

CPI Inflation:

A quiet festival

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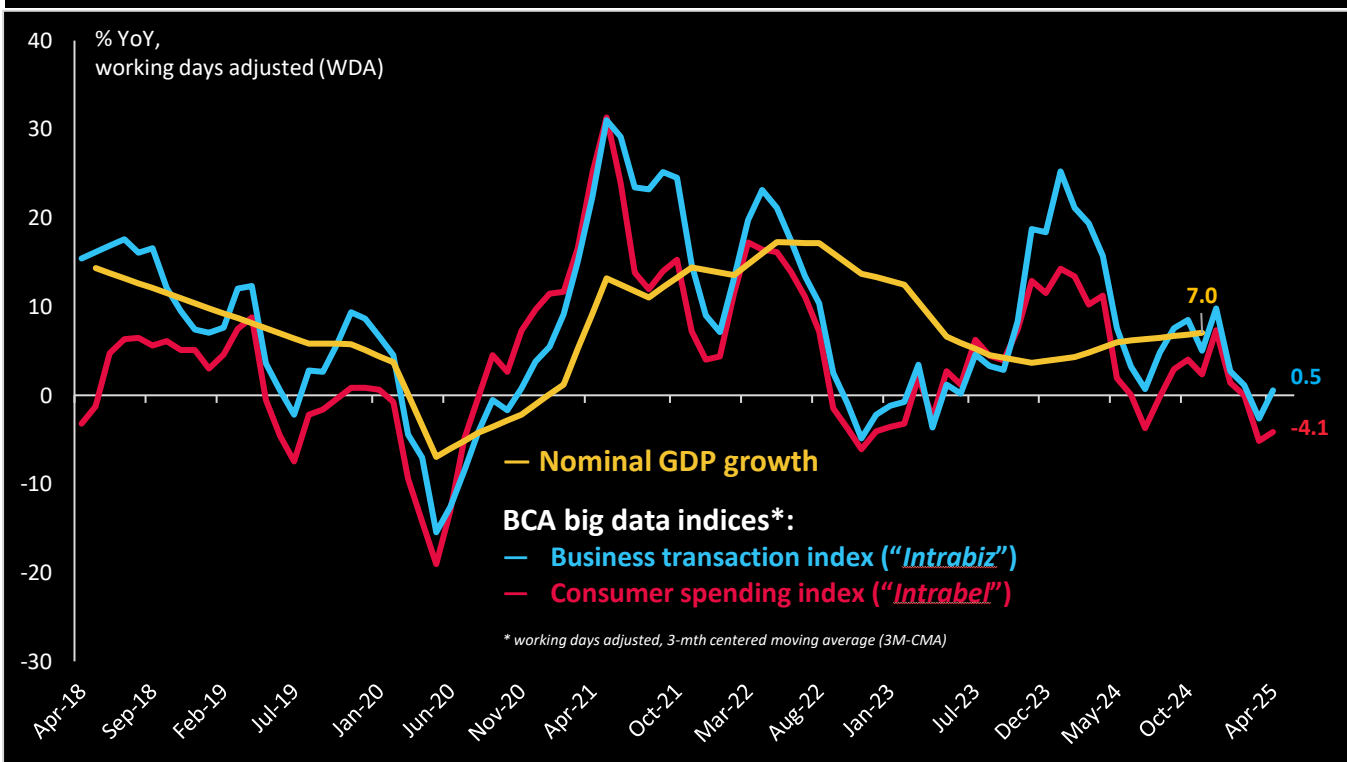
Executive Summary

- Inflation rate went up to 1.95% YoY and 1.17% MoM in Apr-25, driven by the statistical removal of the electricity discount program.
- Core inflation excluding gold slowed to 1.68% YoY (1.79% in Mar-25), reflecting weak underlying demand and in line with loan growth slowdown.
- With inflation now normalizing, Indonesia's real interest rate has declined and the gap with US real rates have declined sharply.
- A near-term rate cut appears unlikely, with room for easing likely opening in H2 if/when the Federal Reserve begins to lower its rates.

