Indonesia: August trade gap bodes ill for 3Q current account

The trade balance was in deficit for a second straight month in August, pushing the July-August trade balance into a $3.03 billion deficit from the year-ago surplus of $1.9 billion. The current account deficit in 3Q could remain at -3% of GDP

Source: Shutterstock

-$1.02bn

August trade balance

July-August trade deficit amounts to -$3.03bn

Worse than expected

Current account deficit of $8bn seen in 3Q

Indonesia's strong domestic demand continues to power imports. Oil and gas imports posted a 51.4% year-on-year increase in August accelerating from July's 50% increase and June's 32% pace. Higher energy prices have contributed to the high oil and gas import bill. Benchmark oil prices were almost 60% higher YoY while the Indonesian rupiah (IDR) depreciated by an annualised rate of 9% for the month. IDR's weakness of almost 8% year-to-August has not restrained demand. Higher energy subsidies have insulated energy demand from IDR's weakness and higher oil prices.

- Non-oil and gas imports remain strong with a YoY increase of 20%.
- Meanwhile, exports moderated to a 4.2% YoY increase in August.
- Non-oil and gas exports slowed drastically to only a 3.4% annual increase from July's pace of growth of almost 20%.

As a result, the economy posted a second straight deficit in August. The July-August deficit now amounts to \$3.03 billion, a reversal of the surplus of \$1.9 billion for the same period last year. This means that the 3Q current account will likely incur another \$8 billion deficit which would be as bad as the 2Q deficit. Such an outcome would keep the current account deficit at close to -3% of GDP. We reiterate our current account deficit forecast of -2.6% of GDP or a deficit of almost \$28 billion in 2018 from 2017's -1.4% of GDP or -\$14.5 billion. We believe that such a weak external balance would keep the IDR on a weakening path. However, the central bank's hawkish stance together with government efforts toward import substitution for fuel, export enhancing rules and modest fiscal deficit spending could deliver some relief for the currency.