



Indonesian Chamber of Commerce and Industry

Monthly Economic Report

October 2006

The Indonesia KADIN Secretariat
by
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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 Credits (trillion Rp)	365.4	411.7	553.6	689.7	723.7 (4)
20	Interest Rates (% 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 2006 State Budget

5) Position at the end of July 2006

6) Position on 8 August 2006

7) Position at the end of October 2006

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



Economic Development in Indonesia

Monthly Analysis

By Indonesia Kadin Sekretariat Erna Zetha dan DR. Tulus Tambunan
JETRO expert Yojiro OGAWA dan Shoji MAEDA

KADIN Indonesia

October 2006

Though the government continued its effort to push the domestic investment rate, yet it has not succeeded in boosting the investment's interest until today. This was also clearly depicted in the result of Indonesian Infrastructure Exhibition and Seminar, conducted November 1-2, 2006. Various infrastructure projects that is offered was considered attractive enough but most of investors still maintain the "wait and see" attitude, and wait for the next step that will be taken by the government in handling varied investments barriers. In relation with the investment in the infrastructure projects, one of the most essential matters hoped to be realized immediately by the government is the guarantee during the operation and completion of the projects, which in fact will not be acquired by the private sectors. State budget constraints have caused the inability of the government to provide such guarantee to private sectors concerning the development of infrastructure projects.

The investment condition which has not fully recovered as a whole might also be observed from the figures issued by Capital Investment Coordinating Board (BKPM). Though, the figures of domestic direct investments (DDI) approval improved significantly during the period of January-September 2006, yet it was not a satisfactory performance of DDI so far. During the same period, the increased DDI's realization was below 4%, and FDI activities declined by almost 44%. Low rate of imported raw materials during the period January-September 2006 was also an indication that physical investment during the first eight months of this year has been insignificant.

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

INVESTMENT	1 Jan - 30 September 2006		1 Jan - 30 September 2005		Growth (%)	
	P	Investment (trillion Rp)	P	Investment (trillion Rp)	P	I
PMDN	117	12.4257	163	11.9728	-28.22	3.78
PMA	702	41.63 (US\$ 4.29 billion)	706	74.06 (US\$ 7.64 billion)	-0.57	-43.79
TOTAL	819	54.0557	869	86.0328	-5.75	-37.17

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

Considering the not recovering investment rate and interest as a whole, it was necessary for the government to be cautious in responding to the recent development of macro economic. Government should not merely focus on the accomplishment of macro economic whereas the restoration in real sector is still far from expectation. And it has to be admitted that the stability rupiah exchange value was not a result of government determined efforts but mainly supported by various external factors allowing that condition to take place.

In addition to the declining crude oil price in the world market, other factors attributable to the US\$ foreign exchange rate over regional exchange rate is the shifting of economic influenced from the United States to China in ASEAN region. With a relatively stable rupiah's rate in the past few months, it is possible to achieve low inflation rate and continued declining BI rate to the lower level.

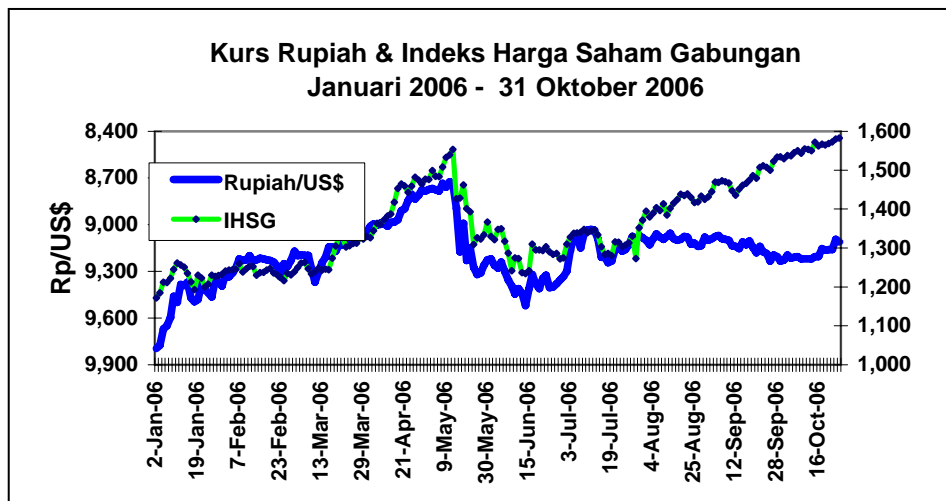
However, underdeveloped real production sector, which among other things displayed by low production growth, high rate of unemployment and weak consumer's consumption rate, should be the main consideration of the government in order to reach around 6.3% growth level in the coming 2007. Without the economic stimulus through favorable policies, that target seemed to be overly optimistic while for the growth of around 5.8% of the whole year of 2006 alone, is difficult to be realized.

