Monthly Economic Report

July 2006

Issued by Indonesia Kadin Secretariat
Cooperation between KADIN Indonesia
and
JETRO Japan

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	3.33 (2)
4.	Total Export (Billion US$)	57.0	55.6	69.7	85.57	46.92 (3)
5.	Non Oil and Gas Export (Billion US$)	44.9	43.1	54.1	66.32	36.51 (3)
6.	Total Import (US$ Billion)	31.2	29.5	46.2	57.55	28.84 (3)
'7.	Non Oil and Gas Import (Billion US$)	24.8	22.6	34.6	40.16	19.87 (3)
8.	Trade Balance (Billion US$)	25.8	26.1	23.5	28.02	18.08 (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	41.13 (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	9,070 (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	247.7 (4)
17.	Money Supply (Trillion Rp)					
	a. M1	191.9	207.6	253.8	281.9	304.7 (4)
	b. M2	883.9	911.2	1,033.50	1,203.20	1,237.5 (4)
18.	Banking Third Party Fund (Trillion Rp)	845.0	866.3	965.1	1,134.10	1,172.0 (5)
19.	Banking Credits (Trillion Rp)	365.4	411.7	553.6	689.7	699.9 (5)
20.	Interest Rates (%, annualy)					
	a. 1 month SBI	12.9	8.1	7.4	12.75	12.25 (6)
	b. 1 month Time Deposit	12.8	7.7	6.4	11.98	11.63 (5)
	c. Working Capital Credit	18.3	15.8	13.4	15.92	16.25 (5)
	d. Investment Credit	17.8	16.3	14.1	15.43	15.89 (5)
21.	Investment Approval					
	- Domestic (Trillion Rp)	25.3	16.0	36.80	50.58	66.99 (3)
	- Foreign (Billion US$)	9.7	6.2	10.3	13.58	5.98 (3)
22.	JSX Composite Index	424.9	742.5	1,000.20	1,162.60	1,351.7 (7)
23.	JSX Market Capitalization	268.4	411.7	679.9	758.4	901.0 (4)

Source: BPS, BI and JSX

1) 1st Quarter
2) January - July 2006
3) January - June 2006
4) Position at the end of June 2006
*) in 2006 State Budget

5) Position at the end of May 2006
6) Position on 26 of July 2006
7) Position at the end of July 2006
8) Position at the end of 1st quarter 2006

The Economic Growth in Indonesia
Monthly Analysis

July 2006

Even though the macro economic stability has been recovered following the strengthening of Rupiah and lessening inflation rate, yet as we moved toward the second semester of 2006, most of the business player was filled with gloomy sentiment. Three economic policies package issued by the government seemed to fail in providing real impact due to its ambiguous implementation. The existing bureaucratic restriction and less supporting act from numerous parties have caused government programs within those three policies package to stagnate. This condition also saying that government effort in improving investment climate has not been realized according to plan.

Again, the unrealized favorable investment climate has been the crucial concerns in current situation. The government seemd to have lost its spirit in boosting the investment need which has been declining throughout 2006. Government honest intention to fight corruption has became the obstacle in recent economic development. Unreal deviation criteria used by Corruption Combat Commission (KPK), has made most of the government projects to be unsuccessfully done according to plan.

The standstill government projects has caused the expenditure budget in the APBN (State Budgetary Expenditures) has not been realized accordingly and thus it does not stimulate the economic growth. This condition has been the one reason of lower economic growth during the first semester of 2006. Combine with low distribution of bank loan, then it is certain that the economic activities has not moved in an upward trend. From targeted 18% growth in bank loan distribution, only 1.5 % achieved in the period of January – May 2006. The need of Bank Indonesia to witness the improvement of investment loan and working capital loan has not yet realized as well. The growth of investment loan and working capital loan in the period of January–May 2006 was merely stood at 1.6% and 1.8% respectively.

Meanwhile, fading investment ambition was not mainly attributable to high investment costs as well as high interest rate but also to the intense occurence of natural disasters in several regions in Indonesia during the last six months. Damaged road infrastructures in many places has made the investor to think twice before investing in certain production activity. Not to mention the current condition which is not fully supported by sufficient electricity infrastructure.

Though the investment realization still increased by 12.1% during the first semester in 2006, yet it indicated a slower pace since the realized investment during the same period in 2005 grew by around 43.1%. In this matter, the growth of FDI significantly declined from 69.5% in the first semester of 2005 to a drastic level of 4.8% in the first semester of 2006.

