

Foreign reserves slightly decreased in Aug-23

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	6.48
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 6-Sep-23

Source: Bloomberg

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In Aug-23, Indonesia's foreign reserves experienced a decline of USD0.6 billion.

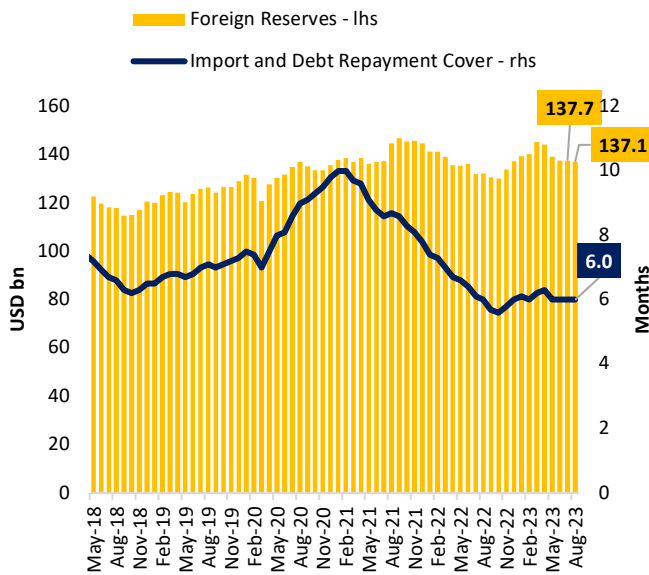
- The reserves were down from USD137.7 billion in Jul-23 to USD137.1 billion in Aug-23. According to Bank Indonesia, the primary factors contributing to this decrease were the government's external debt repayments and the imperative need to stabilize the Rupiah currency in light of escalating global financial market uncertainty.
- Indonesia's foreign reserves now stand at a level equivalent to supporting 6 months of imports and servicing the government's external debt. Alternatively, it can cover imports alone for a duration of 6.2 months. This comfortably exceeds the international reserve adequacy standard of 3 months of imports.
- Throughout Aug-23, Indonesia found itself under mounting pressure from the global financial market. The persistent inflationary trends at the global scale continued to exert influence on major central banks, prompting them to maintain "higher for longer" policy rates. This, in turn, led to heightened volatility in the Rupiah exchange rate and the portfolio market. Simultaneously, concerns regarding a potential economic slowdown in China cast a shadow over investor risk appetite.
- As a result, Indonesia's stock market experienced a net outflow of USD1.32 billion in Aug-23, notably down from the previous month's net inflow of USD0.18 billion. In the government bond market, Indonesia witnessed a net outflow of USD0.65 billion in Aug-23, a reversal from the USD0.55 billion net inflow seen in Jul-23.
- On a positive note, in accordance with the implementation of Government Regulation No. 36 of 2023, conventional OMO term deposit transactions in foreign currency (export proceeds (DHE) Forex TD), demonstrated a noteworthy increase in transaction volume during Aug-23. DHE Forex TD recorded a total of USD535 million, more than double the average monthly transaction volume in the period from Mar – Jul-23, which was USD228.45 million. Furthermore, there has been a shift in the placement tenor, moving away from the predominantly one-month duration to now favoring three months. This development is seen as potentially beneficial in stabilizing the Rupiah exchange rate going forward, amid the persistently high level of uncertainty in global financial market.

OUR VIEW: Despite the current global environment being marked by increased uncertainty, Indonesia's external sector is poised to maintain a certain degree of resilience.

- We continue to foresee a shift in the current account balance from a surplus of 0.96% of GDP in 2022 to a deficit of roughly -0.65% of GDP in 2023. This change is primarily driven by a decline in export performance leading to shrinking trade surplus, primarily attributed to falling commodity prices against the background of global economic slowdown. Nevertheless, the projected current account deficit remains relatively modest and manageable, staying below 3% of GDP.
- The heightened risk of global economic slowdown this year stems from major global central banks maintaining their hawkish stance of "higher for longer" in response to persistent global inflation. Consequently, higher policy rates may escalate uncertainty and foster a risk-averse sentiment in the portfolio market of emerging markets, including Indonesia, which could potentially impede capital inflows. Conversely, the government's unwavering commitment to

