MONETARY POLICY REPORT
QUARTER I 2020
Bank Indonesia has a single overarching mandate, namely to achieve and maintain rupiah stability. Nevertheless, rupiah stability encompasses two aspects, namely price stability of goods and services, as reflected in stable inflation, as well as rupiah exchange rate stability to currencies in other countries. The Government has set the inflation target for 2020 at 3.0±1%. To that end, Bank Indonesia implements sustainable, consistent and transparent monetary policy that also pays due regard to the prevailing economic policies of the Government. In pursuance of its mandate, Bank Indonesia institutes an optimal mix of monetary, macroprudential, payment system and rupiah currency management policies.

Bank Indonesia regularly publishes the Monetary Policy Report each quarter after the Board of Governors Meeting has been convened in February, May, August and November. The Report has two primary functions, namely: (i) to provide economic data, analysis and projections to help form and anchor rational expectations as part of the anticipative monetary policymaking framework; and (ii) as a medium for the Board of Governors to publicly explain and clarify the various considerations underlying monetary policy decision-making at Bank Indonesia.

### The Board of Governors

PERRY WARJIYO  
Governor

DESTRY DAMAYANTI  
Senior Deputy Governor

ERWIN RIJANTO  
Deputy Governor

SUGENG  
Deputy Governor

ROSMAYA HADI  
Deputy Governor

DODY BUDI WALUYO  
Deputy Governor
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The COVID-19 pandemic has stifled global economic growth, while the impact on global financial market uncertainty has begun to ease. Consistent with the spread of COVID-19, economic growth in most countries around the world declined sharply in the first quarter of 2020. The economies of China, Europe, Japan, Singapore and the Philippines slipped into contraction in the first quarter of 2020, while US economic growth fell precipitously to 0.3%. The latest developments in April 2020 revealed a significant risk of global economic recession, with several early indicators contracting, including manufacturing and services as well as consumer and business confidence. In response, world trade volume is contracting as commodity and oil prices slide. With the economic contraction predicted to persist until the third quarter of 2020, Bank Indonesia is projecting global economic growth in 2020 at -2.2%, before rebounding in 2021 to 5.2% on the back of the positive impact of ultra-accommodative policies in various countries coupled with the base effect. Meanwhile, global financial market uncertainty spiked in March 2020, triggered by the impact of the COVID-19 pandemic. Thereafter, the global policy response has eased global financial market uncertainty and reduced the intensity of capital outflows from developing countries, accompanied by milder pressures on exchange rates in developing economies, including Indonesia.

The COVID-19 pandemic has also affected domestic economic growth. National economic growth in Indonesia was recorded at 2.97% (yoy) in the first quarter of 2020, down from 4.97% (yoy) in the previous period. Nevertheless, external sector resilience remains solid. The current account deficit narrowed to less than 1.5% of GDP in the first quarter of 2020 from 2.8% of GDP in the fourth quarter of 2019 and a high position of reserve assets has been maintained. After succumbing to intense pressures in March 2020, the rupiah regained lost value in April 2020 as global financial market uncertainty eased and confidence in Indonesia’s economic outlook was maintained.
addition, inflation remains low, thereby supporting economic stability. Liquidity in the banking industry is adequate, thus supporting low interest rates. Financial system stability has been maintained, although the potential risks associated with the COVID-19 pandemic must be anticipated. Bank Indonesia predicts national economic growth to decline in Indonesia in 2020 in line with the COVID-19 impact. In 2021, however, domestic economic growth momentum is expected to rebound on global economic gains and the lingering impact of policy stimuli. Furthermore, Bank Indonesia predicts a narrower current account deficit at below 2.0% of GDP in 2020, accompanied by low and stable inflation in the 3.0%±1% range for 2020-2021 in line with policy consistency by Bank Indonesia to maintain price stability as well as policy coordination with the central and local governments.

Bank Indonesia implemented various policies from February-May 2020 to contain the economic impact of COVID-19. Bank Indonesia lowered the monetary policy rate (BI7DRR) by 25bps in February and March 2020 to 4.5%. Policy to stabilise and strengthen the rupiah was implemented by increasing the intensity of intervention in the spot and DNDF markets and purchasing tradable government securities (SBN) in the secondary market. Bank Indonesia also increased instruments and transactions in the money market and foreign exchange market, including hedging instruments against rupiah currency risk through DNDF transactions, FX swaps and term repurchase agreements with the banking industry as well as accommodative macroprudential policy to stimulate bank lending in the business community and economy.

The BI Board of Governors agreed on 18th and 19th May 2020 to hold the BI 7-Day Reverse Repo Rate at 4.50%, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 3.75% and 5.25% respectively. The decision carefully weighs the need to maintain exchange rate stability against a backdrop of global financial market uncertainty, although Bank Indonesia acknowledges sufficient room to lower interest rates in line with mild inflationary pressures and the need to stimulate economic growth, particularly in 2020. Furthermore, Bank Indonesia has continued to strengthen its policy mix currently oriented towards mitigating the risks associated with COVID-19, maintaining money market and financial system stability as well as acting in synergy with the Government and other relevant authorities to accelerate the National Economic Recovery.
Global Economic Developments

The COVID-19 pandemic has stifled global economic growth. Consistent with the spread of COVID-19 and various containment measures that restrict public activity, economic growth declined sharply in most countries around the world in the first quarter of 2020. The latest developments in April 2020 revealed a significant risk of global economic recession, with several early indicators contracting, including manufacturing and services as well as consumer and business confidence. In response, world trade volume is contracting as commodity prices slide. With the economic contraction predicted to persist until the third quarter of 2020, Bank Indonesia is projecting global economic growth in 2020 at -2.2%, before rebounding in 2021 to 5.2% on the back of the positive impact of policies in various countries coupled with the base effect. Meanwhile, global financial market uncertainty spiked in March 2020, triggering capital outflows in many countries, including developing economies, towards safe-haven assets. Nevertheless, global financial market uncertainty has shown early signs of easing, thereby reducing the intensity of capital outflows from developing countries, accompanied by milder pressures on exchange rates in developing economies.
Growing Risk of Global Economic Recession

The COVID-19 pandemic continued to spread to all corners of the globe during the reporting period, while China has effectively started to flatten the infection curve. The COVID-19 pandemic has transmitted quickly outside of China, reaching all parts of the world. As of 18th May 2020, the COVID-19 pandemic had impacted 214 countries, accounting for 99.8% of global GDP, with total confirmed cases exceeding 4.7 million and epicentres in the United States and Europe (Table 1.1). Meanwhile, the COVID-19 outbreak in China passed its peak towards the middle of March 2020, with total confirmed cases and the fatality rate declining, accompanied by an increase of recoveries. The recent improvements in China prompted the government to relax mobility restrictions and kickstart production activity towards a New Normal.

Various estimates predict that the impact of the COVID-19 pandemic will begin to subside in the third quarter of 2020 as the rate of transmission starts to decline in most countries. Based on additional confirmed cases, the global COVID-19 pandemic entered the peak phase in the middle of May 2020 (Graph 1.1). Transmission in China and South Korea has entered the final phase, while countries in Europe, Japan and Singapore have passed the peak and the United States is currently peaking. In addition, the global fatality rate has begun to stabilise. Although the number of confirmed cases has started to decline, countries are remaining vigilant of a potential second wave caused by relaxing personal mobility and travel restrictions between regions and across borders.

Global transmission of the COVID-19 pandemic has severely curbed global economic growth. COVID-19 containment measures through strict mobility and travel restrictions between regions and across borders have drastically compressed demand and disrupted the global value chain. The latest global economic indicators point to a sharp contraction in the first quarter of 2020. Manufacturing has slipped into significant contractions around the world, marked by steep declines in the Purchasing Managers Index (PMI) recorded in the United States, Europe, Japan, China and India (Graph 1.2). In addition, the services sector is experiencing a deeper contraction than the manufacturing industry in many countries (Graph 1.3). Compounding conditions, consumer and business confidence are retreating in line with compressed demand and production disruptions.

