Finding room to breathe

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Summary

- The Rupiah had strengthened, supported by weaker US labour market data and news of Destry Damayanti as the sole BI governor candidate.
- While a more favourable global environment offers some breathing room, Indonesia's overall liquidity remains tight.
- The government is focusing on keeping the economy afloat, but its room to manoeuvre is narrowing due to narrowing liquidity and fiscal space.

- The global financial market entered the second week of August 2026 in what appears to be a fragile but functional equilibrium. US Treasury yields have drifted lower across the curve as the market has re-anchored its expectations around a prolonged Federal Reserve pause. The catalyst is increasingly unambiguous: the US labour market is decelerating. Non-farm payrolls growth has slowed considerably from the robust prints seen earlier in the year, and the most recent weekly jobless claims data reinforced the view that labour market cooling is proceeding more rapidly than the Fed's own projections had anticipated. As a result, the futures market has substantially pared back its probability of a further FFR hike in 2026, with the likelihood of a September move now priced below 30%.
- The timing is particularly favourable as Indonesia faces its own domestic turbulence following Perry Warjiyo's resignation as BI Governor, reflected in around USD 140 Mn of net outflows from the equity and SBN markets over the past week. Fortunately, some of the pressure has eased following recent announcement of Destry Damayanti as the sole candidate for the next BI Governor. The nomination appears to have been read as a signal of policy continuity, with the Rupiah strengthening around 0.20% following the announcement.
- The move, however, remains modest as it was also aided by a broader weakening of the USD. More importantly, Destry's appointment may provide some stability to BI's policy direction but **does little to address the underlying pressures on the Rupiah**. Continued liquidity injections into the banking system and a widening trade deficit could still sustain demand for foreign currency, leaving the Rupiah vulnerable once the current USD weakness fade

Tight tight space

- The MoF announced another IDR 70 trillion placement of excess liquidity (SAL) deposits into state-owned banks, a move that came after IndoNIA had been flirting with the lending facility rate ceiling, signalling tightening liquidity conditions across the banking system (*Chart 1*). The announcement immediately provided some relief, with IndoNIA easing 37 bps in the day that followed, though it still remains above the BI rate.

- The broader picture, however, remains strained: industry-wide LDR has reached 88.3% as of June-2026, with state owned banks climbing even higher to 90.8% (as of May). **A sudden withdrawal of SAL is not a realistic option at this stage**. An abrupt removal of these deposits risks destabilising the very banks the government is relying on to sustain its lending programmes. Several KBMI I and KBMI II banks face an even tighter picture, where high loan growth is colliding with a rapidly tighter liquidity (*see Chart 2*).

"Withdrawal of SAL is not a realistic option at this stage"

- The additional SAL placement itself is not unusual, the government has sizable programme obligations to fulfil, most notably supporting the Red-White Village Cooperatives (KDMP). The more pressing concern is what it implies for the government's own balance sheet, with an estimated IDR 400 trillion of SAL now locked within the banking system (*see Chart 3*) and potentially another IDR 70 Tn – the government's fiscal flexibility is increasingly constrained by deposits it cannot easily recall without triggering the very liquidity stress it is trying to prevent.
- The first real test of the arrangement is approaching. September marks the initial instalment payment period for the Red-and-White Cooperatives program, directly from the government budget. On the other hand, we can expect this to somewhat lessen the burden on SOE banks' balance sheets. Additionally, if funding slowly shifts from initially being for cooperative business preparation (such as construction and capital goods imports) to the operational side, it would mean the correlation between credit growth and imports could be decreased.

Effort to support growth

- As mentioned a couple of times on our report, the SAL injections were not merely an effort to ease banking liquidity, but also another way for the government to shift part of its spending burden toward state-owned banks. This appears to have helped contain the pressure on the state budget, with the fiscal deficit as of June standing at IDR 196.5 Tn, narrower than the IDR 204.2 Tn recorded over the same period last year.
- The fiscal saving has also been supported by a 25.2% reduction in regional transfers from last year allocated budget, with actual disbursements declining by 11.2% as of June. Part of the resources have instead been redirected toward KDMP, effectively replacing a portion of the village fund previously channelled directly to regional governments. This reallocation, however, comes with a cost. With KDMP yet to become fully operational, **the funds have yet to translate into meaningful economic activity at the regional level**. This may partly explain the recent moderation in retail sales (*Chart 4*), as well as the divergence in our big data indicators, which are more concentrated among urban consumers.
- The government appears to have recognised this gap, with the MoF recently announcing an additional IDR 20.5 Tn in regional transfers

(TKD). The move comes as several provinces face mounting fiscal pressures, with some regions already considering cutting civil servant salaries and even the possibility of issuing regional bonds to bridge their funding needs. The shift suggests that the government is gradually rebalancing its support directly toward consumption this time.

