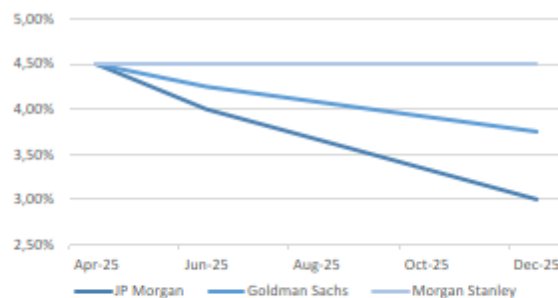


## Market Update – Apr 2025

### Global Macroeconomics

#### US Interest Rates Outlook by Global Institutions



#### Fed Watch Meeting Probabilities

MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450
5/7/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.0%	86.4%
6/18/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	8.5%	59.0%	32.6%
7/30/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.8%	49.2%	37.7%	6.3%
9/17/2025	0.0%	0.0%	0.0%	0.0%	0.0%	5.1%	38.3%	40.6%	14.4%	1.6%
10/29/2025	0.0%	0.0%	0.0%	0.0%	2.9%	24.2%	39.6%	25.5%	7.0%	0.7%
12/10/2025	0.0%	0.0%	0.0%	1.7%	15.5%	33.4%	31.3%	14.6%	3.3%	0.3%
1/28/2026	0.0%	0.0%	0.5%	5.7%	20.7%	32.8%	26.5%	11.3%	2.4%	0.2%
3/18/2026	0.0%	0.2%	2.2%	10.7%	24.7%	30.7%	21.4%	8.3%	1.7%	0.1%
4/29/2026	0.0%	0.8%	3.9%	13.5%	25.9%	28.8%	16.8%	7.0%	1.4%	0.1%
6/17/2026	0.1%	1.1%	5.4%	15.4%	26.3%	27.2%	16.9%	6.1%	1.2%	0.1%
7/29/2026	0.3%	1.8%	6.9%	17.1%	26.5%	25.7%	15.3%	5.4%	1.0%	0.1%
9/16/2026	0.4%	2.4%	8.1%	18.2%	26.4%	24.5%	14.1%	4.9%	0.9%	0.1%
10/28/2026	0.4%	2.2%	7.6%	17.3%	25.7%	24.6%	15.1%	5.7%	1.2%	0.1%
12/10/2026	0.1%	0.8%	3.5%	9.9%	19.3%	25.4%	22.3%	12.6%	4.6%	1.0%

Source : Reuters, CME, Setiabudi Investment Management



Source : Fed, Setiabudi Investment Management

#### Interest Rates Outlook from Global Institutions

As of April 2025, major global financial institutions have updated their US interest rate outlooks in response to escalating trade tensions and economic uncertainties.

##### JP Morgan :

- JP Morgan forecast global recession increased to 60%, up from 40%, due to concerns over U.S. trade policies and potential retaliatory tariffs from China.
- On Interest rates, JP Morgan anticipates the Federal Reserve will implement rate cuts at each meeting in 2025 starting in June, with an additional cut in January 2026, potentially bringing the upper bound of the policy rate to 3%.

##### Goldman Sachs :

- Goldman Sachs forecast global recession raised to 45%, from 35%, citing the impact of new tariffs and increased policy uncertainty.
- On Interest rates, Goldman Sachs expects the Federal Reserve to begin cutting rates in June 2025, with three consecutive 25 basis point reductions, earlier than the previously anticipated start in July.

##### Morgan Stanley :

- Morgan Stanley does not include a recession in its base case but acknowledges it as an increasingly realistic bear case scenario.
- On interest rates, Morgan Stanley expect tariff-induced inflation will keep the Fed on the sidelines and as a result, Morgan Stanley Research is no longer anticipating a June rate cut.

After having cut FFR by 100 basis points since September 2024, the Fed paused in January 2025, but we think this is only temporary. Falling inflation inline with slowing economic and job growth mean that both parts of the Fed's dual mandate will align with the call for lower rates.

Ultimately, we think the economy needs much lower interest rates to sustain a healthy growth rate. The full effects if interest rates were to remain at today's high levels have not played out.

#### Fed Economics Data

- 10-year treasury yield stood at 4.34%, US 10-Year Breakeven Inflation rate at around 2.11%, Treasury Inflation-Indexes Securities (TIPS) 2.23% as of 15 April, 2025.

- We see the 10-Year Breakeven Inflation rate has been relatively sticky and slower to go down.

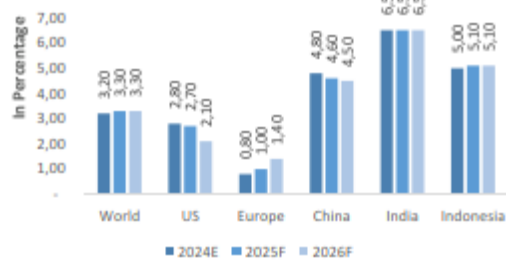
We see markets expect Fed to maintain higher interest rates for a bit. It will reflect on reduced demand for long-term US Treasuries likely due to Fiscal concerns (rising US deficits and issuance), Sticky inflation and shift in global capital flows.

If inflation doesn't drop, rate cuts may be delayed and impact to recession risk rises. Higher Treasury yields raise federal interest payments would be effect on long-term fiscal drag.

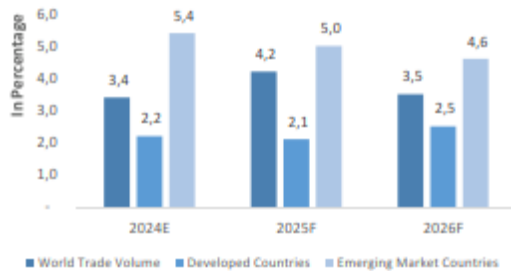
On Bonds market, higher for longer will reduce duration to avoid capital losses. Shift to short-term bonds or T-bills as a safe yield alternative.

