

economic

WEEKLY REVIEW SERIES

The Tale of Delta Variant & Macro Policy Responses



Indonesia Macro Data Forecast

| Macro Indicators | 2020 | 2021F |
|--------------------------|--------|-----------|
| Real GDP (%YoY) | -2.07 | 3.76 |
| Average Inflation (%YoY) | 2.04 | 1.87 |
| BI-7 DRR (%) | 3.75 | 3.5 |
| Budget Deficit (%GDP) | 6.09 | 5.42 |
| USD/IDR | 14,500 | 14,400 |
| 10 Year Indo GB (%) | 5.89 | 6.45-6.64 |
| JCI | 5,979 | 6,320 |
| EPS Growth (%) | -30 | 20 |

Source : BI, MoF, BPS, MNCS Estimate

Global & Domestic Key Rates

| Rates (%) | Dec-20 | Jul-21* |
|------------------|--------|---------|
| BI-7 DRR | 3.75 | 3.50 |
| Lending Facility | 4.50 | 4.25 |
| Deposit Facility | 3.00 | 2.75 |
| 10 Year Indo GB | 5.89 | 6.30 |
| FFR | 0.25 | 0.25 |
| ECB Rate | 0.00 | 0.00 |
| BoE Rate | 0.10 | 0.10 |
| BoJ Rate | -0.10 | -0.10 |

Source : Bloomberg, BI as of July 23, 2021

Weekly Notes :

The widespread of SARS-CoV-2 Delta variant has threatened the world economy, Indonesia is no exception. Surging infection cases associated with variant of concern (VOC) has pushed a stricter domestic public health intervention. BI keeps its accommodative stance meanwhile from fiscal side another additional budget is allocated to healthcare and social aid to limit the viral infection impact to the economy as well as maintaining recovery momentum.

The Variant of Concern (VOC) : Delta Virus

Like any other of virus such as influenza, SARS-CoV-2 that cause Covid-19 has mutated into several variant. One of the recent threat comes from the delta variant that was firstly found in India October last year. This variant is also found in Indonesia and associated with the second wave outbreak. Although recent cases was recorded a drop, we are still concern about the lower testing performed that might lead to many unreported cases.

Easy Monetary Policy Remains in Place

As we have expected, domestic central bank kept BI 7 Day Reverse Repo Rate at 3.5% or the lowest level in history. The focus of monetary policy is to maintain rupiah stability as well as fostering economic growth. Elsewhere like in U.S. and Europe, the central banks easy policy is still in place although persistent and higher inflation than what had central bank expected in U.S. has opened the discussion for the Fed tapering off. However one that should be aware of is the risk of uncertainties still haunt the global economy.

Additional PEN Budget

In response to the implementation of Emergency Public Activity Restriction (PPKM Darurat) that last nearly a month in July, government increase economic recovery program (PEN) budget from IDR699.43 tn to IDR 744.75 tn. The budget increase focuses on healthcare and social assistance. Government has stated to finance the additional spending budget refocusing and reallocation is needed. Therefore government financing needs through bond issuance could be limited in order to maintain fiscal balance under what has been set and to limit government debt from rising that could likely to weaken sovereign credit metrics. In addition, government front loading financing strategy in the 1H21 we believe will support fiscal outlook amid rising the possibility of monetary policy normalization. We expect 10 year Indo GB yield would likely to move within the range of 6.3-6.5% in 3Q21 on the back of global low yield environment and government effort to maintain prudent fiscal policy.

Challenges to Chase the Dream

Accommodative macro policy approach will still be the key theme for 2021. However challenges to support the growth are coming from limited loan growth & declines in loan interest rate as well as slow regional budget realization.



