

## CPI Inflation:

# Expecting another southward campaign

Lazuardin Thariq Hamzah  
Economist/Analyst

Barra Kukuh Mamia  
Head of Macroeconomic Research

02 June 2025

### Executive Summary

- Indonesia's CPI inflation edged lower to 1.60% YoY in May 2025, driven by falling food prices, while core inflation remained muted.
- Lower food prices have created a more conducive environment for a consumption recovery, a trend the government aims to reinforce through another round of stimulus packages in June–July 2025.
- The still-elevated real interest rate, due to muted inflation, may continue to dampen loan demand, potentially encouraging Bank Indonesia to maintain its dovish bias, especially if external conditions remain favourable.

- Indonesia's CPI inflation slowed down again to 1.60% YoY (-0.37% MoM) in May 2025, lower than most analysts had expected, as inflationary pressures remained generally muted. Despite the downside surprise, the May 2025 CPI figure remains directionally consistent with our expectations, given the improving domestic food inventory following the recent harvest season.
- Indeed, the volatile foodstuffs component explains the abrupt kink in domestic inflationary momentum. The 1.17% YoY deflation (-0.41% MoM) was driven by a concerted decline in the price of spices, particularly red and cayenne pepper, which together contributed around 0.24% to the 0.41% MoM deflation. Better weather conditions and leftover inventory from last year's imports also help stabilise prices of other essential foodstuffs – the most important of which is rice, whose prices continued to decline until the final week of last month (-1.30% YoY, -0.98% MoM).
- While volatility in spice prices is notoriously difficult to predict, **one can reasonably deduct that the foodstuffs component will not contribute significantly to inflationary pressures in the short term.** Sizably better rice harvests in January–April 2025 may help secure the domestic grain supply in the coming months, despite an expected decline in rice output in Q2-2025. An oversupply issue has also been reported in the poultry sector, as reflected in the government's recent efforts to accelerate domestic absorption. Rising global vegetable oil prices (cooking oil prices are rising by 2.4% MoM in the domestic market) along with the continued rollout of the flagship free nutritious meal (MBG) programme present an upside risk to our short-term outlook. This risk, however, does not seem to be likely at the

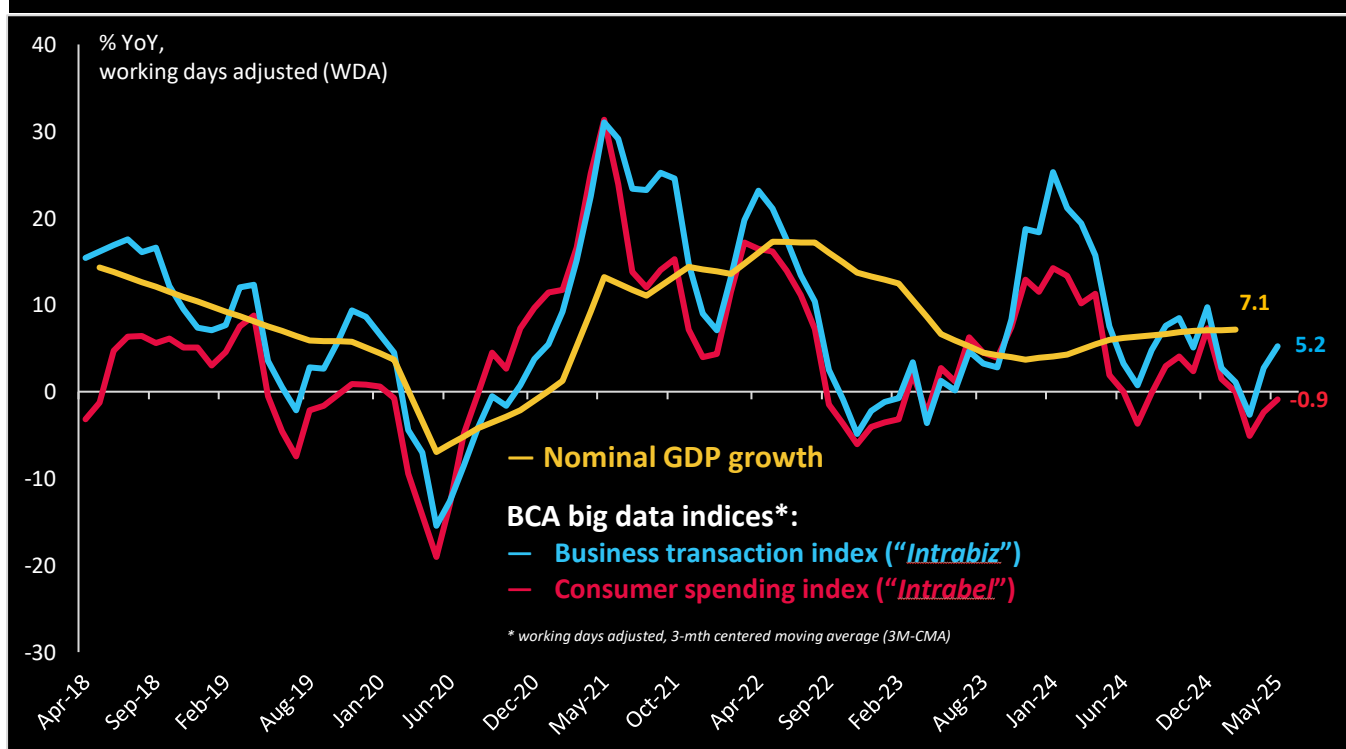
moment, especially if the agriculture sector, particularly food crop plantations, continues to build on the momentum seen in Q1-2025.

