

INDONESIA CHARTBOOK: SEEKING STABILITY IN 2H26

7 JULY 2026



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Senior Economist

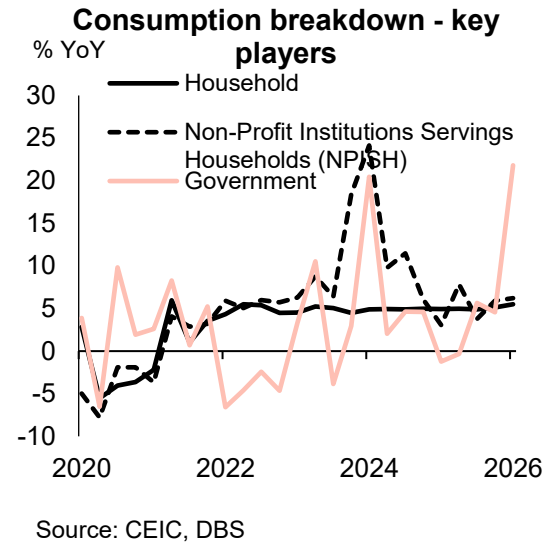
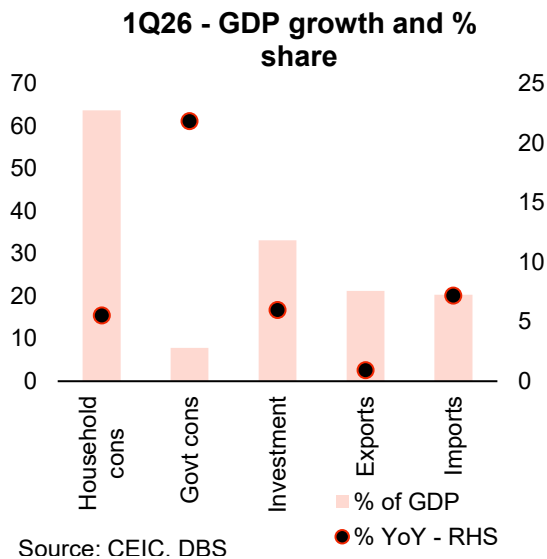
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- *As energy risks subside, authorities are expected to rebuild confidence in the IDR assets in the second half of the year.*
- *Consumption and government spending will need to underpin economic momentum to sustain annual GDP growth above 5% in 2026.*
- *Correction in oil prices will ease terms-of-trade pressure and support the current account math.*
- *Monetary policy did the heavy-lifting in May-Jun, with room to tighten further if market conditions weaken.*
- *Stimulus impulse is likely to fade in 2H, with any revenue shortfalls to necessitate further rationalisation.*
- *Regulatory and institutional certainty are necessary to revive private investments.*
- *Positive policy signals and an improvement in confidence will be key to a durable turnaround in market sentiment.*
- *Short end of the bond curve is likely to harden to provide favourable rate differentials.*
- *Beyond a short-term reprieve, flows, the dollar, and rating outlook will limit the room for a one-sided rally in the currency.*

GROWTH RATE PEAKED IN 1Q26

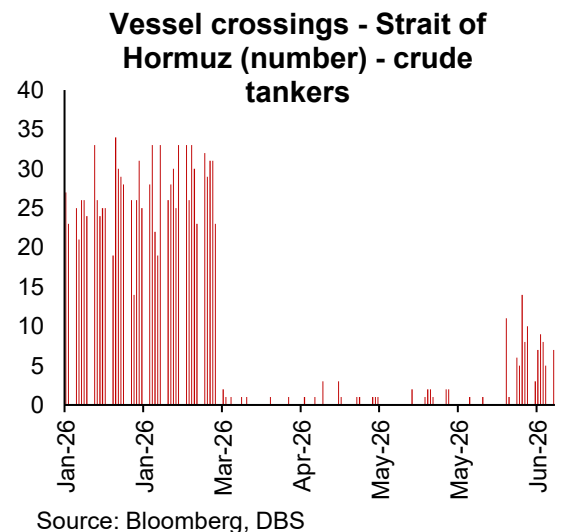
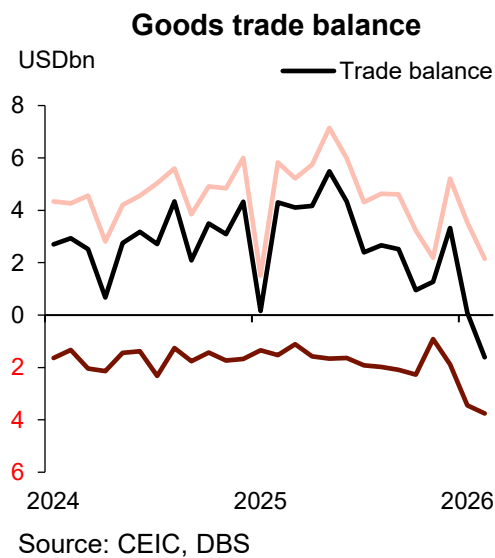
Growth was strong in 1Q26 due to higher government spending, Ramadan/Lebaran observance, stimulus measures and limited impact from the geopolitical risks which erupted late the quarter.

