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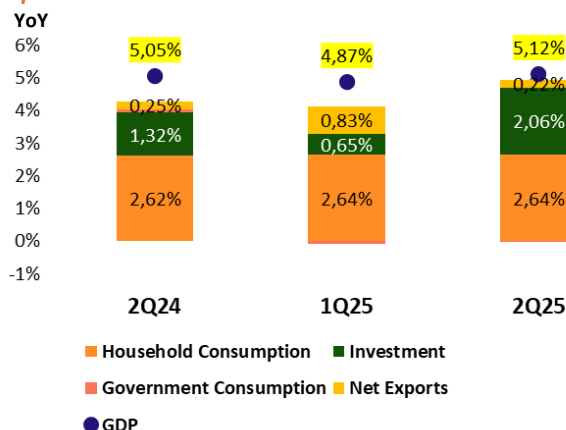
### **FX & Interest Rate**

Indonesia's economic growth reached 5.12% YoY in 2Q25, exceeding expectations despite stagnant consumption and weak net exports. The main driver was Gross Fixed Capital Formation (GFCF), supported by a 17.9% YoY increase in government capital expenditure and a sharp rise in capital goods import (+28.16% YoY). However, the real impact on productive sectors remains limited, as reflected in the contractionary Manufacturing PMI throughout the second quarter. Looking ahead, growth in the upcoming quarter may be supported by the acceleration of fiscal spending, amounting to IDR 670.9 tn and a cumulative 75 bps monetary easing by Aug-25.

**Domestic liquidity conditions have eased significantly**, creating room for stronger monetary transmission. This is reflected in the decline of SRBI outstanding from IDR 917 tn (Jan-25) to IDR 741 tn (Jul-25), alongside the liquidity injection from maturing government bonds. As a result, banks have reduced their reliance on BI's repo facilities, signaling ample liquidity. This environment is expected to support the effectiveness of BI's cumulative rate cut, although the muted credit growth suggests that transmission to the real sector remains incomplete.

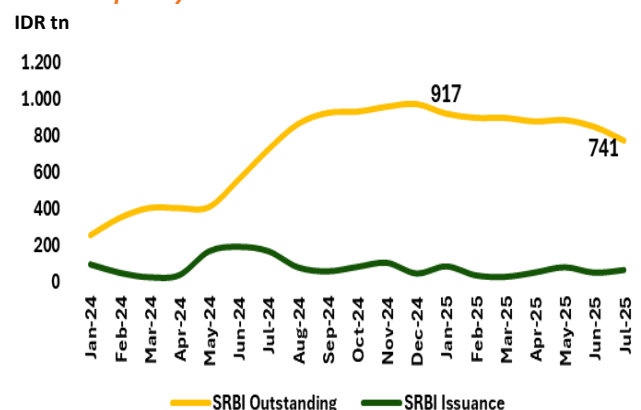
**The government's debt strategy continues to favor duration extension**, with strong investor appetite for long-tenor Sukuk. As of Jul-25, 48% of total bond issuance consisted of long-term tenors, surpassing previous years. Notably, PBS038 (maturing in 2049) attracted the highest bids despite being new and illiquid, with a bid-to-cover ratio of 6.5x. The government absorbed only a small portion of the bids, reflecting a cautious yield management approach. This trend signals a more rational market, where investors prioritize yield structure and portfolio diversification over historical liquidity.

**Chart 1. Government Capital Spending Drives 2Q25 GDP Expansion**



Source: Indonesia Statistics Agency

**Chart 2. SRBI Outstanding and Issuance Drop as BI Eases Liquidity**



Source: Bank Indonesia

## Automotive Industry

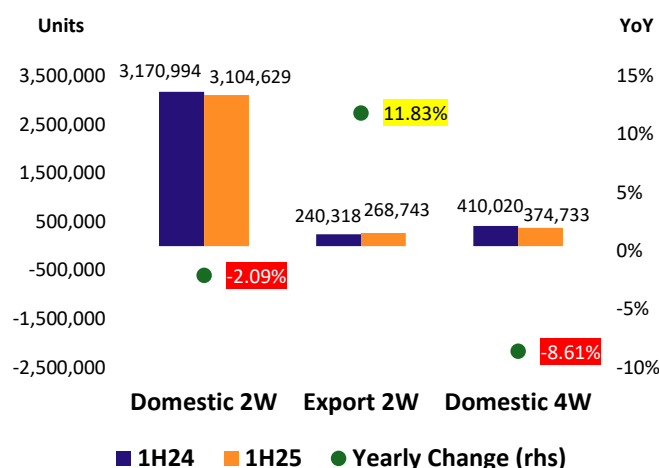
**Domestic automotive sales declined in 1H25, with car sales falling to 374,733 units (-8.6% YoY, 41.6% of the target) and motorcycle sales moderating to 3,104,629 units (-2.09% YoY, 48.5% of the target).** In Jun-25 alone, car sales sharply dropped to 57,752 units (-22.6% YoY) and motorcycle sales experienced a small drop to 509,326 units (-0.3% YoY), driven by a cyclical downturn in the business cycle, lower-than-usual consumer confidence, and persistent PMI contraction at 46.9. Beyond macroeconomic pressures, the lack of new model launches in the <IDR 500 mn segment during 1H25 and shorter model life cycles also contributed to sluggish wholesales.

