

Macro Note

Indonesia: Regional Economic Update 2022 And Outlook For 2023

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- Economic growth in 2022 in all regions of Indonesia posted an increase from the previous year. The highest economic growth was recorded in the Sulawesi-Maluku-Papua (Sulampua) region with growth at 7.49% (y/y), followed by Java at 5.31% (y/y), Bali-Nusa Tenggara (Balinusra) at 5.08% (y/y), Kalimantan at 4.94% (y/y), and Sumatra at 4.69% (y/y).
- Sumatra's economy is estimated to grow within the range of 4-4.8% in 2023; Java's economy within the range of 4.8-5.6%; Kalimantan's economy in the range of 3.5-4.3%, lower than previous growth; Balinusra's economy in the range of 4.5-5.3%; Sulampua's economy within the range of 7.2-8%.
- Indonesia's economic growth in 2023 is estimated to be within Bank Indonesia's (BI) target of 4.5-5.3%. Nevertheless, there are a number of risks that could potentially inhibit growth this year such as the cumulative impact of aggressive global monetary policy tightening, slower than expected economic recovery in China, and rising global uncertainty that might hold back foreign investment and render inflation to remain high and elevated due to prolonged supply chain disruptions.

Regional Economic Development 2022 And Outlook 2023

In 2022, Indonesia's economic growth reached 5.3%, higher than previous year's 3.7%. Stronger economic growth can be attributed to an increase in household consumption which grew 4.5% supported by higher community mobility and continuous government social assistance disbursement. Exports grew strongly at 14.9%, driven by strong demand from major trading partners, China, USA, Japan and India. Strong domestic consumption was also evident from several indicators such as the rise of income index from 86.2 point in 2021 to 114.9 in 2022; an increase in car sales of 17.4%; and an increase in the average visits to retail and wholesale areas at 21.9% from the baseline; and finally, a notable increase of durable goods purchase index from 83.5 to 101.4 points in 2022.

Economic growth in 2022 in all regions of Indonesia posted an increase from the previous year. The highest economic growth was recorded in the Sulawesi-Maluku-Papua (Sulampua) region with growth at 7.5%, followed by Java at 5.3% , Bali-Nusa Tenggara (Balinusra) at 5.1%, Kalimantan at 5%, and Sumatra at 4.7%. Sumatra's economy is estimated to grow within the range of 4-4.8% in 2023; Java's economy within the range of 4.8-5.6%; Kalimantan's economy in the range of 3.5-4.3%, lower than previous growth; Balinusra's economy in the range of 4.5-5.3%; Sulampua's economy within the range of 7.2-8%.

Indonesia's economic growth in 2023 is estimated to remain within BI's target range of 4.5-5.3%, more optimistic than previous estimates driven by improvement in purchasing power, income expectations optimism, and community mobility increased. In addition, exports are expected to grow better driven by commodity

prices hikes and high global demand, particularly aluminum commodities which are projected by BI to grow at 2.6%, nickel at 11.4% and copper at 3.5%. Nevertheless, there are a number of risks that could potentially inhibit growth this year such as the cumulative impact of aggressive global monetary policy tightening, slower than expected economic recovery in China, and rising global uncertainty that might hold back foreign investment and render inflation to remain high due to prolonged supply chain disruptions. One upside risk that might boost the national economic growth is the ongoing construction of national strategic project (Proyek Strategis Nasional, PSN) in 2023 which is estimated to carry out 152 projects, which potentially will enhance investment growth.

