

Navigating Economic Challenges: Growth and Headwinds Across Key Global Economies

Highlights

- The US economy showed strong GDP growth in Q1 2024, driven by personal and government spending, while manufacturing contracted in August with a PMI of 47.9, signaling weaker demand and a potential slowdown in production. Meanwhile, the Federal Reserve implemented a 50-bps rate cut in September to support growth amid inflation stabilization and slowing job market conditions.
- In Q2 2024, Eurozone GDP grew by 0.6% YoY, driven by improved trade terms and energy price declines, although Germany's economy remained weak due to its energy dependence. Meanwhile, Eurozone inflation in August rose slightly to 2.8%, driven by core inflation in services, and the ECB responded with a 25-bps rate cut to 3.50%, aiming to balance inflation control with economic growth stimulation.
- In Q3 2024, China's GDP growth is expected to slow to 4.4% YoY, down from 4.7% in Q2, due to weak domestic demand and persistent issues in the property sector. Modest government interventions, such as reduced mortgage rates, have had limited impact. Inflation rose slightly to 0.6% in August, driven by a 2.8% rise in food prices, particularly pork and vegetables, while non-food inflation remained weak. China's Manufacturing PMI also contracted for the fourth consecutive month at 49.1, reflecting ongoing challenges, though high-tech and equipment manufacturing sectors showed some resilience.
- Indonesia's economic growth in Q2 2024 was 5.05% YoY, slightly down from 5.11% in Q1, driven by strong household consumption and exports, but moderated by slow government spending growth. Inflation in August 2024 was 2.12%, within the central bank's target, with deflation occurring on a monthly basis due to falling food and communication prices.
- In 2024, IFG Holding's subsidiaries are expected to face varied impacts from macroeconomic changes. Inflation is likely to increase claims and technical reserves for Jasindo and Jasa Raharja, while enhancing RBC for Askindo and Jamkrindo. A weakening exchange rate reduces claims and RBC across subsidiaries. Meanwhile, an increase in the BI rate could reduce liquidity and premiums for some companies but improve RBC stability. The overall outlook indicates challenges in managing claims and liquidity, especially for Jamkrindo and Jasindo, requiring careful risk mitigation (Exhibit 5).

Afif Narawangsa Luviyanto

Afif.narawangsa@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 second quarter of 2024, the United States saw its GDP grow by 3.0% 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 2.92% in Q1 2024 to 3.15% in Q2 2024. This growth was largely supported by a 2.9% rise in consumer spending, a 2.7% increase in government spending, and an increase of fixed income of 3.0% over the quarter. The main drivers of this GDP growth were personal expenditure which has weight around 67.71% of total GDP. In terms of services that have 43.67% of total weight, the leading contributors are health care and housing & utilities. From the goods perspective which have 21.97% of total weight, non-durables goods still support the growth with food and beverage as its main drivers.
- Global US Manufacturing:** In August 2024, the US Manufacturing PMI contracted to 47.9, down from 49.6 in July 2024. This index below 50 is a sign of contraction that all five components of manufacturing PMI weakened in August 2024. Output shrank by the most in 14 months, orders contracted for the second month and employment came close to stagnating. Inventories of finished goods in the manufacturing sector have increased for the third time in the past four months, signaling a potential slowdown in production. This trend suggests a heightened risk that producers may scale back output in response to declining demand, as indicated by retreating bookings. If the continuation of unsold goods continues alongside weaker order volumes, manufacturers are likely to adjust their production levels to avoid excessive inventory build-up, reflecting a cautious outlook amid uncertain market conditions.
- US inflation:** The U.S. inflation rate saw a slight rise from 2.9% YoY in July to 3.0% in August 2024, with month-over-month inflation remaining unchanged at 0.2%. This stabilization is driven by a third consecutive drop in gasoline prices (down 0.6% from July), along with a 1% decline in used car prices, easing overall inflation pressure. However, rising housing and rent costs pushed core inflation up slightly by 0.3% month-over-month. Despite these mixed signals, the Federal Reserve remains confident that inflation is on track to meet its 2% target.
- The Federal Open Market Committee (FOMC):** The Federal Open Market Committee (FOMC) concluded its September 2024 meeting by announcing a 50 basis points (bps) rate cut, lowering the federal funds rate to a range of 4.75% to 5.00%. This marks the first rate cut in over four years, and it reflects the Federal Reserve's shift toward supporting economic growth while maintaining a focus on inflation reduction. The move was largely anticipated, with speculation about whether the cut would be 25 or 50 bps, but the Fed opted for the larger cut due to concerns about slowing job growth and economic uncertainty.

