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Executive summary

Highlights

December 2010

Outlook for 2011-15

- The president, Susilo Bambang Yudhoyono, has a strong mandate to pursue his reformist policy agenda, having won re-election comfortably in July 2009, but his reforms are encountering resistance from vested interests.
- Indonesia will elect a new president to succeed Mr Yudhoyono in 2014. A requirement of the election law means that the next president is likely to be the nominee of one of the country's three main secular political parties.
- Bank Indonesia (BI, the central bank) will raise interest rates in early 2011. There is a possibility that it will expand recently imposed capital controls aimed at slowing the appreciation of the rupiah.
- The fiscal deficit will narrow to the equivalent of 0.2% of GDP by 2015, from 1.6% in 2009, owing partly to the inability of the civil service to utilise fully the sums allocated to it for capital expenditure.
- The Economist Intelligence Unit forecasts that real GDP growth will accelerate to an average of 6.3% a year in 2011-15, driven mainly by private consumption and fixed investment.
- We expect the current account to record an average surplus equivalent to 1% of GDP in 2011-15. The income account will remain in deficit, owing to the repatriation of earnings by foreign-owned companies.

Monthly review

- One of Indonesia's most powerful politicians, Aburizal Bakrie, is again at the centre of controversy, after being spotted at a tennis tournament on the same day as Gayus Tambunan, a tax official who is meant to be in police custody.
- The initial public offering for Indonesia's largest steel manufacturer, Krakatau Steel, has been marred by allegations of insider trading, damaging prospects for further privatisations.
- The government has announced new plans to address the perennial problem of excessive spending on fuel subsidies, including imposing a cap on petrol and diesel consumption by owners of private vehicles.
- A number of indicators suggest that consumer spending remains strong. The consumer confidence index compiled by BI rose to 112 points in October—its highest level since August 2009.
- After slowing for two months, inflation accelerated in November, with consumer prices rising by 6.3% year on year, according to Statistics Indonesia.
- The current-account surplus fell by US\$496m to US\$1.3bn in the third quarter of 2010, according to BI, as the income account posted a wider deficit owing to higher interest and dividend payments to foreigners.

Outlook for 2011-15

Political outlook

Political stability After successfully guiding Indonesia through the 2008-09 global financial crisis, Susilo Bambang Yudhoyono showed that he had retained the backing of voters by winning a second term in the July 2009 presidential election. However, Mr Yudhoyono has since lost some of that support, and the first anniversary of the start of his current term was marked by student-led protests in the capital, Jakarta. All too often in the most telling tests of his leadership Mr Yudhoyono has chosen to side with conservatives against reformers, in an apparent attempt to preserve the unity of the governing coalition in the House of People's Representatives (DPR, the legislature). Mr Yudhoyono's Democratic Party (PD) performed well in the April 2009 parliamentary election, becoming the largest party in the DPR, but it fell short of an overall majority. Faced with these circumstances, the president followed his natural instinct to rule by consensus, building a six-party coalition that controls two-thirds of the seats in parliament. There are strong indications that Mr Yudhoyono's current coalition will be even less effective than the one that he led during his first term, owing to the conflicting views of the various parties on a number of reform issues.

Divisions within the ruling coalition have been most apparent in relation to the scandal surrounding a medium-sized local financial institution, Bank Century, which was rescued from collapse by the authorities at the height of the financial crisis in late 2008. Opponents of the most prominent reformer in the cabinet, Sri Mulyani Indrawati, who was finance minister at the time, used the ballooning cost of the bank bail-out as an opportunity to try to force her out of her post. Despite being absolved of blame for the high cost of the rescue, Ms Mulyani left the government in May 2010 to take a job at the World Bank. She has said little about her reasons for resigning, fuelling speculation that she was asked to go (or at least was not asked to stay) by Mr Yudhoyono in an attempt by the president to repair relations with Golkar and the Prosperous Justice Party (PKS), two major parties in his coalition. Such speculation was heightened by the appointment soon after Ms Mulyani's resignation of the Golkar chairman, Aburizal Bakrie, as managing chairman of the coalition government. Mr Bakrie, who is one of the country's richest *pribumi* (ethnic-Indonesian) businessmen, had been Ms Mulyani's main opponent. Rivalry between the two had escalated in late 2008, when Ms Mulyani had refused to allow stockmarket rules to be manipulated in favour of companies owned by Mr Bakrie and his relatives and had also begun to investigate alleged tax evasion by mining firms owned by the Bakrie family.

Some commentators have argued that Ms Mulyani's resignation will make the coalition more stable by ending the in-fighting between two of the country's most powerful figures. The Economist Intelligence Unit is less sanguine. If, for the sake of coalition unity, the government abandons its efforts to hold vested interests to account, the prospects for a strengthening of democracy and an improvement in standards of governance in Indonesia will worsen. If, however,

Mr Yudhoyono, the current finance minister, Agus Martowardojo, and other leading reformers in the government continue to confront vested interests, then it may be only a matter of time before conflict erupts again within the ruling coalition.

The threat of separatist violence in Indonesia's northernmost province, Aceh, has diminished in the past few years, with a peace accord signed with the separatist Free Aceh Movement (GAM) in 2005 and orderly local elections in 2006, but separatist tensions continue to simmer in the eastern province of Papua. Violence between members of different ethnic and religious groups will flare up occasionally in central Sulawesi and, to a lesser extent, the Maluku islands. Most importantly for foreign investors, the terrorist threat will remain severe. Indonesia suffered a series of bombings in 2002-05, including attacks on the resort island of Bali and on the JW Marriott Hotel and the Australian embassy in Jakarta. All of these attacks were specifically aimed at foreign targets. The first major attacks in almost four years, at the JW Marriot and Ritz-Carlton hotels in Jakarta in July 2009, killed nine people and caused extensive damage, demonstrating that the threat of large-scale bombings persists.

Election watch Indonesia will elect a new president to succeed Mr Yudhoyono in 2014. Parliamentary elections will also be held in that year and will have an important bearing on the outcome of the presidential contest. According to the election law, only political parties (or groups of parties) that win at least 20% of seats in parliament or 25% of the vote in the legislative election are eligible to nominate presidential candidates, meaning that the next president is likely to be the nominee of one of the country's three main secular parties—the PD, Golkar and the Indonesian Democratic Party-Struggle (PDI-P). Mr Bakrie is a strong contender for the Golkar nomination: since he became party chairman in 2009, his influence has increased. However, he would be a controversial choice of candidate, owing to the possibility of conflicts of interest arising from his extensive business empire.

International relations Indonesia has become more prominent in international organisations in recent years, serving as a non-permanent member of the UN Security Council in 2006-08 and taking a seat at meetings of the G20 group of the world's major economies. There is an opportunity for warmer relations with the US, given that the US president, Barack Obama, spent several years in Indonesia as a child. Speaking during a state visit to Jakarta in November, Mr Obama praised Indonesia for its transition to democracy based on the principle of “unity in diversity”, and called on the country to forge a renewed partnership with the US. Ties with China are also likely to strengthen. Chinese businesses have become major foreign investors in a variety of industries in Indonesia. Moreover, owing to the likelihood that the world's advanced economies will grow relatively slowly following the 2008-09 global recession, Indonesia will rely heavily on China as a market for its exports. However, there will be opposition to closer economic ties with China, as demonstrated by the backlash among local manufacturers against the free-trade agreement between that country and the Association of South-East Asian Nations (ASEAN) that came into effect at the start of 2010. Indonesia's foreign policy will continue to be

influenced by the principle of non-alignment, and the government will resist becoming too closely associated with either the US or China. There will be intermittent disputes with Malaysia and Singapore over a range of long-standing issues. Indonesia will take the chair of ASEAN in 2011. It will hold the position for a year, and will look to use it to promote democratic values within the region.

Economic policy outlook

Policy trends

There are indications that Mr Yudhoyono's efforts to improve the business environment are faltering in the face of resistance from vested interests. The departure of Ms Mulyani deprived the government of its most capable minister and has raised doubts about the president's commitment to reform. The anti-corruption drive will continue, but the Anti-Corruption Commission (KPK) will face constant opposition. Several changes, including comprehensive reform of the country's restrictive labour laws and removal of energy subsidies, may prove unfeasible. Reform of the inefficient civil service, which was cited by the president as a priority for his second term, is making only slow progress, although Mr Martowardojo is continuing with the carrot-and-stick system introduced by Ms Mulyani of increasing the budgets of ministries that meet their spending targets and reducing allocations to those that miss them. The government appears to be making progress on the preparation of legislation aimed at making it easier for the state to acquire private land for development, with the head of the National Land Agency, Joyo Winoto, stating in late November that a bill would be presented to the DPR before the end of 2010. If passed, the measure would remove one of the major obstacles to a series of much-needed infrastructure projects.

