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Indonesia

Indonesia Economics 2H 2026

Navigating Cost Pressures and Tapering Stimulus

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Cost Pressures Weighing on Consumer and Business Confidence

We forecast GDP growth of 5% in 2026 and 5.2% in 2027. Economic momentum is expected to moderate in 2H 2026. GDP growth is projected to slow to an average of 4.8% in 2Q-4Q 2026 from the exceptional 5.6% in 1Q. First quarter GDP growth was driven by a confluence of front-loaded government spending, Eid-related consumption, and large-scale civil servant bonuses — tailwinds that are likely to dissipate. Household purchasing power is coming under meaningful pressure. Consumer confidence fell to an eight-month low in May, while the real retail sales index contracted for a second consecutive month (-3.2%).

We forecast full-year headline inflation averaging 3.5% in 2026, before easing to 3% in 2027. Inflation is expected to temporarily breach the upper bound of Bank Indonesia's 1.5%-3.5% target corridor in the second half, due to lagged effects of higher imported inflation from rupiah depreciation, El Nino-related food price pressures, and hikes in administered fuel and airfare prices. The recent Rp26.3tn (0.1% of GDP) fiscal stimulus package is small and focused largely on rice handouts for lower-income households, with a more limited impact on consumer spending than cash transfers.

The external trade position is expected to remain stable. We forecast the current account deficit widening to 1% of GDP in 2026 from 0.1% in 2025, reflecting rising import costs and weaker manufacturing exports. Gulf war disruptions and rupiah depreciation have inflated manufacturing input costs. The S&P PMI show output contracting for four consecutive months through June and lower employment since March. Commodity exporters in coal, nickel, and copper should benefit from elevated prices and a weaker rupiah, although palm oil exports may be impacted from the B50 biodiesel mandate transition and potential El Niño. On balance, pockets of commodity strength will not be sufficient to offset broader trade deterioration.

Tapering Policy Stimulus

The stimulus policy impulse that underpinned 1Q growth will taper. Bank Indonesia has raised its policy rate by 100bps across May and June to defend the rupiah. We expect a further 25bps hike to bring the BI policy rate to 6% by year-end. Fiscal revenue growth will likely slow in 2H and may require selective rationalization of government spending — most visibly via Rp67tn (US$3.7bn) cuts to the free meals program — to contain the fiscal deficit ratio within the 3% legal ceiling. We forecast the fiscal deficit at 2.9% of GDP in 2026. Higher borrowing costs will weigh on private activity, even as government-related lending initiatives support aggregate loan growth.

Regulatory Uncertainty Undermining Private Investment

The evolving regulatory landscape may dampen the investment outlook. Business confidence has deteriorated following the announcement of an export commodity super board (DSI); large-scale plantation land confiscations; and a cap on ride-hailing platform commissions. Foreign investor sentiment reflects a wait-and-see approach, with Chinese firms reportedly exploring alternative destinations for nickel supply chain investments, and Japanese automotive manufacturers considering relocation to Vietnam. Danantara's Rp202.4tn (0.8% of GDP) capital expenditure program will help offset weaker private investment, but may not fully restore broader confidence.

Wildcards: Capital Outflows, MSCI Downgrade

Capital outflows may intensify in the event of abrupt policy moves and any unexpected downgrade on sovereign rating or MSCI weights. S&P's sovereign review of Indonesia is historically conducted around July. MSCI may initiate a Frontier Market downgrade classification in November if sufficient stock market reform progress is not evident. Our equity team believes that the probability of a downgrade remains relatively low.

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1. Cost Pressures Weighing on Consumer and Business Confidence

We forecast GDP growth of 5% in 2026 and 5.2% in 2027. Economic momentum is expected to moderate in the second half of 2026. GDP growth is projected to slow to an average of 4.8% in 2Q-4Q from the exceptional 5.6% in 1Q.

Household consumption has been hit by inflationary pressures from the Gulf conflict and rupiah depreciation, with retail sales contracting in April and May. Inflation is expected to climb further and temporarily exceed the upper end of Bank Indonesia's inflation target 1.5%-3.5% range in the second half. Shipping traffic through the Strait of Hormuz will take time to normalize, despite the 60-day interim US-Iran peace deal. Business confidence has been shaken by the evolving regulatory landscape and concerns surrounding state intervention, which will likely dampen private investment and hiring appetite.

Table 1: Indonesia - Key Macroeconomic Indicators

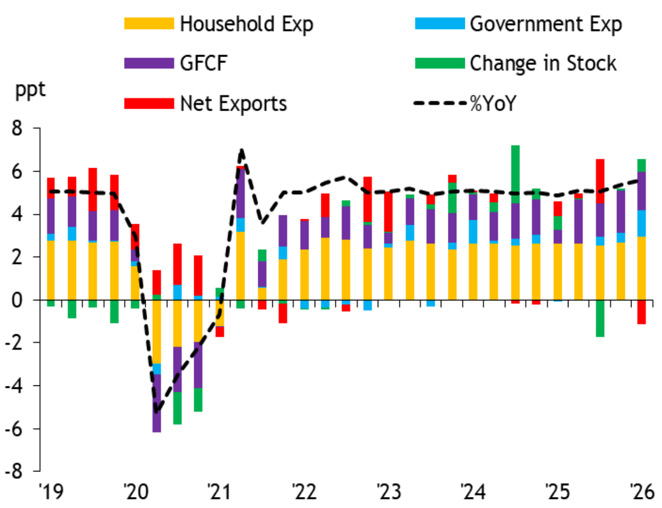
	2022	2023	2024	2025	2026F	2027F
Real GDP (%)	**5.3**	**5.0**	**5.0**	**5.1**	**5.0**	**5.2**
Private Consumption (%)	4.9	4.8	4.9	5.0	4.9	5.0
Government Consumption (%)	(4.4)	3.0	6.8	2.5	6.2	5.9
Gross Fixed Capital Formation (%)	3.9	3.8	4.6	5.1	4.8	5.0
Exports of Goods & Services (%)	16.2	1.7	6.9	7.0	4.0	6.6
Imports of Goods & Services (%)	15.0	(1.2)	8.1	4.8	4.9	5.4
Current Account Balance (% of GDP)	1.0	(0.1)	(0.6)	(0.1)	(1.0)	(0.7)
Fiscal Balance (% of GDP)	(2.4)	(1.7)	(2.3)	(2.9)	(2.9)	(2.9)
Inflation Rate (%, period average)	4.2	3.7	2.3	1.9	3.5	3.0
Unemployment Rate (%, end-period)	5.9	5.3	4.9	4.7	4.8	4.7
Exchange Rate (per USD, end-period)	15,568	15,399	16,132	16,690	17,800	17,500
BI Policy Rate (% p.a., end-period)	5.5	6.0	6.0	4.75	6.0	5.75

Note: Unemployment rate is released bi-annually, in February and August.

