



Kamar Dagang dan Industri Indonesia

Monthly Economic Report

November 2006

The Secretariat of Indonesia Chamber of Commerce and Industry

by

Erna Zetha

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 INDICATOR

No	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	905.6 (1)
2	GDP Growth (%)	4.38	4.88	5.13	5.6	4.97 (1)
3	Inflation (%)	10.03	5.06	6.4	17.11	4.96 (2)
4	Total Export (billion US\$)	57.0	55.6	69.7	85.57	73.47 (3)
5	Non Oil and Gas Export (billion US\$)	44.9	43.1	54.1	66.32	57.52 (3)
6	Total Import (billion US\$)	31.2	29.5	46.2	57.55	45.63 (3)
7	Non Oil and Gas Import (billion US\$)	24.8	22.6	34.6	40.16	31.16 (3)
8	Trade Balance (billion US\$)	25.8	26.1	23.5	28.02	27.84 (3)
9	Current Account (billion US\$)	4.7	4.0	2.9	0.93	3.42 (1)
10	Foreign Reserves (billion US\$, year end)	32.0	36.3	35.93	34.72	39.77 (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	9,110 (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	559.3 (*)
15	Budget Deficit (trillion Rp)	-23.2	-37.7	-17.4	-26.18	-19.9 (*)
16	Base Money (trillion Rp)	138.3	136.5	199.7	239.8	250.1 (4)
17	Money Supply (trillion Rp)					
	a. (M1)	191.9	207.6	253.8	281.9	311.82 (5)
	b. (M2)	883.9	911.2	1,033.50	1,203.20	1,248.2 (5)
18	Banking Third Party Fund (trillion Rp)	845.0	866.3	965.1	1,134.10	1,199.2 (4)
19	Banking Credit (trillion Rp)	365.4	411.7	553.6	689.7	723.7 (4)
20	Interest Rate (% , annually)					
	a. 1 month SBI	12.9	8.1	7.4	12.75	11.75 (4)
	b. 1 month Time Deposits	12.8	7.7	6.4	11.98	11.1 (5)
	c. Working Capital Credits	18.3	15.8	13.4	15.92	16.1 (5)
	d. Investment Credit	17.8	16.3	14.1	15.43	15.9 (5)
21	Investment Approval					
	- Domestic (trillion Rp)	25.3	16.0	36.80	50.58	107.93 (3)
	- Foreign (billion US\$)	9.7	6.2	10.3	13.58	10.52 (3)
22	JSX Composite Index	424.9	742.5	1,002.20	1,162.60	1,582.6 (7)
23	JSX Market Capitalization (trillion Rp)	268.4	411.7	679.9	758.4	932.2 (5)

Source: BPS, BI and JSX

1) 1st Semester

2) January – October 2006

3) January – September 2006

4) Position at the end of August 2006

*) in the State Budget 2006

5) Position at the end of July 2006

6) Position on August 8th 2006

7) Position at the end of October 2006

8) Position at the end of 1st Quarter of 2006



The Economic Development in Indonesia

Monthly Analysis

By Indonesia KADIN Secretariat Erna Zetha and DR. Tulus Tambunan
JETRO Senior Advisor Yojiro OGAWA and Shoji MAEDA

KADIN Indonesia

November 2006

Apart from the low investment interest in Indonesia, one thing was the improved optimism from the government, market players and international financial institution toward the recovery of Indonesian macro economy. By constantly reducing the BI rate up to the level of 10.25% on November 7, Bank Indonesia has apparently displayed its optimism toward secured fund inflow to Indonesia. It was also supported by inflation rate that confirmed to be below 8%, and relatively stable rupiah exchange value. In the meantime, the optimism from market players toward Indonesian economic condition was reflected from high confidence presented by the stockowner, which was evident from the continuous development of domestic capital market.

Intense government effort to improve domestic investment has to be admitted as a remarkable job. Number of visitation by the President and the Vice President to various countries was conducted as an effort to invite as many parties as possible to perform cooperation in economic and investments field in Indonesia. Number of agreement has been signed so far, and its implementation will be strongly dependent on the government readiness to fully support that agreement by means of all adequate facilities, both in the form of regulations as well as infrastructures.