Tirta Widi Gilang Citradi

Economist & Fixed Income Analyst

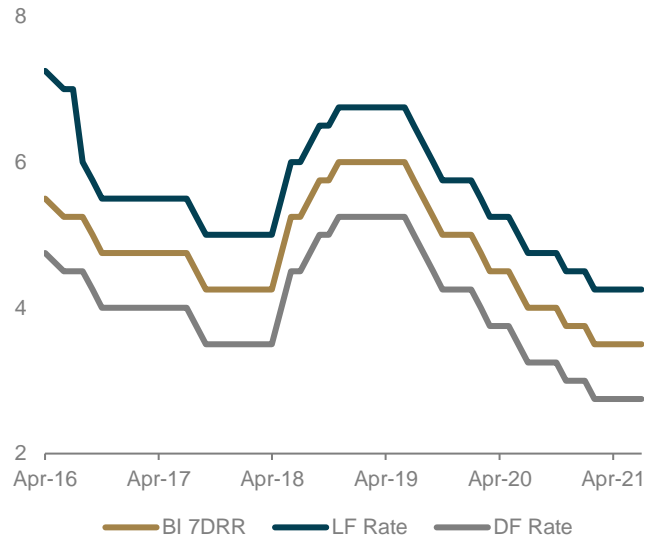
Weekly Data Snapshot

Exhibit 1. Covid-19 Evolution

| WHO Labels | Lineage | Earliest Documented Samples | Notes |
|------------|-----------|-----------------------------|----------------------------|
| Alpha | B.1.1.7 | U.K., Sep-20 | |
| | B.1.351 | | |
| Beta | B.1.351.2 | South Africa, May-20 | |
| | B.1.351.3 | | |
| | P.1 | | Variants of Concern (VOC) |
| Gamma | P.1.1 | Brazil, Nov-20 | |
| | P.1.2 | | |
| | B.1.617.2 | | |
| Delta | AY.1 | India, Oct-20 | |
| | AY.2 | | |
| | AY.3 | | |
| Eta | B.1.525 | Multiple Countries, Dec-20 | |
| Iota | B.1.526 | U.S., Nov-20 | Variants of Interest (VOI) |
| Kappa | B.1.617.1 | India, Oct-20 | |
| Lambda | C.37 | Peru, Dec-20 | |

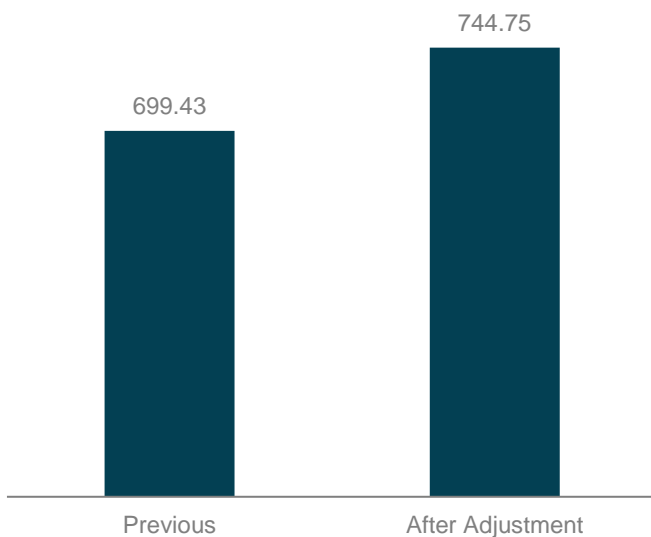
Source : WHO

Exhibit 2. Indonesia Policy Rates (%)



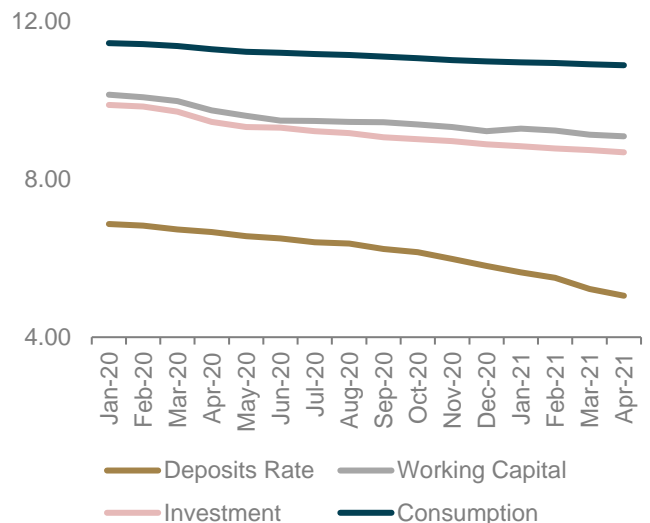
Source : Bank Indonesia

Exhibit 3. Additional PEN Budget (IDR tn)



Source : Ministry of Finance

Exhibit 4. Deposits vs Loan Rates (%)



