Macroeconomic Analysis Series

Bank Indonesia Board of Governors Meeting

May 2025

LPEM FEB UI
Institute for Economic and Social Research

Headline inflation rose to 1.95% (y.o.y.) in April 2025, returning to Bank Indonesia's target range of 1.5–3.5%, up from 1.03% in March. This increase followed the expiry of the 50% electricity tariff discount for households with a power capacity of up to 2,200 VA. Core inflation also accelerated, driven by higher gold and car prices. Despite uncertainty over President Trump's tariff policies, between mid-April and mid-May, Rupiah appreciated by 1.70%, from IDR16,795 to IDR16,510 per US dollar, supported by easing trade tensions and Bank Indonesia's intervention to stabilise the exchange rate. These actions contributed to a USD4.6 billion decline in foreign exchange reserves, the steepest monthly drop in two years. The recent inflation figure and currency stability suggest some room for monetary easing. However, it remains unclear whether this stability will be sustained. Given lingering external risks, Bank Indonesia should keep BI Rate at 5.75% and remain cautious until global conditions become more predictable.

Highlights

- Bank Indonesia should maintain its policy rate at 5.75%.
- Headline inflation rebounded to Bank Indonesia's target range at 1.95% (y.o.y) following the expiry of the 50% electricity tariff discount.
- Despite continued uncertainty over President Trump's tariff agenda, the Rupiah appreciated by 1.70%, from IDR16,795 to IDR16,510 per US dollar, supported by easing trade tensions and Bank Indonesia's market interventions.

Macroeconomics, Finance & Political Economy Research Group

Jahen F. Rezki, Ph.D.
jahen.fr@ui.ac.id

Teuku Riefky
teuku.riefky@lpem-feui.org

Faradina Alifia Maizar
faradina.alifia@ui.ac.id

Difa Fitriani
difa.fitriani@ui.ac.id

Mervin Goklas Hamonangan
mervin.goklas@ui.ac.id

Hardy Salim
hardy.salim@ui.ac.id

Alif Ihsan A Fahta
alif.ihsan@ui.ac.id

Post-Subsidy Inflation Rebounds Amid Weak Demand

Headline inflation accelerated to 1.95% (y.o.y) in April 2025 from 1.03% (y.o.y) in March 2025 (**Figure 1**), returning back to Bank Indonesia's 1.5–3.5% target range as administered prices swung to 1.25% (y.o.y) from –3.16% (y.o.y) and energy deflation eased to 0.05% (y.o.y) from 8.41% (y.o.y). However, breaking down the expenditure group reveals that there was limited momentum in most categories over the same period, including transport, which eased to –0.11% (y.o.y) from 0.83% (y.o.y); ICT, where deflation deepened to 0.64% (y.o.y) from 0.24% (y.o.y); and restaurant, where inflation moderating to 2.14% (y.o.y) from 2.26% (y.o.y), which underscores that household purchasing power remains constrained. In contrast, housing & utilities rebounded to 1.60% (y.o.y) from –4.68% (y.o.y) following the end of electricity subsidies, and food, beverages, and tobacco inflation inched up to 2.17% (y.o.y) from 2.07% (y.o.y) driven by sharp price increases for fresh fish impacted by extreme weather and disrupted catches, coffee powder reflecting adverse weather in Brazil and Vietnam that has constrained global supply, and cooking oil, following elevated domestic prices amid surging crude palm oil values; yet the most pronounced surge was in personal care inflation, which climbed to 9.93% (y.o.y) from 8.71% (y.o.y) as gold jewellery is a major contributor to the personal care group.

