

11 April 2025

Macroeconomics Indicator

	2023	2024	2025F
GDP growth (%YoY)	5.05	5.03	5.02
Inflation (%YoY)	2.61	1.57	1.97
BI rate (% Year-end)	6.00	6.00	5.50
Rp/US\$ (Average)	15,244	15,853	16,571
CA deficit (% of GDP)	-0.1	-0.6	-1.5
Fiscal deficit (% of GDP)	1.65	2.3	2.8

F: forecast, P: preliminary; all baseline scenario

Assessing the impact of Trump tariff: an opportunity for pharmacy sector

- Implementation of Trump tariff will not be universally negative for Indonesia. Our sensitivity suggests higher pharmacy sector by c.1.2%.
- The 1st round (direct impact) will be arguably small. However, the 2nd round and 3rd round will be meaningful (total at c.-0.3 to -0.6% of GDP).
- We see FY25 GDP to be stable at +5.0% (down from +5.2% our initial forecast). This also increases our Rp expectation to Rp16.5k/US\$.

Trump tariff will have adverse impact before a new equilibrium

We view Trump tariff policy to be a form of price (terms of trade) increase to general goods that enters the US. Since the tariff applies for almost every country and the US accounts for roughly 10% of global trade, the tariff may have adverse impact to global community in the form of lower traded goods (price increase will lead to lower quantity demanded). Furthermore, the tariff will create a disequilibrium state until a new equilibrium is formed. In this transition period, many opportunities may open for countries that can substitute the initial trading partner (e.g. if previously the US conduct business with textile player from China, textile player from Indonesia may replace China's position if the product is similar but with lower after-tariff price see fig. 11).

Best response for Indonesia is to negotiate not retaliate

Although the tariff has been postponed by 90 days, we believe the best response from Indonesia is to negotiate. By far the most significant decision had come from China (holds around 12% of global trade), that already decided to retaliate and punished with a higher tariff (while other countries were postponed). Under the assumption that China already reveals its strategy to "not-comply", Indonesia's decision to "comply" will likely more benefitting (see fig. 2).

Pharmacy sector might be the bright spot

We define the tariff implementation as an increase in the terms of trade. Using the general TOT estimation (P_{export} Indonesia to the US divided by P_{imports} from US), the tariff is modeled as an increase in TOT. Based on our simulation, almost all sectors will be adversely impacted, except FNB and pharmacy industries see fig.12). In total the pharmacy sector may expand by 1.2% of GDP. We believe the goods that is inelastic to be immune to the tariff policy.

Bad times produce good policy

From the exporting countries point of view, the Trump tariff may be neutralized with: (1) reducing the price via various ways (e.g. lowering domestic export tax, reducing profit margin, etc), (2) depreciating its currency (China devalue its Yuan in the first trade tension in FY18) and (3) reducing the trade gap into zero by importing more US product to have zero reciprocal tariff. By far, the government has started the initiative for point number 1 and 2 (details in Fig. 10). We view the decision to be supportive and likely to bring more benefit in the medium term.

Revise up our Rupiah to Rp16.5k/US\$

We see the tariff to have an adverse impact on economic growth. However, for now we keep our flattish growth expectation of c.+5.0% in FY25. Furthermore, we revise up our Rupiah to average at c.Rp.16.5k/US\$ (previously at Rp16.2k/US\$).

