

CPI Inflation:

Waiting for Godot (and Loan Growth)

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Executive Summary

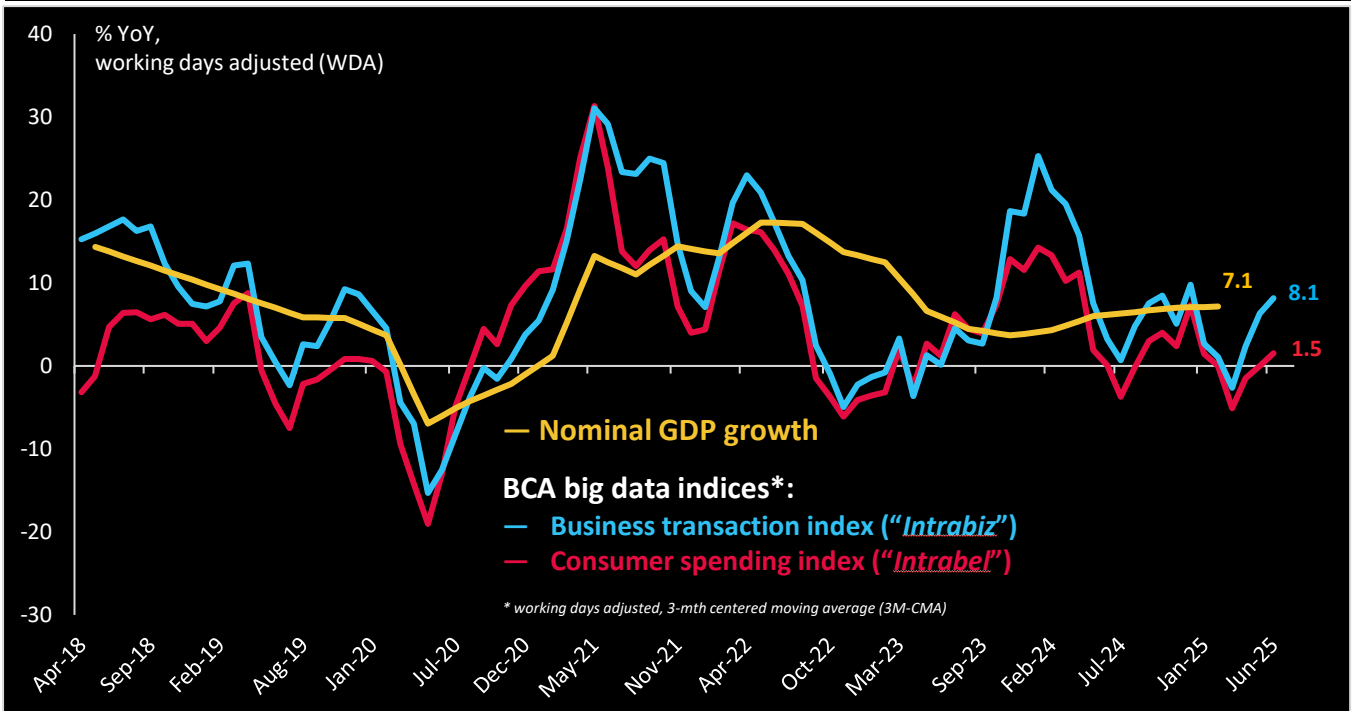
- Indonesia's headline inflation rose to 1.87% YoY in June, driven entirely by food prices like rice. However, the weak core inflation (1.74% YoY ex-gold) is a concerning trend.
- The weak core inflation stems from two main pressures: a flood of disinflationary imports from China and, more significantly, slowing monetary inflation, as a prolonged period of high real interest rates has stifled private sector lending.
- Looking ahead, while a rate cut could stimulate loan growth, it presents an unavoidable trade-off with a weaker Rupiah. Maintaining the current course, on the other hand, is also a prudent option given the highly uncertain global conditions.