INVESTMENT REALIZATION (Permanent Business License) of Foreign Investment (PMA) and Domestic Investment (PMDN)

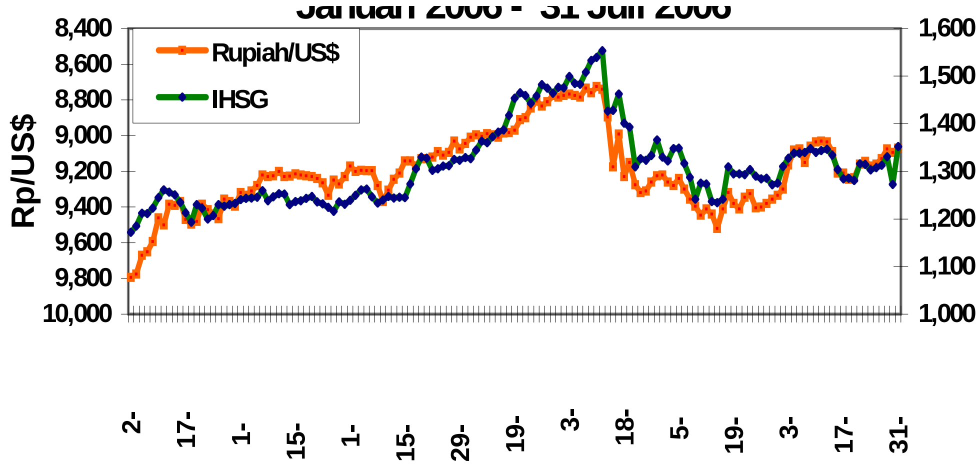
INVESTMENT	1 Jan - 30 Jun 2006/		1 Jan - 30 Jun 2005/		Growth	
	P	Investment (trillion Rp)	P	Investment (trillion Rp)	P	I
PMDN	96	11.19	113	7.85	-15.04	42.55
PMA	487	34.05 (US$ 3.51 billion)	424	32.05 (US$ 3.35 billion)	14.86	4.77
TOTAL	583	45.24	537	40.35	8.57	12.12

Note: US$ 1 = Rp 9,700 (2006 State Budget)

The Development of Money Market and Capital Market

The occurence of natural disasters could be said to not affected the stability of Rupiah’s exchange rate and the composite index in domestic capital market. The strenghtening rupiah’s exchange rate value at the end of June 2006 has continued throughout July 2006. Though once weaken in the mid of July 2006 as an impact of skyrocketing world oil price to the level of US$ 78 per barrel, yet the Rupiah’s position could be recuperated to the level of Rp. 9.070 per US$ in July 28, 206. Therefore, judging from its month to month position the Rupiah’s exchange rate has improved by 2.5% or around Rp. 230 per US$.

Graph 1
Rupiah Middle Rate and Stock Composite Index
January 2006 – 31 July 2006



Note: IHSG means Stock Composite Index

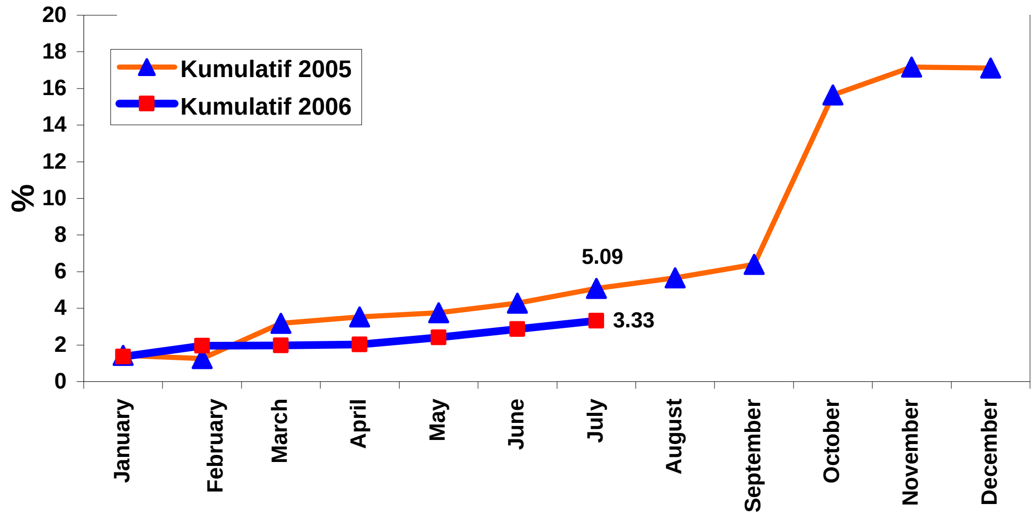
Guarded Rupiah stability is expected to guarantee stable macro economic as a whole with less pressure to the inflation rate. Although the condition of real sector is far from recovery, at least the exchange rate stability could be the guideline for business world to make an investment. Added by a sign from Bank Indonesia that bank's interest rate offered an adequate room to be reduced even further, and its optimistic attitude that loan distribution during the second semester 2006 will be expanded to reach the target previously planned. The urge from business world and government for bank Indonesia to keep reducing its interest rate is expected to be the main consideration for Bank Indonesia to be not too conservative to influence bank's interest rate.

