

Indonesia: Inflation back within target but BI likely on hold until end of year

Headline inflation finally reverted to target in May, with headline inflation slipping to 4.0% year-on-year



Jakarta, the capital of Indonesia

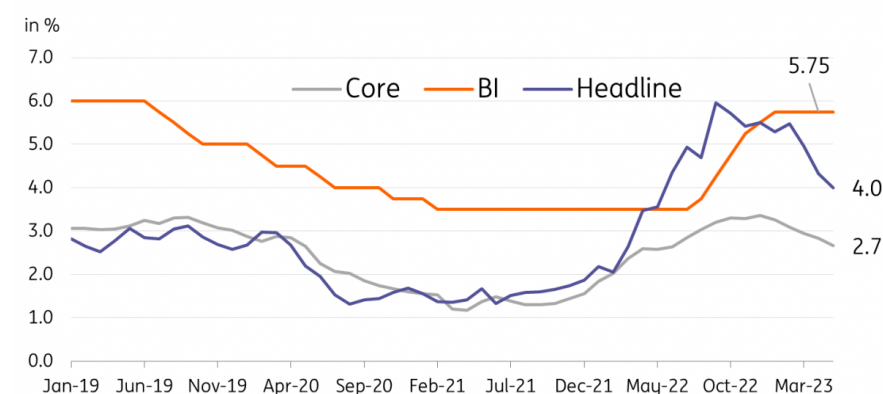
Headline inflation back to target after a year

Headline inflation slipped below expectations to 4.0% YoY, roughly 0.1% higher compared to the previous month. Inflation is back within Bank Indonesia's (BI) 2-4% target after 12 months and will likely stay within target for the rest of the year.

Headline inflation enjoyed a much more pronounced moderation this year, sliding back within target even ahead of BI's expectations.

Lower energy and food prices from a year ago level helped push headline inflation lower or unchanged across all items in the CPI basket. Meanwhile, core inflation was also down, dipping to 2.7% YoY and also lower than market expectations (2.8%).

Inflation back within target after 12 months



Source: Badan Pusat Statistik

Price stability objective reached but BI likely on hold to steady the IDR

Bank Indonesia was one of the first central banks in the region to pause its tightening cycle earlier this year. BI Governor Perry Warjiyo who had expected inflation to slow gradually and revert to target by 3Q, has kept rates at 5.75% since the 16 February policy meeting.

Despite the quick reversion to target for inflation, we believe BI will carry out an extended pause to shore up support for the Indonesian rupiah, which was down roughly 2.15% for the month of May.

Thus we expect BI to retain policy rates at 5.75% until the end of the year and only consider cutting policy rates should global central banks opt to ease monetary policy.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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