Such inauspicious developments have severely hampered economic growth in advanced and emerging economies. In the first quarter of 2020, economic growth in the United States fell sharply to 0.3%, with a contraction predicted for the second quarter of 2020. Economic moderation stems from the spillover effect of the economic slowdown experienced in China during January and February 2020, coupled with the

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**Table 1.1 COVID-19 Confirmed Cases**

<table>
<thead>
<tr>
<th>No</th>
<th>Country</th>
<th>Confirmed Cases</th>
<th>Total Deaths</th>
<th>Fatality Rate (%)</th>
<th>Total Recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>1,527,664</td>
<td>90,978</td>
<td>5.96</td>
<td>346,389</td>
</tr>
<tr>
<td>2</td>
<td>Russia</td>
<td>281,752</td>
<td>2,631</td>
<td>0.93</td>
<td>67,373</td>
</tr>
<tr>
<td>3</td>
<td>Spain</td>
<td>277,719</td>
<td>27,650</td>
<td>9.96</td>
<td>195,945</td>
</tr>
<tr>
<td>4</td>
<td>UK</td>
<td>243,695</td>
<td>34,636</td>
<td>14.21</td>
<td>N/A</td>
</tr>
<tr>
<td>5</td>
<td>Brazil</td>
<td>241,080</td>
<td>16,118</td>
<td>6.69</td>
<td>94,122</td>
</tr>
<tr>
<td>6</td>
<td>Italy</td>
<td>225,435</td>
<td>31,908</td>
<td>14.15</td>
<td>125,176</td>
</tr>
<tr>
<td>7</td>
<td>France</td>
<td>179,569</td>
<td>28,108</td>
<td>15.65</td>
<td>61,213</td>
</tr>
<tr>
<td>8</td>
<td>Germany</td>
<td>176,651</td>
<td>8,049</td>
<td>4.56</td>
<td>153,400</td>
</tr>
<tr>
<td>9</td>
<td>Turkey</td>
<td>149,435</td>
<td>4,140</td>
<td>2.77</td>
<td>109,962</td>
</tr>
<tr>
<td>10</td>
<td>Iran</td>
<td>120,198</td>
<td>6,988</td>
<td>5.81</td>
<td>94,464</td>
</tr>
<tr>
<td>11</td>
<td>Indonesia</td>
<td>17,514</td>
<td>1,148</td>
<td>6.55</td>
<td>4,129</td>
</tr>
<tr>
<td>12</td>
<td>Rest of Affected Countries</td>
<td>1,358,554</td>
<td>64,165</td>
<td>4.72</td>
<td>604,393</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4,799,266</td>
<td>316,519</td>
<td>6.60</td>
<td>1,856,566</td>
</tr>
</tbody>
</table>

Source: www.worldometers.info/coronavirus; as of May 18th, 2020

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COVID-19 outbreak in the United States since March 2020. Meanwhile, Europe's economy contracted -3.3% (yoy) in the reporting period due to weak domestic demand and exports in line with economic headwinds impacting several European countries. China's economy recorded a -6.8% (yoy) contraction in the first quarter of 2020 as a result of mobility restrictions to contain the COVID-19 pandemic, which have restrained various economic activities.

The global economy is predicted to contract in 2020, congruent with intense downside risks, before recovering in 2021. The latest developments in April 2020 revealed a significant risk of global economic recession, with several early indicators contracting, including manufacturing and services as well as consumer and business confidence. With the economic contraction predicted to persist until the third quarter of 2020, Bank Indonesia is projecting global economic growth in 2020 at -2.2%. Bank Indonesia has downgraded its global economic growth projection based on a larger economic impact caused by COVID-19 than previously expected together with the second-round impact of a deep economic contraction in China. Nevertheless, Bank Indonesia anticipates global economic growth to rebound in 2021 to 5.2% on the back of accommodative policies in various countries coupled with the base effect. The projection is consistent with the International Monetary Fund (IMF) and latest edition of the Consensus Forecast (Table 1.2).

Various jurisdictions have adopted ultra-accommodative policies to mitigate the growing risk of recession. The global monetary policy response has been dominated by lower interest rates and liquidity injections. Since the beginning of 2020, the authorities have lowered policy rates by 30-150bps, with the US Federal Reserve and Bank of Canada implementing 150bps reductions. Accommodative monetary policy has also been realised through large-scale quantitative easing (QE) using various instruments, including purchasing government bonds, reducing reserve requirements as well as emergency purchase programs. In terms of fiscal policy, the authorities in many countries have provided stimuli ranging from 0.1-20% of GDP, raising health budgets, increasing and expanding social safety nets as well as supporting the business community through tax breaks and preparing budgets for the national economic recovery program.
World Trade and Commodity Prices in Decline, Inflation Low

Global economic moderation is affecting world trade. The global economic slowdown caused by the COVID-19 pandemic has compressed demand for exported and imported goods, thus reducing trade volume (Graph 1.4). In the first quarter of 2020, world trade volume contracted 2.5%, due to the economic impact of the COVID-19 pandemic in China in February, which was subsequently transmitted to other countries in March 2020. Demand for US exports has declined due to weaker demand from major trading partners, namely China and Europe. Demand for European exports has also faded in line with lower demand from the UK and Switzerland. Consequently, world trade volume is predicted to contract in 2020 before rebounding in 2021 along with global economic recovery.

Global economic headwinds, including suppressed world trade, have fed through to lower commodity prices. Overall, export prices of Indonesian commodities experienced a contraction as of 15th May 2020, despite prices of crude palm oil (CPO), nickel and coffee continuing to rise on limited supply and inclement weather. Other commodity prices, dominated by mining commodities, have fallen on compressed global demand (Table 1.3). Consequently, negative growth of export prices is expected in Indonesia for 2020 in line with the deep demand contraction predicted for the second quarter of 2020. Such developments demonstrate the dominant influence of demand on export prices rather than supply-side disruptions, including distribution and logistics. In 2021, export commodity prices are expected to improve as global demand regains momentum. The global oil price has also come down in line with weaker demand despite production cuts implemented by OPEC+ and non-OPEC countries.
Financial Market Uncertainty is Increasing

The COVID-19 pandemic heightened global financial market uncertainty in the first quarter of 2020, triggering a capital reversal towards safe-haven assets (flight-to-quality). Since the end of February 2020, global financial market uncertainty has increased precipitously, as confirmed by the Economic Policy Uncertainty (EPU) index and VIX volatility index. Such conditions have amplified global financial market pressures and spurred demand for safe-haven financial assets, such as US Treasuries and Japanese bonds. In addition, gold prices have increased again on strong demand. Flight-to-quality amongst global investors through portfolio rebalancing has induced capital outflows, dominated by higher-risk developing economies. The capital reversal has intensified broad-based currency risk, particularly in developing economies.

Global economic moderation has also dampened inflationary pressures, although food inflation needs to be monitored. Inflation rates in the United States and Europe have decreased on lower demand despite a potential build-up of food inflation due to disruptions in the global supply chain, which require vigilance. In China, inflation has declined as a result of supply-side improvements. Additionally, the global trend of lower inflation has been supported by lower inflation expectations in line with curbs on economic activity. The breakeven inflation rate, as a measure of expected inflation in the United States, has also declined. Inflation expectations in Europe for 2020 decreased to around 1.1% in March 2020 from 1.4% in February 2020.

