

Macroeconomic Monitor

May 2025

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HIGHLIGHTS

May 2025

The U.S. economy entered 2025 with mixed signals, showing resilience in some areas but clear signs of slowing in others. In May, the Federal Reserve decided to keep interest rates steady at 4.25%–4.50%, pointing to lingering inflation concerns even as growth and demand began to cool. GDP grew 2.05% year-on-year in Q1, a step down from the previous quarter's 2.53%, as business investment picked up but was weighed down by softer consumer spending and a widening trade gap. Factory activity remained flat, with manufacturing PMI stuck at 50.2, and services PMI slid to 50.8, its weakest level in over a year. Inflation showed signs of easing headline CPI slowed to 2.3%, and producer prices fell to 0.675% but high housing costs (up 4.0%) continued to pressure household budgets. The unemployment rate held steady at 4.2%, though full time job gains slowed slightly. Meanwhile, the trade deficit widened to USD 140.5 billion in March, as strong import demand outpaced exports reminding policymakers that external imbalances remain a risk.

The Eurozone's economic outlook in early 2025 was mixed, with steady inflation and employment figures contrasted by weaker consumer sentiment and spending. In April, the European Central Bank lowered its key rates by 25 basis points, bringing the refinancing rate to 2.40%, reflecting greater confidence in inflation moving toward the 2% target. Annual inflation held at 2.2%, as energy prices

declined further (-3.6%) while service costs rose to 4.0%. Unemployment remained stable at 6.2%, its lowest in a year, and youth unemployment edged down to 14.2%. Despite this, consumer confidence fell to -16.7 in April, and retail sales dropped 1.5% YoY in March, indicating weaker household demand. The current account surplus narrowed slightly to EUR 33.1 billion, driven by softer services and primary income flows, though trade in goods remained a bright spot.

China's economy continued to grow in early 2025, though signs of cooling were visible across key sectors. Real GDP rose 5.4% YoY in Q1, matching the previous quarter, driven largely by the expanding services sector. However, momentum softened in April, with the Composite PMI easing to 51.1, and manufacturing and services PMIs falling to 50.4 and 50.7, respectively indicating slower but ongoing expansion. Industrial production growth slowed to 6.1% YoY, as output weakened across state-owned and foreign-invested enterprises. Consumer demand also lost steam, with retail sales up 5.1% YoY, down from 5.9% in March, and headline inflation remaining negative at -0.4% amid persistently weak core prices. The unemployment rate edged up slightly to 5.13%, suggesting limited labor market improvement. On the external front, China recorded a USD 138.8 billion trade surplus in January, its highest in four months, supported by solid non-fuel

exports and strong trade with both developed and emerging markets.

Indonesia began 2025 with cautious optimism. Economic growth reached 4.87% YoY in Q1, largely fueled by increased household consumption during Ramadan and a solid recovery in non-oil exports, particularly in tourism. However, on a quarterly basis, the economy contracted by 0.98%, revealing lingering pressure in sectors like mining and quarrying. The manufacturing and construction sectors contributed positively, but not enough to offset broader headwinds..

Inflation reemerged after a brief deflation at the start of the year. In April, consumer prices rose by 1.95% YoY, driven mainly by housing, electricity, and utilities, which made up over 80% of inflationary pressures. Food and personal care costs also ticked up. While retail sales grew ahead of the Eid holidays, the pace was slower than the previous year, suggesting that purchasing power may be weakening. Consumer sentiment remains fragile despite a slight uptick in April, the Consumer Confidence Index still reflects cautious outlooks, especially on job availability and future economic conditions.

Fiscal indicators showed early signs of stress. The state budget recorded a deficit of IDR 104.2 trillion by March, with tax revenues dropping 18.1% YoY. In response, the government front-loaded bond issuances, covering 44% of the annual financing target within the first quarter. This proactive move aims to shield the economy from rising external risks especially the trade uncertainties triggered by renewed U.S. tariffs, which could weigh on Indonesia's key export sectors such as electronics, textiles, and furniture. To rebalance trade, Indonesia

has proposed increasing imports from the U.S., including crude oil, soybeans, and wheat.

Meanwhile, Bank Indonesia lowered its benchmark interest rates by 25 bps in May, bringing the BI Rate to 5.5% in an effort to support growth and stabilize the rupiah. Foreign exchange reserves declined slightly in April to USD 152 billion, due to external debt payments and FX interventions, but remain historically high. Despite a dip in the manufacturing PMI to 46.7, suggesting contraction after months of resilience, Indonesia's policy responses reflect a clear intent to maintain stability and growth in the face of global uncertainties.

Between April and May 2025, sectoral movements on the Indonesia Stock Exchange reflected shifting investor sentiment across industries. Basic Materials stood out, climbing more than 35% as optimism returned to commodity-linked stocks. The Energy sector followed with steady gains, while Technology after an early peak remained resilient as interest in innovation and digital themes continued. Financials also advanced, supported by Bank Indonesia's rate cut and stronger earnings outlooks. Meanwhile, Consumer sectors posted modest gains, and Property and Transportation showed little movement, likely weighed down by sector-specific challenges.

Trading volumes highlighted where market enthusiasm was focused. Technology remained the busiest, with daily volumes often exceeding 5 billion shares a sign that investors continued rotating within the sector rather than leaving it. Energy, Financials, and Basic Materials also drew strong participation, particularly during key rallies in mid-May. On the other hand, Healthcare, Property, and Transportation saw softer activity, while Infrastructure and Consumer sectors held steady,

supported by long-term themes and seasonal demand.

Global markets had a rough start in April as fresh trade war tensions triggered a sharp sell-off. U.S. indices tumbled, and global equities followed suit. But things began to turn around after a temporary truce between the U.S. and China cooled investor nerves. Gold shined as a safe haven, while oil prices slumped on growth concerns. Bond yields climbed as markets weighed rising stagflation risks.

Back home, Indonesia's stock market also took a hit but bounced back impressively recovering over 20% by late May led by strong gains in materials, energy, and transportation. The bond market stayed relatively calm, thanks to support from Bank Indonesia. Liquidity concerns are still around, but BI's recent easing moves, including cutting the PLM ratio, should help banks breathe a little easier.

Looking ahead, market direction will largely hinge on how the U.S.-China trade tensions unfold, especially any follow up on tariff policies. Domestically, the continuation of the JCI's rebound will depend on improving sentiment and the potential rollout of further fiscal support. While the bond market rally seems to be losing steam, short term tenors may still offer opportunities particularly if Bank Indonesia delivers more rate cuts

Quick Take: Investment & Insurance

The insurance industry is navigating a more challenging environment this quarter. We're seeing softer demand for both credit and health-related products, as household spending cools and businesses grow more cautious. Claims pressure is rising too especially in credit insurance, where the loss ratio has surpassed 70%, driven by rising

defaults and slower construction activity. This calls for sharper underwriting, more thorough risk screening on infrastructure-related policies, and a proactive stance in managing growing exposure.

Rising JIBOR levels have also started to bite into insurers' financials. With yields climbing above 7.0%, the valuation of long-term liabilities has increased significantly putting pressure on balance sheets and solvency positions. To weather this, investment teams may need to rebalance portfolios toward shorter-duration bonds or consider natural hedges. At the same time, volatility in both bond and equity markets is limiting returns, pushing insurers to be more selective and tactical in managing risk, especially as 10-year bond yields approach 7.5% under stress conditions.