Recent electricity power crisis in about ten regions in Indonesia and gas crisis in West and East Java have been the real obstacles to prolong various expansions. Besides, critical issues such as labors and tax rate compatibility have been other factors to interfere with the recovery effort in investment activities. The frequent restoration of investment climate has been the platform and required by business players toward those two issues. However, the very basic problems faced by the business communities were the bureaucracy permit and endless various collections that burdened their business activities.

Investment

A relatively low interest of investment in Indonesia could be further observed from the figures disclosed by the Coordination Board of Capital Investment (BKPM). During the period of January – November 2006, the investment realization recorded a declining trend both in terms of foreign direct investment (FDI) but also in the realization of domestic investment (DDI). The realization value of FDI during the said period was only recorded at US\$ 4.69 billion, a huge drop of 45.9% from FDI realization in the same period of 2005. The same happened to the realization value of DDI—, which from January to October 2006 still increased by 4%--but throughout the period of January-November 2006 recorded a decline by around 37.1%.

INVESTMENT REALIZATION

Year	Domestic Investment (PMDN)		Foreign Investment (PMA)	
	Projects	Value (Billion Rp)	Projects	Value (Million US\$)
2001	160	9,891	454	3,509
2002	108	12,500	442	3,090
2003	119	11,890	570	5,450
2004	129	15,265	544	4,601
2005	214	30,665	909	8,915
Jan-Nov'05	192	26,906.20	831	8,677.90
Jan-Nov'06	145	16,912.80	801	4,699.90

Source: BKPM

One interesting matter that may be concluded from the investment data issued by BKPM recently was a sharp decline of Japanese investment despite continual Indonesian promotional visit to Japan. During the period of January-November 2006, Japanese investment was merely around US\$ 430.2 millions or drop by 61.13% compare to the investment value during the same period in 2005. Slowing down investment from Japan since the economic crisis was partly based on a poor investment climate in Indonesia as observed by Japanese companies. During the year of 2006, Indonesia positioned at the ninth ranked following Vietnam, Singapore, China, Malaysia, and some other countries, in contrast with the fact that Indonesia was the second biggest investment target from Japan before the crisis in 1997.

According to Muhammad Lufti, Chief of BKPM, five underlying problems postponed Japanese investment in Indonesia. First, permit issue in the field of duty and excise. Second, tax problem. Third, slow realization of infrastructure development. Fourth, unsolved disputes toward the certainty of labor rules/laws, and lastly, the uncertainty in managing judicial aspect. All of those problems needed to be seriously considered by the government. Otherwise, Indonesia will lose its investment attractiveness from Japan as well as other countries in the following years.

Further, declining investment trend in Indonesia was also came from China which weakened by around 43.22%. If, during the year of 2005, Japanese investment was recorded at around 8.7% then it fell to 2.7% during January to October 2006. Meanwhile, investment share from China also drop from 1.5% to 0.75% within the same period. In the meantime, investment share from Singapore--which contributes the largest investment share to Indonesia today--decline from 28.9% in 2005 to 12.3% during January-October 2006.

The Economic Growth

Following the slow growth since early year of 2005, Indonesian economy during the third quarter of 2006 slightly improved by around 3.5% against the previous third quarter or around 5.5% compare to third quarter of 2005, year on year basis. However, based on that figure alone, the economic growth for the full year 2006 is predicted to be below 5.6%, which was lower than the estimated target of 5.8% determined by the government within the Amendment of APBN of 2006.

The increasing trend of production activities in industrial sector at the third quarter of 2006 was quite relieved. The achieved growth by 5.3% in manufacture industrial sector at the third quarter of 2006 year on year basis is expected to be an indication of continual growth acceleration. As it is known, since the enactment of increased fuel (BBM) price in October 2005, manufacture industrial sector had gone through

some rough times, which was related to more expensive production cost as well as limited production facilities due to increased BBM price, particularly related to electricity problems.

