



ASIA PERSPECTIVE

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Indonesia Economic Update Report

This Issue:

Indonesia's Economic Performance in Q2
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Indonesian economy

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Indonesia's GDP grew 5.44% (YoY) in Q2, beating analysts' expectations

Following the positive GDP growth in the first quarter of the year, Indonesia continued its economic recovery in April to June. The growth was fueled by an increased consumer spending and big exports.

Beating the forecasted 5.17% growth, Indonesia's GDP grew by 5.44% in the second quarter of the year, the fastest increase in four quarters. Meanwhile, compared with the first quarter of the year, the second quarter showed even greater growth, highlighting the trend of the economic recovery in Indonesia.

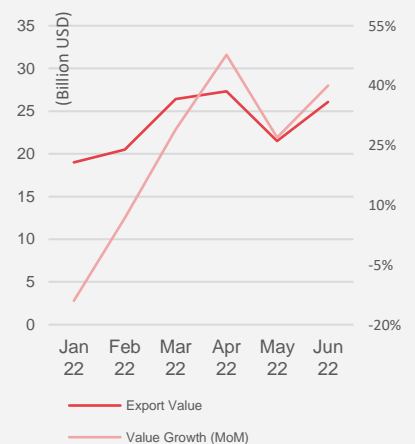
The economic growth was powered mainly by consumer spending and exports. Export of goods and services experienced the highest growth, at a staggering 19.74%, as it enjoyed a windfall from the upward trend in commodity prices and growth among its trading partners post COVID. Meanwhile, household consumption, which accounts for more than half of Indonesia's GDP, recovered after the lifting of COVID restrictions, with the Eid al-Fitr celebration in May providing a further boost. Further, the tourism industry also saw a positive upswing as the number of foreign tourists increased, and reached 345 000 in June, exceeding 200 000 for the first time since the pandemic started.

However, the economic recovery may not last as headwinds mount. Consumer prices in July were up 4.94%, marking a seven-year high inflation. Although prices of palm oil have plunged in recent months, coal prices are still hovering around record high prices.

Indonesia's Export Surge in Q2 Despite Uncertainties in the Global Outlook

Global supply chain disruptions, caused by the Russia-Ukraine war and COVID-19, has led to an increase in prices of Indonesia's key commodities, resulting in a windfall to Indonesia's export performance.

Indonesia's total exports in June 2022 increased by 21.30% compared to May 2022, from \$21,509.8 million to \$26,092.1. Likewise, compared to June 2021, the total exports increased by 40.68 percent. Indonesia's trade surplus grew to \$15.55 billion in the second quarter, up 148% YoY.



Source: Statistics Indonesia

Soaring commodity prices impacting the Indonesian economy

Resource-based and food-producing countries in Southeast Asia are expanding exports, benefiting from globally higher energy and food prices. Strong exports are acting as a brake on the economic downturn the world saw in 2021, but there are also concerns that stimulation for economic growth will slow in the second half of the year.



In heavily export-led economies, such as Indonesia, the international trade plays a crucial role in the country's economy. While the risk of recession in the world economy is expanding and deepening due to rising inflation and monetary tightening by central banks, the downside risk in Southeast Asia is considered relatively small.

Since the war outbreak between Russia and Ukraine, two big exporters of sunflower oil, a strong and urgent demand for substitute resources rose in the world. Indonesia, as the largest palm oil producer in Southeast Asia, seized a larger share of the global sales market by expanding its production and exports.

Only a month after implementing it, Indonesia lifted their ban on palm oil exports in May this year. Export taxes on all palm oil products were also removed to stimulate the foreign trade. In June, its exports rose 41 percent (YoY) to reach 26 billion dollars in June.

During a 12-month period (from April to April), the cooking oil price almost doubled in Indonesia. The rising cost has severely cut the profit margins of the catering and food processing industries. Many people faced food shortages, especially during the period celebrating Eid al-Fitr. Meanwhile, the set ban on export, initiated to protect domestic oil supply, didn't alleviate the domestic soaring price as expected.



According to the country's coordinating minister of economy, the government will develop the "domestic market in responsible way" and determine the share each producer can produce to meet demands both domestically and globally. However, there are factors that might impede this plan.

For instance, a shortage of fertilizer and pesticide from Russia is exacerbating the risk of failure in palm oil production. Fertilizer exports are at a standstill, and palm farmers are starting to feel the bite. As a result, the price of fertilizer has increased from around \$47 per 50 KG to more than \$81. Perhaps not now, but during next year, we might see a decline in fresh fruit bunches and that farmers are not able to harvest as much palm fruit.

At the same time, resource prices are always cyclical, meaning that the current dividend period of high resources price in Southeast Asia is limited. It is expected that the export upward trend, going against the growing risk of recession, will significantly weaken. Under the more and more complex and volatile international market, large importing countries may reduce their purchasing volumes.

The government must fundamentally reform the market structure of the Indonesian palm oil industry to prevent another crisis from occurring in the future.

Indonesia is aiming to promote their Green Economy



Retno Marsudi, Indonesia's Minister of Foreign Affairs, noted during the G20 summit that the Indonesian government has developed roadmaps, policies, infrastructure and regulations, as well as analyzed and prepared mitigation plans for the possible short-term social impacts of the economic transition to a Green Economy. As a result of the transition, there will be opportunities for new and greener investments, particularly in the battery, electric vehicle and solar panel industries. Besides green industries, carbon markets should also be ready to adapt to economic transformation, the minister noted.

To mitigate the short-term impact of the transition, Marsudi said the government would strive to provide the best public services and ensure the stability of commodity prices. If necessary, energy prices will be adjusted gradually and carefully to maintain people's purchasing power. To meet the needs of the community, the government will ensure the stability and availability of basic services such as electricity; ensuring price stability for energy, food and public transport; ensuring social protection for the poor and vulnerable; and to ensure the implementation of sustainable development.

Following the UK-Indonesia green energy partnership, established in 2021, the country is now actively seeking for additional cooperation and investment from other foreign countries. During the G20 summit, Marsudi emphasized the importance of the ASEAN-South Korea partnership to increase cooperation in the green economy for the future, highlighting Indonesia's interest to cooperate with South Korea.



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