Figure 1. Indonesia Regional GDP Growth, % y/y

Source: Indonesia Bureau of Statistics, UOB Global Economics & Markets Research

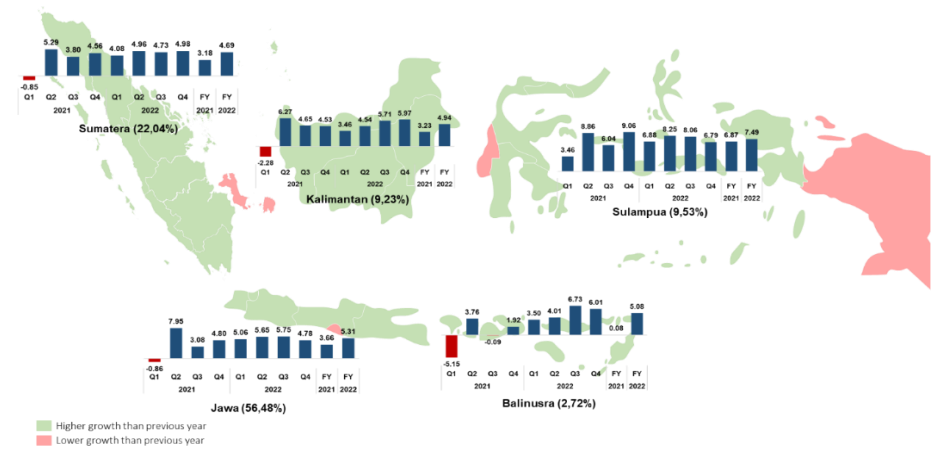


Figure 2. Global Demand For 3 Exports Based Commodities in Indonesia (in million tonnes)

Source: S&P Global, UOB Global Economics & Markets Research

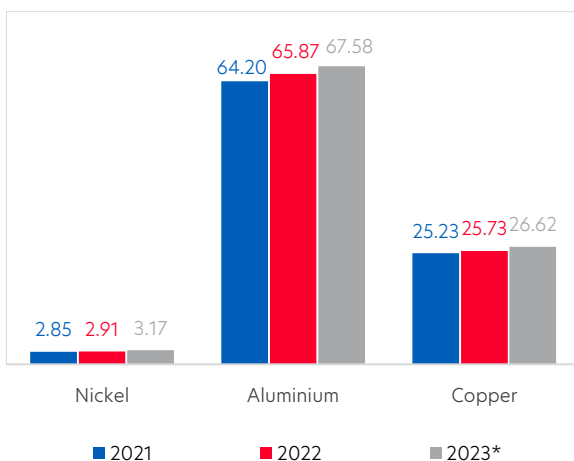


Figure 3. Consumer Expectation Index (the next 6 months compared to the current condition)

Source: Bank Indonesia, UOB Global Economics & Markets Research



Sumatera

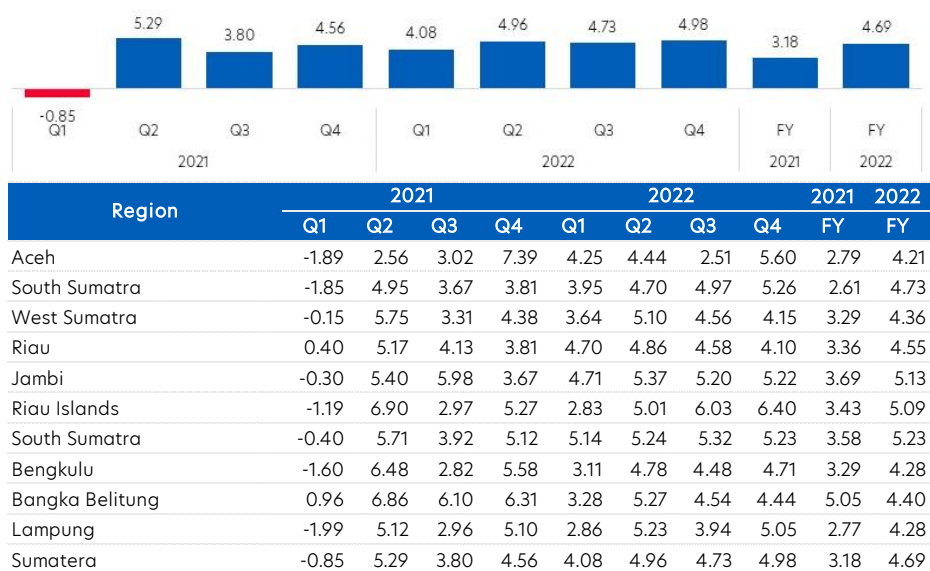
Sumatra's economy posted a 4.7% growth in 2022, higher than 2021's growth of 3.2%. Sumatra's economy contributed 22% to Indonesia's total GDP. By its components, the improvement in Sumatra's economy was driven by strong household consumption due to improvement in palm oil commodity (CPO) prices and ongoing investment. Spatially, higher economic growth took place in all provinces except in Bangka Belitung (Babel islands).

