

Macroeconomic Monitor June 2026

Emerging Markets Currency Under Pressure, Threatening Inflation and Growth

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HIGHLIGHTS

June 2026

United States (US)

The US economy remained resilient through May 2026, although momentum was increasingly uneven across sectors. Real GDP expanded by 1.6% QoQ annualized in Q1 2026 and 2.6% YoY in Q1 2026, supported by exports, private investment, consumer spending, and government expenditure. However, the second estimate was revised down from 2.0%, mainly due to weaker investment and consumer spending. Real final sales to private domestic purchasers rose 2.4% QoQ annualized in Q1 2026, implying that underlying private demand remained constructive.

High-frequency indicators in May 2026 pointed to continued activity, but with mixed sectoral quality. Manufacturing improved, with the ISM Manufacturing PMI rising to 54.0 in May 2026, supported by stronger business activity and new orders. Retail sales also remained firm, rising 0.9% MoM and 6.9% YoY in May 2026, indicating that household spending continued to support growth despite elevated prices.

The main constraint are the inflation and policy restrictiveness. Headline CPI accelerated to 4.2% YoY in May 2026, while core CPI rose 2.9% YoY in May 2026. Labor conditions stayed resilient, with nonfarm payrolls increasing by 172,000 in May 2026 and unemployment unchanged at 4.3%. Against this backdrop, the Federal Reserve kept the federal funds rate at 3.50%–3.75% in June 2026. Externally,

the trade deficit narrowed slightly to USD55.9bn in April 2026, as exports increased more than imports.

Euro Area

The Euro Area economy remained fragile in May 2026, reflecting a combination of weak growth momentum, renewed inflationary pressure, and persistent external headwinds. Real GDP contracted by 0.2% QoQ in Q1 2026, reversing the 0.2% QoQ expansion in Q4 2025, while annual growth slowed to 0.3% YoY in Q1 2026. The downturn was mainly driven by weaker external trade and investment, as domestic demand remained only modestly supportive.

High-frequency indicators also pointed to subdued activity. Retail sales declined by 0.4% MoM in April 2026, despite increasing by 1.0% YoY in April 2026, implying that household spending momentum weakened as higher energy prices pressured real purchasing power. Industrial production increased only 0.1% MoM in April 2026 and 0.3% YoY in April 2026, indicating tentative stabilization but no meaningful recovery in manufacturing. The external position also deteriorated, with the goods trade balance shifting to a EUR1.0bn deficit in April 2026 as imports rose faster than exports.

Inflation remained the key macro constraint. Euro Area annual inflation increased to 3.2% YoY in May 2026 from 3.0% YoY in April 2026, driven mainly by energy and services. Against this backdrop, the ECB raised its policy rates by 25 bps in June 2026,

bringing the deposit facility rate to 2.25%. Overall, the Euro Area faced a stagflationary policy mix: weak activity, persistent cost pressures, and limited room for monetary accommodation.

China

China's economy remained uneven in May 2026, with supply-side activity holding up better than domestic demand. The official manufacturing PMI eased to 50.0 in May 2026 from 50.3 in April 2026, signaling a return to the neutral threshold, while the private RatingDog/S&P Global Manufacturing PMI moderated to 51.8 in May 2026 from 52.2 in April 2026. Industrial output rose 4.5% YoY in May 2026, indicating continued resilience in production, particularly in export-linked and higher-technology segments.

Domestic demand, however, is still the main weak point. Retail sales declined 0.6% YoY in May 2026, reversing the 0.2% YoY increase in April 2026 and marking the first contraction since late 2022. Inflation dynamics also reflected this imbalance. CPI increased only 1.2% YoY in May 2026, unchanged from April 2026, while PPI rose 3.9% YoY in May 2026, highlighting stronger upstream cost pressure relative to consumer demand.

Labor-market conditions were broadly stable, with the surveyed urban unemployment rate declining to 5.1% in May 2026 from 5.2% in April 2026. Monetary policy also remained accommodative but cautious, as the PBoC kept the one-year rate unchanged at 3.00% in May 2026 and the five-year rate unchanged at 3.50% in May 2026. Overall, China's May 2026 data point to a K-shaped recovery: resilient production and selected services, but weak household spending and persistent property-related drag.

Indonesia

Indonesia's economy faced increasing headwinds in May 2026 as external cost pressures, rupiah depreciation, and weakening domestic demand indicators began to weigh more visibly on economic activity and financial market conditions. Inflation rebounded to 3.08% YoY in May from 2.42% YoY in April, driven by a broad-based pickup across volatile food, core, and administered price components. While headline inflation is still within Bank Indonesia's target range of 2.5%±1%, the acceleration implies that underlying price pressures remain present despite the temporary moderation recorded in April. Rising food prices, exchange-rate pass-through effects on imported goods, and higher energy-related costs are likely to keep inflation risks elevated in the coming months.

On the demand side, indicators pointed to a gradual loss of momentum. Retail sales contracted by 3.6% YoY in April, while consumer confidence declined to 120.9 in May from 123.0 in April, marking its second consecutive monthly decline and implying households are becoming more cautious amid rising living costs and heightened uncertainty. Manufacturing activity also remained fragile. Although the PMI improved to 50.0 in May from 49.1 in April, signaling a return to the neutral threshold, underlying conditions remained weak as output contracted for a third consecutive month, export orders recorded their steepest decline since August 2021, and input cost pressures stayed elevated. Taken together, these indicators suggest that domestic demand and production activity are losing momentum despite the economy's continued resilience.

External sector conditions also weakened during the period. The trade surplus narrowed sharply to USD89 million in April 2026, the smallest monthly surplus since May 2020, as elevated global energy

prices drove a surge in oil and gas imports. As a result, Indonesia's external buffer was significantly reduced compared with previous months. Meanwhile, the rupiah remained under sustained depreciation pressure through May and early June, reaching around IDR18,178 per US dollar on 8 June amid heightened global risk aversion, continued portfolio outflows, and a widening current account deficit of 1.09% of GDP in Q1 2026. Foreign exchange reserves declined further to USD144.9 billion in May 2026, extending their downward trend and highlighting the increasing challenges facing external stability.

In response to mounting exchange-rate pressures and rising external vulnerabilities, Bank Indonesia delivered two consecutive policy rate increases in June 2026, raising the BI Rate by a cumulative 50 basis points to 5.75%. The tightening cycle was accompanied by a broader package of measures, including higher SRBI yields, lower hedging costs for foreign investors, and intensified foreign exchange market intervention. As a result, cumulative policy rate increases since the beginning of 2026 reached 100 basis points, underscoring the central bank's growing focus on preserving exchange-rate stability and containing imported inflation risks amid heightened global uncertainty. Overall, while Indonesia's macroeconomic fundamentals remain relatively resilient, weakening domestic demand, persistent inflation pressures, and rising external vulnerabilities imply that the economic outlook has become more challenging and increasingly dependent on policy credibility and macroeconomic stability.



**RECENT
ECONOMIC
DEVELOPMENTS:
GLOBAL
MARKETS**

Recent Economic Developments: Global Markets

United States

MANUFACTURING SECTOR

US manufacturing momentum strengthened further in May 2026, with the S&P Global U.S. Manufacturing PMI rising to 55.1 from 54.5 in April 2026, the strongest reading since May 2022 and the tenth consecutive month above the 50 (expansion threshold). The improvement was mainly driven by faster output growth, which reached the strongest pace since April 2022, while new orders still robust despite moderating from April's pace. Inventory accumulation also continued, suggesting firms were still front-loading purchases to protect against potential price increases and supply-chain delays.

While S&P surveys a broader, smaller-firm mix of companies and is internationally comparable, ISM specifically surveys purchasing executives at larger US corporations, historically carrying more weight with the Federal Reserve. The ISM Manufacturing PMI reinforced the same signal, increasing to 54.0 in May 2026 from 52.7 in April 2026, marking a fifth straight month of expansion. However, the quality of growth remains mixed: employment stayed in contraction, supplier deliveries remained slow, and prices remained elevated despite easing from April 2026. Overall, May 2026 PMI data point to firmer factory activity, but with demand partly supported by precautionary stock building and persistent cost-push risks.

SERVICES SECTOR

US services activity remained in expansion territory in May 2026, although the signal was more mixed than in manufacturing. The S&P Global U.S. Services PMI edged down to 50.7 from 50.9 in April 2026, implying only marginal growth in business activity as elevated prices and uncertainty continued to restrain discretionary demand. The modest reading indicates that the service sector remains resilient, but momentum is not yet broad-based.

The latest data suggests that the broader economy remains relatively resilient against external shocks, supported by continued strength in service-oriented sectors. However, elevated energy costs are increasingly becoming a source of pressure for transportation, logistics, and other energy-intensive industries.

GDP GROWTH

US real GDP expanded by 1.6% annualized quarter-on-quarter (QoQ) in Q1 2026, improving from 0.5% in Q4 2025. On a year-on-year basis, real GDP increased by approximately 2.6% (YoY), indicating that the economy continued to expand at a moderate pace despite some sequential loss of momentum.

The largest positive contribution came from exports, which rose 13.1% QoQ annualized and added around 1.34 percentage points to headline GDP growth. Gross private domestic investment was also a key driver, rising 7.0% and contributing 1.19 percentage

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points, supported by strong non-residential fixed investment. Within business investment, equipment spending remained particularly strong, increasing 17.2%, while intellectual property products rose 11.6%. Consumer spending grew more modestly at 1.4%, contributing 0.95 percentage points, while government spending increased 4.4%.

INFLATION

US inflation accelerated further in May 2026, with headline CPI rising 0.5% MoM on a seasonally adjusted basis after increasing 0.6% MoM in April 2026. On an annual basis, headline inflation rose to 4.2% YoY in May 2026 from 3.8% YoY in April 2026, indicating that price pressures remained elevated despite restrictive monetary conditions.

The May 2026 increase was primarily driven by energy prices, which rose 3.9% MoM and accounted for more than 60% of the monthly headline CPI increase. Within energy, gasoline prices increased 7.0% MoM in May 2026 and were 40.5% higher YoY in May 2026, underscoring the continued pass-through from higher global oil prices. Food inflation was more contained, rising 0.2% MoM in May 2026, while food prices increased 3.1% YoY in May 2026.

Core CPI, which excludes food and energy, increased 0.2% MoM in May 2026, easing from 0.4% MoM in April 2026. However, core inflation still edged higher to 2.9% YoY in May 2026 from 2.8% YoY in April 2026, suggesting that underlying price pressures remain sticky, particularly across shelter and selected services categories.

RETAIL SALES

US retail sales strengthened in May 2026, with advance retail and food services sales rising 0.9% MoM to USD763.7bn, following a revised 0.4% MoM increase in April 2026. On an annual basis, sales increased 6.9% YoY in May 2026, indicating that household spending remained resilient despite

elevated borrowing costs and persistent price pressures.

