GDP:

# Momentary sugar high

**Barra Kukuh Mamia**
Senior Economist

07 May 2024

**Executive Summary**

- GDP growth had a strong showing at 5.11% YoY in Q1-24, as Elections-related spending boosted consumption especially for low-income households. Discretionary spending by the upper- and middle-classes remains anemic, however.
- As Q1 growth benefited from one-off Election effect and the base effect from shifting Islamic calendar, it is quite likely that growth would slow towards 4.9 – 5.0% for the remainder of the year.
- Potential tailwinds come from post-Elections rebound in fixed-asset investment (FAI) and a recovery of commodity prices. However, the composition of the FAI (tilted towards buildings and capital-intensive sectors) may limit the multiplier effect of these investments.
- Although we foresee a slowdown in real GDP growth, we believe that nominal GDP might be buoyed by higher commodity prices. This should replenish domestic liquidity and eventually set the stage for a recovery in real GDP growth in 2025.

- The Indonesian economy expanded 5.11% YoY in Q1-24, close to BCA's estimate of 5.08% and substantially better than the 5.04% growth in Q4-23. Nominal GDP (or NGDP) growth, unfortunately, still languished (at 4.27% YoY) as GDP deflator continued to decline (-0.80%) during the timespan.
- Strong growth had always been expected for Q1-24, given the General Elections on February 15th and the start of Ramadan (Muslim fasting month) on March 12th – each a much-needed tonic after a slow decline in consumption growth during 2023.
- "Elections effect" certainly stole the show, with government and nonprofit consumption contributing over a quarter of the YoY growth. Much of these went into campaigning and Elections-related logistics, but there was also a large spillover into household consumption, whose growth rebounded to 4.91% YoY from just 4.47% in the previous quarter.
- Disbursement of social spending, coupled with tighter control on rice prices (via imports), bolstered the purchasing power of low-income households, which had been degraded by rising food prices. There were indications of rising cash demand throughout the quarter – such as the widening spread between money market and BI deposit facility rates – which signaled increased spending by low-income groups, for whom cash still accounts for a large share of everyday transactions.

- For the upper- and middle-classes, meanwhile, we saw continued reluctance to spend as during the second half of 2023. Indeed, we saw notable dip in electronic payment transactions in our Big Data, despite relatively stable personal incomes. Consumer loan growth (ex-housing) is also stagnating, implying limited appetite for durable goods.

- The fact that Q1 consumption growth was dominated by low-income groups is also apparent from the decomposition of the GDP data (***Chart 1***). The contribution of basic consumption to YoY growth leapt from 0.99% to 1.36%, in large part due to clothing and footwear. On the other hand, the share of discretionary spending to overall growth continues to slide to just 1.26% – the lowest since lockdown measures (PPKM) were lifted in Q2-22.

- Base effect also played a significant role, thanks to the Islamic calendar's shift with respect to the Gregorian calendar. Consumer spending – especially the aforementioned clothing and footwear – typically peaks two weeks before Eid al-Fitr (Lebaran) celebrations, which in 2024 coincided with the very tail end of March, but in 2023 occurred in April.

- Given all these one-off boosters in Q1, it is very likely that GDP would grow more modestly for the remainder of 2024. The room to revive discretionary spending remains limited, as household saving rates – while improved compared to H1-23 – are still low compared to historical levels. The middle class in particular would need to replenish their savings further before they can splurge again.

- The upside for low-income households is also limited, especially considering the poor cashflow of SMEs in recent months. Poor or delayed rice harvests due to El Nino also crimp the income of the rural poor, while the potential food inflation weighs most heavily on the urban poor. Additional sources of cashflow, such as loans from fintech (also known as "*pinjaman online*" or "*pinjol*"), is also drying up as global liquidity becomes more expensive to tap.

