

CPI Inflation:

Storing up potential energy

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Executive Summary

- Indonesia experienced deflation (-0.09% YoY / -0.48% MoM) due to discount on household electricity prices.
- Normalized harvest season and government price stabilization scheme limit price increases in volatile food.
- Consumer surplus caused by electricity discount may be expended for the next several months.
- Higher inflation expected in March and April as Ramadan and Eid Al-Fitr coincide with the elimination of electricity discount.

- Indonesia experienced deflation both in yearly (-0.09%) and monthly (-0.48%) terms, significantly below median consensus of 0.55% YoY (0.11% MoM). As with January, the main culprit was a near universal discount on households' electricity prices. Without electricity discount, February's inflation would go up to about 2.07% YoY (0.19% MoM).
- The further monthly decrease in electricity prices is confusing at first glance, since both January and February had the same 50% discount, and as such we should not have seen further MoM deflation in February. However, Statistics Indonesia (BPS) methodology opted to record prices at the time of payment. Some households use postpaid scheme for their electricity, which caused BPS to record the discount one month after.
- In addition to electricity discount, the normalization of volatile food prices also played a big role. Volatile foodstuff contributed around 0.16% MoM to monthly deflation figure. Major contributors to deflation are chickens (-0.06%), chilies (-0.06%) and shallots (-0.05%). Some of the deflation can be explained by normalization of harvest seasons this year due to more favorable weather conditions.
- However, harvest season usually comes with lower selling price, and therefore lower farmer welfare. This was indicated by a decline in farmers' terms of trade (-0.18% MoM) on Feb-25. The drop is likely to be steeper were it not for National Food Agency (Bapanas) increasing its purchase price of agricultural products, essentially transferring some of the cost of lower prices from farmers to the government.
- In contrast to the general backdrop of deflation, core inflation had stayed relatively steady at 2.48% YoY (0.25% MoM). If gold effects were nullified, core inflation would have gone down to about 1.82% YoY (0.22% MoM). This relatively high core inflation contrasted heavily with slowdown in our consumer spending index (Intrabel). However, it's likely some of this

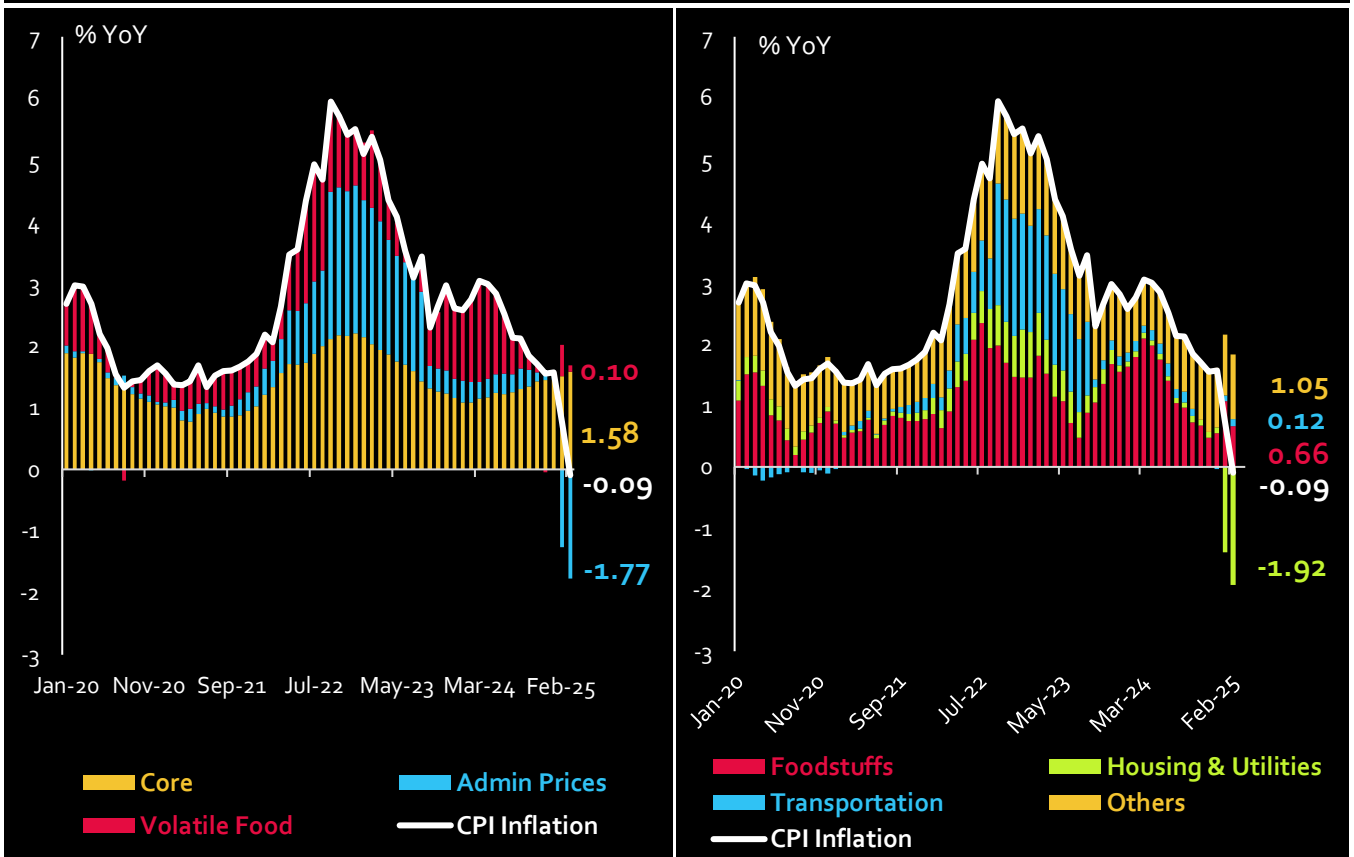
slowdown might mean that households are storing up their surplus from the recent electricity discount, which may play out over the next few months.