As a consequence of the inability of the civil service to spend fully the funds allocated to it, the government generally fails to operate an effective counter-cyclical fiscal policy, and macroeconomic management therefore has to be achieved primarily through monetary policy. Bank Indonesia (BI, the central bank) will begin raising interest rates in late 2010 or early 2011, in an attempt to contain the inflationary pressures generated by robust economic growth. In June BI introduced restrictions on foreign purchases of short-term central bank bonds, arguing that substantial short-term foreign investment inflows were putting the stability of Indonesia's currency, the rupiah, at risk because of the potential for a sudden reversal of investor sentiment. Although the authorities remain eager to attract long-term foreign investment, restrictions on short-term flows could be tightened. The government had expected to record a larger fiscal deficit in 2010 than in 2009, mainly as a result of higher energy subsidies (given that such subsidies rise and fall in line with movements in global oil prices). However, Mr Martowardojo said in July that the deficit would be smaller than planned, as the civil service had again failed to achieve its spending targets.

Fiscal policy

We expect the fiscal deficit to narrow to the equivalent of 1.4% of GDP in 2010, from 1.6% in 2009. Although in May the DPR revised up by 35% the projected cost of energy subsidies in 2010, to Rp143.8trn (US\$13.8bn), in July Mr Martowardojo told the DPR's budget committee that the government had

recorded a surplus of Rp47,9trn in the first half of the year, mainly because of underspending on capital projects. The inability of the civil service to spend all the funds allocated to it will continue to restrict capital expenditure, and we therefore expect the fiscal deficit to narrow further in 2011, to 1.3% of GDP, compared with the target of 1.7% in the government's budget for that year, which was approved by the DPR in October. The deficit will continue to shrink during the remainder of the forecast period (2011-15), to stand at 0.2% of GDP in 2015. A forecast further decline in the ratio of public debt to GDP could result in Indonesia's sovereign debt rating rising to investment grade. This would make it cheaper for the government to raise funds in international markets.

Monetary policy

As economic expansion in Indonesia accelerates in line with stronger global growth, BI will tighten monetary policy by raising its main interest rate, the BI rate, from its current level of 6.5% (the lowest level that the rate has reached since its introduction in 2005). In September BI's board of governors initiated monetary tightening by increasing the commercial banking sector's primary reserve requirement to 8%, from 5% previously. Concerns about the effect that interest rate increases will have on capital inflows (given that interest rates in major economies are likely to remain low) have so far deterred the central bank from raising the BI rate, but strong domestic economic growth will make higher interest rates essential in the coming period. Inflation (as measured by the consumer price index) rose above BI's 4-6% target range in November, but it seems likely that the bank's governors will not lift interest rates until early 2011. Monetary tightening is then expected to continue during the remainder of that year. The BI rate will average 7.3% in 2011 and 8.4% in 2012-15.

Economic forecast

International assumptions

	2010	2011	2012	2013	2014	2015
Economic growth (%)						
US GDP	2.5	1.5	1.9	2.3	2.4	2.4
OECD GDP	2.6	1.6	1.9	2.2	2.4	2.2
World GDP	3.5	2.5	2.9	3.0	3.1	3.1
World trade	12.2	5.9	6.3	6.6	6.7	6.1
Inflation indicators (% unless otherwise indicated)						
US CPI	1.5	1.1	1.9	2.5	2.8	2.8
OECD CPI	1.3	1.1	1.6	1.9	2.1	2.3
Manufactures (measured in US\$)	2.3	-1.6	-0.5	1.2	1.7	2.0
Oil (Brent; US\$/b)	80.0	82.0	81.3	78.3	75.5	71.0
Non-oil commodities (measured in US\$)	21.9	9.0	-4.1	-4.0	2.1	0.3
Financial variables						
US\$ 3-month commercial paper rate (av; %)	0.2	0.3	0.7	2.2	4.1	5.1
¥ 3-month money market rate (av; %)	0.2	0.3	0.8	1.3	1.9	2.3
Exchange rate: ¥:US\$ (av)	87.5	82.4	82.4	81.0	82.1	83.5
Exchange rate: Rp:US\$ (av)	9,082	8,893	8,907	8,993	9,066	9,146
Exchange rate: US\$:€ (av)	1.33	1.25	1.20	1.18	1.16	1.17

Economic growth

Indonesia was affected less severely by the recent global recession than many neighbouring economies, largely because exports account for a relatively small

proportion of the country's GDP. Moreover, real GDP growth has accelerated in 2010, to average 5.9% year on year in first three quarters of the year. We estimate growth in 2010 as a whole at 5.9%. The economy will then grow by 6% in 2011 and 6.4% in 2012, before expanding by 6.3% a year on average in 2013-15. Private consumption will remain a major driving force behind GDP growth in the forecast period, expanding by an average of 5.5% a year as employment growth accelerates and real wage increases pick up. Fixed investment will expand by 8.8% a year on average in 2011-15, supported in the early years of the period by the revival of investment plans that were postponed in early 2009 and later by strengthening demand conditions. Exports have grown strongly in 2010, thanks largely to healthy demand from China for Indonesia's commodity exports, but growth in overseas sales will slow in 2011 in line with a weaker global economy. Exports will then expand by around 7.9% a year in 2012-15. Owing to a recovery in import demand, the external sector will make only a modest contribution to GDP growth in 2011-15.

Downside risks to our forecast still exist but have diminished in the past year or so. The most serious concern is that fiscal austerity programmes in Western economies might lead to an unexpectedly rapid slowdown in global growth. The public finances in many countries have deteriorated dramatically, and an increasing number of governments will therefore look to tighten fiscal policy in order to guard against the possibility of sovereign payment crises. The loose monetary policy stance of Western central banks—and particularly the Federal Reserve in the US, which in early November announced a second round of quantitative easing—has led to heavy flows of capital into Asian countries, creating fears that asset price bubbles could develop in these economies. Such bubbles create risks, particularly if assets are used to back higher levels of borrowing; in such circumstances, the bursting of bubbles can trigger a process of deleveraging that hurts a country's real economy. Indonesia has been a recipient of strong flows of foreign finance in 2010, and it will continue to attract substantial inflows in 2011. As a result, it is likely that asset prices will rise and that credit growth will accelerate. However, Indonesian companies and households are not highly leveraged, and a period of strong lending growth could benefit the economy, particularly if funds are invested in productive areas, such as improvements to the country's dilapidated infrastructure.

Economic growth

%	2010 ^a	2011 ^b	2012 ^b	2013 ^b	2014 ^b	2015 ^b
GDP ^c	5.9	6.0	6.4	6.2	6.3	6.4
Private consumption	4.9	5.3	5.6	5.5	5.6	5.5
Government consumption	-3.0	9.7	8.1	6.8	4.6	5.0
Gross fixed investment	8.4	8.3	8.8	8.9	9.1	8.9
Exports of goods & services	12.6	7.7	7.9	8.0	7.9	8.0
Imports of goods & services	14.7	8.8	8.9	9.1	8.7	8.4
Domestic demand	5.5	6.3	6.7	6.5	6.5	6.4
Agriculture	3.5	3.8	3.5	3.5	3.5	3.5
Industry	4.0	4.1	4.1	4.2	4.2	4.2
Services	8.5	8.4	9.2	8.6	8.6	8.8

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Includes statistical discrepancy.

Inflation Lower global prices for oil and food and a slowdown in domestic demand growth caused inflation in Indonesia to decelerate to an average of 4.8%—a nine-year low—in 2009. In addition, the rupiah's strong recovery since it suffered a sharp fall in late 2008 has helped to limit imported inflation. The strength of the local currency has continued to help to contain price pressures in 2010. However, the average rate of consumer price inflation is estimated to have accelerated to 5.1% in 2010 as domestic prices respond to an increase in international oil and non-oil commodity prices. BI's decision to keep interest rates low in order to stimulate lending will also add to inflationary pressures as domestic growth starts to push against capacity limits in the local economy. As a result, inflation will accelerate to 6.4% in 2011, before slowing slightly, to an average of 6.3% a year, in 2012-15. The primary risk to our forecast comes from the possibility that high international oil prices could force the government to raise administered fuel prices to keep the budget deficit under control.

