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Country Outlook: Indonesia

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In a nutshell

- Being insulated from the ongoing malaise in global trade, Indonesia has managed to maintain its growth momentum since the 4.6% growth registered in 2009. Over the past three years, Indonesia's real gross domestic product (GDP) has expanded by more than 6.2% between 2010 and 2012.

- The latest GDP data (1Q2013) indicates a marginal slowdown in growth, but with Indonesia still posting its 10th straight quarter of higher than 6.0% growth. Growth in 1Q2013 hit 6.0%, supported by sustained consumption and investment activities. Output expansion on the supply side continues to be bolstered by strong manufacturing and tourism growth. Going forward, there is little reason to believe that growth will sustain a deeper setback.

- The Bank of Indonesia (BOI) last cut its policy rate in February 2012 from 6.00% to 5.75%, and has kept it steady ever since. Inflation has, however, begun to pick up again in 2013, and there may be a 25 basis point response in consequence towards the end of the year. However, at this stage the policy rate is unlikely to be raised further given the uncertain external outlook. Part of the impetus to inflation has been the strengthening of the US dollar over the past year, which has raised import prices for Indonesia. Again, this is likely to be short term, as over the long term the USD should continue to see pressure easing.

- Continued strong investor interest in Indonesian securities has seen the Jakarta Stock Exchange Composite Index (JKSE) rising a further 16.6% up to the end of April 2013 from December 2012. Sustained domestic demand, however, has turned the current account balance into an overall deficit for 2012 (-2.7% of GDP), and with accelerating inflation, the economy appears to be overheating slightly. A monetary response is thus likely, which should see some pullback in consumption and investment, although we do not foresee foreign investment dropping off much. The deterioration in the current account balance is somewhat worrisome, as is the heightened sensitivity to foreign capital flows, but these are ameliorated by Indonesia's substantial foreign reserves, which are sufficient at 5.9 months of imports and 2.57x short-term external debt.

- For 2013, the government penciled in a budget deficit of 2.5%, which at this stage is likely to be met. Lower commodity prices, especially for oil & gas, are hitting revenues while growing energy demand is increasing the cost of subsidies. Nevertheless, the expectations are that any enlargement of the budget deficit is unlikely to exceed 3.0%, and sustained high inflation would generally reduce the real impact of the higher borrowings. Given the low debt level and ample international reserves, government securities are likely to continue to be targeted by foreign investors.

- Judging from the macroeconomic matrices, Indonesia appears to be roughly in balance, excepting only an elevated inflation rate and poor government revenue ratio, counterbalanced by high growth and low government debt. Low government revenue is perhaps inevitable given Indonesia's income level. More of a challenge is Indonesia's endemic level of corruption, which continues to plague the country even as efforts to stamp it out have been stepped up. Otherwise, Indonesia continues to be a growth success story, and one that is of prime importance to other countries in the region.

Introduction

Indonesia, an archipelago measuring 1.9 million sq km, is the world's 16th largest nation and South-East Asia's largest country. Situated between the Indian Ocean and the Pacific Ocean, Indonesia comprises 17,508 islands, with the largest being Sumatra, Jawa, Bali, Kalimantan, Sulawesi, the Nusa Tenggara islands, the Moluccas islands, and Irian Jaya. Spread over a wide expanse, the world's third most populous democracy has Malaysia, Papua New Guinea and Timor-Leste as neighbours, and is a rich mining field for natural resources such as petroleum, tin, natural gas, nickel, timber, bauxite, copper, coal, gold and silver. However, being also part of the "ring of fire," Indonesia has the largest number of active volcanoes in the world. As such, earthquakes and tsunamis are among the hazards faced by a country that is home to about 250 million people.

Indonesia's history can be traced as far back as the first and second centuries, when Hindu priests and traders settled in the country's myriad islands. The advent of the 13th century saw invasions by Muslims, the result of which was the substantial conversion of the archipelago to Islam by the 15th century. The following century was significant as it marked a significant increase in European presence in the country: Portuguese traders arrived early in the century but had to flee from the Dutch who had aspirations to control the booming spice trade via the Dutch United East India Company.

Figure 1: The Map of Indonesia

Source: CIA – The World Factbook

The British had a brief reign over the islands from 1811 after France's Napoleon dominated the Netherlands, but surrendered the colony back to the Dutch in 1816; Indonesia was in 1922 made an integral part of the Dutch kingdom. When World War II broke out in the Pacific in 1941, Japan gained control of the islands, primarily for Indonesia's oil which was crucial in fueling Japan's war effort. Upon Japan's defeat by the United States (US) and its subsequent capitulation in Indonesia, nationalists Sukarno and Mohammed Hatta declared the world's largest archipelagic state independent on 17 August 1945, but four years of intermittent negotiations, recurring hostilities, and United Nation (UN) mediation passed by before the Netherlands conceded to transfer sovereignty in 1949.

Modern Indonesia has a relatively young population, with a median age of about 28.9 years in 2012. About two-thirds of the population will be in the 15-64 years age group, and just under half live in urban communities. Jakarta, the capital of the nation, housed 9.121 million people in 2009, followed by Surabaya (2.509 million), Bandung (2.412 million), Medan (2.131 million), and Semarang (1.296 million). The population is predominantly Muslim with Protestant, Roman Catholic and Hindu minorities. Bahasa Indonesia is the official language, while English, Dutch and local dialects are also widely spoken by the population, whose literacy rate stood at an estimated 92.2% in 2004.

The government and legal system

Termed "Republik Indonesia" in the local long form, the country is a republic that has 30 provinces, two special regions, and one special capital city district. Having achieved independence from the Netherlands on 17 August 1945, Indonesia's constitution came into being in the same month but was abrogated by the Federal Constitution of 1949 and subsequently the Provisional Constitution of 1950. On 5 July 1959, the original constitution was restored and was subjected to a series of amendments that concluded in 2002.

Thanks to its colonial past, the nation's legal system has its roots in Roman-Dutch law but has received generous modifications in recognition of indigenous concepts and new criminal procedures as well as election codes. The current chief of state and head of government is President Susilo Bambang Yudhoyono with Vice President Boediono as his deputy. The power to elect Cabinet members is vested in the President, who, along with the Vice President, is elected for five-year terms (eligible for a second term) by direct electoral vote. The most recent election was held on 8 July 2009, and by virtue of the five-year term, the next election will be held in 2014.

