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Indonesia's Compounding Economic Vulnerabilities in Mid-2026: A Multi-Dimensional Assessment and Policy Framework

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Abstract: Provides an evidence-based, real-time assessment of Indonesia's compounding macroeconomic vulnerabilities in the first half of 2026, organised through a five-layer crisis sequencing framework.
Purpose: This paper examines the compounding macroeconomic vulnerabilities confronting Indonesia in the first half of 2026, focusing on the concurrent deterioration of currency stability, external balances, financial market confidence, and fiscal space. It develops a structured, time-sequenced policy framework to address these pressures and situates the episode within the comparative literature on compound emerging-market crises.
Design/Methodology/Approach: This paper examines the compounding macroeconomic vulnerabilities confronting Indonesia in the first half of 2026, focusing on the concurrent deterioration of currency stability, external balances, financial market confidence, and fiscal space. It develops a structured, time-sequenced policy framework to address these pressures and situates the episode within the comparative literature on compound emerging-market crises.
Findings: Indonesia entered the early-to-middle stage of simultaneous currency, monetary, and financial stress. The rupiah touched an all-time low of Rp18,096 per US dollar on 5 June 2026 before recovering to Rp17,865 at the close of 12 June 2026. The trade surplus collapsed from USD 3.32 billion in March to USD 0.09 billion in April. Cumulative

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foreign portfolio outflows exceeded Rp67 trillion year-to-date, and the Jakarta Composite Index (IHSG) fell as much as 30.4% from its yearly high before rebounding past 6,000 on 12 June. The short-term stabilisation observed between 9 and 12 June was driven by an off-cycle policy rate increase, coordinated state-owned enterprise buybacks, Danantara Investment Management's USD 1.5 billion debut bond issuance (more than three times oversubscribed), and improving sentiment around prospective US-Iran talks that pushed Brent crude below USD 90 per barrel. The paper argues, following recent assessments of Indonesia's macro credibility, that the episode reflects an accumulation of policy slippage and institutional ambiguity rather than a sudden shock, distinguishing it from comparable turbulence in 2025.

Originality/value: The paper contributes a real-time, evidence-based diagnostic of Indonesia's mid-2026 condition through a five-layer sequencing framework that links monetary instability, trade deterioration, and fiscal pressure to governance deficits and social-stress indicators. Recommendations draw on comparative historical cases, including Ghana's COCOBOD episode and Indonesia's own institutional reform trajectory since 1998, making the framework directly applicable to the present policy environment.

Keywords: currency crisis, rupiah depreciation, fiscal policy, Danantara

Paper Type: article-research

Introduction

Indonesia's macroeconomic trajectory in 2026 has drawn increasing attention from international observers and domestic analysts, even as the official narrative has remained notably composed in the face of deteriorating indicators. Understanding the nature and sequencing of the pressures now facing the economy requires moving beyond any single variable toward a framework capable of capturing how exchange-rate stress, external imbalances, financial-market dynamics, fiscal constraints, and social indicators interact and reinforce one another over time.

The literature on emerging-market financial crises has long recognised that currency crises rarely occur in isolation. Kaminsky and Reinhart (1999) documented the systematic co-occurrence of banking and balance-of-payments crises in developing economies, a pattern they termed the "twin crises" phenomenon, while Bordo et al. (2001) extended this framework to incorporate sovereign-debt and growth crises as additional dimensions of compound vulnerability. Indonesia is among the most studied cases in this tradition, having experienced a devastating compound crisis in 1997–1998 that combined severe currency depreciation, banking-sector collapse, and political instability in rapid succession (Radelet and Sachs 1998; Hill and Shiraishi 2007).

Indonesia's 1997–1998 financial crisis precipitated not only economic collapse but also widespread human rights violations, including state-led violence and suppression of political freedoms. These abuses have left an enduring legacy of impunity and social grievance that continues to affect Indonesia's political stability and societal cohesion decades later (Aspinall 2005). Addressing Indonesia's macroeconomic vulnerabilities today necessitates integrating mechanisms for human rights protection and transitional justice to foster durable social resilience. This unresolved human rights legacy directly informs the current social trust environment critical to crisis management. As the paper notes, transparent communication and credible policy enforcement are essential to preserving social capital during periods of economic stress. The government's current posture risks depleting this fragile social trust further, impeding collective resilience and amplifying vulnerabilities exposed by Indonesia's multi-layer crisis framework.

The institutional reforms that followed 1998 were explicitly designed to prevent a recurrence. The 1999 Law on Bank Indonesia and its 2004 amendment insulated monetary policy from political pressure and assigned the central bank a clear price-

and exchange-rate-stability mandate, reforms credited with bringing inflation down from roughly 58 per cent during the crisis to an average of 3–4 per cent since 2016 (Friawan 2026; Tanuwidjaja and Choy 2006). This institutional memory continues to shape how Indonesian policymakers respond to currency pressure: the speed and scale of Bank Indonesia's rate response in 2026, discussed below, is difficult to read outside this inherited sensitivity to currency instability, even though the specific mechanism by which 1997–98 shaped present-day reaction functions is better documented in qualitative central-bank histories than in formal econometric tests (Tanuwidjaja and Choy 2006). Whether the structural conditions that produced the 1997–98 collapse have been durably addressed, or merely managed during a long period of benign global liquidity, is precisely the question this paper's five-layer framework is designed to probe.