- This may prove to be a more effective use of limited fiscal space in the near term. Unlike SAL placements into state-owned banks, which are ultimately intended to support lending and programme-related investment, additional regional transfers can translate more directly into household income and consumption. With domestic demand already showing signs of unevenness, putting purchasing power back into the regions could provide a more immediate boost to growth.
- The government has also shown a willingness to delay measures that could further weigh on consumption, most notably the postponement of the unpopular marketplace tax, while shifting the focus toward tighter tax enforcement on corporations. Together, these measures suggest a more targeted approach to fiscal management: preserving spending where it can have the strongest near-term impact on demand, while seeking additional revenue from areas less likely to directly weaken household consumption.
- We can also see this balancing approach in BI's recent policy mix (discounting FX hedging instruments while incentivizing a limit on banks' safe assets ownership) points to a dual need to both support the government's growth agenda (through faster lending) and maintain FX stability (through lower risk for foreign inflows). However, we see some possible downside to this approach. These FX hedging discounts come directly at BI's expense, possibly limiting the surplus it creates from its operations (which would trickle down to lower government revenue). Furthermore, the available hedging instruments are mainly limited in duration, possibly limiting foreign participation to portfolio inflows while having limited effect on FDI.
- It seems that the macroeconomic backdrop has become somewhat more supportive in recent weeks, with the global situation finally easing some of the pressure on the Rupiah. The government, meanwhile, appears increasingly willing to prioritise stability through a redistribution of its limited policy space. It may have found another way to sustain demand amid tightening constraints, **potentially helping to restore confidence just in time for Independence Day**.

Chart 1

Drop from ceiling

Interbank rate has fallen by 37 bps following news of additional 70 Tn injections, however remained elevated.

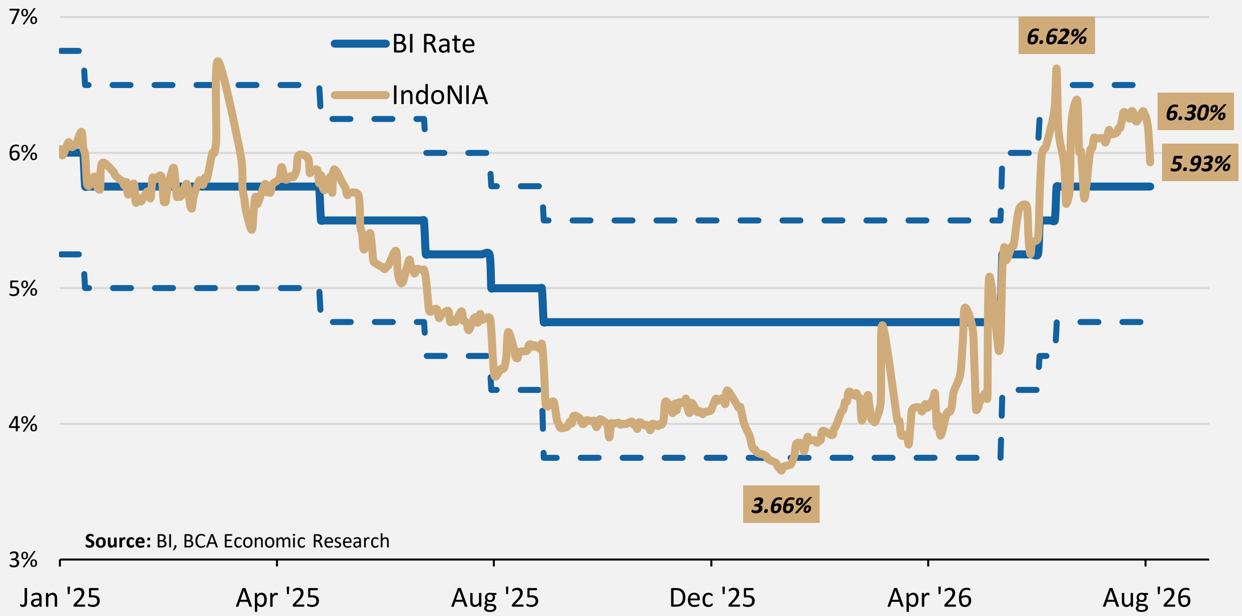


Chart 2

Tighter situation

KBMI 4 state banks are experiencing higher LDR with accelerating loan growth, liquidity is even tighter for KBMI I and KBMI II banks.

