Balance of payments:
Temporary and lasting good news

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22 November 2024

Executive Summary

- Indonesian BoP recorded a surplus of USD 5.9 Bn for Q3-24, up from USD 0.56 Bn in Q2-24. Financial account surplus widened to 6.6 Bn while current account deficit narrowed to USD -2.2 Bn.
- The decline in CA deficit was primarily caused by seasonal factors, as tourism to Bali increased, the Hajj pilgrimage has passed, and dividend payments to non-residents declined.
- Goods account declined slightly (USD -0.7 Bn) compared to previous quarter, but this largely stems from improvement in our terms of trade, while real exports have declined.
- Strong portfolio inflows in Q3 were driven by anticipation of Fed rate cuts, but things are likely to reverse sharply in Q4 on "Trump trade".
- FDI flows showed genuine improvement and reached post-pandemic high in Q3. Sustained FDI inflows would be necessary to offset volatility in other areas of the BoP

- Indonesia's balance of payments (BoP) recorded a surplus of USD 5.9 Bn for Q3-24, a much welcome increase compared to deficit of USD 0.56 Bn back in Q2. Much of this surplus came from improvement in the financial account (FA) from USD 3.6 Bn in Q2 to USD 6.6 Bn in Q3. Current account (CA) deficit narrowed as well from USD -3.2 Bn to USD -2.2 Bn.

- The decline in our CA deficit was caused by improvement in our services and income account, which managed to more than offset the decline in our goods account. The improvement was more than likely caused by seasonal effects, as Australian tourists seek Bali as a cheap winter vacation destination. The end of Hajj season added further to the travel surplus, totaling USD 1.64 Bn compared to last quarter. If we take travel services out of the equation, our services account would **decline** by USD 676.86 Mn.

- Looking deeper at income account tells a more interesting, albeit also seasonal, story. The decline of dividend repatriation by foreign investors is not too surprising, given that dividend payouts tend to be highly seasonal (with Q2 usually being the peak of dividend outflows with Q3 in 2nd place). However, the decline in this particular Q3 was bigger than usual (-41.5% QoQ% compared to -11.5% QoQ in 2019-23).

- This bigger than usual decline may suggest less profits and less dividend payout by Indonesian public companies in Q3, but it can also happen due to decreasing foreign equity ownership. Our supporting data seems to suggest the latter, given massive outflows from Indonesian stocks in the quarter prior. On the other hand, public companies showed that profit growth in Q3 has returned to positive, compared to negative profit growth in the preceding two quarters.

- Goods balance declined from USD 10 Bn to USD 9.3 Bn. The numbers are slightly disappointing albeit otherwise expected, but a deep dive reveals a more worrying trend. The increase in non-oil exports in Q3 was solely driven by rising prices (10.4% YoY), while real exports (i.e. volume-wise) fell by 3.8%. Meanwhile, real non-oil imports increased by 12.2% YoY, but import prices only rose by 0.5%.

- What explains the stark trajectory difference? As we have often mentioned, the imbalance in China's economic activities probably has a lot to do with it. Strong supply but weak demand has led to inventory buildup across Chinese industries, which are eventually exported to countries like Indonesia at discounted prices.

- For commodities (especially metals), China's high inventory levels has led to weaker demand, and exporting countries like Indonesia has had to curb production volumes just to maintain prices. This explains the falling export volumes, while export prices have been boosted by the recent surge from CPO.

- On the FA side, both direct financial account and portfolio account showed improvement from the preceding quarters, with "other investment" recorded a deficit. The deficit (USD 8.55 Bn) in other investment account was quite extreme, almost two standard deviations below the mean, with the bulk of it stemming from private cash and deposits.

- What might explain this "cash flight"? One possibility is speculation, as the Rupiah suddenly strengthened in Q3 to almost Rp 15,000/USD which might have led some to take advantage by buying up more foreign currencies. Others might also have sold their Rupiah in favor of cryptocurrencies, ahead of the surge in prices that we are now seeing. If our interpretation(s) is correct, this flight is probably a one-off event—but nonetheless BI needs to be more vigilant against such possibilities.