- These poorer households, as such, are dependent on government support, which is unlikely to be sustained at a similar level to Q1. One might argue that the simultaneous Regional Elections in November could provide a comparable GDP boost to the General Elections, but this is unlikely – the political stakes are lower, and the number of candidates involved is much smaller.

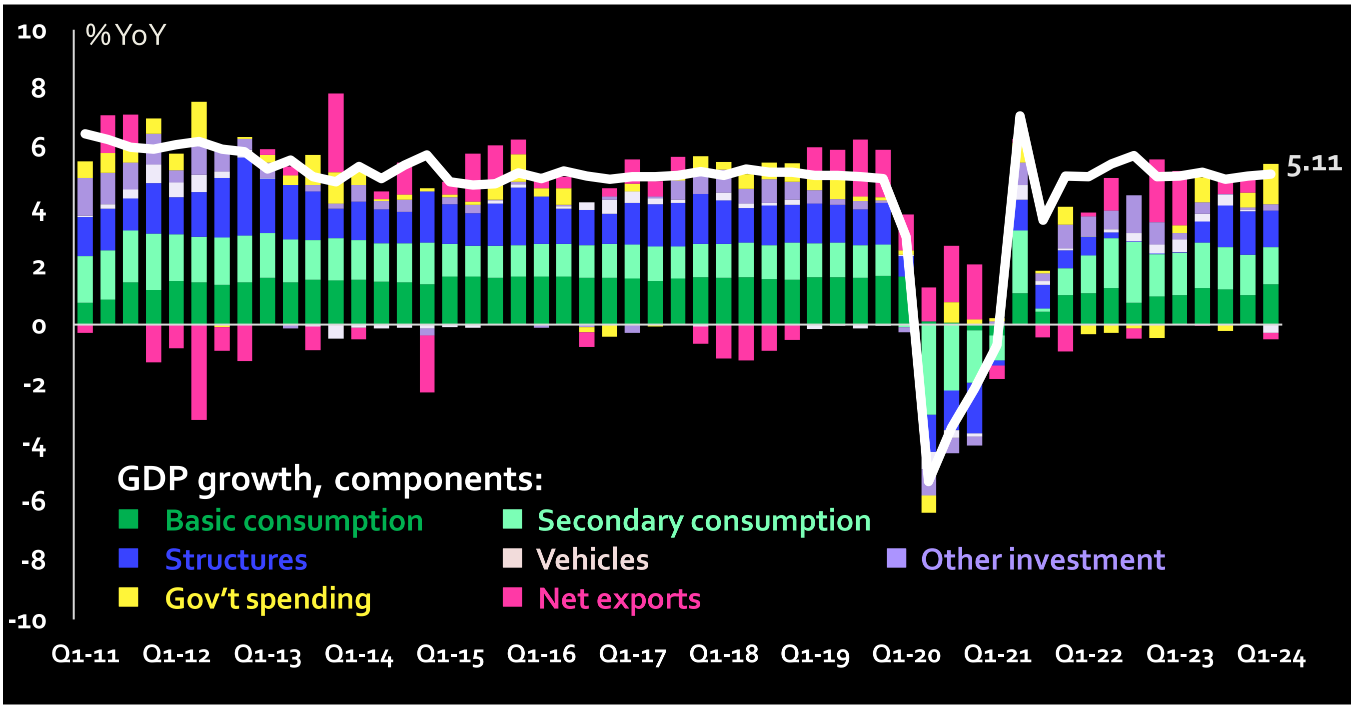
- The fiscal space is also quite limited for a sustained support. Government spending went up by 18.0% YoY in Q1, but revenue was down by -4.1%, largely due to the lagged effect of commodity price decline. Meanwhile, the growing cost of energy subsidies/compensations also weighs on the State Budget, following the recent increase in oil price and depreciation of the Rupiah.

- But things are not uniformly bleak, especially if we take a closer look at investment and exports. FDI and DDI still showed double-digit growths in Q1, amidst all the uncertainty regarding the political and commodity price outlook. As such, there is cause for optimism now that these weights have been (at least partially) lifted.

