



ASIA PERSPECTIVE

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# Indonesia Economic Update Report

## **This Issue:**

Indonesia's Economic Performance in Q4  
Indonesia's biodiesel policy hit global  
vegetable oil supplies

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## Indonesia hit 9-year high with a 5.31% GDP growth in 2022, beating the preceding year's 3.71%

Fueled by strong domestic purchasing power and booming exports, Indonesia's GDP continue to outpace the previous year with 5.31% YoY growth, similar to the World Bank and IMF's forecasts at 5.2% and 5.3% respectively. However, commodity prices' bleak prediction and an expected economic downturn still casts an uncertain future in 2023.

In the last quarter of 2022, the GDP expanded by 5.01% (YoY), better than the expected market consensus of a 4.9%, but at a slower pace compared to the 5.7% growth in the third quarter. The slowdown was mainly driven by the weakening global economic activities and decrease in global commodity prices. Similarly, consumption, the backbone of Indonesia economy, also saw a slowdown to 4.5% (YoY) growth, from the previous 5.4%, as heightened inflation ate into consumers' pockets. Inflation was recorded at 5.5% in December, exceeding the central bank's target range at 5.4%.

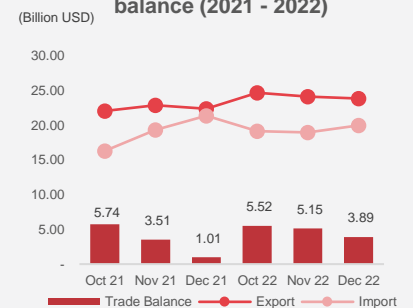
Heading into 2023, the global economic downturn is predicted to continue, causing a further negative effects on Indonesia's economy. In addition, Indonesia's tightening domestic monetary policy in 2023 to combat inflation is expected to hamper the country's economic growth to 4.4% in the coming year, as stated by the Bank Indonesia (BI) Governor.

### Indonesia's trade hit record high in 2022 thanks to export boom

Exports reached a value of US\$292 billion in 2022, a 26.1% (YoY) growth. The growth was mainly driven by Indonesia's key commodities, including iron, steel, fossil energy, and crude palm oil, which all benefitted from high global commodity prices. However, as prices moderated and global demand weakened, the growth momentum slowed in the last quarter of 2022, only registering a 15% (YoY) growth compared to the 19.4% (YoY) growth in Q3.

Nevertheless, Indonesia's trade balance in 2022 saw a surplus of US\$ 54.5 billion (+54.1% YoY). Among its trading partners in 2022, Indonesia benefitted the most from its trade surplus with the US, India and the Philippines, and saw the biggest bilateral deficit with Australia.

Indonesia export, import and trade balance (2021 - 2022)



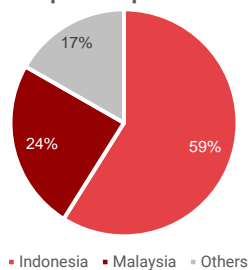
Source: Statistics Indonesia, Trading Economics 2022

# Indonesia's biodiesel policy hit global vegetable oil supplies

In response to the recent sharp decline in global crude palm oil (CPO) prices and the emerging tension between Asian palm oil producers and the European Union, Indonesia started implementing a program to use biodiesel with 35% blend of palm oil-based fuel, known as B35, expanding from its current level at 30% effective from January 2023.

The palm oil industry has grown to be a key export commodity and an integral part of Indonesia's economy, representing up to 10.5% of its total exports in 2021. However, the demand for Indonesia's palm oil export will face several uncertainties in the upcoming years, despite its crown as the world's largest palm oil producer and exporter, accounting for 59% of global production in 2022.

Global palm oil production 2022



Source: Statista, 2022

Following the economic downturn and reduced purchasing power, demand for palm oil is expected to decline as consumption in many key markets reduces. In addition, in December 2022, the European Union enacted the Deforestation-Free Supply Chain, which introduced an import ban on palm oil and derivative products directly linked to deforestation. As the EU is the Indonesia's second largest palm oil importer, approximately 10% of the total exports value, its new act is expected to have a significantly affect Indonesia's palm oil industry.

