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The Economist Intelligence Unit

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Highlights

Editor: **Miguel Chanco**

Forecast Closing Date: **April 28, 2017**

Outlook for 2017-21

- Having strengthened his position within the government since mid-2016, The Economist Intelligence Unit expects that the president, Joko Widodo (known as Jokowi), will comfortably serve out his full term until 2019.
- Jokowi's economic policy agenda will remain focused on boosting investment in infrastructure and manufacturing. More politically challenging reforms, including that of reducing graft, will prove elusive in the rest of his term.
- A modest recovery in international commodity prices will help to narrow the fiscal deficit in 2017, to the equivalent of 2.2% of GDP. It will widen in 2018-19, however, owing in part to another bout of revenue weakness.
- Bank Indonesia (BI, the central bank) has ended its easing cycle. We expect BI to start raising interest rates from late 2017 in order to ward off sharp currency weakness and rising inflationary pressures.
- Real GDP growth will average 5% a year in 2017-21. The economy will be supported by buoyant private consumption but dragged down by sluggishness in the external sector, particularly in China in 2018.
- The current-account deficit will average the equivalent of 1.5% of GDP in 2017-21. In the latter part of the forecast period import demand will rise strongly as infrastructure development gains traction.

Review

- In early April the Anti-Corruption Commission (KPK) secured a travel ban against the parliamentary speaker, Setya Novanto. This came as part of its investigation into alleged kickbacks linked to the botched rollout of the revamped residential identification card known as KTP.
- On April 19th the capital, Jakarta, went to the polls for the second time in three months to vote for the remaining mayoral candidates. The incumbent governor, Basuki Tjahaja Purnama (known as Ahok), lost to Anies Baswedan.
- On April 5th the vice-president, Jusuf Kalla, criticised an executive order issued by the US president, Donald Trump, to study the cause of trade deficits between the US and 15 countries, including Indonesia.
- Jokowi held a plenary cabinet meeting on April 4th to discuss the draft budget for 2018. In the meeting he set out his goal to accelerate economic growth to 5.6% in 2018, compared with 5% in 2016.
- BI held its main policy rate, the seven-day reverse repurchase rate, unchanged at 4.75% following its board of governors meeting in April.
- According to data from Statistics Indonesia (BPS), consumer prices rose by 3.6% year on year in March, down marginally from 3.8% in February. Food prices rose by 2.9% in March, the slowest rate since August 2014.

Outlook for 2017-21

Political stability

The president, Joko Widodo (known as Jokowi), will comfortably serve out the last two years of his term, and The Economist Intelligence Unit believes that he is well placed to run for re-election in 2019. Jokowi has found success in pushing through some of his economic reform pledges, aided by the technocrats he has placed in key ministries. However, institutional reforms, particularly those aimed at reducing corruption and improving bureaucratic efficiency, have been difficult to tackle and are likely to remain hostage to vested interests in the House of People's Representatives (DPR, the legislature).

To be sure, the actions taken so far by the Anti-Corruption Commission (KPK) against the DPR's speaker, Setya Novanto, suggest that Jokowi's anti-corruption push could yet be salvaged. A successful prosecution would embolden the KPK and raise its profile among the public. Nevertheless, we do not believe that any major corruption scandals involving a member of Jokowi's administration are likely to emerge during his tenure, and a broad-based purge of graft in public office is equally unlikely.

As an outsider to the established political class, Jokowi has had to make various concessions on personnel choices over the initial years of his term. However, he has gradually proven his resilience and political shrewdness to manoeuvre around powerful political actors. Proof of this was seen in Jokowi's second cabinet reshuffle, undertaken in July 2016, when he replaced the finance minister, Bambang Brodjonegoro, with a former managing director of the World Bank, Sri Mulyani Indrawati. The appointment of Ms Mulyani highlighted Jokowi's determination to push through his economic reform agenda in a more aggressive manner. Early in the president's term, Ms Mulyani had not been favoured by other senior politicians, chiefly those from the Indonesian Democratic Party-Struggle (PDI-P), the party that provides the largest support for Jokowi in the DPR.

In the same overhaul, Jokowi also appointed a former army commander and defence minister, Wiranto, as co-ordinating minister for political, legal and social affairs. Wiranto is a controversial choice given his questionable human rights record, particularly in relation to his approach to neighbouring Timor-Leste while he was army commander in the late 1990s. Ultimately, Jokowi's appointments highlight how he has become more willing to make personnel choices based on merit rather than political clout.

Islamist extremism has low levels of support in Indonesia, the world's most populous Muslim-majority country, but it remains a security concern. The government's priority remains disrupting plots related to Islamic State (IS), an extreme jihadi group. The waning appeal of IS in the Middle East could lead Asian jihadis to coalesce at home. A parallel concern is whether local officials can stay on top of the trickle of battle-hardened and newly skilled veterans expected to return from Iraq and Syria as IS's territorial claims ebb. Overall, the security forces will remain on high alert in order to curb the influence of such extremist elements before they rise and become more prominent.

Election watch

In mid-April the capital, Jakarta, went to the polls again to cast votes for its next governor. The incumbent, Basuki Tjahaja Purnama (known as Ahok), lost to Anies Baswedan. Mr Baswedan's win is likely to empower Prabowo Subianto and his party, the opposition Great Indonesia Movement Party (Gerindra), significantly. Mr Subianto, who lost to Jokowi at the 2014 presidential election and who backed Mr Baswedan, will find his political position propelled on the national platform in the wake of the Jakarta polls. We continue to believe that Jokowi will run for a second term, but we now also expect Mr Subianto to pose a significant challenge to his re-election.

The next general elections are due in 2019, when presidential and parliamentary polls will be held simultaneously for the first time. The concurrent ballots will help to erode the dominance of traditional parties gradually, such as Golkar and the PDI-P, helping younger politicians to build their own nexus. However, the loss of Ahok, a minority Christian and ethnic-Chinese candidate, and the manner in which Mr Baswedan won, risk casting a shadow on future elections. Indeed, aspiring politicians may be tempted to pander to hardline Muslim groups, whose support was one of the keys to Mr Baswedan's victory in Jakarta.

International relations

Jokowi's foreign policy is narrower than the "thousand friends and no enemies" strategy of his predecessor, Susilo Bambang Yudhoyono. Jokowi's approach is focused less on establishing Indonesia as a leader in regional diplomacy and more on deepening commercial and strategic ties with key countries in Asia. Jokowi has renewed a focus on commercial diplomacy in order for foreign policy to serve his domestic economic priorities more directly. He has also emphasised Indonesia's position as a regional "maritime axis", placing store on the protection of its maritime resources, the expansion of its port infrastructure and the development of its naval forces. Overall, his narrower and more targeted approach to foreign policy suggests that Indonesia will take less of a leadership role in the Association of South-East Asian Nations (ASEAN).

Despite Jokowi's intention of deepening commercial ties, his administration's trade policy has been worryingly inconsistent, raising tensions between Indonesia and some of its traditional trading partners in the region such as Australia. Jokowi's prioritisation of attracting investment is at odds with some of his political allies' nationalistic attitudes. Although he has made aspirational claims of pushing for regional trade pacts, we believe that the political appetite needed to meet the requirements of such agreements will remain weak, in view of some of the protectionist policies that have been put in place during Jokowi's tenure so far.

Indonesia has a neutral stance on the South China Sea territorial disputes between other ASEAN members and China. Since May 2016, however, Indonesia's own waters around the Natuna Islands have been trespassed upon by Chinese fishing vessels on several occasions. Jokowi has been outwardly diplomatic on the issue to avoid raising tensions with China. In view of rising Chinese investment in Indonesia and the potential for much more in the years ahead, we believe that overall ties with China will remain cordial even if Indonesia chooses to take a stronger stance on incursions, accidental or not, to its maritime borders.

Policy trends

Jokowi's primary goal during his tenure is to strengthen the economy through improved infrastructure and increased foreign investment, which he sees as vital to addressing Indonesia's many structural deficiencies. He is also keen to develop the manufacturing base, which is small relative to GDP compared with those in many ASEAN countries. This would help to counter weakness in the resources sectors resulting from subdued and volatile prices and weakening external demand for commodities, particularly from China. Jokowi has lost a major ally in Jakarta, which remains central to his plans of attracting foreign investment. That said, it is unlikely that Mr Baswedan will completely stall the president's efforts. Indeed, his deputy, Sandiaga Uno, is a successful businessman who is likely to push elements of Jokowi's deregulation efforts.

Indeed, a key part of the administration's strategy is to improve the regulatory environment so that Indonesia becomes more attractive to investors. The government has rolled out 14 reform packages since September 2015. The efforts are ongoing but piecemeal. The measures announced to date have led to a simplification of approvals and procurement procedures for large-scale infrastructure projects; faster approval of business licences; a temporary reduction in tax on revalued fixed assets; cuts to energy prices; and changes in the way that minimum wages are calculated. Large-scale investments have remained hostage to bureaucracy and delays in implementation, however, which are unlikely to be resolved in the near term. By contrast, small-scale projects in semi-urban areas, particularly in housing and sanitation, have enjoyed more success.

