GDP:
2022: A good year after all

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Executive Summary

- Indonesia's GDP grew 5.31% for whole year of 2022, driven by domestic recovery from the Covid-19 pandemic and global rebound in commodity prices and demand. However this domestic prowess started to weaken in the fourth quarter (5.01% YoY, 0.36% QoQ) as global weakness started to erode trade activities and seep into the domestic economy.
- Better than expected US labor data and ongoing recovery of the Chinese economy could mean the global economy is entering a "soft landing", supporting commodity prices but delaying the long awaited Fed pivot, keeping BI on guard.
- Robust investment growth should balance out a slight potential softening in consumption and government spending and an unpredictable reduction in net exports. For the time being, we maintain our GDP growth outlook for 2023 at 4.74% YoY, albeit with potentials to surprise on the upside.

- Indonesia's GDP in 2022 grew by 5.31% YoY, beating market expectations (5.29% YoY) and serve as a testament of the resilience of the domestic economy amidst increasing global headwinds. Indeed both domestic and global forces contributed to growth, including recovery of household consumption and business activities due to elimination of Covid-19 restrictions and a significant rebound in global commodity prices and demand due to Russian-Ukrainian conflict and a global energy crunch.

- As expected, however, the prowess of the domestic economy started to weaken in the fourth quarter, as global weakness – triggered by recessionary fears – spread to the domestic economy. Exports was the first to be hit by the global slowdown. Weakness in major export markets translate to drop in the output of export-oriented manufacturing industries such as textiles (8.1% YoY) and furniture (-3.9% YoY). Nonetheless, contributions of net exports to growth remain positive as imports declined faster – but this comes with a warning about short-term domestic prospects.

- Domestic household consumption, the main engine of the economy, has shown signs of slowdown, e.g. declining imports of consumer goods in the past few months. In Q4-22, it only grew by 4.48% YoY (versus 5.39% in Q3) as consumers grapple with thinning savings and worsening confidence. The decline is obviously less marked for staples, whereas leisure or tertiary needs showed bigger decline, although some sectors such as hotels are still showing very high growth (19.6%) owing to high-base effects.

- Meanwhile, the increased foreign investment into mining related sectors has supported steady investment in machinery (18.36% YoY), and is also reflected in the still-elevated imports of capital goods. On the flip side, investment into structure remains soft, as saturated property market and the reduction of government capital expenditure has hindered construction activities. The outlook for investment remains nevertheless quite positive, with continuing FDI into metals (hastened by further bans on bauxite and other ores) as well as the resumption of several government projects, including the new capital city megaproject that should start in earnest this year.

- Government consumption, however, is another thing. As in previous quarters, fiscal spending contributed negatively to growth in Q4-22, this time largely due to the reduction of fuel subsidies. On the other hand, government revenues increased from the ongoing commodity boom and the implementation of the Tax Harmonization Law, explaining the negative contribution and making the government a net saver. This has two interesting consequences. First the government could potentially spend more in the first half of the year as opposed to the usual "last minute boost", providing a potential boost for economic growth. Second is the potential for the government to start another round of fiscal stimulus in case the other engines of the economy: consumption and investment slowdown more than expected.

