

Digging into alternatives

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Summary

- Significantly lower oil prices and efficiency measures to the government's flagship programmes have reduced concerns of fiscal deficit breaching the legal limit.
- The government would likely increase debt financing this year, due to increased investment financing to support priority programs amidst SAL injection into SOE banks.
- Due to existing constraints around expansive fiscal and monetary policy, increased private investments would need to be in greater focus moving forward.

- While situations around the Strait of Hormuz continued to present uncertainty, the market seems certain that the supply shock is well and truly over, with the Brent futures curve now showing a short-term contango. Some oil market analysts have likewise shrugged off the possibility of a rebound in price, with some now making bold prognostications of a supply glut once the Strait returns to full operational capacity.
- With the 'commodities' trade nearing its conclusion, traders have piled once again onto the 'US exceptionalism' trade, resulting in the DXY staying above 100 while the S&P 500 made 15.2% total return in Q2-26, fuelled by the ongoing GenAI rally. However, the US economy isn't without its problems; the latest NFP print (+57k) has gone below expectations (+113k) even as unemployment fell to 4.2%, prompting economists to ruminate about the low-hire, low-fire condition prevalent throughout 2025.
- Moreover, some questions remain over whether the supply disruption is truly over. First, traffic through the Strait of Hormuz hasn't returned to pre-war levels yet (*see Chart 1*), as many shipowners viewed the tenuous ceasefire agreement as a major barrier from attempting a crossing. Second, there remains considerable travel time between the Strait and its (main) customers in Asia, leading to a further lag in supply relief even if the ceasefire ended up enduring. Third, inventory levels around the world have declined due to the crisis, necessitating a period of inventory build-up that would pull up oil demand in the short to medium term.
- Fortunately, there are some reasons to think that the overall balance between demand and supply wouldn't be so lopsided moving forward. Earlier in the conflict, many oil analysts have predicted further spikes in oil prices (up to USD 150 – 200/bbl) if the conflict were to remain protracted, rationalizing that inventory drawdown and alternate shipment routes are insufficient to completely balance the supply restriction of the blockade.
- However, a multitude of surprise factors have helped cushion oil price below the forecasted

figures. The first one is China’s sharp drop-off in oil imports (*see Chart 2*), caused by the country’s drawdown of its strategic inventory, and its ongoing switch towards EVs and green energy. Another factor was the increased

amount of oil flowing through alternative routes, such as Saudi Arabia’s East-West pipeline and UAE’s Habshan-Fujairah oil pipeline.

Pulling a rabbit out of a hat

- These accommodative global conditions have helped Indonesia’s fiscal outlook. Some of the net foreign portfolio outflows this year has been triggered by concerns around the government’s deficit exceeding the 3% GDP limit, due to the decision to keep subsidized fuel prices stable to prevent social unrest.
- The US-IR ceasefire agreement, however, has abated some of these concerns. The decline in Brent prices had us revising down our base scenario towards USD 80/bbl oil average price throughout 2026 (vs USD 70/bbl in budget assumption), which should result in a relatively mild increase in subsidy costs this year. Moreover, the government has also taken some austerity measures against the president’s flagship programmes (most notably free lunch and R&W cooperatives). Barring another crisis that necessitates expansive fiscal policy or a severe revenue shortfall, the FY 2026 budget deficit are likely to stay under the 3% threshold.
- However, it’s worth to point out the more extensive usage of alternate financing the government plans to use this year. While the deficit is projected to reach IDR 689 Tn (around 2.68% of GDP), debt financing is expected to reach IDR 832 Tn (around 3.24% of GDP). This is mainly caused by a substantially larger

“The increased investment financing to support government programmes would result in higher debt issuance this year”

investment financing (IDR 203 Tn), most of which is allocated to support the government’s subsidized housing (Tapera), food supply stabilization (Bulog), and Red & White Village Cooperatives (KDMP) programmes.

- In addition to the rising investment financing, the finance ministry has also decided to place a substantial sum of cash (up to IDR 400 Tn) in SOE banks to further boost credit & lending. While this scheme gives SOE banks much needed liquidity amidst leveraging by quasi-public entities ([see our earlier report here](#)), this scheme would also constraint the government’s own free cashflow, possibly leading to larger debt issuance.
- It’s also uncertain how flexible the additional cash allocation would be. On paper, the government placed these funds under short term instruments, making it able to be withdrawn at a short notice. However, SOE banks have had a historically higher LDR compared to private banks, and an abrupt withdrawal would likely put a significant constraint on their liquidity, likely making a swift exit difficult. Rapid withdrawals could also induce a more cautionary approach from these banks, thus limiting the liquidity benefit the cash injection is supposed to induce.

