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## **Country Report**

# **Indonesia**

**November 2010**

Economist Intelligence Unit  
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United Kingdom

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ISSN 0269-5413

## **Symbols for tables**

"0 or 0.0" means nil or negligible; "n/a" means not available; "--" means not applicable

Printed and distributed by IntypeLibra, Units 3/4, Elm Grove Industrial Estate, Wimbledon, SW19 4HE

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# Indonesia

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# Executive summary

## Highlights

*November 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 in the forecast period, to the equivalent of 0.2% of GDP in 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 1.3% of GDP in 2011-15. The income account will remain in deficit, owing to the repatriation of earnings by foreign-owned companies.
- Monthly review**
- The first anniversary, on October 20th, of the start of Mr Yudhoyono's second term as president was marked by student-led protests in the capital, Jakarta. One person was injured as police opened fire.
  - The US president, Barack Obama, made a state visit to Indonesia on November 9th-10th. Mr Obama spent four years of his childhood in Jakarta, and the visit has cemented his popularity in his former country of residence.
  - The House of People's Representatives (DPR, the legislature) has approved the budget for 2011. The document projects an acceleration in economic growth to 6.4% next year, while the fiscal deficit is expected to widen to 1.8% of GDP.
  - Economic growth slowed in the third quarter of 2010, with real GDP expanding by 5.8% year on year, down from second-quarter growth of 6.2%, according to Statistics Indonesia (BPS).
  - Inflation slowed in October, with consumer prices rising by 5.7% year on year in that month, compared with 5.8% in September, according to the BPS.
  - Foreign investment in Indonesian equities and debt has risen to record levels, leading to heightened concerns about the impact on asset prices of further inflows of short-term capital.

# 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 in relation to 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 two major parties in his ruling coalition, Golkar and the Prosperous Justice Party (PKS). 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 darken. If, however,

Mr Yudhoyono, the new 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 pose occasional problems in central Sulawesi and, to a lesser extent, in the Maluku islands. Most importantly for foreign investors, the terrorist threat will remain high. 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 becoming 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 early November, Mr Obama praised Indonesia for its transition to democracy, based on the principle of “unity in diversity”, and called for 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 China and the Association of South-East Asian Nations (ASEAN) that took 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 wide 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 has 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 from powerful groups that stand to lose out. 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 purposes. If passed by the DPR, the new law 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 in full 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. BI will begin raising interest rates in late 2010 or early 2011 in an attempt to contain the inflationary pressures generated by accelerating 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, it is possible that restrictions on short-term flows will be tightened. The government had expected to record a larger fiscal deficit in 2010 than in 2009, mainly as a result of a higher energy subsidies (such subsidies rise and fall in line with movements in global oil prices). But in July Mr Martowardojo said that the deficit would be narrower 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 early 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% of GDP 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 further decline in the ratio of public debt to GDP could result in Indonesia's sovereign debt rating being upgraded 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 it was introduced in 2005). In September BI's board of governors initiated monetary tightening by raising 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 global interest rates are likely to remain low) have so far deterred the central bank from raising the BI rate, but strong economic growth will make higher interest rates essential in the coming period. However, given that consumer price inflation fell back within BI's 4-6% target range in September and October, it seems likely that the bank's governors will not increase rates until early 2011. Monetary tightening is then expected to continue during the remainder of next 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
<b>Economic growth (%)</b>						
US GDP	2.3	1.5	1.9	2.2	2.4	2.6
OECD GDP	2.4	1.6	1.9	2.1	2.3	2.1
World GDP	3.1	2.5	2.9	3.0	3.1	3.1
World trade	11.5	5.7	6.3	6.4	6.6	6.0
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	1.4	1.0	1.9	2.5	2.8	3.0
OECD CPI	1.2	1.1	1.6	2.0	2.2	2.3
Manufactures (measured in US\$)	2.3	-1.6	-0.5	1.2	1.7	2.0
Oil (Brent; US\$/b)	78.0	76.4	81.3	78.3	75.5	71.0
Non-oil commodities (measured in US\$)	18.4	5.3	-1.6	-0.7	2.4	0.9
<b>Financial variables</b>						
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	1.0	1.6	2.0	2.3
Exchange rate: ¥:US\$ (av)	88.2	87.8	86.8	86.0	86.0	85.4
Exchange rate: Rp:US\$ (av)	9,169	9,073	9,086	9,174	9,249	9,330
Exchange rate: US\$:€ (av)	1.30	1.19	1.15	1.14	1.14	1.15

### Economic growth

Indonesia's economy was affected less severely by the recent global recession than those of many of its neighbours, 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. 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 economic expansion in 2011-15, growing 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 the forecast period, supported in the early years of the period by the revival of investment plans that were postponed in early 2009, and then by strengthening demand conditions. Following strong growth in 2010, thanks largely to healthy demand from China for Indonesia's commodity exports, export growth will slow in 2011 in line with a weaker global economy. Exports will then expand by around 8% 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 they have diminished in the past year or so. The most serious concern is that fiscal austerity programmes in Western economies might lead to a sharper slowdown in global growth than we currently expect. Owing to the fact that the public finances in many countries have deteriorated dramatically, an increasing number of governments will 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 US Federal Reserve, 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 <sup>a</sup>	2011 <sup>b</sup>	2012 <sup>b</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>
GDP <sup>c</sup>	5.9	6.0	6.4	6.2	6.3	6.4
Private consumption	5.0	5.4	5.6	5.5	5.6	5.5
Government consumption	-2.9	9.8	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	5.6	6.2	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	8.2	9.2	8.6	8.6	8.8

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> 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 rupiah has continued to help to contain price pressures in 2010. However, the average rate of consumer price inflation is expected to accelerate 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 global oil prices could force the government to raise administered fuel prices in order to keep the budget deficit under control.

