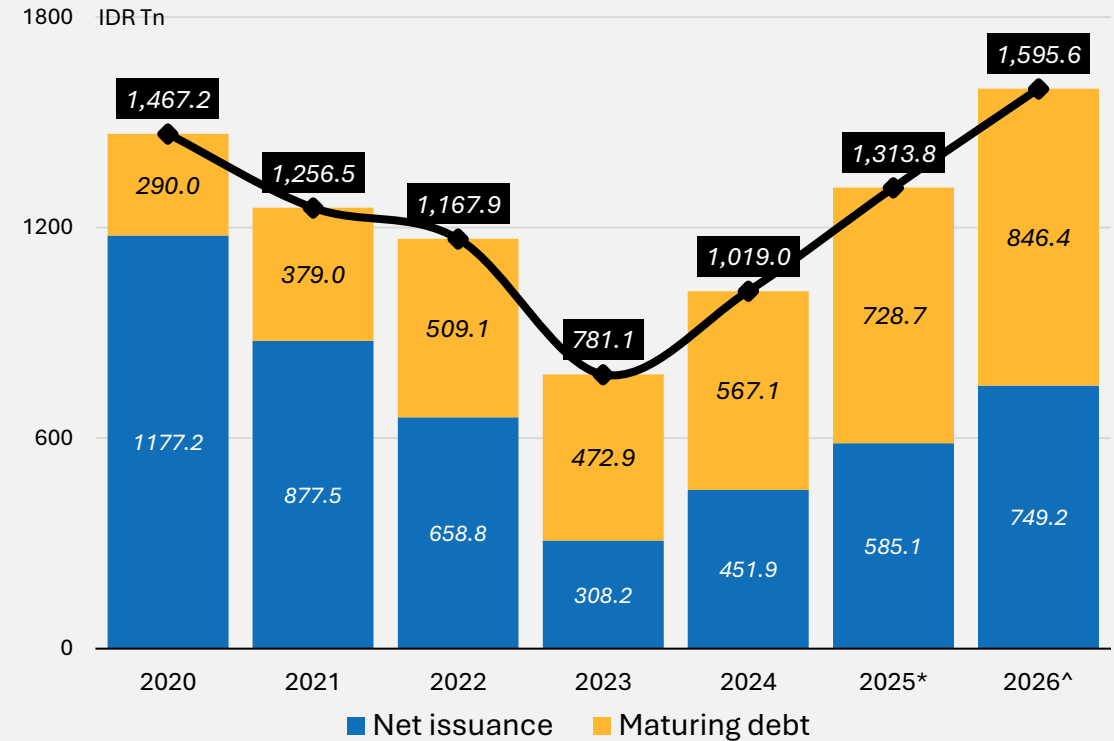
The government manages to slow down its SBN issuance in H2-2025, but the high spending needs early next year may force the government to front-load its debt issuance



Source: DJPPR. \*using 2025 net issuance outlook data

**Charts 4.12 – Annual gross debt issuance**

Maturing bonds and growing budget deficit may push gross issuance of sovereign bonds above the record-high 2020 level



Source: Indonesia MoF. \*Refers to the budget outlook. ^Refers to the 2026 net issuance target

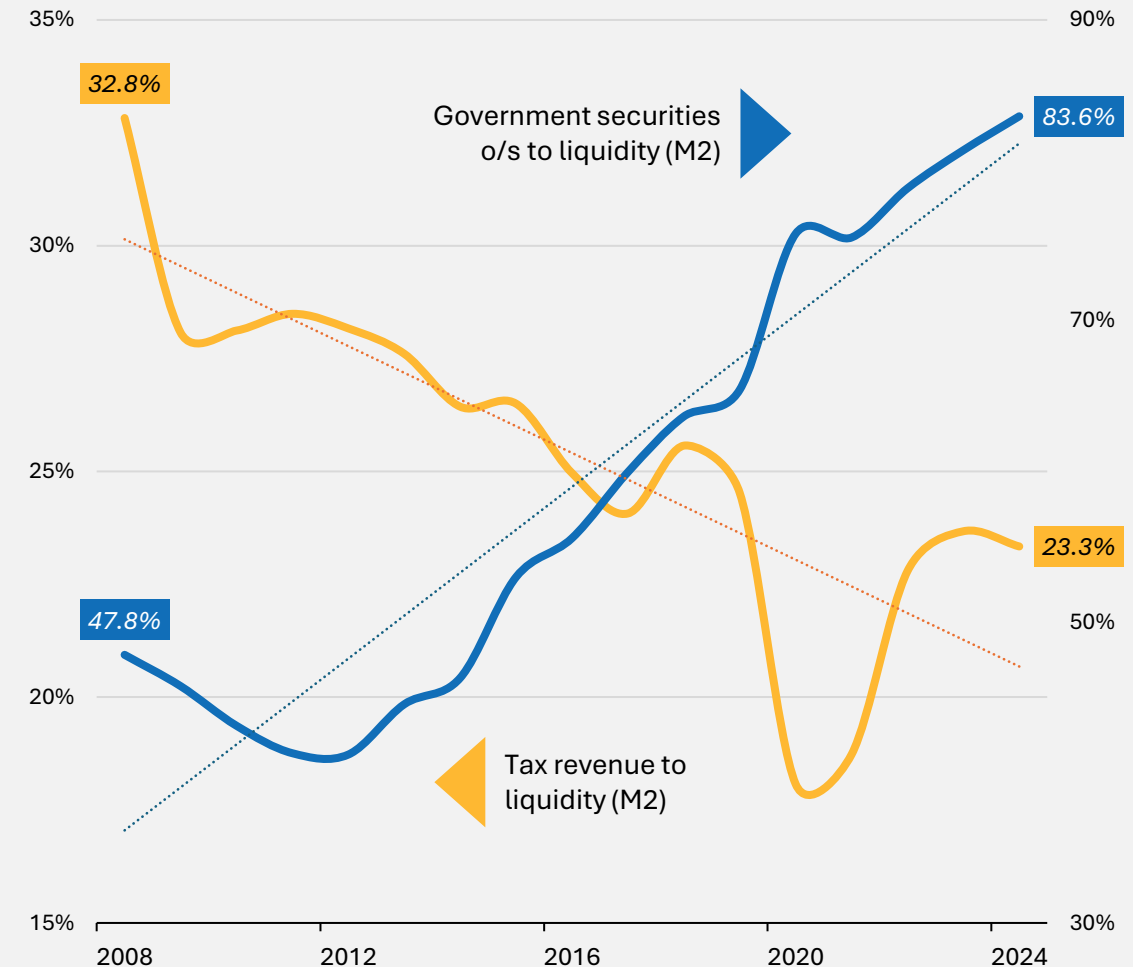
- The government has communicated their intention to issue more debt next year, considering its depleted cash reserves at BI. Beyond net issuance, however, a **significant amount of debt issued during the pandemic is also set to mature next year**, potentially bringing gross debt issuance to a new historic high.
- As such, **Indonesia's fiscal resilience will increasingly depend on delivering growth and improving revenue performance**, as doing so will help to maintain market confidence in debt sustainability heading into 2026.

# Debt-fuelled growth may not be the solution towards more sustainable tax base

- The domestic banking sector may feel less anxious about the expected higher debt issuance in 2026, as the government have shown precedent of parking its idle cash reserves in commercial banks (SOE banks).
- In this environment, public liquidity may thus play a dual role: first, by supporting the real economy through higher net fiscal spending, and second, by easing funding conditions and lowering lending rates.
- Yet, experiences in the past two decades underscore a structural concern. **While liquidity continues to be injected via the fiscal channels, such injections fail to expand the fiscal base.** The ongoing pattern of consumption-based spending may exacerbate this pattern, as focus on short-term consumption, rather than long-term investment, may not generate commensurate revenue growth to expand the tax base.
- The disconnect may also point to rising financialisation, which limits the ripple effects of public spending as some of the liquidity that trickles up may ultimately be absorbed by financial markets rather than channelled into real investment.

Chart 4.13 – SBN outstanding and tax revenue, % of M2 stock

Domestic liquidity has become increasingly reliant on government debt since BI's triple interventions, which has also weakened the transmission from liquidity to tax revenues.