- Nonetheless, the type and sectoral distribution of the investment does matter – a lot. Much of the fixed-asset investment (FAI) growth in Q1 went into structures, which tend to be less productive and less conducive for export growth compared to investment in, say, machineries. This emphasis towards construction is understandable given the current push to expedite the new capital city (IKN) and other public projects, but it does call into question the future returns from the investment.

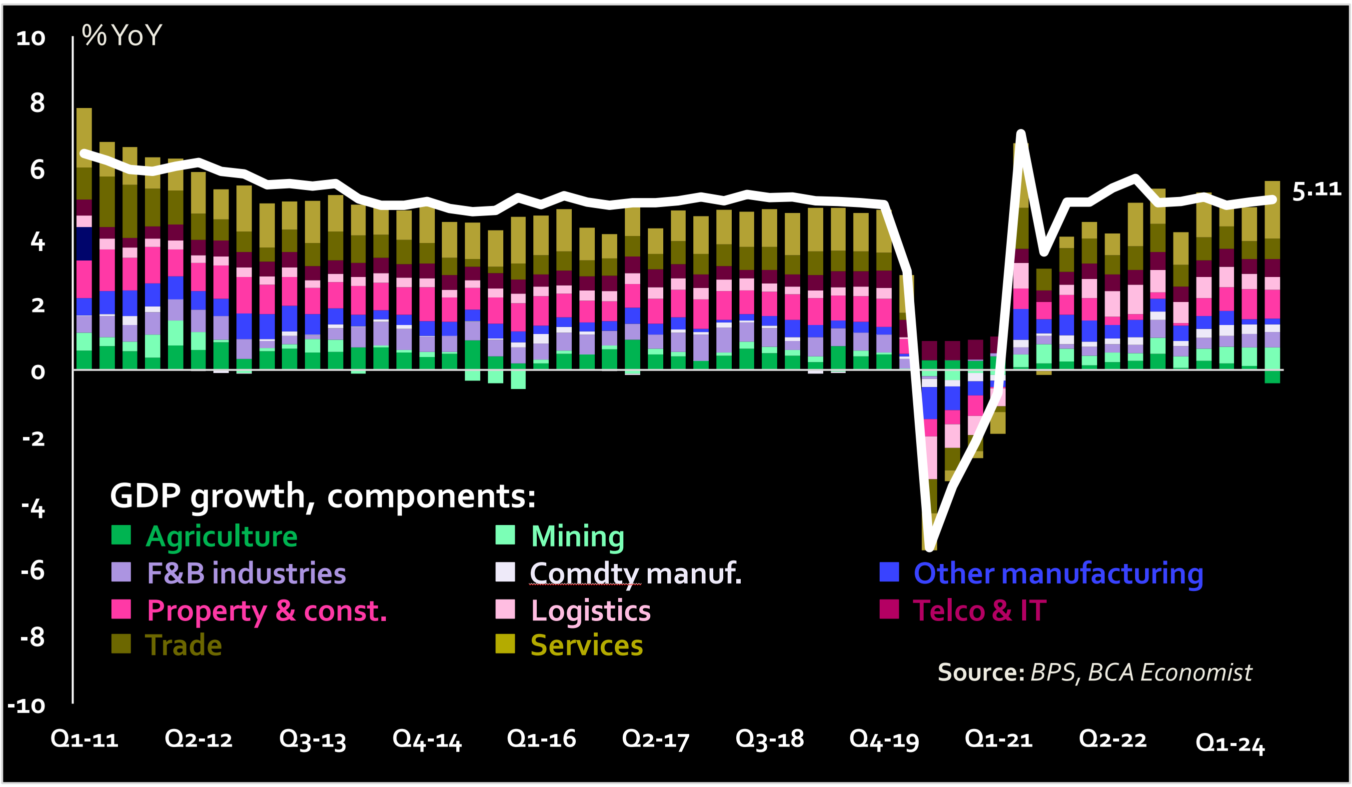
- Meanwhile, as we noted in the investment report, much of the recent investment growth has occurred in capital-intensive sectors, while labor-intensive ones (and therefore job creation) are left behind. This has some parallel with recent output growth, where sectors that traditionally employs more workers – trade, manufacturing, real estate – saw sluggish growth. The hospitality sector (hotels and restaurants) appeared to be an exception, but this can largely be chalked up to the Elections effect.
- Still, as ever, the key to Indonesia's investment and exports lies in the commodities. Agricultural output, of course, was hampered by El Nino, forcing the government to import rice which meant that net exports contributed negatively (-0.23%) to Q1 growth. But this obscured the resurgence of the mining sector, thanks to robust demand from China – whose GDP growth in Q1 (at 5.3%) managed to beat expectations.
- This was especially true of copper and tin, where there had been shortage since the end of 2023, but it is also increasingly true for coal and nickel, the demand for which has ramped up more recently. Considering the Chinese authorities' strong emphasis on manufacturing output and energy security, it is reasonable to expect at least a modest recovery in commodity prices vis-à-vis 2023.
- Last year's weak commodity prices, of course, was the clear culprit behind the slowing NGDP growth – especially since commodity-dependent regions were also the ones showing deeper slumps. Should commodities recover, this could go a long way towards boosting NGDP and liquidity growth.
- Overall, then, we should expect NGDP growth to gradually recover towards 8 – 10% YoY, even as real GDP growth slows towards 4.9 – 5.0% (or possibly lower) in the next few quarters. The accompanying increase in GDP deflator need not be fully reflected in consumer price inflation (CPI), especially since energy price-fixing and subsidies limit the pass-through from global to domestic prices.
- This bifurcation between nominal and real GDP trends could have interesting effects. In general, it would benefit the commodity and financial sectors, as well as industries that thrive on margins (nominal) rather than volumes (real).
- For consumers in general, the situation may not seem as favorable – and indeed, we posit the need of a temporary replenishment in savings over the next few quarters. Nonetheless, the trickle-down effect from the recovery in corporate revenues, as well as the "money illusion" from growing liquidity, should set the stage towards an eventual recovery in 2025.

