Indonesia Chamber of Commerce and Industry

Monthly Economic Report

March 2007

Secretariat of Indonesia Chamber of Commerce and Industry

By

Erna Zetha dan 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 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)	57.0	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)
	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)	845.0	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	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 and JSX

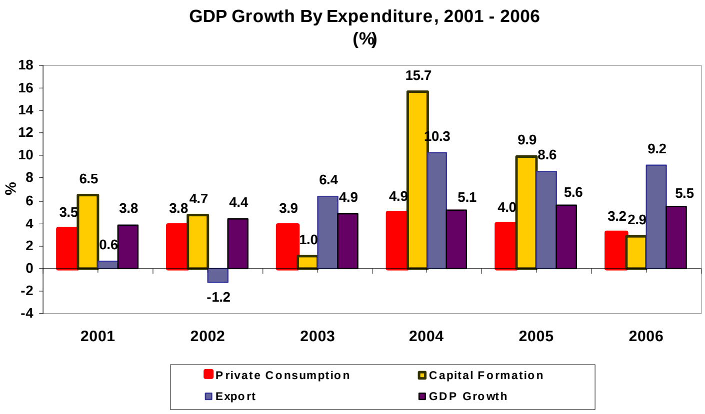
1) I – III Quarter
2) Latest position on I Trimothly 2006
*) in CREP 2006
3) Latest position on November 2006
4) Latest position on October 2006

Indonesia Economic Development
Monthly Analysis
Oleh Sekretariat KADIN Indonesia Erna Zetha dan DR. Tulus Tambunan

March 2007

It is necessary for Indonesia to strengthen the partnership between government and private sectors, and develop production specialization thus not trapped in stagnation and also economic growth deceleration. Such among other opinions stated in the World Bank newest report entitled, ”East Asia Pacific Update”. The report that covers the economic growth of the East Asian region after a decade of financial crisis, should make us realized that Indonesia economy has not really recovered, but sadly ensnared in a relatively low economic growth balance.

After the economic crisis that hit Indonesia in 1997/1998, the national economic growth is never fully reached any significant rate. The highest economic growth ever achieved was 5.6% in 2005, but decreasing in 2006. This happened because it was not backed up with proper investment buildup, and also due to the real production sector breakdown. Therefore, we can conclude that the economic growth of Indonesia is insignificant. The current growth is also marked with an increase in unemployment and a wider gap between affluent and destitute region (Kompas, 14/3/2007). This also clarifies the notion that the income distribution in Indonesia is getting more inadequate, whether among economic community groups or regions.



In relation to this matter, it is no wonder if the economic growth in 2006 – though not too bad – did not feel by the majority of people. In fact the middle to low class people felt that their lives became more difficult, because the price for primary needs like rice and oil were getting higher, not to mention the opportunity to get a job and rise in income. These conditions are the reasons why the popularity of President Susilo Bambang Yudhoyono among the people is decreasing nowadays. It is almost certain that the dissatisfaction among the people toward the government is closely related to the economic problem that is considered not in favor toward the interest of the majority of people in Indonesia.

Government wish to increase investment is considered more as a discourse by inviting foreign investors but not supported with proper policies to boost production sector. The government is believed to be unaware in anticipating various problems in production sector, and often deal with the problem prematurely, like for example by increasing import. Unsynchronized policies among the departments are visible, such as in dealing with the national rice crisis. Due to the incoherent policies among the Agriculture

Department, BULOG, and Commerce Department, then the consumers had to suffer from the skyrocketing rice price, while the farmers still at the losing side since they had not enjoyed the rising price of rice set up by the government.

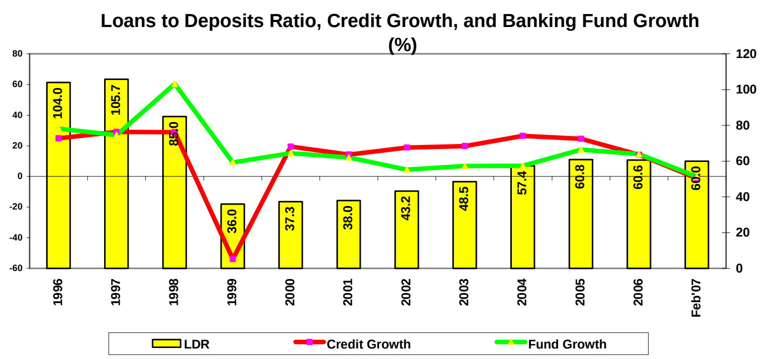
This lack of coordinations in policies among the departments signalled that the government course of policy is indeed unclear, since it was never been programmed appropriately into one integrated long term program. The economic policy seems to be driven to establish the macro economic stability, and in fact it is well maintained. Since the economic crisis occured, started with the currency exchange crisis, the government is more into stabilizing the currency exchange, and forgetting that it is more important to increase the people prosperity.