Some efforts to liberalise restrictions on foreign investment in various sectors were made in 2016. In January of that year the "negative investment list" (a list of sectors in which foreigners cannot invest) was amended to allow foreign investment in tourism, entertainment and some logistics sectors. In May this was expanded to include some parts of the e-commerce sector. However, Indonesia remains protectionist in many other areas, particularly in the retail, agriculture and natural-resource sectors. Accordingly, more credible changes will need to come in the shape of lasting structural reform. This more ambitious liberalisation will remain a political challenge amid entrenched vested interests, and will be addressed only gradually.

Fiscal policy

Jokowi's administration found some success on the fiscal policy front in 2016, and 2017-18 will give the government some extra breathing room as a rebound in global oil prices boosts its top line. However, the government's spending capacity will remain hamstrung by its shallow revenue base. A constitutionally bound requirement for the budget deficit to remain within the equivalent of 3% of GDP will mean that the government will have to keep making concessions—sometimes preemptively—on capital expenditure in order to manage the size of the fiscal shortfall. Since the downturn in global commodity prices in 2014, revenue from duties in the oil and gas sector have been crimped. However, the low oil prices allowed Jokowi to remove expensive subsidies. There is a minor risk that the government will allow subsidies to creep back up as oil prices rise again in order to limit inflationary pressures.

The government's revenue problem was somewhat temporarily addressed in 2016 on the back of a tax amnesty bill passed in June of that year. This increased revenue from the non-oil and gas sector, drawing in offshore corporate revenue to control the budget deficit in the near term. The programme ended on March 31st 2017, raising Rp135trn (US\$9.9bn), which was lower than the targeted Rp165trn, but still substantial. This programme, however, was only a one-off and yielded success because participants viewed it as such. In the forthcoming years the government will continue facing revenue difficulties if structural reforms to the taxation system are not undertaken.

In October 2016 the DPR passed the budget for 2017. Encouragingly, the spending plan showed the government moving away from the tendency of the Ministry of Finance to publish overoptimistic targets that later require a downward revision. Lifting revenue to match expenditure requirements will remain a challenge for the government during the forecast period, particularly in 2018-19, when we expect demand for natural resources to weaken owing to China's economic slowdown and a technical recession in the US. As a result, the fiscal shortfall will average the equivalent of 2.4% of GDP over 2017-21.

Monetary policy

The easing cycle implemented by Bank Indonesia (BI, the central bank), which saw six interest-rate cuts in 2016, has come to an end in our view. The prospect of higher interest rates in the US—we expect the Federal Reserve (the US central bank) to increase its policy rate twice more in 2017 and twice again in 2018—implies a more straitened monetary policy environment for BI. The monetary authority faced down public calls from senior politicians in late 2015 to cut interest rates to stimulate economic growth. Such discipline suggests that BI's board of governors will again err on the side of caution amid different economic stresses in 2017. BI is likely to favour tighter monetary policy from the second half of 2017 in order to ward off price pressures and avoid a sharp depreciation in the rupiah's value, which we expect to take place in 2018 amid a "hard landing" in China. However, any tightening of monetary policy is likely to be implemented gradually, as lending activity remains sluggish. Loan growth has slowed to its lowest levels since the 2008-09 global financial crisis.

International assumptions

	2016	2017	2018	2019	2020	2021
Economic growth (%)						
US GDP	1.6	2.2	2.1	1.0	2.0	2.0
OECD GDP	1.7	1.9	1.7	1.3	1.7	1.9
World GDP	2.2	2.6	2.4	2.1	2.6	2.7
World trade	1.9	2.9	2.7	2.2	3.0	3.3
Inflation indicators (% unless otherwise indicated)						
US CPI	1.3	2.5	2.1	1.3	1.7	1.9
OECD CPI	1.0	2.3	1.9	1.6	1.9	1.9
Manufactures (measured in US\$)	-1.8	0.5	3.2	6.0	3.7	4.7
Oil (Brent; US\$/b)	44.0	56.0	60.0	59.0	61.5	64.0
Non-oil commodities (measured in US\$)	-3.0	7.5	-1.2	-0.5	-1.5	2.1
Financial variables						
US\$ 3-month commercial paper rate (av; %)	0.5	1.0	1.5	0.8	0.2	0.5
¥ 3-month money market rate (av; %)	0.1	0.1	0.1	0.1	0.1	0.1
Exchange rate: ¥:US\$ (av)	108.8	114.4	105.9	100.5	100.2	99.9
Exchange rate: Rp:US\$ (av)	13,308	13,518	14,468	14,400	14,225	14,163
Exchange rate: US\$:€ (av)	1.11	1.06	1.07	1.11	1.13	1.15

Economic growth

Our forecasts for 2017-21 assume that the government's efforts to encourage more private investment (foreign or otherwise) into infrastructure and manufacturing will take time to have a significant effect on the real economy. Furthermore, the government itself will remain constrained by revenue shortfalls to provide significant support through public expenditure. We are also sceptical about the administration's ability to enact significant reforms in certain areas, such as making the labour market more flexible and removing protectionist rules governing trade and foreign investment. The economy will be supported by relatively buoyant private consumption over the forecast period, but dragged down by sluggishness in the external sector. A significant slowdown in China's economy in 2018 will exert renewed pressure on commodity exports. Overall, we expect real GDP growth to average 5% a year in 2017-21.

The main contribution to GDP growth in 2017-21 will come from private consumption, which is forecast to expand by 5.3% a year on average. This will be underpinned by historically more stable price conditions, as well as lower credit costs, an increase in the number of formal-sector jobs and the expansion of social welfare. Meanwhile, we expect investment to increase by 4.9% a year on average as the construction of new roads, ports and power stations gradually gathers pace. Indonesia has a chance to boost its manufacturing exports if it can attract larger amounts of foreign direct investment and provide supporting infrastructure. However, the impact of this would mostly be seen beyond the end of our forecast period.

Economic growth

%	2016 ^a	2017 ^b	2018 ^b	2019 ^b	2020 ^b	2021 ^b
GDP ^c	5.0	5.2	4.5	4.8	5.1	5.2
Private consumption	5.0	5.5	5.3	5.0	5.3	5.4
Government consumption	0.6	4.0	2.0	3.0	5.2	5.2
Gross fixed investment	4.5	5.5	4.6	4.6	5.0	5.0
Exports of goods & services	-1.8	2.1	1.0	2.9	3.8	4.3
Imports of goods & services	-2.4	2.8	1.5	2.0	3.4	4.4
Domestic demand	4.7	5.3	4.7	4.6	5.1	5.2
Agriculture	3.3	4.0	3.5	4.1	4.2	4.0
Industry	3.9	4.0	2.8	4.0	4.6	4.6
Services	5.6	6.6	6.4	5.7	5.8	6.1

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

Inflation

The firming-up of global commodity prices and some weakness of the rupiah in 2017-18 will mean that consumer prices grow at a faster pace in this period compared with 2016 (when it averaged 3.5%) and could briefly exceed the upper limit of BI's 3-5% target band in those years. Inflation will be more pronounced in 2018, when we expect sharper currency weakness. The expected recovery in commodity prices will exert a stronger upward force on producer price inflation, which will average 6.7% annually in 2017-21. Over the long term improvements in infrastructure will help to reduce high transport and logistics costs, which are among the main sources of stubbornly high inflation for certain goods. We expect consumer price inflation to average 4.6% in 2017-21.

Exchange rates

Although Indonesia's economic fundamentals are relatively stable, twin deficits on the current and fiscal accounts make the rupiah vulnerable to negative turns in global capital markets. The rupiah has benefited from Jokowi's reform drive and the tax amnesty programme, but it remains exposed to external market sentiment. We expect the rupiah to remain relatively stable in 2017, but the country's twin deficits and exposure to commodities prices will draw renewed investor concern in 2018. We expect the sharp weakening in China's economy in that year to lead to a significant depreciation in the rupiah:US dollar exchange rate, although the impact will be mitigated to some extent by the raising of Indonesia's policy interest rates. In 2019-21 we expect a modest recovery in the rupiah's value against the US dollar, of 0.7% a year on average, partly owing to the expected weakening of the US dollar over the period.

