

Macroeconomic Performance

- I. During Q3-2004, Indonesia's economic growth was marked by an overall positive trend, buoyed by favorable developments in domestic and external conditions. Economic growth is predicted to be moderate and to remain consumption-driven, while growth in investment and exports would remain limited.
- II. For 2004, economic growth is projected to come near the upper limit of the earlier 4.5%-5% forecast. Supporting this are favorable external conditions and steadily rising domestic demand.
- III. By sector, agriculture and manufacturing sectors which gave largest contribution to domestic economic growth are predicted to grow moderately while transportation, construction and trade are predicted to rise significantly.

Table 1. Main Macroeconomic Indicators

Indicator	2002	2003				2003	2004		
		Q I	Q II	Q III	Q IV		Q I	Q II	Q III
CPI (%)									
Quarterly (quarter to quarter)		0.77	0.46	1.24	2.51		0.91	2.35	2.43
Annually (year on year)	10.03	7.12	6.62	6.20	5.06	5.06	5.11	6.83	6.27
GDP (% growth, year on year)	3.7	3.4	3.8	3.9	4.6	4.1	4.46	4.32	4.4-4.9*
Demand side:									
Total Consumption	4.7	4.1	4.6	4.7	5.0	4.6	6.43	5.35	5.4-5.9*
Total Investment	0.2	4.3	-5.4	-1.1	-6.7	-0.9	4.24	9.25	8.3-8.8*
Supply side:									
Agriculture	2.0	5.5	1.2	3.1	-0.2	2.5	5.43	1.67	2.9-3.4*
Mining	2.5	-1.0	1.0	-1.3	3.2	0.5	-2.31	-7.22	-1.8-1.3*
Manufacturing	3.4	3.1	3.4	3.6	3.9	3.5	5.23	5.98	5.2-5.7*
External Sector									
Non-Oil and Gas Exports (fob, % year on year)	3.4	19.6	0.9	-4.8	2.4	3.7	1.48	3.8	3.8
Non-Oil and Gas Imports (c&f, % year on year)	-0.8	42.0	2.9	-10.7	2.1	8.6	-0.71	7.5	7.5
Current Account (million of USD)	7.882	1.285	2.325	2.360	1.454	7.424	-554	315	1830
Foreign Debt (million of USD)	131.343	129.466	130.587	131.952	134.852	134.852	136.679	133.138	132.092**
Monetary Aggregates (Billion of Rp)									
M 0	166.500	125.211	132.403	136.471	166.474	166.474	142.817	155.466	175.371
M 1	191.900	181.239	195.219	207.587	223.799	223.799	219.087	223.726	238.959**
M 2	883.900	877.776	894.554	911.223	955.692	955.692	935.249	975.166	980.223**
Interest Rates (%) ¹⁾									
Bank Indonesia Certificate (SBI) -- 1 month	12.99	11.40	9.53	8.66	8.31	8.31	7.42	7.30	7.39
Interbank Money Market (PUAB) -- overnight	8.89	12.70	8.95	4.89	4.65	4.65	5.87	4.24	5.32
Time Deposit Rate -- 1 month	12.81	11.90	10.31	7.67	6.98	6.98	5.86	6.23	6.28**
Loan Rate -- Working Capital	18.25	18.08	17.41	16.07	15.45	15.45	14.61	14.10	13.84**
Loan Rate -- Investment	17.82	17.85	17.43	16.53	15.93	15.93	15.12	14.64	14.45**
Nominal Exchange Rate (Rp/USD) -- end of period	8.950	8.693	8.275	8.395	8.420	8.420	8.564	9400	9,160
Real Effective Exchange Rate (REER) ²⁾ , 1995=100	86.1	85.8	92.4	88.5	88.7	88.7	86.03	81.57	83.45
Nominal Exchange Rate -- average	9.249	8.902	8.488	8.431	8.474	8.564	8580	9392	9163

1) End of period weighted average

2) REER is a rupiah exchange rate index versus trading partner countries weighted by total exports and imports from 8 Indonesia's major trading partners countries

