

Snap | 7 February 2022

INDONESIA

Indonesia: Recovery ends 2021 on a high note but current Covid surge likely to sap some momentum

4Q 2021 GDP growth hits 5%, lifting full year growth to 3.7%



Inflation in Indonesia will likely pick up this year

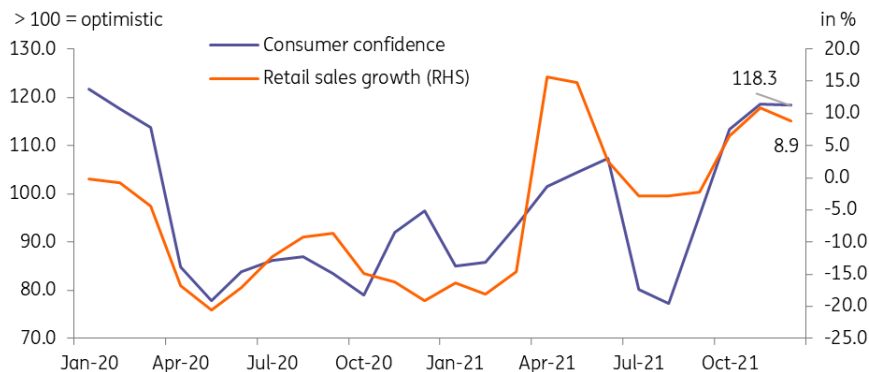
5% **4Q 2021 GDP YoY growth**
FY 2021 growth at 3.7%

Better than expected

Slowing cases equals faster growth

Indonesia managed to post a 5% expansion in 4Q 2021, beating expectations for a 4.8% gain. ING had expected 4Q GDP to hit 5.1%. Daily Covid-19 infections slid to less than a thousand by November, helping lift consumer sentiment, which in turn drove a pickup in retail sales. Furthermore, improved sentiment translated into a sharp uptick in manufacturing activity, with PMI manufacturing peaking in October of last year. It has become apparent that growth momentum can accelerate for as long as new Covid daily infections are contained.

Slowing Covid cases sparked better sentiment and faster retail sales



Source: Bank Indonesia

Warning: speed bumps ahead

The Indonesian authorities were wary of a potential spike in cases late last year, refusing to relax some mobility curbs during the holiday season. This strategy may have helped limit the spread of Omicron in early January but the spread of the Omicron variant still managed to cause a surge in cases by the end of the month. The sharp increase in daily infections will likely pare at least some of the recent gains. Consumer sentiment will likely moderate or even fall in the near term and we can expect a likely reversal in manufacturing activity as well. The Omicron surge is but one of the handful of speed bumps faced by the economy in 2022. Prospects for recovery this year will likely be challenged by a pending increase in taxes coupled with projections for a pickup in inflation, both of which will likely weigh on household spending. Thus it will be imperative for Indonesia to ensure proper virus mitigation, which should help bolster consumption in the coming months.

Bank Indonesia (BI) will likely be monitoring the economy's growth prospects as it looks to time its exit from its current accommodative stance. We expect the trigger points for a potential BI rate hike to be inflation and IDR stability, alongside the assumption that any economic recovery is well-entrenched.

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