



Monthly Economic Report

December 2005

Issued by Indonesia Kadin Secretariat
Cooperation between KADIN Indonesia and JETRO
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Economic Indicators

Indicator	2001	2002	2003	2004	2005
1. GDP with constant price of year 2000 (Trillion Rp)	1,443.0	1,506.1	1,579.6	1,660.6	1,313.4(3)
2. GDP Growth (%)	3.83	4.38	4.88	5.13	5.34 (3)
3. Inflation (%)	12.55	10.03	5.06	6.40	17.17(2)
4. Current Account (Billion US\$)	6.9	4.7	4.0	2.90	0.92(1)
5. Total Exports (Billion US\$)	56.3	57.0	55.6	69.7	70.3 (4)
6. Non Oil & Gas Exports (Billion US\$)	43.7	44.9	43.1	54.10	48.63(4)
7. Total Imports (Billion US\$)	31.0	31.2	29.5	46.20	33.81(4)
8. Non Oil & Gas Imports (Billion US\$)	25.5	24.8	22.6	34.60	21.67 (4)
9. Trade Balance (Billion US\$)	25.4	25.8	26.1	23.50	21.67(4)
10. Reserve Money (Trillion Rp)	127.8	138.3	136.5	199.70	256.9 (5)
11. Money Supply (Trillion Rp)					
a. M1	177.7	191.9	207.6	253.8	274.8 (6)
b. M2	844.1	883.9	911.2	1,033.5	1,115.9(6)
12. Third Party Fund (Trillion Rp)	809.1	845.0	866.3	965.1	1,050.3(6)
14. Interest Rates (% , annually)					
a. 1 month SBI	17.6	12.9	8.1	7.4	12.75(7)
b. 1 month Time Deposit	16.1	12.8	7.7	6.4	9.17 (8)
c. Working Capital Credit	19.2	18.3	15.8	13.4	14.51(8)
d. Investment Credit	17.9	17.8	16.3	14.1	14.47(8)
15. Rupiah/US\$ (Bank Indonesia Middle Rate)	10,400	8,940	8,330	9,355	9,815(9)
16. Investment Approval					
- Domestic (Trillion Rp)	58.8	25.3	16.0	36.8	44.59(4)
- Foreign (Billion Rp)	15.1	9.7	6.2	10.3	11.195(4)
17. JSX Composite Stock Index	392.0	424.9	742.5	1,000.2	1,155.9(9)
18. JSX Market Capitalization (Trillion Rp)	239.3	268.4	411.7	679.9	795.4 (9)

Source: BPS, BI, and JSX

1) January-June 2005

2) January – November 2005

3) January - September 2005

4) January – October 2005

5) October 2005 position

6) August 2005 position

7) Position on 14 December 2005

8) September 2005 position

9) Position on 15 December 2005

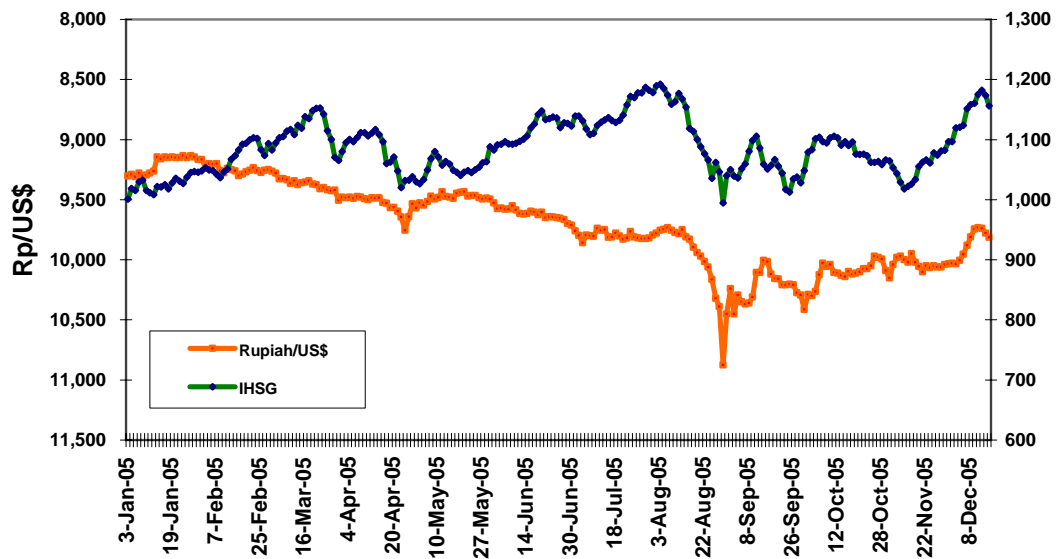


Indonesian Economic Development Monthly Development

December 2005

The establishment of a new economic team, as a result of cabinet reshuffle in the beginning of December, was not only responded positively by the market but create an optimistic hope to the national economy. The market optimism has increased when Dr. Boediono was asked by the President to be involved in cabinet structure. This condition led the strengthening of rupiah exchange rate and the composite stock index. Since the new economic team was sworn, the rupiah exchange rate become stronger and it reached Rp 9.735 in 12 December 2005, which was the highest level in the last four years. Although it became weak to the level of Rp 9,780 in the middle of December, but there is a tendency that rupiah will be stronger.

