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INDONESIA BALANCE OF PAYMENT RELEASE: Q1 2019[1]

- **The current account deficit (CAD) came in at USD 7.0 billion in Q1 '19 compared to USD 9.2 billion in the previous quarter. As a share of GDP, the CAD was larger in Q1 '19 vs. Q1 '18, and the four-quarter rolling sum continued to widen to 3.1 percent of GDP from 3.0 percent in 2018.**
- **Volumes of both exports and imports of goods contracted yoy in Q1, but because imports contracted more, the goods balance returned to a surplus after two quarters. On the other hand, the services and income account deficits widened in Q1.**
- **The financial account surplus narrowed significantly to USD 10.1 billion in Q1 from a record high of USD 15.9 billion in Q4 2018, as portfolio inflows and other investment eased, more than offsetting a gain in FDI.**
- **After drawdowns in the first three quarters of 2018, BI continued to build reserves for the second consecutive quarter, with the overall Balance of Payments (BoP) posting a surplus of USD 2.4 billon in Q1 (Figure 1).**

The CAD narrowed to USD 7.0 billion in Q1 from the USD 9.1 billion deficit posted in Q4 last year, but larger than the USD 5.2 billion shortfall in Q1 2018. The smaller deficit was partly driven by the goods trade balance swinging to a surplus of USD 1.1 billion from a deficit of USD 2.6 billion in Q4, in light of the investment slowdown and slower imports of capital goods. On a four-quarter rolling sum basis, the CAD continued to deteriorate to 3.1 percent of GDP in Q1 2019 from 3.0 percent in Q4 2018 (Figure 2).

With slower global trade, substitution of palm oil into biodiesel, and structural bottlenecks, exports continued to deteriorate, contracting 8.6 percent in Q1, after declining by 1.4 percent in Q4 2018[2]. Goods exports saw a broad-based weakening, partly due to subdued export commodity prices[3] and weakening demand from Indonesia's major trading partners[4] (Figure 3). In particular, the contraction of coal exports was due to declining demand from China as the Chinese Government implemented restrictions on coal imports[5]. Processed commodity exports also contracted, partly due to the decline in the global demand for palm oil products and partly due to the Government's policy to increase the use of biodiesel[6].

In line with slower investment growth, import values contracted for the first time in 10 quarters, driving the goods trade balance to a surplus (Figure 4). Good imports fell sharply by 6.1 percent in Q1, after growing 11.8 percent in Q4 2018, because of the continued government policies to curb imports[7] and lower domestic fuel consumption following seasonal patterns[8]. Imports of fuel and lubricants contracted the most by 19.5 percent, followed by consumption goods imports that dropped 13.3 percent. This was due to the moderation in the import prices and decline in the volumes for cosmetics, plastic products, and footwear. Capital goods imports declined for the first time in seven quarters, in line with the slower investment growth, particularly investment in machine and equipment.

Both the services trade deficit and income account deficit widened in Q1 to USD 1.8 billion and USD 6.2 billion, respectively. Service exports declined for the first time in 13 quarters, by 3.7 percent (Q4: +1.8 percent) while service imports continued to deteriorate by 0.5 percent. The contraction in service exports was mostly due to a lower travel surplus as growth of foreign tourist arrivals moderated substantially to 1.1 percent yoy in Q1 from 14.1 percent in Q4, reflecting seasonal trends. The deficit in the income account widened due to reduced income from direct investment, which was in turn because of

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[1] Prepared by Indira Maulani Hapsari, cleared by Derek Chen and Frederico Gil Sander.

[2] Export value growth deteriorated in the East Asia and Pacific countries as did export volume growth (East Asia and Pacific Economic Update, April 2019)

[3] Prices of Indonesia's main commodity exports which include coal, crude oil, palm oil, rubber and base metals, contracted on average 8.5 percent yoy in Q1 2019.

[4] World Bank projections of average growth of MTP nations moderated in 2019 to 3.1 percent from 3.2 percent in 2018. Major trading partner economies consists of China, Japan, United States, India, Singapore, Korea, Malaysia, Philippines, Thailand, Vietnam, Netherland, Australia and Germany.

