Clearing Storm Clouds: 2025 Brings the Promise of a Fresh Breeze

Executive Summary

The global economy in 2024 faces a challenging slowdown, with growth forecasted at just 3.2%, slightly down from last year's 3.3%. While the U.S. outperforms expectations, Europe grapples with deindustrialization, and China's faltering economy impacts global markets, including Indonesia's exports. Disinflation trends are emerging, with inflation rates easing, but weak demand from China continues to undermine global economic stability. **However, looking ahead to 2025, there is optimism for a rebound in Indonesia's key commodities, including cocoa, coffee, palm oil, and gold and jewelry, which have shown improvement since late 2024. This recovery in exports is expected to cushion the persistent challenges in Indonesia's export sector.**

Indonesia's economy also faces challenges, particularly in the automotive sector, where lower sales and lack of tax incentives are pressing concerns. However, government initiatives, such as EV tax breaks and subsidized credit for manufacturing, offer hope for recovery in 2025. **While inflationary pressures and a higher VAT rate may dampen consumer spending, fiscal measures are aimed at stabilizing the economy and fostering long-term growth.**

In FY25, government measures are expected to significantly boost household consumption, including a 6.5% increase in the minimum wage, as well as programs supporting MSMEs and public health. **These initiatives are projected to create approximately 2 million new jobs and stimulate consumer spending, particularly in the non-restaurant F&B sector. The government's "quick win" program, with a budget of IDR 121 trillion, is designed to support GDP growth and is expected to make a meaningful contribution to economic recovery.**

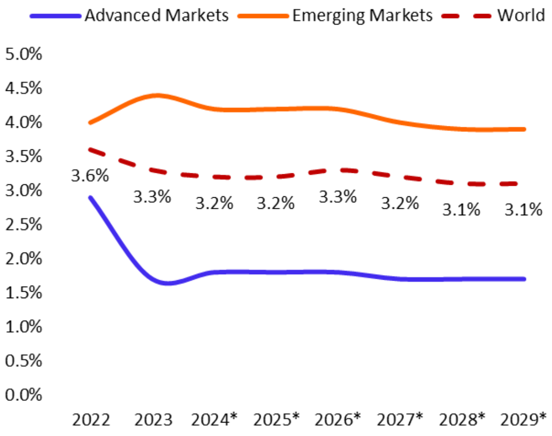
Despite rising debt obligations, Indonesia aims to reduce its fiscal deficit in 2025. The government is likely to issue IDR 1,442.6 trillion in gross bonds, with IDR 642.6 trillion for net bond issuance and IDR 800 trillion for maturing debt. A significant increase in bond maturities is expected between 2025 and 2030 due to post-COVID stimulus measures. **Nominal bond issuances are expected to rise significantly, with SUN regular bonds auction increasing to IDR 28-42 trillion and SBSN Islamic bonds auction to IDR 9-12 trillion. These increases are essential to meet financing needs, though adjustments may occur if the government uses its State Cash Balance (SAL) or engages in prefunding activities by the end of 2024.**

Corporate bond and sukuk issuances in 2025 are expected to reach IDR 140-145 trillion, an increase from 2024 but slightly below the maturing amount of IDR 144 trillion. This gap is due to ongoing challenges, including the availability of low bank lending rates for corporations and uncertainties surrounding the timing and extent of interest rate cuts. As a result, issuers are likely to delay their bond and sukuk issuances until market conditions stabilize.

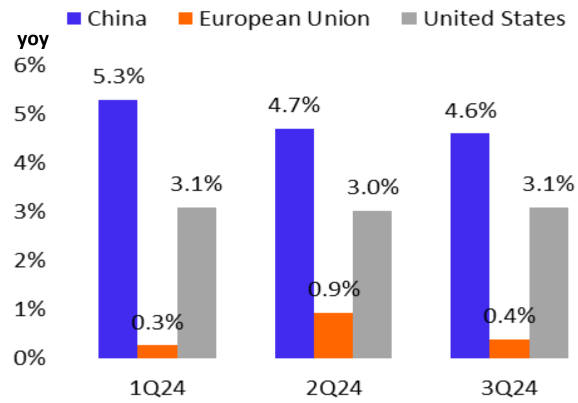
Global Economy: Unmet Expectations?

Economic growth slowed worldwide as China and Europe halts. In 2024, global economic growth is underwhelming, as the IMF puts it. As of October 2024, the world economy is projected to grow by 3.2% in 2024 and 2025. Both are slightly below the 2023 figure of 3.3%. The slowdown happened because of regional dynamics in the world economy. The United States (US) outperforms expectations with economic growth around 1.5%-3% yoy. In contrast, a different reality happened in Europe, where rapid deindustrialization in Germany, caused by high energy prices, dragged the region's economic performance with 0.4%- 0.9% yoy. The biggest culprit is China, where GDP growth each quarter tumbled from 5.3% yoy in 1Q24 to 4.6% yoy in 3Q24. So, stronger performance in the United States is dragged down as growth in China and the European Union slowed.

Graph 1. Global Economic Growth Projections



Graph 2. Comparison of the US, EU, and China's Growth

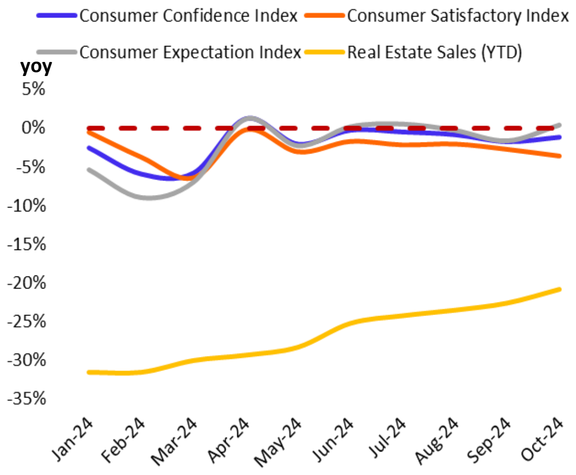


Source: CEIC; International Monetary Fund (IMF)

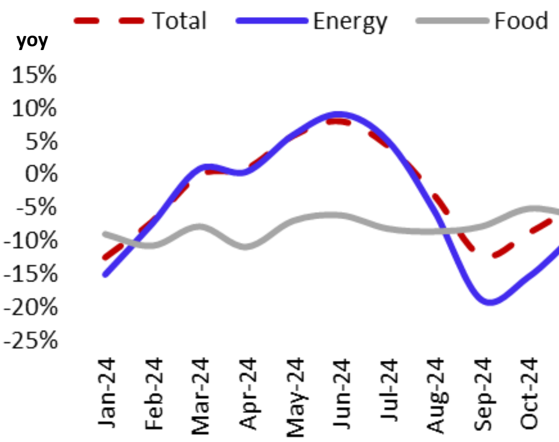
Commodity prices are declining. China as the world's biggest commodities consumer is slowing down due to tumbling consumer confidence and the still-depressed real estate sector. In Nov-24, Chinese consumer confidence stood at -1.14% yoy, signaling a weak perception of its economic well-being. Perception was weak due to a decline in the satisfactory index at -3.64% yoy. In effect, Chinese consumers are tightening their belts because real estate prices, which comprise 70% of their net worth are low. Whereas supply as the other side of the equation is not experiencing intense constraint like in 2022. As a result, commodity prices worldwide went down. The World Bank's Commodity Index itself is falling 4.68% yoy, primarily driven by lower energy prices at -9.14% yoy and food prices at -6.07% yoy.

The trend is likely to continue. Commodity prices would decline further until 2026, according to the World Bank's projection. The culprit behind it lies in China, where it is forecasted that consumer demand would stay down, despite all the stimulus packages. Trump's policy of strengthening the US's oil and gas sector would also play a role, where according to the International Energy Agency (IEA), global oversupply of oil would persist at 950,000 barrels per day, despite the OPEC+ postponing their production hike.