The People's Consultative Assembly (called Majelis Permusyawaratan Rakyat) is the upper house of the legislative branch, comprising members of the House of Representatives (Dewan Perwakilan Rakyat) and the House of Regional Representatives (Dewan Perwakilan Daerah) who together have the power to inaugurate as well as impeach the president, and to amend the constitution. The former house formulates and passes legislation at the national level, while the latter has a mandated role that includes providing legislative input to the House of Representatives on issues that concern regions. This Assembly, however, does not formulate national policy.

The judicial branch of the government consists of the Supreme Court (Mahkamah Agung), the Constitutional Court (Mahkamah Konstitusi), the Labor Court, as well as the Anti-Corruption Court. The Supreme Court is the final court of appeal but has no power to perform judicial reviews. Judges are appointed by the president from a list of candidates proposed by the legislature. Administrative and financial responsibilities for the lower courts were transferred to the Supreme Court in March 2004 from the Ministry of Justice and Human Rights. The Constitutional Court performs judicial reviews, reviews actions to remove presidents from office, and possesses jurisdiction over the results of general elections, while the Labor Court oversees cases pertaining to labour disputes. The Anti-Corruption Court was the result of the government's desire to improve transparency and accountability, and has jurisdiction over corruption cases brought forth by the Independent Corruption Eradication Commission.

Economic background and structure

Indonesia's economy features strong government influence, with over 160 state-owned enterprises in operation and many basic product prices (such as that of rice, electricity and fuel) being regulated. By virtue of its large population, domestic demand has been one of the major driving forces of the archipelago's economic growth. Indonesia, like China and India, notably registered higher growth during the Great Recession than its Group of 20 counterparts due to the demand buffer afforded by its sizable population. Services take up the bulk of the economy, contributing about half of GDP, while manufacturing forms another quarter and primary industries another 20%.

The economy, after facing immense turmoil from political and social unrest that beset the country in the aftermath of the Asian Financial Crisis, was given a significant boost when President Yudhoyono took office in October 2004, whence he implemented the "pro-growth, pro-poor, pro-employment" economic programme that is now continuing into his second term. The State Ministry of National Development Planning has announced its Medium-Term Development Plan for 2010-2014 that targets an average economic growth of 6.3% to 6.8% for the period, hitting 7% or more by 2014; an unemployment rate of between 5% and 6% by the end of 2014, and a poverty rate of 8% to 10% by the end of the period. To achieve these goals, the government has repeatedly stated their intention to improve the private-sector investment climate via a reduction in general corruption and legal uncertainty.

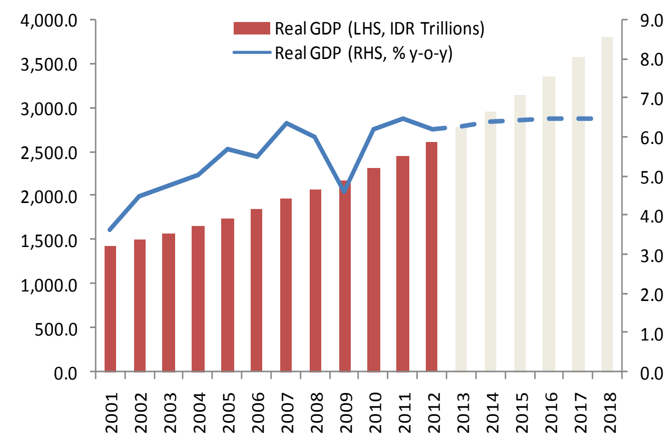
Production and expenditure

Growth on trend

Being insulated from the ongoing malaise in global trade, Indonesia has managed to maintain its growth momentum since the 4.6% growth registered in 2009. Over the past three years, Indonesia's real GDP has expanded by more than 6.2% between 2010 and 2012. Growth has been broadly underpinned by sustained private consumption and investment, which together account for more than three-quarters of incremental growth in real GDP during that period. Trade volume accounts for a sizeable portion of GDP (2012: 86.0%), but the trade balance is relatively small and volatile, and prone to turning into deficits.

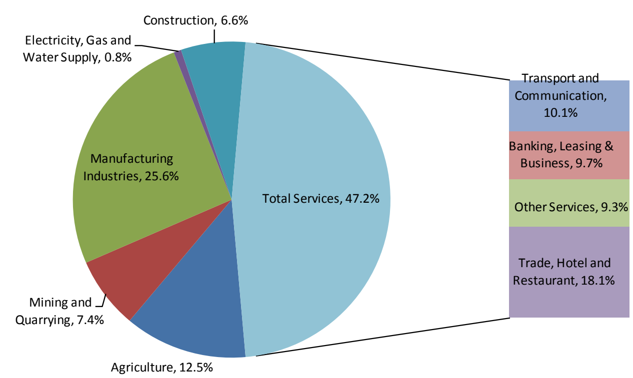
On the supply side, growth has been broad-based, led by the manufacturing, retail trade and tourism-related industries. Services as a whole account for nearly 60% of incremental growth over the past three years, with another fifth contributed to by manufacturing.

Chart 1: Real GDP



Source: IMF World Economic Outlook
Note: 2013-18 GDP are estimated/forecast figures

Chart 2: Indonesia's economic structure (2012)



Source: CEIC

The latest GDP data (1Q2013) indicates a marginal slowdown in growth, but with Indonesia still posting its 10th straight quarter of higher than 6.0% growth. Growth in 1Q2013 hit 6.0%, supported by sustained consumption and investment activities. Output expansion on the supply side continues to be bolstered by strong manufacturing and tourism growth.

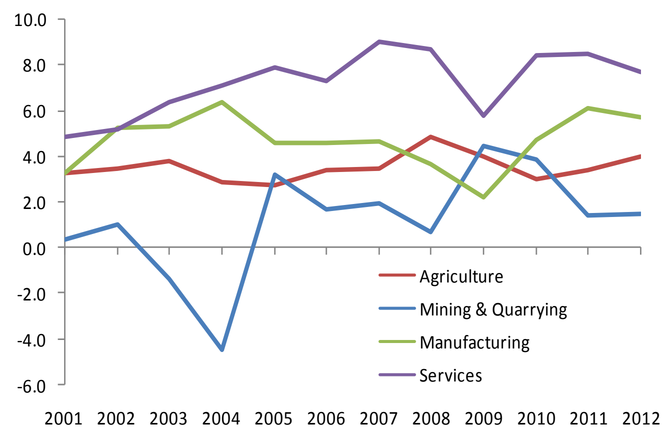
Going forward, there is little reason to believe that growth will sustain a deeper setback. Indonesia's growth has been largely dependent on domestic consumption and investment, while the contribution of trade, although positive, has been at best a minor partner. With a stable macro-policy outlook and continued foreign direct investment (FDI) inflows, we think that Indonesia will be able to maintain output growth over the short to medium term. Looking further ahead, structural issues in the economy, such as wide-spread poverty, infrastructure requirements and the geographic isolation of many of the population outside the central islands of Java and Sumatera will need to be addressed.

