

Bank Indonesia maintains BI-7DRRR for the eighth 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

Key Rates (%)	Dec-22	Sep-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	6.68
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 20-Sep-23

Source: Bloomberg

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The current policy stance remains adequate to ensure that inflation remains within the targeted range for both this year and the next.

- In Sep-23 meeting, Bank Indonesia (BI) decides to maintain the benchmark rate, BI 7-Day Reverse Repo Rate (BI-7DRRR), at the existing level of 5.75%. Additionally, BI keeps the deposit facility rate at 5.00% and the lending facility rate at 6.50% unchanged.
- This decision demonstrates the consistent approach of the monetary policy in ensuring that inflation stays at a low and controlled level within the specified target range of 2 – 4% for 2023 and 1.5 – 3.5% for 2024. The monetary policy continues to prioritize the stability of the Rupiah exchange rate as a proactive measure against any potential adverse effects stemming from global financial market uncertainties.
- A loose macroprudential policy remains in effect to stimulate the provision of bank loans/financing to the business sector through macroprudential liquidity incentive measures, with a particular focus on downstream industries, housing, tourism, and inclusive and green financing. This policy will take effect starting from 1-Oct-23.

The interest rate policy gains reinforcement through the issuance of the pro-market Sekuritas Rupiah Bank Indonesia (SRBI) monetary instrument.

- In the initial SRBI auction held on 15-Sep-23, there were bids amounting to IDR29.9 trillion, which exceeded the auction target of IDR7 trillion by 4.2 times. Additionally, in the second auction on 20-Sep-23, with a target of IDR5 trillion, the bids were 3.12 times the target, totaling IDR15.6 trillion.
- The secondary market for SRBI has already taken shape, with transactions reaching approximately IDR2.13 trillion, accounting for roughly 5% of the total value of the inaugural auction. Of these transactions, about 82% were conducted by non-residents.
- Furthermore, outstanding foreign currency term deposits (TD valas) for foreign exchange proceeds of export (DHE), or TD valas DHE, have reached USD1.3 billion, with the number of participating banks increasing from 12 to 16.

While global economic uncertainty remains elevated, it appears that the highest point of global policy rates is now in close proximity.

- According to BI's assessment, there is still potential for another increase in Fed Funds Rate (FFR) in Nov-23, marking the final rate hike for this year. Once it reaches this peak, it is expected that the FFR will remain stable, likely throughout the first half of 2024.
- Additionally, BI has noted that the European Central Bank (ECB) has already reached the peak of its policy rates, following 25 bps increase in Sep-23, resulting in the main refinancing operations rate reaching a 22-year high of 4.5%

