



FX & Interest Rate

Since late June through August 24, the Indonesian Rupiah has appreciated against the USD, leading Bank Indonesia (BI) to keep interest rates unchanged. This strength is driven by the weakening dollar index, anticipated declines in US inflation, and expected interest rate cuts by the Federal Reserve. Additionally, a significant inflow of foreign investment into the domestic market has supported the Rupiah.

As of August 29, 2024, foreign investors had net investments of IDR187.66 tn in SRBI (Sekuritas Bank Indonesia), IDR12.79 tn in equities, and IDR9.20 tn in government bonds (SBN). This contrasts sharply with the end of 1H24, when foreign investors had net sales of IDR32.58 tn in SBN and IDR9.06 tn in equities, with net purchases of IDR 139.79 trillion in SRBI. The Rupiah's significant appreciation in August was due to net purchases of IDR54.94 trillion in SRBI, IDR40.35 tn in SBN, and IDR6.06 tn in equities. By August 30, 2024, the Rupiah had strengthened to IDR15,455/USD, a 5.21% appreciation from July 2024.

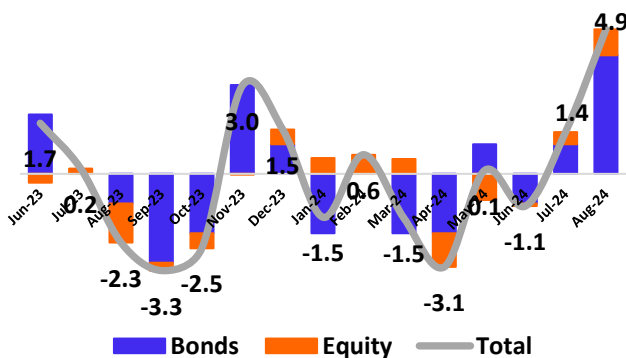
Fiscal Policy

The government's 2025 State Budget Plan (RAPBN) assuming a fiscal deficit of -2.53% of GDP, it is expected that IDR 642 trillion in government bonds will be issued. Given the large debt repayments anticipated for 2025, the gross debt supply is projected at around IDR 1,300 trillion. To ensure realistic yields, the government may need to explore alternative financing strategies, such as using excess budget balances (SAL) or debt restructuring, to mitigate SBN issuance amid market volatility. Historically, Bank Indonesia has intervened to stabilize bond yields during high issuance and market fluctuations. Since 2018, its holdings of government bonds have adjusted to accommodate increased issuance.

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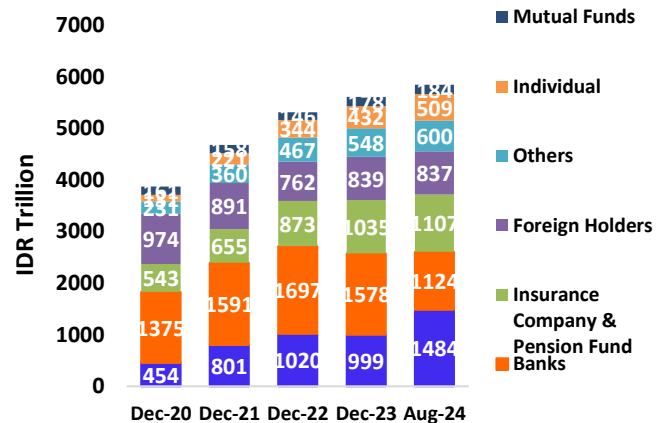
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Chart 1. Foreign Inflow to Indonesia



Source: Bloomberg, Bank Indonesia

Chart 2. Ownership of Indonesia Government Bonds



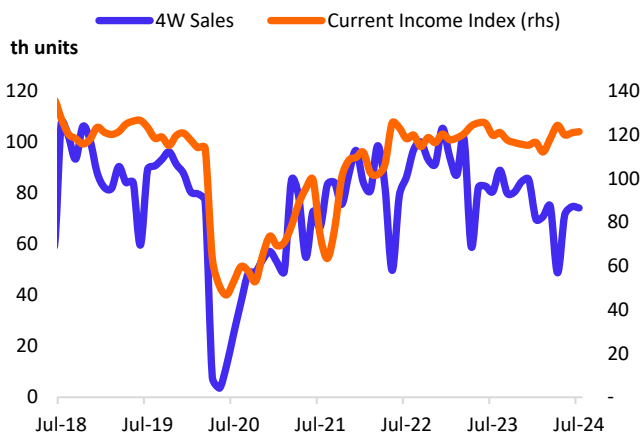
Source: Directorate General of Budget Financing and Risk Management

