

Some soothing winds from the East China Sea

05 May 2026

Lazuardin Thariq Hamzah
lazuardin_hamzah@bca.co.id

Victor George Petrus Matindas
victor_matindas@bca.co.id



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Summary

- Unfavourable global conditions mean Indonesia's GDP growth may have peaked in Q1 2026, yet some external support may still be expected, as indicated by FDI inflows from China.
- Flows of cheap imports and low-yield funding from China may help to stabilise Indonesia's aggregate demand condition.
- However, further CNY debt issuance may increase mismatch risks, while the growing dominance of foreign-owned enterprises may be a drag on Indonesia's external balance without proper guardrails in place.

- The Indonesian economy has just released its GDP growth number in Q1-2026, clocking at 5.61% YoY (-0.77% QoQ) per expectations. Factors such as the low base effect from last year's slump in public spending, seasonal effects derived from Ramadhan and other religious holidays/celebrations, and the resulting higher domestic demand that drive manufacturing expansion explain Indonesia's accelerating GDP growth in Q1-2026, as highlighted in our previous GDP Nowcast report ([see report](#)).
- However, as we have also reported, Indonesia's GDP growth is unlikely to maintain its momentum in the upcoming quarters. Rising oil prices (averaging USD 101.3/bl since the Iran war erupted, vs. USD 70/bl APBN assumption) and the overall global macroeconomic backdrop present a massive roadblock for Indonesia's

growth trajectory, as higher energy prices and continued pressure on the Rupiah significantly add to the fiscal burden, prompting the government to prioritise and reconsider some of its spending commitments.

- At the same time, rising input prices have also pushed the manufacturing sector into the contraction zone (49.1 manufacturing PMI in April 2026, 50.1 before), translating negatively to the employment condition that could limit households' ability to refill their coffer following the spending bonanza in Q1-2026. Indeed, the domestic economy is widely expected to record slower growth in the quarters ahead, with multilateral institutions such as the IMF even downgrading Indonesia's FY 2026 growth outlook from 5.1% YoY to a flat 5.0%.

Conditional supports

- While the expected deceleration in Indonesia's GDP growth is deeply tied to rising oil prices, there is also a concern that higher energy costs may only be the surface of the iceberg that may

sink Indonesia's economic growth narratives. Indeed, foreign investors finding Indonesia's unconvincing growth narrative may be behind their decision to offload around USD 3.47 Bn

worth of Indonesian equities and sovereign bonds so far this year, a trend that has continued unabated long before the US military set course into the Arabian Sea.

- An interesting quip from the Ministry of Finance following his tour in the US that businesses still prefer portfolio to direct investments in Indonesia¹ (despite net outflows YTD) also hint that expectations of worsening macroeconomic conditions in Indonesia may have been woven into investors' psyche, risking foreign investments and buy-ins needed to realise Indonesia's industrialisation and growth agenda.
- Fortunately, the recent FDI data has yet to back up this concern. **FDI inflows to Indonesia increase by 5.2% YoY in Q1-2026, mostly driven by Chinese investors, while investment commitments from businesses based in other countries seem to be drying up (see Chart 1).** This development eases the concern that Chinese investments will recede once Indonesia's nickel boom reaches its peak, as Indonesia's energy surplus, promising domestic demand, and lower import tariffs to the US may have attract Chinese businesses to other parts of the manufacturing sector.
- More convincingly, **FDI inflows from China appear to generate more demand for labour per unit of investment compared to FDI from other countries**, with calculations using official data suggesting 18.4 jobs created per USD 1 Mn of Chinese FDI, compared to 17.3 for other FDI. The emergence of popular aphorisms such as "BUMC" (China-owned enterprises, a wordplay on state-owned enterprises "BUMN") further

"Investments from China help Indonesia's industrialisation push, but whether it would translate to a stronger BoP remains uncertain"

highlights the outsized role Chinese FDI plays in addressing Indonesia's labour market problem, which is interlinked with lagging household income.

