

PwC Indonesia Economic Update

Third and Fourth Quarter 2023



Foreword

During the third and fourth quarter this year, we have seen mixed sentiments on both the global and Indonesia's economies.

As we delve into this Indonesian economic update, it is essential to recognise ongoing geopolitical uncertainties. The prolonged Russia-Ukraine conflict and the Palestine-Israel conflict illustrate these uncertainties, impacting global trade, investments, and economic stability. Adding to the complexity, the upcoming US presidential election would potentially increase uncertainty on the global stage, introducing an element of unpredictability that could potentially reshape geopolitical dynamics and affect economic policies worldwide. In this context, we examine how these global events may influence Indonesia's economic landscape in the coming months.

Domestically, the Indonesian economy grew by 4.94% year over year ("YoY") in Q3 2023, amidst the weakening global economy. The strengthening of the Indonesian economy was supported by increasing domestic demand. The result of Indonesia's strong economic recovery can also be seen from the elevation of Indonesia's ranking to an upper middle-income country as of 1 July 2023, even as the classification threshold rose following rising global inflation. Inflation remained under control during Q3 to Q4 2023 and began to recover within its target. In November 2023, inflation was recorded at 2.86% YoY, while core inflation was 1.87% YoY. This figure has increased compared to inflation data as of Q3 2023 of 2.28% YoY.

The PwC Indonesia Economic Update is a quarterly publication focusing on Indonesia's recent economic developments. In this edition, we cover updates on Q3 and Q4 2023. We hope this report brings significant value to readers and serves as a guide to those interested in Indonesia's economy.



Julian Smith
Director
PwC Indonesia



Denny Irawan
Head of Research and Economics
PwC Indonesia

Contents

Table of Contents	Page
Foreword	2
Key Points	4
1. Policy Highlights and Recent Updates	5
2. Gross Domestic Product	8
3. Employment	11
4. Monetary and Financial System	12
5. Investment	14
6. State Budget	16
7. Trade	20
8. Sectoral Spotlight	21
9. Development	23
Contacts and Services	24

How to cite this document

PwC Indonesia. 2024. *PwC Indonesia Economic Update: Third and Fourth Quarter 2023*. Jakarta: PwC Indonesia.

Key Points

Policy Highlights and Recent Updates

- 1 In Q3-Q4, Indonesia made significant strides in sustainability by enacting legislation to formalise the framework of a carbon trading system in the forestry sector. Additionally, supporting legislation was introduced to promote energy-efficient technology and regulate the mining industry.

Gross Domestic Product

- 2 Amidst the weakening global economy, the Indonesian economy grew by 4.94% year over year ("YoY") in Q3 2023. The transportation and storage industry contributed the most to this growth, while the real estate sector has also started to rebound

Employment

- 3 In August 2023, the total active workforce grew by 2.77% YoY to 147.71 million workers. Out of these, 139.85 million people were employed, while 7.86 million were openly unemployed, accounting for 5.32% of the workforce. This indicates a slight improvement from February 2023, when the unemployment rate was 5.45%.

Monetary and Financial System

- 4 Overall, inflation remained under control and started to recover within its target. In November 2023, inflation was recorded at 2.86% YoY, with core inflation at 1.87% YoY. Additionally, the rupiah strengthened against the US Dollar in mid-December 2023 compared to October 2023.

Investment

- 5 Indonesia's total investment realisation in Q3 2023 amounted to IDR 374.4 trillion, reaching 75.2% of the total investment target for 2023. Foreign Direct Investment ("FDI") has mainly been concentrated in sectors such as basic metals, metal goods, and non-machinery and equipment.

State Budget Realisation

- 6 State revenue realisation in Q3 2023 reached 82.65% of the target, slightly lower than the realisation in Q3 2022 at 87.1% of the target. Meanwhile, state expenditure realisation has reached 64.29% of the ceiling higher than the realisation in Q3 2023 at 61.6% of the ceiling. The 2024 fiscal policy strategy will be focused on controlling inflation, eliminating extreme poverty, reducing the prevalence of stunting and increasing investment.

Trade

- 7 In Q3, Indonesia's trade balance showed marginal improvement, recording a quarterly growth of 0.52% and achieving a positive trade balance of USD 7.85 billion. Despite this slight quarterly improvement, the YoY growth in Indonesia's trade balance experienced a 47.5% decrease, suggesting a potential stabilisation and deceleration after the post-COVID recovery surges in trade activity.

Sectoral Spotlight

- 8 In the tourism and travel sector, the number of domestic trips as of October 2023 amounted to a cumulative total of 688.8 million, marking a 12.0% YoY growth from the same period last year, primarily dominated by the island of Java. Meanwhile, in the retail sector, Bank Indonesia reported that the Month-over-Month (MoM) and YoY growth of the retail sales index in November was 0.9% and 2.9%, respectively. The overall Q3 2023 growth of the index was -0.2% compared to Q2 2023.

Development

- 9 Indonesia has achieved significant development progress in 2023, evidenced by a 3.66% yearly increase in real GDP per capita to IDR 11,899 thousand. The Human Development Index ("HDI") also saw an improvement, rising to 74.39 from 72.91 in 2022. Overall, Indonesia is continuing to enhance its development and improve the general quality of life for the majority of its citizens, though there is still room for further improvement.

1. Policy Highlights and Recent Updates

1.1. Policy Highlights

Regulation Highlights in Q3-Q4 2023

Government Regulation 33/2023

Energy Conservation

Regulates the Minimum Energy Performance Standards (SKEM) and labeling of energy-saving signs on electronic devices.

Minister of Environment and Forestry Regulation 7/2023

Procedure for Carbon Trading in The Forestry Sector

This Ministerial Regulation aims to establish regulations for carbon trading in the forestry sector, intending to fulfill the forestry sector's Nationally Determined Contribution (NDC) target concerning greenhouse gas emissions.

Government Regulation 25/2023

Mining Area

This regulation governs the mining areas of radioactive minerals, essential for nuclear energy production. Additionally, it covers metal mineral mining areas, coal, non-metallic minerals, specific types of non-metallic minerals and rock minerals.

Government Regulation 16/2023

Project Financing through the Issuance of Government Sharia Securities (SBSN)

The issuance of SBSN in the framework of project financing can be conducted directly by the Government or through an SBSN Issuing Company. Projects eligible for financing through the issuance of SBSN include: 1) infrastructure development; 2) provision of public services; 3) industry development; and/or other initiatives aligned with the Government's strategic policies.

The Head of the National Agency of Drug and Food Control 23/2023

Processed Food Registration

Protecting the community from processed food that does not meet the safety, quality, nutrition, and labeling requirements.

Government Regulation 35/2023

General Provisions of Regional Tax and Regional Retribution

This regulation addresses various transitional provisions, including provincial tax revenues, service levies subject to changes by Regional Public Service Agencies (BLUDs), receipts for the utilisation of regional assets in the form of regional property, and the implementation of the use of regional property.

Minister of Public Works and Public Housing Decision 602/KPTS/M/2023

Minimum Limit of Local Content Value of Construction Services

Stipulates the minimum limit of Local Content (TKDN) value in construction work, consulting work and integrated construction work financed by the State Budget (APBN).

Indonesia Competition Commission Regulation 27/KPPU-PR/IV/2023

Merger and Acquisition Notification

The regulation primarily introduces an electronic notification delivery system, and stipulates provisions for calculating the sales of assets in Indonesia, accelerating the period for checking the completeness of documents, and convening commission council meetings for the overall assessment of decisions.

Law of the Republic of Indonesia Number 6/2023

Labour Policy Reform

This regulation introduces labour policy reform, encompassing a reduction in mandated severance payments, modification of the minimum wage and a simplified immigration process for expatriate workers.

The Head of the Commodity Futures Trading Regulatory Agency 7/2023

Trading of Crude Palm Oil (CPO) Physical Market

The implementation of the trading of Crude Palm Oil Physical Market at the Futures Exchange.

1. Policy Highlights and Recent Updates

Customs and Tax Provisions for Consigned Goods (“Barang Kiriman”)

On 18 September 2023, and 16 October 2023, the Ministry of Finance (MoF) issued PMK-961 and PMK-1112 concerning Customs and Tax Provisions for Consigned Goods. PMK-96 revokes PMK-1993, while PMK-1112 only updates the effective date of PMK-96 to be 17 October 2023. The administrative provisions of the implementation procedure for consigned goods are broadly similar to previous regulations, with differences in elaboration outlined in PMK-96.

Several important changes specified in PMK-96 are highlighted in [PwC Indonesia TaxFlash](#)

Import Duty, Excise, and Import Taxes on Consigned Goods

In general, the import duty, excise and import taxes treatment in the context of imports of consigned goods remain the same:

1. Consigned goods with a maximum Customs Value of Free on Board (FOB) USD 3 shall be subject to: a) Import Duty and Income Tax Exemption; and b) 11% Value Added Tax (VAT).
2. Consigned goods with a Customs Value exceeding FOB USD 3 up to FOB USD 1,500 shall be subject to: a) Import Duty of 7.5%; b) Income Tax Exemption; and c) 11% VAT.
3. Consigned goods with a Customs Value exceeding FOB USD 1,500 shall be subject to normal import duty rates based on the Most Favored Nation treatment, and normal treatment for Income Tax and VAT.

There were previously several types of consigned goods such as textiles and textile products, footwear, bags, and books with Customs Values within the range detailed above (point 2) but subject to treatment similar to point 3. In addition to these goods, PMK- 96 has added cosmetics, goods made of iron or steel, watches and bicycles.

E-Commerce players

PMK-96 adds that e-commerce players with more than 1,000 import transactions of consigned goods in one calendar year are required to establish a partnership with the Directorate General of Customs and Excise (DGCE). For existing importers, this partnership must be carried out at the latest four months after the effective date of this regulation. The partnership is carried out through:

- a) an application by the e-commerce player to the Head of Customs Office where the consigned goods enter; or
- b) a notification from the Head of the Customs Office to an e-Commerce player, which, based on information obtained by the Custom Office, has more than 1,000 import transaction shipments in one calendar year. The e-commerce player needs to carry out the partnership within 10 days of the notification issuance date.

