

press release

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Standard Chartered issues special report on Indonesian infrastructure

21 February 2011 – Indonesia urgently needs to upgrade its infrastructure to ensure that its economy grows at its potential of around 8 per cent per year, according to a special report published by Standard Chartered Global Research. Infrastructure development will also be crucial in Indonesia's fight against inflation, as it seeks to lower the rate of price rise to levels of its regional peers in South East Asia, according to the report.

Infrastructure development has been slow in the past decade and has relied heavily on government spending. However, the government has been unable to allocate the sufficient funding needed, while participation from private investors is still way below what was expected.

The report explores the current condition of infrastructure in Indonesia, focusing on land transport, sea transport, air transport, and power infrastructure. Land transport infrastructure (comprising of roads, toll-roads, railroads and bridges) is still concentrated in Java, home to 59 per cent of the country's population and which occupies about 7 per cent of Indonesia's land area but contributes about 58 per cent of Indonesia's GDP.

As a result of this unequal distribution of national land transport system, resource-rich islands outside Java are still growing below their potential. Meanwhile, compared to other ASEAN-5 countries, Indonesia's main airports and seaports are outdated and, in some cases, overcrowded, putting Indonesia in a less competitive position in the world of international trade.

Tai Hui, Regional Head of Research, South East Asia, Standard Chartered Bank, commented: “In this report, we model Indonesia’s economic scenarios to assess the impact of infrastructure development in the transport and electricity sectors. Under the best of our most plausible scenarios, Indonesia’s economy is likely to grow in a range of 7.1-7.6 per cent during the 2011-14 period, if the private-sector participation rate in infrastructure development reaches 50 per cent of what is required and the government increases spending on transport infrastructure by 20 per cent a year.

“To help finance the nation’s infrastructure needs, the government is preparing to issue infrastructure bonds in the coming year. One of the first infrastructure bonds slated for issuance in 2011-2012 is the infrastructure sukuk, to be issued by the Ministry of Finance to finance projects in the approved national budget. The introduction of a new instrument will help deepen the Islamic bond market in Indonesia and further diversify the ministry’s funding sources for the national budget.”

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For further information, please contact:

Fauzi Ichsan
Senior Economist, Sr. Vice President Director
Standard Chartered Bank
Tel: +62 21 2555 0117
Email: Fauzi.Ichsan@sc.com

Notes to Editors:

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