

Indonesia: Inflation ticks higher but still below target

Inflation in Indonesia edges higher in May but still not a concern for policymakers



Source: t-bet

1.7% May CPI inflation

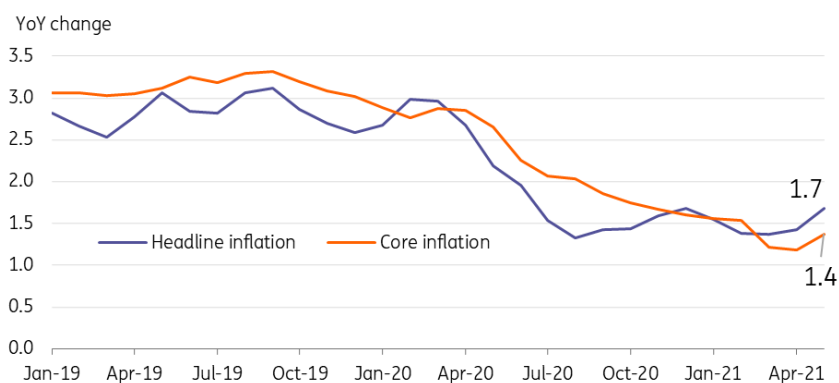
As expected

10 months below target

Inflation picked up slightly to 1.7% YoY in Indonesia with core inflation also accelerating. May featured a holiday and commodity prices rose. Inflation quickened across nine of the eleven categories in the CPI basket, with core inflation settling at 1.4%. Despite the slight pickup in both core and headline inflation, price pressures remain relatively subdued with inflation settling below target for a 10th straight month due to overall depressed domestic demand. We do expect this trend to reverse in the near term, with base effects washing out and as commodity prices head

north due to improving global economic conditions. Inflation will likely settle within the target band of 2-4% starting July although any upside price pressures will be capped by tepid domestic demand with the entire country placed under partial lockdown conditions (PPKM) for at least the first half of June.

Inflation remains below target for a 10th straight month



Source: Badan Pusat Statistik

See you in 2022

Despite expectations for a pickup in prices, Bank Indonesia (BI) Governor Warjiyo remains confident that inflation will settle within target in 2021. With inflation expected to remain within target in the second half of 2021, we forecast a pause from the central bank for the balance of the year. However, Governor Warjiyo's comments at the most recent policy meeting suggest that he is carefully monitoring price pressures although he also clarified that inflation pressures would only likely be of concern sometime in 2022. With price pressure expected to remain benign in 2021, any adjustments to the policy stance will likely be delayed to 2022 with a rate hike in 2021 only possible should IDR come under considerable pressure.