KRI

INDONESIA ECONOMIC OUTLOOK 2024

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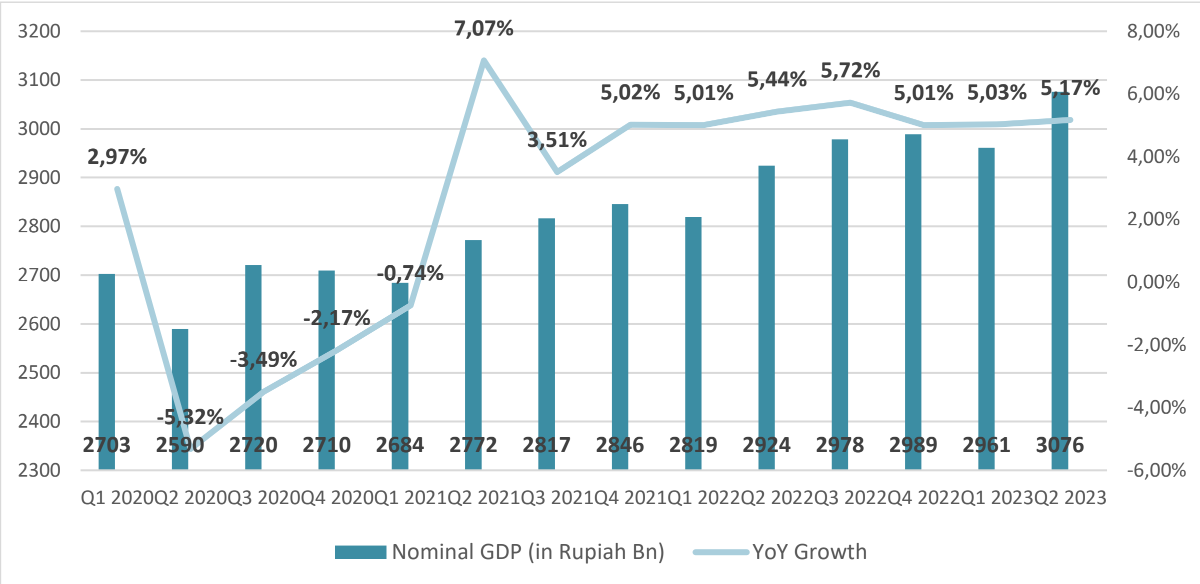
Indonesia's Economic Outlook 2024: Navigating Uncertainties with Domestic Prowess

Indonesia's 2024 economic outlook pulsates with a complex interplay of promising domestic resilience and potential external hurdles. Analyzing key economic indicators through the lens of the past five years and considering the impact of COVID-19 and the upcoming Presidential Election reveals a nuanced picture of both risks and opportunities.

Indonesia's Gross Domestic Product (Constant Price 2010)



Source: Indonesia Central Bureau for Statistics (2023)

Indonesia's GDP has been a beacon of resilience in recent years, consistently hovering around 5% growth despite the global economic turmoil caused by the pandemic and other external factors. The primary driver of Indonesia's GDP growth is domestic consumption, fueled by a burgeoning middle class with rising disposable incomes. This robust spending, particularly on essential goods and services, has provided a strong buffer against external headwinds. Indonesia's manufacturing sector has witnessed a resurgence, driven by government policies aimed at attracting foreign investment and promoting value-added processing of its natural resources. This diversification beyond traditional commodity exports has further bolstered economic growth. Investment levels are on the rise, particularly in infrastructure, energy, and digital sectors. This increased investment translates into enhanced productivity, job creation, and long-term economic dynamism.

Global trade slowdown, rising commodity prices, and geopolitical tensions pose potential threats to exports and investment flows. Navigating these volatile winds through prudent economic policies and diversification efforts will be crucial. Infrastructure shortcomings, bureaucratic hurdles, and skills gaps can impede the smooth flow of economic activity. Addressing these bottlenecks through targeted reforms and investments will unlock further growth potential. While overall GDP growth is encouraging, addressing income inequality and fostering inclusive growth remains a key challenge. Policies aimed at improving access to education, healthcare, and financial services for disadvantaged groups are essential to ensure widespread prosperity.