- Indonesia's CPI inflation rose to 1.87% YoY (0.19% MoM) in June 2025, in line with our forecast of a 1.86% YoY increase. While gold prices continue to play a significant role (1.39% YoY inflation without the change in gold prices), the prices of most other products did not show significant changes from the previous month, aside from foodstuffs.
- Among foodstuffs, the largest contributors to monthly inflation were rice and chili. The increase in the price of rice is a direct result of a lower harvest in June, following the peak production season in March-April. This is reflected at the farm-gate level, where the average price of harvested grain rose to approximately Rp 6,645—an increase of 1.4% from May. This price is notably higher than in March and April, when it hovered around the government's purchase price (HPP) of Rp 6,500.
- However, Bulog's abundant reserves may keep rice prices stable in the coming months. Instead of releasing its stock, Bulog has continued to build it up, with reserves reaching a record 4.2 million tons of rice at the end of June, up from 4.0 million tons in May.
- Another noteworthy development in the June data is the weak core inflation, which slowed to 2.37% YoY (1.74% YoY excluding gold). We identify at least two factors contributing to this weakness: first, the continuing flood of products from China, and second, slowing monetary inflation.
- China's PPI, which is closely related to Indonesia's discontinued WPI for imports, has been on a declining trend since March. This is reflected in domestic prices, particularly in the "Furniture and household equipment" component. More specifically, the "Goods and services for household maintenance" subcomponent, which primarily includes soap products and wages

for household assistants, has weakened. Corroborating this trend, Indonesia's soap imports from China (HS 34) increased 57% YoY in Q1-2025 (cf. apparel imports (HS 61 & 62), which were up 37% YoY in the same period).

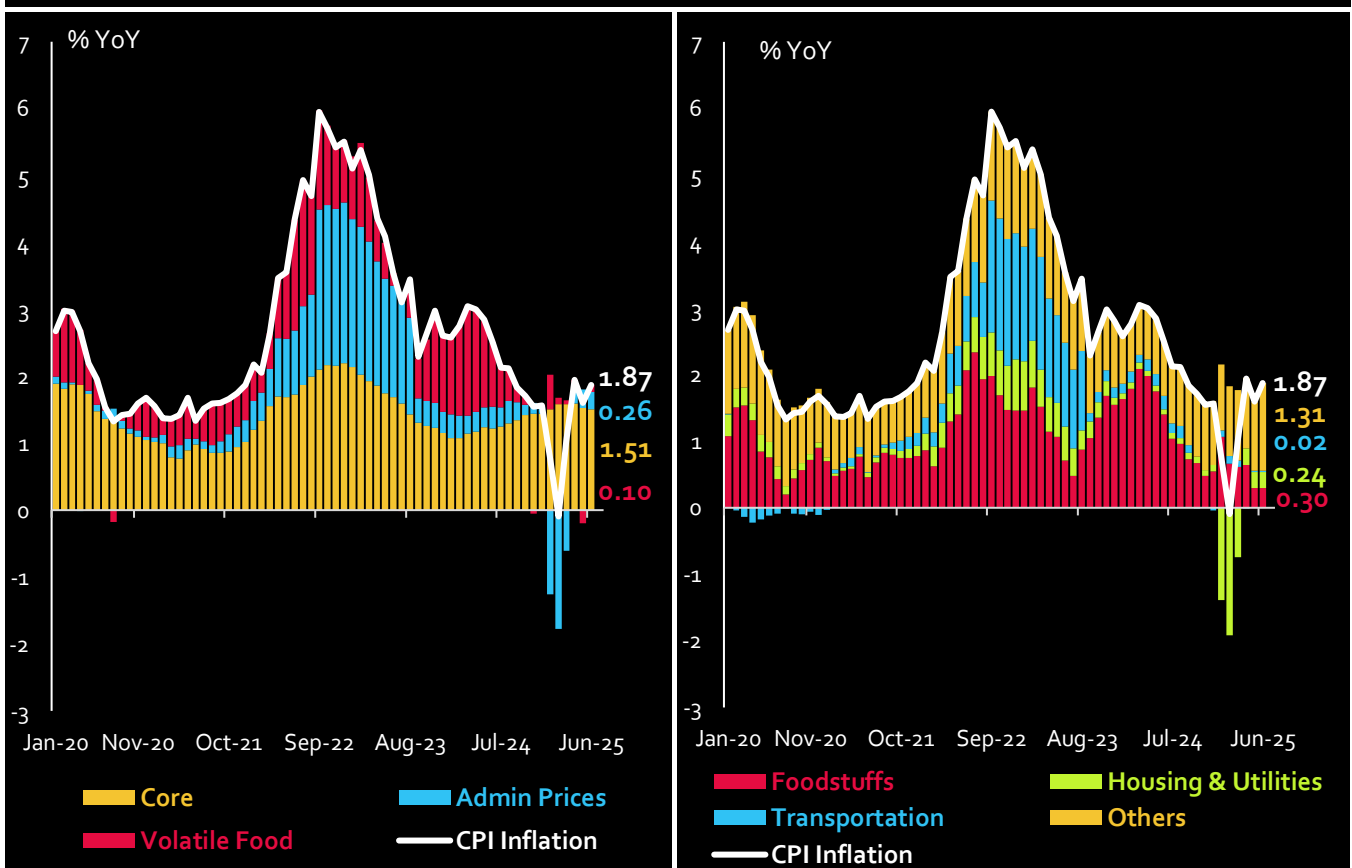
- The other, and arguably more important, factor dragging down core inflation is slowing monetary inflation. While weak core inflation is often attributed to sluggish demand—which is true to an extent—slowing monetary inflation may offer a more complete explanation. This is because the primary driver of monetary supply growth, bank lending to the private sector, has weakened.
- Here, we are seeing the effects of a prolonged period of high real interest rates, which has taken a toll on loan growth for both productive and consumer purposes. The current economic landscape, which has put businesses in a wait-and-see mode, has not helped either. It is not just the private sector feeling the pinch; banks' liquidity has also been squeezed, as households prefer to invest their money in government bonds and other instruments—safe haven or not (gold, crypto, etc.)—rather than in bank deposits. This has inevitably resulted in slower loan growth and, consequently, weak core inflation.
- Looking ahead, the two biggest upside risks to inflation remain oil and rice prices. The latest developments in the Israel-Iran conflict were worrying due to a potential oil price spike, but this proved to be short-lived. Still, geopolitical risks have not cooled down enough to be dismissed. The risk of another price spike in rice also remains, particularly if adverse weather conditions affect future harvests. However, this risk is substantially mitigated by several factors: the government's strong focus on price stability, Bulog's record-high reserves, and ongoing initiatives like the food estate program. On the other hand, short-term inflationary pressure could also come from a potential ride-hailing fare increase and higher e-commerce taxes.
- The best scenario, then, would be to stimulate the economy either by achieving a lower real interest rate through a rate cut, or by successfully boosting loan growth through other means. BI has been attempting the latter with policies like its KLM incentives. However, a rate cut would present an unavoidable trade-off with a potentially weaker Rupiah. Given the highly uncertain global conditions, maintaining the current stance may also be a prudent course of action.

