Kamar Dagang dan Industri Indonesia

Monthly Economic Report

December 2006

Secretariat of Indonesia Chamber of Commerce and Industry
by
Erna Zetha
DR. Tulus Tambunan

Menara Kadin Indonesia 29th Floor
Jl. HR. Rasuna Said X-5 Kav. 2-3 Kuningan – Jakarta Selatan
www.kadin-indonesia.or.id

ECONOMIC INDICATOR

No	Indicator	2002	2003	2004	2005	2006
1	GDP with constant price of year 2000 (trillion Rp)	1,506.10	1,579.60	1,660.60	1,749.60	1,378.4 (1)
2	GDP Growth (%)	4.38	4.88	5.13	5.6	5.14 (1)
3	Inflation (%)	10.03	5.06	6.4	17.11	6.60 (2)
4	Total Export (billion US$)	57.0	55.6	69.7	85.57	91.19 (3)
5	Non Oil and Gas Export (billion US$)	44.9	43.1	54.1	66.32	71.89 (3)
6	Total Import (billion US$)	31.2	29.5	46.2	57.55	56.06 (3)
7	Non Oil and Gas Import (billion US$)	24.8	22.6	34.6	40.16	38.47 (3)
8	Trade Balance (billion US$)	25.8	26.1	23.5	28.02	35.13 (3)
9	Current Account (billion US$)	4.7	4.0	2.9	0.93	3.42 (1)
10	Foreign Reserves (billion US$, year end)	32.0	36.3	35.93	34.72	42.59 (6)
11	Foreign Debt Position (billion US$)	131.3	135.4	136.1	133.5	131.8 (7)
12	Rupiah/US$ (Bank Indonesia Middle Rate)	8,940	8,330	9,355	9,830	9,020 (7)
13	Total Government Revenue (trillion Rp)	299.0	340.7	407.5	516.2	539.4 (*)
14	Total Government Expenditure (trillion Rp)	244.0	258.1	306.1	542.4	559.3 (*)
15	Budget Deficit (trillion Rp)	-23.2	-37.7	-17.4	-26.18	-19.9 (*)
16	Base Money (trillion Rp)	138.3	136.5	199.7	239.8	264.5 (5)
17	Money Supply (trillion Rp)					
	a. (M1)	191.9	207.6	253.8	281.9	346.4 (4)
	b. (M2)	883.9	911.2	1,033.50	1,203.20	1,325.7 (4)
18	Banking Third Party Fund (trillion Rp)	845.0	866.3	965.1	1,134.10	1,244.9 (4)
19	Banking Credit (trillion Rp)	365.4	411.7	553.6	689.7	749.9 (4)
20	Interest Rate (%, annually)					
	a. 1 month SBI	12.9	8.1	7.4	12.75	10.25 (5)
	b. 1 month Time Deposits	12.8	7.7	6.4	11.98	10.01 (4)
	c. Working Capital Credits	18.3	15.8	13.4	15.92	15.6 (4)
	d. Investment Credit	17.8	16.3	14.1	15.43	15.5 (4)
21	Investment Approval					
	- Domestic (trillion Rp)	25.3	16.0	36.80	50.58	157.53 (3)
	- Foreign (billion US$)	9.7	6.2	10.3	13.58	13.89 (3)
22	JSX Composite Index	424.9	742.5	1,002.20	1,162.60	1,805.5 (6)
23	JSX Market Capitalization (trillion Rp)	268.4	411.7	679.9	758.4	1.249.1 (6)

Source: BPS, BI and JSX

1) 1st –3rd Quarter
2) January – December 2006
3) January – November 2006
4) Position at the end of October 2006
*) in 2006 State Budget

5) Position at the end of November 2006
6) Position at the end of December 2006
7) Position at the end of 1st quarter of 2006

