
Country Report

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26 Red Lion Square
London WC1R 4HQ
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Economist Intelligence Unit

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London

Economist Intelligence Unit
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

New York

Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong

Economist Intelligence Unit
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Geneva

Economist Intelligence Unit
Boulevard des Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com

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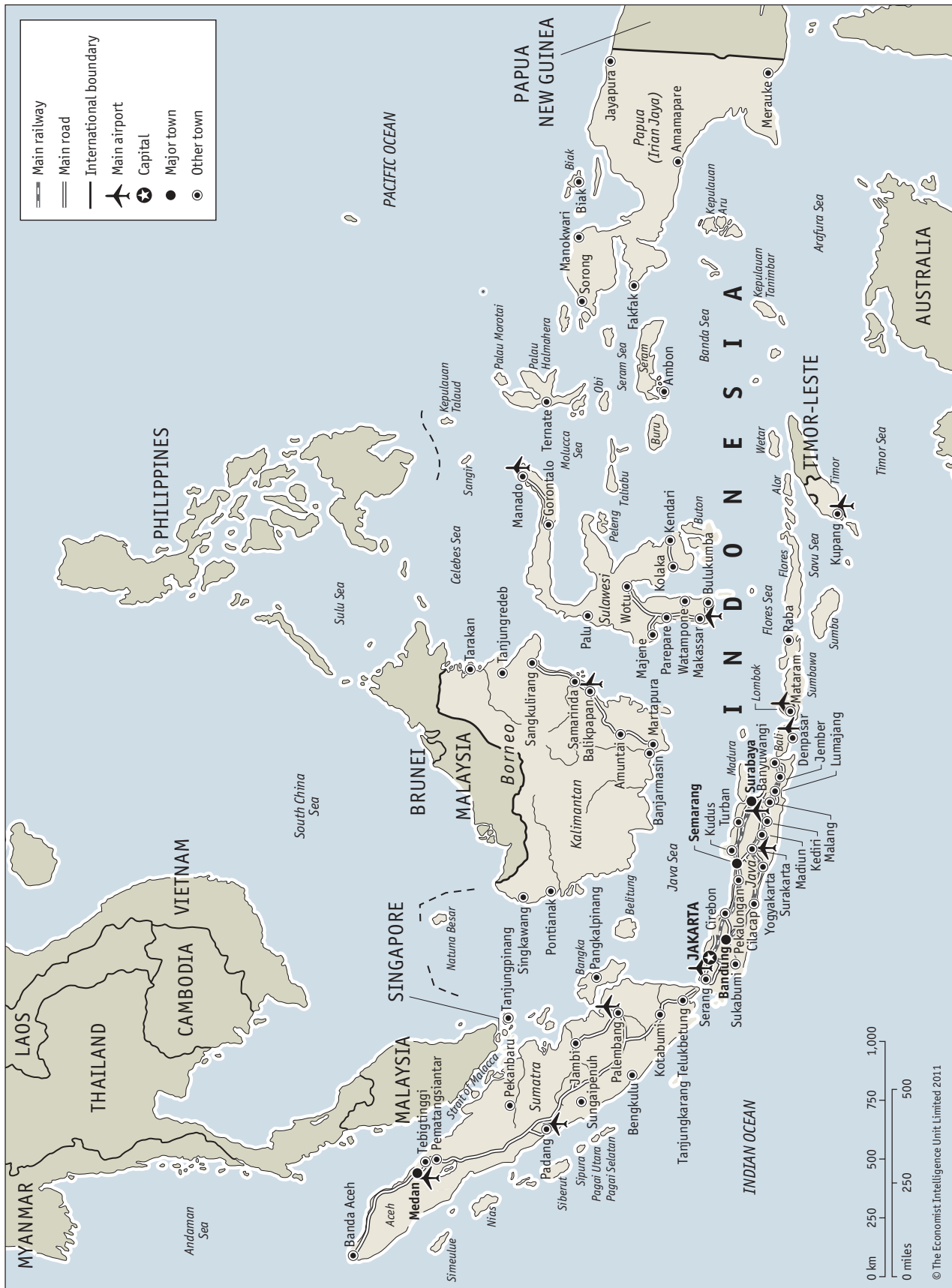
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Editors: Nick Owen (editor); Gareth Leather (consulting editor)
Editorial closing date: May 12th 2011
All queries: Tel: (44.20) 7576 8000 E-mail: london@eiu.com
Next report: To request the latest schedule, e-mail schedule@eiu.com



Executive summary

Highlights

May 2011

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 political parties.
- Bank Indonesia (BI, the central bank) will tighten monetary policy in 2011-12 by gradually raising interest rates.
- The fiscal deficit will widen in 2011, to the equivalent of 1.2% of GDP, but it will then narrow during the remainder of the forecast period, leading to a fall in government debt.
- The Economist Intelligence Unit forecasts that real GDP growth will accelerate to an average of 6.3% a year in the forecast period, driven mainly by private consumption and fixed investment.
- We expect the current account to record an average surplus equivalent to 1.1% of GDP in the forecast period. The income account will stay in deficit, owing to the repatriation of earnings by foreign-owned companies.

Monthly review

- The Chinese premier, Wen Jiabao, signed a series of economic co-operation agreements during an official visit to Indonesia on April 28th-30th. Some Indonesian officials have expressed concern over the relationship with China.
- Proposed revisions to the legislation that established the Anti-Corruption Commission (KPK) threaten to weaken the agency's authority to prosecute graft suspects.
- The finance minister, Agus Martowardojo, has said that high global oil prices may lead to a wider budget deficit this year. Despite higher spending on subsidies, the government recorded a budget surplus in the first quarter.
- Indonesia's economy slowed in the first quarter of 2011. According to the official data agency, Statistics Indonesia (BPS), real GDP expanded by 6.5% year on year, down from the previous quarter's growth of 6.9%.
- Inflation, as measured by the consumer price index, slowed in April to 6.2% year on year, down from 6.7% in March, according to BPS. But core inflation accelerated to 4.6% in that period, from 4.5% in the previous month.
- Despite a fall in the goods surplus, Indonesia's current-account surplus rose to US\$1.9bn in the first quarter, equivalent to 1% of GDP, owing to smaller deficits on the services and income accounts, according to BI.

Outlook for 2011-15

Political outlook

Political stability After successfully guiding Indonesia through the 2008-09 global financial crisis, the president, Susilo Bambang Yudhoyono, showed that he had retained the backing of voters by winning a second term in the July 2009 election. However, he has since lost some of that support. Too often Mr Yudhoyono has chosen to side with conservatives rather than 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 legislature, but it fell short of an overall majority. Given 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. But Mr Yudhoyono's current coalition has proved even less effective than the one that he led during his first term, with various member parties routinely voting against the president on reform issues, calling into question the advantages of his consensual approach.

Recently divisions within the coalition have been most apparent in relation to calls by two coalition parties, Golkar and the Prosperous Justice Party (PKS), for a full-scale parliamentary investigation into corruption at the tax department. The calls followed the conviction in mid-January of a former tax official, Gayus Tambunan, whose trial for bribery and other offences had exposed sensational examples of official corruption. Among the companies that Mr Tambunan confessed to taking "fees" from were three mining firms owned by the family of Aburizal Bakrie, the Golkar chairman and one of the country's richest *pribumi* (ethnic-Indonesian) businessmen. Far from seeking to clean up the tax department, calls by Golkar and its allies for an investigation by the legislature were widely seen as an attempt to discredit leading reformers within the government, notably the vice president, Boediono, and the head of a presidential anti-corruption taskforce, Kuntoro Mangkusubroto. Only days before the calls for a parliamentary investigation, Mr Yudhoyono had announced that he was placing Boediono and Mr Mangkusubroto in charge of the government's efforts to eliminate tax fraud. The announcement appeared to signal that the president had at last resolved to confront those with a vested interest in preserving the corrupt status quo.

It is not the first time that Golkar has tried to use parliamentary investigations to discredit reformists who have challenged vested interests. In May 2010 the leading reformer in the cabinet at that time, Sri Mulyani Indrawati, resigned from her post as finance minister following an investigation by the DPR into a scandal surrounding the bail-out of a medium-sized local lender, Bank Century. Despite being absolved of any blame in relation to the ballooning cost of the bail-out, Ms Mulyani stepped down to take up a senior position at the World Bank, fuelling suggestions that Mr Yudhoyono had asked her to go (or at least had not asked that she stay) in an attempt to repair relations with Golkar and

the PKS. Such speculation was heightened by the appointment soon after Ms Mulyani's resignation of Mr Bakrie as managing chairman of the coalition. Mr Bakrie had been Ms Mulyani's chief opponent.