External sector

During the forecast period Indonesia will continue to record a current-account shortfall, averaging the equivalent of 1.5% of GDP. The deficit is led by a large primary income shortfall, which is expected to remain wide as borrowing costs increase in line with higher interest rates in the US. On balance, rising commodity prices in 2017-18, a weak rupiah and stronger domestic demand for capital imports will keep the merchandise trade surplus somewhat stable. China's slowing economy will act as a significant headwind to key exports, particularly that of raw mineral commodities such as coal. The trade surplus will rise in the latter part of the forecast period as a recovery in global economic growth helps to boost Indonesia's exports. Nonetheless, the surplus will not be sufficient to offset the substantial deficit on the primary income account, which will widen from US\$29.7bn in 2016 to US\$38.4bn by 2021.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2016 ^a	2017 ^b	2018 ^b	2019 ^b	2020 ^b	2021 ^b
Real GDP growth	5.0	5.2	4.5	4.8	5.1	5.2
Industrial production growth	4.0	4.5	3.1	4.2	4.6	4.6
Gross agricultural production growth	3.3	4.0	3.5	4.1	4.2	4.0
Unemployment rate (av)	5.6	5.2	5.7	5.3	5.4	5.4
Consumer price inflation (av)	3.5	4.1	5.2	4.2	4.4	5.1
Consumer price inflation (end-period)	3.0	5.7	5.1	3.8	5.1	5.1
Money market interest rate	4.8 ^c	4.9	5.0	5.1	5.4	5.5
Government balance (% of GDP)	-2.5 ^c	-2.2	-2.3	-2.6	-2.3	-2.4
Exports of goods fob (US\$ bn)	144.4	151.9	152.4	164.3	177.2	192.9
Imports of goods fob (US\$ bn)	129.1	135.4	137.4	147.6	157.9	174.5
Current-account balance (US\$ bn)	-16.3	-16.4	-19.3	-18.0	-17.0	-20.8
Current-account balance (% of GDP)	-1.8	-1.6	-1.8	-1.5	-1.3	-1.4
External debt (end-period; US\$ bn)	316.5 ^c	318.2	318.9	318.1	328.1	339.6
Exchange rate Rp:US\$ (av)	13,308	13,518	14,468	14,400	14,225	14,163
Exchange rate Rp:US\$ (end-period)	13,436	13,947	14,541	14,275	14,188	14,150
Exchange rate Rp:¥100 (av)	12,237	11,812	13,660	14,332	14,200	14,180
Exchange rate Rp:€ (end-period)	14,163	14,783	15,704	15,988	16,174	16,556

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

Quarterly forecasts

Quarterly forecasts

	2016				2017				2018			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	0.9	1.4	1.0	1.4	1.2	1.3	1.3	1.4	1.1	0.9	0.6	1.6
% change, year on year	4.9	5.2	5.0	4.9	5.2	5.0	5.3	5.2	5.0	4.7	4.1	4.3
Private consumption												
% change, quarter on quarter	1.4	1.4	0.9	1.1	1.5	1.5	1.5	1.6	1.2	1.1	0.8	1.8
% change, year on year	5.1	5.2	5.0	5.0	5.0	5.1	5.7	6.2	6.0	5.5	4.8	5.0
Government consumption												
% change, quarter on quarter	-1.1	3.7	-6.3	-0.3	2.7	2.6	2.6	2.6	-0.7	-0.8	-1.1	-0.1
% change, year on year	3.5	6.9	-3.3	-4.3	-0.6	-1.6	7.8	11.0	7.4	3.8	0.0	-2.7
Gross fixed investment												
% change, quarter on quarter	0.1	0.6	1.3	2.8	1.0	1.0	1.0	1.1	1.2	1.1	0.8	1.8
% change, year on year	4.5	4.4	4.1	4.9	5.8	6.2	5.9	4.2	4.5	4.6	4.3	5.0
Exports of goods & services												
% change, quarter on quarter	2.8	0.2	-4.5	6.2	-0.1	0.0	-0.1	0.1	0.5	0.3	0.0	1.0
% change, year on year	-3.2	-2.2	-5.9	4.4	1.5	1.3	6.0	-0.1	0.4	0.8	0.9	1.8
Imports of goods & services												
% change, quarter on quarter	1.2	-2.6	-1.8	6.2	-0.1	-0.1	-0.1	0.1	0.7	0.5	0.2	1.2
% change, year on year	-5.4	-3.0	-3.8	2.9	1.5	4.1	5.9	-0.2	0.6	1.2	1.5	2.7
Domestic demand												
% change, quarter on quarter	1.9	1.1	1.6	0.8	1.4	1.4	1.4	1.5	1.0	0.9	0.6	1.6
% change, year on year	4.6	5.0	3.8	5.5	5.0	5.3	5.1	5.9	5.5	4.9	4.1	4.2
Consumer prices												
% change, quarter on quarter	0.9	0.6	0.8	0.9	1.4	0.9	1.1	0.8	1.9	1.2	1.2	1.3
% change, year on year	4.3	3.4	3.1	3.3	3.7	4.0	4.3	4.3	4.8	5.1	5.2	5.6
Producer prices												
% change, quarter on quarter	1.0	3.0	2.3	2.2	1.7	2.2	2.0	1.9	0.6	0.8	0.8	0.6
% change, year on year	6.7	7.6	8.4	8.8	9.6	8.7	8.5	8.1	7.0	5.5	4.2	2.9
Exchange rate Rp:US\$												
Average	13,533	13,318	13,134	13,248	13,349	13,576	13,565	13,583	14,311	14,424	14,555	14,582
End-period	13,276	13,180	12,998	13,436	13,463	13,571	13,574	13,947	14,367	14,490	14,569	14,541
Interest rate (%; av)												
Money market rate	5.3	4.9	4.8	4.4	4.6	4.8	5.1	5.0	5.2	5.1	5.0	4.9

Data and charts

Annual data and forecast

	2012 ^a	2013 ^a	2014 ^a	2015 ^a	2016 ^a	2017 ^b	2018 ^b
GDP							
Nominal GDP (US\$ bn)	917.7	912.1	890.6	861.1	932.3	1,044	1,075
Nominal GDP (Rp trn)	8,614	9,542	10,567	11,530	12,407	14,116	15,553
Real GDP growth (%)	6.0	5.6	5.0	4.9	5.0	5.2	4.5
Expenditure on GDP (% real change)							
Private consumption	5.5	5.5	5.3	4.8	5.0	5.5	5.3
Government consumption	5.6	6.4	1.4	4.9	0.6	4.0	2.0
Gross fixed investment	9.1	5.1	4.5	5.0	4.5	5.5	4.6
Exports of goods & services	1.7	4.1	1.1	-2.1	-1.8	2.1	1.0
Imports of goods & services	8.1	1.9	2.1	-6.4	-2.4	2.8	1.5
Origin of GDP (% real change)							
Agriculture	4.6	4.2	4.2	3.8	3.3	4.0	3.5
Industry	5.3	4.3	4.2	3.0	3.9	4.0	2.8
Services	6.8	6.4	6.0	5.5	5.6	6.6	6.4
Population and income							
Population (m)	248.2	250.8	253.3	255.8	258.2	260.6	262.9
GDP per head (US\$ at PPP)	9,445	10,025	10,617	11,125	11,725	12,498	13,247
Recorded unemployment (av; %)	6.1	6.2	5.9	6.2	5.6	5.2	5.7
Fiscal indicators (% of GDP)							
Central government budget revenue	15.5	15.1	14.7	13.1	14.2 ^c	14.0	14.0
Central government budget expenditure	17.3	17.3	16.8	15.7	16.7 ^c	16.2	16.3
Central government budget balance	-1.8	-2.2	-2.1	-2.6	-2.5 ^c	-2.2	-2.3
Public debt	22.0	22.8	25.9	29.4	30.6 ^c	30.9	31.9
Prices and financial indicators							
Exchange rate Rp:US\$ (end-period)	9,670	12,189	12,440	13,795	13,436	13,947	14,541
Exchange rate Rp:¥100 (end-period)	11,161	11,581	10,380	11,470	11,505	12,331	14,298
Consumer prices (end-period; % change)	3.7	8.1	8.3	3.3	3.0	5.7	5.1
Stock of money M1 (% change)	16.4	5.4	6.2	12.0	17.3	13.4	9.9
Stock of money M2 (% change)	15.0	12.8	11.9	9.0	10.0	11.0	9.0
Lending interest rate (av; %)	11.8	11.7	12.6	12.7	11.9	12.0	12.1
Current account (US\$ m)							
Trade balance	8,680	5,833	6,982	14,047	15,390	16,528	14,973
Goods: exports fob	187,347	182,089	175,293	149,123	144,441	151,917	152,420
Goods: imports fob	-178,667	-176,256	-168,311	-135,076	-129,051	-135,390	-137,447
Services balance	-10,565	-12,071	-10,009	-8,697	-6,486	-6,212	-6,675
Primary income balance	-26,628	-27,050	-29,703	-28,380	-29,682	-31,794	-32,943
Secondary income balance	4,094	4,179	5,220	5,509	4,431	5,065	5,322
Current-account balance	-24,418	-29,109	-27,510	-17,520	-16,346	-16,412	-19,324
External debt (US\$ m)							
Debt stock	252,555	265,453	292,969	308,540	316,471 ^c	318,164	318,896
Debt service paid	35,906	40,568	46,444	55,719	56,499 ^c	58,368	60,226
Principal repayments	29,527	32,041	37,558	45,163	47,358 ^c	48,535	49,861
Interest	6,379	8,526	8,885	10,556	9,141 ^c	9,833	10,365
International reserves (US\$ m)							
Total international reserves	112,777	99,387	111,863	105,929	116,369	121,799	116,494

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

Source: IMF, International Financial Statistics.

