Macroeconomic Monitor August 2026

Resilient Growth, Narrowing Buffer

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HIGHLIGHTS

August 2026

United States (U.S.)

The U.S. economy remained resilient in July 2026, but growth momentum is becoming increasingly uneven as persistent cost pressures and weaker external demand weigh on manufacturing and household activity. Manufacturing conditions remained in expansion, but slower output and new-order growth, together with continued contraction in export orders and supply-chain disruptions, point to softer industrial momentum. In contrast, services activity strengthened on resilient domestic demand, although the moderation in retail sales and softer underlying labour-market conditions suggest that household momentum is gradually losing strength. As a result, the growth outlook is increasingly reliant on services, while weakening manufacturing and consumer activity could limit the broader momentum of the economy.

The key constraint is the interaction between persistent cost pressures, inflation, and monetary policy. Headline and core inflation continued to moderate as earlier energy pressures faded, but elevated input costs, tariffs, and supply-chain frictions remain a source of price pressure, particularly in services. If these costs persist, businesses may continue passing them through to consumers, potentially slowing the disinflation process and limiting the scope for monetary easing. This creates a more challenging policy environment: while easing financial conditions could support consumption and investment, premature easing could risk prolonging inflationary pressures. Overall, the U.S. economy remains resilient, but the combination of moderating domestic demand, weaker manufacturing momentum, and persistent cost pressures suggests that growth could gradually soften if inflation remains sufficiently sticky to constrain monetary policy.

Euro Area

The Euro Area economy showed tentative signs of stabilization in July 2026, with the recovery increasingly supported by domestic activity while external momentum remained uneven. Manufacturing conditions improved, as the Manufacturing PMI rose to 51.9 and output recorded its strongest expansion since March 2022, while industrial production also returned to modest year-on-year growth. Meanwhile, services activity rebounded more strongly, with the Services PMI rising to 51.7 from contractionary territory in June, supported by lower energy costs that temporarily improved operating margins and stimulated new business. The broader external sector provided an additional source of resilience, as the trade surplus widened on stronger goods exports across major trading partners. Nevertheless, the composition of growth points to an economy that is stabilizing rather than entering a broad-based acceleration, services and trade are cushioning weak industrial and export demand, while declining backlogs and continued labour-market divergence indicate that underlying momentum remains constrained.

The key risk to the recovery is the renewed intensification of inflationary pressures, which could limit both household spending and the European Central Bank's policy flexibility. Headline inflation accelerated to 2.9% YoY in July, driven by a sharp rebound in energy prices following renewed geopolitical tensions, while core inflation also edged higher to 2.5% YoY, indicating that price pressures are becoming less dependent on energy alone. Higher and more persistent costs could weigh on household purchasing power, consistent with the sharp slowdown in retail sales growth to 0.7% YoY in June despite a third consecutive improvement in consumer confidence. This divergence suggests that improving sentiment has yet to translate into a meaningful recovery in actual consumption, as households remain cautious amid elevated living costs and economic uncertainty.

At the same time, the unemployment rate remained relatively resilient at 6.3%, providing some support to household incomes, although rising unemployment in several major economies highlights uneven labour-market conditions. Overall, the Euro Area is moving toward a fragile, domestically supported recovery, but renewed energy and geopolitical shocks risk reinforcing the inflation-growth trade-off: higher costs could weaken consumption and industrial competitiveness while constraining the ECB's room to provide further monetary support.

China

China's economic momentum weakened in July 2026 as softness in domestic demand increasingly offset the resilience of the external sector. The official Manufacturing PMI fell to 49.2 and the non-manufacturing PMI to 49.0, bringing both sectors back into contraction and signalling a broad-based loss of momentum across industrial, services, and construction activity. The weakness was reinforced by subdued household spending, with retail sales growth slowing to 0.6% YoY and remaining particularly weak in automobiles and property-related goods, while the surveyed urban unemployment rate edged up to 5.2%. Together, softer employment conditions, weak big-ticket consumption, and continued property-sector pressures suggest that household confidence and the wealth effect remain significant constraints on the domestic recovery. The low-inflation environment reinforces this picture: consumer inflation slowed to 0.5% YoY, while core inflation remained below 1%, reflecting persistent excess supply and weak pricing power rather than a broad strengthening of demand. Although selected consumption segments and online retail remained relatively resilient, the overall pattern points to a recovery that remains uneven and insufficiently supported by domestic consumption.

Against this backdrop, China's external sector has become an increasingly important buffer to domestic weakness, with exports surging 23.9% YoY in July and widening the trade surplus to USD112.5 billion. Strong demand for high-tech and AI-related products, together with front-loading ahead of tariff changes, helped sustain export momentum even as manufacturing indicators deteriorated. This divergence, however, also highlights the economy's continued reliance on external demand at a time when domestic demand remains constrained. The policy response has therefore remained cautious: the PBoC kept the one- and five-year LPRs unchanged while signalling continued accommodative support and targeted measures, reflecting the need to stimulate credit and demand without triggering excessive financial or currency risks. Yet the sharp contraction in new yuan loans and persistent weakness in housing prices indicate that monetary easing alone may have limited traction unless it succeeds in restoring household and business confidence. Overall, China's economy remains resilient on the external front but faces a more persistent domestic-demand challenge, with weak consumption, property-sector stress, and subdued price pressures creating a feedback loop that could continue to restrain broad-based growth and increased reliance on policy support and exports.

Indonesia

Indonesia's economy remains resilient, but growth momentum is gradually normalizing as external headwinds intensify, and domestic demand shows early signs of moderation. Real GDP growth eased to 5.29% YoY in Q2 2026 from 5.61% YoY in Q1, marking the slowest pace since Q3 2025, although the underlying growth composition remained relatively supportive. Private consumption expanded 5.06% YoY, while government consumption surged 15.97% YoY amid accelerated implementation of priority programs, and fixed investment strengthened to 6.87%, supported by infrastructure spending and stronger private investment, including a 25.7% YoY increase in FDI. Activity also remained broad-based across trade, construction, information and communication, accommodation and food services, and transport, while manufacturing remained the largest contributor despite moderating growth. However, softer retail sales, which contracted 3.0% YoY in June, and a third consecutive decline in consumer confidence to 116.8 in July suggest that household spending is becoming more constrained. The improvement in the manufacturing PMI to 50.2 in July provides an initial sign of stabilization, but weak export orders and elevated input costs point to a still-fragile recovery in the industrial sector. Overall, domestic demand remains the principal buffer to external weakness, but the Q2 moderation indicates that the strong momentum seen earlier in the year is becoming increasingly difficult to sustain.

The domestic policy environment remains broadly supportive, with easing headline inflation and stronger credit growth providing room to sustain economic activity, although underlying price pressures remain sticky. Headline inflation declined to 2.88% YoY in July, comfortably within Bank Indonesia's target range, primarily reflecting a sharp moderation in food inflation. Nevertheless, core inflation remained elevated at 2.76% YoY and continued to rise monthly, while transportation and service-related prices accelerated, suggesting that the improvement in headline inflation remains partly driven by volatile components rather than a broad-based disinflationary trend. Against this backdrop, Bank Indonesia (BI) maintained the BI-Rate at 5.75% in August, balancing the need to support domestic growth with the imperative to preserve exchange-rate and financial stability. Rather than relying solely on the policy rate, BI is increasingly deploying targeted instruments, including foreign-exchange interventions, hedging incentives, and accommodative macroprudential measures. Stronger loan growth is broadly consistent with improving policy transmission. Loan growth accelerated to 13.58% YoY in July, the strongest pace since August 2014, while banking fundamentals remained sound, supported by a 23.70% CAR, low NPLs, and adequate liquidity. This combination of contained inflation, accommodative credit conditions, and strong banking-sector buffers should continue to provide a meaningful domestic policy cushion, although the sustainability of credit-led growth will ultimately depend on a broader recovery in real-sector demand.

The key vulnerability for the remainder of 2026 is increasingly shifting toward the external sector, where stronger import demand, higher energy costs, and geopolitical risks are placing renewed pressure on Indonesia's external balance and the Rupiah. Imports rose 34.27% YoY in June, substantially outpacing the 8.84% increase in exports and pushing the trade balance into a USD0.45 billion deficit for the second consecutive month. More significantly, the current account deficit widened sharply to USD12.49 billion, equivalent to 3.3% of GDP in Q2, driven by a substantial narrowing of the goods surplus amid higher oil prices, alongside wider services and persistently large primary income deficits. This represents a marked deterioration from 2025 and highlights Indonesia's sensitivity to global energy prices and geopolitical disruptions through the import channel.

The external imbalance has also increased pressure on the Rupiah, although the currency strengthened to IDR17,855/USD by 18 August following intensified stabilization measures by Bank Indonesia, including expanded hedging incentives and efforts to deepen local-currency transactions. Importantly, foreign exchange reserves remained robust at USD145.3 billion, equivalent to 5.5 months of imports, providing a substantial external buffer. Going forward, however, the sustainability of the recovery will depend increasingly on whether stronger domestic demand can be maintained without generating a persistent deterioration in the external balance, particularly if global energy prices, capital-flow volatility, and geopolitical tensions remain elevated.

RECENT ECONOMIC DEVELOPMENTS: GLOBAL MARKETS

Recent Economic Developments: Global Markets

United States

MANUFACTURING SECTOR

The S&P Global Manufacturing PMI remained firmly in expansion territory at 53.9 in July 2026, unchanged from June, extending the improvement in factory conditions to 12 consecutive months. However, underlying momentum softened, with output growth easing to its weakest pace since March and new orders slowing for a third consecutive month. Export orders continued to contract amid tariff pressures and subdued overseas demand, while supply-chain disruptions remained significant, with supplier delivery times deteriorating at one of the fastest rates in four years. Although input-cost inflation eased to a four-month low, elevated energy and tariff-related costs continued to push manufacturers to raise selling prices.

SERVICES SECTOR

The services sector strengthened significantly, with the PMI rising to 54.6 in July from 51.2 in June, supported by stronger domestic demand and increased spending related to the FIFA World Cup and Independence Day. New business expanded at the fastest pace since November, while firms also increased investment in sales, marketing, and product development. Employment consequently rose at the strongest pace in eight months. Nevertheless, export orders declined at the fastest pace since 2022 amid tariffs and the Middle East conflict, while input-cost inflation reached a 14-month high, increasing pressure on businesses to pass higher raw-material and tariff costs through to consumers.

LABOR MARKET

Labor-market conditions showed signs of weakening in July. The unemployment rate nevertheless declined to 4.1% in July 2026, down from 4.2% in June, largely because labor-force participation weakened sharply to 61.4%, its lowest level since early 2021. Total employment and the labor force both contracted, indicating that the improvement in the headline unemployment rate masks softer underlying labor-market conditions and weaker labor supply. In addition, job openings in the US decreased by 178,000 to 7.359 million in June 2026. The number of job openings decreased in healthcare, leisure and hospitality, wholesale trade, and business services.

INFLATION

The annual inflation rate eased for a second consecutive month to 3.4% YoY in July 2026, down from 3.5% YoY in June. The moderation indicates that the inflationary impact of the earlier energy shock associated with the Iran conflict is gradually fading, with gasoline and fuel oil inflation slowing to 24.6% YoY and 39.1% YoY, respectively, from 26.7% YoY and 42.9% YoY in June. Shelter inflation also moderated to 3.2% YoY from 3.3% YoY, while food inflation remained stable at 3.0% YoY.

Underlying price pressures also continued to moderate, with core inflation easing to 2.5% YoY, its lowest level in five months and the second consecutive monthly decline. The moderation was supported by slower price growth across several key categories, including shelter, airline fares, medical care, recreation, and household furnishings.

Overall, the latest data point to a gradually improving disinflationary trend, although persistent price pressures in shelter and selected services remain important considerations for the Federal Reserve's monetary policy outlook.

RETAIL SALES

Retail sales increased 5.0% YoY in July 2026, slowing from an upwardly revised 6.8% YoY in June, pointing to a notable moderation in consumer spending momentum. On a monthly basis, retail sales declined for the first time in nine months, as the temporary boost from large tax refunds faded and consumer demand normalized. The weakness was also partly amplified by unfavorable base effects following the earlier timing of Amazon's Prime Day into June, with other retailers offering competing promotions. A retreat in gasoline prices also weighed on receipts at service stations.

