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## **Country Report**

# **Indonesia**

**August 2010**

Economist Intelligence Unit  
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United Kingdom

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# Indonesia

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# Executive summary

## Highlights

*August 2010*

- Outlook for 2010-11**
- The president, Susilo Bambang Yudhoyono, has a strong mandate to pursue his reformist policy agenda, having comfortably won re-election in July 2009, but his reforms are encountering resistance from vested interests.
  - Mr Yudhoyono's Democratic Party (PD) is the largest in the House of People's Representatives (DPR, the legislature), but holding a coalition government together during the president's second term will be difficult.
  - Bank Indonesia (BI, the central bank) will raise interest rates in late 2010 to contain inflationary pressures. It is unlikely to expand recently imposed capital controls aimed at slowing the appreciation of the rupiah.
  - The fiscal deficit will narrow slightly in 2010-11, to an average of 1.5% of GDP, from 1.6% in 2009, partly owing to the inability of the civil service to disburse in full the sums allocated to it for capital expenditure.
  - The Economist Intelligence Unit expects real GDP to expand by 5.9% in 2010 by 6% in 2011. Economic growth will be driven mainly by private consumption and investment.
  - We expect the current account to record an average surplus equivalent to 1.7% of GDP in 2010-11. The income account will remain in deficit, owing to the repatriation of earnings by foreign-owned companies.
- Monthly review**
- One-quarter of the current government's ministers are poor performers, according to an assessment by the Presidential Delivery Unit (UKP4), but Mr Yudhoyono has no immediate plans to reshuffle his cabinet.
  - Far-reaching corruption in the national police has been exposed by a series of recent scandals involving bribery, intimidation and the fabrication of evidence. Such practices continue to undermine the rule of law.
  - In July the US defence secretary, Robert Gates, announced the resumption of US co-operation with the Indonesian army's special forces (Kopassus), in a move that has been criticised by international human rights organisations.
  - The government recorded a fiscal surplus of Rp47.9trn (US\$5.3bn) in the first half of 2010, according to the finance minister, Agus Martowardojo, who now expects to a full-year deficit equivalent to only 1.5% of GDP.
  - The economy accelerated in the second quarter of 2010, with real GDP expanding by 6.2% year on year, according to Statistics Indonesia. Growth was driven by strong consumer demand and rising investment.
  - Measures introduced by BI in early June to reduce short-term foreign capital flows have led to a move towards longer-dated government paper.

# Outlook for 2010-11

## Political outlook

**Domestic politics** After receiving 60.8% of the vote in the July 2009 presidential election, the president, Susilo Bambang Yudhoyono, retains the goodwill of voters as a result of his success in guiding the country through the 2008-09 global financial crisis. However, his shaky support in parliament is likely to harm his government's performance during his second term. His Democratic Party (PD) performed impressively in the April 2009 legislative election, becoming the largest party in the House of People's Representatives (DPR, the legislature), but the president still requires the support of other, frequently unco-operative, parties to pass legislation. Faced with these circumstances, Mr Yudhoyono has followed his natural impulse to rule by consensus, building a six-party coalition government that controls two-thirds of the seats in the DPR. But there are strong indications that Mr Yudhoyono's current coalition government will be even less effective than his first, owing to the conflicting stances of its various component 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 bailed out by the authorities in late 2008. Opponents of the two most prominent reformers in the cabinet, the vice-president, Boediono, and the finance minister at the time, Sri Mulyani Indrawati, used this as an opportunity to try to force them out of their posts. At the time of the bail-out, Boediono was the governor of Bank Indonesia (BI, the central bank), meaning that he and Ms Mulyani were jointly responsible for the decision to save the bank. A parliamentary enquiry did not assign any blame to the pair for the corrupt practices that caused the cost of the bail-out to balloon to ten times the amount approved by the DPR, but the incident highlighted the considerable degree of opposition to the reform process that exists in the legislature.

Mr Yudhoyono's failure to support Ms Mulyani in the face of resistance to her reform efforts has weakened his authority. Despite being absolved of blame over the bail-out, Ms Mulyani resigned from the government in May 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 two major coalition partners, Golkar and the Prosperous Justice Party (PKS). Such speculation was heightened by the appointment, soon after Ms Mulyani's resignation, of the Golkar party chairman, Aburizal Bakrie, as managing chairman of the governing coalition. Mr Bakrie, one of the country's richest *pribumi* (ethnic-Indonesian) businessmen, had been Ms Mulyani's main opponent. Rivalry between the two had escalated amid the global credit crunch 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 when she also began investigating alleged tax evasion by mining firms owned by the Bakrie family.

Some commentators have argued that Ms Mulyani's resignation will improve the stability of the coalition by ending the bitter in-fighting between two of the country's most powerful figures. But the Economist Intelligence Unit is less sanguine. Mr Bakrie and Golkar may become less confrontational now that Ms Mulyani has gone. But if, for the sake of coalition unity, the government abandons its efforts to hold vested interests to account, the prospects for the strengthening of democracy and an improvement in standards of governance in Indonesia will darken. However, it is not certain that Mr Yudhoyono, his new finance minister, Agus Martowardojo, and other leading reformers in the government will abandon their attempts to create a political culture that does not favour the elite. If they do continue to confront vested interests, then it may be only a matter of time before another conflict erupts within the ruling coalition.

**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. There will be intermittent disputes with Malaysia and Singapore over a wide range of long-standing issues. Indonesia will take the chair of the Association of South-East Asian Nations (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 resignation of Ms Mulyani has deprived the government of its most capable minister and has raised doubts about how committed to reform the president really is. The anti-corruption drive will continue, but it will face continuous opposition from powerful groups that stand to lose out. Several changes, including comprehensive reform of the country's restrictive labour laws, may prove not to be feasible. Reform of the inefficient civil service, which was cited by Mr Yudhoyono as a priority for his second term, may be postponed. In early June BI introduced restrictions on foreign purchases of short-term central bank bonds, arguing that recent inflows of short-term foreign investment were putting the stability of Indonesia's currency, the rupiah, at risk because of the potential for a sudden reversal of investor sentiment. However, the authorities remain eager to attract long-term investment into the country, and it is unlikely that further restrictions will be put in place.

As a consequence of the inability of the civil service to spend in full the funds allocated to it, the government usually fails to operate a countercyclical fiscal policy effectively and macroeconomic management has to be conducted primarily by means of monetary policy. BI will raise interest rates in 2010-11 as it looks to contain the inflationary pressures generated by accelerating economic growth. The government had expected to record a larger fiscal deficit in 2010 than in 2009, mainly as a result of a higher energy subsidies, which rise

and fall in line with movements in global oil prices, but in late July Mr Martowardoyo said 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 slightly relative to GDP in 2010, to 1.5%, from 1.6% in 2009. Although in May the DPR revised up the projected cost of energy subsidies this year by 35%, to Rp143.8trn (US\$13.8bn), in early July Mr Martowardoyo told the DPR's budget committee that the government had recorded a surplus of Rp47.9trn in the first half of the year, partly owing to a 44.2% year-on-year rise in revenue but mainly because of underspending on capital projects. The civil service's inability to spend in full the sums allocated to it will continue to constrain capital expenditure, and in 2011 we expect the fiscal deficit to narrow further, to 1.4% of GDP. Despite these problems, a further decline in the ratio of public debt to GDP could lead Indonesia's sovereign debt to be upgraded to investment grade in the forecast period. 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 begin to tighten monetary policy by raising its main interest rate, the BI rate, from its current level of 6.5%—the rate's lowest level since it was introduced in 2005. However, BI will proceed cautiously and will hold rates steady until late 2010. Inflation remains near the middle of the central bank's 4-6% target range, and BI will be fearful of the effect of interest rate increases on capital inflows, given that global interest rates are likely to remain low. Monetary tightening is expected to continue in 2011, when the BI rate will average 7.5%.

