

## Indonesia recorded the first monthly deflation in ten months

The monthly Consumer Price Index (CPI) registered a decline due to reduced food prices.

- In Aug-23, the CPI experienced a deflation of -0.02% mom, a notable decline from the 0.21% mom inflation observed in Jul-23. This was primarily driven by seasonally lower food prices, coinciding with the harvest season.
- There was an uptick in inflation within the education expenditure group, which increased from 0.66% mom in Jul-23 to 0.86% mom in Aug-23. This increase contributed 0.05 ppt to the headline inflation, mainly attributed to tuition fees for the new academic year, particularly in universities and primary schools. We anticipate that this seasonal rise in the education prices will gradually subside in the coming month as August tends to mark the peak of education inflation.
- Nevertheless, the impact of inflation in the education expenditure group was dampened by deflation observed in other expenditure groups.
- The food, beverages, & tobacco expenditure group saw a deflation of -0.25% mom, contributing -0.07 ppt to the headline inflation. This deflation was mainly driven by declines in the prices of chicken meat (-0.07 ppt) and shallots (-0.05 ppt), with simultaneous harvests in major cities playing a significant role.
- The clothing & footwear, as well as housing, water, electricity, & other fuel expenditures groups, both experienced deflation, each contributing -0.01 ppt to the headline inflation. The former declined from 0.18% mom in Jul-23 to -0.27% mom in Aug-23, while the latter decreased from 0.02% mom to -0.05% mom, primarily due to price adjustments in non-subsidized LPG.
- The transportation expenditure group recorded a slight deflation of -0.02% mom in Aug-23, marking a significant reversal from the 0.58% mom inflation observed during the period following the school holiday season.
- When considering the cumulative inflation from Jan – Aug-23, the year-to-date (ytd) inflation rate stood at just 1.43%, significantly lower than the inflation rate recorded during the same period last year, which amounted to 3.63% ytd.

The annual inflation rate exhibited an uptick in response to the low base effect observed from the previous year, yet it remained comfortably situated within the target range of 2 – 4%.

- The annual headline inflation rate witnessed an increase, rising from 3.08% yoy in Jul-23 to 3.27% yoy in Aug-23. However, this increase was predominantly attributed to the low base effect from the previous year. In Aug-22, the CPI experienced significant monthly deflation, largely driven by substantially reduced food prices resulting from improved food supply during the harvest season.
- Core inflation, on the other hand, continued its deceleration, declining from 2.43% yoy in Jul-23 to 2.18% yoy in Aug-23. Nevertheless, on a monthly basis, it still exhibited a slightly accelerated growth, influenced by increased expenditures on education. The overall decrease in inflation within the production/supply side also resulted in a decline in selling prices for most non-administered and volatile goods, translating into lower consumer-side inflation.
- Administered price inflation showed signs of easing, dropping from 8.42% yoy in Jul-23 to 8.05% yoy in Aug-23, as the impact of higher energy and fuel prices from the previous year continued to diminish.
- Volatile price inflation registered an increase, rising from -0.03% yoy in Jul-23 to 2.42% yoy in Aug-23. This was primarily because the seasonal decline in food

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.00
Inflation (% yoy, avg)	4.21	3.79
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.96	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast  
yoy = year-on-year  
eoy = end of year  
avg = average

Key Rates (%)	Dec-22	Aug-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.37
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.25
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

\*) as of 31-Aug-23

Source: Bloomberg

**Faisal Rachman**  
Senior Economist

[faisal.rachman@bankmandiri.co.id](mailto:faisal.rachman@bankmandiri.co.id)

