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treasury.economist@danamon.co.id

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FX & Interest Rate

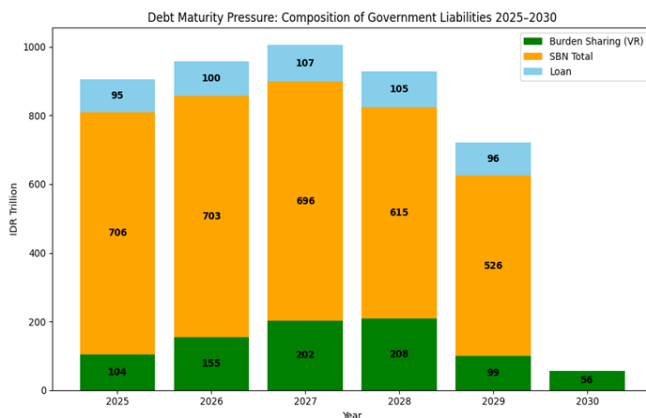
Indonesia's strategy in 2025 reflects a deliberate policy mix to stimulate growth. Amid global economic softening, driven by weak U.S. labor data and cooling inflation, then the Federal Reserve is expected to initiate multiple rate cuts. Bank Indonesia (BI) mirrors this dovish pivot, having lowered its benchmark rate by 125 bps since September 2024, reaching its lowest level since 2022. This alignment signals a shift toward pro-growth policies, yet it also introduces challenges for currency dynamics and capital flows. The policy mix reflects Indonesia's commitment to balancing growth acceleration with macroeconomic stability, especially as external headwinds persist.

Bank Indonesia's dovish stance and FX interventions respond to global easing, while the Rupiah remains under pressure near 16,000-16,400. The simultaneous easing by both the Fed and BI neutralizes potential appreciation of the Rupiah, underscoring the importance of liquidity management and exchange rate stabilization. BI has responded with robust interventions in the NDF, DNDF, and spot markets, while expanding liquidity around IDR 200 tn in secondary market SBN purchases and reducing SRBI holdings by over IDR 200 tn year-to-date.

Liquidity expansion and burden-sharing mechanisms to support the Asta Cita agenda.

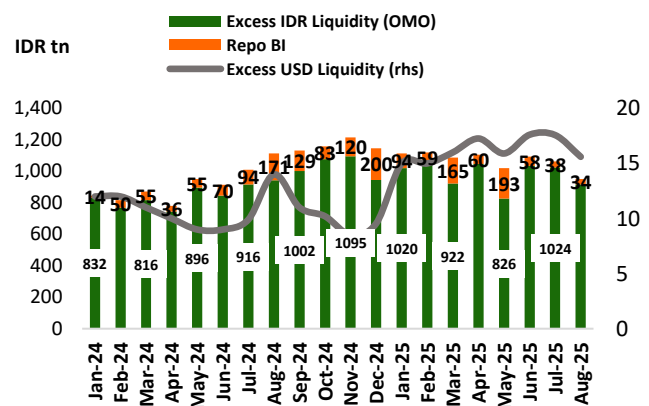
Bank Indonesia's liquidity injection complements government efforts to finance pro-growth and pro-people programs, such as affordable housing and the Koperasi Desa Merah Putih initiative. With the final COVID-era burden-sharing bonds maturing by 2030, refinancing risks are expected to rise through 2029. In response, BI and the Ministry of Finance have announced a renewed burden-sharing scheme, similar in structure but with key adjustments. Notably, BI will split interest costs on SBNs issued for these initiatives, with rates of 2.9% for housing and 2.15% for cooperatives, providing fiscal space while reinforcing equitable and inclusive growth.

Chart 1. Mounting Pressure from Indonesia's Rising Government Debt Maturities



Source: Ministry of Finance, Bank Danamon Indonesia Calculation

Chart 2. Ample Liquidity as Gov't Debt Maturities Rise While SRBI Outstanding and Issuance Decline



Source: Bank Indonesia, Bank Danamon Indonesia Calculation

Automotive Industry

Domestic automotive wholesales remained under pressure in Jul-25, with car sales down to 60,552 units (-18.4% YoY) and motorcycle sales easing to 587,047 units (-2.0% YoY). The weakness was linked to continued contraction in Manufacturing PMI (49.1 in Jul-25), which drove a modest rise in layoffs to 43,503 workers (YTD Jul-24: 42,863). While the layoff increase is relatively small, it weighed on consumer income, pushing present income sentiment to a seven-month low of 117.8 (-3.9% YTD), particularly among the IDR 1-2 mn and IDR 4.1–5 mn group, as many shifted into the informal sector. As a result, new vehicle demand in Indonesia is being challenged by income constraints.

New car launches fell to 11 models in Jul-25, down from 26 a year earlier, but this was not driven by muted demand. July typically marks the peak of launches through the GAIKINDO Indonesia International Auto Show (GIIAS), where the decline is a marketing strategy adjustment by manufacturers after a major launching frenzy last year, dominated by 14 BEV entries in Jul-24. This year, manufacturers focused on select volume-makers, with Chery (Tiggo 8 CSH) and Suzuki (Fronx) debuting in May-25, followed by BYD (Atto 1) and Mitsubishi (Destinator) during GIIAS 2025.

