

Looking Back, Moving Forward: Macroeconomic Insights at the End of 2024 and What to Expect at the Start of 2025

Highlights

- The United States economy in late 2024 showed signs of cautious optimism. Consumer confidence improved, reaching 111.7 in November, supported by labor market strength. Manufacturing stabilized, with PMI at 49.7, and inflation remained at 2.7% year-on-year. The Federal Reserve's rate cut to 4.25%–4.5% balanced growth with inflation control, though it caused market fluctuations, including rising Treasury yields and declines in stock indices. Lower US interest rates may encourage capital flows to emerging markets, but global uncertainties and cautious monetary policy temper these effects.
- Europe experienced modest improvements, with the Economic Sentiment Indicator (ESI) slightly rising to 96.5 in November, though manufacturing remained weak with PMI at 45.2. Inflation increased to 2.3% but showed signs of disinflation of 2% in 2025. The ECB reduced rates by 25 basis points, signaling optimism for easing inflation. In China, manufacturing PMI rose to 51.5, driven by strong domestic and export demand, while inflation stayed low at 0.2%. China's central bank kept lending rates stable to maintain currency and market stability amid global pressures.
- Indonesia's economy remained robust, with a trade surplus of \$4.42 billion in November 2024, driven by non-oil and gas exports to China, the US, and India. Inflation was controlled at 1.55% year-on-year in November 2024, while the Consumer Confidence Index reached 125.9, reflecting optimism across regions and income levels. Investment inflows were strong, reaching IDR 1,261.43 trillion by Q3 2024. Bank Indonesia kept interest rates at 6.00% to stabilize the rupiah, supported by \$151.2 billion in foreign exchange reserves. While the government has planned VAT hike to 12% may bolster revenue, it risks reducing consumer spending. Based on preliminary finding of IFG Progress, using retail sales index as proxy of consumer spending, an increase in 1% VAT tend to decrease retail sales Index by 6,09%.
- Indonesia's insurance sector faced mixed outcomes. The life insurance industry contracted by 0.4% year-on-year, with claims down 5.2% in Q3 2024. New regulations like POJK 23/2023 and IFRS 17 aim to improve resilience but may challenge smaller insurers. Health insurance saw medical inflation at 13.1% in 2024, above the Asia-Pacific average. General insurance premiums grew by 10%, though claims surged 28% in Q3 2024. New rules under POJK No. 20/2023 introduced risk-sharing and cost caps to stabilize the sector. Meanwhile, financial sector remains the healthiest in Indonesia (mainly due to banking sector), according to the IFG Progress Sectoral Healthiness Index (IPSHI).
- While slower domestic inflation may provide tailwinds for some of IFG subsidiaries due to its potential impact of strengthening Risk-Based Capital and Gearing Ratios, IFG ecosystem must be aware of worsening Rupiah exchange rate stability that may adversely impact insurance reserves (RBC / GR). Looking forward, Interest rate environment will become unpredictable in 2025, hence IFG ecosystem must embrace volatility both on the investment side as well as the underwriting side.

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Recent Economic Development: Global Market

United States

- **Consumer Confidence:** US consumer confidence rose in November, with the Conference Board Consumer Confidence Index increasing to 111.7, up from 109.6 in October. The improvement was largely driven by optimism in the labor market, as the Present Situation Index, which reflects consumers' views on current business and labor conditions, jumped by 4.8 points to 140.9. The Expectations Index, reflecting consumers' outlook for the future, also ticked up slightly to 92.3, well above the 80 thresholds often associated with recession risks. Confidence increased most notably among consumers under 35, while those aged 35-54 saw a slight decline after a strong rise in October. High- and low-income groups were less optimistic, though confidence was strong among those earning over \$100K. The proportion of consumers expecting a recession within the next year fell, marking the lowest level since early 2023, signalling growing consumer optimism about economic conditions.
- **Manufacturing Sector:** In November, the US manufacturing sector showed signs of stabilization, with a slower decline in new orders and improved business confidence. The S&P Global US Manufacturing PMI rose to 49.7, indicating only a marginal contraction, the smallest in five months. While domestic demand showed signs of recovery post-election, export orders continued to decline sharply, the fastest pace since June 2023. Despite slower reductions in new business, production fell for the fourth consecutive month, influenced by factors like hurricane disruptions, price hikes, and lingering uncertainty from the election. Input cost inflation weakened to its lowest level in a year, providing some relief to manufacturers, while output prices rose at a slightly faster rate. Overall, the sector is facing challenges but has shown signs of resilience, with a potential rebound in business optimism leading to renewed job creation and improved conditions in the near future.
- **Inflation:** In November 2024, U.S. inflation showed limited progress in easing, with the consumer price index (CPI) rising by 2.7% year-on-year, slightly higher than October's 2.6%, according to consensus estimates. Core inflation, excluding food and energy, remained steady at 3.3%. Both headline and core measures are projected to have increased by 0.3% month-on-month, driven by rising costs in key categories such as car prices (up 2%), airfares (up 1%), and auto insurance (up 0.5%). Although inflation has declined significantly from its peak of 9% in June 2022, the elevated costs continue to burden consumers, particularly lower-income households. Despite the inflationary pressures, markets anticipate the Federal Reserve will cut its benchmark interest rate by 0.25% at the December 18 meeting, reflecting confidence in gradual disinflationary trends. However, uncertainties remain, with concerns over potential inflationary effects from President-elect Trump's planned tariffs and persistently high costs in areas like autos and rentals.
- **Monetary Policy:** In December 2024, the Federal Reserve implemented a 25 basis point rate cut, lowering the federal funds rate to a target range of 4.25% to 4.5%. While this marked the Fed's third rate reduction of the year, it signalled a cautious outlook for 2025, projecting only two additional cuts, down from four previously anticipated. This "hawkish cut" reflects the Fed's attempt to balance stimulating economic growth with controlling inflation amid concerns about potential inflationary pressures from incoming fiscal policies. The immediate reaction from financial markets was significant: U.S. stock indices, including the Dow Jones and S&P 500, experienced sharp declines, while bond yields, such as the 10-year Treasury yield, rose to a six-month high, reflecting concerns

over future economic conditions. The dollar strengthened as investors sought safe-haven assets, and global markets faced mixed implications. Lower U.S. interest rates typically redirect capital flows toward emerging markets with higher returns, yet the Fed's cautious stance may temper this effect as global uncertainties persist.

