

Living in a “high yield, high growth” economy

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Summary

- Apart from inflation and fiscal risks, higher global bond yields may also reflect expectations for higher growth, driven by private sector investment especially, in AI-linked sectors.
- AI-driven private sector growth may ease the burden for the government to deliver growth, although the narrow-based growth may continue to fuel opposition against fiscal discipline.
- Despite Indonesia's success in delivering a "low yield, high growth" environment, certain limitations still need to be managed to mitigate the risks of credit concentration in favoured sectors.

- Global financial markets continue to feel the brunt of the hawkish pivot in major central banks' policy direction over the past few weeks. The USD Index (DXY) gained 0.3% WTD, closing within the touching distance to its year-to-date high of 102.2, while market volatility has also picked up amidst expectations that the first Fed rate hike under Chairman Warsh will not be a one-off.
- Elsewhere, rising UST and other sovereign bond yields remain a focal point for global macro watchers, with recent developments in France (its bond yield spread against EU bonds widened to 81.9 bps from 31.1 bps at the start of the year) attracting particular attention. Given the delicate balancing act between rising demand for public spending, increased inflation risks, and higher borrowing costs, governments may feel that the walls of fiscal sustainability are closing in, while every uptick in bond yields may strengthen their resolve to fight back and wrest greater control over interest rates from the market.
- However, rather than giving in to the siren song of tighter yield control, allowing benchmark

yields to float as the market sees fit may prove to be more beneficial for the economy. First, rather than merely reflecting fiscal or inflation concerns, higher benchmark yields may also signal expectations of stronger growth. Indeed, US real yields have risen quite significantly so far in the year (~37.1 bps YTD to 1.84%), compared with other indicators such as CDS spread (+11.6 bps YTD) and inflation breakeven rates (+8.5 bps YTD). Given the relatively muted movements in fiscal risk and inflation indicators, the rise in real yields may better reflect stronger demand for funds – often a harbinger of robust growth. This argument is further supported by the ongoing development in US financial conditions (*see Chart 1*), which suggests that US banks remain willing to lend despite the higher UST yield environment.

- As for where US (and global) banks and investors are placing their funds to capture this promised growth, the answer should come as no surprise. The AI boom continues to turn the US equity market into a gargantuan fund-absorption machine, attracting even more capital as valuations climb and earnings continue to meet

investors' lofty expectations. Companies throughout the AI supply chain also benefit from still-accommodative US financing conditions, with AI-linked bond issuance reportedly reaching USD 466 Bn so far in 2026 (30.87% of net UST issuance in 9M 2026). The surge in AI-linked debt issuance adds to the supply of investment-grade debt securities, which has so far helped keep benchmark yields near their multi-decade highs.

- The second argument builds on the first “high yield, high growth” argument. As AI investments have so far proven productive (the term “AI bubble” has lost popularity since its peak in Q4 2025) and further capital is being deployed to prolong the boom cycle, higher yields may provide a convenient cover for governments to take a long, hard look at their fiscal commitments – a task that is often harder to justify amidst a “low yield, low growth” environment (*see Chart 2*). With growth largely driven by the private sector (albeit on a narrow base), the current high-yield environment may finally provide an

opening for greater fiscal discipline, the importance of which will only become clearer of itself with each delay as the interest burden snowballs.

- Alas, a government willing to seize this opportunity and voluntarily embrace fiscal discipline at the cost of its political capital may remain a unicorn. With rising food and fuel prices eroding households' purchasing power and democracy indices continuing to trend in the wrong direction, higher yet narrowly based growth may backfire, fuelling popular demands for greater public spending. This, in turn, may push yields uncontrollably higher, as the public sector may continue to compete with the private sector for funding.

“Rather than fiscal and inflation risks, higher growth outlook may also be behind the increase in global yields”

Sweeping higher global yields under the rug

- The discussions laid out above may not be especially relevant for Indonesia in many ways. First, unlike other global central banks, Bank Indonesia is not signalling a policy direction that would actively influence the benchmark Rupiah yield to move northwards. Indeed, BI continue to take measures to accommodate the domestic liquidity condition (such as allowing SRBI to mature), reducing the competition for SBN. Second, despite the accelerating loan growth, the Indonesian corporate sector does not appear to be clearly in an expansionary mode, with both foreign and domestic direct investments continuing to moderate following the nickel boom in 2022-2023.
- Far from competing with the government for funds, Indonesian companies appear to be

investing their funds in sovereign bonds and other securities (corporate cash and marketable securities expanded by 15.6% YoY in Q2-2026), helping to keep Indonesian governments' lending rates stable. Indonesia, then, is finding itself in a “low yield, high growth” environment, as BI's liquidity accommodation and the government's policy guidance led to capital being deployed in accordance with the government's growth agenda, while other sectors play a supporting role as capital providers.