Quarterly data

	2015			2016			2017	
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
Output								
GDP at constant 2010 prices (Rp trn)	2,230	2,257	2,291	2,312	2,346	2,370	2,404	n/a
Real GDP (% change, year on year)	0.0	4.8	5.1	4.9	5.2	5.0	4.9	n/a
Manufacturing at constant 2010 prices (Rp trn)	485.1	489.5	491.7	490.2	507.5	511.7	508.2	n/a
Manufacturing at constant 2010 prices (% change, year on year)	4.2	4.6	4.4	4.7	4.6	4.5	3.4	n/a
Mining at constant 2010 prices (Rp trn)	188.9	191.6	193.3	195.8	191.1	192.2	196.4	n/a
Mining at constant 2010 price (% change, year on year)	-3.6	-4.4	-6.0	1.2	1.2	0.3	1.6	n/a
Prices								
Consumer prices (av; 2012=100)	120.0	121.4	122.2	123.3	124.1	125.1	126.2	n/a
Consumer prices (% change, year on year)	7.0	7.2	4.8	4.3	3.4	3.1	3.3	n/a
Wholesale prices (2010=100)	137.2	140.1	141.6	143.1	148.0	151.8	153.8	n/a
Financial indicators								
Exchange rate Rp:US\$ (av)	13,134	13,851	13,774	13,533	13,318	13,134	13,248	n/a
Exchange rate Rp:US\$ (end-period)	13,332	14,657	13,795	13,276	13,180	12,998	13,436	n/a
Deposit rate (av; %)	8.45	8.05	7.96	7.87	7.16	6.92	6.71	n/a
Discount rate (end-period; %)	7.50	7.50	7.50	6.75	6.50	5.00	4.75	n/a
Lending rate (av; %)	12.72	12.62	12.53	12.38	11.98	11.71	11.49	n/a
3-month money market rate (av; %)	5.66	5.84	6.00	5.28	4.88	4.75	4.37	n/a
M1 (end-period; Rp trn)	1,040	1,063	1,055	1,065	1,184	1,126	1,238	n/a
M1 (% change, year on year)	9.9	12.0	12.0	11.2	13.9	5.9	17.3	n/a
M2 (end-period; Rp trn)	4,359	4,509	4,549	4,561	4,737	4,738	5,005	n/a
M2 (% change, year on year)	13.0	12.7	9.0	7.4	8.7	5.1	10.0	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)	4,911	4,224	4,593	4,845	5,017	5,365	5,297	5,568
Stockmarket index (% change, year on year)	-9.6	-31.5	-20.8	-13.5	3.3	43.2	18.4	13.3
Sectoral trends								
Manufacturing production (2000=100) ^a	125.5	126.5	129.6	127.9	131.8	132.7	132.3	n/a
Manufacturing production (% change, year on year) ^a	5.2	4.0	4.8	4.1	5.0	4.9	2.1	n/a
Crude oil production (m barrels/day) ^b	0.84	0.86	0.86	0.00	0.00	0.00	0.00	n/a
Foreign trade (US\$ m)								
Exports fob	39,373	36,780	35,161	33,603	35,965	34,848	40,075	n/a
Imports cif	-37,218	-34,040	-34,706	-31,944	-34,050	-32,700	-36,959	n/a
Trade balance	2,155	2,741	455	1,658	1,915	2,148	3,116	n/a
Foreign payments (US\$ m)								
Merchandise trade balance	4,125	4,141	1,961	2,709	3,763	3,929	n/a	n/a
Services balance	-2,635	-2,111	-1,740	-1,136	-2,198	-1,527	n/a	n/a
Primary income balance	-7,481	-7,207	-6,542	-7,573	-7,787	-7,914	n/a	n/a
Net transfer payments	1,426	1,273	1,382	1,234	1,227	1,019	n/a	n/a
Current-account balance	-4,279	-4,224	-4,703	-4,651	-5,203	-4,680	-1,812	n/a
Reserves excl gold (end-period)	105,084	98,876	103,268	104,444	106,477	112,357	113,493	n/a

^a Large & medium-sized companies. ^b 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)												
2015	12,579	12,750	13,067	12,948	13,141	13,313	13,375	13,782	14,396	13,796	13,673	13,855
2016	13,889	13,516	13,193	13,180	13,420	13,355	13,119	13,165	13,118	13,017	13,311	13,418
2017	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Rp:US\$ (end-period)												
2015	12,625	12,863	13,084	12,937	13,211	13,332	13,481	14,027	14,657	13,639	13,840	13,795

2016	13,846	13,395	13,276	13,204	13,615	13,180	13,094	13,300	12,998	13,051	13,563	13,436
2017	13,343	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2015	142.96	141.77	140.60	141.19	141.29	141.94	143.77	145.19	139.37	145.02	150.45	151.95
2016	153.02	155.18	159.17	157.64	157.48	159.54	163.88	162.75	164.04	166.94	166.64	167.68
2017	166.49	165.84	165.37	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M1 (end-period; % change, year on year)												
2015	8.9	11.2	12.2	9.0	8.2	9.9	12.3	14.6	12.0	10.2	10.0	12.0
2016	14.0	11.6	11.2	13.5	14.1	13.9	10.9	10.6	5.9	10.3	12.5	17.3
2017	13.9	15.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Money supply M2 (end-period; % change, year on year)												
2015	14.3	16.0	16.3	14.9	13.4	13.0	12.5	13.3	12.7	10.4	9.2	9.0
2016	7.7	7.2	7.4	7.2	7.6	8.7	8.2	7.8	5.1	7.5	9.4	10.0
2017	9.7	9.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2015	8.9	8.9	8.8	8.6	8.5	8.3	8.1	8.1	8.0	8.0	7.9	8.0
2016	7.9	8.0	7.8	7.3	7.2	7.0	7.0	6.9	6.8	6.8	6.7	6.7
2017	6.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2015	12.8	12.7	12.8	12.8	12.7	12.7	12.7	12.6	12.6	12.6	12.6	12.5
2016	12.5	12.4	12.3	12.1	12.0	11.8	11.8	11.7	11.6	11.6	11.5	11.4
2017	11.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Manufacturing production (av; % change, year on year)												
2015	5.1	2.6	7.4	8.4	2.4	5.0	4.4	5.7	2.0	6.2	6.6	1.5
2016	2.6	7.4	2.6	0.1	7.0	8.0	8.8	6.1	0.0	0.1	2.0	4.3
2017	4.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
JSE Composite stockmarket index (end-period; Aug 10th 1982=100)												
2015	5,289	5,450	5,519	5,086	5,216	4,911	4,803	4,510	4,224	4,455	4,446	4,593
2016	4,615	4,771	4,845	4,839	4,797	5,017	5,216	5,386	5,365	5,423	5,149	5,297
2017	5,294	5,387	5,568	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2015	6.9	6.3	6.4	6.8	7.1	7.1	7.2	7.4	6.9	6.3	4.9	3.3
2016	4.2	4.4	4.4	3.6	3.2	3.5	3.2	2.9	3.1	3.3	3.6	3.0
2017	3.6	3.8	3.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2015	2.8	2.6	3.4	3.3	4.4	3.9	4.1	5.6	5.4	5.2	5.9	6.3
2016	6.7	5.9	7.6	7.7	7.4	7.8	8.7	7.7	8.7	9.4	8.8	8.3
2017	9.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods exports fob (US\$ m)												
2015	13,245	12,173	13,634	13,105	12,755	13,514	11,466	12,726	12,588	12,122	11,122	11,917
2016	10,481	11,312	11,810	11,476	11,514	12,974	9,531	12,748	12,569	12,743	13,504	13,829
2017	13,402	12,575	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods imports cif (US\$ m)												
2015	12,613	11,510	12,609	12,626	11,614	12,978	10,082	12,399	11,559	11,109	11,520	12,077
2016	10,467	10,176	11,302	10,814	11,141	12,095	9,017	12,385	11,298	11,507	12,669	12,783
2017	11,968	11,256	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												
2015	632	663	1,025	478	1,141	536	1,384	327	1,030	1,013	-397	-160
2016	14	1,136	508	662	374	879	514	363	1,271	1,235	834	1,046
2017	1,433	1,319	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (end-period; US\$ m)												
2015	111,067	112,482	108,571	107,850	107,798	105,084	104,824	102,489	98,876	97,836	97,584	103,268
2016	99,334	101,452	104,444	104,565	100,533	106,477	108,047	110,226	112,357	111,846	108,491	113,493
2017	113,905	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

Annual trends charts

Real GDP growth
(% change)



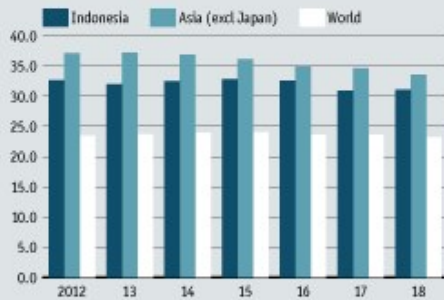
Source: The Economist Intelligence Unit.

Consumer price inflation
(av; %)



Source: The Economist Intelligence Unit.

Gross fixed investment
(% of GDP)



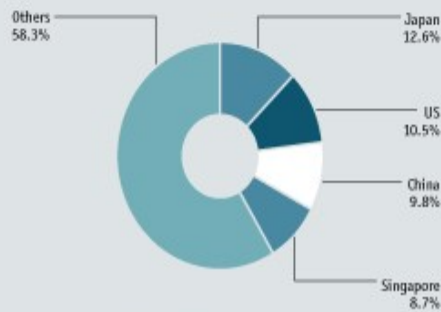
Source: The Economist Intelligence Unit.

Budget balance
(% of GDP)



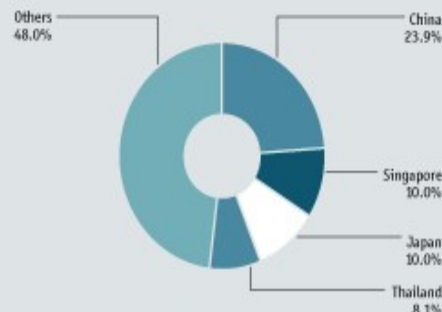
Source: The Economist Intelligence Unit.

