FX Reserves:
A limit to Rupiah's strength?

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Executive Summary

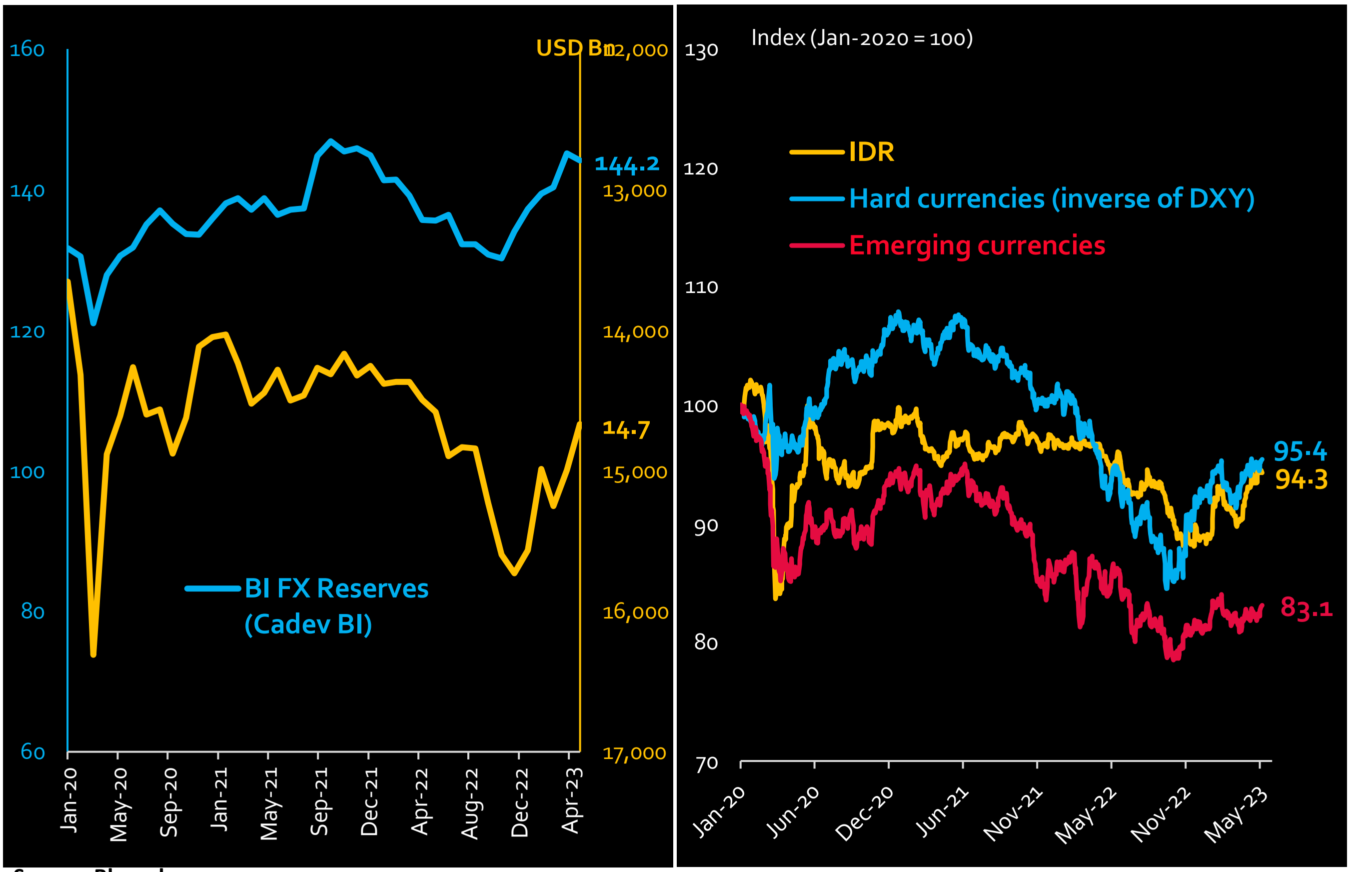
- Indonesia's FX reserves slightly decreased to USD 144.2 Bn at the end of April 2023, driven by the payment of government's foreign debt and the FX liquidity decline due to rising imports.
- Foreign capital inflows supported Rupiah in April 2023, but could potentially flow out again after dividend payments in Q2. Combined with the expected narrowing trade surplus, this could result in a possible CA balance deficit.
- Still good liquidity buffer may encourage BI to provide more support to the economy. However fiscal stimulus may be preferred given the still uncertain global monetary policy outlook.

