

Balance of payments:

A great start to the year

Elbert Timothy Lasiman
Economist/Analyst

Barra Kukuh Mamia
Senior Economist

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Executive Summary

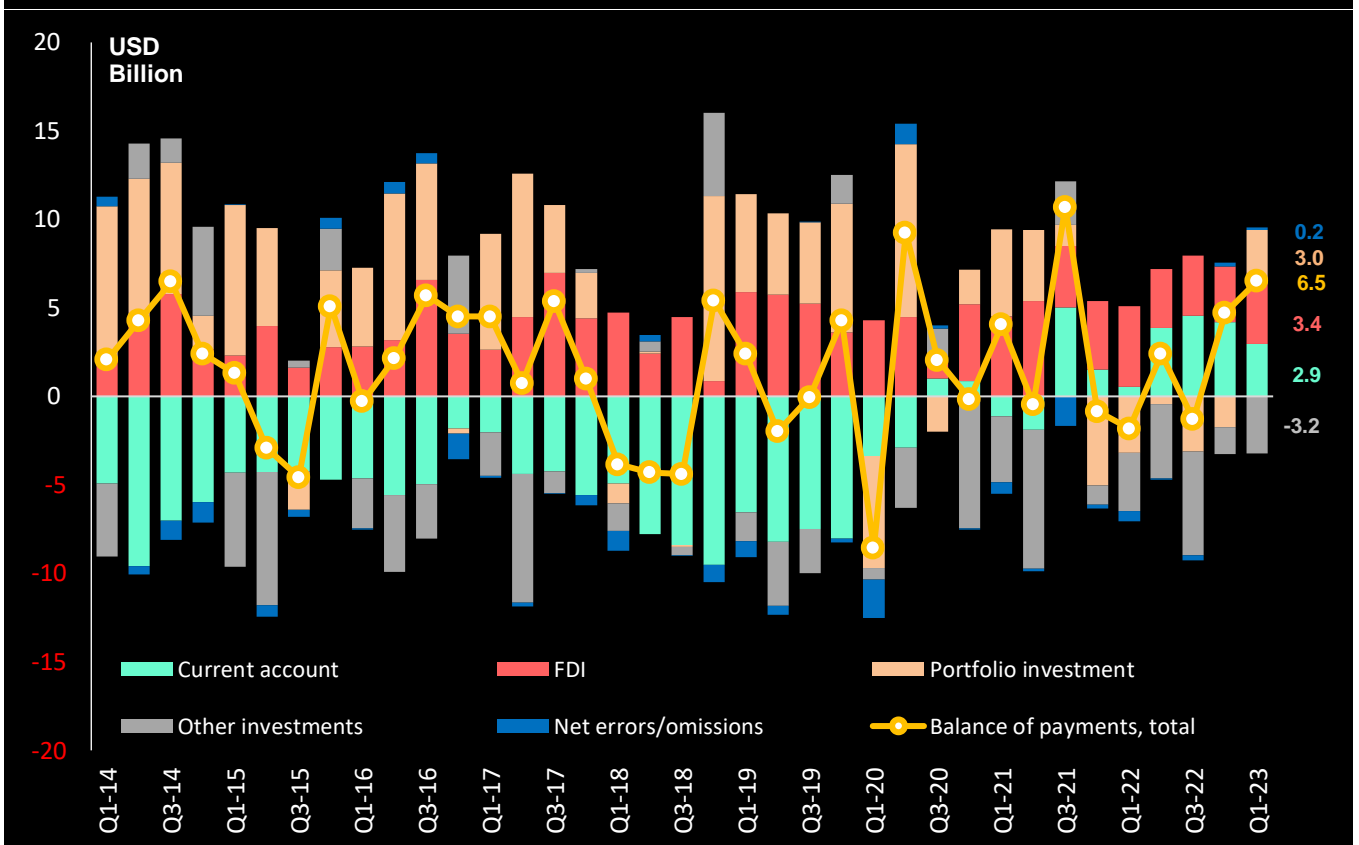
- Indonesia's balance of payments (BoP) recorded a surplus of USD 6.4 Bn in Q1-2023, driven by a surplus of the current account (USD 3.0 Bn) and financial account (USD 3.4 Bn).
- Current account decrease slightly, as lower prices was likely offset by higher demand from China. A not-so-good outlook of commodity prices may narrow the goods surplus in successive quarters, resulting in current account deficit of 0.4% - 0.8% of the GDP.
- While the current account surplus narrows, the financial account contributes a surplus of USD 3.4 Bn, following five consecutive quarters of deficit. Foreign investors returned to purchase sovereign bonds, mainly because of the market's expectation of the Fed's pivot, but the outlook here is still subject to global uncertainties.

