Sucor Sekuritas

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Economic Update

February 2025 Inflation Update

Deflationary Pressure Will Pave the Way for Money Base Expansion

Economic Indicator	2022	2023	2024F	2025F
GDP Growth (%)	5.31	5.05	5.1	5.3
Inflation (%)	5.51	2.61	1.57	1.3
US$/Rp (Average)	14,850	15,235	16,000	15,100
BI 7-D RRR (%)	5.5	6.0	6.0	5.00
Current Account (% GDP)	0.96	1.0	-0.44	-0.5
Trade Balance (US$ bn)	35.34	36	31	29
Indonesia 10 Year Yield (%)	6.55	6.99	6.9	5.5
Gov't Deficit % GDP	-4.65	-2.27	-2.2	-2.5
Debt to GDP (%)	41.2	40.9	40	40.7
Sovereign Rating (S&P)	BBB	BBB	BBB	BBB+
10-Year UST yield average	2.99	3.96	4.22	3.50

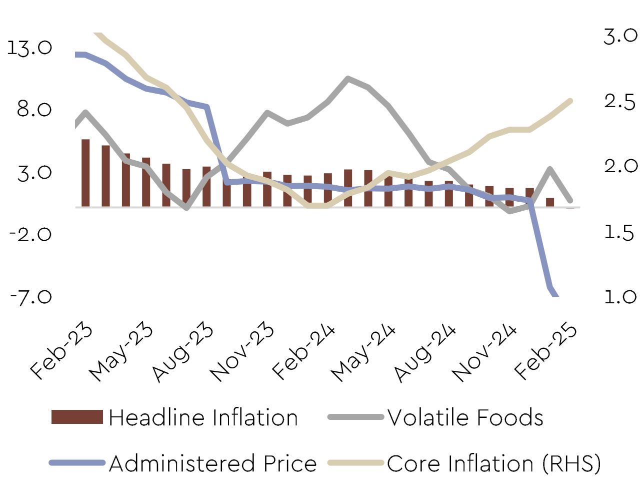
Historical 5-Yr Key Performance:

GDP Growth (%)	4.37	Trade Balance (US$ Bn)	3.31
Inflation (%)	2.67	Current Account (US$)	-2.18
US$/Rp	14,701	Current Acct (%of GDP)	-0.41
Indonesia 10-year yield (%)	6.80	Gov't Deficit (% of GDP)	-3.50
BI 7-D RRR (%)	4.76	Debt to GDP (%)	37.73

Economic Data

Bloomberg Ticker:	IDCPIY
Frequency:	Monthly
Source:	Badan Pusat Statistik (BPS)

Indonesia Consumer Price Index (%YoY)



12-Month Projection of Inflation Rate

Baseline	:	1.30 %
Best	:	1.00%
Worst	:	2.50%

First annual deflation in 25 years

Indonesia recorded an annual deflation of CPI of -0.09% yoy in February from 0.76% in January, failing significantly below market consensus and our projections of 0.41% and 1.30%. On a monthly basis, CPI recorded a deflation of -0.48%, following a deeper deflation of -0.76%. The annual figure marks the first deflation of yearly CPI in 25 years since March 2000. Based on components, core CPI inflated 2.48% yoy (vs. 2.36% in January), administered prices deflated -9.02% yoy (vs. -6.41% in January), and volatile food inflated 0.56% (vs. 3.07% in January).

Softening prices amidst increasing core inflation

Rising prices for gold, cooking oil, coffee, and rice meals drove the increase in core inflation. This increase comes with a contribution of 1.58% to the annual headline CPI in February. The housing, water, electricity, and household fuel group, which is included in the core CPI, is the biggest driver to both yearly and monthly deflation, with contributions of 0.52% and 1.92%, respectively, with a deflation of 12.08% yoy. The slower volatile food inflation indicates softening inflationary pressure ahead of the festive season. We foresee the volatile food in March will remain muted due to the high base in 2024 and the harvest season during the same period of Ramadan.