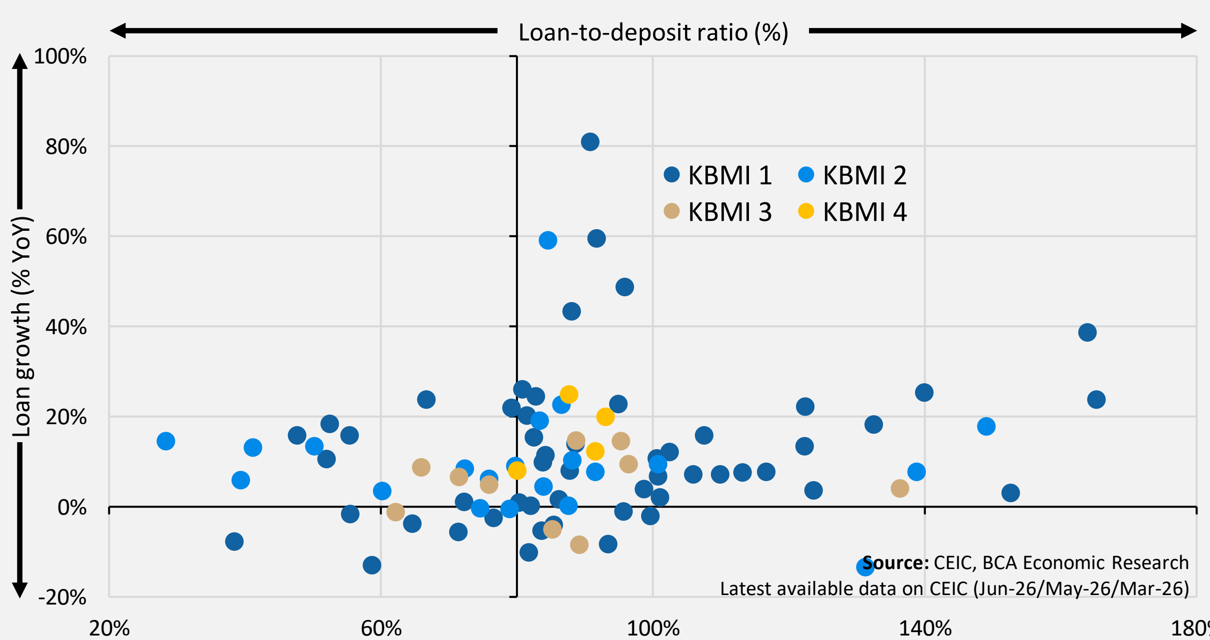


Chart 3

Draining the savings

Central government placements at BI (SAL proxy) are depleting rapidly, with recent tax revenue inflows quickly absorbed following the liquidity injection.

