



Indonesia Chamber of Commerce and Industry

Monthly Economic Report

May 2007

Secretariat of Indonesia Chamber of Commerce and Industry

By

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Economic Indicators

| No | Indicators | 2003 | 2004 | 2005 | 2006 | 2007 |
|----|--|---------|---------|---------|-----------|--------------|
| 1 | Constant Price of GNP Value in 2000 (Rp quintillion) | 1.579,6 | 1.660,6 | 1.749,6 | 1.846,7 | 475.04 (1) |
| 2 | GNP Development (%) | 4.88 | 5.13 | 5,6 | 5,5 | 6.00 (1) |
| 3 | Inflation (%) | 5,06 | 6,4 | 17,1 | 6,6 | 1.74 (1) |
| 4 | Total of Export (USD billion) | 55,6 | 69,7 | 85,6 | 100,7 | 25.86 (1) |
| 5 | Non Oil and Gas Export (USD billion) | 43,1 | 54,1 | 66,3 | 79,5 | 21.36 (1) |
| 6 | Total of Import (USD billion) | 29,5 | 46,2 | 57,6 | 61,1 | 15.35 (1) |
| 7 | Non Oil and Gas Import (USD billion) | 22,6 | 34,6 | 40,2 | 42,1 | 11.41 (1) |
| 8 | Balance of Trade (USD billion) | 26,1 | 23,5 | 28,0 | 39,6 | 10.51 (1) |
| 9 | Balance of Current Transaction (USD billion) | 4,0 | 2,9 | 0,9 | 9,6 | 3.2 (1) |
| 10 | Foreign Exchange Reserve (USD billion, end of year) | 36,3 | 35,9 | 34,7 | 43,3 | 49.3 (2) |
| 11 | Foreign Debt Position (USD billion) | 135,4 | 136,1 | 133,5 | 125,3 | - |
| 12 | Rupiah/USD (Middle Exchange Rate of BI) | 8.330 | 9.355 | 9.830,0 | 9.020,0 | 8,828 (3) |
| 13 | Total of Government Income (Rp quintillion) | 341,1 | 380,4 | 516,2 | 539.4 (*) | - |
| 14 | Total of Government Expenditure (Rp quintillion) | 378,8 | 397,8 | 542,4 | 559.3 (*) | - |
| 15 | Budget Deficit (Rp quintillion) | -37,7 | -17,4 | -26,2 | -19.9 (*) | - |
| 16 | Primary Money (Rp quintillion) | 136,5 | 199,7 | 239,8 | 297,1 | 272.2 (4) |
| 17 | Circulating Money (Rp quintillion) | | | | | |
| | a. Narrow Sense (M1) | 207,6 | 253,8 | 281,9 | 361,1 | 341.8 (4) |
| | b. Broader Sense (M2) | 911,2 | 1.033,5 | 1.203,2 | 1.382,1 | 1,375.9 (4) |
| 18 | Third Party Banking Fund (Rp quintillion) | 866,3 | 965,1 | 1.134,1 | 1.298,8 | 1,302.0 (4) |
| 19 | Banking Credit (Rp quintillion) | 411,7 | 553,6 | 689,7 | 787,1 | 794.7 (4) |
| 20 | Interest Rate (% per year) | | | | | |
| | a. One month BIC | 8,1 | 7,4 | 12,8 | 9,8 | 8.75 (3) |
| | b. One month Deposit | 7,7 | 6,4 | 12,0 | 9,0 | 8.13 (4) |
| | c. Working Capital Credit | 15,8 | 13,4 | 15,9 | 15,1 | 14.49 (4) |
| | d. Investment Credit | 16,3 | 14,1 | 15,4 | 15,1 | 14.53 (4) |
| 21 | Investment Approval | | | | | |
| | - Domestic (Rp quintillion) | 16,0 | 36,8 | 50,6 | 162,8 | 77.15 (1) |
| | - Foreign (US\$ billion) | 6,2 | 10,3 | 13,6 | 15,7 | 14.13 (1) |
| 22 | CSPI JSX | 742,5 | 1.000,2 | 1.162,6 | 1.805,5 | 2084.32 (3) |
| 23 | Market Capitalization Value of JSX (Rp quintillion) | 411,7 | 679,9 | 801,2 | 1.249.1 | 1.280.13 (4) |