- **No significant inflationary pressures are expected to arise from other components either, at least in the short term.** Rising gold prices have significantly skewed the headline and core inflation reading so far in 2025; without the gold and jewellery sub-component, the May 2025 CPI inflation would have fallen closer to 1.13% YoY. The now-stable Rupiah, along with emerging evidence from the recent Indonesia Manufacturing PMI showing more companies offering discounts, suggests that core inflation excluding gold may also remain muted.
- **Indeed, the affordability of food and consumer goods does not appear to be the main culprit behind Indonesia's stagnating household consumption.** Household income growth is still playing catch-up with GDP growth, which itself has been lacklustre in recent times. It's not too surprising, then, that more attention is being directed toward the labour market. The government is set to spend IDR 10.72 trillion on wage subsidies as part of its mid-year consumption stimulus, aiming to maintain labour absorption ahead of the sensitive 'back-to-school' season.
- The government is also set to extend the 50% discount on health insurance contributions for businesses in labour-intensive industries, further strengthening support for the labour market. Beyond that, discounts on toll roads and transport fares may also curb the seasonal spike in transport inflation, potentially boosting consumption as more households may afford to spend the school break period on a voyage.
- This stimulus package is a welcome development for Indonesia's growing urban households. However, apart from the potentially lower transport inflation, better-off households will not benefit much from these stimuli. Meanwhile, inflation is still evident in areas such as rents, domestic helpers' wages, personal transport, and prepared foods; pressures that tend to disproportionately affect upper-middle-income households. These factors may not help better-off households expand their non-routine consumption, especially if their saving rate remains elevated.
- Solving better-off households' lack of motivation to increase consumption is outside the scope of the government's limited fiscal sinews. It is Bank Indonesia that we should look to for a solution to this predicament, a task the central bank evidently recognises, as signalled by the recent 25 bps cut in the BI rate. It will take some time, of course, before the policy begins to influence consumption, as its impact on demand conditions will be indirect—either through a lower savings rate, as reduced yields make saving or investing in debt securities less attractive, or through increased demand for consumption loans driven by lower interest rates.
- Alas, we have not seen many differences following last month's policy rate cut. **The benchmark 10Y SBN yield remains stable at 6.82-6.83%, meaning that the real policy rate has been widening again given the falling headline inflation number in May 2025.** The still-substantial real interest rate, we fear, may fail to incentivise better-off households to lower their savings rate.