- However, it is important to note that the current “low yield, high growth” environment does not guarantee that Indonesia will fare better than other economies. To maintain the current low-yield environment, the spread between SBN and safe-haven securities has compressed to a record

low (184 bps, 280 bps 2022-2026 average), encouraging capital outflows as investors seek higher yields abroad. Indonesia's low-yield environment, then, may not be easily defensible, as the record-low yield spread may eventually warrant a correction (*see Chart 3*), especially if the Rupiah remains under pressure.

- Moreover, the current policy setup, which enables some sectors to grow aggressively using capital saved by others, may expose the

domestic banking sector to concentration risks, potentially weakening credit quality as lending becomes increasingly concentrated in a narrower set of sectors while others are starved of capital. Finally, the term "low yield, high growth" is itself an oxymoron, as a typical high-growth economy often emerges from intense competition for capital to fund investments that generate robust productivity, naturally driving up asset returns and subsequently interest rates over time.

Chart 1

Optimism cladded in concerns

US financing conditions are not closely tracking the rising UST yield, highlighting a still-significant demand for funds as the AI boom feeds into the growth outlook

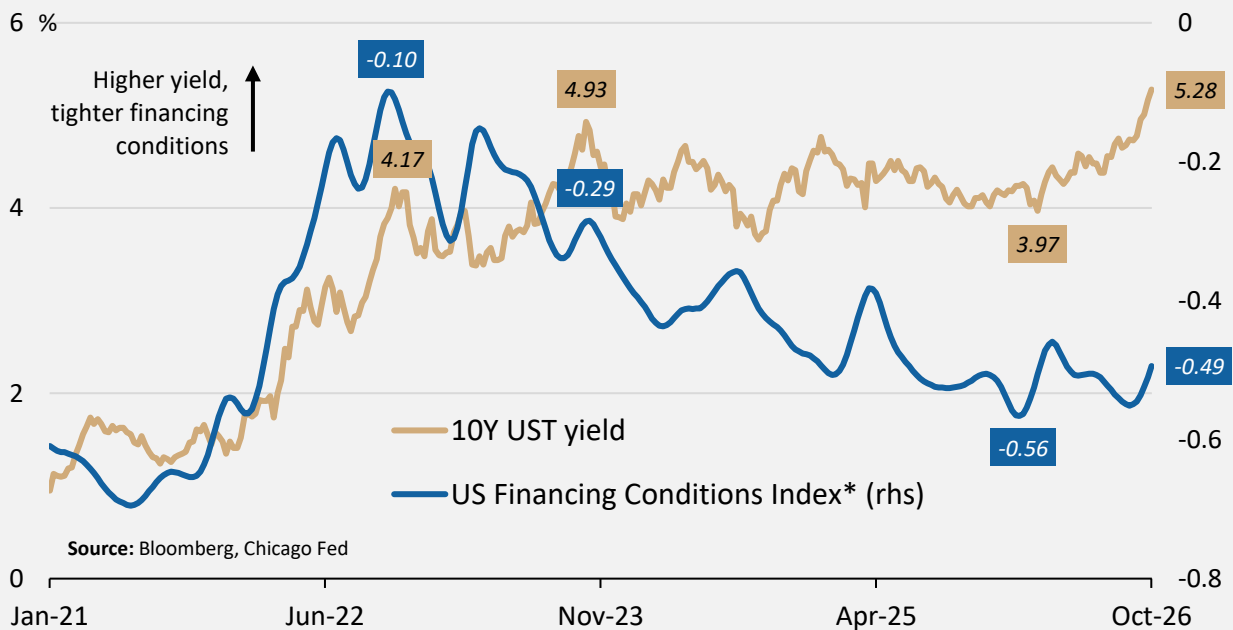


Chart 2

Ducking the higher yield

The US public spending is contributing less to GDP growth amidst the current “high yield, high growth” environment, although interest burden continues to widen the fiscal deficit.