- China's support for Indonesian households extends beyond labour absorption. Chronic underconsumption problem and higher US import tariffs have force Chinese manufacturers to export more of their products to Indonesia and other regional markets, which they do so despite report of lower margins, lest it aggravate the risk of involution now threatening its domestic manufacturing sector. **Despite the weakening Rupiah, the flows of cheap imports from China help to control the uptrend in imported prices (see Chart 2),** allowing Indonesian consumers to benefit from stable goods prices as indicated by the muted core CPI inflation.
 - The household sector is not the only one whose consumption could be partly supported by China. **The Indonesian government has been aggressive in issuing dim sum bonds to fund its expenses (see Chart 3),** benefiting from stable yields in China, as its massive current account (CA) surplus and the PBoC's loose monetary stance create robust demand for CNY-denominated assets. The contrasting 77.7 bps YTD rise in the benchmark SBN yield, along with the expectedly higher debt issuance (expenses on fuel subsidy and compensation increased by 266.5% YoY to Rp 118.7 Tn in 3M 2026), may encourage the government to continue tapping into the Chinese bond market for funds, which has thus far remained isolated from the uptrend in global bond yields (**see Chart 4**).

¹ <https://www.tempo.co/ekonomi/purbaya-investor-as-lebih-tertarik-instrumen-portofolio-2129354>

- Alas, higher issuance of dim sum bonds is not without risks. Unlike USD and other currencies, Indonesia’s CNY deficits continue to widen in recent years (*see Chart 5*), as higher share of imports from China (37.8% in 3M 2026, vs. 28.1% in 2019) means more imports paid in CNY while commodity exports remain USD-based. Ergo, **further dim sum bonds issuance may lead to currency mismatch and rollover risks**, potentially moving the exchange rate between the two currency’s pair in favour of the CNY that will mechanistically increase the cost of servicing the debt.
- The growing dominance of Chinese FDI and imports also comes with its own risks. **There are concerns that FDI inflows from China are**

primarily market-driven, posing a threat to Indonesia’s current account (CA), as some of the booked profits will be sent back to China as dividends, while exports may remain negligible.

- At the same time, domestic companies may find it hard to compete with Chinese firms’ superior scale and supply chains, potentially pushing them aside while China-owned companies claim a larger share of the domestic market. Indeed, guardrails must be put in place against this risk, as success in attracting FDI and industrialisation (as measured by manufacturing share of GDP) may not translate into a strengthened balance of payments posture if local manufacturers are left unprotected.

Chart 1

Still a willing investor

Chinese investors continue to pile in when other investors are cutting their commitment to Indonesia, keeping Indonesia’s momentum for industrialisation alive

