LPEM FEB UI
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Macroeconomic Analysis Series

Bank Indonesia Board of Governors Meeting
July 2025

Highlights

- Bank Indonesia should keep BI-Rate unchanged at 5.50%.
- Headline inflation rose to 1.87% (y.o.y) in June 2025, driven by food supply disruptions and continued price increases in gold.
- Although foreign investors recorded net capital outflows of USD0.21 billion, Rupiah strengthened by 0.22% (m.t.m), supported by a weaker U.S. dollar.

Macroeconomics, Finance & Political Economy Research Group

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June 2025 saw a modest uptick in inflation to 1.87% (y.o.y), driven by supply-side constraints in key food commodities and continued price pressures in personal care and services, particularly gold jewelry. Despite net foreign outflows from both bond and equity markets, Rupiah appreciated by 0.22% (m.t.m), supported by broad-based U.S. dollar weakness. Looking ahead, inflationary pressures may rise further with the onset of the new academic year, increased holiday spending, and the implementation of higher non-subsidized fuel prices. At the same time, persistent geopolitical tensions and incoming U.S. tariff measures continue to cloud the global outlook. In light of these developments, we are in view that Bank Indonesia should hold BI-Rate steady at 5.50% in the July Board of Governors' Meeting to maintain Rupiah stability.

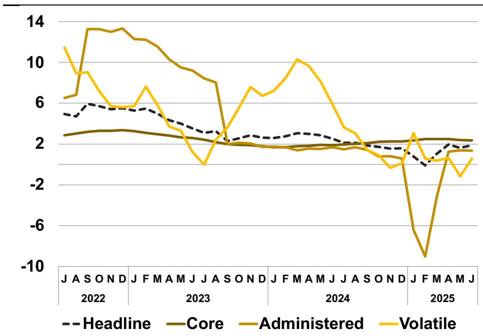
Mild Inflationary Pressure Amid Seasonal Constraints and Policy Stimulus

In June 2025, inflation considerably rose to 1.87% (y.o.y) from 1.60% (y.o.y) in May 2025 (**Figure 1**), still within Bank Indonesia's target range of 1.5%–3.5%. Inflationary pressure was substantially driven by personal care and other services group with a 0.59 percentage points contribution, closely followed by food, beverage, and tobacco group which contributed 0.58 percentage point. Meanwhile the information, communication, and financial services group helped to moderate inflationary pressures, subtracting 0.02 percentage point from the total.

The personal care and other services encountered an inflation of 9.30% (y.o.y) in June 2025, increased modestly from 9.24% (y.o.y) in May 2025. This figure marked the third consecutive month to reach above nine percentage points, edging up to a double-digit record, which has never been shown in the last few years. The soaring inflation was mainly attributed to the increasing demand for gold. Upon closer examination, the gold jewellery commodity exhibited a volatile price due to global uncertainties, which have driven investors to mitigate various risks by purchasing safe-haven assets. Furthermore, food, beverage, and tobacco group recorded an inflation of 1.99% (y.o.y) in June 2025, almost doubled from 1.03% (y.o.y) in May 2025. The largest contribution came from rice and fish, due to a decline in the amount of supply. On the other hand, information, communication, and financial services group negatively affected the total inflation in June 2025, despite slightly easing to 0.27% (y.o.y) from 0.28 (y.o.y) in May 2025. This deflationary trend was mainly attributed to the weakening consumer demand for information and communication device group, such as mobile phones.

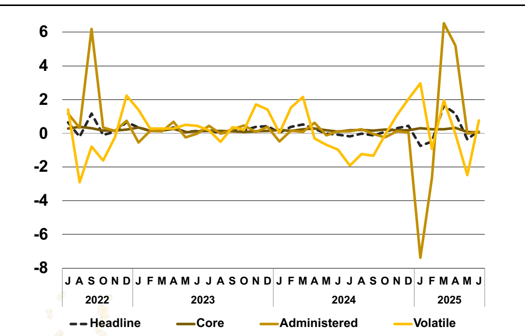
On a monthly basis, headline inflation recorded a 0.19% increase (m.t.m) in June 2025, reversing the 0.37% deflation (m.t.m) observed in the previous month (**Figure 2**). Similar to the annual trend, the food, beverage, and tobacco group largely contributed to the inflation by 0.13 percentage points. The group encountered an inflation of 0.46% (m.t.m) in June 2025 from a deflation of 1.40% (m.t.m) in the previous month. The commodities that made the most significant contributions to month-to-month inflation were rice by 0.04 percentage point and bird's eye chili by 0.03 percentage point. Rice prices at the milling, wholesale, and retail levels all experienced an increase in June 2025. The price surge was mainly attributed to a substantial commodity absorption by Bulog, causing 4 million tons of rice stored in Bulog's warehouses remain undistributed to the public. The rice stock was designated as dead stock or inventory to ensure a smooth distribution throughout the year, despite the plan remained undisclosed. Apart from rice, bird's eye chili also saw an increase, caused by a decline in supply from farmers due to the impact of unstable weather conditions. On the other hand, red chili and garlic were among the few commodities that experienced price declines, each easing the overall inflation rate by 0.03 percentage point. The downward pressure on their prices was mainly attributed to increased supply during the month.

