



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
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Indonesia: economic and trade update

MARKET INTELLIGENCE REPORT

Summary

- Indonesia's economy grew by 5.04 percent in the year ending September 2023. Its year-on-year inflation rate in November 2023 was 2.86 percent, and the unemployment rate in August 2023 was 5.32 percent.
- Indonesia is now New Zealand's 10th largest export market destination (down from 8th) but retained its position as 12th highest for two-way trade, valued at NZ\$3.26 billion (down from NZ\$3.42 billion in the year ended September 2022).
- In the education sector, Indonesia remains New Zealand's 10th largest international student market, and Education New Zealand has launched a number of initiatives to increase Indonesian student numbers in New Zealand and build partnerships between New Zealand and Indonesian education institutions and government bodies.

Report

We report on Indonesia's current economic indicators and its economic outlook in 2024.

Healthy economic growth...

Indonesia's economy grew by 5.04 percent in the year ending September 2023. According to the Coordinating Minister for Economic Affairs, Airlangga Hartarto, the government plans to boost spending in the final quarter of the year in the hopes of reaching its 5.3 percent growth target for the full 2023 year. Due to the negative impacts of the global economy on Indonesian exports, analysts project that Indonesia's GDP growth is likely to be around 5.0 percent for this year.

Indonesia's year-on-year inflation rate in November 2023 was 2.86 percent, with a Consumer Price Index of 116.08 (compared to 112.85 in November 2022). The inflation rate is in line with the Government's inflation target of 3.0 percent \pm 1 percent in 2023. Increases in the prices of food, beverages and tobacco largely contributed to inflation, and the dominant commodities were rice, broiler chicken meat, garlic, red chili, bird's eye chili, sugar, oranges, and cigarettes.

The unemployment rate in Indonesia has been trending downward for the past three years. In August 2023, the unemployment rate was at 5.32 percent (compared to 5.86 percent in 2022).

Indonesia's latest manufacturing Purchasing Managers' Index (PMI) reading of 52.93 percent, as recorded by Bank Indonesia in the third quarter of 2023, points to increasing manufacturing industry performance. Indonesia outperforms major countries and is one of the few countries with accelerating PMI. Looking ahead, Indonesian businesses expect manufacturing industry performance to remain in an expansionary phase.

During the first half of 2023, Indonesia recorded US\$23 billion in foreign investment and US\$20.4 billion in domestic investments. In that period, Singapore became Indonesia's largest foreign investor (US\$7.7 billion), followed by China (US\$3.8 billion), Hong Kong (US\$3.5 billion), Japan (US\$2 billion), and the US (US\$1.6 billion). Notable sectors that attracted major foreign investment were: 1) basic metal/nickel mining; 2) transportation, and telecommunications; 3) coal and gold mining; 4) housing, industrial zones, and office space; and 5) chemicals and pharmaceuticals.

...but exports of goods are weakening and trade balance surplus is narrowing

Indonesia's export of goods slowed due to weaker global demand and falling commodity prices, but its services exports increased due to the recovery of foreign tourism (albeit from a low base). Because Indonesia's imports also slowed down at about the same pace as exports, Indonesia's trade balance has remained in surplus. Although the trade balance has remained in surplus, data suggests that the surplus gap is narrowing.

Ahead of the February 2024 national election, Indonesia's economic growth is expected to remain stable, supported by strong domestic demand (i.e. consumption, investment and government spending), and the strengthening of the rupiah stabilisation policy. According to analysts, domestic demand is progressively taking over from commodity exports as the driver of Indonesia's economic growth.

The 2024 State Budget as a shock absorber/fiscal instrument

It is expected that the Indonesian Government will consistently support domestic economic growth by providing stimulus to withstand the effects of global economic shocks. According to President Joko Widodo, "the direction and policy strategy of the 2024 State Budget were designed to encourage structural reforms in order to accelerate economic transformation". The 2024 State Budget has a fiscal deficit target equal to 2.29 percent of GDP, and a government spending allocation of NZ\$349.1 billion (14.6 percent of Indonesia's anticipated GDP).

The Government spending allocation for the 2024 fiscal year was higher than 2023 across the board, with education (NZ\$69.4 billion) and infrastructure (NZ\$44.4 billion, including NZ\$4.3 billion for the new capital city) getting the highest share of the increase at 7.9 percent and 7.8 percent respectively. The remainder of the allocation included NZ\$51.9 billion for social protection, NZ\$19.5 billion for health, NZ\$11.4 billion for food security, and NZ\$4 billion for the national election.

According to Finance Minister Sri Mulyani, the 2024 State Budget is designed to strengthen the quality of human resources, strengthen infrastructure development, increase the added value of natural resources, and strengthen deregulation and institutions, as well as to achieve four big goals in 2024: 1) Elimination of extreme poverty; 2) Reducing stunting; 3) Increasing investment; and 4) Controlling inflation.

Bilateral trade update

Indonesia is now New Zealand's 10th largest export market destination (down from 8th) but has retained its 12th ranking for total (two-way) trade value. New Zealand goods and services exports for the year ended September 2023 were worth NZ\$1.77 billion. Together with imports worth NZ\$1.49 billion, this represents a total trade value of NZ\$3.26 billion (compared to NZ\$3.42 billion in the year ended September 2022). The top imports from Indonesia to New Zealand can be found [here](#).

Dairy remains the top export to the Indonesian market for the year ended September 2023, followed by albuminoids, wood pulp and recovered paper/paperboard, meat and bone meal, and travel.

The dairy-related food and beverages industry in Indonesia has experienced significant growth in demand for milk and dairy products due to changing consumer habits and population growth. However, domestic fresh milk production is limited, with only fourteen companies absorbing domestic fresh milk supply, leading to a shortage in national milk production. The demand for milk ingredients is approximately 3.85 million tonnes, while domestic milk supply is only 0.85 million tonnes, resulting in the need to import 3 million tonnes of dairy products and ingredients.

New Zealand accounts for 43.4 percent of total dairy exports to Indonesia. As of August 2023, dairy exports were 10 percent lower than the corresponding time period in 2022. Significantly, while dairy imports are lower than in 2022, they were still 85 percent higher than the corresponding time period in 2021, reflecting a strong positive trend in demand for New Zealand dairy products.

The Indonesian retail and foodservice dairy market is expected to continue growing, driven by retail sales and the rebound of the food service sector. Market forecasts indicate that demand for milk products will grow by 5.84 percent from 2023 to 2028, reflecting the increasing appetite for, and familiarity with dairy products in Indonesia.

Education sector

In the international education sector, Indonesia remains New Zealand's 10th largest international student market, and Education New Zealand has launched a number of initiatives to increase Indonesian student numbers in New Zealand and build partnerships between New Zealand and Indonesian education institutions and government bodies.

On 1-2 August 2023, all eight New Zealand Universities (supported by Education New Zealand) attended the Indonesian Endowment Fund for Education (LPDP) Fair in Jakarta and a Memorandum of Understanding/Letter of Intent (arrangement) was signed between all eight New Zealand Universities and LPDP.

In 2023, IISMA (the Indonesian International Student Mobility Awards - a flagship programme that aims to boost Indonesian students' international exposure by facilitating awardees to study for a semester abroad) selected five New Zealand tertiary institutions as IISMA programme partners and sixty-six IISMA awardees were hosted in New Zealand. In 2024, Education New Zealand will continue to work with both IISMA and the New Zealand education sector to encourage the submission of proposals to be part of the IISMA programme.

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