

Macro Brief

Office of Chief Economist
BANKING INDUSTRY UPDATE
23 October 2023



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	15,000-15,300
CA (% of GDP)	0.96	-0.65
BI 7-day RR Rate (%)	5.50	6.00

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

Key Rates (%)	Dec-22	Oct-23*
BI 7-day RR Rate	5.50	6.00
Deposit Facility Rate	4.75	5.25
Lending Facility Rate	6.25	6.75
IDR 10Y Bond Yield	6.92	7.27
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.50
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 23 Oct 2023

Source: Bloomberg

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Banking Update Sep-23: Stable loan growth amid rising global challenges

- **Loan growth in Sep-23 was still quite high at 8.96% yoy (vs. 9.06% yoy in Aug-23), driven by consumption and investment loans.** On a year-to-date basis, loan growth this year has only reached 6.44%, still lower than the same period last year at 8.77%. There was a slight slowdown in lending compared to lending in Aug-23, due to the tightening of lending standards especially on investment loans and working capital loans. Based on a survey of new lending in Sep-23, there were indications of increased credit to the fisheries sector, financial intermediaries, and the electricity, gas, and water sector.
- Based on detailed data as of Jul-23, the highest credit growth was dominated by investment and consumption loans at 11.2% yoy and 9.3% yoy, respectively, while the largest portion of credit, working capital loans grew the least at 6.6% yoy, indicating a slowdown in production activity.
- The productive loan segment in the transportation and storage sector grew the highest, driven by the positive impact of increased foreign tourist visits and port activities. On the other hand, in the consumptive segment, loan growth to the property sector was stronger driven by sales of small houses and apartments (less than 22 m²). This was also supported by the Government's policy to encourage access to housing finance for Low-Income Communities (MBR) by raising the income limit to a maximum of IDR7 mn from IDR6 mn previously.
- In terms of credit quality at Aug-23, NPLs were maintained at a low position of 2.50%, driven by prudent governance of the lending process and the continuing recovery of the industrial sectors.
- **Up to now, liquidity has tightened slightly with LDR at 83.9%. Deposits grew slightly stronger in Sep-23 at 6.54% yoy (compared to 6.24% yoy in Aug-23).** This increase was supported by an increase in current accounts and deposits. However, on an annualized basis (Jan-Sep-23), deposits growth still contracted by -0.08% (vs. 2.24% ytd in Aug-22).
- By currency, IDR deposit grew by 5.83% yoy, while FX deposit growth slowed down by 7.8% yoy. FX deposit growth weakened significantly from the previous month of 14% yoy. The weakening is in line with the higher fund outflow due to rising demand for import and debt repayment. Regulation of repatriation of the export proceeds have shown a positive development, partly cushioning the pressure on the FX liquidity.
- **BI policy will still focus on liquidity in the banking system.** BI is more aggressive in injecting liquidity into the banking system through term repos and FX swaps amounting to IDR204.8 tn (IDR176.7 tn in FX swaps and IDR28.1 tn in term repos), higher than the liquidity intervention at the end of Aug-23 of IDR189.9 tn.
- **On its last Board of Governors' meeting BI issue a few policy measures to support banks' liquidity, financial market deepening and economic growth.** The measures include the strengthening of liquidity incentives regulation, liquidity easing policy through reducing the Macroprudential Liquidity Buffer (PLM) ratio and introduction of new monetary instrument SVBI and SUVBI. Please refer to our previous report Macro Brief: BI7DRRR

OUR VIEW: We are cautious on tightening liquidity especially on the FX market due to the recent rising global market challenges.

