



The Indonesian Chamber of Commerce and Industry

Monthly Economic Report

June 2006

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ECONOMIC INDICATORS

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	447.4 (1)
2. GDP Growth (%)	4.38	4.88	5.13	5.6	4.59 (1)
3. Inflation (%)	10.03	5.06	6.4	17.11	2.87 (2)
4. Total Export (Billion US\$)	57.0	55.6	69.7	85.57	38.39 (3)
5. Non Oil and Gas Export (Billion US\$)	44.9	43.1	54.1	66.32	29.78 (3)
6. Total Import (US\$ Billion)	31.2	29.5	46.2	57.55	23.14 (3)
7. Non Oil and Gas Import (Billion US\$)	24.8	22.6	34.6	40.16	16.34 (3)
8. Trade Balance (Billion US\$)	25.8	26.1	23.5	28.02	15.25 (3)
9. Current Account (Billion US\$)	4.7	4.0	2.9	0.93	-
10. Foreign Reserves (Billion US\$, year end)	32.0	36.3	35.93	34.72	40.11 (7)
11. Foreign Debt Position (Billion US\$)	131.3	135.4	136.1	133.5	131.8 (8)
12. Rupiah/US\$ (Bank Indonesia Middle Rate)	8,940	8,330	9,355	9,830	9,300 (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	559.2 (*)
15. Base Money (Trillion Rp)	138.3	136.5	199.7	239.8	239.3 (4)
16. Money Supply (Trillion Rp)					
a. M1	191.9	207.6	253.8	281.9	282.4 (4)
b. M2	883.9	911.2	1,033.50	1,203.20	1,198.0 (4)
17. Banking Third Party Fund (Trillion Rp)	845.0	866.3	965.1	1,134.10	1,133.5 (5)
18. Banking Credits (Trillion Rp)	365.4	411.7	553.6	689.7	687.4 (5)
19. Interest Rates (% , annually)					
a. 1 month SBI	12.9	8.1	7.4	12.75	12.50 (6)
b. 1 month Time Deposit	12.8	7.7	6.4	11.98	11.70 (5)
c. Working Capital Credit	18.3	15.8	13.4	15.92	16.29 (5)
d. Investment Credit	17.8	16.3	14.1	15.43	15.90 (5)
20. Investment Approval					
- Domestic (Trillion Rp)	25.3	16.0	36.80	50.58	56.80 (3)
- Foreign (Billion US\$)	9.7	6.2	10.3	13.58	3.66 (3)
21. JSX Composite Index	424.9	742.5	1,000.20	1,162.60	1,310.3 (7)
22. JSX Market Capitalization	268.4	411.7	679.9	758.4	914.90 (4)

Source: BPS, BI and JSX

1) Projection

2) January - June 2006

3) January - May 2006

4) Position at the end of May 2006

*) in State Budget

5) Position at the end of April 2006

6) Position on 28 of June 2006

7) Position at the end of June 2006

8) Position at the end of first quarter



The Indonesian Economic Development Monthly Analysis

June 2006

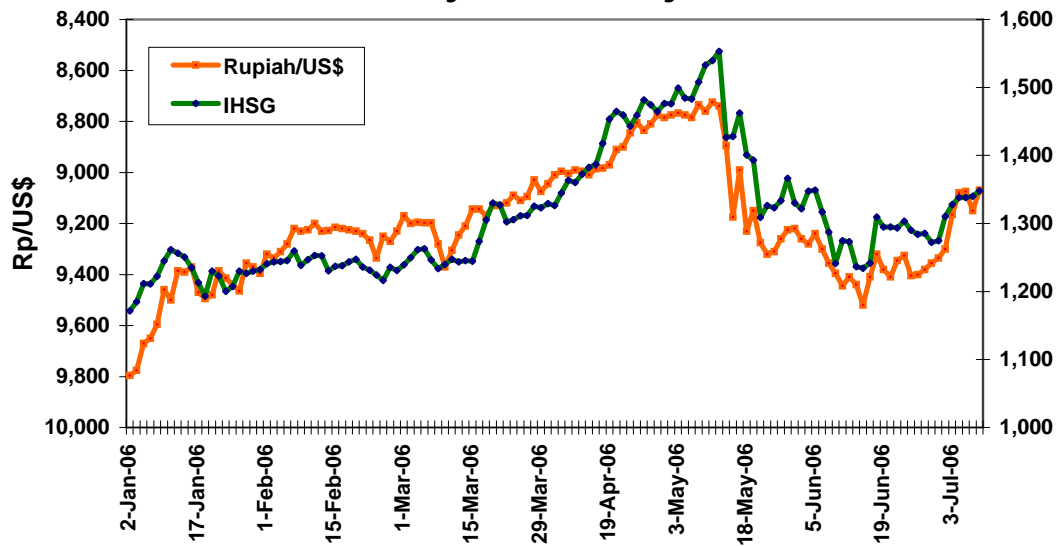
Measures taken by The Central Bank of America, which was to raise The Fed interest rate by only 25 basis point, was a sign from the bank to discontinue series of raising the interest rate that has been going for 17th times in the past 2 years. The sign has eliminate the market uncertainty and anxiety all this time worrying that The Fed will stay rising the interest rate up to the level of 6% to halt the economic growth and high inflation digit in the United States.