Consignment Note (CN)

The Customs Notification (CN) is explicitly treated as a Customs Declaration. The mechanism for revising data errors and canceling CN is now regulated. Similar to other Customs Declarations, the CN also operates under a self-assessment system. Consequently, any errors in declaring the tariff or customs value may lead to administrative sanctions

1. Policy Highlights and Recent Updates

1.2. Global and National Recent Updates

The timeline below provides a brief geopolitical and economic overview of the events that occurred in the years 2021, 2022 and 2023. Most recent developments are the following:

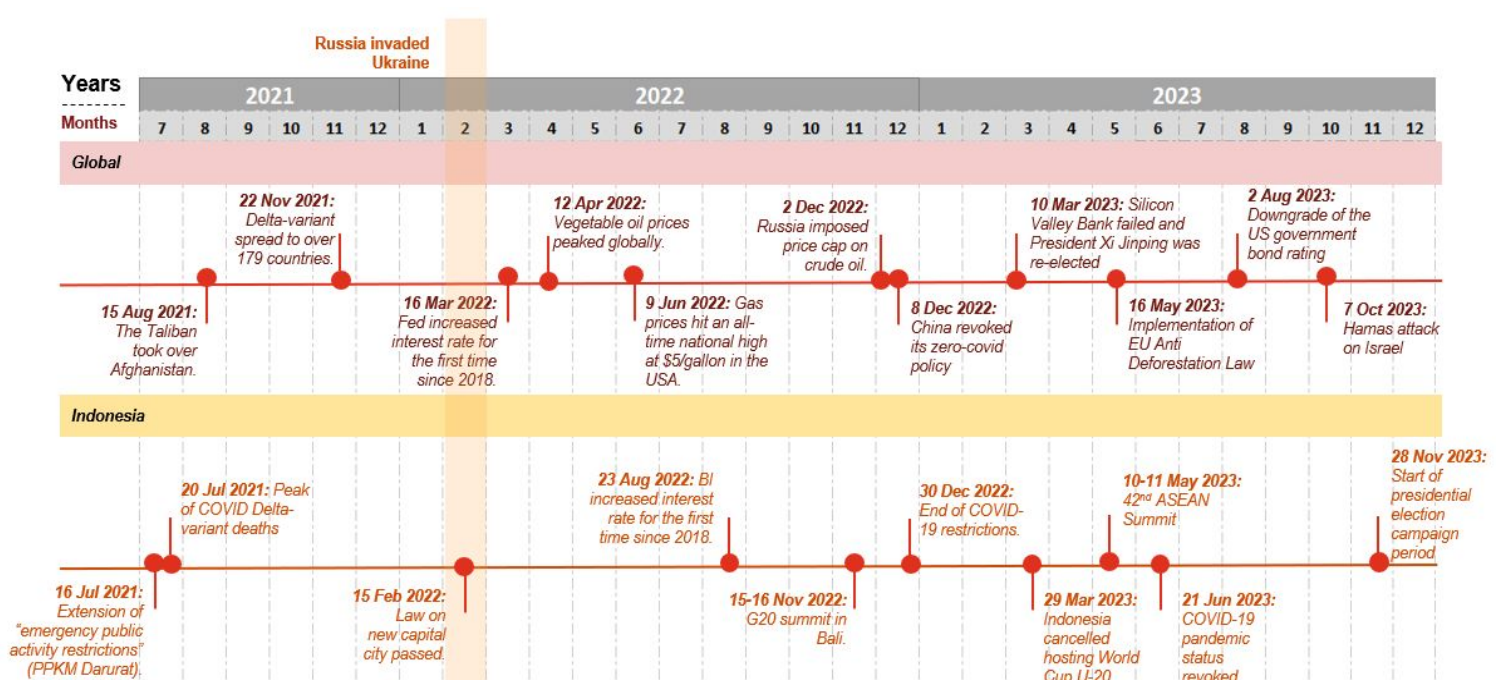
Global

- On 16 May 2023, the European Union (EU) implemented the Anti-Deforestation Law, which prohibits the import of commodities associated with deforestation. This measure has the potential to affect Malaysia and Indonesia, the leading global exporters of palm oil. In response to the law, Indonesia has expressed opposition through various multilateral forums within the World Trade Organization (WTO) community.
- On 2 August 2023, the US government bond rating was downgraded from AAA to AA+ as assessed by the Fitch rating agency. This downgrade was primarily attributed to the escalating debt load and challenges within US politics related to the management of spending and tax strategies. Fiscal stability is anticipated to deteriorate over the next three years, accompanied by an increase in government debt and a decline in governance standards compared to other countries with similar debt ratings.
- On 7 October 2023, Hamas launched a surprise attack on Israel. The longstanding Gaza blockade by Israel is cited as the reason for the attack. In response, Israel deployed troops into Gaza.

Indonesia

- On 21 June 2023, the Government of Indonesia revoked the pandemic status of COVID-19 as the country transitioned to endemic status. This decision was made based on Indonesia's near-zero cases and the fact that almost all Indonesian citizens (99%) had developed COVID-19 antibodies.
- On 28 November 2023, the campaign period for the Indonesian presidential election 2024 commenced and will continue until 10 February 2024, four days before the election day. Three presidential candidates have been chosen and will be voted on by approximately 200 million Indonesian citizens eligible for voting, both within Indonesia and abroad. In the event that no candidate secures more than 50% of the votes, a second round of the election will be held on 26 June 2024.

Figure 1. Key Economic, Financial and Political Events between Q3 2021 and Q4 2023



Source: Various media sources

1. Policy Highlights and Recent Updates

1.3. Presidential Election 2024

Indonesia is gearing up for its presidential and vice-presidential election scheduled for 14 February 2024, with a reported 204 million enrolled voters, according to the Home Affairs Ministry. The General Election Commission has announced three pairs of candidates for the 2024 presidential election: Anies Baswedan (Former Education Minister and ex-Jakarta Governor) with Muhaimin Iskandar (Vice Chairman of Indonesia's Parliament), Ganjar Pranowo (Former Central Java Governor) with Mahfud MD (Political, Legal and Security Affairs Coordinating Minister), and Prabowo Subianto (Defense Minister) with Gibran Rakabuming Raka (Mayor of Solo and son of President Joko Widodo).

The election process is anticipated to have positive economic impacts in 2024, driven by the increase in consumption by government and non-profit institutions serving households due to government spending on elections and expenditures by candidates, with expected multiplier effects on household consumption. Sectors such as food and beverage, logistics, transportation, clothing, and other election-related support services are likely to experience a significant multiplier effect. Additionally, the election results are expected to bring economic impacts, particularly in terms of investment. The "visions" of the candidates are as follows:

1.3.1 Anies Baswedan - Muhaimin Iskandar (AMIN)

Vision: Just and Prosperous Indonesia for All

Missions and Agendas for Economic Development::

- 1. Basic Needs and a Low Cost of Living**
This presidential candidate pair is focused on enhancing the availability and accessibility of affordable essentials such as food, housing, energy and water. Their agenda includes prioritising goals such as achieving food independence, ensuring energy security and establishing water sovereignty.
- 2. Poverty and Job Creation**
AMIN aims to foster entrepreneurship, create job opportunities, and strengthen the social security system to alleviate poverty, unemployment, and inequality. To achieve these objectives, they propose breakthroughs in monetary and fiscal policies, as well as the industrialisation, development, and optimisation of the maritime and natural resource sectors. Their agenda also encompasses the revitalisation of State-Owned Enterprises (SOEs), the empowerment of cooperatives, and the development of Micro, Small, and Medium Enterprises (MSMEs).
- 3. Eco-Justice**
The agenda of this mission revolves around increasing the role of New and Renewable Energy in the national energy mix. It is also committed to meeting the annual emissions target by 2030, with the ultimate goal of achieving the Net Zero Emission (NZE) target by 2060.
- 4. Cities and Villages**
The agenda for this mission encompasses realising equitable urban development and promoting the economic growth and welfare of villages and their communities.
- 5. Healthcare**
Among the health agenda is the advancement of the pharmaceutical and medical device industries, achieving equitable access to education and fortifying national health insurance services.
- 6. Resilience and Diplomacy**
AMIN plans to strive to strengthen economic and socio-cultural diplomacy to achieve growth and justice.

1.3.2. Prabowo Subianto - Gibran Rakabuming Raka

Vision: Together with Advanced Indonesia, Towards a Golden Indonesia 2045

Missions and Agendas for Economic Development:

- 1. Encouraging national independence through self-sufficiency in food, energy, water, creative economy, green economy and blue economy.**
This presidential candidate pair is committed to revitalising and developing most of the damaged and unused forests into productive land for new job creation. They aim to ensure the availability of sustainable staple food through the state-owned food holding company (ID FOOD), guarantee food prices, and facilitate access to fertilizers for farmers. The agenda also includes accelerating the development of agricultural infrastructure, streamlining the distribution chain for agricultural products, increasing the added value of all potential coastal resources, establishing a fishing fleet, facilitating financial access, especially through people's business credit and strengthening regulations

Source: [AMIN Aja Dulu \(2024\)](#), [Bijakmemilih \(2024\)](#), [Visi Misi Prabowo Gibran \(2024\)](#), [Home Affair Ministry \(2024\)](#)

This section has been translated by PwC Indonesia as part of our Indonesia Economic Quarterly Service. PwC Indonesia has not checked the accuracy of, and accepts no responsibility for the content.

1. Policy Highlights and Recent Updates

1.3.2. Prabowo Subianto - Gibran Rakabuming Raka (continued)

Vision: Together with Advanced Indonesia, Towards a Golden Indonesia 2045

Missions and Agendas for Economic Development:

- 1. Improving the quality of employment opportunities, promoting entrepreneurship, developing creative industries, and continuing infrastructure development are key focuses.**
The agenda aims to encourage and facilitate younger people to enter the world of work and entrepreneurship by introducing innovations and regulations that promote the development of new businesses. Additionally, the plan includes revitalising and strengthening traditional markets and village unit cooperatives, promoting sharia economics, strengthening State-Owned Enterprises (SOEs) and National Private Companies, particularly those following sharia principles, and enhancing tourism promotion management.
- 2. Strengthening the development of human capital, science, technology, education, health, sports achievements, gender equality, as well as strengthening the role of women, youth and disabled.**
The agenda involves providing scientific and technological innovation, high-quality education and bolstering the national health system. Efforts will be made to streamline the process for obtaining permits for sporting events, and there are plans to offer tax relief and pension guarantees for exceptional athletes. In support of people with disabilities, initiatives include speeding up the issuance of incomplete regulations, constructing infrastructure and facilities, increasing worker quotas and implementing protection programs.
- 3. Continuation of downstreaming and industrialisation to enhance the value added in the country.**
Committed to become high-quality goods producers and manufacturers, thereby reducing dependence on imports. The strategy involves industrial downstreaming to establish new economic growth centers and an ongoing commitment to building infrastructure to support downstreaming and industrialisation.
- 4. Development at the village to achieve economic equality and poverty eradication.**
The strategy involves constructing physical infrastructure, empowering local communities through education and skill development, and providing access to a variety of resources. These measures are aimed at achieving economic equality and eradicating poverty.

1.3.3. Ganjar Pranowo - Mahfud MD

Vision: Towards a Superior Indonesia, Accelerated Effort to Realize A Just and Sustainable Maritime Country

Missions and Agendas for Economic Development:

- 1. Human Development**
Ganjar and Mahfud's agenda includes expanding and improving access to health services, transforming education, including the use of tele-education for Indonesian students in an equitable, quality, and productive manner, and raising endowment funds for social welfare programs.
- 2. Research and Innovation**
This mission involves enhancing investment in research and innovation within leading industries and establishing a research and innovation ecosystem.
- 3. Independent Economic Development Based on Knowledge and Added Value**
This mission adopts an inclusive strategy to break free from the middle-income trap. It encompasses increasing the role of cooperatives and Micro, Small, and Medium Enterprises (MSMEs), supporting new businesses, utilising infrastructure and the digital economy, managing the green-blue economy, aiming for a growth rate of 7.5-8% in the manufacturing sector, and optimising Special Economic Zones to accelerate industrialisation and investment.
- 4. Equality of Economic Development**
For this mission, there is a commitment to significantly increase disbursement for the village funds programme. This includes integrating the development of residence, workplace, sidewalk and public transportation (4T). Furthermore, the agenda involves constructing new or renovated housing, enhancing the welfare of labourers and workers, strengthening human capital through affirmation programs, and accelerating the development of infrastructure, energy, food, and clean water in border and 3T areas (underdeveloped, remote, outermost).
- 5. National Digitalisation**
This mission encompasses the construction of digital infrastructure and the promotion of comprehensive internet penetration, ensuring the establishment of a competitive and secure digital ecosystem.
- 6. Realisation of a Sustainable Environment through the Green and Blue Economy**
This mission involves creating a sustainable environment by focusing on reducing greenhouse gas emissions, implementing environmental management strategies, and addressing the challenges of climate change through adaptation and mitigation. Additionally, it includes the implementation of Environmental, Social, and Governance (ESG) practices. The mission also aims to develop the green and blue economy by focusing on waste management, preventing marine pollution, promoting the use of renewable energy, implementing sustainable marine governance, and accelerating maritime potential.

