



Indonesia Chamber of Commerce and Industry

Monthly Economic Report

January 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	1,660.60	1,749.60	1,378.4 (1)
2	GNP Development (%)	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 of Export (USD billion)	57	55.6	69.7	85.57	91.19 (3)
5	Non Oil and Gas Export (USD billion)	44.9	43.1	54.1	66.32	71.89 (3)
6	Total of Import (USD billion)	31.2	29.5	46.2	57.55	56.06 (3)
7	Non Oil and Gas Import (USD billion)	24.8	22.6	34.6	40.16	38.47 (3)
8	Balance of Trade (USD billion)	25.8	26.1	23.5	28.02	35.13 (3)
9	Balance of Current Transaction (USD billion)	4.7	4	2.9	0.93	3.42 (1)
10	Foreign Exchange Reserve (USD billion, end of year)	32.0	36.3	35.93	34.72	42.59 (6)
11	Foreign Debt Position (USD billion)	131.3	135.4	136.1	133.5	131.8 (7)
12	Rupiah/USD (Middle Exchange Rate of Bank of Indonesia)	8,940	8,330	9,355	9,830	9,020 (7)
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 (5)
17	Circulating Money (Rp quintillion)					
	a. Narrow Sense (M1)	191.9	207.6	253.8	281.9	346.4 (4)
	b. Broader Sense (M2)	883.9	911.2	1,033.50	1,203.20	1,325.7 (4)
18	Third Party Banking Fund (Rp quintillion)	845	866.3	965.1	1,134.10	1,244.9 (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	10.25 (5)
	b. One month Deposit	12.8	7.7	6.4	11.98	10.01 (4)
	c. Working Capital Credit	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 (Rp quintillion)	25.3	16	36.8	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 (6)
23	Market Capitalization Value of JSX (Rp quintillion)	268.4	411.7	679.9	758.4	1,249.1 (6)

Source: BPS, BI, JSX

- 1) I – III Quarterly
- 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 Quarterly 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

January 2007

During January 2007, there are several interesting economy developments to notice. One of them is the government decision to stop using Consultative Group on Indonesia (CGI) that had been relied on for years to close the country's deficit. This action will certainly increase Indonesian economics credibility. After liquidating the debt to IMF in the year 2006, so this wisdom policy showed the government commitment to create economic independence; a question that has been asked by many for years. Thus this decision is strongly supported by many sides who believe that the existence of CGI is no longer needed.

There are various reasons for supporting this policy. The first reason is because the loan from CGI was becoming less significant recently. Every year, Indonesia only received around US\$ 3 billions from CGI or equal to Rp 30 quintillions. This amount equals to about 5 percents of the Country Expense Revenue Plan (CREP) that reached up to Rp 700 quintillions. This number is greatly differs from condition in New Order Era, where the CERP was still Rp 100 quintillions, so the loan would be about 30 percents. The second reason, lately the expenditure plan of CREP is not thoroughly realized. For 2007 the Treasury Department estimated that the absorption of CREP into projects would only reach 75 percents, so that loan from CGI is no longer needed.

The third reason is related to the social politics impact for Indonesia due to the existence of this loan. The bargaining position of Indonesia will remain weak when dealing with

creditors from this forum. These creditors often interfere with the government policies related to political issues about democracy and human rights, or economic policies that deal with liberalization and privatization issue. These matters are not entirely suitable for Indonesia. Next reason; the macro situation of economy is getting better these days, so time has come for Indonesia to lessen the dependence on foreign aids. Indonesia economic credibility should not be furthermore determined by the existence of such forum, but on how far does the government willing to fulfill the commitment to improve the economics condition and especially the business sectors.

Besides the stability of macro economy, several economic indicators also show better progress. This fact should be enough to stimulate the business sectors. The existence of taxation policy that freed the 10 percents VAT imposition towards 70 commodities from six agriculture and fishery sub sectors, and the lowering of fuel price for industrial sectors by 1 February 2007 – due to the lowering of world crude oil price – should be responded enthusiastically by business sectors if business condition in the country has been more favorable. Unfortunately, a number of affairs related to taxation, custom and duty, labor force, infrastructure, law and bureaucracy, and against the law collection problem stills have not yet overcome; as a result the investment interest has not showed any development. Even the investors in this country choose to put their capital overseas.

