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FX & Interest Rate

The Fed’s hawkish-cut stance bolsters the DXY. In the December 17-18 FOMC meeting, Chair Powell announced that The Fed’s dot plot in 2025 would only consist of two cuts, not three cuts as expected. Markets are calling it a hawkish cut stance, where cuts are not as large as expected and pursued cautiously. Compounded with the prospective impact of Trump’s tariffs and tax cuts in 2025, markets shift their gears to the United States, especially towards the US Dollar and cryptocurrency.

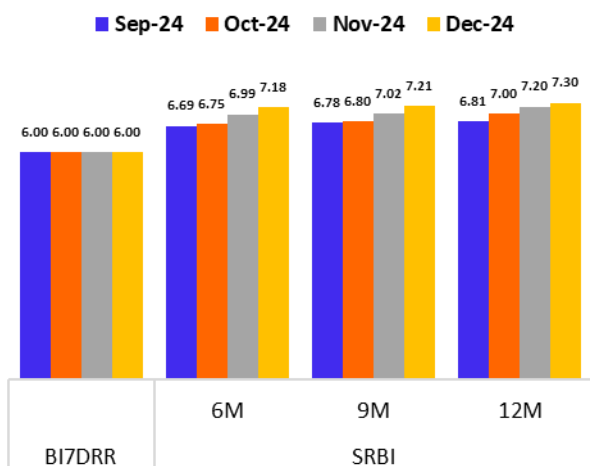
Currency depreciation is expected to continue. As per experience with the first Trump administration, Asian currencies would depreciate as Trump slapped tariffs and cut taxes. The depreciation is expected to be Chinese-led as their monetary policy would be “appropriately loose” to stave off trade war impacts from the second Trump administration. With China's weakening of the Yuan and The Fed’s hawkish cut, Asia-wide currency depreciation would ensue in 2025.

In response to these challenges, Bank Indonesia (BI) remained resolute on its target to stabilize the Rupiah. The BI 7-Day Reverse Repo Rate (BI7DRR) is expected to remain at 6% as the Fed would only cut rates twice this year, making it necessary to support the Rupiah. As with last year, BI will continue to hike the SRBI yields, currently at 7.3% for the ones ending in 12 months, while promoting QRIS adoption and digital transactions. In 2025, BI's policy will focus on balancing stability and growth, with inflation expected to accelerate in January-April 2025 as Chinese New Year and Eid al-Fitr celebrations ensue.

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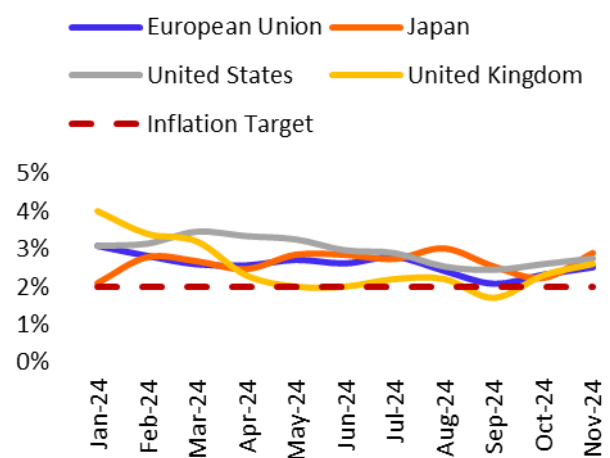
Please see the important disclaimer and information on the back of this report.

Chart 1. The SRBI Yield is Increasing Over Time



Source: Bank Indonesia

Chart 2. Inflation in Major Economies is Falling



Source: CEIC

Automotive Industry

The domestic automotive industry benefits from the cancellation of the 12% VAT increase and new tax incentives for hybrid vehicles. In the IDR 38.6 billion stimulus package, the government introduced a 3% Luxury Sales Tax exemption for locally produced hybrid vehicles. This stimulus responds to a sluggish 2024 automotive wholesale performance, which stands at 784,788 units (14.7% lower than last year) due to suppressed consumer demand and declining manufacturing activity since 2Q24. With the Purchasing Managers Index (PMI) recovering to 51.2 in Dec-24, automotive sales are expected to reach one million units in 2025, per industry targets.

EV adoption continues to grow in Southeast Asia, aided by tax incentives. In Indonesia, the BEV market is led by SAIC-GM-Wuling, Chery, and BYD, with BYD's MPV M6 becoming the 10th best-selling car since Nov-24. Hyundai, initially focused on BEVs, is now shifting to HEVs with the launch of the Santa Fe and Tucson, aligned with the 3% Luxury Sales Tax exemption for locally produced hybrids.

However, the introduction of a new regional tax on motor vehicles (up to 66%) could hinder sales. This adds two surcharges: the motor vehicle tax (Opsen PKB) and excise duty (Opsen BBNKB). The 2W segment, particularly price-sensitive, could be the hardest hit. Although provincial governments are mandated to reduce motor vehicle taxes and excise duties, Jakarta remains an exception, managing its taxes independently.

Table 1. Impact of new VAT policy on automotive tax from our simulation for cars priced around 500 million IDR. BEV and ICE vehicles face a 0.91% price increase, while HEVs see a 2.09% decrease due to the 3% Luxury Sales Tax exemption.

