

GDP:

Here ends the storm, there the clouds remain

Derrick Gozal

Economist/Analyst

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Executive Summary

- Indonesia's GDP grew by 5.06% YoY in Q4-2021. However, the fact that these numbers are not higher despite lower base figures last year implies that the pace of recovery may be more sluggish than one might expect.
- While export growth remains quite high, consumption and investment growth appear to have fallen somewhat behind. This may be due to imported inflation, particularly for discretionary goods, or/and structural digital-related changes that tend to disadvantage less developed economies.
- Indonesia, like most countries, appears to be in the same phase of the economic cycle as the US. This suggests that cooling growth in the US is likely to be followed by slower growth in other countries as well, Indonesia included.

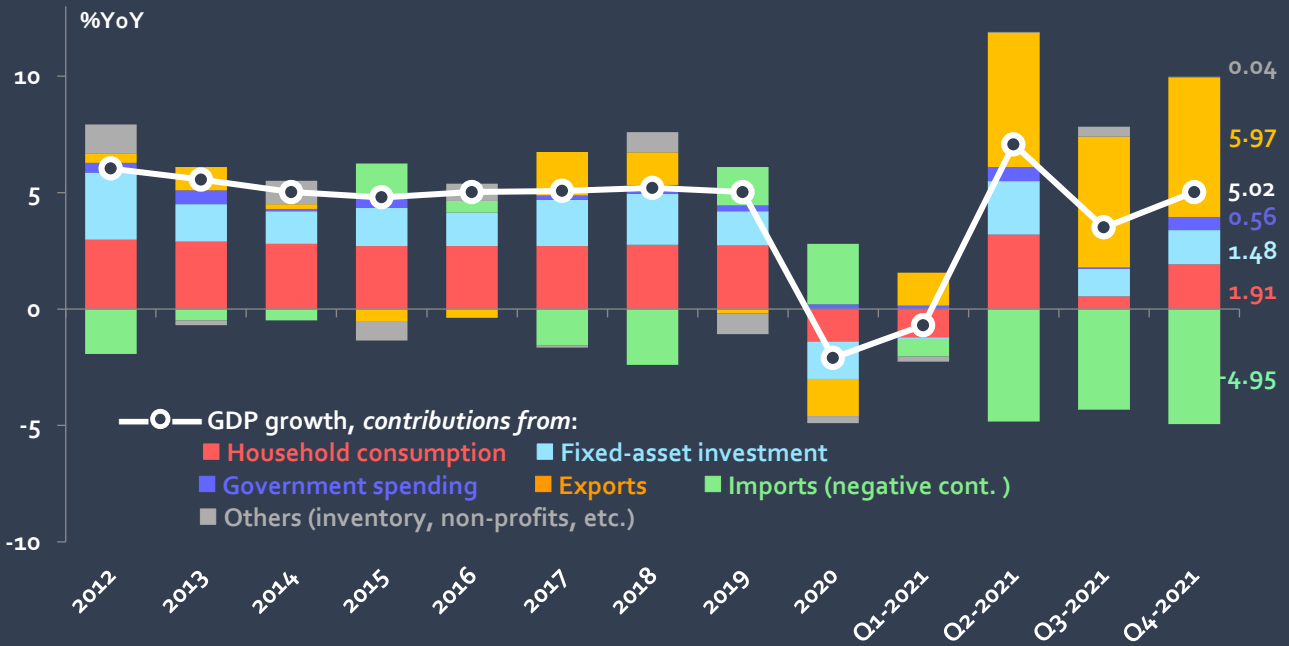
- **Indonesia's GDP grew by 5.02% YoY in Q4-2021, slightly above the expectations of most analysts (Chart 1).** This is not a terrible number. It points to an economy that continues to recover, and is already in line with pre-pandemic growth averages, suggesting that growth is beginning to normalize. A quick glance at GDP's sectoral breakdown also suggests that most of this recovery appears to be broad-based. At the same time however, the fact that these numbers are not higher despite lower base figures last year implies that the pace of recovery may be more sluggish than one might expect, and that certain scars preventing the economy from returning to its pre-pandemic trajectory may persist.
- **Exports (+29.8% YoY) remain the most robust component of Q4's economic growth, as still-high commodity prices continue to support export performance (Chart 1).** In fact, recent disruptions such as Indonesia's coal and CPO export restrictions, as well as the current geopolitical staring contest that has sent oil prices soaring, may provide further fuel to the current commodity boom, at least in the short term. In the longer run however, a combination of the Fed's monetary tightening, as well as continued fallout from the financial implosion of China's property sector, may also begin to weigh down on commodity prices.
- **It is consumption and investment however, those main barometers of domestic economic activity, that appear to be falling behind in their growth.** Consumption grew by a paltry 3.55% YoY – below its 5% pre-pandemic average – despite contracting by 3.61% YoY in Q4-2020. Investment performed slightly better, though yet again, a growth rate of 4.49% YoY (somewhat in line with investment's pre-pandemic normal) appears rather disappointing in light of its 6.17% contraction last year. That these numbers are not higher

