

## Pressurised but not pressured

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### Summary

- Higher perceived risks as highlighted by the recent downgrade call and rising CDS spreads, coupled with expected higher yields globally, may sustain foreign selling pressures on the SBN market.
- Domestic demand may help to keep SBN yields relatively stable, but the same condition may enable foreign investors to exit without too many repercussions.
- Banks' balance sheet and the government's budget posture may remain stable despite the risk of further stress in the SBN market.

- A flurry of news and data releases hit the Indonesian economy over the past week, fuelling the discourse on the state of the economy. We therefore seek to contribute to this discussion by dissecting this watershed of news and data into two distinct patterns. First, the backwards-looking data testifies to Indonesia's fiscal-driven growth model, as highlighted by the stark contrast in GDP growth between the fiscally constrained H1-2025 (5.00% YoY) and the fiscally expansive H2 2025 (5.21% YoY). The narrower trade surplus in December 2025 also reflects stronger import demand, consistent with our observation of a recovery in domestic demand during the period.
- Few now question the government's ability to deliver higher growth by allocating resources

to its panoply of priority programmes, all at such a magnitude. However, many have grown sceptical that this pattern of growth could continue indefinitely. The government's blended strategy of public-led expenditure and investment has so far proven to yield limited benefits in expanding the tax base, as highlighted by the 9.32% tax ratio in 2025 (the lowest since 2008, outside of the pandemic-ridden years). Despite its proven results, growing scepticism on the sustainability of Indonesia's "tax-light, spend-heavy" growth model thus explains the less cheerful, forward-looking news on the economy, leading to the cascade of events that have recently blown the domestic financial market.

### Sentiment may worsen, but yields may remain under control

- While much attention has been directed to the like-for-like developments in the equities market, the recent downgrade of Indonesia's

sovereign debt credit rating may prove more consequential for the broader economy. For instance, conditions in the SBN market set the

benchmark for the government's borrowing costs, which, in turn, affect the fiscal posture. For banks, the long end of the SBN yield curve also often dictates the rates at which they are willing to extend credit, carrying important implications for Bank Indonesia's efforts to promote a more broad-based loan growth.

- Unfortunately, **some of the negative side effects stemming from the recent credit rating downgrade are already becoming evident.** The benchmark 10Y SBN yield rose by as much as 11 bps on the day following the downgrade announcement – the largest one-day increase since mid-November 2025, when rising UST yields intensify foreign capital outflows from the SBN market. Meanwhile, CDS spreads on Indonesia's sovereign debt have also risen more sharply than those of peer countries (*see Chart 1*), increasing the cost of entry for foreign investors, which may reduce the attractiveness of SBNs to them relative to other emerging Asian assets.
- While yields have moved noticeably higher across the curve (*see Chart 2*), it is also important to identify what strengths the SBN market (and the wider domestic financial market) still has. For one, **while Indonesia's CDS spreads are now considerably higher than those of its emerging Asian peers, they remain well below the levels observed in more volatile markets such as Turkey and several major Latin American economies.** This suggests that, although investors are pricing in higher risks, the SBN market may continue to be viewed as a credible and investable emerging market, potentially keeping SBNs within the core allocation universe for many

***"Domestic demand may help to keep SBN yields stable, but may incentivise foreign investors to move out of the market"***

investors, rather than being relegated to purely opportunistic or high-risk exposures.

- Second, **the SBN market may continue to benefit from a ready supply of domestic buyers, thereby sustaining market liquidity.** While some investors, such as households, have rotated away from SBN into physical assets such as gold, non-bank domestic investors still added IDR 84.25 Tn of SBN holdings YTD – more than offsetting the IDR 19.2 Tn decline from foreign private investors. Most crucially, the still ample liquidity conditions may also encourage banks to continue deploying excess funds into government securities (*see Chart 3*). Domestic investors' ample capacity to absorb SBNs may thus help to stabilise yields, even if foreign investors continue to price in higher risks.

▪ Alas, domestic investors' continued willingness to absorb SBNs, even amid worsening popular sentiment, may also signal underlying risks. The pot of liquidity that enables banks and other domestic investors to expand their SBN holdings largely reflects weak credit demand from businesses and households, pointing to subdued private sector activity. In turn, this dynamic may compel policymakers to rely more heavily on the "tax-light, spend-heavy" fiscal approach, exacerbating structural fiscal vulnerabilities that contributed to the credit rating downgrade in the first place.