BALANCE OF TRADE

The trade deficit narrowed to USD73.3 billion in June 2026 from USD77.6 billion in May, primarily as imports declined more sharply than exports. Imports declined 1.8% YoY to USD388.0 billion, driven by lower purchases of capital goods and consumer goods, particularly computers and pharmaceuticals, while services imports edged higher. Exports fell 0.9% YoY to USD314.7 billion, reflecting weaker shipments of industrial supplies, including crude and fuel oil, and capital goods, although services exports increased on stronger financial services and travel. Despite the monthly improvement, the cumulative trade deficit in H1 2026 declined substantially to USD371.2 billion from USD560.5 billion a year earlier, suggesting that trade flows are gradually normalizing following the front-loading of imports that preceded them, although uncertainty over US trade policy remains.

The U.S. economy remains resilient, with strong services activity and improving inflation providing important buffers, but leading indicators increasingly point to a gradual moderation in domestic momentum. The key risks ahead are weaker consumer and labor-market dynamics, persistent tariff and energy-cost pressures, and continued weakness in external demand and manufacturing.

Euro Area

MANUFACTURING SECTOR

The Euro Area Manufacturing PMI increased to 51.9 in July from 51.4, signalling the strongest improvement in factory conditions since April. Manufacturing output expanded at its fastest pace since March 2022, supported by the completion of backlogged orders and a modest recovery in new business. However, the recovery remained fragile, with new orders increasing only marginally and export orders declining again. Manufacturers continued to reduce employment and purchasing activity, although easing input-cost pressures allowed factory-gate price inflation to moderate.

SERVICES SECTOR

The services sector returned to stronger expansion, with the PMI rising to 51.7 in July from 49.4 in June, reaching its highest level in five months. The improvement was supported by lower energy prices following a temporary truce between the U.S. and Iran, which helped improve operating margins and revive new business. However, most new contracts came from domestic clients, while backlogs continued to decline, suggesting that the recovery remains primarily domestically driven and external demand remains relatively weak.

INDUSTRIAL PRODUCTION

Industrial production in the Euro Area increased 0.1% YoY in June 2026, marking a notable improvement from the weakness observed in previous periods. The unexpected expansion suggests that industrial activity is showing signs of stabilization despite persistent challenges from elevated production costs, fragile external demand, and geopolitical uncertainty.

UNEMPLOYMENT

The Euro Area unemployment rate remained stable at 6.3% for a fourth consecutive month in June 2026, indicating continued resilience in labour-market conditions despite elevated energy costs and interest rates. However, the number of unemployed individuals increased by 69,000 to 11.13 million, while labour-market performance diverged across major economies. Unemployment increased in Germany and Italy, remained unchanged in France, and declined in Spain and the Netherlands, suggesting that labour-market resilience remains uneven across the region.

BALANCE OF TRADE

The Euro Area recorded a trade surplus of EUR8.6 billion in June 2026, widening from EUR4.8 billion a year earlier and marking the largest monthly surplus since February. The improvement was primarily driven by a 14.4% YoY increase in goods exports to EUR272.5 billion, reaching the highest level in more than a year, while imports rose at a slower pace of 13.1% YoY to EUR264.0 billion. The stronger external trade performance reflects broad-based improvements across key product categories, particularly chemicals and related products, other manufactured goods, and food and drink, which more than offset the region's larger energy deficit. The machinery and vehicles balance also improved modestly, further supporting the overall trade position.

Trade flows strengthened across major trading partners, indicating relatively broad-based external demand. Exports increased to the U.S. (10.3% YoY), China (14.4% YoY), the U.K. (7.7% YoY), and Turkey (6.5% YoY), while imports also recorded strong growth from these markets, particularly the U.S. (11.6% YoY), China (12.0% YoY), and the U.K. (12.1% YoY). Overall, the widening trade surplus suggests that export momentum remained resilient despite ongoing global trade and geopolitical uncertainties, with stronger manufactured goods exports helping to offset continued pressure from the energy balance.

INFLATION RATE

Euro Area annual inflation accelerated to 2.9% YoY in July 2026, up from 2.8% YoY in June, keeping headline inflation significantly above the European Central Bank's 2.0% target. The acceleration was primarily driven by a renewed increase in energy prices, with energy inflation rising sharply to 10.3% YoY from 8.5% YoY, as the resumption of hostilities between the U.S. and Iran intensified energy-market pressures. At the same time, underlying price pressures also strengthened, with services inflation edging up to 3.3% YoY from 3.2% YoY and non-energy industrial goods inflation increasing to 0.9% YoY from 0.7% YoY. In contrast, inflation for food, alcohol, and tobacco moderated to 1.2% YoY from 1.5% YoY, providing some offset to the broader increase.

The pickup in both headline and core inflation suggests that inflationary pressures are becoming more persistent and broad-based, rather than being driven solely by energy prices. Core inflation, excluding energy and food, increased to 2.5% YoY from 2.4% YoY, indicating renewed pressure from domestic and service-related components. Inflation also accelerated across several major economies, including Germany (2.8% YoY), France (2.4% YoY), Spain (3.9% YoY), and the Netherlands (3.0% YoY), while Italy recorded a modest easing to 2.9% YoY.

Overall, the July reading points to a more challenging inflation environment for the Euro Area, as renewed energy-price pressures coincide with firmer underlying inflation, potentially limiting the European Central Bank's room to ease monetary policy further in the near term.

RETAIL SALES

Euro Area retail sales increased by only 0.7% YoY in June 2026, slowing sharply from a revised 1.9% YoY gain in May and marking the weakest growth since July 2024. The moderation indicates that consumer demand remains relatively subdued despite improvements in consumer sentiment. The weak retail performance also suggests that elevated living costs and the broader uncertainty surrounding the economic outlook continue to constrain household spending.

CONSUMER CONFIDENCE

Consumer confidence improved for a third consecutive month, rising to -15.9 in July from -17.6 in June, supported by broad-based gains across the survey's key components. Consumers became more optimistic about the economic outlook and reported improved perceptions of both current and expected household financial conditions. Intentions to make major purchases also increased, indicating a gradual recovery in consumer sentiment that could provide some support to household demand despite still-subdued retail sales.

The Euro Area is showing early signs of economic stabilization, supported by improving business activity, resilient exports, and strengthening consumer confidence, but the recovery remains uneven and heavily reliant on domestic demand and external trade. Renewed energy-driven inflation and persistent weakness in consumption and external orders could constrain the recovery and limit the ECB's policy flexibility in the near term.

China

MANUFACTURING

China's manufacturing sector unexpectedly returned to contraction in July, with the official NBS Manufacturing PMI falling to 49.2 from 50.3 in June, marking the first contraction since February. Output declined for the first time in five months, while new orders and foreign orders also returned to contraction territory. The deterioration points to weakening domestic and external demand, compounded by elevated production costs, and suggests that strong export performance has yet to translate into a broad-based recovery in domestic industrial activity.

NON-MANUFACTURING

The non-manufacturing sector also weakened, with the official PMI falling to 49.0 in July from 50.2, signaling a return to contraction after two months of modest expansion. Both services and construction deteriorated, with the services business activity index declining to 49.3 and construction falling to 47.0. The simultaneous weakness across manufacturing and non-manufacturing sectors suggests that domestic economic momentum remains fragile despite strong external trade performance.

INFLATION RATE

China's annual inflation eased to 0.5% YoY in July 2026 from 1.0% YoY in June, reaching its lowest level since January. The moderation was driven by continued declines in food prices (-1.5% YoY vs -1.6% YoY in June) and slower non-food inflation (0.9% YoY vs 1.5% YoY), with food prices falling for a fourth consecutive month amid abundant pork supply and weak consumption. Transport inflation (0.4% YoY vs 4.1% YoY) also slowed substantially following government fuel-price reductions and easing global energy costs. Core inflation eased slightly to 0.9% YoY, indicating that underlying domestic price pressures remain subdued.

RETAIL SALES

China's retail sales increased 0.6% YoY in July 2026, slowing from 1.0% YoY in June and indicating that household consumption remained subdued. The weakness was particularly pronounced in big-ticket and property-related categories, with automobile sales falling 17.0% YoY, while furniture and building materials declined 8.8% YoY and 14.2% YoY, respectively. Petroleum product sales also contracted 7.6% YoY, suggesting continued softness in mobility and discretionary spending.

Excluding automobiles, however, retail sales grew a stronger 2.5% YoY, while communication equipment, cosmetics, food products, and tobacco and alcohol recorded solid growth. Catering revenue increased 1.4% YoY, and online retail sales of goods rose 4.6% YoY during the first seven months, indicating that digital consumption and selected consumer segments continued to provide some support.

Overall, the July data point to persistent weakness in domestic consumption, particularly in high-value discretionary purchases that remain sensitive to household confidence and the property-market wealth effect. The sharp contraction in automobiles, furniture, and building materials suggests that households remain cautious toward major purchases, while stronger performance in communication equipment, food, and online retail reflects a shift toward more selective and essential consumption.

As a result, the broader consumption recovery remains uneven, with weak big-ticket spending continuing to constrain domestic demand despite resilience in several consumer categories.

UNEMPLOYMENT RATE

China's surveyed urban unemployment rate increased to 5.2% in July 2026, from 5.0% in June, indicating a modest deterioration in labor-market conditions amid the broader slowdown in domestic economic activity. The increase was broad-based across both locally registered and migrant workers, with unemployment among the local labor force rising to 5.2% from 5.0%, while the migrant labor-force unemployment rate increased more notably to 5.2% from 4.9%. Within the migrant workforce, unemployment among workers with non-local agricultural household registration also edged higher to 4.9% from 4.8%.

The increase in unemployment, alongside weaker retail sales and slower industrial production, suggests that domestic economic momentum remains relatively fragile. While the labor market has not deteriorated sharply, the simultaneous softening in employment conditions and household consumption could reinforce cautious consumer behavior, particularly for discretionary and large-ticket purchases. This dynamic may limit the strength of the domestic-demand recovery and increase the importance of continued policy support to sustain economic activity.

BALANCE OF TRADE

China's trade surplus widened to USD112.5 billion in July 2026 from USD97.7 billion a year earlier, as exports significantly outpaced expectations. Exports surged 23.9% YoY to a record USD397.85 billion, driven by strong demand for AI-related technology products and a rush by manufacturers to ship goods to the US ahead of potential new tariffs. The U.S. applied a new 12.5% levy on Chinese products in late July, replacing a temporary 10% levy that had lapsed. Exports of semiconductors almost doubled in value terms from last year, and overall high-tech product exports soared 40.7%.

Meanwhile, imports rose 27.7% YoY to USD285.35 billion, easing from a 36% YoY jump in June, reflecting continued inventory accumulation and domestic demand. The strong export performance highlights the resilience of China's external sector, although it also underscores the economy's continued reliance on external demand amid weaker domestic activity.

MONETARY POLICY

The People's Bank of China (PBoC) kept its key lending rates unchanged in August 2026, maintaining the one-year Loan Prime Rate (LPR) at 3.0% and the five-year LPR at 3.5% for the 15th consecutive month. The decision reflects a cautious monetary-policy stance amid heightened uncertainty from the ongoing Middle East conflict and signs of weakening domestic economic momentum. At the same time, new yuan-denominated loans contracted sharply in July, recording their largest decline on record, pointing to weaker credit demand and continued caution among households and businesses. The persistence of declining housing prices further highlights the structural weakness in the property sector, which continues to weigh on domestic demand and confidence.

Against this backdrop, the PBoC has indicated that it will maintain an appropriately loose monetary-policy stance and deploy additional targeted measures as necessary. The current policy approach therefore appears focused on providing sufficient liquidity and supporting growth while avoiding an overly aggressive easing cycle, with the effectiveness of further policy support likely to depend on its ability to revive household demand, credit expansion, and confidence in the property market.

