

## The Need for Improving Export Competitiveness and TD-DHE Implementation

Jan '23 Trade Surplus inched down to USD3.87 bn (vs. Dec '22: USD3.96 bn), but came better than the expected (Cons': USD3.25 bn, KBVS': USD2.57 bn). The bigger-than-expected drop in imports by -7.15% mom (+1.27% yoy) was largely offset the decrease in export of -6.38% mom (+16.37% yoy), after the seasonal cycle at the end of the year. Additionally, the decrease in the value of exports and imports was also supported by the 2.12% mom appreciation of the Rupiah in Jan '23. Nevertheless, Indonesia's trade surplus in Jan '23 marked the 33rd consecutive month since Apr '20.

**Rising competitiveness of Australian coal exports to China and India that driving down global coal prices, became one of the causes that dragged Jan '23 exports.** This is indicated by a decrease in exports from the Mining and Other sectors by -12.66% mom. While based on HS Code, the largest decrease in value came from HS Code 27 (Mineral Fuels) by -USD379.7 mn or -8.19% mom, and based on destination countries, exports to China and India decreased by 9.21% mom and 18.42% mom, respectively. This also reflects that China's re-opening at the beginning of Jan '23 does not seem to have had an instant positive impact on Indonesia trades, as exports of HS Code 26 (Ores, Slag and Ash) decreased by USD342.2 mn or -36.44% mom, and HS Code 15 (Fats and Oils of Animal/Vegetable Origin) decreased by USD261.1 mn or -9.95% mom. Despite that, the diversification of Indonesia's exports is shown by exports HS Code 71 (Precious Metals and Jewelry/Gemstones) which grew by USD257.9 mn or +10.75% mom and HS Code 89 (Vessels, Boats and Floating Structures) of USD34.6 mn or +64.05% mom with destination countries such as Australia that grew by 5.58% mom and South Korea by 15.71% mom.

**On imports, all groups of goods experienced a decrease, with the largest drop coming from Capital Goods which was down 18.48% mom (+5.66% yoy) and followed by Consumer Goods -7.15% mom (1.09% yoy).** This is in line with the decrease in import HS Code 86 (Cars, locomotives, and parts) of USD145.8 mn or -85.95% mom and HS code 26 (Ore, slag and ash) of USD160.0 mn or -72.97% mom. Meanwhile, increases in imports were driven by HS Code 85 (Machinery/electrical equipment and parts) of USD115.6 mn or +10.18% mom and HS Code 10 (Cereals) of USD103.5 mn or +22.80% mom, with increases in imports originating from Taiwan +24.21% mom, Thailand +18.50% mom and South Korea +10.11% mom.

While still too early to conclude, Jan '23 trade surplus is a positive signal that Indonesia trade balance still have the potential to maintain its performance in the face of the risk of commodity price decreases. On the other hand, this also indicates that the inflow of Foreign Exchange Earnings (DHE) from abroad has not yet entered optimally into the country, given that foreign reserves in Jan '23 only increased by USD2.17 bn, despite the trade surplus of USD3.87 bn, global bond issuance of USD3.0 bn and portfolio capital inflow of USD3.07 bn during the period. Therefore, the implementation of the foreign exchange time deposit (TD) DHE operational instrument is urgently required in order to encourage and maintain the momentum of domestic economic recovery.