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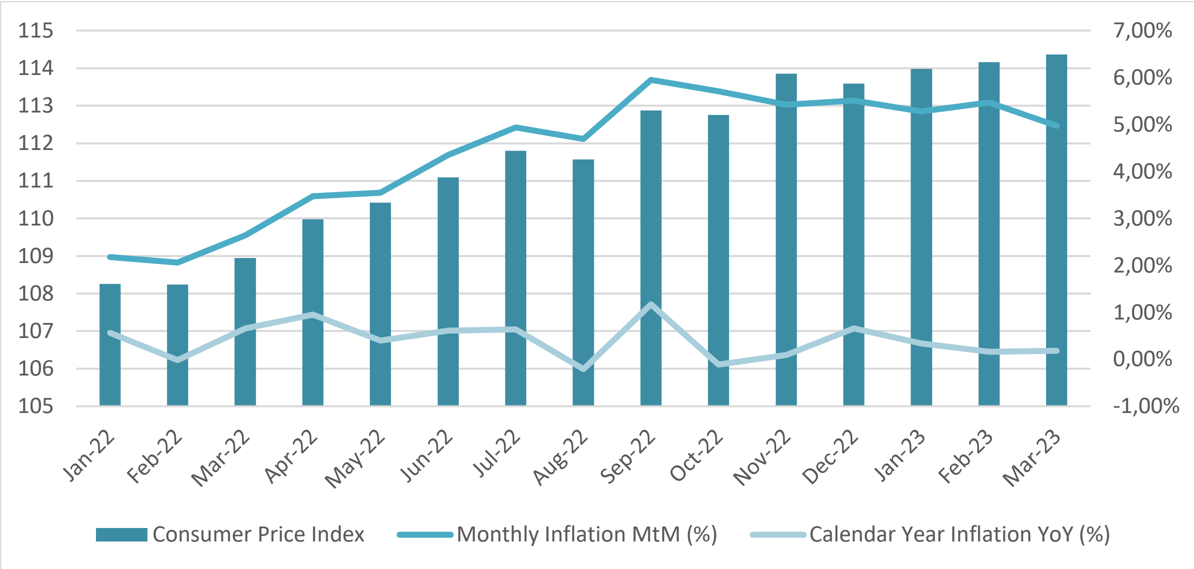
While national GDP growth is positive, some regions lag behind. Understanding and addressing these regional disparities through targeted development initiatives is crucial. A significant portion of Indonesia's economic activity occurs in the informal sector. Understanding the size and dynamics of this sector and facilitating its integration into the formal economy can offer significant benefits. Environmental Sustainability: Balancing economic growth with environmental sustainability is essential for long-term success. Green development strategies and investments in renewable energy will be crucial for a sustainable future.

Indonesia's Consumer Price Index, Monthly Inflation, and Calendar Year Inflation



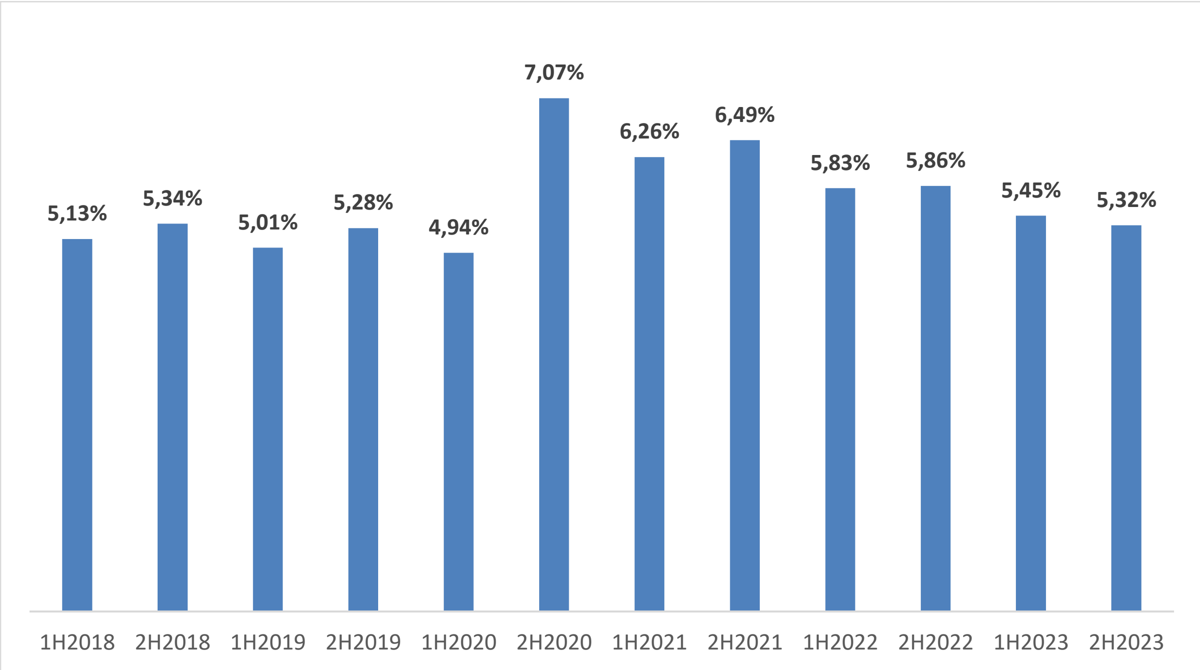
Source: Indonesia Central Bureau for Statistics (2023)

