Getting past the peak of consumption

30 March 2026

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Summary

- Consumer spending during the recent Ramadan period appears to be higher than in the last year, indicating that the increase in household consumption is driven by factors other than the seasonal effect.
- Improving demand for labour amid the manufacturing expansion may support households' purchasing power, although a lower saving rate also contributes to driving consumption.
- The uptrend in household consumption is threatened by the risk of rising inflation, highlighting the challenge for the government.

- The global economy has not developed in a way that would benefit Indonesia and other developing countries since we left for the Eid al-Fitr holiday period. Oil prices remain the key macroeconomic driver, with US President Trump's bellicosity pushing oil prices to its highest level (USD 116.37/brl, +49.7% YTD) since the Iran war erupted.
- Talks of a worst-case stagflationary scenario have started to emerge as the Fed and other major central banks ponder their responses to the ongoing energy shock, considering that the labour market is entering this shock in a weaker position, while most governments are finding less room in their fiscal coffers.
- The dramatic shift in market expectations seems to have triggered a sell-off across asset classes, which often indicates a period of liquidity stress rather than mere portfolio rebalancing. Both the US equity and debt markets recorded sizable drawdowns in the past week, with the 2-year UST yield briefly breaching 4%, a level not seen since Q2-2025. Suspicions of liquidity stress in the UST market are strengthened by the Fed's market operations throughout the past week, which have purchased another USD 16.1 Bn in T-bills, pushing its total holdings to USD 381.6 Bn (around 17.3% of total T-bills outstanding).
- Heightened volatility in the US market also hit Asian financial markets, leading to depreciations across major Asian currencies. Interestingly, the Rupiah held strong in the past week (+0.06% WTD), despite continued foreign outflows in the domestic debt and equity markets. A stable CA outlook and relatively resilient growth (along with already cheap valuations) may separate Indonesia from other emerging Asian markets, improving the sentiment effect that may help Bank Indonesia defend the Rupiah.

Higher wall to leap, but running out of spring

- Despite the wave of negative sentiments so far in the year, Indonesia's underlying growth momentum remains evident, at least in the data. Manufacturing PMI readings point to a sustained and accelerated pace of expansion in Q1-2026, which is accompanied by rising labour demand as suggested by the report. In parallel, fiscal policy continue to provide a significant demand impulse, with total government spending growing 41.9% YoY as of February 2026 (63.7% YoY for central government expenditures).

- As we have often argued, increasing aggregate demand growth will be key to accelerate (or even maintain) Indonesia's real GDP growth, given that the economy is unlikely to benefit from a significant increase in export demand as it did last year (due to front-loaded export demand from the US). Luckily, many demand indicators (such as vehicle sales and consumer confidence) point to this exact scenario, while our internal consumer transaction index (BCA Intrabel) recorded a 5.61% YoY growth by the end of February 2026.
- In hindsight, some macroeconomic watchers may link the increase in consumer transactions to seasonal effects, given the forward shift in the high-spending Ramadan period to mid-February 2026. However, a more granular reading of the data appears to be more encouraging, as we observe a higher and longer peak in consumer transactions during this year's Ramadan period ***(see Chart 1)***.
- The expansion in manufacturing, alongside stronger public and private demand, paints a rosy picture for the real GDP growth in Q1-2026. Alas, the durability of this momentum remains in question. **Notably, the uptick in consumer transactions last month appears to be preceded by a decline in the savings rate *(see Chart 2)***, suggesting that consumption was supported more by balance sheet drawdowns than by underlying disposable income growth.