On Equity market, higher borrowing cost may result in weaker business margin and lower EPS growth, company with high debt will face profit headwinds.

#### IMF Economic Projections



#### World Trade Volume

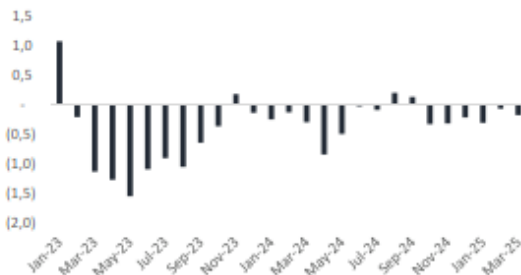


Source : IMF (Jan 2025 Forecast), Setiabudi Investment Management

#### Global PMI Manufacturing



#### Global Supply Chain Pressure



Source : Tradingeconomics, Setiabudi Investment Management

#### GDP Growth and World Trade Volume Forecast

- In Jan 2025, IMF update global growth to remain steady at 3.3% for both 2025 and 2026. IMF cautions that renewed inflationary pressures could disrupt monetary policy adjustments, potentially impacting fiscal sustainability and financial stability.
- The gradual cooling of labor markets is expected to keep demand pressures at bay. Combined with the expected decline in energy prices, headline inflation is projected to continue its descent toward central bank targets.
- World trade volume estimates downward slightly for 2025F and 2026F. The sharp increase in trade policy uncertainty, which is likely to hurt investment disproportionately among trade-intensive firms.

#### Global PMI and Supply Chain Pressure Index

- Global PMI increase to 52.1 in March 2025 vs 51.5 in February 2025, above monthly average of 50.9.
- Global economic expansion regained some momentum in March amid improvements in the service sector, business optimism fell and cost pressures intensified ahead of additional tariff announcements in April.
- Global Supply Chain Pressure Index decline to -0.18 in March 2025 vs to -0.07 in February 2025. Rising geopolitical tensions, particularly between the US, Europe, and China, contributed to a fragmented global trade environment.
- We see the declining supply chain pressure to negative area in mid Q4 2024 negatively impact on manufacturing growth.

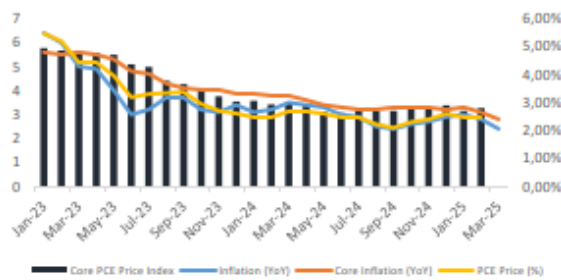
#### US Labour Data



#### US Labour Data

- US Official Nonfarm Payroll added 228k in March 2025 vs 117k in February 2025.
- Employment trended up in health care (54K), social assistance (24K), and in transportation and warehousing (23K). Employment also increased in retail trade (24K), partially reflecting the return of workers from a strike.
- US Unemployment Rate rose to +4.2% in March 2025 vs +4.1% in February 2025.

#### US Inflation vs PCE

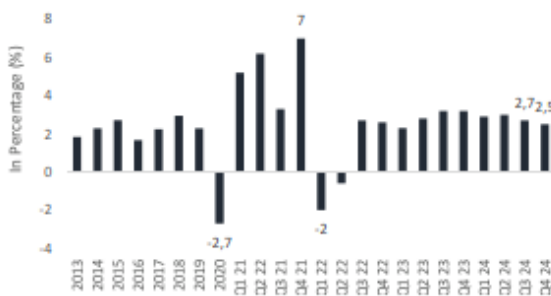


#### US Inflation and PCE

- US inflation grew to slow pace at +2.4% YoY in March 2025 vs +2.8% YoY in February 2025.
- Core inflation which excludes volatile items such as food and energy were grew at slow pace to +2.8% YoY in March 2025 vs +3.1% YoY in February 2025.

Source : Tradingeconomics, Setiabudi Investment Management

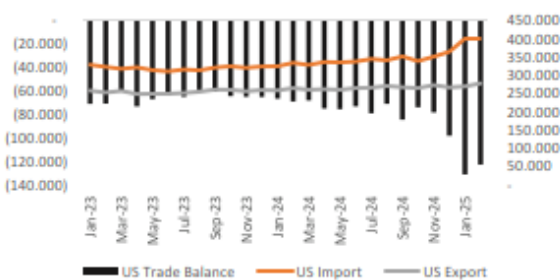
#### US GDP Annual Growth



#### US GDP

- US economy grew at a slower pace at +2.5% YoY in Q4 2024 vs +2.7% YoY in Q3 2024.
- The main driver was strong consumer spending, which rose 4.2%, supported by a resilient job market and wage growth. Government spending also contributed positively, while business investment declined, particularly in equipment and structures.

#### US Trade Balance

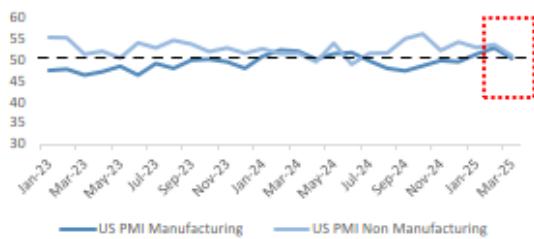


#### US Trade Balance

- US Trade deficit narrowed to USD 122 billion in February 2025 vs USD 131 billion in January 2025.
- In monthly basis, export grew to +3.1% MoM in February 2025 vs +1.1% MoM in January 2025. Import flat at +0% MoM in February 2025 vs +9.9% MoM in January 2025. In annual basis, export grew +4.8% YoY and import grew +19.9% YoY.
- The goods deficit fell by \$8.8 billion to \$147 billion and the services surplus narrowed by \$0.8 billion to \$24.3 billion. The US trade gap narrowed with China, Switzerland and Canada but increased with the EU, Mexico and Vietnam.

