Macro Brief
Office of Chief Economist
WORLD ECONOMIC OUTLOOK - IMF

26 July 2023

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.60
Inflation (% yoy, avg)	4.21	4.62
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.99	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

Key Rates (%)	Dec-22	Jul-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.28
Fed Funds Rate	4.50	5.25
ECB Rate	2.50	4.00
BoE Rate	3.50	5.00
BoJ Rate	-0.10	-0.10

**) as of 25-Jul-23*

Source: Bloomberg

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IMF upwardly revises its global GDP forecast for 2023

In the context of year 2023, the global economy is anticipated to exhibit a substantial reliance on services sector.

- According to the World Economic Outlook (WEO) report released by the International Monetary Fund (IMF) in Jul-23, there is an upward revision to the global GDP growth forecast for 2023. The growth projection is raised by 0.2 ppt, from 2.8% to 3.0%. Concurrently, the 2023 global inflation forecast is slightly lowered from 7.0% to 6.8%.
- Despite facing various challenges recently, the global economy displayed remarkable resilience in 1Q23, largely driven by the service sector. Notably, the end of COVID-19 pandemic resulted in increased public mobility, bolstering the service sector. Several developed nations, including the US and Japan, continue to witness expansion in their non-manufacturing sector PMI. Additionally, tourism-dependent countries in Europe contribute positively to the promising outlook of the service sector.
- However, the consumption of goods experienced a decline, signalling a weakening manufacturing sector. On the supply side, firms have been scaling back their investments due to the challenging financial environment caused by high interest rates imposed by major central banks, leading to a slowdown in productivity.
- Consequently, world trade volume experiences a significant downward revision of 0.4 ppt, thus projected to have a sharp decline from 5.2% in 2022 to only 2.0% in 2023. This shift aligns with the changing dynamics of global demand, as economies increasingly focus on domestic service sector. Moreover, the lagged effects of USD appreciation are also expected to further dampen international trade activities.
- Looking ahead to year 2024, the projection for global GDP growth is unchanged at 3.0%, while global inflation is revised up by 0.3 ppt, from 4.9% to 5.2%.

Advanced economies are exhibiting a relatively better economic performance, surpassing earlier expectations.

- The US GDP growth outlook for 2023 has been upwardly revised, now standing at 1.8%, compared to the previous projection of 1.6%. Recent developments indicate that the Fed continues its efforts to combat stubborn inflation, which persists significantly above the target. To achieve this, the Fed has been steadily increasing its benchmark rate, FFR. The tight labour market conditions have triggered wage-price spirals, wherein prices and wages accelerate simultaneously, further reinforcing the robustness of consumption growth.
- Likewise, the Euro Area is also estimated to experience a higher growth rate of 0.9% in 2023, surpassing the previous projection of 0.8%. This encouraging development can be attributed to improved economic

performance in countries heavily reliant on the service and tourism sectors, such as Italy and Spain.

- As a whole, the outlook for 2023 GDP growth across advanced economies has been favourably revised by 0.2 ppt, now reaching 1.5%, compared to the earlier projection of 1.3%. This upward adjustment reflects the underlying strength and resilience displayed by these nations.

An improved forecast is also observed for emerging market and developing economies (EMDE) for year 2023.

- The GDP growth projection for this group has been marginally revised upwards, now standing at 4.0%, compared to the previous estimate of 3.9%. This positive adjustment is primarily driven by the favourable performance of tourism-dependent economies in developing southern European countries.
- Yet, the economic outlook for China remains unchanged, with a projected GDP growth rate of 5.2%. Notably, China's manufacturing activity has exhibited a decelerating trend, accompanied by weaker-than-anticipated consumption and challenges in the ailing real estate sector. However, these unfavourable aspects have been counteracted by significant policy stimulus measures undertaken by Chinese officials. As part of their efforts to fortify the economy, the PBoC has cut its benchmark interest rate.