Source: [Bijakmemilih \(2024\)](#); [Visi Misi Prabowo Gibran \(2024\)](#); [Visi Misi Ganjar Mahfud \(2024\)](#)

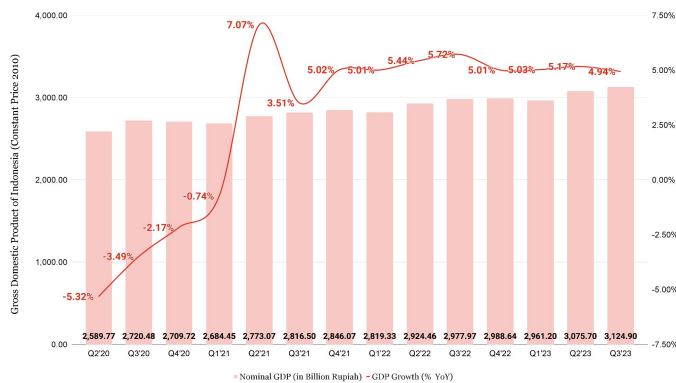
This section has been translated by PwC Indonesia as part of our Indonesia Economic Quarterly Service. PwC Indonesia has not checked the accuracy of, and accepts no responsibility for the content.

2. Gross Domestic Product

2. Gross Domestic Product

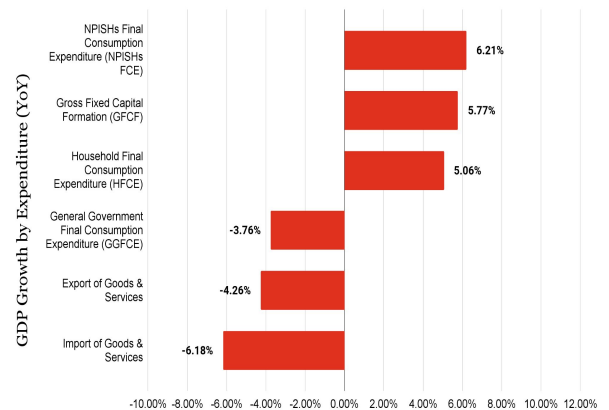
Amidst the weakening global economy, the Indonesian economy grew by 4.94% year over year (“YoY”) in Q3 2023. The strengthening of the Indonesian economy was supported by increasing domestic demand. The evidence of Indonesia’s robust economic recovery is further underscored by the elevation of its ranking to an upper-middle-income country by the World Bank as of 1 July 2023, even as the classification threshold rose due to rising global inflation.

Figure 1. Gross Domestic Product (GDP) of Indonesia (constant price 2010)



Domestic demand played a crucial role in driving economic growth in Indonesia, with household consumption growing by 5.06% YoY in Q3 2023. This growth is attributed to increased mobility, stable public purchasing power and consistently high consumer confidence. Despite this positive domestic trend, the export and import sectors, in terms of their contribution to economic growth, contracted by -4.26% YoY and -6.18% YoY, respectively. The decline in imports occurred in raw or auxiliary materials and capital goods, while the drop in exports was a result of falling prices for key export commodities such as Crude Palm Oil (CPO), coal, and nickel, influenced by the economic slowdown in several main trading partner countries.

Figure 2. GDP growth by Expenditure, Q3 2023 (YoY)



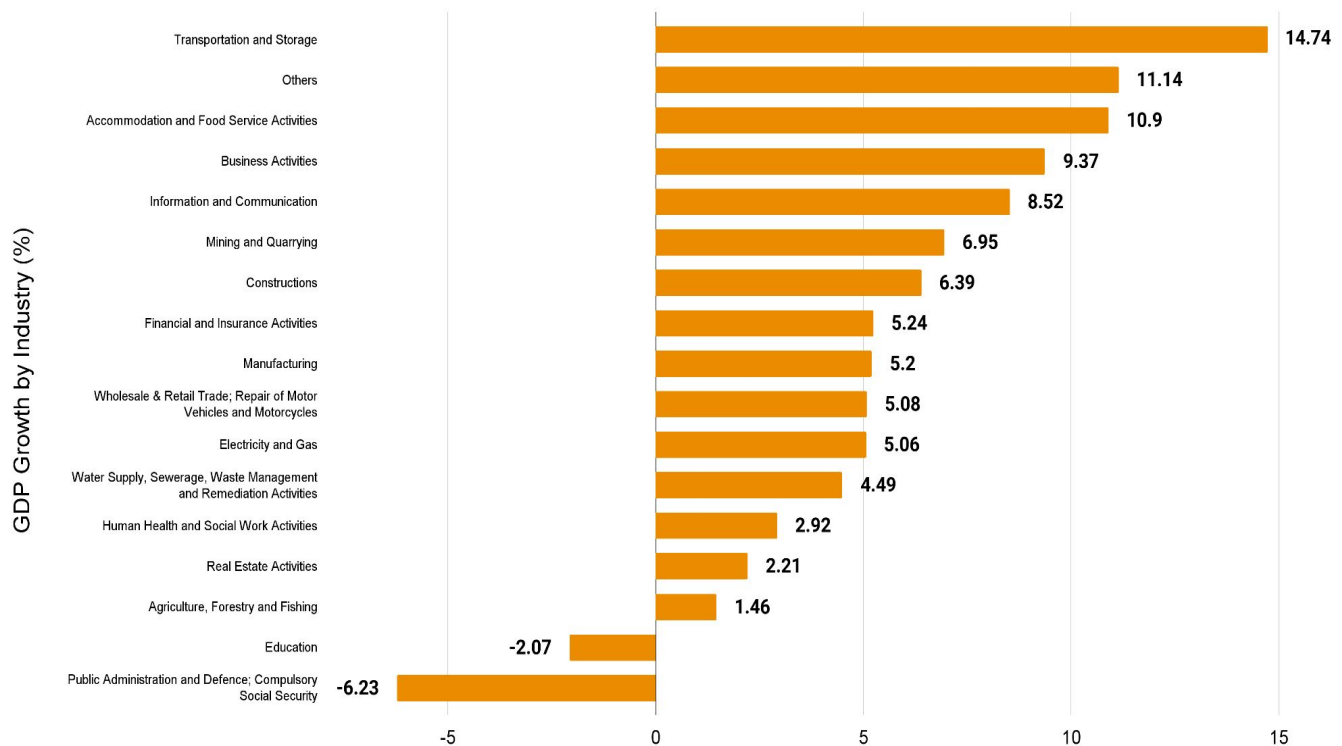
Source: [Central Bureau of Statistics Indonesia \(Nov 2023\)](#)

The World Bank estimates a 21.2% YoY reduction in global commodity prices in 2023 due to increasing geopolitical tensions and the weakening of China, as indicated in its Commodity Market Outlook 2023 (World Bank, 2023). Nevertheless, when looking at volume, Indonesia’s exports still show a notable increase of 7.29% during the period January–September 2023. The volume of Indonesia’s primary exports, such as mineral fuels including coal, animal or vegetable oils, steel, and nickel, continues to rise significantly. Meanwhile, according to the Minister of Finance of the Republic of Indonesia, Sri Mulyani, the decline in government spending was influenced by seasonal factors. It is also estimated that government consumption will experience rapid growth again in the fourth quarter of 2023.

Overall, on the expenditure side, the highest growth in Non-Profit Institutions Serving Households (Lembaga Non Profit Rumah Tangga/LNPRT) consumption expenditure, reaching 6.21% YoY, was attributed to spending on election activities by political parties.

2. Gross Domestic Product

Figure 3. GDP Growth by Industry, Q3 2023 (%)



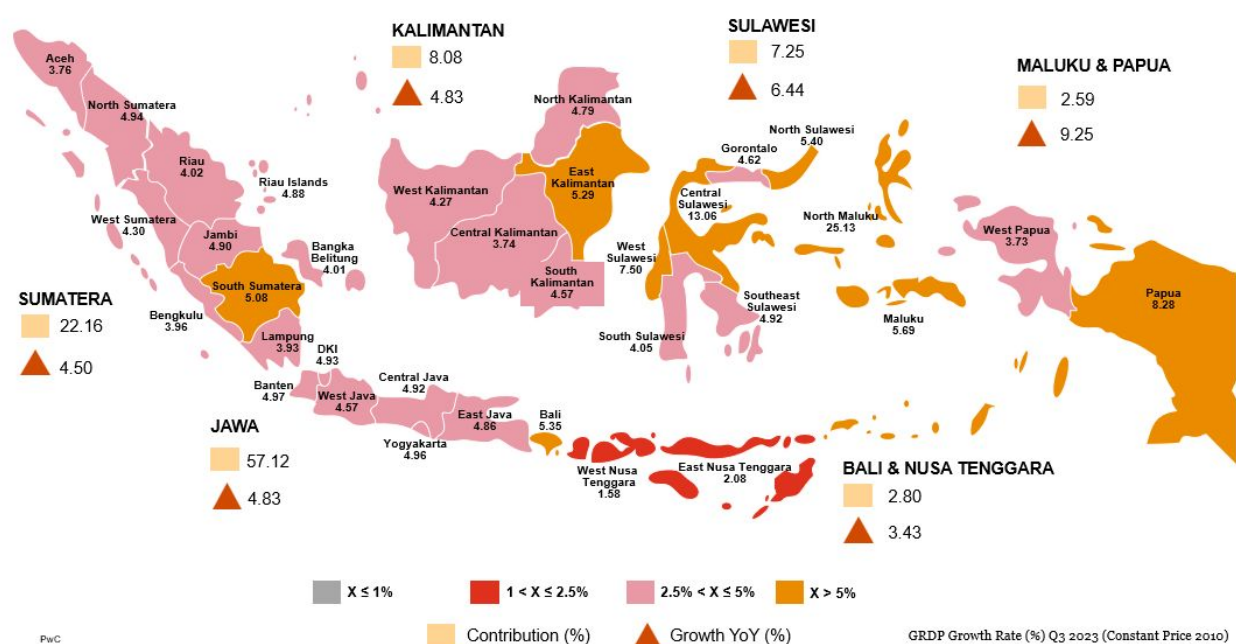
The Transportation and Storage sectors have maintained a rapid growth trajectory, continuing the trend that emerged post-COVID, with a remarkable year-on-year growth rate of 14.74%. The resurgence of corporate adherence to the Work From Office (WFO) practice, following the Work From Home (WFH) policy due to COVID, is believed to boost the growth of the sector. Furthermore, the recovering tourism sector may have contributed to the strong growth of both the transportation and the accommodation and food services sector, the latter experiencing a double-digit growth rate of 10.9% in Q3 2023. This suggests a positive outlook for related businesses, driven by increased economic activities resulting from higher human mobility and a rise in demand from incoming tourists.

The real estate sector, which had the lowest growth since Q1 2023, experienced an increase in the growth rate to 2.21% YoY in Q3 2023. This can be attributed to the decline in inflation and the stability of Indonesian bank interest rates, which have remained at 5.75% for the last nine months. These factors have heightened people's interest and purchasing power in property. Conversely, the agricultural sector faced productivity risks in Q3 due to the anticipated adverse impact of the El Niño climate phenomenon. This phenomenon leads to reduced rainfall and increased surface temperatures, potentially affecting the growth of the agricultural, forestry and fisheries sectors.

Source: [Central Bureau of Statistics Indonesia \(Nov 2023\)](#); [Antara news \(July 2023\)](#); [CNBC Indonesia \(August 2023\)](#); [DataIndonesia.id \(February 2023\)](#)

2. Gross Domestic Product

Figure 4. GRDP Growth Rate, Q3 2023 (%)



The economy has exhibited growth across all provinces in Indonesia. North Maluku Province recorded the highest growth at 25.13% YoY, with significant contributions from the manufacturing and mining sectors. Central Sulawesi followed in second place with a growth rate of 13.06% YoY, mainly contributed by the manufacturing sector. Papua secured the third position with a growth rate of 8.28% YoY, primarily propelled by mining and quarrying activities. This growth may be attributed to the expansion of production finished goods inventory and order volume in the manufacturing sector, as reported by Bank Indonesia.

