Macro Note

Indonesia: Upshot in Jan inflation likely temporary

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- Inflation rose to 3.55% y/y in Jan, mainly driven by 2 components (a) housing, utilities, fuels, and (b) personal care, with higher global and local gold prices adding to some pressures. Monthly inflation fell -0.15% m/m due to steady food supply and vehicle tariff discounts.
- Administered prices led inflation last month at 9.71% y/y, followed by core (2.45%) and volatile food (1.14%). Energy inflation surged to 15% y/y due to low base effects on electricity and related to holiday seasons.
- Despite slightly above BI's inflation target, we continue to expect 2026's average inflation to remain largely stable and within BI's target of 2.5% ± 1.0%, supported by slew of government stimulus while risks of demand-pull inflation remain at bay amid economic uncertainty.

Low base on energy put pressure on inflation

Indonesia's inflation in Jan stood at 3.55% y/y, above BI's target range, while monthly inflation recorded deflation of -0.15% m/m. Annual inflation was mainly driven by two groups: (a) housing, utilities, and household fuels, and (b) personal care and other services. Gold was also a key contributor as jewelry demand remains steady and increasingly viewed as a good hedging alternative amid rising uncertainty, spurring investment demand. However, the sharp rise in housing-related inflation was largely due to the low base effect from last year's electricity tariff discounts (see Indonesia: Further downward pressure on price driven by housing and utilities). Food, beverages, and tobacco continued to contribute to annual inflation (see Indonesia: Inflation was low and stable in 2025, likely to continue into 2026), though at a smaller scale compared to the two leading groups. On a monthly basis, food prices fell, reflecting improved supply of chili, shallots, and red onions, alongside extended effects of government vehicle tariff discounts in Dec and Jan.

By component, inflation dynamics shifted in Jan, led by administered prices (9.71% y/y), followed by core (2.45% y/y) and volatile food (1.14% y/y). Energy inflation rose sharply to 15% y/y, driven by the electricity tariff base effect and stronger fuel demand during holidays. Core inflation was supported by gold and higher education costs. Spatially, 16 of 38 provinces recorded inflation below the national average, with Lampung (1.90%), Bali (2.58%), and Bengkulu (2.61%) were the lowest. The highest inflation was seen in Aceh (6.69%), Southeast Sulawesi (5.10%), and West Papua (5.02%), reflecting electricity tariff effects and jewelry demand came from outside the key island of Java.

All-in-all, the upshot in Jan inflation is likely to be transient in nature. While annual inflation was slightly above BI's target range, the drivers were temporary rather than structural, minimizing risks to monetary policy, which remains focused on

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transmission effectiveness (see [Indonesia: Pushing back rate cut expectations to early 2026]). Monthly deflation underscored the effectiveness of government measures, though base effects created "artificial" inflation. Looking ahead, inflation is expected to remain within BI's target of 2.5% ± 1.0%, supported by government stimulus packages and measures that are likely keeping inflation well within BI's target. We forecast a slightly higher inflation average forecast of 2.5% in 2026, up from 2.1% in 2025.

Indonesia's Inflation by Component

Source: Indonesia Bureau of Statistics, UOB Global Economics & Market Research

	Mar'24	Jun'24	Sep'24	Dec'24	Mar'25	Jun'25	Sep'25	Dec'25	Jan'26	Var. MoM	Var. YoY	Var. YtD
General	**106.13**	**106.28**	**105.93**	**106.80**	**107.22**	**108.27**	**108.74**	**109.92**	**109.75**	**-0.15%**	**3.55%**	**-0.15%**
Core	103.61	104.19	104.76	105.35	106.18	106.66	107.05	107.86	108.26	0.37%	2.46%	0.37%
Administered	107.92	108.58	108.91	108.80	104.51	110.03	110.11	110.90	110.55	-0.32%	9.71%	-0.32%
Volatile	114.38	112.12	107.16	110.39	114.80	112.76	114.06	117.24	114.94	-1.96%	1.15%	-1.96%
Energy	107.41	107.44	107.44	106.95	98.39	107.16	107.32	107.66	107.31	-0.33%	14.94%	-0.33%
Food	111.90	109.29	106.35	109.29	113.10	111.46	112.54	115.17	113.39	-1.55%	1.20%	-1.55%

Indonesia's Inflation by Group of Expenditure

Source: Indonesia Bureau of Statistics, UOB Global Economics & Market Research

Group	Jan'26			
	y/y		m/m	
	Inflation	Share	Inflation	Share
Food, beverages and tobacco	1.54	0.46	-1.03	-0.30
Apparel and footwear	0.56	0.03	0.00	0.00
Housing, water, electricity, and household fuel	11.93	1.72	0.06	0.01
Household supplies, equipment, and routine maintenance	0.16	0.01	0.10	0.01
Health	1.62	0.05	0.20	0.01
Transportation	0.58	0.07	0.46	-0.06
Information, communication, and financial services	-0.19	-0.01	0.01	0.00
Recreation, sports, and culture	1.05	0.02	0.09	0.00
Education	1.11	0.06	0.03	0.00
Food and beverage provision/restaurants	1.36	0.14	0.19	0.02
Personal Care and Other Services	15.22	0.01	2.28	0.16
Inflation total	**3,55**	**3.55**	**-0.15**	**-0.15**

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