

IFG Progress Digest

Growth Beats Market Consensus on The Back Of Stronger Than Expected Fiscal Stimulus

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Reza Yamora Siregar, Head of IFG-Progress, reza.yamora@ifg.id

Rizky Rizaldi Ronaldo, Research Associate, rizky.rizaldi@ifg.id

Satria Sambijantoro, Economist, satria@bahana.co.id

Drewya Cinantyan, Associate, drewya.cinantyan@bahana.co.id

- Indonesian economy grew by 5.17% y-y in 2Q23, higher than market expectations of 5.0%. This is also outperforming our initial forecasts of only ±4.9% for 2Q2023. But, there are palpable signals of GDP slowdown, with the relatively weak economic performance likely felt in the second half this year on potential pullback in consumption, investment, and net exports. We revise our number for FY23 GDP growth forecast of 4.8% - 4.9% to 4.9% - 5.0%
- Household consumption rebounded by expanding 5.2% y-y, following two quarters of only 4% growth. Investments also grew to 4.6% in 2Q23 from only 2.1% in the previous quarter, likely due to the low base effects. The strong GDP numbers are likely to dissuade policymakers notably Bank Indonesia to loosen monetary policy.

For Indonesia, the 5.17% y-y growth of GDP in 2Q23 marked the seventh consecutive quarters that growth has been maintained above 5% y-y. On q-q basis, the economy expanded by 3.86%, also higher than 3.70% expected by market consensus. Indonesia has recovered well after the Covid-19, and effectively recouped all the GDP lost during the pandemic.

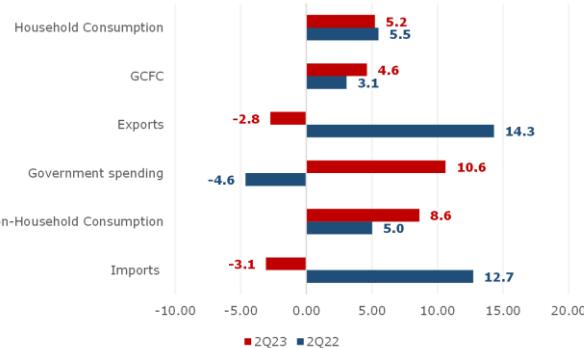
Key economic indicators are over-shooting our expectations. In 2Q23, household consumption grew by 5.3% y-y despite weaker financial results of many consumer companies in IDX, or investments surged by 4.6% despite negative growth of cement sales. Surprisingly, government spending rose by 10.6% despite fiscal surplus and low realization of State Budget. The contribution of the government spending to total growth in 2Q2023 of 0.7% was the highest in almost a decade (0.83% in 4Q2015 & 0.93 in 4Q2013).

What's Ahead?

Following the performance of 2Q2023, we revise our forecast of the GDP growth for 2023 to the range of 4.9% - 5.0% (previous range at ±4.8% - ± 4.9%). However, we still see several downside risks coming from three channels, 1) Potential persistent sluggishness in exports growth, 2) Heavy burden for private consumption given less holidays & HBKN, and 3) Weaker investment ahead of the election.

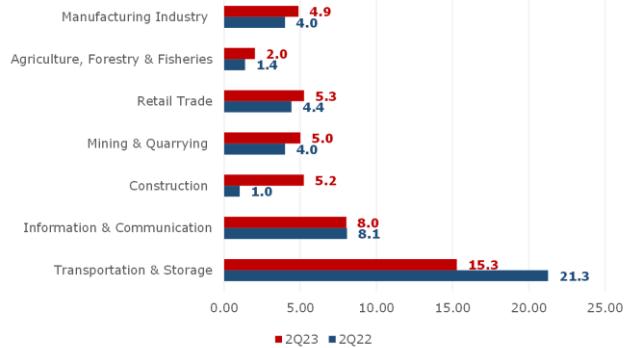
After two consecutive quarters of export-led growth due to the steep increase of commodity prices in Indonesia's export basket, mainly coal, crude palm oil (cpo), metals, oil, and others, we do not see that this effect will last for the second half of the 2023. Back in 4Q2022 & 1Q2023, Indonesia has been blessed with massive trade surplus that contributed 2.17% and 2.10% to GDP growth of 4Q2022 and 1Q2023, respectively, but we see the trade factor has become