Source: BPS, BI, dan JSX

1) I Quarter

2) Latest position on April 2007

3) Latest position on May 2007

4) Latest position on March 2007



Indonesia Economic Development

Monthly Analysis

Oleh Sekretariat KADIN Indonesia Erna Zetha dan DR. Tulus Tambunan

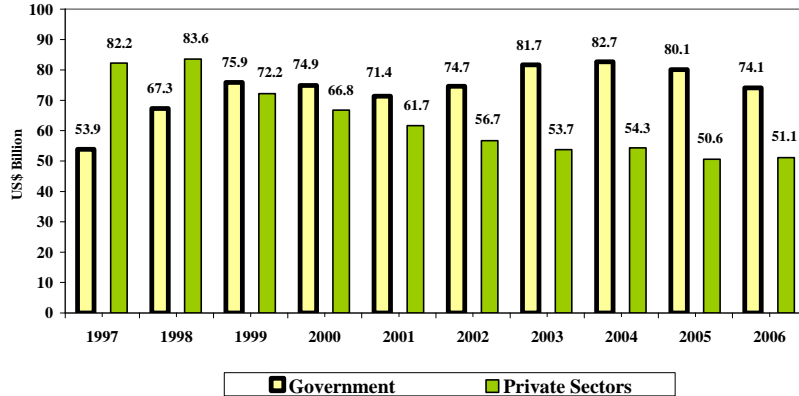
KADIN Indonesia

May 2007

A reason for the strengthening of rupiah and the achievement of new index record in stock market is the increase of Indonesia economic credibility among foreign investors. However the government should be aware on the threat that might follow in with the current flow of fund to Indonesia financial market. Although fundamentally the economy is getting better, but it does not mean that the government should not let their guard down on the hedge fund activities in the financial market.

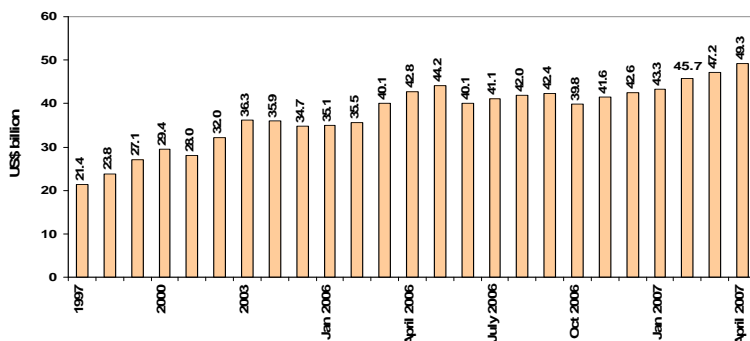
We might still remember the situation in 1997, when the government and also World Bank declared that the situation in Asia, including Indonesia, was all right. At that time World Bank considered the increase of debt, deficit in national budget, and deficit in balance of payment in Asia were nothing to worry about. But in reality, the crisis in Asia truly has jeopardized the economy of Indonesia. Whilst in 1996 the economic growth of Indonesia reached 7.8 percents with inflation rate of 6.5 percents. But in 1997 the foreign debt of private sectors reached US\$ 82.2 billions of the Indonesia total debt of US\$ 136.1 billions, and deficit in balance of current transaction as big as US\$ 5 billions or 2.3 percents of GNP, while the foreign exchange was merely around US\$ 17.6 billions.

The Position of Indonesia Foreign Debt (US\$ Miliar)



With the current economic condition, where the economic growth of 2006 simply around 5.5 percents and inflation of 6.6 percents, can we ignored that the possibility that such disaster might occur again? Although the current foreign exchange has reached US\$ 49 billions, and the foreign debt has dropped to US\$ 51.1 billion at the end of 2006, and the balance of trade recorded a surplus of US\$ 3.2 billions on the first quarter of 2007, but still can not guarrantee that we are free from the threat of economic crisis if sudden reversal should take place anytime. Warning from Alan Greenspan, previous Governor of Central Bank of America, and also the warning from Organization for Economic Cooperation and development (OECD) on the likelihood of occurrence of hard correction on stocks from China which have been considered too hot, should be a warning for the monetary and stock market authorities in Indonesia, since this condition might happen to the national stock market as well.

