Danamon

A member of MUFG, a global financial group

Economic Outlook

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Macro Assumptions

- Global economic downturn is projected to sustain next year, as China's economic recovery has been weaker than expected. Additionally, major central banks continued its rate hike cycle to 2H23, prolong the impact to economy.
- Along with global economic slowdown, domestic economy is expected to moderate. Domestic demand might weaken amid lower export revenue and cautious behavior of investors.
- In response to the weakening economy, BI will begin to cut policy rate to 5.25% next year, following Fed's policy pivot.
- IDR to appreciate on average next year, as the result of Fed Fund Rate (FFR) cutting cycle.
- However, heading towards year-end, widening current account deficit would result into some volatility for IDR.

	Unit	2022	2023F	2024F
Indonesia				
Real GDP Growth	% yoy	5.3	5.2	4.9
CPI Inflation	% yoy	5.5	2.7	2.9
BI 7D RRR	% p.a.	5.50	6.00	5.25
LPS Rate	% p.a.	3.75	4.50	4.00
FX – Average	IDR/USD	14,855	15,150	14,901
FX – Year End	IDR/USD	15,573	14,839	15,120
10Y Govies Fair Yield	% p.a.	6.9	6.2	6.4
Current Account Balance	% GDP	1.0	-0.4	-1.0
Loan	% yoy	11.0	9.0	7.2
Third Party Fund	% yoy	8.7	7.1	5.4
Loan to Deposit	%	78.8	84.7	86.2

Source: *BPS, BI, LPS, BI, MoF, OJK, Danamon* `

SAATNYA
PEGANG KENDALI

- US economic indicators appeared stronger than expected. Inflation remains stubbornly high this year, above Fed's target of 2%.
- The Fed has signaled that policy rate is approaching the end of hiking cycle. The latest FOMC meeting in Sep-23 delivered higher for longer stance.

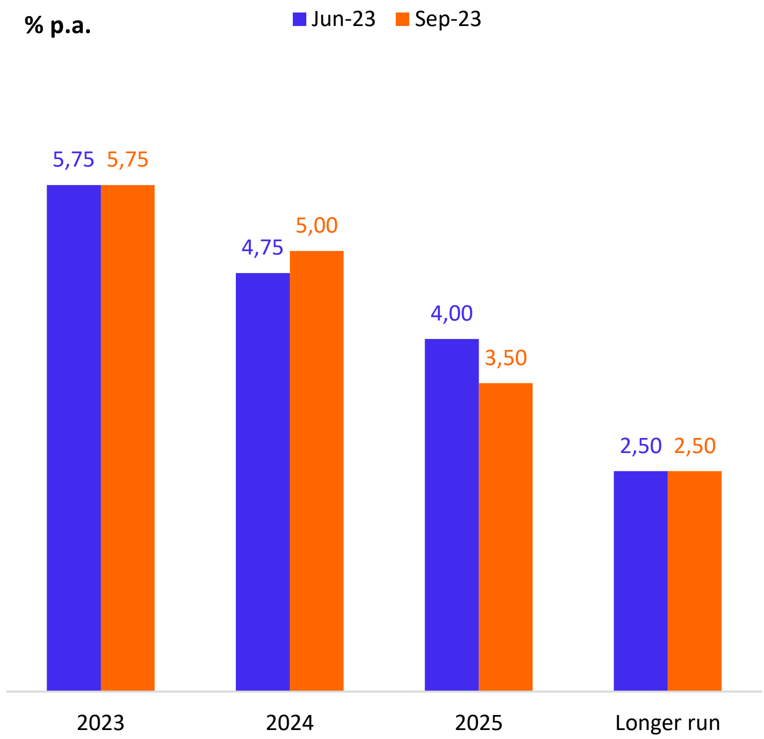
Determinants of Fed's Policy

	2022	2023F	2024F
GDP	2.1% yoy	2.0% yoy	0.9% yoy

	2022	2023F	2024F
Unemployment	3.6% yoy	3.9% yoy	4.3% yoy

	2022	2023F	2024F
Inflation	7.1% yoy	3.1% yoy	1.9% yoy

Fed's Dotplot (Sep-23 FOMC)