Global financial market uncertainty began to unwind in April 2020, supported by positive sentiment in response to global policies. The ultra-accommodative global policy response has induced positive sentiment in global financial markets. Global financial market uncertainty has eased, as confirmed by lower EPU and VIX indicators, yet remains high. A nascent rally in the Dow Jones Industrial Average (DJIA) index pointed to early gains in US stock markets. This development also positively impacts the intensity of capital outflows from developing economies to be lowered, in line with lower market risk. Such conditions were confirmed by EMBI spread and credit default swaps (CDS), which remain high but have begun to decline from the peaks recorded in March 2020.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020 (YTD)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>-10.5</td>
<td>27.1</td>
<td>6.7</td>
<td>-7.8</td>
<td>-8.0</td>
</tr>
<tr>
<td>Coal</td>
<td>6.8</td>
<td>48.2</td>
<td>2.5</td>
<td>-8.6</td>
<td>-6.5</td>
</tr>
<tr>
<td>CPO</td>
<td>21.3</td>
<td>5.7</td>
<td>-19.2</td>
<td>-2.3</td>
<td>10.6</td>
</tr>
<tr>
<td>Rubber</td>
<td>-2.2</td>
<td>28.1</td>
<td>-16.8</td>
<td>12.4</td>
<td>-8.1</td>
</tr>
<tr>
<td>Nickel</td>
<td>-15.4</td>
<td>8.9</td>
<td>27.8</td>
<td>7.0</td>
<td>-14.8</td>
</tr>
<tr>
<td>Lead</td>
<td>13.1</td>
<td>13.1</td>
<td>0.5</td>
<td>-7.5</td>
<td>-9.7</td>
</tr>
<tr>
<td>Aluminium</td>
<td>-3.5</td>
<td>22.9</td>
<td>7.4</td>
<td>-14.1</td>
<td>-7.8</td>
</tr>
<tr>
<td>Coffee</td>
<td>4.3</td>
<td>-2.9</td>
<td>-15.4</td>
<td>-11.8</td>
<td>6.2</td>
</tr>
<tr>
<td>Others</td>
<td>1.0</td>
<td>6.8</td>
<td>1.2</td>
<td>-0.7</td>
<td>-4.2</td>
</tr>
<tr>
<td>Indonesian Export Commodity Price Index</td>
<td>5.4</td>
<td>21.7</td>
<td>-2.8</td>
<td>-3.0</td>
<td>-2.9</td>
</tr>
</tbody>
</table>

Source: Bloomberg, *data as of May 15th, 2020
Domestic Economic Developments

The transmission rate of the COVID-19 pandemic in Indonesia remained high during the reporting period. As of 18th May 2020, total positive cases of COVID-19 in Indonesia were recorded at 18,010. New confirmed cases and total positive cases continue to accelerate and have not yet peaked (Graph 2.1). Indonesian fatality rate is the highest in Southeast Asia. Spatially, COVID-19 has been transmitted to all Indonesian provinces (Graph 2.2), with the highest concentration recorded on the island of Java. Seeking to contain COVID-19 and break the chain of transmission, several regions have implemented large-scale social restrictions at various administrative levels.

Domestic transmission of the COVID-19 pandemic, combined with the various containment measures and global economic contraction, has undermined domestic economic performance. Domestic economic growth moderated in the first quarter of 2020 as various global and domestic measures to contain the COVID-19 pandemic through mobility and travel restrictions weighed heavily on economic activity and undermined services exports. Meanwhile, widespread global financial market panic, which peaked in March 2020, triggered a capital reversal and impacted financial market performance. The latest developments since April 2020 have revealed how global financial market uncertainty is beginning to ease, which lowered the intensity of capital outflows and bolstered external resilience in Indonesia. Subsequently, an influx of foreign capital has strengthened rupiah exchange rates. Furthermore, economic stability has been maintained, as reflected by low inflation and financial system stability.
The domestic economic impact of COVID-19 is forecast to persist until the third quarter of 2020. The enforcement of large-scale social restrictions in various regions to contain COVID-19 has severely hampered economic activity and eroded business optimism. April 2020 data confirmed that economic moderation has persisted. Based on current dynamics, Bank Indonesia projects economic growth to decline in Indonesia during 2020 before rebounding in 2021 on the back of global economic improvements and the positive impact of stimuli. Meanwhile, Bank Indonesia expects to maintain economic stability, backed by low inflation within the 3.0%±1% target corridor, as well as financial system stability.

**Domestic Economic Growth Decelerated in Q1-2020**

The COVID-19 pandemic impacted national economic growth in Indonesia during the first quarter of 2020. Domestic economic growth was recorded at 2.97% (yoy) in the first quarter of 2020, decelerating from 4.97% (yoy) in the previous period. The main drag on economic growth has been services exports (tourism), non-food consumption and investment, with trade and provision of accommodation and food and beverages, the manufacturing industry, construction and transportation hardest hit. Meanwhile, components and sectors relating to COVID-19 containment remain sound, as reflected by government and household consumption for food, health and education as well as the information and communications sector, financial services, health services and other services.

Using more granular data, weaker economic growth in the first quarter of 2020 was primarily attributable to lower domestic demand (Table 1.1). Household consumption grew 2.84% (yoy) in the reporting period, down significantly from 4.97% (yoy) in the fourth quarter of 2019. Households have pared back non-food consumption, including clothing, footwear, maintenance and transportation, while maintaining stable consumption of food, education and healthcare. Investment growth has also declined to 1.70% (yoy), mainly due to building investment. The fiscal response through government consumption, which grew 3.74% (yoy) in the reporting period, offset deeper declines of domestic demand. In addition, net exports contributed positively to economic growth, with exports expanding 0.24% (yoy) and imports contracting 2.19% (yoy).

Sectors impacted by mobility restrictions have contributed to domestic economic moderation, contrasting sectors involved with COVID-19 containment, which remain buoyant. The economic downturn stems primarily from less activity in terms of Trade and Provision of Accommodation and Food and Beverages as well as Transportation and Storage, hit hard by a deep tourism sector contraction as well as social and travel restrictions. In addition, agricultural performance has declined due to inclement weather (Table 2.2). Likewise, Mining and Quarrying as well as the Manufacturing Industry have experienced significant...
slowdowns as the export contraction persists. In contrast, economic sectors involved with COVID-19 containment continue to perform well, including Information and Communication, Financial Services, Health Services and Other Services.

Spatially, broad-based economic moderation in the first quarter of 2020 has affected all regions of the archipelago. The deepest downturn has occurred in Bali-Nusa Tenggara (Balinusra) after visits by international travellers were suspended in February 2020, which has severely impacted services exports from tourism and other economic sectors in the region. Regional economic growth in nearly all Indonesian provinces has decelerated (Figure 2.1). The slowdowns come on weaker domestic demand due to restrictions on socio-economic activities to break the domestic chain of COVID-19 transmission, including social distancing measures. Nevertheless, external sector gains have offset deeper declines and catalysed economic growth in South Kalimantan. In addition, economic growth in Papua has also gained momentum, driven by copper mining in particular, although the mined copper was not exported to the international market in the first quarter of 2020.

### Table 2.1 Economic Growth by Expenditure

<table>
<thead>
<tr>
<th>Components</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption of Nonprofits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serving Households</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment (GFCF)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-building Investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BPS

### Table 2.2 Economic Growth by Sector

<table>
<thead>
<tr>
<th>Components</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Livestock, Forestry and Fisheries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity, Gas, Clean Water, dan Water Supply</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and Provision of Accomodation and Food and Beverages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation, Warehousing, Information and Communication</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Services, Real Estate and Corporate Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BPS
COVID-19 has Impacted the Economic Growth Outlook for 2020

National economic growth in Indonesia is expected to decline in 2020 due to the COVID-19 impact. In terms of domestic demand, flatter consumption growth is expected to persist in line with lower private incomes and retreating consumer confidence. Investment is contracting, led by building investment after a number of property and infrastructure projects were postponed. Similarly, the export and import contractions are also expected to persist as the global economic contraction is predicted to endure. By sector, the secondary and tertiary sectors are expected to drive albeit weaker economic growth. Nonetheless, the domestic economy is expected to bounce back strongly in 2021, buoyed by global economic improvements and the favourable impact of existing stimuli. Bank Indonesia will continue to strengthen coordination with the Government and other relevant authorities to ensure the various policies implemented remain effective in terms of fuelling the economic recovery during and after the COVID-19 pandemic.

