

Indonesia: Inflation surprises on the downside

September inflation slipped to 2.88% from 3.20% in August. The Bank of Indonesia is likely to focus on the stability of the rupiah as inflation remains within target



Source: t-bet

2.88%

September inflation rate

Second period of month-on-month disinflation

Lower than expected

Inflation in 2018 and 2019 likely within the central bank's target range of 2.5% to 4.5%

Inflation settled at 2.88% in September, a second month-on-month deceleration and well-within the Bank Indonesia's (BI's) 2.5-4.5% target. A moderation in prices of all major components contributed to the lower headline number while core inflation slid to 2.82%, despite a weaker

currency. Despite a drought in central Java, food inflation (16.19% of the consumer basket) slowed to 3.75% from 4.9% as timely government rice imports helped to maintain a plentiful supply.

Inflation is likely to remain within-target over the monetary policy horizon, with the Bloomberg consensus forecasting an average inflation rate of 3.5% this year and 3.8% next year. BI Governor Perry Warjiyo remains confident that inflation will stay within target this year and next while we continue to expect an average inflation rate of 3.3% this year and 3.6% in 2019.

With inflation in check, BI will likely focus on maintaining financial market viability through a stable currency (IDR). Hawkish rhetoric from the central bank for “front-loaded and pre-emptive action” have helped limit the initial panic of emerging market contagion. BI hiked rates as expected on [27 September](#) and looks to coordinate with the national government in deploying measures to provide IDR stability, which could in turn also keep a lid on inflation. IDR hit a high of 14,938 on 5 September and is currently down 9.8% year-to-date but recent moves of the BI appear to have calmed markets for the time being.

Monetary authorities have raised interest rates by 150 basis points this year and further monetary tightening is possible should volatility return to the IDR spot market. However, should both the IDR and Indonesia’s inflation remain stable, this could afford the BI some breathing room to allow other measures, such as its various hedging facilities, to take root and keep the powder dry on rate hikes going into 2019.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.