

## Indonesia's trade surplus notably narrowed in Jul-23

### Export continued to fall annually, indicating the flagging global demand.

Economic Indicators	2022	2023F
Real GDP (% yoy)	5.31	5.04
Inflation (% yoy, eoy)	5.51	3.60
Inflation (% yoy, avg)	4.21	4.62
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	Aug-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	6.36
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-Aug-23

Source: Bloomberg

- During Jul-23, Indonesia observed an 18.03% yoy decline in export, extending the previous month's contraction of 21.18% yoy. This decline was attributed to flagging global trade activity resulting from weakening global demand amid persistent inflation pressures, leading many countries to adopt a policy of maintaining higher-for-longer interest rates. The subdued global demand has also contributed to a downward trajectory in commodity prices compared to the level seen last year.
- However, on a monthly basis, exports exhibited a slight increase of 1.36% mom in Jul-23, a better performance than a 5.08% mom contraction observed in Jun-23. This improvement was facilitated by modest price increases in commodities such as crude palm oil (CPO), coal, and iron ore.
- CPO price saw a monthly increase in Jul-23 due to heightened tensions between Russia and Ukraine, along with reduced soybean production in the US.
- Coal price experienced a monthly upturn in Jul-23 as a result of China's efforts to tighten coal production and concerns over increased electricity consumption due to a heatwave.
- Among Indonesia's top three non-oil and gas (NOG) export commodities, only one commodity showed a monthly growth. The export value of mineral fuels excluding oil & gas products (HS 27), primarily coal, and animal/vegetable fats & oils (HS 15), mostly CPO, decreased by 6.93% mom and 0.93% mom, respectively. This indicates weakened global demand despite minor price increases in these commodities in Jul-23. In contrast, the export value of electrical machinery & equipment (HS 85) increased by 6.67% mom.
- Indonesia's export to its main NOG export destination countries generally improved in Jul-23. NOG export to China, the US, and India, which collectively account for 42.38% of total NOG export, increased by 7.52% mom, 4.07% mom, and 9.42% mom, respectively. However, NOG export to Japan declined by 1.01% mom.
- Over the first seven months of 2023 (7M23), Indonesia's export experienced a significant contraction of 10.27% yoy, a notable decrease compared to 36.36% yoy growth recorded in 7M22, highlighting the impact of the global economic slowdown.

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

- In Jul-23, Indonesia's import performance exhibited a decline of 8.32% yoy, improving from the previous month's contraction of 18.35% yoy. On a monthly basis, imports increased by 14.10% mom, contrasting with the 19.40% mom decline observed in Jun-23.
- The improved import performance in Jul-23 was driven by a rise in the import of consumer goods and capital goods. This suggests that the domestic economy maintains its resilience and remains within the growth trajectory, as consumption and investment/production activities in the domestic market display notable strength.
- Import of consumer goods witnessed a substantial increase of 26.87% yoy, in contrast to 6.59% yoy drop in Jun-23, while capital goods import rose by 18.79% yoy in Jul-23, compared to 4.11% yoy growth in Jun-23. Conversely, import of

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raw materials experienced a decline of 16.67% yoy, compared to 23.83% yoy drop in Jun-23. The decrease in raw material import was influenced by the decline in commodity prices, particularly for food and energy.

- Over the cumulative period of Jan – Jul-23 (7M23), import contracted by 6.71% yoy, a decrease from the robust 29.38% yoy growth observed in 7M22. When examining import categories more closely, the import of consumer goods and capital goods continued to exhibit growth, with annual increases of 6.36% yoy and 14.71% yoy, respectively. In contrast, import of raw materials declined by 12.00% yoy in 7M23.

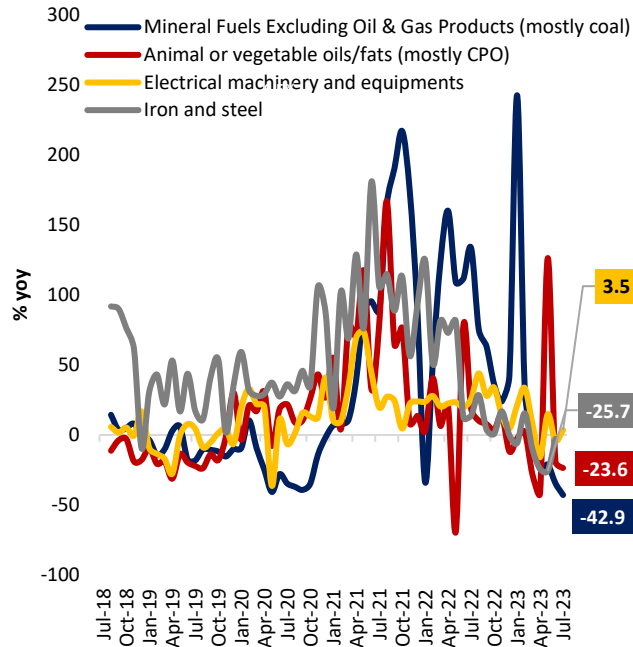
#### **Trade surplus notably shrank due to a more significant drop in export compared to import.**

