

GDP:

## Staying afloat amid continued disinflation

Thierris Nora Kusuma  
Economist/Analyst

Barra Kukuh Mamia  
Senior Economist

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### Executive Summary

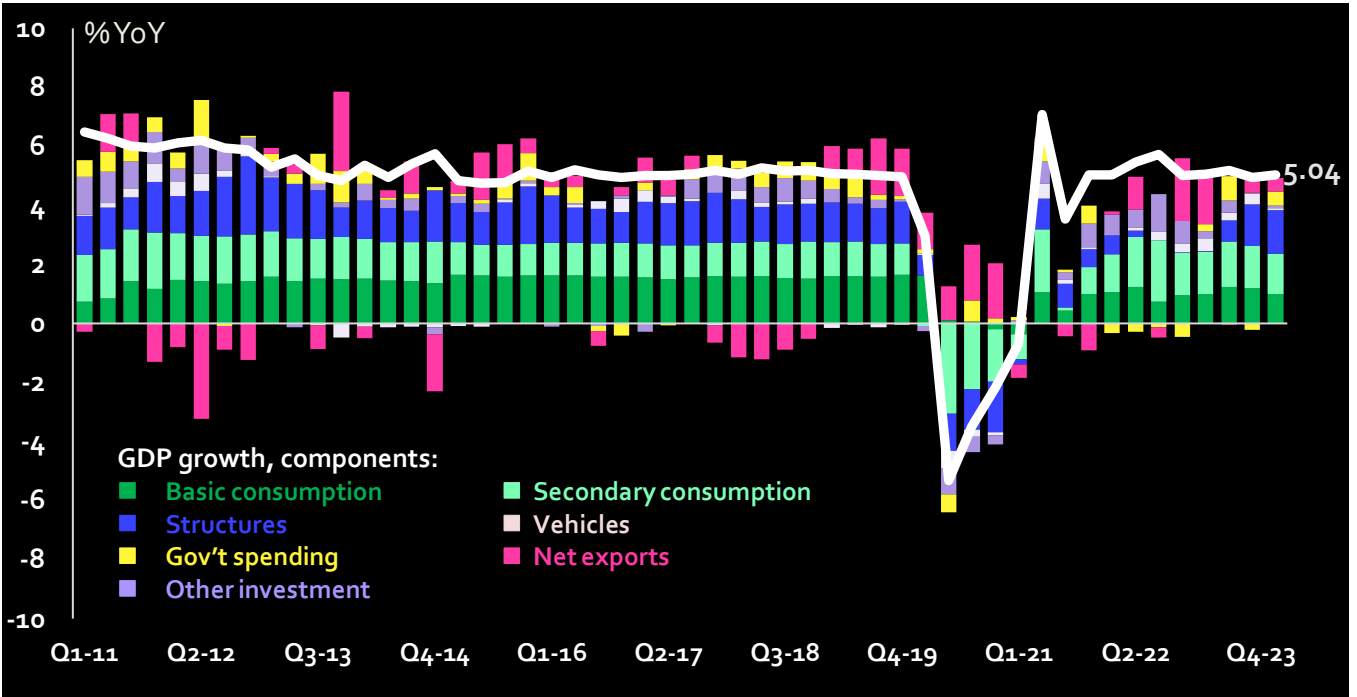
- Indonesia's GDP grew by 5.05% YoY in 2023, but a notable gap between real and nominal GDP exists due to global disinflation, impacting many sectors including exports and imports. Disinflation has mainly been spurred by external dynamics, including declining commodity prices and China's excess industrial capacity.
- Disinflation could negatively affect economic growth, causing margin compression and leading to a diminished inclination for spending, expansion, and investment. It also leads to bank deposits and loans growing much slower.
- Election-related spending and (largely public sector-driven) fixed-asset investment lifts up Indonesian growth relative to the global and regional trend, but a post-election slowdown is anticipated in the absence of any substantial catalyst ahead.
- BI could restore growth momentum with rate cuts in H2-24, but timing depends on global factors and uncertainties. One potential remedy is for BI to cut the reserve requirement ratio (RRR), which could swiftly address Indonesia's liquidity gap with less risks to inflation and exchange rates.