The improvement was led by retail trade sales, which rose 1.0% MoM and 7.5% YoY in May 2026. Gasoline station sales increased sharply, reflecting higher fuel prices, while nonstore retailers rose 12.2% YoY in May 2026, confirming continued strength in online spending. Food services and drinking places grew 2.7% YoY in May 2026, but momentum was softer relative to goods-related spending. Overall, the May 2026 data imply consumption remained a key support to U.S. growth, although part of the nominal increase reflected price effects.

LABOR MARKET

The US labor market remained resilient in May 2026, with nonfarm payrolls increasing by 172,000, broadly in line with the revised 179,000 gain in April 2026. Job creation was led by leisure and hospitality, which added 70,000 jobs in May 2026, followed by local government at 55,000 and health care at 35,000. However, financial activities employment declined by 22,000 in May 2026, indicating uneven sectoral momentum.

The unemployment rate was unchanged at 4.3% in May 2026, remaining within the 4.3%–4.5% range observed since July 2025, while the number of unemployed people was stable at 7.3 million in May 2026. Separately, the latest JOLTS data showed job openings rising to 7.6 million in April 2026 from 6.9 million in March 2026, although hires declined to 5.1 million in April 2026, implying firms remain cautious in converting openings into actual employment.

MONETARY POLICY

The Federal Reserve kept the federal funds rate unchanged at 3.50%–3.75% in June 2026, maintaining the same policy range adopted in previous meetings. The decision was approved unanimously by a 12–0 vote, indicating a more

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consolidated policy stance compared with the April 2026 meeting, when several officials dissented over the policy bias. The Fed also reaffirmed its commitment to maintaining ample reserves in the banking system.

The policy tone is consistently cautious but still restrictive. The Fed noted in June 2026 that economic activity was expanding at a solid pace, supported by strong productivity growth and capital investment, while unemployment was little changed. However, inflation remained above the 2% target, partly due to supply shocks and higher energy prices. The June 2026 dot plot showed the median federal funds rate projection at 3.8% by end-2026, implying limited scope for near-term easing.

BALANCE OF TRADE

The US trade deficit narrowed modestly in April 2026, with the goods and services deficit declining to USD55.9bn from a revised USD56.6bn in March 2026. The improvement reflected stronger export momentum, as exports rose by USD8.3bn to USD327.1bn in April 2026, outpacing the USD7.6bn increase in imports to USD383.0bn in April 2026.

The composition was mixed. The goods deficit narrowed to USD83.7bn in April 2026 from March 2026, supported by higher goods exports, particularly capital goods and energy-related products. However, the services surplus declined to USD27.8bn in April 2026, offsetting the improvement in goods trade. Overall, the April 2026 data suggest that external demand provided some support, but elevated import levels continued to reflect resilient domestic demand and a wide trade gap.

The US economy remained resilient, supported by solid consumer spending and positive labor demand. However, the growth backdrop remained constrained by renewed inflation pressure, reinforcing the case for a cautious and restrictive monetary policy stance.

Euro Area

GDP GROWTH

Euro Area real GDP contracted by 0.2% QoQ in Q1 2026, reversing the 0.2% QoQ expansion recorded in Q4 2025. On a year-on-year basis, growth slowed sharply to 0.3% YoY in Q1 2026 from 1.2% YoY in Q4 2025, indicating a material loss of momentum across the bloc.

The composition implies that domestic demand remained modestly supportive but insufficient to offset external weakness. Household final consumption rose 0.2% QoQ in Q1 2026 and 1.1% YoY in Q1 2026, while government consumption increased 0.5% QoQ in Q1 2026 and 2.3% YoY in Q1 2026. Both components contributed positively to quarterly GDP growth, adding 0.1 percentage point each in Q1 2026.

The main drag came from external trade, with exports declining 0.2% QoQ in Q1 2026 while imports increased 0.5% QoQ in Q1 2026. As a result, net exports subtracted 0.3 percentage point from QoQ GDP growth in Q1 2026. Investment also weakened, with gross fixed capital formation falling 0.3% QoQ in Q1 2026 and contributing -0.1 percentage point.

MACROECONOMIC MONITOR

Overall, Q1 2026 GDP points to a fragile Euro Area growth backdrop, driven by soft external demand, weaker investment, and only moderate household spending.

INFLATION RATE

Euro Area inflation accelerated in May 2026, with annual HICP inflation rising to 3.2% YoY in May 2026 from 3.0% YoY in April 2026. The increase implies that price pressures remained elevated, reflecting the continued impact of higher energy costs and firmer services inflation across the region.

Energy remained the largest source of inflation pressure, with energy inflation at 10.8% YoY in May 2026, broadly stable compared with April 2026. Services inflation also picked up to 3.5% YoY in May 2026 from 3.0% YoY in April 2026, indicating that second-round effects from higher operating costs may be filtering into more persistent categories.

By contrast, food, alcohol, and tobacco inflation eased to 1.9% YoY in May 2026 from 2.4% YoY in April 2026, while non-energy industrial goods inflation edged up modestly to 0.9% YoY in May 2026 from 0.8% YoY in April 2026. Overall, the May 2026 data point to an inflation backdrop driven less by food prices and more by energy and services.

RETAIL SALES

Euro Area retail sales softened in April 2026, with the seasonally adjusted retail trade volume declining by 0.4% MoM after increasing by 0.8% MoM in March 2026. On an annual basis, retail sales still rose by 1.0% YoY in April 2026, but this marked a moderation from 2.1% YoY in March 2026, suggesting weaker household spending momentum at the start of Q2 2026.

The April 2026 decline was mainly driven by weaker non-food and fuel-related spending. Non-food products excluding automotive fuel fell by 0.9%

MoM in April 2026, while automotive fuel sales dropped by 2.7% MoM, likely reflecting pressure from higher energy costs. Food, drinks, and tobacco sales increased by 0.9% MoM in April 2026, providing a partial offset. Overall, the data point to subdued consumption demand, with spending resilience concentrated in essential categories.

INDUSTRIAL PRODUCTION

Euro Area industrial production remained weak in April 2026, rising only 0.1% MoM after a 0.4% MoM increase in March 2026. On an annual basis, industrial output increased by 0.3% YoY in April 2026, improving from the 2.1% YoY contraction recorded in March 2026, but still pointing to a fragile manufacturing recovery.

The April 2026 increase was supported by non-durable consumer goods, which rose 1.7% MoM, durable consumer goods, which increased 1.0% MoM, and intermediate goods, which grew 0.8% MoM. However, the recovery was constrained by weaker capital goods, which declined 0.5% MoM, and energy production, which fell 0.4% MoM. Overall, the data imply that Euro Area industry is stabilizing, but the rebound remains shallow and vulnerable to high energy costs, weak external demand, and cautious investment activity.

BALANCE OF TRADE

The Euro Area trade balance deteriorated in April 2026, shifting to a EUR1.0bn goods trade deficit from a EUR4.9bn surplus in March 2026 and a EUR8.7bn surplus in April 2025. Exports increased to EUR255.4bn in April 2026, rising 5.0% YoY, but this was outpaced by imports, which rose 9.3% YoY to EUR256.4bn in April 2026.

The deterioration was driven by a wider energy deficit and a smaller surplus in machinery and vehicles, highlighting the pressure from higher import costs and softer external trade performance.

China

MANUFACTURING

China's manufacturing momentum softened in May 2026, with the official NBS Manufacturing PMI declining to 50.0 in May 2026 from 50.3 in April 2026, returning to the neutral threshold between expansion and contraction. The moderation reflected weaker demand conditions, as the new orders index fell to 49.9 in May 2026 from 50.6 in April 2026, while new export orders declined to 48.6 in May 2026 from 50.3 in April 2026. Production is still expansionary but also eased, with the production index slipping to 51.2 in May 2026 from 51.5 in April 2026.

The private RatingDog/S&P Global Manufacturing PMI gave a somewhat firmer signal, remaining in expansion at 51.8 in May 2026, although lower than 52.2 in April 2026. The divergence implies that export-oriented and private-sector manufacturers remained relatively resilient, while the broader official survey pointed to weaker demand among medium and small firms. Overall, the May 2026 PMI data indicate that China's manufacturing sector remained stable but increasingly vulnerable to softer external demand and lingering cost pressures.

INFLATION RATE

China's consumer inflation remained moderate in May 2026, with CPI rising 1.2% YoY in May 2026, unchanged from April 2026. On a monthly basis, CPI declined 0.1% MoM in May 2026, suggesting that underlying consumer demand remained soft despite higher cost pressures in selected categories. Core CPI, excluding food and energy, increased 1.1% YoY in May 2026, pointing to still-contained underlying price momentum.

On a seasonally adjusted basis, the picture was less negative, with the Euro Area recording a EUR1.3bn surplus in April 2026, up from EUR0.6bn in March 2026, as exports rose 3.2% MoM and imports increased 2.9% MoM.

MONETARY POLICY

The European Central Bank (ECB) raised its three key policy rates by 25 bps in June 2026, marking a shift toward a more restrictive stance as inflation risks re-intensified. Effective 17 June 2026, the deposit facility rate increased to 2.25%, the main refinancing operations rate to 2.40%, and the marginal lending facility rate to 2.65%.

The decision was driven by renewed inflation pressure from the Middle East conflict and higher energy prices. In its June 2026 projections, the ECB revised headline inflation higher to 3.0% in 2026, while core inflation was projected at 2.5% in 2026. At the same time, growth was revised lower to 0.8% in 2026, underscoring the policy trade-off between inflation control and weaker activity.

Overall, the June 2026 decision signals that the ECB is prioritizing price stability despite a fragile growth backdrop. The Governing Council maintained a data-dependent and meeting-by-meeting approach, without pre-committing to a specific rate path.

The Euro Area economy remained fragile in May 2026, keeping pressure on real incomes and policy settings. Activity indicators also pointed to subdued momentum, as retail sales declined and industrial production weakly increased, implying weak consumption and only slight stabilization in manufacturing.

MACROECONOMIC MONITOR

The composition showed a clear divergence between food and non-food prices. Food prices declined 1.7% YoY in May 2026, reflecting lower pork prices, which fell 16.1% YoY in May 2026. By contrast, non-food prices increased 1.9% YoY in May 2026, supported by higher transportation and telecommunication prices, which rose 5.4% YoY in May 2026, as energy-related transport costs remained elevated.

Producer-side inflation strengthened more sharply. PPI increased 3.9% YoY and 0.5% MoM in May 2026, while industrial purchasing prices rose 5.8% YoY in May 2026. Overall, China's inflation profile points to contained consumer inflation but rising upstream cost pressure.

RETAIL SALES

China's retail sales weakened further in May 2026, reinforcing concerns over soft domestic demand. Total retail sales of consumer goods fell 0.6% YoY in May 2026 to RMB4.109tn, reversing the modest 0.2% YoY increase recorded in April 2026. On a sequential basis, retail sales declined 0.38% MoM in May 2026, indicating that household spending momentum remained fragile despite policy efforts to support consumption.