Equally important, and less thoroughly examined in the Indonesia-specific literature, is how institutional credibility gaps and policy-communication failures amplify financial-market stress in a high-information environment. The empirical literature on central-bank transparency offers a relevant benchmark here: Dincer and Eichengreen (2007) find that greater transparency is associated with lower inflation variability across a large cross-section of countries, while related work links opacity in central-bank communication to higher and more persistent risk premia during periods of stress (IMF 2008). When governments systematically understate economic difficulty, they do not merely delay corrective action; they withhold the information households and firms need to adjust their own behaviour, and they erode the social trust that historically functions as a buffer during periods of material hardship. Indonesia's management of the COVID-19 shock between 2020 and 2022 illustrated the opposite dynamic: social capital activated through comparatively transparent crisis communication and targeted fiscal transfers substantially

cushioned the impact on household welfare (World Bank 2022; LPEM FEB UI 2026). The present episode raises the question of whether that social capital is being conserved or depleted by the government's current communication posture.

This paper addresses two related questions. First, what is an accurate characterisation of Indonesia's macroeconomic condition as of 12 June 2026, and along which dimensions of the crisis framework is the country most exposed? Second, what policy responses are most urgently needed, and in what sequence should they be implemented to avoid compounding the existing damage? The analysis draws on official releases from BPS and Bank Indonesia, international rating assessments from Fitch, Moody's, and S&P, financial-market data from Bloomberg and CEIC, and policy documents including Government Regulation No. 24 of 2026 (PP 24/2026) and the recent amendments to the Financial Sector Development and Strengthening Law (UU P2SK).

Methods

This paper employs a mixed qualitative-quantitative approach organised around secondary data analysis. Quantitative indicators were drawn from institutional sources spanning January through 12 June 2026, including Bank Indonesia's monthly and weekly monetary policy summaries, BPS's Official Statistics Release No. 52/06/Th. XXIX (2 June 2026), daily financial-market data from CEIC and Bloomberg, credit-rating actions from Fitch, Moody's, and S&P, and the Danantara Investment Management bond term sheet reported by Reuters on 12 June 2026.

The analytical framework organises Indonesia's condition along five sequential vulnerability dimensions derived from the compound-crisis literature: currency, monetary, financial, economic, and social crisis. This sequencing reflects the propagation pathway identified in the literature on emerging-market crises (Kaminsky and Reinhart 1999; IMF 2024) and

situates the current moment within a broader developmental arc rather than treating it as a set of disconnected data points.

Policy recommendations were derived through a structured decision framework weighting proposed interventions by urgency horizon, institutional jurisdiction, and compatibility with existing legal instruments. Where relevant historical analogues exist, including Ghana's Cocoa Board price-suppression episode and Indonesia's own post-1998 institutional reform trajectory, these are used to evaluate the likely outcomes of proposed approaches. All data are current as of the close of trading on 12 June 2026.

Discussion and Findings

1. Indonesia's Five-Layer Vulnerability Framework: Position as of 12 June 2026

A coherent assessment of Indonesia's condition requires moving beyond any single indicator and recognising that the country faces pressure across several interconnected dimensions simultaneously. Table 1 summarises this picture.

Table 1. Indonesia's Multi-Layer Crisis Status, 12 June 2026

Layer	Status	Key Indicators
Layer 1: Currency Crisis	Active, improving	Rupiah closed Rp17,865 (12 Jun), up from ATL Rp18,096 (5 Jun); net YTD depreciation ~9.7%
Layer 2: Monetary Crisis	Active	BI Rate 5.50% after off-cycle hike on 9 Jun; reserves USD 144.9 billion (May 2026)
Layer 3: Financial Crisis	Active, improving	IHSG closed 6,016 (12 Jun, +2.07%); foreign inflow Rp492 billion in Session 1 on 12 Jun
Layer 4: Economic Crisis	Early entry	Trade surplus collapsed 97% YoY to USD 0.09 billion (Apr); GDP growth slowing

Layer 5: Social Crisis	Warning stage	Online lending NPL at 5% (Rp103 trillion); rising petty-crime reports in major cities

Source: Bank Indonesia (2026); BPS (2026); CEIC Data (2026); Bloomberg (2026); Indonesia Investments (2026); author's compilation.

The government's official position holds that the economy remains fundamentally sound. The data above suggest a more complicated picture, although the positive signals of 12 June provide room for cautious optimism.

2. The Rupiah: Currency Pressure as Structural Symptom

The rupiah's depreciation to an all-time low of Rp18,096 per US dollar on 5 June 2026 is the most visible symptom of a deeper structural problem rather than a proximate cause in its own right. The paradox at the centre of the episode is that Bank Indonesia raised the policy rate by a cumulative 75 basis points in under a month, yet the currency continued to weaken until a series of coordinated interventions began showing results from 9 June onward. This pattern is consistent with what the literature identifies as structural and fiscal currency pressure, in which rate increases alone cannot offset an underlying loss of confidence or deterioration in external balances (IMF 2024).