- Indonesia's inflation picked up to 1.95% YoY (1.17% MoM) in April 2025, driven by the statistical removal of the electricity discount program. With the impact now fully priced out of BPS' calculations, inflation returned to a more normalized level. However, adjusting for the effects of the gold rally and electricity normalization, the inflation rate would have been a far more subdued at 1.44% YoY and just 0.04% MoM.
- Outside of the electricity effect, the sharpest price adjustment came from an increase in PAM's clean water tariffs, contributing an estimated 0.14% to yearly inflation. Conversely, inflationary pressures were softened by a series of government-administered discounts during the Eid holidays. These included promotional fares on intercity transportation (-0.01% YoY contribution) and a 50% discount on mobile internet and phone packages (-0.04% YoY contribution).
- Core inflation remained relatively stable at 2.50% YoY, while ex-gold core inflation slowed to 1.68% YoY (from 1.79% in Mar-25), reflecting weak underlying demand. This is also visible in loan growth, which dropped to 9.16%—the lowest since Oct-23. The usual link between loans and core inflation has faded, with gold appears to be the main distortion, as ex-gold core inflation remains in line with loan growth slowdown.
- Volatile food inflation rose to just 0.64% YoY—low by seasonal standards—with most of the increase driven by a spike in chili prices: red chili (+22.4% YoY) and cayenne pepper (+54.4% YoY). Meanwhile, deflation in rice (-2.77% YoY), chicken (-7.67% YoY), and eggs (-5.15% YoY) helped cap the headline figure.

