



Indonesia Chamber of Commerce and Industry

Monthly Economic Report

February 2007

Secretariat of Indonesia Chamber of Commerce and Industry

By

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ECONOMIC INDICATORS

No	Indicators	2002	2003	2004	2005	2006
1	Constant Price of GNP Value in 2000 (Rp quintillion)	1,506.10	1,579.60	1,656.8	1,750.7	1,846.7
2	GNP Development (%)	4.38	4.88	5.13	5.6	5.48
3	Inflation (%)	10.03	5.06	6.4	17.11	6.6
4	Total of Export (USD billion)	57	55.6	69.7	85.57	100.69
5	Non Oil and Gas Export (USD billion)	44.9	43.1	54.1	66.32	79.52
6	Total of Import (USD billion)	31.2	29.5	46.2	57.55	61.08
7	Non Oil and Gas Import (USD billion)	24.8	22.6	34.6	40.16	42.10
8	Balance of Trade (USD billion)	25.8	26.1	23.5	27.96	39.61
9	Balance of Current Transaction (USD billion)	4.7	4.0	2.9	0.93	3.42 (1)
10	Foreign Exchange Reserve (USD billion, end of year)	32.0	36.3	35.93	34.72	43.27
11	Foreign Debt Position (USD billion)	131.3	135.4	136.1	133.5	131.8 (2)
12	Rupiah/USD (Middle Exchange Rate of Bank of Indonesia)	8,940	8,330	9,355	9,830	9,020
13	Total of Government Income (Rp quintillion)	299.0	340.7	407.5	516.2	539.4 (*)
14	Total of Government Expenditure (Rp quintillion)	244.0	258.1	306.1	542.4	559.3 (*)
15	Budget Deficit (Rp quintillion)	-23.2	-37.7	-17.4	-26.18	-19.9 (*)
16	Primary Money (Rp quintillion)	138.3	136.5	199.7	239.8	264.5 (3)
17	Circulating Money (Rp quintillion)					
	a. Narrow Sense (M1)	191.9	207.6	253.8	281.9	346.4 (4)
						1,325.7
	b. Broader Sense (M2)	883.9	911.2	1,033.50	1,203.20	(4)
						1,244.9
18	Third Party Banking Fund (Rp quintillion)	845.0	866.3	965.1	1,134.10	(4)
19	Banking Credit (Rp quintillion)	365.4	411.7	553.6	689.7	749.9 (4)
20	Interest Rate (% per year)					
	a. One month BIC	12.9	8.1	7.4	12.75	9.75
	b. One month Deposit	12.8	7.7	6.4	11.98	8.96
	c. Working Capital Credit	18.3	15.8	13.4	15.92	15.07
	d. Investment Credit	17.8	16.3	14.1	15.43	15.1
21	Investment Approval					
	- Domestic (Rp quintillion)	25.3	16.0	36.80	50.58	157.53 (3)
	- Foreign (US\$ billion)	9.7	6.2	10.3	13.58	13.89 (3)
22	CSPI JSX	424.9	742.5	1,002.20	1,162.60	1,805.5
23	Market Capitalization Value of JSX (Rp quintillion)	268.4	411.7	679.9	758.4	1,249.1

Source: BPS, BI, JSX

- 1) I – III Trimonthly
- 2) January – December 2006
- 3) January – November 2006
- 4) Latest position on October 2006
- 5) Latest position on November 2006
- 6) Latest position on December 2006
- 7) Latest position on First Trimonthly 2006
- *) in CREP 2006



