Country Report

Indonesia

March 2011

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Economist Intelligence Unit

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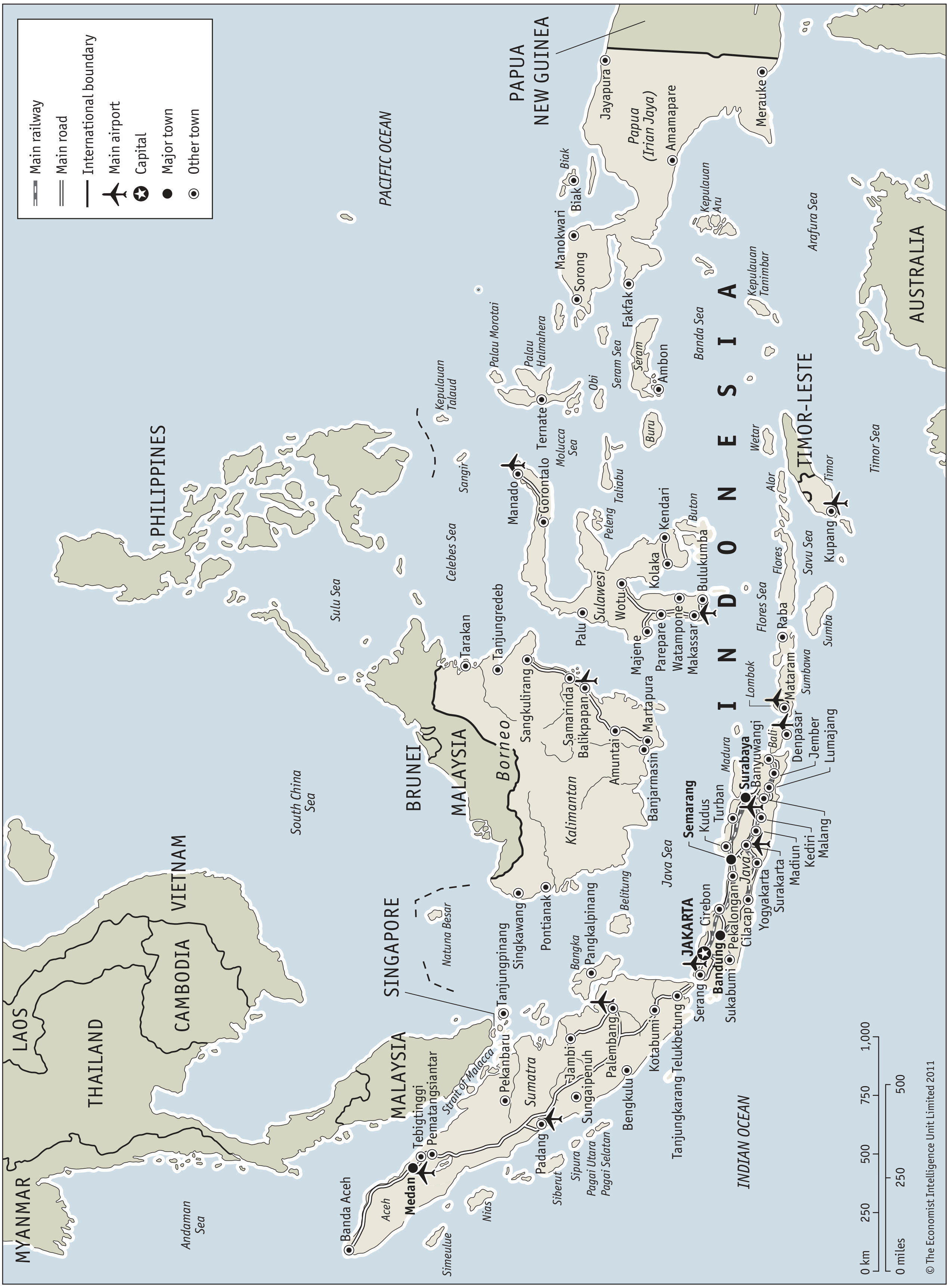
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Executive summary

Highlights

March 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 seek to "normalise" interest rates by gradually tightening monetary policy.
- The fiscal deficit will widen in 2011, to the equivalent of 1.3% of GDP, but it will then narrow during the remainder of the forecast period, owing to a rise in revenue.
- 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 stay in deficit, owing to the repatriation of earnings by foreign-owned companies.

Monthly review

- The fallout from the conviction of a tax official, Gayus Tambunan, on bribery charges has deepened divisions within the ruling coalition, with one party, Golkar, now even more likely to resist reformist policy initiatives.
- An ugly incident of orchestrated violence against members of an Islamic sect, the Ahmadiyah, in February has heightened concerns about rising intolerance and the government's weakening commitment to religious pluralism.
- The government has indicated that it will postpone indefinitely its planned restriction of subsidised fuel supplies, owing to spiralling oil prices and rapid domestic inflation.
- According to Statistics Indonesia (BPS), strong economic growth of 6.1% in 2010 pushed GDP per head above US$3,000, the mark at which a country is officially accorded middle-income status by the World Bank.
- The country's largest commercial bank, Bank Mandiri, raised Rp11.7trn (US$1.3bn) through a rights issue that closed in mid-February, in what was the largest such issue yet by an Indonesian bank.
- Following a rise in policy interest rates in February, the rupiah strengthened to its highest level since June 2007, at around Rp8,800:US$1.

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 DPR, 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. Mr Yudhoyono's current government has proved even less effective than the one that he led during his first term, owing to the conflicting views of its various member parties on a number of reform issues.

Divisions within the coalition have been most apparent in relation to the scandal surrounding a medium-sized local lender, Bank Century, which the authorities rescued from collapse in late 2008. Opponents of the most prominent reformer in the cabinet at that time, Sri Mulyani Indrawati, who was finance minister, used the ballooning cost of the 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, fuelling suggestions that Mr Yudhoyono had asked her to go (or at least did not request that she stay) in an attempt to repair relations with two major coalition parties, Golkar and the Prosperous Justice Party (PKS). Such speculation was heightened by the appointment soon after Ms Mulyani's resignation of Golkar's head, Aburizal Bakrie, as managing chairman of the coalition; Mr Bakrie, 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, prospects for an improvement in standards of governance will worsen. If, however, Mr Yudhoyono and leading reformers in the government continue to confront such interests, it may be only a matter of time before conflict erupts again within the coalition. In January 2011 Mr Yudhoyono appointed the vice-president, Boediono, and Kuntoro Mangkusubroto, the head of a presidential taskforce on "judicial mafia" (bribery, blackmail, witness intimidation and other wrongdoing within the justice system), to take charge of efforts to eliminate tax evasion. The move followed the sentencing of a former tax official, Gayus Tambunan, whose trial exposed egregious examples of official corruption, to seven years in prison for bribery. The appointments appear to suggest that the president is indeed prepared to take a tougher line against vested interests.