Chart 1. Business activity recovers despite still limited consumption growth



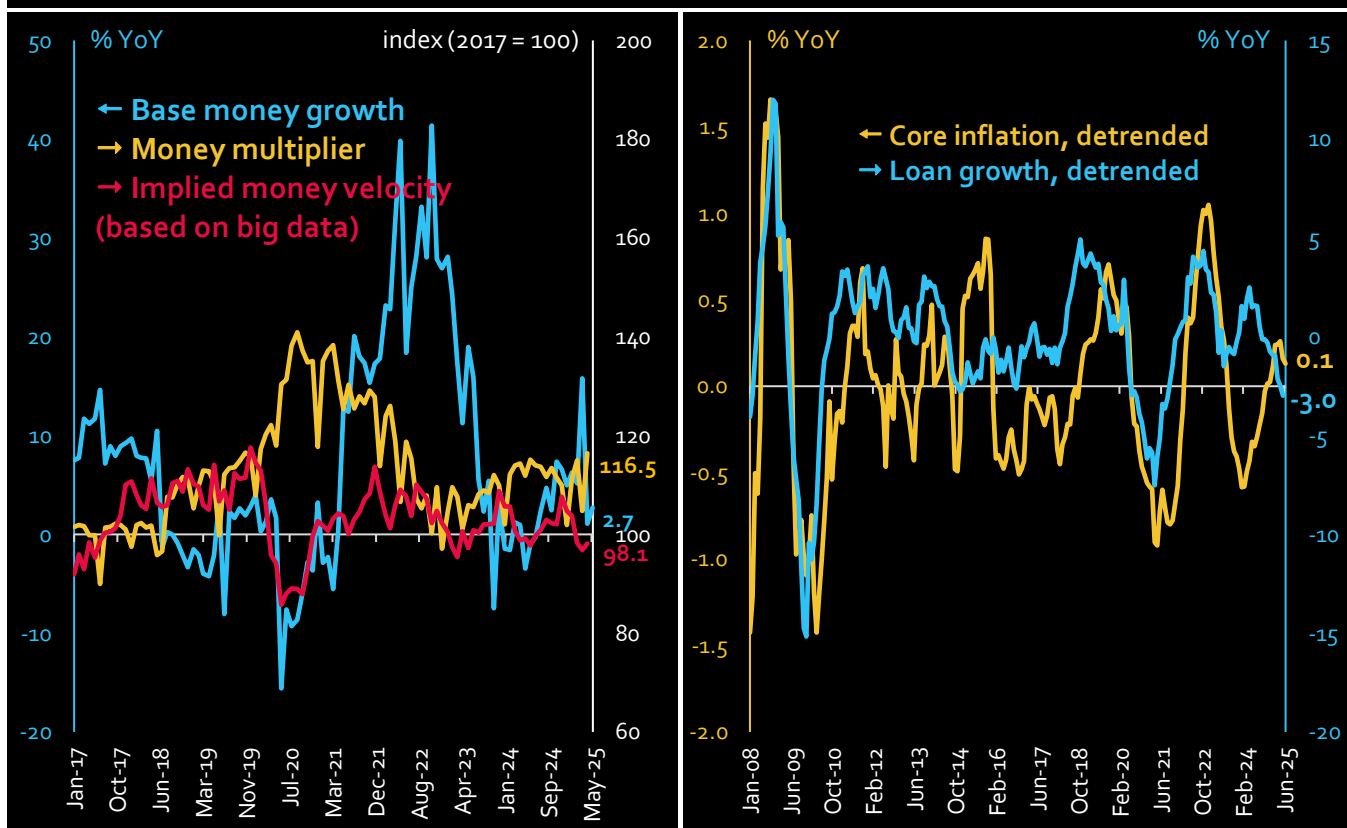
Source: BCA Big Data, calculation by BCA Economic Research

