GDP:

Private-driven cycle ending, public-driven one starting?

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Executive Summary

- Indonesia's GDP grew by 5.03% in Q1 2023, driven by the increase in consumption thanks to the general decline in the price level. Exports also remain an important contributor to the economy, as the still-resilient global demand in the last quarter continues to fuel the demand for Indonesian commodities.
- Household consumption will be increasingly relied upon given the weakening private sector revenue amidst the slowdown in external demand. Although the outlook for consumption remains strong, factors such as tightening credit conditions and the rising prices of basic goods may linger as a threat.
- Slowing activities in the private sector should encourage the government to assume a more active role in driving growth. The mounting liquidity in the public sector may help the government to ramp up fiscal spending throughout the year.

- Indonesia recorded a 5.03% YoY growth in the first quarter of the year, outpacing the 5.01% YoY growth in the previous quarter while also beating market expectations of 4.95%. As always, household consumption provided the heavy lifting, accounting for 53.7% of the economy on the back of a 4.54% YoY growth. Indonesia's growth model in Q1 2023 still followed the tried-and-true strategy of private sector-driven growth that has fueled the economy since the latter half of 2021, as fixed-asset investments (2.11% YoY) and especially net exports (6.25% YoY) provided the uplift that again propels the Indonesian economy into another 5%-plus growth.

- On the surface, it may seem rather surprising that exports continued to provide a substantial boost for the economy, given the non-stop negative shocks throughout Q1 – from the sharp drop in coal prices to the US banking crisis. Amid the distressing headline news, however, it is easy to miss the resilience of the global economy, with China's rebounding growth (at 4.5%) beating expectations and the US (at 1.6% YoY) which was actually decent if we look past the inventory decline.

- Nevertheless, there are reasons to be more cautious moving forward, as both the American and Chinese models are starting to creak. The US banking crisis could eventually morph into a broader credit crunch, while China's manufacturing/export-heavy economy may be showing an early sign of struggle in April with a PMI reading of 49.5. So, if the demise of "Chimerica" as the global growth axis was overblown in Q1, the rest of 2023 could provide a sterner test

as the shock from weaker US demand transmits upstream to China's manufacturing sector and then to commodity exporters like Indonesia.

- Domestic activities are generally quite resilient to these global shocks, but they are not quite immune. China's reopening has led to a surge in cheaper imports, which was good news for consumers but a problem for manufacturers, especially with the now-stronger Rupiah. BCA's big data already picks up slowing revenue growth for many business sectors, while industry-wide data are showing deceleration in working capital loans. This is likely to translate into a slowdown in fixed-asset investment (FAI), which was already off its H2-22 heights despite the still-stellar FDI numbers.

- To be sure, FAI had been a mixed bag in 2022, and will probably remain so this year. Real estate investment, long the biggest driver of FAI, has been largely anaemic – with the WFH/e-commerce revolution during the pandemic likely proving a final straw after years of oversupply and speculation-driven growth. On the other hand, the non-structures part of FAI continued to do well, and this could be partly attributed to the thriving "nickel-industrial complex". We do not see much danger that FAI growth could turn deeply negative, given the government's singular focus on the mine-to-market industrial policy goals, as well as the large numbers of outstanding public projects. Nonetheless, the private sector is likely to pare down its investment appetite – which implies the end of the private-driven growth model.

- Households may be the one part of the private sector which shows no signs of slowing yet. While there were bumps and bruises along the way – fuel hike in Q3-22, spiking rice prices in recent months – the flow of cheap imported goods has thus far helped to restore consumers' purchasing power. This trend may continue for months, as Chinese manufacturers are still in the dumping phase of their inventory cycle. In the same vein, the 2023 Ramadan/Lebaran season, while not a spectacular rebound or "revenge spending" the way the 2022 season was, was a positive one for retailers when all is said and done.

- Even more encouragingly, this demand is not limited to small items, but also for durable goods like automobiles and household appliances. The resilient demand for big-ticket items can be partly attributed to Bank Indonesia's macroprudential policies – with the 0% LTV ratio (for some consumer loans) ensuring that credit remains accessible to most. However, there are reasons to believe that BI's accommodative policies may be reaching its limits, with declining liquidity in the banking system likely to cause either rising rates and/or more limited access to loans.

> ***"Government spending may account for a greater share of the economy in upcoming quarters as private sectors lose its momentum"***

- Fortunately for Indonesia, even if the private leg might be tiring, the public leg is still loaded with energy to power through a global road that is potentially full of potholes in 2023 and 2024. On the monetary side, while we suggest that BI may not cut rates that quickly, it does have the option of easing the reserve requirement ratio (currently at a record-high 9%) if it wants to boost lending quickly.