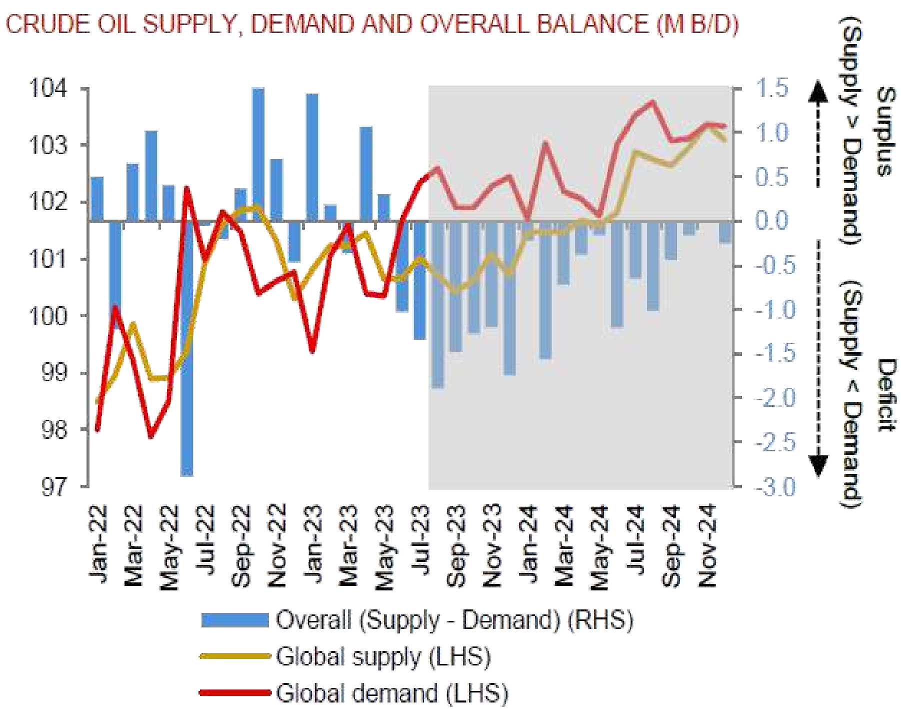


Source: The Fed, US Bureau of Labor Statistics, MUFG, Bloomberg, Danamon

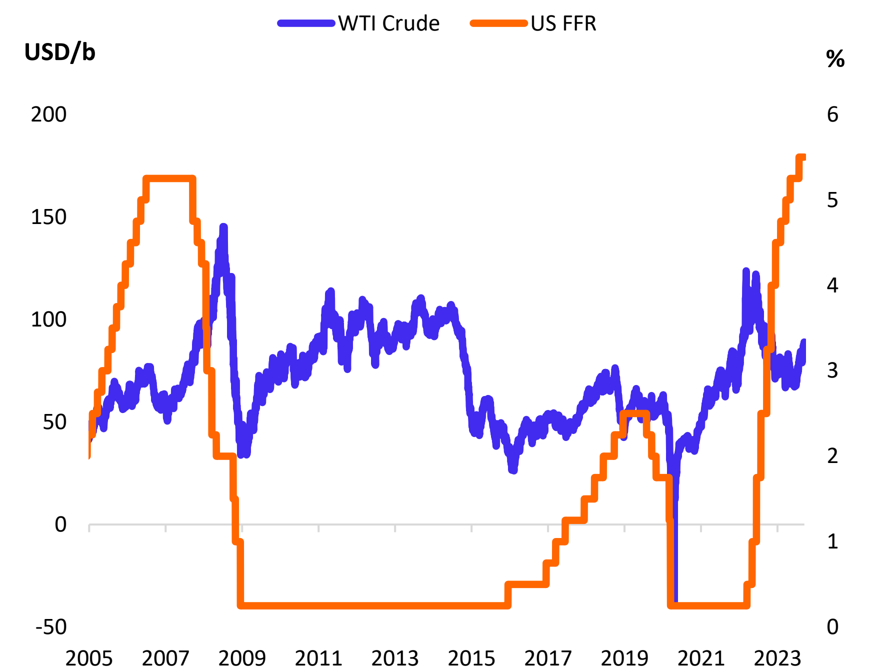
- Global oil market's inventory has tightened amidst production cut and gradually increasing demand. Oil price increased to above USD 90/b, on the back of extended oil supply cut by OPEC+ countries.

- Historically, rising oil price was followed by FFR hikes. However, MUFG forecasted that oil price to remain below USD 100/b in the next couple of years, considering US election next year and OPEC+'s mid-term stability mandate.

Oil Supply-Demand



Fed Fund Rate vs Oil Price



Source: MUFG Research, The Fed, Bloomberg

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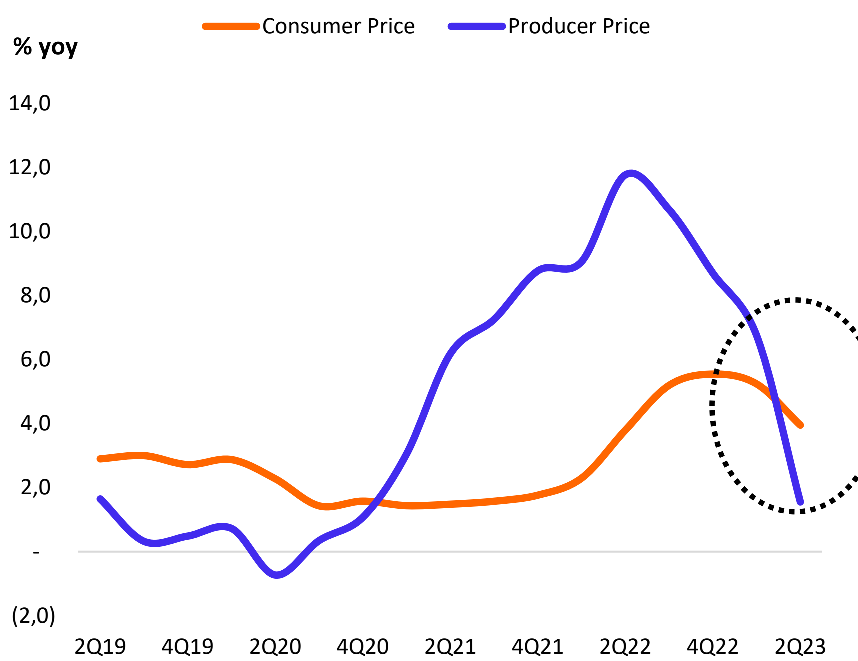
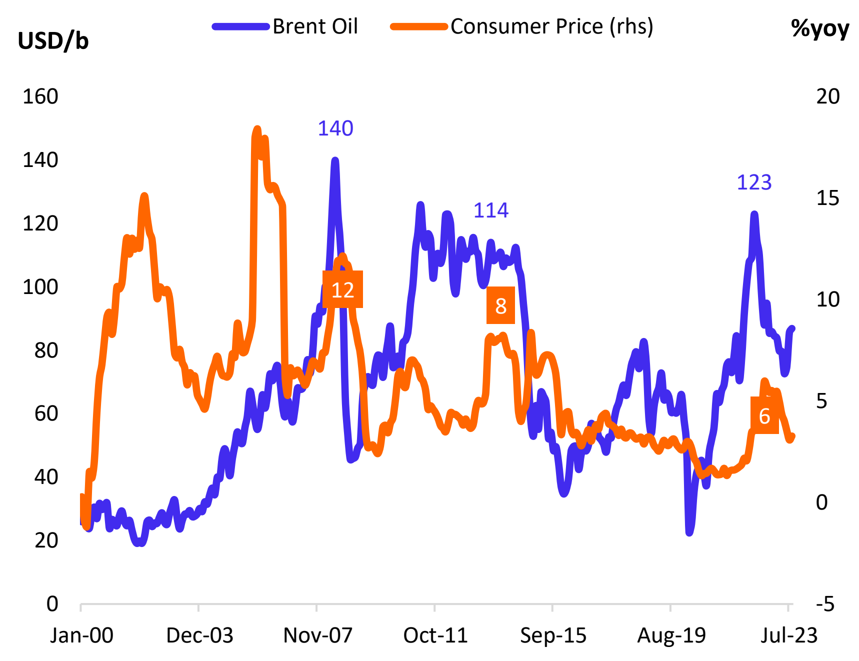
- Domestic inflation has returned to BI's upper target since May-23. Latest figure shows that inflation stood at 3.3% yoy. Going forward, inflation to remain BI's target range of 2%-4% in 2023 and 1.5%-3.5% in 2024, on the back of easing input cost pressure.
- The main risk of our forecast lies on global oil price. Domestic oil price would be adjusted should oil price rise to above USD 120/b, followed by a spike in inflation.