Source: CEIC, Maybank IBG Research

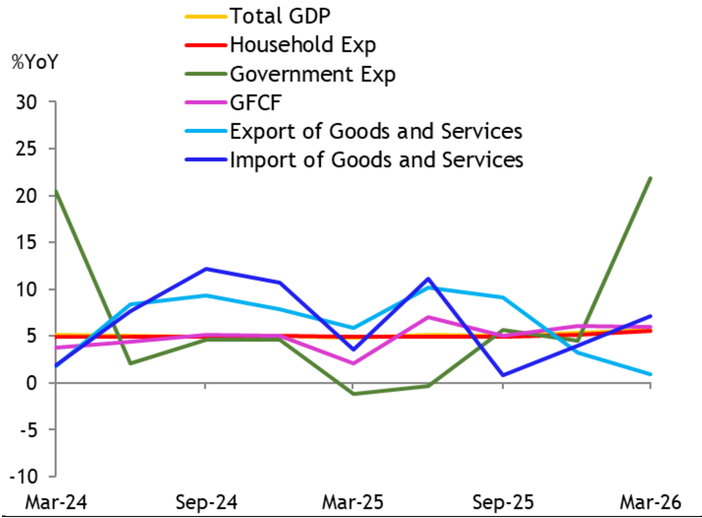
First quarter GDP growth was driven by a confluence of front-loaded government spending, Eid-related consumption, and large-scale civil servant bonuses — tailwinds that are likely to dissipate. The exceptional 1Q GDP growth (+5.6%) was primarily driven by an acceleration in government expenditure (+21.8%) and household consumption (+5.5%). This stimulus and Eid festivity driven boost to private consumption is likely to dissipate, amid rising inflationary pressure (see *Indonesia Economics – 1Q GDP Growth in Line, Expect Softer Growth Ahead*, 5 May 2026).

Fig 1: GDP Growth Accelerated to +5.6% in 1Q, Highest Growth since 3Q 2022 …



Source: BPS, CEIC

Fig 2: … Driven by Government (+21.8% vs. +4.5% in 4Q25) and Household Expenditure (+5.5% vs. +5.1% in 4Q25)



Source: BPS, CEIC

Signs of Slowing Domestic Demand

There are signs of softening confidence and consumption, due to rising inflation and currency pressures, as well as weakening business confidence and employment conditions. Bank Indonesia's consumer confidence index declined to 120.9 points in May (Apr: 123), an eight-month low, as sentiment on current economic conditions fell. The six-month ahead expectations sub-index dipped to 129.7 from 130.4 as of March, hovering near the weakest since Sep 2025. The real retail sales index fell for a second straight month in May (-3.2% vs. -3.7% in Apr), led by infocomm equipment, food & tobacco, fuels and apparel.

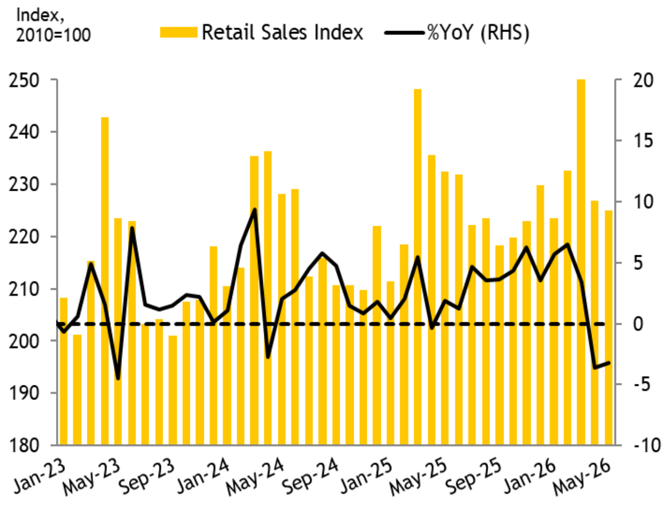
The softening in consumer confidence is being driven by the middle class (defined as those who spend Rp2.2mn-Rp10.9mn a month (US$123-US$609)), who are squeezed by rising costs and do not receive the fiscal support provided primarily to lower-income households (such as social assistance, subsidized health insurance and tuition-free boarding schools).

Business confidence has been impacted by higher fuel, freight and input costs, which will likely weigh on expansion plans, capital spending and hiring. Gulf-related cost pressures have been exacerbated by rupiah depreciation. According to the S&P PMI, manufacturers have been trimming employment since March, as business confidence declines and input cost inflation hovers at a 12-year high[1]. The headline manufacturing PMI fell to 46.9 in June (May: 50), led by a steep fall in output, new orders and export orders.

Anecdotally, about 4,000 workers at a West Java footwear factory supplying Nike and Puma were furloughed as the company faces challenges securing new orders and raw materials[2]. Approximately 70% of manufacturing raw materials are imported while raw materials account for about 55% of production cost, according to Apindo[3]. Manufacturers account for about 14% of total employment, behind agriculture and wholesale/retail trade, but are a key source (approx. 35%) of formal jobs.

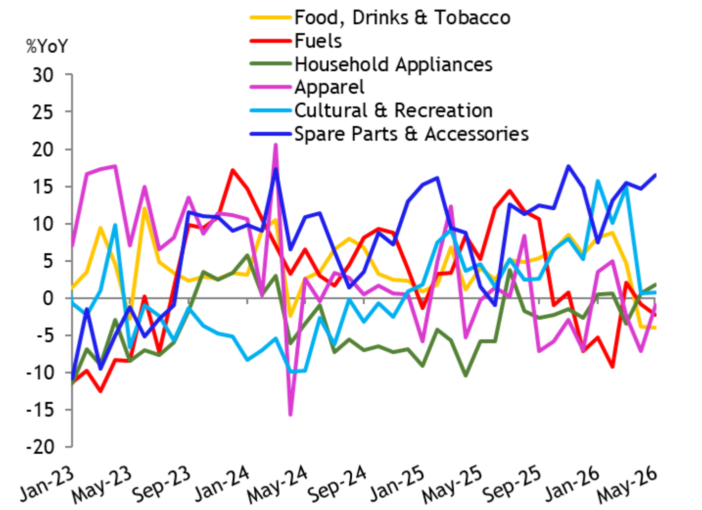
[1] S&P Global Indonesia Manufacturing PMI June 2026, "Output falls at fastest pace in 14 months amid stronger inflationary pressures", 1 July 2026.
[2] Jakarta Globe, "4,000 workers at Nike Supplier in Indonesia Sent Home as New Orders Dry Up", 22 June 2026.
[3] Jakarta Globe, "Rupiah slide pushes Indonesian firms into cost-cutting mode", 16 May 2026.

