WORLD RANK: 69

REGIONAL RANK: 15

ECONOMIC FREEDOM STATUS: MODERATELY FREE

INDONESIA

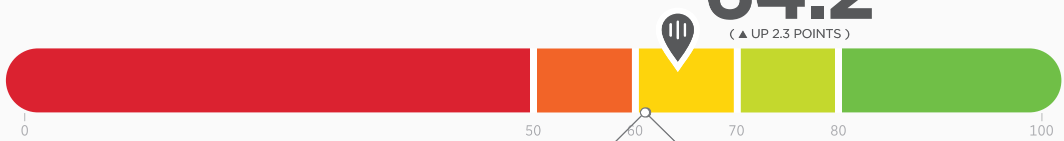
Indonesia's economic freedom score is 64.2, making its economy the 69th freest in the 2018 *Index*. Its overall score has increased by 2.3 points, with solid improvements in **business freedom**, **monetary freedom**, and **judicial effectiveness** more than offsetting lower scores for **government integrity** and **fiscal health**. Indonesia is ranked 15th among 43 countries in the Asia–Pacific region, and its overall score is above the regional and world averages.

To attract more foreign investment, the government is upgrading power and other infrastructure, prosecuting corruption cases more aggressively, and taking other steps to improve the regulatory environment. Electricity and fuel subsidies have been cut. Remaining constraints include an inflexible labor market, long-standing protectionist rules governing trade and foreign investment in extractive sectors, subsidies to numerous state-owned enterprises, and poor management of public finances. Improvements in the legal and regulatory framework would strengthen the rule of law.

ECONOMIC FREEDOM SCORE

64.2

(▲ UP 2.3 POINTS)



61.0
REGIONAL AVERAGE
(ASIA-PACIFIC REGION)

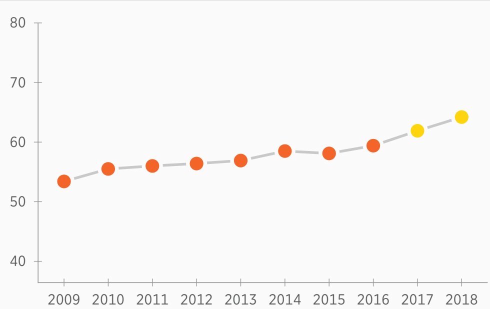
61.1
WORLD AVERAGE

NOTABLE SUCCESSES:
Monetary Stability and Trade Freedom

CONCERNS:
Rule of Law, Investment Freedom, and Labor Freedom

OVERALL SCORE CHANGE SINCE 2014:
+5.7

FREEDOM TREND



QUICK FACTS

POPULATION:
258.7 million

GDP (PPP):
$3.0 trillion
5.0% growth in 2016
5-year compound annual growth 5.3%
$11,720 per capita

UNEMPLOYMENT:
5.6%

INFLATION (CPI):
3.5%

FDI INFLOW:
$2.7 billion

PUBLIC DEBT:
27.9% of GDP

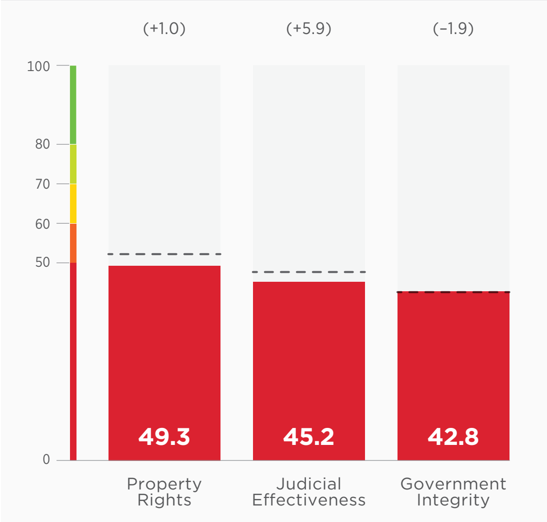
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Indonesia is the world's most populous Muslim-majority country. Since 1998, when long-serving authoritarian ruler General Suharto stepped down, Indonesia's nearly 259 million people have enjoyed a widening range of political freedoms, and participation in the political process is high. Joko Widodo, former businessman and governor of Jakarta, won a five-year presidential term in 2014. Indonesia has Southeast Asia's largest economy, but growth has slowed since the end of the commodities export boom. Key exports include mineral fuels, animal or vegetable fat, electrical machinery, rubber, machinery, and mechanical appliance parts. Continued improvements in infrastructure should help to reduce high transport and logistics costs. Indonesia has significant untapped maritime resources that could spur future development.

– – WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

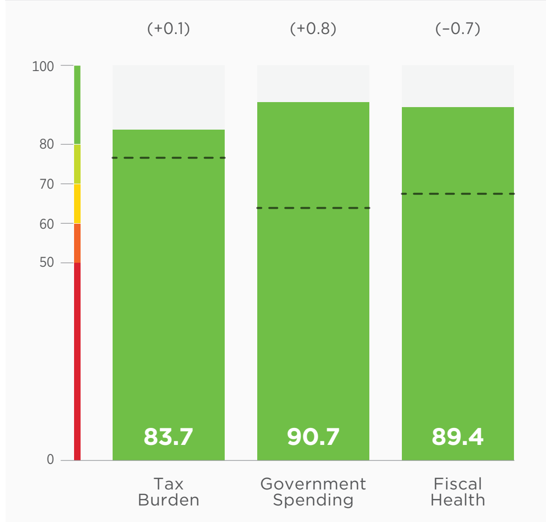
12 ECONOMIC FREEDOMS | INDONESIA

RULE OF LAW



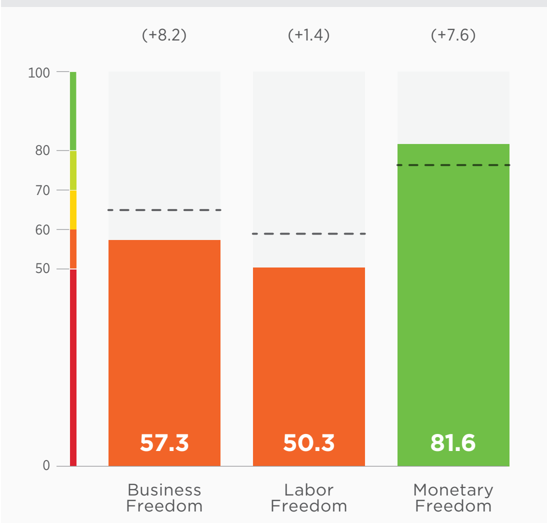
Enforcement of property rights is inefficient and uneven. Real property is sometimes difficult to register. The judiciary has demonstrated its independence in some cases, but the courts remain susceptible to influence from outside parties, including business interests, politicians, and the security forces. Despite several high-profile prosecutions, corruption is still perceived as endemic and widespread.

GOVERNMENT SIZE



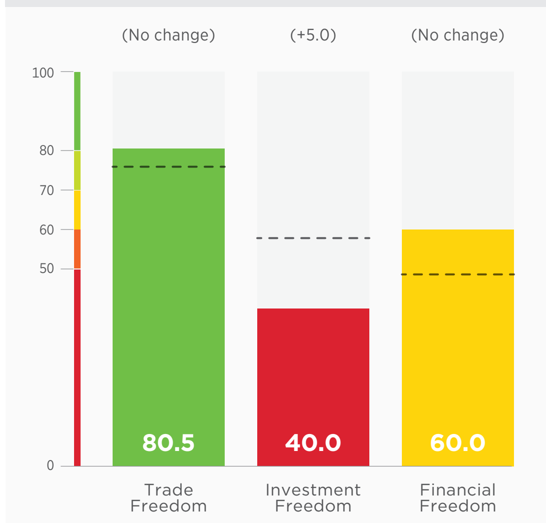
The top individual income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and property taxes. The overall tax burden equals 10.4 percent of total domestic income. Over the past three years, government spending has amounted to 17.6 percent of total output (GDP), and budget deficits have averaged 2.4 percent of GDP. Public debt is equivalent to 27.9 percent of GDP.

REGULATORY EFFICIENCY



Indonesia made starting a business easier in 2016 by abolishing the minimum capital requirements for small and medium-size businesses and enacting other reforms. Many provinces have raised the cost of unskilled and semiskilled labor by significantly increasing the minimum wage. President Widodo has been phasing out electricity subsidies that have drained the budget of billions of dollars and drawn resources away from higher-priority programs.

OPEN MARKETS



Trade is moderately important to Indonesia's economy; the combined value of exports and imports equals 37 percent of GDP. The average applied tariff rate is 2.3 percent. Nontariff barriers impede trade. Government openness to foreign investment is below average. The financial sector remains stable, and a Financial Services Authority has been formed with the stated goal of improving its regulatory efficiency.