

Indonesia BOP Indicators

in mn USD	1Q23	1Q23
Current account balance	2,981.7	-1,932.9
- Trade balance in goods	14,701.2	10,352.3
- Trade balance in services	-4,580.7	-4,654.5
- Primary income balance	-8,607.9	-9,145.9
- Secondary income balance	1,469.0	1,515.2
Capital account balance	1.5	4.9
Financial account balance	3,684.0	-4,969.3
- Direct Investment	3,861.3	3,309.5
- Portfolio Investment	3,030.1	-2,586.6
- Other Investment	-3,412.2	-5,609.0
Net error and omissions	-149.9	-474.5
Overall balance	6,517.2	-7,371.8

Ratio (%)		
Rolling Sum CA to GDP	1.18%	0.71%
Stand Alone CA to GDP	0.90%	-0.55%
External Debt to GDP	30.13%	29.29%
Short-term External Debt to GDP	5.03%	4.65%

Source: BI, Bloomberg, SSI Research

Current account deficit and capital outflow in 2Q23 and 3Q23

Indonesia's current and net financial accounts turned into a deficit in 2Q23, mainly due to global commodity slump, increased dividend repatriation by foreign investors and the Fed's decision to raise its terminal rate in June. We believe that the current account deficit and capital outflow will continue in 3Q23; even though we anticipated the current account deficit in our previous projections, the 3Q23 capital outflow caused by China's economic downturn and the expected postponement of the Fed's rate cut cycle to 2Q24 (Prev: 1Q24) is really unexpected. As a result, we have decided to revise our FY23 USD/IDR forecast to IDR 15,000 per USD (Prev: IDR 14,900 per USD) and lower our projection for FY23 BI rate cut to 25 bps to 5.5% (Prev: 5.25%).

Indonesia's current account turned into a deficit in 2Q23 of USD (-1.93)bn, much higher than consensus but lower than our projection (1Q23: USD 2.98bn; Cons: USD (-268)mn; SSI: (-4.5)bn). The 2Q23 current account deficit was mainly caused by global commodity slump, which cut goods trade surplus by USD (-4.35)bn to USD 10.35bn (1Q23: USD 14.7bn) and increased dividend repatriation by foreign investors, especially on their investment portfolio, which widened Indonesia's income account deficit by USD (-538)mn to USD (-9.15)bn (1Q23: USD (-8.61)bn).

Indonesia's net financial account also turned into a deficit of USD (-4.97)bn in 2Q23 (1Q23: USD 3.68bn). Indonesia experienced a capital outflow in 2Q23 due to the Fed's decision to raise its terminal rate from 5.125% to 5.625%. Meanwhile, Bank Indonesia decided to hold its 7DRRR at 5.75%. This encouraged foreign investors to reduce their investment risk in emerging markets, including Indonesia, by selling USD (-1.96)bn worth of long-term debt instruments and other investment instruments, including bank loans.

The current account deficit and capital outflow turned Indonesia's balance of payments to a deficit of USD (-7.37)bn in 2Q23 (1Q23: USD 6.52bn).

Although the 12M rolling sum current account surplus in 2Q23 (0.71% of GDP) was higher than our projection (SSI: 0.5%), we still maintain our current account deficit projections for FY23 (-0.6% of GDP) and FY24 (-1.4%), considering the possibility of further commodity slumps in 2H23 and 2024 due to China's deteriorating economic prospect over the past few months (see Chart 1). The default crisis in China's property sector could also suppress its economic growth this year to less than 5% (4.3-4.8%).

Nonetheless, we revised our USD/IDR forecasts for 3Q23 and 4Q23 to IDR 15,200 and 15,000 per USD, respectively (Prev: IDR 14,700 and 14,900 per USD) due to strong capital outflow pressures, coupled with bearish pressure on global bond markets in 3Q23. This is reflected in the increase of UST 10Y yield to 4.3%, the highest since 2007, and INDOGB 10Y to close to 6.7%. We also raised our INDOGB 10Y yield projections for 3Q23 and 4Q23 to 6.5% and 6.2% (Prev: 6.2% and 6%). Considering the current situation, we lowered our BI rate cut projection to 25 bps (5.5%) in 4Q23 with a confidence level of 3/5 (see Table 1 and Chart 2).