Exchange rates With the exception of a blip in May 2010 and again in November, caused on both occasions by a rise in risk aversion among global investors as the sovereign debt crisis in Europe unfolded, the rupiah has followed an appreciating trend against the US dollar since March 2009. As of early December 2010 the currency was trading at around Rp9,040:US\$1. Interest from international investors in carry trades (whereby speculators borrow in countries where interest rates are low, such as the US and Japan, in order to purchase assets in countries with higher rates, such as Indonesia) has been an important factor in the rupiah's appreciation. Healthy domestic economic growth in spite of the 2008-09 global recession has been another factor encouraging foreign investment in Indonesian assets. Large capital inflows are expected in 2011, when Indonesia's GDP growth rate will compare favourably with that in Western economies, but BI will intervene if necessary to prevent the currency from appreciating too sharply. After appreciating by an estimated 14.4% on an annual average basis in 2010, to Rp9,082:US\$1, the rupiah is forecast to continue to strengthen in 2011 before weakening gradually in 2012-15.

External sector A recovery in merchandise exports, led by commodities, has caused the trade surplus to rise in 2010, and we forecast that the surplus will continue to grow in 2011-15, to stand at US\$48.2bn in the final year of the period. The deficit on the income account has widened in 2010, as foreigners have expanded their holdings of Indonesian securities, leading to a rise in interest and dividend payments. Such payments will fall in 2011, but the income account will remain in the red throughout the forecast period, as foreigners continue to repatriate earnings while Indonesian investments abroad still earn relatively low returns. Limited employment opportunities at home in 2011-15 will force more workers to seek jobs abroad, leading to an increase in inward remittances and thus pushing up the surplus on the transfers account. We expect the current account to record a surplus equivalent to 1% of GDP on average in 2011-15.

Forecast summary

(% unless otherwise indicated)

	2010 ^a	2011 ^b	2012 ^b	2013 ^b	2014 ^b	2015 ^b
Real GDP growth	5.9	6.0	6.4	6.2	6.3	6.4
Industrial production growth	4.0	3.5	4.1	4.2	4.6	4.7
Gross agricultural production growth	3.5	3.8	3.5	3.5	3.5	3.5
Unemployment rate (av)	7.1	6.7	6.6	6.6	6.4	6.0
Consumer price inflation (av)	5.1	6.4	6.1	6.2	6.3	6.4
Consumer price inflation (end-period)	6.6	5.6	6.2	6.3	6.7	6.2
Money market interest rate	6.2	7.3	8.3	8.4	8.4	8.4
Government balance (% of GDP)	-1.4	-1.3	-1.1	-1.0	-0.7	-0.2
Exports of goods fob (US\$ bn)	151.0	170.1	187.1	210.4	239.7	272.1
Imports of goods fob (US\$ bn)	115.5	132.2	148.1	168.3	195.1	223.9
Current-account balance (US\$ bn)	6.2	10.3	10.4	10.3	10.3	11.2
Current-account balance (% of GDP)	0.9	1.3	1.1	1.0	0.9	0.9
External debt (end-period; US\$ bn)	157.6	159.2	157.8	159.1	160.0	162.4
Exchange rate Rp:US\$ (av)	9,082	8,893	8,907	8,993	9,066	9,146
Exchange rate Rp:US\$ (end-period)	8,988	8,900	8,950	9,029	9,106	9,186
Exchange rate Rp:¥100 (av)	10,381	10,792	10,811	11,102	11,040	10,953
Exchange rate Rp:€ (end-period)	12,044	10,680	10,650	10,564	10,609	10,771

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Monthly review: December 2010

The political scene

A professor is appointed as the new anti-corruption chief

On November 25th the House of People's Representatives (DPR, the legislature) appointed a former professor of law, Busyro Muqqodas, as chairman of the Anti-Corruption Commission (KPK). Mr Busyro previously chaired the Judicial Commission, an independent body that proposes appointments to the Supreme Court. He is a close supporter of the president, Susilo Bambang Yudhoyono, a fact that raises questions about his potential willingness to pursue corruption cases that may threaten the current administration. His academic background and mild manner have also led some to question whether he possesses the courage to face down strong vested interests that oppose the commission's work.

Mr Busyro's appointment is still significant, however. His predecessor, Antasari Azhar, was arrested in May 2009 and charged with commissioning the assassination of a local businessman, Nasrudin Zulkarnaen, leaving the KPK leaderless. Mr Azhar's subsequent conviction, as well as attempts by corrupt police and prosecutors to frame two other KPK officials and Mr Yudhoyono's own increasingly ambivalent stance with regard to anti-corruption efforts, has visibly weakened the commission in recent months, and the flood of high-profile cases with which it once dealt has slowed to a trickle.

Getting the agency back on track will be a vital task that now rests on Mr Busyro's shoulders. A recent poll by an independent pollster, the Indonesian Survey Institute (LSI), found that nearly 70% of respondents perceived corruption in the country to be high or very high, while only 34% gave a positive rating to the government's anti-corruption efforts, down from 84% a year earlier. The survey results also show that the public perceives the police, the Attorney-general's Office and the judiciary to be highly corrupt, with only the KPK trusted to make progress in fighting graft. Given that the former three agencies are more often part of the problem than part of the solution, the burden on the KPK in terms of efforts to reduce crippling graft in Indonesia is a very weighty one.

Mr Busyro takes over at a time when pressure is mounting for the KPK to take control of the investigation into the activities of Gayus Tambunan, a corrupt tax official who has confessed to abetting tax evasion by companies that are part of the Bakrie Group, a local conglomerate that is controlled by the family of one of the country's most powerful politicians, Aburizal Bakrie. Golkar, the political party that Mr Bakrie chairs, is the most important coalition partner of Mr Yudhoyono's Democratic Party in the DPR.

Also on November 25th, Mr Yudhoyono named a career prosecutor, Basrief Arief, as the new attorney-general. The appointment is seen as harming the prospects for reform of the Attorney-general's Office, which is widely believed to be one of the most corrupt institutions in Indonesia. Mr Arief, who served as deputy attorney-general until 2007, is viewed as an insider. Activists had

called for someone from outside the Attorney-general's Office with a record of combating corruption to be appointed to lead the institution.

Corruption is exposed within the country's prisons

The case of Gayus Tambunan has highlighted the need for thoroughgoing reform of the agencies charged with fighting Indonesia's pervasive corruption. Mr Tambunan, a junior tax official, was photographed in November attending a tennis tournament on the resort island of Bali in disguise, at a time when he should have been in prison in the capital, Jakarta, awaiting a second trial on charges of corruption. Mr Tambunan initially denied that he was present in Bali. But Mr Tambunan's warden, Commander Iwan Siswanto of the Police Mobile Brigade (Brimob), subsequently confessed to having received Rp368m (US\$41,000) from Mr Tambunan over a four-month period and releasing him from detention on 68 occasions. The practice of temporarily freeing suspects and convicts from detention in exchange for payment is widespread in the country's prison system.

Mr Tambunan was acquitted of corruption and money-laundering in March, but he was rearrested after a public outcry. In evidence given subsequently, Mr Tambunan revealed that he had bribed police officers, prosecutors and judges to escape conviction. He also described his role in a wider conspiracy to defraud the state of tax revenue, allegedly confessing to having received bribes from Bumi Resources, Kaltim Prima Coal and Arutmin, all of which are mining companies owned by the Bakrie Group.

The conglomerate has denied that it bribed Mr Tambunan, but police are now conducting further enquiries. Intriguingly, Mr Bakrie was present at the Bali tennis tournament on the same day as Mr Tambunan, and Indonesia's media have been rife with speculation that the two men met to discuss the tax-evasion allegations levelled against Mr Bakrie's companies. A local organisation, Indonesia Corruption Watch, has called for the KPK to take over the case.

Economic policy

Claims of insider trading taint a high-profile privatisation

The initial public offering (IPO) for Indonesia's largest steel manufacturer, Krakatau Steel, has been marred by allegations of corruption and insider trading, damaging the prospects for further privatisations of the country's state-owned enterprises (SOEs). The company raised Rp2.7trn (US\$300m) through the sale of a 20% stake in early November. Shares were priced at Rp850 (9 US cents), but they leapt in value by 49%, to Rp1,290, after their trading debut on November 10th, raising suspicions that the deal had been deliberately underpriced in order to benefit well-connected investors. In late November the DPR agreed to establish a formal enquiry into the sale. The co-ordinating minister for the economy, Hatta Rajasa, added his support for an investigation of the IPO, calling for the allocation of shares to be disclosed. Underwriters for the deal, which include three state-owned brokerages, Mandiri Sekuritas, Danareksa Sekuritas and Bahana Securities, also face investigation. They have defended the pricing, stating that the offer price reflected the earning ratios of comparable companies.

