Not much defence against the inflation horde

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Summary

- Indonesia's consumption indicators are pointing in a different direction, highlighting households' ability to limit the decline in their consumption basket despite rising prices.
- Households' ability to withstand price increases continues to erode, risking a moderation in consumption levels, especially if rising cost pressures force businesses to adjust prices.
- Unfurling the wealth effect and restoring confidence would be the cost-effective way to maintain the demand condition in the household sector.

- The global economy and financial markets have swung back toward a more hawkish outlook over the past week. The FFR futures market is once again pricing in at least a 25-bps rate hike in 2026, enabling the DXY index to climb above its YTD high of 101.47 following the 0.70% gain WTD. However, news that the US and Iran halted attacks over the weekend has sent oil prices back below USD 90/bl, potentially shepherding FFR expectations and the USD lower in the coming days.
- The USD's heightened volatility further justifies the government's strategy of diversifying its funding sources into the Chinese market, with Indonesia's inaugural Panda bond issuance proving successful (1.9% coupon on the 3-year tranche with a 2.4x bid-to-cover ratio overall). At the same time, the SBN market recorded another USD 261.5 Mn in net foreign inflows throughout the past week, driven by the highest yield since 2022 (7.35%) as Bank Indonesia made good on its promise to allow the market to have a greater say on SBN yields.
- However, Indonesia's financial markets remain under considerable pressure. The Rupiah continues to hover near the 18,000/USD threshold, with the recent leadership change at BI adding further volatility to the market. Meanwhile, foreign investors recorded another USD 188 Mn of net outflows from the equity market over the past week, echoing our view that the earlier uptrend in Indonesian equities was largely a by-product of global portfolio rotation away from AI-heavy Asian markets, rather than a reflection of improving domestic fundamentals.

Mitigating the unavoidable

- Debates on the true state of Indonesia's macroeconomic fundamentals may become increasingly relevant in H2-2026, as the lack of seasonal events (religious and public holidays are concentrated in H1-2026) and normalisation from the low-base effect mean that the GDP growth number in H2-2026 would better reflect improvements in economic output relative to the normal trend. **The recent pick-up in BCA's Consumer Transaction Index (BCA Intrabel) points to still-resilient purchasing power and**, by extension, robust macroeconomic fundamentals ***(see Chart 1)***. **However, the downward trend in BI's Retail Sales Index may tell a more relevant story, especially for the often-cited real GDP growth number.**

- The divergence between the nominal consumption indicator (BCA Consumer Transaction Index) and the real consumption indicator (BI's Retail Sales Index) highlights that **recent growth in consumer spending has largely been driven by households' ability to absorb higher average ticket sizes**, which may translate positively to the nominal GDP growth potential. The improving nominal GDP growth potential should translate positively to tax revenue collection, while the domestic banking sector also stands to benefit from a pick-up in loan demand.

- **This outlook, however, is conditional on how long households are able to absorb higher average ticket sizes without a material shrinkage in their consumption basket.** Unfortunately, current macroeconomic conditions do not appear to offer much support for households to withstand the inflating ticket sizes. The tighter fiscal stance may limit the government's ability to introduce other measures to protect households' purchasing power, especially with still-elevated oil prices likely to drive subsidy and compensation expenses higher. At the same time, **businesses may become increasingly responsive to mounting inflationary pressures, given the widening gap between their input and output prices *(see Chart 2)***.

"The accelerating nominal growth may translate positively into tax collection and loan demand, but only so long as prices do not significantly erode demand."

- Previously, the substantial inventory build-up since last year allowed businesses to remain insulated from short-term inflationary pressures, keeping prices closer to the level that hitherto enabled households to preserve most of their consumption basket. As inventories are gradually depleted, however, **businesses will eventually need to respond more directly to rising cost pressures, with either of the two most likely strategies proving equally detrimental to households' purchasing power**.

- Indeed, the widening gap between input and output prices leaves businesses with two broad options. First, they may seek to narrow the gap by raising output prices, effectively passing higher costs on to consumers. Second, faced with subdued demand and compressed profit margins, businesses may choose to moderate production to contain input cost pressures. Such an adjustment could also require reductions in labour demand, further weakening the labour market and, consequently, weighing on household income and purchasing power.

- Either through fiscal support or businesses' profit margins, there are no cost-effective measures capable of shielding households' purchasing power against rising prices, highlighting challenges for the government to limit the decline in the domestic aggregate demand condition.

