

Indonesia: Exports and imports remain in the red

The protracted trade war continues to weigh on Indonesia's export sector as imports contract given the government's efforts to limit the current account deficit.



Source: Shutterstock

-6.13% October exports
12th straight month of contraction

October imports and exports remain in contraction

Outbound shipments from Indonesia remained in contraction for a 12th straight month as the US-China trade tension continued to sap global demand. For the year, exports from Indonesia were down 7.8% with energy exports, mining and manufactures all in the red in October. Meanwhile, imports contracted for the 9th month this year as inbound shipments of chemicals and machinery dropped in accordance with the government's directive to postpone capital intensive projects to limit the current account deficit.

Trade surplus achieved but sagging imports to weigh on growth outlook

Indonesia managed to post a trade surplus in October but at the cost of a pullback in capital machinery and raw materials imports, while export performance has soured as a result of the protracted trade war. Meanwhile, efforts by the government to limit the widening of the current account deficit have been relatively successful (-2.7% of GDP in 3Q) but may come at the cost of forgone investment momentum as capital formation slows. President Jokowi has prodded his economic team to bolster the export sector but with the “phase one” deal between the US and China still elusive, we can expect exports to struggle. We expect imports will eventually rebound as investment activity recovers in 2020.

For the time being, the IDR remains well-supported by financial market flows. But should concern about the current account return to the spotlight, the IDR may be pressured once more with Bank Indonesia (BI) likely to revisit its current "accommodative" stance.