

December 2025

Macro Outlook 2026

Country
INDONESIA

Country Rating	(LTFLC)
S & P	BBB/Stable
Moody's	Baa2/Stable
Fitch	BBB/Stable



The Year of Transformation: From Policy to Impact

Indonesia's 2026 growth outlook will be underpinned by two levers: recovering household consumption and more targeted investment. Consumption provides short-term support, while manufacturing-led FDI strengthens medium-term productivity and capital formation. With global easing underway, sustaining growth outperformance will be key to attracting stable inflows. As policy signals align and volatility recedes, Indonesia enters 2026 on a more stable outlook, supported by steady macro conditions and coordinated policy measures. This becomes critical as external risks remain elevated, with geopolitical tensions and unpredictable trade policies continuing to threaten global confidence and capital flows.

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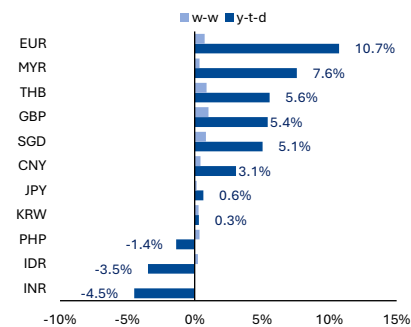
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Macro Outlook 2026

The Year of Transmission – From Policy to Impact

Currency Performance (%)

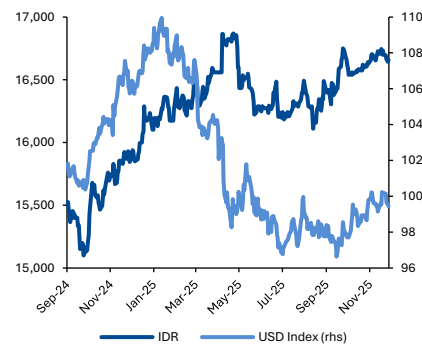
as of 30 Nov 2025



Source: Bloomberg

IDR vs DXY

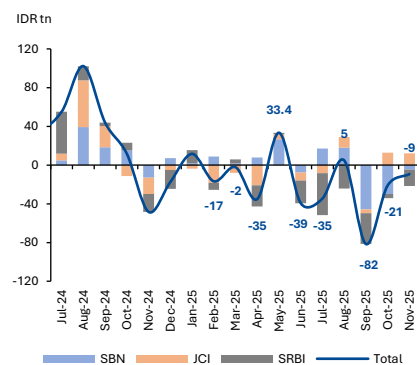
as of 30 Nov 2025



Source: Bloomberg

Capital Inflow/Outflow (IDR tn)

as of 30 Nov 2025



Source: Bloomberg

Volatility at the Forefront. Early 2025 was marked by sharp market volatility driven more by abrupt policy shifts than weakening fundamentals. A strong dollar, high yields, and tight liquidity weighed on sentiment, while brief relief from easing geopolitical tensions quickly faded. Stress peaked with renewed US tariff actions that triggered recession fears and extreme risk-off moves. As the year progressed, overlapping shocks, from tariffs to geopolitical flare-ups, kept markets volatile, though both global and Indonesian conditions proved increasingly resilient. Stability gradually returned by mid-year as trade tensions paused and diplomatic signals softened, helping sentiment recover. Indonesia’s macro backdrop also proved more durable, with the government increasingly focus on accelerating growth momentum. In 2026, external risks remain elevated, with geopolitical tensions and unpredictable trade policies continuing to pressure global confidence and capital flows.

The Dual Levers of Growth. Indonesia’s growth model rests on consumption and investment. Consumption remains the main stabilizer, contributing over half of GDP and expanding at a steady 5–6%, cushioning downturns. Investment is more volatile but essential for lifting medium-term growth and productivity. With fiscal space narrowing, policymakers face trade-offs between short-lived demand and durable investment-led expansion. Empirical results show consumption boosts growth quickly but fades almost immediately, while investment effects emerge with a lag and persist for longer. Sustaining growth above 5% will require preserving consumption momentum while accelerating productive investment, particularly FDI, to anchor long-term capital inflows.

Reassessing the Investment Cycle. Investment cycle is shifting structurally toward manufacturing-led FDI alongside deeper downstream industrialization. Nearly 60% of FDI now flows to the secondary sector, led by metals, chemicals, machinery, and electronics, while mining and services have normalized. This transition improves investment quality and spillovers: each IDR1tn of FDI generates about IDR1.13tn in additional GFCF, with the strongest effects in capital-intensive projects and regions outside Java. However, domestic capex remains cautious, with subdued corporate investment, below-normal capacity utilization, and uneven PMI recovery, leaving industrial momentum ahead of domestic follow-through.

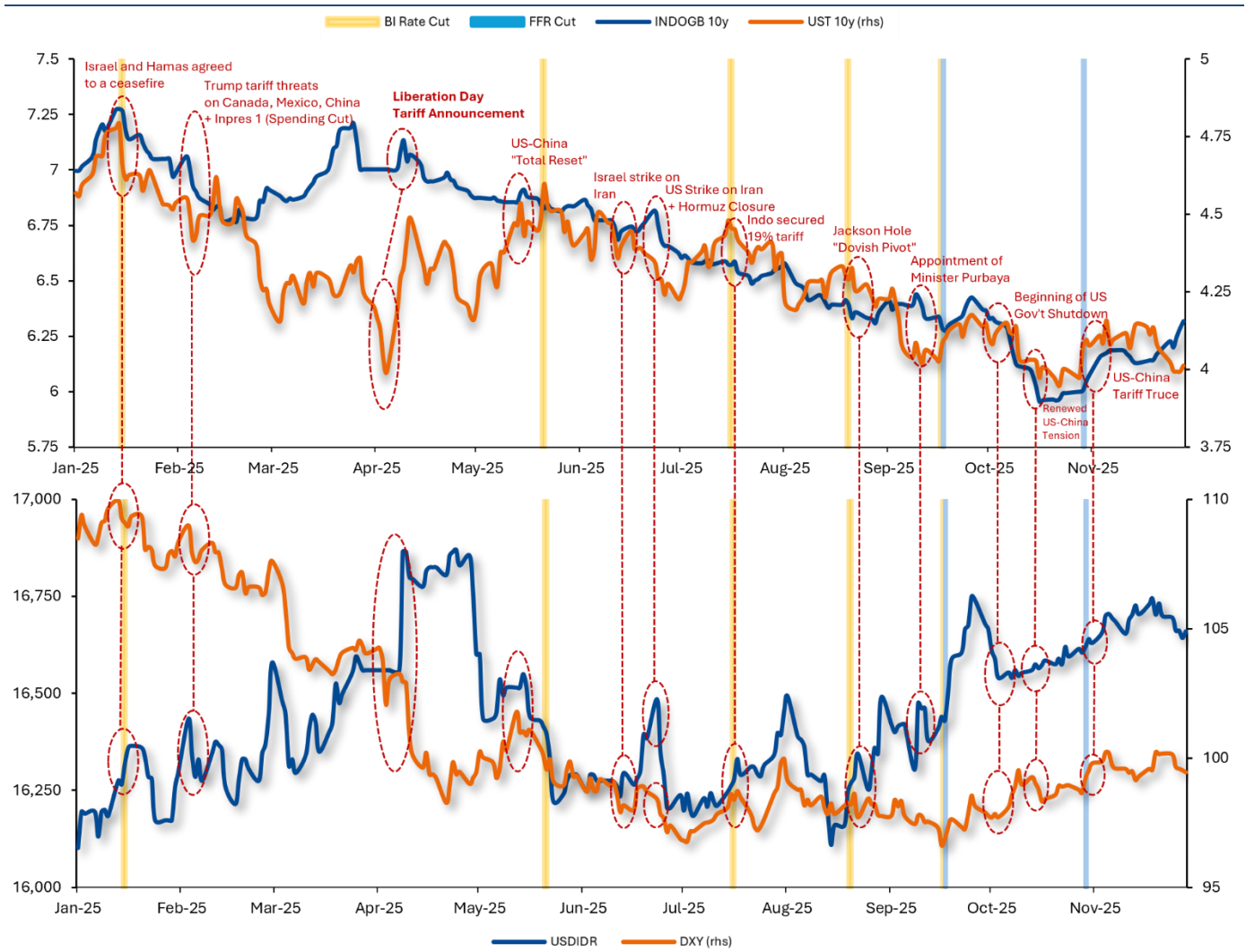
Growth Over Differentials. Growth differentials, rather than rate or yield spreads, are the key driver of sustained foreign inflows. Historically, inflows often strengthened even as BI–Fed and INDOGB–UST spreads narrowed. Empirical analysis shows yield and rate gaps mainly affect short-term flows and lose significance once global factors are considered. In contrast, stronger relative growth delivers a more persistent inflow response. Rate differentials still anchor carry, but durable portfolio and FDI inflows hinge in Indonesia consistently outperforming peers on growth.

Rate Outlook and Yield Path. Monetary dynamics point to a lower and more stable yield environment in 2026. The Fed is expected to begin easing in December, followed by further cuts (50bps) in 2026 as inflation moderates and labor markets soften, despite political noise. Domestically, Bank Indonesia is projected to cut rates by around 50 bps, supported by contained inflation, ample liquidity, and improved policy transmission. Together, this supports lower bond yields, with 10-year INDOGB projected at 5.62%–6.14% (baseline 5.88%), and a broadly stable yield curve anchored by strong domestic demand.

2025: Volatility at the Forefront

A year full of volatility, 2025 unfolded with overlapping shocks from trade policy, geopolitics, and domestic demand. Markets moved sharply as investors reacted to Trump-era tariff hikes, shifting central-bank signals, and repeated geopolitical tensions. Even with the volatility, the global backdrop held up better than expected, and Indonesia’s macro environment also remained firm, moving through mixed periods of pressure and relief during the year.

Exhibit 1. 2025 Yield, IDR, and DXY Movements



Source: Bloomberg, BRI Danareksa Sekuritas

1Q25 Key Events: Trifecta of Challenges. Entering early 2025, markets faced a combination of challenges: a strong DXY, rising yields, and tighter liquidity, which kept volatility high. With the DXY approaching 110 and the 10-year UST yield climbing to 4.7%, investor sentiment remained cautious. This was compounded by the weakness of the IDR and uncertainty surrounding the policy direction of President Trump's second term. A brief period of optimism followed when Middle East tensions eased after the Israel-Hamas ceasefire, BI's 25 bps rate cut, and renewed communication between Presidents Trump and Xi, signaling a de-escalation in US-China trade tensions, which temporarily supported regional stability.

However, optimism faded quickly when, on February 4, President Trump proceeded with tariff actions, imposing 25% on Canada and Mexico and an additional 10% on China. In retaliation, Canada announced plans to impose a 25% tariff on USD 106bn of US goods. On domestic front, President Prabowo, via Inpres No. 1/2025, ordered an 8.4% reduction in government spending, reinforcing fiscal prudence but also contributing to domestic moderation and tighter liquidity through the first half of 2025.

2Q25 Key Events: The Tariff Tantrum. “Liberation Day” marked the breaking point for global trade principles, as President Trump imposed a 10% global tariff on all US imports and steep country-specific rates: 54% for China, 46% for Vietnam, 32% for Taiwan and Indonesia, 24% for Japan, and 20% for the EU. US recession fears intensified as the 10y UST yield fell below 4%, equities weakened, and the 2y yield dropped on expectations of deeper cuts. Volatility surged, with the VIX above 50, while the announcement, released during the Lebaran holiday, pushed the rupiah weaker by 300 points to 16,865 on the first trading day after long-holiday, with off shore rate previously surge to above 17k level.

Exhibit 2. “Liberation Day” Tariff

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
Algeria	59%	30%
Oman	10%	10%
Uruguay	10%	10%
Bahamas	10%	10%
Lesotho	99%	50%
Ukraine	10%	10%
Bahrain	10%	10%
Qatar	10%	10%
Mauritius	80%	40%
Fiji	63%	32%
Iceland	10%	10%
Kenya	10%	10%
Liechtenstein	73%	37%
Guyana	76%	38%
Haiti	10%	10%
Bosnia and Herzegovina	70%	35%
Nigeria	27%	14%
Namibia	42%	21%
Brunei	47%	24%
Bolivia	20%	10%
Panama	10%	10%
Venezuela	29%	15%
North Macedonia	65%	33%
Ethiopia	10%	10%
Ghana	17%	10%

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
Moldova	61%	31%
Angola	63%	32%
Democratic Republic of the Congo	22%	11%
Jamaica	10%	10%
Mozambique	31%	16%
Paraguay	10%	10%
Zambia	33%	17%
Lebanon	10%	10%
Tanzania	10%	10%
Iraq	78%	39%
Georgia	10%	10%
Senegal	10%	10%
Azerbaijan	10%	10%
Cameroon	22%	11%
Uganda	20%	10%
Albania	10%	10%
Armenia	10%	10%
Nepal	10%	10%
Sint Maarten	10%	10%
Falkland Islands	82%	41%
Gabon	10%	10%
Kuwait	10%	10%
Togo	10%	10%
Suriname	10%	10%
Belize	10%	10%

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
Papua New Guinea	15%	10%
Malawi	34%	17%
Liberia	10%	10%
British Virgin Islands	10%	10%
Afghanistan	49%	10%
Zimbabwe	35%	18%
Benin	10%	10%
Barbados	10%	10%
Monaco	10%	10%
Syria	81%	41%
Uzbekistan	10%	10%
Republic of the Congo	10%	10%
Djibouti	10%	10%
French Polynesia	10%	10%
Cayman Islands	10%	10%
Kosovo	10%	10%
Curaçao	10%	10%
Vanuatu	44%	22%
Rwanda	10%	10%
Sierra Leone	10%	10%
Mongolia	10%	10%
San Marino	10%	10%
Antigua and Barbuda	10%	10%
Bermuda	10%	10%
Eswatini (Swaziland)	10%	10%

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
Marshall Islands	10%	10%
Saint Pierre and Miquelon	99%	50%
Saint Kitts and Nevis	10%	10%
Turkmenistan	10%	10%
Grenada	10%	10%
Sudan	10%	10%
Turks and Caicos Islands	10%	10%
Aruba	10%	10%
Montenegro	10%	10%
Saint Helena	15%	10%
Kyrgyzstan	10%	10%
Yemen	10%	10%
Saint Vincent and the Grenadines	10%	10%
Niger	10%	10%
Saint Lucia	10%	10%
Nauru	59%	30%
Equatorial Guinea	25%	13%
Iran	10%	10%
Libya	61%	31%
Samoa	10%	10%
Guinea	10%	10%
Timor-Leste	10%	10%
Montserrat	10%	10%
Chad	26%	13%
Mali	10%	10%

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
Maldives	10%	10%
Tajikistan	10%	10%
Cabo Verde	10%	10%
Burundi	10%	10%
Guadeloupe	10%	10%
Bhutan	10%	10%
Martinique	10%	10%
Tonga	10%	10%
Mauritania	10%	10%
Dominica	10%	10%
Micronesia	10%	10%
Gambia	10%	10%
French Guiana	10%	10%
Christmas Island	10%	10%
Andorra	10%	10%
Central African Republic	10%	10%
Solomon Islands	10%	10%
Mayotte	10%	10%
Anguilla	10%	10%
Cocos (Keeling) Islands	10%	10%
Eritrea	10%	10%
Cook Islands	10%	10%
South Sudan	10%	10%
Comoros	10%	10%
Kiribati	10%	10%

Country	Tariffs Charged to the U.S.A. (Effective 1/2025)	U.S.A. Discounted Reciprocal Tariffs
São Tomé and Príncipe	10%	10%
Norfolk Island	58%	29%
Gibraltar	10%	10%
Tuvalu	10%	10%
British Indian Ocean Territory	10%	10%
Tokelau	10%	10%
Guinea-Bissau	10%	10%
Svalbard and Jan Mayen	10%	10%
Heard and McDonald Islands	10%	10%
Reunion	73%	37%

Source: White House

By mid-May, tensions calmed as the US and China agreed to a 90-day suspension, easing recession concerns and stabilizing markets. Trump’s “total reset” message, reinforced by Treasury Secretary Bessent’s comment that “neither side wants to decouple”, signaled a major policy reversal. The deal lifted the dollar, driving the DXY above 101. Later in late July, Indonesia also secured a final 19% tariff from the US, reducing financial risks and supporting domestic manufacturing, especially textiles and footwear.