The weakness was concentrated in goods spending, which declined 0.7% YoY in May 2026, while catering income still increased by 0.6% YoY in May 2026. Urban retail sales contracted by 0.9% YoY in May 2026, compared with a 1.5% YoY increase in rural retail sales, suggesting a more pronounced slowdown in major urban consumption centres. However, selected categories remained resilient, with beverage sales rising 6.1% YoY in May 2026, clothing increasing 3.8% YoY, and cosmetics growing 2.5% YoY. Overall, the data point to uneven consumption, with services and basic/upgraded

goods partly offsetting broader weakness in discretionary spending.

UNEMPLOYMENT RATE

China's labor market improved modestly in May 2026, with the surveyed urban unemployment rate declining to 5.1% in May 2026 from 5.2% in April 2026. The average unemployment rate for January–May 2026 stood at 5.2%, suggesting that overall labor conditions remained stable despite weaker domestic demand and continued pressure from the property-sector slowdown.

The improvement was also reflected across major urban centers, where the surveyed unemployment rate in 31 major cities fell to 5.1% in May 2026, down by 0.1 percentage point from April 2026. By household registration, the unemployment rate for local residents stood at 5.2% in May 2026, while the rate for non-local residents was lower at 4.9% in May 2026. Overall, the data point to a relatively stable labor market, although job creation risks remain given soft retail activity and cautious private-sector sentiment.

MONETARY POLICY

The People's Bank of China (PBoC) maintained an accommodative but cautious policy stance in May 2026, keeping the one-year Loan Prime Rate unchanged at 3.00% and the five-year Loan Prime Rate unchanged at 3.50%. This marked the twelfth consecutive month of unchanged benchmark lending rates, suggesting that policymakers remained reluctant to deliver broad-based easing despite signs of softer domestic demand.

The decision reflected a balancing act between supporting growth and containing emerging prices and currency pressures. On one hand, weak retail sales and subdued property-related demand continued to justify an accommodative policy bias.

On the other hand, rising producer prices, higher energy costs, and external uncertainty limited the scope for aggressive rate cuts. Overall, monetary policy in May 2026 remained supportive through ample liquidity and low benchmark lending rates, but the PBoC appeared to prefer targeted measures over large-scale easing.

China's economy remained uneven in May 2026, with industrial output rising and the non-manufacturing PMI returning to expansion, but retail sales contracted and manufacturing PMI easing to 50.0 in May 2026. Overall, supply-side activity and selected services are still resilient, while weak household demand, soft export orders, and persistent property-sector pressures continued to weigh on the broader recovery.



**RECENT
ECONOMIC
DEVELOPMENTS:
DOMESTIC
MARKETS**

Recent Economic Developments: Domestic Markets

INFLATION

Indonesia's inflation accelerated in May 2026, with annual CPI rising to 3.08% (YoY) from 2.42% in April 2026, marking the first notable increase since inflation peaked at 4.76% in February 2026. Despite the pickup, headline inflation remained within Bank Indonesia's target range of 2.5%±1%. The increase was broad-based, reflecting higher inflation across volatile food, core, and administered price components, suggesting that the moderation observed in April 2026 was temporary amid renewed supply-side and cost-push pressures.

Volatile food prices returned to positive territory at 0.22% (YoY), reversing the -0.88% (YoY) decline recorded in April 2026, driven by weather-related supply disruptions. Dry weather conditions and pest infestations reduced harvest yields in several key producing regions, leading to higher prices of red chilies and shallots, while stronger demand ahead of Eid-Adha contributed to rising tomato prices. Core inflation remained stable at 0.22% (YoY), easing marginally from 0.23% (YoY) in April 2026, supported by well-anchored inflation expectations, although the depreciation of the rupiah continued to exert upward pressure on imported goods prices. Meanwhile, administered prices remained elevated at 0.52% (YoY), moderating slightly from 0.69% (YoY) in April 2026, reflecting higher airfares and increases in non-subsidized fuel prices amid persistently high jet fuel and global oil prices. Overall, the May 2026 data indicate that inflationary pressures have begun to re-emerge across several components, although headline inflation remains within the target range.

EXCHANGE RATE

The Indonesian rupiah remained under significant depreciation pressure throughout May 2026 and into early June 2026, weakening from around IDR17,380 per US dollar at the start of May 2026 to a low of approximately IDR18,178 on 8 June 2026, marking its weakest level on record, before partially recovering following Bank Indonesia's off-cycle policy rate hike on 9 June 2026. The depreciation was driven by a combination of external and domestic factors, including heightened global risk aversion, persistently elevated US Treasury yields, continued portfolio outflows, and rising domestic demand for foreign exchange. In addition, escalating geopolitical tensions in the Middle East supported safe-haven demand for the US dollar, weighing on emerging market currencies, including the rupiah.

Domestic factors also contributed to the rupiah's weakness. Indonesia's current account deficit widened in the first quarter of 2026, highlighting increased external financing needs amid a volatile global environment, while foreign exchange reserves continued to decline, reducing the buffer against external shocks. In response, Bank Indonesia strengthened its policy measures through monetary tightening and foreign exchange market intervention, which helped stabilize the rupiah in the near term. Overall, the recent depreciation reflects the combined impact of external uncertainties and domestic vulnerabilities, with exchange rate developments likely to remain sensitive to global financial conditions, energy prices, and investor sentiment in the coming months.

MACROECONOMIC MONITOR

RETAIL SALES

Retail sales moderated in April 2026, with the Real Sales Index (IPR) declining by 3.6% (YoY) to 226.9, reflecting softer consumer spending following the Ramadan and Eid al-Fitr holiday season. While several categories continued to record positive annual growth, including Motor Vehicles Parts and Accessories (14.7% YoY), Other Household Equipment (0.6% YoY), and Cultural and Recreation Goods (0.7% YoY), these gains were insufficient to offset contractions across most major retail segments. The largest declines were observed in Information and Communication Equipment (-26.4% YoY), Food, Beverages, and Tobacco (-3.8% YoY), and Clothing (-7.0% YoY), indicating weaker household consumption after the seasonal demand surge in the previous month.

On a monthly basis, retail sales also declined as spending activity normalized following the strong festive-related increase recorded in March. While such moderation is consistent with historical post-Ramadan patterns, the continued weakness across several key retail categories suggests that underlying household demand remains subdued. The softer performance likely reflects the combined impact of tighter financial conditions, elevated living costs, and lingering uncertainty surrounding the economic outlook.

CONSUMER CONFIDENCE INDEX (CCI)

Consumer confidence moderated further in May 2026, with the Consumer Confidence Index (CCI) declining to 120.9 from 123.0 in April 2026, marking the second consecutive monthly decline and its lowest level since the beginning of the year. Despite the moderation, the index remained well above the 100 threshold, indicating that households continued to hold an overall optimistic view of economic conditions. The decline was driven by a weakening

in the Current Economic Conditions Index (CECI), which fell to 112.2 from 116.5 in April 2026, reflecting softer assessments of current income levels, job availability, and conditions for purchasing durable goods.

Consumer expectations also eased, as households became more cautious regarding income prospects, employment opportunities, and business activity over the next six months. As a result, the Consumer Expectations Index (CEI) remained elevated but showed signs of moderating compared with previous months. The broad-based decline across both current assessments and future expectations suggests that household sentiment is becoming more cautious amid rising living costs, exchange rate pressures, and a less supportive economic environment.

PURCHASING MANAGER INDEX (PMI)

Indonesia's manufacturing sector showed signs of stabilization in May 2026, with the S&P Global Manufacturing PMI rising to 50.0 from 49.1 in April 2026, returning to the neutral threshold that separates expansion from contraction. The improvement was supported by stronger new orders, which increased for a second consecutive month and at the fastest pace since February. Survey respondents attributed the rise to firmer domestic demand, as businesses continued to replenish inventories amid ongoing price pressures and concerns over supply availability. Despite the improvement in headline PMI, manufacturing output remained under pressure, with production activity contracting for a third consecutive month as rising raw material costs and supply constraints continued to weigh on operations.

Cost pressures also remained elevated, prompting firms to raise selling prices at a faster pace, while employment declined marginally for a third straight

month, reflecting still-cautious business sentiment. External demand remained weak, with export orders continuing to contract amid global economic uncertainty and geopolitical tensions.

BALANCE OF TRADE

Indonesia's trade surplus narrowed sharply to USD89.1 million in April 2026, down from USD3.32 billion in March 2026 and marking the smallest monthly surplus since May 2020. The decline reflected a faster increase in imports relative to exports, particularly driven by higher oil and gas import values. Nevertheless, export performance remained strong, with total exports rising 21.98% (YoY) to USD25.30 billion, the highest level recorded so far in 2026. Non-oil and gas exports expanded by 23.36% (YoY) to USD24.15 billion, supported by robust growth in several key commodities, including nickel and related products (+75.52% YoY), animal and vegetable fats and oils, primarily crude palm oil (CPO) (+66.59% YoY), and machinery and mechanical appliances (+57.90% YoY). While export performance is still robust, the sharp increase in imports, particularly oil and gas imports, resulted in a significantly narrower trade surplus, suggesting that external sector support has become less broad-based than in previous months.

LOAN GROWTH

Credit expansion accelerated to 11.51% YoY in May 2026 from 9.98% YoY in April 2026, marking the strongest pace of growth in more than a year and positioning full-year credit growth firmly within Bank Indonesia's target range of 8–12%. The acceleration was broad-based across all major credit categories, led by investment credit which expanded by 21.95% YoY, followed by working capital credit at 8.09% YoY and consumer credit at 5.89% YoY. The strong performance of investment lending suggests that capital expenditure activity and

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previously committed investment projects continue to support financing demand despite growing macroeconomic headwinds. Meanwhile, third-party funds grew by 13.47% YoY in May, providing a solid funding base to sustain credit intermediation across the banking system.

Banking sector liquidity remained ample, with the liquid assets-to-third-party-funds ratio standing at 24.74%, comfortably above regulatory requirements. Undisbursed loan facilities totaled IDR2,576 trillion, equivalent to 22.41% of the total available credit ceiling, indicating that banks retain significant capacity to support further financing demand should economic conditions remain supportive. Lending rates stood at 8.72% in May, while one-month deposit rates reached 4.26%, reflecting a gradually tightening interest rate environment in line with Bank Indonesia's recent policy actions.

STATE BUDGET (APBN)

Indonesia's state budget (APBN) recorded a deficit of IDR180.4 trillion, equivalent to 0.70% of GDP, as of May 2026, widening from IDR164.4 trillion (0.64% of GDP) in April 2026 and exceeding the deficit of 0.09% of GDP recorded in the same period of 2025. The wider deficit largely reflected faster expenditure growth relative to revenue collection during the first five months of the year. State revenue reached IDR1,185.0 trillion, increasing by 19.1% (YoY), while state expenditure rose by 34.4% (YoY) to IDR1,365.4 trillion, equivalent to 35.5% of the full-year budget allocation, indicating continued fiscal support through the implementation of government spending programs and development priorities.