In the event, parliament voted narrowly in late February against Golkar's calls for an investigation into corruption at the tax department. But the episode brought the ruling coalition to the brink of collapse, with Mr Yudhoyono said to have been ready to replace Golkar and PKS cabinet ministers with members of two opposition parties, the Indonesian Democratic Party-Struggle (PDI-P) and the Great Indonesia Movement Party (Gerindra), only to change his mind at the last moment because of difficulties in concluding a power-sharing agreement with the leader of the PDI-P, Megawati Soekarnoputri. If Mr Yudhoyono and leading reformers in the government continue to confront vested interests, it may be only a matter of time before conflict erupts again within the coalition. If, however, the government abandons its efforts to hold such interests to account for the sake of coalition unity, the prospects for an improvement in standards of governance will worsen. The Economist Intelligence Unit believes that the most likely scenario is a succession of messy compromises between conservatives and reformists in the 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 taking place in 2006. However, separatist tensions continue to simmer in the eastern province of Papua. Most importantly for foreign investors, the terrorist threat will remain severe. Indonesia suffered a series of bombings in 2002-05 that specifically targeted foreigners. The first major attack in almost four years, at the JW Marriott and Ritz-Carlton hotels in the capital, Jakarta, in July 2009, killed nine people, demonstrating that the threat of large-scale bombings persists. Violence is increasing against religious minorities, such as Ahmadi Muslims and Christians, with the police often protecting the perpetrators of the hate crimes rather than the victims.

In focus

Terrorist activity increases in Indonesia

On January 25th, around three months before US special forces killed the al-Qaida leader, Osama bin Laden, in a north-western city in Pakistan, Abbottabad, Pakistani intelligence officers in that town arrested another terrorist, an Indonesian named Umar Patek. A senior member of the Jemaah Islamiah (JI) group wanted in connection with the 2002 Bali bombings, Mr Patek is alleged to have been seeking an audience with bin Laden. He is presently being held at a secret location in Pakistan. Although there is no extradition treaty between Indonesia and Pakistan, Indonesian officials have said that they may still seek Mr Patek's return.

There is no evidence that Mr Patek was plotting attacks in Indonesia. Until recently he was thought to have been in the southern Philippines, where he fled after the Bali bombings with another high-ranking JI member, Dulmatin. But Indonesian newspapers have recently reported a senior anti-terrorism official as saying that Mr Patek spent time in the Indonesian capital, Jakarta, in 2009-10, and that he

was involved in establishing a large-scale terrorist training camp in Aceh, a predominantly Muslim province on Sumatra. Although it is impossible to confirm, the official's statement seems credible: the Aceh camp, which was raided by police in early 2010, was led by Mr Patek's close associate, Dulmatin.

Meanwhile, there are signs that the terrorist threat is increasing. On April 21st police in the western suburbs of Jakarta defused nine bombs outside a Christian church. The devices, several of which were buried beneath a gas pipeline, had been set to detonate during a service the following morning for Good Friday. A week earlier a suicide bomber, Muhammad Syarif, blew himself up and injured 30 others at a mosque inside a police compound in Cirebon, West Java. That attack followed a series of book bombs delivered to the offices of a moderate religious leader, a former head of the police's anti-terrorism unit and to two other addresses in Jakarta on March 15th. No one was killed in those attacks.

Compared with Indonesia's past terrorist bombings, the latest series of attacks seem clumsy. Those responsible for the attempted church bombing even contacted an Arabic-language news broadcaster, Al Jazeera, to ask it to film the attack. Experts at a security-focused non-governmental organisation, International Crisis Group (ICG), recently concluded that Indonesia's violent terrorists had become more fragmented, with small cells planning attacks against the police and other local targets, while receiving only limited support from national groups, such as JI and Jemaah Ansharut Tauhid (JAT), a group founded by an Islamist extremist preacher, Abu Bakar Bashir, in 2008. Although the targets of the three recent attacks appear to support the ICG's conclusions, Indonesia's militants may be co-operating more closely than previously thought if it turns out that the attacks were linked—as police have suggested.

In any event, three attempted attacks in the space of six weeks suggest that terrorist activity is on the rise again in Indonesia. The terrorists may for now have decided to direct their attacks towards local targets, but Mr Patek's arrest in Abbottabad and the reports of his relatively recent presence in Jakarta suggest that the risk of al-Qaida-inspired attacks cannot be discounted altogether. Although Mr Patek was one of only a small number of terrorists in Indonesia to have had direct contact with al-Qaida leaders, bin Laden still has a following among Indonesian extremist groups, such as JAT. The Indonesian authorities have rightly stepped up security following his death.

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 poll. 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 parties—the PD, Golkar and the PDI-P. Mr Bakrie is a strong contender for the Golkar nomination, but he would be a controversial choice owing to the possibility of conflicts of interest arising from his extensive business empire. Despite losing to Mr Yudhoyono in both the 2004 and 2009 elections, the PDI-P is again expected to nominate its own leader, Ms Soekarnoputri. The news in late March that one of Mr Yudhoyono's sons is to marry a daughter of the chairman of the National Mandate Party

(PAN), Hatta Rajasa, has led to speculation that the ruling party may nominate Mr Rajasa as its candidate for either president or vice-president. Such a move would reduce the possibility of a reformer, such as Boediono, securing the party's presidential nomination in 2014.

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. Ties with China are also likely to strengthen. Chinese businesses have become major foreign investors in a variety of sectors in Indonesia. Moreover, owing to the likelihood that the world's advanced economies will grow relatively slowly in the forecast period as they recover from the 2008-09 global financial crisis, Indonesia will rely increasingly on China as an export market. 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 full effect in January 2010. Indonesia's foreign policy will continue to be influenced by the principle of non-alignment, and the government will resist becoming too closely associated with either the US or China. There will be intermittent disputes with Malaysia and Singapore over a range of long-standing issues. At the start of 2011 Indonesia took over the chair of ASEAN for one year.

Economic policy outlook

Policy trends Reforms aimed at addressing the shortcomings of Indonesia's business environment will move forward in a stop-start manner, reflecting the conflicting views on reform that exist within the governing coalition. The anti-corruption drive will continue, but the Anti-Corruption Commission (KPK) will face constant opposition, as will other statutory bodies charged with tackling graft. Several changes, including reform of the country's restrictive labour laws and removal of energy subsidies, may not prove politically feasible. Reform of the inefficient civil service, which was cited by Mr Yudhoyono as a priority for his second term, is making only slow progress. The government has, however, submitted draft legislation to parliament on land acquisitions. If passed, the measure will make it easier for the state to acquire land for development purposes, thus removing a major bottleneck obstructing much-needed improvements to infrastructure.

As a consequence of the inability of the civil service to spend fully the funds allocated to it, the Indonesian government generally fails to operate an effective countercyclical fiscal policy, and macroeconomic management therefore has to be achieved primarily through monetary policy. Bank Indonesia (BI, the central bank) will tighten policy in 2011-12 by raising interest rates in the face of inflationary pressures generated by strong economic growth. Maintaining the stability of the currency amid strong inflows of foreign capital will remain a priority. BI has tightened restrictions on foreign purchases of central bank

bonds, known as BI certificates, by introducing a minimum one-month holding period in June 2010. Although the authorities remain eager to attract long-term foreign investment, the risk of currency instability stemming from a sudden change in investor sentiment was judged too great a risk to be ignored. Further restrictions on capital flows remain a possibility.

Fiscal policy We expect the fiscal deficit to widen to the equivalent of 1.2% of GDP in 2011, from an estimated 0.8% in 2010. This compares with the target of 1.8% of GDP in the 2011 budget. Despite attempts by the finance minister, Agus Martowardojo, to reward ministries that achieve their spending targets and to penalise those that miss them, underspending will remain a problem. A recent rise in global oil prices poses the main risk to our forecast. Despite the fact that fuel subsidies mainly benefit Indonesia's middle class, the government has balked at proposals to allow the prices of petrol, diesel and other fuel products to rise and fall in line with market trends. With the international price of oil (dated Brent Blend) trading at around US\$113/barrel in mid-May, well above the 2011 budget assumption of US\$80/b, spending on subsidies this year could easily exceed the official projection of Rp187.6trn (US\$21.6bn). In 2012-15 the fiscal deficit will shrink. As a result, government debt is forecast to drop further in relation to GDP, and this could mean that Indonesia's sovereign debt rating improves to investment grade, making it cheaper for the government to raise funds in international markets.

Monetary policy Monetary tightening will continue during the remainder of 2011, following BI's decision on February 4th to raise its main policy interest rate, the BI rate, by 25 basis points, to 6.75%. Previously BI had left the rate at 6.5%, the lowest level since it was introduced in 2005, owing to concerns about the effect that a widening interest rate differential with major global economies would have on capital inflows (given that rates in such countries are likely to remain low). Continued concerns about capital inflows, as well as signs that government intervention has succeeded in stabilising inflation, mean that BI's governors will raise interest rates only gradually this year. BI's governors left interest rates on hold at their most recent meetings in March, April and May, preferring to use other policy options, notably appreciation of the rupiah, to address the strengthening of inflationary pressures. But, with core inflation now near to the 5% level at which BI has indicated it will tighten policy, the next increase in the BI rate is likely to come in the next month or so. Interest rates will continue to rise in 2012 before stabilising in 2013-15.

