Country Insight Snapshot
Indonesia
January 2018

Written 05 January 2018

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 enacting significant reforms and is actively supporting and incentivising infrastructure development.

- Inadequate infrastructure constrains Indonesia from realising its economic potential.

- Though clearly improving, the overall business environment remains problematic in some respects.

KEY DEVELOPMENT

Indonesia's near-term economic outlook looks broadly favourable, with real GDP growth forecast to accelerate to 5.5% in 2018 from an estimated 5.0% in 2017.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

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: Improving

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

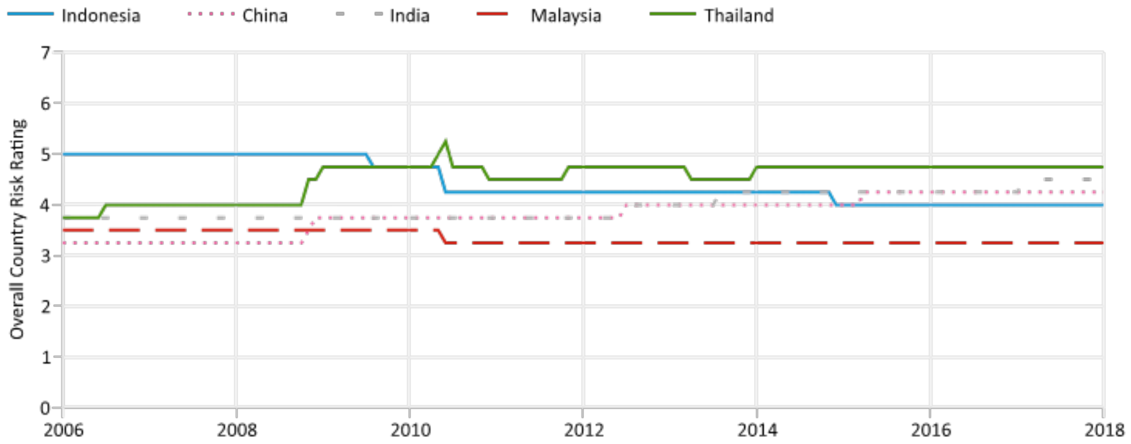
A

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

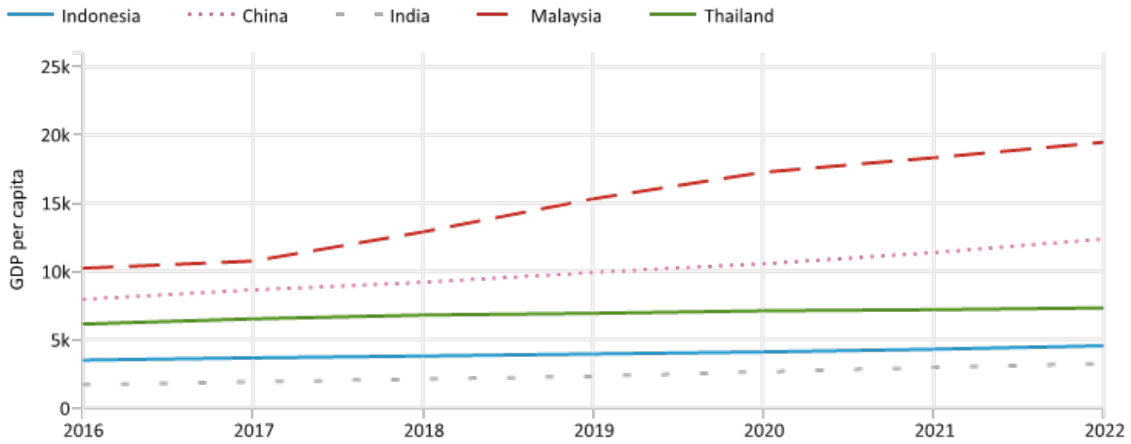
Rating History and Comparison



Source : Dun & Bradstreet

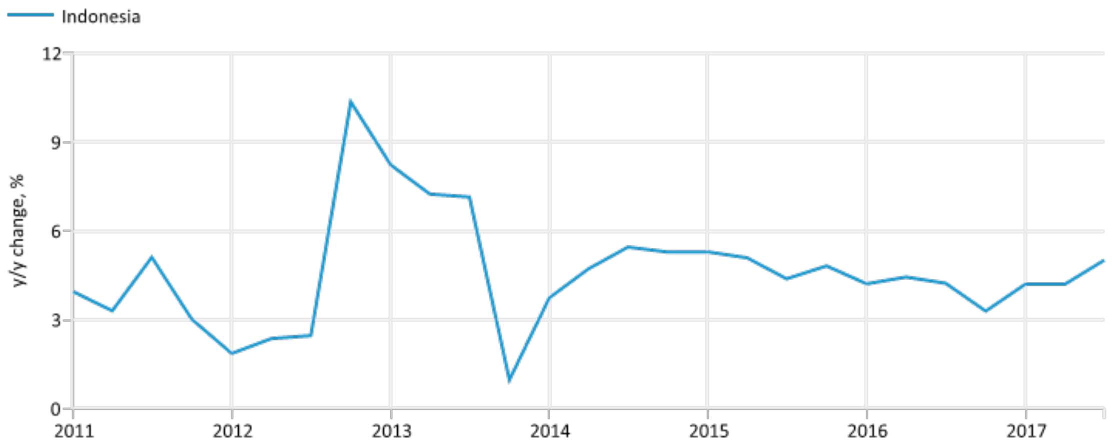
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production (Index)



Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2015	2016	2017e	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-2.0	-1.8	-1.2	-2.5	-2.7	-2.9	-2.2	-2.2
Debt Service Ratio, %	30.7	35.3	18.5	24.0	24.3	25.0	26.0	26.5
Govt balance, % GDP	-2.1	-2.5	-2.0	-1.5	-1.5	-1.2	-1.4	-1.5
Inflation, annual avge %	4.8	6.4	3.1	4.0	4.2	4.0	4.1	4.2
Real GDP Growth, %	4.9	5.0	5.0	5.5	5.7	6.1	6.0	6.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The threat of heightened volcanic activity at Mount Agung in northeastern Bali continues to cause significant disruption to Bali island's tourism-dependent economy. Although the risks of tourists being seriously impacted (beyond potential flight disruptions) are extremely low, the high global media interest in images of gas clouds and steam being emitted from Mount Agung have nonetheless had a marked negative impact on local tourism. In mid-December, Minister Arief Yahya said he expected 1m fewer tourist visitors as a result of the volcano (around 10% of Indonesia's total annual visitors of 10-11m), resulting in lost business income of around USD1.1bn. To put this in some perspective, our estimate for Indonesia's nominal GDP in 2017 is USD1,015bn.

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.

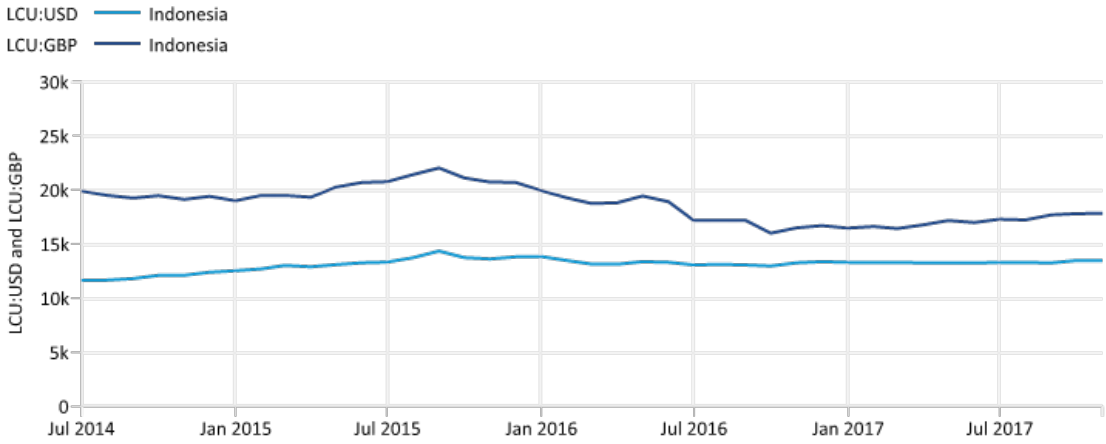
Local Delays: 0-1 month

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.

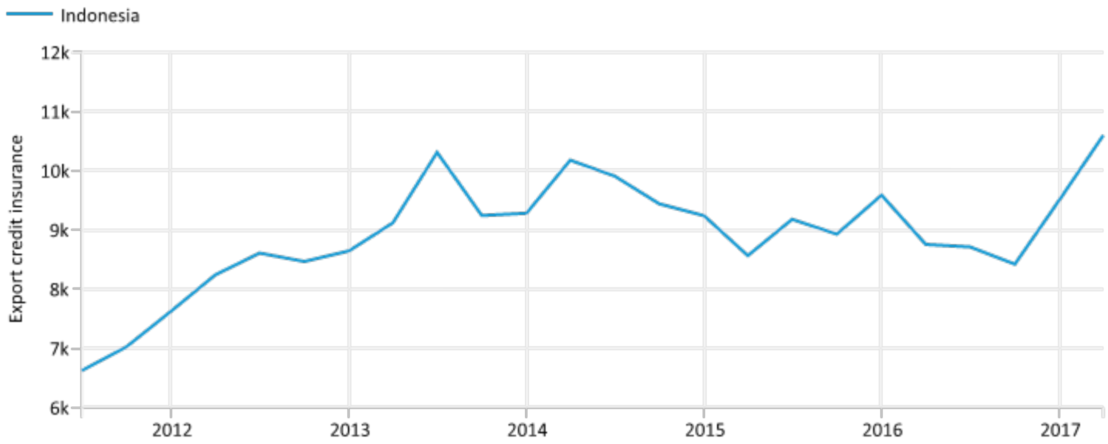
Exchange Rate



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

Short-Term Economic Outlook

Growth forecast for 2018 improves

Dun & Bradstreet's short-term economic outlook for Indonesia is broadly favourable. For 2018, we are forecasting a modest pick-up in real GDP growth to 5.5% from an estimated 5.0% in 2017. We expect the three key drivers of this will be: 1) modestly stronger private consumption on the back of employment growth, rising incomes and credit expansion; 2) increased public investment as government infrastructure spending gains momentum; and 3) a continuing healthy export recovery amid global economic expansion and sustained relatively high (key export) commodity prices. All the while, Indonesia's impressive reform progress should persist, but we tend to view this as more of a positive driver of longer-term economic growth.