Conversely, West Nusa Tenggara registered the lowest growth of 1.58% YoY, with the decline in the mining and quarrying sector being one of the causes. Nevertheless, the island of Java remains the largest contributor to GDP, accounting for 57.12% with an average growth of 4.83% YoY. Sumatra takes the second position with a GDP contribution of 22.16% and an average growth of 4.50% YoY.

The primary source of growth for Java is the tertiary sector, encompassing information and communications, trade, and corporate services. Bali's high growth rate of 5.35% YoY may be attributed to the resurgence of its tourism sector. Sumatra's growth, on the other hand, is propelled by the agricultural, forestry, and fisheries sectors, along with manufacturing, especially the expanding rubber sector due to increased export volume to the United States driven by rising rubber tire sales.

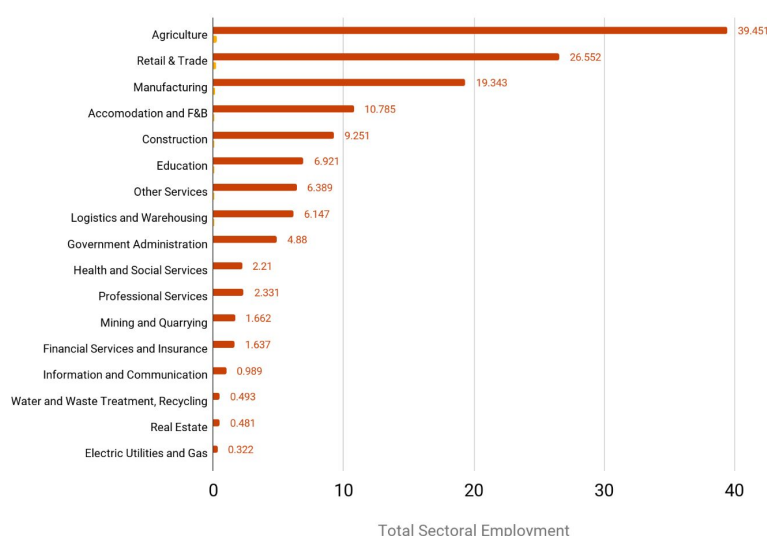
Provinces in the eastern part of Indonesia, rich in mineral and coal resources, have demonstrated high growth rates, potentially benefiting from President Joko Widodo's downstreaming program for the mining sector. The downstreaming activities are expected to contribute to higher GDP and increased employment opportunities in these regions. Moreover, the growing global demand for coal from China and India has further boosted coal production capacity and volume in Indonesia. This sector expansion is evident from the substantial credit growth in the mining and quarrying sector in Q3 2023, as reported by the Financial Services Authority (Otoritas Jasa Keuangan/OJK).

3. Employment

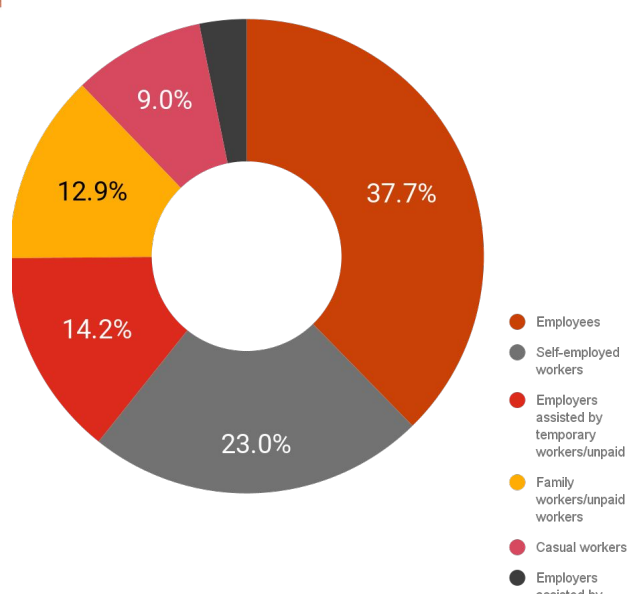
3. Employment

The Indonesian labor situation showed moderate improvement in mid-2023. In August 2023, the total active workforce grew by 2.77% YoY, reaching 147.71 million workers. Out of this, 139.85 million people were employed, while 7.86 million were openly unemployed, representing 5.32% of the workforce, indicating a slight improvement from February 2023 (5.45%). The open unemployment rate ("TPT") exhibited a decrease of 0.54 percentage points YoY, aligning with the strong recorded GDP growth and the success of the post-pandemic recovery.

Employment Absorption by Industry August 2023



Employment Type August 2023



The top three sectors with the highest employment absorption were Agriculture, employing 39.5 million (28.21%), Retail & Trade with 26.5 million employees (18.99%), and Manufacturing, providing employment for 19.3 million (13.58%). The moderate improvement in employment is believed to have been bolstered by the government's labour policy reform, including the enactment of Law of the Republic of Indonesia Number 6 of 2023 in March 2023. This law replaced the Law of the Republic of Indonesia Number 11 of 2020 and introduced measures such as the modification of the minimum wage formula.

The new formula incorporates a variable in the form of an index, determined by the regional wage council, representing the labour contribution to regional economic growth. Further details on the formula are outlined in Government Regulation Number 51 of 2023. The Indonesian Ministry of Labour asserts that this modification will enhance the role of the regional wage council, allowing them to provide suggestions and considerations to the regional head, who serves as the decision-maker for minimum wage. This adjustment also aims to prevent significant disparities in minimum wages between regions. While the new formula will lead to an increase in the 2024 minimum wage, the rate will be lower than the 15% increase demanded by the Indonesian Labour Union. Consequently, the minimum wage hike may potentially result in a reduction in labour demand.

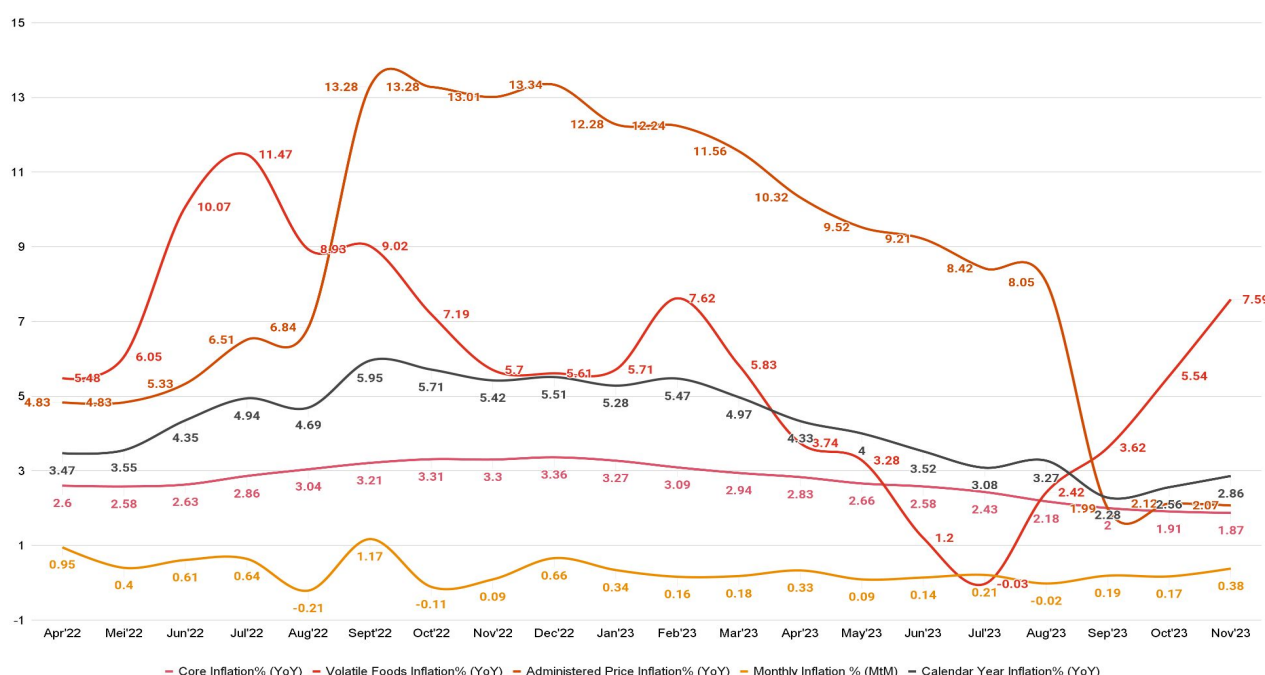
The current employment situation remains generally robust, with a significant portion of the workforce engaged in lower-skilled, less value-added sectors such as Agriculture and Retail. Employment in high value-added sectors such as Financial Services and Information & Communication is still low. The majority of Indonesian workers, approximately 52.7 million (37.7%), are classified as employees who are employed at a formal institution, followed by self-employed individuals with 32.2 million (23.0%). The average wage in August 2023 was IDR 3.17 million, reflecting a 7.82% increase from February 2023 when the average wage stood at IDR 2.94 million. On a sectoral basis, the highest average wages were observed in the Information and Communication sector (IDR 5.13 million), Financial and Insurance Activities (IDR 5.11 million), and Mining and Quarrying (IDR 4.80 million) sectors.

4. Monetary and Financial System

4.1. Inflation

Overall, inflation remained under control and started to recover within its target. In November 2023, inflation was recorded at 2.86% YoY. This figure represents an increase compared to the inflation data as of Q3 2023, which stood at 2.28% YoY.

Figure 5. Core Inflation (YoY), Volatile Goods Inflation (YoY), Administered Price Inflation (YoY), Monthly Inflation % (Month over Month – “MoM”), and Calendar Year Inflation % (YoY)



In November 2023, core inflation stood at 1.87% YoY, primarily driven by inflation in gold, jewelry and sugar. The inflation rate in the volatile food group increased to 7.59% YoY, largely influenced by inflation in various commodities such as chilies, shallots, and rice. However, further increases in inflation were mitigated by deflation in purebred chicken meat and various fish.

The impact of El Nino has led to a significant surge in rice prices since July 2023, and this trend is expected to persist until February 2024. This situation has the potential to disrupt price stability, including inflation in the regions leading up to National Religious Holidays (Hari Besar Keagamaan Nasional or HBKN). The likelihood of inflation rising is quite high during the early months of 2024.

In November 2023, the administered prices group, whose price developments are regulated by the government, experienced inflation of 2.07% YoY. This was slightly lower than the previous month's figure of 2.12% YoY, primarily influenced by gasoline deflation resulting from adjustments in the price of non-subsidised fuel (BBM) on 1 June 2023.

The decline in inflation was further restrained by the price levels in air freight and filter clove cigarettes, influenced by increased mobility during the Eid al-Adha holiday and the continued rise in tobacco excise rates. The Consumer Price Index (CPI) for November stood at 116.08, indicating a Year-to-Date (YTD) inflation rate of 1.65%.

