Balance of payments:

Some positives despite the free-falling headline

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Executive Summary

- Indonesia recorded a USD 0.78 Bn BoP deficit in Q1-2025, a sharp drop compared to a USD 7.21 Bn surplus in Q4-2024. The drop is attributed to the lower FA (-0.10% of GDP), while the CA position improves to -0.05% of GDP amidst the weakening imports.
- Lower private sector cash placements and external loans drawn by the public sector explain the sharp drop in the FA, but the trend may revert in the upcoming quarter as the government is looking to raise funds from international creditors.
- Higher import prices due to the weakening Rupiah help Indonesia's CA position to recover. Alas, the seasonal spike in external payments means that the CA recovery may be short-lived.

- Indonesia's balance of payment position swung back into deficit in Q1-2025, recording a USD 0.78 Bn shortfall (0.23% of GDP), a stark reversal from the USD 7.87 Bn surplus (2.19% of GDP) recorded in the previous quarter. The headline figure may suggest a sharp deterioration, but a deeper view of the current account (-USD 0.17 Bn, 0.05% of GDP) and financial account side (-USD 0.33 Bn, 0.10% of GDP) of the Q1-2025 BoP number offers a more nuanced view on the economy.

- As in recent quarters, the sharp drop in Indonesia's BoP can largely be attributed to the volatile FA. Indeed, Indonesia recorded a dramatic USD 9.97 Bn QoQ freefall in its FA, which may not be too surprising given various events such as the continuous foreign selloffs in the domestic equity market throughout the quarter. However, **weaker demand for Indonesian securities alone does not appear to explain the financial account's sharp decline**, as the portfolio investment (PI) account posted a sizable USD 1.03 Bn surplus in Q1-2025.

- While it is true that Indonesian equities have not whetted foreign investors' appetite, foreign inflows to the sovereign and corporate bond market are more than enough to cover the selloffs in the equity market. Bank Indonesia also continue to play a crucial role in keeping foreign investors engaged in the Indonesian market, as indicated by the USD 2.5 Bn QoQ increase in inflows to SRBI and BI's other securities.

- **Alas, we may not expect this trend to hold in the coming quarters**. BI cannot be expected to bear the burden of the negative carry trade from SRBI issuance, compelling the central bank to gradually unwind its SRBI outstanding since the start of the year. A significant amount of SRBI (around IDR 289.3 Tn) is also set to mature around mid-year, raising the risk of portfolio outflows should foreign investors continue to view the Indonesian equity market unfavourably.

- **Rather than the PI account, the other investment (OI) component was the main culprit behind the sharp drop in the FA in Q1-2025.** To understand the USD 13.13 Bn plunge, let us first unpack what happened. In Q1, the private sector parked USD 0.56 Bn worth of cash and savings abroad, reversing the trend from the previous quarter (which saw USD 4.39 Bn of private cash and savings flowing into the domestic banking system)**. The returning practice of private sector cash placement abroad, however, may be a factor in the recovering foreign demand for Indonesian sovereign bonds**, meaning that the liquidity previously flowed through the OI account may still find itself in the Indonesian economy through the PI account (and, consequently, from domestic banks to the government's account).

- The second factor behind the sharp drop in the Other Investment (OI) account in Q1-2025 is the limited demand for external loans from both the public and private sectors. **Public sector external liabilities fell by USD 2.75 Bn QoQ, while the private sector posted a more modest USD 0.44 Bn QoQ reduction.** Private sector demand for external loans is unlikely to rebound soon, given the broad-based slowdown in capital spending—and the resulting drop in financing needs—while declining oil prices may also dampen financing appetite among SOEs. However, emerging reports suggest that the public sector has begun aggressively tapping into external financing facilities since the end of last quarter, possibly nudging the OI account back into surplus and providing the outside liquidity needed to support the Rupiah.

> ***"The OI account may swing back to surplus again as the government looks to improve the domestic liquidity condition by borrowing more money from external creditors"***

- The weakening Rupiah, driven by tight domestic liquidity conditions, may have played a role in prompting the government to tap into its external financing facilities in Q2-2025. That said, the weaker Rupiah might have also contributed to the improvement in Indonesia's current account balance in Q1-2025. One might view the USD 1.72 Bn QoQ improvement in net exports as a sign of resilience in external demand for Indonesian goods and commodities, but the USD 5.55 Bn drop in actual exports is difficult to overlook.

