

Global Economic Uncertainty: Balancing Growth and Risks Across Major Economies

Highlights

- The U.S. economy is growing steadily, but inflation is easing slightly, indicating the impact of ongoing Federal Reserve policies. The labor market is showing signs of slowing, which could affect future spending.
- The Eurozone is seeing modest growth, but Germany's economic difficulties and slowing manufacturing are causing concerns. Inflation is rising slightly, and overall economic momentum is mixed.
- China's economic growth is slowing down, with continued struggles in the manufacturing sector due to weak demand and investment. Despite challenges, the government remains optimistic about hitting its full-year growth targets.
- Indonesia's Q2 2024 GDP growth is slightly lower than the previous quarter (year-on-year basis), Indonesia experienced deflation in July 2024 for the third consecutive month, recording deflation of 0.18% (monthly basis/ MoM), Indonesia's unemployment rate was recorded the highest among ASEAN countries, Bank Indonesia decided to maintain the benchmark interest rate at 6.25%, while successfully attracting foreign flows through BI Rupiah Securities (SRBI).

Afif Narawangsa Luviyanto
Afif.narawangsa@ifg.id
Research Associate

Mohammad Alvin Prabowosunu
Alvin.prabowosunu@ifg.id
Research Associate

Ibrahim Kholilul Rohman
Ibrahim.kholilul@ifg.id
Senior Research Associate

Recent Economic Development: Global Market

United States

- **GDP growth:** In the first quarter of 2024, the United States saw its GDP grow by 2.8% quarter-over-quarter (QoQ), compared to the previous quarter's growth rate of 1.4%. On a year-over-year (YoY) basis, GDP growth increased from 2.9% in Q1 2024 to 3.1% in Q2 2024. This growth was largely supported by a 0.7% rise in consumer spending, a 1.3% increase in government spending, and a dramatic surge in private investment, which jumped from 4.4% to 8.4% over the quarter. The main drivers of this GDP growth were sectors like healthcare, housing and utilities, and recreation services. In terms of goods, the leading contributors were motor vehicles and parts, recreational goods and vehicles, furnishings and durable household equipment. However, with savings dwindling, consumer loans increasing, and the labor market slowing down, people are likely to start tightening their belts in the near future.
- **Global US Manufacturing:** In July 2024, the US Manufacturing PMI contracted to 49.6, down from 51.6 in June. This decline was primarily driven by a reduction in new orders, which slowed production. The drop in demand was influenced by businesses pausing their spending and investment due to uncertainties surrounding the upcoming Presidential Election, higher interest rates, and ongoing inflation. Additionally, there was a significant decline in orders for investment goods, such as plants and machinery, reflecting a broader pullback in capital spending.

- **US inflation:** The U.S. inflation rate saw a slight drop from 3.0% (YoY) in June to 2.9% (YoY) in July 2024, marking a 0.1% decrease month-over-month. This decline was primarily driven by slower price increases in housing and transportation. The cooling inflation reflects the ongoing impact of the Federal Reserve's monetary tightening policies, which have gradually eased inflationary pressures since their peak in mid-2022. Inflation trends varied across sectors: prices for goods such as used cars and apparel declined, while services such as shelter and transportation experienced slight price increases.
- **The Federal Open Market Committee (FOMC):** During its July 2024 meeting, the US Federal Reserve set the target range for the federal funds rate at 5.25% to 5.50%. This decision reflects the Committee's ongoing efforts to combat inflation while also acknowledging signs of economic cooling, such as a slowing labor market and moderating price pressures. The upper bound of 5.50% is the highest rate in over two decades, highlighting the Federal Reserve's continued commitment to maintaining a tight monetary policy.