Despite the wider deficit, overall fiscal conditions remained manageable. The budget continued to record a primary surplus, indicating that government revenues remained sufficient to cover non-interest expenditure, while budget financing

realization continued to support the government's funding requirements for 2026.

Indonesia's economy entered a more challenging phase as weakening domestic demand, narrowing external buffers, and persistent rupiah pressures led policymakers to adopt a more stability-oriented stance.

MONETARY POLICY

Bank Indonesia delivered two consecutive policy rate increases in June 2026, raising the BI Rate by a cumulative 50 basis points to 5.75% and signaling a clear shift toward a more stability-oriented policy stance. The tightening cycle began with an off-cycle 25-basis-point rate hike to 5.50% during a weekly Board of Governors Meeting on 9 June 2026, reflecting policymakers' concerns over intensifying depreciation pressure on the rupiah amid heightened global financial market volatility, persistent capital outflows, and rising domestic demand for foreign exchange. The central bank followed with a further 25-basis-point increase to 5.75% at its regularly scheduled Board of Governors Meeting on 17–18 June 2026, in line with market expectations. Taken together, the two decisions brought cumulative tightening during June 2026 to 50 basis points and lifted total policy rate increases since the beginning of 2026 to 100 basis points, underscoring Bank Indonesia's commitment to preserving exchange-rate stability and mitigating external vulnerabilities despite signs of moderating domestic economic activity.

Alongside the off-cycle rate hike, Bank Indonesia introduced a comprehensive package of complementary measures aimed at strengthening policy transmission and enhancing the attractiveness of domestic financial assets. These

measures included higher yields on Bank Indonesia Rupiah Securities (SRBI) across the 6-, 9-, and 12-month tenors, a 10% reduction in hedging swap costs for foreign investors, the reopening of repo auction facilities across multiple maturities to maintain adequate banking system liquidity, and intensified monetary operations in both rupiah and foreign exchange markets. The central bank also expanded its exchange-rate stabilization efforts through more frequent SRBI auctions and stepped-up intervention in the spot, Domestic Non-Deliverable Forward (DNDF), and offshore Non-Deliverable Forward (NDF) markets.

Policy actions were further supported by strengthened fiscal-monetary coordination following an agreement between Bank Indonesia and the Ministry of Finance on 6 June 2026. The coordination framework focuses on improving the attractiveness of SRBI and government securities to foreign investors while ensuring sufficient liquidity through government cash placements at Bank Indonesia.

Our analysis concludes that the most pressing conditions in June 2026 and anticipated to prolong are rising inflation, weakening domestic demand, and a fragile external sector. Inflationary pressures are likely to intensify as recent non-subsidized fuel price adjustments pass through to transportation and production costs. At the same time, household spending may lose momentum amid eroding purchasing power, tighter monetary conditions, and softer consumer sentiment. Meanwhile, external sector fragility remains a concern as the trade surplus stays narrow and foreign exchange reserves continue to trend lower against a backdrop of persistent global uncertainty.



ASSET ALLOCATION

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Global Market

Global markets improved in June 2026 as the latest development in the US - Iran conflict pointed toward a potential peace agreement, reducing concerns over prolonged supply disruption and pushing global oil prices significantly lower. The decline in oil prices helped ease inflation concerns and supported a decline in global bond yields. However, the move lower in yields was limited by the June FOMC meeting, where the Fed kept rates unchanged but delivered a more hawkish tone, signaling tightening bias. On the equity side, global stock markets recovered particularly in cyclical and technology-related sectors, although gains remained selective as investors continued to weigh geopolitical relief against a still restrictive policy backdrop.

Domestic Equity Market

The JCI continued its volatility in June 2026, initially pressured and down to the level of 5300 due to uncertainty surrounding the one-door export policy and its potential impact on commodity exporters and how the execution will be. Sentiment later improved after further clarification around the operation of PT DSI reducing concerns over pricing and operational disruption. A stronger Rupiah also helped support the market recovery. Nevertheless, investors remain in wait and see mode ahead of MSCI's Annual Market Classification Review on Indonesia, as the result could influence market flows. Overall, equity sentiment has improved from the earlier correction, but market conviction remains selective.

Domestic Bond Market

Indonesia's bond market came under pressure in June 2026 following the meeting between Bank Indonesia and the Ministry of Finance, which

signaled a shift toward allowing the bond market to move more in line with market mechanisms. Pressure was visible on both the short end and long end of the curve. On the short end, BI rate hike and higher SRBI yields pushed the SBN 2Y yield up from 6.63% to 7.02%. Meanwhile, SBN 10Y yield briefly surged from 6.72% to 7.45%, before easing back and stabilizing between 6.90% – 7.10%. With yields rising across tenors, the SBN yield curve remained relatively flat. Going forward, sentiment remains cautious as investors monitor global yields, currency stability, the upcoming S&P rating decision.

Domestic Money Market

Money market instruments repriced higher in June 2026, in line with BI rate hike and rising SRBI yields. Deposit rates have also started to move upward as banks adjust to the higher policy rate environment and tighter liquidity conditions. The increase in short term rates implies that the environment has shifted toward a more restrictive setting, particularly as policymakers prioritize Rupiah stability. Looking ahead, money market rates are likely to remain elevated as long as liquidity stays tight and BI maintains a defensive stance.

Asset Allocation Takeaway

A cautious and selective allocation stance remains appropriate. In fixed income, the sharp repricing across short and long tenors suggest duration should be managed carefully, with a preference for short to mid duration bonds to balance carry and volatility risk. Equities may receive support from lower oil prices and a stronger Rupiah, but volatility remains elevated waiting for MSCI review. Overall, a balanced allocation focused on liquidity, selective equities, and cautious bond exposure remains prudent.



COMMODITIES OUTLOOK

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Two policy clarifications have reduced the regulatory overhang. First, the Energy Ministry and Vice Head of DPR confirmed gross split will not be applied to mining, removing a tail risk that had driven a sector-wide de-rating. Second, the centralized export framework is now codified via GR No. 24/2026 and three Ministerial Regulations through 31 December 2026. In Phase 1, DSI acts as an administrative intermediary only: existing contracts, commodity ownership, and producer-buyer relationships all remain intact, with only an added reporting step. The principal overhang is now Phase 2 execution (post-31 Dec 2026), where DSI's potential trading margin remains undefined, though our check with DSI implies an administrative fee tied to value-added services. Both the regulation and Danantara's press release lean toward DSI retaining its intermediary role.

NICKEL, COAL, & CPO

Nickel: Scope captures ferro-alloys under HS7202, making FeNi exporters the affected group.

Coal: Highest export exposure in our coverage, as all covered producers are export-revenue skewed.

CPO: Now formally within scope under the palm oil derivatives Ministerial Regulation, though Phase 1 mechanics mirror coal and nickel (intermediary only).

OIL

The Iran-US deal remains uncertain, according to Bloomberg, as both parties have postponed signing a memorandum of understanding (MoU) on a permanent peace agreement. The market believes the delay is largely driven by the escalating Israel-Hezbollah conflict in Lebanon, which has also raised the risk of tensions between the US and Israel. Should these developments delay the reopening of the Strait of Hormuz in the near term, we believe

they could reinforce supply-side tightening and potentially lead to a short-term market deficit, supporting our Brent crude oil forecast of above USD85/bbl in 2026E (+25% YoY).

POULTRY

The government's free-meal program is set to undergo a major restructuring, including the potential removal of around 8mn high-school beneficiaries. However, we estimate the impact on poultry demand will be limited, with total demand declining by only 4–5% versus our previous forecast. As such, we remain constructive on poultry prices, forecasting FY26 live bird and DOC prices at IDR20k–21k/kg and IDR6k–7k/head, respectively.



**FORWARD
OUTLOOK AND
STRATEGIC RISKS**

FORWARD OUTLOOK AND STRATEGIC RISKS

By June 2026, the global economic outlook has shifted from fear of recession to a more complicated problem: growth is still holding up, but inflation, logistics costs, fiscal risks, and market concentration are all becoming harder to ignore. The second half of 2026 is therefore unlikely to be a simple “soft landing” story. It is more likely to be a period of positive but uneven growth, sticky inflation, expensive logistics, and higher financial-market volatility.

The United States remains the main source of global resilience. The Federal Reserve’s June projection still puts US real GDP growth at 2.2 percent in 2026, 2.3 percent in 2027, and 2.2 percent in 2028, with the longer-run growth estimate at 2.0 percent. The unemployment rate is projected at only 4.3 percent in both 2026 and 2027, before easing slightly to 4.2 percent in 2028. This is not a recessionary profile. However, the inflation picture has deteriorated materially. The Fed revised projected 2026 PCE inflation from 2.7 percent in March to 3.6 percent in June, while core PCE inflation was revised from 2.7 percent to 3.3 percent. The implied federal funds rate path also moved higher, from 3.4 percent to 3.8 percent at the end of 2026. The message is clear: the US economy is still strong enough to grow, but inflation is too high for the Fed to ease aggressively.

This changes the market story. Investors entered 2026 expecting lower rates, but by mid-year the data point to fewer cuts, not faster cuts. Strong US growth supports earnings, especially in technology, semiconductors, data centers, defense, and infrastructure. But higher inflation and a higher policy-rate path reduce the valuation cushion. The risk is not that the US economy collapses; the risk is that markets are priced for a much friendlier monetary environment than the one actually emerging.

Logistics data confirm that the real economy is stronger than the recession narrative suggests. Drewry’s World Container Index rose 12 percent in the week of 18 June to USD 3,969 per 40-foot container, the highest level in 18 months. Shanghai–New York rates increased 15 percent to USD 6,769, Shanghai–Los Angeles rose 10 percent to USD 5,142, Shanghai–Rotterdam climbed 15 percent to USD 4,342, and Shanghai–Genoa increased 12 percent to USD 5,756. Intra-Asia rates also tightened, with the Intra-Asia Container Index rising to USD 1,114 per 40-foot container, its highest level since May 2023. Shanghai–Jakarta rates jumped 12 percent to USD 1,791, while Shanghai–Jebel Ali remained extremely high at USD 6,763. These numbers do not describe weak global demand. They describe front-loading, tight capacity, geopolitical risk premiums, and carriers regaining pricing power.

Blank sailings also show that the shipping market is no longer in the weak January position. In January, 109 blank sailings were announced out of around 703 scheduled departures, equivalent to 16 percent of planned capacity, while the WCI had fallen to USD 2,212 per 40-foot container. By mid-June, only 31 blank sailings were expected over the next five weeks, representing just 4 percent of scheduled services, with 96 percent still expected to operate. Yet rates are rising sharply. That combination, lower cancellations but higher freight rates, means demand and surcharges are doing more of the work than capacity withdrawal alone. For inflation, this matters because logistics is again becoming a transmission channel from geopolitical risk into consumer prices.