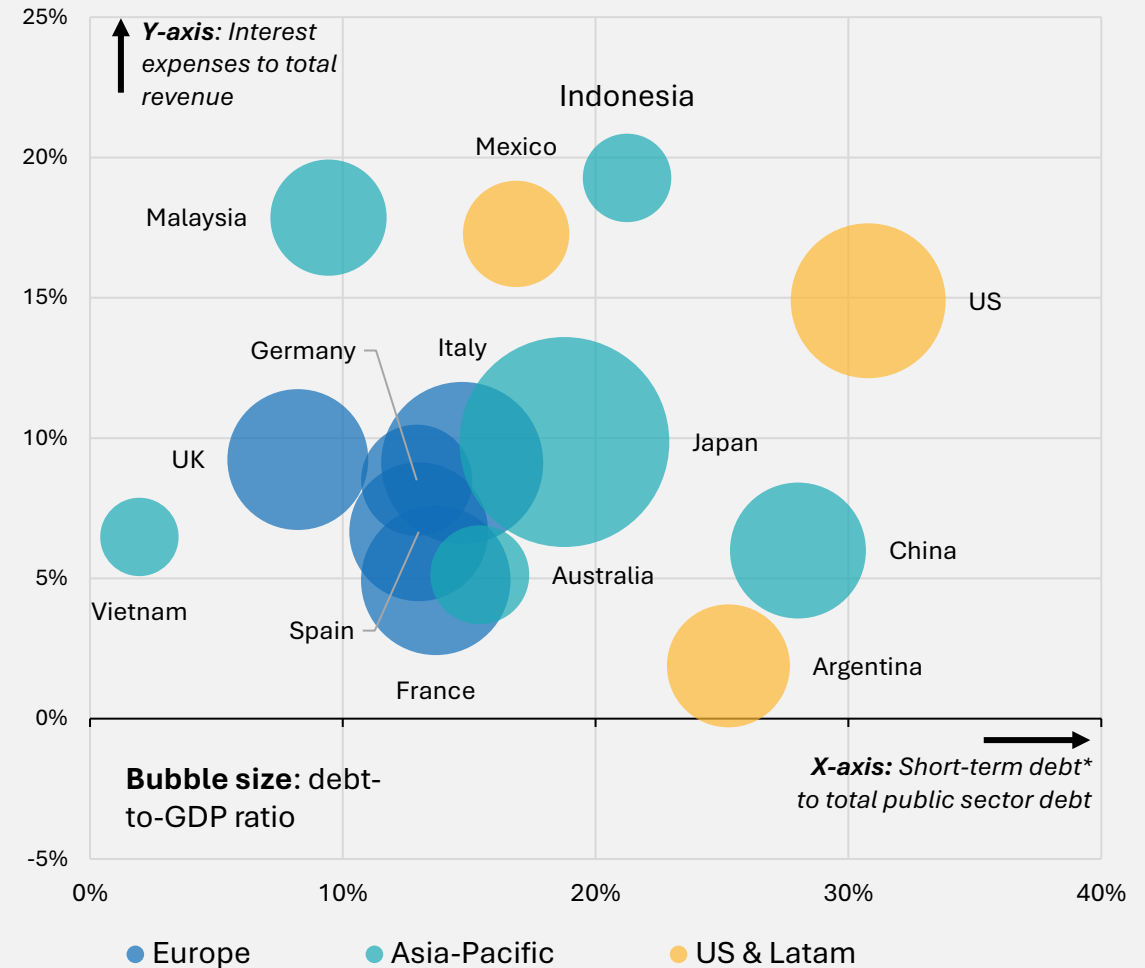
Source: Indonesia MoF, Bank Indonesia, DJPPR, BCA Economic Research

# High short-term debt burden highlights Indonesia's fiscal risks

- Despite the anticipated high debt issuance, **securing strong foreign participation may continue to prove challenging**. Despite its often-vaunted low debt-to-GDP ratio, **Indonesia's relatively high short-term debt burden signals fiscal risks**, particularly at a time when the country's tax base has shown slowing growth in recent years.
- External conditions may also work against Indonesia**. Rising global yields – most notably in Japan – may trigger further reversals of carry trades that previously supported emerging-market assets, including Indonesian sovereign bonds.
- Even so, the outlook is not decidedly negative. **Foreign investors have under-owned SBN since the pandemic**, which may encourage re-entry should global liquidity conditions improve. A softer USD amid rising expectations of FFR cuts could reopen the window for foreign inflows, especially if Indonesia maintains macroeconomic stability and a credible commitment to fiscal discipline.

**Chart 4.14 – Share of short-term debt and interest expenses**

Expansive fiscal policies, high interest burden, and maturing debt in the short-term leads to the expectation of a weakened fiscal discipline in Indonesia

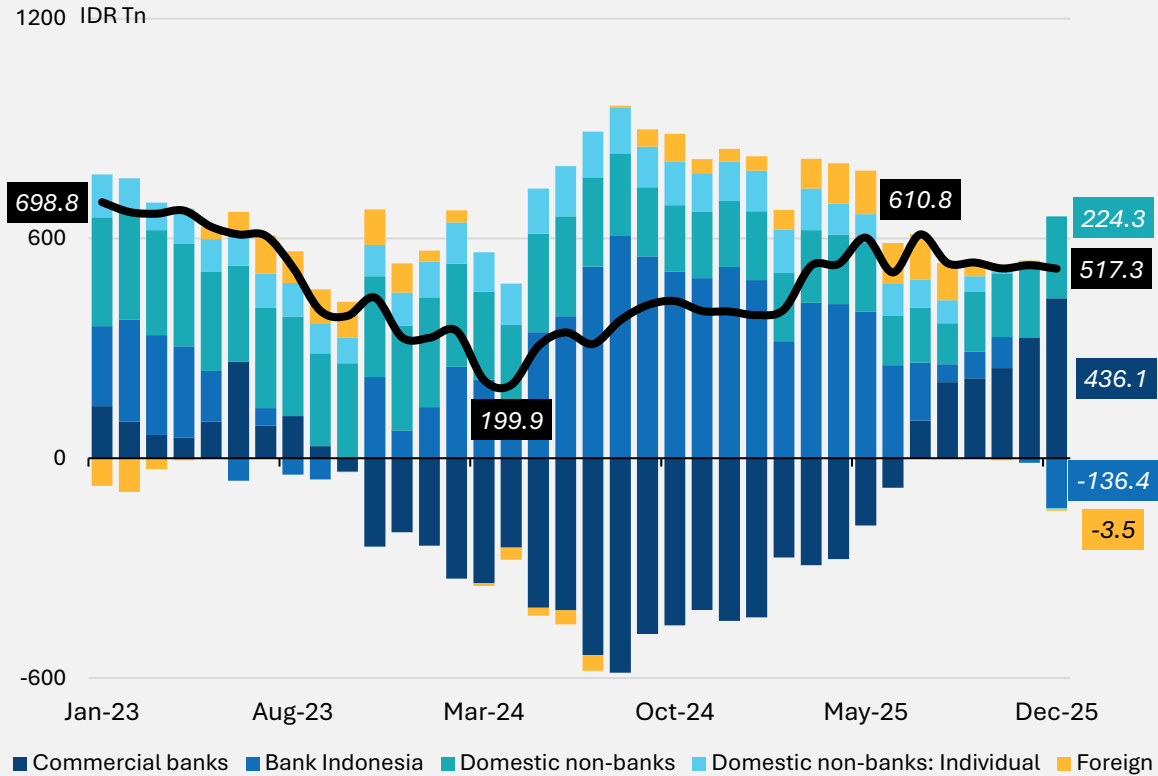


**Source:** Bloomberg, World Bank, BCA Economic Research.

# Domestic demand helped to keep SBN yields stable in 2025...

**Charts 4.15 – YoY changes in marketable SBN outstanding**

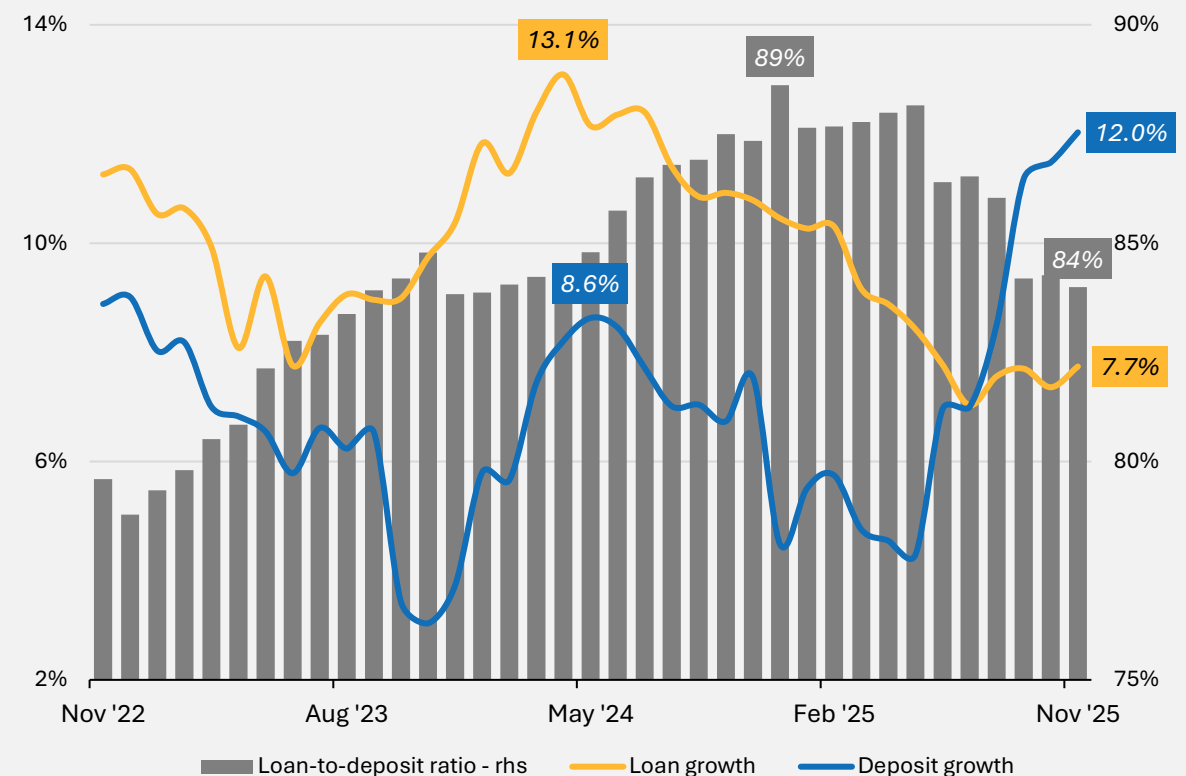
Domestic banks drive the demand for SBN while foreign investors exit the market.