In the meantime, though it was slightly affected by the hike price of oil in the last mid of July, the upward trend of domestic stock prices was continued following the rebound of world capital market. In July 31, 2006, the composite index of stock prices in the Jakarta Stock Exchange recorded at the level of 1.351, 65 or rose by 3.2% or 41.39 point from 1.310,26 at the end of June 2006. Though it was far below the level of 1.553 reached on March 11,2006, yet the upward trend of stock prices that continued to August 2006 has brought comfort to market or business player.

The Growth of Inflation Rate

The inflation rate in July 2006 which was similar to the position in June 2006 (around 0.45%) has driven the optimism within the business player. With cummulative inflation from January – June 2006 which merely reached 3.33%, lower than the cummulative inflation during the same period in 2005, then it is greatly expected that the inflation rate for the whole year of 2006 will be under 8%.

Graph 2
Cumulative Inflation (%)
2005 – 2006 (January – July)



Note: Kumulatif means Cumulative

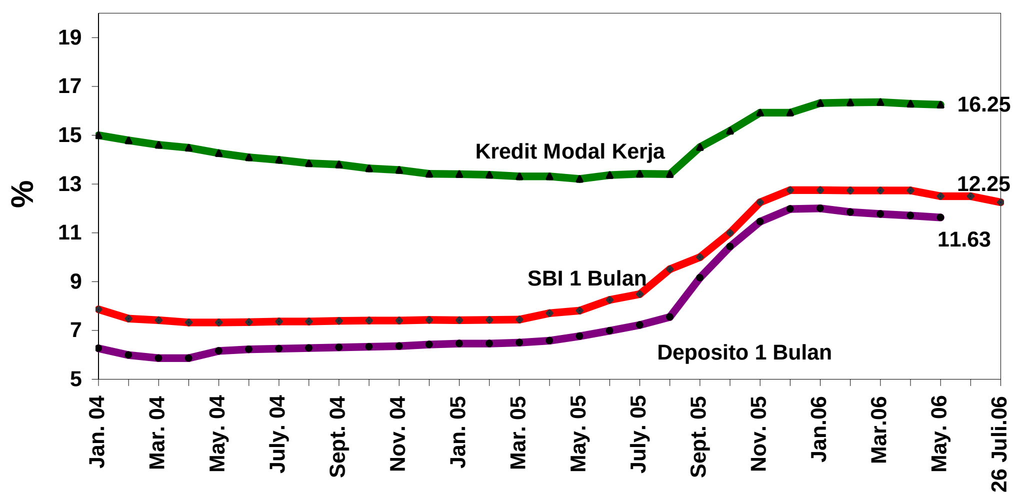
Looking from the expenditures group, the biggest contribution to the inflation in July 2006 was processed food by around 0.99%. The price hike in rice during the month July has been the main reason behind high inflation rate in food processed group, where the price hike contributed to 0.05% and accounted to 10% to total inflation in July 2006. Meanwhile, the rise in school education expenses in July 2006 has caused inflation in educations, recreations and sports group and became the second biggest contributors to the inflation by around 0.69%.

