

Government Expenditure Continues to Drive Economic Growth in 2Q24

Indonesia's economy in 2Q24 grew by 3.79% QoQ or 5.05% YoY (Cons: 3.72% QoQ or 5.00% YoY, KBVS's: 3.70% QoQ or 4.95% YoY, Prev: -0.83% QoQ or 5.11% YoY). We believe this growth is also driven by monthly deflation in the last two months of 2Q24, with a deflation rate of 0.03% MoM in May '24 and 0.08% MoM in Jun '24. Consequently, annual inflation in Jun '24 significantly decreased, closing at 2.51% YoY (Cons: 2.70% YoY, Prev: 3.05% YoY).

On a quarterly basis, from the production side, the Agriculture, Forestry, and Fisheries sector grew significantly by 23.43% QoQ, although it declined by -3.54% YoY (Prev: 0.01% QoQ or 3.25% YoY) – see Fig.3, P.2. This led to an increase in the GDP distribution from the Agriculture, Forestry, and Fisheries sector to 13.36% of GDP (Prev: 11.78% of GDP). Meanwhile, on the expenditure side, Government Consumption Expenditure was the main driver, increasing by 19.58% QoQ or 19.90% YoY (Prev: 0.64% QoQ or 4.91% YoY). Consequently, the GDP distribution from Government Consumption Expenditure rose to 7.43% of GDP (Prev: 5.24% of GDP). Furthermore, we view this as having a very positive impact on Household Consumption Expenditure, which grew significantly by 3.12% QoQ or 4.93% YoY (Prev: 0.64% QoQ or 4.91% YoY), contributing 54.53% to GDP in 2Q24.

Consequently, we still expect economic growth to remain steady between 5.0% YoY – 5.1% YoY in the upcoming 3Q24 and 4Q24. This is anticipated to act as a cushion ahead of a) the anticipated larger interest rate cuts from advanced economies (notably the US, EU, and China), b) expectations of real sector investments shifting from China to Indonesia, and c) hope this will drive an increase in investment, which previously stood at -4.84% QoQ in 1Q24 and -0.66% QoQ in 2Q24. However, on the other hand, we are concerned that: a) the massive government spending that drove growth in 1H24 may decrease in 2H24, impacting consumer purchasing power, particularly among the urban middle class. Additionally, b) concerns about geopolitical tensions, and c) weakening labor conditions in the US are feared to potentially dampen the domestic economy's boost from net exports (especially from the US).