Source: DJPPR, BCA Economic Research

**Charts 4.16 – Loan to deposit ratio, YoY loan & deposit growth (%)**

Ample liquidity due to anaemic demand for loans explain banks' appetite for SBN



Source: DJPPR, BCA Economic Research

- Supply risks have also been a concern for the SBN market in early 2025, leading to expectations of upward pressure on yields. **Thankfully, robust domestic demand helped to stabilise the market**, with retail investors and BI initially absorbing a significant portion of the supply, with banks subsequently stepping in as major buyers.
- The banking sector's appetite for SBN can be traced to the ample liquidity in the system.** With loan demand remaining subdued, banks have faced limited avenues for credit expansion. Government securities thus became a natural alternative for liquidity placement, pushing yields lower despite foreign outflows.

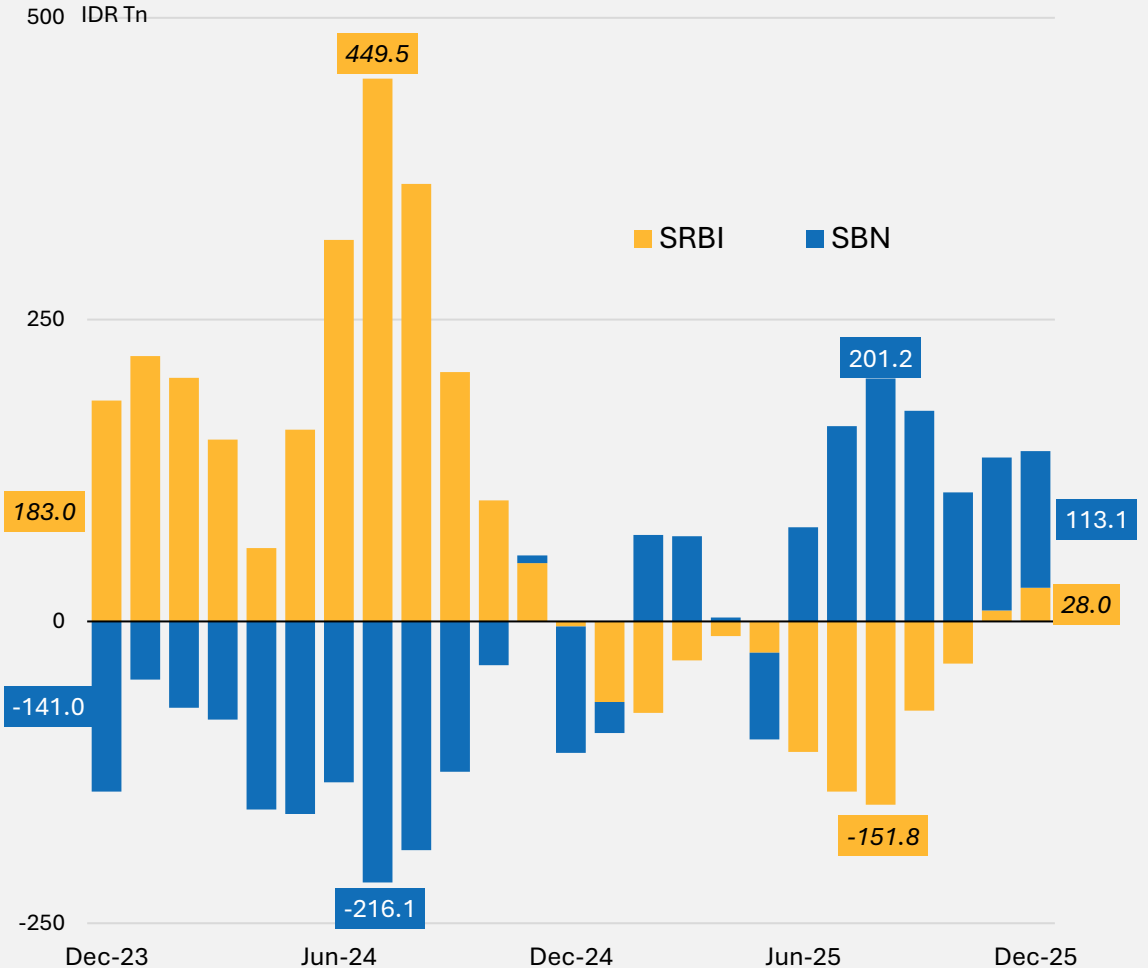


# ...however, re-expanding SRBI market may compete with SBN for demand

- Among other factors, liquidity inflows due to BI phasing out SRBI may play a bigger role in explaining banks' return to the SBN market. However, this trend shifted abruptly in late Nov-25, **when exchange rate stabilisation efforts amidst ample Rupiah liquidity compelled BI to resume SRBI issuance.**
- However, reopening the SRBI market creates a significant policy trade-off. **With SRBI yields exceeding those on SBN, the central bank incurs a negative carry.** These high costs suggest that SRBI may not be sustainable as a long-term liquidity-absorption tool, although BI's recent financial report indicates that proceeds from SBN still exceed SRBI-related costs by a wide margin.
- Yet BI faces limited flexibility. On the one hand, completely phasing out SRBI could weaken its exchange-rate stabilisation efforts, especially considering the central bank's Ulysses pact to continue bringing the policy rate to a more accommodative level.
- At the same time, SRBI may compete with SBN, which could send the government's lending rate higher. As such, **BI may continue to issue SRBI tactically**, delivering fresh issuance amidst episodic pressures on the IDR while guiding the market outstanding lower in the longer-term.

**Chart 4.17 – MoM changes\* in banks' SBN and SRBI ownership**

SRBI's more attractive yields mean BI may not use the policy instrument at liberty, particularly as it may compete with SBN in attracting demand