Graph 3. Consumer Confidence and Property Sales in China



Graph 4. Commodity Prices in 2024



Source: CEIC; The World Bank

Table 1. Commodity Price Projections

	Unit	2022	2023	2024f	2025f	2026f	Price Change from 2024	Trend from 2022
Energy								
Crude oil, Brent	$/bbl	99.80	82.60	80.00	73.00	72.00	-10%	Lower
Natural gas, U.S.	$/mmbtu	6.40	2.50	2.20	3.40	3.70	68%	Lower
Coal, Australia	$/mt	344.90	172.80	137.00	120.00	105.00	-23%	Lower
Beverages								
Cocoa	$/kg	2.39	3.28	6.90	6.00	5.90	-14%	Higher
Coffee, Arabica	$/kg	5.63	4.54	5.45	5.00	4.80	-12%	Lower
Coffee, Robusta	$/kg	2.29	2.63	4.50	4.20	3.90	-13%	Higher
Food & Fertilizer								
Rice, Thailand, 5%	$/mt	437	554	598	530	518	-13%	Higher
Wheat, U.S., HRW	$/mt	430	340	270	265	268	-1%	Lower
Sugar, World	$/kg	0.41	0.52	0.45	0.46	0.46	2%	Higher
Potassium chloride	$/mt	863	383	295	290	295	0%	Lower
Metals and Minerals								
Copper	$/mt	8,822	8,490	9,250	9,300	8,500	-8%	Lower
Nickel	$/mt	25,834	21,521	17,000	17,500	18,500	9%	Lower

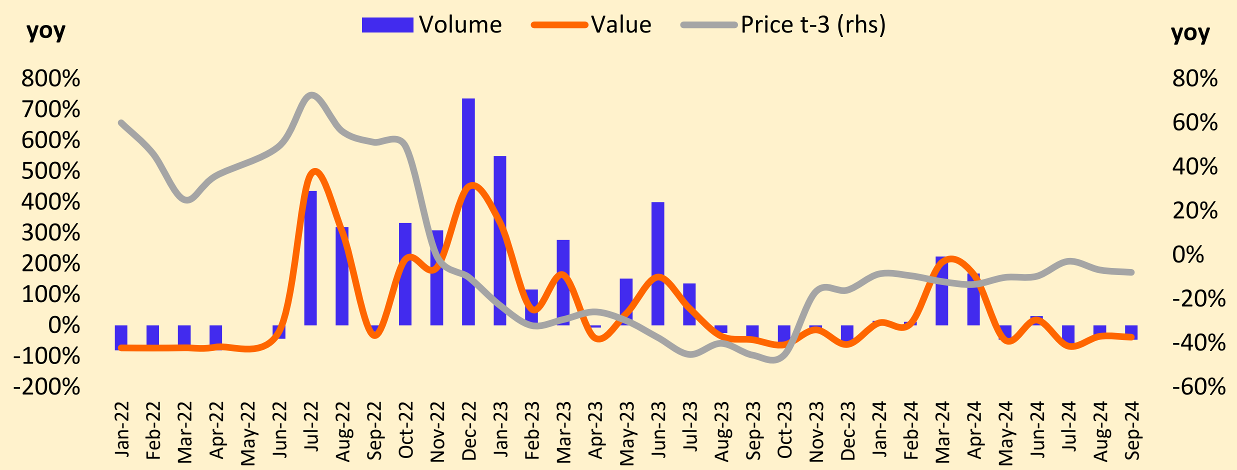
Precious Metals

Gold	$/toz	1,801	1,943	2,350	2,325	2,250	-4%	Higher
Silver	$/toz	21.80	23.40	28.00	30.00	31.00	11%	Higher
Platinum	$/toz	962	966	1,000	1,050	1,100	10%	Higher

Source: The World Bank

Box 1. Palm Oil Industry in Indonesia

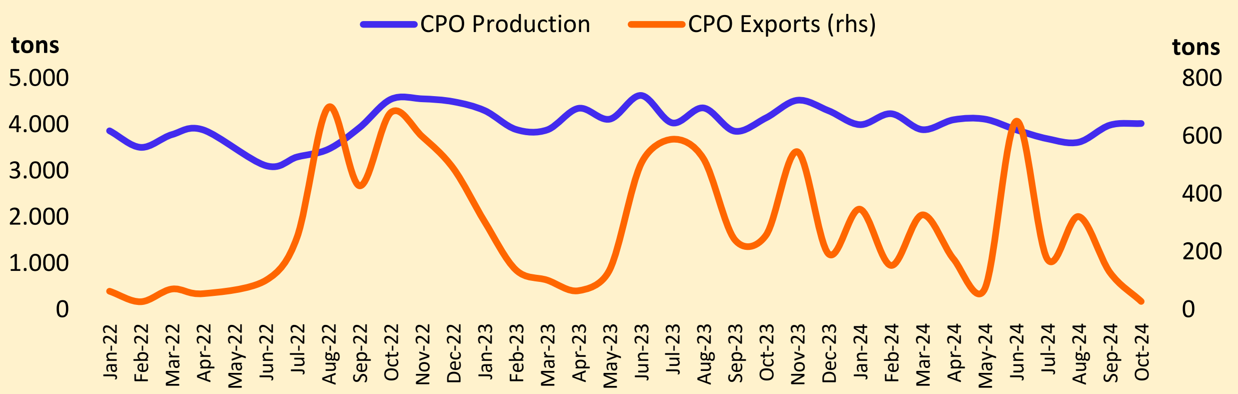
Graph 5. CPO Volume, Value, and Price Change



Source: CEIC

In 2024, Indonesia's Crude Palm Oil (CPO) exports still experience from negative growth for most of the year. It happened because export volume slumped most of the year. The slump in export volume happened as global CPO price stayed below USD1.000 per metric ton. A comparison with a 3-month lag price change shows that whenever global prices went up, production volume and value would increase three months after. Other factors such as the Domestic Market Obligation (DMO) policy for palm oil also hinders export volume. The policy earmarked 250.000 tons each month from certain palm oil products for Minyak Kita, a low-cost cooking oil product to stabilize prices, and 25% of total CPO production, a low-cost cooking oil product to stabilize cooking oil prices.

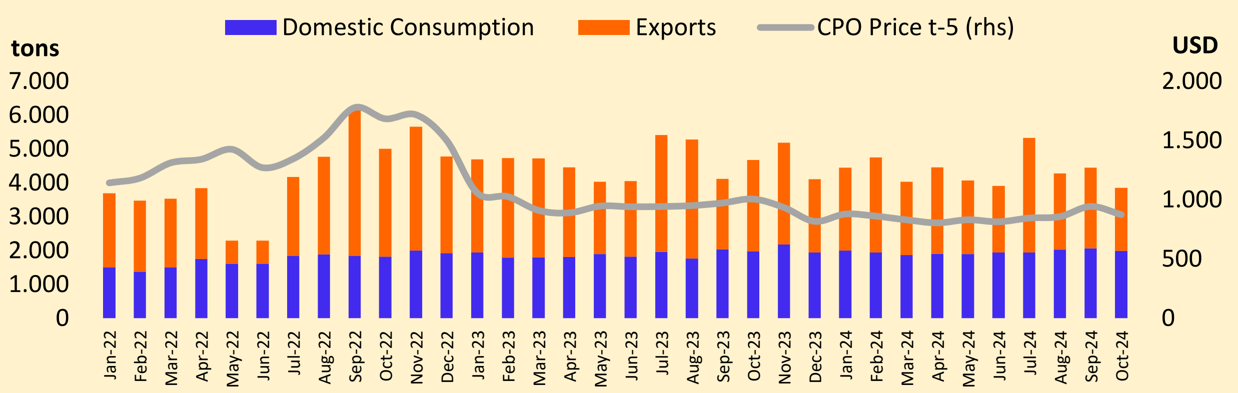
Graph 6. CPO Production and Exports



Source: CEIC

Regarding CPO production, production remained normal from Jan-24 to May-24 with figures between 4,100-4,600 tons per month. Since Jun-24, production plummeted to below 4,000 tons per month and only recovered by Oct-24. It followed the domestic CPO price dropped by 11,21% in Jun-24, following global prices. After that, export volume spiked in July which is a yearly cyclical trend.

Graph 7. Comparison between Export and Domestic Consumption Volume of Palm Oil

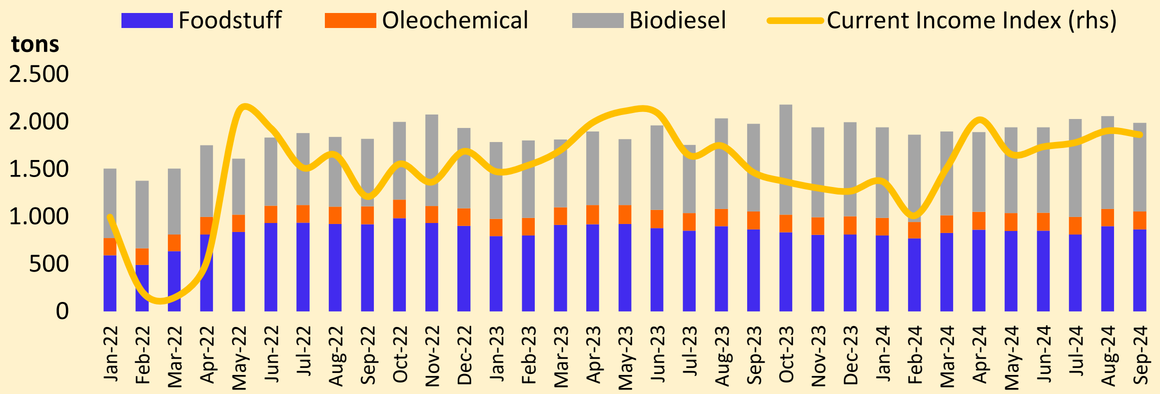


Source: CEIC

After analyzing CPO, it is important to know how palm oil in Indonesia is moving along the supply chain. From 2022 to 2024, apart from the CPO boom episode In Q324, the trend for palm oil is declining exports and a rising proportion for domestic consumption. In Jan-22, only 40.87% of palm oil is used for domestic consumption. The figure in Nov-24 is at 51.68%, the first-time domestic consumption takes more than half the proportion. It shows that Indonesia's palm oil landscape is changing in 2024.