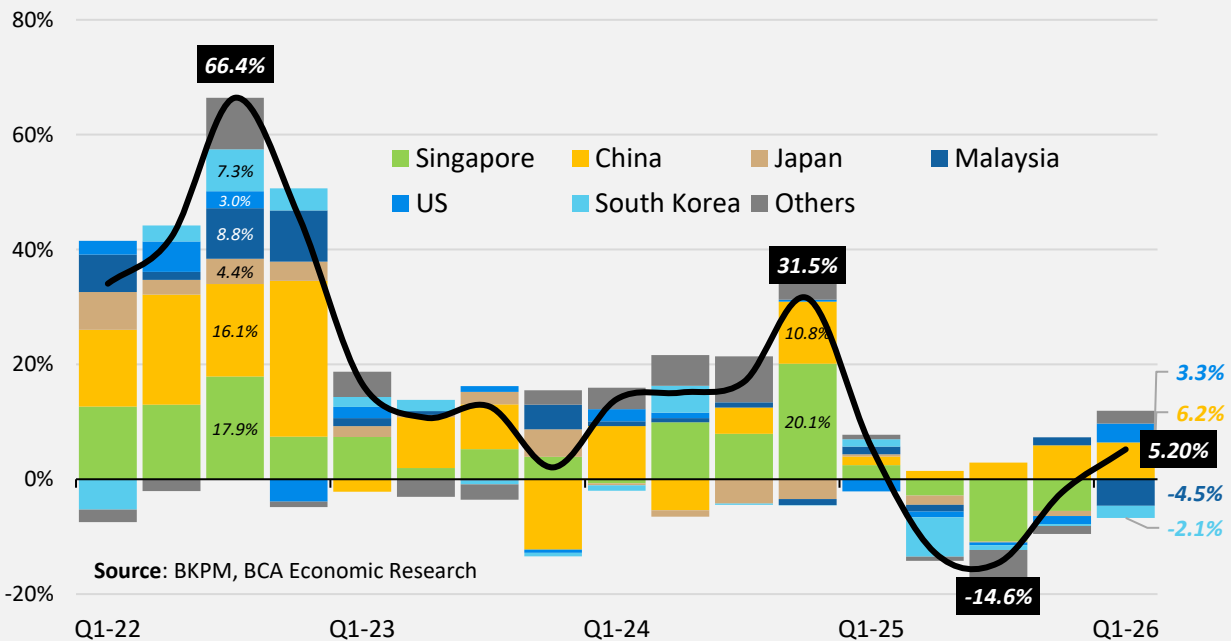


Chart 2

Keeping things cheap

China's persistent overcapacity problem forces them to export at near costs, helping to keep Indonesia's imports relatively cheap despite the depreciating Rupiah

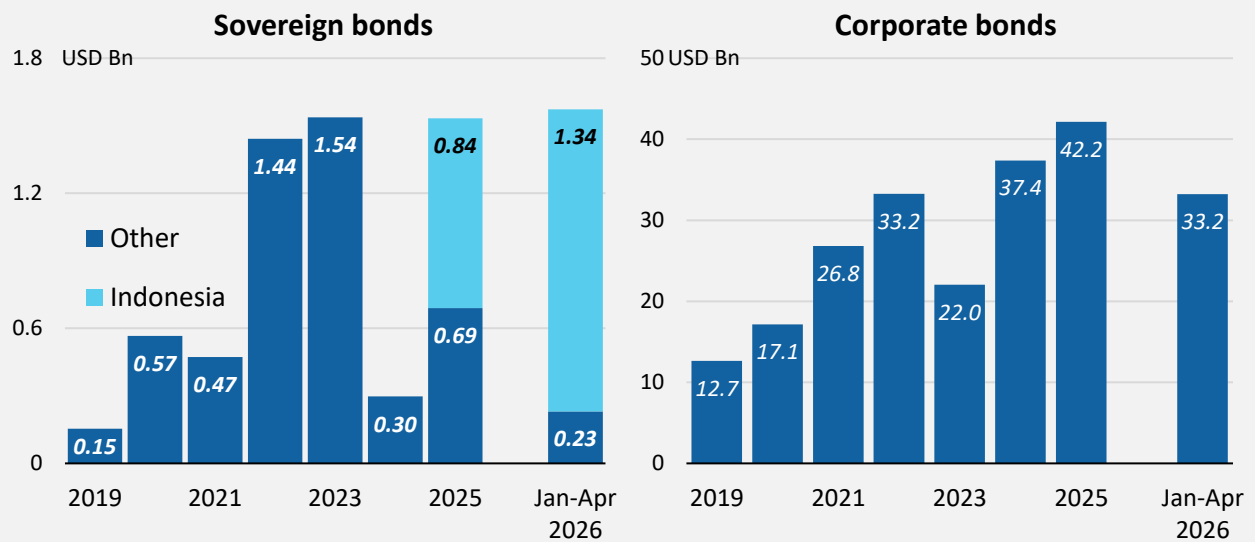


Chart 3

Willing debtors

Stable and low yield in China encourage the Indonesian government to double down on dim sum bonds issuance in 2026, a strategy that the corporate sector yet to replicate

Overseas CNY bonds issuance



Source: Bloomberg, BCA Economic Research

Chart 4

Getting low when others are getting high

CNY borrowers continue to benefit from lower yields in 2026, as China’s increasing CA surplus drives the demand for CNY-denominated assets while the PBoC remains accommodative

YTD changes in sovereign bond yields (bps)

