
dun & bradstreet

Country Insight Report

Indonesia

December 2022



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OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: September 2020 (DB4a → DB4b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

WorldWatch Headline

Indonesia outperforms its regional peers in relative terms, but growth looks set to slow over the coming quarters as commodity prices drop back and the boost from post-pandemic reopening fades.

Multi-Dimensional Analysis (MDA) Scores

Metric	Country/Region				
	Indonesia	Mainland China	India	Malaysia	Thailand
Overall Country/Region Risk Indicator	DB4b	DB4a	DB4c	DB4a	DB4d
Short-Term Economic Outlook	DB5a	DB5a	DB5a	DB5b	DB5b
Long-Term Economic Potential	DB3a	DB2c	DB3d	DB2c	DB4b
Market Potential	DB3c	DB3c	DB3c	DB4c	DB4d
FX Risk	DB4d	DB3a	DB3c	DB3d	DB4c
Transfer Risk	DB3b	DB3b	DB3b	DB3b	DB3d
Business Regulatory Environment	DB3c	DB4d	DB3d	DB3a	DB3c
Business Continuity	DB5b	DB4a	DB4a	DB3c	DB4a
Political/Insecurity Risk	DB3c	DB4c	DB4a	DB4c	DB4c
Expropriation/Nationalisation Risk	DB4a	DB4d	DB3c	DB2c	DB4a

Low Risk: DB1 - DB2

Moderate Risk: DB3 - DB4

High Risk: DB5 - DB7

Source: Dun & Bradstreet

Recent Changes

- Weakening growth outlook but better than regional peers.
- Successfully hosting the G20 summit has helped boost Indonesia's international standing.
- Headline inflation fell from 5.7% y/y in October to 5.4% in November thanks to a further drop in food price inflation. However, inflation is still above the central bank's 2-4% target and further hikes are likely in the near term.
- GDP expanded by 5.7% y/y in the third quarter of the year, up from 5.4% in Q2 as the economy continued its recovery from the pandemic.
- FX reserves have fallen by 11% over the past year as the central bank has intervened in FX markets to support the currency. The rupiah has failed to enjoy the same bounce as other regional currencies over the past month and is now down 7% against the US dollar since the start of 2022.

Events to Watch

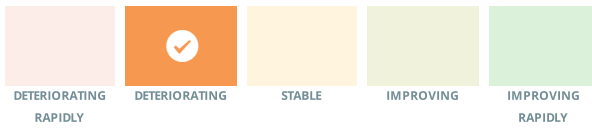
- The central bank is likely to raise interest rates further over the coming months, but with inflation having peaked, it is likely to slow the pace of rate hikes from 50 bps to 25 bps.
- Negative surprises on US monetary policy or geopolitics could have a negative effect on global investor sentiment, which would weigh on Indonesian financial assets.
- The delayed passage of the Omnibus Law, which includes measures to free-up Indonesia's heavily regulated labour market, could boost the country's long-term prospects.

Call to Action

- Monitor prices of essentials to track government responses with regard to fiscal policy and price/export controls.
- Continue conducting credit-risk due diligence for companies in the hospitality and retail sectors reeling under high input cost pressures.
- Follow comments and statement from Bank Indonesia officials closely for signs that the pace of monetary tightening may soon start to slow.

GLOBAL INSIGHT

Current Trend Indicator:

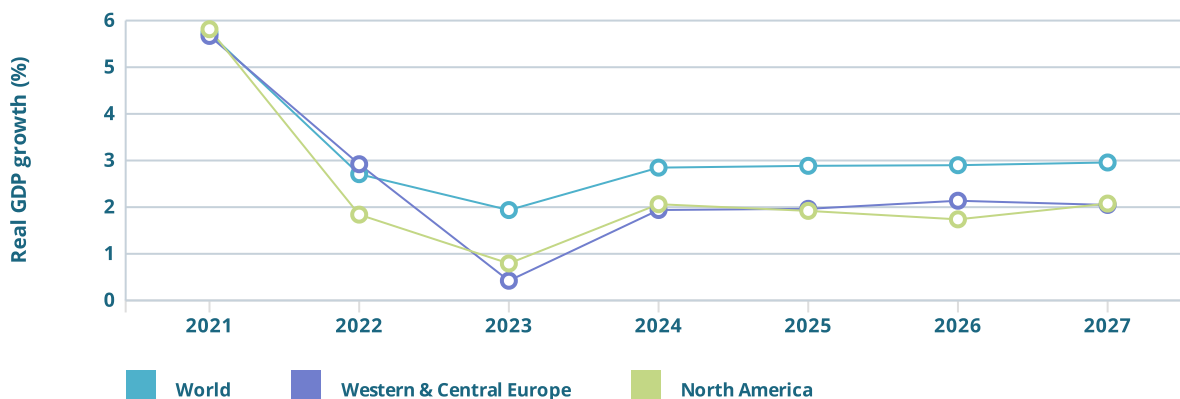


- Current Trend is **DETERIORATING**
- Last Change: March 2022 (Stable → Deteriorating)

Recent Developments

- Headline inflation in the US and Eurozone trended downward in October but still high for central banks to retain their hawkish tilt; further rate hikes are expected in the December meetings of the US Fed and the ECB.
- Political developments in Malaysia, South Africa and Pakistan have increased political uncertainty in these countries.
- Rare burst of mass frustration in China against covid-containment measures gathered outsized attention, potentially triggering a silent policy pivot.
- With indications of a possible abolition of the morality police, Iran's regime has shown the first sign of relenting in the face of months-long mass protests.
- OPEC+ has decided against further oil production cuts, but the planned reductions (2mbpd) from the October meeting will continue.
- The Russia-Ukraine conflict continues to rage on, with Ukraine's power infrastructure becoming the latest target.

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

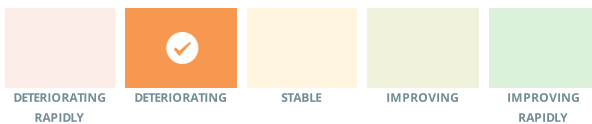
- Aggressive US Fed tightening continues to exert downward pressure on developing market currencies.
- Due to the rising cost of debt, highly leveraged households and debt-laden sovereigns and corporates may create pockets of distress, especially in emerging markets.
- China's reopening from lockdowns can support manufacturing, but higher Covid case count remains a risk to supply chain normalisation.
- The fragility of the EU's energy security has been exposed by the Ukraine war; this may test the EU's cohesion as Russia uses its leverage by reducing/stopping gas supplies.
- Several GCC countries, net beneficiaries of high oil/gas prices, are looking to ramp up gas production capabilities to meet new demand from Europe while also attracting non-hydrocarbon investment for diversification.

