

09 September 2025

Macroeconomics Indicator

| | 2023 | 2024 | 2025F |
|---------------------------|--------|--------|--------|
| GDP growth (%YoY) | 5.05 | 5.03 | 5.02 |
| Inflation (%YoY) | 2.61 | 1.57 | 1.97 |
| BI rate (% Year-end) | 6.00 | 6.00 | 5.50 |
| Rp/US\$ (Average) | 15,244 | 15,853 | 16,571 |
| CA deficit (% of GDP) | -0.1 | -0.7 | -1.5 |
| Fiscal deficit (% of GDP) | 1.65 | 2.3 | 2.8 |

F: forecast, P: preliminary; all baseline scenario

Indonesia's rice dynamics: record reserves but supply scarcity

- Higher HPP, removal of quality-based cuts in 2025 and stronger harvest, lifted CBP to a record ~4mn tons and improved farmers' welfare.
- Retail rice prices stayed 10–14% above HET as CBP disbursement slowed, growing concerns on quality, and supply constraints emerged.
- Short-term stabilization requires easier access, faster disbursement, and higher-quality SPHP rice.

Understanding the structure of rice price

The Government, through Bulog, absorbs harvested paddy to build the National Rice Reserve (CBP), which is used to influence domestic supply-demand. Since 2002, the Government Purchase Price (HPP) has aimed to protect farmers from price drops post-harvest season, while the Maximum Retail Price (HET) introduced in Sep17, protects consumers from price surges. HPP and HET interact closely: a low HET hurts farmers, while a low HPP limits Bulog's ability to absorb paddy and stabilize retail prices. Both mechanisms are often adjusted to balance farmers' income, CBP adequacy, and consumer affordability.

HPP hike boosted farmers and CBP in 2025

In Jan25, the government raised HPP to Rp6,500/kg and removed price reductions for lower-quality paddy, allowing Bulog to purchase at any quality. Combined with a stronger harvest after El-Nino delays in 2024, this policy improved farmer welfare and supply. BPS reported harvest area up +14.6% yoy in 8M25, with GKG (Gabah Kering Giling) and rice production both up c.+15%. As a result, CBP jumped to ~4mn tons in Aug25, a record high compared to just ~1mn tons in 2020–2024. This shows how pricing reforms and favorable weather significantly strengthened reserves and rice farmers' terms of trade.

Supply issues despite record CBP

Despite higher CBP, rice prices kept rising. During the Mar–Apr25 harvest peak, medium rice prices in Zone 1 barely eased, then climbed +1.2% mom on average from May–Sep25 (total of +6.1% since Apr25/+7.0% YTD). Retail prices consistently exceeded HET by 10%, peaking at +14% in Jul25. Normally, Bulog releases CBP via Market Operations when prices exceed HET, with 1.2–1.5mn tons targeted annually. Yet in 2025, disbursement slowed sharply to just 1.3k tons/day (327k tons by 6 Sep25), compared to ~3.7k/day in 2022–24. The slowdown reflected (1) more quality complaints for this year SPHP rice and (2) harder access for retailer. Additional concerns include possible lower GKG–rice conversion and lower availability of premium rice after adulteration cases.

Accelerate disbursement of CBP is imperative

Near-term, raising rice supply is limited by planting cycles, but quicker CBP distribution can ease market pressure. We view these steps are necessary to improve the rice supply: (1) simplify retailer access to SPHP rice, (2) accelerate disbursement in areas where market prices significantly exceed HET, and (3) ensure quality to reduce the need for replacing purchased rice. Stabilization should be followed by structural reforms. BPS data shows supply chains lengthened in 2024, with producer-to-consumer total added margins rising to 19% from 11% in 2021. Streamlining distribution will be key to improving efficiency and reducing long-term price volatility.

