SUMMARY

NI PUTU AYUNING WULAN PRADNYANI MAHAYANA. The Effect of Macroeconomic Variable on Export and Import Transaction with Payment Method using Letter of Credit. Supervised by YUSMAN SYAUKAT dan DWI RACHMINA

Performance of export import can be affected by the national macroeconomic conditions of a country, such as the exchange rate. Based on theory of Marshall Lerner delivered by Caves et al. (2000) by saying that devaluation will have an impact on the trade balance. The devaluation leads to a decrease in the value of imports and has the opposite effect of increasing the value of exports transaction.

Banks as financial institutions facilitate international trade activities through several products based on trade finance. The products are Letter of Credit (LC) and Non LC, known as Documentary Collection. The basic difference both products is the role of the bank as a guarantor of payment on international trade activities. In LC products, banks play a role in providing payment guarantee. Meanwhile for Documentary Collection products, banks only provide services in facilitating the delivery and collecting the documents without providing assurance payment on import export transactions that occurred. Based on these differences, LC products are relatively capable of bridging the needs of exporters and importers in guaranteeing payment in international trade activities. Letter of Credit (LC) is one of the payment mechanisms required by exporters (Ball et al. 2014).

Bank X is one of the top 10 banks with the largest assets in Indonesia. Bank X is also one of the foreign exchange banks that provide LC product services. Based on the LC Registration Data Data of National Commercial Bank released by the Otoritas Jasa Keuangan (OJK) as of September 2016 shows Bank X has a dominating share of 17.7%.

Mundlak et al. (1989) saying that differences of business sectoral in trade activities will have different effects on changing economic conditions of a country such as exchange rate changes. In the research, the economic activity into two sectors is distinguished, that is agriculture and non agriculture. The agricultural sector is considered more tradable compared to the non-agricultural sector, thus causing the agricultural sector to be more sensitive to exchange rate changes.

In theory, import export activity will be influenced by changes in macroeconomic variables. Realization of LC transactions based on the existence of import export transactions that expected to be indirectly influenced by changes in macroeconomic variables such as exchange rates, inflation and interest rates. Agricultural-based commodities have an important role in the national trade balance.

The purpose of this study is to analyze the effect of macroeconomic variables such as exchange rate, inflation and BI Rate on the distribution of LC value in Bank X, to analyze the effect of macroeconomic variables on the types of commodities traded in agriculture and non-agriculture, and advise some recommendations alternative policy in marketing LC, especially in Bank X. This research using Error Correction Model (ECM)’s analysis to know long-term
relationship of the effects of economic variables with the volume of realization LC in Bank X.

Macroeconomic variables such as exchange rate, inflation rate and BI rate have long-term relationship with the volume of realization LC in Bank X. In long term, exchange rate, inflation and BI rate variables significantly influence export value of LC but if export transactions are classified based on commodities, the results of ECM analysis show that only exchange rate variables and BI Rate have significant effect on LC value of agricultural exports while in non-agricultural export LC variables that effect in line with export LC value. LC imports value in long term are significantly influenced by inflation variables and BI rate while the exchange rate variable is not significant. It had same effects for LC values of non-agricultural imports, whereas in LC agricultural imports only BI rate has a significant effect. Among the three macroeconomic variables used in this study, the results of the analysis show that the BI rate variables proved to be significant and show a negative influence for all research models. This is related to the cost of fund incurred for financing export and import LC in Bank X.

Based on the results of this study, the tendency of increasing the exchange rate can be utilized by Bank X to focus on the export side in order to increase the achievement of the target revenue from trade finance business. In addition, Bank X is advised to establish competitive pricing in providing financing for LC transactions in both export and import sides to increase the LC value realization in Bank X.

Key words: ECM, export, import, letter of credit