Euro Zone

- **Economic and Employment Expectations:** In November 2024, economic sentiment in both the EU and the euro area remained broadly stable, with the Economic Sentiment Indicator (ESI) increasing slightly by 0.2 points to 96.5 in the EU and by 0.1 points to 95.8 in the euro area. However, Employment Expectations (EEI) eased slightly in both regions, with a decline of 0.5 points in the EU and 0.3 points in the euro area. The ESI was supported by increased confidence in the industrial and retail sectors, though consumer confidence and services sectors saw declines. Among the largest EU economies, France, Spain, the Netherlands, and Poland saw improvements in the ESI, while Germany and Italy experienced declines. Industry confidence rose, recovering from previous losses, while services confidence fell due to worsening assessments of demand and business conditions. Consumer confidence also dropped, interrupting its previous recovery.
- **Inflation:** In November 2024, annual inflation in the eurozone rose to 2.3%, up from 2% in October, largely due to the waning deflationary effect of energy prices. This slight increase slightly deviates from the European Central Bank's (ECB) target, but monthly data presented a more optimistic outlook, with consumer prices falling by 0.3% compared to October, marking the steepest drop since January 2024. Energy prices remained lower year-on-year, but the decline was less sharp than in previous months, indicating a fading base effect from last year's energy price spikes. Excluding energy, annual inflation stayed at 2.7%, while core inflation, excluding both energy and food, ticked up to 2.8%. Despite these signs of easing in underlying inflationary pressures, Germany reported its worst retail sales drop in two years, signaling broader economic challenges. The outlook suggests disinflation may continue, potentially paving the way for further rate cuts by the ECB, although the rising core inflation could complicate decisions.
- **Manufacturing:** In November 2024, the eurozone's manufacturing sector worsened further, with the HCOB Eurozone Manufacturing PMI falling to 45.2, a two-month low, from 46.0 in October. The decline was driven by stronger reductions in new factory orders, production, purchasing activity, and inventories, with employment also experiencing its sharpest drop since August 2020. Germany, France, and Italy saw the most significant downturns, with their contractions being the steepest in recent months. Notably, Germany and Austria reported considerable job cuts. Despite ongoing demand weakness, output prices were discounted more aggressively, and there was a slight improvement in business confidence. The survey highlighted that the manufacturing downturn is primarily concentrated in the region's largest economies, with other countries like the Netherlands, Austria, and Ireland also reporting sub-50.0 PMI readings, indicating contraction. The data signals that the eurozone's manufacturing sector remains under significant pressure, with no immediate signs of a turnaround.
- **Monetary Policy:** On 12 December 2024, the European Central Bank (ECB) decided to lower the three key ECB interest rates by 25 basis points. Accordingly, the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility will be decreased to 3.00%, 3.15% and 3.40% respectively, with effect from 18 December 2024. The European Central Bank (ECB) announced it would continue to cut interest rates as inflation eased toward its 2% target. ECB

President Christine Lagarde said after a long period of restrictive policy, the accuracy of economic projections had improved, and officials could concentrate on managing future risks rather than worrying about the contagion of past shocks. This decision reflects the ECB's updated inflation assessment, indicating a disinflationary trend despite persistent domestic inflation pressures driven by elevated wage growth. Inflation is expected to rise temporarily before returning to the 2% target in 2025. The ECB also continued scaling down its Asset Purchase Programme (APP) and Pandemic Emergency Purchase Programme (PEPP), with reinvestments under the PEPP set to end by December 2024. It reaffirmed its readiness to adjust policy tools to ensure price stability and address disruptions in monetary policy transmission across euro area nations.

China

- **Business Outlook:** China's business outlook improved in October 2024 for the first time since February 2023, driven by optimism about future profitability and rising selling prices. The S&P Global China Business Outlook survey showed a net balance of +15% for companies expecting growth in business activity over the next year, up from +11% in June, though still the second-lowest since October 2022. Confidence rose across manufacturing and service sectors, with the service sector optimism reaching a one-year high. Firms cited better domestic conditions, government policy support, and technological advancements as key drivers, despite concerns about rising competition, geopolitical uncertainties, and increasing costs. Hiring intentions remained modest, with only a net balance of +2% planning to expand staffing. Companies forecast subdued cost pressures relative to other economies but expect the highest selling price inflation in three years. While capital expenditure plans declined, R&D spending expectations rose to +9%, reflecting a focus on innovation despite cautious investment.
- **Inflation:** In November 2024, China's consumer inflation rose by just 0.2% year-on-year, marking a five-month low and missing analysts' expectations of a 0.5% increase. This was a slight improvement from October's 0.3% rise, but still indicates weak consumer price growth amid a slowing economy. Core inflation, excluding food and fuel, increased modestly to 0.3%, up from 0.2% in October. The prices of pork and fresh vegetables saw significant increases, rising by 13.7% and 10.0%, respectively. Meanwhile, China's producer price index (PPI) fell for the 26th consecutive month, with a 2.5% year-on-year decline in November, better than the expected 2.8% drop. The PPI decline was led by significant price drops in ferrous metals, fuel, and chemical materials. Despite some narrowing of PPI deflation, it remains entrenched, reflecting ongoing economic challenges.
- **Monetary Policy:** In November 2024, China's central bank, the People's Bank of China (PBOC), decided to keep its medium-term lending facility (MLF) rate unchanged at 2.0%, maintaining the rate on 900 billion yuan (\$124.26 billion) worth of one-year loans to financial institutions. This decision comes amid pressure on the yuan following Donald Trump's victory in the U.S. presidential election, which has led to the offshore yuan weakening by over 2% since November 5. The PBOC's move is seen as a response to stabilize the yuan and manage market liquidity, which has remained ample. Bruce Pang, chief economist at JLL, suggested the decision also provides the central bank with greater policy flexibility, especially with the incoming U.S. administration. Additionally, the PBOC is cautious about cutting rates further as commercial bank net interest margins have remained tight, falling below the 1.8% threshold seen as a concern by regulators.

