

## Indonesia Inflation Indicators

Inflation by Expenditure Category, yoy	March	April
Headline inflation	5.0%	4.3%
Headline inflation, mom	0.18%	0.33%
Food, beverages and tobacco	6.1%	4.6%
Clothing and footwears	1.2%	1.8%
Housing, utilities and household fuels	2.7%	2.5%
Equipment and household maintenance	3.7%	3.3%
Health	2.7%	2.6%
Transportations	13.7%	12.0%
Telecommunication and financial Service	-0.2%	-0.3%
Recreation, sport and culture	2.5%	2.4%
Education	2.8%	2.8%
Accommodations and restaurants	4.0%	3.8%
Personal care and other services	4.7%	4.7%
Inflation by Volatility Level, yoy		
Core inflation	2.9%	2.8%
Administered price inflation	11.6%	10.3%
Volatile good inflation	5.8%	3.7%
- Energy	14.4%	12.1%
- Foods	5.7%	3.8%
Inflation by Sector, yoy		
Wholesale price Inflation	5.4%	4.6%
- Agriculture	4.0%	3.5%
- Mining and Quarrying	11.0%	9.9%
- Manufacturing	5.7%	4.8%
Manufacturing PMI	51.9	52.7

Source: BPS, SSI Research

## Faster disinflation in April; chance for early 7DRRR cut?

As previously expected, Indonesia's headline and core inflation fell in April to 4.3% yoy and 2.8% yoy, respectively. On a month-on-month (mom) basis, inflation in Ramadan and Eid 2023 was one of the lowest in the last 15 years, beating only the MoM inflation rate during the pandemic (2020-2021). In our view, the decline in inflation was mainly driven by the government's successful food price control and global commodity slump as the geopolitical impact of the Russian invasion of Ukraine continues to fade away. Using the latest data as a basis, we expect headline inflation to fall within Bank Indonesia's inflation target range of 3±1% in June 2023. Considering these conditions, we expect BI to cut its 7DRRR earlier than expected (starting in July 2023) with potential cumulative cut of 100 bps (4X25 bps) to 150 bps (6X25 bps).

**Consumer price index (CPI) inflation fell further in April, in line with consensus but more intense than our estimate, to 4.3% yoy (Mar: 5% yoy; Cons: 4.4% yoy; SSI: 4.7% yoy).** Meanwhile, core inflation slipped to 2.8% yoy, within consensus tolerance but contrary to our expectations (Mar: &Cons: 2.9% yoy; SSI: 3% yoy). On a month-on-month (mom) basis, inflation in Ramadan and Eid this year was one of the lowest in the last 15 years, at 0.51% mom (March and April combined), only higher than inflation rates during the pandemic in 2020 (0.15% mom) and 2021 (0.45% mom) (see Table 1).

**In our view, the rather weak inflation during Ramadan and Eid 2023 was mainly caused by two factors: the government's successful food price control and global commodity slump as the geopolitical impact of the Russian invasion of Ukraine continues to fade away.** The first factor was reflected in the total food inflation (mom) during Ramadan and Eid 2023 of 0.59% mom, only slightly lower than the inflation rate during the pandemic (2021. 0.63% mom). As part of its effort to control food inflation, the government continues to improve coordination between central and regional inflation control teams, with a 2023 food security budget of IDR 104.2tn. Meanwhile, the impact of global commodity slump was reflected in the slowdown in wholesale inflation in the mining sector to 9.9% yoy (Mar: 11% yoy).

**According to our inflation model, Indonesia's disinflation process might continue through the end of the year to 2.8% yoy (headline) and 2.2% yoy (core).** Meanwhile, headline inflation is expected to fall within Bank Indonesia's target range in June 2023 (3.8% yoy). The potential for a sharp decline in inflation indicates a distinct possibility for economic decline throughout 2023 due to the impact of high benchmark interest rates (5.75%) and global commodity slump (see Chart 2). We estimate that BI will take steps to cut its benchmark interest rate (7DRRR) earlier than expected (starting in July 2023) to anticipate the potential economic slowdown. We have two 7DRRR cut scenarios. The first is an aggressive one; In this scenario, BI will leave the spread between 7DRRR and FFR in the negative zone (-50 bps) and cut 7DRRR by 150 bps (6X25 bps) to 4.25%. The second scenario is a conservative one; assuming that BI will try to maintain the spread between 7DRRR and FFR at 0 bps, we predict BI will cut 7DRRR by 100 bps (4X25 bps) to 4.75%.