## Economic forecast

### International assumptions

#### International assumptions summary

(% unless otherwise indicated)

	2008	2009	2010	2011
<b>Real GDP growth</b>				
World	2.8	-0.7	4.2	3.6
OECD	0.6	-3.3	2.5	1.7
China	9.6	9.1	9.9	8.3
EU27	0.9	-4.2	0.8	1.1
<b>Exchange rates</b>				
¥:US\$	103.4	93.7	92.6	93.0
US\$:€	1.47	1.39	1.26	1.19
SDR:US\$	0.63	0.65	0.67	0.69
<b>Financial indicators</b>				
€ 3-month interbank rate	4.6	1.2	0.8	0.9
US\$ 3-month Libor	2.9	0.7	0.6	0.8
<b>Commodity prices</b>				
Oil (Brent; US\$/b)	97.7	61.9	80.0	78.5
Gold (US\$/troy oz)	871.8	973.0	1,187.3	1,242.5
Food, feedstuffs & beverages (% change in US\$ terms)	28.3	-20.4	-3.4	0.0
Industrial raw materials (% change in US\$ terms)	-5.1	-25.6	33.7	5.1

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.



Following a period in which a rapid rebound occurred from nadir of the global economic recession, leading indicators continue to point to a softening of growth in the developed world. However, we do not expect any of the large developed economies to slip back into full-blown recession in the short term. Our forecast for global GDP growth therefore broadly remains unchanged. In 2010 the world economy measured at market exchange rates will expand by 3.2%, while at purchasing power parity (PPP) rates it will grow by 4.2%. Global growth will slow in 2011, to 2.6% at market rates and 3.6% at PPP. In 2010-11 prices for Indonesia's exports of industrial raw materials will rise, following large declines in 2008-09.

## Economic growth

### Gross domestic product by expenditure

(Rp bn at constant 2000 prices where series are indicated; otherwise % change year on year)

	2008 <sup>a</sup>	2009 <sup>a</sup>	2010 <sup>b</sup>	2011 <sup>b</sup>
Private consumption	1,191,191	1,249,011	1,307,860	1,376,882
	5.3	4.9	4.7	5.3
Public consumption	169,297	195,908	197,786	210,392
	10.4	15.7	1.0	6.4
Gross fixed investment	493,717	510,118	552,109	600,513
	11.9	3.3	8.2	8.8
<b>Final domestic demand</b>	<b>1,854,205</b>	<b>1,955,037</b>	<b>2,057,756</b>	<b>2,187,787</b>
	7.5	5.4	5.3	6.3
Stockbuilding	2,170	-474	9,122	2,800
	0.1 <sup>c</sup>	-0.1 <sup>c</sup>	0.4 <sup>c</sup>	-0.3 <sup>c</sup>
<b>Total domestic demand</b>	<b>1,856,375</b>	<b>1,954,563</b>	<b>2,066,878</b>	<b>2,190,587</b>
	7.6	5.3	5.7	6.0
Exports of goods & services	1,032,278	932,124	1,036,100	1,117,665
	9.5	-9.7	11.2	7.9
Imports of goods & services	833,342	708,587	803,616	871,684
	10.0	-15.0	13.4	8.5
<b>Foreign balance</b>	<b>198,936</b>	<b>223,537</b>	<b>232,484</b>	<b>245,980</b>
	0.7 <sup>c</sup>	1.2 <sup>c</sup>	0.4 <sup>c</sup>	0.6 <sup>c</sup>
<b>GDP</b>	<b>2,082,316</b>	<b>2,176,976</b>	<b>2,305,733</b>	<b>2,442,939</b>
	6.0	4.5	5.9	6.0

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Contribution to real GDP growth (as a percentage of real GDP in the previous year).

Indonesia proved to be less exposed to the global recession than many of its neighbours, largely because exports account for a relatively small proportion of its GDP. In 2009 real GDP grew by 4.5%, making Indonesia one of the world's best-performing large economies. Growth has accelerated this year, with real GDP expanding by 6.2% year on year in the second quarter of 2010, the fastest pace since the third quarter of 2008. As a result, we have revised up our growth forecast for 2010 to 5.9%, from 5.6% previously. In 2011 the economy will expand by 6%. Private consumption will remain a major driver of economic expansion in the forecast period, growing by an average of 5% a year in 2010-11 as employment growth accelerates and real wage increases pick up. Fixed investment will expand by an average of 8.5% annually in 2010-11, as companies revive investment plans that were postponed in early 2009 owing to the difficulty of obtaining financing and uncertain demand conditions at that time. Export growth will be strong in 2010, driven largely by healthy demand from China for Indonesia's commodity exports, but the scale of the collapse in

exports in 2009 means that in real terms the value of exports this year will only narrowly exceed its 2008 level. Owing to a recovery in import demand, the external sector will make only a small contribution to GDP growth in 2010-11.

Downside risks to our forecast still exist but have receded considerably in the past year or so. The most serious concern is the possibility that fiscal austerity programmes in Western economies may lead to a sharper slowdown in global growth than we currently expect. As the public finances in many countries have deteriorated dramatically, an increasing number of nations will look to tighten fiscal policy in order to guard against sovereign payment crises. Loose monetary policy in Western economies has led to heavy inflows of capital into Asian countries, creating fears that asset price bubbles could develop. 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 was a recipient of strong flows of foreign finance in 2009 and the first half of 2010, and it will continue to attract large inflows in the latter part of this year and 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 improving the country's dilapidated infrastructure.

**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 its sharp fall in late 2008 has helped to limit imported inflation. The strength of the rupiah will continue to contain price pressures in 2010. However, the average rate of consumer price inflation is still expected to accelerate to 5.4% this year as domestic prices respond to an increase in oil and non-oil commodity prices relative to their 2009 levels. 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 7.1% in 2011. The greatest risk to our forecast is that high global oil prices might force the government to raise administered fuel prices in order to keep the budget deficit under control.

**Exchange rates** Apart from a blip in May, caused by a rise in risk aversion on the part of global investors as the sovereign debt crisis in Europe unfolded, the rupiah has followed an appreciating trend against the US dollar since March 2009, and the currency was trading at around Rp8,980:US\$1 in mid-August 2010. Interest from international investors in carry trades (whereby speculators borrow in countries where interest rates are low, such as the US and Japan, to purchase assets in countries with high rates, such as Indonesia) have been an important factor in the local currency's appreciation. Healthy domestic economic growth in spite of the global recession has also encouraged foreign investment in Indonesian assets. Large capital inflows are expected in 2010-11, when Indonesian GDP growth will compare favourably with that of Western economies, but BI will intervene to prevent the currency from appreciating too sharply. We expect

the rupiah to strengthen by 13.4% on an annual average basis in 2010, to Rp9,162:US\$1, and to appreciate further in 2011, to Rp9,039:US\$1.

**External sector** Merchandise exports fell sharply in 2009, owing to lower external demand and weaker prices for most of the commodities that Indonesia sells abroad. However, lower global oil prices, together with a contraction in domestic investment, meant that there was also a fall in the import bill. The trade surplus therefore grew in 2009, to reach US\$35.1bn. A recovery in exports, led by commodities, should allow the trade surplus to expand further in 2010-11, despite the higher expected cost of imported oil in the two-year period. The deficit on the income account will widen in 2010-11, as a rebound in corporate profits leads to greater repatriation of earnings by foreign-owned companies while Indonesian investments abroad continue to earn relatively low returns. We expect the current account to record an annual average surplus equivalent to 1.7% of GDP in 2010-11.