Danamon
A member of MUFG, a global financial group

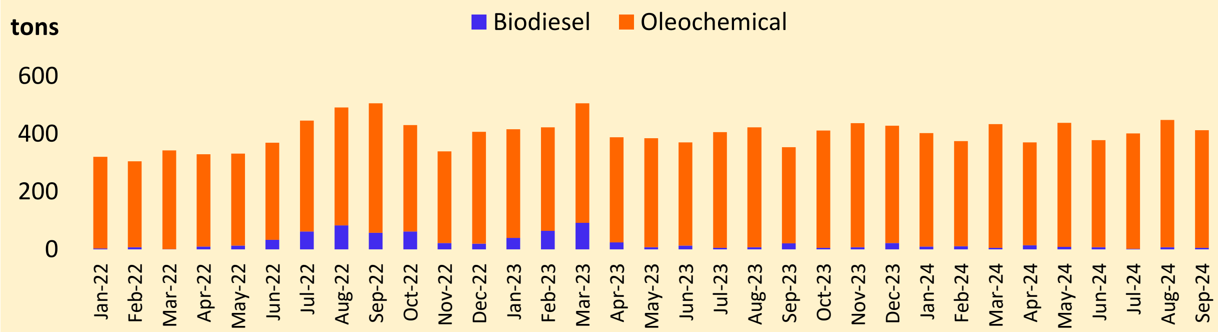
Graph 8. Domestic Consumption for Palm Oil Products



Source: CEIC

Looking at the domestic consumption of palm oil products, there is a cyclicality between biodiesel and foodstuff. It turns out that domestic consumption cyclicality was influenced by the current income index From Jan-22 to Jun-23, foodstuffs dominated domestic consumption as consumer's perception of their current income strengthened. As their perception declined from Jun-23 to Mar-24, consumption volume for foodstuffs also decreased. Lastly, as the election spending spree hit the Indonesian economy from Jan-24 to Mar-24, consumption of palm oil foodstuff increased accordingly. However, the domestic consumption of oleochemicals is always lower than the other two palm oil commodities.

Graph 9. Indonesian Palm Oil Products Export

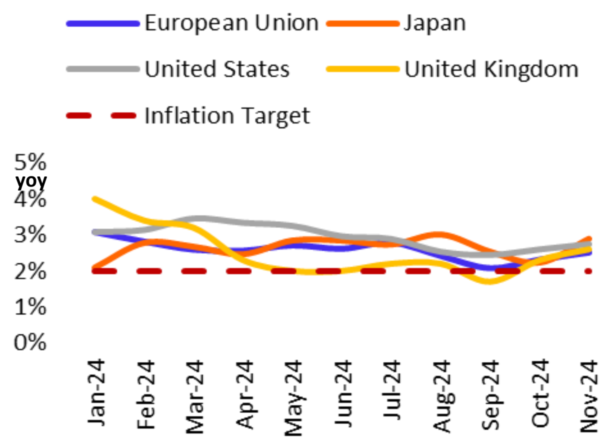


Source: CEIC

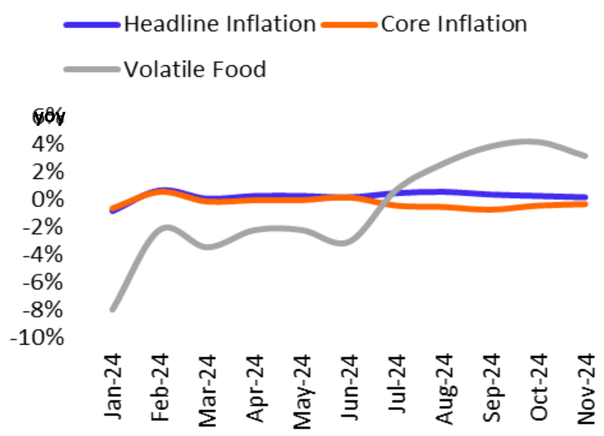
A different story comes from palm oil exports. Oleochemicals dominate Indonesia's palm oil exports at 300-450 tons per annum. The increase happened due to a USD0/mt export duty policy for CPO and its products, effective from Jul-22 to Dec-22. After palm oil export duty returned to normal, the government embarked on the 35% biodiesel (B35) policy, making domestic demand for biodiesel up, and putting pressure on its exports ever since. As of Dec-24, the policy is further advanced to 40% biodiesel (B40), effective January 1, 2025. Hence, this policy would boost domestic demand, sapping the capacity for exports.

Disinflation is happening worldwide. Plummeting commodity prices, especially food and energy reverberate towards lower CPI inflation. If 2022 and 2023 was the year that inflation strikes, 2024 became the year where it retreats. Inflation in most major economies is moving towards the 2% target rate as effect of rate hikes in 2022 and 2023 kicked in. Nonetheless, China still undershoots its 3% inflation target, due to weak purchasing power, as shown by a negative core inflation of -0.30% yoy. All those factors combined made price hikes in 2024 more timid compared to last year.

Graph 10. Inflation in Major Economies



Graph 11. China's Inflation Components



Source: CEIC

Monetary policy did ease, but underperforming market expectations. In early 2024, markets were expecting five times of rate cuts. In the end, The Fed only did three rate cuts and took off 100 bps from the Fund Rate. Furthermore, as the last rate cut of 25 bps occurred in Dec-24 FOMC meeting, Jerome Powell indicated that there would be only two cuts in 2025, taking off 50 bps, from the previously three cuts in The Fed's dot plot. This position shows a pivot towards hawkish cut, where monetary easing is not as much as expected.

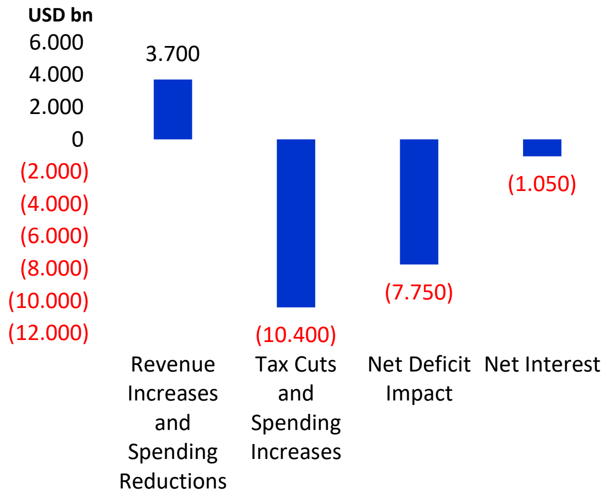
Graph 12. The Fed's Dot Plot in 2025

TARGET RATE	2024	2025	2026	2027
4.750				
4.625	4			
4.500				
4.375	15	1		
4.250				
4.125		3		
4.000				
3.875		10	3	2

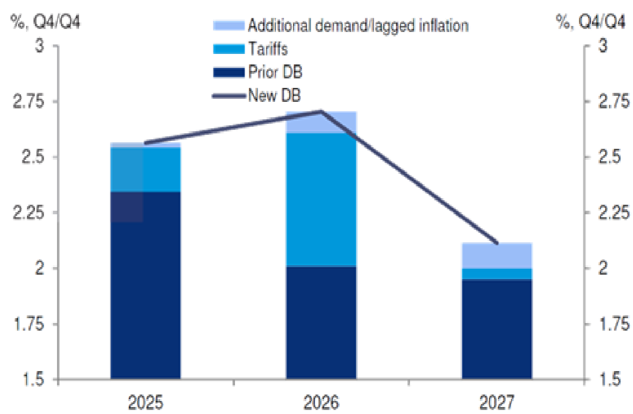
Source: CME Market Watch

The "Trump Effect" is bucking economies worldwide. As the expected Nov-24 election winner, Trump's policies grab market attention worldwide. Markets outside the United States view higher tariffs for various countries as the priority, forming a headwind for international trade and finance ahead. A different reality happened in the United States: Trump's promise of corporate tax cuts and energy security agenda drive market optimism. Nevertheless, the combination of loose fiscal policy and higher import tariffs is projected to fuel the budget deficit by USD7.75 trillion and inflation to 2.7%.

