Macroeconomic Monitor

June 2025

AUTHORS

Ibrahim Kholilul Rohman – Senior Research Associate IFG Progress
(ibrahim.kholilul@ifg.id)

Mohammad Alvin Prabowosunu – Research Associate IFG Progress
(alvin.prabowosunu@ifg.id)

Emil Muhamad – Senior Economist Bahana TCW Investment Management
(emil.muhamad@bahana.co.id)

Habel Abraham B. Sirait – Research Assistant IFG Progress
(habel.abraham@ui.ac.id)

Table of contents

HIGHLIGHTS

June 2025

Iran-Israel Conflict

Geopolitical risks have re-emerged as a key global headwind. Tensions in the Middle East escalated sharply in June 2025 following Israel's strikes on Iranian nuclear facilities, which prompted missile retaliation from Tehran and subsequent US military involvement. Iran's parliament has approved legal steps to close the Strait of Hormuz, a chokepoint for nearly 20% of global oil and LNG shipments, raising the risk of major supply disruptions. Although maritime flows remain uninterrupted for now, the mere threat has spiked oil prices above $80/bbl and heightened volatility across energy and shipping markets. If a full closure materializes or if Russia and China deepen their involvement, either diplomatically or through proxy engagements, the global economic fallout could be severe, triggering inflation surges, supply chain disruptions, and real GDP losses across key regions.

United States

The U.S. economy continues to grow moderately, with some divergence between sectors. Services remain resilient, with the S&P Global Services PMI rising to 53.7 in May. However, the ISM non-manufacturing index dipped to 49.9, showing the first contraction in nearly a year. Manufacturing remains under pressure; ISM's Manufacturing PMI came in at 48.5, while S&P Global's equivalent showed slight optimism at 52.0, largely due to front-loaded inventory building. On the policy front, the Federal Reserve held the policy rate at 4.25–4.50% in June 2025, citing persistent inflation and tariff uncertainty. Although the Fed's latest projections hint at two possible rate cuts in 2025, opinions among policymakers remain divided. Labor market data showed a steady unemployment rate at 4.2% in May 2025, though labor force participation declined and job creation softened. Meanwhile, the US trade deficit narrowed to $87.6 billion in April 2025 as imports fell sharply following a pre-tariff surge in March 2025, but the current account deficit remains large at over 4% of GDP.

Eurozone

The Eurozone faces growing headwinds from both domestic fragility and external shocks. After initiating a 25 bps rate cut in early June 2025, the first since 2019, the ECB signaled a cautious path ahead, amid persistently weak growth and soft inflation. Eurozone core inflation slowed to 2.7% YoY in May 2025, while headline inflation was just 2.6% YoY. However, energy price volatility due to Middle East tensions and trade disruptions could re-ignite inflation risks. Meanwhile, Germany's industrial production remains stagnant, and southern economies are struggling with fiscal constraints. Trade dynamics are further challenged by weak Chinese demand and the euro's relative strength, which dampens exports. The ECB must balance its gradual easing stance with the risk of renewed global inflation and financial market stress stemming from external geopolitical developments.

China

China's economy remains uneven, with pockets of resilience offset by structural drags. Manufacturing PMI slipped below 50 again in May 2025 (49.5), reflecting weaker exports and sluggish domestic orders. The services sector continues to grow but at a moderating pace, highlighting fragile consumer sentiment. Property sector stress persists, and recent attempts at fiscal stimulus have not yet translated into broad-based growth. Exports showed modest improvement in May 2025 but are still under pressure from Western trade restrictions and reconfiguration of global supply chains. Beijing has pledged further monetary easing and infrastructure spending, though concerns remain over rising debt levels and limited private sector confidence. China's role in the Iran–Israel conflict is also under close observation, especially with any strategic posturing around oil security or global realignments. Overall, China is expected to grow around 4.5–4.8% in 2025—below pre-pandemic norms and insufficient to fully lift global trade momentum.

Indonesia

Indonesia's 2025 economic outlook has weakened, with the OECD cutting its growth forecast to 4.7% amid high borrowing costs and fiscal uncertainty. Inflation remains benign; May saw deflation of 0.37% month-on-month, while annual inflation was 1.6%, mainly due to falling food prices. Consumer confidence fell to 117.5 in May 2025, a five-month low, as concerns over job and income prospects grew. Retail sales rebounded 2.6% YoY in May 2025 but contracted 0.6% from the previous month, reflecting post-holiday normalization. Despite subdued demand indicators, inflation stability provides some space for targeted policy support in the coming months.

Indonesia's manufacturing PMI stayed in contraction at 47.4 in May 2025, reflecting weak domestic and external demand. New orders fell at the fastest rate in nearly four years, particularly from key markets like the U.S. Trade surplus narrowed sharply to USD 160 million in April, down from USD 4.3 billion in March, with oil and gas deficits offsetting non-oil surpluses. However, Indonesia still posted a USD 6.42 billion trade surplus with the U.S. in January–April. Key contributors were machinery, footwear, and apparel. A sustained recovery in manufacturing will require stronger global demand and more resilient domestic consumption.

As of May 2025, Indonesia's government spending reached IDR 1,016.3 trillion (28.1% of target), with IDR 446 trillion allocated to President-elect Prabowo's flagship programs. The government has issued IDR 349.3 trillion in new debt to support the budget, reaching 45% of the financing plan. Bank Indonesia paused its easing cycle in June 2025, maintaining the policy rate at 5.50% amid capital outflows and global volatility. Foreign reserves held steady at USD 152.5 billion, covering over six months of imports. Meanwhile, Indonesia's net international investment liabilities improved to USD 224.5 billion in Q1, supported by stronger foreign asset positions.

RECENT ECONOMIC DEVELOPMENT : GLOBAL MARKET

Recent economic development : global market

Special Coverage on Middle-East Geopolitical Conflict

OVERVIEW

In June 2025, escalating hostilities between Iran and Israel reached a critical point, as Israel conducted targeted strikes on Iranian nuclear facilities, prompting retaliatory missile attacks from Tehran. The United States subsequently launched precision strikes on Iranian military infrastructure, marking one of its most direct interventions in the region in decades. In response, Iran's parliament approved preliminary legislation to authorize the closure of the Strait of Hormuz, pending security council approval.

Although maritime flow through the Strait remains uninterrupted for now, the threat alone has spiked market volatility. Analysts warn that sustained disruption could lift oil prices above $100–130. This projection aligned with previous IFG Progress Publication on Historical Lessons on 1970s-1980s Oil Shocks As a Consequence of Middle East Conflicts. Key energy importers such as India, China, and Japan are particularly vulnerable, while global inflationary pressures could be reignited. The situation has already rattled financial markets, elevated insurance costs for shipping, and increased investor demand for safe-haven assets such as gold and US Treasuries.

IMPACT ON OIL PRICE

Brent oil prices rose to just under $80 per barrel, with a geopolitical risk premium estimated at $12. Analysts warn that in the event of a broader supply disruption, such as a 50% cut in Strait of Hormuz oil flows, Brent could spike up to $110. Similarly, a sustained and large-scale disruption could lift European natural gas prices above 100 EUR/MWh. The Strait of Hormuz handles nearly 20% of global oil and LNG trade, making it a critical chokepoint for energy markets.

Beyond oil and gas, gold has seen increased demand as a safe-haven asset amid geopolitical uncertainty. Investor sentiment is becoming risk-averse, with capital flowing into assets like US Treasuries and bullion.

IMPACT ON GLOBAL MARKET

Stock markets in the Middle East region showed a relatively controlled response. Investors expect that US involvement will trigger pressure on the stock market and strengthen the position of the US dollar and other safe haven assets when the world's major markets resume operations. However, the direction of the market is still overshadowed by uncertainty.

On the growth front, higher energy costs and supply chain disruptions, not only in energy but also shipping, logistics, and manufacturing, could slash up to 0.8 percentage points from global GDP. Export-dependent economies such as Germany, Japan, and India would be particularly vulnerable. Acute shipping instability, raised insurance premiums, and industrial input bottlenecks would squeeze global value chains and hurt productivity.

The surge of oil and gas prices would ripple through global inflation, eroding consumer purchasing power and imposing significant weight on central banks already battling inflation stagnation. A US–led military strike may initially strengthen the US dollar as investors seek safe-haven assets, though prolonged conflict risks eroding dollar strength amid geopolitical fragmentation. The resulting volatility may prompt a reevaluation of interest rates, triggering policy-driven financial tightening. In sum, regional conflict carries the potential to disrupt global growth, rekindle inflation, and reshape trade and financial networks globally.

