

COUNTRY PROFILE:**REPUBLIC OF INDONESIA****DATED:****APRIL 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	Case-by-case

Recent Political Highlights

- ❑ President Susilo Bambang has been chief of state since October 2004. He is elected for a five-year term and is eligible for a second term. The next election is due in 2009;
- ❑ The General Elections Commission has noted that it faces a tough road ahead in preparation for the 2009 elections due to many Regional/Provincial General Elections Commission members not being selected as yet. Selection tests are expected to be complete this month;
- ❑ The ongoing conflict within the National Awakening Party (PKB) highlights the country's failure to establish a strong political party system that nurtures democracy. The country has seen many parties join and leave, but fail to develop an effective conflict resolution mechanism, resulting in the formation of many splinter groups and the migration of party members to rival parties;
- ❑ An Indonesian court has sentenced the alleged military chief of the regional Jemaah Islamiah (JI) militant group to 15 years in prison on charges of keeping explosives and sheltering fugitives for a series of deadly attacks in the country. The group was responsible for the 2002 Bali bombings;
- ❑ Indonesia's international profile will be enhanced by its temporary seat on the UN Security Council until the end of 2008, encouraging it to exploit its improving ties with the US and its long-standing links with Iran and North Korea to mediate in the disputes between these countries.

Recent Economic Highlights

- ❑ Indonesia has a population of 235m that grew at an estimated rate of 1.2% in 2007. Ethnically, it is highly diverse with over 300 local languages. Its people range from rural hunter-gatherers to a modern urban elite;
- ❑ The EIU has revised its 2008 GDP growth forecast downwards to 5.9% from 6.1% in response to weaker US GDP growth expectations and a hike in domestic inflation. The economy grew by 6.3% in 2007, the highest rate since 1996, driven by rising household spending and investment. GDP growth is expected to average 6.8% annually between 2008 and 2012. The surge in food prices over the past few months means that Bank Indonesia will not be able to cut interest rates until late 2008. Inflation is expected to average 6% a year between 2008 and 2012;
- ❑ A fuel crisis disrupted deliveries to Bali for a week due to ongoing renovations at Manggis, the island's largest gas depot. The depot's main pier was struck by an oil tanker last year and has since been in need of renovations. About 1700 kilolitres of oil are delivered to 140 gas stations throughout Bali, but supply will be raised to 2000kl to resolve the crisis;
- ❑ The US has granted a three-year \$1.5bn contribution towards the bird flu management programme. The programme will involve the Agriculture and Breeding, the Social Welfare and the Education Departments. According to data from the Crisis Management Centre of the Health Department, 81 people died up to February in the Tangerang province and 22 died out of 25 cases in the province of Banten;
- ❑ The World Food Programme agreed to provide Indonesia with food assistance to help rehabilitate the nutrition in Indonesia by extending the assistance and restoration programme. The agreement will be for three years to December 2010 with total funding amounting to \$98bn which is \$56m for food and \$42m for operational costs. The food items include rice, cooking oil, biscuits, instant noodles and wheat.

Latest Trade Developments

- ❑ Major exports: oil and gas, electrical appliances, plywood, textiles and rubber;
- ❑ Major imports: machinery and equipment, chemicals, fuels and food items;
- ❑ Main trading partners: Japan, Singapore, US, China, South Korea, Taiwan, and Malaysia;
- ❑ Government has agreed to economic cooperation and investment with the Iranian Government. Through this cooperation, Indonesia is trying to secure energy such as crude oil and gas from Iran. Both countries also discussed building a refinery in Banten with a capacity of 300.000bpd with an investment value of \$6bn. The National Iranian Oil Refinery agreed to own 40% in the project. The refinery is expected to be operational in the next four years;
- ❑ South African exports to Indonesia totaled R1.5bn in 2006 from R1.6bn in 2005 and R1.6bn in 2007 and R118m in January 2008.

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