- However, the bulk of the initiatives should come from the fiscal side of things. Indeed, the declining liquidity in the banking sector may be attributed to the fact that large amounts of it are sequestered in public coffers. There are many arguments for this, ranging from BI's near

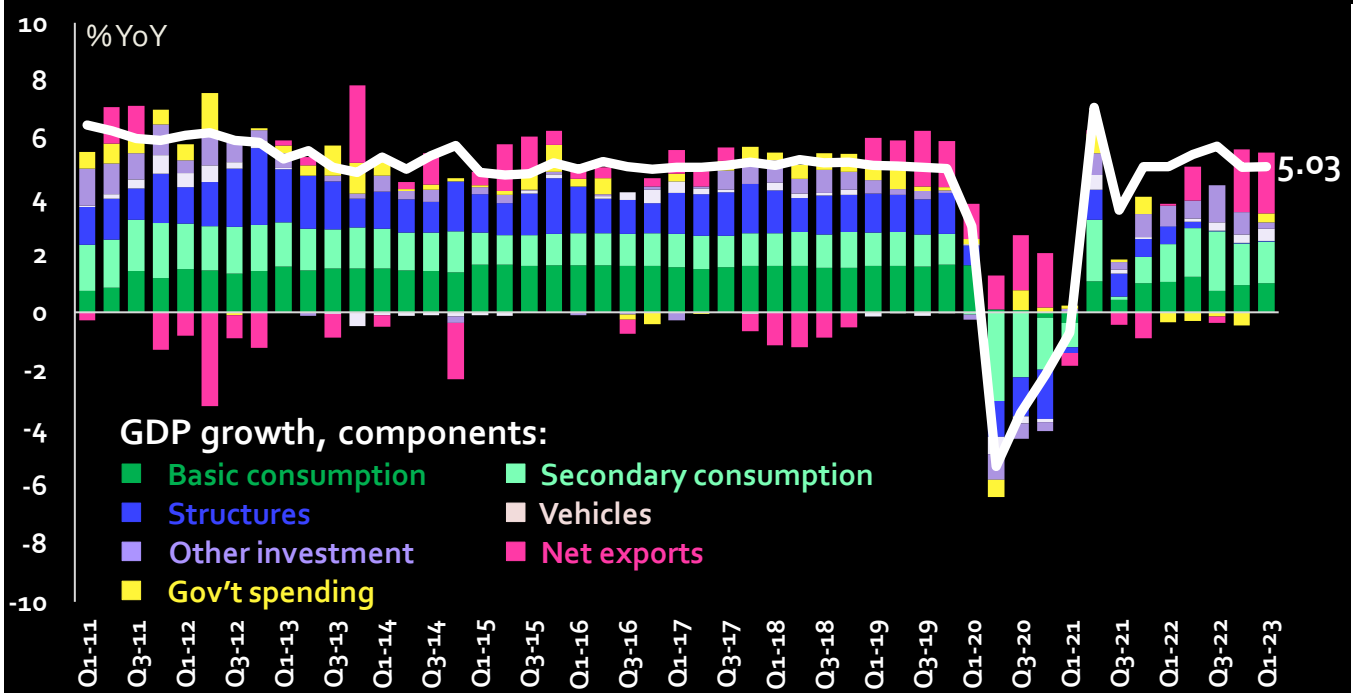
record-high FX reserves (partly coming from FX bonds and government revenue) to the government's significant budget surplus (0.61% of GDP by the end of Q1-2023). Our previous report had also shown a more complete picture regarding the build-up of government funds in the banking system, which are reaching a historic high.

- As such, government spending may once again resume a more active role in driving growth. After a year when it largely pulled back (resulting in a negative contribution to GDP growth), it resumed positive contribution in Q1 at 0.22%. More contribution is likely coming, with the government expediting the disbursement of social assistance funds (Bansos) in Q2. This kind of targeted intervention could be justified on the grounds of inflation, particularly of necessities such as rice, which disproportionately affects lower-income households.

- But the most anticipated fiscal (or related) event of the year is still the lead-up to the General Elections of February 2024. The government's own budget for the election, earmarked at around 0.36% of GDP, would provide a considerable boost to the economy. Election periods also coincide with an increase in money velocity, indicating an increase in transaction volume in domestically-oriented sectors such as transportation, retail, and services in general. Rising demand for advertisement in the months leading to the election is also an obvious boon for the media and telecommunication sectors. We also often see a spike in spending by non-profit institutions as election day approaches.