- **Manufacturing:** In November 2024, China's manufacturing sector saw accelerated expansion, with the Caixin China General Manufacturing PMI rising to 51.5 from 50.3 in October, indicating the fastest growth since June. This improvement was driven by a significant increase in new orders, particularly from exports, which rose at the quickest pace since February 2023. Production and purchasing activity also picked up, and business confidence reached its highest level in eight months. Despite the growth in new business, employment levels declined, partly due to cost concerns and rising input price inflation, which led to higher output prices. Average selling prices rose at their fastest pace in 13 months. The expansion was fueled by stronger domestic and international demand, with manufacturing conditions improving for the second consecutive month, signaling a positive outlook for the sector in the near term.
- **Policy Outlook:** In December 2024, China's Central Economic Work Conference (CEWC) outlined the nation's economic and policy direction for 2025, emphasizing the need to bolster domestic consumption and maintain steady economic growth amid external challenges, notably the anticipated reimplementing of US tariffs under President Donald Trump's administration. To counter these pressures, Chinese leaders plan to increase the budget deficit to 4% of GDP, the highest on record, and adopt a more accommodative monetary policy, including interest rate cuts and reductions in bank reserve requirements. Additionally, the government intends to issue more debt at both central and local levels to finance infrastructure projects and stimulate the economy. The CEWC also highlighted the importance of stabilizing the real estate market, addressing local government debt, and enhancing social welfare programs to boost household incomes and consumption. These measures reflect China's strategic shift towards prioritizing domestic demand to achieve sustainable economic growth in the face of global uncertainties.
- **Property Sector:** China's property sector showed positive momentum in November, driven by pro-housing policies implemented since September 2024. A survey by the National Bureau of Statistics (NBS) revealed that 17 out of 70 major cities saw month-on-month increases in new home prices, up from seven in October, while 10 cities experienced rises in second-hand home prices. First-tier cities, including Beijing, Shanghai, and Shenzhen, recorded notable price increases, and year-on-year price declines narrowed across all city tiers. Stimulus measures, such as reduced mortgage rates, lower down payment ratios, relaxed purchase restrictions, and tax incentives, have bolstered market expectations and transaction activity. The Central Economic Work Conference emphasized further stabilizing efforts, including controlling new land supply and promoting a new real estate development model to support the sector's recovery.

Recent Economic Development: Domestic Market

- **Retail Spending:** Retail sales in Indonesia grew modestly by 1.7% year-on-year in November 2024, slightly higher than October's 1.5% growth but still below the peaks in July and August of 4.5% and 5.8%, respectively. The growth was primarily driven by increased consumption in categories such as vehicle spare parts, fuel, food and beverages, and clothing, while communication equipment and household goods experienced contractions. This reflects a shift in consumer behavior, with reduced spending on durable goods and higher consumption linked to mobility, such as vehicle-related expenses, partly due to local election activities in November. Food, beverage, and tobacco sales grew only 3.5%, influenced by a lack of significant events besides the elections. High interest rates and limited discount promotions were cited as key factors for declining sales in communication and household equipment category. Optimism remains for December, with expectations of over 5% growth driven by holiday spending, year-end bonuses, and continued economic momentum.

- **Inflation:** In November 2024, Indonesia's year-on-year (y-on-y) inflation rate reached 1.55%, with the Consumer Price Index (CPI) rising to 106.33 from 104.71 in November 2023. The highest inflation was recorded in Papua Tengah Province at 4.35%, while Kepulauan Bangka Belitung Province saw the lowest at 0.22%. Inflation was driven by increases in most expenditure groups, including Personal Care and Other Services (7.26%), Food and Beverage Serving Services (2.40%), and Education (1.89%). Key contributors included rising prices for gold jewelry, rice, shallots, cooking oil, and machine-rolled clove cigarettes, while red chili and gasoline experienced deflation. Month-to-month (m-to-m) inflation was 0.30%, with year-to-date (ytd) inflation at 1.12%. Core inflation stood at 2.26% y-on-y. Some regions, such as Timor Tengah Selatan Regency, recorded deflation. Inflationary pressures were linked to increased prices in food, transportation, and personal care services, reflecting varied economic dynamics across provinces and sectors.
- **Producer Prices:** In November 2024, Indonesia's Producer Price Index (PPI) reflected a mixed trend across sectors. The overall PPI for Q3-2024 increased by 0.16% quarter-on-quarter (q-to-q) and 0.83% year-on-year (y-on-y), reaching 132.30. Agriculture, Forestry, and Fishing saw the highest y-on-y inflation at 7.67%, followed by Education Services at 7.55%. Conversely, Mining and Quarrying experienced significant deflation, declining 14.06% y-on-y. Manufacturing PPI rose by 0.42% q-to-q and 3.12% y-on-y, driven by subsectors like food and rubber products. While Transportation and Electricity sectors posted marginal deflation q-to-q, they recorded slight y-on-y increases. Other sectors, including Accommodation and Health Services, displayed moderate growth, underlining sectoral variances in producer price movements. These trends indicate diverse cost dynamics in Indonesia's economic sectors.
- **Fiscal Policy:** The government's plan to increase the Value-Added Tax (PPN) to 12% in January 2025 raises concerns about its impact on the economy and public welfare. While aimed at boosting state revenue to fund infrastructure and social programs, the policy risks reducing household purchasing power, particularly for low- and middle-income groups, potentially lowering aggregate demand and slowing economic growth. It may also exacerbate income inequality and poverty rates. Additionally, the tax hike could trigger inflation by raising production costs, diminishing real purchasing power, and creating economic uncertainty that deters investment. Based on our calculation from the elasticity of retail sales index as a proxy of consumer spending to an increase in VAT, increasing VAT by 1% could reduce retail sales index on average by 6.09%.¹ As a result, questions remain about the efficiency of this measure in achieving revenue goals relative to its economic costs. Alternative fiscal strategies, such as progressive tax reforms and tighter fiscal oversight, are suggested to mitigate these risks while ensuring inclusive economic growth and social welfare.
- **State Budget:** The Ministry of Finance (Kemenkeu) noted that the 2024 State Budget (APBN) experienced a deficit of IDR 401.8 trillion at the end of November 2024. When compared to gross domestic product (GDP), the 2024 APBN deficit in November 2024 was already 1.81% of GDP. The government is targeting a 2024 deficit of IDR 522.8 trillion or 2.9% of GDP. Meanwhile, the realization of state revenue until the end of November 2024 reached IDR 2,492.7 trillion or 89% of the target in the 2024 state revenue ceiling. When compared to the same period last year, state revenue grew slightly by 1.3%.
- **Tax Revenue:** Value Added Tax (VAT) revenue from Electronic Trading (PMSE) has reached IDR 24.99 trillion as of November 30, 2024. This amount is collected from 171 PMSE VAT collection companies. As of November 2024, the government has appointed 199 PMSE business actors to

