

Economic Update

July's Highlight :

- The COVID-19 pandemic suppressed Indonesia's economic growth in the second quarter of 2020. Economic growth in the second quarter of 2020 contracted by 5.32% (yoy), a deep decrease compared to the achievement in the first quarter of 2020 of 2.97% (yoy).

- Indonesia's foreign exchange reserves at the end of July 2020 amounted to 135.1 billion US dollars, an increase compared to the position at the end of June 2020 of 131.7 billion US dollars.

- The Bank Indonesia Board of Governors (RDG) Meeting on July 15-16 2020 decided to lower the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.00%, the Deposit Facility rate by 25 bps to 3.25%, and the Lending Facility rate of 25 bps to 4.75%.

- LPS at the LPS Board of Commissioners (RDK) Meeting in July 2020, decided to lower the guarantee interest rate for Rupiah deposits in Commercial Banks and BPRs by 25 bps each, while maintaining foreign currency deposits at Commercial Banks.

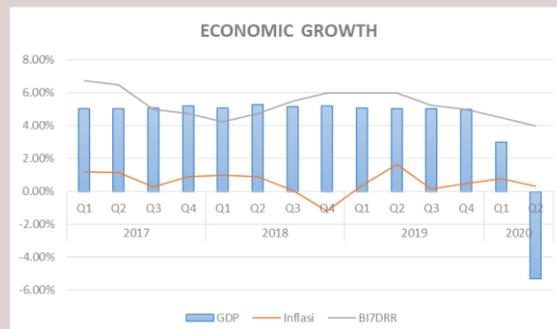
Gross Domestic Product

The COVID-19 pandemic suppressed Indonesia's economic growth in the second quarter of 2020. Economic growth in the second quarter of 2020 contracted 5.32%

(yoy), a deep decline compared to the achievement in the first quarter of 2020 of 2.97% (yoy). This development is inseparable from the impact of the weakening global economy in line with the COVID-19 pandemic and the decline in domestic economic activity as a result of the Large-Scale Social Restrictions (PSBB) policy to prevent the spread of the COVID-19 pandemic. Going forward, Bank Indonesia, through its policy mix, will continue to strengthen synergies with the Government and related authorities so that the various policies adopted are more effective in promoting economic recovery.

Economic growth is inseparable from persistently low inflationary pressures, where the Consumer Price Index (CPI) in July 2020 experienced deflation of 0.10% (mtm), after experiencing 0.18% (mtm) in the previous month.

This development was influenced by inflation in the core group which remained low as well as deflation in the volatile food and administered prices groups. Annually, CPI inflation in July 2020 was recorded at 1.54% (yoy), down from 1.96% (yoy) in the previous month. The low core inflation was reflected in several commodities, such as sugar, ground coffee and onions, which recorded deflation of 4.23%, 0.36% and 5.05% (mtm), respectively. Meanwhile, gold inflation was recorded to have increased from deflation of 1.18% (mtm) to 5.02% (mtm) in line with the increase in world gold prices. Going forward, Bank Indonesia will continue to consistently maintain price stability and strengthen policy coordination with the Government, both at the central and regional levels, to keep inflation low and under control within its target of $3.0\% \pm 1\%$ by 2020.¹



¹ Bi.go.id

Tabel 1. Economic Indicator

Indicator	June	July
Inflasi (yoy)	1.97%	1.54%
Inflasi (mtm)	0.18%	-0.10%
Trade Balance (USD Billion)	1.26	*
Foreign Reserves (USD Billion)	131.7	135.1

