

## Indonesia's Economic Resilience: Consumption's Impact Amid Crises and Elections



### Key Takeaways

- Indonesia's GDP for 4Q23 grew by 5.04% YoY slightly above the expected 5.00% YoY.
- Indonesia's annual inflation eased to 2.57% in Jan-24 from 2.61% in Dec-23, slightly surpassing the expected 2.55%.
- Trade balance Dec-23 recorded a surplus of USD3.31bn up from Nov-23 of USD2.41bn.
- The non-profit consumption shows the highest growth compared to other expenditure components, driven by activities related to the general elections.
- Factors that boost economic growth are : 1) Production activity, 2) Public consumption, 3) Investment growth, and 4) Government policies in inflation control.
- Household consumption becomes the highest source of growth, amounting to 2.36%.

### GDP Highlight: 4Q23 GDP Grew 5.04%

Statistics Indonesia recorded economic growth 5.04% YoY, this growth slightly higher than the previously 3Q23 which growth 4.94% YoY. On a quarterly basis GDP grew slightly above consensus at +5.0% YoY, and higher than 3Q23 and 4Q22. The 4Q23 growth supported by government consumption was +2.81% YoY (vs -3.9% YoY in 3Q23). However, cumulatively, FY23 GDP was recorded at +5.05%, down from +5.31% in FY22 (Exhibit 1).

From the sectoral side, the transportation & warehousing sector led the strengthening (+13.96% YoY) followed by the F&B sector (+10.01%) driven by increased community mobility, especially in organizing several international events and election preparations. Apart from that, almost all expenditure components grew (only imports still contracted), with the non-profit (LNPRT) component experiencing the highest growth driven by election preparation activities (Exhibit 2). We estimate a 5.1%, GDP growth for the best-case scenario for FY24E, driven by government consumption in the infrastructure and social services sectors, while public consumption is supported by general election activities.

### Inflation Eased in January 2024

Indonesia's annual inflation eased to 2.57% in Jan-24 from 2.61% in Dec-23, slightly surpassing the expected 2.55%. This aligns it closer to the BI's mid-point target range of 1.5% to 3.5% for the year. Inflation has followed a declining trend throughout 2023, reaching its lowest points in Sep-23 and Jan-24 (Exhibit 3).

The inflation rate in January 2024 is dominated by core components, reaching 1.68% (YoY) and 0.20% (MoM). Among expenditure groups, the largest inflation occurs in the food, beverages, and tobacco group at 5.84%, contributing 1.63% to overall inflation. Key contributors in this group include rice, garlic, tomatoes, and machine-rolled kretek cigarettes. We estimate that the CPI will be in the range of 2.51%-3.52% YoY, and BI will have room for interest rate cuts 2-3 times.

### Trade Surplus Highlights Economic Resilience

Indonesia's trade balance recorded a surplus of USD3.31bn in December 2023, up from November's USD 2.41 billion (Exhibit 4). Exports grew by 1.89% MoM to USD22.41 bn, driven by a 1.06% increase in non-oil and gas exports and a 15.28% increase in oil and gas exports. Conversely, imports declined by 2.45% MoM to USD19.11bn, influenced by a 2.26% decrease in non-oil and gas imports and a 3.33% decrease in oil and gas imports. In 2023, Indonesia's exports were predominantly directed to China, accounting for 25.66% of the share, followed by the United States at 9.57%, and India at 8.35%.

