

SURVEY OF RECENT DEVELOPMENTS

Mudrajad Kuncoro and Tri Widodo*
Gadjah Mada University, Yogyakarta

Ross H. McLeod*
Australian National University

SUMMARY

In the recent legislative elections the Democrat Party of President Susilo Bambang Yudhoyono (SBY) was by far the most successful. Support for other major secular-nationalist parties fell significantly, as did that for the Islamic parties as a group. Two new parties led by former generals also performed relatively poorly. At the time of writing SBY seemed the likely winner of the forthcoming presidential election, supported by running mate Boediono, the former governor of Bank Indonesia.

Indonesia's performance during the global financial crisis has been vastly better than during the Asian financial crisis, and superior to that of most other countries in the region. Output growth remained positive through Q1 2009, although there were signs of heightened caution within the business community. Deft monetary policy saw inflation decline significantly, with little negative impact on output growth or the banking sector. Much of the earlier declines in the financial markets had been reversed by mid-June. Successful management of exchange rate policy in late 2008 and early 2009 raises the question whether Indonesia would fare better with a more genuinely floating exchange rate and a much lower level of international reserves. Economic outcomes during the SBY administration fell well short of the president's 2004 election campaign promises, but were comparable with those under former president Megawati, reflecting the great policy similarities of the two regimes.

A key feature of the presidential election campaign has been the use of the term 'neo-liberal' to attack one's opponents. It has been implied that those following 'neo-liberal' policies favour the business sector and foreigners over the people, whereas the real issue is what types of policies are more likely to benefit the Indonesian people as a whole. The debate provides the opportunity potentially to resolve long-standing disagreements as to the relative efficacy of free market- and interventionist-type policies.

Public sector accounting reform is an important aspect of efforts to improve governance. Newly introduced accounting standards require a shift to double-entry accounting, and away from the single-entry system inherited long ago from the Dutch. This requires the listing of government entities' assets and liabilities in a balance sheet, and should lead to far greater accuracy in government financial reporting. In turn, this has the potential to be a powerful anti-corruption instrument. But progress is significantly limited by a severe shortage of accountants in the public sector, and by dysfunctional personnel management practices.

* We are grateful to Greg Fealy for contributing material on the 2009 elections.