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## **Country Report**

# **Indonesia**

**January 2011**

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# Indonesia

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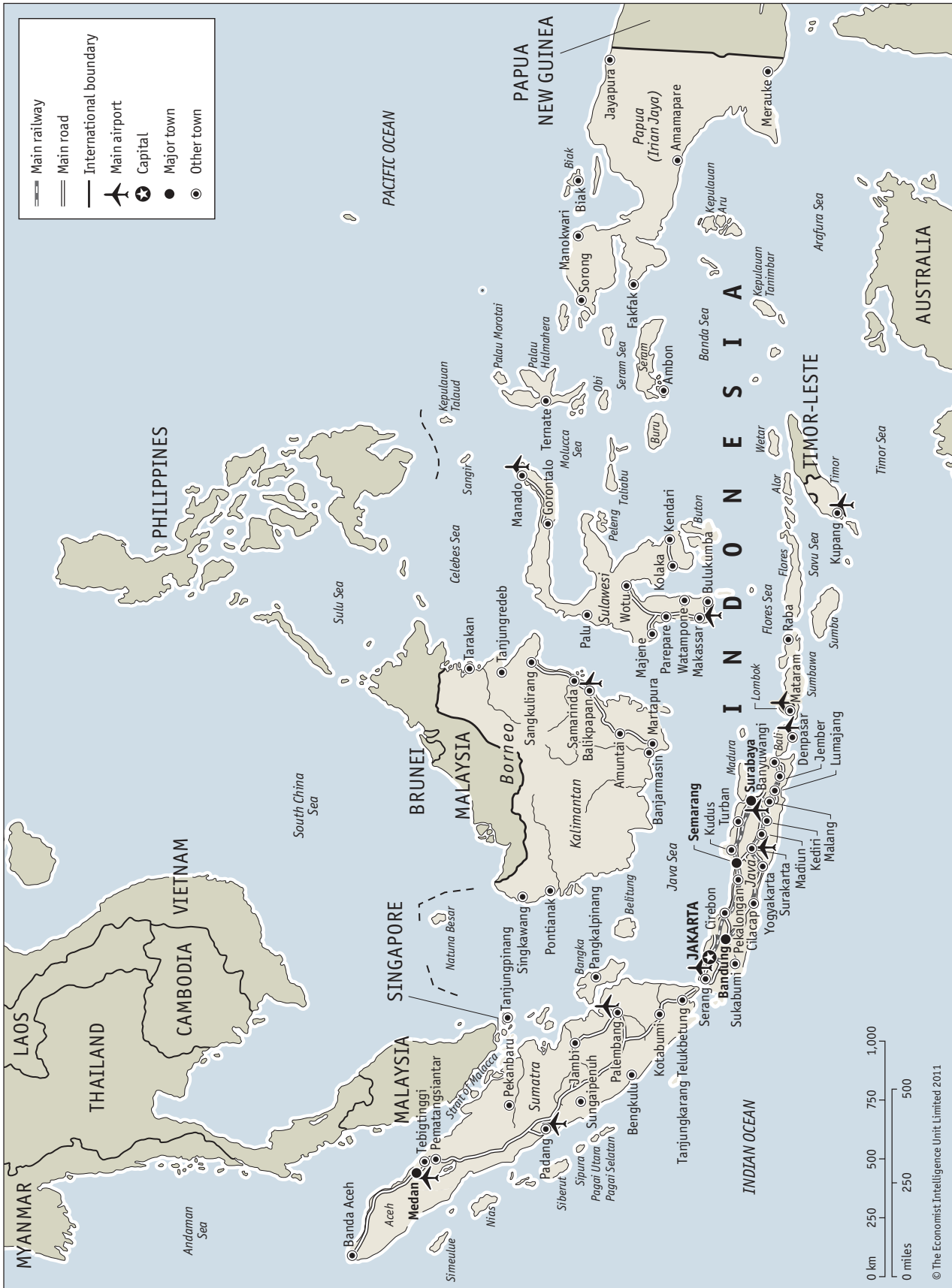
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# Executive summary

## Highlights

January 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 raise interest rates in early 2011. There is a possibility that it will expand recently imposed capital controls aimed at slowing the appreciation of the rupiah.
- The fiscal deficit will narrow to the equivalent of 0.1% of GDP by 2015, from 1.2% in 2011, owing partly to the inability of the civil service to utilise fully the sums allocated to it for capital expenditure.
- The Economist Intelligence Unit forecasts that real GDP growth will accelerate to an average of 6.3% a year in the forecast period, driven mainly by private consumption and fixed investment.
- We expect the current account to record an average surplus equivalent to just under 1% of GDP in the forecast period. The income account will remain in deficit, owing to the repatriation of earnings by foreign-owned companies.

### Monthly review

- Mr Yudhoyono's popularity remained stable in an opinion poll conducted in December. In the poll, 63% of respondents approved of his performance, compared with 62% in the previous survey, which was conducted in October.
- Indonesia has assumed the chair of the Association of South-East Asian Nations. The foreign minister, Marty Natalegawa, said that the government would move the group towards greater economic integration.
- The government's fiscal deficit is estimated to have narrowed to the equivalent of 0.6% of GDP in 2010, much smaller than the deficit of 2.1% of GDP assumed in the revised budget, mainly owing to underspending.
- BI's board of governors left interest rates on hold for the 17th month in a row in January, at 6.5%, despite an acceleration in inflation in December to 7%, the fastest rise in prices since April 2009.
- In an attempt to rein in money-supply growth in the face of strong inflows of foreign capital, BI has said that it will raise the commercial banking sector's US dollar reserve requirement to 5% from March 1st and to 8% from June 1st.
- Production of a number of commodities, including coal, crude oil and palm oil, is expected to increase in 2011.

# 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, Mr Yudhoyono has since lost some of that support. All too often in the most telling tests of his leadership, 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 DPR, but it fell short of an overall majority. Faced with these circumstances, the president followed his natural instinct to rule by consensus, building a six-party coalition that controls two-thirds of the seats in parliament. Mr Yudhoyono's current coalition has proved to be even less effective than the one that he led during his first term, owing to the conflicting views of the various parties on a number of reform issues.

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

Some commentators have argued that Ms Mulyani's resignation has made the coalition more stable by ending the in-fighting between two of the country's most powerful figures. The Economist Intelligence Unit is less sanguine. If, for the sake of coalition unity, the government abandons its efforts to hold vested interests to account, the prospects for a strengthening of democracy and an improvement in standards of governance in Indonesia will worsen. If, however, Mr Yudhoyono, the current finance minister, Agus Martowardojo, and other leading reformers in the government continue to confront vested interests, then

it may be only a matter of time before conflict erupts again within the coalition. Based on Mr Yudhoyono's actions in the period since Ms Mulyani's resignation, it would seem that the president has decided on a course of appeasing vested interests.

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

**Election watch** Indonesia will elect a new president to succeed Mr Yudhoyono in 2014. Parliamentary elections will also be held in that year and will have an important bearing on the outcome of the presidential 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 Indonesian Democratic Party-Struggle (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. Speculation has increased recently that Ms Mulyani is considering a bid for the presidency, possibly in partnership with the PD chairman, Anas Urbaningrum. A contest between Mr Bakrie and Ms Mulyani would present voters with a clear choice between conservatism and reform, but it is still not certain that Ms Mulyani will declare herself a candidate and, even if she were to do so, it remains to be seen whether she is as popular among voters as she is with foreign investors.