Exhibit 1. GDP based on expenditure (% y-y)



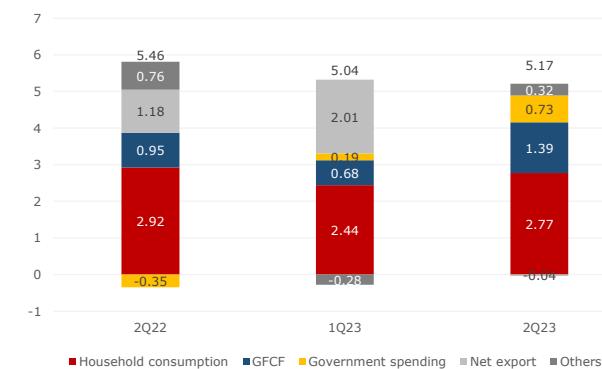
Source: BPS, Bahana

Exhibit 2. GDP based on industry (% y-y)



Source: BPS, Bahana

Exhibit 3. Share of GDP based on expenditure (%)



Source: BPS, Bahana

muted with the normalization of the commodity prices on the back of weakening global demand as reflected by 2Q2023 numbers (Exhibit 4).

The boost from domestic consumption & investment will unlikely be adequate to offset the fall in net exports (NX).

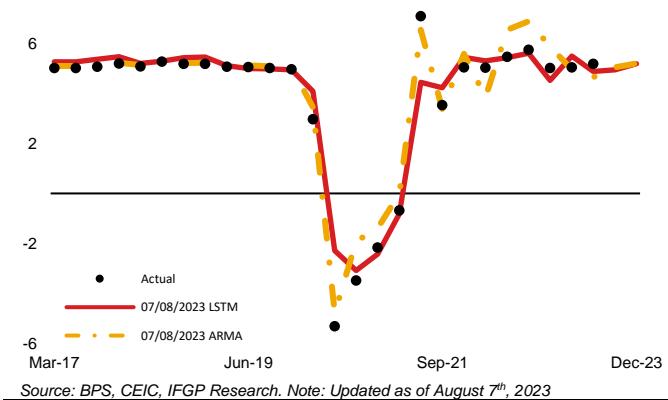
Although the recovery of domestic consumption and investment continues, we see that the pace will moderate and still a long way to go to reach its annual average level (2010 – 2019) at $\pm 2.31\%$ (Investment; current average for 1H2023 at 1.03%) and $\pm 3.22\%$ (public + private consumption; current average for 1H2023 at 3.15%). We also see that certain segments/indicators of the consumers' activities signal a slightly defensive position and holding off their consumptions. Given less holidays & Hari Besar Keagamaan Nasional (HKBN) compared to 2Q2023, we expect consumption boost will soften. However, the pace of government consumption will be interesting to watch for the next half of the year as it can be an unexpected source of boost for the economy like it was in 2Q2023. As benign core inflation trend continues (a signal of weakening purchasing power), we anticipate fiscal stimulus targeting middle-low-income households and Micro-Small enterprises to be disbursed in 2H23. We expect fiscal measures to play a key role to sustain Indonesia GDP growth momentum from consumption channels.

In terms of investment, we see the sentiment is improving (a steep increase in the PMI at the end of 2Q2023 at 52.5 signals an improvement from the previous month), but the other data do not reflect the same message, at least not in the same magnitude. Furthermore, as we go into presidential elections, historical data showed sluggish growth as investors tend to be more wait-and-see, especially when there's no incumbent.

Overall, the Indonesian economy has shown its resilience against weak external demand, global inflation, and the lagged impact of monetary tightening (BI has lifted the key benchmark rate by cumulative 225-bps since 3Q last year). The satisfactory GDP print means no urgency need for BI to loosen monetary policy; i.e following LatAm central banks which this month cut rates ahead of the US Federal Reserve. **Key economic components under our radar** for the consumption are Motor vehicle sales, tourist & hotel, retail sales, consumer confidence, and government expenditure; for the investment are cement sales, industrial production, import of capital goods and sales of heavy equipment; for NX are trade balance, international trade price index, and commodity prices).