- Indonesia's FX reserves stood at USD 144.2 Bn by the end of April 2023, slightly decreased from previous month's figures of USD 145.2 Bn. This may seem rather unexpected given the massive surge of reserves in March, but – if anything – it was the earlier figure that was anomalous, as it coincided with the influx of revenue to the government's account at BI.
- April's figure was brought down largely by the payment of government's foreign debt, specifically the maturing global bonds that amounted to USD 1.26 Bn, whereas no new global bonds were issued during the same month. The decline in FX liquidity may also be a sign of rising imports in April amid the Ramadan and Lebaran festivities. On the other hand, exports are expected to continue declining in line with commodity prices, resulting in a significant reduction in trade surplus.
- Nonetheless, the Rupiah still managed to strengthen during April 2023 thanks to the inflows of foreign capital, with USD 828 Bn in equities and USD 252 Bn in bonds. The increase in capital inflows reflects both concerns over slowing growth following the US banking crisis and also Indonesia's growing stature as one of the few havens of growth amid the expected slowdown. Meanwhile, BI's special term deposit facility for export receipts (DHE) has also continued to help at the margins (net gain of USD 225.75 Mn by the end of April) despite the limited number of working days.
- The overall FX liquidity situation, then, is still very much secure, especially given the continued increase in the amount of FX instruments held by banks. This should give Indonesia sufficient breathing room to weather the potential pressures that could come in Q2. Not only do we expect the trade surplus to narrow from before, but the service deficit could also widen as people take vacations abroad and amid the Haj pilgrimage. Furthermore, foreign funds could potentially flow out again after dividend payments, as in the common expression "sell in May

and go away". All in all, we expect the CA balance this year to flip into a narrow-ish deficit of 0.8 – 1.0% of the GDP.

