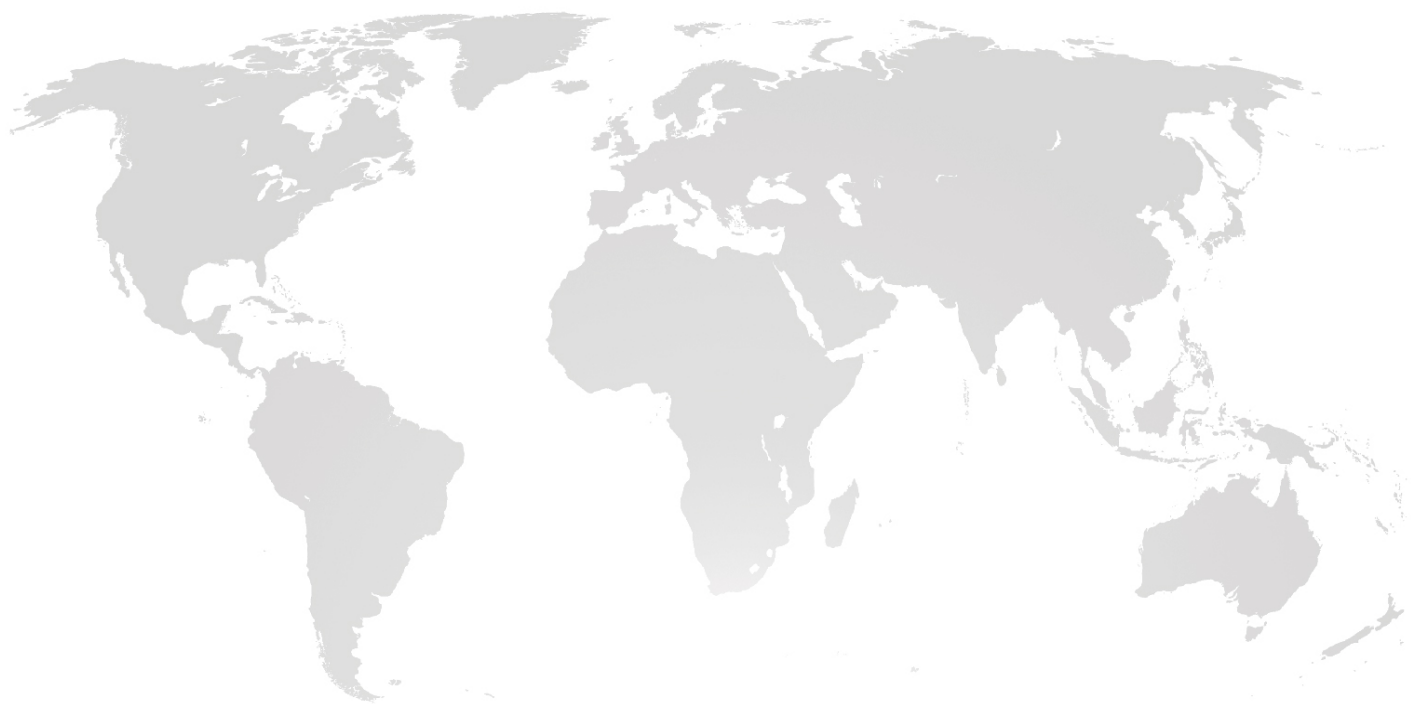




# D&B Country Insight Snapshot: Indonesia

*July 2015*



Written 03 July 2015

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## Overview

**Overall Country Risk Rating : DB4a**

A

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

**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

The outlawing of the use of foreign currency in domestic transactions will create uncertainties and may add to inflationary pressures.

### Credit Environment Outlook

A

Key Development has had a neutral impact on the outlook.

### Supply Environment Outlook

A

Key Development has had a negative impact on the outlook.

### Market Environment Outlook

A

Key Development has had a negative impact on the outlook.

