

REGIONAL ECONOMIC AND FINANCIAL REVIEW NUSANTARA REPORT

JULY 2025



Regional Economic and Financial Review

NUSANTARA REPORT

JULY 2025

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Foreword

The Nusantara Report describes the latest national economic conditions and outlook from a regional perspective. The spatial economic assessments presented in this publication are based on five regions, namely Sumatra, Java, Kalimantan, Bali-Nusa Tenggara (Balinusra) and Sulawesi-Maluku-Papua (Sulampua). The Nusantara Report is published on a quarterly basis by Bank Indonesia in January, April, July and October. This edition of the Nusantara Report focuses on the strategic issue of “Economic Prospects and the Financing Supply and Demand Potential to Support Intermediation and Regional Economic Growth.” This issue is important to explore in the context of the world economic outlook, which is replete with uncertainty that can, ultimately, impact the regional economy. Consequently, the performance of key sectors and financing must be nurtured constantly to maintain solid economic growth. We sincerely hope the Nusantara Report brings valuable insights and benefits to all stakeholders and regional economists. The spirit of optimism is reflected in the design of Bank Indonesia Office Complex in Nusantara Capital City (IKN), which features the Garuda, symbolising the nation’s determination to rise. We are confident that Bank Indonesia can continue supporting economic growth across the Indonesian archipelago. This aspiration is visually represented in the map of the Indonesian archipelago, with a touch of the Tangkawang Ampiek batik motif, which symbolises good fortune and health towards national prosperity.

Jakarta, 18th July 2025

Economic and Monetary Policy Department



Firman Mochtar
Executive Director

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Executive Summary

Regional economic growth in the second quarter of 2025 is expected to be maintained notwithstanding rising global uncertainty. Stronger investment bolstered the economy in all regions. The expansion of downstream capacity in mineral-producing regions such as Sulampua, Kalimantan and Balinusra has underpinned growth in eastern Indonesia. In the case of Sulampua, economic growth was also supported by improving mining exports. Positive export performance also supported growth in Sumatra and Java in line with efforts to frontload shipments to the United States (US) in response to the planned imposition of reciprocal import tariffs. Stronger investment and export performance helped maintain regional economic growth during a period of weaker consumption after Ramadan and Eid-ul-Fitr festive period. By sector, growth was supported by construction in all regions due to increasing infrastructure spending in the private and public sectors. Mining is also expected to strengthen in most regions outside Java as production increases. Meanwhile, strong growth of the manufacturing industry is anticipated in Sulampua and Balinusra, driven by downstream nickel and copper production.

Regional economic performance in 2025 is expected to remain solid, yet efforts are required to accelerate growth further. The role of investment in maintaining regional economic resilience must be sustained in the latter half of the year amid external pressures triggered by the trade war. Large scale investment projects in the petrochemical, automotive and electronics industries located in the Java region as well as downstream basic metal industries in Sulampua, Balinusra and Kalimantan will continue until the end of 2025. Government policy support to foster household consumption and accelerate central and regional fiscal spending is expected to maintain regional economic growth. By sector, additional downstream mineral production capacity is projected to support manufacturing industry performance, particularly in Eastern Indonesia. In addition, agricultural sector improvements in all regions, supported by government priority programs, will also strengthen regional economic performance.

Composite Consumer Price Index (CPI) inflation in all regions remained under control in the second quarter of 2025. Core inflation remained low, reflecting anchored

inflation expectations and the normalisation of domestic demand following Ramadan and Eid-ul-Fitr. Volatile food (VF) inflation was controlled below the 5% target, although it increased relative to the preceding period, given the end of the harvesting season in various regions. Meanwhile, administered prices (AP) inflation accelerated after the Government discontinued its tariff discount policy. At the provincial level, inflation in most provinces remained within the target corridor, with the highest inflation recorded in South Papua at 3.00% (yoy) and the lowest rate in West Papua at 0.67% (yoy) deflation.

CPI inflation in all regions is projected to remain within the 2.5%±1% target corridor in 2025. Bank Indonesia's policy mix is oriented towards anchoring inflation expectations within that range, managing imported inflation as well as the positive impact of digitalisation. Volatile food inflation remains under control due to more conducive weather conditions, improving supply and stronger efforts to manage food inflation between Bank Indonesia and the Central and Regional Government under the auspices of the Central and Regional Government Inflation Control Teams (TPIP and TPID). Various efforts to increase production are aligned with government priority programs to achieve food self-sufficiency, including: (i) additional arable land area, (ii) improvements to production facilities and the distribution of production inputs, and (iii) expanding the use of agricultural technology.

Moving forward, strategic global environmental challenges, including geopolitical risks and the domestic outlook, will continue to demand vigilance. The world economic outlook remains overshadowed by high uncertainty which, in turn, could influence local economies. Domestically, it will be essential to support the performance of key sectors and financing in order to maintain solid economic growth. A policy strategy is required, therefore, that increases banking intermediation, targeting potential sectors based on the characteristics of each region. This edition of the Nusantara Report specifically and comprehensively explores such strategies in Part IV Strategic Issue: *Economic Prospects and the Financing Supply-and-Demand Potential to Support Intermediation and Regional Economic Growth.*

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PART 1

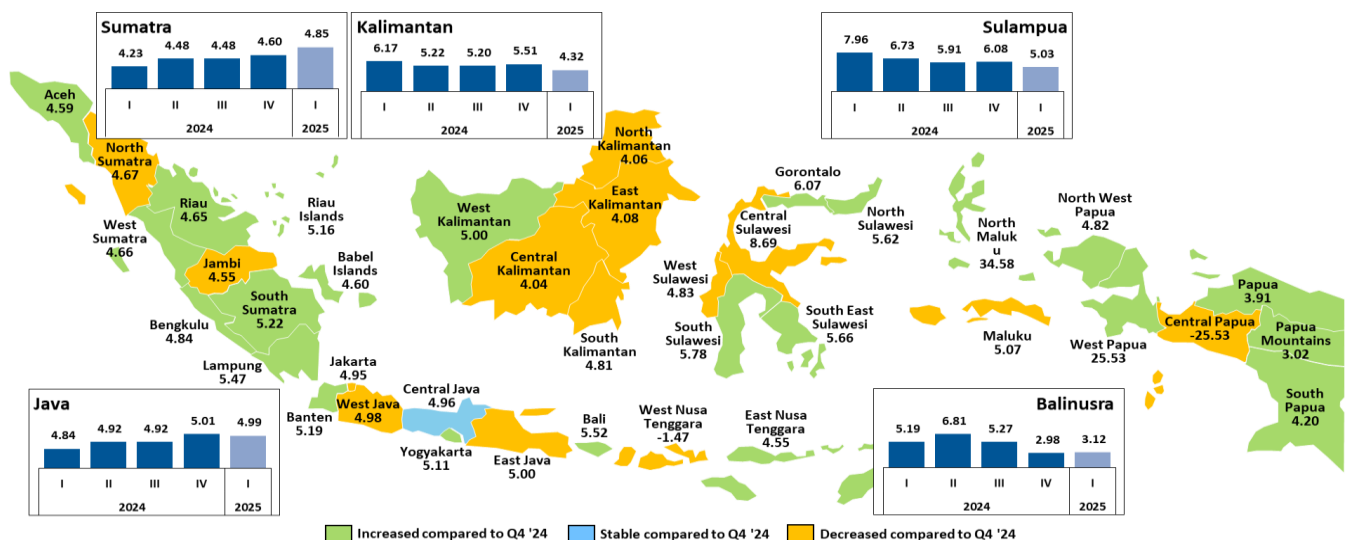
Overview of Recent Regional Economic Developments and Outlook

Regional Economic Growth

Economic growth in the second quarter of 2025 is expected to be maintained in across regions. Domestic demand in all regions was supported by improving investment in line with construction sector performance. Increasing investment was supported by downstream copper and bauxite investment projects, specifically in Balinusra and Kalimantan. This production capacity expansion boosted the performance of the export-oriented basic metal industry significantly in both regions. In addition, external sector performance was also benefited by the frontloading of exports to the US from Java and Sumatra. Exports of several major commodities from both regions, particularly garments, footwear and electronics, increased sharply in the second quarter of 2025. In Sulampua, economic growth was supported by improving mining production and exports previously been hampered by licensing constraints. Such dynamics preserved solid regional economic performance in the second quarter of 2025,

despite moderating household consumption after the Ramadan and Eid-ul-Fitr festive period.