Among the companies that Mr Tambunan has testified to taking “fees” from are three mining firms owned by the Bakrie family. Senior figures in the PD have suggested that an evaluation of the composition of the coalition will be launched, focusing particularly on Golkar and the PKS, although disregarding coalition stability and realigning the balance of power within the government would require Mr Yudhoyono to display hitherto unseen strength. However, his position was strengthened in February, when the DPR voted narrowly against a full-scale investigation of corruption in the tax department. It is likely that Golkar legislators were hoping to use such an investigation to discredit Boediono and his probe into the companies that are alleged to have paid bribes to Mr Tambunan, including the Bakrie-owned firms.

The opportunity also exists for Mr Yudhoyono to become more assertive in promoting religious tolerance. In the past year violence against religious minorities, such Christians and members of an unorthodox Islamic sect, the Ahmadiyah, has risen, characterised by incidents in which the police have done little to prevent persecution. The brutal murder of three Ahmadi in Java in February triggered only an impotent response from the government, not least because of the influence two powerful cabinet members, the religious affairs minister, Suryadharma Ali, and the justice minister and human rights minister, Patrialis Akbar, who are unsympathetic towards the Ahmadiyah. Only when faced with a growing backlash did Mr Yudhoyono promise to make efforts to disband organisations that advocate violence, but firm action has yet to be taken.

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.

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 not certain that Ms Mulyani will declare herself a candidate and, even if she were to do so, she is less popular at home than she is with foreign investors, making her victory far from assured.

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 recession, 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 that country 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 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 counter-cyclical fiscal policy, and macroeconomic management therefore has to be achieved primarily through monetary policy. Bank Indonesia (BI, the central bank) will tighten policy by raising interest rates in 2011 in an attempt to contain the inflationary pressures generated by strong economic growth. In February BI tightened restrictions introduced in June 2010 on foreign purchases of short-term central bank bonds in order to maintain the stability of the rupiah. Although the authorities remain eager to attract long-term foreign investment, the potential for instability to be generated by sudden changes in investor sentiment was judged too great a risk to be ignored.

Fiscal policy

We expect the fiscal deficit to widen to the equivalent of 1.3% 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, which was approved in October last year. Although the current finance minister, Agus 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 problem. Final results for 2010 have yet to be published, but in early January Mr Yudhoyono said that the fiscal deficit last year was equivalent to only 0.6% of GDP. The inability of ministries to spend all of the money allocated to them will continue to limit expenditure, and we therefore expect the fiscal deficit to shrink during the remainder of the forecast period, to stand at 0.3% of GDP in 2015. The public debt to GDP ratio is forecast to drop further in the next few years, 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%. The rate rise, the first since October 2008, signals the start of the process of “normalising” interest rates. In previous recent meetings BI had left the rate at 6.5%, its 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). But consumer price inflation accelerated to 7% year on year, a 21-month high, in January and inflation has remained above BI's 4-6% target range since November. These factors convinced the bank's governors that raising the BI rate had become essential. Although BI waited until early February before raising rates, it began to tighten monetary policy in September 2010, when it increased the commercial banking sector’s primary rupiah reserve requirement to 8%, from 5% previously. It has also announced a rise in the banking sector’s US dollar reserve requirement to 8% from June 1st 2011, up from 1% at present. We expect the BI rate to average 7.3% in 2011 and 8.5% in 2012-15.

Economic forecast

International assumptions

	2010	2011	2012	2013	2014	2015
Economic growth (%)						
US GDP	2.9	2.7	2.2	2.4	2.3	2.3
OECD GDP	2.9	2.3	2.1	2.3	2.3	2.0
World GDP	3.8	3.1	3.0	3.1	3.0	3.0
World trade	12.7	6.6	6.4	6.6	6.6	5.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.6	1.9	2.3	2.5	2.8	2.8
OECD CPI	1.4	1.6	1.8	2.0	2.1	2.3
Manufactures (measured in US$)	3.3	1.9	0.0	1.4	1.2	1.7
Oil (Brent; US$/b)	79.6	90.0	82.3	78.3	75.5	76.0
Non-oil commodities (measured in US$)	24.5	24.9	-9.4	-8.8	0.4	0.2
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.3	0.3	0.7	2.2	4.1	5.1
¥ 3-month money market rate (av; %)	0.2	0.3	0.9	1.4	2.0	2.3
Exchange rate: ¥:US$ (av)	87.9	82.0	81.0	81.0	82.1	83.5
Exchange rate: Rp:US$ (av)	9,088	8,846	8,884	8,977	9,050	9,130
Exchange rate: US$:€ (av)	1.33	1.27	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, economic growth accelerated in 2010, with real GDP expanding by 6.1% in the year as a whole and by 6.9% year on year in the fourth quarter, its fastest quarterly pace of growth for six years. The economy will grow by 6.1% in 2011, and will then expand at an average annual rate of 6.4% in 2012-15. Private consumption will remain a major driving force behind GDP growth in 2011-15, expanding by an average of 5.6% a year as employment growth accelerates and the rate of real wage increases picks up. Fixed investment will meanwhile expand by 8.7% a year on average, supported by strengthening demand conditions. Exports of goods and services grew a double-digit rates in 2010, largely because 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 then expand at an average annual rate of 10.4% a year in 2012-15. 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. 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, 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	6.3	6.4
Private consumption	4.6	5.7	5.4	5.6	5.6	5.5
Government consumption	0.3	9.1	8.1	6.8	4.6	5.0
Gross fixed investment	8.5	7.9	8.8	8.9	9.1	8.9
Exports of goods & services	14.9	9.4	9.6	10.6	10.7	10.6
Imports of goods & services	17.3	10.9	11.1	12.0	11.9	11.6
Domestic demand	5.7	6.4	6.6	6.6	6.5	6.4
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	8.6	8.9	9.1	8.7	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, as domestic prices responded to an increase in international prices for crude oil and non-oil commodities. Although BI has embarked on a process of normalising interest rates, inflationary pressures in 2011 will build as economic activity accelerates. Another factor exerting an inflationary influence will be a further increase in international commodity prices, notably for crude oil and grains. Although the rupiah's continued appreciation against the US dollar and the government's decision in January to suspend import duties on a range of goods (notably foodstuffs) will limit inflation, price pressures are building. As a result, we expect inflation to average 6.9% this year, above BI's 4-6% target range. Nevertheless, the authorities' cooling measures are already taking effect: in February inflation slowed to 6.8%, thanks to the first year-on-year fall in food prices for four years. In 2012-15 inflation will slow to an average of 6.3%. The primary risk to our forecast comes from the possibility that high global oil prices could force the government to raise administered fuel prices domestically to keep the budget deficit under control, especially given that its assumption that international oil prices will average US$80/barrel this year looks unrealistic.