- At the same time, **ample liquidity from domestic investors may allow foreign investors to exit the market at relatively favourable prices**, potentially encouraging profit-taking and capital reallocation

elsewhere. This risk is particularly relevant amidst expectations of rising global yields, driven by fiscal expansion in more-advanced economies; most consequentially, Japan following PM Takaichi's recent landslide victory. **As yields in developed markets become more attractive, the relative risk-return appeal of Indonesian assets may diminish**, while the risk of further downgrade calls from other credit rating agencies could act as a trigger for foreign investors to move on from the SBN market.

- The best solution keeps the yield stable following the reversal in investors' sentiment, then, is to re-reverse this sentiment. Akin to what happened in the equities market, the recent credit rating downgrade should serve as a clarion call for the government, creating urgency to deliver—or at least signal—a concrete response to investors' scepticism. Indeed, the government has been moving swiftly to address some of the key concerns behind the downgrade, with officials actively dispelling rumours of plans to loosen the fiscal rule, while Danantara has recently announced the groundbreaking of its downstream investment projects.

- On a side note, the significant buildup of government securities on banks' balance sheets, coupled with rising yields, may evoke memories of the US bank failures in early 2023, which were partly driven by mark-to-market losses on bond holdings. Fortunately, Indonesian banks appear better positioned to withstand similar pressures. Stronger capital buffers, healthier profitability, and more prudent balance sheet structures should help preserve capital adequacy even during periods of bond valuation stress (*see Chart 4*). At the same time, rising SBN yields may pose limited immediate fiscal risks, as the current 10Y benchmark yield remains comfortably below the government's budget assumption of 6.9%, providing a buffer against higher debt servicing costs as long as the realised revenue remains close to the budget design.

***"The fiscal condition and the domestic banking sector may remain stable amidst periods of further stress in the SBN market"***

Chart 1

**Idiosyncratic shocks**

Indonesia's CDS premiums have risen the most compared to other countries in the region, although they are still below those of some more volatile countries

YTD changes in CDS premium on 5Y USD sovereign bonds

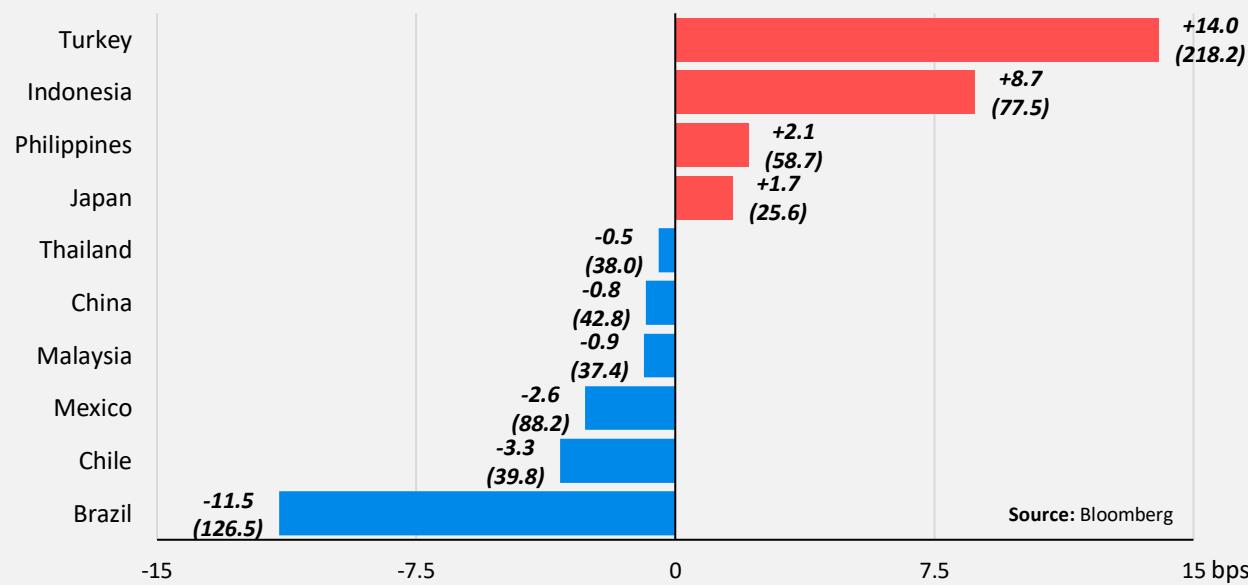


Chart 2

**Rising across the board**

The downgrade calls on Indonesia's credit rating briefly led to the biggest spike in the benchmark SBN yield since Jan-2025, but yields on the shorter-end of the curve remains stable