- Consequently, Indonesia saw its trade surplus narrow from USD3.45 billion in Jun-23 to USD1.31 billion in Jul-23. Yet, it marked the streak of 39 consecutive months of trade surplus.
- When evaluating the aggregated performance over the initial seven months, the trade surplus diminished from USD29.12 billion in the Jan – Jul-22 (7M22) to USD21.24 billion in 7M23.

#### **OUR VIEW: We continue to maintain our prediction that the current account balance (CA) will exhibit a manageable deficit in 2023.**

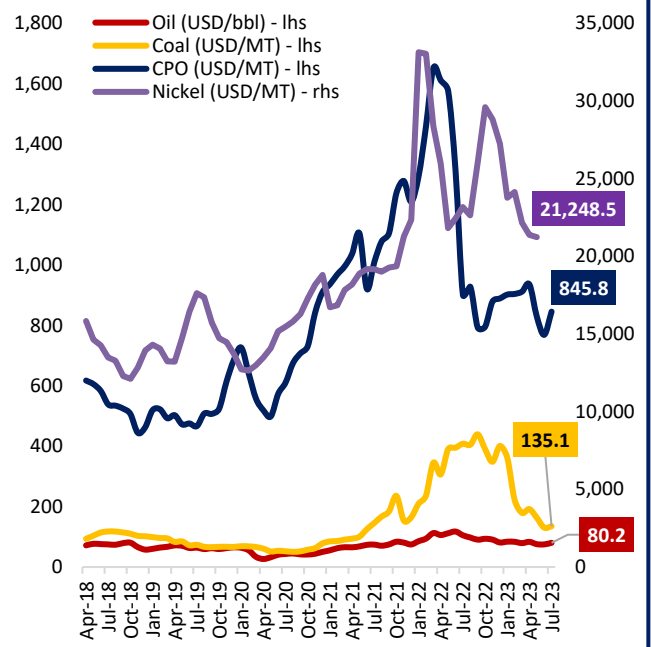
- The waning strength of Indonesia's export performance, occasioned by the slump in major commodity prices stemming from the weakening global demand, is projected to be counterbalanced by a comparatively more robust performance of Indonesia's import amid the enduring resilience exhibited by the domestic economic activities.
- The US economy is struggling with a stubborn inflation rate amidst a tight labor market. As a result, the country's central bank is adopting a prolonged period of higher policy rates. This is leading to a decrease in worldwide demand, which is having negative repercussions on global trade activities, including China's external sector. Moreover, China's economic recovery is being hindered by a deteriorating property market, and the most recent data is expected to indicate minimal indications of a rebound in growth.
- 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 put into action Government Regulation No. 36 of 2023 concerning Export Proceeds of Foreign Exchange Exports from Exploitation, Management, and/or 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 a duration of no less than three months.
- It is anticipated that this action will contribute an estimated USD12 - 15 billion to the foreign reserves in the period of Aug – Dec-23, thereby offering valuable support in bolstering stability and fostering growth.

