
Country Report

Indonesia

December 2009

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The Economist Intelligence Unit

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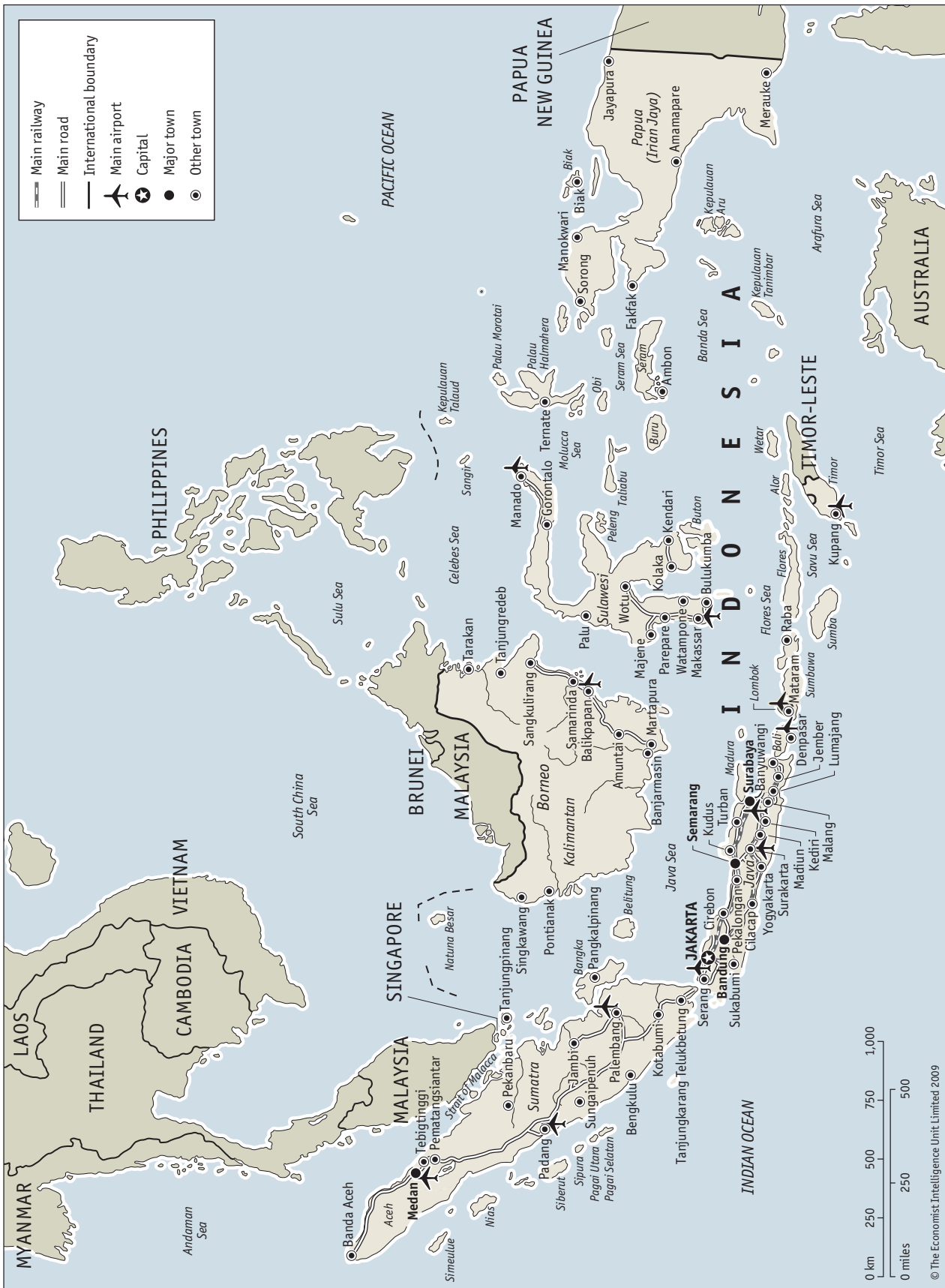
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Executive summary

Highlights

December 2009

- Outlook for 2010-11**
- The president, Susilo Bambang Yudhoyono, has a strong mandate to pursue his reformist policy agenda after comfortably winning re-election in July 2009, but his anti-corruption stance is under scrutiny.
 - Mr Yudhoyono's Democratic Party is the largest in the House of People's Representatives (DPR, the legislature), but holding a coalition government together could still be difficult in the president's second term.
 - Bank Indonesia (BI, the central bank) will raise interest rates in 2010 to contain inflationary pressures. It will also consider capital controls to temper the currency's appreciation.
 - As revenue growth recovers, the budget deficit will narrow to an average of 1.1% of GDP in 2010-11, from an estimated 1.5% of GDP in 2009.
 - The Economist Intelligence Unit expects real GDP to expand by 5.3% in 2010 and by 5.6% in 2011. Growth will be driven mainly by private consumption and investment.
 - We expect the current account to record an annual average surplus equivalent to 2% of GDP in 2010-11.
- Monthly review**
- Mr Yudhoyono has had to deal with two heavily politicised corruption scandals since he began his second term in October. The scandals have threatened his credibility and reputation for clean government.
 - Relations with Australia were strained in November over the issue of asylum-seekers, leading the president to postpone a planned visit to the Australian capital, Canberra.
 - The finance minister, Sri Mulyani Indrawati, has criticised government departments for failing to realise infrastructure investments planned through an economic stimulus package.
 - Bank Indonesia (BI, the central bank) has considered imposing restrictions on foreign investment in BI promissory notes to limit inflows of short-term capital and make it easier to prevent currency appreciation.
 - The economy grew by 4.2% year on year in the third quarter of 2009, breaking a trend of three successive quarters of slowing growth. Quarter-on-quarter growth rose to 3.9% in the third quarter, up from 2.4% in previous quarter.
 - Indonesia scored 5.40 out of 10 for 2009 in the Economist Intelligence Unit's quality of life index, putting it 96th in the world, above only Cambodia, Laos, Myanmar and Papua New Guinea in South-east Asia.

Outlook for 2010-11

Political outlook

Domestic politics The president, Susilo Bambang Yudhoyono, has a strong public mandate for his second five-year term in office, after receiving 60.8% of the vote in the presidential election in July 2009. Mr Yudhoyono's popularity is not unshakable, as has been illustrated by recent street protests in the capital, Jakarta, over two scandals that have been uncovered early in his second term, which have taken some of the shine off the anti-corruption stance to which he owes much of his popularity with the electorate. However, there is a lack of alternative leaders and Mr Yudhoyono retains goodwill from the electorate for guiding the country successfully through the global financial crisis. Indonesia's economic performance during the crisis has been extremely strong—GDP has continued to grow and job losses have been muted. This resilience was largely a result of the economy's lack of export-exposure, but Mr Yudhoyono can take credit for his government's cash handouts to poor families and his decision to lower administered fuel prices in late 2008 and early 2009, which boosted households' purchasing power. Investor-friendly reforms implemented earlier in his presidency have also created optimism among domestic and foreign investors. This confidence appears to have remained intact through the global recession. Public support for Mr Yudhoyono's reformist policy agenda may allow him to pursue this more assertively in his second term, although his natural tendency to rule by consensus is likely to preclude dramatic changes.

Mr Yudhoyono's control over government policy will be greater in his second term, owing to the impressive performance of his Democratic Party (PD) in the legislative election in April 2009, but he will still require the support of other, often unco-operative parties to pass legislation. Mr Yudhoyono has received the backing of four Islamic-oriented parties that won seats in the House of People's Representatives (DPR, the legislature) in April, as well as from his own PD. These parties control 55.9% of the seats in parliament, but Mr Yudhoyono may not be able to rely on the Islamic-oriented parties to support all of his policy agenda—the United Development Party, for example, regularly opposed legislation in his first term. In order to pass certain measures, the president may still require the support of the second-largest party in parliament, Golkar, which formally re-entered the coalition government in early October. The party was often an obstacle to reform in Mr Yudhoyono's first term, particularly when it came to efforts to fight corruption. As a result, policymaking frustrations could be almost as persistent in the president's second term as in his first, despite the PD's electoral success.

Mr Yudhoyono's selection of a technocrat with no party affiliations, Boediono, as his vice-president should encourage reform, in contrast to the previous vice-president, Jusuf Kalla, who was a constant opponent of the president's attempts to tackle vested interests. However, Mr Yudhoyono has continued the practice of assigning cabinet positions to coalition party members—a strategy that did little to guarantee support from his coalition partners in his first term but which

undermined the quality of the cabinet. Although the respected finance minister, Sri Mulyani Indrawati, and the trade minister, Mari Pangestu, retained their roles in the new cabinet, the appointment of the chairman of the National Mandate Party (PAN), Hatta Radjasa, as co-ordinating minister for the economy has raised concerns, as has the distribution of important ministries, such as energy, among the president's main allies rather than the most competent administrators.

