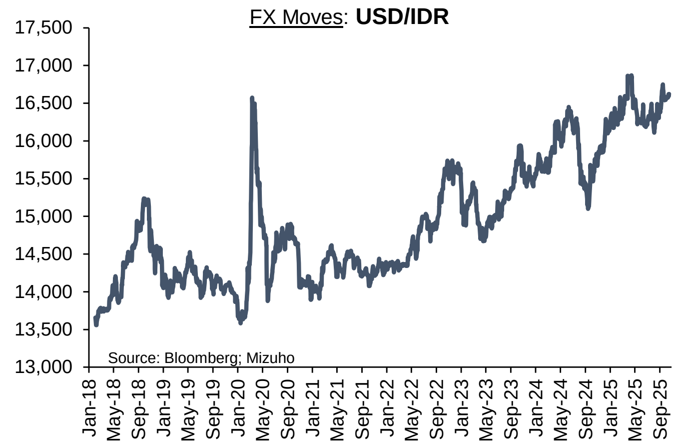
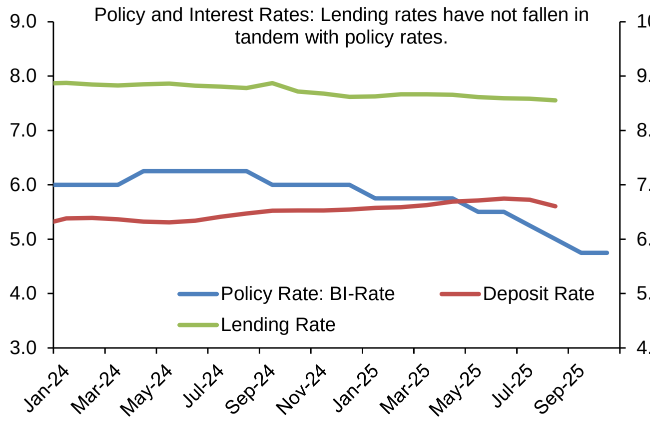
Mizuho Brief: Indonesia

Economics & Strategy | Asia ex-Japan

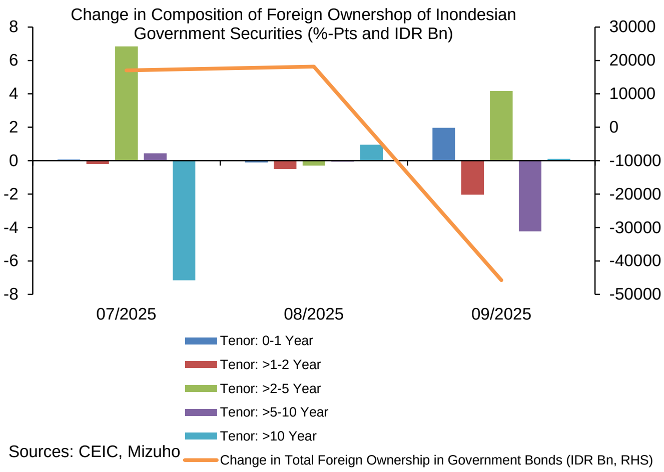
28 October 2025 | Tan Boon Heng | Market Economist

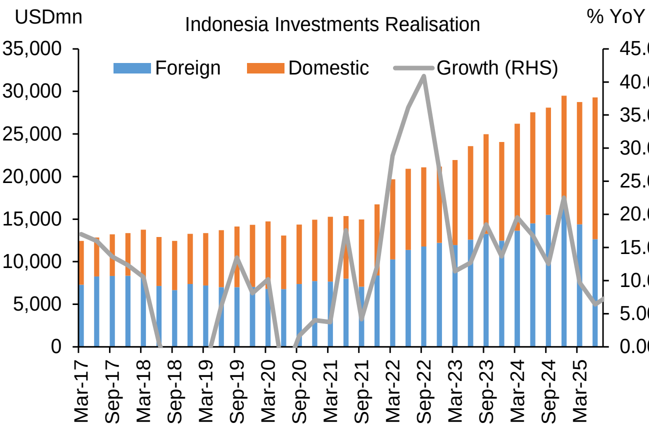
Indonesia: Pro Growth and IDR Trade Offs