Lower household consumption growth is projected for 2020 in line with lower private incomes and retreating consumer confidence. Slowing down of household consumption recorded in the first quarter of 2020 is expected to persist, as reflected by a retail sales contraction in April 2020 (Graph 2.3). The slowdown stems from lower private income as large-scale social restrictions limit demand for labour as well as goods and services. Weaker export performance, including the tourism sector, has undermined incomes and restrained household consumption growth. Other income from investments in financial markets has also been eroded by unfavourable conditions. In addition, uncertainty heightened by the COVID-19 pandemic significantly

Source: BPS, calculated
lowered consumer confidence in April 2020 (Graph 2.4), which has since impeded household consumption. Notwithstanding, social assistance as a form of government stimulus is expected to offset further household consumption declines, particularly amongst low-income earners.

**Investment is expected to decelerate in 2020 based on the inauspicious export outlook and compressed domestic demand, coupled with shrinking business confidence.** Building and non-building investment are expected to decline. Building investment is predicted to contract on lower domestic demand and the postponement of various projects, including national strategic projects and private construction projects. Such conditions were confirmed by a deeper cement sales contraction in March 2020 (Graph 2.5). A further contraction of non-building investment is also anticipated in line with sluggish external sector performance and lower domestic demand, while the manufacturing industry continues to languish. Such dynamics were corroborated by sales contraction of heavy equipments and imports of capital goods. The expected decline of investment is also the result of retreating business confidence due to the COVID-19 pandemic, as substantiated by the results of the latest Business Survey (SKDU) conducted by Bank Indonesia and a decline in the Purchasing Managers Index (PMI).

**The Government has introduced various fiscal stimuli to minimise the economic impact of COVID-19.** Thus far, the Government has issued three stimulus packages. The first two provide food assistance to support public consumption amongst low-income earners and offer tax breaks to ensure business continuity and bolster public purchasing power. Complementing the first two stimulus packages, the Government issued a third fiscal stimulus totalling Rp405.1 trillion, focusing on the health sector, social safety net, support for impacted businesses and the National Economic Recovery program (Figure 2.2). Bank Indonesia appreciates the fiscal stimuli introduced by the Government to minimise the COVID-19 impact, which are expected to boost economic growth moving forward.
The export outlook is to decline in 2020 due to compressed global demand, disruptions in the supply chain and low commodity prices. As the COVID-19 pandemic has spread, several export determinants have been revised downwards, including global economic growth and commodity prices, thus exposing a weaker export outlook. The spread of COVID-19 to Indonesia's trading partners has stilled demand for exported goods from Indonesia. Furthermore, COVID-19 has disrupted the global supply chain. As of April 2020, non-oil and gas exports have contracted, held back by mining exports, dominated by coal, and nearly all manufacturing products (Graph 2.6). Services exports are also under pressure due to the devastating impact of travel restrictions on tourism, as reflected by a steep decline of international travellers visiting Indonesia as of April 2020 (Table 2.3).

Imports are also predicted to contract in line with the unfavourable export outlook, weaker domestic demand and disruptions in the supply chain as the COVID-19 pandemic continues to spread. Imports to Indonesia in

**Figure 2.2  Government Fiscal Stimulus Volume I, II, and III**

<table>
<thead>
<tr>
<th>Volume I</th>
<th>Volume II</th>
<th>Volume III</th>
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<tbody>
<tr>
<td>(Rp6.1 trillion)</td>
<td>(Rp22.9 trillion)</td>
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<tr>
<td>• Basic Food Card Incentives (Rp4.6 trillion)</td>
<td>• Relaxation of PPh 21 (Rp8.6 trillion)</td>
<td>• Health Stimulus (Rp75 trillion)</td>
</tr>
<tr>
<td>• Additional Housing Interest Subsidies (Rp1.5 trillion)</td>
<td>• Relaxation of PPh 22 Import (Rp8.15 trillion)</td>
<td>• Social Safety Net (Rp110 trillion)</td>
</tr>
<tr>
<td></td>
<td>• Relaxation of Corporate PPh 25 (Rp4.2 trillion)</td>
<td>• Industry Support (Rp70.1 trillion)</td>
</tr>
<tr>
<td></td>
<td>• Relaxation of VAT refunds (Rp1.97 trillion)</td>
<td>• Industry support through below the line financing (Rp150 trillion)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Decrease of Corporate Income Tax (PPh 25) rates from 25% to 22% for non go-public companies and 19% for go-public companies</td>
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<td></td>
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<tr>
<td>Source: Ministry of Finance</td>
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</tbody>
</table>

- **Health Stimulus (IDR 75 trillion)**
  - BPJS contribution assistance Rp3 trillion
  - Central medical incentives Rp1.3 trillion
  - Regional medical incentives Rp4.6 trillion
  - Compensation for death Rp0.3 trillion
  - Health handling expenditure Rp65.8 trillion

- **Social Safety Net (Rp 110 trillion)**
  - Additional distribution of PKH Rp8.3 trillion
  - Additional recipients of basic food incentives Rp10.9 trillion
  - Additional pre-work budget Rp10 trillion
  - Electrical subsidies 450 & 900 VA Rp3.5 trillion
  - Additional interest subsidies Rp1.5 trillion
  - Other social safety nets (TBD) Rp30.8 trillion
  - Reserves to meet the Basic Needs and Market / Logistics Operations Rp25 trillion
  - Adjustment of the education budget Rp20 trillion

- **Industry Support (Rp70.1 trillion)**
  - 64 trillion tax subsidy (DTP) including import duty
  - KUR stimulus Rp 6.1 trillion

- **National Economic Recovery Program / PEN (Rp150 trillion)**
2020 are expected to contract on fading demand for goods for export and investment. In addition, supply-side pressures on Indonesia’s imports are expected to intensify due to disruptions in the global supply chain as the COVID-19 pandemic continues to spread and affect the originating countries of Indonesia’s imports. The latest developments in April 2020 show that imports have declined across all commodity groups, including capital goods, raw materials and consumer goods (Graph 2.7).

External Sector Resilience Remains Solid

External sector resilience remains solid in Indonesia, supported by a narrower current account deficit. The current account deficit has narrowed due to a rebalancing of domestic demand caused by the latest COVID-19 developments, which has effectively minimised the impact of declining exports spurred by global economic contraction and lower commodity prices. The reduced current account deficit, in turn, has offset a smaller capital and financial account surplus triggered by a capital reversal due to uncertainty as the COVID-19 pandemic spreads to all corners of the globe. Consequently, the overall balance of payments recorded an USD8.5 billion deficit in the first quarter of 2020 after posting a USD4.3 billion surplus in the fourth quarter of 2020 (Table 2.4).

