

Economic Update

Highlight June :

- Consumer Price Index (CPI) inflation in June 2020 remained low which was recorded at 0.18% (mtm), although it was higher than the previous month inflation of 0.07% (mtm).

- Indonesia's foreign exchange reserves at the end of June 2020 amounted to 131.7 billion US dollars, an increase compared to the position of the end of May 2020 of 130.5 billion US dollars.

- Indonesia's trade balance in May 2020 recorded a surplus of 2.09 billion US dollars, after a deficit of 372.1 million US dollars in the previous month.

- The rupiah exchange rate experienced high volatility throughout semester I-2020. In the April to early June period, the Garuda currency was able to strengthen more than 15%. At the end of semester I-2020, precisely on Tuesday (6/30/2020) yesterday, the rupiah was at the level of Rp 14,265 / US \$.

- Bank Indonesia on 17-18 June 2020 decided to reduce the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.25%, the Deposit Facility interest rate by 25 bps to 3.50%, and the Lending Facility rate by 25 bps to 5.00%.

Gross Domestic Product

Indonesia's Economic Growth in the first quarter of 2020 was 2.97% (yoy), slowing compared to the previous quarter's achievement of 4.97% (yoy). The influence of COVID-

19 on Indonesia's economic growth is mainly on the decline in domestic demand. Household consumption is recorded at 2.84% (yoy), far lower than the performance in the fourth quarter of 2019 of 4.97% (yoy). Investment also slowed down by 1.7% (yoy) mainly influenced by slowing investment in buildings.



Consumer Price Index (CPI) inflation in June 2020 remained low which was recorded at 0.18% (mtm), although it was higher than the previous month inflation of 0.07% (mtm). This development was influenced by a decrease in core inflation and administered prices while volatile foods inflation experienced an increase. Annually, June 2020 CPI inflation was recorded at 1.96% (yoy), down from the previous month's inflation of 2.19% (yoy).

Low inflation was influenced by the core which slowed from 0.06% (mtm) in the previous month to 0.02% (mtm).

While volatile foods inflation recorded inflation of 0.77% (mtm), after the previous month deflation of 0.50% (mtm). Sourced from rising inflation in broiler chicken meat, eggs and coconut. **The administered prices group also recorded inflation of 0.22% (mtm), lower than the previous month of 0.67% (mtm).** Administered prices group inflation in June 2020 stemmed from increases in various transport fares after the relaxation of public transport operational restriction rules in early June 2020.¹

¹ Bi.go.id

Tabel 1. Economic Indicator

Indicator	May	June
Inflasi (yoy)	2.19%	1.97%
Inflasi (mtm)	0.07%	0.18%
Trade Balance (USD Billion)	2.09	*
Foreign Reserves (USD Billion)	130.5	131.7

* unpublished

Tabel 2. Economic Indicator

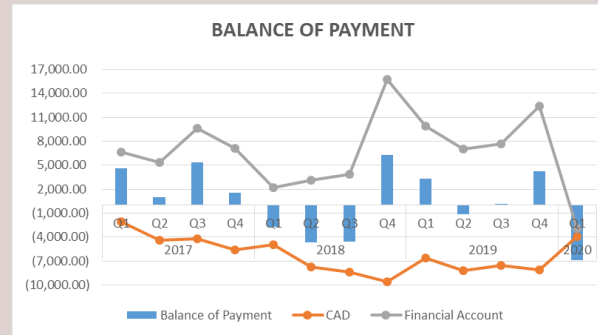
Indicator	Q4'19	Q1'20
GDP	4.97%	2.97%
NPI (USD Million)	(4,259)	(8,500)
CAD	(8,122)	(3,924)

Tabel 3. Comodity

Comodity	May	June
Brent Oil (USD/Barrels)	35.33	41.15
WTI (USD/Barrels)	35.49	39.27
CPO (MYR/Metrictons)	2,373.00	2,297.00
Coal (USD/Metrictons)	52.00	52.15
Gold (USD/troy oz)	1,730.27	1,780.96

Balance of Payment

Indonesia's Balance of Payments (NPI) performance in the first quarter of 2020



was maintained so as to sustain the stability of 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 a deficit in the fourth quarter of 2019 of USD 8.1 billion (2.8% of GDP). The declining deficit was mainly affected by an increase in the goods trade balance surplus and a decrease in the services account and primary income account deficit.

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

Indonesia's foreign exchange reserves at the end of June 2020 amounted to 131.7 billion US dollars, an increase compared to the position of the end of May 2020 of 130.5 billion US dollars. The position of foreign exchange reserves is equivalent to financing 8.4 months of imports or 8.1 months of imports and payments of government foreign debt, and is above the international adequacy standard of about 3 months of imports. The increase in foreign exchange reserves in June 2020 was mainly influenced by the issuance of government global sukuk.²

Looking ahead, the performance of the balance of payments is predicted to remain good so that it can sustain external sector resilience. The BOP outlook is supported by the current account deficit in 2020 which is predicted to be lower than 2.0% of GDP.