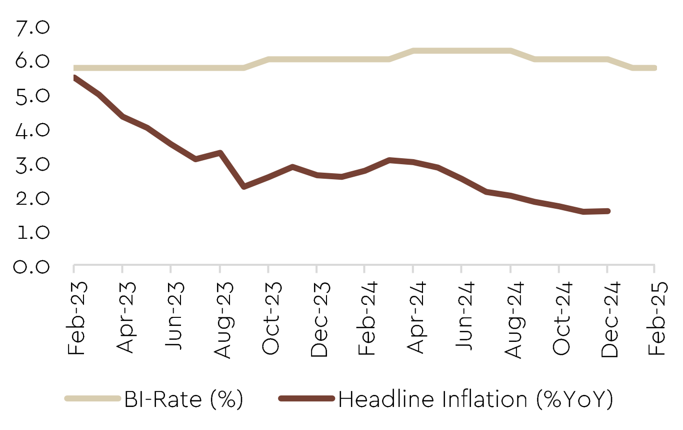
Bigger room for more accommodative policy

The latest inflation readings have given the government and Bank Indonesia (BI) more room for accommodative policies. On the fiscal side, the government announced stimulus measures, including a 13–14% cut in domestic airfare, a 6% VAT coverage, and a 20% toll road discount for Ramadan and Eid Al-Fitr. Additionally, efforts to stabilize food prices aim to curb inflationary pressures on volatile food items. We expect CPI to rise in March as electricity tariff discounts end and seasonal demand surges before Ramadan. However, the CPI surge may be limited due to the aforementioned fiscal stimulus. We maintain our 2025 inflation forecast at 1.30% as deflationary pressures from falling oil prices persist. This limitation provides BI greater flexibility to ease policy, likely leading to a 25 bps BI-Rate cut in this month's board meeting. Deflationary pressures are expected to persist as we anticipate electricity tariffs will remain low despite the end of the discount policy in March. Additionally, we expect Pertamax prices to decline if Brent crude prices continue to fall to $65 per barrel, particularly if the Trump administration successfully ends the Ukraine war.

On the other hand, BI has absorbed a lower amount in its weekly Bank Indonesia Rupiah Securities (SRBI) auction, with a reduction of SRBI outstanding (mentioned in our previous report: https://bit.ly/Macro_LowerSRBIWayForLiquidityExpansion). This indicates a liquidity expansion by BI, which will positively impact banks' lending capacity in 2025. Notably, the money base (M1) grew by 7.24% yoy in January, up from 5.84% yoy in February. We anticipate that M1 will grow further after BI injects liquidity by reducing the outstanding SRBI.