Table 1: GDP by expenditure category and sector

Growth (% y-o-y)	2Q2011	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013
Expenditure								
Real GDP	6.5	6.5	6.5	6.3	6.4	6.2	6.1	6.0
Private Consumption	4.6	4.8	4.9	4.9	5.2	5.6	5.4	5.2
Public Consumption	4.5	2.8	2.9	6.4	8.6	-2.8	-3.3	0.4
Gross Fixed Capital Formation	9.1	7.1	11.5	10.0	12.5	9.8	7.3	5.9
Exports	17.1	17.8	8.2	8.2	2.6	-2.6	0.5	3.4
Imports	15.1	13.9	11.0	8.9	11.3	-0.2	6.8	-0.4
Production								
Agriculture	4.1	3.1	2.3	4.3	4.0	5.3	2.0	3.7
Mining and quarrying	1.1	0.6	-0.1	2.5	3.3	-0.3	0.5	-0.4
Manufacturing	6.2	6.9	6.4	5.5	5.2	5.9	6.2	5.8
Electricity, gas and water	3.9	5.2	5.8	5.7	6.5	6.1	7.3	6.5
Construction	7.3	6.3	7.8	7.2	7.3	7.6	7.8	7.2
Services	8.4	8.4	8.5	7.8	8.0	7.4	7.6	7.6

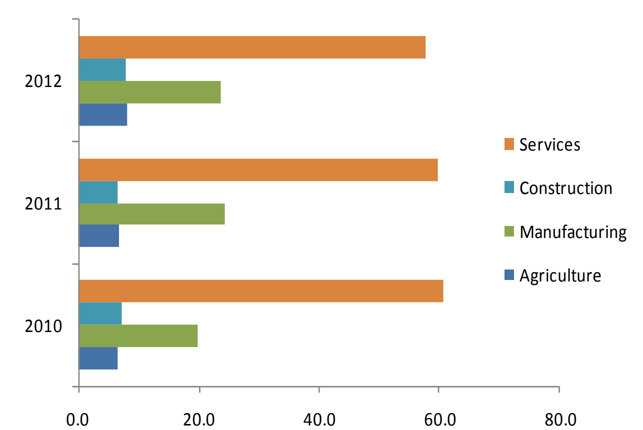
Source: CEIC

Chart 3: Real GDP growth by sector (% y-o-y)



Source: CEIC

Chart 4: Sector contribution to growth 2010-2012 (% total growth)



Source: CEIC, MARC Economic Research

Monetary Policy and Prices

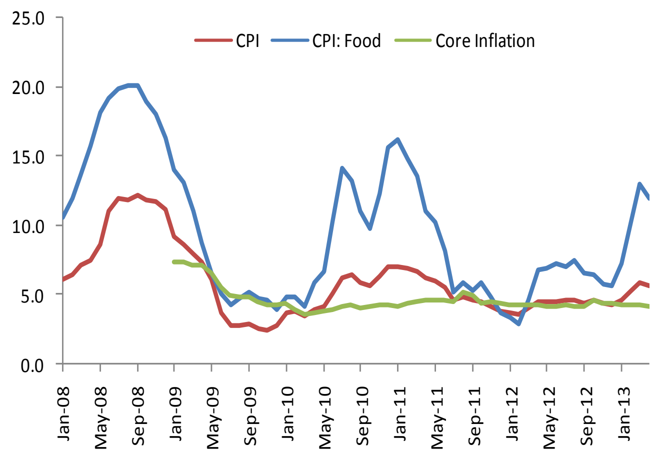
Indonesia has generally suffered a higher rate of inflation than its regional peers, an artifact of both higher growth and a lower income level, which makes the country more vulnerable to food-price inflation. Indeed, food prices, especially since 2008, have been the main driver of consumer price inflation. If not for considerable government intervention in certain consumer items, notably petrol, inflation would be even higher. Core inflation, on the other hand, has been remarkably steady at a little over 4.0% since 2010.

Monetary policy via the policy rate has been fairly responsive to movements in inflation, and generally erring towards maintaining a positive real interest rate. Bank credit activities appear to be on the frothy side by developed country standards, recording growth rates in excess of 20% for the last three years. Nevertheless, this appears to be the norm for Indonesia, and has not noticeably increased money supply growth excessively.

Moreover, it appears obvious that the economy has adjusted to an elevated rate of inflation, which would necessitate a much tighter and potentially growth-killing monetary policy to eradicate. Given that expectations appear to be well-anchored to a higher but steady inflation rate, the BOI does not seem to feel the need for harsher intervention.

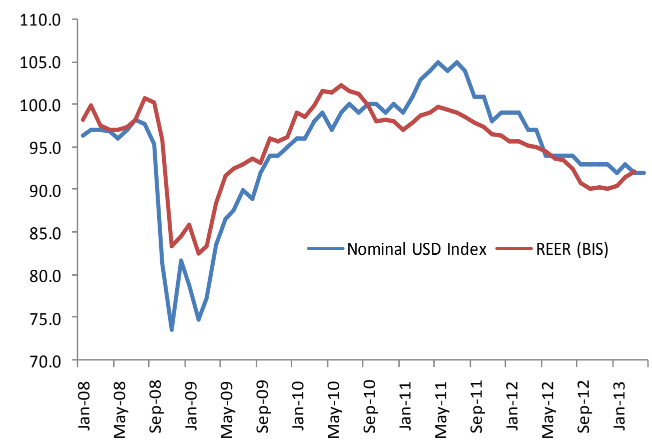
One drawback to this policy stance, however, is that the currency suffers from relative real interest rate differentials. The IDR was one of the worst affected currencies at the onset of the 1997-98 Asian Financial Crisis (AFC), losing over 80% of its value against the USD within a year. Since then, the IDR has experienced a slow and steady decline against all major and regional currencies, including the MYR, the THB and the KRW, which were the other major victims of the AFC. As inflation remains elevated and unlikely to diminish through policy action, further declines in the value of the IDR should be expected, which in turn adds an element of imported inflation to Indonesia's inflation problem.

