

Indonesia: Slower inflation bolsters steady policy rate view

Softer headline and core inflation in February at 3.18% and 2.58%, respectively, will keep the central bank on a steady policy rate path in 2018. But concerns about a weak currency remain



Source: Shutterstock

3.18%

February headline inflation

Moderate inflation path in 2018

Lower than expected

Bank Indonesia is likely to remain on hold in 2018 with moderate inflation.

Headline and core inflation slowed to 3.18% and 2.58% from January's 3.25% and 2.69%, respectively. Base effects have been positive which would likely extend to most of this year. However, price pressures could partially offset the base effects. The Indonesian rupiah's weakness

in February of almost 2% YoY is likely to work through the economy. Budgetary pressures may require further tweaks in subsidised energy prices even as coming elections require stable energy prices. This year's budget assumes oil prices of around \$48/bl and an IDR at IDR13500. We have revised our 2018 average inflation forecast to 3.4% from 3.5% previously. With inflation forecast within BI's target range of 2.5% to 3.5%, we expect BI to be on hold for 2018. The risk to these expectations is a significant adjustment in administered or subsidised prices and a significantly weaker IDR.