Europe is the weak link. The relative picture is now clear: US growth is resilient, Asia is selectively strong, and Europe is losing momentum. The problem in Europe is not only cyclical demand but also energy vulnerability, fiscal pressure, and weaker

productivity dynamics. This does not mean all European equities are unattractive; many European companies still generate strong free cash flow. But from a macro perspective, Europe is less likely than the US to lead the second-half recovery.

Asia should not be underestimated. Supply-chain diversification, front-loading ahead of tariff changes, and intra-Asian trade in components and semi-finished goods are supporting activity. Southeast Asia benefits from production relocation and trade rerouting, but it also faces higher freight costs, higher energy costs, and currency pressure if the US dollar stays strong. The better story in Asia is not broad regional optimism; it is selective strength in countries and sectors connected to AI hardware, electronics, logistics, and supply-chain reconfiguration.

For Indonesia, the outlook is constructive but fragile. Growth started the year strongly, with GDP expanding 5.61 percent year on year in the first quarter of 2026. But the forward-looking numbers are less comfortable. The OECD projects Indonesia's real GDP growth at 4.7 percent in 2026 and 5.0 percent in 2027. The World Bank's Indonesia outlook highlights a worsening external position, with imports growing faster than exports, especially due to capital-goods imports. That is positive for investment capacity, but it also puts pressure on the current account and the rupiah.

The rupiah is now the key macro variable for Indonesia. By mid-June, the exchange rate had reached around IDR 17,700 per US dollar, after briefly touching IDR 18,000 on 8 June 2026. Bank Indonesia had already used around USD 1.3 billion in reserves in one month and USD 11.6 billion cumulatively in 2026 to stabilize the currency. This is not a relaxed policy environment. It is defensive monetary policy

aimed at protecting the currency and inflation credibility.

Inflation is still within Bank Indonesia's target range, but the direction is uncomfortable. Headline inflation rose to 3.08 percent year on year in May 2026 from 2.42 percent in April 2026. Monthly inflation increased to 0.28 percent. Core inflation stood at 2.59 percent, administered-price inflation at 2.07 percent, and volatile-food inflation surged to 6.24 percent. June inflation is projected at 3.14–3.30 percent year on year, with monthly inflation of 0.24–0.39 percent. The pressure is coming from food, energy, and transport: red chili, cooking oil, shallots, tomatoes, rice, non-subsidized fuel, LPG, and airfares. The problem is not that inflation is already out of control. The problem is that food and energy shocks can quickly become politically and fiscally costly.

Indonesia's fiscal position is also becoming more constrained. The OECD expects the fiscal deficit to widen from 2.9 percent of GDP in 2025 to 3.0 percent in 2026, compared with the original 2026 budget target of 2.7 percent. Higher oil prices could add around 0.6 percent of GDP to the deficit through fuel subsidies if the fuel-price freeze is maintained. To remain below the 3 percent fiscal-rule ceiling, the government would need offsetting measures of around 0.3 percent of GDP. Public debt is expected to remain around 41 percent of GDP, but financing conditions are tighter: Indonesia's 10-year government bond yield had risen by 78 basis points year to date as of 5 June, while the bid-to-cover ratio fell from 3.2 in May 2025 to 1.6 in May 2026. That is a clear warning that fiscal credibility matters more now than it did during the low-rate period.

The key risk for Indonesia is the loop between rupiah depreciation, subsidy costs, fiscal pressure, and market confidence. A weaker rupiah raises the local-

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currency cost of oil imports. Higher oil-import costs increase the subsidy burden if administered prices are kept unchanged. Higher subsidies widen the deficit or force spending cuts elsewhere. That can weaken fiscal credibility and create more exchange-rate pressure. This loop is the main macro risk for Indonesia in the second half of 2026.

The base case for the second half of 2026 is therefore moderate global growth with higher volatility. The US avoids recession, Asia remains selectively resilient, Europe underperforms, and Indonesia grows below its first-quarter pace but avoids a hard landing. Inflation does not collapse quickly, so central banks remain cautious. Freight rates stay elevated through the early peak season, especially if tariff front-loading and geopolitical uncertainty continue. Equity markets can still rise, but leadership will remain narrow and vulnerable to corrections, especially in AI-related names if earnings fail to justify valuations.

The upside scenario is straightforward: geopolitical tensions ease, oil and bunker costs stabilize, freight rates stop rising, US inflation moves back toward target, and the Fed regains room to cut. Under that scenario, global equities can recover more broadly, Asian trade remains strong, and Indonesia gets relief through a more stable rupiah and lower imported inflation.

The downside scenario is also clear: oil rises further, freight rates continue climbing toward the USD 5,000–6,000 range, US inflation stays above 3 percent, the Fed delays cuts, and the dollar strengthens. That would pressure emerging-market currencies, including the rupiah, raise Indonesia's subsidy burden, increase bond yields, and force a more defensive policy mix. In that case, growth may still remain positive, but the cost of stability will rise.

The main indicators to watch are therefore not abstract sentiment indicators. They are oil prices, Drewry's World Container Index, US core PCE inflation, US payrolls, the US dollar index, USD/IDR, BI reserves, Indonesia's 10-year bond yield, and food inflation. If these stabilize, the second half of 2026 can remain manageable. If they deteriorate together, the outlook shifts from resilient growth to policy stress.

The bottom line is this: the global economy in June 2026 is stronger than feared, but more fragile than priced. The real economy is not collapsing. Shipping data, US growth, and Asian trade all point to continued activity. But the cost structure of the global economy is worsening through energy, logistics, interest rates, and fiscal pressure. For Indonesia, the issue is not whether growth continues. The real issue is whether growth can be maintained without sacrificing rupiah stability, inflation control, and fiscal credibility.

IMPLICATIONS FOR INDONESIAN BUSINESSES

The operating environment for Indonesian businesses is becoming more challenging despite continued economic growth. GDP expanded by 5.61 percent year-on-year in the first quarter of 2026, but firms are now facing a combination of higher financing costs, rupiah volatility, rising logistics expenses, and accelerating food and energy inflation. Margin pressure is likely to increase across most sectors.

For consumer-oriented businesses, demand should remain relatively resilient as household consumption continues to support economic growth. However, rising food and transportation costs are reducing discretionary purchasing power. Mass-market products and essential goods are likely to outperform premium discretionary segments.

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Pricing strategy and cost control will become increasingly important.

Manufacturing firms face diverging conditions. Supply-chain diversification and production relocation within Asia continue to support demand for industrial estates, warehousing, and supporting infrastructure. However, companies that rely heavily on imported raw materials, machinery, or intermediate inputs are becoming more exposed to exchange-rate depreciation and higher freight costs. Procurement efficiency, supplier diversification, and currency-risk management will therefore play a larger role in profitability.

Logistics remains one of the strongest sectors. Higher freight rates, stronger intra-Asian trade flows, and ongoing supply-chain reconfiguration continue to support demand for transportation, warehousing, port services, and distribution networks. Companies operating in these areas are likely to benefit from increased trade activity and inventory repositioning across the region.

Financial conditions are becoming less supportive. Bank Indonesia has raised policy rates to 5.75 percent, while government bond yields have moved higher. Companies with high leverage or significant refinancing needs may face rising funding costs. Firms with strong liquidity positions and lower debt burdens are likely to be more resilient.

Productivity is becoming a more important determinant of competitiveness. Rising labor costs, financing costs, and imported input costs leave less room for operational inefficiency. Investment in automation, digitalization, process optimization, and data-driven decision making is likely to increase as firms seek to protect margins and improve resource utilization. Overall, the business outlook remains positive, but the drivers of performance are changing. During the next 12 to 18 months, firms

with strong balance sheets, lower import dependence, greater pricing power, and higher operational efficiency are likely to outperform those relying on rapid revenue growth.

EXHIBITS

EXHIBIT 1 • INDONESIA MACROECONOMICS INDICATORS

Indicator	Unit	2025												2026				
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
GDP Growth	% YoY	-	-	4,87	-	-	5,12	-	-	5,04	-	-	5,39	-	-	5,61	-	-
CPI Inflation	% YoY	0,76	-0,09	1,03	1,95	1,60	1,87	2,37	2,31	2,65	2,86	2,72	2,92	3,55	4,76	3,48	2,42	3,08
Core Inflation	% YoY	2,48	2,36	2,48	2,50	2,40	2,37	2,32	2,17	2,19	2,36	2,36	2,38	2,45	2,63	2,52	2,44	2,59
Manufacturing PMI	Level	51,9	53,6	52,4	46,7	47,4	46,9	49,2	51,5	50,4	51,2	53,3	51,2	52,6	53,8	50,1	49,1	50,0
Exports	% YoY	4,68	14,05	23,25	5,76	9,68	11,29	9,86	5,78	11,41	-2,31	-6,06	11,6	3,39	1,01	-3,1	21,98	
Imports	% YoY	-2,67	2,30	18,92	21,80	4,14	4,28	-5,86	-6,56	7,17	-	0,46	10,8	18,21	10,85	1,51	22,49	
Foreign Currency Reserves	USD bn	140	138	140	134	134	134	134	132	128	129	129	135	130	127	126	123	122
Money Supply (M2)	% YoY	5,46	6,20	6,13	5,19	4,9	6,4	6,6	7,6	8	7,7	8,3	9,6	10,00	8,70	9,7	9,2	
Commercial Banking Total Deposits and Securities	% YoY	3,82	4,60	4,03	3,74	3,29	6,19	6,54	7,61	8,01	7,82	8,37	8,37	10,35	8,76	10,47	9,04	
Commercial Banking Credit	% YoY	10,3	10,3	9,2	8,9	8,4	7,8	7,0	7,6	7,7	7,36	7,74	9,69	9,96	9,37	9,49	9,98	11,51
Fiscal Surplus/Deficit	% GDP	-	-	-2,76	-	-	-2,77	-	-	-2,73	-	-	-2,92	-2,68	-0,53	-0,93	-0,64	-0,70