Fig 1. Trade Balance

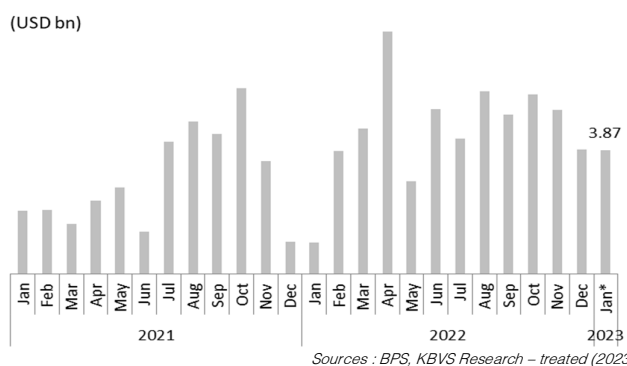


Fig 2. Export and Import Growth

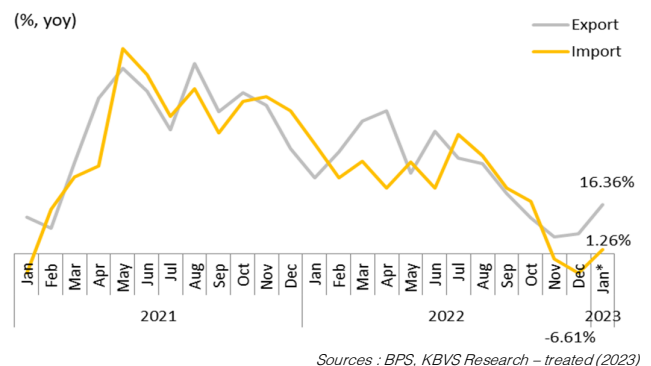
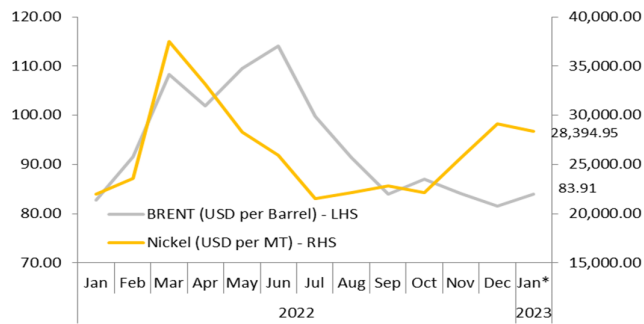
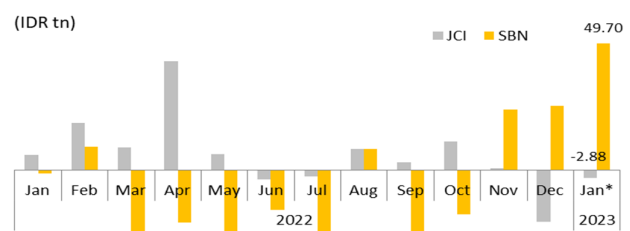


Fig 3. Oil and Nickel Price



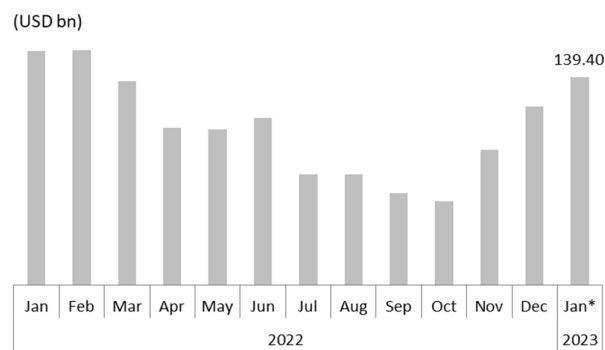
Sources : BPS, KBVS Research – treated (2023)

Fig 4. Monthly Non Resident Capital Flows



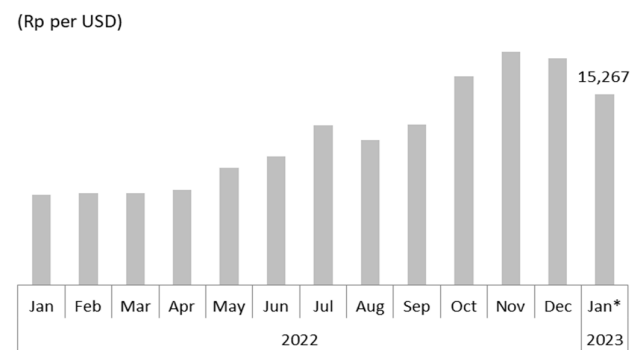
Sources : Bloomberg, KBVS Research – treated (2023)

Fig 5. Foreign Reserves



Sources : Bank Indonesia, KBVS Research – treated (2023)

Fig 6. Monthly Average Rupiah Exchange Rate



Sources : Bank Indonesia, KBVS Research – treated (2023)

Table 1. Indonesia's Trade Balance Indicators

Indicators	Value (USD bn)		Growth (%)	
	Latest	M-1	MtM	YoY
<b>Total Export</b>	<b>22.31</b>	<b>23.83</b>	<b>-6.38</b>	<b>16.37</b>
<b>Oil &amp; Gas</b>	<b>1.49</b>	<b>1.47</b>	<b>0.98</b>	<b>65.03</b>
- Crude Oil	0.08	0.15	-48.45	130.78
- Processed Oil	0.55	0.32	71.14	114.28
- Gas	0.86	1.00	-13.94	41.00
<b>Non Oil &amp; Gas</b>	<b>20.83</b>	<b>22.36</b>	<b>-6.84</b>	<b>13.97</b>
- Agriculture, Forestry & Fisheries	0.37	0.37	-0.71	-3.49
- Manufacturing	15.65	16.48	-5.03	-0.44
- Mining & Others	4.81	5.50	-12.66	121.46
<b>Total Import</b>	<b>18.44</b>	<b>19.86</b>	<b>-7.15</b>	<b>1.27</b>
<b>Oil &amp; Gas</b>	<b>2.91</b>	<b>3.20</b>	<b>-9.21</b>	<b>30.36</b>
- Crude Oil	0.97	0.95	1.87	140.87
- Processing Oil	1.63	1.90	-14.20	20.09
- Gas	0.31	0.36	-12.23	-34.06
<b>Non Oil &amp; Gas</b>	<b>15.54</b>	<b>16.66</b>	<b>-6.75</b>	<b>-2.78</b>
- Consumption Goods	1.60	1.81	-11.64	1.09
- Raw/Auxiliary Materials	13.89	14.43	-3.74	0.41
- Capital Goods	2.96	3.63	-18.48	5.66
<b>Trade Balance</b>	<b>3.87</b>	<b>3.96</b>	<b>-2.38</b>	<b>302.07</b>

Sources : BPS, KBVS Research – treated (2023)

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