Indonesia Market Color

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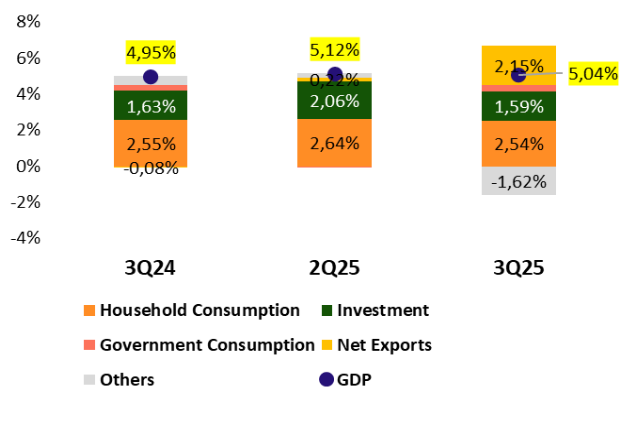
FX & Interest Rate

Indonesia's economy grew 5.04% YoY in 3Q25, slightly lower than 5.12% in 2Q25, though the moderation is largely seasonal. Historically, third-quarter growth tends to soften as household spending shifts during the back-to-school period, with families reallocating budgets from discretionary consumption toward education, tuition fees, and savings. Domestic demand-driven sectors such as trade, construction, and financial services also slowed, in line with cautious spending by households and corporates. On the other hand, government expenditure rebounded strongly, rising 5.49% YoY, providing a key buffer through faster realization of education programs and social assistance.

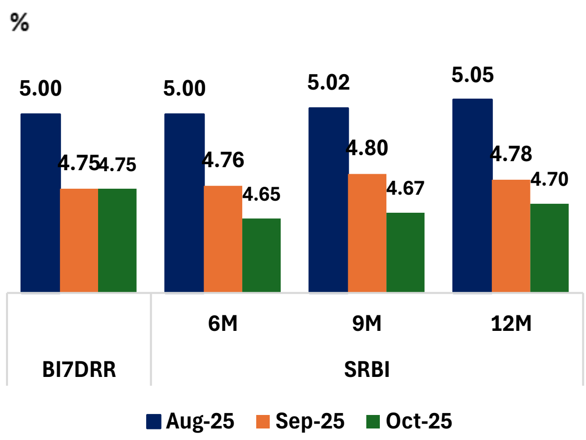
On the monetary side, policy response was evident in adjusted base money (M0), which expanded 14.4% YoY in October 2025. The surge was driven by a 27.1% YoY increase in commercial banks' demand deposits at Bank Indonesia and a 13.4% YoY rise in currency in circulation. This expansion reflects the impact of liquidity incentives, aimed at supporting credit transmission and stabilizing market conditions. External pressures, however, remain visible. Up to November 6, foreign investors recorded net sales on equity and BI's Rupiah Securities (SRBI). Indonesia's 5-year CDS premium climbed to 75.49 bps, while the rupiah weakened about 3.7% YTD against the USD, with deeper depreciation against the Swiss Franc (−16.4%) and the Euro (−15.4%), underscoring rising risk perception and carry trade pressures. Despite these external headwinds, Indonesia's foreign exchange reserves remain solid, standing at USD 149.9 bn at end-October, up from USD 148.7 bn in September. This solid reserve position provides a critical anchor for external resilience.

Chart 1. Net Exports are Supporting Growth, along with Investment



Source: Statistics Indonesia

Chart 2. BI Rates Hold, and SRBI Rates Continue to Decline



Source: Bank Indonesia

Automotive Industry

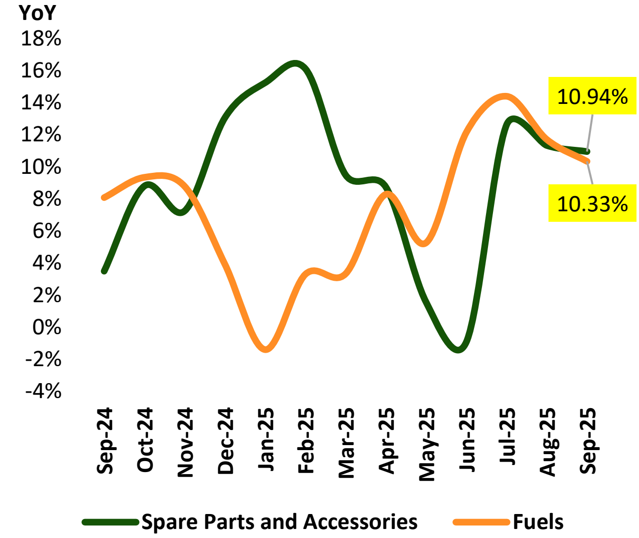
Domestic automotive wholesales still diverge in Oct-25: 4W sales declined to 74,019 units (-4.4% YoY), while 2W sales show growth at 590,362 units (+8.4% YoY). This phenomenon arose as trends observed since October have remained unchanged: PMI expansion has occurred in commodity-based sectors. Henceforth, this benefited motorcycle sales, further supported by the rise in refined palm oil exports to USD 521 mn in Sep-25 as prices remained buoyant. On the other hand, a sizable decline in current incomes among the middle class hinders 4W wholesales. Only the tactical frontloading of CBU BEV wholesales, in line with our expectations, spiked the numbers from Oct-25.