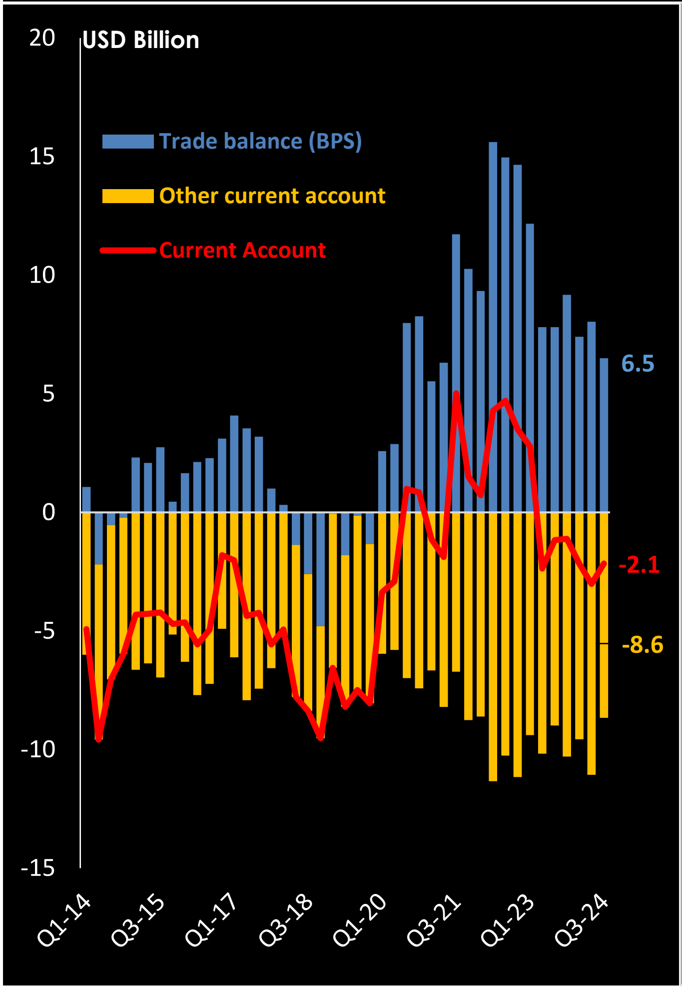
- Meanwhile, the increase in portfolio inflows was largely predictable, given the market outlook in Q3 which put great stock into rather aggressive easing by the Fed. The bulk of the inflows went to government debt and SRBI, while flows to private assets were more mixed—stocks recorded net inflows of USD 2.36 Bn but corporate bonds showed outflows of USD 953 Mn.

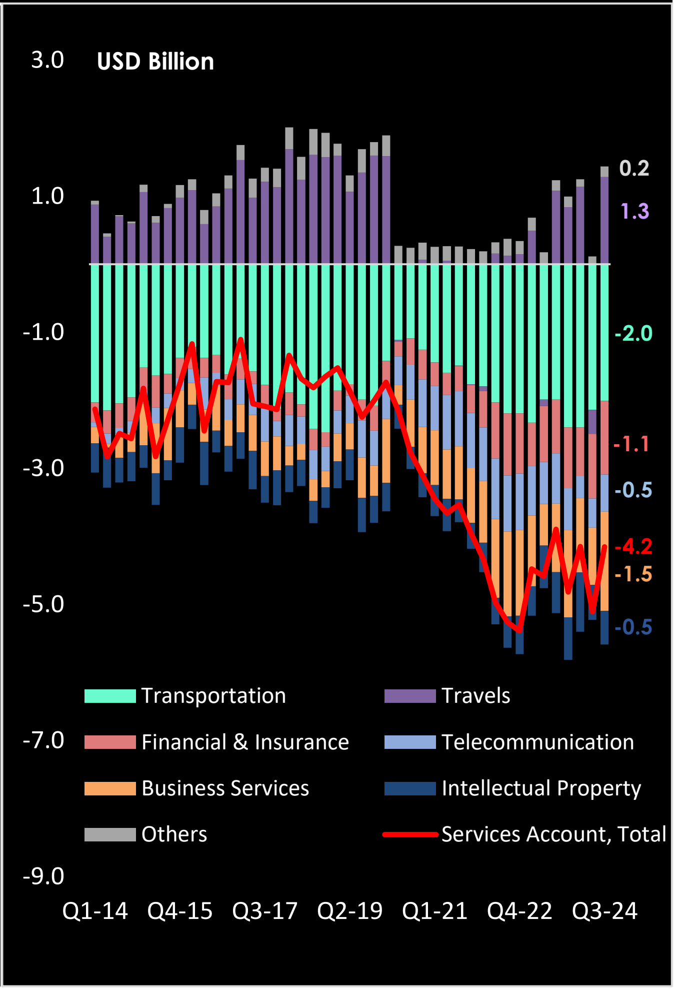
- Unfortunately, the situation may be very different in Q4, with the market now in a risk-off mood following Donald Trump's election victory. The ongoing selloff in Indonesian government bonds and equities should be partly offset by SRBI issuance, although the large amount of maturing SRBI means that BI's gross issuance needs to be much higher.

