

## Indonesia: Pressure on IDR remains, with another trade deficit in February

Domestically driven economic growth reverses the trade surpluses of last year to a third straight month of deficit in February. A wider current account deficit is likely in 2018 which adds pressure on IDR.



# -\$116m

February trade deficit

2M trade deficit of -\$871m (2M 2017 \$2.7bn surplus)

Better than expected

### Strong domestic demand keeps the trade balance in deficit and pressures IDR.

Import growth remained strong at 25.2% annual increase in February but is still marginally slower than January's 27.9% annualized pace. Imports of capital equipment increased by 32% YoY while consumer goods imports surged to a 55.3% YoY increase. Export growth improved to 11.8% in February from January's upwardly revised increase of 8.6%. The improvement in exports resulted

to a narrower trade deficit of \$116m last month from January's deficit of \$756m and December's deficit of \$220m. The 2M 2018 trade balance turned into a deficit of \$871m from the 2M 2017 surplus of \$2.7bn. Efforts to increase household spending through a low inflation environment, government stimulus and subsidies, and infrastructure spending coupled with election-related spending should sustain the strengthening of domestic demand. Strong domestic demand results in more challenging trade and current account balances. We now expect the current account deficit to be wider this year, to -\$21.2bn or -1.9% of GDP from 2017's deficit of -\$17.3bn or -1.7% of GDP. These challenges should exert pressure on IDR. We expect IDR to trade weaker than the 2018 government budget assumption and the government's revised expectations.

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