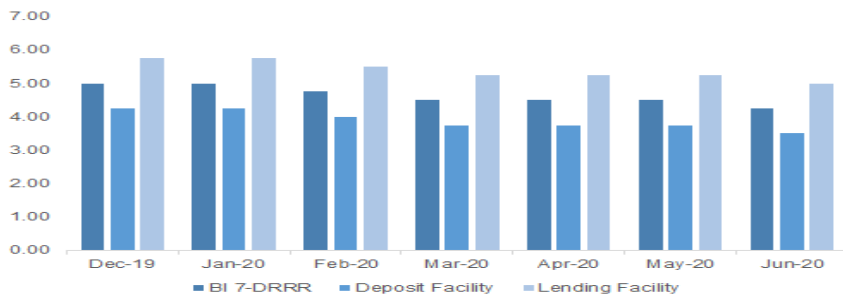


Macroeconomic Report

Low Inflation Cut BI 7-DRRR by 25Bps

BI 7-DRRR Movement



Source: Bloomberg, NHKSI Research

Room for Further Rate Cut

Bank Indonesia (BI) trimmed the benchmark interest rate BI 7-Days Reverse Repo Rate (BI 7-DRRR) of June 2020 by 25 bps to 4.25%. Before the cut, the BI 7-DRRR was kept at level 4.50% for the past two months. Along with the benchmark interest rate, BI also slashed the deposit facility rate by 25 bps to 3.5% and lending facility rate also by 25 bps to 5%. This cut is in line with improvement in some indicators, such as: low inflation, strengthening rupiah exchange rate, and Indonesia's external economic stability. The slash of BI 7-DRRR is unanimous with the projection of narrower Current Account Deficit (CAD) at around 1.5% to the Gross Domestic Product (GDP). The numbers are better than the projected 2.5%-3% to GDP. Currently, the economic growth depends on the effectivity of the coronavirus outbreak treatment.

Low Inflation, Stable Rupiah

Indonesia's inflation rate in May 2020 is relatively low at 2.19% YoY or 0.91% YtD. The BI 7-DRRR cut and the low inflation are expected to increase cash circulation in the society, and boost their purchasing power. The exchange rate of rupiah is also stable. Rupiah against US Dollar hovers around Rp14,610/USD to Rp15,100/USD in May 2020. It is stronger compared to the previous month which shifted in the range of Rp14,882/USD to Rp16,495/USD. The rupiah appreciation against the US Dollar is supported by the foreign exchange reserves in May 2020 that soared by USD2.66 billion to USD130.50 billion.

Negative Economic Growth

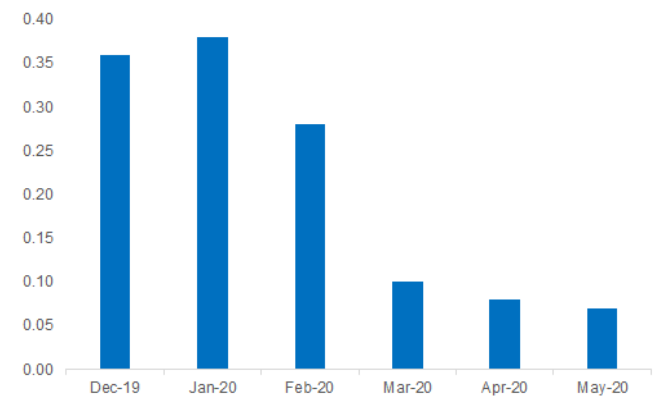
We see that the rate cut to BI 7-DRRR is carried out the middle of negative domestic economic growth. The government projected that Indonesia's economic domestic rate in 2020 is between -0.4% to +1%. This number is lower than the previous projection at -0.4% to 2.3%. It was revised as the government saw the potential significant contraction in 2Q20. This is also the reason BI is projected to still have room for further interest rate reduction. The 2020 economic rate will also rely on the government's ability to restore the economy in 3Q20 and 4Q20. With the growth realization in 1Q20 of 2.97%; 2Q20 and 3Q20 projected to be -3.1% and 0%, the government should at least make up for it in 4Q20 with 2.43% economic growth, to make sure that the economic growth in 2020 remains at 2.3%

