A stable boat on a rough sea

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Summary

- Previous policy actions mean BI is may not adjust its policy stance materially in response to recent moves by major central banks, helping to keep SBN yields relatively stable.
- Tighter control over public spending and debt issuance so far this year has also helped keep Indonesia's benchmark yields stable.
- The government may continue to look to the FX bond market for opportunities to lower its funding costs, adding to the urgency of avoiding further Rupiah weakness.

- A couple of significant events mark another hawkish pivot in market expectations in recent weeks. First, the re-intensifying tension between the US and Iran has now spilled over to the wider part of the Middle East, disrupting another important waterway that threaten global oil supply ahead of the winter period. Inflation expectations, in turn, are returning as oil prices attempt to climb back above USD 100/bl (+10.33% MTD), forcing central bankers globally to act on their hawkish talks.
- Indeed, most major central banks have opted to raise their policy rates in response to these war-fuelled inflationary pressures, although the ECB's and BoJ's rate-hike decisions were more widely anticipated. In Europe, resilient domestic demand gives the ECB some leeway to raise rates, which may help cool demand. Meanwhile, in Japan, prolonged JPY weakness and solidifying inflation expectations (as highlighting by the strong *Tankan* survey and *Shunto* results) should have encouraged Governor Ueda to continue the policy normalisation campaign. The backdrop, however, is somewhat different for the Fed, as FOMC members continue to face unwarranted pressure from a US government that remains allergic to higher rates.
- **This differing backdrop perhaps explains the contrast in how benchmark yields in these three major economies have behaved over the past couple of weeks *(see Chart 1)***. President Trump's appointment of Kevin Warsh as Fed Chair, reportedly with a mandate to lower interest rates, may lead many in the market to interpret his defiance not as a carefully charted course but as a desperate correction manoeuvre to steer away from an inflationary iceberg already ahead. The market is now backing Governor Warsh to lift the FFR by another 25-bps before year-end, but it remains to be seen how this scenario will affect the UST market, and, consequentially, how the US government will react to the threat on its fiscal balance.

Stable on the yield front

- Many economies are finding themselves in the same boat as the US, but not Indonesia. Despite earlier hiccups (such as in June 2026), Indonesia's benchmark yield remains stable at around 7% (7.09% as of writing), just a touch higher than the government's 6.9% target. Unlike other emerging economies such as India and the Philippines, **Bank Indonesia's decision to be ahead of the curve by raising the BI-rate earlier (+100-bps in Apr-Jun 2026) limit the urgency for the central bank to overly react to the Fed's recent move**, thus helping to keep Indonesia's sovereign bond yield.
- Recent changes in BI's policy mix may have also translated positively into conditions in the SBN market. Since the change in its leadership in late July 2026, BI seems to have kept SRBI issuance on a tighter leash, bringing SRBI yields more in line with those of SBNs. **Despite not being a perfect substitute, previous period of SRBI unwinding (between Nov 2024 – Dec 2025) often coincide with periods of higher demand for SBNs from banks *(see Chart 2)***, potentially reversing the trend in which the banking sector has consistently reduced its SBN holdings throughout 2026.
- However, some factors may disrupt banks' potential migration from SRBIs back to the SBN market. Unlike in 2025, the banking sector is now facing tighter domestic liquidity conditions, although these have gradually improved, partly thanks to funds being unlocked as SRBI mature. Nevertheless, **banks' ability to absorb SBNs and potentially drive yields lower may be constrained by loan demand, which may remain significant given the high financing needs to support the government's growth acceleration agenda**.

> ***"Without adjustments in the government's fiscal commitments, efforts to keep the SBN yield stable may ultimately prove lacking"***

- Efforts to keep Indonesia's benchmark yield stable, then, may prove to be infinitesimal without a similar effort from the government. Fortunately, **the government appears to be taking steps to limit its funding needs *(see Chart 3)***. Relative to its target, SBN issuance appears to be slowing so far in 2026 compared to the last year, limiting supply in the SBN market. Net fiscal spending in 8M 2026 is also tracking lower compared to the same period last year, with the fiscal deficit in FY 2026 is expected to remain controlled at 2.85% of GDP (compared to the 2.68% target) despite the skyrocketing oil prices and the beleaguered IDR exchange rate.
- While efforts to control spending and debt issuance have duly helped to keep SBN yields stable ahead of the start of the global rate upcycle, **it remains hard to see the government as a fiscal Gamayun**. Rather than adjusting its spending commitments to meet tighter financing conditions, **the government appears to have opted to rely more on off-budget means to keep its flagship programmes expand**, such as leveraging its rainy-day funds (via SAL placements in SOE banks). Concerns over withheld DBH (*dana bagi hasil)* transfers and tax restitutions have also been widely reported, leading many to argue that the government's fiscal posture may not be as robust as reported.
- **The government's strategy of relying more on off-budget spending is highlighted by the FY 2027 state budget draft**, with the government projecting higher debt financing despite a lower deficit target (2.40% of GDP deficit target in FY 2027). Previously, the government seems to see the solution in Panda bonds to address its high financing needs and keeping its lending rate in

