

Indonesia: Inflation remains subdued as curbs persist

Price pressures remain soft in Indonesia, with inflation sliding below target yet again



Source: t-bet

1.4% April CPI inflation

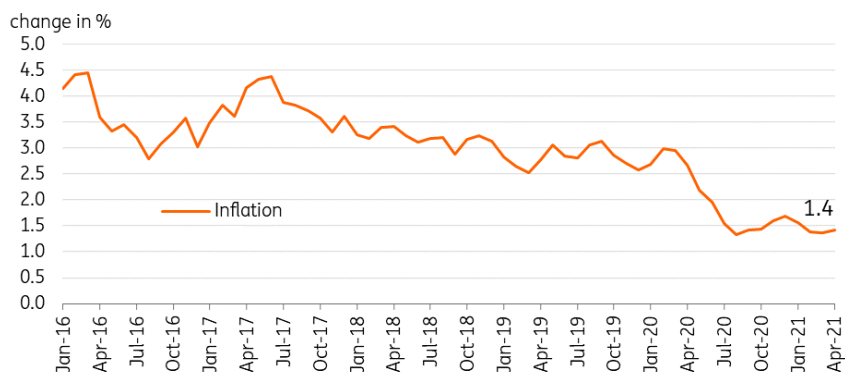
Lower than expected

April inflation settles at 1.4%

Inflation slid below Bank Indonesia's (BI) 2-4% inflation target for the eleventh straight month as price pressures remained soft amidst extended partial lockdowns (known as PSBB locally) in key regions. Despite Indonesia's vaccination efforts, daily Covid-19 cases remain elevated with roughly 4,000 infected per day, weighing on consumer sentiment. With curbs in place, consumer demand is likely to be muted, with 1Q GDP expected to post another quarter of contraction as Indonesia remains in recession. Despite the slow start to the year, the authorities remain hopeful for a

pickup in growth in the coming months, aided in large part by an aggressive vaccination rollout effort. We can expect a modest acceleration in prices in the second half of the year should economic fortunes turn for the better, with early signs of a recovery already surfacing. The PMI manufacturing reading hit a record high of 54.6, on both new orders and output.

Inflation slips below target for 11 months and counting



Source: Badan Pusat Statistik

BI sidelined for now

Despite inflation sliding below target again, we do not expect BI to trim policy rates in the near term to help spur faster bank lending - particularly given the recent pressure on IDR. BI Governor Warjiyo has cited FX stability as a key determinant for policy direction and BI will likely keep rates unchanged in the near term to help support the currency for now. BI considers the IDR “undervalued” relative to fundamentals and any policy easing will likely only happen should IDR recover some lost ground after falling 4.1% this year.