Automotive Industry

Car sales in Jul-24 continued to face negative growth at 7.9% yoy, though this marked an improvement from the 9.7% yoy decline observed in Jun-24. In July, car sales totaled 74,160 units, surpassing the 7M24 average of 69,176 units. Chart 3 clearly demonstrates a strong correlation between four-wheel (4W) vehicle sales and the current income index. Despite the negative growth, the improvement in car sales was supported by an increase in the current income index. Furthermore, automotive events such as GIIAS played a significant role in boosting July 2024's sales figures.

Surveys also indicated a shift in consumer behavior. According to Bank Indonesia's survey for Jul-24, consumer sentiment improved compared to the more cautious outlook of the previous month. There was a slight rise in income allocated for consumption, while the allocation for savings decreased and debt repayment continued to increase. This change in consumer behavior was likely influenced by expectations of lower interest rates amidst ongoing economic uncertainties, which in turn heightened confidence in purchasing durable goods. Looking forward, improved consumer sentiment and increasing income allocation for consumption, combined with upcoming automotive events should contribute to a more stable market environment. Nevertheless, it remains crucial to monitor potential challenges and economic fluctuations ahead.

Chart 3. 4W Sales vs Current Income Index



Source: Bank Indonesia, GAIKINDO

Chart 4. Consumer Survey by Expenditure Levels

Expenditure	CURRENT INCOME		DURABLE GOODS	
	Jul-23	Jul-24	Jul-23	Jul-24
IDR 1 - 2 mn	101.0	107.8	97.5	104.5
IDR 2.1 - 3 mn	106.1	117.6	102.6	110.7
IDR 3.1 - 4 mn	124.2	121.4	111.7	112.1
IDR 4.1 - 5 mn	124.7	127.9	114.2	112.4
> IDR 5 mn	133.6	126.9	111.9	109.3

Source: Bank Indonesia

Indonesia's Selected Economic Indicators

	2022	2023	2024E	2025E
National Accounts				
Real GDP (% y-o-y)	5.3	5.0	5.05	5.11
Domestic demand ex. inventory (% y-o-y)	3.8	4.6	4.90	4.95
Real Consumption: Private (% y-o-y)	4.9	4.9	4.82	4.98
Real Gross Fixed Capital Formation (% y-o-y)	3.9	4.4	4.20	4.40
GDP (USD bn) — nominal	1,319	1,371	1,445	1,503
GDP per capita (USD) — nominal	4,783	4,920	5,067	5,219
Open Unemployment Rate (%)	5.9	5.3	5.0	5.0
External Sector				
Exports (% y-o-y, BoP Basis)	25.6	-11.3	-6.80%	4.17%
Imports (% y-o-y, BoP Basis)	21.6	-7.3	-2.11%	2.41%
Trade balance (USD bn, BoP Basis)	62.7	46.4	33.1	38.0
Current account (% of GDP)	1.0	-0.1	-0.8	-0.9
Central government debt (% of GDP)	39.6	38.9	39.13	39.05
International Reserves –IRFCL (USD bn)	137.2	146.4	142.0	142.0
Reserve Cover (Months of imports & ext. debt)	5.9	6.5	6.3	6.3
Currency/USD (Year-end)	15,573	15,399	15,650	15,228
Currency/USD (Average)	14,855	15,244	15,852	15,583
Other				
BI 7-Day Reverse Repo rate (% year end)	5.50	6.00	6.00	5.50
Consumer prices (% year end)	5.51	2.61	2.19	2.51
Fiscal balance (% of GDP; FY)	-2.38	-1.65	-2.70	-2.57
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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