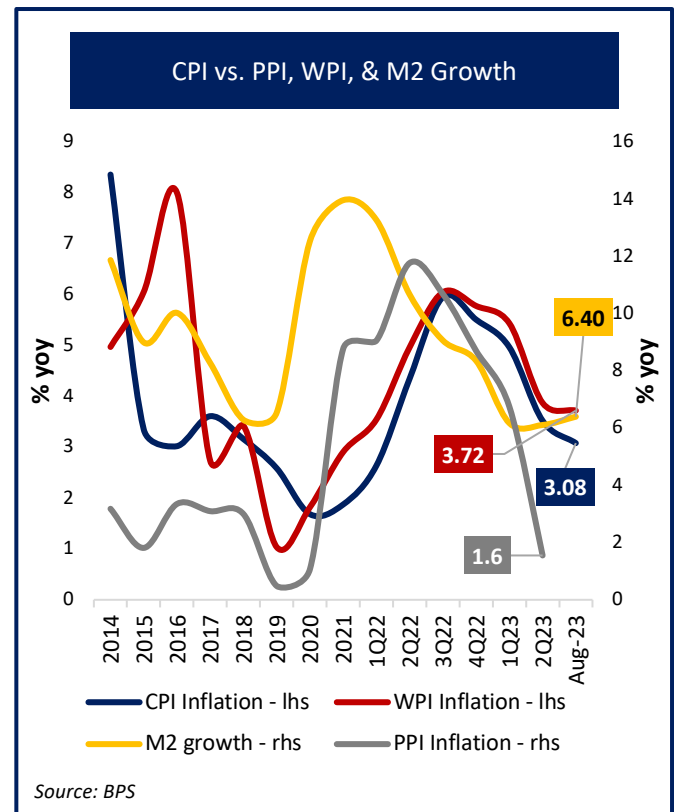
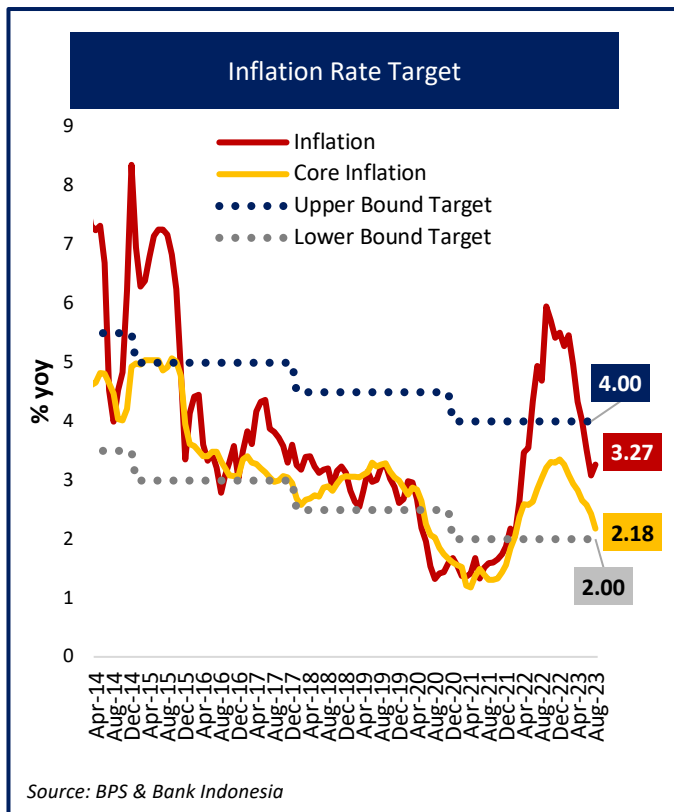
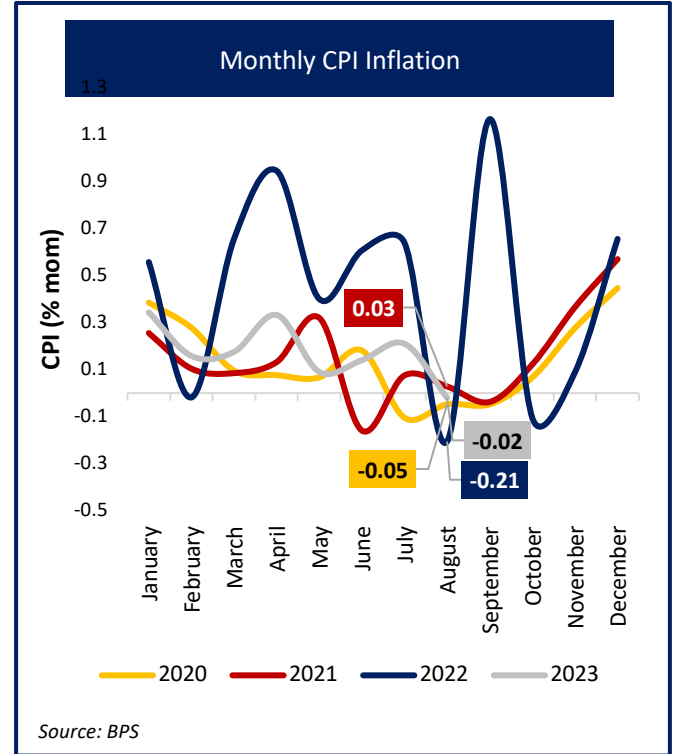
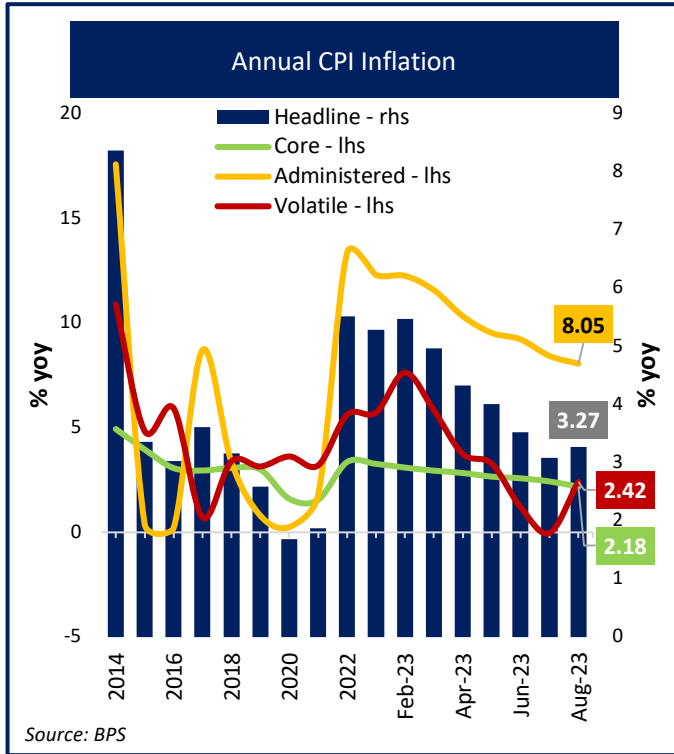
**Shahifa Assajjadiyyah**  
Junior Economist