Call to Action

- Note that declining headline inflation masks the fact that core inflation is still rising in many parts of the world.
- Expect further monetary tightening in the US as inflation remains the US Fed's top priority.
- Businesses need to plan for higher input costs, weaker demand and depreciating inventories.
- Look for opportunities presented by US initiatives to relocate parts of its supply chains to Latin America.
- Hedge against FX risks, where possible, as regional currencies face nominal depreciation pressures.
- Review payment terms and ensure timely collections to minimise credit risks.
- Strengthen cybersecurity defences in light of heightened risks of attack.

REGIONAL INSIGHT

Current Trend Indicator:



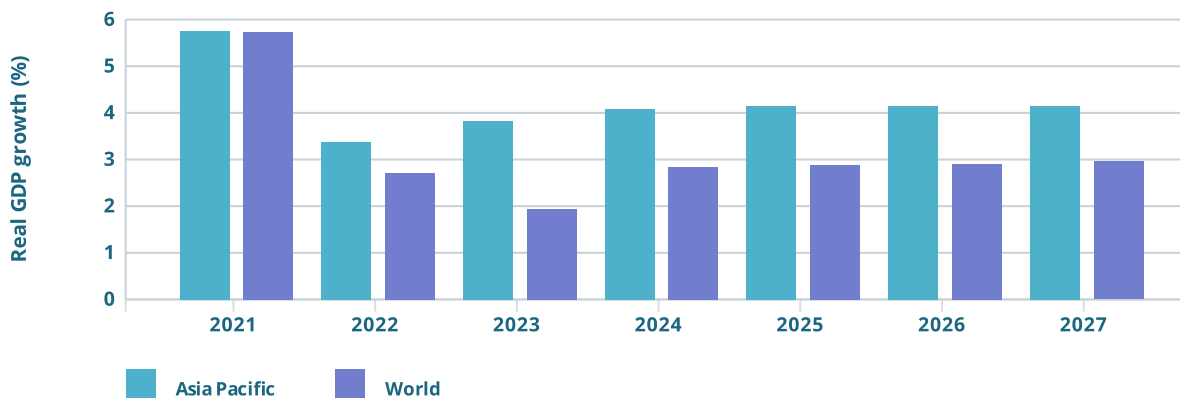
- Current Trend is **DETERIORATING**
- Last Change: March 2022 (Stable → Deteriorating)

Recent Developments

- The Asia Pacific region's outlook is retained as 'deteriorating' amid a global growth slowdown and heightened political/security risks.
- Two high-profile meetings - the G-20 summit in Bali and Asia Pacific Economic Cooperation Leaders' meeting in Bangkok - managed to showcase the prominence of economic cooperation even in a tense geopolitical context.
- Elections in Malaysia have delivered a hung parliament, adding to political uncertainty in the country.
- Further measures supporting the beleaguered property sector and marginal loosening of movement restrictions after rare protests in China have offered hope that economic slowdown may be contained in coming months.

REGIONAL OUTLOOK

Regional Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- The Asia Pacific region is not immune to the global economic downturn, but it also offers some of the fastest growth opportunities globally.
- Rhetoric and military activities may keep tensions high on the Korean peninsula, in areas around the Taiwan region and in parts of the South China sea.
- US monetary policy tightening and the geopolitical environment may hurt company valuations and will exert downward pressure on regional currencies.
- Covid-containment measures in China and geopolitical events in Europe remain a downside risk to global supply chains.
- As the region is home to four of the world's six biggest emitters, climate commitments of COP26 and the global energy crisis may force a reset on energy policies.

Call to Action

- Expect lower growth rates and further monetary tightening as inflation continues to rise.
- Monitor domestic political events as a trigger for financial market volatility.
- Monitor the security situation in the South China sea, the Korean Peninsula and nearby areas.
- Review supply chain resilience against natural disasters and trade policies.
- Enhance credit due diligence for highly leveraged corporates with a large share of foreign currency liabilities and for mortgage borrowers with weak balance sheets.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: October 2022 (DB4c → DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Indonesia is learning to live with Covid-19 - restrictions on domestic activity have been removed and the border has reopened.
- GDP growth rebounded in the third quarter on the back of a reopening boost and beneficial base effects...
- ...but growth looks set to slow over the coming months as commodity prices fall back, a slowdown in global growth leads to a drop in exports, and higher interest rates weigh on prospects.
- Rising Covid cases in China and uncertainty over the country's Covid containment policy are a key risk to the economy. A depressed economy in China will weigh on commodity prices, which is bad for Indonesia's exports. Disruption to China's industrial sector could put further strain on global supply chains.
- A parliamentary commission has approved a draft of a new law that would require the central bank to undertake debt monetisation in times of economic emergency. However, the new legislation stopped short of adding job creation to the central bank's mandate.

Trade Terms

Description	Terms
Minimum Terms	OA
Recommended Terms	LC
Usual Terms	0-60 days

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

Agency	Cover
Ekspor Kredit Fonden (EKF)	Full cover available, conditions apply
US Eximbank	Full cover available, conditions apply
ECGD	Full cover available, conditions apply
Euler Hermes AG	Full cover available

Source: Export Credit Agencies

Call to Action

- Expect that Indonesia's growth will be hit by the current global environment, but that it will not be fully derailed.
- Maintain enhanced credit-risk due diligence for companies in the tourism, hospitality and retail sectors; after lockdowns, they are suffering from high input costs.
- Expect interest rates to rise further over the coming months; where possible, lock in preferential low rates for medium-term financing.
- Slower growth and higher interest rates are likely to create strains for some borrowers, but the country's banking sector is well-placed to absorb any losses - the NPL ratio was just 2.8% in August (latest available data).

