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Indonesia

Higher inflation, disappointing trade data

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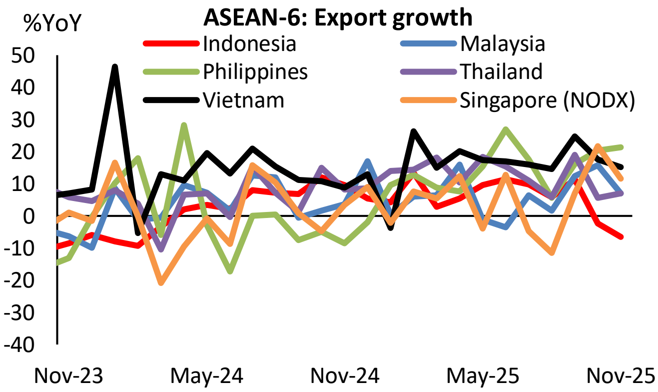
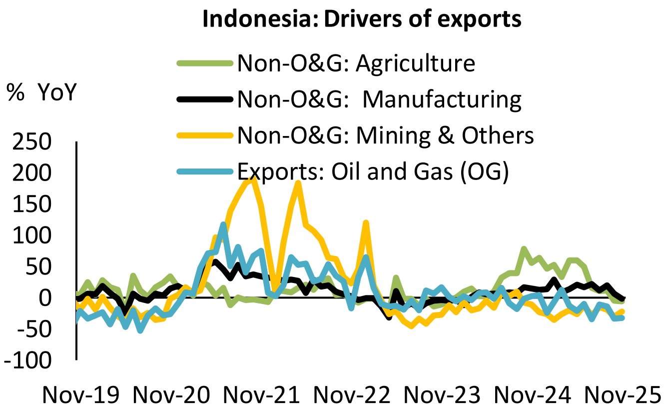
- December headline inflation picked up to 2.9% YoY, within BI's 1.5-3.5% target range, from 2.7% in November but underscored some stickiness in food prices.
- On the external front, exports contracted by 6.6% YoY in November significantly underperforming regional peers. Import growth also remained weak at +0.5% YoY in November (Oct: -1.2%). The trade surplus widened to USD2.7bn from USD2.4bn in October.
- The data mix underscores the challenges for Bank Indonesia - limited export support, mixed domestic demand conditions, still weak credit growth against a backdrop of some stickiness in inflation and IDR depreciation pressures. We believe BI will need to be opportunistic in finding a sweet spot to cut rates this year.

Disappointing November trade data

The trade data for November disappointed. Exports contracted by 6.6% YoY in November (Consensus: -1.9%; OCBC: -6.1%) significantly underperforming regional peers, registering contractions in exports for October and November 2025. The drivers of the weakness were broad-based across oil and gas and non-oil & gas exports. Non-oil & gas exports contracted by 5.1%YoY in November following a contraction of 0.5% in October. Within this, exports across agriculture, manufacturing and mining contracted sharply in November versus October. Oil and gas exports remained weak at -32.9% YoY in November versus -30.9% in October.



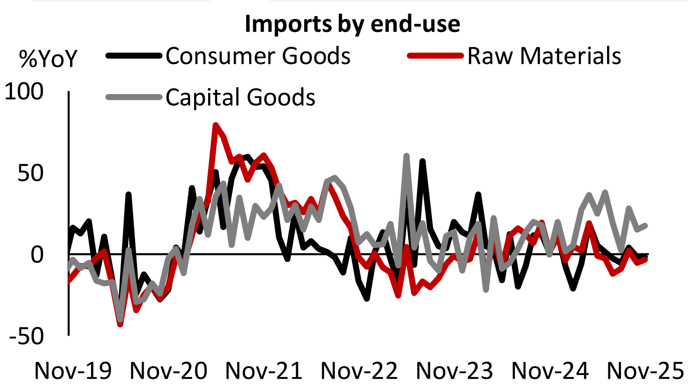
Source: CEIC; OCBC.



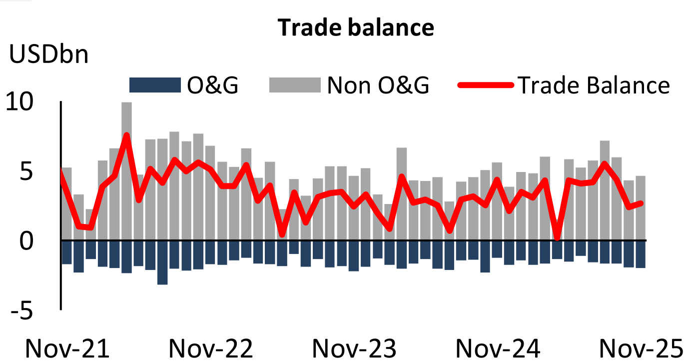
Source: Statistics Indonesia (BPS), OCBC.