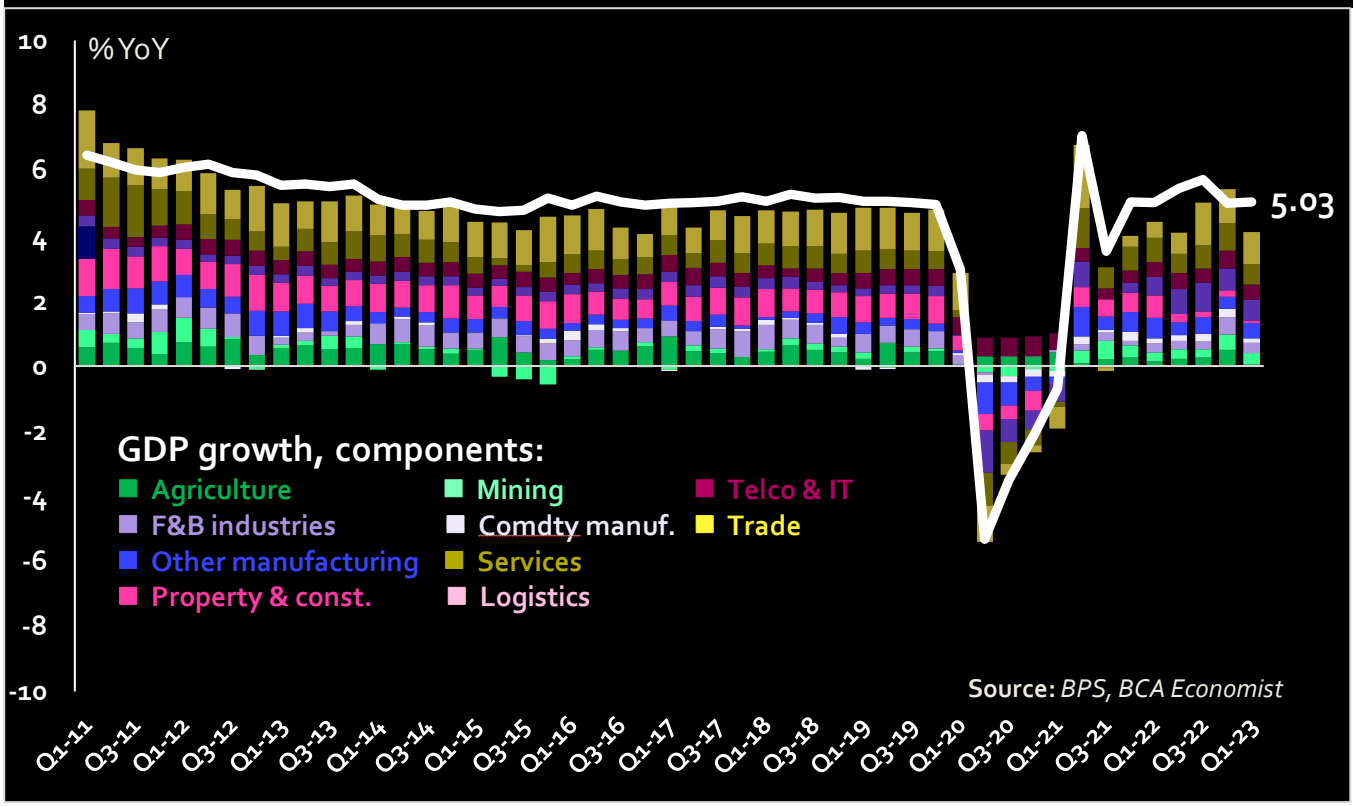
- Thus, the government's fiscal operation may reach its peak during the latter half of the year, coinciding with the moment when the US (and global) economy is expected to slow down. The "Keynesian cavalry" deployed by the Indonesian government shall strengthen the argument for Indonesia as a haven of growth amidst the challenging global situation, which leads us to improve our expectation for the economy to reproduce another 5% growth in 2023.

Chart 1. Exports and investment continue to add to the GDP number in Q1 2023 but the economy may become increasingly reliant on consumption in the upcoming quarters