- Indonesia's balance of payments (BoP) displayed a significant surplus of USD 6.4 Bn in Q1-23, propelled by favorable outcomes in both the current account (CA) and financial account. The surplus on the financial account in particular came as a relief, following five consecutive quarters of deficit.
- Indonesia maintained a CA surplus, amounting to 0.9% of the GDP (USD 3.0 Bn), despite declining commodity prices. The volume of exports, particularly for coal, played a vital role in supporting goods exports, benefitting from the surge in demand amid China's reopening. But, as we previously noted in our reports, the chance is Indonesia's imports are already bottoming out and could rebound more swiftly than exports, given Indonesia's sunnier demand outlook versus the rest of the world. This may lead to narrower goods surplus in subsequent quarters.
- A perpetual deficit of services will help CA no better. Payments for freight are already at a low as oil price declines and logistical bottlenecks ease, and further decline in shipping costs is likely limited. Meanwhile, the surplus from tourism continue to underwhelm as the number of outbound travelers compete with inbound travelers. Strong Rupiah, robust domestic demand, and an impulse to travel after years of restrictions may urge more domestic consumers to travel abroad. On the flip side, uncertain global outlook could restrain the number of inbound travelers.
- The larger BoP surplus stems from the financial account, reaching to USD 3.4 Bn. Portfolio investment, which has been on the deficit side for quite some time, has gained momentum as foreign investors have returned to purchase sovereign bonds. The market's expectation on the Fed's pivot also play a crucial role in this development, particularly following the collapse

of the Silicon Valley Bank (SVB) in early March. Although not as pronounced as bonds, equities also got a splash of positive effect, thanks to Indonesia's favorable outlook among emerging markets.