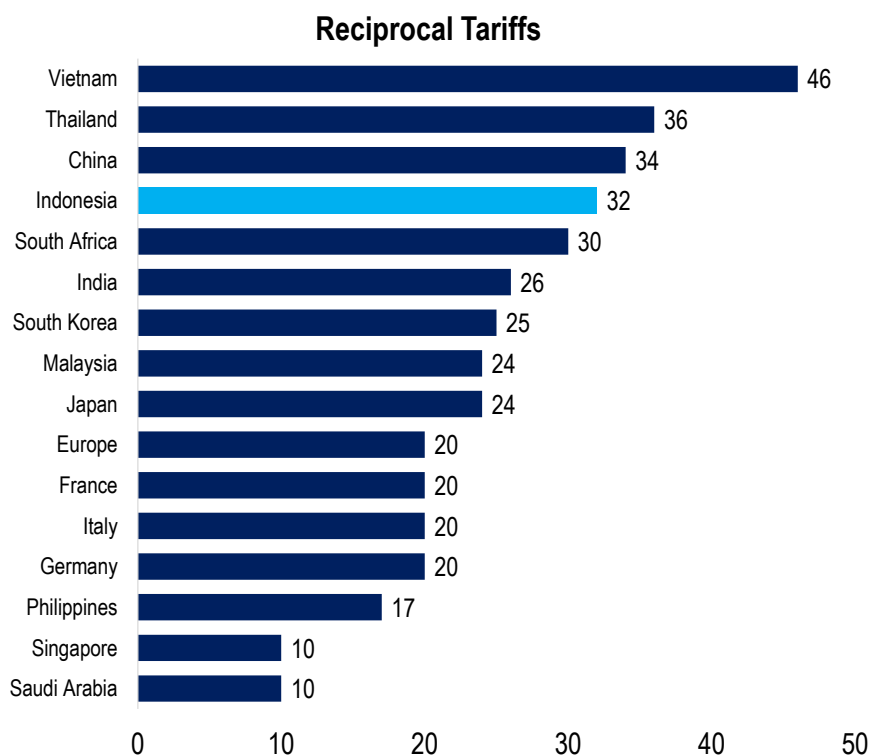
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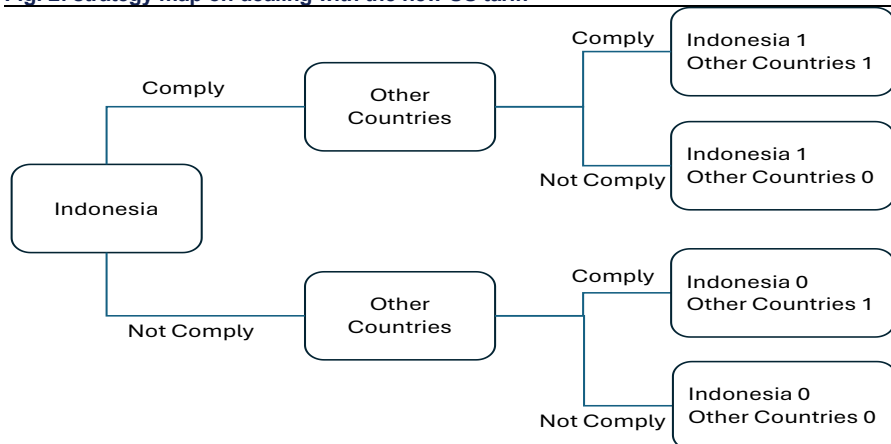
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Fig. 1: Original reciprocal tariffs that has been postponed by 90 days