Panel 1. June's inflation was driven entirely by food prices



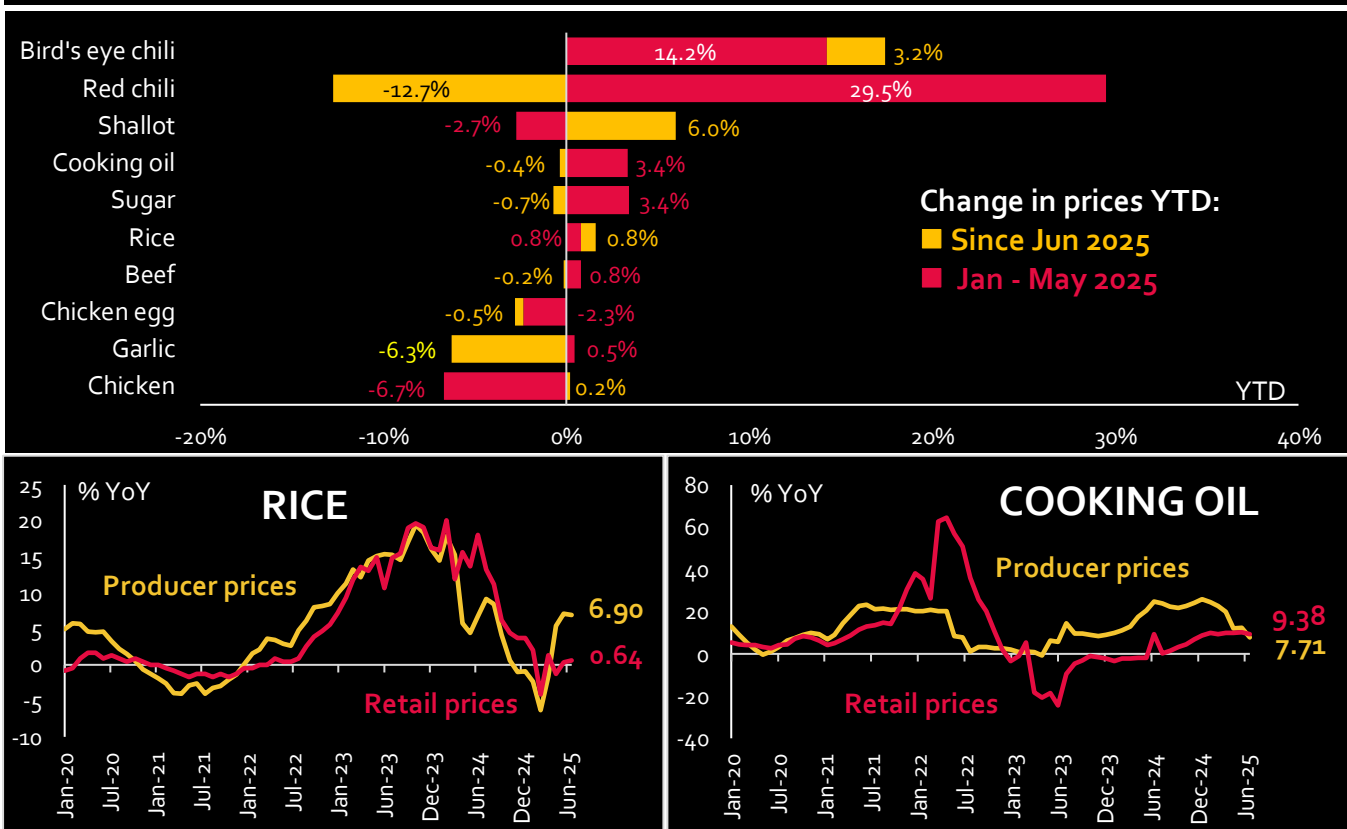
Source: BPS, calculation by BCA Economic Research

