Note issued: November 22nd, 2021

BoP: Coal, palm and metals save the day

***Executive Summary*:**

- **Indonesia's balance of payments (BoP) registered a large surplus of USD 10.7 Bn on Q3-2021.**
- **This was primarily driven by a significant current account surplus as already high commodity prices were further turbocharged by a global energy crisis**.
- **Deteriorating market sentiment however,** fuelled by growing scrutiny of central banks' monetary tightening schedules as inflation continues to spiral, **poses a significant threat to Indonesia's financial account.**
- With such challenges facing the financial account then, coal, palm and metals must pick up the slack where markets remain wary. **Even if commodity prices were to somewhat normalize in the coming months, surpluses should still be more than sufficient to guard against the capital outflow risks outlined above.**

- **Indonesia's balance of payments (BoP) recorded a massive surplus of USD 10.7 Bn in Q3-2021,** a high even amidst an era of pandemic-distorted external figures **(*Chart 1*)**.

- **The biggest driver here of course, is the current account, which recorded a significant USD 4.5 Bn surplus in the third quarter.** High commodity prices, that steady cement of Indonesia's post-pandemic trade balance, were further turbocharged by a global energy crisis, and the cascading ripples further disrupting the world's already stretched supply chains. The result was a staggering trade goods balance amounting to USD 15.0 Bn, more than enough to offset Indonesia's bulging post-pandemic service deficits **(*Chart 2*)**.

- **The financial account, on the other hand, was boosted by a significant transfusion of liquidity from the IMF, in the form of increased SDR allocations earlier in August.** This augmented existing direct and portfolio inflows, both of which actually declined relative to Q2, with social restrictions and the Delta-driven surge in Q3 severely curtailing FDI, and renewed market anxieties over stagflationary forces and central bank tightening likely limiting the amount of portfolio inflows. The dip in FDI fortunately, is likely to be temporary and may be reversed as restrictions are eased and economic activity rebounds in Q4. The same however, may not necessarily hold for portfolio inflows.

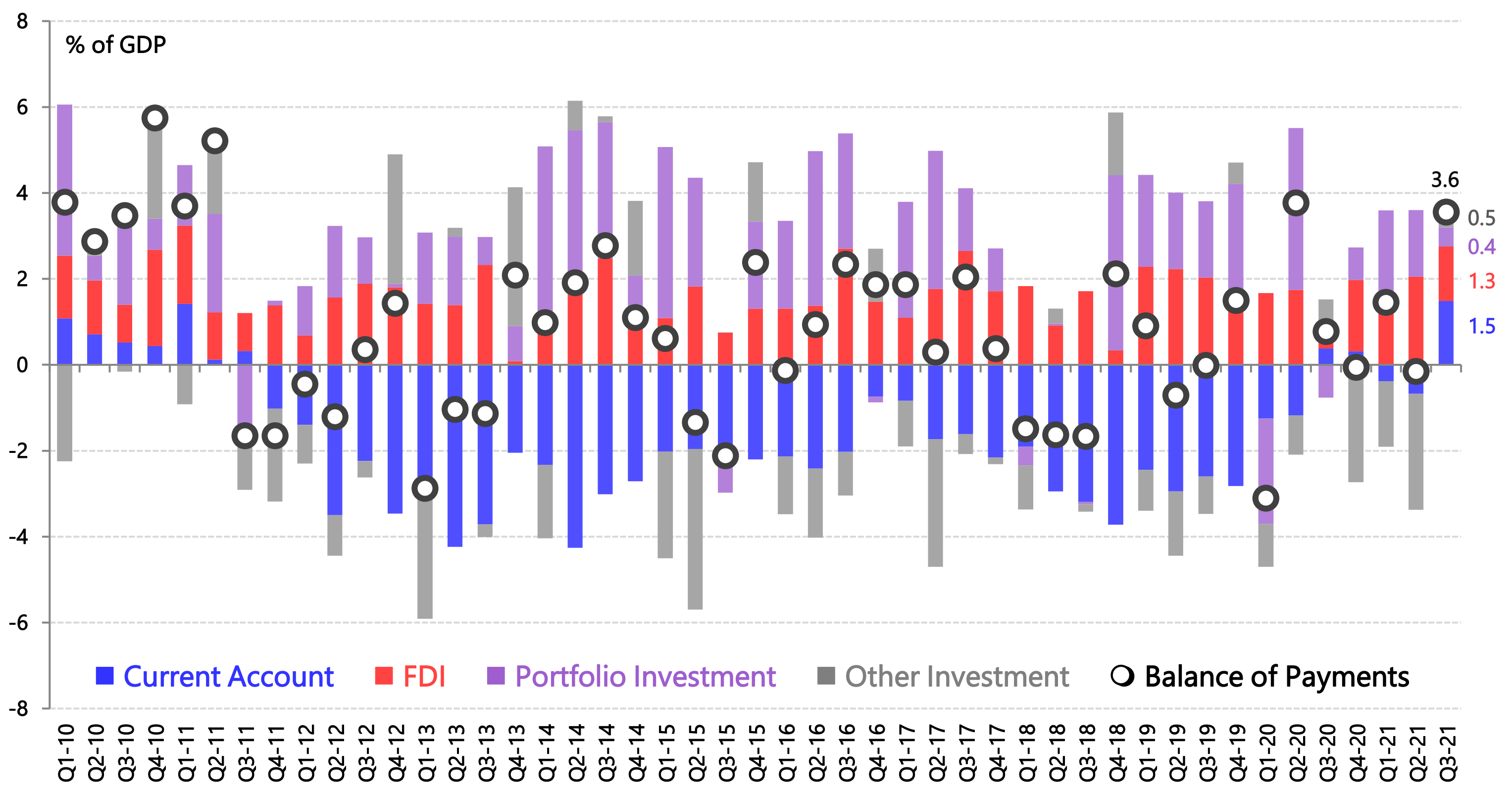
- **Indeed, the past few weeks have only seen a further deterioration of market sentiment as a continuing inflationary spiral across major economies puts central banks' monetary tightening schedules under greater scrutiny.** Even the timeline of tapering by the Fed, which had gradually settled into a mutual agreement of sorts between markets and policymakers over the past few months, has now regained some measure of unpredictability, as spiraling prices wear down policymakers' delicately choreographed plans for an orderly monetary retreat.

