

Indonesia: Inflation still below target but BI's hands remain tied with IDR pressured

Depressed demand keeps a lid on prices as GDP outlook dims



Source: t-bet

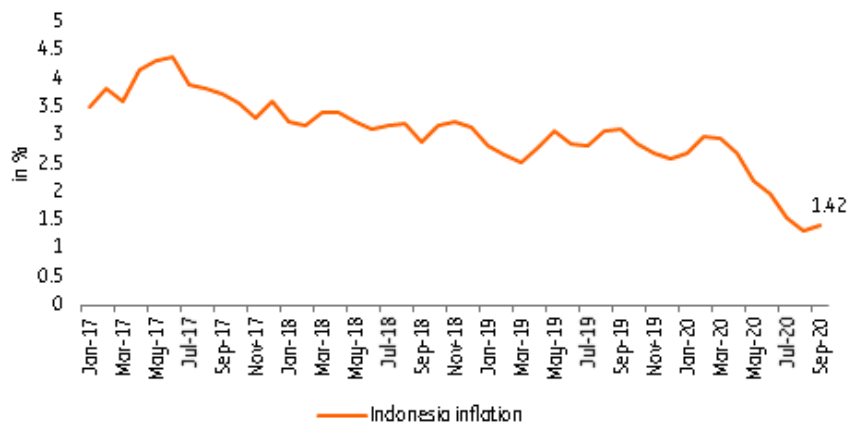
1.4% CPI inflation

As expected

September inflation at 1.4%, remains below target

Price gains remain subdued in Indonesia with the economy likely in recession due to the pandemic and the latest CPI inflation at 1.4%, in-line with expectation. Economic activity is on a downtrend, with lockdown restrictions remaining in place in the capital of Jakarta as daily Covid-19 infections accelerated in September. This marks the third month that inflation remains below Bank Indonesia's (BI) target of 2-4% and we expect inflation to remain subdued for the balance of the year with the outlook for growth dimming.

Indonesia CPI inflation



Source: Badan Pusat Statistik

Bank Indonesia likely on hold as IDR weakens

Despite inflation slipping below target for a third month, we expect Bank Indonesia to keep policy rates unchanged given the recent currency struggles. IDR has been pressured of late due to concerns about the growth outlook, with officials downgrading their GDP projections for the year. BI's hand will likely be stayed from any further rate cuts, despite the need to provide the economy with a shot in the arm, as Governor Warjiyo opts to prioritize currency stability in the near term while providing support through other macroprudential measures such as recently announced changes to rules on liquidity loan access.