

CPI:

Lost in translation: inflation and demand

01 September 2025

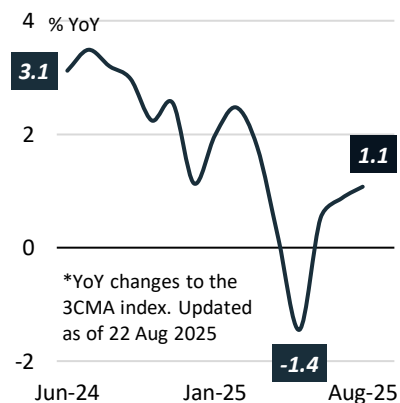
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BCA Consumer Spending Index*



BCA Business Transaction Index*



• Inflation in August eased slightly to 2.31% YoY (from 2.37% YoY in July), while the MoM figure showed a 0.08% deflation. The main driver of monthly deflation came from the supply side, which does not necessarily indicate a weakening in demand. Simultaneous harvests of tomatoes and bird's eye chili pushing food prices lower, alongside discounted airfares during Independence Day.

• On the other hand, the core component registered a 0.06% MoM inflation, while the other components (administered prices and volatile prices) posted deflation. Does this suggest demand is improving? Probably not entirely, as it was largely driven by gold prices and education costs (linked to the new school year).

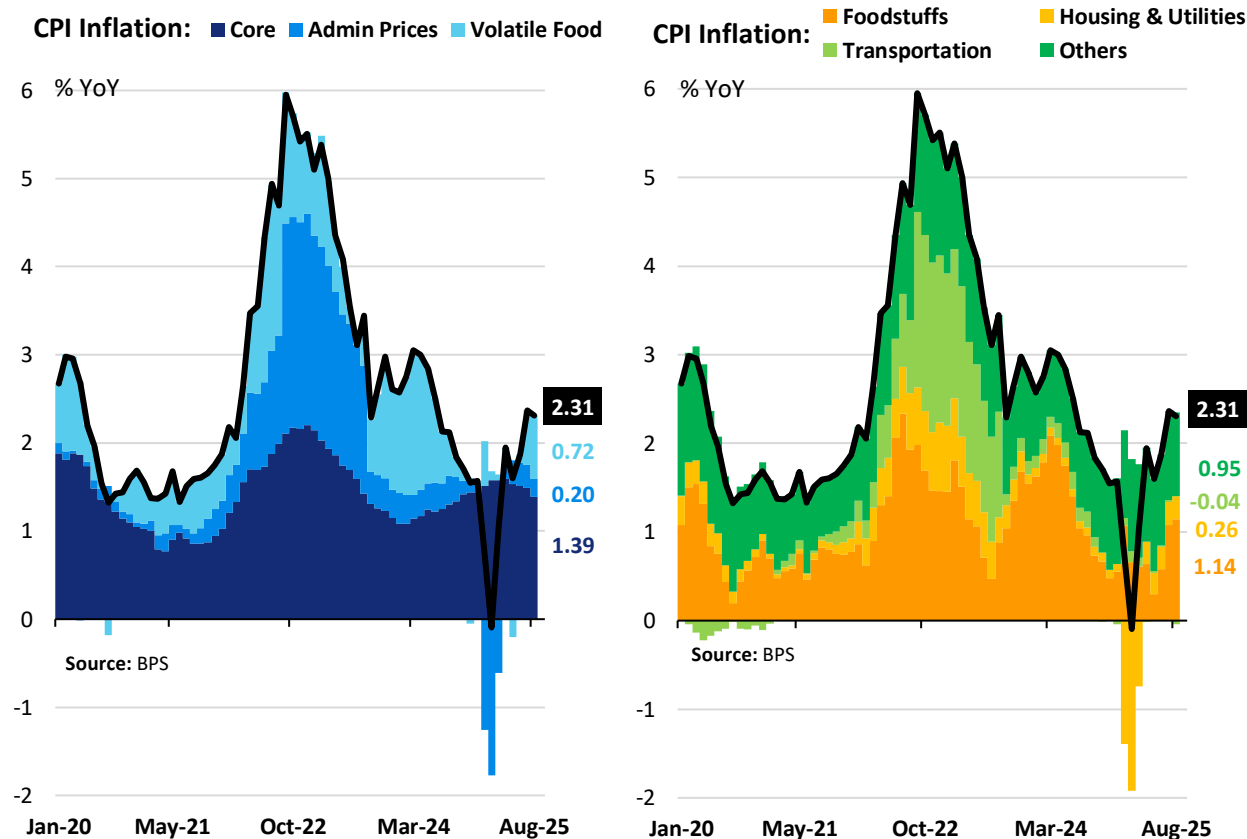
• On an annual basis, core inflation also provides no strong signal on demand dynamics. The core inflation slowed to 2.17% YoY from 2.32% YoY (in July), reflecting weaker gold price growth and a concurrent slowdown in credit growth.

