

Indonesia Macro Flash

CA Deficit in 4Q Reached 3.6% GDP; FasBI Hike Still Anticipated

- **The current account deficit widened in 4Q12 to \$7.8bn or 3.6% of GDP annualized** — This is higher than consensus (\$7.4bn) and Citi (\$7.5bn) expectations. The number for 2Q12 was also revised upward for the second time to nearly \$8bn, bringing the FY12 CA deficit to \$24.2bn or 2.8% GDP. From a full-year perspective, the deterioration of the CA deficit from 2011 was primarily due to the worsening merchandise trade balance which dropped from \$34.8bn to \$8.4bn (fob-fob basis).
- **Overall BOP still saw a surplus of \$3.6bn during the quarter, but the 'basic balance' remained in deficit** — Net foreign direct investment improved slightly from the previous quarter to \$4.5bn. This means long-term capital inflows only covered around 60% of the current account deficit, down from 80% in 3Q. The remaining was mostly covered by portfolio inflows. (We note that other investment inflows were unusually high in 4Q12, possibly due to a one-off double-entry accounting adjustment related to BI's reserve management, which had zero net effect).
- **In 1Q12, our baseline is for the CA deficit to improve slightly given a modest rebound in commodity prices** — Given recent movements in commodity prices, we expect the CA deficit in 1Q13 to decline slightly towards \$6.0bn or close to 2.5% of our 2013 annualized GDP forecast. Yet there is upside risk to our forecast if volume imports of raw materials resurge (construction growth still seems strong judging from 4Q12 GDP data). Note also that foreign reserves dropped by \$4bn to \$108.8bn in January, indicative of a balance of payments deficit during the month.
- **Going forward, FDI will likely still grow YoY, but we think the basic balance will remain in deficit** — Therefore portfolio inflows will remain a crucial swing factor which could tilt the overall BOP to surplus or deficit. Currency movements hence may stay reactive to: 1) incoming trade data, which is known to be volatile; 2) the perception of how serious the fiscal and monetary authorities are perceived to be in managing the CA deficit.
- **What's the possibility of BI raising the FasBI rate?** — The level of the FasBI rate is regularly discussed in the weekly monetary policy meetings and our baseline has been for a +25bps hike by end-Feb. This is in order to send a signal that policymakers are ready to tighten monetary policy in response to any unexpected deterioration of the external imbalance. The risk to this forecast is to the downside. Absent any strong pressure in the FX market, policymakers may delay to wait and see on incoming data.

Helmi Arman

+62-21-5290-8960

helmi.arman@citi.com

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