

Indonesia

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Tariff drag weighs on trade; inflation ticks higher

- Trade performance fell short of already subdued expectations in August, coinciding with the implementation of reciprocal US tariffs. Specifically, export growth slowed to 5.8% YoY from 9.9% in July while import contraction deepened. The trade surplus widened to USD5.5bn from USD4.2bn.
- Meanwhile, headline inflation rose to 2.7% YoY in September from 2.3% in August. Core inflation remained steady at 2.2%, unchanged from August.
- Weaker growth momentum in 3Q25 supports Bank Indonesia's "all out pro-growth" bias, reinforcing our expectation for an additional 50bps in rate cuts by year-end. The timing of the cut will however depend on IDR movements.

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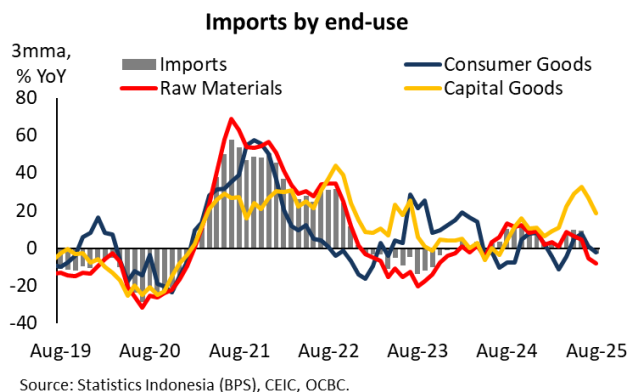
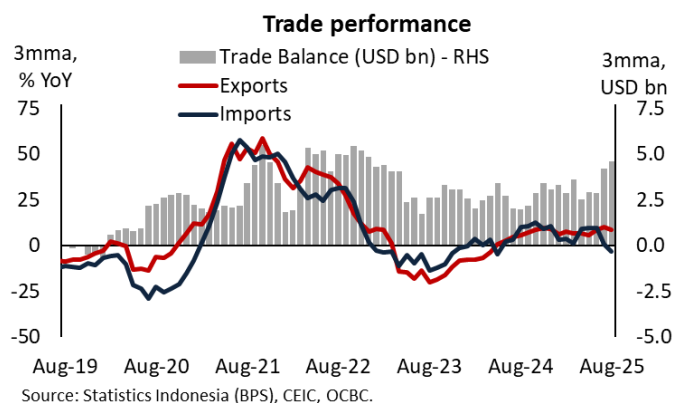
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Trade performance in August fell short of already subdued expectations, coinciding with the implementation of reciprocal US tariffs. Export growth slowed to 5.8% YoY (Consensus: 6.5%; OCBC: 4.2%), down from 9.9% in July and 11.3% in June. Similarly, the contraction of imports deepened to -6.6% YoY from -5.9%, significantly below expectations (Consensus: 0.2%; OCBC: -4.2%). As a result, the trade surplus widened to USD5.5bn, up from USD4.2bn in July.



The weakness in exports was broad-based in August, with non-oil & gas exports slowing to 6.7% YoY from 12.8% in July, and oil & gas exports contracting by 10.9% (July: -34.1%). Within the non-oil & gas sector, agriculture (11.0% vs. 15.7%) and manufacturing (11.7% vs. 22.0%) exports decelerated, while mining & other exports remained negative (-12.5% vs. -28.3%).

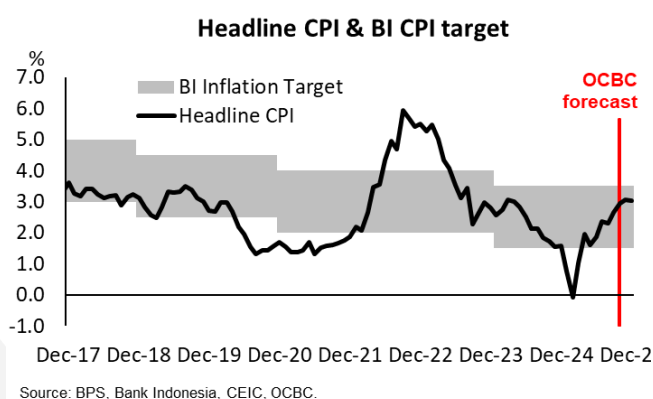
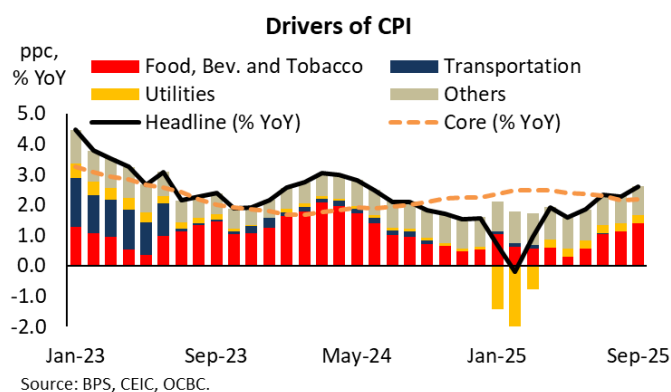
By destination, exports to the US dropped sharply to 3.0% in August from 43.6% in July, in line with expectations following the 7 August tariff implementation. This was partly offset by stronger shipments to China (12.2% vs. 5.5%), helping sustain broader non-US export growth.