¹ The analysis compares the retail sales index under the implementation of a 10% VAT and an 11% VAT, each of them spanning 1-year data points. The assessment excludes data from the COVID-19 (2020 -2021) period to ensure the reliability.

become Value Added Tax (VAT) collectors. Overall, the government recorded revenue from the digital economy business sector of IDR 31.05 trillion as of November 30, 2024. This amount comes from PMSE VAT collection of IDR 24.49 trillion, crypto tax of IDR 979.08 billion, fintech p2p lending tax of IDR 2.86 trillion, and tax collected by other parties on goods and/or services procurement transactions through the Government Procurement Information System (SIPP tax) of IDR 2.71 trillion.

- Trade Balance:** In November 2024, Indonesia's export value reached \$24.01 billion, declining 1.70% from October 2024 but increasing 9.14% compared to November 2023. Non-oil and gas exports contributed \$22.69 billion, showing a slight 1.67% monthly drop yet a 9.54% annual rise. Cumulatively, exports for January–November 2024 grew 2.06% year-on-year, supported by a 2.24% rise in non-oil and gas exports. China remained the top export destination, followed by the U.S. and India. Key commodities like palm oil saw declines, while nickel exports surged. On the import side, November's total of \$19.59 billion marked a 10.71% monthly decrease, with non-oil and gas imports dropping 6.87% but rising 5.71% annually. Imports from China, Japan, and the US dominated. Despite the decline in both exports and imports, Indonesia recorded a trade surplus of \$4.42 billion, driven by the non-oil and gas sector, while the oil and gas sector experienced a deficit.
- International Investment:** Indonesia's International Investment Position (IIP) recorded a net liability of \$274.0 billion at the end of Q3 2024, up from \$249.8 billion in Q2 2024. This increase was driven by a larger rise in Foreign Financial Liabilities (FFL) compared to Foreign Financial Assets (FFA). FFA rose by 5.3% quarter-on-quarter to \$518.2 billion, boosted by higher investments in foreign financial instruments, particularly reserve assets, other investments, and direct investments, alongside currency exchange effects and asset price increases. FFL grew by 6.8% to \$792.2 billion due to robust foreign capital inflows into direct and portfolio investments, reflecting Indonesia's favorable economic prospects, low inflation, and attractive returns. The depreciation of the U.S. dollar and rising Indonesian stock prices further supported FFL growth. The IIP-to-GDP ratio remained stable at 19.9%, with long-term instruments like direct investments dominating liabilities (92.3%). Bank Indonesia remains vigilant, strengthening policy measures and coordination to ensure external sector resilience amidst global economic challenges.
- Investment Realization:** The Ministry of Investment and Downstream/Investment Coordinating Board (BKPM) revealed that investment realization in Indonesia has reached IDR1,261.43 trillion in the period from January to September 2024. Minister of Investment/Head of BKPM elaborated that the realization covered 76.45% of the total target for the 2024 period of IDR1,650 trillion. Of this amount, investment in the form of Foreign Direct Investment (PMA) amounted to IDR654.4 trillion, while investment from domestic or Domestic Direct Investment (PMDN) amounted to IDR607.03 trillion. In that period, investment to Indonesia absorbed 1,875,214 workers.
- Monetary Policy:** In December 2024, Bank Indonesia (BI) maintained its benchmark interest rate at 6.00%, marking the third consecutive month at this level. This decision underscores BI's commitment to stabilizing the rupiah, which had depreciated to a four-month low against the US Dollar, and to keeping inflation within its target range of 2.5% \pm 1% for 2024 and 2025. BI also held the deposit facility rate at 5.25% and the lending facility rate at 6.75%. Governor Perry Warjiyo emphasized the focus on rupiah stability amid global uncertainties, particularly following the US Federal Reserve's hawkish stance, which has pressured emerging market currencies. To address these challenges, BI has conducted market interventions to support the rupiah and plans to purchase government bonds in 2025 to manage liquidity and foster growth.
- Foreign Exchange Reserves:** In November 2024, Indonesia's foreign exchange reserves remained robust, amounting to \$151.2 billion at the end of October. This level is equivalent to financing 6.6 months of imports or 6.4 months of imports and government external debt payments, exceeding

international adequacy standards of three months of imports. The reserves were supported by a continued surplus in the trade balance, with October's trade surplus reaching \$2.5 billion, driven by strong non-oil and gas exports. Despite global financial market uncertainties and net foreign portfolio outflows of \$1.9 billion in November, the reserves effectively bolstered Indonesia's external stability and exchange rate resilience.