Graph 13. Trump's Impact on the Federal Budget



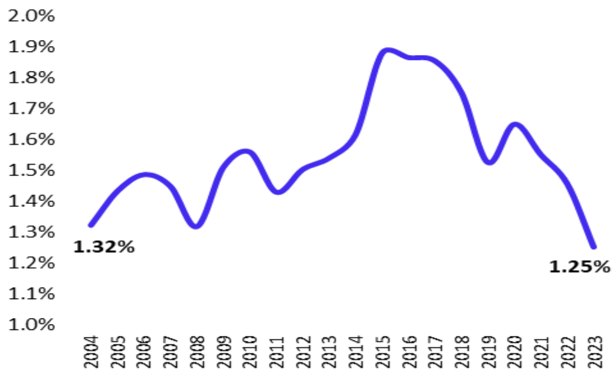
Graph 14. Trump's Tariff Impact on Inflation



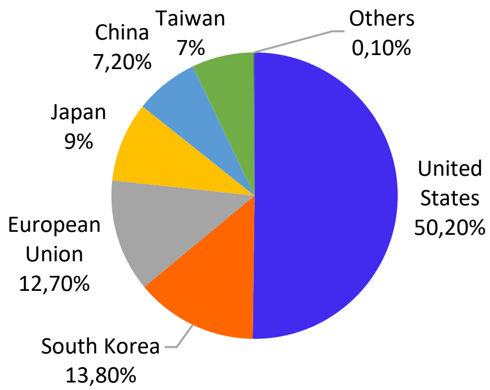
Source: Center for a Responsible Federal Budget (CRFB); Deutsche Bank

Trade fragmentation and geopolitical tensions are set to increase. Trump's new cabinet includes many who are critical of China, like Rep. Mike Waltz (National Security Advisor), Marco Rubio (Secretary of State), and Pete Hegseth (Secretary of Defense). Despite Elon Musk's ties to China, most of the cabinet sees China as a threat. This suggests the next Trump administration will likely further separate the American and Chinese economies, which now represent just 1.25% of global trade, down from 2004. This decoupling will continue, accompanied by ongoing geopolitical conflicts and semiconductor arms race.

Graph 15. US-China Trade to Global Trade (2004-2024)



Graph 16. Global Semiconductor Market



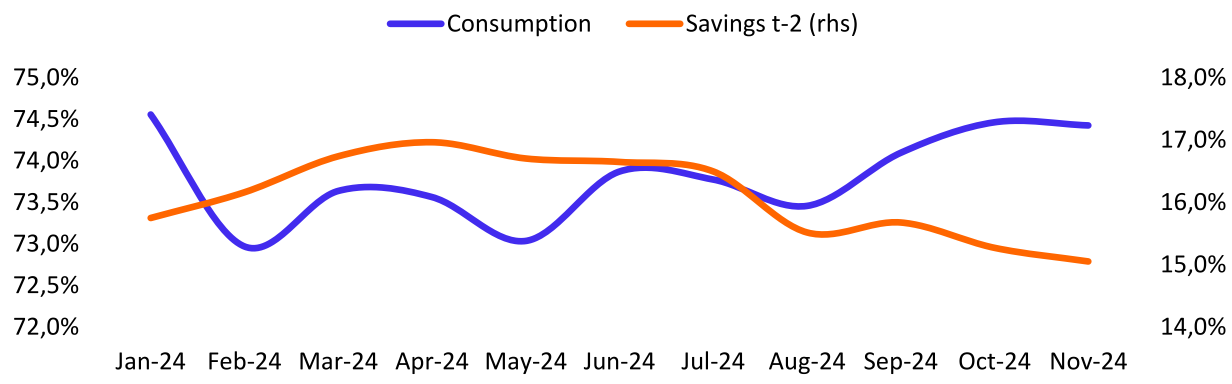
Source: Trademap; Semiconductor Industry Association

Indonesian Economy: A New Hope in 2025 Due to Fiscal Stimulus and Rising Wages

Lower growth in 2024, only supported by election spending sprees in 1Q24. The Indonesian economy posted a dismal growth figure of 4.95% yoy in 3Q24, below the normal growth trajectory of 5%. Since more than 50% of Indonesia's GDP is comprised of consumption, it has become the Achilles' heel that drags economic growth. Clouded by high food and energy prices, rising layoffs, and a mushrooming online gambling phenomenon, consumers are experiencing a squeeze in their buying power. It is further proven by the decline of Indonesia's middle-class population by 9.4 million in the past five years. Throughout the year, commodity prices and direct investment also performed poorly compared to the boom in 2022-2023. However, this low growth is unlikely to continue in 2025 as monetary conditions eased further, with an estimate of 5.1% in 2025.

Consumers do not have the means to hit the pedal on spending. The decline in Indonesia's Manufacturing PMI until below 50 made many consumers experience a loss in income, with the latest layoff figures at 64,221 workers (10.87% yoy). Breaking down by income classes, the middle-upper has benefited from stronger US dollars and continued tax incentives for electric vehicles. The middle-lower segment was supported by programs such as direct cash transfer in 1Q24 and free school meals rollout in 3Q24. On the contrary, the middle class has been burdened by a higher Value-Added Tax (VAT) of 11% and receives no direct assistance from government programs. Other than that, we have seen that throughout 2024, there is a decline in the allocation of savings, increasing the proportion for consumption with a lag of t-2, proving that consumers are eating on their savings to fulfill their consumption.

Graph 17. Monthly Consumption and Saving Rate in 2024



Source: CEIC

Retracement for durable goods. Durable goods demand in 2024 dropped as consumer confidence declined since Q2-2024. In 2023, consumers still have the buying power to replace their durable goods. Meanwhile, in 2024, most durable goods experienced negative quarterly growth. Motor vehicle parts and accessories grew by 8.8% yoy in Oct-24, communication equipment booked negative double-digit growth of -25.1% yoy, while clothing and cultural & recreation goods posted 1.7% and -0.8% yoy growth.

Table 2. Retail Sales Index: Durable Goods Consumption

% yoy	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Oct-24	Nov-24
Durable									
Motor Vehicles	-7.3	-3.8	2.6	10.3	12	9.6	3.7	8.8	9.8
Communication Equipment	-13.8	-21.7	-16.6	-20.1	-20.4	-7	-11.6	-25.1	-25.6
Household Equipment	-9.1	-6.1	-5.1	3.1	3.1	-3.4	-6.6	-6.5	-6.1
Cultural & Recreation Goods	-0.6	0.8	-3.2	-4.5	-7	-7.5	-3.2	-0.8	-1.1
Clothing	13.7	13.2	9.4	10.4	10.5	-4.5	2.2	1.7	2.4
Non-Durable									
Food & Beverages	4.8	4.6	3.5	3	7.5	1.2	7.1	3.3	3.5
Auto Fuels	-11.2	-5.5	1.4	12.5	10.8	4.3	4.7	9.3	10.6

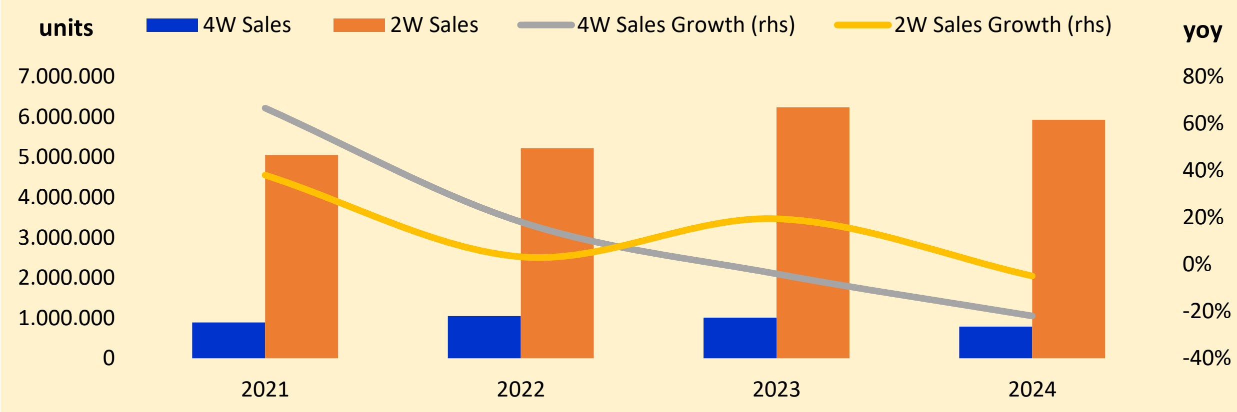
Source: Bank Indonesia

The Indonesian government's initiatives for FY25 are poised to enhance purchasing power and household consumption. A key driver of this growth will be a 6.5% increase in the minimum wage, alongside the implementation of free nutritious meal programs for Micro, Small, and Medium Enterprises (MSMEs) and extending their 0.5% Final Income Tax program, and complimentary health check-ups. These measures are expected to boost disposable income, lower the tax burden for businesses, and enhance public health outcomes. Consequently, household consumption is projected to grow by over 5% in FY25, particularly in the non-restaurant food and beverage sector.

