

Balance of payments:

Mind the gap

Barra Kukuh Mamia
Senior Economist

18 November 2022

Executive Summary

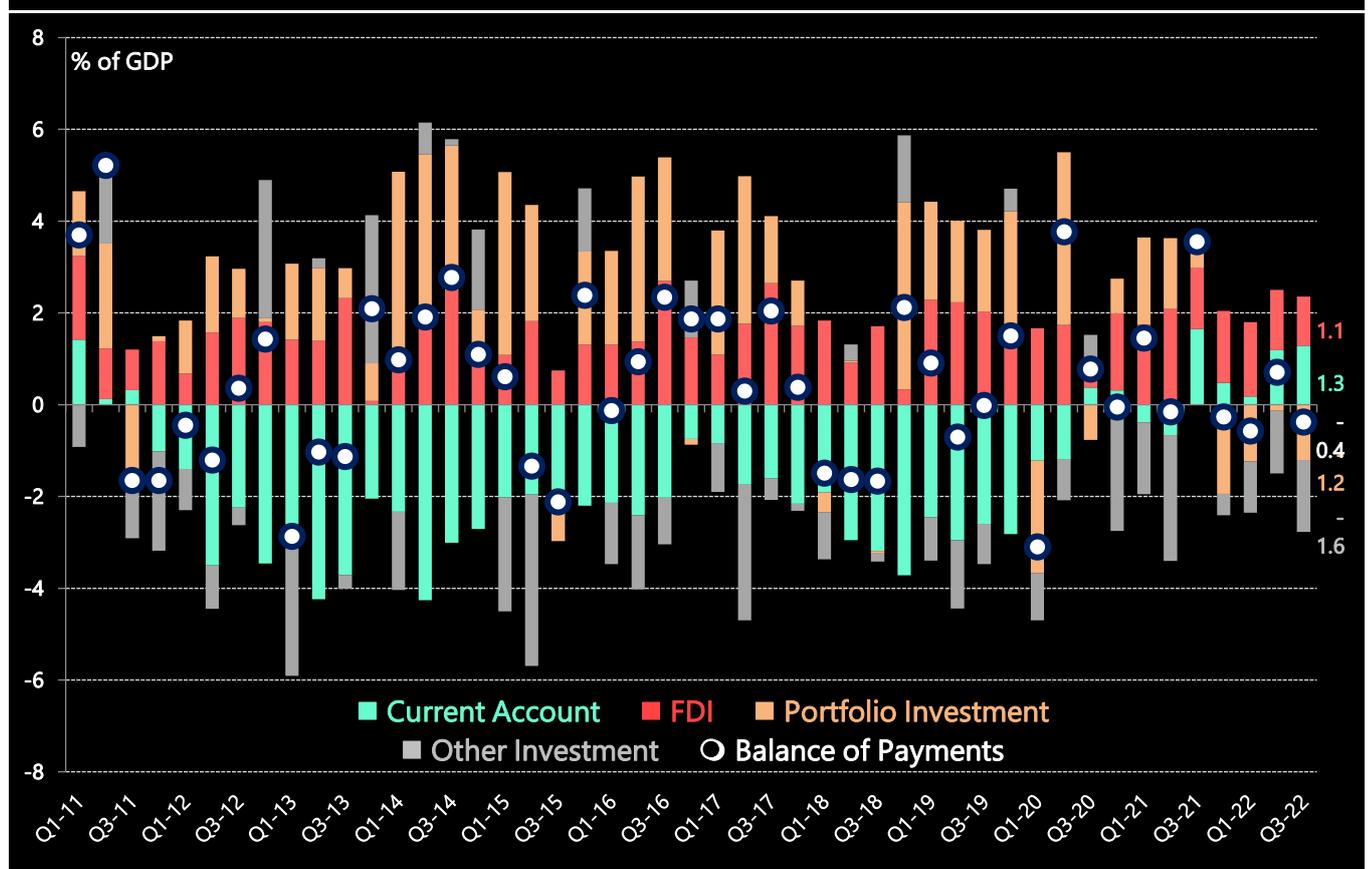
- The current account surplus reached USD 4.4 Bn (1.3% of the GDP) in Q3-22, thanks to strong increase in commodity exports.
- In spite of this, the Rupiah remained quite vulnerable, due to a combination of: (1) portfolio outflows as Fed hikes rates; (2) declining FX reserves valuation; (3) export receipts not flowing into domestic banks; and (4) FDI realization not translating into actual FX inflows.