Arief Machrus

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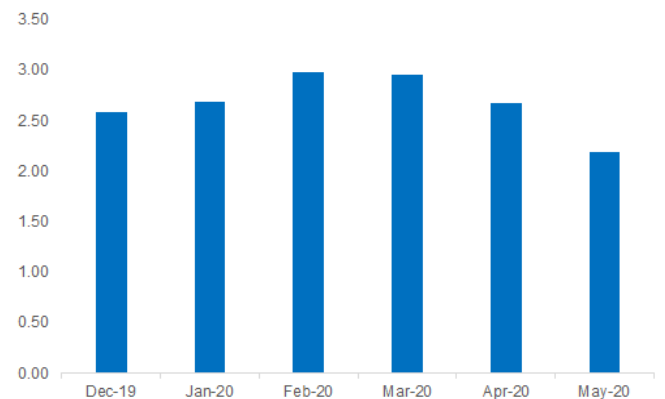
Please consider important disclaimer

Inflation MoM Movement | Dec. 19 - May 20



Source: Bloomberg, NHKSI Research

Inflation YoY Movement | Dec. 19 - May 20



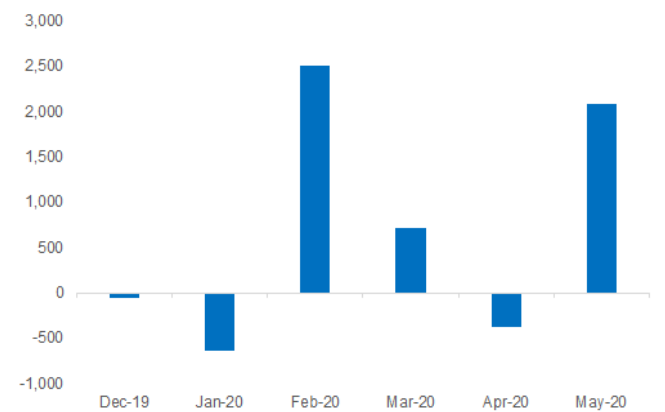
Source: Bloomberg, NHKSI Research

USD/IDR Movement | Dec. 20 - May 20



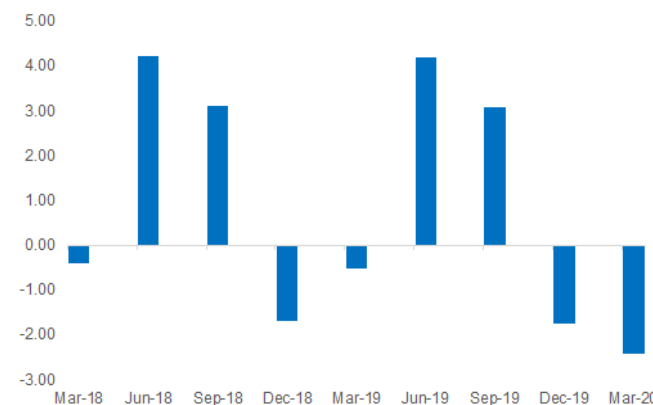
Source: Bloomberg, NHKSI Research

Trade Balance Movement | Dec. 19 - May 20



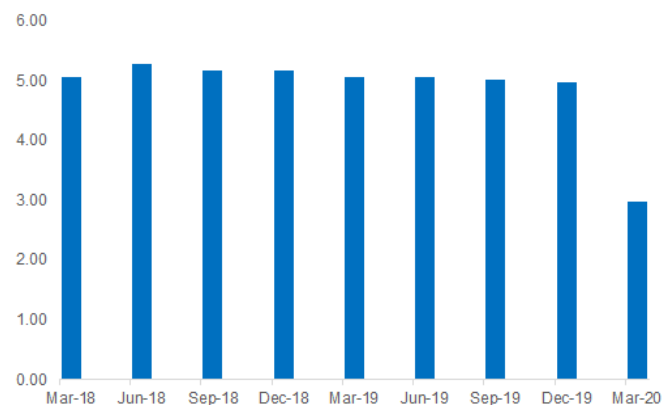
Source: Bloomberg, NHKSI Research

GDP QoQ Movement | Dec. 18 - May 20



Source: Bloomberg, NHKSI Research

GDP YoY Movement | Dec. 18 - May 20



Source: Bloomberg, NHKSI Research

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