Switching for the better

20 January 2026

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Summary

- Persistent foreign outflows from the SBN market are keeping the Rupiah on track to reach its lowest historical level, despite the sidelining DXY index.
- Lower foreign demand and BI's pro-stability guideline risk driving SBN yields higher, which may threaten the fiscal posture.
- Ample domestic liquidity conditions open an opportunity for the government to lower its interest and refinancing burdens via an expanded debt-switching mechanism.

- In most metrics, 2026 appears set to be a strong year for the Indonesian financial market. The benchmark stock index recorded a robust 3.71% appreciation since the start of the year, powered by re-energised real economic indicators (such as manufacturing PMI and retail sales growth), which attracted USD 249.1 Mn in net foreign purchases of Indonesian equities over the past week. Alas, the Rupiah's continued weakness stood out against this narrative, with the currency having lost 1.31% of its value against the USD so far in 2026, bringing it to its lowest historical level of 16,909/USD.
- Among more fundamental factors, persistent foreign selloffs in the sovereign debt market help explain the Rupiah's current weakness. Official data recorded USD 485.8 Mn in net foreign outflows from the SBN market over the past week, while an additional USD 157.4 Mn in net foreign selling from the SRBI market added to the tally. The accelerating trend of foreign selloffs also sent the benchmark SBN yield 18.6 bps higher to 6.23%, its highest level since early December 2025.

No help from the outside

- While it is true that the benchmark SBN yield remains some distance away from the 6.9% state budget assumption, a noticeable increase in the government's lending rate may exacerbate private investors' concerns about Indonesia's fiscal sustainability and, thus, further weaken the demand for SBN.
- The growing interest burden highlights the urgency of keeping SBN yields low (if not lower), despite the 6.9% budget assumption. Indeed, interest payments are projected to absorb 15.6% of total fiscal spending in 2026, up from 14.9% in the previous year. Meanwhile, discretionary spending must also be allowed to expand, as the government

seeks further rollouts of its flagship programmes.

- There are arguments that the global monetary policy loosening cycle may help the Indonesian government contain its interest burden and find more room in its fiscal posture, as improved global liquidity conditions could spur demand for SBN and other emerging market assets, effectively steering yields lower.
- However, recent developments suggest that investors may be better off guarding against this scenario. First, while the Fed's and other major central banks' policy rates are expected to continue moving southwards in 2026, bond yields have shown increasing stubbornness in responding to recent rate cut actions, signalling central banks' weakening influence over the sovereign debt market. **Still-high global yields – most notably in Japan and other developed markets such as the EU – may therefore reduce portfolio allocations for emerging market bonds**, especially those with an already narrow yield spread, such as SBN.
- Second, despite the widespread FFR cut expectations, the Rupiah's increasingly apparent idiosyncratic weakness may lead Bank Indonesia to double down on its pro-stability guideline instead, thus discouraging capital-gain-seeking investors from entering the SBN market and potentially forcing the government to offer IDR 799.53 Tn worth of new SBN supplies (the net SBN issuance target for 2026) at higher coupons.
- **The government, therefore, may not be able to rely on the whims of the global market to boost demand for SBN and keep yields stably low**, nor assume that BI would restart its rate-cutting campaign with the same level of urgency observed in the previous year. While the recent increase in the degree of coordination between the monetary and fiscal authorities has been noted, the current weakness in the Rupiah's exchange rate means that BI must act more tactically in pursuing further policy loosening. That said, the central bank may still play an active role in the SBN market, especially during episodic shocks in the liquidity condition within the SBN market ***(see Chart 1).***

> ***"Some precedents may help the government to manage its interest and refinancing burdens, including expanding the debt-switching operation"***