Main destinations of exports, 2016
(share of total)



Source: The Economist Intelligence Unit.

Main origins of imports, 2016
(share of total)

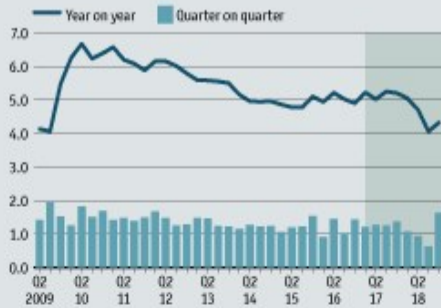


Source: The Economist Intelligence Unit.

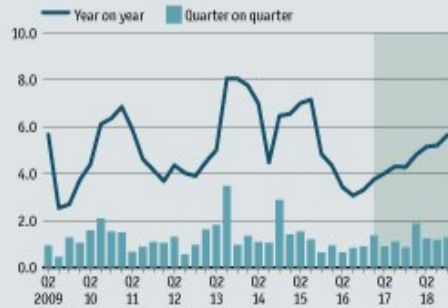
Quarterly trends charts

Quarterly trends charts

Real GDP growth
(% change)



Consumer price inflation
(av; %)



Imports and domestic demand
(% change)



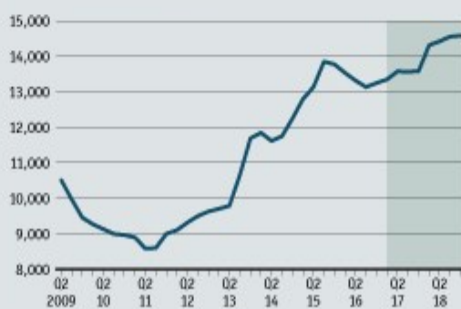
Exports of goods and services
(% change)



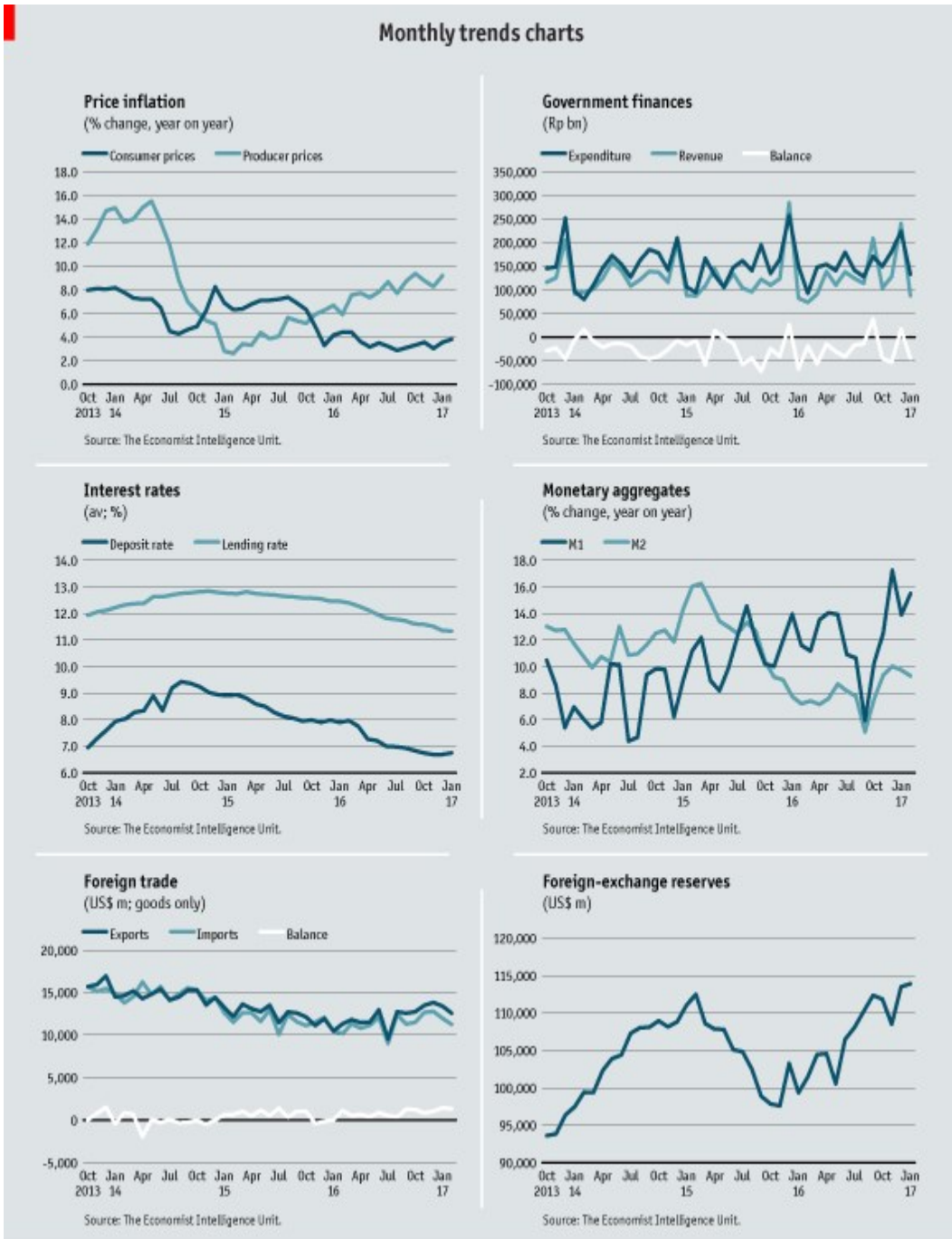
Interest rates
(av; %)



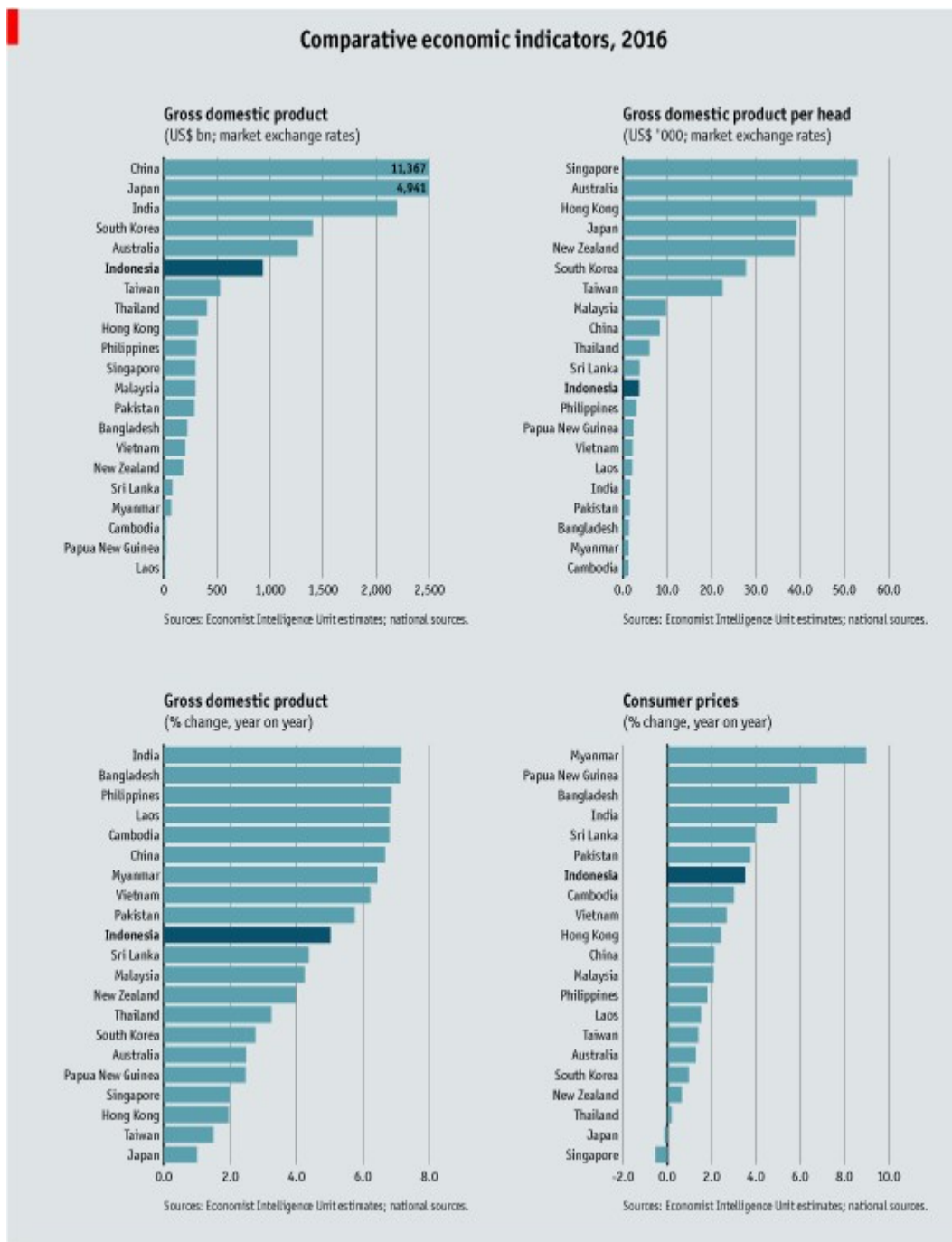
Exchange rate
(Rp:US\$; av; inverted scale)