Euro Zone

- GDP Growth (YoY):** In the second quarter of 2024, Eurozone GDP growth rose slightly to 0.6% year-over-year (YoY), up from 0.4% in the first quarter. This modest increase was driven by an improvement in trade terms, primarily due to declining energy prices. Countries like Spain contributed to this growth, with its GDP increasing due to strong consumer spending and industrial production.

However, Germany continues to struggle, with its GDP contracting slightly, primarily because of its dependency on energy-intensive sectors, which are recovering more slowly from the effects of past energy price hikes. Despite these mixed performances, the overall resilience of the Eurozone economy helped maintain a positive growth trajectory for the quarter.

- **Inflation:** In August 2024, the Eurozone's Consumer Price Index (CPI) rose to 2.8% year-over-year, marking a slight increase of 0.2% from July (YoY). This rise was mainly driven by persistent core inflation pressures, particularly in services, which rose to 4.2% (YOY). Energy prices played a significant role as well, with energy inflation fluctuating significantly due to external market factors, including oil and gas price movements.
- **Europe Manufacturing:** In August 2024, the Eurozone's Composite PMI rose to 51.0 from 50.2 in July, signaling an overall supply-side improvement. This increase was mainly driven by stronger momentum in the services sector, with the Services PMI increasing from 51.9 in July 2024 to 52.9 August 2024, a three-month high. This growth in services was helped by easing input cost pressures, though output prices did tick up slightly. Spain and France led the growth, particularly due to increased consumer demand, while Germany's Composite PMI dropped to a five-month low, reflecting continued challenges in its manufacturing sector. Meanwhile, the manufacturing sector remained stagnant, reflecting ongoing struggles in key Eurozone economies like Germany and France, which continue to face weak demand and rising costs. Despite this, the overall economic outlook for Q3 shows signs of moderate improvement, especially with input cost inflation easing, which could provide some relief to the European Central Bank as it evaluates future policy actions.
- **Interest rate:** As of September 2024, the European Central Bank (ECB) cut its deposit rate by 25 basis points, bringing it down to 3.50% from 3.75%. This move follows a consistent downward trend in inflation across the Eurozone, where headline inflation has slowed to 2.2% in August 2024. Despite these cuts, services inflation remains elevated at 4.2%, complicating the ECB's balancing act between addressing inflation and stimulating economic growth. ECB President Christine Lagarde reiterated that future rate decisions will continue to be data-dependent, with the possibility of further rate cuts later in 2024 or early 2025 depending on inflation dynamics and economic condition. This decision reflects the ECB's cautious approach amid slowing growth. The central bank aims to ensure inflation continues to cool without jeopardizing economic recovery.

China

- **GDP Growth:** In the third quarter of 2024, China's GDP growth is projected to slow to 4.4% YoY, down from 4.7% in the previous quarter. This deceleration is driven by persistent weaknesses in domestic demand and the property sector, which continues to face significant headwinds. Despite some modest government measures, such as reduced mortgage rates (3.45% in Q3 2024) and support for unsold housing, the overall impact has been limited.
- **Inflation:** As of August 2024, China's Consumer Price Index (CPI) rose by 0.6% YoY, up from 0.5% in July 2024. This slight uptick in inflation is mainly attributed to a significant rise in food prices, particularly pork, fresh vegetables, and fruit, marking the first positive food inflation since mid-2023. Food prices surged by 2.8% YoY, driven by weather-related disruptions and a low base effect. However, non-food inflation remained weak, with categories like transportation and home goods

facing price declines due to subdued demand and deflationary pressures, notably in the automotive sector and communications. This highlights the ongoing challenges in China's property market and consumer confidence, contributing to a muted inflationary environment overall.