EXHIBIT 2 • EXCHANGE RATE

Exhibit 2.1 Difference of Spot and Forward IDR

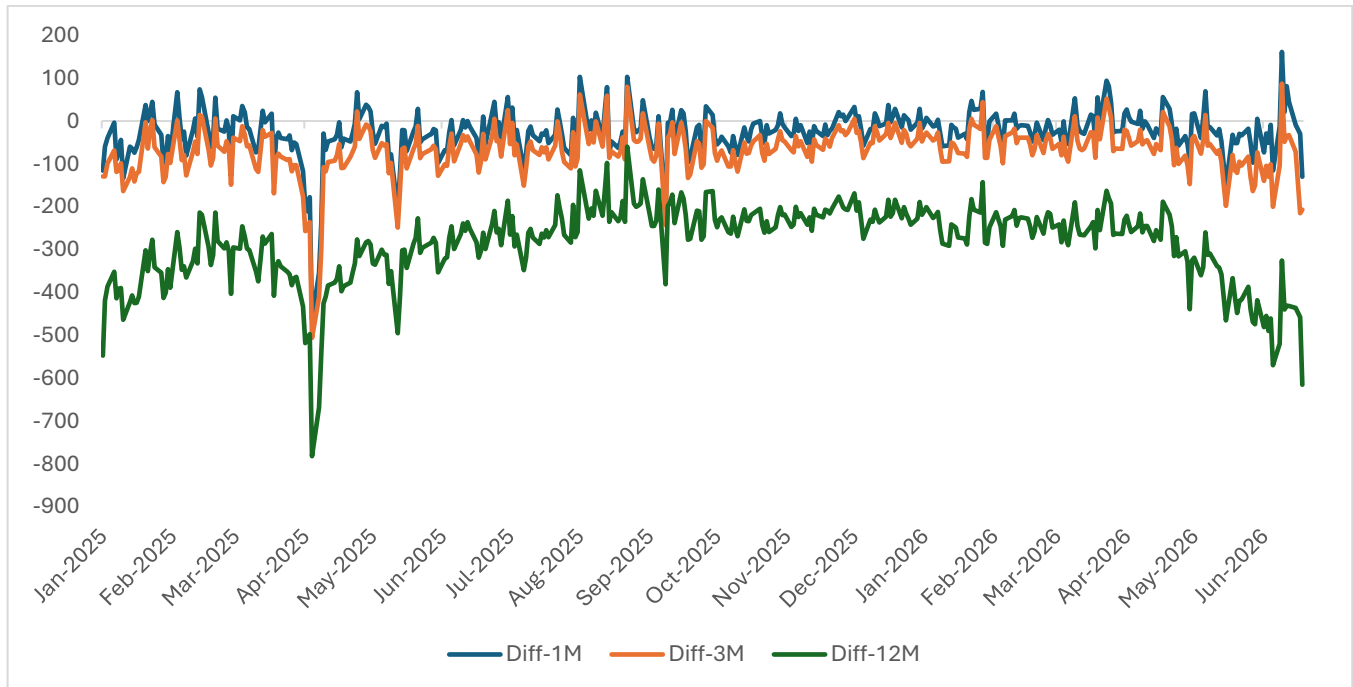


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

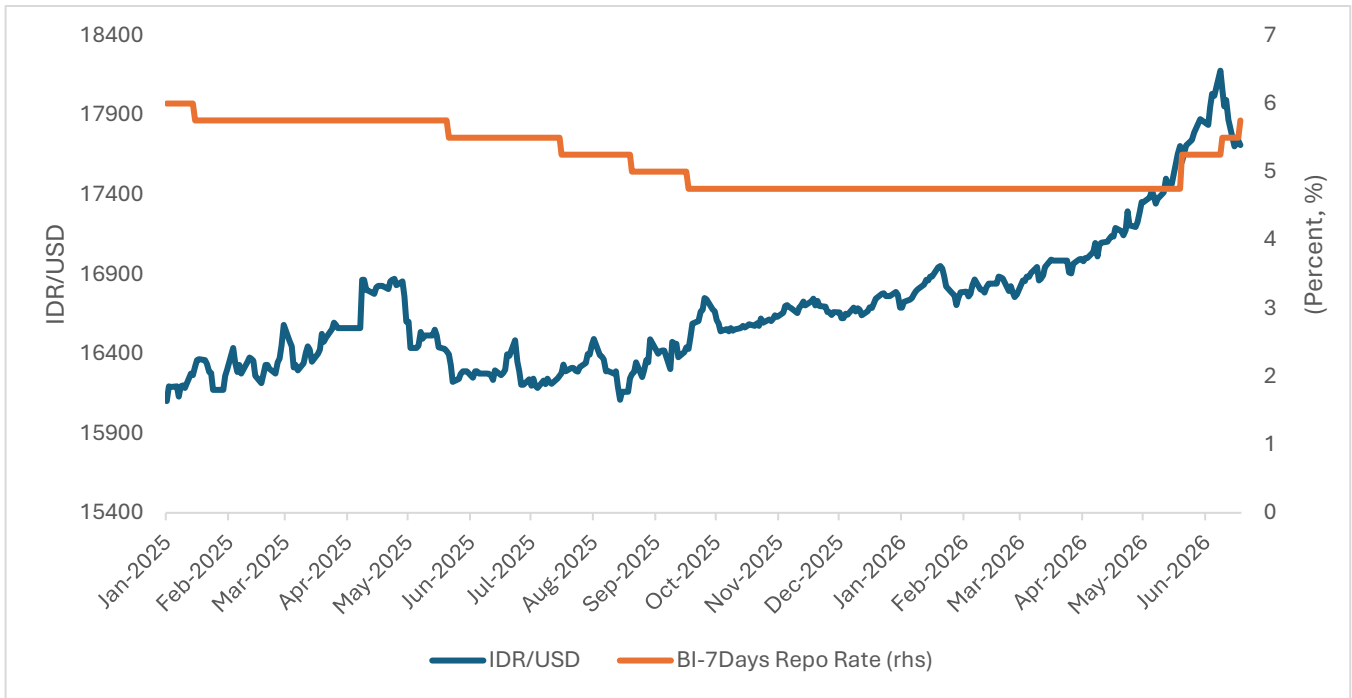


Exhibit 2.3 EM's Exchange Rate Against USD Index (01/01/2025 = 100)