**Exchange rates** With the exception of a blip in May 2010 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 Rp8,900:US\$1 in early November 2010. 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 relatively high rates, such as Indonesia) has been an important factor in the local currency'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 2010-11, 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. We expect the rupiah to strengthen by 13.3% on an annual average basis in 2010, to Rp9,169:US\$1, and to appreciate further in 2011, before weakening gradually in 2012-15.

**External sector** Merchandise exports fell sharply in 2009, owing to weaker external demand and declining 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 thus grew in 2009, to reach US\$35.1bn. A recovery in exports, led by commodities, has allowed the trade surplus to rise further in 2010, and we forecast that the surplus will continue to grow in 2011-15, to stand at US\$47.9bn in 2015. The deficit on the income account will widen in the forecast period, as a rebound in corporate profits will lead to greater repatriation of earnings by foreign-owned companies while Indonesian investments abroad continue to earn relatively low returns. Limited employment opportunities at home in 2011-15 will continue to force workers to seek jobs abroad, leading to an increase in inflows of remittances and thus pushing up the surplus on the transfers account. We expect the current account to record a surplus equivalent to 1.3% of GDP on average in 2011-15.

**Forecast summary**

(% unless otherwise indicated)

	2010 <sup>a</sup>	2011 <sup>b</sup>	2012 <sup>b</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>
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)	6.5	5.6	6.2	6.3	6.7	6.2
Money market interest rate	6.3	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)	148.5	165.0	184.6	207.8	236.9	268.6
Imports of goods fob (US\$ bn)	112.5	127.9	144.3	165.1	192.3	220.7
Current-account balance (US\$ bn)	9.1	10.5	13.2	13.6	13.9	15.6
Current-account balance (% of GDP)	1.3	1.3	1.5	1.4	1.2	1.3
External debt (end-period; US\$ bn)	156.3	154.6	154.7	156.2	158.6	162.2
Exchange rate Rp:US\$ (av)	9,169	9,073	9,086	9,174	9,249	9,330
Exchange rate Rp:US\$ (end-period)	9,121	9,079	9,130	9,211	9,290	9,371
Exchange rate Rp:¥100 (av)	10,392	10,339	10,474	10,667	10,755	10,932
Exchange rate Rp:€ (end-period)	11,219	10,487	10,454	10,501	10,625	10,782

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

## Monthly review: November 2010

### The political scene

#### **A presidential anniversary is marked by protests**

The first anniversary, on October 20th, of the start of Susilo Bambang Yudhoyono's second term as president was marked by widespread expressions of dissatisfaction. Since he was re-elected with around 60% of the popular vote in July 2009, Mr Yudhoyono has taken ambiguous stands in several tests of his commitment to reform, giving the impression that he is an indecisive leader who is in thrall to vested interests. A failure to act against the growing threats to Indonesia's hard-won democracy risks rendering his presidency ultimately a disappointment.

Mr Yudhoyono has spoken of the need to uphold Indonesia's traditions of pluralism, but he has stepped aside as vigilante groups have become increasingly aggressive in their persecution of religious minorities. He has spoken of the need to curb corruption, but failed to act when two senior members of the Anti-Corruption Commission (KPK) were framed in what was widely suspected as being an attempt to cripple the organisation. He has granted generous remissions of prison sentences to individuals convicted of corruption, including his son's father-in-law, Aulia Pohan. He has spoken of the need to respect human rights, but has appointed an officer with a dubious record in this regard, General Timur Pradopo, to lead the country's police. He also acquiesced to a successful attempt by vested interests to force the resignation of the previous finance minister, Sri Mulyani Indrawati, who was the foremost reformer in the initial line-up of his second-term administration.

Meanwhile, Mr Yudhoyono's administration appears to be becoming less tolerant of criticism. Amid rumours of planned demonstrations in the run-up to the recent anniversary, the police took the unusual step of warning protestors not to bring livestock into the capital, Jakarta. (Last year a protestor famously led a buffalo with the painted initials of Mr Yudhoyono on its flank, drawing an irritated retort from the president, who said he was hurt by being characterised as "big, slow and stupid".) During the latest protests, police fired live ammunition at student-led demonstrators in Jakarta's central Menteng district, injuring one person. Prior to the protests, the Jakarta police commissioner, Inspector General Sutarman, had warned that his officers would shoot to immobilise demonstrators if the behaviour of protestors was assessed as being threatening.

#### **Mr Yudhoyono appoints a controversial police chief**

A police officer with a controversial record on human rights, General Timur Pradopo, was appointed chief of the national police in late October. He takes up the position at a time when public confidence in the police is at an all-time low following much-publicised cases of corruption, as well as evidence of torture and other violations of human rights. General Pradopo's past record and the manner of his appointment suggest that there is little prospect that the institutional reforms that are needed urgently to restore confidence in the police will take place under his watch.

General Pradopo, the president's sole nominee for the post, was West Jakarta's police commissioner in 1998 when four student demonstrators were shot dead outside Trisakti University. Then in 1999 he was commissioner of Central Jakarta when 14 people, including eight students, were killed by security forces. Questions have also been asked about General Pradopo's suitability owing to a mandatory wealth report revealing that his personal fortune has doubled from Rp2.1bn (US\$235,000) in 2008 to Rp4.4bn in 2010. However, General Pradopo passed a "fit and proper person" test in the House of People's Representatives (DPR, the legislature) as legislators failed to pose tough questions.

General Pradopo's predecessor, General Bambang Hendarso Danuri, apologised profusely for his poor performance when standing down. General Danuri's tenure was marred by allegations of torture, violence and the fabrication of evidence. One of his senior subordinates, General Susno Duadji, was involved in the attempt to frame two senior members of the KPK. Several senior police officers were found to have large bank balances, allegedly containing the proceeds of corruption, but an investigation into the matter was whitewashed by General Danuri.

