

## Balance of payments:

# Returns to surplus, but will it last?

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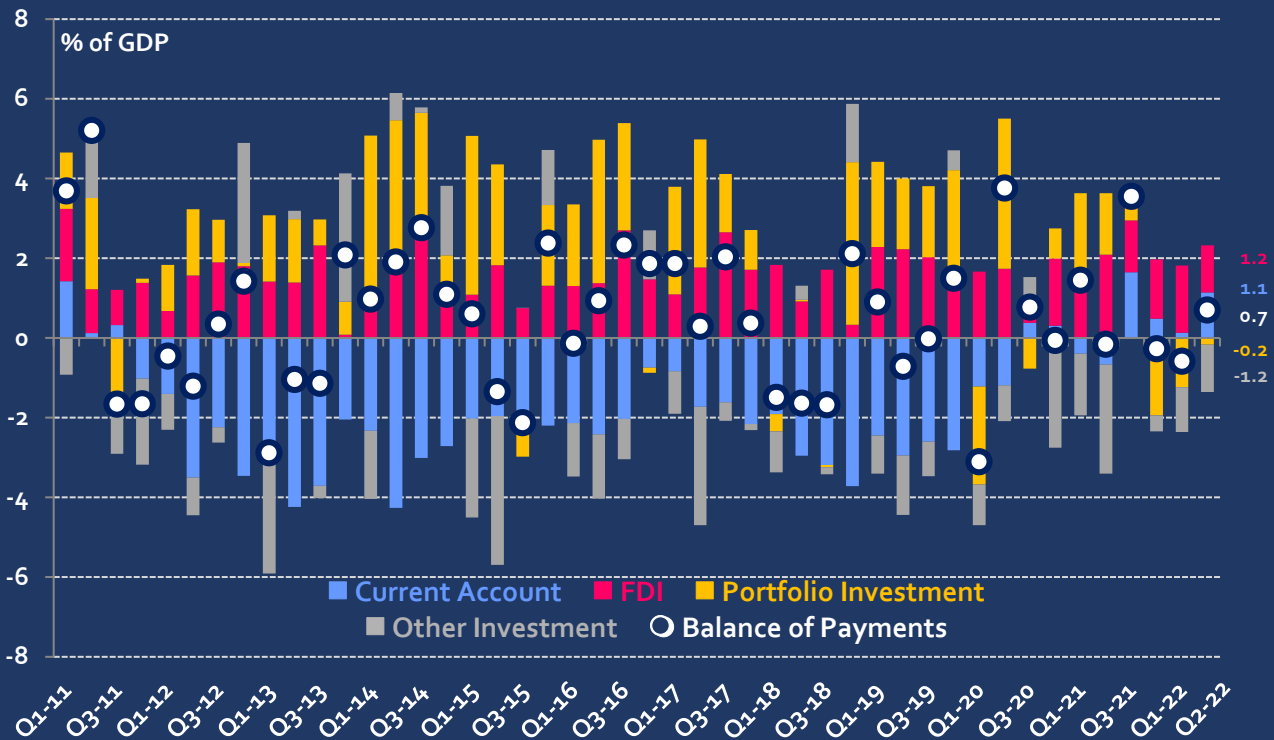
### Executive Summary

- Indonesia's balance of payments (BoP) registered a surplus of USD 2.4 Bn in Q2-22, driven by improvements in the current account (CA) and the financial account (FA).
  - While the commodity windfall after the Russo-Ukrainian war helped bolster the CA figure in Q2-22, the recent commodity crash could send the CA in the opposite direction in H2-22.
  - Uncertainties with regard to the FA would also likely persist, as there is no guarantee that the Fed would slow down the pace of tightening if inflation remains high.
  - There seems to be a degree of confidence from BI to maintain interest rates, but this could lead to further Rupiah depreciation in the medium term.
- Indonesia's balance of payments (BoP) registered a surplus of USD 2.4 Bn in Q2-22, driven by improvements in the current account (CA) and the financial account (FA) (**Chart 1**).
  - This of course, merely confirms what trade statistics and market indicators have been telling us over the previous months. Improvements in the current account lines up with the large trade surplus figures observed during Q2-22, bolstered by the commodity windfall Indonesia experienced after the onset of the Russo-Ukrainian war. However, the outsized figures were also slightly offset by rising imports (particularly due to elevated oil prices) and widening services and income deficits. The situation, however, seems to be reversing in the H2-22 with the falling prices for some of Indonesia's export mainstays. Even though some of this decline in earnings could potentially be offset by increasing demand for coal from some European nations, there is no guarantee that European demand could fully replace Chinese demand for coal. At the same time, China's demand for coal might be slowing down substantially amid China's relentless adherence to the zero-Covid policy, strict crackdowns of its property sector, and continued tensions with Taiwan. Since the commodity boom was what led to the outsized current account figure in Q2-22, the recent commodity crash could send our current account in the opposite direction in the second half of 2022.
  - The commodity boom in Q2-22 appeared to also have a domino effect on the financial account. Even though the Fed's aggressive interest hikes have led to capital outflows from the bond market throughout Q2-22, inflows into Indonesia's commodity-related stocks have counteracted some of the decline. Inflows into Indonesia's stock and bond markets also seem to be improving recently as investors have started to moderate their expectations for the Fed's rate hikes (**Chart 2**). But despite these seemingly rosy expectations, uncertainties are likely to persist.
  - For one, there is no guarantee that the Fed would slow the pace of tightening if US inflation remains high, even if it means slowing down the economy even more. Indeed, Fed officials have suggested