Panel 2. Sluggish loan growth continues to keep core inflation muted



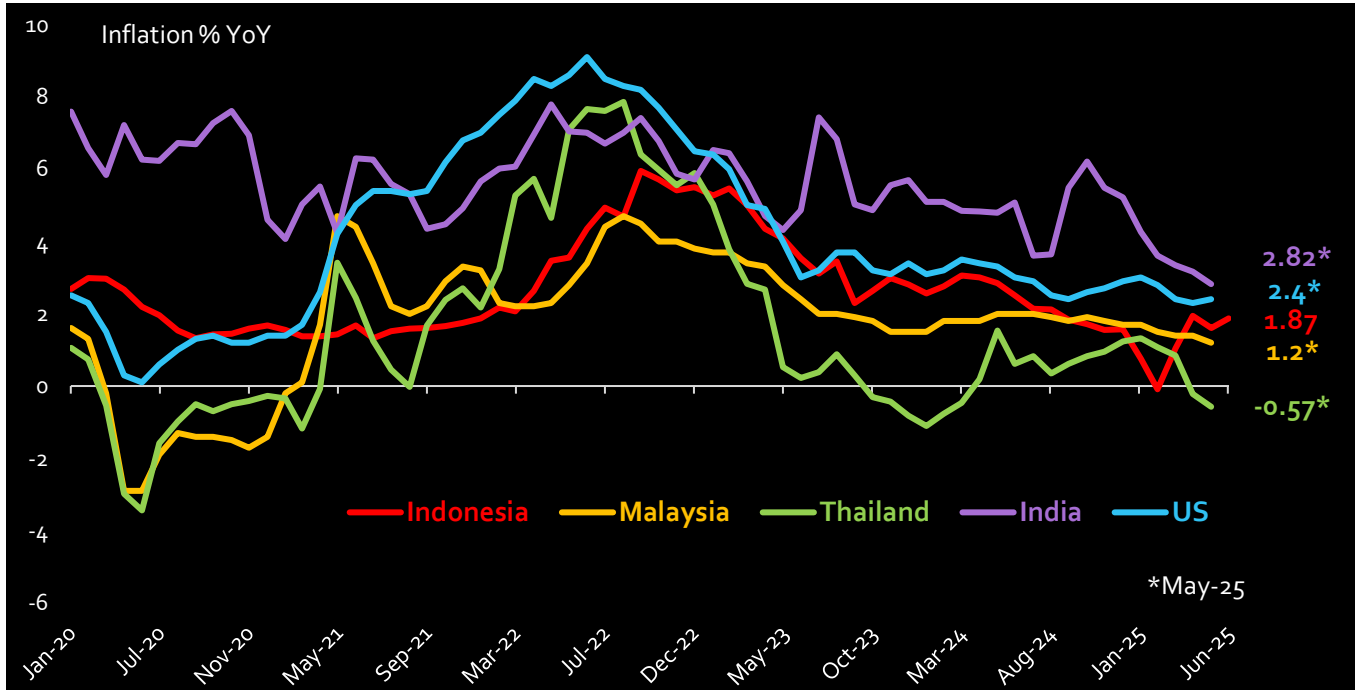
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Rice prices have been slowly increasing, but Bulog's abundant reserves may keep them stable



