Macro Note

Indonesia: 2023 Growth Likely To Score Above 5% Yet Again

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- Indonesia's 2Q23 GDP growth came in higher than expectation at 5.17% y/y or 3.86% q/q. The figure beat consensus forecast of 4.93% y/y and our forecast of just 4.8%, marking a back-to-back better-than-expected growth for the year and continuing optimism since the final quarter of last year.

- Positive contribution from all expenditure components continued to underpin the growth momentum. For the past quarter, all expenditure components grew at a faster pace than previous quarter, except for exports and imports. Sector-wise, most grew faster in 2Q23, most notably transportation and accommodation which continued to accelerate in the last 6 quarters, consistent with the reopening that has undone all the pandemic mobility and activity restrictions. Robust growth in these two sectors were also in line with fast recovering tourism sectors that drove occupancy rate higher.

- Indonesian economy continues to prove itself to be resilient amid rising global uncertainty, as it registered stronger than forecasted growth for two quarters in a row. Strong domestic consumption and earlier than expected rebound in government spending, as well as sustained expansion in investment expenditure in light of down-streaming efforts by the current government is likely to underpin another year of above-5% growth, yet again. We revise our GDP growth higher to 5.1% for 2023 from 4.9% previously on account of stronger-than-expected 1H23 GDP growth.

Stronger Than Expected GDP Growth In 2Q23 On Domestic Factors

Indonesia's economy recorded stronger-than-expected growth in 2Q23, at 5.17% y/y (consensus: 4.93%, UOB: 4.80%) underpinned by almost all of the expenditure components. For this quarter, all expenditure components grew faster than previous quarter, save for exports and imports which contracted. Moderating minerals commodity demand and prices are key factors of declining exports in this period. Imports also contracted after an increase in capital goods imports in previous quarter. Meanwhile, government consumption unexpectedly grew by double digits for the first time since the last decade, standing at 10.62% y/y on the back of an improvement in government spending realization in 1H23 which reached IDR1,255tn or equal to 41% of total government budget, higher than 1H22 spending realization of IDR1,243.6tn or equal to 40% of total government budget in 2022. Strong government spending in this quarter was in line with the acceleration of government strategic projects development and well-timed disbursement of additional salaries for civil servants (Aparatur Sipil Negara, ASN).

From the sectoral side, most sectors grew at a faster pace in 2Q23, with transportation and accommodation topping the growth pace over the last 6 quarters, consistent with the reopening that has undone all the pandemic mobility and activity restrictions. Robust growth in these two sectors was in line with improving tourist arrival and occupancy rate. Foreign tourist arrivals increased by more than 160% y/y following the boom in travelers from India and supported by the extension of direct flight routes from India to Indonesia. Other sectors with large share to GDP such as manufacturing, mining, agriculture, and wholesale & retail trade also recorded higher growth than the previous quarter. Improvement in purchasing power drive wholesale and retail sector to grow higher by 5.25% viz. 4.89% y/y. This was evident from the increase in sales of two-wheelers and four-wheelers by 40.02% and 9.64% y/y respectively. Meanwhile, an increase in crude palm oil (CPO) production amid weakening prices encouraged the agriculture sector to grow by 0.96% y/y.

Strong And Robust Investment Anchored Better Than Expected 2Q23 GDP

Investment spending recorded higher growth from 2.11% in 1Q23 to 4.63% y/y in 2Q23. A robust investment growth can be attributed to higher investment in the transportation, storage, and communication with a 12.3% share of total investment, followed by the base metals industry (share of 12.1%), mining (10.8%), real estate activities (8.7%), and electricity, gas and water supply (7.3%). Indonesian government, which has consistently focused on building up the domestic down-streaming capacities and capabilities in Indonesia, may have in turn encouraged consistently higher investment growth. Evident from the recent bauxite exports ban in early Jun of this year, it has resulted into higher imports of capital goods viz. previous period.

The improvement in investment this quarter was also strongly supported by the construction sector, which grew by 5.23% y/y, higher than the previous quarter at 0.32% y/y. Again, this is also in line with the government's push to accelerate investment in the mineral sector especially to reach the built-up of smelter construction target of 53 units by 2024, of which currently several smelter projects have reached more than half of that target progress in 2023. By country of origin, Singapore and China remain the largest sources of investment with total FDI into Indonesia at USD3.4bn and USD2.6bn respectively. Investment from China rose by more than 15% y/y, which is mainly in metals industry. Robust investment in Indonesian major industries are in line with Indonesian manufacturing PMI which remains in expansion zone. Going forward, Indonesian government is determined to expand minerals downstream which targeted 21 commodities as its target priority by 2023-2035. This agenda may further encourage investment to grow, continuing its rising trajectory.

