

Indonesia's trade surplus widens in Aug-23

Exports continued to decline, indicating sluggish global demand.

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.00
Inflation (% yoy, avg)	4.21	3.79
IDR/USD (eoy)	15,568	14,864
IDR/USD (avg)	14,874	15,031
CA (% of GDP)	0.99	-0.65
BI 7-day RR Rate (%)	5.50	5.75

F = OCE BMRI forecast
yoy = year-on-year
eoy = end of year
avg = average

Key Rates (%)	Dec-22	Sep-23*
BI 7-day RR Rate	5.50	5.75
Deposit Facility Rate	4.75	5.00
Lending Facility Rate	6.25	6.50
IDR 10Y Bond Yield	6.92	6.48
Fed Funds Rate	4.50	5.50
ECB Rate	2.50	4.25
BoE Rate	3.50	5.25
BoJ Rate	-0.10	-0.10

*) as of 15-Sep-23

Source: Bloomberg

Faisal Rachman

Senior Economist

faisal.rachman@bankmandiri.co.id

Andhi Hadi

Junior Economist

andhi.hadi@bankmandiri.co.id

- During Aug-23, Indonesia recorded a continued widening of export contraction by 21.21% yoy, extending the previous month's contraction of 18.10% yoy. This decline was due to the continuing slowdown in the world economy as the impact of higher inflation forced interest rates to rise. The weak global demand was also caused by the decline in commodity prices compared to last year's.
- However, on a monthly basis, exports showed a healthy increase of 5.47% mom in Aug-23, a better performance than the 1.36% mom growth observed in Jul-23. The increase was driven by high demand for commodities such as ores, slag, and ash or scrap, as the cost of remanufacturing is cheaper than production from raw materials. The total export value of these commodities reached USD790.8 million, up 223.50% mom. Then there is the increase in fats and vegetable oils because demand from China and India is still relatively high, as well as clothing and accessories.
- CPO price experienced monthly weakness in Aug-23 on the back of rising stockpiles due to high Malaysian production and improved soybean production in the US (lower soybean prices in Chicago), and the price of its substitutes also declined.
- Coal prices experienced a monthly increase in Aug-23 as demand from China remained stable amidst the heatwave, and gas prices increased.
- Indonesia's main non-oil and gas export commodities in August, except for mining products, iron, and steel processing, tended to improve. This indicates weakening global demand despite a slight price increase for some of these commodities in August 2023.
- Indonesia's exports to major NOG export destinations generally improved in Aug-23. NOG exports to China, Japan, and the United States, which collectively account for 42.68% of total NOG exports, increased by 9.36% mom, 6.66% mom, and 4.67% mom, respectively. However, NOG exports to European countries declined by 4.5% mom.
- During the first eight months of 2023 (8M23), Indonesia's exports experienced a significant contraction of 11.85% yoy, a considerable decline compared to the 35.37% yoy growth recorded in 8M22, highlighting the impact of the global economic slowdown.

Import contracted annually to a lesser extent than anticipated, indicating the domestic economy's resilience.

- In Aug-23, Indonesia's import performance showed a decline of 14.77% yoy, higher than the previous month's contraction of 8.32% yoy. On a monthly basis, imports weakened by 3.53%.
- A decline in imports of raw material goods drove the weakening of import performance in Aug-23. The decline in imports of raw materials was influenced by the decline in commodity prices and weakening demand from export destination countries.
- Imports of consumer goods in Aug-23 still showed an increase of 15.47% yoy, or lower compared to Jul-23 growth of 26.87% yoy, while imports of capital goods contracted by 3.97% yoy in Aug-23, or inversely compared to growth of 18.79% yoy in July. Imports of raw materials contracted by 20.39% yoy, deeper

than the 16.67% yoy decline on July 23. The decline in raw material imports was influenced by falling commodity prices and weakening global demand for manufactured goods. The solid growth of consumer goods illustrates that the domestic economy still has resilience and remains on a growth trajectory, along with consumption activities.

- During the cumulative period of Jan - Aug-23 (8M23), imports contracted by 7.83% yoy, contrary to the realization in 8M22 which was still positive by 29.38% yoy.

