Indonesia: Inflation moderates further in March

Indonesia's headline and core inflation continued to slow in March as price pressures seem to ease

5.0% Year-over-year change in CPI

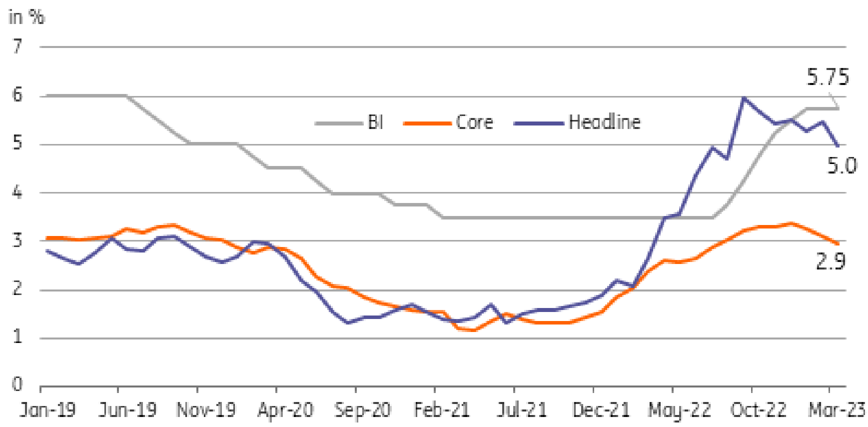
Lower than expected

March inflation slips further to settle at 5%

Indonesia's inflation slowed to a seven-month low in March with headline inflation dipping below expectations to settle at 5.0% year-over-year. Food inflation remained elevated but slowed to 6% from 7.2% in the previous month although transport costs inched up by 13.7% from 13.6% in February. Slower inflation was recorded across all subsectors except for transportation, and we could see inflation moderate further in the coming months, barring any near-term supply shock.

The recent production cut from oil producers could push up global energy prices and we will be monitoring to see if this translates into any domestic price pressures in the near term.

Price pressures appear to be easing



Source: Badan Pusat Statistik

Central bank to consider a change in stance?

Bank Indonesia (BI) ended its recent tightening cycle in the first quarter, citing moderating price pressures for its decision to pause. Since then, both headline and core inflation has slowed, giving the central bank ample space to push back on any concerns about adopting a relatively dovish stance.

With inflation trends showing a downturn, we could eventually see a potential rate cut by the central bank but we would need to the currency stabilise further and growth momentum would need to slow considerably. The IDR recently slipped below 15,000 and if the currency can maintain this stability, BI could consider a pivot should the Federal Reserve end its own policy tightening cycle in the coming months.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com