

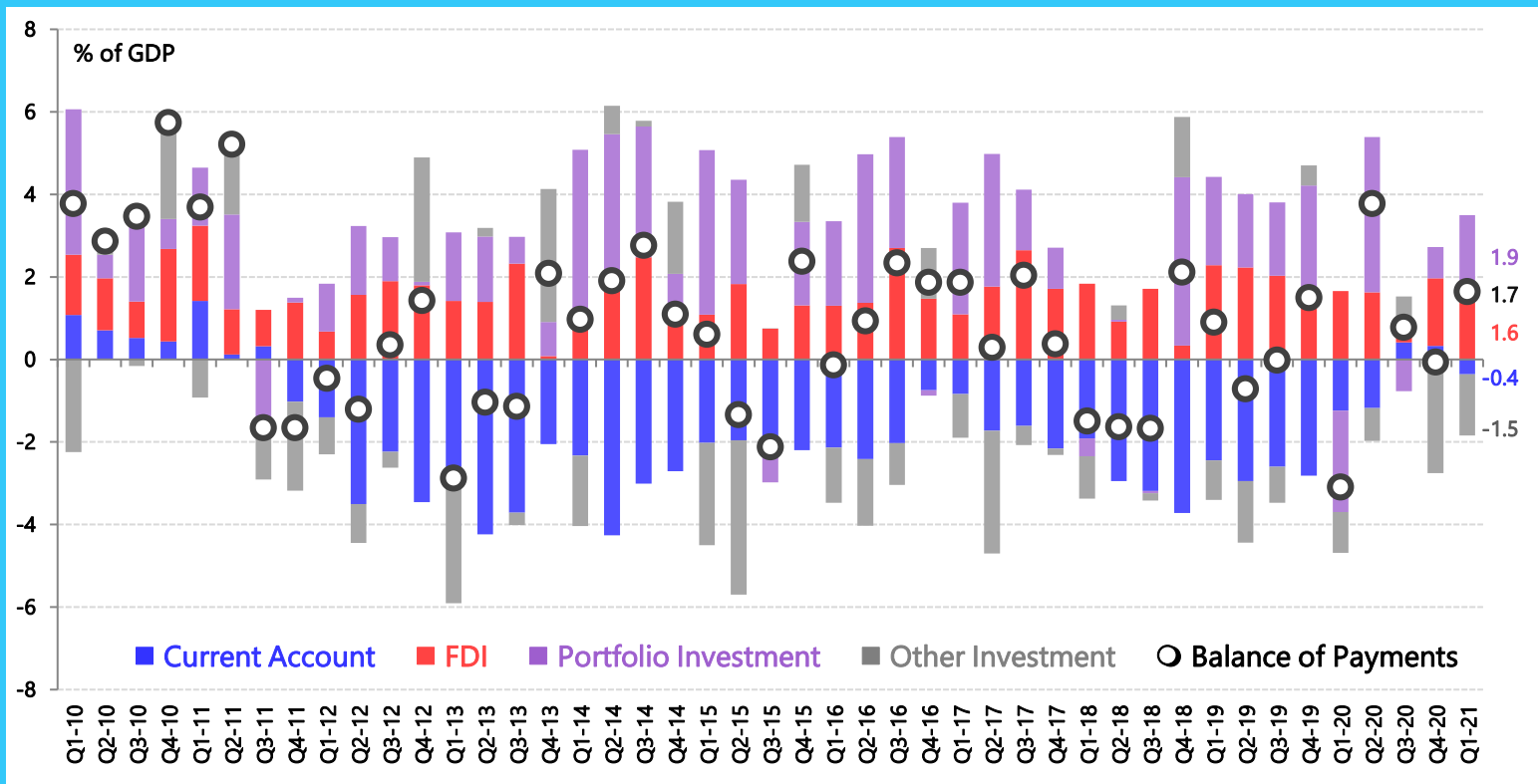
BoP: A tech-fuelled capital boom?