## Major Commodity Exports



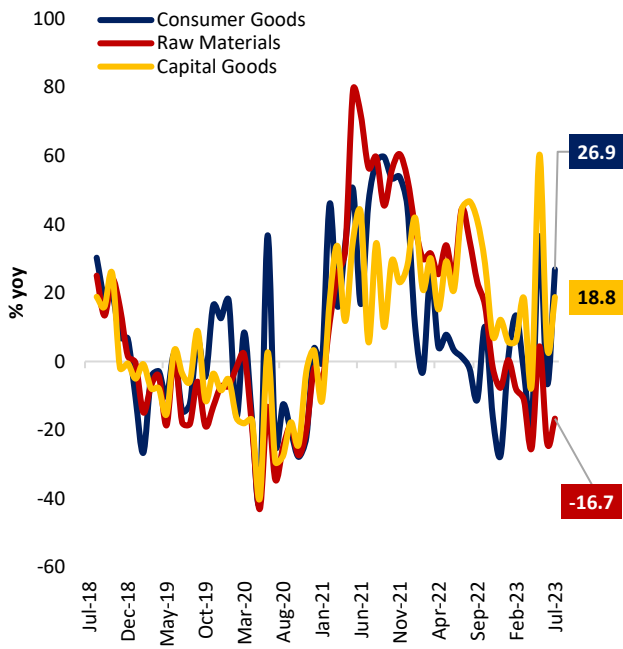
Source: BPS

## Commodity Prices



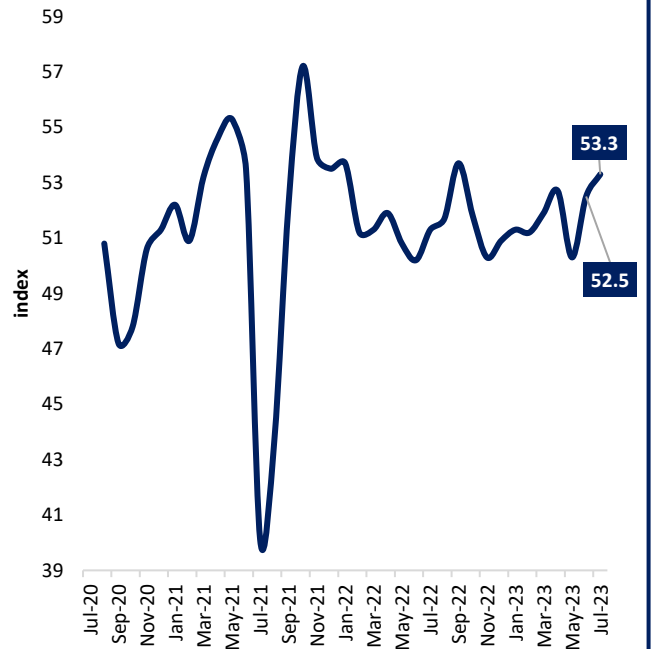
Source: Bloomberg

## Import Group



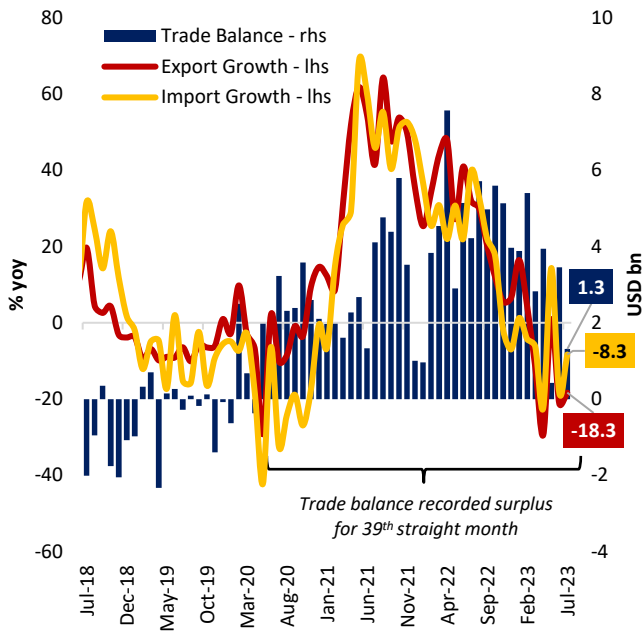
Source: BPS

## Production Manufacturing Index



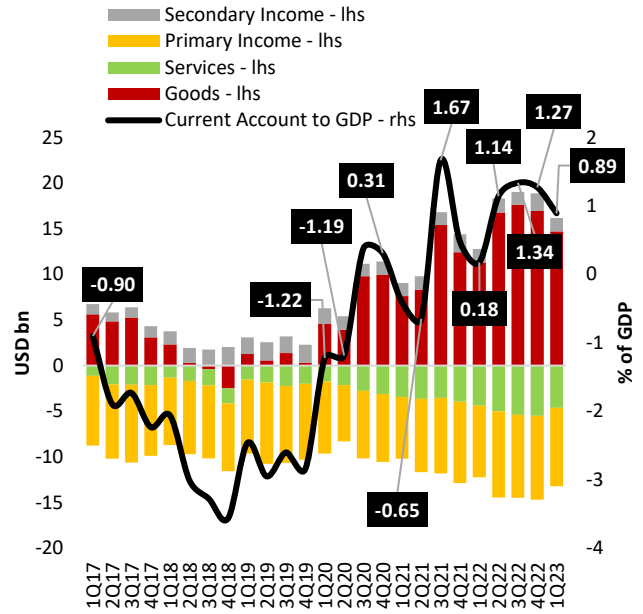
Source: BPS

## Trade Performance



Source: BPS

## Current Account Balance



Source: Bank Indonesia

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