Balance of payments:

Improvement on papers

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Executive Summary

- Indonesia's balance of payment stood at -USD 0.56 Bn in Q2-2024, driven mostly by the financial account surplus (USD 2.67 Bn) while the current account deficit widened to USD 3.02 Bn (0.9% of GDP).
- Apart from the seasonal effect-driven CA deficit, goods and services imports seems to be slowing down in Q2-2024, indicating a slowing demand condition at home and abroad.
- The sharp increase in the FA surplus is mostly attributed to BI. The relatively stronger Rupiah suggests that this pattern may not continue in Q3-2024, but the government's anticipated higher loan issuance and increased repatriation of export receipts may help the FA maintain its surplus.

- Indonesia's balance of payment recorded a USD 0.56 Bn deficit in Q2-2024, a stark increase compared to the USD 5.97 Bn deficit in the previous quarter. The USD 5.41 Bn increase in the Q2-2024 BoP number may seem like a good comeback story, but a more careful consideration of the data may show a mixed picture.

- Indeed, **the sharp improvement in the Q2-2024 BoP number is largely driven by components with less staying power , much of it short-term liabilities in the financial account (*see Chart 1*)**. Indonesia's BoP posture remains overshadowed by persistent current account (CA) deficits, as the CA side of the BoP recorded an even deeper deficit of USD 3.02 Bn (-0.9% of GDP) compared to the USD 2.16 Bn deficit in the previous quarter.

- **The growing CA deficit in Q2-2024 did not come as a surprise.** For instance, the USD 5.15 Bn deficit in the service account is the deepest in the past six quarters, driven by the spiking travel imports amid the Hajj pilgrimage during the quarter. Hence, the growing service deficit could be expected to correct itself in the upcoming period, given that this widening deficit is primarily a product of seasonal factors.

- Looking beyond its seasonality, the service account revealed other interesting readings. **The Indonesian economy appears to have spent USD 0.58 Bn less on imports of business services, signalling a decline in investment and expansion activities within the domestic corporate sector *(see Panel 1)***. The lower business services imports further strengthen our observation of the end of the corporate CAPEX cycle in Q2-2024, as the uncertain domestic aggregate demand growth seems to compel businesses to take a more cautious approach.

- Businesses' ability to spend on business services or other spending related to expansion or other investments may also be suppressed by their still-high dividend payment. Despite the marginal increase in earnings from exports, Indonesia's dividend payment abroad refuses to budge, as dividend payments on direct and portfolio investments have increased by USD 0.57 Bn combined. This reading further indicates the structural weakness in Indonesia's approach to FDI, given that much of the inbound investment (outside of the base metal sector) seems to be targeted to open the Indonesian market to foreign investors, rather than strengthening Indonesian capacity to export.

- Meanwhile, the goods side of the CA also did not provide much of a fighting chance. **The economy may have recorded a slight increase in its goods balance, but this was primarily driven by the USD 0.51 Bn reduction in oil imports rather than a marked improvement in exports**. Given the ongoing slowdown in global manufacturing activities (and its implication on the demand for commodities), **a lower domestic aggregate demand still reflects the path of least resistance to improve Indonesia's CA balance**, despite its negative consequence on the growth potential.

- A lower GDP growth, of course, is an anathema for the government, especially amid the ongoing transition. Indeed, the draft 2025 state budget reveals the government's target of 5.1% YoY real GDP growth in 2024, rising to 5.2% in 2025. Ergo, a marked improvement in the CA balance may not be something to beTop of Form expected in the short term, putting the burden on the financial account (FA) side of the BoP to make up for the CA deficit.