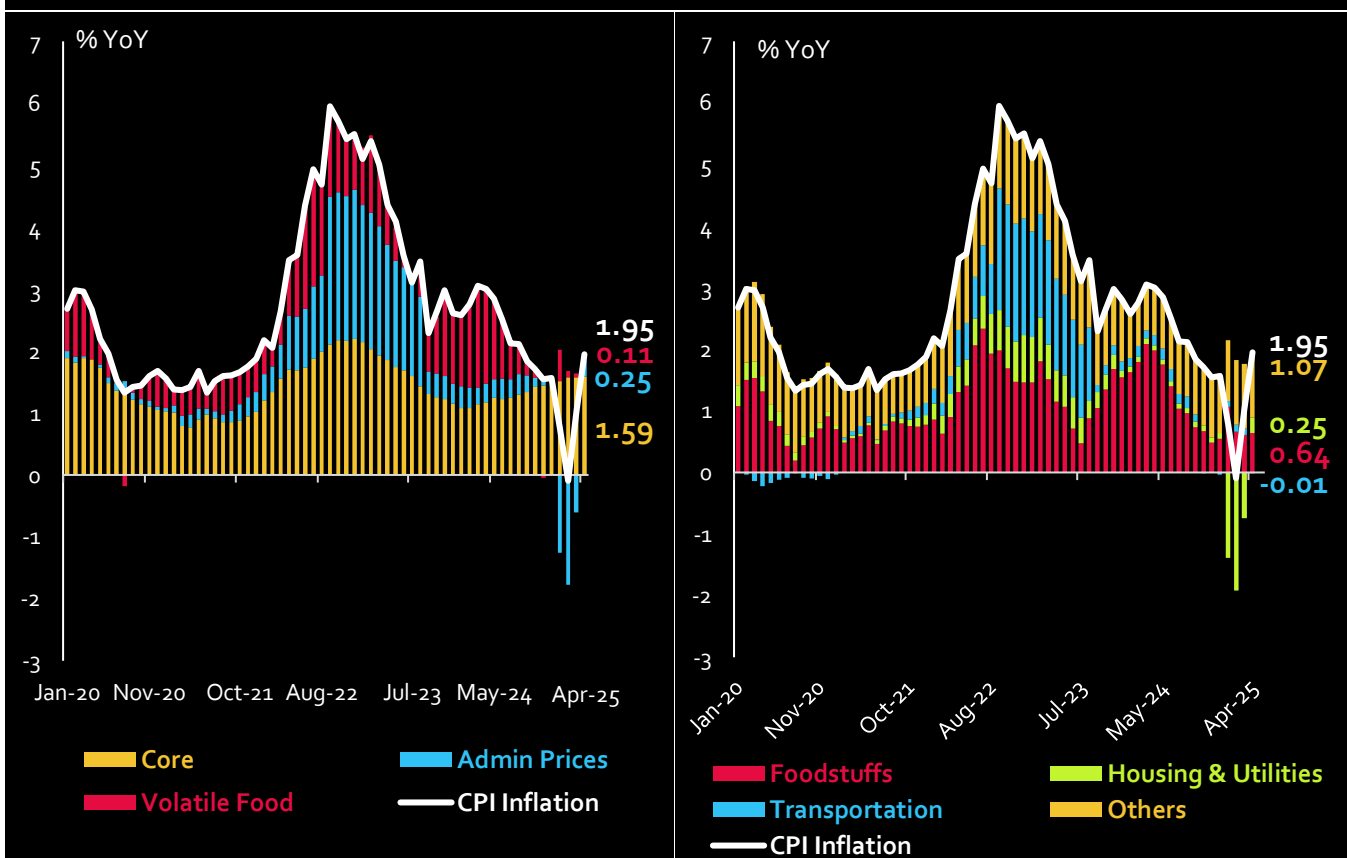
- Looking ahead, food inflation appears contained. BPS estimates that harvest areas have expanded by 11.9% in H1-2025, which could further support domestic supply and aid the government's push for food import ban. However, demand-side pressures may reemerge later this year as the accelerated rollout of the free meal program gains traction. Fortunately, large government food reserves—carried over from last year's import surge—could provide a buffer against price volatility.
- While the continued softness in food inflation offers some relief, the broader disinflation trend is increasingly worrisome—especially as the global backdrop turns more adverse following the announcement of Trump's tariffs.
- Approximately one month after the announcement of US tariffs potentially affecting Indonesia, several impacts on inflation have become apparent. Primarily, these effects have been disinflationary, as noted in our previous CPI report. Commodity prices were hit hardest; Indonesia's terms of trade fell by 2.8%, with both export and import commodity prices dropping by roughly 3%. This decline naturally helped keep domestic prices stable, particularly for fuel (BBM).
- However, this commodity price drop, combined with the tariff effects, also negatively impacted Indonesia's manufacturing sector. The manufacturing sector has now entered contraction territory, with PMI data released this morning showing a sharp 5.7-point drop to 46.7 – its lowest level since August 2021. New orders shrank after four months of growth, and employment also fell following five months of expansion. This decline was somewhat anticipated, as the preceding growth in new orders seemed to coincide with importers front-running the anticipated tariff effects following Trump's election win.
- Conversely, the tariffs also exert potential inflationary pressure on Indonesia, mainly through the depreciation of the Rupiah. In April, the Rupiah depreciated by 2.2% compared to March. Unlike the immediate impact on commodity prices, however, this currency depreciation is likely to affect inflation with a lag of approximately 2-3 months.
- With inflation now normalizing, Indonesia's real interest rate has declined—although the differential remains relatively high. Meanwhile, the gap with US real rates have declined sharply since "Liberation Day", now at its narrowest point since Trump took office.
- This presents a dilemma for Bank Indonesia. On one hand, maintaining a high real interest rate could weigh on loan growth and slow economic activity. On the other hand, any further reduction in the policy rate would shrink the rate differential further and increase pressure on the Rupiah.
- Although the currency has shown some signs of recovery, it remains above the 16,400 level, and may face some short-term pressure due to seasonal outflows and maturing SRBI. As such, a near-term rate cut appears unlikely, with room for easing likely opening in H2 if/when the Federal Reserve begins to lower its rates.