Interest Rate

Stable inflation rate up until mid 2006 has made it possible for Bank Indonesia to reduce it benchmark rate to the level of 11.75 in the last August 8, 2006. By reducing its BI rate by as much as 50 basis point from previous position of 12.25, it will be the major reduction since Bank Indonesia applied inflation targeting in its monetary policy. This condition is not only supported by declining domestic inflation rate and stable rupiah’s exchange rate, but also by external factors such as discontinued increase of The Fed interest rate since the end of June 2006.

The reducing BI rate was overlooked by many parties as a sign of accelerating economic growth in the second semester of 2006. In addition, the reducing interest rate has created a favorable macro economic condition to boost the economic growth. The biggest challenge today lies in how to speed up investment realization and state expenditures. It is said that, from the monetary side, Bank Indonesia has done numerous effort to push the declining interest rate, though not directly enjoyed by business world. The fastest party to have been affected by the declinig BI rate is consumption goods industry, such as property and automotive industries, since the declining rate is estimated to bring a great impact in consumption loan. This in turn will pick up the society consumption rate and accelerate the growth of Gross Domestic Product (GDP) in this third quarter of 2006.

Graph 3
SBI Interest Rates, Time Deposit and 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

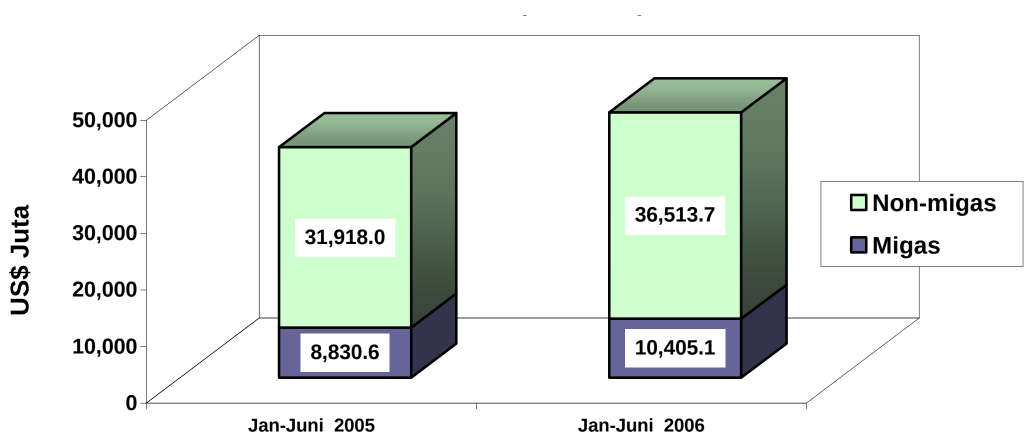
The Export Growth

The export growth in June 2006 has again recorded the highest export value in the history of economy in Indonesia. Following the export value reached in May 2006 totaled US$ 8.34 billion, then the value in June was even more higher, that was US$ 8.48 billion or higher by 1.7% from export value in May 2006. Thus, Indonesia export value during first semester 2006 reached a total of US$ 46.92 billion or up by 15.14% during the same period in 2005, amounting to US$ 40.75%.

During the same period, the export growth in oil/gas remained higher then the growth of export of non-oil/gas by each 17.8% and 14.4% respectively. Oil/gas export improved from US$ 8.83 billion in the first semester 2005 to be US$ 10.4 billion in the first semester 2006, which remained connected to the high price of oil in the international market that recently hit the position of US$ 78 per barrel. In the said period, the export of crude oil increased by 11.98%, whereas the increased oil products and gas each reached the level of 30.95% and 20.23%.

Meanwhile, the non-oil/gas export value improved by 14.4% from US$ 31.92 billion in the first semester 2005 to be US$ 36.51 billion in the first semester 2006. The increased of non-oil/gas export was mainly attributable to the increased export of mining sector and others by 25.43% and agricultural sector by 23.5%, while the export in industrial sector was merely around 12.54%.

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



Note: Total Export increased by 15.14%

Note: Non Migas = Non Oil and Gas; Migas = Oil and Gas

As it was in May 2006, the sharp jump of export value in June 2006 was mainly due to the increasing price of Indonesia's export commodities, particularly in mining and agricultural sector, among other things is crude palm oil (CPO), cacao and coal. If the average price of CPO in 2004 was around Rp. 3,389/kg, and increased to Rp. 3,739/kg in 2005, then in the first semester of 2006 the price rose to Rp. 3,903/kg.

