

## Potholes in the way to recovery

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### Summary

- Consumer spending continues to recover following last quarter's decline, aided by factors such as normalising fiscal spending.
- Higher food prices, high real rates, and lagging household income growth present risks to the ongoing recovery in household consumption.
- Improvements in labour market conditions will be needed to sustain this recovery, encouraging the government to accelerate the rollout of its priority programmes to increase labour absorption.

- What recently hit the Indonesian financial market may aptly be described as turbulence. The benchmark 10Y SBN yield briefly fell below 6.30% in late August 2025, before widespread uncertainty erupted on the street. Similarly, foreign outflows led the domestic equities market to fall 2.72% from its YTD high of 7,952.1, delaying its northward march toward breaking the 8,000 level. Fortunately, some measure of clarity has since returned to the Indonesian economy, enabling downward shocks in the domestic bond and equities markets to recede.
- Amidst all this, two momentous events transpire within the domestic financial market. First, Indonesia's SWF effort to seek below-market financing (through the sale of 'Patriot' Bonds) for its investment projects has been reported as a success, highlighting the

collaboration between the public sector and the domestic business community. Second, Bank Indonesia has also entered some form of a 'burden-sharing' scheme with the government, aiming to lessen the government's interest burden (thus widening its fiscal room) without enlarging the central bank's balance sheet.

- These two developments give a picture of a government increasingly in control of its political levers, consistent with the strategy of centralised responses – as reflected in the higher share of central government spending in the proposed 2026 budget – to address the country's growing socio-economic challenges. Given Indonesia's economic structure and social contract, ensuring an improvement in household consumption should be the key point in addressing the growing challenges.

## Putting a guard rail on the recovering consumption trend

- Fortunately, the government does not have to start from square one in its bid to shepherd household consumption growth further northwards. BCA's big data indicates an improvement in consumer transactions between June and August 2025 (*see Chart 1*), which has recovered to the level on par with the previous year following the decline in Q2-2025. As we have argued *ad nauseam*, this recovery in household consumption mirrors the acceleration in fiscal spending realisation following the 'budget optimisation' process earlier in the year and is expected to continue as the government still has some way to go in meeting its spending target before December 2025.

- However, there are at least three risks that may derail this recovery in household consumption. First, despite the muted headline inflation number, food-driven inflationary pressures have been bubbling up in recent months, including for staple foods such as rice. Higher food prices may have a detrimental impact on households' disposable income (especially for lower-income households), reducing their ability to consume more discretionary items (*see Chart 2*).
- The higher rice prices may stem from the government's earlier instruction to raise the floor price for grains to around Rp 6,500/kg, a measure intended to boost farmers' income but one that comes at the expense of consumers, given the margins added at each step of the long domestic grain supply chain. Some public interventions have been reported

*"Despite higher food prices, cheap consumer goods imports mute the core inflation, keeping the real rate elevated"*

to be at play to counter this condition, with the government releasing its grain stockpiles through market operations, which help to bring bulk rice prices 1.25% lower from its YTD high of Rp 16,000/kg.

- The second risk factor is the still-high real rates condition (*see Chart 3*). The government, of course, has been successful in lowering the benchmark interest rate throughout this year, thanks to the ripple effect due to lower SRBI issuance and more intensive use of alternative financing options (such as *sisa anggaran lebih/SAL*), which invalidates the supply concern in the SBN market that has led us to revise our 10Y SBN yield forecast to 6.32%.

Alas, this condition may not last beyond 2025, given the higher SBN issuance in the next year as indicated by the proposed 2026 state budget. **This expected supply-driven increase in the benchmark**

**SBN yield may thus disincentivise better-off households to reduce their saving rate,** potentially putting a check on the ongoing recovery in household consumption.

- Another factor that may keep the real rate condition relatively high is the muted headline inflation number. As mentioned earlier, despite the higher food prices, the headline inflation number remains relatively muted, with isolated factors such as rising gold prices preventing core inflation from pointing southward. Considering the recent trend of Chinese exporters targeting their regional markets (including Indonesia) amidst the rising US import tariff, **the watershed of cheap**

**manufactured goods imports coming Indonesia's way may continue to mute core inflation in the upcoming period**, which highlights our expectation of a still-high real rate condition.

