

## Indonesia BOP Indicators

in mn USD	4Q22	1Q23
<b>Current account balance</b>	<b>4,181.1</b>	<b>2,971.6</b>
- Trade balance in goods	16,950.9	14,718.9
- Trade balance in services	-5,493.7	-4,617.0
- Primary income balance	-9,207.4	-8,599.7
- Secondary income balance	1,931.1	1,469.4
<b>Capital account balance</b>	<b>445.1</b>	<b>1.5</b>
<b>Financial account balance</b>	<b>-119.5</b>	<b>3,379.1</b>
- Direct Investment	3,160.0	3,400.9
- Portfolio Investment	-1,724.3	3,014.9
- Other Investment	-1,544.3	-3,241.6
<b>Net error and omissions</b>	<b>223.7</b>	<b>165.1</b>
<b>Overall balance</b>	<b>4,730.4</b>	<b>6,517.2</b>
<b>Ratio (%)</b>		
Rolling Sum CA to GDP	1.04%	1.18%
Stand Alone CA to GDP	1.27%	0.89%
External Debt to GDP	30.09%	30.11%
Short-term External Debt to GDP	5.05%	4.90%

Source: BI, Bloomberg, SSI Research

## Current and financial account surplus will pave the way for BI rate cut in 3Q23

Indonesia's current account surplus fell to USD 2.97bn (0.9% of GDP) in 1Q23, mainly due to the global commodity slump, which put pressure on goods balance surplus. However, Indonesia's balance of payments surplus went up to USD 6.52bn, supported by the massive foreign capital inflow in 1Q23, as reflected in the country's financial account surplus (USD 3.38bn). We believe the surplus to continue in 2Q23, which should pave the way for BI to start cutting its 7DRRR in 3Q23.

Indonesia's current account surplus fell to USD 2.97bn or 0.9% of GDP in 1Q23, beating consensus while falling short of our projection (4Q22: USD 4.18bn or 0.9% of GDP; Cons 1Q23: USD 2.5bn or 0.8%; SSI: USD 3.3bn or 1%). The decline was mainly caused by the global commodity slump, which put pressure on the goods balance surplus (USD 14.7bn, 4Q22: USD 16.9bn). We believe the goods balance surplus will continue to decline through the rest of the year (in line with our initial projection) mainly due to the decline in the quarterly average price of Indonesia's leading commodities, such as coal, palm oil (CPO) and nickel which fell by -24.7% qoq, -2.7% qoq and -11.2% qoq respectively to USD 180, MYR 3,888 and USD 22,598 per metric ton in 2Q23 (1Q23: USD 239, MYR 3,994 and USD 23,813 per MT). We maintain our projection for FY23 current account deficit of -0.1% of GDP (see Table 1).

Indonesia's 1Q23 balance of payments surplus rose to USD 6.52bn (4Q22: USD 4.73bn), supported by the massive foreign capital inflow into Indonesia's financial markets, especially the bond market. The massive outflow is reflected in the portfolio investment surplus of USD 3bn (4Q22: -USD 1.72bn; the bond market contributed 89.3% of the 1Q23 surplus). This led to a reversal of Indonesia's financial balance position, from a -USD 0.12 bn deficit in 4Q22 to a USD 3.38bn surplus in 1Q23. We believe that we will see another surplus in 2Q23, supported by foreign capital inflow. However, data for the current period shows a significant change in contribution; at the moment, the capital market contributes 90% of foreign capital inflows into the Indonesian financial markets (see Chart 1). The slowdown of foreign capital inflows into the bond market was caused by speculation regarding the Fed's terminal rate, with some believing that the US central bank might raise its terminal rate to 5.5% (current: 5.25%).

We believe that more surplus in 2Q23 might be a positive catalyst for Bank Indonesia's policy rate cut scenario in 3Q23. We estimate that the current account surplus will occur at 12-month rolling sum. Meanwhile, the financial account surplus will be supported by more foreign capital inflows into the bond market. According to our estimation, there is still a USD 13bn gap between pre- and post-pandemic bondholdings (see Chart 2).