SUPPLY ENVIRONMENT

Current Risk Indicator:



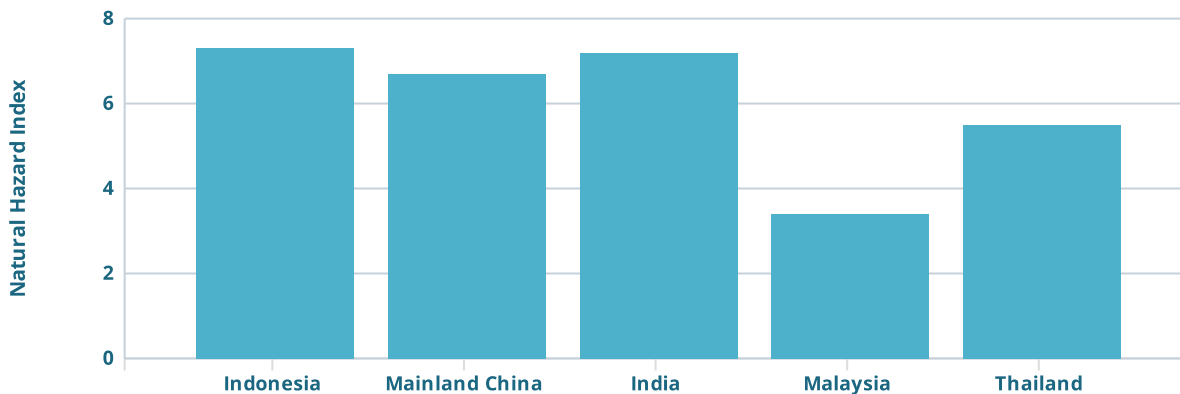
- Last change: October 2021 (DB5d → DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- Indonesia banned nickel ore exports from the start of 2020 in an attempt to encourage more domestic processing of raw materials, a move being contested in the WTO.
- Indonesia has formally ratified its membership of the Regional Comprehensive Economic Partnership (RCEP). The deal aims to eliminate 90% of the tariffs on imports between its signatories within 20 years of coming into effect.
- Widespread vaccination has allowed Indonesia to fully reopen its economy after the Covid-19 pandemic.
- An earthquake measuring 5.6 on the Richter scale hit West Java in November, killing 300 people. The quake is a reminder of Indonesia's vulnerabilities to disruption from natural disasters, including volcanoes and tsunamis.
- Forest fires caused by illegal deforestation are another major risk.

Risk Index: Hazard & Exposure



Note: 0 = lowest risk, 10 = highest risk **Source:** Haver Analytics

Call to Action

- Further lockdowns in China may lead to renewed supply chain disruptions, which could hinder Indonesia's manufacturing sector.
- Expect a further recovery in the tourism sector now that international border restrictions across the region are being relaxed.
- Prepare for disruption resulting from politically motivated protests against the rising cost of living and the possible passage of the Omnibus Law.



MARKET ENVIRONMENT

Current Risk Indicator:



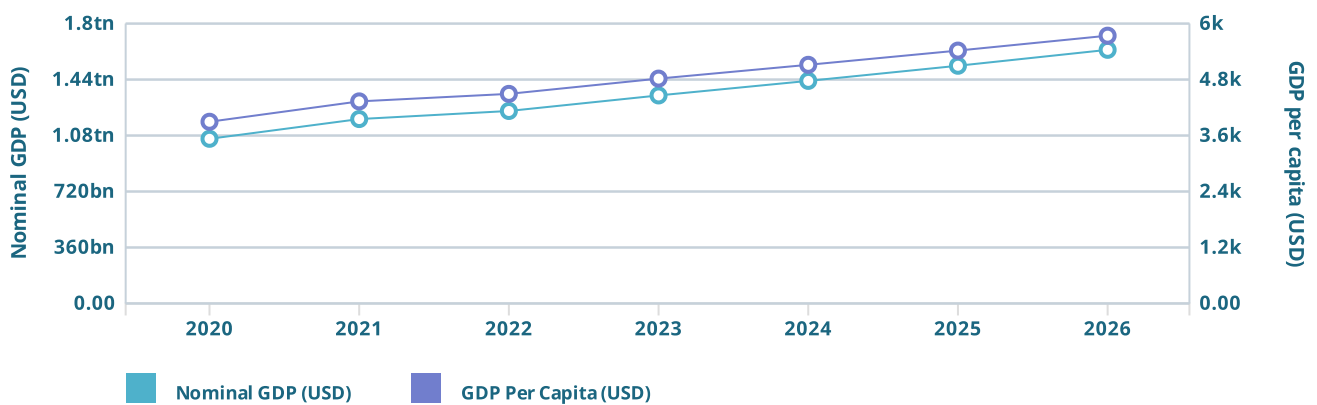
- Last change: October 2022 (DB3d → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

Risks and Opportunities

- The economy rebounded strongly in the first three quarters of the year, but headwinds to growth are mounting.
- Elevated inflation, rising interest rates, a drop in commodity prices and weaker global demand will all weigh on growth.
- While the shift to a current account surplus has made Indonesia less vulnerable to shifts in global risk appetite, the currency has still performed poorly this year against a strong US dollar.
- A high level of foreign currency debt makes the economy vulnerable to big falls in the rupiah.
- Global risk appetite and US monetary policy will play a key role in determining the performance of the currency over the coming months.
- The passage of a new criminal code through the parliament, which bans sex before marriage, has been opposed by business groups, which fear it may damage tourism in the country.

Nominal GDP and GDP per capita - Indonesia



Source: Haver Analytics/Dun & Bradstreet

Call to Action

- Monitor planned amendments to the 2020 Omnibus Law, which when passed could transform the business operating environment in the country by freeing up the rigid labour market.
- A ban on palm oil exports has been lifted, but be mindful of the risk of further sudden changes in export rules.
- Be aware that nickel miners will see higher demand as Russian nickel is taken off global markets; however, constraints on raw materials exports will persist.
- Consider aligning investments with current government priorities on high-value-added manufacturing and the digital economy.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: October 2022 (DB3c → DB3d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Risks and Opportunities

- President Joko Widodo successfully hosted the G20 summit in Bali in November, bolstering his appeal as a respected international statesperson...
- ...but the passage of a new criminal code through the parliament, which bans sex before marriage, is likely to damage Indonesia's international reputation.
- The passage of the delayed Omnibus Law, which is aimed at freeing up the country's labour markets, has attracted opposition from the country's trade union groups and could lead to renewed protests across the country.
- The Widodo administration remains sympathetic to the principle of increasing domestic value-addition, particularly in natural resource industries, and has appealed a WTO ruling, which upheld a complaint by the EU over Indonesia's ban on nickel exports.
- Construction has begun on building a new capital city to ease overcrowding in Jakarta; an estimated 80% of the cost will come from the private sector, creating opportunities for construction companies.

