

Snap | 2 May 2018

Indonesia: Moderate inflation but currency still a risk

The gradual rise of inflation in April is unlikely to alter the central bank's view that a rate hike is needed to support the currency



3.41%

April Inflation Rate

Unlikely to alter rate hike view

Lower than expected

Bank Indonesia remains vigilant about the persistently weak IDR despite moderate inflation

April inflation of 3.41% is lower than the consensus forecast of 3.5% and steady with the inflation rate in March. The April inflation turnout is a shade below the central bank's 3.5% 2018 target inflation rate and near the mid-point of the target range of 2.5% to 4.5%. The government has implemented measures to limit the impact of higher crude oil and coal prices on Indonesia's energy prices but the pressure on inflation comes from higher food and processed food prices. Nevertheless, with moderate inflation rates for April and March, BI would have reason to keep policy rates steady at the mid-May meeting. However, concerns

over a weakening Indonesian rupiah and its impact on inflation have increased, with BI stating its readiness to adjust interest rates on a persistently weak IDR. We believe that an interest rate signal from BI would complement effort's to rein in the currency, which currently trades around IDR13900, more than 3% weaker than this year's government budget assumption. We now expect BI to hike its policy rate by 25bps in 2Q as IDR weakens further.

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