

## Indonesia: January trade deficit dims the current account view

Sustained high import growth is evidence of the sustained expansion of the domestic sector. However, the trade balance fell into a deficit, which is an inauspicious start for the current account in 2018



Source: Shutterstock

**-\$677M**

Trade deficit in January

Reversal of a \$1.4bn surplus year ago

Worse than expected

### Strong domestic demand could lead to a worse than expected current account

Imports sustained the high growth rate seen since October with a 26% YoY gain in January. Non-oil imports for the month accelerated by 28% and brought the four-month average growth since October to 20%. We attribute this to strong domestic demand which would likely nudge GDP

growth to the government's target of 5.4%. Export growth has moderated to 7.9% from January 2017's surge of 28%. The strong export growth evident for most of last year was not only due to the recovery of the global market and high commodity prices but also due to favourable base effects. Without favourable base effects this year, overall export growth would be at a more sedate pace. Strong imports and slower exports resulted in a reversal of the trade balance to a deficit from a large surplus in January 2017. The deterioration of the trade balance so early in the year could signal a more challenging current account deficit than our forecast of -\$18.2bn, or -1.6% of GDP. Such a development would also likely exert pressure on the Indonesian rupiah.