the presently manageable level, a strategy that may continue despite the recent change in MoF leadership.

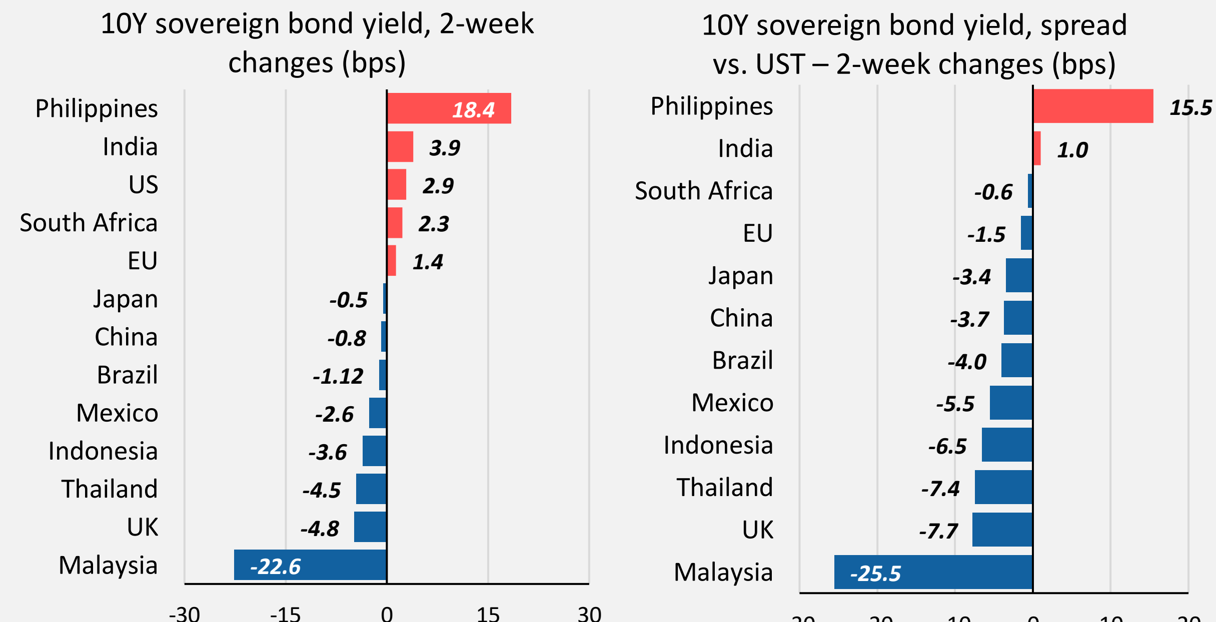
- However, there are some factors to consider behind this strategy of relying more on lower-yielding international bonds. **Greater reliance on FX bonds marks a departure from Indonesia's successful experiments with LCY bonds**, which had enjoyed a marked improvement in sovereign risk and a steady stream of foreign inflows, at least in the pre-pandemic period. **Indonesia's re-entry into the FX bond market contrasts with other economies in the region** ***(see Chart 4)***, which has increasingly turned to LCY bonds to limit currency risks amid global monetary policy uncertainty.

- Indeed, **it remains important to note that the lower yield offered by FX bonds should not obscure the currency risk embedded in this strategy**. Shifting toward greater reliance on FX borrowing may reduce immediate funding costs, while a lower benchmark SBN yields due to more limited LCY bond supply is also a possibility. However, having a weaker currency could increase the effective cost of servicing these FX obligations, eroding the apparent yield advantage. Ergo, maintaining Rupiah stability should remain a priority, even if efforts to support the currency may come at the cost of somewhat higher domestic bond yields.