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, but BI will continue to intervene to prevent the currency from appreciating too sharply. The rupiah is forecast to strengthen by 2.7% on average 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$36.1bn, and we forecast that the surplus will continue to grow in 2011-15, to stand at US$49.2bn 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 the forecast period, as foreigners continue to repatriate earnings while Indonesian investments abroad still earn relatively meagre returns. Limited employment opportunities at home in 2011-15 will force more Indonesian 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 0.9% 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	6.3	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	6.9	6.2	6.1	6.3	6.4
Consumer price inflation (end-period)	7.0	6.1	5.7	6.3	6.7	6.2
Money market interest rate	6.1[c]	7.3	8.3	8.5	8.5	8.5
Government balance (% of GDP)	-0.8[c]	-1.3	-1.1	-1.0	-0.7	-0.3
Exports of goods fob (US$ bn)	154.9[c]	183.6	204.6	234.1	273.1	319.0
Imports of goods fob (US$ bn)	118.8[c]	145.1	165.0	191.7	228.5	269.8
Current-account balance (US$ bn)	7.1[c]	9.3	9.4	8.4	7.8	8.8
Current-account balance (% of GDP)	1.0[c]	1.1	1.0	0.8	0.7	0.7
External debt (end-period; US$ bn)	161.0[c]	165.9	165.9	168.0	171.1	175.9
Exchange rate Rp:US$ (av)	9,088	8,846	8,884	8,977	9,050	9,130
Exchange rate Rp:US$ (end-period)	8,991	8,865	8,930	9,013	9,090	9,170
Exchange rate Rp:¥100 (av)	10,388	10,735	10,783	11,082	11,020	10,934
Exchange rate Rp:€ (end-period)	12,048	10,638	10,627	10,546	10,590	10,751

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Monthly review: March 2011

The political scene

Deep divisions in the coalition will impede reform

The fallout from the conviction of a junior tax official, Gayus Tambunan, on corruption charges has revealed deep rifts in the coalition government led by the president, Susilo Bambang Yudhoyono. In January Mr Tambunan was sentenced to seven years in prison after a trial that uncovered deep and ingrained graft in the Directorate-general of Taxes (DJP). Following the sentencing of Mr Tambunan, the president ordered the investigation of companies that had allegedly conspired with Mr Tambunan to avoid their tax obligations. Among the firms from which Mr Tambunan claimed to have received bribes in exchange for favourable tax treatment are three mining firms, Bumi Resources, Kaltim Prima Coal and Arutmin, that are owned by the family of Aburizal Bakrie, the chairman of Golkar (one of the parties making up ruling coalition).

To counter this threat to his business empire, Mr Bakrie appears to have used his influence in the House of People's Representatives (DPR, the legislature) to launch a proposal for a formal enquiry into tax corruption, with the Prosperous Justice Party (PKS) joining Golkar in backing the plan. Although Golkar and the PKS are the second- and third-largest parties respectively in Mr Yudhoyono's coalition, their narrow interests frequently cast them in opposition to the president. On this occasion Mr Bakrie may have hoped that a full-scale parliamentary probe would discourage the government from pursuing investigations into his companies with due vigour and cause it to turn its attention elsewhere. An enquiry of this nature would have put severe pressure on Mr Yudhoyono's administration, drawing government ministers and senior officials into months of questioning. It would potential also mean that the president might ultimately be held accountable for his failure to deal with tax graft. A similar parliamentary enquiry into the bailout of a medium-sized lender, Bank Century, in late 2008 was used to harass the government and led to the resignation of a reformist finance minister, Sri Mulyani Indrawati.

Mr Yudhoyono's Democrat Party (PD) was opposed to the setting up of a special enquiry, and instead argued that oversight of ongoing tax-corruption cases should remain with a lower house committee, House Commission III for legal affairs. The PD's argument prevailed, and the proposal to establish a special enquiry was voted down narrowly in late February. Senior PD figures have now indicated that they will conduct an evaluation of the composition of the coalition, with Golkar and the PKS being subject to particularly close scrutiny. Mr Yudhoyono's consensual approach to politics, as well as the arithmetic of parliament, means that a major shake-up is unlikely. But the divisions between the coalition parties are now clearer than ever, with Mr Bakrie acting as a brake on reform, Golkar and the PKS functioning as a self-serving virtual opposition within the government, and Mr Yudhoyono being drawn closer to allies in the National Mandate Party and the People's Awakening Party, on which he depends (along with Golkar and the PKS) for a majority in the legislature. Furthermore, the divisions and the influence of vested interests over policymaking means that it is unlikely that any further substantial reform will emerge from Mr Yudhoyono's second-term administration.

Religious violence elicits an impotent official response

An ugly incident of orchestrated violence against a religious minority has raised concerns about rising intolerance and the government's weakening commitment to pluralism. On February 6th three members of the Ahmadiyah, an unorthodox Islamic sect, were beaten to death by a mob orchestrated by a fundamentalist vigilante group, the Islamic Defenders Front (FPI), in Banten province, near the capital, Jakarta. Videos of the attack, aired widely on local and international news channels, show police standing aside as the mob attacked a house where Ahmadiyah members had gathered, killing the three men. On February 5th local Ahmadiyah followers, including the owner of the house, had sought police protection as a result of threats to attack them. But despite the fact that busloads of youths had assembled at the scene the following day, the authorities had declined to act.

The Ahmadiyah sect originated in India; its followers believe that its founder, Mirza Ghulam Ahmad, was Islam's last prophet. This contradicts orthodox teachings, which hold that Mohammed was the faith's last prophet. Ahmadiyah followers were denounced as apostates in a fatwa issued by the Religious Scholars' Council of Indonesia (MUI, the country's top clerical body) in 2005, and since then its adherents—of whom there are thought to be around 500,000 in Indonesia—have been persecuted by Islamic vigilante groups such as the FPI. The government has aligned itself to a degree with the MUI and the vigilantes, passing a joint ministerial decree in 2008 that prohibited the Ahmadiyah from worshipping in public and proselytising, and subsequently failing to protect Ahmadiyah members from frequent attacks.

However, the violence in February has taken such intimidation to new heights, and its wide and graphic dissemination has been met with an outpouring of public disgust and anger directed at the government for failing to protect minority religions. Mr Yudhoyono first commented on February 7th, when he expressed his regret at the incident but also called on the Ahmadiyah to respect the decree restricting their religious freedom. Two days later, in response to a growing backlash, he called for organisations that advocate violence to be disbanded. In retaliation, the FPI threatened to overthrow Mr Yudhoyono if he moved to disband any Islamic mass organisations, and on February 19th it staged a demonstration outside the presidential palace in Jakarta, calling on the president to disband the Ahmadiyah or resign.

Mr Yudhoyono has yet to respond to these taunts and threats, unlike previous occasions on which his authority has been challenged openly, and it remains unclear whether he will have the courage to curb the FPI and other, similar organisations. Past attempts to rein in the FPI have failed, with light sentences handed to leaders of the group found guilty of inciting violence and hatred. The FPI's leader, Rizieq Shihab, received an 18-month prison term after being found guilty of orchestrating an attack against a group advocating religious tolerance in 2008, while a local leader, Murhali Barda, who incited an attack in Bekasi last year in which Christians were beaten and stabbed, was sentenced to only five and a half months in jail for unpleasant conduct. This time around the cabinet is divided on the issue. The religious affairs minister, Suryadharma Ali, and the justice and human rights minister, Patrialis Akbar, are broadly sympathetic to the views of the FPI. In the aftermath of the attack Mr Ali defended the 2008 joint decree and denied that it had encouraged discrimination against the Ahmadiyah, while Mr Akbar refused to accept that the murders constituted a violation of human rights. The police have also been ineffective so far in pursuing the FPI. The national police chief, General Timur Pradopo, was reported as having been a founding member of the FPI in 1998 and said when he was appointed in 2010 that the vigilante group could play a role in maintaining security.

