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FX & Interest Rate

The central focus shifts toward interest rate as the anchor of Rupiah defense. Bank Indonesia held the policy rate steady at 4.75% in February 2026, despite inflation rising to 4.76% YoY and the USDIDR remaining elevated. This reflects a deliberate strategy to keep the currency below the psychological 17,000/USD threshold while mitigating risks from capital outflows and fiscal vulnerabilities. The climb in SRBI (12M) yields to 5.21%, with also increasing the number of outstanding, underscores BI’s reliance on market instruments to balance external pressures. The Iran–Israel–US escalation, including disruptions in the Strait of Hormuz, intensifies this challenge by lifting global oil prices, raising Indonesia’s energy import bill, and feeding inflationary pressures.

Liquidity remains ample despite short term rate normalization, supporting smooth policy transmission. IndONIA rose to 3.99% from 3.76% in early February 2026, signaling normalization, yet excess IDR liquidity continues to underpin policy effectiveness. This environment allows the government to accelerate fiscal stimulus on priority programs without triggering liquidity stress. Household asset shifts from deposits to gold highlight a preference for alternative liquidity buffers under uncertainty. However, the combination of steady rates and abundant liquidity provides room to navigate global headwinds, but the Iran-related shock underscores how fragile this balance can be.

treasury.economist@danamon.co.id

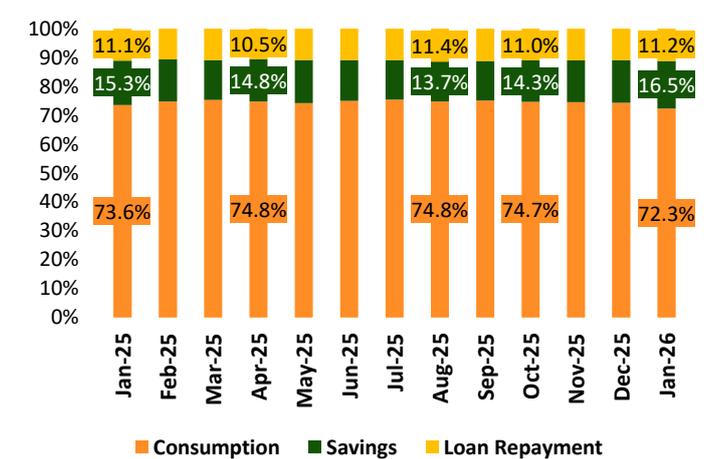
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Chart 1. Tracking Asian FX Volatility: Indonesia in the Regional Context

Currency	Asia currency movement to USD as %YTD 2026	Asia currency movement to USD as % FY2025
MYR	2,87	10,14
CNY	1,01	4,45
SGD	0,57	6,25
PHP	0,34	-1,66
HKD	-0,38	-0,18
THB	-0,53	8,22
JPY	-0,55	0,31
TWD	-1,03	4,36
IDR	-1,27	-3,52
INR	-1,75	-4,75
KRW	-2,55	2,24

Source: Bloomberg

Chart 2. Household Income Allocation is Ready to Spend of Disposable Income



Source: Bank Indonesia

Automotive Industry

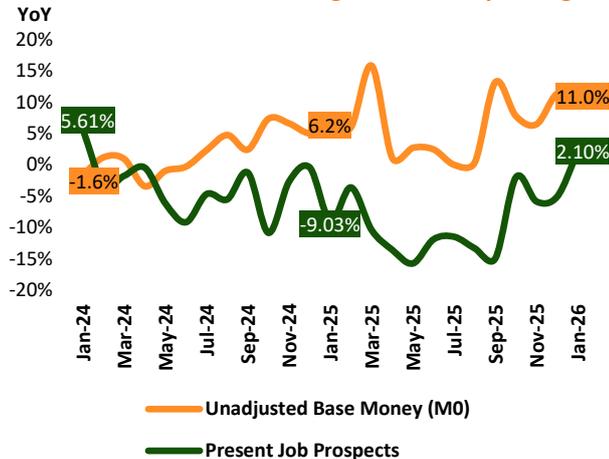
Positive wholesale trends for Indonesia’s automotive sector continued. In Jan-26, automotive wholesales reached 577,763 units (+3.1% YoY) for 2W and 66,447 units (+7.3% YoY) for 4W. Both concurred with the stronger momentum in purchasing power, shown by the high growth of Unadjusted Base Money (M0) at 11.0% YoY and improvements in the present job prospects at 109.9 (+2.1% YoY), the highest since Dec-24. The savings rate also recovered to 16.5%, a sign that consumers started to have more excess income. With that backdrop, a recovery in Indonesia’s new vehicles market is within reach, with a positive quarterly growth expected.

