

## Economic Update

### August Highlight :

- Based on data from the Central Statistics Agency (BPS), the Consumer Price Index (CPI) in August 2021 experienced inflation of 0.03% (mtm), lower than inflation in July 2021 which was recorded at 0.08% (mtm).
- Based on data from the Central Statistics Agency (BPS), Indonesia's trade balance in July 2021 returned to a surplus of USD 2.59 billion, higher than the surplus in the previous month of USD 1.32 billion.
- The rupiah exchange rate strengthened again on the second day since the beginning of the week. The spot rupiah exchange rate was at Rp 14,268 per United States (US) dollar on Tuesday (31/8). Rupiah strengthened 0.71% when compared to the close of trading the previous day.
- The Bank Indonesia Board of Governors Meeting (RDG) on 18-19 August 2021 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 3.50%, the Deposit Facility interest rate at 2.75%, and the Lending Facility interest rate at 4.25%

### Gross Domestic Product



The Indonesian economy in the second quarter of 2021 recorded positive growth for the first time since the outbreak of the Covid-19 pandemic in early 2020, amounting to 7.07% (yoy). On a quarterly

basis, quarter II-2021 compared to the previous quarter experienced a growth of 3.31 percent (q-to-q).

Finance Minister Sri Mulyani Indrawati is optimistic that economic growth in the third quarter of 2021 will be in the range of the lower limit of 4% and the upper limit of 5.7% year on year (yoy). This is inseparable from the momentum of economic recovery that has taken place in the previous period.

Based on data from the Central Statistics Agency (BPS), the Consumer Price Index (CPI) in August 2021 experienced inflation of 0.03% (mtm), lower than inflation in July 2021 which was recorded at 0.08% (mtm).

An annual basis, CPI inflation in August 2021 was recorded at 1.59% (yoy), higher than the inflation in the previous month of 1.52% (yoy). The core group in August 2021 recorded inflation of 0.21% (mtm), an increase from the previous month's inflation of 0.07% (mtm).

In general, the increase in core inflation was driven by the seasonal pattern of the new school year and community mobility which began to increase in line with the relaxation of restrictions on community activities.

The volatile foods category experienced deflation of 0.64% (mtm) in August 2021, after inflation of 0.14% (mtm) was recorded in the previous month. This development was mainly driven by lower prices for various horticultural commodities, vegetables, and broiler meat in line with maintained supply supported by harvests in various production centers.

The administered prices group in August 2021 recorded inflation of 0.02% (mtm), slower than 0.05% (mtm) in the previous month. This development was mainly influenced by transportation fares, especially air transportation, which experienced deflation in line with limited air mobility.<sup>1</sup>

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

**Tabel 1. Economic Indicator**

Indicator	Jul	Ags
CPI (yoy)	1.52%	1.59%
CPI (mtm)	0.08%	0.03%
Trade Balance (USD Miliar)	2588.90	*
Foreign Reserves (USD Miliar)	137.3	144.8

\* unpublished

**Tabel 2. Economic Indicator**

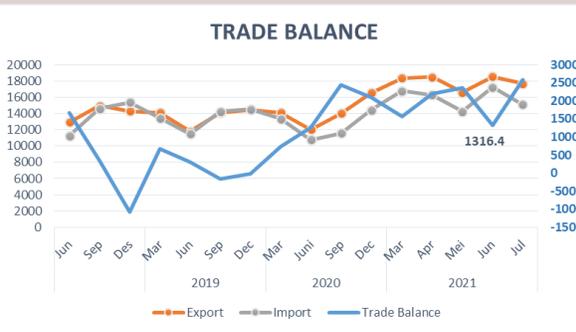
Indicator	Q1'21	Q2'21
GDP	-0.74%	7.07%
NPI (USD Million)	5520	-282
CAD (USD Million)	-997	-2200

\* unpublished

**Tabel 3. Commodity**

Commodity	Jul	Ags
Brent Oil (USD/Barrels)	76.33	72.99
WTI (USD/Barrels)	73.95	68.50
CPO (MYR/Metrictons)	4,656.00	4,254.00
Batu bara (USD/Metrictons)	149.75	174.25
Emas (USD/troy oz)	1,814.19	1,813.62

## Indonesia's Trade Balance

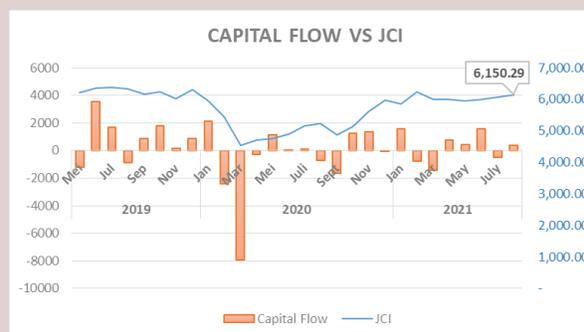


Based on data from the Central Statistics Agency (BPS), Indonesia's trade balance in July 2021 returned to a surplus of USD 2.59 billion, higher than the

### surplus in the previous month of USD 1.32 billion

With these developments, Indonesia's trade balance has continued to record a positive value since May 2020. Indonesia's trade balance in January-July 2021 as a whole recorded a surplus of 14.42 billion US dollars, much higher than the achievement in the same period in 2020 of 8.65 billion US dollars. The trade balance surplus in July 2021 was influenced by an increasing non-oil and gas trade balance surplus and a lower oil and gas trade balance deficit. The trade balance surplus in July 2021 was influenced by an increasing non-oil and gas trade balance surplus and a lower oil and gas trade balance deficit. In July 2021, the non-oil and gas trade balance surplus was USD 3.38 billion, higher than the surplus in June 2021 of USD 2.39 billion. Meanwhile, the oil and gas trade balance deficit decreased from 1.07 billion US dollars in June 2021 to 0.79 billion US dollars in July 2021, influenced by a deeper decline in oil and gas imports compared to oil and gas exports.<sup>2</sup>

## Capital Flow



The movement of the Composite Stock Price Index (JCI) tends to strengthen throughout August 2021

Since the end of July 2021 until the close of trading

Monday (30/8), the JCI recorded an increase of 1.23% to 6,144.90. Meanwhile, at the end of last month, the JCI was at the level of 6,070.04. The issue of tapering off the United States (US) which is scheduled for this year has become a negative catalyst affecting the JCI movement throughout August.