Although Bank Indonesia's rate cut to 5.5% signals support for credit growth, the expected pickup in credit-linked insurance hasn't materialized. Demand remains sluggish, likely due to structural issues in borrower profiles and risk appetite. Instead of waiting for lending to rebound, insurers might find more value in targeted strategies partnering with banks, focusing on underserved MSMEs, or bundling protection benefits that go beyond rate cycles.

Meanwhile, the global landscape is shifting too. U.S. tariff moves are already raising concerns for export-driven sectors like textiles and electronics. These industries are not only vulnerable to trade disruptions but also show signs of financial strain. Insurers will need to keep a close eye on these sectors, reassess coverage pricing, and prepare for potential spikes in claims. Staying agile, both in underwriting and investment strategy, will be key to navigating the rest of the year.

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RECENT ECONOMIC DEVELOPMENT : GLOBAL MARKET

Recent economic development : global market

United States

MANUFACTURING SECTOR

In April 2025, the U.S. manufacturing sector showed signs of fatigue, with the PMI holding at 50.20 for the third straight month, reflecting the weakest momentum seen so far this year. The recent announcement of new tariffs added pressure by increasing the cost of imported materials and disrupting supply chains. Many producers faced rising input costs and delays, forcing them to reconsider sourcing strategies and production timelines.

International trade flows were also affected. The Global New Export Orders Index fell sharply to 47.5 in April, down from 50.1 in March, indicating a significant drop in global demand. This decline reflects how trade disruptions and rising uncertainty are weighing heavily on manufacturers, both at home and abroad.

SERVICES SECTOR

The Services PMI declined sharply to 50.8 in May from 54.4 in March, reflecting the weakest expansion since December 2023. This continuous decline is due to the deterioration of global economic growth and also the adverse effects of U.S. tariffs announced in April.

PRODUCER PRICE INDEX

In April 2025, producer prices rose much more slowly than in March, with the overall PPI dropping to

0.675% from 1.418%. Prices for industrial commodities even turned negative, falling to -0.024% from 0.656%, showing a decline in raw material costs. Food and feed prices also increased at a slower pace, down to 3.849% from 4.872%. This suggests lower cost pressures for producers compared to the previous month.

The U.S. economy expanded more slowly in Q1 2025 as weaker household demand and a wider trade deficit offset gains from rising private investment. The loss of momentum reflects growing external pressures and softer consumer activity despite resilient business spending

UNEMPLOYMENT RATE

In April 2025, the overall unemployment rate stayed at 4.2%, the same as in March. Full-time unemployment also edged up slightly from 4.1% to 4.2%, suggesting some softening in full-time job conditions. However, part-time unemployment improved, falling from 4.5% to 4.1%. This indicates that while full-time job conditions were steady to slightly weaker, more part-time workers found employment compared to the previous month.

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INFLATION RATE

In April 2025, consumer price growth slowed to 2.3% from 2.4% in March, mainly due to deeper price declines in transport (-1.4%) and apparel (-0.7%). While food inflation moderated slightly and core inflation held steady at 2.8%, housing costs accelerated to 4.0%, suggesting persistent pressure in essential living expenses. This mixed trend indicates that while overall inflation is cooling, the cost of necessities like housing remains high. Policymakers may view this as a sign that headline inflation is easing, but underlying cost-of-living pressures still affect households especially renters and low-income consumers

BALANCE OF TRADE

In March 2025, the U.S. trade deficit in goods and services widened sharply to USD -140.5 billion, up from USD -123.2 billion in February 2025. The increase came as imports rose to USD 418.96 billion, while exports reached USD 278.46 billion. The goods deficit deepened to USD -163.5 billion, while the services surplus narrowed slightly to USD 23.0 billion. Notably, non-petroleum goods imports surged to USD 326.6 billion, the highest in over a year, suggesting strong domestic demand. This growing trade gap in March could weigh on quarterly GDP and highlight rising dependence on foreign goods.

In January 2025, the U.S. trade deficit with the rest of the world widened significantly to USD -153.28 billion, up from USD -118.72 billion in December 2024. The deficit with advanced economies rose to USD -81.17 billion, while the gap with emerging and developing economies also deepened to USD -72.16 billion. A sharp drop in fuel export earnings from emerging economies from USD 1.99 billion in December to just USD 187 million in January contributed to the widening imbalance. Meanwhile, non-fuel export earnings from those regions also

weakened, signaling reduced external demand or lower commodity prices early in the year.

GROSS DOMESTIC PRODUCT (GDP)

In Q1 2025, U.S. real GDP grew 2.05% YoY, down from 2.53% in Q4 2024, reflecting a moderation in economic activity. Personal consumption growth remained relatively stable at USD 16,346 billion, but growth in durable goods spending slowed, and motor vehicle purchases declined. Private investment rebounded, especially in non-residential equipment (up to USD 1,400 billion from USD 1,330 billion), while residential investment also increased. However, net exports deteriorated, with a deeper trade deficit of USD -1,374 billion (vs. USD -1,053 billion in Q4), dragging on growth. Overall, despite stronger investment, weaker net exports and slower consumer momentum contributed to the softer GDP growth.

FED INTEREST RATE DECISION

In May 2025, the Federal Reserve kept its policy rate steady at 4.25–4.50%, signaling a cautious stance amid mixed economic signals. The Fed acknowledged continued progress in inflation moderation but noted that it remains above the long-term target. While the labor market stays strong, recent data showed some cooling in consumer spending and economic activity. The decision reflects the Fed's wait-and-see approach as it monitors risks to both inflation and growth.

Euro Zone

UNEMPLOYMENT RATE

The Euro Area unemployment rate stable of 6.2% (yoy) in March 2025 compared to the previous month, and fell from 6.5% (yoy) in March 2024. The number of unemployed increased by 83,000 to 10.82 million, but decreased by 288,000 compared to the

same month last year. Meanwhile, the youth unemployment rate, reflecting those under 25 seeking employment, drops slightly to 14.2% from 14.3% in the prior month. Among the bloc's largest economies, Germany (3.5%) and the Netherlands (3.8%) posted the lowest rates, while higher levels persisted in Spain (10.9%), France (7.3%), and Italy (6.0%).

CONSUMER CONFIDENCE INDEX

Eurozone consumer confidence dropped by 2.2 points to -16.7 in April from -14.5 in March, its lowest level in three months. This reduction in consumer confidence index was caused by persistent and worsen expectation on future economic situation (-33.7 vs -28.3) and future financial situation (-6.3 vs -5.3).

RETAIL SALES

Retail sales across the Euro Area contracted by 1.5% (yoy) in March 2025, down from 2.3% (yoy) growth seen in February, marking a reversal in earlier gains

INFLATION

Annual inflation in the Euro Area accounted on 2.2% (yoy) in April, stable compared to previous month. Energy prices resumed their downward trend, falling 3.6% resuming the negative trend in the prior month (-1% in March). Inflation in services accelerated (4.0% vs 3.5%), remained flat for non-energy industrial goods (0.6%), and slightly accelerated for food, alcohol, and tobacco (3.0% vs 2.9%).

CURRENT ACCOUNT

The Eurozone's current account surplus narrowed slightly to EUR33.1 billion in February 2025 from EUR33.8 billion a year earlier. This was attributed to a reduced services surplus (EUR7.1 billion vs EUR7.4 billion) and a decline in the primary income surplus

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(EUR2.1 billion vs EUR4.4 billion). On the upside, the goods surplus widened (EUR38.3 billion vs EUR36.7 billion), and the secondary income deficit improved slightly (EUR14.3 billion vs EUR14.8 billion).