This year’s Indonesia International Motor Show (IIMS) is a testament of recovery. From February 05 to February 11, IIMS 2026 recorded IDR 8.7 tn in total transactions, IDR 700 bn higher than in 2025 and exceeded the IDR 8 tn target. Launches are also festive, with a total of 15 new model launches during those ten days, offering consumers even more choice. From that number, 5 models are sold around IDR 300-500 mn, which is the main volume-making price group. Moreover, nine of the models launched are crossovers and SUVs, and nine are BEVs, in line with domestic urban preferences as the largest consumer.

Regrettably, the recovery buoyed fiscal authorities to abandon automotive incentives. Outside of expectations, the government decides not to extend Sales Tax (PPN) and Luxury Goods Tax (PPnBM) for all Battery Electric Vehicles (BEVs) into 2026. The Coordinating Ministry of the Economy cited the impressive recovery in Dec-25 sales figures as a reason to turn off the fiscal tap. Further legitimacy was also the realization of BYD and Vinfast production plants in Indonesia, along with a similar commitment from Chery, expected to be completed in 2027. Fortunately, most BEVs sold in the Indonesian market are domestically assembled. This dampens price rises, estimated at around 6-16% for some models in 2026.

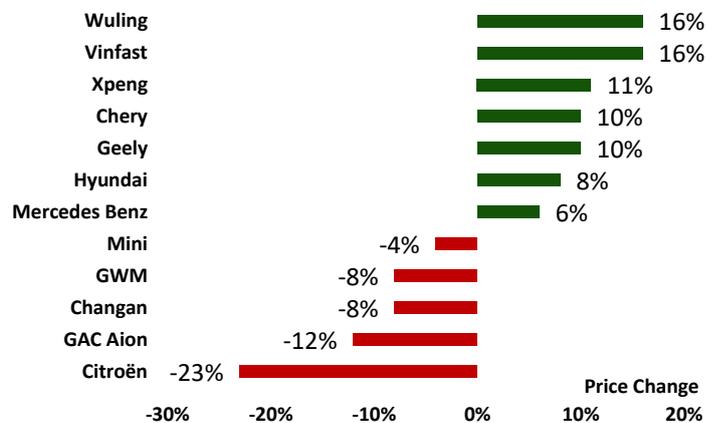
Following the fiscal squeeze, pricing divergence occurred among manufacturers. Our analysis of price changes among BEV models revealed a unique pattern emerging: There are manufacturers that slowly increase their prices, while others cut their prices aggressively. More established brands with in-house domestic production facilities running (except for Xpeng) decided to increase or hold their prices compared to last year to improve margins. In contrast, newer brands entering the market in 2025, with in-house domestic production not yet established (except for Citroën and Mini), are continuing their price-cutting practices to gain market traction. We view this pattern as an impact of differing capital expenditure pressures and the maintenance of the Sales, Service, and Spare parts (3S) ecosystem. Fiscal policy only acted as a precursor, not a catalyst of these changes, as the largest charge remains on the 50% import tariff.

Chart 3. Domestic Purchasing Power is Improving



Source: CEIC

Chart 4. Price Changes among BEV Brands in 2026



Source: Bank Danamon Indonesia Calculation

Indonesia's Selected Economic Indicators

	2023	2024	2025	2026E
National Accounts				
Real GDP (% y-o-y)	5.0	5.03	5.11	5.04
Domestic demand ex. inventory (% y-o-y)	4.6	4.94	4.99	4.95
Real Consumption: Private (% y-o-y)	4.9	4.9	4.98	4.98
Real Gross Fixed Capital Formation (% y-o-y)	4.4	4.61	5.09	5.14
GDP (USD bn) — nominal	1,371	1,440	1,445	1,599
GDP per capita (USD) — nominal	4,920	4,960	5,083	5,315
Open Unemployment Rate (%)	5.3	4.9	4.7	4.6
External Sector				
Exports (% y-o-y, BoP Basis)	-11.3	6.51	6.15	4.56
Imports (% y-o-y, BoP Basis)	-7.3	7.95	2.83	6.81
Trade balance (USD bn, BoP Basis)	46.4	31.04	41.05	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	156.5	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	16,703	16,841
Currency/USD (Average)	15,244	15,920	16,482	16,814
USD/CNH (Year-end)	7.13	7.34	6.98	6.80
USD/CNH (Average)	7.09	7.21	7.19	6.83
Currency/CNH (Year-end)	2,161	2,199	2,391	2,476
Currency/CNH (Average)	2,150	2,199	2,292	2,461
Other				
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	2.72
Fiscal balance (% of GDP; FY)	-1.65	-2.3	-2.92	-2.68
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

Treasury Economist



A member of  MUFG

PT Bank Danamon Indonesia, Tbk.

Menara Bank Danamon

Jl. H.R. Rasuna Said Kav. C-10, Kuningan

Jakarta 12940

Indonesia

Email: treasury.economist@danamon.co.id

Fax: +62 21 80645263

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