- **Housing Sector:** The results of the Bank Indonesia Residential Property Price Survey (SHPR) indicate that residential property prices in the primary market in Q3-2024 slightly increased. However, residential property sales are indicated to have decreased. The growth in residential property prices was reflected in the growth of the Residential Property Price Index (IHPR) in Q3-2024 by 1.46% (YoY). In terms of sales, the survey results indicate that residential property sales in the primary market in Q3-2024 decreased and occurred in all types of houses, especially small houses.
- **Consumer Confidence Index:** In November 2024, Indonesia's Consumer Confidence Index (CCI) rose to 125.9 from 121.1 in October, indicating stronger consumer optimism about the current and future economic conditions. The Current Economic Condition Index (CEC) increased to 113.5, driven by higher perceptions of current income, job availability, and durable goods purchases, which rose to 121.9, 110.1, and 108.4, respectively. Confidence was particularly strong among respondents with expenditures above Rp5 million and in the 20-30 age group. Spatially, the most significant improvements were seen in Palembang, Pontianak, and Medan. The Consumer Expectation Index (CEI) climbed to 138.3 from 132.4, reflecting stronger optimism about income, job availability, and business activity over the next six months. Key increases were noted in Padang, Palembang, and Ambon, with high expectations across most income and age groups, especially those aged 51-60. The broad-based increase in consumer confidence highlights rising optimism across economic and demographic categories.
- **Purchasing Manager's Index (PMI):** In November 2024, Indonesia's manufacturing sector continued to experience softness, with the S&P Global Indonesia Manufacturing PMI remaining below the 50.0 mark for the fifth consecutive month, signaling contraction. However, the PMI improved slightly to 49.6 from 49.2 in October, reflecting a slower decline in operating conditions. New orders fell for the fifth month in a row, and employment also declined, though the production index rose for the first time in five months. This growth in output, despite weak demand and a decline in new export orders, helped firms clear work backlogs and build up finished goods inventories in anticipation of future growth. Market conditions remained weak, with low purchasing power and subdued demand, particularly in exports. On a positive note, business confidence in the outlook improved to a nine-month high, indicating some optimism for the year ahead despite the current challenges.
- **MSME (UMKM) Credit:** In October 2024, Indonesia's banking sector saw a slowdown in credit growth for micro, small, and medium enterprises (MSMEs), with overall MSME credit growing 4.6% year-on-year (YoY) to IDR 1,399.3 trillion, compared to 5.0% growth in September 2024. Microenterprise credit expanded 4.4% YoY to IDR 637.5 trillion, down from 5.1% in September. Meanwhile, small enterprise credit grew by 7.2% YoY to IDR 456 trillion, an improvement from 6.6% previously, while medium enterprise credit decelerated to 1.4% YoY, reaching IDR 308.8 trillion. Growth was primarily driven by investment credit, which rose 12.1% YoY, while working capital credit grew modestly at 2.0% YoY. The Non-Performing Loan (NPL) ratio increased to 4.0% from 3.88% a year earlier. Macroeconomic conditions, geopolitical dynamics, and domestic purchasing power impacted credit distribution. Efforts to boost MSME financing include financial inclusion initiatives like expanding Laku Pandai networks and maintaining government programs like *Kredit Usaha Rakyat* (KUR) to support sustainable credit growth.

- **IFG Progress Sectoral Healthiness Index (IPSHI):** IFG Progress Sectoral Healthiness Index (IPSHI) traces the healthiness level of each sector in Indonesia based on key variables such as GDP growth, allocation of credit, sectoral non-performing loans (NPL), etc. We categorized the healthiness level into 5 categories from the highest level in the Very Healthy group to the Worst Level in the Critical Group (Exhibit 6). Based on this index as of 2024 Q3, most economic sectors in Indonesia fall into the "Moderately Healthy" category. However, several sectors have excelled in the "Very Healthy" category, including the Financial Services and Insurance industry since 2023, and the Wholesale and Retail Trade and Mining sectors. Based on the latest data (2024-Q3), the sector categorization according to their health levels is as follows: (1) Very Healthy: Financial Services and Insurance, Wholesale and Retail Trade, Mining. (2) Healthy Accommodation, Food and Beverage, Manufacturing, Construction, Transportation, Warehousing, and Communications. (3) Moderately Healthy: Agriculture, Healthcare Services, Education Services, Electricity and Gas, Real Estate.

Indonesia's Insurance Snapshot

Life Insurance

- The performance of Indonesia's life insurance industry as of the third quarter of 2024 experienced a slight decline, with a year-on-year (YoY) contraction of -0.4%. In parallel, gross claims saw a more significant drop, decreasing by -5.2% YoY in Q3 2024. Despite stagnant growth, the insurance industry faces several significant challenges in the short and medium term. One key issue is the increase in minimum capital requirements based on POJK 23/2023, which will be implemented in two phases: the first batch in 2026 and the second batch in 2028. These regulatory changes aim to strengthen the industry's financial resilience but may pose difficulties for smaller insurers in meeting the heightened requirements.
- Additionally, starting in 2025, insurance companies will need to comply with IFRS 17, a new international accounting standard for insurance contracts. This standard introduces more complex reporting requirements, focusing on greater transparency and consistency in financial statements. Specific challenges faced by health insurance products arise from the increasing inflation in healthcare costs, which has driven higher claims paid by health insurance product. A report from Aon Global Medical Trend Report highlights that Indonesia recorded the higher medical inflation than Asia-Pacific average in 2024, with a 13.1% inflation compared to 12.7% in 2023.

General Insurance

- The non-life insurance segment, also referred to general insurance, experienced a notable increase in premium revenue, growing by approximately 10% year-on-year (YoY) as of Q3 2024. However, this growth was accompanied by a significant surge in claims, which rose sharply by 28% YoY during the same period. In the general insurance sector, credit insurance products play a crucial role in helping the banking industry maintain low Non-Performing Loan (NPL) ratios and Loan at Risk (LaR) levels. However, the performance of credit insurance, particularly its claim ratio, remains relatively high.
- To address the challenges in credit insurance, the Financial Services Authority (OJK) issued POJK No. 20/2023, effective December 2024. Key provisions include prohibiting coverage for natural death, requiring creditors to bear at least 25% of the risk, capping acquisition costs at 10%, and mandating premiums be based on five years of risk and loss data. The coverage period is limited to five years, extendable to match loan tenors. This regulation aims to promote equitable risk-sharing, transparent pricing, and cost efficiency in the credit insurance sector.

Exhibit 1. Indonesia Macroeconomics Indicator

		2023					2024							
		Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Real														
CPI Inflation*	% YoY	2.86	2.81	2.57	2.75	3.05	3	2.84	2.51	2.13	2.12	1.84	1.71	1.55
Core Inflation *	% YoY	1.87	1.8	1.68	1.68	1.77	1.82	1.93	1.9	1.95	2.02	2.09	2.21	2.26
Manufacturing PMI*	Level	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9	49.2	49.2	49.6
External														
Exports*	% YoY	-8.56	-5.85	-8.2	-9.61	-3.75	1.72	2.85	1.18	6.6	7.13	6.44	10.25	
Imports*	% YoY	3.29	-3.81	0.28	15.84	-12.76	10.09	-8.84	7.58	11.07	9.46	8.55	17.49	
Foreign Reserves*	USD bn	124.44	132.62	131.45	130.46	126.43	121.99	124.66	125.96	130.90	135.33	133.9	135.1	134.5
Monetary and Fiscal														
Money Supply (M2)*	% YoY	3.30	3.50	5.44	5.29	7.21	6.87	7.59	7.67	7.59	7.28	7.20	6.70	
Deposit*	% YoY	3.01	2.87	4.86	4.54	6.36	7.05	7.36	6.95	6.24	5.76	5.73	5.00	
Commercial Banking Credit**	% YoY	9.70	10.30	12.00	11.50	12.60	13.20	12.30	12.60	12.61	11.64	11.08		
Fiscal Surplus/Deficit*	% GDP		-1.614			-2.168			-2.646			-2.733		