ECB INTEREST RATE DECISION

The European Central Bank (ECB) lowered all three key rates by 25 basis points in April, bringing the refinancing rate to 2.40%, the deposit rate to 2.25%, and the marginal lending facility to 2.65%. This moves signals increased confidence in inflation converging toward the 2% target. In April 2025, the annual inflation rate in the Euro area remained steady at 2.2%, the same as in March 2025. Breaking it down by category, services recorded the highest annual inflation rate at 4.0%, up from 3.5% in March. This was followed by food, alcohol, and tobacco, which rose slightly to 3.0% from 2.9%. Prices for non-energy industrial goods showed no change, holding steady at 0.6%. Meanwhile, energy prices saw a sharper annual decline of 3.6%, compared to a smaller drop of 1.0% in March. .

China

MANUFACTURING & SERVICE SECTOR

In April 2025, China's overall business activity grew more slowly, with the Composite PMI easing to 51.1 from 51.8 in March. The Manufacturing PMI dropped to 50.4, showing that factory activity is still expanding but at a weaker pace. The Services PMI also fell to 50.7, suggesting softer demand in the service sector. Although all readings stayed above 50 meaning the economy is still growing the slowdown across both manufacturing and services points to a more cautious business environment.

INDUSTRIAL PRODUCTION

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In April 2025, China's industrial value added (VAI) growth slowed to 6.1% YoY, down from 7.7% in March. The deceleration was seen across all major enterprise types. Growth among state-owned enterprises dropped to 2.9%, the weakest since December. Foreign-funded enterprises, including those from Hong Kong, Macau, and Taiwan, also saw slower growth at 3.9%, compared to 5.2% previously. Only shareholding enterprises maintained relatively strong momentum at 6.6%, suggesting that privately held domestic firms were more resilient amid the broader industrial slowdown.

In April 2025, China's industrial production showed signs of cooling in several key sectors. Output of chemical fibre rose slightly to 7.3 million tons, signaling stable demand in the textile industry. However, cloth production fell to 2.7 billion meters, down from 2.88 billion in March, pointing to softer consumer goods activity. Power generation also declined to 416 billion kWh, from 419.7 billion, suggesting lower energy demand. In heavy industry, crude steel production eased to 92.2 million tons, while automobile output dropped to 2.98 million units, from 3.36 million in the previous month. Additionally, soft drink production contracted sharply to 25.49 million tons, likely reflecting weaker seasonal consumption. These figures indicate a broad moderation in industrial activity as China entered the second quarter of 2025.

UNEMPLOYMENT RATE

In April 2025, China's seasonally adjusted unemployment rate stood at 5.13%, slightly up from 5.11% in March. While the change is minor, it reflects a mild softening in the labor market after an earlier improvement. The rate remains relatively stable compared to January (5.14%) and February (5.16%), suggesting that employment conditions have not

significantly deteriorated but also have yet to show strong recovery momentum.

INFLATION

In April 2025, China's consumer prices remained in deflationary territory, with the headline CPI at -0.40% YoY, slightly deeper than March's -0.20%. Core inflation (excluding food and energy) was also negative at -0.20%, reflecting weak underlying demand. Food prices rose 1.72%, mainly driven by a sharp surge in egg prices (+11.3%) and fresh fruit (+16.5%), despite continued declines in grain (-1.9%) and fresh vegetables (-6.2%). Non-food categories, including transport (-4.0%) and education and culture (-1.1%), remained subdued. Overall, inflation remained weak, suggesting that consumer demand recovery is still fragile.

RETAIL SALES

In April 2025, China's retail sales of consumer goods rose 5.1% YoY, slightly slower than the 5.9% growth in March. Despite the year-on-year increase, the monthly value fell to RMB 3,717.4 billion, down from RMB 4,094.1 billion, reflecting weaker short-term spending momentum. This suggests that while consumer demand continues to recover compared to last year, the pace of improvement is starting to moderate.

BALANCE OF TRADE

In January 2025, China's trade surplus widened significantly to USD 138.8 billion, the highest in the past four months. The improvement was largely supported by stronger surpluses with both advanced economies (USD 79.6 billion) and emerging economies (USD 68.0 billion). Within the emerging markets, non-fuel export earnings remained strong at USD 64.8 billion, while fuel-

related exports posted a modest surplus of USD 3.1 billion. However, the deficit with unspecified regions remained negative at USD -8.8 billion, though smaller than in previous months. Overall, the data reflects a rebound in China's external trade performance to start the year, supported by firm global demand.

GROSS DOMESTIC PRODUCT

China's real GDP grew by 5.4% year-on-year in Q1 2025, maintaining the same pace as the previous quarter. At current prices, GDP reached RMB 31.88 trillion, down from RMB 37.37 trillion in Q4 2024 due to typical seasonal effects. The tertiary sector (services) remained the largest contributor at RMB 19.51 trillion, highlighting China's ongoing economic transition toward services. The secondary sector

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(industry and construction) contributed RMB 11.19 trillion, while the primary sector (agriculture and related activities) added RMB 1.17 trillion. Although nominal GDP declined on a quarterly basis, steady real growth suggests continued resilience in China's economic fundamentals.

China's GDP grew 5.4% YoY in Q1 2025, steady from Q4, but April data showed softer momentum in output, demand, and prices, signaling a cautious Q2 start.



RECENT ECONOMIC DEVELOPMENT : DOMESTIC MARKET

Recent economic development : domestic market:

ECONOMIC GROWTH

Indonesia's Central Bureau of Statistics (BPS) reported that economic growth in the first quarter of 2025 reached 4.87% year-on-year (yoy), but contracted by 0.98% (qtq) compared to Q4- 2024, reflecting a slowing down from previous quarter's growth of 5.02% (yoy) and last year's growth on the same period (5.11% Q1-2024). Based on expenditure, historical data of Q1-2024 and Q1-2025 showed a slight drop in growth rate (4.91% vs. 4.89%) and a contraction in government expenditure (20.44% vs. -1.38%). By industry, growth was primarily driven by the agriculture sector, followed by trade and repair services, manufacturing, and construction. The main drag came from the mining and quarrying sector, which recorded a contraction of 1.23% (yoy). From the expenditure side, growth was supported by household consumption and exports. Household consumption was boosted by increased spending during Ramadan and Idul Fitri, while export growth was led by non-gas commodities and service exports, particularly in tourism.

INFLATION

Following a period of deflation in the first two months of 2025, Indonesia recorded inflation in March, which continued into April. According to the Central Bureau of Statistics (BPS), April 2025 saw an inflation rate of 1.17% month-to-month (mtm), 1.95% year-on-year (yoy), and 1.56% year-to-date (ytd).

Indonesia's economy grew 4.87% (yoy) in Q1 2025 but shrank 0.98% (qtq). Inflation rose to 1.95%, PMI dropped to 46.7, and BI cut rates to 5.5% as reserves fell to USD 152 billion.

Although this was lower than the inflation recorded in March, it was higher than in April 2024. By expenditure category, the largest contribution to April's inflation came from housing, electricity, and other utilities, accounting for 83.8% of total inflation. This was followed by personal care and other services, which contributed 13.7%. Core inflation edged up slightly to 2.50% (yoy), after remaining stable in February and March. Administered prices also rebounded from the deflation experienced between January and March, recording a 1.25% (yoy) increase in April. Meanwhile, volatile food prices followed a V-shaped trend, rising to 0.64% (yoy) in April, up from 0.37% in March, after recording 0.56% in February.