Three structural sources of rupiah weakness can be identified. First, export-proceeds repatriation has been systematically incomplete despite the regulation requiring it. The 100% export-proceeds repatriation rule under PP 21/2026, effective 1 June 2026, addresses the problem in principle but lacked, at the time of the rupiah's low, sufficient enforcement credibility to change exporter behaviour quickly. Second, the trade surplus has effectively disappeared: the April 2026 surplus of USD 0.09 billion reflects structural deterioration compounded by an 82.5% year-on-year surge in oil and gas imports. Third, foreign portfolio capital continued leaving Indonesian markets,

with net outflows exceeding Rp67 trillion cumulatively from the start of the year through mid-June 2026.

Against this backdrop, Bank Indonesia took the unusual step of tightening oversight of banks' foreign-exchange transactions. Bloomberg reported that the central bank monitored foreign-exchange trading at seven banks with high transaction volumes to confirm that activity served commercial rather than speculative purposes, reportedly stationing officials in trading rooms. The 9–12 June trading sessions marked a meaningful turning point: the IHSG rebounded from an intraday low near 5,340, and the rupiah strengthened to Rp17,865 at the close of 12 June, although the recovery was fully underpinned by domestic investors and institutional intervention rather than renewed foreign buying.

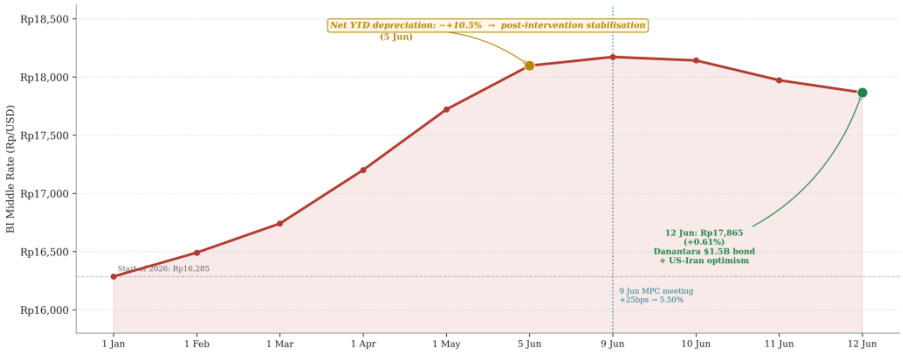

Figure 1. USD/IDR Exchange Rate, January–12 June 2026
Source: Bank Indonesia – BI Transaction Rate; Investing.com; Indonesia Investments (2026). Author's elaboration.

Figure 1 traces the rupiah's depreciation path through 2026. The red line records Bank Indonesia's middle rate from Rp16,285 in early January to the all-time-low close of Rp18,096 on 5 June (marked by the gold point), before strengthening to Rp17,865 at the close of 12 June (green point) as market sentiment improved.

The vertical dotted line marks the off-cycle policy-rate increase of 9 June 2026.

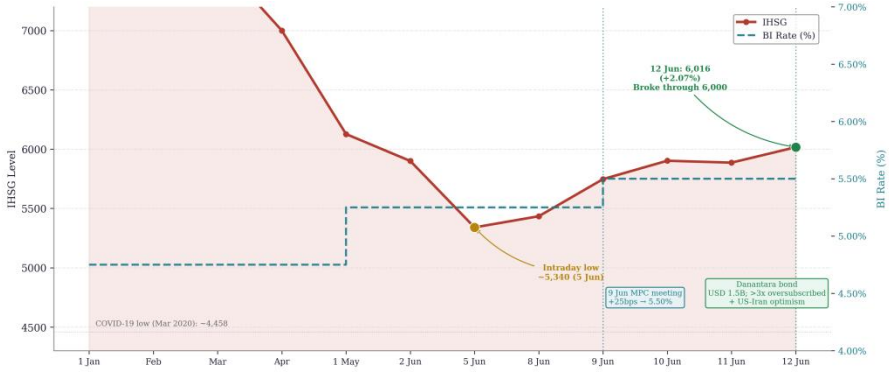

Figure 2. IHSG and BI Rate, January–12 June 2026
Source: Indonesia Stock Exchange (RTI Business); Bank Indonesia (2026); Indonesia Investments (2026). Author's elaboration.

Figure 2 shows the IHSG (left axis, red) alongside the BI Rate (right axis, teal, dashed). The index touched an intraday low near 5,340 on 5 June before rebounding past the psychologically significant 6,000 level at the close of 12 June, driven by Danantara Investment Management's more than threefold oversubscribed debut bond issuance and improving sentiment around prospective US-Iran talks. The horizontal reference line marks the IHSG's COVID-19 pandemic low.