Source : Bank Indonesia & OJK

Contents

| | |
|---------------------------------------|---|
| The Variant of Concern : Delta Virus | 5 |
| Easy Monetary Policy Remains in Place | 6 |
| Additional PEN Budget | 7 |
| Challenges to Chase the Dream | 9 |

The Variant of Concern : Delta Virus

SARS-CoV-2 is a highly mutating virus. WHO now classify the variants found into two separate groups namely variants of concern (VOC) and variants of interest (VOI). The first group has been found to have an altered virus properties that cause increase in transmissibility and virulence decreasing effectiveness of public health and social measures or available diagnostics, vaccines and therapeutics.

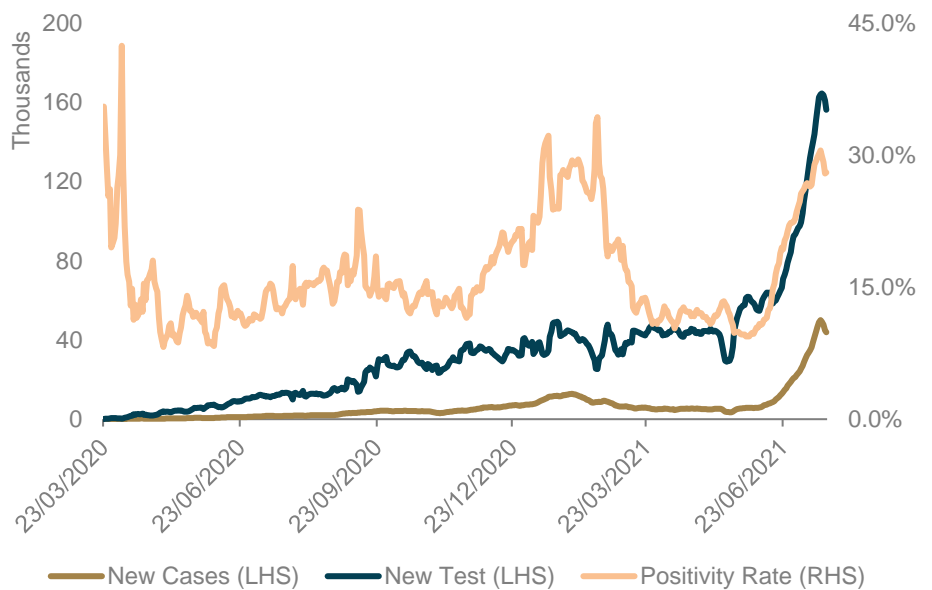
Delta variant is one of the kind. It was first found in India in October-20. Recent study has showed that this variant is 60% more transmissible than the previous dominant of Alpha. Now this variant has been found in 116 countries across the world including Indonesia.

In early May-21, Indonesia Ministry of Health confirmed that delta variant and two others (Alpha & Beta) were found in Indonesia. Later on, daily infection cases began to rise and the mortality cases followed the suits. The exponential phase of the second wave outbreak started in early June-21.

Delta variant was first documented in India last year, but now spreading across the world and threatening global and economic recovery

About 90% of Delta variant is the cause of virus transmission in Jakarta as the epicenter of the outbreak. Daily cases have spiked exceeding 50 thousands but now the infection started to slow. However the potential upside of infection still widely open as testing performed slightly dropped yet positivity rate remained above WHO threshold of 5% indicating virus transmission likely to occur. In the latest statement WHO also warned the government not to early to ease social restriction as PPKM Darurat is set to over in July 25, 2021.

Exhibit 5. Covid-19 Development in Indonesia



Note : New cases & test are smoothed
Source : Our World in Data

Easy Monetary Policy Remains in Place

This week Bank Indonesia (BI) decided to hold BI 7 Day Reverse Repo Rate at 3.5%; Deposit Facility Rate at 2.75% and Lending Facility Rate at 4.25% as we have expected. Monetary & macroprudential policy stance remains accommodative to support the economy. Since the Covid-19 pandemic began in 2020, BI has cut the benchmark rate 5x each 25 bps totaled of 150 bps. The magnitude has been equal to Fed Funds Rate (FFR) cut. We believe holding current level of interest rate is crucial to maintain rupiah stability and anchoring inflation expectation.