Chart 5: Inflation (% y-o-y)



Source: CEIC

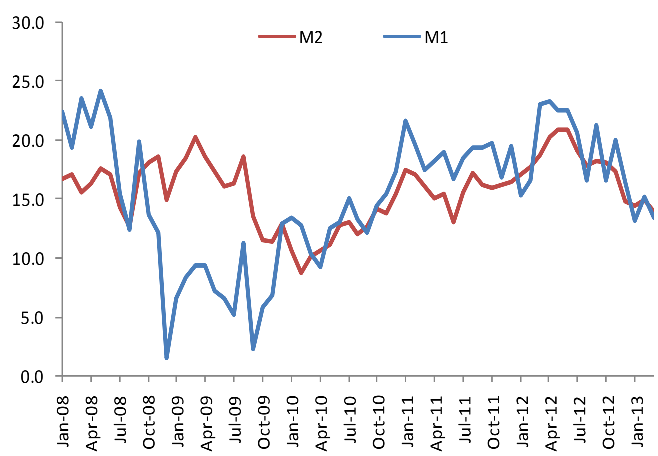
Chart 6: IDR-USD exchange rate and REER



Source: CEIC

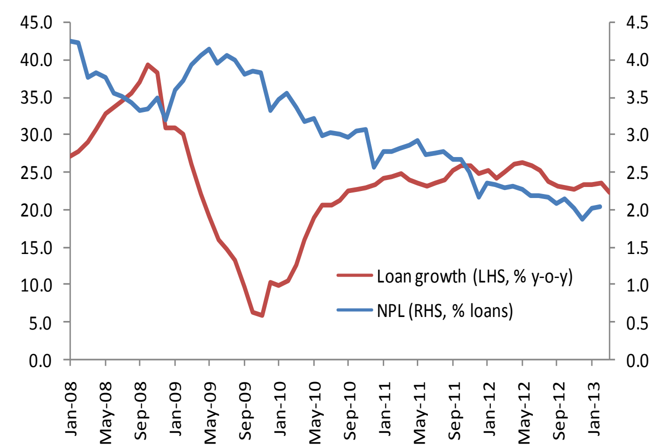
The BOI last cut its policy rate in February 2012 from 6.00% to 5.75%, and has kept steady ever since. Inflation has, however, begun to pick up again in 2013, and there may be a 25 basis point response in consequence towards the end of the year. However, at this stage the policy rate is unlikely to be raised further given the uncertain external outlook. Part of the impetus to inflation has been the strengthening of the USD over the past year, which has raised import prices for Indonesia. Again, this is likely to be short term, as over the long term the USD should continue to see pressures easing.

Chart 7: Monetary aggregates (% y-o-y)



Source: CEIC

Chart 8: Loan growth (% y-o-y) and NPLs



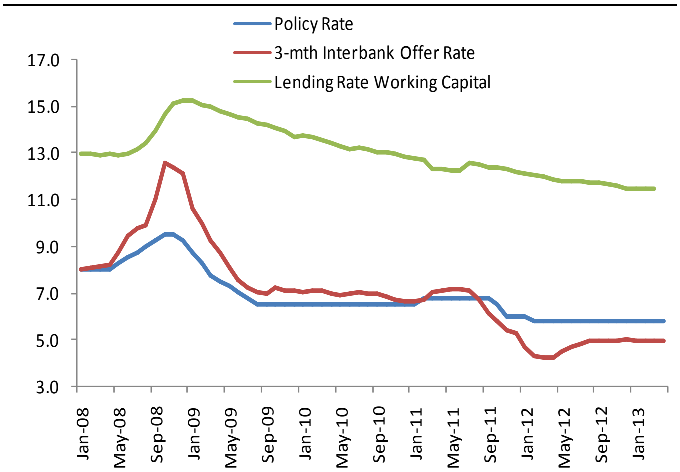
Source: CEIC

Balance of payments and official reserves

Indonesia has generally maintained a small surplus on the current account, balanced by substantial inflows of foreign capital for both direct investment and portfolio investment. Inflows of capital have been attracted by both the country's growth potential as well as high nominal interest rates, and there has been seen considerable foreign investor interest in public debt securities, where foreign holdings as a portion of outstanding securities are now the highest in the region. Overall foreign ownership of both equities and debt exceeds that of domestic holdings. The JKSE has also been one of the region's best performing, with the Composite Index rising more than threefold between 2008 and 2012. In consequence, Indonesia's international reserves have more than doubled in the past five years from USD50.6 billion in October 2008 to USD112.8 billion at the end of 2012.

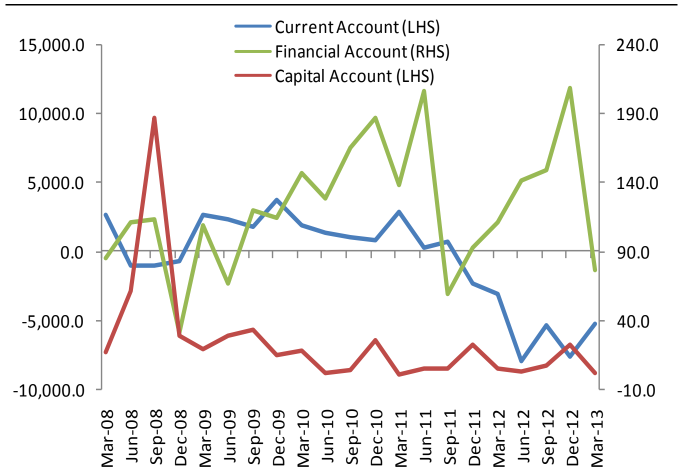
The external debt situation is also fairly comfortable, at around 27.4% of GNI at the end of 2011, of which more than 80% is long-term debt. Approximately half the external debt is owed the public sector, and 99% of this portion have long-term maturities.