[5] China's coal imports restrictions have led to the decline in coal exports to China and exerted pressure on global coal price. https://industri.kontan.co.id/news/pembatasan-ekspor-batubara-kalori-rendah-menengah-membuat-hba-mei-turun

[6] Weaker global palm oil demand is in part due to reduced demand from China as the economy slows, and the negative campaign on palm oil products promoted by the European countries (Balance of Payments Report, Q1 2019, Bank Indonesia, 2019)

[7] The policies include the enactment of higher import duties for consumption goods, mandate for production sharing contractors to sell crude oil to Pertamina, and the Biodiesel 20 percent policy where 20 percent biofuel blend should be used in the domestic diesel mix.

[8] Balance of Payments Report, Q1 2019, Bank Indonesia, 2019

dampened investment returns, especially for the property sector[9]. The stronger currency compared to Q4 also contributed to higher USD profit remittances.

After slipping to USD 3.6 billion in Q4 2018, Foreign direct investment (FDI) came in at USD 6.0 billion in Q1, reverting to the trend in the first three quarters of 2018. The tick up was mostly due to the turnaround on mining and quarrying investments, which saw large divestments in previous quarter[10] (Figure 5). Manufacturing as well as wholesale and retail trade continued to be the main destination for FDI flows, accounting for 60.3 percent of total flows. The large FDI flows into the manufacturing sector was driven by global bond issuance and debt withdrawal from several automotive companies. Net direct investment (direct investment in Indonesia less Indonesian direct investment abroad) strengthened in Q1 to USD 5.2 billion (Q4 2018: USD 2.0 billion) but was still insufficient to finance the current account deficit.

The financial account surplus decreased in Q1 to USD 10.1 billion, after soaring to a record high of USD 15.9 billion in Q4 2018 (Figure 6). Portfolio investment moderated to USD 5.4 billion (Q4: USD 10.5 billion) on account of government payments due in March 2019 and lower private global bonds revenue flows, but also reflected the less favorable external environment, and in particular, the heightened global trade tensions. Other investment saw a turnaround and booked a deficit of USD 0.6 billion in Q1 (Q4: +3.5 billion), driven by increase in private sector deposits in overseas banks and private sector loans to non-residents. Equity inflows in April surged due to positive sentiment among investors in light of the election result[11].

Despite the narrower financial account surplus, BI continued to rebuild reserves as the overall Balance of Payments in Q1 reached a surplus of USD 2.4 billion (Figure 1). Bank Indonesia's international reserves increased to USD 124.5 billion at the end of March 2019 from USD 120.7 billion at the end of December 2018, equivalent to 6.8 months of imports and servicing government external debt.

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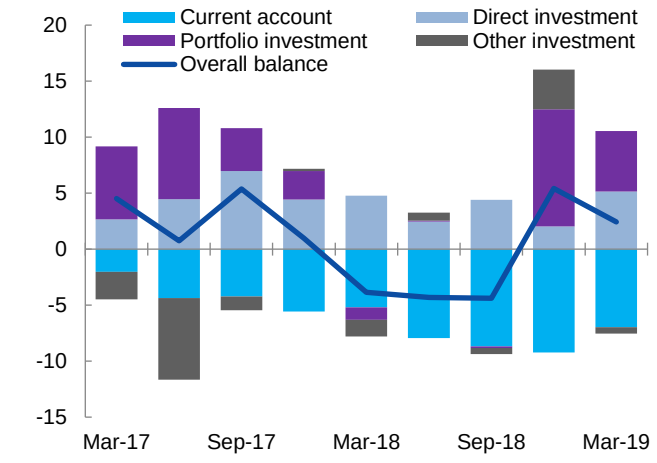
[9] Balance of Payments Report, Q1 2019, Bank Indonesia, 2019