Exhibit 3. Indonesia-US Trade Deals Fact Sheet

Terms	Key Points
Tariff Elimination	Indonesia to remove tariffs on over 99% of U.S. exports, including agriculture, health, ICT, automotive, seafood, and chemicals.
Non-Tariff Barrier Removal	<ul style="list-style-type: none"> Exempts U.S. firms from local content rules. Eases labeling, licensing, and inspection rules. Improves IP protection and regulatory practices.
Rules of Origin	Both countries will negotiate rules to ensure trade benefits are limited to U.S. and Indonesian products—not third countries.
Digital Trade Commitments	<ul style="list-style-type: none"> Eliminates digital tariffs and import declarations. Supports WTO moratorium and cross-border data flow. Recognizes U.S. data protection standards.
Economic Security Alignment	<ul style="list-style-type: none"> Joins global steel forum, boosts supply chain resilience. Removes export bans on industrial and critical minerals.
Labor Standard Improvement	Commits to forced labor ban and stronger union rights.
Commercial Deals	Indonesia will buy US’ agriculture, aerospace, and energy products
Reciprocal Rate	US will apply 19% tariff rate to Indonesia products

Source: White House, BRI Danareksa Sekuritas

Tariff tensions flared again on 11 October when Trump renewed a 100% tariff on China over rare-earth export controls, triggering broad risk-off: crypto saw a c.USD20bn liquidation, the S&P 500 fell 2.7%, the VIX jumped 32%, and the DXY climbed to 99 (highest in 3 months). However, negotiations progressed quickly, leading to a New Trade Truce by late October, agreeing on a one-year pause in further tariff escalation.

2H25 Key Events: Geopolitics Escalate. Moving toward the end of 1H25, geopolitical risk resurfaced sharply after Israel struck Iran’s nuclear facility, followed by a US bombing that pushed tensions into a more dangerous phase. WTI crude surged more than 10% w-w, the strongest jump since the May-22 negative-price shock, as Iran’s parliament responded by approving a motion to close the Strait of Hormuz. Additional geopolitical rumblings emerged in Southeast Asia, with Thailand and Cambodia reigniting their long-standing border dispute.

Exhibit 4. Previous Geopolitical Impacts on Macroeconomic and Financial Variables

No	Geopolitical Events	Time of Events	Geopolitical Risk Index (Yearly Change, %)	Geopolitical Risk Index (Monthly Change, pts)	Brent Oil Price (Yearly Change, %)	Brent Oil Price (Yearly Change, \$/barrel)	Brent Oil Price (Highest Change in Period, %)	Global GDP (Yearly Change, %)	VIX (Yearly Change, %)
1	US Bombing of Libya	1986	13.0	14.6	-47.6	-13.1	N/A	0	N/A
2	Iraq Invades Kuwait	1990	254.6	101.6	30.8	5.6	79.8	-0.4	N/A
3	Gulf War (Iran vs Iraq)	1991	163.7	75.3	-15.5	-3.7	138.5	-0.8	-4.7
4	Bosnian War (vs Yugoslavia)	1992	-29.8	-11.1	-3.5	-0.7	20	-0.4	-2.9
5	Airstrikes on Iraq	1993	52.9	41.2	-11.9	-2.3	8.1	-0.3	-2.8
6	9/11 Terrorist Attacks	2001	828.2	487.6	-13.9	-4	-19.8	-2.3	2.4
7	Iraq War (AS vs Saddam Hussein)	2003	241.4	82.3	15.3	3.8	19.2	1.4	-5.3
8	London Bombings	2005	-26.2	20.5	42.7	16.3	31.5	-0.6	-2.7
9	Israel-Lebanon War	2006	10.4	32.9	19.8	10.8	22.4	0.6	0
10	Military Interv. in Libya	2011	90.1	17.7	40	31.8	49.1	-1.2	1.7
11	Gaza War (Israel vs Palestine)	2014	143.6	46.0	-8.8	-9.6	-1.3	0.1	-0.1
12	Russia Annexes Crimea	2014	308.5	21.1	-8.8	-9.6	1	0.1	-0.1
13	Paris Attacks	2015	19.4	23.3	-47.1	-46.7	-8.6	-0.1	2.5
14	Russia-Ukraine War	2022	581.5	216.5	42.4	30.1	65.3	-2.9	6
15	Israel-Hamas Conflict	2023	51.5	108.4	-18.3	-18.4	25.2	-0.5	-0.8
16	Iranian Strike on Israel	2024	135.2	47.8	7.5	6.0	8.9	0	-0.8
17	Israel-US Strike on Iran	2025	217.1	77.2	-20.5	-17.4	-3.1	N/A	3.4

Source: Bloomberg

Beyond the Pivot. Recurring swings in geopolitical and trade tensions kept domestic conditions soft, prompting BI to extend its easing cycle with a total of 125 bps of cuts in January, May, July, August, and September. This pushed the 10y INDOGB yield down from early-2025 levels of 7% to around 6.2–6.3%, briefly touching 5.9% as markets priced in an October cut. Meanwhile, the rupiah weakened from 16,100 to around 16,600–16,700 by year-end. Having moved “ahead-of-the-curve”, BI kept rates unchanged in 4Q25, focusing on strengthening policy transmission and safeguarding FX stability.

On the contrary, the Fed kept rates unchanged for most of the year amid rising reflation risks from Trump’s tariffs. A clear shift came at Jackson Hole, when Chair Powell noted that “policy is in restrictive territory,” signaling a dovish pivot. The Fed began easing in September, supported by softer August labor data, sending the DXY down to 96.6 by mid-September, its lowest level in 2025. Entering October, the U.S. government shutdown delayed key inflation and jobs data, reducing policy visibility. With no new data, both UST yields and the DXY moved largely sideways ahead of the October and the December meeting.

The New Paradigm. Domestic moderation through 1H25 peaked when large-scale demonstrations erupted across major cities in late August, reflecting broad public dissatisfaction with slowing economic momentum. As part of its response, the government appointed Purbaya as the new Finance Minister. The move initially triggered a negative market reaction, marked by heavy foreign outflows and the rupiah weakening toward 16,700. However, sentiment gradually improved as markets began to interpret the shift as signaling a more pro-growth fiscal stance.

Exhibit 5. The New Fiscal Design – Key takeaways from meeting with MoF

	Fiscal Discipline	Indonesia’s fiscal policy remains expansionary to sustain economic momentum, but fiscal discipline will be preserved with the deficit kept below 3% of GDP. Government revenue is expected to grow with the economy, providing more fiscal room ahead.
	Economic Growth	The short-term target is to achieve economic growth above 6%. The government’s “Sumitronomic” development framework is built on three pillars: high and inclusive growth, shared prosperity, and economic stability. Further stimulus and liquidity measures may be introduced to support demand conditions.
	The Private Sectors	The minister also underlined the importance of ensuring that all engines of growth: fiscal policy, financial sector, and investment climate, all work in tandem. While the government budget will play a catalytic role, the private sector is expected to be the main driver of higher economic growth. This marks a shift toward crowding-in private investment and creating conditions that promote financial deepening and business confidence, in our view.
	Deregulation	Ongoing deregulation and debottlenecking will improve the investment climate through faster and simpler licensing processes, stronger support for strategic investments, and better development of industrial and special economic zones. These efforts are aimed at removing structural barriers and improving investor confidence.
	Execution	The government will intensify monitoring (sidak) to ensure timely implementation of debottlenecking and programs execution. Budget allocations from slow-moving projects will be reallocated to those with stronger absorption capacity which will improve spending efficiency. In our view, this is a key step to address concerns over policy execution and improving confidence in the policy direction.

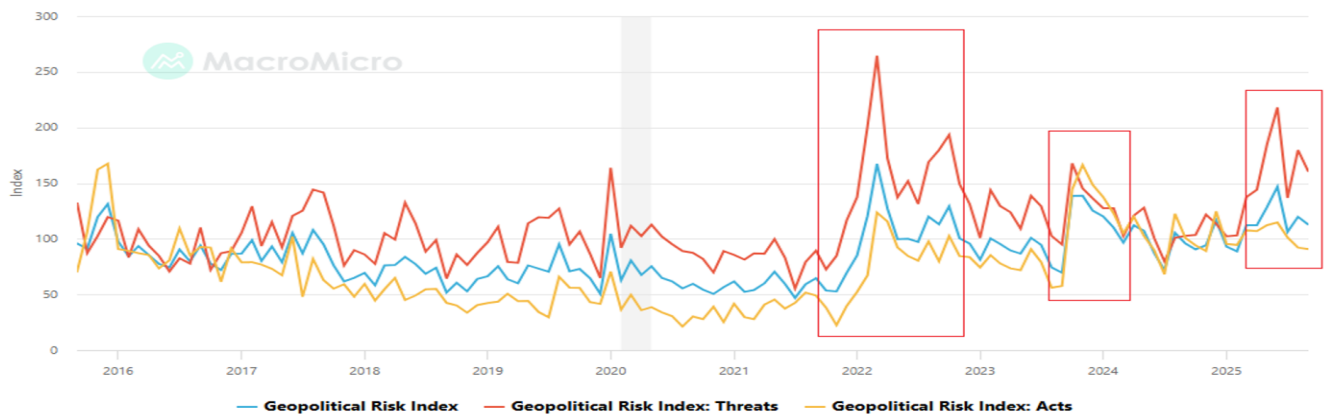
Source: BRI Danareksa Sekuritas

The Key Risks In 2026

Heading into 2026, elevated geopolitical tensions and trade policy uncertainty remain key risks, continuing to weigh on global confidence and capital flows. Since the Russia–Ukraine conflict, followed by tensions in the Middle East, US–Iran, and more recently US–Venezuela, geopolitical risk has become a more persistent feature. While market impacts have been shorter-lived, these risks still affect Indonesia through higher energy prices, inflation and fiscal pressures, as well as foreign outflows, IDR volatility, and external balance risks.

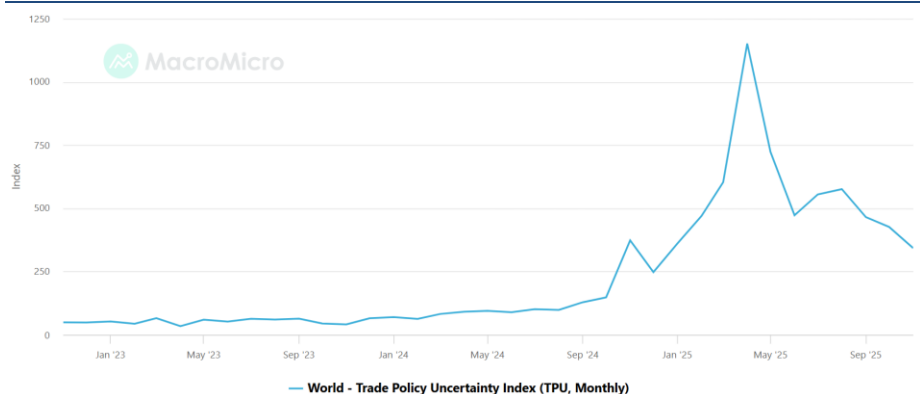
The Changing Global Landscape. As global order becomes more inward-looking, two risks have become increasingly prominent: elevated geopolitical tensions and trade policy uncertainty. In our view, these will remain the main overhangs on global confidence and capital flows going into 2026.

Exhibit 6. Global Geopolitical Risk Index



Source: MacroMicro, The Fed

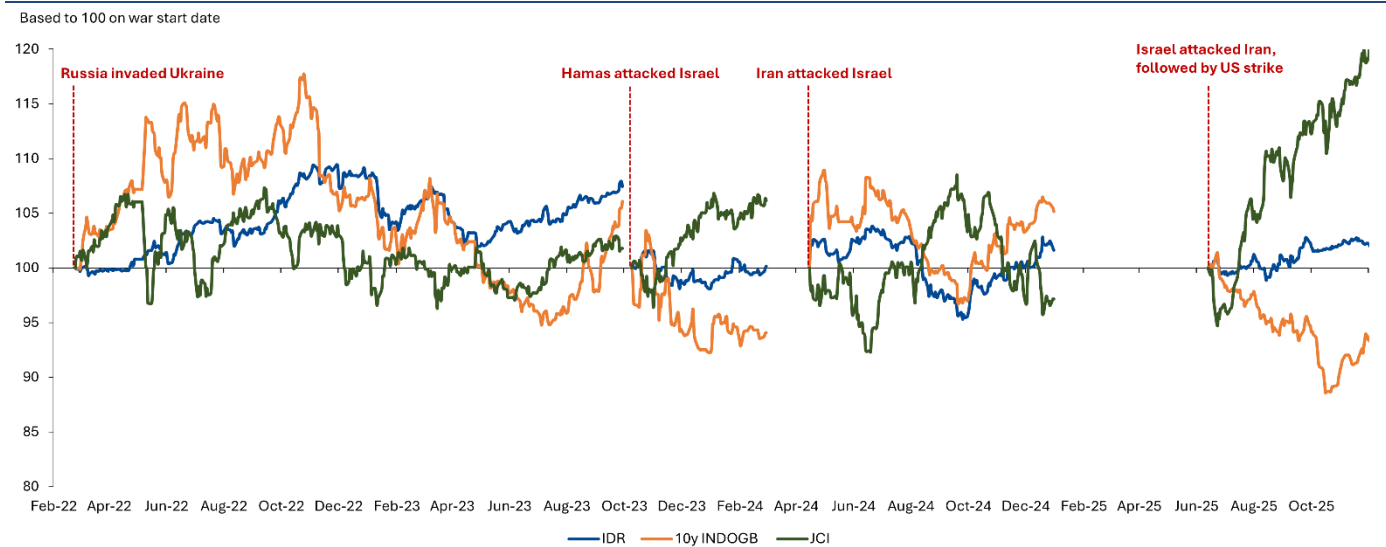
Exhibit 7. World Trade Policy Uncertainty Index



Source: MacroMicro; The Fed

Geopolitical risk has become a more persistent feature since the Russia–Ukraine conflict in 2022, followed by tensions in the Middle East and between the US and Iran. While such events still affect markets, their impact has tended to be more modest and short-lived over time, a pattern we expect to continue into 2026. More recently, tensions between the US and Venezuela have risen after the US signaled a tougher stance on sanctions and trade restrictions. This has increased uncertainty around Venezuela’s oil exports and global energy supply, adding pressure to markets and reinforcing concerns over the growing use of trade and sanctions in foreign policy.

Exhibit 8. Geopolitics Risk Impact to Market Volatility



Source: Bloomberg; BRI Danareksa Sekuritas

For Indonesia, these risks typically transmit through two main channels: trade and financial markets.

Trade Channel	A key risk from higher geopolitical tensions is a spike in energy prices, which could push inflation higher and threaten the recovery in aggregate demand, especially if consumer confidence weakens. Fiscal pressures may also rise, as higher subsidies and energy compensation would be needed to stabilize prices, potentially widening the fiscal deficit.
Financial Channel	This remains Indonesia’s primary vulnerability. Periods of heightened global risk tend to weigh on emerging markets, triggering a shift toward safe-haven assets and leading to foreign outflows. Such episodes would directly increase IDR volatility, raise import costs, heighten inflation risks, and add pressure to external debt conditions.

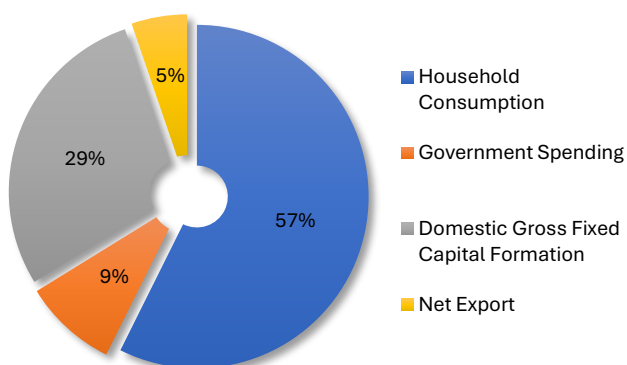
The Dual Levers of Growth

Indonesia’s growth is driven by two engines: household consumption and investment. Consumption, which makes up more than half of GDP, remains a key stabilizer, growing steadily at 5-6%. In contrast, investment, while more volatile, is essential for boosting medium-term growth and productivity. As fiscal space tightens, policymakers must balance short-term demand boosts with long-term, investment-driven expansion. Consumption provides quick, but temporary, gains, while investment delivers slower but more lasting growth. To maintain growth above 5%, it will be crucial to protect consumption while accelerating productive investments, particularly foreign direct investment (FDI), to reinforce the growth premium.

The Dual Engines. Achieving growth meaningfully above the 5% range will be critical for sustaining and deepening foreign capital inflows into Indonesia. A stronger and more consistent growth premium not only enhances Indonesia’s relative attractiveness within emerging markets but also reinforces investor confidence in the country’s long-term economic trajectory. Our analysis shows that while rate and yield differentials may influence short-term portfolio movements, it is Indonesia’s ability to deliver solid, broad-based, and durable growth that ultimately anchors foreign inflows over time.