Indonesia's economic trajectory is seen to undergo a phase of stagnation from 2023 to 2024.

- The economic projection for year 2023 remains unaltered, standing at 5.0%. This stability is congruent with the consistent projections observed in other ASEAN peer countries, with Malaysia at 4.5% and Thailand at 3.4%.
- Looking ahead to 2024, the GDP forecast for Indonesia has been subject to a downward revision of 0.1 ppt, now resting at 5.0%.

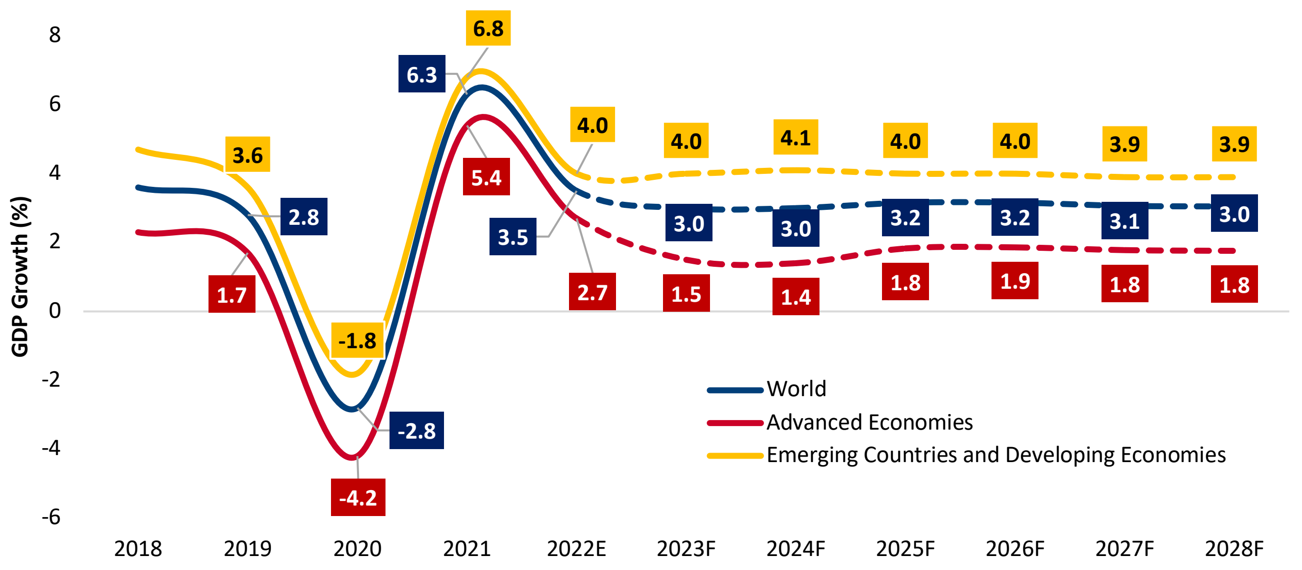
OUR VIEW: We keep expecting Indonesia’s economy to remain resilient in these challenging times.

- In year 2023, the global economy is anticipated to experience a deceleration compared to previous year. However, a recent report by the IMF suggests that the extent of this slowdown might not be as severe as initially feared. As Indonesia is a small-open economy, it is not immune to the potential repercussions of this global deceleration. Nevertheless, we anticipate that Indonesia's GDP will find more substantial support from its domestic sectors, as the global economic landscape remains shrouded in uncertainties.

- Household consumption in Indonesia is expected to play a pivotal role in bolstering GDP expansion in 2023. With the revocation of the COVID-19 pandemic status, public mobility is likely to have increased, which would further stimulate consumption. Additionally, leading indicators point towards the resilience of consumption, and we foresee this trend continuing throughout the rest of the year.