Political Freedom

Location	Electoral Process	Pluralism & Participation	Functioning of Government	Freedom of Expression & Belief	Association & Organization Rights	Rule of Law	Personal Autonomy & Individual Rights
Indonesia	11	13	6	9	6	5	9
Asia Pacific	7	9	6	9	7	7	9
OECD Average	11	15	10	14	11	13	14

Note: Higher score = greater degree of freedom **Source:** Freedom House

Call to Action

- Keep an eye out for who could replace Joko Widodo, who is due to step down as Indonesia's president in 2024 when his second term comes to an end.
- Monitor the security situation in the eastern province of Papua; the risk of separatist violence will remain elevated amid the increased security presence.
- Note that Indonesian waters remain a noted piracy hot-spot, underscoring the need for adequate insurance and prevention measures.
- Look out for further signs that Indonesia is attempting to build an alliance with its neighbours to face down territorial threats in the South China Sea.



DETAILED ANALYSIS

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

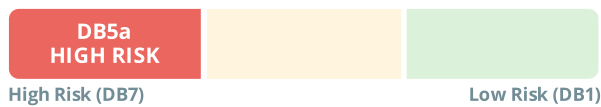
The core categories that we analyse as part of our broader risks and opportunities model are as follows:

- **Short-Term Economic Outlook**
- **Long-Term Economic Potential**
- **Market Potential**
- **FX Risk**
- **Transfer Risk**
- **Business Regulatory Environment**
- **Business Continuity**
- **Political/Insecurity Risk**
- **Expropriation/Nationalisation Risk**

Descriptions for each of these categories can be found in the User Guide.

SHORT-TERM ECONOMIC OUTLOOK

Current Risk Indicator:



- Last change: February 2022 (DB5b → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

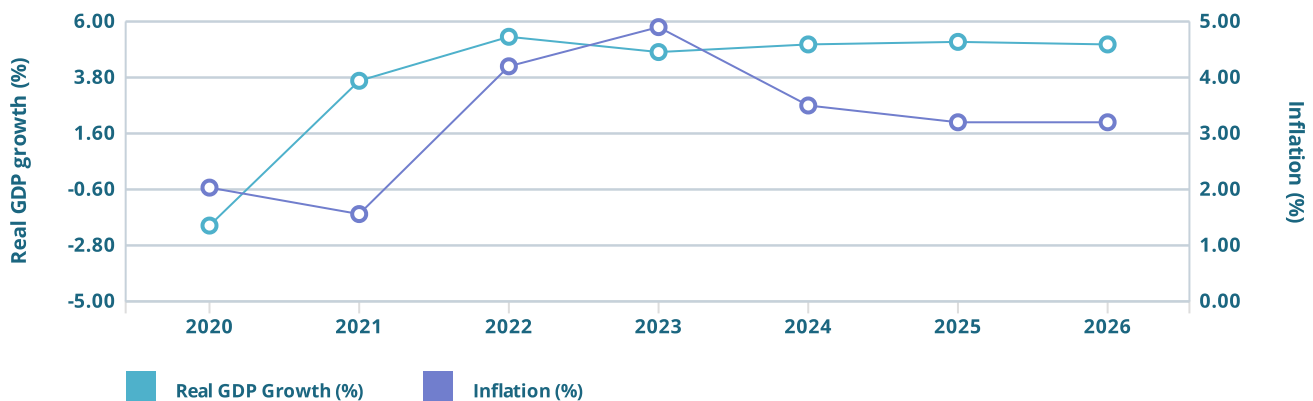
Short-Term Economic Outlook Overview

Indonesia has recovered well from the Covid-19 pandemic, helped by a successful reopening of the economy and high commodity prices. However, growth looks set to slow over the coming quarters as the boost from reopening fades and commodity prices fall back. Higher interest rates will also weigh on the recovery. Bank Indonesia has raised interest rates aggressively in recent months as it tries to crack down on inflation and support the rupiah.

Recent Developments

- The central bank has raised interest rates by 175 bps in recent months (including by 50 bps in November) in response to the rise in inflation and the drop in the currency against the US dollar.
- Inflation fell back from 5.7% y/y in October to 5.4% in November on the back of a decline in food price inflation. However, this still leaves inflation well above Bank Indonesia's 2-4% target.
- Unlike other currencies in the region, the rupiah has continued to decline against the US dollar over the past month and is now down over 7% since the start of 2022.
- Foreign exchange reserves have continued to fall as the central bank has stepped up intervention to support the rupiah.

Real GDP Growth and Inflation - Indonesia



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Indonesia should continue to grow at around 5% over the coming year (broadly in line with its pre-crisis pace of growth), but with commodity prices falling and monetary policy being tightened, the risks are to the downside.
- High levels of foreign currency debt make Indonesia vulnerable to sudden falls in the rupiah. If the currency continues to decline against the greenback, the central bank may need to step up its intervention.

Call to Action

- Inflation should start to ease over the coming months, which may give the central bank room to slow the pace of monetary tightening.
- A slowdown in the pace of Fed tightening could give some support to the rupiah.
- The downturn in China and uncertainty caused by the country's zero-Covid strategy could impact Indonesia if it led to further falls in commodity prices.

LONG-TERM ECONOMIC POTENTIAL

Current Risk Indicator:



- Last change: October 2021 (DB4a → DB3a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

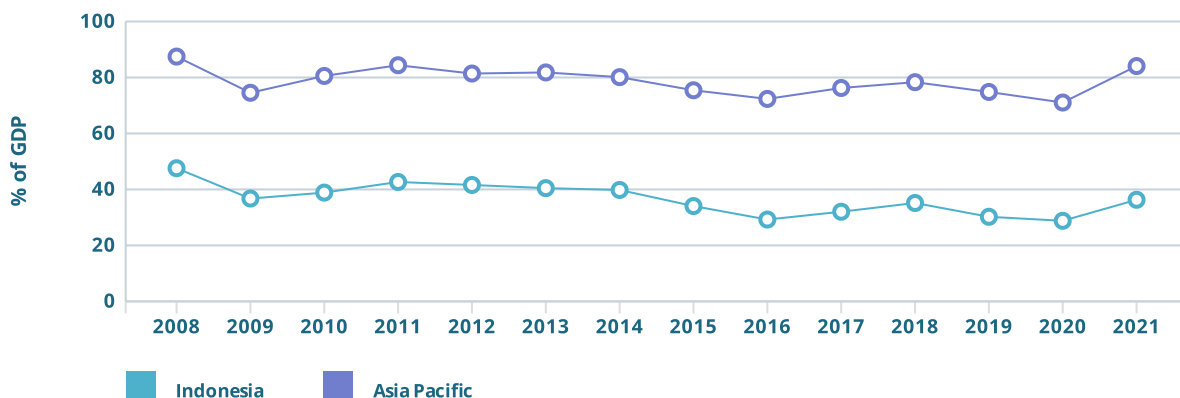
Long-Term Economic Potential Overview

Indonesia has significant long-term economic potential given its huge population (277m), proximity to major global shipping lanes and abundance of natural resources. It is a country with a current working-age population exceeding 180m (the fourth-largest in the world). However, although improving, the institutional framework remains weak and there is an infrastructure deficit, making Indonesia a challenging business environment to operate in. A second challenge is the orderly de-carbonisation of the economy.