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 a group of the world's largest economies, the G20. 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, and relations with Australia, which have been good since Kevin Rudd took over as Australian prime minister in 2007, have recently been soured by a disagreement over the handling of asylum-seekers trying to reach Australia from Sri Lanka. Many foreign governments will continue to call for a full accounting for the violence in Timor-Leste during that country's transition to independence from Indonesia in 1999, but the Indonesian and Timorese governments appear keen to put the events of that period behind them.

Economic policy outlook

Policy trends

In 2010-11 the authorities will reverse some of the policy changes that were made to protect Indonesia from the effects of the global recession. Bank Indonesia (BI, the central bank) will increase interest rates as it looks to temper inflationary pressures now that the economy is on the path to recovery. The government will aim to narrow the budget deficit, although slow disbursement of stimulus funds means that fiscal policy was not loosened to support the economy, as the government had planned. BI introduced minor restrictions on foreign-currency purchases at the height of the global financial crisis to limit the rupiah's decline. In 2010-11 it may consider stricter currency restrictions to help to prevent the rupiah from being driven up by inflows of foreign money that will be attracted to Indonesia by the promise of a healthy return. Mr Yudhoyono will continue with his efforts to initiate structural reforms to improve the business environment, but several changes will be politically untenable. Comprehensive changes to the country's restrictive labour laws or liberalisation of the troubled electricity sector, for example, are highly unlikely. There are also signs that the anti-corruption drive is losing momentum in the face of resistance from vested interests.

Fiscal policy

The budget deficit is estimated to narrow to the equivalent of 1.5% of GDP in 2009, from 1.9% in 2008. The 2009 budget contained a Rp71.3trn (US\$7.2bn) stimulus package, including an additional Rp12trn for infrastructure projects, but bureaucratic weaknesses have meant that the government has not succeeded in spending the amount that it intended. Meanwhile, a robust economic perfor-

mance has prevented a fall in revenue, despite new tax incentives, which included a 2-percentage-point reduction in the corporate tax rate. The Economist Intelligence Unit expects the fiscal deficit to narrow to an annual average of 1.1% of GDP in 2010-11. Fuel subsidies will be a major point of debate in the forecast period. They are expected to account for 10.2% of expenditure in 2010, and will largely fail to benefit the poor. They also create considerable uncertainty over public finances, as changes in global oil prices affect the size of the subsidy bill. However, the government has expressed a desire to link administered fuel prices to global oil prices, and it may also look to reduce subsidies in an effort to cut the country's carbon emissions.

Monetary policy

BI cut interest rates nine times, by a total of 300 basis points, between December 2008 and August 2009. The cuts were made in response to the global financial crisis, and also to a downward trend in inflation, which reached a nine-year low of 2.6% year on year in October. However, the economy has remained resistant to the effects of the crisis, and although year-on-year inflation is likely to remain low for the next few months, inflationary pressures will start to build again in 2010. BI has kept its main interest rate, the BI rate, at 6.5% since August, but it is likely to begin cautiously tightening monetary policy in the next few months. This period of tightening is expected to continue into 2011.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2008	2009	2010	2011
Real GDP growth				
World	2.8	-1.2	3.2	3.4
OECD	0.6	-3.5	1.7	1.5
China	9.0	8.2	8.9	8.3
EU27	0.7	-4.2	0.7	1.2
Exchange rates				
¥:US\$	103.4	93.8	90.0	89.0
US\$:€	1.47	1.40	1.42	1.40
SDR:US\$	0.63	0.65	0.64	0.64
Financial indicators				
€ 3-month interbank rate	4.6	1.2	1.1	2.5
US\$ 3-month Libor	2.9	1.0	1.3	2.2
Commodity prices				
Oil (Brent; US\$/b)	97.7	61.9	75.0	70.0
Gold (US\$/troy oz)	870.2	960.2	1043.8	976.3
Food, feedstuffs & beverages (% change in US\$ terms)	29.5	-20.9	2.7	-0.8
Industrial raw materials (% change in US\$ terms)	-5.1	-26.6	18.8	3.1

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

The global economy appears to have begun to recover in the second half of 2009 as aggressive fiscal and monetary stimulus measures have had an impact, but most economic indicators remain well below their peaks. We estimate that the global economy will contract by 1.2% in purchasing power parity terms in

2009 and forecast that it will grow by 3.2% in 2010. This slow recovery will continue in 2011, when the global economy is expected to grow by 3.4%. However, there is a risk that the growth rate will slow again in 2011, as the effect of stimulus measures wanes against a background of continued fragile corporate and household sentiment. In 2010-11 prices for Indonesia's exports of industrial raw materials will see only weak increases, after sharp 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 ^a	2009 ^b	2010 ^c	2011 ^c
Private consumption	1,191,191	1,250,216	1,313,402	1,381,791
	5.3	5.0	5.1	5.2
Public consumption	169,297	189,563	197,986	209,234
	10.4	12.0	4.4	5.7
Gross fixed investment	493,223	512,824	559,445	597,256
	11.7	4.0	9.1	6.8
Final domestic demand	1,853,710	1,952,604	2,070,833	2,188,280
	7.4	5.3	6.1	5.7
Stockbuilding	3,865	1,164	1,600	4,300
	0.2 ^d	-0.1 ^d	0.0 ^d	0.1 ^d
Total domestic demand	1,857,575	1,953,768	2,072,433	2,192,580
	7.7	5.2	6.1	5.8
Exports of goods & services	1,031,866	925,045	1,047,824	1,126,164
	9.5	-10.4	13.3	7.5
Imports of goods & services	832,820	689,031	815,027	884,437
	10.0	-17.3	18.3	8.5
Foreign balance	199,046	236,014	232,797	241,728
	0.7 ^d	1.8 ^d	-0.1 ^d	0.4 ^d
GDP	2,082,104	2,175,211	2,290,659	2,419,737
	6.1	4.5	5.3	5.6

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

^d Contribution to real GDP growth (as a percentage of real GDP in the previous year).

Indonesia has proved to be less exposed to the global recession than many of its neighbours, largely owing to the low proportion of its GDP that is accounted for by exports. We have raised our real GDP estimate for 2009 to 4.5%, from 4.3% last month, owing to strong quarter-on-quarter growth in the third quarter, which showed investment growth recovering particularly strongly. Private consumption growth will remain a key driver of economic growth in the forecast period as employment and real wage growth pick up. Fixed investment will expand by an average of 7.9% a year in 2010-11 as firms return to the investment plans that were postponed in early 2009 owing to the difficulty of obtaining financing and the uncertainty of the external demand environment. Export growth will be strong in 2010, but the scale of the collapse in 2009 means that exports will only just return to their 2008 level in 2010. A recovery in import demand will ensure that the external sector makes a negligible contribution to growth in 2010-11.

Downside risks to our forecast still exist, but they have receded considerably in recent months. The most serious concern is that the various stimulus packages that have been implemented around the world will be insufficient to trigger a

durable recovery in the global economy. As governments' fiscal positions have already deteriorated dramatically, it may not be possible to ramp up support for economies any further, and an increasing number of countries may be forced to tighten fiscal policy in order to avert sovereign payment crises. However, the strength of Indonesia's banking sector and the limited extent to which the economy is oriented towards exports will continue to curb the country's vulnerability to external shocks.

Loose monetary policy in Western economies has given rise to heavy inflows of capital into Asian economies in the past few months, creating fears of asset-price bubbles in several economies. Asset price bubbles create risks, particularly if these assets are used to back higher borrowing. In such circumstances, the bursting of the bubble can trigger a process of deleveraging that hurts the real economy. The global financial crisis has itself been an example of the damage that this process can cause. Indonesia has been a recipient of strong inflows of foreign finance this year and will attract large inflows in 2010-11. As a result, it is likely that asset prices will continue to rise and credit growth will accelerate. However, Indonesian companies and households are not highly leveraged, and a period of strong lending growth could be beneficial to the economy, particularly if funds are channelled into productive areas, such as improving the country's dilapidated infrastructure.

Inflation Lower global oil and food prices and a slowdown in domestic demand growth allowed inflation to ease from an average of 9.9% in 2008 to an estimated 4.8% in 2009, a nine-year low. Inflation has also been kept low by the rupiah's strong recovery since its sharp depreciation in late 2008, which has helped to limit imported inflation. Inflation is expected to accelerate to an average of 5.1% in 2010 as domestic prices respond to the recent rebound in global oil and food prices. Recovering domestic growth will also create capacity constraints in the local economy, which will push up prices. The greatest risk to our forecast is that an unexpectedly strong rise in international oil prices forces the government to raise administered fuel prices to contain the budget deficit. Inflation will rise to an average of 6.1% in 2011, largely because of a recovery in domestic demand.