On the import side, by end-use consumer goods (-5.2% vs. -2.5%) and raw materials (-9.1% vs. -11.9%) saw deeper contractions, while capital goods growth eased to 2.5% from 18.8%. By sector, improvements in oil & gas imports (3.2% vs -29.4%) were offset by a notably weaker performance in non-oil & gas inbound shipments (-8.0% vs. -1.3%).

The trade surplus widened to USD5.5bn in August from USD4.2bn in July, marking the highest monthly surplus since late 2022. This was supported by a USD1.4bn increase in the non-oil & gas trade surplus, which reached USD7.1bn in August. Meanwhile, the oil & gas trade deficit widened slightly to USD1.7bn from USD1.6bn in July. The August print brings the year-to-date trade surplus to USD29.1bn, a notable increase compared to USD19.0bn during the same period in 2024.

The combined July–August data show export growth at 7.8% YoY from 9.0% in 2Q25, while the slowdown in import growth was more pronounced (-6.2% from 9.6%). Incoming activity indicators, such as automotive sales, cement sales, and consumer confidence have softened in 3Q25, similar to the August trade data. As a result, our tracking estimates suggest growth momentum in 3Q25 will likely slow to below 5% from 5.1% recorded in 2Q25. Notwithstanding, the risks to our 2025 GDP growth forecast of 4.7% are to the upside.

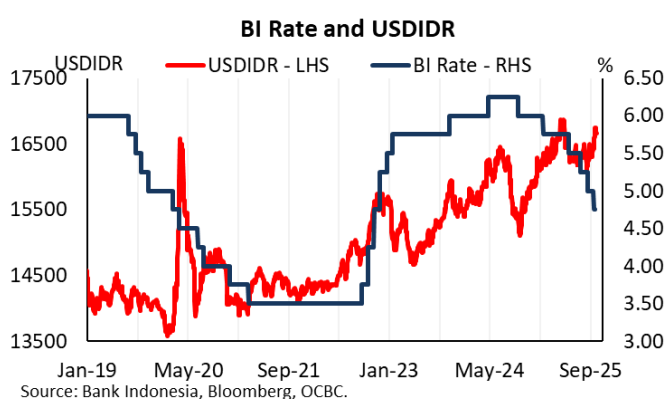
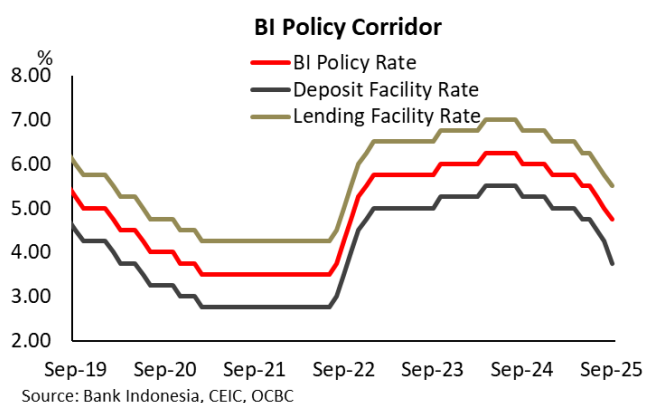
Meanwhile, on the inflation front, headline inflation rose to 2.7% YoY in September, up from 2.3% in August and above expectations for a more measured increase (Consensus: 2.5%; OCBC: 2.6%). Core inflation remained steady at 2.2%, unchanged from August.



The uptick was driven by higher prices in food, beverages & tobacco (1.4% YoY in September vs. 1.1% in August), personal care & other services (9.6% vs. 8.7%), and health (2.0% vs. 1.9%). These were partially offset by softer inflation in household equipment & maintenance (0.3% vs. 0.4%), education (1.2% vs. 1.4%), and food & beverage provision (1.8% vs. 1.9%). Meanwhile, transportation CPI remained negative (-0.1% vs. -0.3%), reflecting lower retail fuel prices, while utilities, clothing, and footwear were stable.

We will be closely monitoring the prices of key food items as we head into 4Q25 to better understand the government policies related to food price management. The rise in food prices reflects increases in key commodities such as red chili and chicken meat, while elevated gold prices contributed to the higher personal care CPI. These two components added 0.3pp and 0.1pp, respectively, to the headline print.

The September reading brings 3Q25 CPI to an average of 2.4% YoY, up from 1.8% in 2Q25, largely due to food-related inflation. Year-to-date headline CPI averaged 1.6% YoY, compared to 2.5% in the same period last year, indicating broadly stable price pressures. We maintain our forecast for headline inflation to average 2.0% in 2025, with a modest pickup to 3.0% in 4Q25 driven by rising food prices.



In terms of monetary policy, Bank Indonesia (BI) delivered its third consecutive 25bps rate cut at its 17 September meeting, bringing the policy rate down to 4.75%. BI also adjusted the monetary policy corridor to make it asymmetric; lowering the deposit facility rate by 50bps to 3.75%, while the lending facility was reduced by 25bps, in line with the policy rate.

BI remains firmly focused on supporting growth, declaring itself “all out pro-growth.” With inflation remaining broadly within BI’s target range of 1.3–3.5%, there is still scope for further monetary easing. However, further rate cuts as pencilled into our forecasts to the tune of an additional cumulative 50bps will be depended on IDR moves. The currency has underperformed regional peers, along with PHP, in September. We expect that subsequent rate cuts will be timed with the US Federal Reserve rate cuts to manage the impact on the IDR.

The risk is that BI is unable to find the window of opportunity in 2025, with prospects of cuts being carried forward into 2026. The challenge for next year, however, will be rising inflation, albeit still within BI’s 1.5–3.5% target range.

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