despite the fact that government spending grew by a significant 5.25% YoY last quarter is even more puzzling (**Chart 1**).

- A closer look at Indonesians' consumption basket provides hints at the barriers constraining the pace of domestic economic recovery. Retail sales indices reveal that while the consumption of basic necessities such as food and fuel have already exceeded their pre-pandemic baseline, that of discretionary items such as household furnishings remain stubbornly low (**Chart 3**). The second piece of the puzzle lies in price levels. While baseline inflation – on both the wholesale and retail end – remains relatively stable, the wholesale price of imported goods has surged dramatically over the past year. It appears then, that while the price of such necessities as food and fuel (which are, if not sourced largely domestically, also subject to government price controls) has been relatively insulated from the worst of the global inflationary bout of 2021, discretionary goods – which generally contain a larger imported component – may have been less fortunate. **This imported inflation then, may have played an important role in suppressing discretionary spending, and thus domestic economic activity, below its potential growth level.**
- **Additionally, deeper structural changes in the economy wrought by the pandemic may have had their own effects as well.** Digitalization, while a boon to content creators and software developers, is likely to have less amenable effects on the lower-skilled workers that dominate customer-facing jobs. This extends to business players as well. Smaller businesses are less likely to have the requisite capital and know-how to transition to a more digital model. All these factors put lower income economies at a disadvantage to their wealthier, more developed counterparts in the post-Covid world, which may go some way to explaining why Indonesia's recovery remains somewhat stilted.
- **The critical question in the coming months then, is whether this seemingly stilted recovery will prove to be a merely tempo-rary bump in the road, or a more durable decline in potential growth.** If the effects of inflation prove to be more significant, distortions in demand should prove to be more temporary as global supply chains begin to normalize. Still, the total economic effect of such a scenario remains ambiguous, as the positive effects of lower inflation may simply end up the Janusian mirror image of a concurrent decline in commodity prices and exports. Should structural factors predominate however, Indonesia's longer term growth potential may end up lower than expected.
- To wrap things up, we have also attempted to compare the growth trajectories of various economies, in order to see where most countries currently stand in their phase of recovery. With the exception of China, which appears to be moving on its own growth timeline, most seem to be moving in a similar direction and are currently still in the same phase of recovery (**Chart 2**). **This suggests that most countries appear to be following the growth cycle set by the US, and that cooling growth there – triggered potentially by reduced monetary and fiscal support – would also translate into slower growth in the rest of the world as well, Indonesia included.** All in all, these arguments tend to support our relatively modest growth outlook for 2022 (at approximately 5.2 – 5.3%), while BI maintains a gradual policy normalization schedule (with 2 – 4 rate hikes for 2022).

