

Economic Update

March Highlight :

- Consumer Price Index (CPI) inflation in March 2020 remains low and under control. CPI inflation in March 2020 was recorded at 0.10% (mtm), lower than the previous month's inflation of 0.28% (mtm).
- The position of Indonesia's foreign exchange reserves at the end of March 2020 was 121.0 billion US dollars, lower than the position at the end of February 2020 at 130.4 billion US dollars.
- The Composite Stock Price Index (CSPI), which is the benchmark for the stock market in the country, fell 20.13 percent during March 2020, worse than the previous month which also fell 8.2 percent. As a result, year to date (YtD), CSPI has dropped 23.6 percent.
- Rupiah moves like a roller coaster against the United States dollar (US) in the first 3 months of 2020. In February the rupiah sank 5.05%. As a result, the rupiah entered the red zone on a year-to-date basis (ytd). Then in March the rupiah entered the red zone and even recorded the worst weakening since the 1998 economic crisis, which reached Rp 16,525 / USD.

Growth Domestic Product

Indonesia's Economic Growth in the fourth quarter of 2019 was recorded at 4.97%. This figure is weak compared to economic



growth in the third quarter of 2019 of 5.02%.

Consumer Price Index (CPI) inflation in March 2020 remained low and under control. CPI inflation in March 2020 was recorded at 0.10% (mtm), lower than the previous month's inflation of 0.28% (mtm). This development was influenced by volatile foods and administered prices which recorded deflation, as well as core inflation, excluding the price of gold, which remained under control. With this development, the March 2020 CPI inflation remained under control at 2.96% (yoy), slightly lower than last month's inflation of 2.98% (yoy). Volatile foods inflation experienced deflation due to correction in some food prices. Price correction occurred in several commodities such as various chilies, fresh fish, garlic, and cooking oil. Similarly, the administered prices group again recorded deflation of 0.19% (mtm). Deflation that occurred in March 2020 was deeper than the previous month deflation of 0.11% (mtm). This development was mainly driven by continued correction in air freight rates.

Going forward, Bank Indonesia will continue to consistently maintain price stability and strengthen policy coordination with the Government, both at central and regional levels, to ensure that inflation in 2020 remains low and stable in its target of 3.0% ± 1%.¹

Indonesia's Foreign Reserves

Indonesia's foreign exchange reserves at the end of March 2020 stood at 121.0 billion US dollars, lower than the position at the end of February 2020 of 130.4 billion US dollars. The position of foreign exchange reserves is equivalent to financing 7.2 months of imports or 7.0 months of imports and payment of government foreign debt, and is above the international adequacy standard of about 3 months of imports.²

¹ Bi.go.id

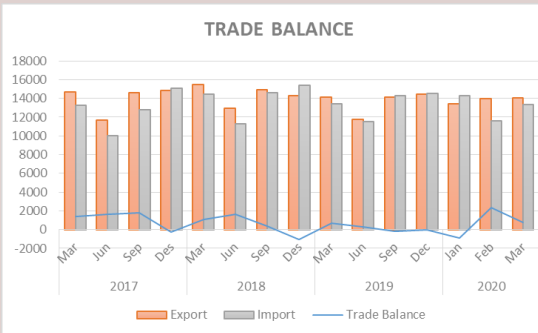
² Bi.go.id

Tabel 1. Economic Indicator		
Indicator	February	March
Inflasi (yoy)	2.98%	2.96%
Inflasi (mtm)	0.28%	0.10%
Trade Balance (USD Million)	2.3	0.74
Foreign Reserves (USD Million)	130.4	121

Tabel 2. Economic Indicator		
Indicator	Q3	Q4
GDP	5.02%	4.97%
NPI (USD Million)	(0.46)	4.3
CAD	(7,700)	(8,122)

Tabel 3. Comodity		
Comodity	February	March
Brent Oil (USD/Barrels)	50.52	22.74
WTI (USD/Barrels)	44.76	20.48
CPO (MYR/Metrictons)	2,357.00	2,550.00
Coal (USD/Metrictons)	67.40	67.85
Gold (USD/troy oz)	1,645.01	1,577.18

Indonesia's Trade Balance



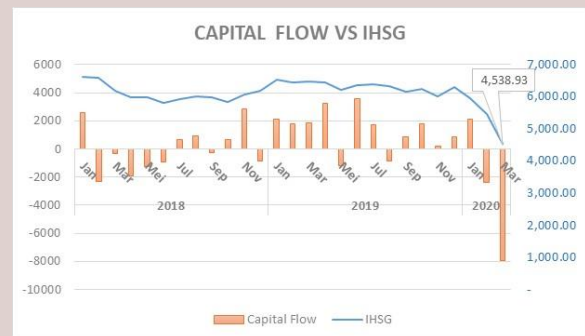
Indonesia's trade balance in March 2020 recorded a surplus of 743.4 million US dollars, the surplus was mainly supported by the non-oil and gas trade balance surplus in line with the continued

positive performance of non-oil and gas exports amid rising non-oil and gas imports. Meanwhile, the oil and gas trade balance deficit was stable compared to the deficit in the previous month, influenced by the decline in oil and gas imports which was slightly deeper than the decline in oil and gas exports. With these developments, Indonesia's trade balance in the first quarter of 2020 surplus was 2.62 billion US dollars, significantly improved compared to the trade balance in the fourth quarter of 2019 which was a deficit of 1.28 billion US dollars.