- **China's Manufacturing:** In August 2024, China's Manufacturing Purchasing Managers' Index (PMI) declined to 49.1, slightly down from 49.4 in July 2024. This marks the fourth consecutive month of contraction, reflecting challenges such as weak demand, seasonal off-production periods, and adverse weather conditions impacting factory activity. While the overall manufacturing sector remained in contraction territory, certain sub-sectors like high-tech manufacturing and equipment manufacturing showed resilience, moving back into expansion with PMIs above 50. Meanwhile, the **Non-Manufacturing PMI** saw a modest increase, rising from **50.2** to **50.3** in August, signaling continued but slow growth in services. The composite PMI fell slightly to **50.1**, down from **50.2** in July, reflecting the overall mixed performance across sectors.

Recent Economic Development: Domestic Market

- **Economic Growth:** In Q2 2024, Indonesia's economic performance showed mixed results compared to Q1. Household consumption grew by 4.93%, slightly down from 4.94%, while government spending slowed to 1.42% from 1.64%. Investment continued to contract, with gross fixed capital formation declining by -4.61% compared to -4.50%. However, exports remained strong, growing by 14.95%, though lower than the 19.09% in Q1. Sectoral highlights include steady growth in transportation and hospitality, while food and apparel saw slight slowdowns. Despite strong consumption and exports, declining investment poses potential challenges to future growth.
- **Inflation:** Indonesia's inflation in August 2024 was at 2.12% (YoY). The trend has declined for the past 6 month. This figure is within the range expected by the Indonesia Central Bank (1.5% - 3.5%), with core inflation reaching 2.02% in August, showing a slight improvement from the previous month. Indonesia experienced deflation in August 2024 for the fourth consecutive month, recording deflation of 0.03% (monthly basis/ MoM) with the Consumer Price Index falling from 106.09 in July to 106.06 in August. The food, beverage, and tobacco group were the main contributors to deflation with a decrease of 0.52% (MoM). The other group which contributes to the deflation is information, communication, & financial services (-0.02%).
- **Government Debt:** As of July 2024, Indonesia's central government debt reached IDR 8,502.69 trillion, approximately 40% of GDP, driven by the need to finance a budget deficit of 2.9% of GDP. Key factors include increased government spending on post-pandemic recovery efforts, infrastructure, and social programs. A significant portion of this debt was raised through the issuance of Government Securities (SBN), which saw a 37.5% increase. Despite the rising debt, Indonesia's debt-to-GDP ratio remains well within the legal limit of 60%, and the government continues to manage fiscal risks prudently while focusing on domestic revenue collection to ensure sustainability.
- **State Budget (APBN):** In the first half of 2024, Indonesia's government spending reached IDR 1,398.0 trillion or 42% of the national budget, marking a growth of 11.3% compared to the previous year. Of this amount, IDR 997.9 trillion was allocated to central government programs, including BOS (Bantuan Operasional Sekolah), PIP (Program Indonesia Pintar), health insurance

contributions for PBI JKN, disaster relief, subsidies, and infrastructure projects. Additionally, IDR 400.1 trillion was transferred to regional governments, reflecting increased DAU (Dana Alokasi Umum) and enhanced governance performance. This spending supports economic growth, public welfare, and government operations.