The Economic Development in Indonesia

Monthly Analysis

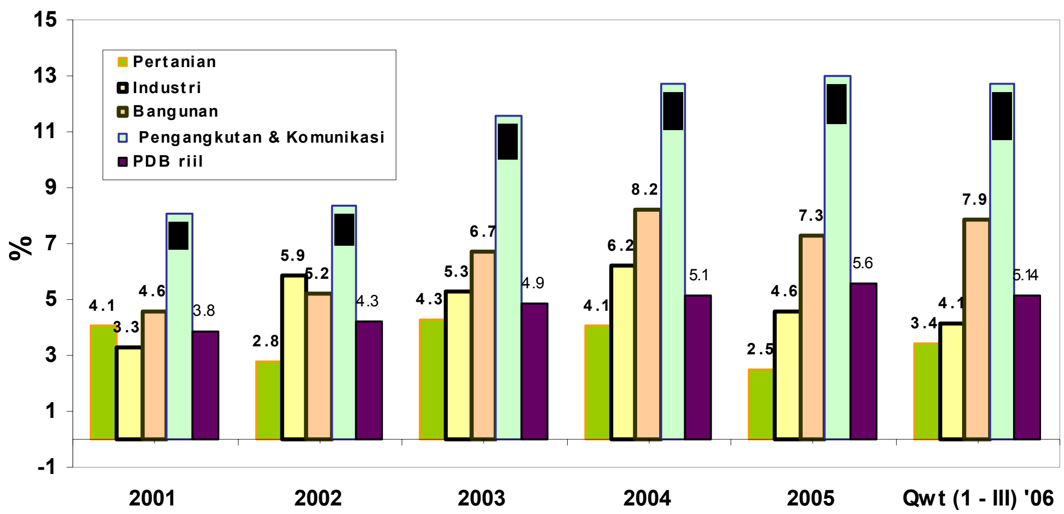
By Indonesia KADINSecretariat Erna Zetha and DR.Tulus Tambunan
JETRO Senior Advisor Yojiro OGAWA and Shoji MAEDA

KADIN Indonesia **December 2006**

Despite the fact that macro economic was well maintained, the Indonesian economy situation as a whole during the year 2006, was not comparable with the condition in 2005. The economic growth is predicted to be under 5.6% or lower than the realized growth in 2005, and it was attributable not only to frail activities in real production sector but also to low consumers' bargaining power which in turn diminishing the consumption level. The economic growth in 2006 was driven mainly by the export activities (products and services) which were up by around 11.7% during the first quarter of 2006 compared to the growth of people's consumption, which was below 3% during the same period.

Slowing down activities in real sector may not only be judged from low level of investments during 2006, but also apparent in production side of various economic sectors, which have been the main growth stimulators in the past few years. During the first quarter of 2006, the growth of manufacturing sector was merely recorded at around 4.1% or lower than the growth level achieved in the same period of 2005 of 5.2%. Meanwhile, the growth of trade sector, which was recorded at 9.5% during the first quarter of 2005, was only increased by 5.5% during the same period in 2006. Similarly, with financial sector, transportation, communication and electricity sectors, which were all, improved in lower level in the year of 2006.

GDP Growth by Economic Sector
2001 – 2006 (%)



Note: Pertanian: Agriculture; Industri: Industry; Bangunan: Buildings; Pengangkutan & Komunikasi: Transportation and Communication; PDB Riil: Real GDP.

Not fully recovered industrial sectors were closely linked to the gloomy condition of our business world. As a result, though the rupiah stability could be well maintained, and that rupiah's value indicated stronger level, yet the production climate was unfavorable enough to improve the investment activities. It is well aware that rising production cost has been the major burden for business world mostly due to limited energy supplies and poor infrastructures as well as problems surrounding labor issues, following unfair policies for the business world. In addition to that, unsolved matters dealing with smuggling issues has pushed aside domestic productions by illegal yet cheaper imported products.