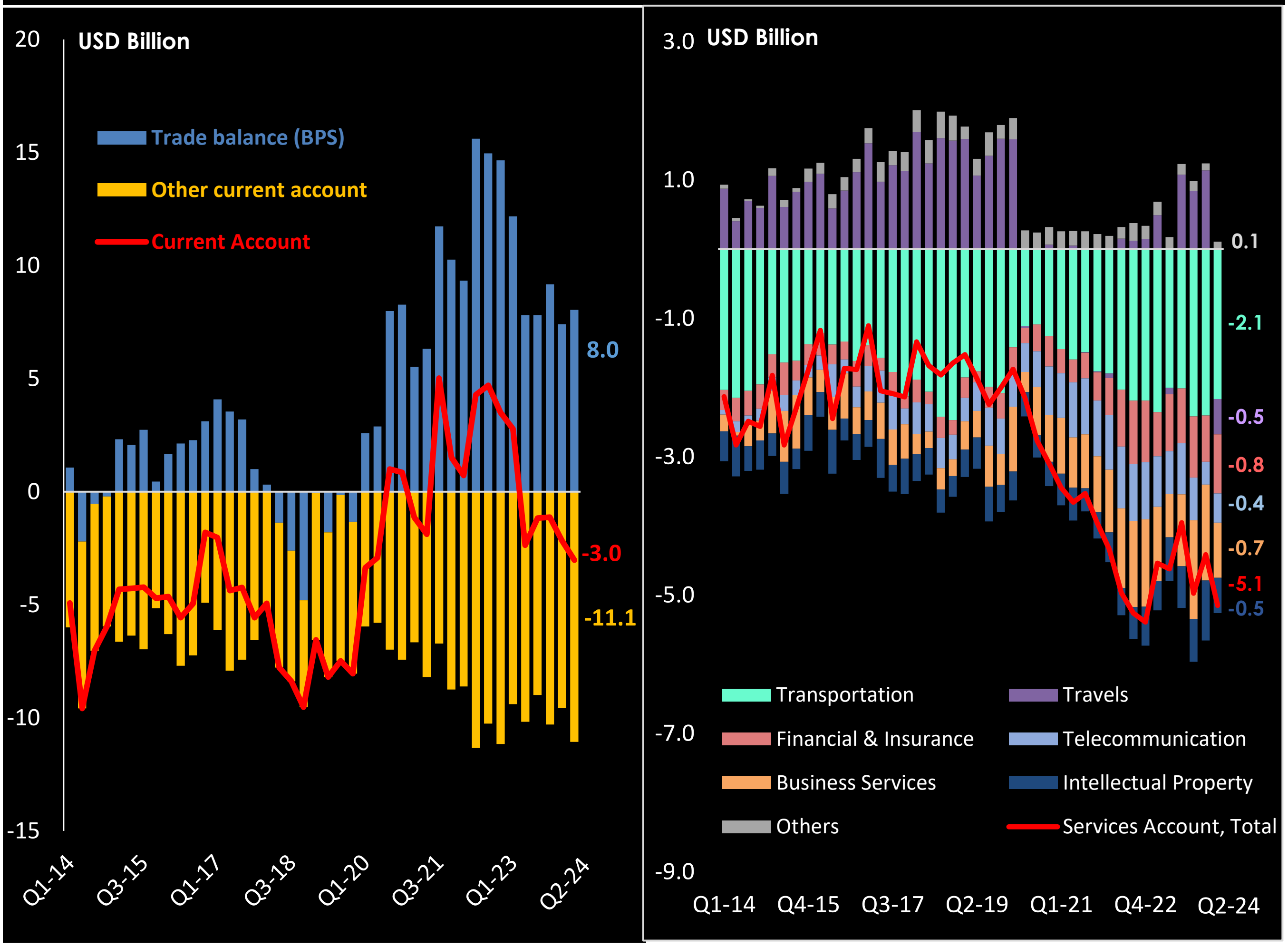
- As briefly mentioned above, the sharp improvement in the Q2-2024 BoP number is largely attributed to the USD 4.98 Bn increase in the Financial Account, alongside a narrower statistical discrepancy. Much of the discussion on this topic is already covered in a previous report on Indonesia's Q2-2024 external debt posture, but the gist is as follows: **efforts to stabilise the Rupiah leads to Bank Indonesia increasing its SRBI issuance, hence inviting foreign inflows to the short-term instrument that leads to the USD 5.54 Bn QoQ increase in financial liabilities attributed to the monetary authority *(see Panel 2)***. At the same time, the government have also slowly returned to the sovereign bond market, as indicated by the USD 0.36 Bn surplus in the government liabilities side of the financial account compared to the USD 2.29 Bn deficit recorded in the previous quarter.