Container shipping rates from Shanghai to Genoa rose 11.5%, while the Shanghai Containerized Freight Index (SCFI) surged 27.5%, reflecting rerouting costs and tighter capacity. Bulk and energy shipping are also affected: the Baltic Dry Index rose over 28%, and the Baltic Capesize Index surged 42% between May and June 2025. Oil transport costs climbed sharply, with dirty tanker rates from the Arabian Gulf to Singapore rising 51% (from 45 to 68 Worldscale points), and rates to Japan peaking at 67.5, up 22.7%. These increases mirror past geopolitical oil shocks in the 1970s–1980s, where price normalization took 6 to 18 months and triggered stagflation in the West.

For Indonesia, the implications are serious. Now a net oil importer, the country faces rising import bills that could deepen its current account deficit. Domestically, increase in logistics cost might intensify inflationary pressures. A 1% rise in oil prices can increase shipping costs by up to 0.792% and CPI by 0.035%. These trends underscore the importance of anticipating the possibility of imported inflation that might hamper cosh push inflation

Persistent US trade deficits highlight enduring structural challenges, influenced by protectionist policies, tariff uncertainties, and a strong US Dollar affecting global competitiveness.

United States

MANUFACTURING SECTOR

In May 2025, US manufacturing activity remained subdued, with the ISM Manufacturing PMI at 48.5, marking the third straight month of contraction and a small decline from April 2025's 48.7. Key demand indicators such as new orders and production continued to signify weakness, though some relief appeared as the Production Index ticked up marginally. Employment remained under pressure, while suppliers faced heightened delays. Notably, factory-level price pressures persisted, with the ISM Prices Index near door-to-door highs.

Overall, U.S. manufacturing appears to struggle under trade constraints and elevated input costs. While purchasing managers anticipate recovery, the sector's sustained health depends on easing global trade tensions and firmer demand.

SERVICES SECTOR

The Services PMI declined sharply to 50.8 in May 2025 from 54.4 in March 2025, reflecting the weakest expansion since December 2023. Ths continuous declines are due to the deterioration of global economic growth and also the adverse effects of US tariffs announced in April 2025.

CONSUMER PRICE INDEX (CPI)

The US consumer price index (CPI) rose, but less than expected in May 2025. Tariffs imposed by US President Donald Trump have yet to have a significant impact on inflation. The CPI rose 0.1% (MtM) in May 2025, bringing the annual inflation rate to 2.4% (YoY). Economists surveyed by Dow Jones had been looking for readings of 0.2% (MtM) and 2.4% (YoY), respectively. Excluding food and energy, the core CPI was 0.1% (MtM) and 2.8% (YoY), respectively, compared with estimates of 0.3% (MtM) and 2.9% (YoY).

UNEMPLOYMENT RATE

The US unemployment rate held steady at 4.2% in May 2025, matching April 2025's figure and remaining within the 4.0%–4.2% range seen over the past year. Nonfarm payrolls expanded by 139,000, slightly above market expectations, though down from April 2025's revised growth. Notably, approximately 625,000 individuals exited the labor force, suggesting cooling hiring dynamics amid elevated job separations and fewer new job seekers entering the market. The labor-force participation rate fell to roughly 62.4%, reflecting both demographic shifts and caution among workers.

Long-term unemployment (those jobless for 27 weeks or more) stayed at about 1.5 million, representing around 20% of all unemployed. This is an indicator of persistent labor-market slack. Initial jobless claims declined modestly to 227,000, indicating no immediate surge in layoffs.

BALANCE OF TRADE

The US trade deficit significantly narrowed in April 2025, falling approximately 46% to US$87.6 billion from the record-high level in March 2025. The reduction primarily reflected a sharp decline in imports, which dropped by US$68 billion to roughly US$277.9 billion, as companies had previously accelerated imports in March to circumvent anticipated tariff hikes. Exports modestly increased to around US$188.5 billion, slightly aiding the overall balance. The real goods trade deficit also contracted substantially, reaching US$85.6 billion, marking a roughly 43% decline. Persistent deficits highlight enduring structural challenges, influenced by protectionist policies, tariff uncertainties, and a strong US Dollar affecting global competitiveness. While April 2025's narrowed trade deficit may temporarily boost economic growth figures, ongoing trade policy tensions and global economic uncertainties could continue pressuring the US economy.

FED INTEREST RATE DECISION

At its mid-June 2025 meeting, the Federal Reserve held the federal funds rate steady at 4.25–4.50%, maintaining a cautious stance amid a mixed economic backdrop. Officials signaled expectations for two rate cuts later this year, though they slowed the anticipated pace amid concerns about persistent inflation and incoming risks from tariffs and geopolitical turmoil. The Fed's "dot plot" projections indicate a median forecast of at least one cut by year-end, with a few policymakers favoring none at all. Chair Powell emphasized that inflation remains above the target and that trade-related price pressures are adding uncertainty, underscoring the central bank's commitment to a data-driven approach without yielding to external pressures.

Meanwhile, voices within the Fed are increasingly inclined toward easing—Vice Chair Michelle Bowman, Governor Christopher Waller, and Chicago Fed President Austan Goolsbee have all indicated openness to a July rate cut, contingent on inflation remaining subdued. However, others such as Mary Daly and Tom Barkin advocate patience. The Fed's steadfast stance reflects its effort to balance longevity in inflation control and support for sustainable labor market conditions amid evolving global risks.

Euro Zone

CONSUMER CONFIDENCE INDEX

Eurozone consumer confidence dropped by 0.2 points to -15.3 in June 2025 from -15,1 in May 2025, after bouncing back from its lowest level in April 2025 (-16.6). The June dip suggests that while confidence has somewhat stabilized compared to the sharp deterioration earlier in April, households across the Eurozone remain cautious amid persistent concerns over inflation, geopolitical tensions, and uncertain economic prospects. Despite the recent rebound, the index remains well below its long-term average, indicating that consumers are still hesitant about future economic conditions and may restrain their spending accordingly.

RETAIL SALES

Retail sales volume across the Eurozone area rose by 0.1% in April compared to the previous month. This marks slowdown from March 2025, when retail activity grew by 0.4%. On annual basis, retail sales in April 2025 were up by 2.3% compared to April 2024, reflecting a solid year-on-year recovery in consumer spending. Decomposing the category of spendings, annual comparison saw the volume of retail trade in April 2025 increased 2.2% for food-drinks-tobacco, increased 2.3% for non-food products (except automotive fuel), and increased 2.9% for automotive fuel in specialized stores.

INFLATION

In May 2025, annual inflation in the Eurozone eased to 1.9% (YoY), a decrease from 2.2% (YoY) recorded in April 2025. Among the key contributors to inflation, services saw the highest annual increase at 3.2% (YoY), although this was down from 4.0% in the previous month. Prices for food, alcohol, and tobacco rose by 3.2%, slightly higher than the 3.0% increase in April 2025. Meanwhile, inflation for non-energy industrial goods remained steady at 0.6% (YoY), and energy prices continued to decline at a rate of –3.6% (YoY), showing no change from the month before.

CURRENT ACCOUNT

The Eurozone posted a current account surplus of €20 billion in April 2025, a notable decline from the €51 billion surplus recorded in March 2025. Over the 12 months leading up to April 2025, the cumulative current account surplus reached €419 billion, equivalent to 2.8% of the region's GDP, an increase from €339 billion (2.3% of GDP) recorded in the same period a year earlier.

On the financial account side, Eurozone residents made net purchases of non-Eurozone portfolio investment securities totaling €690 billion. At the same time, non-residents acquired an equal amount (€690 billion) of euro area portfolio investment securities during the same 12-month period.

ECB INTEREST RATE DECISION

The Governing Council of the European Central Bank (ECB) announced a decision to cut its three key interest rates by 25 basis points, marking a shift in its monetary policy stance. Effective from 11 June 2025, the rate on the deposit facility will be reduced to 2.00%, the rate for main refinancing operations will be set at 2.15%, and the marginal lending facility will be lowered to 2.40%. This move reflects the ECB's assessment that inflationary pressures in the euro area have moderated sufficiently to allow for a gradual easing of policy rates. By reducing borrowing costs, the ECB aims to support economic activity while continuing to monitor inflation trends and ensure price stability over the medium term. The decision signals a cautious approach to monetary easing amid ongoing economic uncertainty and evolving financial conditions across the eurozone.

China

MANUFACTURING & SERVICE SECTOR

In May 2025, China's economic activity showed mild improvement, with the Composite PMI edging up to 50.4 from 50.2 in April 2025, signaling a slight recovery after a sharper drop from 51.4 in March 2O25. The Manufacturing PMI rose to 49.5 (from 49.0), still below the 50 mark, indicating continued contraction though at a slower pace, mainly due to weak demand and external headwinds. Meanwhile, the Services PMI increased marginally to 51.1, supported by stronger holiday-related spending ("Labour Day Holiday") in consumer-facing sectors like accommodation and catering.