Executive Summary:

- **Indonesia's balance of payments (BoP) registered a large surplus of USD 4.1 Bn on Q1-2021.**
- **The ongoing commodity boom continues to bolster Indonesia's large trade surpluses**, keeping the current account deficit narrow even as the services trade balance continues to deteriorate.
- With equity and government bond inflows overall muted last quarter, **the large capital account surplus recorded last quarter is somewhat difficult to account for, although big tech-related financing may be a possible culprit.**
- **In any case, big tech-related capital inflows may be an increasingly important dynamic in the coming months, and could prove to be a useful buffer should the current account begin to deteriorate.**

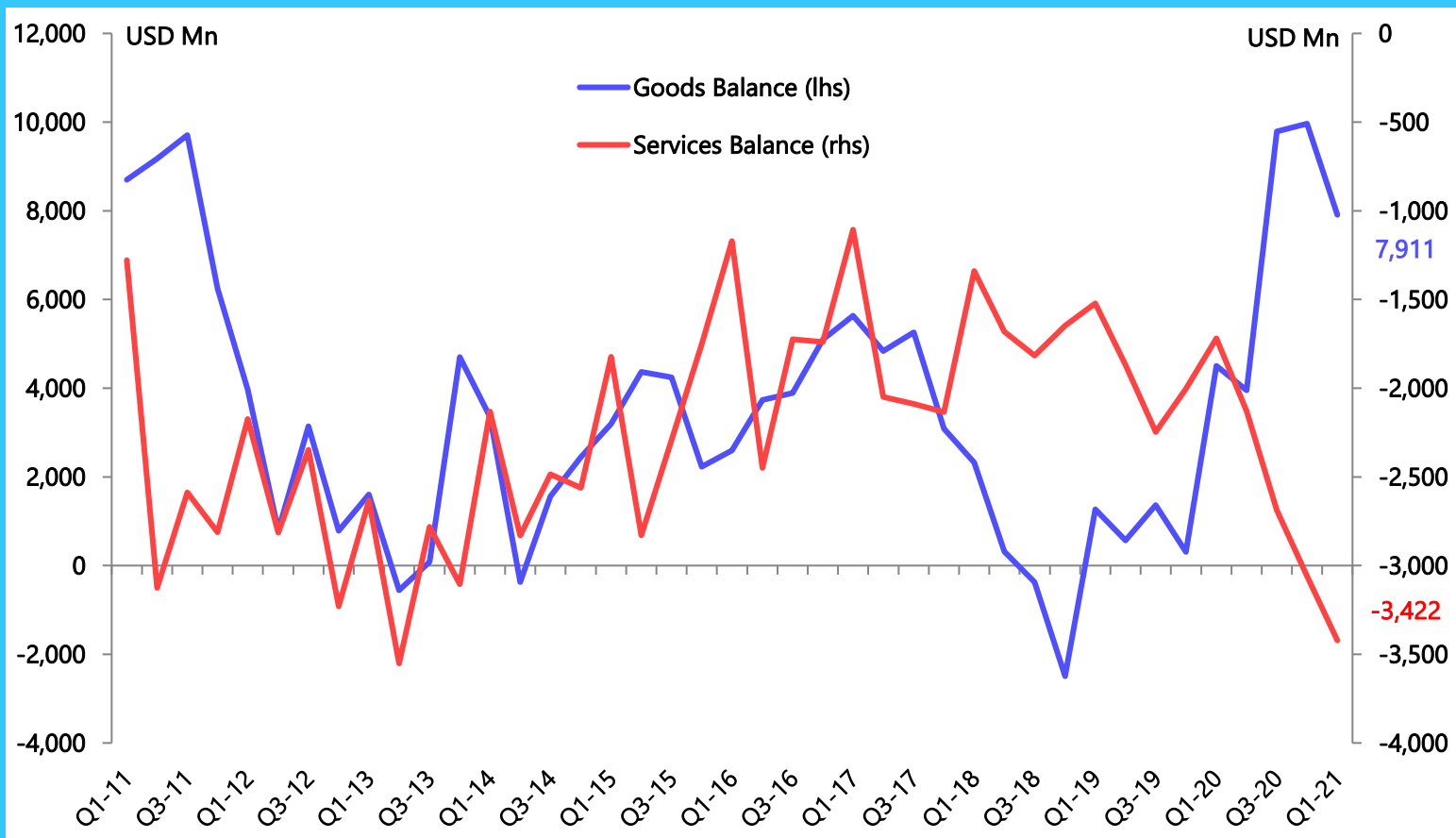
- **Indonesia registered a massive balance of payments (BoP) surplus of USD 4.1 Bn on Q1-2021, driven by a still narrow current account deficit (CAD) as well as a surprisingly large capital account surplus (Chart 1).**
- The relatively measured CAD of course – at only 0.4% of GDP – is but a continuation of a trend that has become the norm since the onset of Covid-19. Even as imports recorded robust growth in recent months, **exports have been more than able to keep up as the global economy enters what may very well be a new commodity super cycle.**
- It should also be noted however, that these large trade surpluses obscure what appears to be a continuous deterioration in the services balance (**Chart 2**). With tourism having taken a significant beating from Covid – and its full recovery still an indefinite period of time away – Indonesia can no longer rely on what was hitherto one of its most lucrative service sector exports. At the same time, post-Covid structural shifts in favor of digitalization are likely to further increase imports of digital-related services. **All these trends will only serve to worsen Indonesia's services balance, even as massive surpluses continue to be the norm for the tradable goods balance.**
- While everything that has been said of the CAD is still by and large in line with general trends, the big jump in the capital account may come as a bit of a surprise. FDI numbers continue to hold steady and, in line with growth trends observed in data from the Investment Coordinating Board, is likely to remain a robust pillar for the capital account.
- **It is the surge in portfolio inflows however, that is somewhat difficult to account for.** Although there were large capital inflows into equities and government bonds in January and February as vaccine-related euphoria drove large capital market gains, much of this was wiped out in a sell-off on March precipitated by fears of inflation in the US. It isn't entirely clear then, what exactly is driving most of these portfolio inflows.
- **A potential culprit here may be inflows related to big tech.** Indeed, a recent spate of tech-related financing, such as GIC's recent purchase of Bank Jago equity by rights issue, points the way to what may be an emerging trend in Indonesia's capital markets landscape: foreign inflows primarily driven by big tech. As the looming dual listing of the newly merged Gojek-Tokopedia behemoth attests to, this dynamic is likely to continue going forward, and could provide a healthy boost to Indonesia's capital account buffers even as the current account outlook remains uncertain.
- While the current commodity boom could persist for some time – especially as supply shortages continue to plague global supply chains – a continued increase in imports as demand recovers, as well as the worsening structural deficit in the services balance, are ever present risks for the current account.
- It should also be noted that the slightly measured CAD numbers observed in Q1 may be temporal in nature. As GDP begins to recover, particularly on the back of Lebaran in Q2, Indonesia's CAD may widen. Additionally, the government was virtually the only sector driving net borrowing last year. And so while low government spending may have kept the CAD down in Q1, the ramping up of fiscal stimulus in Q2 may drive it back up. **Should the current account begin to deteriorate then, continued tech-driven inflows into the capital account should at least provide a useful balance of payments buffer.**