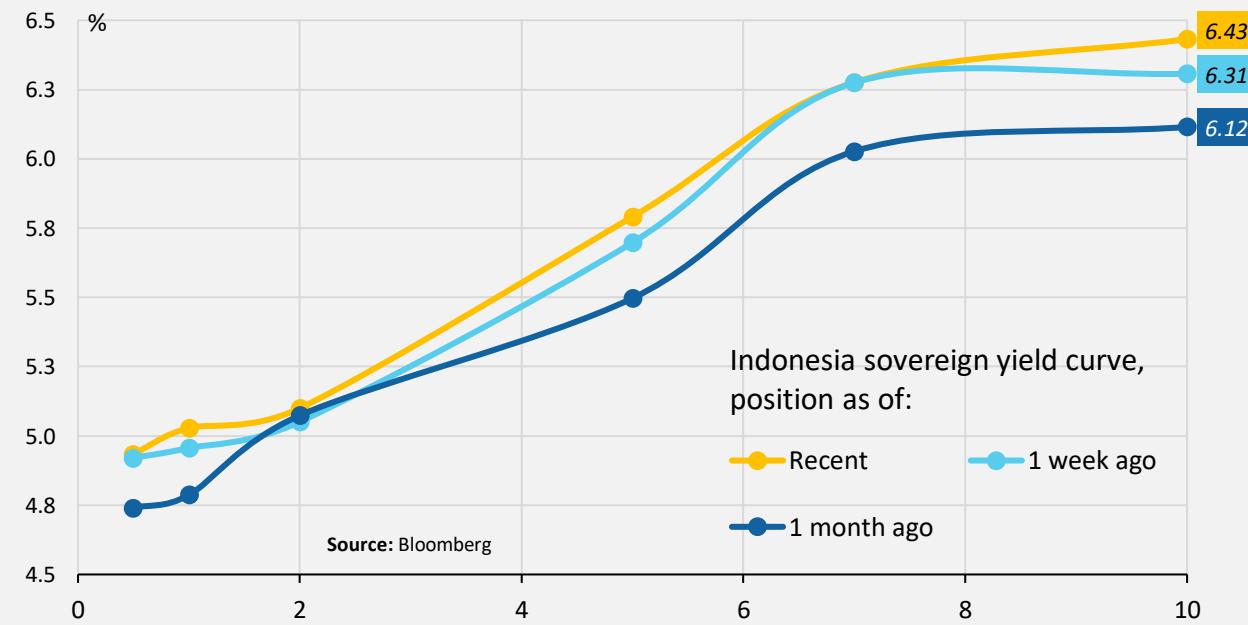


Chart 3

**Demand profile intact**

SBN may remain in high demand given the still-ample liquidity within the banking system, although more active SRBI issuance and faster loan growth may dampen demand