GDP Growth Based on Business Sector (%)

Sector	2002	2003	2004	2005	3rd Quarter of 2006	
					against 3rd Quarter of 2005	against 2nd Quarter of 2005
1. Agriculture, Animal Husbandry, Forestry and Fishery	3.2	4.3	4.1	2.5	2.3	5.4
2. Mining and Excavating	1	-0.9	-4.6	1.6	1.0	1.1
3. Processing Industry	5.3	5.3	6.2	4.6	5.3	2.9
4. Electricity, Gas and Clean Water	8.9	5.9	5.9	6.5	6.5	2.5
5. Buildings	5.5	6.7	8.2	7.3	8.4	3.3
6. Trade, Hotel and Restaurant	3.9	5.3	5.8	8.6	7.2	5.3
7. Transportation and Communication	8.4	11.6	12.7	13	13.5	4.5
8. Finance, Company's Rental and services	6.4	7.0	7.7	7.1	4.6	1.9
9. Services	3.8	3.9	4.9	5.2	7.0	2.4
GDP	4.4	4.9	5.1	5.6	5.5	3.5
GDP without Oil and Gas	5.1	5.8	6.2	6.5	6.1	3.8

Source: BPS

Unfortunately, the growth in industrial sector was not followed by a growth in agriculture and mining sectors. In the third quarter of 2006, agriculture and mining sectors was merely recorded an increased by 2.3% and 1.03% respectively, which was lower than the growth in the second semester of 2006, each by 3.75% and 3.69%. Such a condition fails to spur the completely tradable sector, which was accounted for 52% within the Gross Domestic Product (GDP), and fail to represent any improvement in production activities in those two sectors simultaneously. Relatively low production growth in those two sectors was estimated to closely relate with a low investment realization in both sectors since they have a good potential to improve production following the prices recovery of its commodities.

Those was in line with the fact that physical investment was declining throughout the third quarter of 2006, and recorded a negative growth of 0.25% against the third quarter of 2005. On a quarterly basis, the physical investment growth (Forming Gross Fixed Capital) indicating a slow growth during the third quarter of 2006. During the Second Quarter of 2006, the growth recorded at around 4.42% but in the third quarter, the growth was merely reach 1.76%.

A rather different situation was evident from significant export growth of product and services. At the third quarter of 2006, the export of product and services enjoyed an increment of around 5.5% against the previous quarters, or around 12.05% over the Third Quarter in 2005. These achievement proved that export has become the main component to boost the economic growth during the year 2006, since the consumption sector has merely increased by 3% for the household consumption and around 1.72% for government consumption.

The Growth of Inflation Rate

Following relatively high inflation rate recorded in October 2006 (0.86%), the inflation flow during November 2006 had slow down to only around 0.34%. Such a controllable price pressure was in fact far below the expectation made by some parties. Declining demand of products and services after fasting and Lebaran periods, and the government commitment to reduce inflation rate by sustaining products supplies as well as implementing inflator policy became the key of low inflation rate during November 2006. In addition, it was also supported by a stable rupiah exchange value and a tendency of oil prices to fall in the international market.

INFLATION BASED ON EXPENDITURE (%)

Year/Month	General	Food Material	Food, Beverages, Cigarettes and Tobacco	Housing	Clothing	Health	Education, Recreation and Sports	Transportation & Communication
2002	10.03	9.13	9.18	12.71	2.69	5.63	10.85	15.52
2003	5.06	-1.72	6.24	9.21	7.09	5.67	11.71	4.10
2004	6.4	6.38	4.85	7.4	4.87	4.75	10.31	5.84
2005	17.11	13.91	13.71	13.94	6.92	6.13	8.24	44.75
2006								
January	1.36	4.29	0.94	0.7	0.73	1.06	0.2	-0.05
February	0.58	1.18	0.65	0.55	0.72	0.40	-0.28	0.16
March	0.03	-0.88	0.58	0.36	0.15	0.39	0.12	0.13
April	0.05	-0.85	0.43	0.42	0.70	0.58	0.09	0.07
May	0.37	0.28	0.3	0.3	2.03	0.57	0.07	0.17
June	0.45	1.12	0.26	0.32	-0.08	0.27	0.25	0.10
July	0.45	0.99	0.31	0.21	0.36	0.06	0.69	0.08
August	0.33	-0.34	0.35	0.30	0.35	0.33	4.77	0.01
September	0.38	0.62	0.13	0.28	-0.13	0.31	1.84	-0.01
October	0.86	2.17	0.64	0.26	1.00	0.29	0.10	0.46
November	0.34	0.65	0.47	0.29	0.70	0.42	0.03	-0.21

