

Country Insight Snapshot Indonesia

March 2017



Written 03 March 2017

Help us to improve the Country Insight content via a 3-minute survey.
For more information; **CLICK HERE**



OVERVIEW

OVERALL COUNTRY RISK RATING: DB4a

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Stable

CORE OUTLOOK

- + Indonesia is one of the world's most renowned markets for resource extraction.
- + The government is supporting and incentivising infrastructure development.
- Inadequate infrastructure constrains Indonesia from realising its economic potential.
- The overall business environment remains poor by global standards.

KEY DEVELOPMENT

A damaging dispute between the government and leading international mining company Freeport McMoran continues to disrupt Indonesian copper output.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

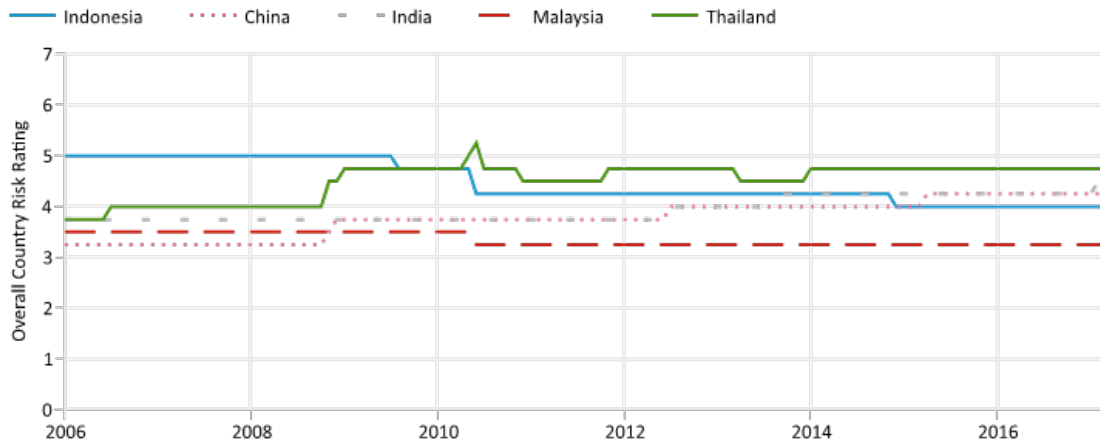
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

