

## Indonesia's foreign reserves declined to USD 134.9 bn.

### In Sep-23, the foreign reserves experienced a decline of USD 2.2 bn.

- The reserves was down from USD 137.1 bn in Aug-23 to USD 134.9 bn in Sep-23. Hence, this level marks the lowest in the last 10 months. According to Bank Indonesia, this decrease was driven by the government's obligation to repay external debt and the need to stabilize the Rupiah currency amid the escalating global financial market uncertainty.
- Indonesia's foreign reserves now stand at a level equivalent to supporting 6.1 months of imports. Alternatively, it can cover imports and servicing the government's external debt for 6.0 months. This level still exceeds the international reserve adequacy standard of 3 months of imports.

### Market volatility remains high, influenced by the possibility of higher for longer policy rates and lingering concerns about China's economy.

- In the span of Sep-23, heightened economic risks in the global have dampened investors' appetite for the financial market. The market's focus remained on major central banks' hawkish tone. The Federal Reserve, as widely expected, held the FFR unchanged at 5.50% in the Sep-23 FOMC meeting. Yet, they still signaled that more hikes could still be needed to ensure inflation is under control, as shown by hawkish statements from several officials. Conversely, China's economy faces risks of not-so-high growth in 2023, weighted down by turmoil in its property sector and slowing demand. Main economic indicators are closely watched to see whether recent stimulus policies have started to have a positive impact.
- Consequently, it is seen that volatility still occurs in Indonesia's financial market. In the government bond market, net outflow was recorded at USD 1.11 bn in Sep-23, worsening from outflow of USD 0.65 bn in Aug-23. Indonesia's government 10-year yield also sharply increased by 41.9 bps from 6.37% at the end of Aug-23 to 6.79% at the end of Sep-23. The rupiah also showed a depreciation of 1.0% on a month-to-date basis. Meanwhile, the stock market showed a relatively better performance, as net outflow narrowed from USD1.32 bn in Aug-23 to USD 0.26 bn in Sep-23.

### On a positive note, several efforts by the government are expected to support the financial market.

- After implementing Government Regulation No. 36 of 2023, conventional OMO term deposit transactions in foreign currency (export proceeds (DHE) Forex TD), transaction volume has remarkably increased. In Sep-23, DHE Forex TD recorded a total of USD 983 mn, 1.5 times higher than the average monthly transaction volume in Mar-Jul-23, which was approximately USD 230 mn.
- SRBI (Bank Indonesia Rupiah Securities), a securities denominated in rupiah issued by BI using the underlying asset of Government Securities (SBN), is also expected to support the money market. At the end of Sep-23, the total amount won in the SRBI auction reached IDR 71.5 bn, equivalent to USD 4.63 bn. The highest attention appeared in 12-month term of 58.8% of the total SRBI awarded. With the issuance of the SRBI, it is hoped that the flow of foreign funds in the form of portfolio investment can enter the market, thus contributing to the stability of the rupiah exchange rate.

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	Oct-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	7.01
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 5-Oct-23