FOREIGN EXCHANGE RESERVES

China's foreign exchange reserves increased marginally to USD3.419 trillion in July from USD3.416 trillion in June. The rise was aligned with a drop in the dollar during the last day of July, largely due to some dollar-asset selling by foreign institutions after the Fed decision and the joint Japan-US intervention to strengthen the yen. Meanwhile, gold reserves also increased to 76.08 million troy ounces, reinforcing the continued strength of China's external liquidity buffer.

China's economy remains supported by exceptional export performance and strong external liquidity, but the widening gap between external resilience and weak domestic demand points to increasingly uneven growth. The key challenge ahead is whether policy support can restore household confidence, credit demand, and property-market stability sufficiently to broaden the recovery beyond the export sector.

RECENT ECONOMIC DEVELOPMENTS: DOMESTIC MARKETS

Recent Economic Developments: Domestic Markets

GROSS DOMESTIC PRODUCT

Indonesia's economy expanded 5.29% YoY in Q2 2026, moderating from 5.61% in Q1 and marking the slowest growth since Q3 2025, although domestic demand remained a key source of resilience. Private consumption grew 5.06% YoY, supported by government measures including the 13th-month salary, social protection programs, subsidies, and contained inflation, while consumer confidence and several high-frequency spending indicators remained supportive. Government consumption also remained strong at 15.97% YoY, reflecting accelerated spending on priority programs such as the Free Nutritious Meals (MBG) program, Fishermen Villages, and People's Schools. Meanwhile, fixed investment strengthened significantly to 6.87% YoY, supported by government capital expenditure, infrastructure development, and private investment, with direct investment increasing 7.1%, particularly foreign direct investment at 25.7%. However, the composition of growth points to a gradual shift away from household-led momentum, as private consumption growth has continued to moderate while investment has accelerated, and government spending has increased sharply. This suggests that near-term growth is becoming increasingly reliant on fiscal support and investment, placing greater importance on the sustainability of public spending and the ability of investment to translate into broader private-sector and household demand.

External-sector dynamics, however, remained a drag on overall growth momentum. Exports grew 4.13% YoY, supported by CPO, coal, and higher-value downstream products such as nickel, copper, and aluminium, but remained significantly below the pace of import growth. Imports accelerated to 8.82% YoY, reflecting strong demand for raw materials, capital goods, and consumer goods to support domestic activity and investment. This divergence indicates that domestic demand remains relatively robust, but the contribution from net exports weakened further.

Meanwhile, several domestic-oriented sectors continued to provide important support: trade expanded 6.39%, construction 6.68%, and information and communication 6.97%, while accommodation and food services grew 10.60%. Manufacturing remained relatively resilient, supported by food and beverages and metal and electronics industries, while transport and warehousing expanded 5.65% alongside stronger mobility and tourism activity.

From a forward-looking perspective, the Q2 moderation suggests that the strong momentum recorded in Q1 is gradually normalizing, although the underlying growth structure remains relatively resilient. Household consumption, government spending, and investment continue to provide buffers against external headwinds, while strong import growth reflects sustained domestic production and investment requirements. Spatially, growth remained broad-based across regions, with Java contributing the largest share of national output at 56.47% and expanding 5.65% YoY, while Bali–Nusa Tenggara recorded the fastest growth at

6.10% YoY; Sumatra and Kalimantan grew 5.06% YoY and 4.10% YoY, respectively, while Maluku–Papua slowed to 1.36% YoY amid weaker mining activity.

Overall, the Q2 performance points to an economy that remains supported by resilient domestic demand and investment, but with moderating consumption, weaker net exports, and softer performance in several key sectors suggesting that growth momentum may face increasing pressure in the second half of 2026.

INFLATION

Inflation eased to 2.88% YoY in July from 3.34%, remaining comfortably within Bank Indonesia's 1.5%–3.5% target range and reaching its lowest level since April. Food inflation slowed to a six-month low (2.97% vs 4.67% in June), reflecting improving food supply conditions amid El Niño risks. Price growth also moderated for housing (0.99% vs. 1.04%), education (1.0% vs. 1.27%), and personal care (9.04% vs. 10.1%), while clothing inflation was broadly unchanged (1.04% vs. 1.0%). In contrast, inflation accelerated for transport (5.12% vs. 4.57% in June), furnishings (1.72% vs. 1.44%), healthcare (1.96% vs. 1.84%), communication (1.50% vs. 1.26%), recreation (1.58% vs. 1.40%), and restaurants (2.55% vs. 2.36%).

However, the improvement in headline inflation should be interpreted with caution, as underlying price pressures remained relatively sticky. Core inflation held steady at 2.76% YoY while still increasing 0.14% MoM, suggesting that domestic price pressures have not weakened materially despite the softer headline figure. Meanwhile, transportation inflation accelerated to 5.12% YoY, contributing 0.62 percentage points to headline inflation, with gasoline and airfares remaining key contributors. Personal care and other services inflation also remained elevated at 9.04% YoY, largely reflecting higher jewellery-gold prices.

Overall, the July inflation reading provides near-term relief and supports the view that the June inflation spike was partly temporary, but the improvement was heavily influenced by volatile food prices and may therefore prove difficult to sustain if supply conditions normalize or seasonal pressures re-emerge. At the same time, persistent core and services-related inflation, alongside signs of softer household purchasing power, suggest that the latest decline should not yet be interpreted as evidence of a broad-based and firmly established disinflationary trend.

EXCHANGE RATE

The Rupiah strengthened to IDR17,855 per U.S. dollar on 18 August 2026, appreciating 0.78% point-to-point from its end-July level, as Bank Indonesia's intensified stabilization measures began to provide greater support to the exchange rate. The improvement reflects a more comprehensive policy response aimed at managing external volatility, strengthening foreign portfolio inflows, and deepening domestic money and foreign-exchange markets. Among the measures, Bank Indonesia increased the incentive for Swap Sell Hedging to 12.5%, while maintaining a 15% incentive for DNDF Hedging Sell transactions, alongside additional incentives to promote Local Currency Transactions (LCT) with partner countries. These measures are designed to strengthen hedging activity, improve foreign-exchange market liquidity, and reduce excessive demand for foreign currency in the spot market.

Bank Indonesia is also broadening the underlying transactions eligible for the 12.5% premium reduction incentive for Swap Sell Hedging to include foreign loans and foreign direct investment (FDI), in addition to portfolio inflows. The expansion, effective from the second week of September 2026 for eligible foreign loans and FDI entering Indonesia from July 1, is expected to strengthen the linkage between capital inflows and Rupiah liquidity management. Overall, the policy mix suggests that exchange-rate stability remains a key priority amid persistent global volatility and geopolitical risks. Going forward, Rupiah performance will remain sensitive to global interest rates, capital flows, commodity prices, and geopolitical developments, although the strengthened stabilization framework should provide a more supportive buffer against external shocks.

RETAIL SALES

Retail sales declined 3.0% YoY in June 2026, although the contraction moderated from 3.9% YoY in May and represented the mildest decline since the downturn began in April. The improvement was partly supported by government measures aimed at cushioning households against persistent cost pressures. Nevertheless, sectoral performance remained weak, particularly in information and communication equipment, while food and beverage and clothing sales also remained in contraction. The data suggest that consumer spending shows tentative signs of stabilization but remains under pressure.

CONSUMER CONFIDENCE INDEX (CCI)

Consumer confidence declined for the third consecutive month to 116.8 in July from 117.8 in the previous month, the lowest level since April 2025. The deterioration was driven by weaker assessments of current economic conditions, durable-goods purchasing conditions, and job availability. Expectations also weakened for future employment and business activity, although income expectations remained stable. Despite the decline, the index remained in optimistic territory, suggesting that consumer sentiment is weakening but has not yet shifted into outright pessimism.

PURCHASING MANAGER INDEX (PMI)

Indonesia's S&P Global Manufacturing PMI rose to 50.2 in July 2026 from 46.9 in June, marking its highest reading since February. Output rose after four months of decline, though growth was marginal, while new orders stabilized following June's sharp drop. Meanwhile, export sales remained weak, falling for a fifth month. Rising workloads drove the strongest backlog buildup since November 2025, prompting firms to add staff for the first time in five months, albeit modestly. Purchasing activity slipped again, though only fractionally. Delivery times lengthened for a tenth month due to shipping delays, but the deterioration was the mildest in the current sequence as material availability improved. Input cost inflation eased to a four-month low yet stayed elevated on pricier raw materials, leading to another sharp rise in selling prices.

BALANCE OF TRADE

Indonesia recorded a USD0.45 billion trade deficit in June 2026, reversing a USD4.11 billion surplus a year earlier and marking the second consecutive monthly deficit. Imports surged 34.27% YoY, accelerating from a 22.16% increase in May, amid higher oil prices. Meanwhile, exports grew 8.84% YoY, rebounding from a 5.73% drop in May, which was the steepest decline in six months. Non-oil and gas exports nevertheless recovered strongly, supported by shipments to major trading partners including the U.S., China, Japan, and ASEAN. The shift into deficit highlights growing pressure on the external sector as import growth continues to outpace export performance.

CURRENT ACCOUNT

Indonesia's current account deficit widened sharply to USD12.49 billion in Q2 2026, equivalent to 3.3% of GDP, from USD2.89 billion in the same period a year earlier, marking the largest current account deficit on record. The deterioration was primarily driven by a sharp narrowing of the goods trade surplus to USD1.32 billion from USD10.52 billion, as imports increased significantly amid higher oil prices associated with the Middle East conflict. The services deficit also widened to USD5.98 billion from USD5.30 billion, while the primary income deficit remained broadly elevated at USD9.67 billion. Meanwhile, the secondary income surplus improved marginally to USD1.75 billion, providing only limited offset to the broader deterioration in the current account.

The Q2 deficit represents a significant reversal from the relatively strong external position recorded in 2025, when the current account gap narrowed to just USD1.25 billion, or 0.1% of GDP, from USD8.58 billion in 2024. The sharp widening in Q2 was primarily driven by factors that appear transitory rather than a broad-based deterioration in external fundamentals. The oil and gas trade deficit widened as higher global oil prices increased the value of oil imports, while the non-oil and gas trade surplus narrowed as imports of non-oil and gas products increased to support sustained domestic economic activity. This suggests that the deterioration was partly a reflection of stronger domestic demand and elevated energy costs, rather than weakening export competitiveness alone.

Nevertheless, the combination of higher energy-related imports and stronger domestic import demand highlights Indonesia's sensitivity to global commodity prices and geopolitical disruptions through the import channel. If elevated energy prices persist or import growth continues to outpace exports, the wider current account deficit could place additional pressure on the Rupiah and external financing conditions. Bank Indonesia, however, continues to project the full-year current account deficit at 0.5%–1.3% of GDP in 2026, indicating that the Q2 deterioration remains manageable within the broader external-balance framework and is not yet viewed as a structural imbalance. Going forward, the trajectory of global energy prices, the pace of domestic import demand, export performance, and the strength of capital inflows will be critical in determining whether the Q2 widening proves temporary or evolves into a more persistent source of external-sector pressure.

LOAN GROWTH

Indonesia's loan growth accelerated to 13.58% YoY in July 2026, from 12.67% YoY in June, marking the strongest pace since August 2014 and signaling a continued strengthening in domestic financing activity. The acceleration was broad-based across key loan segments, although investment lending remained the main driver, with investment loans growing 23.09% YoY, substantially faster than working capital loans at 11.61% YoY and consumption loans at 5.30% YoY. The stronger performance of investment lending is consistent with improving investment activity and suggests that credit expansion is increasingly supporting productive financing rather than being driven primarily by household borrowing. The acceleration in credit growth also coincides with the continued implementation of accommodative macroprudential measures, particularly the optimization of the Macroprudential Liquidity Incentive (KLM) to encourage lending toward priority sectors. As of the first week of August, KLM incentives received by banks had reached IDR446.5

trillion, providing additional support to credit supply and financial intermediation.

However, the latest acceleration in lending should be interpreted cautiously, as the increase in loan growth alone is not sufficient to establish the effectiveness of macroprudential policies; rather, it is broadly consistent with improving policy transmission alongside strengthening financing demand. The banking sector's capacity to accommodate further credit expansion is also supported by strong capitalization, with the Capital Adequacy Ratio (CAR) at 23.70% in June, providing a substantial buffer against risks.