Moreover, the government's "quick win" program, allocated a budget of IDR 121 trillion, aims to stimulate economic growth and foster a favorable environment for job creation. These initiatives are anticipated to contribute an additional 0.2 percentage points to GDP growth, supporting the government's target of 5.2% growth for FY25. Together, these efforts are expected to generate approximately 2 million new jobs, expanding income generation opportunities. Furthermore, the 3 million housing program creates additional employment prospects while attracting further investment, bolstering overall economic expansion.

Box 2. Automotive Industry

Graph 18. Automotive Sales

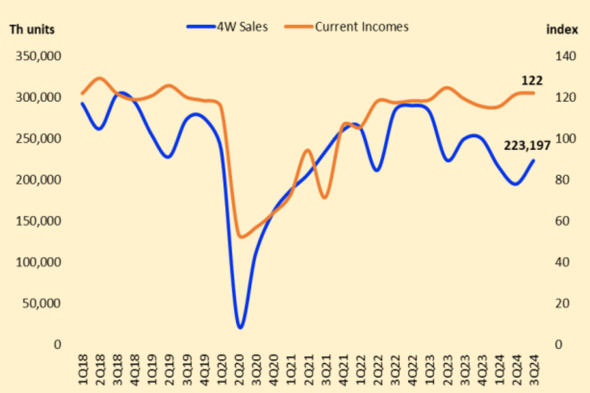


Source: CEIC

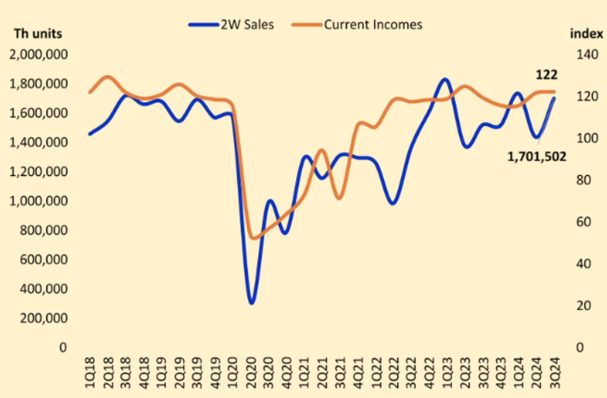
The automotive sector in 2024 faced a tough year, with sales dropping 14.7% to 784,788 units, reflecting weak consumer confidence and a lack of tax incentives for Internal Combustion Engine (ICE) and hybrid vehicles. The stagnation of BI's income index, which correlates 57% with car sales, further dampened consumer spending on durable goods. Toyota led the market with a 33.71% share, followed by Daihatsu at 19.11%. Hyundai and Wuling struggled, with the latter facing intense competition from Chinese brands like BYD.

EV sales continued to rise, with total sales reaching 31,994 units. BYD led with 11,024 units, accounting for 34.46% of the market, while Chery's Omoda E5 became the best-selling EV in October 2024, fueled by substantial trade-in incentives. Despite the Omoda E5’s success, BYD’s M6, a more affordable seven-seater, overtook it in sales by November, reaching 1,770 units, compared to Omoda E5’s 339 units. Wuling’s Air EV held the second spot in November with 784 units sold.

Graph 19. Four-wheel Sales and Current Income Index



Graph 20. Two-wheel sales and Current Income Index



Source: CEIC

Lackluster performance and the lack of incentives give the automotive industry urgency for a fresh stimulus in the future. Consequently, the government receives the industry's signal and plans upon it. In 2025, the government **continued its tax incentives on BEV** and expanded the 3% Luxury Goods Tax exemption to HEV. This part of the government's economic stimulus package **equalizes HEV tax treatment with its BEV counterparts.** Hence, it is hoped that this incentive will kickstart better four-wheel wholesales in 2025, above its 2024 performance at 850,000 vehicles. Other than that, the economic stimulus package also gave subsidized credit with 5% interest for Indonesia's ailing labor-intensive manufacturing sector, hoping to bolster purchasing power in the process.

The government also implemented various tax adjustments for motor vehicle sales. including a maximum 1.2% motor vehicle tax and 12% excise duty under Law No. 1/2022. However, new regional taxes on vehicles (up to 66%) may hinder sales, especially in the 2W segment, which is more price sensitive. While provincial governments must reduce taxes, Jakarta maintains independent tax management. Additionally, a 12% VAT and 3% Luxury Sales Tax exemption for HEVs provide benefits, but Battery Electric Vehicles (BEVs) remain the most favorable with only a 23.91% effective tax on their purchase price.

Table 3. 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 100,000,000.0
PPnBM (after Exemption)	0%	IDR 0.0
PPN (after Exemption)	1%	IDR 5,000,000.0
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 100,000,000.0
PPnBM	15%	IDR 75,000,000.0
PPN	11%	IDR 55,000,000.0
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

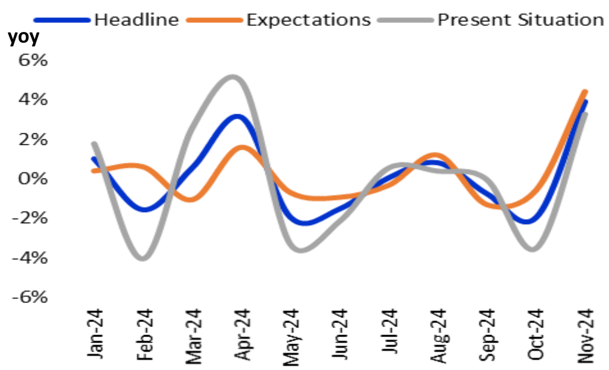
ICE Price	IDR 500,000,000	
Previous System		
PKB	up to 2%	IDR 10,000,000.00
BBNKB	up to 20%	IDR 100,000,000.0
PPnBM	15%	IDR 75,000,000.0
PPN	11%	IDR 55,000,000.0
Total Tax Liability		IDR 240,000,000.00
New System (with Opsen)		
PKB	up to 1.2%	IDR 6,000,000.000
Opsen PKB	up to 66% of PKB	IDR 3,960,000.000
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

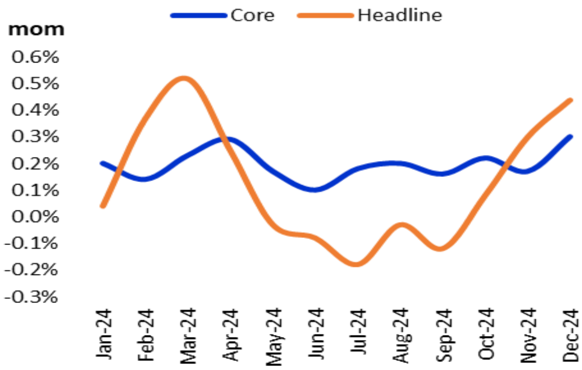
The Indonesian Motor Vehicle Industry Association **(Gaikindo) projects domestic car sales in 2025 to reach 1,000,000 units.** The target equals to the 2024 target before being revised to 850,000 units, as consumer present income were reduced from 2Q24 to 3Q24. Consumers have lower means to purchase durable goods, such as new vehicles for most of 2024. However, there is another side to this situation, where easing monetary conditions would drive down car purchase costs, as 70% of vehicle sales are on credit schemes. In addition, securing domestic demand for vehicles in line with production increases is also important to ensure Indonesia's automotive industry outlook ahead.

Consumption is slightly recovering as 2024 ends. In Nov-24, Indonesia's consumer confidence rose to 125.9 (1.9% YoY). Stronger consumer confidence occurred due to the rise in consumers' current income at 5.5% YoY. As their income rose, consumers started to have higher purchasing power for consumption. It is proven further by the end of monthly deflation since Oct-24, standing at 0.44% mom in Dec-24. Core inflation as the proxy for consumers' purchasing power is also rising at 0.30% mom. However, Indonesia's annual inflation still decline at the rate of 1.57% yoy. Hence, if monthly inflation increased as annual inflation declined, there is an adjustment towards high prices, especially food and energy.

Graph 21. Consumer Confidence Index



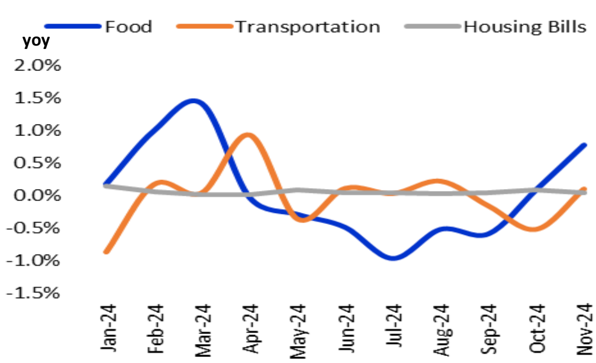
Graph 22. Monthly Inflation in Indonesia



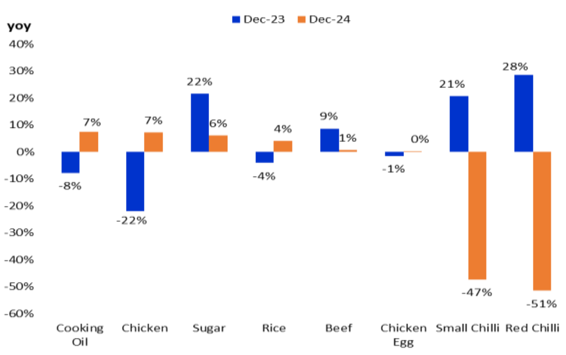
Source: CEIC

Recovery happened around consumers adjusting their price expectations. In the year 2024, it is clear that high prices are hitting Indonesians' pockets due to price increases in cooking oil (7.440% yoy), chicken egg (7.140% yoy), and sugar (6% yoy). It is detrimental as food, beverage, and tobacco comprise 28% of Indonesia's Consumer Price Index (CPI). However, monthly inflation for food, beverage, and tobacco is already strengthening to 0.780% MoM. It is a sign of consumption volume recovery, as consumers realize that prices are going to be sticky.