INDUSTRIAL PRODUCTION

In May 2025, China's industrial value added (VAI) growth slowed even further to 5.80% YoY, down from 6.1% in April 2025. Even though the growth among state-owned enterprises rises from 2.9% to 3.8%, the overall industrial value added growth dragged down by the drop in shareholding enterprises which experienced slow down in growth, from 6.6% to 6.3%, while foreign-funded enterprises (including those from Hong Kong, Macau, and Taiwan) stayed in the same amount of growth as April (3.9%). This suggest a different insight from previous month, that is privately held domestic firms were relatively less resilient amid the broader industrial slowdown.

In May 2025, China's industrial production showed a mixed performance across sectors, with some areas gaining momentum while others remained subdued. Output of chemical fibre edged up to 7.349 million tons, indicating steady demand in the textile industry. In contrast, cloth production declined to 2.67 billion meters from 2.7 billion meters in April 2025, suggesting a slowdown in consumer goods activity. Energy production told a different story. Total power generation increased to 737.76 billion kWh, up from 711.11 billion in April 2O25, while thermal power generation rose to 461.46 billion kWh from 449.15 billion, pointing to stronger energy demand. In the heavy industry sector, crude steel production rose slightly to 86.55 million tons, and automobile output increased marginally to 2.64 million units from 2.60 million the previous month. Soft drink production also recorded a modest uptick, reaching 16.13 million tons. Overall, these figures reflect a modest recovery in industrial activity, driven mainly by rising energy output and resilience in key manufacturing segments, even as certain consumer-oriented industries remain under pressure.

UNEMPLOYMENT RATE

In May 2025, China's unemployment rate edged down to 5.0% from 5.1% in April, signaling a modest improvement in labor market conditions after a slight weakening earlier in the spring. Although the change is minimal, it suggests a degree of stabilization. Compared to January (5.14%) and February (5.16%), the rate has remained fairly steady, indicating that while employment conditions have not worsened significantly, a strong rebound has yet to materialize.

INFLATION

In May 2025, China's consumer prices remained in deflationary territory, with the headline CPI holding steady at -0.4% year-on-year, unchanged from April. Core inflation—which excludes volatile food and energy prices—slightly improved, rising to 0% in May from deflationary territory of -0.2% in April, hinting at a mild recovery in underlying demand. Food inflation slowed to 1.10%, down from 1.72% in April, driven by deeper declines in grain prices (-1.89%) and fresh vegetables (-10.36% from -6.22%), as well as a deceleration in the price growth of eggs (+4.21% from +11.3%) and fresh fruit (+13.08% from +16.50%). Aquatic products were the only major food category to show an acceleration, rising by 2.40% from 1.30%. Meanwhile, non-food categories such as transportation (-4.11%) and education and culture (-0.79%) remained weak. Overall, the combination of persistent headline deflation, soft non-food prices, and easing food inflation underscores the continued fragility of domestic demand, despite tentative signs of stabilization in core inflation.

RETAIL SALES

In May 2025, China's retail sales of consumer goods grew by 6.4% year-on-year, accelerating from 5.1% in April. The total monthly sales value increased from RMB 3,717.4 billion to RMB 4,132.6 billion, reflecting a notable pick-up in short-term consumer spending. This stronger retail performance suggests a modest boost in household demand, providing a hopeful signal amid broader concerns about domestic economic resilience.

BALANCE OF TRADE

In May 2025, China's trade surplus widened to USD 103.22 billion, up from USD 96.18 billion in April 2025, marking the highest monthly surplus since Q1 2025, second only to January 2025's peak of USD 138.43 billion. This surge reflects a combination of export growth, though slowing to 4.8% YoY from April's 8.1%, and a sharper contraction in imports, which fell 3.4% YoY. As a result, the surplus exceeded expectations and stood well above the post-February trough of USD 31.60 billion, underscoring ongoing weakness in domestic demand. Despite mounting trade tensions and a 35% YoY collapse in exports to the US, shipments to Southeast Asia and the EU helped sustain the broader export recovery.

This divergence in trade partners highlights China's increasingly diversified export market as it adapts to shifting global demand. Overall, the trade balance reflects a combination of slowing exports and sharply declining imports, resulting in a high surplus. This suggests that while external demand remains relatively strong, domestic consumption and investment continue to show signs of weakness.

GROSS DOMESTIC PRODUCT

Bloomberg consensus forecasts that China's economy will slow to 4.9% year-on-year (YoY) growth in Q2 2025, down from 5.4% in Q1 2025. On a quarter-on-quarter (QoQ) basis, growth is expected to decline from 1.2% to 0.8%. This outlook is consistent with the OECD's projection, which anticipates a further slowdown to 4.7% for the full year 2025. The weaker performance is primarily attributed to subdued domestic consumption, reflecting lingering pandemic-related scarring effects.

> Despite mounting trade tensions and a 35% YoY collapse in exports to the US, shipments to Southeast Asia and the EU helped sustain China's broader export recovery.

RECENT ECONOMIC DEVELOPMENT : DOMESTIC MARKET

Recent economic development : domestic market:

ECONOMIC GROWTH

The OECD has again cut its projection for Indonesia's economic growth by 0.2%, from 4.9% to 4.7% in 2025. This is the second cut by the OECD this year after a downward revision of 0.3%, from 5.2% to 4.9%, through the publication of the OECD Economic Outlook Interim Report in March 2025. Meanwhile, in its latest report, the OECD Economic Outlook June 2025, Indonesia's economic growth is expected to slow in the near future. The recent weakening of business and consumer sentiment amid fiscal policy uncertainty and high borrowing costs will weigh on private consumption and investment in the first half of 2025.

INFLATION

The Central Statistics Agency (BPS) reported that in May 2025 there was a deflation of 0.37% on a monthly basis (month to month/MtM). Meanwhile, on an annual basis (year on year/YoY) there was an inflation of 1.6%. The groups that contributed the most to the deflation were the food, beverage, and tobacco groups. Going deeper, the commodities that predominantly contributed to monthly deflation were: red chilies and cayenne peppers, each at 0.12%; shallots at 0.09%; fresh fish at 0.05%; garlic at 0.04%; broiler chicken, potatoes, and carrots at 0.01% each.

Based on projections from 14 economists compiled by Bloomberg, the median or middle value of the CPI in May 2025 is in the deflation zone of 0.14% month to month (MtM), lower than the actual number. This value is also lower compared to the inflation realization of 1.17% MtM in the previous month or April 2025. On the other hand if we look at the year on year (YoY) number, 25 economists project the median CPI in May 2025 to be in the inflation zone of 1.87%, higher than the inflation number. This forecast is lower compared to the inflation realization of 1.95% YoY in April 2025.

POVERTY LINE

The World Bank reported that the number of poor people in Indonesia increased significantly after the organization changed its poverty line standards as of June 2025. Based on a report titled June 2025 Update to the Poverty and Inequality Platform, the World Bank officially adopted the 2021 purchasing power parity (PPP) calculation in determining the poverty line. Based on data from the World Bank's Poverty and Inequality Platform, if using the 2021 PPP calculation where the poverty line for upper-middle-income countries is US$8.30, the percentage of poor people in Indonesia will jump to 68.2% of the total population in 2024 from the previous 60.3%.

PURCHASING MANAGER INDEX (PMI)

Indonesia's manufacturing sector remained in contraction in May 2025 as the S&P Global Manufacturing PMI edged up to 47.4, from 46.7 in April 2025, marking a slower rate of decline but still below the 50-point threshold indicating growth. This subdued reading reflects ongoing challenges in new orders, which fell for a second consecutive month and at the fastest rate in nearly four years, driven by sluggish domestic demand and subdued export orders, particularly to the US, amid cooling global growth. Production fell for the second straight month, though at a marginally slower pace. The data suggest that Indonesian factories are grappling with external headwinds and cautious domestic buyers, despite some firm-level optimism around inventory management. Businesses cited that while costs remain a challenge, price pressures have softened in recent months. Despite the manufacturing sector's difficulties, the broader economy may still see support from the services and construction sectors. For the PMI to return above 50, both domestic demand and export momentum will need to regain traction over the coming quarters.

CONSUMER CONFIDENCE INDEX

Indonesia's Consumer Confidence Index (CCI) dipped to 117.5 in May 2025, down sharply from 121.7 in April 2025, marking a five-month low, though still comfortably above the neutral 100 threshold. The decline was driven by slippage in both sub-components: the Current Economic Conditions Index dropped to 106.0 (from 113.7), reflecting a less optimistic view of present economic conditions, even as it remained above 100; meanwhile, the Consumer Expectations Index eased to 129.0 from 129.8, suggesting slightly diminished but still upbeat expectations for the next six months. Consumers in the upper-spending and younger cohorts displayed relative resilience, with the 20–30 age group registering a CCI of 124.8, while respondents with monthly expenditures above IDR 5 million recorded 120.5. Notably, the income saved-to-income ratio inched up to 14.9%, signaling prudent behavior amid rising economic uncertainty. Despite the pullback in confidence, the index remains consistent with modest household spending and suggests room for recovery if inflation stays subdued.