Chart 9: Interest rates (%)



Source: CEIC

Chart 10: Balance of payments (USD mn)



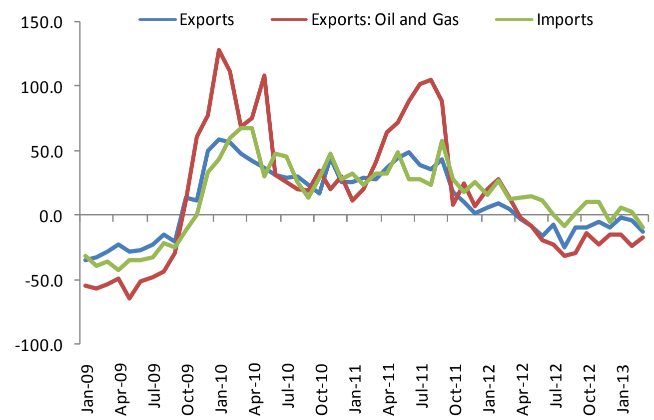
Source: CEIC

Looking deeper into external trade, oil and gas comprises a significant portion of exports (approximately a one-fifth share) with non-oil manufacturing contributing another quarter. Just five countries account for nearly 60% of Indonesia's export markets: in order of size, Japan, China, Singapore, the US, South Korea and Malaysia. Half of Indonesia's imports, however, are of non-oil manufactures, with oil and gas imports comprising another fifth.

Continued strong investor interest in Indonesian securities has seen the JKSE rising a further 16.6% up to the end of April 2013 from December 2012. Sustained domestic demand, however, has turned the current account balance into an overall deficit for 2012 (-2.7% of GDP), and with accelerating inflation, the economy appears to be overheating slightly.

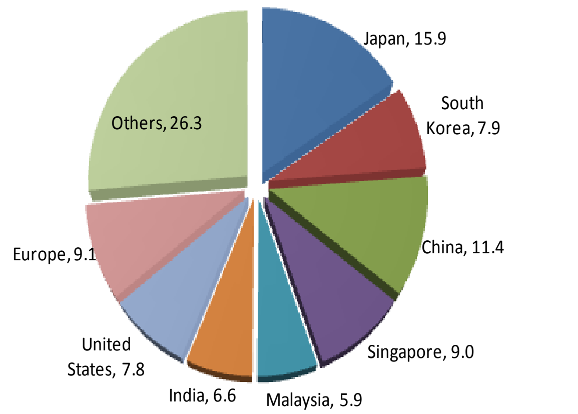
A monetary response is thus likely, which should see some pullback in consumption and investment, although we do not foresee foreign investment dropping off much. In fact, FDI has continued to climb based on the latest available data for 1Q2013, nor does there appear to be any worry on the part of portfolio investors. The deterioration in the current account balance is somewhat worrisome, as is the heightened sensitivity to foreign capital flows, but these are ameliorated by Indonesia's substantial foreign reserves, which are sufficient at 5.9 months of imports (based on 2012 data) and 2.57x short-term external debt.

Chart 11: Exports and imports (% y-o-y)



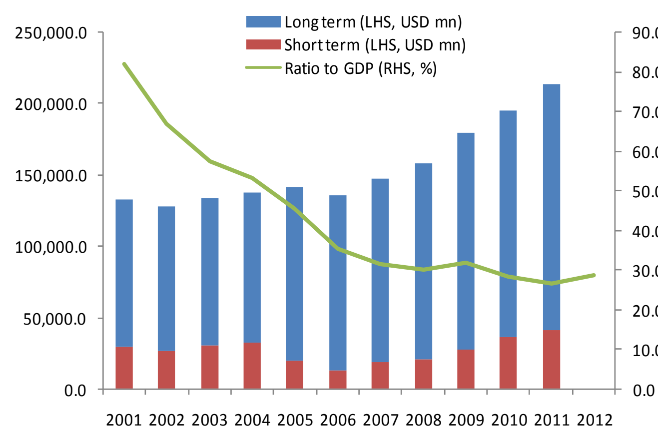
Source: CEIC

Chart 12: Indonesia major export markets 2012 (% total exports)



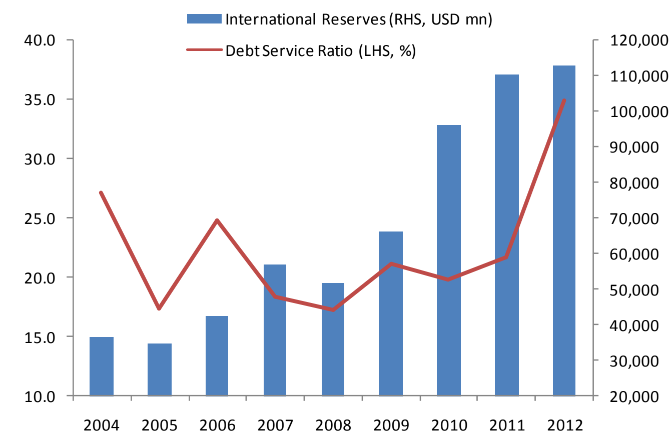
Source: CEIC.

Chart 13: Gross external debt and ratio to GDP



Source: CEIC, MARC Economic Research

Chart 14: International reserves and debt service ratio (% reserves)



Source: CEIC, MARC Economic Research

Table 2: Balance of payments

USD millions	2006	2007	2008	2009	2010	2011	2012
Current Account	**10,859.0**	**10,491.0**	**125.6**	**10,628.5**	**5,144.3**	**1,685.1**	**-24,073.9**
Goods	29,660.0	32,754.0	22,915.8	30,931.7	30,627.4	34,782.6	8,618.2
Services	-9,874.0	-11,841.0	-12,998.4	-9,740.6	-9,323.6	-10,632.2	-10,774.2
Income	-13,790.0	-15,525.0	-15,155.4	-15,140.1	-20,789.9	-26,675.8	-25,947.3
Capital and Financial Account	**3,025.0**	**3,592.0**	**-1,831.8**	**4,852.3**	**26,620.4**	**13,567.0**	**24,943.5**
Capital Account	350.0	547.0	294.5	95.8	49.8	32.9	37.5
Financial Account	2,675.0	3,045.0	-2,126.3	4,756.4	26,570.5	13,534.1	24,906.0
FA: Direct Investment	2,188.0	2,253.0	3,418.7	2,628.2	11,106.3	11,528.4	14,309.2
FA: Portfolio Investment	4,277.0	5,567.0	1,764.3	10,336.2	13,202.0	3,806.4	9,198.6
FA: Other Investment	-3,790.0	-4,775.0	-7,309.2	-8,208.0	2,262.2	-1,800.6	1,398.2
Net Errors and Omissions	**625.0**	**-1,368.0**	**-238.3**	**-2,974.9**	**-1,479.6**	**-3,395.5**	**-654.8**
Overall Balance	**14,510.0**	**12,715.0**	**-1,944.6**	**12,505.9**	**30,285.1**	**11,856.6**	**214.8**
% GDP	4.0%	2.9%	-0.4%	2.3%	4.3%	1.4%	0.0%