Source : Tradingeconomics, Setiabudi Investment Management

US PMI Manufacturing



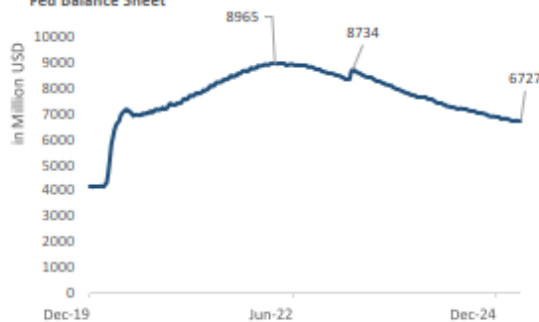
Source : Tradingeconomics, Setiabudi Investment Management

#### US PMI Manufacturing & Non Manufacturing

- US PMI Manufacturing decline to 50.2 in March 2025 vs 52.7 in February 2025.
- Manufacturing PMI signaled a slight improvement in operating conditions, it marked the weakest expansion of the year so far. Production declined for the first time since December, following February's sharpest output growth in nearly three years, largely driven by efforts to front-run tariffs.
- US PMI Non Manufacturing decline to 50.8 in March 2025 vs to 53.5 in February 2025.

The declining PMI manufacturing and PMI non manufacturing in 1<sup>st</sup> quarter of 2025 could be negative signal for US economic growth. We see US Tariff adjustment are a part of uncertainty for business, sticky inflation and high interest rates are obstacle on manufacturing productivity.

Fed Balance Sheet

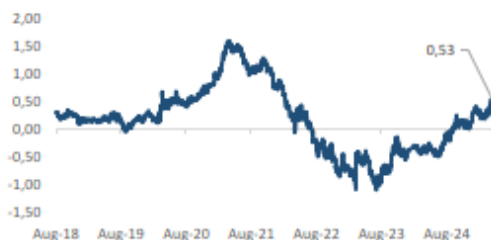


Source : Federal Reserves, Setiabudi Investment Management

#### FED's Balance Sheet

- FED's balance sheet went down to USD 6.7 tn as of 16 Apr 2025 from its peak at USD 8.96 tn as of 13 April 2022.
- Fed forecasted the balance sheet to decline to USD 5.9 trillion in 2025 as reserves fall to about 8% of nominal GDP and reverse repos are eliminated.
- Based on our estimate, since the last uptick in April 2023, FED's Balance Sheet has been going down by an average of 0.5% in monthly basis (or USD 60-80 billion per month), which we project it will reach its target of USD 5.9tn by Nov 2025 with the current speed.
- Nonetheless, the FED is planning to slow its QT efforts starting from July, reducing the monthly sale of US treasuries to USD 25 billion per month. In turn, the QT will still push yield up, but not as aggressively as before.

Yield Curve Between 2 Y vs 10 Y



Source : Federal Reserve, Setiabudi Investment Management

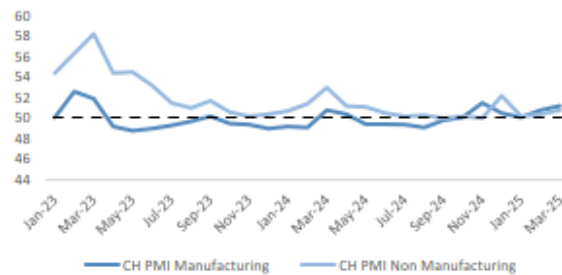
#### Yield curve between 2-year and 10-year

- The spread between 10-year and 2-year treasury was back in positive territory after an inversion over the past two years.
- 10-Year U.S Treasury yield is at 3.80% on 17 April 2025 while 2-Year Treasury yield was at 4.33%, resulting in a +0.53% spread.

### CH Trade Balance

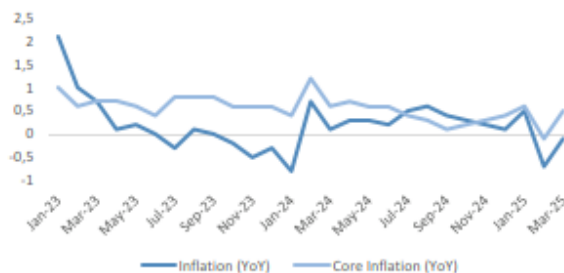


### CH PMI Manufacturing

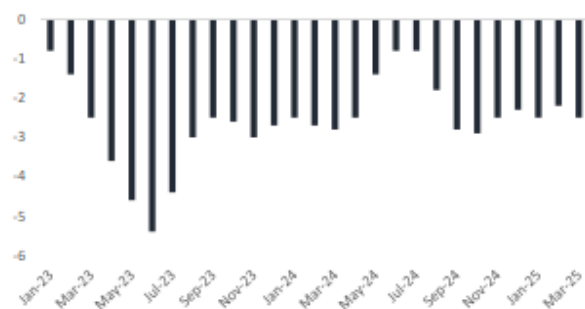


Source : NBS of China, Setiabudi Investment Management

### CH Inflation



### CH PPI Change (%)



Source : Tradingeconomics, Setiabudi Investment Management

### China Trade Balance

- China's trade surplus surged to USD 102.64 billion in Mar 2025 vs USD 85.25 billion in Feb 2025.
- Import increase to USD 211.27 billion in Mar 2025 vs USD 184.71 billion in Feb 2025.
- Export increase to USD 313.91 billion in Mar 2025 vs USD 269.97 billion in Feb 2025.
- China's customs agency releases combined trade data for January and February to mitigate distortions from the varying dates of the Lunar New Year, which occurred between January 28 and February 4 this year.
- During the period, the trade surplus with US reached USD 76.65 billion, as exports advanced 4.5% while imports declined 1.4%.