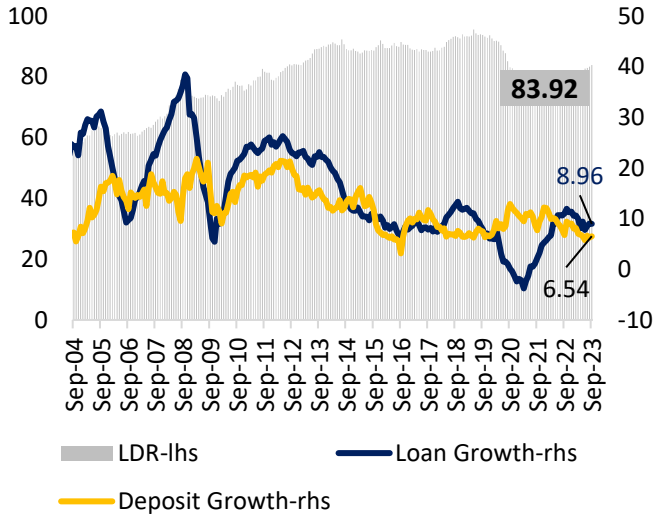
- **Rising concern on hawkish Fed, slowdown in China's economy and worsening geopolitical situation in Israel and Palestine drove a significant capital outflow from Rupiah assets.** The positive impact of export proceeds repatriation (DHE) was less significant as dollar demand was also higher driven by rising import and debt repayment. This created pressure in the FX liquidity and the currency.
- **Bank Indonesia's move in tightening the monetary policy by raising the BI-7DRRR by 25 bps is aimed to maintain attractive spread to the FFR** which is expected to be raised in the November FOMC meeting. The higher benchmark rate is expected to be transmitted to market interest rate and can bring positive impact on deposit growth, hence will reduce pressure on liquidity going forward.
- **Bank Indonesia's other macro prudential policy measures also expected to improve liquidity condition going forward.** These policies should support banks to be able to continue channeling credit amidst the unfavorable global sentiments. The implementation of liquidity incentives (KLM), for example, is expected to bring additional banking liquidity by IDR50 tn by the end of the year. Additional liquidity is also expected to come from the implementation of the Macroprudential Liquidity Buffer (PLM) reduction, which is expected to add around IDR 81 tn to the system. **Our nowcast shows that loan and deposit growth in 2023 will reach 9.0% and 7.8%, respectively.**

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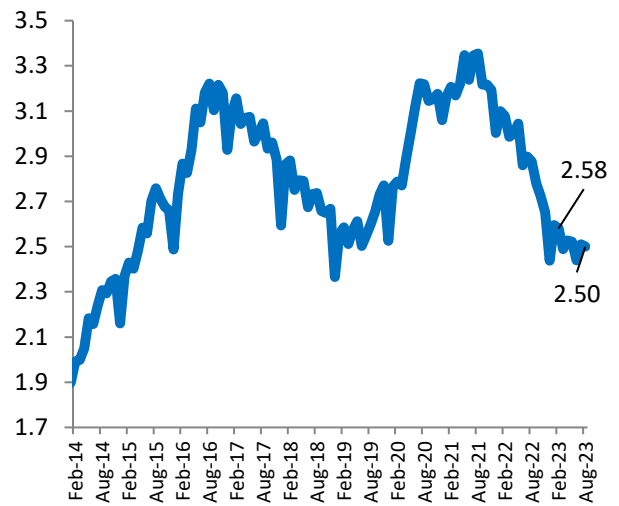


Loan, Deposit Growth (% yoy) and LDR



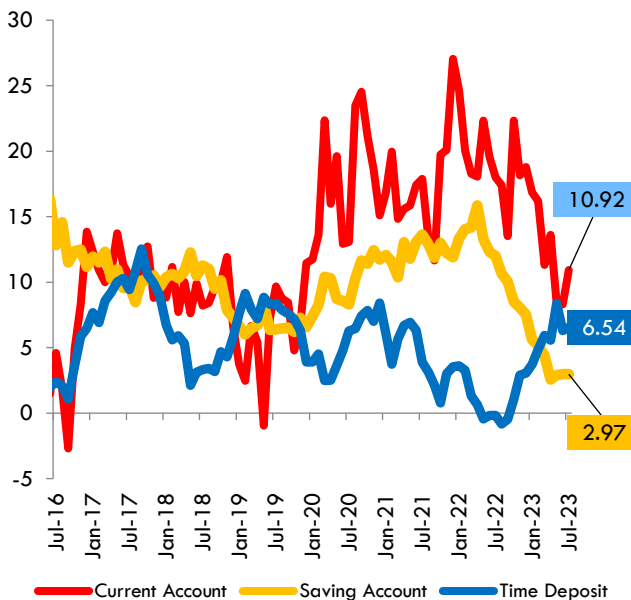
Source: Indonesian Banking Statistics, OJK

Non-Performing Loan Ratio (%)



Source: Indonesian Banking Statistics, OJK

Deposit growth by types (% yoy)



Source: Indonesian Banking Statistics, OJK

Third Party Fund Forex (%)

Year	Forex			Kurs
	in IDR bn	in USD bn	Growth (%yoy)	Rp/USD
2017	714,064	52.7	1.93	13,561
2018	771,945	53.3	1.13	14,496
2019	821,313	58.6	10.09	14,010
2020	888,992	63.0	7.51	14,105
2021	1,018,847	71.3	13.10	14,293
2022	1,229,027	78.9	10.4	15,568
July-23	1,164,975	77.3	12.1	15,080
Aug-23	1,175,970	77.2	5.10	15,230

Source: LPS

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