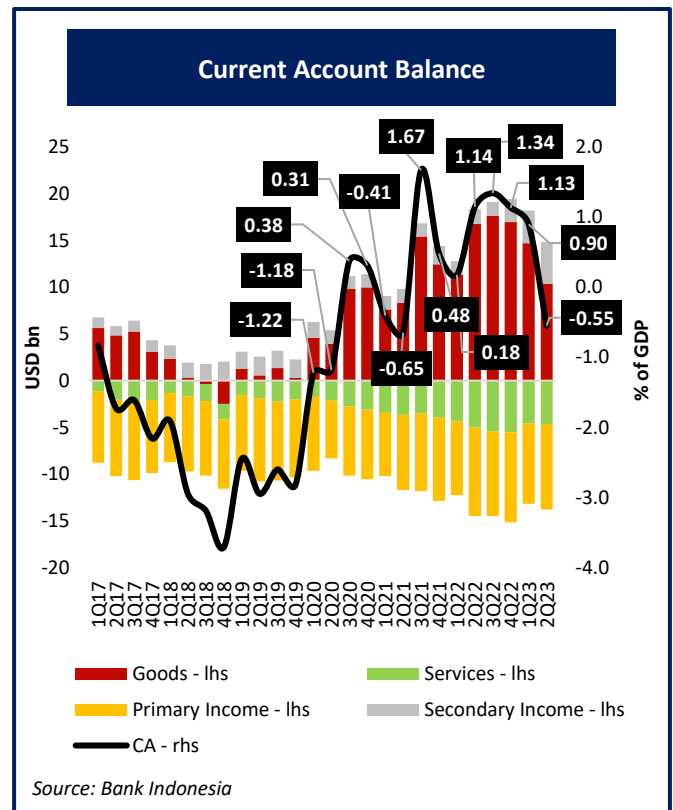
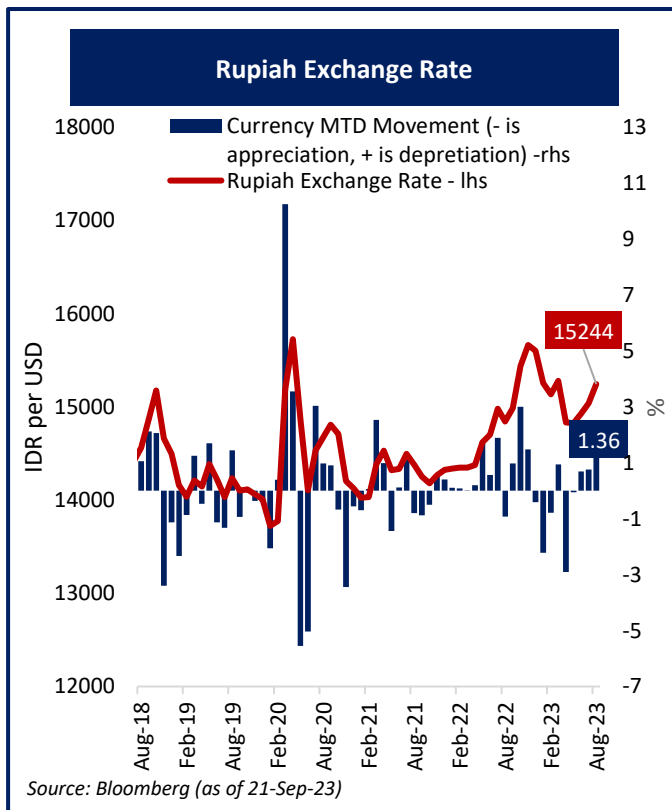
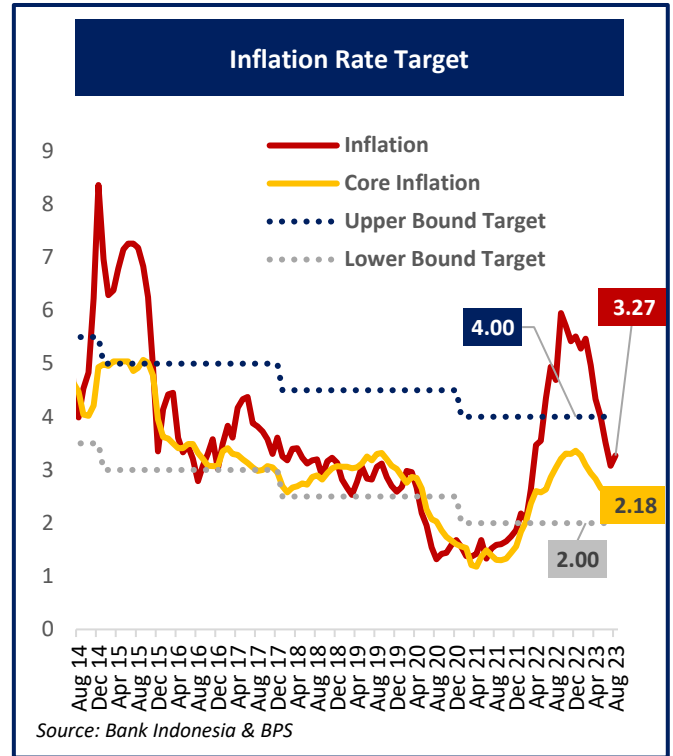
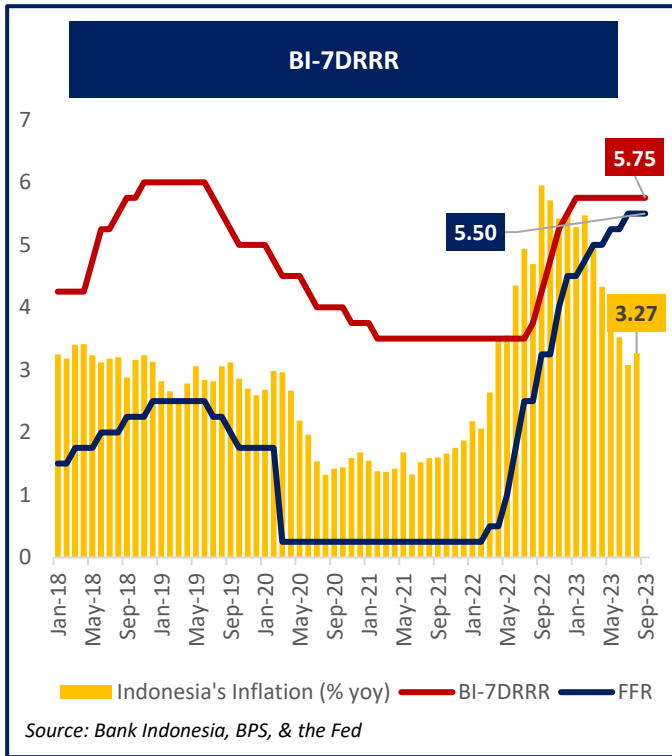
Indonesia's economic growth remains robust, and inflation is effectively managed within the specified target range.

