

Monthly inflation in Oct-23 decelerated as food prices were contained

The monthly inflation rate slightly softened as recent pressure in food prices has been successfully contained.

- In Oct-23, the consumer price index (CPI) experienced a monthly inflation of 0.17% mom, slightly softened from the 0.19% mom inflation in Sep-23, primarily attributed to lower monthly inflation in food, beverages, & tobacco group.
- Inflation in food, beverages, & tobacco group showed a slight deceleration from 0.35% mom in Sep-23 to 0.20% mom in Oct-23. The deceleration was mainly caused by lower inflation in rice, as government's effort in maintaining price through import has finally taken effect. Rice price only increased by 1.72% mom, after experiencing sharp increase of nearly 6.00% mom in the previous month.
- Rising prices of other food items i.e. cayenne pepper and red chilli pepper were cancelled out by deflation in other food prices (eggs, fish, tomatoes). Hence, this group contributed 0.05 ppt to the headline inflation.
- Transportation group experienced inflation of 0.55% mom in Oct-23 (vs. 0.29% mom in Sep-23), after government set another increase in the price of non-subsidized fuel (Pertamax, Pertamax Turbo, Dexcelite and Pertamina Dex types) in early Oct-23. Consequently, this group contributed 0.07 ppt to the monthly annual inflation.
- Year to date (Jan – Oct-23), inflation rate stood at just 1.80%, significantly lower than the inflation rate recorded during the same period last year, which reached 4.73% ytd.

On a year-on-year basis, the inflation rate witnessed an increase from 2.28% yoy in Sep-23 to 2.56% yoy in Oct-23. Yet, it still remained within the Bank Indonesia's target range of 2 – 4%.

- The annual headline inflation rate witnessed an increase from 2.28% yoy in Sep-23 to 2.56% yoy in Oct-23, escalated by higher yearly inflation in food, beverages, & tobacco group in annual basis.
- Volatile price inflation witnessed a sharp increase from 3.62% yoy in Sep-23 to 5.54% yoy in Oct-23. Rising rice prices in annual basis contributed to this increase.
- When excluding volatile prices, core inflation showed declining level from 2.00% yoy in Sep-23 to 1.91% yoy in Oct-23. Annual core inflation has consistently decreased for the past eleven months, which may indicating a moderating domestic demand. On its monthly basis, core inflation also recorded a lower growth from 0.12% mom to 0.08% mom in Oct-23.
- Administered price inflation showed an acceleration, 1.99% yoy in Sep-23 to 2.12% yoy in Oct-23.

OUR VIEW: There are some risks to the inflation going forward, but government intervention—particularly in securing food supply, should contain the pressure.

- From the global economy, there are some variables that could potentially affect domestic inflation. (1) Some climate institutions have projected that El Nino could occur in a moderate level since Dec-23 until early 2024. Hence, this phenomenon could potentially distort global food supply and translated to

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	15,523
CA (% of GDP)	0.99	-0.65
BI 7-day RR Rate (%)	5.50	6.00

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

Key Rates (%)	Dec-22	Nov-23*
BI 7-day RR Rate	5.50	6.00
Deposit Facility Rate	4.75	5.25
Lending Facility Rate	6.25	6.75
IDR 10Y Bond Yield	6.92	7.08
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.50
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 1-Nov-23