- With this in mind, it's likely for the government to opt for a more gradual drawdown of funds at a time where liquidity conditions are abundant (i.e. when Rupiah are stronger and BI can afford to act on its dovish impulse). So far, we can already see the impact of the earlier IDR 200 Tn allocation combined with the government's accelerated spending plans, resulting in a record high debt financing throughout the year (*see Chart 3*). This reflects the government's more aggressive debt financing strategy to maintain sufficient liquidity for daily operations.
- Unfortunately, this need for higher financing could clash with BI's current pro-stability position, which opted to increase yields on securities in a bid to keep the Rupiah in check. Thus, while these quasi-public projects wouldn't necessarily result in a higher deficit, they would incur indirect cost through higher interest payments, at a time when interest payments have become a closely watched metric from rating agencies regarding Indonesia's fiscal sustainability.
- Amidst this backdrop, we have also seen early indicators of a real sector slowdown. Indonesia's manufacturing PMI reading has dropped sharply to 46.9 in June-26, fuelled by a simultaneous decline in production and new orders. Likewise, our Big Data indicators have

“Given current fiscal and monetary policy constraints, attracting additional investment remains the limelight of growth”

soured recently, indicating a deterioration in real economic conditions (*see Chart 4*).

- In usual times, this slowdown usually dictates a more expansive role for the public sector to counteract the more muted performance of the private sector. However, as mentioned earlier, there remains considerable constraints for both levers; FX stability in BI's case and high bond yields & debt issuance in the government's case, potentially resulting in an unpalatable dilemma between growth and stability.
- With the traditional stimulus measures in a (metaphorical) bind, attracting additional investments to rejuvenate the private sector would be the limelight of growth moving forward. We have seen some efforts from the government to court such investments, such as the recent proposal to build an Indonesian Financial Centre in Bali with a multitude of financial & regulatory incentives.
- However, this IFC project represents a long-term project by the government, while the current slowdown may necessitate a swifter response. As such, the government would likely require a few 'quick wins' to restore investors' confidence in Indonesia, such as addressing the concerns raised by sovereign rating agencies to prevent further deterioration in Indonesia's risk perception.

Chart 1

Still a risky venture

Traffic through the Strait of Hormuz remains squarely below pre-war levels due to the ongoing ceasefire uncertainty between the US and Iran

Commercial Vessel traffic through the Strait of Hormuz (3-day avg)