- Indonesia's GDP grew by 5.05% YoY in 2023, on the back of 5.04% growth in Q4. The main story of 2023, however, remains the gap between the real and nominal GDP, the latter growing by 6.66% YoY for the full-year, and only 3.67% in Q4.
- As we have often mentioned before, the primary reason for this gap is global disinflation, which we have noted since Q2-23. This disinflationary environment has exerted a pervasive influence across various sectors, with a pronounced impact especially on exports and imports. Case in point, our exports grew by 1.31% YoY in real terms, but fell -5.3% YoY in nominal terms.
- This is unsurprising, as disinflation has mainly been spurred by external dynamics – declining commodity prices on one hand, and China's excess industrial capacity on the other. Indeed, there are reasons to suspect that this phenomenon could continue albeit less rapidly in 2024, given recent trends in commodity prices. The price of lithium, for instance, has managed to plummet despite China's heavy investment and production of batteries – such is the extent of the supply glut in the market. Indonesia is, of course, not a lithium producer, but this presents a rather ominous picture for some of our China-oriented commodity exports like coal and nickel.

- Disinflation, unfortunately, has clear drawback on economic growth – and the causality probably runs both ways. Slow demand growth can lead to disinflation, but disinflation itself can cause margin compression among producers, which could in turn reduce their appetite to invest in more capacity or hire new workers. This could, in turn, spiral towards more unemployment, less income, and falling demand.
- At its worst, this could lead to debt-deflation dynamics, not dissimilar to what happened during the Great Depression. But even in economies like Indonesia, with much lighter debt burden – both public and private – the consequences could be significant. We may see, in effect, some sort of “reverse money illusion”, where less income – due to sluggish earnings from commodity exports – leads to a diminished inclination for spending, expansion and investment. This, in turn, has the potential to transform initial concerns about economic lethargy into a self-fulfilling prophecy.
- The impact was, of course, most apparent in the mining sector, which in real terms grew by 6.12% YoY but in nominal terms fell -8.2% YoY (for FY 2023). Other sectors did not see outright deflation, but the majority only saw 1-2% YoY change in GDP deflator, which was lower than usual and also lower than the headline CPI figure. The only one that saw the opposite trend was agriculture, unfortunately due to the inflationary impact of El Nino. All across, then, we would expect Indonesian business sectors to report continued decline in gross revenues and net profits in Q4-23.
- The repercussions extend to liquidity indicators, with bank deposits growing much slower at 3.8% in 2023 from 9.4% in 2022, while loans also showed a slight decline at 10.3% YoY (11.4% in 2022). Our business transaction index (Intrabiz) and consumer spending index (Intrabel), both of which tracks nominal transaction volumes, also continue to post subpar trends, even while the corresponding frequency-based indicators – which tracks real growth – remain more sanguine.
- The main question for us, then, is whether or not there are sufficient factors that would maintain a buoyant growth momentum for Indonesia, amid the gravity of disinflationary trend that is pulling everything downwards. Indeed, we are starting to see a slowdown in household consumption – the main engine of demand – which only grew by 4.50% YoY in Q4-23. As we long argued, dwindling savings after a prolonged post-COVID spending binge are taking its toll on consumption, and this was likely compounded by declining revenues, especially in areas outside of Java that relies on commodities.
- The main factor that could uplift growth here is obviously Election-related spending. Non-profit institutions, many of which serve or are related to political parties, managed to grow at an astonishing 18.14% YoY. A potentially even-bigger spending is that of social assistance by the government, which is disbursed much earlier than usual in the year.
- Unfortunately, the impact of such spending would probably be felt mostly among the lower-income populace, which certainly has the higher propensity to consume. The upper- and middle-income groups, on the other hand, will probably use the cash flow that “trickles up” from lower-income spending to first rebuild their depleted savings, before they would begin increasing their consumption. As such, we might expect the Election effect to be felt more in Q1 or perhaps even Q2-24, when social assistance spending peaks and consumer liquidity has been sufficiently restored.