Moving into 2007, optimism toward a much better Indonesian economy condition still sparks from some peoples. This optimism was related to improving several macro economic indicators such as jumping export value, lower inflation rate, strengthening rupiah, and domestic capital market booming. However, it should be realized that all those accomplishment may not be well functioned without a substantial reconciliation in real production sectors. It is fact that investment approvals and realizations were below expectations during the year 2006, then it is estimated that production activities in 2007 will be greatly influenced by that condition. Lack of incentives-related policies in production sector is feared to cause undeveloped production activities in real sectors in 2007.

As it is known, investment condition in 2006 was noticeably different from the achieved performance in the previous year of 2005. Though slowing down investment growth was recorded during the end of 2005, yet investment activities, as a whole throughout that year was much higher than in 2006. In 2005, realization of foreign direct investment (FDI) and domestic direct investment (DDI) both reached relatively high level of 93.7% and 100.9% respectively. As a result, the growth at a level of 5.5% was possible to be achieved in 2005. Meanwhile, the realization of FDI and DDI during the period of January – November 2006 declined by 45.8% and 37.1% respectively, compare to those in 2005.

Investment Realization

Year	Domestic Investment		Foreign Investment	
	Project	Billion Rp	Project	Million US$
2001	160	9,891	454	3,509
2002	108	12,500	442	3,090
2003	119	11,890	570	5,450
2004	129	15,265	544	4,601
2005	214	30,665	909	8,915
Jan – Nov'05	192	26,906.2	831	8,677.9
Jan – Nov'06	145	16,912.8	801	4,699.9

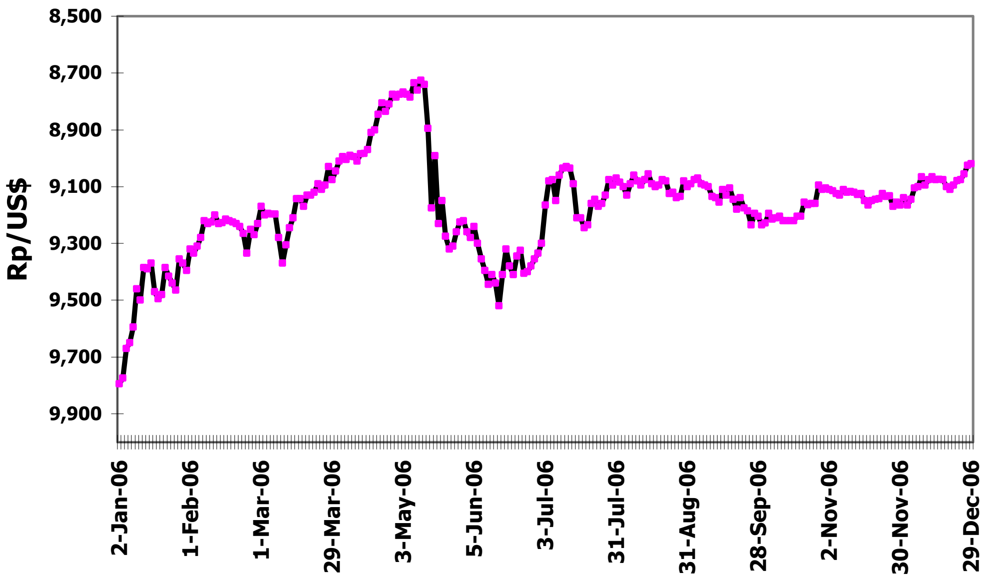
Source: BKPM

Nevertheless, the monetary stability accomplished during 2006 was encouraging, and could stimulate faster and higher economic growth in 2007. Fully utilization of these macro economic factors should be immediately realized in the form of policies implementation while government credibility is still perceived as relatively good image. Fail to meet such a potential momentum will bring about political distress that will hamper the overall economy recovery in the following years.