**International relations** Indonesia has become more prominent in international organisations in recent years, serving as a non-permanent member of the UN Security Council in 2006-08 and taking a seat at meetings of the G20 group of the world's major economies. There is an opportunity for warmer relations with the US, given that the US president, Barack Obama, spent several years in Indonesia as a child. Speaking during a visit to Jakarta in November 2010, Mr Obama praised Indonesia for its transition to democracy based on the principle of "unity in diversity", and called on the country to forge a renewed partnership with the US. Ties with China are also likely to strengthen. Chinese businesses have become major foreign investors in a variety of industries in Indonesia. Moreover, owing to the likelihood that the world's advanced economies will

grow relatively slowly following the 2008-09 global recession, Indonesia will rely heavily on China as a market for its exports. However, there will be opposition to closer economic ties with China, as demonstrated by the backlash among local manufacturers against the free-trade agreement between that country and the Association of South-East Asian Nations (ASEAN) that came into effect at the start of 2010. Indonesia's foreign policy will continue to be influenced by the principle of non-alignment, and the government will resist becoming too closely associated with either the US or China. There will be intermittent disputes with Malaysia and Singapore over a range of long-standing issues. At the start of 2011 Indonesia took over the chair of ASEAN, a position that it will hold for one year.

## Economic policy outlook

**Policy trends** There are indications that Mr Yudhoyono's efforts to improve the business environment are faltering in the face of resistance from vested interests. The departure of Ms Mulyani deprived the government of its most capable minister and has raised doubts about the president's commitment to reform. The anti-corruption drive will continue, but the Anti-Corruption Commission (KPK) will face constant opposition, as will other statutory bodies tasked with tackling graft. Several changes, including comprehensive reform of the country's restrictive labour laws and removal of energy subsidies, may prove unfeasible politically. Reform of the inefficient civil service, which was cited by the president as a priority for his second term, is making only slow progress. The government does, however, appear to be making progress on the preparation of legislation aimed at making it easier for the state to acquire private land for development. If such legislation is passed, one of the major obstacles to a series of much-needed infrastructure projects will be removed.

As a consequence of the inability of the civil service to spend fully the funds allocated to it, the government generally fails to operate an effective counter-cyclical fiscal policy, and macroeconomic management therefore has to be achieved primarily through monetary policy. Bank Indonesia (BI, the central bank) will begin raising interest rates in the first quarter 2011, in an attempt to contain the inflationary pressures generated by robust economic growth. In June 2010 BI introduced restrictions on foreign purchases of short-term central bank bonds, arguing that substantial short-term foreign investment inflows were putting the stability of Indonesia's currency, the rupiah, at risk because of the potential for a sudden reversal of investor sentiment. Although the authorities remain eager to attract long-term foreign investment, restrictions on short-term flows could be tightened.

**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 budget for this year, which was approved by the DPR in October. Although Mr Martowardojo is continuing with the carrot-and-stick system introduced by Ms Mulyani of increasing the budgets of government ministries that meet their spending targets and reducing allocations to those that miss them, underspending remains a persistent problem. Final results for 2010 have



yet to be published, but in early January Mr Yudhoyono said that the deficit in that year was equivalent to only 0.6% of GDP, compared with assumption in the revised budget of a deficit of 2.1%. The inability of ministries to spend all the funds allocated to them will continue to restrict expenditure, and we therefore expect the deficit to shrink during the remainder of 2011-15, to stand at 0.1% of GDP in 2015. A forecast further decline in the ratio of public debt to GDP could result in Indonesia's sovereign debt rating rising to investment grade. This would make it cheaper for the government to raise funds in international markets.

### Monetary policy

As economic expansion in Indonesia accelerates in line with stronger global growth, BI will tighten monetary policy by raising its main interest rate, the BI rate, from its current level of 6.5%—the lowest level that the rate has reached since its introduction in 2005. Concerns about the effect that interest rate increases will have on capital inflows (given that interest rates in major economies are likely to remain low) have so far deterred the central bank from raising the BI rate, but strong domestic economic growth will make higher interest rates essential in the coming period. In September 2010 BI's board of governors initiated monetary tightening by increasing the commercial banking sector's primary reserve requirement to 8%, from 5% previously. That was followed in December by an announcement that the banking sector's US dollar reserve requirement would be increased to 5% from March 2011 and 8% in June, up from the present level of 1%. Inflation (as measured by the consumer price index) rose above BI's 4-6% target range in November 2010 and again in December. The bank's governors will raise interest rates in the first quarter of 2011. Monetary tightening is then expected to continue during the remainder of the year. The BI rate will average 7.3% in 2011 and 8.4% in 2012-15.

### Economic forecast

#### International assumptions

	2010	2011	2012	2013	2014	2015
<b>Economic growth (%)</b>						
US GDP	2.7	2.2	2.1	2.3	2.2	2.5
OECD GDP	2.7	1.8	2.0	2.2	2.2	2.1
World GDP	3.6	2.7	2.9	3.0	3.0	3.1
World trade	12.4	5.9	6.3	6.7	6.7	6.3
<b>Inflation indicators (% unless otherwise indicated)</b>						
US CPI	1.5	1.0	1.9	2.5	2.8	2.8
OECD CPI	1.3	1.1	1.7	2.0	2.1	2.3
Manufactures (measured in US\$)	3.2	0.7	0.2	1.8	1.2	1.8
Oil (Brent; US\$/b)	80.0	82.0	81.3	78.3	75.5	71.0
Non-oil commodities (measured in US\$)	23.2	9.5	-4.4	-4.0	1.5	0.1
<b>Financial variables</b>						
US\$ 3-month commercial paper rate (av; %)	0.2	0.3	0.7	2.2	4.1	5.1
¥ 3-month money market rate (av; %)	0.2	0.3	0.9	1.3	1.9	2.3
Exchange rate: ¥:US\$ (av)	88.0	82.4	82.4	81.0	82.1	83.5
Exchange rate: Rp:US\$ (av)	9,090	8,955	8,968	9,055	9,129	9,209
Exchange rate: US\$:€ (av)	1.32	1.25	1.20	1.18	1.16	1.17

**Economic growth** Indonesia was affected less severely by the 2008-09 global recession than many neighbouring economies, largely because exports account for a relatively small proportion of the country's GDP. Moreover, real GDP growth has accelerated in 2010, to average 5.9% year on year in the first three quarters of the year. We estimate growth in 2010 as a whole at 5.9%. The economy will then grow by 6% in 2011 and 6.4% in 2012, before expanding at an average annual rate of 6.3% in 2013-15. Private consumption will remain a major driving force behind GDP growth in 2011-15, expanding by an average of 5.5% a year as employment growth accelerates and real wage increases pick up. Fixed investment will expand by 8.8% a year on average in the forecast period, supported in the early years of the period by the revival of investment plans that were postponed in early 2009 and later by strengthening demand conditions. Exports expanded strongly in 2010, thanks largely to healthy demand from China for Indonesia's commodity exports, but growth in overseas sales will slow in 2011 in line with a weaker global economy. Exports will then expand by around 8% a year in 2012-15. Owing to a recovery in import demand, the external sector will make only a modest contribution to GDP growth in 2011-15.

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

**Economic growth**

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

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Includes statistical discrepancy.

**Inflation** On an annual average basis, consumer price inflation accelerated to 5.1% in 2010, up from 4.8% in 2009, a nine-year low, as domestic prices responded to an increase in international oil and non-oil commodity prices. BI's decision to keep interest rates low in order to stimulate lending will add to inflationary pressures in 2011 as economic activity starts to push against capacity limits in the local economy. As a result, inflation will accelerate to 6.7% in 2011, above BI's 4-6% target range. Further increases in international commodity prices will also contribute to inflationary pressures this year, although the rupiah's continued appreciation against the US dollar will restrict imported inflation, as imported goods and services will cost less in local-currency terms. The rate of inflation will then slow slightly, to an average of 6.3% a year in 2012-15. The primary risk to our forecast comes from the possibility that high international oil prices could force the government to raise administered fuel prices to keep the budget deficit under control.

**Exchange rates** With the exception of a blip in May 2010 and again in November, caused on both occasions by a rise in risk aversion among global investors as the sovereign debt crisis in Europe unfolded, the rupiah has followed an appreciating trend against the US dollar since March 2009. As of mid-January 2011 the currency was trading at around Rp9,025:US\$1. Interest from international investors in carry trades (whereby speculators borrow in countries where interest rates are low, such as the US and Japan, in order to purchase assets in countries with higher rates, such as Indonesia) has been an important factor in the rupiah's appreciation. Healthy domestic economic growth in spite of the 2008-09 global recession has been another factor encouraging foreign investment in Indonesian assets. Large capital inflows are expected in 2011, when Indonesia's GDP growth rate will compare favourably with that in Western economies, but BI will intervene if necessary to prevent the currency from appreciating too sharply. After appreciating by an estimated 14.3% on an annual average basis in 2010, to Rp9,090:US\$1, the rupiah is forecast to continue to strengthen in 2011 before weakening gradually in 2012-15.

