Macro Brief

Office of Chief Economist

BALANCE OF PAYMENTS

22 August 2023

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.00
Inflation (% yoy, avg)	4.21	3.79
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.96	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

Key Rates (%)	Dec-22	Aug-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.62
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.25
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

**) as of 22-Aug-23*

Source: Bloomberg

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Indonesia's current account balance returned to deficit, the first time since 2Q21

The current account balance (CA) experienced a deficit in 2Q23, reversing its previous surplus in 1Q23.

- The CA recorded a deficit of USD1.93 billion, or equivalent to -0.55% of the GDP, in 2Q23 (compared to USD2.98 billion or surplus of 0.90% of GDP in 1Q23). This deficit was primarily associated by the weakening global demand and the downward trend of commodity prices.
- The goods surplus narrowed down from USD14.70 billion in 1Q23 to USD10.35 billion in 2Q23. This decline was in line with the narrowing trade surplus that has been dragged down by the weakening performance of both non-oil & gas trade and oil & gas trade.
- The services deficit slightly widen by USD74 million, from deficit of USD4.58 billion in 1Q23 to USD4.66 billion in 2Q23. This was impacted by the deficit from travel sector amid the increase in trips related to Umrah and Hajj.
- The primary income deficit widened from USD8.61 billion in 1Q23 to USD9.15 billion in 2Q23. It was caused by the seasonal effect of an increase in the dividend payment to non-residents.
- The secondary income surplus slightly increased from USD1.47 billion in 1Q23 to USD1.52 billion in 2Q23. The increase was mostly sourced from grants received by the government amid relatively stable receipts of personal transfers.

The financial and capital account balance (FA) recorded a deficit in 2Q23.

- The FA recorded a deficit of USD4.96 billion in 2Q23, equivalent to -1.4% of the GDP, compared to USD3.69 billion surplus or 1.1% of GDP in 1Q23. This deficit was driven by net payments of the maturing corporate and government global bonds.
- Direct investment surplus remained relatively stable at USD3.31 billion in 2Q23, compared to USD3.86 billion in 1Q23. It reflected the maintained confidence of foreign investors of economic prospects and investment climate in Indonesia.
- Portfolio investment registered a deficit of USD2.59 billion in 2Q23, reversing the previous surplus of USD3.03 billion in 1Q23. This shift was mainly attributed to outflows in the domestic government securities (SBN) amidst heightened uncertainty in the global financial markets.
- Other investment reported a larger deficit of USD5.61 billion in 2Q23, compared to a deficit of USD3.41 billion in 1Q23.

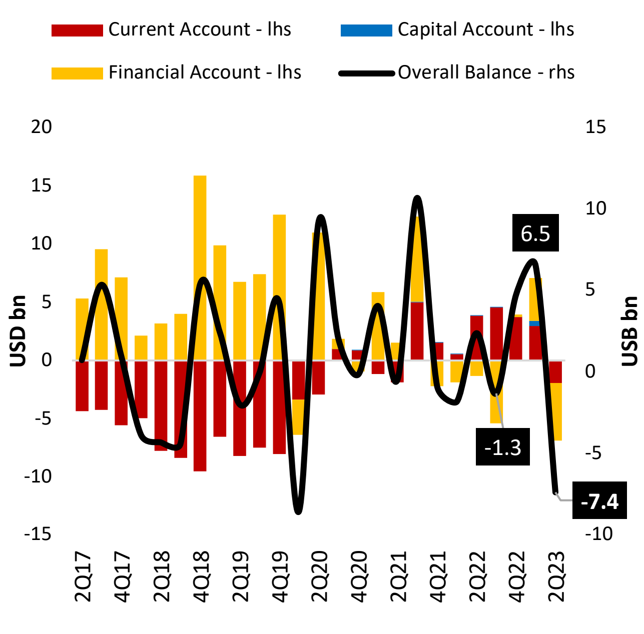
The balance of payments (BoP) experienced deficit in 2Q23, impacted by the lingering gloomy global economic prospects and lower commodity prices.

- As both CA and FA turned into deficit, the overall balance of BoP recorded a deficit of USD7.37 billion in 2Q23, reversing from USD6.52 billion surplus recorded in 1Q23.
- The foreign reserves at the end of 2Q23 notably declined to USD137.5 billion, equivalent to 6.0 months of imports and servicing government's external debt. Yet, it remained well above the international adequacy standard of 3 months. In comparison, in 1Q23, the foreign reserves stood at USD145.2 billion, equivalent to 6.2 months of imports and servicing government's external debt.

OUR VIEW: Our projection indicates the current account balance (CA) to record a manageable deficit in 2023.