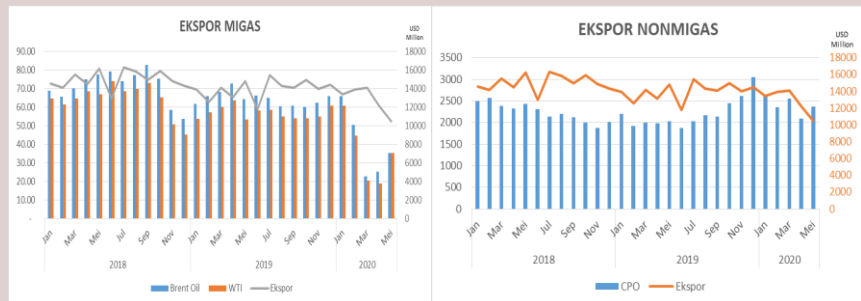
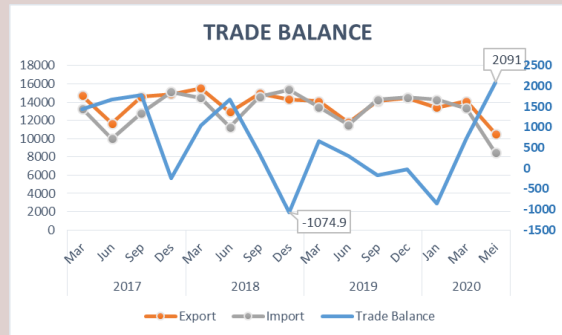
² Bi.go.id

Tabel 4. Currencies			
Currencies	May	June	% Change
USD/IDR	14,610	14,265	2.36%
USD/HKD	7.7512	7.7505	0.01%
USD/SGD	1.4135	1.3936	1.41%
USD/MYR	4.3465	4.2863	1.39%
USD/CNY	7.1364	7.0654	0.99%
USD/JPY	107.83	107.93	-0.09%
AUD/USD	1.4998	1.4486	3.41%
EUR/USD	0.9008	0.8902	1.18%
GBP/USD	0.8102	0.8064	0.47%

Tabel 5. Interest Rate		
Indicator	May	June
BI 7DRR	4.50%	4.25%
Fed Funds Rate	0.00 - 0.25%	0.00 - 0.25%

Trade Balance

Indonesia's trade balance in May 2020 recorded a surplus of 2.09 billion US dollars, after a deficit of 372.1 million US dollars in the previous month. By component, the surplus was mainly supported by a non-oil and gas trade balance surplus and an improvement in the oil and gas trade balance deficit. With these developments, Indonesia's overall trade balance in January-May 2020 recorded a surplus of 4.31 billion US dollars, higher than the achievements in the same period the previous year which recorded a deficit of 2.68 billion US dollars. Going forward, Bank Indonesia will continue to strengthen policy synergies with the Government and related authorities to improve external resilience, including the prospect of trade balance performance.³

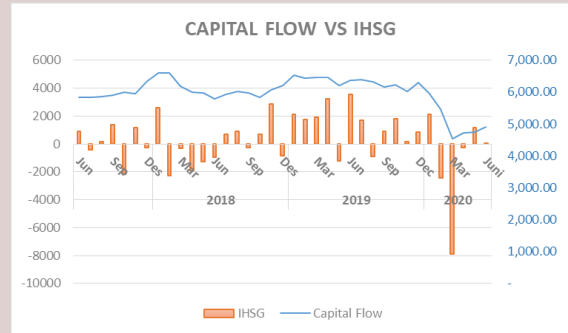


Completely, **The non-oil and gas trade balance in May 2020 recorded a surplus of 2.10 billion US dollars**, turned away from the previous month's deficit of 81.7 million US dollars. Influenced by a decline in non-oil and gas imports in line with weak domestic demand due to the outbreak of the impact of COVID-19. Meanwhile, non-oil and gas exports declined in line with the slowing global economic growth, although some commodities such as gold and iron and steel improved. **Oil and gas trade balance in May 2020 recorded a deficit of 5.4 million US dollars, lower than the deficit in the previous month of 290.4 million US dollars.** The improvement in the deficit was influenced by the decline in oil and gas imports in line with the decline in demand for crude oil and oil products, and an increase in oil and gas exports, especially gas mining.

Capital Flow

³ Bi.go.id

The JCI (composite stock price index) performance in the current semester I / 2020 was the lowest in the last 18 years. The Jakarta Composite Index rose 0.07 percent or 3.57 points to 4,905.392



on Tuesday (6/30/2020). The index movement recorded a correction of 22.13 percent throughout the current period semester I / 2020. In addition to recording the lowest decline, the JCI's performance was also the lowest compared to other indexes in the Asia Pacific region on a year to date (ytd) basis. 22.13 percent correction was deeper than some regional indexes such as NIKKEI, Hang Seng, and Kospi.⁴ In the future, economic uncertainty is still high in Indonesia where there are 3 influencing factors. First, the release of weak business and consumer confidence data. Second, the potential for rupiah depreciation due to the limited stimulus space of the central bank in the world. Third, the increasing number of Covid-19 cases at home.