that they would likely see rate hikes continuing until inflation eases substantially (according to July's FOMC minutes). Furthermore, the Fed is set to double the rate at which it is shrinking its USD 8.9 Tn balance sheet in September from USD 47.5 Bn a month to USD 95 Bn a month. The Fed's hawkish resolve is further bolstered by the recent lower-than-expected jobless claims figure, combined with strong industrial production and resilient retail sales in July – which suggests that higher inflation is still not out of the picture.

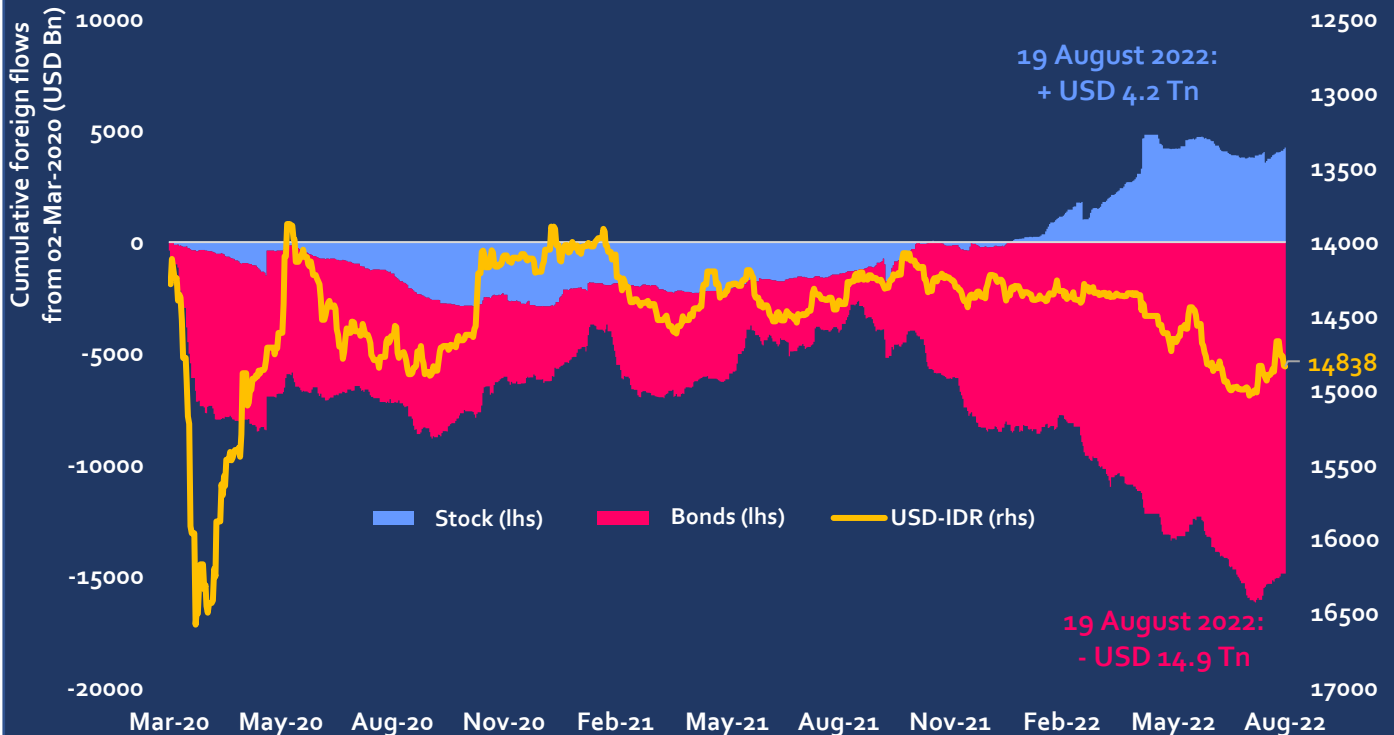
- The Rupiah's outlook for 2022 then, appears to be fraught with uncertainty as the financial account comes under pressure amid the likely scenario of the Fed's continued tightening. One of Rupiah's line of defense – the current account – is also weakening due to falling global commodity prices. On top of that, the government's recent unveiling of its subsidy budget for 2023 suggests that some measure of fuel price adjustments needs to be carried out next year, which would increase domestic inflation. But despite these risks, there seems to be a certain degree of confidence from BI that it does not need to raise interest rates too quickly. The government also seems to be quite optimistic about capital inflows into the bond market next year, evident from the fairly moderate 2023 government bond yield assumption of 7.9%. As such, a necessary trade-off between the BI7DRR and the Rupiah would likely occur in the coming months, where the policy rate will remain low but the Rupiah would depreciate even further.