In terms of month-to-month developments, headline inflation moderated to 1.17% (m.t.m) in April 2025, down from 1.65% (m.t.m) in March 2025 (**Figure 2**). This moderation reflects the diminishing impact of post-subsidy price adjustments as the base effect of the electricity tariff discount expiration wane. Between March 2025

Key Figures

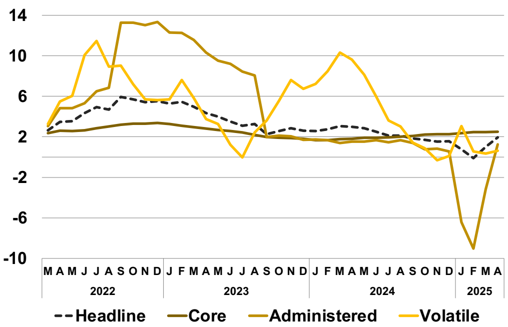
BI-Rate (Apr '25)
5.75%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, Apr '25)
1.95%
Core Inflation (y.o.y, Apr '25)
2.50%
Inflation (m.t.m, Apr '25)
1.17%
Core Inflation (m.t.m, Apr '25)
0.31%
FX Reserve (Apr '25)
USD152.5 billion

To keep you updated with our monthly and quarterly reports, please subscribe. Scan the QR code below

or go to http://bit.ly/LPEMCommentarySubscription

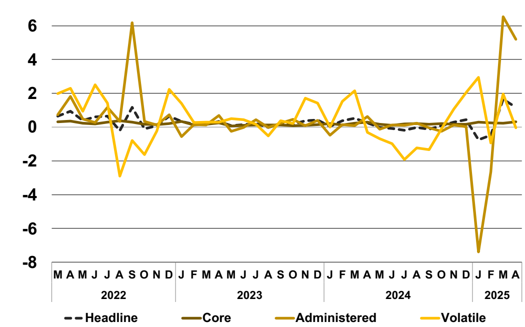
and April 2025, the energy component's inflation also slowed to 9.14% (m.t.m) from 12.51% (m.t.m) consistent with the post-subsidy moderation, while food ingredients inflation dropped to 0.00% (m.t.m) from 1.64% (m.t.m), reflecting a decline in prices within the food, beverages, and tobacco group, further tempering overall price pressures. Inflation in the food, beverages, and tobacco group declined markedly to 0.07% (m.t.m) from 1.24% (m.t.m), accounting for the majority of the headline rate reduction. This easing was driven by sustained rice availability during the main harvest and aligns with the muted post-Eid al-Fitr inflation typically observed in previous years, in contrast to the spikes seen during Ramadan and Eid. Housing & utilities inflation eased to 6.60% (m.t.m) from 8.45% (m.t.m) as the initial surge following subsidy removal subsided. Notwithstanding this broad-based softening, the personal care category again recorded a renewed uptick to 2.46% (m.t.m) from 0.95% (m.t.m), in line with annual inflation.

Figure 1: Inflation Rate (%, y.o.y)



Source: CEIC

Figure 2: Inflation Rate (%, m.t.m)



Source: CEIC

The breakdown of inflation components reveals core inflation edged up to 2.50% (y.o.y) from 2.48% (y.o.y), with its monthly pace rising to 0.31% (m.t.m) from 0.24% (m.t.m). This modest increase reflects sustained underlying demand and was underpinned by higher global commodity prices amid well-anchored inflation expectations. The slow increase in core inflation is also driven by weakening consumer sentiment, evident from the decline in current economic expectations in April 2025 compared to March 2025, and a cooling in consumption credit growth, which recorded lower year-on-year expansion in April 2025. Notably, price pressures in the gold jewellery sector, a traditional safe-haven asset during periods of uncertainty with rising demand as market participants increasingly view gold rather than the US dollar as their preferred store of value, and in the automotive segment made the most significant contributions to April's core inflation outcome, due to growing vehicle sales, as reflected by a 5% (y.o.y) increase in Gaikindo wholesale figures for April 2025.