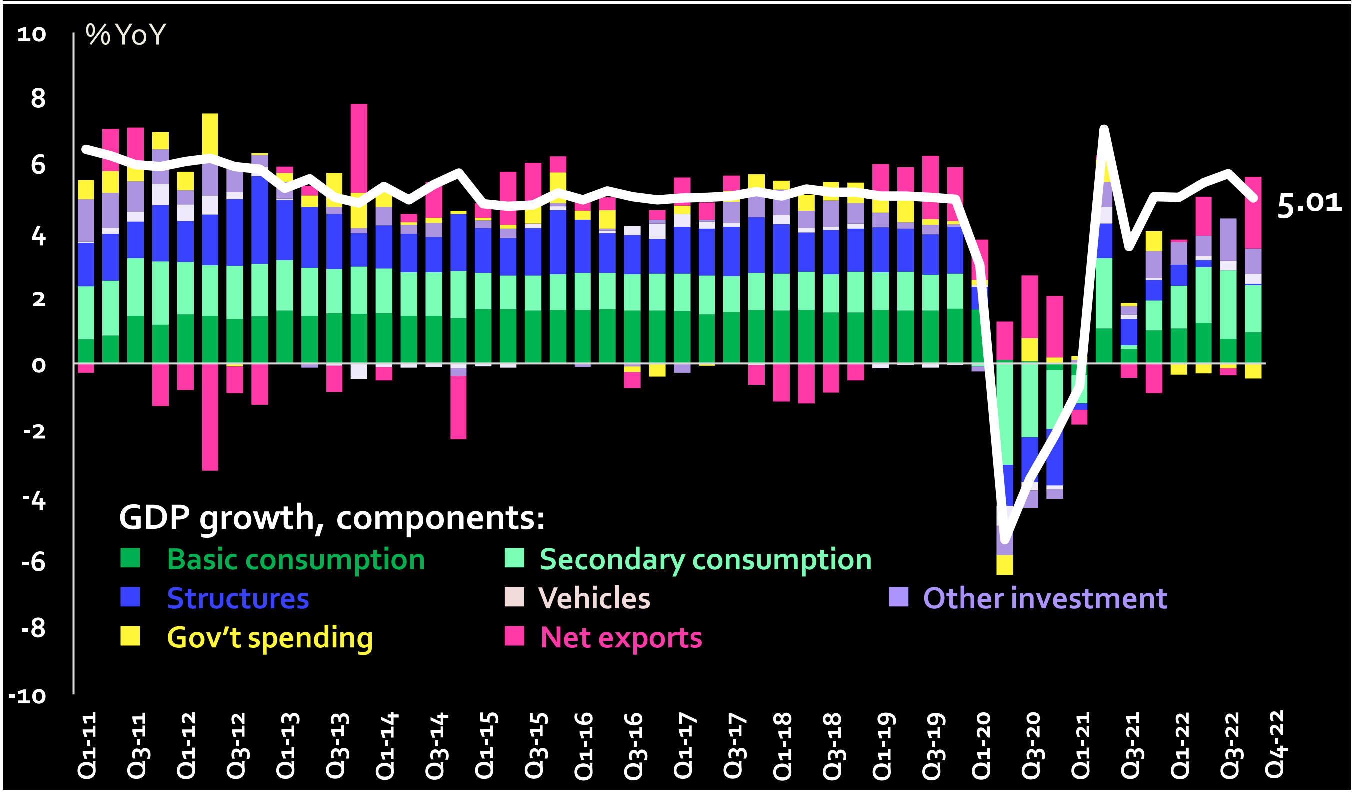
- Amid softer growth outlook elsewhere, growth outlook in 2022 would increasingly rely on domestic "engines", with some support from external factors especially FDI. This should give Indonesia an edge in increasingly uncertain and volatile global environment. In the first part of 2023, domestic growth is likely to be buoyed by various momentums such as the fasting and Ramadan festivities, boosted by an increase of formal sector wages in April and still rich pickings of the harvest seasons. The government's relatively successful food price controls should keep inflation at bay, preserving consumer and business confidence.

- Meanwhile stronger than expected US labor data in addition to the already ongoing recovery of the Chinese economy could further indicate the global economy is entering a "soft landing" scenario. In the short to medium-term, this should have mixed effects. It should keep global demand for commodities higher than expected, keeping commodity prices elevated and thus Indonesia's exports intact (although it appears, for now, as if the uptick in metal prices are being outweighed by the decline in energy prices).

- But on the other hand, it can prompt the Fed to delay its long-awaited pivot, meaning that the recent capital inflows and IDR rally – boosted as it was by expectations of a rate cut – might not continue and could indeed revert. This means BI is likely to keep on guard, maintaining its pro-stability monetary stance in lockstep with the Fed, and the prospects of renewed accommodative policies (outside of macroprudential ones) remain limited for the time being.