**Chart 1. Improvements in the current account and financial account drove the surplus in July's BoP**



Source: Bank Indonesia  
Last update: Q2-2022

**Chart 2. Capital inflows into Indonesia seem to be improving recently as investors have started to moderate their expectations for the Fed's rate hikes**



Source: Bloomberg  
Last update: 19 August 2022

## Selected Macroeconomic Indicators

**Table 1. Balance of payments (current USD Million)**

	Q2-21	Q3-21	Q4-21	Q1-22	Q2-22	2019	2020	2021
<b>CURRENT ACCOUNT</b>	<b>-1,927</b>	<b>4,953</b>	<b>1,518</b>	<b>407</b>	<b>3,853</b>	<b>-30,279</b>	<b>-4,433</b>	<b>3,459</b>
<i>(as % of GDP)</i>	<b>8.77</b>	<b>8.64</b>	<b>7.76</b>	<b>6.97</b>	<b>6.41</b>	<b>-2.71</b>	<b>-0.42</b>	<b>7.76</b>
A. Goods	8,337	15,408	12,433	11,300	16,809	3,508	28,301	43,806
- Non-Oil/Gas	11,581	18,120	18,128	17,210	24,444	11,965	29,954	57,804
- Oil/Gas	-3,144	-2,508	-5,045	-5,696	-7,175	-10,319	-5,386	-12,965
B. Services	-3,705	-3,598	-3,955	-4,380	-4,967	-7,641	-9,755	-14,651
C. Income	-8,023	-8,274	-8,910	-8,007	-9,512	-33,775	-28,911	-31,961
D. Current Transfers	1,465	1,417	1,950	1,494	1,523	7,629	5,932	6,264
<b>CAPITAL TRANSACTIONS</b>	<b>4.91</b>	<b>9.96</b>	<b>63.00</b>	<b>0.88</b>	<b>3.04</b>	<b>39.06</b>	<b>36.91</b>	<b>80.08</b>
<b>FINANCIAL TRANSACTIONS</b>	<b>1,652</b>	<b>6,887</b>	<b>-2,164</b>	<b>-2,129</b>	<b>-1,085</b>	<b>36,564</b>	<b>7,884</b>	<b>12,147</b>
A. Direct Investment	5,398	3,378	3,838	4,368	3,064	20,531	14,142	17,106
B. Portfolio Investment	3,993	1,198	-5,023	-3,187	-424	21,990	3,369	5,072
C. Derivative Instruments	23.75	172.24	26.65	136.76	-86.05	186.40	17.73	332.71
D. Other Investment	-7,763	2,138	-1,005	-3,446	-3,640	-6,144	-9,645	-10,363
<b>NET ERRORS AND OMISSIONS</b>	<b>-180.22</b>	<b>-1,159.85</b>	<b>-260.99</b>	<b>-96.36</b>	<b>-381.84</b>	<b>-1,647.91</b>	<b>-891.30</b>	<b>-2,224.59</b>
<b>BALANCE OF PAYMENT</b> <i>(= change in BI international reserves)</i>	<b>-450</b>	<b>10,690</b>	<b>-844</b>	<b>-1,817</b>	<b>2,389</b>	<b>4,676</b>	<b>2,597</b>	<b>13,461</b>

## Indonesia – Economic Projections Table

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	3.7	5.1
GDP per Capita (US\$)	3877	3927	4175	3912	4350	4564
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	5.2
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.50
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,070
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	36.9
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	0.5

\*\* Estimation of Rupiah's fundamental exchange rate

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