Sumber: *CEIC, **Bloomberg

Exhibit 2: Exchange Rate

Exhibit 2.1 Difference of Spot and Forward IDR

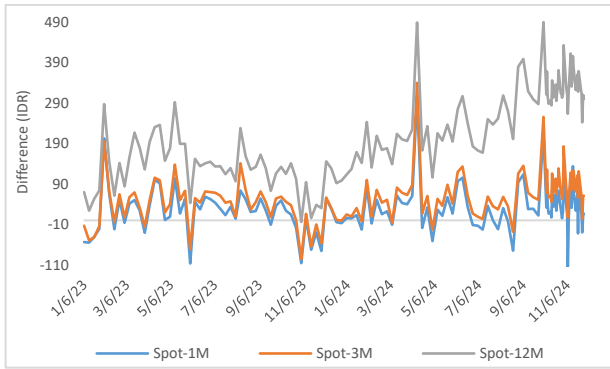


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

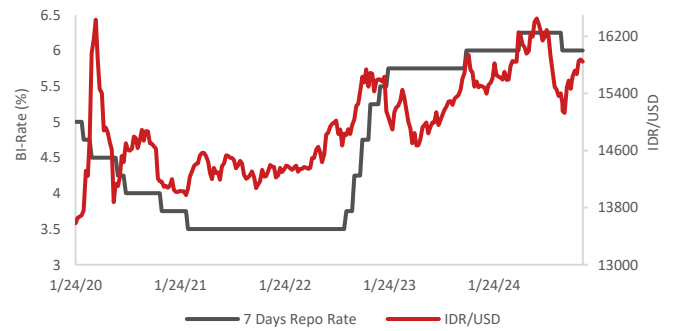


Exhibit 2.3 EM's Exchange Rate against USD

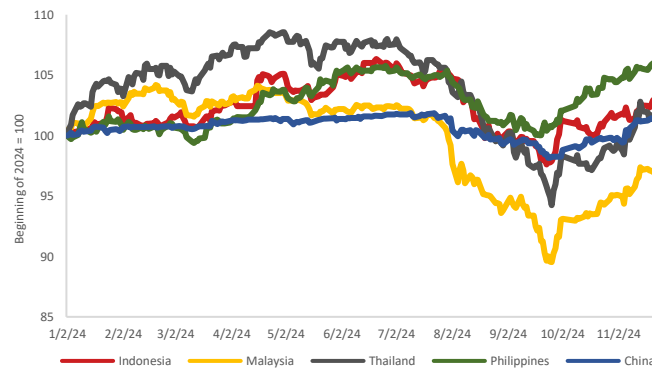


Exhibit 3: Indonesia's Liquidity

Exhibit 3.1 JIBOR 1 & 3 Months and BI-Rate

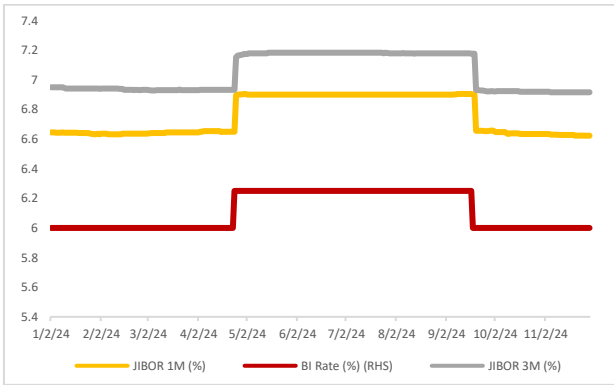


Exhibit 3.2 Monetary Operations of BI

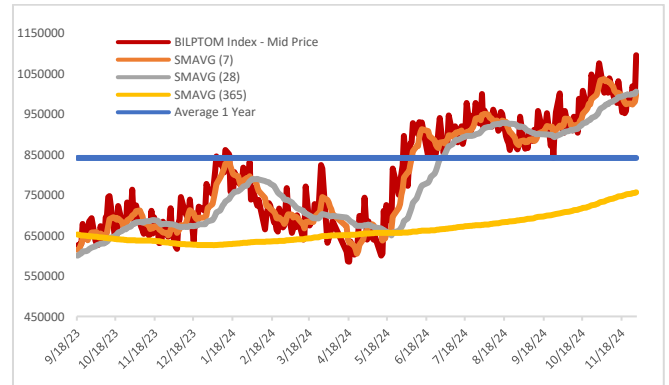


Exhibit 3.3 Indonesia's Net International Reserves USD

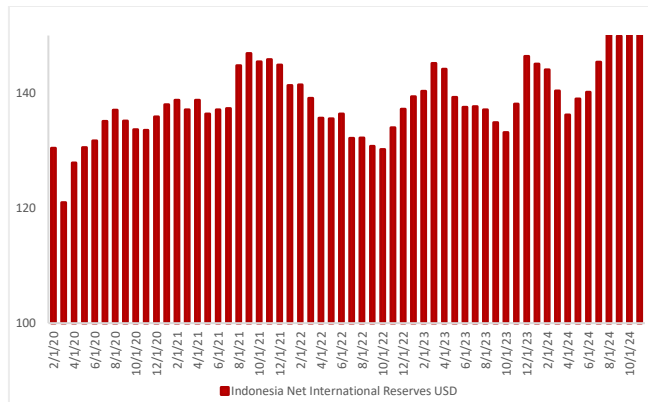


Exhibit 4: Financial Market

Exhibit 4.1 Stock Market index

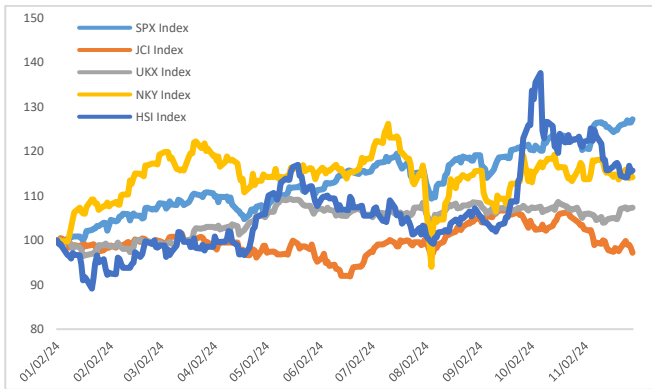


Exhibit 4.2 Indonesia Bond Yield Curve

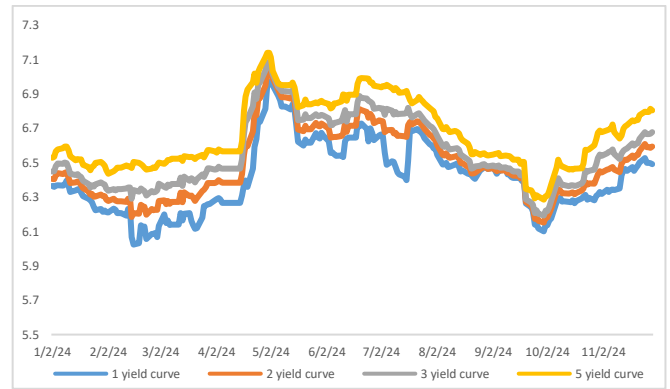


Exhibit 4.3 Indonesia Stock Market & Turnover

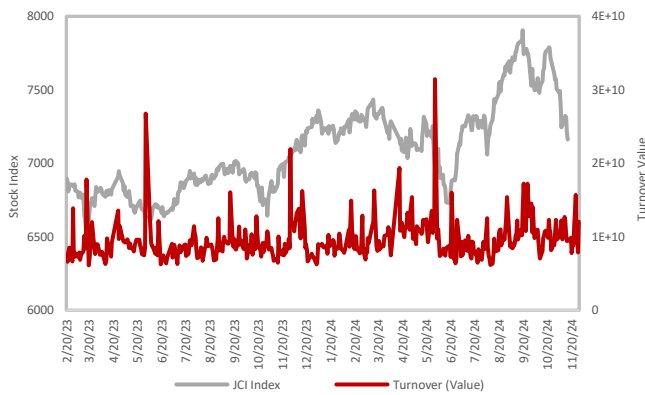


Exhibit 4.4 Indonesia CDS & Government Bond 5Y

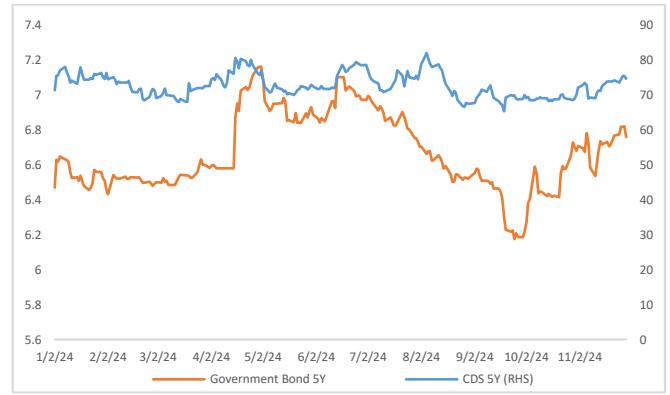


Exhibit 5. Expected Impact of Macroeconomic on Subsidiary of IFG holding Performance

Indikator Makroekonomi	Askrindo			Jamkrindo			IFG Life			Jasa Raharja			Jasindo		
	LitR	Cad	RBC	Premi	Klaim	GR	Premi	Klaim	RBC	LitR	Klaim	RBC	Premi	Cad	RBC