Sources: [Central Bureau of Statistics Indonesia \(Nov 2023\)](#); [Bank Indonesia \(Aug 2023\)](#); [Bank Indonesia Press Release Monthly Update \(Nov 2023\)](#); [Kemenkeu press release \(July 2023\)](#); [Radio Republik Indonesia \(Nov 2023\)](#); [Kompas News \(Sept 2023\)](#)

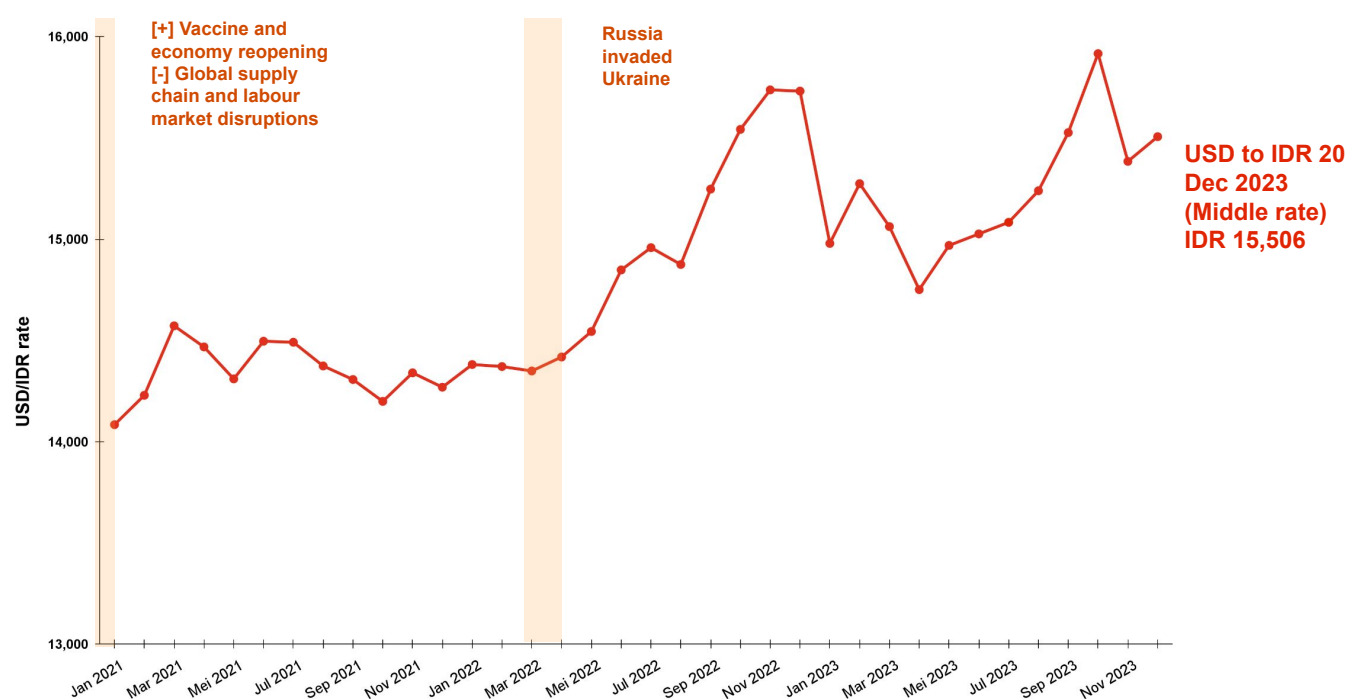
Note: *) inflation components that tend to be stable or persistent (persistent component) in their movements and are influenced by fundamental factors (demand-supply, external environment, such as: exchange rates, international commodity prices, and global economic developments, and future inflation expectations)

4. Monetary and Financial System

4.2. Exchange Rate

The Rupiah strengthened against the US Dollar in mid-December 2023 compared to October 2023 when it reached its lowest point since 2021. The speculation of an increase in the Fed rate, coupled with the increasingly heated political situation in Indonesia nearing the presidential election year, led investors to direct their capital to the US. The rise in demand for USD consequently drove the rupiah down until October 2022.

Figure 6. Rupiah Fluctuation Against US Dollar (USD/IDR)



Sources: Bank Indonesia (2023), [CNBC \(2023\)](#)

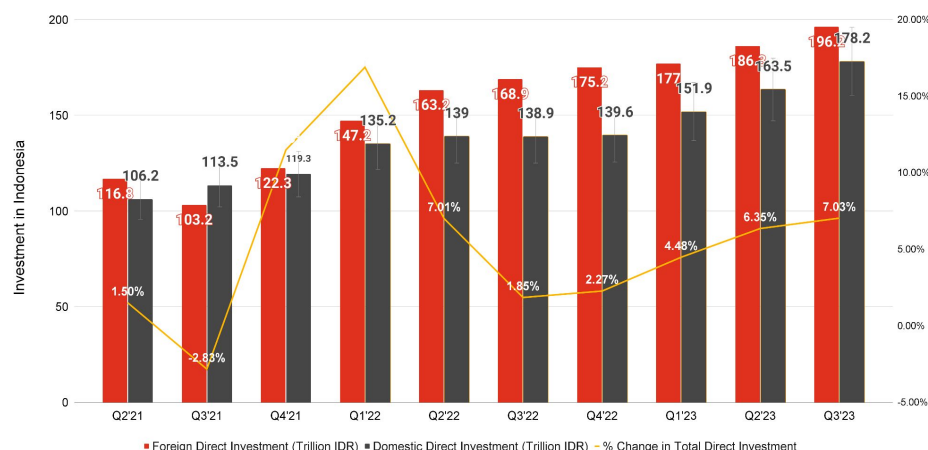
In November 2023, the Rupiah appreciated to 15,384 IDR/USD from the 15,916 IDR/USD rate in October 2023. This was in response to Bank Indonesia's announcement of its 7-Day (Reverse) Repo Rate (7DRR) increase on 19 October 2023 to 6% from the previous 5.75%, as an attempt to induce capital flow to Indonesia and increase demand for the Rupiah. Bank Indonesia then maintained its 7DRR at the same level on 23 November 2023.

This trend is anticipated to continue until the end of the year, as the Fed held its last meeting of the year on 14 December 2023, and stated that the Fed rate would remain the same to reach its inflation target at 2%, thereby increasing Indonesia's attractiveness for capital inflow relative to the US. However, the Indonesian presidential election is planned to be held in February 2024, which may entail some political risks for investors.

5. Investment

5. Investment Condition

Figure 6. Investment Realisation in Indonesia (Q3 2023)

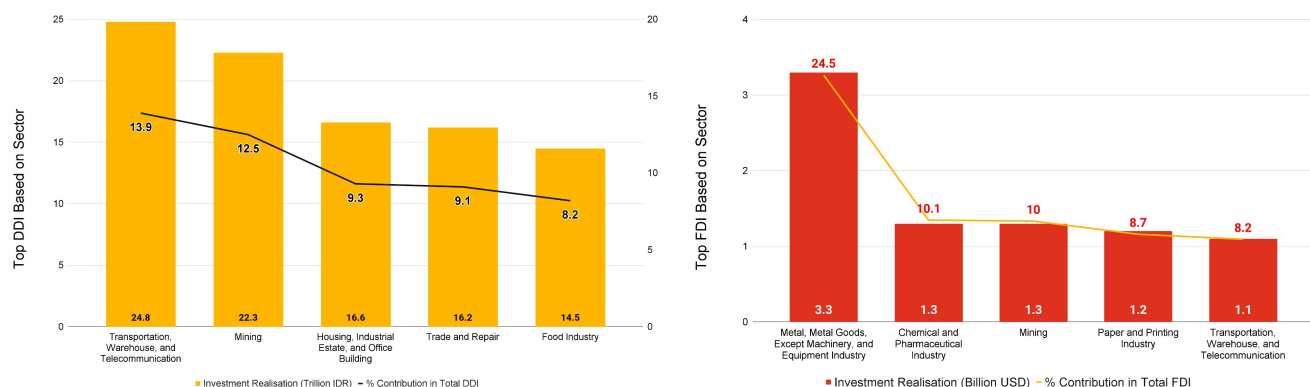


Indonesia's total investment realisation in Q3 2023 amounted to IDR 374.4 trillion, and the cumulative realisation from Q1 to Q3 of 2023 reached IDR 1,053.1 trillion, equivalent to 75.2% of the total investment target set by President Joko Widodo for 2023. Investment realisation in Q3 2023 increased by 21.6% YoY or 7.0% Quarter on Quarter (QoQ). Aligned with the increase in investment was the rise in job absorption, recording a 58.63% YoY growth or 516,467 people as of September.

In the third quarter of 2023, Foreign Direct Investment (FDI) contributed 52.4% to the total investment, surpassing Domestic Direct Investment (DDI). However, FDI investment growth was 16.2% YoY, lower than DDI, which recorded a growth of 28.2% YoY in Q3 2023. Overall, the realisation of FDI and DDI investments outside Java Island was 51%. Despite this, the largest investment receipts are still on Java Island, namely DKI Jakarta, followed by West Java and East Java.

The sector occupying the first position with the largest investment realisation for both FDI and DDI is the Basic Metal, Metal Goods, Non-machinery and Equipment Industry. In the second position is the Mining Sector, and in the third position is the Transportation, Warehouse and Telecommunications Sector. The fourth position is held by the Chemical and Pharmaceutical Industry, and the fifth position is occupied by the Housing, Industrial Areas, and Offices Sector.

Figure 7. Investment Based on Sector



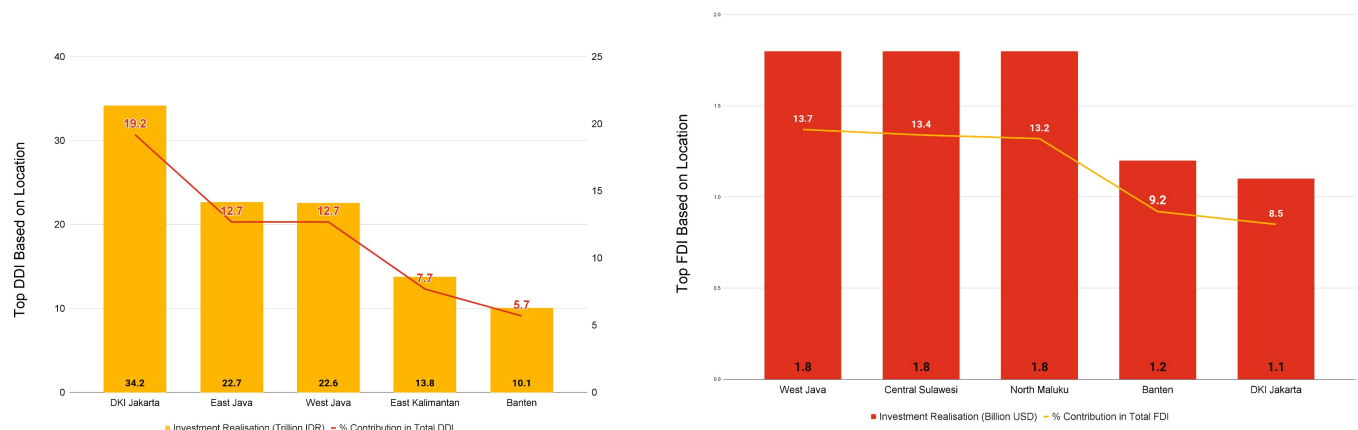
Based on the sector, the sectors with the greatest FDI investment realisation are the Basic Metal, Metal Goods, Non-machinery, and Equipment Industry, followed by the Chemical and Pharmaceutical Industry in second position, and the Mining Sector in third position. Meanwhile, the sectors with the greatest DDI investment realisation are the Transportation, Warehouses, and Telecommunications Sector, followed by the Mining Sector in second place, and the Housing, Industrial Areas, and Offices Sector in third place.

Source: The Investment Coordinating Board (October 2023)

Note: Investment realisation value refers to delta / new investment amount realised in the respected period. YoY growth in Q3 2023 is calculated based on delta / new investment realisation value in Q3 2023 compared to Q3 2022.