A reduction in the current account deficit during the first quarter of 2020 was also influenced by declining imports in line with domestic economic moderation caused by COVID-19. The current account deficit stood at USD3.9 billion (1.4% of GDP) in the first quarter of 2020, down from USD8.1 billion (2.8% of GDP) in the previous period. The main contributors to the smaller current account deficit during the first quarter of 2020 were a reduction in capital goods and raw materials imports (Graph 2.7).
Global financial market panic. Outflow, dominated by portfolio investment, triggered by recent developments were attributable to a large capital surplus in the previous period (Table 2.4). The most totalling USD2.9 billion after registering a USD12.6 billion deficit in 2020, foreign capital inflows recorded a net deficit. In the first quarter panic in global financial markets, inflows to Indonesia have increased after early signs of foreign capital inflows, while the trade balance deteriorated. Foreign capital inflows began to return in April 2020 in line with less global financial market uncertainty, coupled with the stabilisation measures and strong policy mix instituted by Bank Indonesia in close coordination with the Government and Indonesian Financial Services Authority (OJK). Through April and as of 14th May 2020, portfolio investment recorded a net inflow of USD4.1 million, drawn primarily to government bonds issued abroad (global bonds) (Graph 2.8). Meanwhile, Indonesia’s trade balance recorded a deficit in April 2020, which fed through to the current account deficit in the second quarter of 2020. Indonesia’s trade deficit stood at USD344.7 million in April 2020 after recording a USD717.7 million surplus one month earlier. This was accounted for by deficits in the non-oil and gas trade balance as well as the oil and gas trade balance. The non-oil and gas trade deficit narrowed on lower exports of manufacturing products and mineral fuels, particularly coal. Positive export performance for gold, iron and steel, as well as animal and vegetable oils and deficit include a larger goods trade surplus in line with lower imports due to weak domestic demand, which alleviated the impact of shrinking exports in response to global economic contraction and sliding international commodity prices. The services account deficit also improved on a smaller transportation services trade deficit, despite a narrower travel services trade surplus after virus-related travel restrictions severely impacted visits by international travellers. Furthermore, the current account deficit also decreased in line with a smaller primary income account deficit caused by less domestic economic activity.

Underpinning external resilience, foreign capital inflows to Indonesia have increased after experiencing severe rebalancing due to widespread panic in global financial markets. In the first quarter of 2020, foreign capital inflows recorded a net deficit totalling USD2.9 billion after registering a USD12.6 billion surplus in the previous period (Table 2.4). The most recent developments were attributable to a large capital outflow, dominated by portfolio investment, triggered by global financial market panic.

The latest developments in April 2020 revealed early signs of foreign capital inflows, while the trade balance deteriorated. Foreign capital inflows began to return in April 2020 in line with less global financial market uncertainty, coupled with the stabilisation measures and strong policy mix instituted by Bank Indonesia in close coordination with the Government and Indonesian Financial Services Authority (OJK). Through April and as of 14th May 2020, portfolio investment recorded a net inflow of USD4.1 million, drawn primarily to government bonds issued abroad (global bonds) (Graph 2.8). Meanwhile, Indonesia’s trade balance recorded a deficit in April 2020, which fed through to the current account deficit in the second quarter of 2020. Indonesia’s trade deficit stood at USD344.7 million in April 2020 after recording a USD717.7 million surplus one month earlier. This was accounted for by deficits in the non-oil and gas trade balance as well as the oil and gas trade balance. The non-oil and gas trade deficit narrowed on lower exports of manufacturing products and mineral fuels, particularly coal. Positive export performance for gold, iron and steel, as well as animal and vegetable oils and deficit include a larger goods trade surplus in line with lower imports due to weak domestic demand, which alleviated the impact of shrinking exports in response to global economic contraction and sliding international commodity prices. The services account deficit also improved on a smaller transportation services trade deficit, despite a narrower travel services trade surplus after virus-related travel restrictions severely impacted visits by international travellers. Furthermore, the current account deficit also decreased in line with a smaller primary income account deficit caused by less domestic economic activity.

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fats prevented deeper non-oil and gas export declines. Meanwhile, the oil and gas trade deficit also reduced on decreasing oil and gas imports in line with lower oil and gas prices.

In general, the various developments show external resilience has also been supported by maintained reserve assets. Reserve assets were recorded in April 2020 at USD127.9 billion, down from USD130.4 billion in February 2020 (Graph 2.9), equivalent to 7.8 months of imports or 7.5 months of imports and servicing government external debt, which is well above the international adequacy standard of around three months. The position of reserve assets was eroded by rupiah exchange rate stabilisation measures taken in March 2020 amidst extraordinary conditions spurred by global financial market panic in response to the COVID-19 pandemic. Notwithstanding, international reserves...
were restocked in April 2020 as foreign capital inflows to government bonds increased. Furthermore, Bank Indonesia is confident that the current position of reserve assets is sufficient to preserve external sector resilience, while maintaining macroeconomic and financial system stability.

Moving forward, external sector resilience will be maintained in line with Indonesia’s promising Balance of Payments (BOP) outlook. The BOP outlook is supported by a narrower current account deficit in 2020, for which the projection has been revised down to less than 2.0% of GDP from 2.5-3.0% of GDP previously. Meanwhile, an influx of foreign capital inflows is expected as global financial market uncertainty continues to dissipate, yields on domestic financial assets for investment remain attractive and investors are confident in economic conditions in Indonesia. Bank Indonesia remains vigilant of COVID-19 transmission dynamics and the economic impact on Indonesia over time, including the balance of payments, while constantly strengthening policy synergy with the Government and other relevant authorities to bolster external sector resilience.

Rupiah Exchange Rates in line with Market Mechanisms

In the first quarter of 2020, rupiah exchange rates moved in line with market mechanisms and supported the external rebalancing process. During the three months to March 2020, the rupiah depreciated by an average of -1.09% or -14.88% (ptp). The value of the rupiah softened on increasing global financial market uncertainty in response to the COVID-19 pandemic, which triggered a surge of risk-off behaviour amongst global investors. Such behaviour prompted a global rebalancing of capital flows from developing economies to safe-haven assets (flight to quality) and intensified currency pressures in developing economies, including Indonesia. Nevertheless, rupiah depreciation in the first quarter of 2020 was more restrained than that recorded in other Asian peer countries, such as South Korea, Singapore and India, which experienced depreciation in excess of 1.5%.

The rupiah has regained lost value since April 2020 as global financial market panic eased. As of 18th May 2020, the rupiah strengthened by an average of 5.15% or 0.17% (ptp)-(Graph 2.10). The stronger rupiah was underpinned by a re-emergence of foreign capital inflows to domestic financial markets in the wake of the ultra-accommodative global policy response to mitigate the COVID-19 pandemic, including in Indonesia. The rupiah also appreciated in line with the continued supply of foreign exchange from domestic players, which reinforced exchange rate stability. The supply of foreign exchange increased on lower demand for foreign exchange from non-residents as panic eased, coupled with increasing supply from residents. In the first quarter of 2020, the net supply of foreign exchange from residents peaked at its highest level since 2016.

Rupiah exchange rates are in line with market mechanisms yet accompanied by rising volatility. As of 18th May 2020, rupiah exchange rate volatility stood at 23.8%, up significantly from 7.0% in the previous year, driven by heightened global financial market uncertainty in response to the spread of COVID-19 around the world. Notwithstanding, rupiah volatility was lower than other peer currencies, such as the Brazilian real (30.5%) and South African rand (26.2%), in the reporting period (Graph 2.11).

Graph 2.10 Appreciation/Depreciation of Peers Currencies

![Graph showing appreciation and depreciation of various currencies](image-url)
Bank Indonesia is confident the rupiah is fundamentally undervalued, leading to the potential appreciation and underpinning the economic recovery. Moving forward, Bank Indonesia will continue to strengthen exchange rate stabilisation policy in line with the currency’s fundamental value and market mechanisms. To that end, Bank Indonesia will continue to intensify intervention policy in the Domestic Non-Deliverable Forward (DNDF) and spot markets, while purchasing tradeable government securities (SBN) in the secondary market. Supporting effective exchange rate policy, Bank Indonesia constantly optimises monetary operations to maintain market mechanisms and adequate liquidity in the money market and foreign exchange market.

Inflation Low and Under Control

Inflation remained low and under control in the first quarter of 2020. Consumer Price Index (CPI) inflation was recorded at 0.76% (qtq) in the first quarter of 2020, up slightly from 0.53% (qtq) in the previous period. Inflation has remained low due to compressed demand caused by the COVID-19 pandemic together with adequate goods supply and an uninterrupted distribution chain. Core inflation also remains under control at 0.61% (qtq) or 2.87% (yoy). Meanwhile, inflationary pressures on volatile foods (VF) have increased, stoked by supply-side constraints affecting several commodities. Nevertheless, rising volatile food prices were offset by deflationary pressures on administered prices (AP) triggered by further corrections to airfares. Annually, therefore, headline inflation in the first quarter of 2020 was recorded at 2.98% (yoy), up slightly from 2.58% (yoy) in the previous period.

