Macro Brief

Office of Chief Economist

BANKING INDUSTRY UPDATE

18 September 2023

mandiri

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)	0.99	-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	6.71
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 18 Sept 2023*

Source: Bloomberg

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Loan Growth Accelerates, but Faces Risk of a Slowdown

- **Loan growth in July 2023 accelerated to 8.54% yoy (vs. 7.76% yoy in June 2023), though facing a risk of a slowdown ahead** impacted from declining global trade performance and rising uncertainties ahead of the national election**.** Year-to-date, credit growth this year has only reached 4.08%, still lower than the same period in 2022 at 6.77%. The increase of loan disbursement in July 2023 was driven by the social services, mining, and business services sectors. This development is in line with the increasing economic growth. Meanwhile, the disbursement of Islamic financing grew higher by 17.55% yoy and MSME lending grew by 7.55% yoy.

- Detailed data as of June 2023 shows that productive credit was dominated by the growth of wholesale trade, manufacturing and agriculture sector which showed softer growth at 3.88% yoy, 1.70% yoy, and 7.56% yoy respectively. Consumption credit also generally recorded slower growth with the multipurpose credit grew by 7.42% yoy, home ownership credit at 10.82% yoy and vehicle ownership credit at 17.48% yoy.

- **Macroprudential policies to support credit disbursement.** Bank Indonesia will strengthen the effectiveness of the implementation of macroprudential policy incentives in coordination with the Government, Banks, and the business world to encourage lending to priority sectors such as downstream (mineral and coal, agriculture, livestock, and fisheries), housing (including public housing), tourism, inclusive (including MSMEs, KUR), and ultra micro (UMi), as well as the green economy. **Bank Indonesia estimates credit growth in 2023 at 9%-11% yoy and in 2024 will grow by 10-12% yoy.**

- **Deposit growth (third-party funds (DPK)) was recorded slightly faster at 6.62% in July 2023.** Year to date, deposit growth still contracted by -1.09% (vs 1.13% ytd-22). Looking at the data in detail, based on June 2023 data, the growth of current account and savings funds tended to be flat growing at 8.31% yoy and 2.97% yoy respectively compared to last month which grew (8.35% yoy & 2.91% yoy). While time deposit tended to grow slower to 6.30% yoy vs (8.37% yoy in May 2023).

- **Overall credit quality remained under control in July 2023.** Non-performing loan (NPL) ratio was relatively maintained at 2.51% (compared to 2.44% in June 2023), indicating manageable risk. Credit quality may continue to improve as some of the industrial sector recovers. Referring to June data, the NPL in the fisheries sector is still the highest at 5.1%, although it decreased compared to last month at 7.1%. Note that, trend of NPLs in the fisheries sector has been increasing from 2019 to 2023. Looking ahead, we expect NPLs to remain below 3% by the end of 2023 as banks continue to implement prudent risk management. Overall, bank capitalization remains strong with a Capital Adequacy Ratio (CAR) of 27.46% as of July 2023.

- **Going forward, lending has the potential to weaken due to the global slowdown, declining trade performance and the impact of uncertainty related to the holding of elections.** The weakening global economy will mainly impact credit demand particularly for export-oriented companies. Furthermore, ahead of the election, business actors such as corporations and investors will tend to be cautious and may postpone any plans of expansion. **On the positive side, going forward, public consumption has the potential to increase in line with the campaign period,** which can also boost demand of credit**.** In addition, the government will also accelerate infrastructure projects that need to be completed before the new administrations elected.

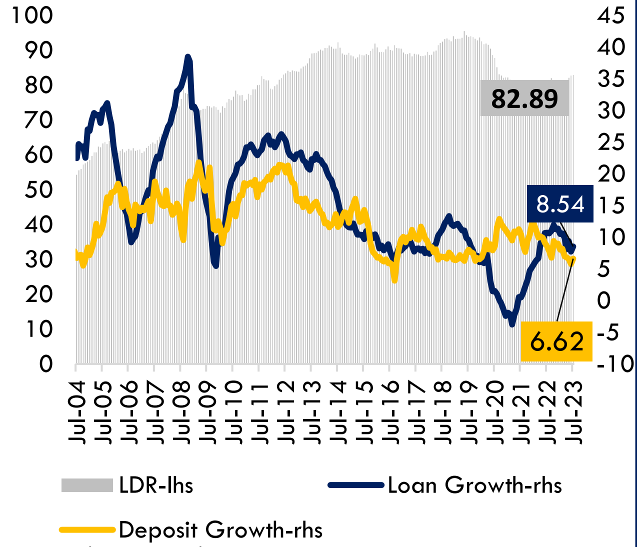
- **Historically, looking at the 2014 and 2019 election periods, lending growth tends to slow down.** The sectors that slowed down were mainly agriculture, manufacturing, electricity, gas and water, construction, large and small trade, transportation, financial intermediaries, real estate, government. Meanwhile, sectors that are still growing are fisheries, education, health and hotels and restaurants and personal services that serve households. However, the five positive sectors only accounted for 3.61% of the total corporate lending, making them less able to sustain overall credit growth.