Indonesia has been implementing a privatisation programme in fits and starts since 1999, in an attempt to reform its loss-making SOEs and pare back the role of government in the economy. The programme has often triggered controversy, as well as resistance from nationalist politicians and vested interests that benefit from the privileges enjoyed by state-owned companies and the opaque conditions under which they operate. The Krakatau Steel scandal may now jeopardise other important upcoming sales, including a long-delayed IPO for the state-owned airline, Garuda Indonesia. There have also been claims that members of the media asked for shares worth over Rp635m in total from Krakatau Steel and threatened to publish critical reports ahead of the share issue if their demands were not met. The Alliance of Independent Journalists (AJI) is investigating these allegations. Taken together, the negative publicity, investigations and recriminations that are likely to follow may complicate the political environment for future privatisations.

New measures are announced to rein in the fuel subsidy bill

The government has announced new plans to address the perennial problem of excessive state spending on fuel subsidies, including the imposition of a cap on fuel consumption by owners of private vehicles. The 2011 state budget, which was approved by the DPR in late October, sets aside Rp95.9trn for spending on fuel subsidies, up from Rp88.8trn in 2010, as well as Rp40.7trn for electricity subsidies. The provision of fuel at subsidised prices in Indonesia leaves the budget exposed to the effects of fluctuating international oil prices. The fuel subsidy also sits uncomfortably with the government's stated commitment to improve the welfare of Indonesia's poorest people, as the main beneficiaries of cheap petrol and diesel are members of the country's relatively rich households, who can afford to run cars. But the issue is politically sensitive, and this explains the failure of successive governments to press ahead with reform.

It remains to be seen whether the current administration has the political will to implement the latest proposals; it backed away from similar measures to restrict consumption earlier this year. In late November Mr Rajasa said that the two options would be debated by parliament before the end of 2010, adding that in the absence of restrictions demand for subsidised fuel was projected to rise by 10% in 2011. In October the government agreed with parliament to limit to 5% the increase in the total amount of subsidised fuel to be made available in 2011, taking the quota to 38.6m kilolitres in that year. Demand for imported oil has risen sharply this year in line with rapid economic growth.

Concerns over short-term capital inflows are growing

Concerns that the authorities are considering imposing capital controls led to a sharp outflow of funds from the country in early November, highlighting the risk of further foreign-exchange volatility. Indonesia has so far taken a middle-of-the-road position on the issue of capital inflows, restricting itself to imposing only limited controls aimed at addressing excessive volatility by channelling funds into longer-term instruments. However, amid concerns about the possible introduction of tougher controls, foreign investors withdrew Rp8.5trn in the second week of November. The trigger for the outflow of funds was the suspension of auctions of three-month promissory notes (SBIs) offered by Bank Indonesia (BI, the central bank). Investors were instead offered SBIs with six- and nine-month maturities. As a result of the sell-off, foreigners' holdings as

a proportion of the total outstanding stock of SBIs fell to 29.6%, from 31.7% a week earlier.

Later, in an attempt to allay market concerns, Mr Rajasa said that the government had ruled out the use of taxes to dissuade investors from moving capital out of Indonesia. Mr Rajasa said that the government was instead considering introducing higher-yielding, longer-term debt instruments, with a particular emphasis on productive instruments such as infrastructure bonds, to encourage investors to keep their capital in the country. The Ministry of Finance has also set aside Rp84trn to purchase government bonds in the event of a sudden sell-off by foreign investors, although this represents only around 40% of the Rp194.9trn that foreign entities currently have invested in government bonds. Taken together, foreign investors now hold equities, bonds and promissory notes worth Rp278.1trn.

Concerns regarding the impact of a surge in short-term capital inflows have intensified, following the announcement by the Federal Reserve (the US central bank) in early November that it would purchase US\$600bn in US government bonds by mid-2011 as part of a second round of quantitative easing. The IMF warned in October of the growing threat posed by short-term capital flows into Indonesia, and said that measures to encourage inflows into long-term securities and direct investment would be necessary in order to facilitate sustainable economic growth. The World Bank said in November that US quantitative easing created the risk of asset price bubbles in Asian markets, and added that capital controls might be required to deal with this threat. Several major emerging markets, including Brazil, Thailand, Taiwan and South Korea, have introduced capital controls this year.

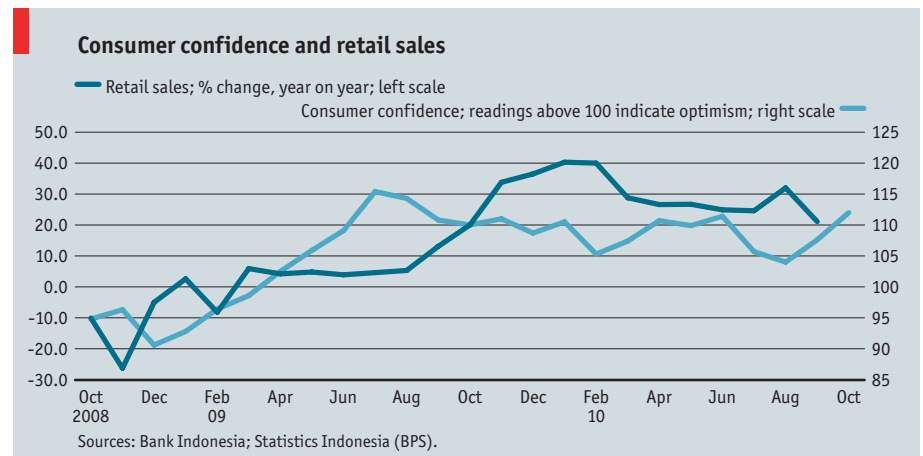
Economic performance

Leading indicators suggest that consumers remain confident

The pace of economic growth has slowed, with real GDP expanding by 5.8% year on year in the third quarter of 2010, following growth of 6.2% in the second quarter. However, a number of leading indicators suggest that consumer spending remains robust. The consumer confidence index that is compiled monthly by BI rose by 4.4 points in October, to 112—its highest level since August 2009. (An index reading above 100 indicates that optimists outnumber pessimists in the survey sample). The future-perceptions component of the index rose by 5.3 points, to 123.4, reflecting the expectation among respondents that more employment opportunities would become available in the coming months. Retail sales have also held up, according to BI's retail sales index, which rose by 21% year on year in September, although this represented the slowest pace of year-on-year growth since October 2009.

Meanwhile, the outlook for sales of passenger vehicles and motorcycles (a reliable proxy for consumer demand) remains relatively strong. The Association of Indonesian Automotive Industries (Gaikindo) has forecast that sales of new vehicles will rise by 50% in 2010, to 730,000 units. However, the latest results show that sales have been declining on a month-on-month basis, with sales in September down by 24%, at 49,137 vehicles, following a decline of 10.2% in August. Industry sources have forecast more modest growth of only 7%

in 2011, at only 7%, partly owing to the government's plans to restrict the supply of subsidised fuel. A similar trend is evident in motorcycle sales. The Indonesian Motorcycle Industry Association (AIS) has forecast that sales will rise by around 17% in 2010 as a whole, but sales were down by 35% month on month in September.



Consumer prices rise at their fastest pace for three months

After slowing in September and October, inflation accelerated in November, with consumer prices rising by a three-month high of 6.3% year on year, according to Statistics Indonesia (BPS). During the first 11 months of 2010 prices were up by an average of 5% year on year—the mid-point of BI's target range for inflation of 4-6%. Higher food prices in November, which were up by 12.3% year on year, compared with 9.8% in October, were the main contributor to inflation in the month. However, all but one of the six other categories of goods and services tracked in BPS's price index also recorded faster inflation in November. The cost of transport was up by 2.8%, following a rise of 2.7% in October. Core inflation (which excludes volatile food and energy prices) also accelerated, albeit less sharply, to 4.3%, from 4.2% in October, taking average core inflation in the first 11 months of the year to 4%.

The current-account surplus falls

Indonesia's current-account surplus fell in the third quarter of 2010, owing to wider deficits on the services and income accounts, according to BI. The goods balance rose to US\$9.1bn, from US\$8.6bn in the second quarter, as exports continued to recover following the 2008-09 recession, rising by 25.4% year on year, to US\$39.2bn. Oil and gas exports rose by 18.6% in the third quarter, to US\$6.7bn, while non-oil and gas exports were up by 27%, at US\$32.5bn, supported by increased shipments of resource-based commodities. But the services account recorded a deficit of US\$3.9bn, compared with the previous quarter's shortfall of US\$3.4bn, while the deficit on the income account reached US\$5.2bn, widening from US\$4.6bn previously. Foreigners have increased their holdings of Indonesian securities, leading to higher interest and dividend payments, BI said. The current transfers surplus stood at US\$1.2bn in July-September, more or less unchanged from the previous three-month period. In the first three quarters of 2010 the current-account surplus totalled US\$5.1bn, down from US\$7.1bn in the year-earlier period.