An evaluation of the volatile good component reveals contrasting trends: annual inflation climbed to 0.64% (y.o.y) in April 2025 from 0.37% (y.o.y) a month earlier,

Key Figures

BI-Rate (Apr '25)
5.75%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, Apr '25)
1.95%
Core Inflation (y.o.y, Apr '25)
2.50%
Inflation (m.t.m, Apr '25)
1.17%
Core Inflation (m.t.m, Apr '25)
0.31%
FX Reserve (Apr '25)
USD152.5 billion

whereas monthly it swung into a modest deflation of –0.04% (m.t.m) in April 2025 from an inflation rate of 1.96% (m.t.m) in March 2025. This reversal largely reflects abundant supplies of bird's eye chili and the easing of livestock feed costs, which together have depressed prices for bird's eye chili, purebred chicken meat, and purebred chicken eggs. Meanwhile, the administered price index registered a pronounced adjustment: on an annual basis it rebounded to 1.25% (y.o.y) in April 2025 from –3.16% (y.o.y) in the previous month, even as its monthly pace softened to 5.21% (m.t.m) in April 2025 from 6.53% (m.t.m) in March 2025. The attenuation in administered inflation is attributable to the fading base effect following the expiration of the 50% electricity tariff discount for household customers up to 2,200 VA.

Looking ahead to May 2025, headline inflation is likely to reflect a mix of moderating and temporary upward pressures. Seasonal harvests may exert downward pressure on food prices, even as forthcoming religious holidays and extended weekends boost consumer demand. The recent easing of geopolitical tensions has seen gold prices ease, which should help restrain both personal care and underlying core inflation. At the same time, the normalization of administered prices following subsidy removals will reduce deflationary distortions. Nevertheless, Bank Indonesia should monitor closely to upside risks, from sporadic demand spikes, commodity price swings, or exchange-rate volatility, and stand ready to recalibrate its policy rate or deploy targeted foreign-exchange interventions to firmly anchor inflation expectations.

Sub-5% Growth; Trade Surplus Holds Despite Lingering Risks

In the first quarter of 2025, the Indonesian economy expanded by 4.87% (y.o.y), moderating from 5.02% (y.o.y) in the fourth quarter of 2024. The main driver of this slowdown was weaker household consumption, which, as the principal component of Indonesia's GDP, grew by only 4.89% (y.o.y) in Q1-2025, compared to 4.98% (y.o.y) in the previous quarter. This deceleration occurred despite the seasonal momentum typically associated with the Ramadan period, which in past years has supported stronger consumption growth. Notably, the current pace of household consumption growth has remained below the headline GDP growth rate for six consecutive quarters. This persistent gap may signal weakening purchasing power among households, reflecting constrained income growth or a shift in consumption behaviour. Government spending contracted by 1.38% (y.o.y) in Q1-2025, a sharp reversal from the 4.17% (y.o.y) expansion recorded in the final quarter of 2024. This decline was largely driven by the implementation of budget efficiency measures by the government at the start of the year.

Key Figures

BI-Rate (Apr '25)
5.75%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, Apr '25)
1.95%
Core Inflation (y.o.y, Apr '25)
2.50%
Inflation (m.t.m, Apr '25)
1.17%
Core Inflation (m.t.m, Apr '25)
0.31%
FX Reserve (Apr '25)
USD152.5 billion

To keep you updated with our monthly and quarterly reports, please subscribe. Scan the QR code below

or go to http://bit.ly/LPEMCommentarySubscription

Gross fixed capital formation (GFCF) also recorded slower growth, rising by just 2.12% (y.o.y) in Q1-2025, down from 5.03% (y.o.y) in Q4-2024. This pattern is consistent with recent trends, as first-quarter investment growth has typically been the weakest since 2023. In addition, the subdued performance in GFCF appears to reflect a wait-and-see approach among investors in response to the anticipated policy direction of President Prabowo's new administration and newly elected regional leaders, as well as heightened global uncertainty. Export performance also moderated, with growth easing to 6.78% (y.o.y) in Q1-2025 from 7.63% (y.o.y) in the previous quarter. This was supported primarily by strong export growth in palm oil (HS15), which rose by 36.0% (y.o.y), and iron and steel (HS72), which increased by 6.6% (y.o.y). Imports, meanwhile, grew by 3.96% (y.o.y), significantly lower than the 10.36% (y.o.y) recorded in the fourth quarter of 2024.