- The stream of cheap manufactured goods imports is not entirely negative, as it hitherto helps sustain Indonesia's real consumption and, in turn, allows the domestic trading sector to maintain its margins. However, the potential downside risk may outweigh the benefit. For instance, **although cheaper imports support the trading sector, they also threaten the consumer goods manufacturing sector, which typically offers higher wages per worker than the trading sector** (and is more labour-intensive than the commodity-producing sector). Ergo, it is no surprise that labour demand seems to be concentrated in the lower-paying trading sector (*see Chart 4*), potentially leading to a continuous drag in household income that may threaten household consumption in the long term.
- **Without a considerable upgrade in labour market conditions, then, efforts to boost long-term household consumption will be increasingly fiscal-dependent.** The government may resort to higher social spending to supplant the drag in household income, bolstering consumption in the short term. However, there are two concerns regarding this solution. First, while the government has

resorted to stimulus packages to mitigate a sudden drop in consumption, **the long-term correlation between declines in household spending and discretionary government spending remains weak.** Second, this approach does not address the structural problem of lagging household income growth, while periodic cash injections may instead deepen reliance on cheap imported goods to sustain consumption.

- Meanwhile, the government has also been promoting its priority programmes (such as the free nutritious meals and the red-white village cooperatives) to address the labour market problem, which explains the decision to redirect fiscal space to the central government's coffers to expand the programmes expeditiously and, in turn, increase labour absorption. How the government executes the programme according to its design will be key, while market sentiments are seemingly divided on whether it can deliver the economic impact being promoted.

***"Short-term interventions to mitigate the drop in consumption may instead deepen the reliance on cheap manufactured goods imports"***

Chart 1

### Bouncing back

BCA's big data observes a spike in consumer spending in Q3-2025, recovering from the compression early in the year

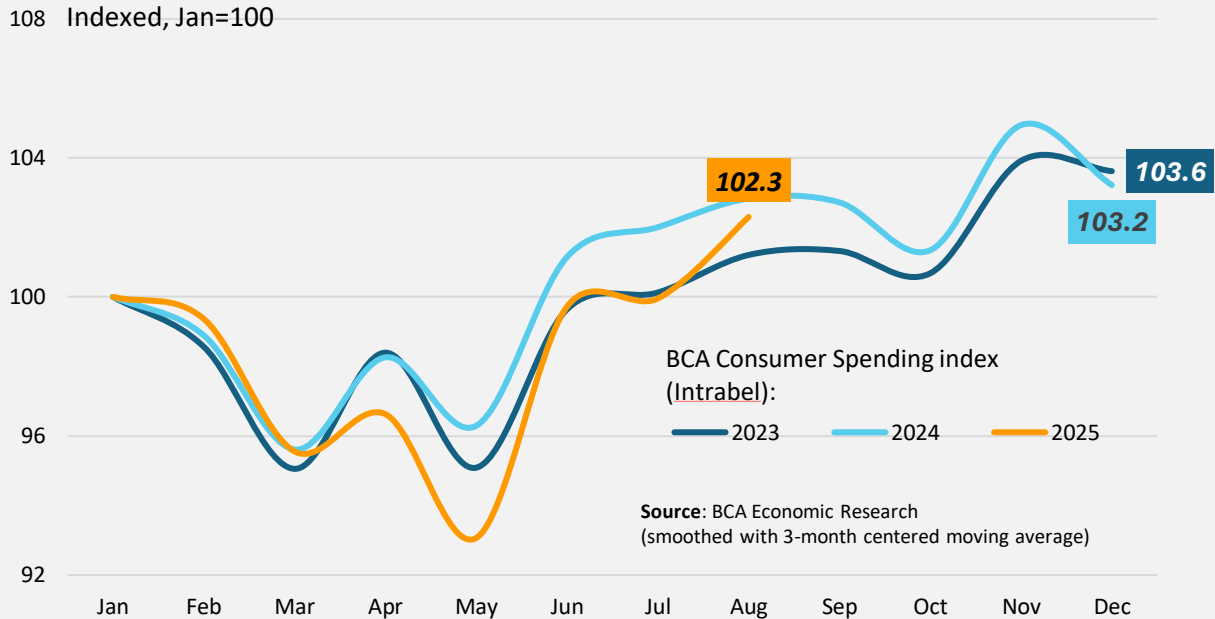


Chart 2

### Dwindling coffers

Higher food prices, especially for staple items such as rice, may lower household's disposable income that could deny consumption to further recover

