GDP:
Descending with one engine on

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Executive Summary

- Indonesia's real GDP growth decelerated to 4.95% YoY in Q3-2024, hindered by flat household consumption as the government delayed the realisation of social spending. Fortunately, stable inflation and fiscal handouts in Q4-2024 may help turn the consumption trend upwards.
- Government-driven projects continue to propel fixed-asset investment growth higher, despite the slowing private sector investment. However, the shift in the government's fiscal preference may dampen FAI growth going forward.
- Despite accelerating to 6.49% YoY, Indonesia's nominal GDP growth may not recover to double-digit levels without a meaningful rally in the global commodity market and a further shift in Bank Indonesia's policy stance.

- **The Indonesian economy recorded a 4.95% YoY real GDP growth in Q3-2024** (1.50% QoQ), lower than both the 5.05% YoY in the previous quarter and the analysts' consensus of 5.00% YoY. The Q3 growth number marks the lowest since the same quarter last year, a period when government spending moderated and a sharp drop in global commodity prices adversely impacted exports. **The weakened GDP growth aligns with our expectations, as our internal big data suggests a bottoming out early in Q3-2024**, followed by a tentative rebound in September and October.
- We had previously anticipated that private consumption would contribute more to real GDP growth in Q3-2024, supported by stable food prices that should explain Bank Indonesia's strong retail sales growth figures throughout the quarter. Despite all these expectations, however, **household consumption growth remained flat**, rising by only 4.91% YoY (vs. 4.99% YoY forecast) compared to 4.93% YoY in the previous quarter.
- As noted during the data release, **the slowdown in transfer payment by the government (with the August 2024 social spending realisation being 4.6% slower than in the previous year) has contributed to the flat private consumption figures.** Consequently, this situation underpins our optimism that household consumption will improve in the upcoming quarter, as the fiscal handouts are expected to be realised sometime in Q4-2024.
- Meanwhile, the improving commodity prices do not account much for Indonesia's GDP growth in Q3-2024, thanks to the faster import growth. Fortunately, what the economy lacks in internal and external demand, it finds aplenty in investment appetite. The fixed-asset investments (FAIs) component managed to grow by 5.15% YoY in Q3-2024, up from 4.43%

YoY in the previous quarter, which contrasts with our observations of a slowing investment cycle in the domestic corporate sector.

- Indeed, **the government's fingerprint seems to be all-around the higher FAI growth in Q3-2024**, with the widely reported acceleration of the new capital city (IKN) project prior to the Independence Day celebration standing out as a notable example. This fiscal-driven FAI narrative is further supported by recent budget realisation data, which indicates a notable acceleration in the realisation of capital goods expenditure up until August 2024 (13.96% faster than in 2023).

- **Meanwhile, the sectoral breakdown of the GDP data does not seem to change much from the previous quarters**. Growth remains concentrated in extractive sectors, most notably the base metal sector (12.4% YoY), which is rivalled only by other export-oriented sectors such as footwear & leather (10.1% YoY) and furniture (6.8% YoY). Apart from the extractive sector, the hotels and restaurants sector continued its growth trend in Q3-2024, fuelled by the significant uptick in conferences and other domestic events amid the ongoing governmental transition period.

- Next, we frame the discussion on GDP growth dynamics in the coming period around two questions. Since this fiscal-driven model has proven insufficient to keep Indonesia's GDP growth above the 5.00% threshold, **the first question is whether other growth engines could help boost GDP in the coming quarters.**

"Absent a trail-blazing rally in the global commodity market, Indonesia's growth engine remains largely dependent on the fiscal coffers"

- There are some reasons for optimism. First, **the continued recovery in commodity prices (particularly for industrial minerals) seems likely, given our assessment of the anticipated fiscal stimulus from China and the Federal Reserve's rate-cutting trajectory.** Additionally, potential disruptions from the incoming La Niña weather pattern may exert upward pressure on commodity prices. However, it remains uncertain whether Indonesian exporters has sufficient inventory or can ramp up production before the rains arrive to sustain the export momentum–or whether Chinese importers will continue to demand additional supplies given their increasingly full warehouses.