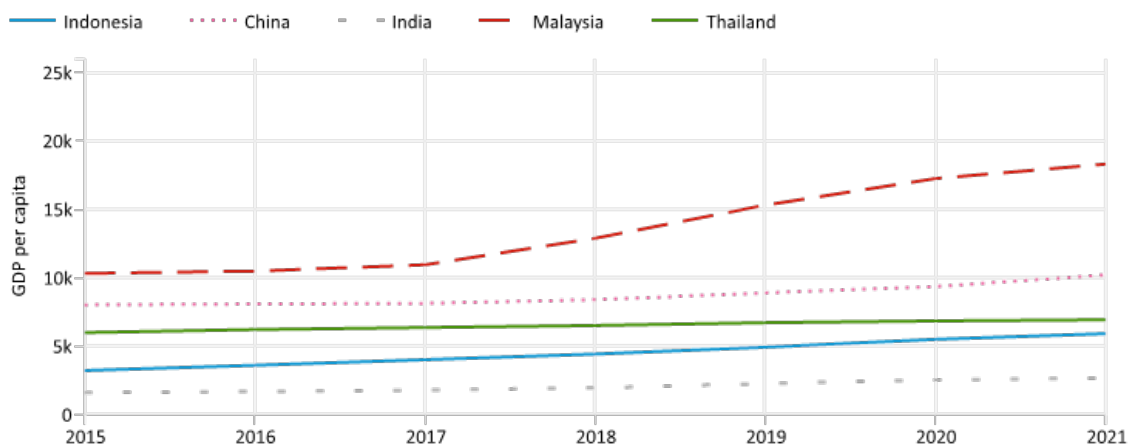
Rating History and Comparison



Source : Dun & Bradstreet

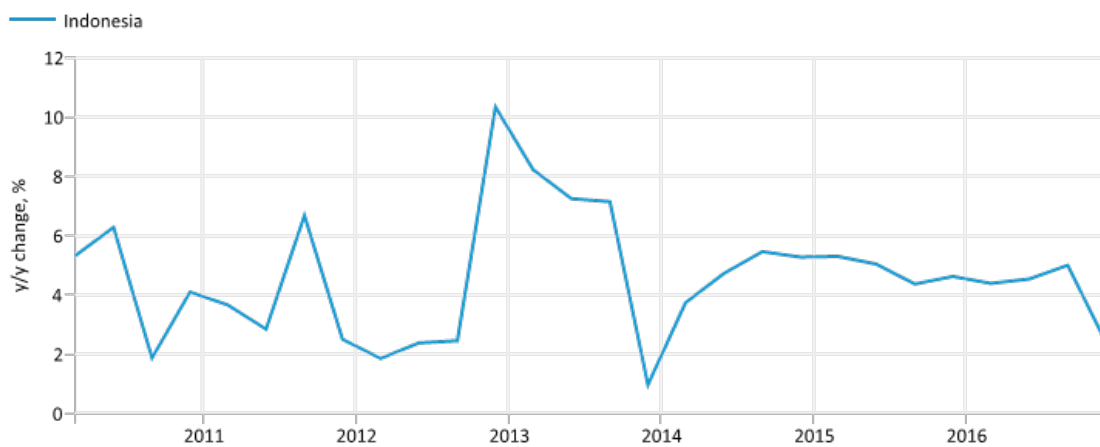
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-3.1	-2.0	-1.8	-2.5	-2.5	-2.7	-2.9	-1.9
Debt Service Ratio, %	24.0	20.7	27.0	25.0	24.0	24.3	25.0	25.0
Govt balance, % GDP	-1.7	-2.0	-2.5	-2.0	-1.5	-1.5	-1.0	-1.0
Inflation, annual avge %	6.4	6.4	3.1	3.5	4.4	4.0	4.0	5.0
Real GDP Growth, %	5.0	4.9	5.0	5.3	5.7	6.2	6.1	6.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Indonesia is a country with a high, and potentially increasing, susceptibility to natural disasters that can frequently adversely affect the country's trade and commercial environment. This is reflected in a recent report by the country's National Disaster Mitigation Agency which showed that 2016 was the worst year in the past 14 years in terms of natural disaster instances. A total of 2,342 natural disasters were recorded by the agency in 2016, up significantly from 1,732 in 2015. This number includes landslides, floods, storms, earthquakes and volcanic eruptions; but by far the largest category is the hydro-meteorology group, which includes landslides, floods and strong winds. Within this group, flooding was the most frequent type of risk, with 766 instances in 2016, while landslides was the deadliest, with 188 lives lost as a result.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

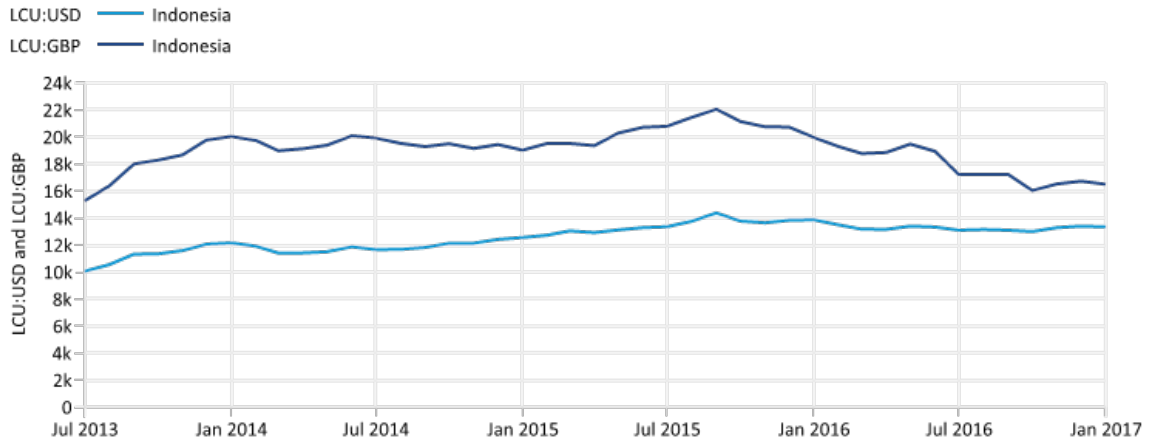
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