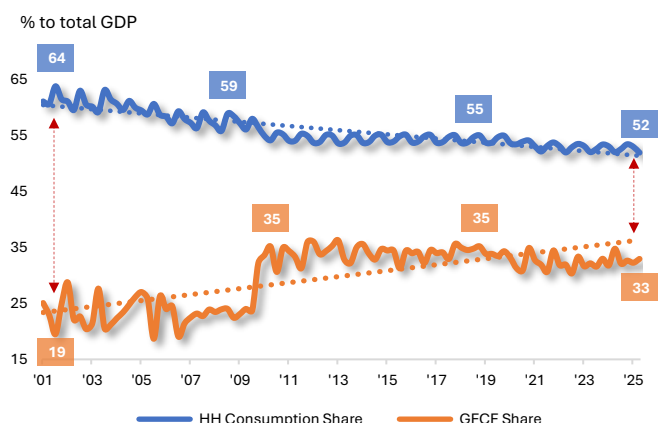
Indonesia’s economy remains fundamentally consumption-driven, with household spending consistently contributing more than half of total GDP, averaging 57% between 2001 and 2025. Consumption has expanded steadily at 5–6% per year, dipping only during major shocks such as the pandemic, underscoring its resilience as the main growth anchor. In contrast, Gross Fixed Capital Formation (GFCF) has shown higher volatility, outpacing GDP growth during expansions but contracting more sharply in downturns. Over time, their relative contributions have shifted: consumption share has gradually eased, while investment share has risen. This evolution highlights Indonesia’s dual-engine growth model consumption providing stability, and investment building medium-term productive capacity.

Exhibit 9. GDP Composition by Expenditure (25y average)



Source: Statistics Indonesia, BRIDS

Exhibit 10. Household Consumption and GFCF Share Trends



Source: Statistics Indonesia

Exhibit 11. GDP Growth by Expenditure

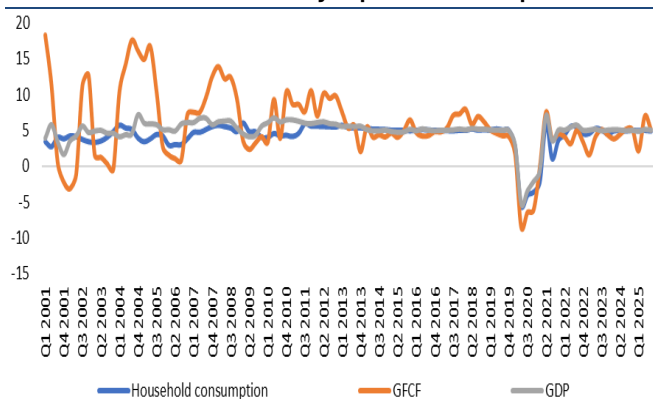
(% y-y)	2023					2024					2025		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Gross Domestic Product	5.03	5.17	4.94	5.04	5.05	5.11	5.10	4.95	5.02	5.03	4.87	5.12	5.04
Consumption													
Household	4.54	5.23	5.06	4.47	4.82	4.91	4.90	4.91	4.98	4.94	4.95	4.97	4.89
Non-Profit	6.17	8.62	6.21	18.11	9.83	24.29	10.00	11.69	6.06	12.48	3.07	7.82	4.28
Government	3.99	10.62	-3.76	2.81	2.95	19.90	1.40	4.62	4.17	6.61	-1.37	-0.33	5.49
Gross Fixed Capital Formation	2.11	4.63	5.77	5.02	4.40	3.79	4.40	5.15	5.03	4.61	2.12	6.99	5.04
Exports of Goods & Services	11.68	-2.75	-4.26	1.64	1.32	0.20	8.30	11.47	7.63	6.51	6.46	10.67	9.91
Imports of Goods & Services	2.77	-3.08	-6.18	-0.15	-1.65	1.77	8.60	4.95	10.36	7.95	4.17	11.65	1.18

Source: Statistics Indonesia

The Growth Drivers, Dilemma and Implications. We examine three key factors. Different economic phases call for different approaches: consumption delivers quick gains, while investment drives longer-lasting growth. With fiscal space tightening, policy must balance short-term demand support with sustained investment to preserve long-term growth momentum.

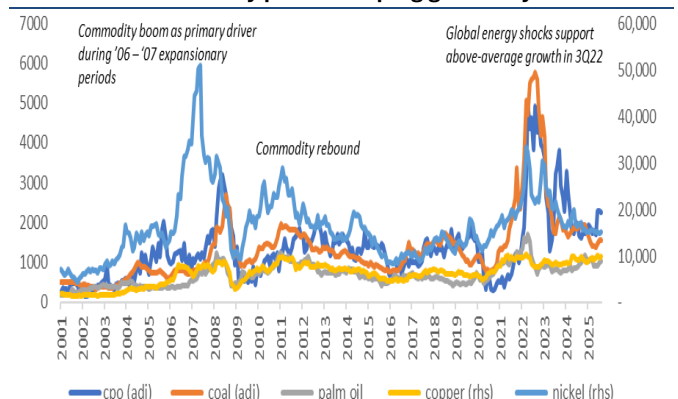
Cyclical Peaks and Their Drivers. Using Hodrick–Prescott filtering, several expansionary cycles emerge, each driven by distinct growth engines. Commodity booms, strong consumption phases, and large-scale investment initiatives have historically powered Indonesia’s above-trend growth. Notable periods include the 2003–07 commodity upswing, the 2011–13 post-GFC recovery supported by exports and the MP3EI infrastructure push, the 2015–16 demand rebound, the 2017 export recovery, the 2018 pre-election consumption surge, the 2022 reopening boom, and the 2024 policy-driven momentum fueled by IKN development and rising FDI, particularly in EV battery and downstream industries.

Exhibit 12. Growth across key expenditure components



Source: Statistics Indonesia, BRIS

Exhibit 13. Commodity prices shaping growth cycles



Source: Bloomberg, BRIS

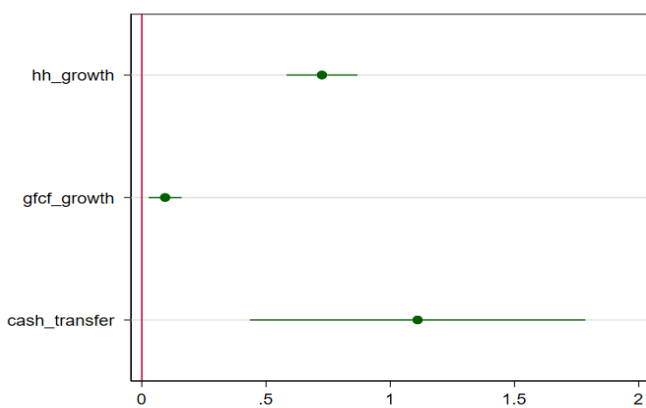
Exhibit 14. Key Episodes of Growth and Its Key Drivers

Periods	Key drivers and events
3Q01 - 3Q07	Long expansion during commodity boom as coal, palm oil, and metals' prices surged
1Q11 – 4Q13	Post global financial crisis due to global commodity rebound, supported by exports and mining investment, infrastructure momentum (2011 MP3EI master plan), as well as stronger domestic demand as credit consumption and middle class were rising.
3Q15 – 4Q15	Brief rebound due to government spending acceleration (front-load capital expenditure and infrastructure projects)
3Q16	Temporary expansion due to investment recovery and improved liquidity from tax amnesty
3Q17	Export recovery supported by moderate commodity rebound
2Q18 – 4Q18	Consumption boost ahead of election and fiscal support
3Q22	Post-pandemic recovery peak (re-opening consumption boom) and global energy shock (coal, CPO)
2Q23 – 4Q23	Exports and domestic demand stabilized after Covid-19 rebound, exports are supported by mineral and energy prices, investment returns gradually
2Q24 – 4Q24	Policy-driven recovery continued IKN projects, stronger FDI inflows (EV battery supply chain, nickel down-streaming)

Source: BRI Danareksa Sekuritas

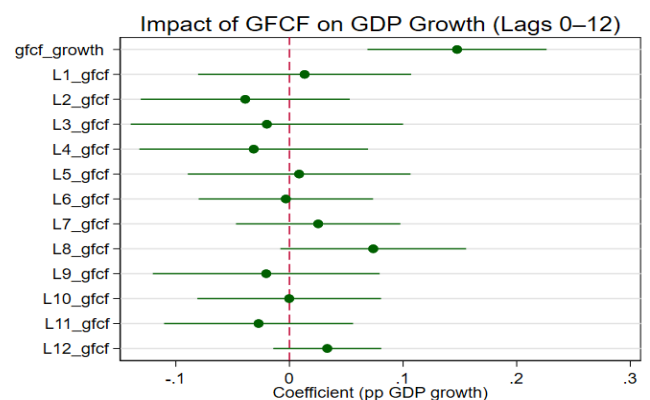
Short-Run vs Long-Run Policy Dilemma. Fiscal transmission analysis shows a clear divergence between consumption and investment effects. A 1 pp increase in household consumption raises GDP by 0.8 pp within the same quarter, with additional short-term boosts from cash transfers (as seen in 2005–06, 2008, and 2013). Yet these effects fade within a quarter, highlighting their “sugar-high” nature. Investment works more gradually: a 1 pp rise in GFCF lifts GDP by 0.1 pp initially but peaks after 7–8 quarters and persists beyond three years, reflecting long project cycles and delayed productivity gains.

Exhibit 15. Estimated Domestic Demand Effects on Growth



Source: Statistics Indonesia, BRI Danareksa Sekuritas

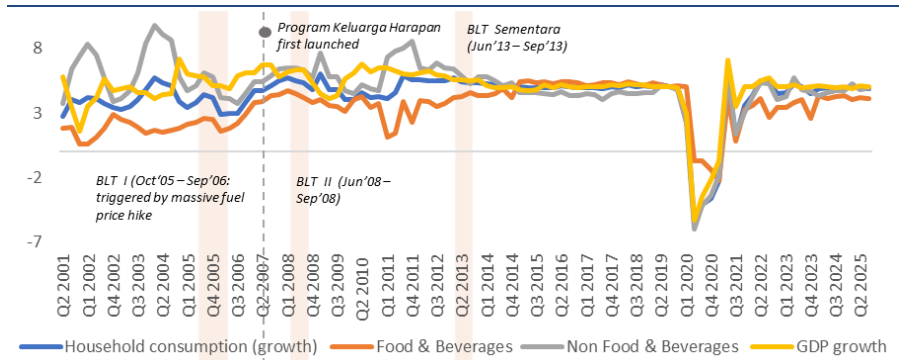
Exhibit 16. Estimated Investment Impact Across Lags



Source: Statistics Indonesia, BRI Danareksa Sekuritas

Policy Implications. As fiscal space narrows, policymakers face a trade-off between short-lived demand support and lasting supply-side expansion. During SBY’s administration, cash transfers such as BLT and PKH prioritized consumption stability aside from large allocation for fuel subsidy, cushioning households from fuel-price shocks. Jokowi’s era shifted toward investment-led growth, emphasizing infrastructure, deregulation, and FDI diversification. This transition has narrowed the gap between consumption and investment contributions, signaling gradual economic rebalancing. We opine that future policy must strike a balance as safeguarding purchasing power while preserving fiscal capacity for infrastructure and industrial transformation are increasingly crucial.

Exhibit 17. Cash Transfers Cushioning Fuel-Price Shocks



Source: Statistics Indonesia, BRI Danareksa Sekuritas

The Next Growth Catalyst. The Free Nutritious Meals (MBG) program is set to become an important near-term growth driver through the consumption channel. By lowering household meal expenses, MBG effectively raises disposable income and provides an immediate demand boost, similar to cash transfers, while also serving as a long-term investment in human capital by supporting better health and productivity. However, risks remain: a demand surge could fuel inflation if supply fails to adjust, and the program’s sizable fiscal cost may crowd out productive capital spending (GFCF), potentially weakening the investment base for medium-term growth.

Exhibit 18. Can Free Nutritious Meals Spur Economic Growth?

The MBG program holds potential as a dual-engine growth driver, targeting both immediate economic stimulus and long-term structural development

Malnutrition in Indonesia: Key Facts		
Children under five	%	# (millions)
Stunting [^]	19.8	4.5
Wasting [^]	7.4	1.7
Overweight/obesity [^]	3.4	0.8
Anaemia [*]	23.8	5.4
School-age children (5-12 years) [*]		
Short stature	18.7	6.6
Thinness	11.0	4.0
Overweight	19.7	7.0
Anaemia ^{**}	16.3	8.0
Pregnant women [*]		
Anaemia	27.7	1.3
Chronic Energy Deficiency	16.9	800k

[^]SSGI 2024, ^{**}Children 5-14 years old, ^{*}SKI 2023

MBG targets 92.8 million beneficiaries by 2029, of which:

19.9 million children under five

65.6 million students

7.3 million women

Short-term consumption boost
Immediate stimulus, if precisely targeting vulnerable group, increasing disposable income by reducing food expenditure

Long-term development benefit
Human capital investment, reducing malnutrition, hence creating future productivity dividend

Implementation risk
Inflation risk if supply chains fail to meet sudden surge in localized demand & fiscal trade-off as spending on productive GFCF may be reduced, undermining medium-term growth capacity

Source: UNICEF, BRI Danareksa Sekuritas

Looking ahead, economic growth in 2026 is projected to remain above 5% y/y (5.00–5.24%), supported by a stronger investment cycle alongside steady consumption. While household spending will remain the main growth anchor, growth above 5% y/y is more likely if the government maintains additional cash transfers and the economic stimulus package proves effective. Sustained acceleration will hinge on boosting investment, particularly FDI. Given the rising share of secondary-sector investment, we expect a notable increase in imports, especially capital goods, while down streaming policies continue to support higher value-added exports. A more expansionary policy stance is also expected to reinforce growth momentum.

Exhibit 19. 2026 GDP Forecast

	2025F		2026F
	4Q	FY	
Gross Domestic Product	5.12	5.04	5.00 – 5.24
Consumption			
Household	5.06	4.97	4.79 – 5.05
Non-Profit	7.10	5.57	6.76 – 7.03
Government	3.00	1.70	3.24 – 3.31
Gross Fixed Capital Formation	6.90	5.26	5.00 – 5.32
Exports of Goods & Services	10.67	9.43	6.39 – 8.77
Imports of Goods & Services	11.65	7.16	3.95 – 6.42

Source: BRI Danareksa Sekuritas Estimate

Reassessing the Investment Cycle

The investment cycle is pivoting toward manufacturing-led FDI, reflecting deeper downstream industrialization. The secondary sector now captures nearly 60% of total inflows, led by metals, chemicals, machinery, and electronics, lifting investment quality and spillovers, each IDR1tn of FDI generates about IDR1.13tn in GFCF, with stronger impact outside Java. Yet domestic capex remains cautious, held back by soft corporate spending, sub-optimal utilization, and uneven PMI recovery, making policy clarity and demand visibility essential to unlock the next capex upcycle.

Ongoing Structural Shifts. We take a closer look at one key lever for lifting Indonesia's growth: investment, which particularly the increasingly important role of FDI. FDI composition continues to shift in line with Indonesia's deeper industrialization. The secondary sector has strengthened sharply, rising from 35.3% in 2018 to 59.6% in 9M25, driven by metals, chemicals, machinery, and electronics. This reflects the maturing of the Jokowi administration's down-streaming policy, with more value-add now occurring inside manufacturing clusters rather than raw material extraction. Mining, which hitherto boosted by the commodity upswing has moderated, falling from 12.3% in 2021 to 8.8% in 9M25 as global prices normalized and policy emphasis moved toward processing. Meanwhile, tertiary-sector inflows dropped from 48.2% in 2018 to 29.3% in 9M25 as utilities, logistics, and real estate cooled following years of infrastructure expansion. In our view, this evolving structure sets the primary stage for Prabowo's first year, which inherits a strong industrial momentum but a softer services pipeline. We also believe that FDI's tilt toward industry reinforces its importance for driving broader investment activity.

