

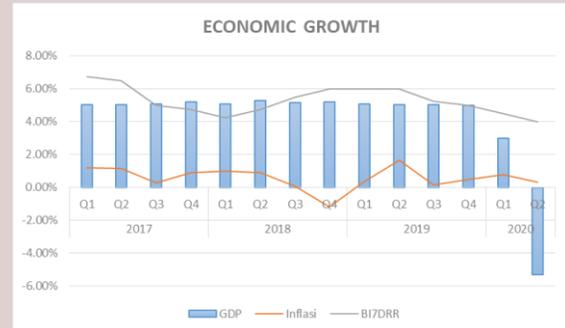
## Economic Update

### Highlight Agustus :

- 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).
- The Indonesian Balance of Payments (BOP) in the second quarter of 2020 recorded a sizeable surplus, 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 central bank of the United States (US) The Federal Reserve (The Fed) has 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 August 26-27, 2020.
- The Bank Indonesia Board of Governors (RDG) Meeting on 18-19 August 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%.

### 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.

**Economic growth is inseparable from low inflationary pressure in which the August 2020 Consumer Price Index (CPI) experienced deflation of 0.05% (mtm) again, lower than the deflation in July 2020 which was recorded at 0.10% (mtm).**

Apart from being influenced by low core inflation, deflation was also driven by volatile foods and administered prices. **The volatile food category recorded deflation of 1.44% (mtm).** This will be affected by the continuing decline in food prices as domestic demand has not been strong, as well as supply in line with the harvest in several production centers, maintained distribution, and low global food commodity prices. **The administered prices group again recorded deflation of 0.02% (mtm).** Encouraged by the continued reduction in air transport rates in line with the promotion of airplane tickets during the celebration of independence day. On an annual basis, CPI inflation for August 2020 was recorded at 1.32% (yoy).

Going forward, Bank Indonesia will continue to consistently maintain price stability and strengthen policy coordination with the Government, to control inflation within its target of 3.0% ± 1% by 2020.<sup>1</sup>

<sup>1</sup> Bi.go.id

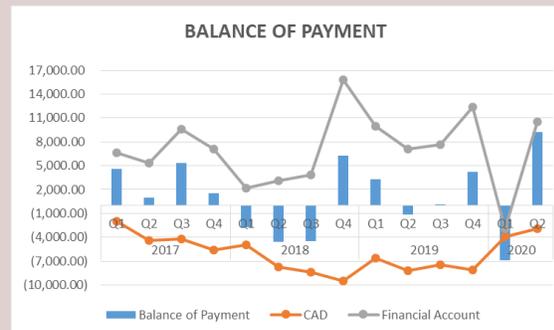
Tabel 1. Economic Indicator		
Indicator	July	August
Consumer Price Index (yoy)	1.54%	1.32%
Consumer Price Index (mtm)	-0.10%	-0.05%
Trade Balance (USD Billion)	3.26	*
Foreign Reserves (USD Billion)	135.1	137.0

\*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	July	August
Brent Oil (USD/Barrels)	43.30	45.28
WTI (USD/Barrels)	40.27	42.61
CPO (MYR/Metrictons)	2,677.00	2,738.00
Batu bara (USD/Metrictons)	51.95	51.40
Emas (USD/troy oz)	1,975.86	1,967.80

## 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.

**Capital and financial transactions in the second quarter of 2020 recorded a significant surplus compared to the previous quarter, in line with the easing of global financial market uncertainty.** The capital and financial account surplus was recorded at US \$ 10.5 billion mainly from net inflows of portfolio investment and direct investment, after recording a deficit of US \$ 3.0 billion in the previous quarter.

In line with the development of the balance of payments surplus, the position of foreign exchange reserves at the end of June 2020 increased to USD 131.7 billion. The position of foreign reserves is equivalent to 8.1 months of financing imports and government external debt and is above the international adequacy standard.<sup>2</sup>

Meanwhile, for August 2020, the position of foreign exchange reserves was US \$ 137.0 billion, an increase compared to the position at the end of July 2020 of US \$ 135.1 billion. The increase in foreign exchange reserves in August 2020 was influenced, among others, by the withdrawal of government foreign loans, as well as tax revenues and oil and gas foreign exchange.