*Chart 1.* Government spending during the Elections spilled over towards consumer spending



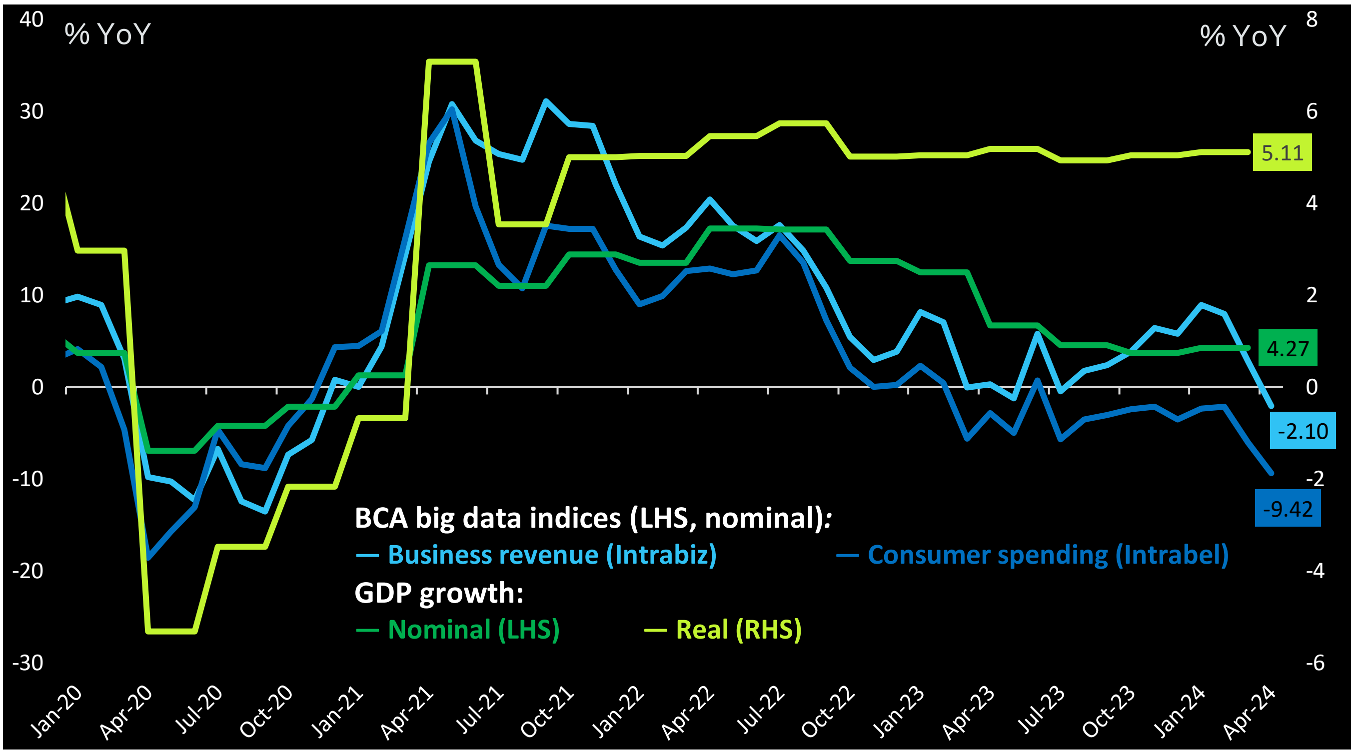

**Source: BPS, BCA Economist**

*Chart 2.* Agriculture stumbled on El Nino, mining and construction forged ahead, while services enjoyed a temporary boost during the Elections season