Fiscal spending and government consumption were frontloaded to boost the recovery momentum. The mix likely leaned towards higher welfare spending in 2Q26 amid elevated global oil prices.



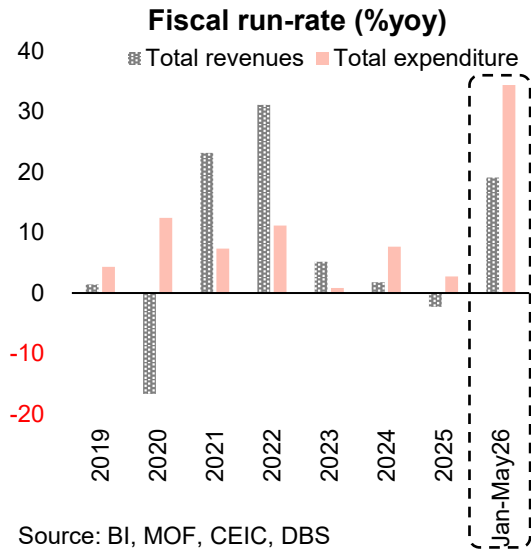
Contribution from trade to growth likely moderated in 2Q26 as goods export growth slowed and imports jumped on higher fuel/refined oil purchases, leading to a deterioration in the trade balance.

We expect pressure on terms of trade to ease in 3Q26 as global oil benchmarks are off their highs. There are signs of improved movement around the Strait of Hormuz, even though it remains below pre-Mar26 levels.

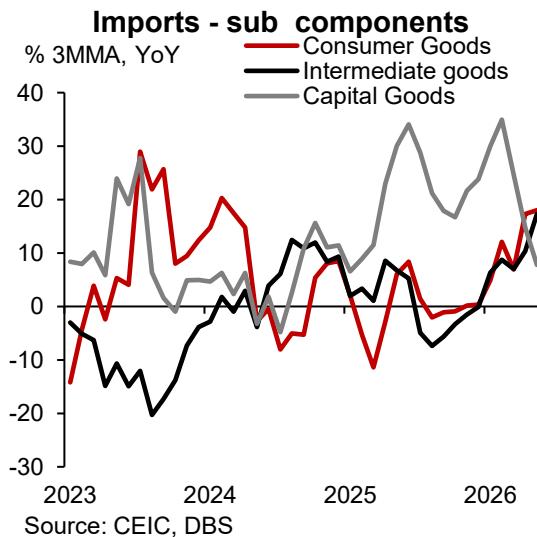


GROWTH RUN-RATE TO STABILISE ABOVE 5% YOY

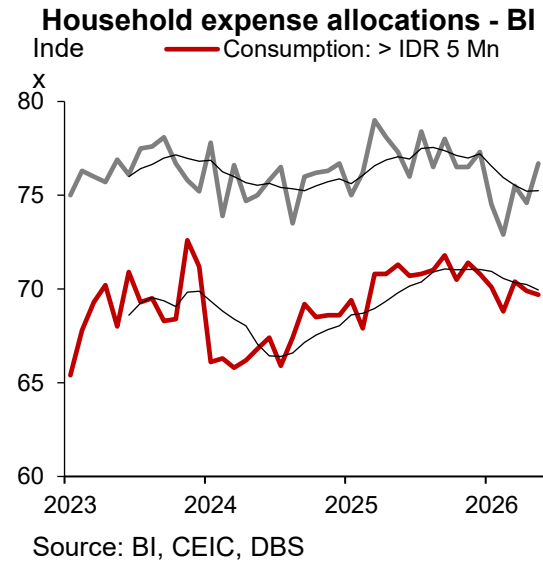
Government spending rose sharply in the first five months of 2026, though we expect the pace to moderate in 2H to contain fiscal slippage. Lower oil prices will help decrease the subsidy overshoot. We expect growth to average 5.1% yoy in 2026.



The trade position was disrupted by a wider oil import bill, which pushed the goods balance into the red by May26, a first in nearly six years. Capital imports eased after a strong run. We expect the terms of trade to improve in 2H as fuel prices stabilise.

