Macroeconomic Monitor

August 2025

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Table of contents

HIGHLIGHTS

August 2025

United States

The US economy in July 2025 showed diverging momentum as manufacturing slipped into contraction (PMI 49.8) and industrial production weakened across both durable and nondurable goods, while services expanded strongly (PMI 55.7; Composite 55.1), making services becomes key driver of growth. Inflation eased slightly to 2.7% YoY, close to the Fed's target, though housing and healthcare costs kept core pressures sticky, while goods categories like apparel and transport remained subdued. The labor market showed early signs of loosening as unemployment rose to 4.3% from 4.0%, reflecting weaker full-time hiring even as part-time and female joblessness held steady. Meanwhile, the trade deficit widened to USD -84.5 billion as imports climbed faster than exports, underscoring solid domestic demand but rising external imbalances. On the policy front, the Trump administration reinforced its protection stance by introducing a 10% baseline tariff on imports, imposing a 40% penalty on goods rerouted through other countries to avoid duties, suspending de minimis exemptions for low value shipments, and tightening controls on imports from China. Nevertheless, additional tariff increases are still under consideration.

Euro Area

The Euro Area economy in mid-2025 showed a fragile but slightly improving outlook. Consumer confidence in July improved modestly, with the Euro Area balance at -10.0 versus -11.8 in June, as Germany neared neutral sentiment, though France, Italy, and peripheral economies like Greece and Turkey remained deeply negative. Retail sales in June rose 3.1% YoY and 0.3% MoM, the fastest pace since September 2024, driven by non-food products and automotive fuel, signaling stronger demand beyond essentials. Inflation remained uneven: Germany (1.0%) and France (0.2%) were subdued, while Austria (3.6%), Croatia (4.1%), and Romania (7.8%) highlighted regional pressures. GDP growth in Q2 2025 was modest at 0.2% YoY, supported by consumption and investment, with small contribution of trade. In August, the ECB kept rates unchanged at 2.00–2.40%, marking its second pause after a year-long easing cycle, stressing a data-dependent stance while markets saw this as the likely end of rate cuts barring significant downside risks.

China

China's economy in mid-2025 showed mixed momentum. In July 2025, the Manufacturing PMI slipped to 49.5 while Services PMI rose to 52.6, keeping the Composite at 50.2. Industrial output was uneven, with steel and cement falling but autos, power generation, and electronics gaining. Unemployment edged up to 5.2%, CPI fell -0.5% YoY back into deflation while core CPI rose 0.4%, and retail sales slowed to 3.7% YoY, supported mainly by cars and electronics. Trade stayed resilient with exports up 7.2% and imports 4.1%, driven by emerging markets, while shipments to North America fell on US tariffs. Q2 GDP growth was led by services (+5.6% YoY) and high-tech, offsetting weak manufacturing and a 0.9% real estate contraction, underscoring China's reliance on services amid structural headwinds.

Indonesia

Indonesia's economy remained resilient in mid-2025, with GDP growth accelerating to 5.12% YoY in Q2 from 4.87% in Q1, supported by solid household consumption (+4.97% YoY), stronger investment (+6.99%), and robust services momentum, while manufacturing (+5.68%) and trade (+5.37%) added to sectoral expansion. Exports rose +10.67% YoY and imports +11.65%, reflecting firm domestic activity despite limiting net trade gains. Inflation picked up modestly to 2.37% YoY in July, driven mainly by food and tobacco, while core categories such as housing, health, and education stayed stable. Retail activity eased slightly, with the index falling to 222,550 in July from 231,895 in June as essentials like food and fuel softened, though discretionary spending on leisure and apparel remained resilient. Externally, the trade surplus narrowed slightly to USD 4.10 billion in June from USD 4.30 billion in May but remained well above 2024 levels, reflecting strong goods exports and firm services activity. Foreign reserves stood at USD 135.0 billion in July, covering six months of imports, while commercial bank FX liquidity also improved. Bank Indonesia cut the policy rate by 25 bps to 5.00% in August, its fourth cut since late 2024, to support growth amid stable inflation and a stronger Rupiah. Government external debt climbed 10.0% YoY to USD 210.1 billion on continued foreign inflows into SBN, while private debt contracted -0.7% YoY, reflecting cautious corporate borrowing. Together, these trends highlight Indonesia's steady growth path, underpinned by robust consumption, investment, and external buffers, though import strength, cautious household demand, and global uncertainty remain key risks.

RECENT ECONOMIC DEVELOPMENT: GLOBAL MARKET

Recent economic development : global market

United States

MANUFACTURING SECTOR

The US manufacturing sector showed renewed weakness in July 2025, with the seasonally adjusted Manufacturing PMI slipping to 49.8 from 50.0 in June 2025, thereby falling below the neutral 50.0 threshold for the first time since late 2023. The decline reflects a cooling of production momentum after the inventory-driven boost seen earlier in the second quarter. Industrial Production Index (IPI) data reinforces this picture: overall durable goods manufacturing eased to 100.2 in July 2025 compared with 101.0 in June 2025, with contractions in primary metals (96.2 vs. 96.6), machinery (99.4 vs. 99.7), and a moderation in transportation equipment (126.9 vs. 127.3). On the nondurable side, both chemicals (98.2 vs. 98.4) and plastics & rubber (101.3 vs. 101.6) slipped modestly between June 2025 and July 2025. This pullback follows a period of front-loaded activity in May and June 2025, when manufacturers accelerated purchasing and output to build inventories ahead of anticipated tariff adjustments. With those stockpiles now sufficient and the tariff timeline delayed, the urgency to produce has eased, leading to the contraction in July 2025 that underscores weakening underlying demand at the start of the third quarter.

SERVICES SECTOR

The US services economy continued to expand in July 2025, with the seasonally adjusted Services PMI rising to 55.7, compared with 52.9 in June 2025. This marks the strongest pace of growth in the sector since April 2025, and well above the neutral 50.0 threshold that separates expansion from contraction. The improvement suggests resilient demand in consumer-facing industries and professional services, helping to offset the weakness observed in the manufacturing sector over the same period. Supporting this trend, the Composite PMI, which combines both manufacturing and services, registered 55.1 in July 2025, up from 52.9 in June 2025, indicating that the overall private sector economy expanded at a solid pace. The July rebound highlights the divergence between manufacturing, which contracted modestly, and services, which strengthened further, reinforcing the notion that US economic momentum in mid-2025 is being increasingly driven by the service side of the economy.

CONSUMER PRICE INDEX (CPI)

US consumer price inflation eased further in July 2025, with the headline CPI (YoY, urban consumers) slowing to 2.7%, down from 2.8% in June 2025, continuing to hover close to the Federal Reserve's 2% target. Among major categories, food & beverages inflation remained steady at 2.8% YoY, while housing costs rose 3.9% YoY, showing persistent stickiness in shelter-related prices. Apparel prices were broadly flat (0.0% YoY), while transport costs turned slightly positive (0.2% YoY vs. -0.1% in June 2025), reflecting stabilization after earlier declines. On the services side, medical care (3.0% YoY) and recreation (2.8% YoY) both registered firm increases, whereas education & communication

(2.4% YoY) and other goods & services (0.9% YoY) rose at more modest rates. The July 2025 data suggests that while headline inflation is gradually softening, the composition remains uneven: housing and services continue to exert upward pressure, even as goods-related categories such as apparel and transport remain subdued.

UNEMPLOYMENT RATE

US labor market conditions softened slightly in July 2025, with the unemployment rate for full-time workers rising to 4.3%, up from 4.0% in June 2025, while the rate for part-time workers held steady at 4.3%. By gender, the male unemployment rate edged up to 4.4% in July 2025 (from 4.3% in June 2025), while the female unemployment rate remained unchanged at 4.1%. The latest data suggest a modest loosening in labor market dynamics, particularly for full-time employment, even as part-time and female joblessness showed relative stability. The July 2025 uptick in unemployment contrasts with the still solid momentum in services activity and easing inflation pressures, pointing to a more nuanced picture where labor demand is beginning to cool alongside weaker manufacturing activity.

BALANCE OF TRADE

The US goods trade deficit widened to USD -84.5 billion in July 2025, compared with USD -82.6 billion in June 2025, as imports grew faster than exports. Total exports rose to USD 178.1 billion in July 2025 from USD 175.1 billion in June 2025, supported by gains in industrial supplies (USD 60.4 billion vs. 58.7 billion) and consumer goods (USD 22.0 billion vs. 21.1 billion), though capital goods exports slipped slightly to USD 57.4 billion from USD 58.0 billion. Imports increased more sharply to USD 262.6 billion in July 2025 from USD 257.7 billion in June 2025, led by higher inflows of industrial supplies (USD 91.4 billion vs. 87.1 billion) and consumer goods (USD 91.5 billion vs. 90.5 billion), partially offset by a decline in automotive vehicles & parts (USD 36.5 billion vs. 37.8 billion). Overall, the July 2025 trade data highlight resilient domestic demand sustaining import growth, resulting in a wider trade gap despite steady export performance.