Indonesia Economic Development

Monthly Analysis

By Secretariat of ICCI Indonesia Erna Zetha and DR. Tulus Tambunan

Expert Advisor of JETRO Yojiro OGAWA and Shoji MAEDA

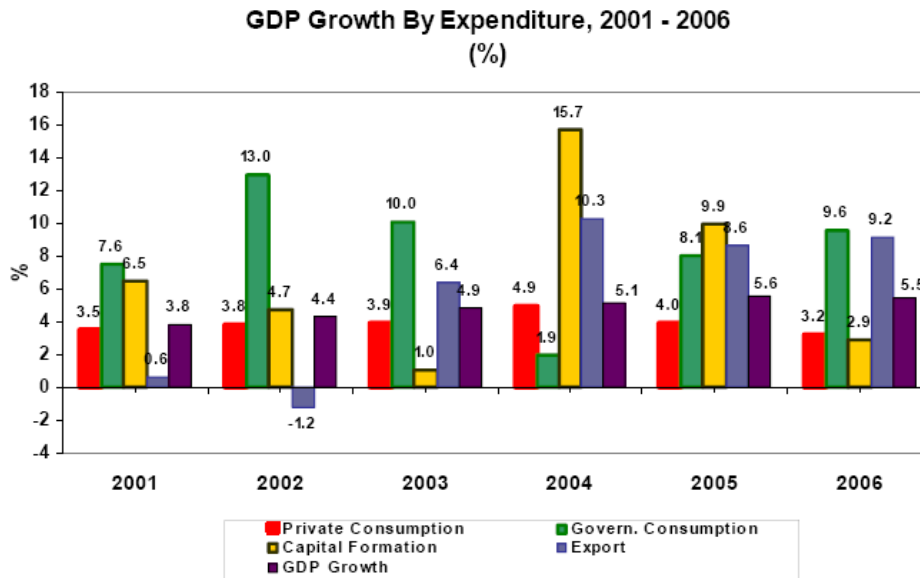
KADIN Indonesia

February 2007

Just as expected previously, the economic growth in 2006 was no better than the growth in 2005. Although macro economic stability can be well maintained, but it still can not stimulate optimism among the people. Uncertainty level was quite high among business circle is the primary cause from the low investment level during 2006 then, and this has something to do with the inconducive climate at real production sector. Various policies released by the government can be said to be ineffective in creating conducive investment climate since they oftentimes shaded by the government's doubt in implementing those policies.

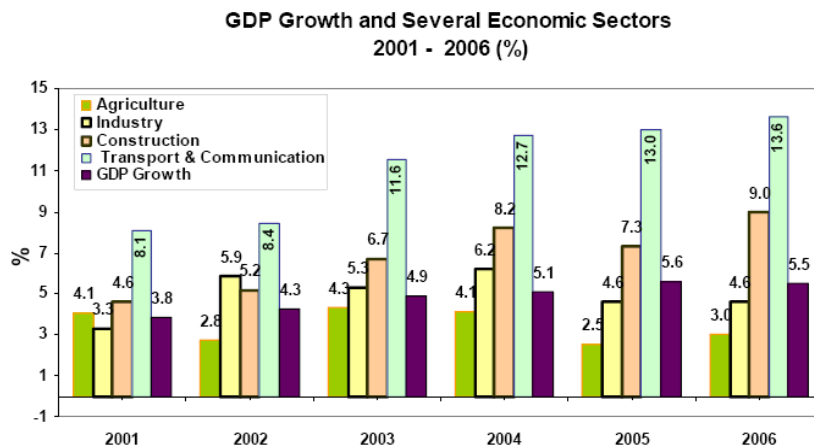
From economy growth level which only around 5.48 percents during 2006, physical investment growths (Gross Fixed Capital Formation) only around 2.9 percents which lower than the growth in 2005 that achieved 10.8 percents. This condition has been going on since the first quarter of 2006, especially in investment in the form of machinery and foreign equipments that went down as big as 25.7 percents. When compared to the condition in 2005 that had an increase as big as 31 percents in machinery investment and foreign equipments, then the investment depreciation related to these goods is very

significant in 2006. This condition is not only describes how low the investment interest during 2006, but also became an important hint on the real sector development in some years to come.



Regarding this fact it is appropriate that government paid more attention to the economics condition in whole. The government should not only felt safe if the exchange rate is stable and the inflation rate is manageable. They have to realize that the condition on real sector is really awful this time. At beginning of his presidency, President Susilo Bambang Yudhoyono proclaimed to revitalise the agricultural sector, but the fact that the domestic rice production was decreasing became a proof that the agricultural sector need real recuperation. The growth on manufacturing industrial sector only reached around 4.63 percents which showed that production activity at this sector was underdeveloped, because in 2005 this sectors also booked a growth around 4.6 percents and in 2004 around 6.2 percents. And the most concerning matter was the declining in textile, skin

goods and footwear industries, which recognized as the type of industry that employed a great labor force. During the New Order Era time these industries were the important pillar for industrial development and society life. In 2006 the development of these industries was recorded only around 1.23 percents which declined from 1.31 percents in 2005, while in 2004 the figure was around 4.1 percents.



Textile industry should also be prioritized if the government truly wants to rebuild the national industrial sector. Besides able to employ plenty of labour force, thus create more job opportunities, this industry has been very successful as the motor for national economic growth. This industry is not only supported by experience the entrepreneurs in the past, but also by the variety of Indonesian culture that has certain features to enrich Indonesian textile products. Unfortunately, the government has not quite serious in handling the problems that hinders the development of this industry for the past few years. The textile industry is relatively vulnerable from the attack of illegal imported textile goods. The matter got worse since the existing policies are not conducive. The recent Labor Regulation makes textile industry become incompetent because the