Space to manoeuvre and ease burdens

- There are other precedents the government could follow to lower its interest burden. The most straightforward one is to finance part of the deficit using excess budget reserves (SAL), which would reduce net debt issuance. However, this approach entails an opportunity cost, **as ample domestic liquidity – particularly within the banking system due to maturing SRBI – means that oversubscription may continue to be commonplace in SBN auctions**
- Another path that may allow the government to benefit from banks' ample liquidity to lower its interest burden, without drawing down its SAL, is to expand its bond buyback programme, which could be conducted through mechanisms such as debt switching. Debt-switching operations have been actively

carried out between BI and the government in recent years, with total transactions reported to have reached IDR 241.9 Tn in 2025. **An expanded debt-switching operation will allow the government to retire off-the-run bonds, which are usually offered at a higher coupon** ***(see Chart 2)***. In other words, expanding the debt-switching operation may allow the government to retire its higher-yielding bonds and refinance at a lower cost, which may help in some way to reduce its interest burden.

- **An expanded debt-switching operation will also allow the government to shift existing debt toward longer tenors**, lowering the risk of cash-flow pressure due to the spiking refinancing burden in the short term ***(see Chart 3)***. Indeed, third-party data reveals that 29.42% of total government debt outstanding is set to mature within the next three years, reflecting the bulge in debt issuance during the pandemic-impacted years, which was concentrated in the 4–7-year tenor range.
- **Lengthening the SBN market's maturity distribution may also suit the needs of domestic investors such as insurance companies and pension funds**, which often seek stable and predictable cash-based returns offered by longer-dated bonds. As such, an expanded debt-switching operation may allow the government to better cater to domestic investors' demand – a pragmatic strategy given the low confidence scenario of foreign investors returning en masse to the SBN market.

Chart 1

Buyer of the last resort

The SBN market has largely relied on BI to provide liquidity, a role that the central bank may continue play given the still-uncertain demand profile in the market