Using the 2021 PPP calculation where the poverty line for upper-middle-income countries is US$8.30, World Bank estimates the percentage of poor people in Indonesia will jump to 68.2%.

RETAIL SALES INDEX

Bank Indonesia forecasts Indonesia's Real Retail Sales Index (RSI) to rebound modestly in May 2025, with 2.6% YoY growth, reaching an estimated 234.0, following an April 2025 slowdown. Month-on-month, retail sales appear to have contracted by around 0.6% in May 2025, easing compared to the 5.1% decline in April 2025 post-Ramadan and national holidays. The annual uptick is supported by rising sales in cultural/recreational goods, food and tobacco, household equipment, and motor vehicle fuel, likely linked to regional holidays like Vesak and localized holiday spending. While the monthly dip highlights normalization after festive seasons, the YoY growth suggests resilient consumer spending fundamentals in non-seasonal categories. April 2025's decline of 0.3% YoY reinforces the pattern of volatility tied to holiday effects. Going forward, stable CCI readings and targeted fiscal support may help sustain retail momentum. Continued monitoring of household incomes and inflation trends will be key to assessing whether the observed growth reflects sustainable recovery or base-driven rebound.

FISCAL CONDITION (STATE BUDGET)

The realization of government spending reached IDR 1,016.3 trillion until May 31, 2025. However, this figure only covers 28.1% of the government spending target of IDR 3,621.3 trillion in the 2025 State Budget. The realization of state spending is divided into central government spending of IDR 694.2 trillion and transfers to regions of IDR 322 trillion. Meanwhile, central government spending is divided into Ministry/Institution (K/L) spending of IDR 325.7 trillion and non-K/L spending of IDR 368.5 trillion. K/L spending has been realized at 28.1% of the target of IDR 1,160.1 trillion. Non-K/L spending has been realized at 23.9% of the target in the ceiling of IDR 1,541.3 trillion. Meanwhile, regional transfers have been absorbed at 35% of the ceiling of IDR 919.2 trillion.

Finance Minister Sri Mulyani Indrawati said that 11 priority programs of President-elect Prabowo Subianto that were previously stated in his campaign promises have absorbed Rp446.24 trillion from the 2025 State Budget (APBN). The priority programs from the political promises include Free Nutritious Meals (MBG) with a budget of Rp121 trillion, the construction of 3 million houses through the Housing Financing Liquidity Facility (FLPP) of Rp41.88 trillion, and the Red and White Village Cooperative program that absorbed Rp200 trillion in funds. Other programs are People's Schools of Rp11.6 trillion, Garuda Superior Schools of Rp2 trillion, school rehabilitation of Rp19.5 trillion, and Free Health Checks (CKG) of Rp3.4 trillion.

Meanwhile, the government has withdrawn new debt worth Rp349.3 trillion until May 2025 to finance the State Budget or APBN. The realization has reached 45% of the total debt financing target through net Government Securities (SBN) and loans worth Rp775.9 trillion. During this period, the government also carried out non-debt financing worth Rp24.5 trillion. Thus, budget financing until May 2025 reached 324.8 trillion or 52.7% of the APBN target of Rp616.2 trillion.

TRADE BALANCE

Indonesia's trade balance experienced a surplus of US$ 160 million in April 2025. This figure is much lower than the March 2025 period of US$ 4.33 billion. The surplus in April 2025 was supported by a surplus in non-oil and gas commodities of US$ 1.51 billion, with the main surplus contributor commodities being mineral fuels; animal fats and oils; and iron and steel. Meanwhile, the oil and gas trade balance was in a deficit of US$ 1.35 billion with the commodities contributing to the deficit being oil and crude oil products. Based on the consensus projections of 22 economists compiled by Bloomberg, the median value of the trade balance surplus in April 2025 is projected to be US$2.85 billion, much higher than the actual surplus.

The United States is still recorded as the country with the largest non-oil and gas trade surplus with Indonesia throughout January-April 2025, reaching US$6.42 billion of Indonesia's overall surplus of US$11.07 billion. The trade balance even recorded a surplus in April 2025, although lower than the surplus in March 2025 when US President Donald Trump imposed import tariffs on Indonesia of up to

32%. There were three commodities recorded as contributing the largest surplus, namely machinery and electrical equipment worth US$1.25 billion. Then the leading commodities are footwear and clothing and accessories, which contributed US$838.4 million and US$801.4 million respectively.

MONETARY POLICY

Bank Indonesia (BI) maintained its benchmark 7-day Reverse Repo Rate at 5.50% in its June 2025 meeting, after a 25 bps cut in May 2025, as part of a cautious easing cycle aimed at re-energising the slowing economy while preserving rupiah stability. Despite three consecutive rate reductions since September 2024 through May 2025, BI paused in June 2025 due to persistent capital outflows, with foreign investors selling US$3.8 billion in equities since late 2024. Governor Warjiyo emphasized the need for caution, citing global uncertainties, particularly US trade dynamics and geopolitical risks, as factors to preserve interest rate differentials and protect the currency.

BI has supplemented limited rate easing with liquidity support measures, including lowering the secondary reserve requirement and providing approximately Rp 78 trillion in liquidity, and urged commercial banks to pass rate cuts through to consumers and businesses. Overall, BI's current stance remains data-driven and vigilant, balancing domestic growth needs with financial stability.

INTERNATIONAL INVESTMENT POSITION

Indonesia's International Investment Position (PII) with net liabilities reaching US$ 224.5 billion in the first quarter of 2025. This value decreased from net liabilities at the end of the fourth quarter of 2024 of US$ 245.7 billion. The decrease in net liabilities came from an increase in the Foreign Financial Assets (AFLN) position and a decrease in the Foreign Financial Liabilities (KFLN) position. Bank Indonesia views that the development of Indonesia's PII in the first quarter of 2025 remains well maintained, thus supporting external resilience. This is reflected in the ratio of Indonesia's PII to GDP in the first quarter of 2025 of 16%, lower than 17.6% in the fourth quarter of 2024. In addition, the structure of Indonesia's PII liabilities is also dominated by long-term instruments (91.9%), especially in the form of direct investment.

FOREIGN EXCHANGE RESERVES

Bank Indonesia (BI) reported a foreign exchange reserve position of US$ 152.5 billion at the end of May 2025. This figure is stable from the April 2025 position of US$ 152.5 billion. The performance of foreign exchange reserves shows macroeconomic stability and supports external resilience. The foreign exchange reserve position at the end of May 2025 was equivalent to financing 6.4 months of imports or 6.2 months of imports and government foreign debt payments, and was above the international adequacy standard of around 3 months of imports. The condition of foreign exchange reserves cannot be separated from tax and service revenues as well as oil and gas foreign exchange revenues, amidst the need for government foreign debt payments and rupiah exchange rate stabilization policies.

ASSET ALLOCATION

Global Market

Global markets remained resilient throughout June 2025 despite persistent geopolitical tensions and a recalibration of global monetary policy expectations. U.S. equities extended gains, with the S&P 500 rising 2.1% month-to-date and the Nasdaq advancing 2.8%, driven by optimism in AI-related earnings and resilient consumer spending. However, investor sentiment turned more cautious after the Federal Reserve signaled a hawkish stance, with the latest dot plot projection indicated two 25 bps cut through the end of 2025. Meanwhile, geopolitical risks intensified after Israel strikes on Iranian nuclear facilities, briefly pushing Brent crude to a high of $79/barrel before it retraced to around $69/barrel. The US 10Y Treasury yield down 7 bps MTD to 4.33%, while the US 2Y downed with the same amount of 7 bps MTD to 3.83%, causing a down along the UST curve. Gold prices held relatively steady at $3,358/oz, reflecting muted safe haven demand.

Domestic Equity Market

The JCI Index declined by 3.74% month-to-date as of June 21, 2025, driven by renewed foreign outflows of approximately Rp 9.1 trillion amid heightened geopolitical tensions. Despite a modest appreciation in the Rupiah, risk-off sentiment dominated as global investors trimmed exposure to emerging markets. Sector performance was broadly negative, with IDX Finance falling -6.9%, IDX Tech down -5.6%, and IDX Non-Cyclicals losing -5.4%. IDX Transport showed positive return +5.4%. Market weakness reflects external pressures rather than domestic macro deterioration, highlighting Indonesia's sensitivity to global capital flow dynamics.