- Meanwhile, there are little signs that the CA deficit will markedly improve in Q4—other than seasonal effect and rising CPO prices. Indeed, rising government spending in Q4 amid the Regional Elections may have the effect of widening the savings-investment gap, at least on the public side, which means private sector savings may have to rise for the CA to improve.

- Still, it would be incorrect to say that this BoP improvement is made of sands, as our direct investment account tells a much happier story. Direct equity investment (which acts as an approximation for FDI) reached USD 7.49 Bn, the highest number since Q2-19. Unlike portfolio investment which can switch on a dime due to global market outlook, FDI tends to be more stable and can contribute directly to job creation, which Indonesia greatly needs to offset recent job losses in the formal manufacturing sector.

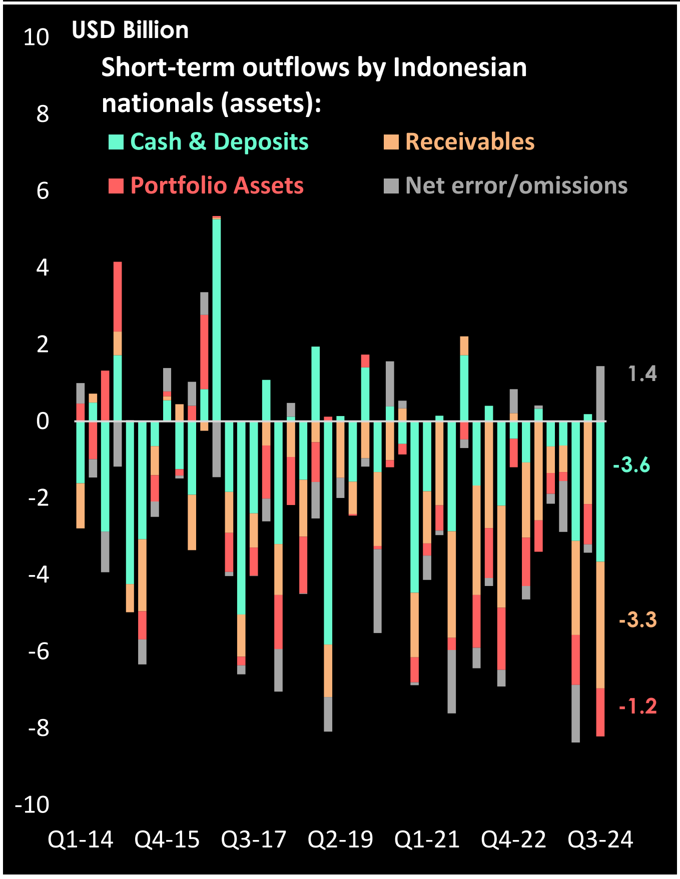
Panel 1. **The decline in CA deficit is mainly caused by seasonal factors**

