

## GDP: Is Indonesia's V-shape here to stay?

### Executive Summary:

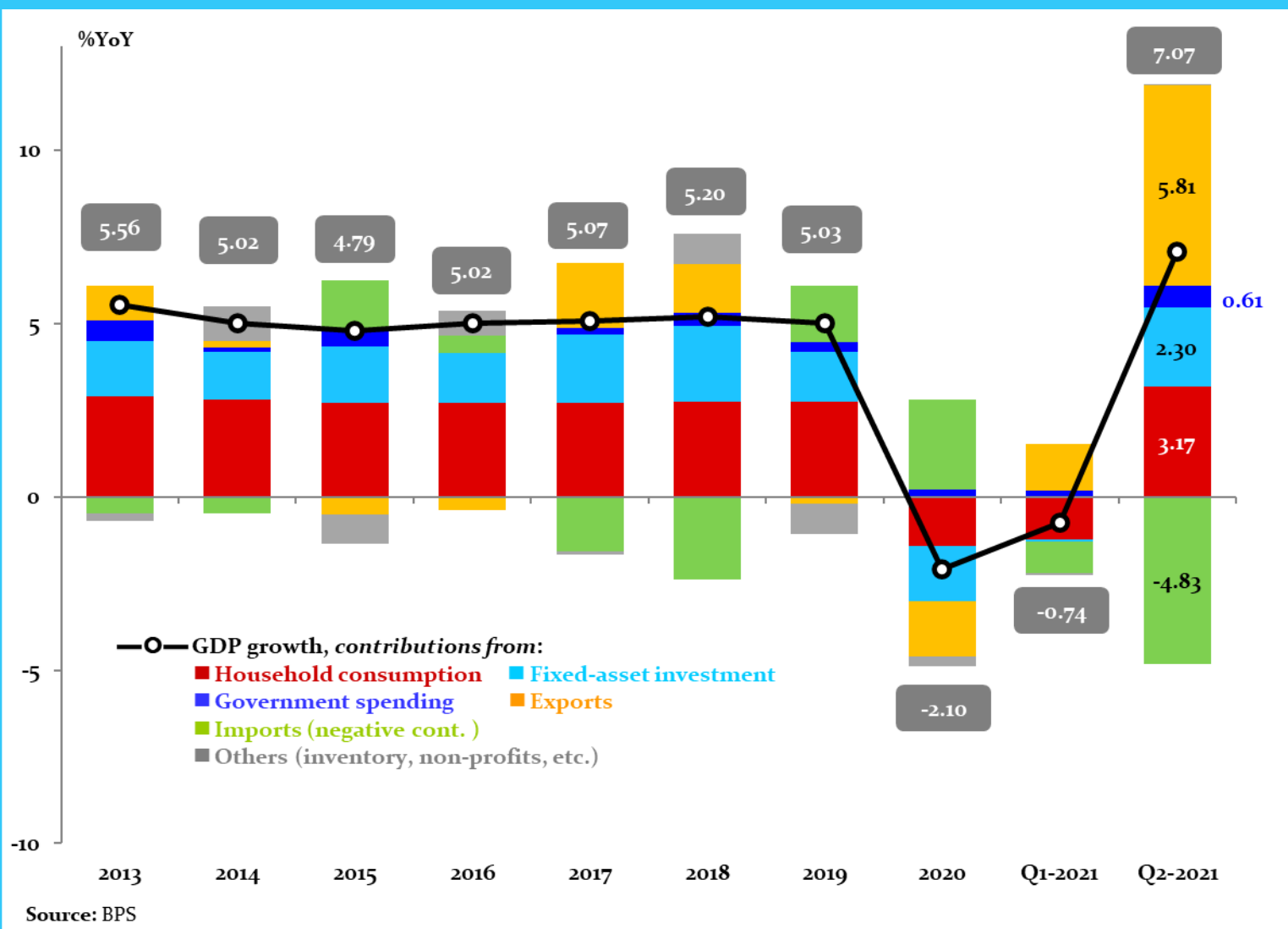
- **Indonesia's GDP jumped by 7.07% YoY in Q2-2021, with a significant increase observed across all components.** This was driven by a combination of Lebaran spending as well as the low base numbers of Q2-2020.
- **However, it remains to be seen whether this strong recovery can remain sustainable, particularly amidst the current resurgence of cases and the reimposition of stricter mobility restrictions.**
- **With current restrictions putting pressure on domestic activity, exports are likely to lead the charge again in the coming months. Even here however, risks remain with regards to the Delta-driven surge of cases worldwide.** Of particular concern is the risk of prolonged restrictions in commodity-hungry China.
- **Indonesia's Gross Domestic Product (GDP) jumped by 7.07% YoY in Q2-2021, well above the projections of most analysts.** A significant increase was observed across all components of GDP, coinciding as it did with the Lebaran period, as well as a historic low base in the second quarter of last year (**Chart 1**).
- **Leading the pack is the remarkable surge in exports (+31.22% YoY), which had already begun to gather steam as early as late last year.** Soaring commodity prices, bolstered by a swift recovery in the US and China, were the primary drivers here. Indeed, many of the best performing manufacturing sectors last quarter were export-oriented such as metals (+18.0% YoY) and rubber (+11.7% YoY).
- Aside from exports however, the long-suffering domestic sector also received some well-needed respite last quarter. **Both consumption (+5.9% YoY) and imports (+31.2% YoY) recorded substantial increases last quarter as a combination of low case counts and the onset of Lebaran provided a significant boost to demand.** Our own consumer activity index even suggested that consumer spending in Q2-2021 had already exceeded pre-Covid levels (**Chart 2**).
- **This recovery in demand was further aided by the disbursement of significant government stimulus last quarter** (government spending increased by 8.1% YoY and 29.1% QoQ in Q2-2021).
- Moreover, investment data from the Investment Coordinating Board (BKPM) suggests that a significant portion of this stimulus went to infrastructure projects. **This partly explains the robust performance of the fixed-asset component (+7.54% YoY) as well.** Other things stand out from BKPM's data as well. For one, a significant driver of both FDI and DDI last quarter was mining, perhaps related to current bottlenecks in the global supply chain. Additionally, FDI continues to recover much faster than DDI, providing a solid pillar for investment even if domestic conditions were to worsen.
- These however, were the results of euphoric conditions only possible with benign case counts. With the current surge in cases, as well as the reimposition of mobility restrictions, would such strong numbers continue to be sustainable? As mentioned in our previous report, current indicators present a mixed picture of the current economic impact of these restrictions. **On the grander scale of things however, much of the economic damage that can happen will depend on how quickly caseloads stabilize and restrictions are lifted.**
- **There are some encouraging signs in this regard, with caseloads already moving in the right direction in the economic heartlands of Java.** In fact, daily new cases in Jakarta are already close to where they were before the current surge. It is reasonable to expect some loosening of restrictions in Java sometime this month, although this might be more protracted in many regions outside Java, where caseloads are still on the rise.
- It is important to note however, that the current surge appears to have shifted the government's Covid playbook. A combination of the Delta variant's increased virality, as well as the relatively low efficacy of several of the vaccines currently used, means that the old target of reaching herd immunity solely through vaccinations appears to be no longer tenable. Instead, the government has announced that it will rely on a mixture of social restrictions, mask mandates, and vaccinations to bring the virus' reproduction rate down to 0.9 by October. **At least for the medium term then, this may signal a greater willingness on the government's part to enact tougher restrictions for longer periods of time.**