Graph 1
Rupiah Middle Rate and Composite Stock Index (IHSG)
January 2005 – 15 December 2005



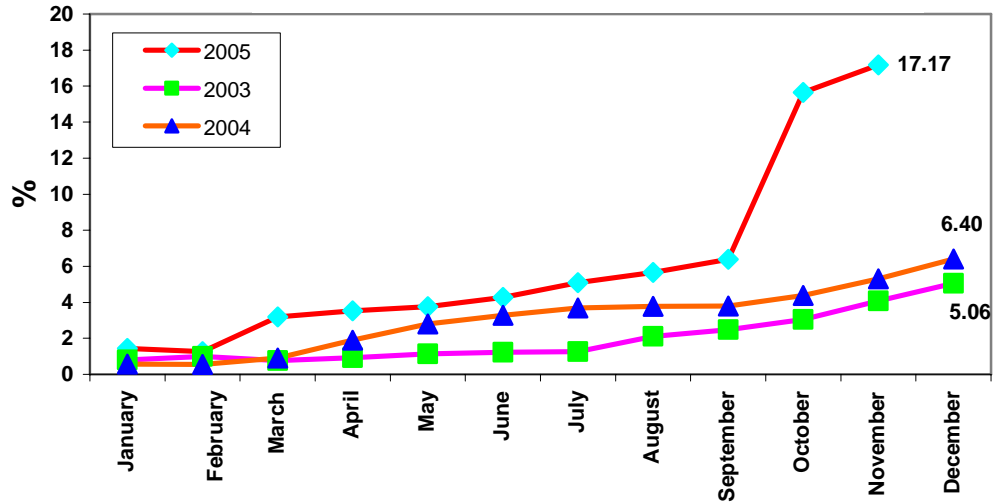
The strengthening of rupiah reflects the improvement of market trust to the economy prospect in Indonesia. Although the inflation rate in November still recorded a high increase as a result of the increase of BBM price in last October, it seems that the market accepted this condition. Therefore, Bank Indonesia is not willing to increase BI rate soon as a response to the increase of Fed Funds rate, which increased by 25 basis point to 4.25%.

Inflation

The impact of the increase of domestic BBM price still continued since the pressure on price was still high in November 2005. This condition was reflected from the high inflation in November that reached 1.31%, which was the highest November inflation for the last three years. This high inflation was beyond the government expectation. The government

expected that the inflation on November would be less than 1%, or could be a deflation. This condition was not only attributable to the increase of BBM price, also some factors related to Lebaran such as the increase of demand on products and services, especially in food.

Graph 2
Cumulative Inflation (%)
2003 – 2005 (January – November)



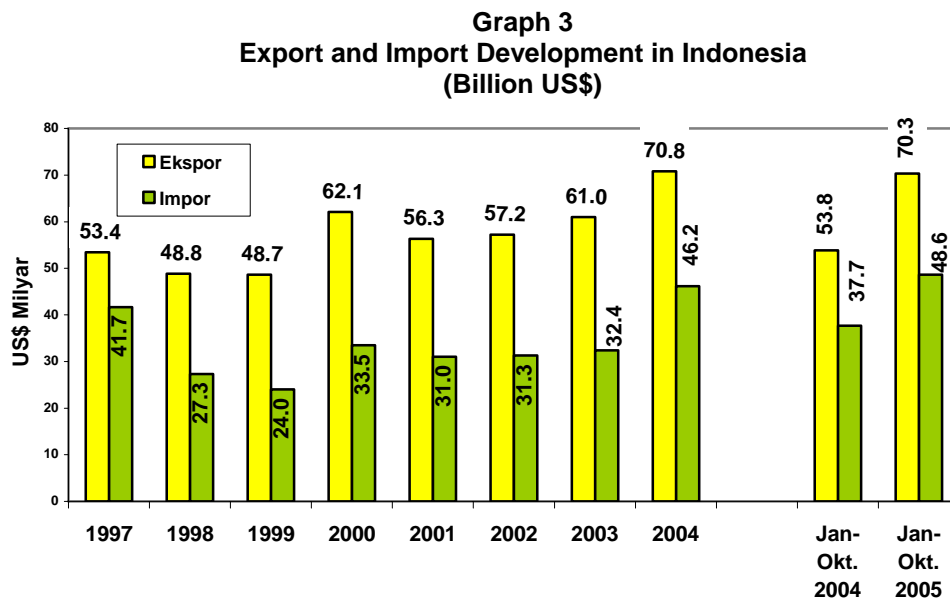
This November high inflation caused the annual inflation (*year on year*) closely reached 18,4 %. While the cumulative inflation in January – November 2005 has reached 17.2%. This high inflation will affect to the increase of production cost, which finally lead to the increase of product selling price of some industry. On the other side, the people purchasing power has declined sharply, therefore the production sector outputs could not be absorbed at the maximum level.