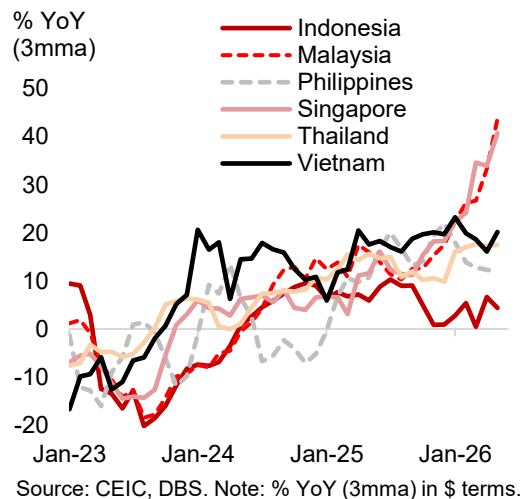


Consumer sentiment is mixed, with 2Q also muddied by geopolitical tensions and elevated energy prices. Domestic pump prices were left unchanged as authorities preferred to absorb the fiscal cost than hurt purchasing power.



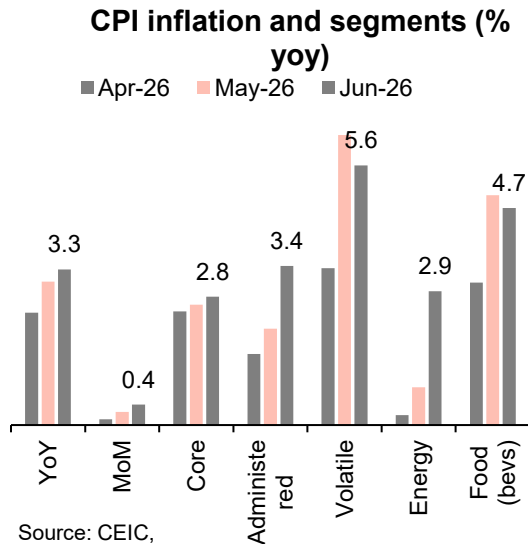
Commodity exports held up amid the West Asia crisis, with a shift in demand towards fossil fuels aiding Indonesia's exports. The pace of export lift, however, lagged that of peers who have benefited from sharp demand for chip and AI-related intermediate exports.

ASEAN-6 overall goods exports

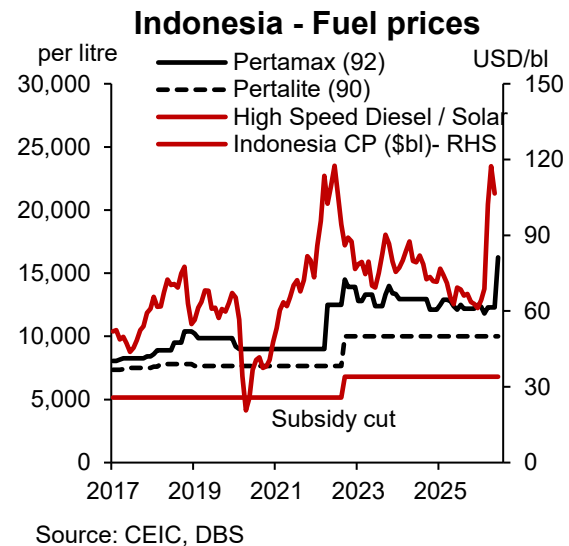


INFLATION OFF LOWS

Indonesia’s inflation rose by 3.3% yoy in June, vs. an average 1.9% in 2025. Food accounted for much of the lift, followed by transport (gasoline, airfares, etc.). Core is also marginally higher by mid-26.



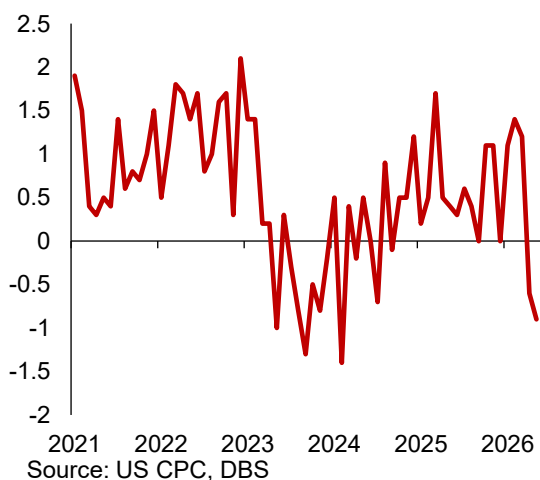
Domestic subsidised fuel prices were left unchanged despite elevated global prices and soaring Indonesia crude prices (ICP) in 2Q26. Unsubsidised pump prices were revised up, with marginal knock-on impact.