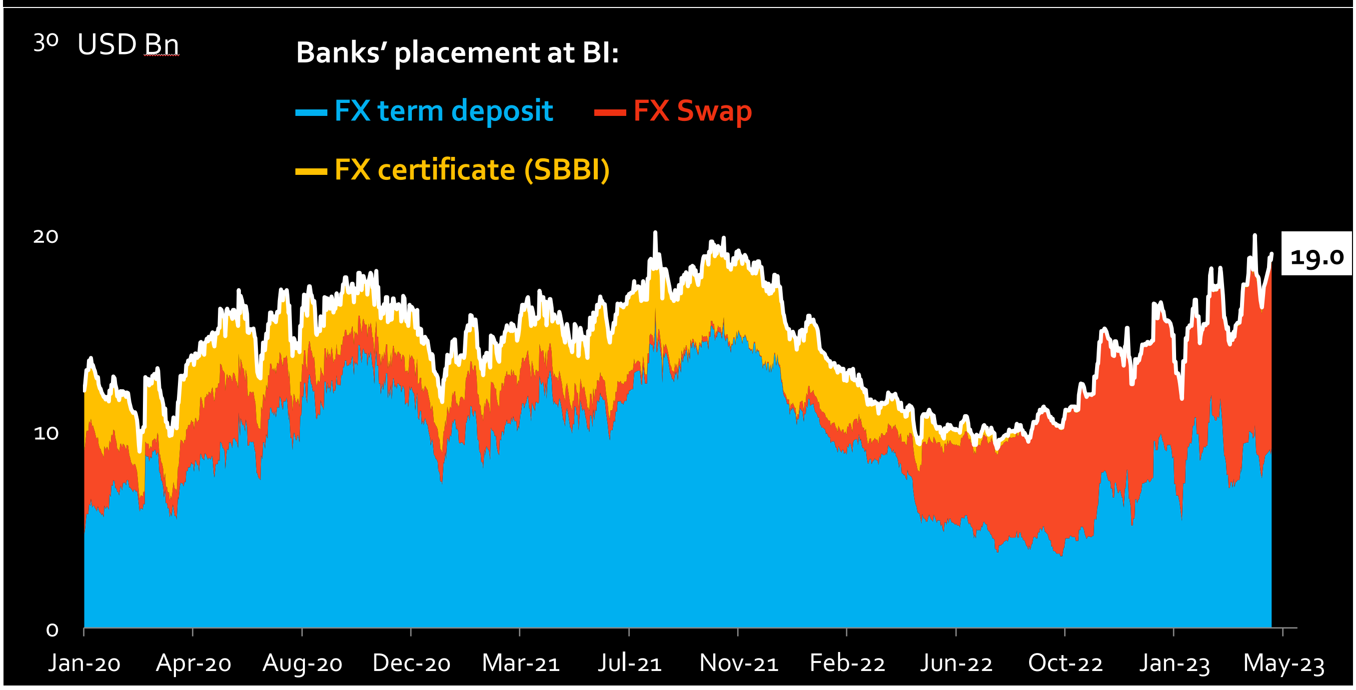
- All these factors suggest a limit to the appreciation of the Rupiah, after what has been a sterling start to the year. Still, this is not necessarily a negative situation for Indonesia. An excessively high exchange rate can be detrimental to the manufacturing sector, which often relies on lower costs to stay competitive. But nevertheless, the Rupiah strength does give us a more sanguine outlook with regards to domestic consumption, as well as investment that relies on imported capital goods.
- Despite the recent Fed rate hike, BI still has a good buffer and flexibility to maintain its current policy mix of 5.75% policy rate and accommodative macroprudential policies. The possibility of BI cutting rates this year is still limited unless the Fed gives a clear sign of pivot first. Given that inflation may persist even in the event of a US recession (due to geopolitics and supply-side factors) the cost-benefit calculus likely favor Indonesian policymakers to focus on fiscal measures instead. Note that fiscal stimulus would also "free" large amounts of government liquidity currently sitting at BI – fiscal stimulus thus doubles as monetary stimulus too.

Panel 1. Rupiah continue to strengthen in April 2023, interestingly moving more like a hard currency