The regional economic outlook for 2025 remains promising despite global economic pressures. Improving investment will continue to underpin regional economic prospects in 2025. Downstream metal investment in Balinusra and Kalimantan is expected to persist, thus strengthening manufacturing industry performance through to the end of the year. Multi-year private investment projects in other regions are also expected to support growth amid limited government investment in 2025. Furthermore, various government policies, including budget reallocation to priority programs and economic stimuli in the form of transport subsidies and stronger social assistance, is expected to positively contribute to regional economic growth in 2025. Externally, the risks posed by US reciprocal import tariffs continue to demand vigilance, particularly the impact in Sumatra and Java, given the high intensity of trade with the US.



Source: BPS-Statistics Indonesia, processed

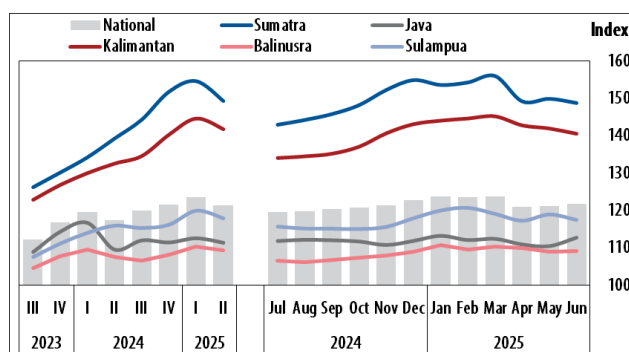
Figure I.1. Map of Regional Economic Growth in Q1/2025

Private Consumption

Private consumption is predicted to be maintained in the second quarter of 2025. Private consumption was supported by increasing household consumption amid restrained consumption growth among non-profit institutions serving households (NPISH) throughout

2025. Household consumption is predicted to maintain high growth in various regions despite the diminishing impact of Ramadan and Eid-ul-Fitr in the reporting period. In terms of income, export performance in various regions is expected to remain solid in the second quarter of 2025 despite the risks posed by the trade war.

Lower-income group also remained solid, as indicated by the farmers' terms of trade (FTT), which remained high in the second quarter of 2025, particularly in Sumatra and Kalimantan (Graph I.1). Disbursements of 13th-month salaries to civil servants in June 2025 is expected to help bolster private income. In addition, the Government also introduced economic stimulus packages in June and July 2025, including transportation subsidies and larger social assistance benefits to Beneficiary Families (KPM), amounting to Rp24.44 trillion. Through the implementation of such policies, household consumption in the second quarter of 2025 is projected to remain solid, despite slight moderation compared with the previous period.



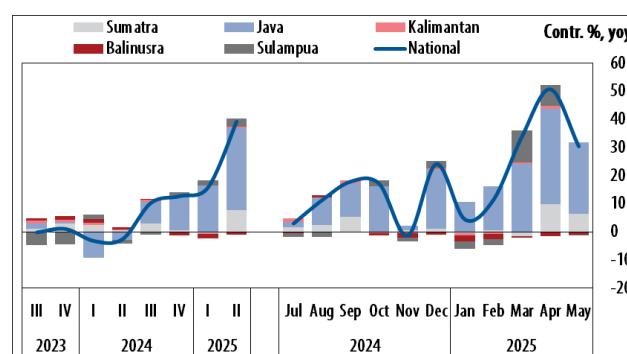
Source: Ministry of Transportation survey, processed
Graph I.1. Farmers' Terms of Trade (FTT)

Private consumption in various regions must be nurtured to maintain growth in 2025. Government policies implemented in the first half of 2025 are projected to have a positive impact on household consumption growth through to the end of the year. Controlled inflation in all regions is also expected to boost household consumption moving forward. The outlook for household consumption in Sumatra and Kalimantan is supported by maintained export income in line with relatively high commodity prices. In Java, lower-income group will be supported by improving agricultural production in response to favourable weather conditions. In addition, the relaxation of official travel policy by the Government is expected to bolster the income of workers in the accommodation and food service activities in line with the persistently high level of inbound international travellers during the first half of 2025. Household consumption in Balinusra is also expected to be supported by maintained income of workers in the agriculture and hospitality sectors, in line with the high level of inbound international travellers.

Investment

Regional investment growth in the second quarter of 2025 is projected to increase in all regions, particularly in

Java. Investment growth was primarily driven by investment in key regional economic sectors, including the manufacturing industry and mining, as well as investment related to government projects. In the Java region, the main contributor to investment growth in the reporting period was private investment in industrial zones. Meanwhile, investment in the basic metal industry, relating to mineral mining and downstreaming, has driven improvements in Sulampua, Kalimantan and Balinusra. Improving investment was confirmed by high growth of capital goods imports in the second quarter of 2025 compared with conditions in the previous period.



Source: Directorate General of Customs and Excise (DJBC), processed

Graph I.2. Imports of Capital Goods by Region

Sustained improvements in investment are required to support economic growth in 2025. Java is projected to remain the primary driver of national investment. Investment in Java will be supported by private investment in the petrochemical, automotive and technology industries located in industrial zones and special economic zones. In addition, ongoing downstreaming investment outside the Java region is expected to support investment performance in Sulampua, Kalimantan and Balinusra. In Sulampua, investment is targeting the development of private projects in the oil and gas mining industry alongside nickel downstreaming. In Kalimantan, the ongoing downstream processing of bauxite into aluminium and alumina will boost investment stemming from the development of basic infrastructure. Meanwhile, in Balinusra, investment in downstream copper production in West Nusa Tenggara is expected to continue, supported by ongoing mining area expansion.

Regional Government Consumption

Regional fiscal performance is projected to improve in the second quarter of 2025 due to the realisation of various government priority programs and stimuli. As of May 2025, the realisation of regional government expenditures outperformed historical trends. This was

driven by increasing procurement of goods and services, primarily in government priority sectors, including operational spending on education and healthcare facilities. Higher spending was also supported by higher locally generated revenue (PAD) from taxes and levies in Java, Sumatra and Balinusra. Nevertheless, the ongoing drafting process for the Revised Regional Budget 2025 and the fulfilment of administrative requirements for disbursing Transfer Fund Allocations to Regions (TKD) have restrained further improvements in terms of higher regional spending.

