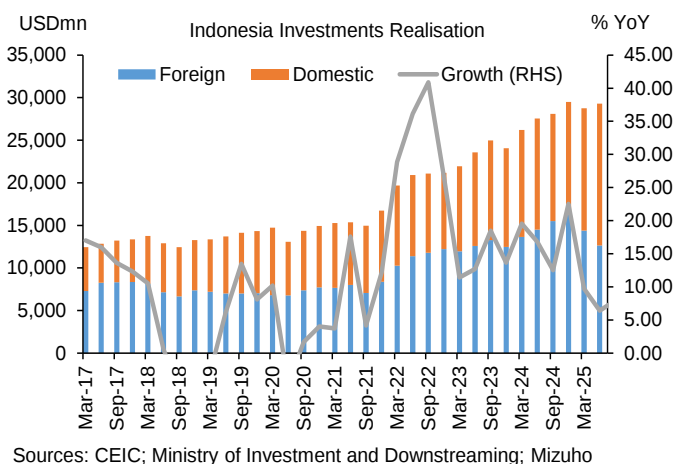
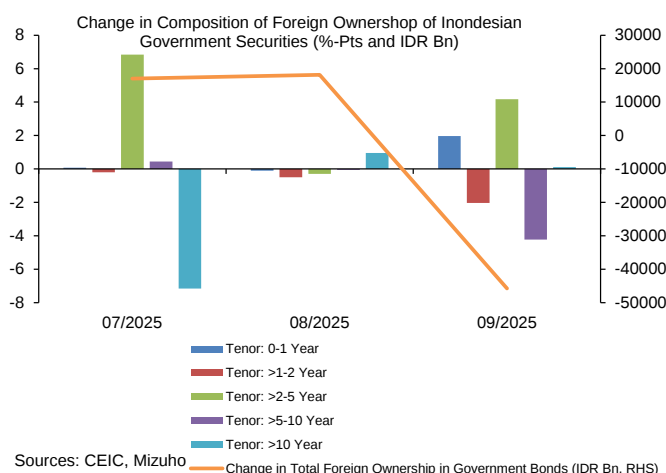
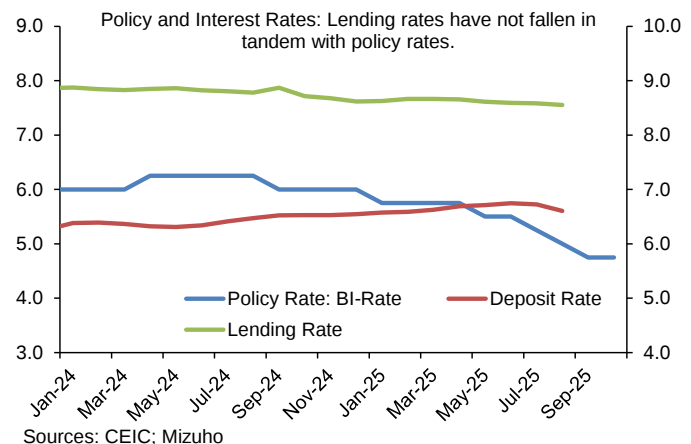
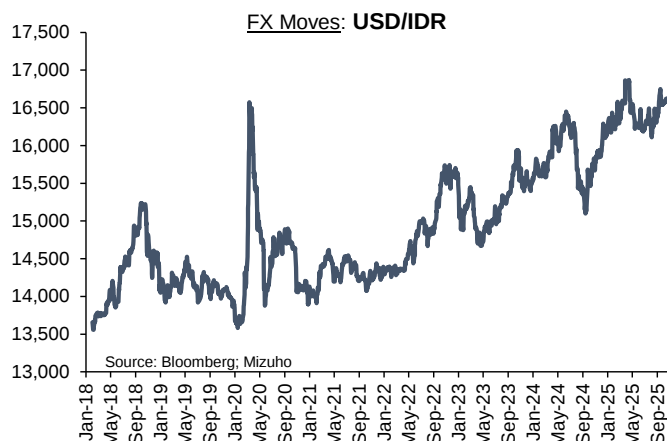


Indonesia: Pro Growth and IDR Trade Offs



- Growth:** 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.
- Policy:** 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.

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