As new 4W sales crunched, the domestic 10% ethanol fuel (E10) policy, starting in 2027/2028, could have surprising implications. Most cars sold in Indonesia have engines compliant with ethanol mix up to E10. However, in the short term, an ethanol mix contains less energy than petrol, resulting in reduced fuel economy and propping up fuel retail sales. Studies also suggest that ethanol's highly hygroscopic nature could shorten the lifespan of rubber sealants inside the engine and reduce oil life cycle interval, increasing the turnover of spare part purchases. Hence, it generated new demand for spare parts, additives, engine oil, and fuels, boosting Indonesia's automotive value chain.

Regionally, the crunch in new 4W sales is not unique to Indonesia. A notable decrease in wholesale is happening among the ASEAN-5 nations since 2022, with Thailand experiencing the largest decline, followed by Indonesia. The best performer among the group is Malaysia, with a decline only observed by 9M25. The Malaysian government has also introduced a vehicle-scrapping incentive program for vehicles 20 years and older. It gave up to MYR 4,000 (USD 945.5) per-vehicle compensation for people to scrap those vehicles and purchase national car brands. We expect this policy, along with strong CPO exports, to boost 4W wholesales, triggering similar policy schemes across ASEAN-5.

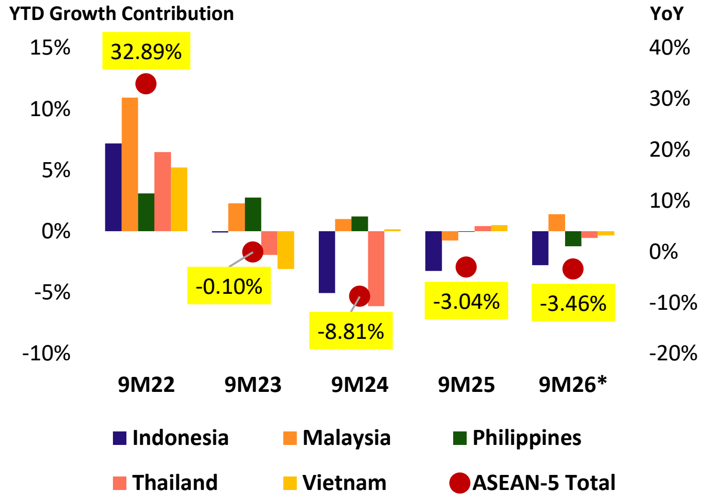
There is an early global divergence in automotive-related policies, driven by the United States. Since Sep-25, the One Big, Beautiful Bill (OB3) provision, which terminated fuel economy penalty payments for U.S. vehicles back to 2022, has been implemented. Combined with electrification constraints and lower fuel prices, this relaxation pushed the envelope for gas-guzzling, low-stress V8 engines, especially among American pickups and muscle cars. Brands such as Ford, Stellantis (Dodge & RAM), and Chevrolet are reintroducing V8 models for 2026, after those models were discontinued in 2024/2025. With this trend, we expect higher dependence on domestic sales among North American brands, as it contradicts the global trend towards smaller engines with hybrid-based electrification (HEV/PHEV).

Chart 3. Indonesia's Parts and Fuels Retail Sales Trend



Source: Bank Indonesia

Chart 4. ASEAN-5 Automotive Wholesale Trends (2022-2026)



***: Wholesale Forecast**

Source: CEIC; Bank Danamon Indonesia Calculation

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Indonesia's Selected Economic Indicators

	2023	2024	2025E	2026E
National Accounts				
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
External Sector				
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	39.45	41.21
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	16,770	16,660
Currency/USD (Average)	15,244	15,920	16,490	16,663
USD/CNH (Year-end)	7.13	7.34	7.35	7.37
USD/CNH (Average)	7.09	7.21	7.26	7.31
Currency/CNH (Year-end)	2,161	2,199	2,281	2,261
Currency/CNH (Average)	2,150	2,199	2,271	2,279
Other				
BI 7-Day Reverse Repo rate (% year end)	6.0	6.0	4.50	4.25
Consumer prices (% year end)	2.61	1.57	2.51	2.22
Fiscal balance (% of GDP; FY)	-1.65	-2.3	-2.78	-2.81
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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