Credit quality and banking liquidity also remain relatively sound, reducing immediate concerns that the acceleration in lending is being accompanied by a material deterioration in financial stability. The aggregate non-performing loan ratio remained contained at 2.09% gross and 0.82% net, while the liquid assets to third party funds ratio stood at 23.10% in July, indicating that banks continue to maintain adequate liquidity buffers.

Overall, the combination of strong capitalization, which contains credit risk, and ample liquidity provides a supportive foundation for continued credit expansion. Importantly, the composition of growth with investment loans expanding significantly faster than both working capital and consumption loans, points to stronger financing demand from the productive side of the economy, although the sustainability of double-digit credit growth will ultimately depend on the continued recovery of real-sector activity and whether policy support can be translated into productive lending without encouraging excessive risk-taking.

MONETARY POLICY

Bank Indonesia held the BI-Rate at 5.75% at its 18–19 August 2026 policy meeting, while maintaining the Deposit Facility rate at 4.75% and the Lending Facility rate at 6.50%. The decision reflects a balancing act between maintaining macroeconomic and exchange-rate stability amid heightened global volatility and supporting sustainable domestic economic growth. With geopolitical tensions and the ongoing Middle East conflict continuing to generate risks to global energy prices, capital flows, and exchange rates, maintaining the current policy rate allows Bank Indonesia to preserve a relatively supportive monetary stance while retaining policy space to respond to renewed external pressures. The central bank continues to target inflation within the 2.5% ±1% range in 2026 and 2027, while strengthening its policy mix through monetary, macroprudential, and payment-system measures.

The policy direction increasingly emphasizes stability through market-based instruments rather than relying solely on the policy rate. Bank Indonesia continues to optimize foreign-exchange interventions through NDF, spot, and DNDF markets; strengthen pro-market monetary operations; and maintain adequate liquidity, including by sustaining double-digit primary money growth above 10%. At the same time, the expansion of eligible underlying transactions for Swap Sell Hedging is intended to improve Rupiah liquidity and facilitate the conversion of foreign funding into domestic currency. This approach allows monetary conditions to remain supportive of economic activity while addressing exchange-rate pressures through targeted instruments.

On the macroprudential side, Bank Indonesia continues to pursue an accommodative stance to support credit expansion and economic activity while preserving financial-system stability. The upcoming KLM for Money Market Deepening (KLM PPU), effective September 2026, is intended to improve liquidity distribution and deepen money-market activity while maintaining incentives for lending to priority sectors. Meanwhile, the Inclusive Macroprudential Financing Ratio (RPIM), effective October 2026, will strengthen incentives for financing to inclusive and sustainable sectors. Together with continued digital-payment system development, these measures indicate that the current policy mix is designed to preserve financial stability and Rupiah resilience while keeping credit and domestic economic activity supported.

FOREIGN EXCHANGE RESERVES

Indonesia's foreign exchange reserves declined marginally to USD145.3 billion in July from USD145.6 billion in June, primarily reflecting government external debt repayments and Bank Indonesia's foreign-exchange market intervention to stabilize the rupiah amid renewed global market volatility. These outflows were partly offset by tax and service revenues and government bond issuance. Despite the decline, reserves remained strong at 5.5 months of imports, well above the international adequacy benchmark of around three months, providing a substantial buffer to support external-sector and financial stability.

Indonesia enters H2 2026 with a relatively resilient domestic growth engine, supported by government spending, investment, accommodative credit conditions, and improving manufacturing activity, but with early signs of softer household demand and moderating overall momentum.

The key macroeconomic challenge is therefore shifting toward external resilience, as widening current-account pressures, elevated energy costs, and Rupiah volatility could increasingly constrain policy space unless domestic demand, capital inflows, and external financing conditions remain supportive.

ASSET ALLOCATION

Global Market

Global markets became more cautious in August as hopes for a U.S. – Iran peace agreement faded and tensions resurfaced, keeping the Strait of Hormuz effectively closed. Brent oil rose back above USD90/bbl, renewing concerns over energy-driven inflation. Global bond yields also remained elevated, with the UST 10Y yield around 4.7%, while the UST 30Y yield briefly reached its highest level since 2007. Higher yields and geopolitical uncertainty weighed on equity sentiment, although global equities remained relatively resilient as investors continued to focus on corporate earnings and the AI outlook.

Domestic Equity Market

The JCI continued its recovery in August, gaining 4.23% MTD as of 24 August 2026. The stronger Rupiah, which appreciated toward the IDR17,600 – 17,700 range, provided an additional positive catalyst for domestic equities. Market sentiment was also supported by MSCI maintaining Indonesia's Emerging Market classification, although foreign flows and market accessibility remain key factors to monitor.

Domestic Bond Market

The SBN market showed some improvement in August. SBN 10Y yield declined from around 7.37% at end of July to 6.96% on August 21, supported by domestic demand and foreign investor inflows. Despite the recent rally, upside risks to yields remain as global bond yields stay elevated and geopolitical tensions continue to pressure inflation expectations. The market also remains sensitive to Rupiah movements and fiscal developments. Overall, the improvement in SBN performance provides a more constructive backdrop, but does not yet warrant aggressive duration positioning.

Domestic Money Market

Domestic money market conditions remained relatively stable, with rates showing a gradual downward trend as liquidity conditions slowly improved. This was reflected in IndONIA easing toward 6.005 - 6.10%, from around 6.30% earlier in August. Similarly, the 12-month SRBI yield declined from 7.64% at end of July to 7.37% in the latest auction on 14 August. Despite the gradual decline, money market rates remain relatively high, reflecting still relatively tight liquidity conditions and BI's cautious policy stance.

Asset Allocation Takeaway

The market backdrop has become more constructive but still needs a selective approach. In equities, the JCI recovery, stronger Rupiah, and MSCI continued Emerging Market classification provide a more supportive backdrop, although foreign flows remain the key. In fixed income, improving SBN performance and gradually declining money market rates are positive, but yields remain relatively high and inflation and global yield risks persist. We therefore maintain a preference for short to mid duration bonds, without increasing duration above the benchmark, while maintaining selective equity exposure and waiting for further clarity before making a more aggressive allocation move.

COMMODITIES OUTLOOK

Key Commodities Market: awaiting further clarity from mining quota approval

July marked a relatively quiet month for market-moving headlines in the commodities space, especially compared with the previous month, when the market was bombarded by a mixed bag of policy developments, including the introduction of DSI, plans to raise royalties for several commodities, new benchmark prices for several minerals including nickel, and the proposed implementation of the gross-split scheme.

With most of these policy overhangs now largely resolved, and DSI's role confirmed as an intermediary rather than a trading house, at least for Phase 1 through the end of this year, it is expected that commodity markets to be driven more by underlying supply-demand dynamics. Lower policy and intervention risks should also create a more supportive industry backdrop.

NICKEL

On the supply-demand side, starting with nickel, the key price driver remains Indonesia's RKAB policy. The government is reportedly considering targeted additional RKAB approvals, particularly for captive mines supplying their own smelters. As a result, there is a limited upside to the current nickel ore production plan of around 260-270mn tonnes. As a result, a 10-15% increase is more likely, bringing total supply closer to 300mn tonnes.

COAL

For coal, the urgency to grant additional RKAB quotas appears higher. Indonesia also has relatively limited influence over global coal pricing, as overall coal supply and demand remain heavily driven by domestic production in China and India, despite Indonesia's dominant position in the seaborne market. At the same time, there is a domestic need to secure sufficient coal supply for PLN, particularly following the blackout earlier this year, which was suspected to be partly related to limited coal availability at power plants.

TIN

For tin, the supply-demand conditions appear relatively balanced. The structural story remains supportive given constrained and concentrated global supply, while demand continues to benefit from electronics, semiconductors and longer-term AI/data-center adoption. However, the near-term supply picture has improved as Myanmar's Man Maw mine gradually returns, with China's tin-concentrate imports from Myanmar tripling YoY in 1H26. Global mine production is also expected to recover this year, suggesting less immediate scarcity despite structurally tight supply. Tin prices are expected to increase, but with more limited upside following the strong rally so far this year.

COPPER

For copper, fundamentals remain relatively constructive. Mine-supply growth continues to lag demand, with disruptions across major producing regions keeping the refined market tight, while longer-term consumption remains supported by grid investment, electrification and rising power requirements from AI and data centers. However, with copper already trading around historically elevated levels and exchange inventories recently increasing, a further upside will increasingly depend on whether physical demand, particularly from China, can absorb the higher price environment.

GOLD

For gold, the outlook is less about traditional supply-demand dynamics and more about macro conditions. The market is seen to be constructive as continued central-bank buying, geopolitical uncertainty, concerns over US fiscal sustainability and a softer US dollar should provide support. That said, with gold already at elevated levels, the path could remain volatile as higher real yields or a more hawkish Fed would cap further upside. We expect to see gold maintaining its role as a portfolio hedge rather than expecting another straight-line rally from current levels.

FORWARD OUTLOOK AND STRATEGIC RISKS

Forward Outlook and Strategic Risks

The global economy continues to show greater resilience than initially feared, although growth remains weak by historical standards and below its pre-conflict trajectory. S&P Global has maintained its 2026 global GDP growth forecast at 2.4%, which remains 0.5 percentage point below its February pre-conflict forecast. Western Europe has delivered one of the largest positive surprises, with forecasts for both the Euro Area and Western Europe upgraded by 0.4 percentage point, although growth remains subdued at only 0.8% and 1.0%, respectively. Asia-Pacific remains the strongest major region, expanding by around 4.0 to 4.1%, with South Korea receiving a particularly significant upgrade from 1.9% to 2.8%, supported by AI-related investment and exports. China is expected to grow by around 4.5%, despite persistently weak domestic demand. The broader message is that successive shocks, including the Russia-Ukraine conflict, the 2025 shift in U.S. trade policy, and the 2026 US-Israel-Iran conflict, have not derailed global expansion. Various offsets, most recently the AI and technology investment boom, have helped cushion their impact.

Inflation developments have also become somewhat more favourable, but energy and geopolitics remain the most important channels through which the outlook could deteriorate again. Global manufacturing input-price pressures fell by almost 7 percentage points in the two months to July, the sharpest two-month decline outside pandemic periods in more than a decade. Nevertheless, Brent was still around USD90/bbl on 18 August, approximately 27% above its early-July low, while S&P Global's baseline assumes prices eventually moderate toward USD87/bbl by end-2026. Monetary policy is consequently becoming increasingly asynchronous. Markets assign a 65% probability of a 25-bp Fed hike by December, even though S&P expects US rates to remain unchanged this year, while tightening is expected elsewhere, including Japan and India. The global economy has therefore absorbed the first-round geopolitical shock surprisingly well. The more important test is whether persistent energy disruption eventually generates second-round inflation, tighter monetary conditions, higher sovereign yields and weaker global risk appetite.

Within Asia-Pacific, resilience is becoming increasingly two-speed. Regional growth of around 4.0% in 2026 is being supported disproportionately by semiconductors, electronics, AI infrastructure and other technology-intensive activities. Malaysia's new datacentre and cloud-computing investment approvals alone reached almost 8% of GDP in Q1 2026, illustrating the scale of the regional technology investment cycle. At the same time, energy-intensive and labour-intensive economies face increasing pressure from the Middle East shock. Brent moved from around USD70/bbl before the conflict to USD138 on 7 April, subsequently fell below USD70, and then rebounded to around USD105 by end-July. The initial 20 mb/d gross oil-supply shock has so far been reduced to an estimated net shock of only around 1 mb/d outside China, supported by rerouting, additional non-Gulf production, emergency inventories and demand compression. These buffers have prevented a much larger macroeconomic shock, but they are finite.

The consequences are already extending beyond oil markets. Inflation has risen since February in 22 of 26 Asia-Pacific economies with available data, while sovereign borrowing costs have increased materially in several countries. This exposes a deeper regional vulnerability. Asia is simultaneously confronting energy insecurity, rising trade protectionism and growing dependence on capital-intensive technology investment. AI, semiconductors and data centres can sustain exports, investment and headline GDP, but they do not necessarily generate employment and household income on the same scale. Strong technology-led growth can therefore coexist with relatively weak job creation and consumption. This matters against an already disappointing productivity backdrop. Between 2010 and 2024, only 19 of 44 developing Asia-Pacific economies narrowed their per-capita income gap with the United States. The medium-term question is therefore not simply how much AI investment enters the region, but whether its productivity gains diffuse into SMEs, workers and the broader domestic economy.