- Furthermore, we do not see much risk of price spikes in rice which should help purchasing power. Currently, rice had recorded a deflation (-2.63% YoY) due to high base effects last year. While the shifting Ramadhan period can provide increased demand (Ramadhan fully in March in 2025 vs only partially in 2024), it is likely to be tempered by Bulog's ample rice reserves (reaching 1.9 Mn ton as of 2/3/25). Furthermore, BPS had forecasted peak rice harvest to happen in March, thus providing much needed supply at the most opportune time.
- In last month's report, we had suggested that inflation is likely to reach median of BI's target at 2.5% YoY, buoyed partially by an increase in volatile food prices due to the government's import ban of staple foodstuffs. However, the recent cancellation on sugar import ban may suggest that the government remains strongly committed to price stability. This could reduce inflation from volatile food, especially if the government's supply-side policies begin to bore fruit.
- Looking forward then, we will expect higher inflation in March and April as the expiration of electricity discount coincides with Ramadan and Eid-al-Fitr. However, further inflation outlook remains less certain, due to the possible upside in food prices potentially being nullified by the government's more active stance in the food market.

Footnote

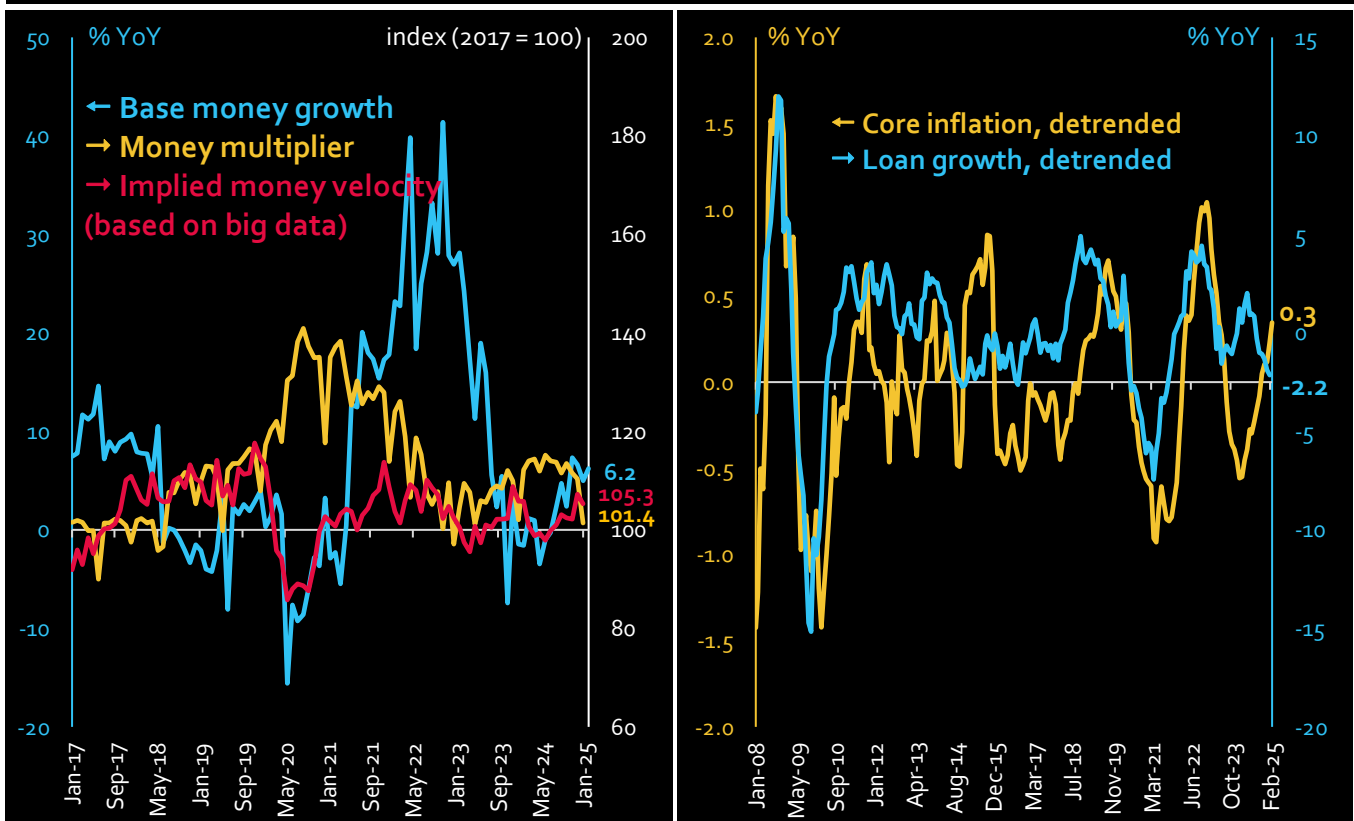
- There are 2 methods to pay for electricity in Indonesia, pre-paid (token / Prabayar) and post-paid (Pascabayar).
- Pre-paid customers can store purchased electricity during the discount period to a monthly limit. This limit often adds up to several months of normal electricity usage. Statistics Indonesia (BPS) calculate the discount of this group on January and February, even if the electricity is used much later.
- Post-paid customers cannot store up electricity during the discount period but pay for their electricity usage at the start of the next month. As such, the 50% discount on electricity prices for this group technically falls on February and March.

Panel 1. Addition of postpaid customers to electricity discount deepened deflation



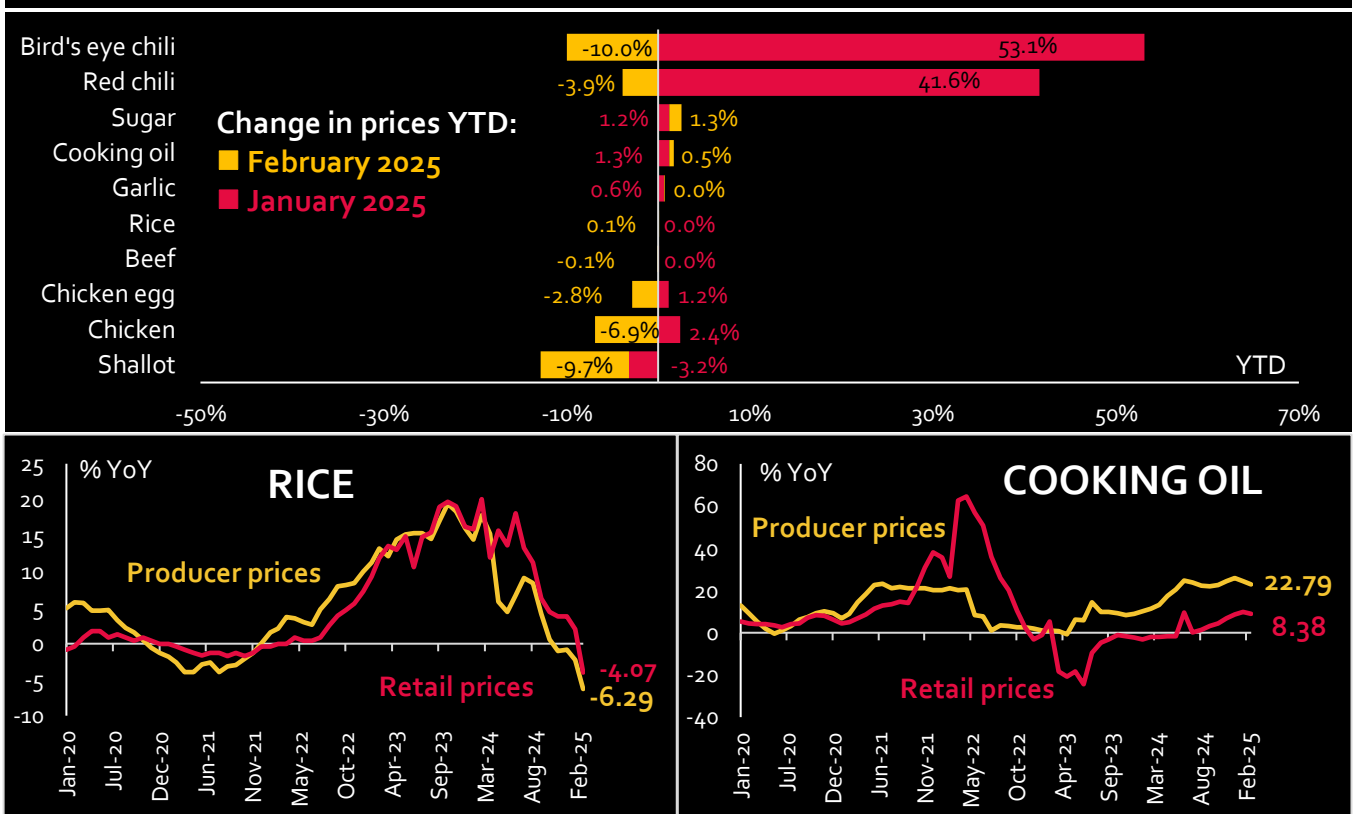
Source: BPS, calculation by BCA Economic Research