[shahifa.assajjadiyyah@bankmandiri.co.id](mailto:shahifa.assajjadiyyah@bankmandiri.co.id)

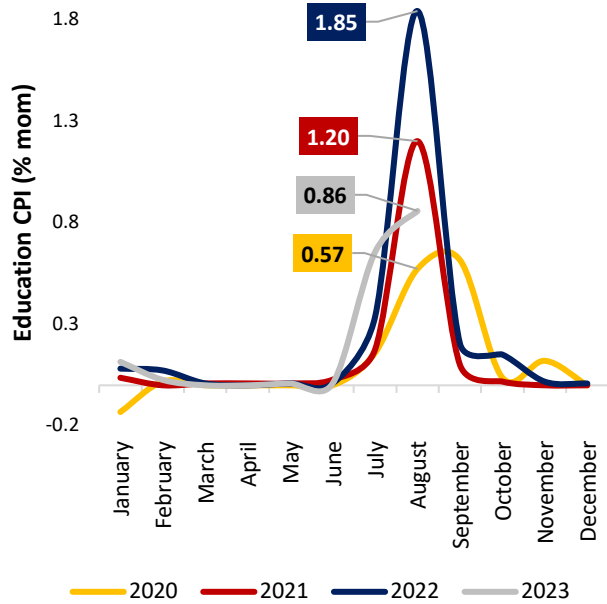
prices in Aug-23 was not as pronounced as the decrease observed in food prices in Aug-22.

**OUR VIEW: We maintain our view that annual CPI inflation will progressively decrease throughout the rest of 2023.**

- We uphold our stance that annual inflation will continue to decrease and remain within the established target range for the remainder of 2023. This projection is based on the manageable trajectory of food prices and the influence of the high base effect resulting from subsidized fuel price adjustments in the previous year.
- However, we acknowledge the potential challenges posed by El Nino and extreme weather, particularly their impact on food-related inflation, which needs to be meticulously anticipated.
- To maintain domestic inflation within the prescribed target range, the government has instituted the National Movement for Food Inflation Control (GNIP) with the aim of fostering enhanced coordination between the central and regional teams responsible for managing inflation.
- The efforts of Bank Indonesia by launching several policy instruments to stabilize the Rupiah exchange rate also hold the potential to play a pivotal role in managing imported inflation.
- *We envision CPI inflation reaching around 3.00% by the conclusion of 2023 if the government effectively manages food prices and supply chains.*
- All in all, we see that Bank Indonesia has the room to avoid increasing its benchmark interest rate, BI-7DRRR, even though the prominent central banks worldwide are currently adopting a hawkish approach. *Our projection retains the anticipation that BI will keep the BI-7DRRR rate steady at 5.75% for the rest of 2023.*