The recovery of the stock market in Indonesia lately has also contributed to stabilize the rupiah exchange rate. But this fact does not followed by the recovery of real production sector. Therefore some still consider that the economic growth is still poor. Indonesia economics is assumed only stimulated by financial sector that based on in the swift fund that came into Indonesia. Sluggish real production sector activities have brought about an economic growth that is unable to absorb labor force.

Quoting the Bank of Indonesia Governor's statement, Burhanuddin Abdul, the market structure in Indonesia economics is indeed inclined to be oligopolies, either in production

and distribution. This matter causes the access and society participation towards broader economic activity is restricted, where the capacity of the supplied goods is not optimal and domestic market expansion as a whole slows down. This condition in turn creates greater liquidity surplus accumulation in financial sector, because the collected fund can not be channeled to productive business sectors.

The placement of fund in the form of Bank of Indonesia Certificate (BIC) is increased rapidly lately. This showed that banks and investors inclined to place their fund on low risk financial instrument. Based on the data from Bank of Indonesia, the fund placement in the form of BIC has increased around 197 percents in the last one year; that is from Rp. 79.1 quintillions in January 2006 to Rp. 235 quintillions in January 2007. This increase happens especially since April 2006, when the amount reached up to Rp. 113.3 quintillions from as big as Rp. 97.85 quintillions in March 2006.

Table 1
Bank Industry Operations
(Rp Billions)

END OF PERIOD		BIC/SWBI	FUNDING SOURCE	TOTAL ASSETS	NUMBER OF BANKS	NUMBER OF OFFICES
2001	656,780	74,296	975,415	1,099,699	145	6,765
2002	698,885	76,859	967,444	1,112,204	141	7,001
2003	796,731	101,374	1,006,624	1,213,518	138	7,730
2004	932,971	94,058	1,105,769	1,272,081	133	7,939
2005	1,140,278	54,256	1,283,480	1,469,827	131	8,236
2006						
January	1,132,603	79,096	1,267,644	1,465,640	131	8,283
February	1,128,251	88,732	1,272,208	1,466,341	131	8,324
March	1,143,323	97,852	1,270,567	1,465,302	131	8,368
April	1,149,258	113,313	1,270,288	1,466,920	131	8,391
May	1,192,964	142,395	1,309,107	1,514,924	130	8,391
June	1,200,502	139,811	1,323,401	1,519,439	130	8,679
July	1,197,417	139,600	1,317,372	1,517,067	130	8,847
August	1,232,540	152,326	1,345,467	1,551,381	130	8,954
September	1,256,012	150,680	1,365,187	1,578,191	130	9,039
October	1,280,156	136,556	1,388,514	1,605,162	130	9,089
November	1,320,808	176,550	1,415,127	1,634,992	130	9,092
December	1,380,373	179,045	1,468,369	1,693,850	130	9,110

