

CPI Inflation:

Last minute save

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Executive Summary

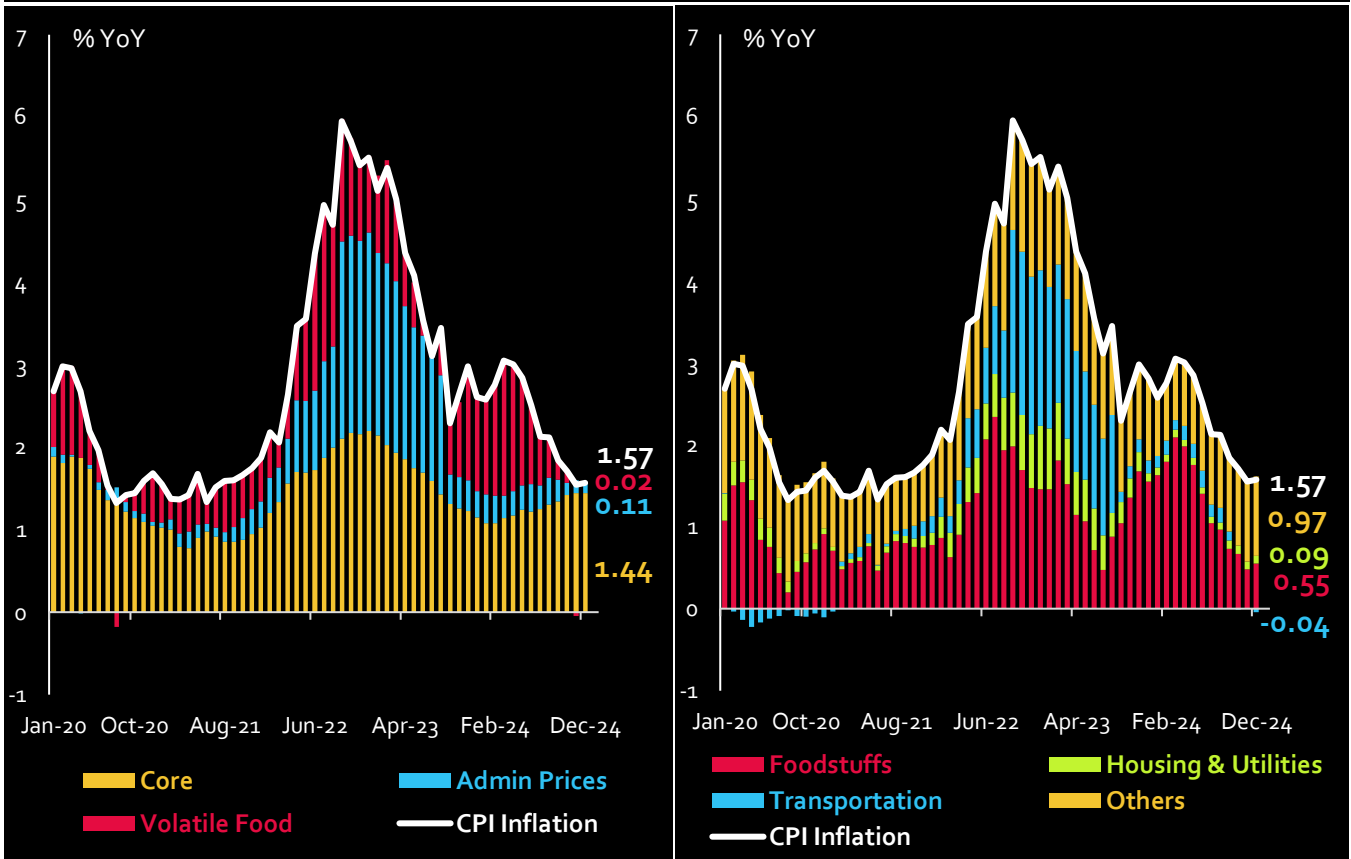
- Inflation increased in Dec-24 to 1.57% YoY and 0.47% MoM. This figure marks the lowest yearly inflation ever.
- Volatile food price has risen slightly on the back of both seasonal and climatic factors.
- Administered prices are not expected to be a source of inflation due to flat excise cigarette tax and low oil prices.
- The government's cancelled VAT increase may be partially offset by tax amnesty, though this represents a one-time windfall.