Fig 3: Real Retail Sales Fell for the Second Straight Month in May (-3.2% vs. -3.7% in Apr)



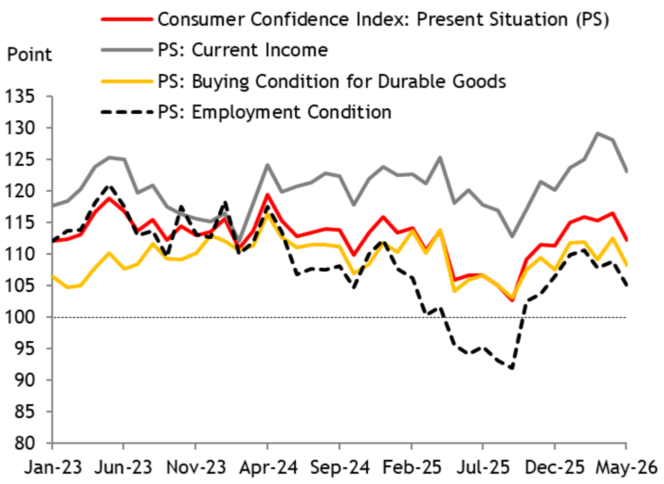
Source: BI, CEIC

Fig 4: Broad Based Weakness in Retail Sales in 2Q



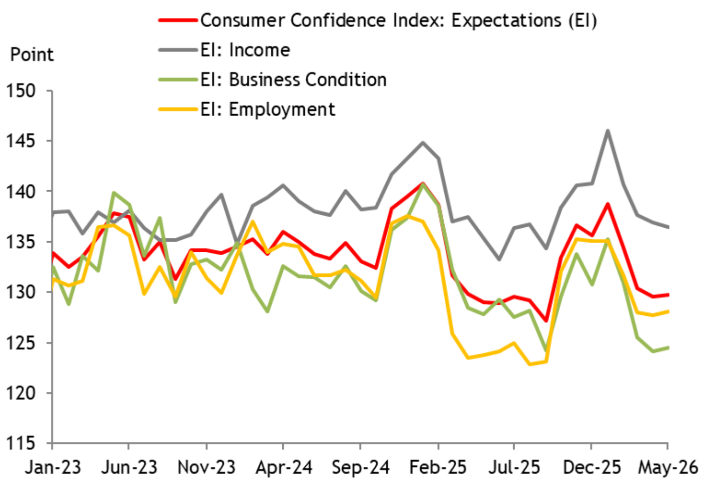
Source: BI, CEIC

Fig 5: Consumer Confidence Fell to 8-Month Low in May Amid Dimming Sentiment



Source: BI, CEIC

Fig 6: Six-Month Ahead Consumer Expectations Softening, Weighed Down by Business and Employment Conditions

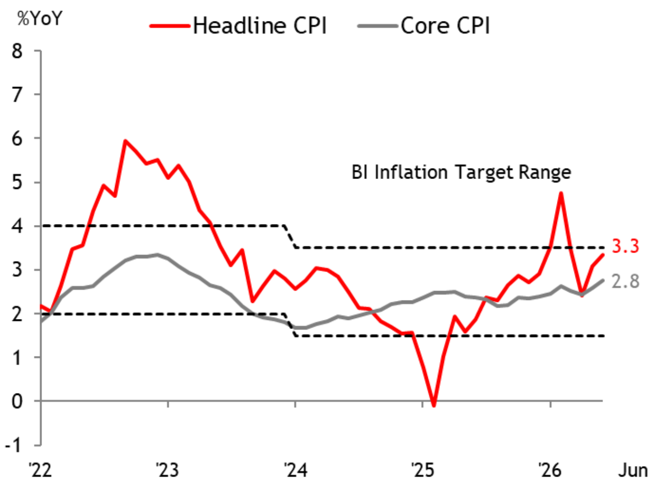


Source: BI, CEIC

We forecast headline inflation averaging 3.5% in 2026, at the top of BI's 1.5%-3.5% target range, and 3% in 2027. Cost of living pressures are likely to persist into the second half of 2026. We expect inflation to temporarily exceed BI's 1.5%-3.5% target corridor, as imported inflation rises with a lag from rupiah depreciation, food inflation rises due to El Nino pressures, and prior hikes to administered prices (unsubsidized vehicle fuel, airfares).

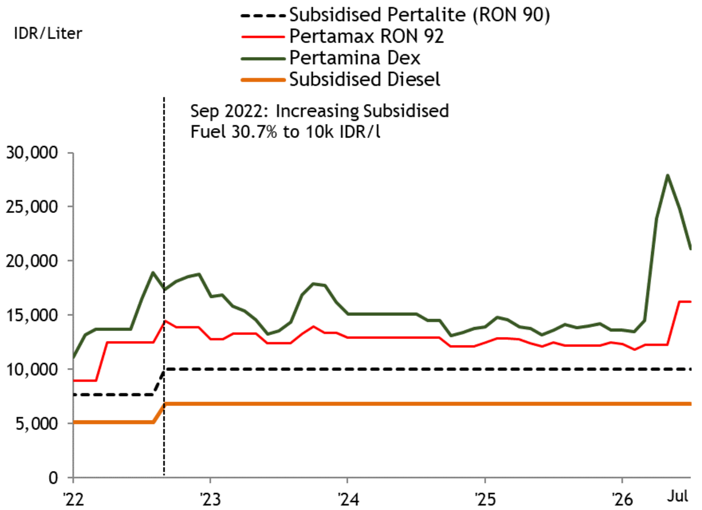
Unsubsidized fuel prices have been raised aggressively as the government grapples with soaring energy subsidy and compensation costs. The most widely used non-subsidized fuel, RON-92 Pertamax (around 7% of fuel consumption), which is favored by the middle class, was hiked by +32% on 10 June. Partial downward fuel price adjustments could however follow after the US-Iran interim peace deal.