The agriculture revitalization planned at the beginning of SBY administration became merely a discourse only, because in reality the policies on agricultural sector did not indicate any revitalization. The shortage of fertilizer and the costly production tool showed that agricultural sector not is the main priority, just like in 1984 when Indonesia proclaimed to be rice self-sufficient. At that time there was a program known as the Five Agricultural Endeavors that held important role in promoting the rice self-sufficient.

The government concentration in manufacturing industrial sector is also inadequate. Various problems in business world were not solved throughly, for example labor and taxing. Meanwhile due to the liberalization in banking sector, the economic policy that bridged the production sector and financial sector became very limited, because the nature is more to suggestion and demand to provide credit for the production sector immediately. Production sector and financial sector are going their own way, since there was no obligation for banking sector to finance the production sector, unlike in 1973 when Kredit Investasi Kecil/KIK (Small Investment Credit/SIC) and Kredit Modal Kerja Permanen/KMKP (Permanent Working Capital Credit/PWCC) were programmed by the government to help increase the production and income especially for the small/micro entrepreneurs through appointed government and private banks. The goal of the program was to boost the development of local small/micro entrepreneurs and supporting labor-solid projects.

Apart from the problems faced by SIC and PWCC at that time, it can be clearly seen that the government wish in the past was to prioritize the income increase for the weak economy group through banking credit. This experience should be a valuable lesson and implemented in a more flexible form nowadays. Cooperation amongst various economic sectors should be encouraged to ensure the economy development, without compromising the independence of banking sector. Therefore the economic policy ought to be in an accord with other policies in all sectors. Although the currently the banking sector is not projected as agent of development anymore, but it does not mean that its function as intermediation institution should be neglected.

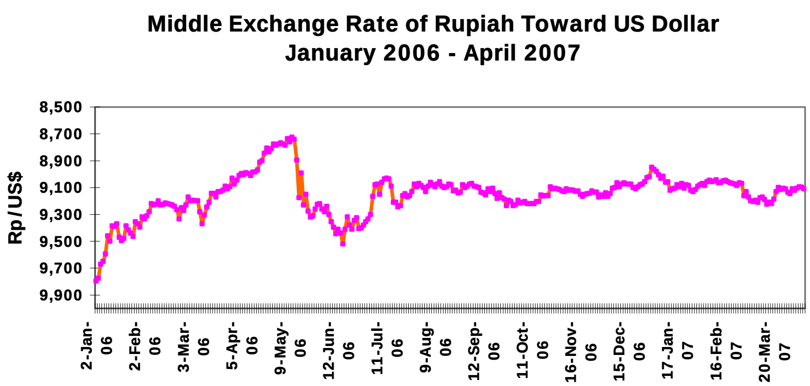
The low expansion in banking credit since 2006 has caused loans to deposits ratio to descend again. This conditon continued to take place until the first quarter of 2007, thus registered LDR in around 60 percents. By the end of February 2007, the banking credit position that reached Rp. 777.9 quintillion experienced depreciation around 1.2 percents compared to the credit position in the end of 2006 that reached Rp. 787.14 quintillion. This condition is also followed by the depreciation of third party fund accumulation position around 0.2 percent, from Rp 1,298.75 quintillion by the end of 2006 to Rp 1,295.9 quintillion by the end of February 2007. However, in general, banking sector showed a good sign of restoration along with the increase of ROA from 2.6 percents to 2.8 percents, and also followed by the depreciation of Non Performing Loan.



Therefore the loosening of several regulations on credit by the Bank of Indonesia, fully supported by the government, is expected to be a way out for the stagnate real sector, although the most needed one is conducive business climate, like taxation regulation, custums, and labor issue that are still without solution yet. Without improvement in investment climate, then the loosening of credit regulations will not be effective, and will likely be a boomerang for economic stability. As known, since 2006 up to now, the Bank of Indonesia has loosened up 17 regulations in order to restimulate private sectors with the availability of liquidity support from banking sector. This Bank of Indonesia policy should be utilized appropriately by business world to facilitate investment escalation for production activity. This policy will be a new disaster if moral hazard returns among business world.