Indonesia's inflation rate, while rising due to global and domestic pressures, remains within the target range set by Bank Indonesia. Global commodity price hikes, fueled by factors like the Ukraine war and supply chain disruptions, have impacted Indonesia's import costs, pushing up prices of certain goods. A rebounding domestic demand post-pandemic, coupled with supply chain bottlenecks in some sectors, has also contributed to inflationary pressures. Government efforts to gradually reduce fuel subsidies, while necessary for fiscal sustainability, can lead to temporary upward pressure on inflation in the short term.

Bank Indonesia has responded to rising inflation by implementing gradual interest rate increases, aiming to curb aggregate demand without stifling economic growth. Targeted Interventions: The government has deployed targeted interventions, such as price controls on essential goods and fuel subsidies for specific groups, to mitigate inflationary pressures on vulnerable populations. The challenge lies in maintaining a delicate balance between controlling inflation and safeguarding economic growth. Excessive tightening of monetary policy could dampen economic activity, while uncontrolled inflation erodes purchasing power and hinders household well-being.

Despite the current uptick, inflation is expected to decline in 2024, thanks to softening global commodity prices and a return to normal rates of domestic demand growth. External factors like geopolitical tensions and global economic slowdowns could pose headwinds, requiring swift and flexible policy adjustments from Bank Indonesia and the government. Effective communication and transparency in policy decisions will be crucial to maintaining public trust and mitigating expectations around inflation.

Indonesia Unemployment Rate



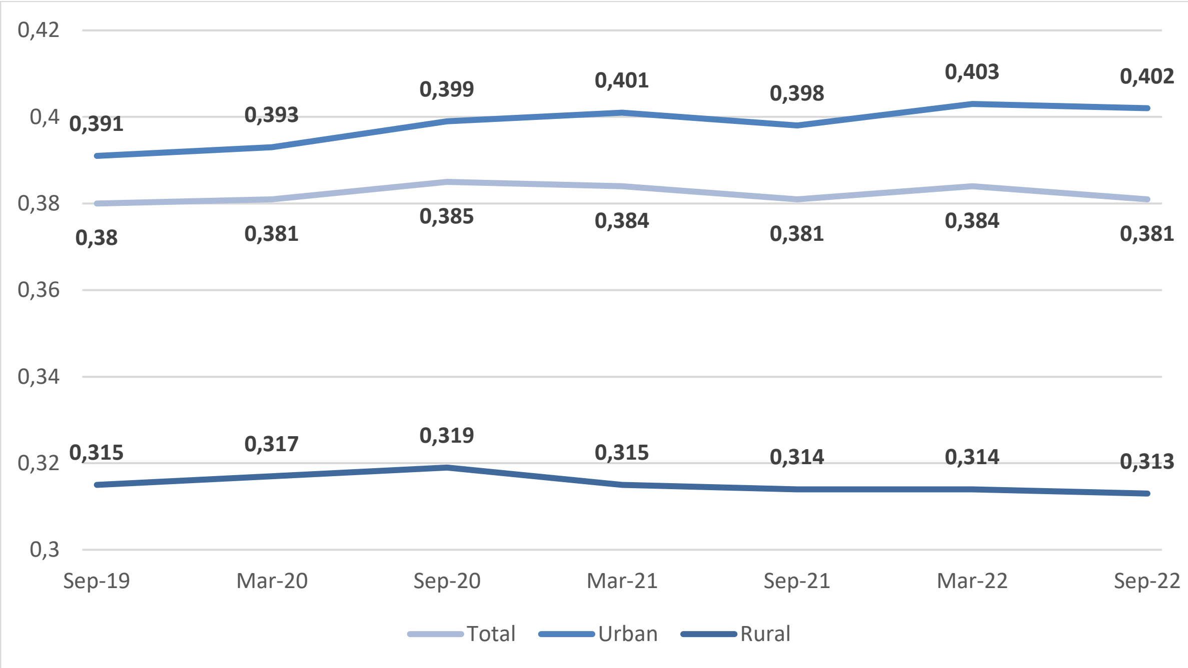
Source: Indonesia Central Bureau for Statistics (2023)

