

# Indonesia's GDP growth surprise to the upside

Second-quarter GDP managed to beat expectations thanks to robust consumption and a solid uptick in government outlays



People in Indonesia's business district

**5.2%** 2Q YoY growth  
Indonesia

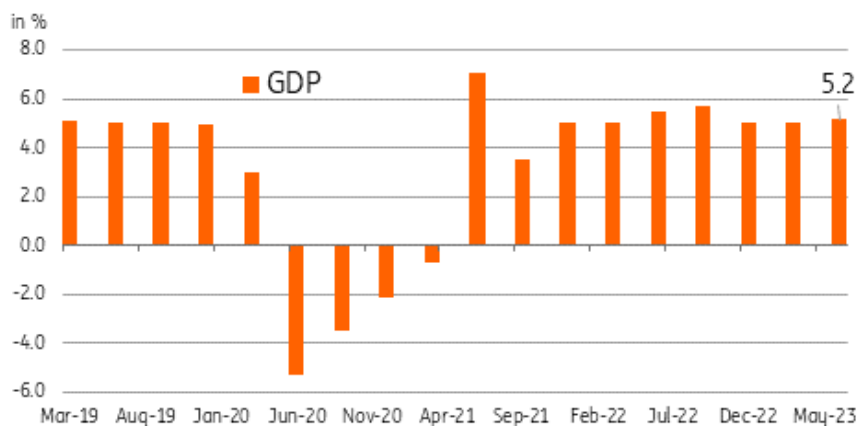
Better than expected

## 2Q GDP up 5.2%

Indonesia's economy expanded 5.2%YoY in the second quarter, surpassing market consensus for a 5.0% gain. Growth was delivered by robust domestic consumption (5.2%YoY) and a punchy 10.6%YoY increase in government outlays. Household spending benefited from moderating inflation, with that possibly coming back to target as early as May. Strong household spending and government outlays helped offset the challenges on the external front as exports fell 2.8%YoY.

Exports have struggled of late due to softer global demand on top of moderating commodity prices just a year after Indonesia recorded record wide trade surpluses. Consumption and government spending also partly offset the modest slowdown in gross capital formation, which reported a 4.6%YoY rise, down from the 7.5%YoY in the first quarter.

## Back to regular programing: Indonesia growth now back comfortably at 5% pace



Source: Badan Pusat Statistik

## Growth on track to hit target in 2023

The better-than-expected 2Q GDP growth has the economy on track to hit the yearly growth target of 5.0-5.3%YoY. With inflation softening further, we can expect household spending to offset soft export growth in the coming months. Meanwhile, increased economic activity ahead of the February 2024 election could also offset the slowing of capital formation, which appears to be weighed down by Bank Indonesia's recent rate hike cycle.

Today's upside surprise limits the need for the central bank to provide additional support and focus on ensuring currency stability. As such, we expect BI to remain on hold for the rest of the year to provide support for the IDR, which is down 0.42% for the month of August.