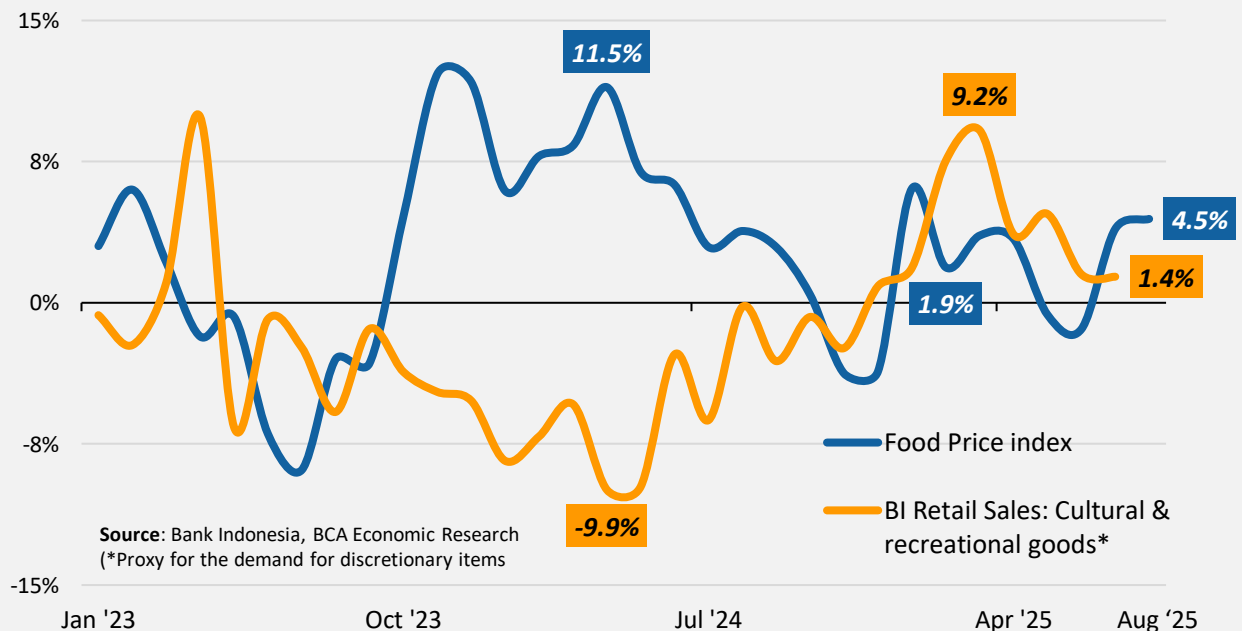


Chart 3

### Save more, benefit more

Real interest rates are expected to remain high in the coming period, encouraging households to maintain their savings levels, which could hamper private demand growth