Low and controlled inflation persisted into April 2020, backed by lower core inflation. CPI inflation decreased to 0.08% (mtm) or 2.67% (yoy) in April 2020 (Graph 2.12). The main drag on CPI inflation was core inflation, which decreased in line with weaker demand due to COVID-19 as well as policy consistency by Bank Indonesia to anchor inflation expectations. Core inflation stood at 0.17% (mtm) or 2.85% (yoy) in April 2020, down from 2.87% (yoy) the month earlier. Deflationary pressures on onions due to adequate supply edged down core inflation despite rising prices of granulated sugar and gold jewellery.

Low inflation April 2020 was also attributable to deflationary pressures on volatile foods and administered prices. VF deflation was recorded at 0.09% (mtm) or 5.04% (yoy) in April 2020, decreasing...
from 6.48% (yoy) in March 2020, as a result of deep price corrections affecting several commodities on weaker demand, particularly in terms of accommodation and food services, including catering, curbed by the enforcement of large-scale social restrictions along with adequate supply of horticultural produce, such as red chili and garlic. AP deflation stood at 0.14% (mtm) or 0.09% (yoy) in the reporting period, down from 0.16% (yoy) one month earlier. Ongoing corrections to airfares in response to dwindling demand caused by large-scale social restrictions in various regions were the main contributor to AP deflation.

Controlled CPI inflation was also confirmed by contained regional inflationary pressures. Low and controlled national inflation was achieved in line with deflation recorded in most regions, particularly in western Indonesia. Spatially, only Java and Sulawesi-Maluku-Papua (Sulampua) recorded inflation in the reporting period, triggered by higher commodity prices, including shallots, gold jewellery and granulated sugar. Meanwhile, deflation was recorded in the three other regions, namely Bali-Nusa Tenggara (Balinsusra), Sumatra and Kalimantan in line with failing demand. Annually, therefore, inflation in most regions of Indonesia remains within the national target corridor for 2020, namely 3.0%±1% (Figure 2.3).

Moving forward, Bank Indonesia predicts consistently low and stable CPI inflation for 2020 within the target corridor. The lower inflation projection is attributable to milder inflationary pressures

Figure 2.3 Map of Regional Inflation (% yoy)
across all components. Core inflation is expected to remain low in line with weaker demand due to the COVID-19 pandemic coupled with rational inflation expectations anchored to the target corridor. Lower VF inflation is also predicted as a result lower demand for several commodities and limited supply-side disruptions, supported by government commitment to maintain adequate supply and smooth distribution during the COVID-19 pandemic. In addition, Bank Indonesia expects AP inflation to decrease on dwindling demand. Moving forward, Bank Indonesia will consistently maintain price stability and strengthen policy coordination with the central and local governments in order to maintain low and stable inflation within the target corridor of 3.0%±1% during 2020 and 2021.

**Adequate Economic Liquidity, Financial System Stability Maintained**

Liquidity in the banking system remains adequate, thus supporting lower interest rates. Adequate bank liquidity is reflected in the high ratio of liquid assets to deposits at 24.16% in the first quarter of 2020 and the high average daily transaction volume recorded in the interbank money market, reaching Rp9.2 trillion in April 2020. Such developments have had a positive impact on monetary policy transmission to the money market and banking industry. In April 2020, the overnight interbank rate and 1-week JIBOR remained stable and convergent around the BI7DRR at 4.31% and 4.60% respectively, falling 152bps and 164bps since the end of June 2019 (Graph 2.13). Meanwhile, the weighted average deposit and lending rates were recorded at 5.92% and 10.17% respectively in April 2020, dropping 91bps and 58bps since the end of June 2019 (Graph 2.14).

**Graph 2.13 Interbank O/N Interest Rate**

![Graph showing interbank O/N interest rate trends from 2016 to 2020.](source: Bank Indonesia)
Adequate liquidity has been maintained in the money market and banking industry in line with the accommodative policy stance of Bank Indonesia. Since the beginning of 2020, Bank Indonesia has injected liquidity into the money markets and banking industry in order to stimulate financing for the business community and national economic recovery. As of 15th May 2020, Bank Indonesia had injected liquidity totalling Rp583.5 trillion. From January-April 2020, Bank Indonesia injected Rp415.8 trillion of liquidity through SBN purchases in the secondary market, while providing bank liquidity through term-repo transactions, FX swaps and lower rupiah reserve requirements. In May 2020, Bank Indonesia injected another Rp167.7 trillion of liquidity through lower rupiah reserve requirements, removing the additional requirements for banks failing to meet the Macroprudential Intermediation Ratio (MIR) as well as offering term repurchase agreements and FX swaps to the banking industry.

The accommodative monetary policy stance has increased monetary aggregates. In March 2020, M1 and M2 growth accelerated to 15.6% (yoy) and 12.1% (yoy) respectively. M1 was edged up by stronger growth of rupiah demand deposits, consisting of individual and corporate depositors, against a backdrop of restrained currency outside banks (COB) growth. Based on the affecting factors, the main drivers of faster M2 growth in March 2020 were Net Domestic Assets (NDA), expansive fiscal operations and credit realisation. By component, narrow money (M1), quasi-money and securities other than shares contributed to stronger M2 growth in the reporting period.

Financial system stability has been maintained, although the potential risks associated with the COVID-19 impact on financial system stability must be anticipated. Financial system stability was reflected by a high Capital Adequacy Ratio (CAR) of 21.63% in March 2020, along with a low level of non-performing loans (NPL) at 2.77% (gross) and 1.02% (nett). Meanwhile, the bank intermediation function continues to demand attention due to the impact of weaker domestic demand and more selective bank lending as a result of COVID-19. Growth of outstanding loans disbursed by the banking industry remained sluggish in March 2020 despite increasing to 7.95% (yoy) from 5.93% (yoy) in February 2020. Similarly, deposit growth also remained suboptimal despite increasing from 7.77% (yoy) to 9.54% (yoy) in the reporting period.

The COVID-19 pandemic has also intensified domestic financial market pressures, however the latest developments point to improvements as global financial market uncertainty eases. In the first quarter of 2020, bond market yields were observed to rise and the stock market experienced deep corrections in response to intense domestic financial market pressures stoked by concerns over the impact of COVID-19. The Jakarta Composite Index (JCI) suffered a 26.7% correction. Entering April 2020, domestic financial market pressures remained intense but had begun to dissipate. SBN yield fell to an average of 7.45%, with the benchmark 10-year series dropping to 7.88% (Graph 2.15). In addition, the yield of triple-A rated corporate bonds decreased by an average of 13 basis points. Meanwhile, the JCI posted a moderate 3.9% gain given less uncertain global financial markets (Graph 2.16). Such conditions were consistent with global stock markets in advanced and developing economies, which indicated early signs of improvement.

Payment system availability, both cash and non-cash, remains uninterrupted. Growth of currency in circulation decelerated to 6.3% (yoy) in the reporting period, totalling Rp743.6 trillion, in line with the banks’ strategy to store less currency. Meanwhile, cashless
transactions using ATM/debit cards, credit cards and electronic money declined 4.7% (yoy) in March 2020, prompted by a dip in economic activity. On the other hand, e-money transactions maintained strong 67.9% (yoy) growth in March 2020, with digital banking transaction volume accelerating to 60.8% (yoy). Both developments reflect growing public preference for digital economic and financial transactions despite declining economic activity curbed by large-scale social restrictions.