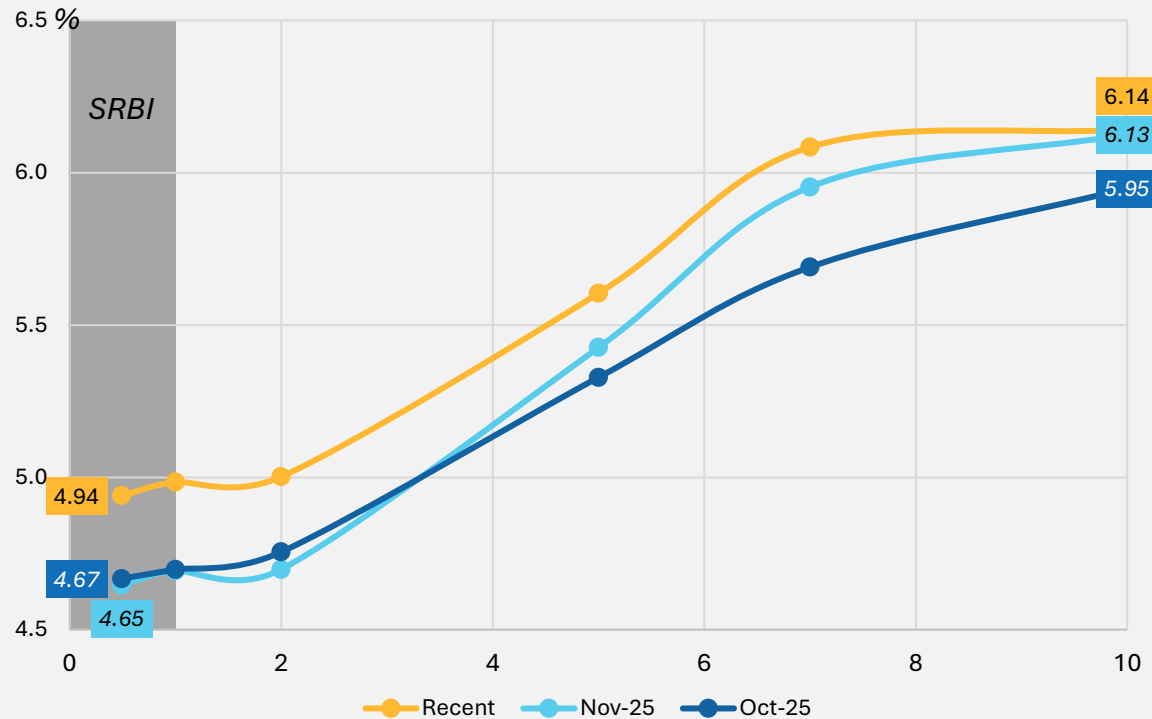


**Source:** Bloomberg, World Bank, BCA Economic Research. \*Rolling 3M sum. Data as of 16 December 2025

# BI's balancing efforts flatten the yield curve

Charts 4.18 – Indonesia yield curve

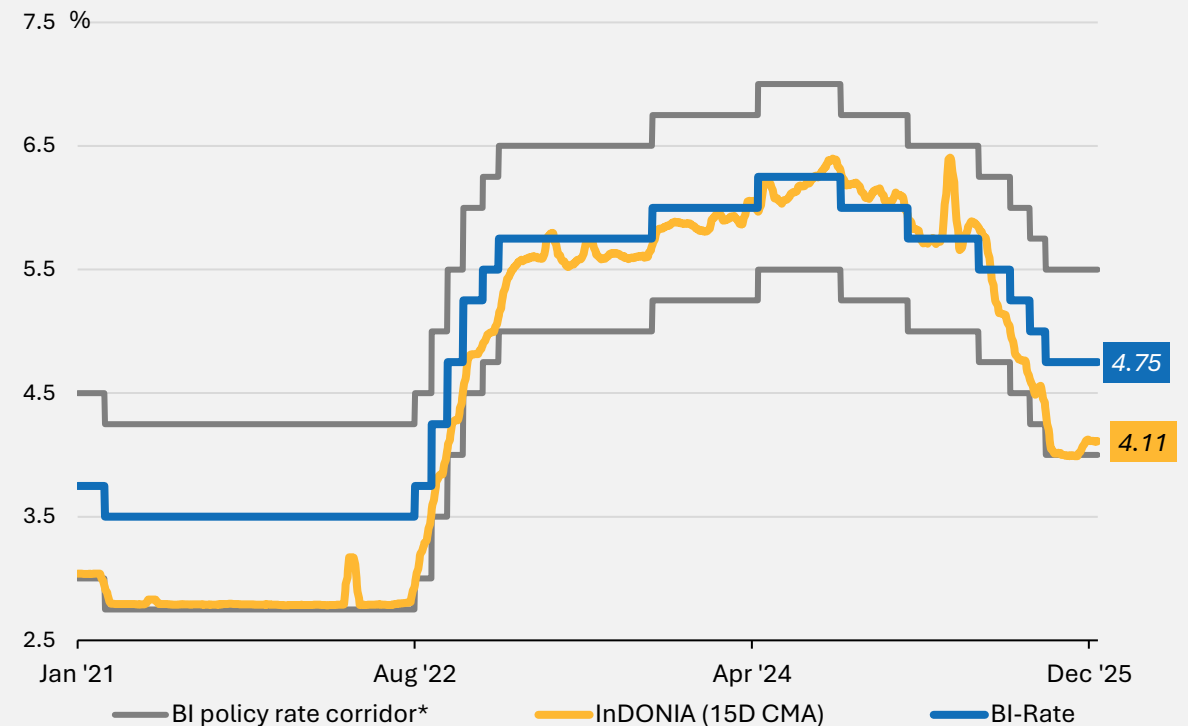
Recent SRBI issuance pushed Indonesia's short-term rates higher, while long-term rates have been kept stable to stimulate the demand for loans.



Source: Bloomberg, BCA Economic Research. Data as of 18 December 2025

Charts 4.19 – BI interest rate corridor

BI may have found itself pushing on a string in its supply-side efforts to boost loan growth.



Source: Bloomberg, BCA Economic Research. Data as of 18 December 2025

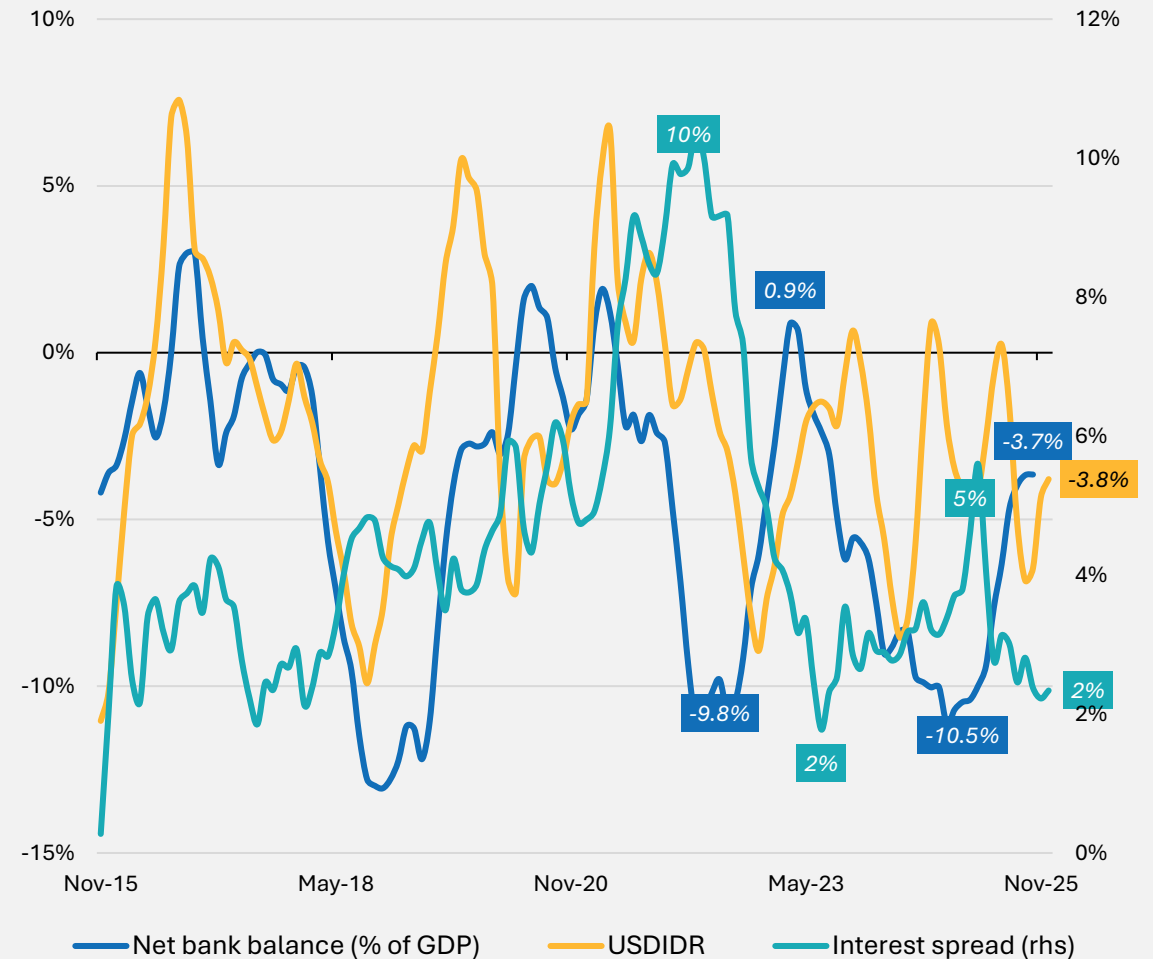
- Fresh supplies of SRBI, therefore, altered the shape of Indonesia's yield curve, with **SRBI pushing short-term rates higher, even as long-term yields remain anchored**. This reflects BI's balancing act, with BI using SRBI to absorb liquidity to stabilise the Rupiah on the one hand.
- On the other hand, it seeks to keep long-term rates contained to encourage credit expansion. **However, despite lower lending rates, banks continue to struggle to find fresh demand for credit**, as businesses and consumers' confidence has not fully improved. Monetary easing thus transmits weakly, a classic case of "pushing on a string".

# The still-weak currency fundamentals underscore the need for SRBI

- Although Indonesia's policy focus has firmly shifted toward supporting growth, short-term external vulnerabilities continue to pose risks to the Rupiah. **Global monetary policy expectations remain volatile** (seven FOMC members signalling no FFR cuts in 2026 is a case in point), and geopolitical developments frequently trigger swings in the USD.
- At the same time, fundamentals backing the Rupiah remain weak**, as reflected by the balance of payment position (indicated by net bank balance growth). A positive outlook in domestic demand conveys that Indonesia's BoP is unlikely to improve much in 2026, meaning that **external liquidity will need to come from the financial channel to support the higher consumption**.
- However, **BI's dovish signal has also translated to the lower benchmark interest rate spread**, which may limit foreign inflows, especially to the SBN market.
- These dynamics may expose the currency to episodic depreciation pressures – underscoring SRBI's role to absorb excess Rupiah liquidity and provide an additional anchor for the currency during periods of external stress.

