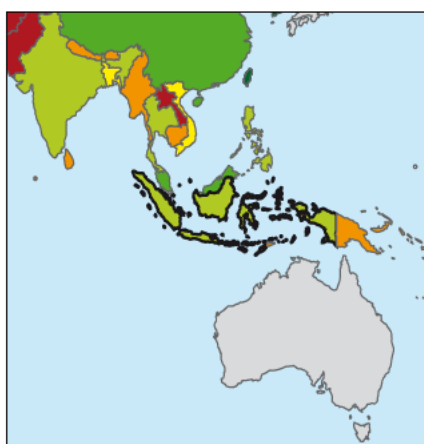




The country risk categories range from 0 to 7. The lower the number, the better the credit rating of the country.



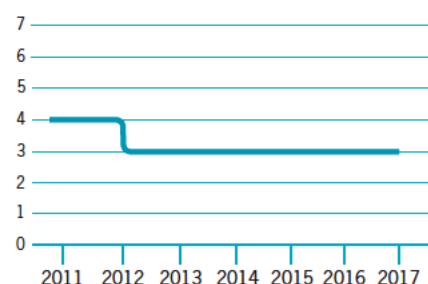
## CONTACT

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## BASIC FACTS

Population	259 million (2016)
GDP, nominal	USD 932 billion (2016)
GDP/capita	USD 3,604 (2016)

## COUNTRY CLASSIFICATION HISTORY



Source: EKN

## Strong growth but a challenging business environment

Indonesia's GDP growth has remained stable around five per cent annually in the last few years. Budgetary discipline and an improved balance of payments has kept the country's debt down and a flow of foreign capital covers the current account deficit.

Indonesia has an excellent growth potential both in the short and the long term. This is a country rich in raw materials, with a young population and good chances of climbing further up the value chain.

The government has launched several reform packages to increase investment in the country and diversify the economy. Several sectors have been opened to foreign investment and regulations have been liberalised. All in all, the economic trend in Indonesia is positive.

## THE COUNTRY'S STRENGTHS AND WEAKNESSES

### STRENGTHS

- + Reformative policies
- + Good growth prospects
- + Responsible economic policy in terms of moderate deficits and debt

### WEAKNESSES

- Commodity-dependent economy
- Dependent on capital flows such as direct investment or remittances to finance the current account deficit
- Extensive bureaucracy, corruption and weak institutions

## SWEDISH EXPORT TO INDONESIA, MSEK

	MSEK
2016	1,193
2015	1,180
2014	1,127
2013	1,091
2012	1,168

Source: Statistics Sweden

## EKN'S EXPOSURE

	MSEK
Guarantees	851
Offers	640

## EKN'S POLICY

EKN has placed Indonesia in country risk category 3 since 2012, when the country was upgraded. This assessment applies to both short-term and long-term guarantees and was made in collaboration with the other OECD countries. Normal risk assessment applies to all types of buyers, which means that there are no predetermined restrictions in the issuance of guarantees.

## EKN'S COMMITMENT AND EXPERIENCE

EKN's commitment refers to transactions with some ten exporters amounting to SEK 851 million. These outstanding guarantees consist mainly of transactions in the transport and mechanical engineering industries but the telecommunication and energy sectors are also represented. Offers amount to SEK 640 million. EKN guarantees approximately ten transactions per year to Indonesia. The size of these guarantees vary greatly from year to year. In the years 2009 and 2011, EKN provided guarantees for a few major transactions. Since then, outstanding guarantees have been gradually reduced to the current level. Delays occur but are relatively short. At present, outstanding delays amount to SEK 0.3 million. No claims have been paid since 2014. Outstanding claims amount to SEK 59 million and are mainly regulated through Paris Club agreements. Payments are made according to plan and the final due date is in 2021.

It is EKN's experience that Indonesia does not recognise foreign judicial decisions. In order to execute a decision by a foreign court in Indonesia, there must be a ruling from an arbitration tribunal.

Transactions between two Indonesian parties may, as of a few years back, only be carried out in the local currency. Depending on the structure of the transaction, EKN may consider issuing guarantees for contracts in the local currency.

## WHAT MIGHT CAUSE A CHANGE IN THE COVER POLICY?

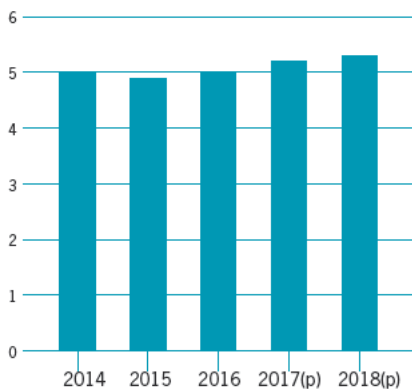
### EASING OF RESTRICTIONS, IN THE EVENT OF:

- Improvements to the business environment, such as increased predictability and transparency in legal proceedings and reduced exchange regulations.
- Lessened dependence on external funding