Sources: CEIC; Mizuho





Sources: CEIC; Ministry of Investment and Downstreaming; Mizuho

- **<u>Growth</u>:** For Indonesia's Q3 GDP growth, even amid the political turmoil, there is **potential for upside surprise** as such we have **upgraded 2025 full year growth to 5.0%** with **Q3 GDP growth being lifted to 5.1%** (from 4.8%) which is similar at Q2's 5.1% as various economic indicator point to still robust demand despite soft sentiment signposts.
    - Retail sales remain firm growing 4.7% YoY in Q3 amid strong performance in car parts and fuel consumptions along with robust 5.7% growth in food and drinks consumption.
    - Solid external demand which led to trade surplus of US$9.6b over July and August which is significantly higher than the US$1.7b surplus in 2024.
    - Investment realization also showed a slight uptick for Q3, a partial recovery from the sharp contraction in Q2. Nonetheless, this should not distract from the underlying momentum that there is a broad based moderate decline in investment across all sector in 2025 amid US tariff uncertainty and domestic political and policy uncertainties. Domestically led investments have taken a larger share of 18% in 2025 thus far (2024:11%) as foreign investment realization weakened.
- **<u>Policy</u>: Fiscal policy is also like to continue a pro-growth** amid the launch of their latest fiscal package in September. Admittedly, due to tapering of the stimulus size from the earlier two packages in earlier parts of 2025, the size of the latest fiscal stimulus is only 0.02% of GDP also implies that the impulse may be more limited even

though the design of the measures become more targeted. Fiscal deficit at 2.68% of GDP in 2026 also represents an expansionary impulse. That said, risk of fiscal slippages remains amid the expansionary push.

- As for **monetary policy**, the **October meeting's hold has illustrated that IDR stability is far from being ignored even amid the all-out Pro-Growth objective.** For one, it is certainly not a stretch to say that IDR stability is in the institutional DNA of the authorities and macroeconomic stability is also a tenet to political stability. As such, we acknowledge the bias for easing at a measured pace determined by IDR stability.
- Furthermore, the **authorities are working to repair the impaired transmission channels** as lending rates have not fallen in line with Bank Indonesia's policy which would be **even more important in their pro-growth agenda**. Even as at end-August, 125bps of BI cuts had only translated to lending rates being lower by 23bps. The hesitancy and caution in lowering lending rates may stem from worries about a creep up in NPL which necessitates a higher risk premium as well as elevated special interest rates to large depositors which then implies higher cost of funds. As such, Bank Indonesia may achieve greater efficacy by improving transmission rather than persisting with consecutive cuts.
- **IDR Outlook**: While IDR bears look for Bank Indonesia easing, the broader risk is the perceptions of a loss in central bank autonomy amid potential fiscal dominance. Pockets of IDR depreciation risks (even testing 17000) remain in abundance and as such a durable IDR recovery may face multiple setbacks ranging from Danantara's demands for higher dividends alongside governance risks and potential crowding out effects. These risks may come in the form of a sell-off of sovereign bonds at the longer end which was observed in September.
- Danantara's investment push may translate into tangible economic growth, but the pervasiveness of the sovereign wealth fund also implies that the occasional implementation and governance slips may invite worries of fiscal slippages. Looking into 2026, despite our envisaged softer USD backdrop on the back of Fed cuts, the IDR bulls may find themselves restrained amid the all-out growth push.

	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Policy Rate (%)	4.75%	4.50%	4.25%	4.00%	4.00%	4.00%
USD/IDR	16090-16788	16010-17280	16030-16840	16010-16780	16050-16780	16100-16780
	16665	16870	16650	16600	16600	16650
GDP (% YoY)	5.1%	4.9%	4.7%	4.8%	5.0%	5.1%
CPI (% YoY)	2.4%	2.2%	2.7%	1.8%	2.0%	2.3%

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

MARKET COMMENTARY DISCLAIMER

THIS DOCUMENT IS NOT A RESEARCH REPORT AND IS NOT INTENDED AS SUCH.

Unless stated otherwise in the country specific distribution information below, this document has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. It is intended for informational purposes only and does not purport to make any investment recommendations.

This document has been prepared solely for the information of the intended recipients. Recipients in any jurisdiction should contact your usual Mizuho contact in relation to any matters arising from, or in connection, with this document.

This document has been prepared by Mizuho Bank, Ltd., Singapore Branch ("**MBSG**"), a full bank, exempt capital markets services entity and exempt financial adviser regulated by the Monetary Authority of Singapore ("**MAS**"), Mizuho Bank, Ltd., Hong Kong Branch ("**MBHK**"), a licensed bank regulated by the Hong Kong Monetary Authority, with business address at 12/F, K11 Atelier, 18 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong, Mizuho Bank, Ltd., Sydney Branch, an authorised deposit-taking institution regulated by the Australian Prudential Regulation Authority and holder of an Australian financial services licence ("**MBAU**"), Mizuho Securities Asia Limited ("**MHSA**"), licensed and regulated by the Hong Kong Securities and Futures Commission and/or Mizuho Securities (Singapore) Pte. Ltd. ("**MHSS**"), a holder of a capital markets services licence and an exempt financial adviser regulated by the MAS, as the case may be.

This does not constitute investment or personal advice.

This document has been prepared solely for the purpose of supplying general market information and/or commentary for general information purposes to clients of MBSG, MBHK, MBAU, MHSA, MHSS and their affiliates (collectively, "**Mizuho**") to whom it is distributed, and does not take into account the specific investment objectives, financial situation or particular needs of any client or class of clients and it is not prepared for any client or class of clients.

This is not an offer or solicitation.