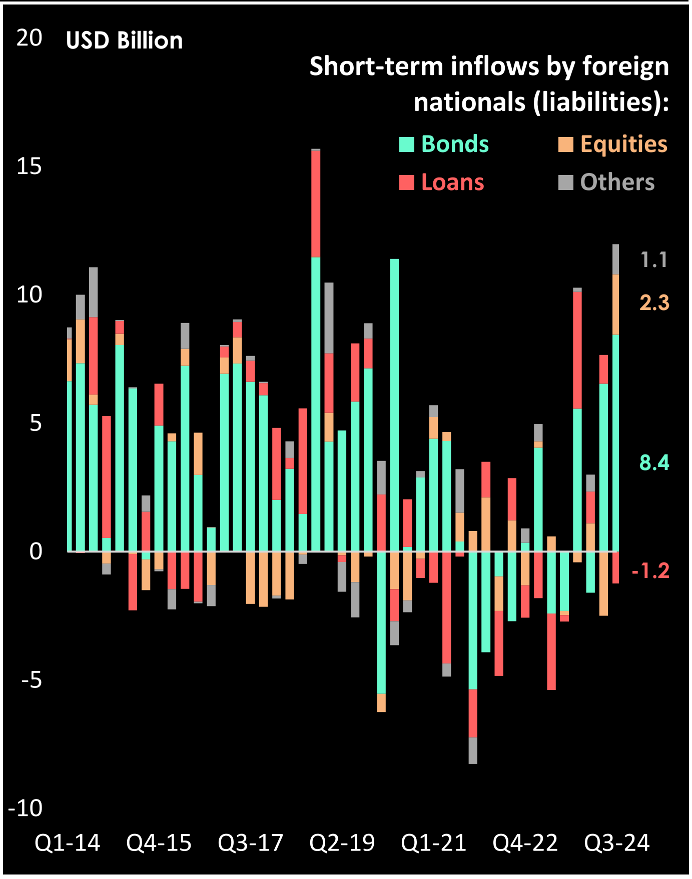




Source: Bank Indonesia, BPS

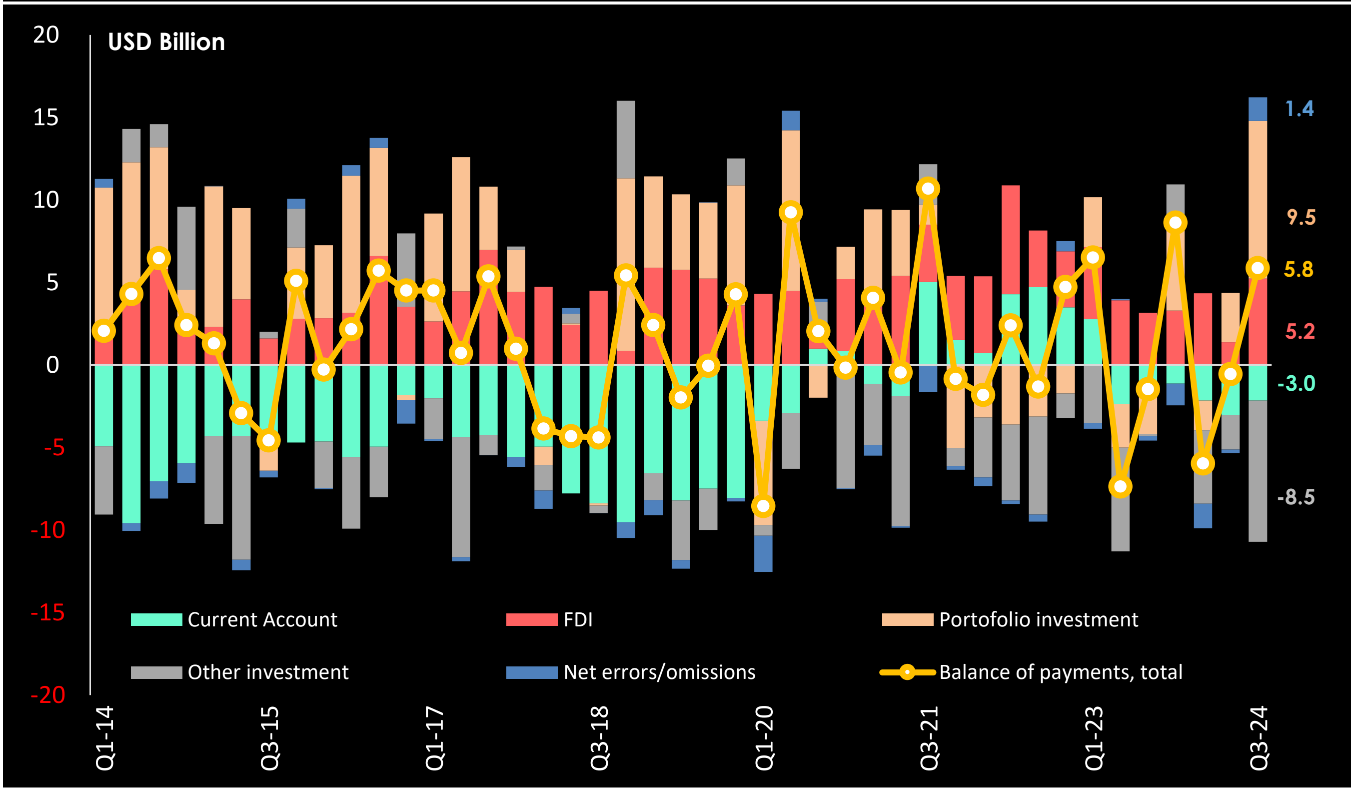
Panel 2. **Portfolio inflows driven by purchase of government bonds and equities, but less SRBI**