**External sector** A recovery in merchandise exports, led by commodities, caused the trade surplus to rise in 2010, and we forecast that the surplus will continue to grow in 2011-15, to stand at US\$47.5bn in the final year of the period. The deficit on the

income account widened in 2010, as foreigners expanded their holdings of Indonesian securities, leading to a rise in interest and dividend payments. Such payments will fall in 2011, but the income account will remain in the red throughout the forecast period, as foreigners continue to repatriate earnings while Indonesian investments abroad still earn relatively low returns. Limited employment opportunities at home in the forecast period will force more workers to seek jobs abroad, leading to an increase in inward remittances and thus pushing up the surplus on the transfers account. We expect the current account to record a surplus equivalent to 0.8% of GDP on average in the forecast period.

### Forecast summary

(% unless otherwise indicated)

	2010 <sup>a</sup>	2011 <sup>b</sup>	2012 <sup>b</sup>	2013 <sup>b</sup>	2014 <sup>b</sup>	2015 <sup>b</sup>
Real GDP growth	5.9	6.0	6.4	6.2	6.3	6.4
Industrial production growth	4.0	3.5	4.1	4.2	4.6	4.7
Gross agricultural production growth	3.5	3.8	3.5	3.5	3.5	3.5
Unemployment rate (av)	7.1 <sup>c</sup>	6.7	6.6	6.5	6.4	6.0
Consumer price inflation (av)	5.1 <sup>c</sup>	6.7	6.1	6.2	6.3	6.4
Consumer price inflation (end-period)	7.0 <sup>c</sup>	5.6	6.2	6.3	6.7	6.2
Money market interest rate	6.2	7.3	8.3	8.4	8.4	8.4
Government balance (% of GDP)	-0.8	-1.2	-1.0	-0.9	-0.6	-0.1
Exports of goods fob (US\$ bn)	150.9	169.4	186.7	209.3	238.6	269.7
Imports of goods fob (US\$ bn)	115.5	131.6	147.9	168.2	194.7	222.2
Current-account balance (US\$ bn)	6.8	8.9	8.7	7.5	7.6	8.3
Current-account balance (% of GDP)	1.0	1.1	1.0	0.7	0.7	0.7
External debt (end-period; US\$ bn)	157.3	159.1	157.8	159.2	160.1	162.3
Exchange rate Rp:US\$ (av)	9,090	8,955	8,968	9,055	9,129	9,209
Exchange rate Rp:US\$ (end-period)	9,023	8,962	9,011	9,092	9,169	9,249
Exchange rate Rp:¥100 (av)	10,390	10,867	10,885	11,179	11,116	11,029
Exchange rate Rp:€ (end-period)	12,090	10,754	10,724	10,637	10,682	10,845

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

# Monthly review: January 2011

## The political scene

### The president fails to boost his flagging popularity ratings

The president, Susilo Bambang Yudhoyono, has failed to boost his flagging popularity ratings. According to a survey conducted in December 2010 by a local organisation, the Indonesian Survey Institute (LSI), Mr Yudhoyono's approval rating stood at 63%, up from 62% in the previous survey, which was conducted in October, but still much lower than the high of 85% recorded after he was re-elected in July 2009. Respondents cited rising food prices and high unemployment, as well as a waning commitment to fighting corruption, as the reasons for their growing disenchantment with his leadership. Public approval of official anti-corruption measures fell to 51%, down from 84% in July 2009, while the government's efforts to control prices, eliminate poverty and create jobs received approval ratings of 35%, 31% and 27% respectively, suggesting that the benefits of the strong economic growth recorded in recent years have not been distributed evenly. The LSI also found that Mr Yudhoyono's Democratic Party (PD) remained the most popular political party, with the support of 21% of respondents. Its major rivals, by contrast, remain moribund. The main opposition party, the Indonesian Democratic Party of Struggle (PDI-P), recorded support from 14% of respondents, with the Golkar party trailing further behind, at 12%. Smaller Islamic parties, including the Prosperous Justice Party (PKS) and the National Mandate Party (PAN), are failing to make inroads into the support bases of the three main secular-nationalist parties. However, the most striking finding of the survey was the large number of undecided voters, at 30% of respondents, many of whom expressed an unfavourable view of all parties.



### The anti-corruption campaign is losing momentum

Further revelations of wrongdoing within the justice system surfaced in January. In the latest instalment of the controversial case of Gayus Tambunan, it has transpired that the former tax official was issued with a false passport and allowed to travel to Singapore, the Malaysian capital, Kuala Lumpur, and the Chinese-ruled special administrative region of Macau in September 2010, when he was meant to be in police custody facing corruption charges. This followed the controversy that erupted after Mr Tambunan was photographed at a tennis

tournament on the resort island of Bali in November when he was also supposedly in custody.

Despite the public interest in Mr Tambunan's case, there is little sign that the administration is stepping up its campaign against corruption. A high-level taskforce established by Mr Yudhoyono in late 2009 to combat corruption in the judiciary, the Judicial Mafia Taskforce, has all but disappeared, having received little public support from the president or senior members of the administration. In late 2010 a former law professor, Busjro Muqoddas, was appointed to lead the Anti-Corruption Commission (KPK), a challenging position for which he was widely perceived to lack the requisite toughness of character. The KPK's investigation budget for 2011 has also been cut to only Rp19.2bn (US\$2.1m), down from Rp26.3bn in 2010, with similar cuts to budgets for handling corruption cases also recorded at the attorney-general's office, the Supreme Court and the National Police, according to an independent watchdog, the Indonesian Forum for Budget Transparency (FITRA). In late 2010 Mr Yudhoyono appointed a former deputy attorney-general, Basrief Arief, to the post of attorney-general, dashing hopes that he would install an outsider to eradicate the corrupt practices that prevail within the state prosecutor's office.

Taken together, these developments suggest that the fight against corruption is being wound down, with little intention of taking on the well-connected interest groups that profit from the status quo. For the time being foreign investors appear to be willing to acquiesce to Indonesia's corrupt ways, as they seek to tap into the country's promising economic growth prospects. However, the lack of political will to tackle corruption will surely damage Indonesia's appeal to investors in the longer term, damaging its prospects of achieving sustainable growth and development.

### **Indonesia takes over the ASEAN chair**

On January 1st Indonesia took over the rotating chair of the Association of South-East Asian Nations (ASEAN). The foreign minister, Marty Natalegawa, said that Indonesia would host two summits of ASEAN leaders in 2011, the first in May in the capital, Jakarta, and the second on the island of Bali in October. Mr Natalegawa said that Indonesia would use its position as chair of the organisation to make progress towards the ASEAN economic community, an ambitious project that seeks to create an economic union across the ten-member group by 2015. Attention will also be given to strengthening the ASEAN Human Rights Commission, which may lead indirectly to a stronger stance against human rights abuses in Myanmar. Indonesia's foreign policy aims extend increasingly beyond the South-east Asia region. Mr Natalegawa said that the country would strengthen its contribution to UN peacekeeping missions in 2011 as part of an ongoing campaign to build support for Indonesia to be given a permanent seat on the UN Security Council.

### **Democracy index: Indonesia**

The Economist Intelligence Unit's democracy index ranks Indonesia 60th out of 167 countries, putting it among the 52 countries considered to be "flawed democracies". This designation includes neighbouring states such as the Philippines and Malaysia. Although Indonesia made the transition from dictatorship to democracy only around ten years ago, holding its first free and fair elections for over 30 years in 1999, strong electoral processes have been quickly established. However, its score in this area is dragged down by the lack of transparency in campaign funding.