• While credit growth has softened, money supply growth in July remained fairly solid at 6.5% YoY (vs. 6.4% YoY in June), supported by liquidity from the trade surplus and government spending. Assuming this liquidity trend continues over the next couple of months, but with core inflation remaining stuck, the issue likely lies in the velocity of money.

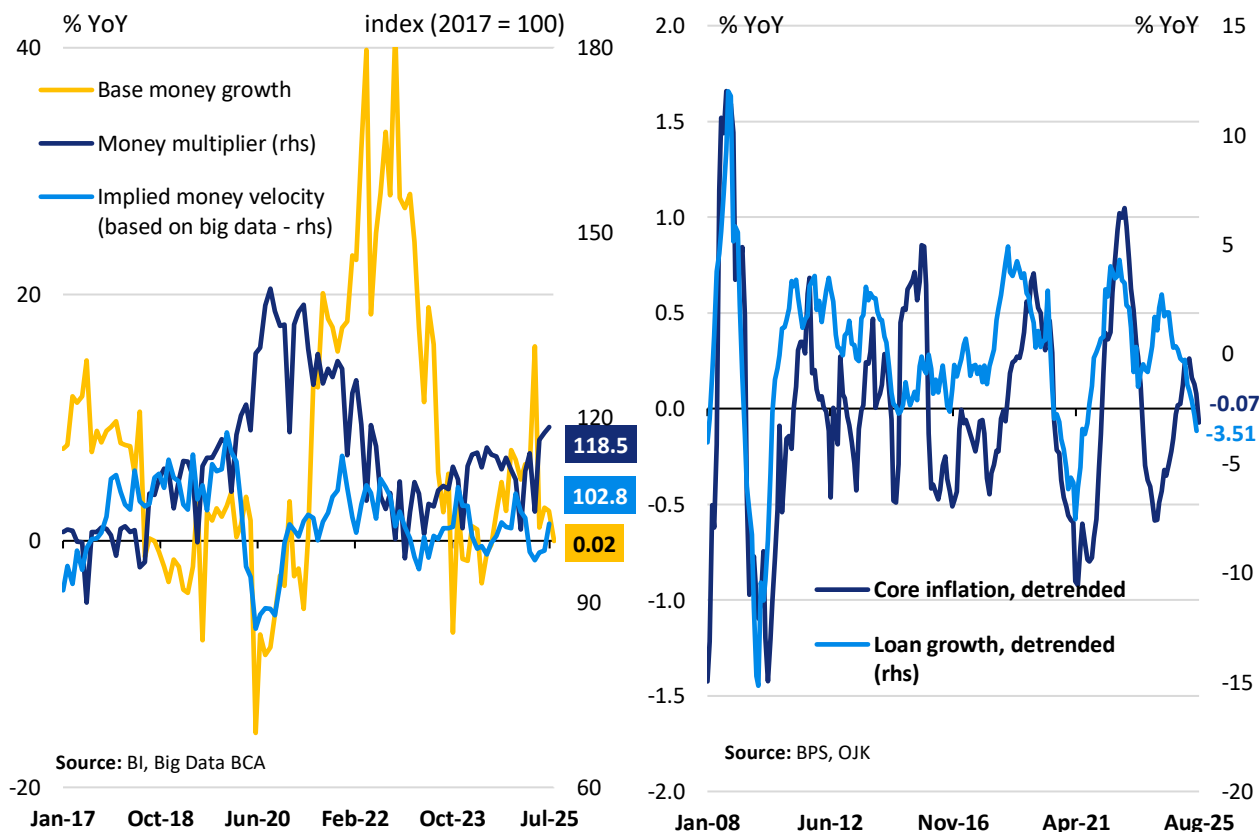
• This is precisely what the government seeks to address through policy rate cuts and second-half 2025 fiscal stimulus. At this stage, we view inflation as still contained at a healthy level, allowing BI to maintain its accommodative stance in line with the Fed. Nevertheless, it is crucial for the government to accelerate demand momentum, as bad inflation looms on the horizon, driven by two factors.