#### Forecast summary

(% unless otherwise indicated)

	2008 <sup>a</sup>	2009 <sup>a</sup>	2010 <sup>b</sup>	2011 <sup>b</sup>
Real GDP growth	6.0	4.5	5.9	6.0
Industrial production growth	3.0	1.5	4.0	3.5
Gross agricultural production growth	4.9	4.1	3.5	3.8
Unemployment rate (av)	8.4	8.1	7.1	6.7
Consumer price inflation (av)	9.9	4.8	5.4	7.1
Consumer price inflation (year-end)	11.1	2.8	7.6	5.6
Money market interest rate	8.5	7.2	6.5	7.5
Government balance (% of GDP)	-0.6	-1.6	-1.5	-1.4
Exports of goods fob (US\$ bn)	139.6	119.5	145.0	161.2
Imports of goods fob (US\$ bn)	116.7	84.3	107.9	121.3
Current-account balance (US\$ bn)	0.1	10.7	10.9	13.6
Current-account balance (% of GDP)	0.0	2.0	1.6	1.7
External debt (year-end; US\$ bn)	150.9	156.7 <sup>c</sup>	152.3	150.8
Exchange rate Rp:US\$ (av)	9,699	10,390	9,162	9,039
Exchange rate Rp:¥100 (av)	9,383	11,088	9,893	9,719
Exchange rate Rp:€ (year-end)	15,222	13,472	10,875	10,764
Exchange rate Rp:SDR (year-end)	16,466	14,822	13,228	13,161

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

## Monthly review: August 2010

### The political scene

#### Ministerial accountability is enhanced

In July the Presidential Delivery Unit (UKP4), which is led by a respected former minister, Kuntoro Mangkusubroto, completed an annual evaluation of ministers' performance. His report found that one-quarter of the 45 cabinet ministers and heads of state institutions assessed were poor performers. Although they were not all named publicly, Mr Mangkusubroto revealed that the justice and human rights minister, Patrialis Akbar of the National Mandate Party (PAN), the communications and information technology minister, Tifatul Sembiring of the Prosperous Justice Party (PKS), and the public works minister, Djoko Kirmanto, who has no direct party affiliation, were among those whose performance was unacceptably poor.

The evaluation forms part of ongoing efforts aimed at increasing the accountability of those holding high offices of state and ensuring that the president's national programmes are implemented. The evaluation took into account 14 priority policy areas, including bureaucratic reform, good governance, poverty alleviation, food security, infrastructure, the business and investment climate, energy and the environment. Although many have called for the president to replace the poorly performing ministers, Mr Yudhoyono does not appear to have any immediate plans to reshuffle his cabinet.

#### Corruption in the police is exposed

A recent series of scandals has exposed the extent of corruption in the police force in Indonesia and the way in which graft continues to pervert the course of justice and undermine the rule of law. Instances of bribery, intimidation and fabrication of evidence have all been documented in recent months. Meanwhile, bank accounts linked to senior police officers have been discovered to hold millions of US dollars in suspected proceeds from corruption. But there are no signs so far of the police being held to account. Greater transparency and freer reporting of the problem in the local media may eventually translate into high-level political support for police reform. For now, however, vested interests within the police are successfully resisting calls for greater accountability.

#### Police corruption in Indonesia

**Fabrication of evidence:** In 2009, when the Anti-Corruption Commission (KPK) obtained evidence that Indonesia's chief detective, Commissioner-General Susno Duadji, had asked for a US\$18m bribe to facilitate the settlement of a banking case, Mr Duadji conspired with corruption suspects to fabricate evidence of graft that implicated two KPK commissioners, seriously damaging the body's ability to operate effectively.

**Conspiracy to pervert the course of justice:** The case of Gayus Tambunan, a former official at the Directorate-General of Taxation in the Ministry of Finance, who has recently been convicted of corruption, revealed how bribery is used to pervert the course of justice. Mr Tambunan was acquitted on charges of corruption and money-laundering in March, but was subsequently rearrested and retried following a media-led public outcry. In evidence given ahead of his second trial, Mr Tambunan

revealed that he had bribed police officers, prosecutors and judges to acquit him, as part of a wider conspiracy to defraud the Indonesian state of tax revenue.

**Whistle-blowing:** Corruption in Mr Tambunan's case came to light after a tip-off from Mr Duadji, who accused senior officers of accepting bribes worth billions of rupiah to clear the tax official. Mr Duadji's motives for blowing the whistle on his colleagues remain unclear. Regardless, rather than acting on his evidence, police detained Mr Duadji and are pressing their own charges of bribery against him.

**Suspicious financial transactions:** The Financial Transactions Analysis Unit (PPATK, Indonesia's financial crimes watchdog) informed the House of Representatives (DPR, the legislature) in May that it had uncovered evidence of suspicious transactions involving at least 20 senior police officers. Many of the transactions were carried out in 2005.

**Intimidation of the media:** Indonesia's leading newsweekly, *Tempo*, reported the PPATK's findings on suspicious financial transactions in late June. The first print run of the Indonesian edition was purchased in mysterious circumstances directly from wholesalers before it could be distributed, in what many suspect to have been a bungled attempt by police to suppress the story. A second print run was then distributed normally, with the story breaking as a media sensation. Police responded by filing defamation charges against *Tempo*. These were replaced by charges under the 1999 press law following the intervention of the president, Susilo Bambang Yudhoyono, and the parties eventually settled their dispute through mediation. However, petrol bombs were thrown at *Tempo*'s offices on July 6th.

**Attacks on anti-corruption activists:** Tama Satrya Langkun, a researcher for Indonesia Corruption Watch (ICW, a local non-governmental organisation), was attacked and badly injured on July 7th by four unidentified assailants. Mr Langkun was working on an ICW project investigating the police. A joint fact-finding team composed of representatives from the police and civil society has been established to investigate the assault, but police have yet to identify any suspects. Human rights groups have accused the police of dragging their feet.

**Internal cover-ups:** All these cases of wrongdoing have been stonewalled by the police. Mr Duadji was not punished for his attempt to frame the KPK, but was eventually transferred away from his powerful position to a less influential role in the national police headquarters (although this did not happen until some time after his wrongdoing had been exposed). Only two junior officers have been charged for their roles in the conspiracy to acquit Mr Tambunan, and senior officers suspected of involvement have been absolved by an internal police investigation. The chief of police, General Bambang Hendarso Danuri, has denied any wrongdoing in relation to the suspicious financial transfers identified by the PPATK, pre-empting the findings of any investigation that may take place. No suspects have been identified for the petrol bombing of the *Tempo* offices or the attack on Mr Langkun. The conflicts of interest arising when the police investigate corruption-related crimes involving its own officers are clear for all to see.

### **The military is assigned a role in a new anti-terrorism agency**

In July the government established a new National Anti-terror Agency (BNPT) consisting of members of the Co-ordinating Ministry for Political, Legal and Security Affairs, the police, the military and the intelligence service (BIN). Previously the fight against terrorism had been led by a US-trained police unit, Densus 88, which won international plaudits for its success in disrupting the activities of terrorist groups in Indonesia, including Jemaah Islamiah (a once

extensive regional Islamist organisation that has, however, now disavowed violent jihad). According to the government, placing the various agencies involved under a single, unified command will increase their effectiveness. A retired police officer, Ansyad Mbai, will head the BNPT temporarily until a permanent appointment is made.