Moving forward, Bank Indonesia will maintain an accommodative macroprudential policy stance and continue to safeguard payment system availability. Accommodative macroprudential policy is consistent with the existing policy mix, including various efforts to mitigate risk in the financial sector caused by COVID-19. Furthermore, Bank Indonesia will continue to ensure adequate liquidity in the money market and banking industry to support the National Economic Recovery program, particularly in terms of bank loan restructuring, through close coordination with the Government, Financial Services Authority (OJK) and Deposit Insurance Corporation (LPS). Bank Indonesia will continue to expand the role of the payment system to support the economic recovery during the COVID-19 pandemic. To that end, Bank Indonesia continues to promote financial digitalisation by expanding access and increasing financial literacy through digital payments, including Bank Indonesia backing for cashless social aid program (bansos) disbursements.
Labour market conditions were sound in Indonesia prior to the COVID-19 outbreak and subsequent pandemic. Open unemployment stood at 4.99% in February 2020, relatively unchanged from the 5.01% recorded in the same period of the previous year. Urban unemployment declined in the reporting period, which was offset however by rising rural unemployment. Urban open unemployment decreased to 6.15% in February 2020 from 6.30% in February 2019, while in rural areas open unemployment increased slightly to 3.55% from 3.45% over the same period. Relatively stable overall open unemployment was accompanied by a stable participation rate recorded at 69%.

Labour absorption tended to decelerate in February 2020 in line with economic moderation. Labour absorption grew 1.29% (yoy) in the reporting period, down from 1.8% (yoy) in February 2019. By sector, the main contributors to weaker labour absorption were trade and provision of accommodation and food and beverages as well as construction, as both economic sectors experienced slower growth. In addition, labour absorption continued to contract in the agricultural and mining sectors, with declining exports weighing heavily on both sectors.

### Table 1. Employment by Sector of Economy

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<tbody>
<tr>
<td>Agriculture, Livestock, Forestry and Fisheries</td>
<td>39.7</td>
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<td>38.7</td>
<td>35.7</td>
<td>38.1</td>
<td>34.6</td>
<td>38.1</td>
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<td>-0.16</td>
<td>-0.46</td>
<td>-0.05</td>
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<tr>
<td>Mining and Quarrying</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
<td>1.3</td>
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<td>18.2</td>
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<td>Electricity, Gas, Clean Water, dan Water Supply</td>
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<td>0.3</td>
<td>0.8</td>
<td>0.3</td>
<td>0.7</td>
<td>0.4</td>
<td>0.8</td>
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<td>8.22</td>
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<td>Construction</td>
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<td>8.1</td>
<td>7.1</td>
<td>8.3</td>
<td>7.6</td>
<td>8.5</td>
<td>8.0</td>
<td>7.9</td>
<td>4.59</td>
<td>0.44</td>
<td>0.27</td>
<td>2.90</td>
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<td>Trade and Provision of Accommodation and Food and Beverages</td>
<td>30.3</td>
<td>28.0</td>
<td>31.7</td>
<td>30.7</td>
<td>33.3</td>
<td>32.3</td>
<td>33.4</td>
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<td>0.27</td>
<td>1.27</td>
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<td>1.67</td>
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<tr>
<td>Transportation, Warehousing, Information and Communication</td>
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<td>5.8</td>
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<td>6.07</td>
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</tr>
<tr>
<td>Financial Services, Real Estate and Corporate Services</td>
<td>3.6</td>
<td>3.8</td>
<td>3.6</td>
<td>3.9</td>
<td>3.8</td>
<td>4.1</td>
<td>4.0</td>
<td>7.3</td>
<td>5.51</td>
<td>0.20</td>
<td>0.16</td>
<td>7.31</td>
</tr>
<tr>
<td>Other Services</td>
<td>18.9</td>
<td>20.5</td>
<td>19.9</td>
<td>18.6</td>
<td>20.1</td>
<td>19.4</td>
<td>20.7</td>
<td>0.7</td>
<td>2.94</td>
<td>0.11</td>
<td>0.46</td>
<td>5.72</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>124.5</td>
<td>121.0</td>
<td>127.1</td>
<td>123.5</td>
<td>129.4</td>
<td>126.0</td>
<td>131.0</td>
<td>1.8</td>
<td>1.29</td>
<td>1.80</td>
<td>1.29</td>
<td>2.97</td>
</tr>
</tbody>
</table>

Source: BPS

The COVID-19 pandemic could potentially influence labour market dynamics in Indonesia in 2020. Large-scale social restrictions to contain COVID-19 and break the chain of transmission in affected areas have undermined production and investment activities and, thus, compressed demand for labour. Such conditions were reflected by a significant decline in the Job Vacancy Index recorded in April 2020 (Graph 1). Furthermore, the COVID-19 pandemic has also influenced consumer optimism and business behaviour. Business confidence and expectations of employment availability retreated significantly in April 2020, indicating a build-up of labour market pressures in Indonesia in 2020 (Graph 2).
Graph 1. Job Vacancy Index

Graph 2. Employment Expectations

Source: BPS, calculated

Source: Bank Indonesia
CHAPTER III

Bank Indonesia Policy Response

During the reporting period from February-May 2020, Bank Indonesia has implemented a policy mix to mitigate the economic risks associated with COVID-19. To that end, Bank Indonesia has continued to strengthen all policy instruments at its disposal in order to stabilise rupiah exchange rates, maintain financial system stability and simultaneously prevent further economic decline through close coordination with the Government, Financial Services Authority (OJK), Deposit Insurance Corporation (LPS) and other relevant authorities.
Six critical aspects make up Bank Indonesia’s policy mix as follows:

a. Bank Indonesia twice lowered the monetary policy rate (BI 7DRR) by 25bps in February and March 2020 to 4.5%. The policy rate reductions were consistent with low and controlled inflation predicted within the target corridor of 3.0%±1% as well as efforts to support the national economic recovery. At the monthly meeting in April 2020, the Board of Governors decided to hold the BI 7-Day (Reverse) Repo Rate, while prioritising interest rate policy to maintain rupiah exchange rates in the near term.
b. Stabilise and strengthen the rupiah by increasing intervention policy in the spot and DNDF markets as well as through SBN purchases in the secondary market. Exchange rate stabilisation policy is supported by efforts to bolster external resilience. To that end, Bank Indonesia has also secured bilateral swap and repo line agreements with several other central banks, including the US Federal Reserve and the People’s Bank of China (PBoC).
c. Expand money market and foreign exchange market instruments and transactions in order to provide more hedging instruments against currency risk through DNDF transactions, FX swaps and term-repo agreements with the banking industry.
d. Inject liquidity (quantitative easing) to the money market and banking industry to provide financing for the business community and national economic recovery. In 2020, Bank Indonesia has injected approximately Rp583.5 trillion of liquidity through SBN purchases in the secondary market, repurchase agreements with the banking industry, FX swaps and reductions to rupiah reserve requirements.
e. Loosen macroprudential policy in order to stimulate bank lending. To that end, Bank Indonesia has relaxed the loan-to-value (LTV) ratio and Macroprudential Intermediation Ratio (MIR) and lowered rupiah reserve requirements to help finance import-export businesses in particular as well as micro, small and medium enterprises (MSME) affected by COVID-19.
f. Maintain cash and non-cash payment system function and availability in order to facilitate various economic and financial transactions. This is achieved through the circulation of hygienic currency as well as promoting cashless transactions through e-money, internet banking and Quick Response Code Indonesia Standard (QRIS). Bank Indonesia will also support Government through accelerating electrification of social programs disbursements, including the Family Hope Program (PKH), Noncash Food Assistance Program (BPNT), Pre-Employment Card and Smart Indonesian Card (KIP), to relieve society burden due to COVID-19.