### China PMI Manufacturing & Non Manufacturing

- PMI manufacturing increase to 51.2 in March 2025 vs 50.8 in February 2025.
- PMI non-manufacturing increase to 50.8 in March 2025 vs 50.4 in February 2025.
- We see an expansion in factory activity and at the fastest pace in a year, suggesting that China's stimulus measures are supporting economic recovery. The Chinese government has been ramping up efforts to boost the economy and cushion the impact of an escalating trade war with the US. Both production (52.6 vs 52.5 in February) and new orders (51.8 vs 51.1) increased.

### China Inflation

- China's recorded deflation -0.1% in March 2025 vs -0.70% YoY in February 2025.
- Core consumer price grew +0.5% YoY in March 2025 vs -0.1% YoY in February 2025.
- We see trade dispute with the U.S. threatens to exert further downward pressure on prices. The latest drop was significantly milder than February's -0.7% fall, supported by a smaller decline in food prices as pork prices accelerated and fresh fruit costs rebounded.

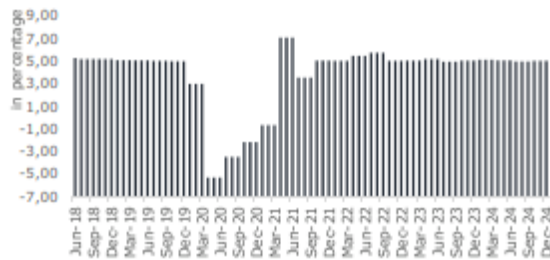
### China PPI

- China's producer prices fell -2.5% YoY in March 2025 vs -2.2% YoY in February 2025. China continued efforts to spur demand, despite producer deflation amid a seasonal downtrend in energy demand and ongoing trade row with the US that fueled concerns over growing stocks of unsold exports, potentially pushing domestic prices even lower.
- The cost of production materials fell further (-2.8% vs -2.5% in February), with deeper drops in mining (-8.3% vs -6.3%), raw materials (-2.4% vs -1.5%), and processing (-2.6% vs -2.7%).



## Indonesia Macroeconomics

GDP YoY Growth



### Indonesia GDP

- Indonesia's economy grew by +5.02% YoY in Q4 2024 vs +4.95% YoY in Q3 2024, missing the official target of 5.2%.
- Private consumption grew slightly faster (4.98% in Q4 vs 4.91% in Q3), despite moderation in both government spending (4.17% in Q4 vs 4.62% in Q3) and fixed investment (5.03% in Q4 vs 5.16% in Q3). On the trade front, exports slowed (7.63% in Q4 vs 8.79% in Q3) amid soft global demand, while imports remained resilient (10.36% in Q4 vs 11.92% in Q3).
- For 2025, the GDP growth target remains at 5.2%. However, the central bank recently cut its growth forecast for this year to 4.7%-5.5% from 4.8%-5.6%, citing US tariff disruptions.

ID Unemployment Rate (%)



### Indonesia Unemployment Rate

- Indonesia's unemployment rate declined to 4.91% in Q3 2024 vs 5.32% in Q3 2023.
- The number of unemployed persons dropped by 4.96% from a year earlier to 7.47 million. Concurrently, the number of employed increased by 3.42% to 144.64 million, mostly in agriculture, forestry, and fisheries. Meanwhile, the labor force participation rate rose to 70.63% from 69.48% the previous year. In Q1, the jobless rate stood at 4.82%. The country's unemployment rate is reported only twice a year, specifically in Q1 and Q3.

Source: BPS, Setiabudi Investment Management

ID Inflation Rate YoY



### Indonesia Inflation

- Indonesia's recorded annual inflation +1.03% YoY in March 2025 vs deflation -0.09% YoY in February 2025. We see an inflation amid a recovery in spending during the fasting month and ahead of the Eid al-Fitr festivities.
- Core Inflation flat at +2.48% YoY in March 2025 vs +2.48% in February 2025. Core inflation driven by higher gold jewelry prices, as investors shift toward safe-haven assets amid global uncertainty.
- Prices increased further for food +2.07% in March vs 2.25% in February, health +1.80% in March vs +1.79% in February, accommodation +2.26% in March vs +2.47% in February, and transport +0.83% March vs +0.94% in February.

ID Interest Rate

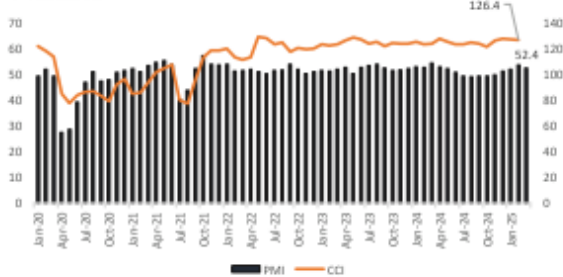


### Indonesia Interest Rate

- Bank Indonesia remain steady at 5.75% in April 2025 meeting. BI held rate 5.75% since February 2025 meeting after 25 bps cut in January 2025 meeting.
- This decision aligned with the central bank's commitment to maintaining inflation within the target range of 2.5±1% for 2025 and 2026, stabilizing the Rupiah, and supporting economic growth amid global uncertainty.

Source: BPS, Bank Indonesia, Setiabudi Investment Management

ID PMI and CCI

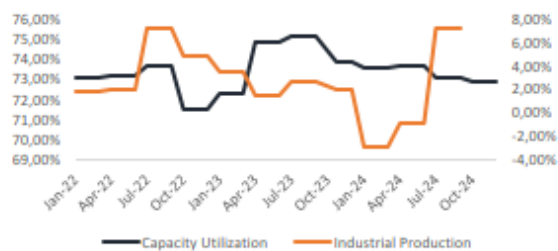


#### Indonesia PMI and CCI

- Indonesia PMI decline to 52.4 in March 2025 vs 53.6 in February 2025.
- Indonesia's consumer confidence declining to 126.4 in February 2025 vs 127.2 in January 2025.