Table I.1. Transfer Fund Allocations to Regions (TKD)

Transfer to Regions (TKD) (Trillion IDR)	Allocation		Realization				
	2024	2025 Post Efficiency	up to May '24	up to May '25	% up to May '24	% up to May '25	up to May '25 (yoy)
1. Dana Bagi Hasil (DBH)	140.07	159.86	45.12	39.54	32.21%	24.74%	-12.36%
2. Dana Alokasi Umum (DAU)	427.70	430.96	186.24	163.12	43.54%	37.85%	-12.41%
3. Dana Transfer Khusus	187.43	166.93	51.79	56.06	27.63%	33.58%	8.25%
a. Dana Alokasi Khusus (DAK) Fisik	53.82	18.65	1.16	1.20	2.15%	6.46%	3.87%
b. Dana Alokasi Khusus (DAK) Nonfisik	133.09	146.68	50.52	54.76	37.96%	37.33%	8.39%
c. Hibah ke Daerah	0.51	1.61	0.11	0.10	21.72%	6.22%	-10.32%
4. Dana Otas	19.69	15.01	2.84	1.20	14.40%	8.02%	-57.56%
5. Dana Keistimewaan DIY	0.00	0.00	1.14	1.07	0.00%	0.00%	-5.55%
6. Dana Desa	69.00	69.00	28.38	29.21	41.13%	42.33%	2.92%
7. Insentif Fiskal	4.00	6.00	0.82	1.04	20.61%	17.27%	25.63%
TKD	847.89	847.76	316.33	291.25	37.31%	34.36%	-7.93%

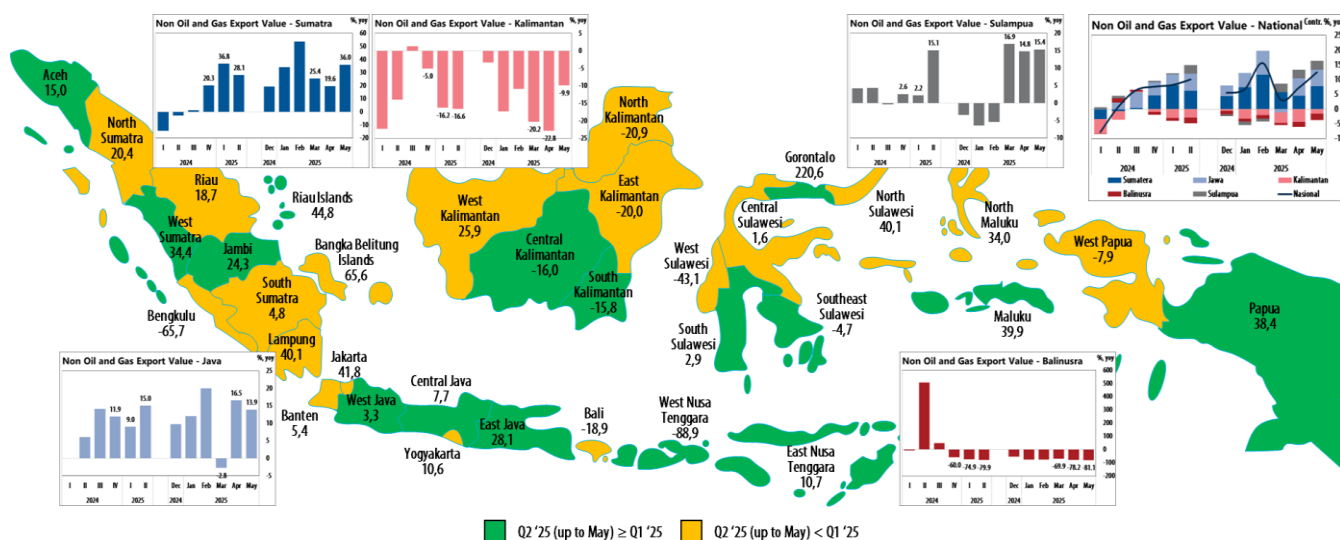
Source: Ministry of Finance, processed

Spending realisation are expected to improve further in the second semester in line with historical trends. Improvements will also stem from the completion of the budget reallocation process in the draft Regional Revenue and Expenditure Budget (APBD) for 2025 and administrative requirements for disbursement of the

Transfer Fund Allocations to Regions (TKD). In addition, spending realisation will also be spurred by an increase of MICE activities by the Government, coupled with the acceleration of government priority programs. Nevertheless, overall regional fiscal performance in 2025 will remain limited due to lower budget absorption than in the previous year.

International Exports

Regional non-oil and gas export performance in the second quarter of 2025, as of May, maintained positive growth, primarily supported by Java and Sulampua. Increasing exports from the Java region were primarily driven by persistently higher demand for gold as a safe-haven asset against a backdrop of high global uncertainty. On the supply side, operation of the Precious Metal Refinery (PMR) in Gresik in March 2025 will boost precious metal exports. Increasing exports from Java was also influenced by the frontloading of shipments to the US in anticipation of reciprocal tariffs implementation. Indications of frontloading exports to the US were also observed in the Sumatra and Kalimantan regions in terms of electronics and CPO commodities. Meanwhile, exports from the Sulampua region were quickened by policy to relax copper concentrate exports by the government, effective from April to September 2025.



Source: Directorate General of Customs and Excise (DJBC), processed (Q2/2025 data as of May 2025)

Figure I.2. Map of Regional Non-Oil and Gas Export Growth in Q2/2025 (% yoy)

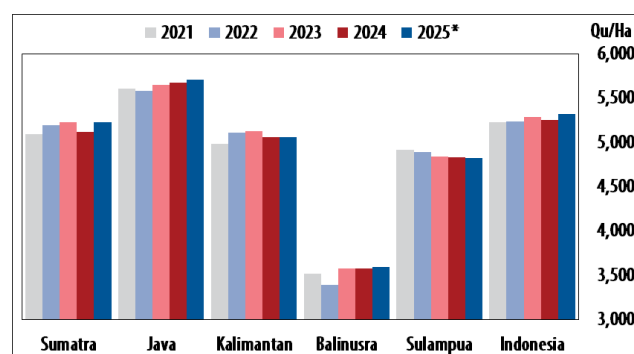
The regional export commodity outlook for 2025 is expected to remain resilient despite global conditions overshadowed by high uncertainty. The export outlook for downstream minerals in Eastern Indonesia is projected to remain positive. Iron and steel exports from Sulampua are forecast to maintain growth on the back of

Chinese demand for nickel pig iron and ferronickel. Export prospects in Sulampua are also supported by ongoing efforts to increase production capacity in Central Sulawesi and North Maluku. In Kalimantan, exports of downstream minerals are supported by additional production capacity in the alumina industry.

Nevertheless, the increase in downstream commodity exports has thus far failed to offset downside pressures on coal exports. Growth of downstream exports will also continue in Balinusra in line with increasing production during the gradual downstream transition process through to the end of 2025. Meanwhile, the export outlook for Java and Sumatra will face challenges following the implementation of reciprocal import tariffs by the US in the latter half of the year, despite maintaining solid exports of gold, CPO and electronics.

Agriculture

Agricultural sector performance in the second quarter of 2025 is forecast to moderate given the end of the harvesting season. The harvesting seasons for rice and corn occurred earlier in 2025, shifting to the first quarter compared with the second quarter in the previous year. A shift in the harvesting season was observed in all regions due to more conducive weather conditions. Notwithstanding, agricultural sector performance in the second quarter of 2025 is expected to remain positive, supported by the production of shallot, onion and chilli varieties in Java and fresh fruit bunches (FFB) in Sumatra, among others.