### Consumption Supports Economic Growth

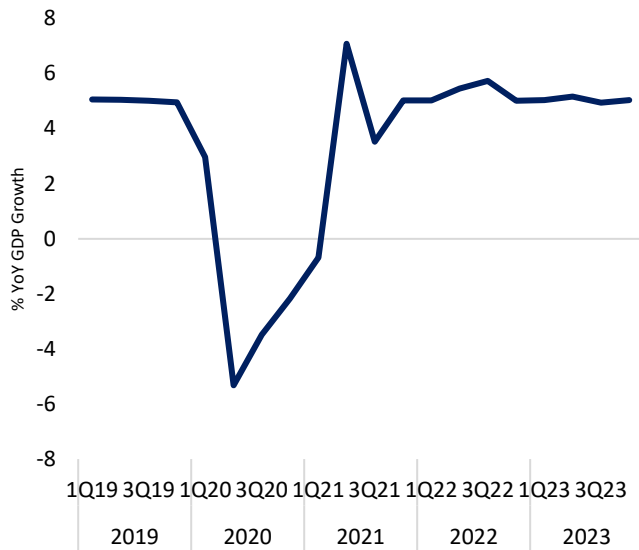
Indonesia has navigated through various crises that coincidentally occurred before the five-yearly general elections. The 2019 election took place during the US-China trade war era, the 2014 election followed the taper tantrum, and the 2009 election occurred after the GFC. In these events, Indonesia managed to achieve GDP growth within the 5% average. Key factors contributing to this achievement include: 1) Increased production activity, 2) Higher public consumption, 3) Growth in investment, and 4) Effective government policies in inflation control. This underscores the connection between household consumption, contributing around 45%-55% to the total economic growth (Exhibit 5).

### Economic Growth During The Election

The prominent pattern in the interaction between macroeconomic indicators and the political cycle is evident through the growth of Household Serving Non-Profit Institutions (LNPRT) consumption during elections. This increase is triggered by a surge in political party spending on campaigns, but it is temporary as consumption tends to decrease after elections. Conversely, Gross Fixed Capital Formation (PMTB) experiences a decline during elections as investors adopt a wait-and-see approach, with a tendency to rebound a year after the elections. On the other hand, government consumption sees a spike during elections, especially in the year preceding the elections compared to non-election periods (Exhibit 6).

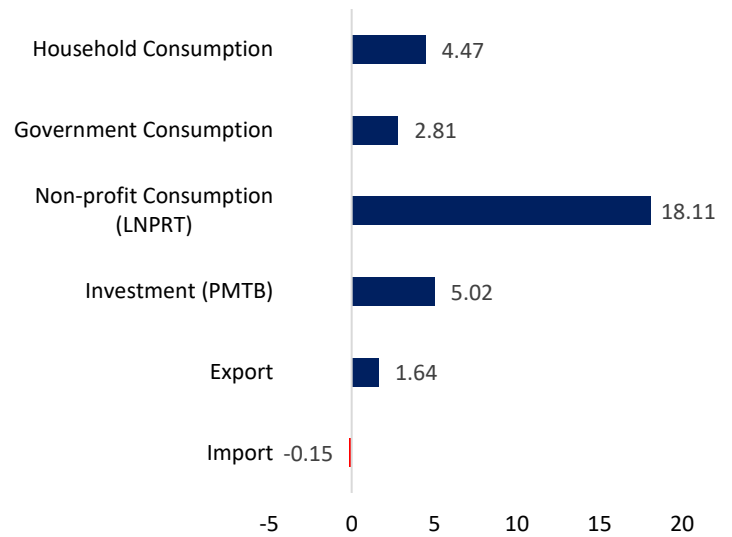
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**Exhibit 1. Indonesia's GDP hovering in +5.00% territory since 4Q21**



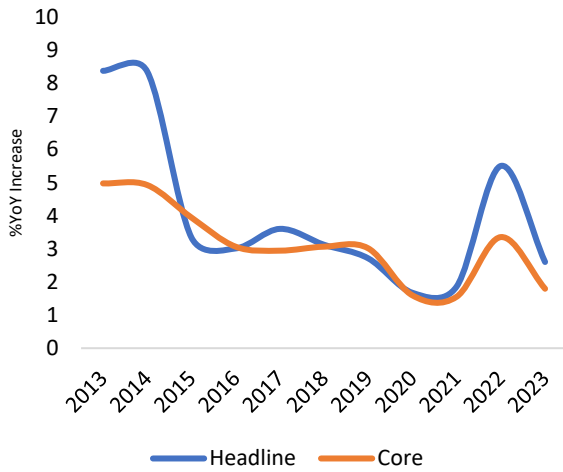
Sources : Statistics Indonesia, MNCS Research