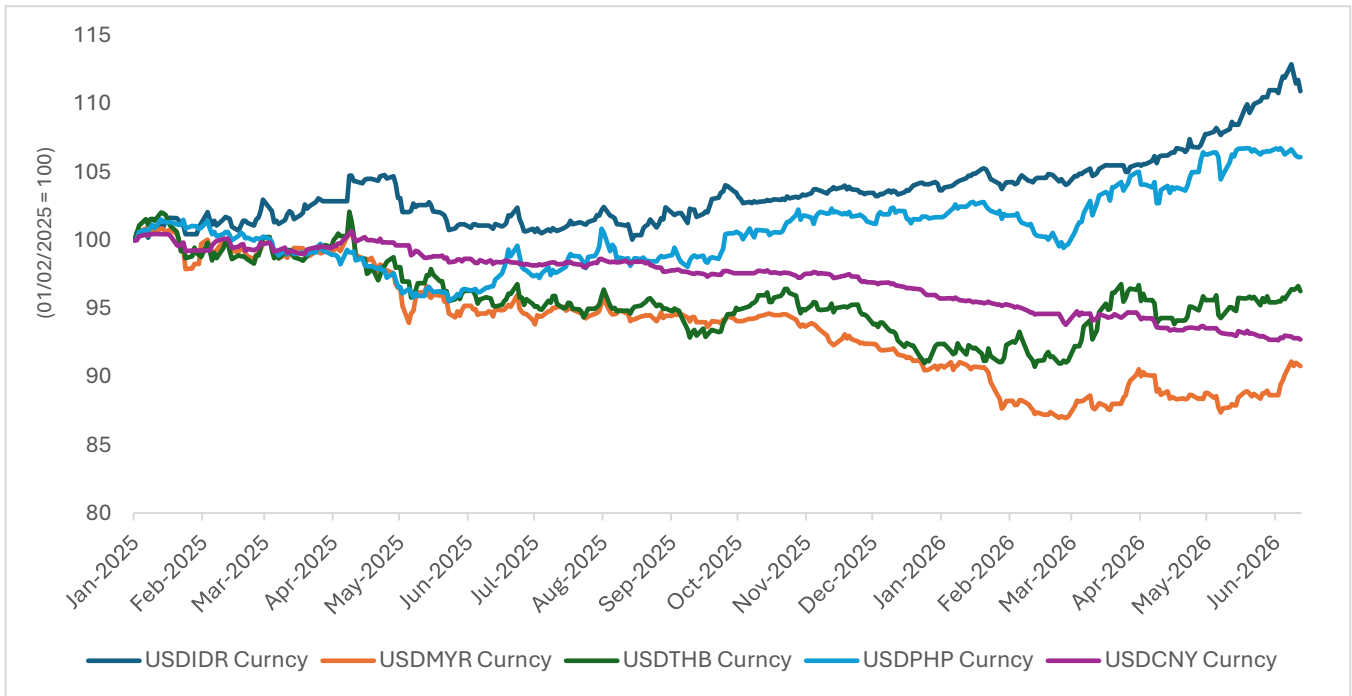


EXHIBIT 3 • DOMESTIC LIQUIDITY INDICATORS

Exhibit 3.1 JIBOR 1 & 3 M and BI-Rate

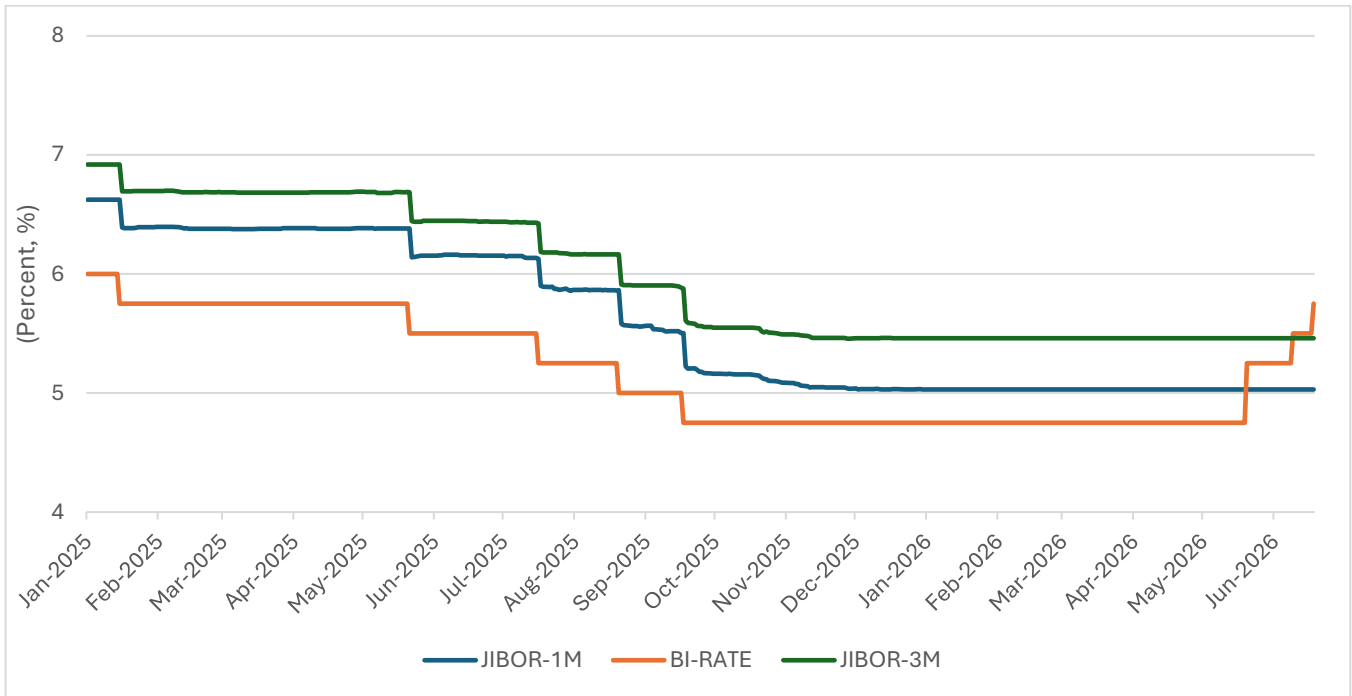


Exhibit 3.2 Monetary Operations of BI

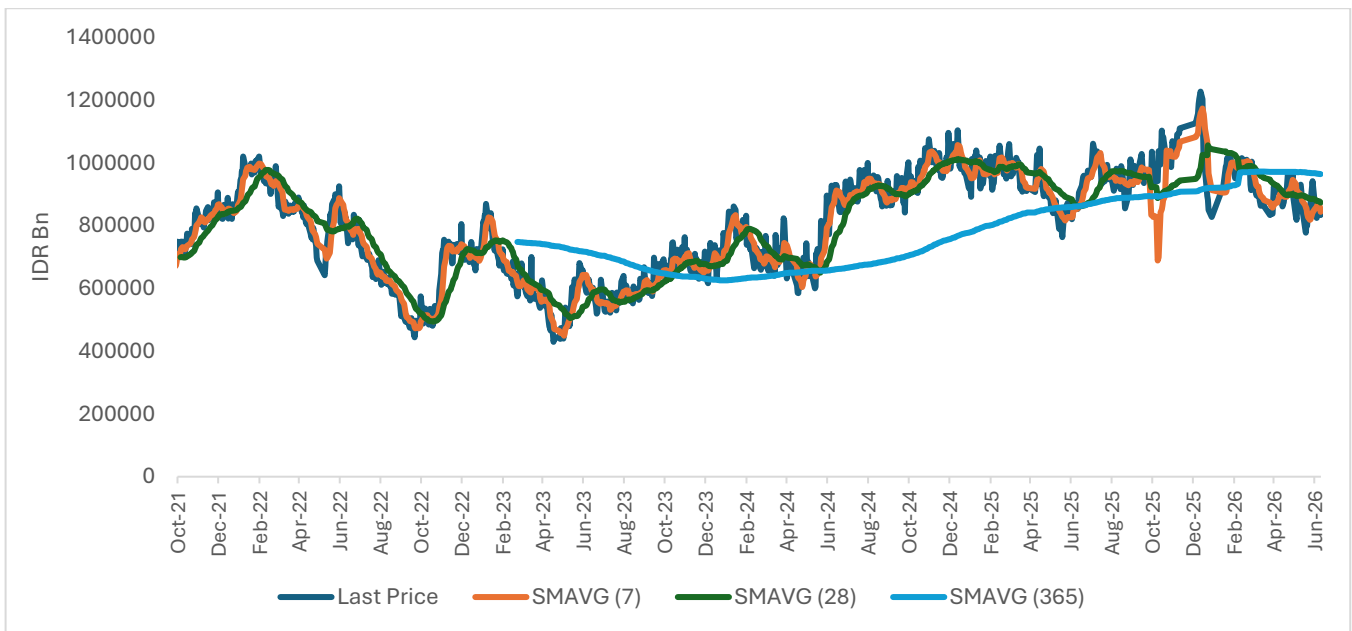


Exhibit 3.3 Indonesia's Foreign Exchange Reserves USD

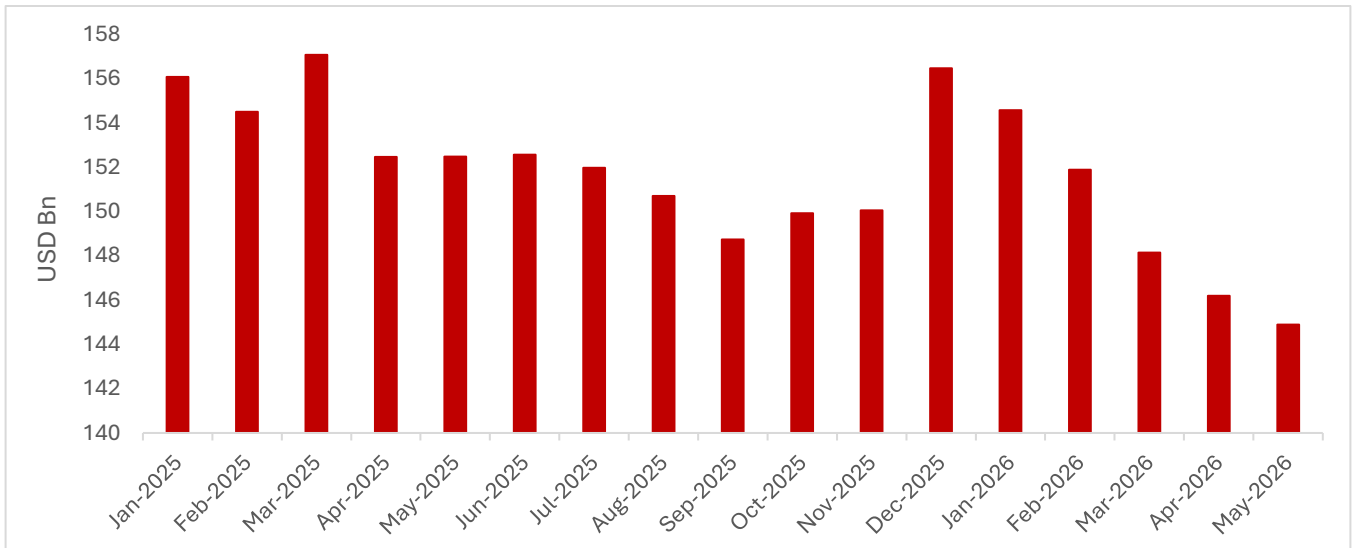


EXHIBIT 4 • FINANCIAL MARKETS

Exhibit 4.1 Stock Market Index (02/01/2025 = 100)