However, the surplus on the overall balance of payments (before official financing) rose in the third quarter of 2010, to US\$7bn, up from US\$5.4bn in the second quarter. Amid stronger inflows of foreign investment, the surplus on the capital and financial accounts reached US\$6.5bn, up from US\$4.4bn in April-June. Net direct investment totalled US\$2.5bn in the third quarter, up from US\$2bn in the second, while net portfolio investment rose to US\$6.1bn, up from US\$1.1bn, as global investors sought higher returns in emerging markets such as Indonesia. During the first three quarters of 2010 the surplus on the capital and financial account rose to US\$15.8bn, compared with US\$2.3bn in the year-earlier period, while the overall balance of payments was in surplus to the tune of US\$19bn, up from US\$8.6bn in January-September 2009. At the end of the third quarter of 2010 Indonesia's stock of international reserves stood at US\$87, equivalent to 6.6 months of imports and official debt repayments, according to the central bank.

Balance of payments

(US\$ m unless otherwise indicated)

			2009			2010		
	2008	2009	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Exports fob	139,606	119,480	28,130	31,273	35,899	34,993	37,264	39,228
Imports fob	-116,690	-84,347	-19,765	-22,784	-24,504	-26,222	-28,621	-30,108
Trade balance	22,916	35,133	8,365	8,488	11,395	8,770	8,643	9,120
Services, net	-12,998	-14,110	-3,310	-3,519	-4,538	-3,592	-3,417	-3,890
Income, net	-15,155	-15,140	-3,776	-4,072	-4,551	-4,339	-4,628	-5,152
Current transfers, net	5,364	4,861	1,201	1,248	1,303	1,168	1,206	1,230
Current-account balance	126	10,743	2,480	2,146	3,610	2,007	1,804	1,308
Capital account balance	294	96	29	34	14	18	0	0
Financial account balance	-2,126	3,453	-1,851	2,474	1,255	4,810	4,370	6,477
Foreign direct investment, net	3,419	1,928	400	472	604	2,300	1,977	2,492
Portfolio investment, net	1,764	10,336	1,893	2,972	3,521	6,159	1,089	6,060
Other investment, net	-7,309	-8,812	-4,144	-970	-2,869	-3,648	1,304	-2,075
Capital & financial account balance	-1,832	3,548	-1,822	2,507	1,270	4,829	4,370	6,477
Total	-1,706	14,291	658	4,654	4,879	6,836	6,174	7,785
Errors & omissions	-238	-1,785	394	-1,108	-926	-215	-753	-830
Balance of payments	-1,945	12,506	1,052	3,546	3,954	6,621	5,421	6,955
Reserve assets position (end-period)	51,639	66,105	57,576	62,287	66,105	71,823	76,321	86,551
Reserve assets (months of import & official debt-repayment cover)	4.0	6.5	5.6	6.1	6.5	5.4	5.8	6.6

Source: Bank Indonesia.

Data and charts

Annual data and forecast

	2006 ^a	2007 ^a	2008 ^a	2009 ^a	2010 ^b	2011 ^c	2012 ^c
GDP							
Nominal GDP (US\$ bn)	364.6	432.2	510.5	540.3	699.9	809.2	911.5
Nominal GDP (Rp trn)	3,339.2	3,950.9	4,951.4	5,613.4	6,356.4	7,196.6	8,118.7
Real GDP growth (%)	5.5	6.3	6.0	4.5	5.9	6.0	6.4
Expenditure on GDP (% real change)							
Private consumption	3.2	5.0	5.3	4.9	4.9	5.3	5.6
Government consumption	9.6	3.9	10.4	15.7	-3.0	9.7	8.1
Gross fixed investment	2.6	9.3	11.9	3.3	8.4	8.3	8.8
Exports of goods & services	9.4	8.5	9.5	-9.7	12.6	7.7	7.9
Imports of goods & services	8.6	9.1	10.0	-15.0	14.7	8.8	8.9
Origin of GDP (% real change)							
Agriculture	3.4	3.5	4.8	4.1	3.5	3.8	3.5
Industry	4.5	4.7	3.7	3.5	4.0	4.1	4.1
Services	7.3	9.0	8.7	5.7	8.5	8.4	9.2
Population and income							
Population (m)	231.8	234.7	237.5	240.3	243.0	245.6	248.2
GDP per head (US\$ at PPP)	3,314 ^b	3,583 ^b	3,835 ^b	4,000 ^b	4,214	4,496	4,837
Recorded unemployment (av; %)	10.3	9.1	8.4	8.1	7.1	6.7	6.6
Fiscal indicators (% of GDP)							
Central government budget revenue	19.1	18.0	19.2	15.5	16.9	17.3	17.9
Central government budget expenditure	20.1	18.7	19.8	17.0	18.3	18.6	19.0
Central government budget balance	-1.0	-0.7	-0.6	-1.6	-1.4	-1.3	-1.1
Public debt	33.0 ^b	31.3 ^b	28.3 ^b	27.4 ^b	26.3	25.2	24.1
Prices and financial indicators							
Exchange rate Rp:US\$ (end-period)	9,020	9,419	10,950	9,400	8,988	8,900	8,950
Exchange rate Rp:¥100 (end-period)	7,579	8,432	12,061	10,099	11,041	10,745	11,010
Consumer prices (end-period; %)	6.6	5.8	11.1	2.8	6.6	5.6	6.2
Stock of money M1 (% change)	28.1	29.7	1.5	12.9 ^b	16.1	16.9	17.4
Stock of money M2 (% change)	14.9	19.3	15.0	13.0 ^b	19.0	18.4	18.5
Lending interest rate (av; %)	16.0	13.9	13.6	14.5	13.3	14.5	14.8
Current account (US\$ m)							
Trade balance	29,661	32,754	22,916	35,132	35,523	37,853	39,006
Goods: exports fob	103,528	118,014	139,606	119,481	151,023	170,076	187,095
Goods: imports fob	-73,867	-85,259	-116,690	-84,348	-115,500	-132,223	-148,089
Services balance	-9,875	-11,842	-12,998	-14,108	-14,514	-13,838	-13,877
Income balance	-13,790	-15,524	-15,156	-15,140	-19,654	-18,672	-19,859
Current transfers balance	4,863	5,103	5,364	4,860	4,895	4,931	5,099
Current-account balance	10,860	10,492	125	10,747	6,250	10,275	10,369
External debt (US\$ m)							
Debt stock	132,512	142,638	150,851	156,740 ^b	157,634	159,187	157,767
Debt service paid	28,479	22,805	22,150	23,212 ^b	22,972	22,931	23,648
Principal repayments	23,979	16,680	16,573	18,207 ^b	18,163	18,465	18,798
Interest	4,500	6,125	5,577	5,005 ^b	4,810	4,466	4,850
International reserves (US\$ m)							
Total international reserves	42,588	56,924	51,641	66,119	88,137	98,247	100,914