- Furthermore, the Indonesia’s government is expected to expedite its spending initiatives, particularly in pro-growth sectors such as infrastructure and capital investments, as well as expenditures related to the preparation for the 2024 National Election. These efforts are likely to have a positive impact on gross fixed capital formation (GFCF) to some extent. However, it is worth noting that Indonesia's foreign direct investment has displayed a softer growth trajectory, mainly due to the wait-and-see approach adopted by investors in light of the political year.
- *All considered, our projection for Indonesia's economic growth remains steady at 5.04% for 2023 and 5.03% for 2024. Our forecast is relatively aligned with the IMF's forecast outlined in the Jul-23 WEO report, which also expects the Indonesian economy to expand by 5.0% in both 2023 and 2024.*

Global Economic Growth



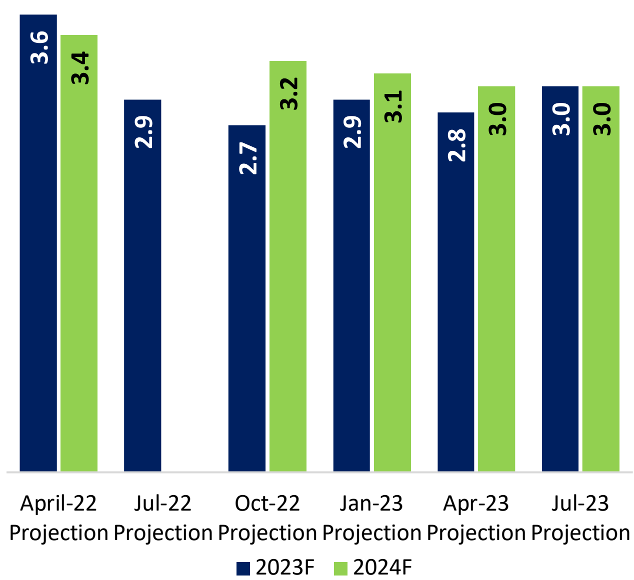
Source: International Monetary Fund

Global Economic Projection

% growth for Jul-23, ppt change for Apr-23	Jul-23 WEO		Difference from Apr-23 WEO	
	2023F	2024F	2023F	2024F
World	3.0	3.0	0.2	0.0
Advanced Economies	1.5	1.4	0.2	0.0
Emerging Market and Developing Economies	4.0	4.1	0.1	-0.1
World Trade Volume	2.0	3.7	-0.4	0.2
Inflation	6.8	5.2	-0.2	0.3

