FX Global

FX Flash

Understanding the Impact of Indonesia's New Export Proceeds Rule

- **Indonesia's Government has introduced a new rule requiring exporters with proceeds of at least $250,000 or its equivalent to keep 30% of export earnings onshore for at least 3 months, taking effect 1 Aug 2023**
- **Rule will only apply to the natural resource sector - mining, plantations, forestry and fisheries**
- **No mandated conversion is required but the regulation allows the government to require it in times of crisis**
- **Introduction of new rule may be due to limited success of BI special USD term deposit and falling reserves**
- **Even after the rule takes effect, impact could be limited given IDR rates are not attractive compared to USD rates to incentivize exporters to convert currency**
- **Commodity prices of key export items such as coal and crude palm oil have fallen sharply from 2022 highs and this reduces the available amount of proceeds, limiting impact of the rule**
- **However, increase in central bank's reserve position can support IDR stability**

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Alan Lau
(65) 6320 1378
alanlau@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

Background and Current Developments

Recently, the Indonesian government has officially unveiled rules requiring exporters to keep their proceeds onshore for a certain time period. These new rules are in fact building upon prior regulations that had taken effect in 2019 and would take effect from 1 August 2023 onwards.

The prior regulation which had taken effect in 2019 requires companies in the natural resources industries (e.g. coal, minerals, oil, gas, etc) to keep their export proceeds locally in either IDR or special accounts available in USD, EUR, JPY and CNY. The proceeds must be deposited locally by the third month latest following the customs export notification. There was also no time limit on how long the proceeds have to be kept onshore.

However, the new rules now require that exporters with export earnings of at least $250,000 or its equivalent would have to keep 30% of their export earnings onshore for at least 3 months. The regulation would also only apply to firms in the natural resource sector – mining, plantations, forestry and fisheries. Manufacturing has been excluded although there were initially talks of covering that sector.

As it stands, the rules do not require a mandatory conversion of export proceeds to the local currency. However, the regulation does mention that the government could also require exporters to convert earnings during crisis times. It says that in the event of problems with macroeconomic stability and/or financial system stability, conversion of natural resource FX export earnings in the special account can be carried out in accordance with applicable laws and regulations.

The announcement of these new rules are not exactly a surprise given that Coordinating Minister for Economic Affairs Airlangga Hartarto had already talked about implementing these measures for a while. However, it had taken a while before it was decided to implement the rules as the government had been assessing "the pros and cons" of such a requirement.

As a note, Indonesia now stands as an outlier among its peers in South East Asia (of which only Malaysia and Thailand have related rules) in setting a required time period for export proceeds to be kept onshore.

Table 1: Regulations related to Repatriation of Export Proceeds for Malaysia, Thailand and Indonesia

Country	Amount	Currency	Time Limit on Retention	Applicable Industries
Indonesia (Current)	Full	IDR or Foreign Currency but note the special account available in USD, EUR, JPY and CNY	None	Natural Resources - Mining, Plantations, Forestry and Fisheries
Indonesia (New Rules – Takes Effect 1 Aug 2023)	≥$250,000 (30% of their earnings)	USD	3 months	Natural Resources - Mining, Plantations, Forestry and Fisheries
Malaysia	Full	MYR or Foreign Currency	None	Goods Related Industries
Thailand	≥$1,000,000	THB or Foreign Currency	None	Goods Related Industries

Source: Respective Government Websites, Maybank FX Research and Strategy

However, firms have already raised issues related to the new rules in particular related to the disruption to their cash management position. Eddy Martono, chairman of the Indonesian Palm Oil Association has raised the issue that companies must set aside funds for operational costs if they were unable to use some of their revenues for three months. In response, the Indonesian government has said that they will "prepare a banking regulation that allows a back-to-back loan where the proceeds that an exporter put into a bank can be used as a lending collateral".

