

FX Reserves:

A ray of sunshine for The Rupiah

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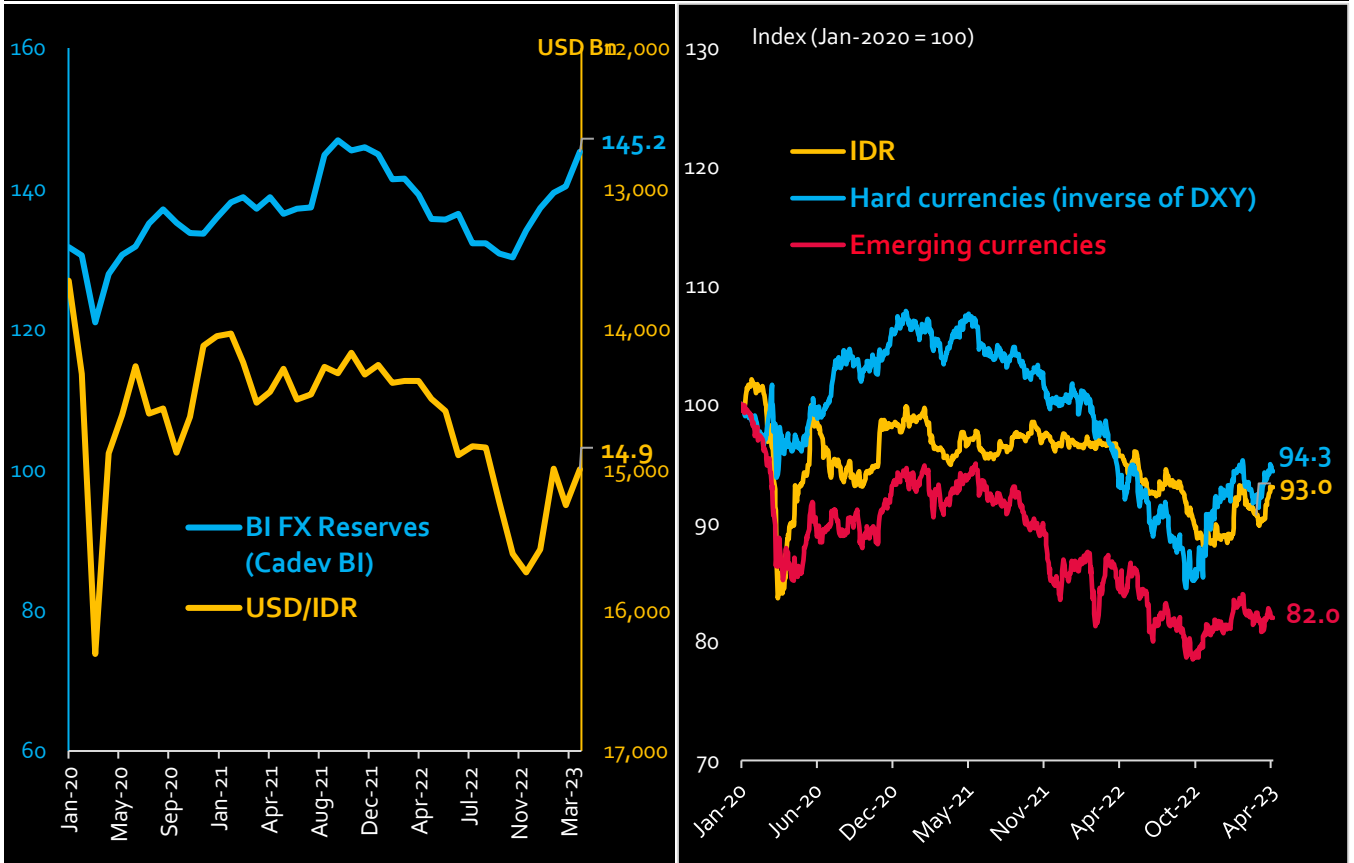
Executive Summary