- In an earlier report, we noted an acceleration in Rupiah-denominated deposit growth, particularly among lower-segment depositors, while more affluent households are shifting toward FX deposits. This pattern highlights a growing precautionary saving motive among some households, as they build up their coffers to help preserve their consumption basket amid heightened inflationary pressures.

- Unfortunately, these precautionary savers do not appear to have dug a deep enough financial moat. **Despite the recent acceleration, Rupiah-denominated deposit growth continues to lag its historical trend *(see Chart 3)***, suggesting that households continue to draw down their bank deposits (and potentially other assets) as options to maintain their consumption basket become increasingly limited.

- Another possible strategy for households to relieve the pressure of the inflationary siege is to look for cavalry – that is, to take on debt to protect their consumption basket. Once again, however, this option may not be readily available to an already-distressed household sector. Interest rates on household loans had already been trending upward even before BI began raising its policy rate, while the rising NPL ratio on household loans has further constrained banks' ability to extend credit to households ***(see Chart 4)***. At the same time, **higher funding needs from businesses amidst rising input costs and continued support for the government's priority programmes are likely to keep banks' LDR elevated, limiting the capacity available for consumer lending**.

- Ergo, it is increasingly difficult to avoid the conclusion that a sizable contraction in the typical household's consumption basket may already be inevitable. Indeed, both the public and business sectors are becoming increasingly constrained in their ability to shield consumers from higher prices, while households themselves have only limited scope to draw down their assets or take on additional debt. This cloudy outlook on household consumption highlights the risk on Indonesia's macroeconomic fundamentals, while the apparent improvement in nominal growth may not be sustainable once more demand starts getting pummelled by higher prices.

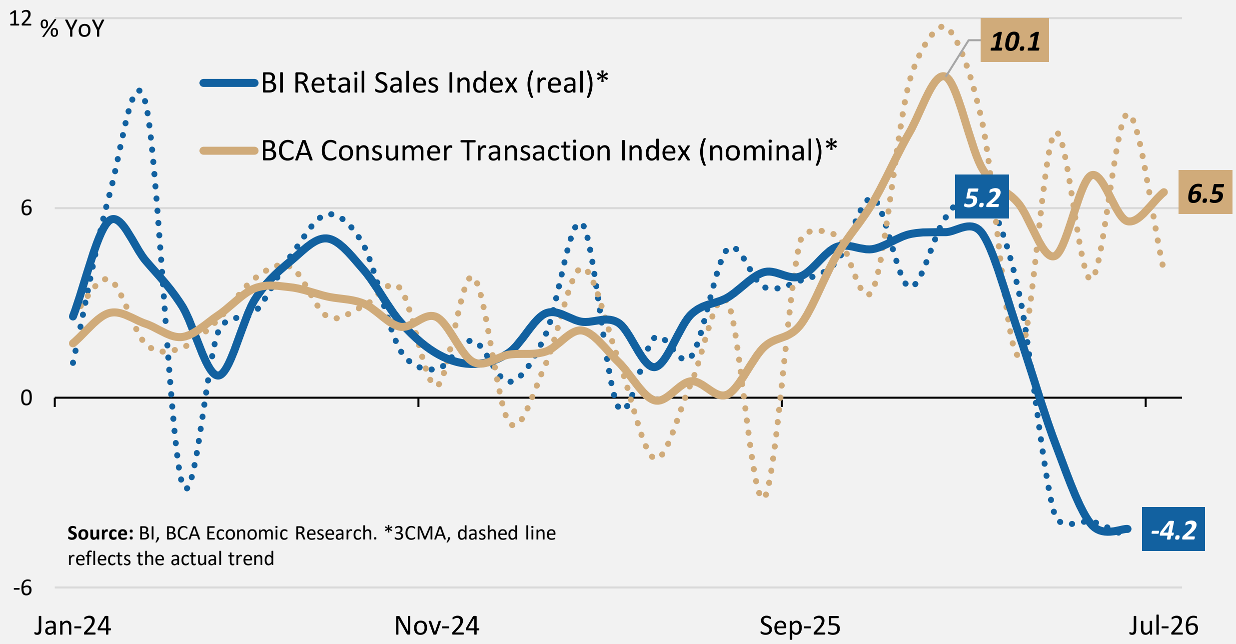
"Exhausted capacity to shield against rising prices and households' worsening balance sheets means that demand shrinkage may be inevitable"

- Be that as it may, all is not lost. More affluent households continue to accumulate financial assets, as evidenced by the growing share of individual investors in the equity market ***(see Chart 5)***. Unfortunately, these investors have also borne the brunt of the recent market weakness, exposing them to a negative wealth effect that may dampen their propensity to spend. **A sustained recovery in equity and other asset prices could therefore help reverse this negative wealth effect**, encouraging stronger consumption among higher-income households and generating positive spillover effects across the broader economy.

