

22 August 2024

Macroeconomics Indicator

	2023	2024F	2025P
GDP growth (%YoY)	5.05	5.05	5.23
Inflation (%YoY)	2.61	2.73	3.49
BI rate (% Year-end)	6.00	5.75	5.00
Rp/US\$ (Average)	15,244	16,015	16,218
CA deficit (% of GDP)	-0.1	-0.6	-0.8
Fiscal deficit (% of GDP)	1.65	2.28	2.55

Wider current account deficit in 2Q24 amid services account seasonality

- Current account recorded a wider deficit of -US\$3bn or -0.9% of GDP in 2Q24 from higher services outflow at -US\$5.2bn amid Hajj season.
- Financial accounts recorded an inflow of +US\$2.7bn in 2Q24, mainly coming to SRBI at +US\$6.8bn while FDI inflow slowed to US\$1.4bn.
- Overall, the BoP recorded a deficit of -US\$0.6bn in 2Q24 and may improve further in 3Q24. We expect Rupiah to average at Rp16k/US\$ in FY24.

CAD widened from seasonally higher outflow in services account

Current account recorded a wider deficit of -US\$3bn or -0.9% of GDP in 2Q24 (-US\$2.2bn or -0.6% of GDP in 1Q24), higher than consensus/our expectation at roughly -US\$2.5 to -US\$2.7bn. This was coming from higher services account outflow at -US\$5.2bn (-US\$4.1bn in 1Q24) due to the Hajj seasonality (estimated at c.US\$2bn in total). Seasonally speaking, we expect better CA deficit in 3Q24 at c.-0.4% of GDP, before the seasonality of dividend repatriation, debt repayment, oil import etc. starts in 4Q24.

Financial account rebounded from SRBI

Financial account rebounded to +US\$2.7bn in 2Q24 (-US\$1.6bn in 1Q24), mainly coming from portfolio investment at +US\$3bn in 2Q24 (-US\$1.8bn in 1Q24). The higher portfolio investment was sourced from SRBI at +US\$6.8bn (compared with +US\$1.3bn in 1Q24). Meanwhile, the lower deficit in other investments was primarily due to higher private currency and deposits withdrawals abroad at US\$0.3bn vs. -US\$3.0bn in 1Q24.

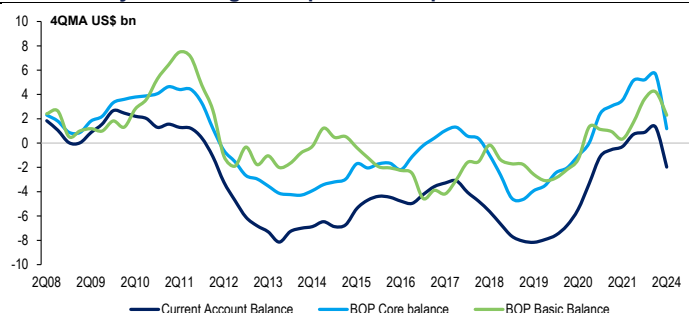
Lower FDI during the quarter

FDI dropped to +US\$1.4bn in 2Q24 (+US\$4.7bn in 1Q24), mostly from Japan and China by roughly US\$0.5bn each from US\$0.7/1.9bn to US\$0.2/1.4bn respectively (see fig. 7). In terms of sector, most of the drop was from wholesale trade at +US\$0.3bn (+US\$1.6bn in 1Q24). On the contrary, inflow to manufacturing sector expanded to US\$2.9bn (US\$2.3bn in 1Q24).

Expect better external stability in 3Q24

In sum, the balance of payment (BoP) deficit improved to -US\$0.6bn in 2Q24 (-US\$6bn in 1Q24), pointing to still volatile global economic situation especially the geopolitical tension. However, we believe 3Q24 shall be a better quarter amid recent dovish statement from the Fed has resulted in appreciation for most EM currencies. We estimate that current account will have a wider deficit of c.-0.6% of GDP in FY24 (from -0.1% of GDP in FY23). For now, we keep our Rupiah expectation to average at Rp16k/US\$ in FY24 (Rp15.2k/US\$ in FY23).