Bloomberg market survey on Indonesia's GDP in May (Vs February Survey) points to a slightly higher growth at 4.90% for 2023 (Vs 4.85%). The economists from the foreign institutions are in average more cautious about the outlook, given the global economic and geopolitical uncertainties (Exhibit 5). Compared to market expectation, our numbers at $\pm 4.9\%$ is slightly below the market consensus for 2Q2023. This stance also resonates for 3Q 2023. **We still see that commodity prices, private consumption, and investment are the main drivers of the GDP growth outlook + the potential surprise from public consumption.** Our growth forecast 3Q2023 is in the range of 4.75% - 5.00%, and we do see the growth to pick-up moderately to around 5%-5.15% in

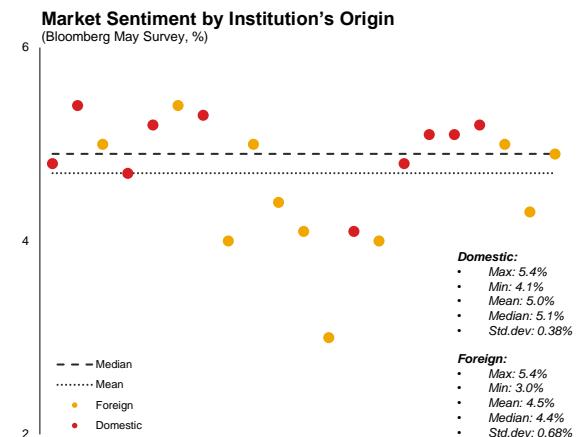
Exhibit 4. The GDP growth is expected to be at $\pm 4.9\% \pm 5.0\%$ for 2023



the final quarter of 2023.

Exhibit 5. Market Survey points to GDP growth to slow below 5% in the second half of 2023

Market Sentiment					
	1Q2023	2Q2023	3Q2023	4Q2023	Avg. 2023
Q1 (Feb. Survey)	GDP YOY%	4.76%	4.80%	4.90%	4.98%
	Previous survey	4.90%	4.96%	5.03%	5.00%
	IFG Progress	5.02%	4.62%	4.98%	4.94%
	Actual	5.03%			
	2Q2023	3Q2023	4Q2023	Avg. 2023	
Q1 (May Survey)	GDP YOY%	4.83%	5.00%	4.90%	4.90%
	Previous survey	4.80%	4.90%	4.98%	4.85%
	IFG Progress	4.88%	4.75%	5.15%	4.93%
	Actual	-	-	-	-
Economist Survey	Median	5.00%			
	Average	4.99%			
	High Estimate	5.34%			
	Low Estimate	4.70%			
	Standard Deviation	0.19%			



Source: Bloomberg, IFGP Research.

Exhibit 6. GDP Growth (%, year-on-year) and Its Contribution (% of total)