**Exhibit 2. GDP Growth and Composition by Expenditure 4Q23 (% YoY)**



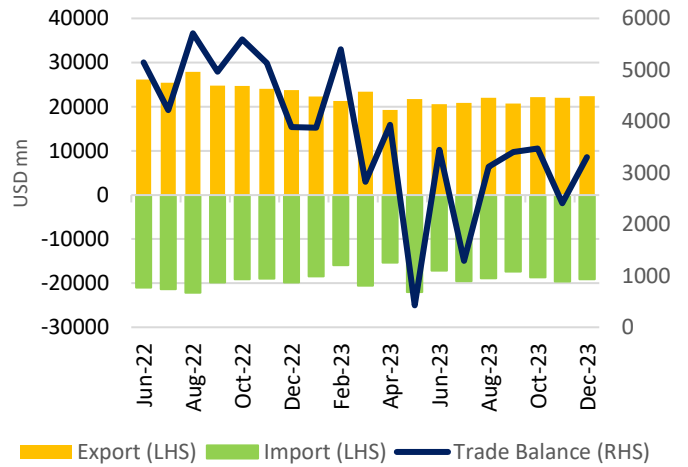
Sources : Statistics Indonesia, MNCS Research

**Exhibit 3. Inflation on the declining trend throughout 2023**



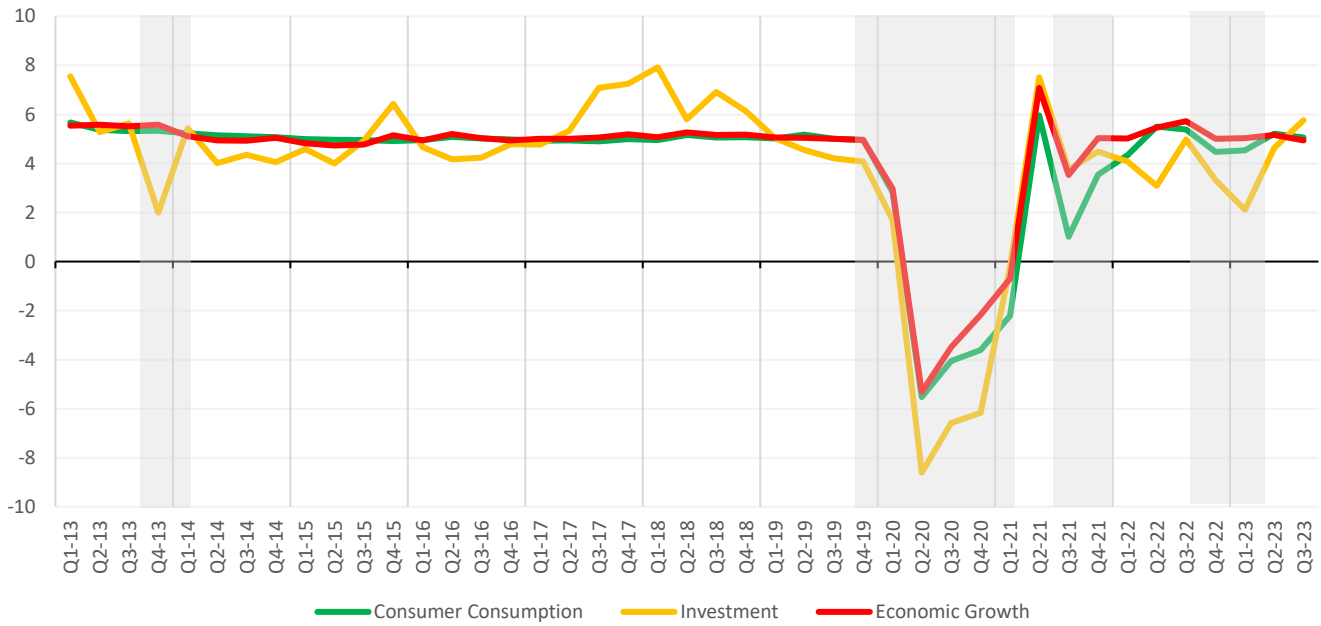
Sources : Statistics Indonesia, MNCS Research