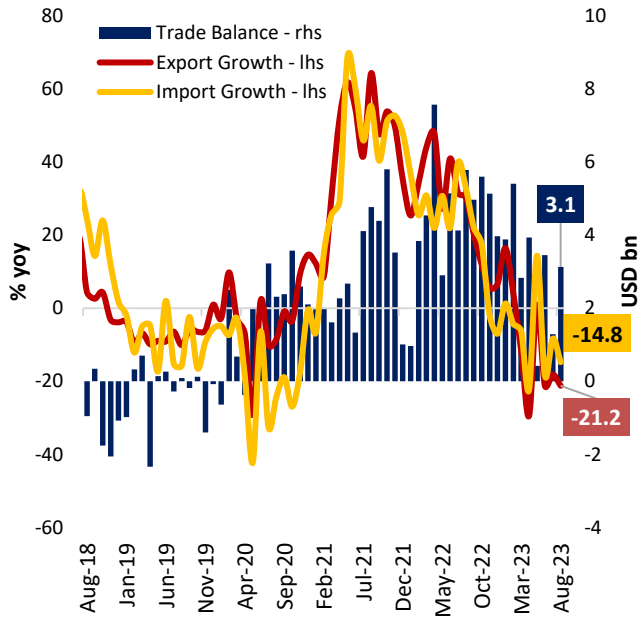
The trade surplus in Aug-23 increased as the significant decline in imports compared to the improvement in export performance.

- Indonesia's trade surplus increased from USD1.31 billion in Jul-23 to USD3.12 billion in Aug-23. However, this marked the 40th consecutive month of a trade surplus.
- When evaluating the aggregate performance for the first eight months, the trade surplus reduced from USD34.84 billion in Jan - Aug-22 (8M22) to USD24.34 billion in 8M23.

OUR VIEW: We predict the current account balance (CA) will exhibit a manageable deficit in 2023.

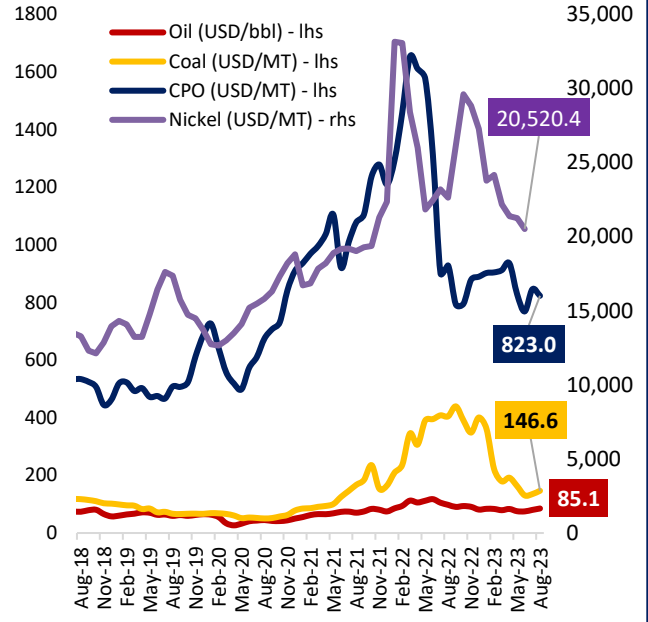
- As we advance, the strength of Indonesia's import-export performance is expected to be better because it is supported by indications of several economic indicators that show positive trends, especially China's economic indicators, that have begun to increase. On the positive side, the Chinese government has provided stimulus to move the economy forward. This can be seen from China's industrial production data; retail sales have started to pick up, and the domestic economy's resilience is relatively stronger amid the global economic downturn.
- The United States (US) economy still has to fight high inflation rates amidst a tight labor market. As a result, the country's central bank is expected to keep raising interest rates for a long time to come. This has led to a decline in demand worldwide, negatively impacting global trade activity.
- Hence, our forecast suggests a continued decrease in Indonesia's trade surplus, increasing the likelihood of the balance shifting into a deficit earlier than initially anticipated. *We forecast CA to record a small deficit of -0.65% of GDP in 2023 (vs. 0.99% of GDP surplus in 2022).*
- The positive development is that the government has implemented Government Regulation No. 36 of 2023 concerning Export Proceeds of Foreign Exchange Exports from Exploitation, Management, and Processing of Natural Resources. This regulation, which has become effective since 1-Aug-23, seeks to strengthen efforts to safeguard the earnings generated from the export of natural resources.
- Under the provisions of this regulation, exporters operating within sectors like mining, plantations, forestry, and fisheries, whose earnings from each export document reach a minimum of USD250,000 or its equivalent, are obligated to maintain at least 30% of their foreign exchange proceeds within the country for no less than three months.
- This action is anticipated to contribute an estimated USD12 - 15 billion to the foreign reserves in Aug - Dec-23, thereby offering valuable support in bolstering stability and fostering growth.