Exchange rates The rupiah's value against the US dollar has been volatile since the global financial crisis intensified in September 2008, plummeting in October and November, before the authorities intervened in the December of that year. The unwinding of the yen carry trade (whereby speculators borrow at the low Japanese interest rate to purchase assets in countries with high interest rates, such as Indonesia) and the sale of emerging-market assets by investors needing to repay debt and meet margin calls continued to weigh on the rupiah until mid-March 2009, but the currency has since rallied and was trading at around Rp9,580:US\$1 in early November. Global investors have regained their appetite for carry trades, while positive local political developments and strong domestic economic growth in spite of the global recession have encouraged investor interest in Indonesian assets. Strong capital inflows are expected in 2010-11, when Indonesia's economic growth will compare very favourably with Western economies, and BI will intervene to prevent the currency from appre-

ciating too sharply. We expect the rupiah to appreciate by 11.2% on an annual average basis in 2010, to Rp9,363:US\$1, before depreciating slightly in 2011, to Rp9,382:US\$1.

External sector

Merchandise exports are estimated to have contracted 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, have reduced the import bill. As a result, the trade surplus is estimated to have grown slightly in 2009, to US\$30.8bn. A commodity-led export recovery should allow the trade surplus to rise again in 2010-11. The deficit on the income account will widen in 2010-11 as a recovery in corporate profits leads to greater repatriation of earnings by foreign-owned companies. The value of remittances from workers employed abroad is likely to rise in 2010-11 as employment conditions for overseas Indonesians improve. Indonesians will continue to look abroad for employment opportunities, given the high domestic unemployment rate. We expect the current account to record surpluses equivalent to an average of 2% of GDP in 2010-11.

Forecast summary

(% unless otherwise indicated)

	2008 ^a	2009 ^b	2010 ^c	2011 ^c
Real GDP growth	6.1	4.5	5.3	5.6
Industrial production growth	3.0 ^b	0.9	3.5	3.0
Gross agricultural production growth	4.8	4.5	4.0	3.3
Unemployment rate (av)	8.4	7.7	7.4	7.1
Consumer price inflation (av)	9.9	4.8	5.1	6.1
Consumer price inflation (year-end)	11.1	2.8	5.6	6.3
Money market interest rate	8.5	7.2	7.4	8.0
Government balance (% of GDP)	-1.9 ^b	-1.5	-1.2	-1.0
Exports of goods fob (US\$ bn)	139.3	116.4	142.5	160.1
Imports of goods fob (US\$ bn)	116.0	85.7	110.2	124.0
Current-account balance (US\$ bn)	0.6	10.5	12.4	15.4
Current-account balance (% of GDP)	0.1	2.0	1.9	2.1
External debt (year-end; US\$ bn)	147.5 ^b	152.0	156.6	156.1
Exchange rate Rp:US\$ (av)	9,699	10,411	9,363	9,382
Exchange rate Rp:¥100 (av)	9,383	11,103	10,403	10,541
Exchange rate Rp:€ (year-end)	15,222	14,583	12,981	13,258
Exchange rate Rp:SDR (year-end)	16,466	15,788	14,561	14,804

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

Monthly review: December 2009

The political scene

The president's second term begins with controversy

The president, Susilo Bambang Yudhoyono, has seen his second term in office, which began on October 20th, get off to a difficult start. Mr Yudhoyono has had to deal with two heavily politicised corruption scandals that have threatened his credibility and his reputation for clean government, distracting attention from his second-term policy agenda. The first controversy relates to attempts by senior law enforcement officials to cripple the Corruption Eradication Commission (KPK); the second to the bailout of a failed medium-sized bank, Bank Century, that was rescued by the government in November 2008. The public outcry over these cases led to scattered student demonstrations in late November that called for Mr Yudhoyono to step down, a far cry from the heady popularity that swept him back into office for a second term just a few months earlier.

Tensions between Indonesia's established law-enforcement agencies—the National Police and the Attorney-General's Office—and the KPK spilled into the public domain earlier in 2009, after the latter obtained evidence pointing to the involvement of the chief detective, Susno Duadji, in corrupt practices. In response senior police officers and public prosecutors allegedly fabricated a case against two KPK commissioners, Chandra Hamzah and Bibit Samad Rianto, who were arrested in late October on spurious charges of abuse of power and bribery. Mr Yudhoyono had stood aside as the feud between the KPK and the police became increasingly bitter, but the public outcry at the arrest of the two men, as well as the release of wiretap recordings of senior policemen, public prosecutors and corruption suspects plotting to frame the commissioners left the president with little option but to intervene. The recording also made a number of references to Mr Yudhoyono's alleged support for the plot, a suggestion that the president has strenuously denied.

Mr Yudhoyono responded by establishing a fact-finding team of leading legal experts. They concluded in late November that there was no basis for the charges against Mr Hamzah and Mr Rianto and recommended that the case should be halted. In response the president delivered a vague public address, in which he maintained that he could not interfere in the case against the two former commissioners, while also saying that the case should not be taken to court for the sake of social unity. Anti-corruption campaigners responded angrily to this equivocal statement. A local non-governmental organisation, Indonesia Corruption Watch, accused Mr Yudhoyono of making empty promises to fight corruption in order to win votes. However, there are signs that the president's bewildering statement has had some effect. Mr Duadji was moved aside in late November and now serves as a senior official at the police headquarters with no specific duties. A deputy attorney-general, Abdul Hakim Ritonga, who was also involved in the plot, is expected to receive similar treatment. Although the case against Mr Hamzah and Mr Rianto is continuing, it may now be dropped at a convenient opportunity in the legal process.

However, these superficial measures will only serve to restore the status quo; as yet there is no sign of the sweeping reforms that are required to cleanse Indonesia's deeply corrupt law-enforcement agencies.

An investigation into a bank rescue may have repercussions

The plot against the KPK was concocted after it gathered wiretap evidence pointing to the involvement of Mr Duadji in corrupt dealings in the aftermath of the collapse and rescue of Bank Century in November 2008. The bank received Rp6.7trn (US\$705m) in public funds to support its rescue, well above the Rp1.3trn that was authorised by parliament. There are also strong allegations of impropriety over the subsequent use of the funds, some of which appear to have been channelled to selected shareholders and depositors rather than being used to recapitalise the bank. Inconveniently for Mr Yudhoyono, the bailout rescued the accounts of several of his closest political supporters, including a prominent businessman, Budi Sampoerna, who recovered large deposits from the bank after its rescue, allegedly with help from Mr Duadji in exchange for a large fee. Another beneficiary was the treasurer of the Democrat Party (PD) campaign to secure Mr Yudhoyono's re-election, Hartati Murdaya. Rumours abound that the president's reticence to intervene against police attempts to sabotage the KPK is the result of his election campaign having benefited from funds recovered from the failed bank. These rumours have been denied, but the president's reticent response to the fact-finding team's recommendations has not helped to convince an increasingly sceptical public.

In November a report by the Supreme Audit Agency (BPK) strongly criticised the handling of the rescue, and the role of central bank and officials from the Ministry of Finance. The DPR is now preparing an enquiry, with the president's PD and the opposition Indonesian Democratic Party of Struggle (PDI-P) vying for the influential chairmanship of the special committee that will lead the investigation. The finance minister, Sri Mulyani Indrawati, maintains that the government acted correctly in rescuing Bank Century, and said that its failure at the height of the global financial crisis could have resulted in a loss of confidence in other Indonesian banks.

There are also other personal and political dimensions to the case. The head of the BPK is an allegedly corrupt former director-general of taxation, Hadi Purnomo, who was sacked by Ms Mulyani in 2006. A critical audit and parliamentary enquiry would damage Ms Mulyani, who was closely involved in the decision to rescue the bank, along with the vice-president, Boediono, who was the governor of Bank Indonesia (BI, the central bank) at the time. Ms Mulyani and Boediono are the foremost reformers in the cabinet, and politicians opposed to reform also see the case as offering an opportunity to weaken their influence and set back prospects for reform in Mr Yudhoyono's second-term administration.

Relations with neighbouring countries come under strain

The president travelled to the Malaysian capital, Kuala Lumpur, in mid-November in an attempt to improve relations with Malaysia following recent disagreements. The two countries have a difficult bilateral relationship. They dispute ownership of the oil-rich Ambalat region, which lies off the coast of eastern Borneo. Indonesia also supplies large numbers of low-paid migrant workers to Malaysia, and media reports of their occasional abuse at the hands

of Malaysian employers occasionally provokes widespread populist hostility. The two countries also dispute ownership of their common cultural heritage. The inadvertent use of a Balinese dance in a Malaysian tourism advertisement recently resulted in vigilante intimidation of Malaysian residents in Indonesia. After meeting the Malaysian prime minister, Najib Razak, Mr Yudhoyono said that the two countries would not let petty issues sour ties between the two nations and added that he had chosen Malaysia as the destination for his first foreign visit in his second term because it was a friend, a neighbour and a strong partner.

Relations with Australia were also strained in November, owing the issue of asylum-seekers. The deterioration led Mr Yudhoyono to postpone a planned visit to the Australian capital, Canberra, at the end of the month. In late October 78 Sri Lankan refugees en route to seek asylum in Australia were taken on board an Australian vessel, *Oceanic Viking*, in international waters that lie within Indonesia's search and rescue zone. The Australian government sought to ensure that Indonesia took responsibility for asylum seekers picked up in its rescue zone, and the vessel was directed to a detention centre on the island of Bintan. However, the refugees refused to disembark for over four weeks, provoking a dispute between Indonesia and Australia over how to handle their cases. Australia attempted to insist on processing their claims in Indonesia, but as the stand-off lengthened Indonesia threatened to force the Australian vessel to leave its territorial waters. This would have obliged the Australian government to accept the refugees on the country's Christmas Island, exposing it to sharp criticism at home, where asylum-seekers are a fraught political issue. A deal that guaranteed resettlement in Australia within a month eventually succeeded in coaxing the refugees off the *Oceanic Viking* in late November.