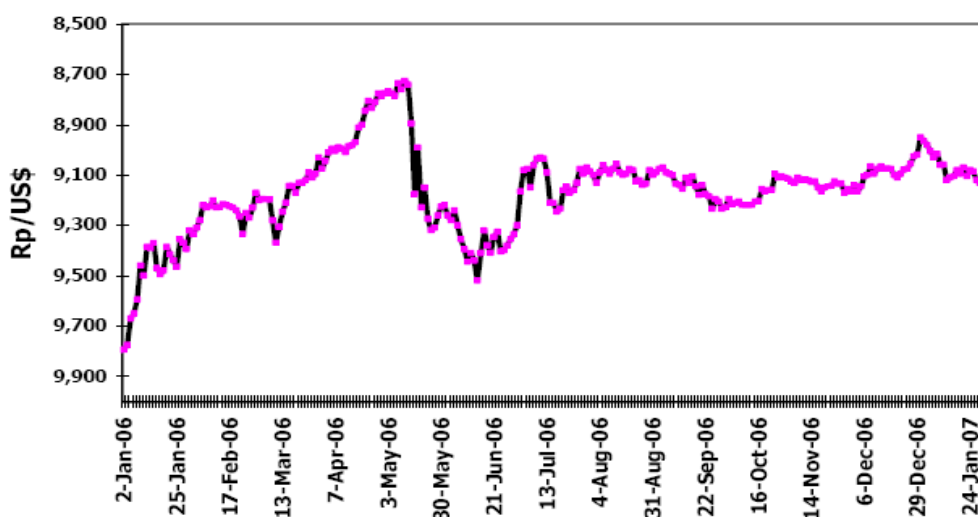
Source: Bank of Indonesia

The Development of Monetary Market and Stock Market

Although experience a little depreciation, as a whole the rupiah exchange rate remains stable during January 2007. By the end of January 2007 mid exchange rate of rupiah was on the level of Rp 9,090 or experience depreciation around 0.8 percents from Rp 9,020 by the end of December 2006. A recurrence of panic at the stock market Thailand also has an influence to the stock market in Indonesia. This caused the weakening of rupiah since entering the second week of January 2007. However, Bank of Indonesia believes that this is only temporary, because the rupiah exchange rate is inclined to get stronger when viewed from fundamental side of Indonesia economy.

The Indonesia economic fundamental strength is showed by the relatively low inflation rate and the increase of balance of trade surplus. Furthermore, the recovery of exports and the increasing of foreign exchange reserve have been the contributor to the strengthening of rupiah exchange rate. During the first 11 months of 2006, the exports rate reached US\$ 91.2 billions or increase 17.6 percents towards exports rate in the same period same on 2005. Meanwhile, the foreign exchange reserve by the end of December 2006 reached US\$ 42.6 billions.

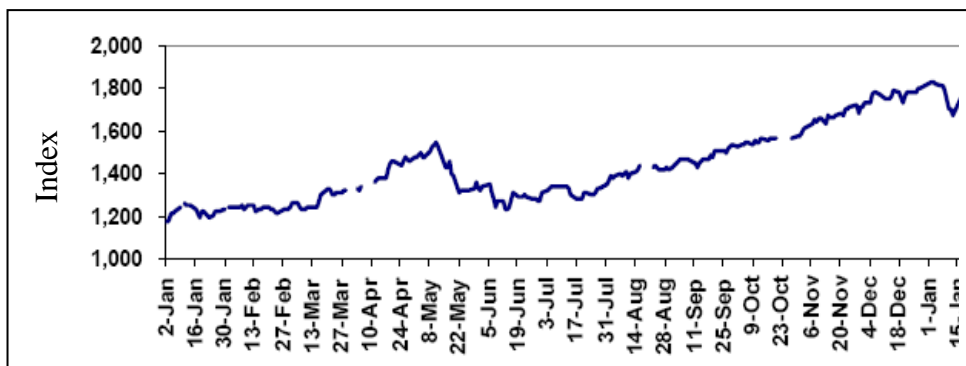
**Mid Exchange Rate of Rupiah against US Dollar
January 2006 – January 2007**



Meanwhile, although the Composite Stock Price Index (CSPI) had once sank to level 1,678.04 in 12 January 2007, but as a whole the increasing price trend of the domestic

stocks is still going on, along with the improving market interest upon the world stock market. Even though the Thailand stock market experience panic at beginning of the second week of January 2007, but it did not give any significant influence to global stock market. Dow Jones Index only corrected for a while on 8 January 2007 but soon going strong on the following day and even tends to get stronger until the end of January 2007 reaching the level of 12,621.69. At the same time Composite Stock Price Index in Jakarta Stock Exchange was also going strong, and by the end of January 2007 reached the level of 1,757.3.