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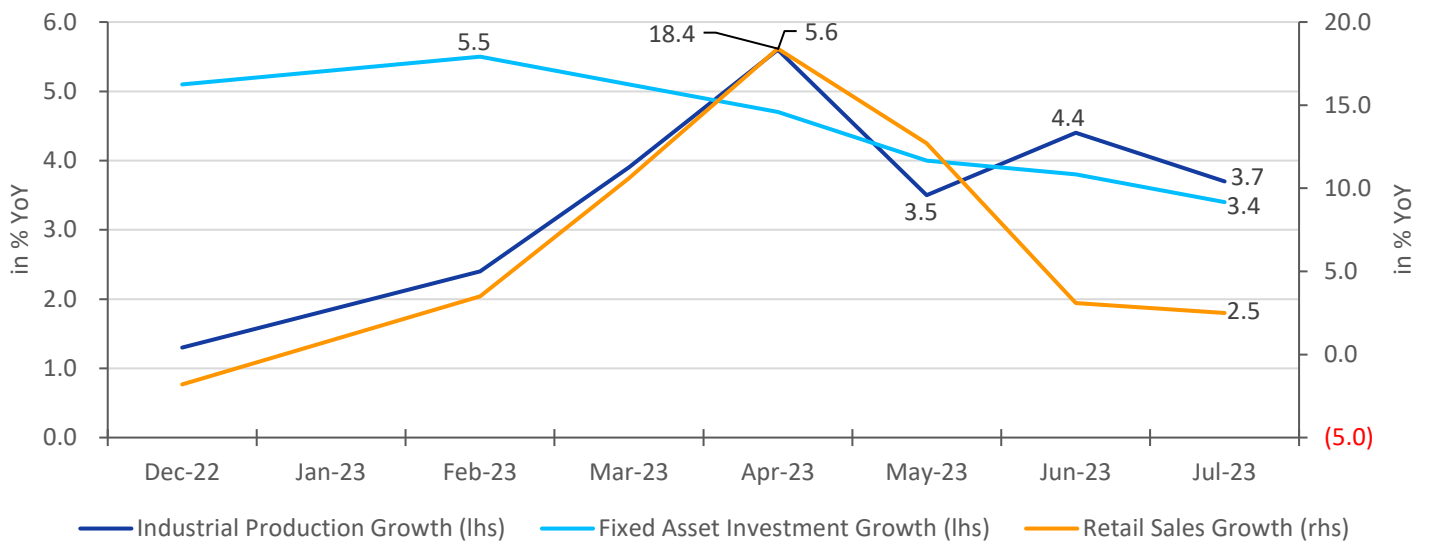
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Table 1. SSI Macroeconomic Forecast Table