3. The Trade Collapse and Its Exchange-Rate Implications

The near-elimination of Indonesia's trade surplus in April 2026 is the most significant structural development of the current episode. As Table 2 shows, the collapse was not driven by falling exports, which in fact rose 21.98% year-on-year in April, but by an even faster acceleration in imports, up 22.49% year-on-year.

Table 2. Indonesia's Trade Balance, Selected Months (2026)

Indicator	April 2026	March 2026	Change (MoM)	April 2025	Change (YoY)
Trade Surplus	USD 0.09 billion	USD 3.32 billion	-97.3%	USD 2.93 billion	-96.9%
Exports	USD 25.30 billion	USD 24.88 billion	+1.67%	USD 20.74 billion	+21.98%
Imports	USD 25.21 billion	USD 27.41 billion	-8.04%	USD 20.59 billion	+22.49%

Source: BPS (2026); author's compilation.

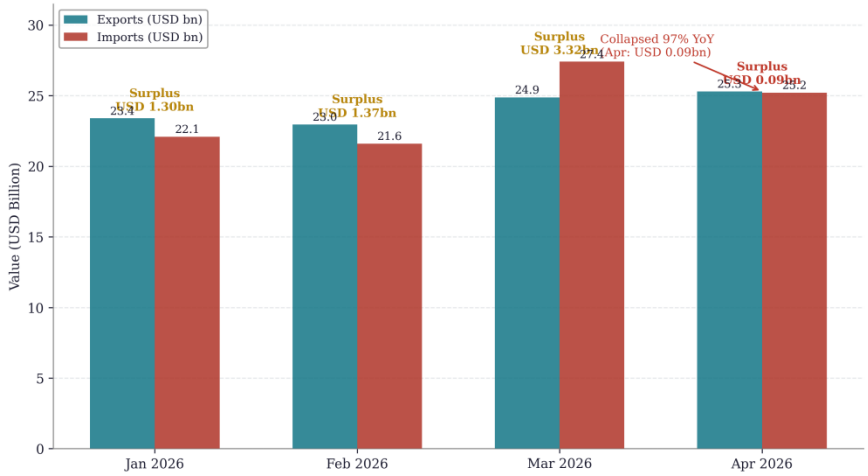

Figure 3. Indonesia's Trade Balance, January–April 2026 (USD Billion)
Source: BPS – Berita Resmi Statistik No. 52/06/Th.XXIX, 2 June 2026. Author's elaboration.

Figure 3 shows that the surplus collapse in April 2026 (USD 0.09 billion, down 97% year-on-year from USD 2.93 billion in April 2025) occurred despite continued export growth (teal bars). The source of pressure lies on the import side (red bars), particularly the 82.5% YoY surge in oil and gas imports following the

disruption to global energy supply chains after the March 2026 Hormuz Strait tensions.

The oil and gas import surge is partly a consequence of that global energy disruption. In this context, the 12 June developments around prospective US-Iran talks are directly relevant: Brent crude fell 4.1% to around USD 86.7 per barrel on 12 June amid reports that negotiations were nearing a memorandum of understanding ahead of the 15–17 June G7 meeting, pointing to a possible structural improvement in Indonesia's trade position should oil prices stabilise below USD 90. Each USD 1 decline in average oil prices reduces the government's energy-subsidy bill by approximately Rp6.8 trillion.
4. Fiscal Pressure and the MBG Constraint

Indonesia's fiscal position in 2026 is materially more constrained than the official narrative of a manageable 2.68% of GDP deficit target suggests. Three compounding pressures warrant attention.

The Makan Bergizi Gratis (MBG) programme, which provides free nutritious meals to schoolchildren and other vulnerable groups, carries a current budget allocation of Rp268 trillion, down from an initial plan of Rp335 trillion. This reduction is itself an implicit acknowledgement that the programme, as originally scaled, was fiscally unsustainable. At the current allocation, MBG consumes roughly 8 to 10 percent of central-government expenditure. The scale of this commitment is best understood in comparative terms: it is larger as a share of central spending than Indonesia's entire annual capital expenditure on national road infrastructure, and it represents a permanent, demand-driven entitlement rather than a one-off transfer, meaning that unlike the BLT cash transfers deployed during COVID-19, its fiscal footprint cannot simply be switched off when conditions improve. This structural rigidity is precisely what limits the government's flexibility for countercyclical fiscal

response at the moment such flexibility is most needed; a programme of this scale effectively pre-commits a meaningful share of the fiscal envelope before any shock-related spending is considered.

Energy-subsidy exposure compounds this pressure. Under conservative assumptions, combining crude oil at USD 100 per barrel for three months with a rupiah averaging Rp17,000, the fiscal deficit is projected to reach 3.15% of GDP, breaching the statutory 3% ceiling. Under a more adverse scenario of crude at USD 120 and rupiah at Rp18,000 or above, the projected deficit reaches 3.54% of GDP. The prospect of a US-Iran deal that pushed oil prices down on 12 June does open room for a milder scenario, though this risk has not fully receded while negotiations continue.

