

# CA & Trade Balance

Economic note

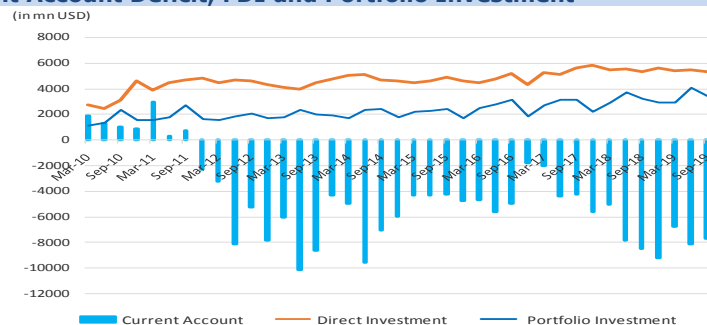
January, 2020

## CA and trade deficit remain a tough challenges despite recorded an improvement in the trade balance

The trade balance remains at the deficit level while the trajectory of the export is estimated to be flat. The slower world economic growth and flat commodity price as the two factors that would halt the export growth to be accelerated. The trade restriction, on the other hand, is another factor that remains the burden for international trade. The policy response from the monetary side that remains at dovish tone as the countercyclical policy is expected to provide the cushion for the growth deceleration. The Indonesian government initiatives to utilize mandatory B-30 Biodiesel as a substitution for the oil import would reduce the import and recover the trade balance while the expectation of de-escalation of the trade war would be a positive factor.

- **The trade balance has been at deficits level at USD USD3bn or better than the 2018 deficit at USD8.7bn.** The cumulative export from January to December was down by 6.9% to USD167.5bn. The non-oil export which was 92.5% of the total export remained weak or down by 4.8% to USD154.9bn. The non-oil export was dominated by commodity-related, such as CPO, bauxite, nickel, and iron ore. The manufacture export remains weak while the CPO export has been challenging due to the trade restriction in the European Union. The ban on nickel export as retaliation from Indonesia is another factor that could deteriorate the export value in the short term. The slower global GDP growth on the other side could make Indonesia export to grow at a slower pace. We expect the export could reach 5% in 2020.
- **Assuming that the China economic growth to stay resilient in 2020 and the expectation of the down tone of the trade US-China trade war would provide the room for the Indonesian export to grow positively due to the relief of the trade volume.** China, Japan, the US, and the EU as the major export destination. The largest non-oil and gas exports in 2019 were to China with the total composition of the total export of 16.7% or USD 25.5bn, followed by the United States of US \$ 17.68 billion (11.4%) and USD13.7bn to Japan (8.8% of the total export). The exports to the European Union (28 countries) amounted to the US \$ 14. Billion or representing 9.24% of the total export.
- **The Import cumulatively declined by 5.47%yoy pointed to the slower investment growth. This indicates the slower expansion of the CAPEX, and also signaled the slower production index in 2019 as seen in the raw material and capital goods that declined by 11%yoy and 5.1%yoy respectively.** The raw material import represented 71.7% of the total import while 16.9% was from capital goods. The Indonesian economy in 2020 is estimated to grow at 5% to 5.2% which implies the import growth remains at the flat or below 1%.
- **The government announced at least 5 programs to overcome the Current account deficit.** (1) Utilize the biodiesel CPO (B30) as a mandatory to minimize the oil import, (2) to build a nickel smelter ore as the raw material of battery for electrical car (3)developing electric car industry to compress the oil import consumption (4)to simplify the regulation through the omnibus law to increase the EOD (easy of doing business) that could support the FDI and DDI (5) develop the new tourism destination such as Mandalika, Borobudur, Manado, Danau Toba (Toba lake), and Labuan Bajo as the source of foreign reserve through the service sector.

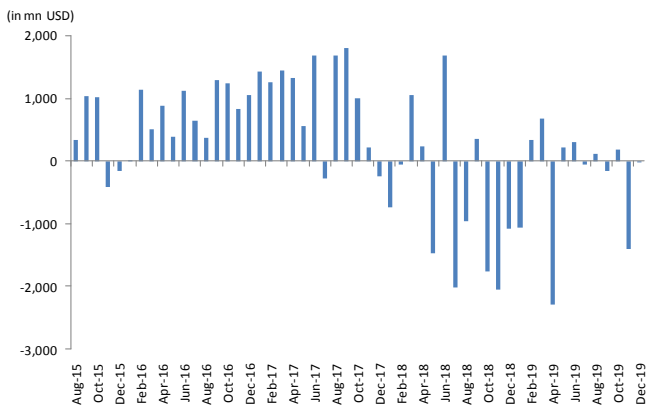
### Current Account Deficit, FDI and Portfolio Investment



Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

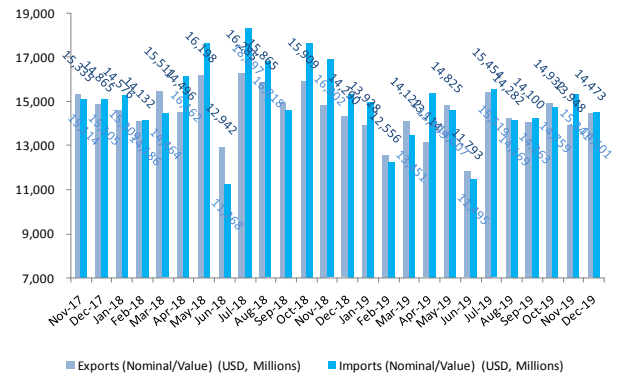
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### Trade Balance (USD, mn)



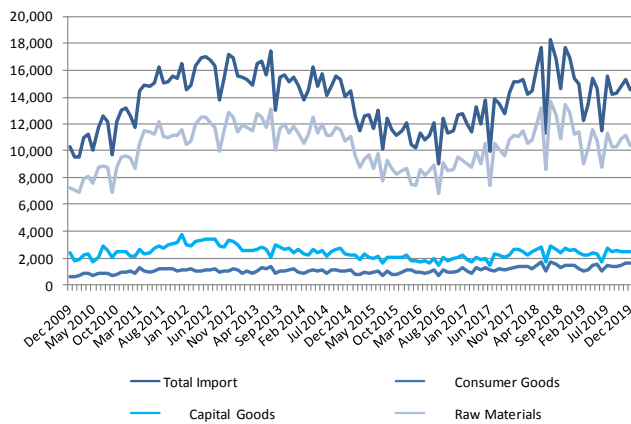
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

### Export and Import (in USD, mn)



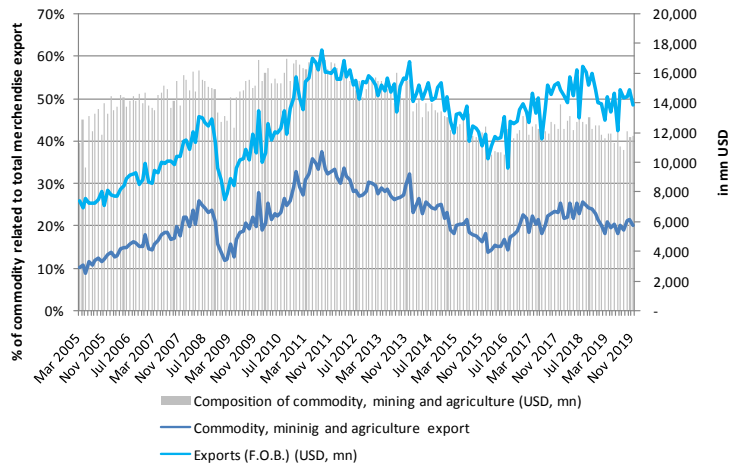
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

### Import based on products category (lower import mainly due to the lower raw material and capital goods)



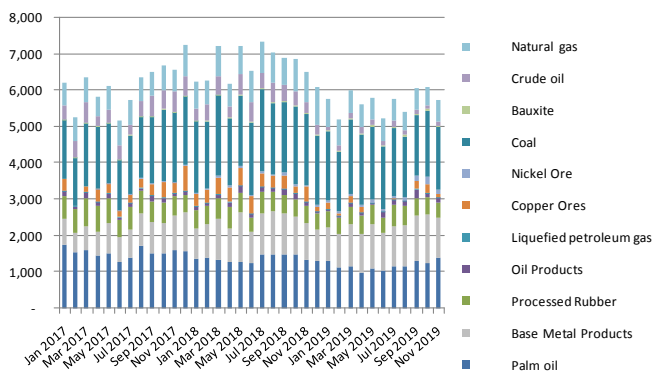
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

### Export and the portion of the commodity related goods that at 50% of the total export.



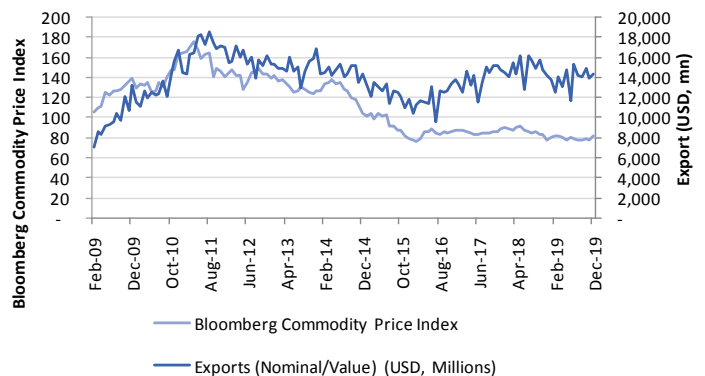
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