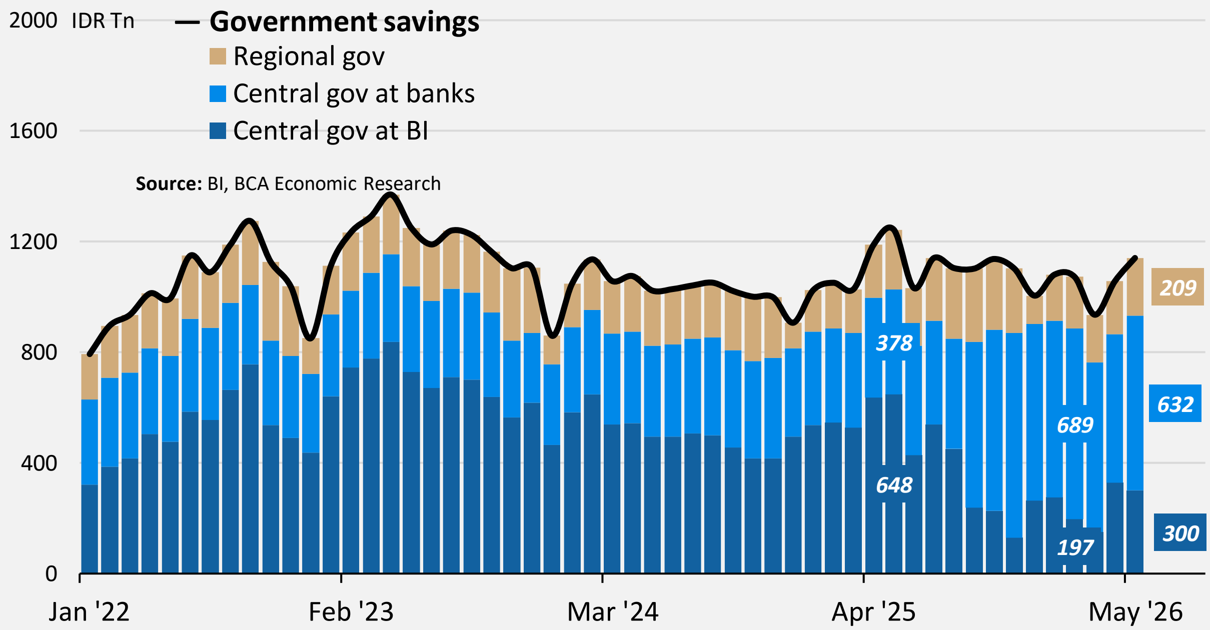
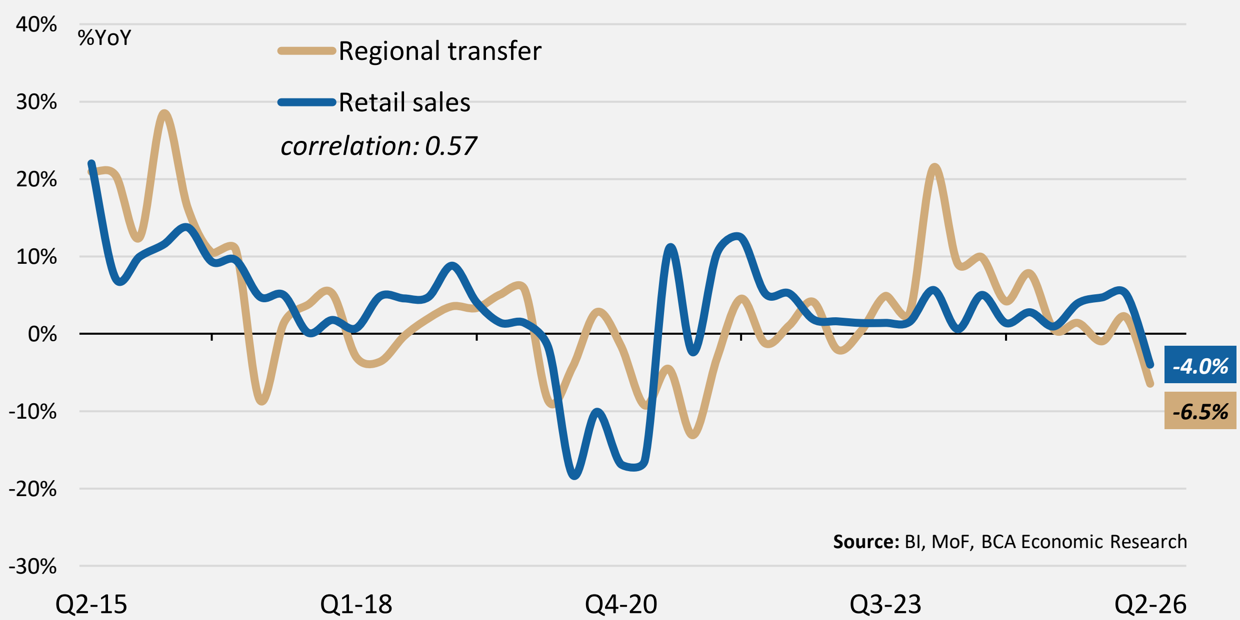


Chart 4

Retail weakness

The BI retail sales index contracted for the first time since 2021. This decline is largely a consequence of slower regional transfers, which have weakened the multiplier effect on village-level spending.