• First, food prices, particularly rice, remain among the largest contributors to annual inflation, due to issues in grain absorption. The second factor is the Rupiah's depreciation, which has again moved above 16,400. If this depreciation trend continues unchecked, it could add upward pressure on imported goods inflation. The combination of these two risks represents bad inflation, which may dilute the effectiveness of government stimulus efforts and limit BI's room to cut rates further.

1 Inflation was driven by food prices, while core inflation continued to decelerate



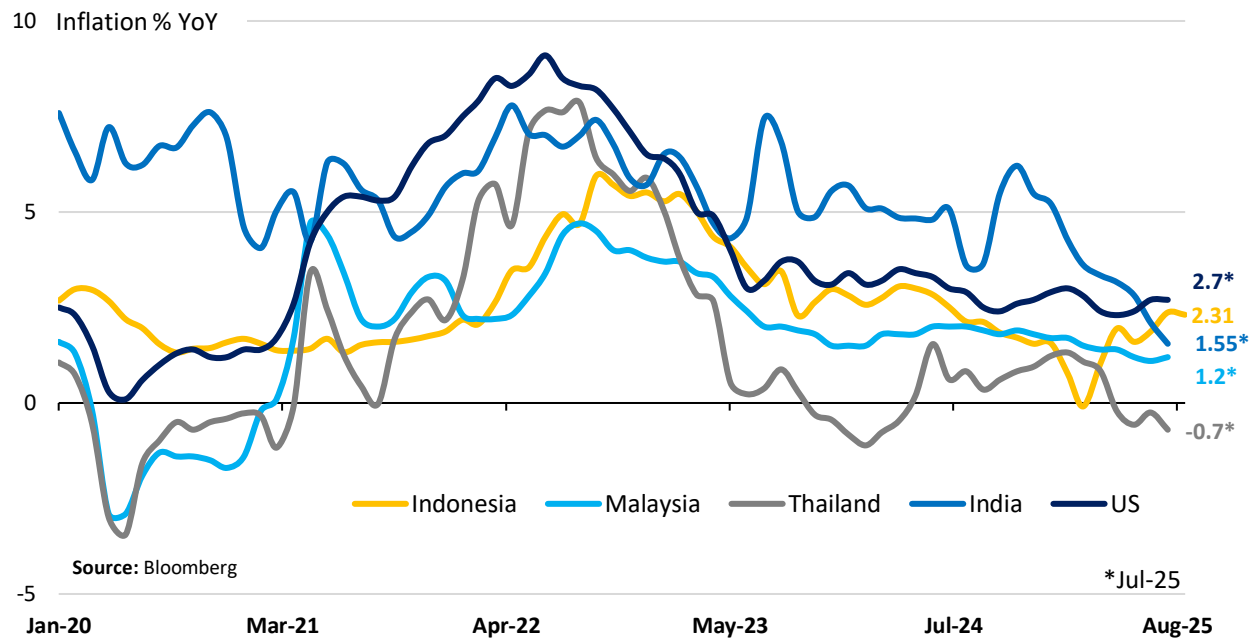
2 Slowing core inflation reflecting concurrent slowdown in credit growth