Economic forecast

International assumptions

	2010	2011	2012	2013	2014	2015
Economic growth (%)						
US GDP	2.9	2.9	2.5	2.6	2.6	2.7
OECD GDP	2.9	2.5	2.3	2.4	2.4	2.2
World GDP	3.8	3.2	3.2	3.2	3.2	3.2
World trade	12.5	7.0	6.0	6.1	6.1	5.7

	2010	2011	2012	2013	2014	2015
Inflation indicators (% unless otherwise indicated)						
US CPI	1.6	2.3	2.1	2.5	2.8	2.8
OECD CPI	1.4	2.0	1.8	2.0	2.1	2.3
Manufactures (measured in US\$)	3.4	5.1	-0.1	-0.1	1.2	2.3
Oil (Brent; US\$/b)	79.6	101.0	85.0	78.3	75.5	76.0
Non-oil commodities (measured in US\$)	24.3	29.2	-11.5	-5.9	-3.0	-0.3
Financial variables						
US\$ 3-month commercial paper rate (av; %)	0.3	0.3	0.7	1.5	2.7	2.8
¥ 3-month money market rate (av; %)	0.2	0.4	0.6	1.4	2.0	2.3
Exchange rate: ¥:US\$ (av)	87.9	81.8	81.0	81.0	82.1	83.5
Exchange rate: Rp:US\$ (av)	9,090	8,612	8,610	8,674	8,736	8,812
Exchange rate: US\$:€ (av)	1.33	1.36	1.30	1.23	1.23	1.28

Economic growth

Indonesia was affected less severely by the 2008-09 global financial crisis than many neighbouring economies, largely because exports account for a relatively small proportion of the country's GDP. Moreover, economic growth accelerated in 2010, with real GDP expanding by 6.1% in the year as a whole. Growth slowed to 6.5% in the first quarter of 2011, from 6.9% in the fourth quarter of 2010, and in the year as a whole the economy will grow by 6.1%. Growth will then average 6.4% a year in 2012-15. Private consumption will remain a major driving force behind GDP growth in 2011-15, expanding by an average of 5.4% a year as the unemployment rate falls and real wage increases pick up. Meanwhile, fixed investment will expand by 8.6% a year on average, supported by strengthening demand. Exports of goods and services grew at double-digit rates in 2010, largely as a result of healthy Chinese demand for Indonesia's commodities, but growth in overseas sales will slow in 2011, in line with a weaker global economy. Exports will expand at an average annual rate of 10.6% a year in 2011-15. Owing to healthy import demand, the external sector will make only a modest contribution to GDP growth in 2011-15.

Some downside risks to our forecast remain. The most serious concern is that fiscal austerity programmes in Western economies might lead to a rapid slowdown in global economic growth. In addition, the loose monetary policy stance adopted by Western central banks has caused strong flows of capital into Asian countries, creating concerns that asset price bubbles could develop in these economies. The bursting of bubbles can trigger a process of deleveraging that hurts a country's real economy. Indonesia was a recipient of strong flows of foreign finance in 2010, and it will continue to attract substantial inflows in 2011. As a result, asset prices are likely to rise. 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 infrastructure.

Economic growth						
%	2010^a	2011^b	2012^b	2013^b	2014^b	2015^b
GDP ^c	6.1	6.1	6.3	6.4	6.5	6.4
Private consumption	4.6	4.9	5.4	5.5	5.6	5.6
Government consumption	0.3	5.4	8.8	7.5	7.8	7.6
Gross fixed investment	8.5	7.3	8.9	8.9	9.1	8.9
Exports of goods & services	14.9	10.0	10.3	11.3	10.7	10.9
Imports of goods & services	17.3	10.8	11.5	13.0	12.2	12.6
Domestic demand	5.7	5.6	6.4	6.6	6.8	6.7
Agriculture	2.9	3.8	3.5	3.5	3.5	3.5
Industry	4.7	4.1	4.1	4.2	4.2	4.2
Services	8.4	8.5	9.0	9.0	9.1	8.7

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

Inflation On an annual average basis, consumer price inflation accelerated to 5.1% in 2010, from 4.8% in 2009, and inflationary pressures will rise again this year as economic activity accelerates. A sharp increase in the international price of oil and non-oil commodities, notably grains, will also exert upward pressure on domestic prices. However, average inflation should remain just within BI's 4-6% target range. After accelerating in January to 7% year on year, the fastest pace in 21 months, inflation slowed in each of the following three months, with prices rising by 6.2% in April. The rupiah's continued appreciation against the US dollar, and the start of the main domestic rice harvest in March, should limit inflation in the coming months. Inflation will slow to 5.8% in 2012, before accelerating to 6.2% on average in 2013-15. The primary risk to our forecast comes from the possibility that high global oil prices could force officials to raise domestic fuel prices to keep the budget deficit under control, especially given that their assumption that oil prices will average US\$80/b this year looks unrealistically low. But there is little sign that the government is contemplating raising prices. In fact, it has repeatedly postponed plans to end the sale of subsidised fuel products to owners of private cars on Java.

Exchange rates The rupiah appreciated by 14.4% against the US dollar on an annual average basis in 2010, and by the end of the year it had reached Rp8,991:US\$1, more than regaining the ground lost since late 2008, when the currency plunged as international investors fled risky emerging markets. Interest from international investors in carry trades (whereby speculators borrow in countries where interest rates are low, such as the US and Japan, to purchase assets in countries with higher rates, such as Indonesia) has been an important factor in the rupiah's appreciation. Healthy domestic economic growth has been another factor encouraging foreign investment in Indonesian assets. Substantial capital inflows are expected in 2011, when Indonesia's GDP growth performance and interest rates will compare favourably with those of Western economies. Although BI will continue to intervene to prevent the rupiah from appreciating too sharply, the central bank seems content for now to let the currency strengthen as a means of controlling inflation. The rupiah is forecast to strengthen by 5.6% in 2011, before weakening slowly in 2012-15. The currency will remain vulnerable to sudden swings in sentiment.

External sector A recovery in merchandise exports, led by commodities, caused the trade surplus to rise in 2010, to US\$31.1bn, and we forecast that the surplus will continue to grow in 2011-15, to stand at US\$49.1bn in 2015. The deficit on the income account widened in 2010, in part owing to a rise in interest and dividend payments. The income account will remain in the red throughout 2011-15, as foreigners continue to repatriate earnings while Indonesian investments abroad still earn relatively meagre returns. Limited employment opportunities at home in the next five years will force more Indonesian workers to seek jobs overseas, leading to an increase in inward remittances and thus pushing up the surplus on the transfers account. We expect the current account to record a surplus equivalent to 1.1% of GDP on average in the forecast period.

Forecast summary

(% unless otherwise indicated)

	2010 ^a	2011 ^b	2012 ^b	2013 ^b	2014 ^b	2015 ^b
Real GDP growth	6.1	6.1	6.3	6.4	6.5	6.4
Industrial production growth	4.3 ^c	3.5	4.1	4.2	4.6	4.7
Gross agricultural production growth	2.9	3.8	3.5	3.5	3.5	3.5
Unemployment rate (av)	7.1	6.7	6.6	6.5	6.4	6.0
Consumer price inflation (av)	5.1	6.0	5.8	6.0	6.3	6.4
Consumer price inflation (end-period)	7.0	5.3	5.2	6.3	6.7	6.2
Money market interest rate	6.1	7.3	8.3	8.5	8.5	8.5
Government balance (% of GDP)	-0.8 ^c	-1.2	-1.0	-0.9	-0.8	-0.6
Exports of goods fob (US\$ bn)	158.2	188.8	217.9	254.4	297.9	351.3
Imports of goods fob (US\$ bn)	127.1	152.7	176.8	210.0	249.8	302.3
Current-account balance (US\$ bn)	6.3	8.2	12.6	13.7	14.6	11.8
Current-account balance (% of GDP)	0.9	1.0	1.3	1.3	1.2	0.9
External debt (end-period; US\$ bn)	161.0 ^c	168.4	168.1	169.9	173.3	179.5
Exchange rate Rp:US\$ (av)	9,090	8,612	8,610	8,674	8,736	8,812
Exchange rate Rp:US\$ (end-period)	8,991	8,611	8,642	8,705	8,774	8,851
Exchange rate Rp:¥100 (av)	10,344	10,535	10,630	10,709	10,637	10,554
Exchange rate Rp:€ (end-period)	12,210	11,367	10,976	10,533	10,924	11,428

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

Monthly review: May 2011

The political scene

The Chinese premier seeks to build trust during a state visit

The Chinese premier, Wen Jiabao, conducted an official state visit to Indonesia between April 28th and 30th, holding talks with the president, Susilo Bambang Yudhoyono. The two leaders announced plans to double trade between the two countries, to US\$80bn by 2015, and signed agreements on economic and trade co-operation, as well as the teaching of Mandarin in Indonesian schools. Mr Wen also announced US\$9bn in loans for infrastructure development and US\$10bn in export credit facilities. More importantly, the visit provided Mr Wen with an opportunity to set out a case for building trust between the two countries. China is competing with the US for influence in Indonesia and elsewhere in South-east Asia. During his three-day visit Mr Wen sought to address local concerns about China's increasing influence in the region.