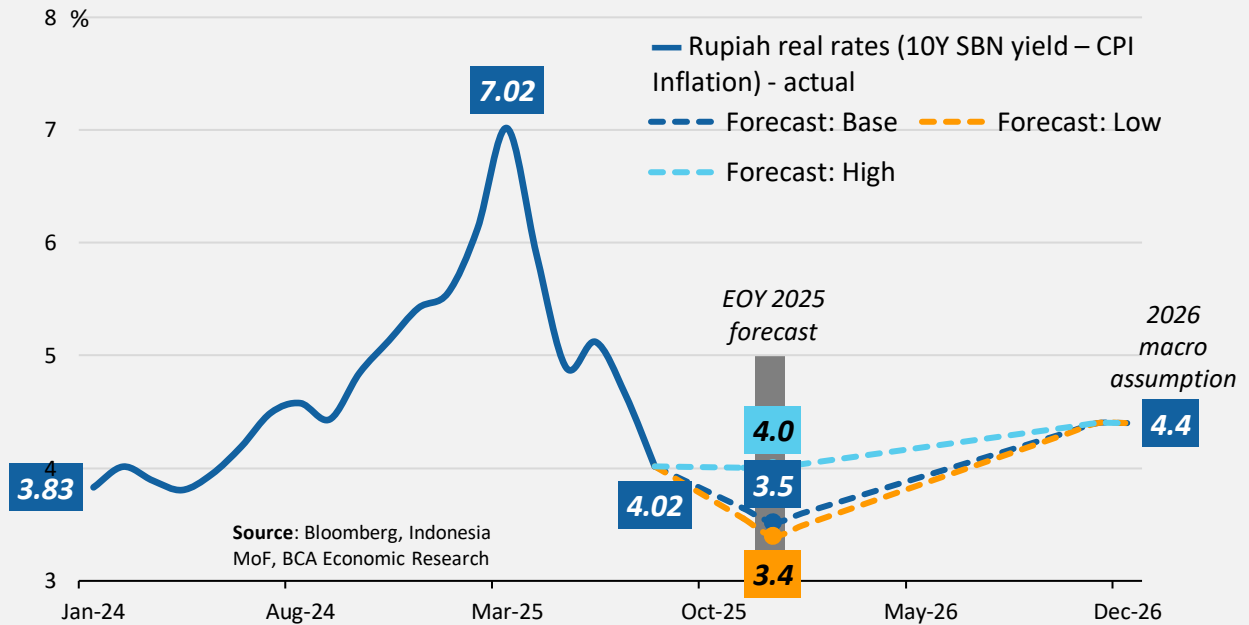
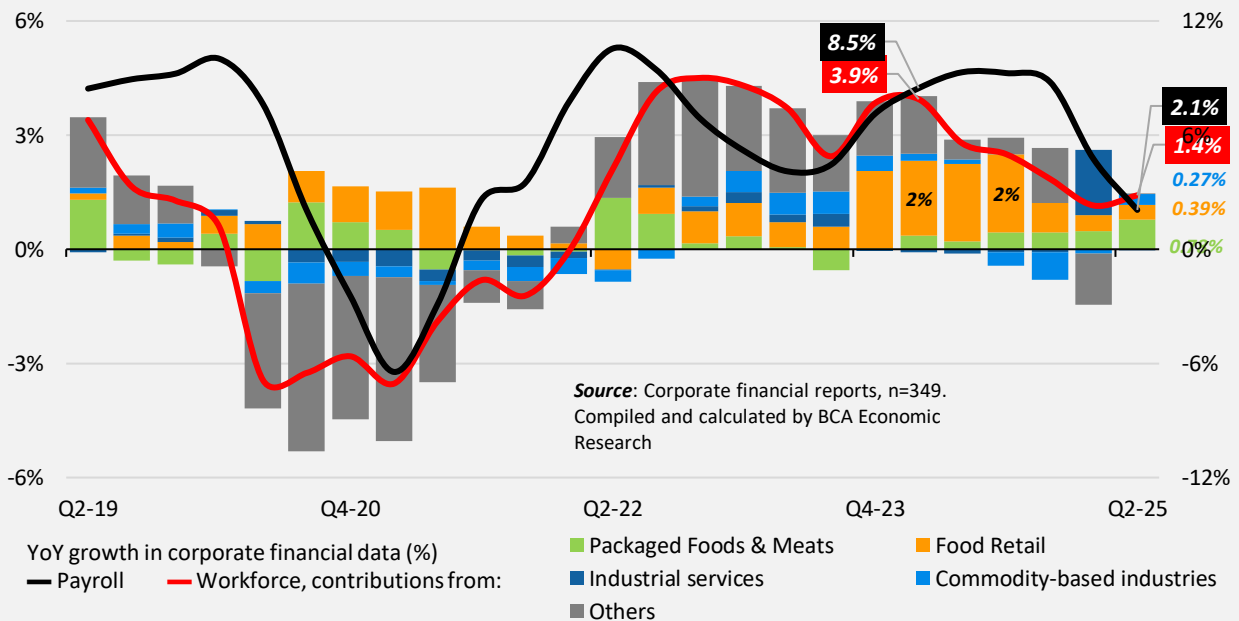


Chart 4

### New job but the wallet stays thin

Higher demand for labour in the formal sector may translate positively to household consumption, but supports remain needed as the income condition has yet to improve