Internal politics within the coalition go a long way towards explaining the recent deterioration in religious tolerance in Indonesia. A local group that monitors religious tolerance, the Setara Institute for Democracy and Peace, recorded 75 violations of religious freedom in the country in 2010, up from 17 in 2008 and 18 in 2009. In February 2011 a further two cases were noted, in Temanggung, Central Java, where Muslim extremists perpetrated an arson attack on two churches, and at an Islamic boarding school in Pasuruan, East Java, which was pelted with stones because its clerics were suspected of being sympathetic to Shiite views rather than the Sunni doctrines that prevail in Indonesia.

Economic policy

Measures to reduce the cost of fuel subsidies may be delayed

The government has indicated that it will postpone indefinitely its planned restriction on supplies of subsidised fuel. In late February the co-ordinating minister for the economy, Hatta Rajasa, said that rocketing international oil prices as a result of growing political unrest in the Middle East, together with rapid domestic inflation, meant that now was not the right time to introduce the measure. DPR members had earlier called for the postponement of the restriction to prevent popular unrest, as rising global oil prices would have resulted in steep local price increases for non-subsidised fuel in the coming months. Under the proposed measure, fuel used in private cars would no longer be subsidised. The measure had originally been due to take effect in Jakarta from January 1st, but its introduction had already been postponed until end-March. The plan was that subsidies would be phased out slowly across the Indonesian archipelago in the period to 2013. Any delay in removing subsidies, which mainly benefit wealthier, car-owning households, will leave the government facing a larger bill this year. But the issue is politically explosive, and successive governments have failed to rein in this wasteful form of expenditure. As a result, fuel subsidies continue to divert funds away from healthcare, education, infrastructure and other development priorities. The current budget assumes a fuel subsidy bill of Rp95.9trn (US$10.9bn) for 2011, based on the assumption that international oil prices will average US$80/barrel. However, global crude oil prices (dated Brent Blend) stood at US$112/b at end-February, with grades imported for refining into fuel in Indonesia commonly being priced around US$5/b less.

Banks replenish funds in order to maintain lending growth

Indonesia's commercial banks posted a strong performance in 2010 on the back of vigorous economic growth. Total net profits came to Rp57.3trn, up by 27% on the Rp45.2trn that was recorded in 2009, according to Bank Indonesia (BI, the central bank). Loan disbursements rose to Rp1,765.8trn, up by 23% on 2009, while third-party funds (borrowing by banks) rose by 18.5%, to Rp2,338.8trn. The total assets of the country's 122 banks were worth Rp3,008.9trn at end-2010, up by 20% compared with 2009, while the average capital-adequacy ratio stood at 17%. In 2011, according to BI, commercial banks plan to increase lending by 24%—above the central bank's target of 20-23%. As third-party funds are set to grow more slowly this year, by 15%, it appears that lending growth will be funded from banks' existing reserves of liquidity, as well as from new deposits. This would take the average loan to deposit ratio up to around 80%, from 75% at end-2010.

Accordingly, some banks are now taking steps to replenish their capital reserves. Indonesia's largest commercial bank, Bank Mandiri, raised Rp11.7trn through a rights issue that closed in mid-February, in the largest such issue ever by an Indonesian bank. The issue will lift Bank Mandiri's tier-1 capital adequacy ratio to around 14%, from slightly under 10% at present. Bank Mandiri's rights issue follows similar issues by Bank Negara Indonesia, Bank Kasawan and Bank Muamalat in recent months. Together, these three issues raised a total of Rp14trn, providing capital to support continued strong growth in lending in 2011.

Economic performance

Strong growth takes Indonesia to middle-income status

According to Statistics Indonesia (BPS, the national data office), strong economic growth of 6.1% in 2010 pushed GDP per head above the US$3,000 mark at which a country is officially accorded middle-income status by the World Bank. (The Economist Intelligence Unit calculates that GDP per head last year was slightly lower, at US$2,909.) The middle-income classification may be arbitrary, but it underlines the economic progress that Indonesia has made in recent years. The World Bank's country director for Indonesia, Stefan Koeberle, said in February that "Indonesia is emerging as a self-confident, rising and dynamic middle-income country". Nevertheless, great inequalities in income distribution persist, meaning that tens of millions of people continue to live in poverty. Corruption, a weak and venal civil service and poor infrastructure greatly constrain the country's economic performance, and these obstacles to growth will now need to be tackled through difficult reforms—measures that the paralysed coalition government seems in no position to push through—if Indonesia is to fulfil its potential.

However, the era of middle-income status could herald an acceleration in development—other Asian countries have grown rapidly after passing this threshold. Indonesia's economic planners are not lacking in ambition: the National Development Planning Agency (Bappenas) has outlined an economic master plan that aims to lift the country to high-income status within 15 years. The vision was outlined in February by the minister for development planning, Armida Alisjahbana, and targets annual GDP growth of 7-8% from 2013. If this were to happen, Indonesia would become one of the world's ten largest economies by 2025. To achieve this target, annual investment of Rp2,417trn in infrastructure would be required for the next 15 years. This compares with private investment of Rp2,000trn, public infrastructure spending (only partially realised) of Rp95trn and a public works budget of Rp36trn in 2010.

Capital inflows boost the balance of payments

The current account posted a surplus of US$1.2bn in the final quarter of 2010, down from US$1.3bn in the third quarter. The trade surplus rose to US$9.3bn, boosted by strong non-oil and gas exports. Rising commodity prices and strong global demand helped to lift the value of exports (not including oil and gas) to US$46bn. However, these gains were offset by increased payments for freight owing to higher demand for imports, as well as by the transfer of profits earned by foreign firms with investments in the local stock and bond markets. In 2010 as a whole the current-account surplus came to US$6.3bn, down from US$10.7bn in 2009, in part as a result of a weaker trade position. Imports grew by 51% to US$127.1bn in 2010, while exports rose by 32% to US$158.2bn.