Chart 1. Transaction volume declined due to high base effect the previous year



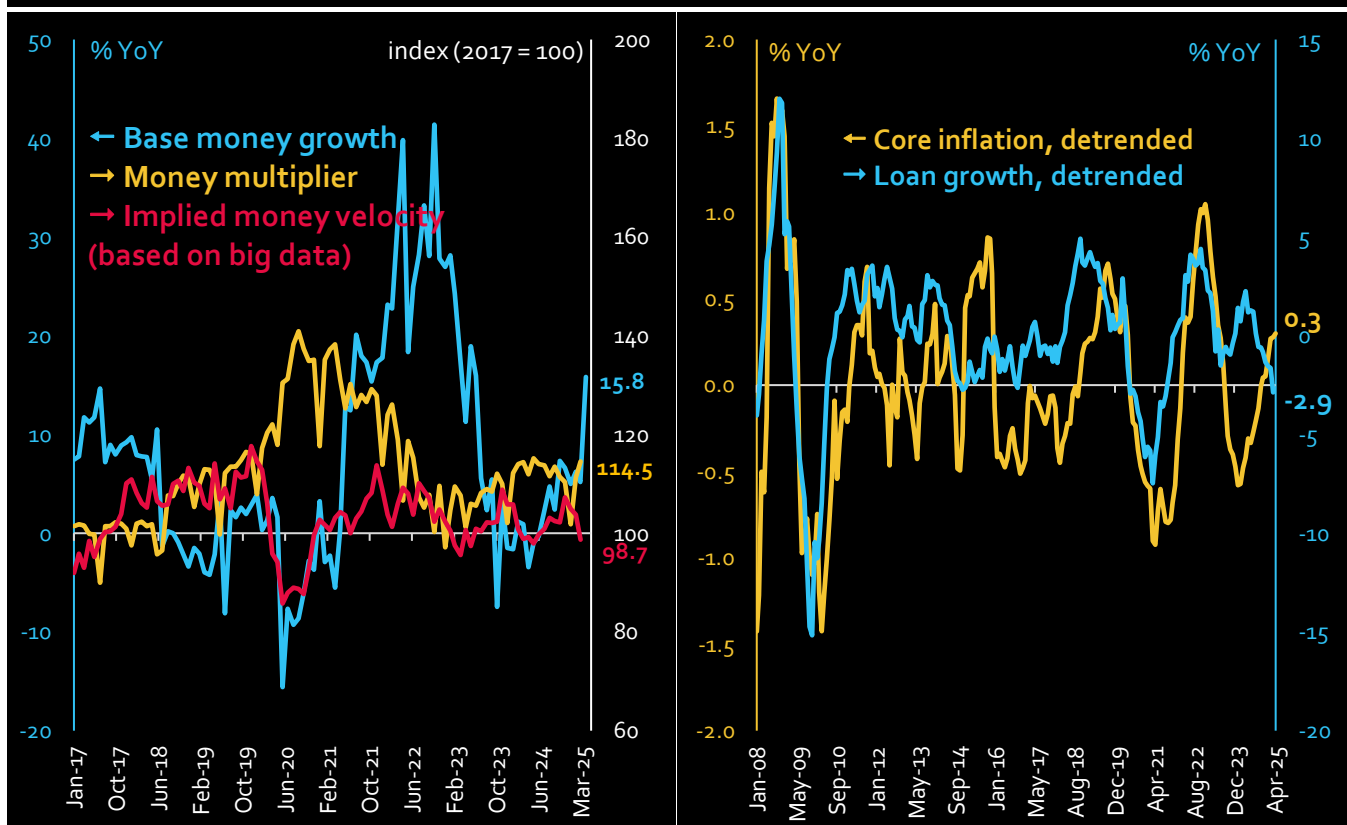
Source: BCA Big Data, calculation by BCA Economic Research