WHOLESALE PRICE INDEX (WPI)

In April 2025, the Wholesale Price Index (WPI) recorded an decrease of 0.05% month-to-month (mtm), but is an increase of 1.63% year-on-year (yoy).

Agriculture, as the biggest contributor of WPI in previous month experience a contraction of 0.72% (mtm), inline with a decrease in Farmer's Terms of Trade Index that declined from 123.72 in March to 121.06. The end of Ramadan festive season also contributed to the drop in Food, Beverages and Tobacco, as well as Textiles, Apparel and Leather Products, which saw a decrease to 0.04% (mtm) from 0.52% in previous month. This movement in affirming that price volatility concentrated in seasonal sectors.

PURCHASING MANAGER INDEX (PMI)

After four consecutive months of the S&P Global Manufacturing PMI remaining above the expansion threshold of 50.0, Indonesia's manufacturing sector saw a significant decline in April, with the index falling to 46.7, below the expansionary level. This marks the lowest reading since August 2021, during the COVID-19 period. The decline was driven by reductions in both output and demand, from domestic as well as international markets. Additionally, the depreciation of the rupiah against the US dollar has raised import prices, prompting firms to pass on the cost increases to consumers in order to preserve profit margins. This contraction also suggests that the resilience observed in previous months was largely supported by consumption related to religious festivities (Ramadhan and Idul Fitri).

CONSUMER CONFIDENCE INDEX

The trend in the Consumer Confidence Index (CCI) made a slight reversal in April, rising marginally to 121.7 from 121.1 in March. This modest uptick marks a break in the three-month decline observed in the previous period. The sub-index for current economic conditions showed a stronger perception (113.7 vs. 110.6), supported by improved expectations for

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income (up 4.1 points to 125.4) and job availability compared to six months ago (up 1.3 points to 101.6). However, sub-indices for overall job availability and the economic outlook fell by 2.4 points and 1.9 points, respectively. These declines suggest that recent global instability, along with the current domestic political and economic climate, continues to weigh on forward-looking business sentiment.

RETAIL SALES INDEX

Driven by the seasonal effects of Eid al-Fitr, along with retailers' promotional strategies through price discounts, retail sales in March 2025 grew by 8.32% on a month-to-month (mtm) basis and recorded a slight increase of 0.55% yoy. The largest contributors to this growth were the food, beverages, and tobacco category (9.28%), followed by clothing (17.61%), and information and communication equipment (7.91%). However, this increase in demand was relatively lower than the growth observed during the Eid al-Fitr period last year, which stood at 9.92%. This suggests a modest decline in household purchasing power during this year's Eid festivities. This trend is further supported by data from the Ministry of Transportation, which reported a 4.69% decline in travel movements during the 2025 Eid period compared to the previous year. This phenomenon may also be linked to previous readings of the Consumer Confidence Index, which indicated rising pessimism among consumers regarding future economic conditions. As a result, households may have adopted a more cautious stance by reducing current consumption as a precautionary measure.

STATE BUDGET

The state budget (APBN) recorded a deficit of IDR 104.2 trillion in March 2025. Unlike in previous years,

the fiscal deficit in 2025 emerged as early as January, primarily driven by a slowdown in tax revenue performance. As of March 2025, tax revenues had declined by 18.1% (yoy), from IDR 393.9 trillion in the same period of the previous year.

By the end of March 2025, the government had disbursed a total of IDR 250 trillion in budget financing—significantly higher than the IDR 85.6 trillion recorded in the first three months of fiscal year 2024. Of this, net financing from government securities (SBN) amounted to IDR 282.6 trillion, or approximately 44% of the annual target. The substantial early-year debt issuance was not driven by insufficient state revenue to meet expenditure needs, but rather as a precautionary measure to mitigate potential financial market volatility. This was prompted by U.S. President Donald Trump's renewed trade war campaign, which included the imposition of high tariffs on imports from all countries. Looking ahead, there is a need to anticipate the risk of a widening fiscal deficit in response to Trump's tariff policy, which may adversely affect government revenues. This includes the potential impact of reduced import income tax (PPh Impor) tariffs on electronic goods, mobile phones, and laptops—projected to decrease by 2%—as well as possible shortfalls in export and import duty adjustments, which could lower non-tax revenues.

TRADE BALANCE

Indonesia recorded a trade surplus of USD 4.33 billion in March 2025, marking a 5.95% increase month-to-month and a 3.16% increase year-on-year. This extends the country's streak of monthly trade surpluses to 59 consecutive months since May 2020. The surplus was primarily supported by non-oil and gas commodities, which contributed USD 6 billion to

the overall balance. Key contributors to the surplus included vegetable and animal oils and fats, mineral fuels, and iron and steel. In contrast, the oil and gas trade balance recorded a deficit of USD 1.67 billion, mainly due to deficits in crude oil and refined petroleum products. The widening of this deficit is attributed to a spike in fuel consumption during the Ramadan–Eid al-Fitr period and the depreciation of the rupiah throughout March, which increased the cost of oil and gas imports. Meanwhile, U.S. President Donald Trump has imposed a new 10% poses risks for Indonesia's exports particularly in textiles, furniture, electronics, that are highly dependent on the U.S. market. To mitigate the trade imbalance with the U.S., According to Chief Economic Minister, Airlangga Hartanto, in effort to mitigate the trade imbalance with the U.S., Indonesia has proposed concrete measures to expand its imports from the United States, including energy products (such as crude oil, LPG, and gasoline) and agricultural commodities like soybeans and wheat. Although such efforts primarily shift the origin of imports without significantly altering their total volume, the implications for Indonesia's trade balance must be closely monitored going forward to ensure continued trade performance stability.

MONETARY POLICY

Bank Indonesia has finally lowered its benchmark interest rates namely the BI Rate, Deposit Facility, and Lending Facility by 25 basis points to 5.5%, 4.75%, and 6.25%, respectively. This decision was made following the May Board of Governors Meeting (RDG), after the rates had been held steady for the past four months. The move reflects a shift toward a more stability and growth oriented direction in the central bank's monetary policy stance. The rate cut is also said to be consistent with forecasts of low and

stable inflation for 2025 and 2026, which are expected to stay within the target range of $2.5\% \pm 1\%$. This policy is intended to preserve exchange rate stability while simultaneously promoting economic growth amidst the ongoing trade war tension between the US and China.

POSITION OF MONETARY OPERATION

As part of its efforts to deepen local financial markets and attract more foreign investment, Bank Indonesia is actively promoting the use of its market-based instruments namely SRBI, SVBI, and SUVBI to foster a more appealing and efficient monetary environment. In April 2025, the outstanding values of SRBI and SVBI declined to IDR 866 trillion (from IDR 892.4 trillion) and USD 1.4 billion, respectively. The drop in outstanding values of SRBI is well-aligned to Bank Indonesia plan to increase liquidity and supporting growth after recording 4.87% (yoy), fall short from previous quarter's growth of 5.02% (yoy) and last year's same

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period of 5.11% (yoy). Moreover, this decreasing trend in outstanding SRBI represents investor's behavior to decreasing yield for SRBI tenors of 6, 9, and 12 months from 7.16%, 7.20%, and 7.27% in January, to 6.40%, 6.44%, and 6.47% per May 2025, respectively. However, SUVBI showed positive momentum, increasing from USD 320 million to USD 367 million.