**Chart 4.20 – Rate spreads and YoY changes in Net bank balance, USDIDR**

Lower UST-SBN interest spread means the net bank balance should be allowed to recover to provide a buffer for the Rupiah



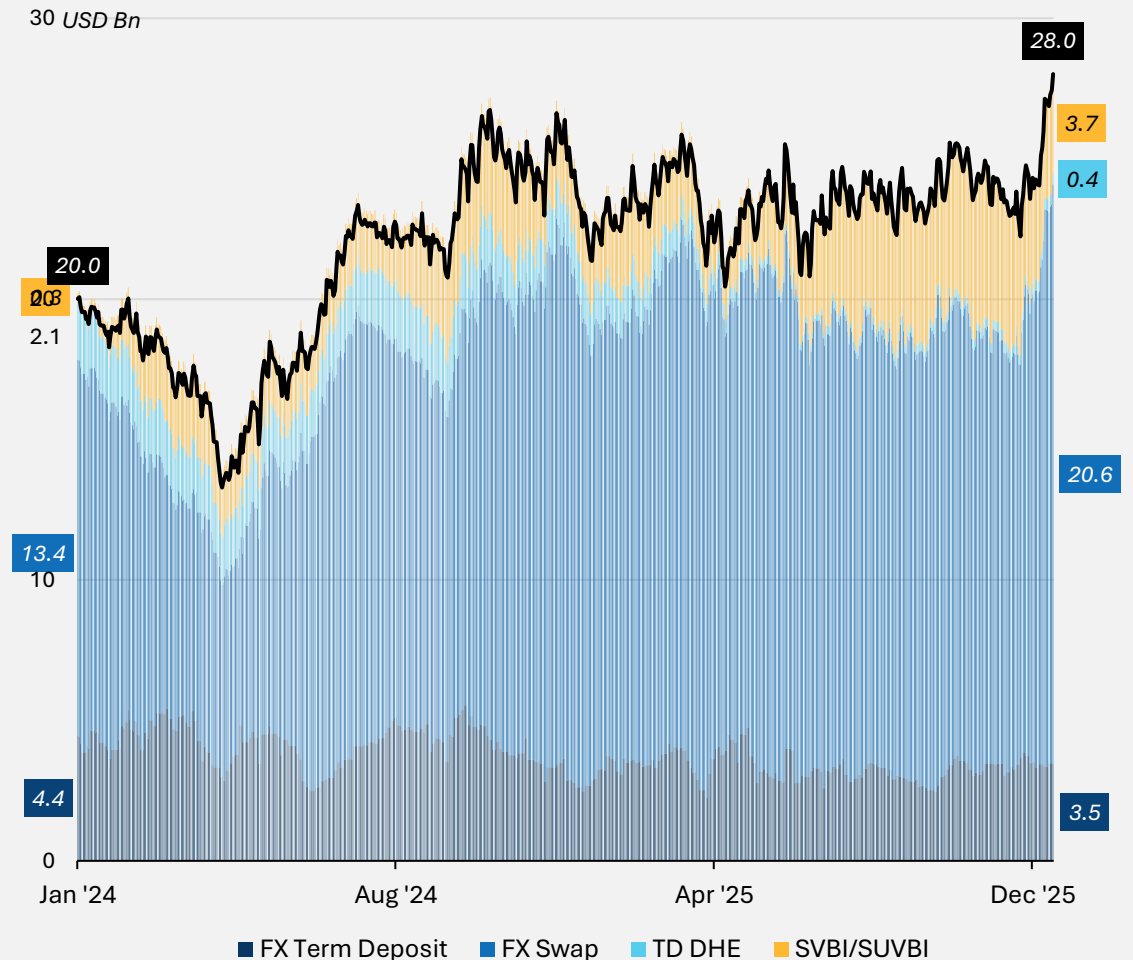
**Source:** Bloomberg, Bank Indonesia, BCA Economic Research. Real interest spread and USDIDR data as of 18 December 2025

# Tighter capital controls are also on their way to stabilise the Rupiah

- Meanwhile, the government is also set to strengthen the export proceeds (DHE) regulations to plug what it describes as “leaky” domestic FX flows and support BI’s FX reserves accumulation.
- The previous revision to the regulation (introduced in Mar-25) has not been particularly effective, as exporters could convert their FX holdings into Rupiah to avoid the requirement of parking their proceeds for 12 months. **The new regulation reduces by 50% the portion of export proceeds that may be converted into Rupiah, which should increase onshore FX placement.**
- Banks’ FX placements at BI have already risen noticeably (ironically, apart from TD DHE). With the strengthened DHE rule poised to increase domestic FX inflows, the trend may continue.
- Yet a key challenge remains. **An influx of FX supply could push yields on BI’s FX instruments lower.** While this would reduce BI’s cost of absorbing FX liquidity, it risks eroding banks’ profitability – particularly for SOE banks, which will act as the primary intermediaries in the DHE ecosystem.

Chart 4.21 – Banks’ FX placement at BI, USD Bn

BI would need to issue more FX instruments to support further strengthening of the DHE regulation