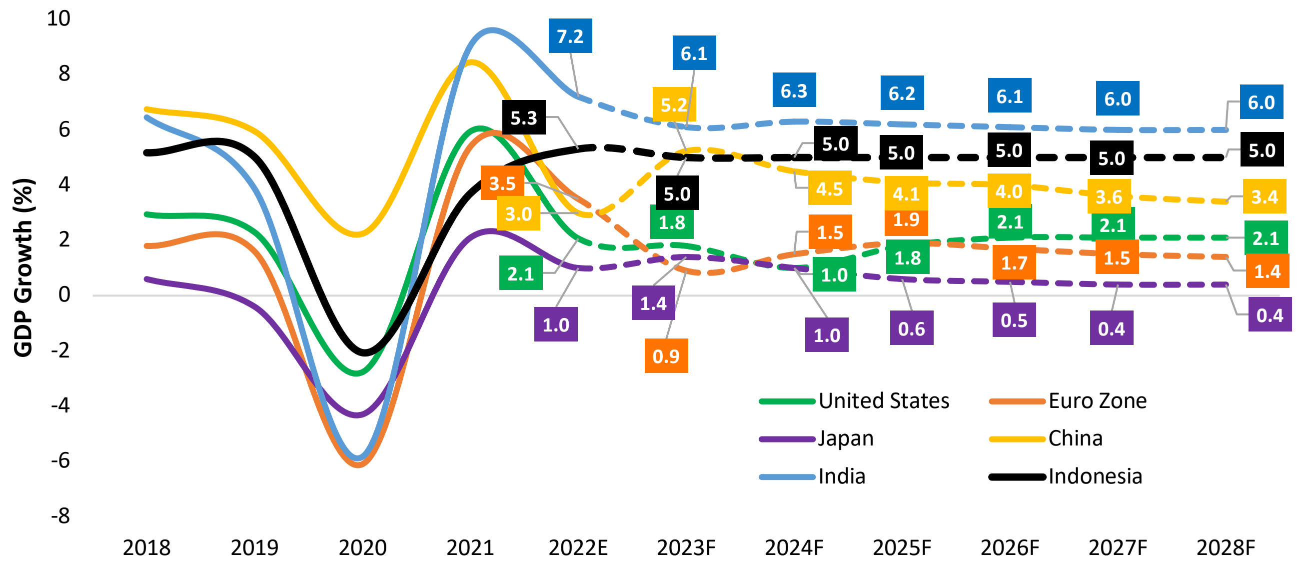
Source: International Monetary Fund

Global Inflation



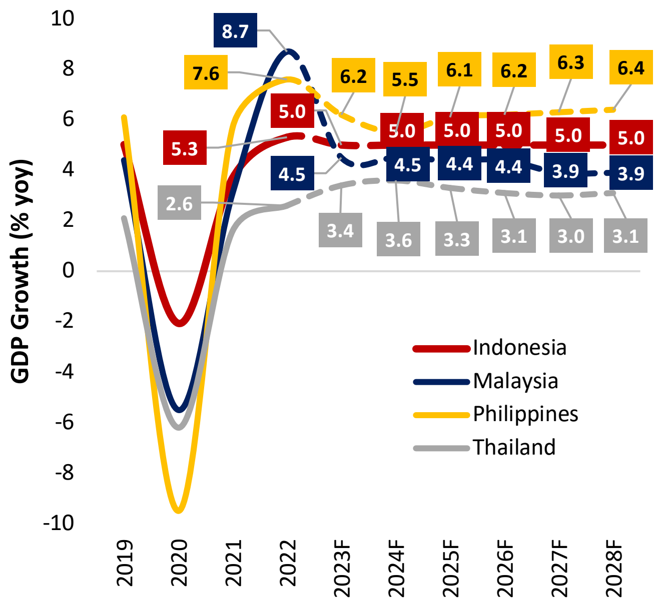
Source: International Monetary Fund

Major Countries' Economic Growth Comparison



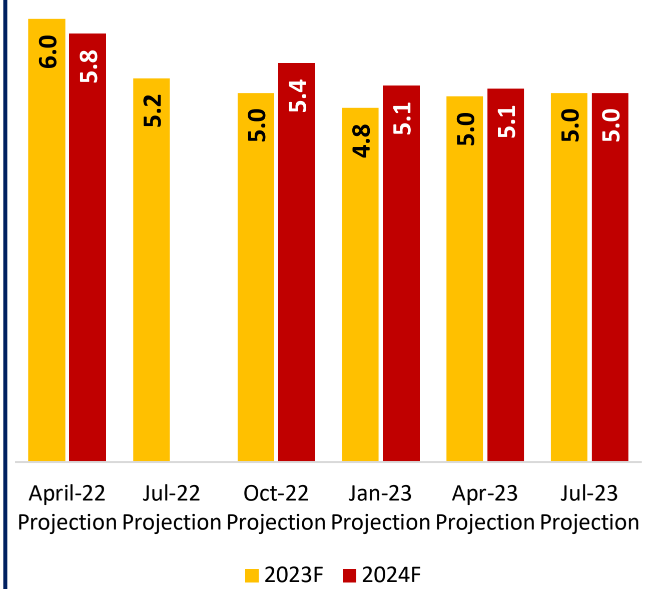
Source: International Monetary Fund

Indonesia vs. ASEAN Peers



Source: International Monetary Fund

Indonesia Economic Projection



Source: International Monetary Fund

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