Research | Indonesia | Economics

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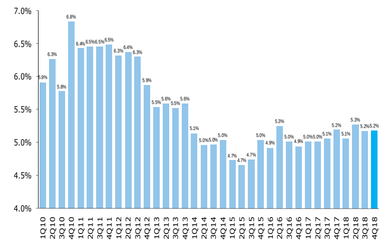
MacroInsight

11 February 2018

Macroeconomics Indicator		
	2018	2019F
GDP growth (% yoy)	5.2	5.2
Inflation (% yoy)	3.1	3.5
7DRRR (% year end)	6.00	6.50
IDR/USD (median)	14,282	14,914
CA balance (% of GDP)	-3.0	-2.5
Fiscal balance (% of GDP)	-1.8	-1.8

GDP growth (%, yoy)



Money &Forex Reserves		
	latest	% yoy
M1 – Dec18, Rptn	1457.2	4.8
M2 –Dec18, Rptn	5760.1	6.3
Reserves –Jan19, US$bn	120.1	-9.0

Source: BI, BPS, CEIC

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Frail improvement

- **Concluding 2018's CAD remained within BI's preference level of 3%,**
- **...although sizeable deficit was booked in 4Q18 on deteriorating trade.**
- **Statistical revision in 1Q-3Q18 changed the CAD toward positive end.**
- **Overall BOP positive, supported by generous capital turnaround in 4Q.**
- **Central bank confident CAD to narrow this year, risk still prevails.**

FY18 CAD below 3%. We believe that reading from the latest release of balance of payment (BOP) data, have been generally positive, underpinned by (1) Current account deficit (CAD) standing by end of 2018 was a relieving 2.98% of GDP and unerringly lower than Bank Indonesia's (BI) preference level of 3%, (2) Overall BOP booked the only quarterly surplus in 4Q18 which minimised the deficit pressure, and (3) Shared optimism that CAD is to improve this year despite risks. Cautiously, the CAD enhancement was also an impact of statistical revision in 1Q-3Q18 and BOP surplus largely supported by expanding portfolio inflows. The market and we had undershot expectation, estimating FY18 CAD at 3.10% (4Q18: 3.86%).

Wide deficit in 4Q18. CAD in 4Q18 was 3.56% of GDP (US$9.1bn) and a widening against the quarter before on continued trade weakening. Nett goods trade was almost 5x worse than 3Q18 (-467%) after NOG trade was challenged from increasing imports (+2% qoq and 13% yoy) at time when exports were lower. The trade effect to the CA was also reinforced by decline in service trade (-20% qoq' -24% yoy). CAD was only better to our estimate (3.86% of GDP, or US$9.8bn) as we excluded improvement in primary income receipt, which was derived from (1) lower coupon payments made by the government for their bonds and (2) increasing returns from investment abroad.

Statistical revision. Additionally, statistical revision in 1Q-3Q18 data was supportive in changing the course of CAD narrative from slightly breaching BI's preference level to the current 2.98% figure. The amendment of some US$-0.5bn (c. -1.6% from average 2018's CA) in the 1Q-3Q18's CA (proportionately 51%, 6%, and 43% for each respective quarter) had made previous CADs of 1Q-3Q18 to 2.07%, 3.01, and 3.28% of GDP, respectively (vs 2.16%, 3.02%, and 3.37% initially). Had this revision been absent, CAD would be 0.05 decimal point higher and at 3.03% of GDP.

Overall positive BOP. Thanks to portfolio inflows throughout the 4Q18 (+117x qoq) of US$10.4bn, there was a boost in the capital and financial account, which altered the overall BOP amount into recording the US$5.4bn. Although the total 2018 BOP remained in US$7.1bn deficit, the inflows had managed to inject additional foreign reserve of US$5.8bn (or 5% gain qoq). Portfolio investment remained robust in the first months of 2019, creating adequate reserve buffers outlook for 1Q19. In contrast, FDI was declining (-55% yoy), albeit the prospect might improve this year, according to the Investment Coordinating Board's (BKPM) projection.