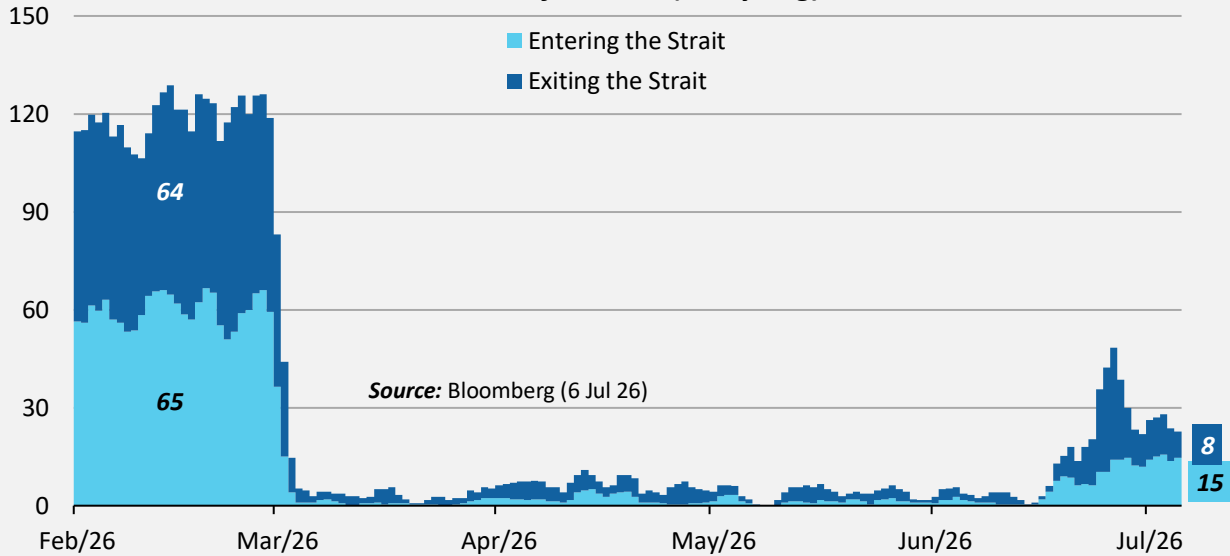


Chart 2

Shutting off the tap

Sharp drop-off in Chinese imports of crude oil helped stabilize oil price during the crisis

China's monthly imports of fossil fuels

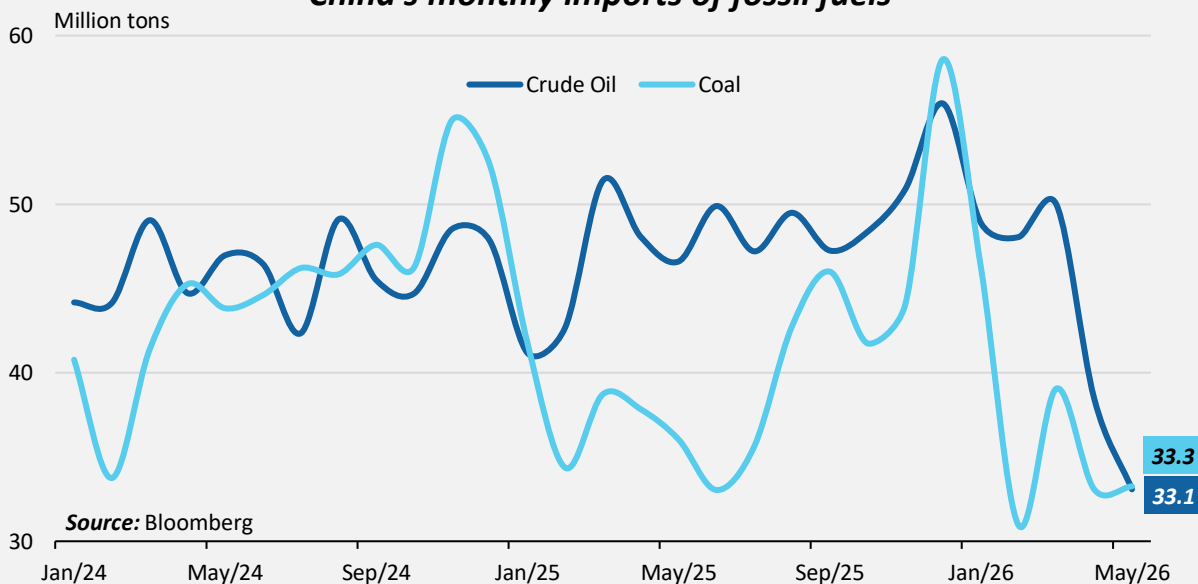


Chart 3

Accelerating expenses

The MoF has accelerated fiscal spending and placed substantial idle funds in SOE banks, necessitating faster debt issuance so far throughout the year