[10] There were large divestments in the mining sector last quarter as Indonesian companies acquired capital of foreign mining companies, including Indonesia's state-owned Inalum's acquisition of Freeport

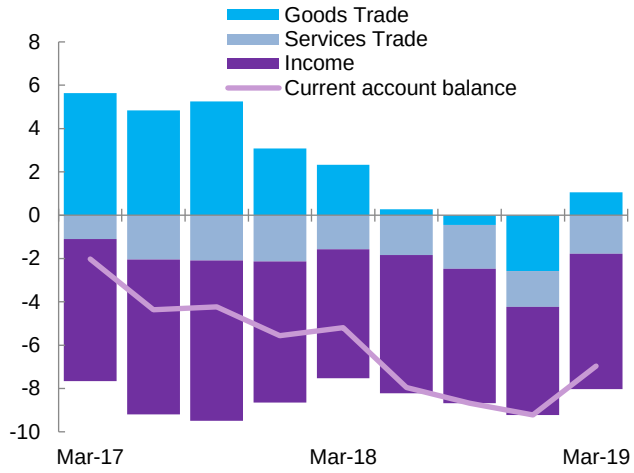
[11] The initial election result was welcomed by investors and led to a surge in the foreign net purchases in April https://market.bisnis.com/read/20190512/7/921501/transaksi-broker-april-melonjak-ditopang-sentimen-pilpres

Figure 1: Balance of Payments (BOP) recorded a smaller surplus as financial account surplus narrowed
(USD billion)



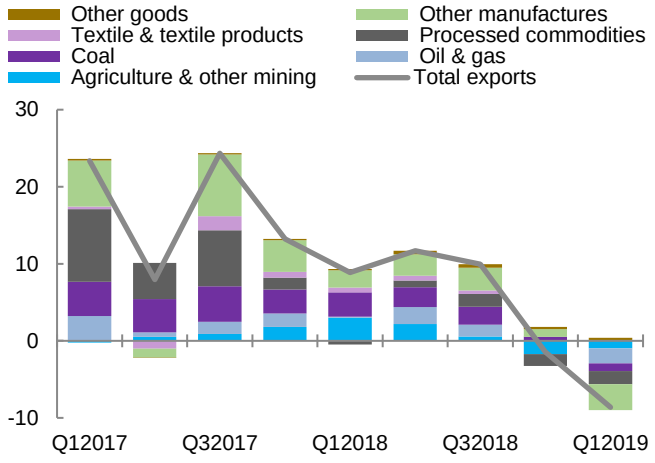
Source: BI; World Bank staff calculations

Figure 2: Current account deficit narrowed in Q1 in line with the slowdown in investment.
(USD billion)



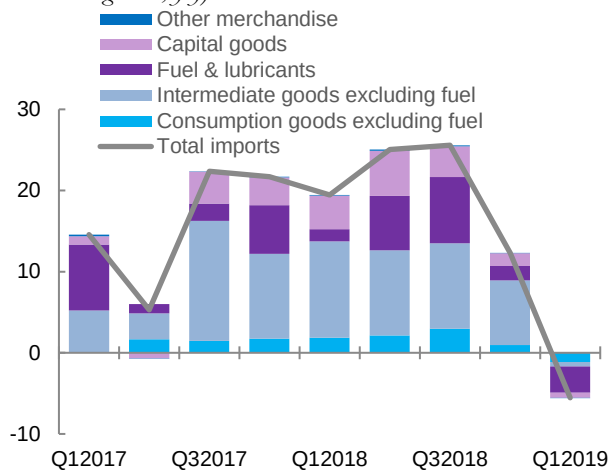
Source: BI; World Bank staff calculations
Note: expressed in a four-quarter rolling sum percent of GDP.