Kefas Sidauruk

PT Indo Premier Sekuritas

kefas.sidauruk@ipc.co.id

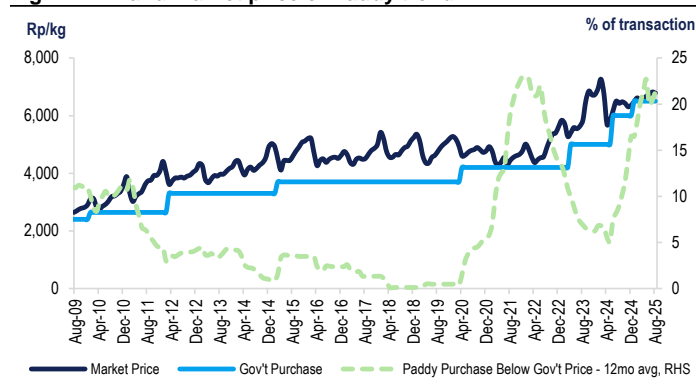
+62 21 5088 7168 ext. 717

Understanding the structure of Rice price

The Indonesian government, through Bulog, directly absorbs harvested paddy from farmers to build the National Rice Reserve (CBP). This reserve serves as a tool to manage supply-demand dynamics in the domestic rice market. In 2002, the government introduced the Government Purchase Price (HPP) for Paddy: both Gabah Kering Panen (GKP) and Gabah Kering Giling (GKG) to shield farmers from price drops during harvest seasons, when supply is abundant and farm-gate prices often fall below production costs. On the consumer side, the Maximum Retail Price (HET) was introduced in Sep17 to protect households from price surges.

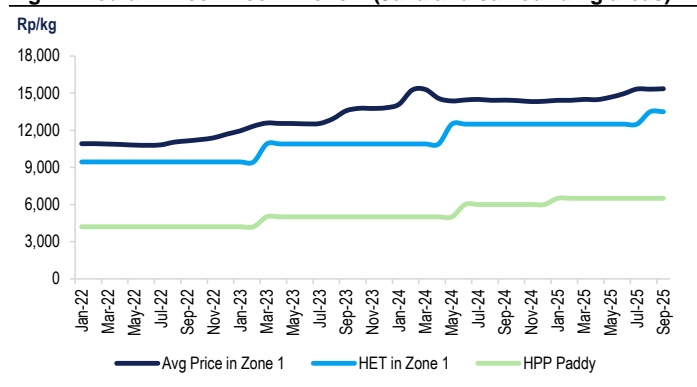
The HPP and HET are closely interconnected. If HET is set too low relative to the market, Bulog purchases more GKP below HPP, which weakens farmer income and often forces the government to raise HET. Conversely, if HPP is set too low, Bulog struggles to absorb enough paddy for the CBP, limiting its ability to conduct market operations to stabilize retail rice prices, which eventually pressures the government to raise HPP—sometimes leading to higher HET. Thus, both policies must be carefully managed to balance farmer protection, consumer affordability, and the adequacy of national reserves.

Fig. 1: HPP and market price of Paddy trend



Source: BPS, Indo Premier

Fig. 2: Medium Rice Price in Zone 1 (Java and surrounding areas)



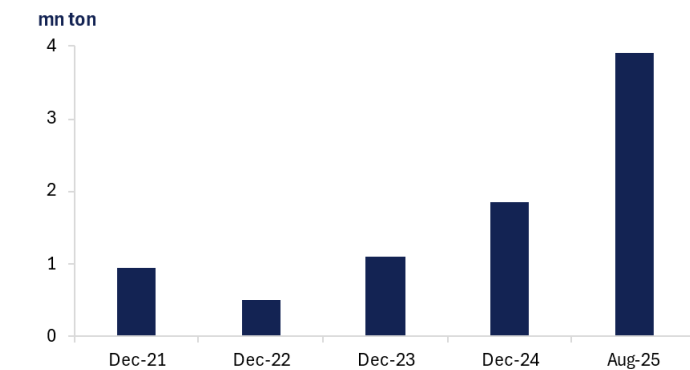
Source: BPS, Indo Premier

HPP hike boosted farmers and CBP in 2025

Since the HPP was introduced, the government consistently applied price reductions for lower-quality paddy, encouraging farmers to improve quality and increase supply of medium-quality rice, which is the most consumed type in Indonesia. However, in Jan25, when the government raised the HET to Rp6,500/kg, it also eliminated the price reduction mechanism. This allowed Bulog to purchase paddy “at any quality,” which broadened its ability to absorb supply. The timing aligned with improved harvest conditions in 2025, following El-Nino disruptions in 2024 that had delayed planting and shifted the harvest cycle. BPS data shows the harvested area in 8M25 expanded by +14.6% yoy, with both GKG and rice production rising around +15% yoy.