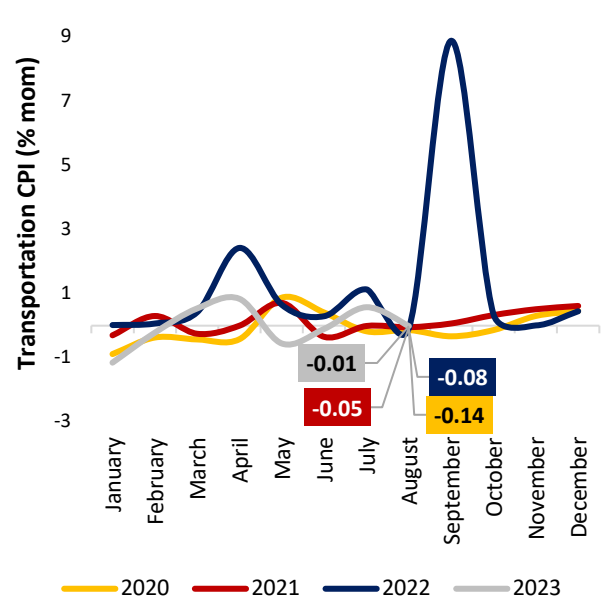


### Monthly Education Inflation



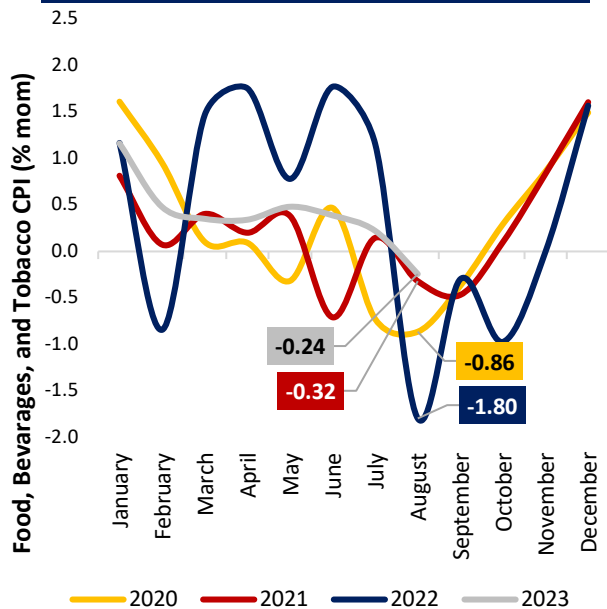
Source: BPS

### Monthly Transportation Inflation



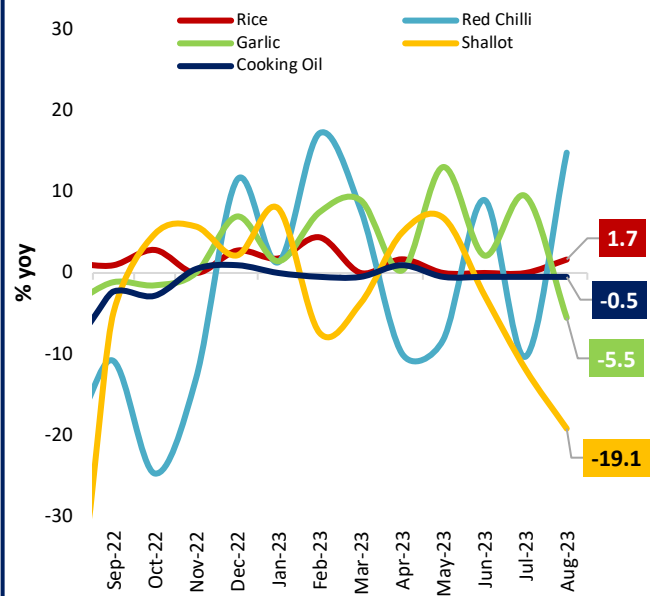
Source: BPS

### Monthly Food Inflation



Source: BPS

### Food Prices



Source: Ministry of Home Affairs

## Macroeconomic and Financial Market Research Department

**Chief Economist**

Andry Asmoro

**Head of Macroeconomic and Financial Market Research**

Dian Ayu Yustina

**Senior Economist**

Faisal Rachman

**Senior Quantitative Analyst**

Reny Eka Putri

**Junior Economist**

Andhi Prasetyo Hadi

**Junior Economist**

Shahifa Assajjadiyyah

**Office Address:**

**Plaza Mandiri 18<sup>th</sup> Floor**

Jl. Jend. Gatot Subroto Kav. 36 – 38, Jakarta 12190, Indonesia

Tel: +62 21 5245516

Fax: +62 21 5210430

email: [oce@bankmandiri.co.id](mailto:oce@bankmandiri.co.id)

[www.bankmandiri.co.id](http://www.bankmandiri.co.id)

**Disclaimer:** This material is for information only. The information herein has been obtained from sources believed to be reliable, but we do not warrant that it is accurate or complete, and it should not be relied upon as such. Opinion expressed is our current opinion as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redistributed to others without written permission from PT Bank Mandiri, Tbk. For further information please contact **Office of Chief Economist, Macroeconomic and Financial Market Research Department** at Ph. (021) 524 5272 or Fax. (021) 521 0430.