Graph 23. Sub-Components of Inflation



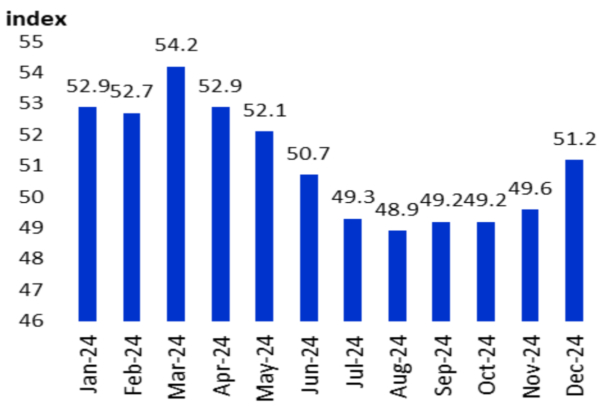
Graph 24. Food Price Increases in Indonesia



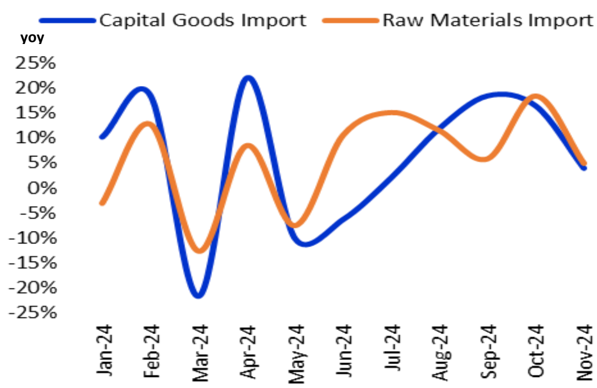
Source: CEIC

Production is also recovering, with a stronger Purchasing Managers Index. After experiencing a contraction since Jul-24 and hitting a rock-bottom PMI of 48.9 in Aug-24, Indonesia's manufacturing is slowly recovering with the latest PMI of 51.2 in Dec-24. Another indicator of production-side recovery is the continuous rise in capital goods imports since Jun-24, now at 3.92% YoY. Imports for raw materials are also strengthening at 4.96% YoY. Those signals show that momentum is gaining for Indonesian industry.

Graph 25. Indonesia's PMI Recovery



Graph 26. Indonesia's Import Growth



Source: CEIC

Indonesia's corporate revenue is rising in the commodity-related sectors. Commodity prices are rising due to China's stimulus and Fed rate cuts, which are improving corporate income in commodities-related industries, particularly in Q3 2024. Sectors like extractives, which sustain household demand in areas that produce commodities, have benefited from this. However, due to lower demand, competition, shifting fiscal priorities, and fewer retained earnings, CAPEX is still weak despite high revenue growth, making it difficult to continue investing and growing.

Graph 27. Corporate Revenue Growth & Margin

Sector	Metrics	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24
Communication Services	Revenue Growth	15%	5%	-1%	3%	5%	1%	4%
	Margin	5%	8%	13%	9%	6%	10%	7%
Consumer Discretionary	Revenue Growth	26%	14%	14%	8%	4%	8%	3%
	Margin	-6%	1%	2%	1%	0%	2%	1%
Consumer Staples	Revenue Growth	7%	5%	2%	-3%	2%	3%	-1%
	Margin	4%	4%	3%	4%	3%	3%	4%
Agriculture Products & Services	Revenue Growth	11%	-5%	11%	4%	9%	6%	1%
	Margin	15%	15%	10%	12%	4%	4%	7%
Mineral Fuels	Revenue Growth	60%	41%	-19%	-24%	-20%	-18%	2%
	Margin	8%	9%	11%	9%	13%	12%	5%
Healthcare	Revenue Growth	-8%	5%	11%	4%	6%	11%	9%
	Margin	9%	6%	5%	5%	3%	5%	3%
Industrial Services	Revenue Growth	37%	13%	9%	24%	6%	11%	9%
	Margin	3%	5%	4%	6%	5%	5%	7%
Chemicals & Pharmaceuticals	Revenue Growth	-10%	8%	4%	2%	2%	1%	-8%
	Margin	5%	6%	5%	5%	3%	5%	7%
Paper & Forestry products	Revenue Growth	3%	2%	-7%	-12%	-7%	-5%	8%
	Margin	4%	6%	4%	5%	4%	2%	2%
Metals & Mining	Revenue Growth	4%	0%	0%	-8%	0%	4%	44%
	Margin	6%	8%	6%	2%	1%	3%	2%
Real Estate	Revenue Growth	8%	14%	19%	11%	19%	9%	21%
	Margin	-1%	0%	6%	0%	6%	6%	6%

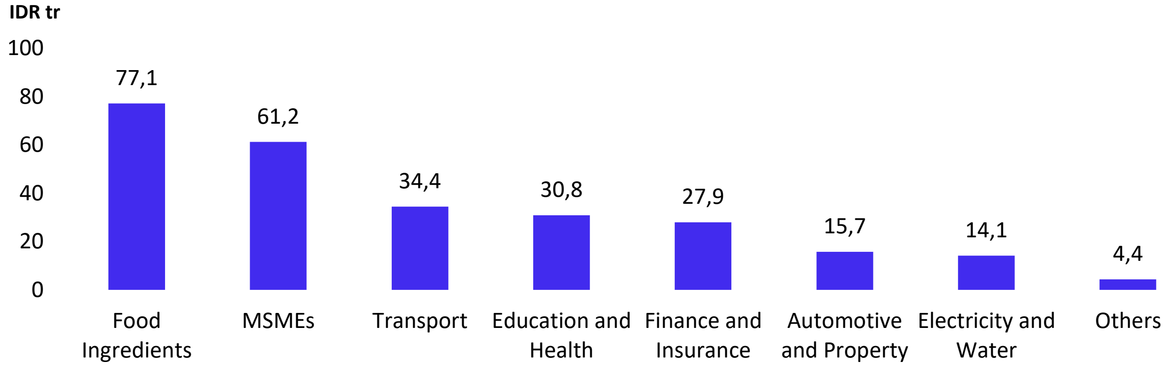
Source: Bank Indonesia

Graph 28. Corporate Capital Expenditure by Sector

Sector	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24
Communication Services	-21%	10%	6%	-7%	10%	-23%	-19%
Consumer Discretionary	43%	35%	18%	53%	18%	-10%	-2%
Consumer Staples	45%	22%	30%	2%	-6%	-8%	24%
Agriculture Products & Services	13%	9%	-1%	25%	1%	5%	-6%
Mineral Fuels	127%	46%	90%	36%	25%	7%	-2%
Healthcare	47%	0%	-27%	8%	-48%	48%	78%
Industrial Services	161%	69%	71%	142%	-23%	-48%	-42%
Chemicals & Pharmaceuticals	-7%	-35%	-58%	-5%	24%	154%	225%
Paper & Forestry products	102%	94%	57%	222%	85%	135%	-48%
Metals & Mining	97%	91%	30%	-17%	-12%	-25%	-31%
Real Estate	41%	21%	15%	22%	20%	11%	10%