"Households manage to spend more and longer during this year's Ramadan period, but may have spent much of their resources in doing so"

- In other words, households may have front-loaded spending during the Ramadhan period, highlighting the risk of a subsequent correction. This dynamic is already evident in the sharper post-Eid moderation in consumer transactions, although the trough appears to be higher than in the past couple of years. **The hit in household consumption may also have some knock down effect on manufacturing activities**, given that the recent manufacturing expansion is mostly driven by domestic demand.
- **Additional risks to household disposable income are emerging in the near term**. Government officials have flagged a potential 3.87% YoY decline in harvested rice area for the upcoming wet harvest, which may constrain supply and complicate efforts to maintain stable domestic food prices ***(see Chart 3)***.
- There is also a growing concern regarding the sitting administration's flagship programmes, particularly those lifting the demand for food and other agricultural products (such as CPO). **Rising food prices may crowd out discretionary spending and weigh on the broader demand outlook**, particularly for the growing lower- to middle-income segments.
- **However, the most significant risk to household consumption remains rising global oil prices**. There is increasing recognition, particularly among better-informed households, that maintaining fuel subsidies at the current level is fiscally untenable, leading to the expectation that the government may eventually need to increase subsidised fuel prices. A moderate increase (10-15%) in subsidised fuel prices could add 1.8-2.2% to inflation, directly eroding real purchasing power. **Beyond the immediate hit to consumption, such adjustment would also**

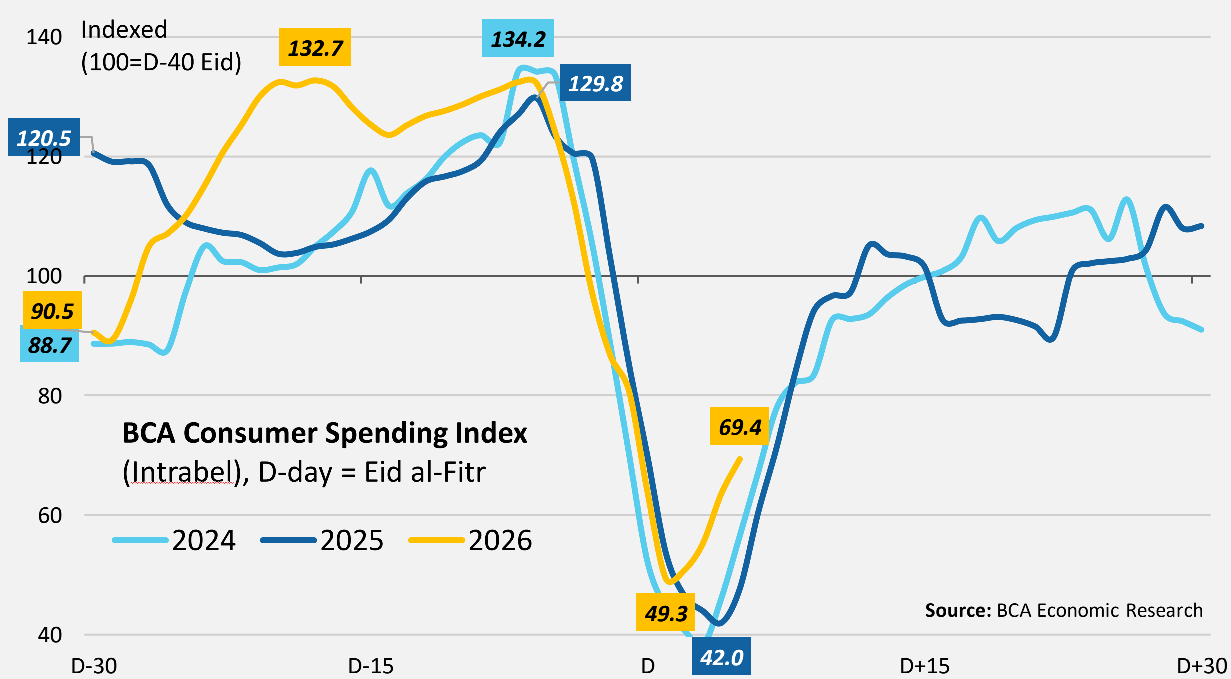
compress real-interest rates, potentially reducing the relative attractiveness of Rupiah-denominated assets.

