LPEM FEB UI
Institute for Economic and Social Research

Macroeconomic Analysis Series

BI Board of Governor Meeting

January 2025

Highlights

- Bank Indonesia should maintain the BI Rate unchanged at 6.00%.
- By the end of 2024, headline inflation stood at 1.57% (y.o.y), marking its lowest level since 1958. This was driven by normalization of food prices and adjustment in administered prices.
- Between mid-December and mid-January, Indonesia saw capital outflows totalling USD 0.75 billion. This contributed to the rupiah's depreciation, which reached IDR 16,195 per USD on January 9, 2025.

Macroeconomics, Finance & Political Economy Research Group

Jahen F. Rezki, Ph.D.
jahen.fr@ui.ac.id

Teuku Riefky
teuku.riefky@lpem-feui.org

Faradina Alifia Maizar
faradina.alifia@ui.ac.id

Difa Fitriani
difa.fitriani@ui.ac.id

Mervin Goklas Hamonangan
mervin.goklas@ui.ac.id

Rupiah remained under pressure throughout the past month, primarily due to revised expectations that the Fed will lower interest rates only twice in 2025, rather than the earlier projection of four rate cuts. This adjustment reflects persistently high inflation in the U.S and the potential inflationary effects of policies introduced by President-elect Trump. Between mid-December 2024 and mid-January 2025, the capital outflow from Indonesia totalled USD0.75 billion, comprising USD0.12 billion exiting the bond market and USD0.63 billion leaving the stock market. During this period, Rupiah continued its depreciation, reaching IDR16,195 per USD on January 9, 2025, a 2.11% decline from the previous month's level of IDR 15,860 per USD. Meanwhile, Indonesia's inflation rate at the end of 2024 fell to its lowest point since 1958. Despite this record low inflation, we view that Bank Indonesia should keep the BI rate unchanged at 6.00% in the first Board of Governors meeting in 2025 to prevent Rupiah from weakening further.

Lowest Annual Inflation Since 1958

Despite a slight increase from 1.55% (y.o.y) in November 2024 to 1.57% (y.o.y) in December 2024, the year-end figure marks the lowest annual inflation rate in Indonesia's history since inflation calculation began in 1958 (Figure 1). The subtle uptick was driven by the stabilization of food prices, following an increase in horticultural harvests, along with the Government of Indonesia's (GoI) actions to maintain the stability of administered prices. The food, beverage, and tobacco group began to recover, increasing from 1.68% (y.o.y) in November 2024 to 1.90% (y.o.y) in December 2024. This growth was driven by the effects of the tobacco excise tax increase, rising cooking oil prices due to higher Crude Palm Oil prices, and rice prices impacted by the rise in Harvested Dry Grain (GKP) and Milled Dry Grain (GKG) prices.

Year-end seasonality contributed to an improvement in the restaurant group, which rose from 2.4% (y.o.y) in November 2024 to 2.48% (y.o.y) in December 2024. However, the transportation group fell back into deflation. The inflation rate in transportation declined to -0.30% (y.o.y) in December 2024 from 0.03% (y.o.y) in November 2024, influenced by price stabilization measures, including fuel price adjustments supported by lower global oil prices and reductions in airline ticket prices during the holiday season. Personal care and other services recorded the highest inflation rate among all expenditure groups at 7.02% (y.o.y) in December 2024, contributing 0.43 percentage points to the annual inflation despite its relatively small weight in the CPI calculation. The gold jewellery is a major contributor to the personal care group, adding 0.35 percentage points to headline inflation, likely due to increases in global gold prices driven by the weakening Rupiah.