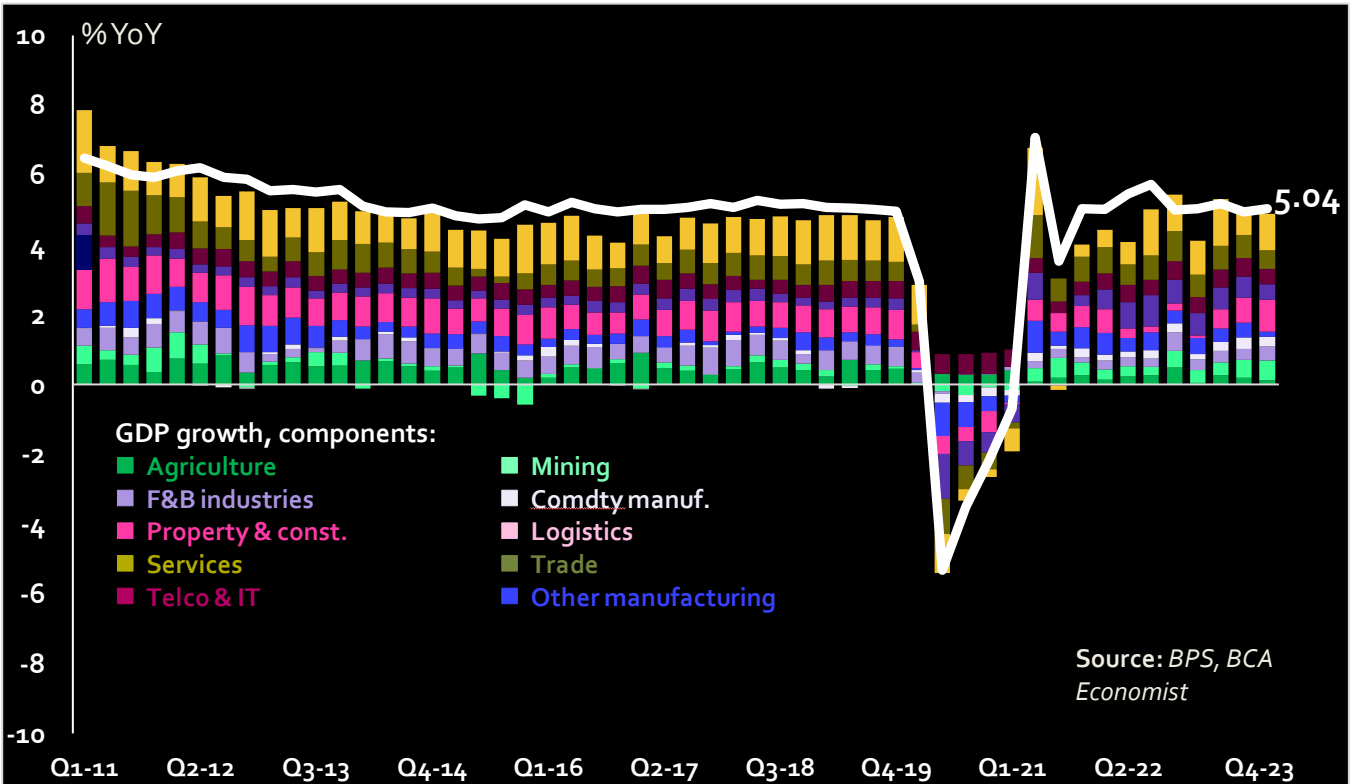
- Our other “anti-gravity device” against disinflation is fixed-asset investment (FAI), which continued to grow at a robust clip (5.02% YoY) in Q4-23. Part of this growth is public-sector projects, specifically the massive push in national strategic projects (PSN) – including the new capital city (IKN) – before the end of President Jokowi’s term. This was clearly reflected in the acceleration of the utilities (8.68%) and construction (7.68%) sectors.
- Private-sector investment, however, is more of a mixed bag. According to the BKPM’s investment data for Q4-23, FDI slowed in large part due to the uncertainties surrounding commodity demand and the economic slowdown in China, while DDI (which does contain public-sector projects) grew at an accelerated rate.
- If we go by the GDP breakdown, however, we can see that activities are beginning to slow – in real terms, not just nominal – across multiple sectors that are more dominated by private activities, including even traditional high-flyers such as logistics (10.33%) and communication (6.72%). Real estate activities, meanwhile, recorded serviceable growth at 2.18%, but this might be attributable in part to certain government projects as well as generous stimulus from the authorities.
- Overall, then, one could argue that the relative buoyancy of Indonesia’s GDP growth in Q4 was substantially policy- and Election-driven. And barring a substantial change in global trajectory, our growth prospects may be pulled back down into the disinflationary morass after the Elections, whether it happens in one round in February or will require a runoff in June.
- In theory, BI could restore the growth momentum by enacting substantial rate cuts in H2-24. However, the timing of these cuts is itself contingent on similar cuts by the Fed – the prospects of which are greatly uncertain given the robust underlying demand (and “supercore” inflation) in the US. One potential remedy is for BI to enact the reverse maneuver to what it did in 2022, when it hiked the reserve requirement ratio (RRR) from 3.5% to 9% before hiking the 7-day Repo Rate in earnest. A well-timed RRR cut could help plug Indonesia’s liquidity gap quite rapidly, with relatively limited risks both on the inflation front (being currently at a low level) and also the exchange-rate front (given the RRR’s relatively lesser salience to market sentiment).