- Inflation reached 1.57% YoY (0.47% MoM) in Dec-24, up slightly from 1.55% YoY (0.3% MoM) in Nov-24. The slight uptick is mainly attributed to a turnaround in volatile food inflation, while administered prices and core inflation saw minimal change. This marks the lowest yearly inflation since inflation data starts being collected in 1958.
- Food inflation has sped up again in December, with eggs, chilies, fish, and cooking oil being the main MoM contributors. While most of this inflation can be attributed to end-of-year seasonal effects, there are indications that some of these effects are also caused by climatic factors, as seen by the late rice harvest in 2024 compared to 2023 due to irregular rainfall. The changing climate may ultimately reduce overall yield and increase incidence of crop failure, thus complicating Indonesia's aim of food self-sufficiency.
- Meanwhile, transport inflation was unusually weak for December, which contributed to the YoY decline in administered price inflation. This is largely thanks to the government providing an end of year discount for airplane fares. Administered prices are unlikely to be a source of inflation in early 2025, as the government decided against hiking the VAT (more on this later) and kept cigarette excise flat, while low oil prices reduce the risk of (non-subsidized) fuel inflation.
- The low inflation in 2024 was not entirely down to demand, but there is good evidence that money velocity has been subpar. Much of the apparent vigor in core inflation had come from the sharp rise of both gold and cooking oil. Were it not for these 2 commodities, core inflation would have fallen to around 1.5%.
- Just a few days ago, we expected inflation to rise again towards 2.5% in 2025, owing to the increase of VAT tariff (from 11% to 12%) and the government's pledge not to import rice as

it did in 2024. At the very last minute, however, the VAT increase was nixed (except for luxury goods), and this action alone was probably enough to lower the annual inflation by about 0.2 - 0.3%.

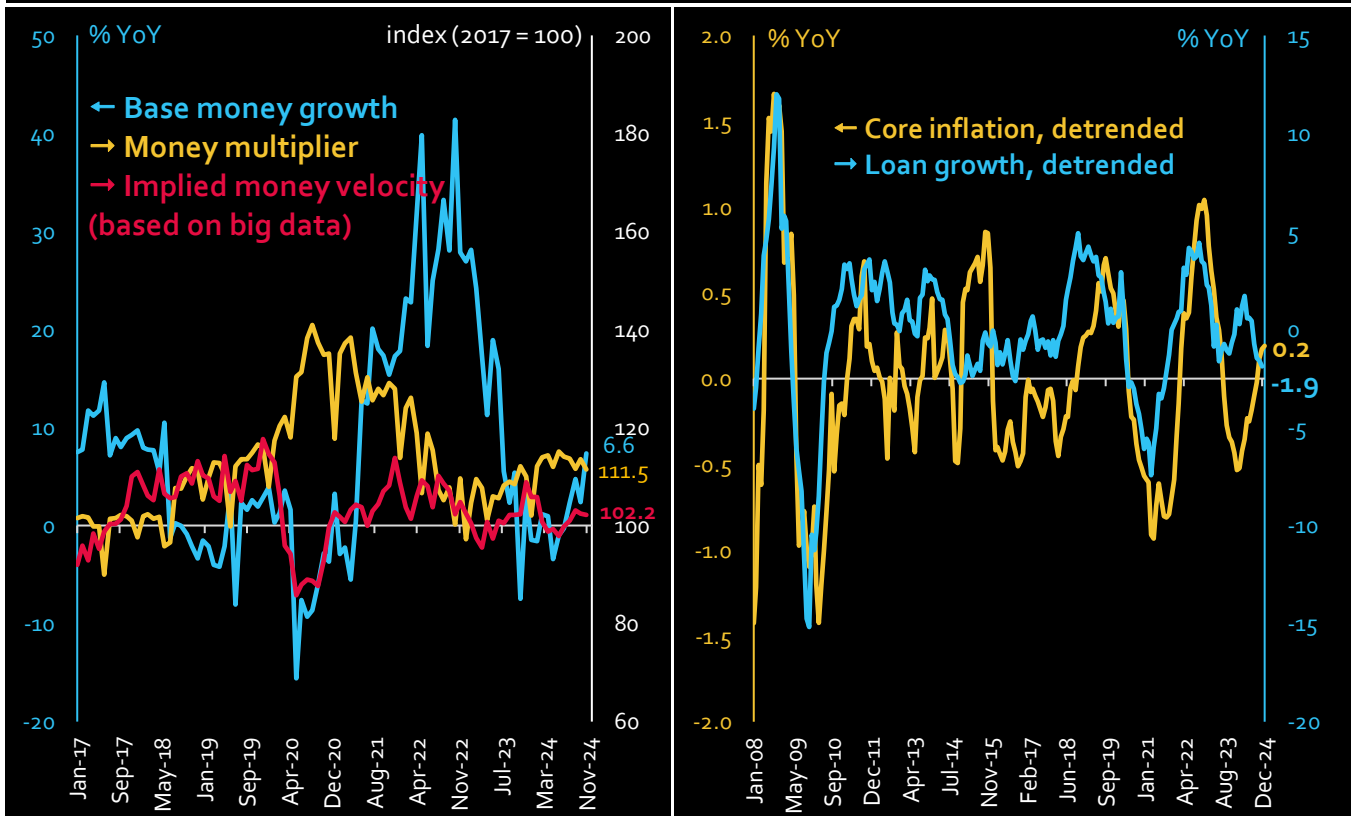
- Questions still linger, however, about food inflation and the financing of the new government's programs. With no additional VAT revenue, and the consumption-oriented stimulus designed to offset the VAT impact still in place, we expect the fiscal deficit to widen towards 2.8 - 2.9% of GDP, unless other revenue sources are to be tapped.
- The most likely one, in our view, is tax amnesty (the third since 2016), which may raise an equivalent amount to the VAT hike but will be a one-time windfall. Fresh questions about fiscal sustainability, then, may arise again in the future especially if global interest rates (and thus interest burden) remain elevated.