The Decision of Federal Open Market Committee to merely raised The Fed interest rate to 5.25 % has directly knocked down US\$ exchange rate over other currencies. At the same time, Rupiah's exchange rate quickly strengthened from center rate of Rp. 9,335 in June 29 to Rp. 9.300 in June 30, 2006 and further to Rp. 9,080 per US\$ early July (July, 4, 2006). As it is known, following its highest triumph in May 2006, Rupiah's rate suffered from a sharp correction since the middle of May until the whole month of June 2006. Rupiah's center rate hit the level of Rp. 8.725 per US\$ May 10, 2006 slightly weakened to Rp. 9.520 during the middle of June 2006.

The interest rate policy by The Fed has stimulated world's stock markets enthusiasm with the emerging euphoria that strengthened global stock market index toward the end of June 2006. Dow Jones's index rose by 1.97% from 10,973.56 in June 28 to 11,190.8 in June 29, 2006. Nasdaq's index up by 2.96% from 2,111.84 to 2,174.38 during the same period, and in July 3, 2006 the stock price index of both stock markets rose to the level of 11,228.02 and 2,190.43 respectively following the strong growing indication that the rally of increasing The Fed interest rate will soon be over.

Meanwhile, strengthened stock price's index in domestic stock market was not merely caused by favorable condition of global stock markets, but also by series of finance sector policies taken by the government and Bank of Indonesia in an effort to boost the movement of real sector. Such positive sentiment has driven the accumulative stock prices' index (IHSG in Indonesian) in the Jakarta Stock Exchange which has been slowing down during the period of June. IHSG which once reached over 1,553 in May 2006, fell to the level of 1,274.7 in June 29, 2006, and jump right back by 35.5 point (2.8%) to the level of 1,310.2 in June 30, 2006. The upward trend continued until July 3, 2006 where IHSG recorded at the level of 1,327.8, and further strengthened to 1,347.9 in July 7, 2006.