- **Rather than exports, the improvement in Indonesia's CA position may be better attributed to the sharp USD 7.27 Bn drop in imports.** While lower oil prices have some role in bringing imports lower (oil imports declined by USD 401.5 Mn QoQ), there is a stronger argument that the relative decline in Indonesian customers' purchasing power plays a bigger role in explaining the lower import numbers. The constant pressure on the Rupiah—which led to a 2.84% depreciation against the USD in Q1-2025—helps explain Indonesian consumers' weakening demand for imports, as relatively higher import prices further suppressed the already anaemic domestic demand.

- While the weak domestic demand is a concern, allowing this trend of relative decline to continue may hold the key to reviving the domestic manufacturing sector in the quarters ahead. **Imports from China (and possibly other Asian manufacturing hubs) into Indonesia rose sharply in April 2025**, implying a growing risk of supply re-routing as Chinese (and other) manufacturers face reduced access to the US market.

- **Keeping the Rupiah relatively weak, particularly against other Asian currencies, will be key in determining whether these higher imports are going to be absorbed by the Indonesian market or redirected elsewhere as re-exports.** This appears to be a consideration Bank Indonesia understands, as reflected in yesterday's decision to cut the BI rate by another 25 bps, following other Asian central banks.

- This does not mean that the outlook on Indonesia's exports is hopeless. The stronger-than-expected reading on China's domestic demand offers a glimmer of hope for Indonesian commodity exporters, while the anticipated US-India trade deal could translate into stronger demand for industrial inputs – benefitting Indonesia. At the same time, the government's decision to roll back its new coal pricing regulation may revive the demand for Indonesian seaborne coal, which the market appears to be swinging upward thanks to the higher demand from the African market.

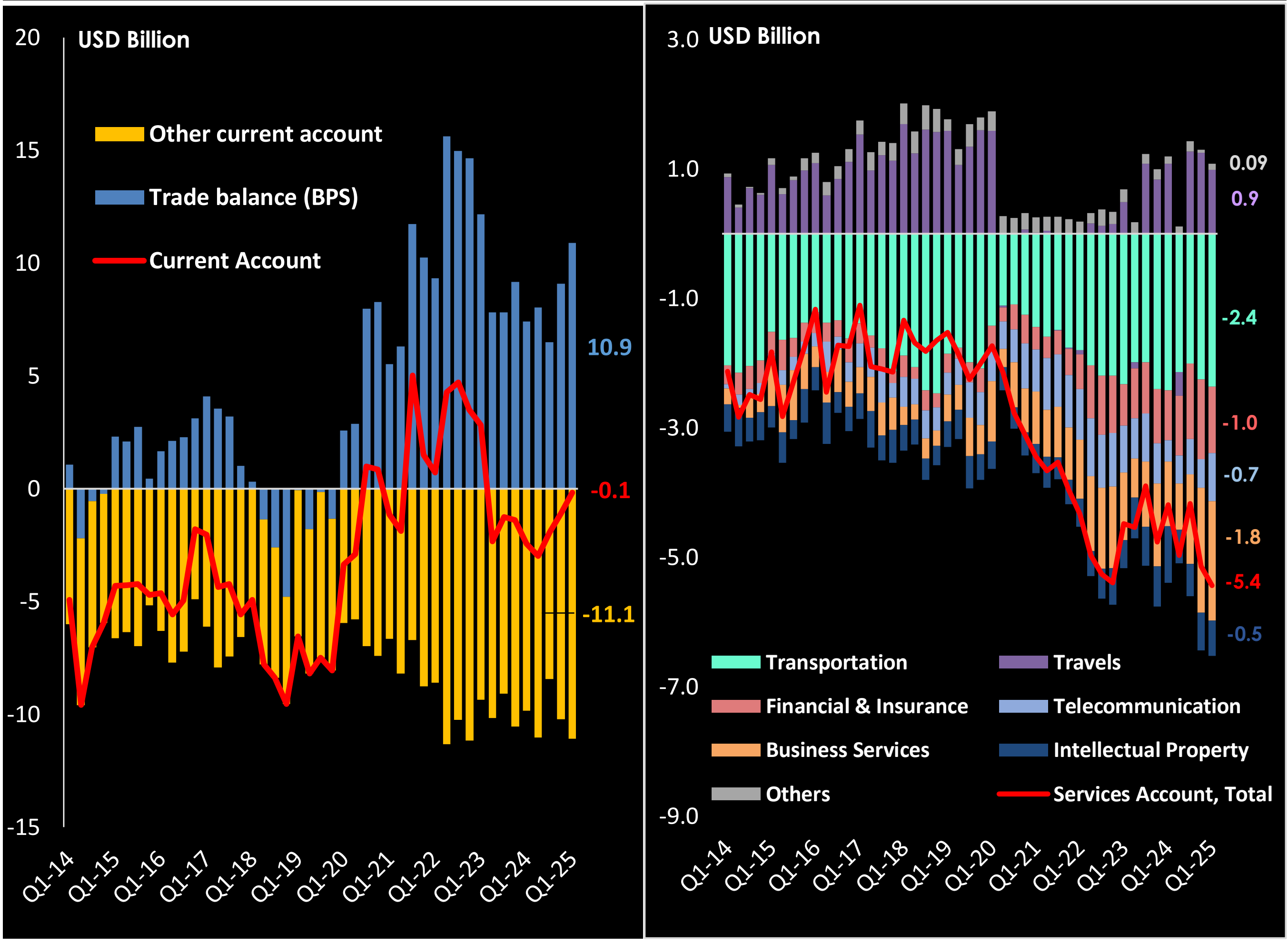
"Keeping the Rupiah relatively weak vis-à-vis other Asian currencies may help protect domestic manufacturers and sustain Indonesia's CA balance"