Economic policy

Lower subsidies help to contain the budget deficit

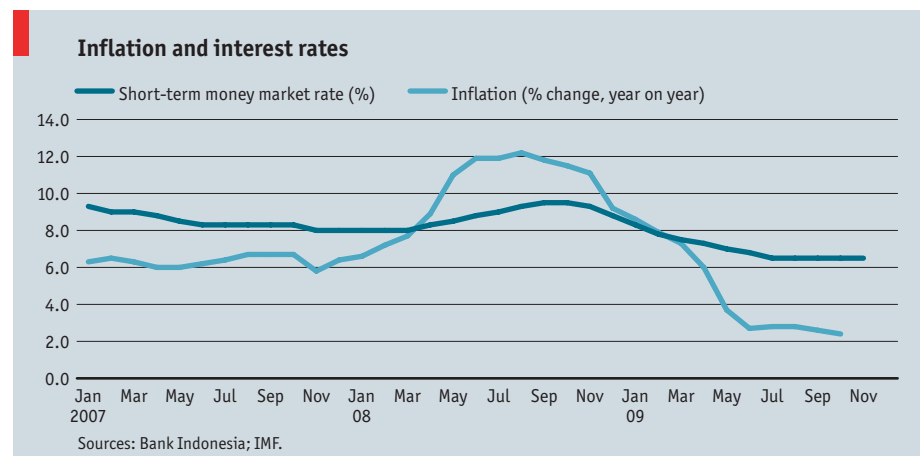
Total spending under the state budget came to Rp680.1trn in the first ten months of 2009 against revenue of Rp637.4trn, and the 2009 budget deficit is now expected to come in at 1.6% of GDP, compared with a targeted level of 2.4%, according to the finance ministry. Ms Mulyani told a parliamentary hearing in November that the disbursement of government funds had been accelerated in 2009. Failure to realise public spending targets is a persistent problem that results in chronic underinvestment in public services and infrastructure. In October 68% of planned expenditure had been realised, an improvement on a position of less than 60% at a similar point in 2008. A welcome shortfall in spending on subsidies has also been recorded this year, with outlays in this area reaching only Rp84.1trn in January-October, compared with Rp201.3trn in the first ten months of 2008, as a result of lower international oil prices.

However, the finance minister did single out certain government departments for their failure to meet spending targets. The Ministry of Home Affairs disbursed only 38.6% of its Rp8.8trn budget allocation in the first ten months of the year and the Ministry of Health disbursed only 46.1% of its Rp20.6trn budget. Ms Mulyani has also criticised government departments for failing to

realise infrastructure investments planned through an economic stimulus package designed to boost demand during the 2008-09 global recession. Only Rp4.4trn out of Rp12.2trn-worth of infrastructure spending planned under the stimulus package was realised in the first ten months of 2009. The Ministry of Trade spent only 19.3% of its Rp335bn allocation, while the Ministry of Public Works and the Ministry of Transport realised only Rp2.9trn and Rp800.9bn (US\$84.3m), or 44% and 36% of their budget allocations respectively. The inability of these departments to realise spending on infrastructure projects casts doubt on the credibility of election promises to accelerate investment in infrastructure.

Liquidity operations become increasingly costly for BI

BI kept its benchmark interest rate unchanged at 6.5% in December. The central bank has kept the interest rate at this level for four consecutive months, after a period of expansionary monetary policy that brought the benchmark rate down from 9.5% in November 2008 to its current record-low level. Despite the interest rate cuts, Indonesia's interest rate differential with OECD and Asian countries is still very favourable. Together with the strong performance of the domestic economy, the interest rate spread has attracted large amounts of foreign capital into the economy, particularly into short-term investment products. As a result, the Indonesian rupiah has seen one of the strongest performances in Asia this year. BI has tried to limit the currency's appreciation by soaking up capital inflows itself, as has been reflected in strong increases in foreign-currency reserves held by the central bank. However, when BI exchanges rupiahs for foreign currency, it increases the money supply. The result would ordinarily be a fall in the interest rate, but BI sterilised its foreign-exchange operations by mopping up excess liquidity on the domestic market through the issuance of one-month BI promissory notes (SBIs). However, these interventions have not come without cost. Holdings of SBIs, which offer yields in excess of the benchmark rate, have risen by 23% to Rp217trn in the year to September, draining BI's budget for monetary operations.



SBIs have been among the popular products for foreign investors. Foreign holdings of SBIs have risen by over 300%, to Rp36trn, in the year from September 2008. As a result, BI has considered imposing restrictions on foreign investment in SBIs. Other major emerging markets, including Brazil and Taiwan, have recently introduced similar controls on short-term capital inflows.

However, when contemplating such measures, BI must balance the risks posed by short-term capital inflows against the risk of restrictions on certain financial instruments having a knock-on effect on investor confidence in the long-term bond market, upon which Indonesia relies upon heavily for budget finance.

Economic performance

Economic growth accelerates

The economy expanded by 4.2% year on year in the third quarter of 2009, breaking a trend of three successive quarters of slowing growth. Quarter-on-quarter growth rose to 3.9% in the third quarter, compared with 2.4% in the previous quarter. Indonesia is one of only a few countries to have maintained growth throughout the global recession, with robust domestic demand and a comparatively low exposure to export markets helping it to weather the storm. Growth rates now appear to be gathering pace as the global economy begins to recover. Indonesia's healthy domestic demand remained in evidence in the third quarter, rising by 4.7% year on year and accounting for 2.6 percentage points of the recorded growth. Government consumption, which tends to accelerate towards the end of the financial year in December, also rose by 10.2% year on year. Direct investment rose by 4% year on year, compared with 2.7% in the second quarter. Exports were down by 8.2% year on year, owing to the collapse in global trade that occurred in late 2008 and early 2009, but a recovery is evident in quarter-on-quarter export growth, which reached 8.5% in the third quarter. Imports fell by 18.3% year on year, but, like exports, they recovered on a quarter-on-quarter basis in the third quarter, to grow by 8.3%.

Gross domestic product by expenditure

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

	2007	2008	2008		2009			3 Qtr ^a
			3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	
Private consumption	5.0	5.3	5.3	4.8	6.0	4.8	4.7	1.8
Government consumption	3.9	10.4	14.1	16.4	19.2	17.0	10.2	-0.5
Gross fixed capital formation	9.2	11.7	12.2	9.1	3.4	2.7	4.0	6.6
Exports of goods & services	8.0	9.5	10.6	1.8	-18.7	-15.7	-8.2	8.5
Imports of goods & services	8.9	10.0	11.0	-3.5	-26.0	-23.9	-18.3	8.3
GDP	6.3	6.1	6.4	5.2	4.4	4.0	4.2	3.9

^a Quarter on quarter.

Source: Statistics Indonesia (BPS).

On the supply side, the strongest performing sector was telecommunications, which saw year-on-year growth of 18.2% and contributed 1.4 percentage points of the recorded growth owing to Indonesia's booming mobile-telephone market. Utilities also performed strongly, expanding by 14.6%, while mining grew by 6.5% as a result of strong demand for coal in major export markets. Agriculture grew by 2.7%, largely as a result of a strong performance in the plantations subsector, which produces major export crops, including palm oil and rubber.

Gross domestic product by sector

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

	2007	2008	2008		2009			3 Qtr ^a
			3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	
Agriculture	3.5	4.8	3.4	4.7	4.8	2.4	2.7	7.3
Mining & quarrying	2	0.5	2.1	2.1	2.2	2.4	6.5	5.1
Manufacturing	4.7	3.7	4.3	1.8	1.6	1.5	1.3	2.8
Electricity, gas & water	10.4	10.9	10.4	9.3	11.4	15.4	14.6	1.6
Construction	8.6	7.3	7.6	5.7	6.3	6.4	8.8	5.5
Trade, hotels & restaurants	8.5	7.2	8.4	5.6	0.6	-0.1	-0.6	4.6
Transport & communications	14.4	16.7	15.5	15.8	16.7	17.5	18.2	5.1
Financial, ownership & business	8	8.2	8.6	7.4	6.3	5.3	4.9	1.4
Services	6.6	6.4	7.2	6	6.8	7.4	5.8	-0.3
GDP	6.3	6.1	6.4	5.2	4.4	4	4.2	3.9
GDP (non-oil & gas)	6.9	6.5	6.6	5.6	4.8	4.4	4.6	4

^a Quarter on quarter.

Source: Statistics Indonesia (BPS).