- We can also anticipate the fiscal side of the growth engine to continue running in the upcoming period, though with a different focus. While fiscal expansion contributed to higher FAI growth in Q3-2024, fiscal spending in the forthcoming quarters (particularly in 2025 and beyond) is likely to centre on sustaining household consumption, in line with the new government's preference for social spending and investments. The seemingly subdued inflationary pressure, of course, will provide additional help for the government in its quest to move household consumption growth northwards.

- **The shift in government focus from boosting FAI to sustaining household consumption could enhance the trickle-down effect of fiscal expansion on the broader private sector**, potentially restoring the strong correlation between net fiscal spending (monthly changes in fiscal spending minus revenue) and savings growth, which has appeared to weaken over the past year. Such a development would greatly benefit the domestic banking sector, though the anticipated higher SBN issuance may continue to weigh on savings growth.

- Another positive development for banks and the domestic corporate sector is the continued acceleration in nominal GDP growth, reaching 6.49% YoY in Q3-2024 after hitting its nadir of 3.67% YoY at the end of last year. Our second question, then, is how far this recovery can go. In this aspect, it might be better to hold our horses for now. Our internal big data shows that consumer transaction growth continues to struggle to pick up pace in October 2024 (despite the tentative rebound), with lower inflation not helping to turn the trend around.

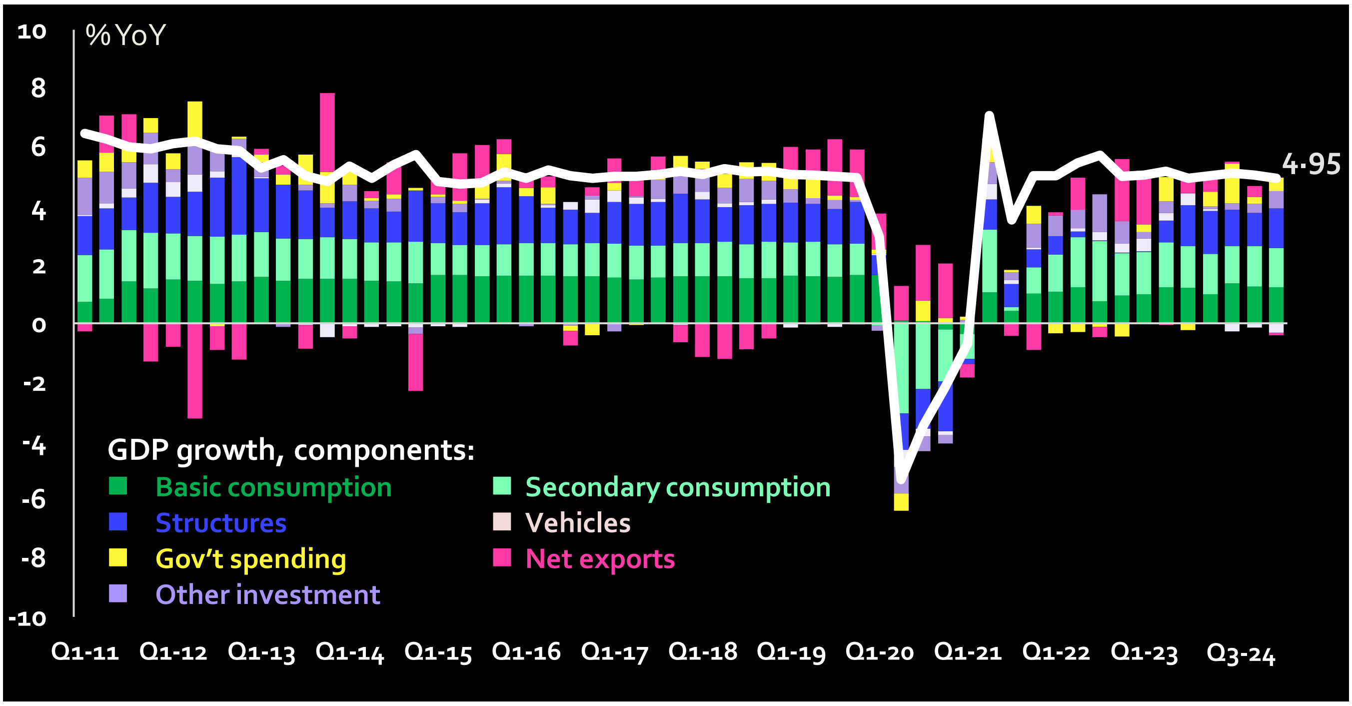
- Our observations of corporate-level data also indicated lower margins among the business sector, especially for retailers and consumer goods manufacturers – underscoring the pressure on businesses to absorb costs to retain customers. **Alongside limited foreign capital inflows into the Indonesian market, the margin squeeze faced by the domestic corporate sector has contributed to stagnating money supply (M2 growth) in Q3-2024**, with liquidity growth once again largely stemming from net claims on the public sector rather than private sector expansion.