*We see the declining in manufacture inline with slowing pace of growth for consumer confidence. Uncertainty in business and geopolitics affect most businesses to hold back expansion. On the other hand, factory utilities have also been held back in line with the slowdown in people's purchasing power.*

ID Industry Productivity

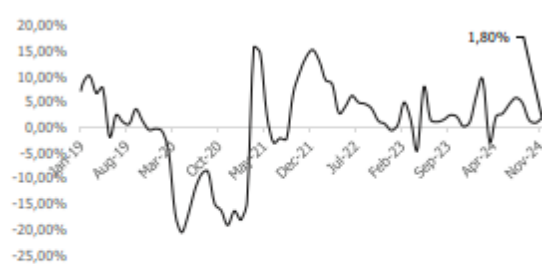


Source: Bank Indonesia, Setiabudi Investment Management

#### Indonesia Factory Capacity Utilization and Industrial Production

- Indonesia factory capacity utilization at 72.91% in Q4 2024 vs 73.13% in Q3 2024. We see the declining factory capacity utilization from peak at 75.17% in Q3 2023 in line with global economic downturns.
- Indonesia industrial production grew by +7.28% in Q3 2024 vs -0.8% in Q2 2024. We see jumped in Q3 2024 in line with household consumption and gross fixed capital formation, indicating sustained domestic demand.

ID Retail Sales YoY



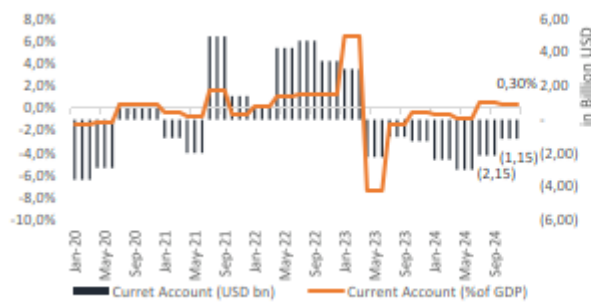
Source: Bank Indonesia, Setiabudi Investment Management

#### Indonesia Retail Sales

- Retail sales grew +2.0% YoY in February 2025 vs +0.50% YoY in January 2025.
- Expansion in retail trade driven by a surge in sales of automotive parts and accessories (16.1% vs 15.2% in January). At the same time, turnover grew faster for cultural and recreational goods (7.5% vs 1.9%) and food (1.8% vs 0.9%), while rebounding in clothing (4.9% vs -5.8%) and fuels (3.3% vs -1.4%).
- Retail sales are expected to rise by 0.5% YoY in March.

*We see growth at slower pace of retail sales in early 2025 and weaker than expected consumer demand. We think growth slows influenced by slower middle-class expansion, cautious spending habits, and economic uncertainties. While government cash transfer programs helped sustain retail activity throughout the year, they were not enough to drive a stronger rebound.*

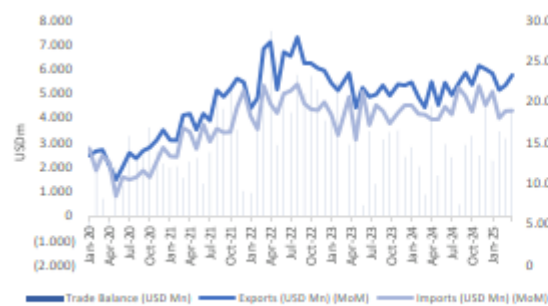
#### ID Current Account



#### Indonesia Current Account

- Indonesia's CA deficit USD 1.15 billion in Q4 2024 or -0.3% of GDP.
- Primary income shortfall inched lower to USD 9.01 billion from USD 9.26 billion a year ago, while the services account deficit widened to USD 5.19 billion from USD 4.77 billion. Meanwhile, the trade surplus remained little changed at USD 11.34 billion, compared to USD 11.39 billion a year earlier, while the secondary income surplus rose to USD 1.72 billion from the prior USD 1.25 billion.
- For the full year 2024, current account deficit widened sharply to USD 8.86 billion (0.6% of GDP) from USD 2.04 billion (0.1% of GDP) in 2023, due to a decline in the trade surplus amid subdued foreign demand, while domestic demand remained strong. However, the figure stayed within the central bank's outlook range of 0.1% to 0.9%

#### ID Trade Balance

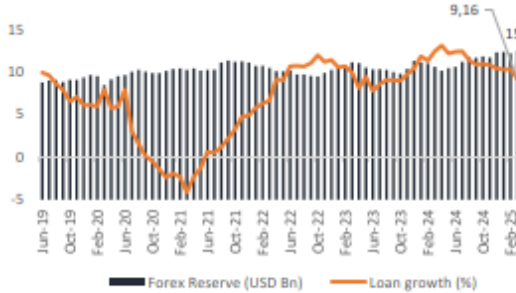


#### Indonesia Trade Balance

- Indonesia's trade surplus widened to USD 4.3 billion in March 2025 vs USD 3.1 billion in February 2025.
- Exports grew by +3.16% YoY in March 2025 vs +14.05% YoY in February 2025. We see an increment on export value by non oil & gas export metal ore commodities, slag and ash then iron and steel and electrical machinery and equipment and parts.
- Imports grew by +5.34% YoY in March 2025 vs +2.3% YoY in February 2025. Imports was driven by an increase in non-oil and gas imports with a contribution to the increase in total imports of 6.45% YoY.