Monthly trends charts



Comparative economic indicators



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

258.2m (2016; UN)

Main towns

Population in '000 (2010 census)

Jakarta (capital): 9,608

Bandung: 3,179

Surabaya: 2,765

Medan: 2,098

Semarang: 1,556

Palembang: 1,445

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 2016: Rp13,308:US\$1

Time

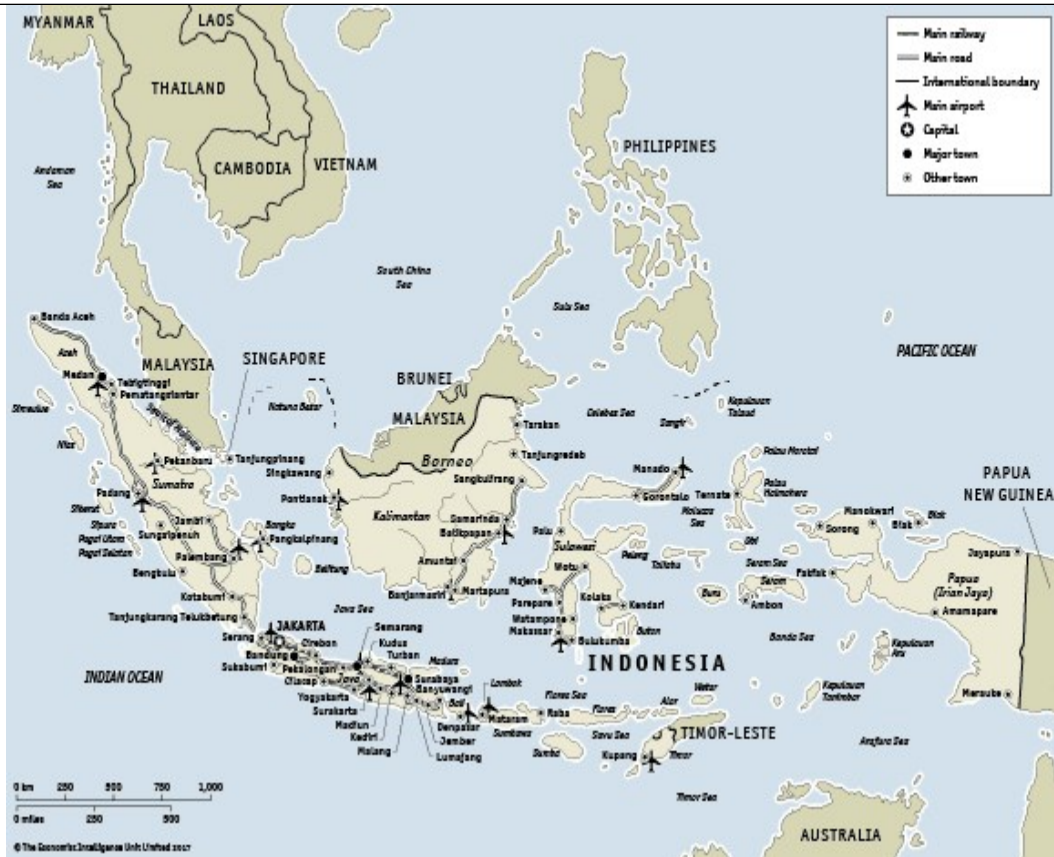
Western Zone 7 hours ahead of GMT, Central Zone 8 hours ahead, Eastern Zone 9 hours ahead

Fiscal year

January 1st-December 31st

Public holidays

January 1st (New Year's Day); January 28th (Chinese New Year); March 28th (Nyepi); April 14th (Good Friday); May 1st (International Labour Day); May 25th (Ascension Day of Jesus Christ); June 1st (Pancasila Day); June 26th (Idul Fitri); July 8th (shared public holiday); August 17th (Independence Day); September 15th (Idul Adha); September 21st (Islamic New Year); December 25th (Christmas Day)



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, Joko Widodo (known as Jokowi) of the Indonesian Democratic Party-Struggle (PDI-P)

National legislature

The People's Consultative Assembly (MPR) consists of a 560-member House of People's Representatives (DPR) and a 136-member Regional Representatives' Council (DPD)

National elections

The last polls took place in April 2014 (DPR) and July 2014 (presidential). The next elections, for both the presidency and the DPR, will be held in April 2019

National government

Jokowi's cabinet contains representatives of the PDI-P, Golkar, the National Democratic Party (NasDem), the National Awakening Party (PKB), the People's Conscience Party (Hanura) and the United Development Party (PPP)

Main political organisations

There are three nationalist secular parties: the PDI-P, the Democratic Party (PD) and Golkar. Four other parties—the PPP, the PKB, the National Mandate Party (PAN) and the Prosperous Justice Party (PKS)—have an Islamic orientation. Hanura, the Great Indonesia Movement Party (Gerindra) and NasDem also hold seats in the DPR

Key ministers

President: Joko Widodo

Vice-president: Jusuf Kalla

Agriculture: Amran Sulaiman

Co-ordinating minister for the economy : Darmin Nasution

Co-ordinating minister for human development & culture: Puan Maharani

Co-ordinating minister for maritime affairs: Luhut Binsar Panjaitan

Co-ordinating minister for political, security & social affairs: Wiranto

Defence: Ryamizard Ryacudu

Education: Muhajir Effendi

Energy & mineral resources: Ignasius Jonan

Finance: Sri Mulyani Indrawati

Foreign affairs: Retno Marsudi

Forestry & the environment: Siti Nurbaya Bakar

Health: Nila Moeloek

Home affairs: Tjahjo Kumolo

Industry: Airlangga Hartarto

Law & human rights: Yasonna Laoly

Manpower: Hanif Dhakiri

Public works & public housing: Basuki Hadimuljono

Religious affairs: Lukman Hakim Saifuddin

Social affairs: Khofifah Indar Parawansa

Trade: Enggartiasto Lukita

Transport: Budi Karya Sumadi

Central bank governor

Agus Martowardojo

Recent analysis

Generated on May 11th 2017

The following articles were published on our website in the period between our previous forecast and this one, and ser a review of the developments that shaped our outlook.

Politics

Forecast updates

April 5, 2017: International relations

Vice-president objects to Trump's executive order

Event

On April 5th the vice-president, Jusuf Kalla, criticised an executive order issued by the US president, Donald Trump, to study the cause of trade deficits between the US and 15 countries, including Indonesia.

Analysis

Mr Trump made it clear during his election campaign in 2016 that he would adopt a more protectionist stance towards US trade in order to encourage local manufacturing. The executive order in question, which Mr Trump issued on March 31st, was for the US Department of Commerce to study the cause of large bilateral deficits with 15 selected countries (including Indonesia) and to identify possible abuses of trade rules by trading partners. Mr Kalla objected to the motive of this order by defending Indonesia's trade practices and attributing the deficit in its favour to differences in the cost of goods exchanged.

The US is Indonesia's second-largest export market, while only 5% of Indonesia's imports come from the US. The archipelago nation has been accused of being protectionist in the past, particularly by Australia for reducing imports of beef. Yet according to the latest data from the IMF, Indonesia imported around the same amount of goods in value terms as it exported in 2016. As such, its biggest imports in value terms came from China and other countries in the region. Aside from direct trade relations, Indonesia has relatively good diplomatic ties with the US. Indeed, it is one of the few Muslim-majority countries that have been excluded from Mr Trump's travel bans into the US. Looking ahead, Indonesia's relatively strong relationship with the US will remain largely undisturbed, as ties are mainly focused around individual businesses. US trade protectionism will affect other, larger exporters much more than it will Indonesia.

Impact on the forecast

Despite the recent trade-related friction, we continue to expect that overall bilateral ties will remain positive in the forecast period (2017–21).

April 13, 2017: Political stability

Anti-corruption investigator attacked

Event

On April 11th Novel Baswedan, a leading investigator at the Corruption Eradication Commission (KPK), was attacked with acid after leaving a mosque.

Analysis

Mr Baswedan has been leading the KPK investigation into corruption of the botched national identity card project (e-KTP). The identity card scheme was a legacy of the former president, Susilo Bambang Yudhoyono (2009–14). However, is now under investigation for being a vehicle for various politicians to take kickbacks and inflate prices. The parliamentary speaker, Setya Novanto, who chaired the legislative commission that led the implementation of the e-KTP project, denies any involvement in graft allegations. Indonesia's immigration office (Imigrasi) says that the KPK requested a travel ban for Mr Novanto on April 10th, significantly elevating the probability that he will soon be charged. The case is particularly incendiary because it also threatens to bring down other high-profile figures from across Indonesia's political parties.

Around half of KPK investigators are seconded police officers, and there have been recent moves to place them in more senior roles at the KPK. This has created tension with the KPK's full-time staff, who are, in general, suspicious of the commitment to transparent investigation among colleagues on loan from police forces with a poor reputation on graft. A group of police investigators recently lodged a frivolous but almost successful formal complaint against Mr Baswedan, which could have critically undermined his position as a lead investigator.

