## Indonesia

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# Election Boost to 1Q24 Growth Unlikely to Sustain

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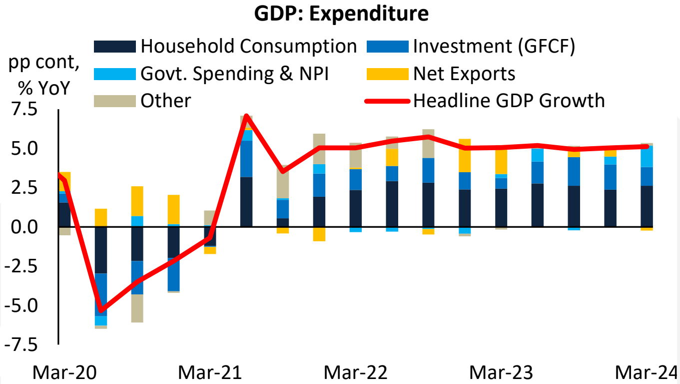
- GDP growth was solid in 1Q24, rising to 5.1% YoY versus 5.0% in 4Q23 driven by election related spending while investments and export growth slowed.
- We maintain our 2024 GDP growth forecast of 4.8% implying a slowdown in subsequent quarters. The risk to our forecast is skewed modestly to the upside.
- Solid growth in 1Q24 will allow Bank Indonesia (BI) to remain focused on external stability. The need for incremental rate hikes in the near-term, however, may be reduced.

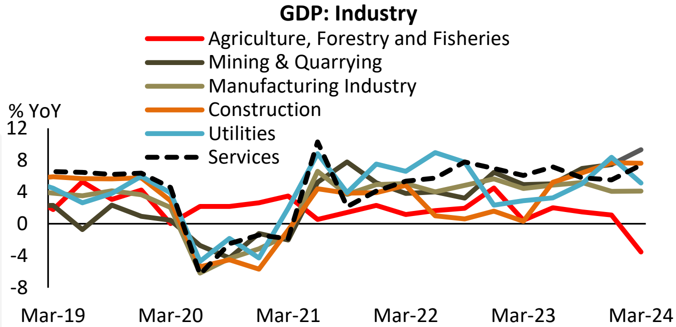
GDP growth improved to 5.1% YoY in 1Q24 versus 5.0% in 4Q23, in line with consensus expectations but higher than our forecast (Consensus: 5.1%; OCBC: 4.7%). The details show that much of the boost came from election related spending; the extent of which we underestimated.

Specifically, government spending jumped by 19.9% YoY in 1Q24 versus 2.8% in 4Q23. This is similar to the spending by non-profit institutions (24.3% YoY versus 18.1% in 4Q23). Household spending improved more modestly to 4.9% YoY (4Q23: 4.5%). By contrast, and in line with our forecasts, investment spending continued to slow to 3.8% YoY in 1Q24 versus 5.0% in 4Q23 for a second consecutive quarter. Domestic demand, as a result, contributed 5.2 percentage points (pp) to headline GDP growth compared to 4.5pp in 4Q23.

The contribution of net exports turned negative, as we had expected, to -0.2pp in 1Q24 versus 0.4pp in 4Q23. Export growth (goods & services) slowed to 0.5% YoY in 1Q24 versus 1.6% in 4Q23 while import growth picked up to +1.8% versus -0.1% in 4Q23.



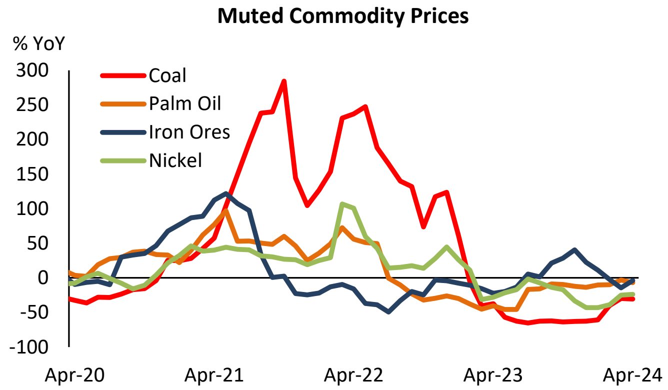

Note: Other = Combined value of change in inventories and statistical discrepancies.
Source: Statistics Indonesia (BPS), CEIC, OCBC.



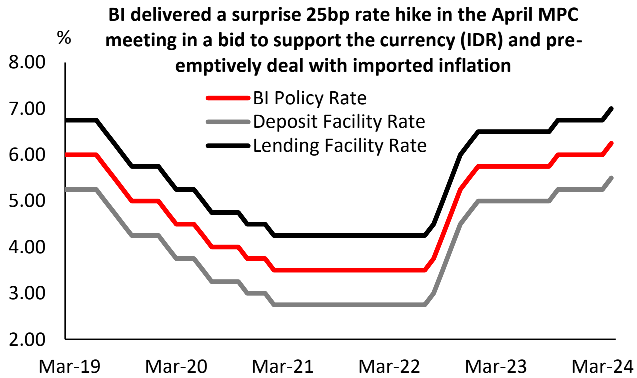

Note: Services = Combined value of Wholesales & Retail Trade, Repairs, Transportation & Storage, Accommodation & Food Beverages Activity, Information & Communication, Financial & Insurance Activity, Real Estat, Business Services, Public Admin, Defense & Social Security, Education Services, Human Health & Social Work Activity, Other Services.
Source: Statistics Indonesia (BPS), CEIC, OCBC.