"Absent another upswing in global commodity prices, a lower domestic aggregate demand condition remains the surest way to improve Indonesia's CA balance"

- Similar to what happened in the past two quarters, **the spiking financial account surplus may again correct itself in the next few quarters**. For one, the watershed of maturing SRBI in the upcoming months may spark an outflow from the central bank liabilities' side of the portfolio account, given that the now stronger Rupiah (relative to its value between May and July 2024) should be taken by the central bank as a window to wind down SRBI outstanding in its balance sheet. The draft 2025 state budget also reveals the government's growing SBN issuance in the upcoming year, suggesting that some of the outflows from the SRBI market may (hopefully) rotate back to the SBN market and, thus, neutralising the impact of maturing SRBIs on the portfolio side of the FA balance.

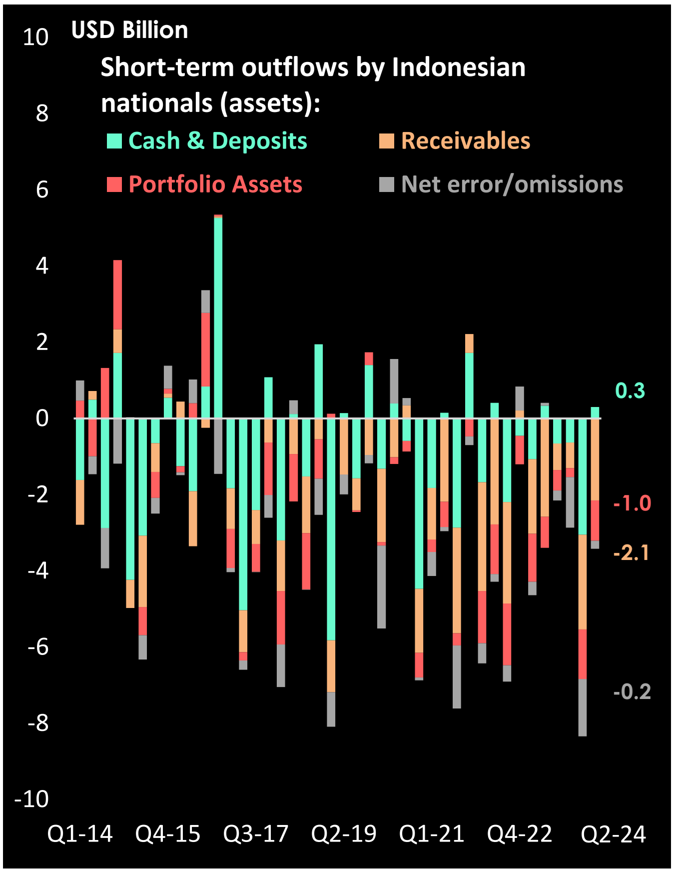
- Despite our neutral assessment of the sharp improvement in the FA balance (especially on the portfolio side of the account), the other investment side of the account seems to reveal a better story. Despite still recording a deficit, the USD 2.09 Bn deficit in the other investment account is a sharp contrast compared to the USD 4.44 Bn deficit recorded in Q1-2024, driven mostly by lower cash placement abroad by the private sector.
- **The lower cash placement abroad seems to reflect a shift in the private sector's strategy to manage their liquidity.** Domestic companies' treasurers seem to now prefer keeping their liquidity at home, leading to an increase in domestic banks' placement on BI's FX swap facility of late. **The improving domestic FX liquidity condition, of course, should contribute to strengthen the Rupiah's value, justifying BI's decision to keep the policy rate high for a while longer to sustain this trend**. However, it could also be argued that the Rupiah has been punching above its fundamental value in the past week, while the potential (and gradual) unwinding of SRBI from BI's balance sheet may also bring the Rupiah closer to the government's 16,100 USD/IDR assumption in 2025.