- **The significant portfolio outflows observed over the past few weeks highlights this heightened uncertainty gripping markets, and is likely to cast a cloud over the BoP over the next few months (*Chart 3*).** Absent another form of monetary manna akin to the IMF's largesse in August, the financial account's outlook for the next quarter appears to be clouded over by a decidedly less heavenly light.

- With such challenges facing the financial account then, much hinges on the trade balance in the coming months. **Coal, palm and metals must pick up the slack where markets remain wary.** For now, high commodity prices remain the BoP's best defense against the risk of further capital outflows.

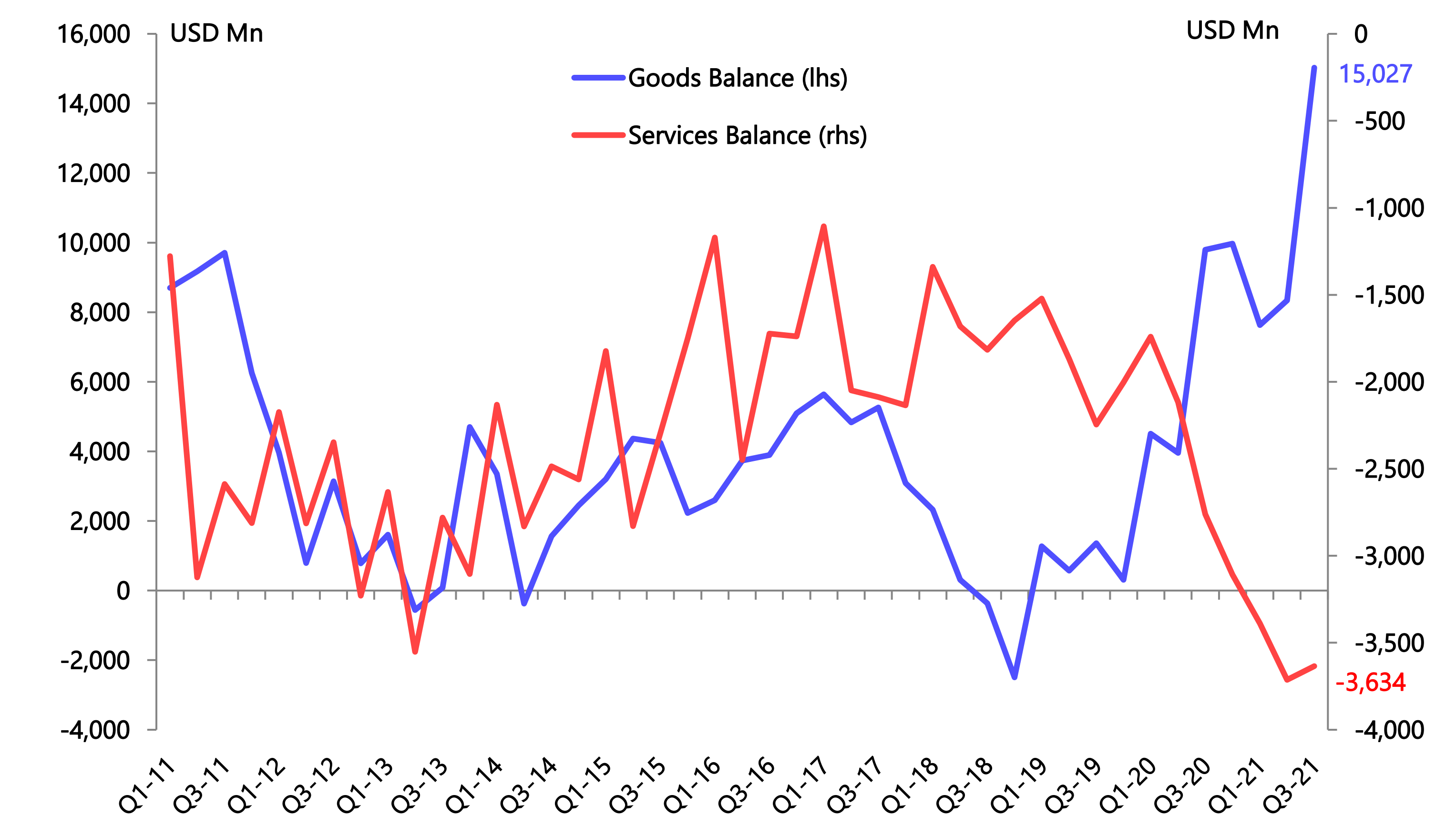
- There is certainly a long-term risk with regards to a potential Chinese economic slowdown, with the recent implosion of Evergrande potentially pointing the way towards a new era of structurally lower growth as China's debt-fuelled growth model hits its limits. In the shorter term however, 2022's political significance to the Chinese government means that we may not see the fruits of such a slowdown until 2023. And as mentioned in our previous report **(see "BI Policy: Fragile no more")**, even should the current highs in commodity prices normalize somewhat in the coming months, we should still see surpluses in the territory of USD 2-4 Bn in the coming months, more than sufficient to guard against the capital outflow risks outlined above. **All in all then, we project an overall current account surplus of 0.4% for the year, and a BoP surplus of USD 3.4 Bn for Q4-2021.**