The International Crisis Group (ICG), a Brussels-based conflict-resolution organisation, has warned that military involvement in the newly created agency risks provoking competition with the police and thus compromising the effectiveness of Indonesia's counter-terrorism operations. The ICG has also stressed the importance of placing the new agency under civilian leadership, and has warned against the risks of pursuing domestic terrorists through military-style operations that may disregard human rights and civilian safety. Meanwhile, at least one local human rights group, Imparsial, has expressed concern that the new agency will exploit the vaguely worded 2003 anti-terrorism law to pursue peaceful opposition groups.

### **The US resumes co-operation with Indonesia's special forces**

In July the US government announced that it would resume co-operation with the Indonesian army's special forces (Kopassus), highlighting the unit's improved record on human rights in recent years, and emphasising the need of the US to strengthen its alliances in South-east Asia and ensure that Indonesia remains an ally in the fight against terrorism. All US military ties with Indonesia were severed in 1999 in reaction to concerns about human rights violations in Timor-Leste. Although US links with other parts of Indonesia's military were restored in 2005, the ban on co-operation with Kopassus was kept in place, owing to the unit's involvement in serious human rights abuses, including the kidnap and presumed murder of student activists in the capital, Jakarta, in 1997-98 and wide-ranging abuses in Timor-Leste, Aceh and Papua.

Indonesia is thought to have fulfilled a number of conditions prior to the lifting of the ban, including transferring those convicted of human rights abuses out of Kopassus's ranks. Announcing the restoration of links, the US defence secretary, Robert Gates, said that a measured and gradual programme of security co-operation would soon commence, but that the further strengthening of ties would depend on the continued implementation of reforms to the military and Kopassus. Indonesia had been lobbying for the resumption of co-operation for some time prior to the announcement. Human Rights Watch, a US-based non-governmental organisation, criticised the move, saying that many individuals suspected of committing human rights abuse continued to serve in Kopassus.

## **Economic policy**

### **The government records a budget surplus**

The government recorded a budget surplus of Rp47.9trn (US\$5.3bn) in the first half of 2010, according to the finance minister, Agus Martowardoyo. As a result, Mr Martowardoyo said, he now expects the deficit for the year as a whole to stand at only Rp95.1trn, equivalent to 1.5% of GDP, compared with the target set in the budget of Rp132.2trn, or 2.1% of GDP. The surplus in January-June was the result of unexpectedly strong tax revenue and lower capital expenditure than planned. Delays in public spending are a persistent problem in Indonesia,

resulting in inefficient expenditure and a shortage of investment to upgrade infrastructure and improve public services. Only 35.1% of the total expenditure planned for 2010 was carried out in the first half of the year, Mr Martowardoyo said, with most realised spending consisting of civil service salaries, subsidies and other routine costs. Mr Martowardoyo attributed the shortfall in capital spending to poor project preparation by government officials, regulatory hurdles and problems acquiring land for infrastructure projects. He also said that new requirements for tenders had resulted in lengthy delays to projects.

The government originally expected to borrow Rp178trn to finance its budget deficit this year, but the forecast of a smaller deficit suggests that this target will now be lowered by around Rp37trn. Domestic bond issuance will probably be sufficient to cover the budget deficit in 2010, and the government may therefore now cancel its plans to sell international Islamic bonds, known as *sukuk*, as well as Japanese yen-denominated Samurai bonds.

Meanwhile, the government has postponed plans to restrict the supply of subsidised fuel until 2011. Restrictions were to have been introduced from September in an attempt to curb wasteful budget spending on ill-targeted fuel subsidies. Consumption of subsidised petrol is forecast to rise to 23.2bn litres in 2010, above the budgeted volume of 21.4bn litres, while consumption of subsidised diesel is expected to rise to 13.1bn litres, compared with the budget forecast of 11.2bn litres. Without measures to restrict supply, excessive consumption of subsidised fuels means that the allocation of Rp57.5trn for fuel subsidies in the 2010 budget will be insufficient and that additional funds will have to be made available, diverting resources away from other, more pressing needs.

### **Interest rates remain on hold despite rising inflation**

On August 4th Bank Indonesia (BI, the central bank) left its main interest rate, the BI rate, unchanged at the record-low level of 6.5% despite an increase in inflation. Consumer prices were up by a 15-month high of 6.2% year on year in July, above the upper limit of the central bank's 4-6% target for annual average inflation. Expectations of further price rises in August and September owing to the Ramadan fasting month and the Idul Fitri holiday have led to speculation that the bank may soon begin to tighten monetary policy. In a statement, BI's board of governors said it was taking "careful note" of higher inflation, but that core inflation, which excludes food and energy prices, remained at "modest levels". Core inflation stood at 4.2% year on year in July.

The decision on when to raise interest rates will ultimately rest with Darmin Nasution, who in late July was confirmed as BI governor after a hearing at the House of People's Representatives (DPR). Mr Nasution was Mr Yudhoyono's sole nominee for the post, but he was subjected to a difficult, two-day confirmation hearing by legislators, some of whom had threatened to block his appointment, highlighting continued tensions between the executive and some DPR members. Mr Nasution has served as BI's acting governor since May 2009, when his predecessor, Boediono, resigned to stand for election as Mr Yudhoyono's vice-presidential running-mate.

Mr Nasution is an experienced economic policymaker with a record as a reformer. He previously served as chairman of the capital market regulator,

Bapepam, and as director-general of taxation in the Ministry of Finance. In the latter position, which he held in 2006-09, he implemented far-reaching reforms that led to an expansion in the tax base, working closely with the reform-minded finance minister at the time, Sri Mulyani Indrawati. His governorship of BI will assist with a drive to strengthen supervision of commercial banks, and also to improve governance at the central bank in the aftermath of a number of corruption scandals that have tarnished its reputation and damaged its credibility.

## Economic performance

### Economic growth accelerates in the second quarter of 2010

Economic growth accelerated in the second quarter of 2010, according to Statistics Indonesia (BPS), with real GDP expanding by 6.2% year on year, its fastest pace since the third quarter of 2008. Growth was driven by strong consumer demand and rising investment. Private consumption rose by 5% year on year and contributed 2.8 percentage points to GDP growth, while gross fixed capital formation was up by 8% and made a 1.8-percentage-point contribution to growth. Stockbuilding contributed 0.5 points to GDP growth as inventories rose for the second quarter in a row. By contrast, public consumption contracted by 9% year on year, making a negative growth contribution of 0.8 percentage points. The poor performance of public consumption reflected persistent problems with public spending: expenditure of funds from the government budget has lagged behind the level of spending achieved in 2009. This has happened despite a series of reforms aimed at addressing the problem, which impedes much-needed investment in infrastructure and services. Exports of goods and services rose by 14.6% year on year, while imports were up by 17.7%, reflecting weakness in Indonesia's main external markets, a strengthening rupiah and strong demand domestically from consumers and manufacturing industry. Net exports contributed 0.4 percentage points to GDP growth in the second quarter of 2010.

### Gross domestic product by expenditure

(constant 2000 prices; % change; year on year unless otherwise indicated)

	2008	2009	2009			2010		
			2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	2 Qtr <sup>a</sup>
Private consumption	5.3	4.9	4.8	4.7	4.0	3.9	5.0	1.2
Public consumption	10.4	15.7	17.0	10.3	17.0	-8.8	-9.0	23.5
Gross fixed investment	11.9	3.3	2.4	3.2	4.2	7.8	8.0	2.3
Exports of goods & services	9.5	-9.7	-15.5	-7.8	3.7	20.0	14.6	2.7
Imports of goods & services	10.0	-14.9	-21.0	-14.7	1.6	22.6	17.7	5.1
<b>GDP</b>	<b>6.0</b>	<b>4.6</b>	<b>4.1</b>	<b>4.2</b>	<b>5.4</b>	<b>5.7</b>	<b>6.2</b>	<b>2.8</b>

<sup>a</sup> Quarter on quarter.