Recent Developments

- Bans on the export of raw materials are likely to remain and are part of Indonesia's strategy of moving up the value chain by encouraging more processing to take place in Indonesia.
- Indonesia's parliament has passed a law banning sex outside marriage. The change could hold back the development of the tourism sector and has been criticised by business groups.
- Projections from the UN Population Division show the growth rate of Indonesia's working-age population slowing from around 1.5% in the 2010s to 1.0% in the 2020s.

Exports and Imports



Source: International Monetary Fund Direction of Trade Statistics/Haver Analytics

Risks and Opportunities

- Indonesia is the world's largest global exporter of palm oil, nickel and rubber, and the second-largest exporter of coal, tin and cocoa.
- Indonesia's business environment is poor by global standards because of endemic corruption, weak institutions and cumbersome bureaucracy.
- The government is working diligently to raise governance standards and is making verifiable progress in terms of improving the business and investment environment.
- Spending on infrastructure has more than doubled since Joko Widodo became president in 2014, helping alleviate some bottlenecks in the economy, but more remains to be done - the country's infrastructure is poor by regional standards.

Call to Action

- Businesses reliant on Indonesian supplies of coal, palm oil and nickel should plan for export-ban contingencies.
- Enhance awareness of industrial policy that may direct resources such as nickel to higher-value-added EV battery production instead of stainless steel.
- Note that a general election is due to be held in 2024 - President Jokowi's ability to push through reforms could wane as the poll approaches.

MARKET POTENTIAL

Current Risk Indicator:



- Last change: October 2022 (DB3a → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Market Potential Overview

Indonesia has a large domestic market and enjoys a rapidly expanding middle-class consumer base. The country is heavily dependent on primary exports, most notably palm oil and coal and also copper, rubber and natural gas. Expanding the manufacturing sector and value-addition is a national priority and progress is being achieved in these areas. However, rising inflation is eating into domestic purchasing power.

Recent Developments

- The economy has rebounded strongly in recent quarters on the back of a reopening boost, but that prop to growth is now fading and we expect growth to slow over the coming year.
- Rising inflation and higher interest rates will weigh on the purchasing power of consumers and drag on spending.
- Bank Indonesia's measure of consumer confidence has dropped back recently and is now below its pre-pandemic average.
- In the 2022 US-ASEAN *Business Outlook Survey*, Indonesia was ranked fourth (out of five countries) in terms of where US companies are planning to expand their operations. Vietnam topped the survey, and China was last.
- The continued weakness of the rupiah, which is down 7% against the US dollar since the start of 2022, will lead to a rise in import costs, which could further weigh on consumer spending.

Main Restrictions on Imports

Tariff Barriers	Indonesia	Mainland China	India	Malaysia	Thailand
Overall Weighted Mean Tariff	na	4.5	7.3	na	3.5
Manufactures Weighted Mean Tariff	na	5.7	7	na	2.9
Primary Products Weighted Mean Tariffs	na	2.1	7.2	na	5.7
Overall MFN Tariff	na	16	5.8	na	16.7
Manufactures MFN Tariff	na	15.8	1.9	na	15
Primary Products MFN Tariff	na	18.2	33.6	na	27.8
Services Restrictiveness Index	50	36.6	65.7	46.1	48

Note: Tariff data displayed as %. For SRI data, 0 = completely open, 100 = completely closed **Source:** Haver Analytics/World Bank

Risks and Opportunities

- Indonesia's tourism sector is rebounding strongly from the pandemic, with arrivals now around 40% of pre-crisis levels. Further gains are likely as confidence returns, travel restrictions ease and airline capacity is ramped up.
- Inflation in Indonesia appears to have peaked - the headline rate fell for a second consecutive month in November - and should decline further over the coming months, helped by an easing of food price inflation and beneficial base effects.
- Indonesia should benefit from the world's biggest FTA, the RCEP, which was approved in August 2022. However, RCEP is mostly about cutting tariffs, but these are already very low.
- The non-performing loan ratio increased during the pandemic, but at 2.9% in August (latest data), it remains very low.

Call to Action

- Monitor the EU's case against Indonesia's export nickel ban at the WTO. Indonesia has promised to appeal after the WTO initially ruled in the EU's favour.
- Follow amendments to the Omnibus Law.
- Note that while export bans on palm oil have been short-lived, they may return if prices rise again.

FX RISK

Current Risk Indicator:



- Last change: October 2022 (DB4c → DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

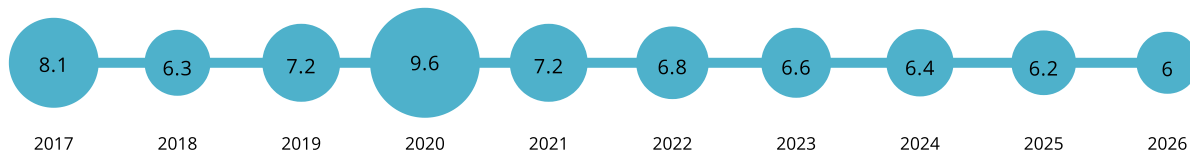
FX Risk Overview

Indonesia has seen a shift from a current account deficit to a surplus, which has made the country less vulnerable to changes in investor sentiment and tightenings in global liquidity conditions. That said, while the rupiah has outperformed other Asian currencies in 2022, it has still fallen back sharply against the US dollar. Foreign exchange reserves, while still plentiful, have fallen as the central bank has increased its intervention in foreign currency markets.

Recent Developments

- Bank Indonesia has hiked interest rates by 175 bps since August (including most recently a further 50 bps hike in November) as it looks to support the falling rupiah.
- The central bank has also been intervening heavily in foreign exchange markets, with total FX reserves down more than 10% over the past year.
- However, reserves were equivalent to USD130bn in October - the equivalent to seven months of imports - and well above the minimum three months recommended by the IMF.
- Exports, which surged in the first part of the year on the back of high commodity prices, have started to drop back. If they continue to decline, they could lead to the re-emergence of a current account deficit.
- Despite the rally in most risky assets over the past month, the rupiah has continued to decline against the US dollar.