Table 3. Indonesia's Fiscal Stress Indicators, June 2026

Indicator	Value	Implication
Deficit target (2026)	2.68% of GDP	Tight baseline
MBG programme cost	Rp268 trillion	~8–10% of central government spending
Energy subsidy sensitivity	+Rp6.8 trillion per USD 1 oil price increase	Brent <USD 87 (12 Jun) eases pressure
Deficit (conservative scenario)	3.15% of GDP	Breaches statutory 3% ceiling
Deficit (adverse scenario)	3.54% of GDP	Well above statutory ceiling
Actual Brent price (12 Jun 2026)	~USD 86.7/barrel	Down 4.1% (US-Iran optimism)

Source: BPS (2026); Bank Indonesia (2026); Bloomberg (2026); author's calculations.

5. Danantara's Inaugural Bond Issuance: A Significant Market Signal

One of the most significant developments on 12 June 2026 was Danantara Investment Management's successful raise of USD 1.5 billion through its debut US dollar bond issuance. The offering

comprised USD 750 million in 5-year notes priced at a 5.35% yield and USD 750 million in 10-year notes at 5.95%. Investor demand exceeded USD 4.6 billion, more than three times the issuance size, allowing Danantara to tighten final pricing by 35 basis points from initial guidance and upsize the offering from an original plan of roughly USD 1 billion. Interest came from high-quality institutional investors across the United States, Europe, the Middle East, Africa, and Asia. The notes are scheduled to settle on 18 June 2026 as part of a USD 5 billion global medium-term note (GMTN) programme, with Citigroup, DBS, HSBC, Mandiri Sekuritas, and Standard Chartered acting as joint bookrunners.

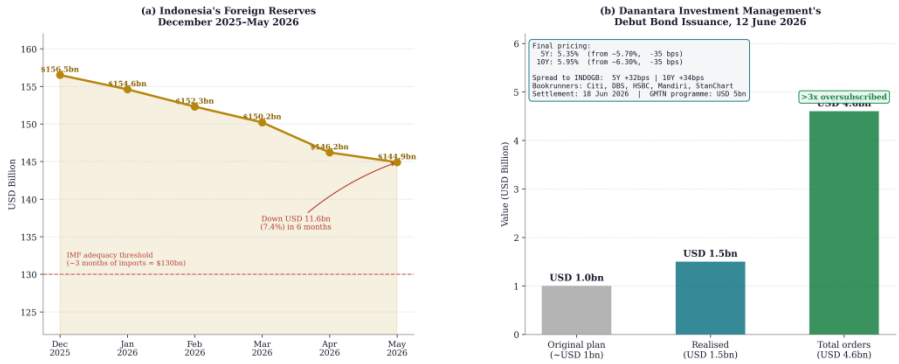

Figure 4. Foreign Reserves and Danantara's Bond Issuance, Indonesia 2026
Source: Bank Indonesia (2026); Reuters (12 June 2026); Danantara Indonesia Press Release (12 June 2026); IDNFinancials (2026). Author's elaboration.

Panel (a) of Figure 4 shows Bank Indonesia's foreign reserves declining by USD 11.6 billion (7.4%) from USD 156.5 billion (December 2025) to USD 144.9 billion (May 2026); the red dashed line marks the IMF's three-month import-cover adequacy threshold. Panel (b) compares the original issuance plan (~USD 1 billion), the realised issuance (USD 1.5 billion), and total orders received (USD 4.6 billion) for Danantara's debut bond; the inset summarises final pricing, the spread to Indonesia's sovereign curve, and the GMTN programme details.

The threefold oversubscription indicates that international investors still regard Indonesia's credit profile, and Danantara as a sovereign-linked entity, as investable at the yields offered. Several qualifications nonetheless matter. The 5.35–5.95% yield is materially above Indonesia's sovereign funding cost under normal conditions, meaning the interest burden on this USD 1.5 billion is meaningful relative to Danantara's balance sheet over the medium term. A successful issuance by a sovereign-linked entity also does not automatically signal an improved risk perception of the broader economy, since investors purchasing Danantara paper are, in substantial part, pricing implicit sovereign support rather than Danantara's standalone commercial strength.

6. PP 24/2026 and DSI: Background, Rationale, and Unresolved Uncertainty

The establishment of PT Danantara Sumberdaya Indonesia (DSI) as the centralised export-pricing agent for Indonesia's strategic commodity exports under PP 24/2026, promulgated on 5 June 2026, remains the most consequential source of investment uncertainty in the current period, notwithstanding partial clarifications offered on 11–12 June. Understanding why this policy was adopted, and how the regulation is structured, is necessary before assessing its implications.

The immediate trigger for PP 24/2026 was a government investigation into commodity export under-invoicing. Finance Minister Purbaya Yudhi Sadewa disclosed that an examination of Indonesia's ten largest CPO exporters found systematic price discrepancies when shipments were routed through Singapore-based intermediaries before reaching global buyers, a practice President Prabowo Subianto characterised as outright fraud. The government estimates that under-invoicing across coal, palm oil, and ferro-alloy exports cost the state approximately USD 908 billion, equivalent to roughly Rp15,840 trillion, in foregone tax, export-duty, and foreign-exchange revenue between 1991 and

2024 (Katadata 2026; The Straits Times 2026). Regular customs enforcement through the Directorate General of Customs and Excise was judged insufficient to close this leakage, which led the President to centralise all strategic commodity export transactions through a single state entity rather than rely on incremental oversight.