Graph 1
Rupiah Middle Rate and Composite Stock Index
January 2006 - 7 July 2006



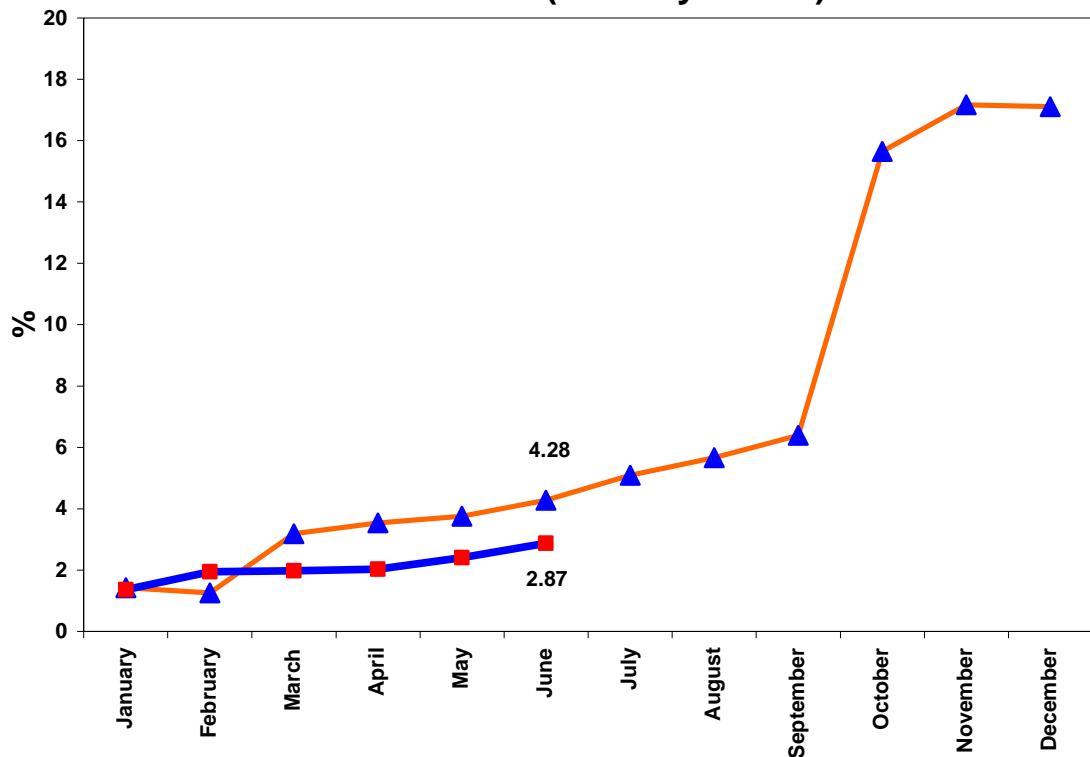
Note: IHSG is Composite Stock Index

Such strengthening Rupiah is expected to reassure the stability of domestic's macro economic, and in turn stimulating in decreasing domestic interest rate in a meaningful way. However, Bank Indonesia is likely to be extremely cautious in making a decision regarding the interest rate. Aside from the ongoing oil price hike these days to reach 73.71US\$ per barrel, the trend of slowing down interest rate in domestic market is not yet seen. The occurrence of several natural disasters in many region in the country, that heavily damaged the road infrastructure, is feared to increase the inflation rate until couple of months ahead. Tight monetary policy seemed to be preserved in months ahead although it is not in accordance with government effort to create favorable business climate.

The Growth of Inflation Rate

High pressure over the inflation rate can be observed from the rate in June 2006 reaching 0.45%. Though the rate is lower than the inflation in April 2005, yet higher compare to the rate in the previous two months (April and May, 2006), which subsequently reached only 0.05% and 0.37%. Even so, though the cumulative inflation rate in January-June 2006 was merely recorded at 2.87%, lower than the cumulative inflation during the same period in 2005, yet the trend of high inflation rate in 2006 remain in sight. It can be seen from year-on-year inflation rate (June 2005-June 2006) reached the level of 15.5%.

Graph 2
Cummulative Inflation (%)
2005 - 2006 (January - June)