The Growth of Money Market and Capital Market

Though the fluctuation of Thailand Baht because of control capital policy recently implemented by Central Bank of Thailand has aroused slight anxiety, yet it was not affected rupiah exchange value. Part of it was due to the improving export value as well as increasing foreign exchange reserved, but unable to regain its best position at the level of Rp. 8,725 in May 10, 2006. With a middle rate at the level of Rp. 9,235 at the end of December 2006, then generally the year on year rupiah's value throughout 2006 experienced an appreciation of around 8.3%.

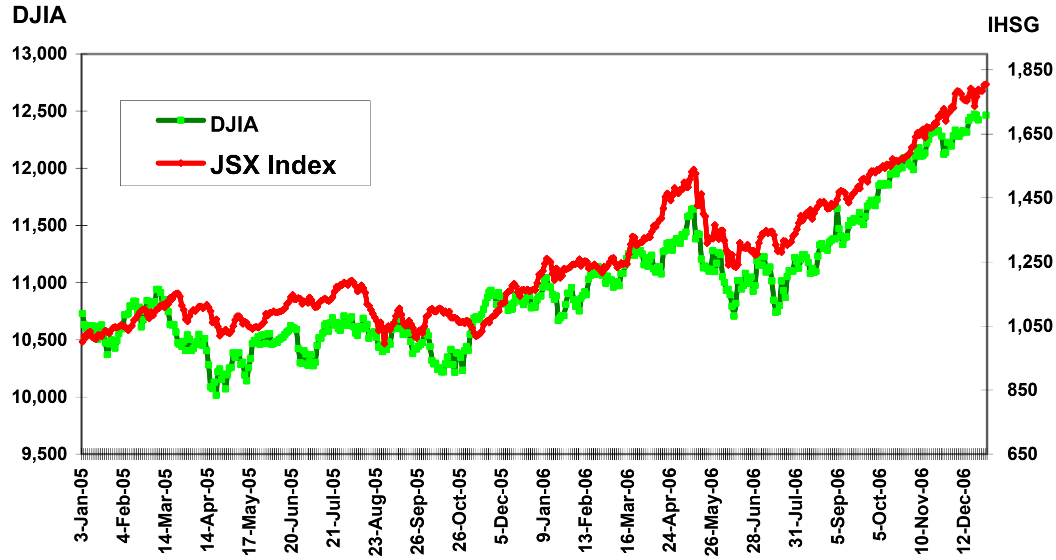
Rupiah Middle Rate against US$
January 2005 – December 2006



In the meantime, domestic stock prices indicated an increasing trend which was in conjunction with maintained monetary stability and bullish world capital market condition and driven the Composite Stock Prices Index in Jakarta Stock Exchange to its best performance in 2006. New index records have been set for several times and even at the closing of year 2006 where it hit 1,805.5 on December 28, 2006. Compared to the position at the end of 2005 of around 1,162.6, then the stock prices index enjoyed a growth of 55.3%. This figure was actually the third best figure in the world after Russia and China Stock Exchange Market.

Following that event, Dow Jones Index reached the level of 12,463.15 at the end of December 2006 which jumped by 16.3% from the level of 10,717.5 recorded at the end of December 2005. In addition, it was once hit its highest record of 12,471.32 in December 19, 2006.