Fig 7: Headline Inflation Climbed to +3.34% in June, Inching Closer to Upper Bound of BI Target Range



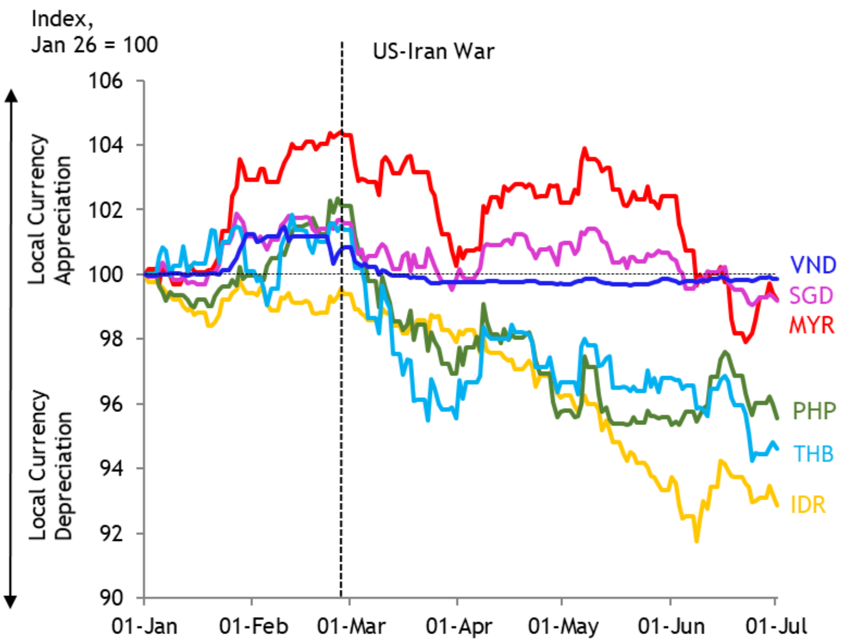
Source: BPS, CEIC

Fig 8: Subsidized Fuel Prices Unchanged, But Pertamax RON-92 Hiked By +32% on 10 June, Pertamina Dex Fell -14.7% on 1 July



Source: BPS, CEIC

Fig 9: Rupiah Has Been the Worst Performer among ASEAN-6 Peers, Depreciating -6.8% in the First Half of 2026



Snapshot as of 30 June 2026
Source: Bloomberg

Food (incl. food services) accounts for a hefty 33% of the consumer CPI basket. The price of imported agricultural commodities and raw ingredients, including soybeans, wheat, dairy products and meat has been rising amid climbing energy prices, transport costs and rupiah depreciation. Food, beverage & tobacco inflation rose to a four-month high of +4.9% in May, before easing slightly to +4.7% in June. An El Nino-fueled dry spell could raise food inflation in the second half of the year.

The rupiah has weakened by about -7% against the US dollar year-to-date. According to empirical studies, exchange rate pass-through (ERPT) to inflation stands at about 0.13 (i.e. 1% depreciation raises inflation by 0.13% with a lag[4].

[4] Hendar, "Inflation Mechanisms, Expectations and Monetary Policy in Indonesia", BIS Papers No 89, published November 2016.

Our FX team forecasts the USD/IDR to end the year at 17,800. They see potential stabilization in the USD/IDR over 2H 2026, but remain cautious of ongoing external risks. Measures including intensifying FX intervention, limiting conversions, raising SRBI yields, and hiking interest rates have stabilized the rupiah. There has so far been no downgrade in Indonesia's market status by MSCI, whilst policies like the commodity export super board have been relaxed. However, ongoing external factors, including the risk of increasing Fed hawkishness will continue to weigh on the rupiah and its emerging Asia peers.

Selective fiscal stimulus, funded by cuts to other expenditures will limit the downside but is unlikely to re-accelerate growth, given tight fiscal space. The government unveiled a modest Rp26.3tn (0.1% of GDP) stimulus package for the second half of 2026 mainly targeted at cushioning the purchasing power of lower-income households and supporting industries hard-hit by Gulf and currency pressures (petrochemicals, food manufacturing, aviation). The bulk of the package (Rp17.5tn) goes towards a three-month rice handout scheme for lower income families. The stimulus package was likely funded by a reallocation of the free meals budget.

The composition of the 2H 2026 stimulus package, being more focused on rice assistance and subsidies, could have a less direct impact on consumer spending than the cash handout-focused disbursements in 1Q 2026 and 4Q 2025. Scale of this stimulus package is modest at about 0.1% of GDP, paling in comparison to previous rounds. In comparison, for the first quarter of 2026, about Rp55tn (0.2% of GDP) in Eid holiday cash bonuses were given to over 10 million civil servants and retirees. In the second half of last year, Rp46.2tn (0.2% of GDP) of stimulus was disbursed in 4Q 2025 alone with Rp30tn of cash handouts to 35mn households.

Table 2: Government Unveiled Rp26.3tn (0.1% of GDP) Economic Stimulus for Second Half of 2026

Program	Fiscal Cost
Food assistance: 10kg sacks of rice per month to 33.24mn beneficiary families from July to September	Rp17.5tn
Food price stabilization: Government to assist tofu and tempeh producers at a maximum of Rp2,000 per kg for a total quota of 250k tons for regions where soybean prices are above the reference purchase price	Rp500bn
Transportation discounts: 30% discount for train tickets, Pelni ships from 20 June to 5 July (school holidays) and 22 Dec 2026 to 4 Jan 2027 (year-end holidays) 100% government-borne value-added tax for domestic economy flights over the same periods	Rp2tn
Incentives for industrial sector (petrochemical industry): Import duty exemption for LPG (prev: 5%) and plastic material imports (prev: 5% to 15% for polypropylene, polyethylene, LLDPE, HDPE etc) Incentives for aviation industry: Import duty exemption on aircraft spare parts	Rp500bn
Internship and vocational programs: New round of national internship program to begin in July 2026, open to 150k fresh university graduates Vocational training to improve skills in the workforce, targeting 220k vocational high school graduates and protection for 50k workers affected by layoffs	National internship program: Rp4.1tn Vocational training: Rp2.1tn
Cut royalty income tax for book writers to final rate of 1.5%	Not specified
Total Stimulus Package	**Rp26.3tn (0.1% of GDP)**

Source: Jakarta Globe, Compiled by Maybank IBG Research

Stable Trade Balance, Despite Commodity Tailwinds

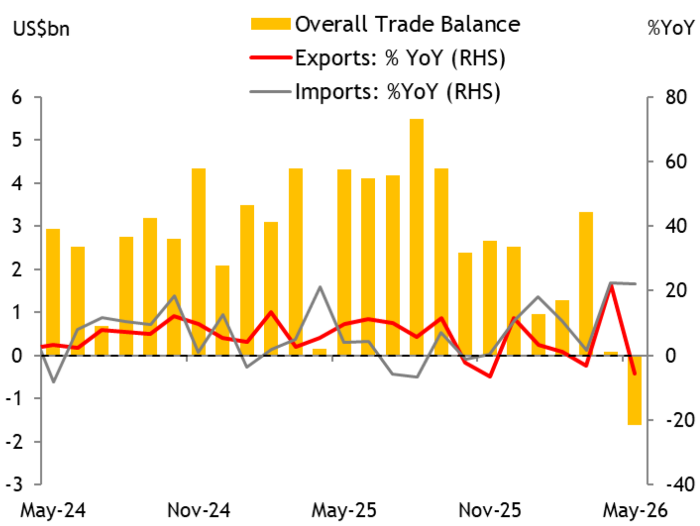
Commodity exporters will benefit from higher resource prices and a weaker rupiah, which boosts US-dollar denominated revenue in local currency terms. There are tailwinds that have raised demand for key commodity exports, including coal (alternative energy feedstock), nickel (higher ore benchmark price, halt on permit approvals for new smelters processing intermediate nickel products) and copper (AI boom). The government announced a relaxation of the coal mining RKAB annual quota, expressing willingness to boost production if prices remain attractive. Nickel ore production quota will be boosted according to the needs of domestic smelters.