5. Investment

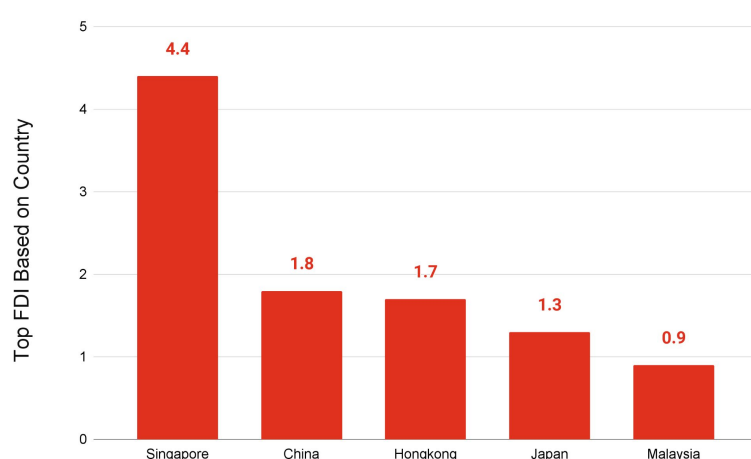
Figure 8. Investment Based on Location



Although, in total, the largest investment realisation is outside Java, when viewed by province, the largest FDI realisation is in West Java, contributing 13.7% to the national achievement. In the second place is Central Sulawesi with a contribution of 13.4%, followed by North Maluku in third place with 13.2%, then Banten with 9.2%, and DKI Jakarta with 8.5%, which is lower than the contribution from the previous quarter. The largest Domestic Direct Investment (DDI) realisation was in DKI Jakarta at 19.2%, followed by East Java at 12.7%, then West Java at 12.7%, East Kalimantan at 7.7%, and Banten at 5.7%.

As the biggest contributor, West Java has five regions that will drive its investment, namely the cities and regencies of Bekasi, Bogor, Karawang, and Purwakarta. Meanwhile, in Jakarta several sectors are expected to encourage investment growth, namely the Transportation, Warehousing, and Telecommunications sectors, the Other Services sector, as well as the Housing, Industrial, and Office sectors.

Figure 9. Investment Based on Country



Singapore still leads as the country that contributed the most to FDI realisation, amounting to USD 4.4 billion with 10,722 projects, representing a growth of 16.20% YoY. In the second place is China with a total investment of USD 1.8 billion or 4,376 projects, growing 14.05% YoY. In the third position is Hong Kong with USD 1.7 billion or 2,446 projects, experiencing a remarkable growth of 67.73% YoY. In the fourth position is Japan with USD 1.3 billion or 4,653 projects, showing a growth of 25.31% YoY. In the fifth position is Malaysia with USD 0.9 billion or 1,814 projects, witnessing a decline of -2.80% YoY.

The positive trend of FDI in Indonesia reflects optimism that, in the future, the growth of foreign investment into Indonesia will continue to increase. This is further supported by the development of the New Capital City (Ibukota Negara/IKN) and the Government's ongoing efforts to boost interest in foreign investment, though most investment in IKN to date has been funded by the government.

6. State Budget

6.1. State Budget Realisation Q3 2023

Figure 17. State Budget Realisation Q3 2023

State Budget (in Trillion Rupiah)	2022			2023		
	State Budget	Realisation until Q3	% of State Budget	State Budget	Realisation until Q3	% of State Budget
A. State Revenue	2,266.20	1,974.85	87.14	2,463.02	2,035.62	82.65
I. Domestic Revenue	2,265.62	1,974.85	87.14	2,462.62	2,034.88	82.63
1. Tax Revenue	1,783.99	1,542.54	86.47	2,021.22	1,583.34	78.34
2. Non-Tax Revenue	481.63	431.71	89.64	441.39	451.54	102.30
II. Grant	0.58	0.60	103.51	0.41	0.74	180.69
B. State Expenditure	3,106.43	1,913.66	61.60	3,061.18	1,967.93	64.29
I. Central Government Expenditure	2,301.64	1,360.98	59.13	2,246.46	1,396.90	62.18
1. Line Ministries	945.75	674.39	71.31	1,000.84	669.56	66.90
2. Non-Line Ministries	1,355.89	686.59	50.64	1,245.61	727.34	58.39
II. Regional Transfer & Village Fund	804.78	552.68	68.67	814.72	571.03	70.09
C. Primary Balance	-434.36	339.68	-78.20	-156.75	389.73	-248.63
D. Surplus (Deficit)	-840.23	61.19	-7.28	-598.15	67.69	-11.32
% Deficit to GDP	-4.5	0.31		-2.84	0.32	
E. Financing	840.23	431.82	51.39	598.15	162.99	27.25

State revenue realisation in Q3 2023 reached 82.65% of the target, which is lower compared to the realisation in Q3 2022, which was at 87.1% of the target. Realised Tax Revenue reached IDR 1,583.34 trillion or 78.34% of the target, growing 2.64% YoY. This realisation consisted of Tax Revenue amounting to IDR 1,387.78 trillion or 80.78% of the target, growing 5.90% YoY, and Customs and Excise Revenue amounting to IDR 195.56 trillion or 64.50% of the target, contracting 15.76% YoY. The tax revenue was mainly contributed by Non-Oil and Gas Income Tax (PPH) Revenue amounting to IDR 771.75 trillion, as well as Value Added Tax and Sales Tax on Luxury Goods (PPN/PPnBM) IDR 536.73 trillion. However, in general, the majority of cumulative revenue performance per type of tax up to September 2023 grew positively, except for the types of taxes PPh Article 22 Import and Value Added Tax (VAT) on Import, as well as Final PPh.

State expenditure realisation has reached 64.29% of the ceiling, higher compared to the realisation in Q3 2022, which was at 61.6% of the ceiling. Realised Central Government Expenditure was IDR 1,396.90 trillion (62.18% of the ceiling), growing by 2.64% YoY. This realisation consists of the realisation of State Ministries/Institutions (Kementerian/Lembaga or K/L) Expenditures amounting to IDR 669.56 trillion (66.90% of the ceiling), lower than the realisation for the same period in 2022, which reached IDR 674.39 trillion, and the realisation of Non-K/L Expenditures amounting to IDR 727.34 trillion (58.39% of the ceiling), growing 5.93% (YoY).

Sources: [Ministry of Finance \(Oct. 2023\)](#), [Ministry of Finance \(Nov. 2022\)](#)

Note: *)primary balance is state revenue minus spending, excluding debt interest payments

**) PPh 22 is a tax imposed on treasurers or certain bodies, both government and private, which carry out export, import and re-import trade activities.

6. State Budget

The realisation of Regional Transfers (Transfer ke Daerah/TKD) has reached IDR 571.03 trillion, which accounts for 70.09% of the allocation, representing a 3.32% growth YoY. Generally, the growth in TKD realisation is predominantly influenced by increases in Profit Sharing Funds (Dana Bagi Hasil or DBH) and non-Physical Special Allocation Funds (Dana Alokasi Khusus/DAK). DBH realisation experienced a 20.25% YoY increase, primarily attributed to the realisation of Mining DBH-Natural Resources (Sumber Daya Alam/SDA). Concurrently, the realisation of non-Physical DAK witnessed a growth of 16.82% YoY, aligned with the moderately high increase in the realisation of several types of non-Physical DAK, including School Operational Assistance Funds (Bantuan Operasional Sekolah/BOS) and Health Operational Assistance Funds (Bantuan Operasional Kesehatan/BOK).

Most other types of TKD witnessed a decrease in realisation compared to the previous year. This decline was generally caused by reduced compliance by local governments in fulfilling distribution requirements.

Budget realisation until the end of September 2023 resulted in a surplus of IDR 67.69 trillion (0.32% of GDP), slightly higher than in 2022 when the state budget surplus was 0.31 percent of GDP. The realisation of State Revenue in 2023 reached IDR 2,035.62 trillion, reflecting an increase of 3.08% YoY. On the other hand, the realisation of State Expenditures reached IDR 1,967.93 trillion, marking an increase of 2.84 percent YoY.

The realisation of Budget Financing until the end of September 2023 reached IDR 162.99 trillion (27.25% of the ceiling). Debt financing dominated this financing, amounting to IDR 198.86 trillion (28.60% of the ceiling), consisting of the realisation of government securities (net) amounting to IDR 181.41 trillion and loans (net) amounting to IDR 17.45 trillion originating from internal loans. Domestic Loans (Net) amounted to IDR 3.69 trillion, and Foreign Loans (Net) amounted to IDR 13.76 trillion.

Until the end of September 2023, the government had borrowed Domestic Loans amounting to IDR 5.71 trillion and paid principal installments on Domestic Loans totaling IDR 2.02 trillion. On the other hand, the government also borrowed Foreign Loans (Gross) amounting to IDR 70.74 trillion and paid Principal Installments on Foreign Loans totaling IDR 56.98 trillion. In addition to Debt Financing, the Government planned financing budget for Investment, which was used for Government Investment of IDR 18.00 trillion, Investment in Public Service Agencies (*Badan Layanan Umum*/BLU) of IDR 27.00 trillion, Investment in International Financial Organisations/Institutions/Business Entities of IDR 1.56 trillion, and obtaining Returns from Government's Investments of IDR 6.56 trillion. Furthermore, the government also provided a loan of IDR 3.72 trillion and spent IDR 403.64 billion for Other Financing.

Sources: [*Ministry of Finance \(Oct 2023\)*](#)

6. State Budget

6.2. 2024 State Budget Draft (RAPBN)

Figure 18. 2024 RAPBN Balance

State Budget (in trillion Rupiah)	2023		2024
	State Budget	Realisation Outlook	RAPBN
A. State Revenue	2,463.00	2,637.20	2,781.30
I. Domestic Revenue	2,462.60	2,634.10	2,780.90
1. Tax Revenue	2,021.20	2,118.30	2,307.90
2. Non-Tax Revenue	441.4	515.8	473
II. Grant	0.4	3.1	0.4
B. State Expenditure	3,061.20	3123.7	3304.1
I. Central Government Expenditure	2,246.50	2,298.20	2,446.50
1. Line Ministries	1,000.80	1085.5	1077.2*
2. Non-Line Ministries	1,245.60	1212.8	1369.3
II. Regional Transfer & Village Fund	814.7	825.4	857.6
C. Primary Balance	(156.80)	(49.00)	(25.50)
D. Surplus (Deficit)	(598.20)	(486.40)	(522.80)
% Deficit to GDP	(2.84)%	(2.30)%	(2.29)%
E. Financing	598.2	486.4	522.8

Sources: Ministry of Finance (2023)

The theme of 2024 fiscal policy is "Accelerating Inclusive and Sustainable Economic Transformation". In order to support this theme, the short-term fiscal policy strategies are focused on controlling inflation (price stability), eliminating extreme poverty, reducing the prevalence of stunting, and increasing investment. Meanwhile, the medium and long term fiscal policy strategy is focused on strengthening the quality of human resources (human capital), accelerating infrastructure development (physical capital) and encouraging high value added economic activities through the downstreaming of natural resources (natural capital), as well as strengthening institutional reform and regulatory simplification.

The Ministry of Finance estimates tax revenue in 2024 will be IDR 2,307.9 trillion. In order to optimise the potential for tax revenues in 2024, tax policy is primarily directed at, among others: (1) encouraging the level of compliance and integration of technology in the tax system; and (2) continuing the implementation of the Law on Harmonisation of Tax Regulations (UU HPP) to encourage an increase in the tax to GDP ratio.

Meanwhile, non-tax state revenue in 2024 is estimated to be IDR 473.0 trillion. The non-tax revenues policy in 2024 is primarily directed at, among others: (1) optimising the use of natural resources through improving policies, improving management, and increasing added value, while still paying attention to environmental sustainability (e.g. reduce illegal economic activities related to natural resources extraction); and (2) strengthening governance and increasing synergy (e.g. utilise public assets and integrate within the government institutions).

Furthermore, increasing the quality of spending is aimed at supporting structural reforms and anticipating global uncertainties (fiscal buffers). This policy is carried out both through central government spending and transfers to regions.