Input Cost vs Output Price



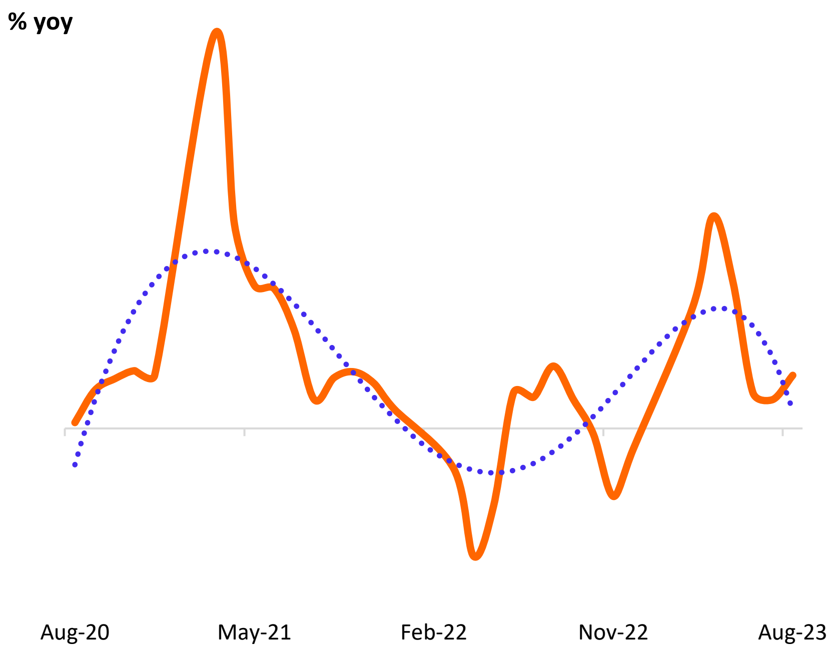
Crude Oil Price vs Domestic Inflation



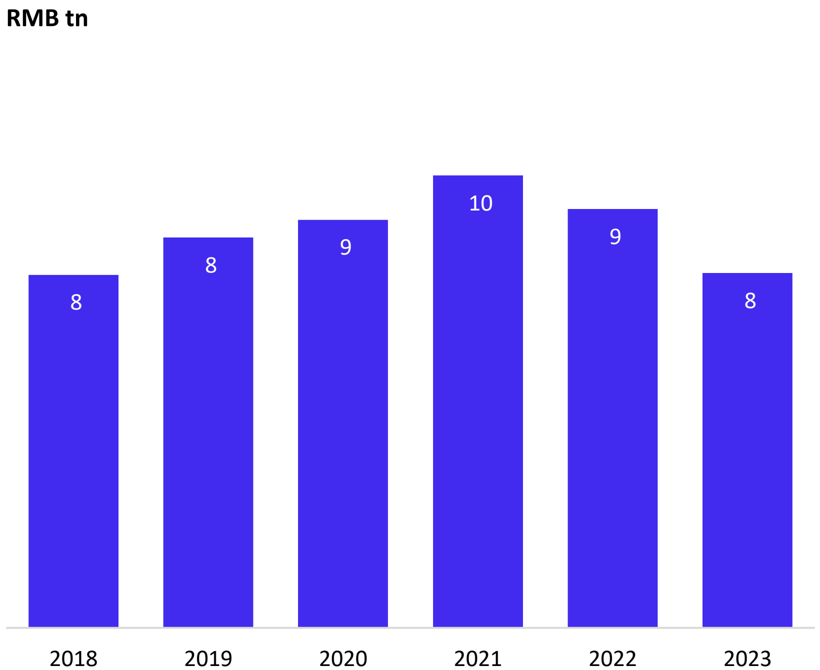
Source: Indonesian Bureau of Statistics, Bloomberg

- Chinese economy continued to weaken amid property sector slump and weak domestic demand recovery.
- Retail sales of consumer growth has been moderating since 2Q23, while investment in real estate declined to the lowest level in 5 years.

Retail Sales of Consumer Goods



Real Estate Investment*



*Source: China's National Bureau of Statistics, *Position as of August in Each Year*

Indonesia-China Trade

- China is Indonesia's number 1 export destination with 25% share of total export. China's GDP slowdown will negatively affect Indonesia's GDP.

- In this episode, energy commodities benefited, since the Russia-Ukraine war and rising oil prices helped increase demand for coal. Meanwhile, consumer goods and infra related commodities have been affected by China's economic slowdown.