Chart 1. With persistently high trade surpluses and a surge in capital inflows, Indonesia recorded a massive BoP surplus in Q1-2021



Source: BI, BCA Research Team

Chart 2. The services balance continues to deteriorate, even as a series of large trade surpluses helped narrow the CAD



Source: BI

Table 1. Balance of Payment (current USD Million)

	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	2018	2019	2020
CURRENT ACCOUNT	-3,426	-2,889	1,081	892	-997	-30,633	-30,279	-4,341
<i>(as % of GDP)</i>	-1.24	-1.18	0.41	0.33	-0.36	-2.94	-2.71	-0.41
A. Goods	4,507	3,952	9,791	9,964	7,911	-228	3,508	28,214
- Non-Oil/Gas	5,809	3,289	9,441	11,328	9,976	11,186	11,965	29,867
- Oil/Gas	-2,617	-821	-715	-1,233	-1,986	-11,405	-10,319	-5,386
B. Services	-1,719	-2,130	-2,688	-3,059	-3,422	-6,485	-7,641	-9,596
C. Income	-7,905	-6,152	-7,392	-7,442	-6,917	-30,815	-33,775	-28,891
D. Current Transfers	1,692	1,440	1,371	1,428	1,431	6,895	7,629	5,932
CAPITAL TRANSACTIONS	0.81	5.60	6.72	23.79	2.20	97.16	39.06	36.91
FINANCIAL TRANSACTIONS	-3,025	10,802	864	-1,033	5,560	25,122	36,564	7,608
A. Direct Investment	4,288	4,198	934	4,229	4,147	12,511	20,531	13,650
B. Portfolio Investment	-6,343	9,744	-1,985	1,952	4,902	9,312	21,990	3,368
C. Derivative Instruments	-326.45	124.70	18.02	201.46	110.06	33.61	186.40	17.73
D. Other Investment	-644	-3,264	1,896	-7,416	-3,599	3,266	-6,144	-9,427
NET ERRORS AND OMISSIONS	-2,094.96	1,326.67	100.84	-38.97	-500.70	-1,717.35	-1,647.91	-706.42
BALANCE OF PAYMENT <i>(= change in BI international reserves)</i>	-8,545	9,245	2,053	-156	4,065	-7,131	4,676	2,597

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.5
GDP per Capita (US\$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	3.1
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14,050	14,460
Trade Balance (US\$ billion)	8.8	11.8	-8.5	-3.2	21.7	10.1
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	-1.8

** Estimation of Rupiah's fundamental exchange rate

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