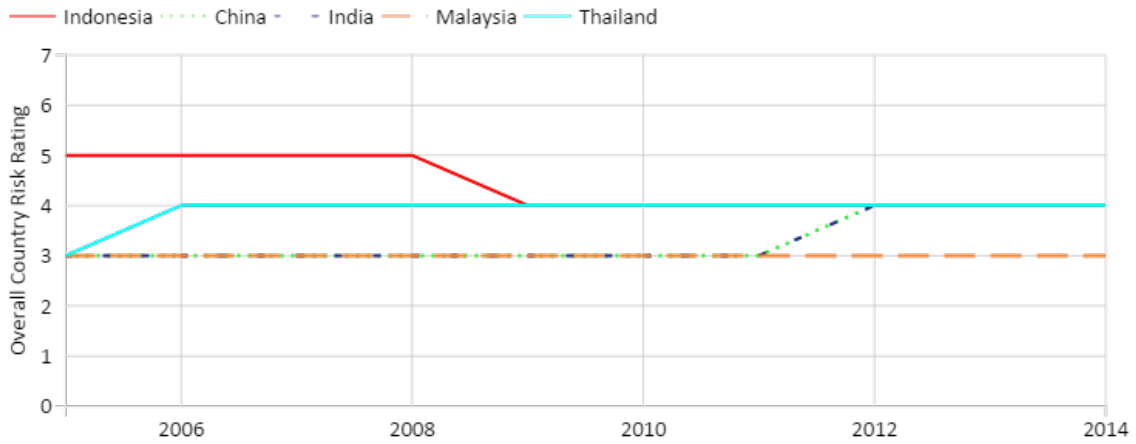
### Political Environment Outlook

A

Key Development has had a neutral impact on the outlook.

## Key Indicators

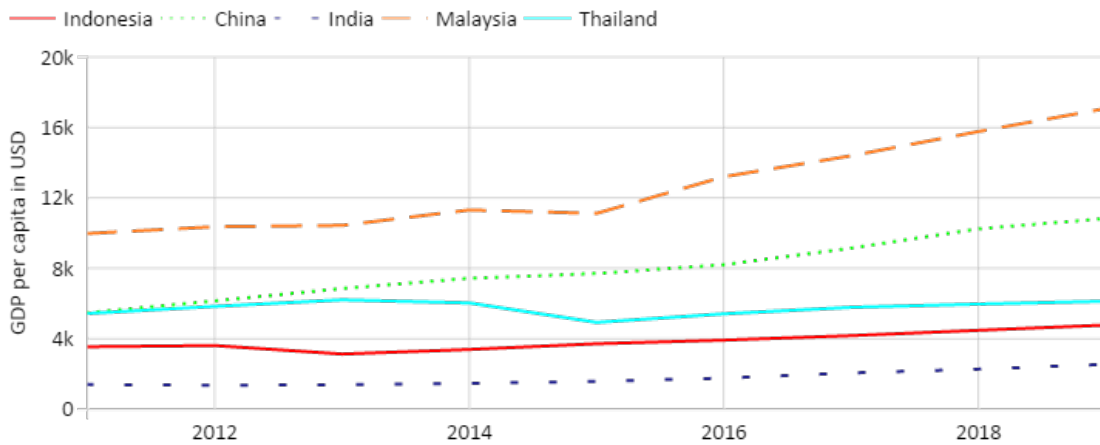
### Rating History and Comparison



Source : D&B

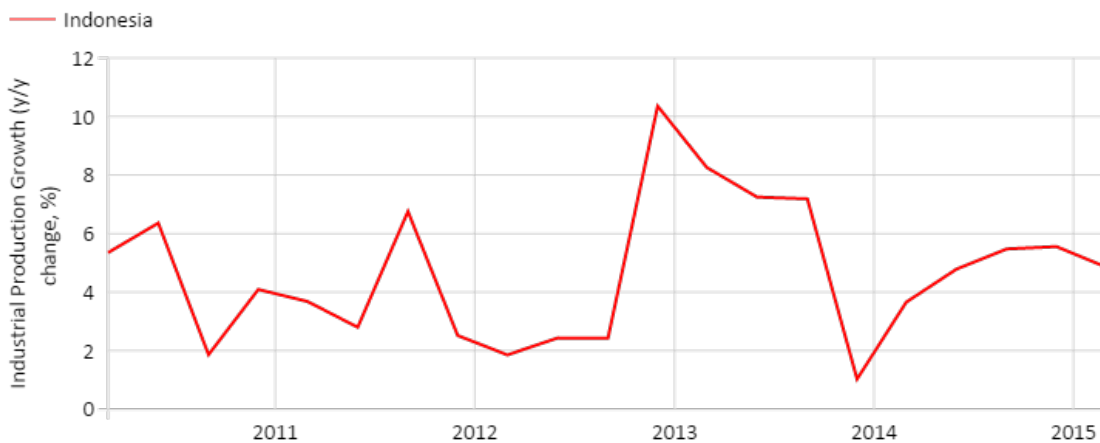
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : D&B

### Industrial Production (Index)



Source : National Statistical Offices / Haver Analytics

## Economic Indicators

Indicator	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	-2.7	-3.2	-2.9	-2.4	-1.4	-1.5	-1.8	-1.9
Debt Service Ratio, %	15.5	15.0	16.7	15.9	16.1	16.9	17.0	17.0
Govt balance, % GDP	-1.3	-1.6	-2.4	-1.4	-1.2	-1.1	-1.1	-1.1
Inflation, annual avge %	4.0	6.4	6.5	5.5	5.1	5.1	5.0	5.0
Real GDP Growth, %	6.0	5.6	5.0	5.0	6.0	6.1	6.2	6.2