Source: Statistics Indonesia (BPS).

All sectors of the economy recorded year-on-year growth in the second quarter. Agriculture expanded by 3.1%, manufacturing by 4.3% and trade, hotels and restaurants by 9.6%. These three sectors together accounted for more than one-half of real GDP growth in the second quarter.



### Gross domestic product by sector

(constant 2000 prices; % change; year on year unless otherwise indicated)

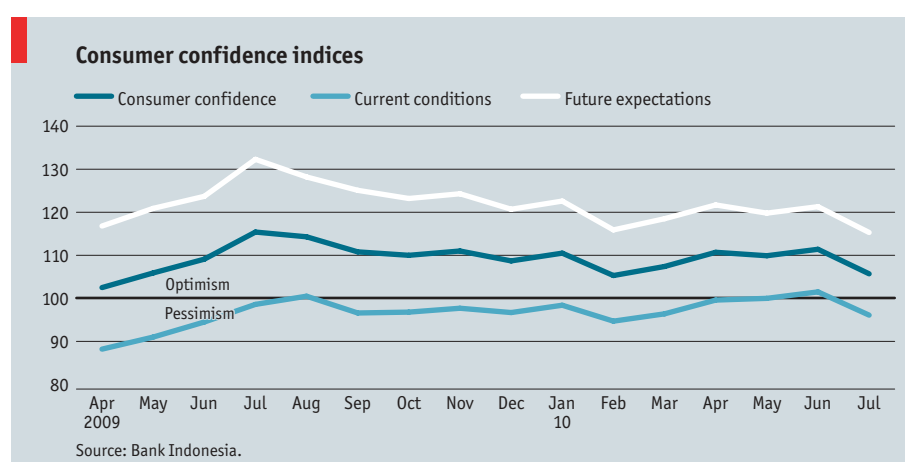
	2008	2009	2009			2010		
			2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	2 Qtr <sup>a</sup>
Agriculture	4.9	4.1	2.8	3.3	4.6	3.0	3.1	3.4
Mining & quarrying	0.6	4.4	3.4	6.2	5.2	3.5	3.8	2.3
Manufacturing	3.7	2.1	1.5	1.3	4.2	3.6	4.3	2.0
Electricity, gas & water	10.9	13.8	15.3	14.5	14.0	7.2	4.8	4.8
Construction	7.4	7.0	6.1	7.7	8.0	7.3	7.2	2.3
Trade, hotels & restaurants	7.4	1.1	0.0	-0.2	4.2	9.3	9.6	3.0
Transport & communications	16.6	15.5	17.0	16.5	12.2	11.9	12.9	5.0
Financial, ownership & business	8.2	5.0	5.3	4.9	3.8	5.5	6.1	1.3
Services	6.1	6.4	7.2	6.0	5.7	4.6	5.3	3.7
<b>GDP</b>	<b>6.0</b>	<b>4.6</b>	<b>4.1</b>	<b>4.2</b>	<b>5.4</b>	<b>5.7</b>	<b>6.2</b>	<b>2.8</b>
GDP (non-oil & gas)	6.5	4.9	4.5	4.5	5.9	6.2	6.6	2.9

<sup>a</sup> Quarter on quarter.

Source: Statistics Indonesia (BPS).

### A survey reveals a fall in consumer confidence

The majority of Indonesian consumers remains optimistic, but there are signs that confidence may be weakening, according to BI's latest survey of consumer expectations. The consumer-confidence index fell to 105.7 in July, down from the previous month's level of 111.4, to reach its lowest level since February. (An index reading of more than 100 implies that optimists outnumber pessimists.) The index of current economic conditions stood at 96.1, down from 101.4 in June, and more consumers expect the situation in six months' time to be worse than was the case in June, with the expectation index falling to 115.3 in July, from 121.3 in the previous month. According to BI, respondents to the survey, which is based on interviews with around 4,600 households in 18 cities, expressed concern about current and future personal income and employment conditions. The survey also revealed that respondents expected prices to be higher in three and six months' time, mainly owing to higher food costs. With a consumer-confidence reading of 133.5 in July, the most optimistic respondents came from Ambon, the capital of the eastern province of Maluku, while the most pessimistic respondents were those living in the Jakarta region, with a reading of 89.7.



**Inflation accelerates to a 15-month high**

Inflation accelerated in July, with consumer prices rising by 6.2% year on year in that month, compared with 5.1% in June, to record the fastest rate of annual inflation for 15 months. On a month-on-month basis consumer prices were up by 1.6%, compared with 1% in June. Higher food prices and an increase in the electricity tariffs charged by the state-owned electricity company, Perusahaan Listrik Negara (PLN), were the main reason for the higher rate of inflation. Food prices were up by 14.1% year on year and by 4.7% month on month in July as poor weather disrupted supplies. Utility prices rose by 2.4% year on year and 0.3% month on month, with PLN's higher electricity tariffs, which were introduced in early July, yet to feed through fully to the wider economy. The central bank and the government have said that they will work together to bring down food prices, and 500,000 tonnes of rice are to be released from the state reserve at below-market prices to damp down inflationary pressures. Inflationary pressures are nevertheless expected to continue rising in August and September. Shop-owners typically raise food prices during the Muslim fasting month of Ramadan, which began on August 10th, while prices for food, clothes and transport tend to rise sharply around the Idul Fitri holidays that mark the end of the month-long fast. Reacting to rising prices for food and other commodities, BI said in July that average inflation in 2010 might be above the upper limit of its 4-6% target range.

**Modest capital controls succeed in reducing volatility**

Measures introduced by BI in early June in an attempt to smooth flows of short-term foreign capital into and out of the country are showing some signs of success. Although by mid-August the rupiah had appreciated by around 1% against the US dollar since July 7th, when the authorities applied a new one-month minimum holding period to all BI promissory notes (SBIs) purchased on either the primary or secondary markets (thus discouraging the use of the instrument for short-term bets on movements in the rupiah's value), there has been a recent surge of foreign investment in longer-dated SBIs. Foreign holdings of six-month SBIs rose sharply in the first half of July, according to BI, as investors moved away from one-month paper. BI will introduce nine-month SBIs from August and 12-month SBIs from September. Meanwhile, Indonesia's main stockmarket indicator, the Jakarta Composite Index, rose to a record high of 3,096 points in late July, with foreign investors playing a major role in the market's rise.