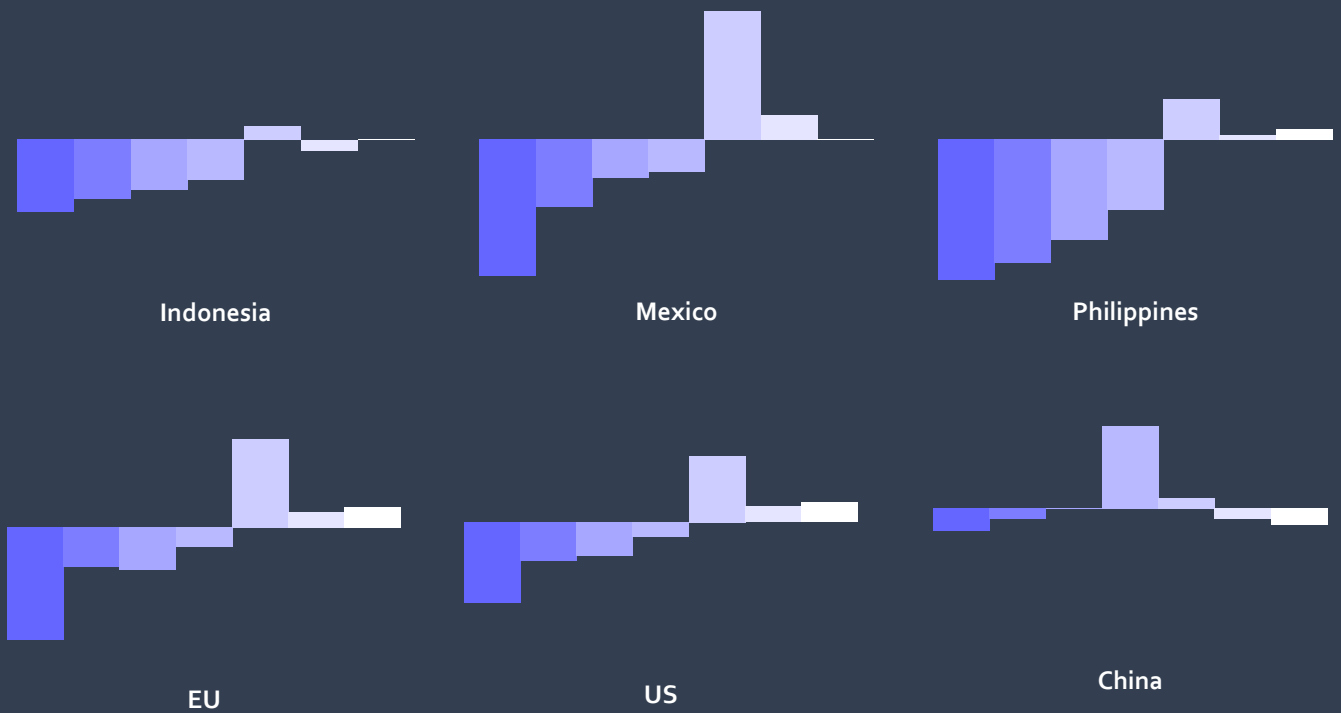
“Whether Indonesia's seemingly stilted recovery will prove to be short or long-lived depends on whether its cause lies predominantly in inflationary pressures or deeper, structural factors”