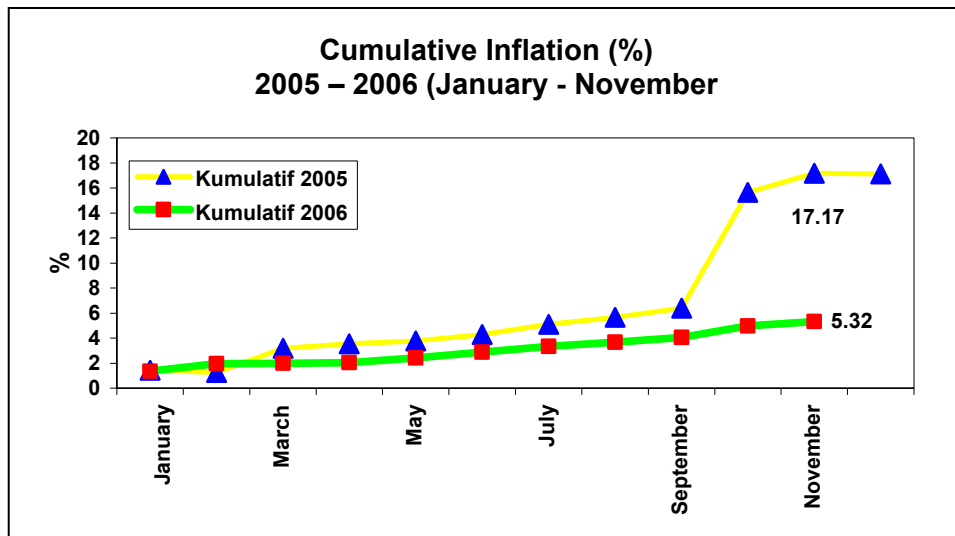
Source: BPS

The main driven factor of inflation during November 2006 was processed foods group, which recorded an inflation of 0.65% and contributed around 0.16% to the head inflation. These as caused by inflation in vegetable group that reached 8.01% and the price of rice that increased significantly. High inflation in vegetables sub-group was mainly attributed to the prolonged drought season that interrupts its harvest period.

Other products group to spur the inflation during November 2006 was ready-food, beverages, cigarettes and tobaccos, and housing group, water, electricity, gas and fuel where each group recorded inflation by 0.47% and 0.29%. The main cause was increasing prices of cane sugar, 'kretek' cigarettes as well as house leasing tariff and the price of petroleum oil.

If the transportation and communication groups recorded an increased price by 0.4% in October, then it recorded a deflation by as much as 0.21% in November. This fact was related with the end of Lebaran holiday where tariff of intercity transportation jumped significantly during the holiday period, but has returned to its normal tariff.

With relatively low rate of inflation throughout 2006, the inflation rate for the period of January-November 2006 was recorded to merely reach a cumulative of 5.32%. Meanwhile, year on year inflation was only 5.27%, which was a significant drop compare to inflation in the previous month of around 6.29%. Judging from relatively low inflation rate during the first eleven months, then it is certain that the inflation rate in the month of December 2006 will be far below the targeted figure set in APBN (State Income and Expenditure Budget) of around 8%. Although the inflation rate in December 2006 had the potential to improve due to a sharp increase in rice price and rarity of petroleum oil and flood disaster in several regions, yet the inflation in December was estimated to fall within the range of 0.7% - 1.2%. These were supported by the government effort to stabilize the rice price (which contributes the biggest share in calculating the inflation rate) by persistently conducting market inspection and importing rice. In addition, government has been reorganized the distribution petroleum oil in order to push down the inflation rate in December 2006. Other condition that played an important role to control price pressures was a stable oil prices in international market as well as stable exchange value in conjunction with the strengthening some foreign exchanges value due to weak US dollar influence, will eventually reduced the influence of imported inflation.



Note: Kumulatif: Cumulative

The Export Growth

The export value in October 2006 maintained at a high level to reach US\$ 8.72 billion though it was slightly decreased around 0.75%. Based on that figure, the performance of trade balance during the period of January-November 2006 again recorded a surplus increased by around US\$ 32 billion or rose by 45.9% compared to the surplus recorded during the same period in 2005 by as much as US\$ 21.93 billion. Such a large surplus increment was mainly due to the export growth by 16.4% from US\$ 70.65 billion in January-October 2005 to be US\$ 82.21 billion in January-October 2006. Meanwhile, the import value also improved by 3.1% from US\$ 48.72 billion in January-October 2005 to reach US\$ 50.21 billion in January-October 2006.