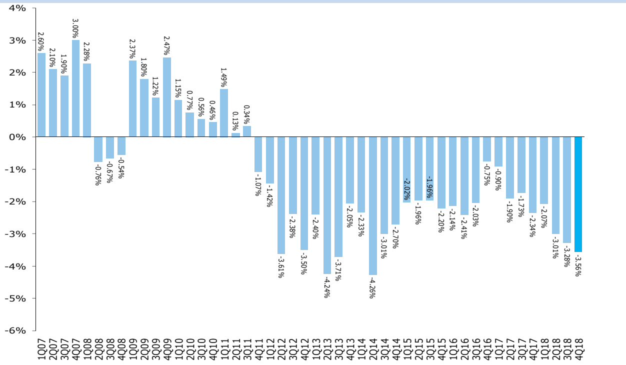
CAD to narrow. Latest market concern to the CAD and impact to volatility have made structural trade enhancement stood among policy priorities this year, leading the central bank to target this year's CAD to narrow to 2.5% of GDP. Risks to BOP in general would still be prevalent, in our view, as (1) growing uncertainty and volatility remain existent in the short run, thus giving pressure to capital outflows, (2) policies introduction for better CA such as Industry 4.0 and tourism advancement would have a kick-in effect only in medium- to long-term, and (3) FDI flattening trend both domestically and globally necessitates for larger reform in the economy.

Fig. 1: Summary of 4Q18 and FY18 BOP (US$bn and %)

	4Q18	FY18	% growth 4Q18 qoq	% growth FY18 yoy
Current Account (US$bn)	-9.2	-31.1	6%	-92%
Goods Net Export (US$bn)	-2.6	-431	-467%	-102%
Service Net Export (US$bn)	-1.6	-7. 1	20%	4%
Capital & Financial Account (US$bn)	15.7	25.2	302%	-12%
Portfolio investment (US$bn)	10.4	9.3	11,659%	56%
FDI (US$bn)	2.0	13.8	-57%	-25%
Overall BOP (US$bn)	5.4	-7.1	-224%	-162%
Foreign reserves (US$bn)	+5.8	120.7	-7%	-5%
CA Deficit (% of GDP)	3.54	2.98	+0.09ppt	+.26ppt

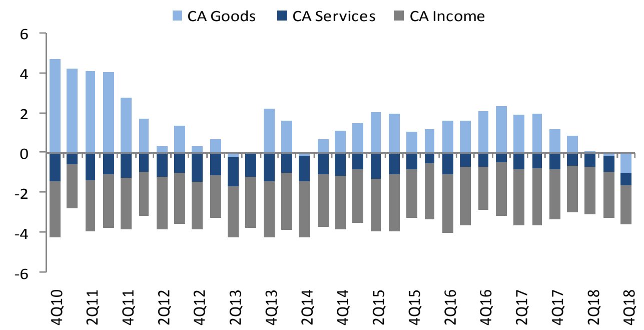
Source: Bank Indonesia, IndoPremier

Fig. 2: Current account deficit (% of GDP)



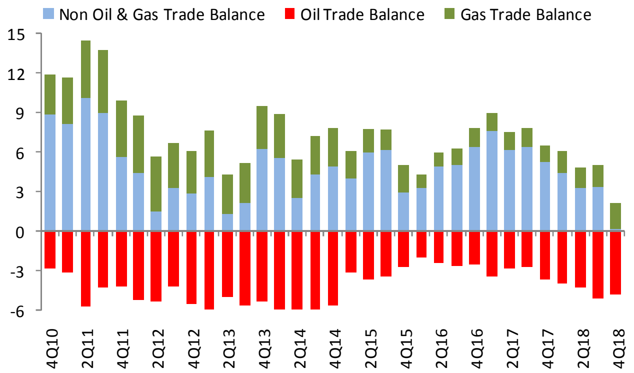
Source : Bank Indonesia, CEIC &IndoPremier

Fig. 3: CA breakdown (US$bn)



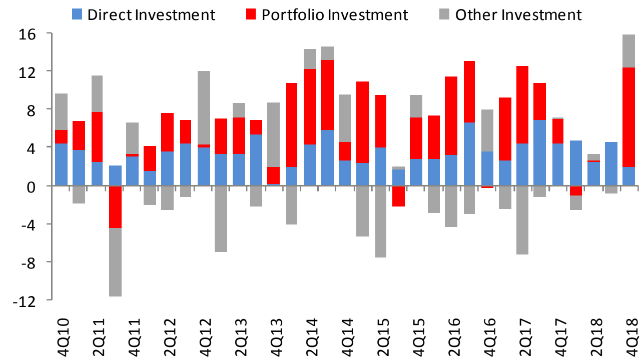
Source : Bank Indonesia, CEIC &IndoPremier

Fig. 4: Trade balance OG vs NOG (US$bn)



Source : Bank Indonesia, CEIC &IndoPremier

Fig. 5: KFA breakdown (US$bn)



Source : Bank Indonesia, CEIC &IndoPremier

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INVESTMENT RATINGS

BUY	: Expected total return of 10% or more within a 12-month period
HOLD	: Expected total return between -10% and 10% within a 12-month period
SELL	: Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION.

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