> ***"The accelerating nominal GDP growth benefits the domestic banking sector, but further improvement remains limited given the muted domestic demand condition"***

- As such, the Indonesian economy remains at the mercy of commodity prices to bring its nominal GDP back to double-digit (or even high single-digit) growth – which is a feasible, but highly speculative, scenario amid the increasingly unpredictable global economic landscape.

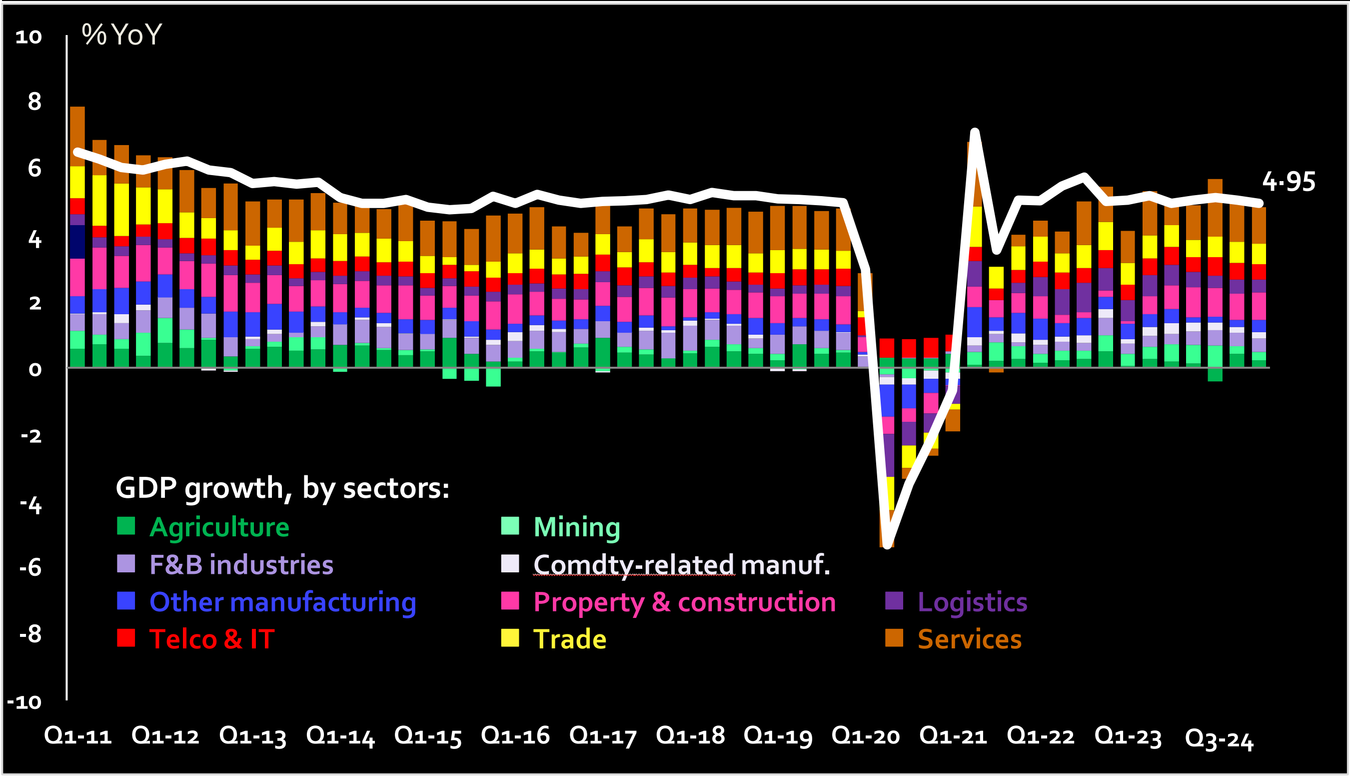
- The limited prospects for a robust recovery in nominal GDP growth, coupled with the softened real GDP growth in Q3-2024, underscore the need for Bank Indonesia to fine-tune its monetary policy mix to a more accommodative stance. However, the room for such adjustments remains constrained, particularly in the near term. While the Fed is anticipated to cut rates by 50 bps between now and December 2024, uncertainties surrounding today's U.S. presidential election have led to a stronger USD (as per the DXY index) and rising UST yields, pressuring other currencies and sustaining high global bond yields. **BI's hand, then, remains tied to the stabilisation side of its mandate, leaving fiscal policies as the only game in town to stimulate Indonesia's growth potential.**

