

GDP Update 4th Quarter of 2020: Economic recovery still needs time

Key Findings:

- Indonesia's economy in the 4th quarter of 2020 still contracted, thus indicating that the economy has not yet fully recovered.
- Household consumption and investment were behind the contraction in economic growth in the 4th quarter of 2020.
- Government spending was the main support for economic growth driven by the realization of social assistance programs.

Update Summary

GDP growth in the 4th quarter of 2020 dropped to -0.42% qoq or -2.19% yoy. On an annual basis GDP contracted by -2.09% in 2020. The weak economic recovery reflects sluggish household consumption amid the relatively high realization of social protection programs which have led to significant growth in government spending. In addition, investment, exports, and imports showed limited growth in the last quarter of 2020. The negative economic growth in the 4th quarter of 2020 is a sign that the Indonesian economy has not come out of recession yet.

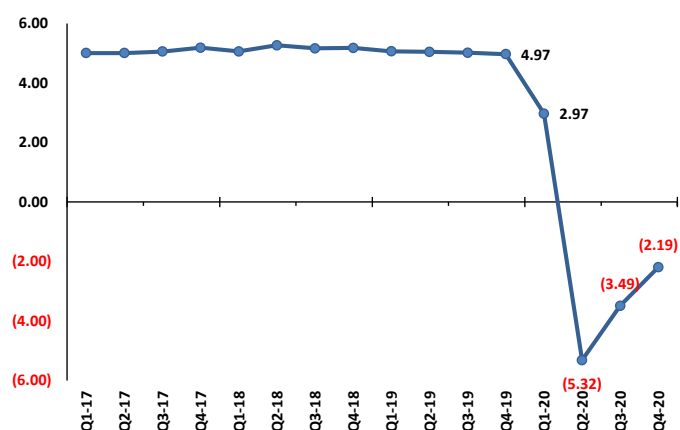
Table 1 Summary of the 4th Quarter of the 2020 GDP Update

	4 th Quarter of 2020		2020
	qoq	Yoy	yoy
Real GDP	-0.42%	-2.19%	-2.07%
Household Consumption	0.49%	-3.61%	-2.63%
Gov. Spending	27.15%	1.76%	1.94%
Investment	4.19%	-6.15%	-4.95%
Export	2.41%	-7.21%	-7.70%
Import	16.28%	-13.52%	-14.71%

Table 2 2021 GDP and Inflation Outlook

2021 GDP	2021 Inflation
3.09% - 4.01%	1.46% - 2.40%

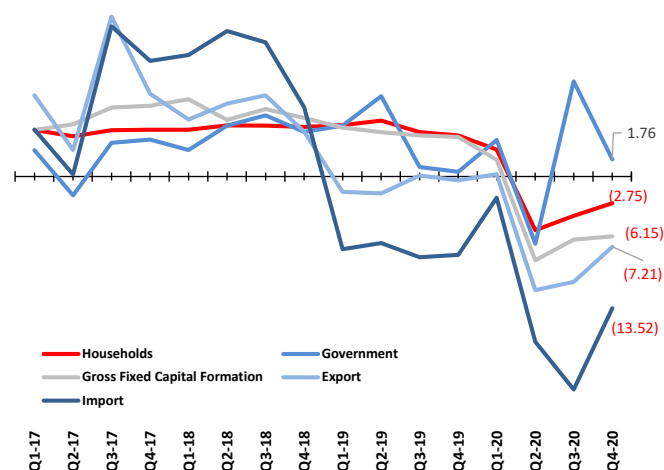
Chart 1 GDP Growth (% YoY)



Source: CEIC, DRI

Background

Chart 2 GDP Component by Expenditure (% YoY)



Household Spending Still Needs Time to Recover

Household consumption improved slightly from the previous period but remained weak in Q4 2020. Household consumption grew by 0.49% qoq and -3.61% yoy (in normal periods, growth is usually around 5%). Even though it still contracted in the 4th quarter, the decline was not as deep as in Q3 2020 thanks to the easing of policies restricting activities in various regions which encouraged increased public mobility. Several retail indicators such as retail sales and auto sales did not show a significant improvement. In Q4 2020, car sales sank by -40.0% yoy, while motorcycle sales

contracted by -49.8% yoy. In addition, retail sales contracted by -20.7% yoy. The continued weakness of the public's purchasing power is one of the main factors behind the contraction of household consumption amid the increasing realization of government social protection programs.

Slower Investment Growth

Investment in Q4 2020 grew by 4.19% qoq (-6.15% yoy). In addition, the realization of FDI also increased in Q4 2020 by 5.5% yoy 2020 driven by optimism from foreign investors due to developments in vaccination programs and the passage of the Job Creation Law. Meanwhile, DDI edged up by 0.7% yoy.

Government Spending Underpinned Economic Recovery in the 4th quarter of 2020

Government spending increased sharply in the 4th quarter of 2020 rising by 27.15% qoq (+1.76% yoy) compared to Q3 2020. The increase in government spending was driven by the realization of the PEN program which reached IDR 579.78T or 83.4% of the IDR 695.2T budget (as of 31 December 2020). The biggest realization was in the cash social assistance program of IDR230.31T or 95.73% of the IDR220.39T budget.

The trade surplus in Q4 indicates that imports are still weak

The trade balance in the 4th quarter of 2020 was recorded at USD 8.27bn, an increase of 3.62% qoq from the figure in the previous period. This surplus indicates that Indonesia's imports remained weak up to the end of 2020. Exports grew by 2.41% qoq (-7.21% yoy). The improvement in exports was

driven by the recovery of partner countries' economies after they eased their social distancing restriction policies. Meanwhile, imports rose by 16.28% qoq in the 3rd quarter of 2020 although on an annual basis they still contracted (-13.52% yoy). Indonesia's non-oil and gas imports still contracted in all categories. This shows that domestic demand and activities in the manufacturing sector up until the end of the 4th quarter of 2020 had not yet fully recovered.

Commentary

Even though the economy has not fully recovered yet, economic growth in Q4 2020 improved compared to the previous quarter. This may bode well for a further improvement in Q1 2021 although we foresee slower growth. Several catalysts that may drive economic growth in following quarters include the effectiveness of the government's strategy to reduce the number of Covid-19 cases, the distribution of Covid-19 vaccines (especially to the general public), and the effectiveness of the Government's stimulus in boosting economic activity.

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