Indonesia's Export Destination

1st-China
25% of total export

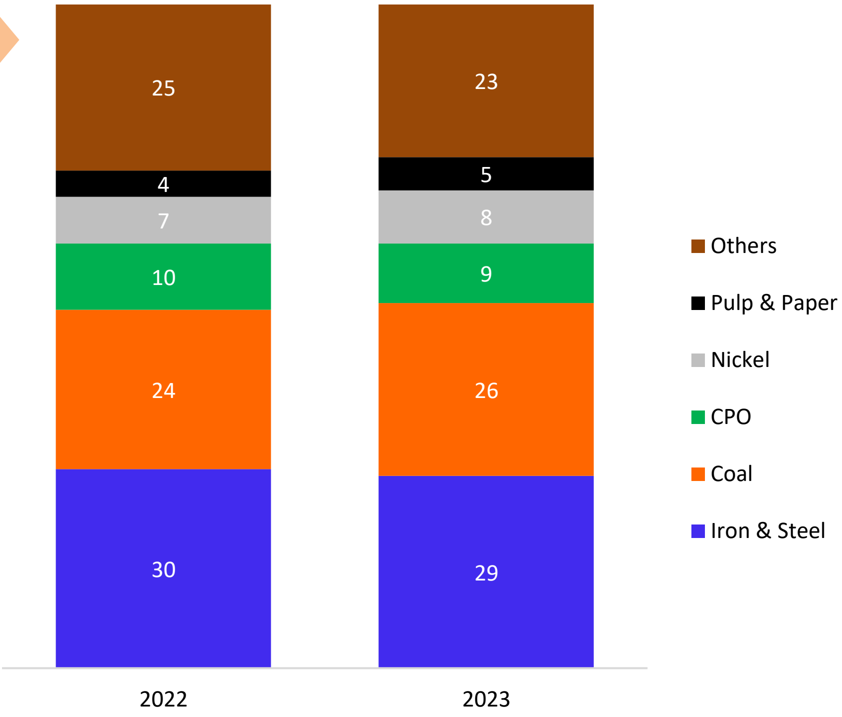
2nd -ASEAN
19% of total export

3rd -United States
10% of total export

4th -India
8% of total export

5th –European Union
7% of total export

Share of Indonesia's Exported Goods to China



Source: Indonesian Bureau of Statistics, as of Aug-23

- Liquidity of USD has kept market players on defence amid monetary normalization and fiscal austerity in the US.
- The Rupiah will average around IDR 15,150/USD this year to IDR 14,901/USD next year, despite some deteoration in fundamentals.

Current Account

Trade	USD 43 bn	USD 32 bn	USD 15 bn
	+	+	+
Income Transfers	USD -30 bn	USD -38 bn	USD -31 bn
	2022	**2023F**	**2024F**
	+USD 13 bn	-USD 6 bn	-USD 16 bn

Financial Account

2022	**2023F**	**2024F**
-USD 8 bn	+USD 7 bn	+USD 18 bn

USD bn	Election 2014			Election 2019		
	2013	**2014**	**2015**	**2018**	**2019**	**2020**
Direct Investment	12	15	17	13	21	8
Portfolio Investment	11	26	16	9	22	3

Source: Bank Indonesia, Bank Danamon

SAATNYA PEGANG KENDALI

- Indonesia's GDP grew by 5.2% yoy in 2Q23, above market expectation as well as previous realization of 5.0%. The growth was mainly driven by festivities related consumption.

- Going forward, we expect growth to slowdown to 4.9% yoy in 2024 as purchasing power weaken, reflected through deposit growth (especially lower- and upper-class segments).

IDR Deposit Growth Contribution

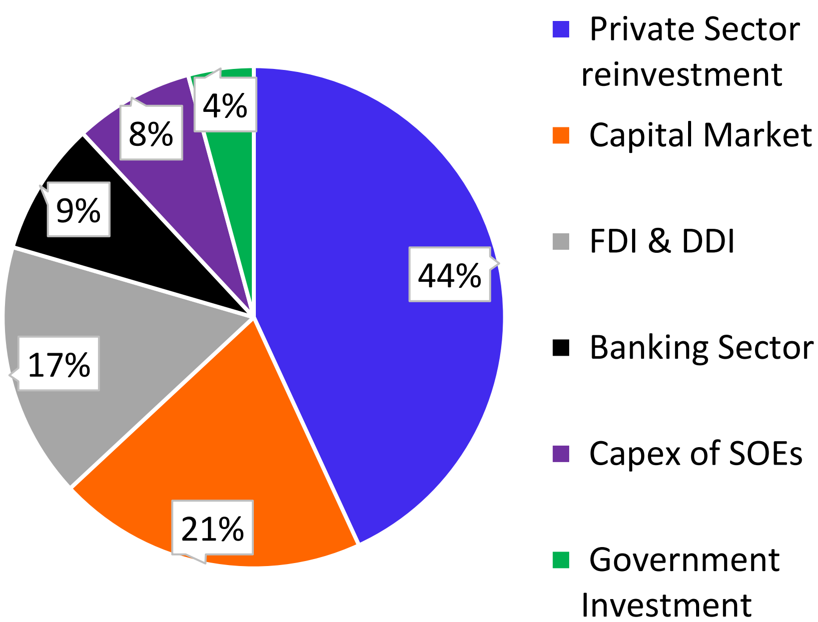
	2019 (+6.9% yoy)	**2020** (+11.1% yoy)	**2021** (+11.7% yoy)	**2022** (+6.9% yoy)	**2023** (+5.0% yoy)
≤ 200 Mn	**1.3%**	**1.9%** ↑	**1.0%** ↓	**0.7%** ↓	**0.6%** ↓
200 Mn – 5 Bn	**2.6%**	**3.0%** ↑	**1.9%** ↓	**1.0%** ↓	**1.7%** ↑
> 5 Bn	**3.1%**	**6.3%** ↑	**8.7%** ↑	**5.1%** ↓	**2.7%** ↓

*Source: Indonesian Deposit Insurance, Bureau of Statistics, *Jul-23*

- Private sector and capital market are the two main sources of investment. Banking sector is the fourth largest source of financing after FDI & DDI.