Key Figures

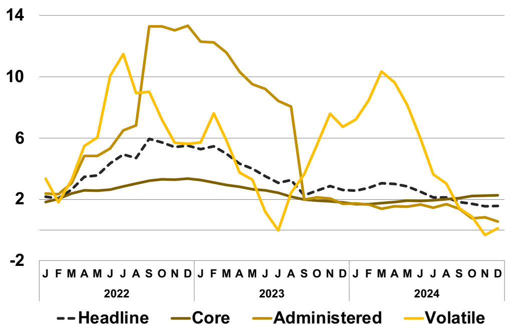
BI-Rate (Dec '24)
6.00%
GDP Growth (y.o.y, Q3 '24)
4.95%
Inflation (y.o.y, Dec '24)
1.57%
Core Inflation (y.o.y, Dec '24)
2.26%
Inflation (m.t.m, Dec '24)
0.44%
Core Inflation (m.t.m, Dec '24)
0.17%
FX Reserve (Dec '24)
USD155.7 billion

To keep you updated with our monthly and quarterly reports, please subscribe. Scan the QR code below

or go to http://bit.ly/LPEMCommentarySubscription

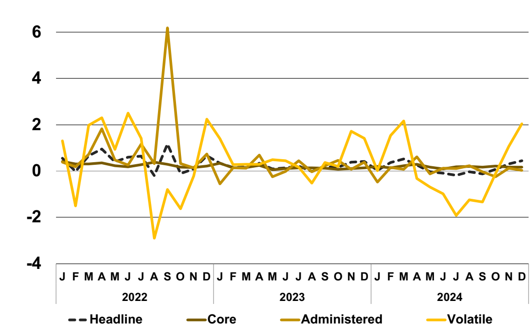
Monthly headline inflation rose from 0.30% (m.t.m) in November 2024 to 0.44% (m.t.m) in December 2024 (Figure 2), primarily driven by the food, beverage, and tobacco group. The food, beverage and tobacco group recorded a considerable price increase, climbing to 1.33% (m.t.m) in December 2024 from 0.78% (m.t.m) in November 2024, surpassing last year's record for the same period. This rise is typical for the end-of-year seasonality, contributing 0.38 percentage points to the monthly inflation. Core inflation was recorded at 2.26% (y.o.y) in December 2024, showing a similar level compared to November 2024 (Figure 1). The monthly trend also remained unchanged at 0.17% (m.t.m) (Figure 2). As in previous months, this was driven by the same key commodities: gold jewellery, supported by consistent demand as a safe-haven asset; cooking oil, reflecting elevated production costs and seasonal distribution challenges; and ground coffee, influenced by ongoing climate-related crop issues and strong global demand.

Figure 1: Inflation Rate (%, y.o.y)



Source: CEIC

Figure 2: Inflation Rate (%, m.t.m)



Source: CEIC

Volatile good inflation recovered from -0.32% (y.o.y) in November 2024 to 0.12% (y.o.y) in December 2024, though it remained low due a high base effect from last year's elevated volatile food inflation rate of 6.73% (y.o.y) in December 2023, driven by the lingering effects of El Niño on food supply (Figure 1). On a monthly basis, volatile food inflation increased significantly from 1.07% (m.t.m) in November 2024 to 2.04% in December 2024 (m.t.m) (Figure 2), primarily driven by higher prices for commodities, such as chicken eggs, various types of chili, and onions, in response to increased demand during the Christmas and New Year holidays. Administered prices, on the other hand, declined from 0.82% (y.o.y) in November 2024 to 0.56% (y.o.y) (Figure 1) and from 0.12% (m.t.m) in November 2024 to 0.03% (m.t.m) (Figure 2) in December 2024, reflecting the impact of government-regulated price adjustment policies. Lower prices for non-subsidized fuel and reductions in airline ticket fares contributed to easing this inflation component, supporting the GoI's efforts to stabilize administered price inflation.

Key Figures

BI-Rate (Dec '24)
6.00%
GDP Growth (y.o.y, Q3 '24)
4.95%
Inflation (y.o.y, Dec '24)
1.57%
Core Inflation (y.o.y, Dec '24)
2.26%
Inflation (m.t.m, Dec '24)
0.44%
Core Inflation (m.t.m, Dec '24)
0.17%
FX Reserve (Dec '24)
USD155.7 billion

