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Indonesia Economic Briefing

CA deficit heading to sustainable level

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BoP 4Q: A sharp adjustment in CA deficit to 2.0% of GDP

- The long awaited adjustment in the current account deficit finally seen in Q4 2013. **CA deficit dropped significantly to USD 4bn (2.0% of GDP),** from as high as 4.4% of GDP in Q2 and 3.8% of GDP in Q3. **That led to a deficit of USD28.5bn (3.3% of GDP) for the overall year 2013.** The number was larger than previous year (at 2.8% of GDP) though it was better than expectation.
- **Improvement in exports was the main factor as the forth quarter sees a significant surplus in the trade balance.** The trade surplus rose to USD4.9bn that was mostly driven by a large gain in the non-oil exports on the back of improving demand of some of the trading partners (US, Japan), stabilizing commodity prices and weaker (thus more competitive) exchange rate and also some front running of ore exports. Meanwhile BI's and the government policies were able to reign in imports to some extent though not as sharp as expected. The trade surplus together with the higher surplus of USD1.1bn in the current transfers (mostly due to higher inflows of remittance) was able to counter the rising deficit in the services account (USD 2.9bn) and income account (USD 7.1bn).
- **Capital and Financial Account (CFA) also gained a large surplus amounting to USD 9.2bn, driven mostly by inflows in the other investment account.** This is due to the significant increase in the withdrawal of overseas funds placed abroad (as reflected in the rise in the currency and deposits, asset side) and also due to the higher disbursement of the private sector's foreign debt. The rise in the inflows of currency and deposits is caused by the increasing banks placement in the BI's foreign exchange swap and term deposits facility.
- FDI flows showed a slight decline in Q4 (from USD5.8bn to USD 4.1bn) in line with the easing economic activities. Combined with the rising Indonesians overseas investment (by USD2.5bn), the net FDI dropped to USD1.6bn. Meanwhile, portfolio investment only slightly down (from USD1.9bn to USD1.8bn), mostly driven by outflows of government bonds particularly the USD denominated bonds.
- The large surplus in the CFA was able to compensate the CA deficit, thus led to a surplus in the overall balance of payment in Q4 at around USD4.4bn. The full year's (2013) overall balance figure charted a deficit of USD7.3bn.

Policy and Market Implication

- Oil deficits in Q4 showed a slight decline (from USD5.7bn to USD5.4bn), but the number was still relatively large. Oil imports have come down, but it remains to see whether the decline will be sustainable as fuel consumption (for transportation) may still be relatively high with vehicle sales still holding up. This would be a concern especially if the oil lifting target (840 thousands barrel per day in 2014) could not be met.
- We would be counting on the improvement in the manufacturing sector, as in the few months ahead the exports number will show the impact of the ore partial exports ban that was implemented in January. We should see further whether the improving external demand of our main trading partners (US, Japan, China) could sustain to support the manufacturing exports.
- Therefore we are still cautious for now and thus maintain our view and expect an improvement on trade and the CA deficit at 2.9% of GDP (BI's expectation in

2014 is at 2.5% of GDP). We think further improvement is still possible if the global economy continued to show positive signs.

- With an expected improvement in the current account, we maintain our view of a strengthening rupiah by year-end at Rp11,058/USD. Despite the recently positive sentiments, we are still cautious on the potential pressure on the rupiah particularly on March/April as trade data will show whether the current improvement is sustainable and just how large is the impact of the partial ore exports ban.

Indonesia: Selected Economic Indicators

	2010	2011	2012	2013	2014E	2015E
National Accounts						
Real GDP (% y-o-y)	6.2	6.5	6.2	5.8	5.7	6.2
Domestic demand ex. inventory (% y-o-y)	5.3	5.7	6.2	5.1	5.5	5.7
Real Consumption: Private (% y-o-y)	4.7	4.7	5.3	5.3	5.2	5.4
Real Gross Fixed Capital Formation (% y-o-y)	8.5	8.8	9.8	4.7	4.0	6.8
GDP (US$bn) — nominal	710	845	879	871	925	1,086
GDP per capita (US$) — nominal	2,986	3,509	3,596	3,490	3,640	4,215
Open Unemployment Rate (%)	7.1	6.6	6.1	6.3	6.1	6.1
External Sector						
Exports, fob (% y-o-y, US$ bn)	32.1	27.0	-6.1	-2.6	4.2	6.0
Imports, fob (% y-o-y, US$ bn)	43.7	30.3	8.4	-1.4	3.5	4.2
Trade balance (US$ bn)	30.6	34.8	8.6	6.1	3.3	6.8
Current account (% of GDP)	0.7	0.2	-2.7	-3.3	-2.9	-2.4
Central government debt (% of GDP)	26.1	24.6	23.1	22.0	21.2	22.2
International Reserves –IRFCL (US$ bn)	96.2	110.1	112.8	99.4	100.0	103.5
Reserve Cover (Months of imports & ext. debt)	7.1	6.3	6.1	5.4	5.6	5.8
Currency/US$ (Year-end)	8,991	9,068	9,670	12,189	11,058	10,754
Currency/US$ (Average)	9,085	8,779	9,380	10,428	11,605	10,770
Other						
BI policy rate (% year end)	6.50	6.00	5.75	7.50	7.75	8.00
Consumer prices (% year end)	6.96	3.79	4.30	8.38	4.94	4.61
Fiscal balance (% of GDP; FY)	-0.73	-1.14	-1.77	-2.24	-1.80	-2.00
S&P's Rating – FCY	BB	BB+	BB+	BB+	BB+	BB+

Economic and Market Research

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