PP 24/2026 took effect on 1 June 2026 and applies, in its initial phase, to coal, crude palm oil, and ferro-alloy, three commodities together worth USD 66.13 billion in exports, equivalent to 23.4% of Indonesia's total export value (CNBC Indonesia 2026). The regulation establishes a two-stage transition. In the first three months, exporting companies continue transacting directly with foreign buyers, but all export documentation must be filed through DSI, allowing the state to verify pricing against global benchmarks without yet displacing existing commercial relationships. From 1 September 2026, or earlier if a three-month government evaluation supports acceleration, DSI is empowered under Article 3 to act either as the exporter of record or as sole intermediary, full conversion to this second stage being required no later than 31 December 2026. Under Article 3, DSI is also permitted to set a margin within limits to be defined by further implementing regulation, a provision that, as discussed below, has not yet been operationalised in published form.

COO Danantara Dony Oskaria stated on 11 June 2026 that DSI would supervise export transactions to prevent under-invoicing but would not itself take ownership of producers' goods or act as a reselling broker. DSI separately confirmed that from 1 January 2027 it would act as sole intermediary for strategic commodity exports without taking a trading position. This clarification contributed to the rupiah's and IHSG's gains on 12 June.

Fitch Ratings, assessing the same regulatory text in the same window, reached a more cautious conclusion: Indonesian commodity exporters face heightened credit risk from the pricing and margin-setting authority PP 24/2026 grants DSI from 1 January 2027. Fitch judged that the rule could erode pricing flexibility, reduce control over export proceeds, lengthen receivable days, and create logistical and administrative friction during the transition, with effects more manageable for firms with strong balance sheets or diversified operations. The gap between Danantara management's verbal reassurance and Fitch's reading of the binding legal text illustrates a structural problem: a corporate official's stated intent is not equivalent to a published, auditable rule, and markets are pricing the regulation as written rather than as described.

The relevant historical precedent remains instructive. Ghana's Cocoa Board suppressed cocoa export prices in the early 1980s as a revenue-extraction mechanism, prompting farmers and traders to route an estimated 40,000–60,000 tonnes of cocoa annually through informal channels into Côte d'Ivoire, effectively hollowing out the formal export system the policy was meant to govern (Alderman 1998). Indonesia's case differs in important respects, not least that DSI's stated objective is preventing leakage rather than extracting rents, and that the government has committed to honouring existing contracts during the transition period. The structural risk nonetheless persists: where the margin formula, dispute-resolution mechanism, and exemption criteria for pre-existing contracts remain unpublished, exporters and producers face the same incentive Ghanaian cocoa farmers faced, namely to defer investment, accelerate capital repatriation, or seek arbitrage through third-country routing, until the rule's operational detail is made concrete and auditable.

7. Inflation: Calm Headline, Building Upstream Pressure

Indonesia's headline inflation of 3.08% year-on-year in May 2026 sits within Bank Indonesia's 1.5 to 3.5% target band, a reading that on its own would suggest limited cause for concern. The more informative signal lies beneath the headline figure, in the divergence across its components and in the relationship between consumer and producer prices.

Food inflation reached 4.94% year-on-year, a rate that erodes real incomes disproportionately for lower-income households, for whom food represents a substantially larger share of total expenditure than for higher-income groups. More diagnostically important is the gap between this figure and producer-level inflation: the wholesale price index (IHPB) rose 5.76% year-on-year in May, nearly double the consumer headline rate. A persistent and widening producer-consumer inflation gap is not a benign statistical curiosity; it typically indicates that firms along the supply chain are absorbing cost increases in their margins rather than passing them through to final prices, either because demand is too weak to support repricing or because competitive pressure constrains it. Either reading implies that the current 3.08% headline figure understates the inflation that is already embedded in the production chain and has not yet surfaced at the retail level. On a 3-to-6-month horizon, this suggests headline inflation is more likely to drift upward than to remain anchored, independent of any further external shock, unless producer margins are structurally compressed on a sustained basis rather than merely smoothing a temporary cost shock.

The 12 June decline in oil prices offers some relief specifically to the transportation component, which rose 2.30% year-on-year on the back of higher aviation-fuel costs, but it does not address the food-inflation channel, which is driven by domestic supply factors including an 16% year-on-year decline in April rice production. The two inflation channels therefore call for

different policy instruments, a distinction the immediate-term recommendations below make explicit.

8. Social Dimension: Linking Household Stress to Macroeconomic Transmission

The five-layer framework used in this paper treats social stress as the final stage in the propagation of an economic crisis, one that typically becomes observable only after financial and real-economy deterioration has persisted for some time. The relevant question is not simply whether social indicators are deteriorating, but how that deterioration feeds back into the macroeconomic variables this paper is tracking.

