

Macro Note

Indonesia: Current Account Deficit Widened In Q3, Likely To Narrow In Q4 Onwards

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- Indonesia's current account deficit (CAD) widened in Q3 2018 on the back of stronger domestic demand at USD8.8bn (3.4% of GDP) vis-à-vis Q2's USD8.0bn (3.02% of GDP). On a year-to-date basis, cumulative CAD until Q3 2018 is at 2.9% of GDP. Given stronger exports (as CPO and coal prices recover) and tighter imports (see Macro Note: [Indonesia: Imports Tightening Measures to Manage Current Account](#), 18 September 2018), and some seasonality effects going forward, we forecast CAD to narrow to 2.7% of GDP in Q4 2018 and may continue narrowing to 2.5% of GDP in 2019 (Table 1).

Table 1. Current Account And Key Components in 3Q 2018

Indonesia Balance Of Payment (USD billion)

Component (USD billion)	2016	2017	1Q18	2Q18	3Q18	4Q18F	2019F
Current Account	-17.0	-17.3	-5.6	-8.0	-8.8	-7.3	-27.7
1. Goods	15.3	18.8	2.3	0.3	-0.4	2.0	12.0
Exports	144.5	168.9	44.4	43.8	47.7	48.0	184.5
Imports	-129.2	-150.1	-42.1	-43.5	-48.1	-46.0	-172.5
Non oil & gas	20.1	26.1	4.4	3.2	3.4	-	-
Oil & gas	-4.8	-7.3	-2.4	-2.8	-3.5	-	-
2. Services, Primary and Secondary Income	-32.2	-36.1	-7.9	-8.3	-8.4	-9.3	-39.7
Capital and Financial Transaction	29.3	29.5	2.3	4.5	4.2	6.0	-
a. Direct Investment	16.1	19.3	2.9	3.2	3.9	4.3	-
b. Portfolio Investment	19.0	20.9	-1.2	0.1	-0.1	1.1	-
c. Other Investment	-5.8	-10.7	0.3	1.7	0.2	0.0	-
Balance Sheet	12.1	11.6	-3.9	-4.3	-4.4	-1.0	-
Memorandum:							
Foreign exchange reserves	116.4	130.2	126.0	119.8	114.8	-	-
in the month of import and payment of external government debt	8.4	8.3	7.7	6.9	6.3	-	-
Current Account (% of GDP)	-1.8	-1.7	-2.2	-3.0	-3.4	-2.7	-2.5

Source: BI, UOB Global Economics & Markets Research

- Wider CAD in Q3 2018 was mainly due to trade deficit and higher service balance's deficit (Figures 1 and 2). The reversal into goods trade deficit can be attributed to the increase in the oil and gas trade balance deficit, while the increase in the surplus in the non-oil and gas trade balance was relatively limited due to high imports growth amidst stronger domestic demand. The increase in the oil and gas trade balance deficit occurred in line with rising oil imports amid rising world oil prices. Secondly, wider CAD was also affected by an increase in the service account deficit, especially transportation services, in line with the increase of goods' imports and higher services' payments associated with pilgrimage activities. Some mitigating factors include higher manufacturing exports and an increase in surplus travel services as the number of foreign tourist arrivals rose, including the implementation of the Asian Games in Jakarta and Palembang. Primary income balance remained in deficit (Figure 3) while secondary income balance showed some improvement in Q3 2018 (Figure 4).

- The capital and financial account in the third quarter of 2018 recorded a substantial surplus as a reflection of continued high investor confidence in the outlook for the domestic economy, according to statement released by Bank Indonesia (BI). The capital and financial account recorded a surplus of USD4.2bn in Q3 2018, supported by higher foreign direct investment (FDI). In addition, the flow of foreign funds in the bond market instruments such as the Government Securities and corporate foreign loans also increased.
- Nevertheless, the capital and financial account surplus was not enough to offset the CAD, such that the Indonesian Balance of Payments (BOP) in Q3 2018 still recorded a wider BOP deficit of USD4.4bn. The FX reserves remained at a healthy level of USD114.8bn as per September 2018. The amount of foreign exchange reserves is equivalent to financing 6.3 months of imports and government foreign debt and is above the international adequacy standard of 3 months of imports.