Import growth picked up modestly to 0.5% YoY in November versus -1.2% in October, albeit remaining anaemic. Non-oil and gas import growth fell to -1.1% YoY from 3.3% in October while oil and gas import growth was higher at 11.2% YoY versus -23.3% in October. By end-use, consumer goods (-1.8% YoY versus -1.9% in October) and raw materials (-3.6% YoY from -5.2% in October) remained weak while capital goods imports rose by 17.3% in November from 15.2% in October.

The trade surplus widened to USD2.7bn in November from USD2.4bn in October. The oil and gas trade deficit widened slightly to USD2.0bn from USD1.9bn while the non oil & gas trade surplus widened to USD4.6bn from USD4.3bn in October.



Source: Statistics Indonesia (BPS), CEIC, OCBC.

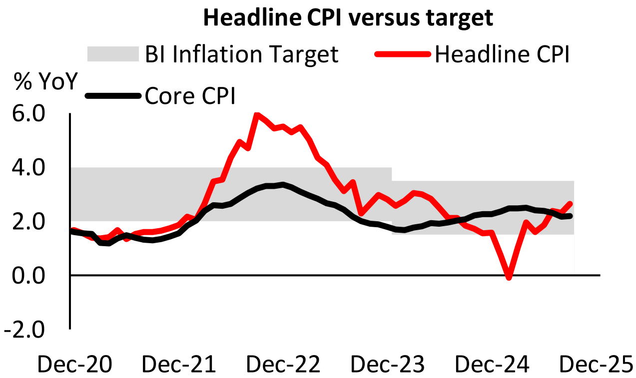


Source: Statistics Indonesia (BPS), CEIC, OCBC.

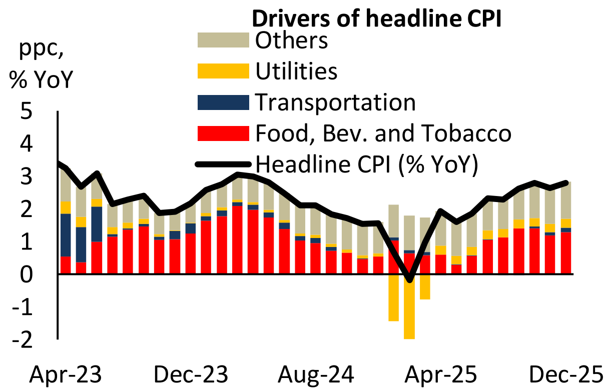
Sticky inflationary pressures

Meanwhile, headline CPI picked up to 2.9% YoY in December from 2.7% in November. This is still within BI's 1.5-3.5% inflation target range. Core inflation was unchanged at 2.4% YoY in December. For full year 2025, headline CPI averaged 1.9%.

The uptick in December headline CPI was mainly driven by food (4.6% YoY from 4.2% in November) and transportation (1.2% from 0.7% in November). The flooding in late 2025 most impacted Aceh, North Sumatra and West Sumatra, regions which witnessed higher inflation in December. These regions accounted for ~16% of total agriculture production from 1Q-3Q25. Meanwhile, the CPI reading for the utilities (1.6%) and dining-out (1.5%) categories were stable while healthcare (1.8% from 2.1% in November) and education (1.2% from 1.3%) CPI eased in December.



Source: BPS, Bank Indonesia, CEIC, OCBC.



Source: BPS, CEIC, OCBC.

Looking ahead, we expect headline CPI to average 2.7% YoY in 2026 implying higher inflation in the coming months. The low base in 1Q25 and the stickiness in food prices we expect will be persistent into early 2026 will likely push headline inflation higher in 1Q26 before moderating for the rest of the year.

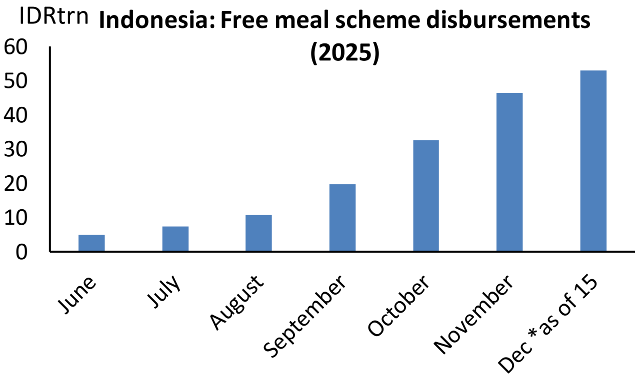
Fiscal policies will likely be growth supportive in early 2026

Fiscal policy will likely remain focused on social priorities but could provide a near-term boost from recent policy adjustments. The disbursement rate for the free meal scheme reached 74.6% as of 15 December, following slower absorption rates in June through August 2025.

