



## FX & Interest Rate

**Clear divergence in policy rates globally.** As of June 2024, several developed countries globally have pursued accommodative monetary policies by lowering their interest rates. The European Central Bank (ECB) and Canada have both decreased their benchmark rates, while Japan has notably increased its benchmark rate by 20 bps. In contrast, policy rates in emerging and developing countries have leaned towards hawkishness. Singapore raised its SORA by 18.3 bps, Indonesia increased rates by 25 bps throughout 2024, Taiwan raised rates by 12.5 bps, and Türkiye implemented a significant hike of 750 bps. These central banks opted for hawkish measures to stabilize currency exchange rates and manage inflation, despite potential risks to economic growth.

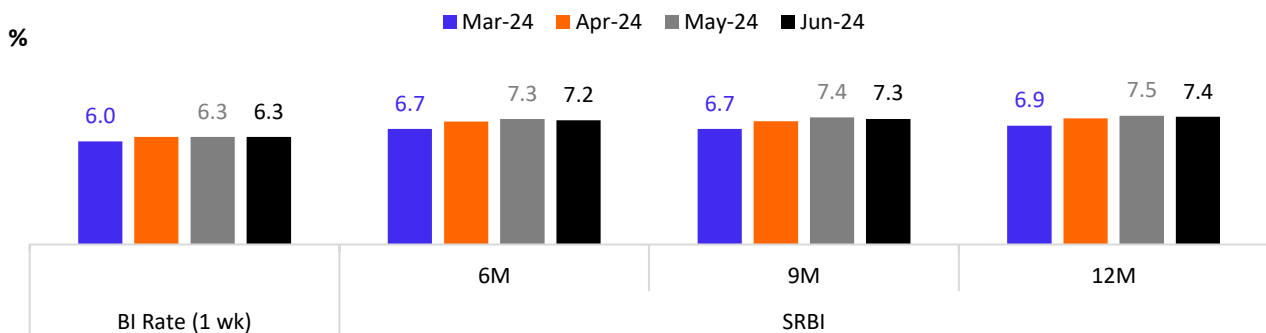
**US inflation back on track.** US inflation has regained momentum, prompting the Federal Reserve (Fed) to revise its outlook for rate cuts in 2024. Persistent challenges in achieving inflation targets, such as the Fed's Core PCE inflation estimated at 2.8% by year-end 2024, led to cautious adjustments. However, there is optimism among markets and investors following a decrease in US Core PCE inflation from 2.8% to 2.6% in May 2024, released on June 28, 2024. This development has fueled speculation about a potential rate cut by the Fed in September 2024, potentially signaling room for a reduction in the Federal Funds Rate by more than once.

**Meanwhile, the Rupiah struggled to strengthen below the 16,400 level** amidst a robust performance of the DXY index, which strengthened by 4.7% ytd, indicating global economic slowdown concerns. In 2024, foreign investors demonstrated mixed activity in Indonesia's financial markets, with significant outflows in the SBN and stock markets, but substantial inflows totaling IDR 123.21 trillion in SRBI. This trend suggests renewed foreign investor interest in Indonesian financial instruments as of late June 2024.

[treasury.economist@danamon.co.id](mailto:treasury.economist@danamon.co.id)

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Chart 1. SRBI rates



Source: Bank Indonesia as of 28 June 2024

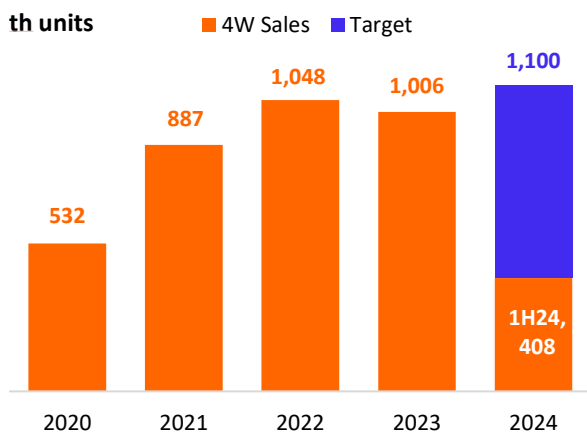
Alongside efforts to uphold domestic macroeconomic stability, Bank Indonesia has bolstered the Rupiah by ensuring foreign exchange liquidity through global bond issuances and ongoing SRBI activities. Notably, SRBI yields have risen, with interest rates for 6, 9, and 12-month tenors as of June 28, 2024, attractive at 7.32%, 7.42%, and 7.52%, respectively.