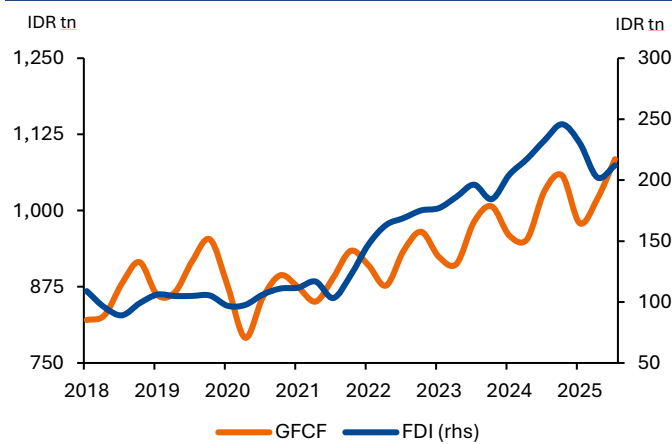
Exhibit 20. FDI Shares by Sector and Sub-sector

% of Total FDI	2018	2019	2020	2021	2022	2023	2024	9M2025
Primary Sector	16.47	11.65	11.47	15.52	15.49	13.49	12.20	11.12
Mining	10.37	7.99	7.01	12.28	11.28	9.38	8.65	8.79
Crop and Plantation	5.87	3.34	4.14	3.06	3.92	3.87	3.04	2.15
Forestry	0.15	0.13	0.15	0.13	0.22	0.19	0.14	0.13
Fishery	0.08	0.19	0.17	0.06	0.07	0.05	0.36	0.05
Secondary Sector	35.31	33.70	45.93	50.83	54.12	57.07	58.54	59.55
Metals and non-machinery	7.57	12.67	20.88	22.43	24.03	23.45	22.59	26.79
Chemicals and Pharmaceuticals	6.61	5.14	6.09	5.33	9.88	9.56	6.88	6.54
Food and Beverage	4.46	4.53	5.49	7.52	5.32	4.50	5.77	4.50
Vehicles and Transports	3.31	2.57	3.28	4.83	3.34	4.07	4.17	4.13
Machinery, Electronics, Precision Instruments	4.58	1.76	2.10	2.19	1.73	2.94	3.48	4.02
Non-metallic minerals	1.56	1.69	0.87	1.05	1.18	1.04	1.90	1.54
Pulp and Printings	2.28	1.59	3.30	3.06	3.57	6.83	7.96	4.46
Rubbers & Plastics	1.53	1.04	0.88	0.84	0.80	1.15	1.54	2.18
Textile	1.04	0.85	0.98	1.00	1.44	0.91	1.58	1.40
Leather & Footwear	0.83	0.66	0.74	1.56	1.38	1.56	1.51	2.78
Wood	0.94	0.34	0.30	0.22	0.53	0.31	0.24	0.25
<i>Other Industries</i>	<i>0.59</i>	<i>0.87</i>	<i>1.03</i>	<i>0.79</i>	<i>0.91</i>	<i>0.76</i>	<i>0.92</i>	<i>0.97</i>
Tertiary	48.22	54.65	42.59	33.65	30.39	29.43	29.27	29.33
Electricity, Gas, and Water	14.96	21.08	16.14	9.45	8.25	5.46	4.11	3.54
Transportation, Warehouse, and Telco	10.33	16.83	12.52	10.16	9.05	11.17	7.76	6.10
Housing, Office, and Industrial Estate	14.68	10.23	7.66	7.03	6.61	5.12	5.15	4.52
Hotel and Restaurants	2.96	2.23	1.53	1.39	1.09	1.61	1.57	1.70
Trade and Reparation	2.08	1.50	1.52	1.49	1.62	1.88	3.34	4.29
Construction	0.85	0.58	0.66	0.30	0.36	0.56	1.28	0.81
<i>Other Services</i>	<i>2.36</i>	<i>2.20</i>	<i>2.56</i>	<i>3.83</i>	<i>3.42</i>	<i>3.63</i>	<i>6.05</i>	<i>8.37</i>

Source: Investment Coordinating Board (BKPM)

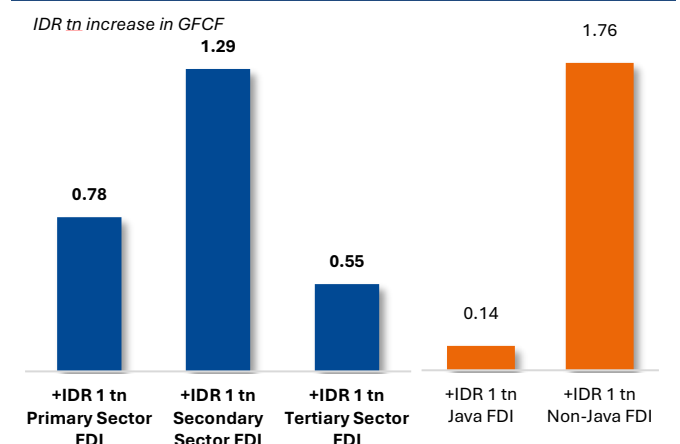
Our analysis indicates that every IDR1tn in FDI correlates with c.IDR1.13tn in additional GFCF, evidence of a strong multiplier effect. Secondary-sector FDI produces the largest boost due to its capital-intensive nature, while primary and tertiary contributions are more moderate. Regionally, Ex-Java FDI generates significantly stronger GFCF responses, reflecting deeper capital requirements outside Java and underpinning FDI’s role in supporting more geographically balanced growth.

Exhibit 21. FDI and GFCF Trend



Source: BKPM, Statistics Indonesia

Exhibit 22. FDI Multiplier on GFCF

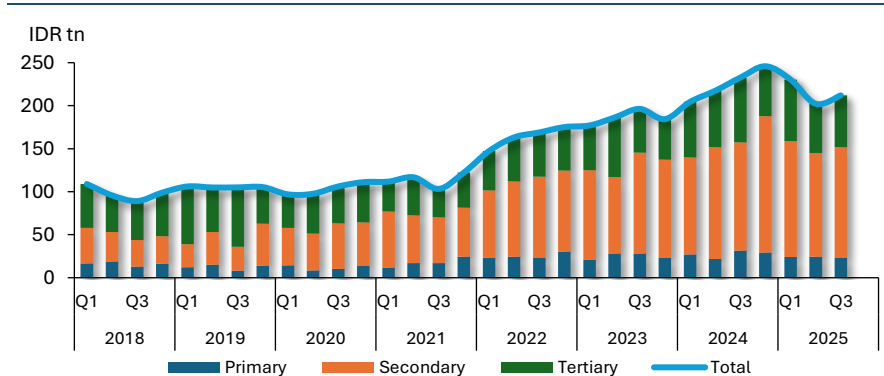


Source: BRIDS Estimate

Normalizing but Still Solid. Indonesia’s FDI performance in 2025 shows mild normalization from last year but remains supported by resilient regional inflows. In 3Q25, FDI eased as commitments from Singapore and China softened although both remained the top contributors. Hong Kong and Malaysia held steady, reflecting ongoing interest in downstream processing and logistics-related sectors.

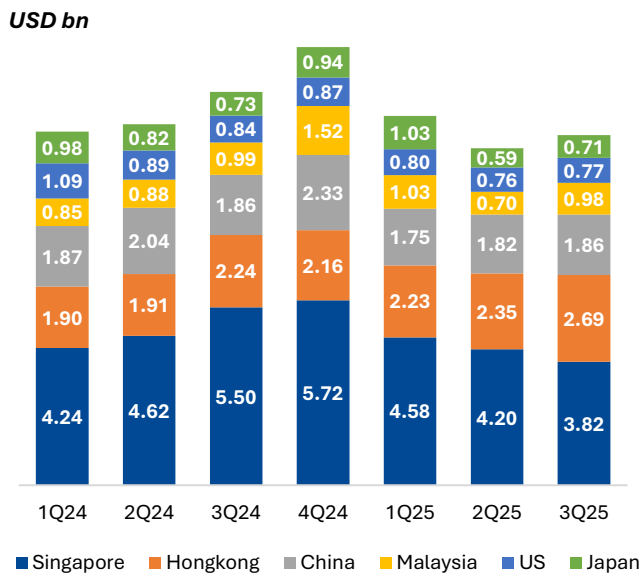
On sectoral basis, inflows stayed concentrated in the top five industries. Metals and non-machinery continued to lead on the back of Indonesia’s downstream industrial expansion. Mining moderated from its 2024 peak, while chemicals and pharmaceuticals saw slight improvement, signaling gradual diversification. Transport and warehousing cooled, consistent with a softer logistics cycle.

Exhibit 23. FDI Trends



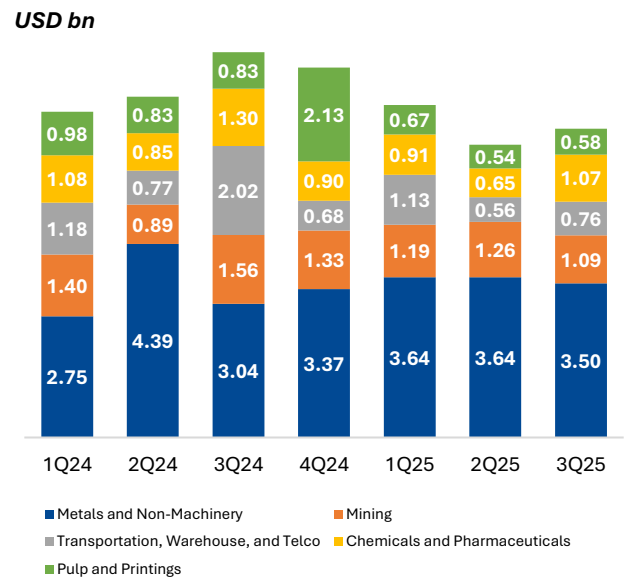
Source: Investment Coordinating Board (BKPM)

Exhibit 24. FDI Composition by Top 6 Country



Source: Investment Coordinating Board (BKPM)

Exhibit 25. FDI Composition by Top 5 Sector



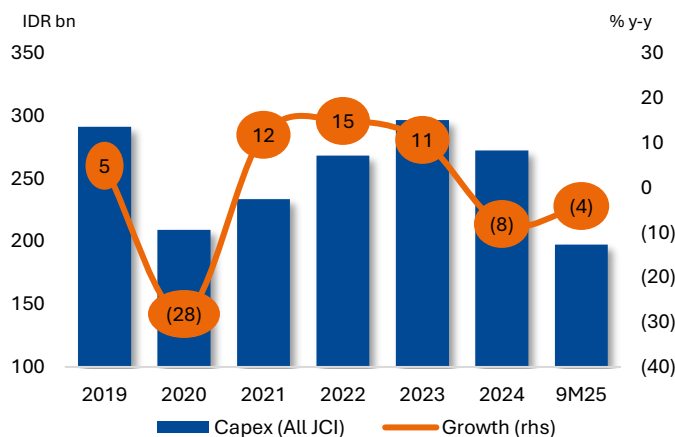
Source: Investment Coordinating Board (BKPM)

Recent large-scale commitments, including KUFPEC’s USD 1.54 bn Natuna gas project, Eni’s Merakes East expansion, Apple’s USD 320 mn manufacturing investment, and Sichuan Hebang’s USD800mn chemical plant. Such large-scale investment continues to reinforce that energy, manufacturing, and industrial processing remain the core pillars of medium-term FDI pipeline

The 3 Key Elements: Capex cycle, Utilisation and Minimum Wages. While FDI flows have increasingly shifted toward manufacturing and downstream industries, the domestic capex cycle has yet to align. The latest indicators suggest local investment remains cautious. In our view, three indicators become essential to assess investment momentum: capex cycle, capacity utilization, and minimum wage growth.

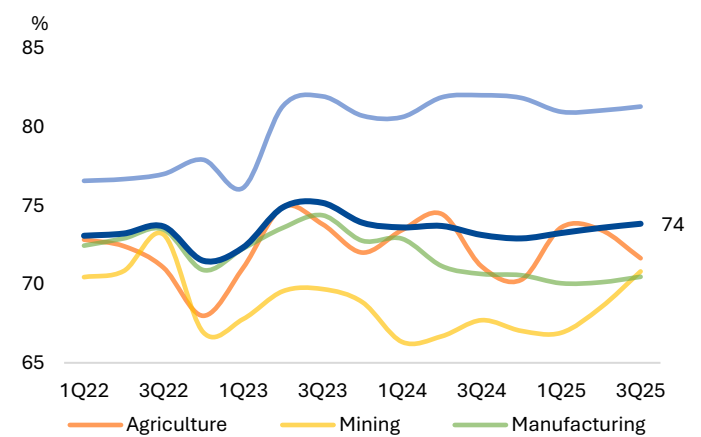
Aggregate capex of JCI-listed corporates fell to IDR272tn in 2024 from IDR 296 tn in 2023, marking an 8.1% YoY decline. Most sectors kept spending selective; only Technology and Transport & Logistics posted solid increases. Industrials and Infrastructure continued to normalize after the sharp upcycle in 2022–2023.

Exhibit 26. Capital Expenditure Cycle



Source: JCI Company

Exhibit 27. Utilisation Rate by Sector



Source: Bank Indonesia

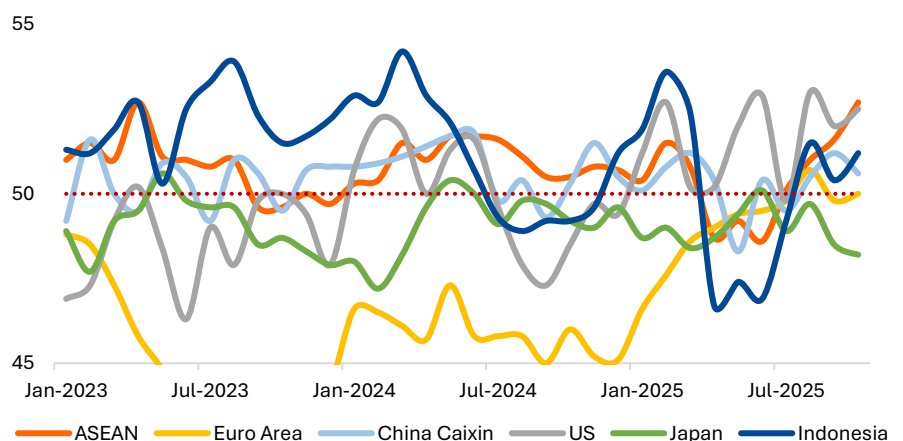
Exhibit 28. Average Capex by Industry Group

(IDR bn)	2019	2020	2021	2022	2023	2024	9M25 vs 9M24
Basic Materials	168.42	117.33	157.02	156.82	131.31	94.58	57.13
% y-y	19.78	(30.33)	33.83	(0.13)	(16.27)	(27.97)	(20.28)
Consumer Cyclical	156.85	91.44	72.81	91.80	119.98	118.25	70.63
% y-y	2.62	(41.70)	(20.37)	26.08	30.70	(1.44)	(23.61)
Cons. non-cyclicals	383.97	323.22	304.22	344.30	361.71	351.25	292.36
% y-y	(1.91)	(15.82)	(5.88)	13.17	5.06	(2.89)	2.31
Energy	66.24	44.59	45.66	50.79	81.95	97.44	98.45
% y-y	2.30	(32.68)	2.40	11.24	61.35	18.90	52.07
Financials	174.44	200.13	217.40	322.09	294.77	352.11	192.11
% y-y	20.45	14.73	8.63	48.16	(8.48)	19.45	(4.57)
Healthcare	217.47	144.13	154.64	194.52	207.21	211.27	173.81
% y-y	(29.28)	(33.72)	7.29	25.79	6.52	1.96	(5.06)
Industrials	481.89	190.70	189.08	384.49	722.42	533.75	396.64
% y-y	(18.20)	(60.43)	(0.85)	103.35	87.89	(26.12)	(6.77)
Infrastructures	1370.00	1020.00	1350.00	1320.00	1240.00	1010.00	703.19
% y-y	16.10	(25.55)	32.35	(2.22)	(6.06)	(18.55)	(12.63)
Properties & Real Estate	125.47	82.63	70.52	76.99	109.45	133.32	92.69
% y-y	7.81	(34.14)	(14.66)	9.17	42.16	21.81	(15.46)
Technology	87.11	55.73	61.48	74.55	88.96	113.95	108.62
% y-y	(8.80)	(36.02)	10.32	21.26	19.33	28.09	48.90
Transport. & Logistic	185.91	74.84	80.43	106.55	144.02	148.83	188.50
% y-y	20.07	(59.74)	7.47	32.48	35.17	3.34	62.40
Overall (All JCI)	291.08	209.00	233.52	268.11	296.49	272.35	197.47
% y-y	4.83	(28.20)	11.73	14.81	10.59	(8.14)	(4.14)

Source: Bloomberg, JCI Company

Capacity utilization remains stable but shows limited acceleration. The national utilization rate hovered around 74% in 3Q25, only slightly above early-2023 lows but still below levels typically associated with strong capex upturns. Manufacturing and Agriculture remain around the mid-70% range, while Mining stays near 70% as the sector continues adjusting after the commodity boom.

