

March 2008**CPI AND SBI OUTLOOK****March 2008 Inflation Outlook: Lower, but to stay above 7 percent**

- ❑ In February 2008, the consumer price index (CPI) rose 0.65% MoM (month-on-month), after increasing by 1.77% MoM in January 2008. As such, the YoY (year-on-year) inflation rate increased slightly from 7.36% in January to 7.40% in February.
- ❑ Prices rose in nearly all components of the CPI, except for the housing component that fell 0.01% in February. The component that registered the biggest increase was still the foodstuffs component (up 1.59% MoM), followed by the medical care component (up 1.56% MoM), the processed foods component (up by 0.88% MoM), the clothing component (up 2.31% MoM), the education component (up 0.04% MoM), and the transportation component (up 0.02% MoM).
- ❑ The February inflation figure was lower than most economists had expected (we had expected the February inflation figure to reach 0.76% MoM). It appears that the upward pressures on rice prices have subdued somewhat with the commencement of the rice harvesting period in February. At the same time, the government has also taken some concrete steps to supply cooking oil to the market by intensifying market operations. As such, the increases in cooking oil prices were not as much as expected before. In addition, the government's program to encourage people to use gas rather than kerosene for household usage has also helped to reduce the problem of kerosene scarcity in some regions.
- ❑ Looking ahead, we expect the harvesting of rice to put downward pressures on rice prices in March. And we also expect the government to continue its market operations. This should help ease upward pressures on basic foodstuff prices. Furthermore, the lifting of import fees on some basic foodstuffs in the near term will also help to lessen the upward pressures on basic foodstuff prices in the near future. In addition, the currently strong rupiah will also help to reduce the prices of imported goods. As such, we expect monthly inflation to be lower in March than in February.
- ❑ Against this backdrop, we predict that inflation will reach 0.09% MoM in March 2008, with the YoY inflation rate falling slightly to 7.24%. For the whole of 2008, we expect inflation to reach 6.12%.

DRI Forecast for March 2008

Inflation	
MoM (%)	0.09
YoY (%)	7.24

SBI	
End of period (% p.a)	8.00

Forecast for 2008

Inflation (%)	6.13
SBI (% p.a)	7.50

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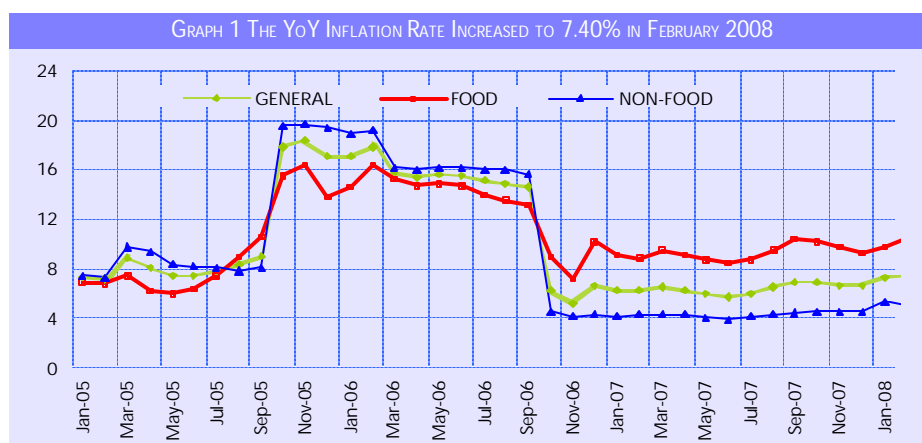
The Impact on Interest Rates

Limited Room for Further Cuts in the Benchmark Rate.

The rupiah has started to strengthen again in the last few weeks. The year-on-year inflation figure, however, has been above 7% since the beginning of 2008, and even reached 7.40% last month, and is likely to stay at a similar level next month. As such, we do not expect the central bank to ease its monetary policy further given that the central bank has formally adopted an Inflation Targeting (IT) monetary policy framework. Under this framework, the central bank's sole goal is to keep inflation in check. It can do this either by hiking interest rates or maintaining interest rates at a relatively high level. As such, we do not expect the central bank to cut rates from their current level of 8.00% in the near term.

The benchmark rate is unlikely to be cut till the end of the second quarter of 2008.

February's high inflation figure will prevent the Indonesian central bank from cutting interest rates further till the end of the second quarter of 2008. In the third quarter of 2008, however, the central bank might have room again to lower its benchmark rate further - provided inflation is benign. Hence, we expect the SBI rate to fall to 7.5% by the end of the year.