Chart 1. GDP growth was still largely led by exports



Source: Investment Coordinating Board
Last update: Q4-2021

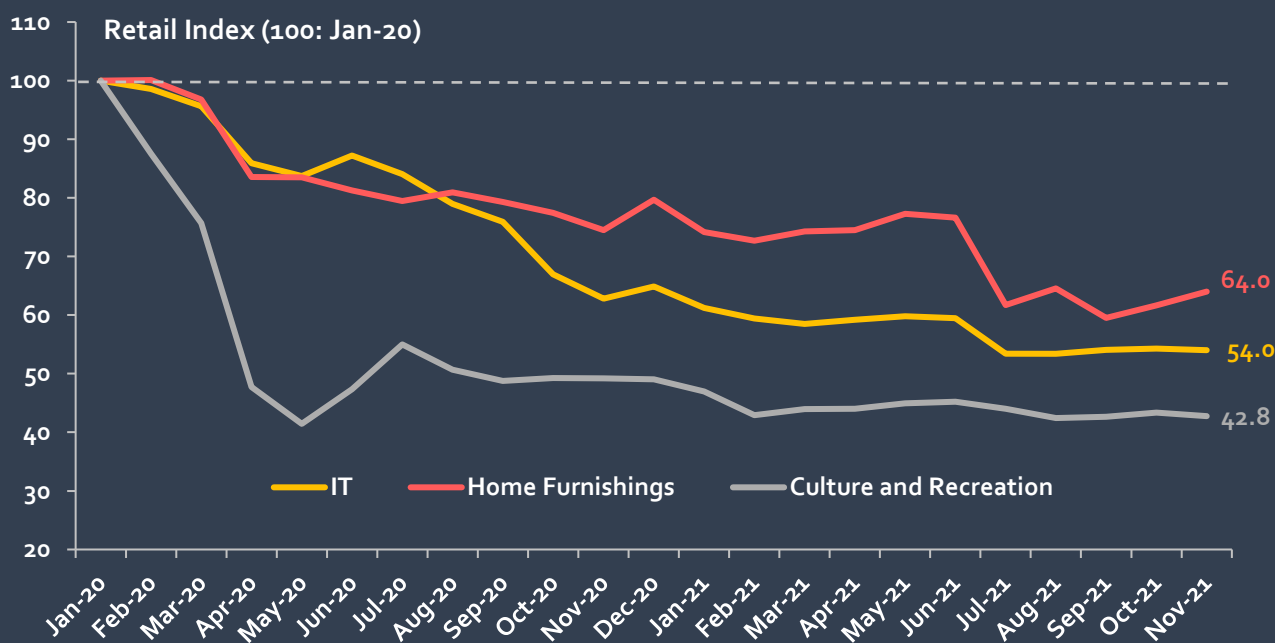
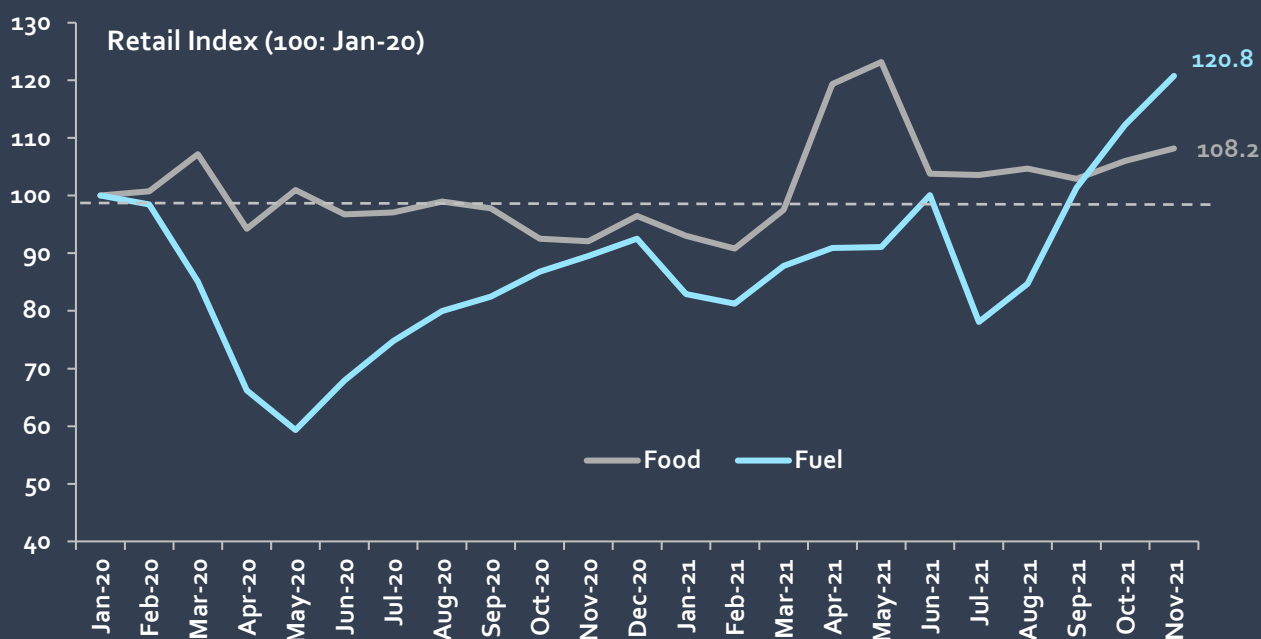
Chart 2. Most countries' growth trajectories seem to move in line, with the exception of China



