

Economic Indicators	2024	2025F
Real GDP* (% yoy)	5.05	5.13
Inflation (% yoy, eoy)	1.57	2.38
IDR/USD (eoy)	16,102	15,974
BI Rate (%)	6.00	5.50
CA (% of GDP)	+0.01	-1.19

F = OCE BMRI forecast  
yoy = year-on-year  
eoy = end of year  
avg = average  
\* = using 2024 forecast

Key Rates (%)	Dec-24	Jan-25*
BI Rate	6.00	5.75
Deposit Facility Rate	5.25	5.00
Lending Facility Rate	6.75	6.50
IDR 10Y Bond Yield	7.00	6.94
Fed Funds Rate	4.50	4.50
ECB Rate	3.40	3.15
BoE Rate	4.75	4.75
BoJ Rate	0.25	0.50

\*) as of 30-Jan-25

Source: Bloomberg

**Agus Santoso**  
Economist

[santoso.agus@bankmandiri.co.id](mailto:santoso.agus@bankmandiri.co.id)

## Revised DHE Regulation: Benefits and Challenges

### The government extends the tenure and scope of DHE placement

- Coordinating Minister for Economic Affairs, Airlangga Hartarto, announced that the revised regulation on the placement of Foreign Exchange Proceeds (DHE) from Natural Resource Exports (SDA) is now awaiting the issuance of the amended government regulation (PP).
- The required placement period for DHE in the domestic financial system will be extended from a minimum of 3 months to 1 year. Additionally, the retention percentage for exporters to store their DHE SDA domestically will increase from at least 30% to 100%. This DHE policy applies only to exporters with a minimum export value of USD250 thousand.
- The government claims this regulation could potentially boost foreign exchange liquidity by USD90 bn.
- Based on our estimates, natural resource export revenues in 2024 are projected to reach USD165 bn. Some portion of DHE that are required to be placed in domestic banks may also be placed in Bank Indonesia's (BI) DHE Term Deposit (TD). As of 20 Jan-25, placement in BI's TD DHE cumulatively recorded approximately USD12.4 bn.

### Stronger support for the Rupiah

- The revised DHE regulations are expected to increase foreign exchange reserves, enhance the economy's resilience to global volatility, and support Rupiah stability in line with the growing supply of foreign currency in the domestic market.
- It will also add liquidity to the banking system and support international trade financing.

### Increased burden on smaller-size exporters and may weaken industry competitiveness

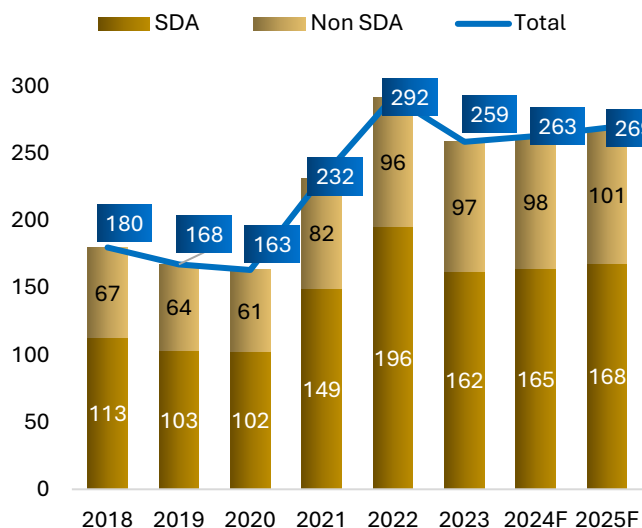
- Exporters, particularly those in smaller-sized commodity sectors like fisheries with tight cash flows, may face increased burdens, potentially disrupting operations. Yet, banks should be able to provide cashflow facilities for exporters such as back-to-back loans or FX swaps to maintain flexibility in cross-border transactions.
- Stricter DHE regulations may weaken Indonesia's industrial competitiveness in global markets, potentially deterring investor interest in the domestic market. The latest policies could also increase non-compliance with DHE obligations.

### OUR VIEW:

- The increased retention requirements and extended placement period for DHE have a positive impact on strengthening foreign exchange reserves, improving domestic foreign currency liquidity, and stabilizing the Rupiah. However, we believe the tighter DHE policies will impose heavier burdens on investors, potentially reducing the competitiveness of domestic industries in the eyes of global investors.
- The government should consider several measures, including evaluating which commodities should be subject to the 100% DHE retention requirement or reducing the obligation amount to ensure exporters' operations remain sustainable, especially in vulnerable sectors like fisheries.

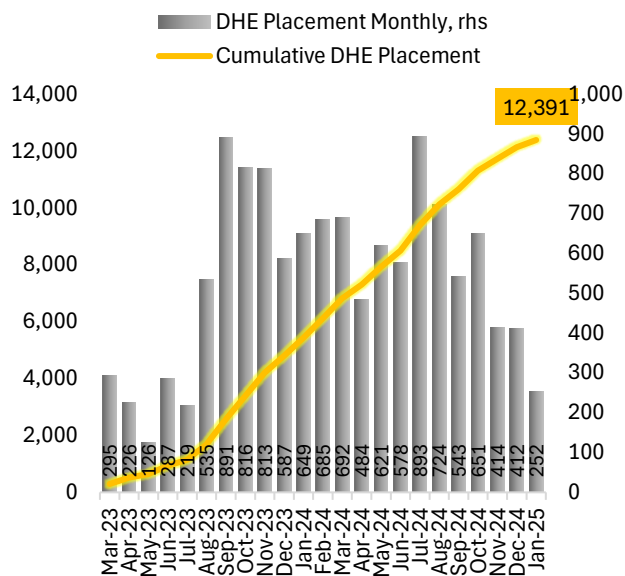
- Strengthening incentives for compliant exporters through competitive interest rates or tax benefits is essential. The government should also periodically review the policy to maintain the competitiveness of domestic industries.

## Natural Resource (SDA) Exports (USD bn)



Source: Statistics Indonesia and OCE BMRI Forecast

## DHE Placement on TD BI (USD mn)



Source: Bank Indonesia

## Macroeconomic and Financial Market Research Department

**Chief Economist**

Andry Asmoro

**Head of Macroeconomic and Financial Market Research**

Dian Ayu Yustina

**Senior Economist**

Reny Eka Putri

**Economist**

Agus Santoso

**Economist**

Andhi Prasetyo Hadi

**Economist**

Shahifa Assajjadiyyah

**Office Address:**

**Plaza Mandiri 18<sup>th</sup> Floor**

Jl. Jend. Gatot Subroto Kav. 36 – 38, Jakarta 12190, Indonesia

Tel: +62 21 5245516

Fax: +62 21 5210430

email: [oce@bankmandiri.co.id](mailto:oce@bankmandiri.co.id)

[www.bankmandiri.co.id](http://www.bankmandiri.co.id)

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