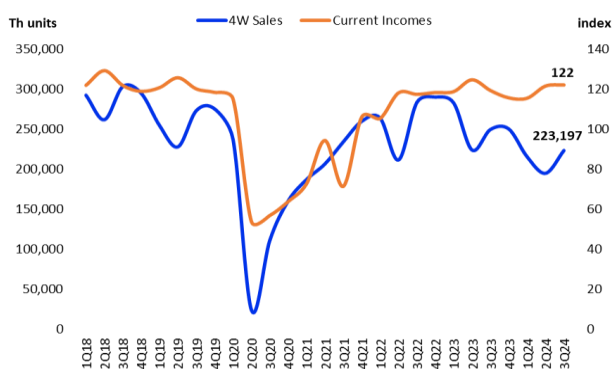
BEV Price		IDR 500,000,000	
Previous System			
PKB	up to 2%	IDR 10,000,000.00	
BBNKB	up to 20%	IDR 100,000,000.00	
PPnBM (after Exemption)	0%	IDR 0.0	
PPN (after Exemption)	1%	IDR 5,000,000.00	
Total Tax Liability		IDR 115,000,000.00	
New System (with Opsen)			
PKB	up to 1.2%	IDR 6,000,000.000	
Opsen PKB	up to 66% of PKB	IDR 3,960,000.000	
BBNKB	up to 12%	IDR 60,000,000.00	
Opsen BBNKB	up to 66% of BBNKB	IDR 39,600,000.00	
PPnBM (after Exemption)	0%	IDR 0.00	
PPN (after Exemption)	2%	IDR 10,000,000.00	
Total Tax Liability		IDR 119,560,000.00	

HEV Price		IDR 500,000,000	
Previous System			
PKB	up to 2%	IDR 10,000,000.00	
BBNKB	up to 20%	IDR 100,000,000.00	
PPnBM	15%	IDR 75,000,000.00	
PPN	11%	IDR 55,000,000.00	
Total Tax Liability		IDR 240,000,000.00	
New System (with Opsen)			
PKB	up to 1.2%	IDR 6,000,000.000	
Opsen PKB	up to 66% of PKB	IDR 3,960,000.000	
BBNKB	up to 12%	IDR 60,000,000.00	
Opsen BBNKB	up to 66% of BBNKB	IDR 39,600,000.00	
PPnBM (after Exemption)	12%	IDR 60,000,000.00	
PPN	12%	IDR 60,000,000.00	
Total Tax Liability		IDR 229,560,000.00	

ICE Price		IDR 500,000,000	
Previous System			
PKB	up to 2%	IDR 10,000,000.00	
BBNKB	up to 20%	IDR 100,000,000.00	
PPnBM	15%	IDR 75,000,000.00	
PPN	11%	IDR 55,000,000.00	
Total Tax Liability		IDR 240,000,000.00	
New System (with Opsen)			
PKB	up to 1.2%	IDR 6,000,000.000	
Opsen PKB	up to 66% of PKB	IDR 3,960,000.000	
BBNKB	up to 12%	IDR 60,000,000.00	
Opsen BBNKB	up to 66% of BBNKB	IDR 39,600,000.00	
PPnBM	15%	IDR 75,000,000.00	
PPN	12%	IDR 60,000,000.00	
Total Tax Liability		IDR 244,560,000.00	

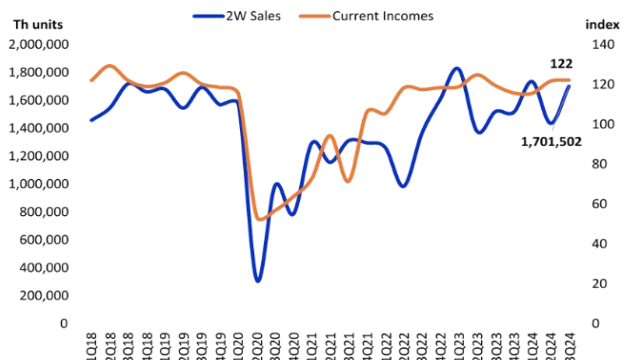
Source: Ministry of Finance, Bank Danamon Simulation

Chart 3. 4W Sales would Increase as Current Incomes Strengthen



Source: CEIC

Chart 4. 2W Sales would Increase as Current Incomes Strengthen



Source: CEIC

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	4.9	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	4.2	4.4
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	4.91	4.17
Imports (% y-o-y, BoP Basis)	21.6	-7.3	2.53	2.41
Trade balance (USD bn, BoP Basis)	62.7	46.4	31.64	32.87
Current account (% of GDP)	1.0	-0.1	-0.3	-0.5
Central government debt (% of GDP)	39.6	38.9	39.13	39.05
International Reserves –IRFCL (USD bn)	137.2	146.4	150	148
Reserve Cover (Months of imports & ext. debt)	5.9	6.5	6.3	6.3
Currency/USD (Year-end)	15,573	15,399	16,300	16,055
Currency/USD (Average)	14,855	15,244	15,872	16,197
Other				
BI 7-Day Reverse Repo rate (% year end)	5.5	6	6	5.75
Consumer prices (% year end)	5.51	2.61	1.6	2.5
Fiscal balance (% of GDP; FY)	-2.38	-1.65	-2.3	-2.5
S&P's Rating – FCY	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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