	%YOY						%Contribution					
	2022			2023			2022			2023		
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Real GDP	5.02	5.46	5.73	5.01	5.04	5.17	5.02	5.46	5.73	5.01	5.04	5.17
Domestic Demand	5.10	4.42	6.23	2.92	3.12	5.43	4.96	4.29	5.95	2.84	3.04	5.21
Change in Stock	-1.74	-4.56	95.04	-6.42	3.92	10.95	-0.04	-0.09	0.27	0.14	0.08	0.20
Statistic Discrepancy	157.51	32.04	63.38	-17.24	-16.54	0.59	1.66	0.81	1.44	-0.32	-0.43	0.02
Household Consumption	4.34	5.51	5.39	4.48	4.54	5.23	2.35	2.92	2.81	2.38	2.44	2.77
Food & Beverages, Other than Restaurant	3.58	4.09	2.65	3.38	3.47	3.84	0.73	0.82	0.52	0.67	0.70	0.76
Apparel, Footwear & Maintenance Services	6.47	4.34	4.41	2.04	3.98	7.02	0.13	0.09	0.09	0.04	0.08	0.14
Equipments	3.22	3.31	2.30	2.37	2.78	3.80	0.25	0.25	0.17	0.18	0.21	0.28
Health & Education	2.15	4.27	1.04	2.28	2.50	5.51	0.09	0.16	0.04	0.09	0.10	0.21
Transportation & Communication	7.04	9.68	12.87	8.05	7.84	7.53	0.88	1.19	1.52	1.01	1.00	0.96
Restaurant & Hotel	4.21	6.61	9.12	6.41	5.86	6.76	0.21	0.32	0.42	0.31	0.29	0.33
Others	2.65	3.56	1.66	2.98	2.69	3.71	0.07	0.09	0.04	0.07	0.07	0.09
Non-profit Institutions Servings Households	5.90	5.02	5.97	5.70	6.17	8.62	0.07	0.06	0.07	0.07	0.07	0.10
Government Expenditure	-6.62	-4.63	-2.55	-4.77	3.45	10.62	-0.40	-0.35	-0.21	-0.51	0.19	0.73
Collective	2.49	-12.28	8.13	0.62	2.97	21.39	0.09	-0.56	0.35	0.04	0.10	0.82
Individual	-18.49	6.93	-14.54	-12.62	4.23	-2.74	-0.49	0.21	-0.56	-0.55	0.09	-0.08
Gross Fixed Capital Formation	4.08	3.09	4.98	3.33	2.11	4.63	1.33	0.95	1.57	1.09	0.68	1.39
Buildings & Structures	2.58	0.92	0.07	0.11	0.08	3.32	0.63	0.21	0.02	0.03	0.02	0.73
Machine & Equipment	19.17	16.30	36.46	18.36	4.62	7.67	0.65	0.54	1.20	0.69	0.18	0.28
Vehicles	0.27	6.96	17.14	17.08	24.09	15.50	0.00	0.11	0.28	0.29	0.43	0.25
Other Equipments	6.04	-4.31	0.11	-2.66	-5.26	-5.29	0.03	-0.02	0.00	-0.01	-0.03	-0.02
Cultivated Biological Resources	3.16	3.97	1.95	0.27	3.34	5.62	0.05	0.06	0.04	0.01	0.05	0.08
Intellectual Property Products	-5.73	6.98	6.23	12.67	5.06	9.28	-0.04	0.05	0.04	0.09	0.03	0.07
Net Export of Goods and Services	2.34	39.79	-4.93	86.25	74.17	-1.05	0.07	1.17	-0.22	2.17	2.01	-0.04
Export	14.22	16.40	19.41	14.93	12.17	-2.75	2.98	3.56	4.38	3.46	2.77	-0.66
Import	16.04	12.72	25.37	6.25	3.80	-3.08	2.91	2.38	4.60	1.29	0.76	-0.62

Source: Bloomberg, IFGP Research.

Exhibit 7. Economic Growth on The Back of Domestic Consumer

Consumer confidence, whether for present situation or expectations, are still in their upward trend. This confidence is shown by all range of expenditure, from 1Mn IDR to more than 5Mn IDR. **This indicates that there's still room for private consumption to grow & push economic growth.**

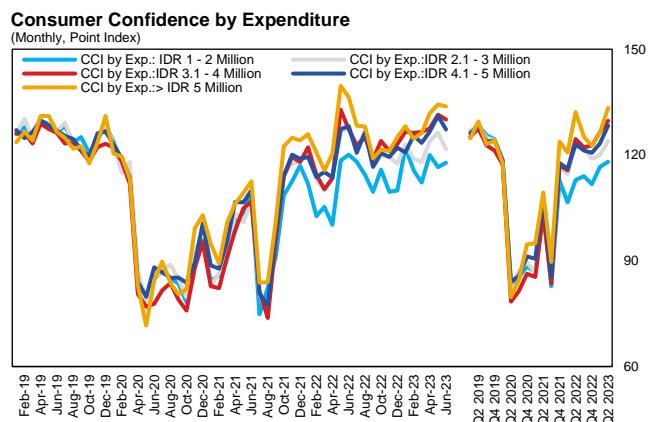
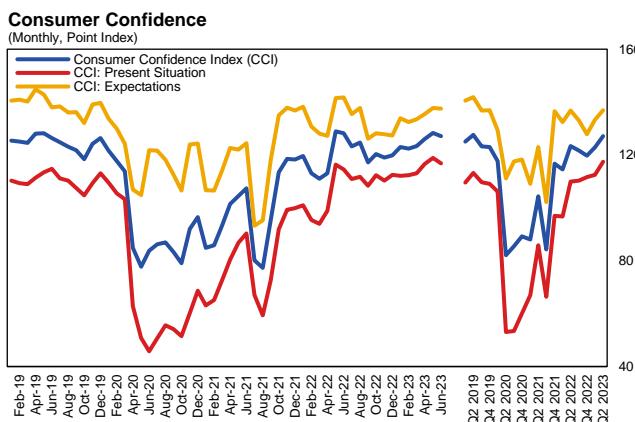