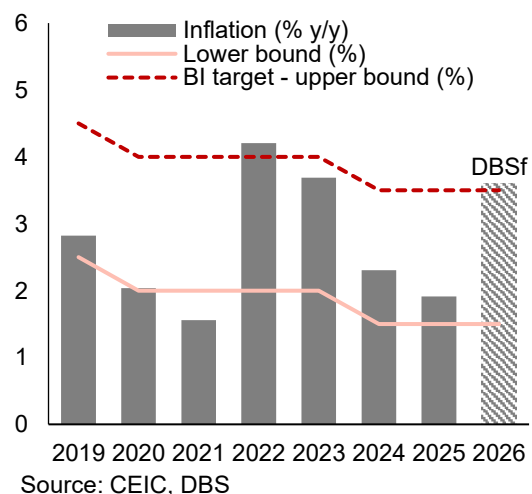
Asia will monitor El Niño developments closely. Recent international weather models point to the build-up of a strong El Niño this year, which increases the risk of high temperatures, delayed rains, droughts and wildfires, including in Indonesia.

For the year, we project annual inflation at 3.6% yoy near the upper end of the BI target range in 2026. Near-term policy decisions are likely to be driven more by financial market stability rather than inflation.

Southern Oscillation index

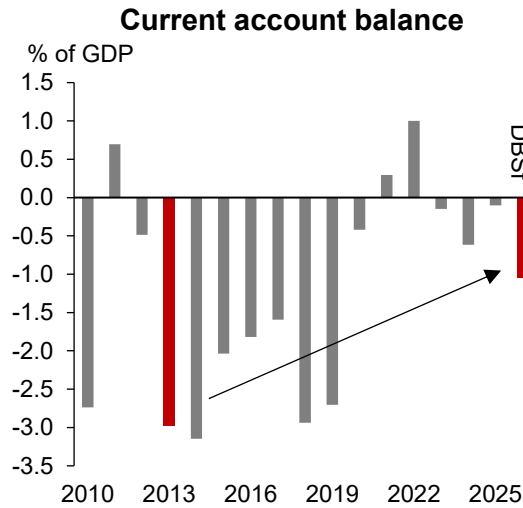


Indonesia inflation vs targets



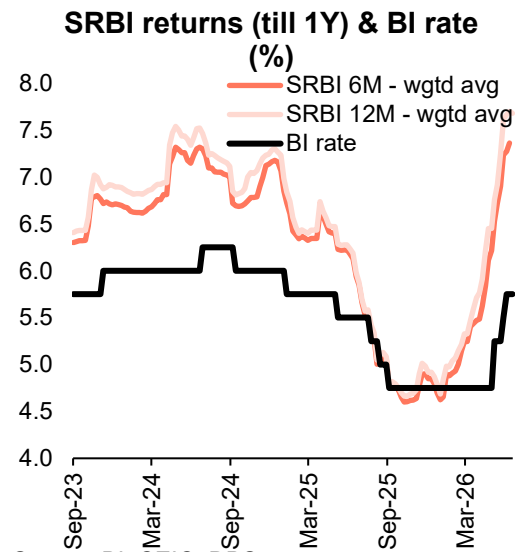
EXTERNAL STABILITY, RESERVES ACCRETION IN FOCUS

Current account health is likely to benefit from the correction in global oil prices. We have revised down our full-year forecast from -1.0% of GDP for 2026 to -1.7% earlier, vs a modest -0.1% last year.



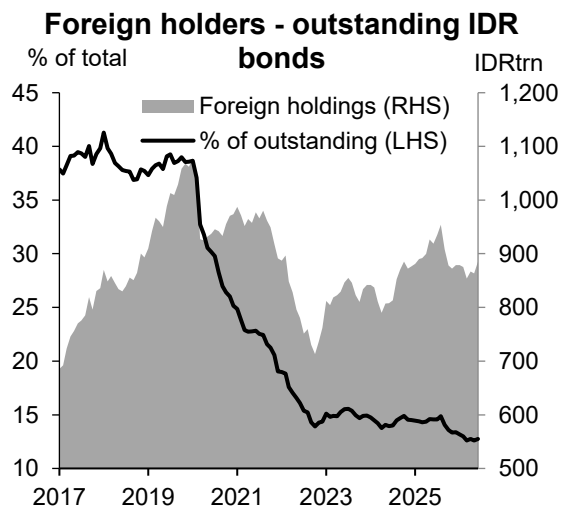
Source: CEIC, DBS

While equity markets have witnessed outflows due to the impending MSCI review, inflows have improved into debt. Short-term SRBI rates have also been maintained at elevated levels to attract inflows, with the 1Y ~200bp above the BI rate.