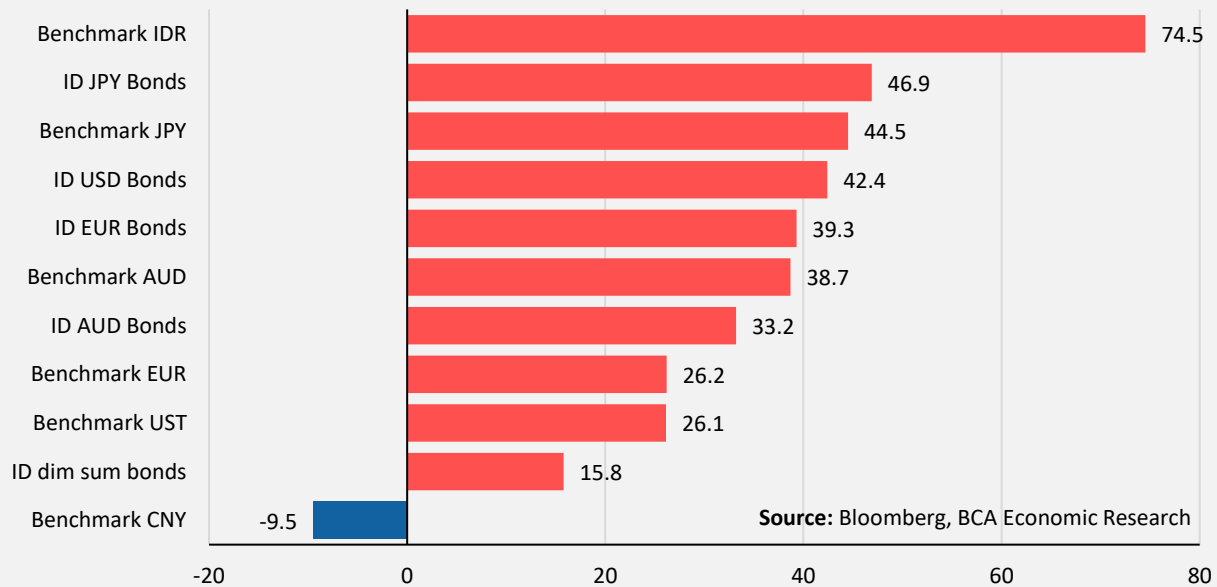
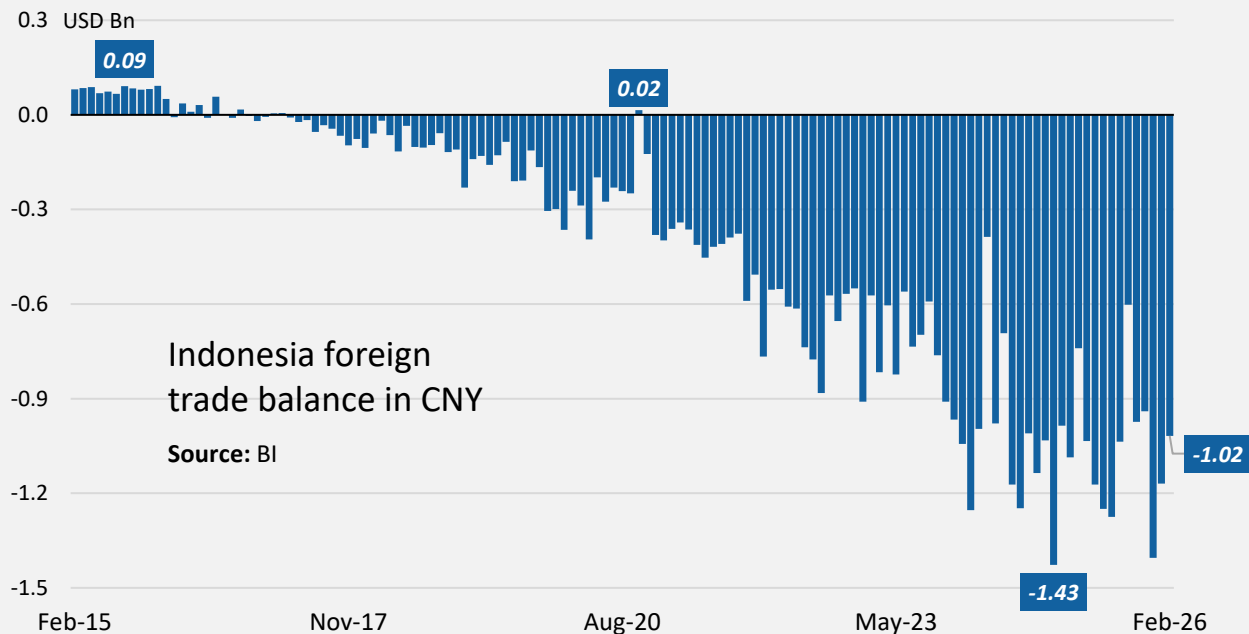