**Democracy index**

	Regime type	Overall score	Overall rank
2010	Flawed democracy	6.53 out of 10	60 out of 167
2008	Flawed democracy	6.34 out of 10	69 out of 167

**The press is free, but not all citizens enjoy protection of their rights**

The country's vibrant free press gives it a relatively high score in the *civil liberties* category, but freedom of religious expression is undermined by the state's repeated failure to protect religious minorities, most notably Islamic sects and Christians, from vigilante attacks. Laws passed in 2008, including a ban on Ahmadiyya (a Muslim sect that holds allegedly heretical views) and an archaic anti-pornography law that will make certain local traditions unlawful, further undermined the country's tolerant image. The willingness of some members of the judiciary to accept bribes and a lack of professionalism within the police force mean that the law does not provide adequate and equal protection for all citizens.

**Support for democracy is not universal**

*Government functioning* is undermined by pervasive corruption, the poor quality of civil servants and the strong influence of interest groups. Nevertheless, changes to the democratic process in recent years have largely removed the military from the political arena and have made elected officials more accountable to the public. Indonesia fares badly in the *political participation* and *political culture* categories. Although voter turnout has been high in the last three national elections, the under-representation of women and minorities, together with the low level of literacy, bring down the country's score for *political participation*. A relatively small proportion of Indonesia's population believes that democracy is good for public order and economic growth.

**Solid economic growth may lead to more popular support for democracy**

Popular support for democracy may improve in 2011 as the economy records another year of solid growth, raising living standards and giving people a greater stake in the status quo. However, some groups will continue to exploit ethnic, religious and other tensions for their own political ends, and the state will not always intervene to defend the country's traditions of tolerance. Reforms aimed at improving the effectiveness of government, such as attempts to eliminate corruption, will proceed in a start-stop fashion owing to opposition from vested interests. Nonetheless, the democratic system is unlikely to be threatened.

**Democracy index, 2010, by category**

(on a scale of 0 to 10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
6.92	7.50	5.56	5.63	7.06

*Democracy index 2010: Democracy in retreat*, a free white paper containing the full index and detailed methodology, can be downloaded from [www.eiu.com/DemocracyIndex2010](http://www.eiu.com/DemocracyIndex2010).

**Note on methodology**

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, are the sine qua non of all definitions. However, the Economist Intelligence Unit's index is based on the view that measures of democracy that reflect the state of *political freedom* and *civil liberties* are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Thus, our index also includes measures of *political participation*, *political culture* and *functioning of government*—factors that are, at best, marginalised by other measures.

Our Democracy index covers 167 countries and territories. The index, on a 0 to 10 scale, is based on the ratings for 60 indicators grouped in five categories: *electoral process and pluralism*; *civil liberties*; *functioning of government*; *political participation*; and *political culture*. The five categories are interrelated, and form a coherent conceptual whole. Each category is assigned a rating on a 0 to 10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0 to 10 scale. Adjustments to the category scores are made if countries fall short in the following critical areas for democracy:

- whether national elections are free and fair;
  - the security of voters;
  - the influence of foreign powers on government; and
  - the capacity of the civil service to implement policies.
- The index values are used to place countries within one of four types of regime:
- full democracies—scores of 8 to 10;
  - flawed democracies—score of 6 to 7.9;
  - hybrid regimes—scores of 4 to 5.9;
  - authoritarian regimes—scores below 4.

## Economic policy

### The government records a smaller than expected deficit

Indonesia's fiscal deficit in 2010 is estimated to have been much smaller than was forecast when the House of People's Representatives (DPR, the legislature) approved the state budget in September 2009 and made revisions in May 2010. Speaking on January 3rd 2011 Mr Yudhoyono said that the deficit for the year stood at the equivalent of only 0.6% of GDP, compared with the original projection of 1.6% and the revised projection of 2.1%. Mr Yudhoyono gave no reason for the smaller than expected shortfall, but speaking in December, the finance minister, Agus Martowardojo, had singled out the slow pace of government expenditure. Underspensing by government ministries is a significant problem in Indonesia. Capital spending is typically affected more severely than routine spending (for example on wages and subsidies), with the result that development of the country's infrastructure is often neglected. However, spending on subsidies is also estimated to have fallen short of target in 2010. Fuel subsidies are estimated to have totalled around Rp61trn (US\$6.7bn), compared with the budgeted figure of Rp74.6trn, a result of the international price of oil (dated Brent Blend) falling below the annual average of US\$80 per barrel assumed in the revised budget, and of the rupiah's annual average exchange rate against the US dollar being stronger than the assumed Rp9,200:US\$1. The saving on fuel subsidies was achieved despite domestic oil production falling short of the targeted level and consumption of subsidised fuels exceeding their allocated quota. Consumption of subsidised fuels rose to 38.5m kilolitres, well above the 36.5m-kilolitre quota, while domestic oil production fell to 954,000 barrels/day, compared with the target of 965,000 b/d, owing to technical problems at a major oilfield in Riau province.

The government expects to record a wider deficit in 2011. According to the state budget, which was approved by the DPR in October, the deficit is expected to widen to the equivalent of 1.8% of GDP. However, the government may not be able to count on another year of subsidy savings. In early January oil was trading at around US\$95/barrel, compared with the price of US\$80/b assumed in the budget. Despite this, the co-ordinating minister for the economy, Hatta Radjasa, has ruled out an increase in the retail price of fuel this year. Instead, he said that the government would continue to focus on managing supplies to limit the cost of subsidies to the Rp95,9trn allocated in the budget. The government had proposed to end sales of subsidised fuel to owners of private cars in the capital, Jakarta, from January 1st. Sales in the rest of Java and on the neighbouring island of Bali were to have been cancelled from July 1st. However,



in December the DPR called on the government to prepare a comprehensive impact assessment of the proposals, forcing a postponement of the ending of subsidies in Jakarta until the end of March. Still, oil prices may not remain at their current levels beyond the end of the northern-hemisphere winter, meaning that the government may still achieve its subsidy target.

### **The central bank resists pressure to raise interest rates**

Bank Indonesia (BI, the central bank) left its benchmark interest rate, the BI rate, unchanged at 6.5% for the 17th month in a row in January. An increase in the BI rate, which remains at its lowest level since its introduction in 2005, had been widely expected after consumer prices rose by 7% year on year in December, exceeding the upper end of BI's 4-6% inflation target. The reluctance of the board of governors to raise interest rates is a cause of growing concern, especially since inflation has accelerated in all but three of the past 13 months, from a recent low of 2.4% in November 2009. BI's governors appear to want to maintain the existing differential between domestic interest rates and those in developed economies, out of a concern that a wider differential would attract yet more inflows of speculative short-term capital. However, BI is one of the few central banks in the region not to have begun to raise interest rates; its continued refusal to do so could mean that it is forced to raise the cost of borrowing even more sharply later in the economic cycle, depressing economic growth prospects.

### **New measures are announced to manage capital flows**

While leaving interest rates on hold, BI has announced new measures aimed at managing the risk of excessive growth in the money supply in the face of continued inflows of foreign capital. Among other measures, BI said that it would increase commercial banks' minimum US dollar reserve requirement to 5% of total deposits from March 1st and to 8% from June 1st, from the current level of 1%, in a move that is expected to absorb around US\$3bn in liquidity. Separately, BI revealed that foreigners channelled US\$13bn into Indonesia's financial markets in 2010. Of that total, US\$9.6bn was invested in government bonds, taking foreign holdings of bonds to nearly 30% of the total stock. A further US\$2.3bn was invested in the stockmarket, taking foreign holdings in the Indonesia Stock Exchange to around 60%. The remaining funds were invested promissory notes, with foreign holdings accounting for around 30% of total issuance. Although this build up in holdings reflects a promising outlook for the Indonesian economy, it also leaves the country highly vulnerable to any reversal in investor sentiment and the withdrawal of large volumes of foreign capital.