**Chart 1. Growth in Q4-23 mainly contributed by robust consumption and FAI**



Source: BPS, BCA Economist

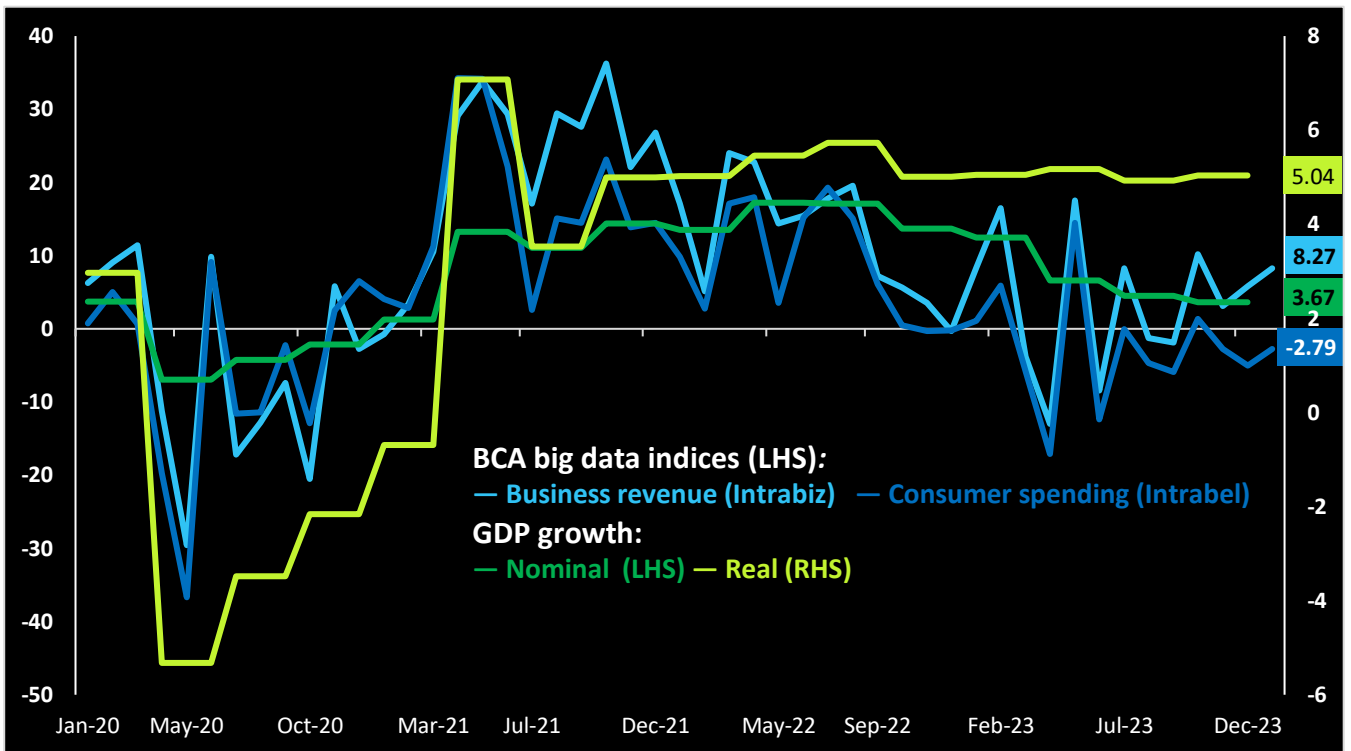
**Chart 2. Sectors including mining, construction, and services experienced robust growth, while agriculture suffered due to El Nino**