Recently China's commercial relationship with Indonesia has been under close scrutiny. China was Indonesia's largest trading partner in 2010, with trade between the two countries worth US\$36bn, according to figures from the IMF. However, the terms of trade are increasingly controversial. Indonesia mostly exports primary commodities to China. In April the head of the trade commission in the House of People's Representatives (DPR, the legislature), Airlangga Hartarto, said that the relationship was "not fair for Indonesia". Concerns over the trade imbalance have worsened since a free-trade agreement (FTA) between China and the Association of South-East Asian Nations (ASEAN) took effect in January 2010. As recently as in 2007 Indonesia ran a trade surplus of US\$1.1bn with China, but this had become a deficit of US\$4.7bn by 2010, when the deficit widened by 89%. Calls are multiplying to renegotiate the terms of the FTA.



Furthermore, China is seen as driving hard bargains in negotiations over contracts for natural resources, resulting in poor prices for Indonesian producers, while the export of raw commodities results in little value-addition or job-creation in Indonesia. Resentment of what is perceived to be an exploitative relationship is growing within political circles. In April the Ministry of Energy and Mineral Resources said that it would seek to negotiate a higher price for the

liquefied natural gas (LNG) that it sells to China from the Tangguh gasfield in West Papua province. Indonesia and China have a 25-year agreement for the annual supply of 2.6m tonnes of LNG from the Tangguh field.

Economic policy

The KPK faces threats

Concern is growing over the potential impact of amendments to the 2002 law that established the Anti-Corruption Commission (KPK). A respected local anti-corruption watchdog, Indonesia Corruption Watch (ICW), said in late April that the proposed amendments would greatly weaken the KPK, which spearheads the fight against graft. Amendments to the law proposed by the DPR would remove the commission's authority to prosecute suspects and restrict its ability to collect evidence through wire taps, requiring it to seek a court order first. Legislators argue that the Attorney-General's Office has sole authority to prosecute criminals. In April the attorney-general, Basrief Arief, said that prosecutions in all courts should be centralised under his leadership, including cases heard by the Anti-Corruption Court.

Policymakers are also seeking to abolish a provision that prohibits the KPK from dropping a case once it has begun an investigation. This serves to ensure that the commission launches a formal investigation only once it has gathered strong evidence, and also ensures that, once it has begun, the judicial process cannot be halted by bribing investigating officers and judges. Both the right to launch independent prosecutions and the inability to halt cases lie behind a conviction rate for the KPK that runs close to 100%. This is in stark contrast to corruption cases prosecuted by the Attorney-General's Office, which rarely result in successful prosecutions. According to ICW data, in 2010 the KPK arrested 69 suspects in 23 cases that accounted for estimated state losses of Rp619bn (US\$68m). The watchdog has also questioned the DPR's motives for amending the law and weakening the commission.

Resistance to the KPK within Indonesia's establishment is likely to be hardened further by revelations that it is investigating the alleged involvement of the co-ordinating minister for the economy, Hatta Rajasa, in a corruption case involving the procurement of trains from Japan in 2006-07. Mr Rajasa, who is also the chairman of the National Mandate Party (PAN) and who is one of Mr Yudhoyono's closest advisers, was transport minister at the time. The former director-general for railways at the Ministry of Transport, Soemino Eko Saputra, has already been named as a suspect in the case. Mr Saputra has alleged that Mr Rajasa was also involved. The KPK lost the support of Mr Yudhoyono in 2009, after it imprisoned Aulia Pohan, the father-in-law of the president's eldest son, Agus Harimurti Yudhoyono, for his role in corruption at Bank Indonesia (BI, the central bank). Mr Rajasa is also on the verge of joining the extended Yudhoyono family, through the pending marriage of his daughter, Siti Ruby Aliya Rajasa, to Mr Yudhoyono's youngest son, Edhie Baskoro Yudhoyono. The prospect of one of his soon-to-be close relatives being convicted for corruption is unlikely to endear the president to the KPK.

Meanwhile, the Judicial Commission of Indonesia (KY) has announced that it has identified possible ethical violations by judges in the murder trial of the

previous KPK chairman, Antasari Azhar. In 2010 Mr Azhar was sentenced to 18 years in prison for organising the 2009 murder of a businessman, Nasruddin Zulkarnaen. The KY has indicated that judges may have ignored expert opinion on ballistics and information technology that would have been favourable to Mr Azhar. The National Commission on Human Rights (Komnas HAM) is also assessing whether Mr Azhar received a fair trial. The trial has come under renewed scrutiny after statements made in court by another graft convict, Gayus Tambunan, who alleged in January that a state prosecutor, Cirus Sinaga, had been involved in a plot to frame Mr Azhar. Two other KPK commissioners, Chandra Hamzah and Bibit Rianto, were also suspended in 2009 after being framed by senior police, prosecutors and corruption suspects working in collusion. Both have since been reinstated.

Legislators debate a bill on land acquisition

Deliberation of a bill on land acquisition is continuing in the DPR. The draft law, submitted to the DPR in December 2010, is required to clarify provisions on land acquisition for public infrastructure projects. Intractable disputes over land acquisition present a severe challenge to upgrading Indonesia's dilapidated and inadequate infrastructure, which serves as a bottleneck to economic growth. The draft law would grant officials authority to manage the acquisition of land for the construction of public infrastructure in advance of opening projects for tender. Independent teams would be appointed to value land, with final prices determined through negotiation between landowners and officials. Under the provisions of the bill, disputes over pricing should be heard by district courts within 30 days, with no further appeals to higher courts.

Although passage of the bill would mark an important step forward in addressing Indonesia's infrastructure woes, it will not solve all of the country's problems overnight. In April 2011 Zulkarnain Arief, the deputy chairman for infrastructure at the Indonesian Chamber of Commerce and Industry (Kadin), warned that the draft bill would not succeed in attracting private investment in the absence of reliable long-term finance and enforcement of relevant laws and regulations. The National Development Planning Agency (Bappenas) estimates that Indonesia would require annual investment of Rp2,417trn (US\$280.7bn) in infrastructure as part of a drive to attain annual growth rates of 7-8% and achieve high-income status within 15 years, with much of this finance coming from private sources. This compares with public infrastructure spending—only partially realised—of Rp95trn and a public works budget of Rp36trn in 2010. An alliance of non-governmental organisations has also raised concerns over the bill, on the grounds that it would legalise land seizures and forced evictions, in addition to leaving vulnerable groups of low-income citizens open to abuse.

The government records a first-quarter budget surplus

The government recorded a budget surplus of Rp5.7trn in the first quarter of 2011. The government has targeted a full-year deficit of Rp125trn, equivalent to 1.8% of GDP. The first-quarter surplus came despite rising expenditure on fuel subsidies, which reached Rp18.1trn as a result of rising oil prices, higher consumption of subsidised fuels and falling domestic oil production. Consumption of subsidised fuel rose by 6.9% year on year in the first quarter, to 9.7m kilolitres. To accommodate the pressure this has placed on the public finances, the Ministry of Finance announced in April that it was planning to revise the oil

price assumptions used in the 2011 state budget. The assumed oil price is likely to be raised to US\$100/barrel, from US\$80/b, while forecast net domestic oil production is likely to be cut to 945,000 barrels per day, from 970,000 b/d previously. In April the finance minister, Agus Martowardojo, warned that rising oil prices may lead to a higher budget deficit this year, but that some of the losses associated with higher oil prices would be offset by gains in the rupiah:US dollar exchange rate. The rupiah has appreciated over 5% against the US dollar so far in 2011, standing at close to Rp8,500:US\$1 at end-April. The exchange rate used in the budget forecasts is expected to be adjusted from its current level of Rp9,250:US\$1 to Rp9,000:US\$1. The finance ministry estimates that the budget deficit increases by Rp800bn for every US\$1 increase in oil prices, while the deficit is reduced by Rp1.7trn for every appreciation of Rp100 (1 US cent) in the rupiah:US dollar exchange rate.

