Balance of payments:
Improving, but still in purgatory

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Executive Summary

- Indonesia's balance of payments improved in Q3, with a deficit of USD -1.46 Bn, a significant recovery from Q2's USD -7.37 Bn although concerns persist for policymakers.
- The current account deficit improved to -0.25% of GDP (USD -0.86 Bn), driven by seasonal factors in the income account and a boost from tourism, particularly Chinese tourists.
- Despite a reduction in the financial account deficit, the widening gap between recorded and reported FDI raises concerns about delayed foreign investment amid uncertainties, while SRBI only partly compensated for massive outflows from government bonds.
- The Q4-23 BoP outlook is mixed, with fiscal disbursement potentially leading to more imports and wider CAD, while portfolio inflows have been rather limited despite the return of Fed pivot expectations.

- Indonesia's balance of payments (BoP) recorded a deficit of USD -1.46 Bn in Q3-23, marking consecutive shortfalls in two quarters. This was nevertheless a substantial improvement from the USD -7.37 Bn figure in the Q2, albeit not one that would provide much comfort for policymakers going forward.

- The current account (CA) showed a deficit of -0.25% of the GDP (USD -0.86 Bn), better than Q2 (-0.63% of GDP, USD -2.20 Bn). Half of the improvement, however, can be attributed to seasonality in the income account – namely, the lack of massive dividend repatriations.

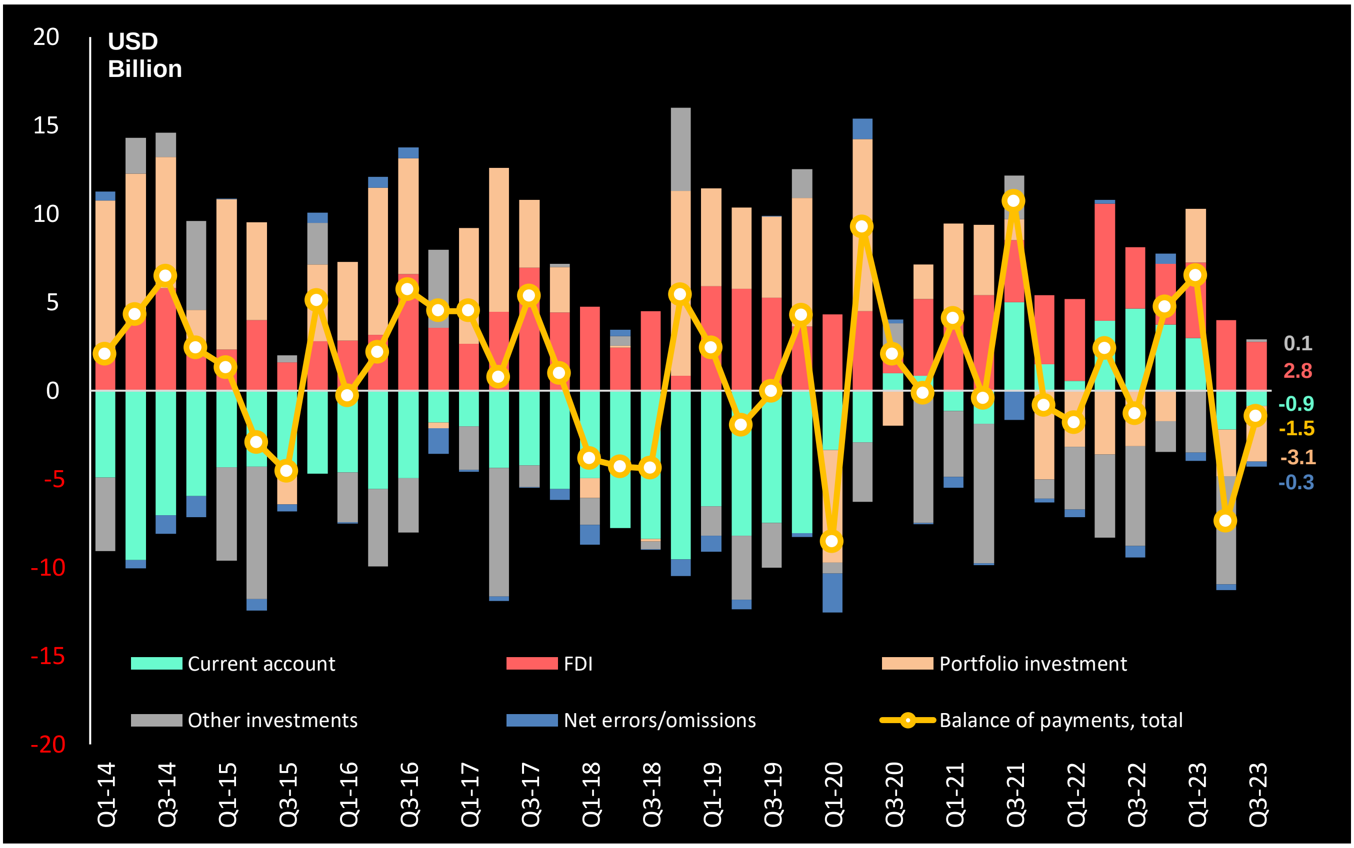
- The other half came from the services account, mainly tourism, plus (very) minor contributions from the goods account. Revenues from inbound tourism grew 35.7% QoQ, while outbound tourism actually declined by -1.1% QoQ – marking the biggest tourism surplus since the pandemic. The return of Chinese tourists in particular was a major part of this recovery.

