

# Indonesia Economic Briefing

## Trade Buffers for Less Volatile Rupiah



	Feb-17 (Actual)	Feb-17* (Forecast)	Feb-17 (Consensus)	Jan-17**
Export Growth (% y-o-y)	11.2	18.5	15.1	27.9
Import Growth (% y-o-y)	10.6	19.0	16.1	14.3
Trade Balance (USD bn)	1.32	1.30	1.32	1.43

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

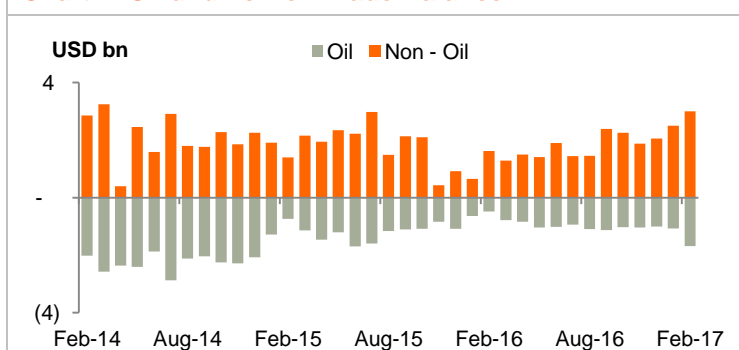
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- Indonesia's monthly trade surplus edged down to USD1.3bn in Feb 2017 on the back of widening oil deficit that is larger than the increase in non-oil surplus. The adverse impact of higher commodity prices have shown result this month through oil import (*please see Chart 1*). Meanwhile, there seemed to be some progress in imports of raw materials, which may suggest a rise in domestic production. However, as monthly trade data are known to be highly volatile, a clear indication of such statement is yet to be seen.
- Export of commodities fell in February but still showed strong trend in cumulative basis. What was healthy is the fact that cumulative export growth was still positive in both value and volume terms. Another positive note is non-traditional goods, such as vehicles and organic chemicals, had solid bookings. But some parts of the export breakdown cried for caution, particularly the sudden drop in copper ore that followed an operation halt from the largest copper mining company in Papua. To give some perspective, total copper ore export contributed around USD 3.5bn (0.37% of nominal GDP) in 2016.
- On Rupiah, we take comfort in knowing that the combined regulations from Bank Indonesia have managed to reduce volatility. The mandatory usage of Rupiah had reduced resident transactions on USD by 75%, while hedging regulation had also smoothened corporate demand for USD. The central bank claimed that there are already 2,243 companies out of around 2,500 that have complied with short-term hedging requirement. As such, by our calculation, the volatility of Rupiah had fallen from 18% in 2015 to 8% in 2016 (and to around 2% ytd). What we lack in comfort is the apparent rise in Rupiah's Real Effective Exchange Rate (REER) and its potential impact to export of manufactured goods (*please see Chart 2*).
- Possible policy implication?** From the perspective of the central bank, a healthy trade account would provide a fundamental buffer for the Rupiah. However, the outlook of inflation may test the upper range of BI's target, in our view. We projected policy rates to still be on hold during tomorrow's MPC meeting (16 Mar), especially in the wake of Fed Fund Rate hike.

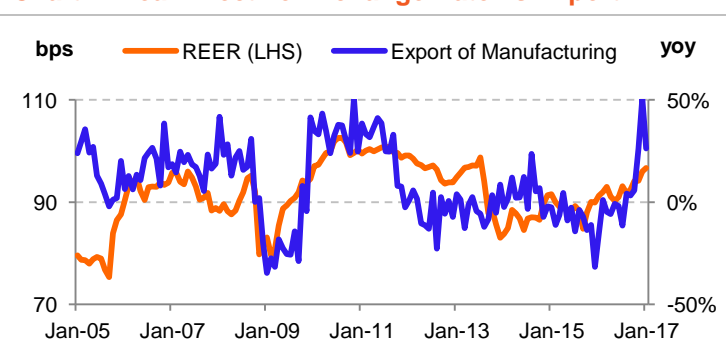
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Chart 1. Oil and non-oil Trade Balance



Source: BPS, CEIC

Chart 2. Real Effective Exchange Rate vs Export



Source: BPS, Bank Indonesia, CEIC

## Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
<b>National Accounts</b>					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	915	890	862	923	925
GDP per capita (USD) — nominal	3,668	3,530	3,374	3,569	3,577
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
<b>External Sector</b>					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,555
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,504
<b>Other</b>					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	5.00
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BB+

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

## Economic and Market Research

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