Import Cover (Months)



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Expect further declines in the US dollar over the coming months as a hawkish Fed and the deteriorating global outlook lead to renewed declines in risky assets.
- The central bank has hinted strongly that with inflation above target and the Fed likely to raise interest rates further, it will continue to tighten policy over the coming months. Further FX intervention is also likely.

Call to Action

- Hedge against IDR depreciation, as geopolitics and US Fed moves are currently exerting downward pressure on the currency.
- Watch for political news as a potential trigger of volatility in currency markets as the country enters a period of election cycles.
- China's slowdown and the introduction of more lockdowns may impact supply chains across the region, causing disruption to exporters.

TRANSFER RISK

Current Risk Indicator:



- Last change: October 2021 (DB3a → DB3b)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Transfer Risk Overview

Transfer risk remains moderate in our view, given adequate FX reserves of USD130bn as of end-October 2022, relatively strong capital adequacy ratios in the banking sector, and Indonesia's adherence to the obligations of Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

Recent Developments

- Five ASEAN countries (including Indonesia) signed an MOU in November on regional cross-border payments. Under the agreement, local currencies can be used to settle payments, reducing the need to convert domestic currencies into dollars.
- Indonesia's central bank has announced plans for a new digital rupiah currency. Central bank digital currencies (CBDCs) bring many advantages, including reducing fraud and money laundering.
- Indonesia's external debt position is comfortable; total external debt is equivalent to around one-third of GDP, and foreign exchange reserves exceed USD130bn.
- Approximately two-thirds of external debt is denominated in US dollars, which has become more expensive to service given the recent depreciation of the rupiah against the US dollar.

Transfer Situation

Type	Delay
FX/Bank Delays	0-2 months
Local Delays	0-1 month

Note: Length of delay for completion of local and foreign transfers **Source:** Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Indonesia	Asia Pacific	OECD Average
Restrictions on non-Residents' Accounts	0	0.18	0.06
Restrictions on Payments for Imports	1	1.18	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	1.55	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) **Source:** International Monetary Fund

Risks and Opportunities

- Indonesia is unlikely to respond to a sharp fall in the currency and large-scale capital outflows by introducing capital controls: higher interest rates and FX intervention are the most likely responses.
- Increasing economic and financial integration with the global economy and an extensive network of free-trade agreements reduce transfer and convertibility risks.
- Although non-performing loans increased during the pandemic, they remain relatively low - the NPL ratio was just 2.8% in August (latest available data).

Call to Action

- Despite strong economic fundamentals and decent growth prospects, Indonesia remains vulnerable to sudden changes in global risk appetite.
- Be aware that the rupiah's sensitivity to US treasury yields is quite high; large increases in the 10-year US treasury yield typically create downward rupiah pressures.

BUSINESS REGULATORY ENVIRONMENT

Current Risk Indicator:



- Last change: June 2022 (DB3b → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

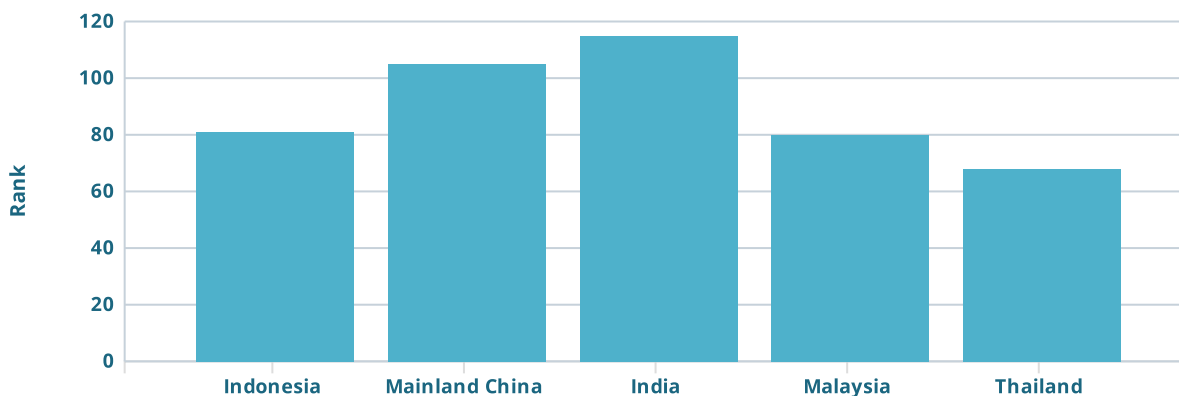
Business Regulatory Environment Overview

Indonesia's business environment remains weaker than those of some of its key regional competitors, partly because of historically poor governance standards and a weak rule of law. However, the two-term presidency of Joko Widodo has seen significant reforms aimed at bolstering the business regulatory environment.

Recent Developments

- The government's increasing use of price controls and export bans - first coal and then palm oil (since reversed) in 2022 - has led to market distortions and uncertainty.
- Business groups in Indonesia have expressed opposition to a proposed new law that would outlaw sex before marriage; they are worried about the impact the law would have on Indonesia's image as a holiday and investment destination.
- The constitutional court has deemed the Omnibus Law conditionally unconstitutional; the law requires time-bound amendments for full implementation.
- The immigration department has relaunched the country's multiple entry visa service, which was suspended during the pandemic. Under the new rules, visa holders may stay in Indonesia for a maximum of 60 days for each arrival.

Ease of Paying Taxes, 2019



Note: Low score = best, High score = worst **Source:** World Bank, 'Doing Business Report'

Risks and Opportunities

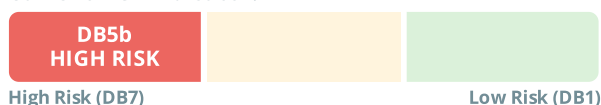
- Indonesia's constitutional court has ordered some amendments to the 2020 Omnibus Law, which need to be completed within two years...
- ...but this should have limited negative risk implications, as most of the required changes are procedural (which is why the government says it will abide by the decision).
- A bigger concern, however, could be if the constitutional court agrees to consider interest group requests to assess the content of the Omnibus Law; this seems unlikely at present but cannot be fully ruled out.

Call to Action

- Take note of and fulfil domestic market obligations for your sector to avoid cancellation of operation/export licences.
- Note that the EU plans to restrict palm-oil-based biofuels from 2023.
- President Joko Widodo has made good progress on passing key economic reforms, but his ability to push through reforms could wane as the next general election (due in 2024) approaches.