Bank Indonesia expressed confidence that inflation will stay well within the 1.5% to 3.5% target for 2025-2026. Looking ahead, inflation dynamics are likely to be shaped by both upward and downward pressures. The cancellation of the 12% VAT rate, announced just a day before its scheduled implementation, disrupted business operations and forced adjustments to previously updated pricing. While this particular policy was abandoned, other tax measures aimed at reducing fiscal burdens may still emerge, such as a reduction in the income threshold for final income tax on MSMEs, which influences product pricing. At the same time, the weakening Rupiah poses an imported inflation risk, reflecting concerns over potential trade policies under the newly-elected U.S. President Trump, including the introduction of import tariffs. On the other hand, slowdown in household purchasing power, could drive inflation lower as weakened demand curtails price pressures. In response, Bank Indonesia is expected to carefully balance its measures. With additional uncertainties from rising geopolitical tensions, inflation is anticipated to recover, as reflected by an increase in the General Price Expectations Index (IEH) of February 2025 compared to the previous period.

Rupiah Faces Headwinds Amid The Fed's Revised Interest Rate Outlook

Although the Fed lowered its interest rate by 25 basis points to a range of 4.25% to 4.5% during its December FOMC meeting, capital outflows from emerging markets, including Indonesia, persisted. This was largely driven by a revised expectation that the Fed would reduce interest rates only twice in 2025, down from an earlier projection of four rate cuts. The adjustment in expectations stemmed from persistently high inflation, which remained at 2.7% in November 2024, according to the latest data. Adding to the pressure on U.S. inflation were policy plans from the incoming Donald Trump administration, including broad tariff measures and stricter immigration policies. These factors collectively led the Fed to signal a more cautious approach in the months ahead, as reflected in the minutes released in early January. Together, these factors contributed to a stronger US dollar, reflected in the rise of the US DXY Index to 109.17 on January 10, 2025, up from 106.40 a month earlier, marking a 2.6% increase in just one month.

The shifting monetary landscape resulted in capital outflows from Indonesia totaling USD0.75 billion between mid-December 2024 and mid-January 2025. This included USD0.12 billion exiting the bond market and USD0.63 billion flowing out of the stock market. Outflows from the bond market pushed yields on government bonds higher, with the 1-year yield rising from 6.65% to 6.83% and the 10-year yield climbing from 7.01% to 7.14% over the same period.

LPEM FEB UI
Institute for Economic and Social Research

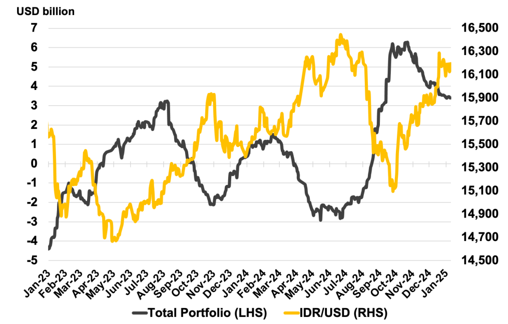
BI Board of Governor Meeting
January 2025

Key Figures
BI-Rate (Dec '24)
6.00%
GDP Growth (y.o.y, Q3 '24)
4.95%
Inflation (y.o.y, Dec '24)
1.57%
Core Inflation (y.o.y, Dec '24)
2.26%
Inflation (m.t.m, Dec '24)
0.44%
Core Inflation (m.t.m, Dec '24)
0.17%
FX Reserve (Dec '24)
USD155.7 billion

To keep you updated with our monthly and quarterly reports, please subscribe. Scan the QR code below

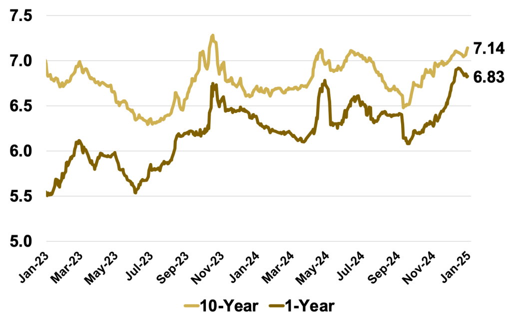
or go to http://bit.ly/LPEMCommentarySubscription

Figure 3: IDR/USD and Accumulated Portfolio Capital Inflow (since Jan-23)



Source: CEIC

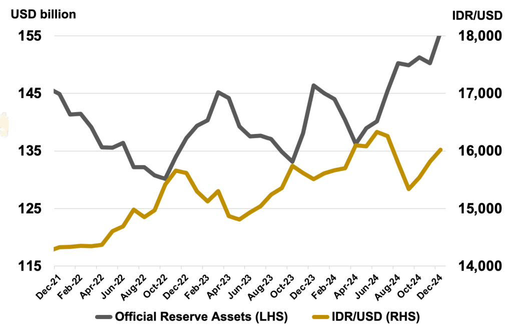
Figure 4: Government Bonds Yield (% p.a.)