3 Declining real interest rate creates favorable conditions for credit growth



4 Global inflation is still on a declining trend



Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	1-Sep	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	2,024.0	2,018.0	0.3
UK	4.00	Aug-25	0.20	S&P GSCI Index	549.7	545.6	0.8
EU	2.15	Jun-25	0.15	Oil (Brent, \$/bbl)	68.2	69.7	-2.2
Japan	0.50	Jan-25	-2.60	Coal (\$/MT)	110.8	118.3	-6.3
China (lending)	2.00	Sep-24	4.35	Gas (\$/MMBtu)	2.88	3.00	-4.0
Korea	2.50	May-25	0.80	Gold (\$/oz.)	3,476.1	3,363.5	3.3
India	5.50	Jun-25	3.95	Copper (\$/MT)	9,797.7	9,581.3	2.3
Indonesia	5.00	Aug-25	2.69	Nickel (\$/MT)	15,255.7	14,794.2	3.1
Money Mkt Rates	1-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	1,029.1	982.1	4.8
SPN (1Y)	5.09	5.25	-16.4	Rubber (\$/kg)	1.76	1.67	5.4
SUN (10Y)	6.39	6.56	-17.3	External Sector	Jul	Jun	Chg (%)
INDONIA (O/N, Rp)	4.56	4.75	-19.5	Export (\$ bn)	24.75	23.44	5.60
JIBOR 1M (Rp)	5.56	5.87	-30.3	Import (\$ bn)	20.58	19.33	6.43
Bank Rates (Rp)	May	Apr	Chg (bps)	Trade bal. (\$ bn)	4.17	4.10	1.71
Lending (WC)	8.64	8.66	-1.72	Central bank reserves (\$ bn)*	152.0	152.6	-0.38
Deposit 1M	4.86	5.02	-15.57	Prompt Indicators	Jul	Jun	May
Savings	0.70	0.69	1.18	Consumer confidence index (CCI)	118.1	117.8	117.5
Currency/USD	1-Sep	-1 mth	Chg (%)	Car sales (%YoY)	-18.4	-22.5	-15.1
UK Pound	0.738	0.753	2.00	Motorcycle sales (%YoY)	-0.5	-0.3	-0.1
Euro	0.854	0.863	1.07	Manufacturing PMI	Aug	Jul	Chg (bps)
Japanese Yen	147.2	147.4	0.15	USA	53.3	49.8	350
Chinese RMB	7.138	7.193	0.78	Eurozone	50.7	49.8	90
Indonesia Rupiah	16,421	16,493	0.44	Japan	49.7	48.9	80
Capital Mkt	1-Sep	-1 mth	Chg (%)	China	50.5	49.5	100
JCI	7,736.1	7,537.8	2.63	Korea	48.3	48.0	30
DJIA	45,544.9	43,588.6	4.49	Indonesia	51.5	49.2	230
FTSE	9,196.3	9,068.6	1.41				
Nikkei 225	42,188.8	40,799.6	3.40				
Hang Seng	25,617.4	24,507.8	4.53				
Foreign portfolio ownership (Rp Tn)	Aug	Jul	Chg (Rp Tn)				
Stock	3,760.3	3,539.4	220.93				
Govt. Bond	953.9	1,213.4	-259.57				
Corp. Bond	4.5	4.7	-0.16				

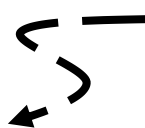
Source: Bloomberg, BI, BPS

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	5.0
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	7.2
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	5100
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.2
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	4.75
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	6.57
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
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.75

Notes:

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

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