Panel 1. Volatile food inflation has picked back up into positive territory



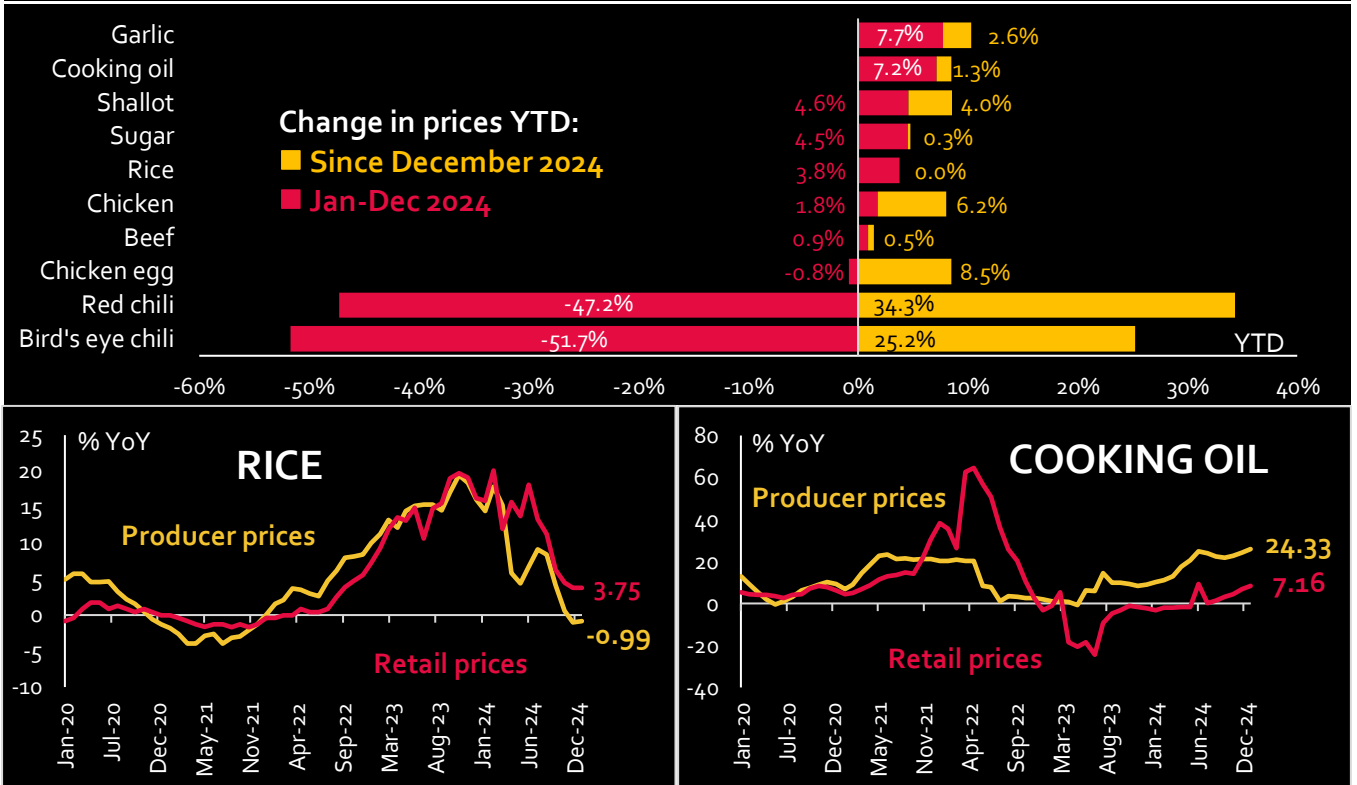
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation has risen again cyclically, but not in line with slowing loan growth