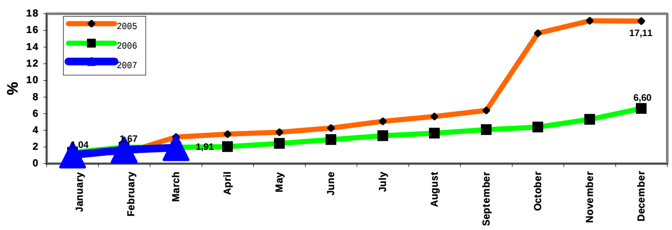
Monetary Development

Meanwhile, reviewed from monetary side, Indonesia economy has indeed been on the right track. Macro economy stability has been well maintained with rupiah rate inclined to increase, so that inflation rate can then be depressed and banking interest rate can continue to decrease. During 2006, rupiah rates experienced appreciation around 8.2 percents, and quite stable during the first three months of 2007, around Rp 9,100 per US dollar. Inflation rate that leap relatively high in 2005 (17.1 percents) has went down to 6.6 percents in 2006, and expected to be properly controlled during 2007. in the period of January – March 2007, the inflation rate arrived at 1.91 percents lower than the inflation rate in the same period in 2006, that is 1.98 percents.



However actually the inflation on March 2007 that reached 0.24 percents was not a low figure, because when compared to the inflation on March in previous years, then March 2007 inflation was only lower when compared to the inflation in March 2005. Whereas on March since 2002 and also compared with inflation on March 2006, then the inflation rate on March 2007 was much higher. Therefore the Bank of Indonesia, in order to anticipate the rising of inflation rate, started to put on the brakes to the depreciation of BI interest rate.

Inflasi Kumulatif (%)
2005 - 2007



After decreasing BI rate as much as nine times since July 2006, Bank of Indonesia decided to bring to a halt on the depreciation of BI rate within the level of 9 percents in early April 2007. According to Bank of Indonesia, this rest is meant to mull over further impact and development of various polices issued by government and also the Bank of Indonesia. Beside that it is also to anticipate any possibility of increase in inflation rate that might occur if imbalance takes place between monetary sector and real sector.

The Development of BI Rate (2005 - April 2007)

2005		2006		2007	
6-Dec	12.75%	7-Dec	9.75%	5-Apr	9.00%
1-Nov	12.25%	7-Nov	10.25%	6-Mar	9.00%
4-Oct	11.00%	5-Oct	10.75%	6-Feb	9.25%
6-Sep	10.00%	6-Sep	11.25%	4-Jan	9.50%
9-Aug	8.75%	8-Aug	11.75%		
5-Jul	8.50%	5-Jul	12.25%		
		6-Jun	12.50%		
		9-May	12.50%		
		5-Apr	12.75%		
		7-Mar	12.75%		
		7-Feb-07	12.75%		
		9-Jan-07	12.75%		

Source: Bank of Indonesia

Export Development

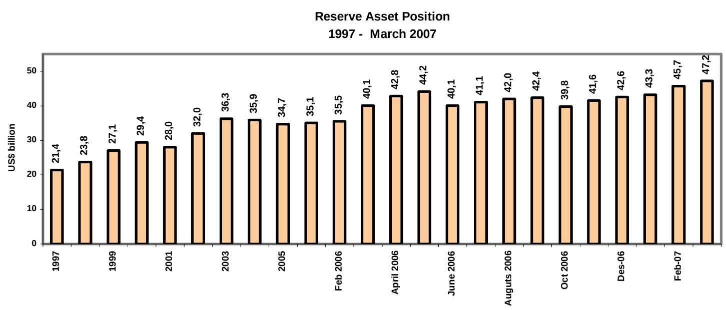
The Indonesia export performance in last two months of 2007 showed depreciation. After the export value in January 2007 declined to 12.04 percents compared to export value of December of 2006, the Indonesia export value in February of 2007 continue to experience depreciation. With export value as big as US$ 8.32 billion, then the export value in February 2007 decreased 0.44 percent compared to the export value in January 2007 that resided in position of US$ 8.35 billion.