Source: BPS, Bank Indonesia, Setiabudi Investment Management

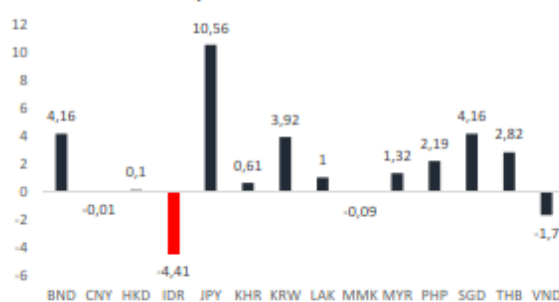
#### ID Loan Growth YoY and Forex Reserve



#### Indonesia Loan and Foreign Reserves

- Lending grew at by +9.16% YoY in March 2025 vs +10.3% YoY in February 2025.
- Nonetheless, we see 2025 will be challenging for lending growth due to; (1) high base impact (2) global economic slowdown which lead to softer commodity prices thus reducing the demand for loan and (3) Potential reinstatement of loan restructuring policies (4) new regulation for export earnings retention aims to bolster foreign exchange reserves but may influence banks' foreign currency liquidity management.
- Foreign exchange reserves in Indonesia increase to USD 157 billion in March 2025 vs USD 154 billion in February 2025.

#### USD vs Asian Currency 2025 YTD



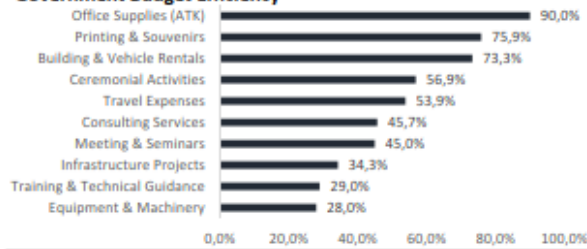
#### Indonesia Rupiah Against USD

- Rupiah depreciate -4.41% in YTD along with strengthening of USD in early October negatively impact for domestic financial market.
- Bank Indonesia expects the Rupiah remain stable in line with attractive yields and low inflation. Bank Indonesia will continue to optimize, including strengthening the pro-market monetary operations strategy through optimization of SRBI, SVBI, and SUVBI instruments to strengthen the effectiveness of policies in attracting foreign capital inflows and supporting the strengthening of Rupiah.

Source: Bank Indonesia, Asian Bond Online (as of 17 Apr 2025), Setiabudi Investment Management



### Government Budget Efficiency



Ministry / Institution	2025		
	Before Cuts	Cut Amount	After Cuts
Ministry of Public Works (PU)	110.95	60.46	50.49
Ministry of Defense (Kemenhan)	166.2	26.7	139.5
Indonesian Police (Polri)	126.62	20.58	106.04
Ministry of Health (Kemendes)	105.7	19.6	86.1
Ministry of Higher Education, Science, and Technology (Kemendikti Saintek)	56.6	14.3	42.3
Ministry of Transportation (Kemenhub)	31.45	13.73	17.72
Ministry of Religion (Kemendagri)	78.55	12.32	66.23
Ministry of Agriculture (Kementan)	29.3	10.28	19.02
Ministry of Finance (Kemendagri)	53.1	8.9	44.2
Ministry of Primary and Secondary Education (Kemendikdasmen)	33.5	7.27	26.23
Attorney General's Office (Kejagung)	24.27	5.43	18.84
Ministry of Communication and Digital (Komdigi)	7.72	3.84	3.88
Ministry of Home Affairs (Kemendagri)	4.79	2.17	2.62
Ministry of Maritime Affairs and Fisheries (KOP)	6.22	2.12	4.1
Ministry of Foreign Affairs (Kemendagri)	9.8	2.03	7.77
Ministry of ATR/BPN	6.45	2.01	4.44
Ministry of Forestry (Kemenhut)	5.16	1.22	3.94
Indonesian Capital City Authority (OIKN)	6.3	1.15	5.15
Ministry of Social Affairs (Kemendagri)	79.6	0.97	78.63

\*Budget in trillion IDR

Source: DJPB MoF, Beritasatu.com, Setiabudi Investment Management

### Indonesia Budget Efficiency

Indonesia government implemented significant budget efficiency measures, cutting Rp306.69 trillion (approximately 8% of the total budget) under Presidential Instruction No. 1 of 2025. The cuts affected both ministerial spending (Rp256.1 trillion) and regional transfers (Rp50.5 trillion) to reallocate funds for priority programs, such as the free school meal initiative.

Major reductions include: stationery (-90%), ceremonies (-57%), travel (-54%), seminars (-45%), and infra (-34%), while salaries and social aid remain untouched. Despite the cuts, the fiscal deficit target stays at 2.5% of GDP.

The budget efficiency measures aim to reallocate spending to strategic initiatives while reducing unnecessary expenditures. However, economic experts warn that excessive budget cuts could disrupt public services and slow economic growth.

We have been anticipating a scenario in which Indonesia's fiscal deficit breaches 3% due to the ever-increasing spending on free meals program. Indonesia's budget cuts will likely strengthen long-term fiscal stability and attract investment, but in the short term, they pose risks to growth, employment, and public services. Careful implementation and targeted reinvestments (especially in social programs and essential infrastructure) will determine whether the cuts lead to efficiency or economic drag.

### Danantara Opening Ceremony



### Danantara Organization Structure



Source: Danantara, Setiabudi Investment Management

### Deep Dive Danantara Investment Holding

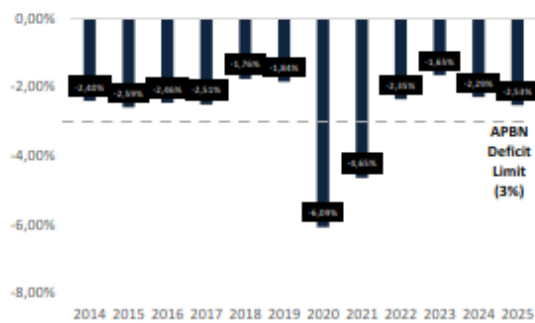
Danantara aims to consolidate and optimize government investments to bolster national economic growth. The fund focuses on enhancing the performance of SOEs, attracting global investors, and ensuring Indonesia's long-term economic stability.