Chart 1

Less on volume, big on prices

Real and nominal consumption indicators are pointing at two different directions, indicating lower consumption volume as consumers contend with higher prices

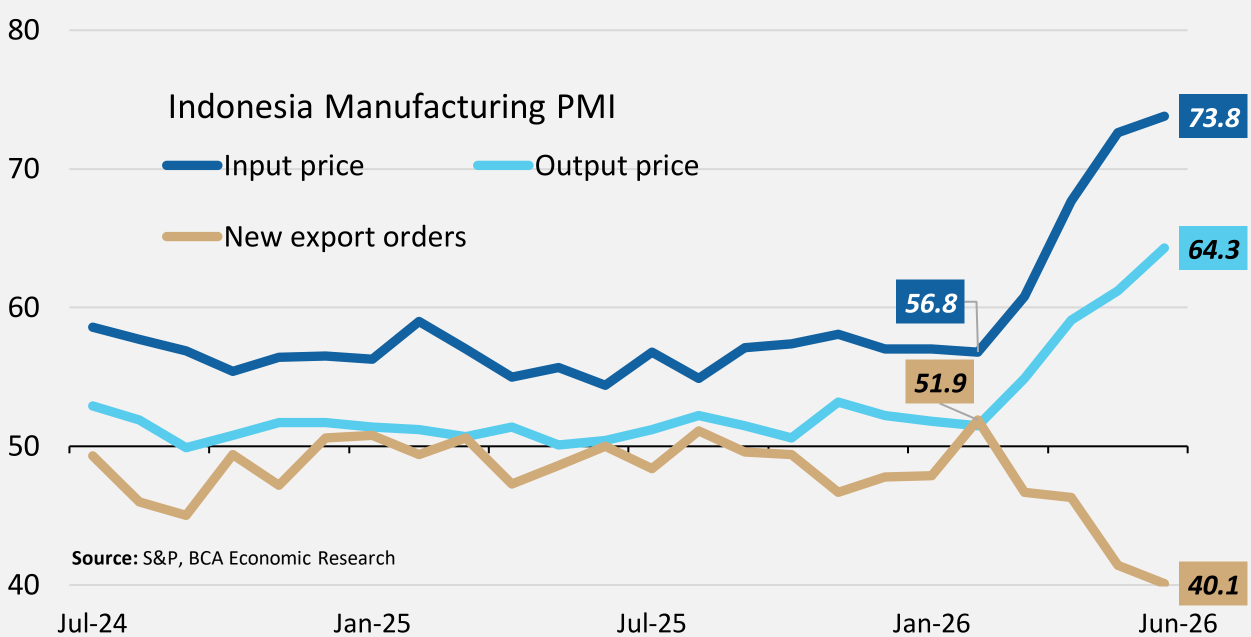


Source: BI, BCA Economic Research. *3CMA, dashed line reflects the actual trend

Chart 2

Stagflationary scissor

The widening gap between input and output prices may force businesses to be more attentive to inflation risks, potentially at the cost of households



Source: S&P, BCA Economic Research

Chart 3

Drawing on funds

Higher prices and stagnating income force some households to lower their saving rate to maintain their consumption basket