## **Economic performance**

### **A rise in commodities production may boost growth**

Forecasts of increases in the production of several important commodities suggest that economic growth in 2011 could be boosted after unseasonable heavy rains depressed output in 2010. Coal production is expected to rise to 340m tonnes, up from 275m tonnes in 2010, according to the Indonesian Coal Mining Association (APBI), as demand recovers in both domestic and international markets. Around 80% of production will be exported, mainly to Japan, India, China and South Korea. Palm oil output is also expected to rise, by 5.3%

to 24.4m tonnes, while output of rubber is expected to increase by 1.1% to 2.7m tonnes. Cocoa and coffee production is also expected to expand, with the former forecast to increase by 8.7% to 1.1m tonnes and the latter by 1.6% to 698,000 tonnes. The oil and gas industry regulator, BPMIGAS, is optimistic that oil production can be raised to 970,000 b/d in 2011, up from 954,000 b/d in 2010, although it remains to be seen whether the target is achievable given the decline in production in recent years and the lack of investment in exploiting new reserves. Meanwhile, the trade minister, Marie Pangestu, has forecast that non-oil-and-gas exports will rise by 12-15% to US\$139bn-146bn in 2011. Greater production of commodities and higher prices are expected to contribute to the export expansion, but so too are manufactured goods. Ms Pangestu said that recent investment had boosted capacity for the production of electronic goods and footwear. In line with this trend, the industry minister, M S Hidayat, has forecast that the manufacturing sector will expand by 5.2-6.1% this year.

### **Consumer price inflation reaches a 20-month high**

The rate of inflation accelerated in December 2010, with consumer prices rising by 7% year on year, representing the fastest pace of growth since April 2009, according to Statistics Indonesia (BPS), the national data provider. On a month-on-month basis, prices rose by 0.9% in December, up from 0.6% in November. Although annual average inflation, at 5.1%, remained within the central bank's target of 4-6%, inflation exceeded the upper end of the target in both November and December. Higher food and transport prices were the main contributors to year-on-year inflation in that month. Food prices rose by 15.6% year on year in December, driven by higher prices for rice, red chillies and red onions as the result of unseasonable weather and supply disruptions. Meanwhile, transport prices were up by 2.7% year on year. Transport prices may rise further in the coming months if the government proceeds with a plan to end sales of subsidised fuel to owners of private cars. Core inflation, which excludes food and fuel prices, remained more or less stable in December, at 4.3% year on year. In 2010 as a whole, core inflation reached 4.1%.

The high price of rice is a particular concern, owing to the dependence of poor households on the staple commodity. Rice purchases are estimated to account for around 70% of poor households' income, and rising prices have the potential to cause widespread hardship and social unrest. To counter rising prices, the State Logistics Agency (Bulog) has secured contracts to import 1.3m tonnes of rice from Thailand and Vietnam. The coming year will be the first since 2008 in which Indonesia will import rice. The government has also temporarily waived import duties on rice, along with duties on wheat, soya beans and livestock feed. Rice prices may begin to fall after the main rice harvest gets under way in March. The Ministry of Agriculture is currently forecasting that production of unhusked rice will rise to 68.8m tonnes in 2011, from 66m tonnes in 2010.

### **Indonesia's merchandise trade surplus narrows**

Indonesia's merchandise exports totalled US\$15.3bn in November 2010, a rise of 42.3% year on year, representing the fastest pace of growth since April. During the first 11 months of the year exports were up by an average of 38.1% year on year, at US\$140.7bn. Exports of oil and gas recorded especially strong growth, rising by 49.5% in the 11-month period to US\$24.7bn. Non-oil and gas exports

were up by 33.8%, at US\$115.9bn. A 36.2% rise in exports of mineral products, to US\$16.9bn, was one of the main contributors to the expansion of this category of exports. So too were exports of animal and vegetable fats and oils, including palm oil, which were up by 40.2%, at US\$14.2bn. Imports rose by 48.3% in November and by an average of 43.5% in the first 11 months of the year. Overall, Indonesia's merchandise trade surplus rose to US\$18.1bn in January-November 2010, from US\$16.6bn in the year-earlier period.

# Data and charts

## Annual data and forecast

	2006 <sup>a</sup>	2007 <sup>a</sup>	2008 <sup>a</sup>	2009 <sup>a</sup>	2010 <sup>b</sup>	2011 <sup>c</sup>	2012 <sup>c</sup>
<b>GDP</b>							
Nominal GDP (US\$ bn)	364.6	432.2	510.5	540.3	703.2	808.6	911.0
Nominal GDP (Rp trn)	3,339.2	3,950.9	4,951.4	5,613.4	6,391.9	7,241.5	8,170.3
Real GDP growth (%)	5.5	6.3	6.0	4.5	5.9	6.0	6.4
<b>Expenditure on GDP (% real change)</b>							
Private consumption	3.2	5.0	5.3	4.9	4.9	5.3	5.6
Government consumption	9.6	3.9	10.4	15.7	-3.0	9.7	8.1
Gross fixed investment	2.6	9.3	11.9	3.3	8.4	8.3	8.8
Exports of goods & services	9.4	8.5	9.5	-9.7	12.6	7.7	7.9
Imports of goods & services	8.6	9.1	10.0	-15.0	14.7	8.8	8.9
<b>Origin of GDP (% real change)</b>							
Agriculture	3.4	3.5	4.8	4.1	3.5	3.8	3.5
Industry	4.5	4.7	3.7	3.5	4.0	4.1	4.1
Services	7.3	9.0	8.7	5.7	8.5	8.4	9.2
<b>Population and income</b>							
Population (m)	231.8	234.7	237.5	240.3	243.0	245.6	248.2
GDP per head (US\$ at PPP)	3,314 <sup>b</sup>	3,583 <sup>b</sup>	3,835 <sup>b</sup>	4,000 <sup>b</sup>	4,214	4,496	4,837
Recorded unemployment (av; %)	10.3	9.1	8.4	7.9	7.1 <sup>a</sup>	6.7	6.6
<b>Fiscal indicators (% of GDP)</b>							
Central government budget revenue	19.1	18.0	19.2	15.5	16.9	17.3	17.9
Central government budget expenditure	20.1	18.7	19.8	17.0	17.7	18.5	19.0
Central government budget balance	-1.0	-0.7	-0.6	-1.6	-0.8	-1.2	-1.0
Public debt	33.0 <sup>b</sup>	31.3 <sup>b</sup>	28.3 <sup>b</sup>	27.4 <sup>b</sup>	25.6	24.5	23.4
<b>Prices and financial indicators</b>							
Exchange rate Rp:US\$ (end-period)	9,020	9,419	10,950	9,400	9,023	8,962	9,011
Exchange rate Rp:¥100 (end-period)	7,579	8,432	12,061	10,099	10,949	10,819	11,086
Consumer prices (end-period; %)	6.6	5.8	11.1	2.8	7.0 <sup>a</sup>	5.6	6.2
Stock of money M1 (% change)	28.1	29.7	1.5	12.9 <sup>b</sup>	16.8	16.9	17.4
Stock of money M2 (% change)	14.9	19.3	15.0	13.0 <sup>b</sup>	19.6	18.4	18.5
Lending interest rate (av; %)	16.0	13.9	13.6	14.5	13.3	14.5	14.8
<b>Current account (US\$ m)</b>							
Trade balance	29,661	32,754	22,916	35,132	35,443	37,767	38,822
Goods: exports fob	103,528	118,014	139,606	119,481	150,895	169,402	186,704
Goods: imports fob	-73,867	-85,259	-116,690	-84,348	-115,452	-131,635	-147,882
Services balance	-9,875	-11,842	-12,998	-14,108	-14,899	-15,269	-15,558
Income balance	-13,790	-15,524	-15,156	-15,140	-18,643	-18,492	-19,647
Current transfers balance	4,863	5,103	5,364	4,860	4,918	4,928	5,096
Current-account balance	10,860	10,492	125	10,747	6,818	8,933	8,713
<b>External debt (US\$ m)</b>							
Debt stock	132,512	142,638	150,851	156,740 <sup>b</sup>	157,334	159,110	157,761
Debt service paid	28,479	22,805	22,150	23,212 <sup>b</sup>	22,972	22,878	23,661
Principal repayments	23,979	16,680	16,573	18,207 <sup>b</sup>	18,163	18,420	18,805
Interest	4,500	6,125	5,577	5,005 <sup>b</sup>	4,810	4,458	4,856
<b>International reserves (US\$ m)</b>							
Total international reserves	42,588	56,924	51,641	66,119	89,305	99,057	102,380

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

Source: IMF, *International Financial Statistics*.