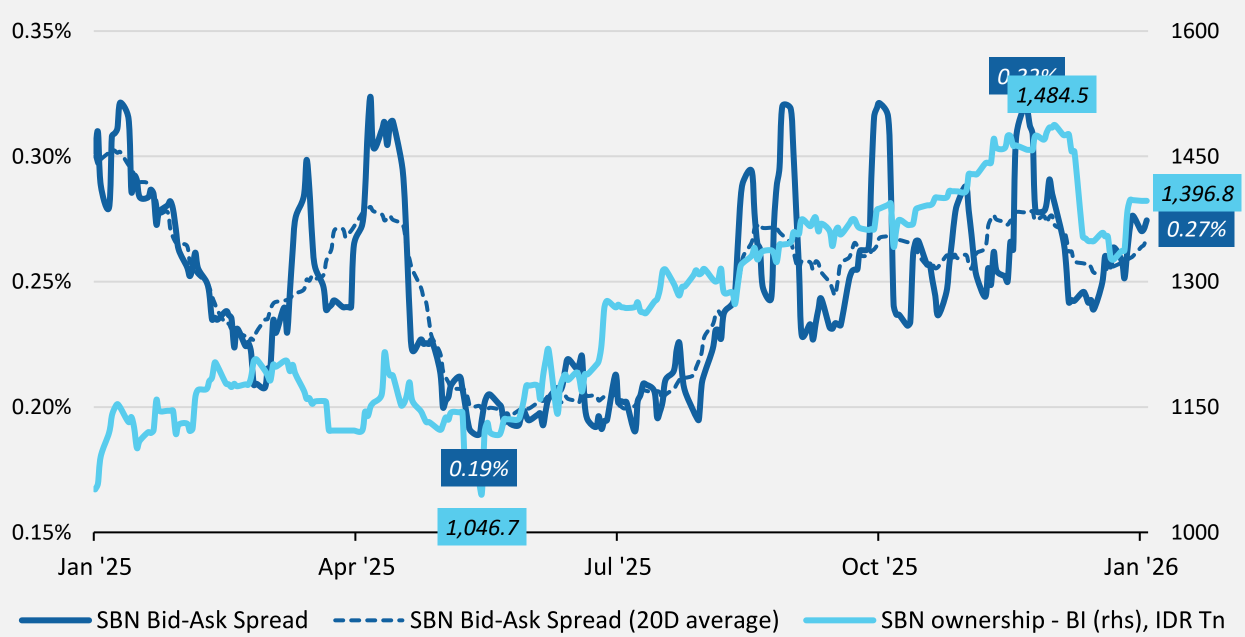
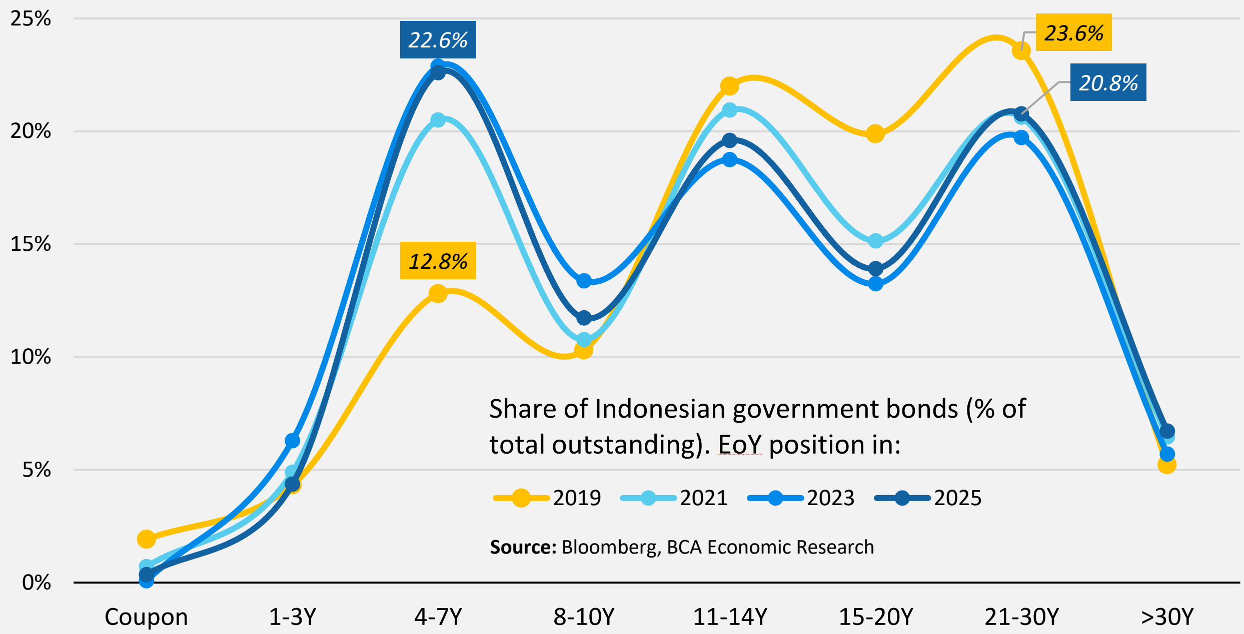


Chart 2

Bulging on the shorter end

Durations in the SBN market has been noticeably shorter in recent years, keeping the long-term rates low at the cost of higher short-term fiscal risks