Exhibit 29. Manufacturing PMI Trend across Countries



Source: Bloomberg, S&P Global

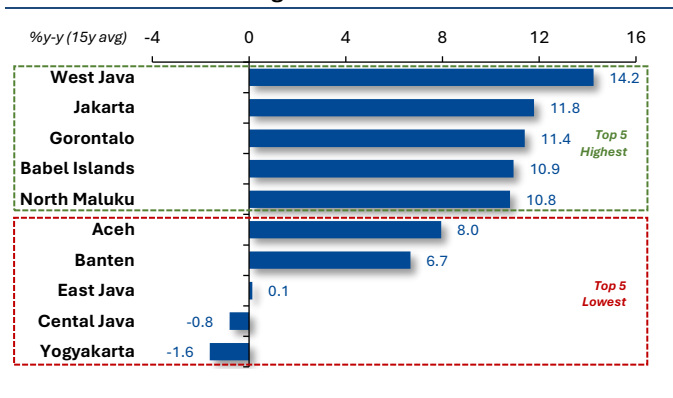
Indonesia’s PMI also diverged from peers. After hovering near neutral, it slipped into contraction in early 2025, at a time when ASEAN, US, and China Caixin PMIs were stabilizing or improving, signaling domestic softness rather than external pressure. With Indonesia’s PMI returning to expansion only from August and holding into October, firms appear to be waiting for more consistent demand visibility before committing to larger investment plans.

Minimum Wage in Indonesia: Market Forces vs Policy Instruments. The government’s ongoing review of the *Regional Minimum Wage* (UMP) formula, designed to reduce inter-provincial disparities and improve proportionality, highlights continued evolution in Indonesia’s wage-setting framework: balancing policy-driven objectives (equity and KHL-based adjustments) with market-driven forces (investment, productivity, labour demand).

Our study reveals several important insights into the structure and behavior of Indonesia’s minimum wage system.:

1. Our analysis of minimum wage growth and FDI/DDI inflows from 2010–2025 shows that significant wage acceleration is concentrated in mature industrial regions like DKI Jakarta and West Java, where high-quality investment correlates with stronger wage growth, reflecting robust productivity and competitive industries.
2. West Java also highlights a structural duality: its provincial UMP remains low to attract labour-intensive industries, while the *District Minimum Wage* (UMK) in industrial areas like Karawang and Bekasi has risen rapidly due to market pressure from capital-intensive investment. Regional variations further reinforce this trend.
3. Papua’s high UMP is driven by a high cost of living (KHL) and logistical challenges, with capital-intensive extractive industries providing some justification, but without broad productivity gains.
4. In contrast, Central and East Java have low UMP levels, driven by abundant labour supply and the dominance of cost-efficient, labour-intensive manufacturing sectors.

Exhibit 30. Minimum Wage Growth across Provinces



Source: Statistics Indonesia, BRI Danareksa Sekuritas

Exhibit 31. 2025 Provincial Minimum Wage

Rank	Province	Minimum Wage
1	Jakarta	5.396.760
2	South Papua	4.285.848
3	Central Papua	4.285.848
4	Papua	4.285.848
5	West Papua	4.285.848
...
...
34	East Nusa Tenggara	2.328.969
35	Banten	2.305.984
36	East Java	2.264.080
37	Central Java	2.191.232
38	Yogyakarta	2.169.348

Source: Statistics Indonesia

To address these gaps sustainably, the UMP formula needs structural adjustment. Over-reliance on KHL metrics continues to drive low wages in low-productivity regions. Shifting to a productivity- and investment-quality-based approach would better align wages with regional economic capacity. This would support wage increases in emerging hubs like North Maluku and Central Sulawesi, driven by internal market strength, and help reduce welfare disparities through real economic progress, rather than relying solely on policy intervention.

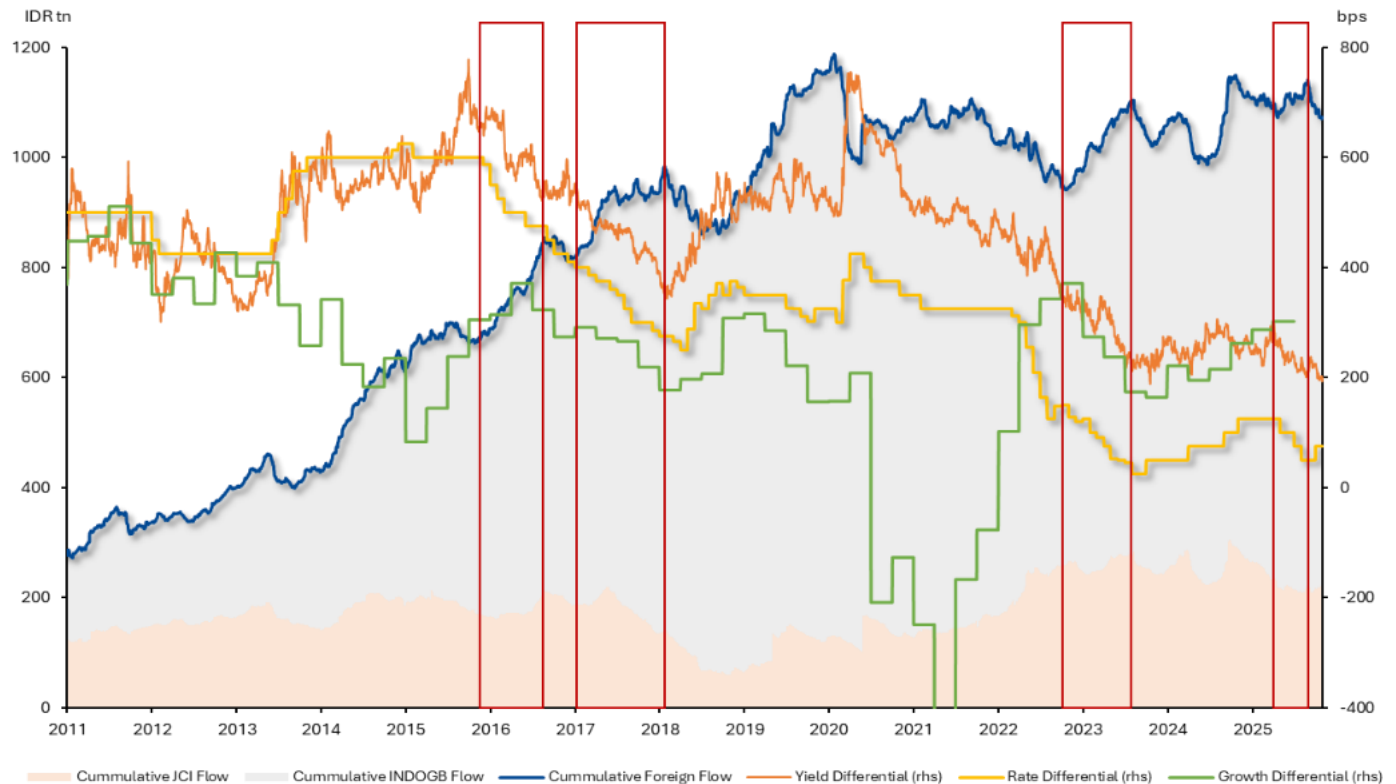
Growth Over Differentials

Our analysis shows that growth differentials outweigh rate and yield spreads in sustaining foreign inflows over the medium term. History reveals that inflows often rose even as BI–Fed and INDOGB–UST differentials narrowed. While rate and yield gaps can drive short-term positioning, their influence fades once global factors like the DXY and VIX are accounted for. Stronger relative growth, by contrast, delivers more persistent inflows. Rate differentials still anchor carry, but durable capital inflows ultimately hinge on growth outperformance.

The Differentials: What Matters Most? Indonesia’s stronger growth outlook, supported by coordinated fiscal and monetary policies, raises a key question: *Is higher growth the main driver of foreign inflow and what truly causes outflows?* Since 2016, there have been several periods when the BI–Fed rate differential and the 10-year INDOGB–UST yield differentials both narrowed. Surprisingly, these episodes were followed by an increase in foreign inflows rather than capital flight:

1. Nov 2015 – Aug 2016: The BI–Fed rate spread narrowed by 125 bps (to 475 bps) as BI cut rates while the Fed hiked. Despite this, foreign holdings rose by around IDR300tn, a trend that continued through 2017 as spreads fell further to 275 bps.
2. Sep 2022 – Sep 2023: The spread tightened to 50 bps as both central banks raised rates, yet Indonesia still saw around IDR150tn in inflows.
3. Early–Sep 2025: After BI’s cumulative 125 bps rate cuts, the spread again reached 50 bps, but foreign inflows increased by roughly IDR20tn.

Exhibit 32. Foreign Flow vs Yield, Rate, and Growth Differential



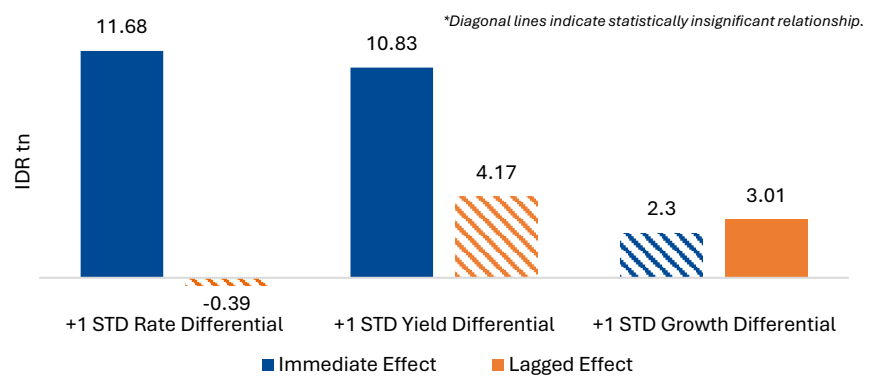
Source: Bank Indonesia, Bloomberg

These patterns suggest that foreign investor behavior is not driven solely by rate or yield differentials. In our view, growth differentials, Indonesia’s ability to outperform peers, would play a more critical role in attracting and sustaining inflows, particularly within the emerging-market universe where above-average growth is key to drawing both FDI and portfolio investments.

Our empirical analysis supports this view as 1-standard-deviation increase in rate and yield differentials boosted foreign inflows by IDR 11.6tn and IDR10.8tn, respectively, while a similar rise in growth differential added IDR 2.3 tn, though the latter was statistically insignificant. When controlling for lagged effects, the growth differential coefficient rose to IDR 3.01 tn and became statistically significant, while the rate and yield differentials lost their significance (–IDR 0.39 tn and +IDR 4.17 tn, respectively).

These findings imply that while rate and yield gaps may drive short-term capital flows, growth differentials are the stronger determinant of sustained foreign investment over the medium to long term.

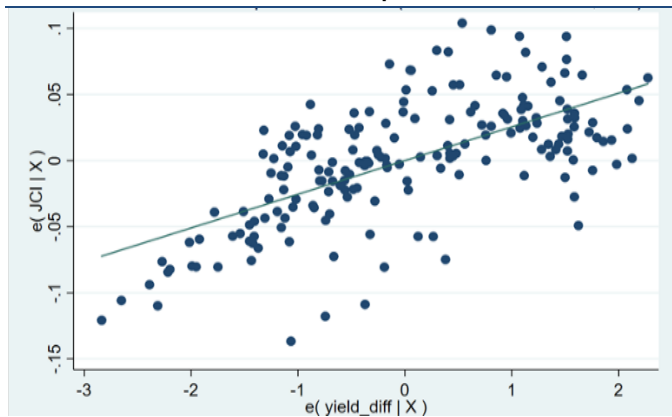
Exhibit 33. Foreign Flow vs Yield, Rate, and Growth Differential



Source: Bank Indonesia, Bloomberg

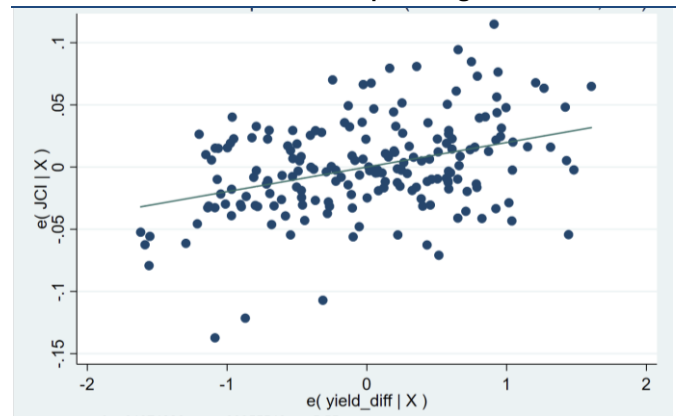
What Other Factors Matter? We extend our analysis to capture broader external variables beyond rate and yield differentials. Our findings reveal that both yield and policy rate spreads correlate positively with Indonesian asset performance, though their persistence diverges once global conditions are taken into account. Without controlling for external variables, wider spreads coincide with stronger JCI performance and greater foreign positioning in SBN. However, when we incorporate the DXY and VIX, the explanatory power of yield differentials appears to be weakening, implying that yield-based attractiveness is easily offset by a stronger US dollar or rising global risk aversion. In contrast, the policy rate differential remains consistently significant, underscoring that stable, policy-driven carry advantages provide a more enduring anchor for capital flows and investor confidence.

Exhibit 34. Yield-Inflow relationship



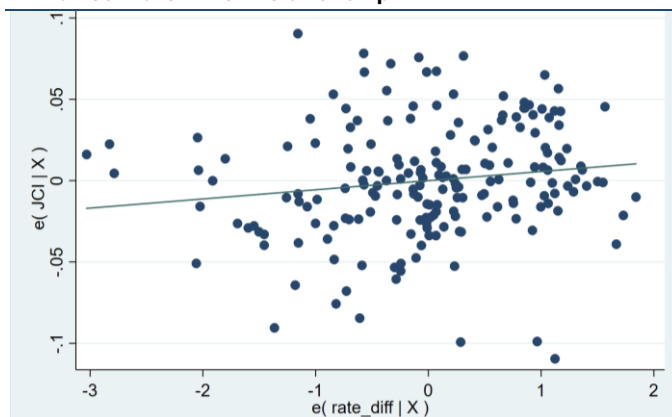
Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 35. Yield-Flow relationship – with global factors



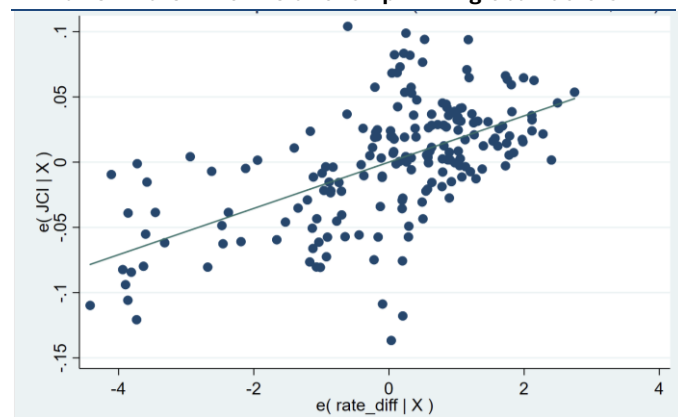
Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 36. Rate-Inflow relationship



Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 37. Rate-Inflow relationship – with global factors



Source: Bloomberg, BRI Danareksa Sekuritas

Capital flows also exhibit differing adjustment speeds across these drivers. Responses to yield-spread movements tend to be short-lived, driven largely by near-term sentiment. By contrast, adjustments to policy rate differentials unfold more gradually but persist over time. Our 12-month impulse response analysis shows that a wider BI–Fed policy rate gap generates a modest yet sustained rise in capital inflows—consistent with a measured carry-trade adjustment process. Conversely, yield-spread shocks produce only temporary gains that fade quickly.

Exhibit 38. Decomposition of Capital Flow Drivers

Horizon	Capital Flows' Own Persistence	Yield Differential Contribution	Rate Differential Contribution	Interpretation
1 month	63.7%	26.9%	9.3%	Capital flows are mostly momentum driven, yield shock still matter in the short run
6 months	67.9%	14.7%	17.3%	Influence shift: rate differential surpass yield, yield effect fades
12 months	60.7%	11.9%	27.3%	Policy rate differential becomes key driver of medium term capital flows

Source: Bloomberg, BRI Danareksa Sekuritas

Improving Growth Momentum is Omnipotent. Our results indicate that short-run fluctuations are dominated by market momentum, but over the medium term, the policy rate differential emerges as the principal determinant of capital inflows. With BI having already lowered rates significantly, the BI–Fed spread has narrowed to a thin margin. Meanwhile, uncertainty surrounding the Fed’s easing trajectory, given mixed policy signals and evolving labor and inflation data, adds further ambiguity. Looking ahead, Indonesia’s policy stance will need to focus more on supporting growth momentum. A sufficient growth differential will be crucial to sustaining long-term portfolio inflows, in our view. Ensuring steady, broad-based growth should therefore remain the core policy priority.