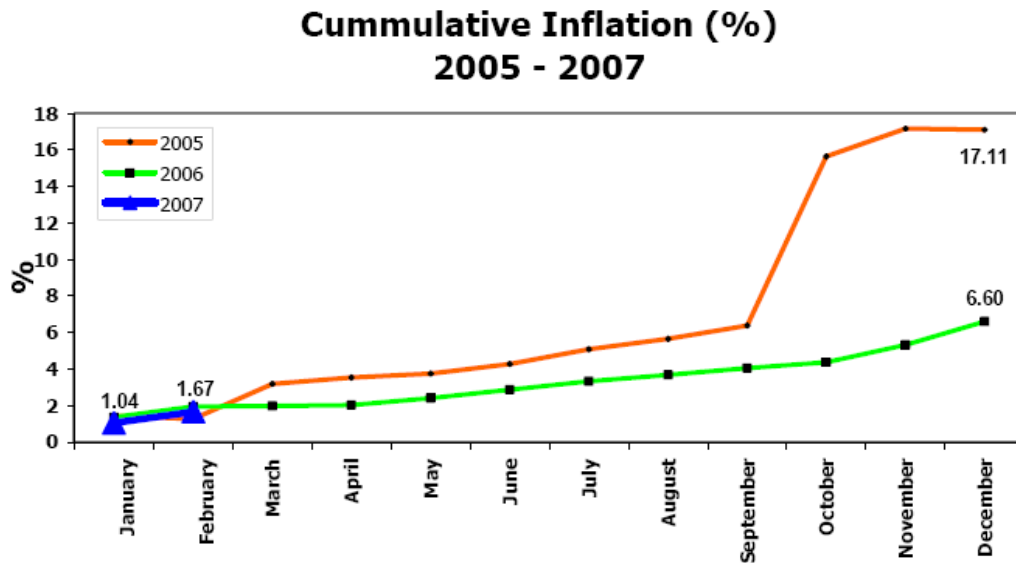
expensive labour wage for this sector. Meanwhile, the unavailability of policies that can boost the investment on this sector made many textile industries still have to use machinery which are old and inefficient.

Fortunately, the low investment rate on the textile industry that occurred in 2006 only happened to domestic capital investment (DCI), whereas for foreign capital investment (FCI) recorded quite significant growth. According to the data of BKPM, in period OF Januari –November 2006, the DCI investment realization (permanent business permit) was only consist of 6 projects with the amount of Rp. 75.5 billions, which lower than the figure in 2005 that was 22 projects in the amount Rp 1.64 quintillions. Meanwhile investment realization (permanent business permit) for FCI during January – November 2006 period was 57 projects with the amount of US\$ 418.1 millions, which was a great improvement compared to the condition in 2005 which only 30 projects worth US\$ 70.9 millions.

Macro Stability is Well Maintained

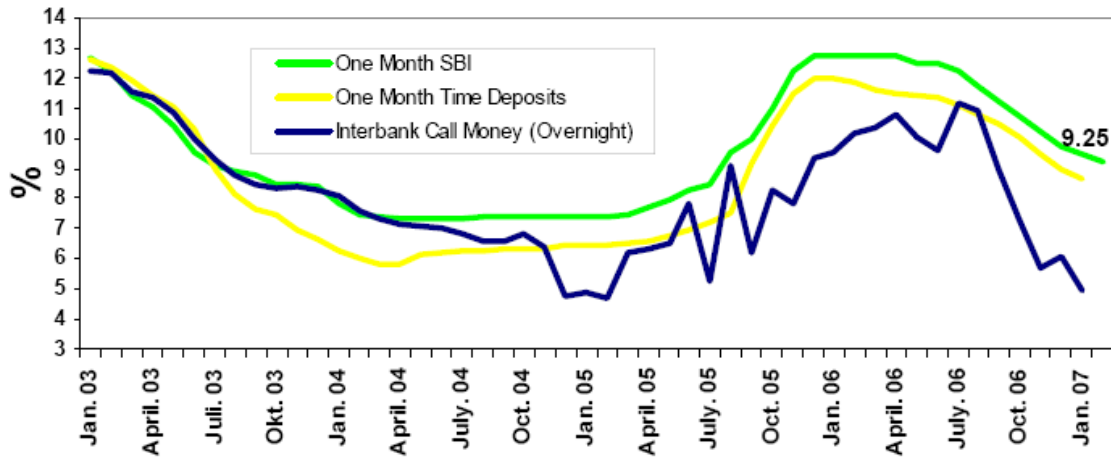
Although investment improvement has not as thriving as expected, the Indonesia economic foundation is already on the right track. The macro economy stability is well maintained with rupiah exchange rate going strong, so that the inflation rate can be pressed down and the banking rate continues to be lessened. During 2006, rupiah rates was appreciated around 8.2 percents and during the first two months of 2007 rupiah was relatively stable around Rp. 9,100 per US dollar. The inflation that leaped up to 17.1% in

2005 has went down to 6.6 percents in 2006 and continued to be controlled during 2007. In the period of January –February 2007, the inflation rate only reached 1.67 percents, which is lower than the same period in 2006 (1.95 percents).



