

Indonesia Watch

4Q23 GDP tracking below potential growth rate

4Q GDP: Firm growth recovery still elusive

GDP growth edged up to 5.04% yoy in 4Q'23 vs. 4.94% in 3Q'23. The GDP print seems decent at first glance, but we note that (1) it stayed below policymakers' estimated potential growth rate of 5.3-5.4% (see [Trip notes](#)), and (2) headline figure was slightly exaggerated by "one-off" pre-election spending – reflected in expenditure by non-profit institutions serving households (NPISH) which surged 18.1% yoy in 4Q vs. 6.2% in 3Q (Exhibit 1) – rather than any firm recovery in underling demand. Excluding NPISH expenditure, GDP growth instead edged down to 4.88% yoy in 4Q vs. 4.92% in 3Q.

Maintain 2024 GDP forecast at 5.1%

On a full year basis, GDP growth moderated to 5% in 2023 vs. 5.3% in 2022. By regions, resource-rich Central Sulawesi and North Maluku (2% of GDP combined) expanded at a still strong pace of 13.6% in 2023 vs. 16.5% in 2022, on the back of minerals down-streaming. Excluding these two regions, GDP growth would have moderated to 4.9% in 2023 vs. 5.1% in 2022.

We expect GDP growth to hold steady at 5.1% in 2024 (see [Year Ahead](#)). Private consumption should remain the key growth driver, on the back of steady labour market improvements, continued support for lower-income consumers (e.g. cash handouts) as well as pre-election spending. On the other hand, capex recovery could be capped by firms' "wait-and-see" approach due to uncertainties in an election year, with the formation of the new government taking place only from 20th Oct.

Lowering 2024 inflation forecast by 20bp to 2.8%

The new rebased CPI series – which is more sensitive to food and energy components (see [details](#) in earlier report) – showed headline inflation moderating to 2.57% yoy in Jan '24 vs. 2.81% in Dec '23. In the absence of any rebasing, we estimate that headline inflation would have moderated even further to 2.45% in Jan '24 (Exhibit 2). Looking ahead, threats from El Nino on food prices have resided somewhat, while core inflation (Jan '24: 1.7%, 2018-19: avg: 2.9%) is unlikely to rebound sharply with the output gap likely to remain negative through 2024 (see [Nov '23 BI Review](#)). As such, we lower our headline inflation forecast for 2024 by 20bp to 2.8%, which is well within BI's target range of 1.5-3.5% (Exhibit 3).

IDR key concern; Pushing back BI first rate cut to Jun

Although the balance of risks seems to have shifted more towards growth (and away from inflation), BI's key consideration likely remains on IDR stability, which has come under renewed pressure in recent weeks. Our US team has pushed out their expectation for the Fed to cut rates from Jun, and we likewise expect BI to commence quarterly rate cuts from Jun (vs. Mar previously). This brings our end-24 and end-25 BI rate forecast to 5.25% and 4.75% respectively. Of note as well it that BI's 20th Jun meeting (only Thurs this year) comes one week after the Fed meeting (Exhibit 4), with BI having some time to assess the market impact post-Fed. Risks to our forecasts if lead-up to any round 2 elections (26th Jun) raises IDR volatility in Jun, in which case BI could delay rate cuts to 3Q'24 instead.

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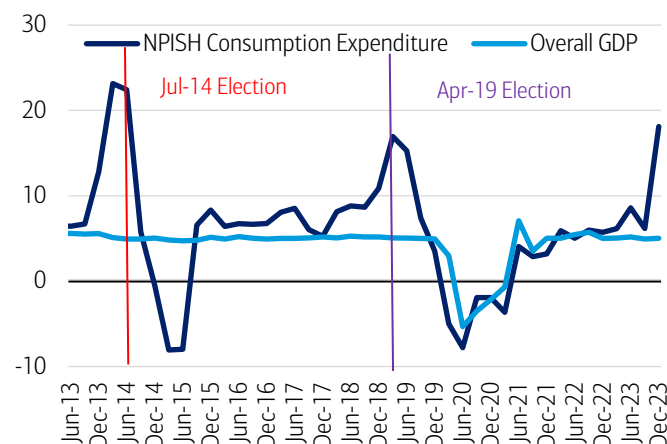
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Exhibit 1: Overall GDP (%yoy)

4Q23 GDP exaggerated by pre-election spending

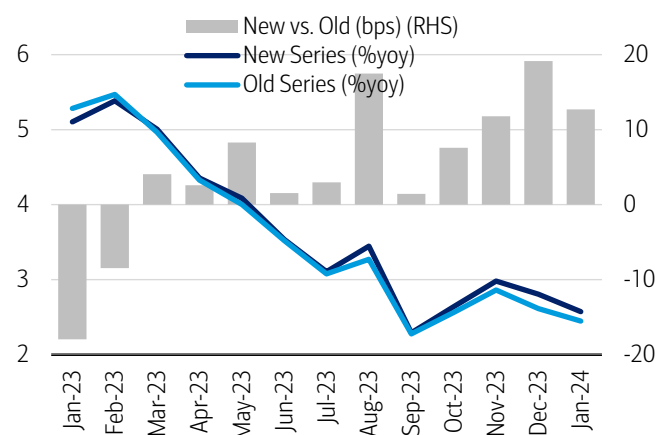


Source: BofA Global Research, BPS, Haver

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Exhibit 2: Headline inflation, new vs. old series (%yoy)

Jan headline inflation probably lower by 12bp if there was no rebasing

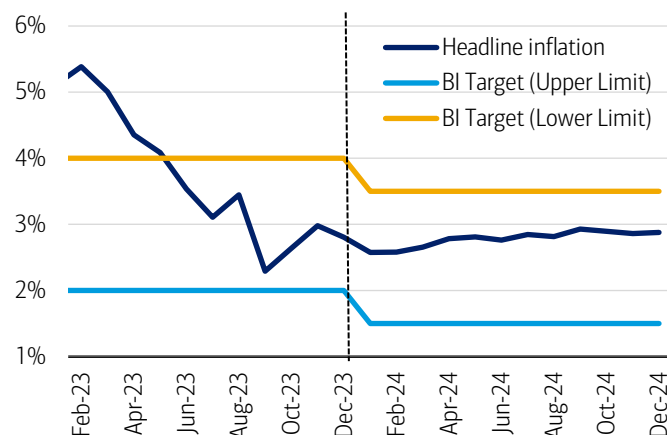


Source: BofA Global Research, BPS, Haver Note: Jan '24 figures for old series refers to our own estimates

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Exhibit 3: Headline inflation forecast vs. BI target (%yoy)

We expect inflation to stay well within target range in 2024



Source: BofA Global Research, BPS, Haver

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Exhibit 4: BI vs. Fed policy meeting dates (Asia hours)BI meeting on 20th Jun takes place one week after the Fed

Month	BI	Fed	BI before/after Fed?
Jan	17 (Wed)	1 Feb	
Feb	21 (Wed)		
Mar	20 (Wed)	21	Before
Apr	24 (Wed)		
May	22 (Wed)	2	
Jun	20 (Thu)	13	
Jul	17 (Wed)		
Aug	21 (Wed)	1	
Sep	18 (Wed)	19	Before
Oct	16 (Wed)		
Nov	20 (Wed)	8	
Dec	18 (Wed)	19	Before

Source: BofA Global Research, BI, Bloomberg

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