

Inflation slips in Indonesia, but central bank expected to keep rates on hold

Inflation in Indonesia fell to 3.5% year-on-year in June, from 4% in May, which was slightly below market expectations



Sudirman Central Business District in Jakarta, Indonesia

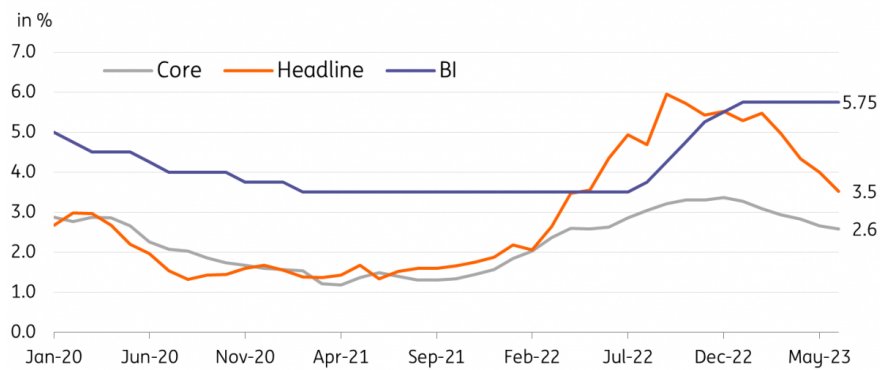
3.5% June YoY change in CPI

Lower than expected

Headline inflation slipped to 3.5% year-on-year in June, down from 4.0%YoY in the previous month. The June reading was slightly below market consensus for a 3.6%YoY rise with prices up only 0.14% from May. Meanwhile, core inflation dipped to 2.6%, down from 2.7% in May.

A favourable base, in addition to moderating commodity prices, has helped steer prices back within target. We expect inflation to remain subdued in the near term, barring substantial supply-side shocks.

Inflation comfortably back within target



Source: Badan Pusat Statistik and Bank Indonesia

Bank Indonesia likely to extend pause

Bank Indonesia (BI) hiked aggressively in late 2022 to help bring inflation back within target. However, despite price pressures abating, we do not expect the central bank to resort to rate cuts as it hopes to ensure continued support for the Indonesian rupiah. Foreign exchange stability will likely determine any BI rate adjustment, and we expect Governor Perry Warjiyo to extend his pause until IDR stabilises.