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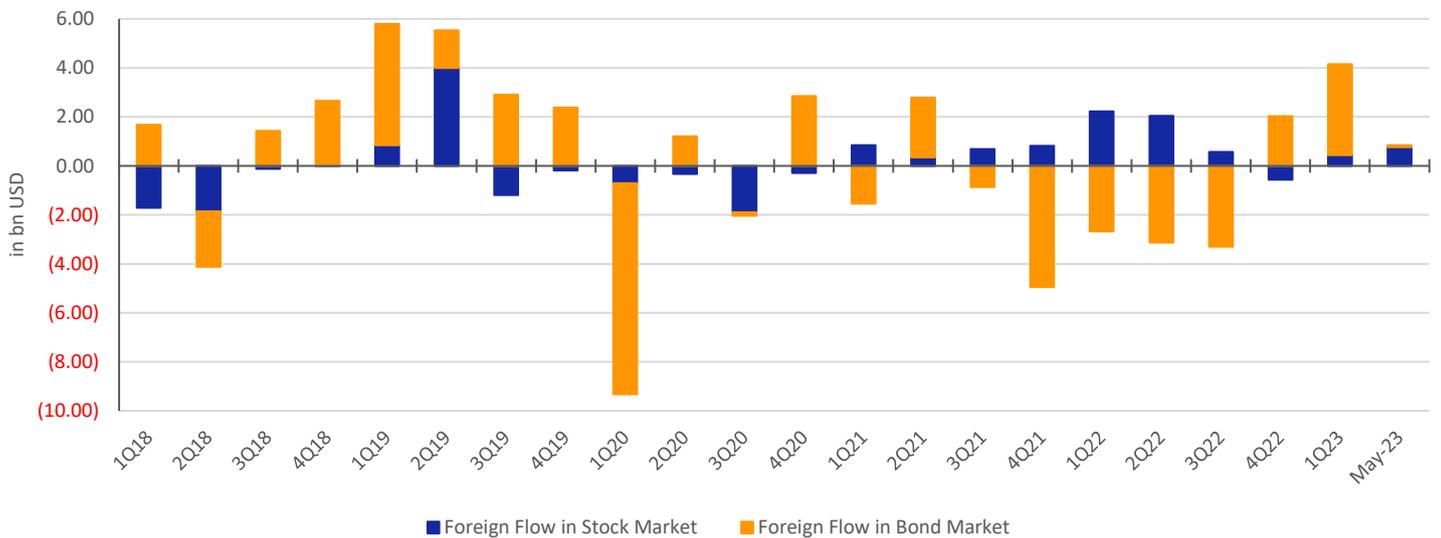
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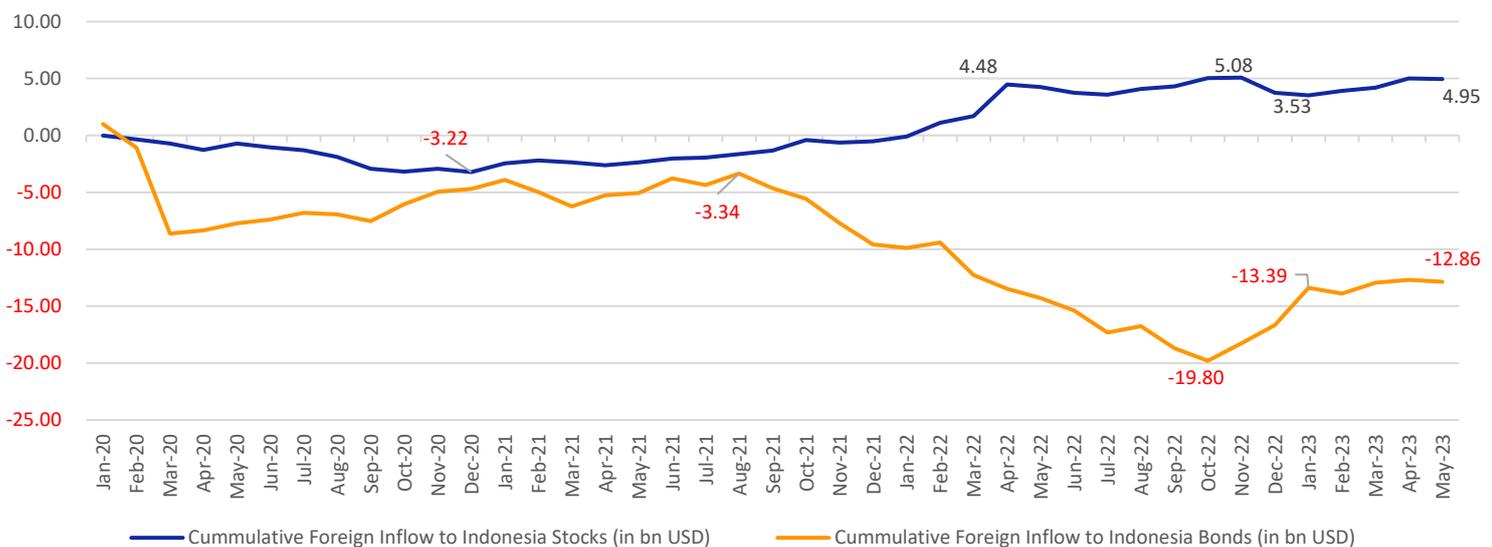
**Table 1. SSI Macroeconomic Forecast Table**