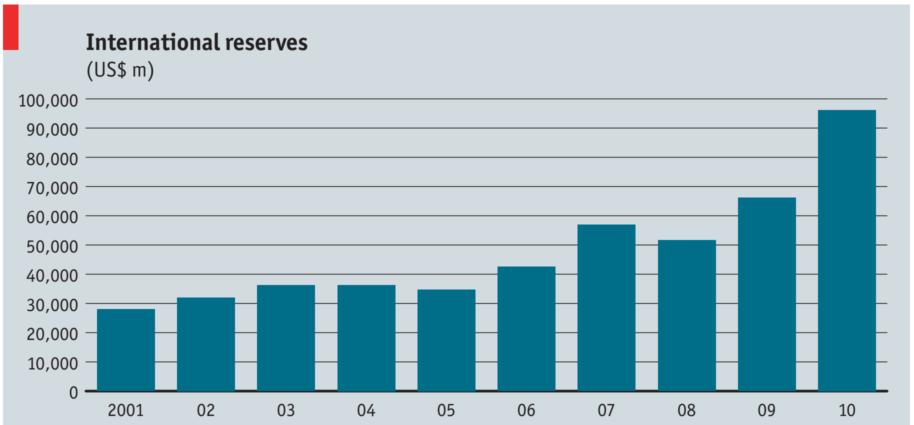
The capital and financial account surplus rose to US$9.9bn in the fourth quarter, from US$6.5bn at the end of the third quarter. A strong macroeconomic outlook and bright prospects for future growth helped to lift net direct investment inflows to US$3.7bn, from US$2.5bn in the third quarter. Net portfolio investment inflows also continued to rise, reaching US$1.8bn at the end of the fourth quarter, owing to the fact that capital was attracted into the country by poor returns in developed markets and growing optimism regarding Indonesia's future growth prospects. Overall, net inward portfolio investment reached US$15.7bn in 2010, up by 52% on US$10.4bn in 2009.

Balance of payments
(US$ m unless otherwise indicated)

			2009		2010			
	2009	**2010**	**3 Qtr**	**4 Qtr**	**1 Qtr**	**2 Qtr**	**3 Qtr**	**4 Qtr**
Exports fob	119,480	158,201	31,273	35,899	34,993	37,264	39,228	45,970
Imports fob	-84,347	-127,108	-22,784	-24,504	-26,222	-28,621	-30,108	-36,690
Trade balance	**35,133**	**31,093**	**8,488**	**11,395**	**8,770**	**8,643**	**9,120**	**9,279**
Services, net	-14,110	-9,491	-3,519	-4,538	-3,592	-3,417	-3,890	-2,770
Income, net	-15,140	-20,258	-4,072	-4,551	-4,339	-4,628	-5,152	-6,619
Current transfers, net	4,861	4,950	1,248	1,303	1,168	1,206	1,230	1,334
Current-account balance	**10,743**	**6,294**	**2,146**	**3,610**	**2,007**	**1,804**	**1,308**	**1,224**
Capital account balance	96	32	34	14	18	0	0	14
Financial account balance	3,453	26,186	2,474	1,255	4,810	4,370	6,477	9,861
Foreign direct investment, net	1,928	12,736	472	604	2,300	1,977	2,492	3,739
Portfolio investment, net	10,336	15,697	2,972	3,521	6,159	1,089	6,060	1,773
Other investment, net	-8,812	3,263	-970	-2,869	-3,648	1,304	-2,075	1,850
Capital & financial account balance	**3,548**	**26,218**	**2,507**	**1,270**	**4,829**	**4,370**	**6,477**	**9,874**
Total	**14,291**	**32,512**	**4,654**	**4,879**	**6,836**	**6,174**	**7,785**	**11,098**
Errors & omissions	-1,785	-2,227	-1,108	-926	-215	-753	-830	191
Balance of payments	**12,506**	**30,285**	**3,546**	**3,954**	**6,621**	**5,421**	**6,955**	**11,289**
Reserve assets position (end-period)	66,105	96,207	62,287	66,105	71,823	76,321	86,551	96,207
Reserve assets (months of import & official debt-repayment cover)	6.5	7.0	6.1	6.5	5.4	5.8	6.6	7.0

Source: Bank Indonesia.

The net impact of the movements on the current account and the capital and financial account was a balance-of-payments surplus in the fourth quarter of US$11.3bn, up from US$7bn in the third quarter. In 2010 as a whole the surplus rose to US$30.3bn, from US$12.5bn in 2009. International reserves increased to US$96.2bn as a result of the strengthened balance-of-payments position, sufficient to cover seven months of imports and interest payments on official external debt.



Source: IMF, *International Financial Statistics*.

An interest rate rise causes the rupiah to strengthen

International reserves fell to US$95.3bn in January 2011, as BI sold US dollars to stabilise the rupiah in the face of a sharp but limited withdrawal of foreign portfolio funds from stocks, bonds and central bank promissory notes. Investors withdrew funds after BI declined to raise the benchmark interest rate at its January policy meeting, giving rise to concerns that it was failing to act to curb rising inflation. However, the expectation and subsequent realisation of a rate increase in February set the rupiah on an upward trajectory, and by the end of the month the currency had risen to its highest point since June 2007, at around Rp8,800:US$1.

Auctions of short-term debt are halted

In early February 2011 BI announced further measures to reduce the risk of exchange-rate volatility in the face of surging inflows of foreign portfolio capital. The central bank revealed that it would end monthly auctions of its six-month BI certificates (SBIs), meaning that nine-month certificates will now be the shortest maturity now sold through auction. The auction of six-month SBIs will be replaced with a six-month term deposit, in line with BI's policy of using term deposits to replace SBIs as the primary instrument for absorbing excess liquidity from the financial system. Term deposits are non-tradable and must be held to maturity, reducing the potential for volatility through secondary-market sales. BI had previously introduced a 28-day minimum holding period for SBIs in June 2010, discouraging investors from investing in such instruments. Sales of three-month certificates were halted in November 2010, and one- and two-month term deposits were introduced at the start of 2011.