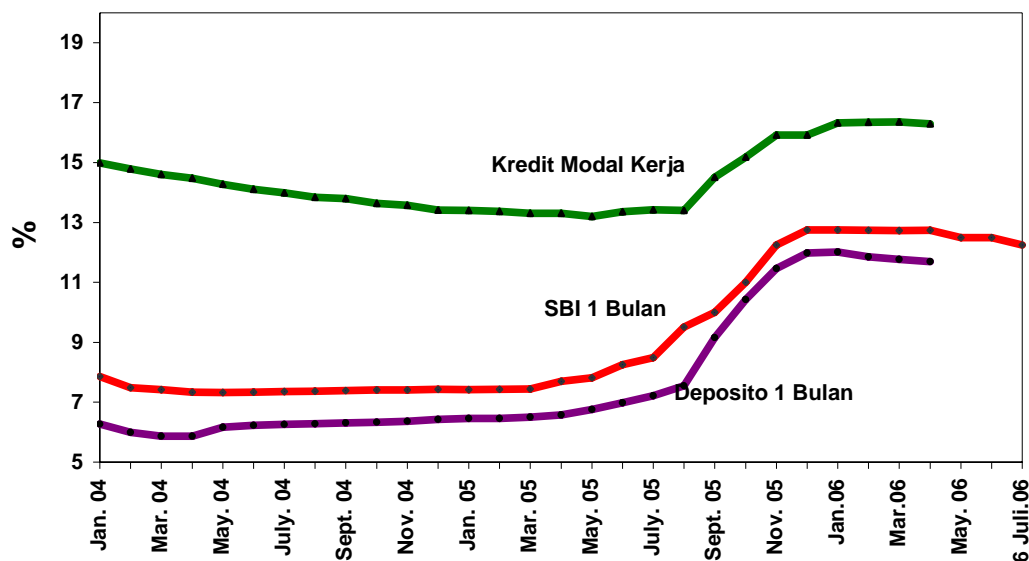
Note: Kumulatif means Cummulative

Interest Rate

Looking at the trend of a relatively high inflation rate, it is difficult for Bank Indonesia to determine the interest rate policy following the increment of The Fed interest rate by only 25 basis point. The need to support the growth of real sector remain troublesome caused by the risk of capital flight to foreign country due to a powerless economic fundamental to support low rate of bank's interest rate. Combine with an unfavorable investment climate, the impact of declining is feared to be somewhat different from the expected reality. Therefore, Bank Indonesia merely decrease BI rate by as much as 25 basis point to 12.25% in last July 6.

Declining BI rate by 25 basis point is expected to assure the business sector concerning the declining trend of interest rate in the country. Added with the package of policy in finance sector which is complement to the policy package of business world and infrastructure development, it is strongly expected to revitalize Indonesian economic which is now at a slowing down condition. Compare to the first semester last year which recorded an economic growth of 6.3%, then the growth in first semester this year is estimated to reach only around 4.6%.

Graph 3
Time Deposit Interest Rate & Working Capital Credit
January 2003 - July 2006 (%)



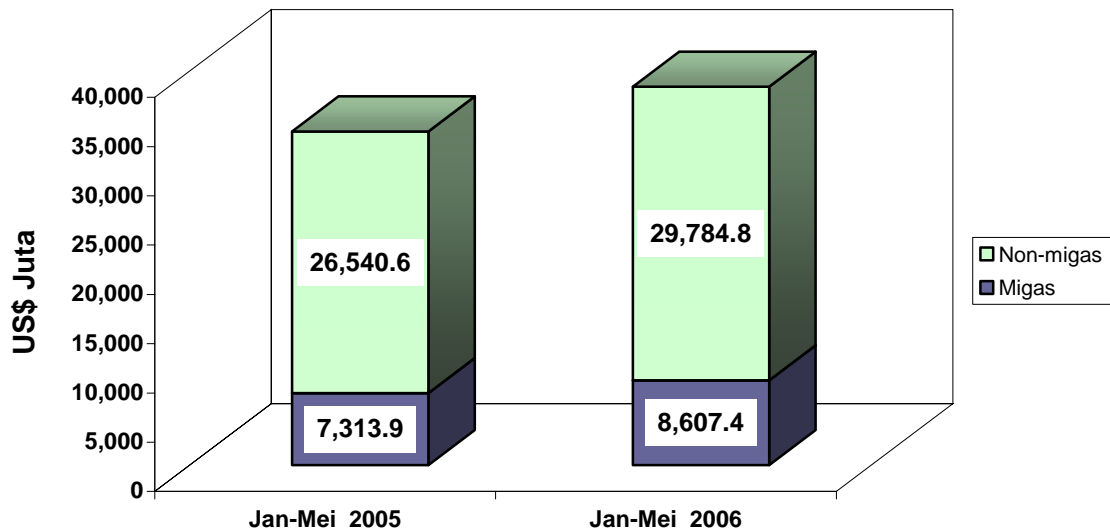
*Note: Kredit Modal Kerja = Working Capital Credit
 SBI 1 Bulan = 1 month SBI
 Deposito 1 Bulan = 1 month Time Deposit*

Export Growth

In the midst of argument related to stagnate activities in real sector, export value in May 2006 recorded the highest number in the history of Indonesian economy, that is 8.34 billion US\$. With such extravagant figure, during the period of January-May 2006, Indonesia's export value reached the level of 38.39 billion US\$ or up by 13.4% from 33.85 billion US\$ recorded during the same period last year. In this particular period, the increase in oil/gas export has again surpassed the non-oil/gas export that is 17.7% and 12.2% respectively. Oil/gas export rose from 7.3 billion US\$ to 8.6 billion US\$, which was related to a high oil price in international market, reaching around 73.7 US\$ per barrel. Further, increasing export value was also supported by the rise of oil and gas products' export by 42.8% and 21.2% respectively.