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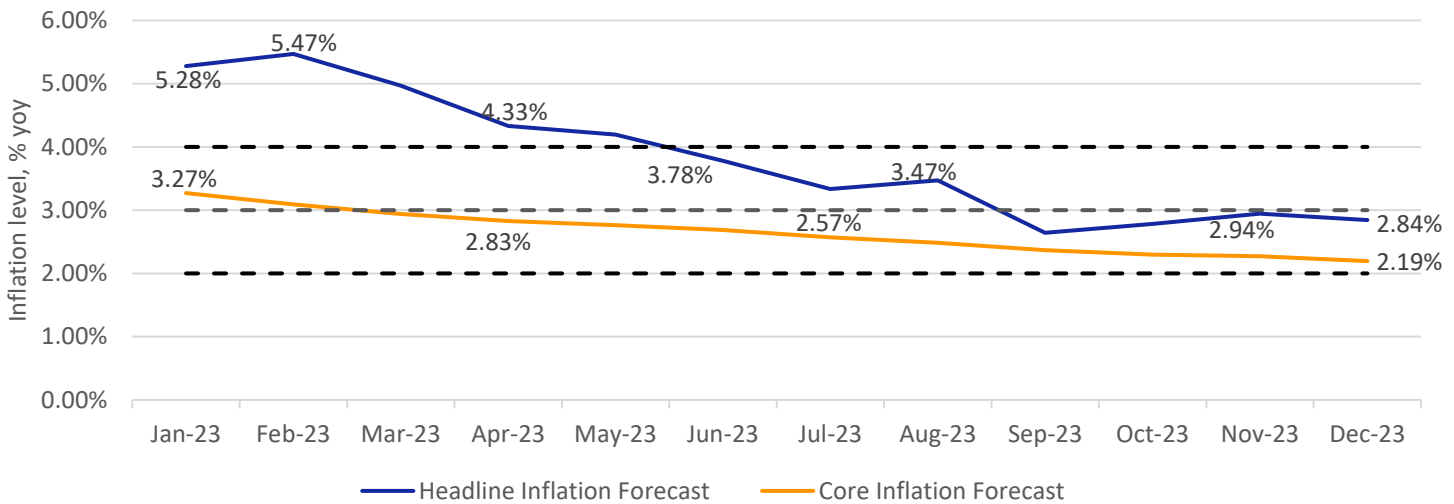
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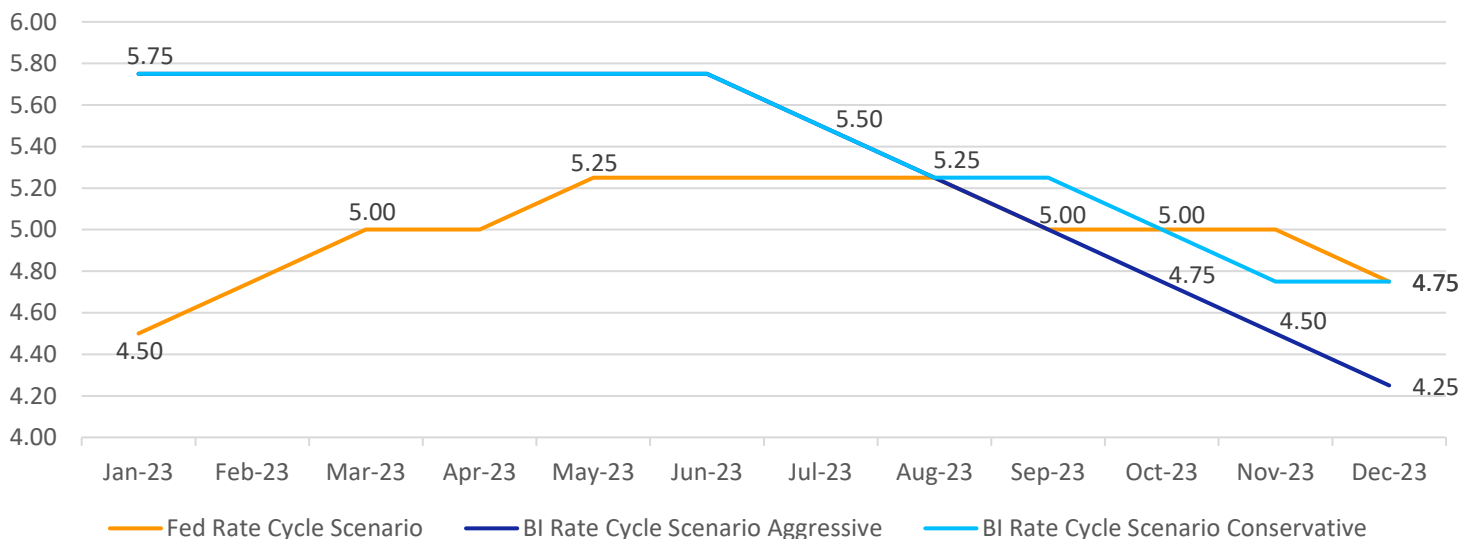
**Table 1. Indonesia's Monthly Inflation during Ramadhan Season**

	July - August 2011	July - August 2012	June - July 2013	June - July 2014	June - July 2015	May - June 2016	May - June 2017
<b>Ramadhan Food Prices Inflation</b>	2.91%	3.16%	6.63%	2.93%	3.62%	1.92%	1.55%
Month 1	1.84%	1.68%	1.17%	0.99%	1.60%	0.30%	0.86%
Month 2	1.07%	1.48%	5.46%	1.94%	2.02%	1.62%	0.69%
<b>Ramadhan Headline Inflation</b>	1.60%	1.65%	4.41%	1.36%	1.47%	0.90%	1.08%
Month 1	0.67%	0.70%	3.29%	0.43%	0.54%	0.24%	0.39%
Month 2	0.93%	0.95%	1.12%	0.93%	0.93%	0.66%	0.69%
	May - June 2018	April - May 2019	April - May 2020	April - May 2021	March - April 2022	March - April 2023	
<b>Ramadhan Food Prices Inflation</b>	1.09%	3.47%	-0.62%	0.63%	4.07%	0.59%	
Month 1	0.21%	1.45%	-0.13%	0.17%	1.87%	0.28%	
Month 2	0.88%	2.02%	-0.49%	0.46%	2.20%	0.31%	
<b>Ramadhan Headline Inflation</b>	0.80%	1.12%	0.15%	0.45%	1.61%	0.51%	
Month 1	0.21%	0.44%	0.08%	0.13%	0.66%	0.18%	
Month 2	0.59%	0.68%	0.07%	0.32%	0.95%	0.33%	

Source: BPS, SSI Research.

**Chart 2. SSI Projection on Indonesia's Inflation**


Source: BPS, SSI Research

**Chart 3. SSI Projection on Bank Indonesia's 7DRRR**


Source: BPS, SSI Research

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