- Banks' exposure in bonds increased due to pandemic. Bond holding by banks increased to 19% of total deposit per Jun-23 from 12% in Dec-19. Thus, banks are more exposed to market risk nowadays.

Investment Source of Financing



Banking Exposure to Bonds

Bonds Holding to Deposit

Dec-19	Jun-23
12%	**19%**

Sensitivity of fair value decrease to yield increase

+100 bps
yield increase

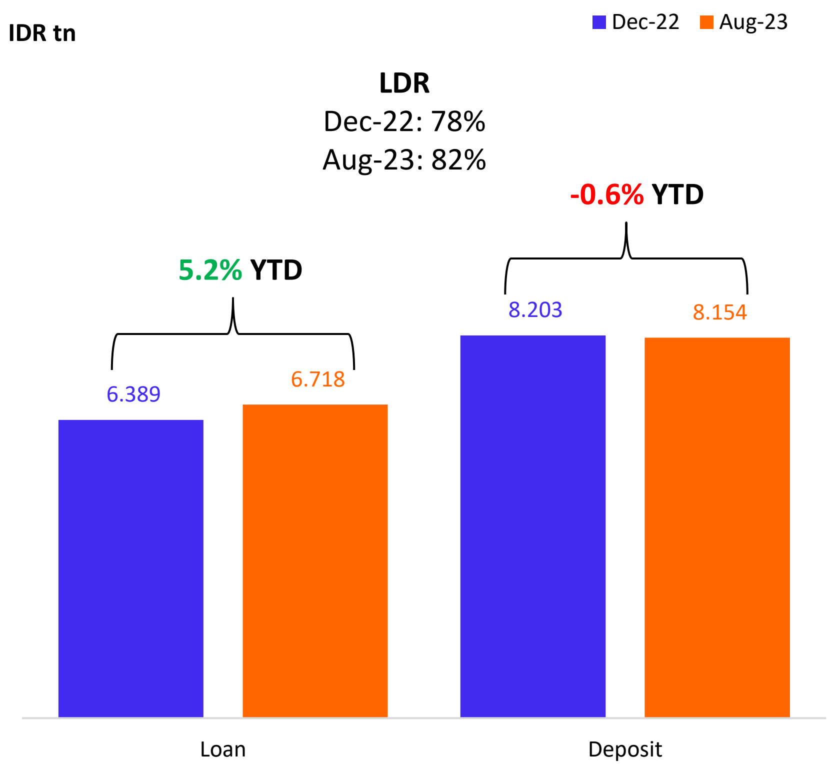
IDR 18 tn
decrease in fair value

Source: Bloomberg, Indonesian Financial Authority, Indonesian Ministry of Investment, Bank Danamon

- In line with normalizing liquidity, deposit growth declined by 0.6% YTD per Aug-23, while loan grew by 5.2% YTD. Thus, LDR increased to 82% in Aug-23 from 78% in Dec-22.

- In Mar-24, MSMEs restructuring policy will expire, resulted into the risk of higher NPL.

Loan & Deposit



Source: Indonesia Financial Services Authority

NPL Forbearance

Restructured Loan

IDR 339 tn
(1.4 Mn Debitors)
As of July 2023

Expired
Mar-24

5.1%
of total loan

2.1x
NPL

Allowance for Impairment Loss

29.7%

- Government targets 5.2% yoy growth in 2024, while inflation is aimed to decline to 2.8% (new target range of 1.5% - 3.5%).
- In 2024, budget deficit is designed to be stable around 2.3% GDP.

Macro Assumptions

Indicators	2023 MoF Outlook	2024 Budget	Δ to Mid-Point Outlook
Economic Growth (yoy)	5.0-5.3%	5.2%	0%
Inflation (p.a.)	3.3-3.7%	2.8%	-0.7%
10Y Yield (p.a)	6.6-6.9%	6.7%	-0.05%
IDR/USD (average)	15,000-15,200	15,000	-100
Crude Oil Price (USD/b)	75-80	82	2.5

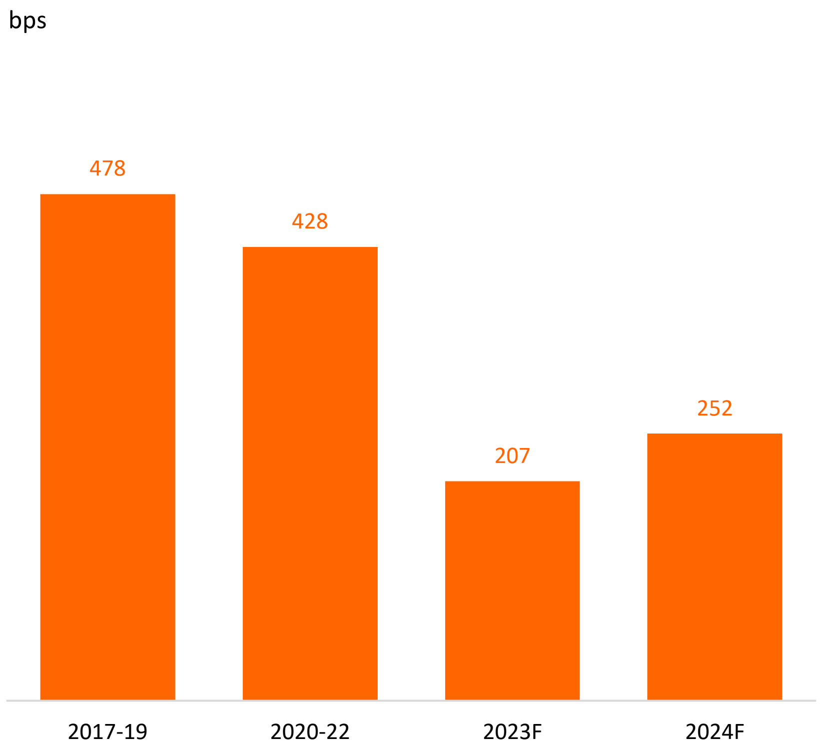
2023 Outlook vs 2024 Proposal

Indicators (IDR tn)	2023 MoF Outlook	2024 Budget	Δ
Total Revenue	**2,637**	**2,802**	**165**
Tax	2,118	2,310	192
Non-Tax	516	492	-24
Expenditure	**3,124**	**3,325**	**201**
Fiscal Deficit	486	523	37
Fiscal Deficit (% GDP)	2.3	2.3	-
Net Financing	308	523	215