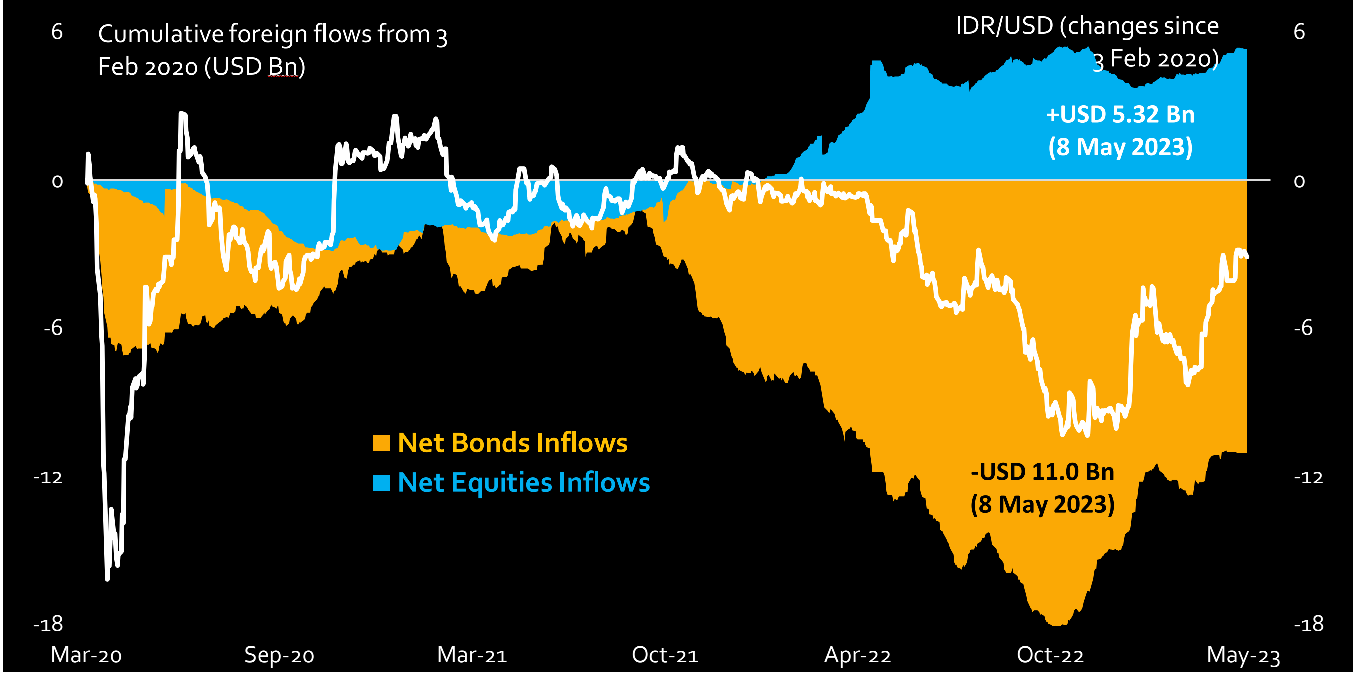
Source: Bloomberg

Panel 2. More than just DHE facility, banks' FX liquidity has greatly improved



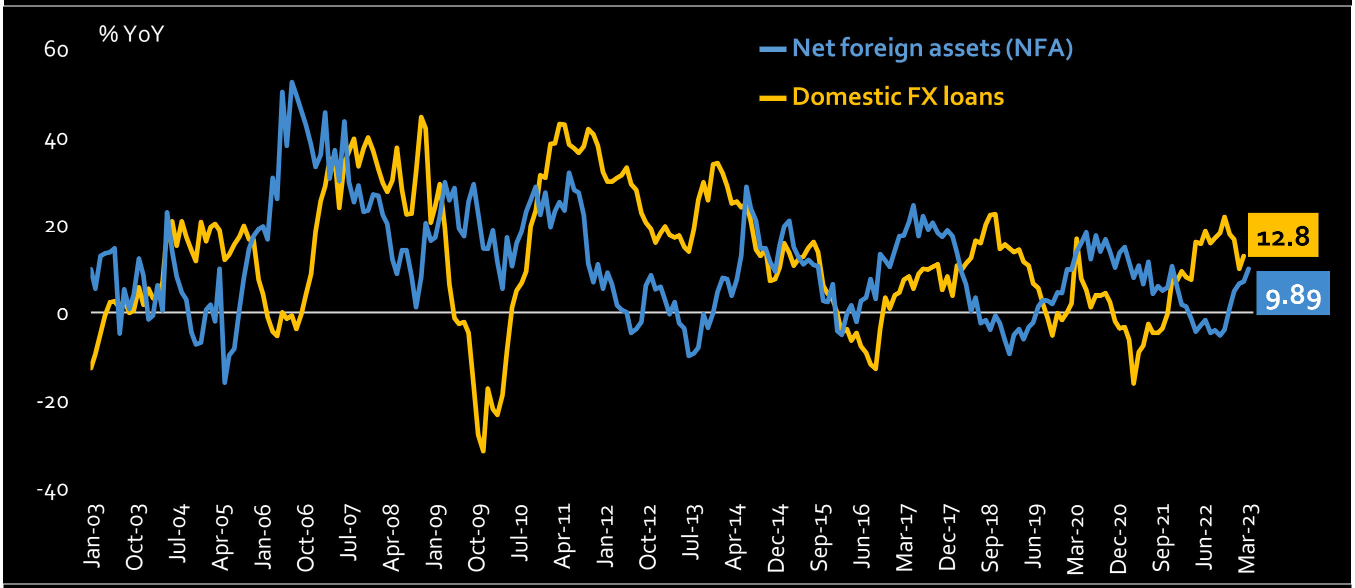