Chart 1. Massive trade surpluses, bolstered by an infusion of funds from the IMF, helped boost Indonesia's balance of payments in Q3-2021



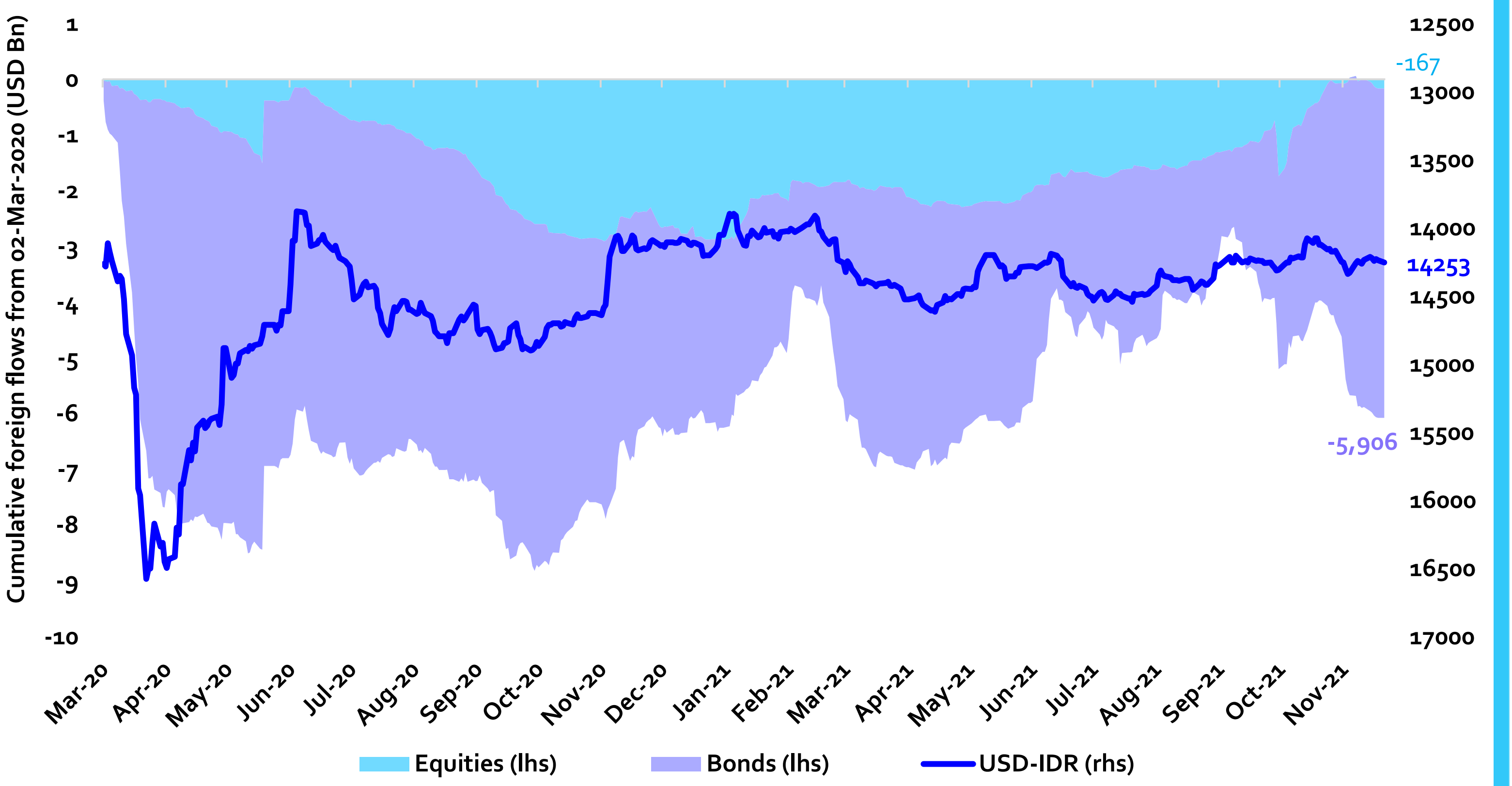
Source: BI, BCA Research Team

Chart 2. The surge in Indonesia's trade goods surplus is more than enough to offset the continuing deterioration of its service deficit



Source: BI

Chart 3. Indonesia recorded significant outflows as markets turned increasingly jittery on concerns of swifter monetary tightening by central banks



Source: Bloomberg (last update: 22 Nov 2021)

Table 1. Balance of Payments (current USD Million)

	Q3-20	Q4-20	Q1-21	Q2-21	Q3-21	2018	2019	2020
CURRENT ACCOUNT	***1,003***	***847***	***-1,075***	***-1,965***	***4,474***	***-30,633***	***-30,279***	***-4,487***
(as % of GDP)	***0.38***	***0.31***	***-0.38***	***-0.68***	***1.49***	***-2.94***	***-2.71***	***-0.42***
A. Goods	9,791	9,969	7,628	8,337	15,027	-228	3,508	28,218
- Non-Oil/Gas	9,441	11,332	9,976	11,581	18,120	11,186	11,965	29,871
- Oil/Gas	-715	-1,233	-2,269	-3,144	-2,889	-11,405	-10,319	-5,386
B. Services	-2,761	-3,108	-3,389	-3,713	-3,634	-6,485	-7,641	-9,726
C. Income	-7,399	-7,442	-6,745	-8,054	-8,337	-30,815	-33,775	-28,911
D. Current Transfers	1,371	1,428	1,432	1,465	1,417	6,895	7,629	5,932