BUSINESS CONTINUITY

Current Risk Indicator:



- Last change: October 2021 (DB7 → DB5b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

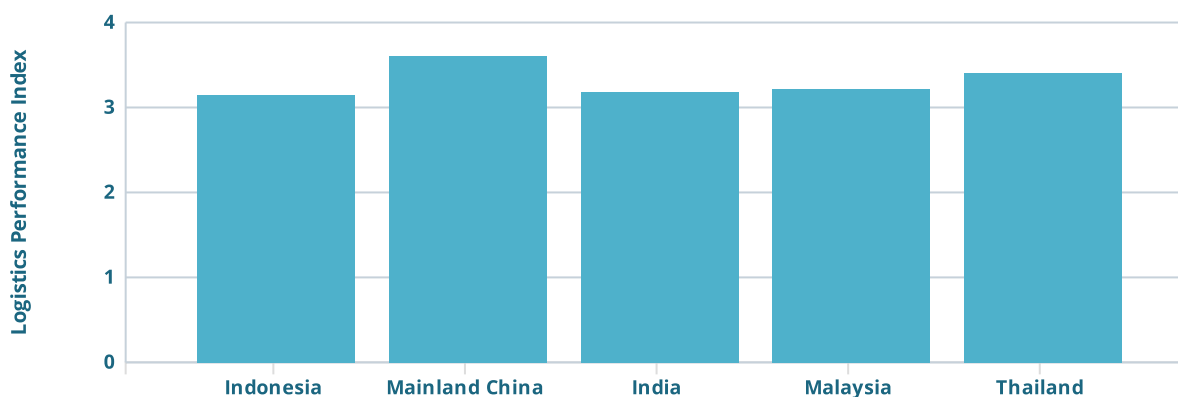
Business Continuity Overview

Located on the 'Pacific Ring of fire', Indonesia faces a constant risk of volcanic eruptions, earthquakes, floods and tsunamis. According to the Institute for Economics and Peace's *Ecological Threat Register 2021*, Indonesia ranked as one of the most climatic-disaster-prone countries in the region, mainly because of flooding and wildfires.

Recent Developments

- Widespread vaccination means the Covid-19 pandemic is easing - restrictions have been lifted, mobility has rebounded and the border has been reopened.
- An earthquake measuring 5.6 on the Richter scale hit West Java in November, killing 300 people. The quake is a reminder of Indonesia's vulnerabilities to disruption from natural disasters, including volcanoes and tsunamis.
- Indonesia has revised its carbon emission reduction targets and is now planning to reduce emissions by 32% by 2030 (compared with an earlier target of 29%). Most of Indonesia's carbon emissions come from forest and peatland clearance.
- A ban on exports of palm oil has been reversed, but for now, more such restrictions disrupting business continuity cannot be ruled out.

Logistics Performance Index, 2018



Note: 1 = worst performance, 5 = best performance Source: World Bank/Haver Analytics

Risks and Opportunities

- The risk of lockdowns in China is a concern for Indonesia and could disrupt its manufacturing sector.
- Earthquakes (potentially leading to tsunamis) are a major natural disaster risk, and Indonesia is also highly vulnerable to volcanic disruption.
- Forest fires caused by illegal deforestation comprise another major risk, as highlighted by instances of such problems in recent years.

Call to Action

- Prepare for the risk of anti-government protests as the cost of living crisis continues to bite.
- Plan for tighter implementation of domestic use policy in essentials - food, cooking oils and fuel.
- Increase awareness of supply chain risks in light of recent export bans; palm oil imports are also susceptible to reputational risk.

POLITICAL/INSECURITY RISK

Current Risk Indicator:



- Last change: October 2021 (DB3d → DB3c)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **DETERIORATING**

SLIGHT RISK Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

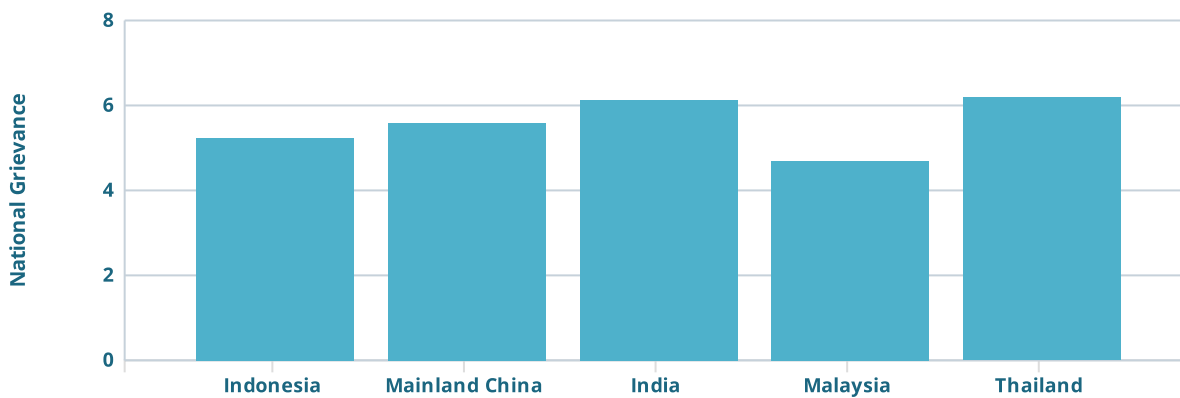
Political/Insecurity Risk Overview

Indonesia's recent history was dominated by the authoritarian regime of President Suharto and the transition to democracy that began in the 1990s. Political stability evaded Indonesia until the mid-2000s. Direct presidential elections were introduced in 2004 and a process of political and economic normalisation continued under President Susilo Bambang Yudhoyono (SBY), stabilising national politics. Policymaking and stability improved under the presidency of Joko Widodo, who was first elected in 2014 and again in 2019. Widodo's period in office has seen significant progress on reform, such as subsidy reforms and the recent Omnibus 'job creation law', but also some concerns regarding creeping authoritarianism.

Recent Developments

- Attention is turning to President Widodo's potential successor after 2024, with Defence Minister Prabowo Subianto (who lost to Jokowi in 2014 and 2019) an early front-runner.
- Indonesia's presence on the global stage has received a boost from Indonesia's successful hosting of the G20 meeting of world leaders in Bali in November.
- The government is leaning towards an industrial policy that deploys Indonesia's natural resources for higher-value-added production, but this could create space for corruption.