*unpublished

Tabel 2. Economic Indicator

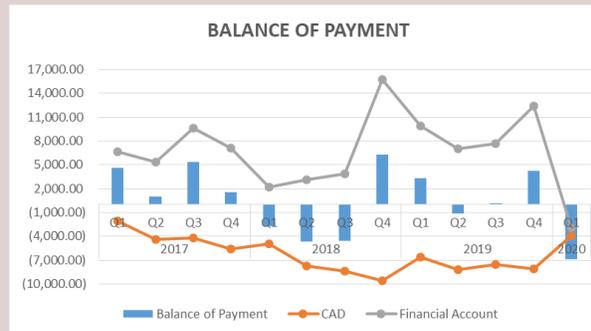
Indicator	Q1'20	Q2'20
GDP	2.97%	-5.32%
NPI (USD Billion)	(8,500)	*
CAD (USD Billion)	(3,924)	*

*unpublished

Comodity

Comodity	June	July
Brent Oil (USD/Barrels)	41.15	43.30
WTI (USD/Barrels)	39.27	40.27
CPO (MYR/Metrictons)	2,297.00	2,677.00
Batu bara (USD/Metrictons)	52.15	51.95
Emas (USD/troy oz)	1,780.96	1,975.86

Indonesia's Balance of Payment



The performance of the Indonesian Balance of Payments (BOP) in the first quarter of 2020 was well maintained, thus supporting

stability in the external sector of the Indonesian economy. In the first quarter of 2020 the current account balance improved significantly with the deficit narrowing to USD 3.9 billion (1.4% of GDP), from the deficit in the fourth quarter of 2019 which was USD 8.1 billion (2.8% of GDP). The deficit decreased mainly due to an increase in the goods trade surplus and a decrease in the deficit in the services account and primary income account.

Meanwhile, the capital and financial account also recorded a deficit in the first quarter of 2020, in line with increasing global uncertainty. The deficit was recorded at USD 2.9 billion (1.1% of GDP) mainly influenced by the deficit in portfolio investment as a result of the spread of the Covid-19 pandemic which caused economic uncertainty and prompted foreign investors to sell off Indonesia's portfolio assets. **Overall, the balance of payments experienced a deficit of USD 8.5 billion in the first quarter of 2020.**

The position of Indonesia's foreign exchange reserves at the end of July 2020 amounted to 135.1 billion US dollars, an increase compared to the position at the end of June 2020 of 131.7 billion US dollars. The position of foreign exchange reserves is equivalent to financing 9.0 months of imports or 8.6 months of imports and servicing of government external debt, and is above the international adequacy standard of around 3 months of imports. The increase in foreign exchange reserves in July 2020 was influenced, among others, by the issuance of global bonds and withdrawal of government loans. Bank Indonesia considers the foreign exchange reserves to be able to support external sector resilience and maintain macroeconomic and financial system stability.²

Looking forward, **the balance of payments is predicted to remain robust, which will support resilience in the external sector.** The outlook for the balance of payments is supported by a current account deficit in 2020, which is projected to be lower than 2.0% of GDP.

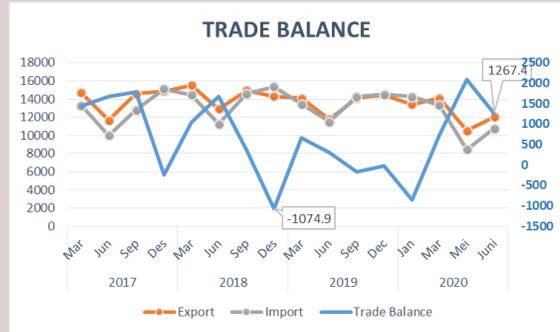
² Bi.go.id

Tabel 4. Currencies			
Currencies	June	July	% Change
USD/IDR	14,265	14,600	-2.35%
USD/HKD	7.7505	7.7503	0.00%
USD/SGD	1.3936	1.3745	1.37%
USD/MYR	4.2863	4.2393	1.10%
USD/CNY	7.0654	6.9752	1.28%
USD/JPY	107.93	105.83	1.95%
AUD/USD	1.4486	1.3999	3.36%
EUR/USD	0.8902	0.8491	4.62%
GBP/USD	0.8064	0.7642	5.23%