Since the inflation rate is now controllable, as a result the banking rate can continue to be reduced, thus giving hope for the returning bank as intermediation institution. With the BI rate that is in level 9 percents these days, then the rate interest of BIC resided around 9.25 percents and timed deposit rate (one month) also went down to approach the level of 8.6 percents. These depreciations are supposed to trigger the reducing of credit interest rate thus increasing domestic investment.

**Interest Rate of One Month SBI, Time Deposits,
and Inter bank Call Money (%)**

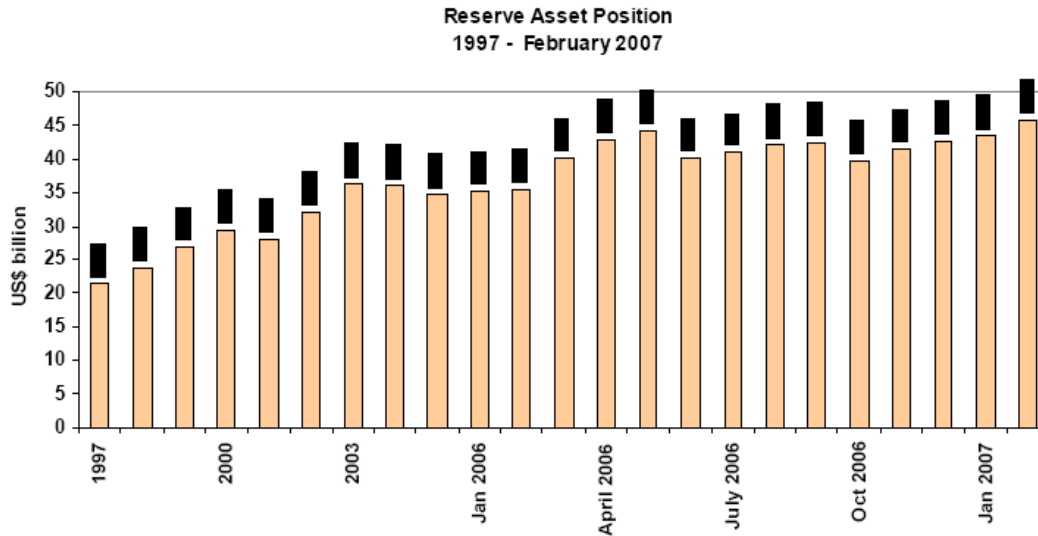


Export Development

In the meantime, it must be admitted that the economy growth around 5.5 percents in 2006 was not a bad performance in the middle of wavering investment level. This matter is especially due to the fine exports performance during 2006 that continue even to these last two months. With the exports value that achieved US\$ 100.7 billions, then it means that the export increased as big as 17.55 percents during 2006. Thus with the import value as big as US\$ 61.6 billions (increased around 5.9 percents), so in 2006 the Indonesia's balance of trade achieved surplus as big as US\$ 39.6 billions or go up 41.7 percents towards trade surplus in 2005.

This high export value continued until January 2007 and booked an value export as big as US\$ 8.4 billions or 10.5 percents higher than the exports value in January 2006 which is around US\$ 7.6 billions. This is why the foreign exchange reserve in the Bank of

Indonesia continue to escalate, although in 2006 Indonesia paid the debt to IMF. By the end of February 2007, the foreign exchange reserve achieved US\$ 45.69 billions, which means there is an increase around US\$ 3.1 billions or 7.24 percents from the last position by the end of 2006.



Unfortunately, the Indonesia limited economic growth causes the Indonesia income per capita develop slowly. In 2006, the income per capita has just reached US\$ 1,663 or increased around US\$ 342.4 towards income per capita in 2005. In relation to this matter, Economic Coordinator Minister, Prof. Dr. Boediono, in his Professorship Inauguration speech at the faculty of Economy of Gajah Mada University, declared that at present Indonesia still in critical stage to achieve successful democracy. Therefore a high economic growth is badly needed to avoid any crisis.

According to Boediono, the democracy level of success in a certain country is greatly depended on the level of economy. The higher income level per capita for a country will certainly increase the opportunity for democracy to succeed. The secure level for democracy to flourish would be on the income level per capita of US\$ 6,600. Therefore based on the current higher income level per capita, Indonesia need to struggle to attain around US\$ 4.000 (counted based on Purchasing Power Parity (PPP) - dollar 2001). Indonesia is still in a critical stage to obtain successful democracy.

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