Source: CEIC

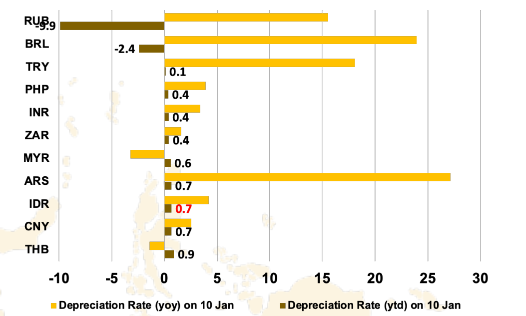
Amid capital outflows from Indonesia's financial market, Rupiah continued its depreciation trend through mid-January 2025, reaching IDR 16,195 per USD on January 9, 2025. This marked a 2.11% decline compared to the previous month, when it stood at IDR 15,860 per USD. On a year-to-date basis, Rupiah depreciated by 0.67% (y.t.d), performing worse than most other emerging market currencies, including the Argentine Peso, Malaysian Ringgit, South African Rand, Indian Rupee, Philippine Peso, Turkish Lira, Brazilian Real, and Russian Ruble, all of which recorded smaller depreciations or even gains. Rupiah's performance was on par with the Chinese Yuan but slightly better than the Thai Baht, which saw a 0.90% (y.t.d) depreciation.

Figure 5: IDR/USD and Official Reserve Assets



Source: CEIC

Figure 6: Depreciation Rates of Selected EMs (10 January 2024)



Source: Investing.com

While the Rupiah's performance may not be ideal, the official reserve assets show a more positive outlook, reaching an all-time high of USD155.7 billion in December 2024. This represents the largest monthly increase of the year, with a rise of USD5.5 billion from USD150.2 billion in November 2024. The growth in reserves was driven by higher tax and service revenues, government foreign loan disbursements, and oil and gas income. As of December 2024, foreign exchange reserves are equivalent to

Key Figures

BI-Rate (Dec '24)
6.00%
GDP Growth (y.o.y, Q3 '24)
4.95%
Inflation (y.o.y, Dec '24)
1.57%
Core Inflation (y.o.y, Dec '24)
2.26%
Inflation (m.t.m, Dec '24)
0.44%
Core Inflation (m.t.m, Dec '24)
0.17%
FX Reserve (Dec '24)
USD155.7 billion

To keep you updated with our monthly and quarterly reports, please subscribe. Scan the QR code below

or go to http://bit.ly/LPEMCommentarySubscription

8 DECENT WORK AND ECONOMIC GROWTH

6.7 months of imports, or 6.5 months of imports and foreign debt payments, well above the international reserve adequacy standard of around three months of imports. The strong reserve position enhances the Bank Indonesia's capacity to intervene in the forex market, offering a buffer to manage currency volatility.

While Indonesia's inflation figure remains at the lower end of Bank Indonesia's target range, the Rupiah has faced significant pressure in recent weeks due to external factors. Chief among these is the expectation of a more cautious monetary policy stance by the Fed driven by persistent inflationary pressures in the U.S. and the anticipated policy direction of the incoming Donald Trump administration. As a result, there is now a 93.1% probability that the Federal Reserve will keep interest rates unchanged in the near term. These external dynamics leave Bank Indonesia with little flexibility to cut its benchmark interest rate in the short term, as doing so could exacerbate capital outflows and further weaken the Rupiah. Given these considerations, we are in view that Bank Indonesia to hold the BI rate at 6.00% during the first Board of Governors meeting in 2025.