

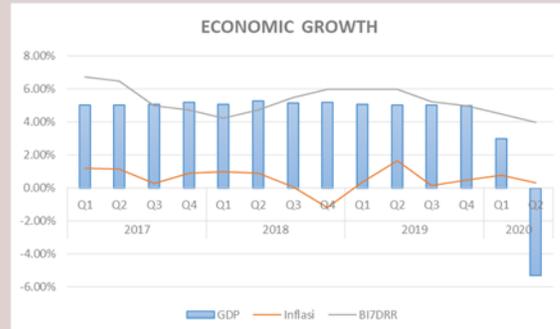
Economic Update

Highlight September :

- The Consumer Price Index (CPI) in September 2020 experienced another 0.05% (mtm) deflation, continuing the deflation that had occurred since July 2020.
- The position of Indonesia's foreign exchange reserves at the end of September 2020 amounted to 135.2 billion US dollars, still high although it decreased compared to the position at the end of August 2020 of 137.0 billion US dollars.
- Indonesia's trade balance in August 2020 recorded a surplus of US \$ 2.33 billion, after recording a surplus of US \$ 3.24 billion in the previous month.
- The Bank Indonesia Board of Governors (RDG) Meeting on 16-17 September 2020 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 4.00%, the Deposit Facility rate at 3.25%, and the Lending Facility interest rate at 4.75%.
- The IDIC at the Board of Commissioners Meeting (RDK) on Monday, 28 September 2020, has decreed the Guarantee Interest Rate of 25 bps for deposits in Rupiah and foreign currency at Commercial Banks, as well as for deposits in Rupiah at BPRs, respectively.

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 by 5.32%



(yoy), a deep decrease 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.

Low economic growth is inseparable from low inflationary pressure. This indicates that people's purchasing power has not yet recovered due to the Covid-19 pandemic. The Consumer Price Index (CPI) in September 2020 experienced another 0.05% (mtm) deflation, continuing the deflation that has occurred since July 2020. Apart from being influenced by core inflation that remains low, it is also driven by deflation in the volatile food and administered prices groups. On an annual basis, CPI inflation for September 2020 was recorded at 1.42% (yoy), up from last month's inflation. **The volatile food category again recorded 0.60% (mtm) deflation in September 2020, but not as deep as the previous month's deflation of 1.44% (mtm).** The decline in food prices continues in line with slowing domestic demand and minimal distribution constraints. **The administered prices group experienced another 0.19% (mtm) deflation, which was deeper than the previous month's deflation of 0.02% (mtm).** Driven by the continued reduction in air transport rates during September 2020 in line with low demand and the increasing return of COVID-19 cases in Indonesia, which has an impact on restraining people's mobility.

Going forward, Bank Indonesia will consistently maintain price stability and strengthen policy coordination with the Government, both at the central and regional levels, to control inflation within its target range.¹

¹ Bi.go.id

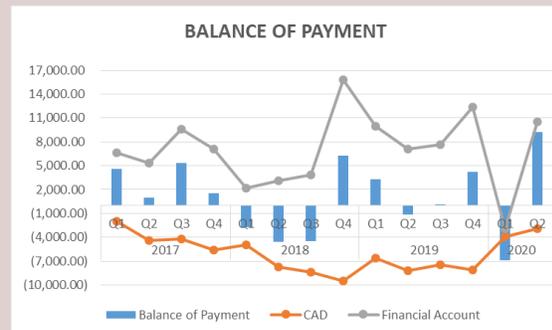
Tabel 1. Economic Indicator		
Indicator	August	September
Consumer Price Index (yoy)	1.32%	1.42%
Consumer Price Index (mtm)	-0.05%	-0.05%
Trade Balance (USD Billion)	2.33	*
Foreign Reserves (USD Billion)	137.0	135.2

*unpublished

Tabel 2. Economic Indicator		
Indicator	Q1'20	Q2'20
GDP	2.97%	-5.32%
NPI (USD Billion)	(8,500)	(7,628)
CAD (USD Billion)	(3,924)	(2,896)

Tabel 3. Comodity		
Comodity	August	September
Brent Oil (USD/Barrels)	45.28	40.95
WTI (USD/Barrels)	42.61	40.22
CPO (MYR/Metrictons)	2,738.00	2,839.00
Batu bara (USD/Metrictons)	51.40	58.60
Emas (USD/troy oz)	1,967.80	1,885.82

Balance of Payment



The Indonesian Balance of Payments (BOP) recorded a sizeable surplus in the second quarter of 2020, supporting Indonesia's external resilience.

The balance of payments recorded a surplus of 9.2 billion US dollars in the second quarter of 2020, after experiencing a deficit of 8.5 billion US dollars in the previous quarter. The improvement in the balance of payments performance is supported by a decrease in the current account deficit and a large surplus in the capital and financial account.

The current account deficit decreased, supported by a surplus in the goods account and a reduced deficit in the primary income account.