Fig. 1: External stability worsening but expected to improve in 3Q24



Source: BI, Indo Premier

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CA deficits widen due to deeper service account contraction

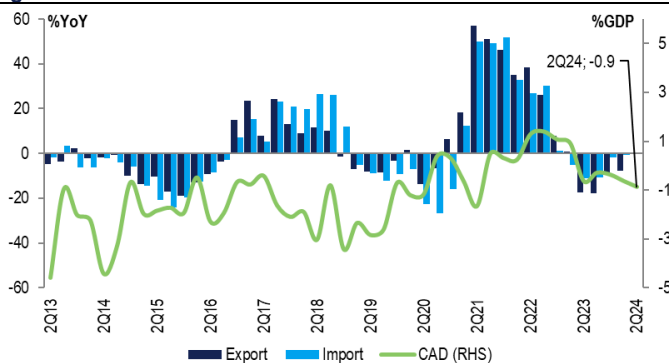
The current account (CA) posted a deficit of -US\$3.0bn or -0.9% of GDP in 2Q24 (vs. -US\$2.2bn/-0.6% in 1Q24). The wider deficit was driven by a deeper services account contraction at -US\$5.2bn (-US\$4.4bn in 1Q24), primarily due to higher travel service payments of -US\$4.3bn (-US\$2.5bn in 1Q24) during peak hajj season in Jun24. In contrast, the transport account improved slightly with a lower deficit of -US\$2.2bn vs. -US\$2.4bn in 1Q24, since resident is not in travelling season (i.e. starting of new school year).

The primary income recorded a wider contraction at -US\$9.3bn (-US\$8.9bn in 1Q24), mainly due to the increased equity capital payments to non-residents at -US\$6.2bn vs. -US\$6.1bn in 1Q24. The higher primary account deficit was reflecting the profitability of multinational companies operating in Indonesia. In the meantime, remittance inflows edged up to US\$1.5bn vs. US\$1.3bn in 1Q24.

Furthermore, the trade surplus remained relatively stable at US\$10.0bn (US\$9.8bn in 2Q23). The slight rise was driven by lower imports at -US\$52.1bn vs. -US\$52.3bn in 1Q24, while exports was flat at US\$62.1bn in both 2Q24 and 1Q24.

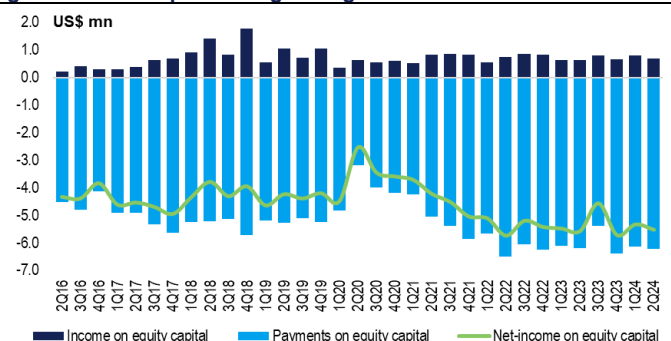
Seasonally speaking, we expect better CAD in 3Q24 at c.0.4% of GDP, before the seasonality of dividend repatriation, debt payment, oil import etc. starts in 4Q24. Furthermore, we expect the CA deficit to reach around -0.6% of GDP in FY24 (vs. -0.1% in FY23). In accordance, we expect Rupiah to average at Rp16k/US\$ in FY24 (Rp15.2k/US\$ in FY23). Risk to our Rupiah call will emanate from increased capital inflows from higher-than-expected FFR cut that may push stronger-than-expected Rupiah in 2H24.

Fig. 2: CA continued its wider deficit trend of -0.9% of GDP in 2Q24



Source: BI, Indo Premier

Fig. 3: Dividend repatriation grew higher from onshore multinationals



Source: BI, Indo Premier

Fig. 4: Services sector recorded higher outflow

Components	2020	2021	2022	2023	2023				2024	
					1Q	2Q	3Q	4Q	1Q	2Q
I. Current Account	-4.4	3.5	13.2	-1.6	3.0	-2.2	-1.0	-1.3	-2.2	-3.0
(% of GDP)	-0.4	0.3	1.0	-0.1	0.9	-0.6	-0.3	-0.4	-0.6	-0.9
A. Goods, net	28.3	43.8	62.7	46.3	14.7	10.1	10.2	11.3	9.8	10.0
-Exports (fob)	163.4	232.8	292.5	259.5	67.3	62.0	63.9	66.2	62.1	62.1
-Imports (fob)	-135.1	-189.0	-229.9	-213.1	-52.6	-51.8	-53.8	-54.9	-52.3	-52.1
B. Services, net	-9.8	-14.6	-20.0	-17.9	-4.5	-4.6	-4.0	-4.8	-4.4	-5.2
C. Primary Income, net	-28.9	-32.0	-35.3	-35.4	-8.6	-9.2	-8.5	-9.1	-8.9	-9.3
D. Secondary Income, net	5.9	6.3	5.8	5.4	1.4	1.4	1.3	1.2	1.4	1.5

