

Indonesia: Inflation edges up but stays within target

Indonesia's inflation saw a slight uptick but remained within target. The central bank is likely to extend its pause



Sudirman Central Business District in Jakarta, Indonesia

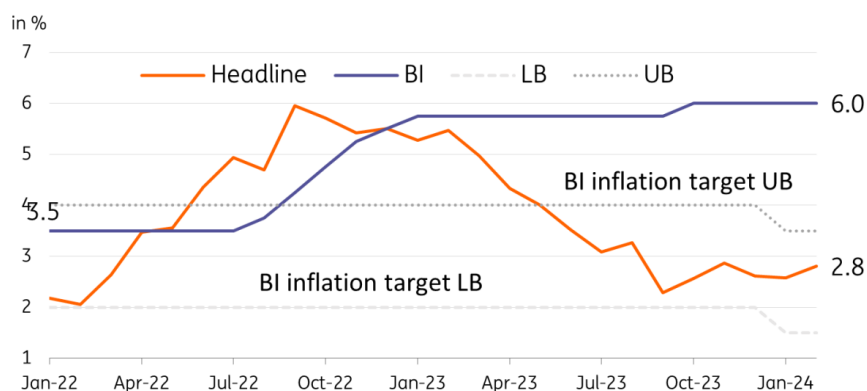
19.3% Rice price change (YoY)

February inflation ticks higher to 2.8%

Indonesia's February inflation picked up by 2.8% year-on-year, up 0.4% from the previous month. This was faster than anticipated as food inflation accelerated by 6.4% YoY, up from the 5.8% YoY rise in the previous month.

In particular, rice inflation remained elevated, surging by 19.3% YoY, enough to push inflation for the entire food subcomponent higher. In addition, healthcare, transport and personal care also saw slightly faster inflation than in the previous month. Meanwhile, all other CPI subsectors posted slower inflation, notably in clothing and footwear and household equipment.

Inflation ticks higher on surging rice prices



Source: Badan Pusat Statistik

BI likely to extend hold, look past recent uptick

Bank Indonesia (BI) recently pushed back on expectations that the central bank would be cutting policy rates in the near term. Governor Perry Warjiyo noted that although there was space to ease policy rates in 2024, he remained wary over a potential pickup in inflation in the first half of the year. On top of waiting for inflation to cool, BI will also likely base its decision to ease on the stability of the Indonesian rupiah.

Thus we maintain our expectation for a potential BI rate cut in the third quarter but only if pressure on the IDR eases and inflation remains well within the new inflation target of 1.5-3.5%.