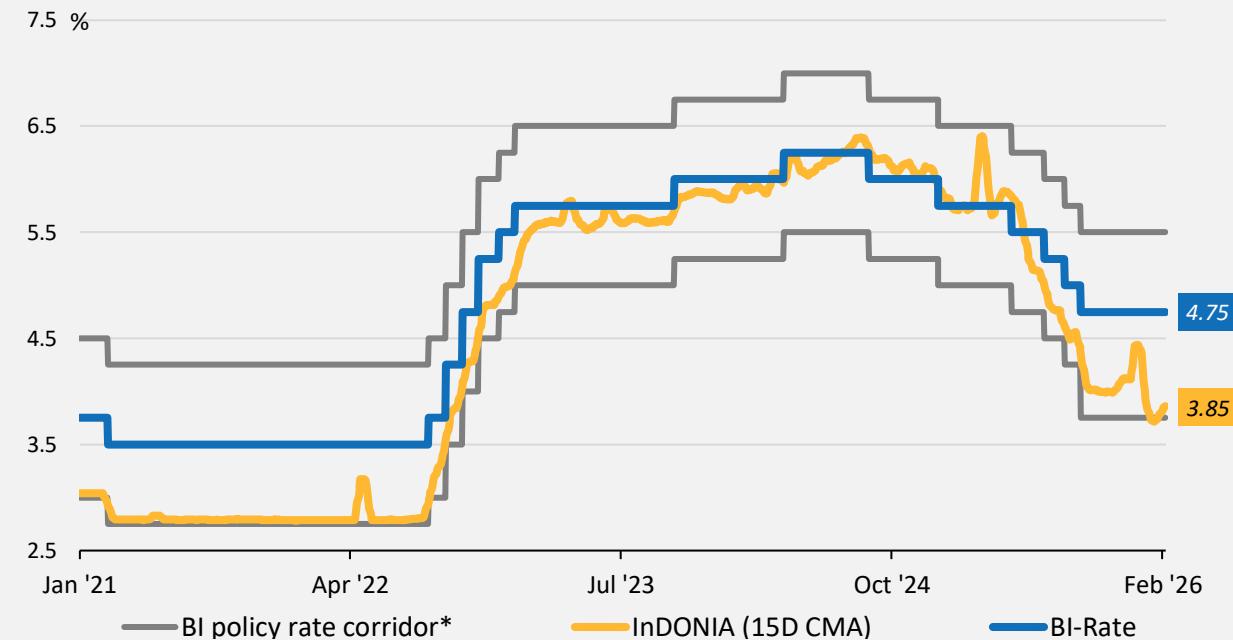
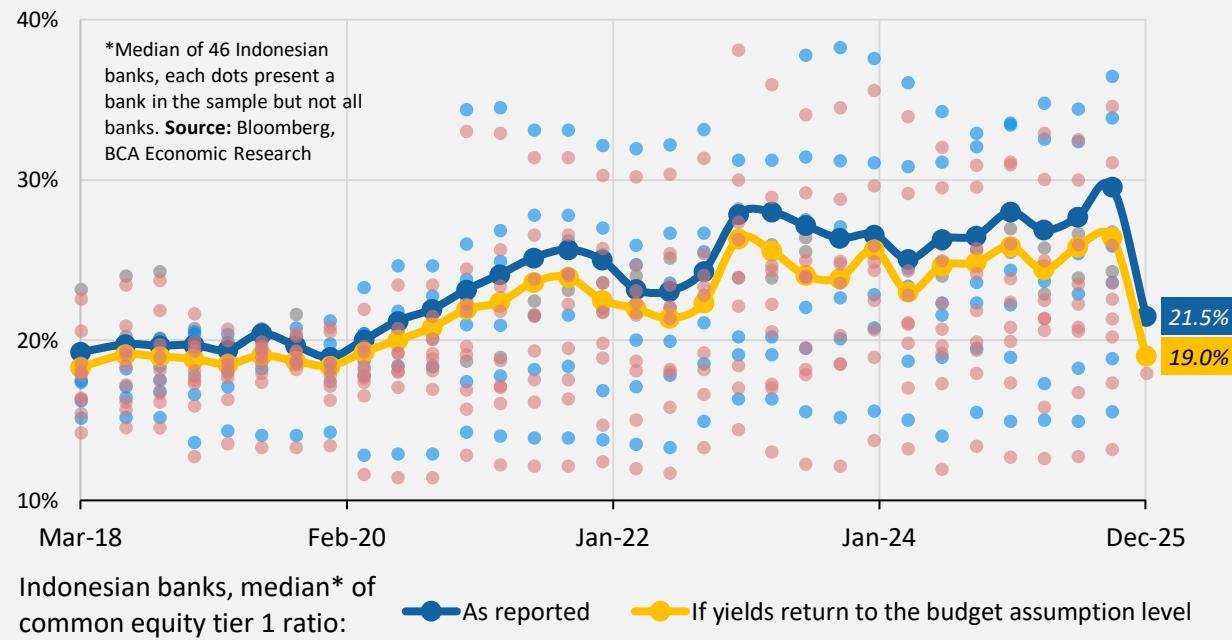


Chart 4

**Build for tough weathers**

Despite its increasing exposure government debts, most Indonesian banks may weather even an adverse sell-off pressure to the SBN market



Economic Calendar				
		Actual	Previous	Forecast*
02 February 2026				
ID	S&P Global Manufacturing PMI	52.6	51.2	51.4
ID	<b>Trade balance (Dec-25), USD Bn</b>	<b>2.52</b>	<b>2.66</b>	<b>3.0</b>
ID	<b>Inflation Rate YoY, %</b>	<b>3.55</b>	<b>2.92</b>	<b>3.9</b>
US	S&P Global Manufacturing PMI	52.4	51.8	51.9
05 February 2026				
ID	<b>GDP Growth Rate YoY, %</b>	<b>5.39</b>	<b>5.04</b>	<b>5.2</b>
EA	Retail Sales YoY, %	1.3	2.3	2.0
06 February 2026				
ID	<b>Foreign Exchange Reserves, USD Bn</b>	<b>154.6</b>	<b>156.5</b>	-
ID	Property Price Indeks YoY, %	0.83	0.84	1.0
09 February 2026				
ID	Consumer Confidence	127.0	123.5	123.9
ID	Motorbike Sales YoY, %	3.1	14.5	-
10 February 2026				
ID	Retail Sales YoY, %		6.3	-
US	Retail Sales YoY (Dec-25), %		3.3	-
11 February 2026				
CN	Inflation Rate YoY, %		0.8	0.7
US	Inflation Rate YoY, %		2.7	-
US	Non Farm Payrolls, th		50	40.0
13 February 2026				
ID	Car Sales YoY, %		25.7	-
19 February 2026				
ID	<b>BI-Rate Decision, %</b>	<b>4.75</b>	4.75	
ID	Loan Growth YoY, %		9.69	-
US	Trade balance (Dec-25), USD Bn		-56.8	-55
20 February 2026				
ID	Current Account, (USD Bn)		4.0	-
US	PCE Price Index YoY, %		2.8	-
23 February 2026				
ID	M2 Money Supply YoY, %		9.6	-