### **An admiral takes over the leadership of the military**

Admiral Agus Suhartono was appointed chief of the Indonesian Military (TNI) in early October, taking over from General Djoko Santoso. (Since the fall of the authoritarian president, Soeharto, in 1998 it has become customary to rotate the TNI's senior command between the army, the air force and the navy.) On taking office, Admiral Suhartono said he would continue with military reforms, including efforts to close military-owned businesses. He also said that he would work to improve the armed forces' capabilities, and called for an increase in the defence budget to support this goal. He denied allegations that renegade soldiers disgruntled about poor wages and conditions had been behind a recent spate of crimes and terrorist activity across the country.

Later in the same month the army announced a series of accelerated promotions to develop senior officers and prepare them for future leadership roles. Among the beneficiaries of the policy is Major General Pramono Edhie Wibowo, who was promoted from commander of the Siliwangi Military Command overseeing western Java to commander of the Army Strategic Reserve Command (Kostrad), the army's main combat force. General Wibowo is Mr Yudhoyono's brother-in-law, and his accelerated promotion has drawn accusations of nepotism.

### **Human rights abuses in Papua are exposed by a video**

A video posted on the Internet in October depicting the torture of Papuans by Indonesian soldiers has drawn international condemnation and highlighted human rights abuses in Indonesia's easternmost provinces. The video shows two native Papuans being interrogated. One of the men is naked and bound and has a burning stick applied to his genitals after failing to answer his captors' questions. The other man has a long knife held to his neck and is threatened with decapitation. Within days of the video's appearance on the Internet, the military's new commander, Admiral Suhartono, ordered an investigation and five suspects were soon identified.

Despite this swift response, the perpetrators may yet escape justice. Soldiers cannot be tried in civilian courts, and their cases are typically heard in closed-door courts-martial. Thus, predictably, in early November the military announced that the suspects in the torture case would be tried at a base in the Papuan provincial capital, Jayapura. After the event it emerged that the court-martial had actually been trying four different officers accused of less serious human rights infractions in the province. Activists have for years been calling on the DPR to revise a 1997 law on military courts to enable soldiers to be held to account in civilian courts for criminal offences, but legislators have so far failed to do so.

A swift response to the Papua torture case will also not address what is a systemic problem involving the military and the police, with the connivance of politicians who refuse to see beyond the use of armed force to suppress a low-level separatist insurgency in the Papua region. In August another video had been posted on the Internet showing a grievously injured Papuan, Yawan Wayeni, lying in the forest with his intestines exposed while being goaded by police officers; the video depicted events that had place a year before. Police also recently shot dead two men in West Papua province after a traffic dispute.

### **The US president strengthens ties during a visit to Jakarta**

On November 9th-10th the US president, Barack Obama, paid a much-anticipated state visit to Indonesia. Mr Obama spent four years of his childhood in Jakarta, attending a local primary school; his mother was married to a Javanese Muslim, and he has an Indonesian half-sister. Mr Obama had cancelled trips to Indonesia on three previous occasions as domestic priorities intervened, causing widespread disappointment, but his eventual visit has cemented Mr Obama's popularity in his former country of residence. The US has been seeking to strengthen ties with Indonesia and other South-east Asian countries for some time in order to counter growing Chinese influence in the region. China's growing economic power has made it an important new partner for trade with and investment in Indonesia, but its growing assertiveness with regard to Asian security issues has caused a certain amount of concern, making Indonesia and neighbouring countries willing to accept strong US involvement in the region. The US has also worked closely with Indonesia in counter-terrorist operations against Islamic extremist movements in the country.

## **Economic policy**

### **Parliament approves the government's 2011 budget**

In late October the DPR approved the budget for 2011 but made several minor revisions, among them revising up to 6.4% the projected pace of real GDP growth in the year; the draft budget proposed by the government in August had assumed growth of 6.3%. The DPR also revised the expected budget deficit to Rp124.7trn (US\$13.5bn), equal to 1.8% of GDP (based on the official forecast of nominal GDP growth), from the government's proposal of 1.7% of GDP.

**Budget assumptions**

	2010 (revised)	2011 (proposed)	2011 (approved)
Real GDP growth (%)	5.8	6.3	6.4
GDP (Rp trn)	6,253.8	7,006.7	7,019.9
Inflation (%; end-period)	5.3	5.3	5.3
Exchange rate (Rp:US\$) <sup>a</sup>	9,200	9,300	9,250
Interest rate (3-month; %) <sup>a</sup>	6.5	6.5	6.5
International oil price (US\$/b) <sup>b</sup>	80.0	80.0	80.0
Oil production (b/d m) <sup>a</sup>	0.965	0.970	0.970

<sup>a</sup> Average. <sup>b</sup> Average; dated Brent Blend.

Source: Ministry of Finance.

Targets for revenue and expenditure were also raised by modest amounts, with spending now expected to rise to Rp1.2trn, equivalent to 15.7% of GDP. The legislature approved spending of Rp95.9trn on fuel subsidies in 2011, up from Rp88.8trn in 2010. Although international oil prices are expected to remain stable at US\$80/barrel next year, consumption of subsidised fuel is projected to increase to 38.6m kilolitres, up from 36.5m kilolitres in 2010. Meanwhile, electricity subsidies have been reduced to Rp40.7trn in the approved budget for 2011, from Rp55.1trn in the revised 2010 budget. However, legislators rejected a proposed 15% increase in tariffs in 2011, and instead indicated that the state-owned electricity company, Perusahaan Listrik Negara (PLN), should make savings through efficiency measures. A reserve fund of Rp10trn has been set aside to ensure that the cost of subsidies can be met in the event that PLN fails to make the prescribed savings.