Financial results from China's two largest automakers were mixed, but both see Indonesia as a key growth driver. BYD posted a lower 2Q25 net profit of USD 894.6 mn (-29.9% YoY) despite revenue rising to USD 2.81 bn (+14.0% YoY), as China's domestic price war eroded margins without major cost gains. In contrast, Geely delivered a strong net profit of USD 447.6 mn (+105.5% YoY), supported by higher sales volumes and R&D cost efficiency from Lynk & Co's consolidation with its sub-brand Zeekr. Nevertheless, both benefited from robust overseas demand: BYD shipped 258,182 units abroad (22.5% of total deliveries), while Geely exported 94,161 units. With both citing Indonesia as a core growth market, the Indonesian new car market is expected to have a strong presence of Chinese brands ahead.

Chart 3. Current Income Dynamics Constrain Sales Volume

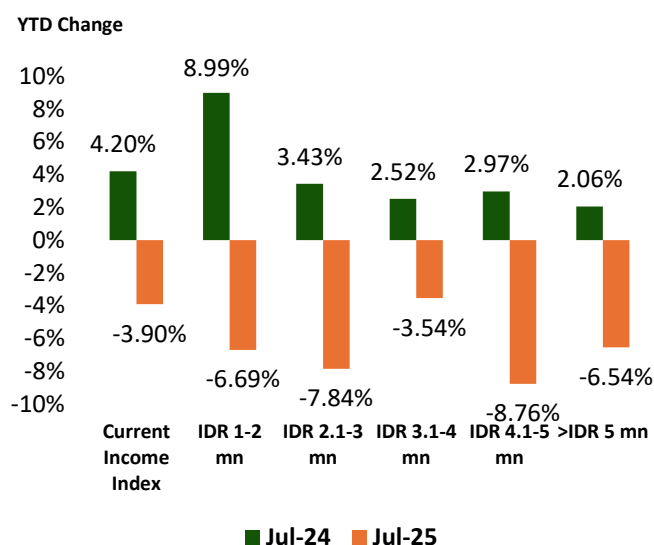
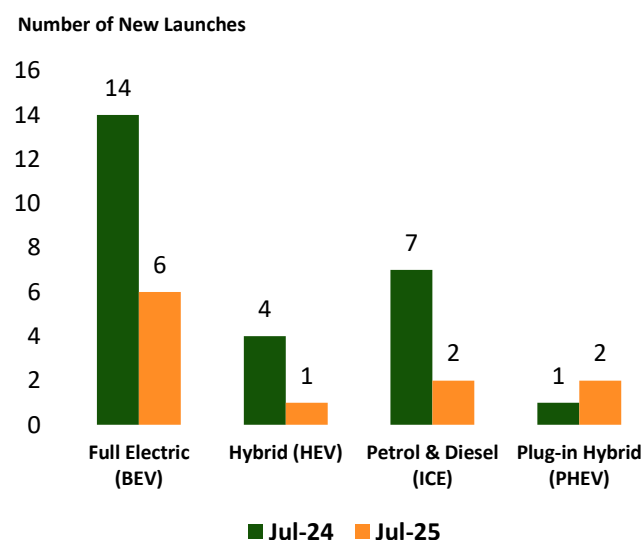


Chart 4. Comparing New Car Launches in Jul-24 and Jul-25



Source: Bank Indonesia; Bank Danamon Indonesia Calculation

Source: Bank Danamon Indonesia Calculation

Indonesia's Selected Economic Indicators

	2022	2023	2024	2025E
National Accounts				
Real GDP (% y-o-y)	5.3	5.0	5.03	4.91
Domestic demand ex. inventory (% y-o-y)	3.8	4.6	4.94	4.30
Real Consumption: Private (% y-o-y)	4.9	4.9	4.9	4.80
Real Gross Fixed Capital Formation (% y-o-y)	3.9	4.4	4.61	4.60
GDP (USD bn) — nominal	1,319	1,371	1,440	1,530
GDP per capita (USD) — nominal	4,783	4,920	4,960	5,225
Open Unemployment Rate (%)	5.9	5.3	4.9	4.8
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	39.45
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	16,359
Currency/USD (Average)	14,855	15,244	15,920	16,360
USD/CNH (Year-end)	6.92	7.13	7.34	7.25
USD/CNH (Average)	6.74	7.09	7.21	7.22
Currency/CNH (Year-end)	2,248	2,161	2,199	2,256
Currency/CNH (Average)	2,205	2,150	2,199	2,266
Other				
BI 7-Day Reverse Repo rate (% year end)	5.50	6.00	6.00	4.75
Consumer prices (% year end)	5.51	2.61	1.57	2.51
Fiscal balance (% of GDP; FY)	-2.38	-1.65	-2.29	-2.78
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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