Indonesia: Exports and imports contract again in August

Indonesia's trade balance in the red with both exports and imports contracting again in August

Source: Shutterstock

Trade balance in surplus but current account still expected to post a deficit

Indonesian imports contracted yet again by 2.41% this time, as almost all sub-components were in the red barring iron and steel which grew by 14.77%.

The government had made a concerted effort to limit the current account deficit as it was one of the main reasons for the Indonesian rupiah's weakness in 2018. Meanwhile, exports also showed weakness with the August reading posting a contraction of 5.75%, albeit slightly better than the market consensus of a 6.5% drop off with the ill effects of the trade war and lower commodity prices hitting mineral fuel and rubber exports.

Despite the government's best efforts to mitigate the widening trade gap, the current account deficit as of 2Q hit $8.4 bn - wider than last year and roughly 3.04% of GDP.

Subdued growth momentum in the short term could prompt BI to cut rates further

With eight out of the last nine months showing import compression, we can expect gains in capital formation to be limited, putting a temporary dampener on overall economic growth. Meanwhile, the export sector may continue to struggle on weak demand owing to the trade war while depressed commodity prices may likewise hurt exports of mineral products.

Overall, despite the improvement in the trade balance to help shore up the external sector, Indonesia is still expected to post a current account deficit, although the central bank Governor Perry Warjiyo remains confident that financial account flows, both foreign direct and portfolio flows will help offset the struggles of the current account.

Going forward, we expect growth to pick up only slightly in the second half of the year with the president of Indonesia Joko Widodo calling for further stimulus from all sectors in the government.

With Indonesia's inflation within the target (3.39% in September) and growth momentum constrained, we expect the central bank to consider cutting policy rates further to give the economy an added boost.