Signs of strengthened economic might only are judged from the increased export value since May 2006, but unfortunately it was not followed by the increase in import of capital goods and raw materials as an indication of improved real sector activities. In fact, it was even accompanied by fear and suspicious over the occurrence of transshipment in Indonesian export. If it is true that the increased export value is coming from Indonesian domestic products, the economic growth which estimated to be highly improved during the third quarters in 2006 could only be a false growth, which does not present the real income growth.

In deed, the government efforts to restore investment climate have been fair enough through several activities to attract investor and provide investment opportunity as well as conducting cooperation with number of countries. The slowing down interest rate is continuously sustained to cut down investment costs, but the problems related to investment regulation remain unsolved. Large vested interest on certain groups within the community cause the image and investment climate restoration process was not done properly. Therefore, what is actually needed is not only in the implementation recuperation, but also in government's guarantee toward domestic and foreign investment, both in the form of justice maintenance and security guarantee during the project's operation. The fear over varied problems related with investment seemed to live on and will be investment's barrier as long as the Constitutional Bill served as political umbrella has not been settled in the House of Representatives.

The Development of Monetary and Capital Market

The recovered export value as well as improving foreign exchange reserved has been attributable to the strengthened of rupiah's exchange value throughout October 2006. If at the end of September 2006, the middle rate of rupiah was at the level of Rp. 9.235, and then at the October the position strengthened to the level of RP. 9.110 per US dollar or appreciated by around 1.35%. The tendency of deteriorate world crude oil price and rebounded stock prices in Indonesian capital market resulted in a relatively strong rupiah's rate. Meanwhile, low inflation rate and keep decreasing BI rate to reach the level of 10.25% in early November 2006, has assured the community that the economic condition in the near future will be better.



Note: Indeks Harga Saham Gabungan (IHSG): Jakarta Composite Stock Index

In the meantime, the rising trend of domestic stock prices still continue and moving in the same direction with guarded monetary stability and improved world capital market. In October 31, 2006, the composite of index prices (IHSG) in the Jakarta Stock Exchanges recorded at the level of 1.582,63 or up by 48.01 point (around 3.1%) from the level of 1.534,62 at the end of September 2006. The achievement of that level stated that the stock market index has set new records, and even exceeded the level of 1.553 reached in May 11, 2006.

At the same time, the Dow Jones Index that reached 12.080,73 at the end of October 2006 enjoyed an increment of around 3.44% from the level 11.679.07 at the end of October 2006. The Dow Jones index even reached its highest level of 12.163,66 in October 26, 2006.

The Growth of Inflation rate

Following a relatively low inflation rate since March 11, 2006, the rate went back up to reach high level in October 2006. Like always, every time the Ramadhan and Idul Fitri month arrived, the growth of prices of products and services showed a significant increase and pushed the inflation rate. Nevertheless, inflation rate that reached 0.86% in October 2006 was relatively lower than the rate in the month of Ramadhan in the previous years, which in general reached above 1%. In the month of Ramadhan last year, which was in November 2005 the inflation rate hit 1.31%.

