

Economic Update

October's Highlight :

- Indonesia's economic growth in the third quarter of 2020 improved. On an annual basis, the improvement in the domestic economy was also evident from the reduction in growth contraction to 3.49% (yoy) from the contraction in the second quarter of 2020 of 5.32% (yoy).
- The Consumer Price Index (CPI) in October 2020 recorded inflation of 0.07% (mtm), after experiencing consecutive deflation in the previous three months
- The position of Indonesia's foreign exchange reserves at the end of October 2020 remained high at 133.7 billion US dollars, although it decreased compared to the position at the end of September 2020 of 135.2 billion US dollars.
- Indonesia's trade balance in September 2020 recorded a surplus of 2.44 billion US dollars. This development continued the previous month's surplus of US \$ 2.35 billion, so that Indonesia's trade balance in the third quarter of 2020 recorded a surplus of US \$ 8.03 billion.

Gross Domestic Product

Indonesia's economic growth in the third quarter of 2020 improved, driven by the increased realization of the Government stimulus as well as improving mobility of the people and global

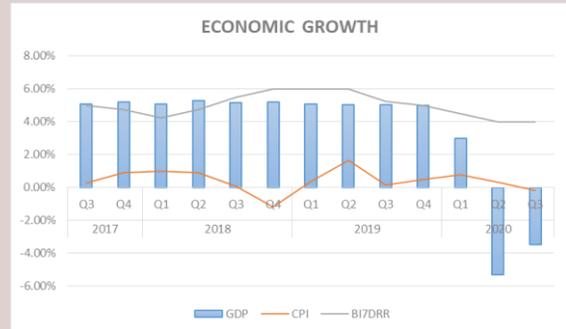
demand. The Indonesian economy in the third quarter of 2020 grew at a high rate of 5.05% (qtq), after experiencing a contraction of 4.19% (qtq) in the previous quarter.

On an annual basis, the improvement in the domestic economy was also evident from the reduction in growth contraction to 3.49% (yoy) from the contraction in the second quarter of 2020 of 5.32% (yoy).

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.¹

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 October 2020 recorded an inflation of 0.07% (mtm), after experiencing consecutive deflation in the previous three months. This development was influenced by core inflation that remained low amid rising inflation in the volatile food category and lower deflation in the administered prices category. Annually, CPI inflation in October 2020 was recorded at 1.44% (yoy), slightly up from last month's inflation of 1.42% (yoy).

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.²



¹ Bi.go.id

² Bi.go.id

Tabel 1. Economic Indicator

Indicator	September	October
Consumer Price Index (yoy)	1.42%	1.44%
Consumer Price Index (mtm)	-0.05%	0.07%
Trade Balance (USD Billion)	2.44	*
Foreign Reserves (USD Billion)	135.2	133.7

*unpublished

Tabel 2. Economic Indicator

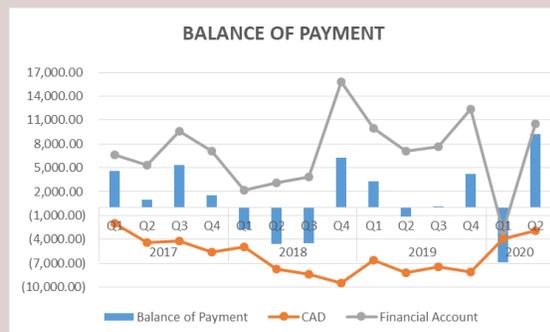
Indicator	Q2'20	Q3'20
GDP	-5.32%	-3.49%
NPI (USD Billion)	(7,628)	*
CAD (USD Billion)	(2,896)	*

*unpublished

Tabel 3. Comodity

Comodity	September	October
Brent Oil (USD/Barrels)	40.95	37.46
WTI (USD/Barrels)	40.22	35.79
CPO (MYR/Metrictons)	2,839.00	3,252.00
Batu bara (USD/Metrictons)	58.60	58.20
Emas (USD/troy oz)	1,885.82	1,878.81

Indonesia's 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 October 2020 remained high at 133.7 billion US dollars, although it decreased compared to the position at the end of September 2020 of 135.2 billion US dollars.** The position of foreign exchange reserves is equivalent to financing 9.7 months of imports or 9.3 months of imports and servicing of government external debt, and is above the international adequacy standard of around 3 months of imports. Bank Indonesia assesses that the foreign exchange reserves are capable of supporting external sector resilience and maintaining macroeconomic and financial system stability. The decline in foreign exchange reserves in October 2020 was influenced in part by the payment of government external debt. Going forward, Bank Indonesia views that foreign exchange reserves will remain adequate, supported by stability and maintained economic prospects, along with various policy responses to promote economic recovery.³

³ Bi.go.id

Tabel 4. Currencies			
Currencies	September	October	% Change
USD/IDR	14,880	14,625	1.71%
USD/HKD	7.7500	7.7522	-0.03%
USD/SGD	1.3654	1.3664	-0.07%
USD/MYR	4.1565	4.1558	0.02%
USD/CNY	6.7910	6.6915	1.47%
USD/JPY	105.48	104.66	0.78%
AUD/USD	1.3962	1.4228	-1.91%
EUR/USD	0.8532	0.8586	-0.63%
GBP/USD	0.7740	0.7724	0.21%