Sources: [Ministry of Finance \(Oct 2023\)](#), [CNBC \(Oct 2023\)](#)

6. State Budget

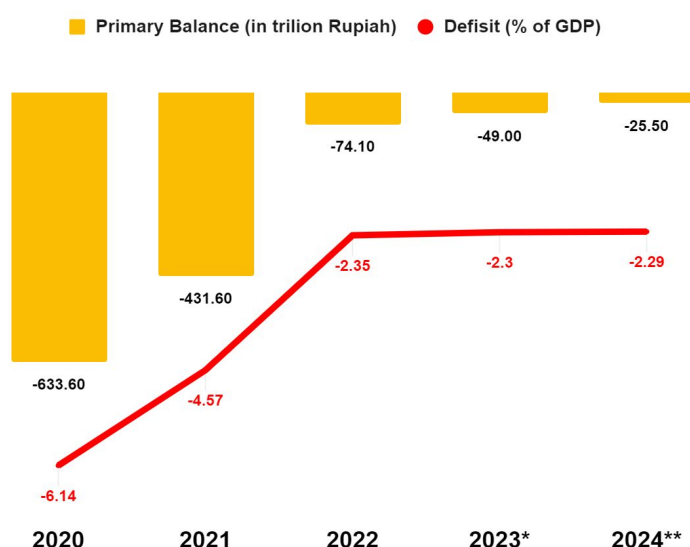
The central government spending policy, with a value of IDR 2,446.5 trillion, is primarily aimed at supporting economic transformation for short, medium, and long-term targets. This includes encouraging targeted subsidies and the effectiveness of social protection programs, as well as increasing the efficiency of spending to promote economic growth, equitable development, job creation, poverty alleviation, and the reduction of disparities between groups and regions.

On the other hand, **transfers to regions amounting to IDR 857.6 trillion are primarily directed at three key objectives:** (1) enhancing the synergy of central and regional fiscal policies and harmonising central and regional spending; (2) improving the quality of TKD management by strengthening the implementation of the Law on Financial Relations between the Central Government and Regional Governments (UU HKPD/Undang-Undang Hubungan Keuangan Antara Pemerintah Pusat dan Pemerintah Daerah) in a directed, measurable, accountable, and transparent manner, and promoting the use of information technology; and (3) strengthening TKD earmarking in priority sectors to support the acceleration of economic transformation.

The budget financing in 2024 is estimated at IDR 522.8 trillion. The budget financing policy, in the context of covering the budget deficit, is implemented through measures to maintain debt financing within safe and manageable limits, as well as optimising non-debt financing. The debt financing policy aims at: (1) prudent and flexible debt management; (2) debt cost efficiency through the development and deepening of financial markets; and (3) selective loans to encourage infrastructure provision and technology transfer. Meanwhile, the non-debt financing policy is executed through effective investment financing to support economic transformation by empowering public service agencies (BLU/Badan Layanan Umum), state-owned enterprises (BUMN/Badan Usaha Milik Negara), Special Mission Vehicles (SMV), and the Sovereign Wealth Fund (SWF), as well as optimizing the use of surplus budget (SAL/Saldo Anggaran Lebih) to anticipate uncertainty.

The budget deficit is expected to be at a level of 2.29% of GDP to encourage structural reforms in order to accelerate economic transformation through spending that focuses on economic development.

Figure 19. 2024 State Budget Draft Figure



Sources: [Ministry of Finance \(2023\)](#)

Figure 20. 2024 State Budget Draft Focus

Optimising the distribution and stabilising of APBN which is focused on controlling inflation, eliminating extreme poverty, reducing the prevalence of stunting, and increasing investment.

Optimising the APBN allocation function which is focused on strengthening the quality of human resources, accelerating infrastructure development and encouraging high added value economic activities through the downstreaming of natural resources, as well as strengthening institutional reform and simplifying regulations.

Continuing holistic fiscal reform, including optimising state revenues while maintaining the investment climate, improving spending quality to support strengthening structural reforms and anticipating global uncertainty, as well as maintaining debt financing within safe and manageable limits and optimising non-debt financing.

7. Trade

7. Trade

In Q3, Indonesian trade showed marginal improvement as the trade balance recorded an increase of 0.52% from the previous quarter, resulting in a positive trade surplus of USD 7.85 billion. This marginal growth was attributed to a slight increase in exports, which exceeded the minor increase in imports. Barring any major trade shocks and disruptions, the positive trade balance and growth are expected to continue for Q4, as the combined October and November trade balance currently stands at USD 5.89 billion, continuing the consecutive trade surplus for 43 straight months.

Despite a slight improvement in quarterly growth, Indonesia's trade balance experienced a 46.2% YoY decrease, suggesting stabilisation and deceleration after the post-COVID recovery surges in trade activity. This is evident from the surge in trade surpluses reaching USD 14.86 billion in Q3 2022 (recording an all-time peak in Q2 2022), depicting a drastic YoY increase of 44.4% compared to Q3 2021.

Factors such as a possible economic slowdown in China, Indonesia's most important trade partner, have also contributed to a decelerating trade outlook. This declining trade outlook aligns with the prevailing global trend, as the United Nations forecasts a 5% reduction in the global trade of goods valued at nearly USD 2 trillion in 2023, amidst factors such as geopolitical tensions, commodity price volatility, and increasing protectionism. Despite this pessimism, there is still some room for optimism as Indonesia has recently been active in negotiating bilateral trade agreements with important trade partners such as the EU and Japan.

Figure 21. Indonesia Quarterly Trade Balance 2021-2023

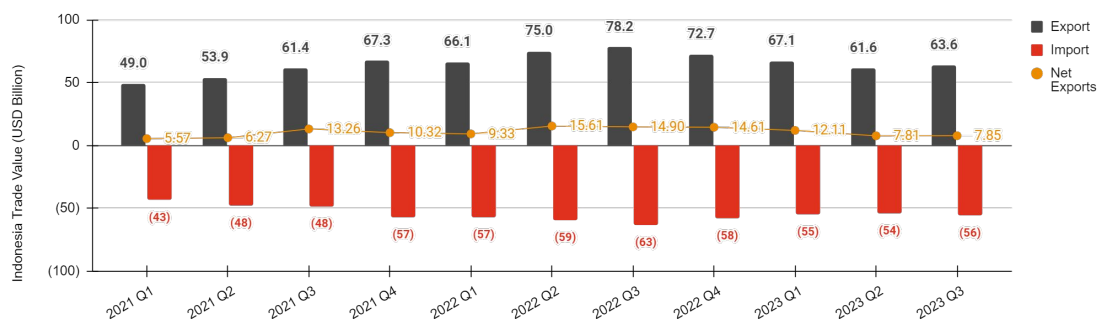


Figure 22. Top 5 Non Oil and Gas Exports in Q2 2023

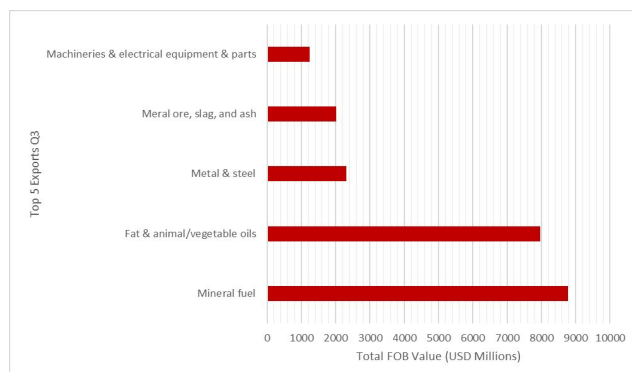


Figure 23. Indonesia Top 5 Non Oil and Gas Trade Partners in Q3 2023

Export				
China \$15.48B	USA \$5.99B	India \$5.17B	Japan \$4.31B	Malaysia \$2.56B
Import				
China \$15.69B	Japan \$4.05B	USA \$2.61B	Thailand \$2.46B	South Korea \$2.40B

The majority of non-oil & gas exported goods are concentrated within the mineral fuels sector, mainly composed of coal, demonstrating exposure to commodity-oriented price volatility. The commodity category of fats and oils was the second-largest export, followed by metal and steel. Indonesia's largest export destinations in Q3 include China (USD 15.48 billion), the USA (USD 5.99 billion), and India (USD 5.17 billion).

Significant imports include high-tech manufactured goods such as mechanical machinery/equipment, electrical machinery/equipment, and raw materials such as iron and steel. In Q3, Indonesia became a net importer from China as the three largest suppliers of non-oil and gas imports during Q3 2023 were China (USD 15.69 billion), Japan (USD 4.01 billion), and the USA (USD 2.61 billion).

8. Sectoral Spotlight

8.1. Travel and Tourism Sector

As of October 2023, the number of domestic tourism trips amounted to a cumulative total of 688.8 million, showing a 12.0% growth (YoY) from the same period last year. Relative to the 1.2 to 1.4 billion trips targeted by the Ministry of Tourism and Creative Economy for this year, only 49.2% to 57.4% of this year's target has been reached. However, despite the overall declining trend in 2023, the number of domestic tourism trips in October 2023 is 16.8% higher than the 2019 pre-COVID-19 figure for the same period.

Furthermore, domestic tourism is still dominated by Java, as the top three provinces for both the origin (contributing 55.7%) and destination (contributing 56.4%) of domestic tourism in Q3 2023 are East Java, Central Java, and West Java. Therefore, the majority of domestic tourism trips circulate within Java island.

Figure 24. Number of Domestic and International Tourism Trips to Indonesia (Jan - Oct 2023)

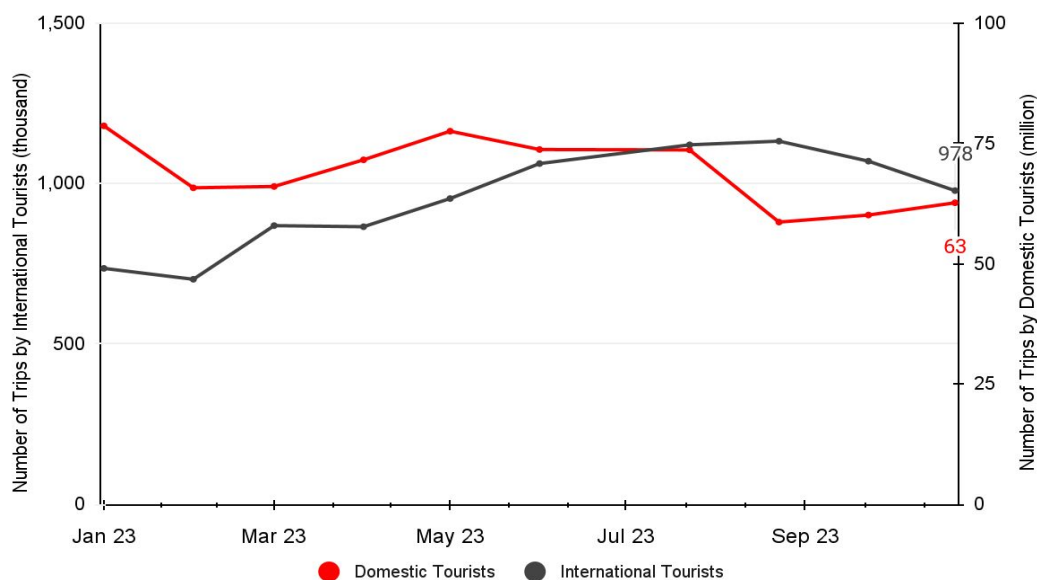
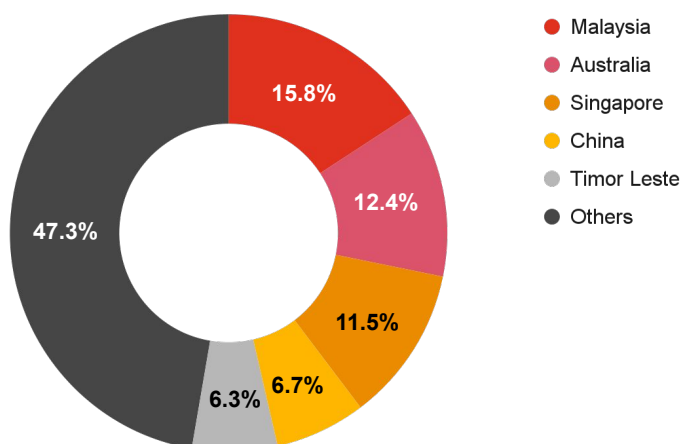


Figure 25. Indonesia Top 5 International Tourist by Nationality (Jan to Oct 2023)



On the other hand, international tourism shows an overall increase throughout 2023 due to the global recovery from the COVID-19 pandemic. A breakdown of international tourists by nationality shows the neighbouring countries of Indonesia, such as Singapore and Malaysia, as the top contributors to international tourism in Indonesia, alongside Australia.