Sumatra's strong household consumption was driven by higher and robust credit growth in 2022 which rose at a high of 10.8%, beating the national average of mid-single digit growth. This was confirmed by an increase in Sumatra's mobility index since 2021, whereby the mobility of Sumatran people in retail and recreation destinations increased by 20.1% from the baseline, better than the previous year which contracted by almost 7%. In addition, the mobility at grocery and pharmacy visits grew much higher at almost 50%, significantly higher than the previous year's 17.2% and contraction in the usage of transit stations have dramatically reduced at -5.3%, shallower than 2021's -30%. Furthermore, the rise of Sumatra's economic growth was also driven by the reopening of all direct flight routes for domestic and international travel, which lifted MICE (Meetings, Incentives, Conferences, and Exhibitions) activities and additional visa-free countries further boosted tourism .

Sumatra's economy is estimated to grow positively in 2023 in the range of 4-4.8%. The increase in minimum wages (UMP) in all provinces of Sumatra is a driving factor in improving future domestic consumption. Sumatra's investment in 2023 is projected to remain high due to the increase of national strategic project's numbers that is estimated approximately IDR132tn (USD8.8bn). In addition, high demand for agricultural commodities is expected boosting Sumatra's rubber exports and CPO biodiesel blending to grow better. Strong exports are also driven by an increase in coal demand, which is projected to grow in a range of 8-10%. However, there are several challenges and risks ahead, such as the government's plan to ban tin exports in the form of ingots could potentially restrain future export growth and weather anomaly and rising fertilizer prices that could potentially limit Tandan Buah Segar (TBS) palm oil production.

Figure 4. Sumatra's GDP Growth, % y/y

Source: Indonesia Bureau of Statistics, UOB Global Economics & Markets Research



Java

Java's economy posted a 5.3% growth in 2022, higher than 2021's 3.7%. The Java's economy contributed 56.5% to national GDP. The increase in economic growth was driven by public consumption, investment, and exports improvement. The stronger consumption was driven by community mobility inclined and purchasing power supported by minimum wage (UMP) increased. In 2022, the Javanese mobility recorded increase of 9.7% from the baseline. In detail, the mobility of Javanese

people in retail and recreation increased by 10%, grocery and pharmacy by 26.2%, and transit station at -7.2% from the baseline. In addition, the extension of value tax addition (PPN DTP) and sales tax on luxury goods (PPnBM) incentives also had an impact on vehicle sales increased. Consumption credit in 2022 grew positively with a high level of growth.

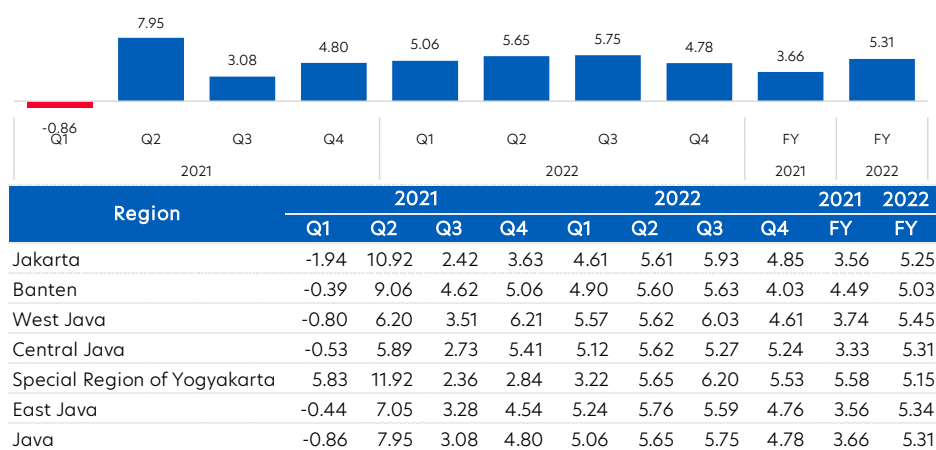
Spatially, the improvement of Java's economic growth happened in all provinces except the Special Region of Yogyakarta which has moderated to 5.2% in 2022 from 5.6% in 2021. Sales of domestic primary, secondary, and tertiary goods industries grew driven by normalization of people's consumption after a pent-up consumption in 2021 due to mobility restrictions. On the other hand, exports of textile goods to China were not as high as previously expected due to the lockdown in China in 1H2022. The lockdown policy affected an increase of ships unloading time at Shanghai port. In addition, the activity of container transportation on land had been slowing down in various industrial areas such as in Shanghai, Zhejiang, Fujian, Jiangsu and Guangdong with a level of activity decline of 40-80%.