- While some factors may buttress Indonesia's commodity exports in the upcoming quarter, their impact could pale in comparison to the potential gains if Indonesia succeeds in bolstering its position as Asia's new transit hub for westbound merchandise exports. Fortunately, recent developments on the services side of the current account add a bit more bounce to this outlook.

- Indonesia booked a higher manufacturing services fee in Q1 2025 (USD 246 Mn, up USD 74 Mn quarter-over-quarter), which is a modest sum but a telling sign of the country's growing appeal as a transit hub for producing goods destined for re-export. Still, given the uncertainty over what lies beyond the 90-day US-China tariff truce, Washington's hard line on stricter rules of origin, and the lack of progress on Indonesia's trade deal with the US, the odds are, at best, feeling like a coin toss.

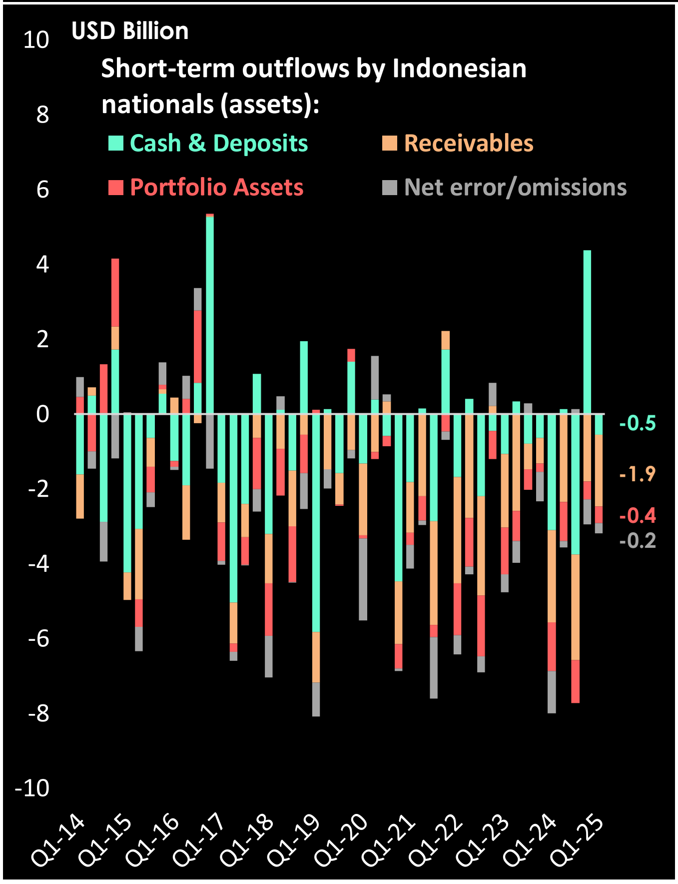
- While the factors mentioned above may help Indonesian exports deliver an upside surprise in the coming months, betting on the CA balance to flip into a surplus in Q2-2025 remains too radical a call. Indonesia typically faces a seasonal spike in external payments during the middle of the year, as the surge in overseas travel demand due to the Hajj pilgrimage hits the services side of CA while dividend payments abroad hit the primary income side of the CA balance. Ergo, as before, Indonesia's CA may fall to its deepest deficit in the middle of the year, thus laying the burden on the FA to close the gap.