**Composite Stock Price Index in Jakarta Stock Exchange
January 2006 – January 2007**



Source: Jakarta Stock Exchange

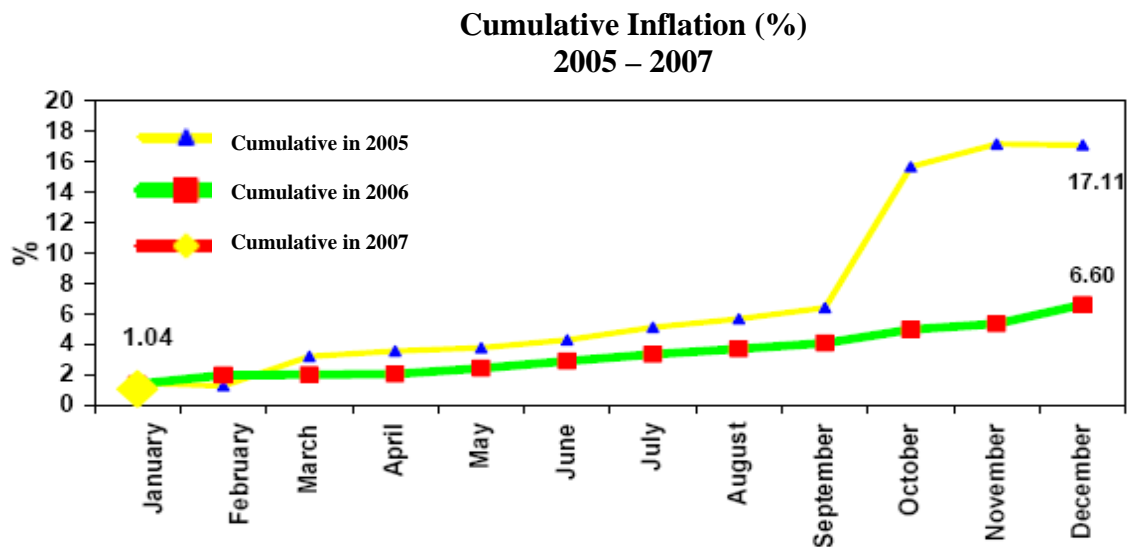
Nevertheless it can not be denied that the stock market condition during January 2007 was no better than previous months. This was caused by domestic factors, i.e. pessimistic messages that did not give positive sentiment to the market. Besides the fact that the real sector has not improved much, the banking sector condition that still did not run their function as intermediation also influence the investors' expectancy toward Indonesia economics as a whole. In addition, the correction on stock price also influenced by re-evaluation on price earning (PE) in Jakarta Stock Exchange which considered too expensive.

If compared to the index position by the end of 2006 which as big as 1,805.52, then the share price index by the end of January 2007 experienced depreciation as big as 2.67

percents. Meanwhile, in same period, the Dow Jones index experienced an increase as big as 1.3 percents from the level of 12,463.15 by the end of December 2006.

Inflation Rate Development

Like the previous two year, the inflation rate on January 2007 is also above 1 percent, or 1.04 percents to be exact. Although this figure is lower than the inflation rate on the same month on year 2005 and 2006, but inflation rate as big as this will considered as a poor start. The increase of rice price and basic needs is still going on due to the limited supply of goods; hence amplify the burden of the people. Condition like this made the macro economy recovery seemed contrary to the actual condition since the condition on real production sectors, especially at agricultural sector, are getting worse.



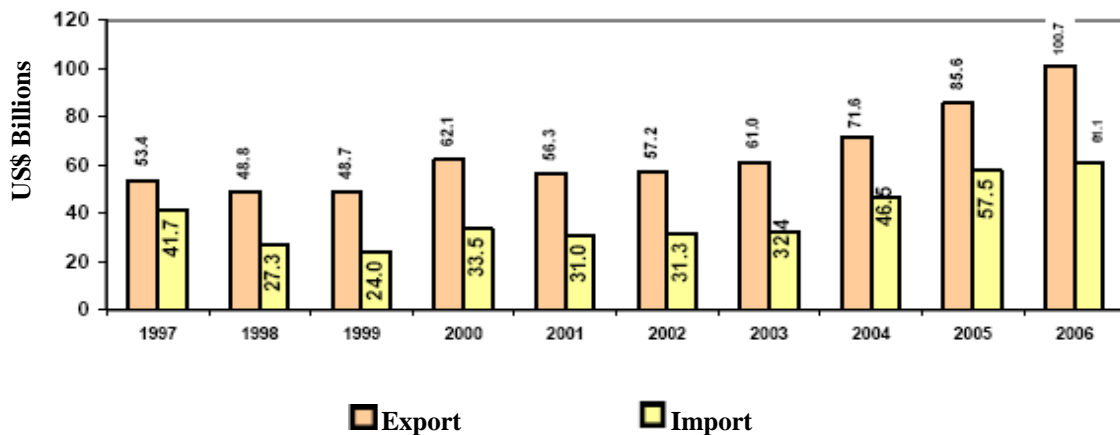
Relatively high inflation rate in January 2007 was mainly caused by the increase of price on food-stuff group that reached 2.68 percents that give contribution as big as 0.69 percent of the total inflation rate. This was followed by housing, water, electricity, gas, and fuel groups as big as 0.17 percent and food group contribution became as big as 0.15 percents. The drought and flood in some vegetable production areas have caused harvesting failure thus increase the price of this food-stuff group significantly. Meanwhile the scarcity of rice supply has happened due to harvesting failure and late rice

