

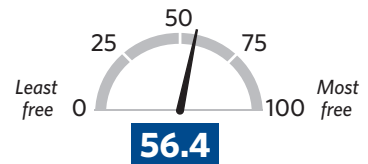
INDONESIA



World Rank: **115**

Regional Rank: **23**

Economic Freedom Score



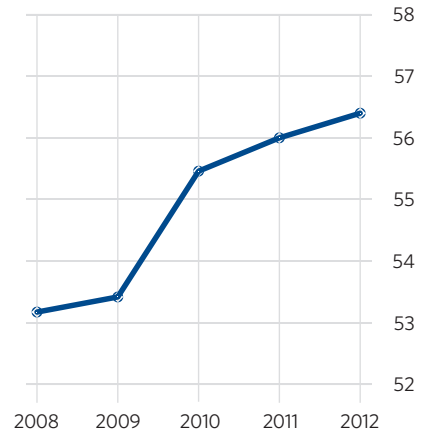
Indonesia's economic freedom score is 56.4, making its economy the 115th freest in the 2012 *Index*. Its score is 0.4 point better than last year, with improvements in half of the 10 economic freedoms including monetary freedom and the control of government spending. Indonesia is ranked 23rd out of 41 countries in the Asia-Pacific region, and its overall score is below the world average.

Indonesia has undertaken wide-ranging reforms to address various structural weaknesses in the economy and to improve competitiveness. The economy has shown considerable resilience, weathering the global economic slowdown relatively well, and annual growth rates averaging over 5 percent have been achieved during the past five years. Recent reform measures have put greater emphasis on improving regulatory efficiency, enhancing regional competitiveness, and creating a more vibrant private sector through decentralization. Public finance has been well managed, and debt has been kept under control.

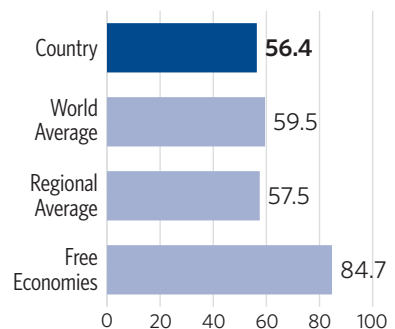
Despite the progress in economic restructuring, Indonesia's growth potential remains fragile and hampered by inefficient legal and investment regimes that undermine entrepreneurship and job growth. Lingering political interference in the private economy discourages dynamic change, and pervasive corruption and a weak judicial system add uncertainty and risk, particularly to new economic endeavors.

BACKGROUND: Indonesia is the world's most populous Muslim-majority democracy. In the years since 1998, when long-standing authoritarian ruler General Suharto stepped down, Indonesia's nearly 250 million people have enjoyed the blossoming of a wide range of political freedoms, and participation in the political process is high. President Susilo Bambang Yudhoyono has cracked down on corruption and has tried to encourage much-needed foreign investment, but the weak rule of law remains a major impediment to attracting capital. As a member of the G-20, Indonesia is playing an increasingly important role in international economic policy discussions.

Freedom Trend



Country Comparisons



Quick Facts

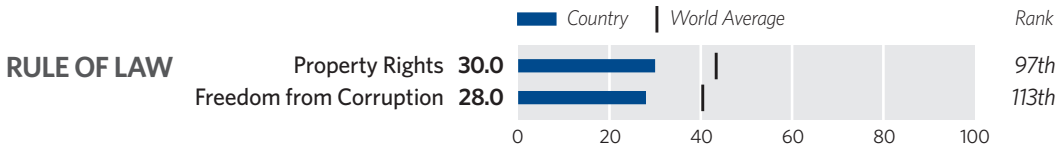
Population: 234.4 million
GDP (PPP): \$1.0 trillion
 6.1% growth in 2010
 5-year compound annual growth 5.7%
 \$4,394 per capita
Unemployment: 7.1%
Inflation (CPI): 5.1%
FDI Inflow: \$13.3 billion
Public Debt: 27.4% of GDP

How Do We Measure Economic Freedom?

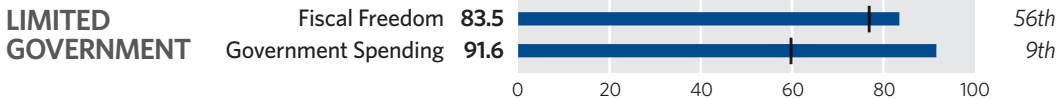
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

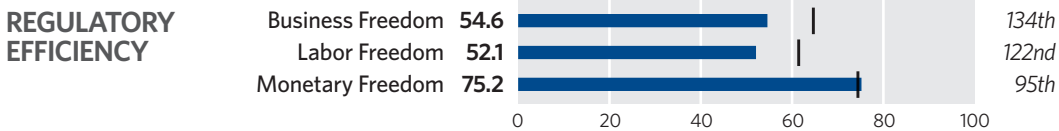
THE TEN ECONOMIC FREEDOMS



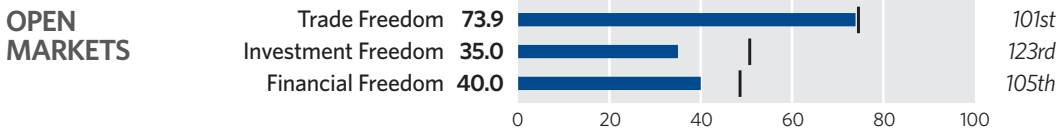
Property rights are generally respected, but enforcement is inefficient and uneven. The judicial system is not fully independent and remains vulnerable to political influence. In the absence of an efficient legal framework, court rulings can be arbitrary and inconsistent. Protection of intellectual property rights is not up to world standards, and the market for pirated goods has been expanding. Corruption continues to be pervasive.



The top income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 11.4 percent of total domestic income. Government spending is equivalent to 16.7 percent of GDP, and the budget deficit has come down to around 1 percent of GDP. Declining public debt has fallen below 30 percent of total domestic output.



Despite notable simplification of licensing requirements, launching a business still takes more than the world average of seven days and 30 procedures. Overall regulatory efficiency is weak. Compared with other economies in the region, Indonesia’s rigid labor market imposes more regulatory costs on the creation and termination of employment relationships. Inflation has been modest, but government interference in the market still distorts prices.



The trade weighted tariff rate is 3.1 percent, but trade flows are constrained by costly non-tariff barriers. Although the country publicly welcomes foreign investment, many investors, foreign and domestic alike, face significant hurdles due to inconsistencies in the investment codes and erratic enforcement. The financial sector is dominated by commercial banks, four of which are state-owned. Capital markets are not fully developed.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	-0.3	Trade Freedom	+0.1
Freedom from Corruption	0	Government Spending	+2.7	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	+0.9	Financial Freedom	0