Fig 1. Indonesia's Economic Growth & Inflation

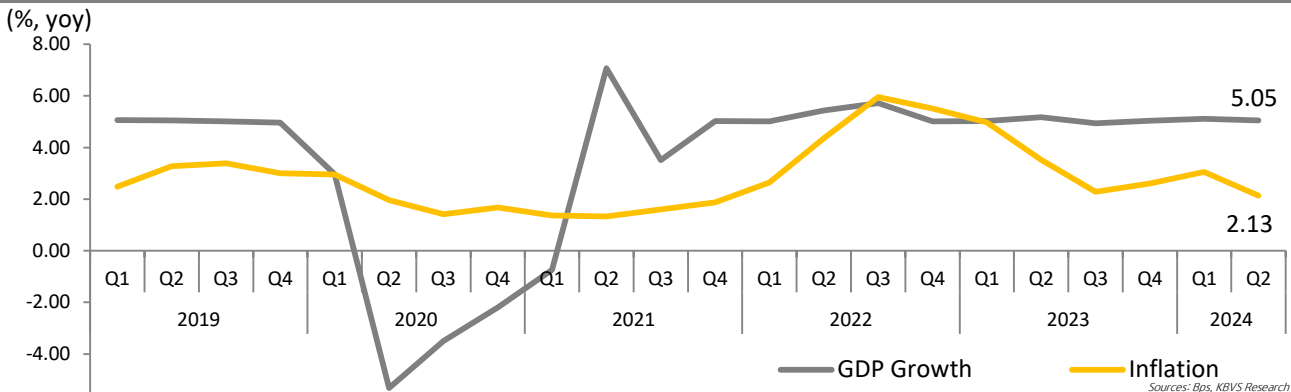


Fig 2. GDP Based On Expenditure on 1Q24

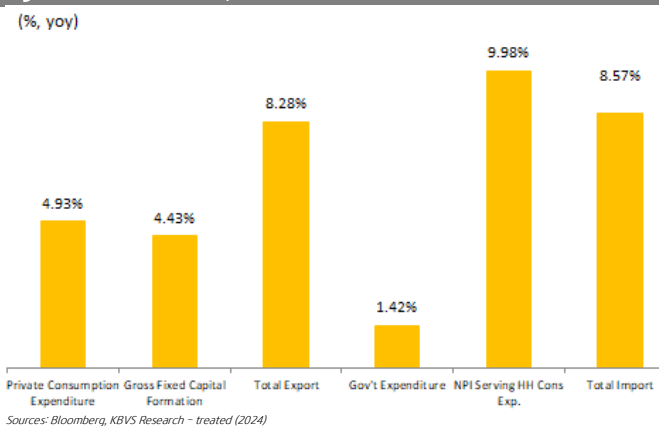


Fig 3. GDP Based On Industrial Origin on 1Q24

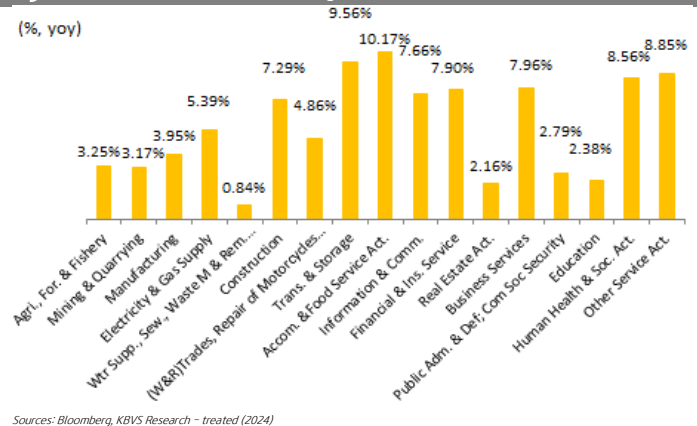


Table 2. Indonesia's GDP at Current Price and at Constant Price (2010) – in IDR TN

Types	Current Price			Constant Price (2010)		
	2Q23	1Q24	2Q24	2Q23	1Q24	2Q24
Based On Expenditure						
Private Consumption Expenditure	2,786.1	2,905.0	3,019.1	1,631.0	1,659.8	1,711.7
Gross Fixed Capital Formation	1,458.1	1,550.1	1,544.1	917.6	964.6	958.2
Total Export	1,058.2	1,130.0	1,184.8	680.6	721.9	735.6
Total Import	969.0	1,045.4	1,100.5	567.5	599.1	617.0
Government Consumption Expenditure	392.7	330.6	404.5	223.6	189.5	226.7
NPI Serving Household Consumption Expenditure	65.0	75.8	73.3	38.4	43.9	42.4
Changes in Inventories	116.0	133.9	148.7	59.3	66.6	73.3
Based On Industrial Origin						
Manufacturing	953.9	1,019.6	1,025.1	616.2	638.6	640.5
Agri., For. & Fishery	697.6	613.8	762.6	391	327.1	403.7
(W&R)Trades, Repair of Motorcycles & MC	671.5	695.4	719.4	399.3	407.5	418.8
Mining & Quarrying	547.9	439.3	485.9	222.1	234.2	229.1
Construction	492.8	541.2	533.3	281.4	307.2	301.9
Transportation & Storage	306.7	313.4	345.6	138.7	141.9	152.0
Information & Comm.	220.0	232.9	239.8	201.3	211.0	216.7
Financial & Ins. Service	214.4	227.8	235.0	122.5	129.2	132.2
Education	151.5	147.2	157.9	92.1	88.3	94.3
Public Adm. & Def; Com Soc Security	172.5	177.7	179.2	103.2	106.0	106.1
Accom. & Food Service Act.	129.6	138.5	145.9	94.3	99.8	104.0
Real Estate Act.	125.6	128.5	128.9	85.5	87.1	87.3
Other Service Act.	101.3	108.2	113.1	60.8	63.8	66.2
Business Services	96.3	102.0	106.7	58.5	60.8	63.1
Human Health & Soc. Act.	62.6	64.7	69.2	41.8	42.8	45.4
Electricity & Gas Supply	53.2	55.3	56.0	31.4	32.6	33.1
Wtr Supp., Sew., Waste M & Rem. Activities	3.3	3.5	3.6	2.7	2.7	2.7
Indonesia's GDP	5,226.7	5,288.3	5,536.5	3,075.7	3,112.9	3,231.0

Sources: BPS, KBVS Research - treated (2024)

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