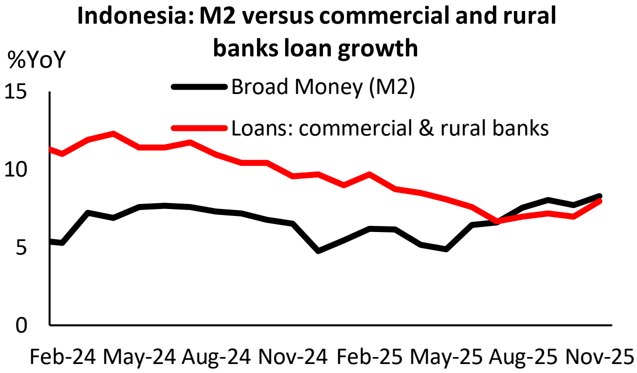
More importantly, the flooding in the regions of Aceh, West Sumatra and North Sumatra destroyed lives and livelihoods and requires more urgent attention. The government has allocated IDR60trn in reconstruction efforts for the region. We expect the impact of these efforts, through higher government spending, will likely materialise in early 2026. In addition, Finance Minister Purbaya Yudhi Sadewa noted that the placement of funds in state banks was "not as optimal as expected"[1]. This is underscored by modest improvements in

[1] Indonesia to Divert 75t Rupiah Placement for State Banks (1), 31 December 2025, Bloomberg.

M2 growth but a limited impact on credit growth. The finance minister noted that IDR75trn will be diverted from placements to state owned banks to regional transfers and government spending. This could give fiscal spending some additional room to support growth in early 2026.



Source: Indonesia Ministry of Finance; OCBC.



Source: CEIC; OCBC.

Separately, the government will further tighten FX requirements on export proceeds from commodity exporters. Exporters can only convert 50% of repatriated funds into IDR (versus no limit earlier) and proceeds must be placed in state owned banks (versus private banks previously). These regulations became effective 1 January 2026. The aim of this regulation is to bolster USD onshore. The government has been tweaking its policy on export proceeds from natural resources since early 2019. The impact on USD liquidity and FX reserves over these periods is not obvious.

Data mix remains challenging for Bank Indonesia

The data mix underscores the challenges for BI. One the one hand, economic growth remains on the back foot on account of limited support from exports, mixed domestic demand conditions and still weak credit growth. November credit growth improved to 7.7% YoY from 7.4% in October but is still well below BI's 8-11% target range. On the other hand, the stickiness in headline inflation and volatile capital flows implies that BI will continue to prioritise IDR depreciation risks.

BI will need to be opportunistic in finding a sweet spot to cut rates this year. BI noted it will still look for room to lower the policy rate at its 17 December meeting. Our baseline is for BI to deliver a cumulative 50bp in rate cuts in the current easing cycle. However, we will continue to assess whether BI has the room to deliver these cuts, which will likely need to be spaced out throughout the year.

Changes in government regulations relating to commodity export earnings

Effective Date	10-Jan-19	01-Aug-23	01-Mar-25	01-Jan-26
Repatriation requirements	Mandated exporters of natural-resource sectors (mining, plantations, forestry, and fishery) to repatriate forex export earnings to Indonesia	Mandated exporters of natural-resources sector to repatriate forex export earnings to Indonesia and keep 30% of its proceeds onshore for a minimum period of three months - applicable to export proceeds with a minimum of USD 250k or equivalent	Mandated exporters of natural-resources sector to repatriate 100% of their export earnings within Indonesia's financial system for at least one year, targeting exports valued at USD250k or more	Exporters can convert only 50% of repatriated funds into IDR; remaining will stay in foreign currency (mostly USD)
Mechanism	Export proceeds must be deposited in the Special Account no longer than three months after the filing of relevant customs export notification (Pemberitahuan Pabean Ekspor - PPE)	Export proceeds must be deposited in the Special Account no longer than three months after the filing of relevant customs export notification (Pemberitahuan Pabean Ekspor - PPE).	Exporters are allowed to use the retained funds for specific purposes, including converting to IDR at the same foreign exchange bank, payments in foreign currency for tax and non-tax state revenue, distributing dividends in foreign currency, procuring raw materials and capital goods, and repaying foreign currency loans	The government will require many natural-resource companies to deposit their export earnings solely in state-owned banks
		Export proceeds can also be placed in (1) banking instruments, (2) financial instruments issued by Indonesia's Eximbank, and (3) instruments issued by Bank Indonesia include TD Valas	BI broadened the range of available instruments to include placements in SVBI and SUVBI instruments with tenors of up to 12 months	The government plans to issue foreign currency-denominated bonds as an additional instrument for placing export proceeds. State-owned banks and exporters would be able to purchase the bonds for a minimum of USD1mn and receive tax benefits

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