Source: CEIC

Government operations and debt

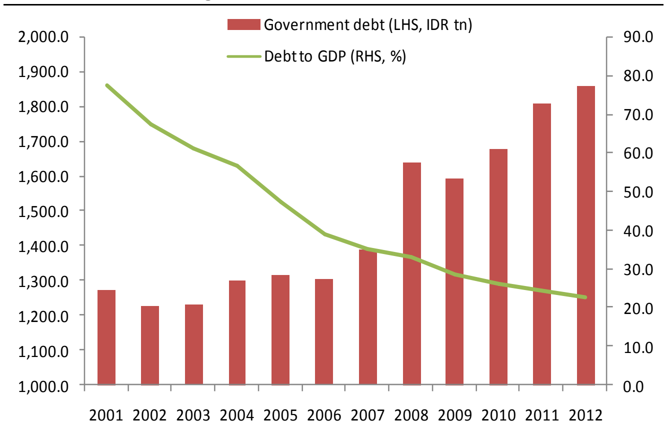
The government of Indonesia has been fairly fiscally conservative, posting a budget deficit in excess of 2.0% of GDP in only three of the last twenty years. As a result, its debt levels are among the lowest in the region at circa 23% in 2012, despite beginning the turn of the century at 95.1% of GDP. This remarkable performance was achieved through conservative budget policies, which saw budget deficits average just over 1% over the past decade, and an inflation "tax", where inflation averaged over 7.0% during the same period. The high rate of inflation meant an effective doubling of the price level in just ten years, and reduced the real burden of debt not just for the government but also for all private sector debts.

Another feature of Indonesia's fiscal landscape is the dependence on oil and gas revenues, which averaged about a quarter of total government revenues in the past decade. As a counterbalance, subsidies for consumption of oil & gas products took up an average of 18.6% of total central government expenditure.

In terms of government involvement in the economy, both government revenue and expenditure averaged between 17%-18% of GDP over the past decade, which is somewhat better than other countries at Indonesia's income level.

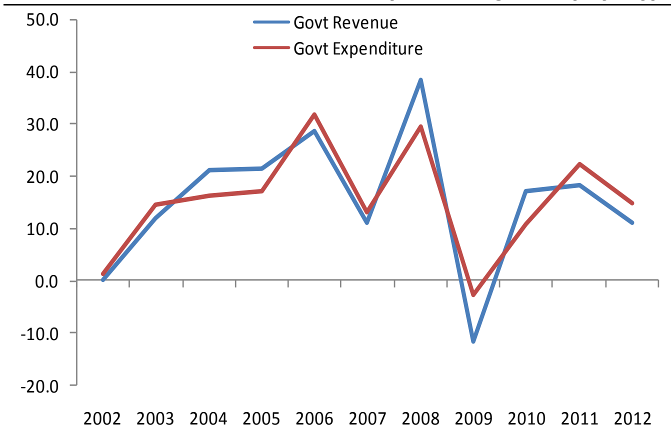
Two vital risk factors need to be taken into consideration when viewing fiscal policy risk in Indonesia. The first is the heavy reliance on external funding, where over 40% of the government's debt is either to external lenders or denominated in foreign currency. The second risk factor is the high portion of government debt held by foreigners (33.0% of tradable government securities at the end of 2012), whether denominated in foreign currency or not. Both constitute potential flashpoints in the event of a loss of investor confidence.

Chart 15: General government debt and debt-to-GDP ratio



Source: CEIC

Chart 16: Government revenue and expenditure growth (% y-o-y)



Source: CEIC, MARC Economic Research

For 2013, the government penciled in a budget deficit of 2.5%, which at this stage is likely to be met. Lower commodity prices, especially for oil & gas, are hitting revenues while growing energy demand is increasing the cost of subsidies. Nevertheless, the expectations are that any enlargement of the budget deficit is unlikely to exceed 3.0%, and sustained high inflation would generally reduce the real impact of the higher borrowing. Given the low debt level and ample international reserves, government securities are likely to continue to be targeted by foreign investors.

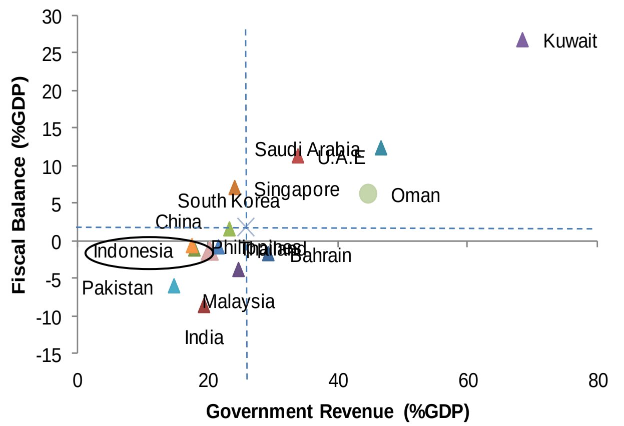
Table 3: Government finances

IDR billions	2006	2007	2008	2009	2010	2011	2012
General Govt Revenue	637,987.1	707,806.1	981,609.4	848,763.2	995,271.5	1,210,599.6	-
General Govt Expenditure	667,128.8	757,649.9	985,730.8	937,382.0	1,042,117.2	1,294,999.2	-
General Govt Balance	**-29,141.7**	**-49,843.8**	**-4,121.3**	**-88,618.8**	**-46,845.7**	**-84,399.6**	**-**
Central Govt Revenue	637,796.3	708,494.5	981,030.6	866,799.5	1,016,524.4	1,201,270.3	1,335,663.4
Central Govt Expenditure	670,591.0	757,371.1	980,511.0	954,000.8	1,056,592.4	1,289,607.1	1,481,674.2
Central Govt Balance	**-30,485.2**	**-49,136.0**	**-1,748.2**	**-31,275.1**	**-88,575.3**	**-88,235.1**	**-189,397.4**
% GDP	-0.9%	-1.2%	0.0%	-0.6%	-1.4%	-1.2%	-2.3%

Source: CEIC

Comparison of five-year median macroeconomic matrices

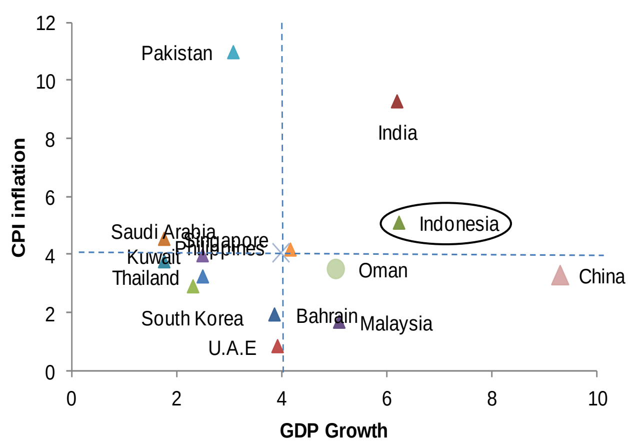
Chart 17: Government revenue % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

- In the revenue against fiscal balance matrix, Indonesia is in the least favourable quadrant, but just barely. Government revenue as a percentage of GDP is on the low side, but this is common among countries with lower income per capita. The fiscal balance is also typically small, although erring on the side of deficits.
- Against these factors, government debt is low and demand for government securities is high.