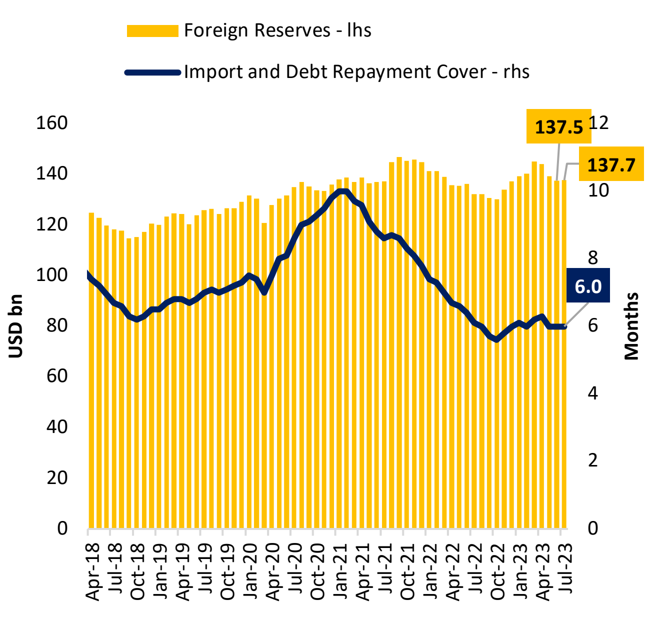
- *The CA is expected to reveal a minor deficit of -0.65% of the GDP in 2023, contrasting with a surplus of 0.96% of GDP seen in 2022.* The decline in the CA is primarily attributed to the weakening performance in the goods balance due to a deceleration in the growth of goods export. This slowdown is driven by declining commodity prices and a flagging global economy.
- The current state of the US economy is characterized by persistent inflation and a tight labor market. Consequently, the Fed is opting for an extended period of higher policy rates. This attempt is inducing a decrease in global demand, negatively impacting global trade, including China's external sector. Moreover, China's economic recovery is being impeded by a deteriorating property market, and the latest data suggests minimal indications of a growth rebound.
- With regards to the financial and capital account balance (FA), concerns about a global economic slowdown could trigger a risk-averse attitude in the stock market. Moreover, major central banks are leaning towards maintaining higher-for-longer global policy rates to counteract inflation, presenting challenges in attracting investments to the bond market.
- Encouragingly, Indonesia's inflation is predicted to continue moderating, remaining within the target range of 2 – 4% for the remainder of 2023. This will maintain a favorable difference in real interest rates (nominal interest rate minus inflation rate), rendering Indonesia's financial instruments relatively more appealing in comparison to peers, thereby enticing inflows.
- The government's initiatives to further advance the downstreaming of natural resources are expected to draw additional foreign direct investments (FDI) into Indonesia. However, measures aimed at retaining the proceeds from natural resource export through the enactment of Government Regulation No. 36 of 2023 concerning Export Proceeds of Foreign Exchange Exports from Exploitation, Management, and/or Processing of Natural Resources, could also hinder the placement of assets abroad.
- All in all, *we expect foreign reserves to remain sufficient. Our projection maintains that foreign reserves will hover around USD135 – 155 billion in 2023, in contrast to USD137.2 billion witnessed at the end of 2022.* This stance will provide support to the stability of the Rupiah against USD during a phase of elevated global uncertainty. *Our estimation places the Rupiah exchange rate at approximately IDR14,864 per USD by the end of 2023.*