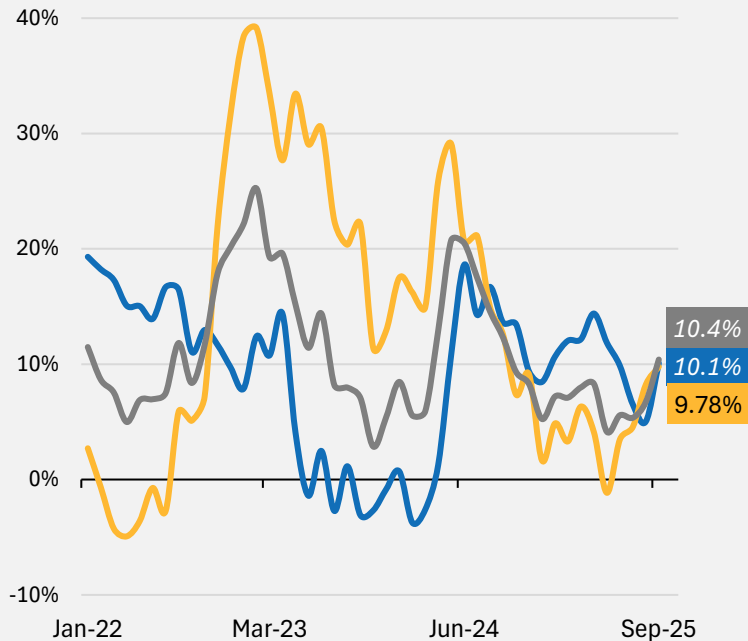


Source: Bank Indonesia, BCA Economic Research. Data as of 18 December 2025

# The government will have more say on the domestic FX pool as the export proceeds regulation tightened

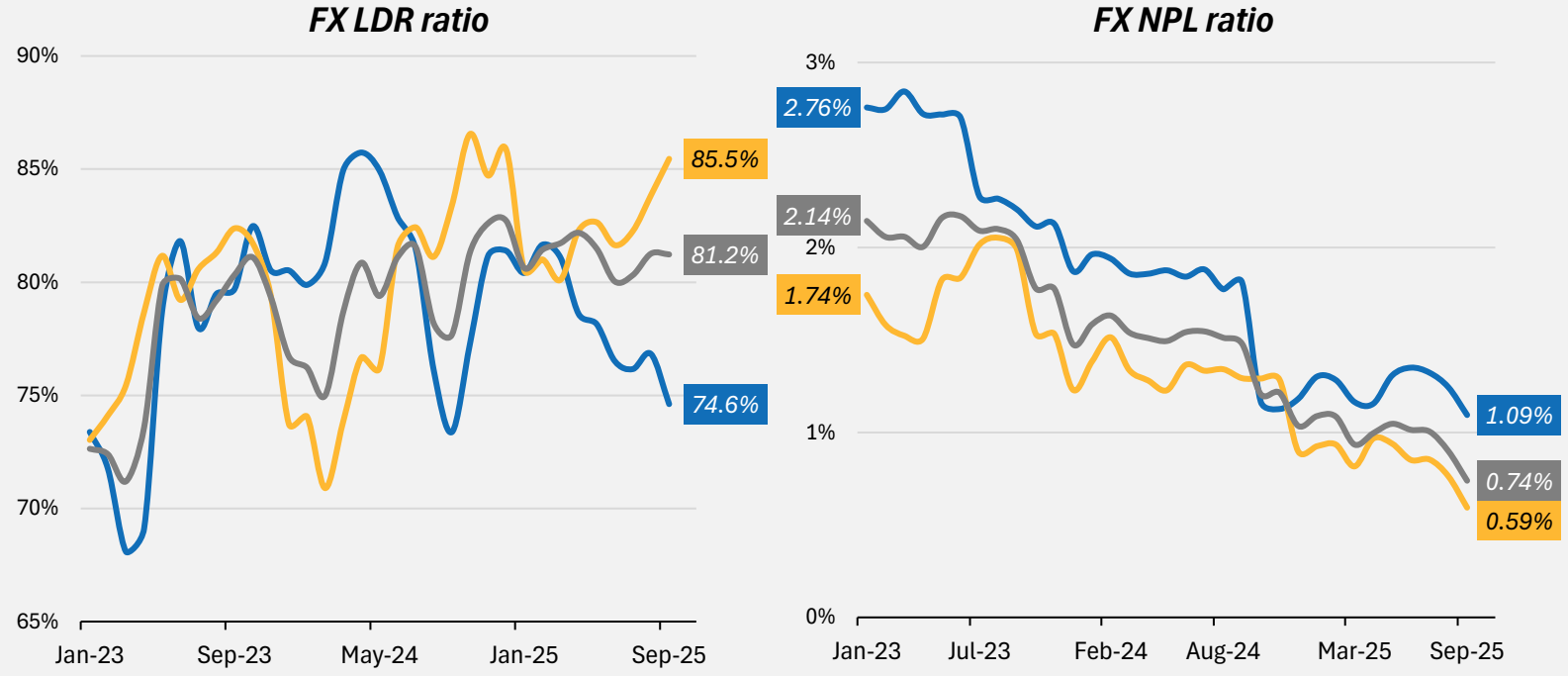
Charts 4.22 – YoY FX deposit growth

FX deposits growth is evenly distributed before the revised DHE regulation



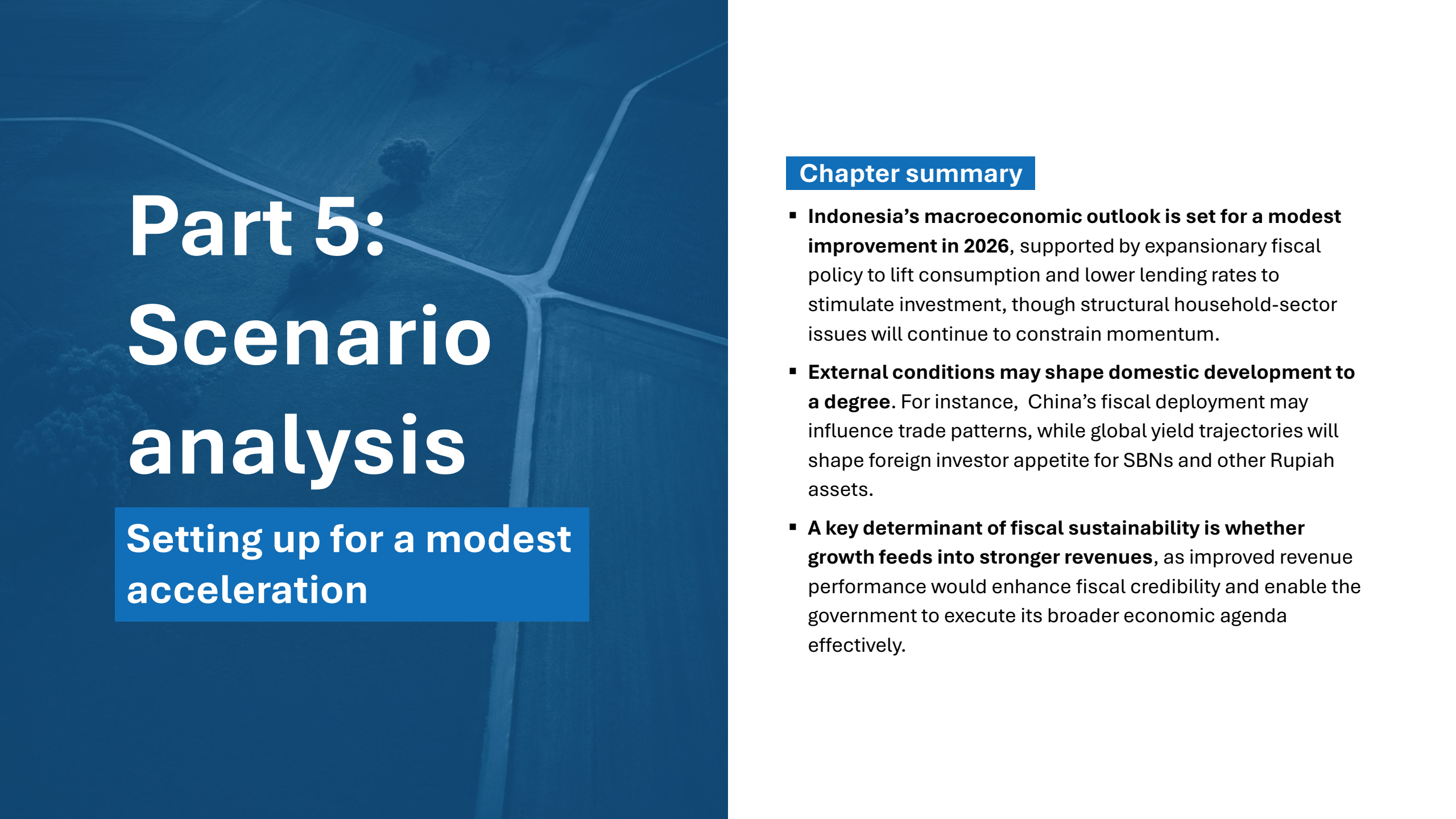
Charts 4.23 & 4.24 – FX LDR and NPL ratio

Commercial banks' higher FX buffer could be the reason behind the government's strengthened DHE rule



(Grey) Total commercial banks | (Yellow) SOE banks | (Blue) Private national banks

- Interestingly, the proposed DHE framework also mandates that export proceeds be placed exclusively with SOEs, which currently suffer from a higher FX LDR compared with private national banks.
- Such a policy may create a larger and more centralised pool of onshore FX liquidity, **allowing for better control over rate conditions in the onshore FX market.**
- However, **the perception of tighter capital controls may discourage foreign investors**, undermining the confidence needed to stem further capital flight.



# Part 5: Scenario analysis

Setting up for a modest  
acceleration

## Chapter summary

- **Indonesia's macroeconomic outlook is set for a modest improvement in 2026**, supported by expansionary fiscal policy to lift consumption and lower lending rates to stimulate investment, though structural household-sector issues will continue to constrain momentum.
- **External conditions may shape domestic development to a degree.** For instance, China's fiscal deployment may influence trade patterns, while global yield trajectories will shape foreign investor appetite for SBNs and other Rupiah assets.
- **A key determinant of fiscal sustainability is whether growth feeds into stronger revenues**, as improved revenue performance would enhance fiscal credibility and enable the government to execute its broader economic agenda effectively.



# 2026 Scenarios: How things may play out

		Worst-case	Base case	Best-case
RGDP growth	2025	4.87	5.00	5.14
	2026	4.17	5.06	5.87
NGDP growth	2025	6.73	7.26	7.94
	2026	6.13	7.88	9.35
USD/IDR	2025*	16,667		
	2026	17,334	16,842	16,565
BI-Rate	2025*	4.75		
	2026	3.50	4.00	4.75
Fed Funds Rate	2025*	3.75		
	2026	4.25	3.00	4.25
CPI inflation	2025	1.28	2.77	3.34
	2026	1.29	2.48	4.34
10Y SBN yield	2025*	6.2%		
	2026	6.9%	6.5%	6.2%

**Source:** BCA Economic Research. Based on assumptions. \*Forecasts reflect each indicators' positions by December or the end of the year. \*Actual positions by the time of writing.

- Given the data and arguments presented in earlier sections, **we expect Indonesia's macroeconomic conditions to continue improving next year**, albeit still at a modest pace (see the base case scenario). **An expansive fiscal posture remains crucial to jolting household consumption**, while lower lending rates may encourage the investment needed to support growth and address the structural issues currently gripping the household sector.
- Whether the economy records a better or worse year ahead will, among other factors, depend on three major themes. First is how the Chinese government chooses to deploy its budget to stimulate domestic consumption** – a key determinant of Indonesia's trade performance with its largest trading partner.
- Second is the trajectory of global yields**, particularly with respect to the Fed and the BoJ. Improved global liquidity is essential for attracting foreign investors back into the SBN market, which in turn will help stabilise government borrowing costs amid higher issuance.
- Third is whether public-driven growth will meaningfully translate into stronger government revenues.** A more robust revenue performance would bolster Indonesia's fiscal credibility and provide the government with the necessary capacity to realise its economic agenda.