Chart 1

Ducking a global yield uptrend

Sovereign bond yields are declining in Indonesia and other economies over the past week, indicating that effect from recent major central banks' rate hikes remain muted

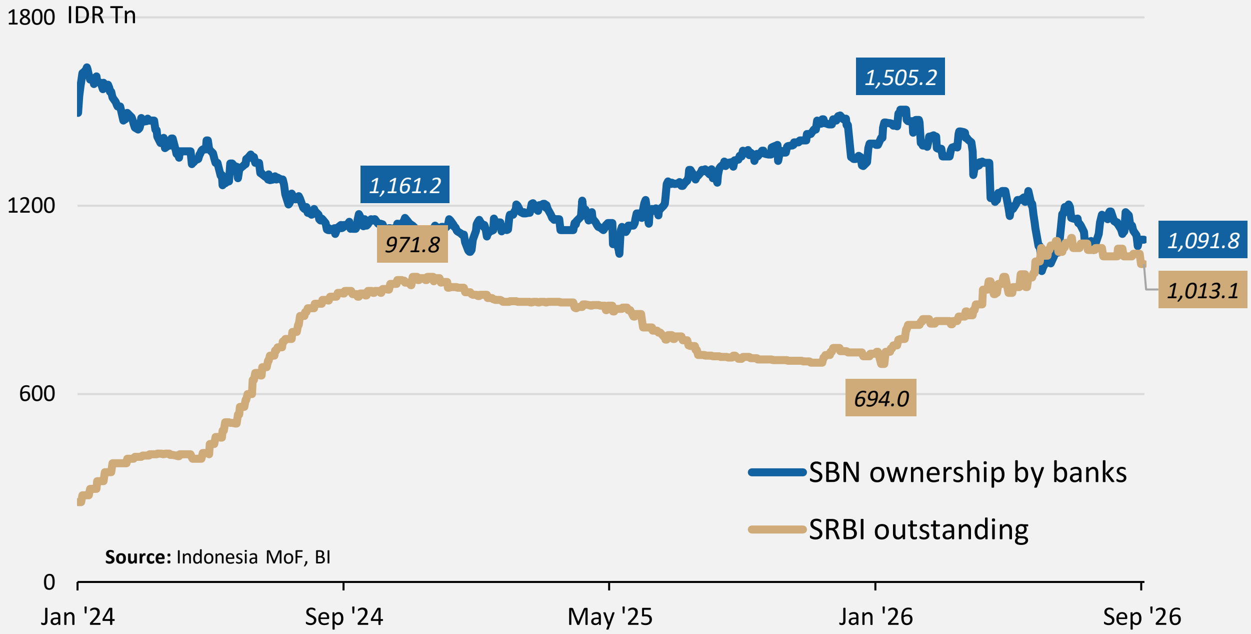


Source: Bloomberg

Chart 2

Forced migration

More measured SRBI issuance may encourage banks to return to the SBN market, although banks' ability to absorb securities may be limited given the high financing needs