In July 2025, US services drove growth as manufacturing weakened, CPI eased to 2.7%, unemployment rose to 4.3%, the trade deficit widened, and Trump tariffs escalated.

TRUMP TARIFF UPDATE

In late July 2025, the Trump administration's tariff program under the "reciprocal tariffs" framework continued to expand, with the baseline duty of 10% on all products now firmly in place since April and subject to a range of amendments. While the White House has threatened to raise the baseline tariff to 15%–20%, this adjustment has not yet been legally finalized. At the same time, specific measures have been rolled out, including a 40% penalty tariff on transshipped goods effective August 7, 2025, and the suspension of the de minimis exemption starting August 29, 2025, which will subject even small-value shipments outside of postal exceptions to all applicable duties. Imports from China face particular scrutiny, with its country-specific rate suspended between August 11 and November 10, 2025, reverting Chinese imports to the 10% baseline reciprocal tariff during that window. Threats of broader "secondary tariffs" remain on the table, including those targeting countries that import Venezuelan oil or Iranian/Russian oil, with proposed duties ranging from 25% to as high as 50%. While exemptions exist, notably for UK aerospace products under WTO civil aircraft rules, the policy direction underscores an increasingly protectionist trade stance, with enforcement reinforced by recent executive orders in July 2025

Euro Zone

CONSUMER CONFIDENCE INDEX

In July 2025, business sentiment in the EU-27 improved slightly, with the balance at -9.8 compared with -11.4 in June 2025. The Euro Area (EA-20) also showed a milder decline at -10.0 after -11.8 in June 2025. Among the major economies, Germany (-2.0 in July vs. -5.1 in June) was close to neutral, while France (-13.5 vs. -15.4) and Italy (-13.5 vs. -15.0) remained in deeper negative territory though less severe than the prior month. The Netherlands (-9.6 vs. -11.3) and Austria (-7.6 vs. -11.1) also improved, while Poland slipped to -3.0 from -1.4, indicating slightly weaker confidence. In the periphery, sentiment remained very weak. Greece registered -49.3 in July 2025, broadly unchanged from -49.6 in June 2025, while Türkiye deteriorated to -33.0 from -31.5. Hungary stayed at -26.2, reflecting deep pessimism, and Romania worsened to -13.0 from -9.5. Elsewhere, Croatia posted -5.0 in July after -4.0 in June, while Malta eased to 0.3 from 2.3, still slightly positive but softer than the previous month. Overall, the latest July 2025 data point to a modest easing of pessimism in the core economies, while peripheral countries continue to face severe confidence challenges that weigh on the regional aggregate.

RETAIL SALES

In June 2025, retail sales in the Euro Area rose 3.1% YoY, accelerating from 1.9% in May 2025, marking the strongest pace since September of the previous year. On a monthly basis, retail trade volumes in the Euro Area increased 0.3% MoM, offsetting the -0.3% contraction in May. Growth was driven by non-food products (+0.6% MoM) and automotive fuel (+0.4% MoM), while food, drinks, and tobacco posted a modest gain of 0.2% MoM. For the broader EU, retail trade also expanded 0.3% MoM in June 2025, recovering from -0.5% in May. Sector-wise, non-food products (+0.6%) and automotive fuel (+0.6%) led the gains, whereas food sales rose just 0.2%. Overall, the June figures suggest a notable rebound in consumer demand across the region, with retail sales momentum strengthening in both year-on-year and month-on-month terms, particularly in discretionary categories outside food.

INFLATION

In July 2025, inflation across the Euro area showed mixed patterns by country. Austria saw headline inflation rise to 3.6% YoY (from 3.3% in June), while Belgium dropped further to 1.9% YoY (vs. 2.1%). Bulgaria recorded one of the highest rates at 5.3% YoY, up sharply from 4.4%, and Croatia accelerated to 4.1% YoY (from 3.6%). By contrast, Cyprus (-0.9% YoY) remained in deflation after -0.4% in June, reflecting persistent price weakness. Germany registered 1.0% YoY, slightly higher than 0.97% in June, while France stayed subdued at 0.2%, unchanged from the prior month. Elsewhere, Italy slowed further to 1.7% YoY (vs. 1.8% in June), while Spain dipped to 2.7% from 2.3%, showing mild acceleration. Romania posted the sharpest inflation at 7.8% YoY, up from 5.7%, highlighting ongoing regional pressures. The Baltic states also stayed elevated: Estonia 5.4%, Lithuania 3.8%, and Latvia 3.8%, all higher than June. Meanwhile, Sweden moderated slightly to 0.8% YoY, from 0.7% previously. Overall, the July 2025 CPI data suggest that while core Euro economies like Germany and France continue to face low inflation, several Eastern and Southern European countries are grappling with stronger price pressures, leading to a very uneven inflation landscape across the bloc.

ECONOMIC GROWTH

In Q2 2025, Euro Area GDP (chain-linked 2010 prices) reached €3,380.4 billion, compared with €3,374.9 billion in Q2 2024, marking a modest 0.2% YoY expansion. Growth was supported by household consumption, which rose to €2,374.2 billion from €2,355.6 billion a year earlier, and by gross fixed capital formation, which climbed to €799.5 billion from €787.3 billion, reflecting firmer investment momentum. Meanwhile, government consumption remained relatively stable, at €731.9 billion versus €730.9 billion in Q2 2024.

On the external side, trade showed only limited support to GDP. Exports of goods and services in Q2 2025 were €1,162.8 billion, slightly lower than €1,163.6 billion a year earlier, while imports stood at €1,157.9 billion, broadly unchanged from €1,157.8 billion in Q2 2024. As a result, net trade contributed little to overall growth. Taken together, the YoY picture indicates that the Euro Area economy maintained only marginal growth in Q2 2025, relying mainly on private consumption and investment, while external demand remained subdued.

ECB INTEREST RATE DECISION

In August 2025, the European Central Bank (ECB) decided to keep its key policy rates unchanged, maintaining the deposit facility at 2.00%, the main refinancing operations rate at 2.15%, and the marginal lending facility at 2.40%. This marks the second consecutive pause following eight rate cuts delivered between June 2024 and July 2025. With inflation back at the ECB's 2% target and expected to remain there, policymakers signaled that the current rate levels are appropriate to preserve price stability while supporting steady growth. Looking ahead, the ECB indicated that monetary policy would remain data-dependent. Markets increasingly view the August decision as confirmation that the rate-cutting cycle has ended, with little expectation for further reductions unless the euro area economy shows a clear and sustained deterioration in growth or inflation momentum.

In mid-2025, the Euro Area saw modest growth, uneven inflation, stronger retail sales, and the ECB holding rates steady.

China

MANUFACTURING & SERVICE SECTOR

China's economy showed a mixed PMI picture in July 2025. The Manufacturing PMI fell into contraction at 49.5, down from 50.4 in June 2025, reflecting weaker factory activity after two months of stability above 50. In contrast, the Services PMI accelerated to 52.6 from 50.6 in June 2025, marking the strongest expansion in the services sector since March. As a result, the Composite PMI remained in positive territory at 50.2 in July 2025, though only slightly above the neutral 50 threshold. This divergence underscores the ongoing slowdown in industrial momentum while domestic demand in services continues to provide resilience.

INDUSTRIAL PRODUCTION

In July 2025, China's industrial production data showed sectoral divergence. Steel output was 36.9 million tons in July 2025, down from 39.7 million tons in June 2025, while cement production eased to 24.5 million tons in July 2025 from 25.5 million tons in June 2025. In contrast, automobile production increased to 3.07 million units in July 2025, compared with 2.96 million units in June 2025. Power generation expanded to 862.9 billion kWh in July 2025, up from 848.6 billion kWh in June 2025, and computer equipment production rose to 18.3 million units in July 2025, versus 17.7 million units in June 2025. At the same time, growth momentum varied by ownership type: state-owned and holding enterprises recorded 5.4% YoY growth in July 2025, shareholding enterprises grew 6.5% YoY, while foreign-invested, Hong Kong SAR, Macau SAR, and Taiwan-funded enterprises slowed sharply to 2.8% YoY. Overall, the July 2025 figures suggest that heavy industries such as steel and cement weakened, but automobiles, power generation, and electronics provided resilience, supported mainly by domestic firms.

UNEMPLOYMENT RATE

China's labor market showed mild signs of pressure in July 2025, as the urban unemployment rate edged up to 5.2%, compared with 5.0% in June 2025. The increase brings the jobless rate back to its March 2025 level of 5.2%, after having eased slightly in April and May. Although the rise is modest, it suggests that softer manufacturing activity and uneven industrial performance in July 2025 may have begun to spill over into the labor market, creating a more cautious employment environment.