*"Rather than inflation, the weakening consumption growth may be better attributed to the anaemic household income growth"*

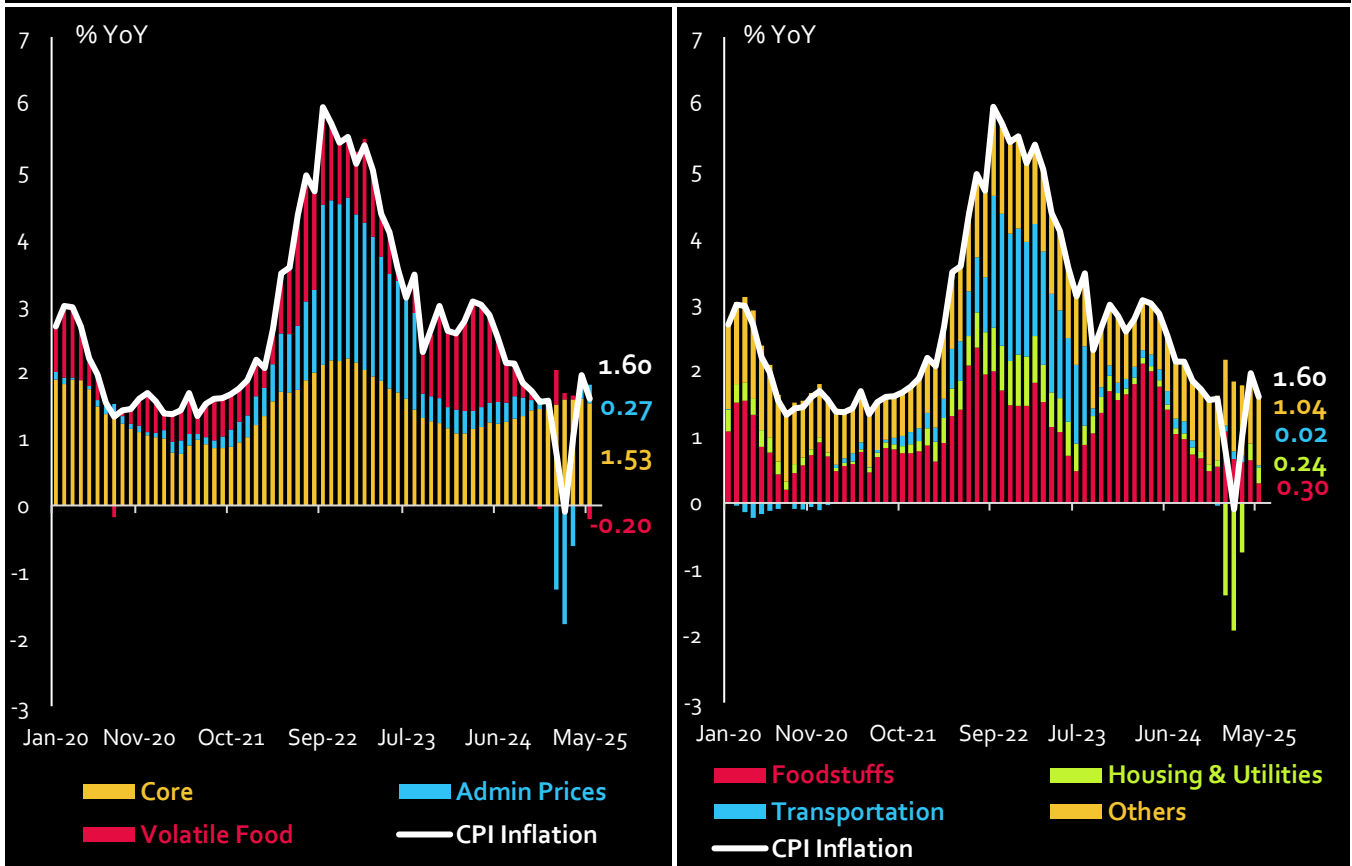
- The still-narrow consumption outlook continues to discourage businesses from leveraging up and expanding, thereby limiting loan demand. Indeed, core inflation excl. gold and jewellery have been on a downward trend since January 2025, observed at 1.60% YoY in May 2025. **Muted core inflation aligns with the weakening loan growth, which slowed to 8.88% YoY in April 2025 (9.16% YoY by the end of Q1-2025) and has since propelled the central bank to revise its loan growth target down to 8–11% YoY.**
- The central bank has delivered some countermeasures to reverse this loan growth tide, recently lowering its secondary reserves ratio (PLM) by 1% and lifting the cap on foreign borrowing limit to 35% of the bank's capital. **The preferred policy course for BI may be to continue building on this dovish stance;** made possible by muted inflationary pressures and stable domestic market conditions, especially if external factors remain supportive amid continued USD weakness.

