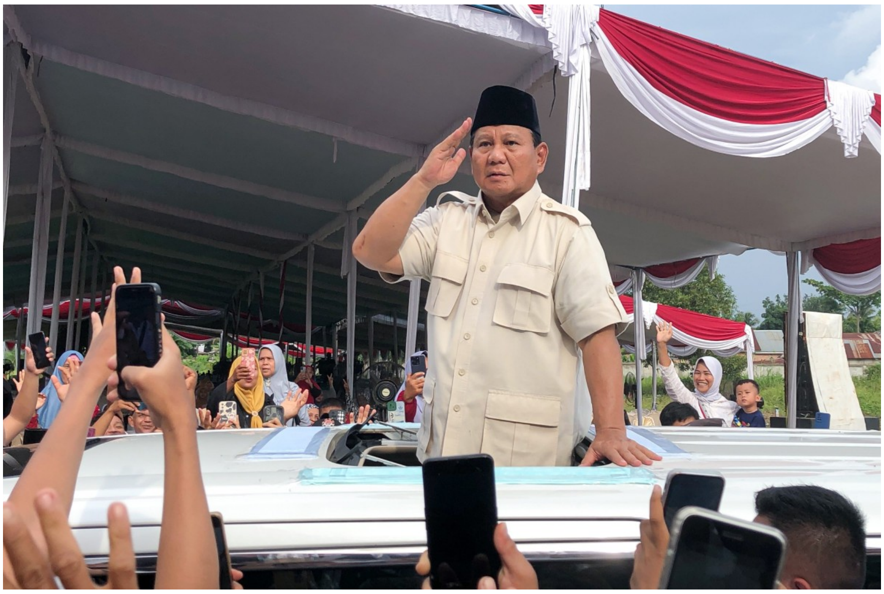
Strong consumption boosts growth in Indonesia, but there are uncertainties ahead

First quarter GDP came in 5.1% higher year-on-year, slightly higher than market expectations



Focus will shift to president-elect Prabowo Subianto taking over later in the year

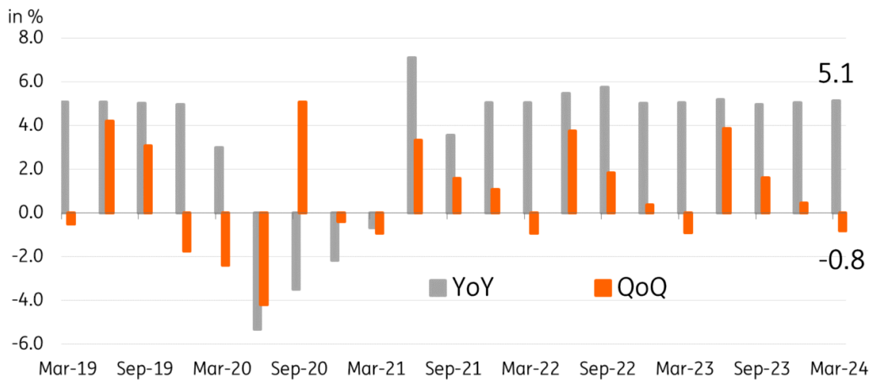
5.1% YoY GDP growth

Higher than expected

Indonesia's economy expanded by 5.1% year-on-year in the first quarter, helped by robust consumption and surging government expenditure. Compared to the previous quarter, GDP slipped by 0.83%, slightly better than the market consensus. Household consumption rose by 4.9%YoY, with Ramadan also likely providing an additional boost to spending. Government spending jumped by almost 20%YoY, ahead of the February elections and due to a salary increase for public sector workers.

Meanwhile, capital formation was relatively subdued and exports barely moved. Investment outlays rose by 3.8%YoY, possibly capped by elevated borrowing costs, while exports inched up 0.5%YoY due to soft global demand.

Indonesia GDP growth back to pre-Covid norm



Source: Badan Pusat Statistik

Headwinds loom but there is still some momentum

In the near term, we see looming headwinds that could sap some momentum from the economy. Price pressures picked up modestly in 2024 due to higher food and energy prices, which could limit the purchasing power of households until price pressures ease.

Meanwhile, capital formation, which managed only a modest 3.8%YoY gain, will continue to be challenged after Bank Indonesia hiked policy rates last month to 6.25%. Focus will shift to president-elect Prabowo Subianto taking over later in the year with particular focus on his expenditure plans.

Despite the headwinds, we believe there is still strength in the economy, with full-year growth on track to expand 5%YoY with additional growth potential if the struggling export sector rebounds sharply.

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com