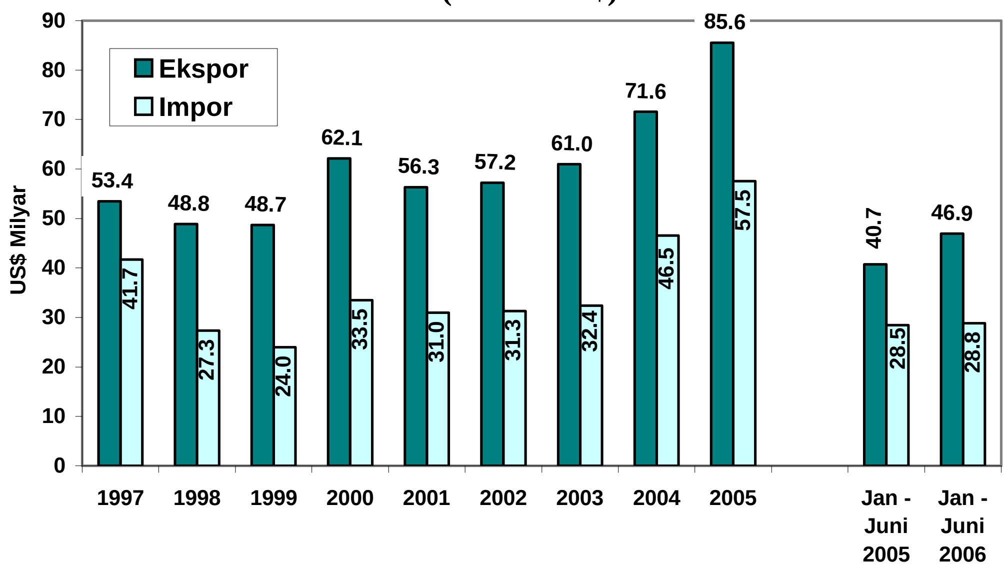
Therefore, it can be said that the export enhancement which was supported by the increased price of commodities in world market than supported by the increase in export volume, clearly not an indication of competitiveness improvement as a whole. This condition is actually match the evaluation from International Institute for Management Development which positioned Indonesia in the 60 rank out of

61 countries surveyed in terms of competitiveness. Based on that fact, it is extremely natural if the government is not too optimistic in setting up a target of export growth for the year 2006. The Government intend to sustain its long and middle term planning which stipulated national export growth to be around 8%-13% for the year of 2006.

The Growth of Import

The import growth in June 2006 by 12% compared to the import value in May 2006 has caused the increased in total import value during the first semester of 2006 by around 1.31% against the total value in first semester 2005. With the import value of US$ 5.67 billion in June 2006, then total import value during the first semester of 2006 reaching US$28.84 billion. In this case, oil/gas import value rose by 12.8%, while import of non-oil/gas declined by 3.14%. The rising price of oil in world market and increased need of BBM in the country had affected the increase in oil/gas import by 26.3% in June 2006, and it was mainly attributable to the increased in import of oil products by 50.65% in June 2006.

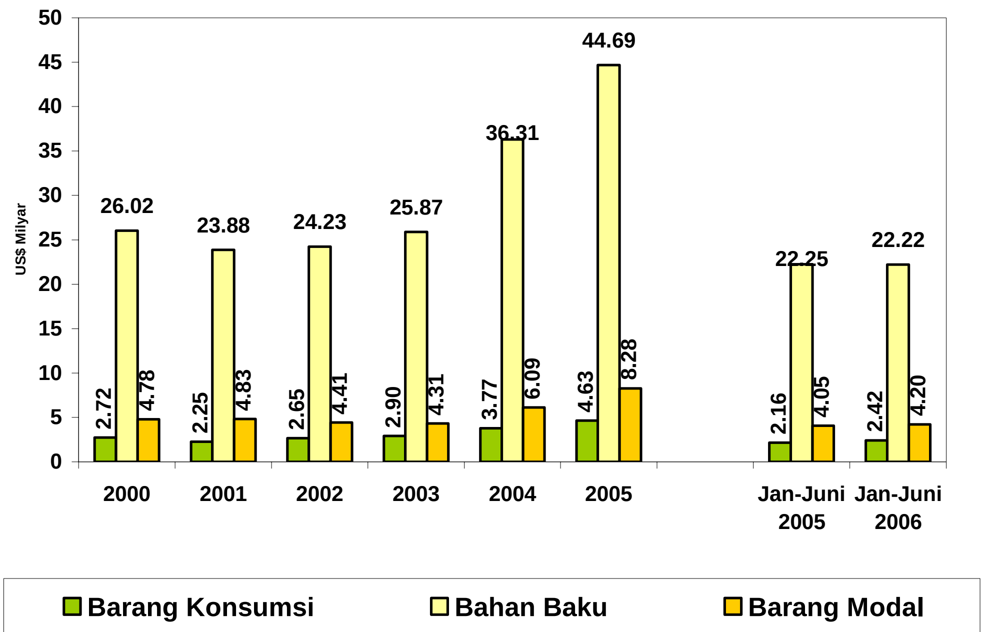
Graph 5
The Growth of Export and Import Value in Indonesia
(Billion US$)