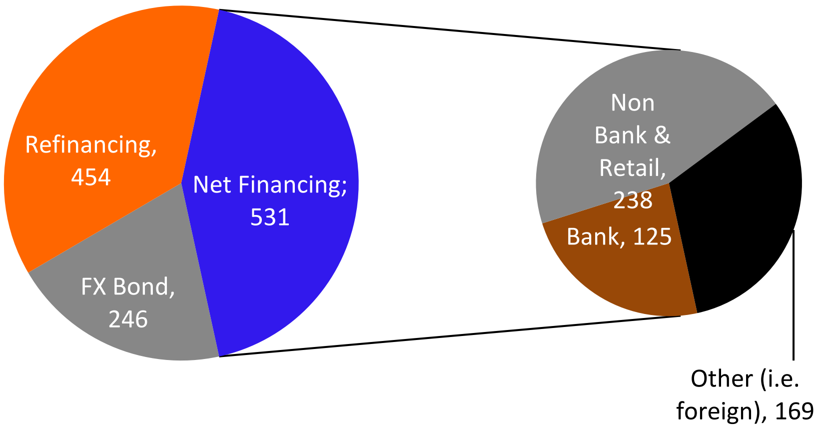
Source: Ministry of Finance

- Liquidity remains above pre-pandemic level, yet continued normalizing.
- BI has flattened its monetary operation curve by launching SRBI. In 2024, we expect BI to cut by 75 bps on the back of moderating domestic economy.

10Y Yield Differentials (INDOGB – UST)



Bond Supply Demand 2024



Total: IDR 1,231 Tn

Source: Bank Indonesia, Bank Danamon

SAATNYA PEGANG KENDALI

- Liquidity remains above pre-pandemic level, yet continued normalizing.
- BI has flattened its monetary operation curve by launching SRBI. In 2024, we expect BI would follow the Fed but cutting less by 75 bps on the back of moderating domestic economy.

IDR & FX Liquidity

Excess in FX Liquidity (USD bn)

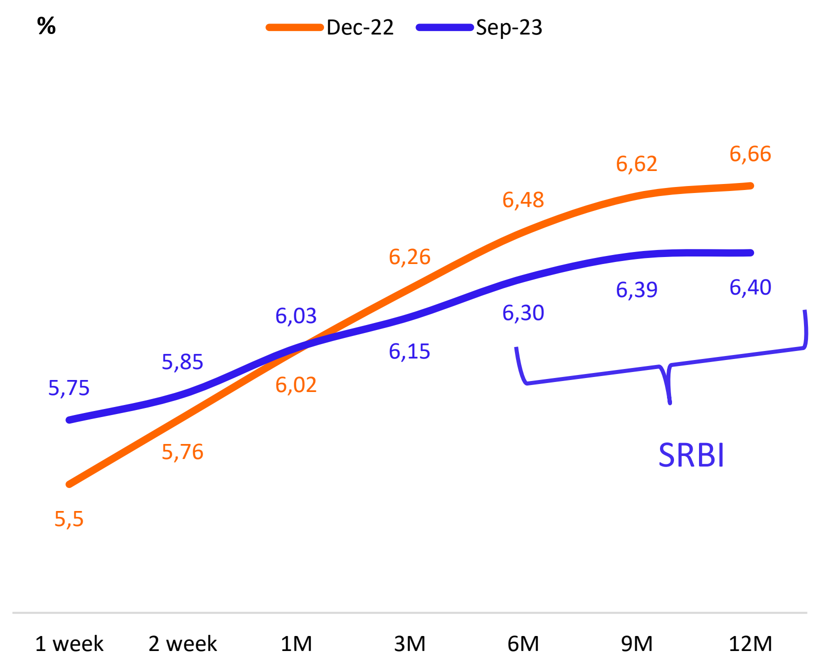
2017-19	2020-22	2023F	2024F
11	**16**	**12**	**14**

- BI introduced FX TD DHE
- BI issued PBI No.7 2023

Excess in IDR Liquidity (IDR tn)

2017-19	2020-22	2023F	2024F
310	**796**	**580**	**490**

OMO Curve



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SAATNYA PEGANG KENDALI

- Manufacturing sector continued to signal expansion, as PMI increased to 53.9 in Aug-23, from 53.2 in a month prior. Heading to 3Q23, services sector indicators continued improving, thus we expect growth to remain resilient in 3Q23.

- In 2024, sectors related to election would drive economic growth such as ICT, trade, and F&B industry. On the other hand, construction, manufacturing, and agriculture would be the laggards.

2023 Sectoral Drivers

Purchasing Managers Index

Jun-23	Jul-23
52.5	53.3

Visitors Arrivals (th persons)

Jun-23	Jul-23
1,063	1,113

Hotel Occupancy Rate (%)

Jun-23	Jul-23
53.67	54.63

2024 Sectoral Drivers

LEADING

ICT
As campaign activities shifted to social media, ICT would continue growing next year.

Trade
Wholesale & retail trade should grow amidst stronger demand for merchandise related to election

F&B Industry
Staple foods demand would increase along with election activities

LAGGARDS

Construction
Budget disbursement and investment would be postponed during the 1st year of newly elected President.

Manufacturing
Weaker demand due to global economic downturn would hit manufacturing sector.

Agriculture
Lower commodity prices is expected to hinder agri growth.