Relatively high inflation in the past October, mainly due to the significant price increase in food processed group that reached 2.17%, so that from 0.86% of general inflation rate, 0.53% contributed by the processed food group. In addition, the increased demand of clothes for the purpose of celebrating Lebaran, caused the inflation rate of this group alone reached 1%, higher than the rate of ready-to-eat food group which was merely recorded a price increased of around 0.64%. Maintained supply and distribution of this group made the price of this commodities' group became under control. This condition was strengthened by a stable rupiah exchange rate with a tendency to be intensified in a way that the impact of imported inflation could be mineralized.

INFLATION BASED ON EXPENDITURE (%)

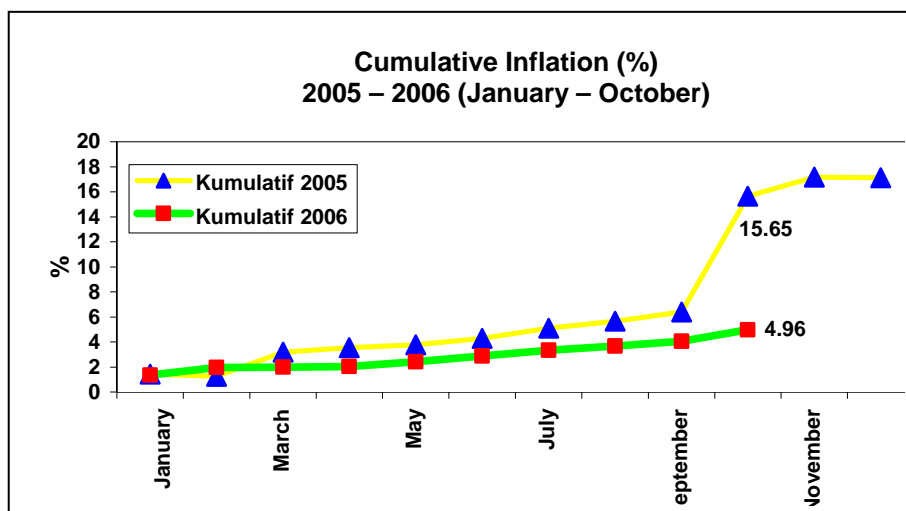
Year/Month	General	Food Material	Food, Beverages, Cigarettes and Tobacco	Housing	Clothing	Health	Education, Recreation and Sports	Transportation & Communication
2002	10.03	9.13	9.18	12.71	2.69	5.63	10.85	15.52
2003	5.06	-1.72	6.24	9.21	7.09	5.67	11.71	4.10
2004	6.4	6.38	4.85	7.4	4.87	4.75	10.31	5.84
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

Source: BPS

Though, the rate was relatively high compared to the inflation during the previous months, yet the inflation in October 2006 has resulted in a high increased of cumulative inflation. During the months of January-October 2006, the cumulative inflation was merely reached 4.96%, which confirmed that the inflation rate for the whole year of 2006 will not exceeding 8%. It is even estimated to falls between 6.5%-7.3%.

Far more lower inflation rate in October 2006 against October in 2005 has caused the year on year inflation recorded at only 6.29%, which was drastically drop from year on year inflation in September 2006 of around 14.5%. A skyrocketing fuel price in October 2005 has caused the inflation figure in that particular month to reach 8.7%, and increase the annual inflation rate during the period of October 2005-September 2006.

However, the core inflation again recorded a significant increase in October 2006, following a slow down in September 2006. In October 2006, core inflation reached 0.72% which mostly attributed to high inflation increased in fluctuated components of around 2.18%. Meanwhile the inflation of component with a price being regulated by the government was merely recorded at around 0.15%. During September 2006, the month to month core inflation reached 0.35% while in August 2006 the core inflation was 0.78%.