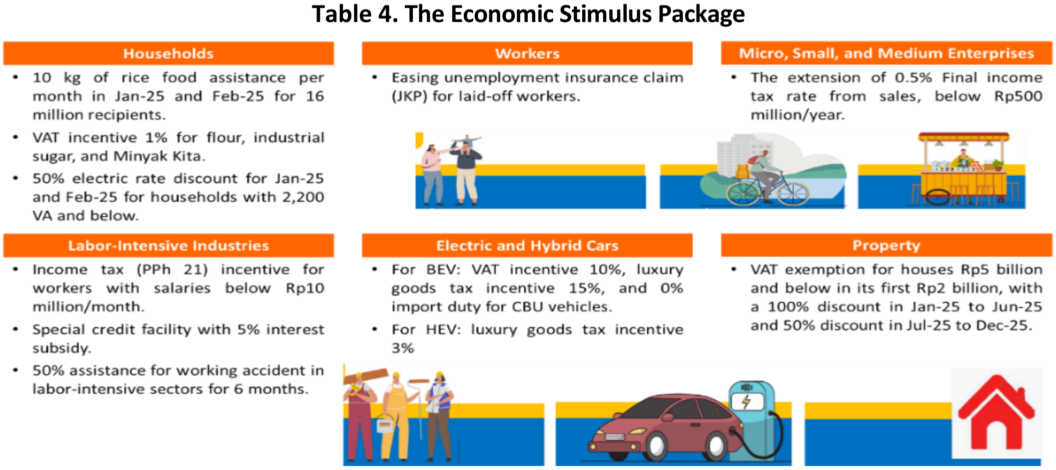
Despite recovery since 3Q24, there is a future headwind called the 12% VAT. Higher VAT charged on transactions will hurt the whole economy. Nonetheless, the government is committed to a just tax increase by charging the VAT increase first on luxury goods. In the end, luxury goods encompass the ones that are charged with the Luxury Sales Tax, such as private jets, property selling above IDR30 billion, and yacht for personal usage. Nonetheless, the government also gives VAT incentives worth Rp265.6 billion, with major chunks of VAT exemption for the food and beverages sector (Rp77.1 billion) and micro, small, and medium enterprises (Rp61.2 billion).

Graph 29. VAT Incentives based on Sectors



The government's stimulus package is deemed unsatisfactory. Other than VAT incentives, the government also offers cushioning for low-income households and middle-income households. For low-income households, there are 10 kilograms of rice as food assistance and a 50% electricity rate discount for households with 2,200VA and below, running from Jan-25 to Feb-25. Middle-income households are also targeted with income tax exemption for taxable income until Rp10 million, but only for workers in the labor-intensive sectors. Looking at the comparison, an economy-wide tax increase that would affect all households in the medium-long run is countered with targeted incentives with a short time span.

Table 4. The Economic Stimulus Package



Source: Ministry of Finance

As stimulus rolled on, fiscal policy in 2025 would serve as to balance purchasing power with fiscal prudence. In the 2025 budget, the deficit is targeted at IDR616,2 trillion, 2.53% of GDP. A majority of this target were supported by a 15.37% increase in VAT and Luxury Sales Tax revenue, from IDR819.21 trillion to IDR945.12 trillion. With the 12% VAT only limited to goods slapped with the Luxury Sales Tax, achieving this target would be more difficult. Despite that, fiscal prudence could receive a tailwind from lower energy prices, as projected by the World Bank in Table 1. With lower energy prices, government spending for fuel subsidy could be lower than the current allocated level of IDR203.23 trillion.

Despite a reduction in the deficit to 2.70% in the 2024 Outlook, the nominal financing requirement has risen sharply, influenced by two primary factors. First, there has been a notable increase in government bond maturities from 2025 to 2030. This escalation in debt obligations is a consequence of the stimulus measures implemented during the COVID-19 pandemic, which were financed through a collaborative burden-sharing approach between Bank Indonesia (BI) and the Ministry of Finance, ultimately leading to a heightened future debt servicing load.

The second factor contributing to this surge is the elevated gross supply of government bonds. Given the increased debt obligations, the total gross government bond supply is projected to reach IDR 1,442.6 trillion. This projection includes IDR 642.60 trillion from net government bond issuances earmarked for the 2025 state budget, as well as IDR 800 trillion needed to address maturing debt in 2025.

Table 5. Government Budget and Bond Supply

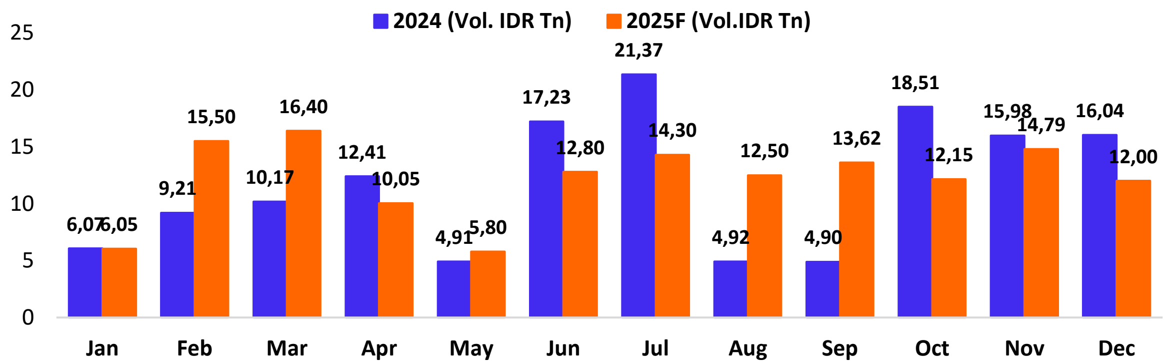
Indonesia Government Budget (IDR Tn)	**2023 Realization**	**2024 Outlook**	**APBN 2025**
Budget deficit (% of GDP)	-1.65	-2.70	-2.53
Debt Financing	407.00	553.10	775.90
Govt bonds - net	**308.70**	**451.90**	**642.60**
loan program - net	98.20	101.20	133.20
Investment Financing	-90.10	-92.00	-154.50
Loan Financing	4.00	-2.60	-5.40
Liability Financing	-0.30	-0.80	0.00
Others	39.00	152.00	0.40
Gross Bond Supply	**835.39**	**1,065.61**	**1,442.60**
Domestic	**745.02**	**934.20**	**1,264.75**
Auction	579.06	777.89	1,053.14
Retail	147.56	149.18	201.97
Private Placement	18.40	7.16	9.65
Foreign	**90.37**	**131.37**	**177.85**
Total Auction (times)	48.00	48.00	48.00
Target per auction for Govt. Bonds - **Surat Utang Negara**	23.00 - 34.50	22.00 - 33.00	28.00 - 42.00
Target per auction for Govt. Bonds - **Surat Berharga Syariah Negara**	6.00	9.00	9.00 - 12.00

Source: Ministry of Finance; Bank Danamon Indonesia Estimates

Danamon
A member of MUFG, a global financial group

Without the Sovereign Fund Allocation (SAL) in 2025, Indonesia's total debt financing requirements would soar to IDR 775.90 trillion. Government bonds will constitute IDR 642.60 trillion of this total, with domestic issuance making up a significant portion at IDR 1,264.75 trillion, or 87%. Consequently, this situation demands a higher biweekly auction target of IDR 42 trillion. SUN regular bonds auction is expected to increase between IDR 28 trillion - 42 trillion, while Sukuk Negara (SBSN) will range from IDR 9 trillion to IDR 12 trillion.

Graph 30. Corporate Bond Issuance in 2024 and 2025 Projections



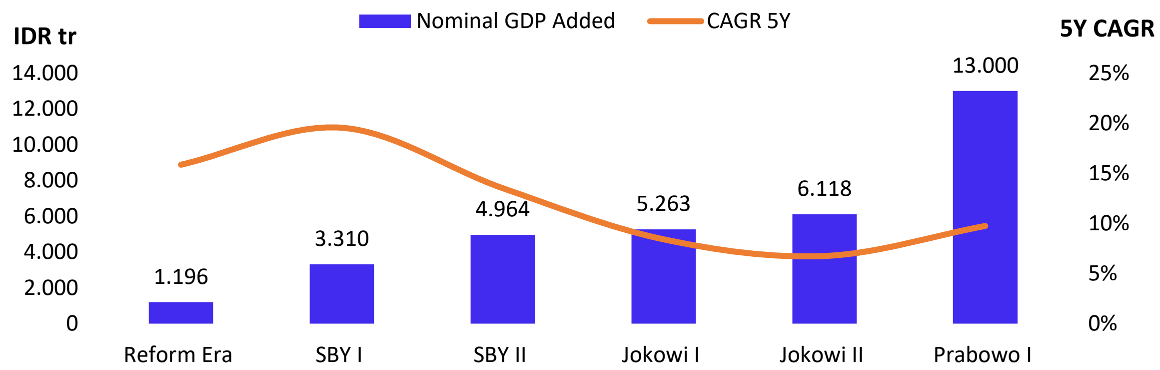
Source: IDX; Bloomberg

Corporate bond and sukuk issuances in 2025 are anticipated to range between IDR 140 trillion and IDR 145 trillion, reflecting an increase from 2024. However, this projected amount is still slightly below the total maturing debt of IDR 144 trillion. The discrepancy arises from persistent challenges, including limited access to low bank lending rates for corporations and uncertainties regarding the timing and magnitude of potential interest rate cuts. Consequently, issuers are expected to postpone their bond and sukuk offerings until the market environment becomes more stable.