- Goods account showed little change, which is expected given the flat trend of trade balance during Q3. Of course, given the sharp decline in trade surplus that preceded it, this is not necessarily a bad thing. In general, the sharp decline in commodity prices in recent periods has been offset by an increase in export volumes, propelled also by growing demand from China.

- Moving on to the financial account, the reduction of deficit (from USD -4.85 Bn to -0.29 Bn) may seem counter-intuitive given the sharper pressure that our capital market (and consequently the Rupiah) came under during Q3. This is primarily attributable to a substantial upswing in "other investment", which showed a net inflow of USD 1.78 Bn. As we discussed in our latest report on external debt, this appears to reflect FX borrowing by private corporations, particularly those in the advancing domains of manufacturing, mining, and power generation.

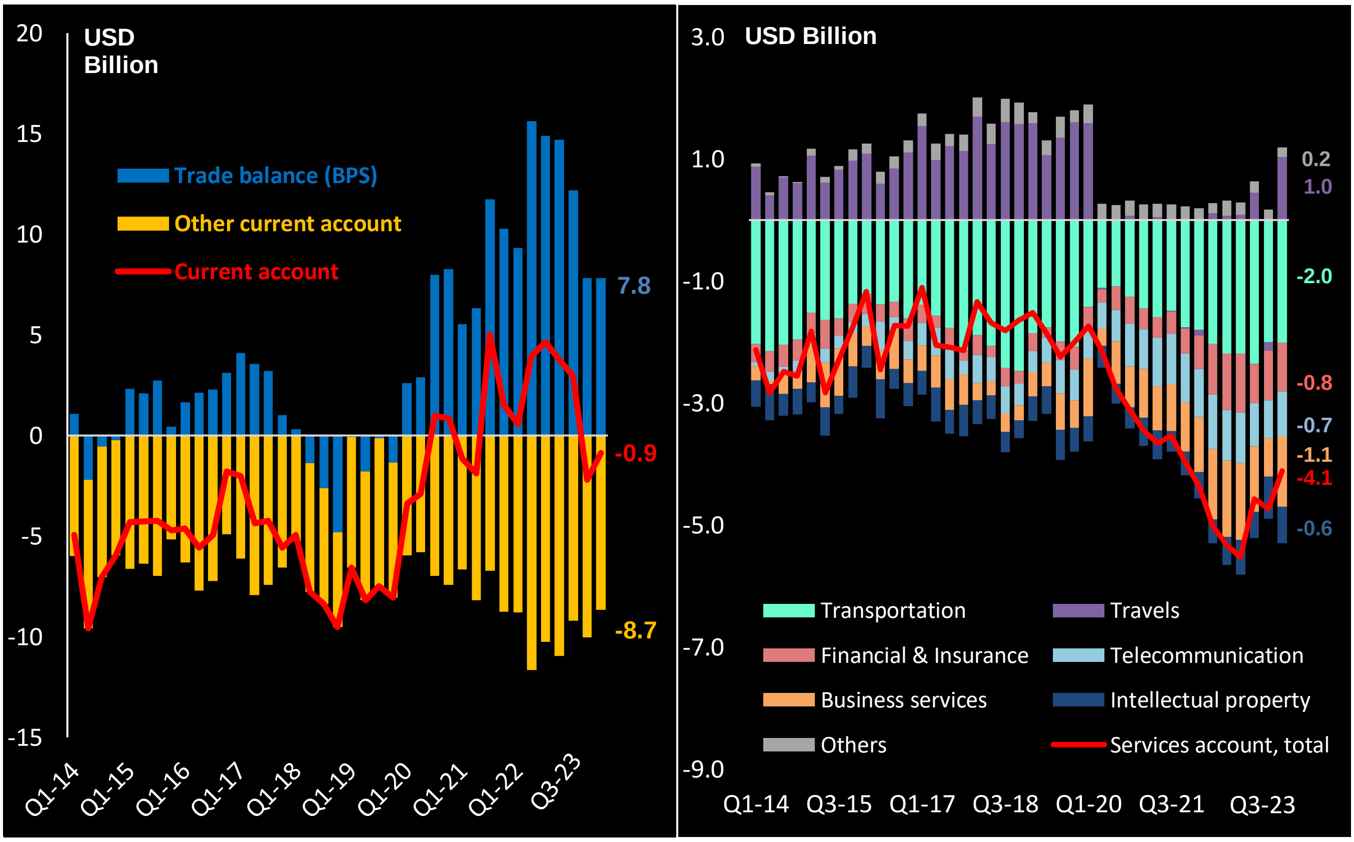
- On the other hand, it cannot go unnoticed that the gap between the FDI inflows as recorded by BI and the value of FDI as reported by BKPM – as we have often noted previously – has grown even wider. This widening is not immediately concerning, but it may well be an early sign that foreign investors are delaying their entry into Indonesia due to growing uncertainty, both on the global side (demand outlook and commodity prices) and domestic side (due to the upcoming Elections).
- The one area where the global pressure really told was, of course, the portfolio flows. Government bonds (SBN) took an especially sharp hit (USD – 1.57 Bn in net outflows), which was only partly offset by inflows into SRBI (USD 319 Mn), BI's new monetary instrument that is a securitization of SBN.