Source: BPS, BCA Economist

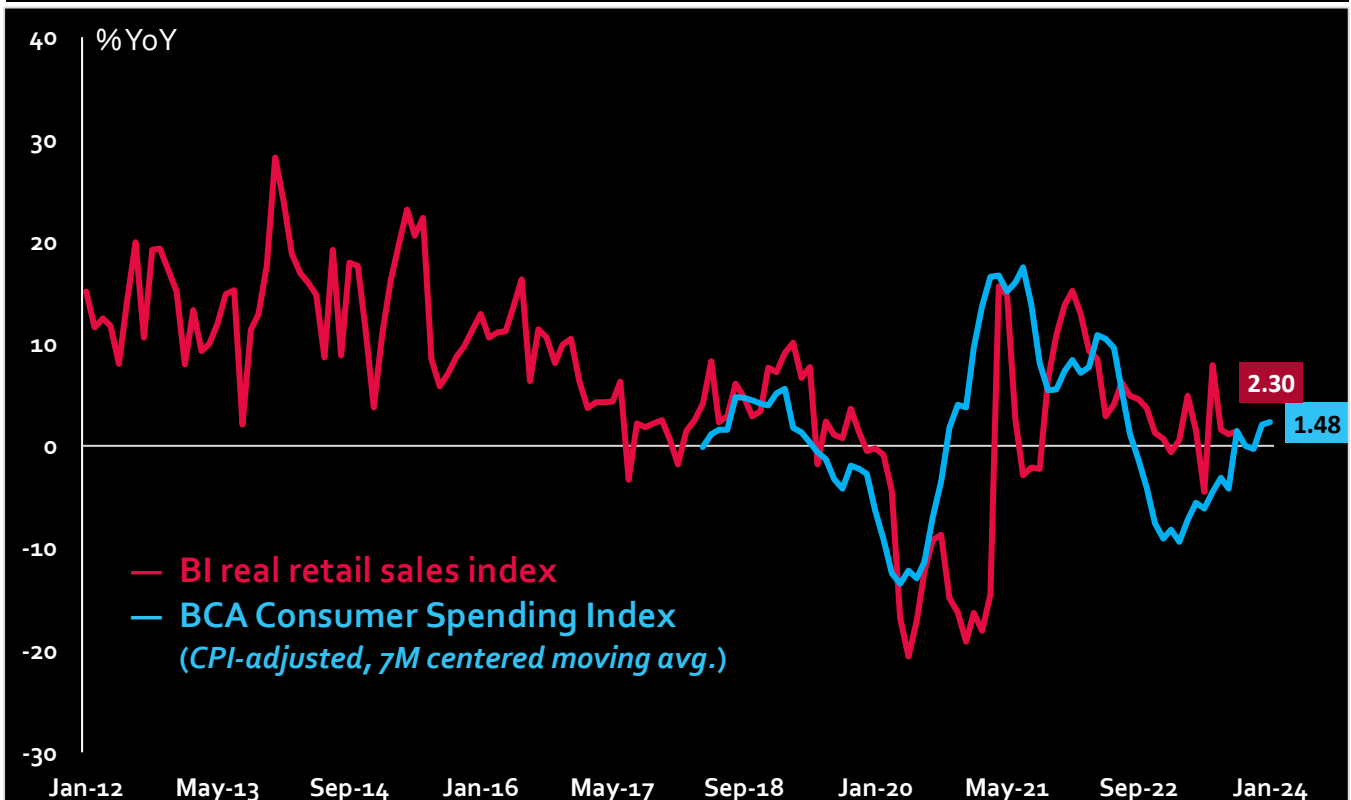
Source: BPS, BCA Economist

**Chart 3. Our Big Data indices show a gradual uptrend in nominal growth, although it remains underwhelming due to global disinflation**