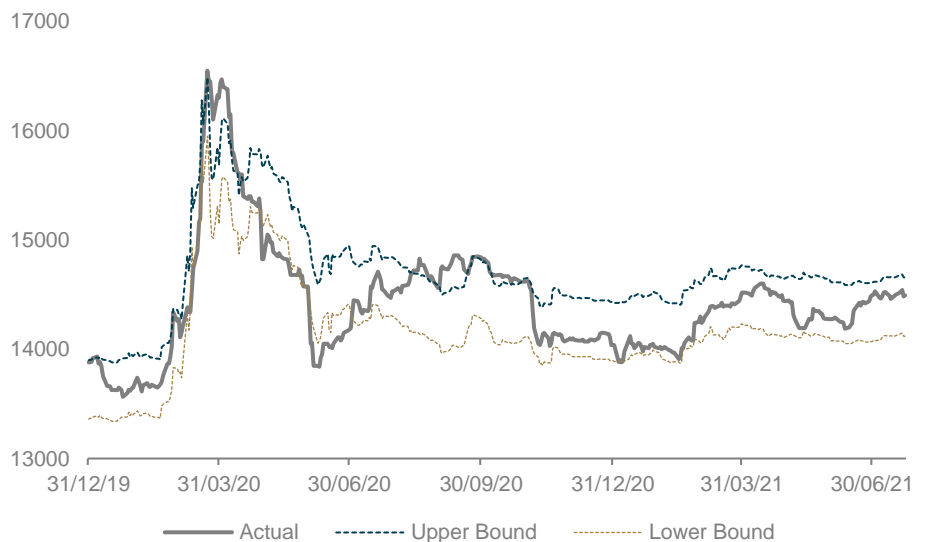
Year to date rupiah performance is still depreciated by 3.21% against USD. Currently rupiah is still traded within range of its fundamental value (14,073/USD-14,610/USD). We believe with 2.17% of real policy rate, low current account deficit and high FX reserves position will support domestic currency to move within its fundamental value.

Global monetary stance remained dovish. From the Euro Area, ECB maintained its interest rate at 0%. ECB revised its forward guidance on interest rates during July meeting, saying it expects rates to remain at their present or lower levels until it sees 2% inflation level is coming. ECB also retained the pace of PEPP at EUR20 bn per month.

Pressure comes from U.S. persistent and higher inflation than what had central bank expected. CPI figure hiked 5.4% from the same month a year ago, meanwhile PCE index which the central bank used to gauge inflation also above 3% since April-21. Should U.S. high inflation and inflation expectation as well as solid economic data are coming ahead, these open the prospect of monetary normalization or tapering off discussion among central bankers. Therefore maintaining rupiah stability is main focus for BI right now.

Bank Indonesia decided to hold BI 7 Day Reverse Repo Rate at 3.5% focusing on rupiah stability and pro-growth policy

Exhibit 6. USD/IDR Fundamental Value



Source : Bloomberg, MNCS Calculation

Additional PEN Budget

In the press conference Wednesday (07/23/21), Minister of Finance Sri Mulyani stated that government decided to increase Economic Recovery Program (PEN) budget from IDR699.43 tn to IDR744.95 tn. Details of the budget allocation and utilization of the PEN Program in the 2021 could be seen in the Exhibit 7.

Exhibit 7. PEN Program Budget Allocation

| Sectors | Amount (IDR Tn) | | Allocation and Utilization |
|-----------------------------|-----------------|----------|---|
| | Previous | Adjusted | |
| Healthcare | 176.30 | 214.95 | Covid-19 testing & tracing |
| | | | Covid-19 treatment cost |
| | | | Incentives and compensation for the death of health workers |
| | | | Vaccine, Drugs & PPE procurement |
| | | | Assistance for JKN contributions |
| | | | Health taxation incentives |
| Social Protection Program | 157.41 | 187.84 | PKH Program |
| | | | Kartu Sembako |
| | | | BST |
| | | | Village BLT |
| | | | Pre-employment Card |
| | | | Internet Quota Assistance |
| MSME & Corporate Support | 184.83 | 161.20 | Electricity Subsidy |
| | | | Provision of assistance for BPUM |
| | | | IJP MSME's & Corporations |
| | | | Placement in Banks |
| Priority Program | 122.44 | 117.94 | Interest Subsidy |
| | | | Ministry/Institution intensive work program |
| | | | Tourism : KSPN, Ecotourism, HR Training |
| | | | Food Security : Food Estate & Irrigation Programs |
| | | | ICT Infrastructure & Public Broadcasting |
| Business Incentives | 58.46 | 62.83 | Industrial Estate |
| | | | Incentives for PPh 21 DTP, Final PPh of DTP's SME |
| | | | Exemption of PPh 22 Imports |
| | | | Reduction of Installments of PPh 25 |
| | | | Preliminary Returns of VAT |
| | | | Lowering tax for Corporate Income Tax |
| VAT for DTP Property | | | |
| Discount for Car Luxury Tax | | | |