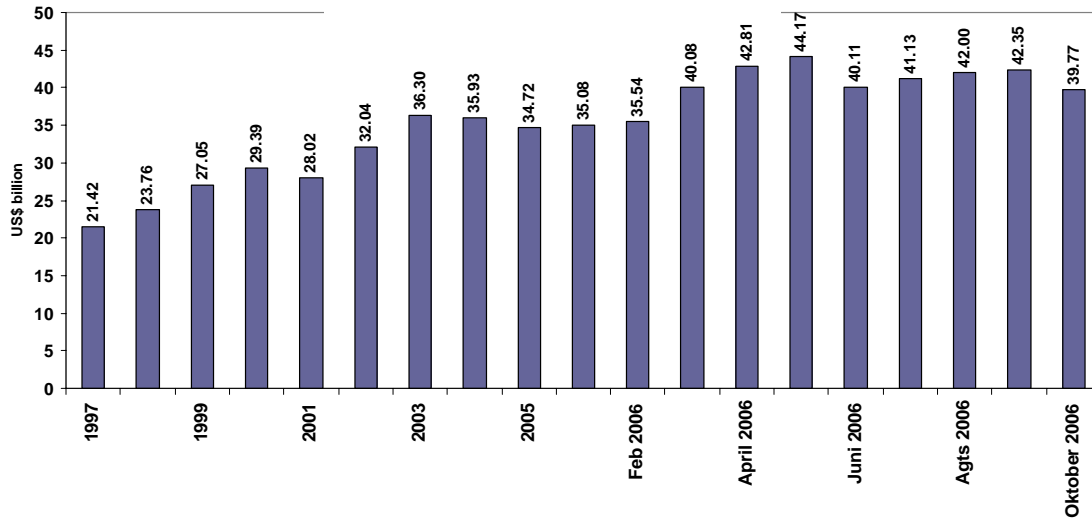
Note: Kumulative: Cumulative

The Growth of Interest Rate

Following the relaxation period since May 2006, Bank Indonesia has again reduced its BI rate in early October and early November 2006. With a reduction reaching 50bps in October 2006 and 50 bps in November 2006, meaning that BI has lowered its rate by as much as 250 bps and brought the rate to the level of 10.25% in early November 2006. The courage of Bank Indonesia in reducing its interest rate continuously in the middle of increased global interest rate phenomenon was made possible by an improvement of several economic indicators, such as export and increased foreign exchange reserved, downward trend of inflation as well as stable rupiah's rate.

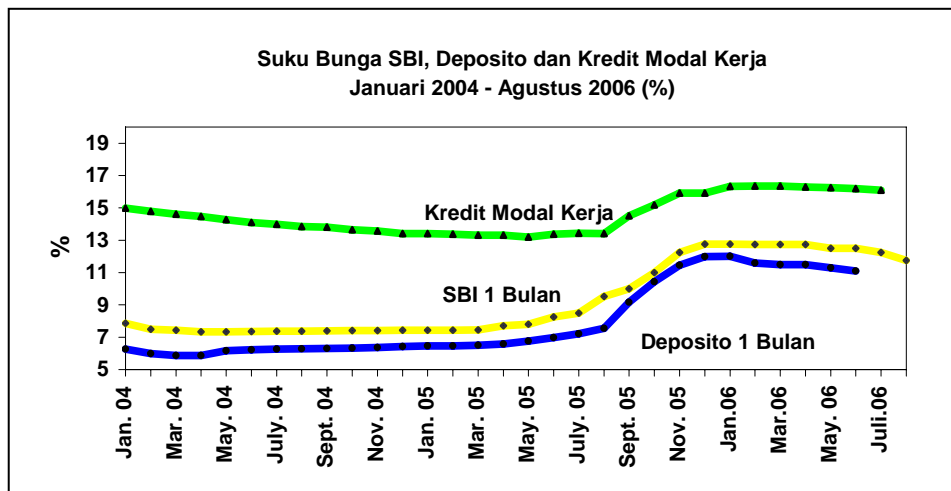
Further, the spread with overseas interest rate was also high with a stagnate Fed Funds interest rate at the level 5.25%, which was the last position since June 2006. The fear over capital outflow was over reacted since the inflow of foreign fund to Indonesia was still strong, especially in the form of investment in financial market such as stocks and government bonds. This condition caused an improving foreign exchange reserved that reached US\$ 42.35 billions at the end of September 2006.