Source: BCA Big Data, BCA Economist

**Chart 4. Consumer spending appears to be stabilizing after a substantial decline following Sep-22 fuel price hike**



Source: BI, BCA Big Data, BCA Economist

**Table 1. Household consumption, the main driver of the economy, still showed robust growth**

	Nominal Growth (%YoY)		Real Growth (%YoY)		Gap (i.e. Deflator %YoY)	
	Q4-23	Full Year	Q4-23	Full Year	Q4-23	Full Year
Household consumption	8.0	9.3 (▲)	4.5	4.8 (▲)	3.5	4.5 (▲)
Nonprofit org consumption	21.3	13.9 (▼)	18.1	9.8 (▼)	3.2	4.0 (▲)
Government consumption	3.3	3.4 (▲)	2.8	2.9 (▲)	0.5	0.4 (▼)
Fixed-asset investment	6.2	7.6 (▲)	5.0	4.4 (▼)	1.2	3.2 (▲)
Exports, G&S	-5.3	-5.3 (▬)	1.6	1.3 (▼)	-6.9	-6.7 (▲)
Imports, G&S	0.5	-0.4 (▼)	-0.1	-1.6 (▼)	0.6	1.2 (▲)
Net exports	-37.3	-34.4 (▲)	10.1	17.8 (▲)	-	-
GDP	3.7	6.7 (▲)	5.0	5.0 (▬)	-1.4	1.6 (▲)

**Table 2. Gross Domestic Products by Sector (nominal)**

	2022		2023		Q4-22	Q1-23	Q2-23	Q3-23	Q4-23
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,428.9	12.4	2,617.7	12.5	562.6	597.6	697.7	718.6	603.8
Mining and quarrying	2,393.4	12.2	2,198.0	10.5	647.0	600.9	547.9	539.3	510.0
Manufacturing industry	3,591.8	18.3	3,900.1	18.7	937.3	941.6	953.9	992.7	1,011.9
Electricity and gas	204.7	1.0	218.3	1.0	52.2	52.7	53.2	55.5	56.8
Water provisioning and waste recycling	12.5	0.1	13.3	0.1	3.2	3.2	3.3	3.3	3.4
Construction	1,913.0	9.8	2,072.4	9.9	512.2	501.2	492.8	522.2	556.1
Wholesale trade and repairs	2,516.6	12.8	2,702.4	12.9	653.0	657.1	671.7	686.7	687.0
Transportation and warehousing	983.5	5.0	1,231.2	5.9	284.3	281.8	306.7	316.6	326.2
Hotels, restaurant, and catering	472.1	2.4	526.3	2.5	127.5	124.8	129.6	132.8	139.0
Information and communication	812.8	4.1	883.6	4.2	211.3	212.3	220.0	223.4	228.0
Financial services and insurance	809.4	4.1	869.2	4.2	207.1	218.4	214.3	215.2	221.3
Real estate	488.3	2.5	505.5	2.4	123.9	124.9	125.6	127.3	127.8
Business services	341.4	1.7	383.1	1.8	90.0	90.7	96.3	96.7	99.4
Govt. administration, defence, and social security	605.1	3.1	616.4	3.0	161.4	144.2	170.3	137.6	164.3
Educational services	566.6	2.9	583.6	2.8	154.7	132.8	150.5	140.0	160.3
Healthcare and social services	236.2	1.2	252.0	1.2	66.4	56.4	62.4	63.6	69.6
Other services	354.2	1.8	405.2	1.9	95.0	96.9	101.3	99.6	107.3
<b>GROSS DOMESTIC PRODUCT</b>	<b>19,588.4</b>	100.0	<b>20,892.4</b>	100.0	<b>5,114.9</b>	<b>5,071.5</b>	<b>5,223.4</b>	<b>5,295.0</b>	<b>5,302.5</b>

\*Numbers in recent quarters are subject to revision from BPS

**Table 3. Gross Domestic Products by Expenditure (nominal)**

	2022		2023		Q4-22	Q1-23	Q2-23	Q3-23	Q4-23
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	10,161.7	51.9	11,109.6	53.2	2,642.4	2,682.1	2,786.3	2,787.0	2,854.1
Consumption by non-profit organizations	229.0	1.2	260.7	1.2	59.5	59.5	65.0	64.1	72.2
Government consumption	1,505.0	7.7	1,555.5	7.4	509.4	266.0	388.2	375.1	526.3
Fixed-asset investment	5,697.3	29.1	6,127.7	29.3	1,525.9	1,476.5	1,458.1	1,572.0	1,621.1
Exports of goods and services	4,799.8	24.5	4,543.4	21.7	1,265.8	1,161.7	1,054.7	1,128.3	1,198.7
Imports of goods and services	4,106.1	21.0	4,088.4	19.6	1,072.6	1,010.2	969.4	1,031.2	1,077.6
<b>GROSS DOMESTIC PRODUCT</b>	<b>19,588.1</b>	100.0	<b>20,892.4</b>	100.0	<b>5,114.8</b>	<b>5,071.5</b>	<b>5,223.4</b>	<b>5,295.0</b>	<b>5,302.5</b>