**Chart 1. Lower food prices shepherd the recovery in consumer transactions**



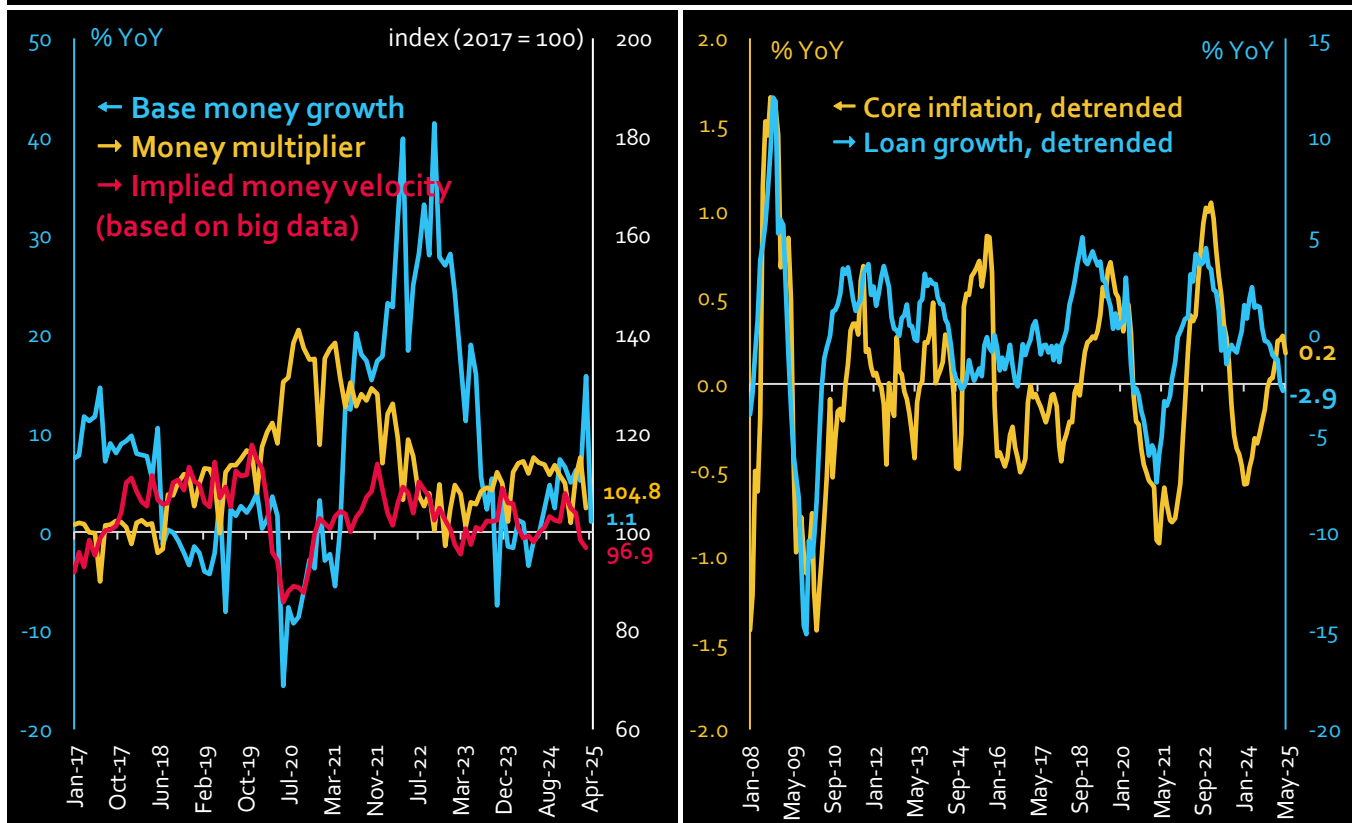
Source: BCA Big Data, calculation by BCA Economic Research

