

Indonesia

Worsening data mix

- The incoming data mix pointed to a worsening trade balance amid still sticky inflationary pressures. The trade balance shifted to a deficit of USD1.6bn in May, the first monthly deficit since April 2020, from a surplus of USD0.1bn in April driven by worsening export growth amid still strong import growth. Exports dropped by 5.7% YoY from 22.0% in April while imports grew 22.2% YoY in May from 22.5% in April.
- Headline CPI edged higher to 3.3% YoY in June from 3.1% in May, broadly within expectations (Consensus: 3.2%; OCBC: 3.4%). Core inflation rose to 2.8% YoY in June from 2.6% in May, but remained contained. We maintain our forecast for headline CPI to average 3.0% in 2026, up from 1.9% in 2025.
- The data mix supports our call for further policy rate hikes by Bank Indonesia (BI). We expect BI to extend its tightening cycle, with a further cumulative 75bp of rate hikes by end-2026, taking the BI Rate to 6.50%.

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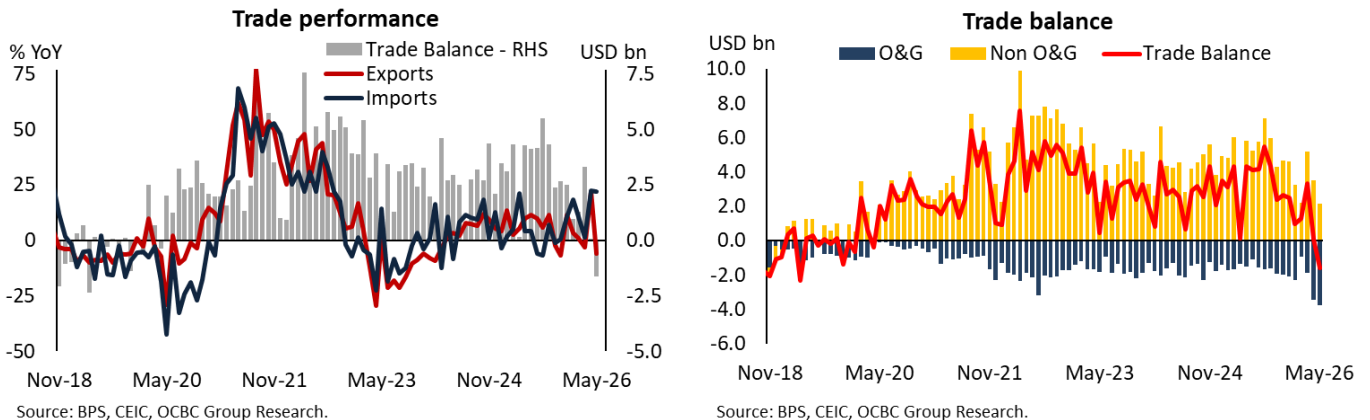
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Worsening data mix

The incoming data mix pointed to a worsening of trade balance amid still sticky inflationary pressures. The trade balance shifted to a deficit of USD1.6bn in May, the first monthly deficit since April 2020, from a surplus of USD0.1bn in April driven by worsening export growth amid still strong import growth. Headline CPI ticked higher to 3.3% YoY in June from 3.1% in May, broadly within expectations (Consensus: 3.2%; OCBC: 3.4%), while core inflation rose to 2.8% YoY in June from 2.6% in May.

Trade balance shifts to a deficit

Export growth fell to -5.7% YoY in May, falling significantly short of expectations (Consensus: +3.5%; OCBC: +7.8%), versus growth of 22.0% YoY in April. The decline was broad-based across oil & gas (-31.8% from -1.2%) and non-oil & gas (-4.5% YoY from +23.4% in April) exports. Within non-oil & gas exports, manufacturing (-3.6% YoY in May from +29.1% in April), 'agriculture, forestry, & fisheries' (-20.4% YoY in May from -5.5% in April) and mining (-5.7% from -0.3%) sector exports dropped further in May versus April. By destination, non-oil and gas exports to the US, India, and ASEAN fell by 6.2%, 24.2%, and 1.0% YoY, respectively, while exports to China slowed to +7.5% YoY in May versus 29.6% in April.