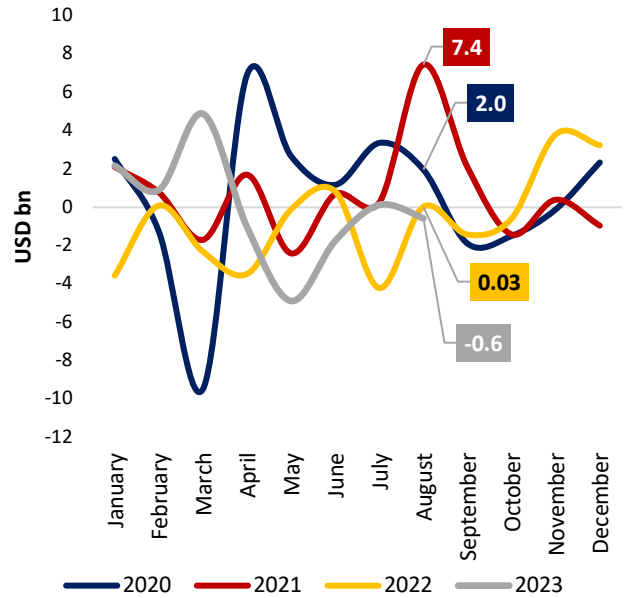
- promoting the downstreaming of natural resources may still hold the potential to attract foreign direct investment into Indonesia.
- The recent implementation of Government Regulation No. 36 of 2023, effective from 1-Aug-23, concerning Export Proceeds of Foreign Exchange Exports from Exploitation, Management, and/or Processing of Natural Resources, has already demonstrated a positive impact on preserving export earnings from natural resources. We see that the conventional OMO term deposit transactions in foreign currency reported a major improvement in Aug-23 compared to its average in the period of Mar – Jul-23. Bank Indonesia explains that the effectiveness of this instrument may be seen significantly within three months of its implementation.
 - We estimate that Government Regulation No. 36 of 2023 could contribute approximately USD12 – 15 billion in total to foreign reserves during the period of Aug – Dec-23, lending some supports to the stability of the Rupiah exchange rate.
 - *Our expectation points to foreign reserves maintaining a satisfactory level, with an approximation of USD135 – 150 billion by the end of 2023 (vs. USD 137.2 billion at the end of 2022). This potential level of foreign reserves will serve to fortify the stability of the Rupiah's exchange rate against the USD amid heightened global uncertainty. Our forecast suggests that the Rupiah's exchange rate will likely conclude at around IDR14,864 per USD by the end of 2023 (vs. IDR15,568 in 2022).*