INFLATION

In July 2025, China's CPI fell 0.5% YoY, slipping back into deflation after being flat in June 2025. The decline was mainly driven by sharp food price drops, with meat down 9.5%, eggs down 11.6%, and vegetables down 10.9%, a reversal from the strong gain seen a month earlier. At the same time, core CPI rose 0.4%, an improvement from 0.1% in June 2025, reflecting modest increases in clothing, household goods, and stable housing costs. Non-food services remained under pressure, with healthcare, transport, and education still contracting year-on-year, which points to lingering weakness in household spending. Taken together, the return to deflation highlights the fragility of domestic demand. Falling food prices are eroding rural incomes, while the softness in services signals that households remain cautious in their consumption. For the broader economy, these dynamics raise the risk of persistent demand weakness and put additional pressure on policymakers to deliver stronger fiscal or monetary support to stabilize growth.

RETAIL SALES

In July 2025, China's retail sales growth slowed noticeably, rising only 3.7% YoY compared with 4.8% in June 2025 and 6.4% in May 2025, highlighting weaker consumer momentum. By category, some improvement was seen in commodities such as automobiles (+6.9% YoY), household appliances (+4.5%), and communications equipment (+8.2%), signaling pockets of demand in durable and high-tech goods. Food-related categories, however, remained soft, in line with CPI trends: grain (+2.7%) and livestock products (+1.8%) showed small gains, while food and beverage services (+0.2%) barely expanded. Several categories still contracted, including petroleum products (-6.6%), building materials (-8.3%), and furniture (-0.5%), pointing to continued weakness in housing-related spending. Overall, the July 2025 retail sales data confirm that Chinese households remain cautious, with consumption supported mainly by cars and electronics, while food and housing-linked demand stays fragile. This subdued spending picture, combined with falling CPI, underscores the challenge policymakers face in stimulating stronger domestic demand.

BALANCE OF TRADE

In July 2025, China's trade growth picked up modestly with exports rising 7.2% YoY compared with 5.8% in June 2025 and imports up 4.1% YoY after 1.1% in June 2025, but the regional breakdown shows uneven dynamics that carry important implications for the economy. Stronger exports to Africa (+42.4% vs. +34.8% in June), Oceania (+13.7% vs. +5.2%), Latin America (+7.7% vs. -2.1%), and steady gains to Asia (+12.9% vs. +11.4%) and Europe (+6.4% vs. +4.9%) point to China diversifying its markets beyond traditional partners, while exports to North America fell sharply (-19.3% vs. -14.6%), underscoring the drag from US tariff tensions. On the import side, stronger inflows from Africa (+19.4% vs. +3.9%), Latin America (+10.1% vs. +2.0%), and Europe (+3.9% vs. -2.4%) suggest firmer domestic demand in some sectors, although ongoing contractions from North America (-12.6% vs. -10.5%) and Oceania (-2.8% vs. -8.9%) highlight lingering supply chain realignments. Taken together, the July 2025 data show that China's trade performance remains resilient overall but increasingly reliant on emerging market partners, while strained US trade relations and uneven import patterns signal both external headwinds and structural shifts in demand that could weigh on growth momentum.

GROSS DOMESTIC PRODUCT

China's GDP in Q2 2025 reflected a clear shift in the drivers of growth, with services and high-tech sectors increasingly offsetting weakness in construction and real estate. The primary industry expanded by 2.4% YoY, providing a stable contribution from agriculture, forestry, and fisheries. The secondary industry slowed sharply to 1.7% YoY, as manufacturing growth eased to 3.3% YoY and construction contracted by 1.2% YoY, underscoring the drag from slower investment activity and a struggling property market. In contrast, the tertiary industry remained the main growth engine, rising 5.6% YoY. Within services, information transmission, software, and IT services surged by 11.0% YoY, reflecting strong momentum in digital industries, while financial intermediation grew 5.3% YoY and accommodation and catering expanded 6.4% YoY, pointing to resilience in consumer-related sectors. However, the real estate sector declined by 0.9% YoY, confirming that property continues to weigh heavily on the economy. Overall, the Q2 2025 GDP breakdown highlights that China's growth is becoming more reliant on services and innovation-driven sectors, while traditional drivers such as construction and real estate remain a significant weakness.

> In July–Q2 2025, China's growth relied on services and high-tech as manufacturing weakened, CPI fell -0.5% YoY, retail sales slowed to 3.7%, trade shifted to emerging markets, and unemployment rose to 5.2%.

RECENT ECONOMIC DEVELOPMENT: DOMESTIC MARKET

Recent economic development : domestic market:

ECONOMIC GROWTH

Indonesia's economy grew 5.12% YoY in Q2 2025, up from 4.87% in the previous quarter, supported by solid domestic demand and broad-based sectoral expansion. On the production side, the largest contributors were manufacturing (+5.68% YoY), trade (+5.37%), and construction (+4.98%), while transportation and storage surged +8.52% YoY in line with higher mobility during holidays, and services such as business (+9.31%), other services (+11.31%), and accommodation and food (+8.04%) showed strong momentum from tourism and leisure activities. Agriculture and mining grew modestly, while real estate recorded slower growth but still positive. From the expenditure side, growth remained anchored by household consumption (+4.97% YoY), which makes up more than half of GDP, and investment (+6.99% YoY), driven by machinery and equipment despite weakness in building-related investment. Exports rose +10.67% YoY on stronger non-oil shipments and foreign tourist arrivals, while imports increased +11.65% YoY on higher demand for capital and raw materials, indicating strong domestic activity though limiting the net export contribution. Meanwhile, government consumption slipped -0.33% YoY, reflecting restrained fiscal spending. Overall, Q2 2025 growth underscores Indonesia's resilience, with household demand and services as the backbone, investment shifting toward productive capital goods, and external trade providing an additional lift despite imports outpacing exports.

INFLATION

Indonesia's consumer price inflation in July 2025 showed modest upward pressure, though price dynamics remained uneven across categories. The headline CPI rose +2.37% YoY, up from +1.87% in June 2025 and +1.60% in May 2025, signaling slightly stronger inflation momentum. Food-related components were mixed: Food, Beverage, and Tobacco prices jumped +3.75% YoY after being stable in June, while Food & Beverage Provision/Restaurant slowed to +1.86% YoY from +1.95%. Education (+1.96% YoY) and Health (+1.94%) both edged higher compared with June, while Clothing & Footwear was nearly flat (+1.00% YoY). Housing, Water, Electricity, and Fuel remained steady at +1.65% YoY, while Information & Communication prices contracted further (-0.31% YoY vs. -0.27% in June), reflecting cheaper data and telecommunication services. Recreation & Culture inflation slowed to +1.05% YoY from +1.23% in June, while Transportation inflation eased to +0.12% YoY from +0.15%. Overall, July 2025 CPI points to slightly stronger inflation mainly driven by food and tobacco, while core categories such as housing, education, and health showed stability, and communication costs continued to drag headline inflation lower. Indonesia's inflation still remains within the Bank Indonesia's target. The uptrend driven by food and tobacco will be managed through supply coordination while monetary policy remains focused on supporting growth and Rupiah stability.

Indonesia's economy grew 5.12% YoY in Q2 2025, supported by 4.97% household consumption, 6.99% investment, 10.67% exports, and 11.65% imports, with services showing strong momentum.

PURCHASING MANAGER INDEX

In July 2025, Indonesia's manufacturing sector remained under pressure, with the S&P Global Manufacturing PMI at 49.8, slipping below the neutral 50 mark and signaling a slight contraction after holding flat in June. The July reading reflected weaker demand and softer output, particularly in subsectors such as textiles and wood products, even as food-related industries provided some support. Looking ahead, however, the Bank Indonesia Prompt Manufacturing Index (PMI) survey for Q3 2025 points to a rebound, with the index expected to reach 52.0, indicating that manufacturers anticipate a return to expansion. This outlook suggests improving business confidence, supported by expectations of stronger domestic consumption, more stable input supplies, and a recovery in export demand in the coming quarter.

RETAIL SALES INDEX

In July 2025, Indonesia's Retail Sales Index recorded 222,550, slightly down from 231,895 in June 2025, reflecting a mild deceleration in household consumption. The softening was largely driven by weaker spending on essential categories such as food, drinks, and tobacco (313,852 vs. 330,408 in June) and fuels (81,552 vs. 87,125), which suggests that consumers were more cautious in their basic purchases compared to the previous month. On the other hand, certain discretionary categories showed resilience and even improvement. Cultural and recreation goods rose to 65,416 from 61,616, pointing to sustained demand for leisure-related spending, while apparel edged higher to 89,291 from 88,518, reflecting steady consumer appetite for non-essential goods. Household appliances also remained relatively stable at 85,203, only slightly below June's 87,125. This mixed performance indicates that while overall consumption moderated, consumer behavior was shifting toward selected discretionary items, even as essentials experienced a pullback. The trend could be linked to seasonal spending adjustments after stronger demand earlier in the quarter, as well as possible price sensitivity in food and fuel categories. Despite the dip, the index still reflects a generally robust level of retail activity, underscoring that consumer demand remains an important driver of Indonesia's domestic economy

TRADE BALANCE

In June 2025, Indonesia booked a trade surplus of USD 4.10 billion, easing slightly from USD 4.30 billion in May 2025 but still significantly higher than USD 2.52 billion in June 2024. The resilience in surplus was supported by robust goods trade, with exports rising 9.1% YoY and general merchandise exports up 9.5%

YoY, while imports also increased by 9.7% YoY, reflecting firm domestic demand for raw materials and intermediate goods. Meanwhile, services exports grew strongly by 16.7% YoY, led by transportation, construction, and business-related services, though imports of services also expanded by 14.5% YoY, particularly in logistics, finance, and intellectual property charges. Despite the continuing deficit in services, the external sector remained supported by a strong goods trade buffer, ensuring balance of payments stability. The moderation in the monthly trade surplus compared with May indicates some softening, but the improvement underscores Indonesia's relatively solid external position amid a challenging global trade environment.