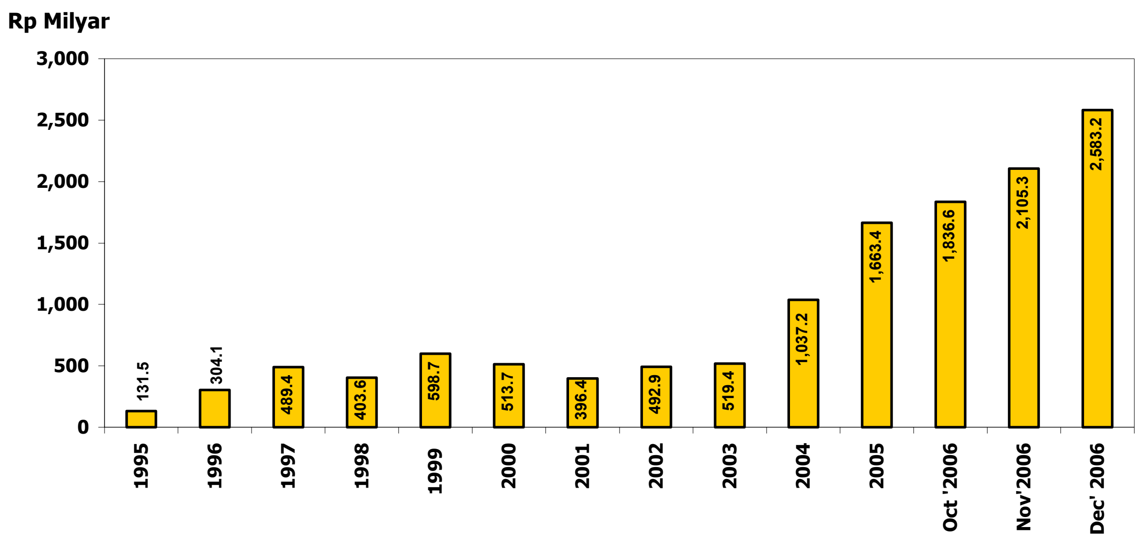
DOW Jones and JSX Index
January 2005 – December 2006



Note: DJIA: Dow Jones Index
IHSG: JSX Composite Index

A spectacular achievement of stock prices index in JSE during the past 2006 has recorded a capitalization value of JSE market in 2006, at a spectacular level as well which reached Rp. 1,246 trillion, or rose by 55.6% compared to the value in 2005 (totaling Rp. 801.3 trillion). It was apparently supported by stock exchange transactions throughout the year of 2006, which recorded an increased in average daily stock exchange transactions of 10.2% to Rp. 1.84 trillion from Rp. 1.67 trillion in 2005

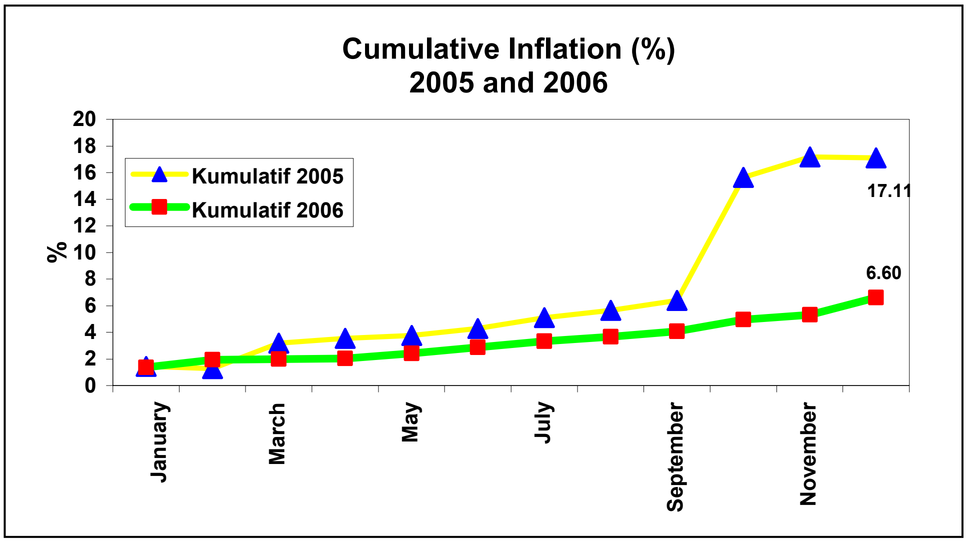
The Average Daily Trading in Jakarta Stock Exchange
(Billion Rp)