Domestic Bond Market

Indonesia's government bond market strengthened throughout June, marked by a bull steepening of the yield curve. As of June 21, 2025, the 5-year SBN yield dropped 16 bps to 6.45%, while the 10-year yield fell 9 bps to 6.61%. The rally was supported by fading inflation concerns and growing market confidence in a potential BI-rate cut in Q3. Demand was concentrated in the short to belly segments. However, fiscal risks remain on the radar, particularly as expectations grow for wider spending in 2H25 amid slowing revenue collection. While monetary policy outlook is increasingly supportive, bond investors continue to monitor development on the fiscal side.

Domestic Money Market

Liquidity remains tight, with the LDR rising from 89.95% to 90.26% in May 2025. BI's PLM ratio cut from 5.0% to 4.0%, effective early June, is expected to unlock IDR 87.4T, though its impact is unfolding gradually. The average 3-month deposit rate rose to 4.38%, while the 12-month SRBI yield eased to 6.67%, reflecting increased expectations of monetary easing amid tight funding conditions.

Asset Allocation Takeaway

Global uncertainty has eased, improving risk sentiment for emerging markets, including Indonesia. A stronger Rupiah and foreign inflows offer near-term support for equities. In the bond market, recent rallies have made long-duration valuations less attractive. Investors may focus on short tenors to benefit from potential rate cuts while reducing the risk of correction. Nevertheless, geopolitical developments should still be closely monitored

EXHIBITS

EXHIBIT 1 ● INDONESIA MACROECONOMICS INDICATOR

		2024								2025				
		May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May
CPI Inflation**	% YoY	2.84	2.51	2.13	2.12	1.84	1.71	1.55	1.57	0.76	-0.09	1.03	1.95	1.60
Core Inflation**	% YoY	1.93	1.9	1.95	2.02	2.09	2.21	2.26	2.26	2.48	2.36	2.48	2.50	2.40
Manufacturing PMI**	Level	52.1	50.7	49.3	48.9	49.2	49.2	49.6	51.2	51.9	53.6	52.4	46.7	47.4
Exports*	% YoY	2.86	1.17	6.46	7.13	6.44	10.25	9.14	4.78	4.68	14.05	23.25	5.76	
Imports*	% YoY	-8.83	7.58	11.07	9.46	8.55	17.49	0.01	11.07	-2.67	2.30	18.92	21.8	
Foreign Reserves**	USD bn	124	125	130	135	134	135	135.1	140	140	154.5	157	152	152
Money Supply (M2) *	% YoY	7.59	7.67	7.59	7.28	7.15	6.7	6.53	4.35	5.46	6.20	6.13	5.19	4.9
Deposit*	% YoY	7.36	6.95	6.41	5.66	5.73	5.02	4.74	3.04	3.82	4.60	4.03	3.77	7.36
Commercial Banking Credit*	% YoY	11.41	11.38	11.74	10.94	10.42	10.44	9.55	9.67	8.97	9.69	8.74	8.50	8.09
Fiscal Surplus/Deficit*	% GDP		-2.6			-2.7			-2.3			-2.75		