Economic Calendar				
		Actual	Previous	Forecast*
01 September 2025				
ID	S&P Global Manufacturing PMI	51.5	49.2	49.8
<b>ID</b>	<b>Trade balance (Jul-25), USD Bn</b>	<b>4.18</b>	<b>4.11</b>	<b>6.0</b>
<b>ID</b>	<b>Inflation Rate YoY, %</b>	<b>2.31</b>	<b>2.37</b>	<b>2.4</b>
02 September 2025				
US	S&P Global Manufacturing PMI	53.0	49.8	53.3
04 September 2025				
EA	Retail Sales YoY, %	2.2	3.5	2.3
US	Trade balance, USD Bn	-78.3	-59.1	-79.3
05 September 2025				
US	Non Farm Payrolls, th	22	79	75.0
08 September 2025				
CN	Trade balance, USD Bn	102.33	98.24	95.0
<b>ID</b>	<b>Foreign Exchange Reserves, USD Bn</b>	<b>150.7</b>	<b>152</b>	-
09 September 2025				
ID	Motorbike Sales YoY, %		-2.0	-
ID	Car Sales YoY, %		-18.4	-
10 September 2025				
CN	Inflation Rate YoY, %		0.0	-0.1
ID	Consumer Confidence		118.1	-
ID	Retail Sales YoY, %		1.3	-
11 September 2025				
US	Inflation Rate YoY, %		2.7	2.8
15 September 2025				
CN	Retail Sales YoY, %		3.7	5.0
16 September 2025				
US	Retail Sales YoY, %		3.9	-
17 September 2025				
<b>ID</b>	<b>BI-Rate Decision, %</b>		<b>5.0</b>	-
18 September 2025				
<b>US</b>	<b>Fed Interest Rate Decision, %</b>		<b>4.5</b>	<b>4.25</b>
ID	Loan Growth YoY, %		7.03	-
23 September 2025				
ID	M2 Money Supply YoY, %		6.5	-
26 September 2025				
US	PCE Price Index YoY, %		2.6	-

\*Forecasts of some indicators are simply based on market consensus

Bold indicates indicators covered by the BCA Monthly Economic Briefing report

### Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	4-Sep	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	1,963.0	1,970.0	-0.4
UK	4.00	Aug-25	0.20	S&P GSCI Index	548.9	542.9	1.1
EU	2.15	Jun-25	0.05	Oil (Brent, \$/bbl)	67.0	68.8	-2.6
Japan	0.50	Jan-25	-2.60	Coal (\$/MT)	109.8	118.3	-7.2
China (lending)	2.00	Sep-24	4.35	Gas (\$/MMBtu)	3.11	2.89	7.6
Korea	2.50	May-25	0.80	Gold (\$/oz.)	3,545.9	3,373.6	5.1
India	5.50	Jun-25	3.95	Copper (\$/MT)	9,830.8	9,634.3	2.0
Indonesia	5.00	Aug-25	2.69	Nickel (\$/MT)	15,056.8	14,865.3	1.3
Money Mkt Rates	4-Sep	-1 mth	Chg (bps)	CPO (\$/MT)	1,039.4	984.5	5.6
				Rubber (\$/kg)	1.78	1.67	6.6
SPN (1Y)	5.05	5.25	-19.5	External Sector	Jul	Jun	Chg (%)
SUN (10Y)	6.37	6.48	-10.8	Export (\$ bn)	24.75	23.44	5.60
INDONIA (O/N, Rp)	4.53	4.83	-30.1	Import (\$ bn)	20.58	19.33	6.43
JIBOR 1M (Rp)	5.53	5.87	-33.2	Trade bal. (\$ bn)	4.17	4.10	1.71
Bank Rates (Rp)	Jun	May	Chg (bps)	Central bank reserves (\$ bn)*	152.0	152.6	-0.38
Lending (WC)	8.62	8.64	-1.78	Prompt Indicators	Jul	Jun	May
Deposit 1M	4.89	4.86	2.28	Consumer confidence index (CCI)	118.1	117.8	117.5
Savings	0.71	0.70	0.82	Car sales (%YoY)	-18.4	-22.5	-15.1
Currency/USD	4-Sep	-1 mth	Chg (%)	Motorcycle sales (%YoY)	-0.5	-0.3	-0.1
UK Pound	0.744	0.753	1.12	Manufacturing PMI	Aug	Jul	Chg (bps)
Euro	0.858	0.864	0.67	USA	53.0	49.8	320
Japanese Yen	148.5	147.1	-0.94	Eurozone	50.7	49.8	90
Chinese RMB	7.142	7.181	0.55	Japan	49.7	48.9	80
Indonesia Rupiah	16,420	16,390	-0.18	China	50.5	49.5	100
Capital Mkt	4-Sep	-1 mth	Chg (%)	Korea	48.3	48.0	30
JCI	7,867.3	7,464.6	5.39	Indonesia	51.5	49.2	230
DJIA	45,621.3	44,173.6	3.28				
FTSE	9,216.9	9,128.3	0.97				
Nikkei 225	42,580.3	40,290.7	5.68				
Hang Seng	25,058.5	24,733.5	1.31				
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 an earlier period

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

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



## 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	2.8
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	6.32
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	-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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