Exhibit 8. Retails Are Still Growing, But at a Slower Pace...

After going through almost 3 years of Covid-19, Gov't has lifted the PSBB in the beginning of this year, retails can recover fully without any critical and direct restrictions. **Even though it's still growing, but the pace is slowing down...or normalizing...**

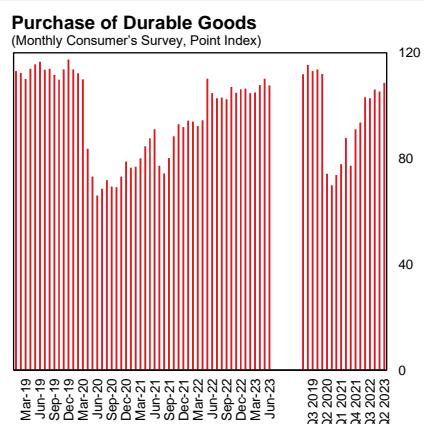
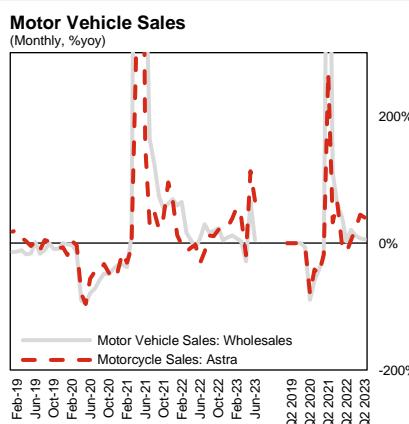
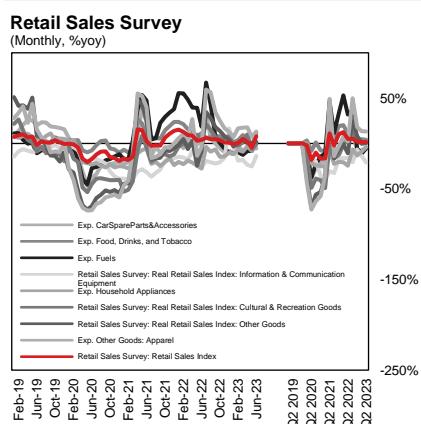


Exhibit 9. Unsynchronized Pattern of Spending Between Consumers...

With many holidays in 2Q and Hari Besar Keagamaan Nasional (HKBN), we expect consumers to spend more, but **the data highlight a slightly different story.** Deposit growth for most consumers is still growing, indicating more segment of consumers that save their money...

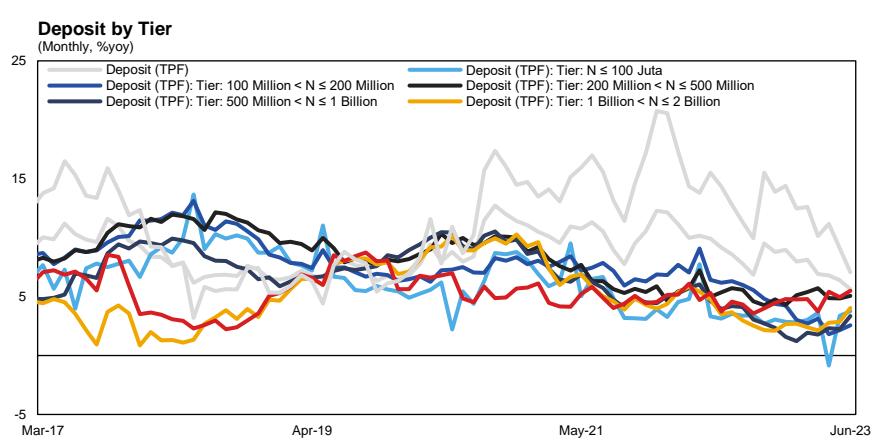
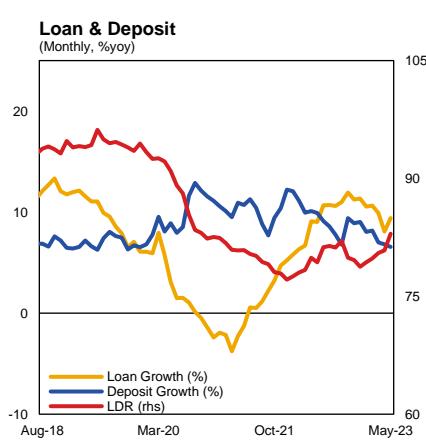