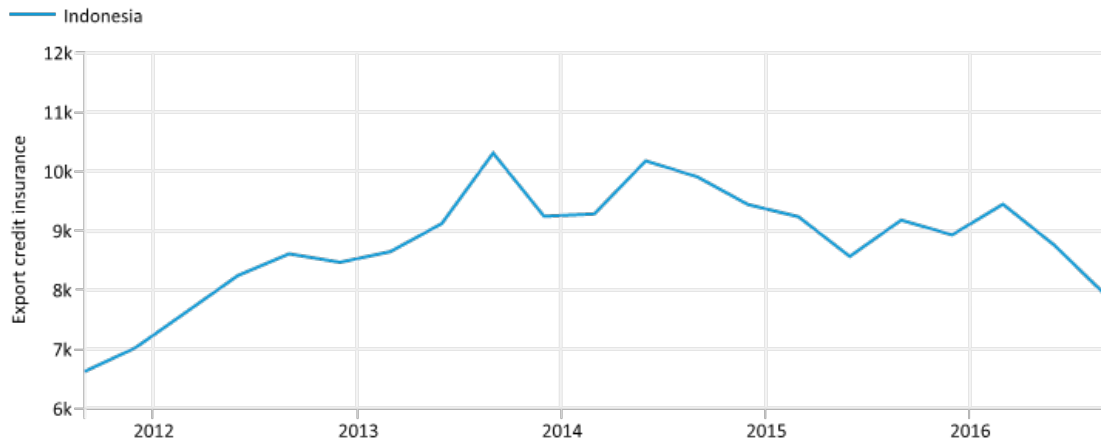
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indonesian rupiah

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Business Regulatory Environment

Mining sector stand-off

A damaging stand-off in Indonesia's mining sector continues with US-based Freeport McMoran (the world's largest publicly listed copper producer) so far refusing to accept the government's offer of a new, less favourable, contract for its majority-owned Grasberg copper mine. Since 10 February, Freeport has halted production at the mine, which accounts for around 3.5% of the total global copper supply and is threatening international arbitration if the dispute with the government is not resolved within 120 days. Since such an outcome and the continued freeze of production would be immensely damaging to both parties, we think it likely that some sort of deal will be reached ahead of this time, but Indonesia's reputation for resource nationalism is growing.

Short-Term Economic Outlook

Q4 2016 GDP growth unexceptional

Indonesia's real GDP growth expanded by 4.9% y/y in Q4 2016, down slightly compared to both the previous quarter and the expectation of 5.0% growth. Private consumption remained by far the biggest driver of quarterly growth, with a 5.0% y/y expansion. Thanks in large part to the ongoing recovery in commodity prices, real exports bounced back in Q4 with growth of 4.2% y/y, following a decline of 5.7% in Q3. However, the positive impetus from this was partly offset by a bigger contraction in public spending (-4.1% y/y, versus -3.0% in Q3), as the government sought to keep the budget deficit within the mandatory annual limit of 3.0% of GDP. For 2016 as a whole, real GDP growth in 2016 was 5.0%, up slightly from a revised 4.9% growth in 2015. While this growth rate is below Indonesia's potential and aspired level, we judge it to be just about adequate given depressed commodity prices in the earlier part of the year, and in the context of solid progress on economic reforms.

Political/Insecurity Risk

First round of Jakarta gubernatorial election

In February, Jakarta's incumbent Christian and ethnically Chinese governor, Basuki Tjahaja Purnama, popularly known by his Hakka nickname of Ahok, won the first round of the capital's gubernatorial election. We see this result as encouraging, given the storm surrounding largely trumped up and inaccurate claims made by political opponents, alleging that Ahok had wilfully disrespected Islam's holy book, the Koran. In the second-round run-off vote, due to take place on 19 April, Ahok will compete against former education minister Anies Basedwan. Given how narrow his first-round win was - he received 43% of the vote compared to 40% for Basedwan - there is a real possibility that Ahok may lose if most of the backers of the third-placed candidate, Agus Yudhoyono (17% of first-round votes), decide to vote - based on ethnic and religious lines - in favour of Basedwan. If this happens, we believe it would be detrimental to the country's social stability. However, suggestions that this might also be greatly damaging for President Joko Widodo's presidential re-election prospects in 2019 are probably wide of the mark in our view. This is because, although he is a very close ally of Ahok, Widodo would be unlikely to be encumbered by racial voting.



COUNTRY PROFILE AND STATISTICS

Overview

Indonesia is an archipelago of approximately 17,000 islands in Southeast Asia, partly traversed by the equator; it has three time zones. Java accounts for almost half of the population, while other major islands are Sumatra, Kalimantan (Borneo), Bali, Sulawesi and Maluku.

