

Indonesia: Inflation stays below target as economic recovery remains fragile

Inflation in Indonesia fell below the central bank's target for the 8th straight month



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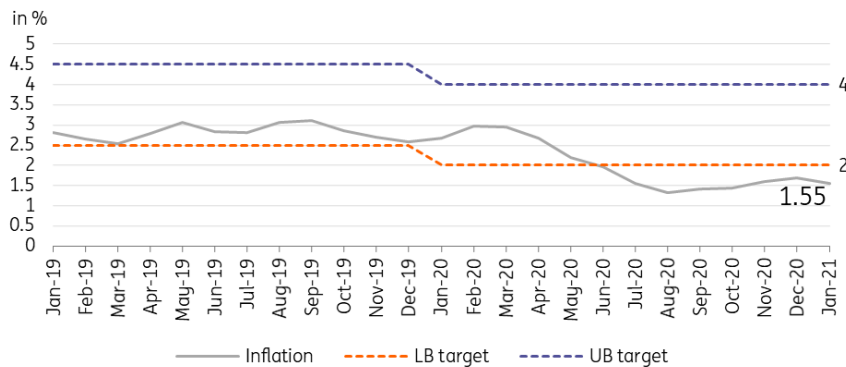
1.6% January inflation

Lower than expected

January inflation at 1.6% with demand pressures muted

Price pressures remained subdued in early 2021 with demand pressures muted by the ongoing economic recession and January inflation settling at 1.6%, slightly below market expectations. Economic activity slowed further in January after a spate of natural calamities while a spike in Covid-19 infections forced the authorities to reinstate partial lockdown measures in both Java and Bali to slow the spread of the virus. Core inflation came in-line with market consensus at 1.6%, but also remains below the 2-4% inflation target of Bank Indonesia (BI). BI Governor Warjiyo flagged a possible pickup in price pressures in the second half of the year, on improving economic conditions coupled with base effects kicking in.

Indonesia inflation below target for 8 months now



Source: Badan Pusat Statistik

Below target yet again

Inflation stayed below target for an 8th straight month and is not expected to accelerate sharply in the near term given the challenging economic outlook. Finance minister Indrawati flagged these concerns recently after the authorities upsized their stimulus efforts given damage caused by natural disasters in January and the ongoing partial lockdowns in Java and Bali. With inflation below target, we believe BI is also on standby to ease monetary policy to bolster the recovery efforts but monetary authorities will likely wait for more stability for IDR (with depreciation of 0.96% in January) before easing policy further.