Level of National Grievance, 2022



Note: 1.0 = lowest grievance, 10.0 = highest grievance **Source:** Fund for Peace, 'Fragile States Index'

Risks and Opportunities

- Personality appears to matter as much as policies in general elections in Indonesia, raising the risk of a populist government coming to power.
- After a poor handling of the pandemic, the rising cost of living is a new challenge for the government; the decision to raise fuel subsidies in September has already cost the government valuable support.
- De-coupling between China and the US would pose a major threat to Indonesia if it were ever required to choose sides. While Jakarta values US defence commitments in the region, it has become much more dependent on China's economy in recent years.

Call to Action

- Note that, in a charged geopolitical environment, contentions in the South China Sea could generate a lot of noise.
- Monitor the security situation in the eastern province of Papua; the risk of separatist violence will remain elevated amid the increased security presence.
- Note that Indonesian waters remain a noted piracy hot-spot, underscoring the need for adequate insurance and prevention measures.

EXPROPRIATION/NATIONALISATION RISK

Current Risk Indicator:



- Last change: October 2022 (DB3c → DB4a)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is **STABLE**

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

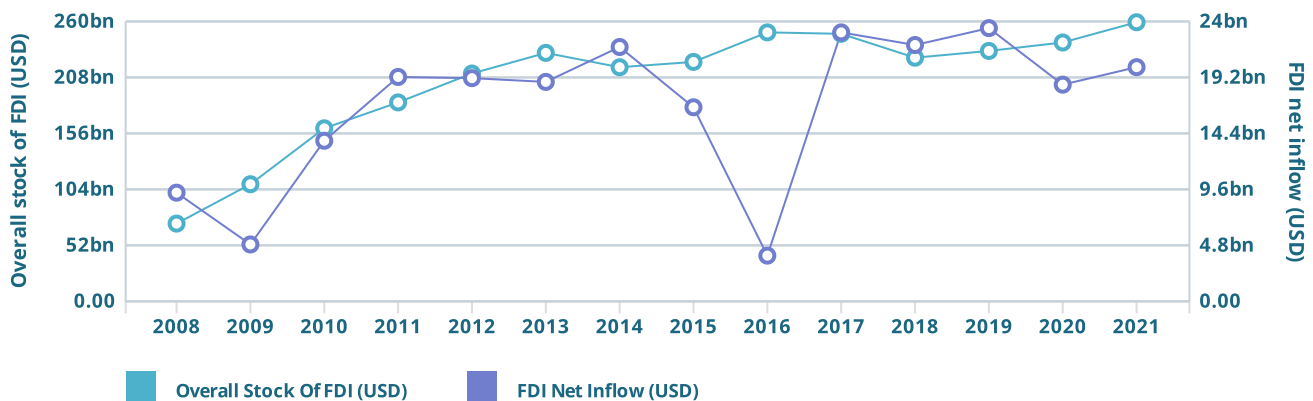
Expropriation/Nationalisation Risk Overview

The long-term outlook for foreign investment in Indonesia remains generally good. The current government has demonstrated a strong commitment to implementing wide-ranging economic reforms. However, although outright expropriation or nationalisation remains unlikely, recent disputes in the mining sector highlight the capacity for policy inconsistency and the government's desire to get a bigger (and, in its view, fairer) share of the economic benefits deriving from the country's vast natural resources.

Recent Developments

- The WTO has ruled that Indonesia's export ban and domestic processing requirement on nickel ore violates WTO rules. Indonesia is planning to appeal the ruling.
- The domestic rationale behind Indonesian 'resource nationalism' is to encourage domestic value-addition and ensure compliance of domestic market obligations.
- Indonesia is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.
- Indonesia is also a signatory to more than 70 bilateral investment treaties.
- A short-lived ban on palm oil exports earlier in 2022 highlighted the unpredictable business environment, which can make it difficult for foreign investors in the resources sector.
- The government has implemented a tax on crypto investments and fintech services (beginning 1 May 2022), and big tech companies are now subject to content censorship and data sharing.

Foreign Direct Investment - Indonesia



Source: United Nations Conference on Trade and Development

Risks and Opportunities

- Despite occasional steps towards economic and 'resource sovereignty', international investors will continue to be interested in Indonesia's natural resources.
- Note that the Omnibus 'job creation law', if implemented effectively, should make Indonesia much more amenable to foreign investment in general as opportunities in previously out-of-bounds/limited sectors increase.

Call to Action

- Monitor taxation moves as the government tries to shore up revenues while keeping costs of essentials in check.
- Monitor investment laws and foreign ownership ceilings, particularly those relating to mining and resource sectors, where the risk of adverse regulation and policy inconsistency is the highest.
- Note that governments (regardless of political affiliation) will generally remain sympathetic to the principle of increasing domestic value-addition.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022f	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	5.2	5	-2	3.7	5.4	4.8	5.1	5.2	5.1	5.2
Nominal GDP in USDbn	1,042	1,119	1,059	1,186	1,238	1,338	1,431	1,529	1,631	1,747
Nominal GDP in local currency	14,834.8tn	15,830.5tn	15,442.2tn	16,968.2tn	18,597.2tn	20,401.1tn	22,155.6tn	24,016.7tn	26,010.1tn	28,272.9tn
GDP per Capita in USD	3,902	4,151	3,895	4,332	4,493	4,821	5,116	5,421	5,741	6,119
Population (year-end, m)	267.1	269.6	271.9	273.8	275.5	277.5	279.8	282	284.2	285.5
Exchange rate (yr avge, USD-LCU)	14,236.9	14,147.7	14,582.2	14,308.1	15,023.5	15,248.9	15,477.6	15,709.8	15,945.4	16,184.6
Current Account in USDbn	-30.6	-30.3	-4.5	3.3	9.9	6.7	-14.3	-18.3	-21.2	-33.2
Current Account (% of GDP)	-2.9	-2.7	-0.4	0.3	0.8	0.5	-1	-1.2	-1.3	-1.9
FX reserves (year-end, USDbn)	114.2	122.1	127.7	130.7	130.7	136	141.4	148.5	152.9	159
Import Cover (months)	6.3	7.2	9.6	7.2	6.8	6.6	6.4	6.2	6	5.8
Inflation (annual avge, %)	3.3	2.8	2	1.6	4.2	4.9	3.5	3.2	3.2	3.5
Govt Balance (% GDP)	-1.8	-2.2	-6.1	-4.6	-4.5	-2.8	-1.8	-1.9	-2	-2.8

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Indonesia	Mainland China	India	Malaysia	Thailand
Income per Capita (USD)	4,493	12,217	2,452	10,657	6,854
Country Population (m)	275.5	1,425.9	1,376.8	33.9	71.7
Internet users (% of population)	53.7	70.1	43	89.6	77.8

Source: Various sources/Dun & Bradstreet

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