FOREIGN EXCHANGE RESERVES

After seven consecutive months of rising foreign exchange reserves, April 2025 saw a decline from the all-time high of USD 157.1 billion in March to USD 152 billion. This drop was partly due to routine government external debt repayments, which commonly take place in April. However, the primary driver was Bank Indonesia's active intervention in the foreign exchange market to stabilize the rupiah.



SECTORAL ANALYSIS



Sector Performance Review

Between early April and late May 2025, sectoral movements in the Indonesia Stock Exchange (IDX) revealed clear distinctions in investor sentiment across different industries. The Basic Materials sector (IDXBASIC) led the rally, surging from 1,038.48 to 1,408.45—marking over 35% growth. This significant gain was likely driven by higher demand for industrial inputs and optimism around global commodity markets. The sector benefited from strong investor interest as materials stocks regained favor amid recovery narratives and easing supply-side concerns.

The Technology sector (IDXTECH) experienced a period of consolidation after reaching a peak above 7,500 in early April. It settled at 6,795.84 by the end of May, showing resilience despite profit-taking pressure. Investors remained drawn to digital and innovation-focused themes, especially amid ongoing developments in software, e-commerce, and payment platforms. Similarly, the Energy sector (IDXENER) advanced from 2,375.81 to 2,804.93, supported by firm commodity prices and sustained interest in oil and coal-linked plays.

The Financial sector (IDXFIN) moved gradually upward from 1,341.72 to 1,439.46. Optimism around the sector stemmed from improved earnings expectations and easing monetary policy, especially after Bank Indonesia's recent rate cut. Consumer sectors had more mixed outcomes: Consumer Non-Cyclicals (IDXNCYC) rose from 642.46 to 694.23, reflecting stable demand for essential goods, while Consumer Cyclicals (IDXCYC) inched up from 713.02 to 737.60, likely reflecting cautious discretionary spending post-Ramadan. Other sectors like Industrials (IDXINDUS) and Infrastructure (IDXINFRA) posted mild gains, while Property (IDXPROP) and Transportation (IDXTRANS) ended

May with relatively flat price movements, hinting at sector-specific headwinds.

Trading Volume Insights

Trading activity across IDX sectors during April to May 2025 underscored where investor interest was most concentrated. The Technology sector (IDXTECH) consistently recorded the highest volumes, often exceeding 5 to 7 billion shares per day reaffirming its status as a liquidity magnet. Despite a pullback in index levels, traders appeared to rotate within tech sub-segments rather than exiting the sector entirely.

Energy (IDXENER) also saw strong trading momentum, with average daily volumes often above 3 billion, reflecting active institutional flows into commodity-related counters. Similarly, Financials (IDXFIN) and Basic Materials (IDXBASIC) attracted steady participation, with volume peaking above 3 billion and 2.5 billion shares per day, respectively, particularly during mid-May rallies.

In contrast, sectors like Healthcare (IDXHLTH), Property (IDXPROP), and Transportation (IDXTRANS) experienced lower trading volumes, indicating relatively muted investor appetite. Consumer sectors, both cyclical and non-cyclical, showed moderate activity, likely buoyed by festive consumption cycles. The consistency in volume in Infrastructure (IDXINFRA) also suggested interest from long-term investors watching for government stimulus and spending cues.



ASSET ALLOCATION



Global Market

The trade war continues to escalate following the announcement of a new reciprocal tariff. The S&P 500 declined by 9.08% in a week this early April. Similar corrections were seen in the Nasdaq and Dow Jones, which fell by 10.02% and 7.86%, respectively. The impact extended beyond U.S. equities, with global markets also under pressure—the MSCI World Index dropped 8.49% week-over-week. As the trade tension eased, the global equity market began to recover, and the short-term deal of tariff halt between the U.S. and China strengthened the recovery. In the bond market, the U.S. 10-year Treasury yield initially fell to 3.99% on recession concerns. However, sentiment deteriorated further amid rising stagflation risks, leading to a bear steepening of the yield curve. As of May 22nd, 2025, the U.S. 10-year yield had risen 52 bps to 4.51%, while the 2-year yield increased 33 bps to 3.98%. In commodities, gold remained resilient, gaining about 8.50% since the tariff announcement. In contrast, oil prices declined by 14.03% over the same period.

Domestic Equity Market

The JCI Index was hit hard by the trade war escalation, plunging 8.33% on the first trading day of April 2025. However, the recovery was swift. Following the early April correction, the JCI rebounded by 20.09%, returning to the 7,100 level as of May 22nd, 2025. The recovery was led by strong performances in Basic Materials (+50.71%), Energy (+29.71%), and Transportation (+26.64%). As trade tensions began to ease, improving sentiment became the positive catalyst for the equity market.

Domestic Bond Market

Despite heightened volatility in the global bond

market, the correction in Indonesia's SBN market was relatively muted, supported by Bank Indonesia's intervention. The SBN market rallied in April 2025, with yields declining across all tenors. The rally extended into May, led by short-term bonds, resulting in a bull steepening MTD with the SBN 2-year yield falling by 19 bps, while the 10-year yield declined by only 4 bps. The bull-steepening movement was also partially supported by the expectation of more cuts from BI this year.

Domestic Money Market

Liquidity concerns persisted until April, with the Loan-to-Deposit Ratio (LDR) reaching 90% in April 2025 as third-party fund growth lags behind credit expansion. However, Bank Indonesia's move to reduce SRBI outstanding is expected to ease liquidity pressures. As a result, the Bloomberg Indonesia average deposit rate edged down from 4.34% to 4.30%. BI's commitment to ease liquidity conditions was fortified by the Penyangga Likuiditas Makrporudensial (PLM ratio) cut from 5.0% to 4.0%. This will increase banking liquidity by an estimated IDR 87.4 T starting June 1st.

Asset Allocation Takeaway

All the trade war volatility has faded recently, and the global markets have stabilized. This will result in risk-on sentiment towards EM countries. The sell-America trade may benefit EM markets, including currency, government bonds, and equity. Domestically, JCI's rally could continue if the government rolls out further growth-supporting policies. Meanwhile, the domestic bond market rally looks saturated and may not have much room to rally further. Opportunities may remain within the short end of the curve with further BI cuts as the primary catalyst.

EXHIBITS

EXHIBIT 1 • INDONESIA MACROECONOMICS INDICATOR

		Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	2024 Dec	2025 Jan	Feb	March	April
CPI Inflation*	% YoY	3	2.84	2.51	2.13	2.12	1.84	1.71	1.55	1.57	0.76	-0.09	1.03	1.95
Core Inflation*	% YoY	1.82	1.93	1.9	1.95	2.02	2.09	2.21	2.26	2.26	2.48	2.36	2.48	2.50
Manufacturing PMI*	Level	52.9	52.1	50.7	49.3	48.9	49.2	49.2	49.6	51.2	51.9	53.6	52.4	46.7
Exports*	% YoY	1.72	2.86	1.17	6.46	7.13	6.44	10.25	9.14	4.78	4.68	14.05	23.25	
Imports*	% YoY	4.62	-8.83	7.58	11.07	9.46	8.55	17.49	0.01	11.07	-2.67	2.30	18.92	
Foreign Reserves*	USD bn	121	124	125	130	135	134	135	135.1	140	140		157	152
Money Supply (M2) *	% YoY	6.87	7.59	7.67	7.59	7.28	7.15	6.7	6.53	4.35	5.46	6.20	6.13	5.19
Deposit*	% YoY	8.75	6.41	4.81	5.83	4.74	4.87	4.27	1.86	2.56	1.84	3.39	2.06	
Commercial Banking Credit*	% YoY	13.09	12.15	12.36	12.40	11.40	10.85	10.92	10.79	10.4	10.27	10.30		
Fiscal Surplus/Deficit*	% GDP			-2.6			-2.7			-	2.29		-2.75	