## Quarterly data

	2009				2010			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
<b>Output</b>								
GDP at constant 2000 prices (Rp trn)	528.1	540.4	561.0	547.5	558.1	573.8	593.6	n/a
Real GDP (% change, year on year)	4.5	4.1	4.2	5.4	5.7	6.2	5.8	n/a
Manufacturing at constant 2000 prices (Rp trn)	138.7	140.8	144.8	145.2	143.9	146.9	150.7	n/a
Manufacturing at constant 2000 prices (% change, year on year)	1.5	1.5	1.3	4.2	3.7	4.4	4.1	n/a
Mining at constant 2000 prices (Rp trn)	43.5	44.2	46.3	45.9	44.9	46.0	47.6	n/a
Mining at constant 2000 price (% change, year on year)	2.6	3.4	6.2	5.2	3.1	4.0	2.8	n/a
<b>Prices</b>								
Consumer prices (2002=100)	114.0	114.0	115.4	116.8	118.2	119.0	122.5	124.2
Consumer prices (% change, year on year)	8.6	5.6	2.8	2.6	3.7	4.4	6.2	6.3
Wholesale prices (2000=100)	160.0	161.7	164.0	165.0	167.3	169.7	171.0	173.3
<b>Financial indicators</b>								
Exchange rate Rp:US\$ (av)	11,631	10,509	9,966	9,454	9,271	9,132	8,995	n/a
Exchange rate Rp:US\$ (end-period)	11,575	10,225	9,681	9,400	9,115	9,083	8,924	n/a
Deposit rate (av; %)	11.04	9.67	8.69	7.71	7.13	6.96	6.95	n/a
Discount rate (end-period; %)	8.21	6.95	6.48	6.46	6.27	6.26	n/a	n/a
Lending rate (av; %)	15.10	14.67	14.31	13.91	13.66	13.28	13.13	n/a
3-month money market rate (av; %)	8.48	7.40	6.45	6.30	6.20	6.15	6.20	n/a
M1 (end-period; Rp trn)	448.0	482.6	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)	9.3	6.5	n/a	n/a	n/a	n/a	n/a	n/a
M2 (end-period; Rp trn)	1,914	1,975	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)	20.3	16.1	n/a	n/a	n/a	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)	1,434	2,027	2,468	2,534	2,777	2,914	3,501	3,704
Stockmarket index (% change, year on year)	-53.3	-22.2	30.4	117.8	145.9	61.8	53.9	n/a
<b>Sectoral trends</b>								
Manufacturing production (2000=100) <sup>a</sup>	124.6	127.5	131.0	132.9	129.9	133.0	135.8	n/a
Manufacturing production (% change, year on year) <sup>a</sup>	0.2	0.6	0.1	4.9	4.3	4.3	3.7	n/a
Crude oil production (m barrels/day) <sup>b</sup>	1.02	0.97	0.98	0.98	0.99	1.00	0.98	n/a
Rubber, dry production ('000 tonnes)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nickel ore production ('000 tonnes)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Foreign trade (US\$ m)</b>								
Exports fob	22,975	27,044	30,071	36,366	35,537	37,022	38,395	n/a
Imports cif	-19,094	-22,284	-26,907	-28,545	-29,961	-32,976	-34,452	n/a
Trade balance	3,882	4,761	3,163	7,822	5,576	4,046	3,943	n/a
<b>Foreign payments (US\$ m)</b>								
Merchandise trade balance	6,884	8,365	8,489	11,395	8,418	8,985	n/a	n/a
Services balance	-2,743	-3,311	-3,508	-4,546	-3,595	-3,697	n/a	n/a
Income balance	-2,742	-3,776	-4,071	-4,551	-3,922	-4,642	n/a	n/a
Net transfer payments	1,108	1,201	1,248	1,303	1,168	1,188	n/a	n/a
Current-account balance	2,507	2,479	2,158	3,601	2,069	1,834	n/a	n/a
Reserves excl gold (end-period)	52,663	55,381	59,978	63,563	69,223	73,431	83,489	n/a

<sup>a</sup> Large and medium-sized companies. <sup>b</sup> Including production in Irian Jaya; excluding condensates.

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

## Monthly data

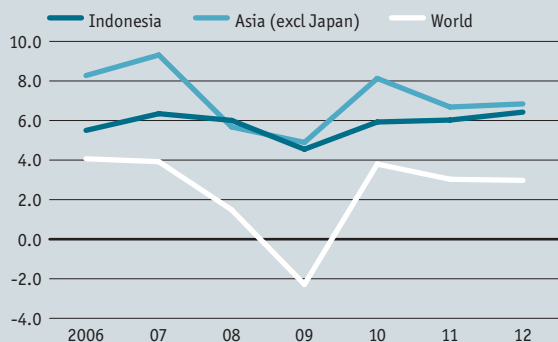
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Exchange rate Rp:US\$ (av)</b>												
2008	9,395	9,164	9,185	9,212	9,300	9,284	9,145	9,149	9,373	10,100	11,836	11,244
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,817	9,446	9,460	9,458
2010	9,297	9,347	9,169	9,017	9,226	9,153	9,032	8,988	8,965	8,929	n/a	n/a
<b>Exchange rate Rp:US\$ (end-period)</b>												
2008	9,291	9,051	9,217	9,234	9,318	9,225	9,118	9,153	9,378	10,995	12,151	10,950
2009	11,355	11,980	11,575	10,713	10,340	10,225	9,920	10,060	9,681	9,545	9,480	9,400
2010	9,365	9,335	9,115	9,012	9,180	9,083	8,952	9,041	8,924	8,928	9,013	n/a
<b>Real effective exchange rate (2000=100; CPI-based)</b>												
2008	119.16	122.88	121.33	121.64	123.58	133.50	136.21	139.31	137.99	132.41	115.21	115.37
2009	116.53	113.12	114.67	122.11	127.69	129.39	129.55	130.94	130.86	134.50	134.27	135.51
2010	139.39	140.32	142.41	144.27	144.81	146.67	145.51	145.97	144.27	141.63	142.79	142.48
<b>Money supply M1 (end-period; % change, year on year)</b>												
2008	22.4	19.3	23.5	21.1	24.2	21.9	15.5	12.3	19.9	13.6	12.1	1.5
2009	6.6	8.3	9.3	9.3	7.2	6.5	5.2	11.3	n/a	n/a	n/a	n/a
2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Money supply M2 (end-period; % change, year on year)</b>												
2008	16.6	17.1	15.6	16.3	17.6	17.1	14.3	12.7	17.3	18.2	18.7	15.0
2009	17.5	18.6	20.3	18.7	17.4	16.1	16.3	18.6	n/a	n/a	n/a	n/a
2010	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Deposit rate (av; %)</b>												
2008	7.4	7.4	7.3	7.2	7.3	7.5	7.8	8.4	9.5	10.2	10.8	11.2
2009	11.3	11.1	10.7	10.1	9.7	9.3	9.0	8.7	8.4	8.0	7.7	7.5
2010	7.3	7.1	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	n/a	n/a
<b>Lending rate (av; %)</b>												
2008	13.0	13.0	12.9	12.9	12.9	13.0	13.1	13.4	13.9	14.7	15.1	15.2
2009	15.2	15.1	15.0	14.8	14.7	14.5	14.5	14.3	14.2	14.1	14.0	13.7
2010	13.8	13.7	13.5	13.4	13.3	13.2	13.2	13.2	13.0	13.0	n/a	n/a
<b>Manufacturing production (av; % change, year on year)</b>												
2008	5.8	9.5	2.5	3.5	4.0	2.4	2.8	2.9	-0.8	6.1	0.6	-1.9
2009	-1.7	0.9	1.4	1.2	0.1	0.6	-0.2	0.7	-0.2	4.7	3.8	6.3
2010	5.3	4.0	3.5	3.8	4.1	5.0	5.5	4.7	0.8	0.5	n/a	n/a
<b>JSE Composite stockmarket index (end-period; Aug 10th 1982=100)</b>												
2008	2,627	2,722	2,447	2,305	2,444	2,349	2,305	2,166	1,833	1,257	1,242	1,355
2009	1,333	1,285	1,434	1,723	1,917	2,027	2,323	2,342	2,468	2,368	2,416	2,534
2010	2,611	2,549	2,777	2,971	2,797	2,914	3,069	3,082	3,501	3,635	3,531	3,704
<b>Consumer prices (av; % change, year on year)</b>												
2008	6.4	6.6	7.2	7.7	8.9	11.0	11.9	11.8	12.2	11.8	11.5	11.1
2009	9.2	8.6	7.9	7.3	6.0	3.7	2.7	2.8	2.8	2.6	2.4	2.8
2010	3.7	3.8	3.4	3.9	4.2	5.0	6.2	6.4	5.8	5.7	6.3	7.0
<b>Producer prices (av; % change, year on year)</b>												
2008	24.4	23.1	25.2	25.6	27.3	34.1	35.1	32.8	27.8	25.7	19.9	9.7
2009	6.8	8.1	4.5	2.5	-1.2	-5.8	-7.9	-5.2	-3.5	-4.1	-2.4	4.4
2010	5.7	3.7	4.3	5.0	5.6	4.3	4.3	3.6	4.9	5.5	4.8	4.8