Euro Zone

- **GDP Growth (YoY):** GDP growth rose from 0.4% (YoY) in the first quarter (final estimate) to 0.6% YoY (advance estimate). This improvement is largely attributed to stronger-than-expected economic activity in several countries, particularly France and Spain, which experienced moderate gains in domestic demand and investment. However, this overall growth was partly offset by economic challenges in Germany, where GDP unexpectedly contracted by 0.1% due to declining investment and ongoing pressures in the industrial sector.
- **Inflation:** In July 2024, the Consumer Price Index (CPI) rose to 2.6% year-over-year (preliminary), marking a slight increase of 0.1% from the previous month. This rise was primarily driven by higher energy costs and a modest acceleration in prices for non-energy industrial goods. Despite these increases, core inflation, which excludes food and energy, remained stable at 2.9% (YoY).
- **Europe Manufacturing:** In July 2024, the composite PMI fell to 50.2 from 50.9 in June 2024, signalling a slowdown in economic growth. This decline was primarily driven by a significant loss of momentum in the services sector. The weaker performance in the services sector was influenced by slowing new business growth and rising costs, which dampened overall activity. Meanwhile, the manufacturing sector continued to contract, further weighing on the composite index and reflecting broader economic challenges.
- **Interest rate:** As of July 2024, the European Central Bank (ECB) has kept its key interest rates unchanged, including the deposit rate at 3.75%. In June, nearly 100% of economists expected a rate cut by September. However, recent developments have slightly altered these expectations, with around 80% of economists now anticipating a rate reduction in September, potentially lowering the rate to 3.5%. ECB President Christine Lagarde has emphasized that any decision regarding a rate cut in September remains contingent on upcoming economic data. While there is a strong probability of a rate cut, ECB officials, including Vice President Luis de Guindos, have stressed that the final decision will depend on whether inflation continues to cool and if economic conditions justify easing. This cautious approach reflects the ECB's commitment to closely monitoring inflation and economic growth trends before making further policy adjustments.

China

- **GDP Growth:** In the second quarter of 2024, China's GDP growth slowed to 4.7% year-over-year (YoY), down from 5.3% in the first quarter. This deceleration highlights ongoing challenges, including weak domestic demand and sluggish private investment, particularly in the real estate sector. Despite these obstacles, China is expected to maintain its full-year growth target of around 5%, supported by government policies aimed at boosting consumption and investment.
- **Inflation:** As of July 2024, China's Consumer Price Index (CPI) increased by 0.6% year-over-year from 0.2% in June to 0.8% in July, indicating a gradual recovery in consumer prices. The uptick in July was driven by improvements in retail sales and industrial output, signaling a modest rebound in consumer demand and economic activity.
- **China's Manufacturing:** As of July 2024, China's Manufacturing Purchasing Managers' Index (PMI) fell to 49.4, down slightly from 49.5 in June 2024. This marks the third consecutive month of contraction in the manufacturing sector, indicating ongoing challenges such as insufficient demand and disruptions caused by extreme weather conditions like heatwaves and floods. Additionally, the sub-index for new orders also decreased, reflecting weaker demand. In the non-manufacturing sector, the PMI edged down to 50.2 in July from 50.5 in June, showing a slower pace of expansion. The overall composite PMI, which includes both manufacturing and non-manufacturing activities, decreased to 50.2 from 50.5, signalling broad-based economic challenges. Despite these declines, there remains a cautious optimism among manufacturers, with expectations for future production and operations still positive, though slightly tempered from previous months.

Recent Economic Development: Domestic Market

- **Economics Growth:** Indonesia's economic growth in the second quarter of 2024 reached 5.05% (YoY), slightly lower than the first quarter of 2024 which grew by 5.11% (YoY). Indonesia's Bureau of Statistics (BPS) stated that Indonesia's Gross Domestic Product in the second quarter of 2024 based on current prices reached IDR 5,536.5 trillion, while GDP at constant prices was IDR 3,231 trillion. When compared to the second quarter of 2023 which reached 5.17%, this quarter's growth was recorded as lower.
- **Inflation:** Indonesia's inflation in July 2024 was at 2.1% (YoY). Indonesia's inflation rate is relatively stable and lower than many developed countries, but still higher than several other Asian countries. This figure is within the range expected by the government, with core inflation reaching 2%, showing a slight improvement from the previous month. Indonesia experienced deflation in July 2024 for the third consecutive month, recording deflation of 0.18% (monthly basis/ MoM), the lowest figure throughout the year. The deflation was deeper than June's 0.08% (MoM), with the Consumer Price Index falling from 106.28 in June to 106.09 in July. The food, beverage, and tobacco group were the main contributor to deflation with a decrease of 0.97% (MoM). Commodities such as shallots, red chilies, tomatoes, and broiler chicken also contributed to deflation. Tomatoes recorded the deepest deflation contribution throughout 2022 to 2024. Meanwhile, inflation was held back by the education group which recorded an increase of 0.69% (MoM).
- **Government Debt:** Indonesian government has withdrawn debt worth IDR 266.3 trillion as of July

31, 2024. This realization has reached **41.4% of the 2024 budget financing target of IDR 648.1 trillion**. This value grew 36.6% from the same period in 2023. The debt value is divided into government securities (SBN) of IDR 253 trillion and loans of IDR 13.3 trillion. The realization of SBN issuance grew 37.5% from the period of July 31, 2023. This is inseparable from the conditions in 2023 when there was an increase in state revenues so that the government limited SBN issuance. At that time, state revenues were supported by commodity prices.