Figure 1. Goods Trade Balance Turned Into Deficit

Source: BI, UOB Global Economics & Markets Research

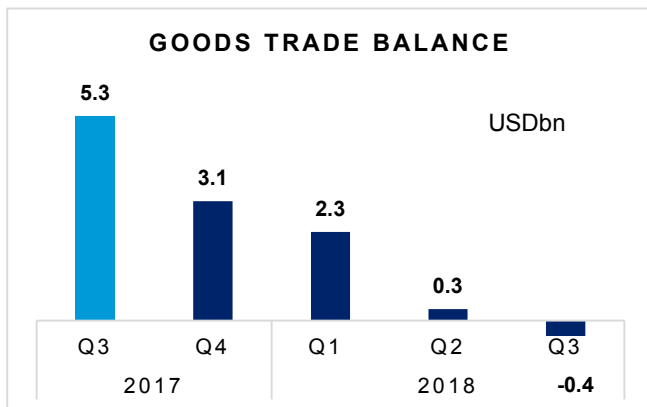


Figure 2. Service Deficit Widened

Source: BI, UOB Global Economics & Markets Research

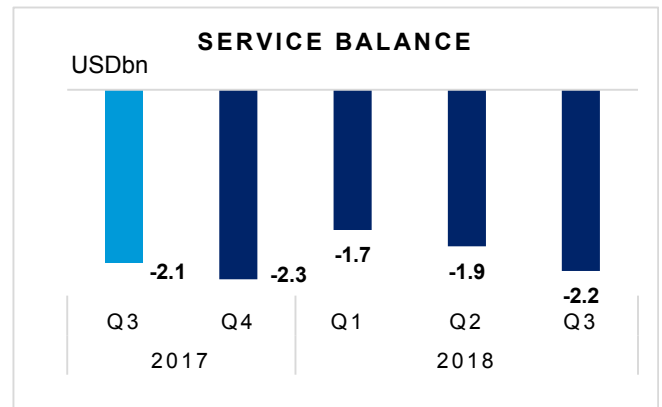


Figure 3. Deficit In Primary Income Remains Significant

Source: BI, UOB Global Economics & Markets Research

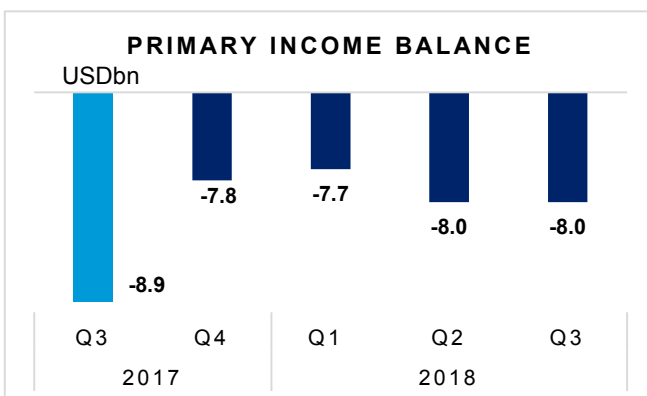
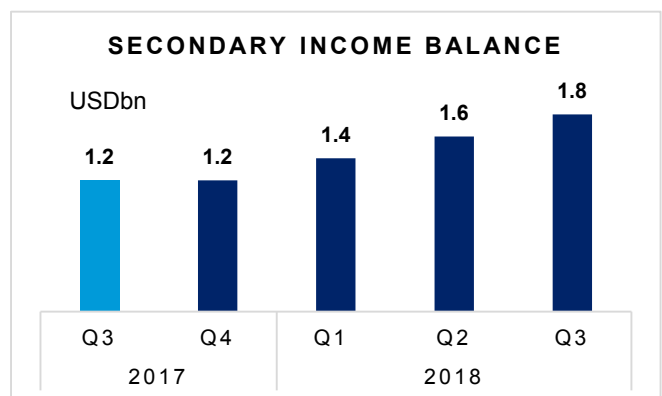


Figure 4. Secondary Income Surplus Improved

Source: BI, UOB Global Economics & Markets Research



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