While Indonesia's overall economic performance remains impressive, the issue of unemployment deserves closer attention. Since its pandemic peak in 2020, Indonesia's official unemployment rate has embarked on a gradual downtick, currently hovering around 5%. This improvement reflects economic recovery, particularly in sectors like manufacturing and services. Despite the declining official rate, underemployment remains a significant concern. Many individuals are forced to accept jobs below their skill level or work fewer hours than desired. This hidden underbelly masks the true extent of labor market challenges. Informality Casts a Shadow: The informal economy, while contributing significantly to economic activity, often presents precarious employment conditions for workers. Lack of social security and benefits further exacerbate vulnerabilities within this sector. The evolving demands of the job market often exceed the available skills pool. Bridging this skills gap through targeted training programs and vocational education is crucial to improve employability. Indonesia's young and expanding population creates a large pool of job seekers, potentially outpacing job creation if adequate economic opportunities are not generated. Global economic slowdowns, trade disruptions, and volatile commodity prices can negatively impact Indonesia's export-oriented industries, leading to job losses in these sectors.

The pandemic's long-term economic impact, particularly on vulnerable sectors like tourism and hospitality, could hinder job creation efforts and prolong unemployment challenges. Automation and advancements in technology may displace certain jobs in some sectors, necessitating continuous adaptation and reskilling efforts to ensure employability in the digital age. Unemployment rates vary significantly across regions in Indonesia. Targeted development initiatives are needed to address these disparities and create inclusive economic growth that benefits all parts of the country.

Building a skilled and adaptable workforce through quality education, vocational training, and lifelong learning programs is crucial to address skills mismatch and enhance employability. Fostering entrepreneurship, promoting investment in labor-intensive sectors, and improving the business environment can stimulate job creation and offer more employment opportunities. Expanding social safety nets, providing unemployment benefits, and promoting formalization of the informal economy can provide critical support and security for unemployed individuals and their families.

Indonesia Gini Ratio

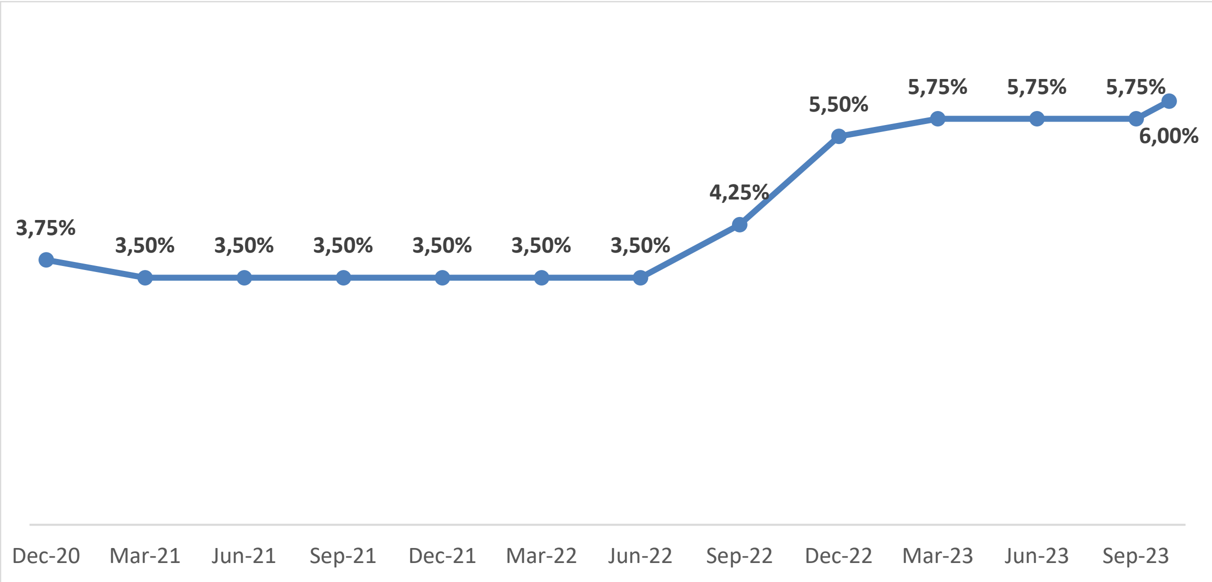


Source: Indonesia Central Bureau for Statistics (2023)

