

# Indonesia Market Color

7 January 2026



A member of MUFG

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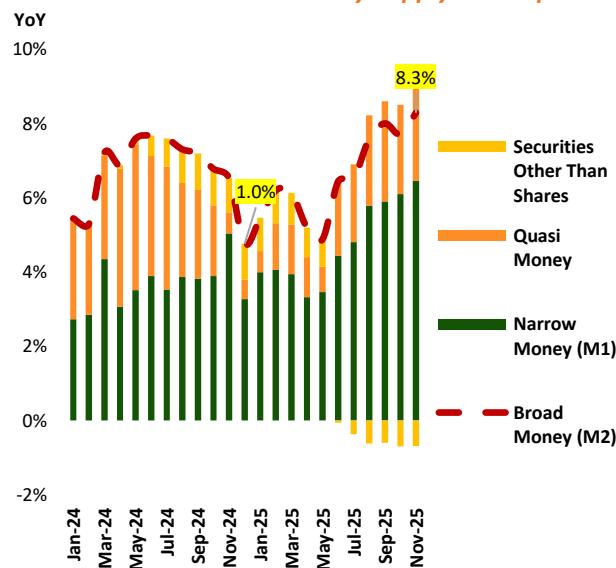
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## FX & Interest Rate

Indonesia enters 2026 with inflation firmly anchored, allowing policymakers to deliver a cumulative 125 bps of rate cuts last year, bringing the BI-Rate to 4.75%. Headline CPI closed 2025 at 2.92% YoY, comfortably within BI's 2.5% ±1% target band. The base case for 2026 is two additional 25 bps cuts toward 4.25%, contingent on external conditions and inflation expectations. Moving into the exchange rate, the Rupiah averaged around IDR 16,468/USD in 2025, maintaining its resilience despite pressures from fiscal financing and global monetary divergence. Going forward, FX stability might be supported by rate differentials, and monetary conditions becoming more comfortable. Liquidity indicators as per November 2025 (M2 growth at +8.3% YoY, credit growth at +7.9% YoY) confirmed effective transmission, while SRBI moderation signals BI's retreat from sterilization.

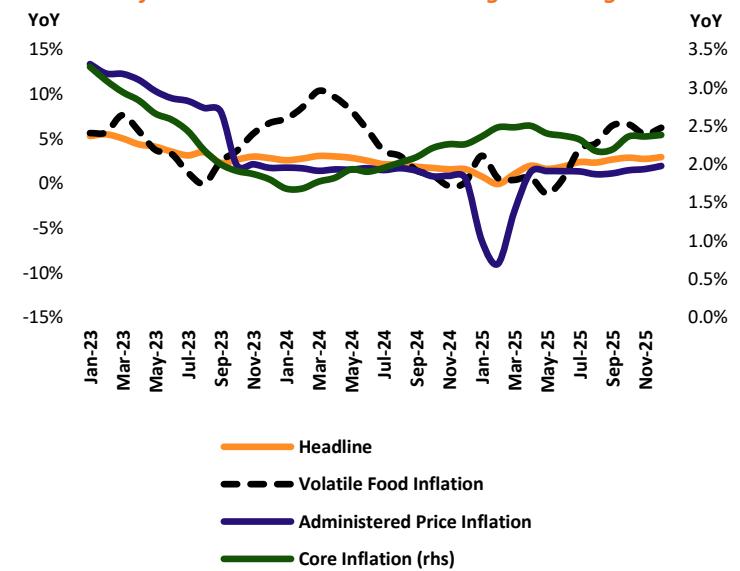
Geopolitical risks linger from ongoing conflicts on trade and technology fragmentation. With risks still elevated, gold's price rally continued, supported by central bank buying, unresolved policy uncertainty, and capped real yields, acting as a barometer of risk appetite and real interest rate expectations. For Indonesia, firm gold price alongside softening real rates typically coincides with constructive carry windows, provided geopolitical stress does not morph into broad derisking. The Federal Reserve's path will hinge on data: Cooling labor momentum, moderating inflation trajectory, and mixed PMIs argue for a slower, data-dependent easing cadence. Market consensus aligns around one to two cuts in 2026, taking the funds rate toward the low-3s, with the "belly" of the curve most sensitive to inflection. For Indonesia, a gentler Fed plus contained core inflation supports BI's shallow cuts, sustains carry differentials, and lowers domestic funding costs.

