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Slower 1Q25 GDP growth adds to the case for rate cuts; watching IDR moves

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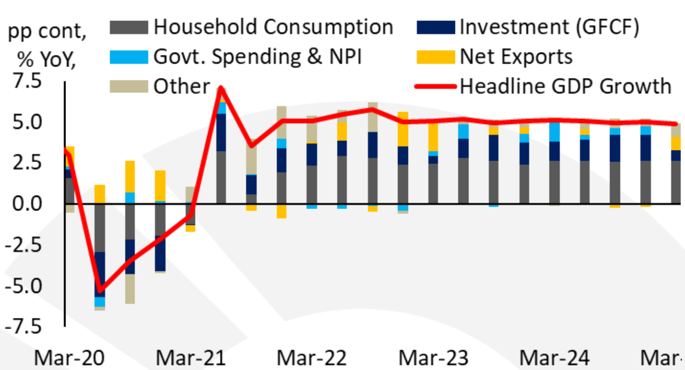
- Weaker 1Q25 GDP growth of 4.9% YoY is telling of domestic demand pains, as investment spending and household consumption expenditures slowed.
- We expect growth momentum to slow further in the coming quarters, with GDP growth averaging 4.7% in 2025.
- Bank Indonesia (BI) is looking for room to ease and recent IDR gains versus USD, if sustained, may open the door for a 25bp rate cut at its 21 May meeting.

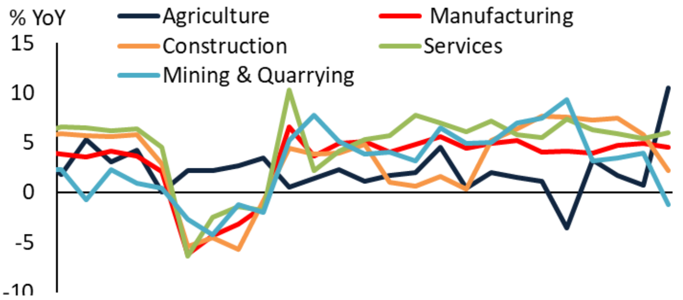
Weakest investment growth since 1Q23

GDP growth slowed to 4.9% YoY in 1Q25 versus 5.0% in 2024, in line consensus and above our expectations (Consensus: 4.9%; OCBC: 4.7%). The details are more telling, painting a picture of clearly weakening economic growth momentum in domestic demand drivers.

Specifically, gross fixed investments (i.e., investment spending) slowed to 2.1% YoY versus 5.0% in 4Q24, likely reflecting slower construction sector growth (2.2% YoY versus 5.8% in 4Q24) as well as weaker commodities prices. Household spending also slowed marginally to 4.9% YoY versus 5.0% in 4Q24 despite the festive season. The contribution of domestic final demand to headline GDP growth narrowed sharply to 3.5 percentage points (pp) from 4.9pp in 4Q24.



Note: Other refers to 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.

Corroborating this, import growth slowed to 4.0% YoY in 1Q25 versus 10.4% in 4Q24. While the slowdown in export growth was more moderate to 6.8% YoY versus 7.6% YoY in 4Q24, even as some exports were front-loaded to the US. As a result, net exports contributed 0.8pp in 1Q25 from -0.2% in 4Q24.

On the supply side, agriculture output jumped by 10.5% YoY in 1Q25 versus 0.7% in 4Q24 reflecting higher paddy and corn produce. Growth in most other key sectors including manufacturing, construction, wholesale and retail trade as well as accommodation and food beverages slowed in 1Q25 versus 4Q24.

We expect GDP growth to average 4.7% YoY in 2025, implying weaker growth in the coming quarters. The growth slowdown is unlikely a surprise to the authorities or in fact, market participants underscored by consensus expectations for the 1Q25 GDP print.

Indeed, Bank Indonesia stated at its 23 April meeting that it is looking for room to ease its policy rate from the current 5.75% given slower growth momentum. BI has been looking for an opportunity to follow through from its 25bp rate at its January 2025, but depreciation pressures on IDR precluded further monetary policy in February through to April.

The tide maybe changing in BI's favour. IDR has gained by 2.7% versus USD since BI's meeting 23 April meeting. Foreigner holding of government bonds has been largely stable at 14.4% of total outstanding as of end-April 2025. Continued gains in IDR versus USD in the coming weeks will present BI with a good opportunity to ease by 25bp at its 21 May meeting. Our forecast is for the BI rate to be 5.25% by end-2025.

Importantly, government policies have not be credibility depletive allowing for sentiment to stabilise. On the external front, Indonesian officials continue to negotiate with the US to reduce reciprocal tariffs from 32% imposed by the US on 2 April but postponed for 90 days. US Secretary of the Treasury Scott Bessent and Finance Minister Sri Mulyani met on 24 April 2025. Officials have affirmed a 'positive start towards initiating trade discussions' with the US, adding that the US plans to 'work closely' with Indonesia on mutual concerns. Indonesia has proposed increasing imports from the US by up to USD19bn and reducing non-tariff trade barriers.

On the domestic front, rumbles of cabinet reshuffles and controversial laws have eased, however, material progress to move the needle on sentiment in the positive direction have not taken root yet.

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