**Panel 1. Inflationary pressures are subdued again as food prices move lower**



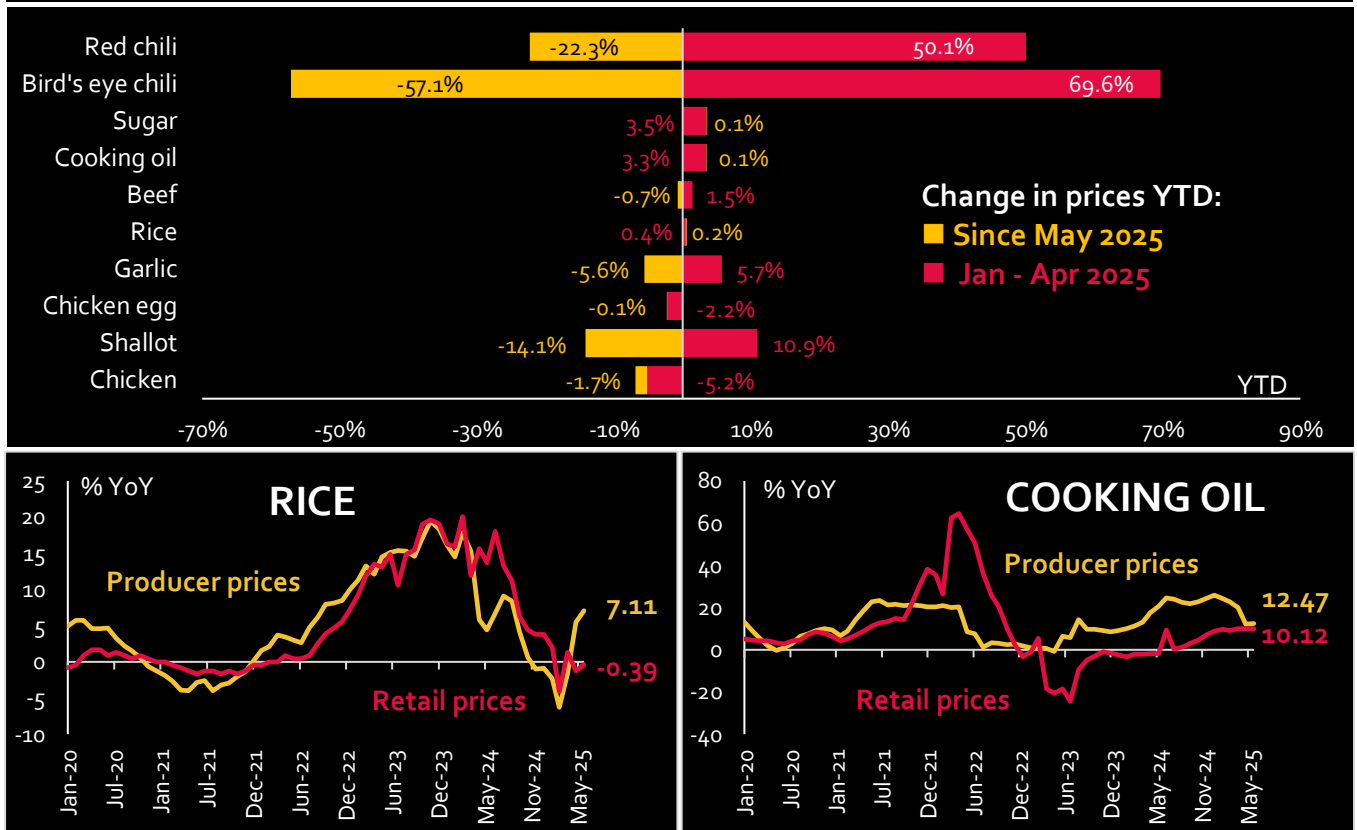
Source: BPS, calculation by BCA Economic Research