Crude palm oil (CPO) prices have risen about +14% year-to-date, but there are multiple factors that could dampen exports. The upcoming shift to B50 biodiesel mandate from B40 may dampen exports in favor of domestic consumption, as the revised mandate requires an additional 3 to 4 million tons of palm oil annually. High fertilizer prices due to the Gulf conflict and El Nino-related dry weather may hurt crop yields and CPO output.

We expect the trade balance to remain stable in the second half. The current account deficit is expected to widen to 1% of GDP from 0.1% in 2025. While a trade deficit (-US$1.6bn) was registered in May for the first time since May 2020, a persistent trade deficit is not likely in 2H as the oil & gas deficit should narrow, given plunging energy prices that improve the terms of trade.

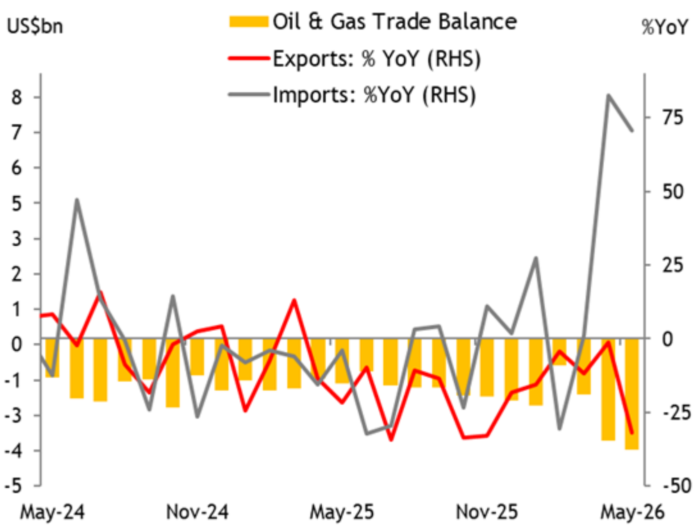
Overall exports will likely remain subdued. While there should be pockets of strength in some commodities, input cost pressures and supply disruptions are weighing on production and export of manufactured goods (account for approx. 53% of total exports, excl. processed commodities). The S&P manufacturing PMI reported that output dropped for a fourth month in June, by the most since April 2025.

Fig 10: Trade Balance (-US$1.6bn) Registered Deficit for 1st Time since Apr 2020, As Exports Fell -5.7% YoY in May



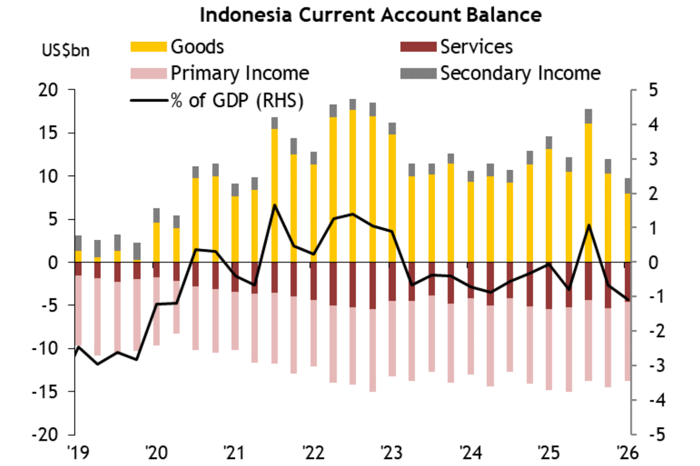
Source: BPS, CEIC

Fig 11: Oil & Gas Exports (-31.8%) Declined by the Most in 6 Months While Import Growth (+70.8%) Stayed Elevated



Source: BPS, CEIC

Fig 12: Current Account Deficit Widened to 1.1% of GDP in 1Q 2026 on Smaller Trade Surplus



Source: BI, CEIC

2. Tapering Policy Stimulus

The support from expansionary fiscal and monetary policy which supercharged first quarter growth is expected to dissipate, as government spending is cut and BI hikes its policy rate to defend the rupiah.

Government spending was frontloaded in the early part of 2026. In the first quarter, real government expenditure surged +21.8% YoY, driven by spending on the free meals program and village cooperatives. In addition, holiday bonuses for civil servants were disbursed entirely in 1Q 2026, rather than spread out across 1Q-2Q.

In the first 5 months of 2026, realized government spending (nominal) grew +34.4% year-on-year to Rp1365.4tn, accelerating from +31.4% in 1Q. However, government spending on fuel subsidies and energy compensation surged +208% to Rp203.7tn, implying that other forms of expenditure grew by a more moderate pace of +22.3% year-on-year.

State revenue growth (+19%) has been robust year-to-date, driven by higher tax revenues (+22.1%) which were led by value-added tax (+32.7%). Non-tax revenues rose +19.9% due to higher natural resources revenues (+15.4%).

The strong year-to-date fiscal revenue growth appears to be cyclical and partly attributed to a low base from the 1H2025 coretax hiccups, implying that revenue growth will likely slow in the second half alongside slower economic growth and consumption headwinds.