Note: Ekspor = Export; Impor = Import

Looking from the goods utility during the same period (as above), the import increased was merely contributed by consumption goods and capital goods which remain expanding by 12.1% and 3.75% respectively, whereas import of raw materials still decreasing by around 0.18%. The declining import of raw materials during the said period generally indicating a slow down production activites during the first semester of 2005. And, there are certain parties to argue that this situation was contradictive with the improvement in export value particularly in the last 2 months.

Graph 6
Import based on Commodities Classification
(Billion US$)



Note: Barang Konsumsi = Consumption Goods; Bahan Baku = Raw Material; Barang Modal = Capital Goods

However, this condition is actually go in line with the increased export value and showed that the real sector has started to move which was indicated by the increase in import of raw materials/supporting goods that reached almost 20% in June 2006. Raw materials import in June 2006 reached a leval of US$ 4.61 billion, while in May 2006 the value has just reached US$ 3.84 billion. Meanwhile, the import of consumption goods and capital goods during the month of June 2005 recorded a downward trend by 18.5% and 9.5% respectively.

Labour - Special Report -

One impact from the unrecovered real sector is high rate of unemployment in Indonesia. Though, the unemployment rate in February 2006 was lower than the figure in November 2005, as published by BPS-but yet that was not a reflection of any improved condition in Indonesia’s labour. The open unemployment-which is the ratio of total open unemployment to total employment - basically improved compared to the position in February 2005 or even Ausgust 2004. If the total unemployment in August 2004 and February 2005 was 10.3 million people and

10.9 million people respectively, and the open unemployment was 9.9% and 10.3% respectively, then in February 2006 the total unemployment jumped to 11.1 million people or up by 10.4%.

THE GROWTH OF EMPLOYMENT IN INDONESIA

Description	2004	2005		2006
	August	February	November	February
Residents above 15 years old (million people)	153.9	155.5	158.5	159.3
Work Force (million people)				
a. Employed	104	105.8	105.9	106.3
b. Unemployed (Openly Unemployement)	93.7	94.9	94	95.2
	10.3	10.9	11.9	11.1
Part-time Worked (Half Unemployement)				
a. Voluntarily	27.9	29.6	28.9	29.9
b. Unvoluntarily	14.5	15.3	15	15.7
	13.4	14.3	13.9	14.2
Non-Work Force (Million People)	50	49.7	52.6	53
Total Unemployment (million people)	38.2	40.5	40.8	41
Level of Open Unemployment/TPT (%)	9.9	10.3	11.2	10.4

Source: BPS

Although the open unemployment in February was lower than the rate in November 2005 that reached 11.2%, yet it can be argued that it was better. The hike of unemployment in November 2005 was a result of central government policy to increase BBM price twice in March and October, 2005. The increase price of BBM was not only destroyed the people's purchasing power due to the price jumped, but also caused some people to loose their job due to gloomy business sector. The closing down of some small scale industries and capital flight has worsened the real production sector since the fourth quarter of 2005. As a result, the open unemployment rate increased significantly.

If there was a downward trend in open unemployment rate in February 2006, it was made possible by the adjustment in working pattern of the society. There were some people that used to work full time then shifted to half-time job (half unemployment), and there were some people that used be unemployed then worked full time but hold a half unemployment status. This was showed by the total half-unemployment people per February 2006 that increased compared the previous position. If the total of people categorized in half unemployment was only 28.9 million people in November 2005, then the figure rose to reach 29.9 million people or surged by around 1 million lifes.