This condition has been persisted at the time of tight export competition and in the weakening of global economy, therefore the absorbs of production output in the form of export is getting limited. If the incentive promised by government can not compensate this condition, it possibly leads to the decrease, or even the discontinuity of production process,

which in turn leads to the increase of unemployment. If this condition is not handled properly, it will lead to the stagflation.

Export and Import Development

For the first ten months in 2005 (January-October 2005), the Indonesia International Trade Balance recorded a surplus of US\$ 21,69 billion, or increased by 34,1 % compared to the surplus achieved in the same period of 2004 that reached US\$ 16.18 billion. This trade balance surplus was happened because the total export reached US\$ 70.32 billion, while the import reached US\$ 48.63 billion.



By the export achievement of US\$ 70,32 billion, it means that the export grew by 30.6% compared to the export value on the same period of 2004, that reached US\$ 53,84 billion. In this period, the oil and gas export increased by 22.2% from US\$ 12.91 billion to US\$ 15.78 billion, while, the non oil and gas export increased by 18.7% from US\$ 45.93 billion to US\$ 54.53 billion. Compared to the export performance in the beginning of

2005, this export growth tends to be slow down. This also can be seen on the quarterly export growth.

Compared to the export value in the same period of 2004, the export growth in the first quarter of 2005 reached 32.2%. On the second quarter, the export growth was 23% and on the third quarter was only 10.4%. For the fourth quarter, the export growth is unknown, but the value and the volume is estimated higher than the fourth quarter in 2004. Although the business world was depressed due to the increase of BBM price at 1 October 2005, but it did not effect the export condition on that time. This was happened because the export on the fourth quarter was the realization of the contract agreed before the increase of BBM price.

This condition brings a hope that the estimation of US\$ 80 billion export value for year 2005 is possibly to be achieved. But to achieve this figure is not too easy, since the economy macro condition is unstable due to the depreciation of rupiah exchange rate. Therefore, to achieve the growth of non oil and gas export by 10% in 2005 is quite difficult, because the growth of non oil and gas export has become weak since the beginning of 2005. In the first quarter, the non oil and gas grew by 35% compared to the same period of 2004, while in the second quarter the growth decreased into 25.5% and finally, on the third quarter the growth was 6.7%. Meanwhile, the effort to increase the non oil and gas export in 2005 was hampered by the high inflation and the fluctuation of rupiah exchange rate against US\$. Actually, the main supporting sector of non oil and gas export is manufacturing industry, which its raw material needs to be imported.

The performance of non oil and gas export to some country destination in January – October 2005 shows some improvement. In this period, the

biggest non oil and gas export was to Europe (US\$ 8.31 billion), USA (US\$ 8.01 billion), Japan (US\$ 7.96 billion) and Singapore (US\$ 5.83 billion). This four countries contributed about 55% of the total non oil and gas export to 9 main countries destination.

In period January – October 2005, the import value increased by 29.13% compared to the import value in the same period of 2004, from US\$ 37,66 billion to US\$ 48,63 billion. The increase of oil and gas import reached 58.59% from US\$ 9,34 billion to US\$ 14,82 billion. This was happened because the oil price in international market was relatively high, although the price decreased from US\$ 61.1 per barrel in September 2005 to US\$ 58.06 in October. The sky rocketing of oil and gas import was mainly triggered by the increase of oil products by 97.49% and crude oil by 23.01%.

Meanwhile, the non oil and gas import increased by 19.41% from US\$ 28.31 billion to US\$ 33.81 billion. The biggest non oil and gas import was machineries/mechanic machine , steel and electric machine/equipment. During January – October 2005, the import value of these commodities increased by 34.3%, steel by 34.5% and steel products by 75.5%. The biggest import value came from Japanese, China and US products. Based on the use of products, the capital goods import shows the highest increase that achieved 33.7% from US\$ 5,17 billion to US\$ 6,92 billion, followed by raw/supporting material by 29.2% from US\$ 29.38 billion to US\$ 37.95 billion, and consumption products by 21% from US\$ 3.11 billion to US\$ 3.76 billion.