Going forward, Bank Indonesia will keep a close watch on the dynamics of the global economy that could affect the outlook for the balance of payments and continue to strengthen the policy mix to

<sup>2</sup> Bi.go.id

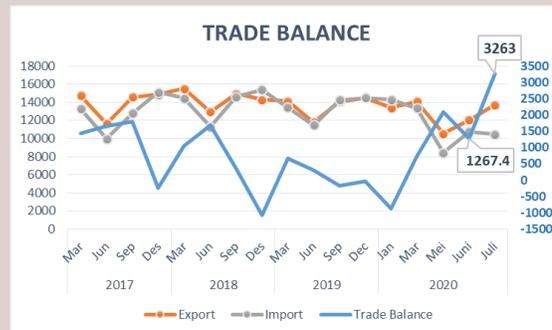
Tabel 4. Currencies			
Currencies	Juli	Agustus	% Change
USD/IDR	14,600	14,563	0.25%
USD/HKD	7.7503	7.7502	0.00%
USD/SGD	1.3745	1.3603	1.03%
USD/MYR	4.2393	4.1640	1.78%
USD/CNY	6.9752	6.8485	1.82%
USD/JPY	105.83	105.91	-0.08%
AUD/USD	1.3999	1.3557	3.16%
EUR/USD	0.8491	0.8378	1.33%
GBP/USD	0.7642	0.7480	2.13%

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

maintain economic stability, as well as strengthen policy coordination with the Government and relevant authorities to strengthen external sector resilience.

### Trade Balance

Indonesia's trade balance in July 2020 recorded a surplus of 3.26 billion US dollars, an increase compared to the previous month's surplus of 1.25 billion US dollars. This development was



influenced by an increase in the non-oil and gas trade balance surplus. With these developments, overall Indonesia's trade balance in January-July 2020 recorded a surplus of US \$ 8.75 billion, much higher than the achievement in the same period the previous year which experienced a deficit of US \$ 2.15 billion. Bank Indonesia views the trade balance surplus as a positive contribution to maintaining external resilience in 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.<sup>3</sup> Based on its components, the July 2020 non-oil and gas trade balance

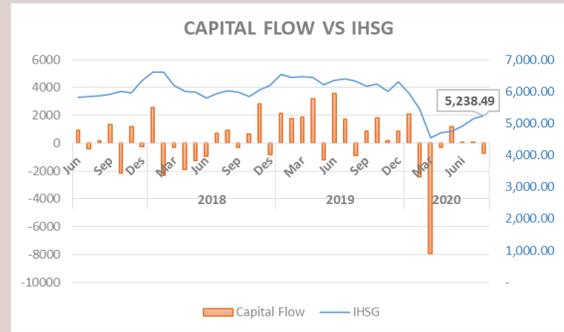


recorded a surplus of US \$ 3.52 billion, an increase compared to the previous month's achievement of US \$ 1.36 billion. Meanwhile, the oil and gas trade balance still experienced a deficit of 0.25 billion US dollars, mainly due to the increase in imports of crude oil and oil products.

<sup>3</sup> Bi.go.id

## Capital Flow

The Composite Stock Price Index plunged into the red zone in the second trading session Monday (31/8/2020). JCI tried to get out of the red zone but did not succeed until the end of the first session. The correction got worse in the second trading session. The performance of the Composite Stock Price Index (JCI) for the past two weeks immediately vanished after printing a correction of 108.17 or 2.02 percent to 5,238.48 at the end of trading on Monday, August 31, 2020. Fundamentally, there are market concerns about Indonesia's economic recession ahead of the announcement of Q3 / 2020 GDP caused the JCI to close in the negative zone at the end of August. <sup>4</sup>