The current account deficit was recorded at USD 2.9 billion (1.2% of GDP), lower than the deficit in the preceding quarter of USD 3.7 billion (1.4% of GDP). The decline in the current account deficit stemmed from a surplus in the goods trade balance due to lower imports due to weakening domestic demand. In addition, the income account deficit narrowed due to reduced yield payments to foreign investors in line with the contraction in domestic economic growth in Q2 / 2020, which was reflected in the decline in corporate and investment performance.

In line with the development of the balance of payments surplus, **the position of Indonesia's foreign exchange reserves at the end of September 2020 amounted to 135.2 billion US dollars, which remains high although it has decreased compared to the position at the end of August 2020 of 137.0 billion US dollars.** The position of foreign exchange reserves is equivalent to financing 9.5 months of imports or 9.1 months of imports. The decline in foreign exchange reserves in September 2020 was influenced by the payment of government external debt and the need to stabilize the Rupiah exchange rate amidst high uncertainty on global financial markets. Going forward, Bank Indonesia considers that foreign exchange reserves will remain adequate, supported by stability and a maintained economic outlook, in line with various policy responses to promote economic recovery.²

² Bi.go.id

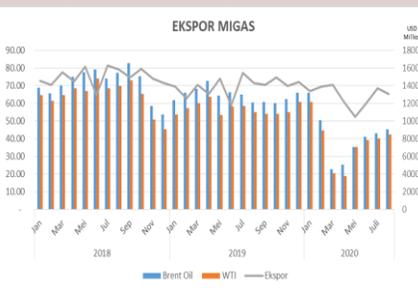
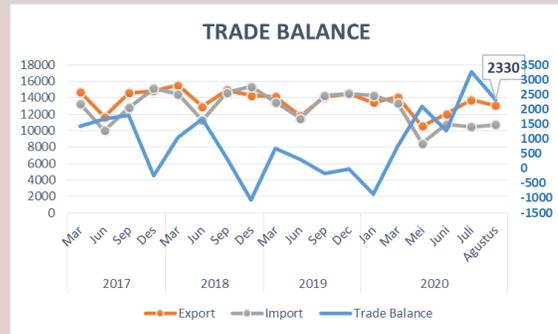
Tabel 4. Currencies			
Currencies	August	September	% Change
USD/IDR	14,563	14,880	-2.18%
USD/HKD	7.7502	7.7500	0.00%
USD/SGD	1.3603	1.3654	-0.37%
USD/MYR	4.1640	4.1565	0.18%
USD/CNY	6.8485	6.7910	0.84%
USD/JPY	105.91	105.48	0.41%
AUD/USD	1.3557	1.3962	-2.99%
EUR/USD	0.8378	0.8532	-1.84%
GBP/USD	0.7480	0.7740	-3.48%

Tabel 5. Interest Rate		
Indicator	August	September
BI 7DRR	4.00%	4.00%
Fed Funds Rate	0.00 - 0.25%	0.00 - 0.25%

Indonesia's Trade Balance

Indonesia's trade balance in August 2020 recorded a surplus of US \$ 2.33 billion, after recording a surplus of US \$ 3.24 billion in the previous month. With these

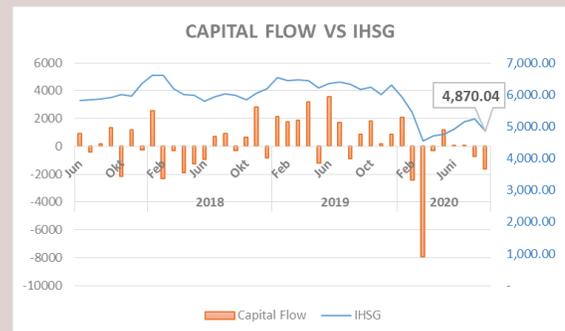
developments, overall Indonesia's trade balance in January-August 2020 recorded a surplus of 11.05 billion US dollars, a significant increase from the achievement in the same period the previous year which experienced a deficit of 2.06 billion US dollars. Going forward, Bank Indonesia will continue to strengthen policy synergies with the Government and related authorities to enhance external resilience, including the prospects for the performance of the trade balance.³



The August 2020 trade balance surplus was influenced by the return to the surplus in the non-oil and gas trade balance and the increasing deficit in the oil and gas trade balance. The August 2020 non-oil and gas trade balance recorded a surplus of 2.67 billion US dollars. The oil and gas trade balance still experienced a deficit, amounting to US \$ 0.34 billion, influenced by the decline in oil and gas exports, especially oil commodities.