Balance of Payments



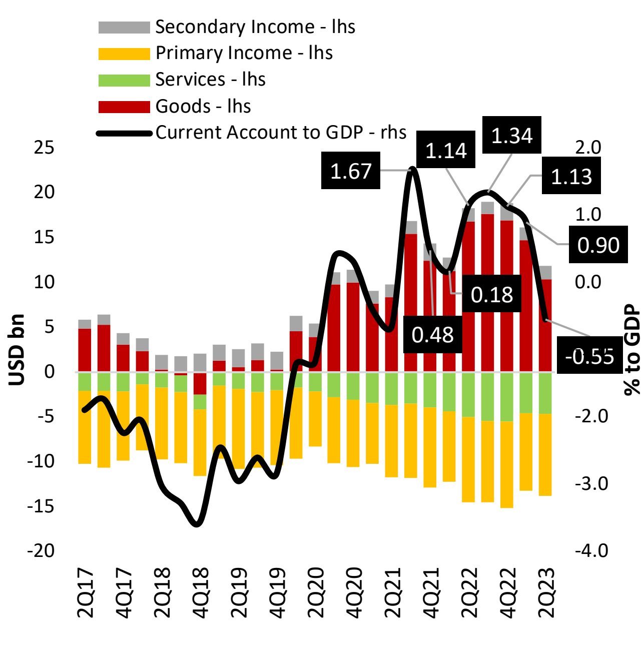
Source: Bank Indonesia

Foreign Reserves



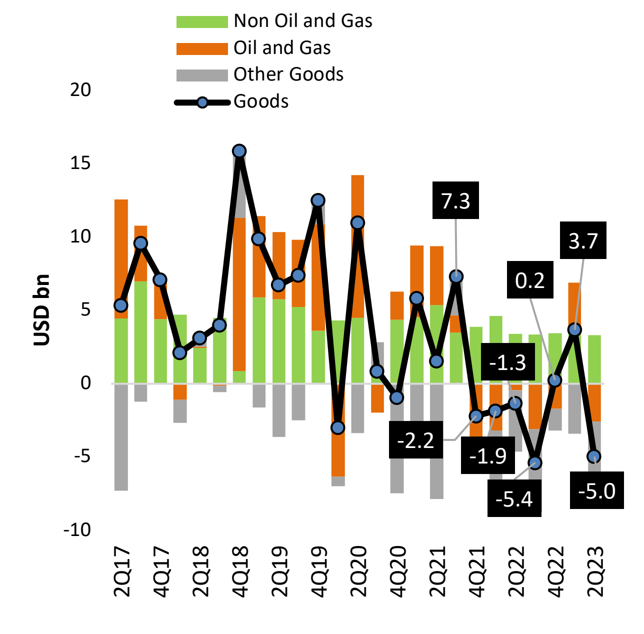
Source: Bank Indonesia

Current Account Balance



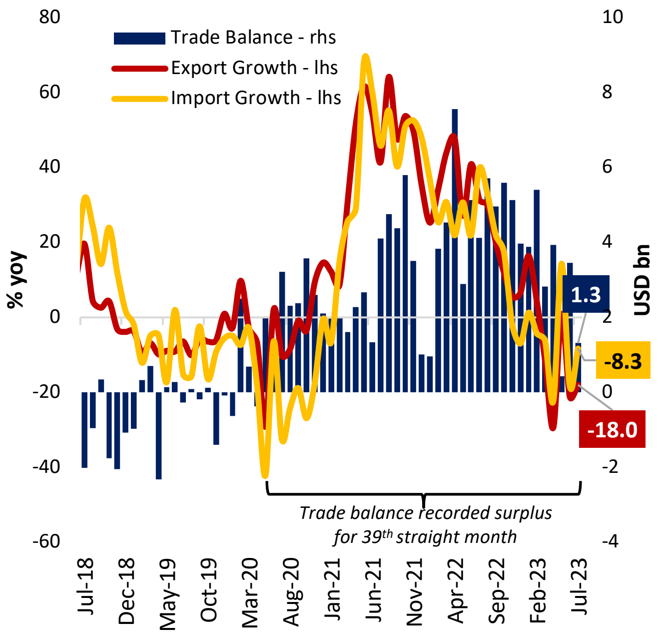
Source: Bank Indonesia

Financial Account Balance



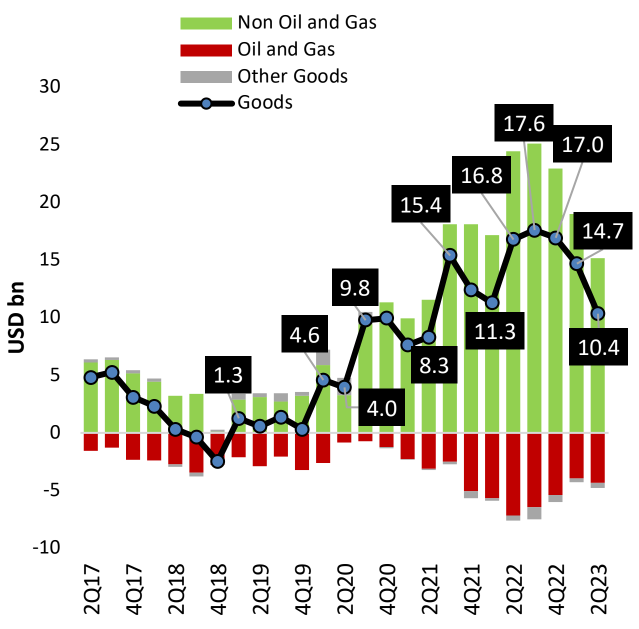
Source: Bank Indonesia

Trade Performance



Source: BPS

Goods Balance



Source: Bank Indonesia

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