- **State Budget (APBN):** The performance of the State Budget (APBN) up to July 2024 showed good results, with the realization of state spending reaching IDR 1,638.8 trillion or around 49.3% of the budget ceiling. State spending grew 12.2% annually, reflecting the government's optimism in maintaining economic growth. Meanwhile, state revenues reached IDR 1,545.4 trillion, or 55.1% of the APBN target, although growth slowed slightly compared to the previous month. The budget deficit was recorded at IDR 93.4 trillion, or around 0.41% of GDP, with the primary balance still positive at IDR 179.3 trillion.
- **Monetary Policy:** Bank Indonesia decided to maintain the benchmark interest rate at 6.25%, the deposit facility rate at 5.5%, and the lending facility rate at 7% in the Board of Governors Meeting on 16-17 July 2024. BI Governor Perry Warjiyo stated that this decision is in line with the pro-stability monetary policy to maintain inflation within the range of $2.5\pm 1\%$ in 2024 and 2025. BI continues to strengthen the mix of monetary, macroprudential, and payment system policies to maintain economic stability and attract foreign capital amid global uncertainty.
- **Bank Indonesia Rupiah Securities (SRBI):** Bank Indonesia (BI) reported that the amount of foreign ownership in Bank Indonesia Rupiah Securities (SRBI) instruments reached IDR 220.35 trillion as of July 15, 2024, or around 28.42% of the total outstanding. BI Governor Perry Warjiyo stated that the issuance of SRBI has been effective in attracting foreign capital flows into the country, with total foreign capital flows through SRBI reaching IDR 775.45 trillion. In addition to SRBI, BI also optimized other pro-market monetary instruments such as Bank Indonesia Foreign Currency Securities (SVBI) and Bank Indonesia Foreign Currency Sukuk (SUVBI) which attracted foreign capital worth US\$ 1.82 billion and US\$ 267 million respectively.
- **Unemployment Rate:** Indonesia's unemployment rate was recorded at 5.2% in April 2024 (latest data), making it the highest in the ASEAN region, according to the World Economic Outlook report from the International Monetary Fund (IMF). This figure is only slightly down from the previous year which reached 5.3%. Deputy for Population and Manpower at the Ministry of PPN/Bappenas, Maliki, explained that the complexity of Indonesia's economic structure, quality of education, and labor market conditions make it difficult to compare unemployment rates with other ASEAN countries.
- **Foreign Exchange Reserves:** Bank Indonesia (BI) reported that the foreign exchange reserves position at the end of July 2024 was US\$ 145.4 billion. This figure is higher than the foreign exchange reserves position at the end of June 2024 which was US\$ 140.2 billion. Head of the BI Communication Department Erwin Haryono stated that the increase in the foreign exchange reserves position was mainly influenced by the issuance of government global sukuk and tax and service revenues. If seen in more detail, the foreign exchange reserves position at the end of July 2024 was equivalent to financing 6.5 months of imports or 6.3 months of imports and government

foreign debt payments and was above the international adequacy standard of around 3 months of imports.

- Purchasing Manager's Index (PMI).** The latest report from Standard and Poor (S&P) Global shows that Indonesia's manufacturing Purchasing Manager's Index (PMI) contracted to 49.3 in July 2024, from 50.7 in the previous month. This marks the first contraction since August 2021 after 34 consecutive months of expansion. Finance Minister Sri Mulyani Indrawati stated that the government is preparing steps to overcome this decline through coordination between the Ministry of Finance, Ministry of Trade, and Ministry of Industry. The government plans to formulate policies so that the contraction period does not last long, with the hope that the global economic situation will improve.

