

Bank Indonesia maintained BI-7DRRR for the 7th consecutive time

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.00
Inflation (% yoy, avg)	4.21	3.79
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.96	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

The existing level of BI-7DRRR rate remains sufficient to ensure that inflation stays within the target range.

- In the Aug-23 meeting, Bank Indonesia (BI) decided to keep the benchmark rate, specifically BI 7-Day Reverse Repo Rate (BI-7DRRR), at 5.75%. Additionally, BI retained the deposit facility rate at 5.00% and the lending facility rate at 6.50%.
- This decision aligns with the ongoing monetary policy strategy of maintaining control over inflation within the target range of 2 – 4% for the remainder of 2023, and 1.5 – 3.5% for 2024.
- The primary focus of the monetary policy is to reinforce the stability of the Rupiah exchange rate, thereby mitigating potential disruptions stemming from uncertainties in the global financial markets.
- To stimulate domestic economic growth, loose macroprudential policies continue to concentrate on enhancing the efficacy of providing liquidity incentives to banks, particularly to promote lending and financing in sectors, including downstream, housing, tourism, and inclusive and green financing.

Key Rates (%)	Dec-22	Aug-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.55
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.25
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 23-Aug-23

Source: Bloomberg

To counteract the risks associated with an increase in FFR and a strong USD, BI has implemented several measures, including the introduction of the Sekuritas Rupiah Bank Indonesia (SRBI).

- BI continues its efforts to stabilize the Rupiah exchange rate through interventions in the foreign exchange market, focusing on spot and Domestic Non-Deliverable Forward (DNDF) transactions.
- The Sekuritas Rupiah Bank Indonesia (SRBI) is introduced as a pro-market monetary operation (contraction) instrument. This initiative aims to foster deeper development of the money market, attract foreign capital inflows in the form of portfolio investments, and optimize the use of SBN owned by BI as underlying assets.
- SRBI possesses attributes such as utilizing SBN as underlying assets, with maturities ranging from 1 week to 12 months, issued electronically, issued and traded using a discount system, transferable, and can be owned by residents or non-residents in the secondary market.
- BI continues to refine the effectiveness of the foreign exchange export proceeds (DHE) instruments, in line with the implementation of Government Regulation No. 36 of 2023. BI envisions that this policy could attract a monthly influx of USD8 – 9 billion.