Table 3: Fiscal Realization as of May 2026

	2024	2025	2026				
			Realization (May 2026)			Budget	
IDR tn	Audited	Audited	Value	% of Budget	Growth (%)	Original Budget	Growth(% vs. actual 2025)
State Revenue	**2,851**	**2,756**	**1,185**	**37.6**	**+19.0**	**3,153.6**	**+14.4**
Tax Revenue	2,232	2,218	958.2	35.6	+18.9	2693.7	+21.5
Non-Tax Revenue	584	534	226.4	49.3	+19.9	459.2	-14.0
State Expenditure	**3,360**	**3,451**	**1,365.4**	**35.5**	**+34.4**	**3842.7**	**+11.3**
Central Government Expenditure	2,496	2,602	1,059.3	33.6	+52.6	3149.7	+21.0
Regional Transfer & Village Funds	864	849	306.1	44.2	-4.9	693	-18.4
Overall Balance	**-509**	**-695**	**-180.4**			**-689.1**	
% of GDP	**-2.3**	**-2.9**	**-0.7**			**-2.7**	
Financing	553.2	744	379.4			689.1	

Source: Ministry of Finance, CEIC

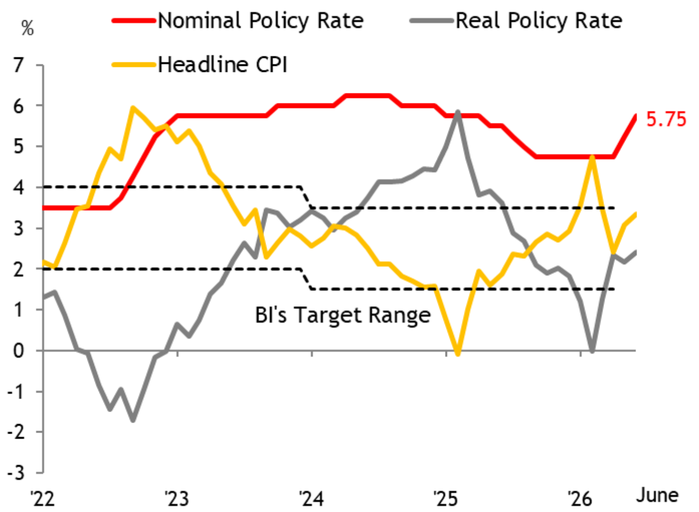
With revenue growth expected to slow in the second half, government spending will likely need to be reined in through selective cuts to avoid a breach of the 3% legal fiscal deficit limit. Selective cuts are already happening, through subsidized fuel rationing, fewer business trips, remote work and other efficiency measures for government officials. The fiscal austerity package announced in early April was estimated to save ~Rp130.2tn (0.5% of GDP). The most high profile budget cut has been to the free meals program, which was reduced to Rp268tn from the original outlay of Rp335tn for the full year. About Rp88tn had been disbursed for the program through May. Finance Minister Purbaya said on 26 June that the free meals budget will be trimmed further, possibly by around Rp40tn in 2026[5]. The number of recipients could be reduced to focus on students in remote areas[6].

A combination of selective budget cuts and off-budget financing sources should keep the fiscal deficit ratio at 2.9% of GDP, below the 3% legal limit (see *Indonesia Economics - Gulf War: Weathering Turbulence*, 20 Apr 2026 and *Indonesia Economics – A Health Check: Growth, Fiscal Deficit & Danantara*, 26 Mar 2025). For instance, fiscal discipline over the past three years has created a cash buffer (SAL) for the government which stood at Rp420tn (1.6% of GDP) in April. Some Rp300tn is parked at state-owned banks until end-December (which can be recalled if needed).

Monetary policy has rapidly pivoted to aggressive tightening. Bank Indonesia has hiked its policy rate by +100bps over May and June to stem rupiah depreciation and attract portfolio inflows with higher yields. With the Fed guiding for rate hikes later in the year and multiple regional/developed market central banks tightening monetary policy, a higher global interest rate environment could necessitate higher domestic interest rates to support foreign interest and capital inflows. We expect a further 25bps BI rate hike, bringing the policy rate to 6% by end-2026.

[5] The Straits Times, "Indonesia to cut spending further on free-meals scheme: Minister", 26 June 2026.
[6] Reuters, "Indonesia to halt free meals during school break, scale back programme scope", 19 June 2026.

Fig 13: BI Has Hiked its Policy Rate by 100bps Over 3 Meetings in May and June

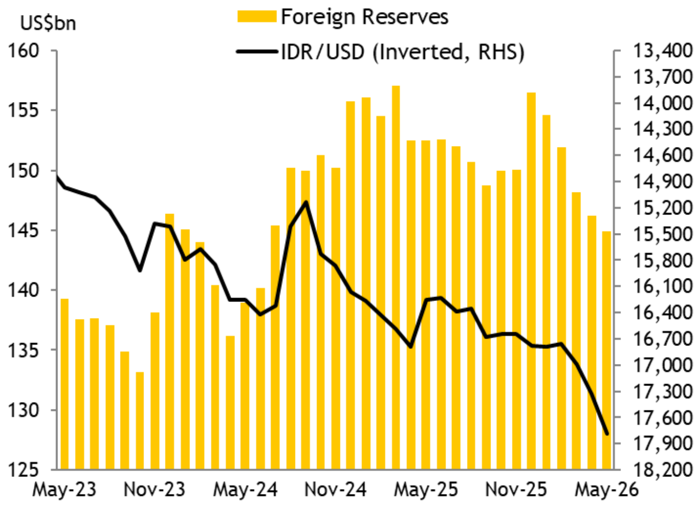


Source: BI, CEIC

Fig 14: SRBI Rates Stayed Elevated Above 7% in June 2026, Despite Slight Easing After Early-June Off-Cycle Hike

Snapshot as of 9 June 2026
Source: BI, CEIC

Fig 15: FX Reserves Post Longest Losing Streak since 2018, Falling to US$144.9bn in May from US$156.5tn in Dec 2025



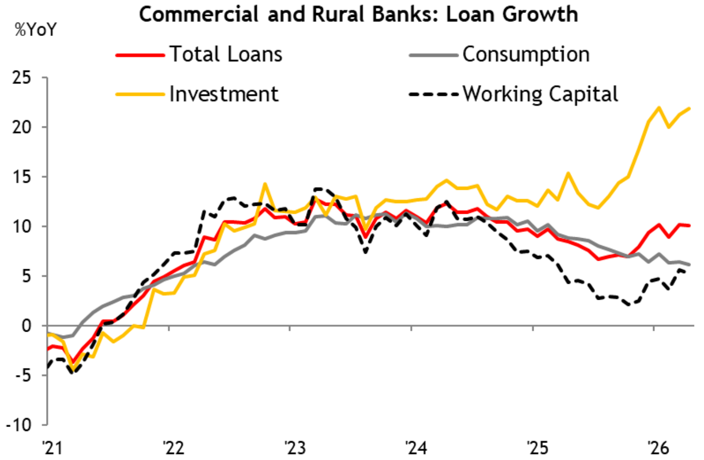
Source: BI, CEIC

Higher borrowing costs will weigh on firms and consumers already faced with inflationary pressures, even as aggregate loan growth could remain resilient, supported by government-related initiatives including village cooperative-related lending by state banks.