### THE TIGHTENING OF RESTRICTIONS, IN THE EVENT OF:

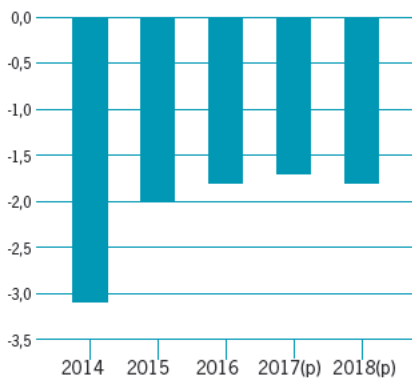
- A change of focus in economic policy, reform willingness or strong nationalist currents that have a negative impact on the business environment
- Deteriorated growth prospects and significantly increased debt

## GDP GROWTH (% PER ANNUM)



Source: IMF WEO 2017

## CURRENT ACCOUNT (% OF GDP)



Source: IMF 2017

## COUNTRY ANALYSIS

### BACKGROUND

Indonesian politics is a struggle between secular and moderate Muslim parties. In the same landscape, there are also radical, militant and nationalist groups. As of 2014, the country has a president, Joko Widodo, who is not from the traditional political or military elites. The economy of Indonesia has had a positive development since the Asian financial crisis in 1998, and it has for many years shown a high rate of growth thanks to high commodity prices. The economy is commodity-dependent. One third of export revenue comes from agricultural products and one third from fossil fuels and minerals. The conditions changed for Indonesia in 2014 due to falling commodity prices and lower export revenues. This revealed a need of economic reforms in order to broaden the country's revenue base and develop the export sector. The government has launched several reform packages to increase investment in the country and diversify the economy. Several sectors have been opened to foreign investment and regulations have been liberalised.

### RECENT DEVELOPMENTS

GDP growth has remained more or less constant, around five per cent annually, in the last few years. Indonesia, the fourth most populous country in the world, has a growing middle class and the primary catalyst for this growth is private consumption.

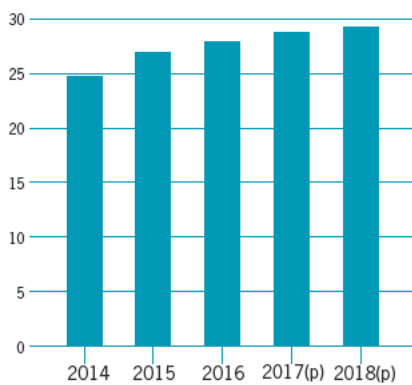
The country's current account deficit, which amounts to 1.7 per cent of GDP, is amply covered by foreign direct investment. The international reserves have increased and now correspond to eight months' worth of imports, which is an adequate buffer. Budgetary discipline and an improved balance of payments has kept down the external debt. The total external debt is 34 per cent of GDP and the government debt is also relatively low at just under 30 per cent of GDP. Barely half of the government debt is in foreign currency. According to law, the budget deficit may not exceed three per cent, which prevents the government from increasing expenditure.

The national currency recovered slightly in 2016 from a depreciation of a little over ten per cent against the US dollar in 2015.

### THE LONG-TERM TREND

Indonesia has an excellent growth potential both in the short and the long term. It is a country rich in raw materials that has a young population and regulatory framework that promotes a fundamentally responsible economic policy. The country's manufacturing industry has a good development potential and Indonesia's ambition is to climb further up the value chain. The government has realised that to achieve economic growth, it is important to increase the proportion of value-added products in their exports. The economy shows no

## EXTERNAL DEBT (% OF GDP)



Source: IMF WEO 2017

## BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

significant signs of imbalance in terms of debt or national budget. However, a weak currency and inadequate infrastructure raise challenges for future growth. It will be important for the government to continue prioritising the reform work. Revenues need to be increased, for example through tax reforms, and expenditure needs to be decreased, for example by reducing energy subsidies.

GDP growth is expected to end up just above five per cent in 2017 and slightly better in 2018. All in all, the economic trend in Indonesia is positive.

## BUSINESS ENVIRONMENT

In 2008, Indonesia made a commitment to adopt the International Financial Reporting Standards (IFRS). Since then, a convergence process between the local standard and IFRS has been started. Indonesia has been relatively slow to adopt the global standard and IFRS has yet to be introduced for local businesses. Nor is there a time frame for when IFRS might be fully in use. Only large companies and public limited companies are required to publish audited financial statements. This makes it difficult to gain access to financial information and to identify related companies and stakeholders. The insight into family-owned conglomerates and complex company groups is often very limited.

Indonesia ranks 72 (of 190) in the World Bank's "Doing Business Index", on a level with China (78), but above India (100), the Philippines (113) and Brazil (125). As regards the categories "access to credit" and "investment protection" Indonesia has shown relatively large improvements. The estimated recovery rate in the event of company bankruptcy has also increased significantly, from the regional average of 33 per cent a couple of years ago to 64 per cent this year. Even if the reform efforts are gradually improving the business environment, the economy is still considered relatively closed and the level of company transparency is low. Weak infrastructure, high electricity costs, bureaucracy and corruption are still curbing the economy. The country has been ranked no. 90 out of 176 in the Transparency International Corruption Perceptions Index

When it comes to currency transfers, there are certain obstacles to changing the Indonesian rupiah into hard currency. Nor is the currency transferable, which means that it cannot be used for trading outside the country's borders. Overall, the business environment in Indonesia is assessed to be relatively difficult.