The BI Board of Governors agreed on 18th and 19th May 2020 to hold the BI 7-Day Reverse Repo Rate at 4.50%, while also maintaining the Deposit Facility (DF) and Lending Facility (LF) rates at 3.75% and 5.25% respectively. The decision carefully weighs the need to maintain exchange rate stability against a backdrop of global financial market uncertainty, although Bank Indonesia acknowledges sufficient room to lower interest rates in line with mild inflationary pressures and the need to stimulate economic growth, particularly in 2020. Furthermore, Bank Indonesia has continued to strengthen its policy mix currently oriented towards mitigating the risks associated with COVID-19, maintaining money market and financial system stability as well as acting in synergy with the Government and other relevant authorities to accelerate National Economic Recovery Programs. In addition to the existing measures, Bank Indonesia is taking the following actions:

1. Providing liquidity for the banking industry in terms of restructuring loans of MSME and ultra-micro enterprises, in which the loans are from financial institutions;
2. Considering implementation of Reserve Requirement Remuneration for all banks;

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1 As of 15th May 2020.
3. Strengthening monetary operations and Islamic financial market deepening through Sharia-Compliant Liquidity Facilities (FLisBI), Sharia-Compliant Liquidity Management (PaSBI) and Sharia-Compliant Interbank Fund Management Certificates (SiPA);

4. Accelerating implementation of the digital economy and finance as part of the national economic recovery efforts through collaboration between the banking industry and FinTech to expand MSME and public access to economic and financial services.
COVID-19 Pandemic has Increased Risk of Global Recession

Global economy at risk of recession in 2020...
Global Economic

Significant decline of consumer confidence in United States...
US Consumer Confidence

Less global financial market uncertainty...
Global financial market uncertainty

ASEAN manufacturing in contraction...
ASEAN Manufacturing PMI

Business confidence retreating in Europe...
Europe Business confidence

Intensity of outflows from emerging markets beginning to ease...
Accumulated portfolio outflows from EM since 21 Jan 2020

Source: IMF WEO April 2020
Source: Bloomberg, calculated
Source: CEIC
Source: IIF Daily Data Flows. calculated
Domestic Economic Moderation in First Quarter of 2020

**Slower household consumption**

**Household consumption growth**

![Graph showing household consumption growth](image)

Source: BPS, calculated

**Slower investment, particularly building investment...**

**Investment growth**

![Graph showing investment growth](image)

Source: BPS, calculated

**Export contraction due to global economic moderation and commodity prices...**

**Export Price Growth**

![Graph showing export price growth](image)

Source: BPS, calculated; * data as of April 2020

**Imports declining with weak export performance and fading domestic demand...**

**Real Non-Oil and Gas Import Growth**

![Graph showing real non-oil and gas import growth](image)

Source: BPS, calculated; * data as of April 2020

**Declining business confidence...**

**Prompt Manufacturing Index (PMI) and Investment**

![Graph showing PMI and investment](image)

Source: Bank Indonesia, Business World Survey

**Economic Condition Index**

![Graph showing economic condition index](image)

Source: Bank Indonesia

Slower household consumption

*Household consumption growth*

![Graph showing household consumption growth](image)

Source: BPS, calculated

in line with low income...

*Economic Condition Index*

![Graph showing economic condition index](image)

Source: Bank Indonesia

Export contraction due to global economic moderation and commodity prices...

*Export Price Growth*

![Graph showing export price growth](image)

Source: BPS, calculated; * data as of April 2020

Declining business confidence...

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Source: Bank Indonesia, Business World Survey

Imports declining with weak export performance and fading domestic demand...

*Real Non-Oil and Gas Import Growth*

![Graph showing real non-oil and gas import growth](image)

Source: BPS, calculated; * data as of April 2020
**Solid External Resilience**

*Narrower current account deficit supporting BOP performance in first quarter of 2020……*

*Indonesia’s Balance of Payments*

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**Capital and Financial Transactions**

*Narrower current account deficit recorded in the first quarter of 2020*

*Current Account*

---

**Rupiah exchange rates moved in line with market mechanisms...**

*Exchange Rate Movements*

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... amidst a rebalancing of foreign capital flows

**COVID-19 pandemic impacted trade balance in April 2020...**

*Balance of Trade*

---

*Limited rupiah depreciation compared with other countries...*

**Country Peers Monthly Appreciation/Depreciation**

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Source: Reuters, Bloomberg

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*Source: Bank Indonesia; *Preliminary Data

*Source: Bank Indonesia; *Preliminary Data **Very Preliminary Data

*Source: BPS, calculated

*Source: Reuters, data as of May 18th, 2020*
Low Inflation Supporting Economic Stability

Core inflation under control...
Traded vs. Non-Traded Core Inflation

Volatil food recorded deflation...
Volatil Food Inflation

Administered prices recorded deflation...
Administered Prices Inflation

...in line with lower inflation expectations
Consensus Forecast Inflation Expectations

...influenced by a lower prices of horticultural produce, beef and purebred chicken
Volatil Food Inflation/ Deflation Contribution

...influenced by Air Transport
Administered Prices Inflation/ Deflation Contribution
Financial System Stability Maintained, despite Flatter Credit Growth

High Capital Adequacy Ratio (CAR)…

Capital Adequacy Ratio (CAR)

\[
\text{CAR} = \frac{\text{Capital (Rhs)}}{\text{ATMR (Rhs)}}
\]

Source: Bank Indonesia

NPL contained in nearly all regions.

NPL by region

Source: Bank Indonesia

Sectoral loan growth restrained…

Credit Distribution by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth YOY (%)</th>
<th>Credit Nominal Mar - 2020</th>
<th>Δ YOY (Rp T)</th>
<th>Share Mar-20(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade</td>
<td>5.20</td>
<td>9.40</td>
<td>3.73</td>
<td>3.69</td>
</tr>
<tr>
<td>Others (Household Consumption)</td>
<td>10.29</td>
<td>10.30</td>
<td>3.80</td>
<td>5.48</td>
</tr>
<tr>
<td>Industry</td>
<td>5.42</td>
<td>9.10</td>
<td>3.63</td>
<td>10.67</td>
</tr>
<tr>
<td>Freight &amp; Telecommunications</td>
<td>6.31</td>
<td>19.00</td>
<td>13.63</td>
<td>18.32</td>
</tr>
<tr>
<td>Construction</td>
<td>20.57</td>
<td>22.08</td>
<td>14.61</td>
<td>9.12</td>
</tr>
<tr>
<td>Agriculture</td>
<td>12.05</td>
<td>11.67</td>
<td>4.63</td>
<td>8.51</td>
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<tr>
<td>Business Services</td>
<td>7.96</td>
<td>12.98</td>
<td>5.37</td>
<td>10.28</td>
</tr>
<tr>
<td>Social Services</td>
<td>12.05</td>
<td>13.15</td>
<td>14.01</td>
<td>11.32</td>
</tr>
<tr>
<td>Mining</td>
<td>-10.07</td>
<td>21.39</td>
<td>-2.61</td>
<td>8.92</td>
</tr>
<tr>
<td>Electricity</td>
<td>7.88</td>
<td>16.46</td>
<td>16.49</td>
<td>15.10</td>
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</table>

Total 8.24 11.75 6.88 7.95 347.60 420.81 100.00

Source: Bank Indonesia

Low NPL ratio…

NPL per Economic Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>NPL Gross (%)</th>
<th>Nominal NPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Trade</td>
<td>4.10</td>
<td>3.79</td>
</tr>
<tr>
<td>Others (Household Consumption)</td>
<td>1.59</td>
<td>1.55</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.70</td>
<td>2.53</td>
</tr>
<tr>
<td>Construction</td>
<td>3.74</td>
<td>2.68</td>
</tr>
<tr>
<td>Business Services</td>
<td>3.67</td>
<td>3.14</td>
</tr>
<tr>
<td>Mining</td>
<td>1.41</td>
<td>1.33</td>
</tr>
<tr>
<td>Electricity</td>
<td>1.63</td>
<td>1.52</td>
</tr>
<tr>
<td>Total</td>
<td>2.59</td>
<td>2.37</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia

Sluggish credit growth…

Credit Growth based on Usage

Source: Bank Indonesia

Weak regional lending …

Credit Growth by Region

Source: Bank Indonesia

Bank Indonesia

Monetary Policy Report  ■  Quarter I 2020