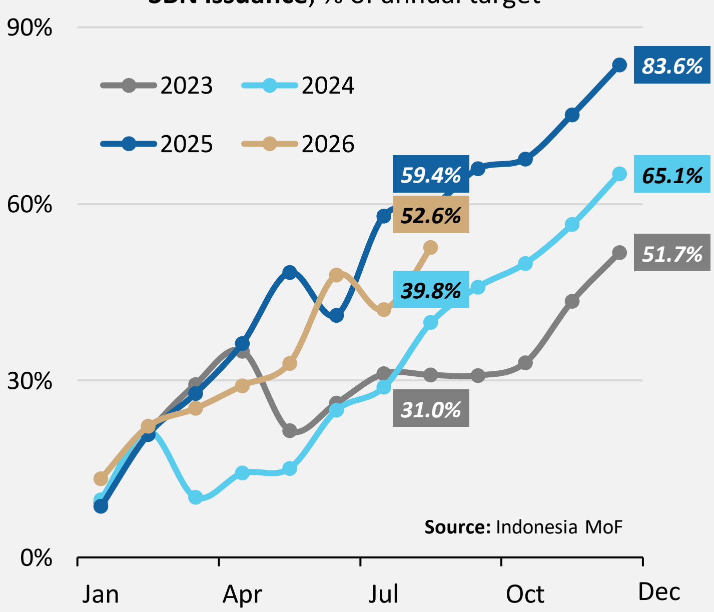
Source: Indonesia MoF, BI

Chart 3

Hit brakes for safety

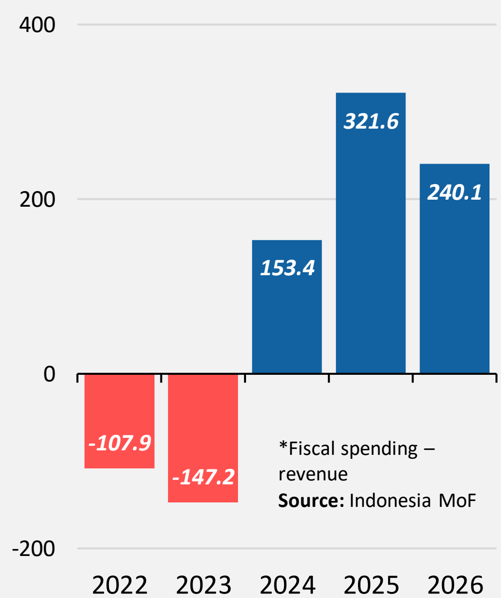
The relatively tighter control over fiscal spending and SBN issuance in 8M2026 helped to stabilise the benchmark yield, with the government relying more on off-budget spending

SBN issuance, % of annual target



Source: Indonesia MoF

Net fiscal spending*, 8M 2022-26



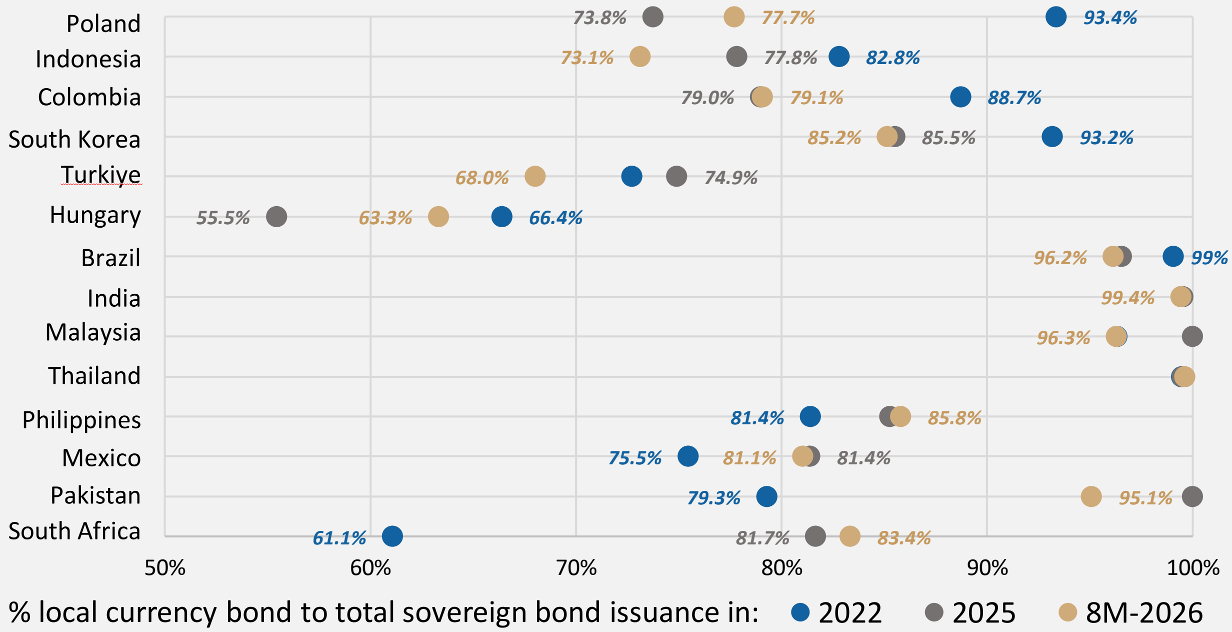
*Fiscal spending – revenue

Source: Indonesia MoF

Chart 4

Going outwards when others go inwards

The allure of lower yields moves Indonesia to issue more international bonds, while other economies revert to local bonds amidst volatile exchange rate conditions