MONETARY POLICY

Bank Indonesia lowered the BI Rate by 25 basis points (bps) to 5.00% in its 19–20 August 2025 meeting, while also cutting the Deposit Facility rate to 4.25% and the Lending Facility rate to 5.75%. This marks the fourth rate cut since September 2024, totaling 100 bps, consistent with the projection that inflation in 2025–2026 will remain within the target of 2.5±1% and the Rupiah will stay stable in line with economic fundamentals. As of 19 August 2025, the Rupiah had appreciated 1.29% compared to end-July, supported by foreign capital inflows and FX conversion by exporters. The policy decision also aims to strengthen economic growth after Q2 2025 GDP reached 5.12% YoY, driven by higher investment, resilient household consumption, and stronger exports ahead of new US tariffs. Looking ahead, Bank Indonesia signaled room for further rate cuts to support growth amid easing inflation, while maintaining Rupiah stability. The central bank also reaffirmed its commitment to a policy mix combining monetary, macroprudential, and payment system measures, including liquidity support through SRBI and expanded QRIS cross-border initiatives. Bank Indonesia continues to project 2025 GDP growth above the midpoint of the 4.6–5.4% range, supported by fiscal expansion and resilient external accounts, with the current account deficit expected to remain manageable at 0.5–1.3% of GDP.

INTERNATIONAL INVESTMENT POSITION

Government and private external debt developments in Q2 2025 remained manageable, though showing different trajectories. Government external debt rose to USD210.1 billion, accelerating to 10.0% YoY from 7.6% YoY in Q1 2025, primarily supported by robust foreign capital inflows into government securities (SBN). This highlights sustained investor confidence in Indonesia's macroeconomic outlook despite elevated global uncertainties. The government continues to prioritize prudent and accountable debt management, directing external borrowing toward priority sectors such as health, education, construction, and transportation, while ensuring sustainability through a structure dominated by long-term maturities. Meanwhile, private external debt contracted by -0.7% YoY, a shallower decline compared to -1.0% YoY in the previous quarter. The contraction was led by non-financial corporations (-1.4% YoY), partially offset by modest growth in financial corporations (+2.3% YoY). By sector, exposures remained concentrated in manufacturing, financial services, energy, and mining, with the majority also in long-term tenors, reflecting continued risk-averse corporate behavior and reliance on internal financing.

FOREIGN EXCHANGE RESERVES

In July 2025, Indonesia's foreign exchange reserves were recorded at USD 135.0 billion, slightly down from USD 135.5 billion in June 2025 and lower than USD 141.0 billion in March 2025, yet still equivalent to around 6.0 months of imports or external debt servicing, well above the international adequacy standard of three months. On the banking side, commercial bank FX liquidity stood at IDR 84.3 trillion in July 2025, growing 6.1% YoY. This was supported by higher statutory reserves of IDR 36.4 trillion (+8.5% YoY) and demand deposits at BI of IDR 76.9 trillion (+4.6% YoY), although cash in vaults eased to IDR 7.3 trillion (-5.4% YoY). The July 2025 figures confirm that Indonesia continues to maintain strong external buffers, with both official reserves and banking sector liquidity at healthy levels, ensuring resilience against global market volatility.

ASSET ALLOCATION

Global Market

Investor sentiment has shifted this month as expectations for Fed rate cuts were recalibrated. Federal Reserve Chair Powell signaled openness to easing should labor market conditions weaken, prompting markets to price a higher probability of a September cut from 72% to about 81%. Equity markets responded positively, with the S&P 500, Nasdaq, and Dow Jones rising 1.52%, 1.88%, and 1.89%, respectively. The US Treasury yield curve continued to steepen, with the UST 2Y yield down 9 bps, from 3.79% to 3.70% vs the UST 10Y yield down 8 bps from 4.33% to 4.25%, reflecting anticipation of looser monetary policy.

Domestic Equity Market

The JCI rose 5.91% MTD as of August 25, briefly touching the 8,000 level before settling at 7,923. The rally was supported by improved global risk sentiment and a return of foreign inflows totaling Rp 8.3 trillion MTD. The top five contributors to the JCI's MTD gain were DSSA (22.38%), TLKM (15.63%), BBRI (13.48%), BREN (11.50%), and BMRI (9.98%). Looking ahead, further upside will depend on sustained foreign interest, earnings momentum in key sectors, and clarity on fiscal execution in 2H25, although external volatility may pose intermittent headwinds.

Domestic Bond Market

Indonesia's bond market continued to strengthen in August, supported by Bank Indonesia's 25 bps rate cut to 5.00% and steady foreign inflows into SBN. The yield curve remained in a bull steepening formation, with the 5Y yield down from 6.17% to 5.76% and the 10Y yield easing from 6.57% to 6.33% as of August 25. The announcement of the 2026 State Budget which projects a lower deficit compared to 2025 can helped to ease fiscal risk perceptions and added confidence to the long duration bonds. However, markets may remain attentive to upcoming inflation prints, as a potential rebound in headline prices could limit further bond upside.

Domestic Money Market

Liquidity conditions continued to improve, with the loan-to-deposit ratio edging down from 88.48% to 88.43% in July. BI rate cuts this year have continued to pass through to money market rates. The 3-month average deposit rate declined from 4.26% to 4.11%, while the 12-month SRBI yield eased from 5.57% to 5.05%. The SBN 1Y yield also fell from 5.77% to 5.30%. Following another rate cut in August 2025, money market rates and yields are expected to continue declining.

Asset Allocation Takeaway

The combination of a dovish shift in both global and domestic monetary policy has improved the outlook for Indonesian assets. The recent rate cut by Bank Indonesia and clarity on a lower 2026 fiscal deficit support a constructive view on government bonds, particularly in mid duration bonds. While short term yields are adjusting lower, the steepness of the curve offers opportunities for carry and capital gains. In equities, the return of foreign inflows and strong performance in large-cap domestic names suggest potential for continued recovery, though further upside will depend on earnings momentum and global liquidity conditions.

SECTORAL ANALYSIS

FOREIGN FLOWS

Foreign investors extended their selling streak in Indonesia's equity market in Jul-25, recording a net outflow of USD 0.51bn, broadly unchanged from Jun-25 but still underscoring persistent global risk-off sentiment. The sell-off reflects lingering uncertainty over tariff policies, with markets largely in 'wait-and-see' mode ahead of the August tariff deadline. The rupiah remained under pressure, weakening sharply to IDR16,455 per USD. In contrast, the Jakarta Composite Index (JCI) surged 8.51% in Jul-25, driven mainly by rallies in low-float stocks, while heavyweights such as BBCA, BMRI, BBRI, and BBNI continued to face sustained foreign selling.

TELECOMUNICATION

Despite the softer results in 2Q25, we maintain our Overweight rating on the Telecommunications sector. We believe the industry will see improvement in 3Q25/4Q25 and beyond, supported by a more favorable market environment as legacy SIM cards are nearly fully absorbed. In addition, product simplification and ongoing industry consolidation should aid in market recovery. We maintain our positive view for TLKM as we believe the stock deserves a re-rating, driven by its strategic shift from being solely a consumer-focused operator to also monetizing hard infrastructure assets, as well as the ongoing recovery in the mobile segment. Going forward, TLKM should not only be viewed as a consumer business, but also as an infrastructure company, supported by its portfolio of fiber assets under PT Telkom Infrastruktur Indonesia (TIF), Tower & FTTT under MTEL, and data centres under Neutra DC. Moreover, the continued recovery in the cellular segment should further strengthen performance in its consumer business.

COAL

The coal sector faces regulatory headwinds in Indonesia, with MEMR mandating HBA as the export reference price, reducing competitiveness versus Newcastle and potentially impacting demand; royalty adjustments mainly benefit Coal IUPK holders like AADI, INDY, and BUMI, while PTBA may see lower net income. Globally, China's high domestic coal supply keeps thermal generation flat and imports steady despite record-high inventories, while India's rising domestic production and inventories limit imports, with thermal generation also unchanged from FY24.