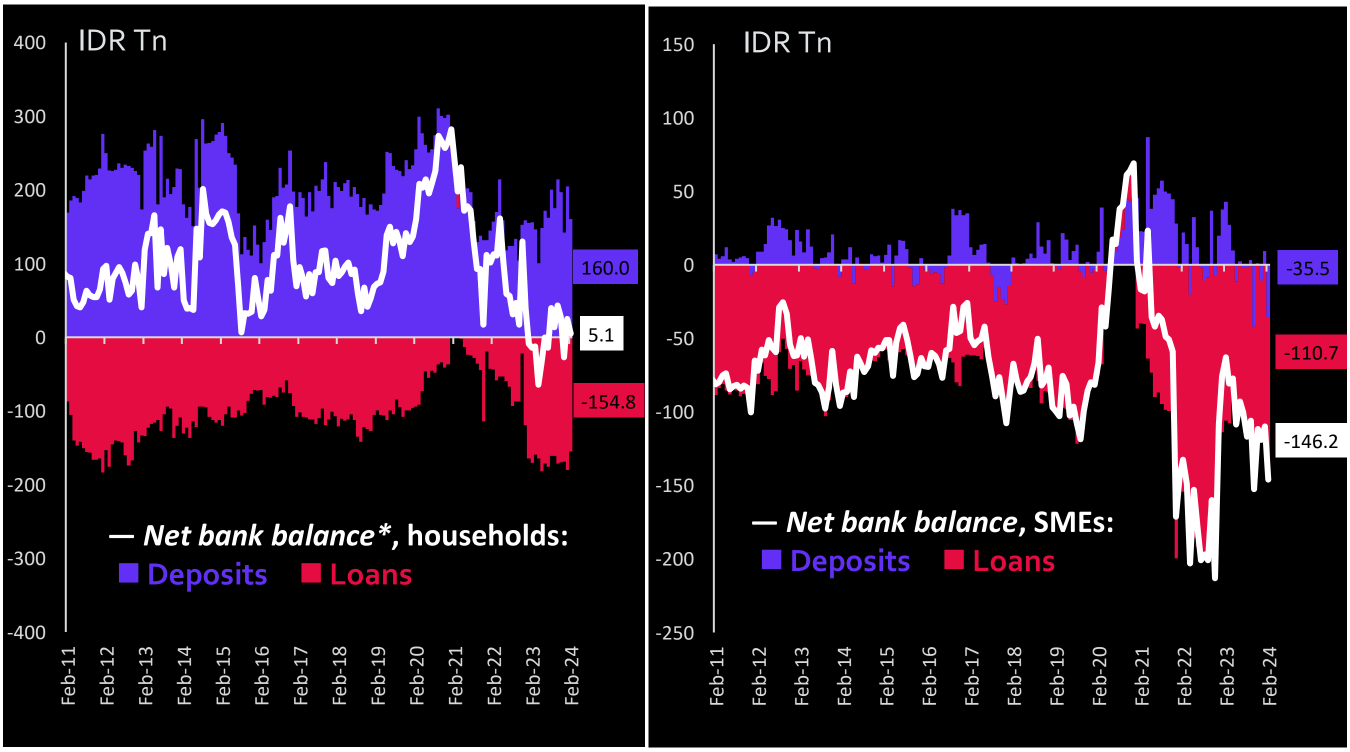

**Source: BPS, BCA Economist**

***Chart 3.*** **BCA Big Data showed a resurgence in activities in Q1-24, but base effect and post-Elections hangover points to significantly slower growth in Q2**




**Source: BCA Big Data, calculated by BCA Economist**

***Chart 4.*** **Household saving rates remain near historic lows albeit much-improved from H1-23, while the cash flow of SMEs are seeing a progressive deterioration**




**Source: BI, OJK, MoF, calculated by BCA Economist**
*** YoY change of deposits in banks minus YoY change of borrowing from banks**

## Table 1. Gross Domestic Products by Sector (nominal)

| | 2022 | | 2023 | | Q1-23 | Q2-23 | Q3-23 | Q4-23 | Q1-24 |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 597.6 | 697.7 | 718.6 | 603.8 | 613.8 |
| Mining and quarrying | 2,393.4 | 12.2 | 2,198.0 | 10.5 | 600.9 | 547.9 | 539.3 | 510.0 | 493.9 |
| Manufacturing industry | 3,591.8 | 18.3 | 3,900.1 | 18.7 | 941.6 | 953.9 | 992.7 | 1,011.9 | 1,019.7 |
| Electricity and gas | 204.7 | 1.0 | 218.3 | 1.0 | 52.7 | 53.2 | 55.5 | 56.8 | 55.3 |
| Water provisioning and waste recycling | 12.5 | 0.1 | 13.3 | 0.1 | 3.2 | 3.3 | 3.3 | 3.4 | 3.5 |
| Construction | 1,913.0 | 9.8 | 2,072.4 | 9.9 | 501.2 | 492.8 | 522.2 | 556.1 | 541.2 |