**State budget, 2011**

(Rp trn)

	2010 (revised)	2011 (proposed)	2011 (approved)
Revenue	992.4	1,086.4	1,104.9
Tax	743.3	839.5	850.3
Non-tax	247.2	243.1	250.9
Grants	1.9	3.7	3.7
Expenditure	1,126.1	1,202.0	1,229.6
Central government	781.5	823.6	836.6
Regional government	344.6	378.4	393.0
<b>Balance</b>	<b>-133.7</b>	<b>-115.7</b>	<b>-124.7</b>
% of GDP	-2.1	-1.7	-1.8
Financing	98.0	115.7	124.7
Domestic	133.9	118.7	125.3
Foreign	-0.2	-3.0	-0.6

Source: Ministry of Finance.

It remains to be seen whether the government will achieve its spending targets, as spending so far this year has fallen short. By October 15th government ministries had spent Rp681.7trn, equivalent to only 60.5% of their target for the year as a whole, according to the Ministry of Finance. Much of this was for routine purposes; spending on capital projects had reached only 38% of the annual target of Rp95trn by mid-October. Slow spending of public funds on capital projects is a persistent problem in Indonesia, with serious consequences for the improvement of the country's dilapidated infrastructure. As a result,



officials now expect the budget deficit in 2010 to reach the equivalent of only 1.5% of GDP, compared with the official target of 2.1% of GDP. As of mid-October revenue collection stood at Rp990.5trn, equivalent to 72% of the full-year target.

### Interest rates are kept low to deter capital inflows

Bank Indonesia (BI, the central bank) left its main interest rate, the BI rate, on hold at a record low of 6.5% for the 15th consecutive month in November. The decision followed a further slowdown in consumer price inflation in October and growing expectations that inflation in 2010 as a whole will be within the official 4-6% target range. Growing concerns about the risks posed by large flows of short-term capital into Indonesia also influenced the central bank's decision, particularly after the Federal Reserve (the US central bank) announced that in early November that it would purchase US\$600bn of US long-term bonds by mid-2011 in an expansion of its quantitative-easing policy. The Federal Reserve's policy may result in an increase in the volume of capital flowing into emerging markets such as Indonesia.

## Economic performance

### Third-quarter growth comes in below expectations

Indonesia's economic growth slowed in the third quarter of 2010, with real GDP expanding by 5.8% year on year, down from growth of 6.2% in the second quarter, according to Statistics Indonesia (BPS). Prior to the data release the central bank had forecast third-quarter growth of 6.3%, so that the new figures came as a disappointment. Nonetheless, growth in the first nine months of 2010 still came to a respectable 5.9% year on year. On a quarter-on-quarter (non-seasonally adjusted) basis the economy expanded by 3.5% in the third quarter, up from 2.8% in the second quarter. On the demand side, private consumption was the mainstay of growth, expanding by 5.2% year on year in July-September and contributing 2.9 percentage points to GDP growth in the period, as households were encouraged to spend by low interest rates and a strengthening rupiah. Government consumption was up by 3% year on year in the quarter, as ministries rushed to spend funds before the end of the year. Fixed investment expanded by 8.9%, the fastest pace of growth since the fourth quarter of 2008, while exports of goods and services increased by 11.3%, boosted by recovering international prices for oil and non-oil commodities. Imports expanded by 11% in the three-month period.

### Gross domestic product by expenditure

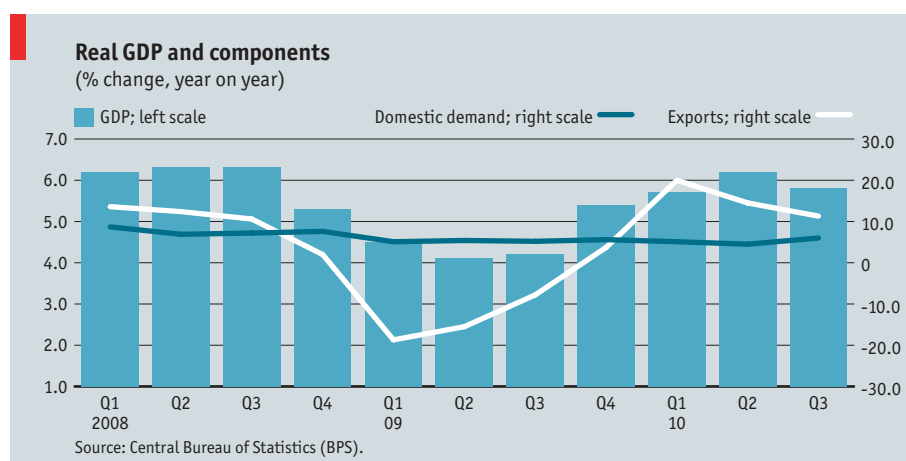
(constant 2000 prices; % change; year on year unless otherwise indicated)

	2008	2009	2009		2010			3 Qtr <sup>a</sup>
			3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	
Private consumption	5.3	4.9	4.7	4.0	3.9	5.0	5.2	2.0
Public consumption	10.4	15.7	10.3	17.0	-8.8	-8.9	3.1	12.6
Gross fixed investment	11.9	3.3	3.2	4.2	7.8	8.0	8.9	7.0
Exports of goods & services	9.5	-9.7	-7.8	3.7	20.0	14.5	11.3	6.0
Imports of goods & services	10.0	-15.0	-14.7	1.6	22.6	17.7	17.7	2.2
<b>GDP</b>	<b>6.0</b>	<b>4.6</b>	<b>4.2</b>	<b>5.4</b>	<b>5.7</b>	<b>6.2</b>	<b>5.8</b>	<b>3.5</b>

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

Source: Statistics Indonesia (BPS).