Foreign Reserves



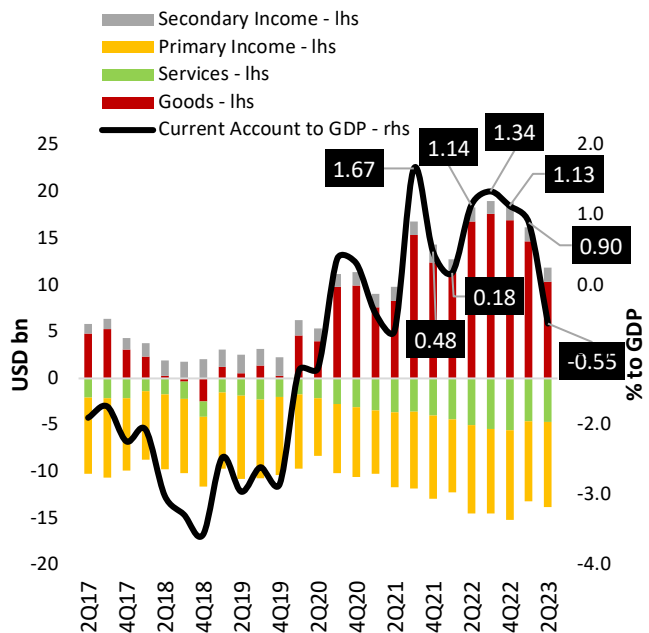
Source: Bank Indonesia

Monthly Change in Foreign Reserves



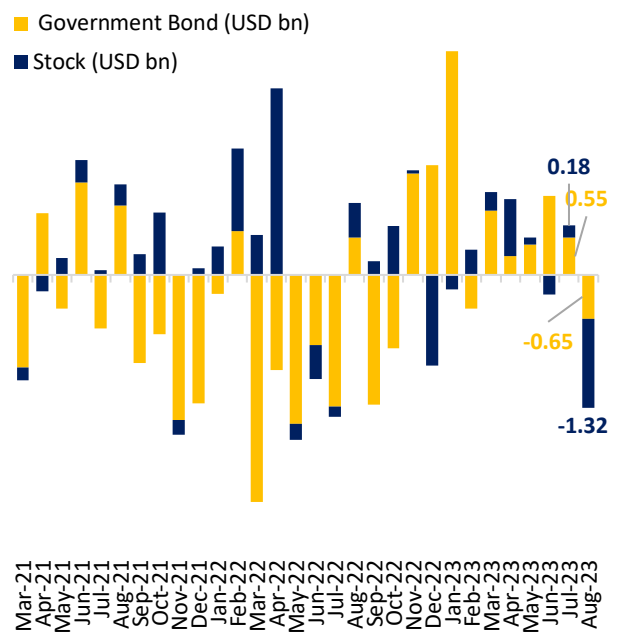
Source: Bank Indonesia

Current Account Balance

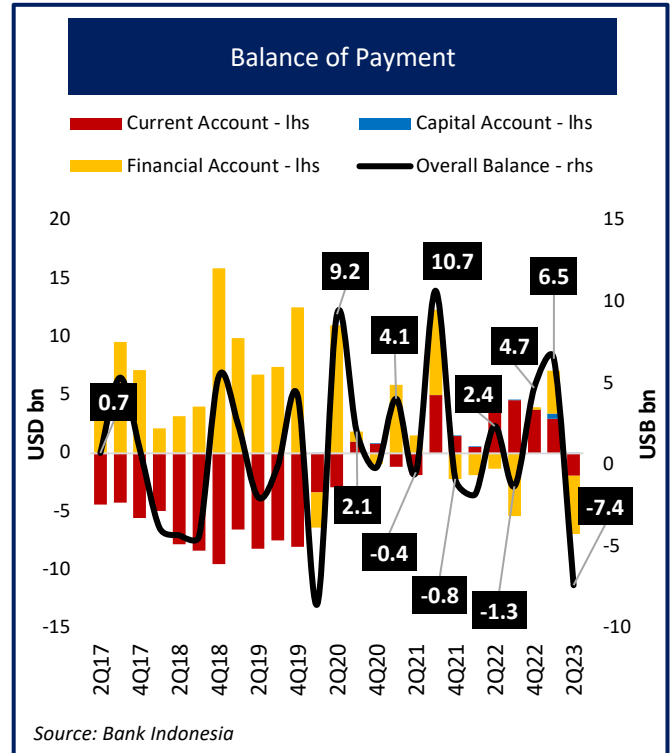
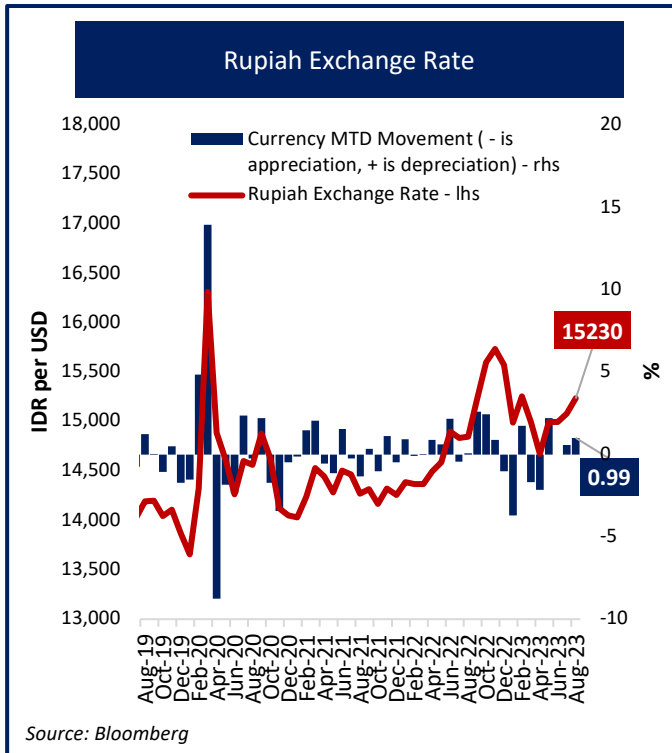


Source: Bank Indonesia

Monthly Portfolio Flow



Source: Bloomberg and Ministry of Finance



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