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Goods exports fob (US\$ m)</b>												
2008	11,192	10,546	12,009	10,922	12,910	12,818	12,528	12,467	12,277	10,790	9,666	8,897
2009	7,280	7,080	8,615	8,454	9,209	9,382	9,684	10,544	9,843	12,243	10,775	13,348
2010	11,596	11,167	12,774	12,035	12,657	12,330	12,487	13,727	12,182	14,400	15,338	n/a
<b>Goods imports cif (US\$ m)</b>												
2008	9,608	9,843	10,277	11,647	11,664	12,111	12,870	12,326	11,296	10,732	9,081	7,742
2009	6,601	5,939	6,554	6,707	7,641	7,936	8,683	9,707	8,517	9,430	8,815	10,300
2010	9,491	9,498	10,973	11,236	9,980	11,760	12,626	12,172	9,654	12,120	13,071	n/a
<b>Trade balance fob-cif (US\$ m)</b>												
2008	1,584	703	1,732	-725	1,246	708	-342	141	981	58	584	1,154
2009	680	1,141	2,061	1,747	1,568	1,446	1,001	837	1,326	2,813	1,961	3,048
2010	2,105	1,668	1,802	799	2,676	570	-139	1,555	2,528	2,280	2,267	n/a
<b>Foreign-exchange reserves excl gold (end-period; US\$ m)</b>												
2008	53,842	54,874	56,828	56,704	55,391	57,295	58,457	56,389	55,020	48,805	48,270	49,597
2009	48,776	48,365	52,663	54,458	55,688	55,381	55,230	58,115	59,978	62,092	63,106	63,563
2010	67,004	67,144	69,223	75,850	71,753	73,431	76,060	78,418	83,489	88,673	n/a	n/a

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

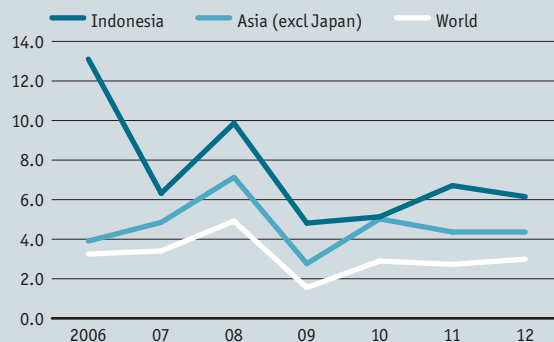
### Annual trends charts

**Real GDP growth**  
(% change)



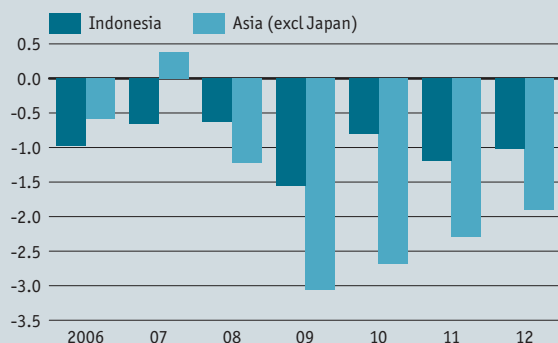
Source: Economist Intelligence Unit.

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



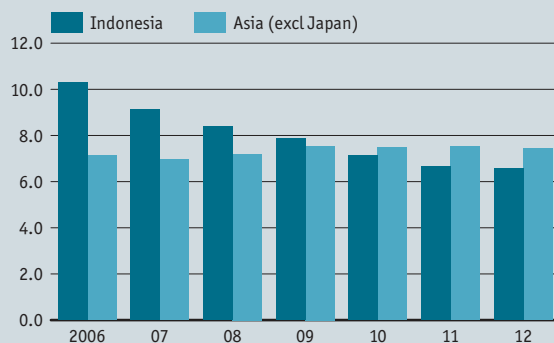
Source: Economist Intelligence Unit.

**Budget balance**  
(% of GDP)



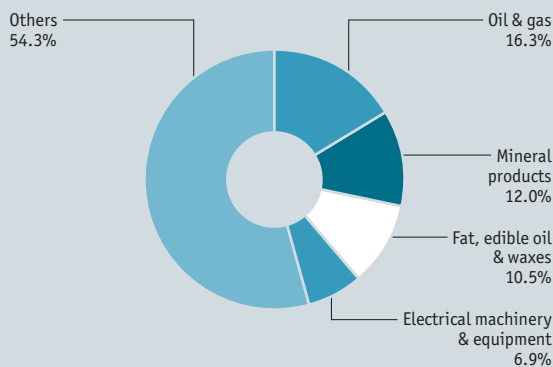
Source: Economist Intelligence Unit.

**Recorded unemployment**  
(%)



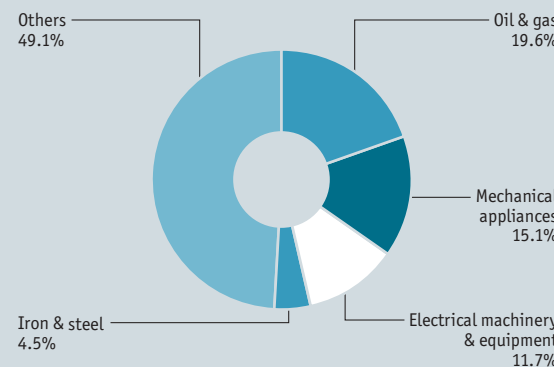
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

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

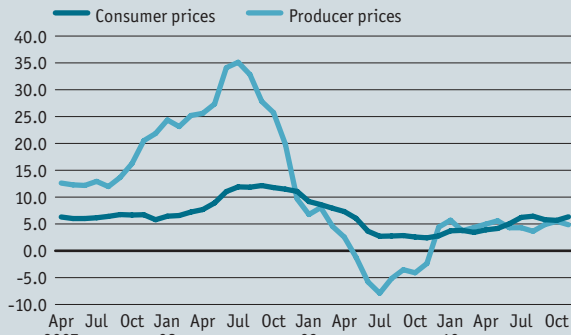


Source: Economist Intelligence Unit.