Source: BI

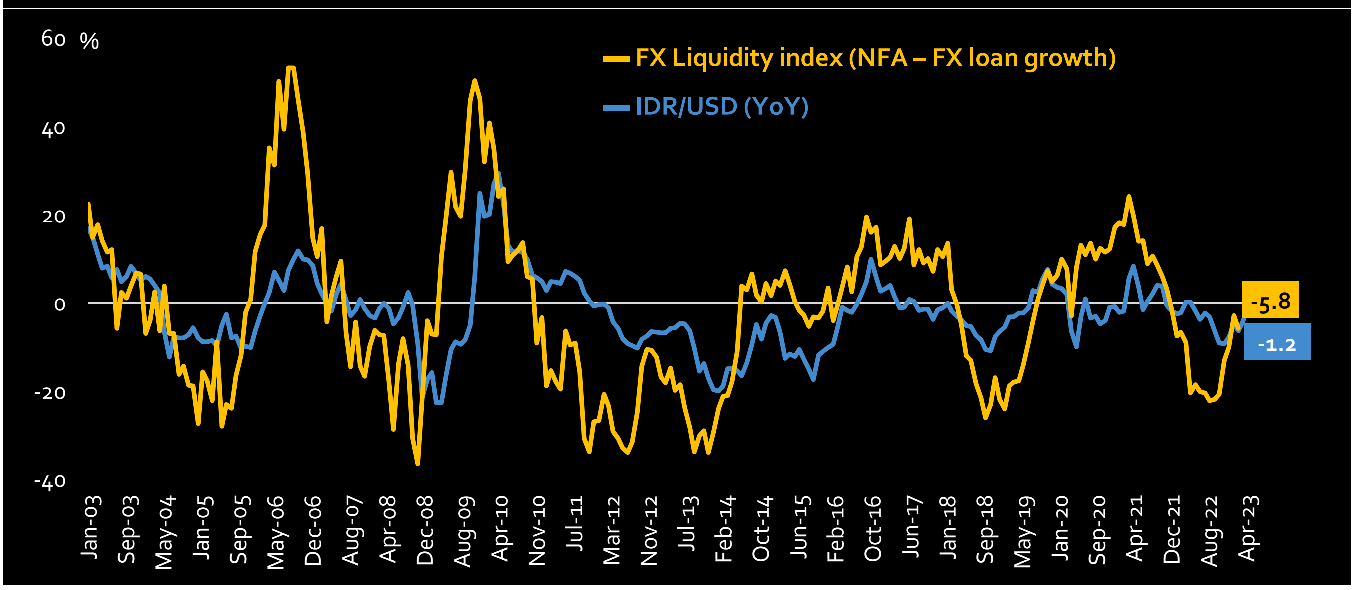
Panel 3. Capital inflows rose reflecting Indonesia as a growth haven amid global slowdown after US banking crisis



