

Snap | 5 August 2022

Indonesia: Recovery continues against backdrop of slowing global growth

Indonesia managed to grow by 5.4%YoY in 2Q22 but global headwinds and creeping inflation cloud the outlook



Bank Indonesia trimmed the country's GDP growth forecast to 4.5-5.3%

5.4% YOY 2Q22 GDP growth

Higher than expected

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2Q GDP beats estimates, expands 5.4%YoY



Source: Badan Pusat Statistik

2Q GDP at 5.4%

Indonesia's economy grew 5.4%YoY in the second quarter, outpacing market expectations for a 5.1% gain. Year-to-date GDP growth is now 5.2%. ING had expected growth to hit 5.4% on the back of solid household consumption supported by a resurgent export sector. Household spending has been robust, in part, because of relatively manageable inflation.

Retail sales continue to expand although spending is concentrated on food items and fuel and consumers are postponing purchases of durable equipment, communications and other items. Meanwhile, exports have benefited from the ongoing conflict in Ukraine as coal prices have surged, resulting in substantial trade surpluses for the first half of the year.

Retail sales have remained solid but gains are limited mostly to food and fuel items



Source: CEIC

Solid recovery but headwinds loom

Bank Indonesia (BI) Governor Warjiyo, flagged the threat of slowing global growth at the 21 July policy meeting. BI retained its growth projection for the year but admitted that full-year GDP will likely settle at the lower end of the 4.5-5.3% range. Slower global growth could weigh on export growth prospects, especially if a slower growth outlook translates to sliding coal prices. On

Snap | 5 August 2022 2 the domestic front, the sustained acceleration in headline inflation could eventually sap some momentum from household spending and drag on overall GDP.

BI remains cool to rate hikes, at least for now, citing well-behaved core inflation, which should cushion the fallout from a potential slowdown in global growth. However, the eventual BI rate hike (in late 3Q or early 4Q) coupled with accelerating inflation could eventually slow Indonesia's economy with <u>full-year GDP likely at 4.6% for the year</u>.

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