| Wholesale trade and repairs | 2,516.6 | 12.8 | 2,702.4 | 12.9 | 657.1 | 671.7 | 686.7 | 687.0 | 695.4 |
| Transportation and warehousing | 983.5 | 5.0 | 1,231.2 | 5.9 | 281.8 | 306.7 | 316.6 | 326.2 | 313.4 |
| Hotels, restaurant, and catering | 472.1 | 2.4 | 526.3 | 2.5 | 124.8 | 129.6 | 132.8 | 139.0 | 138.5 |
| Information and communication | 812.8 | 4.1 | 883.6 | 4.2 | 212.3 | 220.0 | 223.4 | 228.0 | 232.9 |
| Financial services and insurance | 809.4 | 4.1 | 869.2 | 4.2 | 218.4 | 214.3 | 215.2 | 221.3 | 227.8 |
| Real estate | 488.3 | 2.5 | 505.5 | 2.4 | 124.9 | 125.6 | 127.3 | 127.8 | 128.5 |
| Business services | 341.4 | 1.7 | 383.1 | 1.8 | 90.7 | 96.3 | 96.7 | 99.4 | 102.0 |
| Govt. administration , defence, and social security | 605.1 | 3.1 | 616.4 | 3.0 | 144.2 | 170.3 | 137.6 | 164.3 | 177.7 |
| Educational services | 566.6 | 2.9 | 583.6 | 2.8 | 132.8 | 150.5 | 140.0 | 160.3 | 147.2 |
| Healthcare and social services | 236.2 | 1.2 | 252.0 | 1.2 | 56.4 | 62.4 | 63.6 | 69.6 | 64.7 |
| Other services | 354.2 | 1.8 | 405.2 | 1.9 | 96.9 | 101.3 | 99.6 | 107.3 | 108.2 |
| **GROSS DOMESTIC PRODUCT** | **19,588.4** | 100.0 | **20,892.4** | 100.0 | **5,071.5** | **5,223.4** | **5,295.0** | **5,302.5** | **5,288.3** |