Leading indicators paint a mixed picture

Leading indicators of private consumption have yet to fully corroborate the expectation that growth will accelerate in 2010. BI's monthly consumer confidence index fell for the third successive month in October, a trend that the central bank attributed to lower expectations for household income and the availability of jobs in the first half of 2010. Retail sales in 2009 are expected to remain flat at Rp80trn, but the Association of Indonesian Retailers (Aprindo), which represents over 100 companies with 8,500 outlets, expects strong growth in 2010. Vehicle sales are now back on a rising trend, but are still well short of the levels attained in 2008. Sales in the year to October 2009 reached 389,711 units, 25.3% lower than sales in the first ten months of 2008. The Indonesian Automotive Industry Association (Gaikindo) expects sales to reach 470,000 units in 2009 and to rise further, to 600,000 units, in 2010. However, the pending introduction of a regional car tax in 2010 may dampen sales.

Leading indicators of industrial activity paint a similarly equivocal picture. Cement sales, an indicator of construction and investment, are 33.7% lower in the year to October 2009 than in the year-earlier period. Bank lending in the year to September rose by just 3.4%, with growth held back by stubbornly high lending rates (banks have not cut lending rates in line with BI's policy rate). However, lending rates are now falling, as the central bank has started to apply pressure to commercial banks to cut their rates. BI now expects bank lending to expand by more than 20% in 2010. Realised investment fell by 13.8% year on year in January-October, according to the Investment Coordinating Board, as a result of a plunge in foreign investment. Domestic investment rose by 10.4%, from Rp15.9trn to Rp32.5trn, in the same period, while foreign investment fell by 29% to Rp89.3trn owing to the global financial crisis. The board is now projecting full-year investment of Rp150trn, compared with Rp161.2trn in 2008, and expects foreign investment rise in 2010 as industrialised economies begin to recover from recession. However, investment approvals in January-October, which provide an indication of future investment plans, fell by nearly 19% to Rp321.1trn, compared with the year-earlier period.

Quality of life index: Indonesia

Indonesia scores 5.40 out of 10 for 2009 in the Economist Intelligence Unit's quality of life index, putting it 96th in the world, above only Cambodia, Laos, Myanmar and Papua New Guinea amongst countries in South-east Asia. The country's poor score in large reflects low income levels: in 2009 GDP per head was an estimated US\$3,890 (in US dollars at constant 2006 PPP), which was the 104th highest in the world. However, Indonesia also scores poorly on several other factors that affect the quality of life. Security risk is high and governance is weak, as represented by high levels of corruption. Health outcomes are poor, as adequate healthcare is unaffordable for much of the population. For gender equality, as shown by the prevalence of women in politics, Indonesia scores poorly and is ranked 85th in the world. Although this is a relatively high rank for a Muslim-majority country, it reflects the moderate nature of the form of Islam practised in Indonesia.

Gains have been made in the past two decades

The improvement in living standards in the past two decades has contributed to a rise in Indonesia's rank on the quality of life index from 117th place in 1989 to 96th in 2009. However, growth in income levels explains only part of this improvement. Another important factor is the increase in political freedom enjoyed by Indonesians since the fall of Soeharto, who ruled the country as a dictator for 32 years until 1998. Indonesia now has what is arguably the most vibrant democracy in South-east Asia, with free and fair elections and a lively media.

Indonesia has also avoided the worst effects of the global financial crisis, which sent the world economy into recession in the second half of 2008. Between 2006 and 2009, 69 countries experienced a fall in their living standards, as measured by our index, largely owing to the adverse effects of global economic conditions on income levels and job security. By contrast, Indonesia's income levels have risen by almost 13% since 2006, and the unemployment rate has declined from 10.3% to 7.7% in the same period.

Quality of life index

	1989	1995	2000	2006	2009
Score	4.94	5.01	5.18	5.37	5.40
Global rank	117	106	94	98	96

Note. Scores are on a scale of 0 to 10, with 10 being the highest score; the ranking is out of 160 countries.

Measuring the quality of life

The Economist Intelligence Unit's quality of life index is based on a unique methodology that relates the results of subjective life satisfaction surveys to the objective determinants of the quality of life across countries, in order to calculate an objective quality of life index.

The average scores from life satisfaction surveys carried out by Gallup for 130 countries in 2006 are related in a multivariate regression to various factors that have been shown to be associated with life satisfaction in many studies. Ten factors (measured by 11 separate indicators) together explain some 85% of the cross-country variation in life satisfaction scores. These factors are:

1. Material well-being—GDP per head (US\$); at 2006 constant PPP. Sources: Economist Intelligence Unit; IMF.
2. Health—life expectancy at birth (years). Sources: UN; World Bank; US Bureau of Census.
3. Family life—ratings on a scale of 1 to 5; based on divorce rates (per 1,000 population), converted into an index of 1 (lowest divorce rates) to 5 (highest divorce rates). Sources: UN; Legatum Institute; Economist Intelligence Unit.
4. Political freedom—average of indices of political and civil liberties; scale of 1 (completely free) to 7 (unfree). Source: Freedom House.
5. Job security—unemployment rate (%). Sources: Economist Intelligence Unit; International Labour Organisation.
6. Climate, two variables: average deviation of minimum and maximum monthly temperatures from 14° C; number of months in the year with less than 30 mm rainfall. Source: BBC Weather Guides.
7. Personal physical security—ratings on a scale of 1 (low security risk) to 5 (high security risk); based primarily on recorded homicide rates and Economist Intelligence Unit ratings for risk from crime and terrorism. Sources: Wikipedia for homicide rates; Economist Intelligence Unit.
8. Community life—index on a scale of 1 to 5, based on membership in social organisations and church attendance. Sources: World Values Survey; Gallup World Poll; Legatum Institute; Economist Intelligence Unit assessment.

9. Governance—measured by ratings for corruption, on a scale of 0 (highest corruption) to 100 (least corruption). Sources: Index of Economic Freedom; Economist Intelligence Unit; Knack and Keefer database for 1989/90.

10. Gender equality—measured by the share of seats in parliament held by women. Source: UN Development Programme, Human Development Reports.

The values of the life satisfaction scores that are predicted by these indicators represent a country's quality of life index. The estimated regression equation for the 2006 base year is used to calculate the quality of life index for 1989, 1995, 2000, 2006 and 2009.

Short-term capital strengthens the balance of payments

The current-account surplus fell to US\$1.7bn in the third quarter of 2009, compared with US\$2.9bn in the second quarter, as a result of a weakened trade position, according to BI. Non-oil and gas exports rose as a result of strong demand in key Asian export markets and rising international prices for primary commodities. They increased by 9.5% quarter on quarter to US\$26bn. However, stronger economic growth also resulted in a surge in demand for imports, which rose by 16.3% to US\$20.1bn in the same period. Higher demand for imported fuels resulted in a deterioration of the oil trade position, which fell to a deficit of US\$779m, compared with a surplus of US\$68m in the second quarter. However, the first shipments of gas from the Tangguh field in Papua boosted the position on the gas account, which rose to a surplus of US\$2.7bn, compared with US\$1.9bn in the second quarter.

The weaker current account was offset by a stronger performance in the capital and financial account, which posted a surplus of US\$3bn, compared with a deficit of US\$2.2bn in the second quarter. This transformation was the result of rising portfolio investments, which have been drawn to Indonesia by attractive interest rates on rupiah-denominated assets. As a result, portfolio investment liabilities surged to US\$3.3bn in the third quarter, compared with only US\$1.6bn in the second quarter. The flow of portfolio funds into the country has driven up the value of the rupiah by more than 16% against the US dollar since January 2009, leading to concerns over volatility and loss of competitiveness for exporters. At the same time, foreign direct investment has faltered, falling to US\$435m, compared with US\$1.3bn in the second quarter.

The net result of these changes was an enhanced surplus on the balance of payments, which rose to US\$3.5bn in the third quarter, compared with US\$1.1bn in the previous quarter. International reserves rose to US\$62.3bn as a result of this improved position, sufficient for 6.1 months of imports and the servicing of official external debt.

Balance of payments

(US\$ m unless otherwise indicated)

	2007	2008	2008			2009		
			2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Exports fob	118,014	139,606	37,345	38,081	29,768	24,204	28,175	31,735
Imports fob	-85,260	-116,690	-31,902	-32,309	-25,603	-17,297	-19,765	-23,939
Trade balance	32,754	22,916	5,443	5,771	4,166	6,908	8,410	7,796
Services, net	-11,841	-12,999	-3,387	-3,313	-3,227	-2,620	-2,983	-3,162
Income, net	-15,525	-15,155	-4,425	-4,756	-2,881	-2,688	-3,720	-4,071
Current transfers, net	5,104	5,364	1,356	1,331	1,305	1,122	1,200	1,176
Current-account balance	10,492	125	-1,013	-966	-637	2,722	2,907	1,739

Balance of payments

(US\$ m unless otherwise indicated)

	2007		2008			2009		
	2007	2008	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Capital account balance	547	294	62	187	29	19	29	34
Financial account balance	3,045	-2,170	2,043	2,184	-5,850	1,867	-2,259	2,962
Foreign direct investment, net	6,928	9,318	1,633	3,388	1,937	2,094	1,275	435
Portfolio investment, liabilities, net	9,982	3,015	4,128	-9	-3,910	1,726	1,597	3,319
Other investment, liabilities, net	-289	3,446	-367	1,998	2,304	-528	-1,874	4,362
Capital & financial account balance	3,592	-1,876	2,105	2,370	-5,822	1,886	-2,230	2,996
Total	14,085	-1,750	1,092	1,404	-6,459	4,608	677	4,735
Errors & omissions	-1,370	-194	233	-1,493	2,246	-653	375	-1,189
Balance of payments	12,715	-1,945	1,324	-89	-4,212	3,955	1,052	3,546
Reserve assets position (end-period)	56,920	51,639	59,453	57,108	51,639	54,840	57,576	62,287
Reserve assets (months of import & official debt-repayment cover)	5.8	4.0	4.6	4.4	4.0	5.4	5.7	6.1

Source: Bank Indonesia.