In March an ex-legislator withdrew evidence against former colleagues' involvement in this case—the KPK says that she was coerced into retracting her testimony. Intimidation of witnesses and KPK investigators is not new, but the attack on Mr Baswedan has shocked many. He says that he has been attacked on three previous occasions, including being knocked off his motorcycle by a car in 2016. However, the acid attack is more visceral and probably designed to terrorise KPK staff, as well as potentially slowing the investigation by temporarily taking Mr Baswedan out of commission.

The president, Joko Widodo (known as Jokowi), called it "a brutal act" and has ordered the national police chief, Tito Karnavian, to investigate. The police will face substantial pressure to solve the case, while the KPK investigation will probably face at least some delay due to Mr Baswedan's hospitalisation.

Impact on the forecast

We continue to expect the fight against corruption to be slow. Jokowi is likely not to be implicated in any wrongdoing relating to graft.

April 19, 2017: Political stability

Ahok loses governorship in Jakarta run-off

Event

On April 19th the capital, Jakarta, went to the polls for the second time in three months to cast votes for the two remaining mayoral candidates, the incumbent governor, Basuka Tjahja Purnama (known as Ahok), and Anis Baswedan.

Analysis

Based on the quick count results, Mr Baswedan has emerged victorious with 57.4% of the votes while Ahok has secured 42.7%. The results were in stark contrast to how the dynamic stood in the [first round](#) in February, when Ahok had secured around 42.8% of the vote while Mr Baswedan trailed at 39.8%.

The Jakarta elections were fought more on religious and sectarian lines than on policy platforms. Ahok, one of the first politicians from the minority Christian Chinese community, has long faced criticism from hardline Muslim groups. Objections came to the fore when a blasphemy case was brought against Ahok for allegedly misusing a verse from the Quran during a campaign rally, a charge that he denies. Blasphemy is seen as a serious offence in Indonesia and cases are rarely acquitted. This quickly made a dent on Ahok's erstwhile popularity. He had, as a reform-minded governor, ramped up efforts to reduce graft and improve the business environment in the capital. However, his sometimes brusque personality made him a divisive candidate to start with.

Mr Baswedan, however, was viewed as much more personable and suave. He also warmed himself to the more conservative Muslim community, and even extremist groups such as the Islamic Defenders' Front (FPI), which instigated the blasphemy case against Ahok. Mr Baswedan also has the endorsement of Prabowo Subianto, the leader of the opposition Gerindra party in the House of the People's Representative (DPR, the parliament). Mr Subianto was the main rival of the incumbent president, Joko Widodo (known as Jokowi), during the 2014 presidential election. He has since kept a low profile but remained in the opposition. The Jakarta election provided a platform for him and his political allies to impress upon the electorate. As such, a win by his preferred candidate would propel his political position on the national platform. This is the desired outcome for Mr Subianto ahead of the 2019 presidential election, when he will no doubt contest against Jokowi once again.

Impact on the forecast

The Jakarta mayoral election is a good bellwether for the 2019 general and presidential polls. Ahok's loss strengthens the position of Jokowi's rival in the next presidential election.

April 21, 2017: International relations

US vice-president cements relations with Indonesia

Event

On April 20th the US vice-president, Mike Pence, met Indonesia's president, Joko Widodo (known as Jokowi), in the capital, Jakarta.

Analysis

Indonesia's undemonstrative approach to foreign policy and the aggressive focus of the US president, Donald Trump, on redrawing US trading relationships ensured that bilateral trade took top priority in the discussions. Mr Pence pushed for reducing tariffs and other trade barriers towards US companies, in order to narrow the US\$8.4bn deficit that the US recorded in 2016 in its bilateral trade with Indonesia. Jokowi's reforms targeting bureaucracy at ports will contribute to lower non-tariff barriers in the medium term, but Indonesia has a capricious history of imposing and withdrawing tariffs. This is particularly prevalent in the case of agricultural imports, as successive Indonesian presidents tend to harbour goals of achieving self-sufficiency in food production. Following his meeting with the Indonesian vice-president, Jusuf Kalla, Mr Pence announced that 11 deals in the energy and defence sectors, worth US\$10bn, had been signed during the visit.

Mr Pence also took the opportunity to reassert the US's commitment to ASEAN, despite Mr Trump's tough rhetoric on foreign policy. He confirmed that Mr Trump would attend regional summits in November: the US-ASEAN and East Asia summits, which will be held in the Philippines, and the Asia Pacific Economic Cooperation (APEC) meetings in Vietnam. After visiting the Istiqlal Mosque, the largest in the region, Mr Pence commended Indonesia for its moderate Islamic traditions. He also noted that the [Jakarta gubernatorial election](#) on April 19th, which to many observers was worryingly fought on religious lines, was testament to the archipelago's maturing democracy.

Impact on the forecast

Mr Pence's visit reinforces our view that relations between Indonesia and the US will remain broadly positive. No changes to our forecast are therefore required.

Analysis

April 20, 2017

Women in parliament

Not unlike many other countries in South-east Asia, Indonesia's track record of female participation in politics remains poor. The issue is particularly acute at local and regional government levels, even as many women have managed to become powerful ministers at national level. Likewise, fewer women tend to be directly elected and are instead appointed to office by presidential decree. The problem lies both at the societal level as well as with the country's male-biased regulations. Despite these odds, a few firebrand reformists have emerged. Efforts to make political opportunities more equitably distributed among the sexes still seem limited.

In Indonesia's traditionally male-dominated society, female participation in politics has made numerous leaps forward since independence in 1945. However, some regulations still remain biased in favour of men, something that can arguably be lessened should more women have a voice in the House of People's Representatives (DPR, the legislature). For instance, in 2015 the Constitutional Court issued a binding verdict against a bid to increase the age of marriage for girls

from 16 to 18 years old, an important measure to reduce incidences of child marriage incrementally. A month later, the Ministry of Defence issued regulation to permit departmental civil servants to take a second wife.

Indeed, according to data from Indonesia's National Commission on Violence Against Women, discriminatory regulations against women at both national and local level increased from 389 to 422 by the end of 2015. Laws implying direct discrimination can be measured more easily than the opportunity costs in policymaking—education, health and social services are devolved to the regions in Indonesia. The extent of this devolution places additional importance on boosting female representation.

It becomes a local problem

According to data from a US think-tank, the Inter-Parliamentary Union, Indonesia's direct elections in 2004 resulted in 11.3% female representation in the DPR, and the number has now risen to 19.8%. At local level, the data reflect a worse picture. Since it became a democracy, Indonesia has elected just one female provincial governor, Ratu Atut Chosiyah, in Banten province. Many female politicians at local level tend to have their way paved by powerful families or through celebrity. Fewer, if any, have been seasoned politicians with technocratic backgrounds. Many female candidates are undermined on the stump by sexist negative campaigning from their male opponents, and women are more likely to be elected in urban constituencies than in more remote regions.

Achieving against the odds

Yet, there are instances even at local level that give cause to hope that the situation might be gradually improving. Voters returned Tri Rismaharini, a firebrand reformist who has stood up for women's rights in various instances, as the mayor of Indonesia's second-largest city, Surabaya, in 2015 with a remarkable 86.4% of the vote. In her first term, Ms Rismaharini fired three civil servants for committing polygamy. She has made education in the city free, built new green spaces and done more than any Indonesian mayor to create innovative solutions to the problem of litter. A successful run for the East Java governorship next year would likely prove an inspiration for many women. Elsewhere, female activists and non-governmental organisations continue to press for incremental improvements.

Setting a national precedence

The president, Joko Widodo (known as Jokowi), has appointed nine women to his cabinet since his term began in 2014. Much of the energy for his government's ambitious reform programme comes from the experienced women running the environment, finance and fisheries ministries. Indeed, the finance minister, Sri Mulyani Indrawati, is widely respected as a former managing director at the World Bank and finance minister under the previous president, Susilo Bambang Yudhoyono. In her position, Ms Mulyani has carefully cut down unproductive spending in favour of public expenditure on education, health and infrastructure. Susi Pudjiastuti, the minister for maritime affairs, is meanwhile reforming Indonesia's fraught fisheries sector. Retno Marsudi has taken on leadership in foreign policy, Rini Soemarno is in charge of Indonesia's expansive state-owned enterprises and Siti Nurbaya Bakar runs perhaps the country's most difficult portfolio, the Ministry of Environment and Forestry.

However, the case remains that far too few women are elected during either Indonesia's legislative or regional polls. Out of 642 candidates who contested the regional elections in February 2017, only 45 were women. This deficit is long-standing and is likely to have imposed high opportunity costs on prevalent injustices towards girls and women. Save for a few standout exceptions, far too few women are breaking the glass ceiling in Indonesia's gubernatorial, regency and mayoral elections. Next year 171 constituencies will vote in regional polls before a general election in 2019. It is unlikely that the picture will change much by then

without concerted efforts at both regional and national level to make opportunities in politics more equitable. Nevertheless, there is hope to be had from those few women who have gained positions of power despite these odds.

April 26, 2017

Refocusing on corruption

In early April Indonesia's Anti-Corruption Commission (KPK) secured a travel ban against the parliamentary speaker, Setya Novanto. This came as part of its investigation into alleged kickbacks linked to the botched rollout of the revamped residential identification card known as KTP. Many other senior politicians will also be investigated in relation to the scandal. A successful prosecution would embolden the KPK and raise its profile among voters. Furthermore, as the case unfolds, voters will no doubt increasingly endorse reformist politicians in higher offices—this will become crucial for the current president, Joko Widodo (known as Jokowi), ahead of the 2019 presidential elections.