Foreign Exchange Reserves 1997 – September 2006



Strengthening foreign exchange reserved has driven the government to accelerate the payment of the remaining debt to IMF. Until October 2006, Indonesia has been released from the obligation to pay its debt to IMF and Indonesia entitled to decide its own policy direction. This has influenced the performance of Indonesia, proven by improved credit rating as well as declined country risk to make an investment in Indonesia. Yet, the debt payment has diminished the foreign exchange reserved to the position of US\$ 39.77 billions at the end of October 2006.

Reduced BI rate conducted for the sixth times by Bank Indonesia has also been well responded by stock exchanges which reflected by strengthened composite of index prices. But unfortunately, the slowing down BI rate has not been fully transmitted to the restoration of bank's interest rate, particularly loan interest rate. However, there was a relatively sharp declined in saving interest rate. It can be observed from the declining interest rate of term deposit which currently resided at the level of below 10% or drop by more that 200 bps compared to its position in early 2006. In the meantime, loan interest rate only fell by around 18 bps for working capital loan, while investment loan and consumption interest rates enjoyed an increment.

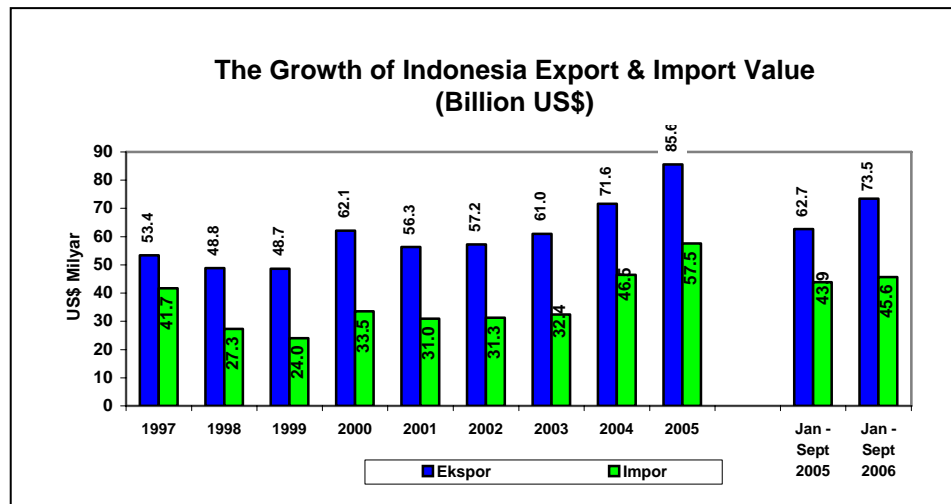


Notes: Kredit Modal Kerja: Working Capital Credit; SBI 1 bulan: 1 month SBI;

Deposito 1 Bulan: 1 month Time Deposits

The Export Growth

Following its continuous improvement, Indonesian export value in October 2006 drop by 1.18% compared to the export value in August 2006. Nevertheless, the export value for the month of September still maintained at the level of US\$ 8.78 billions, caused the export value during the period January – September 2006 reached US\$ 73.47 billions or rose by 17.2% over the export value for the same period of 2005.