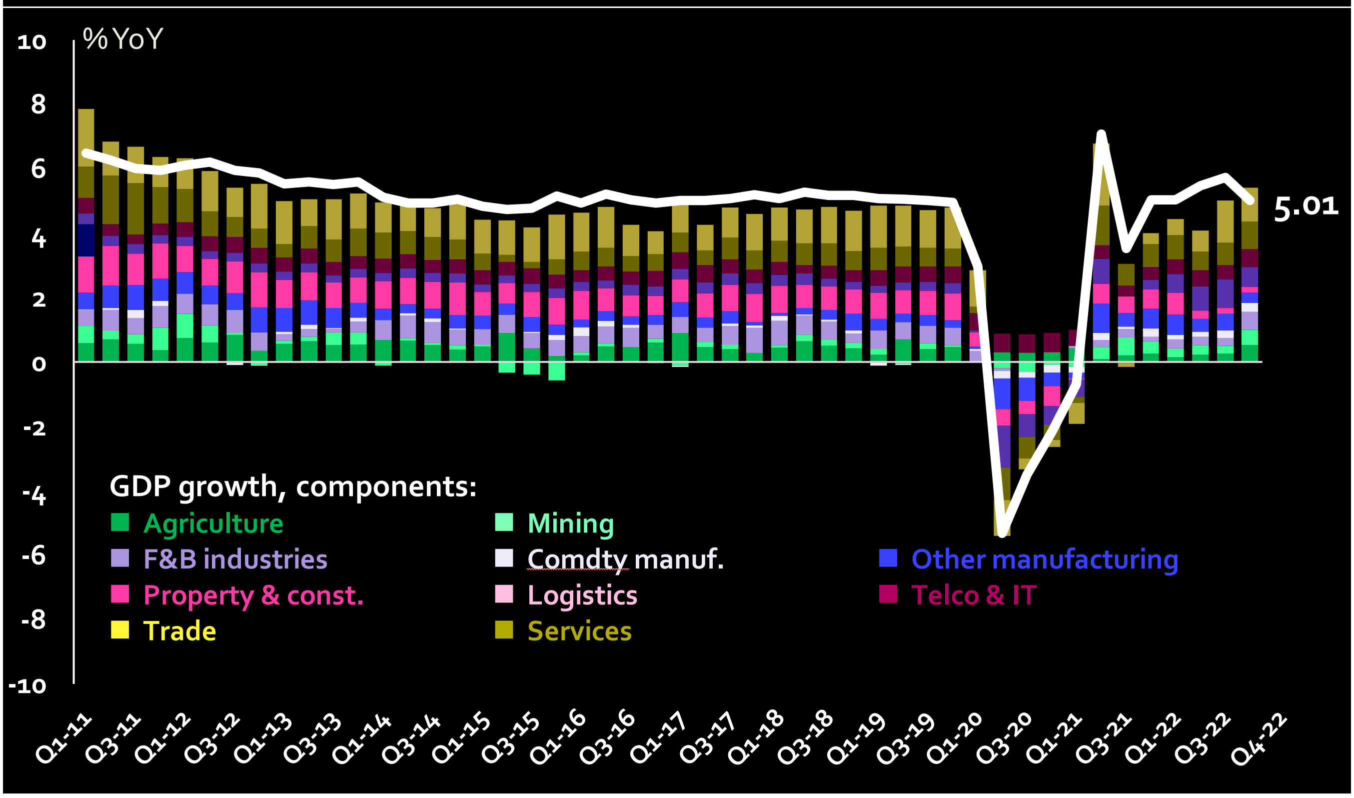
- All in all, we believe that these developments should support relatively healthy growth in 2023, with robust investment growth helping to balance out a slight potential softening in consumption, a narrow-ish decline in government spending (after a relatively major one in 2022), and an unpredictable reduction in net exports. For the time being, we maintain our GDP growth outlook for 2023 at 4.74% YoY, albeit with potentials to surprise on the upside.