Java's economy is projected to grow within the range of 4.8- 5.6% in 2023, underpinned by the improvement of purchasing power amidst possibly down-trending inflationary pressures and better job and pay prospects. The automotive sales ahead are projected to increase due to a government stimulus in the form of 0% down payment and subsidy incentives for electric vehicle purchases. In addition, the strong consumption in 2023 is also projected to be driven by the Kharisma Event Nusantara (KEN 2023) initiated by the Ministry of Tourism and Creative Economy to boost tourism in Indonesia. This is supported by the government's policy to relax inter-regional travel requirements.

Investment is also expected to increase in light of the completion of several projects in 2022, increasing investment opportunities in Java. Some of these projects are the Cibitung - Cilincing toll road, Serpong - Balaraja toll road, Cileunyi - Sumedang - Dawuan (Cisumdawu), Gedebage - Tasikmalaya - Cilacap toll road and others. In addition, in 2023 the government also plans to realize 11 projects in Java with an estimated budget of Rp206 trillion. Exports are also expected to increase driven by the operation start of the Gresik Special Economic Zone (SEZ) in November 2022. Several companies in food and beverage sector, chemical industry, metal processing industry and automotive plan to realize their investment in Java this year as well.

Figure 5. Java's GRDP Growth, % y/y

Source: Indonesia Bureau of Statistics, UOB Global Economics & Markets Research



Kalimantan

Kalimantan's economy posted a solid 5% growth in 2022, higher than in 2021 which was recorded at 3.2%. Kalimantan economy contributed almost 10% to total GDP of Indonesia. The acceleration of Kalimantan's economic growth was driven by strong household consumption growth of 3.7% better than previous year of 1.5% and its exports grew 7.2%. Spatially, all provinces in the Kalimantan region had an improvement in economic growth from the previous year.

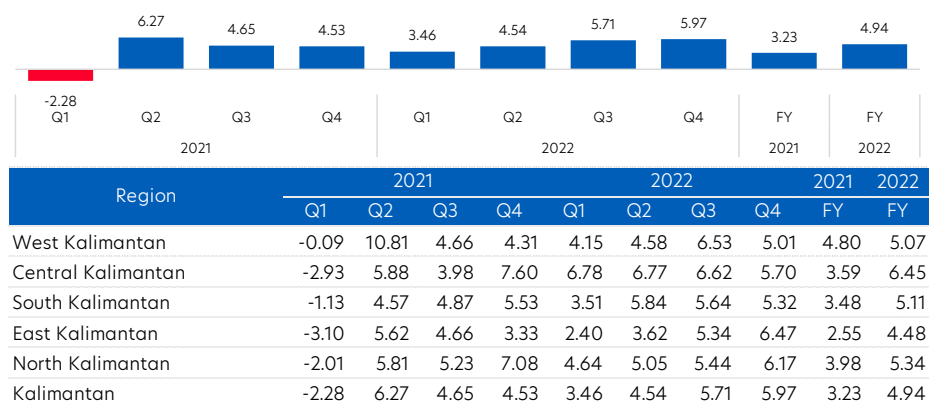
Higher household consumption was driven by an increase in the farmer value added income due to the intensification program that succeeded realizing 214 Ha of food estate land and an increase in TBS demand of smallholder oil palm plantations. The exports improvement in 2022 was driven by a significant increase in coal exports since March 2022 which was higher than the previous historical since 2015. The retraction of the export ban boosted coal production in 2022. An increase in trade partner demand and domestic demand to supply the needs of the State Electricity Company (PLN) was the main reason for coal export hikes last year. Strong exports, specifically to China, were also influenced by coal market spillover due to logistics barriers conditions in Russia affecting to a deceleration of Chinese imports to Russia. In addition, the strong exports were also driven by an incline of CPO production supported by export duty exemption incentives. However, investment growth in 2022 was moderating due to the lack of readiness of government regulation in implementing the OSS RBA as an integrated investment licensing platform, which hampered business services and licensing.