Source: *CEIC, **Bloomberg

EXHIBIT 2 • EXCHANGE RATE

Exhibit 2.1 Difference of Spot and Forward IDR

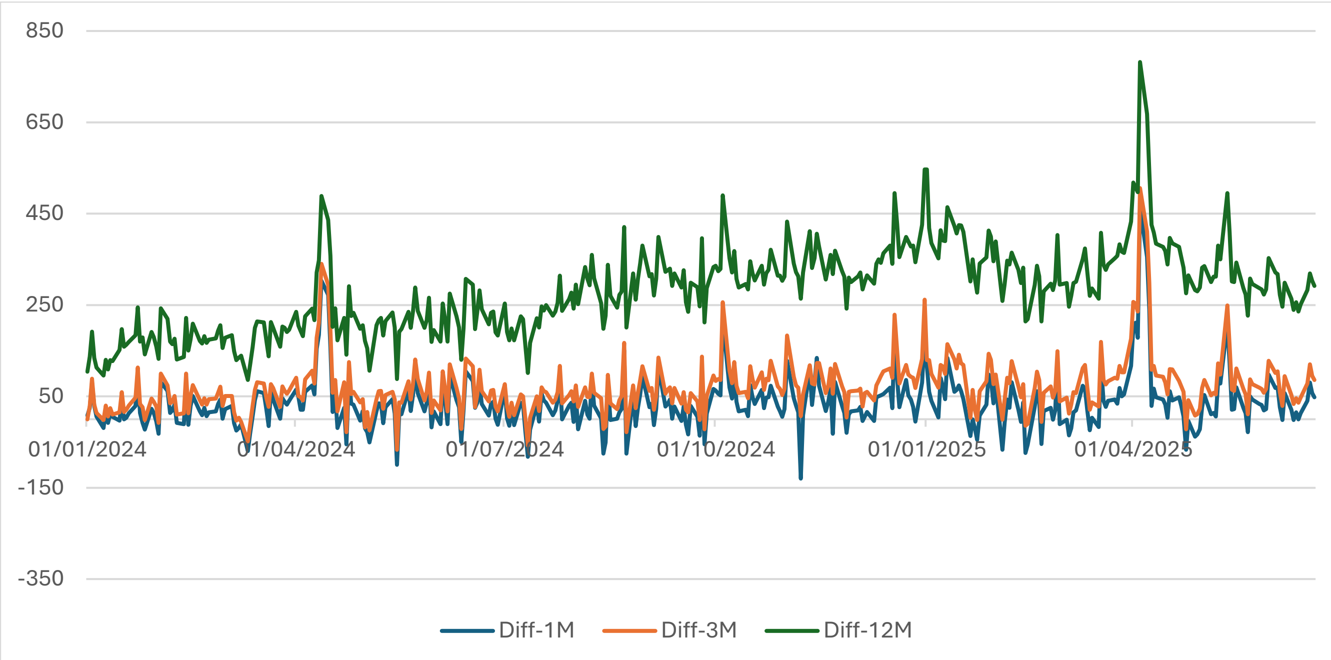


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

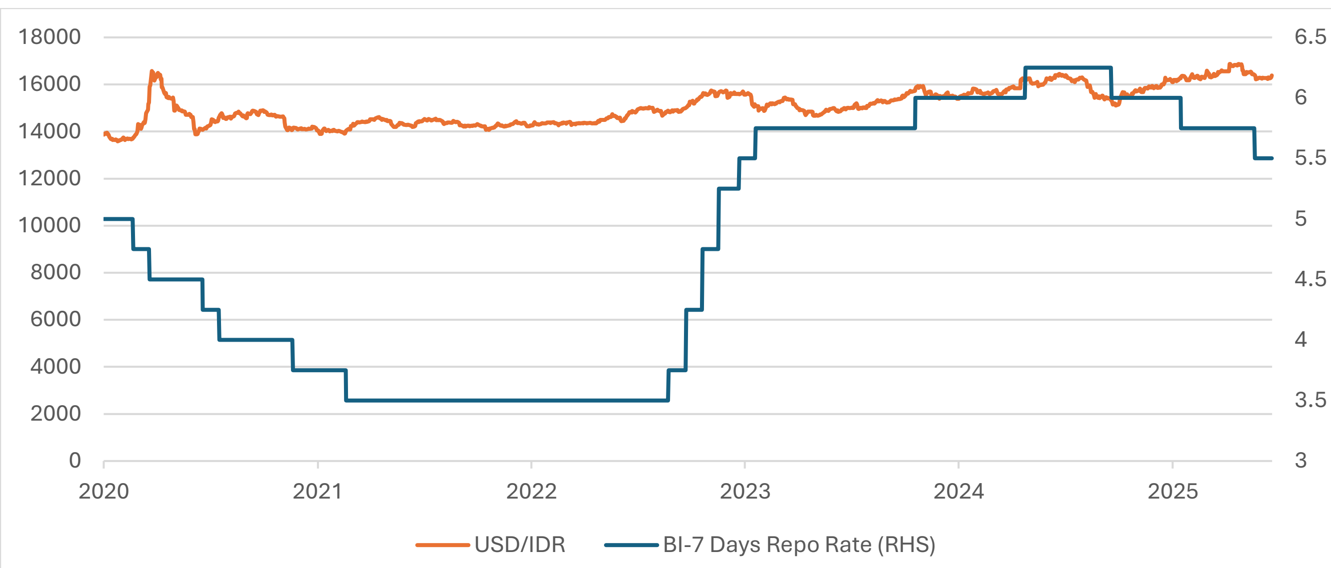


Exhibit 2.3 EM's Exchange Rate Against USD

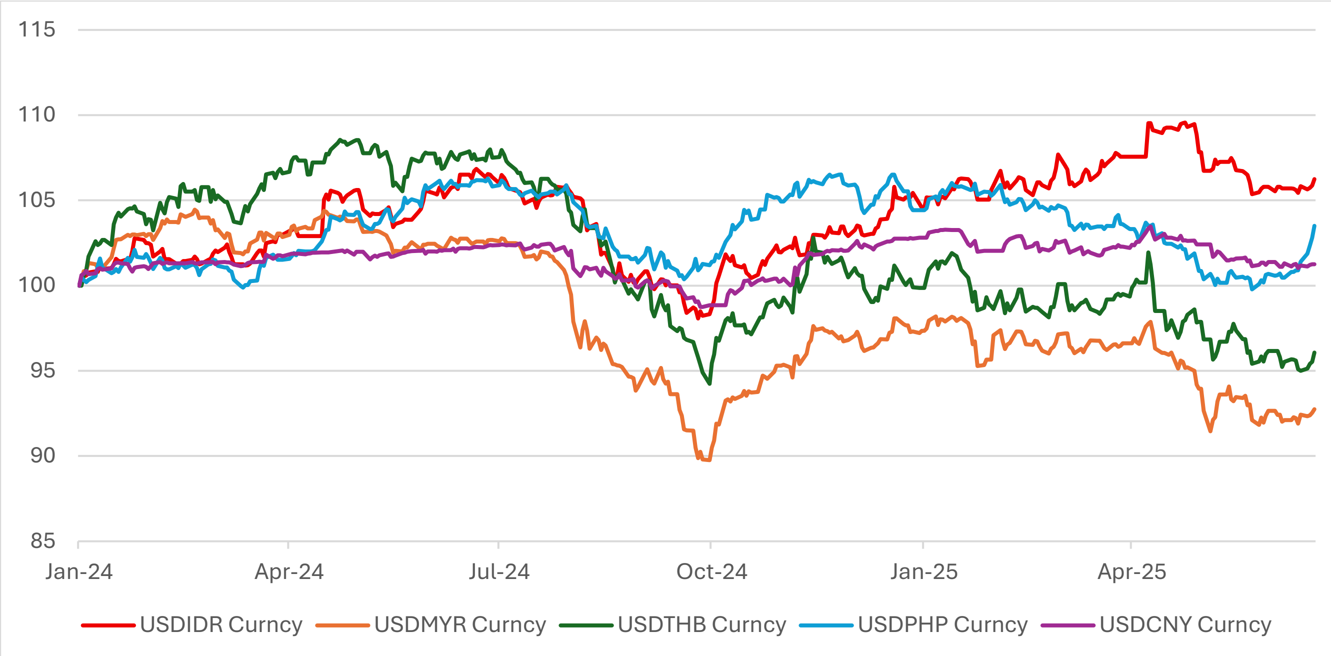


EXHIBIT 3 • INDONESIA'S LIQUIDITY

Exhibit 3.1 JIBOR 1 & 3 M and BI-Rate

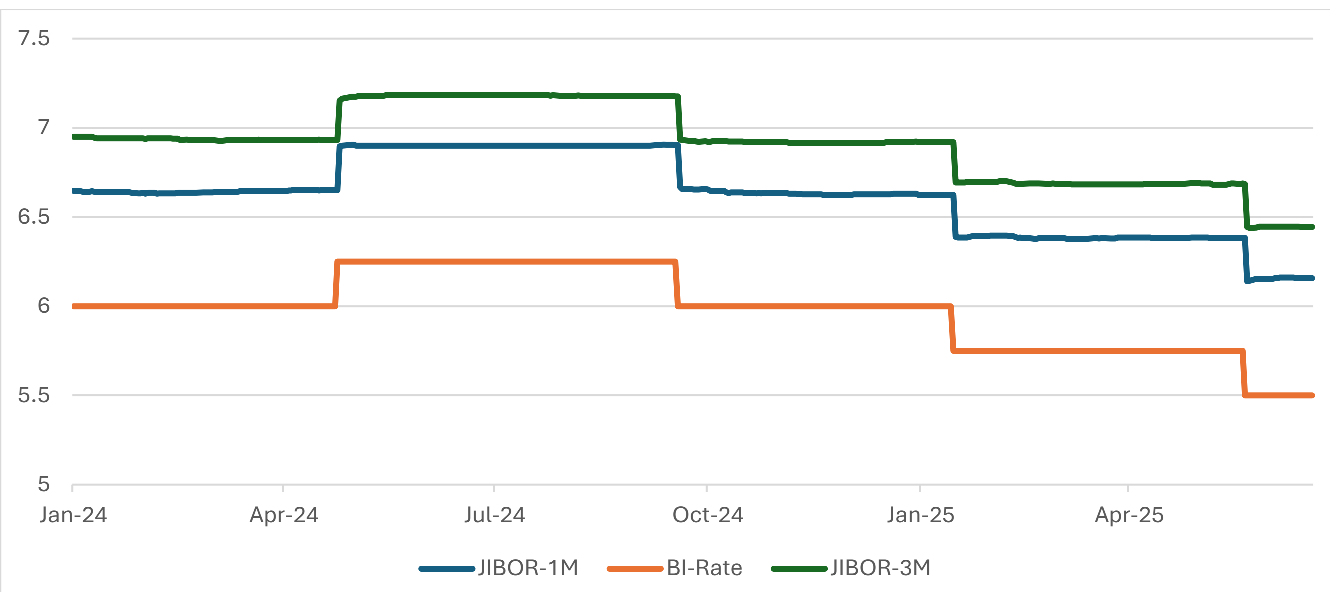


Exhibit 3.2 Monetary Operations of BI

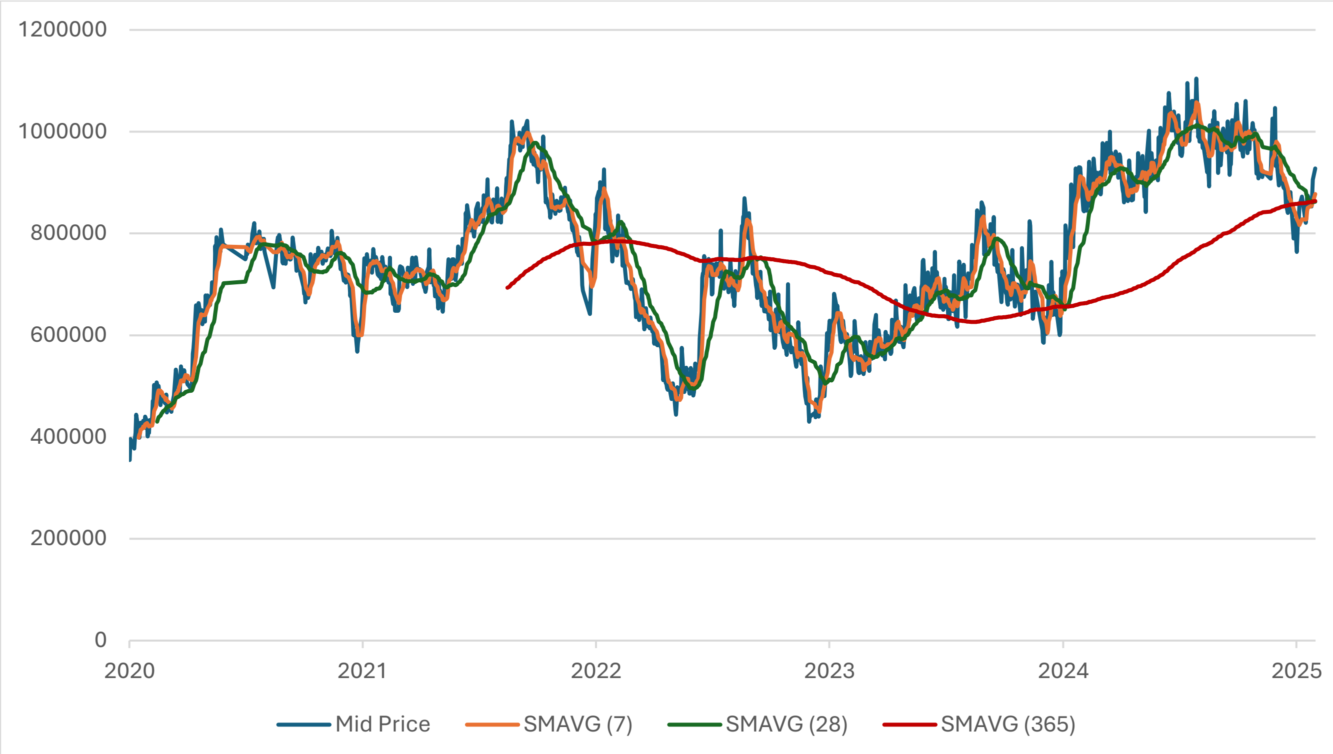


Exhibit 3.3 Indonesia's Net International Reserves USD

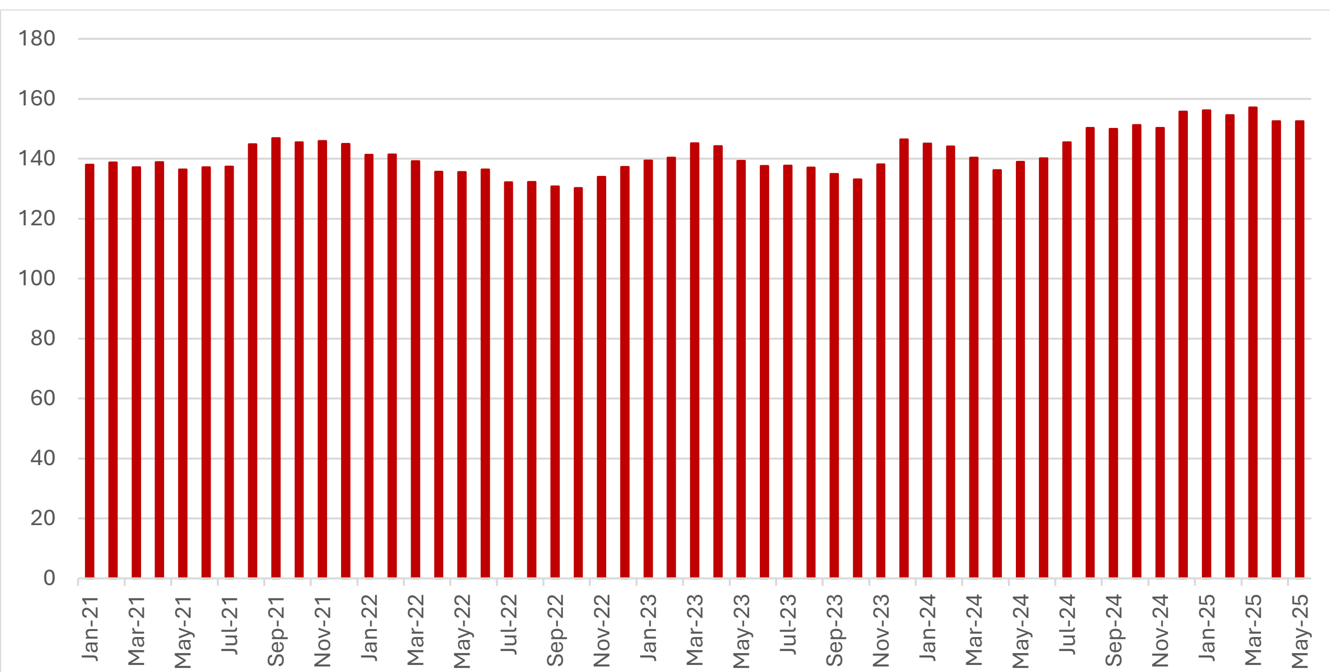


EXHIBIT 4 • FINANCIAL MARKET

Exhibit 4.1 Stock Market Index

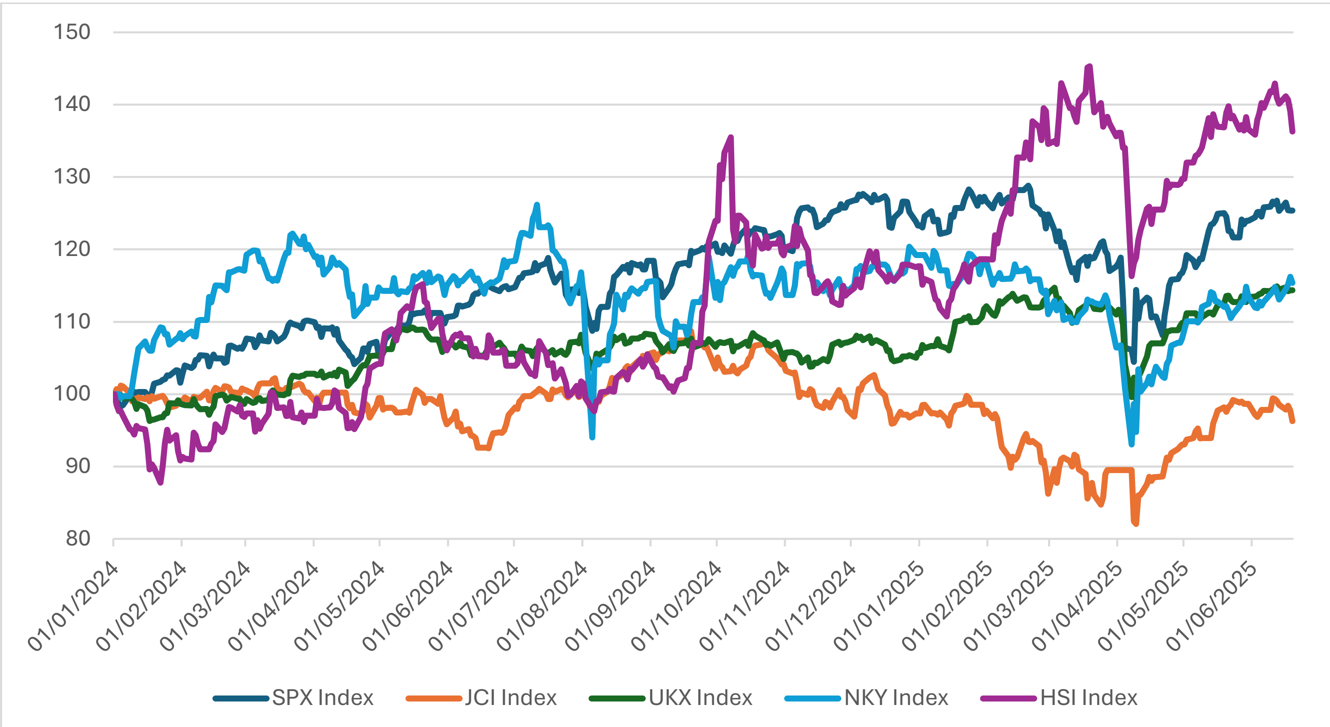


Exhibit 4.2 Indonesia Bond Yield Curve

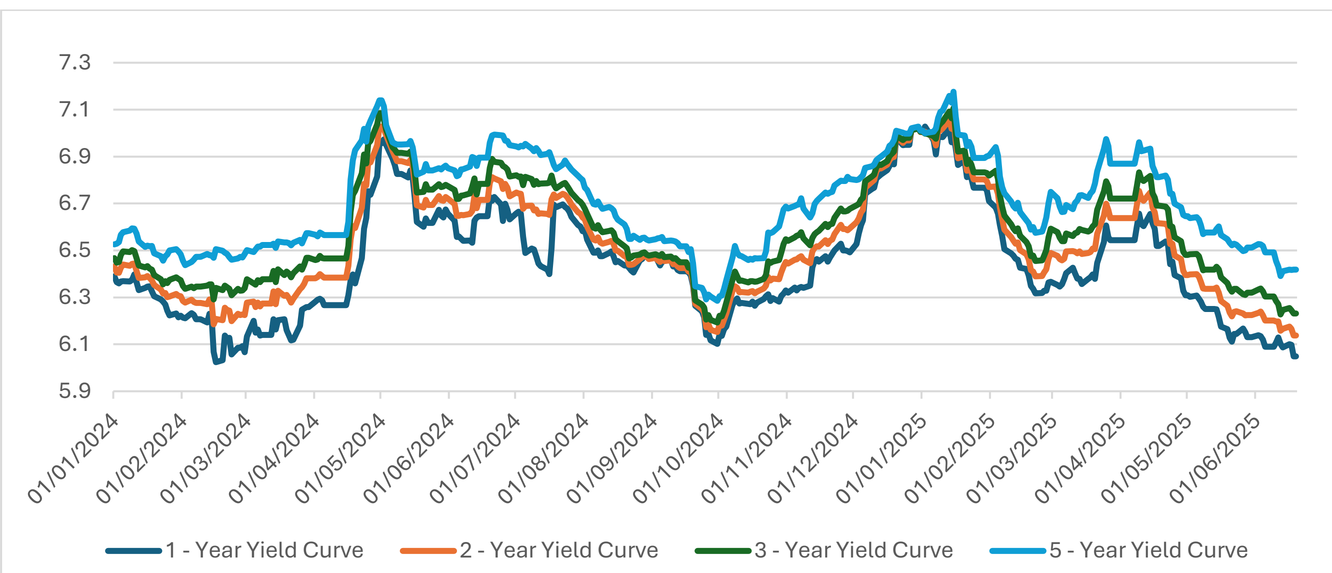


Exhibit 4.3 Indonesia Stock Market & Survivor

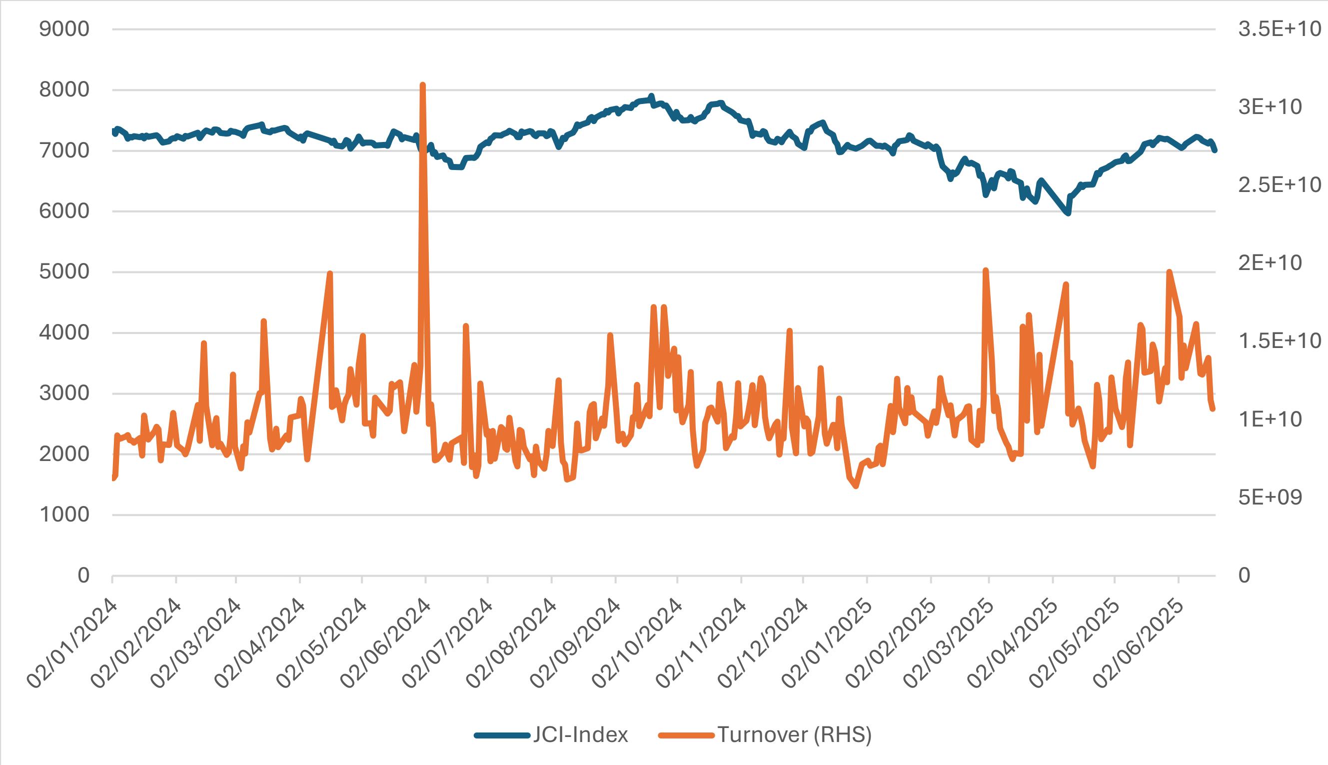
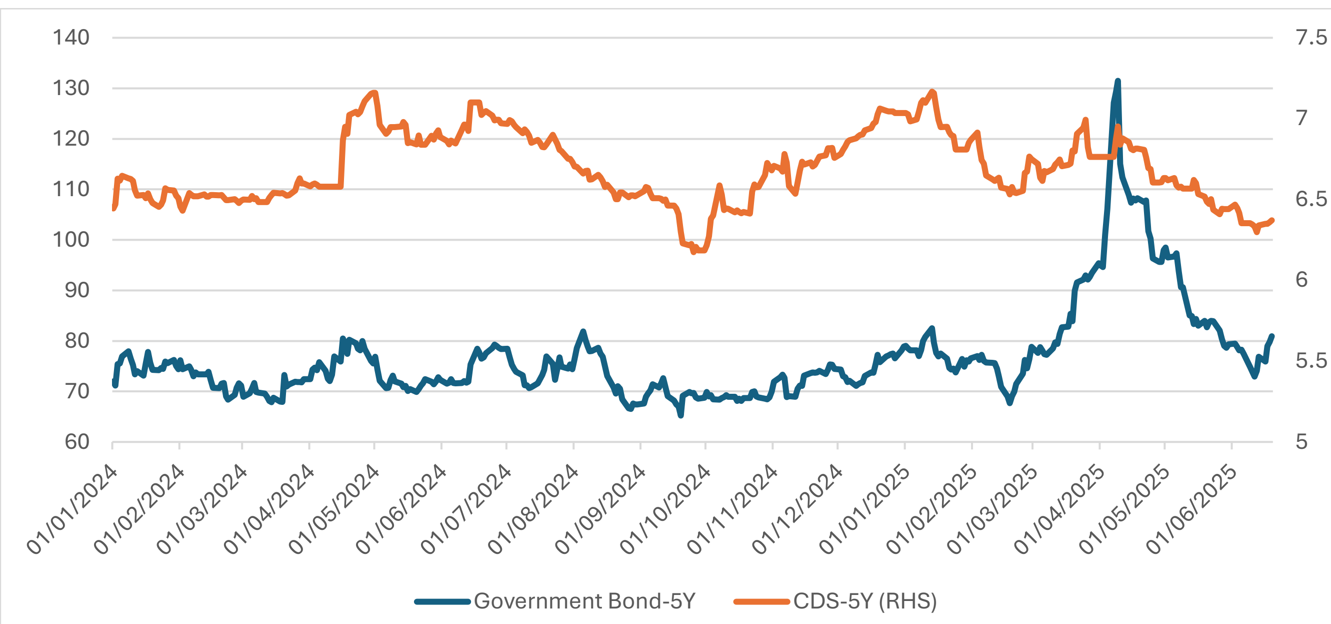


Exhibit 4.4 Indonesia CDS & Government Bond 5Y



FOOTNOTES AND REFERENCES

All of data sources: CEIC, Bloomberg, BI, and Various source

The conversion rate from U.S. dollars to the local currency unit is shown by the exchange rates that are used, which stated as USD/LCU

