

Indonesia Growth Indicators

Real GDP by Expenditures, yoy	2Q23	3Q23
Household consumption	5.2%	5.1%
Government spending	10.6%	-3.8%
Investment	4.6%	5.8%
Exports	-3.0%	-4.3%
Import	-3.1%	-6.2%
Real GDP by Sectors, yoy		
Agriculture	2.0%	1.5%
Mining and quarrying	5.0%	7.0%
Manufacturing	4.9%	5.2%
Electricity and gas	3.2%	5.1%
Water, wastewater, and waste Mgmt.	4.8%	4.5%
Construction	5.2%	6.4%
Wholesale and retail trade	5.3%	5.1%
Transportations & logistics	15.3%	14.7%
Accommodations and restaurants	9.9%	10.9%
Information and telecommunication	8.1%	8.5%
Financial and insurance services	2.9%	5.2%
Property	1.0%	2.2%
Business and corporate services	9.6%	9.4%
Government administration	8.2%	-6.2%
Education	5.4%	-2.1%
Health and social services	8.3%	2.9%
Other services	11.9%	11.1%
Real GDP, yoy	5.2%	4.9%
Growth indicators yoy		
Consumer confidence index	3.1%	1.5%
Real sales index	1.4%	1.2%
Commercial car sales	-5.5%	-17.9%
Cement sales	-3.3%	7.1%
Machineries Import	3.0%	-6.4%
Fiscal revenue	-6.7%	-4.5%
Fiscal spending	-2.1%	6.3%
Exports volume	3.3%	-5.6%
Imports volume	5.6%	4.8%

Source: BPS, SSI Research

Disappointing effect of pre-election fiscal stimulus

Indonesia's GDP growth in 3Q23 came in at 4.94% yoy (2Q23: 5.17% yoy; Cons: 5% yoy); the lower-than-expected growth was mainly caused by commodity slump, which caused export contraction and somewhat reduced the effect of fiscal stimulus given ahead of the 2024 Election. In our view, the government's fiscal stimulus policy before the election might follow a flat pattern, just like in 2014. To avoid this, the government needs to boost government spending growth to at least 40% qoq in 4Q23, with the risk of causing economic overheating, which in turn will lead to a wider current account deficit. In our opinion, Bank Indonesia will face this risk by remaining open to the idea of raising the BI 7DRRR.

Indonesia's GDP growth came in at 4.94% yoy in 3Q23, slightly lower than consensus but in line with our estimate (2Q23: 5.17% yoy; Cons: 5% yoy; SSI: 4.9% yoy). Household consumption growth fell to 5.06% yoy (2Q23: 5.66% yoy; SSI: 5.1% yoy), while investment growth rose to 5.77% yoy (2Q23: 4.63% yoy; SSI: 5% yoy) supported by investment in vehicles (21.3% yoy), property and infrastructure (6.3% yoy), and intellectual properties (7.7% yoy), even though investment activities in Indonesia are being overshadowed by Bank Indonesia's high interest rate policy.

Meanwhile, the persistent commodity slump led to an even worse drop in exports compared to the previous quarter (see Figure 1) of -4.26% yoy (2Q23: -2.97% yoy; SSI: -6% yoy). The decline in exports prompted the government to tighten imports, leading to a considerable import contraction of -6.18% yoy (2Q23: -3.06% yoy; SSI: -4% yoy).

What shocked us the most is the drastic drop in the effect of fiscal stimulus ahead of the 2024 elections, which is reflected in the reversal of government spending growth to a -3.76% yoy drop in 3Q23 (2Q23: 10.57% yoy; SSI: 11.5% yoy). This surprised us because our indicators showed the government is more determined than ever to influence voter preferences ahead of the 2024 elections through fiscal stimulus (see Figures 2 & 3). We believe that fiscal stimulus policies ahead of the 2024 elections might follow the same pattern as in 2014 (see Figure 3). Thus, there's a possibility that the effect of fiscal stimulus in 4Q23 (or in 1Q24, just before the election) will tend to be flat. For fiscal stimulus to have a significant effect, the government needs to increase its spending by at least 40% qoq (3.5% yoy) in 4Q23, the same thing was done in 4Q11 (44.4% qoq), 4Q12 (47.1% qoq), 4Q13 (41.5% qoq); 4Q14 (41.1% qoq); 4Q15 (41.1% qoq), and 4Q17 (40% qoq).

However, if the government decides to boost fiscal stimulus in 4Q23, it will increase the risk of economic overheating, especially the current account deficit (see Figure 4). The commodity slump has exposed Indonesia to the risk of a current account reversal from a surplus to a deficit (see Table 1). This will certainly be of concern to Bank Indonesia, especially after the sharp depreciation of Rupiah in the last two months, which was triggered by capital outflow from the stock and bond markets. In our opinion, the risk of a current account deficit will encourage BI to continue considering the option of raising BI 7DRRR, especially if the economy does 'overheat' in 4Q23.