The government raised US\$2.5bn through a ten-year US dollar-denominated bond issued in April, at a yield of 5.1%. Given that orders worth US\$6.9bn were received, the issuance was heavily oversubscribed, reflecting continued high demand for Indonesian assets. Bids from the US accounted for 49% of orders, followed by Asia (29%) and Europe (22%). In its previous approach to international debt markets, in January 2010, Indonesia raised US\$2bn through a ten-year US dollar bond, at a yield of 6%. The lower yield achieved this year reflects stronger investor interest and a promising long-term outlook for the economy. Officials have also cancelled plans to issue a yen-denominated Samurai bond. The finance ministry cancelled the sale owing to concerns over Japan's need for domestic financing for reconstruction in the aftermath of the disaster in March.

Economic performance

The economy slows in the first quarter

Indonesia's economy slowed in the first quarter of 2011. According to the official data agency, Statistics Indonesia (BPS), real GDP expanded by 6.5% year on year, down from growth of 6.9% in the fourth quarter of 2010. Private consumption expenditure was the main driver of economic growth, expanding by 4.5%, from 4.4% previously, making a 2.6-percentage-point contribution to overall GDP growth. All of the other main expenditure accounts slowed compared with the previous quarter. Government consumption expanded by 2.9%, down from 7.3% previously, contributing only 0.2 percentage points to growth. Meanwhile, gross fixed investment was up by 7.3%, down from 8.7% previously. It contributed 1.7 percentage points to economic growth. Exports of goods and services expanded by 12.2% year on year in the first quarter, compared with 16.1% in the previous quarter, while imports of goods and services were up by 15.6%, compared with 16.9% previously. As a result, net exports contributed only 0.1 percentage points to growth—down from a contribution of 1.6 percentage points in the fourth quarter of 2010. After private consumption and fixed investment, the biggest contribution to overall GDP growth came from changes in stocks, which rose by Rp5.7trn at constant prices, as firms rebuilt their inventories. The government expects the economy to expand by 6.4% this year, up from 6.1% in 2010, but Mr Rajasa, who is the co-ordinating minister for the economy, responded to the latest GDP results by stating that he was "not

happy" with the low level of government expenditure, adding that ministries would have to do more to achieve their spending targets.

Gross domestic product by expenditure

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

	2008	2009	2010				2011	
			1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	1 Qtr ^a
Private consumption	5.3	4.9	3.9	5.0	5.2	4.4	4.5	0.9
Public consumption	10.4	15.7	-8.8	-8.9	4.3	8.3	2.9	-46.7
Gross fixed investment	11.9	3.3	7.8	7.9	9.3	8.6	7.3	-3.3
Exports of goods & services	9.5	-9.7	20.0	14.5	9.6	16.2	12.2	-7.1
Imports of goods & services	10.0	-15.0	22.6	18.4	12.2	16.9	15.6	-3.4
GDP	6.0	4.6	5.7	6.2	5.8	6.9	6.5	1.5

^a change; quarter on quarter; non-seasonally adjusted

Source: Statistics Indonesia (BPS).

Food prices fall but core inflation still accelerates

The rate of inflation, as measured by the consumer price index, slowed in April, to 6.2% year on year, from 6.7% in March, while consumer prices fell by 0.3% month on month, following a decline of 0.3% in March, according to BPS. The slowdown in inflation came about as a result of lower prices for staple foods during the main rice harvest season. Food prices rose by 11.1% year on year in April, down from 13.6% in March, but fell by 1.9% month on month. In a sign that it is satisfied with domestic food supplies, on April 1st the government reintroduced import duties on rice, after suspending duties for four months owing to concerns of supply shortages and rising prices. Duties on rice and rice flour have been restored to the previous rate, of Rp450 (5 US cents) per kilogram. Core inflation, however, which excludes food and fuel prices, accelerated to 4.6% year on year in April, from 4.5% in March. The upward trend in core inflation suggests that BI will be required to raise the benchmark interest rate later this year. The central bank had previously indicated that it would raise interest rates if core inflation rose above 5%. BI has raised the benchmark interest rate once already this year, with a 25-basis-point increase announced in February.

Indonesia's external surplus remains substantial

Indonesia's surplus in its transactions with the rest of the world fell slightly in the first quarter of 2011, according to BI. The overall balance of payments (before official financing) totalled US\$7.7bn, down from US\$11.3bn in the fourth quarter of 2010. However, the surplus remained substantial. Despite a fall in the goods surplus, to US\$8.4bn in the first quarter from US\$9.2bn previously, the current-account surplus rose from US\$1.1bn to US\$1.9bn, equivalent to 1% of GDP, owing to a narrowing of the deficits on the services and income accounts. According to BI, the smaller income deficit was explained by a decline in debt interest payments, while the smaller services deficit reflected lower travel payments following the end of the annual Hajj pilgrimage (Indonesia has the largest population of Muslims in the world). Meanwhile, the capital and financial account recorded a surplus of US\$6.2bn, down from US\$9.6bn in the fourth quarter. Net direct investment totalled US\$3bn in the period, from US\$4.2bn in the fourth quarter. Although foreign direct investment in Indonesia rose to US\$4.5bn, from US\$4.3bn in the fourth quarter, Indonesian overseas investment rose even more sharply, to US\$1.5bn, from US\$64m. Net portfolio

investment rose to US\$3.6bn from US\$1.4bn as foreign funds remained attracted to the high yields of Indonesian assets. The "other" investment account (consisting of drawings and repayments of loans received by residents) recorded a deficit of US\$296m, compared with a surplus of US\$2.4bn in the fourth quarter. Indonesia's stock of foreign reserves rose by US\$9.5bn in January-March, to US\$106bn, or 6.2 months of imports and official debt repayments.

Balance of payments

(US\$ m)

	2009	2010	2009 4 Qtr	2010 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2011 1 Qtr
Exports fob	119,646	158,074	36,004	35,088	37,444	39,712	45,830	45,701
Imports fob	-88,714	-127,447	-25,549	-28,134	-30,596	-32,119	-36,597	-37,297
Trade balance	30,932	30,628	10,455	6,954	6,848	7,593	9,232	8,404
Services, net	-9,741	-9,320	-4,538	-2,105	-2,274	-2,154	-2,787	-2,183
Income, net	-15,140	-20,291	-4,551	-3,993	-4,262	-5,385	-6,652	-5,365
Current transfers, net	4,578	4,637	1,221	1,081	1,100	1,153	1,303	1,070
Current-account balance	10,628	5,654	3,781	1,938	1,412	1,208	1,096	1,926
Capital account balance	96	50	14	18	2	4	26	1
Financial account balance	4,756	26,084	2,399	5,572	3,695	7,294	9,524	6,220
Foreign direct investment, net	2,628	10,639	779	2,484	2,298	1,617	4,241	2,956
Portfolio investment, net	10,336	13,202	3,521	6,159	1,089	4,517	1,437	3,561
Other investment, net	-8,208	2,243	-1,900	-3,072	308	1,160	3,846	-296
Capital & financial account balance	4,852	26,134	2,413	5,590	3,697	7,298	9,550	6,221
Total	15,481	31,788	6,195	7,528	5,109	8,506	10,646	8,147
Errors & omissions	-2,975	-1,503	-2,241	-907	312	-1,551	643	-481
Balance of payments	12,506	30,285	3,954	6,621	5,421	6,955	11,289	7,666
Reserve assets position (end-period)	66,105	96,207	66,105	71,823	76,321	86,551	96,207	105,709
Reserve assets (months of import & official debt-repayment cover)	6.5	7	6.5	5.2	5.6	6.3	7	6.2

Source: Bank Indonesia.

Foreign funds drive the rupiah to a seven-year high

The rupiah has continued to appreciate against the US dollar, reaching a seven-year high of Rp8,543:US\$1 in early May. The currency has now gained around 5% against the US dollar this year. In late April a BI deputy governor, Budi Mulya, said that it was impossible to resist the strengthening trend in the currency, and added that the central bank was content to use the rupiah's appreciation to help contain inflation. A stronger rupiah helps to reduce the cost of imports in local-currency terms. The appreciation of the currency has been driven by a surge of foreign funds into local markets. Strong economic fundamentals and good growth prospects, combined with low returns in developed markets, have drawn funds into leading emerging markets—including Indonesia. Earlier, concerns over rising inflation led foreign investors to withdraw funds from the local market, leading to a fall over a few days in January of around 10% in the value of shares listed on the main stockmarket index, the Jakarta Composite Index (JCI). However, policymakers have since regained the confidence of the markets. Foreign investors added US\$2bn in net terms to their holdings of Indonesian equities in April alone and now account for 60% of market capitalisation. The JCI hit a record high of 3,820 points in late April. Foreign investors also purchased government debt worth Rp7trn in that month.