- At 1.3% of the GDP (USD 4.4 Bn), the current account (CA) surplus in Q3-22 was the largest since Q3-21, when initial pangs of the global energy crisis sparked a huge rally in commodity prices. Of course, the latest surplus was driven by similar dynamics, with the Nordstream 2 shutdown (and later detonation) causing a massive jump in the prices of gas and coal.
- However, this CA surplus failed to support the Rupiah nor translate into a balance-of-payments (BoP) surplus. Instead, BI's FX reserves fell by USD 5.6 Bn during the period, ostensibly to defend the Rupiah. **There is thus a wide gap (of about USD 10 Bn) between lofty expectations of a self-financing Indonesian economy that could power through the global crisis, and the cold reality of BI and the government having to hunker down and adopt more defensive policies.**
- So let's dissect this gap. The first and most obvious component is portfolio investment, as **the Fed's rapid tightening sparked outflows** from both government and corporate bonds. This could narrow as narratives of a potential Fed pivot gain steam, but at the same time weaker inflation and energy prices could deflate sentiment on Indonesian corporates, leading to equity outflows.
- The second gap is between the reported reserves drawdown to offset the BoP deficit (USD 1.7 Bn) and the aforementioned 5.6 Bn decline in FX reserves. **This could be a reflection of two things: (1) BI going "above and beyond" in its market interventions, or (2) valuation decline of the securities that BI hold as reserves.** Given the modest reserves decline in October, we think that BI could be adopting a less aggressive intervention strategy, while (2) should ease as the decline in global bond valuations has slowed down since September.
- The third gap is one that we have often highlighted: **export receipts not flowing into the domestic banking system due to widening yield gap in USD interest rates.** It manifests itself in outbound/nostro bank deposit, in "net errors and omissions" which may reflect illicit

outflows, and most glaringly in outbound portfolio investment. The gap may narrow as BI cracks down on companies that fail to comply with its export receipts regulations, but part of it will likely persist along with the yield gap.

- Finally, there is a fourth gap: **that between reported FDI realization and actual monetary flows pertaining to FDI**, as we touched in a recent report (“Massive boom with some caveats”, November 11 2022). This is a new problem, or at least one that was relatively minor prior to 2021. It may well be a temporary issue, as investors are slow in executing their projects amid current circumstances. However, it may also be a structural issue if the recent batch of investors – many of them metals-related – tend to negotiate tighter financial control which would leave much of their cash flow (whether operational or investment-related) in their home countries and outside of the Indonesian banking system.
- **All these help to explain why the Rupiah has been under pressure despite the healthy CA surplus.** Since there is likely to be only a modest narrowing in these gaps during Q4-22, it affirms our projections for the year which is still bullish on CA despite the recent decline in coal prices (0.9% of GDP for FY 2022), but rather less bullish on the Rupiah. It also means that BI could maintain a tighter stance even after the Fed finally signals a pause in rate hikes. Mind the gap, indeed.