Chart 5

CNY deficits

Indonesia’s widening CNY deficits highlight the risk of further dim sum bonds issuance, although China’s outsized CA surplus may fuel the demand for overseas CNY assets



| Economic Calendar | | | | |
|-------------------|--|-------------|--------------|------------|
| | | Actual | Previous | Forecast* |
| 04 May 2026 | | | | |
| ID | S&P Global Manufacturing PMI | 49.1 | 50.1 | 50.5 |
| ID | Trade balance (Mar-26), USD Bn | 3.32 | 1.28 | 4.2 |
| ID | Inflation Rate YoY, % | 2.42 | 3.48 | 3.0 |
| 05 May 2026 | | | | |
| ID | GDP Growth Rate YoY, % | 5.61 | 5.39 | 5.6 |
| US | Trade balance (Mar-26), USD Bn | | -57.3 | -61.4 |
| 07 May 2026 | | | | |
| EA | Retail Sales YoY, % | | 1.7 | 1.4 |
| 08 May 2026 | | | | |
| ID | Foreign Exchange Reserves, USD Bn | | 148.2 | - |
| ID | Property Price Indeks YoY, % | | 0.83 | 0.5 |
| US | Non Farm Payrolls, th | | 178 | 95.0 |
| ID | Car Sales YoY, % | | -13.8 | -7.0 |
| 09 May 2026 | | | | |
| CN | Trade balance, USD Bn | | 51.13 | 79.1 |
| 11 May 2026 | | | | |
| CN | Inflation Rate YoY, % | | 1 | - |
| ID | Consumer Confidence | | 122.9 | - |
| 12 May 2026 | | | | |
| ID | Retail Sales YoY, % | | 6.5 | - |
| US | Inflation Rate YoY, % | | 3.3 | - |
| ID | Motorbike Sales YoY, % | | -17.1 | - |
| 14 May 2026 | | | | |
| US | Retail Sales YoY, % | | 4.0 | - |
| 18 May 2026 | | | | |
| CN | Retail Sales YoY, % | | 1.7 | - |
| 20 May 2026 | | | | |
| ID | BI-Rate Decision, % | | 4.75 | - |
| ID | Loan Growth YoY, % | | 9.49 | - |
| 22 May 2026 | | | | |
| ID | Current Account, (USD Bn) | | -2.5 | 2.1 |
| ID | M2 Money Supply YoY, % | | 9.7 | - |
| 28 May 2026 | | | | |
| US | PCE Price Index YoY, % | | 3.5 | - |