On the supply side, the services sector fuelled third-quarter growth, led by transport and communications, which expanded by 13.3% year on year, up from 12.9% in the second quarter. Financial services growth also accelerated, rising to 6.3%. However, the economy's other main sectors recorded slower rates of growth in the quarter. Agricultural growth slowed sharply, to 1.8%, from 3.1% in the second quarter, partly reflecting disruptions to production caused by heavy rain. The mining sector also weakened, with growth decelerating to 2.8%, from 3.8% in April-June. Growth in the manufacturing sector slowed to 4.1% in July-September, from 4.3% in April-June, its fastest pace of growth since the third quarter of 2008.



### **Inflation eases as consumer prices stabilise**

Inflation slowed slightly in October, with the consumer price index rising by 5.7% year on year, compared with September's increase of 5.8%, according to the BPS. Month-on-month inflation also slowed, with prices rising by only 0.1%, compared with the previous month's increase of 0.4%. The slowdown partly reflected a stabilisation in prices following the fasting months of Ramadan and the subsequent Eid al-Fitr festivities, a period when strong demand pushes up prices for food, transport and clothing. In October food prices rose by 9.8% year on year but fell by 0.9% month on month, while the cost of transport was up by 2.7% on an annual basis but down by 0.6% on a monthly one. Core inflation, which excludes volatile food and energy prices, edged higher in October to stand at 4.2% year on year, up from 4% in September.

### **Concerns about short-term capital inflows are growing**

Concerns about the impact of a surge in short-term capital inflows have intensified, following the announcement by the US Federal Reserve in November that it would purchase US\$600bn in long-term government bonds by mid-2011. Even before the announcement, foreign investment in Indonesian equities and debt had risen to record levels. Foreign holdings now account for over 66% of listed shares, 30% of government bonds and 31% of central bank promissory notes. The rupiah rose by 17% against the US dollar on an annual average basis in 2009 and has strengthened by a further 5.4% so far this year, while Indonesia's main stockmarket index, the Jakarta Composite Index, was trading near to a record high in early November.

The US policy will depress returns on assets held in that country, driving yet more capital towards emerging markets in search of better returns. In October

the IMF warned of the growing threat posed by short-term capital flows into Indonesia and noted that measures to encourage long-term direct-investment inflows would be required to underpin sustainable economic growth. The government and BI will need no persuading as to the wisdom of this advice: memories of the 1997-98 Asian financial crisis, and the political and economic devastation inflicted by a sudden withdrawal of short-term capital from the country, are still fresh.

Several major emerging markets, including Brazil, Thailand, Taiwan and South Korea, have introduced capital controls this year. Indonesia has introduced limited controls aimed at damping volatility and channelling funds into longer-term instruments. BI introduced a minimum one-month holding period on Bank Indonesia certificates (SBIs) from June in an attempt to reduce volatility, and in early November said that it was considering extending this period to three months. However, when considering capital controls the authorities must bear in mind the danger of triggering a loss of foreign investor confidence that would lead to massive capital flight. BI and the finance ministry are aware of this risk, and in recent weeks both have issued statements denying rumours of impending controls. The central bank said in late October that no further limits on capital flows were required, and in early November the finance minister, Agus Martowardojo, insisted that the government was comfortable with the current rate of capital inflows.

# Data and charts

## Annual data and forecast

	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>a</sup>	2010 <sup>b</sup>	2011 <sup>c</sup>	2012 <sup>c</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	364.6	432.2	510.5	540.3	693.3	792.8	894.4
Nominal GDP (Rp trn)	3,339.2	3,950.9	4,951.4	5,613.4	6,357.1	7,192.9	8,127.1
Real GDP growth (%)	5.5	6.3	6.0	4.5	5.9	6.0	6.4
<b>Expenditure on GDP (% real change)</b>							
Private consumption	3.2	5.0	5.3	4.9	5.0	5.4	5.6
Government consumption	9.6	3.9	10.4	15.7	-2.9	9.8	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
<b>Origin of GDP (% real change)</b>							
Agriculture	3.4	3.4	4.9	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	8.8	8.8	5.7	8.5	8.2	9.2
<b>Population and income</b>							
Population (m)	231.8	234.7	237.5	240.3	243.0	245.6	248.2
GDP per head (US\$ at PPP)	3,314 <sup>b</sup>	3,583 <sup>b</sup>	3,835 <sup>b</sup>	4,000 <sup>b</sup>	4,216	4,491	4,820
Recorded unemployment (av; %)	10.3	9.1	8.4	8.1	7.1	6.7	6.6
<b>Fiscal indicators (% of GDP)</b>							
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 <sup>b</sup>	31.3 <sup>b</sup>	28.3 <sup>b</sup>	27.4 <sup>b</sup>	26.3	25.3	24.1
<b>Prices and financial indicators</b>							
Exchange rate Rp:US\$ (end-period)	9,020	9,419	10,950	9,400	9,121	9,079	9,130
Exchange rate Rp:¥100 (end-period)	7,579	8,432	12,061	10,099	10,731	10,202	10,616
Consumer prices (end-period; %)	6.6	5.8	11.1	2.8	6.5	5.6	6.2
Stock of money M1 (% change)	28.1	29.7	1.5	12.9 <sup>b</sup>	16.2	16.8	17.6
Stock of money M2 (% change)	14.9	19.3	15.0	13.0 <sup>b</sup>	18.5	18.5	18.7
Lending interest rate (av; %)	16.0	13.9	13.6	14.5	13.6	14.5	14.8
<b>Current account (US\$ m)</b>							
Trade balance	29,661	32,754	22,916	35,132	35,921	37,116	40,240
Goods: exports fob	103,528	118,014	139,606	119,481	148,455	164,981	184,583
Goods: imports fob	-73,867	-85,259	-116,690	-84,348	-112,534	-127,865	-144,343
Services balance	-9,875	-11,842	-12,998	-14,108	-15,005	-14,332	-14,064
Income balance	-13,790	-15,524	-15,156	-15,140	-16,638	-17,089	-18,020
Current transfers balance	4,863	5,103	5,364	4,860	4,849	4,832	5,003
Current-account balance	10,860	10,492	125	10,747	9,127	10,526	13,160
<b>External debt (US\$ m)</b>							
Debt stock	132,512	142,638	150,851	156,740 <sup>b</sup>	156,334	154,644	154,691
Debt service paid	28,479	22,805	22,150	23,208 <sup>b</sup>	22,971	22,764	23,018
Principal repayments	23,979	16,680	16,573	18,207 <sup>b</sup>	18,163	18,346	18,260
Interest	4,500	6,125	5,577	5,001 <sup>b</sup>	4,809	4,419	4,759
<b>International reserves (US\$ m)</b>							
Total international reserves	42,588	56,924	51,641	66,119	84,347	95,276	97,584