Source: BPS-Statistics Indonesia, processed

Notes: *projected as of June 2025

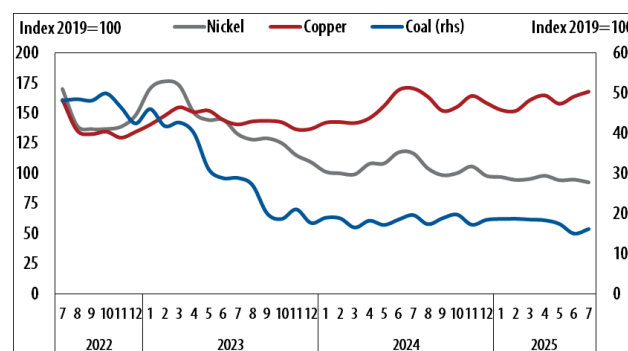
Graph I.3. Rice Productivity

Throughout 2025, the agricultural sector is projected to record stronger growth compared to the previous year. More favorable weather conditions and government support programs will galvanise production gains over the year. The production of food crop, particularly rice in Java, Sumatra and Kalimantan, is expected to outperform conditions in 2024. The increase in rice production is supported by productivity improvement (Graph I.3) in line with various government policy to accelerate food self-sufficiency target. Policy intervention includes: (i) expanding arable land area by optimising wetlands, (ii) enhancing production facilities, such as irrigation and the provision of pumps, and (iii) facilitating fertiliser distribution and the use of

agricultural technology, such as greater use of mechanisation. Meanwhile, restrained FFB production is expected due to lower productivity, coupled with limited realisation of the Palm Oil Rejuvenation Program (PSR).

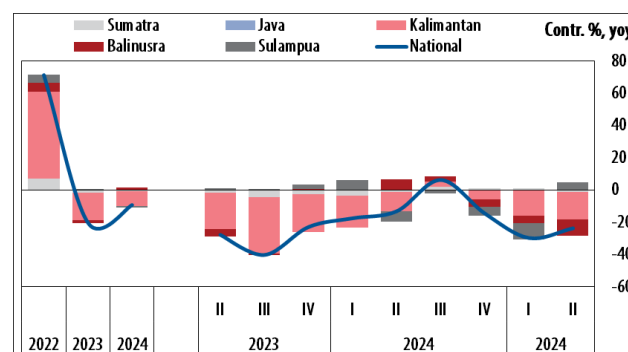
Mining

In the second quarter of 2025, mining sector performance improved in Sumatra, Kalimantan and Sulampua. Mining performance in Sumatra increased due to additional oil lifting capacity on Natuna Island and ongoing implementation of the Development Drilling Program (DDP), which strengthening oil and gas production in mature wells. Government policy to extend copper concentrate export permit and the commissioning process of the Gresik smelter in June 2025 have also boosted mining sector performance in the Sulampua. Meanwhile, in Kalimantan, stronger mining performance due to increasing coal production to meet domestic demand. In contrast, mining in the Balinusra region is expected to remain under pressure due to declining copper ore quality during the expansion phase.



Source: Ministry of Energy and Mineral Resources (ESDM), processed

Graph I.4. Reference Prices of National Mining Commodities



Source: Directorate General of Customs and Excise (DJBC), processed

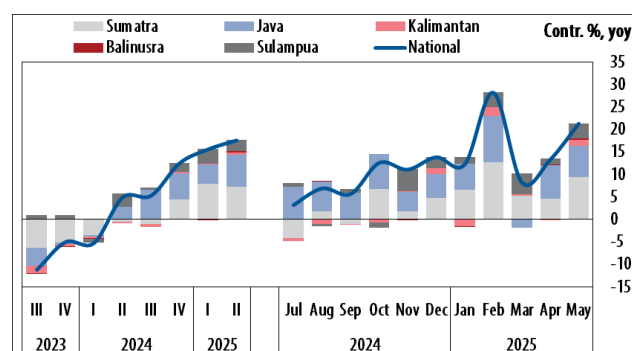
Graph I.5. Value of Mining Exports by Region

The mining sector outlook for 2025 is projected to remain subdued. A lower coal production plan compared with conditions in the previous year, coupled with softer global demand for coal, is expected to limit mining sector

growth in Kalimantan. While improvement in the following second-quarter, overall copper mining performance in Sulampua is forecast to remain limited due to export quotas that will end in the second semester. In Balinusra, production pressures that emerged in the second quarter are expected to persist until the end of the year. Meanwhile, mining performance in Sumatera is projected to improve, supported by rising oil and gas production.

Manufacturing Industry

Manufacturing industry performance is projected to remain solid in the second quarter of 2025. Manufacturing exports increased in the reporting period, underpinned by improving exports from Java (Graph I.6). Manufacturing performance in Java was supported by increasing production of textiles, footwear and electronics to meet US demand before the implementation of import tariffs. Meanwhile, domestic demand has normalised following the Ramadan and Eid-ul-Fitr festive period. Manufacturing industry performance accelerated significantly in Balinusra during the reporting period in response to improvements in the export-oriented downstream copper production industry located in West Nusa Tenggara. In other regions, manufacturing industry performance is expected to remain solid despite moderation compared to the previous period. The metal industry in Kalimantan maintained strong growth, particularly the alumina industry in West and North Kalimantan, due to a significant capacity expansion. In Sulampua, the nickel downstream industry remained the primary contributor to manufacturing industry growth in the region. In Sumatra, moderating CPO production is anticipated to impact local manufacturing industry growth, despite solid performance in the electronics industry to meet US demand during the reporting period.



Source: Directorate General of Customs and Excise (DJBC), processed

Graph I.6. Value of Manufacturing Exports by Region

The downstream mineral processing industry will continue propping up manufacturing industry performance in 2025, particularly in Eastern Indonesia.

The success of nickel downstreaming policies to support national economic growth during the pandemic has prompted the expansion of similar policies to other key mining commodities, particularly bauxite and copper. Rapid development of the downstream industries for both mining commodities will bolster manufacturing industry performance in Kalimantan and Balinusra. Development of the alumina and aluminium industries in Kalimantan is expected to have a positive impact on manufacturing industry performance, which has accelerated significantly in 2025. In Balinusra, increasing production capacity in the downstream copper industry will continue gradually through to the end of 2025. Improving manufacturing industry performance in Sulampua is being driven by high growth of the downstream nickel industry in Central Sulawesi, Southeast Sulawesi and North Maluku. In Sumatra and Java, the manufacturing industry outlook will be influenced more by domestic demand. The CPO industry in Sumatra is projected to maintain growth to meet domestic demand for biodiesel. In Java, various government food security programs will strengthen the food and beverages industry, particularly in Central Java and East Java.

Trade

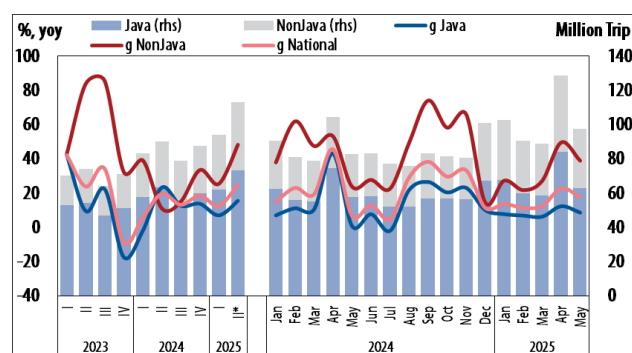
Trade sector performance in the second quarter of 2025 is expected to be maintained in various regions. World trade dynamics influenced trade sector performance, accompanied by moderating domestic trade after the recent Ramadan and Eid-ul-Fitr festive period. In Sumatra, positive trade sector performance was supported by persistently solid exports, primarily electronics bound for the US. Domestic retail trade was also maintained, underpinned by upbeat consumer sentiment. Trade sector performance in Java was also supported by the frontloading of various manufacturing export commodities to the US. In Balinusra and Sulampua, trade sector performance was supported by exports of mining and manufacturing commodities. In addition, persistently high inbound international travellers boosted trade sector performance in the Balinusra region. In Kalimantan, trade sector performance in the second quarter of 2025 is expected to moderate due to the impact of domestic trade and exports.

