

Trade: A bumpy road ahead for Indonesia's surplus**Executive Summary:**

- **Indonesia's trade balance narrowed sharply down to USD 1.02 Bn in December 2021, as imports (10.51% MoM / 47.93% YoY) grew at a faster pace than exports (-2.04% MoM / 35.30% YoY).**
 - **Imports continued to increase in December, reflecting continued robust economic recovery.**
 - **One potential reason for slower export growth is the sharp decline in coal prices. This is further complicated by China's potential economic slowdown, though the political significance of 2022 might incentivize Beijing to keep stimulus going to bolster growth.**
 - **It should be noted however, that global supply chain disruptions, especially for energy -- which will likely continue until at least mid-2022 -- may also help prop up commodity prices as well. Until then, we may expect continued trade surpluses on Indonesia's end, albeit perhaps at lower levels than in 2021.**
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- **Indonesia's trade balance narrowed sharply down to USD 1.02 Bn as 2021 came to a close, as imports grew at a faster pace (10.51% MoM / 47.93% YoY) than exports (-2.04% MoM / 35.30% YoY).**
 - **Imports continued to increase in December, reflecting continued robust economic recovery.** It should be noted that while working days adjusted import growth for consumer goods, capital goods, and raw materials appeared to slow down precipitously in December, much of this decline can largely be explained by statistical distortions (Chart 1). For one, demand started to show a slight improvement in December 2020, compared to November 2020, which means that we are dealing with a higher base in December 2021. Additionally, there are only 19 working days in December 2020 compared to 23 in December 2021, which means that any working days adjustments will likely dampen the exports figure observed in the last month of 2021.
 - The continued strength in imports stands in contrast to the slower growth recorded by exports. **One potential reason for slower export growth is the sharp decline in coal prices**, with average prices in November and December hovering around 35% lower than its peak in October. Indeed, coal exports fell by 21.3% MoM in December. Still, with coal prices starting to pick up again in January, this may prove to be a curse of the more temporary variety.
 - What may be a more fundamental threat to Indonesia's export performance is the potential slowdown of the Chinese economy. Indeed, Chinese import growth fell to a relatively sluggish 19.5% YoY in December (compared to 31.7% YoY in November). China's retail sales, a gauge for domestic demand, eased to 1.7% YoY in December from 3.9% YoY in the prior month – the lowest it has ever been since August 2020 (Chart 2). The decline in retail sales growth is in line with weakened consumption due to sporadic Covid-19 outbreaks. Considering the Chinese government's unwavering insistence on its zero-Covid policy and Omicron's high transmissibility, it's likely that domestic demand will continue to take a hit in the near term.
 - In contrast to faltering consumer demand however, Chinese investment appears to still be holding up. Both industrial activity and aggregate system financing appear to still be in expansionary mode in December. **This may have something to do with the political significance of 2022, which might incentivize the Chinese government to keep stimulus going despite its broader crackdown on debt.** For instance, China's central bank stunned global markets with a surprise injection of monetary stimulus in January – including lowering the interest rate on 700 billion yuan worth of one-year medium-term loans to some financial institutions by 10 basis points as well as lowering borrowing costs on seven-day reverse repurchase agreements from 2.2% to 2.1%.
 - **Lastly, the Fed's hawkish turn in 2022 will put additional pressure on Indonesian exports as well.** Firstly, slower US growth may reduce US demand for Chinese exports, and in turn, Chinese demand for Indonesian exports. Additionally, the Fed's faster monetary tightening may also put a premature end to the current boom in commodity prices.
 - China's potential economic slowdown then, will continue to pose a threat to Indonesia's trade surplus in the next few months. It should be noted however, that global supply chain disruptions, especially for energy – which will likely continue until at least mid-2022 – may also help

prop up commodity prices as well. **Until then, we still expect a continued positive trade balance of USD 30.6 Bn and a positive current account balance of 0.08% relative to GDP in 2022, albeit lower than our**

2021 projections. As such, we believe that BI will still have room to raise interest rates later rather than sooner, despite capital market risks.