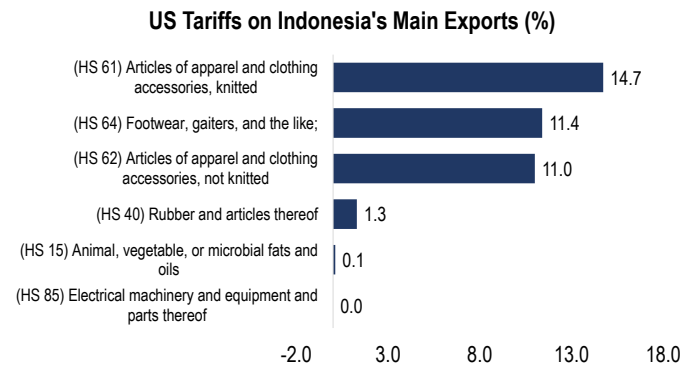
Source: various, Indo Premier

Fig. 2: strategy map on dealing with the new US tariff



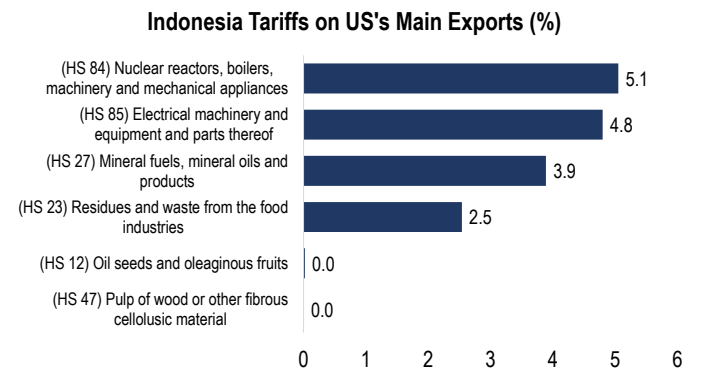
Source: Indo Premier

Fig. 3: current position of US tariffs to goods from Indonesia



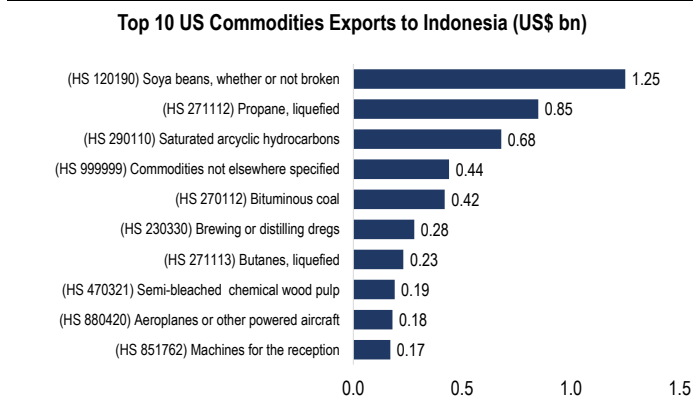
Source: CEIC, Indo Premier

Fig. 4: current position of Indonesia tariffs to goods from US



Source: CEIC, Indo Premier

Fig. 5: Top 10 US exports to Indonesia



Source: Bloomberg, Indo Premier

Fig. 6: Top 10 Indonesia exports to US



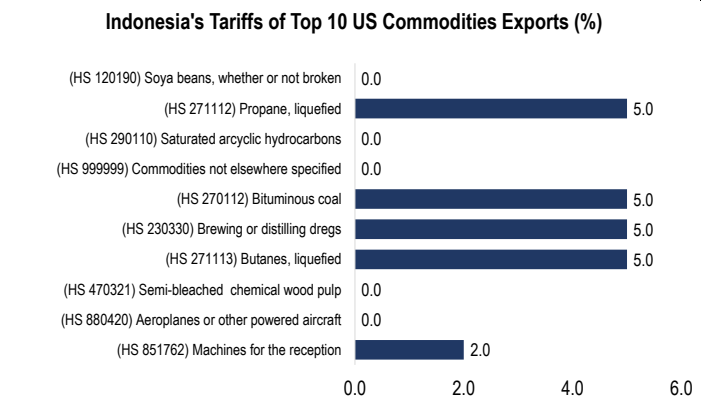
Source: Bloomberg, Indo Premier

Fig. 7: US tariff to Indonesia



Source: various, Indo Premier

Fig. 8: Indonesia tariff to US



Source: various, Indo Premier

Fig. 9: Economic impact simulation of 10% US tariffs towards China, the new proposed tariff in more than 100%

Variables	Accumulated response in				
	1Q	2Q	3Q	4Q	5Q
Shock of 10% increase in US tariffs to China					
+World Trade growth (%)	-0.2	-0.4	-0.9	-1.2	-1.4
+Indonesia Real GDP (%)	0.1	0.0	0.0	-0.5	-1.0
+China Real GDP (%)	0.1	0.2	-0.5	-0.7	-1.0
+Indonesia Exports (%)	0.8	-0.3	-2.4	-4.6	-7.7
+Indonesia Exports to China (%)	2.3	4.3	3.3	1.4	-2.0
+Indonesia Imports (%)	0.8	2.3	1.4	0.6	-2.2
+Indonesia FDI (US\$mn)	124.8	542.2	890.2	1,005.1	875.0
+Indonesia FDI from China (US\$mn)	220.0	211.5	116.4	86.9	86.2
+Commodity World Price (Index, I =100)	0.3	-0.8	-3.5	-5.5	-8.1
note: new equilibrium reached in 5Q					

Sources: various, Indo Premier Simulation

Fig. 10: New proposed trade policies

Areas	Details
Customs	Streamlining tax audits, refunds and licensing procedures aimed to reduce the effective tariff rate to 30%
Tax	Lower import income tax from 2.5% to 0.5%
Duties	Revising import duties from 5-10% to 0-5% for general goods Reducing export duties for CPO by 5%
Local content	Engaging on reforming the local content (TKDN) regulation

Source: various, Indo Premier

Fig. 11: Top textile exportes to the US

Top Textile Exporters to US			
Country	Export (US\$ bn)	Share (%)	Total Tariff (%)
China	28.7	26.7	54
Vietnam	24.4	23.0	46
Bangladesh	7.4	9.3	20
Indonesia	7.0	6.7	32
Cambodia	3.7	4.6	49

Source: National Strategic Food Price Information Center, Indo Premier

Fig. 12: Economic impact simulation of 10% US tariffs to Indonesia industries, pharmacy is the bright spot

Period	Oil & Gas	CPO	COAL	Iron Ore	Machineries	Automobile	Textile	Pharmacy	FNB	Furniture
Quarter 1	0.6	0.5	0.8	-2.5	1.3	-2.2	-0.4	0.5	-0.1	0.0
Quarter 2	-0.6	0.6	1.0	-1.8	-2.1	-2.6	-0.9	0.3	-0.8	-0.6
Quarter 3	-0.8	-0.4	-0.1	-1.7	-1.2	-1.7	-1.5	0.3	0.7	-0.7
Quarter 4	-0.6	-0.1	-0.2	-2.1	-0.4	-1.3	-0.9	0.1	0.5	-0.4

Sources: various, Indo Premier Simulation

ANALYSTS CERTIFICATION

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