Data and charts

Annual data and forecast

	2005 ^a	2006 ^a	2007 ^a	2008 ^a	2009 ^b	2010 ^c	2011 ^c
GDP							
Nominal GDP (US\$ bn)	285.9	364.6	432.0	510.8	526.3	648.1	721.4
Nominal GDP (Rp trn)	2,774.3	3,339.2	3,949.3	4,954.0	5,479.5	6,068.6	6,767.8
Real GDP growth (%)	5.7	5.5	6.3	6.1	4.5	5.3	5.6
Expenditure on GDP (% real change)							
Private consumption	4.0	3.2	5.0	5.3	5.0	5.1	5.2
Government consumption	6.6	9.6	3.9	10.4	12.0	4.4	5.7
Gross fixed investment	10.9	2.6	9.4	11.7	4.0	9.1	6.8
Exports of goods & services	16.6	9.4	8.5	9.5	-10.4	13.3	7.5
Imports of goods & services	17.8	8.6	9.0	10.0	-17.3	18.3	8.5
Origin of GDP (% real change)							
Agriculture	2.7	3.4	3.4	4.8	4.5	4.0	3.3
Industry	4.7	4.5	4.7	3.7	2.0	3.5	3.8
Services	7.9	7.3	8.8	8.9	6.8	7.3	7.9
Population and income							
Population (m)	228.9	231.8	234.7	237.5 ^b	240.3	243.0	245.6
GDP per head (US\$ at PPP)	3,081 ^b	3,314 ^b	3,578 ^b	3,830 ^b	4,011	4,237	4,484
Recorded unemployment (av; %)	11.2	10.3	9.1	8.4	7.7	7.4	7.1
Fiscal indicators (% of GDP)							
Central government budget revenue	18.4 ^b	19.3 ^b	18.4 ^b	18.1 ^b	16.8	17.5	18.0
Central government budget expenditure	18.7 ^b	20.2 ^b	19.6 ^b	20.0 ^b	18.3	18.6	19.0
Central government budget balance	-0.2 ^b	-1.0 ^b	-1.2 ^b	-1.9 ^b	-1.5	-1.2	-1.0
Public debt	45.7	38.6	34.1 ^b	29.3 ^b	28.1	26.7	25.1
Prices and financial indicators							
Exchange rate Rp:US\$ (end-period)	9,830	9,020	9,419	10,950	9,887	9,372	9,403
Exchange rate Rp:¥100 (end-period)	8,335	7,579	8,432	12,061	10,986	10,472	10,624
Consumer prices (end-period; %)	17.1	6.6	5.8	11.1	2.8	5.6	6.3
Stock of money M1 (% change)	10.2	28.1	29.7	1.5	12.4	13.7	15.3
Stock of money M2 (% change)	16.4	14.9	19.3	15.0	20.8	18.1	17.8
Lending interest rate (av; %)	14.1	16.0	13.9	13.6	14.6	14.8	14.9
Current account (US\$ m)							
Trade balance	17,532	29,661	32,755	23,309	30,773	32,267	36,063
Goods: exports fob	86,995	103,528	118,014	139,290	116,435	142,471	160,099
Goods: imports fob	-69,463	-73,867	-85,259	-115,981	-85,663	-110,204	-124,036
Services balance	-9,123	-9,873	-11,842	-13,011	-11,158	-11,478	-11,731
Income balance	-12,926	-13,792	-15,524	-15,336	-14,540	-15,203	-16,481
Current transfers balance	4,792	4,863	5,103	5,642	5,393	6,770	7,536
Current-account balance	275	10,859	10,492	604	10,467	12,356	15,387
External debt (US\$ m)							
Debt stock	132,794	130,800	140,783	147,519 ^b	152,011	156,574	156,108
Debt service paid	16,461	22,931	14,647	16,838 ^b	16,965	17,205	17,951
Principal repayments	12,408	18,635	9,617	11,616 ^b	11,868	12,259	12,712
Interest	4,053	4,296	5,030	5,221 ^b	5,097	4,946	5,239
International reserves (US\$ m)							
Total international reserves	34,731	42,588	56,924	51,641	66,470	78,299	88,876

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

Source: IMF, *International Financial Statistics*.

Quarterly data

	2007	2008				2009		
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Output								
GDP at constant 2000 prices (Rp trn)	493.4	505.2	519.4	538.6	518.9	527.7	540.4	561.3
Real GDP (% change, year on year)	5.8	6.2	6.4	6.4	5.2	4.4	4.0	4.2
Manufacturing at constant 2000 prices (Rp trn)	136.9	136.7	138.7	143.0	139.4	138.8	140.8	144.8
Manufacturing at constant 2000 prices (% change, year on year)	3.8	4.3	4.2	4.3	1.8	1.5	1.5	1.3
Mining at constant 2000 prices (Rp trn)	42.7	42.4	42.8	43.6	43.5	43.4	44.2	46.4
Mining at constant 2000 price (% change, year on year)	-2.0	-1.7	-0.5	2.1	2.1	2.4	3.3	6.5
Prices								
Consumer prices (2002=100)	102.2	105.0	107.9	112.3	113.8	114.0	114.0	115.4
Consumer prices (% change, year on year)	6.4	6.7	9.2	12.0	11.4	8.6	5.6	2.8
Wholesale prices (2000=100)	140.7	150.3	164.3	173.7	166.3	160.0	161.7	164.0
Financial indicators								
Exchange rate Rp:US\$ (av)	9,246	9,257	9,265	9,222	11,060	11,631	10,509	9,994
Exchange rate Rp:US\$ (end-period)	9,419	9,217	9,225	9,378	10,950	11,575	10,225	9,681
Deposit rate (av; %)	7.41	7.34	7.35	8.56	10.72	11.04	9.67	n/a
Discount rate (end-period; %)	8.00	7.96	8.73	9.71	10.83	8.21	6.95	n/a
Lending rate (av; %)	13.11	12.94	12.95	13.50	15.01	15.10	14.67	n/a
3-month money market rate (av; %)	5.33	7.12	8.01	9.16	9.61	8.48	7.40	n/a
M1 (end-period; Rp trn)	450.0	409.7	453.0	479.7	456.7	448.0	482.6	n/a
M1 (% change, year on year)	29.7	23.5	21.9	19.9	1.5	9.3	6.5	n/a
M2 (end-period; Rp trn)	1,646	1,591	1,700	1,775	1,893	1,914	1,975	n/a
M2 (% change, year on year)	19.3	15.6	17.1	17.3	15.0	20.3	16.1	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)	2,746	2,447	2,349	1,833	1,355	1,434	2,027	2,468
Stockmarket index (% change, year on year)	45.7	32.2	7.8	-24.3	-57.5	-53.3	-22.2	30.4
Sectoral trends								
Manufacturing production (2000=100) ^a	124.8	124.3	126.7	130.9	126.6	124.6	127.5	130.9
Manufacturing production (% change, year on year) ^a	4.5	5.8	3.3	1.6	1.5	0.2	0.6	0.0
Crude oil production (m barrels/day) ^b	0.83	0.85	0.86	1.03	1.02	1.02	1.01	1.01
Rubber, dry production ('000 tonnes)	122.1	117.1	n/a	n/a	n/a	n/a	n/a	n/a
Nickel ore production ('000 tonnes)	1,784.1	867.7	n/a	n/a	n/a	n/a	n/a	n/a
Foreign trade (US\$ m)								
Exports fob	31,090	33,746	36,650	37,272	29,352	22,975	27,044	30,071
Imports cif	-20,698	-29,728	-35,422	-36,492	-27,556	-19,094	-22,284	-26,907
Trade balance	10,392	4,018	1,229	780	1,796	3,882	4,761	3,163
Foreign payments (US\$ m)								
Merchandise trade balance	9,448	7,536	5,443	5,772	4,165	6,969	8,704	n/a
Services balance	-2,922	-2,972	-3,290	-3,194	-3,288	-2,535	-3,097	n/a
Income balance	-4,527	-3,120	-4,469	-4,803	-2,879	-2,672	-3,714	n/a
Net transfer payments	1,431	1,372	1,359	1,336	1,318	1,122	1,210	n/a
Current-account balance	3,430	2,816	-957	-889	-684	2,884	3,103	n/a
Reserves excl gold (end-period)	54,976	56,828	57,295	55,020	49,597	52,663	55,381	n/a