Chart 1. While working days adjusted imports growth appeared to slow down, much of this decline can be explained by statistical distortions

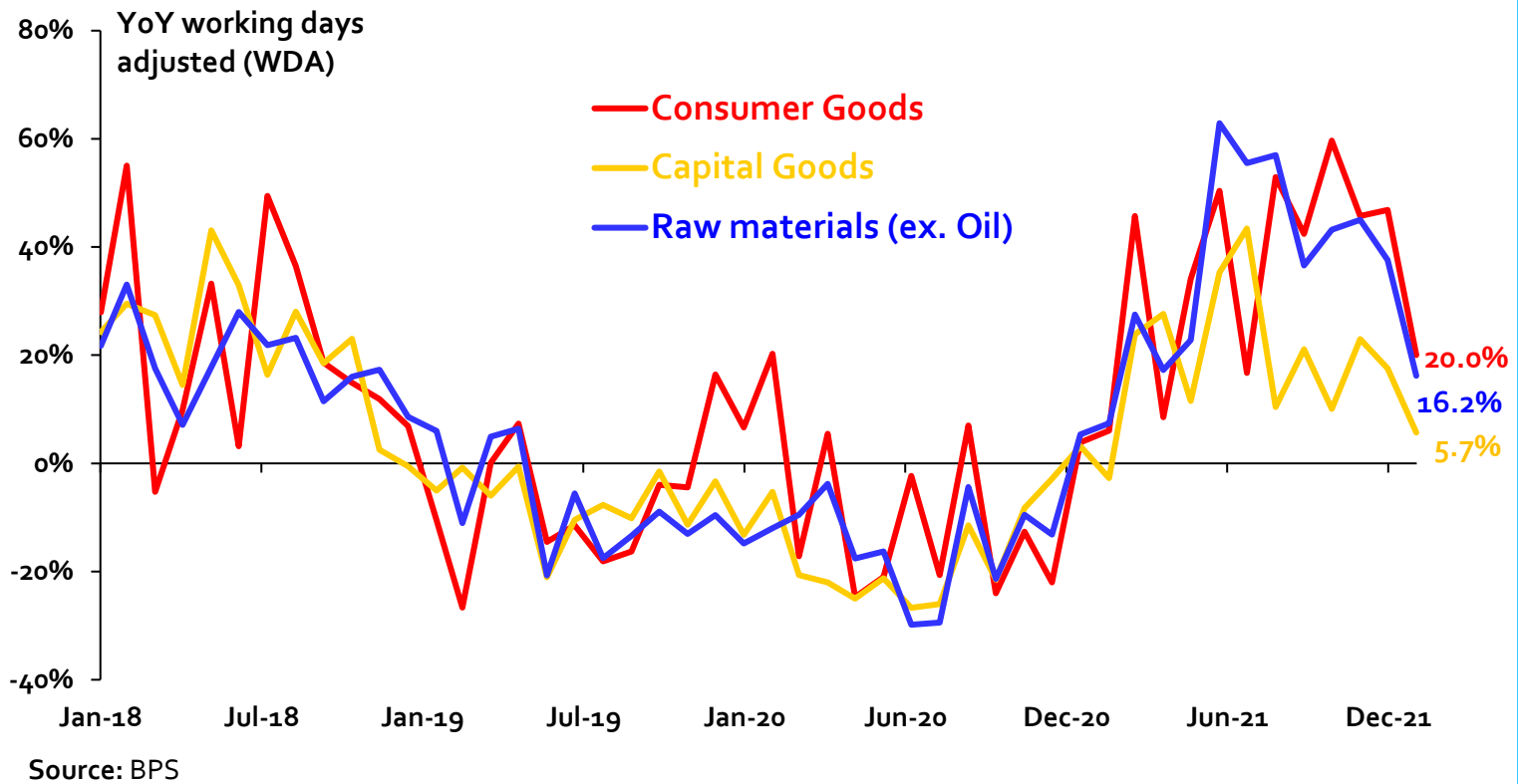
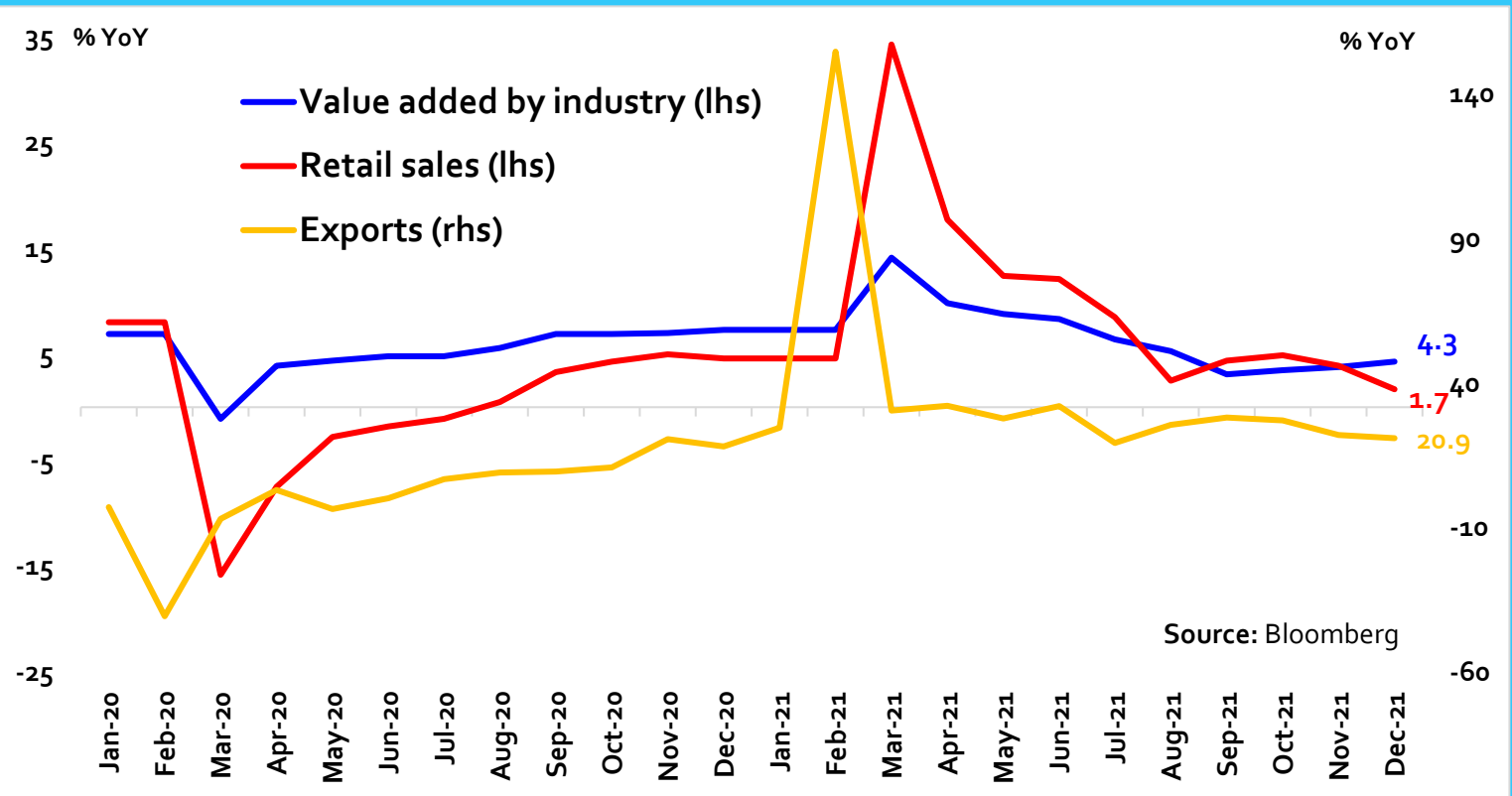


