Indonesia Market Color

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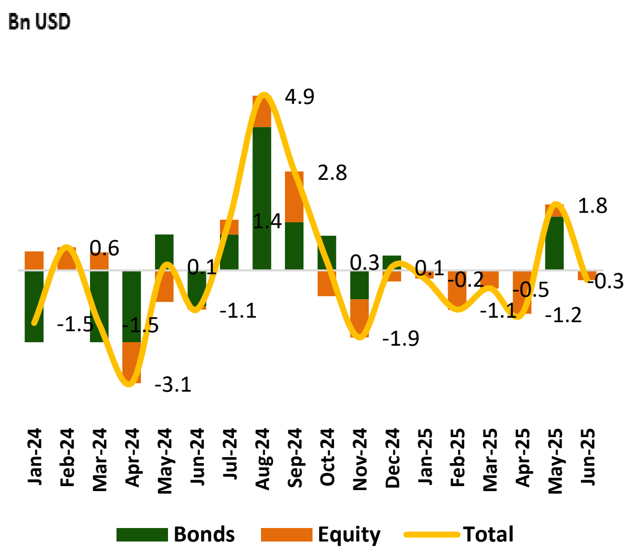
FX & Interest Rate

Bank Indonesia's latest policy mix reflects a proactive, front-loaded approach to liquidity management amid delayed global easing and tighter USD funding conditions. The BI-Rate was cut to 5.5% in May 2025, accompanied by a reduction in the secondary reserve requirement (PLM) from 5% to 4%, injecting over IDR 90 tn into the system. Additionally, the offshore borrowing limit (RPLN) was raised from 30% to 35%, enhancing banks' access to foreign funding. These measures aim to support credit growth, stabilize funding costs, and deepen the interbank market as global financial conditions tighten.

Globally, policy uncertainty persists. The U.S. faces renewed inflation risks from Trump's "Big Beautiful Bill" and proposed tariffs on Japanese and Chinese imports, delaying the Fed's easing cycle. With only 50 bps of U.S. rate cuts expected in 2025, real yields remain high. Moody's downgrade of the U.S. sovereign rating has further shaken confidence in USD assets. However, Indonesia's 2026 draft budget macro assumptions adopt a conservative stance, projecting the USDIDR at 16,500–16,900.

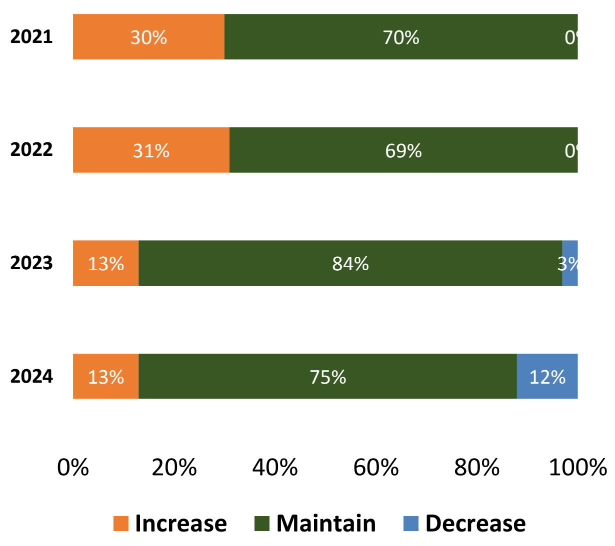
Despite rising imports and dumping concerns, Indonesia's trade sector remains resilient. The expanded Local Currency Settlement (LCS) framework has helped reduce FX volatility and transaction costs, supporting trade efficiency and IDR stability. Meanwhile, the global shift away from USD dominance is gradual. An Official Monetary and Financial Institutions Forum (OMFIF) survey of 75 central banks shows a long-term decline in USD reserve share from 58.4% to 54.9%, while CNH is expected to rise. However, concerns over China's transparency and geopolitical risks suggest de-dollarization will be evolutionary.