- Amidst concerns over a significant hit to household purchasing power and consumption, an upward adjustment in subsidised fuel prices may remain a policy option of last resort. For now, the government has prioritised cost-efficiency measures and budget reallocation to accommodate rising subsidy needs, including scaling back the spending commitment on the flagship free nutritious meals (MBG) programme – potentially freeing up 0.12-0.17% in fiscal space.
- Government officials have also prepared scenarios for a temporary easing of budget deficit regulations, which may spark outflows from the domestic financial market as the move might jeopardise the assumption of Indonesia as a fiscally disciplined market. Ergo, budget reallocation measures appear to be the safest option, considering the risk of increasing the budget deficit to SBN yields and the risk of adjusting subsidised fuel prices to household consumptions.

Figure 1

A more festive Ramadhan

Consumer transaction spikes earlier and grew higher during this year's Ramadhan period, which may signal a stronger GDP growth in Q1-2026

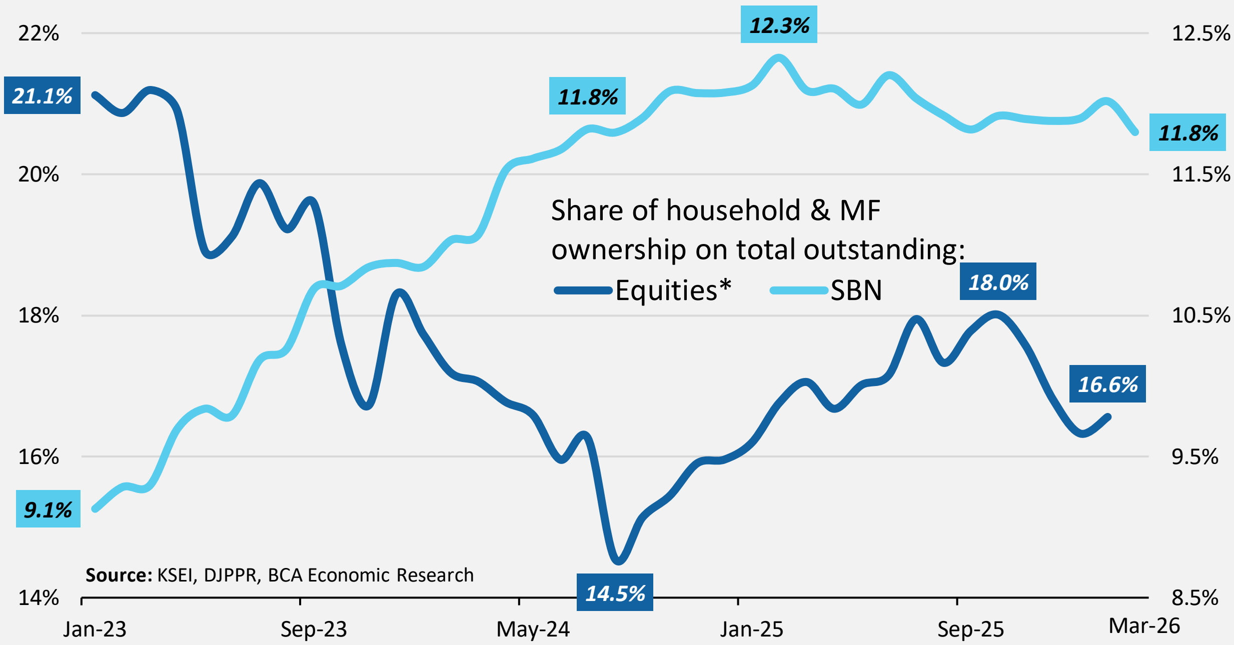


Source: BCA Economic Research

Chart 2

Lower saving rate

Household purchases of paper assets appear to be less aggressive ahead of the Ramadan period, indicating a lower saving rate to support consumption

