

Indonesia: Brief Profile

September 2022

Domestic Economy

- ❖ Real GDP of Indonesia grew by 3.7% in 2021, as compared to a contraction of 2% seen in 2020 with investment driven primarily by public infrastructure development. However, the recovery is slow due to weak household spending.
- ❖ In absolute terms, nominal GDP stood at US\$ 1,185.9 billion in 2021. GDP per capita (US\$ at PPP) was observed at US\$ 13,222 in the same year.
- ❖ Consumer price inflation moderated to 1.6% in 2021 from 2% in 2020.
- ❖ Services sector is the major contributor to Indonesia's economy, accounting for 46.1% of GDP in 2020, followed by industry (39.7% of GDP) and agricultural (14.2% of GDP) sectors.
- ❖ Major industries in Indonesia include petroleum and natural gas, textiles, automotive, electrical appliances, apparel, footwear, mining, cement, medical instruments and appliances, handicrafts, chemical fertilizers, plywood, rubber, processed food, jewellery, and tourism.

BASIC FACTS

Land area: 1,904,443 sq km

Population: 269.8 mn (2021)

Language: Indonesian; English

Currency: Rupiah (Rp)

GDP: US\$ 1,185.9 bn (2021)

Exports: US\$ 232.8 bn (2021)

Imports: US\$ 189.0 bn (2021)

Sovereign Rating: BBB (S&P's)

Trade and Current Account Balance

- ❖ Indonesia's exports increased to US\$ 232.8 billion in 2021, up from US\$ 163.4 billion in 2020.
- ❖ Imports also increased to US\$ 189.0 billion in 2021, as compared to US\$ 135.1 billion in 2020.
- ❖ Accordingly, Indonesia's trade surplus increased to US\$ 43.8 billion in 2021, from US\$ 28.3 million in 2020.

- ❖ The major export items of Indonesia in 2021 were mineral fuels, oil and distillation products (19.8% of total exports), animal, vegetable fat and oil (14.4%), iron and steel (9.2%), vehicles other than railway or tramway (3.8%), electrical machinery and equipment (3.7%), rubber and article (3.1%), and transport vehicles (4.0%).
- ❖ Indonesia's major export destinations in 2021 include China (23.5% of total exports), USA (11.2%), Japan (7.8%), India (5.8%), and Malaysia (5.2%) among others.
- ❖ Mineral fuels and oils formed the largest import item of Indonesia (14.7% of total imports) in 2021. Machinery and mechanical appliances (13.2%), electrical machinery and equipment (11.4%), iron and steel (6.1%), plastic and its articles (5.2%) and, were the other major products imported during the same year.
- ❖ China was the largest source of Indonesia's imports with a share of 28.7% of total exports in 2021. Other major sources in the same year were Singapore (7.9% of total exports), Japan (7.3%), USA (5.8%), Malaysia (4.8%), Korea (4.8%) and Australia (4.8%).
- ❖ The current account deficit of US\$ 4.4 billion in 2020 (0.4% of GDP), turned into a current account surplus of US\$ 3.4 billion in 2021 (0.3% of GDP).

Foreign Direct Investment, Foreign Exchange Reserves, and Exchange Rate

- ❖ According to the *World Investment Report 2022* of the UNCTAD, FDI inflows to Indonesia stood at US\$ 20.1 billion in 2021, as compared to US\$ 18.6 billion in 2020.
- ❖ According to the same report, FDI outflows from Indonesia decreased to US\$ 3.6 billion in 2021 from US\$ 4.4 billion in 2020.
- ❖ Foreign reserves increased from US\$ 135.9 billion in 2020 to US\$ 144.9 billion in 2021. Reserves reflected an import cover of 9.2 months.

- ❖ The local currency of Indonesia is Rupiah (Rp). The exchange rate appreciated to Rp 14,308: US\$ 1 in 2021, as compared to Rp 14,582: US\$ 1 in the previous year.

