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Indonesia Market Color

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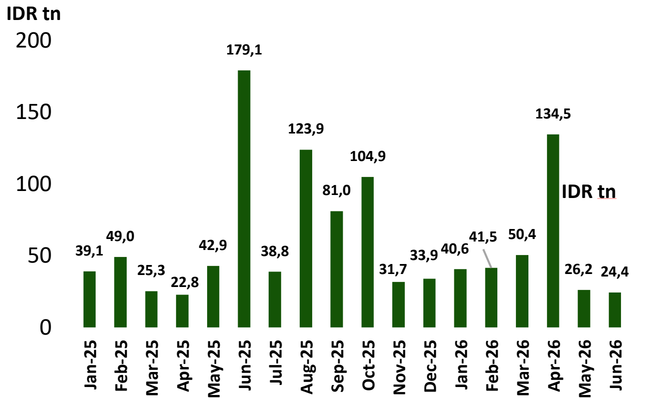
FX & Interest Rate

Domestic demand weakens amid rising layoffs and shrinking formal employment, dragging down consumer confidence and retail sales. The share of formal workers declined from 40.83% to 40.6%, while discrepancies in layoff data between the Ministry of Manpower and BPJS-TK add uncertainty to labor market assessments. As employment faces further pressure, strengthening the case for interest rate easing. These conditions highlight the need for coordinated policy support, not only from monetary authorities but also from fiscal buffers to sustain domestic demand.

Bond and SRBI maturities inject liquidity, creating space for rate stability. June 2025 saw IDR 178.9 trillion in government and IDR 9.7 trillion in corporate bonds maturing, while new issuance was limited to IDR 106 trillion. SRBI maturities peaked around IDR 140 trillion, with rates falling below 6.2%, signaling easing liquidity conditions. This liquidity surge offers a window for portfolio rebalancing and supports short-term rate stability. At the same time, debt obligations remain elevated, with another IDR 123.9 trillion in SBN maturing by August. The government's ability to manage refinancing risk will be crucial in maintaining market confidence and interest rate stability.

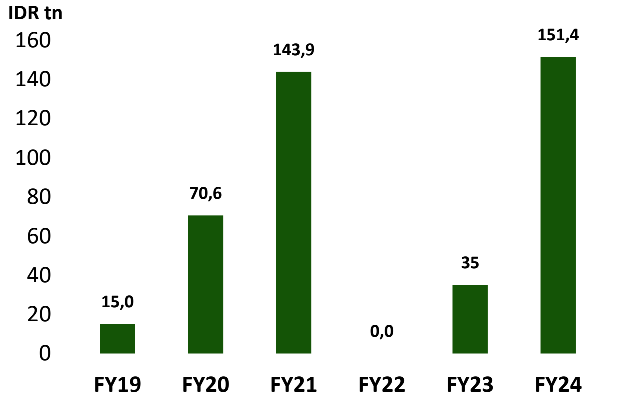
Inflation remains contained, while fiscal buffers continue to support liquidity. Headline inflation stood at 1.87% YoY and core inflation at 2.37%, driven by seasonal increases in food and beverage prices and strong demand for gold. The Rupiah remained stable amid global risk-on sentiment. To address rising fiscal pressures, the Ministry of Finance is expected to utilize excess cash from the budget balance (SiLPA), which reached over IDR 300 trillion as of May 2025, the highest level in five years. Additionally, the government holds Excess Budget Reserves or Saldo Anggaran Lebih (SAL) of IDR 457.5 trillion as of end-2024, which already adjusted for APBN financing and SiLPA. Historically, SAL has served as a reliable fiscal buffer, enabling the government to meet spending needs while maintaining liquidity and avoiding disruptions in the bond market.