Foreign Exchange Reserves

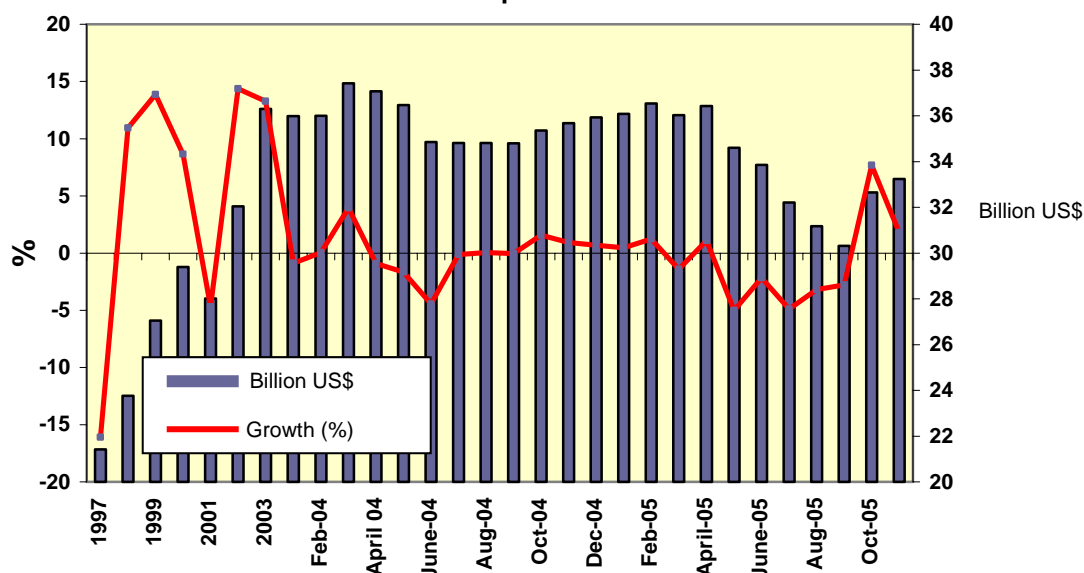
In 2005, the Indonesian foreign exchange reserves tend to decline continuously, due to the high international oil price that reached US\$ 68 barrel. Moreover, the foreign exchange needs for debt repayment in 2005 reached US\$ 7 billion, although there was moratorium facility on some foreign debt. Bank Indonesia also used the foreign exchange reserves to stabilize the rupiah exchange rate against US\$.

The government was concerned about the decrease of foreign exchange reserves reached US\$ 5 billion for the period January – September 2005. The government estimated that by the end of 2005, the foreign exchange reserves will be on the level of US\$ 30.7 billion, much lower than the position at the end of 2004 that reached US\$ 35.93 billion. But, the development in the last two months has generated an expectation of the improvement on the foreign exchange reserves. The position of foreign exchange reserve at the end of October that reached US\$ 32.65 billion shows the 7% increase from US\$ 30.32 billion in September. This increase was still continue until the end of November 2005, which the foreign exchange reserves reached US\$ 33.24 billion or increased by 1.82% from the October position.

The strengthening of foreign exchange reserves for the last two months did not indicate the tendency of increase in the following months. But, at least, this condition created an optimism that the condition of foreign exchange reserves will be improved. The external factor which support this condition was the tendency of the decrease of international oil price. Due to the increase of BBM price, the demand of oil was declined which then decreased the need of US\$ by Pertamina to import oil.

Graph 4
Foreign Exchange Reserves Position
1997 – November 2005

Grafik 4
Posisi Cadangan Devisa
1997 - November 2005



On the other side, the improvement of foreign exchange reserve has given a hope that the rupiah exchange rate will be stronger. One factor that caused the depreciation of rupiah against US\$ was the high of US\$ demand needed by Pertamina to import the oil. Meanwhile, the domestic US\$ supply was still limited, since the export performance was slow down. Besides that the capital inflow was also restrained since the investment climate was not conducive.

But it is quite difficult to confirm whether the strengthening of foreign exchange reserves for the last two months will be continued in 2006. There is a concern of pressure on the short term foreign reserve, since the fundamental of Indonesian economy has not improved significantly. Therefore, the reshuffle of cabinet carried out by President SBY is expected to have positive impact to the economic macro condition as a whole.

It is expected that the improved economic macro fundamental will lead to the more foreign investment, which then will increase the foreign exchange reserves in 2006. The government was estimated that the foreign exchange reserve will decrease to the level of US\$ 27.1 billion due to the increase of foreign currency in 2006. This is happened because, there will be no debt moratorium, therefore the government will pay the debt in arrears, besides that there will be many private sectors' debt are due. According to BI, the peak of due date of foreign debt will be in 2006 – 2007.

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