This document is not and should not be construed as an offer to buy or sell or solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments.

Mizuho shall have no liability for contents.

This document has been prepared solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by Mizuho to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete and Mizuho has not independently verified such information and data. Mizuho is not obliged to update any of the information and data contained in this document.

Mizuho makes no representation or warranty of any kind, express, implied or statutory, regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. Mizuho accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) arising from or in connection with any person's use or reliance of this document or the information contained in this document.

Information contained herein is no indication of future performance.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of futures events. Any opinions, projections, forecasts and estimates expressed in the document are solely those of Mizuho based on factors it considers relevant as at the date of the document and are subject to change without notice. Past performance is not indicative of future performance. Consequently, no expressed or implied warranty can be made regarding the projections and forecasts of future performance stated therein.

This material is confidential.

This document is intended for the exclusive use by the recipients, and is provided with the express understanding that the information contained herein will be regarded and treated as strictly confidential. All recipients may not reproduce or use this document in whole or in part, for any other purpose, nor disclose, furnish nor distribute this document to any other persons without the prior written permission of Mizuho. Any such reproduction, use, delivery or distribution in form or to any jurisdiction may be effected only in accordance with all applicable laws and regulations in the relevant jurisdiction(s).

Disclosure regarding potential conflicts of interest.

Mizuho, its connected companies, employees or clients may at any time, to the extent permitted by applicable law and/or regulation, take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments referred therein. Accordingly, Mizuho, its connected companies or employees may have a conflict of interest that could affect the objectivity of this document. This document has been prepared by employees who may interact with Mizuho's trading desks, sales and other related personnel when forming the views and contents contained within.

Financial instruments may not be for sale to all categories of investors.

There are risks associated with the financial instruments and transactions referred to in this document. Investors should not rely on any contents of this document in making any investment decisions and should consult their own financial, legal, accounting and tax advisors about the risks, the appropriate tools to analyse an investment and the suitability of an investment in their particular circumstances. Mizuho is not responsible for assessing the suitability of any investment. Investment decisions and the responsibility for any investments are the sole responsibility of the investor. Neither Mizuho nor of its directors, employees or agents accepts any liability whatsoever with respect to the use of this document or its contents.

WARNING: THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO SUCH CONTENTS. THIS DOCUMENT IS NOT INTENDED TO CONSTITUTE ANY INVESTMENT, LEGAL, FINANCIAL, BUSINESS, ACCOUNTING, TAXATION OR OTHER ADVICE. IF YOU ARE IN ANY DOUBT AS TO THE ACTION YOU SHOULD TAKE, YOU SHOULD SEEK PROFESSIONAL ADVICE FROM YOUR RELEVANT ADVISERS ABOUT YOUR PARTICULAR CIRCUMSTANCES. YOU ARE RESPONSIBLE FOR YOUR OWN INVESTMENT CHOICES.

This document is not directed to, or intended for distribution to or use by, any person who is a citizen or resident of, or entity located in, any locality, territory, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to or restricted by law or regulation. Persons or entities into whose possession this document comes should inform themselves about and observe such restrictions.

COUNTRY SPECIFIC DISTRIBUTION INFORMATION

Australia: This document is intended only for persons who are sophisticated or professional investors for the purposes of section 708 of the *Corporation Act 2001* (Cth) of Australia ("**Corporations Act**"), or "wholesale clients" for the purpose of section 761G of the Corporations Act. It is not intended for and should not be passed on, directly or indirectly, to other classes of persons/investors in Australia. In Australia, Mizuho Bank, Ltd. Sydney Branch ("**MBSO**") is an authorised deposit-taking institution regulated by the Australian Prudential Regulation Authority in accordance with the *Banking Act 1959* (Cth), and holds an Australian financial services licence number 231240 (**AFSL**). Mizuho Securities Asia Limited (ABRN 603425912) and Mizuho Securities (Singapore) Pte. Ltd. (ARBN 132105545) are registered foreign companies in Australia and are each exempt from the requirement to hold an AFSL under the *ASIC Corporations (Repeal and Transitional) Instrument 2023/588*. MHSA is licensed by the Hong Kong Securities and Futures Commission under Hong Kong laws and MHSS is licensed by the Monetary Authority of Singapore under Singapore laws, which laws differ from Australian laws respectively.

Costa Rica: Nothing in this document constitutes a representation that any investment strategy or recommendation contained herein is suitable or appropriate to a recipient's individual circumstances or otherwise constitutes a personal recommendation. This document is published solely for information purposes, it does not constitute an advertisement and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. In accordance with local laws, it does not constitute a public offering of securities under Regulations for Public Offering of Securities (National Counsel of Financial System Supervision, article 11 of Session Act 571-2006), and therefore cannot be understood and interpreted as an implicit or explicit offering that intends to place, issue, negotiate or trade securities transmitted by any means to the public or to certain groups. This document will not be disclosed to groups of more than 50 investors.