Data and charts

Annual data and forecast

	2006 ^a	2007 ^a	2008 ^a	2009 ^a	2010 ^a	2011 ^b	2012 ^b
GDP							
Nominal GDP (US\$ bn)	364.6	432.2	510.2	539.4	706.6	842.7	959.5
Nominal GDP (Rp trn)	3,339.2	3,950.9	4,948.7	5,603.9	6,422.9	7,257.7	8,261.2
Real GDP growth (%)	5.5	6.3	6.0	4.6	6.1	6.1	6.3
Expenditure on GDP (% real change)							
Private consumption	3.2	5.0	5.3	4.9	4.6	4.9	5.4
Government consumption	9.6	3.9	10.4	15.7	0.3	5.4	8.8
Gross fixed investment	2.6	9.3	11.9	3.3	8.5	7.3	8.9
Exports of goods & services	9.4	8.5	9.5	-9.7	14.9	10.0	10.3
Imports of goods & services	8.6	9.1	10.0	-15.0	17.3	10.8	11.5
Origin of GDP (% real change)							
Agriculture	3.4	3.5	4.8	4.0	2.9	3.8	3.5
Industry	4.5	4.7	3.7	3.5	4.7	4.1	4.1
Services	7.3	9.0	8.7	5.7	8.4	8.5	9.0
Population and income							
Population (m)	231.8	234.7	237.5	240.3	243.0	245.6	248.2
GDP per head (US\$ at PPP)	3,314 ^c	3,583 ^c	3,836 ^c	4,001 ^c	4,239 ^c	4,516	4,879
Recorded unemployment (av; %)	10.3	9.1	8.4	7.9	7.1	6.7	6.6
Fiscal indicators (% of GDP)							
Central government budget revenue	19.1	18.0	19.2	15.5	16.9 ^c	17.2	17.7
Central government budget expenditure	20.1	18.7	19.8	17.1	17.7 ^c	18.4	18.7
Central government budget balance	-1.0	-0.7	-0.6	-1.6	-0.8 ^c	-1.2	-1.0
Public debt	33.0 ^c	31.3 ^c	28.3 ^c	27.4 ^c	25.5 ^c	24.4	23.0
Prices and financial indicators							
Exchange rate Rp:US\$ (end-period)	9,020	9,419	10,950	9,400	8,991	8,611	8,642
Exchange rate Rp:¥100 (end-period)	7,579	8,432	12,061	10,099	10,889	10,553	10,669
Consumer prices (end-period; %)	6.6	5.8	11.1	2.8	7.0	5.3	5.2
Stock of money M1 (% change)	28.0	29.7	1.5	12.9	17.4	15.2	17.4
Stock of money M2 (% change)	14.9	19.3	14.9	13.0	15.4	13.0	17.9
Lending interest rate (av; %)	16.0	13.9	13.6	14.5	13.3	14.2	14.8
Current account (US\$ m)							
Trade balance	29,661	32,754	22,916	30,147	31,092	36,083	41,107
Goods: exports fob	103,528	118,014	139,606	119,646	158,201	188,762	217,931
Goods: imports fob	-73,867	-85,259	-116,690	-89,498	-127,108	-152,679	-176,824
Services balance	-9,875	-11,842	-12,998	-9,675	-9,491	-10,112	-10,439
Income balance	-13,790	-15,524	-15,156	-15,140	-20,259	-22,017	-22,353
Current transfers balance	4,863	5,103	5,364	4,860	4,951	4,221	4,325
Current-account balance	10,860	10,492	125	10,192	6,294	8,175	12,641
External debt (US\$ m)							
Debt stock	132,512	142,638	150,851	156,736 ^c	161,036 ^c	168,429	168,133
Debt service paid	28,479	22,805	22,150	23,212 ^c	22,974 ^c	23,066	24,219
Principal repayments	23,979	16,680	16,573	18,207 ^c	18,163 ^c	18,432	19,099
Interest	4,500	6,125	5,577	5,005 ^c	4,812 ^c	4,634	5,119
International reserves (US\$ m)							
Total international reserves	42,588	56,924	51,641	66,119	96,211	119,987	130,229

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

Source: IMF, *International Financial Statistics*.

Quarterly data

	2009			2010				2011
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Output								
GDP at constant 2000 prices (Rp trn)	540.8	561.1	547.4	558.0	573.9	593.7	585.1	594.0
Real GDP (% change, year on year)	4.2	4.2	5.4	5.6	6.1	5.8	6.9	6.5
Manufacturing at constant 2000 prices (Rp trn)	140.8	144.8	145.4	144.1	147.1	151.0	153.1	151.3
Manufacturing at constant 2000 prices (% change, year on year)	1.5	1.3	4.3	3.9	4.5	4.3	5.3	5.0
Mining at constant 2000 prices (Rp trn)	44.3	46.4	46.0	44.9	46.0	47.6	47.9	47.0
Mining at constant 2000 price (% change, year on year)	3.5	6.3	5.3	3.1	3.9	2.7	4.2	4.7
Prices								
Consumer prices (2002=100)	114.0	115.4	116.8	118.2	119.0	122.5	124.2	126.3
Consumer prices (% change, year on year)	5.6	2.8	2.6	3.7	4.4	6.2	6.3	6.8
Wholesale prices (2000=100)	161.7	164.0	165.0	167.3	169.7	171.0	174.3	179.7
Financial indicators								
Exchange rate Rp:US\$ (av)	10,509	9,966	9,454	9,271	9,132	8,995	8,964	n/a
Exchange rate Rp:US\$ (end-period)	10,225	9,681	9,400	9,115	9,083	8,924	8,991	n/a
Deposit rate (av; %)	9.67	8.69	7.71	7.13	6.96	6.95	7.03	n/a
Discount rate (end-period; %)	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.75
Lending rate (av; %)	14.67	14.31	13.91	13.66	13.28	13.13	12.93	n/a
3-month money market rate (av; %)	7.40	6.45	6.30	6.20	6.15	6.20	5.68	n/a
M1 (end-period; Rp trn)	482.6	490.5	515.8	494.5	545.4	549.9	605.4	580.5
M1 (% change, year on year)	6.5	2.2	12.9	10.4	13.0	12.1	17.4	17.4
M2 (end-period; Rp trn)	1,978	2,019	2,141	2,112	2,231	2,275	2,471	2,450.7
M2 (% change, year on year)	16.1	13.5	13.0	10.2	12.8	12.7	15.4	16.0
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)	2,027	2,468	2,534	2,777	2,914	3,501	3,704	3,679
Stockmarket index (% change, year on year)	-22.2	30.4	117.8	145.9	61.8	53.9	52.8	n/a
Sectoral trends								
Manufacturing production (2000=100) ^a	127.5	131.0	132.9	129.9	133.0	135.8	139.5	n/a
Manufacturing production (% change, year on year) ^a	0.6	0.1	4.9	4.3	4.3	3.7	5.0	n/a
Crude oil production (m barrels/day) ^b	0.97	0.98	0.98	0.99	1.00	0.98	0.95	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
Foreign trade (US\$ m)								
Exports fob	27,044	30,071	36,366	35,537	37,022	38,395	46,863	45,313
Imports cif	-22,284	-26,907	-28,545	-29,961	-32,976	-34,452	-38,274	-38,788
Trade balance	4,761	3,163	7,822	5,576	4,046	3,943	8,589	6,526
Foreign payments (US\$ m)								
Merchandise trade balance	7,344	6,669	10,207	7,045	6,961	7,807	9,280	n/a
Services balance	-2,198	-2,345	-3,428	-2,128	-2,307	-2,286	-2,770	n/a
Income balance	-3,776	-4,071	-4,551	-3,992	-4,262	-5,385	-6,620	n/a
Net transfer payments	1,201	1,248	1,303	1,169	1,210	1,238	1,334	n/a
Current-account balance	2,571	1,501	3,531	2,094	1,602	1,374	1,224	n/a
Reserves excl gold (end-period)	55,381	59,978	63,563	69,223	73,431	83,489	92,908	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

