



## Inflation rate at risk due to subsidies cut

July 2017

Indonesia's inflation rate is at risk of rising above the central bank's upper limit inflation target of 5%, as President Joko Widodo aims to curtail electricity subsidies.

The government has raised electricity tariffs a number of times already this year with the objective of eliminating the existing (highly criticised) electricity subsidies. While the move is undoubtedly a positive one for the power industry – it should in theory improve the credit position of the state offtaker PLN - the impact of these price hikes on consumers could threaten the recovering economy.

Throughout May and June 2017, inflation was at a 14-month high (peaking at 4.37% last month). While high inflation is to be expected during the Muslim fasting month of Ramadan with food prices spiking, the annual rate was 0.04% higher than expected in May, according to a Reuters poll. Although the government ceased to make further power price hikes during June, Governor Agus Martowardojo of the Central Bank has said that government-controlled pricing would continue to be a concern for the central bank board.

Market commentary suggests that a continual gradual increase in electricity prices (as opposed to a one-off increase) will help limit the impact on inflation whilst working towards President Joko Widodo's goal.

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