- **Monetary Policy:** Bank Indonesia decided to cut the benchmark interest rate (BI Rate) by 25 bps at 6.00%, the deposit facility rate at 5.25%, and the lending facility rate at 6.25% in the Board of Governors Meeting on 17-18 September 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±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.
- **Position of Monetary Operation:** In August 2024, Bank Indonesia continued its balanced approach to managing liquidity through both conventional and Syariah operations. *Sertifikat Rupiah Bank Indonesia* (SRBI) grew to IDR 920.8 trillion, up from IDR 860.3 trillion in July, while *Operasi Pasar Terbuka* (OPT / Open Market Operation) slightly declined to IDR 785.1 trillion. For Syariah operations, Sukuk Bank Indonesia decrease to IDR 54.8 trillion, reflecting a lower appetite of syariah market from IDR 61.1 trillion in July. These trends highlight BI's ongoing commitment to managing liquidity and ensuring Rupiah stability through both conventional and Syariah channels amidst global economic uncertainties.
- **Foreign Exchange Reserves:** Indonesia's foreign exchange reserves at the end of August 2024 stood at USD 150.2 billion, an increase from USD 145.4 billion at the end of July 2024. This rise was primarily driven by tax and services revenues, foreign exchange receipts from oil and gas exports, and the government's foreign loan withdrawals. These reserves are equivalent to financing 6.7 months of imports, or 6.5 months of imports and government external debt repayments, significantly above the international adequacy standard of 3 months of imports. Bank Indonesia views these reserves as robust, supporting external sector resilience and maintaining macroeconomic and financial system stability. Looking ahead, positive export prospects and a projected surplus in the capital and financial account, reflecting favorable investor sentiment towards the national economy and attractive investment returns, will further bolster external resilience. Bank Indonesia will continue to strengthen coordination with the government to enhance external stability and support sustainable economic growth.
- **Purchasing Manager's Index (PMI).** The latest data shows that Indonesia's manufacturing Purchasing Manager's Index (PMI) contracted to 48.90 in August 2024, from 49.30 in the previous month. This marked the second consecutive month of contraction, with factory activity shrinking at the fastest rate since August 2021. The contraction is driven by weakened output and new orders, particularly in foreign markets, which saw the steepest decline since early 2023 due to shipping challenges. Additionally, employment levels dropped for the second month, and firms began relying more on existing inventories, leading to the largest reduction in input stocks in three years.

Exhibit 1. Indonesia Macroeconomics Indicator

		2023						2024						
		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
Real														
CPI Inflation*	% YoY	3.27	2.28	2.56	2.86	2.81	2.57	2.75	3.05	3	2.84	2.51	2.13	2.12
Core Inflation *	% YoY	2.18	2	1.91	1.87	1.8	1.68	1.68	1.77	1.82	1.93	1.9	1.95	2.02
Manufacturing PMI*	Level	53.9	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9
External														
Exports*	% YoY	-21.24	-16.22	-10.43	-8.56	-5.85	-8.2	-9.61	-3.75	1.72	2.85	1.18	6.6	7.1
Imports*	% YoY	-14.77	-12.45	-2.42	3.29	-3.81	0.28	15.84	-12.76	10.09	-8.84	7.58	11.07	9.48
Foreign Reserves*	USD bn	121.79	119.76	123.72	124.44	132.62	131.45	130.46	126.43	121.99	124.66	125.96	130.90	135.33
Monetary and Fiscal														
Money Supply (M2) *	% YoY	5.90	6.00	3.40	3.30	3.50	5.44	5.29	7.21	6.87	7.59	7.67	7.44	
Deposit* Commercial Banking	% YoY	5.93	5.86	3.10	3.01	2.87	4.86	4.54	6.36	7.05	7.36	6.95	6.24	
Credit**	% YoY	9.00	9.00	9.00	9.70	10.30	12.00	11.50	12.60	13.20	12.30	12.60		
Fiscal Surplus/Deficit*	% GDP		-2.191			-1.614			-2.168			-2.646		

Sumber: *CEIC, **Bloomberg

September 2024

Exhibit 2 : Exchange Rate

Exhibit 2.1 Difference of Spot and Forward IDR

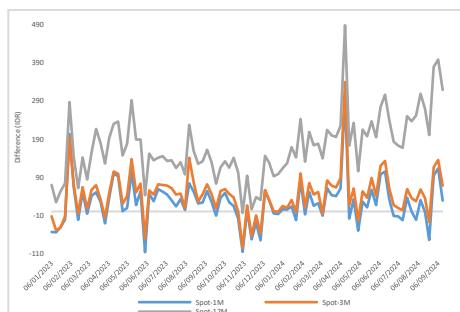


Exhibit 2.2 BI-Rate & Exchange Rate (IDR/USD)