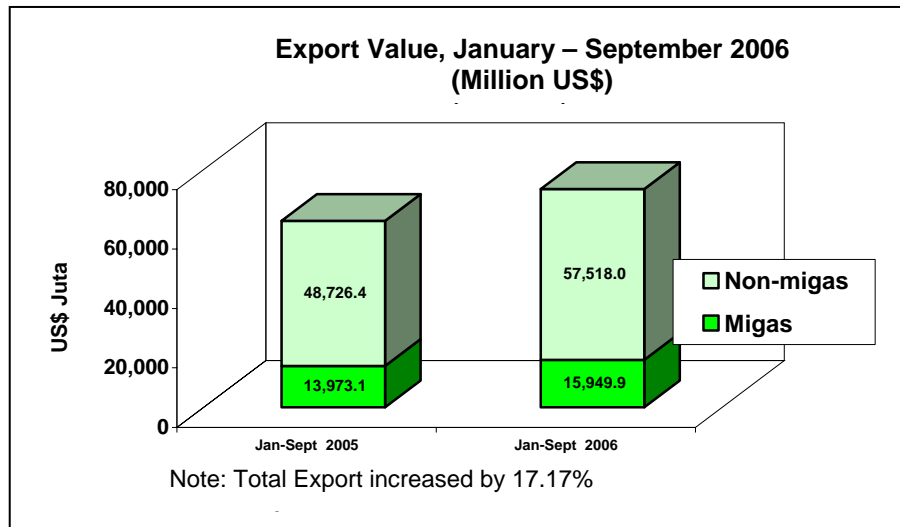


Notes: Ekspor: Export; Impor: Imports

With such a large export value, then the trade balance during the period of January – September 2006 reached a surplus by as much as US\$ 27.84 billions or up by 47.7% compared to surplus occurred during the same period of 2005 by around US\$ 18.84 billions. Such a high surplus was mainly due to the import increase of merely 4.04% during the same period.

Slightly decrease of export value in September 2006 was mostly caused by the drop in export value of oil/gas by 13.7% from US\$ 1.85 billions in August 2006 to be US\$ 1.59 billions in September 2006. The declining trend which is related with the drop of world crude oil prices was judged by the declining crude oil export by 6.4% in September 2006, and at the same time export value of oil products was also dived by 26.9%.

While the export value of non-oil/gas improved from US\$ 7.04 billions in August 2006 to US\$7.2 billions in September 2006. Cumulatively, for the first 9 months of 2006, non-oil/gas export value recorded an increment of 18% from US\$ 48.73 billions in January – September 2005 to be US\$ 52.52 billions in January – September 2006.



Notes:

Non Migas: Non Oil and Gas; Migas: Oil and Gas

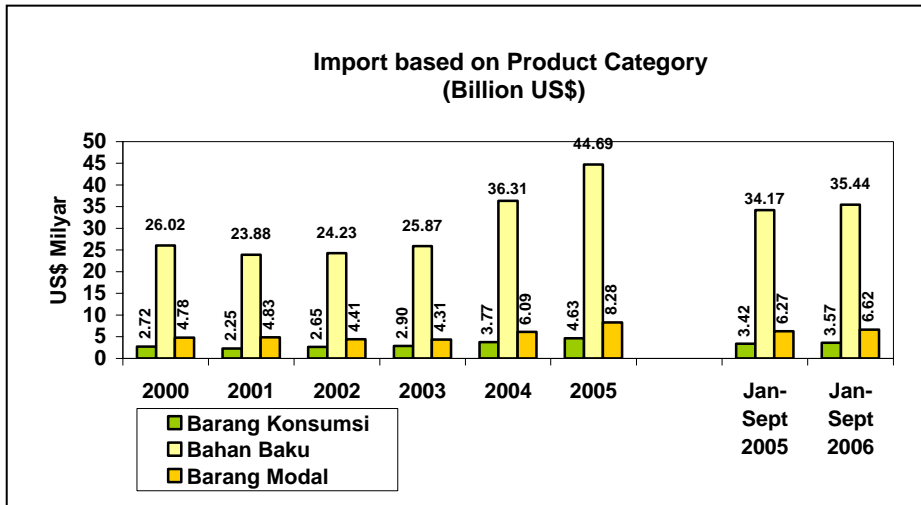
By export destination, during the period of January – September 2006, non-oil/gas export to several countries has indicated a significant improvement, where the highest export was directed to China by 38.5%, and followed by; South Korean: 27.7% Taiwan: 26,5%; Australia: 22,9%; and then came Japan: 22,1% and The Unites States: 14,2%. But in absolute terms, the biggest export value still came from Japan, The US and Singapore.

The Import Growth

Further, the import growth still showed a slow down trend though there was a sign of improvement. Import value realization in September 2006 was only US\$ 5,657 billions or up by 0, 67 % from the value reached in August 2006. Cumulatively, import value during the months of January – September 2006 was only increased by 4.04% compared to the same period last year by US\$ 43.86 billions in January – September 2005 to US\$ 45.63 billions during the same period this year. During this period, oil/gas import value increase by 8.7% from US\$ 13.32 billions to US\$ 14.47 billions, while non-oil/gas import merely increase by 2% from US\$ 30.54 billions to US\$ 31.2 billions.

