

Indonesia: inflation ticks higher in November but still below target

Inflation picks up in November but remains below Bank Indonesia's 2-4% inflation target



Source: Shutterstock

1.6% November inflation

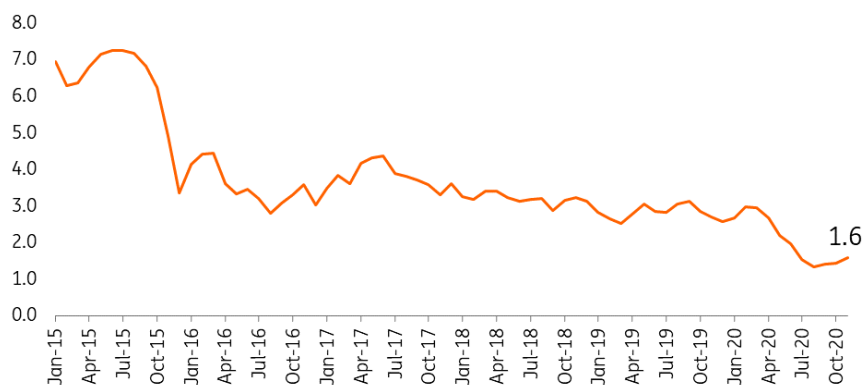
Higher than expected

Headline inflation ticks higher to 1.6%

Price gains in Indonesia accelerated slightly to 1.6% in November from 1.4% in the previous month but the latest reading remains well below the central bank's inflation target. Bank Indonesia's (BI) inflation target is 2-4% for 2020 and the November reading is now the fifth month that price gains have slipped below the lower-end of the target range. Subdued economic activity induced by the ongoing partial lockdown measures in Jakarta will likely keep a lid on price gains in the near term although we can expect a slight pickup in activity as authorities ramp up spending efforts to

bolster the sagging economy.

Indonesia inflation



Source: Badan Pusat Statistik

Low inflation keeps door open for further rate cuts

BI Governor Perry Warjiyo indicated that BI will retain its accommodative stance with the central bank turning its focus to supporting a sputtering the economy in recession. Warjiyo did cite low inflation as one of the main justifications for the most recent rate cut in November, and the below-target inflation reading keeps the door open for further easing from BI in the near term. We believe that BI will be open to slashing borrowing costs further, likely in early 2021, should economic growth remain downbeat and especially if the Indonesian rupiah can sustain its recent appreciation trend in coming quarters.