Capital Flow

In March 2020, the domestic stock market again must be willing to experience a fairly disappointing performance. The Composite Stock Price Index (CSPI), which is the



benchmark for the stock market in the country, fell 20.13 percent during March 2020, worse than the previous month which also fell 8.2 percent. As a result, year to date (YtD), CSPI has dropped 23.6 percent. The spread of the corona virus (COVID-19) outside China is a major factor that has suppressed the JCI's performance in February 2020. The significant increase in the number of new cases outside China and the spread of infections to more than 50 countries pose a

Tabel 4. Currencies			
Currencies	Februari	Maret	% Change
USD/IDR	14,318	16,310	-13.91%
USD/HKD	7.7935	7.7511	0.54%
USD/SGD	1.3932	1.4220	-2.07%
USD/MYR	4.2150	4.3212	-2.52%
USD/CNY	6.9920	7.0822	-1.29%
USD/JPY	107.89	107.54	0.32%
AUD/USD	1.5349	1.6311	-6.27%
EUR/USD	0.9069	0.9065	0.05%
GBP/USD	0.7798	0.8051	-3.24%

Tabel 5. Interest Rate		
Indicator	February	March
BI 7DRR	4.75%	4.50%
Fed Funds Rate	1.50 - 1.75%	0.00 - 0.25%

serious threat to the global economy. Meanwhile, from within the country, the victims died due to Covid-19 has penetrated 200 people. The existence of these risks makes investors choose risk averse mode and switch to safe haven assets. Selling pressure that occurred in the global stock market also spread to the Asian stock exchanges.

Foreign Exchanges

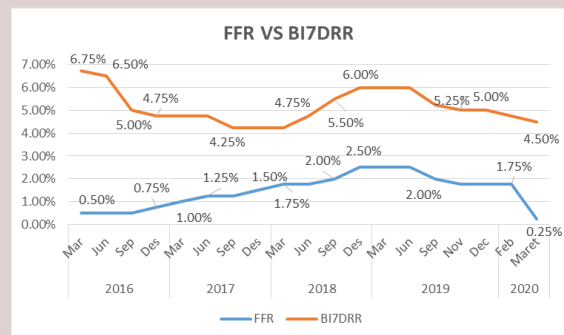
The same thing happened to the Rupiah exchange rate, the Rupiah moved like a roller coaster against the United States dollar (US) in the first 3 months of 2020. In February the rupiah collapsed 5.05%.

As a result, the rupiah entered the red zone on a year-to-date basis (ytd). Then in March the rupiah entered the red zone and even recorded the worst weakening since the 1998 economic crisis, which reached Rp 16,525 / USD. The reason is none other than the fear of the spread of the corona virus outbreak outside of China which has worsened market sentiment and the rupiah finally collapsed in February. The worsening sentiment of market participants due to the surge in cases of the corona virus outside China, even now has entered Indonesia.



Interest Rate Movement

Surprisingly, the Federal Reserve / The Fed's central bank suddenly cut its benchmark interest rate at an incidental meeting held on 3/3/2020. No half-hearted, the Federal Funds Rate



immediately cut 50 basis points (bps) to 1-1.25%. The last time the Fed cut its benchmark interest rate by more than 25 bps in a single meeting was in 2008, when Uncle Sam's country was hit by an economic crisis. Followed by the decision to cut interest rates again by 100 basis points (bps) to 0-0.25%. The interest rate is the lowest since 2015. In addition, the Fed also reactivated the US \$ 700 billion asset purchase program (Quantitative Easing / QE). The Fed was supposed to hold a monetary policy meeting on March 17-18 local time, but again it was done earlier. The Fed's aggressive interest rate cut was done to

protect the US economy from the negative effects of the corona virus pandemic.

Rapat Dewan Gubernur (RDG) Bank Indonesia on 19-20 February 2020. BI reduced the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.75%, the Deposit Facility interest rate by 25 bps to 4.00%, and the Lending Facility rate by 25 bps to 5.50%. Followed by the **Rapat Dewan Gubernur (RDG) of Bank Indonesia on 18-19 March 2020 decided to reduce the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 basis points (bps) to 4.5 percent from the previous 4.75 percent. The breakdown of deposit facility interest rates fell by 25 bps to 3.75 percent, and lending facility rates also dropped by 25 bps to 5.25 percent.** The BI policy is a pre-emptive step to maintain the momentum of domestic economic growth amidst the prospect of global economic recovery in connection with the occurrence of Covid-19. The monetary operations strategy continues to aim at maintaining adequate liquidity and supporting the transmission of an accommodative policy mix.