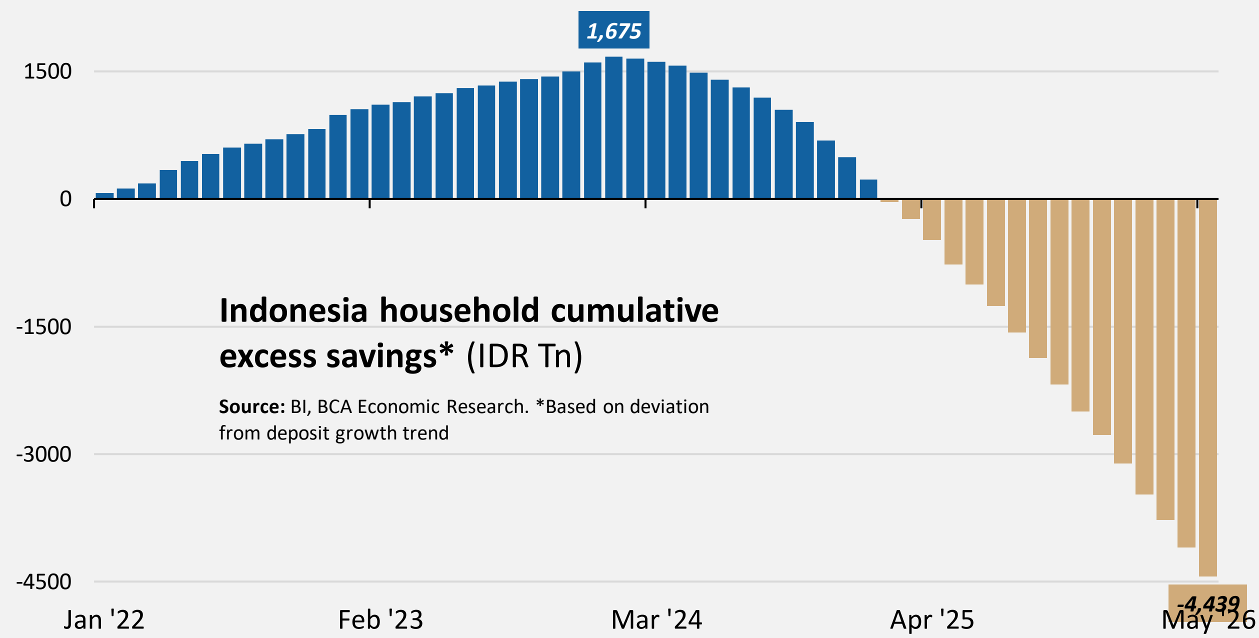


Chart 4

Crowded out

Households' worsening credit quality, and growing pressure to provide financing needs for government programmes, limit banks' ability to extend loans to the household sector

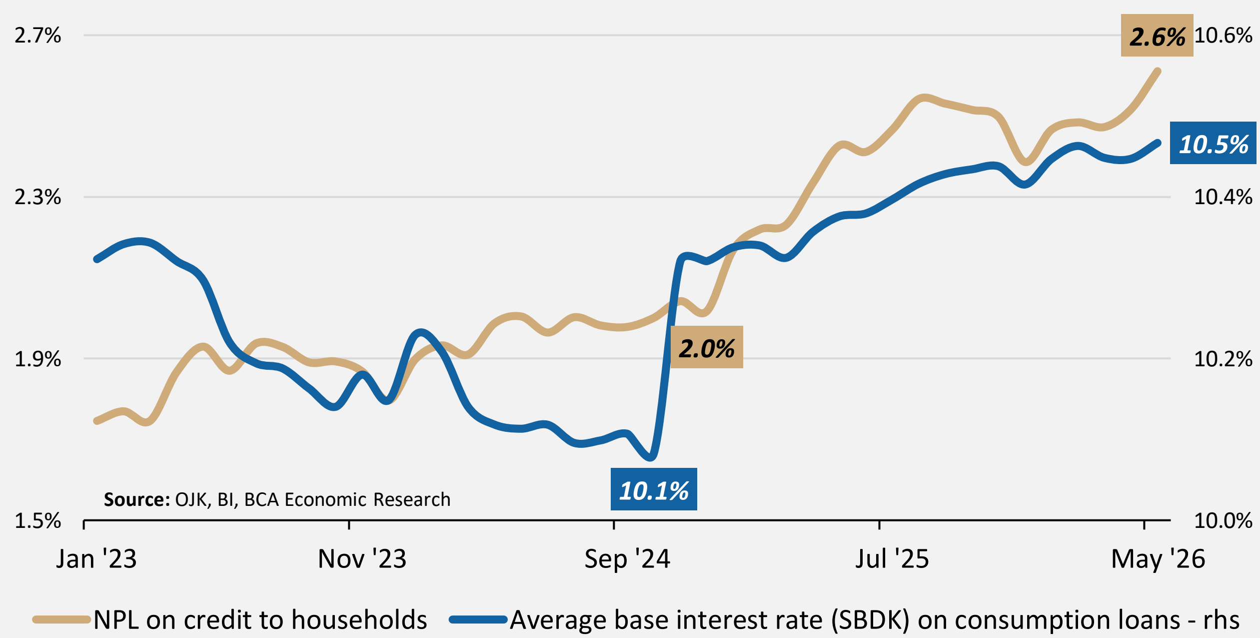
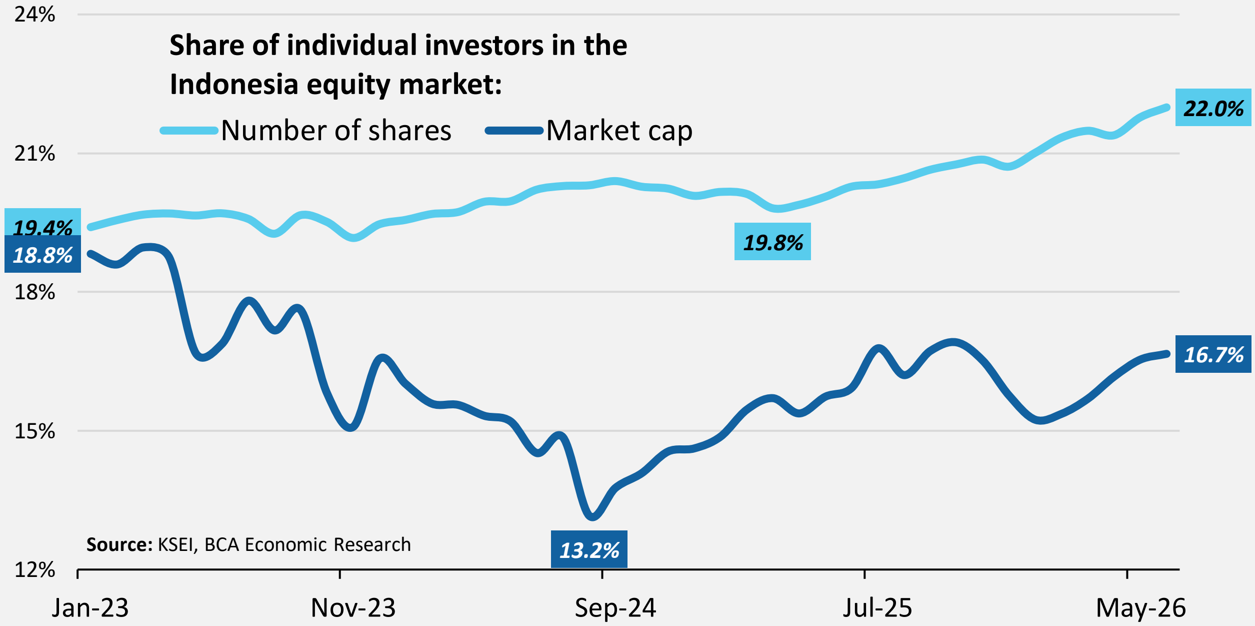