Inflasi, y/y (1% change)	N.A	↓	↑	N.A	N/A	↑	N/A	N/A	↑	↓	↑	N/A	N/A	↑	↓
Nilai Tukar (IDR/USD 1% change)	N.A	N.A	N.A	N.A	↓	↓	↓	↓	↓	N/A	N/A	↓	↓	N/A	N/A
BI Rate (1 % change)	-	-	-	-	N/A	-	N/A	N/A	-	-	N/A	N/A	-	-	-

*LitR = Liquidity Ratio, Cad = Cadangan Teknis, RBC = Risk Based Capital, Premi = % change in Premi, Claim = % change in claim. The direction of the increase or decrease in the insurance indicator is based on the regression model coefficient multiplied by the changes of each macroeconomic indicator.

Exhibit 6. Heatmap of IFG Progress Sectoral Healthiness Index (IPSHI) (2022 Q1 = 100)

Sector	2022q2	2022q3	2022q4	2023q1	2023q2	2023q3	2023q4	2024q1	2024q2	2024q3
Agriculture	62	61	54	60	69	62	49	59	71	63
Accommodation and Restaurant	63	57	65	64	73	68	74	79	71	76
Manufacturing	61	64	66	66	65	72	72	73	76	76
Health	68	69	65	70	73	64	66	69	71	69
Financial services	98	64	82	74	106	94	62	98	99	99
Education	48	46	67	59	78	78	65	60	64	62
Construction	65	53	72	62	59	66	65	61	69	72
Electricity and Gas	53	60	59	61	67	65	66	71	74	71
Trade	65	62	54	66	68	78	66	80	88	88
Mining and Quarrying	63	64	73	67	72	76	83	83	84	87
Property	58	61	64	64	64	62	66	62	67	66
Transportations and Communications	55	58	62	62	69	69	71	74	74	81