Data and charts

Annual data and forecast

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
GDP							
Nominal GDP (US$ bn)	364.6	432.2	510.2	539.4	706.7[a]	823.7	926.1
Nominal GDP (Rp trn)	3,339.2	3,950.9	4,948.7	5,603.9	6,422.9[a]	7,287.1	8,227.8
Real GDP growth (%)	5.5	6.3	6.0	4.6	6.1[a]	6.1	6.3
Expenditure on GDP (% real change)							
Private consumption	3.2	5.0	5.3	4.9	4.6[a]	5.7	5.4
Government consumption	9.6	3.9	10.4	15.7	0.3[a]	9.1	8.1
Gross fixed investment	2.6	9.3	11.9	3.3	8.5[a]	7.9	8.8
Exports of goods & services	9.4	8.5	9.5	-9.7	14.9[a]	9.4	9.6
Imports of goods & services	8.6	9.1	10.0	-15.0	17.3[a]	10.9	11.1
Origin of GDP (% real change)							
Agriculture	3.4	3.5	4.8	4.0	2.9[a]	3.8	3.5
Industry	4.5	4.7	3.7	3.5	4.7[a]	4.1	4.1
Services	7.3	9.0	8.7	5.7	8.4[a]	8.6	8.9
Population and income							
Population (m)	231.8	234.7	237.5	240.3	243.0[a]	245.6	248.2
GDP per head (US$ at PPP)	3,314[b]	3,583[b]	3,836[b]	4,001[b]	4,222	4,503	4,844
Recorded unemployment (av; %)	10.3	9.1	8.4	7.9	7.1[a]	6.7	6.6
Fiscal indicators (% of GDP)							
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	17.1	17.7	18.6	19.0
Central government budget balance	-1.0	-0.7	-0.6	-1.6	-0.8	-1.3	-1.1
Public debt	33.0[b]	31.3[b]	28.3[b]	27.4[b]	25.5	24.4	23.4
Prices and financial indicators							
Exchange rate Rp:US$ (end-period)	9,020	9,419	10,950	9,400	8,991[a]	8,865	8,930
Exchange rate Rp:¥100 (end-period)	7,579	8,432	12,061	10,099	10,926[a]	10,811	11,094
Consumer prices (end-period; %)	6.6	5.8	11.1	2.8	7.0[a]	6.1	5.7
Stock of money M1 (% change)	28.1	29.7	1.5	12.9	17.4[a]	15.6	16.5
Stock of money M2 (% change)	14.9	19.3	14.9	13.0	15.3[a]	13.3	17.0
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	35,132	36,061	38,497	39,574
Goods: exports fob	103,528	118,014	139,606	119,481	154,911	183,627	204,561
Goods: imports fob	-73,867	-85,259	-116,690	-84,348	-118,850	-145,130	-164,988
Services balance	-9,875	-11,842	-12,998	-14,110	-15,127	-15,950	-16,296
Income balance	-13,790	-15,524	-15,156	-15,140	-18,786	-18,317	-19,078
Current transfers balance	4,863	5,103	5,364	4,860	4,952	5,030	5,191
Current-account balance	10,860	10,492	125	10,743	7,100	9,259	9,390
External debt (US$ m)							
Debt stock	132,512	142,638	150,851	156,738[b]	161,022	165,892	165,903
Debt service paid	28,479	22,805	22,150	23,212[b]	22,978	23,014	24,009
Principal repayments	23,979	16,680	16,573	18,207[b]	18,163	18,432	18,870
Interest	4,500	6,125	5,577	5,005[b]	4,816	4,582	5,140
International reserves (US$ m)							
Total international reserves	42,588	56,924	51,641	66,119	96,207	116,947	126,855

[a] Actual. [b] Economist Intelligence Unit estimates. [c] 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
Output								
GDP at constant 2000 prices (Rp trn)	528.5	540.8	561.1	547.4	558.0	573.9	593.7	585.1
Real GDP (% change, year on year)	4.6	4.2	4.2	5.4	5.6	6.1	5.8	6.9
Manufacturing at constant 2000 prices (Rp trn)	138.7	140.8	144.8	145.4	144.1	147.1	151.0	153.1
Manufacturing at constant 2000 prices (% change, year on year)	1.5	1.5	1.3	4.3	3.9	4.5	4.3	5.3
Mining at constant 2000 prices (Rp trn)	43.5	44.3	46.4	46.0	44.9	46.0	47.6	47.9
Mining at constant 2000 price (% change, year on year)	2.6	3.5	6.3	5.3	3.1	3.9	2.7	4.2
Prices								
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	174.3
Financial indicators								
Exchange rate Rp:US$ (av)	11,631	10,509	9,966	9,454	9,271	9,132	8,995	8,956
Exchange rate Rp:US$ (end-period)	11,575	10,225	9,681	9,400	9,115	9,083	8,924	8,991
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	490.5	515.8	494.5	545.4	549.9	605.4
M1 (% change, year on year)	9.3	6.5	2.2	12.9	10.4	13.0	12.1	17.4
M2 (end-period; Rp trn)	1,917	1,978	2,019	2,141	2,112	2,231	2,275	2,469.4
M2 (% change, year on year)	20.2	16.1	13.5	13.0	10.2	12.8	12.7	15.3
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	52.8
Sectoral trends								
Manufacturing production (2000=100)[a]	124.6	127.5	131.0	132.9	129.9	133.0	135.8	139.3
Manufacturing production (% change, year on year)[a]	0.2	0.6	0.1	4.9	4.3	4.3	3.7	4.9
Crude oil production (m barrels/day)[b]	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
Foreign trade (US$ m)								
Exports fob	22,975	27,044	30,071	36,366	35,537	37,022	38,395	46,816
Imports cif	-19,094	-22,284	-26,907	-28,545	-29,961	-32,976	-34,452	-38,217
Trade balance	3,882	4,761	3,163	7,822	5,576	4,046	3,943	8,599
Foreign payments (US$ m)								
Merchandise trade balance	6,884	8,365	8,489	11,395	8,771	8,643	9,120	n/a
Services balance	-2,743	-3,311	-3,518	-4,538	-3,592	-3,417	-3,889	n/a
Income balance	-2,742	-3,776	-4,071	-4,551	-4,339	-4,628	-5,152	n/a
Net transfer payments	1,108	1,201	1,248	1,303	1,168	1,206	1,230	n/a
Current-account balance	2,507	2,479	2,148	3,609	2,008	1,804	1,309	n/a
Reserves excl gold (end-period)	52,663	55,381	59,978	63,563	69,223	73,431	83,489	n/a

[a] Large & 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

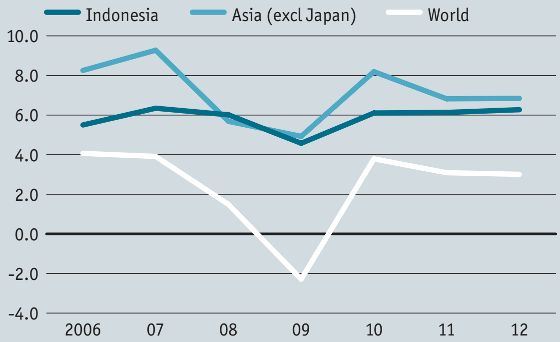
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Rp:US$ (av)												
2008	9,395	9,164	9,185	9,212	9,300	9,284	9,145	9,149	9,373	10,100	11,836	11,244
2009	11,179	11,866	11,848	10,978	10,340	10,209	10,096	9,985	9,817	9,446	9,460	9,458
2010	9,297	9,347	9,169	9,017	9,226	9,153	9,032	8,988	8,965	8,929	8,948	8,991
Exchange rate Rp:US$ (end-period)												
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	8,991
Real effective exchange rate (2000=100; CPI-based)												
2008	119.16	122.88	121.33	121.64	123.58	133.50	136.21	139.31	137.91	132.41	115.13	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	135.43
2010	139.39	140.32	142.41	144.27	144.81	146.67	145.58	145.97	144.27	141.63	142.17	143.03
Money supply M1 (end-period; % change, year on year)												
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	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
Money supply M2 (end-period; % change, year on year)												
2008	16.7	17.1	15.6	16.3	17.6	17.1	14.3	12.7	17.2	18.2	18.7	14.9
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	15.3
Deposit rate (av; %)												
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	7.0	n/a
Lending rate (av; %)												
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	13.0	n/a
Manufacturing production (av; % change, year on year)												
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	4.6	4.6	5.3
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)												
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
Consumer prices (av; % change, year on year)												
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
Producer prices (av; % change, year on year)												
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	5.5	6.0

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Goods exports fob (US$ m)												
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	15,633	16,783
Goods imports cif (US$ m)												
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	13,008	13,090
Trade balance fob-cif (US$ m)												
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	2,626	3,694
Foreign-exchange reserves excl gold (end-period; US$ m)												
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	89,564	n/a