As with last month's briefing, our analysis relies on Statistics Indonesia's (BPS) March 2025 figures, since BPS has discontinued mid-month provisional releases and now issues only end-of-month finalized data.

March 2025 marked Indonesia's 59th consecutive trade surplus at USD4.33 billion, down USD0.25 billion or 5.40% (y.o.y) from USD4.58 billion in March 2024, yet up USD1.21 billion or 38.39% (m.t.m) from February 2025's USD3.12 billion. Behind this headline balance, non-oil and gas exports climbed to USD15.06 billion in March 2025, a 4.49% rise (m.t.m) from February 2025, while non-oil and gas imports fell 2.73% (m.t.m) to USD12.48 billion in March 2025. The combination of rising shipments abroad and softer inbound purchases sustained Indonesia's positive trade momentum.

Much of the export advance was driven by Indonesia's largest markets. Shipments to China surged by USD919.8 million or 21.5% (m.t.m) in March 2025, reflecting strong demand for base metals and coal while exports to the United States grew by USD283.3 million or 12.1% (m.t.m) in the same period on the back of electronics and footwear. In contrast, in March 2025, exports to Thailand, India and Australia all reversed direction, down USD460.5 million or –47.2% (m.t.m), USD239.8 million or –14.5% (m.t.m) and USD91.0 million or –23.2% (m.t.m). respectively, on account of weaker commodity prices and logistical bottlenecks. Regionally, exports to ASEAN fell 8.1% (m.t.m) to USD4.16 billion, whereas shipments to the European Union rebounded 16.1% (m.t.m) to USD1.73 billion, underscoring shifting trade patterns amid evolving global demand. On the import side, lower non-oil and gas purchases underpinned the overall moderation in inbound volumes. March 2025 non-oil and gas imports of USD12.48 billion from the 13 major reporting origins were down USD350.7 million or –2.7% (m.t.m) from February 2025, driven by significant declines in imports from Australia (–USD 165.6 million or –20.2% (m.t.m)), Thailand (–USD 160.9 million or –18.5% (m.t.m)) and the United States (–USD 129.5 million or –16.7% (m.t.m)). These reductions largely reflect slower capital-goods and intermediate-

Key Figures

BI-Rate (Apr '25)
5.75%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, Apr '25)
1.95%
Core Inflation (y.o.y, Apr '25)
2.50%
Inflation (m.t.m, Apr '25)
1.17%
Core Inflation (m.t.m, Apr '25)
0.31%
FX Reserve (Apr '25)
USD152.5 billion

goods orders as firms recalibrate inventories amid lingering supply-chain uncertainties.

At the subnational level, three provinces accounted for nearly one-third of Indonesia's export value in the first quarter of 2025. West Java led with USD9.32 billion (14.0% of the national total), followed by East Java at USD6.15 billion (9.2%) and the Riau Islands at USD5.82 billion (8.7%). Their combined strength highlights the pivotal role of Java-based manufacturing and the mineral-rich outer islands in sustaining Indonesia's external-sector resilience. In the forthcoming quarter of 2025, Indonesia's trade surplus is expected to encounter headwinds, as the recent US-China trade agreement moderates certain tariff pressures but the potential reinstatement of Trump-era duties, coupled with APEC's projection of 0.4% regional export growth, presents a significant downside risk. The divergence between robust demand in China and the European Union and subdued exports to ASEAN markets underscores the necessity of broadening Indonesia's export base beyond palm oil, coal, and base metals. Meanwhile, persistently high machinery and equipment imports signal ongoing domestic investment, highlighting the imperative to advance value-added manufacturing and strengthen strategic trade partnerships to uphold external-sector resilience.