### We concern key risk for Danantara and SOE's :

- Pressure to Maintain High Dividend Payouts**  
If Danantara's returns do not meet expectations, the government might still demand high dividend contributions from SOEs. SOEs may face difficulty balancing capital investment needs and dividend payouts if Danantara prioritizes short-term government revenue.
- Governance & Political Risks**  
Political influence on Danantara could lead to suboptimal capital allocation, where SOEs are forced to fund politically motivated but low-return projects. Limited oversight by Indonesia's Financial Audit Board (BPK) raises concerns about mismanagement risks.
- Risk of Misaligned Investment Strategies**  
If Danantara focuses on immediate profit generation, SOEs might be pressured to maximize short-term earnings instead of long-term business transformation. There's a possibility that Danantara channels capital into sectors with slower returns, limiting SOEs' ability to fund high-growth opportunities.
- Market Volatility & External Risks**  
Danantara's financial sustainability depends on global market conditions, interest rates, and commodity prices (especially energy & banking). If investors perceive weak governance or unclear dividend policies, it may negatively impact SOE stock prices and market confidence.

Danantara can positively transform Indonesia's SOEs, but its success depends on transparent governance, clear investment strategies, and balance between dividend policy and business growth. The fund should focus on long-term sustainability rather than short-term fiscal gains to unlock its full potential.

### ID Budget Deficit Would Be Reach Max Limit

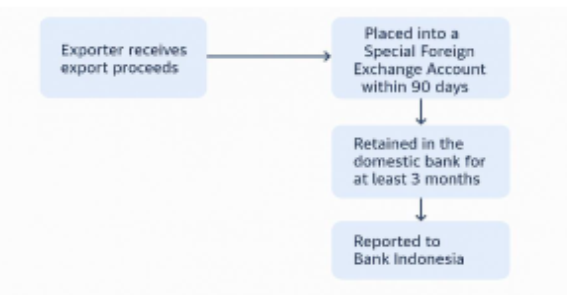


Source: MoF, CNBC, Setiabudi Investment Management

### Impact of DHE on Indonesia Economy



### DHE Mechanism Reference to PBI No 3 Tahun 2025



### Downgrade from Foreign Institution

- Morgan Stanley downgraded Indonesia's stock rating in the Morgan Stanley Capital International (MSCI) index from equal-weight (EW) to underweight (UW). While Goldman Sachs lowered the rating of 10 and 20 year government bonds to neutral, and downgraded the rating of Indonesian stocks from overweight to market weight.
- Goldman Sachs Group Inc. projects that the state budget deficit will widen and approach its limit of 2.9% in 2025. The projection is wider than the government's target, which is a deficit of 2.53%. The projection is close to the government's maximum APBN deficit limit of 3%.
- In last ten years, Indonesia state budget deficit exceeded 3% only during Covid-19 pandemic (2020 and 2021). Government made an exception due to the high need for state spending to handle the pandemic, when state revenues were drastically reduced due to economic disruption.
- Indonesia's fiscal risks were the main reason the giant bank lowered its outlook for the country's capital markets. There are concerns over global trade tensions and a weakening domestic economy after President Prabowo Subianto announced of fiscal policies.
- Widening Budget deficit is considered to be the impact of massive spending on programs such as free nutritious meals (MBG), budget reallocation, the formation of BPI Danantara, to the expansion of housing policies for low-income communities (MBR) through the issuance of SBN Housing.

We see this could reduce liquidity in the stock and bond markets, leading to increased asset price volatility. If capital outflows increase, Bank Indonesia may have to increase its interventions to maintain exchange rate stability and prevent further shocks to the financial system.

### Impact of DHE SDA on Indonesia and Company Performance

Devisa Hasil Ekspor Sumber Daya Alam (DHE SDA) in Foreign Exchange effective on March 2025 plays a critical role in Indonesia's economic stability and development. Here's a breakdown of how it affects the economy:

- Strengthens the Rupiah
- Supports Liquidity and Monetary Policy
- Enhances Trade and Investment Confidence
- Fuels National Development

### Positive Impacts for Commodities Companies

- Repatriation of DHE helps stabilize the Rupiah, reducing currency volatility and making it easier to plan imports, investments, or debt repayments.
- Companies may benefit from tax incentives, better export financing, or priority treatment for being compliant with DHE regulations.
- Converting DHE SDA to Rupiah can support working capital needs and investment in local expansion.

### Negative Impacts for Commodities Companies

- Mandatory placement of DHE SDA in domestic banks limits a firm's flexibility in managing FX liquidity overseas
- Interest rates offered for DHE SDA deposits in domestic banks are often lower than international bank products, potentially reducing earnings on idle funds.
- Companies may face exchange rate losses when converting DHE into Rupiah, especially if BI mandates conversion during periods of Rupiah strength.

We see the potential risks if DHE SDA is not repatriated is limits FX supply domestically, would be pressuring Rupiah.

