

Indonesia

20 May 2024

Wider Current Account Deficit in 1Q24

- The current account deficit (CAD) widened to USD2.2bn (-0.6% of GDP) in 1Q24 from USD-1.1bn (-0.3% of GDP) in 4Q23.
- Meanwhile, the capital and financial account shifted to a deficit of USD2.3bn (0.7% of GDP) in 1Q24 from a USD11.1bn (3.3% of GDP) surplus in 4Q23.
- The modest widening of the CAD in 1Q24 is likely within Bank Indonesia’s (BI) expectations. As such, we expect BI to remain on hold in the near-term.

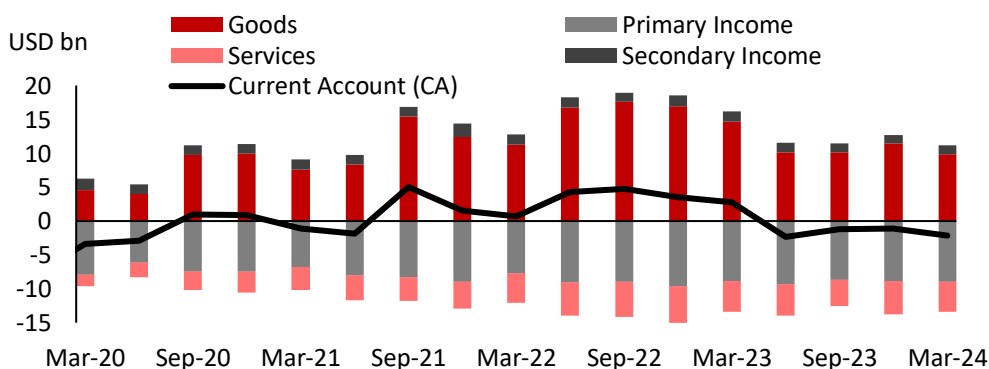
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The current account deficit widened in 1Q24...

The current account deficit widened to USD2.2bn (0.6% of GDP) in 1Q24 from USD1.1bn (0.3% of GDP) in 4Q23 (Consensus & OCBC: USD1.9bn). A narrower goods surplus (USD9.8bn in 1Q24 from 11.4bn in 4Q23) was the main driver of the wider CAD, reflecting weaker export growth. The primary income deficit (USD8.9bn versus USD8.8bn in 4Q23) widened modestly. These more than offset a narrower services deficit (USD4.4bn in 1Q24 from 5.0bn in 4Q23) and higher secondary income surplus (USD1.4bn from USD1.2bn in 4Q23).

The current account deficit widened to 0.6% of GDP in 1Q24

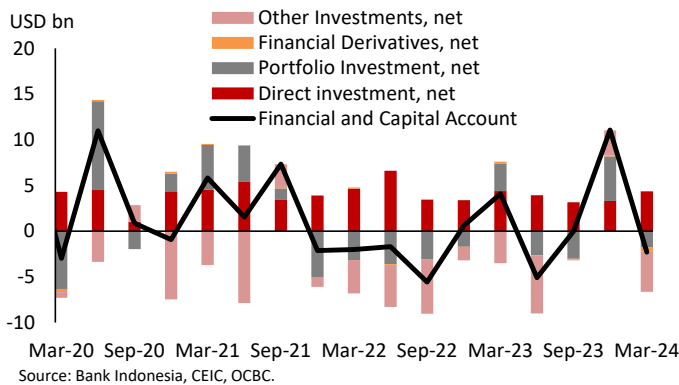


Source: Bank Indonesia, CEIC, OCBC.

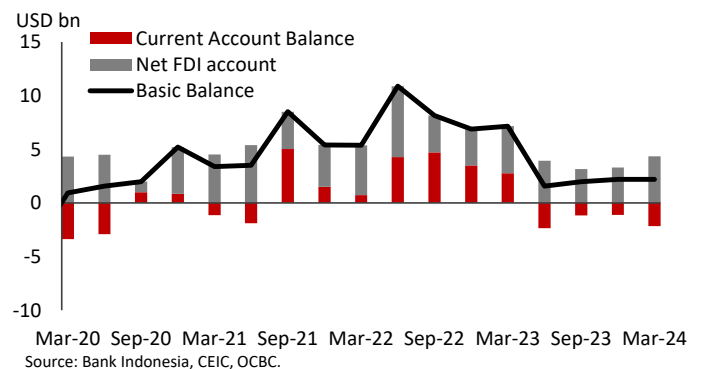
...while portfolio outflows intensified

The capital and financial account shifted to a deficit of USD2.3bn (0.7% of GDP) in 1Q24 from a USD11.1bn (3.3% of GDP) surplus in 4Q23. The portfolio account recorded a net outflow of USD1.8bn in 1Q24, compared to net inflows of USD4.9bn in 4Q23, “mainly driven by foreign capital outflows from domestic debt securities in line with increasing global financial market uncertainty” according to Bank Indonesia (BI). In addition, the net ‘other investments’ shifted to a deficit of USD4.4bn in 1Q24, from a surplus of USD2.8bn in 4Q23, partly due to “higher private investment abroad.”

The capital and financial account shifted to a deficit in 1Q24



Basic balance surplus was unchanged in 1Q24



FDI inflows remained resilient

Encouragingly, the net FDI inflows increased to USD4.3bn in 1Q24 from USD3.3bn in 4Q23, despite election related uncertainties, and reaffirming Indonesia as an attractive FDI destination. This data is broadly consistent with the higher FDI inflows recorded by BKPM (i.e, 14% YoY rise in realized FDI, reaching USD13.6bn) in 1Q24. The basic balance (net FDI + current account balance) was unchanged at USD2.2bn 1Q24.

BI on hold in the near-term

Looking ahead, we maintain our forecast for the CAD to widen to 0.4% of GDP in 2024, within Bank Indonesia's forecast range of -0.1% to -0.9% of GDP, from -0.1% of GDP in 2023. This largely reflects a more challenging external backdrop and fading commodity tailwinds, weighing on export growth. In addition, dividend repatriation in 2Q, prior to the pandemic, led to wider deficits during the April-June period and we expect a reversion to this trend this year.

The modest widening of the CAD in 1Q24 is likely within Bank Indonesia's (BI) expectations. We expect BI to remain on hold in the near-term, vigilant of external pressures. Our house view is for the US Federal Reserve to reduce its policy rate by a cumulative 75bp in 2024, starting July. We expect BI to ease by a similar magnitude this year, starting in 4Q24.

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