Business Optimism Powered Up The Economy In 2Q23

Business sector optimism continues to be anchored by improvement in mobility and purchasing power. From the sectoral side, all sectors recorded growth in 2Q23, with almost all sectors accelerating from previous quarter, save for finance and water supply that eased from previous quarter. Transportation and warehouse storage continued their sustained growth for 6 quarters in a row now and even achieved highest growth of 15.28% y/y in 2Q23. The increase in the transportation sector can be seen from the increase in land transportation passengers by 28.84% y/y, followed by sea transportation (11.98% y/y), and air transportation (30.61% y/y). Improving transportation was in line with the increase in the number of tourists during holiday period. In addition, the increase in the value of non-cash transactions also indicates that the trend of online shopping is still growing even after the pandemic.

In 2Q23, energy consumption also recorded a positive growth. The increase in electricity consumption of 3.65% y/y suggests that the business sector is still in the expansion phase. Furthermore, Indonesian manufacturing PMI stood at 52.5 in Jun, remaining in expansion zone amid high global uncertainty. An expanding industry amid increasing global uncertainty indicates that Indonesian economy is still robust and stable. Improvement in contribution of manufacturing sector also indicates that down-streaming, which is continuously encouraged by the government is on track.

2023 GDP Growth Likely To Be Above 5%, Yet Again

Relying on domestically-driven factors (household, investment, and government spending) that are expected to sustain Indonesia's economic growth for the rest of 2023, Indonesia's economy is likely to grow stronger than previously expected. Though we held on to our view that growth may slow as compared to 2022's 5.3% growth, we revise our GDP growth higher to 5.1% for 2023 from 4.9% previously on account of stronger-than-expected 1H23 GDP growth. That said, we remain cognizant of lingering downside risks to growth that might stem from rising global uncertainty, moderating commodity revenue, and slowing consumption as food price pressures may come back again in light of the El Nino adverse impacts. All in all, our revised forecast of 5.1% for 2023 is consistent with the official range of 4.5-5.3%. For 2024, we expect the Indonesian economy to grow slightly faster at 5.2%.

Figure 1. Indonesia's GDP Growth Accelerated To 5.17% In 2Q23

Source: Statistics Indonesia, UOB Global Economics & Markets Research

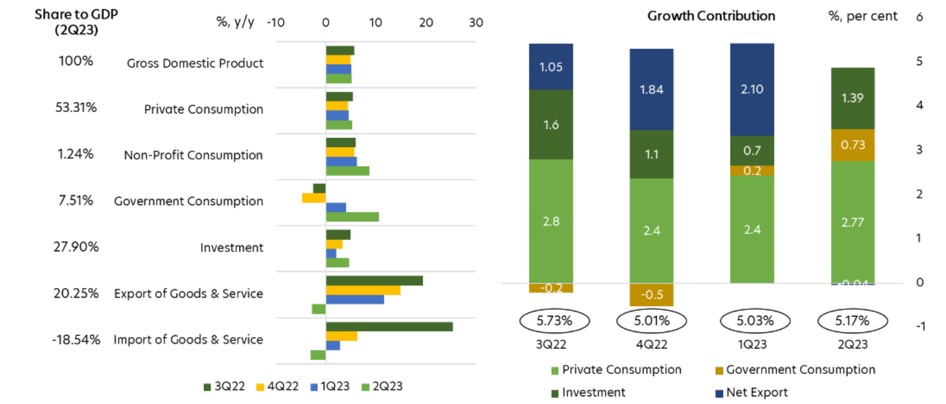
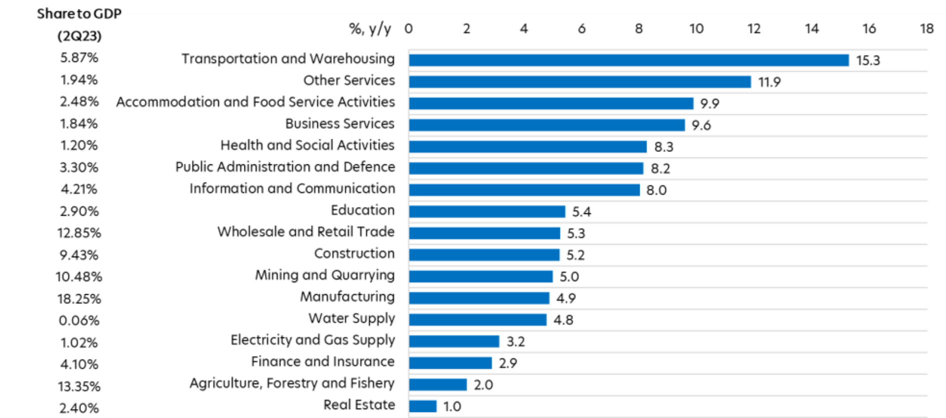


Figure 2. Most Sectors Grew Higher In 2Q23

Source: Statistics Indonesia, UOB Global Economics & Markets Research



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