*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 | 04-May | -1 mth | Chg (%) |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US | 3.75 | Dec-25 | 0.45 | Baltic Dry Index | 2,730.0 | 2,066.0 | 32.1 |
| UK | 3.75 | Dec-25 | 0.45 | S&P GSCI Index | 777.8 | 771.8 | 0.8 |
| EU | 2.15 | Jun-25 | -0.85 | Oil (Brent, \$/brl) | 114.4 | 109.0 | 5.0 |
| Japan | 0.75 | Dec-25 | -0.75 | Coal (\$/MT) | 142.0 | 143.9 | -1.3 |
| China (lending) | 2.00 | Sep-24 | 3.35 | Gas (\$/MMBtu) | 2.67 | 2.85 | -6.4 |
| Korea | 2.50 | May-25 | 0.30 | Gold (\$/oz.) | 4,521.9 | 4,676.8 | -3.3 |
| India | 5.25 | Dec-25 | 1.85 | Copper (\$/MT) | 12,916.4 | 12,287.9 | 5.1 |
| Indonesia | 4.75 | Sep-25 | 2.33 | Nickel (\$/MT) | 19,182.1 | 16,898.1 | 13.5 |
| | | | | CPO (\$/MT) | 1,154.2 | 1,175.0 | -1.8 |
| | | | | Rubber (\$/kg) | 2.19 | 2.03 | 7.9 |
| Money Mkt Rates | 04-May | -1 mth | Chg (bps) | External Sector | Mar | Feb | Chg (%) |
| SPN (1Y) | 5.74 | 5.23 | 50.7 | Export (\$ bn) | 22.53 | 22.17 | 1.62 |
| SUN (10Y) | 6.77 | 6.62 | 15.3 | Import (\$ bn) | 19.21 | 20.89 | -8.08 |
| INDONIA (O/N, Rp) | 4.71 | 4.11 | 60.3 | Trade bal. (\$ bn) | 3.32 | 1.27 | 160.82 |
| JIBOR 1M (Rp) | 5.03 | 5.03 | 0.0 | Central bank reserves (\$ bn)* | 148.2 | 151.9 | -2.47 |
| Bank Rates (Rp) | Feb | Jan | Chg (bps) | Prompt Indicators | Mar | Feb | Jan |
| Lending (WC) | 8.05 | 8.06 | -1.00 | Consumer confidence index (CCI) | 122.9 | 125.2 | 127.0 |
| Deposit 1M | 4.47 | 4.46 | 1.00 | Car sales (%YoY) | -13.8 | 12.3 | 7.1 |
| Savings | 0.68 | 0.69 | -1.00 | Motorcycle sales (%YoY) | -17.1 | 1.0 | 3.1 |
| Currency/USD | 04-May | -1 mth | Chg (%) | Manufacturing PMI | Apr | Mar | Chg (bps) |
| UK Pound | 0.739 | 0.757 | 2.50 | USA | 54.5 | 52.3 | 220 |
| Euro | 0.855 | 0.868 | 1.49 | Eurozone | 52.2 | 51.6 | 60 |
| Japanese Yen | 157.2 | 159.7 | 1.55 | Japan | 55.1 | 51.6 | 350 |
| Chinese RMB | 6.828 | 6.882 | 0.79 | China | 52.2 | 50.8 | 140 |
| Indonesia Rupiah | 17,380 | 17,000 | -2.19 | Korea | 53.6 | 52.6 | 100 |
| | | | | Indonesia | 49.1 | 50.1 | -100 |
| Capital Mkt | 04-May | -1 mth | Chg (%) | | | | |
| JCI | 6,972.0 | 7,026.8 | -0.78 | | | | |
| DJIA | 48,941.9 | 46,504.7 | 5.24 | | | | |
| FTSE | 10,363.9 | 10,436.3 | -0.69 | | | | |
| Nikkei 225 | 59,513.1 | 53,123.5 | 12.03 | | | | |
| Hang Seng | 26,095.9 | 25,116.5 | 3.90 | | | | |
| Foreign portfolio ownership (Rp Tn) | Apr | Mar | Chg (Rp Tn) | | | | |
| Stock | 3,158.9 | 3,208.6 | -49.72 | | | | |
| Govt. Bond | 862.4 | 853.6 | 8.80 | | | | |
| Corp. Bond | 5.8 | 6.2 | -0.41 | | | | |

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 | 2025 | 2026E |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Real GDP growth (% YoY) | -2.1 | 3.7 | 5.3 | 5.0 | 5.0 | 5.1 | 5.0 |
| 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 | 5457 |
| CPI inflation (% YoY) | 1.7 | 1.9 | 5.5 | 2.6 | 1.6 | 2.9 | 3.3 |
| BI Rate (%) | 3.75 | 3.50 | 5.50 | 6.00 | 6.00 | 4.75 | 4.75 |
| SBN 10Y yield (%) | 5.86 | 6.36 | 6.92 | 6.45 | 6.97 | 6.05 | 6.76 |
| USD/IDR exchange rate (average) | 14,529 | 14,297 | 14,874 | 15,248 | 15,841 | 16,468 | 17,216 |
| USD/IDR exchange rate (end of year) | 14,050 | 14,262 | 15,568 | 15,397 | 16,102 | 16,690 | 17,430 |
| 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 | -0.1 | -0.4 |

Notes:

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

BCA Economic & Industry Research

David E.Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

Jennifer Calysta Farrell

Economist / Analyst

jennifer_farrell@bca.co.id

+6221 2358 8000 Ext: 1082423

Agus Salim Hardjodinoto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Nicholas Husni

Economist / Analyst

nicholas_husni@bca.co.id

+6221 2358 8000 Ext: 1079839

Arif Agung Wibowo

Economist / Analyst

arif_agung@bca.co.id

+6221 2358 8000 Ext: -

Victor George Petrus Matindas

Head of Banking Research and Analytics

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1007431

Samuel Theophilus Artha

Economist / Analyst

samuel_artha@bca.co.id

+6221 2358 8000 Ext: 1080373

PT Bank Central Asia Tbk

BCA Economic & Industry Research

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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