**Chinese authorities intensified control over domestic price wars.** Following a June policy that capped supply-chain payment period at 60 days, a draft revision to the 1998 Pricing Law was issued, banning below unit cost selling and algorithm-driven “improper” retail pricing. Open to public input until August 23, this tighter regulatory stance is expected to become law, prompting Chinese carmakers to seek overseas markets amid escalating domestic controls.

**With the crackdown, Chinese carmakers are transplanting their “price war” to Indonesia.** The Chinese brand BYD launched the Atto 1, its first city car in the Indonesian domestic market, during the 2025 GAIKINDO Indonesia International Auto Show (GIIAS 2025). Globally known as the BYD Seagull, it caused immediate sensation with its IDR 195 mn starting price. The low retail price causes wildfires among its competitors and forces its rival brands, initiated by Wuling, to offer larger cuts in their retail prices. Hence, a “price war”, prohibited in China, has arrived in Indonesia, further added by independent dealers selling “0-km used cars”, dominated by 2024 BYD models. With this trend, we expect the market share of Japanese brands to drop further from its present level of 79%.

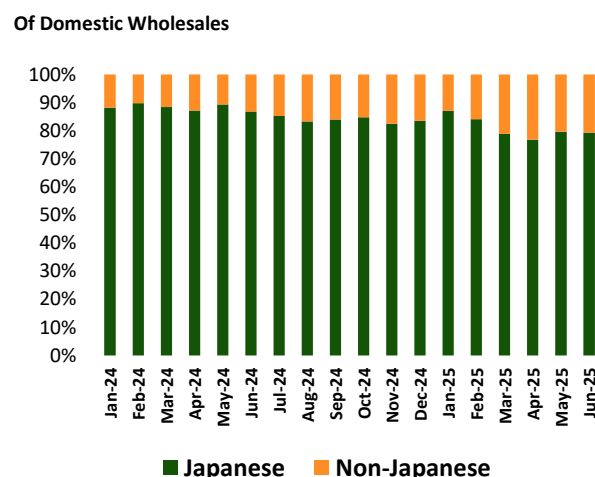
**The “price war” could be a double-edged sword for car sales in 2H25.** Theoretically, lower sticker prices and new model launches would induce more potential buyers to execute car purchases. However, behavioral patterns in the field show a boomerang effect as buying power softened and competition among brands intensified. As model life cycles got shorter and prices got cheaper, consumers are postponing their purchases, waiting for “better models” and “lower prices”, expected to arrive quicker as new brands mushroomed. Hence, we still expect car sales to perform stronger in 2H25 as the BI-Rate eased, but achieving the 900,000-unit target would be challenging.

**Chart 3. Domestic 2W and 4W Sales Dropped in 1H25**



Source: Bank Danamon Indonesia Calculation

**Chart 4. Domestic Competition Reached a New Height**



Source: Bank Danamon Indonesia Calculation

## Indonesia's Selected Economic Indicators

	2022	2023	2024	2025E
<b>National Accounts</b>				
Real GDP (% y-o-y)	5.3	5.0	5.03	4.71
Domestic demand ex. inventory (% y-o-y)	3.8	4.6	4.94	4.75
Real Consumption: Private (% y-o-y)	4.9	4.9	4.9	4.78
Real Gross Fixed Capital Formation (% y-o-y)	3.9	4.4	4.61	3.4
GDP (USD bn) — nominal	1,319	1,371	1,440	1,503
GDP per capita (USD) — nominal	4,783	4,920	4,960	5,219
Open Unemployment Rate (%)	5.9	5.3	4.9	5.0
<b>External Sector</b>				
Exports (% y-o-y, BoP Basis)	25.6	-11.3	6.51	3.89
Imports (% y-o-y, BoP Basis)	21.6	-7.3	7.95	2.75
Trade balance (USD bn, BoP Basis)	62.7	46.4	31.04	30.31
Current account (% of GDP)*	1.0	-0.1	-0.6	-1.0
Central government debt (% of GDP)	39.6	38.9	39.13	39.05
International Reserves –IRFCL (USD bn)	137.2	146.4	155.7	152.0
Reserve Cover (Months of imports & ext. debt)	5.9	6.5	6.5	6.3
Currency/USD (Year-end)	15,573	15,399	16,235	16,460
Currency/USD (Average)	14,855	15,244	15,920	16,364
USD/CNH (Year-end)	6.92	7.13	7.34	7.30
USD/CNH (Average)	6.74	7.09	7.21	7.22
Currency/CNH (Year-end)	2,248	2,161	2,199	2,255
Currency/CNH (Average)	2,205	2,150	2,199	2,266
<b>Other</b>				
BI 7-Day Reverse Repo rate (% year end)	5.5	6.0	6.0	5.25
Consumer prices (% year end)	5.51	2.61	1.57	1.83
Fiscal balance (% of GDP; FY)	-2.38	-1.65	-2.3	-2.5
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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