Growth in Indonesia dips on softer exports and elevated rates

Third-quarter GDP settled at 4.9% year-on-year in Indonesia, slightly below market consensus

The dip in GDP was largely attributed to slower export growth which resulted in a less robust net exports figure

4.9% YoY growth

Lower than expected

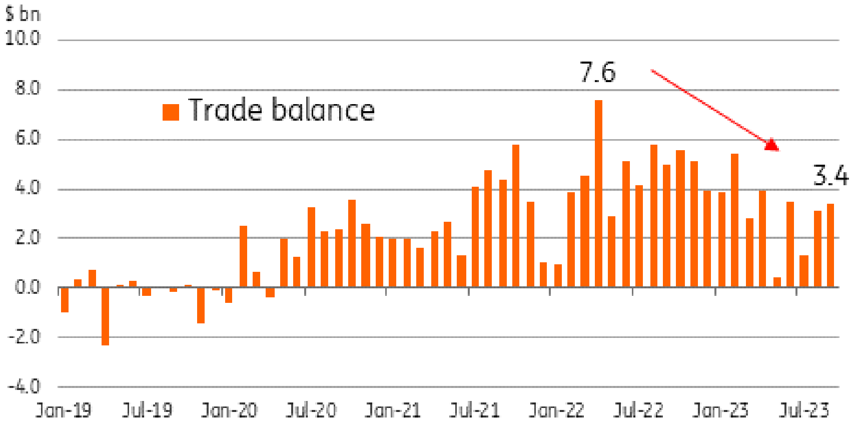
Third-quarter GDP at 4.9%

Indonesia's economy managed to grow 1.6% from the previous quarter, translating to a 4.9% year-on-year increase. This was slightly below expectations with market consensus pegged at 5.0% YoY. The slower-than-expected performance was attributed to slower export growth resulting in a less robust net exports figure, which was mirrored in the gradual narrowing of the trade surplus.

The trade surplus averaged $4.5 billion in 2022 but has recently slid to $2.5 billion as of the third quarter of this year. Slower export growth also impacted domestic industrial output and weighed on overall growth.

Meanwhile, mainstay household consumption could have also been impacted by elevated borrowing costs, offsetting the slowdown in CPI inflation. Growth could pick up in the coming months ahead of the Presidential elections in February 2024 – however, the trend slower of exports and elevated interest rates could continue to dampen overall growth momentum.

Slower exports resulted in a narrowing of the trade surplus



Source: Badan Pusat Statistik

BI reluctant to hike rates further

The disappointing third-quarter GDP report highlights one possible reason for the reluctance of Bank Indonesia (BI) to hike rates. BI had previously held off on increasing policy rates until finally relenting at their most recent meeting, taking the policy rate to 6% last 19 October.

We expect BI to remain open to hiking rates if the IDR comes under significant pressure, but the likely preference for the BI is to hold rates at current levels to help support economic growth.