In order to counteract the expected loss of demand, Indonesia is aiming to reduce their dependence on exports and shifting their focus towards the domestic market. On February 1<sup>st</sup>, 2023, Indonesia launched its

mandatory biodiesel program, known as B35. The program mandates a 35% palm oil content in biodiesel fuel production, an increase from the previous blend of 30% palm oil. This measure is expected to consume 11.4 million tons of palm oil in 2023, an increase from 9.6 million tons in 2022. To ensure sufficient supplies, Indonesia has implemented tighter restrictions on palm oil exports, requiring exporters to obtain new permits and limiting the volume of exports to six times their domestic palm oil sales volume, down from the previous eight times of their domestic sales.



Indonesia's moves to limit its exports will throw the global palm oil industry into turmoil. In addition, supplies are expected to tighten even more over the next six months as demand from China, the world's second largest palm-oil importer, is predicted to rebound following the country's recent opening. As a result, the turmoil is expected to eat into the margin of companies in other manufacturing industries which use palm oil as the key ingredients, especially FMCG segments like biscuits, cake, soap and shampoos, where palm oil is accounting for up to 20% of the total production cost.

Many companies are now under pressure to reorganize their global palm oil supply chains or seek alternative ingredients. Nestlé, which accounts for up to 1.5% of global palm oil consumption, has already diversified its palm oil sourcing through 58 suppliers from 24 countries in 2021, and has also developed its supply chain system to trace and ensure the sustainability of up to 97% of its palm oil mill partners. Manufacturers are encouraged act early and look into their supply chains in order to mitigate any of threats the expected palm oil shortage could cause.

## Indonesia targets to halt fossil fuel import from 2045

With the recent volatile global crude oil market, especially the rise in oil prices in 2022, Indonesia's Coordinating Minister for Maritime Affairs and Investment, Luhut Binsar Pandjaitan, expressed his goal to stop importing fossil fuels from 2045. Indonesia's demand shall instead be supplied by the currently developing green power plants in North Kalimantan's industrial area.



Until 2022, the industrial area has received US\$132 billion in potential investment commitments. The project includes developing hydropower plants and solar panels with a total capacity of 10,000 MW each, as well as a gas facility with a total capacity of 2.9 trillion cubic feet (TCF). Also, to meet its goal to increase the national renewable energy mix up to 23% by 2025, Indonesia has several clean energy projects set to begin operations in 2023, including the Patuha geothermal power plant in West Java (55 MW), and the Peusangan and Asahan hydroelectric power plants in Aceh and North Sumatra Province (220 MW in total). Furthermore, on the demand side, its recent B35 policy is also a significant step to develop palm oil as an alternative fuel and reduce its dependence on traditional fossil fuel, which has proven the government's high commitments in its energy transition plan.

With Indonesia's moves to make 2023 a turning point for its clean energy transition, the government has called for increased contributions from the private sector targeted at developing technologies in the renewable energy sector. Therefore, for international investors and startups with a long-term vested interest in the country's energy future, the time to look at Indonesia's potential is now.





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## Contact Asia Perspective

For full office postal addresses, please visit: <http://www.asiaperspective.com/contact-us/>

### Shanghai

Tel: +86-(0)-21-340-106-10  
[shinfo@asiaperspective.com](mailto:shinfo@asiaperspective.com)

### Beijing

Tel: +86-(0)-185 0048 6766  
[beijinginfo@asiaperspective.com](mailto:beijinginfo@asiaperspective.com)

### Zhongshan

Tel: +86 18 826 002 703  
[zhinfo@asiaperspective.com](mailto:zhinfo@asiaperspective.com)

### Ho Chi Minh City

Tel: +84-35 417 4913  
[vninfo@asiaperspective.com](mailto:vninfo@asiaperspective.com)

### Stockholm

Tel: +46-(0)-70-769-92-07  
[stockholminfo@asiaperspective.com](mailto:stockholminfo@asiaperspective.com)

### Hong Kong

Tel: +85-(0)-227-399-698  
[hkinfo@asiaperpective.com](mailto:hkinfo@asiaperpective.com)

### Jakarta

[ininfo@asiaperspective.com](mailto:ininfo@asiaperspective.com)

### Helsinki Representative

Johan Hackman  
Tel: +358 400607378  
[johan.hackman@asiaperspective.com](mailto:johan.hackman@asiaperspective.com)

### Milan Representative

Luca Poggiaroni  
Tel: +39 393 9113552  
[luca.poggiaroni@asiaperspective.com](mailto:luca.poggiaroni@asiaperspective.com)