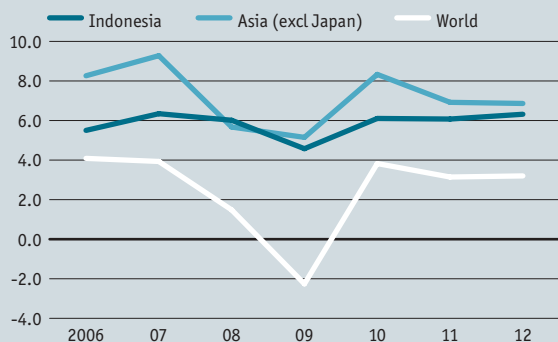
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Rp:US\$ (av)												
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,817	9,446	9,460	9,458
2010	9,297	9,347	9,169	9,017	9,226	9,153	9,032	8,988	8,965	8,929	8,948	9,016
2011	9,050	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Rp:US\$ (end-period)												
2009	11,355	11,980	11,575	10,713	10,340	10,225	9,920	10,060	9,681	9,545	9,480	9,400
2010	9,365	9,335	9,115	9,012	9,180	9,083	8,952	9,041	8,924	8,928	9,013	8,991
2011	9,057	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2009	116.53	113.20	114.75	122.03	127.61	129.24	129.39	130.79	130.86	134.35	134.04	135.12
2010	138.92	139.85	141.86	143.57	144.11	145.89	144.73	145.20	143.57	140.86	141.32	141.24
2011	140.08	140.63	141.24	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M1 (end-period; % change, year on year)												
2009	6.6	8.3	9.3	9.3	7.2	6.5	5.2	11.3	2.2	5.8	6.8	12.9
2010	13.4	12.7	10.4	9.2	12.5	13.0	15.1	13.3	12.1	14.4	15.4	17.4
2011	21.7	19.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M2 (end-period; % change, year on year)												
2009	17.4	18.5	20.2	18.7	17.4	16.1	16.3	18.6	13.5	11.5	11.4	13.0
2010	10.7	8.8	10.2	10.6	11.2	12.8	13.1	12.1	12.7	14.2	13.8	15.4
2011	17.5	17.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2009	11.3	11.1	10.7	10.1	9.7	9.3	9.0	8.7	8.4	8.0	7.7	7.5
2010	7.3	7.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.1
2011	6.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2009	15.2	15.1	15.0	14.8	14.7	14.5	14.5	14.3	14.2	14.1	14.0	13.7
2010	13.8	13.7	13.5	13.4	13.3	13.2	13.2	13.2	13.0	13.0	13.0	12.8
2011	12.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Manufacturing production (av; % change, year on year)												
2009	-1.7	0.9	1.4	1.2	0.1	0.6	-0.2	0.7	-0.2	4.7	3.8	6.3
2010	5.3	4.0	3.5	3.8	4.1	5.0	5.5	4.7	0.8	4.9	4.7	5.4
2011	7.7	4.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)												
2009	1,333	1,285	1,434	1,723	1,917	2,027	2,323	2,342	2,468	2,368	2,416	2,534
2010	2,611	2,549	2,777	2,971	2,797	2,914	3,069	3,082	3,501	3,635	3,531	3,704
2011	3,409	3,470	3,679	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2009	9.2	8.6	7.9	7.3	6.0	3.7	2.7	2.8	2.8	2.6	2.4	2.8
2010	3.7	3.8	3.4	3.9	4.2	5.0	6.2	6.4	5.8	5.7	6.3	7.0
2011	7.0	6.8	6.7	6.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2009	6.8	8.1	4.5	2.5	-1.2	-5.8	-7.9	-5.2	-3.5	-4.1	-2.4	4.4
2010	5.7	3.7	4.3	5.0	5.6	4.3	4.3	3.6	4.9	5.5	5.5	6.0
2011	6.6	7.8	7.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Goods exports fob (US\$ m)												
2009	7,280	7,080	8,615	8,454	9,209	9,382	9,684	10,544	9,843	12,243	10,775	13,348
2010	11,596	11,167	12,774	12,035	12,657	12,330	12,487	13,727	12,182	14,400	15,633	16,830
2011	14,606	14,398	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods imports cif (US\$ m)												
2009	6,601	5,939	6,554	6,707	7,641	7,936	8,683	9,707	8,517	9,430	8,815	10,300
2010	9,491	9,498	10,973	11,236	9,980	11,760	12,626	12,172	9,654	12,120	13,008	13,147
2011	12,559	11,998	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												
2009	680	1,141	2,061	1,747	1,568	1,446	1,001	837	1,326	2,813	1,961	3,048
2010	2,105	1,668	1,802	799	2,676	570	-139	1,555	2,528	2,280	2,626	3,683
2011	2,048	2,401	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (end-period; US\$ m)												
2009	48,776	48,365	52,663	54,458	55,688	55,381	55,230	58,115	59,978	62,092	63,106	63,563
2010	67,004	67,144	69,223	75,850	71,753	73,431	76,060	78,418	83,489	88,673	89,564	92,908
2011	92,231	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

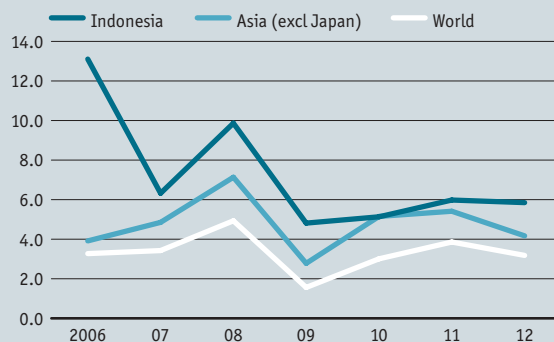
Annual trends charts

Real GDP growth
(% change)



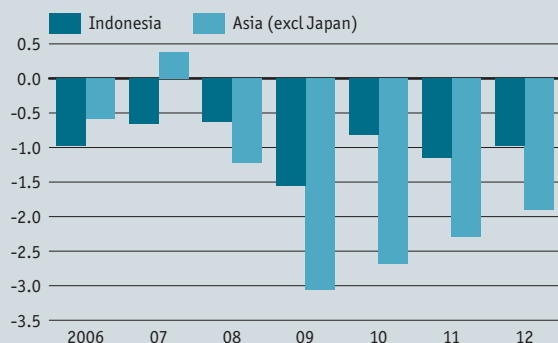
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



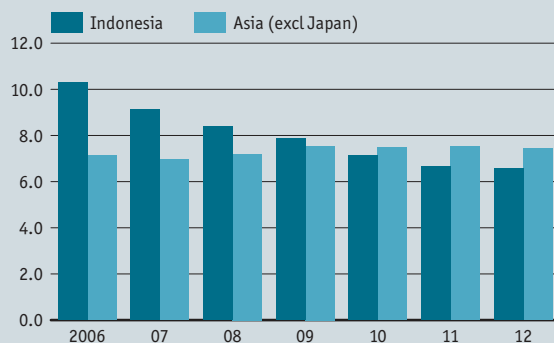
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



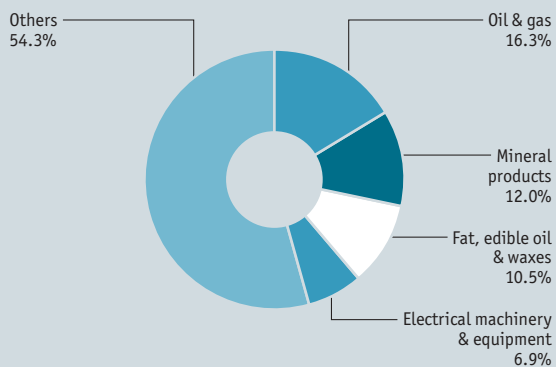
Source: Economist Intelligence Unit.

Recorded unemployment
(%)



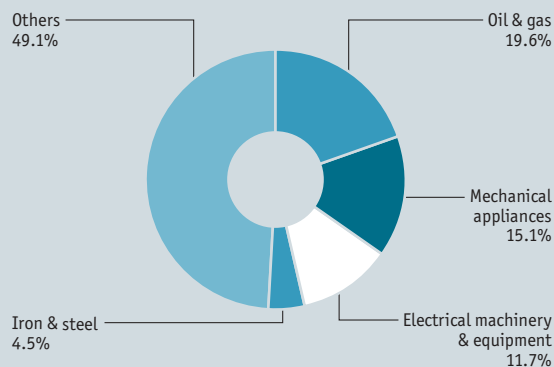
Source: Economist Intelligence Unit.

Major exports, 2009
(share of total)



Source: Economist Intelligence Unit.

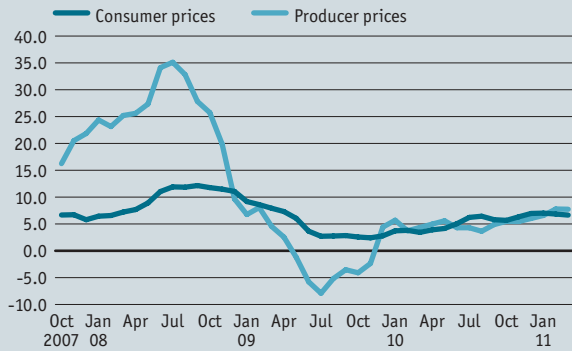
Major imports, 2009
(share of total)



Source: Economist Intelligence Unit.

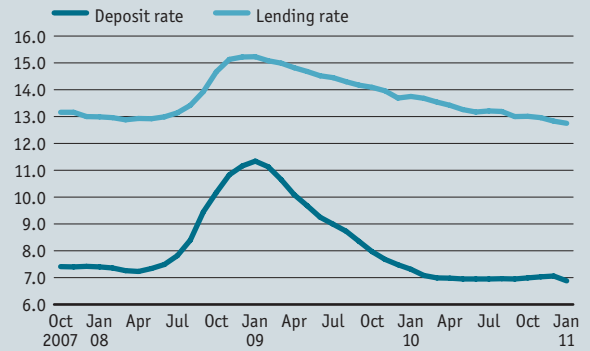
Monthly trends charts

Price inflation
(% change, year on year)



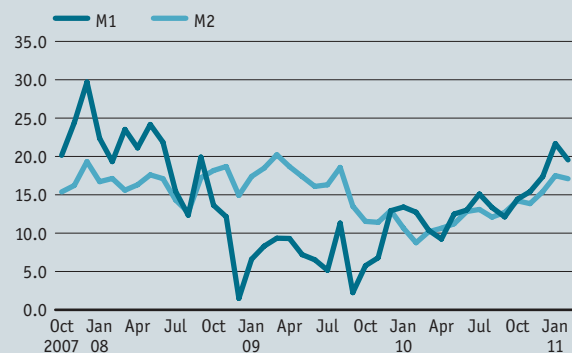
Source: Economist Intelligence Unit.