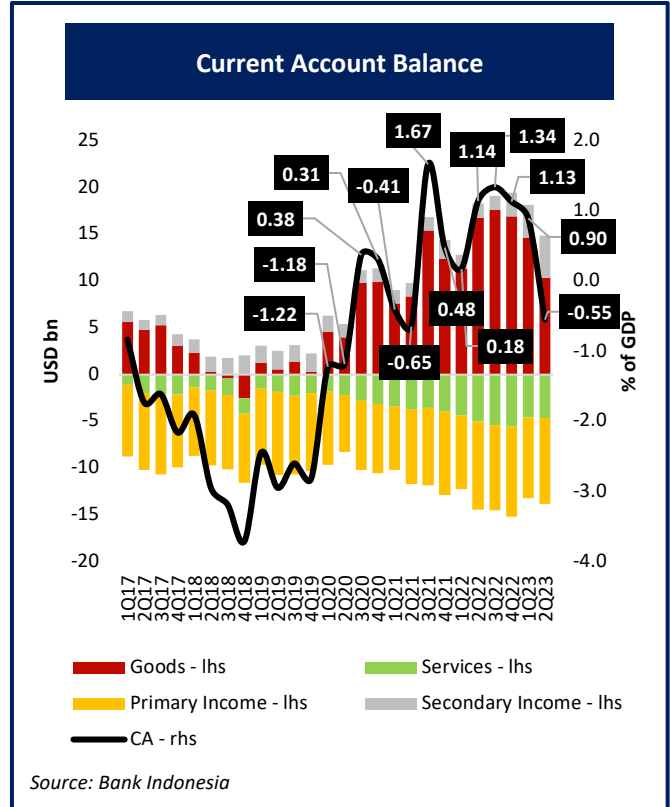
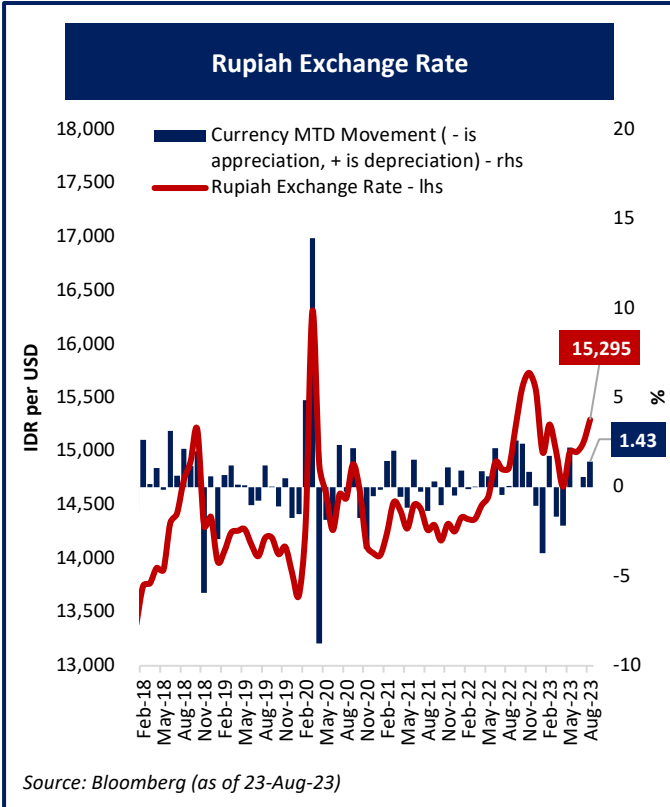
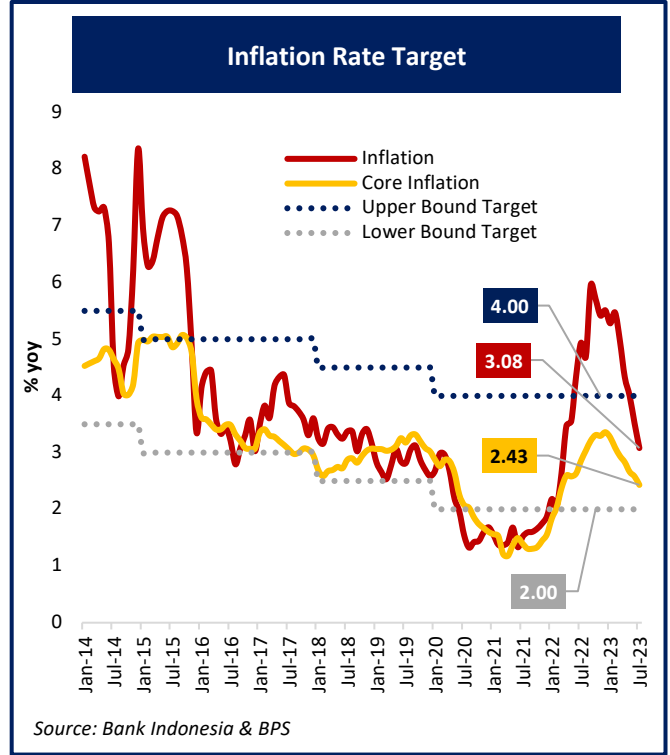
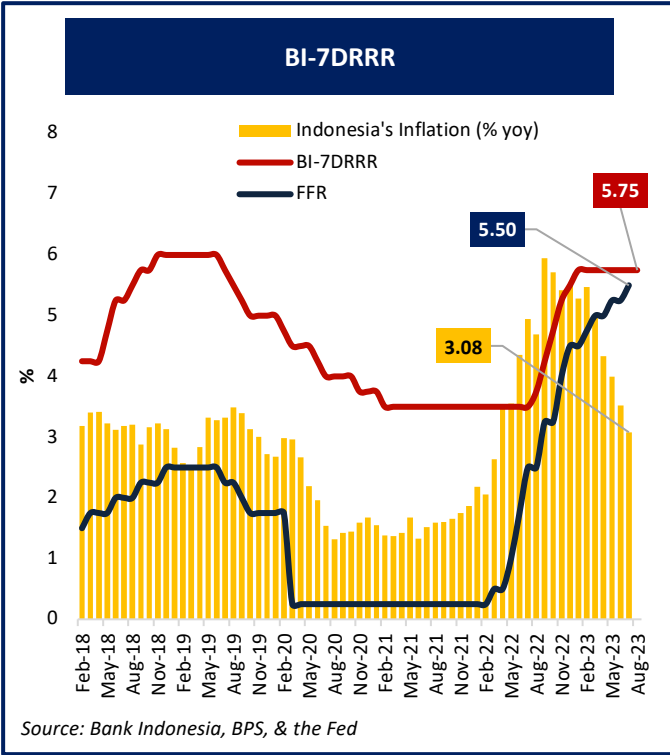
BI anticipates that Indonesia's economic performance will exhibit resilience despite increasing global uncertainties.

- BI's projections indicate that headline and core inflation rates are expected to reach 2.9% and 2.5%, respectively, by the conclusion of 2023. For 2024, the inflation rate is projected to range between 1.5 – 3.5%.
- Indonesia's economic growth for 3Q23 is forecasted to be in the range of 5.11 – 5.15% yoy, and for the entire year of 2023, it is expected to be around 4.5 – 5.3%. Looking ahead to 2024, growth is anticipated to be between 4.7 – 5.5%.
- Loan growth showed improvement, rising from 7.76% yoy in Jun-23 to 8.54% yoy in Jul-23. Moreover, the expansion of third-party funds strengthened from 5.79% yoy in Jun-23 to 6.62% yoy in Jul-23. BI continues to anticipate that loans will expand by 9 – 11% in 2023 and 10 – 12% in 2024.