### **Automotive Industry**

**Less than half target for the first half.** In the first half of 2024, cumulative 4W sales totaled 408 thousand units, marking a 19.5% decrease compared to the same period in 2023. The automotive industry faced challenges as current sales did not surpass 50% of GAIKINDO’s annual target of 1.1 million units. Despite ongoing negative year-on-year growth in monthly sales until March 2024, gradual improvements have been noted. Demand for commercial vehicles showed signs of improvement in the first half, with Isuzu gaining in market rank and Hino and Mitsubishi Fuso maintaining their positions compared to 1H23. Several factors contributed to these trends, including tightened credit conditions, global turmoil, and shifting consumer behavior.

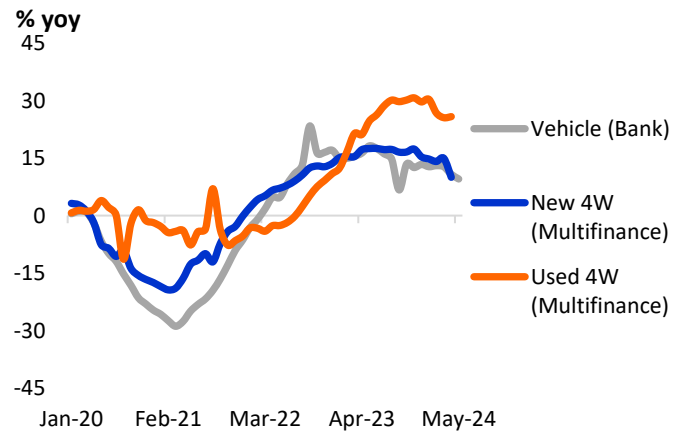
**The trend of consumer saving over spending persisted until Jun-24.** Consequently, consumers opted to either maintain their current vehicles, leading to increased purchases of vehicle spare parts, or shift towards purchasing used 4W vehicles. Financing demand for used 4W vehicles rose by 25.8% year-on-year in Apr-24 compared to new vehicle financing. Used cars are increasingly appealing to consumers due to their affordability amidst stagnant incomes across classes. Both offline and online platforms are enhancing transparency by offering services such as inspections, test drives, and diverse payment methods. Coupled with Indonesia’s low vehicle ownership ratio and approximately 70% of buyers utilizing credit schemes for auto purchases, these factors present lucrative opportunities for financing companies such as banks and multifinance to capitalize on.

**Chart 3. 4W Sales vs Target**



Source: GAIKINDO

**Chart 4. Vehicle Loans**



Source: Bank Indonesia, OJK, Danamon

## Indonesia's Selected Economic Indicators

	2021	2022	2023	2024E
<b>National Accounts</b>				
Real GDP (% y-o-y)	3.7	5.3	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	2.8	3.8	4.6	5.0
Real Consumption: Private (% y-o-y)	2.0	4.9	4.9	5.0
Real Gross Fixed Capital Formation (% y-o-y)	3.8	3.9	4.4	4.2
GDP (USD bn) — nominal	1,186	1,391	1,371	1,553
GDP per capita (USD) — nominal	4,350	4,783	4,920	5,475
Open Unemployment Rate (%)	6.0	5.9	5.3	5.0
<b>External Sector</b>				
Exports (% y-o-y, BoP Basis)	42.5	25.6	-11.3	-2.8%
Imports (% y-o-y, BoP Basis)	39.9	21.6	-7.3	-1.6%
Trade balance (USD bn, BoP Basis)	43.8	62.7	46.4	41.2
Current account (% of GDP)	0.3	1.0	-0.1	-0.8
Central government debt (% of GDP)	41.0	39.6	38.9	36.8
International Reserves –IRFCL (USD bn)	144.9	137.2	146.4	141.0
Reserve Cover (Months of imports & ext. debt)	7.8	5.9	6.5	6.2
Currency/USD (Year-end)	14,253	15,573	15,399	15,880
Currency/USD (Average)	14,296	14,855	15,244	15,970
<b>Other</b>				
BI 7-Day Reverse Repo rate (% year end)	3.50	5.50	6.00	6.25
Consumer prices (% year end)	1.87	5.51	2.61	2.89
Fiscal balance (% of GDP; FY)	-4.65	-2.38	-1.65	-2.2
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

## Treasury Economist Team

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**Hosianna E. Situmorang**  
**Economist**  
+6221 80645208, ext. 8873  
Hosianna.Situmorang@danamon.co.id



**Amanda A. Joesoef**  
**Industry Analyst**  
+62 21 8064-5000 ext. 8842  
amanda.joesoef@danamon.co.id

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### **PT Bank Danamon Indonesia, Tbk.**

Menara Bank Danamon  
Jl. H.R. Rasuna Said Kav. C-10, Kuningan  
Jakarta 12940  
Indonesia

Email: [treasury.economist@danamon.co.id](mailto:treasury.economist@danamon.co.id)

Fax: +62 21 80645263

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