Panel 1. Inflation jumped due to ending electricity discount



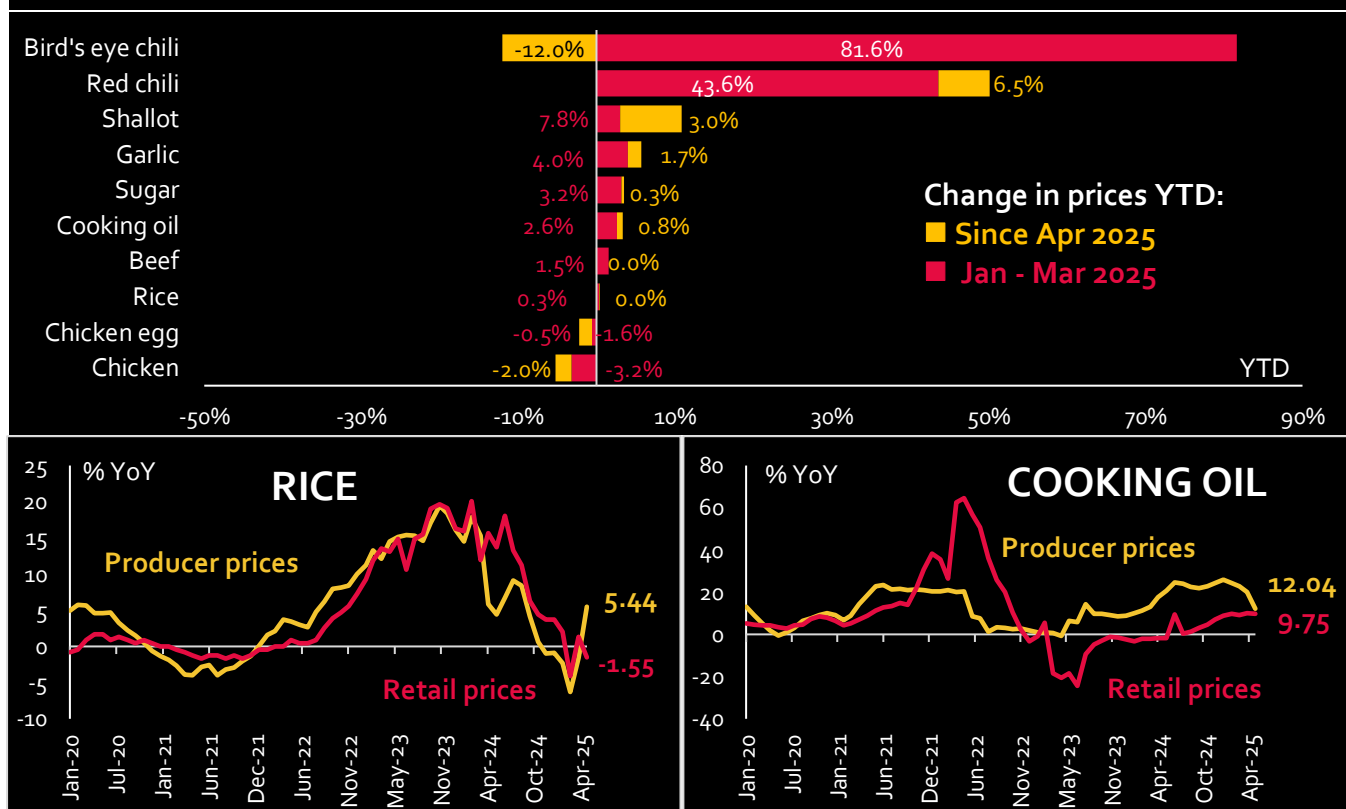
Source: BPS, calculation by BCA Economic Research

Panel 2. Money velocity slowed slightly as core inflation rose on the back of gold rally



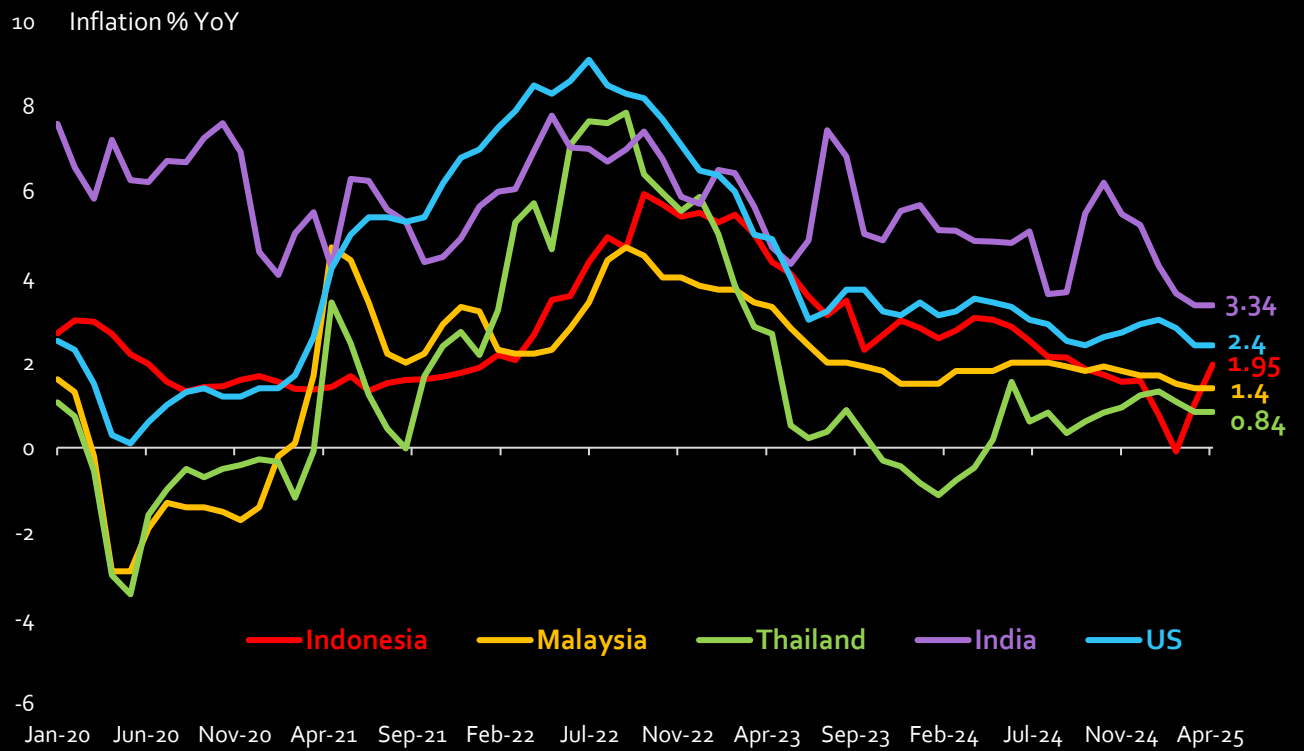
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Chili prices have surged due to recent floods while rice prices remain stable