Global Trade, Energy and Logistics

Against this mixed macroeconomic backdrop, global trade entered 2026 with surprisingly strong momentum, although the headline numbers overstate the strength of underlying demand. Global goods trade reached approximately USD13.7 trillion in H1 2026, up 12.5% YoY, while services trade increased 10.5%. UNCTAD's Q2 nowcast suggests goods trade growth accelerated further to 6.4% QoQ, potentially putting global trade on course for a record annual value. Yet trade-price inflation increased to 3.6% QoQ in Q1 and an estimated 5.1% in Q2, meaning a significant share of nominal trade growth reflects higher energy, transportation, logistics and production costs rather than simply stronger physical trade volumes.

More importantly, the trade expansion is becoming highly concentrated geographically and sectorally. Korea's goods exports increased 20% QoQ, while China's exports and imports rose 11% and 13%, respectively. By contrast, developing economies outside East Asia recorded declines in both imports and exports. The sectoral divergence is even more pronounced. Trade in critical minerals grew 38% QoQ, semiconductors 25%, electronics 18%, batteries 15%, ICT products 14% and EVs 11%. Indonesia is strategically positioned within several of these expanding value chains, particularly critical minerals, batteries and EVs. Yet this opportunity also creates concentration risk. Indonesia's trade dependence on China increased by 3.3 percentage points, the largest increase among the bilateral relationships examined. Global trade in 2026 should therefore not simply be characterised as booming. It is becoming more technology-led, East Asia-centred, price-inflated and geopolitically concentrated.

Geopolitical fragmentation is increasingly visible in shipping and logistics costs. Drewry's World Container Index rose for a third consecutive week to USD4,526 per 40ft container, up 4% WoW, with Shanghai-New York and Shanghai-Los Angeles rates both increasing 9% to USD9,507 and USD6,802, respectively. Pressure is even more visible within Asia. The Intra-Asia Container Index increased 6% WoW to USD1,091, while Shanghai-Jawaharlal Nehru surged 26%, Shanghai-Singapore 15%, and Shanghai-Laem Chabang 13%. Drewry also expects 49 blank sailings between 24 August and 27 September, equivalent to approximately 6% of scheduled East-West sailings, with the Transpacific accounting for 60% of cancellations. Importantly, freight markets are not facing a simple generalized shortage of ships. Effective capacity is being constrained by blank sailings, port congestion, adverse weather, security risks and geopolitical rerouting, allowing freight costs to remain elevated even if final demand moderates.

Energy reinforces this logistics shock. The IEA expects global oil demand to decline by 1.6 mb/d in 2026, yet supply is projected to fall even more sharply, by 4.3 mb/d. July production recovered to

101.5 mb/d but remained 6.3 mb/d below year-earlier levels, with 8.3 mb/d of Gulf production still shut in. Global inventories fell another 69 million barrels in July and have declined 410 million barrels since the beginning of the conflict, leaving the IEA projecting a 1.8 mb/d global oil deficit in Q3. Refining adds another constraint. Global refinery throughput remains almost 5 mb/d below last year, while seaborne petroleum-product trade has declined 3.8 mb/d YoY. The risk has therefore broadened from high crude prices into a combined energy, refined product and logistics bottleneck, capable of keeping business input costs elevated even in an environment of relatively soft global demand.

Indonesia: Resilient Growth, but a Narrower Buffer

Indonesia enters this environment from a relatively strong position, but the margin of safety is narrowing. GDP expanded 5.29% YoY in Q2 2026, moderating from 5.61% in Q1, while investment remained strong, with gross fixed capital formation accelerating from 5.96% to 6.87%. Investment in vehicles and other equipment increased 26.0% and 16.2%, respectively. Domestic demand, however, is less uniformly strong. Household consumption slowed from 5.52% to 5.06%, despite the long holiday period, while government consumption expanded 15.97%. Indonesia is therefore still growing above 5%, but the composition increasingly points toward investment and government spending rather than accelerating household demand. This distinction matters because resilient headline GDP can coexist with considerably softer conditions for household-facing businesses.

Inflation currently gives Bank Indonesia some breathing room. Headline inflation declined from 3.34% in June to 2.88% YoY in July, accompanied by 0.14% monthly deflation. However, the improvement was heavily concentrated in volatile food, where inflation fell from 5.58% to 2.52%, while core inflation remained almost unchanged at 2.77% and transport inflation reached 5.12%. The current disinflation should therefore not be interpreted as a broad disappearance of price pressures. Energy, transportation and imported-input costs remain potential sources of renewed inflation, particularly if Rupiah depreciation coincides with another increase in international oil and freight prices.

More importantly, Indonesia's clearest vulnerability is shifting toward the external balance. The economy recorded a USD 0.45 billion trade deficit in June, while the January-June trade surplus collapsed 81.75% YoY, from USD19.60 billion to only USD3.58 billion. Imports surged 34.27% YoY to USD25.91 billion, far exceeding export growth of 8.84%, while oil-and-gas imports more than doubled, rising 105.15% to USD 4.56 billion. Financial conditions have recently stabilized, with USD 0.28 billion of portfolio inflows through 13 August, a 1.11% two-week Rupiah appreciation, and the 10-year government yield declining 11 bps to 7.21%. Nevertheless, the Rupiah remains approximately 6.9% weaker YTD, while foreign-exchange reserves have fallen to USD145.3 billion. Indonesia remains resilient, but its ability to absorb another external shock is weaker than the headline GDP number suggests.

Five Aspects to Anticipate Ahead

1. Energy and geopolitics could evolve into a broader monetary and financial shock. The immediate question is whether Middle East disruption remains temporary or develops into a prolonged constraint on energy supply. With global oil production projected to decline 4.3 mb/d, Gulf production still 8.3 mb/d below pre-war levels, and inventories already down 410 million barrels, the buffer

against another disruption has diminished substantially. If oil fails to moderate toward the USD87/bbl end-2026 baseline, higher energy costs could increasingly migrate into transportation, production and core inflation. This would delay monetary easing, maintain upward pressure on sovereign yields and keep corporate financing costs elevated. For Indonesia, the transmission is particularly important because higher oil prices simultaneously affect the import bill, external balance, Rupiah, inflation and monetary-policy space.

2. Strong global trade will increasingly compete with supply-chain fragmentation. The combination of 12.5% YoY goods-trade growth and extraordinary expansion in critical minerals, semiconductors, electronics, batteries and EVs is encouraging, but the gains are increasingly concentrated in East Asia and technology-intensive sectors. At the same time, protectionism, geopolitical realignment and dependence on a limited number of production hubs are increasing. Indonesia can benefit significantly through minerals, batteries, EVs and manufacturing, but greater dependence on China also increases exposure to Chinese demand and geopolitical developments. The strategic question is whether Indonesia can use this cycle to build higher domestic value added, deeper manufacturing capabilities and more diversified export markets, rather than merely increasing dependence on a narrow set of commodities, technologies and trading partners.
3. Logistics costs could become a critical bridge between geopolitical disruption and corporate profitability. Freight rates matter because they interact with energy prices and currency movements rather than operating independently. An Indonesian manufacturer importing machinery, components or intermediate inputs can simultaneously face higher shipping costs, more expensive energy and Rupiah depreciation. This creates margin compression even without a collapse in demand. The same mechanism extends into insurance through higher vehicle-parts prices, medical equipment costs, machinery replacement values and construction expenses. Claims inflation can therefore rise faster than headline CPI, particularly in motor, marine, property and health insurance. Freight rates, the Rupiah and imported-input prices should consequently become part of the forward-looking risk dashboard for financial institutions.
4. Indonesia's external buffer deserves more attention than headline GDP. The most important domestic transmission chain is increasingly clear: higher oil and freight costs lead to a larger import bill, which narrows the trade and current-account buffer, increases Rupiah pressure and imported inflation, reduces room for BI easing, and ultimately keeps domestic financing costs elevated. The collapse of the H1 trade surplus by 81.75%, combined with a 105.15% increase in oil-and-gas imports, means Indonesia is entering the next phase of global uncertainty with a considerably thinner external cushion. If energy prices remain high, BI may have limited room to ease even with headline inflation at 2.88%. Indonesia could consequently maintain GDP growth around 5% while businesses and households experience financial

conditions considerably tighter than the headline growth figure would imply.

5. The technology boom must ultimately translate into broader productivity, employment and income growth. Asia's AI and technology cycle is providing an important counterweight to conventional weakness, but capital-intensive growth is not automatically broad-based growth. Semiconductors, data centres, EVs and AI infrastructure can generate very large investment and export numbers without equivalent increases in employment and household purchasing power. For Indonesia, the opportunity is therefore larger than simply attracting technology investment. The objective should be to connect new investment with domestic suppliers, skills formation, SMEs, higher-value manufacturing and productivity diffusion. Otherwise, Indonesia could participate in a powerful regional investment cycle without capturing its full employment, income and productivity benefits.

Implications for Financial Services and Insurance

For financial institutions, this environment means macro resilience can coexist with increasing balance-sheet and underwriting risks. Interest-rate and asset-liability-management risks remain central. Higher-for-longer yields can improve insurers' reinvestment returns, but rapid yield movements can simultaneously generate mark-to-market pressure, valuation volatility and duration mismatches on existing portfolios. Banks face higher funding costs and weaker repayment capacity among leveraged borrowers, while guarantee companies may eventually experience higher claims if refinancing pressure translates into defaults. The relevant risk is therefore not simply whether BI cuts or holds rates. Financial institutions need to assess the interaction between global yields, Indonesian government bond yields, Rupiah volatility, liquidity conditions and borrower refinancing capacity.

A second concern claims inflation, which may not be fully captured by headline consumer inflation. The cost structure relevant to insurers differs significantly from the CPI basket. Higher international freight costs, energy prices and Rupiah depreciation can raise the domestic cost of imported automotive parts, medical equipment, pharmaceuticals, machinery and construction materials. These pressures can translate directly into higher motor repair costs, marine and cargo losses, property reinstatement costs and health claims. If claims severity rises faster than premium repricing, loss ratios and underwriting margins can deteriorate even while headline inflation remains within Bank Indonesia's target range. Insurers therefore need to monitor sector-specific cost indicators alongside conventional inflation data.

Credit and underwriting risks are also likely to become increasingly sector-specific rather than economy-wide. Import-dependent manufacturers, transportation and logistics companies, energy-intensive industries and highly leveraged firms face a combination of higher fuel costs, freight rates, currency pressure and potentially elevated financing costs. Household-facing businesses could simultaneously encounter weaker demand if consumption continues to moderate. In contrast, critical minerals, batteries, EVs, digital infrastructure and selected technology-related businesses may continue benefiting from the regional investment and trade cycle. Banks, insurers and guarantee companies therefore need to move beyond aggregate GDP assumptions toward sector-level stress testing that combines oil-price, freight-rate, Rupiah and interest-rate shocks, and then translates these scenarios into NPLs, probability of default, guarantee claims, insurance loss ratios and capital requirements. GDP growth above 5% should not be interpreted as evidence that credit quality is improving uniformly across the economy.

