

GDP:

Domestic tailwinds, external headwinds

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Executive Summary

- Indonesia's GDP grew by 5.01% YoY in Q1-2022. The recovery appears to be broad-based, as strengthened confidence boosts growth in consumption and investment while exports remain the fulcrum of Indonesia's post-pandemic recovery.
- Consumption growth appears to be spearheaded by an increase in spending on non-essentials. This, however, would make future consumption growth more sensitive to inflation as increasing prices of necessities could limit spending on discretionary goods.
- While high commodity prices continue to do the trick for the Indonesian economy, the spectre of global economic stagflation will soon reveal the extent to which the external sector can be relied upon to keep the growth momentum alive. Policies such as a progressive windfall tax could provide a way to prolong the growth momentum derived from trade gains while also providing funds for programs that shield consumers from the full brunt of global inflation.

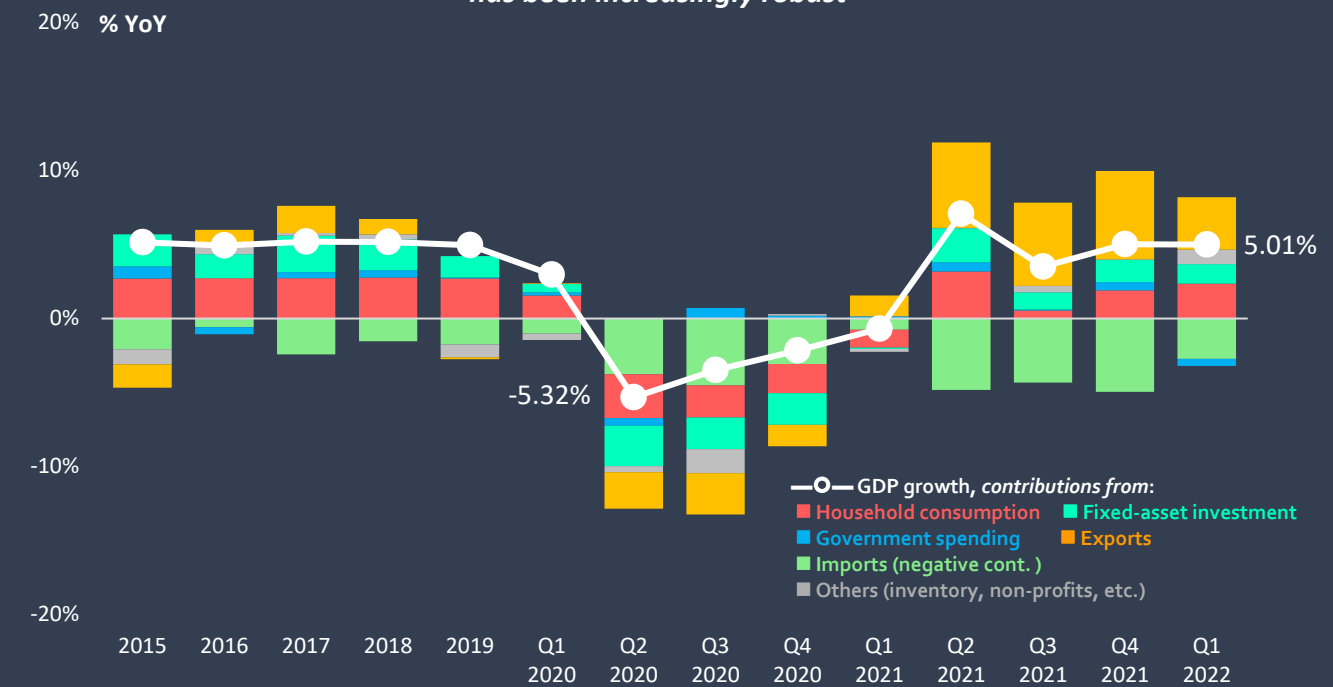
- Indonesia's gross domestic product (GDP) grew by 5.01% YoY, higher than the more modest projections of most analysts. The economy however, also appears to have contracted by 0.96% on a quarterly basis. This quarterly decline however, is more a function of pandemic-era distortions rather than a structural sluggishness in the economy itself. Indeed, growth in Q4-2021 received a significant boost from pent-up demand as Delta wound down. Growth in the following quarter then, not only softened as the economy began to normalize from this high-base, but was further held back by the outbreak of Omicron. In sum, these numbers show that the Indonesian economy has moved closer to its pre-pandemic growth average, and appears to be broad-based as well (**Chart 1**), yet another sign of growth normalization.
- A glimpse at the sectoral breakdown of the data however, also reveals that while the recovery appears to be broad-based, most of this recovery seems to be disproportionately driven by consumption-related sectors. Indeed, household consumption has been growing at a faster pace (+4.34% YoY in Q1 2022 vs +3.55% in Q4-2021), and its contribution to GDP growth has been steadily increasing over the past 3 quarters as well. This indicates that domestic mobility and consumption continue to recover as the economy becomes more resilient to pandemic-related shocks.
- Increasingly robust consumption is yet another indicator of the economy's normalization, as its recovery signals a return to Indonesia's pre-pandemic days, where consumption would typically be the dominant driver of economic growth. However, several challenges could also threaten consumption's newfound resilience. Firstly, despite relatively benign price increases throughout Q1-2022, individual consumers appear to already be running out of dry powder to absorb further price increases in the coming months (**Chart 2**). Indeed, much of the consumption growth seen in Q1-2022 has been spearheaded by discretionary spending as consumer confidence moves onto increasingly solid ground. Higher inflation however, as well as the rollback of government stimulus, could force consumers to re-route more of