**Panel 2. Money velocity slowed slightly as core inflation remain muted**



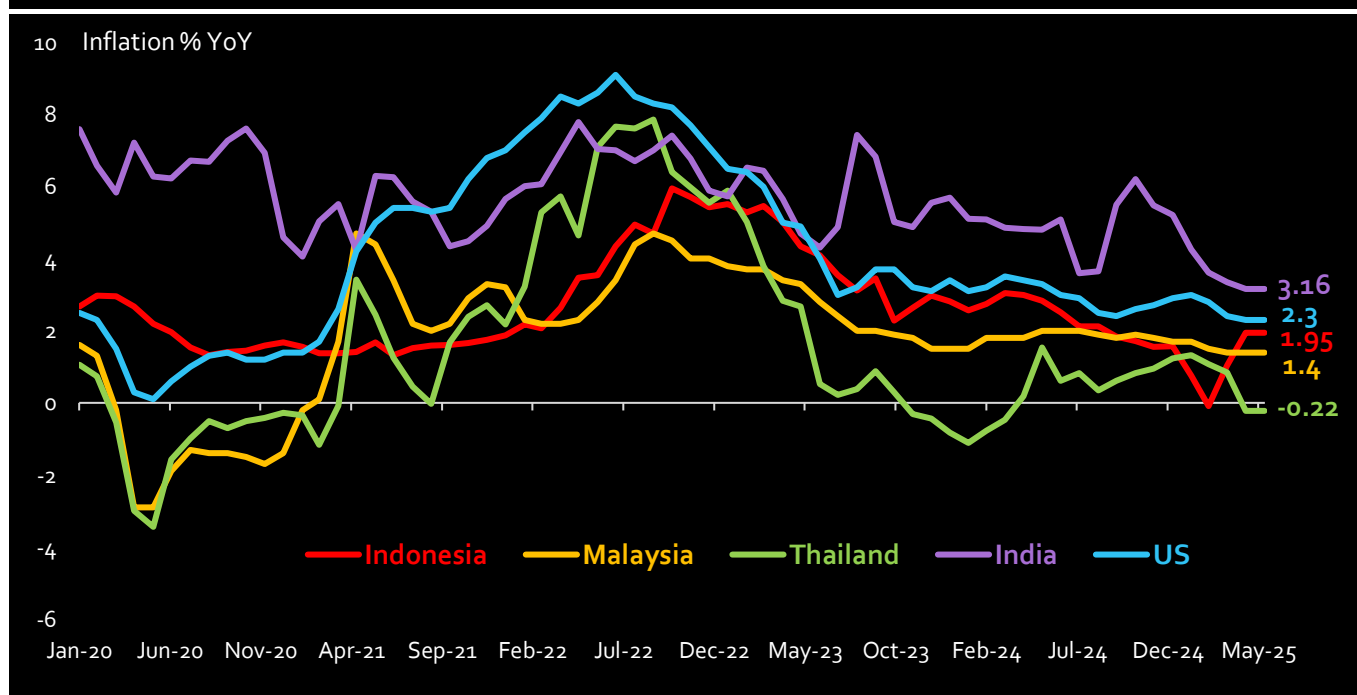
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

**Panel 3. Chili prices move lower as supply improves, while government interventions are crucial in keeping other food prices stable**