Indonesia's Export
January - February 2006 & 2007

Description	Value FOB (US$ million)				% Change Feb-07 to Jan-07	% Change Jan-Feb 2007 to Jan-Feb 2006	% Share to Total Jan-Feb 2007
	January 2007	February 2007	Jan-Feb 2006	Jan-Feb 2007			
Export	**8,353.8**	**8,317.1**	**14,956.1**	**16,670.9**	**(0.44)**	**11.47**	**100.00**
Oil and Gas	**1,487.7**	**1,460.4**	**3,462.0**	**2,948.1**	**(1.84)**	**(14.84)**	**17.68**
Crude Oil	608.5	628.4	1,401.4	1,236.9	3.27	(11.74)	7.42
Refinery Product	161.3	204.0	391.2	365.3	26.47	(6.62)	2.19
Gas	717.9	628.0	1,669.4	1,345.9	(12.52)	(19.38)	8.07
Non-oil and gas	**6,866.1**	**6,856.7**	**11,494.1**	**13,722.8**	**(0.14)**	**19.39**	**82.32**

Source: Statistics Indonesia

Nevertheless, if compared with the export value in the same period of 2006 – or according to year on year comparison – then the export value in the first two months of 2007 is better. In the period of January – February 2007, the export values of Indonesia arrived at US$ 16.67 billion or increase around 11.47 percents towards export value in the same period same of 2006 that was as big as US$ 14.96 billion. With import value as big as US$ 9.91 billion therefore in first two months of 2007 the balance of trade registered suplus as big as US$ 6.76 billion. This condition continues to increase foreign exchange reserve at the Bank of Indonesia, although back in 2006 Indonesia has liquidated its national debt to IMF. By the end of March 2007, foreign exchange reserve achieved at US$ 47.2 billion, which increased around US$ 4.6 billion or 10.8 percents from the position of foreign exchange reserve by the end of 2006.



Import Development

In the meantime Indonesia import value in February 2007 reached US$ 4.66 billion or went down 11.07 percents compared the import value in January 2007, as big as US$ 5.24 billion. Meanwhile the import value of January – February of 2007 that achieve US$9.91 billion showed an increase around 11.1 percents compared with the same period of 2006, that reached US$ 8.892 billion.

Indonesia's Import
January-February 2007

Description	**Value CIF (US$ million)**				**% Change**	**% Change**	**% Share**
	Jan 2007	**Feb 2007**	**Jan-Feb 2006**	**Jan-Feb 2007**	**Feb-07 to Jan 2007**	**Jan-Feb 2007 to 2006**	**to Total Jan-Feb 2007**
Import	**5,243.7**	**4,663.0**	**8,916.9**	**9,906.7**	**(11.07)**	**11.10**	**100.00**
Oil and Gas	**1,361.9**	**1,078.1**	**2,440.0**	**2,440.0**	**(20.84)**	**0.00**	**24.63**
Crude Oil	580.9	382.7	1,157.7	963.6	(34.12)	-16.77	9.73
Refinery Product	781.0	695.4	1,272.3	1,476.4	(10.96)	16.04	14.90
Gas	-	-	10.0	-			
Non-oil and gas	**3,881.8**	**584.9**	**6,476.9**	**7,466.7**	**(84.93)**	**15.28**	**75.37**

Source: Statistics Indonesia

Although cumulatively experienced an increase, but this import value increase does not show any improvement to real product sector. Although an increase in import of basic commodity occurred as big as 13.05 percents during the period of January – February

2007, but it does not too relieving, since at the same time depreciation on the import of capital goods as big as 4.43 percents occurred. This matter showed that significant increase of investment has not taken place on real production sector. And to more things even worse is the fact that the consumer goods import value is heightening (for period of January – February of 2007, the increase was around 23.28 percents.

If viewed according to country of origin, the biggest importer country on non gas and oil biggest these days is China, with a value that reached US $ 1.14 billion (15.26 percents), then followed by Japan, with the value of US$ 0.92 billion (12.29 percents), and United States of America US$ 0.67 billion (8.95 percents). While import value of non oil and gas from ASEAN was 21.18 percents and Europe Union was 13.5 percents.

This showed Indonesia greater dependence towards products from China, that has exceeded the import from principal importer countries like Japan and USA. If in year 2006, biggest import sometimes came from China and Japan, then this time Japan is left far behind in supplying goods for Indonesia compared to China. China's main products that flooded Indonesian market are no other than textile and electronics. Although the quality are not too good, but at the price is achievable, thus more people prefer to choose products from China compared to products from other countries.