EXHIBITS

EXHIBIT 1 • INDONESIA MACROECONOMICS INDICATORS

Indicator	Unit	2025							2026						
		Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
GDP Growth	% YoY	5,12	-	-	5,04	-	-	5,39	-	-	5,61	-	-	5,29	-
CPI Inflation	% YoY	1,87	2,37	2,31	2,65	2,86	2,72	2,92	3,55	4,76	3,48	2,42	3,08	3,34	2,88
Core Inflation	% YoY	2,37	2,32	2,17	2,19	2,36	2,36	2,38	2,45	2,63	2,52	2,44	2,59	2,76	2,76
Manufacturing PMI	Level	46,9	49,2	51,5	50,4	51,2	53,3	51,2	52,6	53,8	50,1	49,1	50,0	46,9	50,2
Exports	% YoY	11,29	9,86	5,78	11,41	-2,31	-6,06	11,6	3,39	1,01	-3,1	21,98	-5,73	8,84	
Imports	% YoY	4,28	-5,86	-6,56	7,17	-	0,46	10,8	18,21	10,85	1,51	22,49	22,16	34,27	
Foreign Currency Reserves	USD bn			151	149	150	150	156	155	152	148	146	145	146	145
Money Supply (M2)	% YoY	6,4	6,6	7,6	8	7,7	8,3	9,6	10,00	8,70	9,7	9,2	10,8	8,7	8,3
Commercial Banking Total Deposits and Securities	% YoY	6,19	6,54	7,61	8,01	7,82	8,37	8,37	10,35	8,76	10,47	9,04	10,48	7,7	-
Commercial Banking Credit	% YoY	7,8	7,0	7,6	7,7	7,36	7,74	9,69	9,96	9,37	9,49	9,98	11,51	12,67	13,58
Fiscal Surplus/Deficit	% GDP	-2,77	-	-	-2,73	-	-	-2,92	-2,68	-0,53	-0,93	-0,64	-0,70	-0,76	-0,91

EXHIBIT 2 • EXCHANGE RATE

Exhibit 2.1 Difference of Spot and Forward IDR

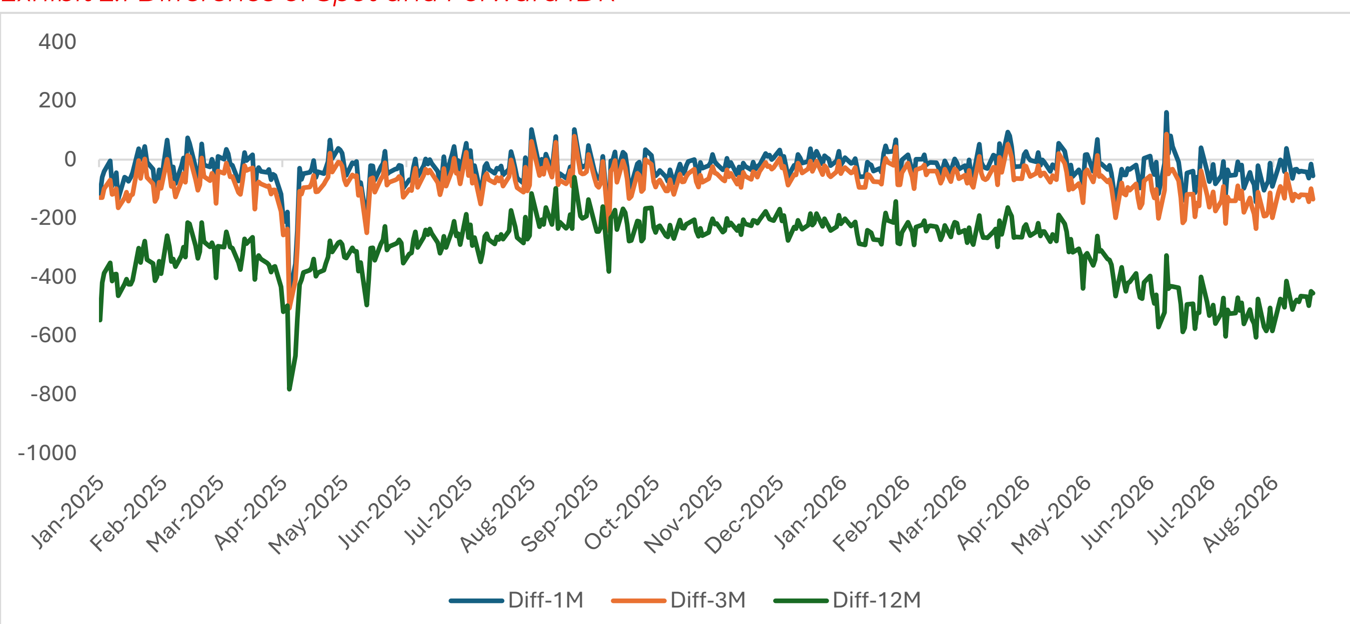

Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

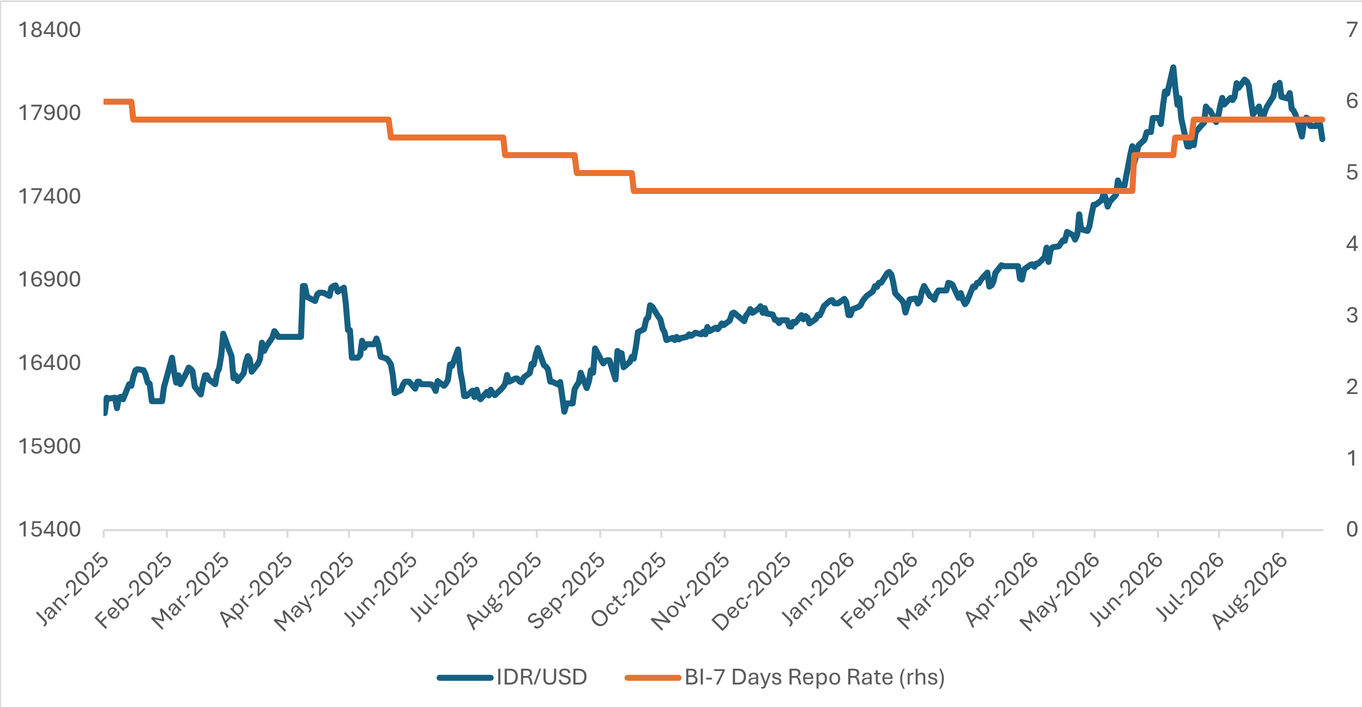

Exhibit 2.3 EM's Exchange Rate Against USD Index (01 / 01 / 2025 = 100)