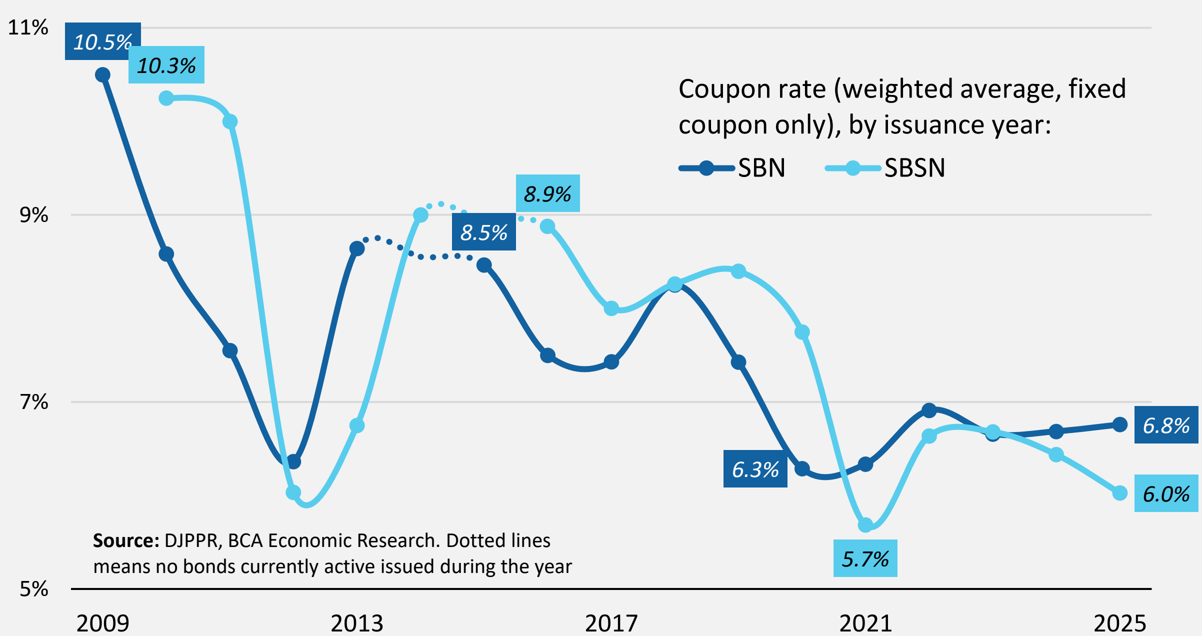


Source: Bloomberg, BCA Economic Research

Chart 3

Burdened by legacy debts

The now-lower domestic yields and higher coupon rates on off-the-run bonds may tempt the government to contemplate a debt switching operation



Source: DJPPR, BCA Economic Research. Dotted lines means no bonds currently active issued during the year

Economic Calendar

		Actual	Previous	Forecast*
05 January 2026				
ID	**Trade balance (Oct-25), USD Bn**	**2.66**	**2.4**	**2.7**
ID	**Inflation Rate YoY, %**	**2.92**	**2.72**	**2.5**
08 January 2026				
US	Trade balance (Oct-25), USD Bn	-29.4	-52.8	-54.0
ID	**Foreign Exchange Reserves, USD Bn**	**156.5**	**150.1**	**-**
09 January 2026				
CN	Inflation Rate YoY, %	0.8	0.7	0.7
ID	Consumer Confidence	123.5	124.0	125
EA	Retail Sales YoY, %	2.3	1.9	1.9
ID	Motorbike Sales YoY, %	14.5	2.1	3.6
ID	Car Sales YoY, %	25.7	-0.8	1.9
US	Non Farm Payrolls, th	50	56	45.0
12 January 2026				
ID	Retail Sales YoY, %	6.3	4.3	4.0
13 January 2026				
US	Inflation Rate YoY, %	2.7	2.7	2.6
14 January 2026				
CN	Trade balance, USD Bn	114.1	111.68	105
US	Retail Sales YoY (Nov-25), %	3.3	3.3	3.0
16 January 2026				
ID	**Foreign Direct Investment YoY, %**	**4.3**	**-8.9**	**-**
19 January 2026				
CN	Retail Sales YoY, %	0.9	1.3	1.4
21 January 2026				
ID	**BI-Rate Decision, %**		**4.75**	**4.75**
ID	Loan Growth YoY, %		7.74	-
22 January 2026				
US	PCE Price Index YoY (Oct), %		2.8	2.7
23 January 2026				
ID	M2 Money Supply YoY, %		8.3	-
29 January 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**3.75**
US	Trade balance (Nov-25), USD Bn		-29.4	-53.0