- Our BoP outlook for Q4-23 is quite mixed, with several factors suggesting improvement and others that suggest deterioration instead. The big trade surplus in October may seem to be a good sign, and a continuation of the "strong export volumes despite weak prices" theme that we saw in Q3. However, we are skeptical that October's numbers would hold up in the next few months, partly due to rice imports and oil restocking …
- … and partly due to bigger government spending that we expect in Q4, for seasonal and election-related reasons. This elevated government spending may indirectly amplifies imports by spurring consumer spending – something that we saw in Q2 following the (early) disbursement of social assistance and civil servant bonuses. The math certainly supports our contention: if the government sector shifts from a surplus (IDR 67.6 Tn) to a deficit (its target of IDR -598.2 Tn), it will inevitably translate into bigger CA deficit unless offset by greater private sector savings.
- On the portfolio side, meanwhile, severe outflows in October had given way to a much more favorable situation in November, as the market swung from fearing "higher for longer" to pining for a recession to deliver the vaunted Fed "pivot". The Rupiah's swift recovery certainly gives an impression that the financial account would show massive improvement in Q4.
- Facts on the ground, however, speak rather differently. Actual inflows in the three weeks since the latest FOMC meeting are nowhere as big as the outflows in October, such that we still see QTD net outflows of almost USD 1 Bn. And while we do agree that further rate hikes are increasingly less likely (both by BI and the Fed), it does not yet guarantee smooth sailing for the Rupiah going forward. As the market's positioning shifts towards a recession and early pivot (which the median investor now expect to happen either in May or Jun-24), the risk that sentiment could reverse sharply to the Rupiah's detriment is still very much present.