planting because of the weather change. Regrettably that these entire conditions were not well anticipated by Agriculture Department and also by the Commerce Department.

Export Development

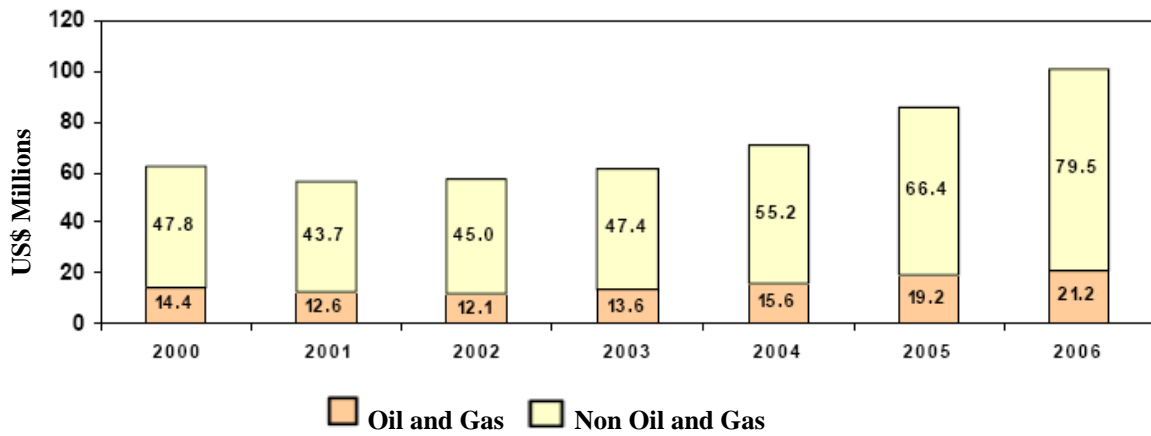
After reaching the export rate above US\$ 8 billions since May 2006 – even as big as US\$ 9.5 billions in December 2006 – the export rate of Indonesia in the 2006 was reaching US\$ 100.7 billions or growing up to 17.6 percents compared to 2005. This increase is caused by the rising of non oil and gas export as big as 19.7 percents and the rising of oil and gas export as big as 10.2 percents. Meanwhile the recorded import rate was around US\$ 61.1 billions, thus the balance of trade in 2006 reached US\$ 39.61 billions, or 41.7 percents higher than the balance of trade year in 2005 which was as big as US\$ 27.96 billions.

**Indonesia Export and Import Rate Development
(US\$ Billions)**



From the increase of non oil and gas export as big as 19.7 percents, the mining sector registered the highest increase that is as big as 40.9 percents. As previously known, this matter is related to the increase of price of several commodities from mining sector, especially coal. Meanwhile the increase of exports in industrial sector was only 16.7 percents. This showed that this sector has not fully recovered yet and can not be the motor for the economy growth.

**Export Rate of Oil and Gas and Non Oil and Gas in 2000 – 2006
(US\$ Billions)**



Japan Indonesian Economic Partnership Agreement (EPA)

Japan Indonesian Economic Partnership Agreement (EPA) has been signed on 28 November 2006 in Tokyo. Hopefully latest on March 2007 the entire agreement can be approved so that Indonesia can follow Singapore, Malaysia, Philippine and Thailand that have established partnership with Japan beforehand. In relation to the partnership agreement, around 80 percents of total tariff or 91 percents of Indonesia export rate to Japan will receive zero percent (0%) import duty the moment the EPA was signed. The rest depreciation of import duty will be given by Japan from 3 up to 10 years time for industrial sector and 15 years for some agricultural products.