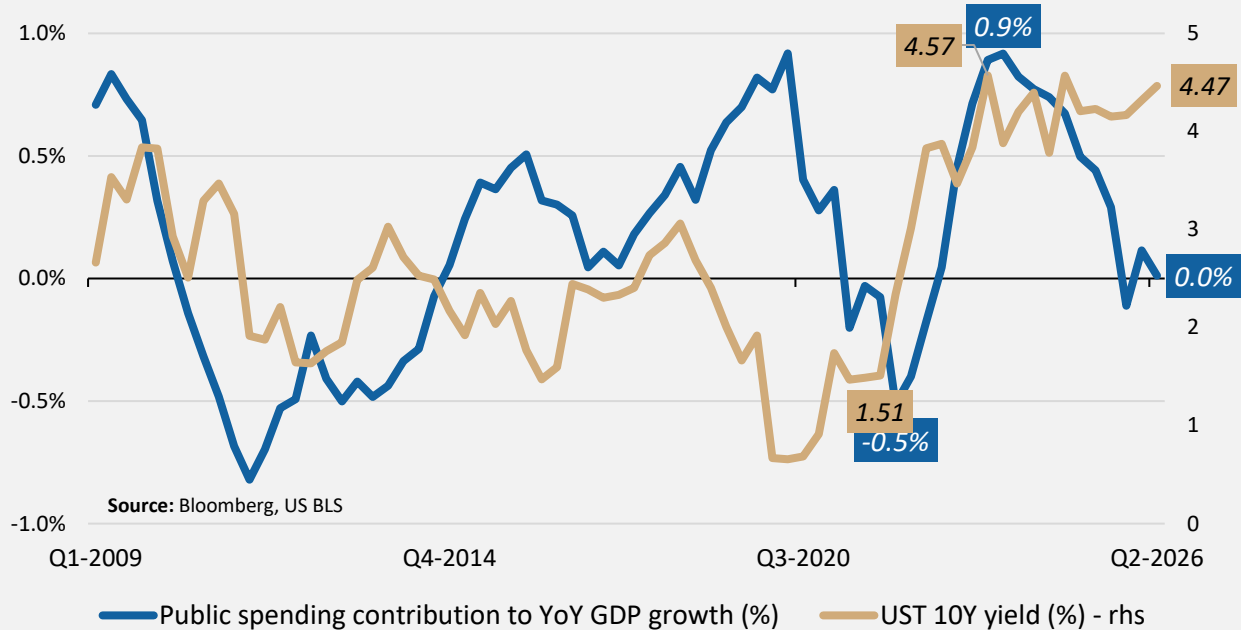
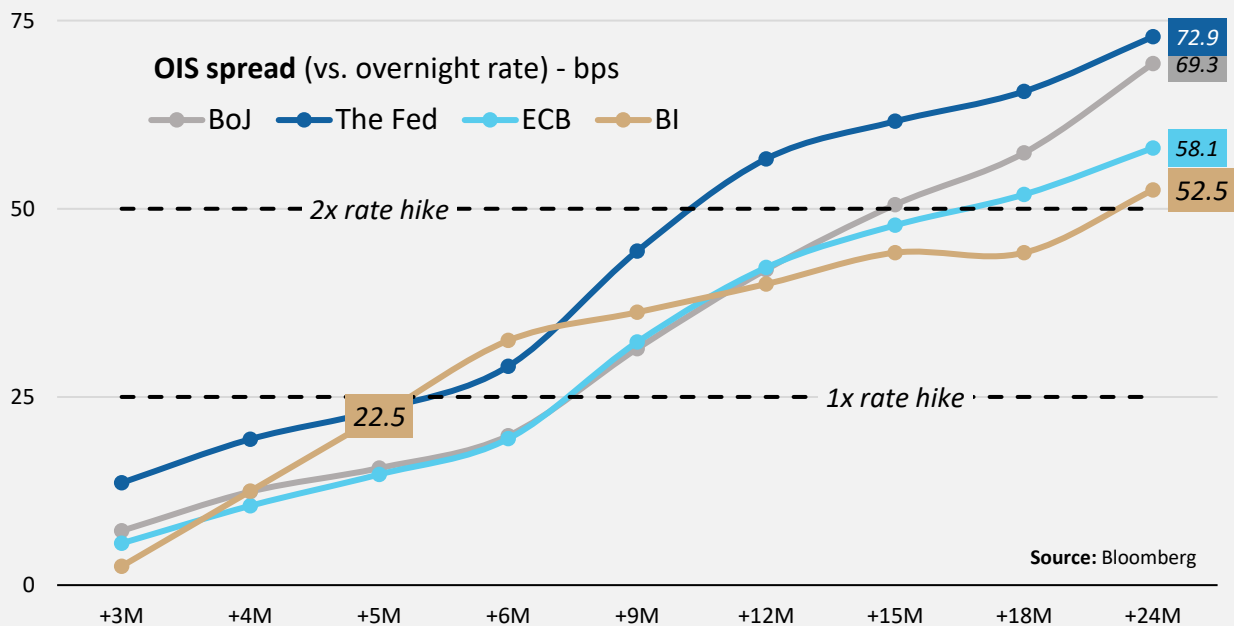


Chart 3

Catching up to others

BI appears to be resisting rate increases for now, but is expected to eventually close the gap as the record-low yield spread risks outflows from the SBN market