**Chart 1. Recent Broad Money Supply Development**



Source: Bank Indonesia

**Chart 2. Inflation remains within the Targeted Range**



Source: Bank Indonesia, Bloomberg

## Automotive Industry

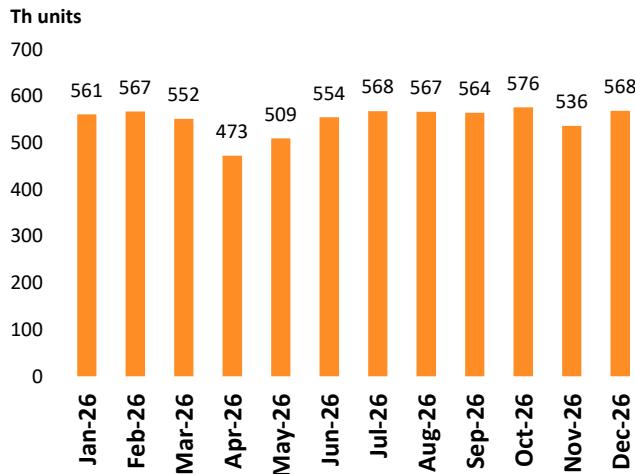
**For FY26, we expect a total wholesale of 825,000 units for 4W and 6.6 mn units for 2W.** Robust two-wheeler (2W) wholesales are likely in 2026, as rising palm oil prices, driven by policy factors, strengthen Indonesia's primary exporting provinces. This enhanced value chain for palm oil is expected to increase nationwide demand for two-wheeled (2W) vehicles, as most motorcycle sales occur outside Greater Jakarta. In contrast, this trend will have a smaller impact on four-wheeler (4W) wholesales, given that 70% take place within Greater Jakarta.

**The proposed 2026 automotive stimulus package is targeted at the IDR 140-375 mn segment and seeks to balance BEV prices with the rest.** After Boxing Day, the government launched its 2026 automotive stimulus package. In the package, tax incentives undergo significant changes, where the recipient is limited to internal combustion (ICE) and commercial vehicles below IDR 275 mn and New Energy Vehicles (NEVs) below IDR 375 mn, which are the volume-making pools in Indonesia's 4W market. Furthermore, the tax discount is limited to either Value-Added Tax (PPN) or Luxury Sales Tax (PPnBM), with 100% tax discounts for all eligible line-ups, except Lithium Iron Phosphate (LFP) BEVs, which only receive a 50% tax discount, and CBU BEVs, which are categorized as non-eligible. Volume-wise, most BEVs sold in Indonesia utilize LFP, which is sourced from brands such as BYD, Chery, and Wuling.

**The long-awaited Solid-State Battery (SSB) technology is available in the Chinese market.** China's SAIC Motor has now used a semi-SSB technology in its Morris Garage (MG) 4 Anxin Edition. This is a breakthrough for the NEV industry, as it has enhanced the long-term usability of BEVs. SSB batteries contain solid electrolytes instead of liquid ones. That content significantly increases BEV's battery life, range, charge, inflammability, and charging speed. Once the technology arrives on our shores, BEV production costs are expected to plummet and boost adoption among a more conservative, non-automotive enthusiast consumer base, as it requires less charging frequency (with faster charging each time) and lessens range anxiety on Indonesia's renowned long road trips.