Navigating the Rate and Yield Transition

Monetary signals point to a lower and more stable yield environment in 2026. The Fed is expected to begin easing in December, followed by at least two additional cuts (50bps) as inflation cools and labor markets soften, although US political risks may add volatility. Domestically, Bank Indonesia is projected to cut rates by around 50 bps, supported by contained inflation, ample liquidity, and improved transmission tools. Together, these factors underpin lower yields, with 10-year INDOGB seen at 5.62%–6.14% (with a baseline of 5.88%), while yield curves remain broadly stable.

The Final FOMC in 2025: A Hawkish or Dovish Cut? In December, the FOMC cut the Fed Funds Rate by 25 bps to 3.50%–3.75%, broadly in line with market expectations. The decision was driven by moderate economic growth, softer job gains, and inflation that has risen from earlier in the year.

The Fed’s divisions were clear in the rate cut decision, which passed with a 9–3 vote. Governor Miran advocated for a larger 50-bps cut, while Goolsbee and Schmid preferred no change, leading to an unusual three-way split. In our view, the market response was also mixed: some viewed the move as a hawkish cut due to the gradual rate path signaled for 2026, while others saw it as dovish, noting the rate cut combined with faster balance-sheet expansion reflects the Fed's pro-cyclical bias.

Exhibit 39. Pre-Dec FOMC Fed Member Comments

<p>Susan Collins Boston Federal Reserve Bank President</p>  <p>"Given my baseline outlook, it will likely be appropriate to keep policy rates at the current level for some time to balance the inflation and employment risks in this highly uncertain environment."</p>	<p>Stephen Miran Federal Reserve Governor</p>  <p>"Nothing is certain. We could get data that would make me change my mind between now and then." "But failing new information that's made me update my forecasts, looking out in time, yeah, I would think that 50 is appropriate, as I have in the past, but at a minimum 25."</p>	<p>Lisa Cook Federal Reserve Governor</p>  <p>"Looking ahead, policy is not on a predetermined path." "We are at a moment when risks to both sides of the dual mandate are elevated."</p>
<p>Christopher Waller Federal Reserve Governor</p>  <p>"I am not worried about inflation accelerating or inflation expectations rising significantly" "My focus is on the labor market ..."</p>	<p>John Williams Federal Reserve Bank of New York</p>  <p>"I view monetary policy as being modestly restrictive" "Therefore, I still see room for a further adjustment in the near term to the target range for the federal funds rate to move the stance of policy closer to the range of neutral"</p>	<p>Beth Hammack Cleveland Federal Reserve Bank President</p>  <p>"I think that we need to maintain a modestly, somewhat restrictive stance of policy to make sure that we are continuing to bring inflation back down to our 2% objective"</p>

Source: Bloomberg, CNBC, Various Media Portals

We highlight 4 key points from the FOMC:

1. Fed division widening: The dissents from both dovish and hawkish members signal increasing disagreement, making a more cautious pace of easing more likely as the Committee faces rising uncertainty and a less unified policy view.
2. Shift in balance of risks: The FOMC emphasized rising downside risks to employment, even as inflation remains “somewhat elevated.” This suggests a more balanced or neutral stance, indicating that future decisions will be heavily data-dependent, with no preset course for further cuts. In our view, this points to a more measured pace of rate cuts going forward.
3. Treasury bill purchases: The Fed announced it will begin purchasing USD 40bn in Treasury bills in December, and, if needed, other short-term Treasuries to ensure ample reserves. This operational shift comes as reserve balances have fallen to the lower end of “ample,” prompting modest balance-sheet expansion to stabilize liquidity.

- Upgraded growth outlook: The latest SEP shows an improved growth forecast, marking a shift away from earlier stagflation concerns. While the unemployment forecast remains largely unchanged, PCE inflation is expected to ease further in 2026. The Dot Plot remains consistent with September’s forecast, with the FFR projected at 3.4% by the end of 2026 and 3.1% by the end of 2027.

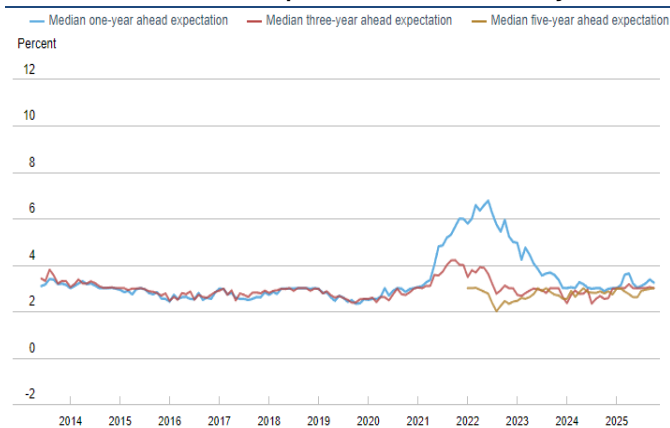
Exhibit 40. The December-25 FOMC Summary of Economic Projections

Variable	Median ¹					Central Tendency ²					Range ³				
	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8	1.6–1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0	1.5–2.0	2.0–2.6	1.8–2.6	1.7–2.6	1.7–2.5
September projection	1.6	1.8	1.9	1.8	1.8	1.4–1.7	1.7–2.1	1.8–2.0	1.7–2.0	1.7–2.0	1.3–2.0	1.5–2.6	1.7–2.7	1.6–2.6	1.7–2.5
Unemployment rate	4.5	4.4	4.2	4.2	4.2	4.5–4.6	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3	4.4–4.6	4.2–4.6	4.0–4.5	4.0–4.5	3.8–4.5
September projection	4.5	4.4	4.3	4.2	4.2	4.4–4.5	4.4–4.5	4.2–4.4	4.0–4.3	4.0–4.3	4.2–4.6	4.0–4.6	4.0–4.5	4.0–4.5	3.8–4.5
PCE inflation	2.9	2.4	2.1	2.0	2.0	2.8–2.9	2.3–2.5	2.0–2.2	2.0	2.0	2.7–2.9	2.2–2.7	2.0–2.3	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0	2.9–3.0	2.4–2.7	2.0–2.2	2.0	2.0	2.5–3.2	2.2–2.8	2.0–2.4	2.0	2.0
Core PCE inflation ⁴	3.0	2.5	2.1	2.0		2.9–3.0	2.4–2.6	2.0–2.2	2.0		2.7–3.1	2.2–2.7	2.0–2.5	2.0	
September projection	3.1	2.6	2.1	2.0		3.0–3.2	2.5–2.7	2.0–2.2	2.0		2.7–3.4	2.2–2.9	2.0–2.4	2.0–2.2	
Memo: Projected appropriate policy path															
Federal funds rate	3.6	3.4	3.1	3.1	3.0	3.6–3.9	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5	3.4–3.9	2.1–3.9	2.4–3.9	2.6–3.9	2.6–3.9
September projection	3.6	3.4	3.1	3.1	3.0	3.6–4.1	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5	2.9–4.4	2.6–3.9	2.4–3.9	2.6–3.9	2.6–3.9

Source: FOMC

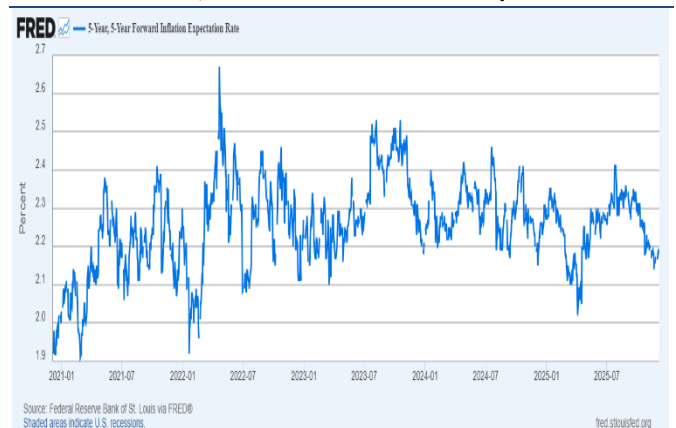
- In our view, several indicators also continue to support the case for easing.
- The NY Fed Survey shows median inflation expectations at 3.2% for the one-year horizon and 3.0% for both the three-year and five-year horizons—stable and contained. Meanwhile, the 5-Year, 5-Year Forward Inflation Expectation Rate, which briefly rose after Liberation Day and peaked at 2.4% in late July, has now eased to 2.1%, near Fed’s target of 2%.
 - At the same time, the labor market outlook has weakened further. The recent ADP report showed that US private payrolls unexpectedly fell in November, down 32k, well below consensus expectation of 10k addition. Labor demand continues to soften, with job openings per unemployed person returning to 2017 levels and only slightly more than half of industries adding jobs. Wage growth has also slowed back to its pre-pandemic annualized pace.

Exhibit 41. US Inflation Expectation – NY Fed Survey October



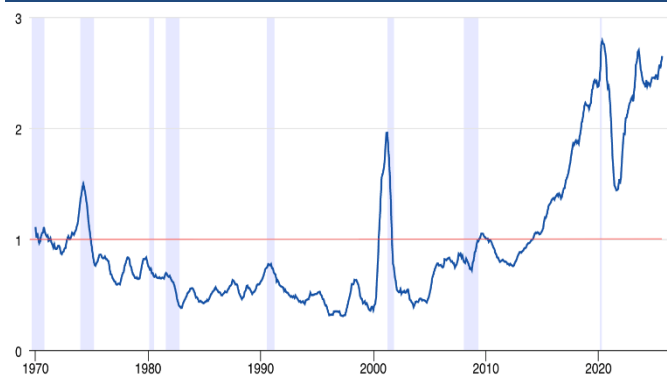
Source: New York Fed

Exhibit 42. 5 Year, 5 Year Forward Inflation Expectation Rate



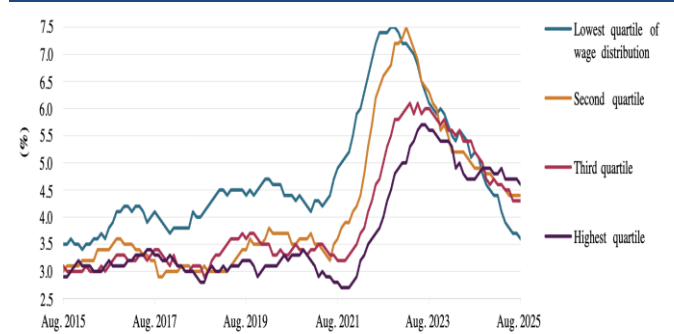
Source: St. Louis Fed

Exhibit 43. US Ratio of Retired Workers to Unemployed



Source: BLS, RBC Economics

Exhibit 44. US Annualized Wage Growth



Source: BLS, Atlanta Fed, S&P Global

The Fed in 2026: What to Expect? Beyond next week’s FOMC meeting, additional FFR cuts appear likely, and we expect the Fed to deliver at least two more reductions in 2026. The US mid-term election cycle will likely encourage stronger fiscal support to lift growth. At the same time, the prospect of a new Trump-aligned Fed Chair introduces potential risks to the institution’s independence, raising concerns that monetary policy and political influence boundary could become increasingly strained. Against this backdrop, in our view four factors stand out in 2026: the influence of the US political cycle, the shifting tone within the Federal Reserve, the dovish new Fed chairman and the narrowing gap between market pricing and Fed guidance. Together, these factors would influence global risk especially toward growth, liquidity, and cross-asset volatility including emerging market like Indonesia.

Exhibit 45. The Fed in 2026: What to Expect?

Political Cycle Effects

The US 2026 midterm elections in Nov are likely to influence the growth outlook through fiscal flexibility, policy clarity, and confidence effects rather than major new stimulus. Historically, midterms shape both the likelihood and timing of growth-supportive measures, such as limited tax relief, selective spending, or simply avoiding fiscal tightening. Even in periods of political gridlock, clearer policy boundaries tend to reduce uncertainty and improve business sentiment, indirectly supporting investment and risk-taking. As a result, any growth impact from the political cycle will likely come more from expectations and confidence than from large fiscal expansion.



A Cautious Tilt

The 2026 FOMC composition points to a more measured policy environment, shaped by lingering inflation concerns and gradual openness to easing. Several regional Fed presidents maintain a guarded stance, noting that inflation has not cooled enough to justify aggressive rate cuts. This suggests the committee will be wary of moving too quickly for fear of reversing recent disinflation gains. At the same time, dovish tone is also emerging. More Fed voting members appear willing to support gradual easing should growth soften or financial conditions tighten.

More Dovish New Fed Chair

The potential appointment of Kevin Hassett as Chair could further nudge the leadership toward a more accommodative bias, given his perceived preference for lower rates. However, his close alignment with former President Trump has raised concerns that such political proximity could weaken perceptions of Fed independence, heightening the risk that monetary decisions may appear influenced by political priorities rather than purely economic considerations.



Market–Fed Gap vs Market Volatility

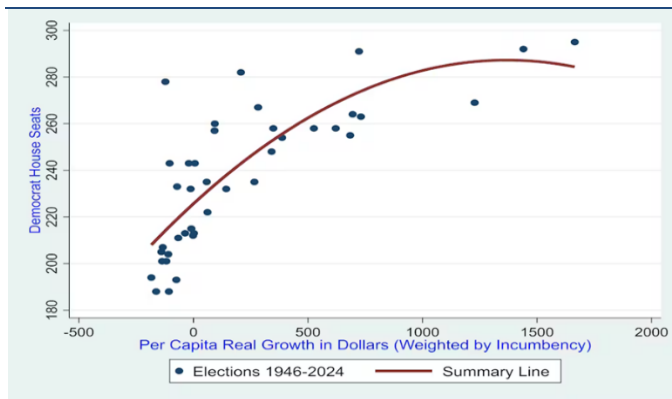
As the Fed turns more dovish, rising market expectations for rate cuts can amplify volatility. Historically, spikes in the VIX have occurred when market-implied rates fell well below the Fed’s guidance, creating a wide expectation gap. That disconnect often triggered sharp repricing. Today, however, market pricing is broadly aligned with the Fed’s latest signals. The gap between market-implied rates and the Dot Plot has largely narrowed, pointing to a more stable policy backdrop and a reduced risk of rate-driven volatility in the near term



Source: BRI Danareksa Sekuritas

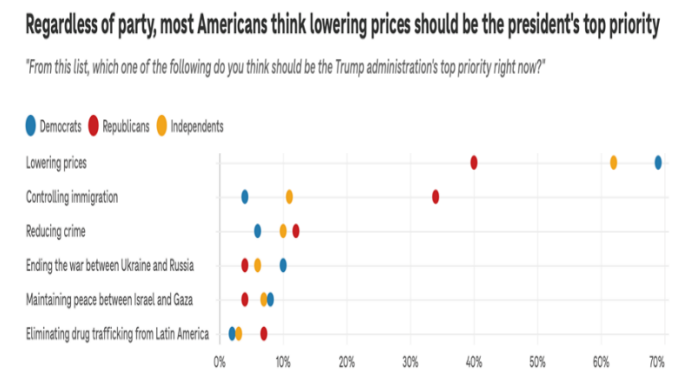
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Exhibit 46. Economic Growth and Incumbent Seat Gains



Source: St. Louis Fed

Exhibit 47. Top Policy Priority: Lowering Prices



Source: Forbes






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Exhibit 48. The FOMC 12 Voting Members in 2026. Will The Division Continues?