Source: Bloomberg

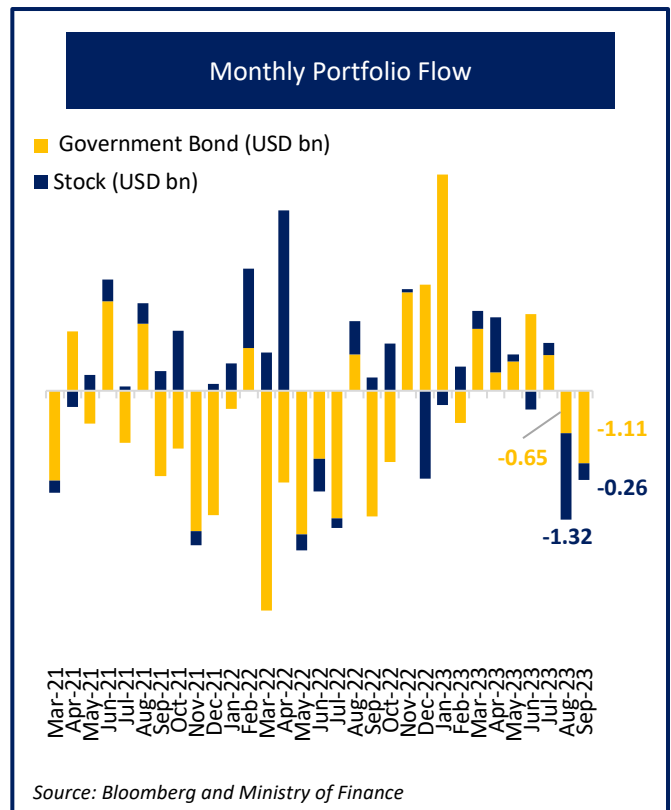
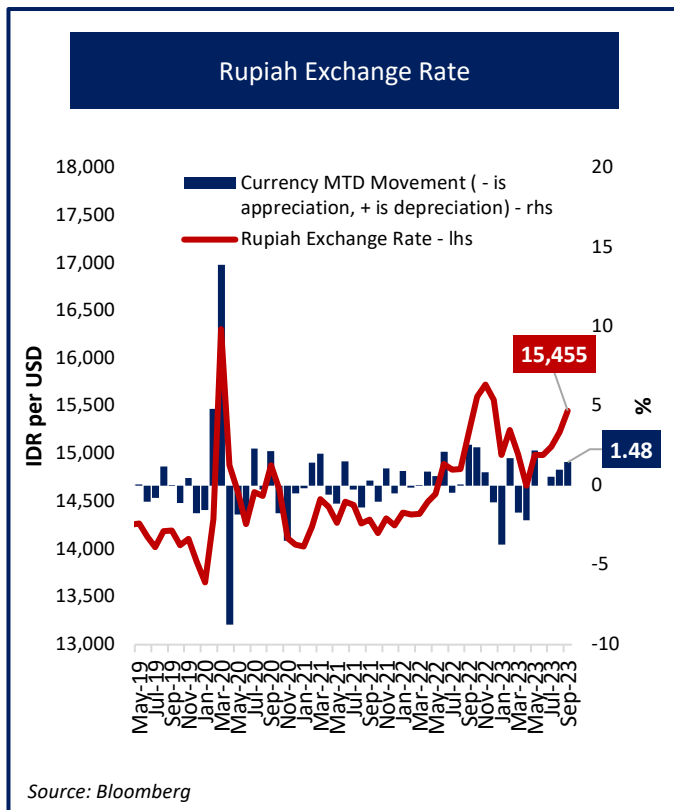
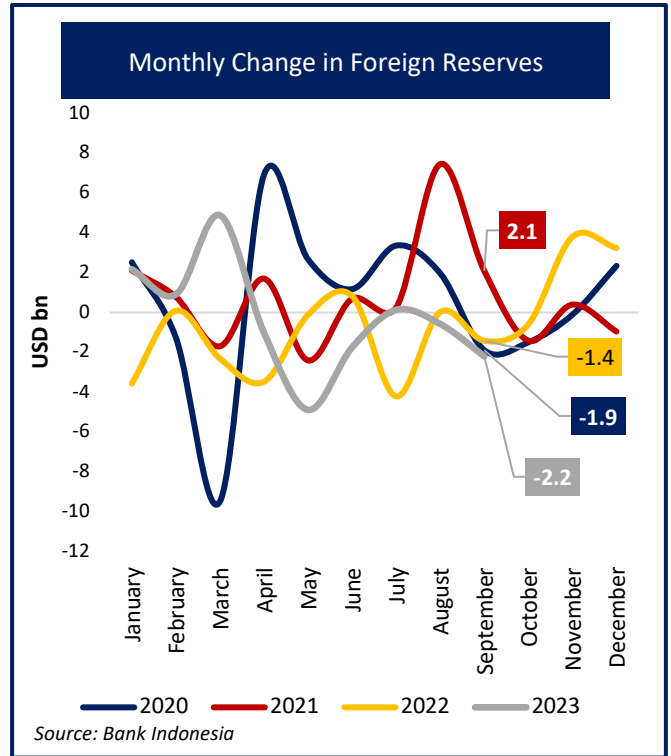
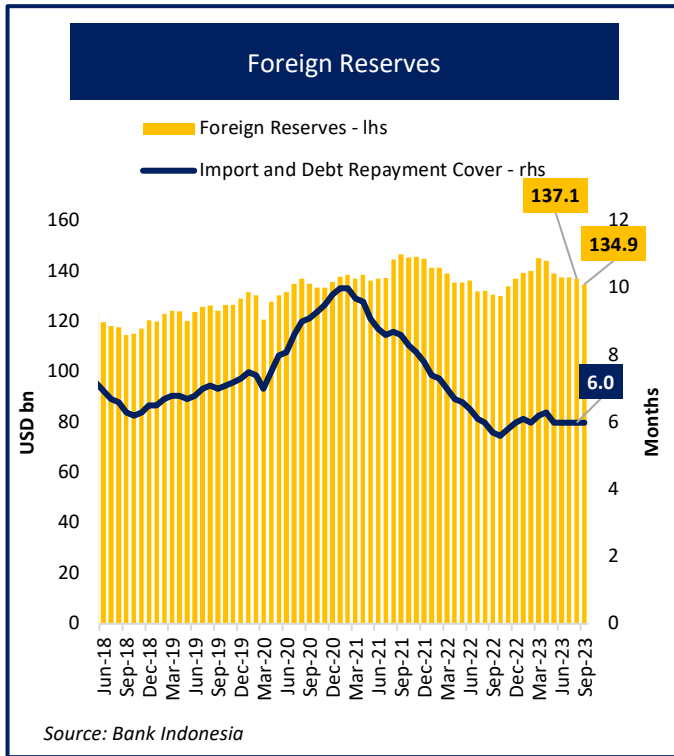
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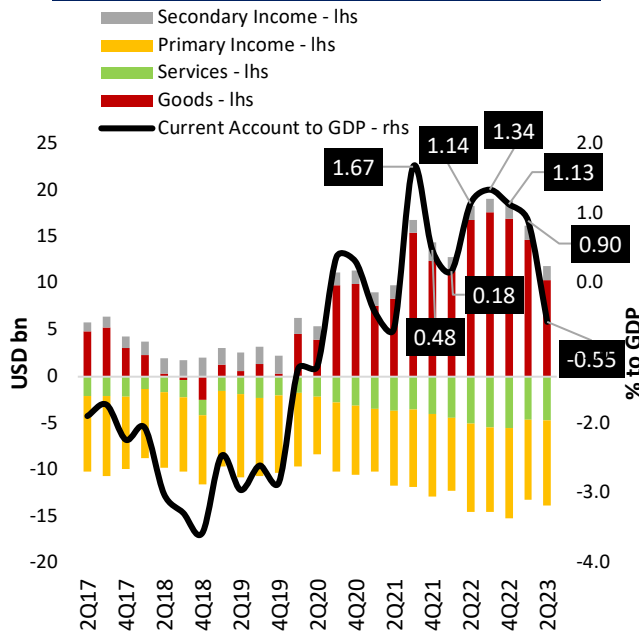
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## **OUR VIEW: Indonesia's external resilience is still maintained**