Chart 1. Growth in Q4 propped up by consumption and declining import numbers



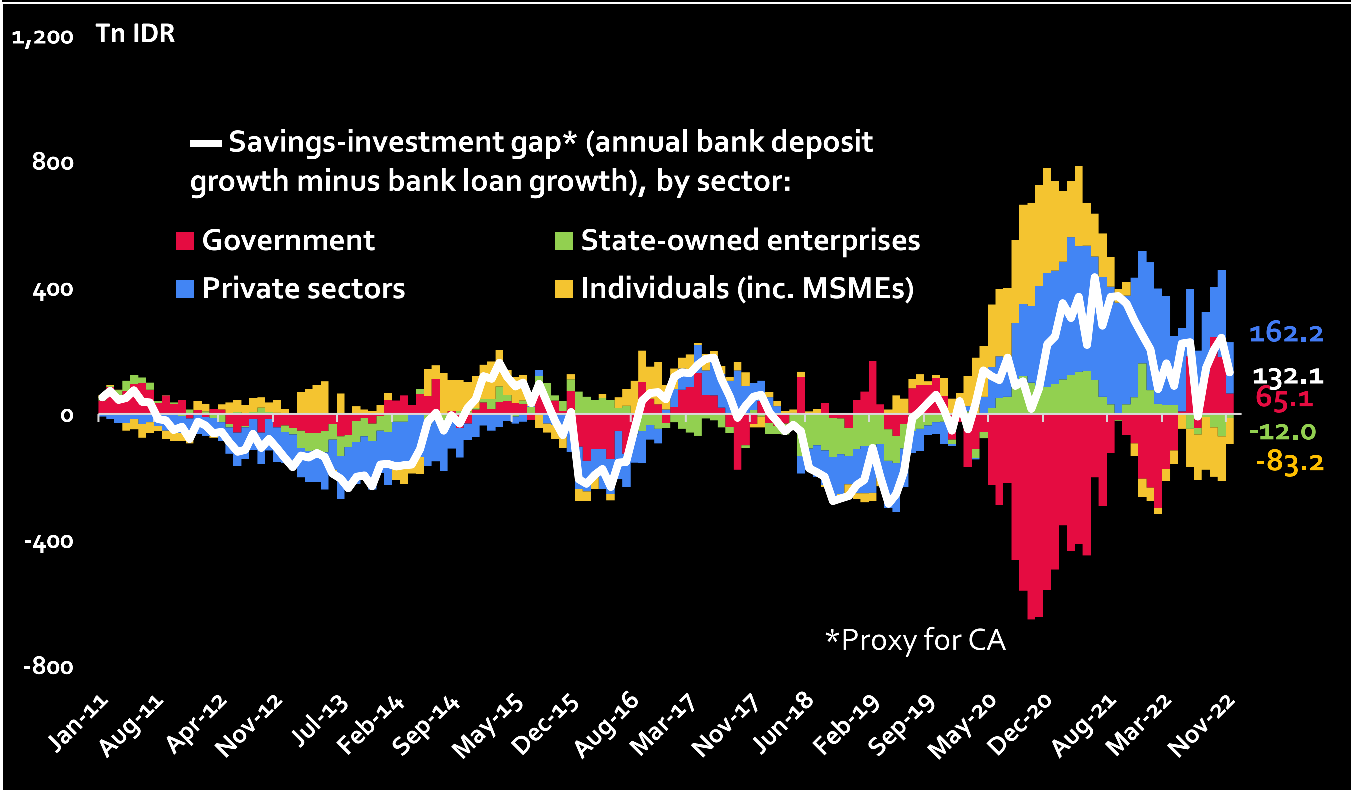
Source: BPS, BCA Economist

Chart 2. GDP growth driven by commodity related sectors in the midst of global energy crisis



Source: BPS, BCA Economist

Chart 3. The government's net savings gradually close the saving investment gap



Source: BI

Selected Macroeconomic Indicator

Table 1. Gross Domestic Products by sector (nominal)

	2021		2022		Q4-21	Q1-22	Q2-22	Q3-22	Q4-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,254.5	13.3	2,430.5	12.4	512.5	566.7	640.5	659.0	564.3
Mining and quarrying	1,523.7	9.0	2,393.4	12.2	469.1	467.4	619.0	660.0	647.0
Manufacturing industry	3,266.9	19.2	3,591.9	18.3	845.4	866.3	877.8	910.4	937.4
Electricity and gas	190.0	1.1	204.7	1.0	49.7	50.0	50.5	52.0	52.2
Water provisioning and waste recycling	12.0	0.1	12.5	0.1	3.1	3.0	3.2	3.2	3.2
Construction	1,771.7	10.4	1,911.2	9.8	471.3	470.4	449.5	480.9	510.4
Wholesale trade and repairs	2,199.9	13.0	2,516.6	12.8	571.7	590.7	624.8	648.1	653.0
Transportation and warehousing	719.6	4.2	979.8	5.0	205.2	208.5	235.9	254.9	280.5
Hotels, restaurant, and catering	412.3	2.4	472.1	2.4	109.7	110.1	116.2	118.3	127.5
Information and communication	748.8	4.4	812.8	4.1	192.8	196.0	201.6	203.8	211.3
Financial services and insurance	736.2	4.3	808.5	4.1	185.5	195.9	203.6	202.8	206.2
Real estate	468.2	2.8	488.3	2.5	119.3	120.4	121.4	122.6	123.9
Business services	301.1	1.8	341.6	1.7	77.2	81.0	84.5	85.9	90.2
Govt. administration , defence, and social security	586.7	3.5	606.1	3.1	159.8	139.6	156.2	148.1	162.3
Educational services	557.7	3.3	567.1	2.9	153.6	129.2	140.5	142.3	155.1
Healthcare and social services	227.2	1.3	236.3	1.2	64.2	52.4	56.4	60.9	66.6
Other services	312.2	1.8	354.2	1.8	81.4	84.7	87.2	87.2	95.0
GROSS DOMESTIC PRODUCT	**16,976.5**	100.0	**19,587.5**	100.0	**4,498.6**	**4,508.7**	**4,899.3**	**5,067.4**	**5,112.1**