Source: Bloomberg
Last update: Q4-2021

% relative to average pre-pandemic growth (2018-2019)
■ → ■ : Q2-2020 → Q4-2021

Chart 3. Although retail spending on basic goods has largely recovered, spending on discretionary items remain far below pre-pandemic levels



Source: Bank Indonesia

Last update: Nov 2021

Selected Macroeconomic Indicators

Table 1. Gross Domestic Products by sector (nominal)

	2020		2021		Q4-17	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,115.4	13.7	2,253.8	13.3	391.2	470.4	525.3	596.9	619.4	512.2
Mining and quarrying	993.5	6.4	1,523.7	9.0	250.5	254.7	303.4	338.0	413.1	469.1
Manufacturing industry	3,068.0	19.9	3,266.9	19.3	696.8	778.4	787.4	805.6	828.4	845.4
Electricity and gas	179.7	1.2	190.0	1.1	42.5	46.1	46.7	46.1	47.6	49.7
Water provisioning and waste recycling	11.3	0.1	12.0	0.1	2.4	2.9	2.9	3.0	3.0	3.1
Construction	1,652.7	10.7	1,771.7	10.4	381.3	430.5	428.7	422.5	449.3	471.3
Wholesale trade and repairs	1,994.1	12.9	2,200.5	13.0	452.1	504.8	519.4	546.3	562.9	571.9
Transportation and warehousing	689.6	4.5	719.6	4.2	193.9	183.8	169.7	176.0	168.9	205.2
Hotels, restaurant, and catering	394.1	2.6	412.3	2.4	99.1	103.2	101.5	103.5	97.6	109.7
Information and communication	696.0	4.5	748.8	4.4	130.6	179.6	181.8	185.3	189.0	192.7
Financial services and insurance	696.1	4.5	736.2	4.3	144.1	179.4	181.9	184.4	184.4	185.5
Real estate	453.8	2.9	468.2	2.8	97.5	114.0	114.3	116.3	118.3	119.3
Business services	294.3	1.9	301.1	1.8	61.9	75.2	74.8	75.5	73.7	77.2
Govt. administration , defence, and social security	582.6	3.8	584.4	3.4	138.7	155.9	138.9	158.1	127.6	159.8
Educational services	549.6	3.6	556.3	3.3	125.9	150.0	128.9	141.1	132.8	153.6
Healthcare and social services	201.2	1.3	227.0	1.3	38.5	56.2	49.6	52.2	60.9	64.2
Other services	302.6	2.0	312.2	1.8	62.2	77.6	76.9	77.4	76.5	81.4
GROSS DOMESTIC PRODUCT	15,438.0	100.0	16,970.8	100.0	3,490.7	3,931.3	3,971.2	4,176.4	4,325.2	4,498.0

Table 2. Gross Domestic Products by expenditure (nominal)