## Royalty Rates Adjustment

Coal IUP Royalty			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
<4200 kcal/kg		<21K	2.00%
HBA < 70	5.00%	>21K	3.00%
70 < HBA < 90	6.00%	18K - 21K	4.00%
HBA > 90	8.00%	21K - 24K	4.50%
		24K - 31K	5.00%
4200 - 5200 kcal/kg		>31K	5.50%
HBA < 70	7.00%		
70 < HBA < 90	8.50%		
HBA > 90	10.50%		
>5200 kcal/kg			
HBA < 70	9.50%		
70 < HBA < 90	11.50%		
HBA > 90	13.50%		
Gold			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
HMA	Royalty	HMA	Royalty
<1300	3.75%	<1800	7.00%
1300 - 1400	4.00%	1800 - 2000	10.00%
1400 - 1500	4.25%	2000 - 2200	11.00%
1500 - 1600	4.50%	2200 - 2500	12.00%
1600 - 1700	4.75%	2500 - 2700	14.00%
1700 - 1800	5.00%	2700 - 3000	15.00%
1800 - 1900	6.00%	>3000	16.00%
1900 - 2000	8.00%		
>2000	10.00%		
Copper Cathode			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
HMA	Royalty	HMA	Royalty
All	2.00%	<7000	4.00%
		7000 - 8500	5.00%
		8500 - 10000	6.00%
		>10000	7.00%
Nickel Matte			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
HMA	Royalty	HMA	Royalty
<21K	2.00%	<18K	3.50%
>21K	3.00%	18K - 21K	4.00%
		21K - 24K	4.50%
		24K - 31K	5.00%
		>31K	5.50%
Nickel Ore			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
HMA	Royalty	HMA	Royalty
All	10.00%	<18K	14.00%
		18K - 21K	15.00%
		21K - 24K	16.00%
		24K - 31K	18.00%
		>31K	19.00%
Ferro-nickel			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
HMA	Royalty	HMA	Royalty
All	2.00%	<18K	4.00%
		18K - 21K	4.50%
		21K - 24K	5.00%
		24K - 31K	5.50%
		>31K	6.00%
Nickel Pig Iron			
PP 26(2022)	Adjusted	PP 26(2022)	Adjusted
HMA	Royalty	HMA	Royalty
All	5.00%	<18K	5.00%
		18K - 21K	5.50%
		21K - 24K	6.00%
		24K - 31K	6.50%
		>31K	7.00%

Source: ESDM, Setiabudi Investment Management

	2023	2024	2025	%
<b>Government Revenue</b>	2,774.3	2,802.3	2,996.9	6.94%
Tax	2,155.4	2,309.9	2,490.9	7.8%
Non-Tax	605.9	492.0	506.0	2.8%
<b>Government Expenditure</b>	3,121.9	3,325.1	3,613.1	8.7%
Central Government	2,240.6	2,467.5	2,693.2	9.1%
Regional Transfer	881.3	857.6	919.9	7.3%
Fiscal Surplus (Deficit)	(347.60)	(522.80)	(616.20)	17.9%
% of GDP	-1.65%	-2.29%	-2.53%	10.5%

## Tax Revenue Fell in Early 2025



Source: MoF, Setiabudi Investment Management

## Royalty Rates Adjustment and Non Tax State Revenues

Ministry of Energy just released the regulation on royalty hike, affecting not only nickel but also gold, copper, and bauxite. Implementation starting from 26 Apr 2025. Meanwhile, for coal commodities, the government plans to adjust royalty rates and non-tax state revenues (PNBP) as follows:

- **IUP Contract:**  
Tariffs increase by +1% for coal with calories ≤4,200 and >4,200–5,200 when the Reference Coal Price (HBA) is ≥US\$90/ton.
- **PKP2B Contract:**  
Tariffs increased by +1% for coal with calories ≤4,200 and >4,200–5,200 when HBA ≥US\$90/ton.
- **IUPK Contract (extension of PKP2B):**  
Tariff range changed. The government also plans to adjust the Corporate Income Tax (PPh) rate for companies with IUPK contracts from 22% to be in accordance with income tax regulations.

We consider this adjustment potential to suppress the performance of coal producer issuers operating with IUP permits such as PTBA and PKP2B such as ITMG.

In addition, the increase in royalty rates for metal commodities also has the potential to suppress the performance of mineral producer issuers such as MDKA, MBMA, INCO, NCKL, ANTM, BRMS, and AMMN.

Key Assumption	2023	2024	2025
Economics Growth (%)	5.10%	5.20%	5.20%
Inflation (%)	3.10%	2.80%	2.50%
Currency (Rp/USD)	15,100	15,000	16,100
ID 10 Y (%)	6.80%	6.70%	7.10%
Oil (USD/Barrel)	78	82	82
Oil Production (Thousand Bph)	614	635	600
Natural Gas Production (Thousand Boepd)	985	1,033	1,005

## Tax Revenue Fell in Early 2025

- Total government revenue for January and February fell by -20.8% YoY to 316.9 trillion rupiah, while spending was down -7% YoY to 348.1 trillion rupiah. Tax revenues, excluding customs and excises, fell in the two months to 187.8 trillion rupiah or -30.2% YoY.
- The finance ministry said moderating prices of key commodities such as coal, nickel and crude oil were to blame for the drop, as well as administrative changes to the way personal income tax and value-added tax were collected.
- In January, businesses had complained of disruption caused by a tax system upgrade, which was aimed at boosting compliance but instead suffered from outages and other problems. On the other hand, the implementation of TER PPh 21 in January 2024 resulted in an overpayment of IDR 165 trillion in 2024.



## **Indonesia Equity Market**

### **Investment Thesis**

#### **Positive Factors**

- BI monetary policy remains supportive of economic and investment growth. As inflation pressures moderate, BI may maintain accommodative or neutral policies, which could lower borrowing costs and boost business investments.
- Indonesia equity market has been discounted significantly and offers a very attractive valuation for investor.

#### **Negative Factors**

- Political uncertainty could affect investor sentiment in 1<sup>st</sup> year of new government.
- Rupiah is sensitive to global capital flows. Any significant capital outflows due to external shocks or domestic uncertainties could lead to currency depreciation.
- Government debt is rising, partly due to infrastructure financing and social programs.
- Fluctuating commodity prices

--- End of report ---

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