However, the JCI was finally able to strengthen again after it was announced that the Fed's interest rate was still maintained at a low

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

Tabel 4. Currencies			
Currencies	Jul	Agst	% Change
USD/IDR	14,463	14,268	1.35%
USD/HKD	7.7718	7.7771	-0.07%
USD/SGD	1.3544	1.3449	0.70%
USD/MYR	4.2205	4.1552	1.55%
USD/CNY	6.4614	6.4607	0.01%
USD/JPY	109.72	110.02	-0.27%
AUD/USD	1.3616	1.3669	-0.39%
EUR/USD	0.8424	0.8468	-0.52%
GBP/USD	0.7192	0.7270	-1.09%

Tabel 5. Rate		
Indicator	Jul	Ags
BI 7DRR	3.50%	3.50%
Fed Funds Rate	0.00 - 0.25%	0.00 - 0.25%

level. Interest rates will not increase until next year. For September 2021, market participants are expected to continue to watch the progress of vaccination and control of Covid-19 cases, as well as the policies that will be taken by the government. <sup>3</sup>

### Foreign Exchange

**The rupiah exchange rate strengthened again on the second day since the beginning of the week. The spot rupiah exchange rate was at Rp 14,268 per United States (US) dollar on Tuesday (31/8). Rupiah strengthened 0.71% compared to the previous day's closing.**



In two days, the rupiah has accumulated 1.04% strengthening since the weekend. The rupiah exchange rate is in its strongest position since mid-June after the government loosened the Java-Bali PPKM. All Asian currencies also strengthened against the greenback until trading this afternoon. The decline in domestic Covid-19 cases and the easing of the PPKM trade surplus, which was sufficient and the still dovish decision of the Fed, supported the strengthening of the rupiah exchange rate. <sup>4</sup>

**The Bank Indonesia Board of Governors Meeting (RDG) on 18-19 August 2021 decided to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 3.50%, the Deposit Facility interest rate at 2.75%, and the Lending Facility interest rate at 4,25%.**

This decision is in line with the need to maintain exchange rate and financial system stability, amidst low inflation forecasts and efforts to support economic growth. <sup>5</sup>

Meanwhile, **most Federal Reserve officials support the central bank to slow the pace of bond purchases later this year, assessing that sufficient progress has been made towards its inflation and employment goals.** "Various participants commented that economic and financial conditions are likely to warrant easing in the coming months," read the minutes of the July 27-28 Federal Open Market Committee meeting, released Wednesday (18/8/2021). However, several other meeting members indicated that a reduction in the pace of asset purchases is more likely early next year. The minutes also show that most participants consider it appropriate to start reducing the pace of asset purchases this year. <sup>6</sup>

<sup>3</sup> Kontan.co.id

<sup>4</sup> Kontan.co.id

<sup>5</sup> Bi.go.id

<sup>6</sup> Cnbciindonesia.com

<b>Our View</b>						
<b>Macroeconomics Indicator and Forecast</b>						
	2016	2017	2018	2019	2020	2021f
<b>National Account</b>						
GDP	5,03%	5,07%	5,17%	5,02%	-2,19%	3.50-4.50%
CPI (yoy)	3,58%	3,61%	3,13%	2,72%	1.68%	1.75-2.20%
<b>Other</b>						
FFR	0,75%	1,50%	2,50%	1,75%	0.25%	0.00-0.25%
BI7DRR	4,75%	4,25%	6,00%	5,00%	3.75%	3.00-3.50%
USD/IDR	13.461	13.554	14.394	13.866	14.050	14.100-14.400

**The achievement of Indonesia's GDP or economic growth** was quite encouraging in the second quarter of 21st. Even though economic performance is starting to improve, a number of challenges need to be watched out for. First, ironically, the lowest growth was even experienced by the agricultural sector, which during the pandemic, which always grew positively around 2.2 to 3.3 percent throughout 2020, starting from 2021 in the second quarter, it slumped to only 0.38 percent. Second, the impact of the pandemic has resulted in increased poverty and unemployment.

Inflationary pressures **Inflation** is expected to decrease in the September period and will increase again in December 2021. The increase in December 2021 is influenced by high demand during Christmas and New Year's preparations, as well as reduced availability of goods during religious holidays.

**The Fed** is predicted to implement a policy of increasing US interest rates, which can be fulfilled by the end of 2022. The Fed's Tapering Off issue which is predicted to occur in 2022 has the potential to cause the Fed to raise its benchmark interest rate so that BI must change interest rates to maintain capital flows.

**Bank Indonesia** is predicted to maintain the trend of low interest rates this year and will increase interest rates in 2022. Bank Indonesia (BI) will start reducing liquidity slack in 2022. One of them is by increasing the benchmark interest rate. Meanwhile, BI will continue to maintain the stability of the rupiah exchange rate to move on its fundamentals.

**The Rupiah exchange rate** tends to move sideways throughout August. It is projected that the movement of the September Rupiah will be influenced by signals that the Fed's interest rate hike, which could potentially be delayed, even if the Fed will start tapering this year, will lead to a stable Rupiah exchange rate.