In terms of downside risks, we think these are largely external in nature. In particular, faster-than-expected US monetary normalisation remains a potential concern since this could lead to a souring of global investor sentiment and decreased foreign capital inflows into Indonesia. Nonetheless, we do feel this risk is less weighty than a few years ago given Indonesia's resilience so far to rising US rates and external financing needs that have been largely held in check (as evidenced by the stable current account deficit, which has not exceeded 3% of GDP in the past three years). The other principal downside risk is any significant Chinese economic slowdown, which would be damaging for both Indonesian exports and key commodity prices.

Market Potential

Sovereign ratings improving

On 20 December, international credit ratings agency Fitch upgraded Indonesia's sovereign rating by one notch from BBB- (Positive Outlook) to BBB (Stable Outlook). The upgrade, which effectively moves Indonesia further up in Fitch's investment grade scale (i.e. from the lowest to the second lowest group), was attributable to two main factors: 1) improved resilience to external shocks, shown - for example - by reduced capital flow volatility; and 2) sustained structural reform progress, which is perhaps best evidenced by Indonesia's remarkable cumulative 45-place ranking jump in the World Bank's last three *Ease of Doing Business* surveys. Fitch's upgrade is somewhat less significant than S&P's earlier sovereign upgrade in May 2017, since this moved Indonesia into (S&P's) investment grade bracket for the first time - rather than within the investment grade category, as in the case of Fitch. Nonetheless, we think the latest upgrade is a further marker of success for Indonesia, and that the change should be at least marginally supportive of its future market potential. In particular, the upgrade should help to bolster investor confidence, which in turn should support demand for Indonesian risk assets (including equities and bonds) as well as real investment activity.

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 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)	264.0
GDP (USD billions)	977.6
GDP per capita (USD)	3,703
Life expectancy (years)	68.9
Literacy (% of adult pop.)	95.4
Surface area (sq km)	1,904,570

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017e
Real GDP growth (%)	5.6	5.0	4.9	5.0	5.0
Nominal GDP in USDbn	783	849	836	923	978
Nominal GDP in local currency (bn)	9,543,425	10,566,298	11,528,955	12,405,263	13,397,684
GDP per Capita in USD	3,107	3,329	3,237	3,536	3,703
Population (year-end, m)	252.0	255.1	258.2	261.1	264.0
Exchange rate (yr avge, USD-LCU)	12,189.0	12,440.0	13,795.0	13,436.0	13,705.0
Current Account in USDbn	-29.2	-27.6	-17.6	-16.9	-12.1
Current Account (% of GDP)	-3.2	-3.1	-2.0	-1.8	-1.2
FX reserves (year-end, USDbn)	92.9	105.5	100.1	121.0	130.7
Import Cover (months)	5.3	6.3	7.2	9.1	9.2
Inflation (annual avge, %)	6.4	6.4	4.8	6.4	3.1
Govt Balance (% GDP)	-1.7	-1.7	-2.1	-2.5	-2.0

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	5.5	5.7	6.1	6.0	6.0
Nominal GDP in USDbn	1,025	1,075	1,126	1,191	1,272
Nominal GDP in local currency (bn)	14,469,498	15,627,058	16,861,596	18,193,662	19,630,961
GDP per Capita in USD	3,842	3,988	4,136	4,333	4,587
Population (year-end, m)	266.8	269.5	272.2	274.9	277.4
Exchange rate (yr avge, USD-LCU)	14,116.0	14,539.0	14,976.0	15,275.0	15,428.0
Current Account in USDbn	-25.6	-29.0	-32.7	-26.2	-28.0
Current Account (% of GDP)	-2.5	-2.7	-2.9	-2.2	-2.2
FX reserves (year-end, USDbn)	139.8	148.2	157.1	166.5	176.5
Import Cover (months)	9.3	9.4	9.4	9.3	9.2
Inflation (annual avge, %)	4.0	4.2	4.0	4.1	4.2
Govt Balance (% GDP)	-1.5	-1.5	-1.2	-1.4	-1.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Indonesia	China	India	Malaysia	Thailand
Income per Capita (USD)	3,842	9,229	2,155	12,920	6,835
Country Population (m)	266.8	1,415.0	1,322.5	32.1	69.2
Internet users (% of population)	25.4	53.2	29.5	78.8	47.5
Real GDP Growth (% p.a., 2018 - 2027)	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

LINKS

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