

April 2013

## CPI AND SBI OUTLOOK

### April 2013 Inflation Outlook: To Ease Despite Expected Fuel Price Hikes

- ❑ MoM inflation in March 2013 reached 0.63 percent, giving rise to YoY inflation of 5.90 percent. Cumulatively, headline inflation reached 2.43 percent in the first three months of the year.
- ❑ The basic foodstuffs component posted the largest increase (+2.04 percent MoM), followed by the prepared foods component (+0.40 percent MoM), the medical care component (+0.24 percent MoM), the housing component (+0.21 percent MoM), and the education component (+0.12 percent MoM). Meanwhile, the clothing component dropped 0.70 percent.
- ❑ In March, a tightening in the supply of garlic and onions led to sharp increases in basic foodstuff prices. In response, the Ministry of Trade granted approval for the import of 134,600 tons of garlic in an effort to bring prices down. Consequently, in April, the prices of several major basic foodstuffs like rice are expected to ease, especially given the onset of the harvesting season.
- ❑ In April 2013, the government weighed up several policies aimed at reducing the consumption of subsidized fuel to reduce pressures on the state budget. In this regard, the government has identified two options: 1) hiking subsidized fuel prices and 2) limiting the consumption of subsidized fuel by private motorists.
- ❑ The first option (raising subsidized fuel prices) has the main advantage of being easy to implement. Nonetheless, there would be a significant impact on inflation since all motorists (private car owners, public transportation, and motorcyclists) would have to pay higher fuel prices. According to Danareksa Research Institute's calculations, each 10 percent rise in subsidized fuel prices would result in additional inflation of 0.7 percent. As such, this option would likely lead to a significant erosion in consumer purchasing power and a consequent slump in household consumption.
- ❑ Under the second option of limiting the consumption of subsidized fuel, the government may choose to focus on limiting fuel consumption by private cars, government vehicles, and mining and plantation vehicles.
- ❑ Using the assumptions contained in the 2013 state budget, these fuel restriction policies are expected to save 14.7 mn kiloliters of premium fuel and 3.02 mn kiloliters of diesel fuel. This would save 34.74 trillion rupiah (if the policy is introduced in June 2013). Furthermore, if the calculation is based on the actual subsidized fuel consumption up to March 2013, the implementation of this policy would save 16.9 mn kiloliters of premium fuel and 3.6 mn kiloliters of diesel fuel. This would save 51.46 trillion rupiah. In the case that private cars will be required to consume non-subsidized fuel (e.g. pertamax) whilst public transportation and goods transportation will still be allowed to consume subsidized fuel, we believe there will only be a slight impact on the general prices index (less than 0.5 percent).

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**DRI Forecast for April 2013**

<b>Inflation</b>	
MoM (%)	(0.07)
YoY (%)	5.61

<b>SBI</b>	
End of period (% p.a)	5.75

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**Forecast for 2013**

Inflation (%)	4.91
SBI (% p.a)	5.75

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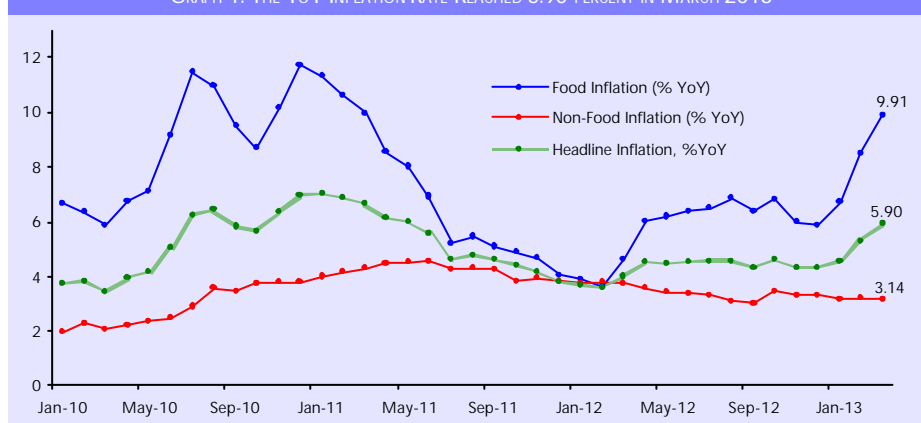
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- The government is also considering a variant of these two options (option 3). In this scenario, fuel subsidies for private cars would be reduced through an increase in subsidized fuel prices to IDR 6,500/liter, or 44.4 percent higher than the current price. However, motorcyclists and drivers of transportation vehicles would still be allowed to buy fuel at IDR 4,500/liter. Under the assumption that private cars will pay at the new subsidized fuel price, the impact on headline inflation would be small. We estimate additional inflation of less than 0.5 percent.
- An abundant supply of basic foodstuffs will ease inflationary pressures in April. Furthermore, government policy to tackle the mounting fuel subsidies will not be reflected in the April inflation figure since implementation is still 1 – 2 months away. Hence, we forecast deflation of 0.07 percent MoM in April, translating into YoY inflation of 5.61 percent.
- In April 2013, Bank Indonesia kept the BI rate at 5.75 percent. Going forward, we don't expect any significant change in the BI rate given the stable inflation outlook and since economic growth remains on the right track.