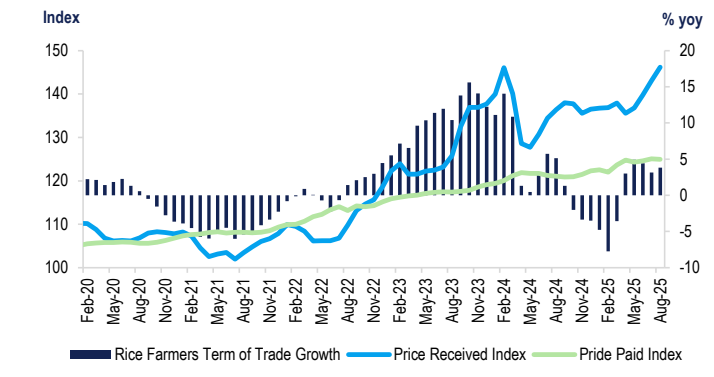
The combination of favorable production and policy changes led to a rapid build-up of CBP, which had averaged only ~1mn tons during 2020–2024 but reached an all-time high of ~4mn tons by Aug25. This shift not only bolstered Bulog’s reserve stock but also improved farmers’ terms of trade, marking a rare alignment of higher reserve levels and stronger farmer welfare.

Fig. 3: CBP balance surged following the new HPP regulation



Source: Bloomberg, Indo Premier

Fig. 4: Farmers welfare also increased with higher HPP



Source: Bloomberg, Indo Premier

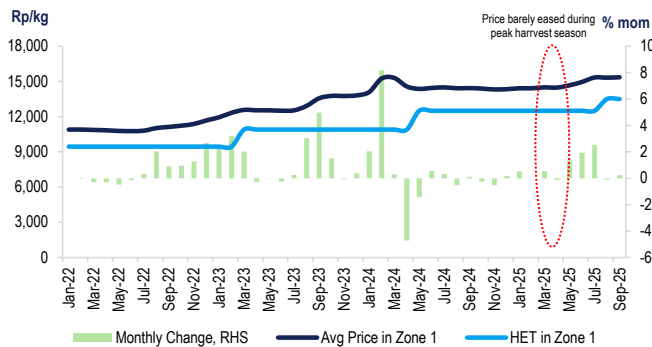
Supply issues despite record CBP

Despite the record accumulation of CBP, retail rice prices continued to climb in 2025. During the Mar–Apr25 harvest peak, price declines were minimal: in Zone 1 (Java, Lampung, South Sumatera, Bali & Nusra, Sulawesi), medium rice prices still rose +0.5% mom in Mar25 and only eased -0.1% mom in Apr25. After harvest season, prices resumed an upward trend, rising an average +1.2% mom between May–Sep25 (total of 6.1% since Apr25), even though production growth remained positive and CBP continued to rise. Before the HET hike to Rp13,500/kg in Aug25, rice prices had already been consistently 10% above HET, peaking at 14% above in Jul25.

Historically, when market prices exceeded HET by more than 5%, Bulog deployed CBP through market operations (Operasi Pasar) at zone-specific HET levels to cool prices. The government had set CBP disbursement targets of 1.2mn, 1.1mn, and 1.4mn tons in 2022–24, increasing to 1.5mn tons in 2025. In the past three years, actual disbursement exceeded targets, with daily distribution averaging 3.7k tons/day. In 2025, however, disbursement slowed significantly to only 1.3k tons/day, totaling 327k tons by 6 Sep25. This limited the effectiveness of CBP in stabilizing retail prices. The slowdown stemmed from two main issues: (1) the removal of quality differentiation reduced rice quality, leading to consumer complaints about SPHP rice, and (2) complicated procedures restricted retailer access to CBP rice.