Interest rate reduction policies were also followed by Lembaga Penjamin Simpanan (LPS). **Lembaga Penjamin Simpanan (LPS)** again lowering the guarantee interest rate by 25 basis points (bps) for rupiah deposits at commercial banks and rupiah deposits at people's credit banks (BPR). Meanwhile the interest rate for foreign currency guarantees at commercial banks has not changed. With this, **the interest rate of guarantee for rupiah and foreign exchange of commercial banks will be 5.75% and 1.75%, and the guarantee interest at BPR will be 8.25%.**

Corona/ Covid-19 News (Global)

In its latest research, **the World Bank said, the corona virus pandemic is expected to slow down the rapid growth in developing countries in East Asia and the Pacific and China. The World Bank predicts, in the baseline scenario, growth in developing countries in the region will slow to 2.1% in 2020, and -0.5% in the lower scenario, compared with an estimated growth of 5.8% in 2019.**

The Central Bank of the United States of America, The Federal Reserve (The Fed) launched a new policy to reduce the influence of the corona virus outbreak on the economy by offering direct financing to companies affected by this outbreak. The move was carried out without prior approval from the United States Congress which was discussing the same effort. The Fed's policy of reaching corporations and small businesses illustrates the significant impact of the corona virus outbreak on the US economy. One of the points in this policy is the Primary Market Corporate Credit Facility. In this incentive, the Fed will buy bonds directly from companies that issue or provide companies with loans.

President Donald Trump proposed a stimulus package worth 1 Trillion USD to prop up the US economy which faces the potential for a significant slowdown due to the Corona virus pandemic. In the details announced, the Trump administration said the 1 Trillion USD stimulus package would cover 50 Billion USD to rescue large airlines currently facing bankruptcy, 250 Billion USD to inject loans to small and medium businesses, and 500 billion USD was aimed at individuals, both in the form of direct assistance or reduction of income tax.

For the umpteenth time, **European Union countries failed to show a spirit of unity in the face of the threat of the economic crisis triggered by the COVID-19 pandemic.** The last discussion of the finance ministers of its member states via a 16-hour teleconference failed to agree on any scheme to tackle economic setbacks. In fact, other countries ranging from the United Kingdom, Japan, to the United States are competing to pour out massive fiscal stimulus.

Italian Prime Minister Giuseppe Conte announces an additional economic aid package worth USD434 billion, equivalent to IDR 16,000 per USD for Italian companies of various scales that are experiencing difficulties after the outbreak of the corona virus crisis that hit Italy hard. Conte said the funds would be divided to help the domestic economy and to boost export markets. He said the package would be managed in the form of loans, through banks.

Japanese Prime Minister Shinzo Abe launched a fiscal stimulus package with a scale equivalent to 20 percent of Japan's total GDP, to combat the negative effects of the Corona virus (COVID-19). The package of 108 trillion Yen (almost 1 trillion USD) is scheduled to be confirmed by the Cabinet today. PM Abe has not yet provided further details about stimulus allocation, but the nominal he mentioned far exceeds analysts' expectations. Thus, distribution is expected to provide an additional sense of security for people who have decreased income and are asked to stay at home.

Singapore's central bank eased monetary policy massively on Monday (30/3). These city-states are preparing for a recession caused by the corona virus pandemic. The Monetary Authority of Singapore (MAS) will adopt a policy of 0% annual appreciation rate starting from the current S \$ NEER level. MAS manages monetary policy through exchange rates and not interest rates. The monetary authority said there would be no change in the range of movements in the exchange rate. The central bank also reduced the inflation outlook and core inflation to -1% to 0% for 2020.

Corona/ Covid-19 News (Indonesia)

Coordination of Government policies (BI, OJK and LPS) in anticipation of the Covid-19 effect:

1. Stabilization of Rupiah Exchange Rates

- The current Rupiah exchange rate is adequate and fundamentally "undervalued". Going forward, the Rupiah is expected to stabilize and tend to strengthen towards Rp 15,000 per USD by the end of 2020.
- Bank Indonesia will continue to be in the market, stabilizing the Rupiah through interventions in the Spot, DNDF, and purchases of SBN from the secondary market, particularly in the period of capital outflows.
- The amount of foreign exchange reserves is currently more than enough for the needs of imports, payment of government debt, and Rupiah stabilization. If needed as a "second line of defense", Bank Indonesia has bilateral swap cooperation with various central banks, a.i. China, Japan, South Korea and Singapore.