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> 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
<b>Output</b>								
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	146.8	n/a
Manufacturing at constant 2000 prices (% change, year on year)	1.8	1.5	1.5	1.3	4.2	3.7	4.3	n/a
Mining at constant 2000 prices (Rp trn)	43.6	43.5	44.2	46.3	45.9	44.9	45.9	n/a
Mining at constant 2000 price (% change, year on year)	2.3	2.6	3.4	6.2	5.2	3.1	3.8	n/a
<b>Prices</b>								
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	n/a
<b>Financial indicators</b>								
Exchange rate Rp:US\$ (av)	11,060	11,631	10,509	9,966	9,454	9,271	9,132	9,046
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	n/a
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	n/a
3-month money market rate (av; %)	9.61	8.48	7.40	6.45	6.30	6.20	6.15	n/a
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	n/a
<b>Sectoral trends</b>								
Manufacturing production (2000=100) <sup>a</sup>	126.6	124.6	127.5	131.0	132.9	129.9	133.0	n/a
Manufacturing production (% change, year on year) <sup>a</sup>	1.5	0.2	0.6	0.1	4.9	4.3	4.3	n/a
Crude oil production (m barrels/day) <sup>b</sup>	1.02	1.02	0.97	0.98	0.98	0.99	1.00	n/a
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
<b>Foreign trade (US\$ m)</b>								
Exports fob	29,352	22,975	27,044	30,071	36,366	35,537	37,022	n/a
Imports cif	-27,556	-19,094	-22,284	-26,907	-28,545	-29,961	-32,976	n/a
Trade balance	1,796	3,882	4,761	3,163	7,822	5,576	4,046	n/a
<b>Foreign payments (US\$ m)</b>								
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	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

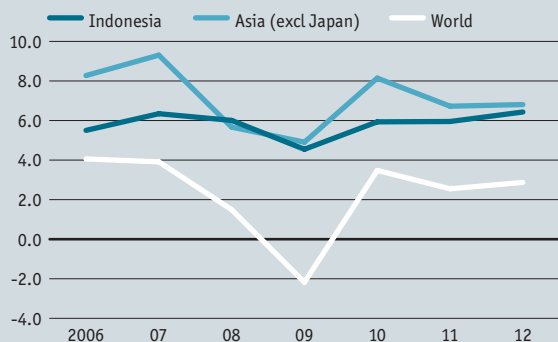
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate Rp:US\$ (av)</b>												
2008	9,395	9,164	9,185	9,212	9,300	9,284	9,145	9,149	9,373	10,100	11,836	11,244
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,817	9,446	9,460	9,458
2010	9,297	9,347	9,169	9,017	9,226	9,153	9,174	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	9,180	9,083	8,952	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	121.64	123.58	133.50	136.21	139.23	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	139.46	140.39	142.41	144.27	144.89	146.67	145.51	145.20	143.57	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	7.0	7.0	7.0	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	13.3	13.2	13.2	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	5.3	4.0	3.5	3.8	4.1	5.0	3.7	2.5	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	2,797	2,914	3,069	3,082	3,501	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	4.2	5.0	6.2	6.4	5.8	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	5.6	4.3	4.3	3.6	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	12,657	12,330	12,487	13,706	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	9,980	11,760	12,626	12,221	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	2,676	570	-139	1,485	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	71,753	73,431	76,060	n/a	n/a	n/a	n/a	n/a

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

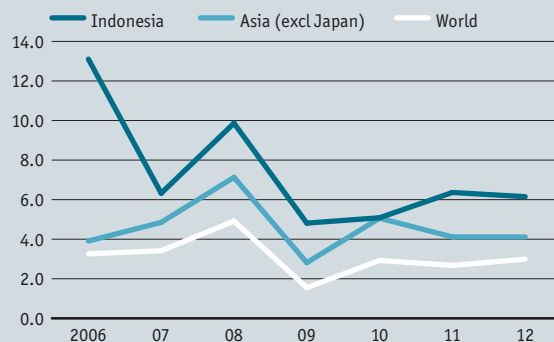
### Annual trends charts

**Real GDP growth**  
(% change)



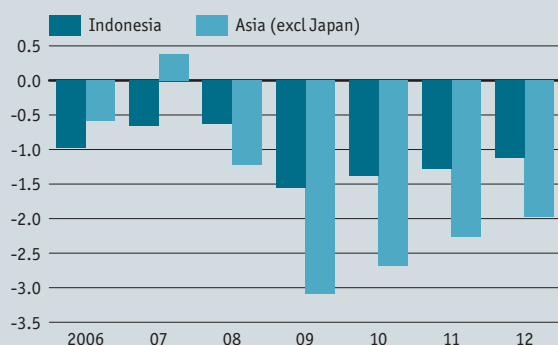
Source: Economist Intelligence Unit.

