

Indonesia: Steady monetary policy despite slower January inflation

Inflation slowed in January to 3.25%, lower than consensus and December's 3.6%. We believe that slower inflation does not necessarily mean monetary policy easing.



IDR

3.35%

January inflation rate

Monetary policy is likely to remain steady in 2018

Better than expected

Slower inflation does not necessarily mean monetary policy easing.

Inflation in January moderated due to a significant slowing of transport, healthcare, and housing prices. Slower inflation rates for these components offset rising food and clothing prices, which accounted for the upside surprise of December inflation. We believe that there are no compelling reasons for the central bank (BI) to alter policy rates this year. Inflation could turn higher later in the year due to rising household spending and higher global commodity prices despite favorable

base effects until August. We expect inflation to average 3.7% this year, which is above BI's point inflation target of 3.5% but within its target range of 2.5% to 4.5%. Moderate inflation would also support the recovery of household spending while spending on regional elections and higher government construction activity would contribute to meeting BI's growth forecast of 5.1% to 5.5%. IDR, a BI concern also, is likely to be prone to weakness as US interest rates rise. We believe that BI will keep policy rates steady.