\*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

Selected Macroeconomic Indicator							
Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	06-Feb	-1 mth	Chg (%)
US	3.75	Dec-25	1.05	Baltic Dry Index	1,923.0	1,830.0	5.1
UK	3.75	Aug-25	0.35	S&P GSCI Index	587.6	555.5	5.8
EU	2.15	Jun-25	0.45	Oil (Brent, \$/bbl)	68.1	60.7	12.1
Japan	0.75	Dec-25	-1.35	Coal (\$/MT)	117.4	106.5	10.2
China (lending)	2.00	Sep-24	3.55	Gas (\$/MMBtu)	4.37	2.79	56.7
Korea	2.50	May-25	0.50	Gold (\$/oz.)	4,964.4	4,494.8	10.4
India	5.25	Dec-25	3.92	Copper (\$/MT)	12,923.1	13,241.0	-2.4
Indonesia	4.75	Sep-25	1.20	Nickel (\$/MT)	16,879.6	18,348.7	-8.0
<b>Money Mkt Rates</b>	<b>06-Feb</b>	<b>-1 mth</b>	<b>Chg (bps)</b>	CPO (\$/MT)	1,047.0	976.0	7.3
				Rubber (\$/kg)		1.93	1.88
SPN (1Y)	4.66	4.50	16.3	<b>External Sector</b>	<b>Dec</b>	<b>Nov</b>	<b>Chg (%)</b>
SUN (10Y)	6.42	6.08	34.2				
INDONIA (O/N, Rp)	3.88	3.85	3.0	Export (\$ bn)	26.35	22.52	16.99
JIBOR 1M (Rp)	5.03	5.03	0.0	Import (\$ bn)	23.83	19.86	20.02
<b>Bank Rates (Rp)</b>	<b>Oct</b>	<b>Sep</b>	<b>Chg (bps)</b>	Trade bal. (\$ bn)	2.51	2.66	-5.61
				Central bank reserves (\$ bn)*	156.5	150.1	4.27
Lending (WC)	8.30	8.46	-16.00	<b>Prompt Indicators</b>	<b>Dec</b>	<b>Nov</b>	<b>Oct</b>
Deposit 1M	4.75	4.96	-21.00				
Savings	0.68	0.70	-2.00	<b>Currency/USD</b>	<b>06-Feb</b>	<b>-1 mth</b>	<b>Chg (%)</b>
UK Pound	0.735	0.741	0.81	Consumer confidence index (CCI)	123.5	124.0	121.2
				Car sales (%YoY)	17.9	-1.0	-4.3
Euro	0.846	0.856	1.08	<b>Manufacturing PMI</b>	<b>Jan</b>	<b>Dec</b>	<b>Chg (bps)</b>
Japanese Yen	157.2	156.7	-0.36				
Chinese RMB	6.936	6.984	0.69	<b>Capital Mkt</b>	<b>06-Feb</b>	<b>-1 mth</b>	<b>Chg (%)</b>
Indonesia Rupiah	16,866	16,750	-0.69				
<b>Foreign portfolio ownership (Rp Tn)</b>	<b>Jan</b>	<b>Dec</b>	<b>Chg (Rp Tn)</b>	<b>Stock</b>	7,935.3	8,933.6	-11.18
Stock	4,021.0	4,186.7	-165.77	<b>Govt. Bond</b>	50,115.7	49,462.1	1.32
Govt. Bond	878.6	1,327.7	-449.17				
Corp. Bond	5.2	4.7	0.53	<b>Corp. Bond</b>			

Source: Bloomberg, BI, BPS

Notes:

\*Data from an earlier period

\*\*For changes in currency: **Black** indicates appreciation against USD, **Red** otherwise

\*\*\*For PMI, &gt;50 indicates economic expansion, &lt;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	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	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	4.50
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	41.1	33.8
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	0.0*	-0.4

**Notes:**

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

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