- Indonesia's FX reserves surged to USD 145.2 Bn at the end of Mar-23, primarily driven by tax revenue attributed to exporters' strong earnings due to commodity boom in 2022.
 - Foreign inflows have returned in March due to market's recalibrations of future rate trajectory following the recent banking crises.
 - The positive circumstances may provide BI quite a significant buffer and flexibility to keep its current policy mix (5.75% policy rate plus accommodative macroprudential policies) to navigate the slowing growth prospects ahead.
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- Indonesia's FX reserves showed a notable surge, with a value of USD 145.2 Bn at the end of Mar-23. This remarkable USD 4.9 Bn growth was the highest increase recorded in the past 16 months, and seemed to defy our previous expectations of slowing (but still positive) FX reserves growth.
 - The surge was primarily driven by tax revenue, which grew rapidly in early 2023 (40.4% YoY in Feb). This trend is expected to continue in March, which marks the final month for 2022 tax reporting. The strong tax revenue growth, especially in FX, can be attributed to exporters' strong earnings in 2022 due to the commodity boom. In addition, the government had also drawn fresh foreign loans (bilateral or multilateral) in March, even if it did not issue new FX bonds.
 - The sharp increase in reserves may also be (but not necessarily) a sign of still-strong export earnings. As we have anticipated in recent months, the trade surplus should decline as coal price dropped in Feb-22 – but the huge trade surplus that month (USD 5.5 Bn) defied expectations. The predicted erosion of the trade balance surplus is still highly probable, implying a current account deficit of approximately 1% GDP – but fortunately things are looking up on the capital account side.
 - In March, foreign inflows have returned, to the tune of USD 948 Mn for bonds and 272 Mn in equities. These were likely the product of the market's recalibrations of future rate trajectory, following the recent banking crises. If before, the market entertained the idea of Fed funds rate (FFR) at 6%, after the crisis most are expecting the Fed to only hike one more time before pausing or even pivoting to rate cuts later in the year. This pivot "euphoria" might have subsided in recent weeks, but for a time in mid- to late March it succeeded in driving

capital flows into emerging markets. An incipient credit crunch in the US may have further encouraged investors to shift their liquidity into countries with more robust growth prospects like Indonesia.

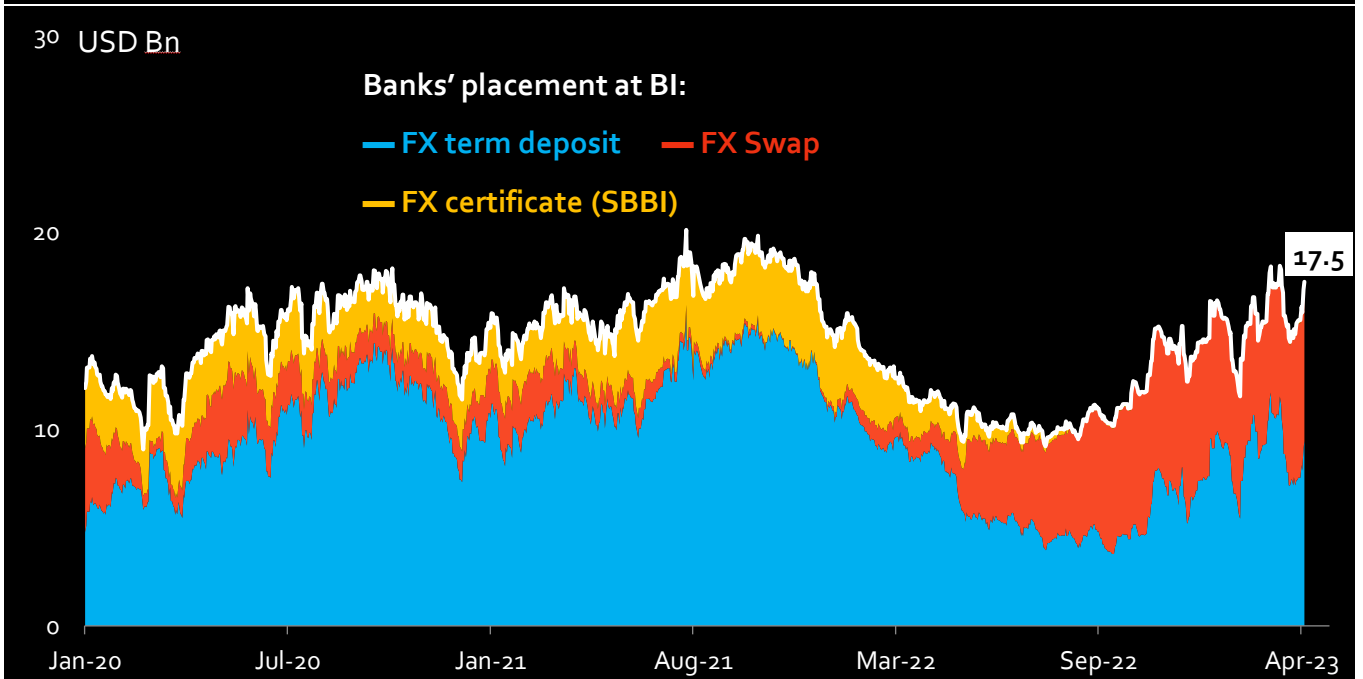
- All told, the situation has been very favorable for Indonesia, resulting in a robust Rupiah performance in March. The recent implementation of the special term deposit facility for export receipts (DHE) has also helped at the margins (net gain of USD 294.75 Mn by end of March), and additional DHE inflows may be forthcoming in the following months.
- BI thus have quite a significant buffer and flexibility with respect to Rupiah stability, allowing it to keep its current policy mix (5.75% policy rate plus accommodative macroprudential policies) to navigate the slowing growth prospects ahead. The possibility of renewed hike by BI is now much diminished, but we are still skeptical of the possibility that it may cut rates this year... unless of course the Fed moves first. Of course, this is still not a very likely scenario, especially with the entrenched inflation that makes an aggressive pivot unlikely.