## Exchange Rate

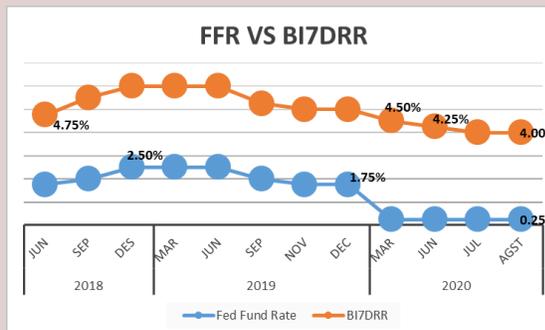
The rupiah exchange rate managed to move up 0.25 percent against the US dollar throughout August 2020, although it fell to a level of Rp14,845 per US dollar in the middle of the month. This performance was the rupiah's first strengthening in August since 2003. This is because, historically, the rupiah has always been corrected during August in line with the increasing demand for US dollars for dividend payments. The rupiah managed to adjust for its seasonal depreciation during the first half of August and turned stronger at the end of this month thanks to the significant weakness in the US dollar. The weakening of the US dollar was triggered by a dovish speech from the Chairman of the Fed, Jerome Powell, which gave a signal to keep interest rates at low levels for a long time. <sup>5</sup>



<sup>4</sup> Bisnis.com

<sup>5</sup> Bisnis.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 August 26-27, 2020. Chairman of the US central bank (the Federal Reserve) Jerome Powell said the benchmark interest rate is likely to remain low for years to come as the economy recovers due to the impact of the Covid-19 pandemic. On August 27, the Fed announced a change in policy direction. The Fed is ready to allow inflation to rise more than normal in order to move the labor market and the economy as a whole. This means that the Fed will allow inflation to rise moderately above the 2 percent target "for a while" after the previous period inflation had always failed to reach that target. This new policy means the Fed will tend to hold interest rates on hold when the unemployment rate decreases, as long as inflation does not rise. Usually, the Fed sees that a low unemployment rate will drive high inflation, so the Fed cuts interest rates before that happens.<sup>6</sup>

**The Board of Governors Meeting (RDG) of Bank Indonesia on 18-19 August 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 is consistent with the need to maintain external stability, amidst predicted inflation to remain low. Bank Indonesia emphasizes the quantity pathway through the provision of liquidity to promote economic recovery from the impact of the COVID-19 pandemic, including Bank Indonesia's support for the Government in accelerating the realization of the 2020 State Budget.<sup>7</sup>

<sup>6</sup> Beritasatu.com

<sup>7</sup> Bi.go.id

<b>Our View</b>						
<b>Macroeconomics Indicator and Forecast</b>						
	2015	2016	2017	2018	2019	2020f
<b>National Account</b>						
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%
<b>Other</b>						
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

**GDP** achievement or Indonesia's economic growth in the second quarter of 2020 it 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. As a result, economic growth for the time being will not be able to recover like it was before the Covid-19 pandemic. It is predicted that economic growth at the end of 2020 will be 0% (yoy) or not.

**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 because large-scale social restrictions since March have affected the purchasing power of the general public. However, it is still within Bank Indonesia's target of 3% ± 1.

**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 remains at that number until August 2020. Even there is a change in policy related to inflation. This new policy means that the Fed will tend to hold interest rates when the unemployment rate decreases, as long as inflation does not rise. Usually, the Fed sees that a low unemployment rate will drive high inflation, so the Fed cuts interest rates before that happens.

**BI7DRR** has also experienced cuts, but more than the Fed. BI7DRR has been trimmed 4 times throughout 2019. Until the end of the year there was still a further easing of interest rate cuts given the deflationary virus that has plagued the economy in the last two months.

**The rupiah exchange rate** against the US dollar was successfully closed in the green zone during trading in August 2020. The potential for strengthening is expected to continue in September 2020. The strengthening trend in the exchange rate was the first strengthening of the rupiah in August since 2003. This is because, historically, the rupiah has always corrected during August along with with an increasing need for US dollars for dividend payments. The strengthening factor for the Rupiah came from the weakening of the US dollar which was triggered by a dovish speech from the Chairman of the Fed, Jerome Powell, which gave a signal to keep interest rates at low levels for a long time. Rupiah can move in the range of 14,600-14,900 in September.