

Indonesia: Trade gap widens by more than expected as exports unexpectedly contract

Trade gap expected to widen further in 2020, on global trade slump from COVID-19.



Exports unexpectedly contract in January

Indonesia's trade deficit hit \$870m, much wider than expected and compared to the previous month as exports slipped unexpectedly into contraction. Exports fell 3.7%, counter to the expected modest 1.2% gain. Exports to China were in the red for a second straight month and exports to ASEAN were also negative. Imports on the other hand contracted by more than expected, with iron and steel shipments, machinery and vehicle parts down by 16.6%, 11.7% and 36.7%, respectively. The sustained import compression may be tied to a directive from the government to limit the current account deficit but, given the likely resumption of investment activity sponsored by Jokowi, we expect import compression to be a thing of the past.

BI looking to provide boost but awaiting IDR stability

Bank Indonesia (BI) had previously signaled policy easing in the near term with Governor Warjiyo indicating that he was merely gauging the proper timing for such a move. We believe that BI will cut policy rates on Thursday, with additional policy rate cuts contingent on IDR stability. With the

trade gap expected to widen throughout 2020 as import growth resumes at a time of export sector struggles, we expect IDR to come under pressure and limit the ability of the BI to cut further after Thursday.

Author

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com