Chart 1. Foreign Inflows Boost the Rupiah in May-25



Source: Bloomberg; Bank Danamon Indonesia Calculation

Chart 2. Headwinds Dominate the CNH Reserve Trend



Source: Official Monetary and Financial Institutions Forum

Automotive Industry

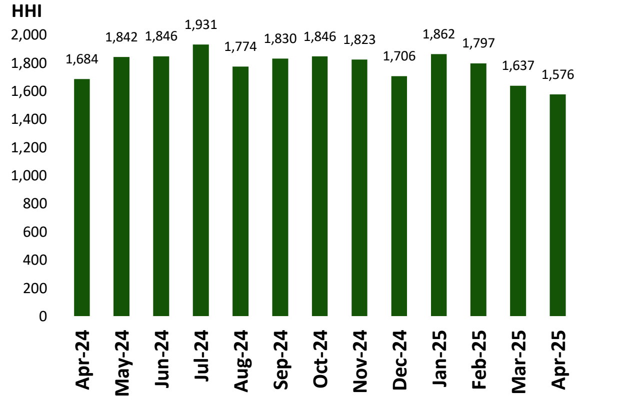
Automotive sales weakened in Apr-25 as working days declined and Manufacturing PMI contracted. Automotive wholesales softened in April 2025, with 4W at 51,205 units (+5.0% YoY) and 2W at 406,691 units (+3.0% YoY), both below the prior month. Seasonal demand, weaker purchasing power for durable goods, and declining Manufacturing PMI (46.7, lowest since Aug-21) were key contributors. Looking forward, the automotive sector expects lower business activity in 2Q25 as the transport equipment sector experiences a Business Activity Index of 0% net profit. However, lowered BI-Rate in May-25 to 5.50% could cushion some of the slowdown with lower financing costs.

Trump's "One Big Beautiful Bill" Act ended U.S. tax credit for Electric Vehicles (EVs) in 2026. The bill's broad tax cuts are set to inflate the U.S. fiscal deficit to USD 3.4 bn by 2034. It also removes EV tax credits under the Inflation Reduction Act, which offer buyers with tax credits up to USD 7,500 for new EVs and USD 4,000 for used ones. Analysts expect EV sales to decline if enacted, though Tesla may remain resilient due to its upper-middle-class customer base.

Price wars between Chinese automakers are raising alerts, causing their share prices to tumble. The pressure intensified as GWM Chairman Wei Jianjun warned of unhealthy price competition among Chinese automakers, squeezing margins for manufacturers and suppliers. He even likened the situation to the Evergrande crisis, highlighting rising default risks. BYD, the market leader, escalated competition with fresh discounts and trade-in offers, slashing the Seagull's base price by 28% to USD 7,765. Some analysts described this move as a "bloodbath" for weaker players like Neta and Polestar. As a result, market concentration in China's automotive sector is expected to rise.

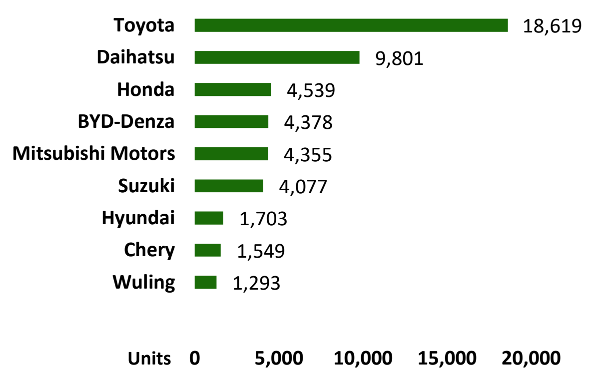
Indonesia's automotive market concentration is progressively declining. Unlike China, Indonesia's Herfindahl-Hirschmann Index (HHI) fell to 1,576 in Apr-25, highlighting rising competition with more brands and models in the market. Chinese brands are driving this shift, accelerating EV adoption, especially in urban areas with odd-even rules. BYD-Denza made a strong impact, ranking fourth with 4,378 units just a year after entering Indonesia. We expect this trend to continue as Chery, GWM, and AION introduce new PHEV models to challenge Toyota and Honda. However, demand outside *Jabodetabek* remains cautious, with buyers prioritizing reliability and long-term brand presence. Furthermore, the demand for automotive products is still resolute in this region, proven by the 7.5% YoY increase in visitors for Indonesia International Motor Show (IIMS) 2025, held in Surabaya, East Java.

Chart 3. Indonesian Automotive Market Concentration



Source: Bank Danamon Indonesia Calculation

Chart 4. 4W Retail Sales based on Brand (Apr-25)



Source: GAIKINDO

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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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