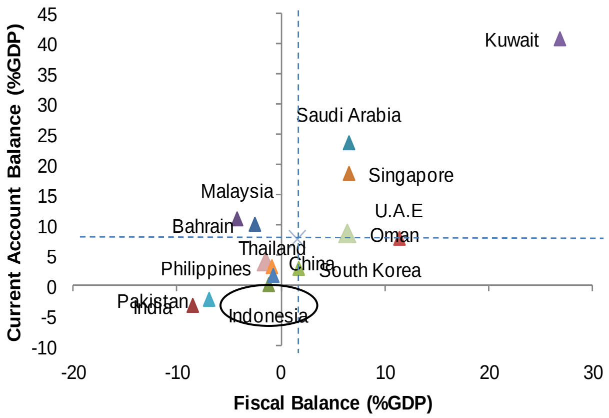
Chart 18: CPI & GDP growth



Sources: IMF & MARC Economic Research

- Indonesia's growth rate shades towards higher inflation, concomitant with its high average growth rate.
- In our sample, Indonesia has put in the second best growth record over the past five years, but with considerably lower levels of inflation than India.

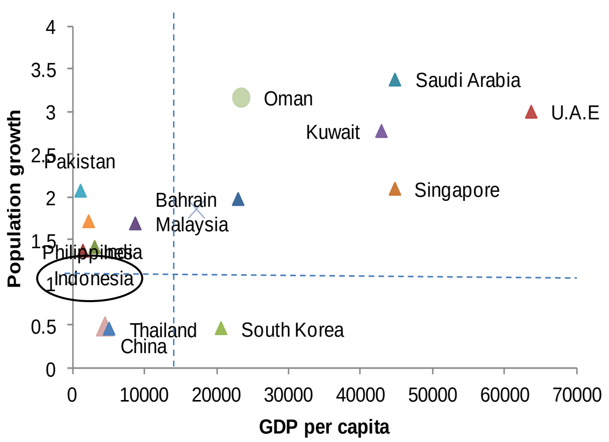
Chart 19: Current account % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

- In the current account and fiscal balance matrix, Indonesia appears to have achieved the relatively rare condition of external and internal balance.
- While this puts Indonesia below the rest of our sample, the resulting macroeconomic equilibrium suggests future economic stability.

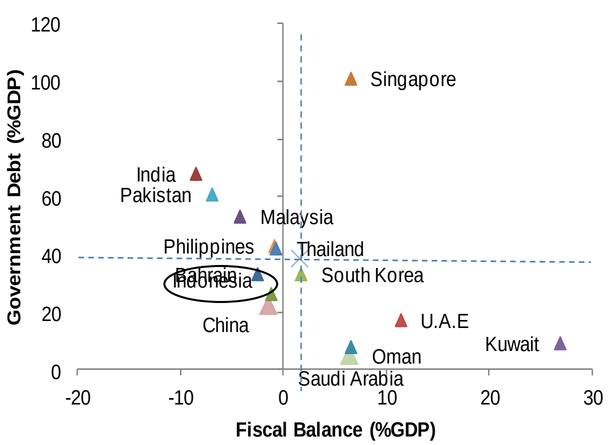
Chart 20: Population growth vs. GDP per capita



Sources: IMF & MARC Economic Research

- Indonesia is among the poorest countries in our sample, but this is likely to rapidly change over the coming decades.
- The young population, rapid nominal and real growth rates, large internal market and domestic absorption, and macroeconomic policy stability combine to mark Indonesia as a growth story to track over the coming decades.

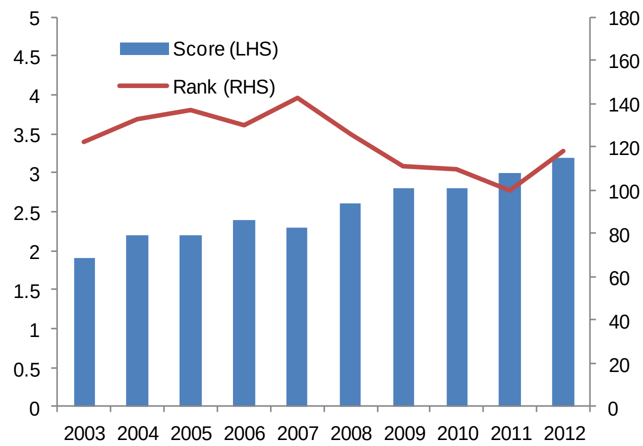
Chart 21: Govt. debt % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

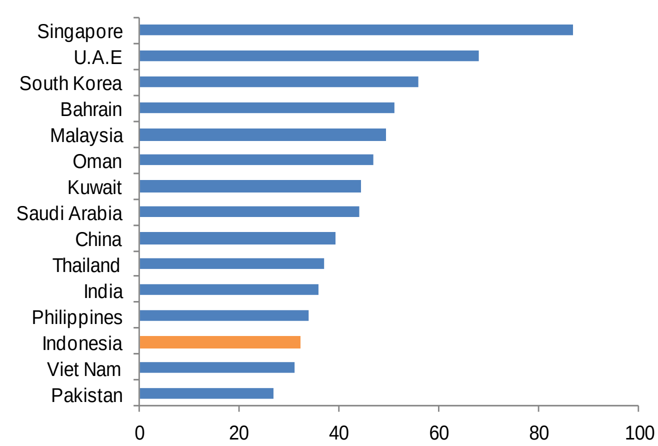
- Indonesia just misses being in the most favourable quadrant by virtue of shading towards fiscal deficits over the past five years.
- Otherwise, it has the lowest government debt ratio in East Asia outside of China, and has considerable latitude to increase spending if necessary.