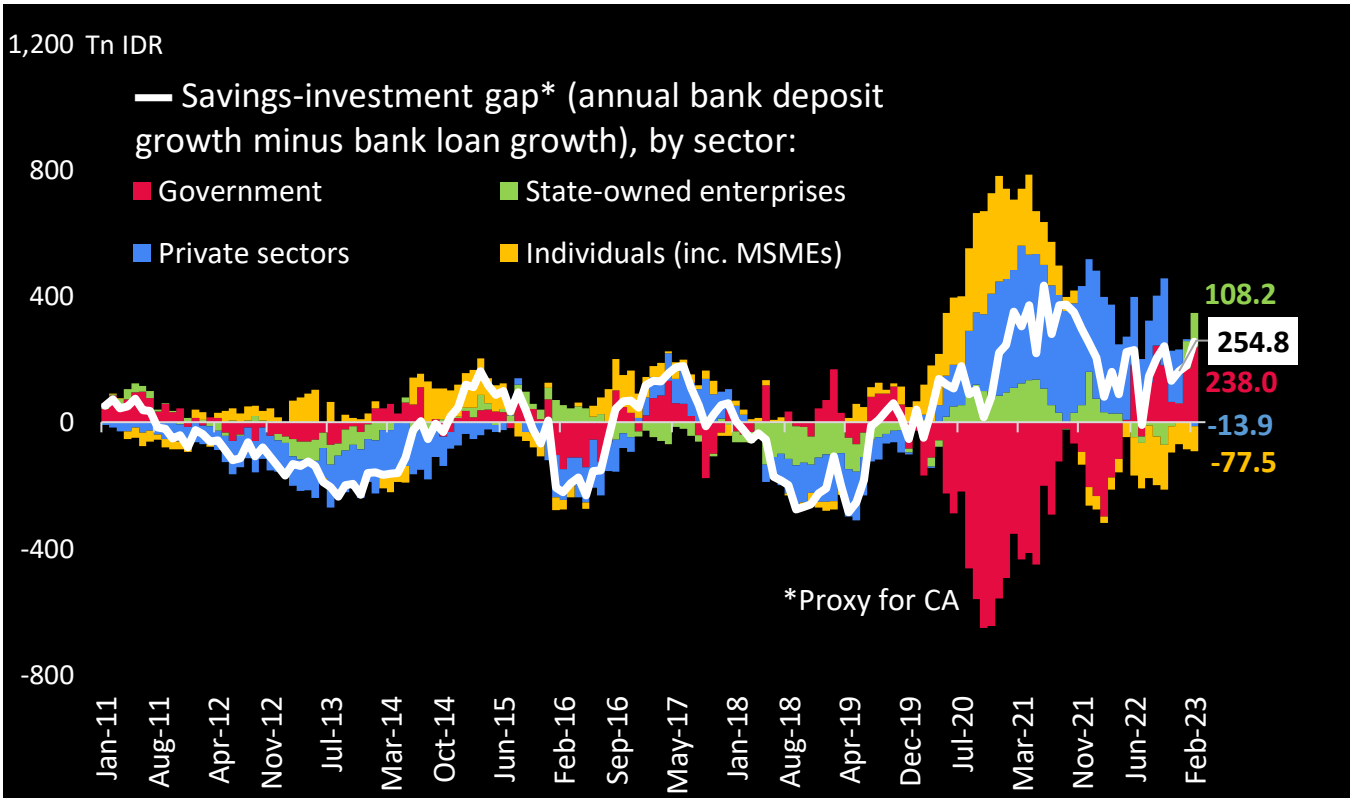
Source: BPS, BCA Economist

Chart 2. The worsening global demand outlook means that domestic-driven sectors would be looked upon to provide growth for the economy



Source: BPS, BCA Economist

Chart 3. The private sector's weakening impulses present an urgency for the government to start becoming a dissaver



Source: BI

Selected Macroeconomic Indicator

Table 1. Gross Domestic Products by Sector (nominal)

	2021		2022		Q1-22	Q2-22	Q3-22	Q4-22	Q1-23
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,253.8	13.3	2,428.9	12.4	566.7	640.7	658.9	562.6	597.0
Mining and quarrying	1,523.7	9.0	2,393.4	12.2	467.4	619.0	660.0	647.0	600.9
Manufacturing industry	3,266.9	19.3	3,591.8	18.3	866.3	877.8	910.4	937.3	941.6
Electricity and gas	190.0	1.1	204.7	1.0	50.0	50.5	52.0	52.2	52.7
Water provisioning and waste recycling	12.0	0.1	12.5	0.1	3.0	3.2	3.2	3.2	3.2
Construction	1,771.7	10.4	1,913.0	9.8	470.4	449.5	480.9	512.2	501.2
Wholesale trade and repairs	2,200.5	13.0	2,516.6	12.8	590.7	624.8	648.1	653.0	656.8
Transportation and warehousing	719.6	4.2	983.5	5.0	208.5	235.9	254.9	284.3	281.8
Hotels, restaurants, and catering	412.3	2.4	472.1	2.4	110.1	116.2	118.3	127.5	124.9
Information and communication	748.8	4.4	812.8	4.1	196.0	201.6	203.8	211.3	212.4
Financial services and insurance	736.2	4.3	809.4	4.1	195.9	203.6	202.8	207.1	218.4
Real estate	468.2	2.8	488.3	2.5	120.4	121.4	122.6	123.9	124.9
Business services	301.1	1.8	341.4	1.7	81.0	84.5	85.9	90.0	90.7
Govt. administration, defence, and social security	584.4	3.4	605.1	3.1	139.5	156.1	148.0	161.4	144.9
Educational services	556.3	3.3	566.6	2.9	129.2	140.5	142.3	154.7	133.1
Healthcare and social services	227.0	1.3	236.2	1.2	52.4	56.4	60.9	66.4	56.4
Other services	312.2	1.8	354.2	1.8	84.7	87.2	87.2	95.0	96.9
GROSS DOMESTIC PRODUCT	**16,970.8**	100.0	**19,588.4**	100.0	**4,508.6**	**4,897.9**	**5,067.0**	**5,114.9**	**5,071.7**