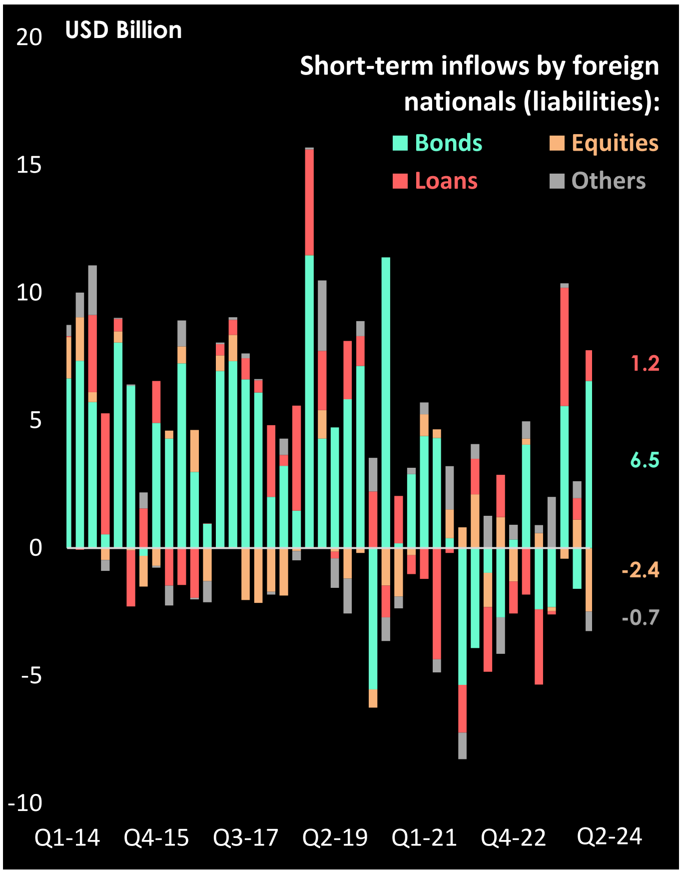
Panel 1. **The seasonal effect-driven increase in travel imports hide the lower deficits in other services accounts.**



Source: Bank Indonesia, BPS

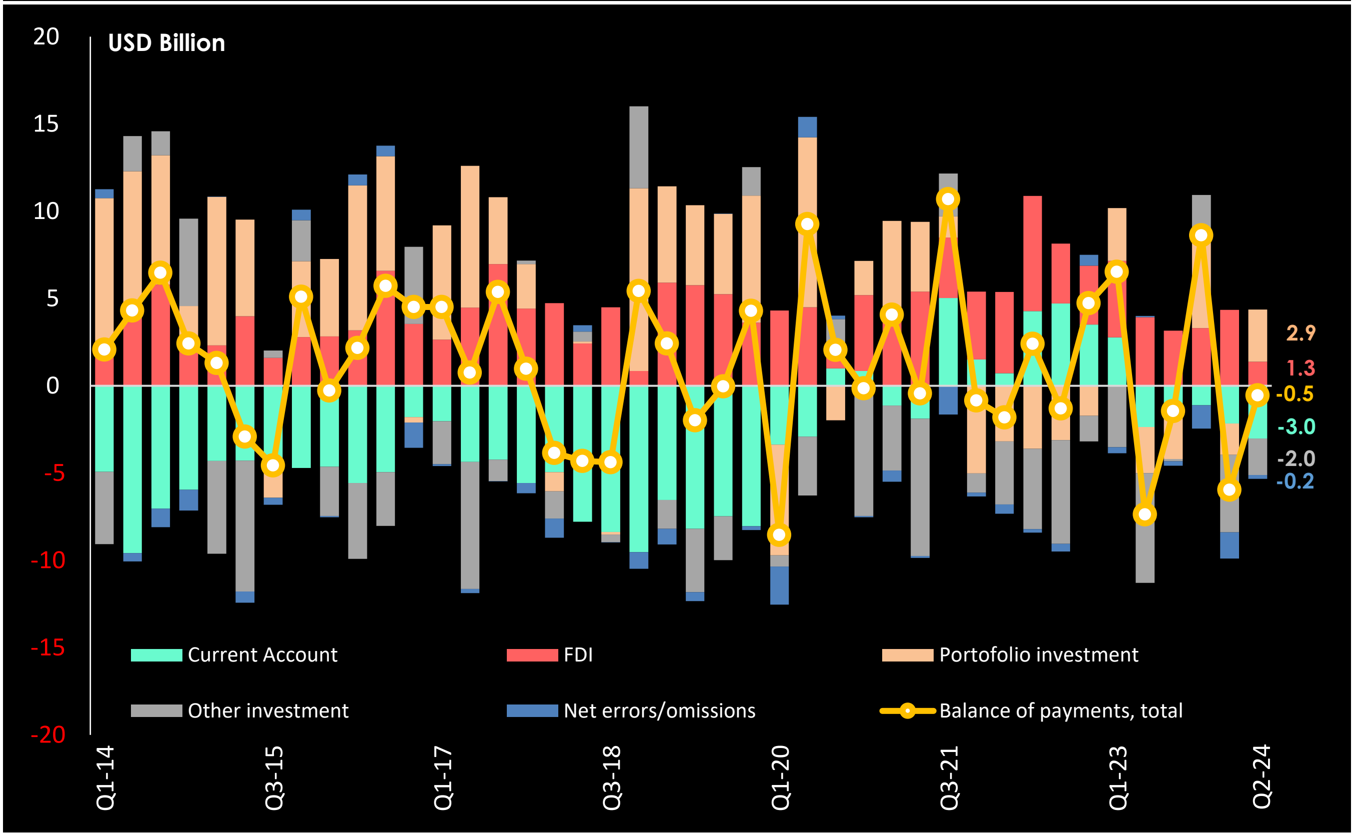
Panel 2. BI's effort to stabilise the Rupiah leads to a sizable capital inflow to the SRBI market in Q2-24, but this pattern may not continue given the now-stronger Rupiah.