The KTP investigation is the KPK's biggest in its recent history. The scandal has already implicated dozens of current and former lawmakers, bureaucrats and cabinet ministers. Much is at stake for some of the country's most powerful politicians. This point was underscored the day after the KPK secured Mr Novanto's ban when an unidentified assailant threw acid in the face of the man who had sought it: Novel Baswedan, one of the KPK's chief investigators. However, the police investigation into the attack against Mr Baswedan has not yet been linked directly to the KTP scandal. After a bruising election campaign for the governorship of the capital, Jakarta, in which religion was the central issue, the case promises to refocus public attention on corruption. This could aid reformers such as Jokowi in the run-up to key gubernatorial races on the island of Java in 2018 and for general and presidential elections in 2019.

Still waiting for the e-KTP

The foundations of the KTP programme were established under the previous administration, led by Susilo Bambang Yudhoyono (2004–14). Between 2010 and 2012 the House of People's Representatives (DPR, the legislature) budgeted Rp5.2trn (US\$390bn) to introduce an electronic version of the KTP. The revamped e-KTP would allow holders to update data online. This is a big improvement for a populace increasingly keen to avoid venal bureaucrats and red tape. For the government, the new system would help to create a centralised database that would make it easier to monitor payments and crack down on tax fraud.

However, the KPK investigation into the implementation of the programme estimates that roughly half of the money has been lost in kickbacks during the tender process for suppliers to design, print and support the administrative infrastructure of the new identification card. As a result, none of the promised online features of the e-KTP has materialised. Some 4.5m people—mostly those outside the main cities of Jakarta and Surabaya—have had to settle for an IOU instead of a new card as these are now in short supply.

Embroided in graft

So far two high-ranking officials, Irman and Sugihanto, who served in the Ministry of Home Affairs under Mr Yudhoyono, have been formally charged. In March the KPK released a list of 38 names, including that of Mr Novanto, whom the agency plans to investigate. Also in the KPK's sights are Yasonna Laoly, the current law and human rights minister, and Gamawan Fauzi, the former home affairs minister overseeing the development and contracting of the e-KTP. None of these subjects has been formally charged and they have all denied any wrongdoing. The KPK has said that over the course of its investigation this list could well grow to 70 or so.

In the aftermath of the [Jakarta gubernatorial election](#), in which the issue of religion

helped to oust the reformist incumbent governor, Basuki Tjahaja Purnama (known as Ahok), the snowballing kickback scandal may help to shift voter attention back to the issue of corruption and the need for reform-minded politicians. The affair is also a test for the KPK itself. In early 2015 the KPK nearly came undone when it levelled corruption charges aimed at derailing Jokowi's then-nominee for police chief, Budi Gunawan. Although it was eventually successful, the KPK was unprepared for the backlash against it from the national police. The resulting tit-for-tat dispute saw most senior investigators put in jail, and forced the KPK to back down and assume a low profile. This was to the detriment of Jokowi's reputation, as he promised to take a strong stand against graft during his election campaign in 2014.

From small fry to the big fish

This time the agency seems better prepared. The KPK's chairman, Agus Rahardjo, has said that investigators are targeting lower-level officials first to help to raise the heat on senior politicians who are suspected of being involved. Investigators have so far interviewed 300 witnesses over two years to help to build their case. Successfully prosecuting this case will help the graft watchdog to fend off attempts by lawmakers who wish to dilute their authority. So far eight of the ten main parties that are represented in the DPR support stripping the KPK of its powers to investigate and prosecute suspects. But popular support ought to be enough to protect the KPK for now. This is because the e-KTP scandal affects most Indonesians and exposes the extent to which graft in Indonesia's bureaucracy can inconvenience citizens. The KPK's preparation for what appears to be a marathon prosecution suggests that it is ready for the task to uphold the rights of ordinary Indonesians.

Economy

Forecast updates

April 4, 2017: Inflation

Inflation stays within BI's target range in first quarter

Event

According to data from Statistics Indonesia (BPS), consumer prices rose by 3.6% year on year in March. In the first three months of the year inflation averaged 3.7%.

Analysis

Inflation is typically low in March owing to the impact on food prices of the first rice harvest of the year. Food prices rose by 2.9% year on year in March, the lowest rate since August 2014.



In addition, grain harvests across the archipelago tend to lower animal-feed prices, putting downward pressure on the price of meat. The president, Joko Widodo, has prioritised reform of the country's state-owned logistics agency, Bulog, to contain food price rises over forthcoming years. This includes increasing regional stockpiles of rice, although the government has pledged to curtail rice imports in 2017.

Downward pressure on the cost of food is particularly crucial to offsetting inflationary pressures from expected increases in administered prices—the government began to phase out an electricity subsidy at the beginning of this year. Food prices will spike in June, however, as the majority of Indonesians observe the month of Ramadan and the subsequent Idul Fitri week-long holiday.

Administered prices were up by 5.5% year on year at end-March. Merauke, a regency in Papua province, recorded the highest month-on-month inflation, at 1.2%. Bima, a municipality in West Nusa Tenggara province, recorded deflation of 0.9%. Bank Indonesia (the central bank) has said that it is paying greater attention to addressing inflation at local level by focusing on particular regional inflationary pressures.

Impact on the forecast

The latest data are in line with our forecast. We expect the rate of consumer price inflation to accelerate at a faster pace towards the latter half of the year.

April 5, 2017: Policy trends

Jokowi wants to boost growth to 5.6% by 2018

Event

On April 4th the president, Joko Widodo (known as Jokowi), held a plenary cabinet meeting to discuss the draft budget for 2018. In the meeting he set out his goal to accelerate economic growth to 5.6% in 2018, compared with 5% in 2016.

Analysis

Jokowi said that he hoped to cut back on wasteful spending and redirect public funds towards infrastructure development over the forthcoming years. He also expressed a desire to attract more private-sector participation in infrastructure development. Since he took office in October 2014, Jokowi has managed to [engineer a fiscal restructuring](#) by targeting the disbursement of public money into productive use, such as investing in infrastructure development, education and healthcare. These efforts have been sluggish, not least because of the government's persistent troubles on the revenue side. Jokowi also replaced his first finance minister, Bambang Brodjonegoro, with Sri Mulyani Indrawati, in July 2016, no doubt to ramp up his efforts to optimise government expenditure. Ms Mulyani has a track record as a hawkish but very effective finance minister. Having seen through a successful [tax amnesty programme](#) that has given a lift to government revenue in 2016–17, Ms Mulyani is now focused on making public expenditure more efficient.

During the plenary meeting Jokowi also called for a further easing of investment rules and red tape to encourage business activity in Indonesia. More than two years into his term, the president has managed to improve Indonesia's business environment by undertaking various deregulation packages. Many of these have been piecemeal, however, and have been implemented slowly. Nevertheless, his efforts have been recognised positively by the World Bank's *Doing Business* rankings, where Indonesia has moved up 15 places, from 106th out of 190 countries in 2016 to 91st in 2017. Indeed, in 2014, before Jokowi came to office, Indonesia ranked 117th in the same index.

Looking ahead, Indonesia's prospects of attracting greater investment look positive. However, uncertainties surrounding rising protectionism in the US, as well as China's economic slowdown, will present obstacles to this effort. We have therefore set a more conservative forecast for overall economic growth, averaging just below 5% a year in 2017–18.

Impact on the forecast

The president's latest statement is in line with our policy trends forecast, and so no adjustments are required. However, depending on how aggressive Jokowi's policy measures are in 2017, we may look to revise up our 2018 growth forecast over the forthcoming months.

April 25, 2017: Monetary policy outlook

Central bank leaves monetary policy unchanged

Event

Bank Indonesia (BI, the central bank) held its seven-day reverse repurchase rate unchanged, at 4.75%, following the board of governors meeting in April.

Analysis

In its statement, BI noted that macroeconomic conditions both domestically and in the global economy had improved, making a change in its policy rate unnecessary. It highlighted that the Indonesian economy was on a steady footing with firmer investment prospects for 2017, as well as higher international commodity prices, which will give export revenue a lift. The rupiah has stayed stable even as the US Federal Reserve has continued to tighten its monetary policy stance.

Although consumer price inflation has remained within BI's 3–5% target range, the prospect of higher commodity prices is likely to raise inflationary pressures faster, particularly in the second half of the year. Therefore, we expect BI to raise its policy rate later this year in order to rein in more pronounced inflationary pressures. The general strength of the Indonesian economy will also raise these pressures.

On April 25th the finance minister, Sri Mulyani Indrawati, assured investors in an interview with Reuters, an international news agency, that not only was budgetary spending back on track this year, but that there would be no reason to cut back on expenditure in 2017 like last year. Indonesia's fiscal position has been compromised owing to the prolonged weakness in commodity prices, which has lowered revenue from the oil and gas sector. Stronger commodity prices this year will mean that the government has more room to support economic growth through fiscal policy.

Impact on the forecast

BI's decision is in line with our view that the central bank's easing cycle has ended. For most of this year, BI will maintain rates at their current level. We expect a modest tightening cycle to commence towards the end of the year, when inflationary pressures strengthen.