



ASIA PERSPECTIVE

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# Indonesia Economic Update Report

## **This Issue:**

Indonesia's Economic Performance in Q3  
Fuel price soars for the first time in eight  
years

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## Indonesia's GDP grew by 5.72% in Q3, further recovering from last year's downturn

**Indonesia continues to record GDP growth in the July – September period, again beating previous quarters. Yet growth is slightly below forecasted, and future outlook is uncertain.**

Indonesia's GDP grew 5.72% in the third quarter of 2022, surpassing 3.51% in the same period last year. This is the fastest rate since last year but still lower than the economists' forecast in a Reuters poll of 5.89%. The main drivers behind this growth continue from the last quarter, with rising private consumption, as well as an export boom.

Private consumption increased 5.4% in Q3 compared to the previous year, primarily thanks to increased spending from middle to upper-income households, a positive trend for showcasing economic recovery. Investment grew 4.96% in Q3 year on year, while government spending decreased slightly in the third quarter, slowing down the speed of contraction to 2.9% from 5.2% in the last quarter. PMI remained strong at 53.71% in Q3, up from 53.61% from the previous quarter.

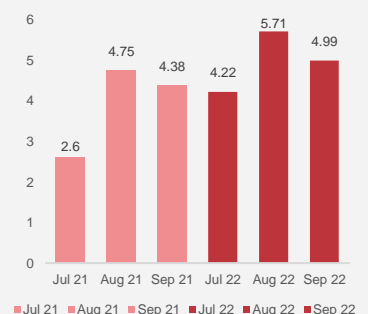
Despite strong growth in recent quarters, the economic outlook for Indonesia is less optimistic due to China's economic slowdown and accelerating inflation. The central bank has revised its forecast to a GDP growth rate of 5.2% for the whole year.

**Double-digit export growth remains as the main contributor to economic growth**

Exports in the third quarter surged up by 29% year on year to reach 78.2 billion USD. This is the 8<sup>th</sup> consecutive quarter to register export growth since the decline in Q2, 2020. Indonesian export continues to reap opportunity from the rising commodity prices globally. Further, imports also climbed up by nearly 27% in Q3 compared to the previous year.

Indonesia recorded a trade surplus totaling 14.9 billion USD in Q3 2022, up 27% from the same period in the previous year. As of September 2022, the country has achieved a trade surplus for 29 months successively. The success has been mainly driven by the export growth of thermal coal, palm oil, steel, and iron products. Indonesia's trade balance is expected to follow a continued upward trend in the last quarter of 2022.

(Billion USD)



Source: Trading Economics, 2022

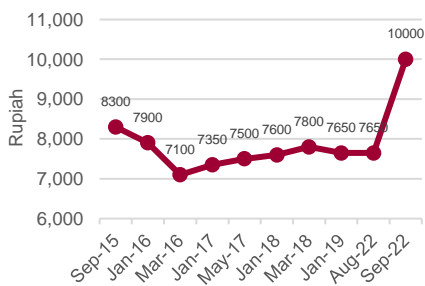
# Indonesia's fuel price soar for the first time in eight years

At the beginning of September, the Indonesian government decided to increase the subsidized fuel prices by 30%. This decision has triggered nationwide protests, but is considered a necessary move to save the country's costly subsidies.



While nations all over the world are suffering from inflation and fuel price hikes, Indonesia was one of very few countries that managed to keep the gas price stable thanks to the government's constant subsidies. Acting as a shock-resistant pad, Indonesia's high subsidies absorbed the increasing costs and keep the inflation rate from rising significantly. As a result, this led to a high consumption of gasoline among Indonesians. For example, in 2019, when the fuel prices had been maintained at a low level since 2015, Indonesia's average gasoline consumption was 13% higher than the global average.

**Indonesia's Gasoline 90 (Pertalite) price fluctuations 2015 - 2022**

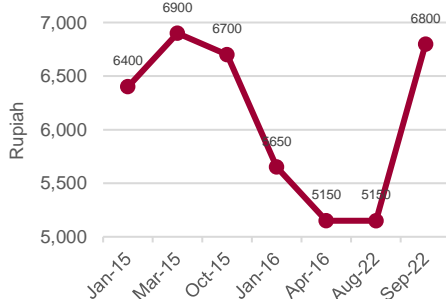


Source: CEICDATA, 2022

Unfortunately, the heavily subsidized era has come to an end as the government announced to raise the prices of fuel by 30% from the beginning of September, by far the biggest jump in the last eight years. Particularly, the price of subsidized gasoline soared from 7,650 Rupiah (51 US cents) to 10,000 Rupiah (67 US cents), and

the price of diesel climbed up from 5,150 Rupiah (35 US cents) to 6,800 Rupiah (46 US cents). Given a generally low-income society and subsequent dependence on subsidized fuel prices, the topic is a politically sensitive issue in Indonesia. Therefore, it comes as no surprise that the government decision has received widely negative reactions from its population.

**Indonesia's Solar Diesel price fluctuations 2015 - 2022**



Source: Statista, 2022

Yet reason can be found in this unpopular move, as Indonesia's energy subsidy had almost tripled in 2022 from the original budget of 14 billion to 34 billion USD, pushed by rising global oil prices and a depreciating Rupiah currency. If Indonesia had maintained the subsidized fuel prices and raised the subsidy to offset the price increase, the subsidy would have been up to 44 billion USD by the end of 2022. The fuel hike is expected to cut the subsidy spending by about 3.22 billion USD.

To reduce the negative impact on the economy, the government has rolled out several countermeasures, including cash transfers. Around 1.5 billion USD has been allocated for cash handouts to help the poor cope with the policy's impact. Moreover, the government has tried its best to ensure an adequate food supply to control inflation, which is expected to rise as a result of the price increase.

The fuel price hike has highlighted a time of change for the Indonesian government to move away from populist policies which merely act as a band-aid to the high living cost. Instead, the government is expected to focus more budget on increasing national productivity levels with investment into areas such as infrastructure, formal employment opportunities and minimum wage levels.

## Indonesia's carbon-intensive nicks impose challenges on global the EV industry

Indonesia has been one of the most attractive destinations for the Electric Vehicle (EV) industry to place their factories, thanks to the advantage of having the largest nickel reserves in the world. However, the high carbon footprint of the nickel processing industry in Indonesia has become a concern for the sustainability goals of market players.



According to the experts in Nickel Summit 2022, the carbon emission from electricity generation in Indonesia is much higher in comparison to the rest of the world. Moreover, Indonesia's nickel reserves are laterite, which requires more processing before becoming ready for battery production than the sulfide type found in Canada, Australia, or Russia. In addition, major nickel processing operations in Indonesia still rely heavily on coal. The nickel processing industry is dominated by Chinese companies such as Tsingshan and Contemporary Amperex Technology, which also use highly energy-intensive procedures to convert nickel ore to battery-grade products.

Acknowledging this matter, both the government and businesses has come up with plans to mitigate concerns. Merdeka Copper Gold – an Indonesian miner, and Tsingshan are jointly developing an industrial park powered by a hydropower plant and a solar plant. The Indonesian government is also considering a progressive tax on exports of some nickel products which could be from high carbon-emitting projects.

In conclusion, Indonesia is urged to take action to tackle the high carbon emission risk in nickel production as soon as possible, to foster more sustainable sources for the EV industry.



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