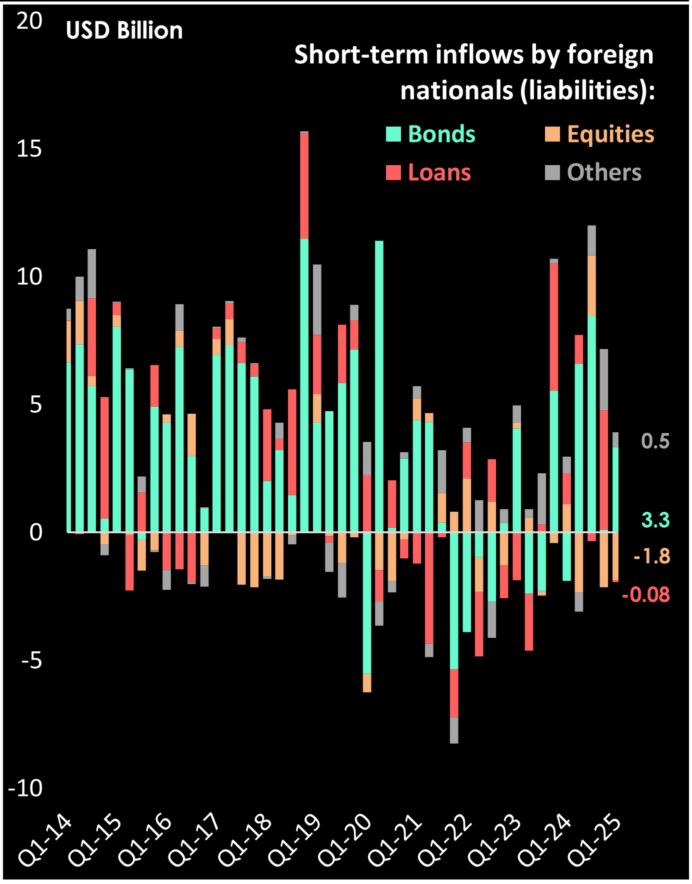
Panel 1. **Higher trade balance due to weaker imports help the CA balance to recover ahead of the seasonal spike in external payments**



Source: Bank Indonesia, BPS

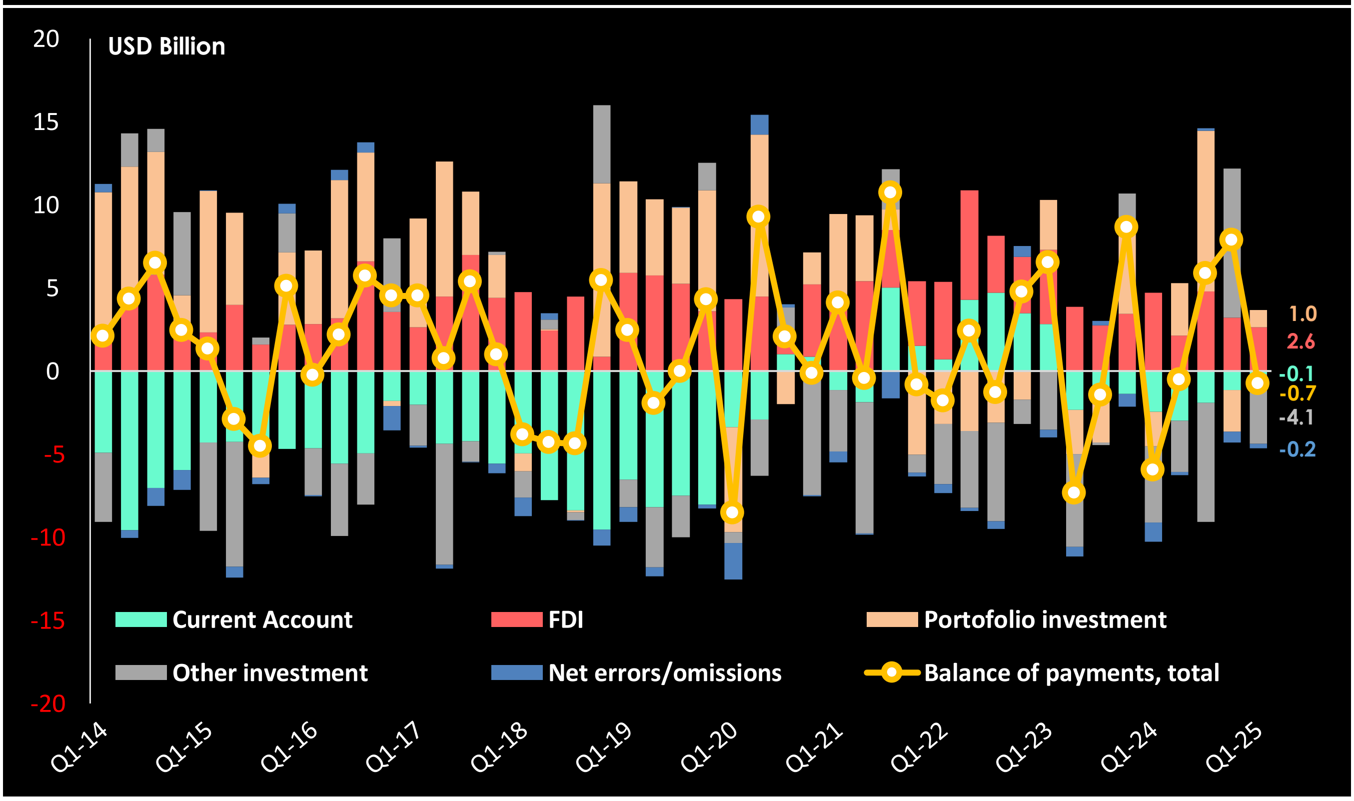
Panel 2. **Cash placements abroad by Indonesian nationals may found its way back to the Indonesian market through the SBN market**