Source: BI, Indo Premier

Financial account surplus from SRBI

Financial accounts (FA) recorded a surplus of US\$2.7bn (-US\$2.3bn in 1Q24), driven by (1) rebound in portfolio investment flows of US\$3.0bn vs. -US\$1.8bn in 1Q24 and (2) a lower deficit in other investments at -US\$2.1bn vs. -US\$4.4bn in 1Q24. Portfolio inflows were supported by a significant rise in SRBI net inflows at US\$6.8bn (US\$1.3bn in 1Q24) and a reduced net outflow of SUN at -US\$0.1bn vs. -US\$1.5bn in 1Q24.

Fig. 5: Balance of Payment summary: lower deficit due to higher portfolio inflow

Components	2020	2021	2022	2023	2023				2024	
					1Q	2Q	3Q	4Q	1Q	2Q
II. Capital and Financial Account	7.9	12.6	-8.7	10.1	4.1	-5.0	0.0	11.1	-1.6	2.7
A. Capital account	0.0	0.1	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0
B. Financial account	7.9	12.5	-9.2	10.1	4.1	-5.0	0.0	11.1	-1.6	2.7
1. Direct investment, net	14.1	17.3	18.1	15.0	4.4	4.0	3.3	3.3	4.7	1.4
2. Portfolio investment, net	3.4	5.1	-11.6	2.2	3.0	-2.6	-3.0	4.9	-1.8	3.0
3. Other investment, net	-9.6	-10.2	-15.6	-7.3	-3.5	-6.3	-0.2	2.7	-4.1	-2.1
III.Total (I + II)	3.5	16.1	4.5	8.0	7.0	-7.5	-1.3	9.8	-4.0	-0.3
IV. Net Errors and Omissions	-0.9	-2.6	-0.5	-1.7	-0.4	0.2	-0.2	-1.2	-1.9	-0.2
V. Overall Balance (III+IV)	2.6	13.5	4.0	6.3	6.5	-7.4	-1.5	8.6	-6.0	-0.6
Reserves Position (EoP)	136	145	137	145	145	138	135	146	140	140

Source: BI, Indo Premier

The FDI surplus slowed down to US\$1.4bn in 2Q24 (US\$4.3bn in 1Q24), mainly due to lower inflows from China at US\$1.4bn (US\$1.9bn in 1Q24) and Japan at US\$0.2bn (US\$0.7bn in 1Q24). In addition, inflows from ASEAN recorded a moderate increase of US\$2.9bn (US\$2.8bn in 1Q24). In terms of sector, manufacturing sector recorded the biggest inflows at US\$2.9bn (US\$2.3bn in 1Q24), mainly from Japan and South Korea in the steel and electronic industry. Meanwhile, financial services and trade sectors saw their inflows decline significantly at US\$0.1bn/US\$0.3bn 2Q24 (US\$1.0bn/US\$1.6bn in 1Q24).

Fig. 6: The largest FDI inflow remained to manufacturing

Sector	2022					2023					2024	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Agriculture & Livestocks	-18	-138	-218	161	-213	-35	-59	33	164	103	-80	237
Mining & Quarrying	178	228	-391	270	285	248	467	-954	519	280	30	-195
Manufacturing Industries	3,194	2,648	3,633	2,926	12,401	3,480	3,171	4,934	2,180	13,765	2,341	2,866
Construction	9	-8	49	352	402	278	196	152	177	803	265	160
Financial Services	347	203	697	723	1,970	283	200	-123	566	926	958	141
Trade	510	565	102	527	1,704	215	731	294	115	1,355	1,608	298
Others	1,836	4,609	2,025	437	8,906	1,640	946	716	1,097	8,906	1,185	1,388
Total	6,056	8,107	5,897	5,396	25,455	6,109	5,652	5,052	4,818	26,138	6,308	4,894

Source: BI, Indo Premier

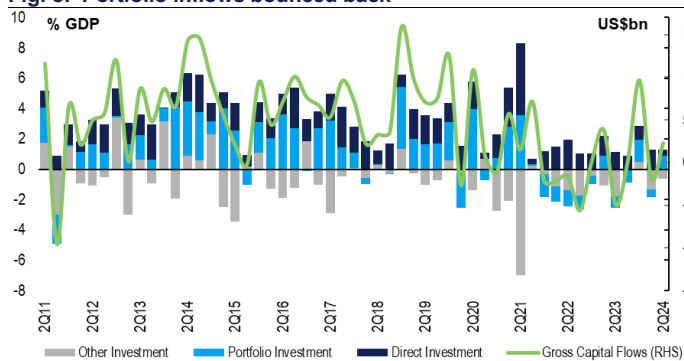
Fig. 7: lower inflows from Japan and China