Capital Flow

The Indonesian stock market experienced a correction in the last trading day of the third quarter of 2020. Closing trading September 30, 2020, the Jakarta Composite Index (JCI) closed down



³ Bi.go.id

0.19 percent to 4,870.04. Throughout September 2020 the JCI was recorded to have dropped to 7.03 percent. This year, the global economic conditions that have been deteriorating due to the Covid-19 pandemic are clearly the most dominant factor in pressing all stock exchanges in various parts of the world. The case of Covid-19, which continues to increase in the country, has made the government adopt a Large-Scale Social Restriction (PSBB) policy which certainly has a major impact on economic activity so that many companies have difficulty running their business, which in turn causes the economy to contract. Meanwhile, from global, the market awaits the general election of the president of the United States (US). Until now, the US stimulus package has not been achieved, so the US economy is slowing down which affects the world economy. ⁴

Foreign Exchange

The rupiah performed poorly against the United States dollar (US) in Q3 / 2020, especially when compared to other major Asian currencies. Apart from the rupiah, only the Thai baht has



weakened. When China has succeeded in reducing the corona virus, Indonesia is actually facing an increase in Covid-19 cases to date. In fact, the number of cases per day still tends to be high. The rupiah has been in a weakening trend since 9 June. One of the reasons the rupiah continued to weaken was the cut in BI's interest rate. The rupiah is a currency that relies on high yields to attract investors. When interest rates are cut, yields will naturally decline, making the rupiah less attractive. ⁵

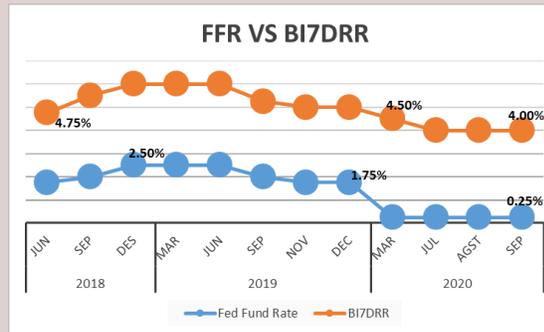
Interest Rate

The central bank of the United States (US) The Federal Reserve (The Fed) decided to keep interest rates at zero percent to 0.25 percent until economic conditions stabilize again at the meeting of the Federal Open Market Committee (FOMC) Wednesday (16/9/2020). The committee maintains this target range until labor market conditions reach a consistent level and inflation has risen to 2 percent or more over time, said Federal Reserve Chair Jerome Powell. Powell also said that the inflation target is targeted to be at a level above 2 percent to maintain the long-term inflation rate. The Federal Reserve

⁴ Bareksa.com

⁵ Cnbcnindonesia.com

will also increase the asset balance of Treasury securities and institutional mortgage-backed securities.⁶



Meanwhile, the Bank Indonesia Board of Governors Meeting (RDG) on 16-17 September 2020 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 4.00%, the

Deposit Facility interest rate at 3.25%, and the Lending Facility interest rate at 4.75%. This decision takes into account the need to maintain the stability of the Rupiah exchange rate, amid inflation which is predicted to remain low. To encourage economic recovery from the impact of the COVID-19 pandemic, Bank Indonesia emphasizes the quantity pathway through liquidity provision, including Bank Indonesia's support to the Government in accelerating the realization of the 2020 State Budget.⁷

The LPS at the Board of Commissioners Meeting (RDK) on Monday, September 28, 2020, has decreed the Guarantee Interest Rate of 25 bps for deposits in Rupiah and foreign currency at Commercial Banks, as well as for deposits in Rupiah at BPRs, respectively. Thus, the LPS guarantee interest rate for commercial banks is 5.00% for Rupiah and 1.25% for foreign currency. Meanwhile, 7.50% is for Rupiah deposits in BPRs. The guarantee interest rate is valid from October 1, 2020 to January 29, 2021.⁸

⁶ Kompas.com

⁷ Bi.go.id

⁸ Lps.go.id

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%	-2,00-4,00%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	1,50%
Other						
FFR	0,50%	0,75%	1,50%	2,50%	1,75%	0,00%
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	14.500-15.100

The GDP achievement or Indonesia's economic growth in the second quarter of 2020 contracted quite deeply. In the third quarter, it is predicted that Indonesia's economy will still contract, so the potential for a recession could occur. This is because people's purchasing / consumption power has not returned to what it was before the pandemic. It is predicted that in the fourth quarter, economic growth will still record negative values, only not as big as the third quarter.

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 be lower than in 2019 by considering the deflationary trend recorded since July 2020

The Fed, cut its benchmark interest rate by 100 basis points (bps) to 0-0.25% as of March 15, 2020 and lasted until September 2020. There was even a change in inflation-related policies, this new policy means the Fed will tend to hold interest rates when the unemployment rate is reduced, as long as inflation does not go up. Usually, the Fed sees that a low unemployment rate will drive high inflation, so the Fed cuts interest rates before that happens.

BI7DRR maintained at 4.00% in September 2020. It is predicted that by the end of the year there will be further easing of interest rates, although this is less likely given that BI's focus is to consider the need to maintain the stability of the Rupiah exchange rate.

The Rupiah exchange rate is vulnerable to both internal and external issues. Internally, regarding BI independence, the pros and cons of the Omnibus Law on the Job Creation Law and vaccination regulations. It is predicted that the movement of the Rupiah at the end of October may move slightly stronger.