Source: *CEIC, **Bloomberg

EXHIBIT 2 • EXCHANGE RATE

Exhibit 2.1 Difference of Spot and Forward IDR

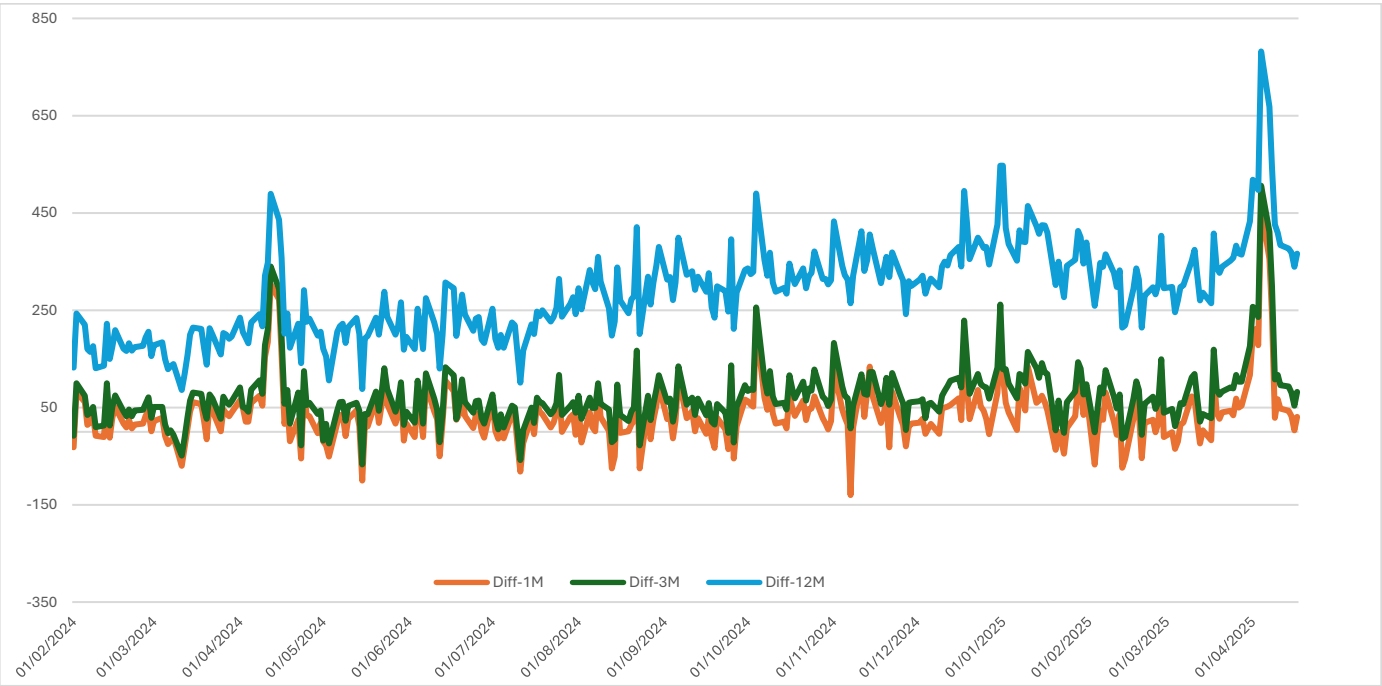


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

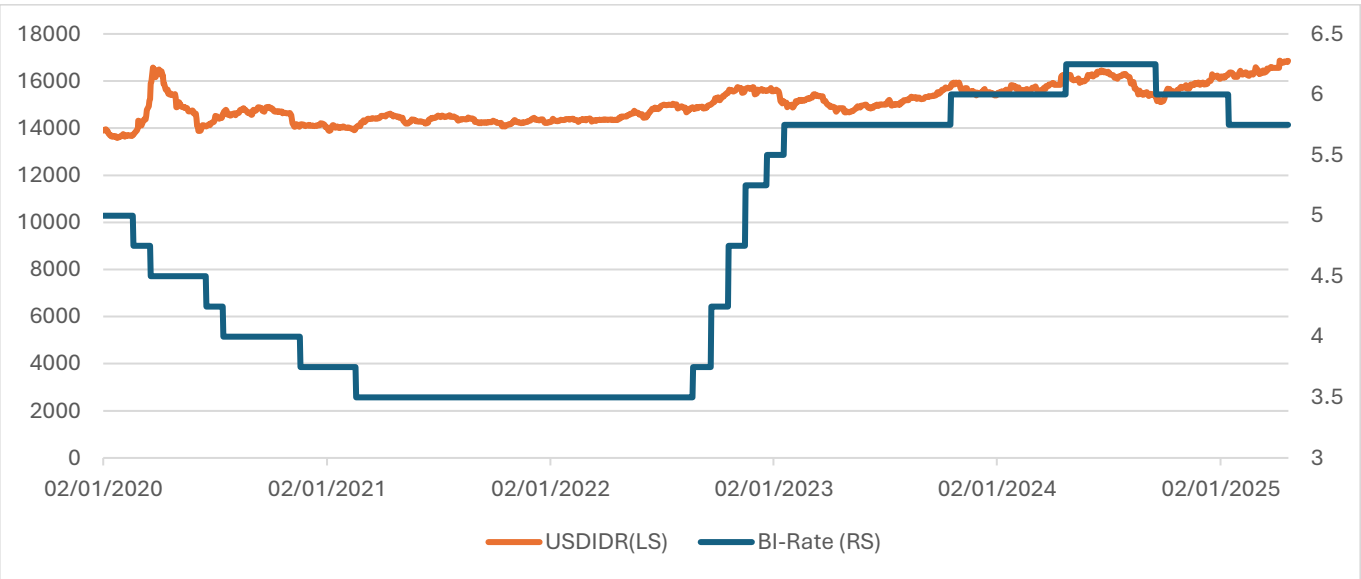


Exhibit 2.3 EM's Exchange Rate Against USD

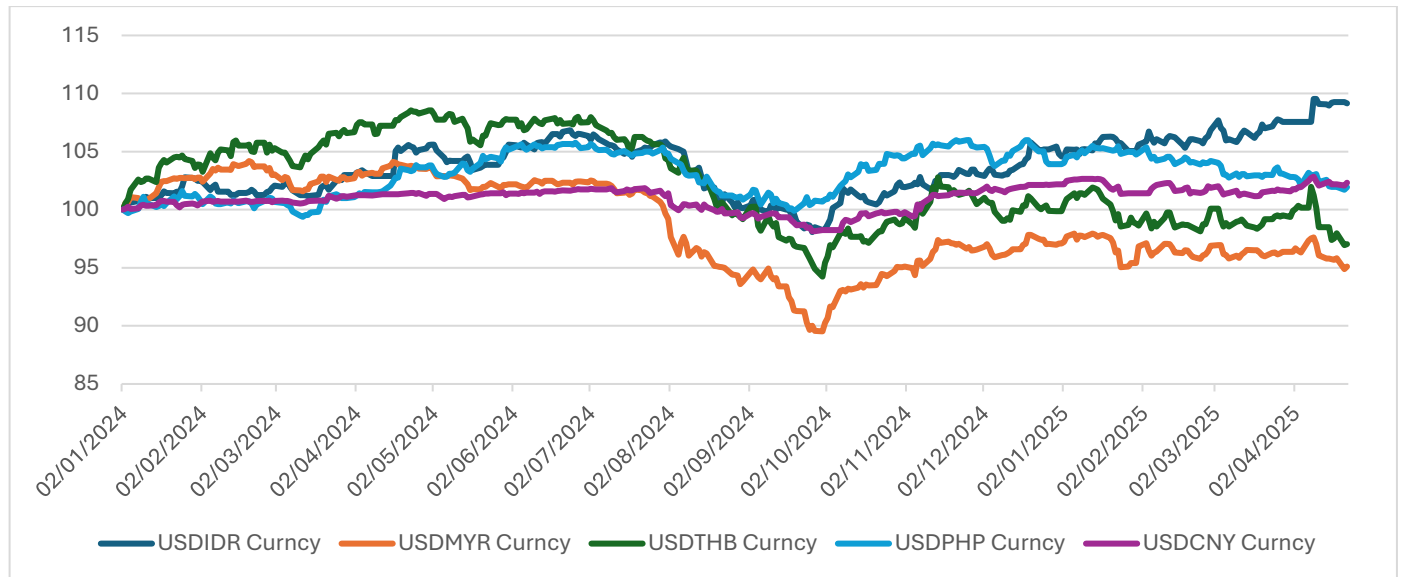