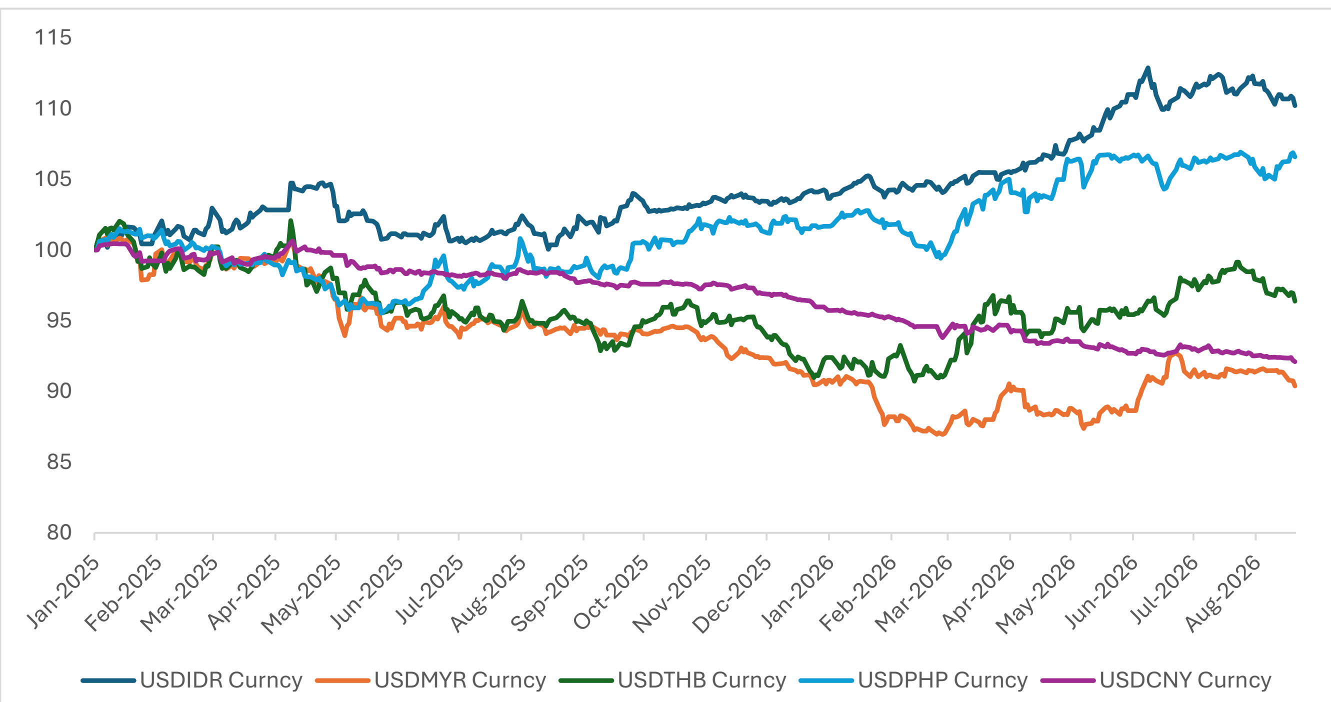

EXHIBIT 3 • DOMESTIC LIQUIDITY INDICATORS

Exhibit 3.1 INDONIA 30D & 90D and BI-Rate

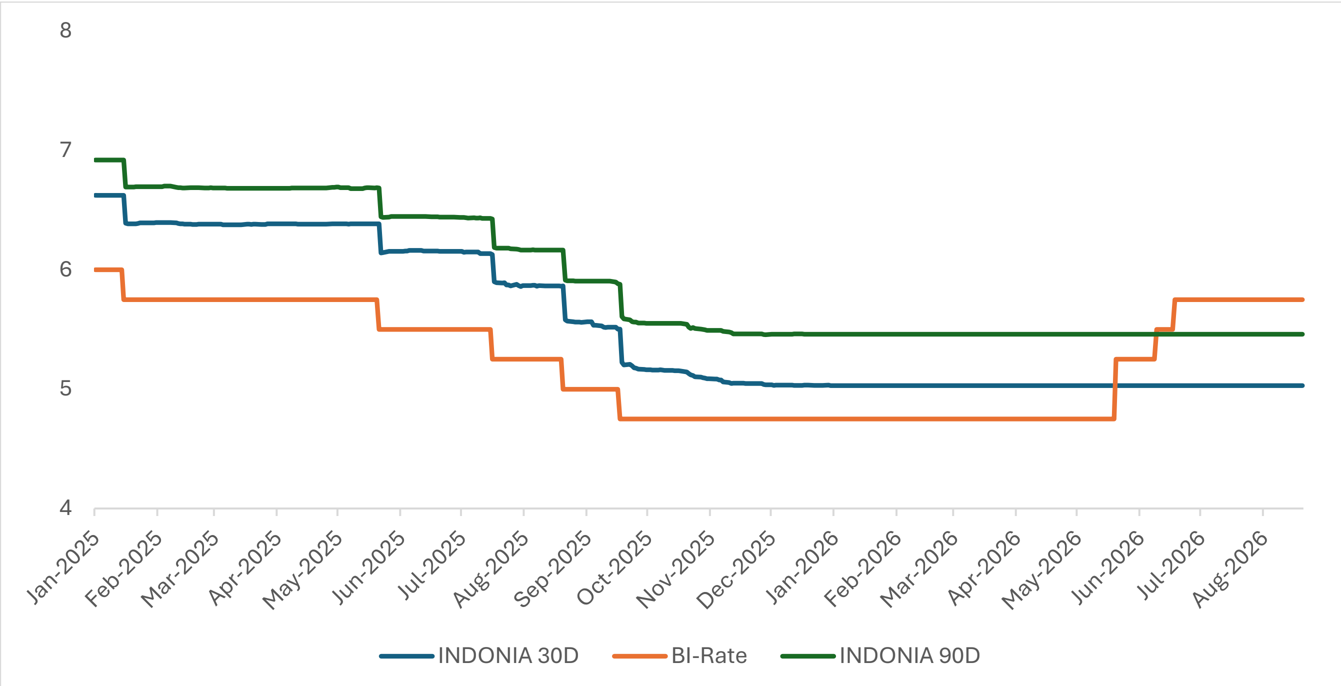

Exhibit 3.2 Monetary Operations of BI

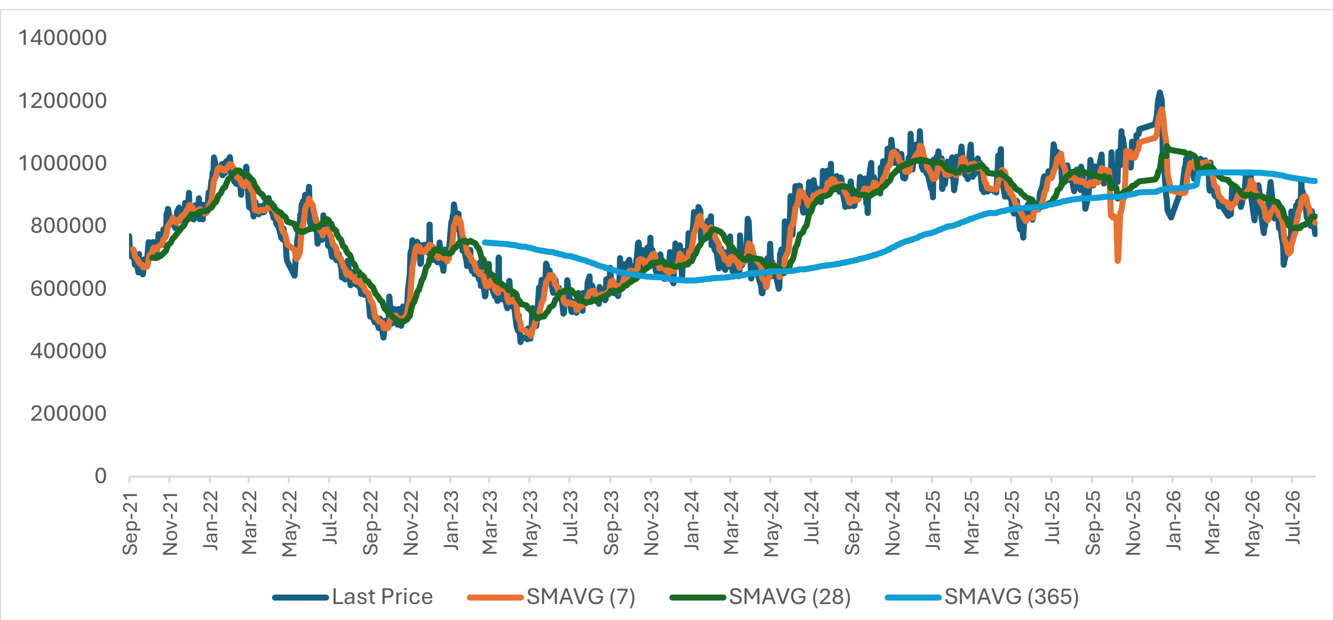

Exhibit 3.3 Indonesia's Foreign Exchange Reserves USD

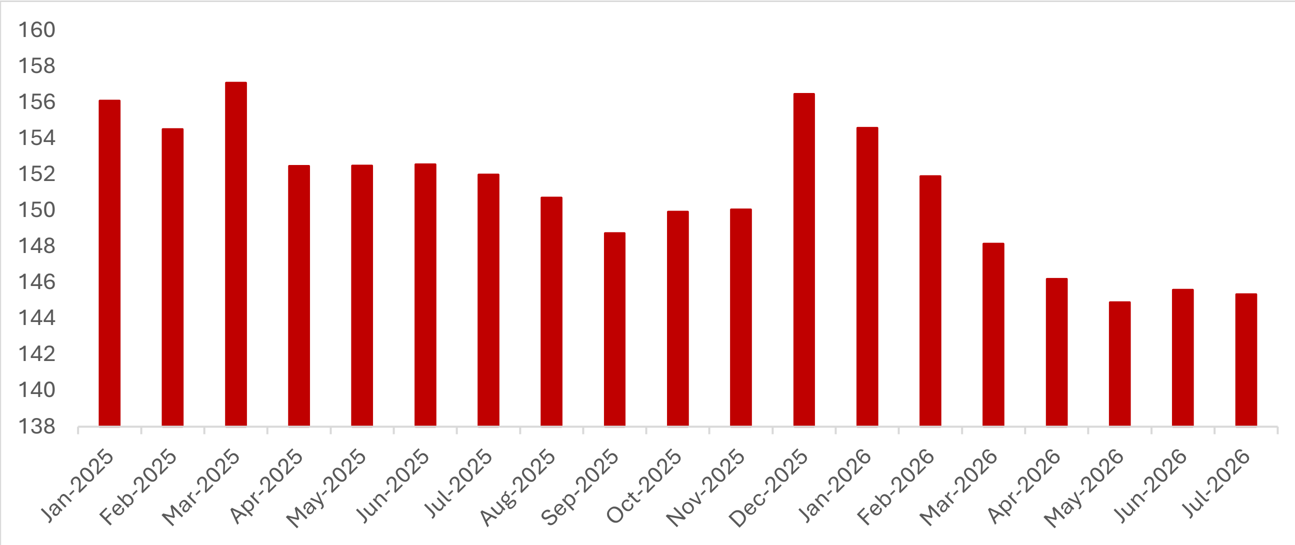

EXHIBIT 4 • FINANCIAL MARKETS

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

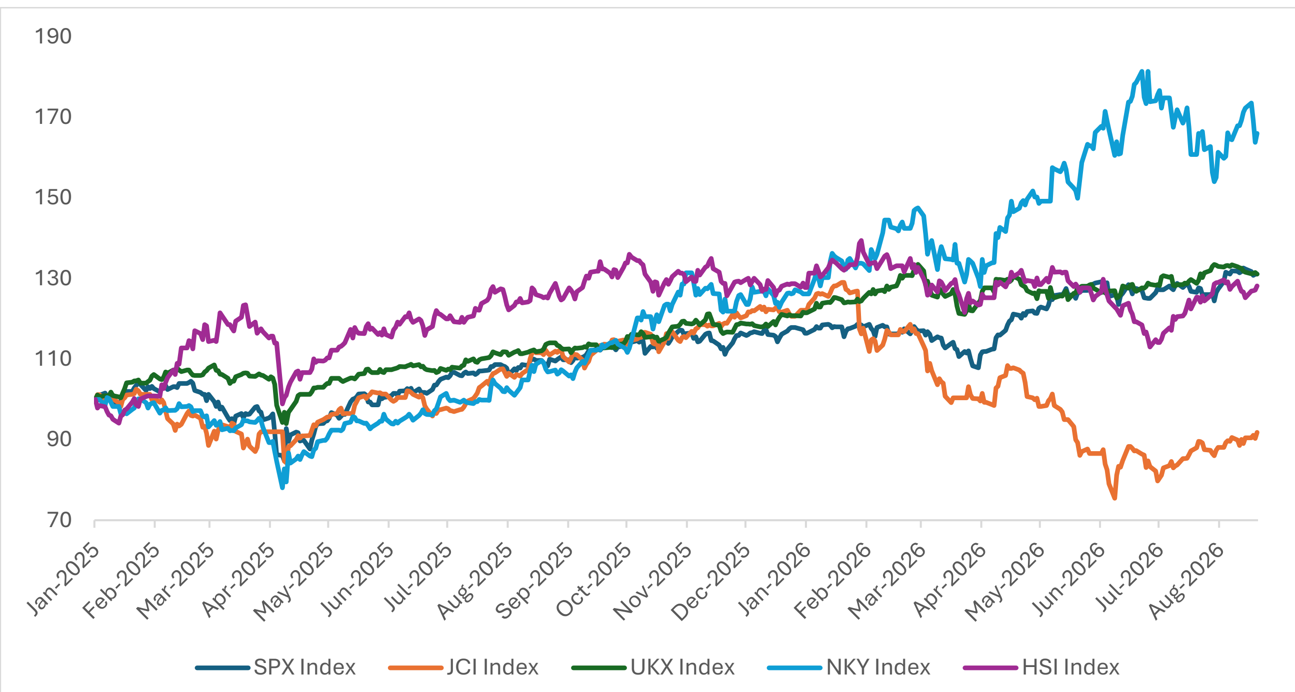

Exhibit 4.2 Indonesia Bond Yield Curve

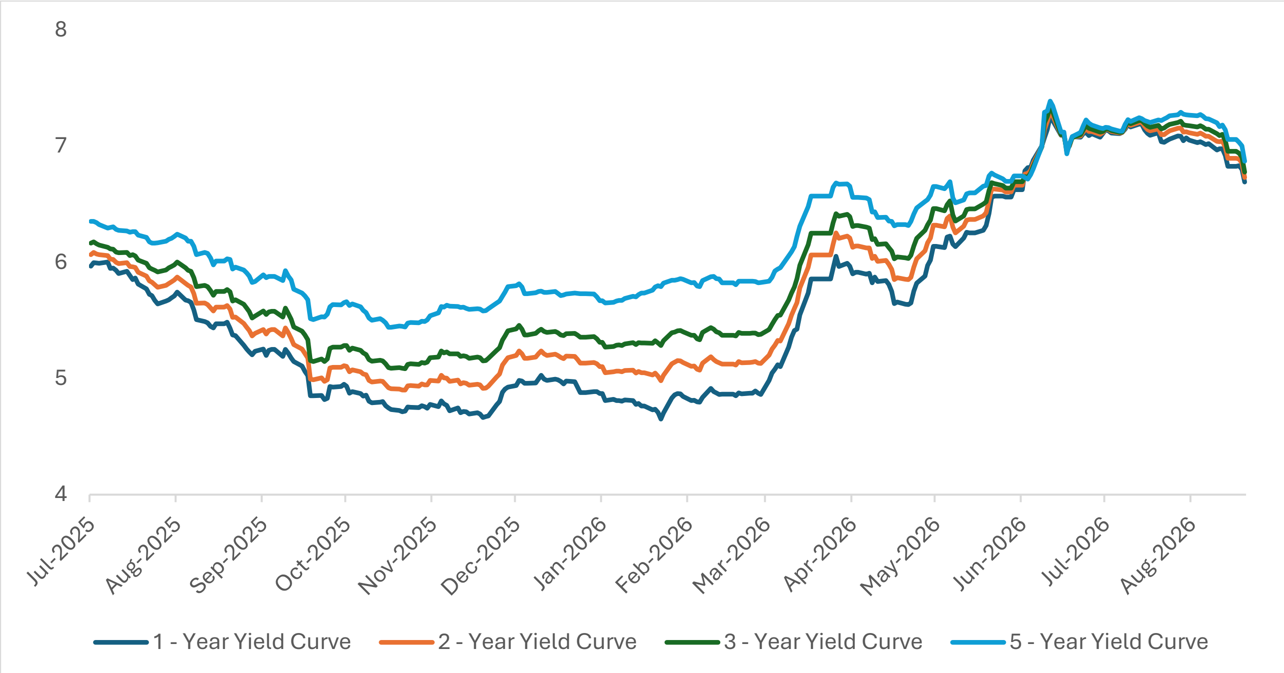

Exhibit 4.3 Indonesia Stock Market & Turnover

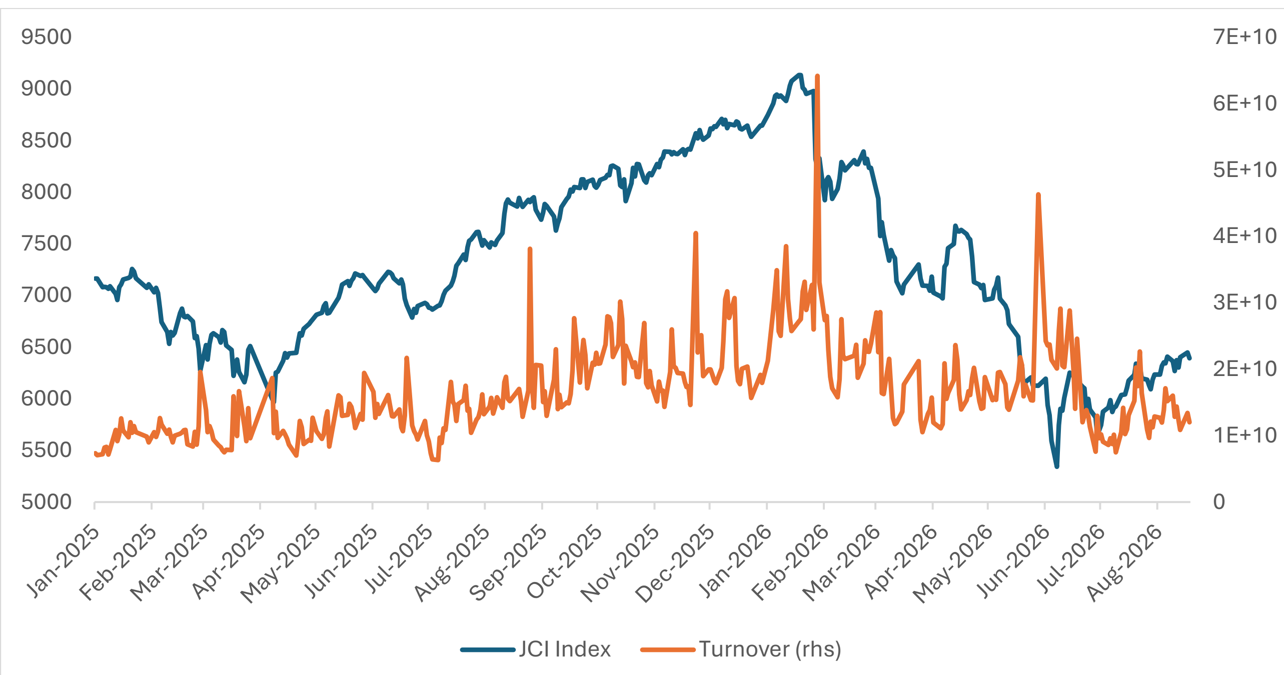

Exhibit 4.4 Indonesia CDS & Government Bond 10Y

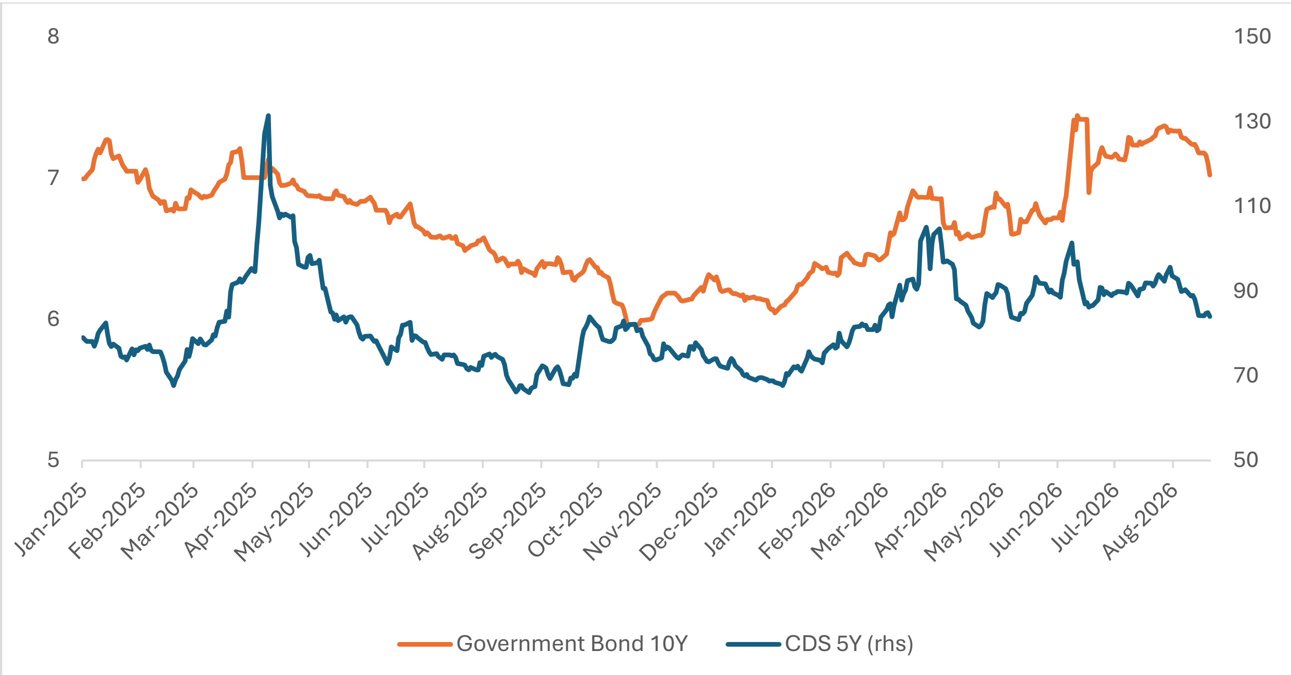

EXHIBIT 5 • REGIONAL STATISTICS

Exhibit 5.1 Monthly Inflation Rate

Provinsi	Inflasi Tahunan (Y-on-Y) 38 Provinsi (2022=100) (Persen)												
	2025						2026						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Mei	Jun	Jul
Aceh	3	3,7	4,45	4,66	3,58	6,71	6,69	6,94	5,31	3,88	5,12	5,84	5,38
Sumatera Utara	2,86	4,42	5,32	4,97	3,96	4,66	3,81	4,71	3,86	2,92	4,35	4,79	4,2
Sumatera Barat	2,19	2,89	4,22	4,52	3,98	5,15	3,92	4,39	3,37	1,97	3,91	4,7	4,12
Riau	2,42	3,58	5,08	4,95	4,27	4,88	4,43	5,3	3,65	2,37	3,95	4,55	3,82
Jambi	2,71	2,76	3,77	3,71	3,55	3,71	3,35	4,59	3,55	2,1	3,56	3,85	3,25
Sumatera Selatan	2,88	3,04	3,44	3,49	2,91	2,91	3,33	4,36	3,09	1,63	2,61	2,89	2,5
Bengkulu	1,01	1,3	2,57	2,85	2,68	2,77	2,61	3,88	2,85	1,87	3,01	3,96	3,78
Lampung	2,63	1,05	1,17	1,2	1,14	1,25	1,9	2,95	1,16	0,53	1,94	2,46	1,76
Kepulauan Bangka Belitung	2,05	1,34	1,82	2,51	2,87	2,77	3,95	3,31	1,87	1,49	2,46	2,92	2,62
Kepulauan Riau	1,97	2,19	2,7	3,01	3	3,47	2,94	3,54	3,23	3,06	3,92	4,67	4,24
Dki Jakarta	2,25	2,16	2,4	2,69	2,67	2,63	3,96	4,91	3,37	2,12	2,49	2,78	2,5
Jawa Barat	2,03	1,77	2,19	2,63	2,54	2,63	3,24	4,71	3,6	2,49	3,07	3,08	2,72
Jawa Tengah	2,52	2,48	2,65	2,86	2,79	2,72	2,83	4,43	3,54	2,11	2,85	2,92	2,6
Di Yogyakarta	2,6	2,3	2,56	2,9	2,92	3,11	3,3	4,91	4,08	2,46	2,77	2,91	2,54