Chart 1. Despite continued CA surplus, capital outflows pushed BoP into a deficit



Source: Bank Indonesia

Last update: Q3-2022

Selected Macroeconomic Indicators

Table 1. Balance of payments (current USD Million)

	Q3-21	Q4-21	Q1-22	Q2-22	Q3-22	2019	2020	2021
CURRENT ACCOUNT	4,963	1,510	569	4,023	4,376	-30,279	-4,433	3,465
<i>(as % of GDP)</i>	8.64	7.76	6.97	6.41	5.72	-2.71	-0.42	7.76
A. Goods	15,408	12,433	11,301	16,797	17,515	3,508	28,301	43,806
- Non-Oil/Gas	18,120	18,128	17,210	24,445	25,160	11,965	29,954	57,804
- Oil/Gas	-2,508	-5,045	-5,694	-7,187	-6,589	-10,319	-5,386	-12,965
B. Services	-3,588	-3,963	-4,377	-4,942	-5,273	-7,641	-9,755	-14,644
C. Income	-8,274	-8,910	-7,849	-9,355	-9,275	-33,775	-28,911	-31,961
D. Current Transfers	1,417	1,950	1,494	1,523	1,408	7,629	5,932	6,264
CAPITAL TRANSACTIONS	9.96	63.00	0.88	3.04	2.43	39.06	36.91	80.08
FINANCIAL TRANSACTIONS	7,293	-2,346	-1,991	-1,160	-6,073	36,564	7,884	12,423
A. Direct Investment	3,465	4,050	4,194	3,401	2,779	20,531	14,142	17,423
B. Portfolio Investment	1,199	-5,023	-3,188	-347	-3,112	21,990	3,369	5,072
C. Derivative Instruments	172.24	26.65	136.76	-86.05	8.55	186.40	17.73	332.71
D. Other Investment	2,457	-1,400	-3,133	-4,128	-5,748	-6,144	-9,645	-10,405
NET ERRORS AND OMISSIONS	-1,575.63	-71.36	-396.18	-476.92	390.64	-1,647.91	-891.30	-2,506.80
BALANCE OF PAYMENT <i>(= change in BI international reserves)</i>	10,690	-844	-1,817	2,389	-1,304	4,676	2,597	13,461

Source: Bank Indonesia



Scan for the link to our report depository or click:

<https://s.id/1fMOq>

Indonesia – Economic Indicators Projection

	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	6.4
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	5.5
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	15,584
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	45.5
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.3	1.4

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual

Chief Economist

david_sumual@bca.co.id

+6221 2358 8000 Ext:1051352

Victor George Petrus Matindas

Senior Economist

victor_matindas@bca.co.id

+6221 2358 8000 Ext: 1058408

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Agus Salim Hardjodinato

Senior Industry Analyst

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Firman Yosep Tember

Research Assistant

firman_tember@bca.co.id

+6221 2358 8000 Ext: 20378

Barra Kukuh Mamia

Senior Economist

barra_mamia@bca.co.id

+6221 2358 8000 Ext: 1053819

Suryaputra Wijaksana

Economist / Analyst

suryaputra_wijaksana@bca.co.id

+6221 2358 8000 Ext: 1065752

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343

DISCLAIMER

This report is for information only, and is not intended as an offer or solicitation with respect to the purchase or sale of a security. We deem that the information contained in this report has been taken from sources which we deem reliable. However, we do not guarantee their accuracy, and any such information may be incomplete or condensed. None of PT. Bank Central Asia Tbk, and/or its affiliated companies and/or their respective employees and/or agents makes any representation or warranty (express or implied) or accepts any responsibility or liability as to, or in relation to, the accuracy or completeness of the information and opinions contained in this report or as to any information contained in this report or any other such information or opinions remaining unchanged after the issue thereof. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. Opinion expressed is the analysts' current personal views as of the date appearing on this material only, and subject to change without notice. It is intended for the use by recipient only and may not be reproduced or copied/photocopied or duplicated or made available in any form, by any means, or redist ted to others without written permission of PT Bank Central Asia Tbk.

All opinions and estimates included in this report are based on certain assumptions. Actual results may differ materially. In considering any investments you should make your own independent assessment and seek your own professional financial and legal advice. For further information please contact: (62-21) 2358 8000, Ext: 20364 or fax to: (62-21) 2358 8343 or email: arief_darmawan@bca.co.id