Source : Ministry of Finance

The increase of PEN program budget is achieved through budget refocusing & reallocation. The government also commit to optimize the use of excess budget balance in order to keep FY21 budget deficit does not widen from what had been set at 5.7% GDP. Besides that, this action we expect to support the government bond issuance efficiency as well as maintaining state debt to GDP to not rising too far that could weaken sovereign credit metrics.

Increasing PEN program budget is achieved through budget refocusing & reallocation

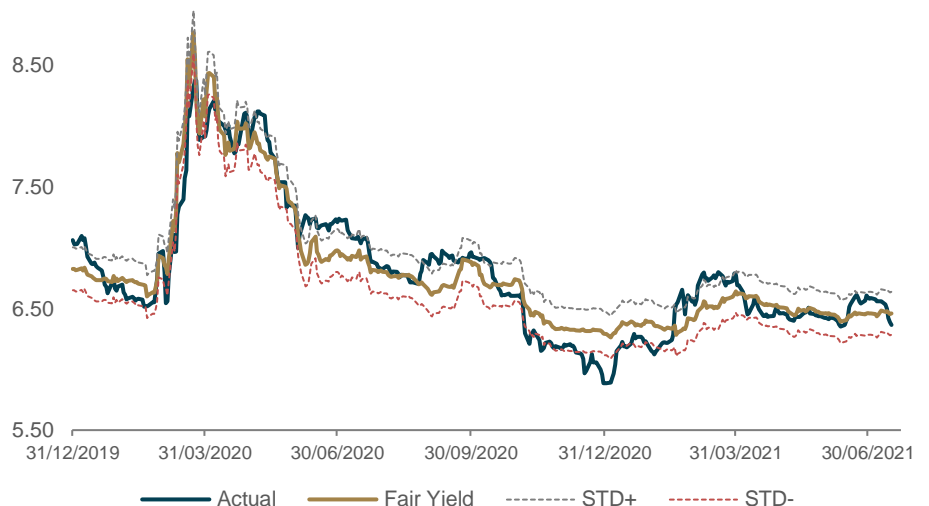
Global low yield environment combined with government effort to keep prudent fiscal policy, low yield Indo GB is justified

As of the end of June-21 state revenue recorded an increase of 9.1% YoY to IDR886.9 tn. Tax revenue grew 4.9% YoY to IDR557.8 tn, excise tax revenue increased 31.1% YoY to IDR122.2 tn, while non-tax revenue added 11.4% YoY reaching IDR206.9 tn. From the spending side, state expense grew 9.4% YoY to IDR1,170.1 tn including central government spending IDR796.3 tn and regional transfer or IDR373.9 tn. In 1H21 budget deficit reached IDR283.2 tn or equivalent to 1.72% GDP. Government financing program realization was at IDR419.2 tn or 41.7% from the target. However MoF revised down budget deficit by IDR66.8 tn from previously at IDR1,006.4 tn to IDR939.6 tn.

As of July 23, 2021 government has issued IDR712.06 tn of debt securities comprised of IDR638.9 tn in domestic currency denominated debt securities and IDR73.16 tn in foreign currency mainly USD, EUR and JPY. Government commitment to optimize excess budget balance has reduced the needs for debt securities issuance. According to Directorate of Financing & Risk Management, the needs for debt securities issuance (nett) for FY21 will likely to be at IDR924 tn lower than previously at IDR1.207 tn. Surging debt in 1H21 was driven by government front loading strategy to minimize the impact of possible U.S monetary policy normalization.