*Forecasts of some indicators are simply based on market consensus
Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	3.75	Dec-25	1.05
UK	3.75	Aug-25	0.55
EU	2.15	Jun-25	0.25
Japan	0.75	Jan-25	-2.15
China (lending)	2.00	Sep-24	3.55
Korea	2.50	May-25	0.20
India	5.25	Jun-25	3.92
Indonesia	4.75	Sep-25	1.83
Money Mkt Rates	**19-Jan**	**-1 mth**	**Chg (bps)**
SPN (1Y)	4.20	4.76	-55.4
SUN (10Y)	6.28	6.13	14.7
INDONIA (O/N, Rp)	3.71	4.17	-45.9
JIBOR 1M (Rp)	5.03	5.03	-0.4
Bank Rates (Rp)	**Oct**	**Sep**	**Chg (bps)**
Lending (WC)	8.30	8.46	-16.00
Deposit 1M	4.75	4.96	-21.00
Savings	0.68	0.70	-2.00
Currency/USD	**19-Jan**	**-1 mth**	**Chg (%)**
UK Pound	0.745	0.747	0.34
Euro	0.859	0.854	-0.55
Japanese Yen	158.1	157.8	-0.23
Chinese RMB	6.964	7.041	1.10
Indonesia Rupiah	16,942	16,745	-1.16
Capital Mkt	**19-Jan**	**-1 mth**	**Chg (%)**
JCI	9,133.9	8,609.6	6.09
DJIA	49,359.3	48,134.9	2.54
FTSE	10,195.4	9,897.4	3.01
Nikkei 225	53,583.6	49,507.2	8.23
Hang Seng	26,563.9	25,690.5	3.40
Foreign portfolio ownership (Rp Tn)	**Dec**	**Nov**	**Chg (Rp Tn)**
Stock	4,186.7	4,017.6	169.11
Govt. Bond	878.7	1,343.0	-464.38
Corp. Bond	4.7	4.1	0.64

Trade & Commodities	19-Jan	-1 mth	Chg (%)
Baltic Dry Index	1,567.0	2,023.0	-22.5
S&P GSCI Index	562.9	542.2	3.8
Oil (Brent, $/brl)	63.9	60.5	5.7
Coal ($/MT)	111.4	106.4	4.7
Gas ($/MMBtu)	3.09	3.58	-13.7
Gold ($/oz.)	4,670.9	4,338.9	7.7
Copper ($/MT)	13,033.1	11,886.2	9.6
Nickel ($/MT)	17,937.0	14,615.4	22.7
CPO ($/MT)	988.0	957.2	3.2
Rubber ($/kg)	1.84	1.78	3.4
External Sector	**Nov**	**Oct**	**Chg (%)**
Export ($ bn)	22.52	24.24	-7.08
Import ($ bn)	19.86	21.84	-9.08
Trade bal. ($ bn)	2.66	2.39	11.23
Central bank reserves ($ bn)*	150.1	149.9	0.09
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	**Dec**	**Nov**	**Chg (bps)**
USA	51.8	52.2	-40
Eurozone	48.8	49.6	-80
Japan	50.0	48.7	130
China	50.1	49.9	20
Korea	50.1	49.4	70
Indonesia	51.2	53.3	-210

Source: Bloomberg, BI, BPS
Notes:
*Data from an earlier period
For changes in currency: **Black indicates appreciation against USD, **Red** otherwise
***For PMI, **>50** indicates economic expansion, **<50** otherwise

Indonesia – Economic Indicators Projection

	2020	2021	2022	2023	2024	2025E	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.0	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.2	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5014	5362
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9*	2.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75*	4.00
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05*	6.50
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468*	16,784
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690*	16,842
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	40.0	33.8

Notes:

- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*
- *Numbers marked with (*) for 2025 are final; other numbers for 2025 are our projections*

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