Chart 5

In the front row for wealth effects
The JCI and Rupiah assets has stabilised itself in recent weeks, which may put households under a positive wealth effect given their increasing exposure to the market



Source: KSEI, BCA Economic Research

Economic Calendar

		Actual	Previous	Forecast*
01 July 2026				
ID	S&P Global Manufacturing PMI	46.9	50.0	50.4
ID	**Trade balance (May-26), USD Bn**	**-1.61**	**0.09**	**4.0**
ID	**Inflation Rate YoY, %**	**3.34**	**3.08**	**3.1**
02 July 2026				
US	Non Farm Payrolls, th	57	129	110.0
06 July 2026				
EA	Retail Sales YoY, %	1.6	0.9	1.4
07 July 2026				
ID	**Foreign Exchange Reserves, USD Bn**	**145.6**	**144.9**	**145**
US	Trade balance (May-26), USD Bn	-77.6	-54.6	-80.0
08 July 2026				
ID	Consumer Confidence	117.8	120.9	125
09 July 2026				
CN	Inflation Rate YoY, %	1	1.2	1.3
ID	Retail Sales YoY, %	-3.9	-3.7	2.0
ID	Motorbike Sales YoY, %	1.1	-5.1	-
10 July 2026				
ID	Car Sales YoY, %	12.0	14.0	-
14 July 2026				
CN	Trade balance, USD Bn	125.62	105.43	110
US	Inflation Rate YoY, %	3.5	4.2	3.9
15 July 2026				
CN	Retail Sales YoY, %	1.0	-0.6	0.2
16 July 2026				
ID	**Foreign Direct Investment YoY, %**	**27.4**	**8.5**	**-**
US	Retail Sales YoY, %	6.7	7.3	6.7
22 July 2026				
ID	**BI-Rate Decision, %**	**5.75**	**5.75**	**6**
ID	Loan Growth YoY, %	12.67	11.51	9.0
23 July 2026				
ID	M2 Money Supply YoY, %	8.7	10.8	-
30 July 2026				
US	**Fed Interest Rate Decision, %**		**3.75**	**3.75**
US	PCE Price Index YoY, %		4.1	3.7

