

Indonesia Economic Briefing

Aug-16 Trade: A Delicate Balance



	Aug-16 (Actual)	Aug-16* (Forecast)	Aug-16 (Consensus)	Jul-16**
Export Growth (% y-o-y)	-0.7	-8.0	-10.6	-16.9
Import Growth (% y-o-y)	-0.5	-10.8	-11.7	-10.6
Trade Balance (USD bn)	0.29	0.64	0.50	0.51

Source: Bloomberg, BPS, CEIC, *Danamon Estimates, **Revised

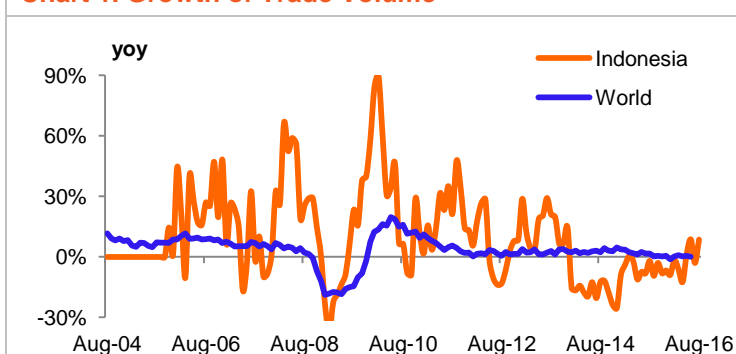
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- Indonesia's monthly **trade surplus edged down further to USD0.3bn in August 2016**. The oil deficit had slightly widened while non-oil surplus continues to contract. Cumulative trade surplus (ytd) amounted to USD 4.4bn, which is lower compared to 8M15 figure of USD 6.2bn.
- A positive note worth pointing out is that **exports of jewelry and 4W vehicles have gained traction this year**. Cumulative growth of jewelry export reached 21.9%, with 6.0% market share from total export and a market size of around USD 5.5bn per year. But on the flip side, export of ship vessels that supported the trade balance earlier this year had faded along with the delay in capital injection to SOEs. And as the 2017 government budget proposal already dismissed significant injection to strategic industries, then the sustainability of exporting ship vessels remains to be seen.
- We took a wider view on the results of trade this past eight months and **remained cautious over its 12 months outlook**. Several reasons behind this are as follow: 1) deceleration in growth of global trade volume without a pick-up in sight (*please see Chart 1*), 2) the increase in Indonesia's trade volume was mostly driven by imported consumptive goods (partly due to higher real disposable income), not from export or productive imports, and 3) stabilizing prices of primary commodities.
- Furthermore, the **share of total trade -i.e. the sum of export and import- to GDP has been falling from 64% in 2005 to 42% in 2015**, and is expected to slip even further. This means that Indonesia's exposure to the international market has weakened amid heavy dependency on primary commodities and that engine of growth will linger on domestic consumption and investment, for the time being. With that in mind, we now see that monetary policymakers have a delicate balance to maintain vis-à-vis stimulating domestic demand through lower interest rate without the access of widening Current Account Deficit (through additional imported consumptive goods). Hence, our call for a **policy rate cut by 25bps on the next MPC meeting (22 September) with tight discipline to keep an undervalued Rupiah**, on the side.

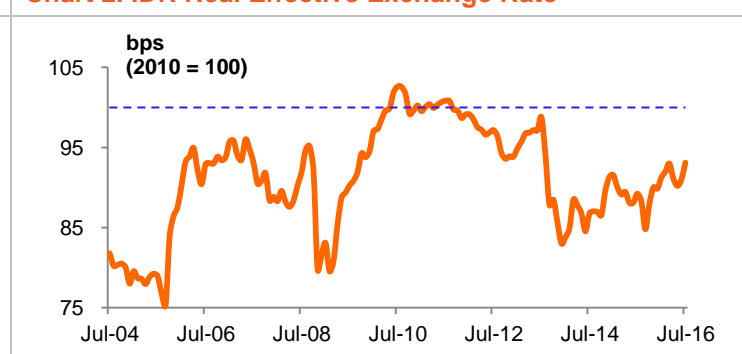
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Chart 1. Growth of Trade Volume



Source: BPS, CBP

Chart 2. IDR Real Effective Exchange Rate



Source: BIS, CEIC

Indonesia: Selected Economic Indicators

	2011	2012	2013	2014	2015	2016E
National Accounts						
Real GDP (% y-o-y)	6.2	6.0	5.6	5.0	4.8	5.0
Domestic demand ex. inventory (% y-o-y)	6.1	7.7	5.0	5.4	3.9	5.0
Real Consumption: Private (% y-o-y)	5.1	5.5	5.4	5.2	5.0	5.1
Real Gross Fixed Capital Formation (% y-o-y)	8.9	9.1	5.0	4.6	5.1	4.8
GDP (US\$bn) — nominal	893	918	915	890	862	893
GDP per capita (US\$) — nominal	3,688	3,741	3,668	3,530	3,374	3,453
Open Unemployment Rate (%)	6.6	6.1	6.3	5.9	6.2	6.0
External Sector						
Exports, fob (% y-o-y, US\$ bn)	29.0	-6.6	-3.9	-3.4	-14.8	-7.5
Imports, fob (% y-o-y, US\$ bn)	30.8	8.0	-2.6	-4.5	-19.9	-6.9
Trade balance (US\$ bn)	26.1	-1.7	-4.1	-1.9	7.6	6.1
Current account (% of GDP)	0.2	-2.7	-3.7	-3.2	-2.1	-2.3
Central government debt (% of GDP)	22.3	22.3	21.3	23.6	25.0	24.6
International Reserves –IRFCL (US\$ bn)	110.1	112.8	99.4	111.9	105.9	103.0
Reserve Cover (Months of imports & ext. debt)	6.3	6.1	5.4	6.5	7.4	7.0
Currency/US\$ (Year-end)	9,068	9,670	12,189	12,440	13,795	13,400
Currency/US\$ (Average)	8,779	9,380	10,428	11,900	13,392	13,360
Other						
BI policy rate (% year end)	6.00	5.75	7.50	7.75	7.50	6.50*
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	N/A	N/A	6.25	5.00
Consumer prices (% year end)	3.78	3.65	8.08	8.36	3.35	3.20
Fiscal balance (% of GDP; FY)	-1.14	-1.77	-2.24	-2.26	-2.70	-2.50
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+	BB+

Source: CEIC, E = Danamon Estimates, *) Up to August 2016

Economic and Market Research

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