Source: Ministry of Trade, BPS

**Panel 4. A potential global inflationary shock explains the opposition against the US rhetorics**



Source: Bloomberg

## Selected Macroeconomic Indicators

| Key Policy Rates                    | Rate (%) | Last Change | Real Rate (%) | Trade & Commodities             | 28-May   | -1 mth   | Chg (%)   |
|-------------------------------------|----------|-------------|---------------|---------------------------------|----------|----------|-----------|
| US                                  | 4.50     | Dec-24      | 2.20          | Baltic Dry Index                | 1,303.0  | 1,373.0  | -5.1      |
| UK                                  | 4.25     | May-25      | 0.75          | S&P GSCI Index                  | 531.3    | 537.2    | -1.1      |
| EU                                  | 2.40     | Apr-25      | 0.20          | Oil (Brent, \$/bbl)             | 64.9     | 66.9     | -2.9      |
| Japan                               | 0.00     | Jan-25      | -3.10         | Coal (\$/MT)                    | 110.1    | 102.0    | 7.9       |
| China (lending)                     | 2.00     | Sep-24      | 4.45          | Gas (\$/MMBtu)                  | 3.09     | 2.71     | 14.0      |
| Korea                               | 2.50     | Feb-25      | 0.40          | Gold (\$/oz.)                   | 3,287.5  | 3,319.7  | -1.0      |
| India                               | 6.00     | Apr-25      | 2.84          | Copper (\$/MT)                  | 9,610.0  | 9,376.4  | 2.5       |
| Indonesia                           | 5.50     | May-25      | 3.55          | Nickel (\$/MT)                  | 14,816.7 | 15,345.7 | -3.4      |
| Money Mkt Rates                     | 28-May   | -1 mth      | Chg (bps)     | CPO (\$/MT)                     | 918.6    | 954.2    | -3.7      |
| SPN (5M)                            | 5.88     | 6.66        | -78.0         | Rubber (\$/kg)                  | 1.70     | 1.72     | -1.2      |
| SUN (10Y)                           | 6.83     | 6.91        | -8.4          | External Sector                 | Apr      | Mar      | Chg (%)   |
| INDONIA (O/N, Rp)                   | 5.88     | 5.76        | 11.2          | Export (\$ bn)                  | 20.74    | 23.25    | -10.77    |
| JIBOR 1M (Rp)                       | 6.15     | 6.38        | -22.7         | Import (\$ bn)                  | 20.59    | 18.92    | 8.80      |
| Bank Rates (Rp)                     | Feb      | Jan         | Chg (bps)     | Trade bal. (\$ bn)              | 0.16     | 4.33     | -96.33    |
| Lending (WC)                        | 8.67     | 8.62        | 5.00          | Central bank reserves (\$ bn)*  | 152.5    | 157.1    | -2.94     |
| Deposit 1M                          | 5.02     | 4.87        | 15.00         | Prompt Indicators               | Apr      | Mar      | Feb       |
| Savings                             | 0.68     | 0.68        | 0.00          | Consumer confidence index (CCI) | 121.7    | 121.1    | 126.4     |
| Currency/USD                        | 28-May   | -1 mth      | Chg (%)       | Car sales (%YoY)                | 5.0      | -5.1     | 2.2       |
| UK Pound                            | 0.742    | 0.751       | 1.16          | Motorcycle sales (%YoY)         | -3.0     | -7.2     | 4.0       |
| Euro                                | 0.886    | 0.880       | -0.64         | Manufacturing PMI               | May      | Apr      | Chg (bps) |
| Japanese Yen                        | 144.8    | 143.7       | -0.81         | USA                             | 52.3     | 50.2     | 210       |
| Chinese RMB                         | 7.196    | 7.287       | 1.26          | Eurozone                        | 49.4     | 49.0     | 40        |
| Indonesia Rupiah                    | 16,290   | 16,830      | 3.31          | Japan                           | 49.4     | 48.7     | 70        |
| Capital Mkt                         | 28-May   | -1 mth      | Chg (%)       | China                           | 50.4     | 50.4     | 0         |
| JCI                                 | 7,175.8  | 6,678.9     | 7.44          | Korea                           | 47.7     | 47.5     | 20        |
| DJIA                                | 42,098.7 | 40,113.5    | 4.95          | Indonesia                       | 47.4     | 46.7     | 70        |
| FTSE                                | 8,726.0  | 8,415.3     | 3.69          |                                 |          |          |           |
| Nikkei 225                          | 37,722.4 | 35,705.7    | 5.65          |                                 |          |          |           |
| Hang Seng                           | 23,258.3 | 21,980.7    | 5.81          |                                 |          |          |           |
| Foreign portfolio ownership (Rp Tn) | Apr      | Mar         | Chg (Rp Tn)   |                                 |          |          |           |
| Stock                               | 3,244.2  | 3,144.7     | 99.51         |                                 |          |          |           |
| Govt. Bond                          | 899.7    | 995.6       | -95.98        |                                 |          |          |           |
| Corp. Bond                          | 5.1      | 5.2         | -0.05         |                                 |          |          |           |

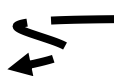
Source: Bloomberg, BI, BPS

Notes:

\*Data from earlier period

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

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



Scan for the link to our report depository or click:

[https://s.id/BCA\\_REI](https://s.id/BCA_REI)

## 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

### Economic, Banking & Industry Research Team

#### **David E.Sumual**

Chief Economist

david\_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

#### **Victor George Petrus Matindas**

Head of Banking Research and Analytics

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

#### **Elbert Timothy Lasiman**

Economist / Analyst

elbert\_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

#### **Agus Salim Hardjodinoto**

Head of Industry and Regional Research

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

#### **Gabriella Yolivia**

Industry Analyst

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

#### **Thierris Nora Kusuma**

Economist / Analyst

thierris\_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

#### **Samuel Theophilus Artha**

Economist / Analyst

samuel\_artha@bca.co.id

+6221 2358 8000 Ext: 1080373

#### **Barra Kukuh Mamia**

Head of Macroeconomic Research

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

#### **Lazuardin Thariq Hamzah**

Economist / Analyst

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

#### **Nicholas Husni**

Economist / Analyst

nicholas\_husni@bca.co.id

+6221 2358 8000 Ext: 1079839

## PT Bank Central Asia Tbk

### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

### DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 1020451 or fax to: (62-21) 2358 8343 or email: [eri.tristanto@bca.co.id](mailto:eri.tristanto@bca.co.id)