The stock market indexes being taken into account are the S&P 500 (U.S.), Jakarta Composite Index (JCI), FTSE 100 (UKX), Nikkei 225 (NKKY), and Hang Seng Index (HIS) which serve as regional benchmarks.

Ten-year US Treasury bill yield differential and Indonesian Government Bond denominated in USD serve as a proxy for Indonesia's sovereign risk.

The oil prices listed are based on the NYMEX current month futures price.

The natural gas prices listed are based on the NYMEX current month futures price.

The coal prices listed are based on the ICE Newcastle current month futures price.

A higher turnover index in the stock market typically indicates a higher level of trading activity.

Indonesia Financial Group (IFG)

Indonesia Financial Group (IFG) adalah BUMN Holding Perasuransian dan Penjaminan yang beranggotakan PT Asuransi Kerugian Jasa Raharja, PT Jaminan Kredit Indonesia (Jamkrindo), PT Asuransi Kredit Indonesia (Askrindo), PT Jasa Asuransi Indonesia (Jasindo), PT Bahana Sekuritas, PT Bahana TCW Investment Management, PT Bahana Artha Ventura, PT Bahana Kapital Investa, PT Graha Niaga Tata Utama, dan PT Asuransi Jiwa IFG. IFG merupakan holding yang dibentuk untuk berperan dalam pembangunan nasional melalui pengembangan industri keuangan lengkap