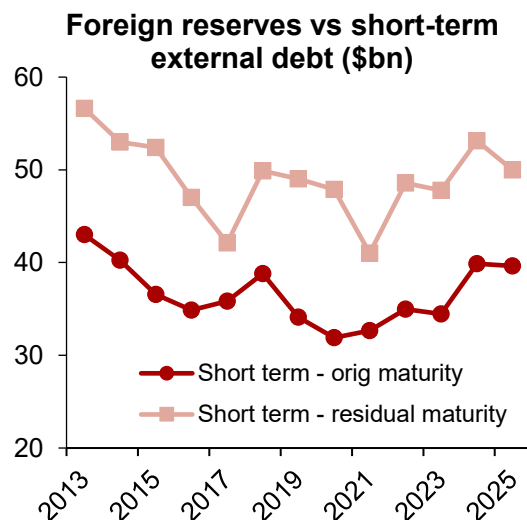
Source: BI, CEIC, DBS

Foreign demand for high-yielding IDR bonds has improved since the rupiah stabilised after a bout of sharp depreciation. Ownership ratio is, however, near all-time lows of sub-13% of outstanding issuance.



Source: CEIC, DBS

Foreign reserves stock has moderated in the past year. An improvement in the flows outlook and a narrower current account gap are necessary to boost the stock. Short-term debt made up half of reserves in 2025.

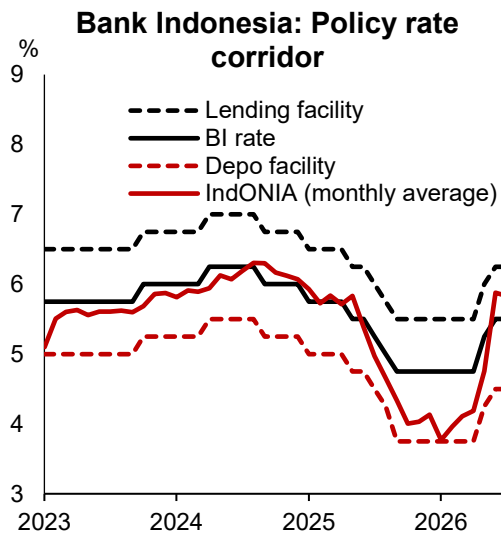


Source: DGBFR, CEIC, DBS

HAWKISH POLICY STANCE

Bank Indonesia hiked rates by 100bp in May-Jun26 to stabilise the currency and anchor inflationary expectations. This led to an up-shift in the policy corridor, with the IndONIA also aligning higher. We look for another 25bp hike, subject to market conditions.

Real rates have re-widened after the recent rate hikes. Factoring in our view of another 25bp hike in our baseline, a faster rise in inflation, the gap will narrow in 2H26.



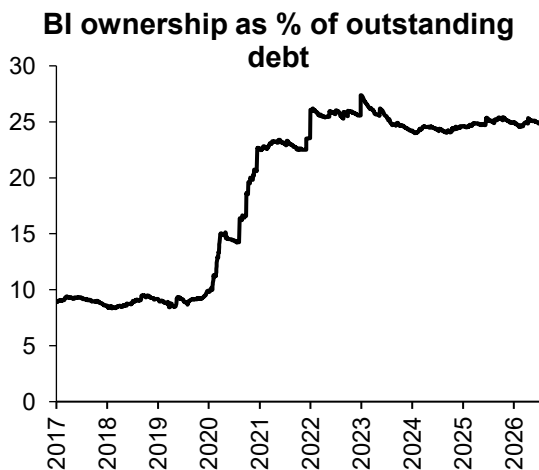
Source: CEIC, DBS



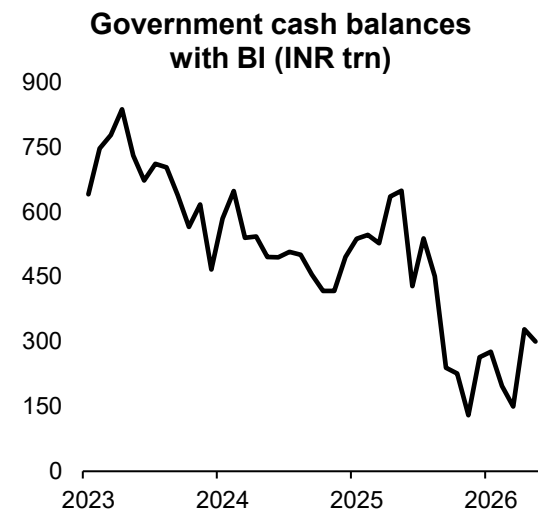
Source: CEIC, Bloomberg, DBS

BI's purchases of bonds have continued to support yields and ease financial conditions. Its share in outstanding issuance stood at 24-25% by mid-2026.