Source: Bloomberg

Economic Calendar

		Actual	Previous	Forecast*
01 September 2026				
ID	S&P Global Manufacturing PMI	49.8	50.2	50.5
ID	**Trade balance (Aug-26), USD Bn**	**0.13**	**-0.45**	**-0.3**
ID	**Inflation Rate YoY, %**	**3.19**	**2.88**	**3.2**
US	S&P Global Manufacturing PMI	53.9	53.9	53.2
03 September 2026				
US	Trade balance (Jul-26), USD Bn	-88.6	-71.2	-91.2
04 September 2026				
EA	Retail Sales YoY, %	0.6	1.4	0.9
US	Non Farm Payrolls, th	162	21	42.0
07 September 2026				
ID	**Foreign Exchange Reserves, USD Bn**	**146.5**	**145.3**	**-**
08 September 2026				
CN	Trade balance, USD Bn	119.1	112.5	120.0
09 September 2026				
ID	Car Sales YoY, %	32.4	33.3	-
ID	Motorbike Sales YoY, %	3.18	8.3	-
CN	Inflation Rate YoY, %	0.8	0.5	0.7
ID	Consumer Confidence	118.5	116.8	117
10 September 2026				
ID	Retail Sales YoY, %	1.1	-3	-3.3
11 September 2026				
US	Inflation Rate YoY, %	3.4	3.4	3.4
15 September 2026				
CN	Retail Sales YoY, %	0.4	0.6	1.0
16 September 2026				
US	Retail Sales YoY, %	6	5.03	4.7
17 September 2026				
US	**Fed Interest Rate Decision, %**	**4**	**3.75**	**4**
23 September 2026				
ID	**BI-Rate Decision, %**		**5.75**	**5.75**
ID	Loan Growth YoY, %		13.58	-
24 September 2026				
ID	M2 Money Supply YoY, %		8.3	-
30 September 2026				
US	PCE Price Index YoY, %		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 (%)
US	4.00	Sep-26	0.60
UK	3.75	Dec-25	0.65
EU	2.65	Sep-26	-0.55
Japan	1.25	Jun-26	-0.90
China (lending)	2.00	Sep-24	3.55
Korea	3.00	Aug-26	-0.10
India	5.25	Dec-25	0.43
Indonesia	5.75	Jun-26	2.56

Money Mkt Rates	21-Sep	-1 mth	Chg (bps)
SPN (1Y)	6.71	6.81	-9.9
SUN (10Y)	7.08	6.93	15.6
INDONIA (O/N, Rp)	5.91	6.08	-17.1
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	Jun	May	Chg (bps)
Lending (WC)	8.07	7.95	12.00
Deposit 1M	4.96	4.52	44.00
Savings	0.68	0.68	0.00

Currency/USD	21-Sep	-1 mth	Chg (%)
UK Pound	0.748	0.733	-2.03
Euro	0.872	0.856	-1.83
Japanese Yen	157.4	159.0	1.01
Chinese RMB	6.695	6.721	0.39
Indonesia Rupiah	17,838	17,693	-0.81

Capital Mkt	21-Sep	-1 mth	Chg (%)
JCI	6,384.7	6,525.7	-2.16
DJIA	52,048.8	53,277.0	-2.31
FTSE	10,739.0	10,816.6	-0.72
Nikkei 225	65,019.0	66,016.4	-1.51
Hang Seng	25,042.7	26,009.5	-3.72

Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)
Stock	2,949.5	2,805.0	144.49
Govt. Bond	907.8	892.4	15.35
Corp. Bond	4.8	5.6	-0.74

Trade & Commodities	21-Sep	-1 mth	Chg (%)
Baltic Dry Index	3,399.0	2,841.0	19.6
S&P GSCI Index	738.0	717.2	2.9
Oil (Brent, $/brl)	100.3	94.4	6.3
Coal ($/MT)	142.4	139.8	1.9
Gas ($/MMBtu)	2.94	2.81	4.6
Gold ($/oz.)	4,343.4	4,603.1	-5.6
Copper ($/MT)	14,710.0	14,276.8	3.0
Nickel ($/MT)	16,154.4	16,895.0	-4.4
CPO ($/MT)	1,129.4	1,160.7	-2.7
Rubber ($/kg)	2.41	2.34	3.0

External Sector	Jul	Jun	Chg (%)
Export ($ bn)	26.22	25.46	2.98
Import ($ bn)	26.09	25.91	0.72
Trade bal. ($ bn)	0.12	-0.45	-127.06
Central bank reserves ($ bn)*	145.3	145.6	-0.17

Prompt Indicators	Aug	Jul	Jun
Consumer confidence index (CCI)	118.5	116.8	117.8
Car sales (%YoY)	32.4	33.3	33.0
Motorcycle sales (%YoY)	3.2	8.3	1.1

Manufacturing PMI	Aug	Jul	Chg (bps)
USA	53.9	53.9	0
Eurozone	52.7	51.9	80
Japan	54.9	54.5	40
China	51.5	50.9	60
Korea	52.3	53.1	-80
Indonesia	49.8	50.2	-40

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	5.3
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	9.1
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5126
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	3.2
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.00
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	7.31
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,621
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,238
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2

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

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