Cautious Policy in an Uncertain Environment

In April 2025, the US recorded an annual inflation rate of 2.3% (y.o.y), slightly lower than the 2.4% (y.o.y) recorded in March 2025. This marks the lowest inflation level since February 2021, or in more than four years. The moderation in inflation came as a surprise to many observers, given expectations that President Trump's tariff policies would exert upward pressure on prices. A closer examination of inflation components reveals that the easing was primarily driven by a sharp decline in energy prices, which fell by 11.5% (y.o.y) in April 2025. In contrast, food prices continued to rise, registering inflation of 2.8% (y.o.y). Meanwhile, core inflation, measured by all items excluding food and energy, stood at 2.8% (y.o.y). Several factors help explain why the anticipated inflationary impact of the new tariff regime has not yet materialised. First, some of the most aggressive tariff measures were either suspended or scaled back. Second, many businesses advanced their purchases ahead of tariff implementation, resulting in inventory accumulation that temporarily offset supply-side cost increases.

Despite the easing in headline inflation, the outlook remains clouded by considerable uncertainty surrounding the direction and impact of President Trump's evolving tariff agenda. The scope, scale, and duration of the policy's effects remain unclear, generating risks on multiple fronts, including both inflation and

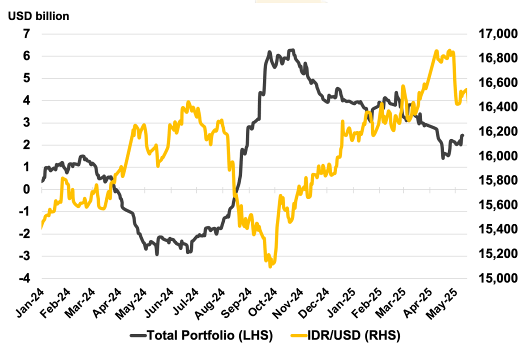
Key Figures

BI-Rate (Apr '25)
5.75%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, Apr '25)
1.95%
Core Inflation (y.o.y, Apr '25)
2.50%
Inflation (m.t.m, Apr '25)
1.17%
Core Inflation (m.t.m, Apr '25)
0.31%
FX Reserve (Apr '25)
USD152.5 billion

unemployment. Against this backdrop of heightened uncertainty, the Federal Reserve opted to maintain its benchmark interest rate at 4.25%–4.50% during its May 2025 meeting. The current environment offers little clarity on the appropriate monetary policy response, said Jerome Powell during his press conference after a two-day policy meeting. A deterioration in labour market conditions could necessitate rate cuts, while persistent inflationary pressures may call for further tightening. Navigating these opposing risks is likely to become a central consideration for the Federal Reserve's policy stance in the second half of the year.

Between mid-April and mid-May 2025, a period that coincides with the 90-day suspension of new reciprocal tariffs, Indonesia's financial markets experienced mixed investor sentiment. Over this period, there were capital inflows of USD1.10 billion into the bond market, while the stock market saw capital outflows totalling USD1.07 billion, resulting in a marginal net inflow of USD0.03 billion (**Figure 3**). Yields on government bond declined across tenors, with the 10-year yield falling by 25 basis points from 7.13% to 6.88% and the 1-year yield down by 41 basis points from 6.64% to 6.18% (**Figure 4**). The sharper decline in short-term bond yields compared to long-term yields has resulted in a steepening of the yield curve. While short-term yields reflect immediate market conditions, the relatively smaller decrease in long-term yields suggests that investors remain cautious regarding the long-term economic outlook. On 14 May, the first day that markets open after long-weekend and two days after the US and China agreed to drastically cut tariffs on each other's goods for an initial 90-day period, capital inflows were recorded into the Indonesian stock market. On that day, inflows amounted to USD0.17 billion, rising to a total of USD0.31 billion between 14 May and 16 May. This was driven by easing tensions between the US and China as well as the dividend payout season in Indonesia.

Figure 3: IDR/USD and Accumulated Portfolio Capital Inflow (since Jan-24)



Source: CEIC

Figure 4: Government Bonds Yield (% p.a.)

