

Country Insight Snapshot Indonesia

February 2019






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: Deteriorating 

CORE OUTLOOK

- + Indonesia is one of the world's most renowned markets for resource extraction.
- + The government is enacting significant reforms, and is actively supporting and incentivising infrastructure development.
- Resource nationalism can be a concern.
- Though clearly improving, the overall business environment remains problematic in some respects.

KEY DEVELOPMENT

Market expectations for fewer US interest rate rises in 2019 are positive for Indonesia, but this is offset by a more uncertain outlook for global trade.

CREDIT ENVIRONMENT OUTLOOK


A

Trend: Deteriorating 

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Improving 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK


A

Trend: Stable 

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

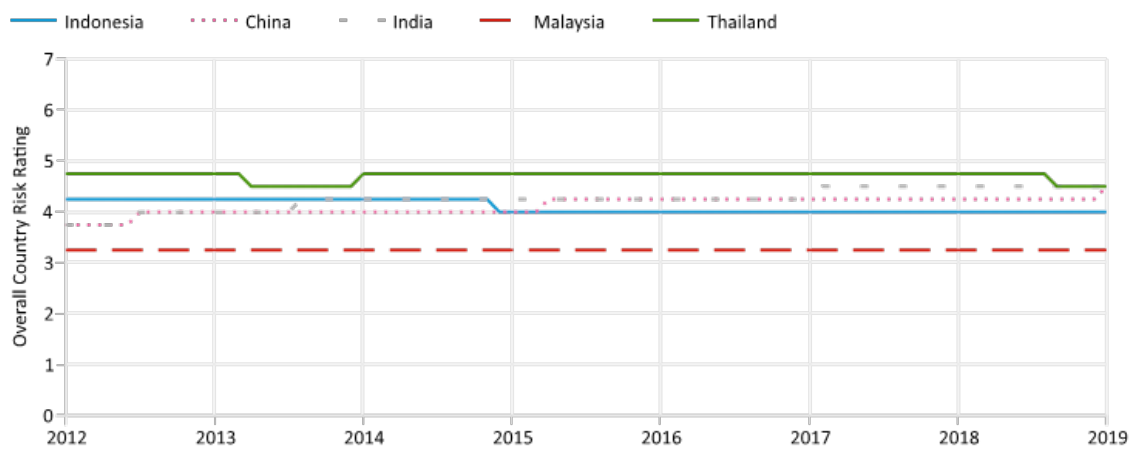
Trend: Stable 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