Source: Global S&P Markit, Indonesian Bureau of Statistics

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Loan to Deposit	%	78.8	84.7	86.2

Source: *BPS, BI, LPS, BI, MoF, OJK, Danamon (under review)*

Selected Indicators

	2020	2021	2022	2023E	2024E
National Accounts					
Real GDP (% y-o-y)	-2.1	3.7	5.3	5.2	4.9
Domestic demand ex. inventory (% y-o-y)	-3.1	2.8	3.8	5.1	5.0
Real Consumption: Private (% y-o-y)	-2.7	2.0	4.9	5.1	5.0
Real Gross Fixed Capital Formation (% y-o-y)	-4.9	3.8	3.9	4.5	4.2
GDP (USD bn) — nominal	1,059	1,186	1,391	1,472	1,553
GDP per capita (USD) — nominal	3,917	4,350	4,783	5,256	5,475
Open Unemployment Rate (%)	7.1	6.0	5.9	5.3	5.0
External Sector					
Exports (% y-o-y, BoP Basis)	-3.0	42.5	25.6	8.5	-3.6%
Imports (% y-o-y, BoP Basis)	-18.1	39.9	21.6	17.2	-1.6%
Trade balance (USD bn, BoP Basis)	28.2	43.8	62.7	47.9	40.9
Current account (% of GDP)	-0.4	0.3	1.0	-0.4	-1.0
Central government debt (% of GDP)	38.1	41.0	39.6	37.3	36.8
International Reserves –IRFCL (USD bn)	135.9	144.9	137.2	139.1	142.5
Reserve Cover (Months of import & ext. debt)	9.8	7.8	5.9	5.9	6.4
Currency/USD (Year-end)	14,050	14,253	15,573	14,839	15,120
Currency/USD (Average)	14,529	14,296	14,855	15,150	14,901
Other					
BI 7-Day Reverse Repo rate (% p.a.)	3.75	3.50	5.50	6.00	5.25
Consumer prices (% year end)	1.68	1.87	5.51	2.70	2.89
Fiscal balance (% of GDP; FY)	-6.09	-4.65	-2.38	-2.18	-2.00
S&P's Rating – FCY	BBB	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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Thank You

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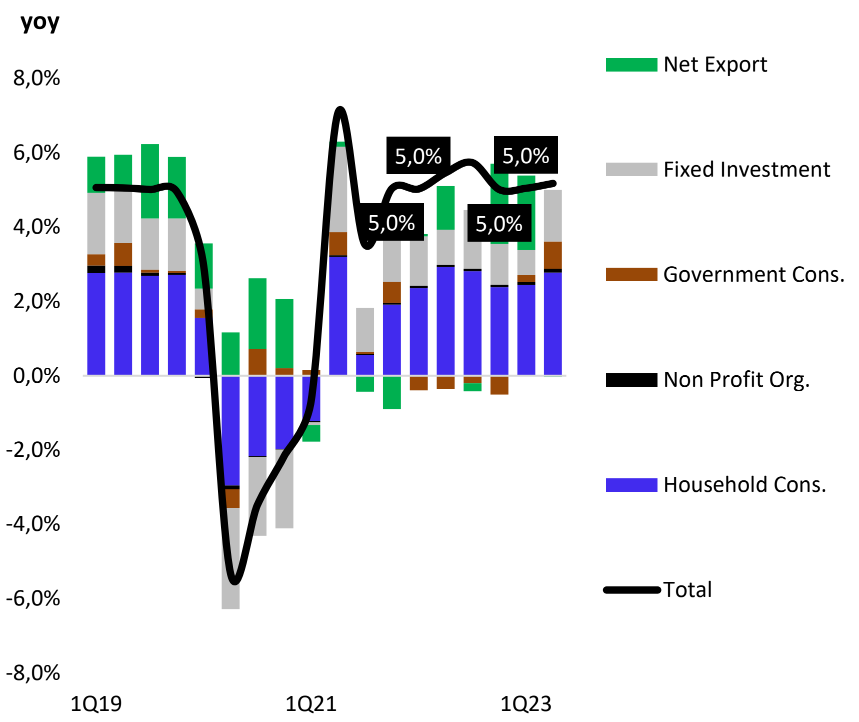
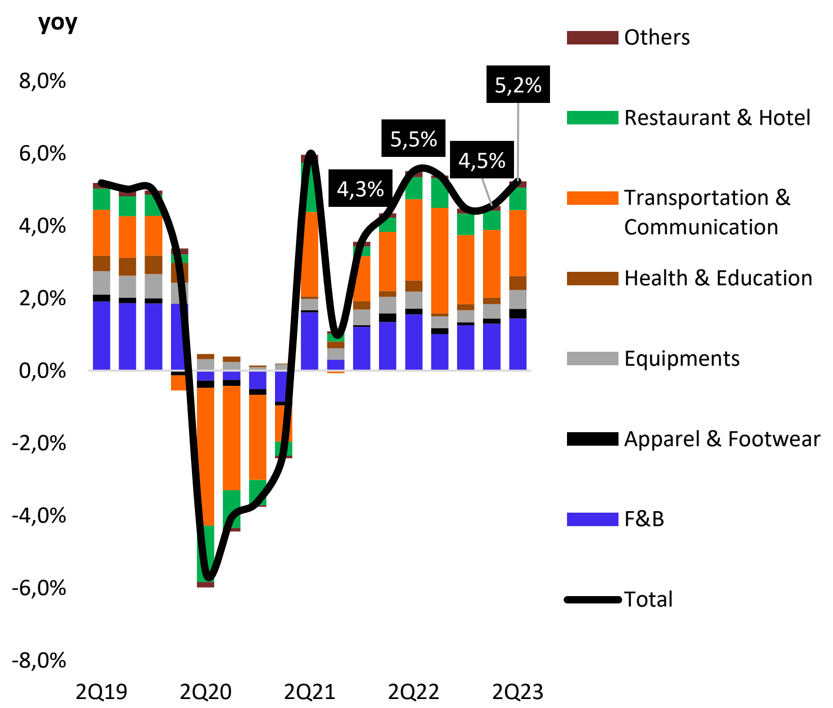
- Indonesia's GDP grew by 5.2% yoy in 2Q23, above market expectation as well as previous realization of 5.0%.