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



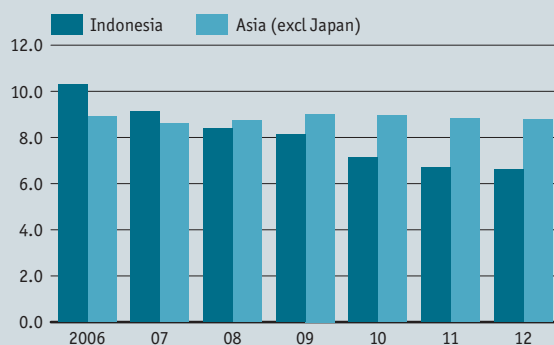
Source: Economist Intelligence Unit.

**Budget balance**  
(% of GDP)



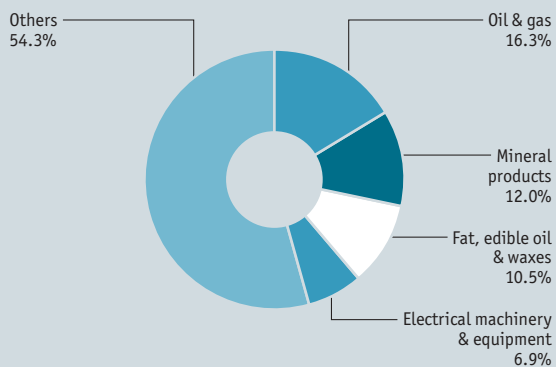
Source: Economist Intelligence Unit.

**Recorded unemployment**  
(%)



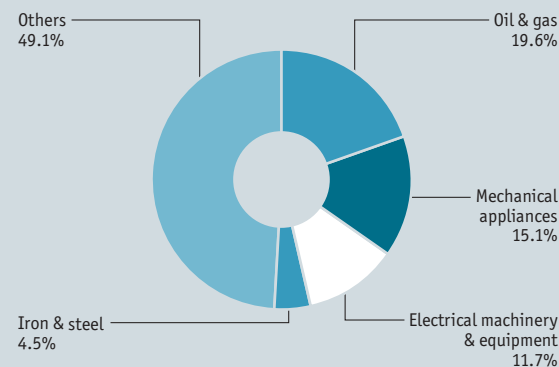
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

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

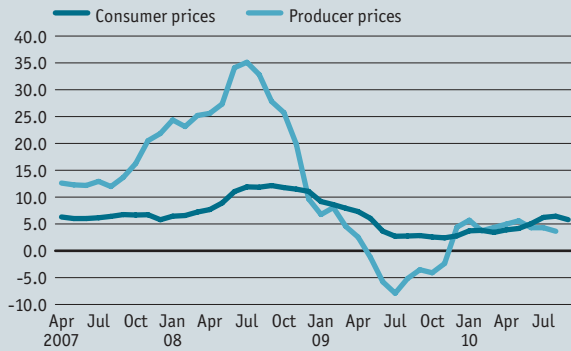


Source: Economist Intelligence Unit.



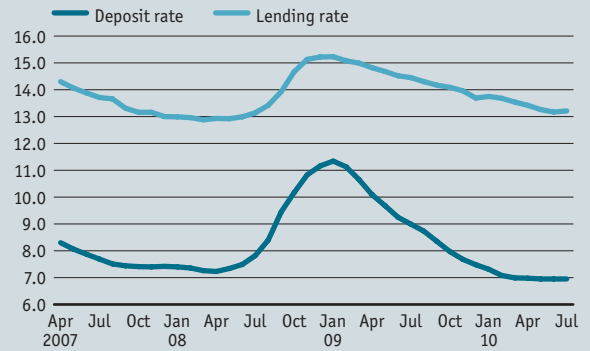
### Monthly trends charts

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



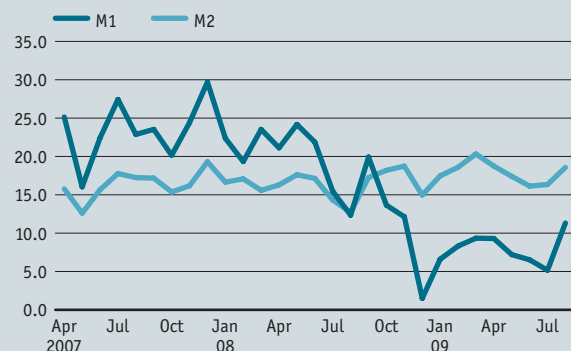
Source: Economist Intelligence Unit.

**Interest rates**  
(av; %)



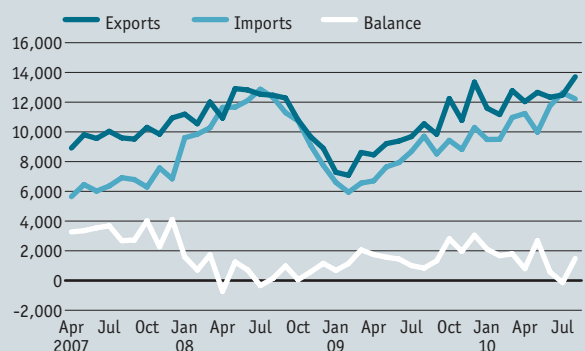
Source: Economist Intelligence Unit.

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



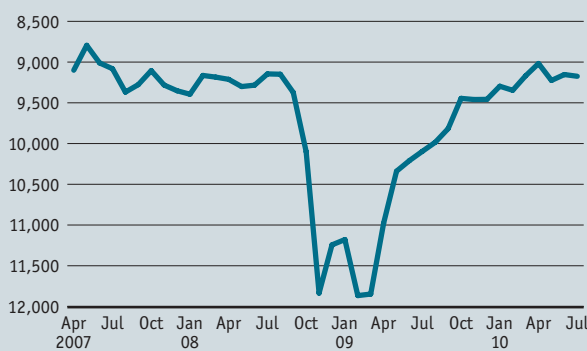
Source: Economist Intelligence Unit.

