

## Indonesia Growth Indicators

Real GDP by Expenditures, yoy	4Q22	1Q23
Household consumption	4.5%	4.5%
Government spending	-4.8%	4.0%
Investment	3.3%	2.1%
Exports	14.9%	11.7%
Import	6.3%	2.8%
Real GDP by Sectors, yoy		
Agriculture	4.5%	0.3%
Mining and quarrying	4.4%	4.9%
Manufacturing	4.9%	4.4%
Electricity and gas	6.6%	2.7%
Water, wastewater, and waste Mgmt.	3.2%	5.7%
Construction	2.0%	0.3%
Wholesale and retail trade	5.5%	4.9%
Transportations & logistics	19.9%	15.9%
Accommodations and restaurants	12.0%	11.6%
Information and telecommunication	7.7%	7.2%
Financial and insurance services	1.9%	4.5%
Property	1.7%	0.4%
Business and corporate services	8.8%	6.4%
Government administration	2.5%	2.1%
Education	0.6%	1.0%
Health and social services	2.7%	4.8%
Other services	9.5%	8.9%
<b>Real GDP, yoy</b>	<b>5.0%</b>	<b>5.0%</b>
Growth indicators yoy		
Consumer confidence index	2.6%	7.3%
Real sales index	1.8%	1.6%
Commercial car sales	13.7%	7.3%
Cement sales	-9.2%	-8.1%
Machineries Import	-2.6%	7.6%
Fiscal revenue	-0.7%	29.0%
Fiscal spending	20.1%	5.7%
Exports volume	10.1%	23.2%
Imports volume	0.1%	19.6%

Source: BPS, SSI Research

## Stable GDP growth in 1Q23; expect some slowdown in 2Q23

As previously expected, Indonesia's economy grew steadily in 1Q23 (5% yoy), supported by the resilience of household consumption and increased government consumption, which offset the decline in investment due to high domestic and global interest rates. However, the decline in the output growth rate of several main economic sectors (manufacturing, trade, agriculture, and construction) brought concerns about the resilience of the national economy in the face of the upcoming global commodity slump. We project GDP growth to slow down to 4.6% yoy in 2Q23, before bouncing back in 4Q23 (4.7% yoy)

**Indonesia's economy grew steadily in 1Q23 at 5% yoy, in line with market expectations and still within the tolerance limits of our projection (4Q22 & Cons: 5% yoy; SSI: 4.9% yoy).** Stable growth in 1Q23 was mainly supported by the resilience of household consumption, which grew by 4.5% yoy (4Q22: 4.5% yoy). Meanwhile, investment growth slipped to 2.1% yoy (4Q22: 3.3% yoy), primarily due to high domestic (7DRRR: 5.75%) and global (FFR: 5.25%, MRO ECB: 3.75%) interest rates. Fortunately, the slip in investment was offset by government consumption, which rose by 4% yoy (4Q22: -4.8% yoy). The improvement in government consumption was driven by high fiscal revenue growth of 29% yoy (4Q22: -0.7% yoy). Meanwhile, international trade activity slowed down, which was reflected in the decline in export growth to 11.7% yoy (4Q22: 14.9% yoy) and import growth to 2.8% yoy (4Q22: 6.3% yoy).

**However, we observed some decline in the output growth rate of several main economic sectors.** Manufacturing sector output growth (18.6% of Indonesia's GDP) fell to 4.4% yoy (4Q22: 4.9% yoy). The wholesale and retail trade sector (13% of GDP) slipped to 4.9% yoy (4Q22: 5.5% yoy). The sharpest decline occurred in the agricultural (11.8% of GDP) and construction sectors (9.9% of GDP), with output growth of 0.3% yoy (4Q22: 4.5% and 2% yoy). Only the mining sector (11.9% of GDP) that reported better output growth than last year at 4.9% yoy (4Q22: 4.4% yoy), despite the -6% decline in global commodity prices in 1Q23 (see Chart 1). **In our opinion, the decline shows the vulnerability of the Indonesian economy in the face of upcoming economic challenges, especially the impact of a further slowdown in global commodity prices.**

**We project Indonesia's economic growth to slow down to 4.6% yoy in 2Q23 due to unfavorable global and domestic economic conditions.** At the global level, persistent inflation in the United States and European countries forced central banks in both regions to maintain tight monetary policies by continuing rate hikes. Even though the Fed has given a signal to stop its rate hikes in June 2023, we see the risk of further Fed rate hikes following the expansion of the US labor market in April. At the domestic level, there are two challenges that must be faced at once; high interest rates, which suppress investment, and falling global commodity prices, which will affect domestic purchasing power (see Chart 2).