Indicators (% yoy)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23F	4Q23F	1Q24F	2Q24F	3Q24F	4Q24F	FY22	FY23F	FY24F
Real GDP (NSA % qoq)	(0.9)	3.7	1.8	0.4	(0.9)	3.9	1.8	0.3	(0.9)	3.6	1.7	0.6			
Real GDP	5.0	5.5	5.7	5.0	5.0	5.2	5.1	5.1	5.1	4.8	4.8	5.0	5.3	5.1	4.9
Unemployment rate (% nsa)	5.8	5.8	5.9	5.9	5.5	5.5	5.4	5.3	5.2	5.1	5.1	5.0	5.9	5.3	5.0
Consumer price	2.6	4.4	6.0	5.5	5.0	3.5	2.4	2.6	2.7	3.1	3.3	3.3	5.5	2.6	3.3
Current account balance (% to GDP)	0.2	1.1	1.3	1.3	0.9	(0.6)	(1.5)	(1.2)	(1.2)	(1.3)	(1.5)	(1.7)	1.0	(0.6)	(1.4)
12M rolling sum	0.4	0.9	0.8	1.0	1.2	0.7	(0.1)	(0.6)	(1.1)	(1.3)	(1.3)	(1.4)			
Fiscal balance (% to GDP)	0.1	0.5	0.3	(2.4)	0.6	0.7	(1.3)	(2.3)	(0.4)	(1.0)	(1.5)	(2.3)	(2.4)	(2.3)	(2.3)
Policy rate, 7 day reverse repo rate (%)	3.50	3.50	4.25	5.50	5.75	5.75	5.75	5.50	5.00	4.50	4.25	4.25	5.50	5.50	4.25
10-year government bond yield (%)	6.74	7.22	7.37	6.94	6.79	6.26	6.50	6.20	6.00	5.80	5.70	5.60	6.94	6.20	5.60
Exchange rate (USD/IDR)	14,369	14,898	15,228	15,568	14,995	14,993	15,200	15,000	15,000	14,900	14,800	14,700	15,568	15,000	14,700

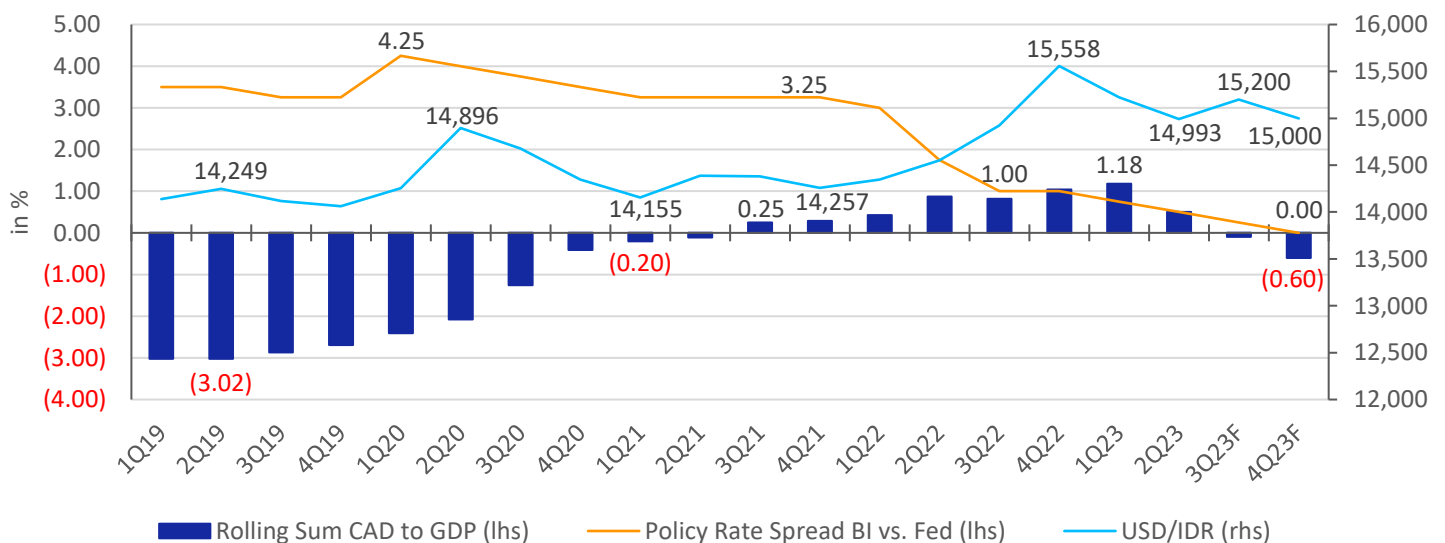
Source: SSI Research.

Chart 1. China's Economic Activity Indicators



Source: BPS, Bloomberg, SSI Research

Chart 2. SSI's External Balance and Currency Tracker



Source: Bank Indonesia, SSI Research

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