METAL MINING

Class 1 nickel faces a persistent supply glut as global output rises, supported by ongoing Indonesia-China downstream projects, including Danantara's EV battery initiatives. However, nickel-based batteries are losing ground to LFP and LFMP, particularly in China, where CATL holds only a small share of nickel-based installations. Falling LFP prices have further pressured LME nickel prices, limiting upside for the market.

PLANTATION

FY26 CPO prices are expected to rise to MYR4,500/tonnes due to expected supply deficit. On the demand side, B50 mandate plays a key role, which could absorb 17.2mn tonnes of CPO in 2026. This outlook is backed by government support, ongoing discussions with FAME producers, and inclusion in Pertamina's FY26 pipeline. Additional upside may come from IEU-CEPA, which could lift EU demand back to pre-EUDR II levels of 2.8mn tonnes. On the other side, supply faced a structural constraints, both in Indonesia and Malaysia. Both countries faced unproductive smallholder land, low replanting, and aging plantations.

BANKS

Exploring into 1H25 trends suggest that Indonesia's banking sector is likely to deliver only modest earnings growth in the near term, with big banks (BBCA, BRIS, BBTN) becoming increasingly selective on new loan bookings, particularly on consumer segments.

The recent uptick in consumer loan quality concerns, especially in mortgages and automotive lending has limited appetite for aggressive asset growth, exacerbated by sector-wide liquidity challenges persisting since early 2025. Big banks including BBTN and BRIS opted to recalibrate their consumer portfolios, shifting focus away from new booking until more supportive incentives materialize from the Government of Indonesia (GoI).

Retail loan momentum remains weak, reflective of tepid consumer demand and rising credit costs. Accordingly, banks are expected to adopt a wait-and-see stance in consumer lending pending a more impactful GoI policy response to bolster household purchasing power (e.g., through the KopDes and 3 Mn Housing programs).

In response, banks have pivoted toward corporate loan growth, given the relatively more stable credit trends and higher near-term demand, though liquidity constraints and market headwinds continue to drive intensified competition in loan pricing.

The ongoing "pricing war" for high-quality corporates disproportionately favors banks with stronger low-cost (CASA) funding structures namely BBCA (Jun-25 CASA: 83.4%), Bank Mandiri (May-25: 77.6%), and BBNI (Jun-25: 72.0%). However, the resulting NIM compression is likely to weigh on sector profitability through 2H25, even as volumes stabilize or trend higher.

Despite some sequential improvement in SME loan quality, banks remain largely cautious on the segment as overall asset quality has yet to recover to pre-2024 levels. Incremental risk appetite is skewed towards corporate rather than SME books at this point as it perceived more manageable risk.

On the cost side, disciplined expense management remains a key buffer to offset margin compression, with banks likely to scale back expansionary spend until greater clarity emerges on policy support.

A sharper rebound in bank profitability would likely require either a significant GoI stimulus to boost consumption or a material improvement in sector liquidity, resulting in greater flexibility for loan growth and NIM defense in 2H25.

EXHIBITS

EXHIBIT 1 ● INDONESIA MACROECONOMICS INDICATOR

		2024						2025						
		Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
GDP Growth	**%YoY**			4.95			5.02			4.87			5.12	
CPI Inflation	**% YoY**	2.13	2.12	1.84	1.71	1.55	1.57	0.76	-0.09	1.03	1.95	1.6	1.87	2.37
Core Inflation	% YoY	1.95	2.02	2.09	2.21	2.26	2.26	2.48	2.36	2.48	2.5	2.4	2.37	2.32
Manufacturing PMI	**Level**	49.3	48.9	49.2	49.2	49.6	51.2	51.9	53.6	52.4	46.7	47.4	46.9	49.2
Exports	**% YoY**	6.46	7.13	6.44	10.25	9.14	4.78	4.68	14.05	23.25	5.76	9.68	11.29	
Imports	**% YoY**	11.07	9.46	8.55	17.49	0.01	11.07	-2.67	2.3	18.92	21.8	4.14	4.28	
Foreign Reserves	**USD bn**	130	135	134	135	135.1	140	140	154.5	157	152	152	152	152
Money Supply (M2)	**% YoY**	7.59	7.28	7.15	6.7	6.53	4.35	5.46	6.2	6.13	5.19	4.9	6.4	6.5
Deposit	**% YoY**	6.41	5.66	5.73	5.02	4.74	3.04	3.82	4.6	4.03	3.77	3.32	6.21	
Commercial Banking Credit	**% YoY**	11.74	10.94	10.42	10.44	9.55	9.67	8.97	9.69	8.74	8.5	8.09	7.62	
Fiscal Surplus/Deficit	**% GDP**			-2.7			-2.3			-2.75			-0.81	