Chart 1. Significant improvement in both current and financial accounts helped to narrow the BoP deficit



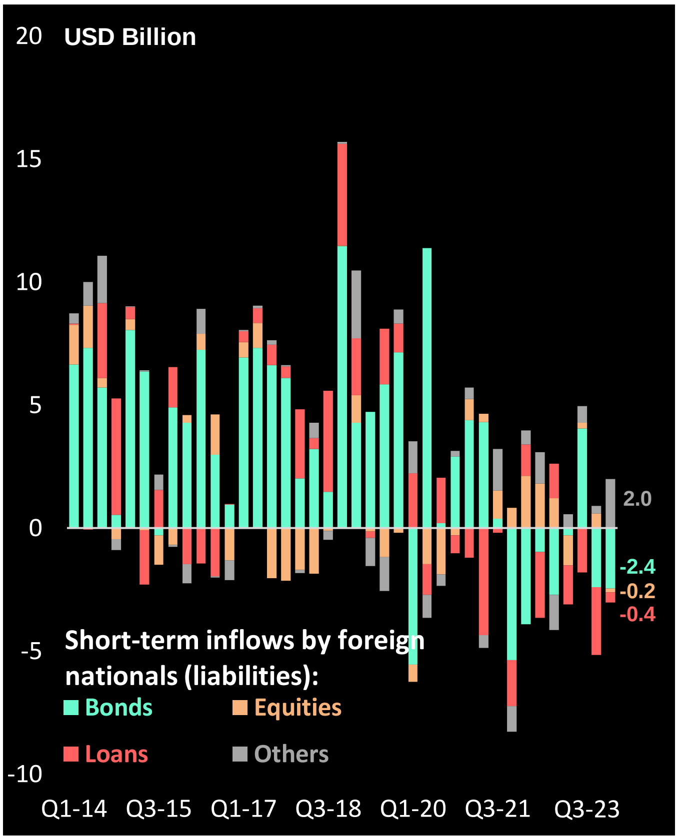
Source: Bank Indonesia

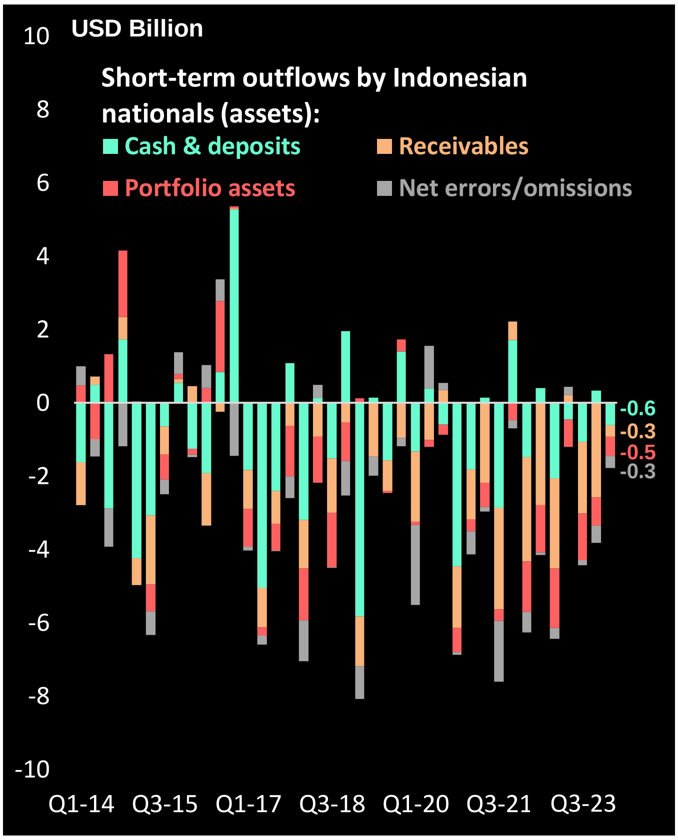
Panel 1. Widening trade surplus with some improvement from services (mostly travels) contributed to the narrowing of current account deficit



Source: Bank Indonesia, BPS

Panel 2. With recent US economic data showing a possible pivot scenario, may alleviate some pressures on Indonesia's domestic assets





Source: Bank Indonesia

Selected Macroeconomic Indicators

Table 1. Balance of payments (current USD Million)

	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	2020	2021	2022
CURRENT ACCOUNT	***4,629***	***3,745***	***2,960***	***-2,207***	***-860***	***-4,433***	***3,511***	***12,874***
(as % of GDP)	***1.36***	***1.14***	***0.89***	***-0.63***	***-0.25***	***-0.42***	***0.30***	***0.98***
A. Goods	17,623	16,951	14,681	10,133	10,269	28,301	43,806	62,672
- Non-Oil/Gas	25,160	22,958	19,013	15,164	15,868	29,954	57,804	89,773
- Oil/Gas	-6,481	-5,415	-3,996	-4,546	-5,177	-5,386	-12,965	-24,777
B. Services	-5,327	-5,525	-4,573	-4,727	-4,106	-9,755	-14,599	-20,246
C. Income	-9,077	-9,628	-8,629	-9,157	-8,487	-28,911	-31,961	-35,926
D. Current Transfers	1,410	1,947	1,481	1,543	1,464	5,932	6,264	6,374
CAPITAL TRANSACTIONS	**2.43**	**445.10**	**2.78**	**4.86**	**8.40**	**36.91**	**80.15**	**451.44**
FINANCIAL TRANSACTIONS	**-5,283**	**-46**	**4,015**	**-4,851**	**-290**	**7,884**	**12,492**	**-9,034**
A. Direct Investment	3,483	3,421	4,287	3,975	2,771	14,142	17,286	18,168
B. Portfolio Investment	-3,118	-1,716	3,030	-2,630	-3,129	3,369	5,086	-11,631
C. Derivative Instruments	8.55	-10.90	204.92	-83.16	-53.21	17.73	332.71	48.36
D. Other Investment	-5,656	-1,740	-3,507	-6,113	121	-9,645	-10,212	-15,620
NET ERRORS AND OMISSIONS	**-651.56**	**586.01**	**-460.66**	**-317.80**	**-321.05**	**-891.30**	**-2,622.30**	**-291.41**
BALANCE OF PAYMENT *(= change in BI international reserves)*	**-1,304**	**4,730**	**6,517**	**-7,372**	**-1,462**	**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	5.1
GDP per Capita (US$)	3927	4175	3912	4350	4784	4982
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.8
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,728
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	34.9
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.4

** Estimation of Rupiah's fundamental exchange rate

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