Although U.S. CPI jumped higher and persistently in the last 3 months, 10 year U.S. treasury yield has been traded within range that is the lowest in the last 5 months. It is such an anomaly considering the possibility of tapering off in early 2022. However the widespread of Delta variant in U.S. as well as in other countries become the concern and has forced investor preference to hold government bond that is perceived as less riskier asset relative to equities. Global low yield environment has been a catalyst for Indo GB price recent rally. Combined with government effort to maintain prudent fiscal policy, low Indo GB yield is justified. We expect 10 year Indo GB yield to be traded within range of 6.3-6.5% in 3Q21.

Exhibit 8. 10 Year Indo GB Fair Yield



Source : Bloomberg, MNCS Calculation

Challenges to Chase the Dream

The dream to lift up Indonesia's economy from recession is facing both risk and challenges. Covid-19 outbreak still become the single biggest risk to the economy. Meanwhile challenges are coming from lower than expected credit growth and slow budget realization.

According to Bank Indonesia (BI) total value of loans in Indonesia increased 0.6% YoY in June-21. This was the first time of positive growth for loan disbursement in the 8 months. Positive loan growth in June-21 was in line with BI recent survey to banking industry players that stated there will be an improvement in loan disbursement for 2Q21. Rising loan growth was driven by loosening of banking lending standard index. However as we have anticipated loan growth remained limited. BI expects loan growth for FY21 will be at 4-6%.

Despite monetary policy continues, loan interest rates drop remained limited compared to deposit rates drop and benchmark rate cut. According to BI, the overnight interbank rate and 1-month deposit rate have fallen by 153 bps and 209 bps respectively since May 2020 to 2.70% and 3.60% in May 2021. Meanwhile interest rate for working capital loan declined only 105 bps; investment loan downed 120 bps and consumption loan lowered 56 bps. Both lower loan disbursement growth and prolonged lagging monetary policy transmission could hinder the economic growth potential.

The second challenge is coming from budget realization. As of 1H21, PEN budget realization was only IDR252.3 tn or 33.86% from the newly set target. Aside from state budget, regional budget is also focused on social assistance. Currently there is IDR25.46 tn in regional budget for social aid. However the realization figure is considered low. As of July 19, 2021 only 18.5% from the budget or equivalent to IDR4.7 tn was realized. From 542 regions only 24 regions (4.4%) that surpass 50% budget realization. Central and regional government needs to push budget realization.

Exhibit 9. Regional Budget Realization

| Realization Cluster | %Regions | Budget (IDR Tn) | Realization (IDR Tn) | %Realization |
|---------------------|----------|-----------------|----------------------|--------------|
| 0-15% | 59.8 | 12.31 | 0.76 | 6.17% |
| 15-30% | 23.6 | 6.85 | 1.54 | 22.48% |
| 30-50% | 12.2 | 5.62 | 1.99 | 35.41% |
| >50% | 4.4 | 0.67 | 0.41 | 61.19% |

Source : Ministry of Finance

Increasing PEN program budget is achieved through budget refocusing & reallocation

MNC Research Industry Ratings Guidance

OVERWEIGHT: Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

NEUTRAL: Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

UNDERWEIGHT: Stock's total return is estimated to be below the average total return of our industry coverage universe over next 6-12 months

MNC Research Investment Ratings Guidance

BUY : Share price may exceed 10% over the next 12 months

HOLD : Share price may fall within the range of +/- 10% of the next 12 months

SELL : Share price may fall by more than 10% over the next 12 months

Not Rated : Stock is not within regular research coverage

PT MNC SEKURITAS

MNC Financial Center Lt. 14 – 16

Jl. Kebon Sirih No. 21 - 27, Jakarta Pusat 10340

Telp : (021) 2980 3111

Fax : (021) 3983 6899

Call Center : 1500 899

Disclaimer

This research report has been issued by PT MNC Sekuritas, It may not be reproduced or further distributed or published, in whole or in part, for any purpose. PT MNC Sekuritas has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; PT MNC Sekuritas makes no guarantee, representation or warranty and accepts no responsibility to liability as to its accuracy or completeness. Expression of opinion herein are those of the research department only and are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment. PT MNC Sekuritas and its affiliates and/or their offices, director and employees may own or have positions in any investment mentioned herein or any investment related thereto and may from time to time add to or dispose of any such investment. PT MNC Sekuritas and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discusses herein (or investment related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.