Loan growth improved to +11.5% in May from +10% in April, driven mainly by investment loans (+22%), fueled by construction and utilities/water supply. Consumer loan growth remains weak, slowing to +5.9% (Apr: +6.1%) and dragged down by car loans.

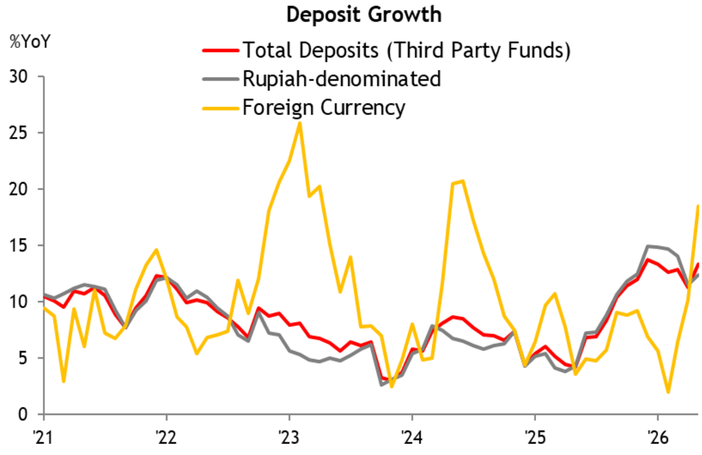
While deposit growth remained strong at +11.4% in April, our bank analysts see liquidity conditions tightening gradually as rising SRBI and government bond yields put pressure on deposit pricing (see *Indonesia Banks - Apr'26 growth stable*, 8 June 2026). They forecast loan growth of 8%-9% in 2026 (see *Indonesia Strategy - Policy in the driver's seat*, 1 July 2026).

Fig 16: Loan Growth Led by Investment Loans, While Consumer and Working Capital Loan Growth Remain Soft



Source: BI, CEIC

Fig 17: Deposit Growth Remained Robust at +11.4% in April



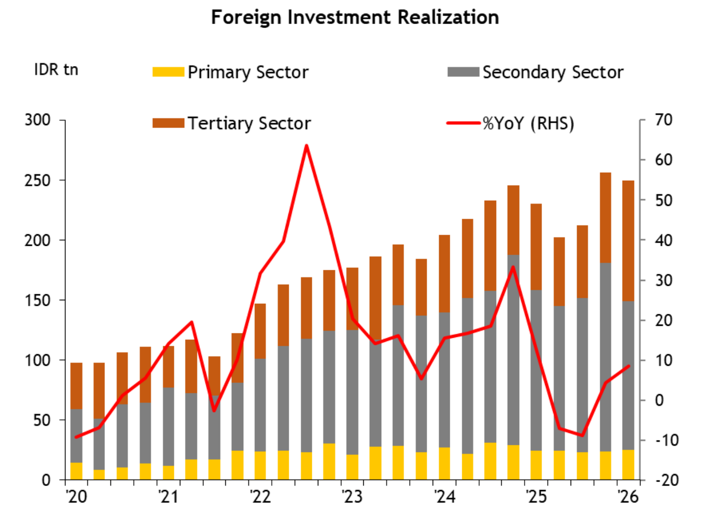
Source: Indonesia Deposit Insurance Corporation, CEIC

3. Regulatory Uncertainty Undermining Private Investment

We expect the investment outlook to be dampened by the evolving regulatory landscape, which has impacted business confidence. Danantara's capital expenditure program will help offset weaker private investment, but may not fully restore broader confidence.

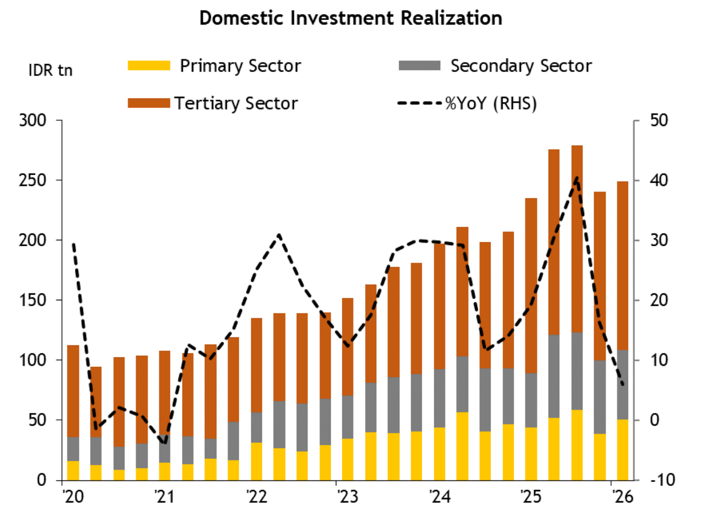
Investment growth remained robust in the first quarter, with real gross fixed capital formation growing +6% (4Q 2025: +6.1%). In value terms, FDI realization growth[7] improved to +8.5% (vs. +4.3% in 4Q 2025), after a -6% decline in 2025. Domestic investment realization grew +5.9% (vs. +16.2% in 4Q), led by the secondary sector.

Fig 18: FDI Realization Grew +8.5% in 1Q 2026 After -6% Decline in 2025



Source: Indonesia Investment Coordinating Board, CEIC

Fig 19: Domestic Investment Realization Growth Slowed to +5.9% in 1Q 2026 from +16.2% in 4Q 2025

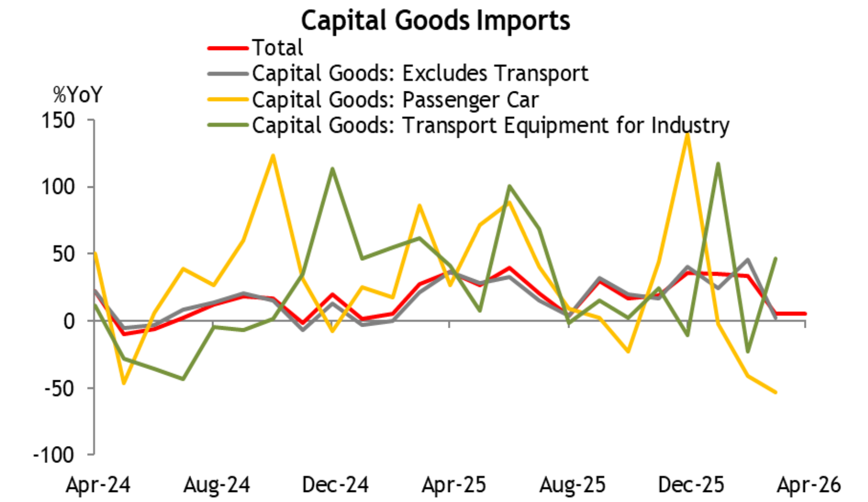


Source: Indonesia Investment Coordinating Board, CEIC

[7] Indonesia Investment Coordinating Board's measure of FDI realization excludes the upstream oil & gas and banking sectors.