Indonesia's Trade Balance

This surplus increased significantly compared to the surplus in the previous quarter of US \$ 2.89 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 trade balance performance

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

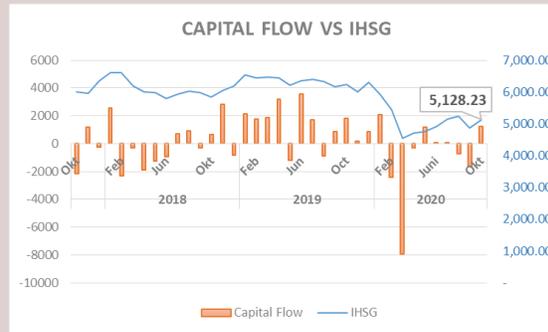
The September 2020 trade balance surplus was mainly influenced by the return to the surplus in the non-oil and gas trade balance. The September 2020 non-oil and gas trade balance recorded a surplus of 2.91 billion US dollars. This development was influenced by the



increase in non-oil and gas exports, especially in the commodity of iron and steel, animal / vegetable fats and oils, as well as vehicles and their parts. Meanwhile, non-oil and gas imports, especially in the raw materials and capital goods category, experienced an increase in line with gradual improvement in economic activity

⁴ Bi.go.id

Capital Flow



The Jakarta Composite Index (JCI) throughout October 2020 was quite fantastic, which jumped more than 5%. The improving mood of investors on global financial markets has

increased interest in risky assets. Throughout October 2020, JCI strengthened 5.3% point-to-point. JCI managed to end this October above 5,100 or more precisely at the level of 5,128.23 on Tuesday's trading (27/10/2020).⁵ Several polls put Biden in the lead over Republican candidate Donald Trump. This win will push for a bigger economic stimulus package and reduce the potential for a trade war with China. In addition, corporate taxes in the US are also expected to increase. This will push the US dollar weaker and will be positive for emerging markets, including Indonesia.⁶

Foreign Exchange



The exchange rate strengthened quite sharply against the United States dollar (US) throughout October. The Garuda currency is even able to strengthen every week. However, the strengthening of the

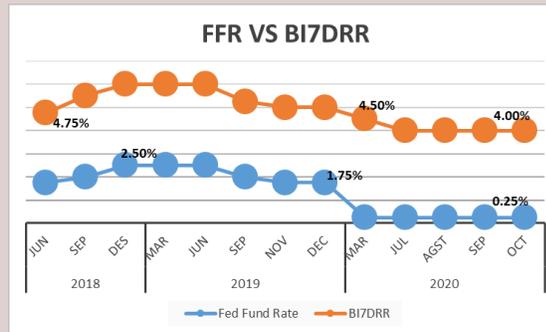
rupiah cannot be separated from the sluggish US dollar. This is indicated by the strength of the majority of major Asian currencies. According to Refintiv data, throughout October the rupiah strengthened 1.48%. With this strengthening, the rupiah became the runner up in Asia, only losing to the South Korean won which shot up 2.42%. Factors affecting, among others, the US dollar came under pressure in October, only last week it started to rise after the fiscal stimulus in the US was confirmed not to be disbursed before the presidential election (pilpres) Tuesday, November 3 local time. On the other hand, the rupiah got the energy to strengthen after the Large-Scale Social Restrictions (PSBB) in DKI Jakarta were finally loosened again last month.⁷

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⁶ Bareksa.com

⁷ Cnbcnindonesia.com

Interest Rate



On Wednesday (7/10), the Fed released the minutes of their latest meeting. The minutes showed that Fed officials have serious concerns about cutting fiscal support. The potential for congress to endorse a

new stimulus package before the presidential election on November 3 is slim. This is evident from President Donald Trump's decision to break off negotiations with Democrats. The Fed's Minutes also include a meeting of the central bank on September 15-16. At that time, officials left their policy interest rates unchanged at record lows near zero. The move hints at the possibility of the central bank keeping interest rates at extremely low levels, at least until 2023.⁸

Meanwhile, the **Bank Indonesia Board of Governors Meeting (RDG) on 12-13 October 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%.** This decision takes into account the need to maintain the stability of the Rupiah exchange rate, amidst the predicted low inflation. 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.⁹

⁸ Kompas.com

⁹ 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%	-1,50-3,00%
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

Indonesia's GDP achievement or economic growth in the third quarter of 2020 improved even though a recession was inevitable. In the fourth quarter, it is predicted that economic growth will still record negative or contractionary but not as deep as the third quarter. Indicates that the economy is gradually recovering.

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 even though in October inflation was recorded after experiencing deflation for 3 consecutive months.

The Fed, cut its benchmark interest rate by 100 basis points (bps) to 0-0.25% as of March 15, 2020 and it will last until October 2020. There has even been a change in inflation-related policy, this new policy means the Fed will tend to hold interest rates when the unemployment rate decreases, as long as inflation does not rise. The sentiment of the US presidential election which was won by Joe Biden will contribute to changes in US economic policy in the future.

BI7DRR was maintained at 4.00% in October 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. From internally about BI independence, the pros and cons of the Omnibus Law on the Job Creation Law and vaccination regulations. Meanwhile, from the external side, it benefited from the issue of the US election, so that it is predicted that the movement of the Rupiah at the end of November will only have limited strength.