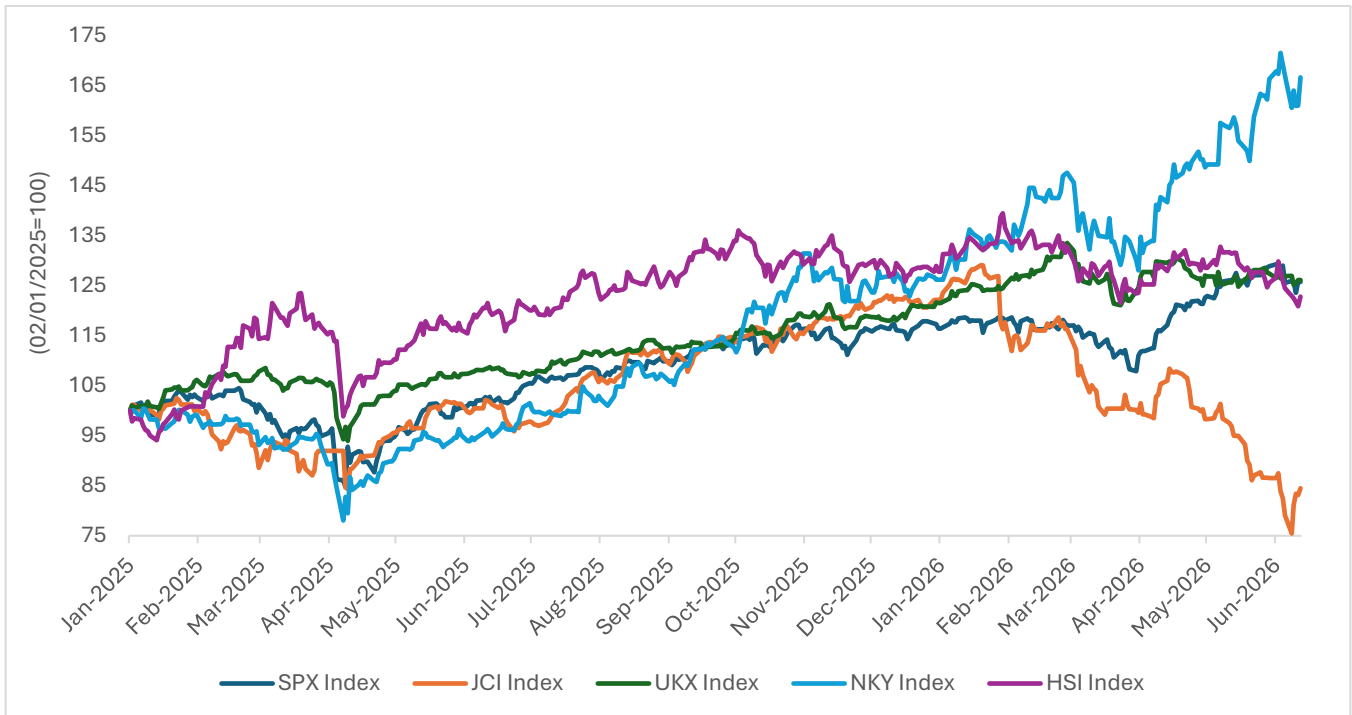


Exhibit 4.2 Indonesia Bond Yield Curve



Exhibit 4.3 Indonesia Stock Market & Turnover

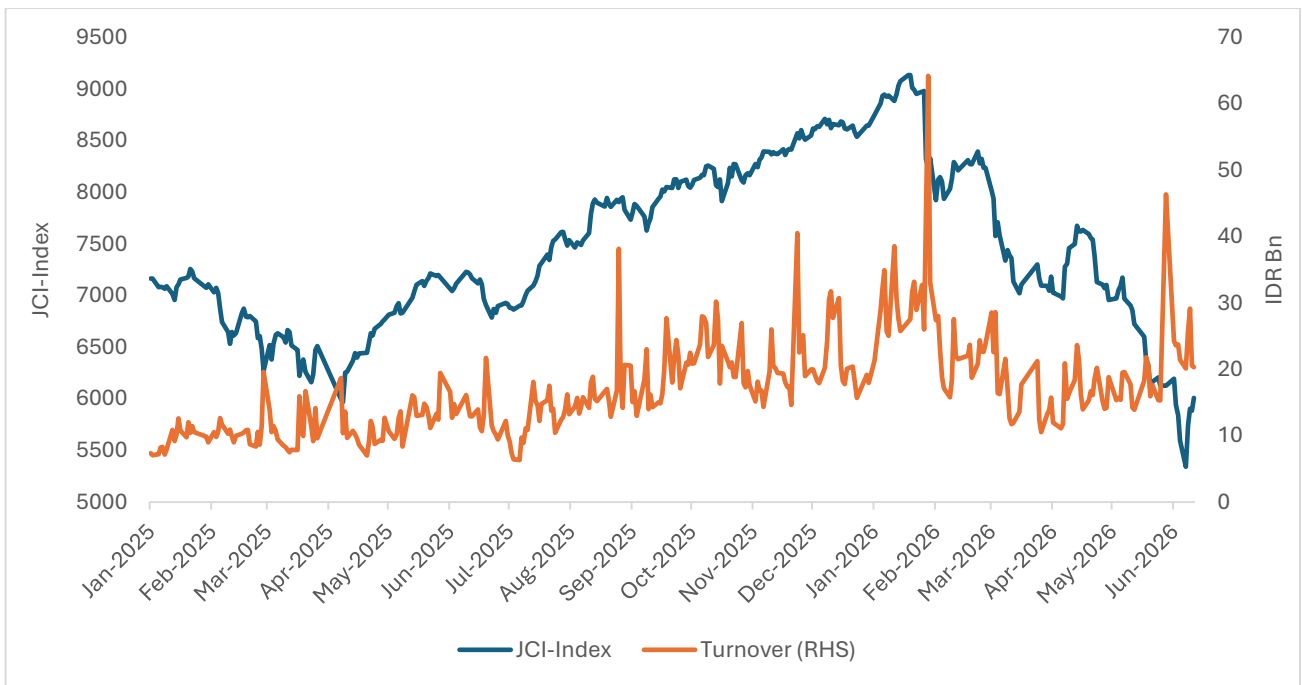


Exhibit 4.4 Indonesia CDS & Government Bond 10Y

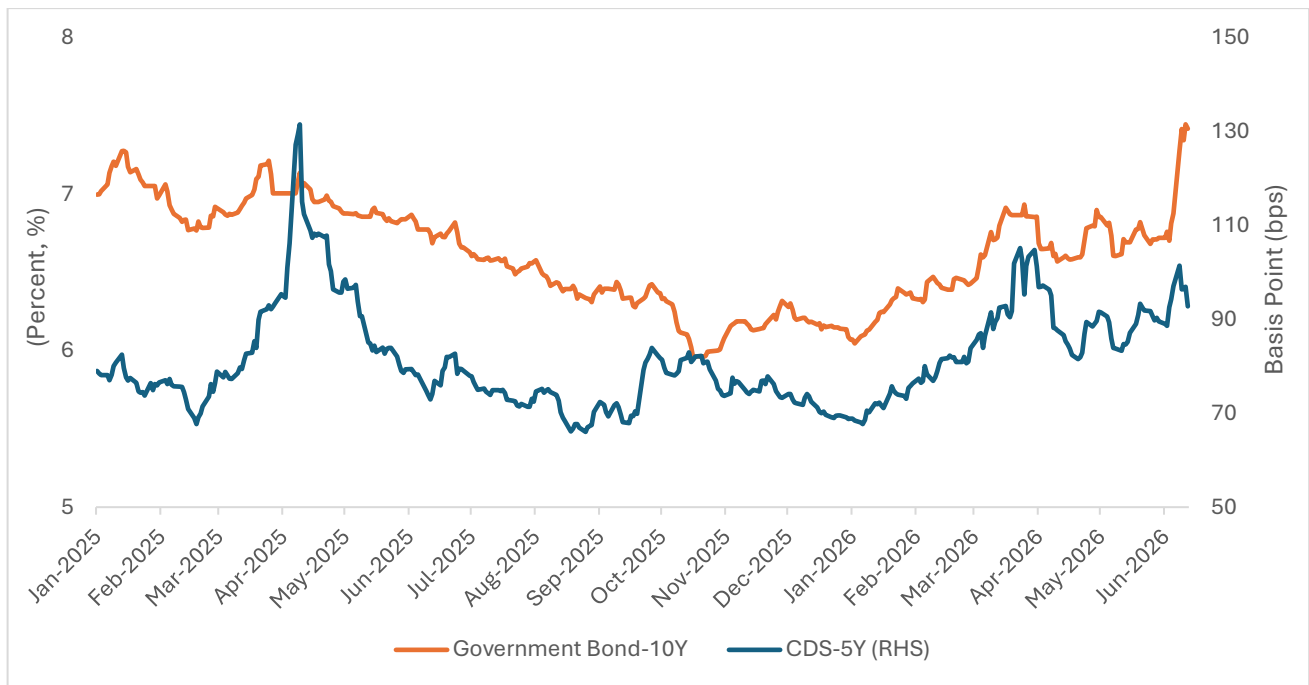


EXHIBIT 5 • REGIONAL STATISTICS

Exhibit 5.1 Monthly Inflation Rate

Provinsi	Inflasi Tahunan (Y-on-Y) 38 Provinsi (2022=100) (Persen)												
	2025								2026				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Aceh	2.35	2.19	3	3.7	4.45	4.66	3.58	6.71	6.69	6.94	5.31	3.88	5.12
Sumatera Utara	1.11	1.25	2.86	4.42	5.32	4.97	3.96	4.66	3.81	4.71	3.86	2.92	4.35
Sumatera Barat	0.85	0.45	2.19	2.89	4.22	4.52	3.98	5.15	3.92	4.39	3.37	1.97	3.91
Riau	0.98	0.98	2.42	3.58	5.08	4.95	4.27	4.88	4.43	5.3	3.65	2.37	3.95
Jambi	0.96	1.34	2.71	2.76	3.77	3.71	3.55	3.71	3.35	4.59	3.55	2.1	3.56
Sumatera Selatan	2.33	2.44	2.88	3.04	3.44	3.49	2.91	2.91	3.33	4.36	3.09	1.63	2.61
Bengkulu	0.39	-0.1	1.01	1.3	2.57	2.85	2.68	2.77	2.61	3.88	2.85	1.87	3.01
Lampung	2.12	2.27	2.63	1.05	1.17	1.2	1.14	1.25	1.9	2.95	1.16	0.53	1.94
Kepulauan Bangka Belitung	0.79	0.99	2.05	1.34	1.82	2.51	2.87	2.77	3.95	3.31	1.87	1.49	2.46
Kepulauan Riau	1.73	1.32	1.97	2.19	2.7	3.01	3	3.47	2.94	3.54	3.23	3.06	3.92
Dki Jakarta	2.07	2.07	2.25	2.16	2.4	2.69	2.67	2.63	3.96	4.91	3.37	2.12	2.49
Jawa Barat	1.47	1.78	2.03	1.77	2.19	2.63	2.54	2.63	3.24	4.71	3.6	2.49	3.07
Jawa Tengah	1.66	2.2	2.52	2.48	2.65	2.86	2.79	2.72	2.83	4.43	3.54	2.11	2.85
Di Yogyakarta	2.04	2.52	2.6	2.3	2.56	2.9	2.92	3.11	3.3	4.91	4.08	2.46	2.77

MACROECONOMIC MONITOR

Jawa Timur	1.22	2.02	2.21	2.17	2.53	2.69	2.63	2.93	3.29	4.88	3.79	2.85	3.49
Banten	1.57	1.83	2.29	1.95	2.31	2.75	2.56	2.74	3.48	5.14	3.55	2.14	2.7
Bali	1.92	2.94	3.16	2.65	2.51	2.61	2.51	2.91	2.58	3.89	2.81	2.08	2.99
Nusa Tenggara Barat	1.63	2.51	3.05	2.56	2.69	2.96	2.74	3.01	3.86	5.37	4.09	3.27	3.78
Nusa Tenggara Timur	1.6	1.72	3.03	2.71	2.3	2	2.4	2.39	3.34	3.42	2.4	2.62	2.76
Kalimantan Barat	0.59	1.2	2.14	2.13	1.94	2.07	2.04	1.85	3.33	3.9	2.89	2.5	3.29
Kalimantan Tengah	0.46	1.06	2.13	2.08	2.35	2.73	2.56	3.13	4.09	5.06	3.86	3.66	4.56
Kalimantan Selatan	1.25	1.81	2.48	2.68	2.91	3.11	3.35	3.66	4.66	5.97	4.83	3.67	4.22
Kalimantan Timur	1.03	1.62	2.08	1.79	1.77	1.94	2.28	2.68	3.76	4.64	3.31	2.5	3.04
Kalimantan Utara	1.24	1.38	1.99	2.24	2.32	2.23	2.47	2.57	4.08	4.75	3.12	2.68	2.9
Sulawesi Utara	1.53	1.71	2.04	0.94	1.57	1.48	0.65	1.23	3.04	4.64	2.2	2.14	2.33
Sulawesi Tengah	2.61	2.47	3.69	4.02	3.88	3.92	3.5	3.31	4.55	5.33	2.83	2.21	2.77
Sulawesi Selatan	2.04	2.24	3.05	3.12	3.03	2.98	2.73	2.84	4.11	6.13	4.5	2.68	3.12
Sulawesi Tenggara	1.71	2.52	3.72	3.75	3.68	3.26	2.94	2.86	5.1	5.41	3.37	2.98	4.07
Gorontalo	0.28	0.8	3.12	2.51	1.99	2.44	2.21	2.52	4.53	5.3	2.6	2.24	2.99
Sulawesi Barat	3.21	2.57	3.57	3.52	3.04	2.64	2.56	2.48	4.34	5.15	2.94	1.66	1.99
Maluku	2.24	1.88	2.99	3.25	3.01	2.3	2.33	3.58	4.7	5.97	3.4	3.13	3.27
Maluku Utara	1.89	2.01	2.46	0.43	-0.17	1.18	1.89	1.63	4.86	5.85	2.6	2.03	2.82
Papua Barat	-1.51	-0.67	0.43	-0.87	1.02	1.42	1.33	2.59	5.02	5.83	3.51	5	5.94
Papua Barat Daya	0.36	0.5	0.96	1.88	1.3	1.36	1.38	2.15	3.75	4.16	4.09	3.85	3.8
Papua	1.33	1.07	1.4	0.54	0.99	0.53	0.8	2.54	3.33	3.94	3.5	3.8	2.79
Papua Selatan	2.19	3	5.45	3.78	3.42	3.43	3.39	2.95	4.83	5.5	3.6	3.34	2.17
Papua Tengah	2.26	2.33	2.89	1.86	2.28	2.11	2.53	3.28	4.85	4.93	2.54	1.53	2.05
Papua Pegunungan	5.75	2.01	4.15	3.71	3.55	3.32	4.05	3.22	2.93	0.63	3.14	4.89	4.44
Indonesia	1.6	1.87	2.37	2.31	2.65	2.86	2.72	2.92	3.55	4.76	3.48	2.42	3.08

FOOTNOTES AND REFERENCES

Data Sources: CEIC, Bloomberg, BI, BPS, Drewry, and various sources

The conversion rate from US dollars to the local currency unit is shown by the exchange rates that are used, which stated as USD/LCU

The stock market indexes being taken into account are the S&P 500 (US), Jakarta Composite Index (JCI), FTSE 100 (UKX), Nikkei 225 (NKKY), and Hang Seng Index (HSI) which serve as regional benchmarks.

Ten-year US Treasury bill yield differential and Indonesian Government Bond denominated in USD serve as a proxy for Indonesia's sovereign risk.

A higher turnover index in the stock market typically indicates a higher level of trading activity.

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