The Gini Ratio, often symbolized by the letter "G," is a critical measure of income inequality within a country. It ranges from 0 (perfect equality, where everyone earns the same) to 1 (perfect inequality, where one person earns everything and everyone else earns nothing). As of September 2022, Indonesia's Gini Ratio stands at 0.381. This figure has remained relatively stable over the past few years, with slight fluctuations between 0.381 and 0.384. Compared to other countries, Indonesia's Gini Ratio falls within the upper-middle range of income inequality. For perspective, the United States has a Gini Ratio of 0.39, whereas Singapore boasts a significantly lower ratio of 0.34. It's important to note that the Gini Ratio varies significantly across regions within Indonesia. Rural areas tend to have a lower Gini Ratio than urban areas, indicating greater income disparity within cities. For example, in September 2022, the Gini Ratio for urban areas was 0.402, while for rural areas it was 0.313.

Several factors contribute to income inequality in Indonesia, including educational disparities, where individuals with higher levels of education tend to earn significantly more than those with less education. The job market may not always demand the skills available in the workforce, leading to underemployment and lower wages for many. Access to resources, infrastructure, and job opportunities varies across regions, causing income gaps between urban and rural areas. Women in Indonesia often earn less than men for the same work, further contributing to income inequality. Improving access to quality education and vocational training for all citizens can equip them with the skills needed to secure higher-paying jobs and bridge the skills gap. Promoting Inclusive Economic Growth: Policies that encourage investment in rural areas, support small and medium-sized businesses, and foster entrepreneurship can create more opportunities for all Indonesians to participate in the economic growth. Expanding social security programs, providing unemployment benefits, and improving access to healthcare can help alleviate poverty and reduce the impact of income inequality on vulnerable populations. Policies that promote equal pay for equal work, combat workplace discrimination against women, and provide childcare support can help narrow the gender wage gap and empower women economically.

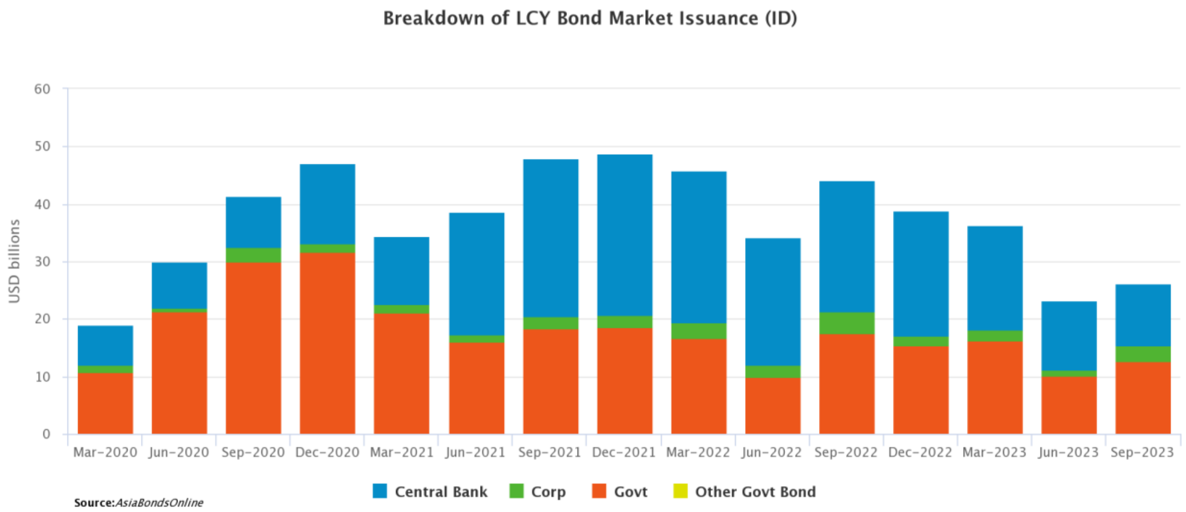
Bank Indonesia 7 Days Repo Rate



Source: Bank Indonesia (2023)