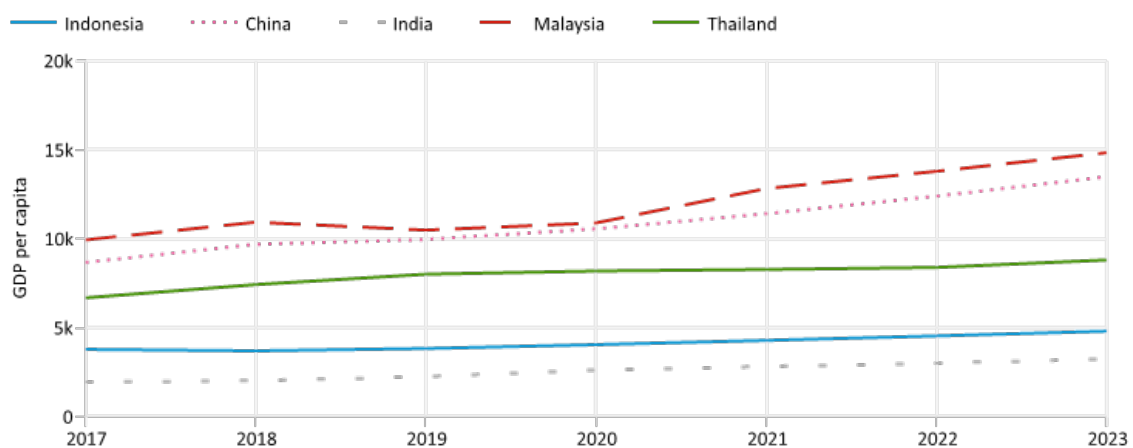
Rating History and Comparison



Source : Dun & Bradstreet

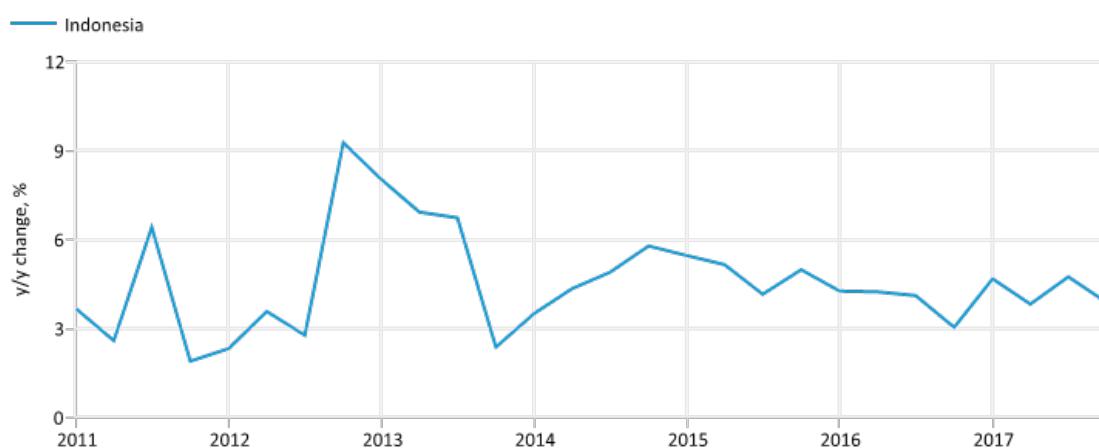
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-1.8	-1.7	-3.4	-2.7	-2.9	-2.2	-2.2	-2.2
Debt Service Ratio, %	35.3	24.0	24.0	24.3	25.0	26.0	26.5	27.5
Govt balance, % GDP	-1.9	-2.0	-2.0	-1.5	-1.2	-1.4	-1.5	-1.5
Inflation, annual ave %	3.5	3.8	3.5	3.7	3.8	4.1	4.2	4.2
Real GDP Growth, %	5.0	5.1	5.2	5.1	5.6	5.7	5.7	5.8

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Economic reform progress has been one of the hallmarks of the current government. The most recent package announced on 16 November 2018 featured three key elements: 1) a further expansion of the tax holiday scheme which now goes beyond ‘pioneering’ sectors to include smaller industries operating in special economic zones (SEZs); 2) further relaxations of the ‘negative investment list’ (which lays out foreign ownership limits in various sectors) with 54 additional Indonesian sectors now becoming fully open to foreign capital, including offshore oil and gas drilling, cigarette production, dairy farming and fabric printing; and 3) the provision of additional tax incentives for the mandatory saving of export earnings in Indonesian bank accounts - given higher tax rate reductions offered to exporters depositing in rupiah rather than in US dollars (although this is also incentivised), this particular measure also partly reflects the more immediate policy objective of shoring up the local currency.

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.



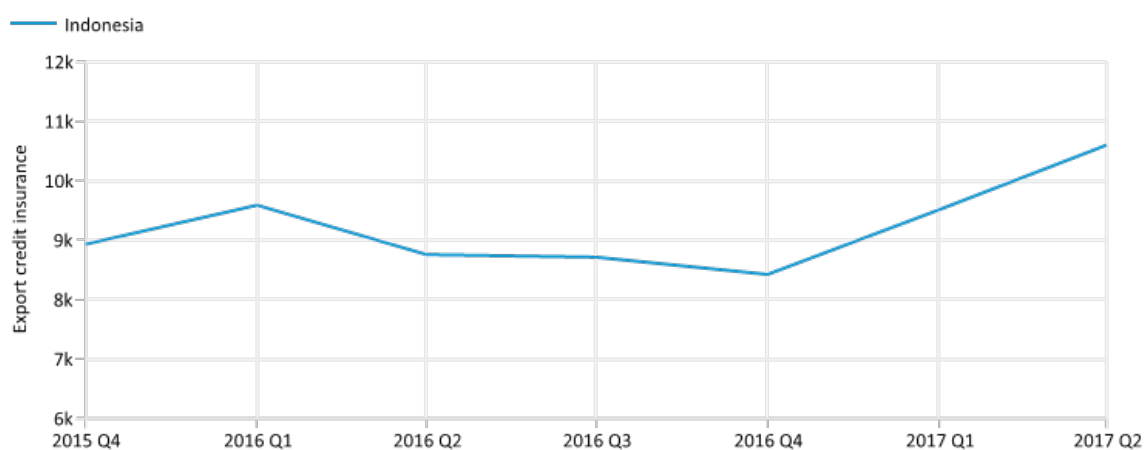
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Indonesian rupiah

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

More dovish US interest rate outlook is positive

Taking account of the likely (lagged) negative impact of sharply-increased interest rates, in November 2018, we cut our 2019 real GDP forecast for Indonesia from 5.5% to 5.1%. This downgrade also reflected uncertainty regarding the extent of further tightening that might be needed in 2019 to support capital inflows and the rupiah amid a backdrop of rising US interest rates. On this front, however, we note that the outlook has improved somewhat of late - this is because, while the US Federal Reserve raised its key policy interest rate again on 19 December as widely expected, at the same time it also sounded a noticeably more dovish tone on the outlook for further monetary tightening. This included a reduction in projected interest rate rises in 2019 from three to two, which in turn prompted market expectations to drop even further to just one further hike in 2019.