Panel 2. Core inflation has risen again while loan growth slowed down



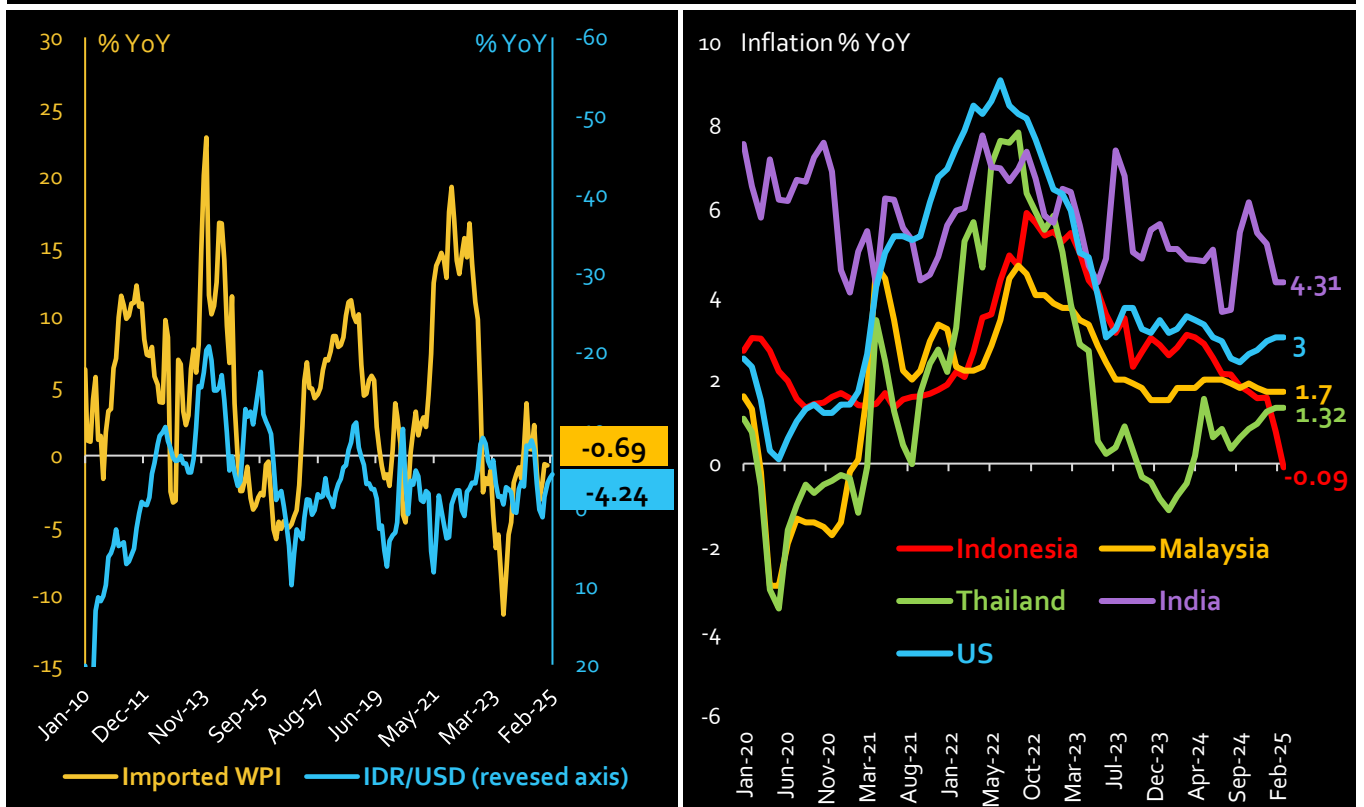
Source: BI, OJK, BCA big data, calculation by BCA Economic Research