Government deficit & financing Jan-May

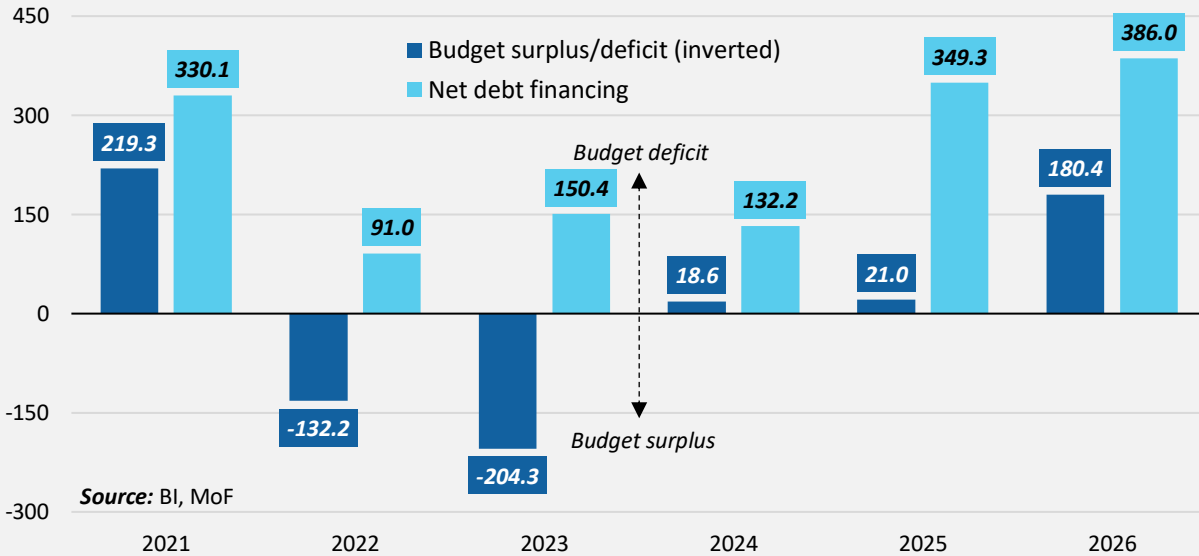
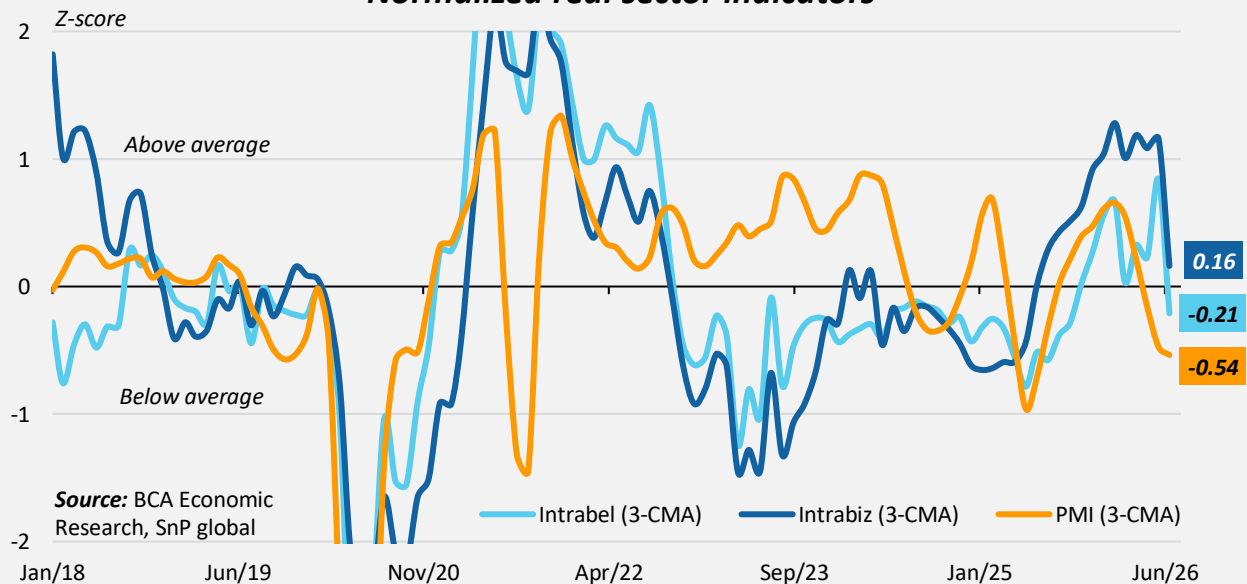


Chart 4

In a slump to end off the quarter

High frequency real sector indicators indicated declining performance lately, signifying a real sector slowdown amid financing pressures on the public sector