Chart 22: Corruption Perception Index



Source: Transparency International

Chart 23: Corruption perception index (the higher the better)



Source: Transparency International

Apart from inflation, Indonesia's other big bugbear is corruption. Escaping from authoritarian rule only after the Asian Financial Crisis, Indonesia's efforts towards improving governance has been steady, but slow. Based on Transparency International's Corruption Perception Index, both Indonesia's score and ranking have generally improved over the past decade, but corruption remains endemic in society and the country remains in the bottom third among all nations.

Table 4: Summary of Macro Matrices

Matrix	Explanation
Government revenue and fiscal balance	Indonesia is close to the median in terms of fiscal balance, but is hampered by a relatively low ratio of government revenue to GDP
CPI and real GDP growth	GDP growth is among the best in our sample, and at an inflation rate a little above the norm
Current account and fiscal balance	While suffering by comparison with others, Indonesia has achieved both external and internal macroeconomic balance
GDP per capita and population growth	Indonesia remains a largely poor country, but continues to have considerable demographic impetus for growth
Fiscal balance and government debt	Government debt is among the lowest in the region, although the fiscal balance shades towards deficits
Control of corruption	Perception of corruption has improved, but much progress still needs to be made

Appendix

Vital statistics - Indonesia

	2006	2007	2008	2009	2010	2011	2012	2013F
National accounts								
Growth (%)								
GDP	**5.5%**	**6.3%**	**6.0%**	**4.6%**	**6.2%**	**6.5%**	**6.2%**	**6.3%**
Supply side								
Agriculture	3.4%	3.5%	4.8%	4.0%	3.0%	3.4%	4.0%	n.a.
Mining & quarrying	1.7%	1.9%	0.7%	4.5%	3.9%	1.4%	1.5%	n.a.
Manufacturing Industries	4.6%	4.7%	3.7%	2.2%	4.7%	6.1%	5.7%	n.a.
Construction	8.3%	8.5%	7.6%	7.1%	7.0%	6.6%	7.5%	n.a.
Services	7.3%	9.0%	8.7%	5.8%	8.4%	8.5%	7.7%	n.a.
Demand side								
Total final consumption expenditure	3.9%	4.9%	5.9%	6.2%	4.1%	4.5%	4.8%	n.a.
-Household expenditure	3.2%	5.0%	5.3%	4.9%	4.7%	4.7%	5.3%	4.9%
-Government expenditure	9.6%	3.9%	10.4%	15.7%	0.3%	3.2%	1.2%	n.a.
Gross fixed capital formation	2.6%	9.3%	11.9%	3.3%	8.5%	8.8%	9.8%	10.0%
Exports of goods and services	9.4%	8.5%	9.5%	-9.7%	15.3%	13.6%	2.0%	n.a.
Imports of goods and services	8.6%	9.1%	10.0%	-15.0%	17.3%	13.3%	6.6%	n.a.
Public finance (% of GDP) - Central government								
Total receipts	**19.1%**	**17.9%**	**19.8%**	**15.5%**	**15.8%**	**16.2%**	**16.2%**	**16.0%**
-Tax revenue	12.2%	12.4%	12.8%	11.4%	11.5%	11.8%	11.9%	n.a.
-Non tax revenue	6.9%	5.6%	6.4%	4.1%	4.2%	4.3%	4.3%	n.a.
Total expenditure	**20.1%**	**19.2%**	**19.8%**	**17.0%**	**16.4%**	**17.4%**	**18.0%**	**17.7%**
Fiscal balance	**-0.9%**	**-1.2%**	**0.0%**	**-0.6%**	**-1.4%**	**-1.2%**	**-2.3%**	**-1.8%**
Government debt	**39.0%**	**35.2%**	**33.1%**	**28.4%**	**26.0%**	**24.4%**	**22.5%**	n.a.
Inflation rate								
Producer Price Index (PPI)	n.a.	n.a.	n.a.	6.7%	7.4%	8.0%	4.9%	n.a.
Consumer Price Index (CPI)	n.a.	n.a.	9.8%	4.9%	5.1%	5.4%	4.3%	5.6%
Money, banking and policy rates								
M1 growth	28.0%	29.7%	1.5%	12.9%	17.4%	19.4%	16.4%	n.a.
M2 growth	14.9%	19.3%	14.9%	13.0%	15.4%	16.4%	14.9%	n.a.
Bank credit growth (commercial and rural banks)	12.7%	27.5%	30.8%	10.1%	23.3%	24.7%	23.1%	n.a.
loan-to-deposit ratio (commercial and rural banks)	64.1%	68.6%	78.1%	75.6%	77.4%	81.3%	86.6%	n.a.
NPL Ratio (commercial banks)	6.1%	4.1%	3.2%	3.3%	2.6%	2.2%	1.9%	n.a.
Base Rate (BI Rate)	9.75%	8.00%	9.25%	6.50%	6.50%	6.00%	5.75%	n.a.
Balance of payments (% of GDP)								
Current account	3.0%	2.4%	0.0%	2.0%	0.7%	0.2%	-2.7%	-3.3%
Capital & financial account	0.8%	0.8%	-0.4%	0.9%	3.7%	1.6%	2.8%	n.a.
Overall balance	4.0%	2.9%	-0.4%	2.3%	4.3%	1.4%	0.0%	n.a.
International reserves (USD bn)	42.6	56.9	51.6	66.1	96.2	110.1	112.8	110.3
Reserve-to-import (in months)	7.0	7.6	4.0	6.8	7.1	6.2	5.9	5.7
External debt - USD bn	128.7	136.6	155.1	172.9	202.4	225.4	251.2	247.9
External debt - % of GDP	35.3%	31.6%	30.2%	31.8%	28.5%	26.6%	28.6%	23.9%
Debt service ratio (%)	24.8%	18.3%	17.2%	21.1%	19.8%	21.7%	34.9%	n.a.
Development indicators								
Population (in mn)	222.7	225.6	228.5	231.4	237.6	244.0	247.2	250.4
Population (growth)	1.3%	1.3%	1.3%	1.2%	2.7%	2.7%	1.3%	1.3%
GNI per capita (constant 2008 PPP US$)	3100	3267	3445	3564	3775	3973	4154	n.a.
Life expectancy at birth (years)	67.4	67.8	68.1	68.5	68.9	69.4	69.8	n.a.
Human Development Index (HDI) - Medium human dev.	0.582	0.595	0.601	0.611	0.620	0.624	0.629	n.a.

Sources: CEIC, BPS, IMF, UNDP, MARC Economic Research

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