# Data and charts

## Annual data and forecast

	2005 <sup>a</sup>	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>a</sup>	2010 <sup>b</sup>	2011 <sup>b</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	285.9	364.6	432.2	510.5	540.3	697.2	800.5
Nominal GDP (Rp trn)	2,774.3	3,339.2	3,950.9	4,951.4	5,613.4	6,387.7	7,235.4
Real GDP growth (%)	5.7	5.5	6.3	6.0	4.5	5.9	6.0
<b>Expenditure on GDP (% real change)</b>							
Private consumption	4.0	3.2	5.0	5.3	4.9	4.7	5.3
Government consumption	6.6	9.6	3.9	10.4	15.7	1.0	6.4
Gross fixed investment	10.9	2.6	9.3	11.9	3.3	8.2	8.8
Exports of goods & services	16.6	9.4	8.5	9.5	-9.7	11.2	7.9
Imports of goods & services	17.8	8.6	9.1	10.0	-15.0	13.4	8.5
<b>Origin of GDP (% real change)</b>							
Agriculture	2.7	3.4	3.4	4.9	4.1	3.5	3.8
Industry	4.7	4.5	4.7	3.7	3.5	4.0	4.1
Services	7.9	7.3	8.8	8.8	5.7	8.4	8.2
<b>Population and income</b>							
Population (m)	228.9	231.8	234.7	237.5	240.3	243.0	245.6
GDP per head (US\$ at PPP)	3,081	3,314 <sup>c</sup>	3,580 <sup>c</sup>	3,831 <sup>c</sup>	4,006 <sup>c</sup>	4,253	4,512
Recorded unemployment (av; %)	11.2	10.3	9.1	8.4	8.1	7.1	6.7
<b>Fiscal indicators (% of GDP)</b>							
Central government budget revenue	17.9	19.1	18.0	19.2	15.5	16.8	17.2
Central government budget expenditure	18.2	20.1	18.7	19.8	17.0	18.3	18.6
Central government budget balance	-0.4	-1.0	-0.7	-0.6	-1.6	-1.5	-1.4
Public debt	34.5 <sup>c</sup>	33.0 <sup>c</sup>	31.3 <sup>c</sup>	28.3 <sup>c</sup>	27.4 <sup>c</sup>	26.3	25.3
<b>Prices and financial indicators</b>							
Exchange rate Rp:US\$ (end-period)	9,830	9,020	9,419	10,950	9,400	9,100	9,046
Exchange rate Rp:¥100 (end-period)	8,335	7,579	8,432	12,061	10,099	9,733	9,726
Consumer prices (end-period; %)	17.1	6.6	5.8	11.1	2.8	7.6	5.6
Stock of money M1 (% change)	10.2	28.1	29.7	1.5	12.9 <sup>c</sup>	16.7	16.9
Stock of money M2 (% change)	16.4	14.9	19.3	15.0	13.0 <sup>c</sup>	18.7	18.5
Lending interest rate (av; %)	14.1	16.0	13.9	13.6	14.5	13.9	14.6
<b>Current account (US\$ m)</b>							
Trade balance	17,535	29,661	32,754	22,916	35,132	37,097	39,933
Goods: exports fob	86,995	103,528	118,014	139,606	119,481	145,004	161,203
Goods: imports fob	-69,463	-73,867	-85,259	-116,690	-84,348	-107,907	-121,270
Services balance	-9,123	-9,875	-11,842	-12,998	-14,108	-14,374	-14,078
Income balance	-12,926	-13,790	-15,524	-15,156	-15,140	-16,720	-17,092
Current transfers balance	4,792	4,863	5,103	5,364	4,860	4,876	4,878
Current-account balance	277	10,860	10,492	125	10,747	10,879	13,640
<b>External debt (US\$ m)</b>							
Debt stock	146,266	132,512	142,638	150,851	156,740 <sup>c</sup>	152,267	150,824
Debt service paid	16,553	28,479	22,805	22,150	23,208 <sup>c</sup>	22,958	22,253
Principal repayments	12,418	23,979	16,680	16,573	18,207 <sup>c</sup>	18,163	17,941
Interest	4,134	4,500	6,125	5,577	5,001 <sup>c</sup>	4,795	4,312
<b>International reserves (US\$ m)</b>							
Total international reserves	34,731	42,588	56,924	51,641	66,119	81,752	91,935

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Economist Intelligence Unit estimates.

Source: IMF, *International Financial Statistics*.

## Quarterly data

	2008		2009			2010		
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
<b>Output</b>								
GDP at constant 2000 prices (Rp trn)	538.6	519.3	528.1	540.4	561.0	547.5	558.1	n/a
Real GDP (% change, year on year)	6.2	5.3	4.5	4.1	4.2	5.4	5.7	n/a
Manufacturing at constant 2000 prices (Rp trn)	143.0	139.4	138.7	140.8	144.8	145.2	143.7	n/a
Manufacturing at constant 2000 prices (% change, year on year)	4.3	1.8	1.5	1.5	1.3	4.2	3.6	n/a
Mining at constant 2000 prices (Rp trn)	43.6	43.6	43.5	44.2	46.3	45.9	45.1	n/a
Mining at constant 2000 price (% change, year on year)	2.3	2.3	2.6	3.4	6.2	5.2	3.5	n/a
<b>Prices</b>								
Consumer prices (2002=100)	112.3	113.8	114.0	114.0	115.4	116.8	118.2	119.0
Consumer prices (% change, year on year)	12.0	11.4	8.6	5.6	2.8	2.6	3.7	4.4
Wholesale prices (2000=100)	173.7	166.3	160.0	161.7	164.0	165.0	167.3	169.7
<b>Financial indicators</b>								
Exchange rate Rp:US\$ (av)	9,222	11,060	11,631	10,509	9,966	9,454	9,271	n/a
Exchange rate Rp:US\$ (end-period)	9,378	10,950	11,575	10,225	9,681	9,400	9,115	n/a
Deposit rate (av; %)	8.56	10.72	11.04	9.67	8.69	7.71	7.13	n/a
Discount rate (end-period; %)	9.71	10.83	8.21	6.95	6.48	6.46	6.27	n/a
Lending rate (av; %)	13.50	15.01	15.10	14.67	14.31	13.91	13.66	n/a
3-month money market rate (av; %)	9.16	9.61	8.48	7.40	6.45	6.30	6.20	n/a
M1 (end-period; Rp trn)	479.7	456.7	448.0	482.6	n/a	n/a	n/a	n/a
M1 (% change, year on year)	19.9	1.5	9.3	6.5	n/a	n/a	n/a	n/a
M2 (end-period; Rp trn)	1,775	1,893	1,914	1,975	n/a	n/a	n/a	n/a
M2 (% change, year on year)	17.3	15.0	20.3	16.1	n/a	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)	1,833	1,355	1,434	2,027	2,468	2,534	2,777	2,914
Stockmarket index (% change, year on year)	-24.3	-57.5	-53.3	-22.2	30.4	117.8	145.9	n/a
<b>Sectoral trends</b>								
Manufacturing production (2000=100) <sup>a</sup>	130.9	126.6	124.6	127.5	131.0	132.9	129.6	n/a
Manufacturing production (% change, year on year) <sup>a</sup>	1.6	1.5	0.2	0.6	0.1	4.9	4.0	n/a
Crude oil production (m barrels/day) <sup>b</sup>	1.03	1.02	1.02	0.97	0.98	0.98	0.99	n/a
<b>Foreign trade (US\$ m)</b>								
Exports fob	37,272	29,352	22,975	27,044	30,071	36,366	35,537	36,985
Imports cif	-36,492	-27,556	-19,094	-22,284	-26,907	-28,545	-29,961	-32,929
Trade balance	780	1,796	3,882	4,761	3,163	7,822	5,576	4,056
<b>Foreign payments (US\$ m)</b>								
Merchandise trade balance	5,772	4,165	6,884	8,365	8,489	11,395	7,930	n/a
Services balance	-3,313	-3,227	-2,743	-3,311	-3,508	-4,546	-3,572	n/a
Income balance	-4,756	-2,881	-2,742	-3,776	-4,071	-4,551	-3,965	n/a
Net transfer payments	1,332	1,305	1,108	1,201	1,248	1,303	1,161	n/a
Current-account balance	-965	-638	2,507	2,479	2,158	3,601	1,554	n/a
Reserves excl gold (end-period)	55,020	49,597	52,663	55,381	59,978	63,563	69,223	n/a

<sup>a</sup> Large and medium-sized companies. <sup>b</sup> 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