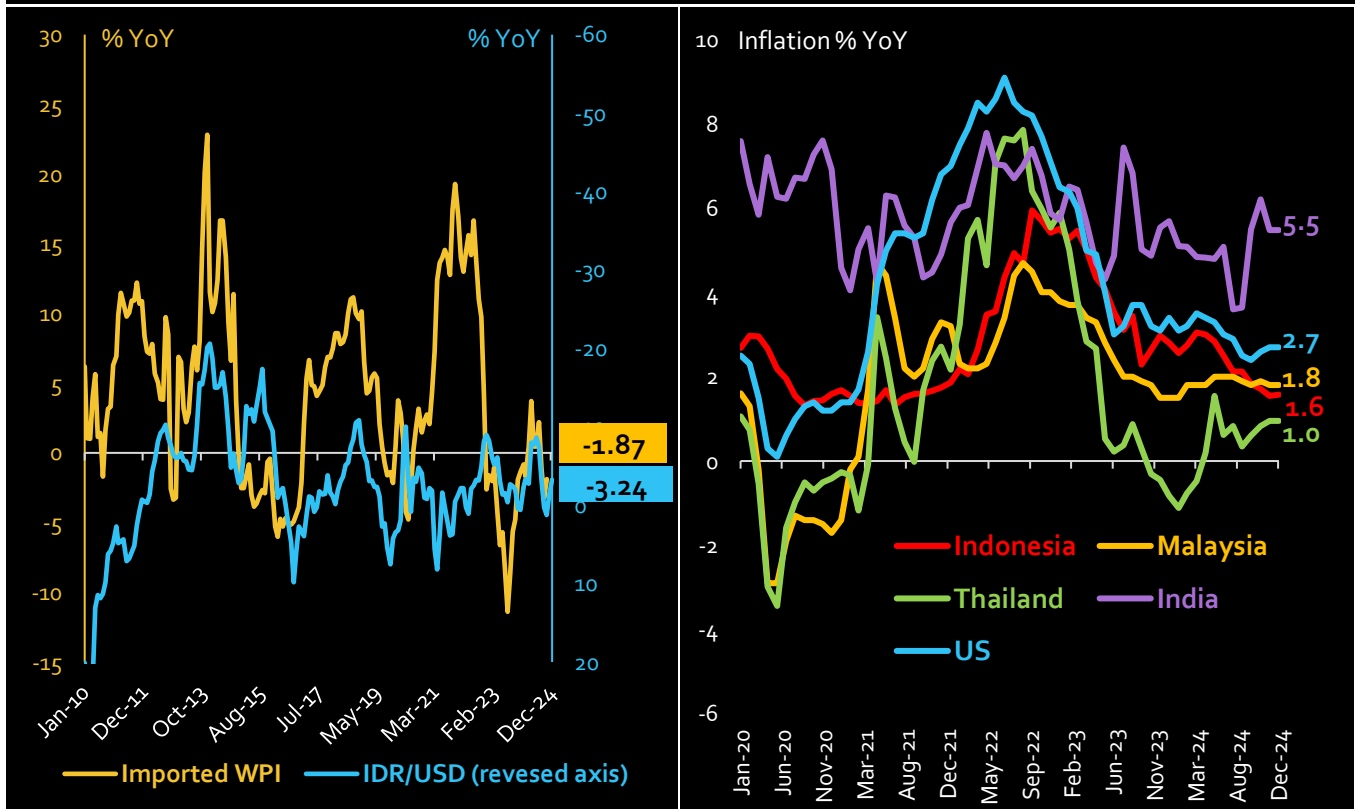
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Chilies and egg become major contributors in MoM inflation