Source: Bloomberg

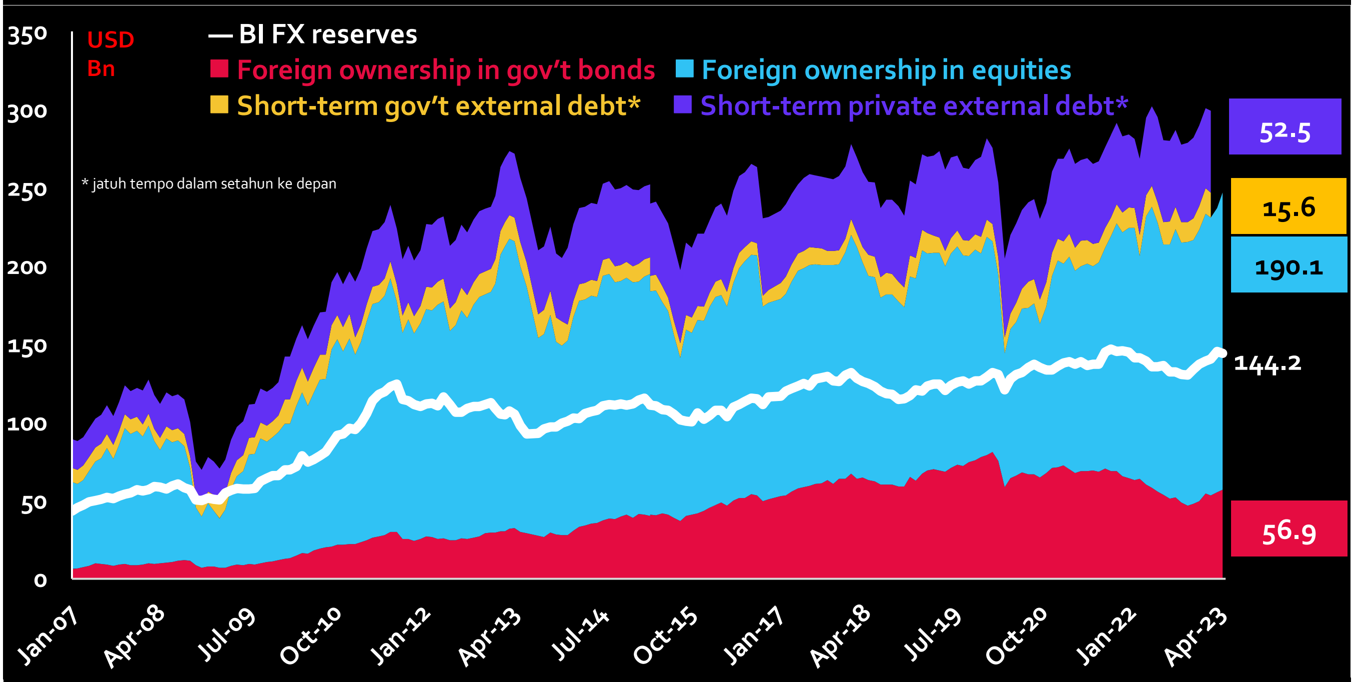
Panel 4. Increased foreign inflow improve domestic FX liquidity