**The Position of Foreign Exchange Reserve
1997 - April 2007**

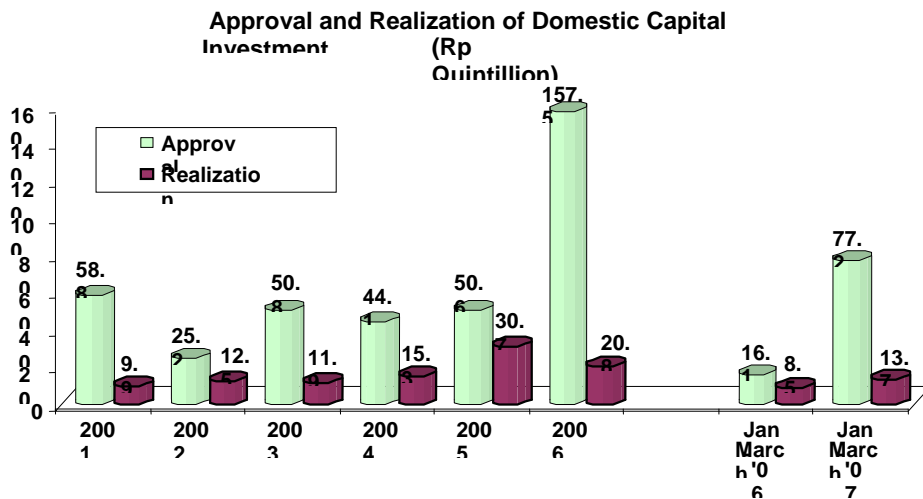


Beside related to the chance of sudden reversal of capital, a concern correlated to the undeveloped condition of real sector is also spreaded. The risk of another financial crisis is also quite substantial if the increase in stock market is not tagged along with development of the current slow real sector. Although the economic growth acknowledged by Central Statistics Bureau (CSB) seemed to show an improvement in real sector but not everyone sensed it. Business world is one side that doubted the figure on economic development released by CSB on previous mid May. The doubt is not without any strong reason, since according to the calculation done by ICCI based on the data available the growth of Gross Domestic Product on the first quarter of 2007 was less than 6 percents. It was only about 5 percents by year on year.

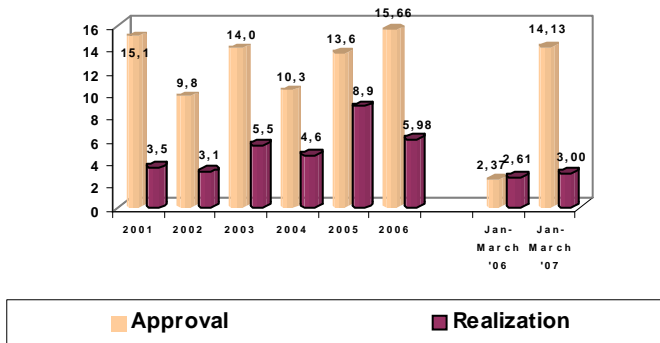
ICCI Version on Economic Growth

The economic growth calculated by ICCI is lower than CSB because based on the fact that the rate of investment and public of consumption due to the low purchasing power are relatively small. Although approval upon foreign and domestic capital investment recorded a relatively high increase on the first quarter 2007, which are 496.4 percents and 378.9 percents, but the realization of these two capital investment were far inferior, which are 14.9 percents and 60.45 percents. With this kind of investment realization and also by judging the banking credit increase which only around 0.87 percent, then the estimated growth of physical investment (forming of gross fixed capital) on the first quarter of 2007 was only about 7 percents toward the first quarter of 2006. This figure is much lower than the figure from CSB which is around 7.5 percents.

The significant increase in gross fixed capital forming (GFCF) was mainly contributed from capital forming on construction sector which on the first quarter reached 7.7 percents growth. With the role of construction sector that reached 84 percents in gross fixed capital forming (19.74 percents of 23.34 percents contribution in GNP), then the increase in physical investment can be said was dominated by construction sector, whereas the investment on other sectors were far from adequate.



Approval and Realization of Foreign Capital Investment (US\$ Billion)



Meanwhile due to the low consumption power of the society, thus the expenses for family consumption are not yet restored as well, though much better compared to 2006. During the first quarter of 2007, the expenses for family consumption is estimated to grow up to 4 percents, which is lower than the figure released by CSB (4.5 percents). Although goods export value on the first quarter of 2007 recorded an increase around 15 percents toward the same period in 2006, but the increase in export on goods and services was only about 8.2 percents compared to the increase in export on goods and services data released by CSB which was 8.9 percents. Similarly, if the figure from CSB recorded an increase in import of goods and services as big as 8.4 percents, then according to the calculation from ICCI the growth was only about 7.6 percents. Thus, in overall, the GNP for the first quarter of 2007 only recorded an increase around 5 percents year on year, or about 1.1 percents toward the fourth quarter 2006 (quarter on quarter).