Chart 1. Government Bond Repayments in 2025 would Peak in June and August



Source: Ministry of Finance; Bank Danamon Indonesia Calculation

Chart 2. The Government Has a Track Record of Tapping Excess Budget Reserves (SAL)



Source: Ministry of Finance; Bank Danamon Indonesia Calculation

Automotive Industry

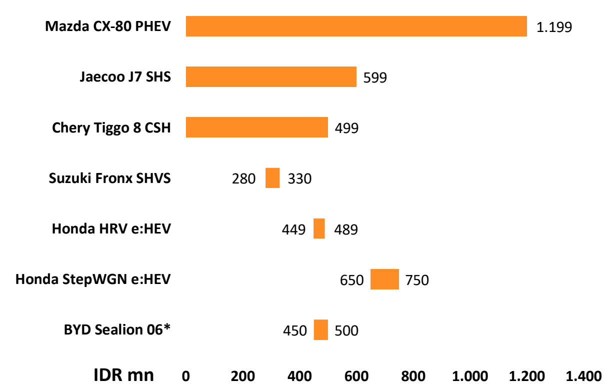
Automotive sales weakened in May 2025 as the economy reeled from headwinds and uncertainties. 4W sales stand at 60,613 units (-15.1% YoY) and 2W at 505,350 units (-0.06% YoY), as manufacturing PMI remained in contraction at 47.4 and consumer confidence fell to 117.5 (-3.5% YoY), the lowest since Sep-22. The downturn reflects a contraction in purchasing power due to slower growth and lower commodity prices, with job prospects remaining a key concern. This trend is expected to persist through Jul-25, in line with Indonesia's business cycle and heightened uncertainties.

Chinese automotive brands commit to shortening their supply-chain financing to 60 days. Following a June 2025 price war, Chinese regulators intervened, commanding automakers to shorten supply-chain financing terms from over 100 days to 60 days. The move may strain sector liquidity, particularly for BYD, which relies on RMB 251 tn in trade payables to support its sales growth. With slower domestic demand, overcapacity is forcing Chinese automakers to rely more on overseas markets, especially large emerging markets like Indonesia.

Automotive competition in Indonesia started to shift toward Plug-in Hybrid Vehicles (PHEVs). PHEV interest surged since May-25, as Chery launched the Tiggo 8 CSH, the first PHEV under IDR 500 mn, bringing PHEV technology to the mass market. Brand competition intensifies, with more models expected, supported by HEV incentives, while CBU BEV incentives phase out in Dec-25. Further support also comes from PHEV's practicality as it had a petrol engine acting as a generator. Consequently, it does not depend on charging stations, a major concern for BEV adoption.

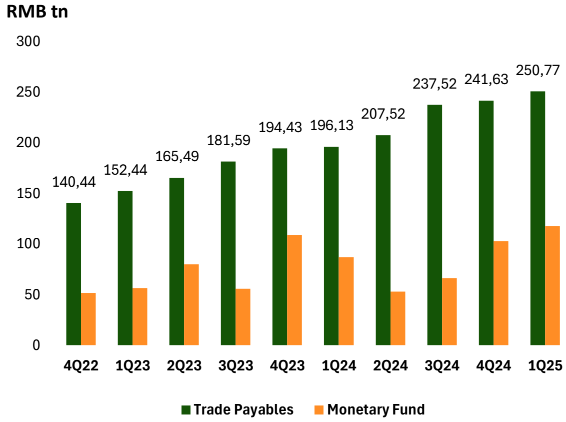
Similar to Indonesia, an influx of Chinese Battery Electric Vehicles (BEVs) is intensifying in Brazil, the world's sixth-largest car market. BYD alone shipped 22,000 units by June 2025, boosting the 8% market share led by BYD and Haval at 200,000 units. Lower import levies for BEVs (10% vs. 35% for ICE) and frontloading advantages cut retail prices by USD 2,000, making them more competitive than locally produced ICE models. This intense competition caused local producers and labor unions to protest in response. Hence, Brazil is courting Chinese automakers to acquire local plants and create domestic jobs, though a lack of supply chain infrastructure remains a key hurdle.

Chart 3. 2025 PHEVs Launched in the Indonesian Market



Source: Bank Danamon Indonesia Calculation

Chart 4. BYD's Outstanding Trade Payables and Cash



Source: BYD Quarterly Financial Reports

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Indonesia's Selected Economic Indicators

	2022	2023	2024	2025E
National Accounts				
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
External Sector				
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
Other				
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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