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

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

Monthly data

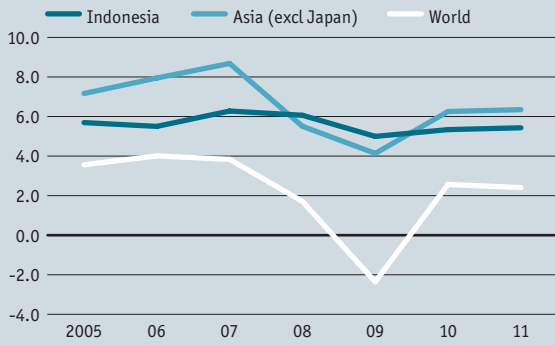
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Rp:US\$ (av)												
2007	9,078	9,085	9,159	9,100	8,795	9,011	9,082	9,369	9,277	9,105	9,282	9,352
2008	9,395	9,164	9,185	9,212	9,300	9,284	9,145	9,149	9,373	10,100	11,836	11,244
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,901	n/a	n/a	n/a
Exchange rate Rp:US\$ (end-period)												
2007	9,090	9,160	9,118	9,083	8,815	9,054	9,186	9,410	9,137	9,103	9,376	9,419
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	n/a	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2007	114.98	115.68	113.97	114.75	119.01	119.01	116.99	114.82	115.52	118.08	115.06	118.31
2008	119.16	122.88	121.33	121.57	123.58	133.34	136.05	139.23	137.84	132.33	115.13	115.13
2009	116.45	113.12	114.59	122.03	127.61	129.24	129.39	130.86	130.71	135.12	133.03	n/a
Money supply M1 (end-period; % change, year on year)												
2007	22.6	24.5	22.8	25.1	16.0	22.4	27.4	22.9	23.5	20.1	24.4	29.7
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
Money supply M2 (end-period; % change, year on year)												
2007	14.5	14.3	15.1	15.8	12.6	15.7	17.8	17.2	17.2	15.4	16.2	19.3
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
Deposit rate (av; %)												
2007	9.3	8.8	8.5	8.3	8.1	7.9	7.7	7.5	7.4	7.4	7.4	7.4
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	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2007	14.9	14.7	14.5	14.3	14.1	13.9	13.7	13.7	13.3	13.2	13.2	13.0
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	n/a	n/a	n/a	n/a
Manufacturing production (av; % change, year on year)												
2007	8.6	3.6	9.3	9.2	6.6	5.1	4.7	5.0	2.4	5.6	4.6	3.3
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	-0.3	0.6	-0.3	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)												
2007	1,757	1,741	1,831	1,999	2,084	2,139	2,349	2,194	2,359	2,643	2,688	2,746
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	n/a
Consumer prices (av; % change, year on year)												
2007	6.3	6.3	6.5	6.3	6.0	6.0	6.2	6.4	6.7	6.7	6.7	5.8
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	n/a
Producer prices (av; % change, year on year)												
2007	9.2	10.0	11.8	12.6	12.3	12.2	12.9	12.0	13.7	16.2	20.5	21.8
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	n/a	n/a
Goods exports fob (US\$ m)												
2007	8,322	8,195	9,065	8,913	9,808	9,557	10,040	9,596	9,516	10,304	9,844	10,942
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	11,882	n/a	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Goods imports cif (US\$ m)												
2007	5,284	4,663	5,647	5,644	6,455	6,015	6,361	6,917	6,791	6,286	7,574	6,838
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	9,467	n/a	n/a
Trade balance fob-cif (US\$ m)												
2007	3,039	3,532	3,418	3,270	3,352	3,542	3,679	2,679	2,725	4,018	2,270	4,104
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	2,415	n/a	n/a
Foreign-exchange reserves excl gold (end-period; US\$ m)												
2007	41,752	44,103	45,669	47,719	48,581	49,406	50,327	49,864	51,158	52,316	53,032	54,976
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	n/a	n/a	n/a	n/a

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

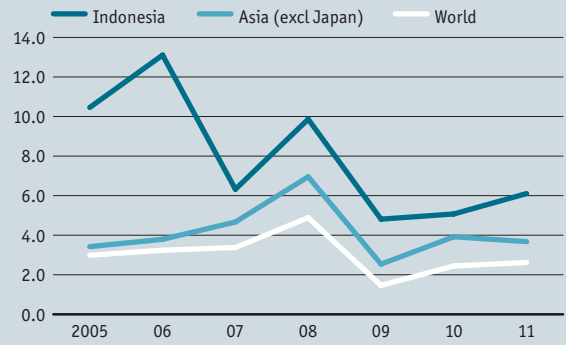
Annual trends charts

Real GDP growth
(% change)



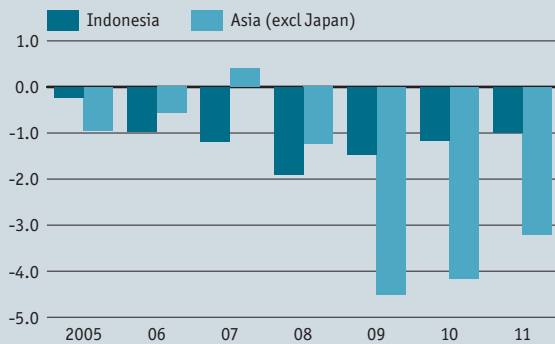
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



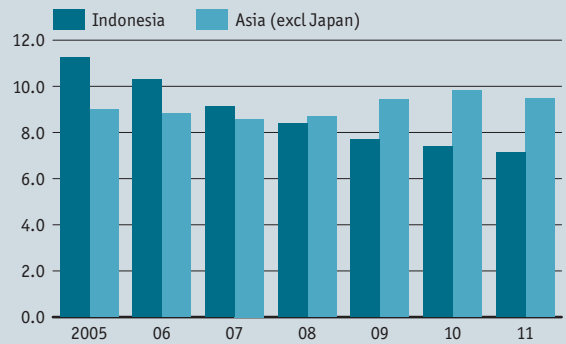
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



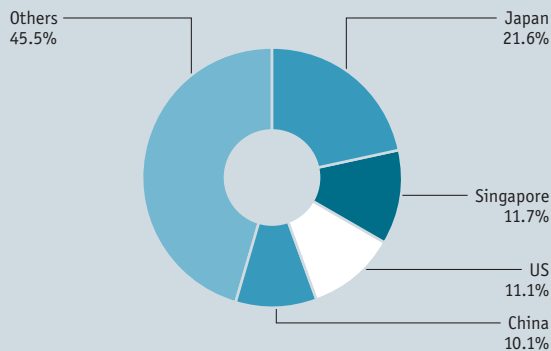
Source: Economist Intelligence Unit.

Recorded unemployment
(%)



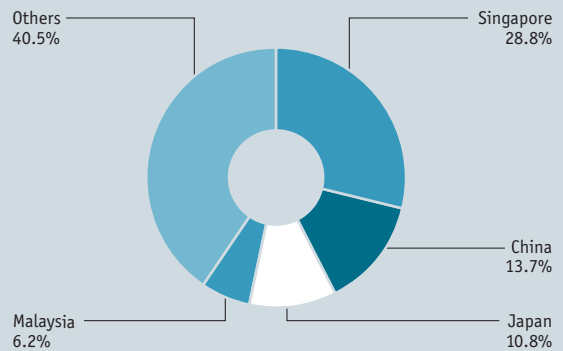
Source: Economist Intelligence Unit.

Main destinations of exports, 2008
(share of total)



Source: Economist Intelligence Unit.

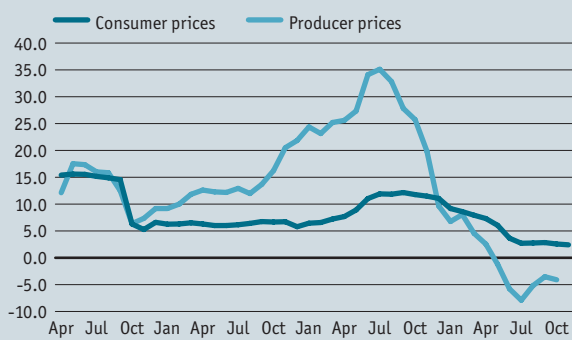
Main origins of imports, 2008
(share of total)



Source: Economist Intelligence Unit.