Source: Ministry of Trade, BPS

Panel 4. Global inflation is on a declining trend



Source: Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	30-Jun	-1 mth	Chg (%)
US	4.50	Dec-24	2.10	Baltic Dry Index	1,489.0	1,418.0	5.0
UK	4.25	May-25	0.85	S&P GSCI Index	543.1	524.7	3.5
EU	2.15	Jun-25	0.25	Oil (Brent, \$/brl)	67.6	63.9	5.8
Japan	0.50	Jan-25	-3.00	Coal (\$/MT)	112.8	109.9	2.7
China (lending)	2.00	Sep-24	4.45	Gas (\$/MMBtu)	3.26	2.81	16.0
Korea	2.50	May-25	0.60	Gold (\$/oz.)	3,303.1	3,289.3	0.4
India	5.50	Jun-25	2.68	Copper (\$/MT)	10,050.7	9,548.1	5.3
Indonesia	5.50	May-25	3.63	Nickel (\$/MT)	15,019.6	15,041.4	-0.1
Money Mkt Rates	30-Jun	-1 mth	Chg (bps)	CPO (\$/MT)	929.3	905.9	2.6
SPN (1Y)	5.88	6.02	-13.6	Rubber (\$/kg)	1.68	1.64	2.4
SUN (10Y)	6.62	6.83	-20.9	External Sector	Apr	Mar	Chg (%)
INDONIA (O/N, Rp)	5.28	5.88	-60.0	Export (\$ bn)	20.74	23.25	-10.77
JIBOR 1M (Rp)	6.15	6.15	0.0	Import (\$ bn)	20.59	18.92	8.80
Bank Rates (Rp)	Mar	Feb	Chg (bps)	Trade bal. (\$ bn)	0.16	4.33	-96.33
Lending (WC)	8.66	8.67	-0.75	Central bank reserves (\$ bn)*	152.5	157.1	-2.94
Deposit 1M	5.01	5.02	-0.47	Prompt Indicators	May	Apr	Mar
Savings	0.68	0.68	0.16	Consumer confidence index (CCI)	117.5	121.7	121.1
Currency/USD	30-Jun	-1 mth	Chg (%)	UK Pound	0.728	0.743	2.03
UK Pound	0.728	0.743	2.03	Euro	0.848	0.881	3.88
Euro	0.848	0.881	3.88	Japanese Yen	144.0	144.0	-0.01
Japanese Yen	144.0	144.0	-0.01	Chinese RMB	7.164	7.199	0.49
Chinese RMB	7.164	7.199	0.49	Indonesia Rupiah	16,238	16,290	0.32
Indonesia Rupiah	16,238	16,290	0.32	Capital Mkt	30-Jun	-1 mth	Chg (%)
Capital Mkt	30-Jun	-1 mth	Chg (%)	Manufacturing PMI	May	Apr	Chg (bps)
JCI	6,927.7	7,175.8	-3.46	USA	52.0	50.2	180
DJIA	44,094.8	42,270.1	4.32	Eurozone	49.4	49.0	40
FTSE	8,761.0	8,772.4	-0.13	Japan	49.4	48.7	70
Nikkei 225	40,487.4	37,965.1	6.64	China	48.3	50.4	-210
Hang Seng	24,072.3	23,289.8	3.36	Korea	47.7	47.5	20
Foreign portfolio ownership (Rp Tn)	May	Apr	Chg (Rp Tn)	Indonesia	47.4	46.7	70
Stock	3,435.7	3,244.2	191.47				
Govt. Bond	926.3	995.6	-69.37				
Corp. Bond	5.2	5.1	0.08				

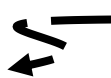
Source: Bloomberg, BI, BPS

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	2.0
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.00
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.02
USD/IDR exchange rate (average)	14,141	14,529	14,297	14,874	15,248	15,841	16,350
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,625
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.8

Notes:

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

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