Country Rating

- ❖ *Standard & Poor's Sovereign Ratings* rated Indonesia as BBB (adequate capacity to meet financial commitments, but more subject to adverse economic conditions) with a 'stable' outlook.
- ❖ *Dun and Bradstreet's (DB) Country Risk Indicator¹*, August 2022 rates Indonesia as DB4b (moderate risk: significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses) with a 'stable' outlook.
- ❖ *Moody's Investor services²*, as on July 29, 2022, rated Indonesia as **Baa2** (medium grade, with some speculative elements and moderate credit risk) with a 'stable outlook'.
- ❖ According to *Organization for Economic Co-operation and Development (OECD)³* country risk classifications of July 2022, Indonesia was placed at category '3'.

Macroeconomic Outlook

- ❖ The real GDP is expected to grow by 5.1% in 2022, after expanding by 3.7% in 2021. Household spending is likely to rise in 2022, as Covid-19 restrictions are relaxed but the pace of growth could be tempered by higher living costs. Growth in investment spending is expected to be rapid. Investment in mining and downstream heavy industries is likely to be strong, but outlays by small and medium-sized firms could

¹ The DB risk indicator is divided into seven bands (DB1 to DB7, in the increasing order of risk). Each band is further divided into quartiles (a-d, ranging low to high), except the DB7 band

² Moody's Investor services ranks countries in nine categories Aaa, Aa, A, Bbb, Bb, B, Ccc, Cc and C, according to increasing order of risk. Numerical modifiers 1, 2, and 3 are appended to each generic rating classification. The modifiers 1, 2 and 3, respectively indicate that the obligation ranks in the higher end, mid-range, and lower end of its generic rating category.

³ The OECD Country Risk Classification measures country credit risk, i.e. the likelihood that a country will service its external debt, on a scale of 0 -7 (where 0 is the lowest risk category and 7 is the highest).

be weaker because of deleveraging efforts and increased financing costs. Strong external demand for Indonesian commodities is also likely to support headline economic growth.

- ❖ Consumer price inflation is expected to accelerate to 4.9% in 2022. With global markets for foodstuff remaining tight throughout 2022, unexpected developments such as poor harvests in a major agricultural production centre in the world could drive up prices at a faster rate. Inflation is projected to moderate in annual average terms in 2023-26 as global commodity prices soften and infrastructure improves.
- ❖ The narrowing real interest-rate differentials between Indonesia and the US is likely to prompt substantial depreciation of the rupiah against the US dollar in 2022. Although BI's (Central Bank) policy rate is higher than the Fed's, the latter embarked on a tightening cycle in March 2022, in contrast to BI's loose monetary policy stance in the first half of 2022. Monetary policy tightening by BI is likely to help to stabilise capital outflows, but not reversing the trend, especially as the pace of tightening in Indonesia could be less aggressive than the US. The rupiah is expected to reach Rp14,625:US\$1 in 2022, weaker than Rp14,308:US\$1 in 2021.
- ❖ Indonesia's goods trade surplus is expected to remain wide by historical standards in 2023 as growing shipment volumes partially offset the decline in global prices. The services deficit is likely to remain sizeable amid a gradual recovery in inbound tourism. The overall current account surplus is expected to narrow from 1.2% of GDP in 2022 to 0.5% of GDP in 2023.

Indonesia: Economic Structure

Economic Indicators	2017	2018	2019	2020	2021	2022 ^f	2023 ^f
Nominal GDP (US\$ bn.)	1,015.4	1,042.0	1,118.9	1,059.0	1,185.9	1,303.4	1,379.2
Real GDP growth (%)	5.1	5.2	5.0	-2.0	3.7	5.1	4.3
Consumer price inflation (av; %)	3.8	3.2	2.8	2.0	1.6	4.9	4.5
Population (mn.)	260.6	262.9	265.3	267.5	269.8	272.0	274.2
Exports of goods f.o.b. (US\$ bn.)	168.9	180.7	168.5	163.4	232.8	287.9	277.8
Imports of goods f.o.b. (US\$ bn.)	150.1	180.9	164.9	135.1	189.0	226.1	227.0
Current account balance (US\$ bn.)	-16.2	-30.6	-30.3	-4.4	3.4	15.6	6.7
Total forex reserves (US\$ bn.)	130.2	120.7	129.2	135.9	144.9	136.9	139.5
Total external debt (US\$ bn)	353.6	379.6	402.1	417.5	432.0	434.5	445.8
Average exchange rate (Rp: US\$)	13,381	14,237	14,148	14,582	14,308	14,625	15,024

Note: f- Forecasts e- estimates

Source: EIU Country Report