Normalized real sector indicators



Economic Calendar				
		Actual	Previous	Forecast*
01 July 2026				
ID	S&P Global Manufacturing PMI	46.9	50.0	50.4
ID	Trade balance (May-26), USD Bn	-1.61	0.09	4.0
ID	Inflation Rate YoY, %	3.34	3.08	3.1
02 July 2026				
US	Non Farm Payrolls, th	57	129	110.0
06 July 2026				
EA	Retail Sales YoY, %	1.6	0.9	1.4
07 July 2026				
ID	Foreign Exchange Reserves, USD Bn	145.6	144.9	145
US	Trade balance (May-26), USD Bn		-55.9	-85.2
08 July 2026				
ID	Consumer Confidence		120.9	125
09 July 2026				
CN	Inflation Rate YoY, %		1.2	1.3
ID	Retail Sales YoY, %		-3.7	2.0
ID	Motorbike Sales YoY, %		-5.1	-
10 July 2026				
ID	Car Sales YoY, %		14.0	-
14 July 2026				
CN	Trade balance, USD Bn		105.43	110
US	Inflation Rate YoY, %		4.2	3.9
15 July 2026				
CN	Retail Sales YoY, %		-0.6	3.7
16 July 2026				
US	Retail Sales YoY, %		6.9	6.7
22 July 2026				
ID	BI-Rate Decision, %		5.75	-
ID	Loan Growth YoY, %		11.51	9.0
23 July 2026				
ID	M2 Money Supply YoY, %		10.8	-
29 July 2026				
ID	Foreign Direct Investment YoY, %		8.5	-
30 July 2026				
US	Fed Interest Rate Decision, %		3.75	3.75
US	PCE Price Index YoY, %		4.1	3.7

*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-Jul	-1 mth	Chg (%)
US	3.75	Dec-25	-0.45	Baltic Dry Index	2,797.0	2,981.0	-6.2
UK	3.75	Dec-25	0.95	S&P GSCI Index	626.8	693.8	-9.7
EU	2.40	Jun-26	-0.40	Oil (Brent, \$/brl)	72.0	93.1	-22.7
Japan	1.00	Jun-26	-0.50	Coal (\$/MT)	128.3	147.4	-13.0
China (lending)	2.00	Sep-24	3.15	Gas (\$/MMBtu)	3.22	3.06	5.3
Korea	2.50	May-25	-0.70	Gold (\$/oz.)	4,165.2	4,328.5	-3.8
India	5.25	Dec-25	1.32	Copper (\$/MT)	13,348.4	13,490.3	-1.1
Indonesia	5.75	Jun-26	2.41	Nickel (\$/MT)	16,208.3	18,360.1	-11.7
				CPO (\$/MT)	1,091.5	1,112.7	-1.9
				Rubber (\$/kg)	2.17	2.33	-6.9
Money Mkt Rates	06-Jul	-1 mth	Chg (bps)	External Sector	May	Apr	Chg (%)
SPN (1Y)	6.89	6.48	40.8	Export (\$ bn)	23.20	25.30	-8.30
SUN (10Y)	7.10	6.85	25.3	Import (\$ bn)	24.81	25.21	-1.59
INDONIA (O/N, Rp)	6.02	5.34	68.3	Trade bal. (\$ bn)	-1.61	0.09	-1,907.18
JIBOR 1M (Rp)	5.03	5.03	0.0	Central bank reserves (\$ bn)*	144.9	146.2	-0.89
Bank Rates (Rp)	Apr	Mar	Chg (bps)	Prompt Indicators	May	Apr	Mar
Lending (WC)	7.96	8.00	-4.00	Consumer confidence index (CCI)	120.9	123.0	122.9
Deposit 1M	4.48	4.47	1.00	Car sales (%YoY)	14.0	55.0	-13.8
Savings	0.68	0.67	1.00	Motorcycle sales (%YoY)	-5.1	28.1	-17.1
Currency/USD	06-Jul	-1 mth	Chg (%)	Manufacturing PMI	Jun	May	Chg (bps)
UK Pound	0.747	0.750	0.37	USA	53.9	55.1	-120
Euro	0.874	0.868	-0.70	Eurozone	51.4	51.6	-20
Japanese Yen	162.1	160.3	-1.11	Japan	54.8	54.5	30
Chinese RMB	6.795	6.788	-0.09	China	51.7	51.8	-10
Indonesia Rupiah	17,995	18,020	0.14	Korea	52.1	54.8	-270
				Indonesia	46.9	50.0	-310
Capital Mkt	06-Jul	-1 mth	Chg (%)				
JCI	5,916.1	5,594.8	5.74				
DJIA	53,055.9	50,866.8	4.30				
FTSE	10,651.8	10,368.1	2.74				
Nikkei 225	69,737.7	66,588.1	4.73				
Hang Seng	23,616.3	24,962.0	-5.39				
Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)				
Stock	2,573.5	2,820.6	-247.08				
Govt. Bond	885.7	863.2	22.43				
Corp. Bond	5.7	5.8	-0.09				

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	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5128
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.25
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	8.01
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.3

Notes:

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

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