The Indonesian interest rate, set by Bank Indonesia (BI), occupies a central stage in the country's economic narrative. Understanding its recent journey, the rationale behind its movements, and the potential future landscape provides crucial insights for investors, businesses, and everyday citizens alike. Following a period of low interest rates to counter the pandemic's economic shock, BI embarked on a path of gradual hikes since 2023. This move aimed to tame rising inflation fueled by global and domestic factors while maintaining supportive conditions for economic growth. BI navigated a delicate balancing act between controlling inflation and fostering growth. Interest rate adjustments reflected this cautious approach, with incremental increases tailored to the evolving economic landscape. The focus shifted beyond the benchmark BI Rate, with the introduction of the Deposit Facility (DF) and Lending Facility (LF) rates, further fine-tuning monetary policy to manage liquidity and credit flow.

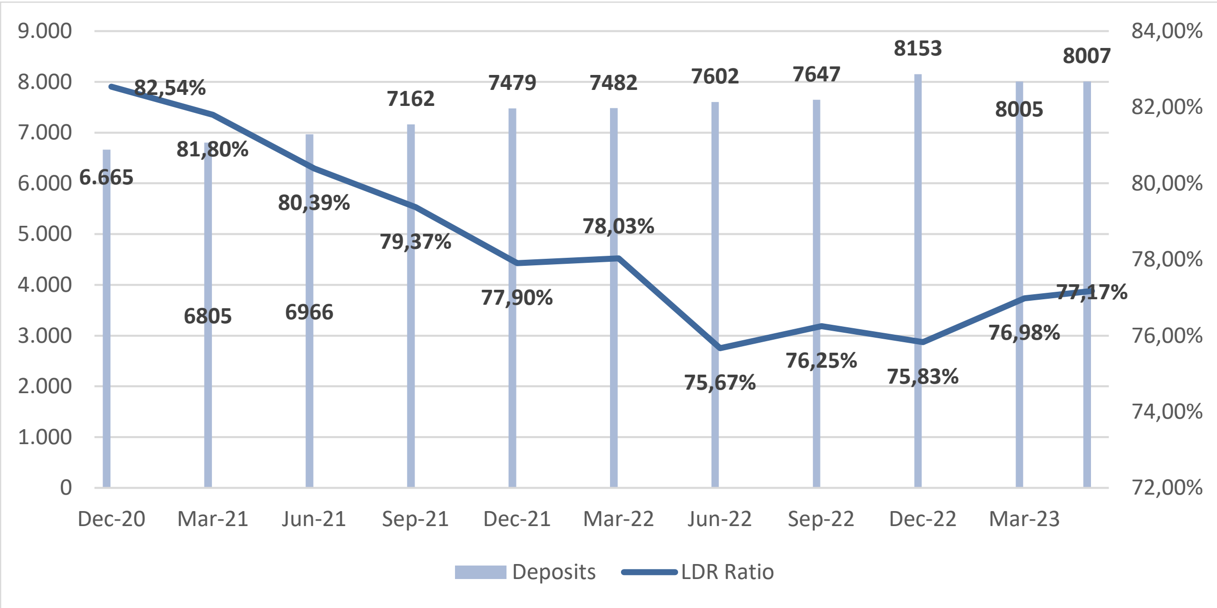
Rising global interest rates and potential economic slowdowns cast shadows on Indonesia's external environment. These factors could influence foreign capital inflows and impact domestic interest rate decisions. The upcoming Presidential Election in 2024 injects a layer of uncertainty into the market, potentially leading to cautious investor behavior and influencing interest rate movements. Despite controlling inflation within the target range, inflationary pressures remain, requiring careful monitoring and potentially further adjustments to interest rates. BI is expected to maintain its cautious approach, implementing further interest rate increases, if necessary, in a gradual and measured manner to balance inflation control with growth support. Adaptability and responsiveness to unforeseen circumstances will be crucial in navigating an uncertain global and domestic environment. Clear and transparent communication from BI regarding its policy decisions and economic assessments will be essential to maintain market confidence and stability. Rising interest rates impact borrowing costs for individuals and businesses, potentially slowing down investments and consumer spending. Higher interest rates on savings accounts can be an incentive for increased savings and improved financial stability for individuals. Managing inflation through interest rates helps maintain currency stability, benefiting international trade and attracting foreign investment.