Generally, high export value during the period of last May was mainly attributed to the price increase of Indonesia's export commodity, particularly from mining and agriculture sectors. In the first five months this year, the export value of rubber reached 776 million US\$, crude palm oil by as much as 360 million US\$, and coal of around 800 million US\$. In general, the export value during that period rose from around 26.5 billion US\$ to 29.8 billion US\$.

Graph 4
Export Value, January - May 2006
(Million US\$)



Note : Total Export Increased by 13,4%.

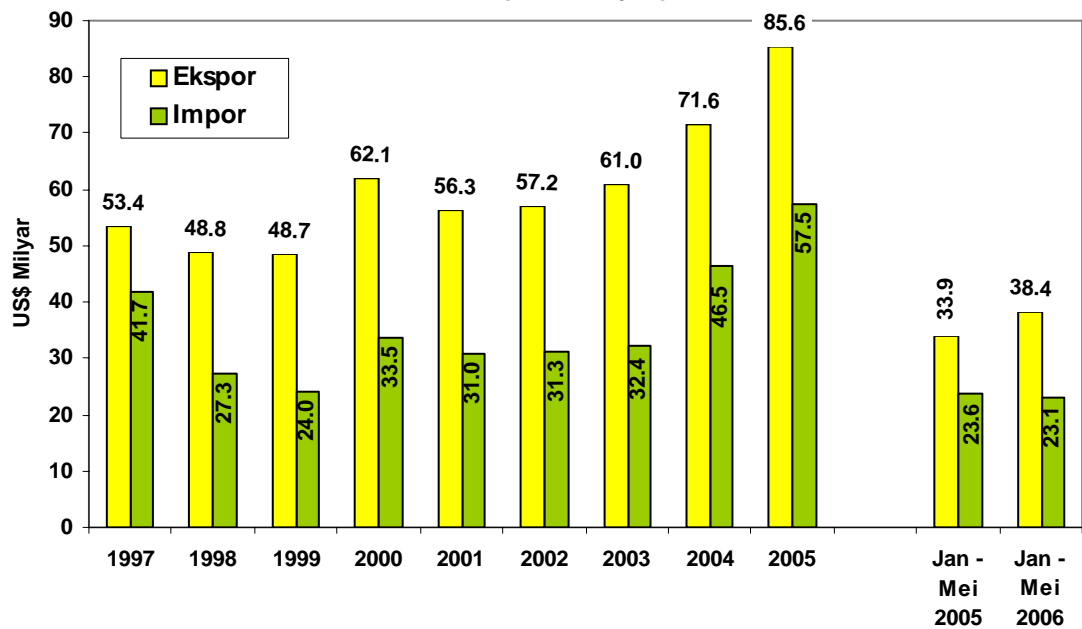
Note: Non-Migas = Non Oil & Gas
Migas = Oil & Gas

Import Growth

From import side, though the import value in May 2006 reached a total of 5.96 billion US\$ or higher by 6.5% from import value in April 2006, yet the total import value during the first five months in 2006 declined by 2.12% from import value during the same period in 2005, amounting to 23.14 billion US\$. In this case, oil/gas import increased by 2.4%, while non-oil/gas import fell around 3.9%. Oil price increase in the international market affected the rise of oil/gas import in May 2006, totaling 1.69 billion US\$ or up by 19.9% over the oil/gas import value in April 2006.

As widely known, Indonesia's export-import relation is still dominated by four leading country that is America, Japan, Singapore and China. To fulfill the target of increasing export value which is said to reach 100 billion US\$ in 2006, a serious market diversification is required to enlarge the export volume of Indonesia. However, that can only be achieved if followed by a raise in domestic productions. And to get to that point, it is important to realize that besides creating variety policies, the most significant issue is the real implementation of those policies, which is nowhere to be seen until today.