Panel 1. Rupiah grew stronger as market's expectation changed due to the global bank crises



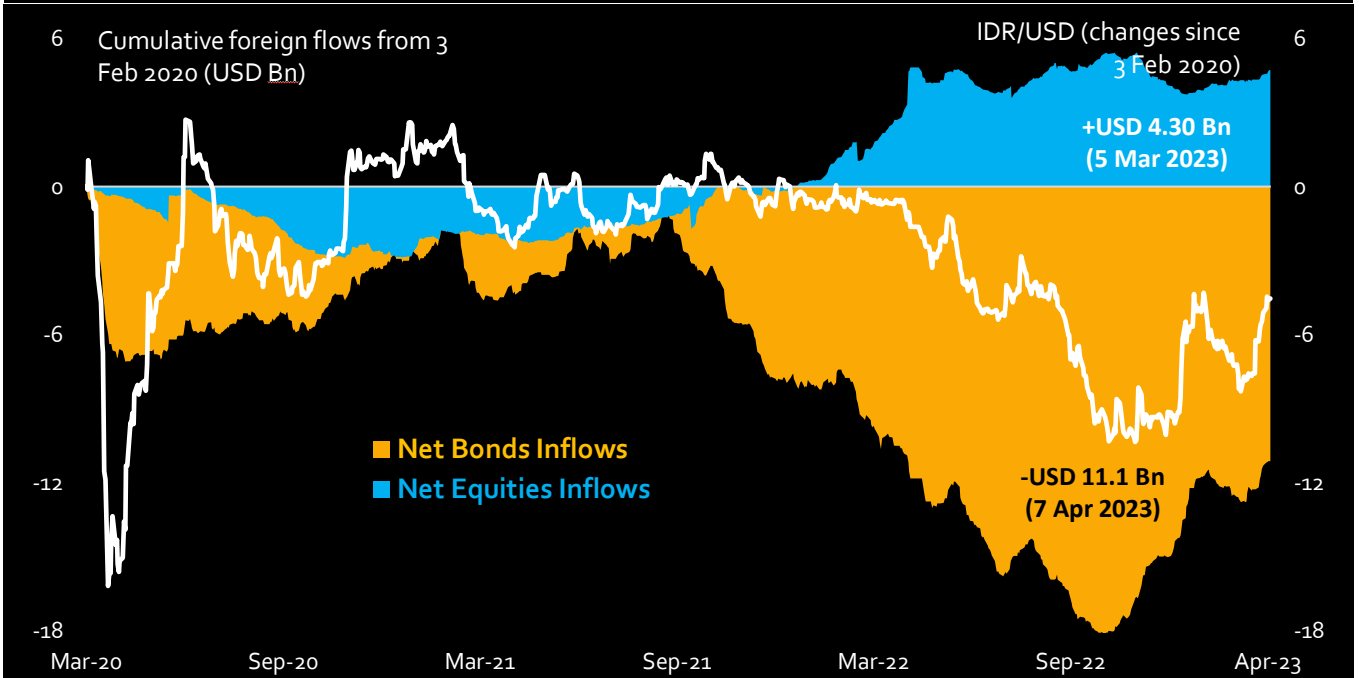
Source: Bloomberg

Panel 2. BI's special term deposit facility