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

## Table 2. Gross Domestic Products by Expenditure (nominal)

| | 2022 | | 2023 | | Q1-23 | Q2-23 | Q3-23 | Q4-23 | Q1-24 |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | 2,682.1 | 2,786.3 | 2,787.0 | 2,854.1 | 2,905.0 |
| Consumption by non-profit organizations | 229.0 | 1.2 | 260.7 | 1.2 | 59.5 | 65.0 | 64.1 | 72.2 | 75.8 |
| Government consumption | 1,505.0 | 7.7 | 1,555.5 | 7.4 | 266.0 | 388.2 | 375.1 | 526.3 | 330.6 |
| Fixed-asset investment | 5,697.3 | 29.1 | 6,127.7 | 29.3 | 1,476.5 | 1,458.1 | 1,572.0 | 1,621.1 | 1,550.1 |
| Exports of goods and services | 4,799.8 | 24.5 | 4,543.4 | 21.7 | 1,161.7 | 1,054.7 | 1,128.3 | 1,198.7 | 1,130.0 |
| Imports of goods and services | 4,106.1 | 21.0 | 4,088.4 | 19.6 | 1,010.2 | 969.4 | 1,031.2 | 1,077.6 | 1,045.4 |
| **GROSS DOMESTIC PRODUCT** | **19,588.1** | 100.0 | **20,892.4** | 100.0 | **5,071.5** | **5,223.4** | **5,295.0** | **5,302.5** | **5,288.3** |