Non-performing loans in Indonesia's online peer-to-peer lending sector reached approximately 4.5% of a Rp102 trillion loan book as of March 2026, the most recent OJK data available, with 24 platforms operating above the regulator's 5% supervisory threshold (IDNFinancials 2026; OJK 2026). By mid-2026, market observers noted further deterioration as household stress intensified. This indicates that a meaningful share of households are using high-cost informal credit to sustain current consumption. The transmission channel from household debt distress to aggregate demand is well documented in the monetary-economics literature: indebted households reduce consumption more sharply than equivalent unindebted households in response to the same income or interest-rate shock, because debt-service obligations are fixed while disposable income is not (Cloyne, Ferreira, and Surico 2020). In emerging markets specifically, rising household indebtedness has been shown to predict weaker subsequent consumption growth higher recession risk at the aggregate level (Lombardi, Mohanty, and Shim 2017), while inflation itself further constrains consumption among indebted households by raising the real burden of fixed debt-service payments even as nominal incomes lag (Lombardi, Mohanty, and Shim 2017). Applied to Indonesia's current position,

this means the 5% NPL reading in online lending is not merely a financial-sector data point; it is an early indicator that a segment of household consumption, the largest single component of Indonesian GDP, is being financed unsustainably and is therefore vulnerable to a sharper-than-expected pullback once credit access tightens or debt-service costs rise further.

This consumption channel interacts directly with the confidence and exchange-rate dynamics discussed earlier in this paper. A Consumer Confidence Index that has already softened, combined with rising informal-credit dependence, suggests that household spending power is more fragile than aggregate GDP figures convey, which in turn makes domestic demand a less reliable offset should external conditions deteriorate further. Indonesia's COVID-19 experience demonstrated that this fragility is not pre-determined: effective social-capital mobilisation during that episode rested on a degree of honest crisis communication from authorities about the severity of the situation (World Bank 2022). The government's current communication posture, which has consistently characterised the present pressures as manageable and within control, does not create the conditions for the kind of mobilisation that cushioned the COVID-19 shock. The positive developments of 12 June provide a stronger foundation for honest communication about Indonesia's underlying resilience without requiring authorities to overstate existing weaknesses, an opportunity the recommendations below return to.

Policy Recommendations

1. Immediate Actions (7 to 14 Days): Consolidating Stabilisation

The positive developments of 12 June 2026 create a window of opportunity that should not be wasted. Bank Indonesia and the Ministry of Finance should publish the DHE sanctions schedule before end-June, using the momentum from Danantara's bond success and the rupiah's strengthening to signal that fiscal and regulatory discipline will be consistently enforced. Clarifying the

binding legal text of PP 24/2026 remains the single highest-value action for the investment climate. Dony Oskaria's 11 June statement on DSI's supervisory role was a necessary but insufficient step, as shown by Fitch's credit-risk assessment published the same week.

Table 4. Immediate Policy Actions (7–14 Days)

Area	Action	Authority
Exchange rate	Hold BI Rate at 5.50%; continue NDF, spot, and DNDF intervention	Bank Indonesia
Exchange rate	Publish DHE sanctions schedule ahead of 1 July deadline	Bank Indonesia, Ministry of Finance
Exchange rate	Joint BI/Presidential Office statement: exchange-rate stability remains the primary monetary anchor	BI, Presidential Office
Investment	Publish binding PP 24/2026 implementing text: DSI margin formula, dispute mechanism, contract exemptions	Coordinating Ministry, Danantara
Inflation	Temporary three-month tariff reduction on rice, soybeans, cooking oil	Ministry of Trade, Ministry of Finance
Inflation	Accelerate release of Bulog strategic rice reserves	Bulog, Ministry of Trade
Communication	Acknowledge economic turbulence publicly while citing 12 June signals as evidence of resilience	Presidential Office
Fiscal	Ensure Danantara bond proceeds are allocated transparently to productive investment	Danantara, Ministry of Finance

Source: Author's compilation.

2. Short-Term Actions (July–September 2026): Structural Clarification

The most important medium-term policy action is formalising what Danantara's management has so far only

committed to verbally. Publishing a legally binding DSI pricing formula and zero-margin commitment ahead of the August 2026 review deadline carries the highest marginal value for the investment climate; the regulation's own Article 7 timeline gives the government a natural occasion to do so. Fiscal adjustment to the MBG programme is politically sensitive but analytically necessary. A temporary three-month moratorium on MBG expansion, or a reduction in the beneficiary pool concentrated among the lowest income quintiles, would reduce the programme's fiscal footprint while protecting its welfare function, with savings redirected toward expanding the BLT cash-transfer register. Oversight of how Danantara's USD 1.5 billion bond proceeds, settling 18 June 2026, are actually deployed should become a governance priority, given that investors who have just demonstrated genuine demand will be watching for follow-through.