Source: CEIC

EXHIBIT 2 • EXCHANGE RATE

Exhibit 2.1 Difference of Spot and Forward IDR

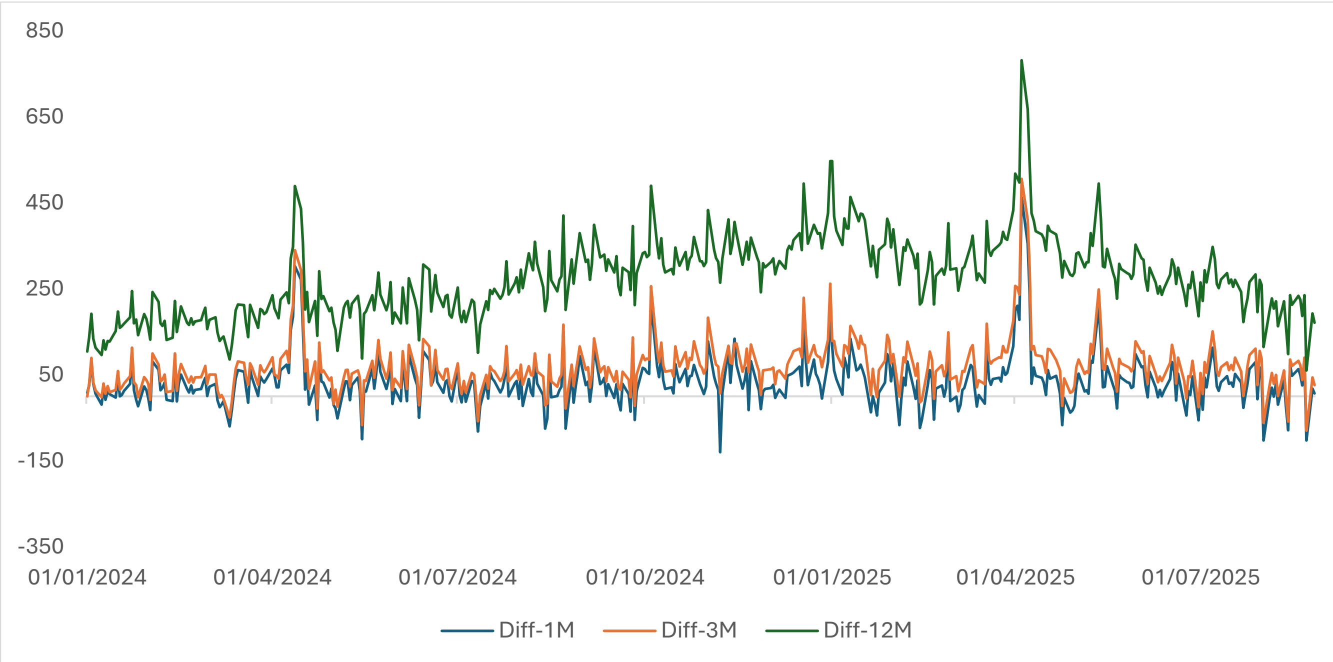


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

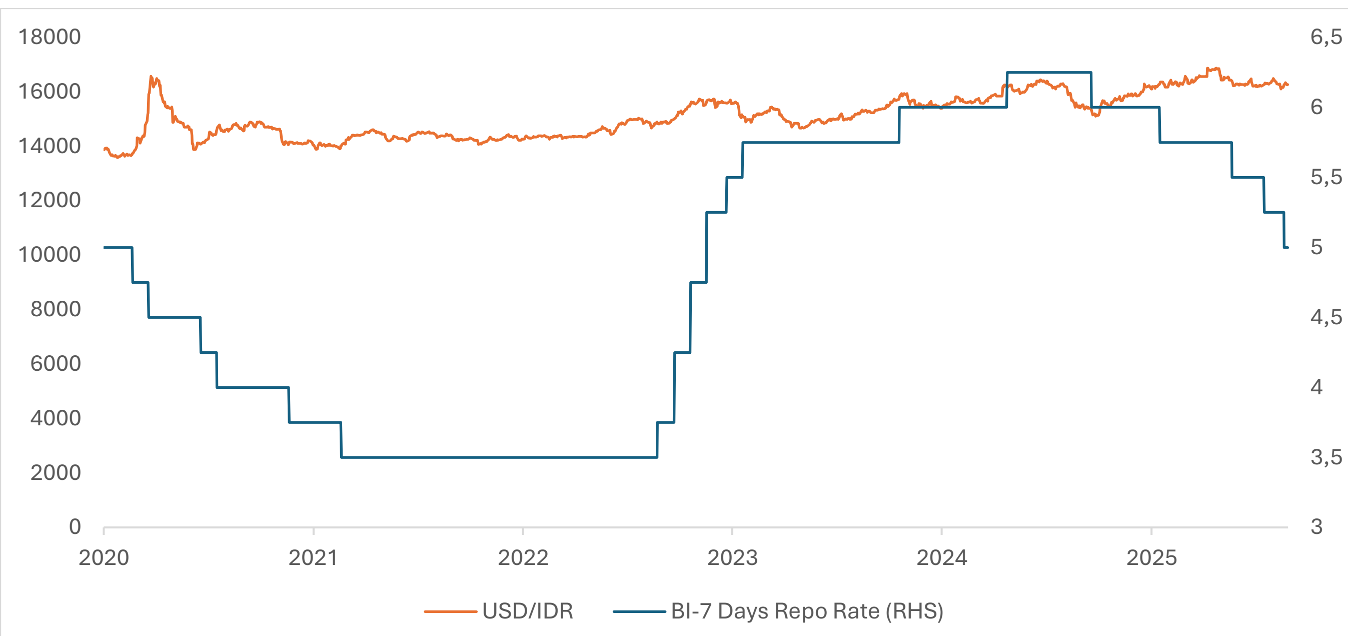


Exhibit 2.3 EM's Exchange Rate Against USD

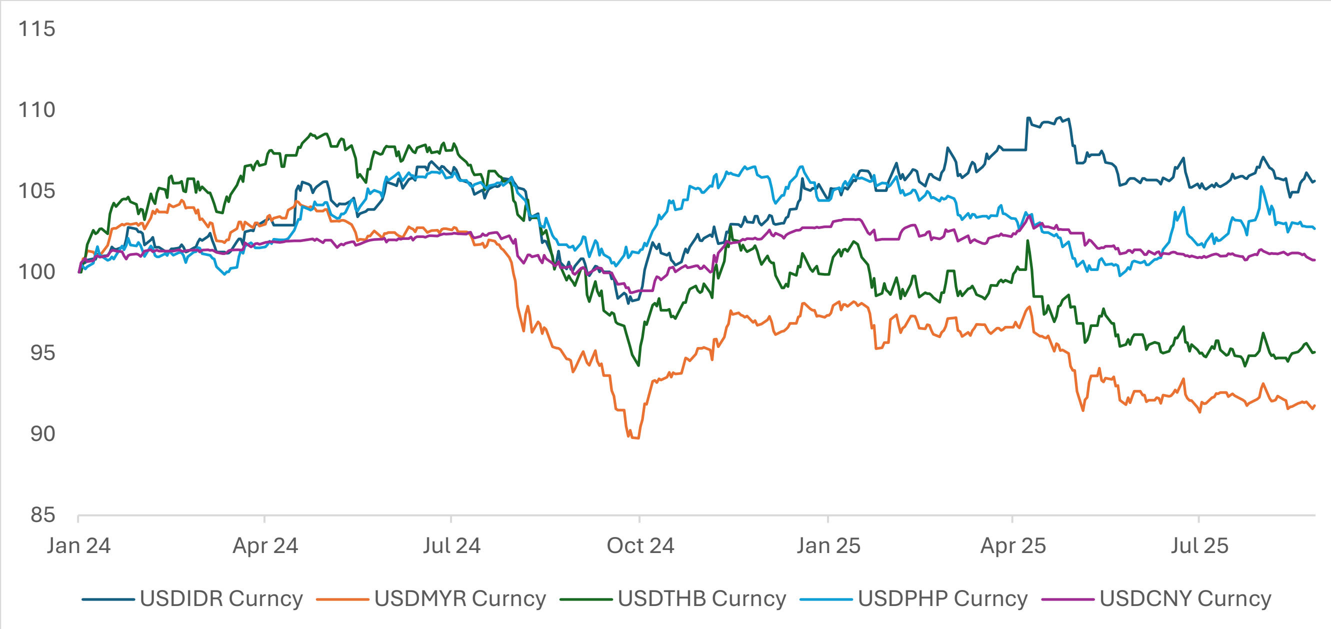


EXHIBIT 3 • INDONESIA'S LIQUIDITY

Exhibit 3.1 JIBOR 1 & 3 M and BI-Rate

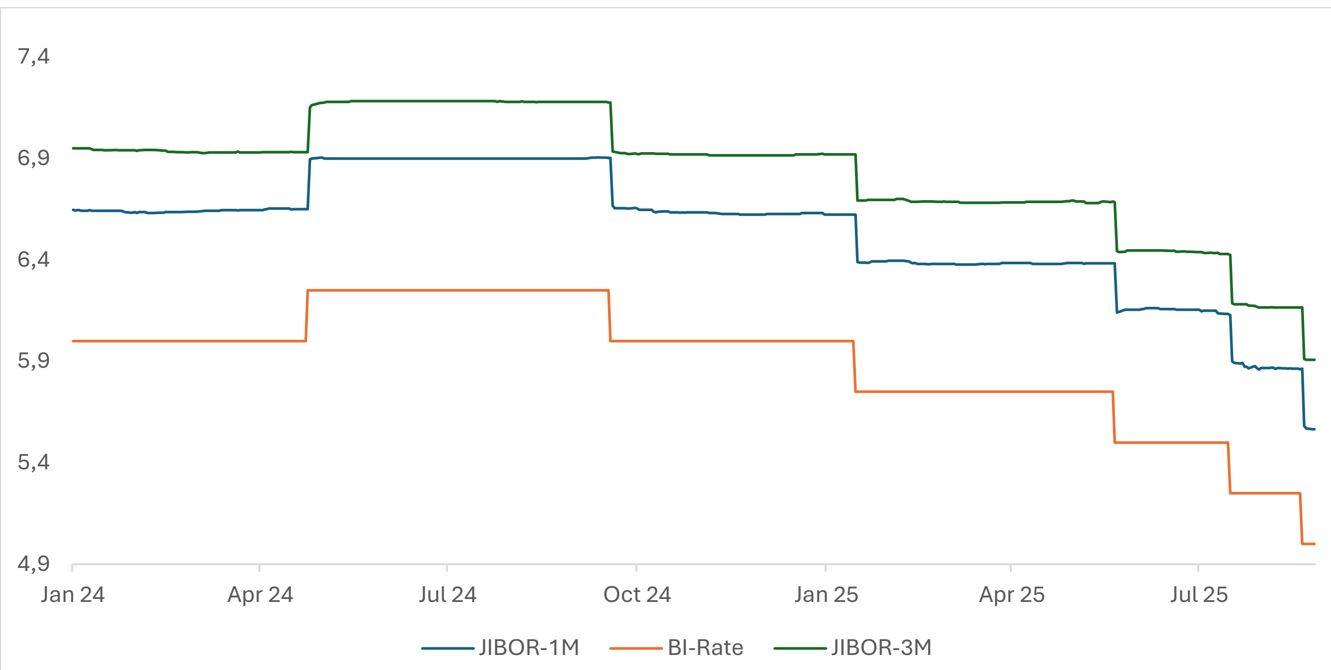