In 2025, trade sector performance will be driven by positive performance in Sumatra, Balinusra and

Kalimantan. Improvements in Sumatra will primarily stem from export performance, which will strengthen intermediary services. In Balinusra, trade sector performance in 2025 is forecast to improve due to increasing inbound international travellers, which will reinforce retail sales performance. In Kalimantan, trade sector performance in the second semester of 2025 will be supported by several large events held in West Kalimantan and South Kalimantan, as well as maintained household income. In other regions, more limited trade sector performance is anticipated compared with conditions in the previous year.

Accommodation and Food Service Activities

The performance of accommodation and food service activities in the second quarter of 2025 is expected to be maintained. Sectoral performance was primarily driven by the Balinusra and Sumatra regions. The high season for tourism (summer holiday) triggered an influx of international travellers to the Balinusra region. Meanwhile, increasing community mobility during the long weekend and school holiday period boosted sectoral performance in Sumatra and maintained solid performance in other regions. Accommodation and food service activities also improved given increasing community mobility, as reflected by the increasing number of domestic travellers taking trips in the second quarter compared with conditions in the previous period (Graph I.7). In addition, government policies in the form of discounted toll charges and domestic airfares during the school holidays also supported the increased trips in the reporting period, which ultimately strengthened the accommodation and food service activities sector.



Source: BPS-Statistics Indonesia, processed

Notes: Quarterly data is an average of 3 months

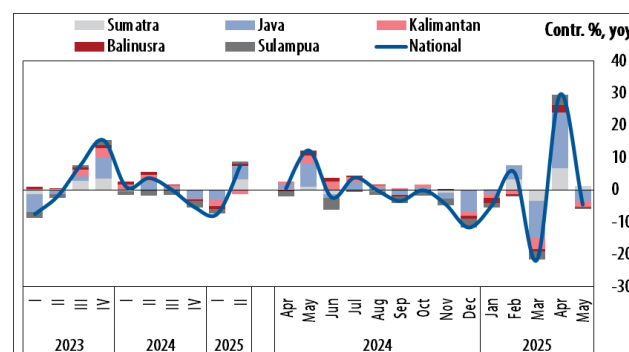
Graph I.7. Movement of Passengers on Public Transportation

The outlook for accommodation and food service activities in 2025 remains solid. As the main international gateways, Balinusra, Java and Sumatra will support overall performance in 2025. In addition to inbound

international travellers, international and private sector MICE activities, particularly in the Balinusra and Java regions, will also bolster accommodation and food service activities in 2025. Various government policies to support accommodation and food service activities, including a streamlined visa process for international travellers to the Riau Islands from Singapore alongside additional international flights, primarily in Java and Balinusra, will also maintain solid sectoral growth. Notwithstanding, stimuli from government MICE activities in 2025 will be more limited compared with conditions in the previous year.

Construction

Construction sector performance is expected to increase in the second quarter of 2025 in all regions, particularly Java. Construction sector growth was driven by government infrastructure and private construction projects. Construction sector performance in Java was supported by private construction projects in the textile, copper and petrochemical industries located in special economic zones and industrial estates as well as the construction of national strategic projects (PSN), which are targeted for completion in 2025. Private construction projects also supported sectoral performance in Kalimantan, Sulampua and Balinusra. Meanwhile, construction sector performance in Sumatra was primarily supported by government infrastructure projects, including development of the Jambi, Pekanbaru and Palembang sections of the Trans-Sumatra Toll Road (JTTS). Construction sector improvements in the reporting period were also confirmed by cement sales, which accelerated compared with conditions in the previous period (Graph I.8).



Source: Indonesia Cement Association (ASI), processed

Graph I.8. Cement Production

Construction sector performance in 2025 in various regions is projected to remain solid, particularly in Balinusra. Construction in Balinusra is primarily supported by projects located in Tourism Special Economic Zones (TSEZs), supporting infrastructure for

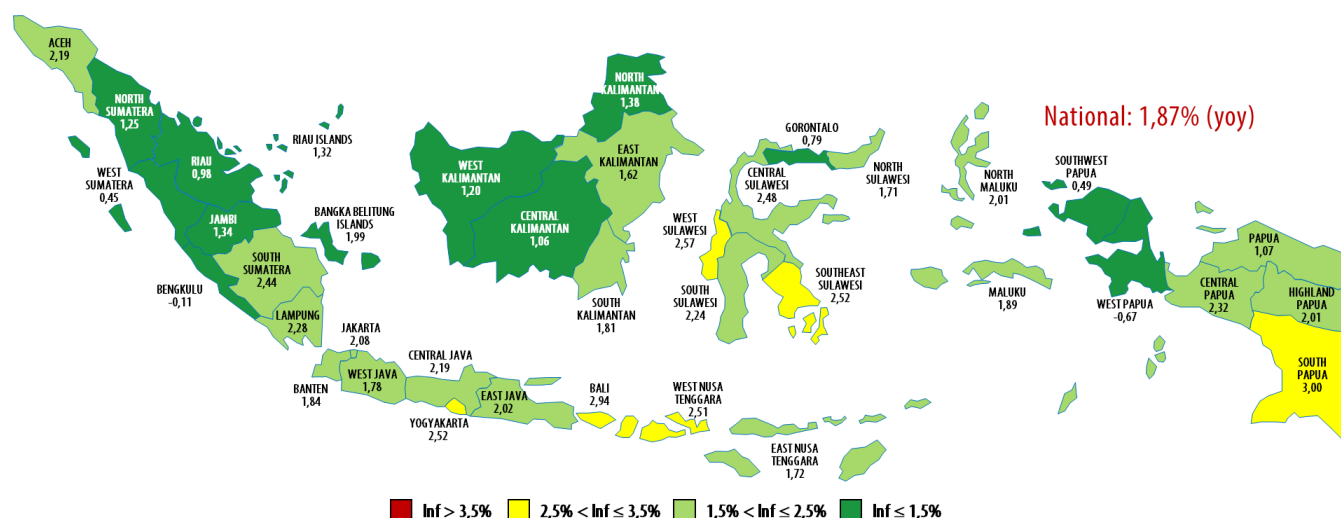
mining activity in West Nusa Tenggara and ongoing development projects for accommodation, mainly in Bali. Ongoing private construction projects in industrial zones in Java will continue powering construction sector performance in 2025. Meanwhile, in Sulampua, development projects in the mining sector and basic metal industry in Sulawesi and North Maluku will

support regional construction sector performance. In Kalimantan, construction sector improvements will stem from the development of the basic metal industry in West Kalimantan and North Kalimantan as construction activity in the new Nusantara Capital City (IKN) begins to slow.