Source: Ministry of Trade, BPS

Panel 4. Indonesia's inflation has picked back up, though still low compared to peer-countries



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	2-Jan	-1 mth	Chg (%)
US	4.50	Dec-24	1.80	Baltic Dry Index	1,029.0	1,298.0	-20.7
UK	4.75	Nov-24	2.15	S&P GSCI Index	555.6	533.3	4.2
EU	3.15	Dec-24	0.95	Oil (Brent, \$/bbl)	75.9	71.8	5.7
Japan	0.25	Jul-24	-3.00	Coal (\$/MT)	124.6	136.0	-8.4
China (lending)	2.00	Sep-24	4.15	Gas (\$/MMBtu)	3.40	3.05	11.5
Korea	3.00	Nov-24	1.10	Gold (\$/oz.)	2,657.9	2,639.1	0.7
India	6.50	Feb-23	1.02	Copper (\$/MT)	8,691.7	8,874.1	-2.1
Indonesia	6.00	Sep-24	4.43	Nickel (\$/MT)	14,851.9	15,461.6	-3.9
Money Mkt Rates	2-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	1,071.0	1,177.8	-9.1
				Rubber (\$/kg)	1.99	2.00	-0.5
Bank Rates (Rp)	Sep	Aug	Chg (bps)	External Sector	Nov	Oct	Chg (%)
SPN (1Y)	6.88	6.69	19.0	Export (\$ bn)	24.01	24.41	-1.66
SUN (10Y)	6.99	6.85	13.5	Import (\$ bn)	19.59	21.94	-10.72
INDONIA (O/N, Rp)	6.03	6.18	-16.0	Trade bal. (\$ bn)	4.42	2.48	78.56
JIBOR 1M (Rp)	6.62	6.62	0.0	Central bank reserves (\$ bn)*	150.2	151.2	-0.66
Bank Rates (Rp)	Sep	Aug	Chg (bps)	Prompt Indicators	Nov	Oct	Sep
Lending (WC)	8.87	8.78	8.91	Consumer confidence index (CCI)	125.9	121.1	123.5
Deposit 1M	4.81	4.79	2.01	Car sales (%YoY)	-11.9	-3.9	-9.1
Savings	0.67	0.65	1.33	Motorcycle sales (%YoY)	-10.3	5.4	3.7
Currency/USD	2-Jan	-1 mth	Chg (%)	Manufacturing PMI	Dec	Nov	Chg (bps)
UK Pound	0.808	0.790	-2.17	USA	49.4	49.7	-30
Euro	0.974	0.953	-2.22	Eurozone	45.1	45.2	-10
Japanese Yen	157.5	149.6	-5.02	Japan	49.6	49.0	60
Chinese RMB	7.299	7.274	-0.34	China	50.5	51.5	-100
Indonesia Rupiah	16,195	15,900	-1.82	Korea	49.0	50.6	-160
Capital Mkt	2-Jan	-1 mth	Chg (%)	Indonesia	51.2	49.6	160
JCI	7,163.2	7,047.0	1.65				
DJIA	42,392.3	44,782.0	-5.34				
FTSE	8,260.1	8,312.9	-0.64				
Nikkei 225	39,894.5	38,513.0	3.59				
Hang Seng	19,623.3	19,550.3	0.37				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	3,521.3	3,402.4	118.98				
Govt. Bond	876.6	872.5	4.15				
Corp. Bond	5.9	7.1	-1.18				

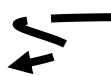
Source: Bloomberg, BI, BPS

Notes:

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise



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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.9
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	7.0	7.9
GDP per capita (USD)	4175	3912	4350	4784	4920	4975	5005
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6#	2.3
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00#	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	7.04	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,150	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.4	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

* Estimated Number

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