Indonesia Market Color

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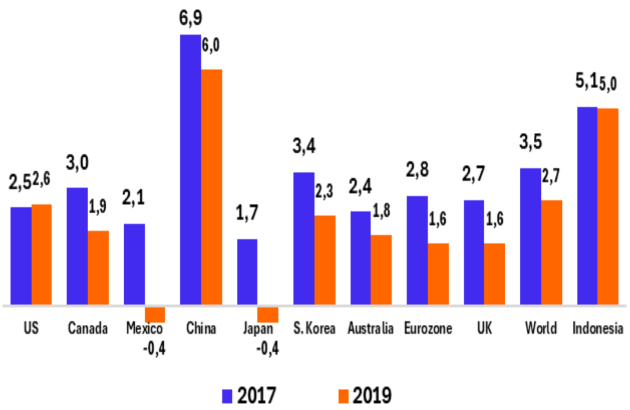
FX & Interest Rate

DXY Strengthens with Trump's Victory. The U.S. Dollar Index (DXY) rose following Trump's 2016 election and inauguration, fueled by expectations of tax cuts and economic policies. However, the initial rally was short-lived as uncertainty around policy execution and global factors weakened the dollar. In November 2024, Bank Indonesia raised yields on short-term SRBI to address maturing debt and attract foreign exchange liquidity into the domestic market.

Global Growth Slows Amid Trade Wars. The IMF projects that the ongoing U.S.-China trade war will negatively affect global GDP growth, with the full impact expected by 2026. While China may offset losses through demand from emerging markets, the U.S. economy faces moderate inflationary pressures. Indonesia's GDP growth is forecast to slow to 5% in 2024, driven by weaker middle-class consumption and a sluggish manufacturing sector (S&P Global PMI: 49.6). The second U.S.-China trade war could further hinder growth, similar to the 2018-2019 downturn.

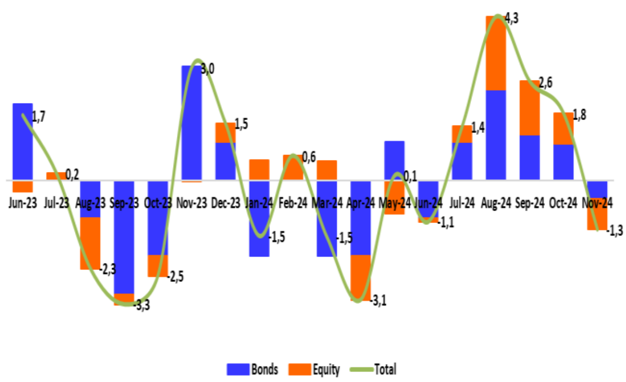
In response to these challenges, Bank Indonesia (BI) aims to stabilize the Rupiah and support economic growth. The BI 7-Day Reverse Repo Rate (BI7DRR) is expected to remain at 6%, though a rate cut by the end of 2024 is possible as U.S. rate cuts are projected to decrease from 100bps to 50bps. BI will continue using SRBI, SVBI, and SUVBI to manage market volatility, while promoting QRIS adoption and digital transactions. In 2025, BI's policy will focus on balancing stability and growth, with inflation expected to moderate to 1.55% YoY by November 2024.

Chart 1. Global GDP Growth Slows Due to the Effects of the 2018-2019 Trade Wars



Source: Bloomberg

Chart 2. Foreign Capital Flight: SBN and Equity Outflows Unpacked



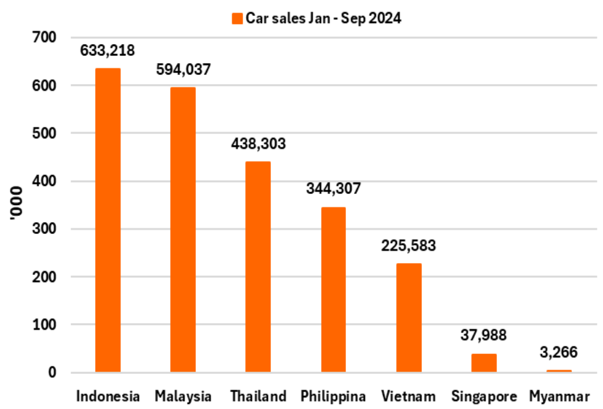
Source: Bloomberg

Automotive Industry

Indonesia's automotive industry is facing significant challenges due to market sluggishness, further exacerbated by the planned increase in Value Added Tax (VAT) to 12% in 2025, along with additional Vehicle Tax (PKB) and Vehicle Transfer Tax (BBN-KB). The Secretary-General of Gaikindo, Kukuh Kumara, predicts that vehicle sales could drop to as low as 500,000 units, far below the original target of 1 million units, which has now been revised to 850,000 units. A 1% tax increase is expected to reduce sales by 10%, compounded by declining purchasing power and a shrinking middle class, which is lowering demand for cars. The increase in BBNKB, which could reach 19%-20%, is expected to worsen the situation. Gaikindo also expresses concerns that these policies could lead to potential layoffs in the automotive sector, which employs 1.5 million people.

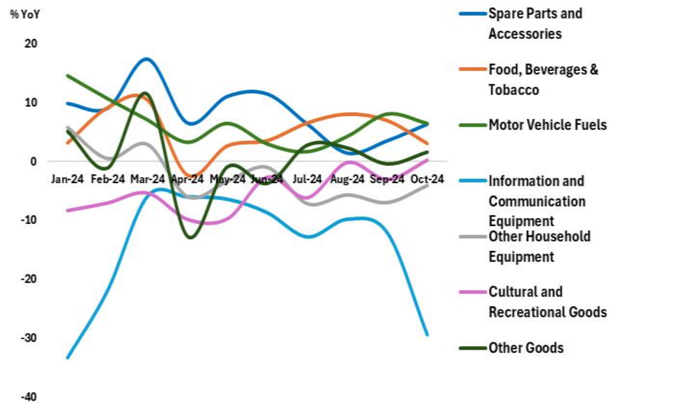
In Southeast Asia, electric vehicle (EV) sales are growing rapidly, primarily driven by Chinese companies through subsidies and tax incentives, especially in Thailand and Indonesia. In Indonesia, the EV market is dominated by Hyundai and SAIC-GM-Wuling, both of which produce locally, but this is changing as BYD and other companies began selling EVs in 2024. Indonesia aims for 30% of the four million vehicles produced domestically by 2035 to be Low Carbon Emission Vehicles (LCEVs), with one million of those being fully Battery Electric Vehicles (BEVs). The country has also prioritized battery production, with Hyundai collaborating with LG Energy Solution to produce battery cells locally. Chinese companies such as CATL and Gotion High-Tech are expanding their presence in Indonesia's battery market, establishing supply chains that include nickel mining, battery production, and recycling.

Chart 3. Despite the Decline, Car Sales in Indonesia Remain the Highest in ASEAN



Source: Gaikindo

Chart 4. Retail Performance in the Automotive Sector Continues to Show a Slowing Trend



Source: Bank Indonesia

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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	15,900	15,428
Currency/USD (Average)	14,855	15,244	15,873	15,782
Other				
BI 7-Day Reverse Repo rate (% year end)	5.50	6.00	5.75	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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