Exchange Rate

The rupiah exchange rate experienced high volatility throughout semester I-2020. Had become the best currency in the world in January, the rupiah actually collapsed in March to touch the weakest level since



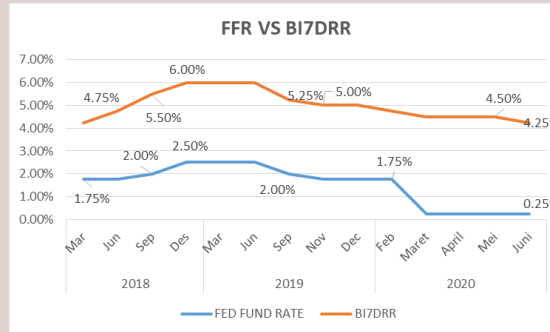
the 1998 monetary crisis. In the period from April to early June, the Garuda currency was able to strengthen more than 15%. At the end of semester I-2020, precisely on Tuesday (6/30/2020) yesterday, the rupiah was at the level of Rp 14,265 / US \$. So that in the first six months of this year, the rupiah weakened 2.16%. Compared to major Asian currencies, the rupiah is in the middle of the standings until the middle of this year. The majority experienced weakening, only 4 currencies that managed to strengthen. The Philippine peso is the best performing currency after rising 1.80%. While the worst currency carried by Indian rupees which weakened 5.87%. Entering semester II-2020, the challenges facing the rupiah are quite heavy, various

⁴ Bisnis.com

institutions predict that the global recession will deepen. Especially now that there is a risk of a second wave of Covid-19 attacks.⁵

Interest Rate

The central bank of the United States / The Fed decided to hold the benchmark interest rate in the range of current levels. The Fed, in a meeting of the



Open Market Committee (FOMC) held on 9-10 June 2020, decided to maintain the target range of the benchmark interest rate, as known as fed fund rate (FFR) of 0% to 0.25%. The Fed's

decision considers the ongoing public health crisis that will burden economic activity, employment, and inflation in the near future, and poses a great risk to the economic outlook in the medium term.

Bank Indonesia on 17-18 June 2020 decided to reduce the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 4.25%, the Deposit Facility interest rate by 25 bps to 3.50%, and the Lending Facility rate by 25 bps to 5.00%. This decision is consistent with efforts to maintain economic stability and encourage economic recovery in the COVID-19 era. Going forward, Bank Indonesia will continue to see room for lower interest rates in line with low inflationary pressure, maintained external stability, and the need to boost economic growth. The policy of stabilizing the Rupiah exchange rate and easing liquidity (quantitative easing) will continue. Bank Indonesia also decided to provide current account services to banks that fulfill their statutory reserve requirement in Rupiah both daily and an average of 1.5% per annum with a share calculated to receive current account services of 3% from DPK, effective on August 1, 2020.⁶

⁵ Cnbcindonesia.com

⁶ Bi.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%	0,05%
Inflasi (yoy)	3,35%	3,58%	3,61%	3,13%	2,72%	2,70%
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%	4,00%
USD/IDR	13.792	13.461	13.554	14.394	13.866	14.500-15.000

The achievement of **GDP or Indonesia's economic growth** in the first quarter of 2020 missed Bank Indonesia's prediction. BI predicts Indonesia's economic growth could reach 4.40% in the first quarter of 2020 but the realization of Indonesia's economic growth recorded only 2.97% affected by the Covid-19 pandemic that began to erupt in early 2020. Projections of the Indonesian economy in the second quarter are projected to decline because it is affected by global conditions that are affected by the spread of the Covid-19 Virus outbreak, it does not even rule out the possibility of Indonesia's economic growth posting a minus in the worst scenario at the end of 2020. The Indonesian economy is affected by the Corona Virus from tourism, trade, and investment routes.

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 not change much compared to the previous year the impact of co-19 on the Indonesian economy, where the potential slowdown in the domestic economy includes a decrease in the rate of household consumption so that it will limit the pressure of demand pull inflation.

The Fed Funds Rate has been cut three times in 2019. The Fed has cut its benchmark interest rate to 100 basis points (bps) to 0-0.25% as of March 15, 2020. This is the second step in 2020. It is predicted that there will still be the room for further interest rate cuts is even possible to the minus level as an anticipatory measure if there are still 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 pruned again in February, March and most recently carried out in June 2020. It is predicted 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 Bank Indonesia.

The Rupiah exchange rate against the US Dollar experienced a sharp weakening after strengthening throughout January but could rise in May and was quite stable in June in the range of Rp. 14,000.00. The reason for this is that optimism about economic recovery has strengthened in line with the reopening of economic activity in various countries so that investors have begun to glance at risky assets including the Rupiah. But with the high positive rise of Covid-19 in Indonesia, the Rupiah still has the potential to weaken. It is predicted that the Rupiah will still move in the range of 14,200-14,600 in July.