their income from discretionary goods towards staples, taking some impetus out of the forces that had hitherto been driving consumption.

- This recovery in domestic consumption may have also justified growing confidence in the business sector, in line with the 4.09% increase in fixed-asset investment (also in line with the expansion of manufacturing PMI figures over the same period) as business activities roared back to life. Despite growing uncertainties, particularly in the global market, several developments may still generate some momentum that could help support investment. For instance, the re-commencement of several of the government's infrastructure projects would help keep the impetus for investments alive. It is corporate sector investment however, that took the lead in investment growth in Q1-2022, as growing confidence continued to fuel the corporate sector's ardor for business expansion.
- The external sector (+16.22% YoY) however, remains the primary breadwinner of the Indonesian economy, with exports contributing to 3.55 percentage points of growth (a significant chunk of a headline growth figure of 5.01%) on its own. This of course, was largely fuelled by soaring commodity prices, which may also explain Indonesia's somewhat elevated imports. It goes without saying that the post-pandemic commodity boom has helped mollify many of the challenges limiting domestic economic recovery, as hard currencies gained from exports provide the liquidity necessary to promote domestic consumption and fixed-asset investments. The fact that these export growth figures also declined from previous quarters however, also reveals the detrimental effects of the export-restriction policies introduced by the government throughout Q1-2022, which might also account for some of overall GDP's quarterly decline.
- While commodity prices continue to move in Indonesia's favor, such an advantage could fade as the global economy tiptoes into another slowdown. As discussed in our previous report ("Trade: Winds of fortune continue to breeze"), a combination of lower demand in the US as well as China's economic slowdown could bring global trade to a halt, suppressing the commodity price boom that has so far been a boon to Indonesia's economic prospects. Even if commodity prices remain obdurately high, it is less than likely that exports would continue to move further up north as high prices would eventually limit the volume of commodities demanded.
- The main question then, is how the government would utilize this commodity export windfall to shield the domestic economy from the rising risks of global stagflation. Firstly, it is worthwhile to note that while aggressive price control policies such as export restrictions are a blunt and straightforward instrument for controlling domestic prices, such policies would prove increasingly deleterious in the long term, as removing supply from an already deprived global market would exacerbate the inflationary pressures that the government is seeking to control in the first place. As such, lifting export restrictions while imposing a form of "progressive windfall taxes" may be a better way to shift the large surpluses of rising commodity prices to the social programs necessary to cushion customers from the adverse effects of rising prices. The government could also push the corporate sector to direct their excess liquidity to finance investment projects, providing a boost to the economy as global stagflationary pressures bear ever more oppressively upon it.

"While commodity prices continue to move in Indonesia's favour, such an advantage could fade as the global economy tiptoes into another slowdown".

Chart 1. The external sector remains responsible for GDP growth despite consumptions has been increasingly robust



Source: BPS

Chart 2. Household consumers running out of liquidity to back-up consumptions, while provisions remain for the corporate sector to charge ahead.



Source: Bank Indonesia, calculations by BCA economists

Selected Macroeconomic Indicators

Table 1. Gross Domestic Products by sector (nominal)