Note: Rp milyar: billion Rp

The Growth of Inflation

Even though the flow of inflation in December arrived at 1.21%, the overall inflation rate for the whole year 2006 merely reached 6.6%, which was far below the rate in 2005 of around 17.11%. Unfortunately, such a low inflation was not necessarily reflected any improvement in people's welfare throughout the year 2006. The increasing price of rice as well as other primary needs, particularly toward the end of 2006, has even burdened the life of the people, particularly those victims of natural disasters in various places in Indonesia during the past 2006. In this case, Government's lack of concerned toward people's welfare was obvious since they put more consideration on how to achieve economic stability rather than how to increase domestic production for the sake of the people. The effort to improve investment activities has been conducted by initiating some form of economic cooperation with various parties in foreign countries, yet it is seemed that the government leave behind the fact that various domestic recuperation need to be in place in order to attract investment, including production climate.



Note: Kumulatif: Cumulative

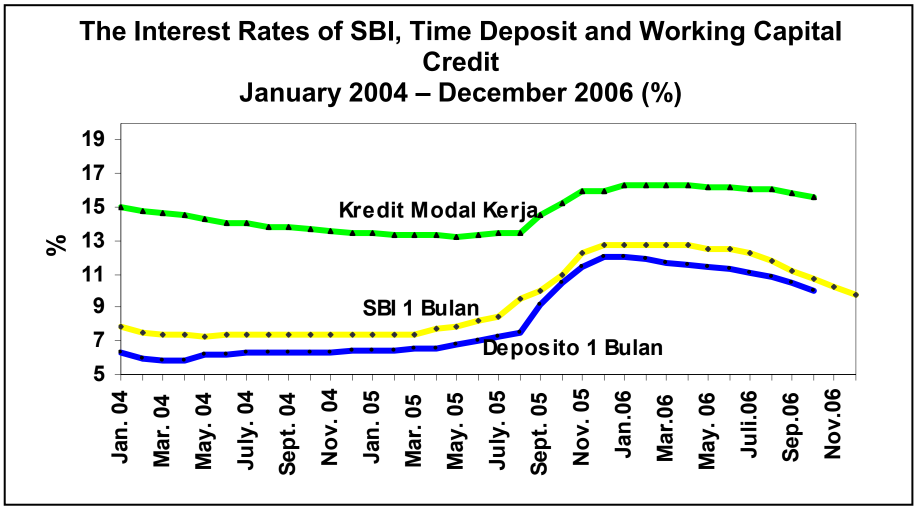
Relatively high inflation rate in December last year was mostly driven by the high price increased in processed food groups that reached 3.12%. In other words, from 1.21% of the general inflation rate, as much as 0.77% was contributed by this processed food group. Significant price jump in this group was attributable to the drought condition suffered by major productions of vegetables, added by the rarity supply of rice that pushed the price to increase even further until the mid January this year.

High inflation rate was also experienced by other groups such as beverages, cigarettes, and tobaccos as well as health group. In December of 2006, these two distinct groups recorded an increment of around 1.11% and 1.05% respectively. Lower demand on necessities (other than food) after the Lebaran day has caused the inflation rate of this particular group to merely reached 0.13% in December. Low inflation also occurred in educational group, which was only improved by 0.07% following its peak in August and September 2006.

The Growth of Interest Rate

In conjunction with declining inflation rate, Bank Indonesia continued to reduce its BI rate. With decreasing level by as much as 50 bps, the BI rate has regained its single digit position on December 2006, following 16 months to be at the double-digit level, to arrive at 9.75%. The continuous decline of interest rate was made possible by relatively low inflation rate in the month of November 2006 as well as stable economic macro.

Whereas diminishing global interest rate trend has also been the external factor to influence declining BI rate. It was related to the Fed Funds interest rate, which was maintained at the level of 5.25%.



