

Indonesia Economic Briefing

An Ongoing Concern



	Jan-18 (Actual)	Jan-18 (Fcast)*	Jan-18 (Cons.)	Dec-17
Headline CPI (% chg y-o-y)	3.25	3.33	3.33	3.61
Headline CPI (% chg m-o-m)	0.62	0.70	0.70	0.71
Headline CPI (% chg y-t-d)	0.62	0.70	0.70	3.61
Core CPI (% chg y-o-y)	2.69	2.73	2.80	2.95

Source: Bloomberg, BPS, CEIC, *Danamon Estimates

Economic Highlights

- The statistics office announced an inflation of **0.62% mom** for the month of Jan-18. Flashing back to the first month of last year, there were two administered goods that heavily contributed to monthly inflation at the time - i.e. vehicle registration fee and electricity tariff- (*please see Chart 1*). This time around, a third of the monthly price inflation was derived from rice on the back of supply issues.
- Nevertheless, if we take out the contribution of rice that accounts around 0.24%, the remaining staple food inflation is still 0.1% higher than year-ago level. Keeping in mind that the government has set its focus on containing volatile food inflation last year, it seems that the task has gotten tougher in 2018. **The movement of global food price assimilates closely with oil** due to modernized agricultural production (*please see Chart 2*), therefore any hit to inflation would come from both sides.
- Specifically on the impact of oil price to domestic inflation, we have conducted a simple simulation regarding how much buffer does State Owned Oil Company has. This is to absorb the difference between retail pump price and economically profitable price. Our study indicates that **the limit is at a maximum average oil price of USD 62 per barrel**. Given that our assumption on average oil price of USD 65 per barrel this year, we think the retail pump price should be hiked by Rp500/L and resulting in an additional 0.7% to our FY18 inflation forecast of 3.6%.
- **Policy implication?** Our call is for **policy rates to be on hold at the next MPC meeting (15 Feb)**. Although 4Q17 GDP will be released next week, we think it is more important to look at 1Q18 result (publish next May) to get a better sense on where the economy is heading this year. Market players will be watching for the outcome of the next Bank Indonesia Governor due to be appointed also in May.

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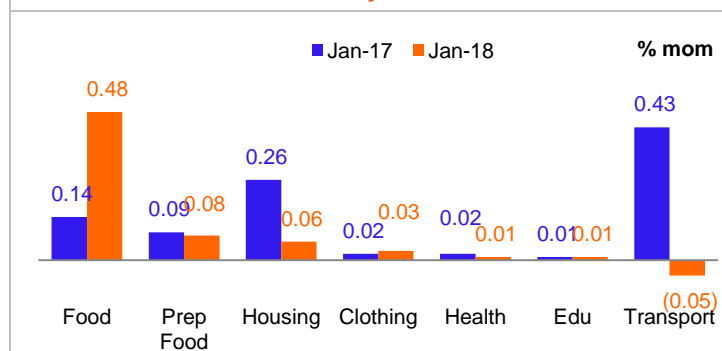
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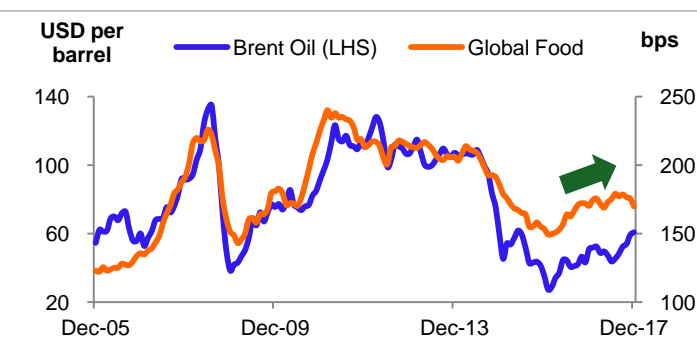
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Chart 1. CPI Contributors by Product



Source: BPS

Chart 2. Global Oil and Food Prices



Source: EIA, UN-FAO

Indonesia: Selected Economic Indicators

	2014	2015	2016	2017E	2018E
National Accounts					
Real GDP (% y-o-y)	5.0	4.9	5.0	5.0	5.3
Domestic demand ex. inventory (% y-o-y)	5.3	3.9	5.0	4.6	5.4
Real Consumption: Private (% y-o-y)	5.1	5.0	5.0	4.9	5.0
Real Gross Fixed Capital Formation (% y-o-y)	4.4	5.0	4.5	5.7	6.0
GDP (USD bn) — nominal	890	861	932	1,005	1,115
GDP per capita (USD) — nominal	3,529	3,371	3,604	3,838	4,198
Open Unemployment Rate (%)	5.9	6.2	5.6	5.5	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-3.7	-14.9	-3.1	16.8	6.0
Imports (% y-o-y, BoP Basis)	-4.5	-19.7	-4.5	16.8	11.8
Trade balance (USD bn, BoP Basis)	6.9	14.1	15.4	18.1	17.6
Current account (% of GDP)	-3.2	-2.1	-1.8	-1.8	-2.0
Central government debt (% of GDP)	24.7	27.4	27.8	28.6	28.7
International Reserves –IRFCL (USD bn)	111.9	105.9	116.4	130.2 (A)	136.8
Reserve Cover (Months of imports & ext. debt)	6.5	7.4	8.4	8.3 (A)	8.5
Currency/US\$ (Year-end)	12,440	13,795	13,436	13,548 (A)	13,575
Currency/US\$ (Average)	11,878	13,392	13,308	13,383 (A)	13,520
Other					
BI policy rate (% year end)	7.75	7.50	6.50*	N/A	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	6.25	4.75	4.25 (A)	4.25
Consumer prices (% year end)	8.36	3.35	3.02	3.61 (A)	3.64
Fiscal balance (% of GDP; FY)	-2.26	-2.70	-2.46	-2.60	-2.52
S&P's Rating – FCY	BB+	BB+	BB+	BBB- (A)	BBB-

Source: CEIC, E = Danamon Estimates, A = Actual, *) Up to August 2016

Economic and Market Research

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