To boost liquidity and credit growth, the government has infused additional funds into the banking system to smooth the availability of funds. Demand also needs to gain in tandem for material improvement in loan growth.



Source: CEIC, DBS



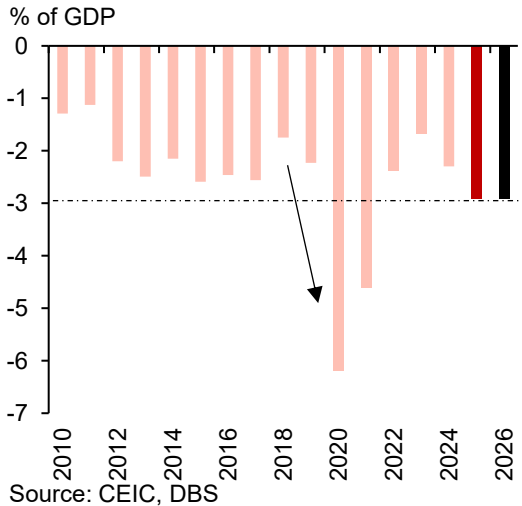
Source: CEIC, DBS

FISCAL CONSOLIDATION IS PARAMOUNT

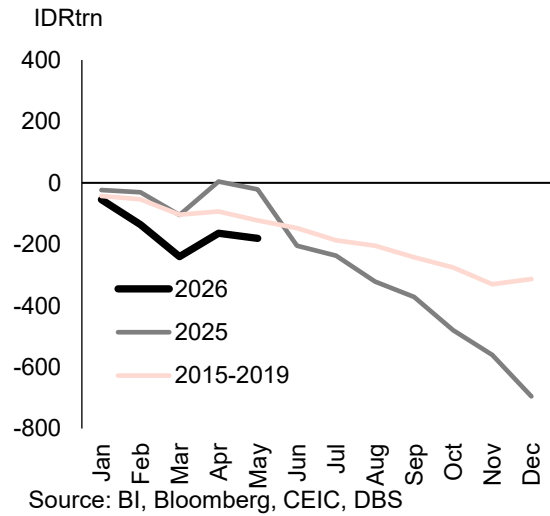
We expect the 2026 fiscal deficit to remain within the mandatory -3% of GDP threshold. The deficit target for 2027 has been set at an ambitious 1.8-2.4% (DBSf: 2.9%), based on a growth projection up to 6.5%.

The fiscal deficit run-rate has widened considerably in 2026 YTD compared with pre-Covid and 2025 trends. This underscores the importance of consolidating finances through spending cuts and improving revenues.

Fiscal consolidation on the agenda



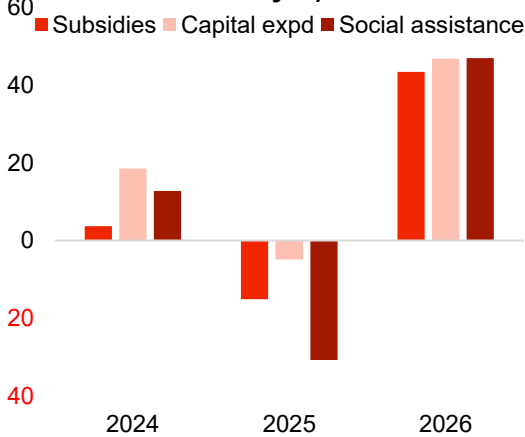
Fiscal deficit run-rate- YTD



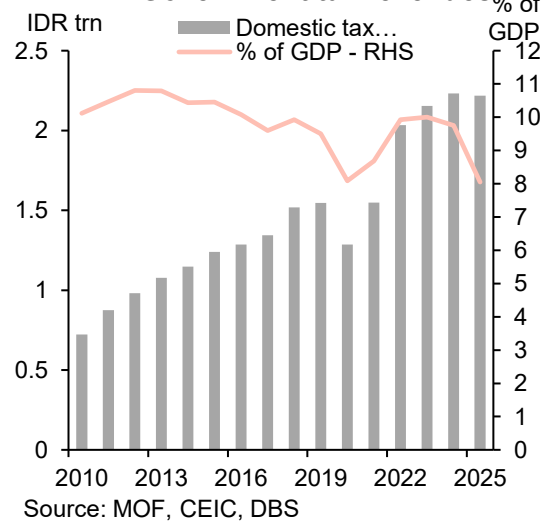
Expenditure was front-loaded, including subsidy disbursements between Jan-May26. We expect the pace to slow in 2H due to cuts to key flagship schemes and lower burden.

