

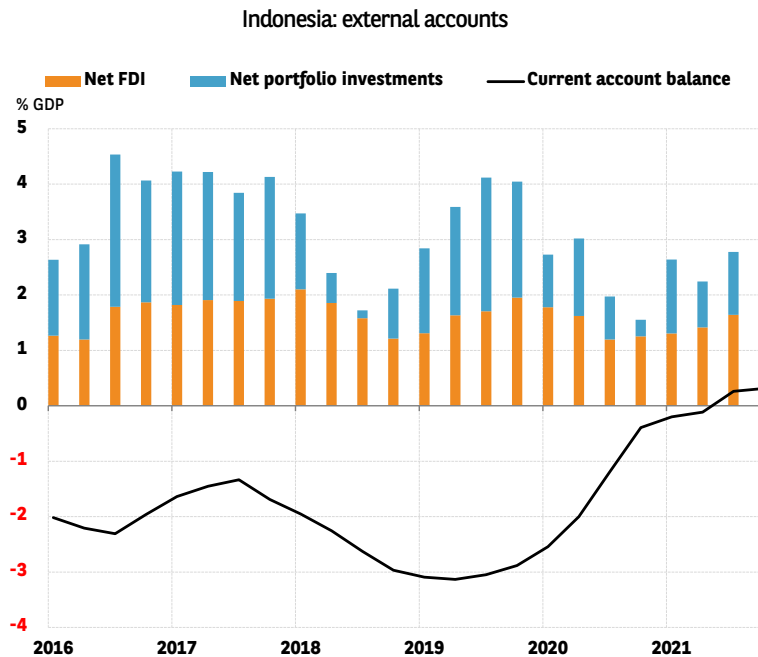
CHART OF THE WEEK



02 March 2022

INDONESIA: MIXED CONSOLIDATION OF EXTERNAL ACCOUNTS

Johanna Melka



Source: Bank Indonesia (BI), BNP Paribas

At first glance, Indonesia consolidated its external accounts in 2021. Foreign exchange reserves amounted to USD 131 bn, the equivalent of 8.3 months of imports of goods and services, while the external debt came to only 35% of GDP, which is less than the pre-Covid level. Moreover, the current account showed a slight surplus (0.3% of GDP) for the first time since 2011. The strong performance of the current account reflects the steep increase in the trade surplus, which swelled to 4.1% of GDP, from an average of 1.3% over the past five years. Although imports increased by nearly 6 points of GDP compared to 2020, Indonesia reported a sharp rise in exports, driven up by higher commodity prices for coal, iron ore and palm oil.

In contrast, the results of the financial account were disappointing. Foreign capital inflows still fell far short of pre-Covid levels. Foreign direct investment (FDI) amounted to only 1.5% of GDP, down from 2% of GDP in 2019. Despite government reforms to attract foreign investments, Indonesia is still one of the ASEAN countries that receives the least FDI. As a result, the country is structurally dependent on portfolio investments to finance its current account balance, which should swing back into a deficit this year. In 2021, foreign investors were relatively adverse to Indonesian risk, and net inflows of portfolio investment amounted to only 0.5% of GDP. In 2022, investors are likely to shun Indonesia again considering international geopolitical tensions.

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