### Indonesia's commodity related export



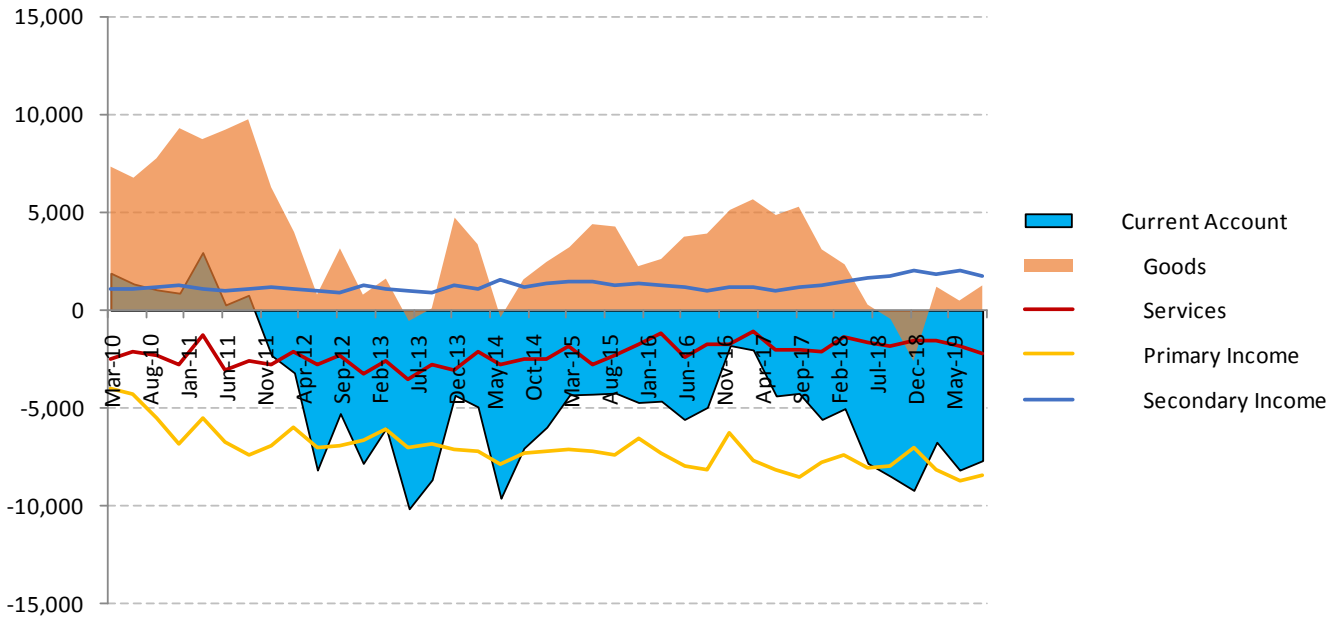
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

### Export & Commodity Price Index (Higher crude oil price will benefited the export growth)



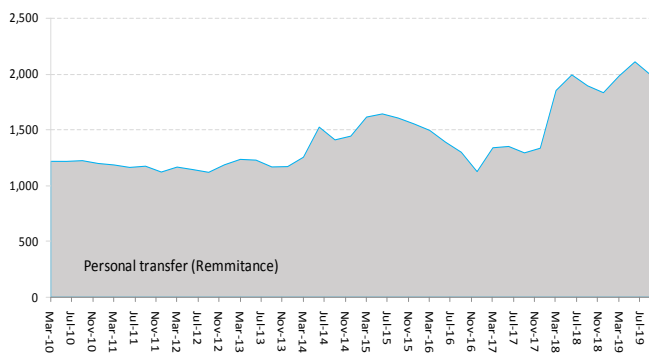
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

**Current Account Deficit (USD, million), and the components**



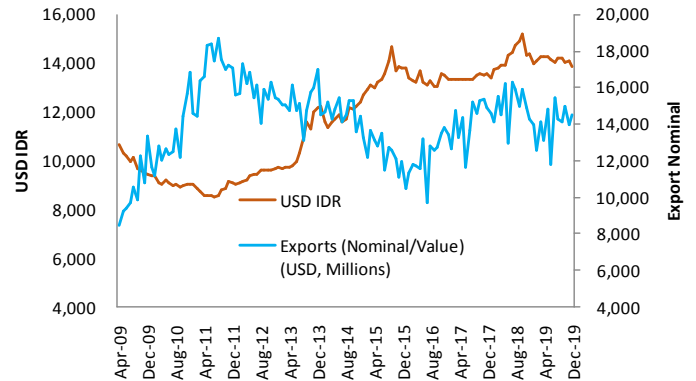
Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

**Remittance ( Million USD)**



Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia

**Rupiah and Export (USD,million)**



Source: BPS, Bloomberg, Shinhan Sekuritas Indonesia



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