Chart 1. **The delayed transfer payments hampered discretionary spending, while the government continued to push for fixed-asset investments**



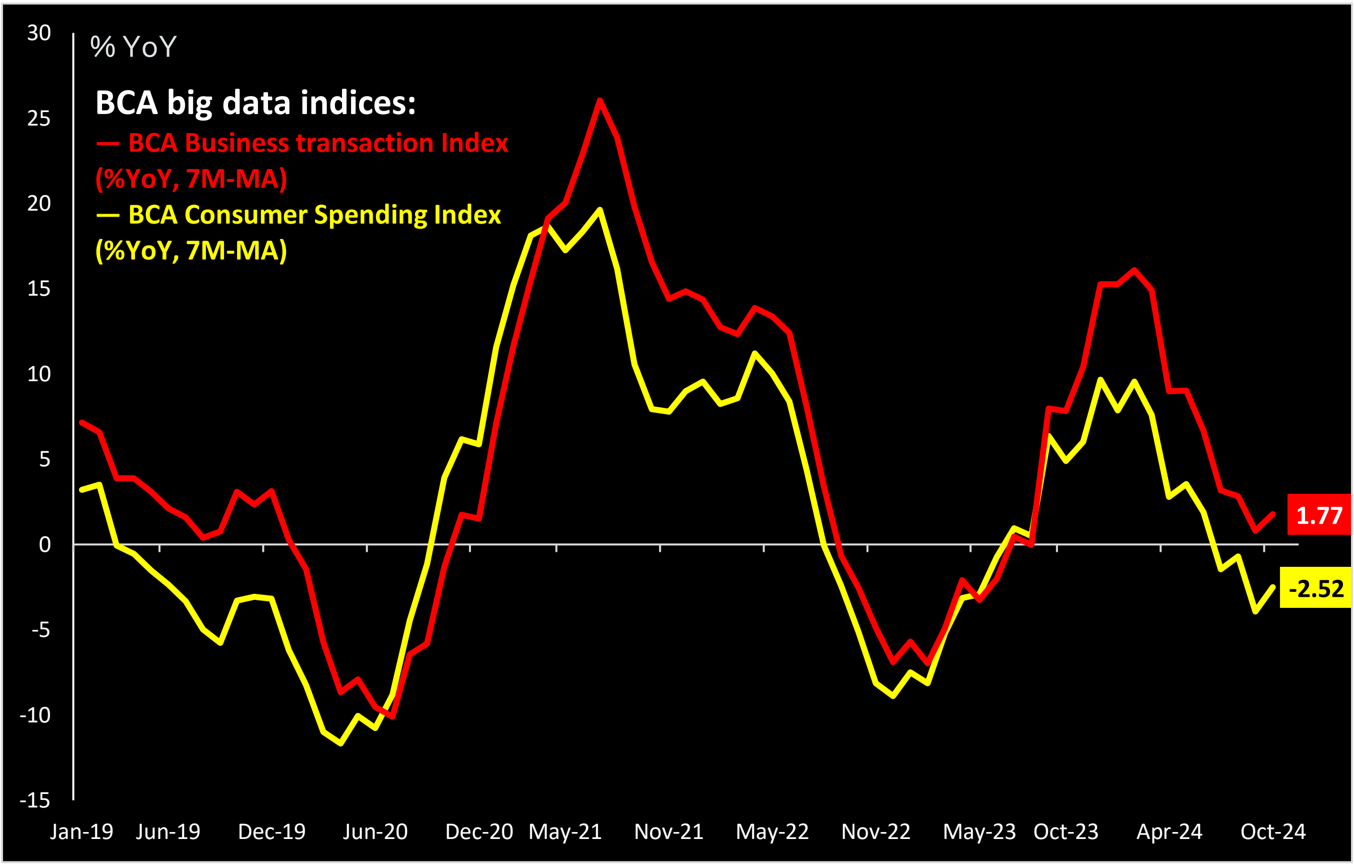
Source: BPS, BCA Economist

Chart 2. **The Indonesian economy continues to suffer a broad-based slowdown in the manufacturing sector, with growth concentrated in the services sector**



Source: BPS, BCA Economist

Chart 3. Household consumption may recover in the upcoming quarter, aided partly by the stable inflation (especially for food).



Source: BCA Big Data, calculated by BCA Economist

Table 1. Gross Domestic Products by Sector (nominal)

	2022		2023		Q3-23	Q4-23	Q1-24	Q2-24	Q3-24
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Agriculture, livestock, forestry, and fishery	2,428.9	12.4	2,617.7	12.5	718.6	603.8	613.8	762.7	773.2
Mining and quarrying	2,393.4	12.2	2,198.0	10.5	539.3	510.0	493.9	485.9	511.1
Manufacturing industry	3,591.8	18.3	3,900.1	18.7	992.7	1,011.9	1,019.7	1,025.1	1,072.6
Electricity and gas	204.7	1.0	218.3	1.0	55.5	56.8	55.3	56.0	57.9
Water provisioning and waste recycling	12.5	0.1	13.3	0.1	3.3	3.4	3.5	3.6	3.6