TABLE 1. FUEL SUBSIDY POLICIES

Scenario	Policy	Description	Impact on Inflation
1	Hiking the subsidized fuel prices for all user	The price of subsidized fuel will increase. All subsidized fuel consumer (private cars, motorcycle, transportation vehicles) will pay the same fuel price	Each 10 percent rise in subsidized fuel prices will result in additional inflation of 0.7 percent
2	Limiting subsidized fuel consumption	The private cars, government cars, and mining and plantation vehicles are not allowed to consume the subsidized fuel	Additional inflation of < 0.5 percent
3	Increasing the subsidized fuel prices	The subsidized fuel will cost at IDR 6.500 for private cars, and IDR 4.500 for motorcycle and transportation vehicle	Additional inflation of < 0.5 percent

GRAPH 1. THE YOY INFLATION RATE REACHED 5.90 PERCENT IN MARCH 2013



Source : BPS, Bank Indonesia

TABLE 2. MoM FOODSTUFFS INFLATION

## Changes in Consumer Price Index (percent)

	M-on-M changes			Y-on-Y changes			YTD (Jan-Mar)		
	Jan-13	Feb-13	Mar-13	Jan-13	Feb-13	Mar-13	2011	2012	2013
FOODSTUFF	3.39	2.08	2.04	7.28	10.32	12.95	(0.12)	0.77	7.70
PREPARED FOOD	0.46	0.47	0.40	5.91	6.05	5.98	1.28	1.46	1.33
HOUSING	0.56	0.82	0.21	3.37	3.93	3.94	1.18	1.02	1.59
CLOTHING	0.25	(0.59)	(0.70)	5.01	3.14	2.26	0.45	1.29	(1.04)
MEDICAL CARE	0.29	0.56	0.24	2.69	3.11	3.19	1.54	0.81	1.09
EDUCATION	0.05	0.19	0.12	4.11	4.23	4.27	0.72	0.30	0.36
TRANSPORTATION	(0.28)	0.08	0.19	1.68	1.70	1.79	0.55	0.40	(0.01)
<b>GENERAL</b>	<b>1.03</b>	<b>0.75</b>	<b>0.63</b>	<b>4.57</b>	<b>5.31</b>	<b>5.90</b>	<b>0.70</b>	<b>0.88</b>	<b>2.43</b>
<b>Food and Non-Food</b>									
FOOD	2.11	1.40	1.34	6.69	8.47	9.91	0.49	1.07	4.93
NON-FOOD	0.21	0.35	0.08	3.17	3.21	3.14	0.88	0.78	0.64

Source : BPS

TABLE 3. DRIVERS OF PRICE CHANGES IN MARCH 2013

Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	2.04	Garlic, onion, tomato, red chili	0.51
Prepared foods, beverages and cigarettes	0.40	Filtered-flavored cigarettes	0.07
Housing	0.21	House rents, electricity tariff	0.05
Clothing	(0.70)	Jewelry	(0.05)
Medical care	0.24	Medicare costs, medicine	0.01
Education, recreation and sports	0.12	Education cost	0.01
Transportation and communications	0.19	Gasoline	0.03
<b>General</b>			<b>0.63</b>

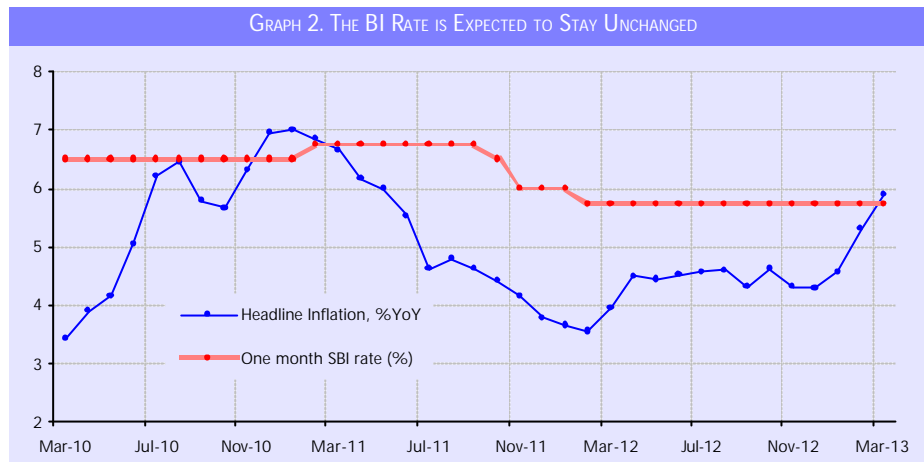
Source: BPS

TABLE 4. APRIL 2013 INFLATION FORECAST

	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
<b>M-on-M changes</b>	0.21	0.07	0.62	0.70	0.95	0.01	0.16	0.07	0.54	1.03	0.75	0.41	<b>(0.07)</b>
<b>Y-on-Y changes</b>	4.50	4.45	4.53	4.56	4.58	4.31	4.61	4.32	4.30	4.57	5.31	5.66	<b>5.61</b>
<b>Yearly*</b>	4.42	4.37	4.44	4.48	4.50	4.24	4.52	3.73	4.22	4.48	5.19	5.53	<b>5.48</b>

\* 12-month cumulative

Source: BPS, Danareksa Research Institute



Source: BPS, Bank Indonesia

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