On the supply side, growth was supported by the services (7.4% YoY in 1Q24 versus 5.5% in 4Q23) sector, reflecting improvements in wholesale and retail activities during the Ramadan and Eid al-Fitr celebrations. Growth in the mining (9.3% YoY versus 7.5% in 4Q23) sector also picked up reflecting the continued push towards value-addition in the resources sector. Growth in the construction (7.6% in 1Q24 versus 7.7% in 4Q23) and manufacturing (4.1% in 4Q23 and 1Q24) sectors were stable compared to 4Q23 while agriculture sector output contracted by 3.5% YoY in 1Q24 after increasing 1.1% in 4Q23.

The solid 1Q24 GDP print suggests some upside risks to our full year 2024 GDP growth forecast of 4.8%. Nonetheless, the strength in 1Q24 may be hard to replicate for the rest of this year. This is mainly because government spending is likely to moderate in the coming quarters since the Presidential elections were completed in one round on 14 February 2024. That said, spending will remain elevated compared to last year ahead of the regional elections scheduled for November 2024.



Source: World Bank Commodity Prices, Bloomberg, OCBC.



Source: Bank Indonesia, CEIC, OCBC

Furthermore, fading commodity tailwinds and modest global growth prospects will continue to weigh on investment and export growth. These components slowed for a second consecutive quarter in 1Q24. Indeed, the price of key commodity exports – a key factor determining commodities related investments - such as nickel (-33.4% YoY YTD), coal (-44.2%) and palm oil (-7.5%) have dropped significantly year-to-date. Finally, household spending is likely to slow as the impact of one-off cash transfers and festivity related spending eases.

Notwithstanding, the strong 1Q24 GDP print is testament to BI's confidence that growth momentum is resilient. BI raised its policy rate by 25bp at its 24 April meeting to support the currency. While we expect BI to remain focused on external stability in near-term, the recent stability in the USD/IDR rate reduces the need for rate hikes. As such, we maintain our view for BI to remain on hold in the near-term. Should our house view on the US Federal Reserve reducing its policy rate by a cumulative 75bp this year starting from 3Q24 materialise, we expect BI to have room to ease its policy rate by a cumulative 75bp in 4Q24.

| % YoY | 1Q 2023 | 2Q 2023 | 3Q 2023 | 4Q 2023 | 1Q 2024 |
|---|---|---|---|---|---|
| **Real GDP** | **5.0** | **5.2** | **4.9** | **5.0** | **5.1** |
| **Demand Side** | | | | | |
| Consumption Expenditure | 4.5 | 5.9 | 4.0 | 4.5 | 6.6 |
| Household | 4.5 | 5.2 | 5.1 | 4.5 | 4.9 |
| Government | 3.3 | 10.5 | -3.9 | 2.8 | 19.9 |
| Non-Profit Institutions Servings Households | 6.2 | 8.6 | 6.2 | 18.1 | 24.3 |
| Gross Fixed Capital Formation | 2.1 | 4.6 | 5.8 | 5.0 | 3.8 |
| Export of Goods and Services | 11.7 | -2.9 | -3.9 | 1.6 | 0.5 |
| Imports of Goods and Services | 4.2 | -3.2 | -6.8 | -0.1 | 1.8 |
| **Supply Side** | | | | | |
| Agriculture, Forestry and Fisheries | 0.4 | 2.0 | 1.5 | 1.1 | -3.5 |
| Mining & Quarrying | 4.9 | 5.0 | 7.0 | 7.5 | 9.3 |
| Manufacturing Industry | 4.4 | 4.9 | 5.2 | 4.1 | 4.1 |
| Electricity & Gas Supply | 2.7 | 3.2 | 5.1 | 8.7 | 5.3 |
| Construction | 0.3 | 5.2 | 6.4 | 7.7 | 7.6 |
| Transportation & Storage | 15.9 | 15.3 | 14.7 | 10.3 | 8.7 |
| Wholesale and Retail Trade, Repairs | 4.9 | 5.3 | 5.1 | 4.1 | 4.6 |
| Accommodation & Food Beverages Activity | 11.5 | 9.9 | 10.9 | 7.9 | 9.4 |
| Information & Communication | 7.1 | 8.0 | 8.5 | 6.7 | 8.4 |
| Financial & Insurance Activity | 4.5 | 2.9 | 5.2 | 6.6 | 3.9 |
| Real Estate | 0.4 | 1.0 | 2.2 | 2.2 | 2.5 |
| Business Services | 6.4 | 9.6 | 9.4 | 7.6 | 9.6 |
| Public Administration, Defense & Compulsory Social Security | 2.1 | 8.2 | -6.2 | 1.6 | 18.9 |
| Education Services | 1.0 | 5.4 | -2.1 | 2.6 | 7.3 |
| Human Health & Social Work Activity | 4.8 | 8.3 | 2.9 | 3.1 | 11.6 |
| Other Services | 8.9 | 11.9 | 11.1 | 10.2 | 8.9 |

Source: Statistics Indonesia (BPS), CEIC, OCBC

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