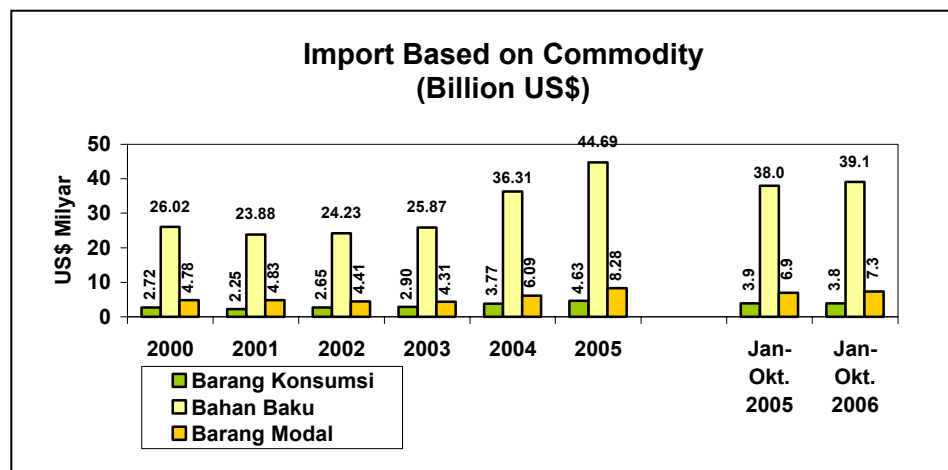
Note: US\$ Milyar: Billion US\$; Ekspor: Export; Impor: Import

The declining trend of non-oil/gas export in October compare to the month of September mainly caused by export downturn of machinery and electricity tools by around 24.8%, mechanic machinery and airplane by 17.3%, non-knitted clothes by 26.2%, metal, crusts and grains by 7.6%. Non-oil/gas export shrinkage in October 2006 also took place in major export market such as Japan by 7.9%, USA by 8.8%, and Singapore by 13.4%, and EU by 11.8%. Yet, cumulatively, during the months of January – October 2006, export activities to all destination countries appeared to be improved. Even to Japan, the export activities still increased by 22.2%, USA by 11.5%, Singapore by 9.6% and EU by 15.2%.

The Import Growth

On the import side, import value in October 2006 decreased by 20.6% compare to the value in September 2006, which was from US\$ 5.66 billion to US\$ 4.49 billion. In last October, oil/gas import drop by 12.9% and non-oil/gas import also decline by 24.5%. Cumulatively, though, the import value during January-October 2006 still improved by 3.1%, from US\$ 48.72 billion in January-October 2005 to US\$ 50.21 billion in January-October 2006. It was due to oil/gas import increment by around 9% while non-oil/gas import increases by 0.5%.

Judging from the goods utilities group, the increased in total import value by 3.1% during January-October 2006 was mostly attributable to the increase of capital goods by 6%, supported/raw materials by 2.9%, whereas consumption goods import weakened by 0.4%. The rise of capital goods import believed to spur investment performance and expected to improve the activity in real production sector.



Note: US\$ Milyar: Billion US\$; Barang Konsumsi: Consumption Goods; Bahan Baku: Raw Material; Barang Modal: Capital Goods

Meanwhile, since September 2006, China's position as goods supplier to Indonesia has eventually shifted Japan and US positions. The share of non-oil/gas import from China during January-October 2006 reached 12.9% or totaling US\$ 4.39 billion which was slightly above Japan with a share of 12.9% or valued up to US\$ 4.37 billion, and USA by around 9.9% or amounting to US\$ 3.37 billion.

The above condition revealed that product invasion from China has become major threat for domestic producers. In addition, it will get worst if the government fails to issue a low cost policy to improve the competitiveness of domestic products similar to those from China.

This report is for use by professional and business investors only, has been prepared for information purposes, and is not an offer to sell or a solicitation to buy any institution. The information herein was obtained or derived from sources that we believe are reliable, but whilst all reasonable care has been taken to ensure. This report is for use by professional and business investors, has been prepared for information purposes, and is not an offer to sell or a solicitation to buy that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This document is for the information of clients only and must not be copied, reproduced or made available to others.