Exhibit 3.2 Monetary Operations of BI

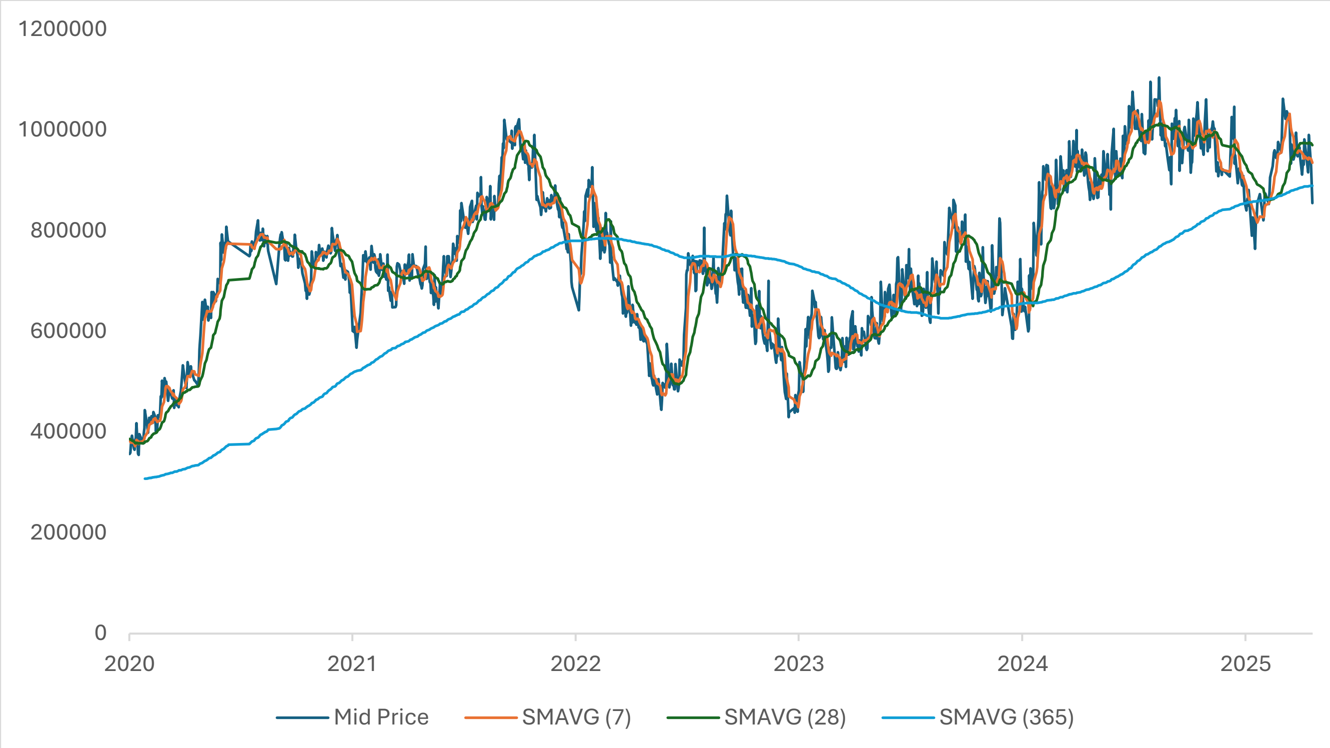


Exhibit 3.3 Indonesia's Net International Reserves USD

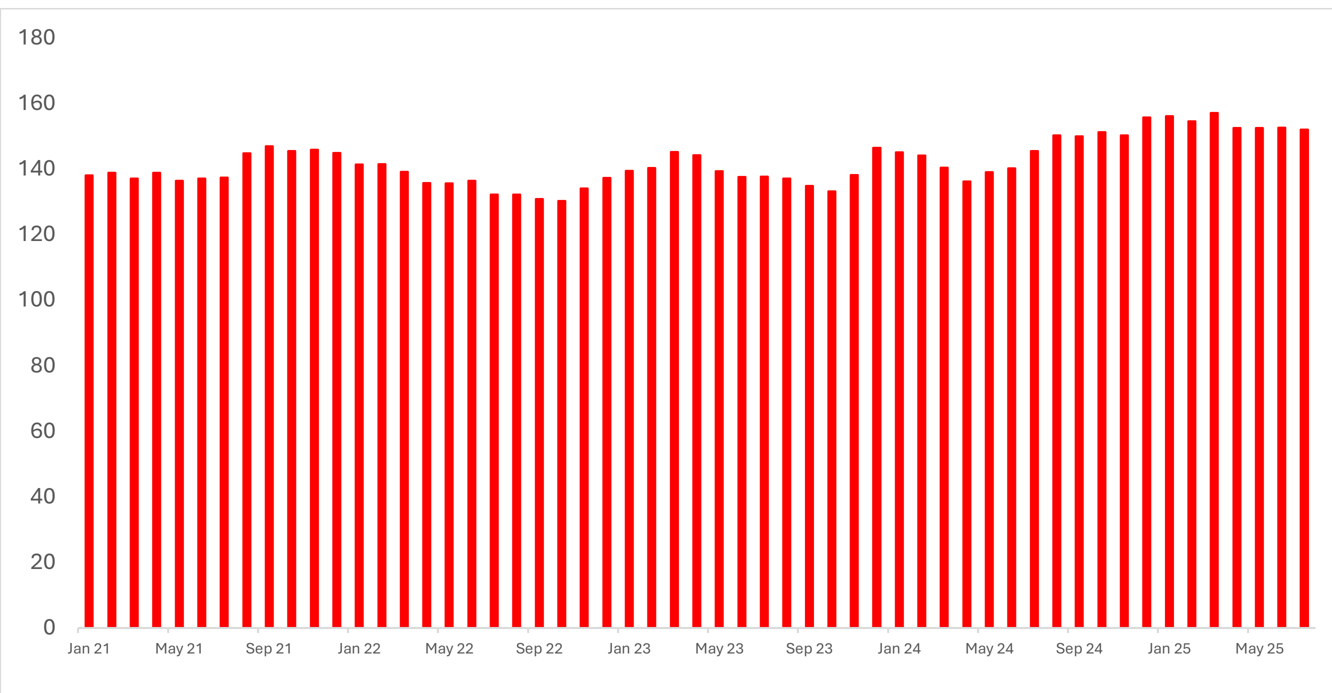


EXHIBIT 4 • FINANCIAL MARKET

Exhibit 4.1 Stock Market Index

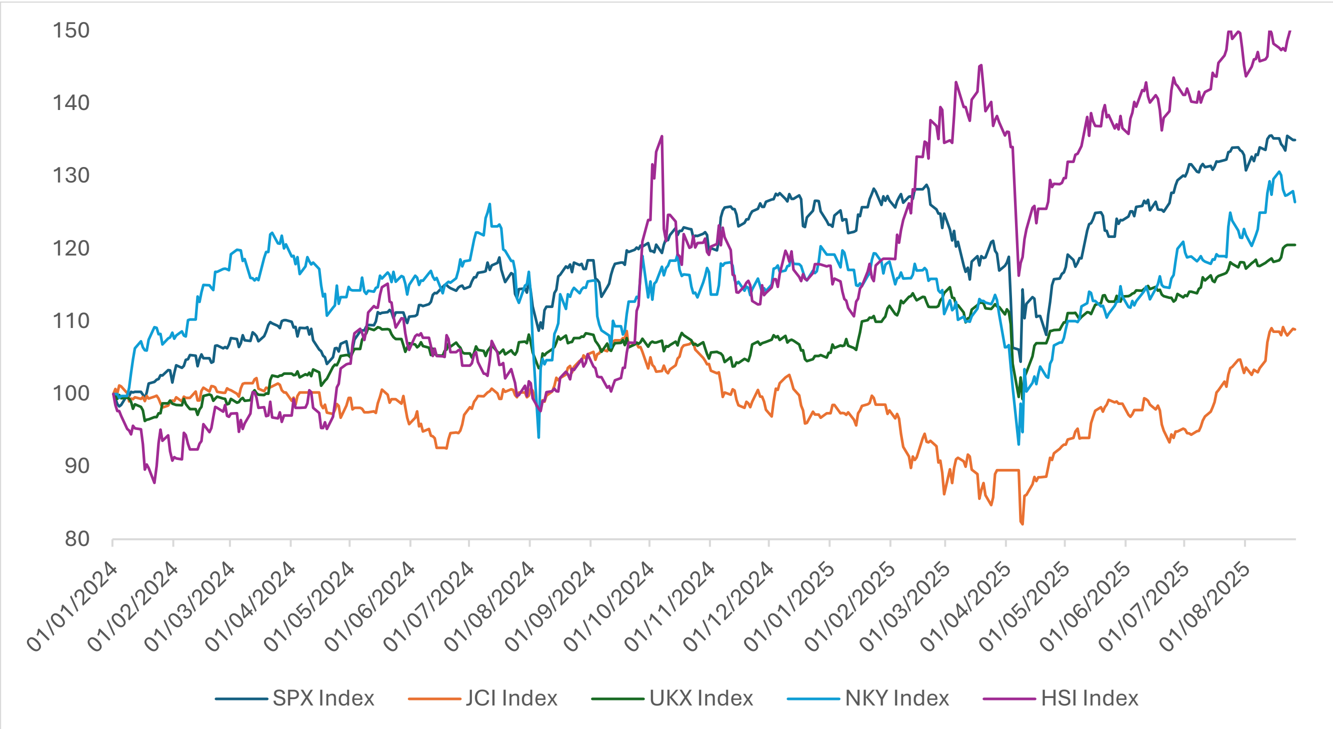


Exhibit 4.2 Indonesia Bond Yield Curve

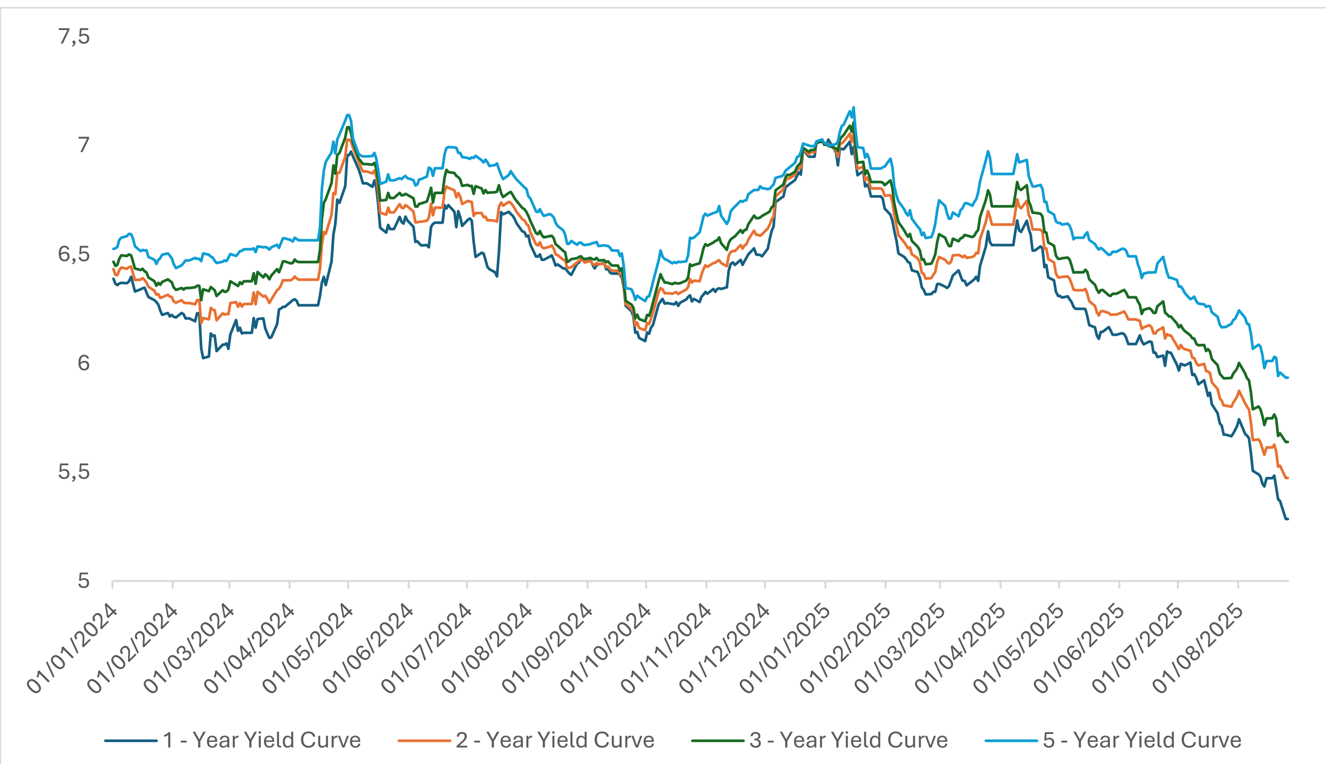


Exhibit 4.3 Indonesia Stock Market & Survivor

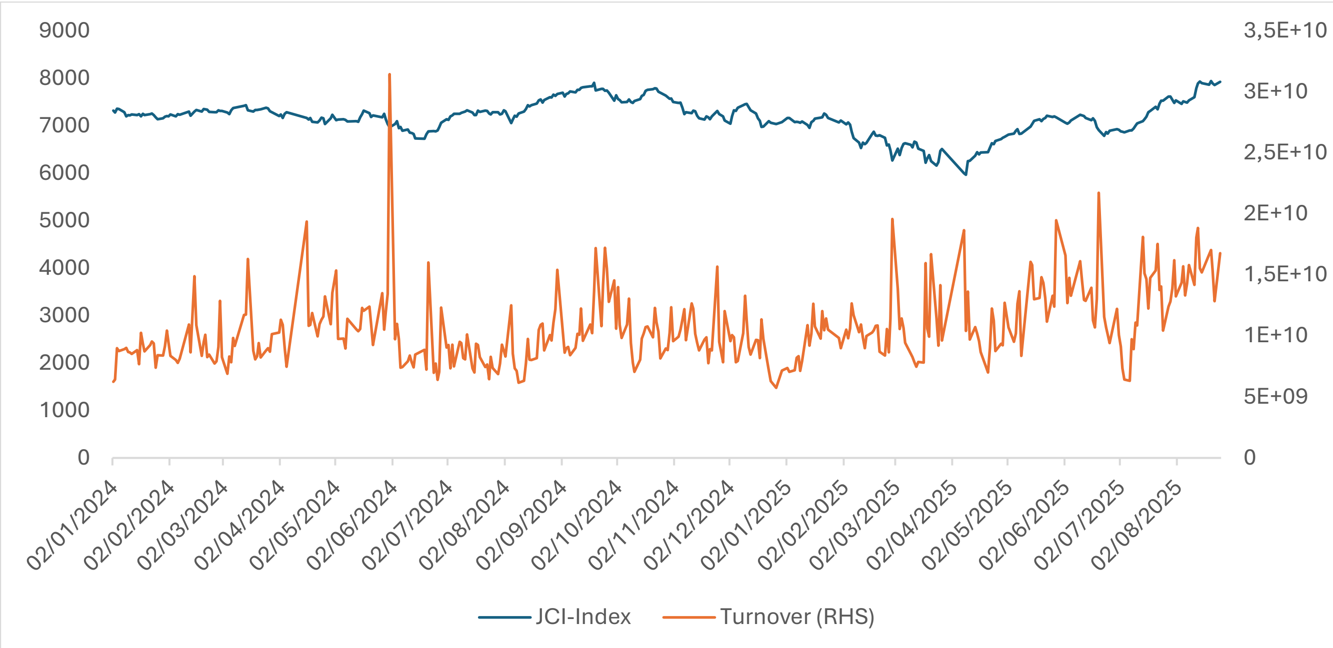