Faisal Rachman
Senior Economist
faisal.rachman@bankmandiri.co.id

OUR VIEW: We maintain our projection that BI will uphold BI-7DRRR at 5.75% in the remaining of 2023 and anticipate the possibility of rate cut in 2024.

- The prevailing conditions within major economies continue to indicate that prominent global central banks will persist in implementing higher-for-longer policy rates. Consequently, global demand continues to wane, nullifying the gain from improving mobility post the pandemic. This situation amplifies the threat of a global economic slowdown in 2023.
- This, in turn, has amplified uncertainty in the global financial markets. As a result, both the stock and SBN markets in Indonesia have registered month-to-date net outflows, and thus the Rupiah exchange rate has faced month-to-date depreciation in Aug-23.
- Considering these factors, it is pivotal for BI to sustain stability, even though Indonesia's inflation rate has remained within BI's target range of 2 – 4% since May-23. The 2Q23 current account balance (CA) also presents a hurdle for BI to loosen BI-7DRRR this year, as it has reverted to a deficit of -0.55% of GDP.
- Our projection holds that inflation will continue its downward trend, reaching approximately 3% by the conclusion of 2023. This projection is rooted in the belief that the government's efforts will effectively mitigate the impact of El Niño on food inflation. Additionally, we estimate that the full-year 2023 CA will reflect a manageable deficit of -0.65% of GDP.
- We are of the opinion that the instruments of foreign currency term deposit for DHE and SRBI will offer substantial backing to the foreign reserves, consequently ensuring stability in the Rupiah exchange rate.
- *To sum up, our outlook remains consistent with BI keeping BI-7DRRR at 5.75% for the remainder of 2023. Looking ahead, the potential for BI to cut BI-7DRRR becomes apparent in 2Q24. The Fed historically tends to maintain FFR for an average of 6 – 7 months after its peak during periods of high inflation. Thereby, we expect FFR cut to happen in 2Q24.*

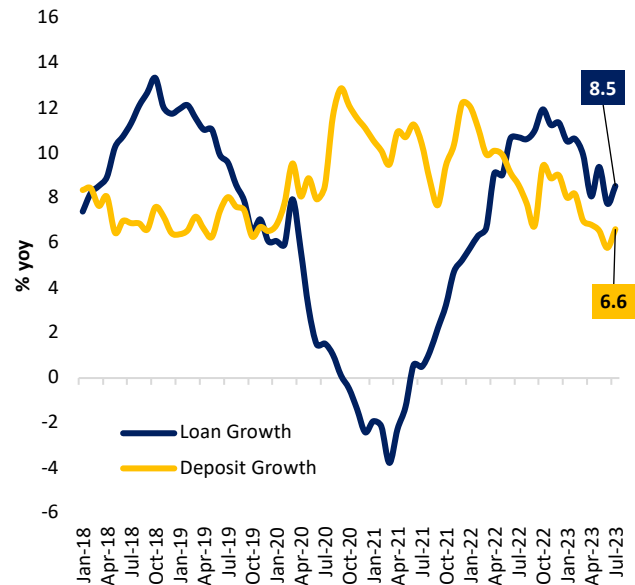


Bank Indonesia Projection

Indicators	2023F	2024F
Global Growth (%)	2.7	
Indonesia's GDP (%)	4.5 - 5.3	4.7 - 5.5
Indonesia's Inflation (%)	2.0 - 4.0	1.5 - 3.5
Indonesia's CA Balance (% of GDP)	-0.4 - 0.4	
Indonesia's Loan Growth (%)	9.0 - 11.0	10.0 - 12.0

Source: Bank Indonesia

Loan & Deposit Growth



Source: OJK & Bank Indonesia

Macroeconomic and Financial Market Research Department

Chief Economist

Andry Asmoro

Head of Macroeconomic and Financial Market Research

Dian Ayu Yustina

Senior Economist

Faisal Rachman

Senior Quantitative Analyst

Reny Eka Putri

Junior Economist

Andhi Prasetyo Hadi

Junior Economist

Shahifa Assajjadiyyah

Office Address:

Plaza Mandiri 18th Floor

Jl. Jend. Gatot Subroto Kav. 36 – 38, Jakarta 12190, Indonesia

Tel: +62 21 5245516

Fax: +62 21 5210430

email: oce@bankmandiri.co.id

www.bankmandiri.co.id

Disclaimer: This material is for information only. The information herein has been obtained from sources believed to be reliable, but we do not warrant that it is accurate or complete, and it should not be relied upon as such. Opinion expressed is our current opinion as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redistributed to others without written permission from PT Bank Mandiri, Tbk. For further information please contact **Office of Chief Economist, Macroeconomic and Financial Market Research Department** at Ph. (021) 524 5272 or Fax. (021) 521 0430.