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2008	2009				2010		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Output								
GDP at constant 2000 prices (Rp trn)	519.3	528.1	540.4	561.0	547.5	558.1	573.8	593.6
Real GDP (% change, year on year)	5.3	4.5	4.1	4.2	5.4	5.7	6.2	5.8
Manufacturing at constant 2000 prices (Rp trn)	139.4	138.7	140.8	144.8	145.2	143.9	146.9	150.7
Manufacturing at constant 2000 prices (% change, year on year)	1.8	1.5	1.5	1.3	4.2	3.7	4.4	4.1
Mining at constant 2000 prices (Rp trn)	43.6	43.5	44.2	46.3	45.9	44.9	46.0	47.6
Mining at constant 2000 price (% change, year on year)	2.4	2.6	3.4	6.2	5.2	3.1	4.0	2.8
Prices								
Consumer prices (2002=100)	113.8	114.0	114.0	115.4	116.8	118.2	119.0	122.5
Consumer prices (% change, year on year)	11.4	8.6	5.6	2.8	2.6	3.7	4.4	6.2
Wholesale prices (2000=100)	166.3	160.0	161.7	164.0	165.0	167.3	169.7	171.0
Financial indicators								
Exchange rate Rp:US\$ (av)	11,060	11,631	10,509	9,966	9,454	9,271	9,132	8,995
Exchange rate Rp:US\$ (end-period)	10,950	11,575	10,225	9,681	9,400	9,115	9,083	8,924
Deposit rate (av; %)	10.72	11.04	9.67	8.69	7.71	7.13	6.96	6.95
Discount rate (end-period; %)	10.83	8.21	6.95	6.48	6.46	6.27	6.26	n/a
Lending rate (av; %)	15.01	15.10	14.67	14.31	13.91	13.66	13.28	13.13
3-month money market rate (av; %)	9.61	8.48	7.40	6.45	6.30	6.20	6.15	6.20
M1 (end-period; Rp trn)	456.7	448.0	482.6	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)	1.5	9.3	6.5	n/a	n/a	n/a	n/a	n/a
M2 (end-period; Rp trn)	1,893	1,914	1,975	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)	15.0	20.3	16.1	n/a	n/a	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)	1,355	1,434	2,027	2,468	2,534	2,777	2,914	3,501
Stockmarket index (% change, year on year)	-57.5	-53.3	-22.2	30.4	117.8	145.9	61.8	53.9
Sectoral trends								
Manufacturing production (2000=100) ^a	126.6	124.6	127.5	131.0	132.9	129.9	133.0	135.7
Manufacturing production (% change, year on year) ^a	1.5	0.2	0.6	0.1	4.9	4.3	4.3	3.6
Crude oil production (m barrels/day) ^b	1.02	1.02	0.97	0.98	0.98	0.99	1.00	0.98
Rubber, dry production ('000 tonnes)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nickel ore production ('000 tonnes)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign trade (US\$ m)								
Exports fob	29,352	22,975	27,044	30,071	36,366	35,537	37,022	38,395
Imports cif	-27,556	-19,094	-22,284	-26,907	-28,545	-29,961	-32,976	-34,452
Trade balance	1,796	3,882	4,761	3,163	7,822	5,576	4,046	3,943
Foreign payments (US\$ m)								
Merchandise trade balance	4,165	6,884	8,365	8,489	11,395	8,418	8,985	n/a
Services balance	-3,227	-2,743	-3,311	-3,508	-4,546	-3,595	-3,697	n/a
Income balance	-2,881	-2,742	-3,776	-4,071	-4,551	-3,922	-4,642	n/a
Net transfer payments	1,305	1,108	1,201	1,248	1,303	1,168	1,188	n/a
Current-account balance	-638	2,507	2,479	2,158	3,601	2,069	1,834	n/a
Reserves excl gold (end-period)	49,597	52,663	55,381	59,978	63,563	69,223	73,431	83,489

^a Large and medium-sized companies. ^b Including production in Irian Jaya; excluding condensates.

Sources: International Energy Authority, *Monthly Oil Market Report*; IMF, *International Financial Statistics*; Statistics Indonesia (BPS); *Financial Times*.

Monthly data

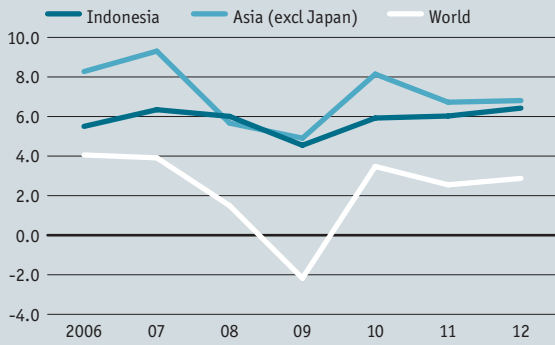
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Rp:US\$ (av)												
2008	9,395	9,164	9,185	9,212	9,300	9,284	9,145	9,149	9,373	10,100	11,836	11,244
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,817	9,446	9,460	9,458
2010	9,297	9,347	9,169	9,017	9,226	9,153	9,032	8,988	8,965	n/a	n/a	n/a
Exchange rate Rp:US\$ (end-period)												
2008	9,291	9,051	9,217	9,234	9,318	9,225	9,118	9,153	9,378	10,995	12,151	10,950
2009	11,355	11,980	11,575	10,713	10,340	10,225	9,920	10,060	9,681	9,545	9,480	9,400
2010	9,365	9,335	9,115	9,012	9,180	9,083	8,952	9,041	8,924	8,928	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2008	119.16	122.88	121.33	121.64	123.58	133.50	136.21	139.31	137.99	132.41	115.21	115.37
2009	116.53	113.12	114.67	122.11	127.69	129.39	129.55	130.94	130.86	134.50	134.27	135.51
2010	139.39	140.32	142.41	144.27	144.81	146.67	145.51	145.97	144.27	141.48	142.25	n/a
Money supply M1 (end-period; % change, year on year)												
2008	22.4	19.3	23.5	21.1	24.2	21.9	15.5	12.3	19.9	13.6	12.1	1.5
2009	6.6	8.3	9.3	9.3	7.2	6.5	5.2	11.3	n/a	n/a	n/a	n/a
2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M2 (end-period; % change, year on year)												
2008	16.6	17.1	15.6	16.3	17.6	17.1	14.3	12.7	17.3	18.2	18.7	15.0
2009	17.5	18.6	20.3	18.7	17.4	16.1	16.3	18.6	n/a	n/a	n/a	n/a
2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2008	7.4	7.4	7.3	7.2	7.3	7.5	7.8	8.4	9.5	10.2	10.8	11.2
2009	11.3	11.1	10.7	10.1	9.7	9.3	9.0	8.7	8.4	8.0	7.7	7.5
2010	7.3	7.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0	n/a	n/a	n/a
Lending rate (av; %)												
2008	13.0	13.0	12.9	12.9	12.9	13.0	13.1	13.4	13.9	14.7	15.1	15.2
2009	15.2	15.1	15.0	14.8	14.7	14.5	14.5	14.3	14.2	14.1	14.0	13.7
2010	13.8	13.7	13.5	13.4	13.3	13.2	13.2	13.2	13.0	n/a	n/a	n/a
Manufacturing production (av; % change, year on year)												
2008	5.8	9.5	2.5	3.5	4.0	2.4	2.8	2.9	-0.8	6.1	0.6	-1.9
2009	-1.7	0.9	1.4	1.2	0.1	0.6	-0.2	0.7	-0.2	4.7	3.8	6.3
2010	5.3	4.0	3.5	3.8	4.1	5.0	5.4	4.6	0.6	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)												
2008	2,627	2,722	2,447	2,305	2,444	2,349	2,305	2,166	1,833	1,257	1,242	1,355
2009	1,333	1,285	1,434	1,723	1,917	2,027	2,323	2,342	2,468	2,368	2,416	2,534
2010	2,611	2,549	2,777	2,971	2,797	2,914	3,069	3,082	3,501	3,635	3,531	n/a
Consumer prices (av; % change, year on year)												
2008	6.4	6.6	7.2	7.7	8.9	11.0	11.9	11.8	12.2	11.8	11.5	11.1
2009	9.2	8.6	7.9	7.3	6.0	3.7	2.7	2.8	2.8	2.6	2.4	2.8
2010	3.7	3.8	3.4	3.9	4.2	5.0	6.2	6.4	5.8	5.7	6.3	n/a
Producer prices (av; % change, year on year)												
2008	24.4	23.1	25.2	25.6	27.3	34.1	35.1	32.8	27.8	25.7	19.9	9.7
2009	6.8	8.1	4.5	2.5	-1.2	-5.8	-7.9	-5.2	-3.5	-4.1	-2.4	4.4
2010	5.7	3.7	4.3	5.0	5.6	4.3	4.3	3.6	4.9	5.5	n/a	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Goods exports fob (US\$ m)												
2008	11,192	10,546	12,009	10,922	12,910	12,818	12,528	12,467	12,277	10,790	9,666	8,897
2009	7,280	7,080	8,615	8,454	9,209	9,382	9,684	10,544	9,843	12,243	10,775	13,348
2010	11,596	11,167	12,774	12,035	12,657	12,330	12,487	13,727	12,182	14,218	n/a	n/a
Goods imports cif (US\$ m)												
2008	9,608	9,843	10,277	11,647	11,664	12,111	12,870	12,326	11,296	10,732	9,081	7,742
2009	6,601	5,939	6,554	6,707	7,641	7,936	8,683	9,707	8,517	9,430	8,815	10,300
2010	9,491	9,498	10,973	11,236	9,980	11,760	12,626	12,172	9,654	12,146	n/a	n/a
Trade balance fob-cif (US\$ m)												
2008	1,584	703	1,732	-725	1,246	708	-342	141	981	58	584	1,154
2009	680	1,141	2,061	1,747	1,568	1,446	1,001	837	1,326	2,813	1,961	3,048
2010	2,105	1,668	1,802	799	2,676	570	-139	1,555	2,528	2,072	n/a	n/a
Foreign-exchange reserves excl gold (end-period; US\$ m)												
2008	53,842	54,874	56,828	56,704	55,391	57,295	58,457	56,389	55,020	48,805	48,270	49,597
2009	48,776	48,365	52,663	54,458	55,688	55,381	55,230	58,115	59,978	62,092	63,106	63,563
2010	67,004	67,144	69,223	75,850	71,753	73,431	76,060	78,418	83,489	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