Note: Kredit Modal Kerja: Working Capital Credit; SBI 1 bulan: 1 Month SBI; Deposito 1 bulan: 1 month Time Deposit

Decreasing BI rate expected to raise optimism that Indonesian economic condition will moved toward a better condition next year. Not to mention that banking interest rate has also shown declining trend, particularly loan interest rate. With a single digit BI rate then the deposit interest rate will be below the BI interest rate, let alone that the interest rates of warranty and total deposit secured by the government have also tend to drop. Based on those assumptions, deposit interest rate might at least position at the level below 9.75 % by the end of 2006. It means that loan interest rates might be reduced until the level of 14%-16%. However, it may not be realized without a strong will from various parties, particularly banking sector, in an effort to reduce its loan interest rates.

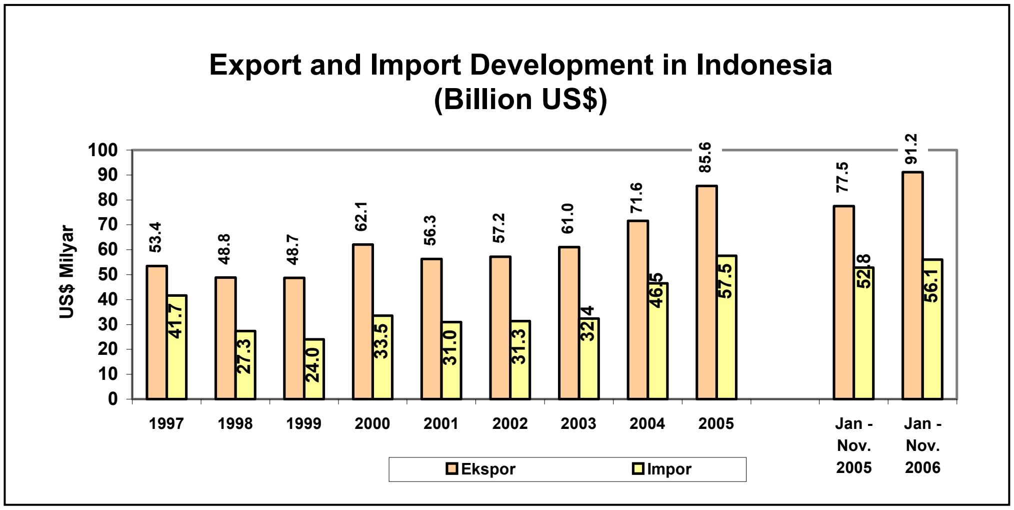
These were actually related with perceived high risk of loan distribution. Though the margin difference among SBI interest rate to deposit interest rate was insignificant, yet most banks chose to secure its fund in form of SBI rather than loan disbursement. As it was recorded at the end of October 2006, total banking fund allocated in SBI reached Rp. 136.56 trillion or increase by almost Rp. 110 trillion from its position at the end of October 2005. During the period of January-October 2006, banking income reached the level of Rp. 14.59 trillion or up by 122% from Rp. 6.58 trillion during the same period in 2005, and banking net profit improved by around 13%.

The Growth of Export

Far better condition of Indonesian foreign trade was clearly depicted from the export value of around US$ 8.9 billion in November 2006. With an export value closed to US$ 91.2 billion during the first eleventh months (January-November) 2006 or increased by 17.6% compare to the export value during the same period in 2005, Indonesia has set another highest record of export value in the history of its national economy. This figure also recorded a trade surplus of around US$ 35.1 billion during that period since the import value reached US$ 56.06 billion from January to November 2006. The figure was much higher than the trade balance recorded in 2005 totaling US$27.96 billion.

However, such an increase of export value was not necessarily reflected better performance during the year 2006, since it was more supported by the increased prices of commodities in mining sector and some agricultural sector in international market. In addition, the increase in industrial sector, which was recorded at around 16.7% compared to mining sector that jumped around 40.4%, indicating a weak competitiveness of manufacture industrial sector during the past 2006.

Besides, some argued that not all of those export figures characterized the actual condition of Indonesian export due to the existence of transshipment issue. If that was the case, then high increase of export value during the year 2006 which driven the economic growth along that year, could not be expected to push the investment activities in 2007.



Note: Ekspor: Export; Impor: Import; US$ Milyar: Billion US$