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PART 2

Recent Regional Information Developments and Outlook



Source: BPS-Statistics Indonesia, processed

Figure II.1. Map of CPI Inflation by Province in Q2/2025 (% yoy)

Composite Consumer Price Index (CPI) inflation remained under control in all regions in the second quarter of 2025. Nationally, CPI inflation in the second quarter of 2025 was recorded at 1.88% (yoy), increasing from the rate recorded in the first quarter of 2025 yet below the historical trend. Core inflation remained manageable in line with anchored inflation expectations, the limited impact of exchange rates and softer demand after the Ramadan and Eid-ul-Fitr festive period. Completion of the harvesting cycle edged up VF inflation, which nevertheless remained under control and below the 5% target. Meanwhile, a build-up of inflationary pressures in the reporting period primarily stemmed from administered prices (AP) after the Government ended its tariff discount policy following Ramadan and Eid-ul-Fitr. At the provincial level, the highest CPI inflation was recorded in South Papua at 3.00% (yoy) and the lowest in West Papua at 0.67% (yoy) (Figure II.1).

Low core inflation was maintained in the second quarter of 2025 in all regions. Low core inflation was maintained due to monetary policy consistency by Bank Indonesia, well-anchored inflation expectations, the expansion of digitalisation and the passthrough effect of controlled VF inflation. Externally, milder core inflationary pressures were primarily influenced by weaker inflationary pressures on gold jewellery in line with the downward international gold price trend. Domestically, milder core inflationary pressures were impacted by the normalisation of demand after the Ramadan and Eid-ul-

Fitr festive period. The main contributors to inflation in the reporting period included gold, powdered coffee and cooking oil. At the provincial level, inflationary pressures on those three commodities were highest in the provinces of Southeast Papua for gold, Papua for powdered coffee and Highland Papua for cooking oil.

Volatile food inflation was well maintained below 5%. In the second quarter of 2025, realised VF inflation was higher compared with the previous period was due to the end of the rice harvesting cycle. VF inflation was also edged upwards by horticultural crops, including various chili varieties, given unseasonally high rainfall during the dry season that disrupted production at several hubs, such as Central Java and West Sumatra. Notwithstanding, realised VF inflation in the reporting period was below the historical trend, supported by increasing domestic supply given favorable weather conditions and government policy intervention to boost food production. VF inflation also remained manageable due to strong synergy in inflation control effort within the Central and Regional Government Inflation Control Teams (TPIP and TPID).

Administered prices inflation increased in all regions. The main contributors to AP inflation in the second quarter of 2025 were cigarettes and water supply (PAM). The retail selling price of cigarettes rose in all regions, while PAM tariffs also increased in several provinces of Sumatra and Java. Nevertheless, higher inflationary pressure were offset by deflation in travel fares given the

range of incentives offered on public transportation during Eid-ul-Adha and the school holidays. These included a 30% discount on train fares in Java and a 6% discount on airfares in all regions. Spatially, the deepest deflation on passenger transportation services were observed in Eastern Indonesia Region, specifically the provinces of Highland Papua, West Sulawesi and Central Kalimantan.

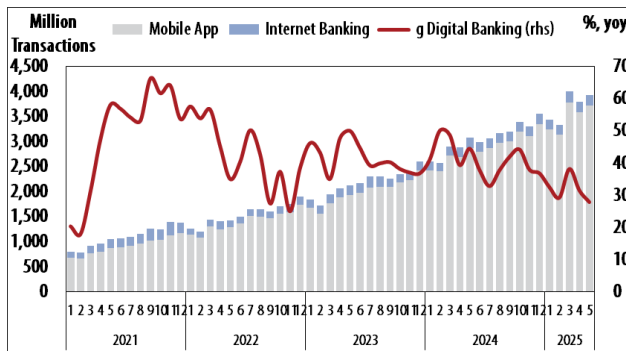
CPI inflation in all regions in 2025 is projected to remain within the 2.5%±1% target corridor. Inflation will remain under control and within the target range in line with anchored inflation expectations, managed imported inflation, controlled passthrough effect of VF inflation, as

well as the positive impact of digitalisation. In terms of volatile food, inflation will remain on target below 5% (yoy), supported by improving supply conditions in production hubs in line with efforts to control inflation. The main focus of efforts to control food inflation aims to ensure seamless distribution from producing to non-producing regions, while maintaining supply availability and monitoring prices in all regions. Bank Indonesia will also continue strengthening coordination with the central and regional Government within the Central and Regional Government Inflation Control Teams (TPIP and TPID) and strategic partnerships through the National Movement for Food Inflation Control (GNPIP).

PART 3

Recent Payment System and Rupiah Currency Management Developments

Indonesia's digital economic and financial transactions continued to indicate positive growth. As of May 2025, the volume of digital payments transactions, covering payments through mobile applications and internet banking, posted 27.88% (yoy) growth (Graph III.1). Similarly, the volume of electronic money transactions also increased by 27.37% (yoy) on the back of credit card transaction growth. Digital payment transaction volume through QRIS continued to record impressive growth of 151.70% (yoy), supported by increasing numbers of registered users and merchants, totalling 56.8 million and 38.6 million, respectively (Graph III.2).

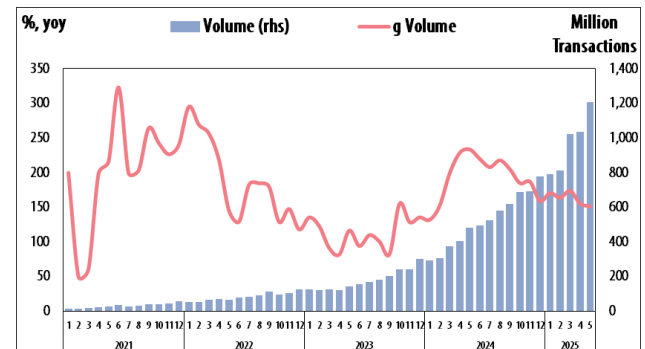


Source: Bank Indonesia, processed

Graph III.1. Digital Banking Transactions

Bank Indonesia payment system transactions and currency in circulation maintained positive growth. The volume and value of transactions via BI-FAST grew by 45.45% (yoy) and 37.00% (yoy), respectively. Increasing use of cashless transactions is reflects improved economic efficiency and transaction velocity, thereby supporting economic growth. Meanwhile, cash

transactions also continued to grow positively. Currency in circulation in May 2025 recorded 10.1% (yoy) growth, improving from 7.28% (yoy) the month earlier, thus indicating growing demand for cash following the end of Eid-ul-Fitr period.



Source: Bank Indonesia, processed

Graph III.2. QRIS Transactions

Bank Indonesia will continue fostering digitalisation for economic development and to increase productivity. The digital payment system is key to accelerating development of the digital economy and finance. In synergy with the Central and Regional Government, Bank Indonesia continues implementing payment system digitalisation by expanding the electronification of regional government transactions, the electronification of the transportation sector as well as the electronification of other sectors. In addition, Bank Indonesia is striving to increase acceptance of the digital payment system through education and literacy in synergy with the Government, regional governments and other relevant stakeholders.

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PART 4

Strategic Issue: Economic Prospects and the Financing Supply and Demand Potential to Support Intermediation and Regional Economic Growth

Introduction

The global economy is replete with heightened uncertainty, accompanied by a sluggish domestic economic outlook. Restrained global GDP growth in 2025 is projected at 3.0%, overshadowed by the risk of price fragmentation affecting several commodities, except gold, coupled with persistently elevated global uncertainty and risk. Escalating geopolitical tensions, including conflicts in the Middle East, could also trigger disruptions in the national economy, particularly disruptions in the global supply chain and increasing imported inflation. Domestically, the economic outlook is sluggish amid uncertainty caused by structurally segmented financial markets, including the banking sector. Consequently, the respective policy mixes of Bank Indonesia as well as the Central and Regional Government are required to maintain economic growth and regional inflation within the targets set, while potentially improving the productivity and capacity of several key sectors moving forward.