Country	2022					2023					2024	
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2
Japan	684	244	195	673	1,796	405	1,024	198	151	1,778	701	229
US	408	867	-56	797	2,016	383	218	167	101	869	174	292
Europe	405	487	299	574	1,765	791	601	413	430	2,235	588	257
Asia EM (incl. China)	2,347	1,628	3,126	2,068	9,169	2,153	1,103	2,994	1,227	7,477	1,880	1,382
ASEAN	1,889	5,194	2,305	1,327	10,715	1,590	2,045	512	2,282	6,429	2,834	2,918
Others	321	-277	29	-43	30	821	687	854	587	2,949	130	-184
Total	6,054	8,143	5,898	5,396	25,491	6,143	5,678	5,138	4,778	21,737	6,307	4,894

Source: BI, Indo Premier

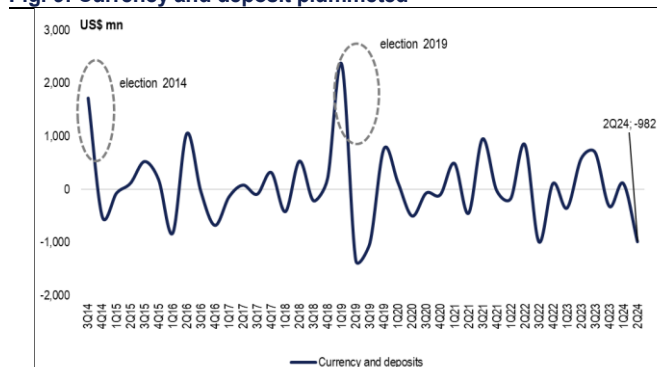
Meanwhile, the lower deficit in other investments was primarily due to higher private currency and deposits withdrawals abroad at US\$0.3bn vs. -US\$3.0bn in 1Q24. Private sector loan drawings remained stagnant at US\$4.5bn, while foreign loan repayments contracted further at -US\$4.1bn (-US\$3.5bn in 2Q23). Government loan withdrawals rose to US\$2.7bn vs. US\$2.0bn in 1Q24, mainly allocated to government projects totalling US\$1.7bn.

Fig. 8: Portfolio inflows bounced back



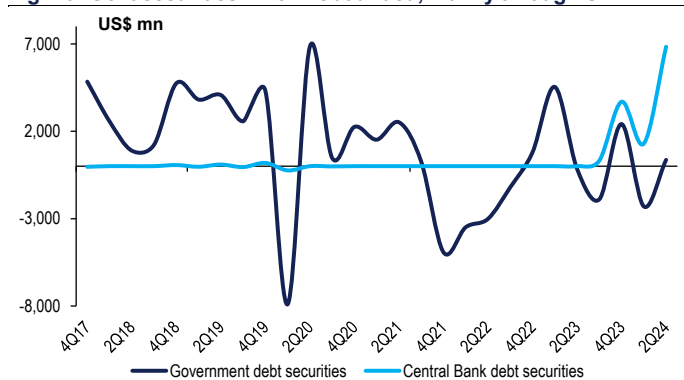
Source: BI, Indo Premier

Fig. 9: Currency and deposit plummeted



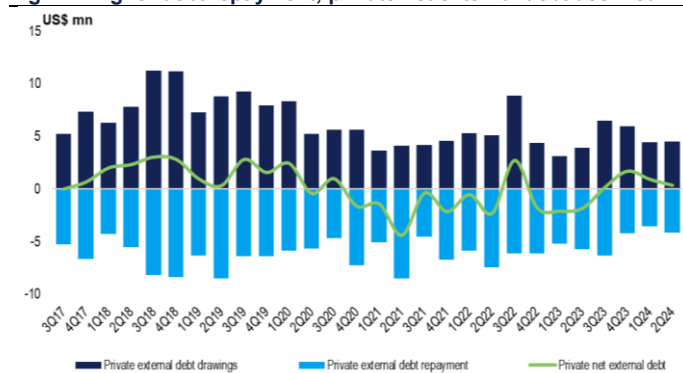
Source: BI, CEIC, Indo Premier

Fig. 10: Govt securities inflow rebounded, mainly through SRBI



Source: BI, Indo Premier

Fig. 11: Higher debt repayment; private net external debt declined



Source: BI, Indo Premier

ANALYSTS CERTIFICATION

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