EXHIBIT 3 • INDONESIA'S LIQUIDITY

Exhibit 3.1 JIBOR 1 & 3 M and BI-Rate



Exhibit 3.2 Monetary Operations of BI

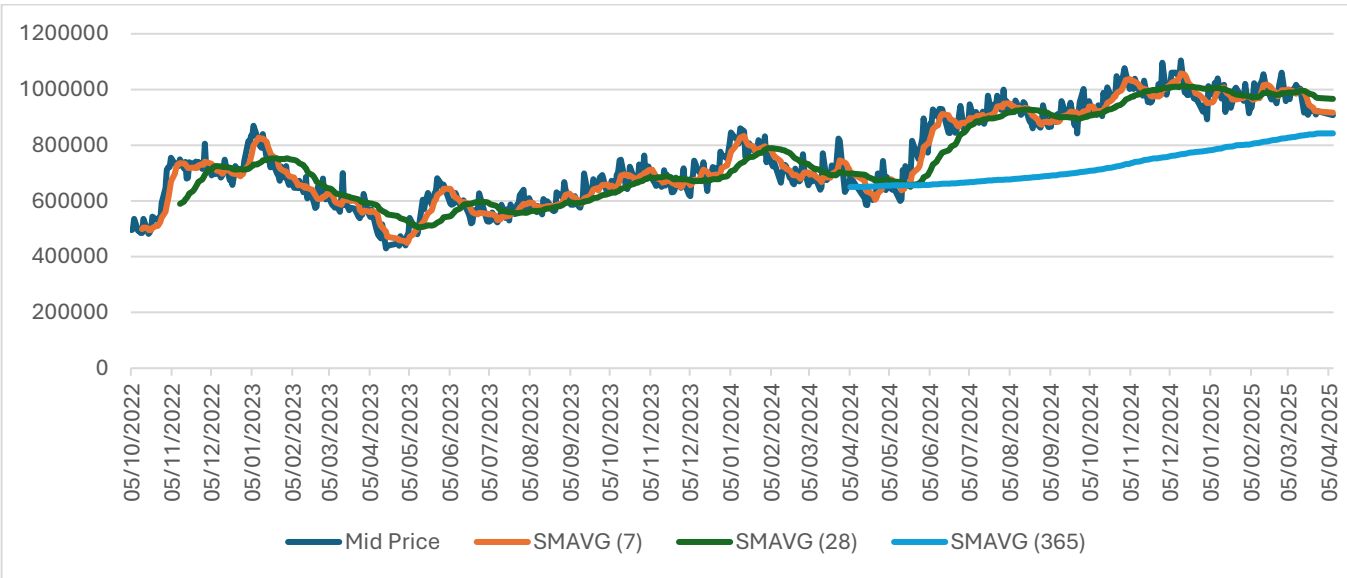


Exhibit 3.3 Indonesia's Net International Reserves USD

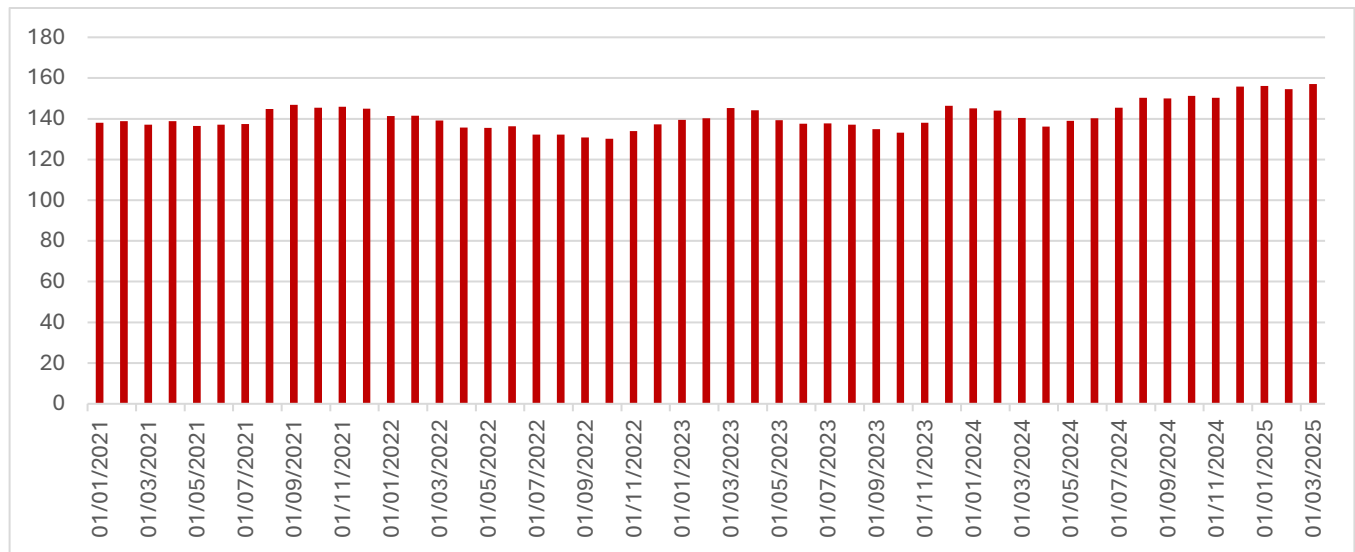


EXHIBIT 4 • FINANCIAL MARKET

Exhibit 4.1 Stock Market Index