Long-standing concerns over revenue generation (% of GDP) and the rising share of interest payments in overall spending continue to constrain sovereign ratings.

Expenditure run-rate (% yoy ytd)



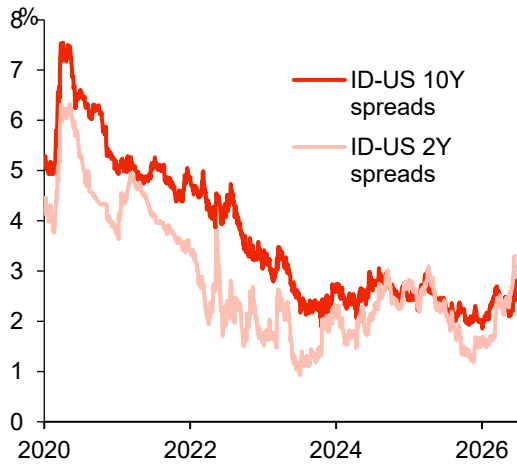
Government tax revenues



COUNTING ON MARKET STABILITY

Short end of the bond curve is likely to hold at elevated levels to provide favourable rate differentials. Elevated SRBIs have also led to a hardening in money market and short-end rates.

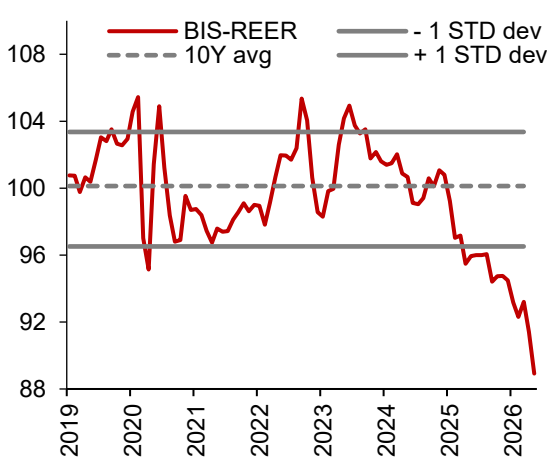
ID spreads bs US 10Y, 2Y yields



Source: CEIC, DBS

On a real effective exchange rate basis, the currency is undervalued relative to its trading partners. Subdued risk sentiment and broader uncertainty have driven this down move, which will constrain the extent of improvement in trade competitiveness on a weaker IDR.

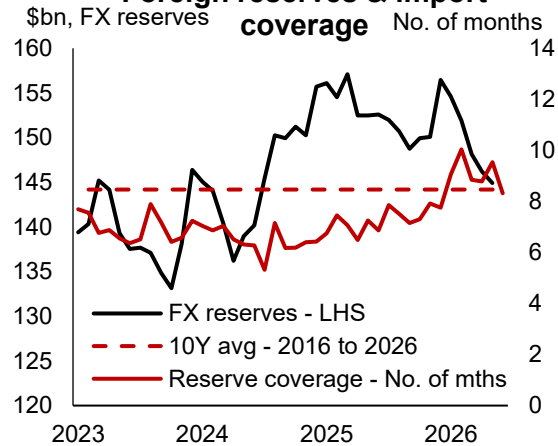
IDR real effective exchange rate
BIS IDR REER



Source: CEIC, BIS, DBS

A constrained policy space for intervention keeps the door open to further rate hikes. Beyond any short-term reprieve, capital flows, the US dollar and the ratings outlook will limit the scope for a sustained currency rally.

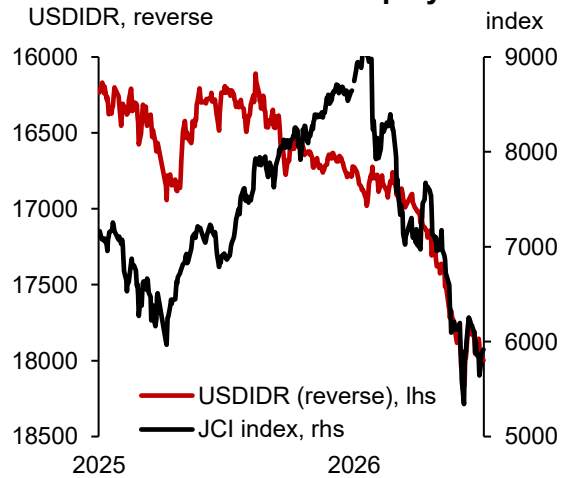
Foreign reserves & import coverage



Source: CEIC, DBS

Correction in the equity markets and the impending MSCI's updated review in Nov26, pose additional risks for the currency in 4Q26. Indonesia's weight in the index has already slipped below 0.5%, with reclassification leading to further outflows.