Trade Performance



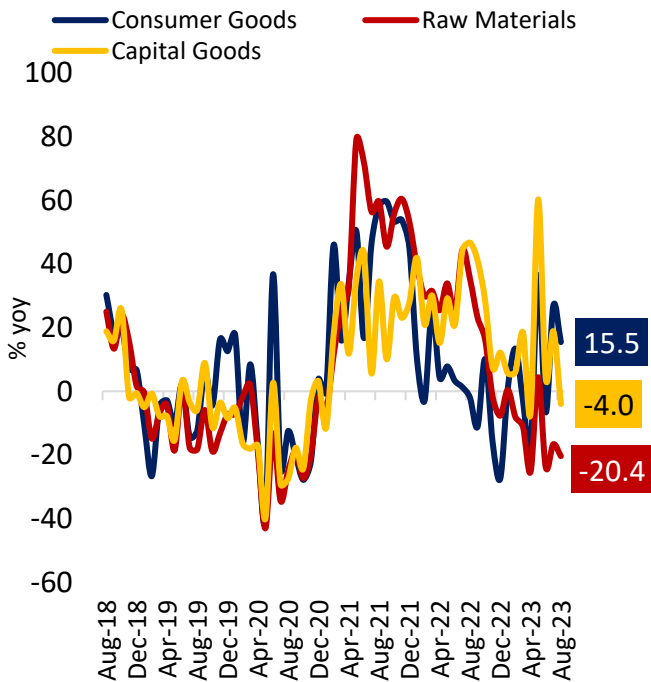
Source: BPS

Commodity Prices



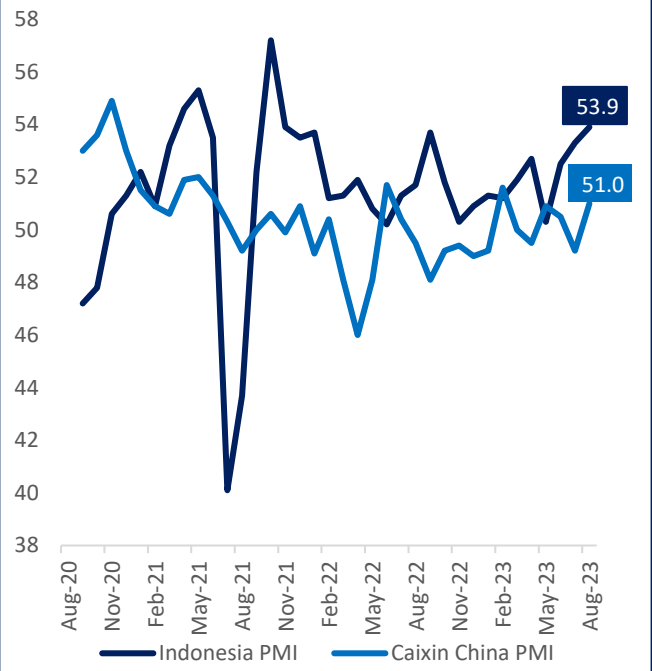
Source: Bloomberg

Import Group



Source: BPS

Production Manufacturing Index



Source: Bloomberg

Macroeconomic and Financial Market Research Department

Chief Economist

Andry Asmoro

Head of Macroeconomic and Financial Market Research

Dian Ayu Yustina

Senior Economist

Faisal Rachman

Senior Quantitative Analyst

Reny Eka Putri

Junior Economist

Andhi Prasetyo Hadi

Junior Economist

Shahifa Assajjadiyyah

Office Address:

Plaza Mandiri 18th Floor

Jl. Jend. Gatot Subroto Kav. 36 – 38, Jakarta 12190, Indonesia

Tel: +62 21 5245516

Fax: +62 21 5210430

email: oce@bankmandiri.co.id

www.bankmandiri.co.id

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