Source: Ministry of Trade, BPS

Panel 4. Global tariffs are expected to significantly increase US inflation



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Apr	-1 mth	Chg (%)
US	4.50	Dec-24	2.10	Baltic Dry Index	1,386.0	1,602.0	-13.5
UK	4.50	Feb-25	1.90	S&P GSCI Index	518.1	560.5	-7.6
EU	2.40	Apr-25	0.20	Oil (Brent, \$/bbl)	63.1	73.6	-14.3
Japan	0.50	Jan-25	-3.10	Coal (\$/MT)	97.5	106.5	-8.5
China (lending)	2.00	Sep-24	4.45	Gas (\$/MMBtu)	3.12	3.89	-19.8
Korea	2.75	Feb-25	0.65	Gold (\$/oz.)	3,288.7	3,085.1	6.6
India	6.00	Apr-25	2.66	Copper (\$/MT)	9,118.2	9,749.7	-6.5
Indonesia	5.75	Jan-25	3.80	Nickel (\$/MT)	15,219.0	16,158.9	-5.8
Money Mkt Rates	30-Apr	-1 mth	Chg (bps)	CPO (\$/MT)	920.9	1,070.5	-14.0
				Rubber (\$/kg)	1.73	1.97	-12.2
Bank Rates (Rp)	Feb	Jan	Chg (bps)	External Sector	Mar	Feb	Chg (%)
Lending (WC)	8.67	8.62	5.00	Export (\$ bn)	23.25	21.94	5.95
Deposit 1M	5.02	4.87	15.00	Import (\$ bn)	18.92	18.86	0.30
Savings	0.68	0.68	0.00	Trade bal. (\$ bn)	4.33	3.08	40.56
				Central bank reserves (\$ bn)*	157.1	154.5	1.67
Currency/USD	30-Apr	-1 mth	Chg (%)	Prompt Indicators	Mar	Feb	Jan
UK Pound	0.750	0.773	3.01	Consumer confidence index (CCI)	121.1	126.4	127.2
Euro	0.883	0.924	4.62	Car sales (%YoY)	-5.1	2.2	-11.3
Japanese Yen	143.1	149.8	4.73	Motorcycle sales (%YoY)	-7.2	4.0	-5.5
Chinese RMB	7.271	7.262	-0.13				
Indonesia Rupiah	16,601	16,560	-0.25				
Capital Mkt	30-Apr	-1 mth	Chg (%)	Manufacturing PMI	Mar	Feb	Chg (bps)
JCI	6,766.8	6,510.6	3.93	USA	50.2	52.7	-250
DJIA	40,669.4	41,583.9	-2.20	Eurozone	48.6	47.6	100
FTSE	8,494.9	8,658.9	-1.89	Japan	48.4	49.0	-60
Nikkei 225	36,045.4	37,120.3	-2.90	China	51.2	50.8	40
Hang Seng	22,119.4	23,426.6	-5.58	Korea	49.1	49.9	-80
Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)	Indonesia	52.4	53.6	-120
Stock	3,144.7	3,083.7	61.05				
Govt. Bond	891.9	890.2	1.72				
Corp. Bond	5.2	5.1	0.06				

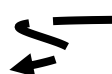
Source: Bloomberg, BI, BPS

Notes:

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, **>50** indicates economic expansion, **<50** otherwise



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.1
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.68
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,943
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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