Source: The Fed Reserve


Exhibit 49. Incoming voting members previous commentary

<p>Kevin Hassett Trump's Candidate</p>  <p>"I think we should, and I think that we are likely to (cut rate). They now seem much more like they're leaning in the direction of a rate cut."</p>	<p>Beth M. Hammack Cleveland Federal Reserve Bank President</p>  <p>"I remain concerned about high inflation and believe policy should be leaning against it." "Inflation has been running above the Fed's 2 percent objective for four and a half years. Lowering interest rates to support the labor market risks prolonging this period of elevated inflation, and it could also encourage risk-taking in financial market."</p>
<p>Nael Kashkari Minneapolis Federal Reserve Bank President</p>  <p>"So, it really comes down to, do you believe tariffs are a one-time effect or something more persistent? I'm getting more confident that it's likely a one-time effect, but it's going to take a couple years for it to play out." "I can make a case depending on how the data goes to cut, I can make a case to hold, and we'll have to see."</p>	<p>"There's already a substantial body of research on how persistent inflation can increase risks for banks and put pressure on household finances. The challenging period we're currently experiencing for monetary policy could well be the subject of future research on the implications of having both sides of the Fed's mandate under pressure."</p>
<p>Anna Paulson Philadelphia Federal Reserve Bank President</p>  <p>"...monetary policy should be focused on balancing risks to maximum employment and price stability which means moving policy towards a more neutral stance." "Over the rest of this year, I view easing along the lines of the median SEP policy path as appropriate. Of course, that is if economic and financial conditions evolve as I expect." "On the margin, I'm still a little more worried about the labor market than I am about inflation, but I expect to learn a lot between now and the next meeting. And, as I think about monetary policy over the longer arc, I'll be focused on how to appropriately balance the risks to both inflation and the labor market..."</p>	<p>Lorie K. Logan Dallas Federal Reserve Bank President</p>  <p>"I supported the FOMC's rate cut earlier this month because it helped better balance the risk of slowing the labor market too much against the ongoing imperative to bring inflation back to the 2 percent target. However, I am also committed to finishing the job of sustainably restoring price stability." "The labor market has remained roughly balanced and cooling slowly. Inflation remains too high, taxing the budgets of businesses and families, and appears likely to exceed the FOMC's 2 percent target for too much longer. This economic outlook didn't call for cutting rates." "...and with two rate cuts now in place, I'd find it difficult to cut rates again in December unless there is clear evidence that inflation will fall faster than expected or that the labor market will cool more rapidly."</p>

Source: Bloomberg, CNBC, Various Media Portals

More Dovish New Fed Chair. The potential appointment of Kevin Hassett as Chair could further nudge the leadership toward a more accommodative bias, given his perceived preference for lower rates. However, his close alignment with former President Trump has raised concerns that such political proximity could weaken perceptions of Fed independence, heightening the risk that monetary decisions may appear influenced by political priorities rather than purely economic considerations.

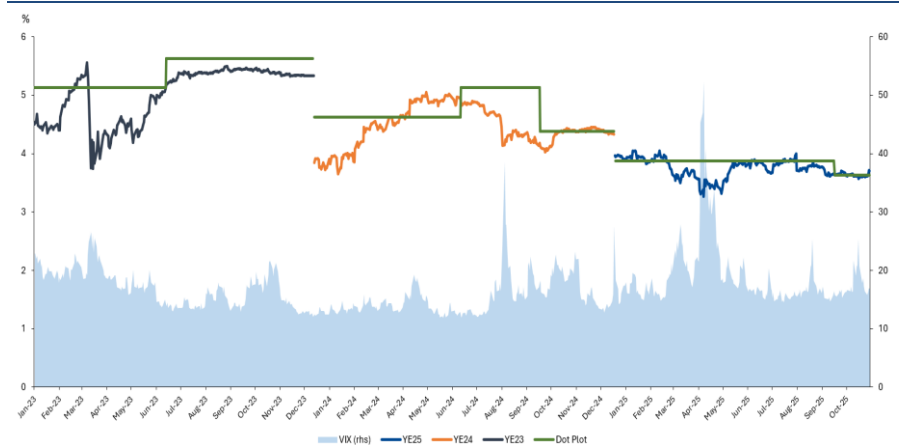
Exhibit 50. Next Fed Chair Candidates

 <p>KEVIN WARSH FMR. FED GOVERNOR</p>	 <p>KEVIN HASSETT NEC DIRECTOR</p>	 <p>MICHELLE BOWMAN FED VICE CHAIR FOR SUPERVISION</p>	 <p>RICK RIEDER BLACKROCK CIO</p>	 <p>CHRISTOPHER WALLER FED GOVERNOR</p>
<p>A former Morgan Stanley banker and economic adviser to George W. Bush, Warsh joined the Fed board in 2006 at just 35, becoming its youngest member. He acted as the Fed's liaison to Wall Street during the 2007-08 crisis and stayed until 2011. Warsh was also a finalist to replace Janet Yellen as Fed Chair in 2018 but ultimately lost to Powell.</p>	<p>Hassett chaired the White House Council of Economic Advisers during Trump's first term, acting as his top economist through major tax, financial, and trade shifts. Now, as director of the National Economic Council, he focuses on shaping Trump's broad tariff strategy and domestic agenda, including extending key tax cuts from the first term.</p>	<p>As the Fed's Vice Chair for Supervision, she has extensive experience overseeing the banking system and is viewed as supportive of lighter regulation, which fits the administration's deregulatory agenda. Her pragmatic approach and openness to further rate cuts align with the push for easier monetary conditions, making her a politically compatible and institutionally seasoned Fed candidate.</p>	<p>Rick Rieder is nominated for his deep market expertise and leadership at BlackRock. His credibility with investors, pragmatic approach to growth and inflation, and strong communication skills make him a trusted, market-oriented candidate to ensure stability and confidence in monetary policy.</p>	<p>After decades as an economics professor and Fed research chief, Waller joined the Fed board in 2020 on Trump's nomination. Unlike four other Trump picks, he narrowly cleared the Senate before Trump left office. He's mostly aligned with Powell on rates but is less worried about Trump's tariffs fueling inflation and has floated cutting rates as early as July.</p>

Source: WSJ, CNBC, The Hill

Market-Fed Gap vs Market Volatility. As the Fed turns more dovish, rising market expectations for rate cuts can amplify volatility. Historically, spikes in VIX have occurred when market-implied rates fell well below the Fed's guidance, creating a wide expectation gap. That disconnect often triggered sharp repricing. Today, however, market pricing is broadly aligned with the Fed's latest signals. The gap between market-implied rates and the Dot Plot has largely narrowed, pointing to a more stable policy backdrop and a reduced risk of rate-driven volatility in the near term.

Exhibit 51. Narrowing Market Pricing-Fed Guidance Gap

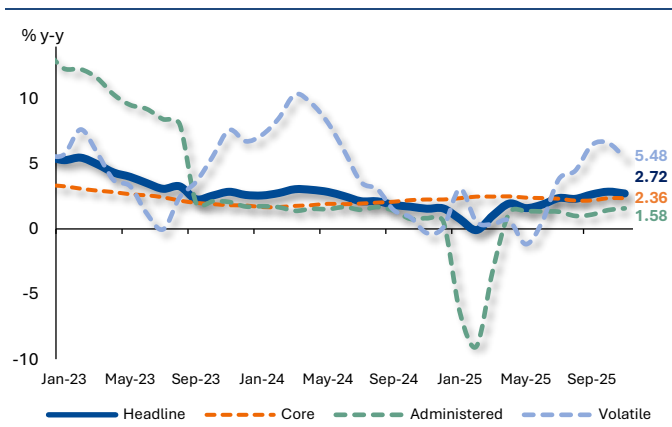


Source: Bloomberg, The Fed, BRI Danareksa Sekuritas

Domestic Tailwinds for Policy Easing. We expect Bank Indonesia to cut rates by another 50 bps in 2026, maintaining its pro-growth stance while keeping Rupiah stability as a priority. Any easing will likely be gradual, supported by BI’s triple-intervention framework: spot and NDF/DNDF interventions, selective SBN purchases, and combine with more market-friendly liquidity operations. BI also plans to expand Local Currency Transactions under the 2026 national task force, helping reduce USD reliance and strengthen monetary transmission. The pace of easing will remain data-dependent, especially on Fed-BI rate differentials and capital flow trends.

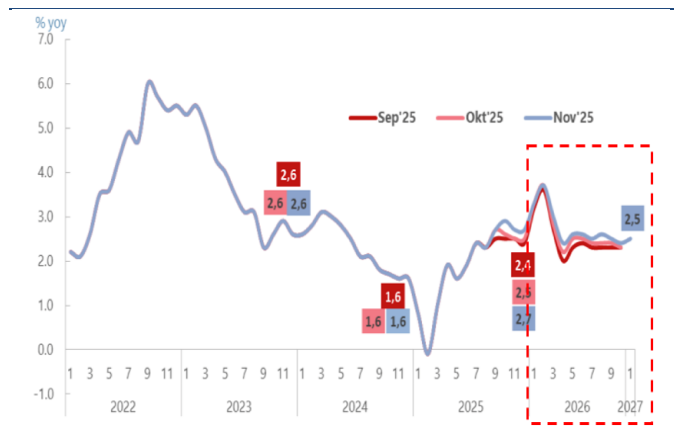
Domestic conditions increasingly support this view. Inflation is projected to stay within BI’s 2.5% \pm 1% target, helped by low imported inflation, normalized weather, and strong coordination through national and regional inflation task forces. While global risks remain, especially as softer external demand and weaker coal prices, these should be partly offset by downstream nickel projects, stronger manufacturing value-add, and export diversification. Ample banking liquidity and solid capital buffers provide additional support for credit growth, reinforcing the domestic backdrop for measured easing in 2026.

Exhibit 52. Domestic inflation trend



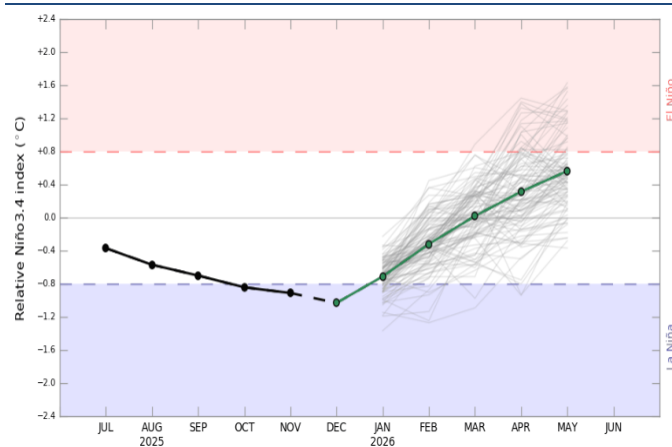
Source: Bank Indonesia

Exhibit 53. Bank Indonesia Inflation Outlook



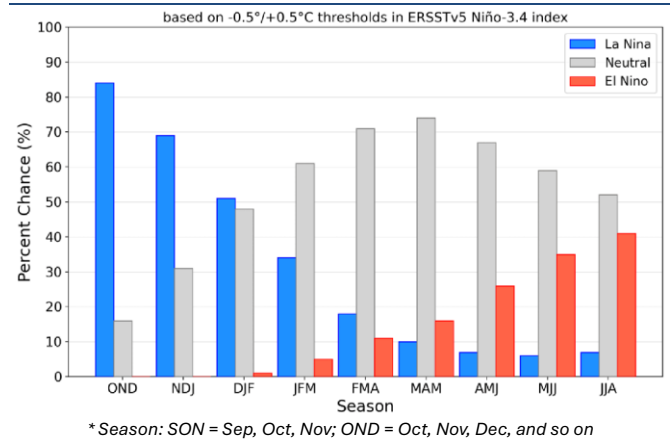
Source: Bank Indonesia

Exhibit 54. BoM Relative El Nino/La Nina Forecast



Source: Australia Bureau of Meteorology

Exhibit 55. NOAA La Nina/El Nino Probabilities



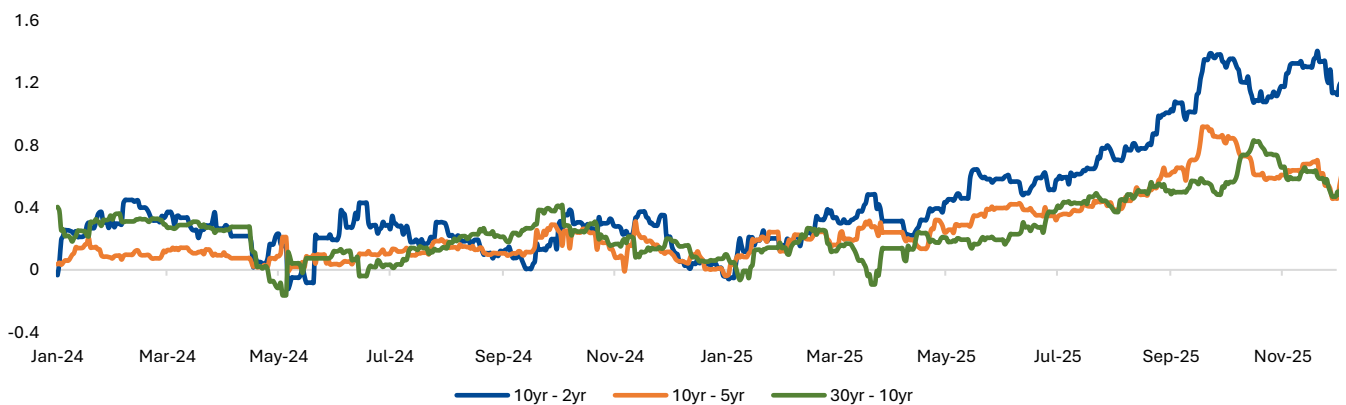
Source: NOAA (US Fed Agency)

Tracking Yield Key Drivers. Indonesia’s bond market in 2025 navigated a series of external shocks, each shaping yield movements, capital flows, and curve dynamics throughout the year.

Early-year turbulence. In 1H25, the US tariff conundrum pushed both US Treasury and INDOGB yields sharply higher, triggering broad capital outflows. Yields climbed again during periods of Middle East geopolitical tension, though improving global sentiment and Indonesia’s steady macro fundamentals eventually helped stabilise the market.

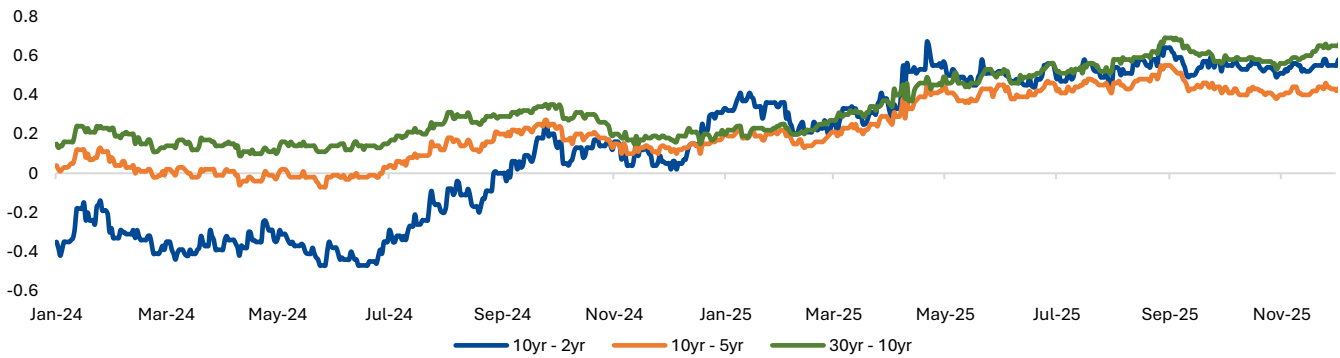
Curve Trend. The risk-off environment in the first half produced a mild bear-flattening, reflected in tighter spreads across the 10–2 and 10–5-year segments. As global easing gained traction, curves re-steepened, mirroring the rebound seen in US Treasuries.

Exhibit 56. Indonesia Government Bond Yield Curve Spreads



Source: Bloomberg, BRI Danareksa Sekuritas

Exhibit 57. US Treasury Yield Curve Spreads

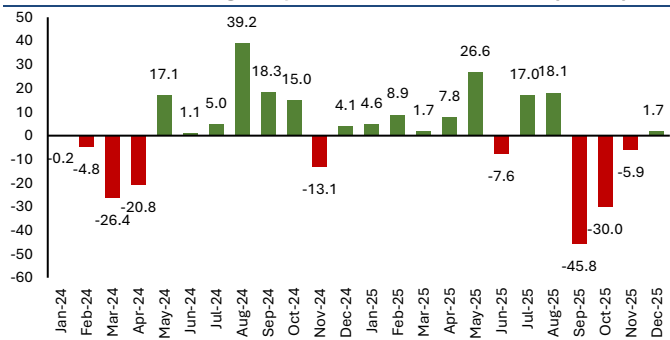


Source: Bloomberg, BRI Danareksa Sekuritas

Late-year anchoring. By late 2025, synchronised policy easing worldwide helped anchor yields, driving the 10-year INDOGB to its lowest level since 2023. Strong domestic liquidity boosted by fiscal operations also supported demand, with corporate bond yields declining considerably.

Foreign positioning. Heavy outflows from September pulled foreign holdings down to roughly IDR880tn (vs end Aug’s of IDR954tn), with foreign ownership slipping from a mid-year peak of 14.8% to 13.3%.