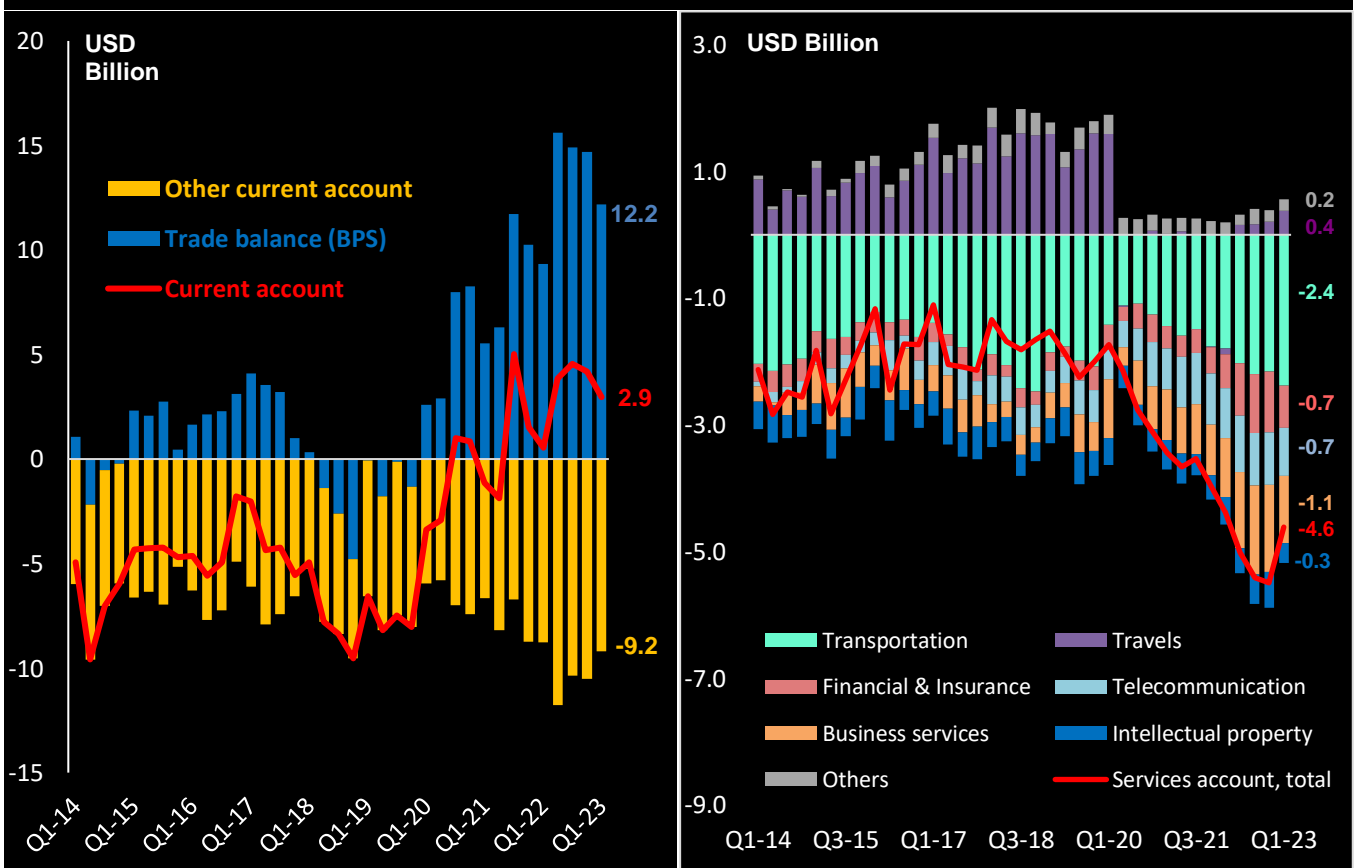
- FDI has remained robust, although we are seeing broad-but-limited decline outside of the "nickel-industrial complex". Another issue, as we have repeatedly noted, is that there is still a wide gap between FDI as reported by BKPM and BI – at this point, likely something that may persist in the long-term.
- Another troubling development last year was the non-repatriation of export receipts (DHE), which led BI to adopt "carrot" (term deposit on DHE) and "stick" (reintroduction of sanctions on non-repatriation) to solve the issue. The BoP data shows that there has been a reduction in illicit outflows (as seen from net error and omissions), but private placements in foreign banks slightly increased compared to Q4-22, while TD-DHE only attracted limited interest. All these point to the stick likely working better than the carrot, while the non-repatriation gap may naturally be narrowing as commodity price declines.
- While the situation is much better than expected, there are things to keep in mind for the remainder of the year. The outlook for future portfolio flows may be hampered by tightening global liquidity, especially with the Fed continuing to reduce its balance sheet (despite bank failures) and the potential end of yield curve control in Japan. Fortunately, there seems to be genuine structural shift in perception towards Indonesia, in terms of risk, valuation, and growth expectations.
- We should also anticipate the CA to worsen as the goods balance narrows, especially if the outlook for commodity prices fails to improve. A narrow CA deficit, somewhere in the vicinity of -0.4% to -0.8% of GDP, is quite likely. Whether the CA would end up near the upper- or lower-end of this range would depend, arguably on government spending especially as the Election nears.
- Per April 2023, Indonesia's state budget maintains a surplus of IDR 235 Tn, while the target for the state budget in 2023 is a deficit of IDR 598 Tn. As such, if the government wants to attain its original target, it will have to spend more than IDR 800 Tn – which would then drive either household consumption (if the spending is done via subsidies or social assistance) or investment (if it is done via CAPEX). Either way, this could boost imports and therefore widen the putative CA deficit. This logic is even more persuasive if we consider that the CA is the "evil twin" of savings-investment (S-I) gap, which would widen along with fiscal deficit.
- All in all, this moderate CA deficit may not necessitate much change in BI policy in either direction. Moreover, as we have mentioned, BI may decide to wait for global developments (especially Fed policy) before deciding its next chess move. Even then, if domestic growth does falter, monetary easing may not be the preferred tool to deal with it, since – as we have seen – there is much larger room for fiscal stimulus, with potentially much faster results too.