Construction	1,913.0	9.8	2,072.4	9.9	522.2	556.1	541.2	533.3	567.3
Wholesale trade and repairs	2,516.6	12.8	2,702.4	12.9	686.7	687.0	695.4	719.4	738.1
Transportation and warehousing	983.5	5.0	1,231.2	5.9	316.6	326.2	313.4	345.6	347.9
Hotels, restaurant, and catering	472.1	2.4	526.3	2.5	132.8	139.0	138.5	145.9	147.6
Information and communication	812.8	4.1	883.6	4.2	223.4	228.0	232.9	239.8	241.2
Financial services and insurance	809.4	4.1	869.2	4.2	215.2	221.3	227.8	235.0	230.9
Real estate	488.3	2.5	505.5	2.4	127.3	127.8	128.5	128.9	130.9
Business services	341.4	1.7	383.1	1.8	96.7	99.4	102.0	106.7	106.3
Govt. administration , defence, and social security	605.1	3.1	616.4	3.0	137.6	164.3	177.7	179.2	147.3
Educational services	566.6	2.9	583.6	2.8	140.0	160.3	147.2	158.0	147.7
Healthcare and social services	236.2	1.2	252.0	1.2	63.6	69.6	64.7	69.2	69.8
Other services	354.2	1.8	405.2	1.9	99.6	107.3	108.2	113.1	111.6
GROSS DOMESTIC PRODUCT	**19,588.4**	100.0	**20,892.4**	100.0	**5,295.0**	**5,302.5**	**5,288.5**	**5,536.5**	**5,638.9**

***Numbers in recent quarters are subject to revision from BPS**

Table 2. Gross Domestic Products by Expenditure (nominal)