Economic Calendar				
		Actual	Previous	Forecast*
01 October 2026				
ID	S&P Global Manufacturing PMI	52.4	49.8	50.3
ID	Trade balance (Aug-26), USD Bn	3.55	0.13	1.3
ID	Inflation Rate YoY, %	3.28	3.19	3.4
US	S&P Global Manufacturing PMI	55.9	53.9	57
02 October 2026				
US	Non Farm Payrolls, th	29	133	90.0
06 October 2026				
EA	Retail Sales YoY, %	0.8	0.4	0.5
US	Trade balance (Jul-26), USD Bn	-105.6	-92.8	-102.2
07 October 2026				
ID	Foreign Exchange Reserves, USD Bn	146.3	146.5	144
08 October 2026				
ID	Consumer Confidence	118.1	118.5	118
ID	Car Sales YoY, %	28.1	32.4	-
ID	Motorbike Sales YoY, %	15.37	3.18	-
09 October 2026				
ID	Retail Sales YoY, %	1.3	1.1	1.3
14 October 2026				
CN	Inflation Rate YoY, %		0.8	0.8
CN	Trade balance, USD Bn		119.1	79
US	Inflation Rate YoY, %		3.4	3.7
15 October 2026				
US	Retail Sales YoY, %		6	5.2
16 October 2026				
ID	Foreign Direct Investment YoY, %		27.4	-
19 October 2026				
CN	Retail Sales YoY, %		0.4	1
21 October 2026				
ID	BI-Rate Decision, %		5.75	5.75
ID	Loan Growth YoY, %		13.36	12.6
23 October 2026				
ID	M2 Money Supply YoY, %		8.2	-
29 October 2026				
US	Fed Interest Rate Decision, %		4	-
US	PCE Price Index YoY, %		3.4	3.2

*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	09-Oct	-1 mth	Chg (%)
US	4.00	Sep-26	0.60	Baltic Dry Index	2,917.0	3,584.0	-18.6
UK	3.75	Dec-25	0.65	S&P GSCI Index	738.6	741.1	-0.3
EU	2.65	Sep-26	-1.15	Oil (Brent, \$/bbl)	104.7	97.9	6.9
Japan	1.25	Sep-26	-0.65	Coal (\$/MT)	152.3	153.8	-1.0
China (lending)	2.00	Sep-24	3.55	Gas (\$/MMBtu)	2.76	2.90	-4.8
Korea	3.00	Aug-26	0.10	Gold (\$/oz.)	4,194.2	4,356.0	-3.7
India	5.50	Oct-26	0.68	Copper (\$/MT)	14,675.8	14,741.2	-0.4
Indonesia	5.75	Jun-26	2.47	Nickel (\$/MT)	15,434.3	16,723.4	-7.7
Money Mkt Rates	09-Oct	-1 mth	Chg (bps)	CPO (\$/MT)	1,090.6	1,152.3	-5.4
SPN (1Y)	6.19	6.75	-56.9	Rubber (\$/kg)	2.60	2.48	4.8
SUN (10Y)	7.19	7.09	9.4	External Sector	Aug	Jul	Chg (%)
INDONIA (O/N, Rp)	4.99	5.99	-100.3	Export (\$ bn)	26.61	26.22	1.51
JIBOR 1M (Rp)	5.03	5.03	0.0	Import (\$ bn)	23.06	26.09	-11.63
Bank Rates (Rp)	Jul	Jun	Chg (bps)	Trade bal. (\$ bn)	3.55	0.12	2,814.03
Lending (WC)	8.14	8.07	7.00	Central bank reserves (\$ bn)*	146.5	145.3	0.80
Deposit 1M	5.35	4.96	39.00	Prompt Indicators	Sep	Aug	Jul
Savings	0.68	0.68	0.00	Consumer confidence index (CCI)	118.1	118.5	116.8
Currency/USD	09-Oct	-1 mth	Chg (%)	Car sales (%YoY)	28.1	32.4	33.3
UK Pound	0.756	0.738	-2.27	Motorcycle sales (%YoY)	15.4	3.2	8.3
Euro	0.893	0.860	-3.65	Manufacturing PMI	Sep	Aug	Chg (bps)
Japanese Yen	158.3	154.0	-2.74	USA	55.9	53.9	200
Chinese RMB	6.693	6.710	0.26	Eurozone	52.9	52.7	20
Indonesia Rupiah	17,883	17,630	-1.41	Japan	54.1	54.9	-80
Capital Mkt	09-Oct	-1 mth	Chg (%)	China	52.1	51.5	60
JCI	6,093.8	6,686.4	-8.86	Korea	53.9	52.3	160
DJIA	51,655.0	52,786.1	-2.14	Indonesia	52.4	49.8	260
FTSE	10,552.1	10,811.7	-2.40				
Nikkei 225	69,030.9	65,269.3	5.76				
Hang Seng	24,211.4	25,317.2	-4.37				
Foreign portfolio ownership (Rp Tn)	Sep	Aug	Chg (Rp Tn)				
Stock	2,723.2	2,949.5	-226.26				
Govt. Bond	907.5	907.8	-0.34				
Corp. Bond	4.3	4.8	-0.53				

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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