Graph 4
The Development of Indonesia Export & Import Value
(US\$ Milyar)



*Note: Ekspor = Export
 Impor = Import*

[Special Report]

International Competitiveness

Ahead from the crisis era in 1997/1998, the export performance of manufacture sector was poor, even for the certain leading products such as textile and its products (TPT) and plywood. The export of Indonesia's TPT started to narrow due to the inability of this labor intensive industry to compete with China and other countries which were well operated with lower production cost. During the last five years, import of China's TPT flooding the domestic market. Several studies predicted that following the elimination of TPT import limitation in US and EU, import share of China's TPT will rapidly raise and dominating domestic market in US and EU, whereas Indonesia's import share will deteriorate or stay insignificant. It means that, Indonesia facing a fierce competition from China's TPT not only in domestic market but also in global market.

Foreign investment also means that new investment required to product upgrading is poorly performed. Foreign investment may also contributed to the increase of non oil/gas exports, industrial products in particular, as can be observed through the rapid growth of industrial products exports at the end of 1980's up until 1996. Outstanding export growth achievement came from China as most of its business activities directed to maintain exports from foreign investment.

Indonesia started to lose its competitiveness in TPT industry, particularly garment, though the labor cost per unit, that is the cost of wage in accordance with work productivity, remain competitive. However, foreign direct investment to this industry has been discontinued since the last couple of years. Japanese investment in Indonesia's TPT industry which was quite dominant during the New Governance Era has quickly declined right after the crisis.

The export of plywood has also shown a downward trend due to the scarcity of raw materials creating an expensive price of wood since the declining potential of Indonesia's forest, added by wood smuggling to foreign countries. According to BPS data, wood and forest products within the last 3 years continued to experience a negative growth. As recorded in 2004, this industry grew in a negative 2.1%, further negative 1.3% in 2005 and even worst in the first quarter of 2006 to negative 5.8%. Based on data from Indonesian Wood Panel Association (Apkindo), the production of wood panel which was able to reach as high as 7 million meter cubic during the period of 1999-2000 has rapidly fall to 3.5 million meter cubic in the year of 2005. And yet, Malaysia is estimated to maintain its wood panel production up to 4 million meter cubic. From the total of 120 plywood factories in Indonesia, the factory which is currently running in production and exporting their products are merely 52 factories. However, their average production used is less than 50% of normal capacity

Ironically, wood industry and forest products have been grow steeply in competitor countries' such as China, Malaysia and Vietnam even without their own wood's raw materials. Indonesia's furniture exports recorded at 1.79 billion US\$ or improved in an average 0.088 billion US\$/year in the last 8 years. At the same period, furniture exports from China grow in an average 1.1 billion US\$. China who prohibited wood-cutter in their country did in fact exported furniture amounted to 14 billion US\$ in the year of 2005

Based on research conducted by World Bank (2004), slow export growth basically caused by the following four factors;

1. Declining cost competitiveness due to higher appreciation of rupiah's and inflation rate in comparison with inflation rate in the counter trade partner. IMF suggested that labor cost/unit in Indonesia nowadays is 35% higher than prior to the crisis. Low cost competitiveness of Indonesia's manufacturing industry also a result of a high domestic transaction costs in Indonesia.
2. Declining trend of investment. Poor business condition in Indonesia is also considered to be another main problem in preventing export growth due to the inability to attract foreign investments which was the prominent player in boosting non-oil/gas exports, including industrial products. The absent of

3. Fierce International Competition. China and Vietnam has been the biggest competitors for Indonesia since they are competing in the exports of product from labor intensive industry similar to those in Indonesia, such as textile, garment and footwear, and rapidly growing compared to Indonesia's exports. As a result, Indonesia lost its market share in 30 non-oil/gas export to China and Vietnam, including industrial products such as textile, footwear and other labor intensive products.
4. Poor Trade Facility. Numerous restriction in harbor and physical facility have been one of the main factors to enlarge the costs of exported products. Although the tariff of using Indonesian harbor/port is relatively low but almost all exports from Indonesia transshipped through Singapore or Malaysia due to lack of efficiency in Indonesia's harbor/port. According to the analysis related to the efficiency of Indonesia's harbor, namely Jakarta International Container Terminal, JICT), as the main terminal in Tanjung Priok which is the biggest terminal throughout Indonesia is in fact the most inefficient Terminal in the South East Asia. Judging from the productivity side (as in total container to be loaded in one hour) and the cost/unit side (cost to lift a container measuring 40 foot high in an hour) then JICT in Tanjung Priok is again the most inefficient terminal comparing to other harbor in South East Asian, such as Singapore and Port Klang in Malaysia.

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