Interest rates
(av; %)



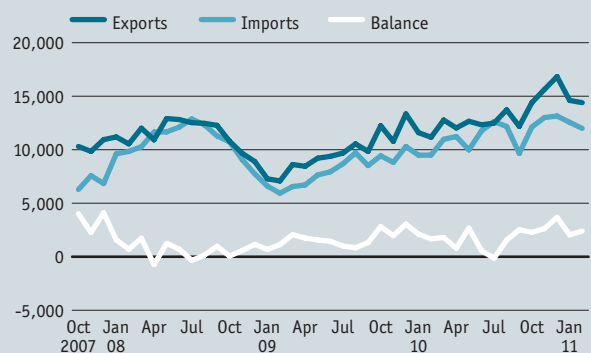
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



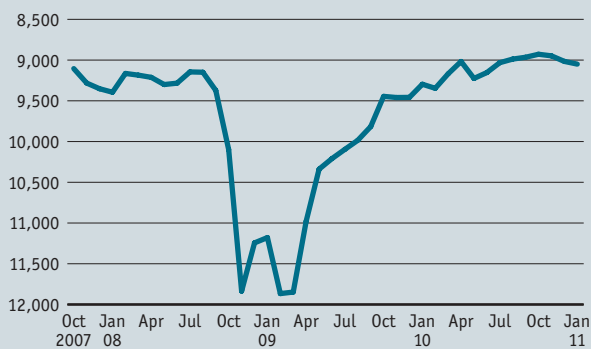
Source: Economist Intelligence Unit.

Foreign trade
(US\$ m; goods only)



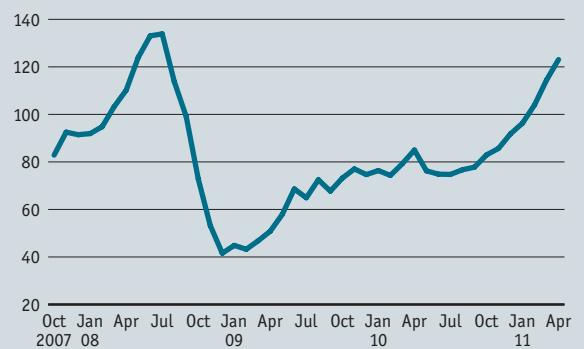
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

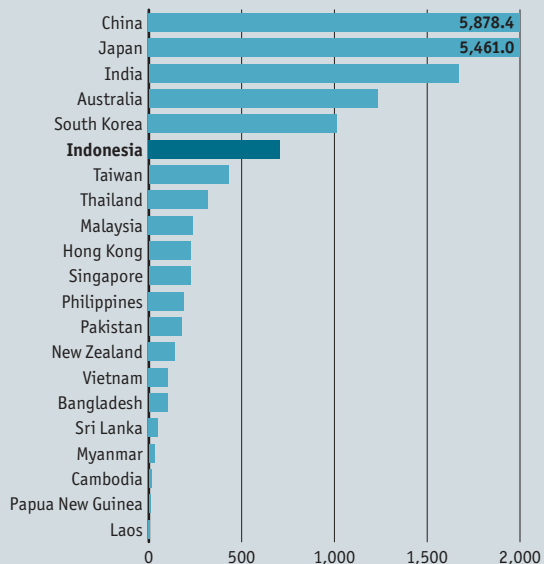
Oil: Brent crude price
(US\$/b; av)



Source: Economist Intelligence Unit.

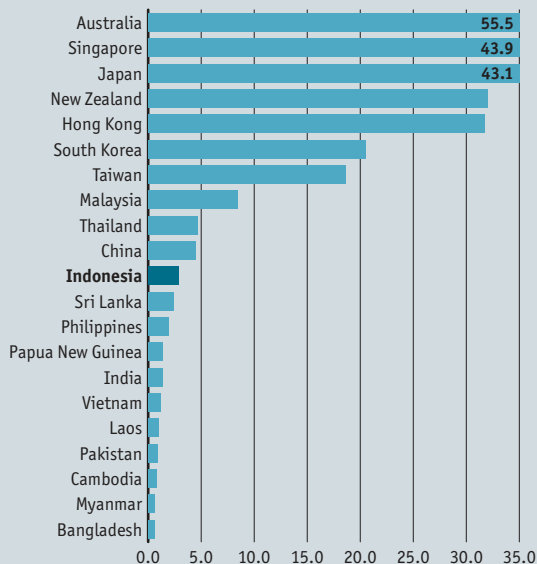
Comparative economic indicators, 2010

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



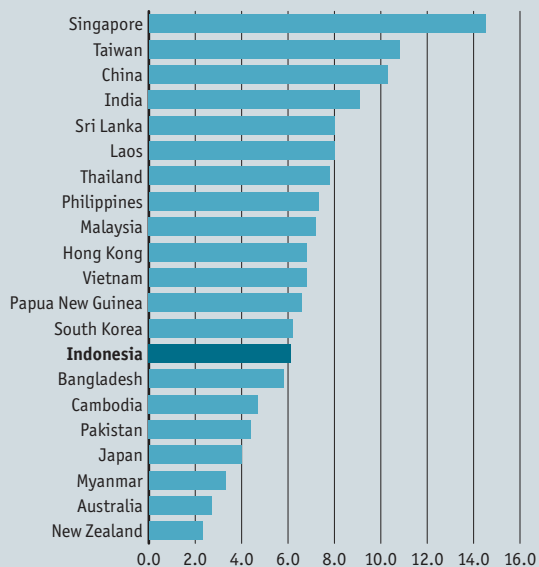
Sources: Economist Intelligence Unit estimates; national sources.

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



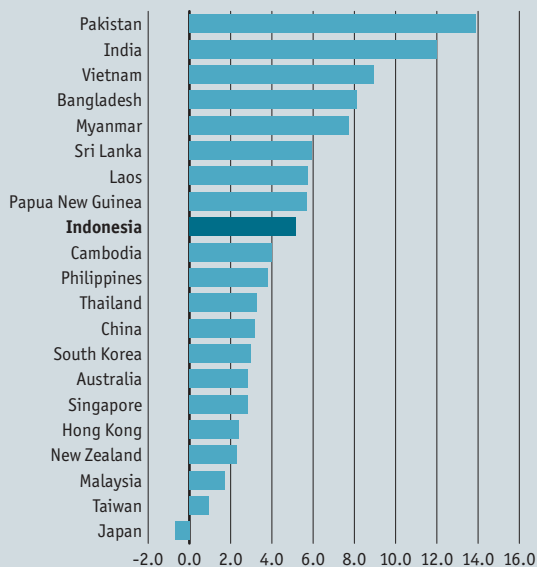
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area	1,904,443 sq km		
Sea area (exclusive economic zone)	3,166,163 sq km (before deductions for sea area now under the control of Timor-Leste)		
Total area	5,070,606 sq km		
Population	240m (US Census Bureau 2009 estimate)		
Main towns	Population in '000 (2000 census)		
	Jakarta (capital)	8,385	Medan 1,792
	Surabaya	2,589	Palembang 1,442
	Bandung	2,142	Semarang 1,345
Climate	Tropical		
Weather in Jakarta (altitude 8 metres)	Hottest months, April-May, 24-31°C (average daily minimum and maximum); coldest months, January-February, 23-29°C; wettest months, January-February, 300 mm average rainfall		
Languages	Indonesian (Bahasa Indonesia), as well as some 250 other regional languages and dialects. English has replaced Dutch as the main second language and is widely spoken in government and business circles		
Measures	Metric system		
Currency	Rupiah (Rp). Average exchange rate in 2010: Rp9,088:US\$1		
Time	Western Zone 7 hours ahead of GMT, Central Zone 8 hours ahead, Eastern Zone 9 hours ahead		
Fiscal year	January 1st-December 31st (since 2001)		
Public holidays	New Year, January 1st; Chinese New Year, February 3rd; Mouloud, February 15th; Hindu New Year, March 5th; Good Friday, April 22nd; Waisak Day, May 17th; Ascension Day, June 2nd; Lailat Al Miraj, June 29th; Independence Day, August 17th; Eid al-Fitr, August 30th-31st; Eid al-Adha, November 6th; Islamic New Year, November 27th; Christmas Day, December 25th		

Political structure

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