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



Source: CEIC

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



Source: CEIC

By component, core inflation slightly eased to 2.37% (y.o.y) in June 2025 from 2.40% (y.o.y) in May 2025, in line with the monthly trend which decreased to 0.07% (m.t.m) from 0.08% (m.t.m). This decline particularly related to the improved price stability of health services and household equipment, appliances, and routine maintenance. Likewise, year-on-year inflation of administered price saw a moderate decline to 1.34% (y.o.y) from 1.36% (y.o.y) in the previous month, while the month-to-month strengthened from a deflation of 0.02% (m.t.m) to an inflation of 0.09% (m.t.m). Throughout June 2025, upward price adjustment to the machine-rolled clove cigarettes (SKM) and retail price ceiling of LPG also contributed to the inflationary pressures. However, these were partially offset by several government interventions, namely a reduction in non-subsidized fuel prices and temporary stimulus packages, such as discounted transportation and toll road fares, which helped to ease the

Key Figures

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5.50%
GDP Growth (y.o.y, Q1 '25)
4.87%
Inflation (y.o.y, June '25)
1.87%
Core Inflation (y.o.y, June '25)
2.37%
Inflation (m.t.m, June '25)
0.19%
Core Inflation (m.t.m, June '25)
0.07%
FX Reserve (June '25)
USD152.6 billion

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inflationary pressure. In contrast, both annual and monthly changes for volatile goods experienced a reversal. In June 2025, volatile goods saw an inflation of 0.57% (y.o.y) and 0.77% (m.t.m), which previously encountered a deflation of 1.17% (y.o.y) and 2.48% (m.t.m) in May of the same year. The fluctuating prices of several food commodities, namely rice, bird's eye chili, and shallots, have particularly contributed to this trend, as the harvest season is nearing its end and the production and distribution processes have encountered disruptions.

Looking ahead, the government's plan to increase the price of non-subsidize fuels, effective by July 1st, is expected to exert inflationary pressure, offsetting the moderating trend in administered price inflation observed in June. Inflation in July is also projected to be influenced by the start of the new academic year, with rising educational expenses such as enrolment and tuition fees for primary and secondary schools. In addition, the school holiday period, which typically drives increased spending on travel, recreation, and food services, is expected to contribute to inflation this month. However, the government's stimulus packages introduced this month, which will remain in effect throughout July, are expected to alleviate inflationary pressure. The stimulus packages include transportation fare discounts, toll road tariff discounts, expanded social assistance, wage subsidy support, and job loss insurance contribution discount.

Exports Outpace Imports, Surplus Strengthens

Following a sharp decline to a five-year low of USD158 million in the previous month, the trade surplus rebounded to USD4.30 billion in May 2025, marking 61 consecutive months of surplus. This figure grew by 45.47% (y.o.y) compared to the same month in 2024, which stood at USD2.94 billion Cumulatively, the trade surplus reached USD15.38 billion in the January–May 2025 period, up 17.76% (y.o.y) from USD13.06 billion in the same period last year. Notably, both exports and imports recorded significant growth during the month, with the pace of export expansion exceeding that of imports, further supporting the widening trade balance.

In May 2025, Indonesia's export value increased by 9.68% (y.o.y), from USD22.44 billion in the same month in 2024 to USD24.61 billion, mainly driven by front-loaded shipments ahead of Trump's tariff implementation and the resumption of postponed exports following the Eid-al Fitr holiday period in April. On a monthly basis, exports recorded a more substantial growth of 18.66% (m.t.m), rising from USD20.74 billion in April 2025. Export growth was recorded across all sectors except for mining, which continued to experience negative growth. The mining sector was adversely affected by the decline in global coal prices, with exports falling by 26.20% (y.o.y), from USD4.21 billion in May 2024 to USD3.11 billion. In contrast, the agriculture, forestry,

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and fishery sector saw the highest growth, increasing by 59.46% (y.o.y) from USD397.8 million in May 2024 to USD637.3 million, largely attributed to the rising volume of coffee exported. In terms of commodities, major contributions of exports came from animal or vegetable oil products. The export value rose by 63.01% (y.o.y) in May 2025, from USD1.60 billion to USD2.61 billion. The price of crude palm oil (CPO) accelerated following the government's decision to increase export levy rates for CPO and its derivative products, from 3–7.5 percent to 4.75–10 percent. The policy is stipulated in the Minister of Finance Regulation No. 30/2025, which took effect in May 17th.