**We estimate that Indonesia's economic growth will improve in 4Q23, reaching 4.7% yoy, due to the election and the improvement in global economic conditions, with the halt of interest rate hikes in developed countries as inflationary pressure subsides.**

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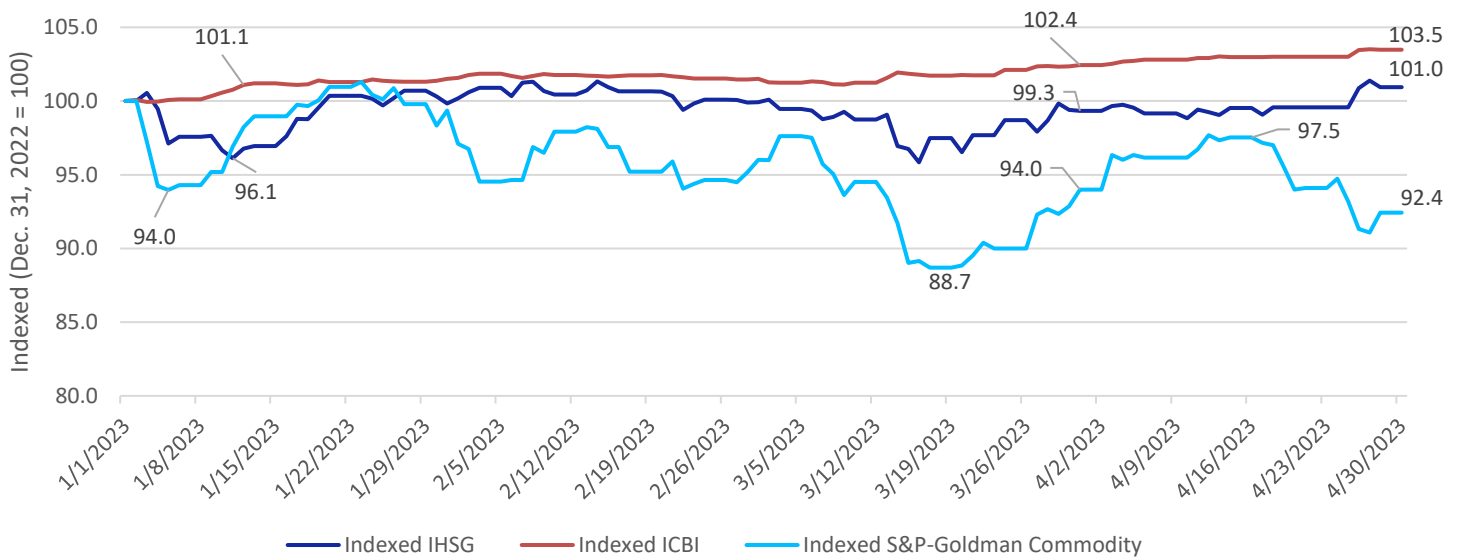
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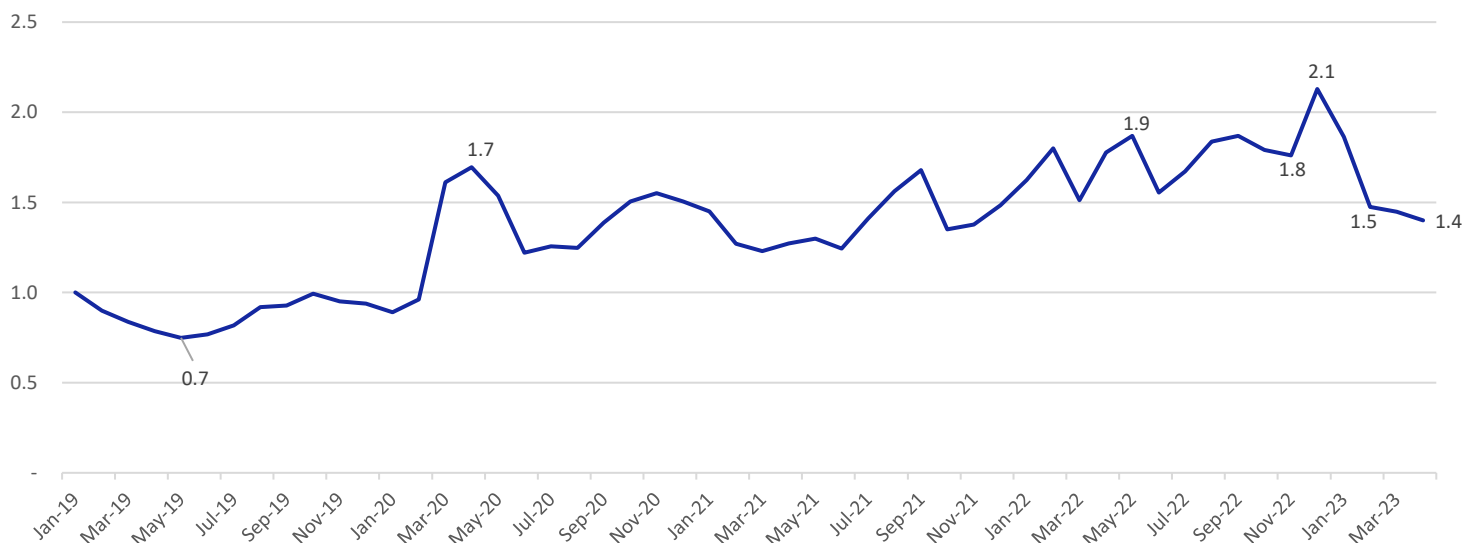
**Table 1. SSI Macroeconomic Forecast Table**