Source: CEIC

Although global uncertainty persists over President Trump's tariff agenda, Rupiah appreciated by 1.70% between mid-April and mid-May 2025, strengthening from IDR16,795 per USD to IDR16,510 per USD. This appreciation was driven by easing trade tensions, though it remains uncertain whether this will be temporary, and Bank

Key Figures

BI-Rate (Apr '25)
5.75%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, Apr '25)
1.95%
Core Inflation (y.o.y, Apr '25)
2.50%
Inflation (m.t.m, Apr '25)
1.17%
Core Inflation (m.t.m, Apr '25)
0.31%
FX Reserve (Apr '25)
USD152.5 billion

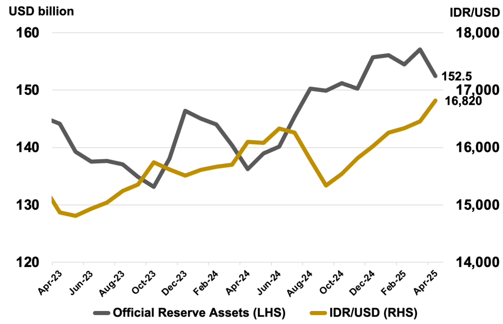
To keep you updated with our monthly and quarterly reports, please subscribe. Scan the QR code below

or go to http://bit.ly/LPEMCommentarySubscription

8 DECENT WORK AND ECONOMIC GROWTH

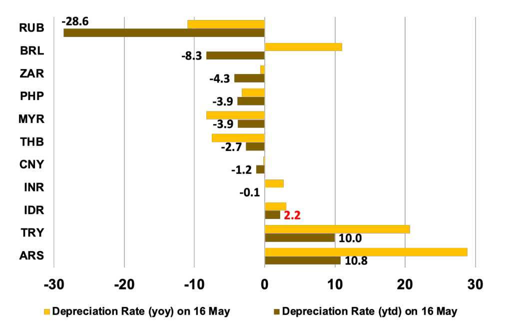
Indonesia's active intervention in both offshore and domestic markets to stabilise the currency amid heightened global financial market volatility and to counter downward pressure on the Rupiah caused by external shocks. As a result of these interventions, Indonesia's foreign exchange reserves declined by USD4.6 billion, the largest monthly decrease in two years, from USD157.1 billion in March 2025 to USD152.5 billion in April 2025 (**Figure 5**). Nevertheless, the reserves remained sufficient to finance 6.4 months of imports or 6.2 months of imports and government external debt payments, well above the international adequacy standard of approximately three months of imports. On a year-to-date basis, however, Rupiah depreciated by 2.18% (y.t.d), performing better only than the Turkish Lira and Argentine Peso (**Figure 6**). In contrast, peer currencies, such as the Indian Rupee, Chinese Yuan, and Malaysian Ringgit, all appreciated against the US Dollar over the same period.

Figure 5: IDR/USD and Official Reserve Assets



Source: CEIC

Figure 6: Depreciation Rates of Selected EMs (16 May 2025)



Source: Investing.com

Indonesia's headline inflation has returned firmly within Bank Indonesia's target range. Rupiah has also shown signs of stability over the past month, providing some room for a potential policy rate cut. However, the durability of this stability remains uncertain amid unresolved risks stemming from President Trump's evolving tariff agenda, which continues to cloud the global trade outlook. Although recent development suggests a moderation in the US–China trade tensions, the scope and timing of any future tariff actions remain difficult to predict. At the same time, the Federal Reserve opted to keep its benchmark interest rate unchanged at 4.25%–4.50% in its May 2025 meeting. In this context, Bank Indonesia should maintain its policy rate at 5.75% during the upcoming Board of Governors Meeting. While recent inflation trends and currency movements suggest some policy space, any premature easing could risk reversing recent gains in currency stability. Policy rate adjustments should be carefully timed and aligned with clearer signals from global monetary conditions, particularly the Federal Reserve. In the interim, Bank Indonesia should remain vigilant and continue to utilise stabilisation tools as necessary to safeguard macroeconomic stability.