On the import side, the value grew by 4.14% (y.o.y), rising from USD19.51 billion in May 2024 to USD20.31 billion in May 2025. However, compared to the previous month, imports declined slightly by 1.32% (m.t.m) from USD 20.59billion in April 2025. The annual rise in import value was primarily driven by capital goods imports, which grew by 24.85% (y.o.y) in May 2025, contributing 4.53 percentage points to the overall growth. There is an indication that significant rise in capital goods imports is affected by China's dumping practice, where raw materials and machinery being sold at low prices. In terms of the commodity, the machinery and equipment, electrical machinery and equipment, and vehicles remained as the highest contributing commodities to the total import value, accounting for approximately 33% of the total. These categories also encountered an annual growth in May 2025, mainly due to the increase in import volumes. In addition, the most significant growth was seen in imports of optical, photographic, cinematographic, and medical instruments, which surged by 102.53% (y.o.y) and 101.28% (m.t.m) to USD621.3 million in May 2025, marking the highest expansion across all categories. These imports aligns with the effort to modernize and strengthen the healthcare infrastructure.

Policy Caution Under Global Trade Uncertainty

As of June 2025, the Fed has maintained its benchmark interest rate within the range of 4.25% to 4.50%, where it has remained since December 2024. This reflects a cautious and data-dependent policy stance, as the Fed continues to assess inflation developments and labour market conditions during heightened uncertainty stemming from recent trade policy actions. While the CPI for June has not yet been released, it is scheduled for publication on 15 July (U.S. time), with market expectations pointing to a 0.3% (m.t.m) increase in headline inflation, from 0.1% in May. This would bring annual headline inflation to an estimated 2.7% (y.o.y), up from 2.4% in the previous month, potentially reflecting the early impact of newly implemented tariff measures.

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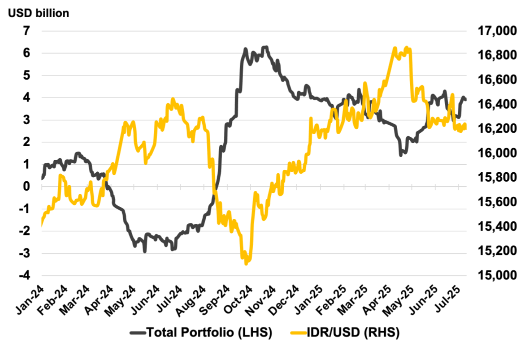
Since April 2025, the U.S. administration has announced a series of tariff actions, beginning with a broad-based 10% import tariff and a set of reciprocal duties aimed at major trading partners. Although the policy briefly shifted toward a negotiated approach, a turning point occurred on 7 July 2025, when President Trump announced the reinstatement of reciprocal tariffs following the expiry of a 90-day negotiation window. The newly announced measures are scheduled to take effect on 1 August 2025. Given this timeline, the full impact of these tariffs is unlikely to be fully captured in inflation data for June and may become more visible in the second half of 2025.

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



Source: CEIC

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

Source: CEIC

Between mid-June and mid-July 2025, persistent uncertainty surrounding the direction and scale of U.S. trade policy, particularly the reimposition of reciprocal tariffs by the Trump administration, has contributed to increased volatility in global financial markets. Amid this environment, Indonesia recorded net capital outflows of USD0.21 billion (**Figure 3**). The outflows were driven primarily by the equity market, which saw net foreign selling amounting to USD0.59 billion over the period. This suggests that global investors have become more risk-averse, reallocating portfolios in response to rising external uncertainties and potential implications for global growth and trade flows. Foreign selling in equities was largely concentrated in the banking sector, following a series of disappointing earnings reports and continued sluggishness in credit growth. These developments may have weakened investor confidence in the near-term outlook for bank profitability, prompting capital outflows from the sector. In contrast, the government bond market experienced a net inflow of USD0.37 billion, indicating continued appetite for Indonesian fixed-income assets. In line with this bond market inflow, government bond yields declined across tenors. The yield on 10-year government bonds fell by 16 basis points to 6.64%, while the 1-year yield declined by 24 basis points to 5.86% as of 10 July, compared to a month earlier (**Figure 4**). While the inflow suggests positive market sentiment, the consistent yield compression may also be partly attributed to Bank Indonesia's ongoing intervention in the bond market. As of 11 July 2025, Bank Indonesia's holdings of

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government securities stood at IDR 1,542.6 trillion, or 24.32% of total outstanding SBN, indicating a potentially active role in stabilising yields. Compared to the same period last year, the value of BI's holdings increased by 10.70% (y.o.y).