Source : Haver Analytics/D&B

## Trade and Commercial Environment

Indonesia's foreign exchange reserves as of end-May 2015 stood at USD110.8bn. Although down slightly from USD110.9bn at the end of April, this is still sufficient to cover a comfortable 7.1 months of imports plus servicing of government external debt repayments. In terms of the currency, the rupiah has depreciated by more than 7.0% against the US dollar since the start of the year, and we anticipate continued volatility and downside risks ahead of the first US policy rate increase currently expected in late 2015. As such, we continue to recommend that foreign companies with significant rupiah exposure and Indonesian companies with significant hard currency liabilities consider hedging against possible adverse currency movements.

## Trade Terms and Transfer Situation

### Minimum Terms: LC

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

### Recommended Terms: LC

*D&B'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

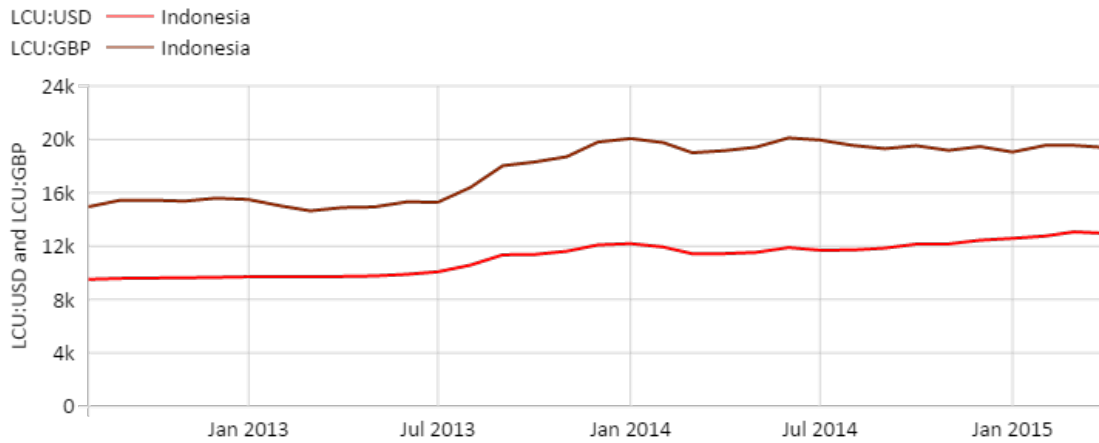
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



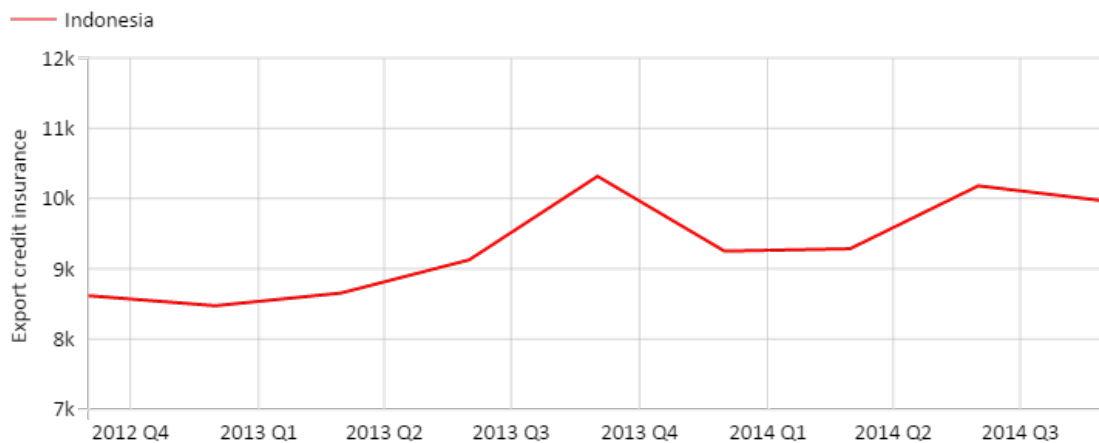
## Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

*LCU = Local Currency Unit*

## Credit Conditions



Source : Haver

*Insured export credit exposures, USDm*

## Risks and Opportunities

### FX Risk

#### *New currency rules could be counterproductive*

On 18 June, Bank Indonesia (BI) voted to keep its policy interest rate unchanged at 7.50%. Given weaker-than-expected economic growth in recent quarters, BI would certainly like to loosen monetary policy if it could, however there is no scope for this owing to elevated inflation and a depreciating currency. Indeed, with a decline of more than 7.0% against the US dollar since the start of the year, the Indonesian rupiah has been the worst performing regional currency to-date in 2015. While moderate exchange rate depreciation can be beneficial for Indonesian export competitiveness, the authorities will be keen to avoid a more precipitous decline that could lead to a broader loss of investor confidence in Indonesian assets.