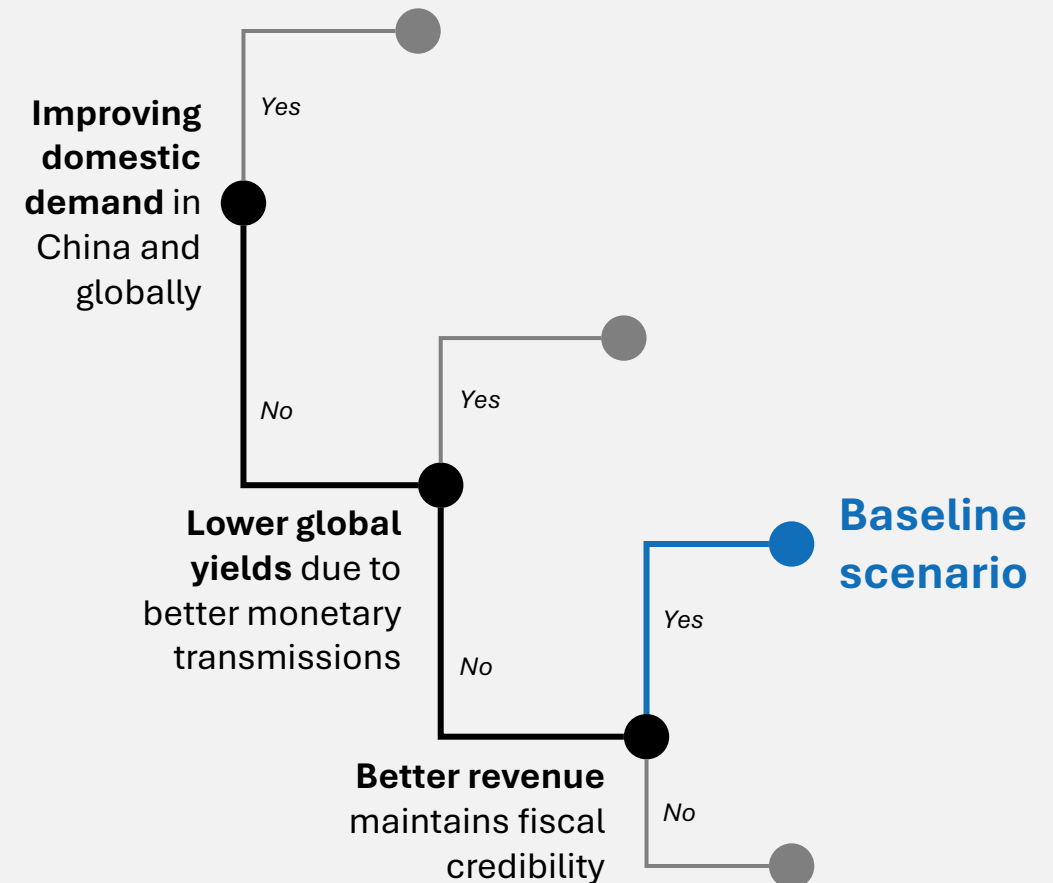
## Baseline scenario

# Fiscal credibility helps to maintain the domestic growth momentum

### How the scenario may play out:

- Our baseline scenario derives from the expectation that **Chinese authorities may continue to use their stimulus mainly for industrial upgrading and other supply-side measures**, leading to continued disinflationary pressures that may transmit to Indonesia through imports of manufactured goods and weaker commodity prices. While this benefits customers, **competition with imports limits domestic industrial production**, a crucial part in addressing the labour market and households' stagnating income growth.
- Meanwhile, **debt concerns mean global yields may remain elevated despite a more dovish monetary policy setting**, negatively influencing foreign demand for SBN. At the same time, domestic demand also withers as BI continue to issue SRBI, leading to elevated SBN yields relative to those in 2025.
- Despite the higher yield, Indonesia's fiscal balance may remain manageable as further improvement in household demand translates positively to tax revenue, allowing the government to spend on its economic agenda. **A more credible policy signal encourages businesses to expand**, creating a more sustainable growth outlook.

Probability:  
60%



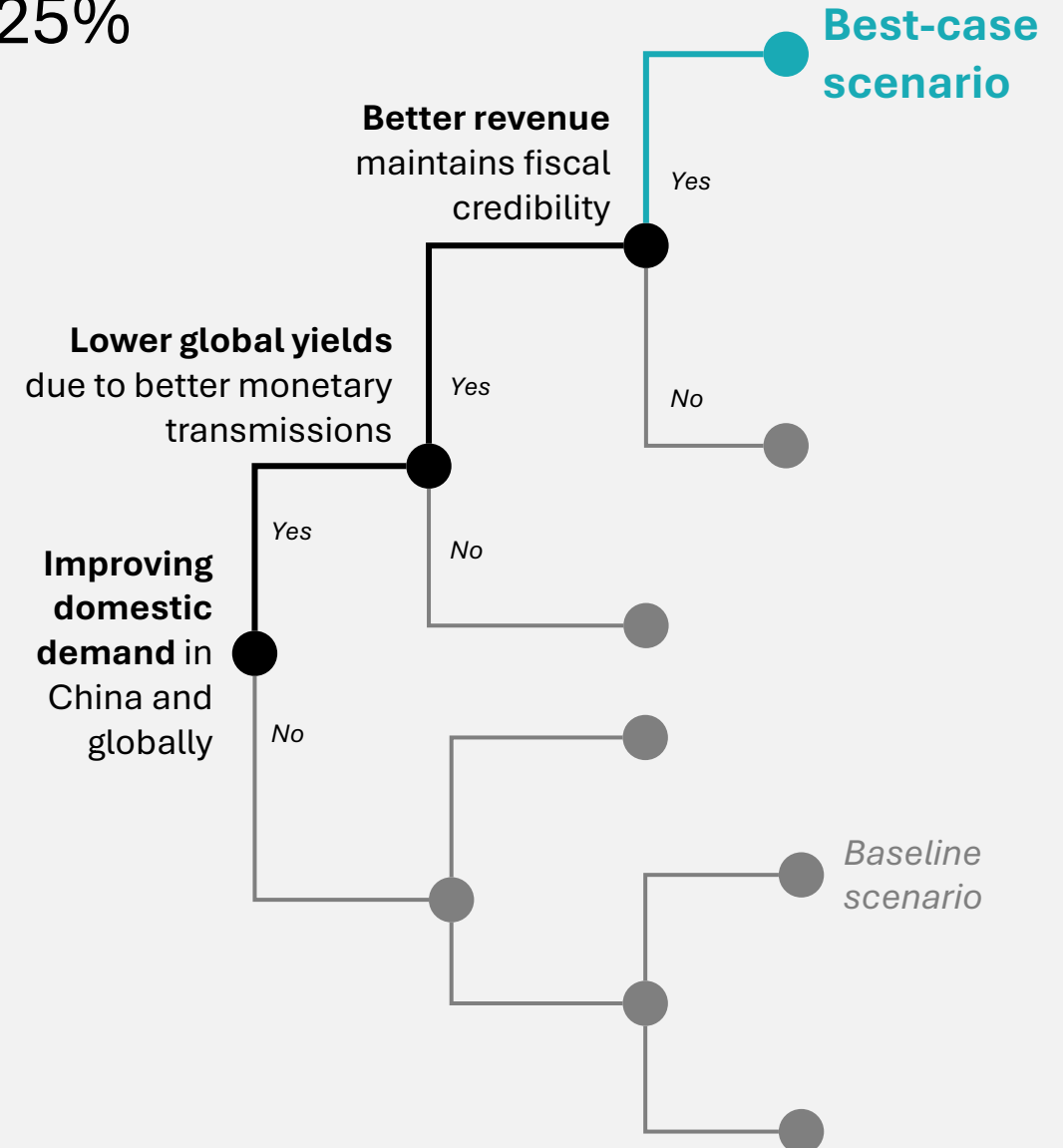
## Best-case scenario

# Favourable policies in China lift Indonesia's growth upwards

### How the scenario may play out:

- More expansive consumption stimulus, such as looser conditions for the consumer goods trade-in programme (now limited to EVs and some electronics), deliver a positive twist for Indonesia and the global economy, as **better household demand in China will allow other manufacturers to expand while also positively impacting commodity prices.**
- At the same time, the AI revolution may prove to provide a quick and lasting impact on economic productivity, leading to sustained growth momentum (especially in advanced economies) that downplays the debt concern. **Better global outlook, coupled with ample global liquidity, may push foreign investors toward Indonesia and other emerging markets,** which will help to stabilise SBN yields despite the higher issuance.
- Stable yields, along with strengthening fiscal balance due to higher tax revenue, allow the government to double down on its economic agenda. **Optimistic policy signals encourage businesses to expand,** leading to a widespread improvement in household income that generates a more sustainable growth outlook.

Probability:  
25%



## Worst case scenario

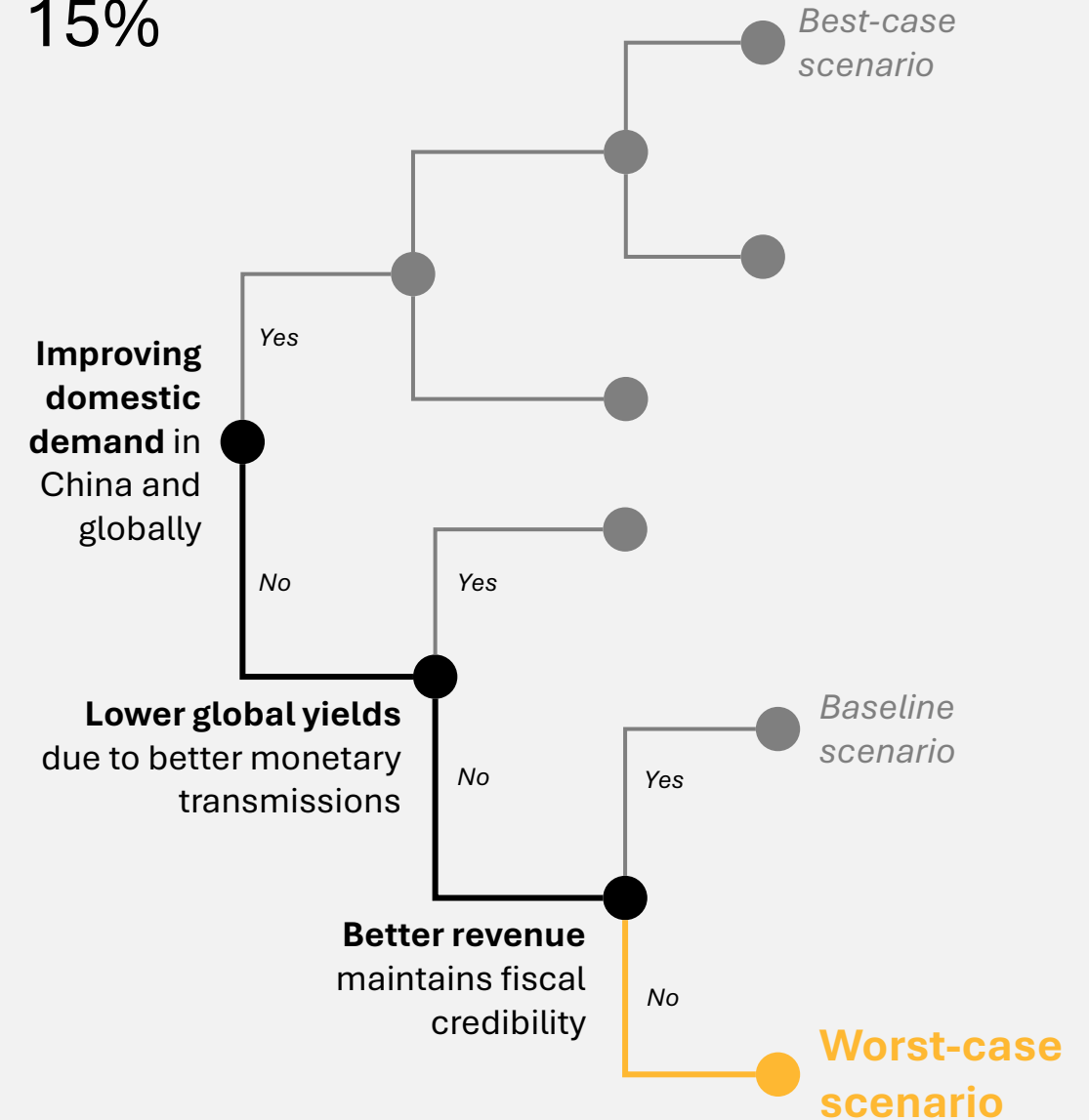
# Falling under idiosyncratic risks as the peg enlarges while the pole deteriorates

