

Indonesia: January inflation slips to 2.7%

Price pressures in Indonesia continue to dissipate with January inflation below the market consensus



Source: t-bet

Price pressures remain relatively benign

January inflation hit 2.7%, falling below the market consensus for a 2.8% gain and almost unchanged from the previous month, translating to the slowest pace of inflation since March of last year. The January inflation reading was the first report utilising 2018 as the base year with Statistics Indonesia (SI) switching over from the 2012 series. Transportation and education costs were two items that exhibited deflation on a month-on-month basis, weighing down the headline number. Core inflation was observed at 2.9%, also slipping below the market consensus for a 3.0% gain as price pressures remain benign.

2.7%

January inflation

2018=100

Lower than expected

Benign inflation affords BI scope to ease but IDR struggles may delay timing

With inflation likely to remain at the lower end of the government's 2.5-4.5% inflation target, Bank Indonesia (BI) continues to have scope to ease monetary policy, particularly with growth momentum further threatened by the coronavirus. Governor Perry Warjiyo retained his accommodative stance at the last BI policy meeting but we expect him to delay any policy easing in light of the recent pressure on the Indonesian rupiah, given the general risk-off tone. However, with the price stability objective well in hand, we expect BI to unload another round of rate cuts as soon as the IDR exhibits some stability in the near term. With Indonesia gaining a credit rating upgrade from Japan Credit Ratings Agency (JCR) over the weekend, we can expect some foreign flows to return pending some clarity on the current spread of the Wuhan virus.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

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