Markets: USDIDR and equity index



Source: Bloomberg, DBS

GROWTH, INFLATION, POLICY RATES & FX FORECASTS

	GDP growth, % YoY							CPI inflation, % YoY, ave						
	2021	2022	2023	2024	2025	2026f	2027f	2021	2022	2023	2024	2025	2026f	2027f
China	8.1	3.0	5.2	5.0	5.0	4.5	4.0	0.9	2.2	0.2	0.2	0.0	1.2	1.5
Hong Kong SAR	6.3	-3.5	3.3	2.5	3.5	3.0	2.8	1.6	1.9	2.0	1.5	1.4	1.6	1.5
India	10.3	7.2	8.7	6.7	7.8	6.8	6.4	5.1	6.7	5.7	4.9	2.2	4.5	4.2
India (FY basis)*	9.7	7.6	9.2	6.5	7.7	6.8	6.4	5.5	6.7	5.4	4.6	2.1	4.9	4.0
Indonesia	3.7	5.3	5.1	5.0	5.1	5.1	5.1	1.6	4.2	3.7	2.3	1.9	3.6	2.2
Malaysia	3.3	9.0	3.6	5.2	5.2	4.7	4.2	2.5	3.4	2.5	1.8	1.4	2.0	2.0
Philippines	5.7	7.6	5.6	5.6	4.5	4.7	5.0	3.9	5.8	6.0	3.2	1.7	6.5	4.0
Singapore	10.1	4.0	1.5	5.3	5.0	4.3	3.0	2.3	6.1	4.8	2.4	0.9	2.2	2.0
South Korea	4.6	2.7	1.6	2.0	1.0	2.6	2.0	2.5	5.1	3.6	2.3	2.1	2.6	2.1
Taiwan	6.7	2.7	1.1	5.3	8.8	9.4	3.5	2.0	2.9	2.5	2.2	1.7	1.9	1.8
Thailand	1.6	2.6	2.2	2.9	2.4	1.6	2.0	1.2	6.1	1.2	0.4	-0.1	2.5	1.5
Vietnam	2.6	8.5	5.0	7.0	8.0	6.5	6.5	1.8	3.2	3.3	3.6	3.3	4.8	3.3
Eurozone	5.3	3.5	0.5	0.7	1.5	1.0	1.2	2.6	8.4	5.5	2.3	2.2	3.1	2.1
Japan	3.6	1.3	0.7	-0.2	1.2	0.5	0.5	-0.3	2.5	3.3	2.7	3.2	1.8	1.8
United States	6.1	2.5	2.9	2.8	2.0	1.9	1.7	4.7	8.0	4.1	3.0	2.7	3.5	3.0

*2020 represents Fiscal 21; ending Mar 21

	Policy interest rates, eop							
	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
China*	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
India	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Indonesia	4.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Philippines	4.25	4.75	5.25	5.25	5.25	5.25	5.25	5.25
Singapore**	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
South Korea	2.50	2.50	2.75	3.00	3.00	3.00	3.00	3.00
Taiwan	2.00	2.00	2.00	2.13	2.13	2.13	2.13	2.13
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Vietnam***	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Eurozone^	2.00	2.25	2.50	2.50	2.50	2.50	2.50	2.50
Japan	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50
United States	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75

Ccy pair	Exchange rates, eop							
	1Q26	2Q26	3Q26	4Q26	1Q27	2Q27	3Q27	4Q27
USD/CNY	6.89	6.79	6.75	6.70	6.74	6.78	6.81	6.85
USD/HKD	7.84	7.84	7.83	7.83	7.83	7.83	7.83	7.83
USD/INR	94.8	94.7	93.4	93.9	94.4	95.0	95.5	96.1
USD/IDR	17041	17907	17760	17600	17660	17730	17790	17860
USD/MYR	4.05	4.08	4.02	3.95	4.00	4.05	4.10	4.15
USD/PHP	60.7	61.3	60.4	60.6	60.7	60.9	61.1	61.3
USD/SGD	1.29	1.29	1.28	1.27	1.28	1.29	1.29	1.30
USD/KRW	1516	1549	1470	1485	1500	1515	1530	1545
USD/THB	32.6	33.2	32.7	32.0	32.5	33.0	33.5	34.0
USD/VND	26340	26310	26290	26290	26430	26570	26710	26850
AUD/USD	0.69	0.69	0.70	0.71	0.70	0.70	0.69	0.69
EUR/USD	1.16	1.14	1.15	1.17	1.16	1.15	1.14	1.13

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