	2022		2023		Q3-23	Q4-23	Q1-24	Q2-24	Q3-24
	Rp Tn	Share	Rp Tn	Share	Rp Tn	Rp Tn	Rp Tn	Rp Tn	Rp Tn
Household consumption	10,161.7	51.9	11,109.6	53.2	2,787.0	2,854.1	2,905.1	3,019.1	2,993.2
Consumption by non-profit organizations	229.0	1.2	260.7	1.2	64.1	72.2	75.8	73.3	73.0
Government consumption	1,505.0	7.7	1,555.5	7.4	375.1	526.3	330.4	404.5	406.6
Fixed-asset investment	5,697.3	29.1	6,127.7	29.3	1,572.0	1,621.1	1,550.1	1,544.1	1,677.5
Exports of goods and services	4,799.8	24.5	4,543.4	21.7	1,128.3	1,198.7	1,135.5	1,183.1	1,270.4
Imports of goods and services	4,106.1	21.0	4,088.4	19.6	1,031.2	1,077.6	1,042.5	1,087.2	1,170.9
GROSS DOMESTIC PRODUCT	**19,588.1**	100.0	**20,892.4**	100.0	**5,295.0**	**5,302.5**	**5,288.5**	**5,536.5**	**5,638.9**

Source: BPS

Table 3. Gross Domestic Products by Sector (%YoY)

	Last 3 Years			Last 3 Quarters		
	2021	2022	2023	Q1-24	Q2-24	Q3-24
Agriculture, livestock, forestry, and fishery	1.87	2.29	1.29	-3.54	3.25	1.69
Mining and quarrying	4.00	4.38	6.12	9.31	3.17	3.46
Manufacturing industry	3.39	4.89	4.64	4.13	3.95	4.72
Electricity and gas	5.55	6.61	4.91	5.35	5.39	5.02
Water provisioning and waste recycling	4.97	3.24	4.90	4.44	0.84	0.03
Construction	2.81	2.01	4.91	7.59	7.29	7.48
Wholesale trade and repairs	4.63	5.50	4.83	4.59	4.86	4.82
Transportation and warehousing	3.24	19.86	13.96	8.66	9.56	8.64
Hotels, restaurant, and catering	3.89	11.94	10.01	9.39	10.17	8.33
Information and communication	6.82	7.73	7.61	8.41	7.66	6.86
Financial services and insurance	1.56	1.93	4.77	3.91	7.90	5.49
Real estate	2.78	1.72	1.43	2.54	2.16	2.32
Business services	0.73	8.77	8.24	9.63	7.96	7.93
Govt. administration , defence, and social security	-0.33	2.52	1.50	18.88	2.79	3.94
Educational services	0.11	0.58	1.79	7.34	2.38	2.51
Healthcare and social services	10.45	2.73	4.66	11.64	8.56	7.64
Other services	2.12	9.47	10.52	8.92	8.85	9.95
GROSS DOMESTIC PRODUCT	**3.70**	**5.31**	**5.05**	**5.11**	**5.05**	**4.95**

Table 4. Gross Domestic Products by Expenditure (%YoY)

	Last 3 Years			Last 3 Quarters		
	2021	2022	2023	Q1-24	Q2-24	Q3-24
Household consumption	2.02	4.94	4.82	4.91	4.93	4.91
Consumption by non-profit organizations	1.62	5.66	9.83	24.29	9.98	11.69
Government consumption	4.24	-4.46	2.95	19.91	1.42	4.62
Fixed-asset investment	3.80	3.87	4.40	3.79	4.43	5.15
Exports of goods and services	17.95	16.27	1.32	1.44	8.18	9.09
Imports of goods and services	24.87	14.99	-1.65	1.46	7.79	11.47
GROSS DOMESTIC PRODUCT	**3.70**	**5.31**	**5.05**	**5.11**	**5.05**	**4.95**

Source: BPS

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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023E	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7-day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of the year)**	13,866	14,050	14,262	15,568	15,397	15,650
Trade Balance (US$ billion)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

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