Exhibit 10. On The Other Hand, Investment Indicators Are Still Positive but Not as Good as 2022

Although they're still positive, capital import and sales of heavy equipment are not on the level of 2022. **The only highlight is in mining sector with high commodity prices, businesses double down on heavy equipment...though we expect this effect will subside in the following quarter.**

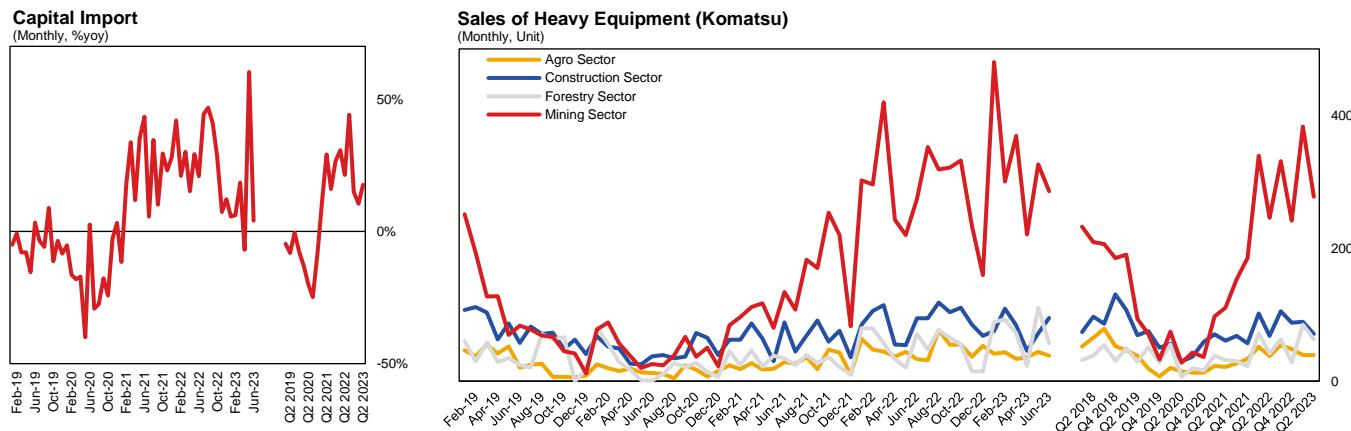


Exhibit 11. Other Investment Indicators are Also Resonate a Similar Message Following Fiscal/Budget Deficit Normalization

Cement sales recorded -3% growth (yoY) for 2Q2023, even though it's better than the last quarter at -9%, this quarter's number indicates a slow activity from investment side. Furthermore, given fiscal & budget deficit normalization agenda, gov't capital expenditure can't perform as strong as the last few years.