Exhibit 1. Indonesia Macroeconomics Indicator

		2023						2024						
		Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real														
CPI Inflation*	% YoY	3.11	3.27	2.28	2.56	2.86	2.81	2.57	2.75	3.05	3	2.84	2.51	2.13
Core Inflation *	% YoY	2.43	2.18	2	1.91	1.87	1.8	1.68	1.68	1.77	1.82	1.93	1.9	1.95
Manufacturing PMI	Level	53.3	53.9	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3
External														
Exports	% YoY	-18.1	-21.24	-16.22	-10.43	-8.56	-5.85	-8.2	-9.61	-3.75	1.72	2.85	1.18	6.46
Imports	% YoY	-8.31	-14.77	-12.45	-2.42	3.29	-3.81	0.28	15.84	-12.76	10.09	-8.84	7.58	11.07
Foreign Reserves	USD bn	137.67	137.09	134.86	133.14	138.10	146.38	145.05	144.04	140.39	136.22	138.97	140.18	145.41
Monetary and Fiscal														
Money Supply (M2)	% YoY	6.40	5.90	6.00	3.40	3.30	3.50	5.44	5.29	7.21	6.87	7.59	7.80	
Deposit	% YoY	7.20	6.40	6.40	3.90	3.80	3.80	5.75	5.36	7.39	8.08	8.51	8.18	
Banking Credit	% YoY	8.40	8.90	8.70	8.70	9.70	10.30	11.55	10.99	11.88	12.29	11.41	11.38	
Fiscal Surplus/Deficit	% GDP	0.70	0.70	0.30	0.00	-0.20	-1.70	0.10	0.10	0.04	0.33	-0.10	-0.34	-0.41

Exhibit 2 : Exchange Rate

Exhibit 2.1 Difference of Spot and Forward IDR

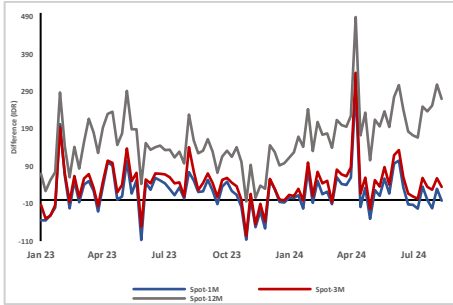


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)



