Indonesian inflation cools further but focus shifts to central bank charter changes

Indonesia inflation dips to 1.3%, lower-than-expected, but not likely to push rate action from the central bank

Perry Warjiyo, Governor of Bank Indonesia

Source: IMF/Flickr

1.3% August inflation

Lower than expected

August inflation comes in below target again

Price pressures remained subdued in Indonesia as economic activity remains hampered by Covid-19, as was seen by growth contraction in 2Q.

Manufacturing activity has picked up somewhat with the latest PMI manufacturing report showing an expansion but household consumption is expected to remain tepid with new daily infections increasing and partial lockdowns curtailing movement.

Despite inflation below target and growth in need of a push, Indonesia's central bank will likely remain on the sidelines as long as the currency remains under pressure due to debt monetisation concerns.

Focus on proposed changes to central bank charter

Investor focus has shifted largely away from falling inflation and towards possible central bank action to amend the central bank charter.

Proposed changes to the Bank's mandate focus on an increased emphasis on economic growth on top of price and foreign currency stability with the national government taking a lead role in the monetary board.

Such sweeping changes would leave the central bank open to future rounds of debt monetisation which could lead to rupiah weakness and inflationary pressures down the road.