Tabel 5. Interest Rate		
Indicator	June	July
BI 7DRR	4.25%	4.00%
Fed Funds Rate	0.00 - 0.25%	0.00 - 0.25%

Indonesia's Trade Balance

Indonesia's trade balance in June 2020 recorded a surplus of 1.27 billion US dollars, after the previous month it also recorded a surplus of 2.02 billion US dollars. With these developments,



overall Indonesia's trade balance in January-June 2020 recorded a surplus of 5.50 billion US dollars, much higher than the achievements in the same period the previous year which experienced a deficit of 1.87 billion US dollars. Bank Indonesia views the trade balance surplus as a positive contribution to maintaining the external resilience of the Indonesian economy. Going forward, Bank Indonesia will continue to strengthen policy synergies with the Government and related authorities to enhance external resilience, including the prospects for the performance of the trade balance.³

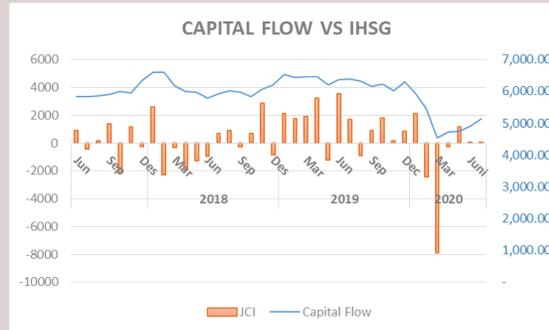


June 2020 non-oil and gas trade balance recorded a surplus of 1.36 billion US dollars. This development was influenced by the exports of several commodities that remained favorable, such as palm oil, coffee and copper seeds, although non-oil and gas imports increased in line with the recovery in economic activity after the relaxation of Pembatasan Sosial Berskala Besar (PSBB).

Meanwhile, the oil and gas trade balance deficit decreased from 96.9 million US dollars in May 2020 to 95.2 million US dollars, influenced by the increase in oil and gas exports, especially the oil and crude oil product processing industry.

³ Bi.go.id

Capital Flow



The Composite Stock Price Index (JCI) jumped almost 5% throughout July 2020. The improving mood of investors on global financial markets has increased interest in risky assets. Over the past month, JCI

strengthened 4.98% point-to-point. JCI managed to end July above 5,100. The maintained hope for economic recovery has encouraged investors to enter riskier assets such as stocks. This made the IHSG et al in Asia managed to strengthen. In addition, market players are also happy because efforts to develop the corona virus vaccine (Coronavirus Disease-2019 / Covid-19) are increasingly progressing. The vaccines developed by AstraZaneca, Sinovac, and Sinopharm have entered the final stages. Meanwhile, vaccines developed by other companies continue to provide positive news.⁴

Exchange Rate

The rupiah exchange rate against the US dollar (US) weakened over the past month. The US dollar, which at the beginning of the month was still below Rp. 14,200, at the end of the month was already above Rp.

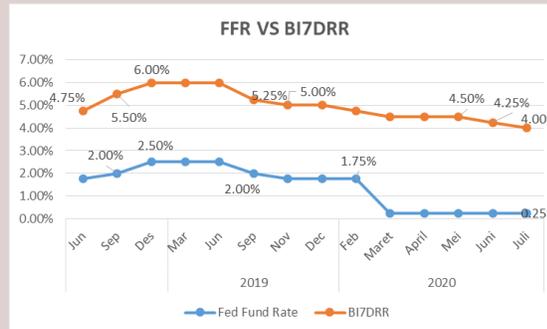


14,500. Throughout July 2020, the rupiah weakened 2.47% against the US dollar on a point-to-point basis. Rupiah underwent a depreciating trend during the first week of week III, and only improved in the last week.⁵

⁴ Cnbcindonesia.com

⁵ Cnbcindonesia.com

Interest Rate



The central bank of the United States (US) The Federal Reserve (The Fed) decided to maintain the benchmark interest rate (federal funds rate / FFR) at 0 - 0.25 percent. This decision was taken at the