- Loan in Aug-23 expanded by 9.06% yoy, showing an increase compared to the previous month's growth rate of 8.54% yoy. Liquidity in the banking sector during Aug-23 remained stable, with third-party funds growing by 6.24% yoy.
- Domestic inflation remains under control and at a low level. BI is presently collaborating with the government to ensure the stability of food prices, particularly for rice. It is anticipated that rice supply will be adequate until the first quarter of 2024, which will help maintain price stability. BI's estimate for inflation at the end of 2023 is approximately 3%.

- In early Sep-23, rice prices experienced an uptick as the new planting season began. While the El Niño phenomenon is present, its intensity appears to be relatively weak. Nevertheless, its duration may be longer than initially predicted, shifting from the previous estimate of concluding in late 2023 to early 2024. As of the second week of Sep-23, BI predicts that inflation for Sep-23 will be around 0.15% mom.

OUR VIEW: We expect BI to keep the BI-7DRRR steady at 5.75% for the remainder of 2023.

- Looking at external factors, the Fed, in line with widespread expectations, maintained FFR during the Sep-23 FOMC meeting, while also hinting at the possibility of another rate hike before the end of the year. However, there is a growing risk of a more hawkish stance, with the perception that there may be less room for rate cuts next year than previously anticipated.
- On the domestic front, Indonesia's inflation rate has declined and currently resides within the target range of 2 – 4%. We maintain our confidence that inflation will continue to decrease, remaining within the target range for the rest of 2023. Nevertheless, it's crucial to acknowledge that potential threats to this declining trend include factors like El Niño and the current upward trajectory of global oil prices, which could pose inflation risks.
- The heightened risk of a "higher-for-longer" scenario presents the possibility of a "slower-for-longer" outlook for the global economy. This could result in lower commodity prices and reduced demand, potentially causing Indonesia's trade surplus to continue shrinking. Weaker export performance may lead to a widening current account deficit, reduced foreign reserves, and potential vulnerabilities for the Rupiah exchange rate.
- The pressure on the Rupiah exchange rate is expected to begin easing in Nov-23, aligning with the peak of global benchmark interest rate hikes. We believe that given Indonesia's resilient economic conditions and sound fiscal health, foreign capital inflows into both the stock and bond markets, as well as through direct investments, are likely to improve once global benchmark interest rates have reached their peaks.
- In summary, our outlook remains that BI will maintain BI-7DRRR at 5.75% for the rest of 2023 to preserve stability.

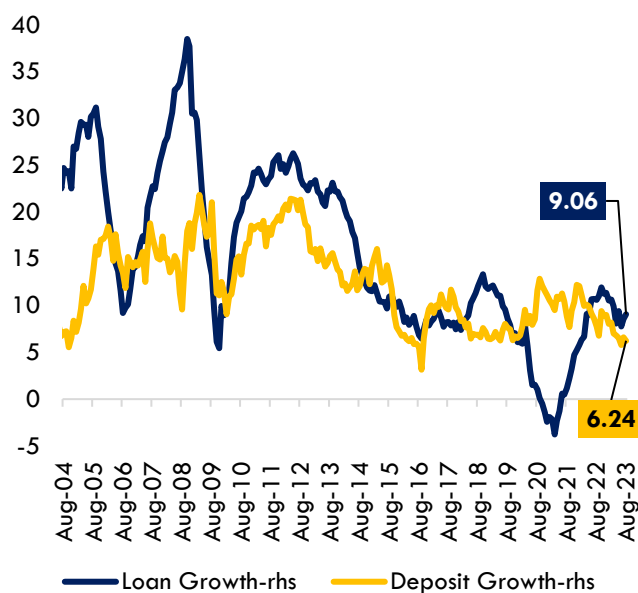


Bank Indonesia Projection

Indicators	2023F	2024F
Global Growth (%)	2.7	
Indonesia's GDP (%)	4.5 - 5.3	4.7 - 5.5
Indonesia's Inflation (%)	3.0 ± 1.0	2.5 ± 1.0
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

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