*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	0.25
UK	3.75	Dec-25	1.15
EU	2.40	Jun-26	-0.40
Japan	1.00	Jun-26	-0.70
China (lending)	2.00	Sep-24	3.35
Korea	2.75	Jul-26	-0.45
India	5.25	Dec-25	0.87
Indonesia	5.75	Jun-26	2.41

Money Mkt Rates	24-Jul	-1 mth	Chg (bps)
SPN (1Y)	7.47	7.12	35.5
SUN (10Y)	7.33	7.15	17.8
INDONIA (O/N, Rp)	6.30	5.63	67.4
JIBOR 1M (Rp)	5.03	5.03	0.0

Bank Rates (Rp)	May	Apr	Chg (bps)
Lending (WC)	7.95	7.96	-1.00
Deposit 1M	4.52	4.48	4.00
Savings	0.68	0.68	0.00

Currency/USD	24-Jul	-1 mth	Chg (%)
UK Pound	0.750	0.757	0.92
Euro	0.880	0.879	-0.11
Japanese Yen	163.8	161.6	-1.39
Chinese RMB	6.771	6.792	0.31
Indonesia Rupiah	17,943	17,845	-0.55

Capital Mkt	24-Jul	-1 mth	Chg (%)
JCI	6,196.4	6,101.3	1.56
DJIA	51,947.3	51,666.8	0.54
FTSE	10,736.2	10,428.9	2.95
Nikkei 225	64,611.2	69,788.4	-7.42
Hang Seng	24,963.2	23,336.3	6.97

Foreign portfolio ownership (Rp Tn)	Jun	May	Chg (Rp Tn)
Stock	2,573.5	2,820.6	-247.08
Govt. Bond	885.7	863.2	22.43
Corp. Bond	5.7	5.8	-0.09

Trade & Commodities	24-Jul	-1 mth	Chg (%)
Baltic Dry Index	2,743.0	2,667.0	2.8
S&P GSCI Index	700.9	629.2	11.4
Oil (Brent, $/brl)	96.8	77.1	25.6
Coal ($/MT)	137.8	131.2	5.0
Gas ($/MMBtu)	2.86	3.15	-9.2
Gold ($/oz.)	4,052.8	4,117.2	-1.6
Copper ($/MT)	13,653.8	13,302.8	2.6
Nickel ($/MT)	17,184.4	16,984.1	1.2
CPO ($/MT)	1,124.0	1,101.5	2.0
Rubber ($/kg)	2.18	2.28	-4.4

External Sector	May	Apr	Chg (%)
Export ($ bn)	23.20	25.30	-8.30
Import ($ bn)	24.81	25.21	-1.59
Trade bal. ($ bn)	-1.61	0.09	-1,907.18
Central bank reserves ($ bn)*	144.9	146.2	-0.89

Prompt Indicators	Jun	May	Apr
Consumer confidence index (CCI)	117.8	120.9	123.0
Car sales (%YoY)	32.9	14.0	55.0
Motorcycle sales (%YoY)	1.1	-5.1	28.1

Manufacturing PMI	Jun	May	Chg (bps)
USA	53.9	55.1	-120
Eurozone	51.4	51.6	-20
Japan	54.8	54.5	30
China	51.7	51.8	-10
Korea	52.1	54.8	-270
Indonesia	46.9	50.0	-310

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	9.0
GDP per capita (USD)	3912	4350	4784	4920	4960	5083	5128
CPI inflation (% YoY)	1.7	1.9	5.5	2.6	1.6	2.9	4.5
BI Rate (%)	3.75	3.50	5.50	6.00	6.00	4.75	6.25
SBN 10Y yield (%)	5.86	6.36	6.92	6.45	6.97	6.05	8.01
USD/IDR exchange rate (average)	14,529	14,297	14,874	15,248	15,841	16,468	17,600
USD/IDR exchange rate (end of year)	14,050	14,262	15,568	15,397	16,102	16,690	18,171
Trade balance (USD Bn)	21.7	35.3	54.5	37.0	31.0	41.1	19.2
Current account balance (% of GDP)	-0.4	0.3	1.0	-0.1	-0.6	-0.1	-1.3

Notes:

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

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