Source: Bank Indonesia

Panel 3. **Indonesia's Balance of Payments improvement would have long lasting effects due to a massive increase in FDI**



Source: Bank Indonesia, BPS

Selected Macroeconomic Indicators

Table 1. Balance of payments (current USD Million)

	2020	2021	2022	2023	Q4-23	Q1-24	Q2-24	Q3-24
CURRENT ACCOUNT	***-4,433***	***3,511***	***13,215***	***-1,880***	***-1,120***	***-2,161***	***-3,021***	***-2,150***
(as % of GDP)	***-0.42***	***0.30***	***1.00***	***-0.11***	***-0.33***	***-0.64***	***-0.88***	***-0.60***
A. Goods	28,301	43,806	62,672	46,453	11,440	9,823	9,955	9,289
- Non-Oil/Gas	29,954	57,804	89,773	67,738	17,694	15,077	15,174	14,760
- Oil/Gas	-5,386	-12,965	-24,777	-19,658	-5,869	-4,969	-4,667	-4,439
B. Services	-9,755	-14,599	-19,957	-18,089	-4,976	-4,417	-5,152	-4,152
C. Income	-28,911	-31,961	-35,303	-35,608	-8,822	-8,944	-9,291	-8,864
D. Current Transfers	5,932	6,264	5,803	5,365	1,239	1,378	1,468	1,577
CAPITAL TRANSACTIONS	**36.91**	**80.15**	**476.19**	**43.28**	**27.25**	**2.84**	**3.98**	**10.00**
FINANCIAL TRANSACTIONS	**7,884**	**12,492**	**-9,157**	**9,994**	**11,039**	**-2,305**	**2,672**	**6,571**
A. Direct Investment	14,142	17,286	18,067	14,766	3,308	4,347	1,379	5,236
B. Portfolio Investment	3,369	5,086	-11,631	2,250	4,880	-1,791	2,994	9,553
C. Derivative Instruments	17.73	332.71	48.36	167.29	98.74	-420.61	392.86	333.00
D. Other Investment	-9,645	-10,212	-15,642	-7,190	2,752	-4,441	-2,094	-8,551
NET ERRORS AND OMISSIONS	**-891.30**	**-2,622.30**	**-535.12**	**-1,856.76**	**-1,328.67**	**-1,507.00**	**-211.44**	**1,435.00**
BALANCE OF PAYMENT *(= change in BI international reserves)*	**2,597**	**13,461**	**3,999**	**6,301**	**8,617**	**-5,970**	**-557**	**5,867**

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.75
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	15,947
Trade Balance (US$ Bn)	-3.2	21.7	35.3	54.5	37.0	29.3
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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