Source: CEIC, OJK, Central Bank of Indonesia, IFG Progress Analysis

Exhibit 7: Insurance Industry

Exhibit 7.1. Life Insurance: Quarterly Premium and Claim

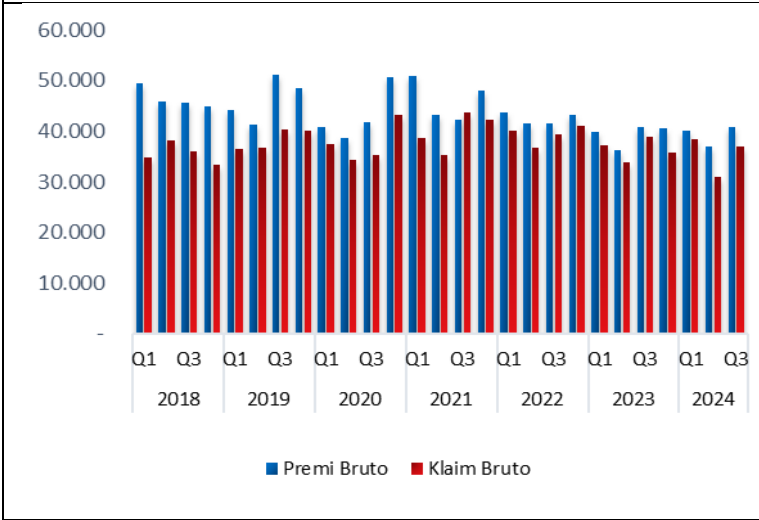
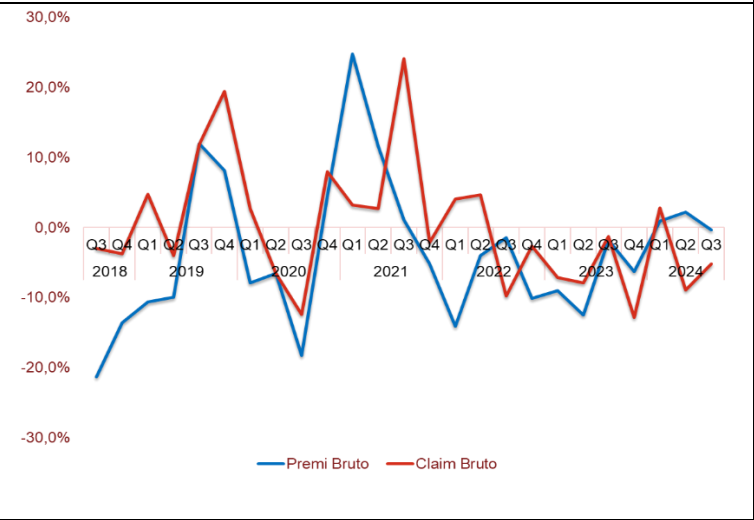


Exhibit 7.2. Life Insurance Premium and Claim Growth (yoy)



Source : Data Statistik OJK, IFG Progress

Exhibit 7.3. General Insurance: Quarterly Premium and Claim

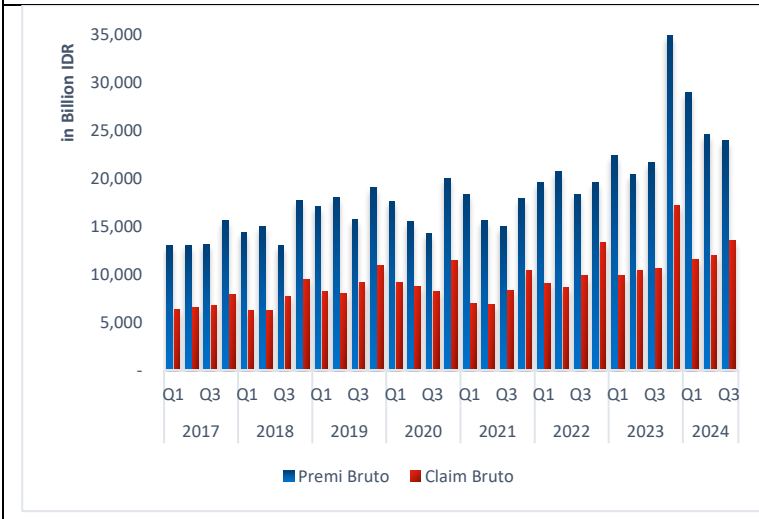
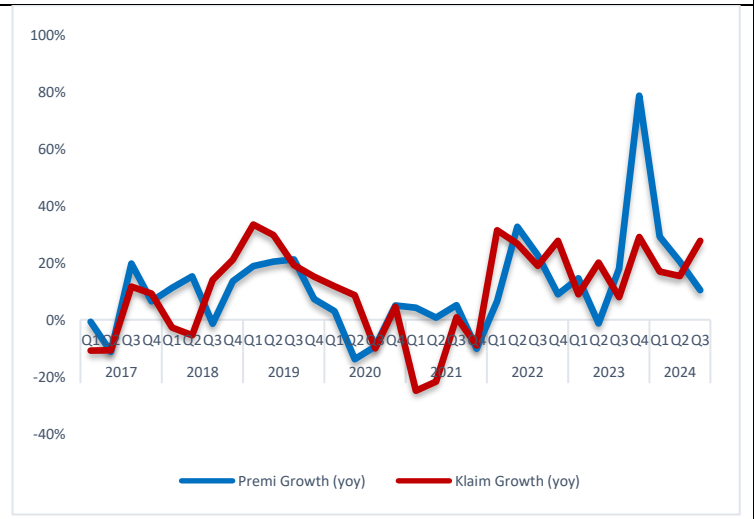


Exhibit 7.4. General Insurance Premium and Claim Growth (yoy)



Source : Data Statistik OJK, IFG Progress

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

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Indonesia Financial Group (IFG)

Indonesia Financial Group (IFG) adalah BUMN Holding Perasuransian dan Penjaminan yang beranggotakan PT Asuransi Kerugian Jasa Raharja, PT Jaminan Kredit Indonesia (Jamkrindo), PT Asuransi Kredit Indonesia (Askrindo), PT Jasa Asuransi Indonesia (Jasindo), PT Bahana Sekuritas, PT Bahana TCW Investment Management, PT Bahana Artha Ventura, PT Bahana Kapital Investa, PT Graha Niaga Tata Utama, dan PT Asuransi Jiwa IFG. IFG merupakan holding yang dibentuk untuk berperan dalam pembangunan nasional melalui pengembangan industri keuangan lengkap dan inovatif melalui layanan investasi, perasuransian dan penjaminan. IFG berkomitmen menghadirkan perubahan di bidang keuangan khususnya asuransi, investasi, dan penjaminan yang akuntabel, prudent, dan transparan dengan tata kelola perusahaan yang baik dan penuh integritas. Semangat kolaboratif dengan tata kelola perusahaan yang transparan menjadi landasan IFG dalam bergerak untuk menjadi penyedia jasa asuransi, penjaminan, investasi yang terdepan, terpercaya, dan terintegrasi. IFG adalah masa depan industri keuangan di Indonesia. Saatnya maju bersama IFG sebagai motor penggerak ekosistem yang inklusif dan berkelanjutan.

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.