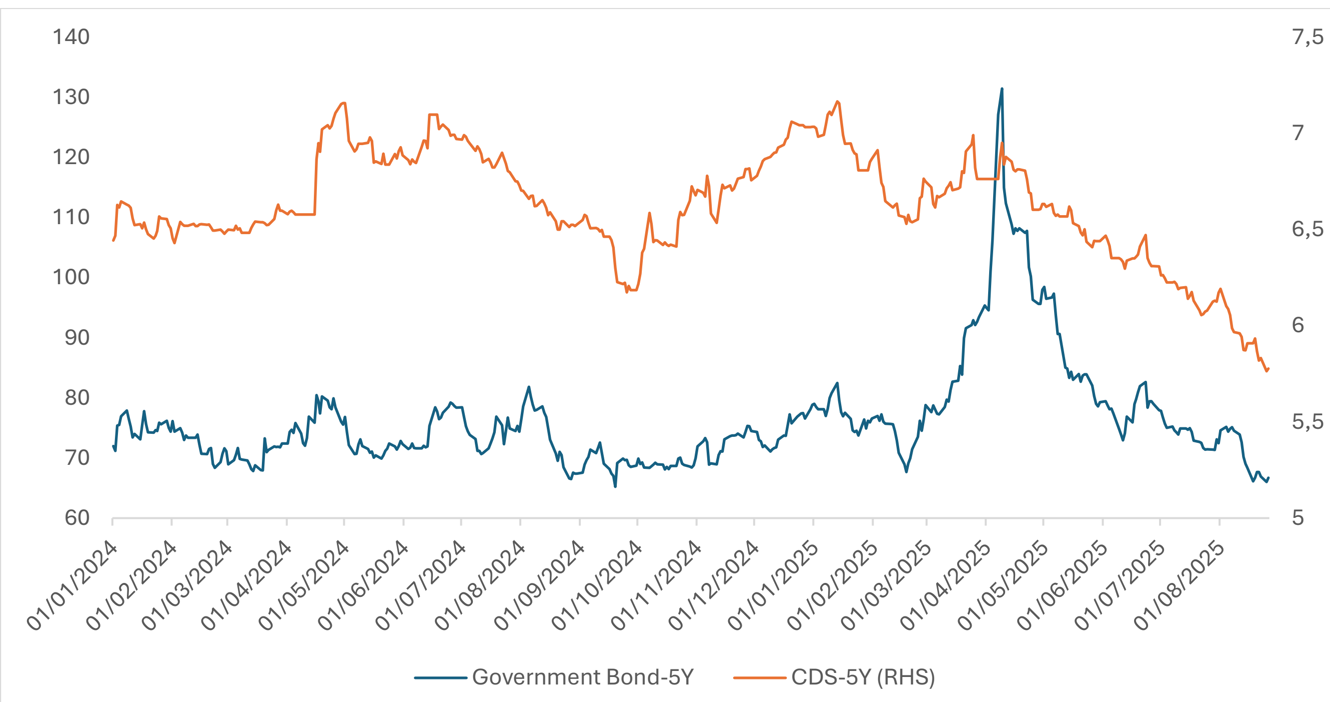


Exhibit 4.4 Indonesia CDS & Government Bond 5Y



FOOTNOTES AND REFERENCES

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

The conversion rate from US 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 (US), 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

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.

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