- **Aside from caseloads, much like last year, stimulus disbursement will also be an important factor in maintaining economic activity amidst current restrictions.** Fortunately, disbursement efforts may be swifter this year. For one, much of the groundwork for disbursement has already been laid last year, which should help alleviate some of its bureaucratic obstacles. Additionally, the fact that infrastructure spending (which tends to be easier to disburse) makes up a greater portion of this year's stimulus should also help grease the wheels.
- **With domestic conditions under pressure as they currently are, exports are likely to lead the charge again in the coming months. However, some risks remain here as well, particularly with the Delta-driven wave currently ravaging the globe.** In

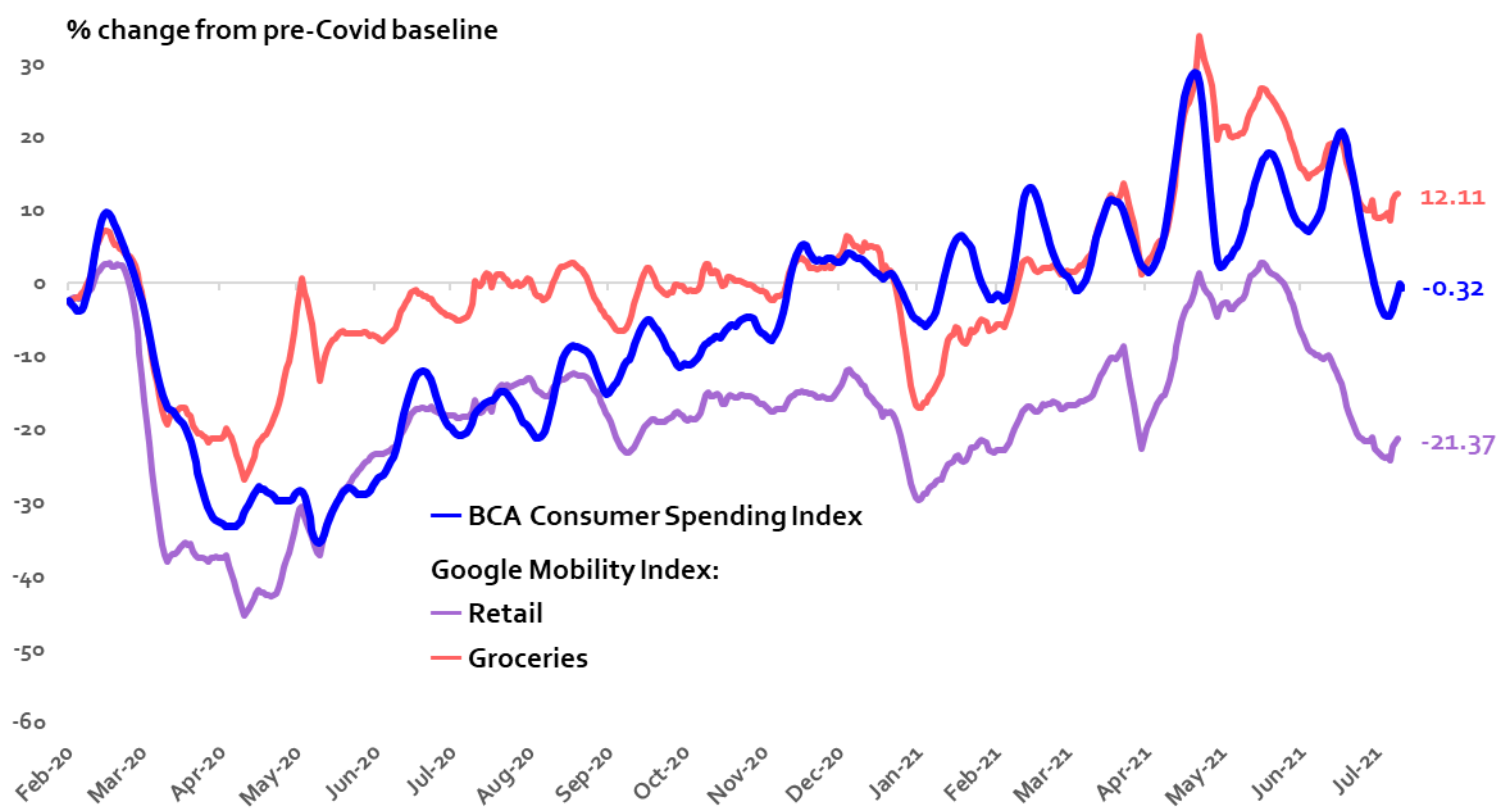
countries such as the US, the risks of economically damaging restrictions are relatively contained, with high rates of vaccinations greatly reducing the most deleterious effects of the current surge. In fact, several government officials have explicitly stated that the chances of a 2020-style lockdown remain quite slim.

- The greater risk right now lies in China, which has been pursuing a zero-tolerance policy against Covid. If this stance continues, and current efforts to contain Delta's spread prove insufficient, extended restrictions may very well persist in China for the first time in more than a year. The economic consequences of course, would be felt in the domain most closely entwined with Indonesian exports: commodity markets.

**Chart 1. GDP increased across all components in Q2-2021, lifted by a combination of Lebaran spending as well as the low-base numbers of Q2-2020**



**Chart 2. Our indicators suggest that consumer activity was already above pre-Covid levels in Q2-2021**



Source: Google, BCA Internal Data (last update: 31 Jul 2021)

## Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	3.6
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	15.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.3

\*\* Estimation of Rupiah's fundamental exchange rate

**Table 1. Gross Domestic Products by sector (nominal)**

	2019		2020		Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,013.6	12.7	2,115.1	13.7	569.8	571.6	470.2	524.6	596.0
Mining and quarrying	1,149.9	7.3	993.5	6.4	231.5	239.9	254.7	303.4	338.0
Manufacturing industry	3,119.6	19.7	3,068.0	19.9	732.6	773.4	778.4	787.4	805.6
Electricity and gas	185.1	1.2	179.7	1.2	42.0	45.7	46.1	46.7	46.0
Water provisioning and waste recycling	10.7	0.1	11.3	0.1	2.8	2.8	2.9	2.9	3.0
Construction	1,701.7	10.7	1,652.7	10.7	389.4	413.0	430.5	428.7	422.5
Wholesale trade and repairs	2,060.8	13.0	1,995.5	12.9	473.2	499.6	505.0	519.9	546.4
Transportation and warehousing	881.7	5.6	689.7	4.5	131.9	171.2	183.8	169.7	176.0
Hotels, restaurant, and catering	440.3	2.8	394.2	2.6	84.2	97.1	103.2	101.5	103.6
Information and communication	626.4	4.0	695.8	4.5	171.9	177.6	179.5	181.8	185.2
Financial services and insurance	671.4	4.2	696.1	4.5	163.9	168.4	179.4	181.9	184.5
Real estate	439.4	2.8	453.8	2.9	112.9	113.9	114.0	114.3	116.3
Business services	304.3	1.9	294.3	1.9	67.6	73.0	75.2	74.8	75.5
Govt. administration , defence, and social security	572.5	3.6	580.2	3.8	140.1	143.6	155.0	137.3	156.9
Educational services	522.7	3.3	549.4	3.6	130.4	139.2	150.0	128.6	140.8
Healthcare and social services	174.8	1.1	201.1	1.3	45.3	52.8	56.1	49.5	52.1
Other services	308.8	2.0	302.6	2.0	68.7	75.7	77.6	76.9	77.4
<b>GROSS DOMESTIC PRODUCT</b>	<b>15,833.9</b>	<b>100.0</b>	<b>15,434.2</b>	<b>100.0</b>	<b>3,687.8</b>	<b>3,894.6</b>	<b>3,929.2</b>	<b>3,970.5</b>	<b>4,175.8</b>