On 7 July, President Trump formally notified the Indonesian government of his decision to impose a 32% reciprocal tariff. The tariff rate remains unchanged from the initial announcement in April 2025, suggesting that the 90-day negotiation period failed to produce any adjustments. The announcement did not trigger a spike in foreign selling in the Indonesian equity market, indicating that the policy had been largely anticipated or priced in by investors. It may also reflect the limited direct exposure of listed Indonesian companies to the affected export categories. In the bond market, no significant volatility or capital outflow was observed following the announcement. This likely reflects continued investor confidence and the expectation that the near-term impact of the tariff on economic growth will remain contained.

Despite net foreign outflows from the Indonesian bond and stock markets, Rupiah appreciated by 0.22% (m.t.m) between 11 June and 10 July, reaching IDR16,215 per USD. This suggests that the outflows were not redirected into U.S. dollar-denominated assets, but rather into other currencies, markets, or safe-haven assets. Supporting this interpretation, the average gold price during the period rose by over 40% compared to the same period in the previous year, suggesting heightened global demand for low-risk assets. The U.S. Dollar Index (DXY) also weakened, falling from 98.63 to 97.65, signaling broader dollar softness in global markets. On a year-to-date basis, however, Rupiah has depreciated by 0.75% (y.t.d), performing better only than the Argentine Peso and Turkish Lira, both of which recorded double-digit depreciations against the USD. In contrast, most other emerging market currencies appreciated, supporting the view that investors have been reallocating assets away from the U.S. dollar toward other markets.

Indonesia's foreign exchange reserves recorded only a marginal increase, rising by USD0.1 billion from USD152.5 billion in May 2025 to USD152.6 billion in June 2025. The increase in reserves was primarily driven by tax and service revenues as well as proceeds from government global bond issuance, amidst Bank Indonesia's ongoing exchange rate stabilisation measures in response to persistent global financial market uncertainty. As of end-June 2025, the reserve level was equivalent to 6.4 months of imports or 6.2 months of imports and government external debt payments, and remained well above the international adequacy standard.

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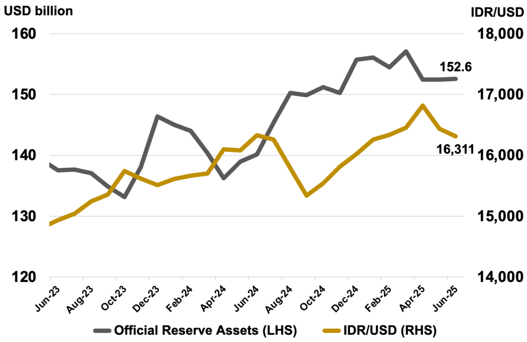
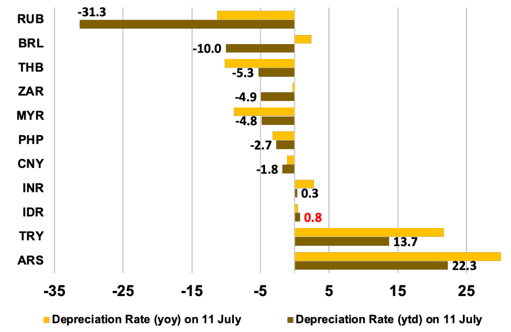
Figure 5: IDR/USD and Official Reserve Assets



Source: CEIC

Figure 6: Depreciation Rates of Selected EMs (11 July 2025)



Source: Investing.com

Headline inflation edged up to 1.87% (y.o.y) in June 2025 from 1.60% in the previous month, but remained well within Bank Indonesia's target range. Despite the recent appreciation of Rupiah, external risks persist, particularly those stemming from U.S. trade policy developments and escalating geopolitical tensions, both of which could weigh on capital flows and exchange rate stability. At the same time, the U.S. Federal Reserve continues to adopt a wait-and-see approach, as the full impact of the recently announced tariff measures has yet to materialise in the data. Given these considerations, Bank Indonesia should prioritise exchange rate stability and should keep its policy rate at 5.50% in the upcoming Board of Governors' meeting.