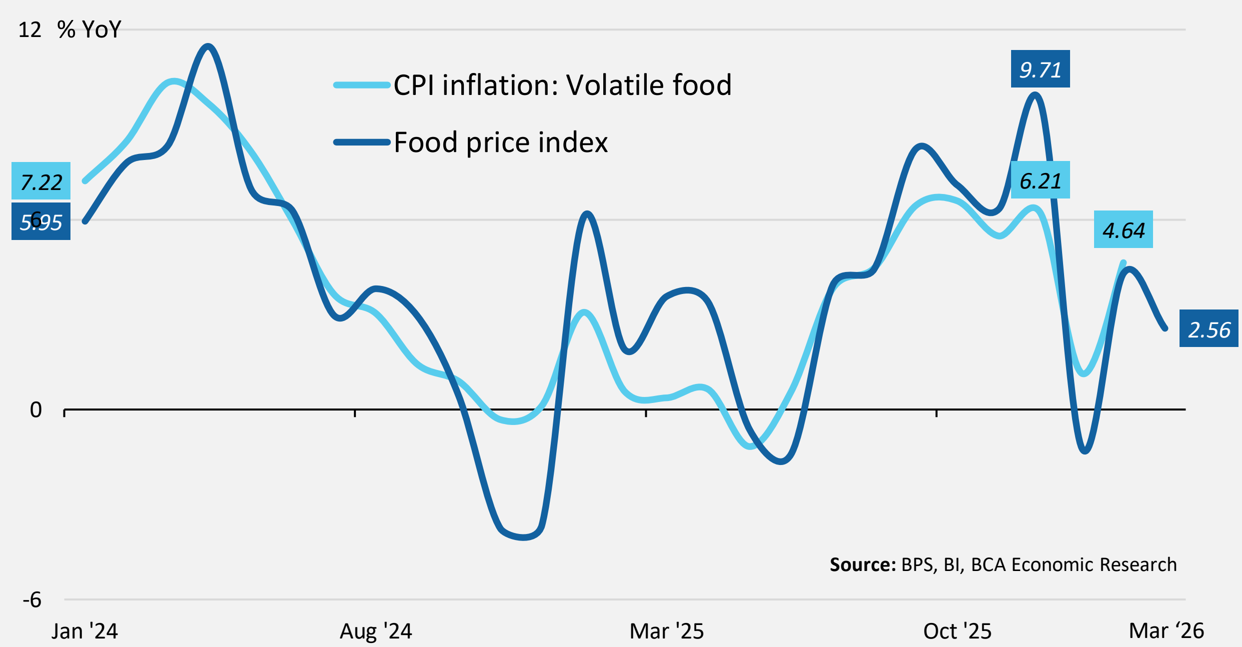


Source: KSEI, DJPPR, BCA Economic Research

Chart 3

Stable for now

Food prices remain stable throughout the Ramadhan period, but supply risks due to the dry season may start to push prices upward



Source: BPS, BI, BCA Economic Research

Economic Calendar

		Actual	Previous	Forecast*
02 March 2026				
ID	S&P Global Manufacturing PMI	53.8	52.6	52
ID	**Trade balance (Jan-25), USD Bn**	**0.95**	**2.52**	**2.7**
ID	**Inflation Rate YoY, %**	**4.76**	**3.55**	**4.0**
US	S&P Global Manufacturing PMI	51.6	52.4	51.2
05 March 2026				
EA	Retail Sales YoY, %	2	1.8	1.7
06 March 2026				
ID	**Foreign Exchange Reserves, USD Bn**	**151.9**	**154.6**	**-**
US	Non Farm Payrolls, th	-92	126	70.0
US	Retail Sales YoY (Jan-26), %	3.2	2.4	2.0
09 March 2026				
CN	Inflation Rate YoY, %	1.3	0.2	0.7
ID	Motorbike Sales YoY, %	1.0	3.1	-
ID	Consumer Confidence	125.2	127.0	128
10 March 2026				
CN	Trade balance, (Jan-Feb) USD Bn	213.62	114.11	165.0
ID	Retail Sales YoY, %	5.7	3.5	4.0
11 March 2026				
US	Inflation Rate YoY, %	2.4	2.4	2.4
12 March 2026				
US	Trade balance (Jan-26), USD Bn	-54.5	-72.9	-65.0
13 March 2026				
US	PCE Price Index YoY, %	2.8	2.9	2.8
ID	Car Sales YoY, %	12.2	7	-
16 March 2026				
CN	Retail Sales YoY, (Jan-Feb) %	2.8	0.9	1.1
17 March 2026				
ID	**BI-Rate Decision, %**	**4.75**	**4.75**	4.75
ID	Loan Growth YoY, %	9.37	9.96	10.1
19 March 2026				
US	**Fed Interest Rate Decision, %**	**3.75**	**3.75**	**3.75**
27 March 2026				
ID	M2 Money Supply YoY, %	8.7	10	-