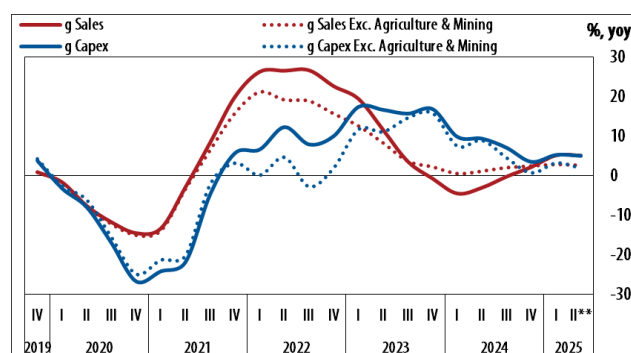
Bank Indonesia continuously strengthens economic stability in pursuit of sustainable economic growth through its policy mix. To that end, monetary policy is focused on maintaining price and exchange rate stability, while macroprudential policy is oriented towards reviving the bank intermediation function optimally and maintaining the stability of the financial system. Strengthening banking intermediation, Bank Indonesia has formulated various macroprudential policy instruments, including Macroprudential Liquidity Incentive Policy (KLM), effective from 1st October 2023, for conventional commercial banks, sharia commercial banks and sharia business units (Islamic windows). Through KLM policy, the banking industry has more room to disburse financing, thereby strengthening liquidity while keeping credit risk low. On the demand side, the KLM incentives also support corporate growth and maintain public purchasing power by increasing household consumption. In addition, targeted macroprudential incentives could potentially strengthen sectoral performance, nationally and regionally.

Supporting intermediation and regional economic growth requires strategies to optimise the demand and supply sides by mapping out potential sectors and the financing constraints faced by businesses and banks. On the demand side, corporate performance as an aggregate has been maintained, as reflected in strong growth in sales and capital expenditures (CapEx) in all regions, coupled with a solid repayment capacity (ICR). On the other hand, various challenges have emerged, including highly dynamic global and domestic conditions as well as the dominant use of internal funds in business plans, expansion and investment, which could potentially intensify pressures on corporate performance. In addition, moderating MSME performance also demands attention. On the supply side, credit growth generally remains within the target set by Bank Indonesia, accompanied by well-mitigated credit risk. Several financing challenges require strategic policy support relating to moderating intermediation, limited risk appetite in the banking industry as well as slower MSME loan growth, coupled with increasing risk, among others.

Efforts to foster banking intermediation could be strengthened through synergy and coordination between the central and regional governments, as well as by increasing financing disbursed to potential sectors. Such a strategy should focus on honing financing schemes, expanding access and policy incentives to maintain financing prospects. Innovative financing models and policy transformation through synergy and coordination with financial authorities as well as government ministries/agencies in each region must be strengthened and implemented in a structured manner. Policy strengthening efforts will focus on optimising KLM incentives, targeting potential sectors in each region, which includes developing appropriate business models and financing schemes. Through various strengthening efforts and the strategies deployed, the credit growth target is expected to be maintained within the 8-11% range in 2025 and 8-12% in 2026, with economic growth targeted at 4.6-5.4% in 2025 and 4.7-5.5% in 2026, while optimising the KLM incentives to achieve the 5% target set.

Demand-Side Assessment

As an aggregate, corporate performance was maintained, with further potential to increase credit. Corporate sales and CapEx are projected to maintain positive growth, driven by the mining and agricultural sectors (Graph IV.1), while a moderation is primarily in the trade sector due to still-weak consumer purchasing power. Spatially, corporate sales remain positive yet limited in all regions in line with relatively high corporate capital spending despite restraint observed in Sumatra. In general, the corporate sector is increasing capital spending for business expansion to support sales activities amid persistently high global uncertainty and risk. Increasing investment and sales needs could potentially boost the demand for financing. In addition, there are opportunities for banks to channel financing to corporations seeking to expand and improve sales operations, thereby increasing intermediation.



Source: Bloomberg, processed

Graph IV.1. Performance of Public Listed Companies

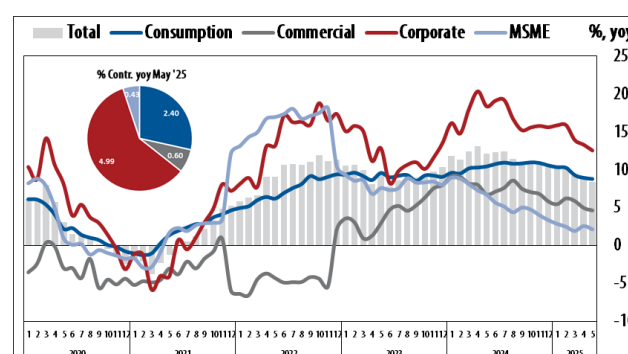
Corporate resilience, in aggregate, remains solid as reflected by maintained repayment capacity and leverage. Realised interest coverage ratio (ICR) in the first quarter of 2025 is projected well above the regulatory threshold of 1.0x, despite retreating slightly on the previous period as a corollary of lower profitability (EBIT). Maintained repayment capacity indicates that corporations be able to generate sufficient incomes to meet interest payment liabilities, thus servicing existing loans. A decline in corporate repayment capacity implies a higher debt-at-risk (DaR) ratio, particularly in the manufacturing industry and trade sector. Regionally, corporate ICR remains solid in most regions, particularly in Java, Balinusra and Sulampua. Conversely, ICR in Sumatra and Kalimantan has declined slightly in line with lower corporate profitability in those region.

Weak demand undermined MSME performance in the first quarter of 2025. Corporate performance experienced broad-based declines across all business sectors and sizes, influenced by supply-side and

operational factors. Notwithstanding, MSMEs have maintained profit given stable costs and selling prices. MSMEs, therefore, require external financing, primarily from the banking industry, to support working capital and operational costs.

Supply-Side Assessment

Credit growth remains within the target set by Bank Indonesia, despite moderation. Financing disbursed by the banking industry moderated in May 2025 to 8.43% (yoy) from 12.15% (yoy) in the same period one year earlier (Graph IV.2). Credit growth is supported by all corporate segments, particularly mining and services sectors, especially in the Balinusra region. Regionally, several sectors experienced stronger credit growth, including the agricultural sector in Sumatra due to improving CPO prices and the mining sector in Balinusra and Sulampua in response to high gold prices.



Source: Antasena Integrated Commercial Bank Report (LBUT), processed

Graph IV.2. Credit Growth by Segment

MSME loan growth is again tracking a downward trend, accompanied by increasing risk. MSME credit growth decelerated to just 2.17% (yoy) in May 2025. The main contributors to declining MSME loan growth were micro and medium enterprises, which experienced contractions. By sector, MSME loans are following a declining trend to most sectors, particularly the manufacturing industry and trade sector, which recorded contractions, contrasting MSME loans extended to the agricultural sector that maintained growth. In terms of credit risk, MSME loans continued tracking an increasing trend, with the NPL ratio, as a proxy of credit risk, exceeding the 5% threshold in the manufacturing industry and construction sector. MSME loan growth moderated in all regions, coupled with increasing NPL, with the most significant slowdown affecting the Java and Balinusra regions.