Indicators (% yoy)	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23F	3Q23F	4Q23F	FY21	FY22	FY23F
Real GDP (NSA % qoq)	(0.9)	3.3	1.5	1.1	(1.0)	3.7	1.8	4.0	(0.9)	3.4	1.7	0.6			
Real GDP	(0.7)	7.1	3.5	5.0	5.0	5.4	5.7	5.0	5.0	4.6	4.5	4.7	3.7	5.3	4.7
Unemployment rate (% nsa)	6.3	6.3	6.5	6.5	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	6.5	5.9	5.3
Consumer price	1.4	1.3	1.6	1.9	2.6	4.4	6.0	5.5	5.0	3.8	2.6	2.8	1.9	5.5	2.8
Current account balance (% to GDP)	(0.4)	(0.7)	1.7	0.5	0.2	1.1	1.3	1.3	0.9	(0.6)	(0.3)	(0.4)	0.3	1.0	(0.1)
12M rolling sum	(0.2)	(0.1)	0.3	0.3	0.4	0.9	0.8	1.0	1.2	0.7	0.3	(0.1)			
Fiscal balance (% to GDP)	(0.8)	(1.7)	(2.7)	(4.6)	0.1	0.4	0.3	(2.4)	0.6	(1.1)	(1.8)	(2.8)	(4.6)	(2.4)	(2.8)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	3.50	3.50	3.50	3.50	4.25	5.50	5.75	5.75	5.25	4.75	3.75	5.50	4.75
10-year government bond yield (%)	6.78	6.59	6.26	6.38	6.74	7.22	7.37	6.94	6.79	6.40	6.20	6.00	6.38	6.94	6.00
Exchange rate (USD/IDR)	14,525	14,500	14,313	14,253	14,369	14,898	15,228	15,568	14,995	14,600	14,700	14,900	14,253	15,568	14,900

Source: SSI Research.

**Chart 1. Stock and Bond Markets Contribution to Net Foreign Flow**


Source: IDX, Bloomberg, SSI Research

**Chart 2. Cumulative Foreign Flow During and After the COVID-19 Pandemic**


Source: Bank Indonesia, SSI Research

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