Source: Bank Indonesia

Chart 1. Indonesia's balance of payment seems to be improving in Q2-2024, but this improvement is due to short-term liabilities rather than more durable factors.



Source: Bank Indonesia, BPS

Table 1. Balance of payments (current USD Million)

	2020	2021	2022	2023	Q3-23	Q4-23	Q1-24	Q2-24
CURRENT ACCOUNT	***-4,433***	***3,511***	***13,215***	***-1,880***	***-1,171***	***-1,120***	***-2,161***	***-3,021***
(as % of GDP)	***-0.42***	***0.30***	***1.00***	***-0.11***	***-0.34***	***-0.33***	***-0.64***	***-0.88***
	28,301	43,806	62,672	46,453	10,162	11,440	9,823	9,955
	29,954	57,804	89,773	67,738	15,867	17,694	15,077	15,174
	-5,386	-12,965	-24,777	-19,658	-5,284	-5,869	-4,969	-4,667
	-9,755	-14,599	-19,957	-18,089	-3,954	-4,976	-4,417	-5,152
	-28,911	-31,961	-35,303	-35,608	-8,631	-8,822	-8,944	-9,291
	5,932	6,264	5,803	5,365	1,252	1,239	1,378	1,468
CAPITAL TRANSACTIONS	**36.91**	**80.15**	**476.19**	**43.28**	**8.40**	**27.25**	**2.84**	**3.98**
FINANCIAL TRANSACTIONS	**7,884**	**12,492**	**-9,157**	**9,994**	**-40**	**11,039**	**-2,305**	**2,672**
	14,142	17,286	18,067	14,766	3,157	3,308	4,347	1,379
	3,369	5,086	-11,631	2,250	-3,020	4,880	-1,791	2,994
	17.73	332.71	48.36	167.29	-53.21	98.74	-420.61	392.86
	-9,645	-10,212	-15,642	-7,190	-124	2,752	-4,441	-2,094
NET ERRORS AND OMISSIONS	**-891.30**	**-2,622.30**	**-535.12**	**-1,856.76**	**-259.02**	**-1,328.67**	**-1,507.00**	**-211.44**
BALANCE OF PAYMENT *(= change in BI international reserves)*	**2,597**	**13,461**	**3,999**	**6,301**	**-1,462**	**8,617**	**-5,970**	**-557**

Source: Bank Indonesia

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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US$ Bn)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.5

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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