- Driver of growth was household consumption for services amid festive season, while fixed investment for manufacturing reflects hope on future demand.

GDP by Expenditure



Contribution of Household Consumption



Source: Indonesian Bureau of Statistics

GDP-Sector

- By contribution, manufacturing, trade, and transportation were the top 3 performers. This was in line with the demand-side realization.

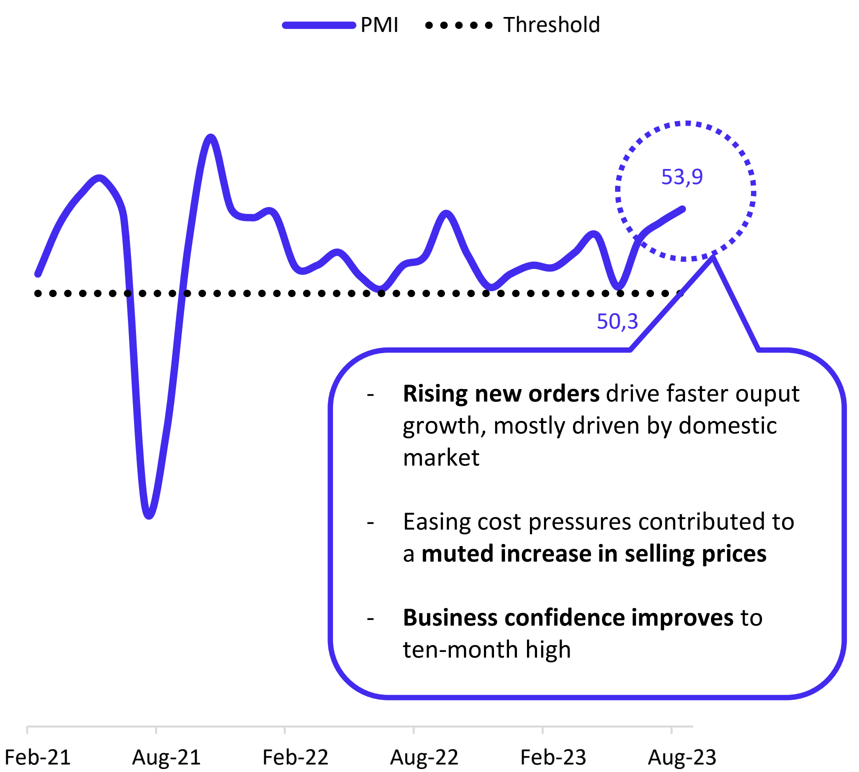
- Meanwhile, real estate, utilities, and health services were at the bottom 3 performers in 2Q23.

Top 3 by Contribution to GDP	Bottom 3 by Contribution to GDP
Manufacturing 1Q23: 0.92 pcp 2Q23: 0.98 pcp	**Real Estate** 1Q23: 0.01 pcp 2Q23: 0.03 pcp
Wholesale & Retail Trade 1Q23: 0.64 pcp 2Q23: 0.68 pcp	**Utilities** 1Q23: 0.03 pcp 2Q23: 0.03 pcp
Transportation & Storage 1Q23: 0.64 pcp 2Q23: 0.63 pcp	**Health Services** 1Q23: 0.06 pcp 2Q23: 0.11 pcp

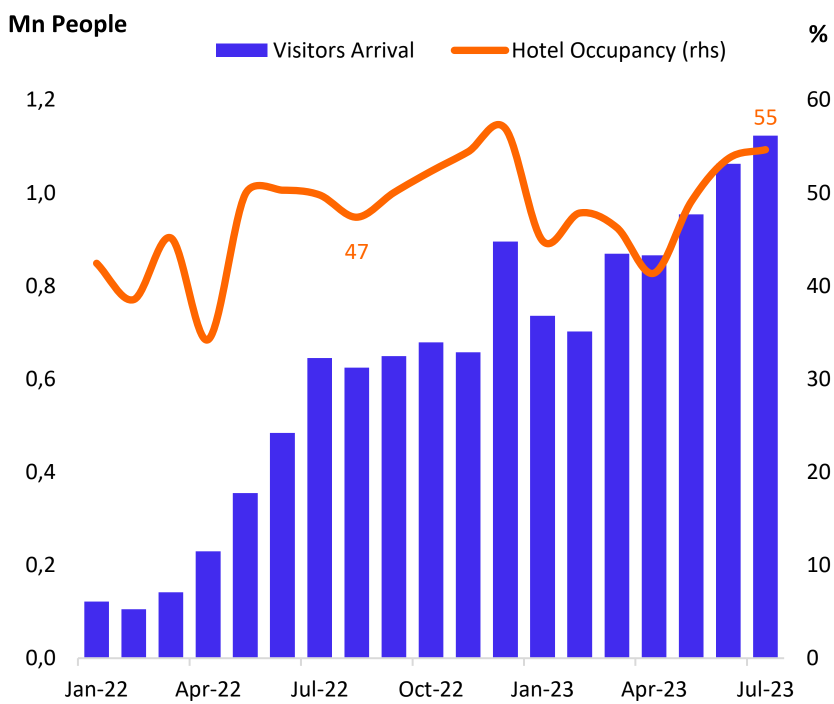
Source: Indonesian Bureau of Statistics

- Manufacturing sector continued to signal expansion, as PMI increased to 53.9 in Aug-23, from 53.2 in a month prior.
- Heading to 3Q23, services sector indicators continued improving, thus we expect growth to remain resilient in 3Q23.

Purchasing Manager's Index



Services Sector Indicators



Source: Global S&P Markit, Indonesian Bureau of Statistics

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