Exhibit 2.3 EM's Exchange Rate against USD

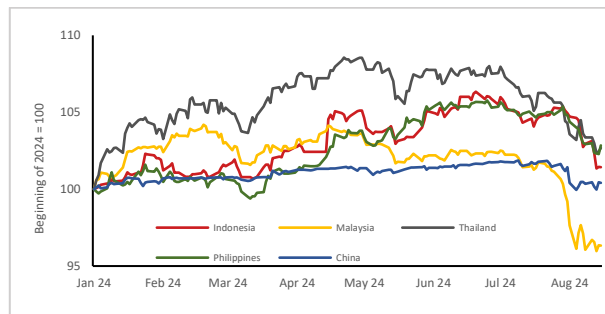


Exhibit 3: Indonesia's Liquidity

Exhibit 3.1 JIBOR 1&3 M and BI-Rate

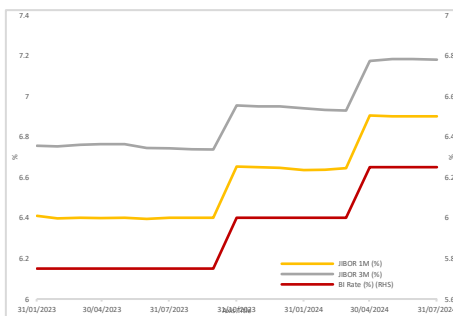


Exhibit 3.2 Monetary Operation of BI

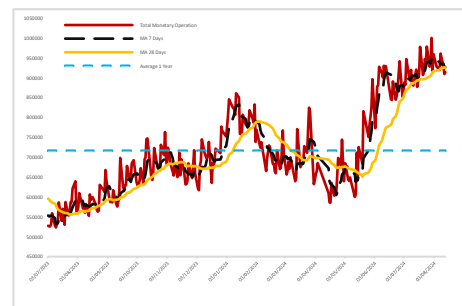


Exhibit 3.3 EM's Exchange Rate against USD

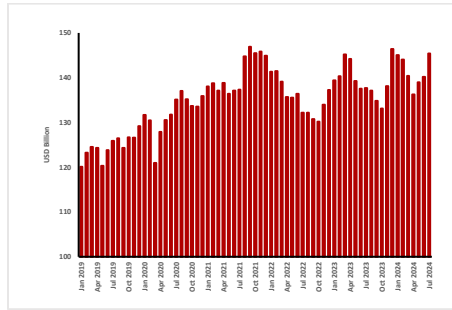


Exhibit 4: Financial Market

Exhibit 4.1 Stock Market Index

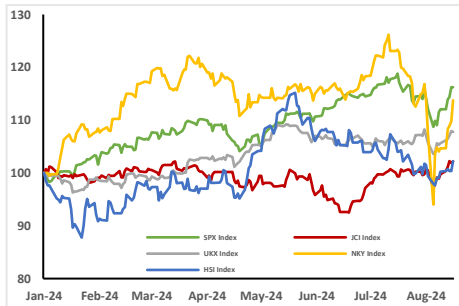


Exhibit 4.2 Indonesia Bond Yield Curve

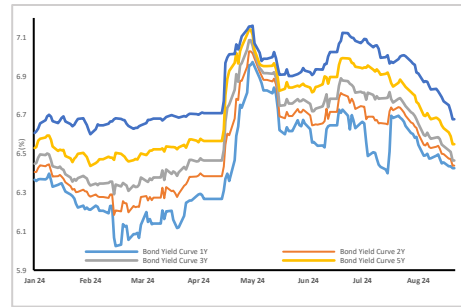


Exhibit 4.3 Indonesia Stock Market & Turnover

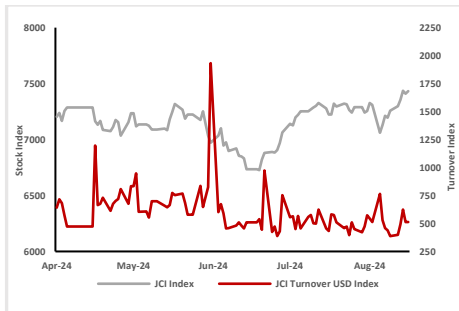
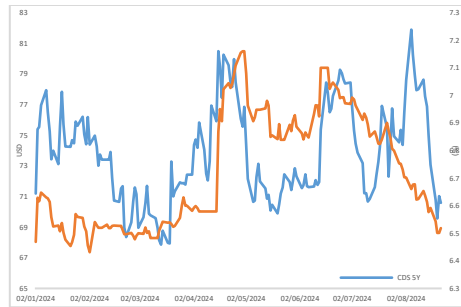


Exhibit 4.4 Indonesia CDS & Government Bond 5Y




All of data sources: CEIC, Bloomberg, BI, and Various sources



Footnotes:

1. The conversion rate from US dollars to the local currency unit is shown by the exchange rates that are used, which stated as USD/LCU
2. The stock market indexes being taken into account are the S&P 500 (US), Jakarta Composite Index (JCI), FTSE 100 (UKX), Nikkei 225 (NKKY), and Hang Seng Index (HIS) which serve as regional benchmarks.
3. Ten-year US Treasury bill yield differential and Indonesian Government Bond denominated in USD serve as a proxy for Indonesia's sovereign risk.
4. The oil prices listed are based on the NYMEX current month futures price.
5. The natural gas prices listed are based on the NYMEX current month futures price.
6. The coal prices listed are based on the ICE Newcastle current month futures price.
7. A higher turnover index in the stock market typically indicates a higher level of trading activity

PT. Bahana Pembinaan Usaha Indonesia (Persero)
Gedung Graha CIMB Niaga, 18th Floor

Jl. Jendral Sudirman Kav. 58
RT.5/RW.3, Senayan, Kebayoran Baru
Kota Jakarta Selatan, DKI Jakarta 12190

 (+62) 021 2505080

 PT. Bahana Pembinaan Usaha Indonesia – Persero
 Indonesia Financial Group
 @indonesiafinancialgroup
 @ifg_id

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Indonesia Financial Group (IFG) Progress

The Indonesia Financial Group (IFG) Progress adalah sebuah *Think Tank* terkemuka yang didirikan oleh Indonesia Financial Group sebagai sumber penghasil pemikiran-pemikiran progresif untuk pemangku kebijakan, akademisi, maupun pelaku industri dalam memajukan industri jasa Keuangan.