For relatively high foreign financing-reliant emerging markets such as Indonesia, which have been negatively impacted by tightening global liquidity, this was welcome news. Indeed, expectations for a more dovish Fed is the main reason why the Indonesian rupiah has gone from being one of the worst performing EM currencies (against the US dollar) in 2018 to one of the best so far in 2019. Furthermore, this is reflected in risk asset performance, with the benchmark local stock index rising by almost 4% in 2019 so far, following a decline in 2018. However, we think any sense of 'light at the end of the tunnel' with respect to the US monetary tightening cycle is at least counterbalanced by the more uncertain outlook for global trade in early 2019.

Political/Insecurity Risk

Widodo the favourite to win a second presidential term

Ahead of the April 2019 presidential election, we are maintaining our earlier forecast that the incumbent leader Joko Widodo will win a second five-year term. Supporting this view, a poll in December by the Jakarta-based Indonesia Survey Institute (LSI) gave Widodo and his running mate, the Muslim cleric Ma'ruf Amin, a more than 20 percentage-point lead over the opposing partnership of Prabowo Subianto and Sandiaga Uno. This latest survey, which is consistent with the general trend of past polls, reflects broad agreement that Widodo has delivered (at least some) tangible results in terms of his key promises to fight corruption, improving the business environment and enhancing national infrastructure.

As we have been flagging for some time, perhaps the biggest risk for Widodo could be if the opposition is somehow successful in casting doubt on his Islamic credentials. However the chances of this appear quite low at present. In this regard, it is worth noting that Widodo has wisely selected a prominent (moderate) cleric as his vice-presidential running mate. Secondly, we feel that the opposing candidate Prabowo's attempt to position himself as considerably more Islamic this time around than in the past presidential election (when he also lost out to Widodo) appears unlikely to gain widespread credence.



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 in 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 also have state protection alongside Islam under the republic's founding doctrine of 'Pancasila'.

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)	266.8
GDP (USD billions)	991.6
GDP per capita (USD)	3,717
Life expectancy (years)	69.1
Literacy (% of adult pop.)	95.4
Surface area (sq km)	1,904,570

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	5.0	4.9	5.0	5.1	5.2
Nominal GDP in USDbn	849	835	923	1,003	992
Nominal GDP in local currency (bn)	10,565,978	11,523,194	12,404,775	13,588,359	14,675,428
GDP per Capita in USD	3,329	3,236	3,536	3,799	3,717
Population (year-end, m)	255.1	258.2	261.1	264.0	266.8
Exchange rate (yr avge, USD-LCU)	12,440.0	13,795.0	13,436.0	13,548.0	14,800.0
Current Account in USDbn	-27.6	-17.6	-17.0	-17.3	-33.7
Current Account (% of GDP)	-3.1	-2.0	-1.8	-1.7	-3.4
FX reserves (year-end, USDbn)	105.5	100.1	110.3	123.6	115.0
Import Cover (months)	6.3	7.2	8.3	8.1	6.4
Inflation (annual avge, %)	6.4	6.4	3.5	3.8	3.5
Govt Balance (% GDP)	-1.7	-2.0	-1.9	-2.0	-2.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	5.1	5.6	5.7	5.7	5.8
Nominal GDP in USDbn	1,036	1,107	1,183	1,264	1,350
Nominal GDP in local currency (bn)	15,849,462	17,101,570	18,452,594	19,910,348	21,483,266
GDP per Capita in USD	3,845	4,067	4,304	4,555	4,822
Population (year-end, m)	269.5	272.2	274.9	277.4	279.9
Exchange rate (yr avge, USD-LCU)	15,293.0	15,446.0	15,600.0	15,756.0	15,914.0
Current Account in USDbn	-28.0	-32.1	-26.0	-27.8	-29.7
Current Account (% of GDP)	-2.7	-2.9	-2.2	-2.2	-2.2
FX reserves (year-end, USDbn)	121.9	129.2	137.0	145.2	153.9
Import Cover (months)	6.5	6.4	6.2	6.1	6.0
Inflation (annual avge, %)	3.7	3.8	4.1	4.2	4.2
Govt Balance (% GDP)	-1.5	-1.2	-1.4	-1.5	-1.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Indonesia	China	India	Malaysia	Thailand
Income per Capita (USD)	3,845	9,981	2,264	10,504	8,027
Country Population (m)	269.5	1,420.1	1,350.2	32.5	69.3
Internet users (% of population)	25.4	53.2	29.5	78.8	47.5
Real GDP Growth (% p.a., 2019 - 2028)	5.0 - 8.0	4.5 - 6.5	6.0 - 8.0	3.5 - 4.5	2.5 - 3.5

Source : Various sources/Dun & Bradstreet



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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

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