3. Medium-Term Actions (October–December 2026): Structural Reform

Indonesia's oil and gas import dependence represents the most consequential structural vulnerability to external shocks. The favourable oil-price movement on 12 June 2026, driven substantially by US-Iran negotiation prospects, provides a window for structural energy reform without the pressure of an acute crisis. Accelerating the biodiesel blending mandate from B35 to B40 in the fourth quarter of 2026, and toward B50 in 2027, would reduce diesel import volumes and improve the current-account balance. Trade-market diversification is a complementary priority: Indonesia's goods deficit with China reached USD 9.87 billion between January and April 2026, and systematic development of trade relationships with India, Africa, and Middle Eastern markets would reduce this concentration risk over the medium term.

Table 5. Policy Actions by Time Horizon

Priority	Action	Timeline	Expected Outcome
Exchange rate	Hold BI Rate; enforce DHE; clarify monetary mandate hierarchy	Immediate	Rupiah stable below Rp18,000
Investment	Formalise PP 24/2026: zero DSI margin, independent audit	August 2026	Unfreeze investment; reinforce Danantara bond gains
Transparency	Quarterly reporting on use of Danantara's USD 1.5 billion bond proceeds	July 2026	Sustain international investor confidence
Inflation	Tariff reduction; Bulog release	Immediate	Reduce food inflation from 4.94%
Fiscal	MBG moratorium or scope reduction; reallocate to BLT	July 2026	Keep deficit below 3% of GDP
Business climate	Clarify PP 20/2026 transition for PT and CV entities	July 2026	Prevent reversal of SME formalisation
Energy	Accelerate B40 biodiesel; diversify energy import sources	Q4 2026	Reduce monthly oil deficit of USD 3.44 billion
Institutional	Formal fiscal rule restricting borrowing to productive capital expenditure	2027	Prevent recurrence of structural fiscal overextension

Source: Author's compilation.

4. What Should Be Avoided

Several policy responses would remain counterproductive despite the positive developments of 12 June. Cutting Bank Indonesia's policy rate while conditions remain fragile would likely accelerate the remaining capital outflow. Using DSI to suppress domestic commodity prices below international market levels would replicate the COCOBOD dynamic and incentivise informal trade diversion. Raising subsidised Pertalite and Solar fuel prices while conditions remain fragile would push headline inflation above Bank Indonesia's 3.5% ceiling.

A further risk warrants explicit attention on social grounds. The social-transmission analysis above showed that a meaningful share of household consumption is currently financed through high-cost informal credit, with NPLs in online lending at 5% of a Rp103 trillion book. Any policy that raises the cost of living for lower-income households without a corresponding offset, including subsidised-fuel price increases or a poorly sequenced rollback of MBG, risks pushing an already-stressed segment of borrowers from informal-credit dependence into outright default, which would in turn tighten credit conditions for the broader non-bank lending sector and dampen consumption beyond the households directly affected. This is the specific mechanism by which a social-layer stress indicator can feed back into the financial and economic layers of the framework used throughout this paper, and it is the reason the immediate-term recommendations above pair inflation relief for food staples with, rather than instead of, fiscal discipline on MBG. Finally, a large effective tax increase on SMEs that formalised under PP 20/2026 risks reversing years of formalisation progress; a phased transition arrangement for affected firms should be published as a matter of urgency.

Conclusion

The close of trading on 12 June 2026, with the IHSG at 6,016 and the rupiah strengthened to Rp17,865, provides a more favourable basis for forward-looking analysis than was available in early June, when the rupiah stood at a record low. This positive close, however, is the product of several complementary but not uniformly durable factors: coordinated state-owned enterprise buybacks, Bank Indonesia's rate signalling, Danantara's successful bond issuance, and improving external sentiment from prospective US-Iran talks.

Of these factors, the one with the highest structural value is Danantara's bond success. Demand of USD 4.6 billion from high-quality institutional investors across multiple regions indicates that the international investment community has not abandoned Indonesia. The door to renewed investor confidence remains open, but conditionally, and it requires concrete policy follow-through to stay open.

Three specific actions carry the highest marginal value at this moment. Publishing the PP 24/2026 implementing text that formalises DSI's zero-margin commitment ahead of the August 2026 deadline would resolve the single largest source of investor uncertainty and allow investment in the commodity sector to resume. Enforcing DHE repatriation with a credible, published sanctions schedule ahead of 1 July 2026 would deliver a structural improvement in domestic foreign-exchange supply. Maintaining transparency over the use of Danantara's USD 1.5 billion bond proceeds, as settled on 18 June 2026, would sustain the international investor confidence that has just been rebuilt.

Fitch's credit-risk assessment of Indonesian commodity exporters, published in the same week as Danantara's bond success, serves as a reminder that short-term market stabilisation and structural risk resolution are distinct outcomes. The path between stabilisation and genuine recovery runs through the

same set of reforms that Indonesia's economic conditions have signalled, with increasing urgency, since early in the year: regulatory certainty for DSI, fiscal discipline on MBG, enforcement of DHE, and honest, coordinated institutional communication. Read against Indonesia's own post-1998 institutional reform trajectory, the test mid-2026 poses is not whether Indonesia can survive a single shock, which the country's stronger banks, moderate debt, and flexible exchange rate make unlikely to be in question, but whether several simultaneous instances of policy slippage can be corrected before they compound into the kind of credibility erosion that is far harder to reverse than any single price movement.

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