The Indonesian bond market navigates 2024 with a captivating blend of past resilience, present uncertainties, and future potential. Delving into the past five years and acknowledging the lingering impact of COVID-19 sheds light on the promising horizon of this dynamic market. Over the past five years, the Indonesian bond market has seen significant growth, with outstanding IDR-denominated bonds surpassing IDR 5,000 trillion in 2023. This expansion reflects strong investor confidence and a thriving domestic appetite for fixed-income instruments. The market diversified beyond government bonds, witnessing a surge in corporate issuances, particularly in the infrastructure and financial sectors. This trend showcases increased risk appetite and the evolving needs of various market participants. The pandemic sent ripples through the market, initially leading to an increase in government borrowing to stimulate the economy. However, prudent fiscal management and accommodative monetary policy helped restore stability and facilitate a quick rebound.

Bank Indonesia navigates a delicate balance between managing inflation and supporting economic growth. Gradual interest rate hikes in 2023 aim to control inflationary pressures while remaining mindful of potentially dampening investment and growth. External factors like rising global interest rates and potential economic slowdowns could pose challenges for the bond market, impacting foreign capital inflows and influencing yields. The upcoming Presidential Election in February 2024 injects a layer of uncertainty, prompting cautious investor behavior until the political landscape clears. The Indonesian bond market is expected to remain resilient in 2024, supported by strong domestic demand and a robust economic backdrop. However, the pace of growth might moderate compared to previous years due to the aforementioned uncertainties. The trend towards corporate bond issuances is likely to continue, offering investors a wider range of options and risk-return profiles. Green bonds and sustainability-linked bonds are gaining traction, reflecting growing investor focus on environmental, social, and governance (ESG) factors. Some takeaways for investor including: carefully assess issuers and creditworthiness, particularly amid heightened global risks; Leverage the strength of the local market and the potential for diversification; and adapt to changing market conditions and be prepared for potential volatility.

Indonesian Banks Deposits and LDR Ratio



Source: Otoritas Jasa Keuangan (2023)

Indonesia's banking and financial services sector has navigated the past five years with remarkable resilience, overcoming the pandemic's initial shock and exhibiting robust growth across its key segments. Bank lending has witnessed a steady climb since 2020, with credit expanding around 9% year-on-year as of September 2023. This growth is driven by both commercial and household borrowing, indicating increasing economic activity and consumer confidence. The LDR, reflecting the proportion of loans to deposits, remained relatively stable around 82% over the past five years. This stability indicates prudent risk management by banks and adequate liquidity within the system. While Net Interest Margin faced initial pressure due to low interest rates, it has shown signs of recovery in 2023, reaching around 4.6%. This rise reflects improved pricing power by banks and a gradual normalization of the interest rate environment. Non-Performing Loan ratios have improved significantly since 2020, with the gross NPL ratio falling below 3% as of June 2023. This improvement reflects effective restructuring efforts by banks and improving economic conditions.

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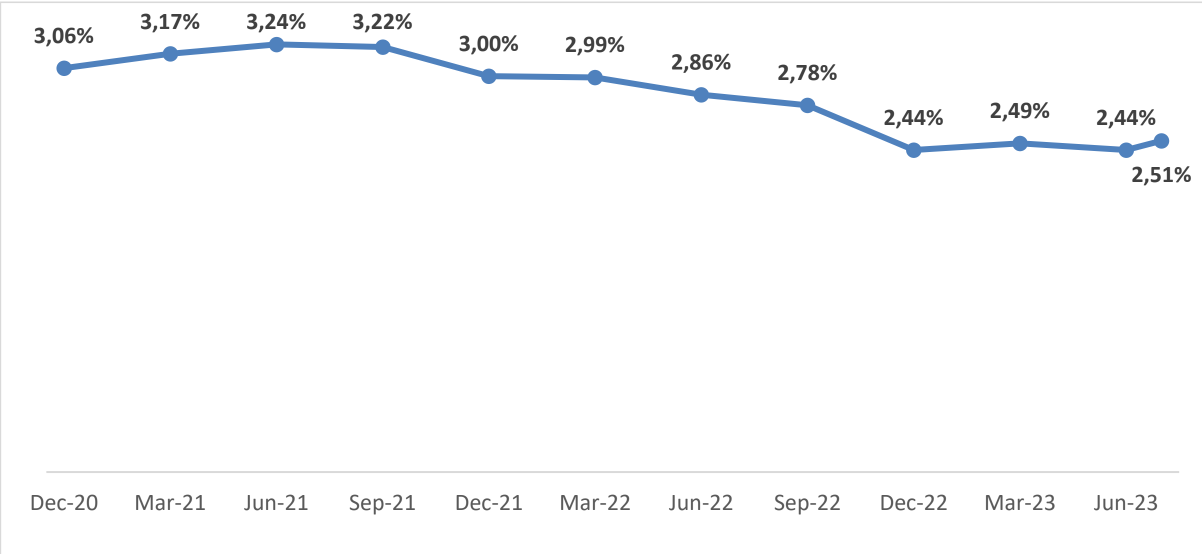
Indonesian Bank Industry Non-performing loan