Judging from import by goods category, during the period of January – September 2006, the import increase which occurred in all goods category was still insignificant to boost economic activities in the country. Import of capital goods which enjoyed the highest increased only reached 5.6%, while raw materials import merely hike by 3.7% following significant declined in the previous months.

Low import growth of raw materials clearly explained the indication that the production activities in real sector have not been well performed. This condition seemed to be in contradiction with the improvement of export value, particularly industrial sector, which played an important role during that period. In the months of January –September 2006, increase of export value from industrial sector reached 15.4%, while the export of non-oil/gas mining sectors recorded an increment by as much 37.4%.



Notes: *Barang Konsumsi*; Consumption Products; *Bahan Baku*: Raw Material; *Barang Modal*: Capital Products;
US\$ Milyar: Billion US\$

[Special Report]

ASEAN-China FTA. Could it be handled by Indonesia?

China and 10 ASEAN countries have finalized an agreement to liberalized trade between the two parties. In the framework of this agreement, ASEAN countries and China have a commitment to establish a free trade area (FTA) in 2010, which means that all tariff imposed to number of products will be abolished. What is interesting in this agreement is that the tariff reduction to several agriculture products which has been long traded between ASEAN countries and China have been reduced and will be completely eliminated in January 2006. This is *Early Harvest Program* ("EHP"), which was an early implementation of that agreement. Agriculture products included in the program are live animal, meat, fish, and fruits.

Now the question would be, will Indonesia be benefitted by the EHP (or FTA 2010 agreement). Particularly seeing the fact that the agriculture capacities of Indonesia is extremely poor. For example, based on data from FAO, Indonesia conducted more import on fruits rather than exported them. In 2004, fruits imported from China was recorded at 722mt, and no export at all to China, though in the same year, Indonesia exported those commodities to the world market by around 1819mt. For vegetable, Indonesian import from China kept increasing while there were no export to China. In 1998, Indonesia's import from that country was around 18 mt, and already reached 4235 mt in 2004.

Theoretically, EHP bring 3 main impact to Indonesia. First, Indonesian export to China will improve, only if Indonesian agriculture commodities is cheaper than China and other ASEAN countries. Second, Indonesian export to China will decline if the competitiveness of Indonesia is lower than other ASEAN countries. Indonesia could even be completely hauled from China by other products such as from Vietnam, with improving agriculture sector. Third, Indonesian import from China will increase and it also means that the action will kill domestic agriculture sector.

Put it in a simple way, (although need comprehensive analysis), from those three impacts, which is most likely to occur could be calculated using a number of competitiveness indicators. For instance, *Revealed Comparative (or Competitive) Advantage (RCA)* for world market, that if the value is above 1 (one) then the competitiveness of the country for related products is above the world's average. Calculation result shows that vegetables RCA of Indonesia is far below 1, while from China in 1996, for example 2.15 and slightly drop in 2004 to be 1.40. For fruits, Indonesia is as poor as China, which is below world's average. For live animal, Indonesian's RCA is always below 1, whereas China is above 1 for several years. For fish, Indonesia is better with RCA in 1996 of 2.44 and around 1.85 in 2004. But China's RCA is above 1, though an average per year is lower than Indonesia. It means that fish products from Indonesia faced a tight competition from China.

Thus, as a temporary conclusion, it looks like Indonesia will be more in a disadvantage position rather than the opposite by the existence of ASEAN-China FTA. In deed, *capacity building*, particularly in terms of technology, human resources and infrastructure in Indonesian agriculture sector could no longer be delayed. If Indonesia lost the competition in trading manufacture products, particularly footloose products such as electronic and TPT, then agriculture would be the last resort for Indonesia, since it is the fact that Indonesia has the comparative advantage (not necessarily competitive) in that sector

Table: World Production of Fruits and Vegetables in Indonesia and China (1000 tones)

Period	Indonesia	China
1979-81	6 648	67 472
1989-91	10 245	150 189
1999-01	14 987	387 902
2002	16 622	461 213
2003	15 083	483 103

Source: UNCTAD database

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