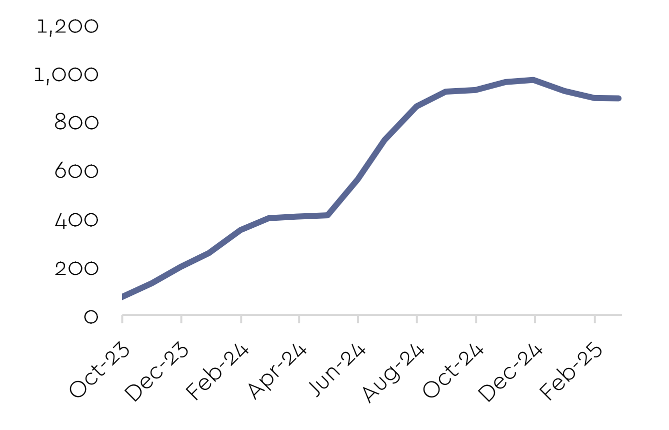
Economic Summary

Fig. 1: Indonesia's headline inflation (% yoy) vs BI-Rate



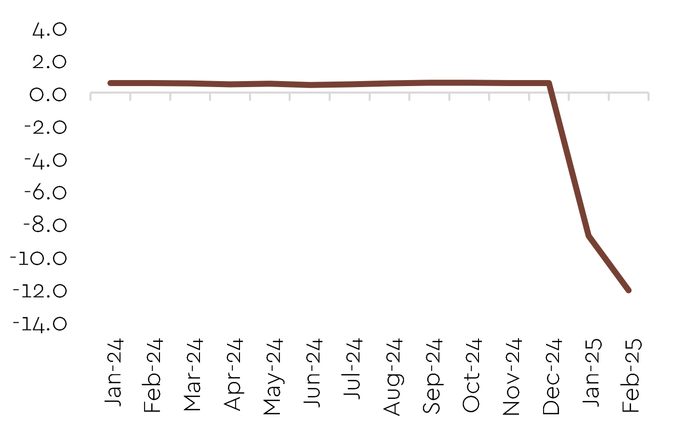
Source: BPS, BI, Sucor Sekuritas

Fig. 2: SRBI Outstanding (Rp tn)



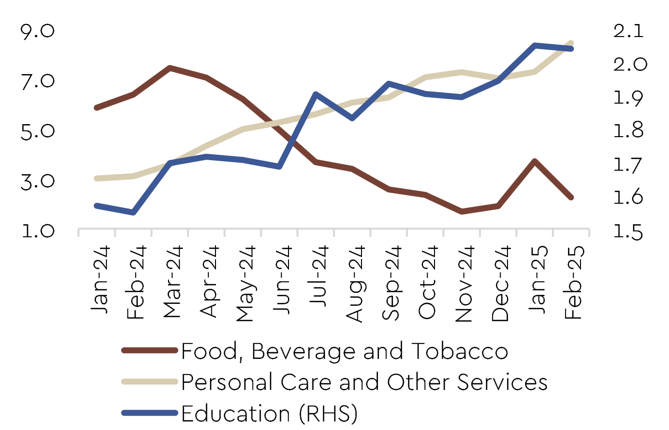
Source: Bank Indonesia, Sucor Sekuritas

Fig. 3: Housing, water, electricity and other fuel inflation (% yoy)



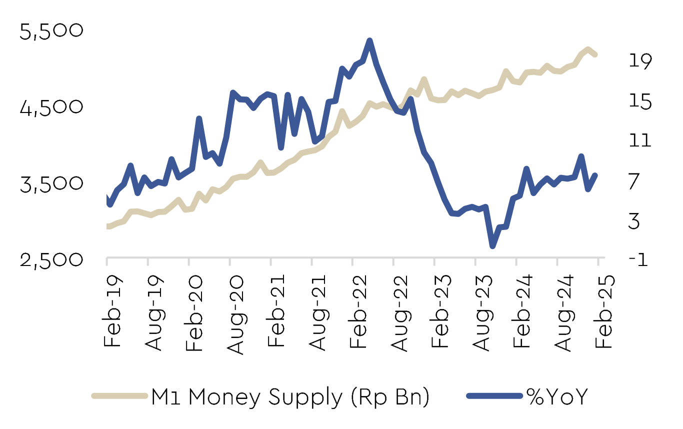
Source: CEIC, Sucor Sekuritas

Fig. 4: Top three expenditure components to annual inflation (% yoy)



Source: CEIC, Sucor Sekuritas

Fig. 5: Indonesia M1 Money Base



Source: CEIC, Sucor Sekuritas

Fig. 6: Brent vs US and Indonesia CPI (% yoy)

*Source: **Bloomberg**, Sucor Sekuritas*

Sucor Sekuritas rating definition, analyst certification, and important disclosure

Ratings for Sectors

Overweight : We expect the industry to perform better than the primary market index (JCI) over the next 12 months.
Neutral : We expect the industry to perform in line with the primary market index (JCI) over the next 12 months.
Underweight : We expect the industry to underperform the primary market index (JCI) over the next 12 months.

Ratings for Stocks

Buy : We expect this stock to give return (excluding dividend) of above 10% over the next 12 months.
Hold : We expect this stock to give return of between -10% and 10% over the next 12 months.
Sell : We expect this stock to give return of -10% or lower over the next 12 months.

Analyst Certification

The research analyst(s) primarily responsible for the preparation of this research report hereby certify that all of the views expressed in this research report accurately reflect their personal views about any and all of the subject securities or issuers. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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