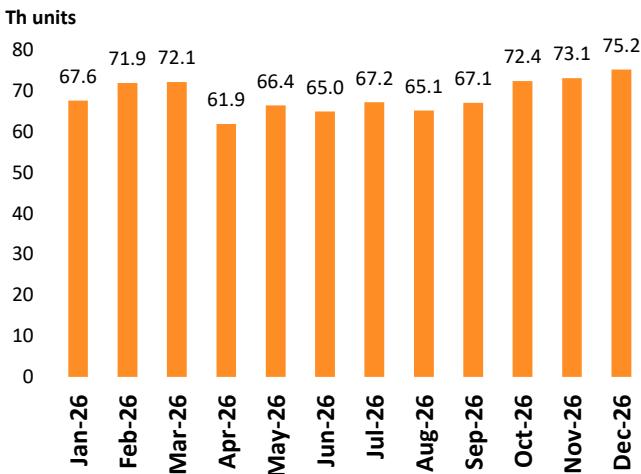
**Latest developments suggest a focus on internal-combustion affordability in Uncle Sam's automotive policies.** Continuing the trend since Sep-25, the United States (U.S.) has defied global trends with its latest automotive policy iterations. In early December, President Trump expressed his enthusiastic support for automotive brands to produce small, fuel-thrifty, and cheap Kei cars in the U.S. as a solution to lower vehicle prices. Many perceive this support as conflicting with the administration's earlier move to eliminate Corporate Average Fuel Economy (CAFE) penalties. However, we view this move as congruent with the administration's focus on affordability. The major issue surrounding the policy is the lack of focus on vehicle demand, where U.S. consumers want bigger cars for longer hauls.

**Chart 3. Indonesia's 2W Wholesale Forecast**



Source: CEIC; Bank Danamon Indonesia Calculation

**Chart 4. Indonesia's 4W Wholesale Forecast**



Source: CEIC; Bank Danamon Indonesia Calculation

## Indonesia's Selected Economic Indicators

	2023	2024	2025E	2026E
<b>National Accounts</b>				
Real GDP (% y-o-y)	5.0	5.03	4.91	5.04
Domestic demand ex. inventory (% y-o-y)	4.6	4.94	4.90	4.95
Real Consumption: Private (% y-o-y)	4.9	4.9	4.80	4.98
Real Gross Fixed Capital Formation (% y-o-y)	4.4	4.61	4.60	5.14
GDP (USD bn) — nominal	1,371	1,440	1,510	1,599
GDP per capita (USD) — nominal	4,920	4,960	5,225	5,315
Open Unemployment Rate (%)	5.3	4.9	4.8	4.6
<b>External Sector</b>				
Exports (% y-o-y, BoP Basis)	-11.3	6.51	3.89	4.56
Imports (% y-o-y, BoP Basis)	-7.3	7.95	2.75	6.81
Trade balance (USD bn, BoP Basis)	46.4	31.04	30.31	29.87
Current account (% of GDP)*	-0.1	-0.3	-1.0	-1.2
Central government debt (% of GDP)	38.9	39.13	40.50	40.74
International Reserves –IRFCL (USD bn)	146.4	155.7	152.0	148.7
Reserve Cover (Months of imports & ext. debt)	6.5	6.5	6.3	6.2
Currency/USD (Year-end)	15,399	16,235	16,690	16,660
Currency/USD (Average)	15,244	15,920	16,468	16,663
USD/CNH (Year-end)	7.13	7.34	6.98	7.37
USD/CNH (Average)	7.09	7.21	7.19	7.31
Currency/CNH (Year-end)	2,161	2,199	2,391	2,255
Currency/CNH (Average)	2,150	2,199	2,292	2,270
<b>Other</b>				
BI 7-Day Reverse Repo rate (% year end)	6.0	6.0	4.75	4.25
Consumer prices (% year end)	2.61	1.57	2.92	2.22
Fiscal balance (% of GDP; FY)	-1.65	-2.3	-2.78	-2.68
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

## Treasury Economist



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