We expect financial institutions to maintain their dominance in the issuance landscape in 2025, bolstered by robust demand and investor confidence in the sector. AAA-rated issuers are likely to uphold their leading position, thanks to their strong capacity to attract funding, even amidst macroeconomic uncertainties. This trend underscores a persistent preference for high-credit-quality instruments in a volatile market environment, indicating investors' inclination to seek stability and reliability in their investments.

Nonetheless, the ambitious growth target of 8% remains. The new administration's grand target is to reach 8% yoy GDP growth to increase Indonesia's nominal GDP by Rp13,000 trillion in 2024-2029. This presents an increase in 5Y GDP CAGR figures from 6.75% to 9.75%. To achieve this target, 2025 would be the year when quick-win government policies would reach full implementation, such as free school meals and school renovation. Attention is especially high on the free school meals program, where the Ministry of Finance predicts that this nutritional intake improvement program could boost 2025 economic growth from 5.0% to 5.1%. The rationale of this forecast is the multiplier of free school meals towards educational services, transport, and F&B sectors.

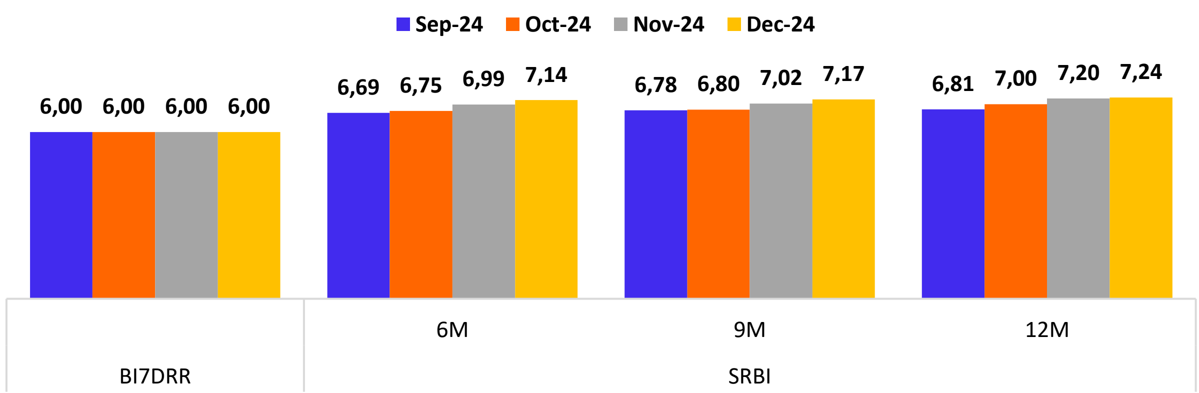
Graph 31. GDP Growth Comparison of Indonesia



Source: The Indonesian Statistics Office

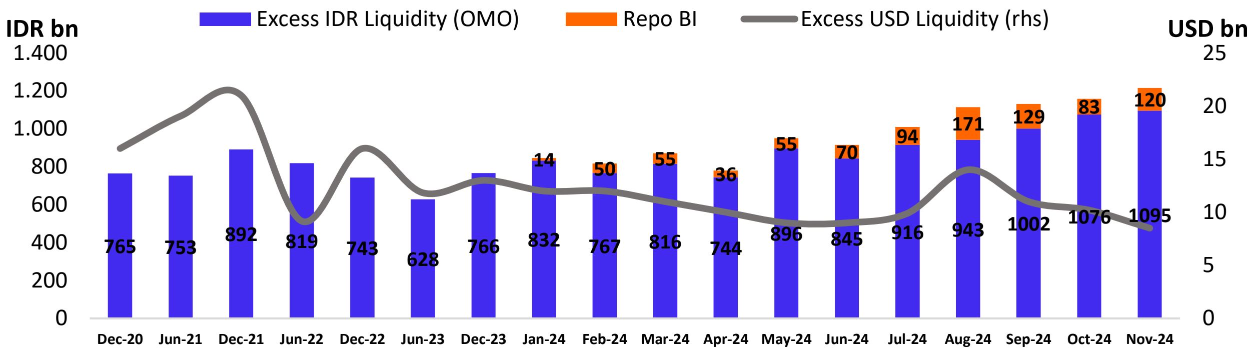
Domestic liquidity is tight. On Dec-24, Bank Indonesia kept pushing its short-term securities (SRBI) yield until 7.2% for 12M. That action was taken due to the increase in maturing SRBI and to attract foreign exchange liquidity into the Indonesian market. It is deemed necessary due to increasing future instability as the Yuan depreciates in 2025 to face off Trump's trade war challenge.

Graph 32. SRBI Yields



Source: Bank Indonesia

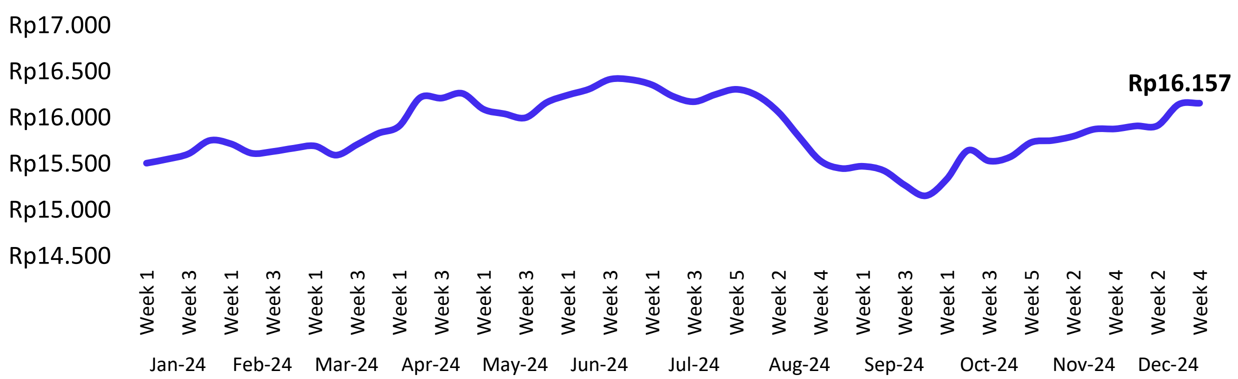
Graph 33. Liquidity Indicators



Source: Bank Indonesia

The rupiah's exchange rate still reigns supreme on Bank Indonesia's radar. With a fiscally ambitious administration and Yuan depreciation ahead, Bank Indonesia is not easing its policy as much as expected. The exchange rate of the Rupiah at the end of 2024 reached Rp16,300, as the Federal Reserve's hawkish stance strengthened the US Dollar and the Anti-Graft Commission's raid on Bank Indonesia spooked market players. Hence, Bank Indonesia maintains an interest rate differential with the United States to support the Rupiah's exchange rate. **We expect Rupiah movement to stay around Rp16,000 throughout 2025, as BI remains cautious about adjusting the BI7DRR,** aligned with The Fed's hawkish stance, with only two cuts planned for 2025.

Graph 34. Rupiah's Weekly Exchange Rate against the Dollar



Source: Bank Indonesia

Indonesia's Selected Economic Indicators

	2021	2022	2023	2024E	2025E
National Accounts					
Real GDP (% y-o-y)	3.7	5.3	5.0	5.05	5.11
Domestic demand ex. inventory (% y-o-y)	2.8	3.8	4.6	4.9	4.95
Real Consumption: Private (% y-o-y)	2.0	4.9	4.9	4.82	4.98
Real Gross Fixed Capital Formation (% y-o-y)	3.8	3.9	4.4	4.2	4.4
GDP (USD bn) — nominal	1,186	1,319	1,371	1,445	1,503
GDP per capita (USD) — nominal	4,350	4,783	4,920	5,067	5,219
Open Unemployment Rate (%)	6.0	5.9	5.3	5.0	5.0
External Sector					
Exports (% y-o-y, BoP Basis)	42.5	25.6	-11.3	4.91	4.17
Imports (% y-o-y, BoP Basis)	39.9	21.6	-7.3	2.53	2.41
Trade balance (USD bn, BoP Basis)	43.8	62.7	46.4	31.64	32.87
Current account (% of GDP)	0.3	1.0	-0.1	-0.3	-0.5
Central government debt (% of GDP)	41	39.6	38.9	39.13	39.05
International Reserves –IRFCL (USD bn)	144.9	137.2	146.4	150	148
Reserve Cover (Months of imports & ext. debt)	7.8	5.9	6.5	6.3	6.3
Currency/USD (Year-end)	14,253	15,573	15,399	16,300	16,055
Currency/USD (Average)	14,296	14,855	15,244	15,872	16,197
Other					
BI 7-Day Reverse Repo rate (% year end)	3.5	5.5	6	6	5.75
Consumer prices (% year end)	1.87	5.51	2.61	1.6	2.5
Fiscal balance (% of GDP; FY)	-4.65	-2.38	-1.65	-2.3	-2.5
S&P's Rating – FCY	BBB	BBB	BBB	BBB	BBB

Source: CEIC, E= Danamon Estimates

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