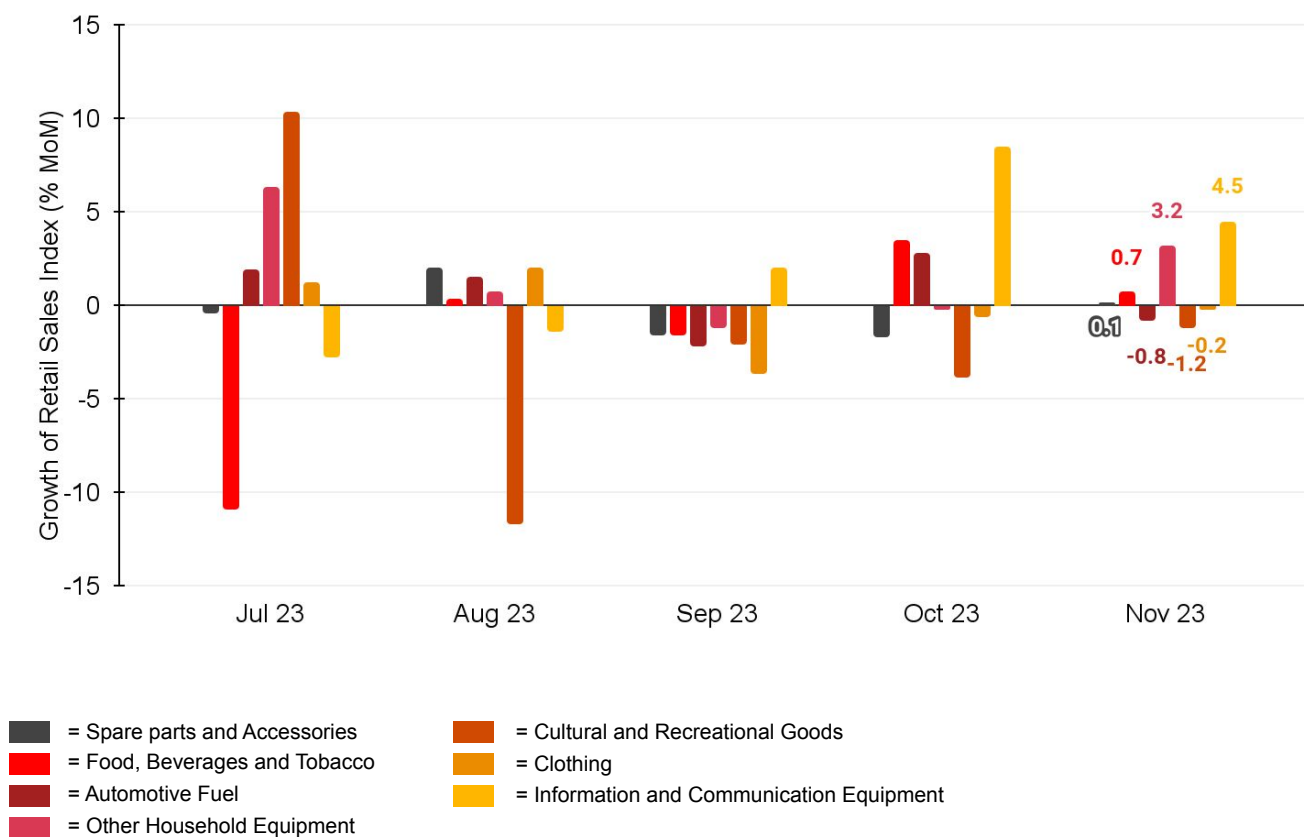
Source: [BPS \(Oct 2023\)](#), [Berita Satu \(2023\)](#)

8. Sectoral Spotlight

8.2. Retail Sector

Bank Indonesia reported that the MoM and YoY growth of the retail sales index in November was 0.9% and 2.9%, respectively, while the overall Q3 2023 growth of the index was -0.2% compared to Q2 2023. The low growth in Q3 may be due to the end of school holidays in August and September, resulting in lower spending from households. However, retail sales are expected to pick up in December due to the Christmas and end-of-year festive seasons.

Figure 26. Growth of Retail Sales Index (% MoM)



The substantial increase in the retail sales index for November was significantly driven by the Information and Communication Equipment sector at 4.5% and the Other Household Equipment sector at 3.2% month-on-month (M-o-M), respectively. Conversely, some categories exhibited negative growth in November 2023, such as Cultural and Recreational Goods, as well as Automotive Fuel at -1.2% and -0.8% M-o-M, respectively.

The General Chair of the Indonesian Retail Entrepreneurs Association ("Aprindo") expressed optimism that retail growth in 2023 would surpass 4%, exceeding the 2022 growth range of 3.8% to 3.9%. However, this growth is contingent on the national economic situation. Any surge in inflation may impact the prices of raw materials and retail selling prices, potentially diminishing consumer purchasing power and retail sales.

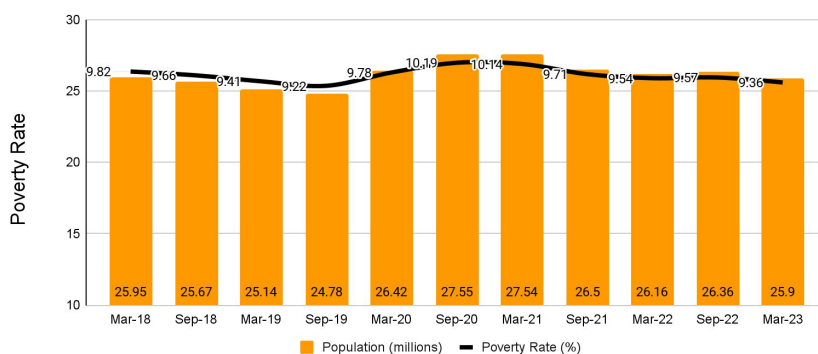
9. Development

9. Development

In 2023, Indonesia has demonstrated significant progress in development, with a noteworthy 3.66% yearly increase in real GDP per capita, reaching IDR 11,899,000. Additionally, the Human Development Index (HDI) has risen to 74.39 from 72.91 in 2022. The country has virtually eradicated extreme poverty, achieving a rate of 1.5% in 2022. Positive trends in social indicators related to health and education further reflect ongoing development progress, including a slight increase in life expectancy to 73.93 years and expected years of schooling to 13.15 years.

Despite these achievements, certain indicators reveal lagging development. In March 2023, an estimated 25.9 million people were living in poverty, equal to a poverty rate of 9.36% of the population. This marks a marginal year-on-year decrease of 0.99%, down from 26.16 million in March 2022. Although the decrease in the poverty rate can be attributed to government efforts, such as the targeted fiscal stimulus and increased social assistance in response to COVID-19, the figure remains slightly higher than pre-pandemic levels of 9.22% in September 2019. This suggests that Indonesia still has room for improvement in alleviating poverty to baseline levels. Furthermore, poverty is primarily concentrated in rural areas.

Figure 27. Indonesia Bi-Annual Poverty Rate



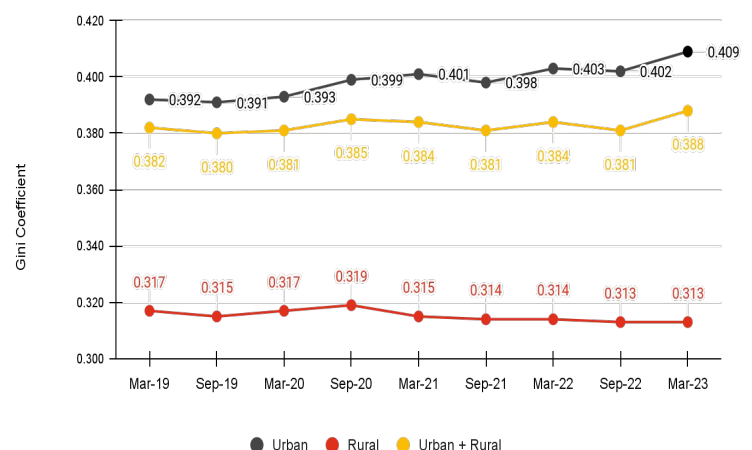
Key Indicators in Development

Year	GDP Per Capita (IDR thousands)	Human Development Index ("HDI")	Life Expectancy (years)	Expected years of schooling
2022	11,479	73.77	73.70	13.10
2023	11,899	74.39	73.93	13.15

The Gini coefficient measures income distribution in a society, with values closer to 1 indicating less equality and values closer to 0 indicating a more equal distribution. In Indonesia, rural areas generally have a lower Gini coefficient than urban areas, suggesting a more equal income distribution due to a smaller proportion of the population with high incomes. However, these areas may be poorer overall. The combined Urban and Rural Gini Coefficient increased by 0.007 points to 0.388 from September 2022 to March 2023, indicating that economic growth has not been balanced across the entire population.

Indonesia is making progress in enhancing the overall quality of life for the majority of its citizens. However, there is still room for further improvement.

Figure 28. Bi-Annual Gini Coefficients Rural and Urban



Contacts and Services



Julian Smith
Director
PwC Indonesia
smith.julian@pwc.com



Denny Irawan
Head of Research and
Economics
PwC Indonesia
denny.irawan@pwc.com



Radhiyan Irwansyah
Senior Economist
PwC Indonesia
radhiyan.irwansyah@pwc.com



Hansel Tanuwijaya
Knowledge Management and
Insight Lead
PwC Indonesia
hansel.tanuwijaya@pwc.com



Raihan Pradhana
Economist
PwC Indonesia
raihan.pradhana@pwc.com



Manuel Andi
Economist
PwC Indonesia
manual.andi@pwc.com

PwC Indonesia Economics and Policy (“E&P”) Advisory - Range of Services

Demand Analysis	Macroeconomic Forecasting
Economic Impact Assessment	Policy/Regulatory Impact Assessment
Cost-Benefit Analysis	Policy and Investment Environment Review
Value-for-Money (“VFM”) Analysis	Market Study
Feasibility Study / Business Case	Economic and Trade Simulation and Modelling
Good and Economic Governance	Other Bespoke Forecasting and Analysis



www.pwc.com/id

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC Indonesia, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

The documents, or information obtained from PwC, must not be made available or copied, in whole or in part, to any other persons/parties without our prior written permission which we may, at our discretion, grant, withhold or grant subject to conditions (including conditions as to legal responsibility or absence thereof).

PwC Indonesia is comprised of KAP Tanudiredja, Wibisana, Rintis & Rekan, PT PricewaterhouseCoopers Indonesia Advisory, PT Prima Wahana Caraka, PT PricewaterhouseCoopers Consulting Indonesia, and PwC Legal Indonesia, each of which is a separate legal entity and all of which together constitute the Indonesia member firm of the PwC global network, which is collectively referred to as PwC Indonesia.

© 2023 PwC. All rights reserved.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see <http://www.pwc.com/structure> for further details.