Exhibit 58. Net Foreign Buy/Sell as of Dec 4th, 2025 (IDRtn)



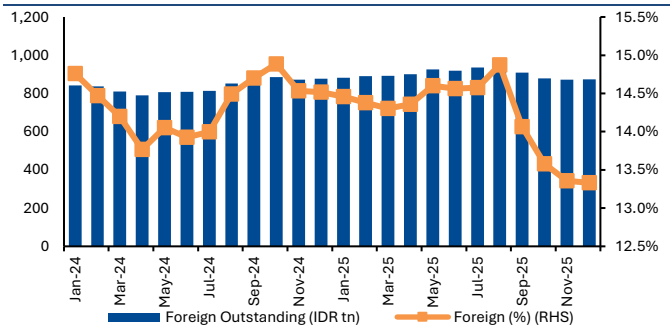
Source: DJPPR

Exhibit 59. YTD Net Buy/Sell (IDRtn)

Investors Type	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY	YTD	WoW
	2024	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2024	2025	2025
Banking	(83.9)	77.5	78.2	(85.2)	10.2	3.3	64.6	93.9	42.7	37.8	34.1	54.7	16.2	(444.0)	423.3	11.5
Bank Indonesia	98.7	(63.3)	(35.1)	123.5	1.8	33.3	(85.6)	(23.1)	(26.1)	11.1	(15.4)	(32.4)	(13.5)	522.5	(120.1)	(8.7)
Foreign Investor	4.1	4.6	8.9	1.7	7.8	26.6	(7.6)	17.0	18.1	(45.8)	(30.0)	(4.8)	1.7	34.6	(2.8)	0.5
Insurance & Pension Fund	9.3	16.1	10.2	11.8	6.5	6.4	2.6	11.8	(23.9)	28.6	17.4	36.4	14.1	103.9	139.1	15.2
Mutual Fund	(2.0)	0.2	(0.9)	0.1	3.9	2.1	(9.8)	6.7	4.6	9.3	16.9	15.7	6.4	9.2	53.2	4.2
Individual	6.6	9.5	24.6	(9.0)	0.7	0.1	18.8	(3.8)	(13.0)	(10.7)	(11.1)	(8.0)	(0.4)	107.2	(2.7)	(0.7)
Others	3.8	11.2	9.1	1.9	0.7	5.6	(17.7)	7.5	(7.6)	13.9	(3.6)	1.1	0.5	(0.1)	25.1	3.0

Source: DJPPR

Exhibit 60. Foreign Outstanding as of Dec 4th, 2025 (IDRtn)



Source: DJPPR

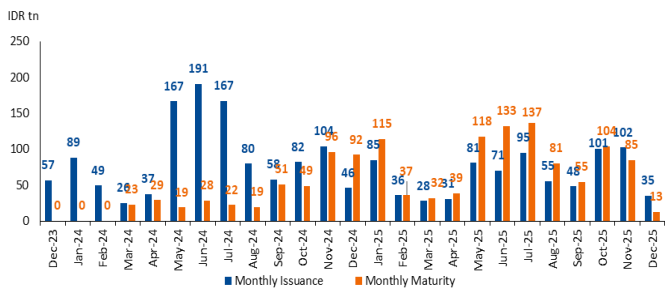
Exhibit 61. Ownership Outstanding (IDRtn)

Investors Type	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY	YTD
	2024	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2025	2024	2025
Banking	1,051	1,129	1,207	1,122	1,132	1,135	1,200	1,294	1,337	1,374	1,408	1,463	1,475	(444.0)	423.3
Bank Indonesia	1,618	1,555	1,520	1,643	1,645	1,678	1,592	1,569	1,543	1,554	1,539	1,507	1,498	522.5	(120.1)
Foreign Investor	877	881	890	892	900	926	919	936	954	908	878	873	874	34.6	(2.8)
Insurance & Pension Fund	1,145	1,161	1,172	1,183	1,190	1,196	1,199	1,211	1,187	1,215	1,233	1,269	1,284	103.9	139.1
Mutual Fund	187	187	186	186	190	193	183	189	194	203	220	236	240	9.2	53.2
Individual	543	552	577	568	568	568	587	583	570	560	549	540	540	107.2	(2.7)
Others	619	630	639	641	642	647	629	637	629	643	640	641	644	(0.1)	25.1

Source: DJPPR

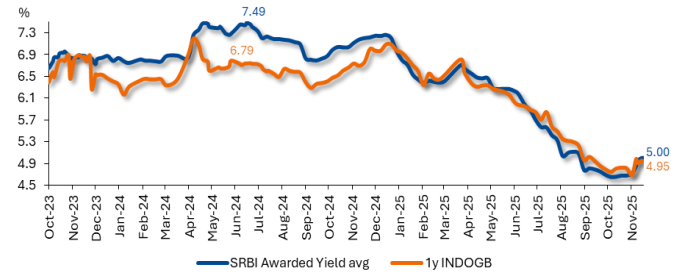
SRBI trends. SRBI instruments moved in the same direction: yields compressed from 6.5% to 5% level, outstanding balances fell by nearly IDR200tn, and foreign participation dropped sharply from 25% to a mere 10% amid rapid yield compression.

Exhibit 62. SRBI Net Issuance as of Dec 5th, 2025



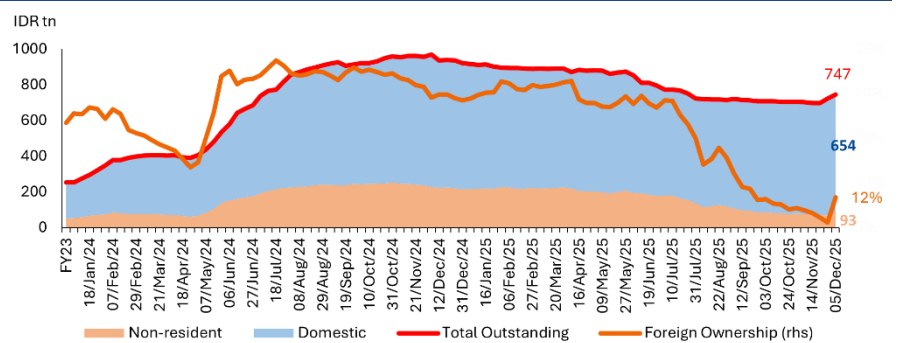
Source: Bank Indonesia, BRI Danareksa Sekuritas

Exhibit 63. SRBI Yield vs. 1y INDOGB Yield



Source: Bank Indonesia, BRI Danareksa Sekuritas

Exhibit 64. SRBI Outs. as of Dec 5th, 2025



Source: Bank Indonesia, BRI Danareksa Sekuritas

2026 Yield Assumption. For 2026, we expect year end INDOGB yields to move within 5.62%–6.14%, with a baseline of 5.88%, well below the government’s 6.9% assumption. This reflects expectations of further Fed and BI rate cuts, a Rupiah in the 16,250–16,850 range, and modest improvement in foreign ownership. Yield-curve spreads are likely to widen modestly next year, but with far greater stability than in 2025, given the limited remaining room for policy easing.

Exhibit 65. 2026 Yield and Key Macro Assumptions

Year	Scenario	CDS 5yr	UST 10yr (%)	USDIDR	BI Rate %	% Foreign	% BI	Forecast
2025F	Optimistic	0.60	3.85	16,300	4.50	14.00	22.00	5.92
	Base	0.70	4.00	16,550	4.75	13.50	23.00	6.09
	Pesimistic	0.80	4.20	16,750	4.75	13.00	24.00	6.30
2026F	Optimistic	0.55	3.75	16,250	4.00	14.70	21.00	5.62
	Base	0.65	3.90	16,600	4.25	14.00	22.00	5.88
	Pesimistic	0.75	4.15	16,850	4.50	13.30	23.00	6.14

Source: BRIDS Economic Research, Debt Research

Mapping Bond Issuance Dynamics. The 2026 bond market outlook reflects expanding issuance from the government and corporates, matched by strengthening demand as economic recovery enhance market absorption.

Higher Government Bonds Supply. The government targets a deficit below 3% in 2026, with 2.68% of GDP implying higher nominal financing needs. Lower net loans and continued use of SAL will lift net bond issuance. With larger maturities and higher issuance, gross supply is set to rise 18% to IDR1,518tn. Domestic SBN issuance remains dominant at IDR1,268tn.

Exhibit 66. 2026 Government Bonds Supply

Government Budget	2023 Realization	2024 Realization	APBN 2025	APBN 2025 Outlook	APBN 2026
% of GDP	-1.61	-2.29	-2.53	-2.78	-2.68
Source of Financing	356.66	554.90	616.20	662.00	689.15
Debt Financing	403.95	558.00	775.78	715.47	832.21
Govt bonds - net	308.19	450.70	642.58	585.07	799.53
Loan program - net	95.76	107.30	133.20	130.40	32.67
Investment Financing	-89.90	-59.30	-154.50	-139.70	-203.06
Loan Financing	4.47	-0.20	-5.40	-0.40	-0.40
Liability Financing	-0.33	-1.50	0.00	0.00	0.00
Others	38.47	57.80	0.30	86.60	60.40
Gross Bond Supply	787.22	1,017.79	1,344.58	1,287.07	1,518.95
Domestic	696.85	886.48	1,122.46	1,074.45	1,268.02
Auction	550.92	731.20	934.33	894.37	1,055.50
Retail	127.53	148.51	139.84	133.86	157.98
Other (Private Placement + Prefunding)	18.40	6.77	48.29	46.22	54.55
BI					
Foreign	90.37	131.31	222.12	212.62	250.92
Total Auction (times)	48	48	48	48	48
Target per 2x auction FY (IDR tn)	22.96	30.47	38.93	37.27	43.98

Source: MoF, BRI Danareksa Sekuritas Estimates

Stronger Corporate Issuance. Bond and sukuk issuance reached IDR188tn by November 2025, surpassing maturities and signaling stronger corporate funding amid BI's 125 bps easing. Financials led with IDR70.5tn, followed by banks and pulp & paper. AAA issuers dominated at IDR90.56tn, while A- and AA-rated groups also posted solid issuance.

Exhibit 67. Corporate Bond Issuance by Period as of Nov 2025

Month	2025		
	Mature	Issued as of Nov 30, 2025	Higher (Lower)
Jan-25	3,792	8,603	4,812
Feb-25	15,127	13,485	(1,643)
Mar-25	15,606	28,020	12,414
Apr-25	10,149	6,721	(3,427)
May-25	5,089	11,231	6,142
Jun-25	11,806	20,208	8,402
Jul-25	25,318	41,147	15,829
Aug-25	9,862	7,840	(2,022)
Sep-25	14,128	20,395	6,267
Oct-25	12,389	12,802	413
Nov-25	11,317	17,525	6,208
Dec-25	15,294	-	(15,294)
Total	149,877	187,977	38,100
Total FY	149,877	187,977	38,100

Month	2025		
	Mature	Issued as of Nov 30, 2025	Higher (Lower)
1Q25	34,524	50,108	15,583
2Q25	27,043	38,160	11,117
3Q25	49,309	69,382	20,073
4Q25	39,000	30,327	(8,673)
Total 4Q25	149,877	187,977	38,100
Total FY	149,877	187,977	38,100

Source: KSEI, BRIDS processed data

Exhibit 68. Corporate Bond Issuance 2025 by Sector

Sectors	2025		
	Mature	Issued as of Nov 30, 2025	Higher (Lower)
Financial Institution	53,878	70,503	16,625
Bank	20,567	33,039	12,472
Telecommunication	6,733	2,500	-4,233
Pulp & Paper	21,733	29,688	7,956
Metal And Mineral Mining	8,181	3,872	-4,309
Non Building Construction	5,164	6,968	1,804
Energy	3,497	1,650	-1,847
Building Construction	1,486	0	-1,486
Chemicals	2,750	1,000	-1,750
Cement	291	0	-291
Plantation	2,482	1,279	-1,203
Investment Company	3,715	2,432	-1,283
Others	19,400	35,046	15,646
Total	149,877	187,977	38,100

Source: IDX, BRIDS Processed Data

Exhibit 69. Corporate Bond Issuance 2025 by Rating

Rating	2025		
	Mature	Issued as of Nov 30, 2025	Higher (Lower)
AAA	64,533	90,557	26,024
AA+	11,352	11,921	569
AA	9,588	7,632	-1,956
AA-	6,888	8,500	1,612
A+	29,334	35,619	6,285
A	17,810	25,794	7,984
A-	6,158	6,181	22
BBB+	2,646	1,772	-874
BBB	1,303	0	-1,303
BBB-	264	0	-264
Total	149,877	187,977	38,100

Source: IDX, BRIDS Processed Data

Looking ahead, corporate bond and sukuk issuance are expected to surpass IDR200tn in 2026, outpacing maturities and rising from 2025 levels. Supported by ongoing recovery and limited remaining rate-cut room, issuance will remain led by financial institutions and dominated by AAA-rated names.

Exhibit 70. Favorable Prospects for Bond and Sukuk Issuance in 2026 by Period

Month	Vol (IDR bn)	%	Month	Vol (IDR bn)	%
Jan-26	4,190	2.69	1Q25	26,491	17.03
Feb-26	9,991	6.42	2Q25	26,679	17.15
Mar-26	12,310	7.91	3Q25	60,784	39.08
Apr-26	11,571	7.44	4Q25	41,590	26.74
May-26	4,466	2.87			
Jun-26	10,642	6.84	Total FY	155,544	100.00
Jul-26	35,153	22.60			
Aug-26	9,700	6.24			
Sep-26	15,931	10.24			
Oct-26	13,452	8.65			
Nov-26	14,315	9.20			
Dec-26	13,823	8.89			
Total FY	155,544	100.00			

Source: KSEI, BRIDS Processed Data

Exhibit 71. Prospects for Bond and Sukuk Issuance in 2026 by Sector

Sectors	Vol (IDR bn)	%
Financial Institution	71,999	46.29
Pulp & Paper	22,198	14.27
Bank	17,581	11.30
Chemicals	3,758	2.42
Metal And Mineral Mining	4,759	3.06
Construction	2,496	1.60
Telecommunication	4,073	2.62
Building Construction	2,102	1.35
Energy	1,993	1.28
Investment Company	2,133	1.37
Plantation	1,732	1.11
Other Sectors	1,402	0.90
Transportation	1,100	0.71
Others - Trade, Services & Investment	2,866	1.84
Others	15,353	9.87
Total	155,544	100.00

Source: IDX, BRIDS Processed Data

Exhibit 72. Prospects for Bond and Sukuk Issuance in 2026 by Rating

Rating	Vol (IDR bn)	%
AAA	79,090	50.85
AA+	7,557	4.86
AA	8,003	5.15
AA-	3,809	2.45
A+	30,172	19.40
A	22,106	14.21
A-	3,197	2.06
BBB+	1,260	0.81
BBB	350	0.23
BBB-	-	-
Total	155,544	100.00

Source: IDX, BRIDS Processed Data

Supply-Demand Situation. We expect the 2026 supply-demand ratio to improve to c.1.09x, supported by lower interest rates, continued recovery, and stronger liquidity. Corporate bond supply is expected to rise further after robust 2025 issuance and remaining room for BI rate cuts. On the government side, auction issuance is projected to increase 18% as financing needs grow. Stronger liquidity and recovering portfolios should also boost demand for both government and corporate bonds.

Exhibit 73. 2026 Supply-Demand Situation

Potential Supply 2026

Period	Corporate		Government (Auction only)		Total (IDR bn)
	%	in IDR bn	%	in IDR bn	
Q1	17.03	35,233	30.73	324,319	359,552
Q2	17.15	35,483	22.44	236,836	272,319
Q3	39.08	80,843	28.22	297,910	378,753
Q4	26.74	55,315	18.61	196,431	251,747
Total	100.00	206,874	100.00	1,055,497	1,262,371

Investor Portfolios

Investor Type	UM/Total Investment Portfolio		Portfolio growth assumption (%)*	Asset Growth Forecast 2026	Expected Allocation to Debt Instrument	Potential Demand (IDR billion)
	30-Sep-20	30-Jun-25				
Banks	9,019,440	12,641,433	6.50	821,693	18%	150,543
Insurances	1,111,380	1,676,216	7.50	125,716	61%	76,559
Mutual Funds	510,149	513,934	3.00	15,418	65%	9,977
Pension Funds	284,026	378,917	5.00	18,946	53%	10,083
Foreign Investors	964,903	922,937	6.50	59,991	100%	59,991
Total	11,889,898	16,133,438		1,041,764		307,152

Potential Demands

Period	Potential Demand from Reinvestment			Potential Demand from Asset Growth		Total Potential (IDR billion)	Total Potential Supply (IDR billion)	Ratio Demand : Supply
	Corporate	Government	Total	%	IDR billion			
Q1	28,513	146,542	175,056	25	76,788	251,844	359,552	0.70
Q2	28,716	211,970	240,687	25	76,788	317,475	272,319	1.17
Q3	65,425	371,397	436,822	25	76,788	513,610	378,753	1.36
Q4	44,766	166,311	211,077	25	76,788	287,865	251,747	1.14
	167,421	896,220	1,063,641	100	307,152	1,370,793	1,262,371	1.09

*calculated only from securities between 2020 to 2025

Source: DJPPR, PHEI, BRI Danareksa Sekuritas

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