Source: Otoritas Jasa Keuangan Indonesia (2023)

Similar to banks, multifinance companies have experienced credit expansion, particularly in vehicle and motorcycle financing. However, growth pace has been slower than banks, reflecting higher risk perceptions towards this segment. Multifinance Non-Performing Financing ratios are typically higher than bank NPLs, hovering around 4.5% in 2023. This reflects the inherent risk profile of the sector and potential vulnerability to economic downturns. Increased regulatory scrutiny and capital adequacy requirements are impacting the landscape, encouraging consolidation and potentially squeezing smaller players. The IHSG has rebounded strongly from the pandemic lows, recording consistent gains over the past three years. This reflects improving investor sentiment towards Indonesia's economic prospects and increased foreign investment inflows. IPO activity has also witnessed a surge in 2023, with a record number of new listings and fundraising exceeding earlier targets. This indicates heightened interest in capital markets and potential for further growth. But volatility remains a challenger in global markets and potential domestic political uncertainties pose risks to capital market performance in 2024.

Based on current trends and historical data, the overall outlook for Indonesia's banking and financial services sector in 2024 remains positive. External headwinds like global economic slowdowns and domestic political uncertainties could dampen growth and market sentiment. Continued domestic demand, government infrastructure spending, and a focus on financial inclusion are expected to be key drivers of growth. Regulatory changes in banking and multi-finance sectors could impact competition and growth prospects. Embracing digital technologies and fintech to improve efficiency, reach, and financial inclusion will be crucial for long-term competitiveness. Integrating environmental, social, and governance (ESG) principles into financial products and services is gaining traction and offers new opportunities. Expanding access to financial services for underserved segments will promote economic growth and create new avenues for the sector.

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Reflecting on the past, preparing for the future

The pandemic left an indelible mark on Indonesia's economy, triggering an initial contraction followed by a gradual yet uneven recovery. While tourism and certain export-oriented sectors took a hit, domestic demand and government support offered a lifeline. The long-term effects, however, linger. Strengthening healthcare infrastructure, addressing educational disruptions, and bolstering economic resilience against future shocks remain crucial aspects of post-pandemic recovery. The 2024 Presidential Election casts a long shadow on the economic landscape. Potential increases in fiscal spending during the campaign period could provide a short-term boost, but concerns about fiscal sustainability and long-term debt implications loom. The chosen policy direction of the next administration will be a defining factor in the country's economic trajectory. Investors will keenly observe the candidates' stances on infrastructure development, industrial diversification, and fiscal responsibility.

A potential global slowdown could dampen export demand and dampen investment flows, impacting Indonesia's growth prospects. International conflicts and volatile commodity prices could disrupt supply chains, inflate energy costs, and further squeeze inflationary pressures. The post-election period, with its inherent uncertainties and potential policy shifts, could affect investor confidence and market stability. A large and increasingly affluent middle class provides a robust domestic market, insulating the economy from external shocks. Indonesia's wealth of natural resources offers opportunities for value-added processing, export diversification, and attracting foreign investment. A young and increasingly skilled workforce boasts the potential to drive long-term productivity and innovation, propelling sustained economic growth.

Indonesia's economy in 2024 hinges on its ability to harness these domestic strengths while navigating external uncertainties. Maintaining macroeconomic stability through prudent fiscal and monetary policies will be key. Additionally, addressing structural inequalities by fostering inclusive growth, investing in human capital, and diversifying the economy will build resilience against future shocks. The post-election period presents a crucial opportunity to set the economic agenda for the years to come. Effective policy choices can propel Indonesia towards a future of sustainable, inclusive, and high-growth development.