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

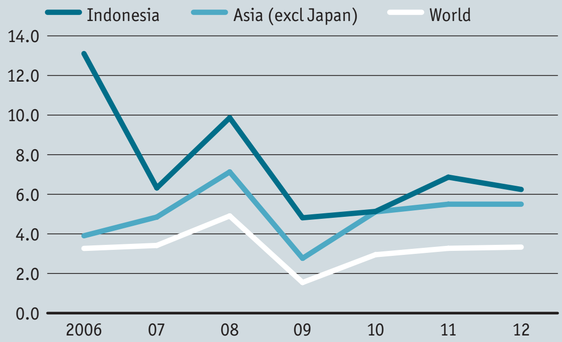
Annual trends charts

Real GDP growth
(% change)



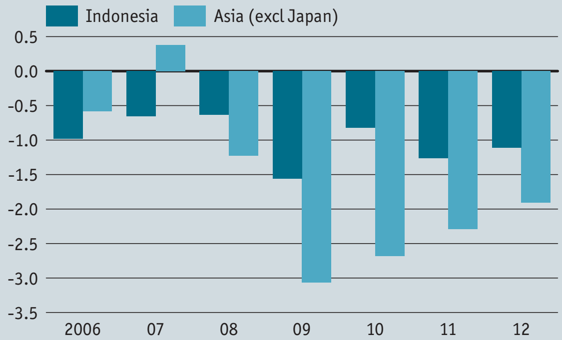
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



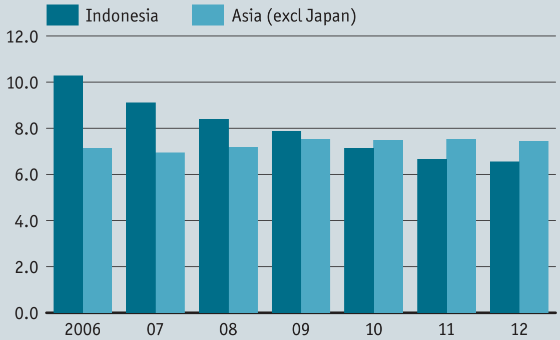
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



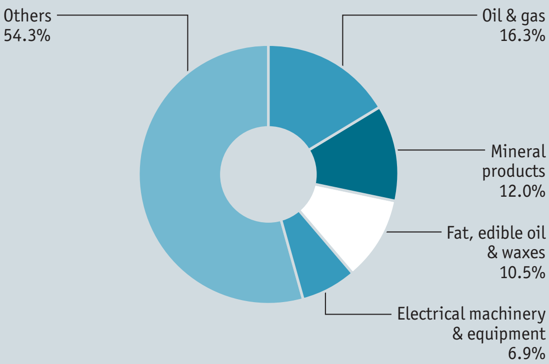
Source: Economist Intelligence Unit.

Recorded unemployment
(%)



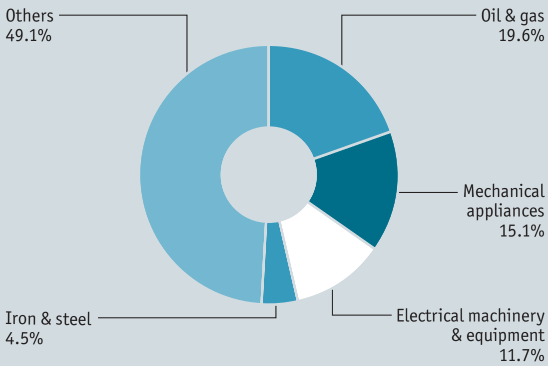
Source: Economist Intelligence Unit.

Major exports, 2009
(share of total)



Source: Economist Intelligence Unit.

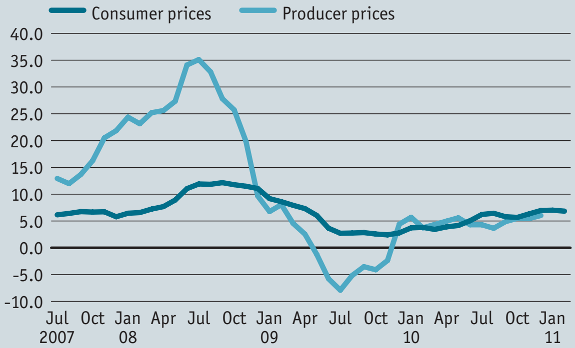
Major imports, 2009
(share of total)



Source: Economist Intelligence Unit.

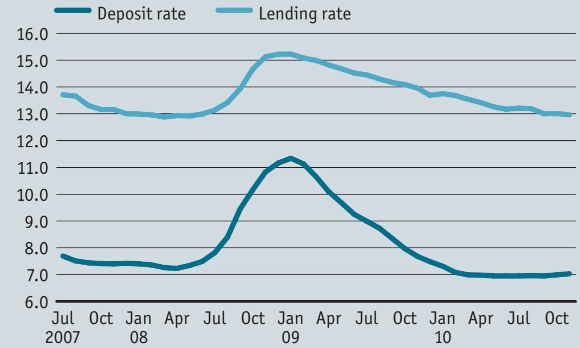
Monthly trends charts

Price inflation
(% change, year on year)



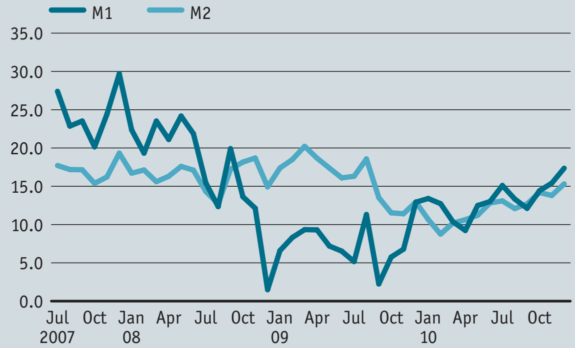
Source: Economist Intelligence Unit.

Interest rates
(av; %)



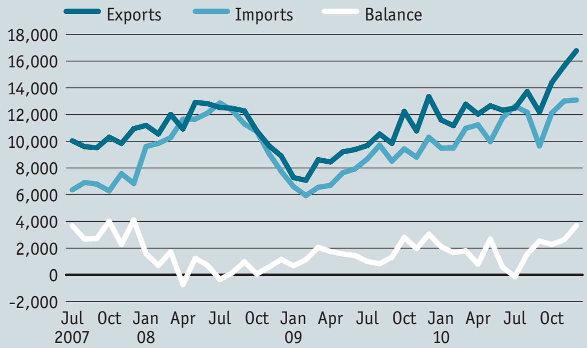
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



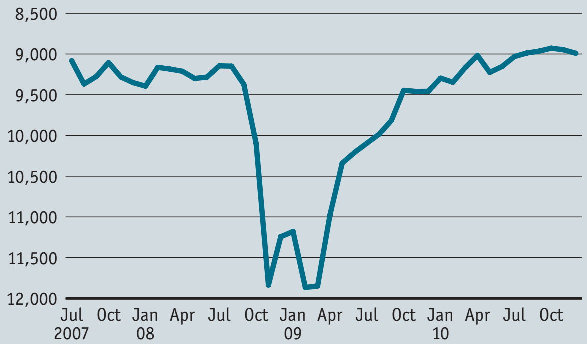
Source: Economist Intelligence Unit.