Source: Bank Indonesia

Panel 3. **The BoP swung back to a slim deficit as the other investment account normalise**



Source: Bank Indonesia, BPS

Selected Macroeconomic Indicators

Table 1. Balance of payments (current USD Million)

	2021	2022	2023	2024	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25
CURRENT ACCOUNT	***3,511***	***13,215***	***-2,042***	***-8,856***	***-2,438***	***-2,980***	***-1,925***	***-1,127***	***-177***
(as % of GDP)	***0.30***	***1.00***	***-0.11***	***-0.63***	***-0.72***	***-0.87***	***-0.54***	***-0.31***	***-0.05***
A. Goods	43,806	62,672	46,269	39,926	9,293	10,015	9,282	11,342	13,058
- Non-Oil/Gas	57,804	89,773	67,814	62,868	15,086	15,203	14,760	17,819	18,910
- Oil/Gas	-12,965	-24,777	-19,917	-19,651	-5,508	-4,636	-4,447	-5,055	-4,768
B. Services	-14,599	-19,957	-17,676	-18,667	-4,193	-4,975	-4,174	-5,140	-5,437
C. Income	-31,961	-35,303	-36,015	-36,092	-8,842	-9,452	-8,554	-9,049	-9,365
D. Current Transfers	6,264	5,803	5,380	5,977	1,304	1,432	1,521	1,720	1,567
CAPITAL TRANSACTIONS	**80.15**	**476.19**	**27.75**	**28.42**	**4.54**	**8.43**	**10.58**	**16.46**	**4.35**
FINANCIAL TRANSACTIONS	**12,492**	**-9,157**	**9,846**	**16,356**	**-2,395**	**2,588**	**7,647**	**9,636**	**-331**
A. Direct Investment	17,286	18,067	14,417	14,509	4,714	2,116	4,796	3,225	2,633
B. Portfolio Investment	5,086	-11,631	2,208	8,221	-2,089	3,190	9,670	-2,525	1,029
C. Derivative Instruments	332.71	48.36	167.29	291.42	-420.61	392.86	330.85	-11.68	189.54
D. Other Investment	-10,212	-15,642	-6,946	-6,665	-4,599	-3,111	-7,150	8,947	-4,182
NET ERRORS AND OMISSIONS	**-2,622.30**	**-535.12**	**-1,531.48**	**-319.17**	**-1,142.42**	**-173.63**	**134.65**	**-654.93**	**-283.43**
BALANCE OF PAYMENT ***(= change in BI international reserves)***	**13,461**	**3,999**	**6,301**	**7,210**	**-5,970**	**-557**	**5,867**	**7,870**	**-787**

Source: Bank Indonesia

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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024	2025E
Real GDP growth (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0	4.8
Nominal GDP growth (% YoY)	6.7	-2.5	9.9	15.4	6.7	6.0	5.7
GDP per capita (USD)	4175	3912	4350	4784	4920	4960	4996
CPI inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.6	2.1
BI Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00	5.50
SBN 10Y yield (%)	7.04	5.86	6.36	6.92	6.45	6.97	7.68
USD/IDR exchange rate (end of year)	13,866	14,050	14,262	15,568	15,397	16,102	16,943
Trade balance (USD Bn)	-3.2	21.7	35.3	54.5	37.0	31.0	26.0
Current account balance (% of GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.6	-1.0

Notes:
- *USD/IDR exchange rate projections are for fundamental values; market values may diverge significantly at any moment in time*

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