for export receipts (DHE) helps on the margin



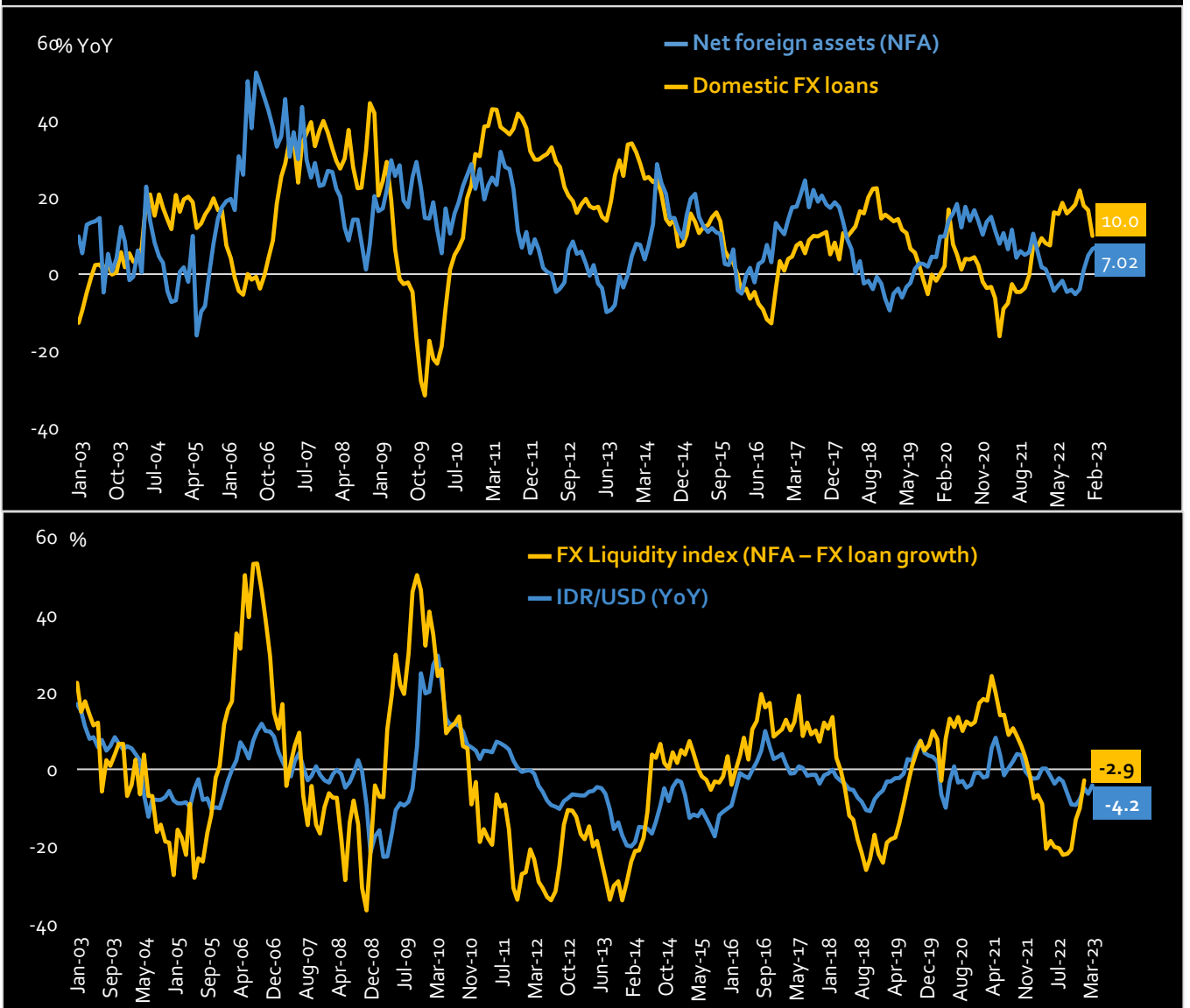
Source: BI

Panel 3. Foreign inflows to the bond market in March 2023 fueled by a shift in market sentiment