	2020		2021		Q4-17	Q4-20	Q1-21	Q2-21	Q3-21	Q4-21
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	8,899.9	57.6	9,236.0	54.4	1,962.6	2,254.7	2,259.7	2,300.3	2,296.2	2,379.7
Consumption by non-profit organizations	201.4	1.3	207.8	1.2	41.8	50.7	49.1	52.8	52.6	53.3
Government consumption	1,474.1	9.5	1,551.7	9.1	427.7	499.0	267.8	360.5	391.8	531.5
Fixed-asset investment	4,897.0	31.7	5,227.9	30.8	1,181.1	1,291.6	1,269.7	1,246.8	1,316.4	1,394.9
Exports of goods and services	2,666.4	17.3	3,659.0	21.6	-54.7	728.8	766.9	854.6	971.7	1,065.9
Imports of goods and services	2,424.4	15.7	3,201.0	18.9	738.8	634.2	704.7	782.2	790.3	923.8
GROSS DOMESTIC PRODUCT	15,438.0	100.0	16,970.8	100.0	3,490.7	3,931.3	3,971.2	4,176.4	4,325.2	4,498.0

Source: BPS

Table 3. Gross Domestic Products by sector (%YoY)

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q2-21	Q3-21	Q4-21
Agriculture, livestock, forestry, and fishery	3.60	1.77	1.84	0.53	1.43	2.28
Mining and quarrying	1.22	-1.95	4.00	5.22	7.78	5.15
Manufacturing industry	3.80	-2.93	3.39	6.58	3.68	4.92
Electricity and gas	4.04	-2.34	5.55	9.09	3.85	7.81
Water provisioning and waste recycling	6.83	4.94	4.97	5.78	4.56	4.14
Construction	5.76	-3.26	2.81	4.42	3.84	3.91
Wholesale trade and repairs	4.60	-3.78	4.65	9.52	5.15	5.56
Transportation and warehousing	6.37	-15.05	3.24	25.10	-0.72	7.93
Hotels, restaurant, and catering	5.79	-10.26	3.89	21.58	-0.14	4.95
Information and communication	9.42	10.61	6.81	6.90	5.54	6.21
Financial services and insurance	6.61	3.25	1.56	8.33	4.29	-2.59
Real estate	5.76	2.32	2.78	2.82	3.42	3.94
Business services	10.25	-5.44	0.73	9.94	-0.59	0.89
Govt. administration , defence, and social security	4.63	-0.03	-0.33	9.95	-9.95	0.98
Educational services	6.30	2.61	0.11	5.89	-4.42	0.70
Healthcare and social services	8.66	11.56	10.46	11.69	14.06	12.16
Other services	10.56	-4.10	2.12	11.97	-0.30	3.35
GROSS DOMESTIC PRODUCT	5.02	-2.07	3.69	7.07	3.51	5.02

Table 4. Gross Domestic Products by expenditure (%YoY)

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q2-21	Q3-21	Q4-21
Household consumption	5.04	-2.63	2.02	5.96	1.02	3.55
Consumption by non-profit organizations	10.67	-4.25	1.59	3.99	2.79	3.29
Government consumption	3.29	1.96	4.17	8.06	0.62	5.25
Fixed-asset investment	4.48	-4.96	3.80	7.52	3.76	4.49
Exports of goods and services	-0.51	-8.14	24.04	31.50	29.16	29.83
Imports of goods and services	-6.92	-16.72	23.31	31.84	29.95	29.60
GROSS DOMESTIC PRODUCT	5.02	-2.07	3.69	7.07	3.51	5.02

Source: BPS

Indonesia – Economic Projections Table

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.2
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4640
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	3.3
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.0
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	14,660
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	30.6
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.6*	0.1

* Provisional numbers for 2021

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E. Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext: 1051352

Agus Salim Hardjodinoto
Industry Analyst
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

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

Keely Julia Hasim
Economist / Analyst
Keely_hasim@bca.co.id
+6221 2358 8000 Ext: -

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

Derrick Gozal
Economist / Analyst
derrick_gozal@bca.co.id
+6221 2358 8000 Ext: 1066722

Lazuardin Thariq Hamzah
Economist / Analyst
Lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: -

Arief Darmawan
Research Assistant
arief_darmawan@bca.co.id
+6221 2358 8000 Ext: 20364

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

Livia Angelica Thamsir
Economist / Analyst
livia_thamsir@bca.co.id
+6221 2358 8000 Ext: 1069933

Ahmad Aprilian Rizki
Research Assistant
ahmad_rizki@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

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