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



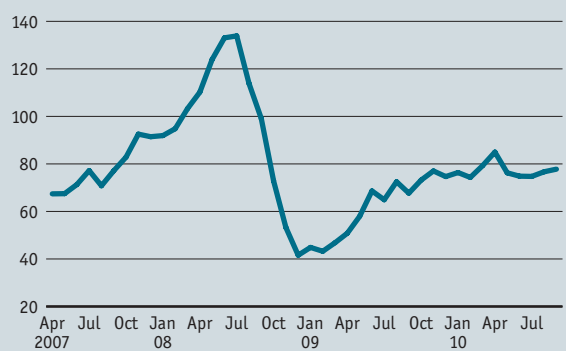
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

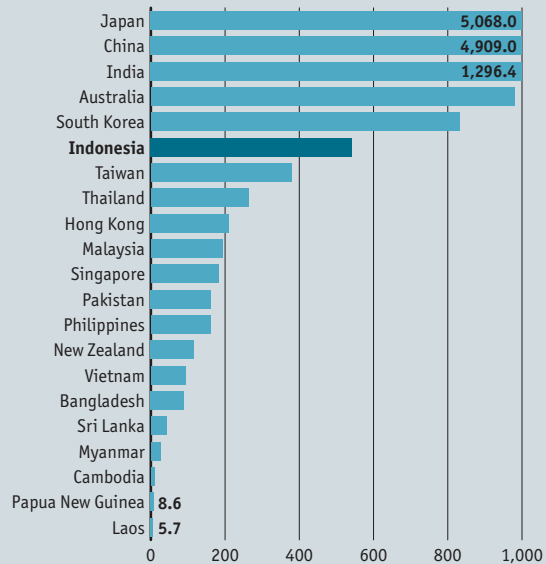
**Oil: Brent crude price**  
(US\$/b; av)



Source: Economist Intelligence Unit.

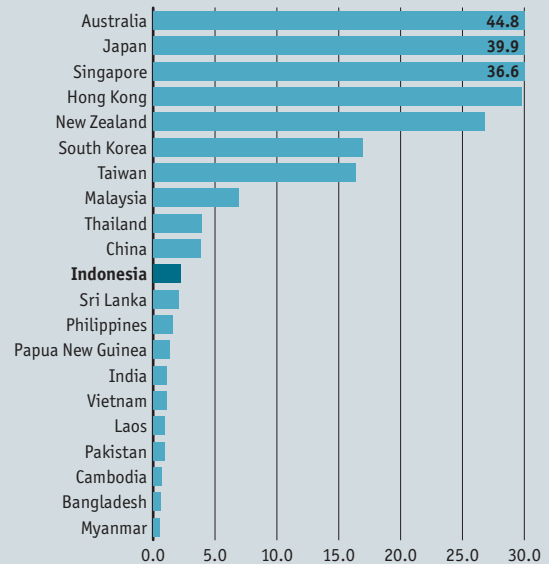
## Comparative economic indicators, 2009

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



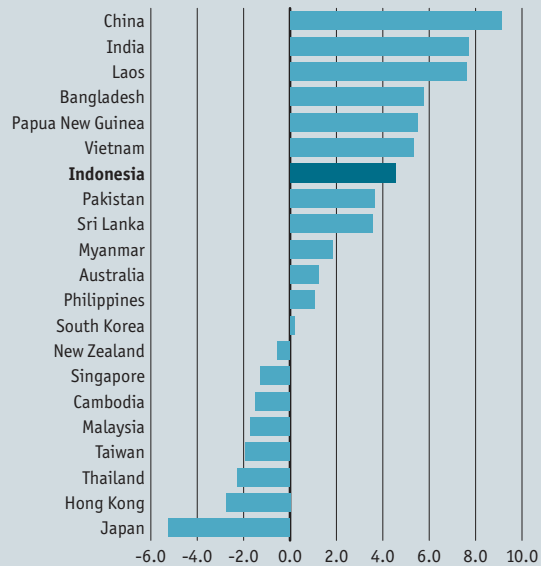
Sources: Economist Intelligence Unit estimates; national sources.

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



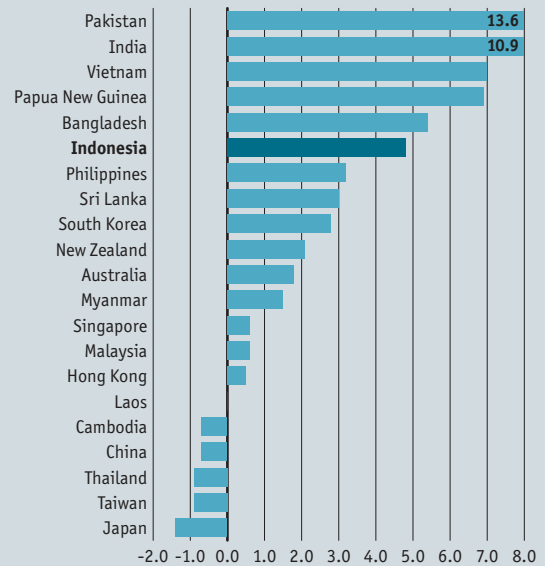
Sources: Economist Intelligence Unit estimates; national sources.

**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

<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)												
	<table> <tr> <td>Jakarta (capital)</td> <td>8,385</td> <td>Medan</td> <td>1,792</td> </tr> <tr> <td>Surabaya</td> <td>2,589</td> <td>Palembang</td> <td>1,442</td> </tr> <tr> <td>Bandung</td> <td>2,142</td> <td>Semarang</td> <td>1,345</td> </tr> </table>	Jakarta (capital)	8,385	Medan	1,792	Surabaya	2,589	Palembang	1,442	Bandung	2,142	Semarang	1,345
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 have given the legislature an expanded role	
<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-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)	
<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—the PPP, the PKB, the PAN and the PKS—have an Islamic orientation	
	<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	