*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 (%)
US	3.75	Dec-25	1.35
UK	3.75	Dec-25	0.75
EU	2.15	Jun-25	0.25
Japan	0.75	Dec-25	-0.55
China (lending)	2.00	Sep-24	3.05
Korea	2.50	May-25	0.50
India	5.25	Dec-25	2.04
Indonesia	4.75	Sep-25	-0.01

Money Mkt Rates	27-Mar	-1 mth	Chg (bps)
SPN (1Y)	4.79	4.82	-2.9
SUN (10Y)	6.84	6.43	40.2
INDONIA (O/N, Rp)	3.92	4.11	-18.8
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	Dec	Nov	Chg (bps)
Lending (WC)	8.08	8.24	-16.00
Deposit 1M	4.54	4.60	-6.00
Savings	0.70	0.67	3.00

Currency/USD	27-Mar	-1 mth	Chg (%)
UK Pound	0.754	0.741	-1.71
Euro	0.869	0.849	-2.23
Japanese Yen	160.3	155.9	-2.77
Chinese RMB	6.911	6.882	-0.42
Indonesia Rupiah	16,965	16,823	-0.84

Capital Mkt	27-Mar	-1 mth	Chg (%)
JCI	7,097.1	8,280.8	-14.30
DJIA	45,166.6	49,174.5	-8.15
FTSE	9,967.4	10,680.6	-6.68
Nikkei 225	53,373.1	57,321.1	-6.89
Hang Seng	24,951.9	26,590.3	-6.16

Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)
Stock	3,864.0	4,021.0	-156.95
Govt. Bond	875.4	1,327.7	-452.36
Corp. Bond	5.1	5.2	-0.13

Trade & Commodities	27-Mar	-1 mth	Chg (%)
Baltic Dry Index	2,031.0	2,129.0	-4.6
S&P GSCI Index	739.2	601.3	22.9
Oil (Brent, $/brl)	112.6	70.8	59.1
Coal ($/MT)	143.9	118.8	21.1
Gas ($/MMBtu)	2.99	2.99	0.0
Gold ($/oz.)	4,494.1	5,143.9	-12.6
Copper ($/MT)	12,124.1	13,078.3	-7.3
Nickel ($/MT)	16,994.8	17,699.3	-4.0
CPO ($/MT)	1,128.7	1,036.5	8.9
Rubber ($/kg)	2.00	2.02	-1.0

External Sector	Jan	Dec	Chg (%)
Export ($ bn)	22.16	26.35	-15.91
Import ($ bn)	21.20	23.83	-11.05
Trade bal. ($ bn)	0.95	2.51	-62.02
Central bank reserves ($ bn)*	154.6	156.5	-1.21

Prompt Indicators	Feb	Jan	Dec
Consumer confidence index (CCI)	125.2	127.0	123.5
Car sales (%YoY)	12.2	7.1	17.9
Motorcycle sales (%YoY)	1.0	3.1	14.5

Manufacturing PMI	Feb	Jan	Chg (bps)
USA	51.6	52.4	-80
Eurozone	50.8	49.5	130
Japan	53.0	51.5	150
China	52.1	50.3	180
Korea	51.1	51.2	-10
Indonesia	53.8	52.6	120

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

	2020	2021	2022	2023	2024	2025	2026E
Real GDP growth (% YoY)	-2.1	3.7	5.3	5.0	5.0	5.1	5.1
Nominal GDP growth (% YoY)	-2.5	9.9	15.4	6.7	6.0	7.6	7.9
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5362
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	2.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	4.50
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	6.50
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	16,784
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	16,842
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	33.8
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-0.4

Notes:

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

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