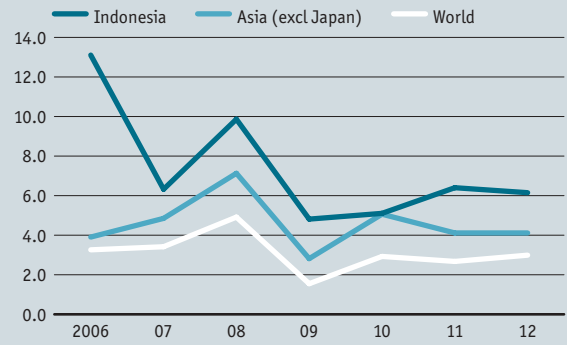
Annual trends charts

Real GDP growth
(% change)



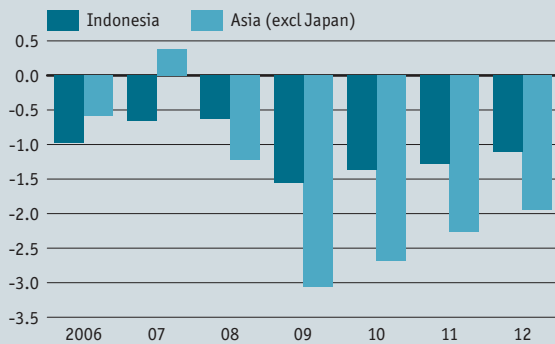
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



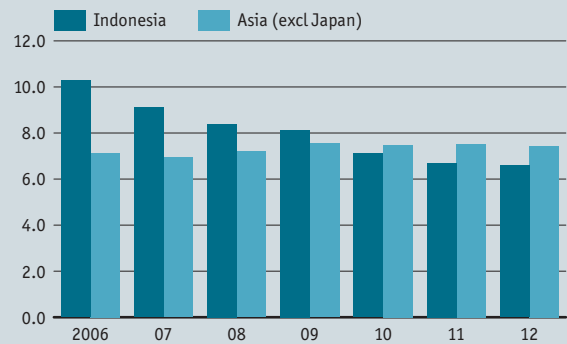
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



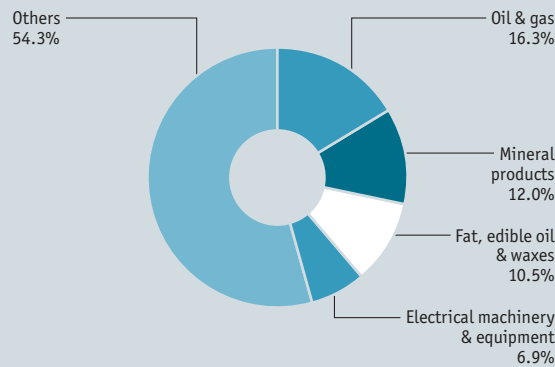
Source: Economist Intelligence Unit.

Recorded unemployment
(%)



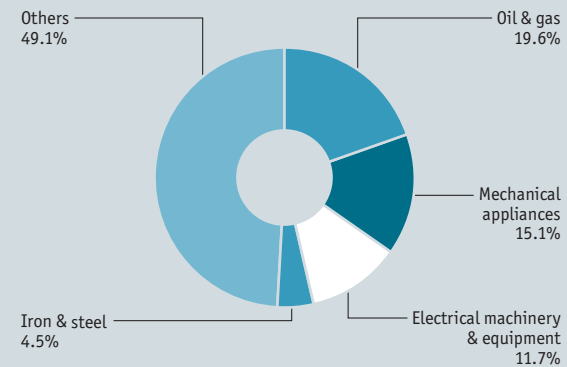
Source: Economist Intelligence Unit.

Major exports, 2009
(share of total)



Source: Economist Intelligence Unit.

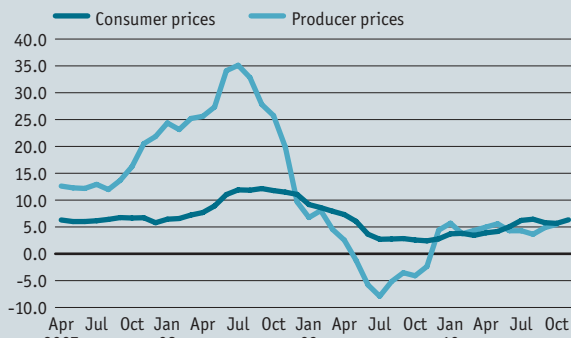
Major imports, 2009
(share of total)



Source: Economist Intelligence Unit.

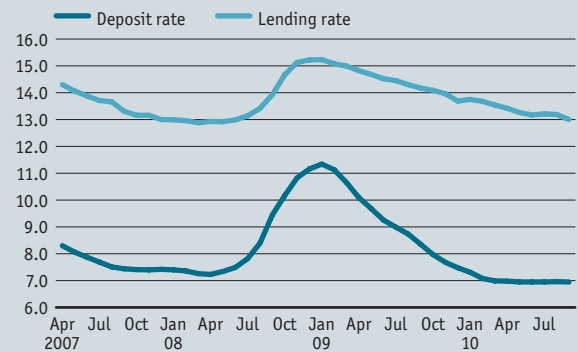
Monthly trends charts

Price inflation (% change, year on year)



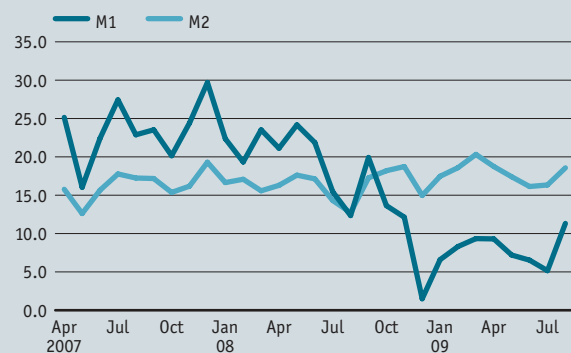
Source: Economist Intelligence Unit.

Interest rates (av; %)



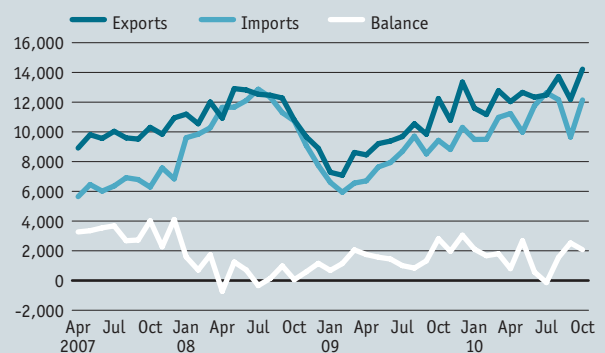
Source: Economist Intelligence Unit.

Monetary aggregates (% change, year on year)



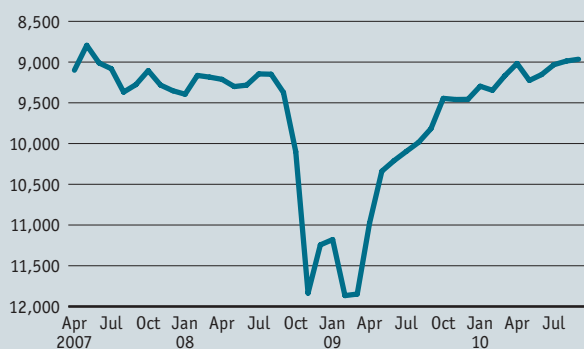
Source: Economist Intelligence Unit.

Foreign trade (US\$ m; goods only)



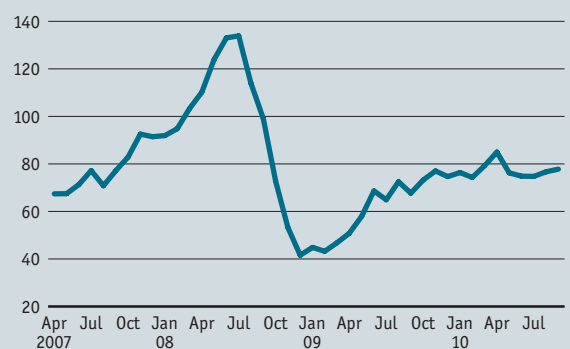
Source: Economist Intelligence Unit.