Chart 1. BoP surplus is supported both by current account and financial account in Q1-23



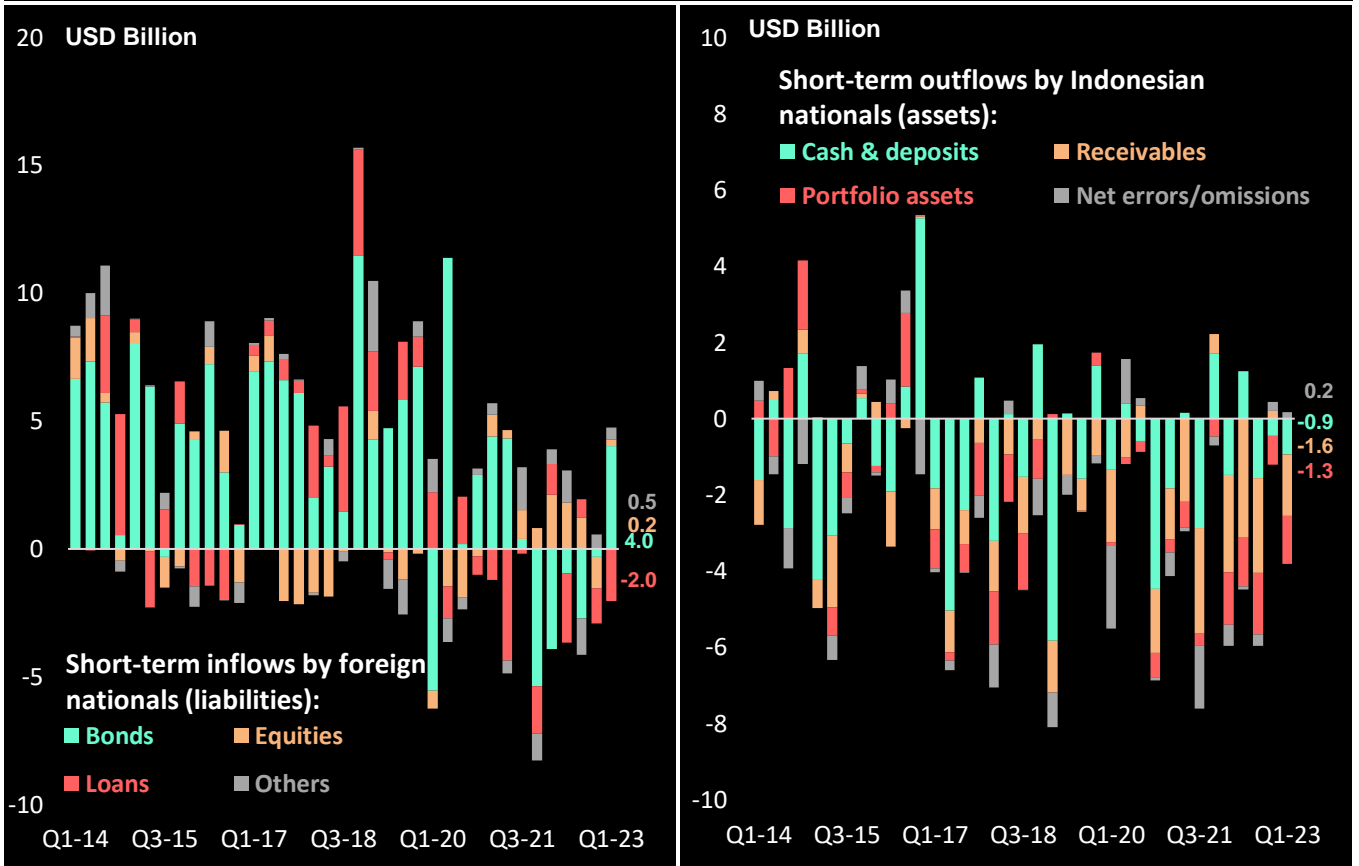
Source: Bank Indonesia

Panel 1. Declining trade surplus may pose a challenge for current account



Source: Bank Indonesia, BPS

Panel 2. Market expectation on Fed's pivot bolstering inflow through government bonds



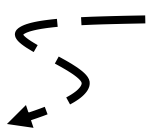
Source: Bank Indonesia

Selected Macroeconomic Indicators

Table 1. Balance of payments (current USD Million)

	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	2020	2021	2022
CURRENT ACCOUNT	551	3,849	4,545	4,181	2,972	-4,433	3,511	13,216
<i>(as % of GDP)</i>	6.97	6.41	5.73	5.90	6.21	-0.42	7.77	5.90
A. Goods	11,301	16,797	17,623	16,951	14,719	28,301	43,806	62,682
- Non-Oil/Gas	17,210	24,445	25,160	22,958	19,015	29,954	57,804	89,773
- Oil/Gas	-5,694	-7,187	-6,481	-5,415	-3,960	-5,386	-12,965	-24,767
B. Services	-4,378	-5,022	-5,412	-5,494	-4,617	-9,755	-14,599	-20,041
C. Income	-7,866	-9,449	-9,075	-9,207	-8,600	-28,911	-31,961	-35,782
D. Current Transfers	1,494	1,523	1,409	1,931	1,469	5,932	6,264	6,357
CAPITAL TRANSACTIONS	0.88	3.04	2.43	445.10	1.46	36.91	80.15	60.44
FINANCIAL TRANSACTIONS	-1,811	-1,386	-5,559	-120	3,379	7,884	12,492	-8,916
A. Direct Investment	4,542	3,330	3,409	3,160	3,401	14,142	17,286	15,120
B. Portfolio Investment	-3,182	-449	-3,121	-1,724	3,015	3,369	5,086	-9,023
C. Derivative Instruments	136.76	-86.05	8.55	-10.90	204.92	17.73	332.71	48.36