Foreign trade
(US$ m; goods only)



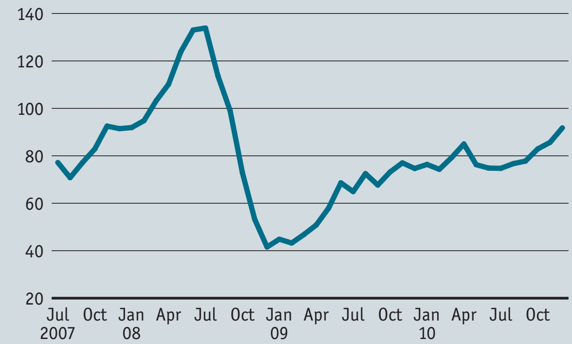
Source: Economist Intelligence Unit.

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

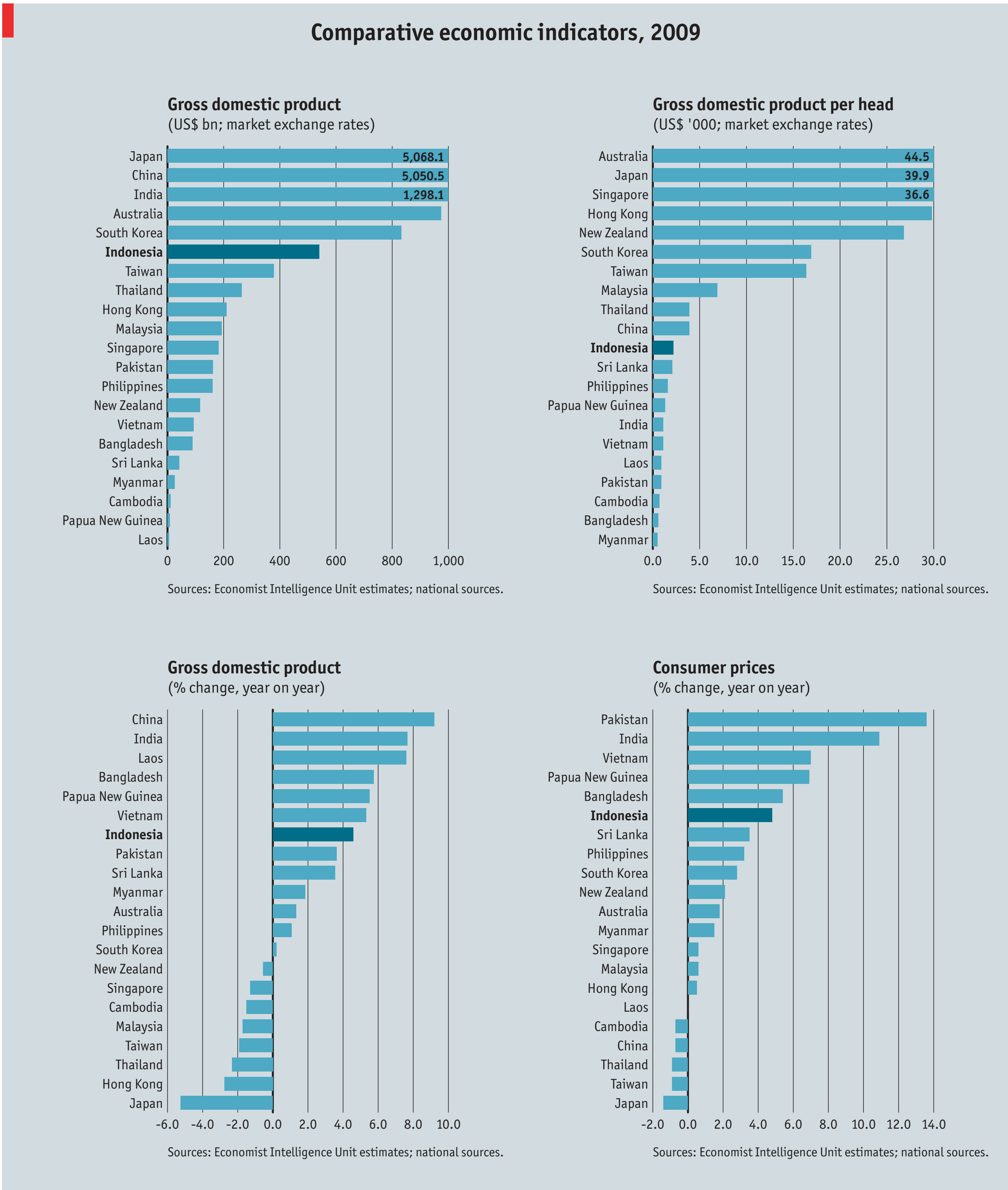


Source: Economist Intelligence Unit.

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



Source: Economist Intelligence Unit.


Comparative economic indicators, 2009
Gross domestic product
(US$ bn; market exchange rates)
Japan
China
India
Australia
South Korea
Indonesia
Taiwan
Thailand
Hong Kong
Malaysia
Singapore
Pakistan
Philippines
New Zealand
Vietnam
Bangladesh
Sri Lanka
Myanmar
Cambodia
Papua New Guinea
Laos
5,068.1
5,050.5
1,298.1
0
200
400
600
800
1,000
Sources: Economist Intelligence Unit estimates; national sources.
Gross domestic product per head
(US$ '000; market exchange rates)
Australia
Japan
Singapore
Hong Kong
New Zealand
South Korea
Taiwan
Malaysia
Thailand
China
Indonesia
Sri Lanka
Philippines
Papua New Guinea
India
Vietnam
Laos
Pakistan
Cambodia
Bangladesh
Myanmar
44.5
39.9
36.6
0.0
5.0
10.0
15.0
20.0
25.0
30.0
Sources: Economist Intelligence Unit estimates; national sources.
Gross domestic product
(% change, year on year)
China
India
Laos
Bangladesh
Papua New Guinea
Vietnam
Indonesia
Pakistan
Sri Lanka
Myanmar
Australia
Philippines
South Korea
New Zealand
Singapore
Cambodia
Malaysia
Taiwan
Thailand
Hong Kong
Japan
-6.0
-4.0
-2.0
0.0
2.0
4.0
6.0
8.0
10.0
Sources: Economist Intelligence Unit estimates; national sources.
Consumer prices
(% change, year on year)
Pakistan
India
Vietnam
Papua New Guinea
Bangladesh
Indonesia
Sri Lanka
Philippines
South Korea
New Zealand
Australia
Myanmar
Singapore
Malaysia
Hong Kong
Laos
Cambodia
China
Thailand
Taiwan
Japan
-2.0
0.0
2.0
4.0
6.0
8.0
10.0
12.0
14.0
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	