Kalimantan's economy in 2023 is estimated to grow in the range of 3.5- 4.3%, lower than previous growth of 5%. The moderation is caused by coal demand from China, which is projected to not be as high as the previous year, hence holding back Kalimantan's exports growth slower at 3 - 5% y/y. Furthermore, the Ministry of Energy and Mineral Resources targeting coal production in 2023 in the range of 603 - 694 million tons is still relatively pessimistic due to the uncertainty of the global geopolitical. However, the government currently focuses on encouraging the coal downstream programs (hilirisasi) into semi-cooking coal, methanol, soil enhancer, and alumina which are expected to boost the added value of coal exports in the future. In addition, the high demand for domestic coal by PLN is projected to be the main support for inter-regional exports in 2023.

In terms of investment, the completion of logistics infrastructure projects in 2023 such as the Sepaku Semoi Dam, Kijing Port, and Island Balang Bridge are projected to support an improvement of investment growth in 2023. In addition, the accelerated completion of the construction of the Capital City of the Indonesia (IKN) project with a budget needs of IDR304tn with details of IDR95.8tn from the state budget (APBN) and IDR208.2tn from the private sector is projected to encourage foreign investment inflows in the future. However, there are several challenges ahead, such as the high price of palm oil fertilizer since 2021 and replanting activities will restrain the future TBS productivity ahead.

Figure 6. Kalimantan's GRDP Growth, % y/y

Source: Indonesia Bureau of Statistics, UOB Global Economics & Markets Research



Balinusra

Balinusra's economy posted 5.1% growth in 2022, higher than no growth in 2021 amidst travel restrictions that were still in place back then. Balinusra's economy contributed around 3% to total GDP. The acceleration of Balinusra's economic growth was driven by strong household consumption which grew by 3.7%, much higher than the previous year's 1.1% and (services) exports that grew by 217% amid steady reopening for inbound tourist. Spatially, all provinces in the Balinusra region had an improvement in economic growth from the previous year.

Strong household consumption in 2022 was driven by an improvement of optimism and community mobility supported by the declining COVID-19 cases and the recovery of the tourism sector. By implementing the easing policy of travel requirements for tourists, the number of tourists visiting in Balinusra was 10.94 million, or almost the same as the total visit of tourists before the Covid-19 period. The government commit to revive the tourism sector could be seen from the many MICE activities held in the tourist areas of Bali and Labuan Bajo. The recovery of the tourism sector encouraged the accommodation industry to grow rapidly. This could be seen from the hotel room occupancy rate in the Balinusra tourism area which increased from 26.79% in 2021 to 35.50% in 2022.

An increase in foreign tourists was a key factor of higher services exports in 2022. Other than service exports, the processed seaweed exports increased as well. The government continues to focus on developing advanced seaweed processing in the form of Alkali Treated Chips (ATCC), Semi Refined Carrageenan (SRC), and Refined Carrageenan (RC) with an added value of almost 200%. Strong exports were also driven by copper exports which grew more than 68% y/y. The strong demand followed by the skyrocketing copper price in H12022 to its highest level since the last 10 years at USD463/pound became the driving factor for exports to grow rapidly in 2022.

Balinusra's economy in 2023 is projected to grow in the range of 4.5-5.3%. Domestic consumption is projected to be the main factor driving the Balinusra's economy to grow better in 2023. Better income expectations supported by the added value hikes of agriculture and fisheries in line with the downstream program that will continually be pushed by the government, are the key of purchasing power improvement ahead. Balinusra investment in 2023 is also expected to increase significantly driven by the downstream program in the agricultural sector and copper industry which continues and supported by investment realization plans in

the industrial area. Furthermore, the ongoing investment realization in the copper industry with a total investment target of USD361mn is expected to boost investment to grow better in the future.