CAPITAL TRANSACTIONS	**6.72**	**23.79**	**2.20**	**5.00**	**9.49**	**97.16**	**39.06**	**36.91**
FINANCIAL TRANSACTIONS	**888**	**-995**	**5,699**	**1,638**	**6,087**	**25,122**	**36,564**	**7,858**
A. Direct Investment	979	4,301	4,381	5,313	3,281	12,511	20,531	14,093
B. Portfolio Investment	-1,984	1,952	4,904	3,990	1,144	9,312	21,990	3,369
C. Derivative Instruments	18.02	201.46	110.06	23.75	172.24	33.61	186.40	17.73
D. Other Investment	1,876	-7,450	-3,696	-7,688	1,490	3,266	-6,144	-9,621
NET ERRORS AND OMISSIONS	**154.94**	**-32.18**	**-561.69**	**-128.42**	**119.33**	**-1,717.35**	**-1,647.91**	**-811.02**
BALANCE OF PAYMENT *(= change in BI international reserves)*	**2,053**	**-156**	**4,065**	**-450**	**10,690**	**-7,131**	**4,676**	**2,597**

Indonesia – Economic Indicators Projection

	2016	2017	2018	2019	2020	2021E
Gross Domestic Product (% YoY)	5.0	5.1	5.2	5.0	-2.1	4.0
GDP per Capita (US$)	3605	3877	3927	4175	3912	4055
Consumer Price Index Inflation (% YoY)	3.0	3.6	3.1	2.7	1.7	2.3
BI 7 day Repo Rate (%)	4.75	4.25	6.00	5.00	3.75	3.50
USD/IDR Exchange Rate (end of year)**	13,473	13,433	14,390	13,866	14.050	14.215
Trade Balance (US$ billion)	8.8	11.8	-8.5	-3.2	21.7	32.0
Current Account Balance (% GDP)	-1.8	-1.6	-3.0	-2.7	-0.4	0.4

** Estimation of Rupiah's fundamental exchange rate

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