Meanwhile, Bank Indonesia (BI) Governor Perry Warjiyo has said they would be revising central bank rules on export proceeds to align with the new regulation although no details were provided on what exactly this would involve.

The government's decision to introduce this rule may be due to a few reasons:

1. The current special account USD arrangement by BI has not exactly been much of a success in attracting a lot of interest with the cumulative total at over $1bn since its launch in March and about 80% plus of placements are only in the 1-month tenor (note: Indonesia's total monthly export value for the first six months of this year averaged about $21.4bn a month)

2. Indonesia's foreign reserves has been on a decline since March 2023 and it hit $137.50bn in June 2023, which brings it closer to the Oct 2023 low at $130.20bn.

What Would be the Impact of the New Rules?

A few things to note is that the impact this year could be much reduced given that crude palm oil (CPO) and coal prices have fallen sharply from last year and hence, the amount of export proceeds available to be kept onshore has reduced.

If we look at total export value for Indonesia for the first six months of this year, we see that it averages $21.4bn on a monthly basis. 30% of that would make up about $6.4bn. However, it is unlikely that the amount of proceeds that would be kept onshore would hit that level on a monthly basis given that the number represents total export value and not total net profit. Furthermore, this total export number represents all merchandise trade whilst the rule covers the trade related to mining, plantations, forestry and fisheries. Regardless, the numbers still gives some reference point to consider.

As a note, if the export proceeds are placed in BI's special term deposit facility, which most likely would be, this could improve the central bank's reserve position and support IDR stability.

Since the announcement of the rule though, no noticeable effect has been observed on the IDR. Instead the IDR, continues to stay rather steady at around the 15,000 mark. On the outset, it does not appear that market is reading much into this announcement.

As no mandatory conversion is required yet, the impact even after the rule takes effect can risk being limited. Exporters may not necessarily convert their deposits onshore to IDR given IDR rates are not sufficiently attractive relative to BI's special USD term deposit rates.

Table 2: Rates of BI Special Terms Deposit vs IDR Deposit Rates

Deposit Rate	1 Month	3 Months	6 Months
BI Term Deposit (>$10m)	5.35%	5.51%	5.66%
BI Term Deposit ($5m - $10M)	5.30%	5.46%	5.61%
BI Term Deposit ($1m - <$5m)	5.25%	5.41%	5.56%
BI IDR Average Deposit Rate 1 Month	3.70%		
BI IDR Average Deposit Rate 3 Months		3.96%	
BI IDR Average Deposit Rate 6 Months			3.81%

Source: Bank Indonesia, Bloomberg, Maybank FX Research and Strategy
Note: BI IDR Average Deposit Rate is as of 25 July and it represents the average rate of Indonesian banks that have submitted their rates to Bank Indonesia by 1PM Jakarta time.

Other concerns regarding the FX proceeds rule revision is whether it could risk making it more challenging to do business in the country, hurting FDI inflows. However, the decision for a company to invest in a country can be determined by more than just one regulation. Other positive factors such as access to raw materials or the market can outweigh other cons of doing business in a particular country. Over the years, FDI (% of GDP) as a whole has actually been fairly steady despite the introduction of the current set of FX proceeds rules back in 2019. Back to the currency, based on our fair value estimation model, we found that a 1% increase in FDI (% of GDP) can lead to a 0.06% decrease in the USDIDR pair, which implies the currency is somewhat sensitive to FDI.

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Malayan Banking Berhad
(Incorporated In Malaysia)

Foreign Exchange

Singapore

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 6320 1374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia

Juniman
Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Fixed Income

Malaysia

Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6340 1079

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

Sales

Malaysia

Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Singapore

Janice Loh Ai Lin
Head of Sales, Singapore
jloh@maybank.com.sg
(+65) 6536 1336

Indonesia

Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Shanghai

Joyce Ha
Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Hong Kong

Joanne Lam Sum Sum
Head of Corporate Sales Hong Kong
Joanne.lam@maybank.com
(852) 3518 8790

Philippines

Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)