Furthermore when the EPA has been approved, then around 30 percents of the total import tariff from Japan will be demoted to be zero percent (0%), while the rest will be demoted in 3 up to 15 years time. Then about 9 percents of total tariff is excluded by Indonesia from this commitment, whereas Japan will excluded 10 percents of total tariff or 1 percent of the exports rate of Indonesia.

According to the Minister of Commerce, EPA is very crucial for Indonesia because Japan is one of the main country that receive our exported goods that give contribution around 20 percents of the total export. Beside that the Japan contribution towards total

investment in Indonesia is about 13 percents. Partnership agreement believed to provide positive benefit if the business circle can make use of this opportunity. Several non oil and gas commodities will benefit from this partnership, e.g. the commodity of textile and textile product (TTP), electronic and automotive.

Within the last three years, Indonesia balance of trade with Japan always shows surplus; in 2004: US\$ 9.88 billions, in 2005: US\$ 11.14 billions, and in 2006 (January to June): US\$ 7.66 billions. It is greatly hoped that with the existence of EPA, the surplus of balance of trade will increase significantly along with the increasing of Indonesian exported products competitiveness to Japan.

With regards to this matter, the TTP industrial circle is optimist that the implementation of EPA will enlarge the market access for Indonesian TTP products, so that TTP export to Japan can be increased from 4 percents be 10 percents towards the total export. According to the Indonesia Textile Producers Association (ITPA), the TTP export to Japan in 2005 reached around US\$ 516 millions or 6 percents of total exports that year which was as big as US\$ 8.6 billions. In Japan TTP export from Indonesia is ranked as the third biggest after European Union and United States of America.

The textile circle believes that TTP product from Indonesia has a great chance to develop in Japan although have to face tight competition with China that has dominated around 81 percents of the TTP market in Japan. With the existence of EPA, the price of Indonesia TTP will be able to compete with China because the tariff to Japanese market will decrease from around 6.7 percents to zero. Therefore according to ITPA, through EPA the price of the TTP product will have 7-10 percents difference compared to products from China.

To make use of the market access to Japan, the TTP industry have to restructure the machines soon so they can produce kind of textile that fulfill the consumer's taste in

Japan. Nowadays the textile consumers in Japan prefer high-class textile products. For the time being Indonesia will face tight rivalry with India and Philippine. It will be difficult to fulfill the consumers' demand difficult if the machinery condition remains as it is now, whereas to get fund support from banking sector in the country for textile machines restructuring will not be an easy matter. Therefore it is also expected that EPA can accommodate any technical aid will like textile education or soft loan for engine restructuring.

Besides TTP, Japan will open also access for agribusiness products like fruits, food and drink originated from Indonesia. In the meantime, the processed food and agriculture product industrial circle have evaluated that the Japanese government has put a relatively low tariff around 10 percents for products originated from Indonesia. The non tariff barrier issued by Japan is exactly the problems faced by the processed food industry.

The non tariff obstacle, especially the high product standardization often viewed as a difficult problem is compared to tariff obstacle. Among them are the regulation that the processed food product originated from Indonesia must pass the sanitary test, whereas fruit product must be sterile from fruit fly. Therefore the food industry circle expects technical aid from Japan government, so that Indonesian products can be acceptable to Japanese market.

Beside products from food industry, there are other products that benefited with the existence of EPA, i.e. pulp and paper. It is estimated that with the depreciation of the tariff to Japan then pulp and paper product will have better competitive power thus increase the export of the related products. Exported paper from Indonesia (HS 48) in the period of January – August 2006 reached US\$ 240.15 millions, while for pulp (HS 47) was as big as US\$ 58.86 millions. With the exports rate as big as this, Indonesia was the third biggest paper exporter after United States of America and China to Japan.

Meanwhile the automotive industrial circle declares that the depreciation or exclusion of tariff on several posts will not have direct correlation to the increase of Japan investment in automotive sector in Indonesia. This is because the investment matter is more influenced by road infrastructure, automotive export port and investment climate which in general are not conducive enough. Even though Japan considers Indonesia has enough potential for automotive and electronic production base for Asia Pacific region, but comprehensive improvement is needed. The improvement will not just require market access opening and direct investment but also industrial development support.

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