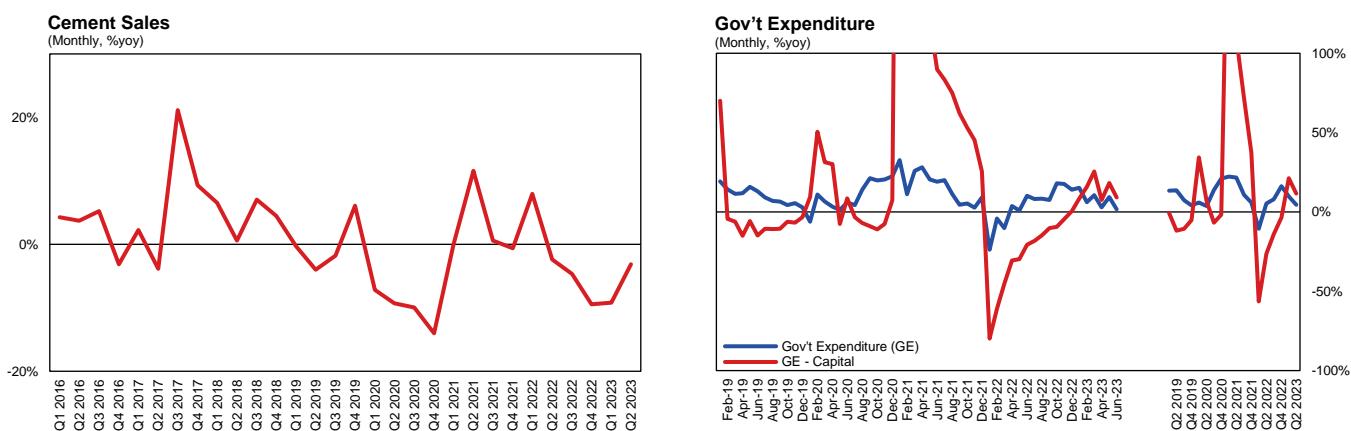
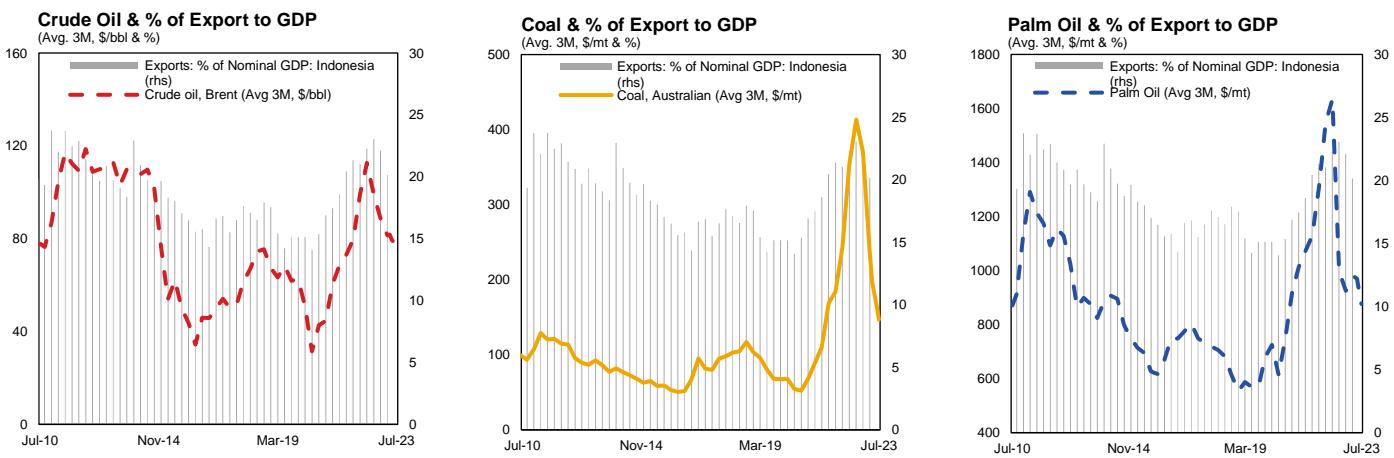


Exhibit 12. Price-Effect Is Normalizing...

The windfall from Net Export is normalizing and soon Indonesia will lose the second biggest driver of growth. 3 of the top 10 Indonesia's export commodities have shown a steep decline in price, no more price-effect...



PT. Bahana Pembinaan Usaha Indonesia (Persero)

Gedung Graha CIMB Niaga, 18th Floor
 Jl. Jendral Sudirman Kav. 58
 RT.5/RW.3, Senayan, Kebayoran Baru
 Kota Jakarta Selatan, DKI Jakarta 12190
 ☎ (+62) 021 2505080
 [Indonesia Financial Group](#)
 [PT. Bahana Pembinaan Usaha Indonesia – Persero](#)
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