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

	2019		2020		Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	8,965.8	56.6	8,900.0	57.7	2,133.2	2,232.1	2,254.7	2,259.5	2,299.8
Consumption by non-profit organizations	206.0	1.3	201.3	1.3	50.0	50.4	50.7	48.9	52.8
Government consumption	1,385.9	8.8	1,433.7	9.3	319.4	377.7	481.8	264.3	355.6
Fixed-asset investment	5,119.5	32.3	4,897.8	31.7	1,128.9	1,227.6	1,291.7	1,269.5	1,247.0
Exports of goods and services	2,914.6	18.4	2,649.8	17.2	571.5	671.3	725.2	763.3	848.0
Imports of goods and services	2,992.0	18.9	2,472.9	16.0	563.3	568.1	654.4	720.0	793.6
<b>GROSS DOMESTIC PRODUCT</b>	<b>15,833.9</b>	<b>100.0</b>	<b>15,434.2</b>	<b>100.0</b>	<b>3,687.8</b>	<b>3,894.6</b>	<b>3,929.2</b>	<b>3,970.5</b>	<b>4,175.8</b>

Source: BPS

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

	Last 3 Years			Last 3 Quarters		
	2018	2019	2020	Q4-20	Q1-21	Q2-21
Agriculture, livestock, forestry, and fishery	3.89	3.64	1.71	2.59	3.33	0.38
Mining and quarrying	2.16	1.22	-1.95	-1.20	-2.02	5.22
Manufacturing industry	4.27	3.80	-2.93	-3.13	-1.38	6.58
Electricity and gas	5.47	4.04	-2.34	-5.01	1.68	9.09
Water provisioning and waste recycling	5.56	6.83	4.93	4.95	5.46	5.78
Construction	6.09	5.76	-3.26	-5.67	-0.79	4.42
Wholesale trade and repairs	4.97	4.62	-3.73	-3.64	-1.23	9.44
Transportation and warehousing	7.06	6.40	-15.06	-13.42	-13.12	25.10
Hotels, restaurant, and catering	5.68	5.80	-10.22	-8.88	-7.26	21.58
Information and communication	7.02	9.41	10.60	10.99	8.71	6.87
Financial services and insurance	4.17	6.60	3.25	2.37	-2.97	8.35
Real estate	3.48	5.74	2.34	1.25	0.94	2.82
Business services	8.64	10.25	-5.44	-7.02	-6.10	9.94
Govt. administration , defence, and social security	7.00	4.67	-0.05	-1.55	-3.05	9.49
Educational services	5.35	6.29	2.64	1.36	-1.71	5.72
Healthcare and social services	7.15	8.68	11.61	16.55	3.32	11.62
Other services	8.97	10.55	-4.09	-4.83	-5.16	11.97
<b>GROSS DOMESTIC PRODUCT</b>	<b>5.17</b>	<b>5.02</b>	<b>-2.07</b>	<b>-2.19</b>	<b>-0.71</b>	<b>7.07</b>

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

	Last 3 Years			Last 3 Quarters		
	2018	2019	2020	Q4-20	Q1-21	Q2-21
Household consumption	5.05	5.04	-2.63	-3.61	-2.22	5.93
Consumption by non-profit organizations	9.10	10.62	-4.25	-2.09	-4.03	4.12
Government consumption	4.80	3.25	1.99	1.84	2.34	8.06
Fixed-asset investment	6.64	4.45	-4.91	-6.02	-0.23	7.54
Exports of goods and services	6.55	-0.87	-7.72	-7.17	7.03	31.78
Imports of goods and services	11.88	-7.69	-14.25	-13.16	5.46	31.22
<b>GROSS DOMESTIC PRODUCT</b>	<b>5.17</b>	<b>5.02</b>	<b>-2.07</b>	<b>-2.19</b>	<b>-0.71</b>	<b>7.07</b>

Source: BPS

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