Additional supply-side constraints further pressured prices. Reports of adulterated premium rice led some products to be pulled out from the market, tightening supply availability. At the same time, concerns emerged around lower GKG-to-rice conversion rates. BPS currently assumes 1 ha yields 5.2 tons of GKG and that each ton of GKG converts into 0.57 tons of rice. If paddy quality declined in 2025, actual conversion rates could be lower, suggesting rice availability is overstated.

Fig. 5: Rice price barely eased during peak harvest season



Source: Various Source, Indo Premier

Fig. 6: CBP deployment is significantly slowed from previous years

| SPHP Distribution | | | |
|-------------------|-----------------|----------------------|-----------------------------|
| Year | Target (mn ton) | Realization (mn ton) | Distribution/day (kilo ton) |
| 2022 | 1.20 | 1.30 | 3.56 |
| 2023 | 1.09 | 1.32 | 3.62 |
| 2024 | 1.40 | 1.40 | 3.83 |
| 2025* | 1.50 | 0.33 | 1.32 |

*as of 6 Sep 2025

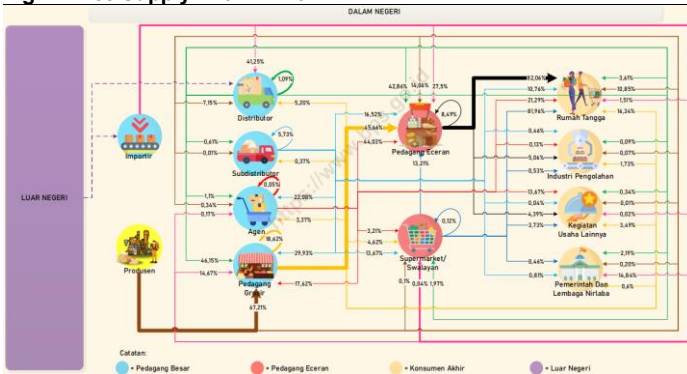
Source: BI, Indo Premier

Policy priorities: short-term access, long-term reform

In the near term, increasing overall paddy or rice supply is difficult due to planting and harvesting seasonality. However, immediate relief to retail markets could be achieved through faster and more effective CBP disbursement. We believe the government should focus on: (1) easing retailer access to SPHP rice, (2) accelerating distribution when market prices significantly exceed HET, and (3) ensuring higher SPHP rice quality to restore consumer trust and reduce returns. We found that Bulog has expanded its access to retailers in Cipinang Rice Central Market (PIBC), which should help ease supply pressures further in major market.

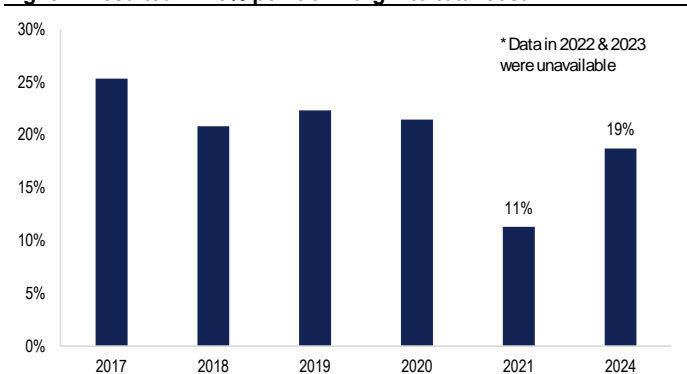
If price stabilization is achieved, attention should turn to structural reforms. BPS reported that the rice supply chain lengthened again in 2024, with producer-to-consumer margins rising to 19% of total costs, compared to only 11% in 2021. A longer and more fragmented supply chain inflates consumer prices and reduces efficiency. Streamlining distribution channels, improving quality control, and strengthening Bulog's operational flexibility will be crucial to building a more resilient rice market in the long term.

Fig. 7: Rice Supply Chain in 2024...



Source: Bloomberg, Indo Premier

Fig. 8: ...resulted in +8% point of margin to total cost



Source: Bloomberg, Indo Premier

ANALYSTS CERTIFICATION

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