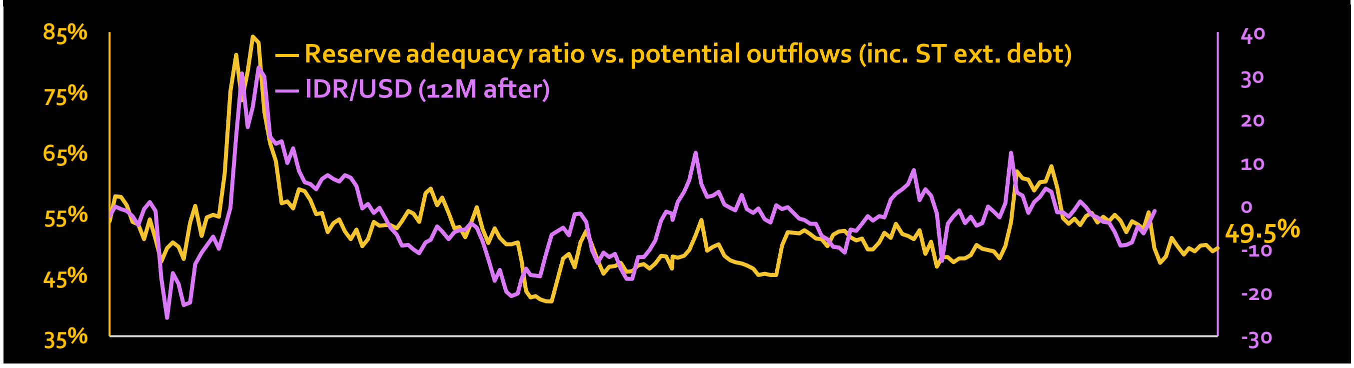




Source: BI, Bloomberg

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





Source: BI, Bloomberg

Selected Macroeconomic Indicator

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)
US	5.25	May-23	0.25
UK	4.25	May-23	-5.85
EU	3.75	May-23	-3.25
Japan	-0.10	Jan-16	-3.30
China (lending)	4.35	May-23	3.65
Korea	3.50	Apr-23	-0.20
India	6.50	Apr-23	0.84
Indonesia	5.75	Apr-23	1.42

Money Mkt Rates	5-May	-1 mth	Chg (bps)
SPN (1M)	3.70	3.33	37.2
SUN (10Y)	6.42	6.71	-28.4
INDONIA (O/N, Rp)	5.51	5.56	-5.5
JIBOR 1M (Rp)	6.40	6.40	0.0

Bank Rates (Rp)	Feb	Jan	Chg (bps)
Lending (WC)	8.89	8.75	13.80
Deposit 1M	4.18	4.00	17.94
Savings	0.67	0.67	0.25

Currency/USD	5-May	-1 mth	Chg (%)
UK Pound	0.791	0.800	1.08
Euro	0.908	0.913	0.60
Japanese Yen	134.8	131.7	-2.29
Chinese RMB	6.909	6.879	-0.44
Indonesia Rupiah	14,675	14,900	1.53

Capital Mkt	5-May	-1 mth	Chg (%)
JCI	6,787.6	6,833.2	-0.67
DJIA	33,674.4	33,402.4	0.81
FTSE	7,778.4	7,634.5	1.88
Nikkei 225	29,158.0	28,287.4	3.08
Hang Seng	20,049.3	20,274.6	-1.11

Foreign portfolio ownership (Rp Tn)	Apr	Mar	Chg (Rp Tn)
Stock	2,789.1	2,726.8	62.33
Govt. Bond	822.9	818.5	4.38
Corp. Bond	11.8	12.0	-0.20

Trade & Commodities	5-May	-1 mth	Chg (%)
Baltic Dry Index	1,558.0	1,473.0	5.8
S&P GSCI Index	545.6	588.3	-7.3
Oil (Brent, $/brl)	75.3	84.9	-11.3
Coal ($/MT)	168.5	223.5	-24.6
Gas ($/MMBtu)	1.85	2.13	-13.1
Gold ($/oz.)	2,016.8	2,020.4	-0.2
Copper ($/MT)	8,560.3	8,740.3	-2.1
Nickel ($/MT)	24,447.3	22,910.0	6.7
CPO ($/MT)	914.9	964.6	-5.1
Rubber ($/kg)	1.34	1.32	1.5

External Sector	Mar	Feb	Chg (%)
Export ($ bn)	23.50	21.38	9.89
Import ($ bn)	20.59	15.92	29.33
Trade bal. ($ bn)	2.91	5.46	-46.78
Central bank reserves ($ bn)*	145.2	140.3	3.48

Prompt Indicators	Mar	Feb	Dec
Consumer confidence index (CCI)	123.3	122.4	119.9
Car sales (%YoY)	2.6	7.4	9.0
Motorcycle sales (%YoY)	40.5	56.3	24.6

Manufacturing PMI	Apr	Mar	Chg (bps)
USA	47.1	46.3	80
Eurozone	45.8	47.3	-150
Japan	49.5	49.2	30
China	49.5	50.0	-50
Korea	48.1	47.6	50
Indonesia	52.7	51.9	80

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	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

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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