**Source:** BPS

## Table 3. Gross Domestic Products by Sector (%YoY)

| | Last 3 Years | | | Last 3 Quarters | | |
|---|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **Q3-23** | **Q4-23** | **Q1-24** |
| Agriculture, livestock, forestry, and fishery | 1.87 | 2.29 | 1.29 | 1.46 | 1.12 | -3.53 |
| Mining and quarrying | 4.00 | 4.38 | 6.12 | 6.95 | 7.46 | 9.31 |
| Manufacturing industry | 3.39 | 4.89 | 4.64 | 5.20 | 4.07 | 4.13 |
| Electricity and gas | 5.55 | 6.61 | 4.91 | 5.06 | 8.68 | 5.35 |
| Water provisioning and waste recycling | 4.97 | 3.24 | 4.90 | 4.49 | 4.66 | 4.44 |
| Construction | 2.81 | 2.01 | 4.91 | 6.39 | 7.68 | 7.59 |
| Wholesale trade and repairs | 4.63 | 5.50 | 4.83 | 5.07 | 4.09 | 4.60 |
| Transportation and warehousing | 3.24 | 19.86 | 13.96 | 14.74 | 10.33 | 8.65 |
| Hotels, restaurant, and catering | 3.89 | 11.94 | 10.01 | 10.94 | 7.89 | 9.38 |
| Information and communication | 6.82 | 7.73 | 7.61 | 8.53 | 6.74 | 8.37 |
| Financial services and insurance | 1.56 | 1.93 | 4.77 | 5.24 | 6.56 | 3.92 |
| Real estate | 2.78 | 1.72 | 1.43 | 2.21 | 2.18 | 2.54 |
| Business services | 0.73 | 8.77 | 8.24 | 9.37 | 7.62 | 9.63 |
| Govt. administration , defence, and social security | -0.33 | 2.52 | 1.50 | -6.22 | 1.61 | 18.89 |
| Educational services | 0.11 | 0.58 | 1.79 | -2.05 | 2.63 | 7.34 |
| Healthcare and social services | 10.45 | 2.73 | 4.66 | 2.90 | 3.09 | 11.65 |
| Other services | 2.12 | 9.47 | 10.52 | 11.14 | 10.15 | 8.92 |
| **GROSS DOMESTIC PRODUCT** | **3.70** | **5.31** | **5.05** | **4.94** | **5.04** | **5.11** |

## Table 4. Gross Domestic Products by Expenditure (%YoY)

| | Last 3 Years | | | Last 3 Quarters | | |
|---|---|---|---|---|---|---|
| | **2021** | **2022** | **2023** | **Q3-23** | **Q4-23** | **Q1-24** |
| Household consumption | 2.02 | 4.94 | 4.82 | 5.05 | 4.47 | 4.91 |
| Consumption by non-profit organizations | 1.62 | 5.66 | 9.83 | 6.18 | 18.11 | 24.29 |
| Government consumption | 4.24 | -4.46 | 2.95 | -3.93 | 2.81 | 19.90 |
| Fixed-asset investment | 3.80 | 3.87 | 4.40 | 5.77 | 5.02 | 3.79 |
| Exports of goods and services | 17.95 | 16.27 | 1.32 | -3.91 | 1.64 | 0.50 |
| Imports of goods and services | 24.87 | 14.99 | -1.65 | -6.75 | -0.15 | 1.77 |
| **GROSS DOMESTIC PRODUCT** | **3.70** | **5.31** | **5.05** | **4.94** | **5.04** | **5.11** |

**Source:** BPS

## 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$) | 4175 | 3912 | 4350 | 4784 | 4920 | 5149 |
| Consumer Price Index Inflation (% YoY) | 2.7 | 1.7 | 1.9 | 5.5 | 2.6 | 3.2 |
| BI 7-day Repo Rate (%) | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 6.50 |
| USD/IDR Exchange Rate (end of the year)** | 13,866 | 14,050 | 14,262 | 15,568 | 15,397 | 16.119 |
| Trade Balance (US$ 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

**Agus Salim Hardjodinoto**
*Head of Industry and Regional Research*
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

**Barra Kukuh Mamia**
*Senior Economist*
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

**Victor George Petrus Matindas**
*Senior Economist*
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

**Gabriella Yolivia**
*Industry Analyst*
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

**Lazuardin Thariq Hamzah**
*Economist / Analyst*
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

**Keely Julia Hasim**
*Economist / Analyst*
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

**Elbert Timothy Lasiman**
*Economist / Analyst*
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1074310

**Thierris Nora Kusuma**
*Economist / Analyst*
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

**Aldi Rizaldi**
*Research Assistant*
aldi_yanto@bca.co.id
+6221 2358 8000 Ext: 1020451

**Fikri Adam Zaqi**
*Research Assistant*
Fikri_zaqi@bca.co.id
+6221 2358 8000 Ext: 20378

**PT Bank Central Asia Tbk**

**Economic, Banking & Industry Research of BCA Group**
20th Grand Indonesia, Menara BCA
Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia
Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343