**Exhibit 4. Yet declining, trade balance still recorded a surplus**



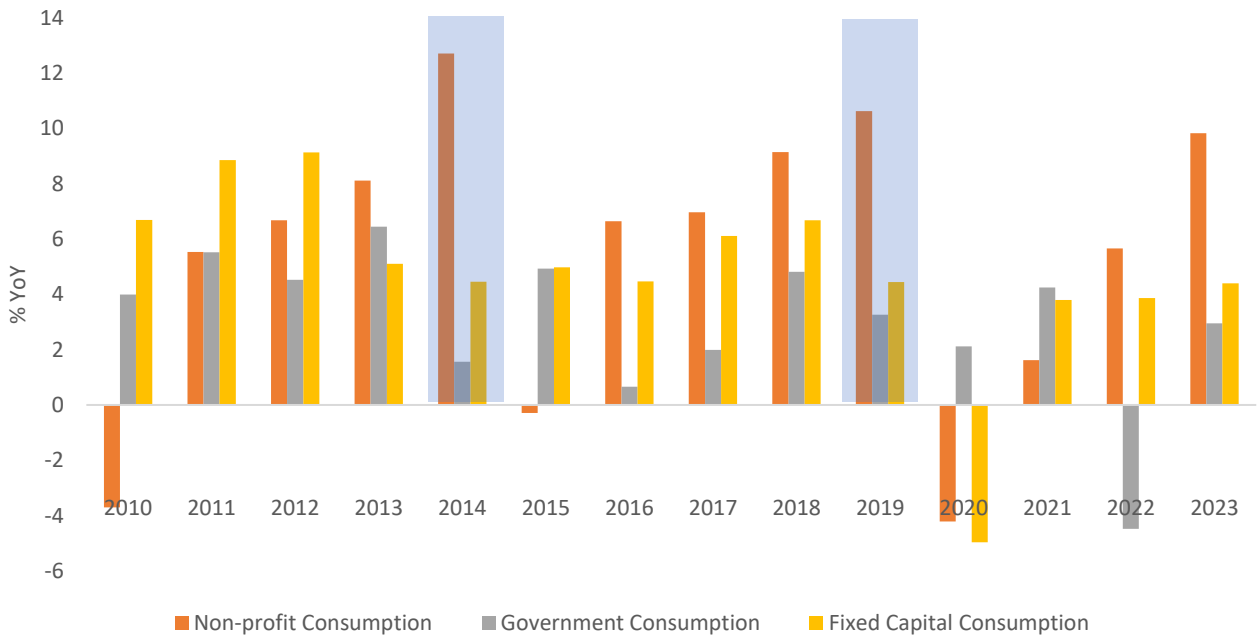
Sources : Statistics Indonesia, MNCS Research

**Exhibit 5. Household Consumption Fueled Economic Growth Resilience**



Sources : Statistics Indonesia, MNCS Research

**Exhibit 6. Consumption Growth During the Election**



Sources : Statistics Indonesia, MNCS Research

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**OVERWEIGHT:** Stock's total return is estimated to be above the average total return of our industry coverage universe over next 6-12 months

**NEUTRAL:** Stock's total return is estimated to be in line with the average total return of our industry coverage universe over next 6-12 months

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