Meanwhile, credit risk across sectors and region remainaed manageable. A low NPL ratio has been maintained, accompanied by a downward LaR trend, in

all regions and most sectors. Regionally, a short-term spike in NPL has been observed in Kalimantan and Sulampua. By sector, credit risk in the construction sector has indicated improvements in most regions despite remaining high (>5%) in all regions, except Java.

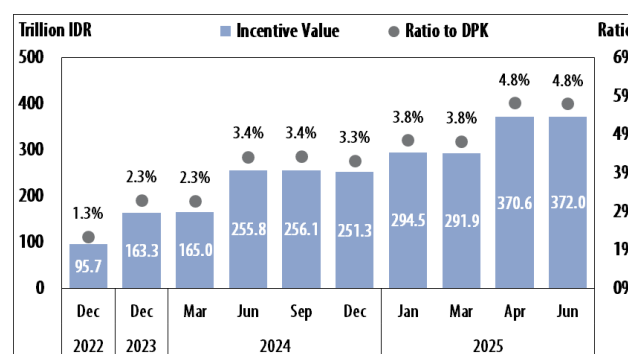
Liquidity pressures and lending appetite are the main contributors to moderating banking intermediation. In terms of liquidity, TPF growth has slowed in nearly all regions, particularly in Java and Sulampua, with the highest TPF share in Java, accounting for 78% in May 2025. On the other hand, tighter lending appetite is affecting all sectors and loan types due to moderating growth of disbursed financing. Meanwhile, banks' preference for allocating assets to loans remained relatively strong due to the higher returns available.

Moving forward, there is a compelling opportunity to expand corporate financing, particularly to the agricultural sector, accommodation and food service activities, as well as the manufacturing industry. Based on a survey of corporate access to finance and feasibility conducted in June 2025, the demand for finance in several regions remains stable, with moderate potential increases in the second quarter of 2025. Confronting global and domestic dynamics as well as exchange rate depreciation, most corporations have opted to enhance the efficiency of operational spending and pass through additional costs to higher selling prices. Several regions remain more inclined to invest despite uncertainty given increasing sales and profit margin. Increasing demand for financing in several regions is primarily driven by operational needs, particularly in the agricultural, accommodation and food service activities, as well as the manufacturing industry sector. In pursuit of downstreaming efforts, corporations require massive capital amid tighter access to finance due to stringent requirements, collateral constraints and high economic uncertainty. Nevertheless, the potential remains to expand corporate financing as many corporations remain unencumbered by credit facilities.

Policy Recommendations and Coordination

Bank Indonesia strengthened its Macprudential Liquidity Incentive Policy (KLM) to encourage bank financing to priority sectors and job creation in line with the Government's Asta Cita program. On 1st April 2025,

Bank Indonesia raised the KLM incentive¹ from 4% up to a maximum of 5% of deposits, which aimed to increase liquidity in the banking industry and support the Government's Asta Cita program, particularly in the housing sector. Strengthening KLM policy effectively injected additional liquidity into the banking industry for banks to extend financing to the housing sector to the tune of Rp80 trillion, bringing total incentives received by the banking industry to approximately Rp370 trillion, or $\pm 4.8\%$ of total rupiah third-party funds (Graph IV.3).



Source: Bank Indonesia, processed

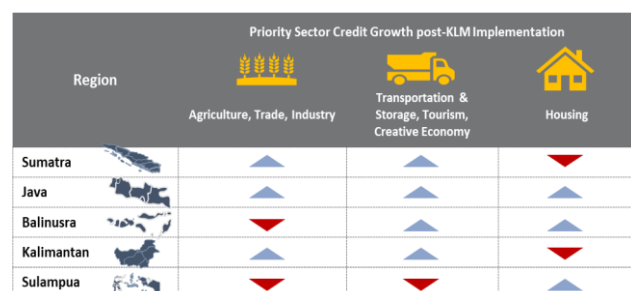
Graph IV.3. KLM Policy Developments

By region, Java has absorbed most of the KLM incentives given the region's dominant share of the credit market. Regional absorption of the KLM incentives was calculated based on a proportional approach for credit extended to priority sectors regionally against total credit disbursed to priority sectors nationally. According to that approach, the value of KLM incentives received by the Java region was dominated by the agricultural sector, trade, manufacturing industry and housing sector. Sumatra was the second largest receiver of KLM incentives by value, dominated by the agricultural sector, trade and the manufacturing industry. Other regions, such as Balinusra, Kalimantan and Sulampua, received smaller incentives commensurate with their smaller credit exposure.

The implementation of KLM policy has had a positive impact on increasing credit growth in nearly all priority sectors. This was reflected in credit growth data for the agricultural sector, trade sector, manufacturing industry, transportation and storage, tourism and the creative economy, which indicates an increase since the implementation of KLM policy. Meanwhile, credit growth in the housing sector has been restrained by a build-up of credit risk, specifically among middle- and lower-income earners.

¹ KLM liquidity incentives are realised in the form of lower reserve requirements (RR) for banks extending loans to sectors with economic leverage as well as inclusive and green sectors.

Meanwhile, KLM implementation has also boosted credit growth in nearly all regions (Figure IV.1). Based on monitoring by Bank Indonesia Domestic Representative Offices, Java is the only region where credit growth has increased in all priority sectors since the implementation of KLM. In Sulampua, however, credit growth has continued to moderate in terms of the agricultural sector, trade, manufacturing industry, transportation and storage, tourism and the creative economy. Specific to the housing sector, the impact of KLM incentives on credit growth by region is mixed, with further opportunities to accelerate growth in the Sumatra and Kalimantan regions.



Source: Bank Indonesia, processed

Figure IV.1. Credit Growth by Priority Sector since KLM Implementation

KLM implementation must be accompanied by the development of financing models that align with the real needs of each region. Key challenges to financing in most regions involve limited access and the dominance of direct financing models, which fails to accommodate the prevailing preferences of the banking industry or needs of the corporate sector. Financing models that are suitable to the characteristics of each region's main economic sectors should be optimised and replicated in other regions reliant on similar sectors. On the other hand, several financing models have been developed, such as Buy Now, Pay at Harvest for the agricultural

sector, as well as syndicated financing, value chain financing, avalist lines and non-cash loans for the manufacturing industry, trade sector and mining sector.

Moving forward, Bank Indonesia will continue fostering bank lending/financing disbursement by banking sector, which includes regional areas through central and local synergy. Nationally, Bank Indonesia has implemented policy synergy with the Government, financial authorities and government ministries/agencies through various forums to strengthen financing support on the demand side. Seeking to strengthen bank appetite to lend to priority KLM sectors, Bank Indonesia will strengthen communication and coordination with decision-makers in the banking industry centrally and regionally through the macroprudential discussion forum. Meanwhile, Bank Indonesia has strengthened bank loan disbursements through accommodative funding and liquidity policies, including the Bank Foreign Funding Ratio (RPLN) and Macroprudential Liquidity Buffer (MPLB).

Regionally, Bank Indonesia has implemented policy synergy through its Domestic Representative Offices involving various strategies. First, to increase access to finance, Bank Indonesia Domestic Representative Offices will strengthen the function of strategic advisory services for regional stakeholders and businesses, which includes strengthening key sectors, developing MSME capacity through training and financial literacy, as well as promoting potential regional sectors. Second, to develop financing models, Bank Indonesia Domestic Representative Offices will identify and replicate financing models based on the characteristics of potential sectors and MSMEs in each region. The development of suitable financing models will apply business matching and implement trade promotion at flagship events in each region.

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JL. MH. Thamrin No. 2 Jakarta 10350
www.bi.go.id