

**COUNTRY PROFILE:**  
**DATED:**  
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**REPUBLIC OF INDONESIA**  
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IES/02: ATTACHMENT A

***Recent Political Highlights***

- ❑ Chief of state and head of Government since October 2004 has been President Susilo Bambang Yudhoyono. The president is elected for a five-year term by direct vote of the citizenry and is eligible for a second term.

***Recent Economic Highlights***

- ❑ Indonesia has a population of 240m with an expected population growth rate of 1.1% in 2009.
- ❑ The pace of economic expansion in the second quarter (2.3% q-to-q) was faster than that of the first quarter (1.7% q-on-q) of this year. The economy also expanded 4% from a year earlier in the second quarter – to post the slowest growth since the second quarter of 2002. Economists predicted a slowdown, citing the boost to economic output last year from a spike in prices of commodities that Indonesia exports. With the help of domestic demand, the economy held up better than others in the region. Household consumption makes up 60% of GDP. The IMF predicted the economy to grow 3.5% this year. Government is targeting a budget deficit of 2.5% of GDP this year.
- ❑ The president is optimistic of the economy's future. He announced that increased spending on infrastructure and civil services reforms will attract more investment and spur growth in Southeast Asia's biggest economy. Economic growth is expected to exceed Government's target of 5% in 2010 on the back of a likely global recovery, which has the potential to increase the prices of primary products particularly natural resources-based commodities such as palm oil, minerals, oil and gas.
- ❑ The Central Bank lowered interest rates for a ninth month at the beginning of August and signaled that further cuts may be unwarranted as inflation is expected to accelerate. Consumer prices rose 2.7% in July from a year earlier. While some economists say that an inflation target of 5% in 2010 is optimistic, the central bank feels that monetary policy will be directed to be more anticipative of the potential inflation increase so that the target can be met.
- ❑ The nation dropped two places on the World Bank and IMF's Doing Business Survey 2009. Indonesia came in at 129 out of 181 countries, just behind Morocco at 128 and far behind Malaysia at 25 and Singapore was first followed by New Zealand, the US, Hong Kong and Canada.
- ❑ Despite the economy outperforming its regional counterparts, there has been few mergers, acquisitions or expansion activities this year, as companies continue to exercise caution. Indonesian food giant Indofood Sukses Makmur announced that for Q109, sales climbed by just 0.7% while net profit plummeted 70%. The company cited the rising cost of raw ingredient imports as a result of the depreciating rupiah as the primary cause. Unilever Indonesia posted strong results for the first quarter with increased net profit and sales revenue. Soft drinks company Aqua Golden Mississippi, the nation's largest bottled mineral water producer also announced strong results with a 96.8% rise in net profit for the first quarter. Mass grocers Indonesian Putra Prima and Ramayana Lestari Sentosa both announced expansion plans. The former intends opening a further nine hypermart outlets and five more Foodmart outlets in 2009, while the latter intends opening two more outlets.
- ❑ The country's plan to build the world's longest suspension bridge to connect Java and Sumatra moves closer to completion. A study was presented to Government detailing the pre-feasibility study for the planned 30-km bridge with an estimated price of Rp100 trillion (\$10.07bn). The bridge is expected to boost Banten's economic growth by 2% to 8% and Lampung's by 4% to 11%. The plan calls for a series of spans carrying a six-lane highway and a double-track railway traversing the Sunda strait and the islands of Prajurit, Sangiang and Ular. The bridge is expected to be operational in 2020 with construction planned to begin in 2012, should Government find the funding for the remaining two-thirds of the project.

***Latest Trade Developments***

- ❑ Main export commodities: oil and gas, electrical appliances, plywood, textiles and rubber.
- ❑ Main import commodities: machinery and equipment, chemicals, fuels and food items.
- ❑ Major trading partners: Japan, US, Singapore, China, South Korea, Malaysia, India, Thailand, Saudi Arabia and Australia.
- ❑ Indonesia's Ministry of Industry said that Indonesia should submit a proposal for the postponement of the newly signed Asean Free Trade Agreement with China before it comes into effect next year as they fear they are not ready to participate. The industrial sectors - textiles, machine tools and steel - may find themselves under threat as they would not be able to compete.
- ❑ The volume of crude palm oil exports to India is expected to rise 10% next year thanks to the Asean-India Free Trade Agreement. Under the deal, India is required to gradually reduce its import duty on the oil from 80% to 37.5% between 2010 and 2019. In the case of refined palm oil, the tariff would be cut from 90% to 45%. India's demand for the oil amounted to 12m tones in 2008 and since it produces 6m tones, it had to import the remainder from abroad.
- ❑ SA's exports to the Indonesia totaled R1.6bn in 2007, R2.6bn in 2008 and R877m in the year to May 2009.
- ❑ SA's imports from Indonesia totaled R4.5bn in 2007, R5.4bn in 2008 and R2.7bn in the year to May 2009.