Changes in Consumer Price Index (percent)

	M-on-M changes			Y-on-Y changes			YTD (Jan-Jan)		
	Dec-07	Jan-08	Feb-08	Dec-07	Jan-08	Feb-08	2006	2007	2008
FOODSTUFF	2.47	2.77	1.59	11.26	11.35	12.18	5.52	3.55	4.40
PREPARED FOOD	0.91	2.02	0.88	6.41	7.62	7.86	1.60	1.53	2.91
HOUSING	0.63	1.80	-0.01	4.88	6.01	5.15	1.26	1.52	1.79
CLOTHING	0.99	2.31	0.76	8.42	11.21	11.43	1.45	0.31	3.09
MEDICAL CARE	0.41	0.72	1.56	4.31	4.51	5.46	1.46	1.18	2.29
EDUCATION	0.12	0.01	0.04	8.83	8.73	8.52	-0.09	0.33	0.05
TRANSPORTATION	0.22	0.24	0.02	1.25	1.39	1.39	0.10	0.13	0.26
GENERAL	1.10	1.77	0.65	6.59	7.36	7.40	1.95	1.67	2.44
Food and Non-Food									
FOOD	1.84	2.47	1.31	9.26	9.83	10.42	3.85	2.72	3.81
NON-FOOD	0.49	1.16	0.18	4.58	5.40	5.08	0.82	0.87	1.34

Source : BPS

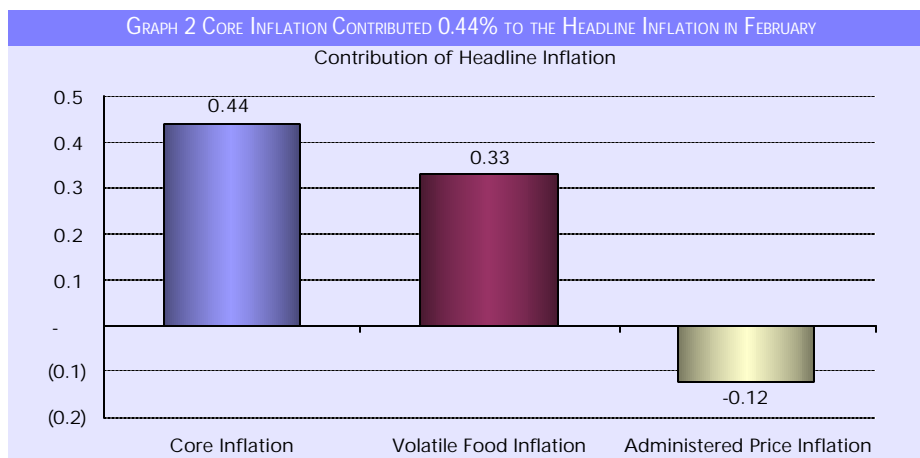


TABLE 2. DRIVERS OF PRICE CHANGES IN FEBRUARY

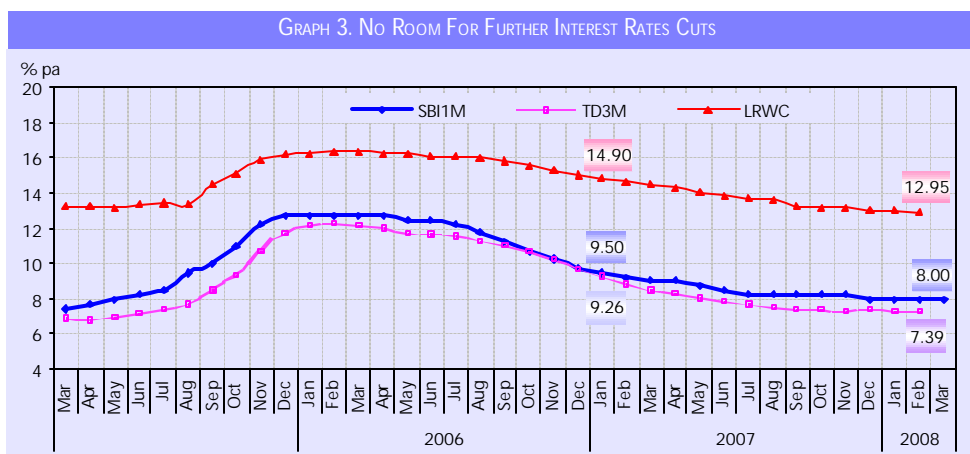
Component	Change (%)	Drivers	Contribution (%)
Foodstuffs	1.59	Chilli, cooking oil, fresh fish, purebred chicken meat, raw tofu,soybean fermented cake, small chilli, cooked noodle, wheat flour, beef, kangkung (kind of leafy vegetable), green jackfruit, grape	0.41
Prepared foods,beverages and cigarettes	0.88	Rice with the side dish, clove-flavored cigarette, wet cake,drycake, porridge, filter cigarette	0.15
Housing	-0.01	Iron rods for reinforced concrete, bricks, beam, nail, cement, rental house fee, detergent	-0.02
Clothing	0.76	Gold and Jewelry	0.04
Medical care	1.56	Hospital care fee, doctor fee, soap	0.06
Education, recreation and sports	0.04	-	0.00
Transportation and communications	0.02	-	0.01
		General	0.65

TABLE 3. MARCH 2008 INFLATION FORECAST

	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
M-on-M changes	0.62	0.24	-0.16	0.10	0.23	0.72	0.75	0.80	0.79	0.18	1.10	1.77	0.65	0.09
Y-on-Y changes	6.30	6.52	6.29	6.01	5.77	6.06	6.51	6.95	6.88	6.71	6.59	7.36	7.40	7.24
Yearly*	6.13	6.34	6.13	5.86	5.64	5.91	6.34	6.75	6.68	6.52	6.41	7.14	7.17	7.03

* 12-month cumulative

GRAPH 3. NO ROOM FOR FURTHER INTEREST RATES CUTS



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