	2020		2021		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
	Rp Tn	Share	Rp Tn	Share	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	525.3	596.9	619.4	512.2	566.5
Mining and quarrying	993.5	6.4	1,523.7	9.0	303.4	338.0	413.1	469.1	472.9
Manufacturing industry	3,068.0	19.9	3,266.9	19.3	787.4	805.6	828.4	845.4	866.3
Electricity and gas	179.7	1.2	190.0	1.1	46.7	46.1	47.6	49.7	50.0
Water provisioning and waste recycling	11.3	0.1	12.0	0.1	2.9	3.0	3.0	3.1	3.0
Construction	1,652.7	10.7	1,771.7	10.4	428.7	422.5	449.3	471.3	470.4
Wholesale trade and repairs	1,994.1	12.9	2,200.5	13.0	519.4	546.3	562.9	571.9	590.9
Transportation and warehousing	689.6	4.5	719.6	4.2	169.7	176.0	168.9	205.2	208.5
Hotels, restaurant, and catering	394.1	2.6	412.3	2.4	101.5	103.5	97.6	109.7	110.1
Information and communication	696.0	4.5	748.8	4.4	181.8	185.3	189.0	192.7	196.0
Financial services and insurance	696.1	4.5	736.2	4.3	181.9	184.4	184.4	185.5	195.9
Real estate	453.8	2.9	468.2	2.8	114.3	116.3	118.3	119.3	120.4
Business services	294.3	1.9	301.1	1.8	74.8	75.5	73.7	77.2	81.0
Govt. administration , defence, and social security	582.6	3.8	584.4	3.4	138.9	158.1	127.6	159.8	138.8
Educational services	549.6	3.6	556.3	3.3	128.9	141.1	132.8	153.6	128.6
Healthcare and social services	201.2	1.3	227.0	1.3	49.6	52.2	60.9	64.2	52.3
Other services	302.6	2.0	312.2	1.8	76.9	77.4	76.5	81.4	84.7
GROSS DOMESTIC PRODUCT	15,438.0	100.0	16,970.8	100.0	3,971.2	4,176.4	4,325.2	4,498.0	4,513.0

Table 2. Gross Domestic Products by expenditure (nominal)

	2020		2021		Q1-21	Q2-21	Q3-21	Q4-21	Q1-22
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	8,899.9	57.6	9,236.0	54.4	2,259.7	2,300.3	2,296.2	2,379.7	2,421.4
Consumption by non-profit organizations	201.4	1.3	207.8	1.2	49.1	52.8	52.6	53.3	53.3
Government consumption	1,474.1	9.5	1,551.7	9.1	267.8	360.5	391.8	531.5	247.8
Fixed-asset investment	4,897.0	31.7	5,227.9	30.8	1,269.7	1,246.8	1,316.4	1,394.9	1,373.7
Exports of goods and services	2,666.4	17.3	3,659.0	21.6	766.9	854.6	971.7	1,065.9	1,042.4
Imports of goods and services	2,424.4	15.7	3,201.0	18.9	704.7	782.2	790.3	923.8	924.4
GROSS DOMESTIC PRODUCT	15,438.0	100.0	16,970.8	100.0	3,971.2	4,176.4	4,325.2	4,498.0	4,513.0

Source: BPS

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

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q3-21	Q4-21	Q1-22
Agriculture, livestock, forestry, and fishery	3.60	1.77	1.84	1.43	2.28	1.16
Mining and quarrying	1.22	-1.95	4.00	7.78	5.15	3.82
Manufacturing industry	3.80	-2.93	3.39	3.68	4.92	5.07
Electricity and gas	4.04	-2.34	5.55	3.85	7.81	7.04
Water provisioning and waste recycling	6.83	4.94	4.97	4.56	4.14	1.29
Construction	5.76	-3.26	2.81	3.84	3.91	4.83
Wholesale trade and repairs	4.60	-3.78	4.65	5.15	5.56	5.71
Transportation and warehousing	6.37	-15.05	3.24	-0.72	7.93	15.79
Hotels, restaurant, and catering	5.79	-10.26	3.89	-0.14	4.95	6.56
Information and communication	9.42	10.61	6.81	5.54	6.21	7.14
Financial services and insurance	6.61	3.25	1.56	4.29	-2.59	1.64
Real estate	5.76	2.32	2.78	3.42	3.94	3.78
Business services	10.25	-5.44	0.73	-0.59	0.89	5.96
Govt. administration , defence, and social security	4.63	-0.03	-0.33	-9.95	0.98	-1.45
Educational services	6.30	2.61	0.11	-4.42	0.70	-1.70
Healthcare and social services	8.66	11.56	10.46	14.06	12.16	4.38
Other services	10.56	-4.10	2.12	-0.30	3.35	8.24
GROSS DOMESTIC PRODUCT	5.02	-2.07	3.69	3.51	5.02	5.01

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

	Last 3 Years			Last 3 Quarters		
	2019	2020	2021	Q3-21	Q4-21	Q1-22
Household consumption	5.04	-2.63	2.02	1.02	3.55	4.34
Consumption by non-profit organizations	10.67	-4.25	1.59	2.79	3.29	5.98
Government consumption	3.29	1.96	4.17	0.62	5.25	-7.74
Fixed-asset investment	4.48	-4.96	3.80	3.76	4.49	4.09
Exports of goods and services	-0.51	-8.14	24.04	29.16	29.83	16.22
Imports of goods and services	-6.92	-16.72	23.31	29.95	29.60	15.03
GROSS DOMESTIC PRODUCT	5.02	-2.07	3.69	3.51	5.02	5.01

Source: BPS

Indonesia – Economic Projections Table

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	4.0*	4.8
GDP per Capita (US\$)	3877	3927	4175	3912	4350*	4615
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	4.2
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	48.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.6*	1.4

* Provisional numbers for 2021

** Estimation of Rupiah's fundamental exchange rate

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