### How the scenario may play out:

- **Weak demand in China means Indonesian manufacturers may continue to compete with stimulus-boosted Chinese manufacturers**, while lower manufacturing activity due to more forceful industrial consolidation hurts commodity prices.
- At the same time, **stagflation fears re-emerge in the US as the labour market cools further, while tariffs seep into retail prices**. Returning inflationary pressures limit the Fed's rate cut signal, combining with debt concerns in sending global yields higher.
- Persistent outflows (emboldened by expectations of looser fiscal commitments), withering domestic demand (partly due to higher SRBI issuance), and higher net issuance may lead to **SBN yields rising higher than other comparable sovereign bonds, adding to the government's debt burden**.
- **Sclerotic revenue performance further cramps the spending budget, putting a question mark in the government's ability to deliver its flagship programmes**. Less credible policy signals did little to encourage business and consumer confidence, creating a drag on the economy.

Probability:

15%



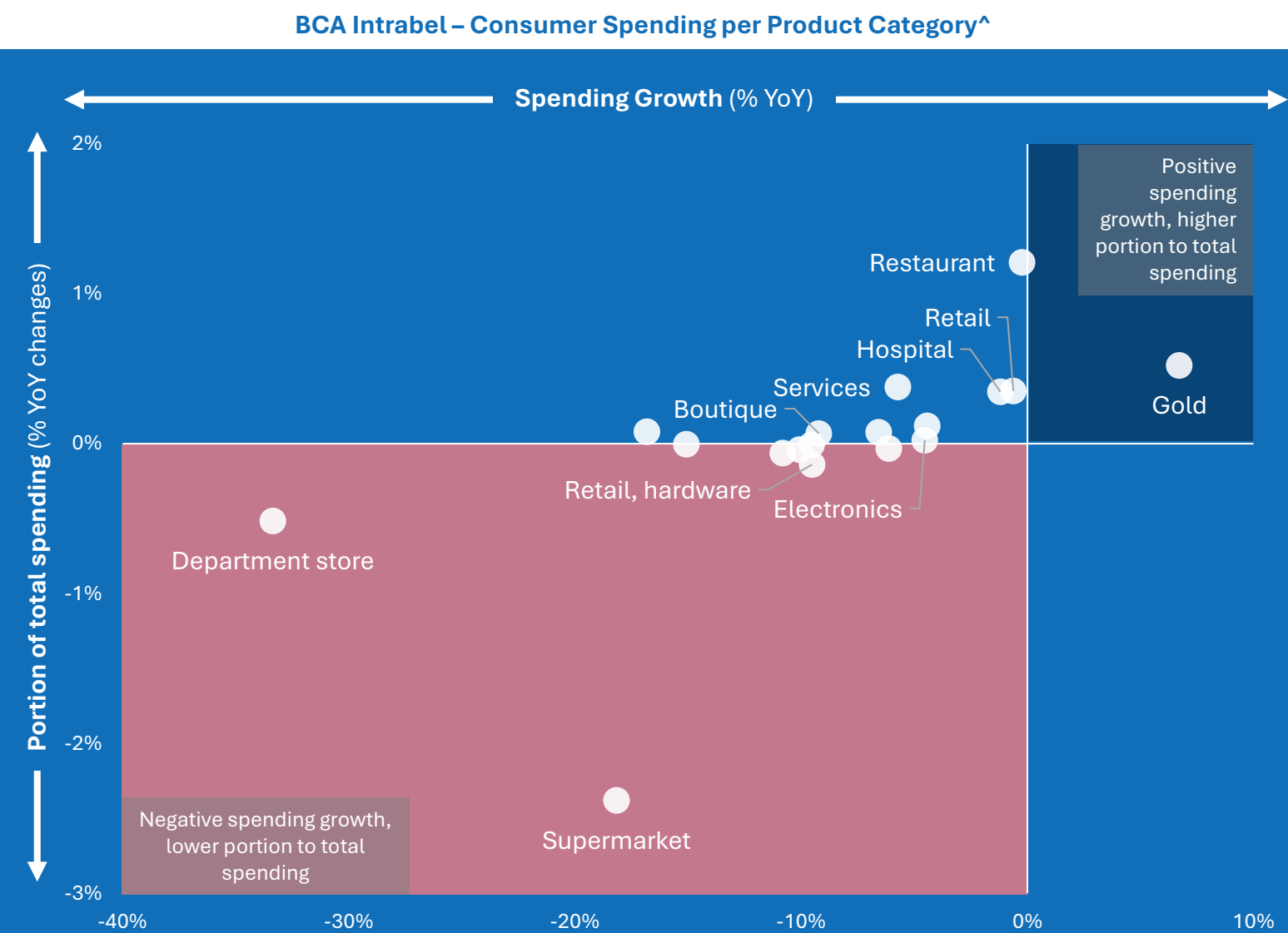
# Projections of Indonesian economic indicators

	2019	2020	2021	2022	2023	2024	2025E	2026E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	5.0	5.1
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5014	5362
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.8	2.5
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.75	4.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.32	6.50
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,461	16,784
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625	16,842
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	40.0	33.8
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	0.0	-0.4

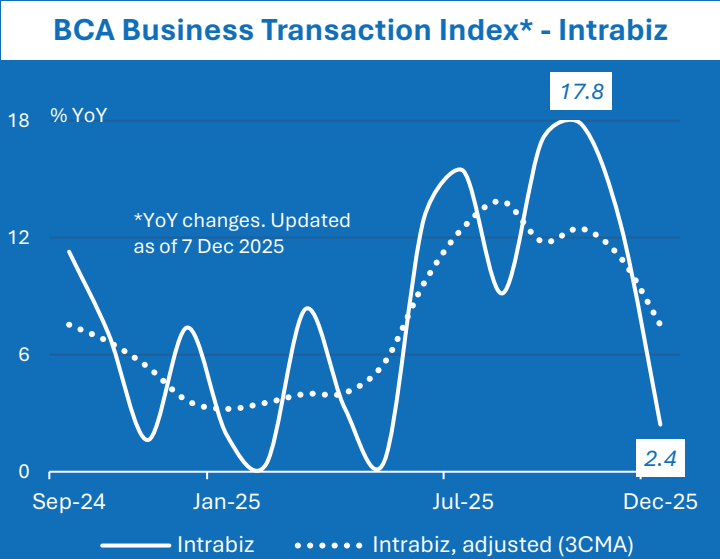
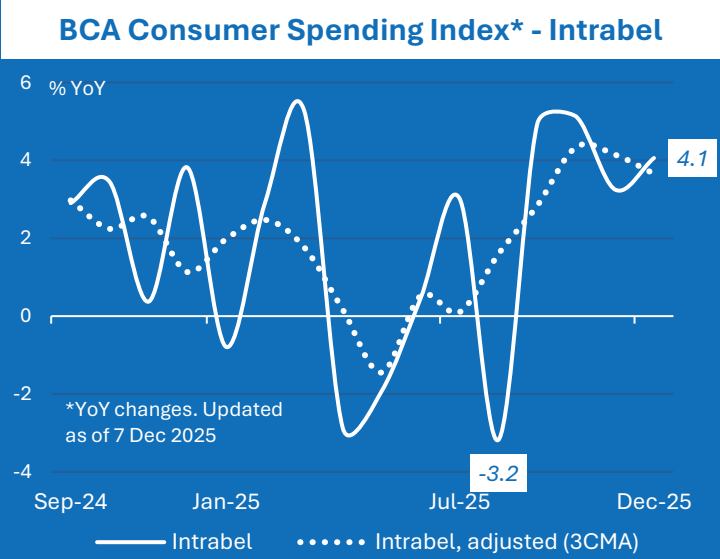
**Notes:**

USD/IDR exchange rate projections reflect our expectation of the fundamental value; market values may diverge significantly at any moment in time

# BCA Big Data Updates



Source: Big Data BCA (data as of 30 Nov 2025). ^Using data from EDC or other payment points



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