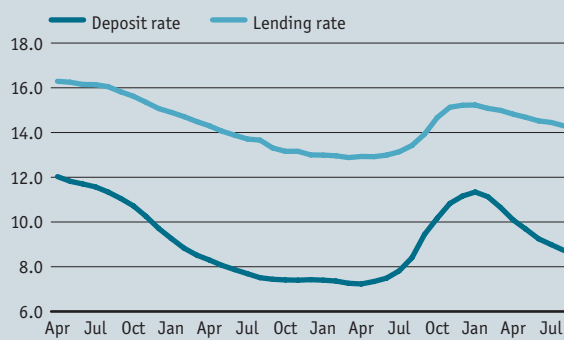
Monthly trends charts

Price inflation
(% change, year on year)



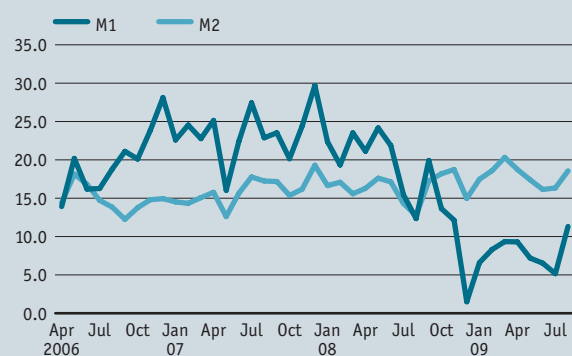
Source: Economist Intelligence Unit.

Interest rates
(av; %)



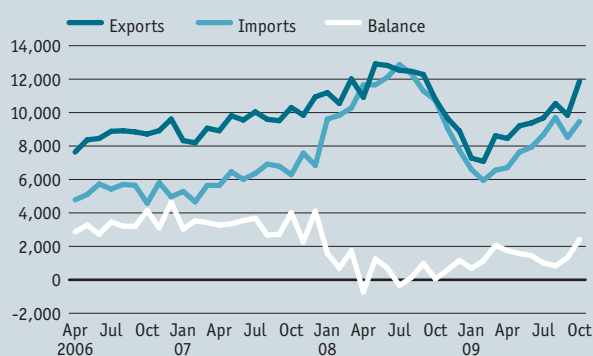
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



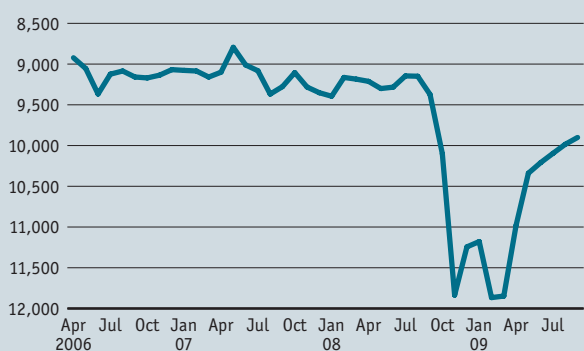
Source: Economist Intelligence Unit.

Foreign trade
(US\$ m; goods only)



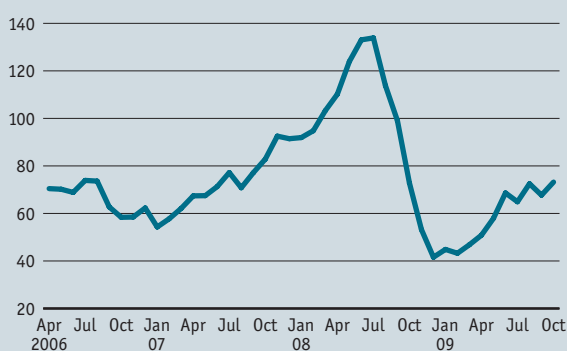
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

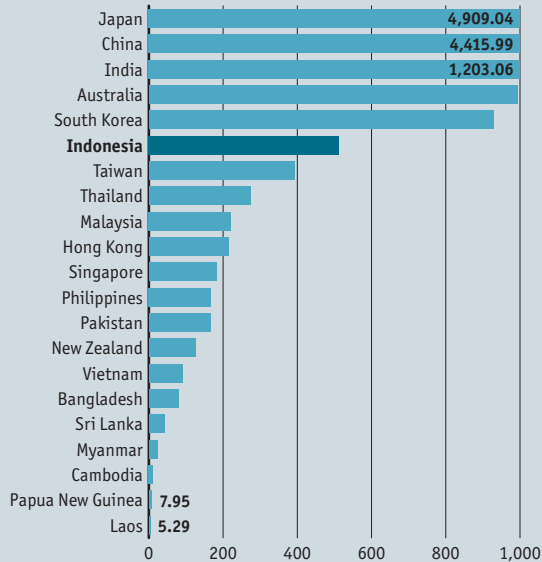
Oil: Brent crude price
(US\$/b; av)



Source: Economist Intelligence Unit.

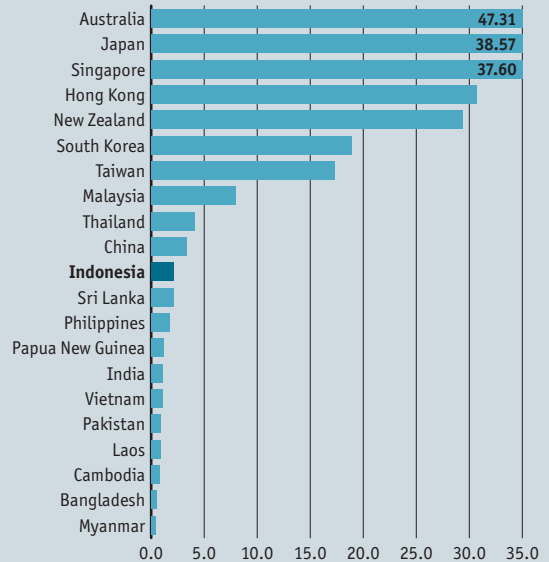
Comparative economic indicators, 2008

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



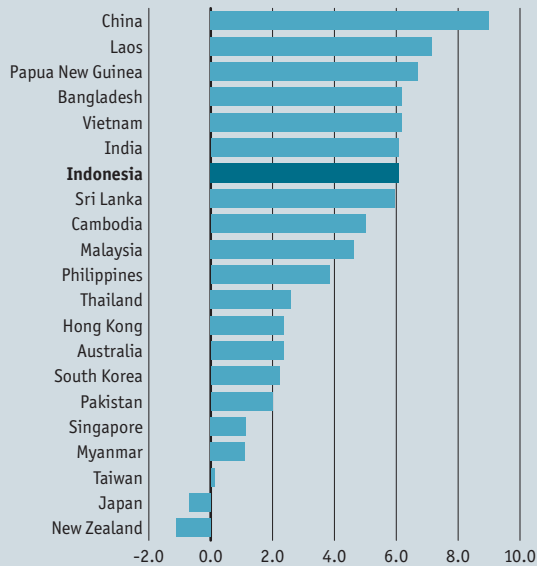
Sources: Economist Intelligence Unit estimates; national sources.

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



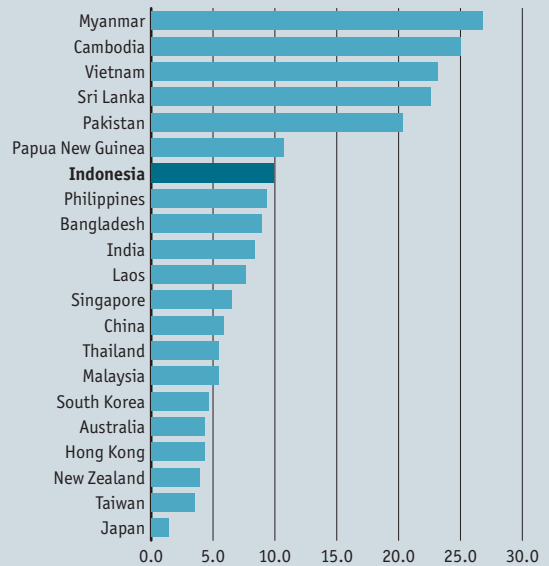
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area	1,904,443 sq km		
Sea area (exclusive economic zone)	3,166,163 sq km (before deductions for sea area now under the control of Timor-Leste)		
Total area	5,070,606 sq km		
Population	235m (US Census Bureau 2007 estimate)		
Main towns	Population in '000 (2000 census)		
	Jakarta (capital)	8,385	Medan 1,792
	Surabaya	2,589	Semarang 1,345
	Bandung	2,142	Palembang 1,442
Climate	Tropical		
Weather in Jakarta (altitude 8 metres)	Hottest months, April-May, 24-31°C (average daily minimum and maximum); coldest months, January-February, 23-29°C; wettest months, January-February, 300 mm average rainfall		
Languages	Indonesian (Bahasa Indonesia), as well as some 250 other regional languages and dialects. English has replaced Dutch as the main second language, and is widely spoken in government and business circles		
Measures	Metric system		
Currency	Rupiah (Rp). Average exchange rate in 2008: Rp9,699:US\$1		
Time	Western Zone 7 hours ahead of GMT, Central Zone 8 hours ahead, Eastern Zone 9 hours ahead		
Fiscal year	January 1st-December 31st (beginning in 2001)		
Public holidays	New Year, January 1st; Chinese New Year, January 26th; Hindu New Year, March 26th; Mouloud, March 9th; Good Friday, April 10th; Waisak Day, May 8th; Ascension, May 21st; Lailat Al Miraj, July 20th; Independence Day, August 17th; Eid al-Fitr, September 20th; Eid al-Adha, November 28th; Islamic New Year, December 18th; Christmas Day, December 25th; Boxing Day, December 26th		

Political structure

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