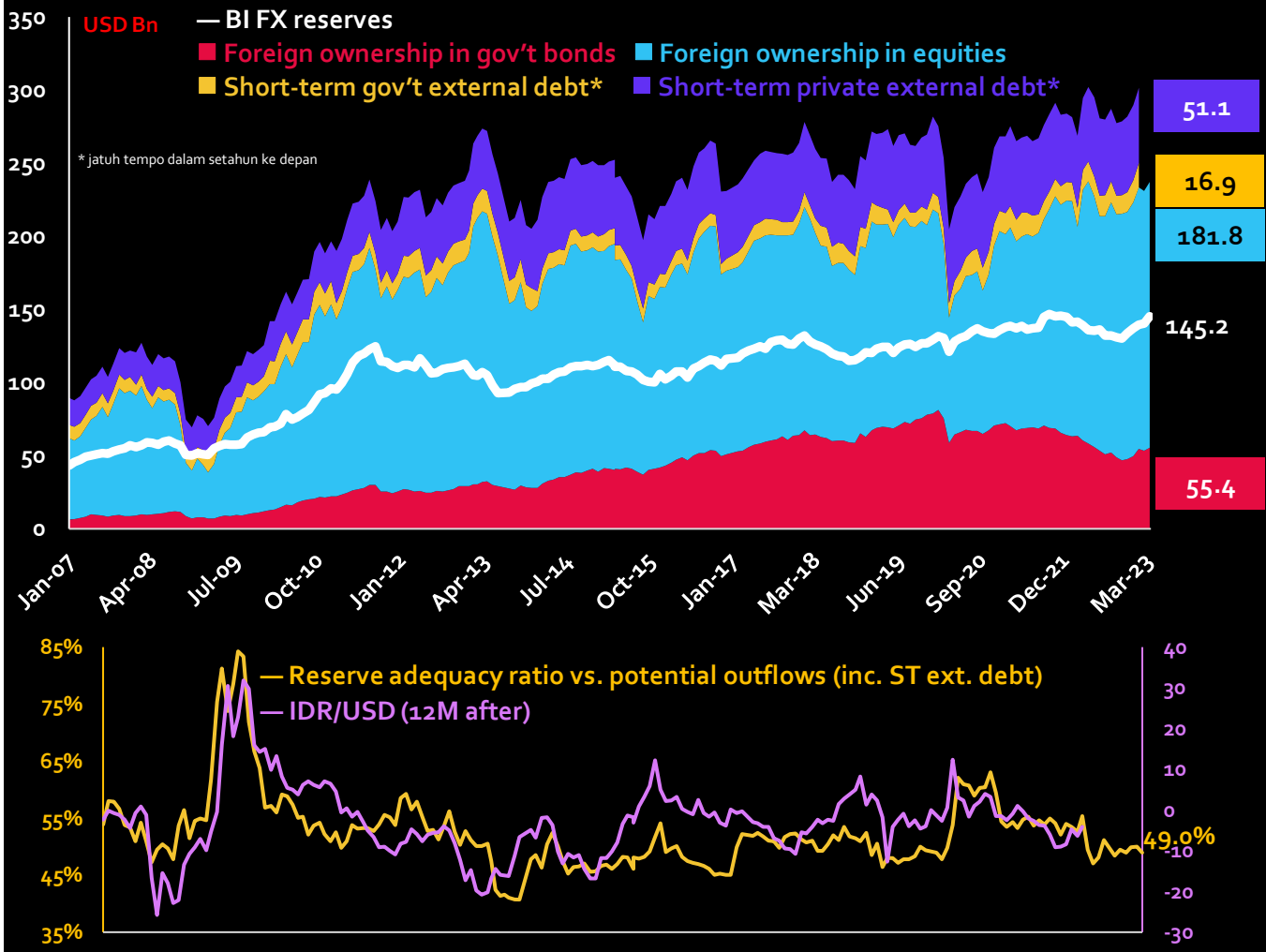
Source: Bloomberg

Panel 4. Increased foreign inflow and trade balance surplus improve domestic FX liquidity