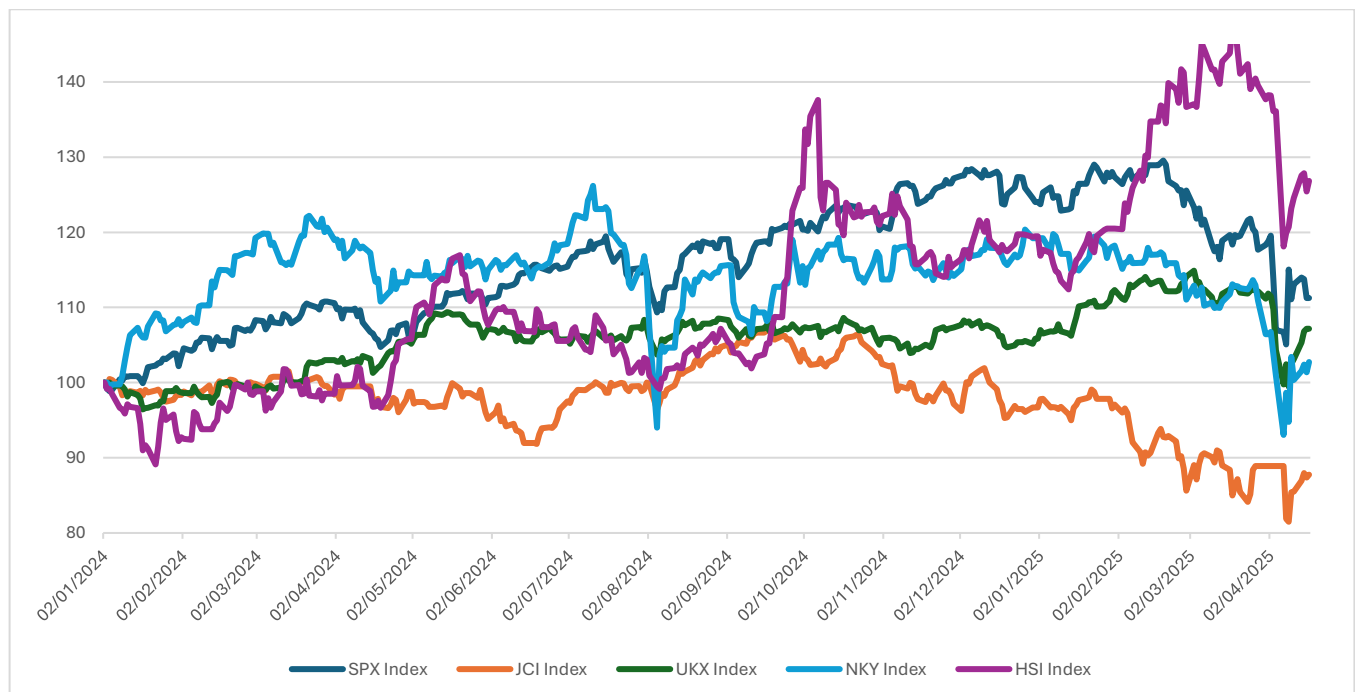


Exhibit 4.2 Indonesia Bond Yield Curve

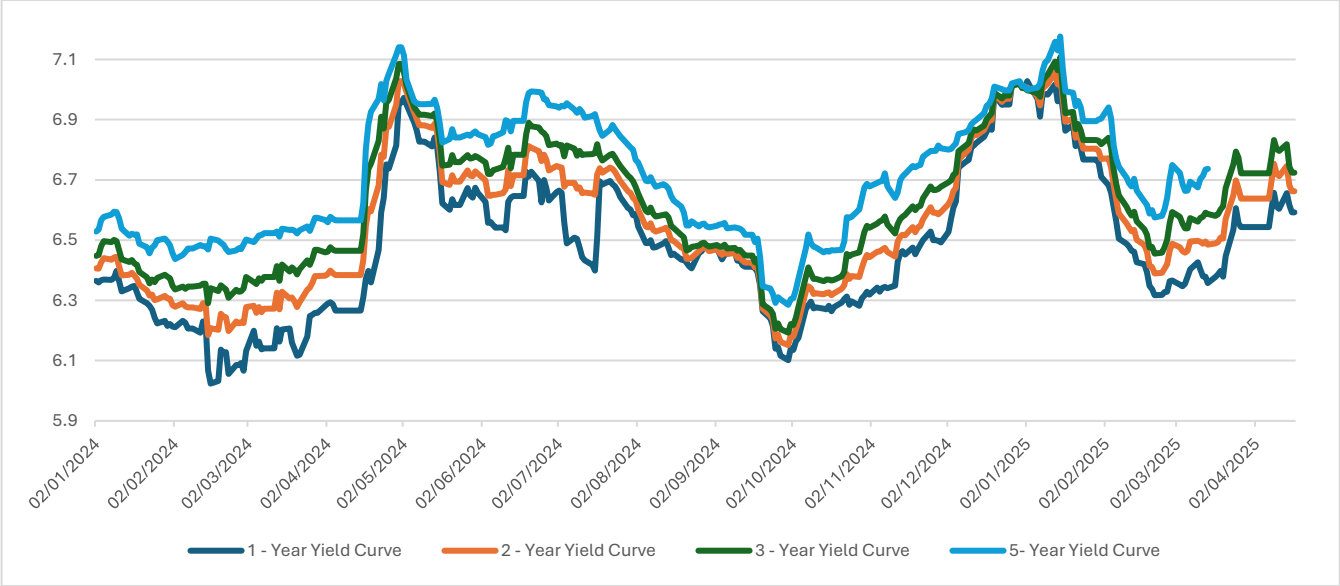


Exhibit 4.3 Indonesia Stock Market & Survivor

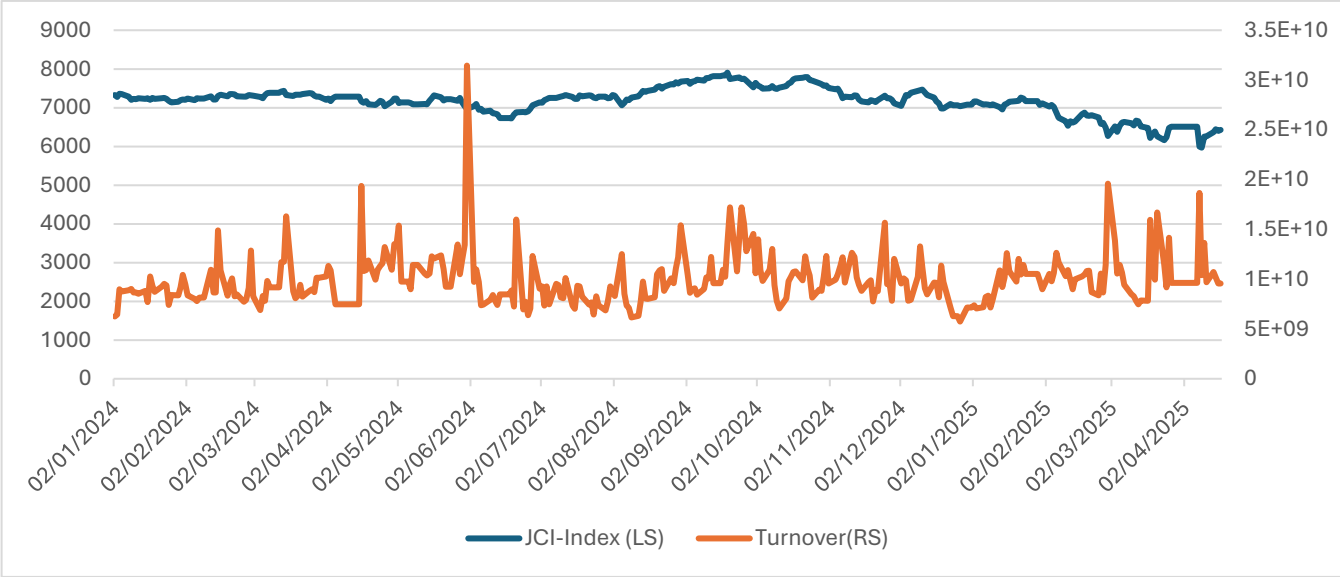


Exhibit 4.4 Indonesia CDS & Government Bond 5Y



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.