Figure 6. Balinusra's GRDP Growth, % y/y

Source: Indonesia Bureau of Statistics, UOB Global Economics & Markets Research



Sulampua

Sulampua's economy posted a 7.5% growth in 2022, higher than 2021's 7%. Sulampua economy contributed around 10% to national GDP. The acceleration of Sulampua's economic growth was driven by strong household consumption which grew at 5.5% better than the preceding year's 2.4%, of which exports continued to grow at a high of more than 27% though moderated from 2021's 32.1%. Spatially, the economic growth of all provinces in the Sulampua region were improved from the previous year except for West Sulawesi and Papua.

The improvement in household consumption was driven by community mobility increased supported by vaccinations acceleration and the improving development of Covid-19 cases. The increase in minimum wage (UMP) in Sulampua at 1.82% y/y was a factor consumption improved in 2022. Strong consumption in 2022 could be seen from the real sales index which was already at an optimistic level more than 175 points, up 7 point from the previous year. In addition, the improvement in domestic tourist visits in Sulampua tourism object (Likupang, Wakatobi, Raja Ampat, and Labengki) had increased more than 10%.

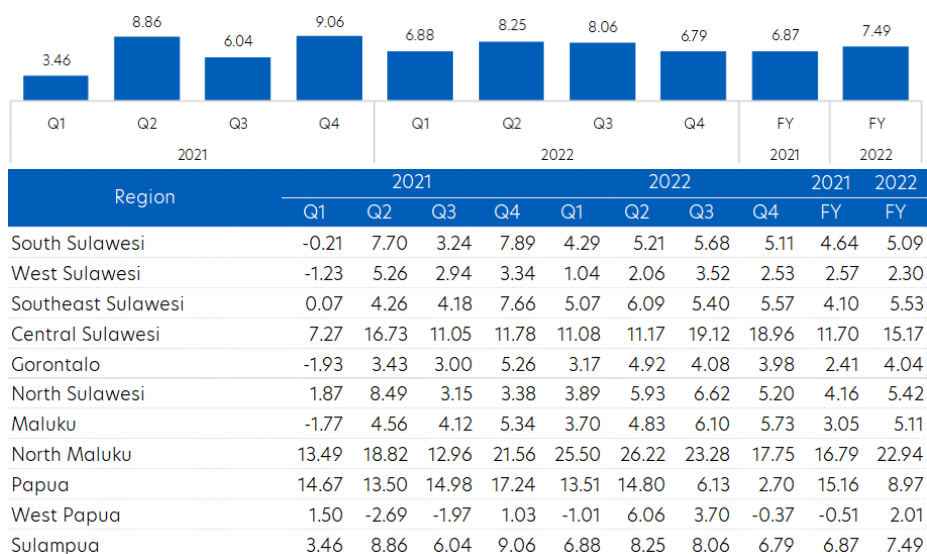
Sulampua's foreign exports in 2022 was still dominated by metal products processed (nickel, copper, and gold) with an export share of more than 96% of total exports in Sulampua. Nickel exports in 2022 grew at 369% y/y from the previous year. The high demand for nickel from China, India and Vietnam was the main factor in the strong demand for nickel exports from Sulampua. However, optimal production was still being held back by the realization of the additional NPI production capacity plan in Southeast Sulawesi and Central Sulawesi which was lower than previously projected due to the delay in commissioning of several smelter lines.

Sulampua's economy in 2023 is projected to grow higher within the range of 7.2- 8% amid better public optimism that is likely to increase their mobility and consumption, supporting growth to likely coming in better than previously projected. In addition, the continued investment in smelter construction projects in Southeast Sulawesi, North Maluku, and Central Sulawesi which were delayed in the previous year are projected to be constructed in 2023 encouraging the increase growth of investment in the middle of an increase uncertainty of global economic condition and the

political year which will restrain future investment. Nevertheless, several upside potentials ahead include a 3.1mn tons expansion in Nickel Pig Iron (NPI) production capacity in 2023 and 309 thousand tons in nickel matte expanded capacity; acceleration in the construction of several national strategic projects on the back of sustained strong nickel, gold and copper prices outlook, and finally the government's commitment to reactivate MICE activities in several tourism destinations included in the special economic zones (ZES) in Sulampua are projected to be a driving factor for economic improvement in 2023.

Figure 6. Sulampua's GRDP Growth, % y/y

Source: Indonesia Bureau of Statistics, UOB Global Economics & Markets Research



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