Chart 2. China's retail sales showed signs of weakening while value added by industry and exports appear to still be holding up



Selected Recent Economic Indicators

Key Policy Rates	Rate (%)	Last Change	Real Rate (%)	Trade & Commodities	14-Jan	-1 mth	Chg (%)
US	0.25	Mar-20	-6.75	Baltic Dry Index	1,764.0	2,932.0	-39.8
UK	0.25	Dec-21	-4.85	S&P GSCI Index	596.8	538.9	10.7
EU	0.00	Mar-16	-5.00	Oil (Brent, \$/brl)	86.1	73.7	16.8
Japan	-0.10	Jan-16	-0.70	Coal (\$/MT)	185.5	156.3	18.7
China (lending)	4.35	Oct-15	2.85	Gas (\$/MMBtu)	4.36	3.64	19.8
Korea	1.25	Jan-22	-2.45	Gold (\$/oz.)	1,817.9	1,770.9	2.7
India	4.00	May-20	-1.59	Copper (\$/MT)	9,730.3	9,406.5	3.4
Indonesia	3.50	Feb-21	1.63	Nickel (\$/MT)	22,570.5	19,553.0	15.4
Money Mkt Rates	14-Jan	-1 mth	Chg (bps)	CPO (\$/MT)	1,269.0	1,219.7	4.0
SPN (1M)	3.60	2.95	65.2	Rubber (\$/kg)	1.80	1.70	5.9
SUN (10Y)	6.37	6.37	0.1	External Sector	Dec	Nov	Chg (%)
INDONIA (O/N, Rp)	2.79	2.79	-0.2	Export (\$ bn)	22.38	22.84	-2.0
JIBOR 1M (Rp)	3.55	3.55	0.0	Import (\$ bn)	21.36	19.33	10.5
Bank Rates (Rp)	Oct	Sep	Chg (bps)	Trade bal. (\$ bn)	1.02	3.52	-71.0
Lending (WC)	8.78	8.85	-6.86	Central bank reserves (\$ bn)	144.9	145.9	-0.66
Deposit 1M	3.13	3.24	-10.58	Prompt Indicators	Dec	Nov	Sep
Savings	0.72	0.73	-1.87	Consumer confidence index (CCI)	118.3	118.5	95.5
Currency/USD	14-Jan	-1 mth	Chg (%)	Car sales (%YoY)	68.1	62.4	73.2
UK Pound	0.731	0.756	3.36	Motorcycle sales (%YoY)	67.4	95.6	22.0
Euro	0.876	0.888	1.35	Cement sales (%YoY)	N/A	-2.6	3.7
Japanese Yen	114.2	113.7	-0.43	Manufacturing PMI	Dec	Nov	Chg (bps)
Chinese RMB	6.353	6.367	0.23	USA	58.7	61.1	-240
Indonesia Rupiah	14,296	14,325	0.20	Eurozone	58.0	58.4	-40
Capital Mkt	14-Jan	-1 mth	Chg (%)	Japan	54.3	54.5	-20
JCI	6,693.4	6,615.6	1.18	China	50.9	49.9	100
DJIA	35,911.8	35,544.2	1.03	Korea	51.9	50.9	100
FTSE	7,543.0	7,218.6	4.49	Indonesia	53.5	53.9	-40
Nikkei 225	28,124.3	28,432.6	-1.08				
Hang Seng	24,383.3	23,636.0	3.16				
Foreign portfolio ownership (Rp Tn)	Dec	Nov	Chg (Rp Tn)				
Stock	2,286.1	2,233.2	52.91				
Govt. Bond	891.3	918.5	-27.11				
Corp. Bond	22.9	22.4	0.47				

Source: Bloomberg, BI, BPS

Notes:

*Previous data

For change in currency: **Black indicates appreciation against USD, **Red** indicates depreciation

***For PMI, > 50 indicates economic expansion, < 50 indicates contraction

Indonesia – Economic Indicators Projection

	2017	2018	2019	2020	2021	2022E
Gross Domestic Product (% YoY)	5.1	5.2	5.0	-2.1	4.0*	5.2
GDP per Capita (US\$)	3877	3927	4175	3912	4350*	4640
Consumer Price Index Inflation (% YoY)	3.6	3.1	2.7	1.7	1.9	3.3
BI 7 day Repo Rate (%)	4.25	6.00	5.00	3.75	3.50	4.0
USD/IDR Exchange Rate (end of year)**	13,433	14,390	13,866	14,050	14,262	14,660
Trade Balance (US\$ billion)	11.8	-8.5	-3.2	21.7	35.3	30.6
Current Account Balance (% GDP)	-1.6	-3.0	-2.7	-0.4	0.6*	0.1

* Provisional numbers for 2021

** Estimation of Rupiah's fundamental exchange rate

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