Source: BI, Bloomberg

Panel 5. FX reserves increase should be able to cover potential outflows



Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	6-Apr	-1 mth	Chg (%)
US	5.00	Apr-23	-1.00	Baltic Dry Index	1,560.0	1,258.0	24.0
UK	4.25	Apr-23	-6.15	S&P GSCI Index	588.7	594.2	-0.9
EU	3.50	Apr-23	-3.40	Oil (Brent, \$/bbl)	85.1	86.2	-1.2
Japan	-0.10	Jan-16	-3.40	Coal (\$/MT)	211.2	198.0	6.7
China (lending)	4.35	Apr-23	3.35	Gas (\$/MMBtu)	2.18	2.46	-11.4
Korea	3.50	Feb-23	-0.70	Gold (\$/oz.)	2,007.9	1,846.9	8.7
India	6.50	Feb-23	0.06	Copper (\$/MT)	8,806.8	8,893.3	-1.0
Indonesia	5.75	Mar-23	0.78	Nickel (\$/MT)	22,657.0	24,204.0	-6.4
				CPO (\$/MT)	964.5	950.9	1.4
				Rubber (\$/kg)	1.32	1.38	-4.3
Money Mkt Rates	6-Apr	-1 mth	Chg (bps)	External Sector	Feb	Jan	Chg (%)
SPN (1M)	3.43	4.44	-101.4	Export (\$ bn)	21.40	22.32	-4.15
SUN (10Y)	6.65	6.91	-26.6	Import (\$ bn)	15.92	18.44	-13.68
INDONIA (O/N, Rp)	5.57	5.61	-3.8	Trade bal. (\$ bn)	5.48	3.88	41.15
JIBOR 1M (Rp)	6.40	6.40	0.0	Central bank reserves (\$ bn)*	140.3	139.4	0.65
Bank Rates (Rp)	Jan	Dec	Chg (bps)	Prompt Indicators	Feb	Jan	Dec
Lending (WC)	8.75	8.60	14.94	Consumer confidence index (CCI)	122.4	123.0	119.9
Deposit 1M	4.00	3.95	5.05	Car sales (%YoY)	7.4	11.9	9.0
Savings	0.67	0.67	0.03	Motorcycle sales (%YoY)	56.3	38.6	24.6
Currency/USD	6-Apr	-1 mth	Chg (%)	Manufacturing PMI	Mar	Feb	Chg (bps)
UK Pound	0.804	0.832	3.45	USA	46.3	47.7	-140
Euro	0.916	0.936	2.26	Eurozone	47.3	48.5	-120
Japanese Yen	131.8	135.9	3.15	Japan	49.2	47.7	150
Chinese RMB	6.873	6.932	0.86	China	50.0	51.6	-160
Indonesia Rupiah	14,913	15,295	2.56	Korea	47.6	48.5	-90
				Indonesia	51.9	51.2	70
Capital Mkt	6-Apr	-1 mth	Chg (%)				
JCI	6,792.8	6,807.0	-0.21				
DJIA	33,485.3	33,431.4	0.16				
FTSE	7,741.6	7,929.8	-2.37				
Nikkei 225	27,472.6	28,237.8	-2.71				
Hang Seng	20,331.2	20,603.2	-1.32				
Foreign portfolio ownership (Rp Tn)	Mar	Feb	Chg (Rp Tn)				
Stock	2,726.8	2,730.0	-3.23				
Govt. Bond	818.5	804.3	14.21				
Corp. Bond	12.0	12.4	-0.40				

Source: Bloomberg, BI, BPS

Notes:

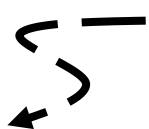
^Data for January 2022

*Data from earlier period

For changes in currency: **Black indicates appreciation against USD, **Red** otherwise

***For PMI, >50 indicates economic expansion, <50 otherwise

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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	4.7
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	4.3
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	15,647
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	19.8
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.2

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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