Growth of Constant Price GDP 2000 according to Usage (%)

| Expenditures | 1st Quarter of 2007 toward 2nd Quarter of 2006 | 1st Quarter of 2007 thd 4th Quarter of 2006 |
|------------------------------------|--|---|
| Household Consumption Expenditure | 4.0 | -0.97 |
| Government Consumption Expenditure | 4.5 | -31.02 |
| Gross Fixed Capital Formation | 7.0 | -3.21 |
| Service and Goods Export | 8.2 | -7.45 |
| Minus : Service and Goods Import | 7.6 | -4.55 |
| Gross Domestic Product | 5.04 | 1.08 |

Source: Databank of ICCI

The progression of the real sector is still stuttered due to the low investment rate. This can be clearly seen especially on the low increase of production in tradable sectors, like

agriculture, mining and industry sectors. If GNP was calculated according to the business field, we can see that these three sectors recorded the lowest increase compared to the other six economic sectors. Transportation and communication sector recorded the highest increase as big as 11.6 percents, followed by the construction sector as big as 7.7 percents, and trading sector as big as 7 percents. Meanwhile, the increase in industry, manufacture, mining, and agriculture sectors, each recorded an increase of 5 percents, 3.8 percents, and -1 percent. Almost all these figures are lower than the figures issued by CSB. Therefore, eventhough according to the figures from CSB there is a growth in the economy around 6 percents on the first quarter of 2007 (year on year), but it is not experienced by the society.

The weak growth of industry sector is a clear picture of the weak growth of the entire sectors. Although there is nothing wrong in the statement of President Susilo Bambang Yudhoyono who declared that the government does not wish to give to much protection for domestic industries and state-owned companies, but this does not mean that the the government can let this sector go further without any clear guidance and direction. The government is still has to decide and give clear directions where the economic development will go that the business people hold on to in order to make further investments.

The government should even support with comprehensible regulations and policies that could boost the industry sector to be the economic activation again. It would be a good idea for the government to learn from the pre-crisis policies where the direction of

development for industry sector is very apparent. Eventhough there were various policies that created inefficiency in this sector, but it does not mean that all policies during the administration of Soeharto were unsuitable to be exercised again. Since there is a correlation between real production sector with financial sector, the the mechanism of these two sectors should be carefully reconsidered again. If both sectors could be synergized smoothly, then the plentiful liquidity in banking and stock market sector can be put to good use to support the real sector and expand business scale.

Growth of Constant Price GDP 2000 according to Sector (%)

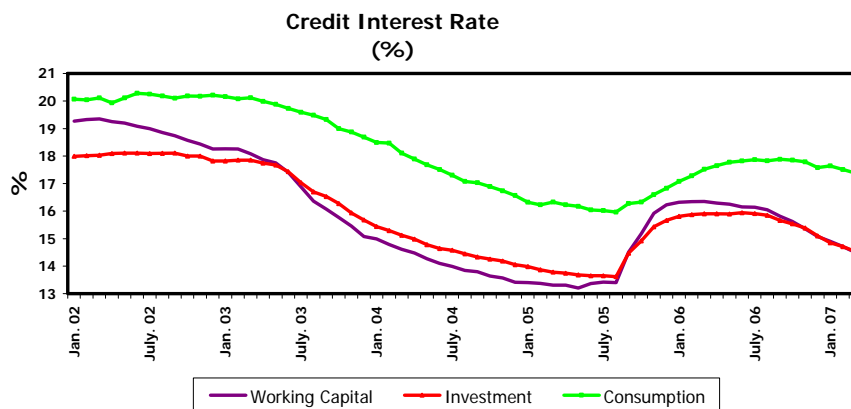
| Lapangan Usaha | 1st Quarter of 2007 toward 4th Quarter of 2006 | 1st Quarter of 2007 toward 1st Quarter of 2006 |
|--|--|--|
| | 1. AGRICULTURE, HUSBANDRY, FORESTRY & FISHERY | -1 |
| 2. MINING & DIGGING | 3.8 | -3.4 |
| 3. PROCESSING INDUSTRY | 5.0 | -0.9 |
| 4. ELECTRICITY, GAS, & CLEAN WATER | 6.8 | -0.7 |
| 5. BUILDINGS | 7.7 | -2.4 |
| 6. TRADING, HOTEL & RESTAURANT | 7.0 | -0.5 |
| 7. TRANSPORTATION & COMMUNICATION | 11.6 | -1.7 |
| 8. FINANCE, LEASING & COMPANY SERVICES | 6.0 | 0.0 |
| 9. SERVICES | 5.2 | 0.4 |
| Gross Domestic Product | 5.04 | 1.08 |