Indicators (% yoy)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	FY21	FY22	FY23F
Real GDP (NSA % qoq)	(0.9)	3.3	1.5	1.1	(1.0)	3.7	1.8	4.0	(0.9)	3.4	1.7	0.6			
Real GDP	(0.7)	7.1	3.5	5.0	5.0	5.4	5.7	5.0	5.0	4.6	4.5	4.7	3.7	5.3	4.7
Unemployment rate (% nsa)	6.3	6.3	6.5	6.5	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	6.5	5.9	5.3
Consumer price	1.4	1.3	1.6	1.9	2.6	4.4	6.0	5.5	5.0	3.8	2.6	2.8	1.9	5.5	2.8
Current account balance (% to GDP)	(0.4)	(0.7)	1.7	0.5	0.2	1.2	1.3	1.0	0.2F	(0.1)	0.4	(0.1)	0.3	1.5F	(0.1)
Fiscal balance (% to GDP)	(0.8)	(1.7)	(2.7)	(4.6)	0.1	0.4	0.3	(2.4)	0.6	(1.1)	(1.8)	(2.8)	(4.6)	(2.4)	(2.8)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	3.50	3.50	3.50	3.50	4.25	5.50	5.75	5.75	5.25	4.75	3.75	5.50	4.75
10-year government bond yield (%)	6.78	6.59	6.26	6.38	6.74	7.22	7.37	6.94	6.79	6.40	6.20	6.00	6.38	6.94	6.00
Exchange rate (USD/IDR)	14,525	14,500	14,313	14,253	14,369	14,898	15,228	15,568	14,995	14,600	14,700	14,900	14,253	15,568	14,900

Source: SSI Research.

**Chart 1. SSI Intermarket Indicator**


Source: Bloomberg, SSI Research

**Chart 2. SSI Indicator on Indonesia's Commodity Term-of-Trade (CPO, Coal, and Nickel vs. Crude)**


Source: BPS, SSI Research

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