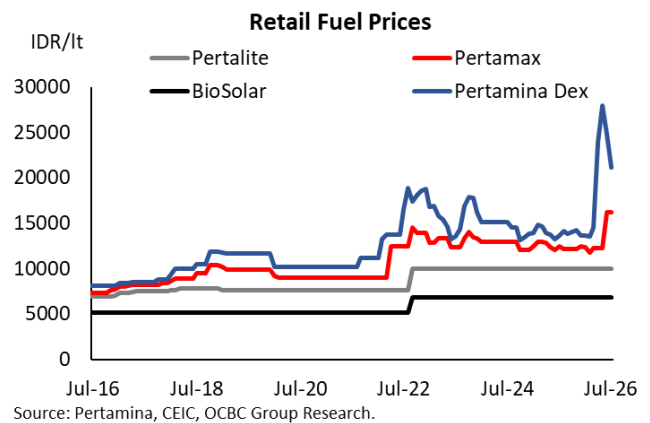
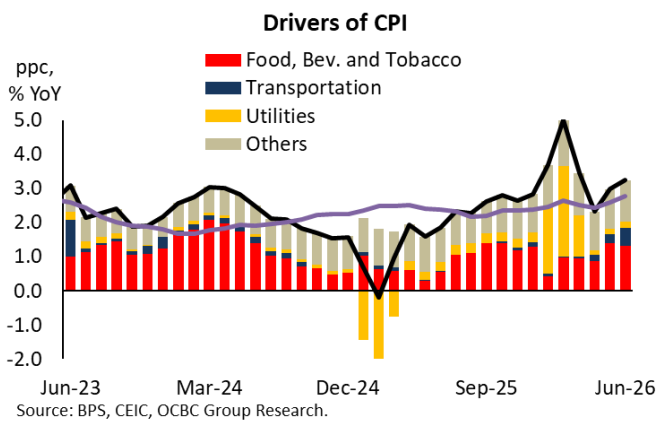


Import growth, by contrast, remained firm at 22.2% YoY in May from 22.5% in April (Consensus: 18.0%; OCBC: 17.0%). The increase was driven by oil & gas imports (70.8% YoY in May from 82.5% in April) as demand likely remained inelastic amid unchanged subsidised retail fuel prices while non-oil & gas imports also remained robust, rising 14.9% YoY (from 14.1%). By end-use, imports of raw materials (25.2% from 24.6%), consumer goods (22.0% from 42.9%), and capital goods (12.7% from 5.6%) were resilient in May versus April.

As a result, the trade balance recorded a USD1.6bn deficit in May, the first monthly trade deficit since April 2020, following a small surplus of USD89.1mn in April. The deterioration was mainly driven by a wider oil & gas deficit, which increased to USD3.8bn in May from USD3.4bn in April, while the non-oil & gas surplus narrowed to USD2.2bn from USD3.5bn in the previous month. The trade deficit totalled USD1.5bn in April and May, compared with a surplus of USD5.5bn in 1Q26. This shift to a trade deficit is not surprising considering we expect the current account deficit to widen further to 1.6% of GDP in 2026 from -0.1% of GDP in 2025.

Inflation eases in 2Q26, but price pressures remain

Meanwhile, headline CPI rose to 3.3% YoY in June from 3.1% in May, broadly within expectations (Consensus: 3.2%; OCBC: 3.4%) and within BI's 1.5-3.5% target range. June headline CPI was driven by higher transport inflation to 4.6% YoY from 2.3% in May, following an upward adjustment of non-subsidised fuel prices in June. BPS noted that gasoline and airfares were the main contributors to transport inflation. Meanwhile, food, beverages and tobacco inflation eased slightly to 4.7% YoY in June from 4.9% in May, but remained elevated, contributing 1.4ppt to headline CPI. Core inflation rose to 2.8% YoY in June from 2.6% in May, but remained contained, suggesting that underlying demand-side price pressures are still manageable.



For 2Q26, headline inflation averaged 2.9% YoY from 3.9% in 1Q26 as favourable base effects faded. We maintain our forecast for headline CPI to average 3.0% in 2026 from 1.9% in 2025. Risks remain tilted to the upside, especially for food inflation given the rising intensity of El Niño, although Pertamina's price cuts for selected non-subsidised fuels from 1 July should help ease some fuel-related pressure. Pertamina lowered Pertamina Turbo, Pertamina Dex and Dexlite prices from 1 July, while Pertamina, Pertamina Green, Peralite and Biosolar prices were unchanged.

BI to maintain a hawkish bias

The data mix supports our call for further policy rate hikes by Bank Indonesia (BI). We expect BI to extend its tightening cycle, with a further cumulative 75bp of rate hikes by end-2026, taking the BI Rate to 6.50%.

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