Jawa Timur	2,21	2,17	2,53	2,69	2,63	2,93	3,29	4,88	3,79	2,85	3,49	3,36	2,87
Banten	2,29	1,95	2,31	2,75	2,56	2,74	3,48	5,14	3,55	2,14	2,7	2,93	2,49
Bali	3,16	2,65	2,51	2,61	2,51	2,91	2,58	3,89	2,81	2,08	2,99	3,27	2,42

Nusa Tenggara Barat	3,05	2,56	2,69	2,96	2,74	3,01	3,86	5,37	4,09	3,27	3,78	3,55	3,01
Nusa Tenggara Timur	3,03	2,71	2,3	2	2,4	2,39	3,34	3,42	2,4	2,62	2,76	3,56	2,43
Kalimantan Barat	2,14	2,13	1,94	2,07	2,04	1,85	3,33	3,9	2,89	2,5	3,29	3,28	3,18
Kalimantan Tengah	2,13	2,08	2,35	2,73	2,56	3,13	4,09	5,06	3,86	3,66	4,56	4,47	4,32
Kalimantan Selatan	2,48	2,68	2,91	3,11	3,35	3,66	4,66	5,97	4,83	3,67	4,22	4,47	4,28
Kalimantan Timur	2,08	1,79	1,77	1,94	2,28	2,68	3,76	4,64	3,31	2,5	3,04	3,2	3,31
Kalimantan Utara	1,99	2,24	2,32	2,23	2,47	2,57	4,08	4,75	3,12	2,68	2,9	3,3	2
Sulawesi Utara	2,04	0,94	1,57	1,48	0,65	1,23	3,04	4,64	2,2	2,14	2,33	3,83	2,53
Sulawesi Tengah	3,69	4,02	3,88	3,92	3,5	3,31	4,55	5,33	2,83	2,21	2,77	3,83	2,86
Sulawesi Selatan	3,05	3,12	3,03	2,98	2,73	2,84	4,11	6,13	4,5	2,68	3,12	3,56	2,75
Sulawesi Tenggara	3,72	3,75	3,68	3,26	2,94	2,86	5,1	5,41	3,37	2,98	4,07	4,68	3,43
Gorontalo	3,12	2,51	1,99	2,44	2,21	2,52	4,53	5,3	2,6	2,24	2,99	4,77	2,95
Sulawesi Barat	3,57	3,52	3,04	2,64	2,56	2,48	4,34	5,15	2,94	1,66	1,99	2,29	2
Maluku	2,99	3,25	3,01	2,3	2,33	3,58	4,7	5,97	3,4	3,13	3,27	3,8	2,75
Maluku Utara	2,46	0,43	-0,17	1,18	1,89	1,63	4,86	5,85	2,6	2,03	2,82	5,05	3,95
Papua Barat	0,43	-0,87	1,02	1,42	1,33	2,59	5,02	5,83	3,51	5	5,94	6,99	5,47
Papua Barat Daya	0,96	1,88	1,3	1,36	1,38	2,15	3,75	4,16	4,09	3,85	3,8	5,14	4,29
Papua	1,4	0,54	0,99	0,53	0,8	2,54	3,33	3,94	3,5	3,8	2,79	3,72	2,71
Papua Selatan	5,45	3,78	3,42	3,43	3,39	2,95	4,83	5,5	3,6	3,34	2,17	2,95	1,46
Papua Tengah	2,89	1,86	2,28	2,11	2,53	3,28	4,85	4,93	2,54	1,53	2,05	3,65	2,79
Papua Pegunungan	4,15	3,71	3,55	3,32	4,05	3,22	2,93	0,63	3,14	4,89	4,44	7,84	4,64
Indonesia	2,37	2,31	2,65	2,86	2,72	2,92	3,55	4,76	3,48	2,42	3,08	3,34	2,88

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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