Global Economics & Markets Research
Email: GlobalEcoMktResearch@uobgroup.com
URL: www.uob.com.sg/research

Macro Note

Indonesia: FX Reserves Rose Further In July

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Enrico Tanuwidjaja
Economist
EnricoTanuwidjaja@uob.co.id

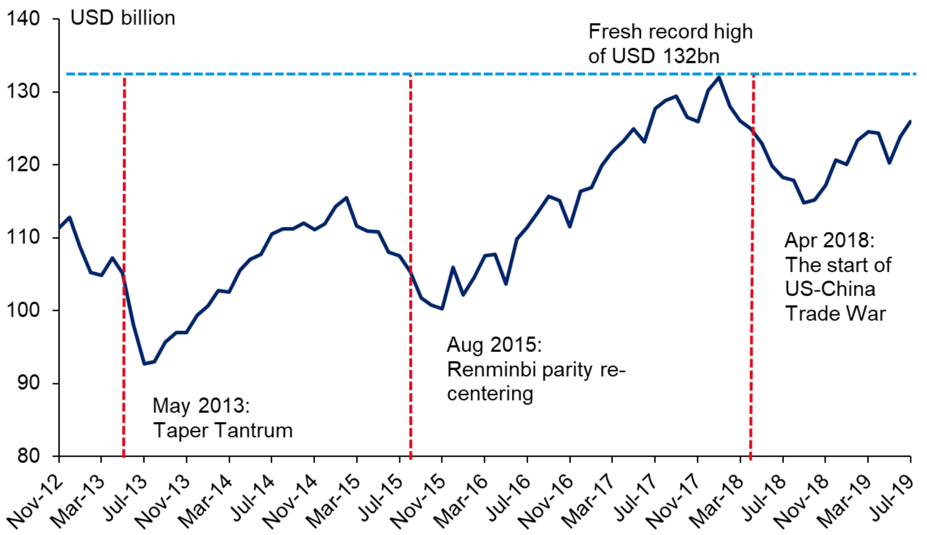
With Assistance from
Haris Handy

- Indonesia's foreign exchange (FX) reserves grew by USD2.1bn to USD125.9bn in July 2019, continuing the positive trend from previous month increase to USD123.8bn. The latest reserve level was equivalent to 7.3 months of import financing or 7.0 months of imports, and payments of government external debt; which is well above the international adequacy standard of around 3 months of imports. The increase in July's foreign exchange reserves was driven by oil-and-gas and other foreign exchange receipts, as well as the withdrawal of government foreign debt. Going forward, Bank Indonesia (BI) assesed that foreign exchange reserves will remain adequate, supported by stability and sound economic prospects.

- Going forward, it might be quite challenging for Indonesia to keep up the momentum of FX Reserve build up following the further escalation of trade tension between US-China which remains unresolved. However, given the relatively resilient macro-fundamentals, coupled with an attractive yield spread driven by another potential rate cut by the US Federal Reserve before the end of this year, capital inflows may return to the country. Additionally, betterment in the trade balance position could also help to steady the FX reserves.

Figure 1. FX Reserves up to USD125.9bn in July

Source: Bank Indonesia, UOB Global Economics & Markets Research



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