Source: Bloomberg

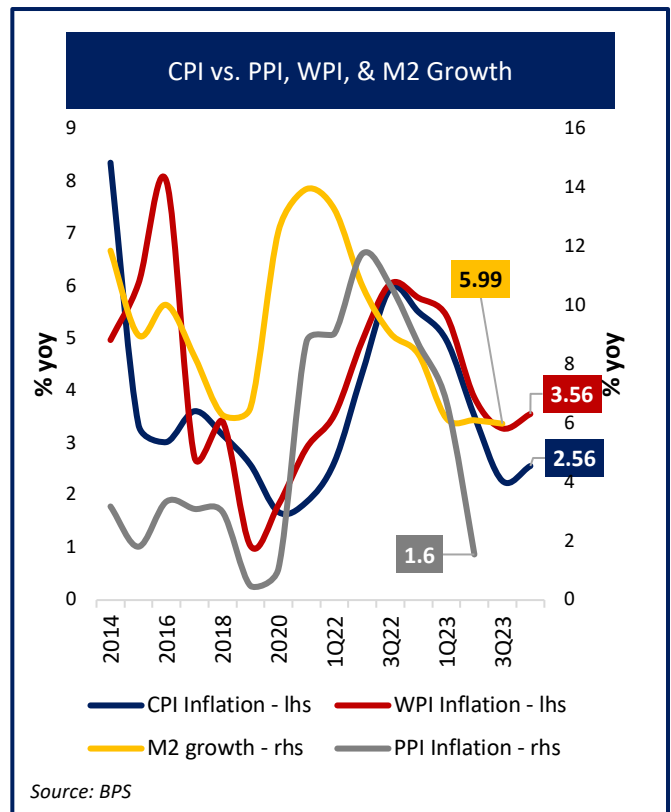
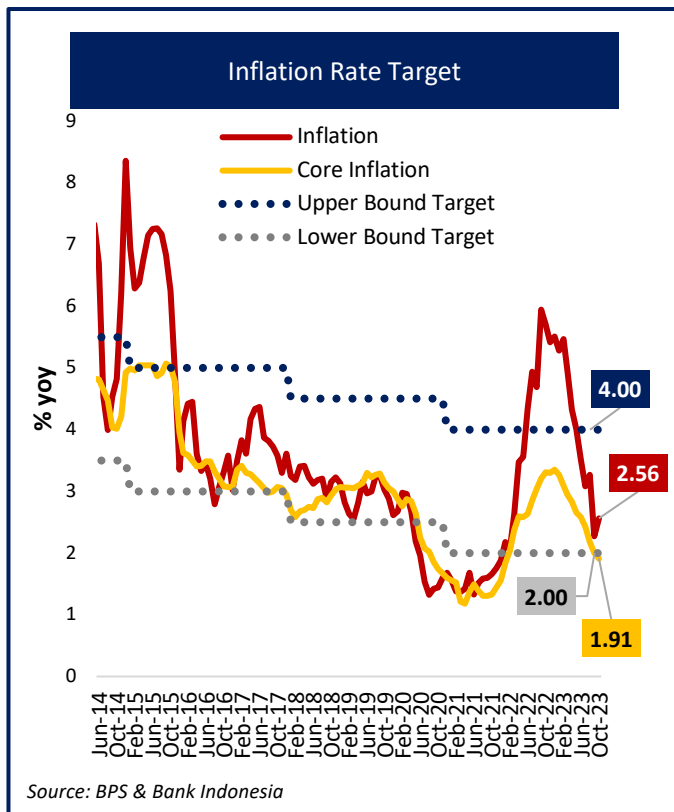
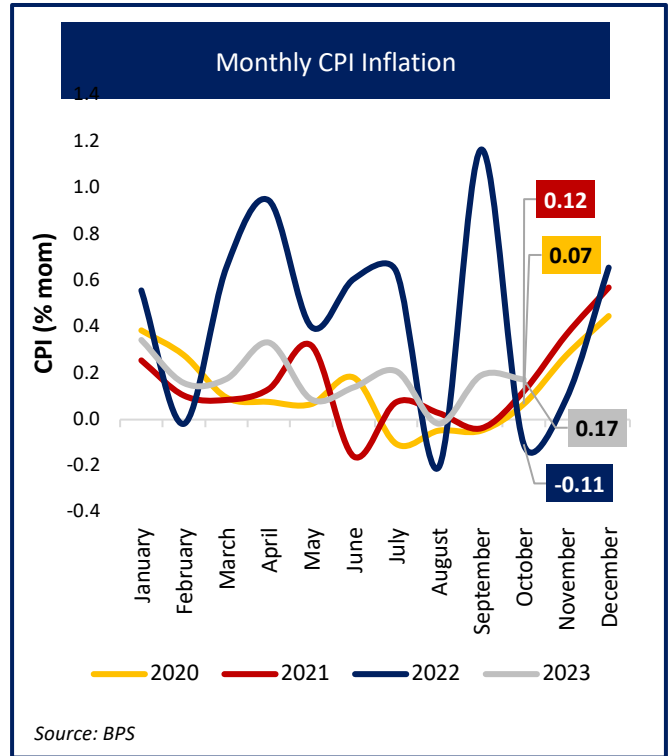
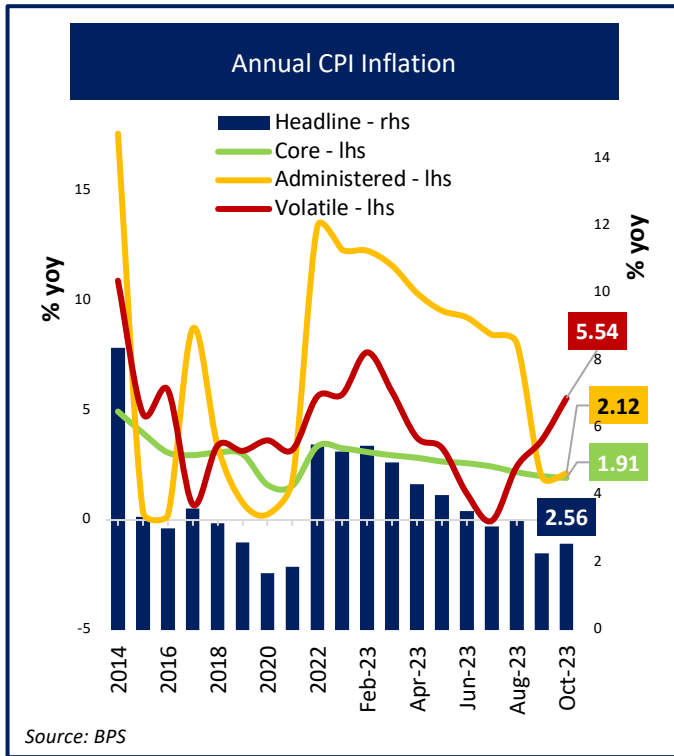
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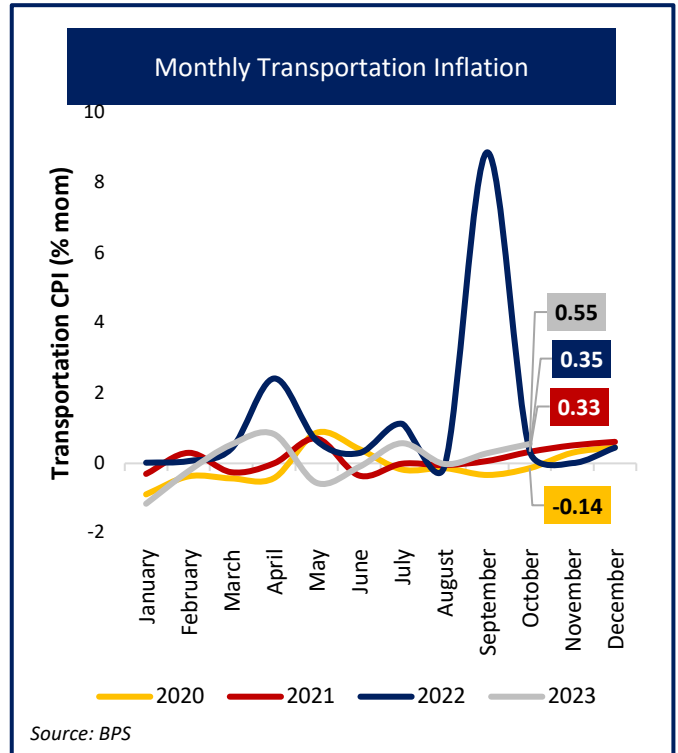
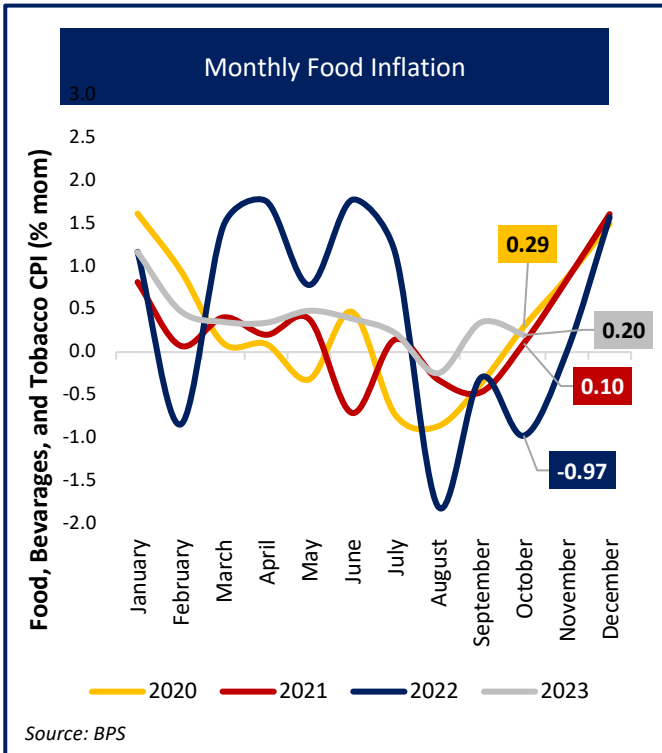
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higher domestic food price particularly rice. However, the government has acted promptly and secure supply through import. Cumulatively in Jan–Oct-23, rice import has been done by 2.3 million tones which has successfully contained the rice price. If the government can consistently monitor and secure supply, we expect that price of rice could be maintained until the end of the year.

- (2) Another risk that should be anticipated was the possibility of rising global oil price amid Israeli-Palestine tension. The worst scenario is if the war continue to escalate and involving major oil producer countries, could potentially increase the world oil price to the level above the government's budget assumption. If this happens, the government has the alternative to absorb this shock by raising subsidies or compensation to energy SOEs or passthrough the impact to the domestic fuel price. Yet, we think the government still has quite ample cash/liquidity as shown from the continuing budget surplus of IDR 67.7 tn in Sep-23, thus can absorb the external shock through subsidy or compensation scheme.
- (3) From the exchange rate side, a depreciation trend of Rupiah could have an impact to higher imported inflation. Yet, based on our calculation, the passthrough impact of Rupiah depreciation to the inflation is relatively small. *Therefore, we still uphold our projection that CPI inflation could reach 3.00% by the end of 2023.*





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