Table 2. Gross Domestic Products by expenditure (nominal)

	2021		2022		Q4-21	Q1-22	Q2-22	Q3-22	Q4-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	9,236.0	54.4	10,160.4	51.9	2,379.7	2,421.4	2,532.4	2,564.7	2,641.9
Consumption by non-profit organizations	207.9	1.2	229.0	1.2	53.3	53.2	57.5	58.7	59.5
Government consumption	1,569.5	9.2	1,500.7	7.7	535.6	253.4	349.5	390.9	507.0
Fixed-asset investment	5,227.9	30.8	5,697.3	29.1	1,394.9	1,373.6	1,343.8	1,454.0	1,525.9
Exports of goods and services	3,634.4	21.4	4,797.7	24.5	1,058.8	1,032.6	1,205.3	1,295.6	1,264.2
Imports of goods and services	3,189.9	18.8	4,094.2	20.9	920.3	922.3	997.8	1,105.2	1,068.9
GROSS DOMESTIC PRODUCT	**16,976.7**	100.0	**19,588.4**	100.0	**4,498.6**	**4,508.6**	**4,897.9**	**5,067.0**	**5,114.9**

Source: BPS

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

	Last 3 Years			Last 3 Quarters		
	2020	2021	2022	Q2-22	Q3-22	Q4-22
Agriculture, livestock, forestry, and fishery	1.77	1.87	2.31	1.62	1.96	4.83
Mining and quarrying	-1.95	4.00	4.38	4.01	3.22	6.46
Manufacturing industry	-2.93	3.39	4.89	4.01	4.83	5.63
Electricity and gas	-2.34	5.55	6.61	9.33	8.05	2.31
Water provisioning and waste recycling	4.94	4.97	3.23	4.46	4.26	2.84
Construction	-3.26	2.81	1.92	1.02	0.63	1.26
Wholesale trade and repairs	-3.79	4.63	5.55	4.43	5.37	6.65
Transportation and warehousing	-15.05	3.24	19.62	21.27	25.80	16.09
Hotels, restaurant, and catering	-10.26	3.89	11.97	9.80	17.83	13.81
Information and communication	10.61	6.82	7.74	8.06	6.95	8.75
Financial services and insurance	3.25	1.56	1.82	1.50	0.87	3.32
Real estate	2.32	2.78	1.72	2.16	0.63	0.39
Business services	-5.44	0.73	8.83	7.92	10.79	10.64
Govt. administration , defence, and social security	-0.03	-0.33	2.57	-1.48	12.50	1.88
Educational services	2.61	0.11	0.59	-1.06	4.46	0.43
Healthcare and social services	11.56	10.45	2.77	6.51	-1.71	2.58
Other services	-4.10	2.12	9.47	9.26	9.13	11.13
GROSS DOMESTIC PRODUCT	**-2.07**	**3.70**	**5.31**	**5.47**	**5.73**	**5.01**

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

	Last 3 Years			Last 3 Quarters		
	2020	2021	2022	Q2-22	Q3-22	Q4-22
Household consumption	-2.63	2.02	4.93	5.51	5.39	4.48
Consumption by non-profit organizations	-4.21	1.62	5.64	5.02	5.97	5.70
Government consumption	2.12	4.24	-4.51	-4.63	-2.55	-4.77
Fixed-asset investment	-4.96	3.80	3.87	3.09	4.98	3.33
Exports of goods and services	-8.42	17.95	16.28	16.40	19.41	14.93
Imports of goods and services	-17.60	24.87	14.75	12.72	25.37	6.25
GROSS DOMESTIC PRODUCT	**-2.07**	**3.70**	**5.31**	**5.46**	**5.73**	**5.01**

Source: BPS

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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3*	4.7
GDP per Capita (US$)	3927	4175	3912	4350	4564*	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of the year)**	14,390	13,866	14,050	14,262	15,568	15,647
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	55.8*	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

*Estimated number

** Estimation of the Rupiah's fundamental exchange rate

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