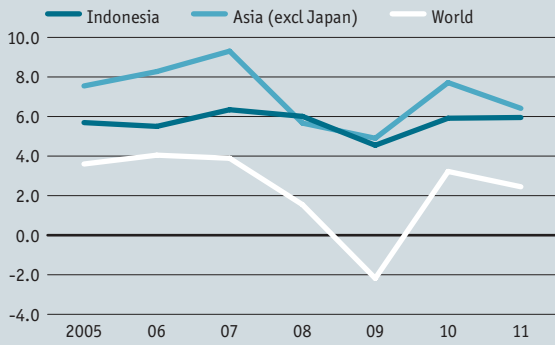
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate Rp:US\$ (av)</b>												
2008	9,395	9,164	9,185	9,212	9,300	9,284	9,145	9,149	9,373	10,100	11,836	11,244
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,817	9,446	9,460	9,458
2010	9,297	9,347	9,169	9,017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Exchange rate Rp:US\$ (end-period)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Real effective exchange rate (2000=100; CPI-based)</b>												
2008	119.16	122.88	121.33	121.57	123.58	133.42	136.13	139.23	137.91	132.41	115.13	115.37
2009	116.53	113.12	114.59	122.03	127.61	129.31	129.47	130.86	130.79	134.43	134.19	135.43
2010	139.39	140.39	142.33	144.19	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Money supply M1 (end-period; % change, year on year)</b>												
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
<b>Money supply M2 (end-period; % change, year on year)</b>												
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
<b>Deposit rate (av; %)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Lending rate (av; %)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Manufacturing production (av; % change, year on year)</b>												
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	4.3	3.1	4.7	4.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>JSE Composite stockmarket index (end-period; Aug 10th 1982=100)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Consumer prices (av; % change, year on year)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Producer prices (av; % change, year on year)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Goods exports fob (US\$ m)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Goods imports cif (US\$ m)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Trade balance fob-cif (US\$ m)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign-exchange reserves excl gold (end-period; US\$ m)</b>												
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

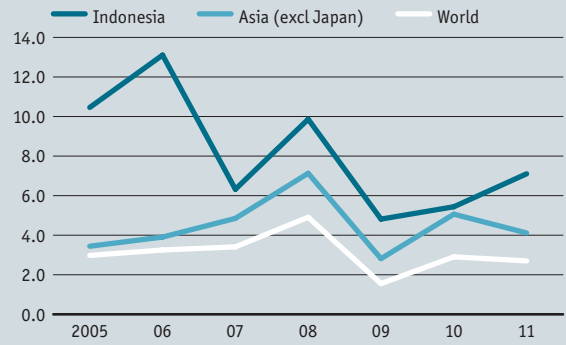
### Annual trends charts

**Real GDP growth**  
(% change)



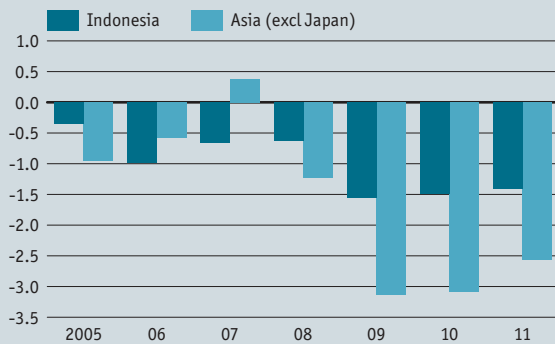
Source: Economist Intelligence Unit.

**Consumer price inflation**  
(av; %)



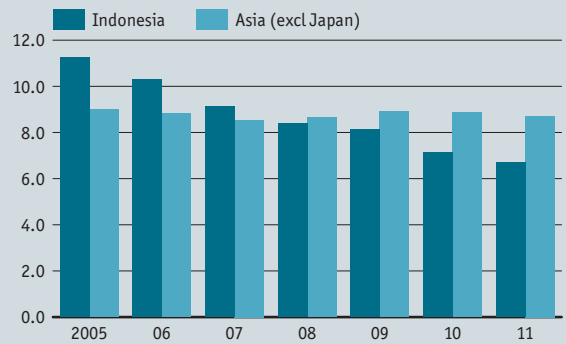
Source: Economist Intelligence Unit.

**Budget balance**  
(% of GDP)



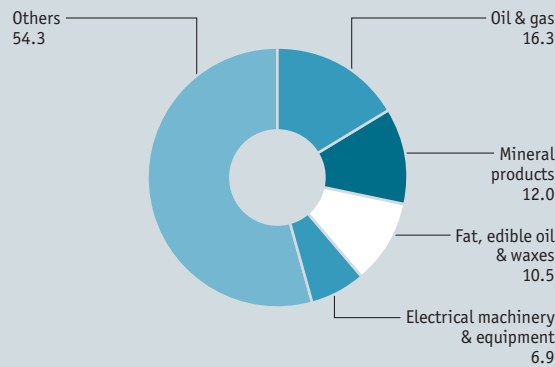
Source: Economist Intelligence Unit.

**Recorded unemployment**  
(%)



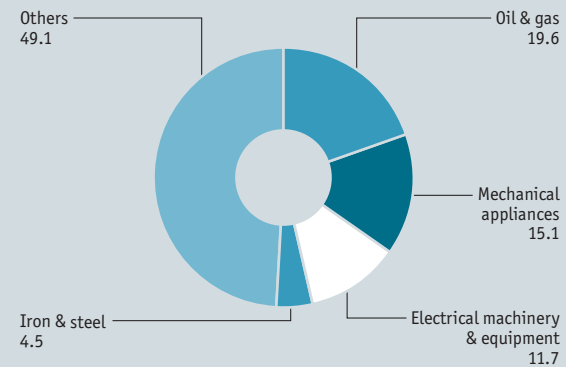
Source: Economist Intelligence Unit.

**Major exports, 2009**  
(% of total)



Source: Economist Intelligence Unit.

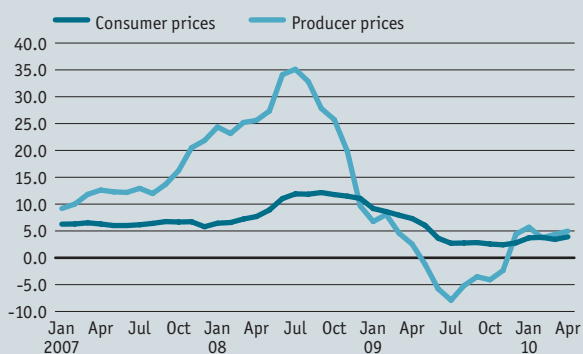
**Major imports, 2009**  
(% of total)



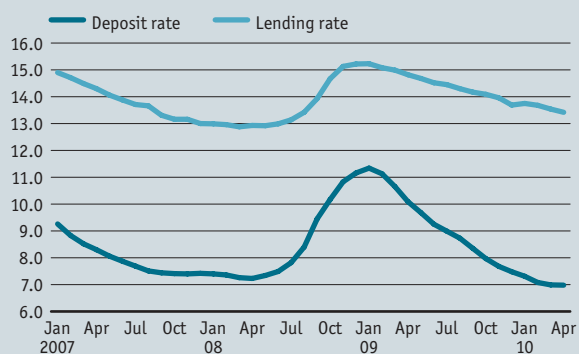
Source: Economist Intelligence Unit.