- External risks that affect the performance of the domestic financial market may still come from the higher for longer expectation on policy rates and the pressure on China's economy. Yet, we see that the terminal rate from central banks may be reached at the end of this year. Hence, given that possibility, we expect that the Rupiah movement would reverse its direction to appreciate towards the end of this year.
- Several government regulations that have been launched are worth taking note of. Besides triple interventions and twist operation, Bank Indonesia has come with the recent regulation of DHE (export proceeds) and SRBI. DHE has improved the foreign currency transaction in Indonesia, and SRBI was welcomed well by investors. We estimate that Government Regulation No. 36 of 2023 could contribute approximately USD12 – 15 bn to foreign reserves during Oct – Dec-23, supporting the stability of the Rupiah exchange rate.
- We foresee that the current account balance could turn into a roughly 0.65% deficit of GDP in 2023 (vs. surplus of 0.99% of GDP in 2022). A decline in export performance primarily drives this change due to a shrinking trade surplus, attributed to the likelihood of a global economic slowdown. Nevertheless, this current account deficit projection would still stay below 3% of GDP.
- *Our expectation points to foreign reserves maintained at a satisfactory level, approximating USD135 – 150 bn by the end of 2023 (vs. USD 137.2 bn 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).*

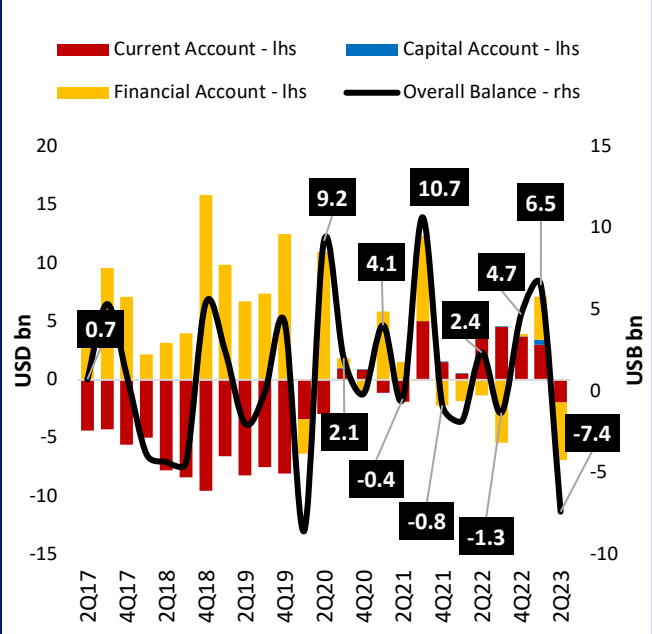


## Current Account Balance



Source: Bank Indonesia

## Balance of Payment



Source: Bank Indonesia

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