Federal Open Market Committee (FOMC) meeting on July 28-29 2020. The Fed emphasized that economic recovery will depend on the development of the corona virus. The Fed Governor Jerome Powell said that although the economy started to recover after being stopped due to the pandemic, economic activity was still far from the condition at the beginning of the year. He said the data showed that the economic recovery had slowed down since a surge in new cases was found in June.⁶

Meanwhile, the Bank Indonesia Board of Governors Meeting (RDG) on July 15-16 2020 decided to lower the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.00%, the Deposit Facility rate by 25 bps to 3.25%, and the Lending Facility rate of 25 bps to 4.75%. This decision is consistent with the forecast for inflation to remain low, external stability is maintained and as further steps to promote economic recovery during the pandemic of COVID-19.⁷

In the LPS Board of Commissioners Meeting (RDK) in July 2020, LPS decided to lower the guarantee interest rate for Rupiah deposits at Commercial Banks and BPRs by 25 bps each, while maintaining foreign currency deposits at Commercial Banks. Thus, the commercial bank guarantee interest rate will be 5.25% and 7.75% for BPRs. Meanwhile, the guarantee rate in foreign currency (forex) remains at the level of 1.50%. The guarantee interest rate is in effect from 30 July 2020 to 30 September 2020. According to the Head of the LPS DK, Halim Alamsyah, the move to cut guarantee interest rates amid the economic slowdown is expected to be a stimulus for the banking sector.⁸

⁶ Cnnindonesia.com

⁷ Bi.go.id

⁸ Cnbcindonesia.com

Our View

Macroeconomics Indicator and Forecast

	2015	2016	2017	2018	2019	2020f
National Account						
GDP	4,88%	5,03%	5,07%	5,17%	5,02%	0,00%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	2,00%
Other						
FFR	0,50%	0,75%	1,50%	2,50%	1,75%	-0.25%
BI7DRR	7,50%	4,75%	4,25%	6,00%	5,00%	3,75%
USD/IDR	13.792	13.461	13.554	14.394	13.866	14.500-15.000

Indonesia's GDP achievement or economic growth in the second quarter of 2020 contracted quite deeply. In the third quarter, it is predicted that the Indonesian economy will still contract, so that the potential for a recession could occur because the decline in the sector cannot recover immediately. As a result, economic growth for the time being will not be able to recover like before the Covid-19 pandemic, or with an average economic growth of 5%.

Annual **inflation** in 2019 which was below 3.00% was the lowest since 2009 which was recorded at 2.78%. It is predicted that inflation in 2020 will also be lower than in 2019 because large-scale social restrictions since March have affected the purchasing power of the general public.

Fed Funds Rate cuts have been made 3 times in 2019. The Fed, cut its benchmark interest rate by 100 basis points (bps) to 0-0.25% as of March 15, 2020. And it will remain at that number until July 2020. Predicted There is still room for further interest rate cuts and there is even a possibility to a minus level as a precaution if there are still risks to economic activity in supporting maximum employment and the target of price stability, one of which is due to the Corona Virus.

BI7DRR has also experienced cuts, but more than the Fed. The BI7DRR was trimmed 4 times throughout 2019 and trimmed again in July so that the BI7DRR decreased for 2 consecutive months. It is predicted that there is still room for further cuts in interest rates by Bank Indonesia considering the impact of Covid-19 which has a negative impact on the economy so that monetary policy steps must be taken from Bank Indonesia.

The rupiah **exchange rate** against the US dollar experienced a sharp depreciation in July 2020. Throughout July 2020, the rupiah weakened 2.47% against the US dollar on a point-to-point basis. Rupiah underwent a weakening trend during the first week of week III, and only improved in the last week. This is because the selling pressure hit the rupiah until it became the weakest in Asia. It is predicted that the Rupiah will still have the potential to strengthen because the yield on SBN in Indonesia is quite promising for investors. Rupiah can move in the range of 14,400-14,800 in August.