Source: BPS

**Table 4. Gross Domestic Products by Sector (%YoY)**

	Last 3 Years			Last 3 Quarters		
	2021	2022	2023	Q2-23	Q3-23	Q4-23
Agriculture, livestock, forestry, and fishery	1.87	2.29	1.29	2.02	1.46	1.12
Mining and quarrying	4.00	4.38	6.12	5.01	6.95	7.46
Manufacturing industry	3.39	4.89	4.64	4.88	5.20	4.07
Electricity and gas	5.55	6.61	4.91	3.15	5.06	8.68
Water provisioning and waste recycling	4.97	3.24	4.90	4.78	4.49	4.66
Construction	2.81	2.01	4.91	5.23	6.39	7.68
Wholesale trade and repairs	4.63	5.50	4.83	5.26	5.07	4.09
Transportation and warehousing	3.24	19.86	13.96	15.28	14.74	10.33
Hotels, restaurant, and catering	3.89	11.94	10.01	9.91	10.94	7.89
Information and communication	6.82	7.73	7.61	8.05	8.53	6.74
Financial services and insurance	1.56	1.93	4.77	2.85	5.24	6.56
Real estate	2.78	1.72	1.43	0.96	2.21	2.18
Business services	0.73	8.77	8.24	9.59	9.37	7.62
Govt. administration , defence, and social security	-0.33	2.52	1.50	8.16	-6.22	1.61
Educational services	0.11	0.58	1.79	5.44	-2.05	2.63
Healthcare and social services	10.45	2.73	4.66	8.27	2.90	3.09
Other services	2.12	9.47	10.52	11.89	11.14	10.15
<b>GROSS DOMESTIC PRODUCT</b>	<b>3.70</b>	<b>5.31</b>	<b>5.05</b>	<b>5.18</b>	<b>4.94</b>	<b>5.04</b>

**Table 5. Gross Domestic Products by Expenditure (%YoY)**

	Last 3 Years			Last 3 Quarters		
	2021	2022	2023	Q2-23	Q3-23	Q4-23
Household consumption	2.02	4.94	4.82	5.22	5.05	4.47
Consumption by non-profit organizations	1.62	5.66	9.83	8.59	6.18	18.11
Government consumption	4.24	-4.46	2.95	10.47	-3.93	2.81
Fixed-asset investment	3.80	3.87	4.40	4.63	5.77	5.02
Exports of goods and services	17.95	16.27	1.32	-2.91	-3.91	1.64
Imports of goods and services	24.87	14.99	-1.65	-3.23	-6.75	-0.15
<b>GROSS DOMESTIC PRODUCT</b>	<b>3.70</b>	<b>5.31</b>	<b>5.05</b>	<b>5.17</b>	<b>4.94</b>	<b>5.04</b>

**Source:** BPS

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## Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023E	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US\$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	16,037
Trade Balance (US\$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	0.1*	-0.5

\*Estimated number

### Economic, Banking & Industry Research Team

**David E. Sumual**

*Chief Economist*

david\_sumual@bca.co.id

+6221 2358 8000 Ext: 1051352

**Victor George Petrus Matindas**

*Senior Economist*

victor\_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

**Keely Julia Hasim**

*Economist / Analyst*

keely\_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

**Aldi Rizaldi**

*Research Assistant*

aldi\_yanto@bca.co.id

+6221 2358 8000 Ext: 1020451

**Agus Salim Hardjodinoto**

*Head of Industry and Regional Research*

agus\_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

**Gabriella Yolivia**

*Industry Analyst*

gabriella\_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

**Elbert Timothy Lasiman**

*Economist / Analyst*

Elbert\_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

**Fikri Adam Zaqi**

*Research Assistant*

Fikri\_zaqi@bca.co.id

+6221 2358 8000 Ext: -

**Barra Kukuh Mamia**

*Senior Economist*

barra\_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

**Lazuardin Thariq Hamzah**

*Economist / Analyst*

lazuardin\_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

**Thierris Nora Kusuma**

*Economist / Analyst*

thierris\_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

### PT Bank Central Asia Tbk

#### Economic, Banking & Industry Research of BCA Group

20<sup>th</sup> Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

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