D. Other Investment	-3,307	-4,181	-5,856	-1,544	-3,242	-9,645	-10,212	-15,062
NET ERRORS AND OMISSIONS	-557.36	-76.32	-291.57	223.71	165.13	-891.30	-2,622.30	-360.71
BALANCE OF PAYMENT <i>(= change in BI international reserves)</i>	-1,817	2,389	-1,304	4,730	6,517	2,597	13,461	3,999

Source: Bank Indonesia



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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.0
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	3.4
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

** 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

Keely Julia Hasim

Economist / Analyst

keely_hasim@bca.co.id

+6221 2358 8000 Ext: 1071535

Arief Darmawan

Research Assistant

arief_darmawan@bca.co.id

+6221 2358 8000 Ext: 20364

Agus Salim Hardjodinto

Head of Industry and Regional Research

agus_lim@bca.co.id

+6221 2358 8000 Ext: 1005314

Gabriella Yolivia

Industry Analyst

gabriella_yolivia@bca.co.id

+6221 2358 8000 Ext: 1063933

Elbert Timothy Lasiman

Economist / Analyst

Elbert_lasiman@bca.co.id

+6221 2358 8000 Ext: 1074310

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

Lazuardin Thariq Hamzah

Economist / Analyst

lazuardin_hamzah@bca.co.id

+6221 2358 8000 Ext: 1071724

Thierris Nora Kusuma

Economist / Analyst

thierris_kusuma@bca.co.id

+6221 2358 8000 Ext: 1071930

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

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