dan inovatif melalui layanan investasi, perasuransian dan penjaminan. IFG berkomitmen menghadirkan perubahan di bidang keuangan khususnya asuransi, investasi, dan penjaminan yang akuntabel, prudent, dan transparan dengan tata kelola perusahaan yang baik dan penuh integritas. Semangat kolaboratif dengan tata kelola perusahaan yang transparan menjadi landasan IFG dalam bergerak untuk menjadi penyedia jasa asuransi, penjaminan, investasi yang terdepan, terpercaya, dan terintegrasi. IFG adalah masa depan industri keuangan di Indonesia. Saatnya maju bersama IFG sebagai motor penggerak ekosistem yang inklusif dan berkelanjutan.

Indonesia Financial Group (IFG) Progress

The Indonesia Financial Group (IFG) Progress adalah sebuah Think Tank terkemuka yang didirikan oleh Indonesia Financial Group sebagai sumber penghasil pemikiran-pemikiran progresif untuk pemangku kebijakan, akademisi, maupun pelaku industri dalam memajukan industri jasa Keuangan.

(+62) 021 2505080 PT Bahana Usaha Indonesia Indonesia Financial Group @indonesiafinancialgroup @ifg_id

PT. Bahana Pembinaan Usaha Indonesia (Persero), Gedung Graha CIMB Niaga, 18th Floor Jl. Jendral Sudirman Kav. 58 RT.5/RW.3, Senayan, Kebayoran Baru Kota Jakarta Selatan, DKI Jakarta 12190