Economic Calendar

		Actual	Previous	Forecast*
03 August 2026				
ID	S&P Global Manufacturing PMI	50.2	46.9	47.4
ID	**Trade balance (Jun-26), USD Bn**	**-0.45**	**-1.61**	**-0.6**
ID	**Inflation Rate YoY, %**	**2.88**	**3.34**	**3.3**
04 August 2026				
US	Trade balance (Jun-26), USD Bn	-73.3	-77.6	-73.0
05 August 2026				
ID	**GDP Growth Rate YoY, %**	**5.29**	**5.61**	**5.3**
06 August 2026				
EA	Retail Sales YoY, %	0.7	1.9	0.9
07 August 2026				
CN	Trade balance, USD Bn	112.5	125.62	105.0
ID	**Foreign Exchange Reserves, USD Bn**	**145.3**	**145.6**	**-**
ID	Property Price Indeks YoY, %	0.69	0.62	0.8
US	Non Farm Payrolls, th	-23	20	79.0
09 August 2026				
CN	Inflation Rate YoY, %	0.5	1	0.9
10 August 2026				
ID	Consumer Confidence	116.8	117.8	116
ID	Motorbike Sales YoY, %	8.3	1.1	-
11 August 2026				
ID	Retail Sales YoY, %	-3	-3.9	1.8
12 August 2026				
US	Inflation Rate YoY, %		3.5	3.4
14 August 2026				
US	Retail Sales YoY, %		6.7	6.0
ID	Car Sales YoY, %		12.0	-
17 August 2026				
CN	Retail Sales YoY, %		1	1.5
19 August 2026				
ID	**BI-Rate Decision, %**		**5.75**	**6**
ID	Loan Growth YoY, %		12.67	-
21 August 2026				
ID	Current Account, (USD Bn)		-4.0	-1.8
ID	M2 Money Supply YoY, %		8.7	-

*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 (%)
US	3.75	Dec-25	0.25
UK	3.75	Dec-25	1.15
EU	2.40	Jun-26	-0.50
Japan	1.00	Jun-26	-0.70
China (lending)	2.00	Sep-24	3.85
Korea	2.75	Jul-26	-0.05
India	5.25	Dec-25	0.87
Indonesia	5.75	Jun-26	2.87
Money Mkt Rates	**10-Aug**	**-1 mth**	**Chg (bps)**
SPN (1Y)	7.39	7.74	-34.4
SUN (10Y)	7.20	7.21	-0.9
INDONIA (O/N, Rp)	5.96	6.10	-14.5
JIBOR 1M (Rp)	5.03	5.03	0.0
Bank Rates (Rp)	**May**	**Apr**	**Chg (bps)**
Lending (WC)	7.95	7.96	-1.00
Deposit 1M	4.52	4.48	4.00
Savings	0.68	0.68	0.00
Currency/USD	**10-Aug**	**-1 mth**	**Chg (%)**
UK Pound	0.740	0.746	0.77
Euro	0.866	0.876	1.11
Japanese Yen	159.3	161.7	1.50
Chinese RMB	6.746	6.775	0.43
Indonesia Rupiah	17,762	18,055	1.65
Capital Mkt	**10-Aug**	**-1 mth**	**Chg (%)**
JCI	6,365.4	5,924.4	7.44
DJIA	53,976.0	52,637.0	2.54
FTSE	10,862.5	10,497.3	3.48
Nikkei 225	66,970.2	68,557.7	-2.32
Hang Seng	25,937.5	24,175.1	7.29
Foreign portfolio ownership (Rp Tn)	**Jul**	**Jun**	**Chg (Rp Tn)**
Stock	2,805.0	2,573.5	231.50
Govt. Bond	892.0	885.7	6.39
Corp. Bond	5.6	5.7	-0.08

Trade & Commodities	10-Aug	-1 mth	Chg (%)
Baltic Dry Index	3,083.0	2,944.0	4.7
S&P GSCI Index	687.9	635.1	8.3
Oil (Brent, $/brl)	87.7	76.0	15.4
Coal ($/MT)	136.2	129.8	4.9
Gas ($/MMBtu)	2.74	2.77	-1.3
Gold ($/oz.)	4,391.0	4,119.9	6.6
Copper ($/MT)	14,334.2	13,418.6	6.8
Nickel ($/MT)	16,718.0	16,545.0	1.0
CPO ($/MT)	1,107.1	1,100.2	0.6
Rubber ($/kg)	2.21	2.17	1.8
External Sector	**Jun**	**May**	**Chg (%)**
Export ($ bn)	25.46	23.20	9.72
Import ($ bn)	25.91	24.81	4.41
Trade bal. ($ bn)	-0.45	-1.61	-72.02
Central bank reserves ($ bn)*	145.6	144.9	0.48
Prompt Indicators	**Jun**	**May**	**Apr**
Consumer confidence index (CCI)	117.8	120.9	123.0
Car sales (%YoY)	32.9	14.0	55.0
Motorcycle sales (%YoY)	1.1	-5.1	28.1
Manufacturing PMI	**Jul**	**Jun**	**Chg (bps)**
USA	53.9	53.9	0
Eurozone	51.9	51.4	50
Japan	54.5	54.8	-30
China	50.9	51.7	-80
Korea	53.1	52.1	100
Indonesia	50.2	46.9	330

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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