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

Table 2. Gross Domestic Products by Expenditure (nominal)

	2021		2022		Q1-22	Q2-22	Q3-22	Q4-22	Q1-23
	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	2,421.4	2,532.4	2,564.7	2,641.9	2,682.0
Consumption by non-profit organizations	207.9	1.2	229.0	1.2	53.2	57.5	58.7	59.5	59.5
Government consumption	1,569.5	9.2	1,500.7	7.7	253.4	349.5	390.9	507.0	269.6
Fixed-asset investment	5,227.9	30.8	5,697.3	29.1	1,373.6	1,343.8	1,454.0	1,525.9	1,476.5
Exports of goods and services	3,634.4	21.4	4,797.7	24.5	1,032.6	1,205.3	1,295.6	1,264.2	1,151.6
Imports of goods and services	3,189.9	18.8	4,094.2	20.9	922.3	997.8	1,105.2	1,068.9	992.2
GROSS DOMESTIC PRODUCT	**16,976.7**	100.0	**19,588.4**	100.0	**4,508.6**	**4,897.9**	**5,067.0**	**5,114.9**	**5,071.7**

Source: BPS

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

	Last 3 Years			Last 3 Quarters		
	2020	2021	2022	Q3-22	Q4-22	Q1-23
Agriculture, livestock, forestry, and fishery	1.77	1.87	2.31	1.97	4.57	0.34
Mining and quarrying	-1.95	4.00	4.38	3.22	6.46	4.92
Manufacturing industry	-2.93	3.39	4.89	4.83	5.64	4.43
Electricity and gas	-2.34	5.55	6.61	8.05	2.31	2.67
Water provisioning and waste recycling	4.94	4.97	3.23	4.26	2.84	5.69
Construction	-3.26	2.81	1.92	0.63	1.61	0.32
Wholesale trade and repairs	-3.79	4.63	5.55	5.33	6.53	4.89
Transportation and warehousing	-15.05	3.24	19.62	25.79	16.98	15.93
Hotels, restaurants, and catering	-10.26	3.89	11.97	17.83	13.84	11.55
Information and communication	10.61	6.82	7.74	6.95	8.78	7.19
Financial services and insurance	3.25	1.56	1.82	0.87	3.76	4.48
Real estate	2.32	2.78	1.72	0.63	0.39	0.37
Business services	-5.44	0.73	8.83	10.79	10.42	6.37
Govt. administration, defence, and social security	-0.03	-0.33	2.57	12.50	1.78	2.09
Educational services	2.61	0.11	0.59	4.46	0.43	1.02
Healthcare and social services	11.56	10.45	2.77	-1.74	2.47	4.77
Other services	-4.10	2.12	9.47	9.13	11.14	8.90
GROSS DOMESTIC PRODUCT	**-2.07**	**3.70**	**5.31**	**5.76**	**5.02**	**5.03**

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

	Last 3 Years			Last 3 Quarters		
	2020	2021	2022	Q3-22	Q4-22	Q1-23
Household consumption	-2.63	2.02	4.93	5.39	4.48	4.54
Consumption by non-profit organizations	-4.21	1.62	5.64	5.97	5.70	6.17
Government consumption	2.12	4.24	-4.51	-2.55	-4.77	3.99
Fixed-asset investment	-4.96	3.80	3.87	4.98	3.33	2.11
Exports of goods and services	-8.42	17.95	16.28	19.41	14.93	11.68
Imports of goods and services	-17.60	24.87	14.75	25.37	6.25	2.77
GROSS DOMESTIC PRODUCT	**-2.07**	**3.70**	**5.31**	**5.73**	**5.01**	**5.03**

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	5.0
GDP per Capita (US$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	3.4
BI 7-day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of the year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

*Estimated number

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