Exchange rate (Rp:US\$; av; inverted scale)



Source: Economist Intelligence Unit.

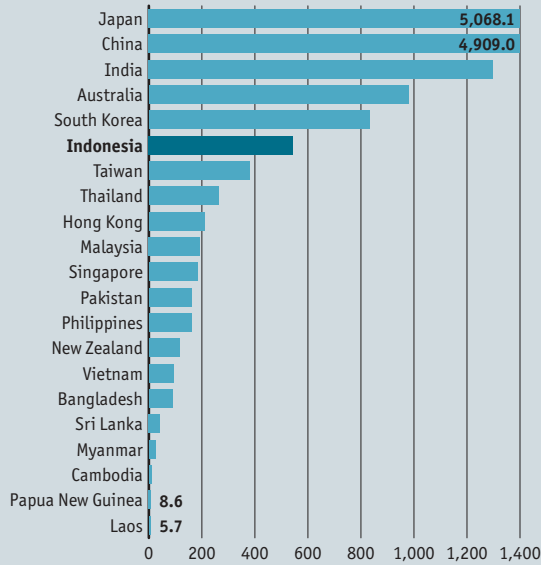
Oil: Brent crude price (US\$/b; av)



Source: Economist Intelligence Unit.

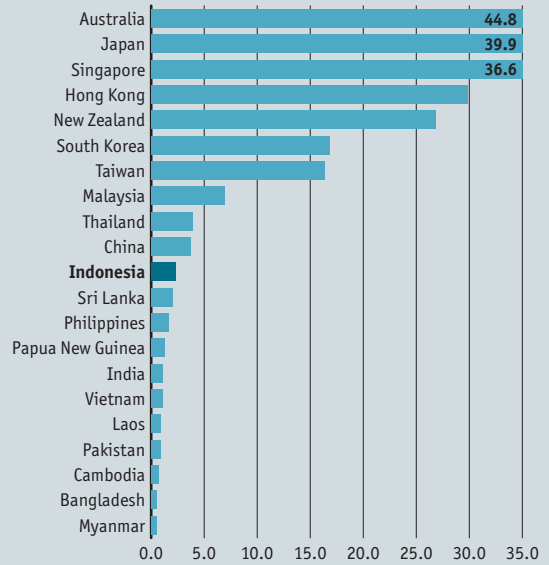
Comparative economic indicators, 2009

Gross domestic product
(US\$ bn; market exchange rates)



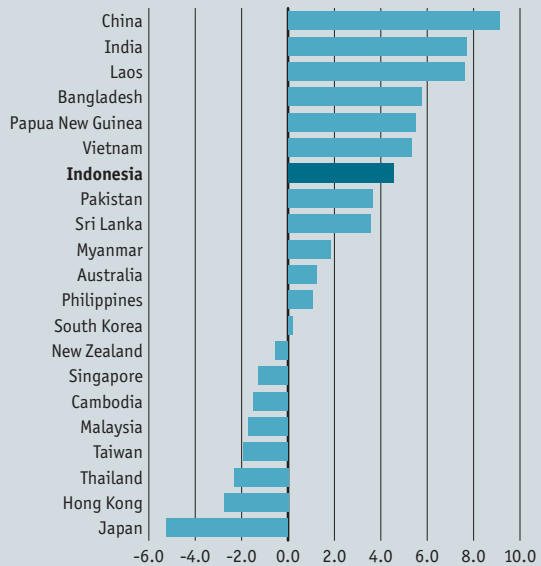
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US\$ '000; market exchange rates)



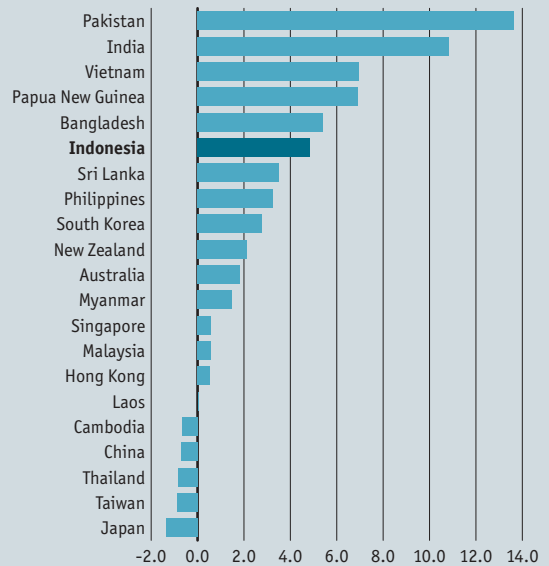
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area	1,904,443 sq km		
Sea area (exclusive economic zone)	3,166,163 sq km (before deductions for sea area now under the control of Timor-Leste)		
Total area	5,070,606 sq km		
Population	240m (US Census Bureau 2009 estimate)		
Main towns	Population in '000 (2000 census)		
	Jakarta (capital)	8,385	Medan 1,792
	Surabaya	2,589	Palembang 1,442
	Bandung	2,142	Semarang 1,345
Climate	Tropical		
Weather in Jakarta (altitude 8 metres)	Hottest months, April-May, 24-31°C (average daily minimum and maximum); coldest months, January-February, 23-29°C; wettest months, January-February, 300 mm average rainfall		
Languages	Indonesian (Bahasa Indonesia), as well as some 250 other regional languages and dialects. English has replaced Dutch as the main second language and is widely spoken in government and business circles		
Measures	Metric system		
Currency	Rupiah (Rp). Average exchange rate in 2009: Rp10,390:US\$1		
Time	Western Zone 7 hours ahead of GMT, Central Zone 8 hours ahead, Eastern Zone 9 hours ahead		
Fiscal year	January 1st-December 31st (since 2001)		
Public holidays	New Year, January 1st; Chinese New Year, February 14th; Mouloud, February 26th; Hindu New Year, March 16th; Good Friday, April 2nd; Ascension, May 13th; Waisak Day, May 28th; Lailat Al Miraj, July 10th; Independence Day, August 17th; Eid al-Fitr, September 10th; Eid al-Adha, November 17th; Islamic New Year, December 7th; Christmas Day, December 25th		

Political structure

Official name	Republic of Indonesia	
Form of government	Power has historically been concentrated in the hands of the president, but recent constitutional amendments have given the legislature an expanded role	
Executive	The presidency is the highest executive office, with authority to appoint the cabinet	
Head of state	The president, Susilo Bambang Yudhoyono	
National legislature	The People's Consultative Assembly (MPR) consists of a 550-member House of People's Representatives (DPR) and a 128-member Regional Representatives' Council (DPD)	
National elections	April 2009 (DPR); July 2009 (presidential). Next elections: 2014 (DPR and presidential)	
National government	Mr Yudhoyono's second-term government contains representatives of the Democratic Party (PD), Golkar, the National Mandate Party (PAN), the Prosperous Justice Party (PKS), the National Awakening Party (PKB) and the United Development Party (PPP)	
Main political organisations	There are three nationalist secular parties: the PD, Golkar and the Indonesian Democratic Party-Struggle (PDI-P). The other main parties—the PPP, the PKB, the PAN and the PKS—have an Islamic orientation	
	President	Susilo Bambang Yudhoyono
	Vice-president	Boediono
Key ministers	Agriculture	Suswono
	Co-ordinating minister for the economy	Hatta Radjasa
	Co-ordinating minister for people's welfare	Agung Laksono
	Co-ordinating minister for political, security & social affairs	Djoko Suyanto
	Culture & tourism	Jero Wacik
	Defence	Purnomo Yusgiantoro
	Education	Muhammad Nuh
	Energy & mineral resources	Darwin Saleh
	Finance	Agus Martowardojo
	Foreign affairs	Marty Natalegawa
	Forestry	Zulkifli Hasan
	Health	Endang Rahayu Sedyaningsih
	Home affairs	Gamawan Fauzi
	Industry	M S Hidayat
	Justice & human rights	Patrialis Akbar
	Manpower & transmigration	Muhaimin Iskandar
	Public works	Djoko Kirmanto
	Religious affairs	Suryadarma Ali
	Social affairs	Salim Segaf Aljufri
	Trade	Mari Pangestu
	Transport	Freddy Numberi
Central bank governor	Darmin Nasution	