Source: Databank of ICCI

Banking Credit

The slow growth in real sector also closely related to the low rate of banking credit channeling. Up to March 2007, the position for banking credit was only Rp. 798.71 quantillion, or only increase about 0.87 percent toward the credit position at the end of 2006 (about Rp. 787.14 quantillion). With the position of third party fund collection (TPF) about Rp. 1,302 quintillion on the end of March 2007, then the banking Loan to Deposits Ratio (LDR) which is still around 61 percents showed that the expansion of banking credit is not fully recovered.

The low credit expansion is not mainly due to the reluctance of banks, but also due to the doubt of the business people in using the credit. This fact can be seen on the high approved credit volume but remain untake by the business practitioners (undisbursed loan) which sized up to more than Rp. 158 quintillion at the end of 2006. The towering market risk due to the inconducive business climate, and relatively high credit interest rate are main factors that reduce the interest of business practitioners to make use of the banking credit.

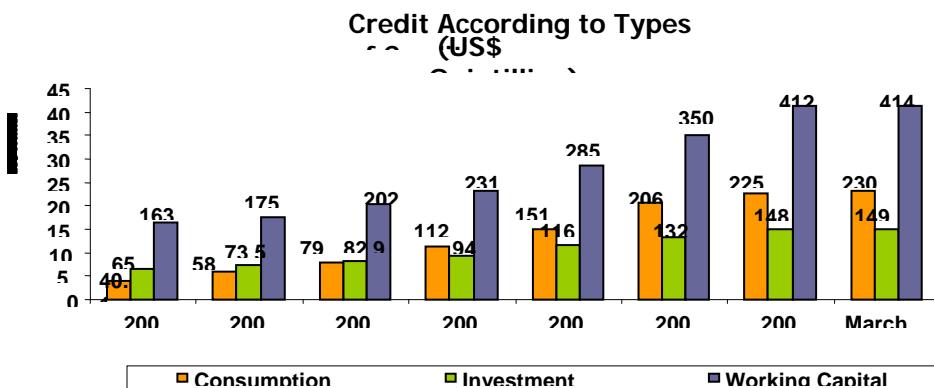


Eventhough the interest rate of banking credit continued to drop and now arrived at around 14.5 percents for investment credit and working capital credit, but remained to bring about the perception of jammed credit risk until now. With the interest rate as high as this, it would not be easy for the business world to gain any appropriate advantage in the middle of high competitive business climate nowadays. It would be better if the banking sector continue to decrease the interest rate of credit to a level that offers investment benefit in real sector, thus the spread between the interest rate of credit and fixed deposit is not to high. The present moderately high spread of interest rate does not

only show that the inefficiency of the national banking industry, but furthermore it reflects the failure of banking recovery process from the side of intermediation, though it has taken about Rp. 650 quintillion in the process. With the interest rate of fixed deposit around 8 – 8.5 percent per year, the spread of interest rate nowadays reached around 5.5 – 6 percents, whereas in early 2002, the spread was around 2 percents.

The high perception on jammed credit risk is also associated to the inconducive business and investment climate in Indonesia, that amplified the risk of failure if confronted with the rush of economic globalization. The worsen competitiveness of Indonesia’s industry is not only revealed through the term of trade, but also from the real effective exchange rate on several countries that have been Indonesia’s business partners, not to mention other countries like China, India, and also Vietnam.

The weak support from banking on credit toward the real sector is getting worse since the credit expansion is more toward consumption sector. After declining during 2006, the credit for consumption ascended in 2007. From the total credit increase as big as 0.87 percent, the increase on investment credit is 0.7 percent and working capital credit is 0.37 percent, whereas the increase for consumption credit reached up to 2.21 percents.



With the increase on consumption credit which reasonably high from year to year then it is not a surprise if another significant shift in banking credit structure will come about again. If in 1998 the role of consumption credit is just around 6.5 percent of total banking credit and the roles of investment credit and capital working credit were 29 percents and 64.5 percents, then at the end of March 2007, the role of consumption credit escalated to 29 percents, whereas the roles of investment credit and capital working credit dropped off to 18.9 percents and 52.1 percents.

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