In order to curtail this risk from 1 July, BI made it illegal for foreign currencies to be used in domestic transactions. The thinking behind this is to curb transactional demand for US dollars, thereby providing additional support for the rupiah/US dollar exchange rate. While in the short run this might be reasonably efficacious, we do have a number of concerns about the new rule. In particular, we think it could send a negative signal to businesses, which could increase the tendency for capital flight out of Indonesia. In addition, it seems quite likely that many companies now being forced to price in rupiah may seek to mitigate exchange rate risks by bumping up prices, thereby exacerbating current inflationary pressures. Finally, the new rule creates business uncertainty because the central bank has not been at all clear on which types of domestic transactions will be exempt for the new rules.

### Business Environment Quality

#### *Tax amnesty under consideration*

While the new currency rules are of debatable merit, the government continues to make incremental enhancements in a number of other policy areas. In terms of the tax regime, we anticipate that the government will announce a reduction in the corporate tax rate. In the short term, however, weaker-than-expected economic growth means that the government is currently lagging its ambitious target of boosting tax revenue by 30% in 2015. In this context, it is perhaps unsurprising that the Indonesian Tax Office recently proposed a tax amnesty for financial crimes, whereby the perpetrators of crimes, including corruption and money laundering, could pay a 10-15% tax on assets they bring back to Indonesia in return for a pardon from prosecution. In our view, such a policy (which may seem unusual for a government seeking to clamp down on corruption) needs to be viewed from the perspective that it would likely provide a significant one-time revenue boost of at least USD7.5bn (according to official projections). Indeed, this could be a conservative estimate if the tax office's controversial claim that Singapore alone could be harbouring around USD225.6bn of financial assets linked to Indonesia is to be believed.

## 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)	252.8
GDP (USD billions)	836.4
GDP per capita (USD)	3,309
Life expectancy (years)	70
Literacy (% of adult pop.)	90.4
Surface area (sq km)	1,904,570

Source : UN / Haver Analytics / D&B

### Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	6.39	6.18	6.03	5.58	5.03
Nominal GDP in USDbn	755.02	863.65	891.02	781.43	856.41
Nominal GDP in local currency (bn)	6,863,415	7,831,609	8,616,151	9,524,824	10,653,764
GDP per Capita in USD	3,137	3,542	3,609	3,127	3,388
Population (year-end, m)	240.68	243.8	246.86	249.87	252.81
Exchange rate (yr avge, USD-LCU)	9,090.43	9,068	9,670	12,189	12,440
Current Account in USDbn	5.15	1.67	-24.48	-29.18	-26.3
Current Account (% of GDP)	0.68	0.19	-2.66	-3.19	-2.95
FX reserves (year-end, USDbn)	92.91	103.38	105.34	92.87	105.5
Import Cover (months)	7.67	6.57	5.93	5.27	6.27
Inflation (annual avge, %)	5.1	5.3	4	6.4	6.5
Govt Balance (% GDP)	-0.5	-0.8	-1.3	-1.6	-2.4

Source : D&B

## Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	5	6	6.1	6.2	6.2
Nominal GDP in USDbn	949.5	1,013.5	1,090.4	1,182	1,273.4
Nominal GDP in local currency (bn)	11,963,000.0	13,277,000.0	14,829,000.0	16,547,000.0	18,465,000.0
GDP per Capita in USD	3,713	3,920	4,172	4,476	4,774
Population (year-end, m)	255.7	258.6	261.3	264.1	266.8
Exchange rate (yr avge, USD-LCU)	12,600	13,100	13,600	14,000	14,500
Current Account in USDbn	-22.8	-14.2	-16.4	-21.3	-24.2
Current Account (% of GDP)	-2.4	-1.4	-1.5	-1.8	-1.9
FX reserves (year-end, USDbn)	115.5	120	125	131	138
Import Cover (months)	6.55	6.5	6.45	6.1	6.4
Inflation (annual avge, %)	5.5	5.1	5.1	5	5
Govt Balance (% GDP)	-1.4	-1.2	-1.1	-1.1	-1.1

Source : D&amp;B

## Comparative Market Indicators

Indicator	Indonesia	China	India	Malaysia	US
Income per Capita (USD)	3,388	7,434	1,463	11,314	54,086
Country Population (m)	252.8	1,393.8	1,275.1	30.4	322.6
Internet users (% of population)	15.8	45.8	15.1	67	84.2
Real GDP Growth (% p.a., 2015 - 2024)	5.3 - 6	5.5 - 7	5 - 6.5	3.5 - 4.5	1.5 - 3

Source : D&amp;B



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