Formerly the Dutch Indies, Indonesia declared independence in 1945 under Japanese occupation. When the Dutch failed to regain control by 1949, Indonesia gained international recognition, with US support. However, Indonesia became enmeshed at the heart of the Cold War. In 1965, the 'New Order' regime seized control of the state and within months had killed most Communist Party of Indonesia (PKI) cadres and hundreds of thousands of associated persons.

The ethnic-Chinese business class was besieged by rioting mobs during the final weeks of President Suharto's autocratic rule (1967-98). Since 2001, the army has accepted democracy. Administrative decentralisation has let local elites grow rich. Indonesia is the most populous Muslim majority country; Protestantism, Catholicism, Buddhism and Hinduism have state protection.

Key Facts

Key Fact	Detail
Head of state	President Joko WIDODO
Capital	Jakarta
Timezone	GMT +08-00 (Central Indonesian Time)
Official language	Bahasa Indonesia
Population (millions)	260.6
GDP (USD billions)	944.9
GDP per capita (USD)	3,626
Life expectancy (years)	69
Literacy (% of adult pop.)	95.4
Surface area (sq km)	1,904,570

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	6.0	5.6	5.0	4.9	5.0
Nominal GDP in USDbn	891	783	849	836	945
Nominal GDP in local currency (bn)	8,614,295	9,542,094	10,566,911	11,529,930	12,567,624
GDP per Capita in USD	3,591	3,116	3,338	3,245	3,626
Population (year-end, m)	248.0	251.3	254.5	257.6	260.6
Exchange rate (yr avge, USD-LCU)	9,670.0	12,189.0	12,440.0	13,795.0	13,300.0
Current Account in USDbn	-24.5	-29.2	-27.6	-17.6	-17.0
Current Account (% of GDP)	-2.7	-3.2	-3.1	-2.0	-1.8
FX reserves (year-end, USDbn)	105.3	92.9	105.5	100.1	116.0
Import Cover (months)	5.9	5.3	6.3	7.2	7.4
Inflation (annual avge, %)	4.0	6.4	6.4	6.4	3.1
Govt Balance (% GDP)	-1.3	-1.7	-1.7	-2.0	-2.5

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	5.3	5.7	6.2	6.1	6.5
Nominal GDP in USDbn	1,065	1,185	1,333	1,502	1,631
Nominal GDP in local currency (bn)	13,573,034	14,658,877	15,831,587	17,082,282	18,431,782
GDP per Capita in USD	4,040	4,447	4,954	5,524	5,942
Population (year-end, m)	263.5	266.4	269.1	271.9	274.5
Exchange rate (yr avge, USD-LCU)	12,750.0	12,375.0	11,875.0	11,375.0	11,300.0
Current Account in USDbn	-26.6	-29.6	-36.0	-43.6	-31.0
Current Account (% of GDP)	-2.5	-2.5	-2.7	-2.9	-1.9
FX reserves (year-end, USDbn)	125.3	134.0	142.1	150.6	159.7
Import Cover (months)	7.1	6.7	6.3	5.9	5.7
Inflation (annual avge, %)	3.5	4.4	4.0	4.0	5.0
Govt Balance (% GDP)	-2.0	-1.5	-1.5	-1.0	-1.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Indonesia	China	India	Malaysia	Thailand
Income per Capita (USD)	3,245	8,041	1,628	10,346	6,023
Country Population (m)	257.6	1,376	1,283	30.3	68
Internet users (% of population)	22	50.3	26	71.1	39.3
Real GDP Growth (% p.a., 2017 - 2026)	5 - 8	3.5 - 6.5	6 - 8	3.5 - 4.5	1 - 4

Source : Various sources/Dun & Bradstreet



LINKS

User Guide

Please [click here](#) to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

Dun & Bradstreet provides information relating to more than 240m companies worldwide. Visit www.dnb.com for details. Additional information relevant to country risk can be found in the: *International Risk & Payment Review* : Provides timely and concise economic, political and commercial information and analysis on 132 countries. Available as a subscription-based internet service (www.dnbcountryrisk.com) and monthly update journal, the IRPR carries essential information on payment terms and delays. It also includes the unique D&B Country Risk Indicator to help monitor changing market conditions.

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

© All rights reserved. No part of this publication may be reproduced or used in any form or by any means graphic, electronic or mechanical, including photocopying, recording, taping, or information storage and retrieval systems without permission of the publisher.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.

Help us to improve the Country Insight content via a 3-minute survey.
For more information; **CLICK HERE**