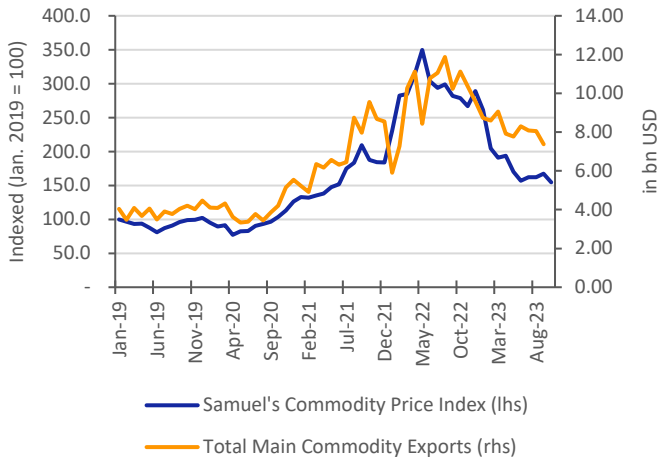
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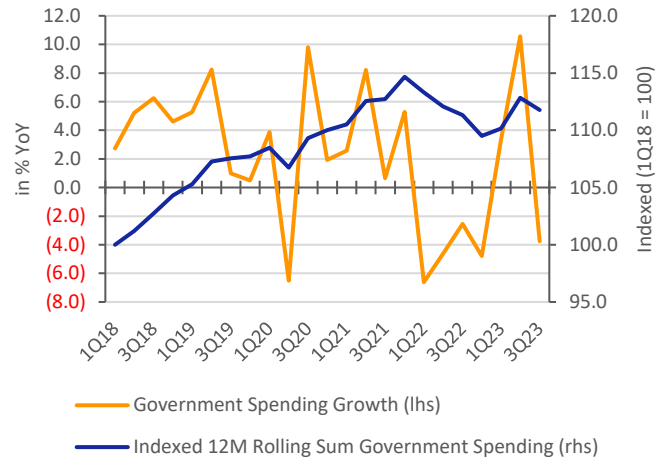
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Chart 1. SSI's Commodity Export Tracker



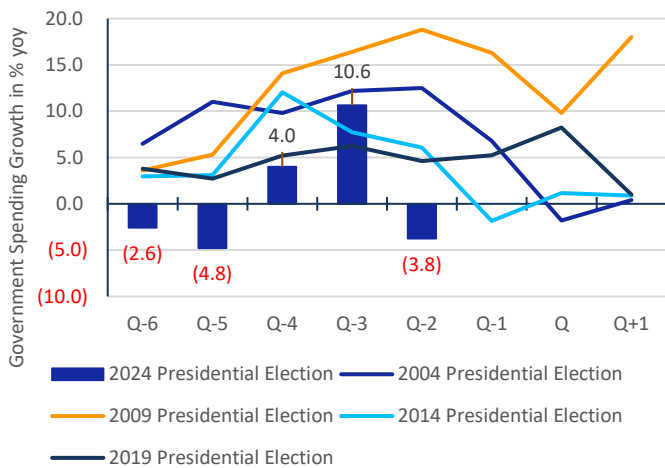
Source: BPS, Bloomberg, SSI Research

Chart 2. SSI's Fiscal Stimulus Watcher



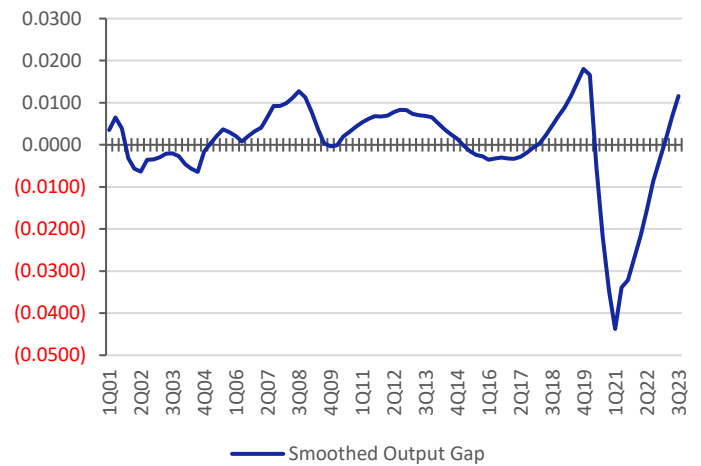
Source: BPS, SSI Research

Chart 3. SSI's Political Business Cycle Tracker



Source: BPS, SSI Research

Chart 4. SSI's Economic Overheating Watcher



Source: BPS, SSI Research

Table 1. SSI's Forecast Table

Indicators (% yoy)	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	1.8	0.4	(0.9)	3.9	1.6	0.3	(1.0)	3.6	1.7	0.6			
Real GDP	5.7	5.0	5.0	5.2	4.9	4.9	4.8	4.6	4.7	4.9	5.3	5.0	4.7
Unemployment rate (% nsa)	5.9	5.9	5.5	5.5	5.3	5.3	5.2	5.1	5.1	5.0	5.9	5.3	5.0
Consumer price	6.0	5.5	5.0	3.5	2.3	2.6	2.7	3.1	3.3	3.3	5.5	2.6	3.3
Current account balance (% to GDP)	1.3	1.3	0.9	(0.6)	(0.5)	(1.2)	(1.2)	(1.3)	(1.5)	(1.7)	1.0	(0.4)	(1.4)
12M rolling sum	0.8	1.0	1.1	0.7	0.2	(0.4)	(1.1)	(1.3)	(1.3)	(1.4)			
Fiscal balance (% to GDP)	0.3	(2.4)	0.6	0.7	0.3	(2.3)	(0.4)	(1.0)	(1.5)	(2.3)	(2.4)	(2.3)	(2.3)
Policy rate, 7DRRR (%)	4.25	5.50	5.75	5.75	5.75	6.25	6.25	6.25	6.00	5.75	5.50	6.25	5.75
10-year gov't bond yield (%)	7.37	6.94	6.79	6.26	6.91	7.40	7.40	7.30	7.20	7.10	6.94	7.40	7.10
Exchange rate (USD/IDR)	15,228	15,568	14,995	14,993	15,455	15,600	15,500	15,400	15,400	15,500	15,568	15,600	15,500

Source: SSI Research

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