

Indonesia: Higher inflation in March is not worrisome but watch IDR

Headline and core inflation in March edged higher to 3.4% and 2.7% respectively. This is not worrisome, but a significantly weaker IDR may change BI's neutral stance



Source: istock

3.4%

March headline inflation rate

In line with the central bank's 2018 target

Higher than expected

Inflation pressures were more broad-based but BI is unlikely to be worried for now

Headline and core inflation rates for March were slightly higher than expected. Food and energy inflation were the major drivers for last month's inflation. Other price index categories that increased YoY included clothing and healthcare. These pressures dominated the slower inflation

rates for processed food and housing. We attribute the price pressure to supply issues and to a weaker IDR. These would keep Bank of Indonesia (BI) vigilant as it keeps the policy rate steady. Inflation pressures and negative base effects (by 4Q) would likely see headline inflation rate trend toward 4% and result in an average inflation rate of 3.6% in 2018 from the 1Q average of 3.3%. There is leeway for BI to allow for higher inflation. BI targets the inflation rate to remain within the range of 2.5% to 4.5%. The leeway allows BI to keep policy settings supportive for overall growth while providing some stability. However, a significantly weaker IDR may force BI to turn hawkish. We expect IDR to trade around the IDR13700 for most of this year.