Figure 3: Exports contracted further, and the contraction was broad-based…
(contributions to growth, yoy)



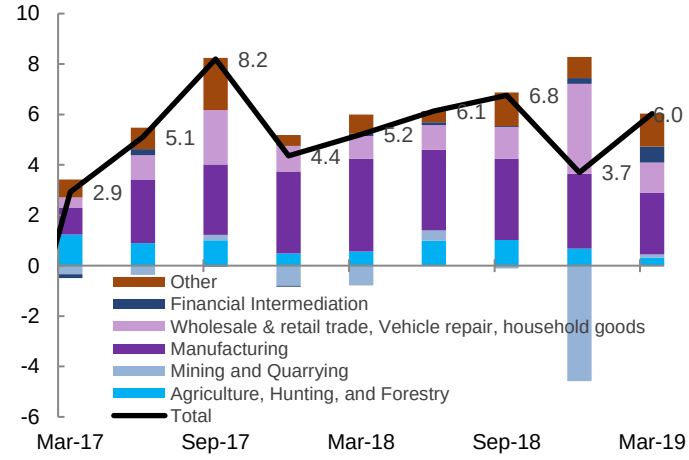
Source: BI; World Bank staff calculations

Figure 4: …while imports contracted the first time in ten quarters.
(contributions to growth, yoy)



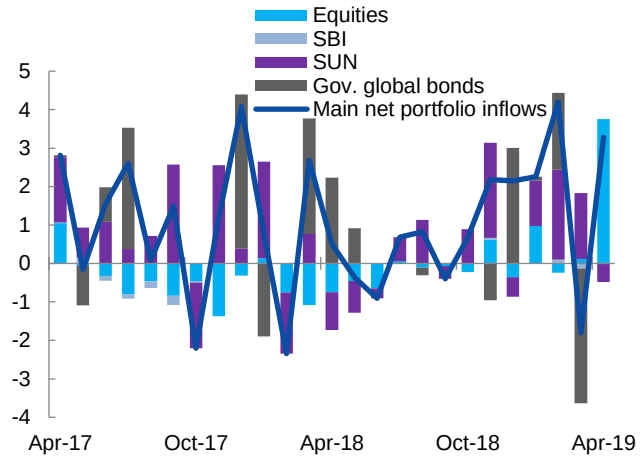
Source: BI; World Bank staff calculations

Figure 5: Direct investment in Indonesia returned to its average for the first three quarters of 2018..
(USD billion)



Source: BI; World Bank staff calculations.

Figure 6: … while debt and equity inflows continued to be robust.
(USD billion)



Source: BI; World Bank staff calculations
Note: Sertifikat Bank Indonesia (SBI) and Surat Utang Negara (SUN) are local currency bonds

Table A.1 Indonesia's Balance of Payments (BOP)

	2017	2018	Q3-2018	Q4-2018	Q1-2019
Nominal GDP	1,015.4	1,042.2	262.9	256.8	267.6
Overall Balance of Payments	11.6	(7.1)	(4.4)	5.4	2.4
As percent of GDP	1.1	(0.7)	(1.7)	2.1	0.9
As percent of GDP, four-quarter rolling sum	1.1	(0.7)	(1.1)	(0.7)	(0.1)
Current Account	(16.2)	(31.1)	(8.6)	(9.2)	(7.0)
As percent of GDP	(1.6)	(3.0)	(3.3)	(3.6)	(2.6)
As percent of GDP, four-quarter rolling sum	(1.6)	(3.0)	(2.6)	(3.0)	(3.1)
Goods trade balance	18.8	(0.4)	(0.5)	(2.6)	1.1
Services trade balance	(7.4)	(7.1)	(2.0)	(1.6)	(1.8)
Income	(27.6)	(23.5)	(6.2)	(5.0)	(6.2)
Capital and Financial Accounts	28.7	25.3	3.8	15.9	10.1
As percent of GDP	2.8	2.4	1.5	6.2	3.8
As percent of GDP, four-quarter rolling sum	2.8	2.4	1.6	2.4	3.1
Direct Investment	18.5	13.7	4.4	2.0	5.2
Portfolio Investment	21.1	9.3	(0.1)	10.5	5.4
Other Investment	(10.7)	2.2	(0.5)	3.5	(0.6)

Source: Bank Indonesia, World Bank staff calculation