Panel 3. Chili prices have surged due to bad weather, while rice prices remain stable



Source: Ministry of Trade, BPS

Panel 4. Imports deflated even as Rupiah depreciates



Source: BI, Bloomberg

Selected Macroeconomic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	3-Mar	-1 mth	Chg (%)
US	4.50	Dec-24	1.50	Baltic Dry Index	1,276.0	735.0	73.6
UK	4.50	Feb-25	1.50	S&P GSCI Index	549.8	561.9	-2.2
EU	2.90	Jan-25	0.50	Oil (Brent, \$/bbl)	73.0	76.8	-4.9
Japan	0.50	Jan-25	-4.10	Coal (\$/MT)	101.9	124.2	-18.0
China (lending)	2.00	Sep-24	3.85	Gas (\$/MMBtu)	3.91	2.92	33.9
Korea	2.75	Feb-25	0.55	Gold (\$/oz.)	2,863.0	2,798.4	2.3
India	6.25	Feb-25	1.94	Copper (\$/MT)	9,338.1	8,928.5	4.6
Indonesia	5.75	Jan-25	5.84	Nickel (\$/MT)	15,266.9	15,003.1	1.8
				CPO (\$/MT)	1,055.3	1,032.0	2.3
				Rubber (\$/kg)	2.07	1.98	4.5
Money Mkt Rates	3-Mar	-1 mth	Chg (bps)	External Sector	Jan	Dec	Chg (%)
SPN (1Y)	6.08	6.70	-62.3	Export (\$ bn)	21.45	23.46	-8.56
SUN (10Y)	6.87	6.97	-9.9	Import (\$ bn)	18.00	21.22	-15.18
INDONIA (O/N, Rp)	5.89	5.83	5.4	Trade bal. (\$ bn)	3.45	2.24	54.17
JIBOR 1M (Rp)	6.38	6.40	-1.5	Central bank reserves (\$ bn)*	156.1	155.7	0.23
Bank Rates (Rp)	Dec	Nov	Chg (bps)	Prompt Indicators	Jan	Dec	Oct
Lending (WC)	8.62	8.68	-5.92	Consumer confidence index (CCI)	127.2	127.7	121.1
Deposit 1M	4.92	4.78	14.17	Car sales (%YoY)	-11.3	-6.4	-3.7
Savings	0.68	0.67	1.19	Motorcycle sales (%YoY)	-6.0	-5.5	5.4
Currency/USD	3-Mar	-1 mth	Chg (%)	Manufacturing PMI	Feb	Jan	Chg (bps)
UK Pound	0.787	0.807	2.47	USA	52.7	51.2	150
Euro	0.954	0.965	1.21	Eurozone	47.6	46.6	100
Japanese Yen	149.5	155.2	3.81	Japan	49.0	48.7	30
Chinese RMB	7.288	7.245	-0.59	China	50.8	50.1	70
Indonesia Rupiah	16,480	16,300	-1.09	Korea	49.9	50.3	-40
				Indonesia	53.6	51.9	170
Capital Mkt	3-Mar	-1 mth	Chg (%)				
JCI	6,519.7	7,109.2	-8.29				
DJIA	43,191.2	44,544.7	-3.04				
FTSE	8,871.3	8,674.0	2.28				
Nikkei 225	37,785.5	39,572.5	-4.52				
Hang Seng	23,006.3	20,225.1	13.75				
Foreign portfolio ownership (Rp Tn)	Feb	Jan	Chg (Rp Tn)				
Stock	3,083.7	3,531.1	-447.42				
Govt. Bond	890.2	881.3	8.86				
Corp. Bond	5.1	6.0	-0.89				

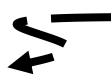
Source: Bloomberg, BI, BPS

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	2024	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	6.0	7.6
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	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	6.97	7.47
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,887
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.2
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-0.9

Notes:

- USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time

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