

Indonesia: Inflation falls below midpoint of central bank target

December inflation came in at 3.13%, a slowdown from the November reading of 3.23% but faster than expectations with food prices boosting the headline number



Source: t-bet

3.13% December inflation

Higher than expected

Inflation within the central bank's target range of 2.5% to 4.5%

Inflation settled at 3.13% in December, slightly faster than expected but still within Bank Indonesia's (BI's) 2.5-4.5% target. Core inflation was also faster in December at 3.07%, matching analysts' expectations. Food inflation was tagged as the main reason for the December print hitting 3.14% with egg and chicken prices boosting the overall print the most. Inflation is likely to remain within target over the monetary policy horizon, with government officials like Economic

Minister Darmin Nasution expecting inflation to “fall below 3%” for the full year with the central bank’s forecast at 3.2%.

Inflation well-behaved, BI to focus on FX again in 2019

Monetary authorities have raised interest rates in six separate meetings in the past year amounting to a total of 175 basis points, with the central bank looking to take on a more neutral stance even as it forecasts the Fed hiking twice more in 2019. BI Governor Perry Warjiyo indicated at the last meeting- where the central bank paused- that they believe “that the current interest rate level is still consistent with efforts to lower the current-account deficit to reach the safe level and to maintain the attractiveness of domestic financial assets”. The central bank, however, looks ready to defend the stability of the Indonesian rupiah going forward to help provide financial stability.