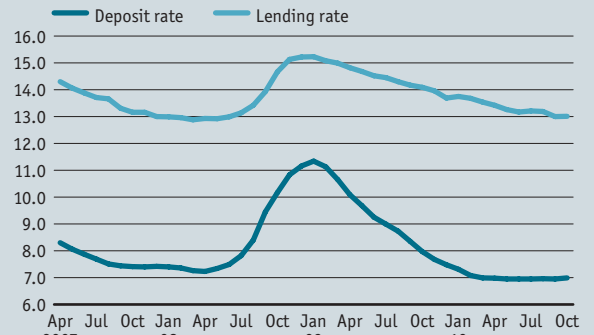
### Monthly trends charts

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



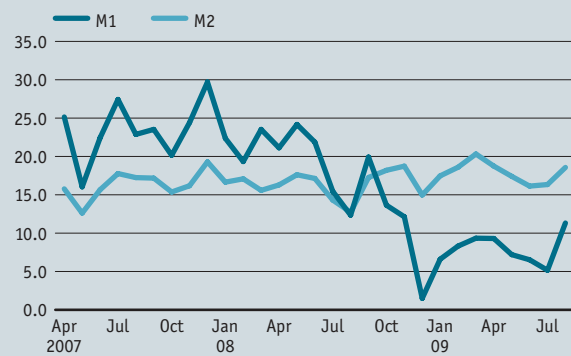
Source: Economist Intelligence Unit.

**Interest rates**  
(av; %)



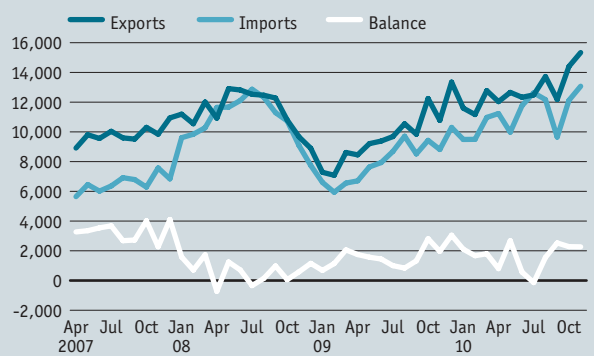
Source: Economist Intelligence Unit.

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



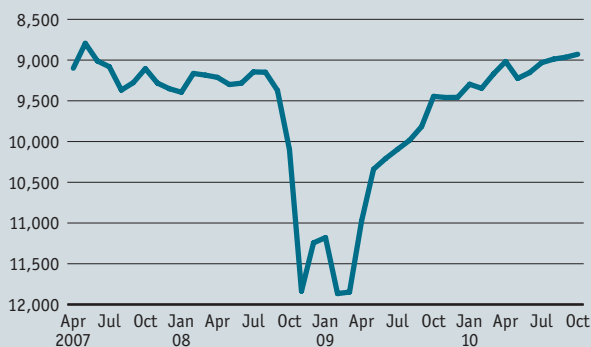
Source: Economist Intelligence Unit.

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



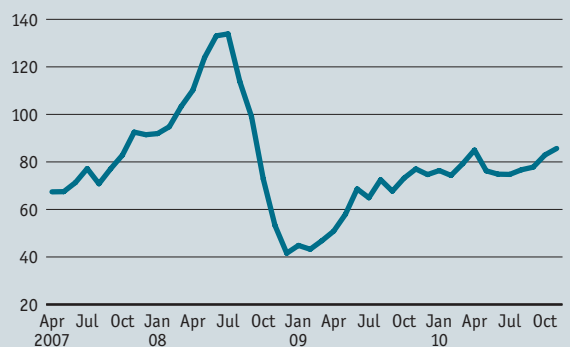
Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.

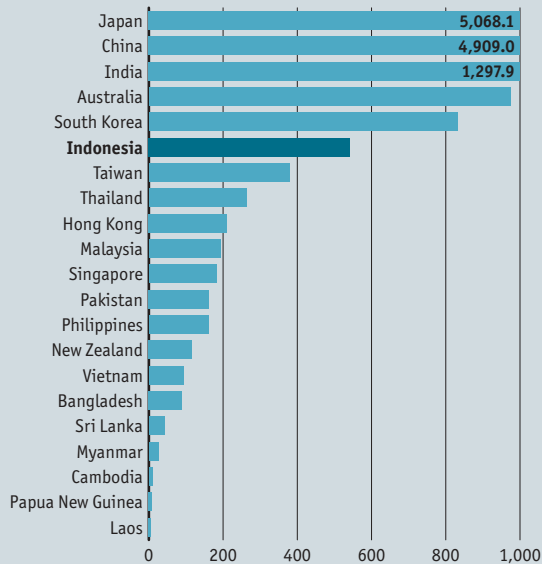
**Oil: Brent crude price**  
(US\$/b; av)



Source: Economist Intelligence Unit.

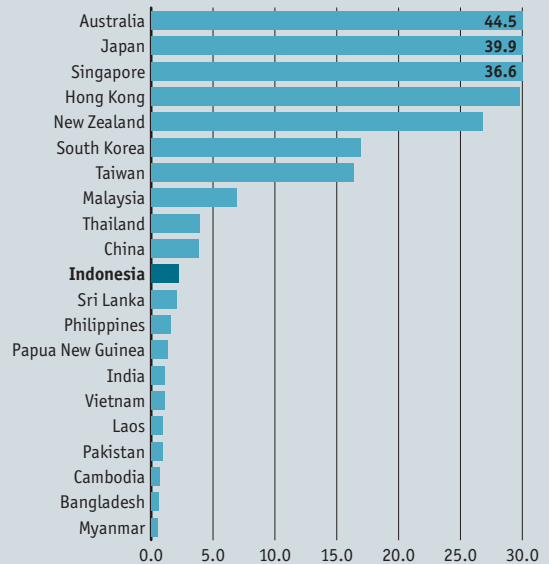
### Comparative economic indicators, 2009

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



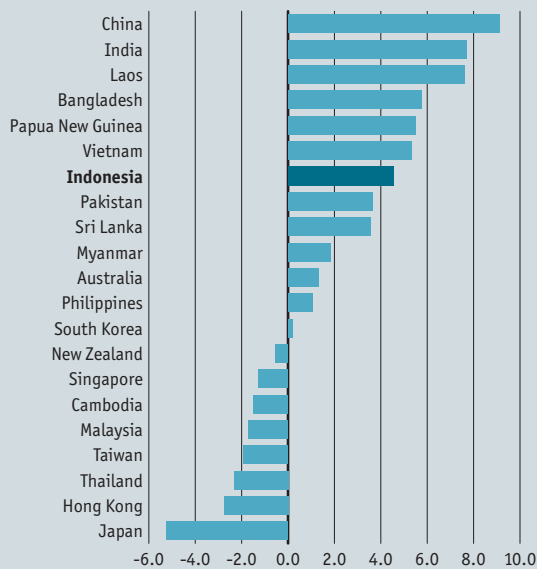
Sources: Economist Intelligence Unit estimates; national sources.

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



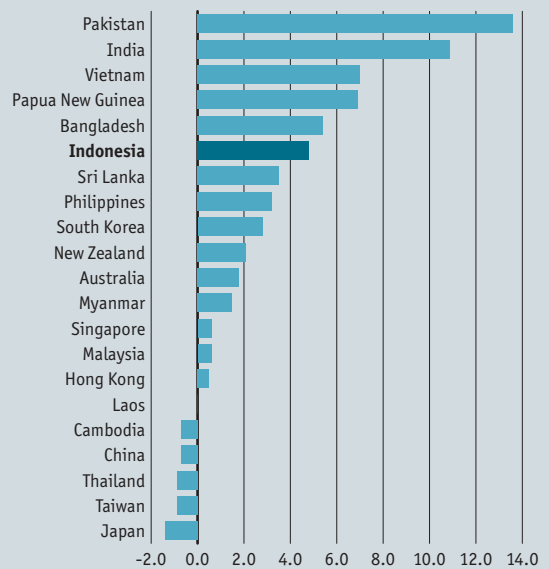
Sources: Economist Intelligence Unit estimates; national sources.

**Gross domestic product**  
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

**Consumer prices**  
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

# Country snapshot

## Basic data

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

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