A sharp slowdown in capital goods import growth over Mar-Apr may foreshadow cooling investment growth. Capital goods imports grew by +5.6% in April (Mar: +5%), the weakest prints since Aug 2025. Capital goods imports had maintained a double-digit growth pace from Mar 2025 to Feb 2026 (with the exception of August).

Fig 20: Capital Goods Import Growth Slowed to Around +5% in March and April, Weakest Since Aug 2025



Source: BPS, CEIC

Business confidence has been shaken by an uptick in regulatory uncertainty and state intervention.

These include the introduction of an export 'superboard' (Danantara Sumber Daya Indonesia) to tackle transfer underpricing, which was to become the sole exporter of coal, palm oil and ferronickel from January 2027; large-scale plantation land confiscations, which were largely transferred to state-owned palm oil company Agrinas; and an abrupt announcement in May that ride-hailing commissions taken by platforms like Grab/Goto would be capped at 8% (prev: 20%).

Foreign investors are closely monitoring developments, with the China Chamber of Commerce sending a strongly-worded "letter requesting improvement of the business environment." Main issues hampering foreign investment were highlighted, including mandatory FX retention requirements for natural resource exporters, reduced nickel ore quotas, forestry law enforcement, and increased scrutiny of work visas. Reportedly, Chinese companies are exploring alternative destinations for nickel supply chain investments, with Tsingshan and Lygend in talks with the Madagascar and Tanzania governments. These prospective investments would be each firm's first nickel ventures outside Indonesia[8]. In the manufacturing space, two major Japanese automotive component manufacturers operating in East Java are considering relocating part of their production to Vietnam as they see the country as more competitive for EV manufacturing.

The extent of the private investment slowdown is dependent on how the government resolves concerns on a weakening business environment, and whether progress is achieved by the new Deregulation taskforce in simplifying administrative procedures[9]. There have been some policy rollbacks and relaxations following mounting market concerns. These include relaxed production quotas for coal and nickel to restore investment certainty and the cancellation of a controversial profit-sharing scheme (gross split) in the mineral and coal mining sector. Our Jakarta research team met with DSI, who clarified that the new SOE

[8] The Straits Times, "Chinese investors behind Indonesia's nickel boom scout alternatives as policy changes bite", 5 Jun 2026.
[9] Antara, "Indonesia's deregulation push seen as key to boost investment", 18 May 2026.

export entity's default position is to act as a facilitator and clearing house, rather than as a direct seller or owner of Indonesia's strategic commodity exports (see *Indonesia Strategy - Key takeaways from meeting with DSI, the new SOE export entity*, 18 June 2026). A scale-back of controversial policies could sooth investor concerns.

Danantara's Rp202.4tn (US$11.3bn) capex plan should provide some support to fixed investments, cushioning weaker private investment. Danantara plans to invest across four priority projects spanning waste-to-energy (Rp84tn), agricultural commodities (Rp84tn), data centers (Rp21tn) and chemicals (caustic soda) (Rp13.4tn) (see *Indonesia Economics - Gulf War: Weathering Turbulence*, 20 Apr 2026). In February, Danantara broke ground on six phase-one downstreaming projects worth US$7bn, including two bauxite refining projects, sustainable aviation fuel, bioethanol, industrial salt and integrated poultry farming.

In terms of funding, Danantara's investment arm received an initial SOE dividend equity injection from BPI Danantara of Rp70tn (US$3.9bn) in 2025, with a further Rp50tn anticipated in 2026. External funding sources include the Rp68.4tn (US$3.8bn) raised through the first round of Patriot bonds (2% coupon) and a US$1bn (Rp18tn) three-year syndicated credit facility from regional and global banks. Some US$1.5bn (Rp27tn) was recently raised from a bond issuance to global investors, while another Patriot (2% coupon) and a new Merah Putih bond (3% coupon) is being rolled out. In April, President Prabowo signed a decree calling for the establishment of a new investment arm "for national development and public services that have social and economic impact" at Danantara, which could request funds from the state budget[10].

Wildcards: Capital Outflows, MSCI Downgrade

Capital outflows risk intensifying in the event of abrupt policy moves and any unexpected sovereign rating or MSCI downgrade, which would undermine the balance of payments, rupiah and capital expenditures. State-centric economic nationalism risks bringing about unexpected policy interventions.

The scope and authority of commodity export superbody (DSI) from 1 Jan 2027 remains unclear given that a detailed regulation (#24/2026) affirming wide-ranging authority has already been issued. The regulation stipulates that the new agency will take control of coal, CPO and ferronickel exports from 1 Jan 2027 and set the prices that producers will receive. This comes despite several Danantara officials indicating that the agency's scope may be scaled back.

S&P's review on Indonesia's sovereign credit rating is historically conducted around July. S&P is the only of the big-three rating agencies that continues to maintain its BBB sovereign rating with a Stable outlook, with Moody's and Fitch having revised Indonesia's rating outlook to Negative earlier in the year. However, S&P has publicly highlighted concerns surrounding rising fiscal pressures, increasing debt-servicing costs, and policy uncertainty, suggesting that it is closely monitoring developments in Indonesia's fiscal and institutional framework. A Negative outlook revision would reinforce market concerns regarding policy credibility and fiscal discipline.

At its next Index Review in November 2026, MSCI is expected to assess the effectiveness and implementation of recently implemented stock market reforms to improve transparency and disclosure of high shareholding concentration. Since end-January, MSCI has imposed a freeze on index additions and upward size-segment migrations for Indonesian securities. The risk is that MSCI may initiate a

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[10] Reuters, "Indonesia issues presidential decree for Danantara development fund", 1 June 2026.

formal Emerging Market-to-Frontier Market reclassification consultation if sufficient progress is not evident, which would materially increase market uncertainty and raise the prospect of further foreign outflows. MSCI's current weight in the Emerging Markets Index is less than 0.5%, which would be reduced to zero over a transition period after a downgrade decision.

Our equity team believes that the probability of a downgrade remains relatively low, supported by the tangible progress already made by regulators and the willingness of OJK, IDX, and KSEI to address MSCI's concerns (see *Indonesia Strategy – MSCI keeps Indonesia in EM, but no all-clear yet*, 24 June 2026).

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SELL	Return is expected to be below 0% in the next 12 months (including dividends)

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The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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