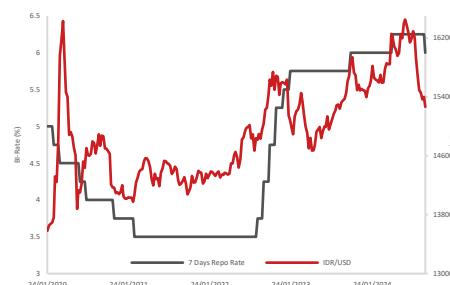


Exhibit 2.3 EM's Exchange Rate against USD

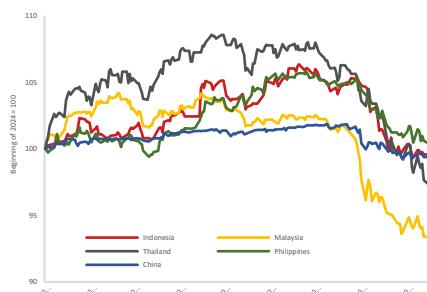


Exhibit 3: Indonesia's Liquidity

Exhibit 3.1 JIBOR 1&3 M and BI-Rate

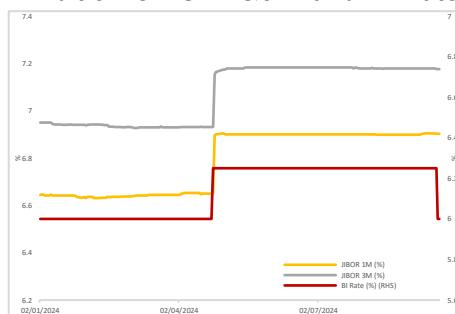


Exhibit 3.2 Monetary Operation of BI

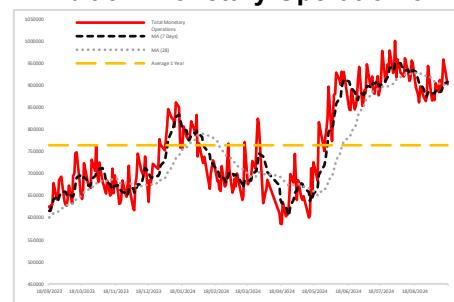


Exhibit 3.3 Indonesia Net International Reserves USD

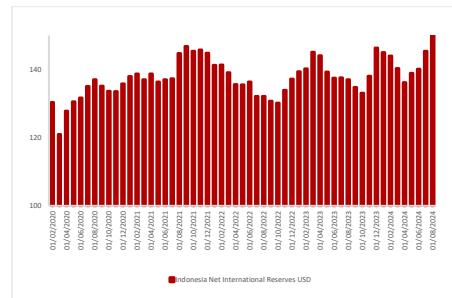


Exhibit 4: Financial Market

Exhibit 4.1 Stock Market Index



Exhibit 4.2 Indonesia Bond Yield Curve

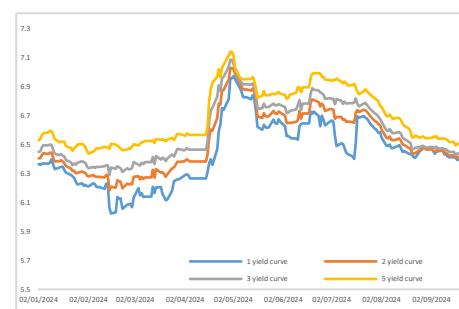


Exhibit 4.3 Indonesia Stock Market & Turnover

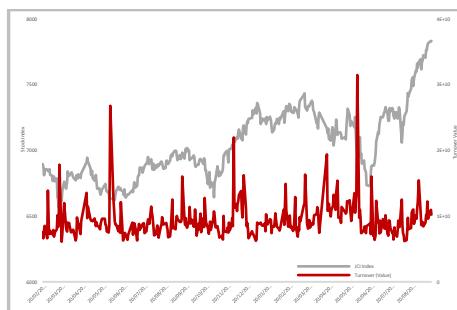


Exhibit 4.4 Indonesia CDS & Government Bond 5Y

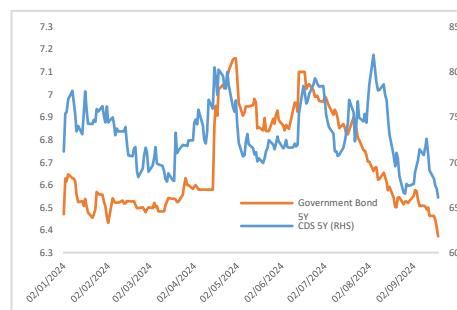


Exhibit 5. Expected Impact of Macroeconomic on Subsidiary of IFG holding Performance

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.

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

 Indonesia Financial Group

 PT. Bahana Pembinaan Usaha Indonesia – Persero

 @indonesiafinancialgroup

 @ifg_id

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.