- **Liquidity in general is still adequate despite challenges**. The AL/DPK ratio in July 2023 is still adequately above 26%. Banking liquidity will also be supported by Bank Indonesia's policy to issue a macro-prudential liquidity incentive policy in the form of strengthening liquidity through incentives to reduce reserve requirements. This policy has the potential to increase liquidity by IDR47.9 tn until the end of the year and also has the potential to increase credit growth by 0.55% until the end of 2023. However, it is necessary to be aware of the challenges, particularly in the forex liquidity with the possibility of a Fed Fund Rate increase until November to 5.75%. Thus, the effectiveness of the implementation of the DHE repatriation policy is very important to be able to support foreign exchange liquidity going forward. **Our nowcast shows that loan and deposit growth in 2023 will reach 9.0% and 7.8%, respectively.**

Liquidity Incentive Policy

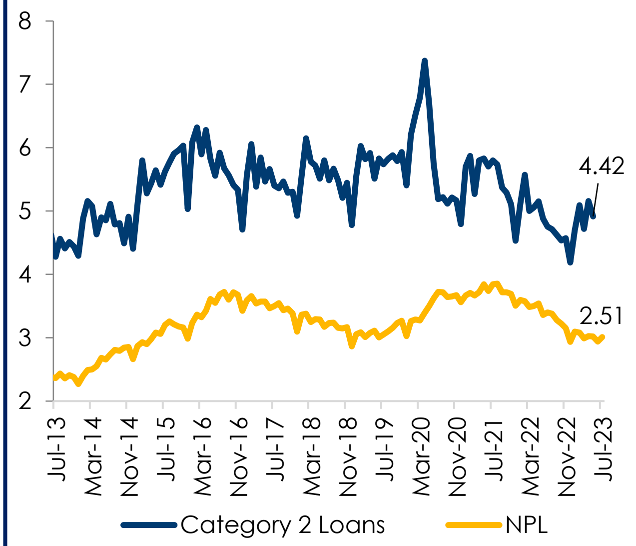
No	Sector	Credit Distribution 3%-7%	Credit Distribution > 7%
1	Mineral and Coal Downstream	0.2%	0.3%
2	Food Crops, CPO Plantations, Sugarcane, Fisheries and Livestock	0.6%	0.8%
3	Property/Home Ownership	0.5%	0.6%
4	Tourism	0.25%	0.3%
5	Macroprudential Inclusive Financing Ratio (RPIM)	Reserve Requirement Cut, Incentive 0,1%-1% For RPIM 10%-50%	
6	Banks that successfully increased their market share of green loans by up to 5%	Reserve Requirement Cut, Incentive 0.3%-0.5%	

Loan, Deposit Growth (% yoy) and LDR



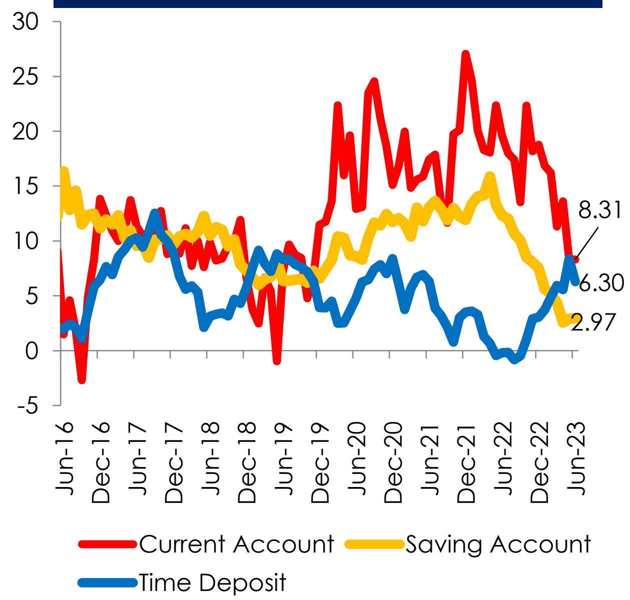
Source: Indonesian Banking Statistics, OJK

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**
June-23	**1,140,404**	**76.1**	**10.2**	**14,993**
July-23	**1,164,975**	**77.3**	**12.1**	**15,080**

Source: LPS

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