2. Coordination of liquidity easing by Bank Indonesia, fiscal stimulus by the Government, and relaxation of bank credit arrangements by OJK for economic recovery, both MSMEs and the business world

- Bank Indonesia has injected large amounts of liquidity into banks, almost Rp 300 trillion since early 2020. Through the purchase of SBN from the secondary market, the provision of liquidity to banks through the term-repurchase agreement (repo) mechanism, as well as the reduction in reserve requirement. The condition of banking liquidity is more than enough.
- Government fiscal stimulus in the form of social programs, industrial incentives and economic recovery will encourage public consumption, production and investment in the business world, both MSMEs and corporations.
- Relaxation of microprudential arrangements by OJK will make it easier for banks to finance MSMEs and businesses in the context of economic recovery.

3. Purchase of SUN / SBSN on the primary market by Bank Indonesia in handling Covid-19

- This is a step in "forced coercive conditions". Stay measurable by considering the impact on inflation. If conditions return to normal, Bank Indonesia will not finance the fiscal deficit by purchasing SUN / SBSN from the primary market as stipulated in the Bank Indonesia Law.
- Bank Indonesia as the "last resort". The government will maximize the available funding sources (SILPA, BLU, etc.), World Bank and ADB loans, and the issuance of SUN / SBSN in

both domestic and global markets. In the event that the market capacity is insufficient and / or causes an increase in yield that is too high, Bank Indonesia may also buy part of the primary market.

4. Management of foreign exchange traffic for the population of Indonesia

- Management of foreign exchange flows only applies to residents of Indonesia. One form: the obligation of exporters to convert foreign exchange Export Results (DHE) into Rupiah. Thus supporting the stability of the Rupiah exchange rate and the external resilience of the Indonesian economy.
- There are currently no plans. But in the event that it is needed to support Rupiah stability, the policy can be applied.³

³ Bi.go.id

Macroeconomics Indicator and Forecast

	2015	2016	2017	2018	2019	2020f
National Account						
GDP	4,88%	5,03%	5,07%	5,17%	5,02%	4,90%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	2,90%
Other						
FFR	0,50%	0,75%	1,50%	2,50%	1,75%	0,75%
BI7DRR	7,50%	4,75%	4,25%	6,00%	5,00%	4,50%
USD/IDR	13.792	13.461	13.554	14.394	13.866	14.270

Our View

The achievement of GDP or **Indonesia's economic growth** in the fourth quarter of 2019 missed BI's prediction. BI predicts Indonesia's economic growth could reach 5.30% in 2019 but the realization of Indonesia's economic growth in 2019 is only 5.02%. The projection of the Indonesian economy in the first quarter is also projected to decline due to global conditions affected by the spread of the new Corona Virus outbreak or COVID-19 below 5% or around 4.9%. The Indonesian economy is affected by Corona Virus from tourism, trade and investment.

Annual inflation in 2019 which is below 3.00% is the lowest since 2009 which was recorded at 2.78%. It is predicted that inflation in 2020 will slightly increase compared to the achievement of 2019. These factors come from the demand and supply side, and the policy impetus side. The demand side is related to religious holidays both Lebaran and Christmas, and the new year. Then from the supply side it is related to shifting the harvest period. If we look at the policy impetus, the driver of inflation is mainly due to the increase in a number of tariffs. The increase in tariffs referred to are tolls, electricity, BPJS fees, and also cigarette excise which will help hoist inflation figures. March is predicted to have the potential to increase inflation caused by the supply of food commodities, namely less garlic because imports from China cannot enter Indonesia due to the Corona Virus.

The Fed Funds Rate has been cut three times in July, September and most recently in October 2019. The Fed, cut its benchmark interest rate to 100 basis points (bps) to 0-0.25% as of March 15, 2020. This is the second step throughout 2020, after Tuesday (3/3/2020), the Fed cut 50 bps to 1-1.25%. It is predicted that there is still room for further interest rate cuts as an anticipatory measure if there are perceived risks to economic activity in supporting maximum employment and price stability targets, one of which is caused by Corona Virus.

BI7DRR has also experienced cuts, but more than the Fed. BI7DRR has been cut 4 times during 2019 and will be trimmed again in February and March 2020. It is predicted that there is still room for further interest rate cuts by Bank Indonesia considering the impact of the Corona Virus which has a negative impact on the economy so monetary policy steps must be taken from the Bank Indonesia.

The Rupiah exchange rate against the US Dollar experienced a sharp weakening after strengthening throughout January and is predicted to continue to weaken. The cause is none other than the Corona Virus which affects the economy in China where the stability of the disrupted Chinese economy will greatly affect Indonesia because Indonesia's Current Account has recorded a deficit for 8 years with the majority of contributors to imports coming from China. So that the strengthening / weakening of the Indonesian currency is more vulnerable to the movement of CNY for currencies throughout Asia.