## Monthly trends charts

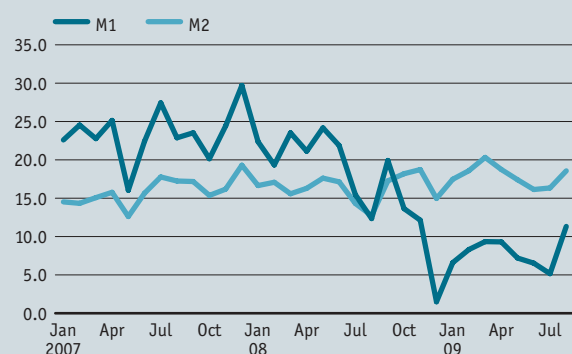
### Price inflation (% change, year on year)



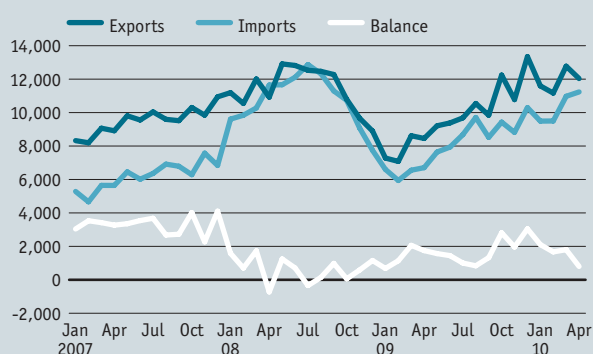
### Interest rates (av; %)



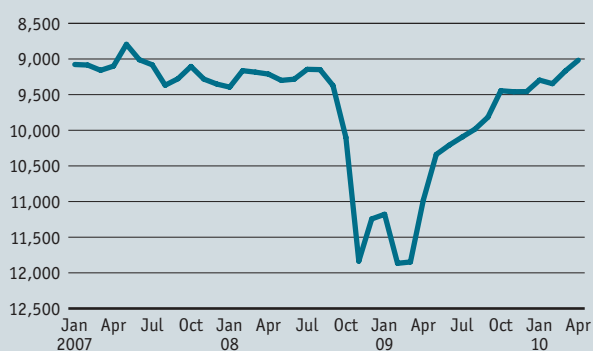
### Monetary aggregates (% change, year on year)



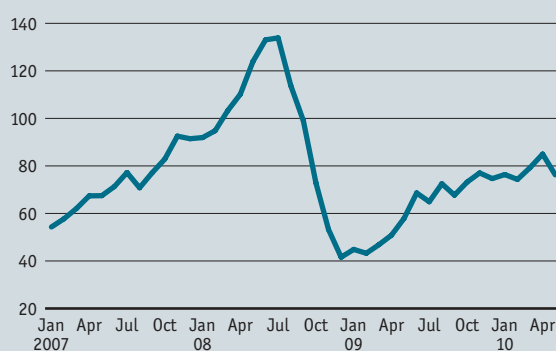
### Foreign trade (US\$ m; goods only)



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



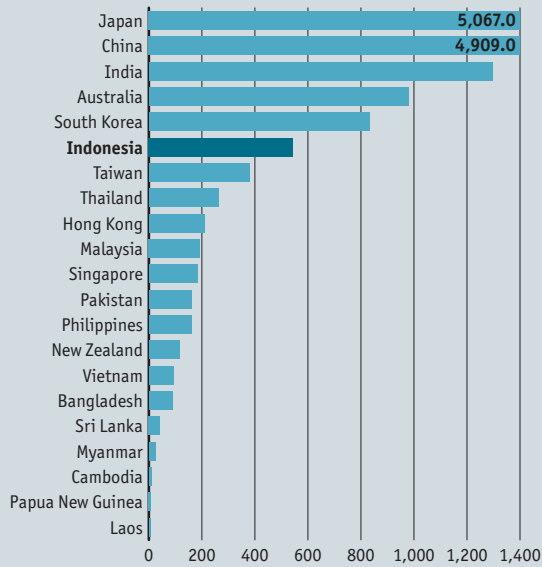
### Oil: Brent crude price (US\$/b; av)





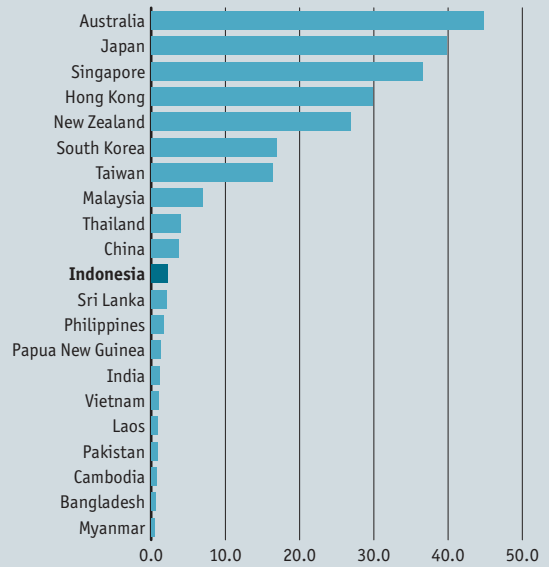
### Comparative economic indicators, 2009

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



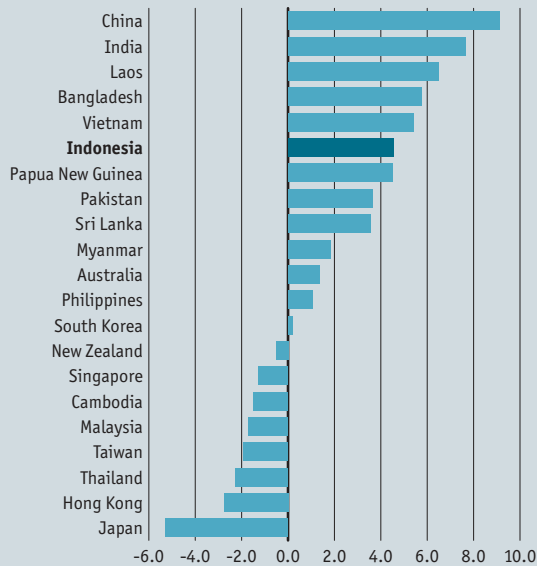
Sources: Economist Intelligence Unit estimates; national sources.

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



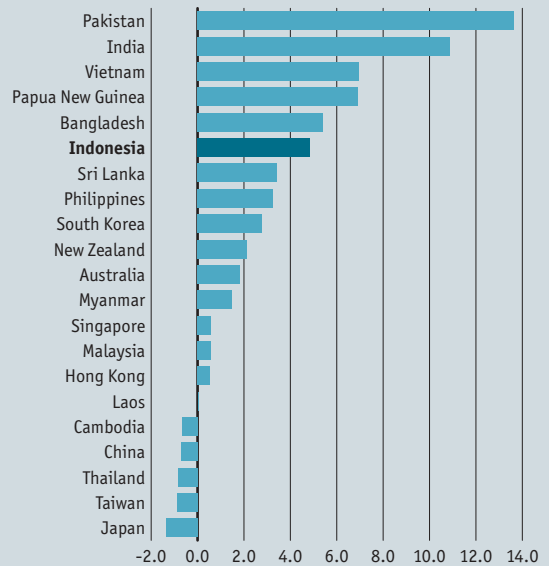
Sources: Economist Intelligence Unit estimates; national sources.

**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

<b>Land area</b>	1,904,443 sq km		
<b>Sea area (exclusive economic zone)</b>	3,166,163 sq km (before deductions for sea area now under the control of Timor-Leste)		
<b>Total area</b>	5,070,606 sq km		
<b>Population</b>	240m (US Census Bureau 2009 estimate)		
<b>Main towns</b>	Population in '000 (2000 census)		
	Jakarta (capital)	8,385	Medan 1,792
	Surabaya	2,589	Palembang 1,442
	Bandung	2,142	Semarang 1,345
<b>Climate</b>	Tropical		
<b>Weather in Jakarta (altitude 8 metres)</b>	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		
<b>Languages</b>	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		
<b>Measures</b>	Metric system		
<b>Currency</b>	Rupiah (Rp). Average exchange rate in 2009: Rp10,390:US\$1		
<b>Time</b>	Western Zone 7 hours ahead of GMT, Central Zone 8 hours ahead, Eastern Zone 9 hours ahead		
<b>Fiscal year</b>	January 1st-December 31st (since 2001)		
<b>Public holidays</b>	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

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