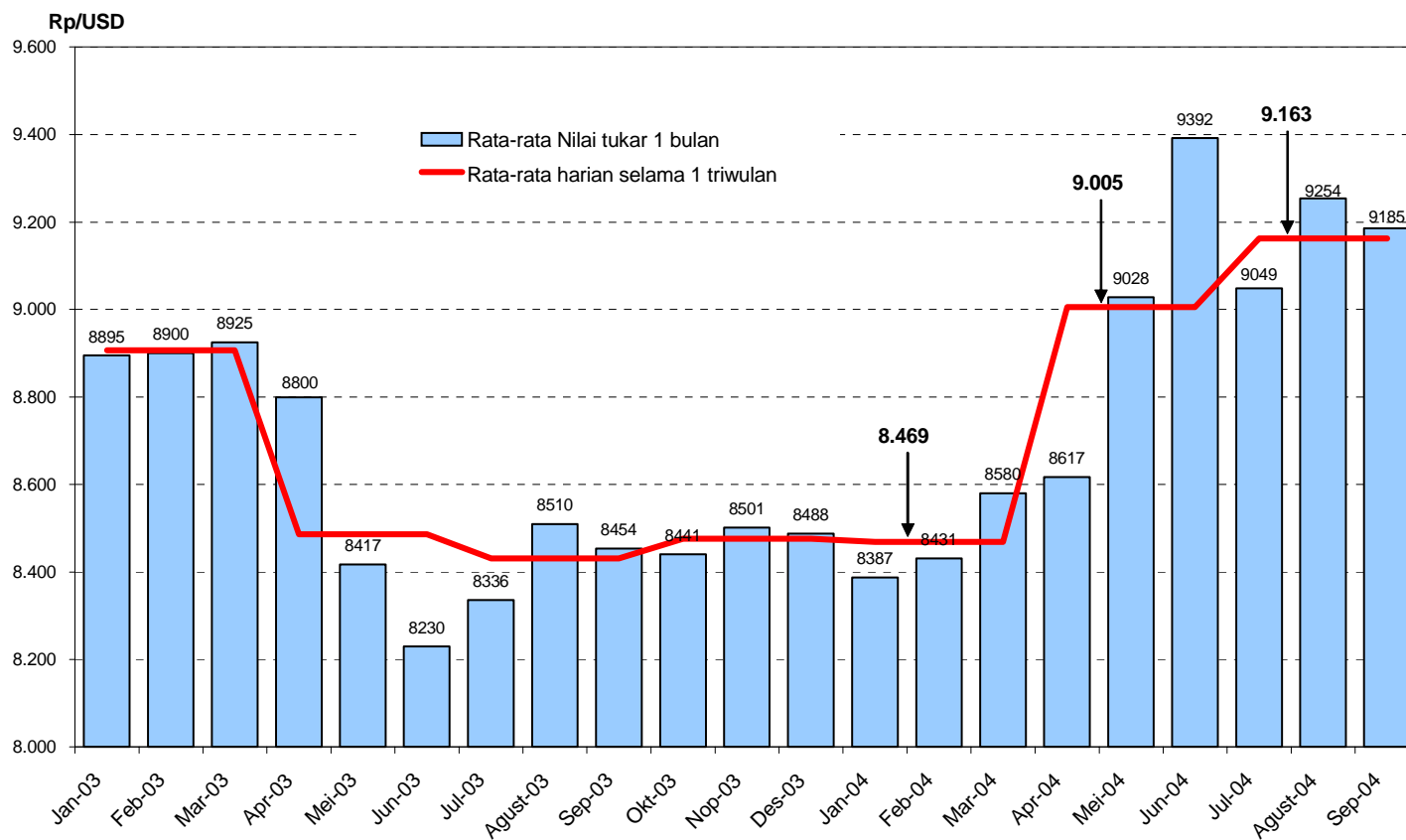
* : Projection figures by BI

** : August 2004

Sources : Central Bureau Statistics (BPS) and Bank Indonesia (processed)

- I. During Q3-2004, The rupiah weakened slightly, but with reduced volatility. In Q3/2004, the currency only lost 1.8%, bringing the average exchange rate for the quarter to Rp 9,163 to the US dollar.
- II. The downturn in the rupiah resulted largely from high demand for foreign currencies under conditions of limited supply, driven by import financing needs in the corporate sector in response to strong domestic demand. Heavy currency buying came mainly from the corporate sector as imports rose in response to strong domestic demand. Pressure was especially strong because the majority of currency buyers were non-foreign exchange earning companies. Major corporate users of foreign currencies include SOEs, the automotive sector, and food processing industries. Other pressure also came from negative sentiment, both external and domestic.
- III. However, after BI introduced the Net Open Position (NOP) policy and positive outcome of the Presidential election following a peaceful campaign, the rupiah began to stabilize in the end of Q3-2004.
- IV. On the forex market, the Rp2.5 trillion sale of 10-year government bonds in mid-September absorbed rupiah liquidity and fuelled positive expectations for the exchange rate. Heavy buying by overseas investors on the stock market shifted some attention from the forex market to shares. In addition, the soft forex demand in September did not bring pressure to bear on the rupiah

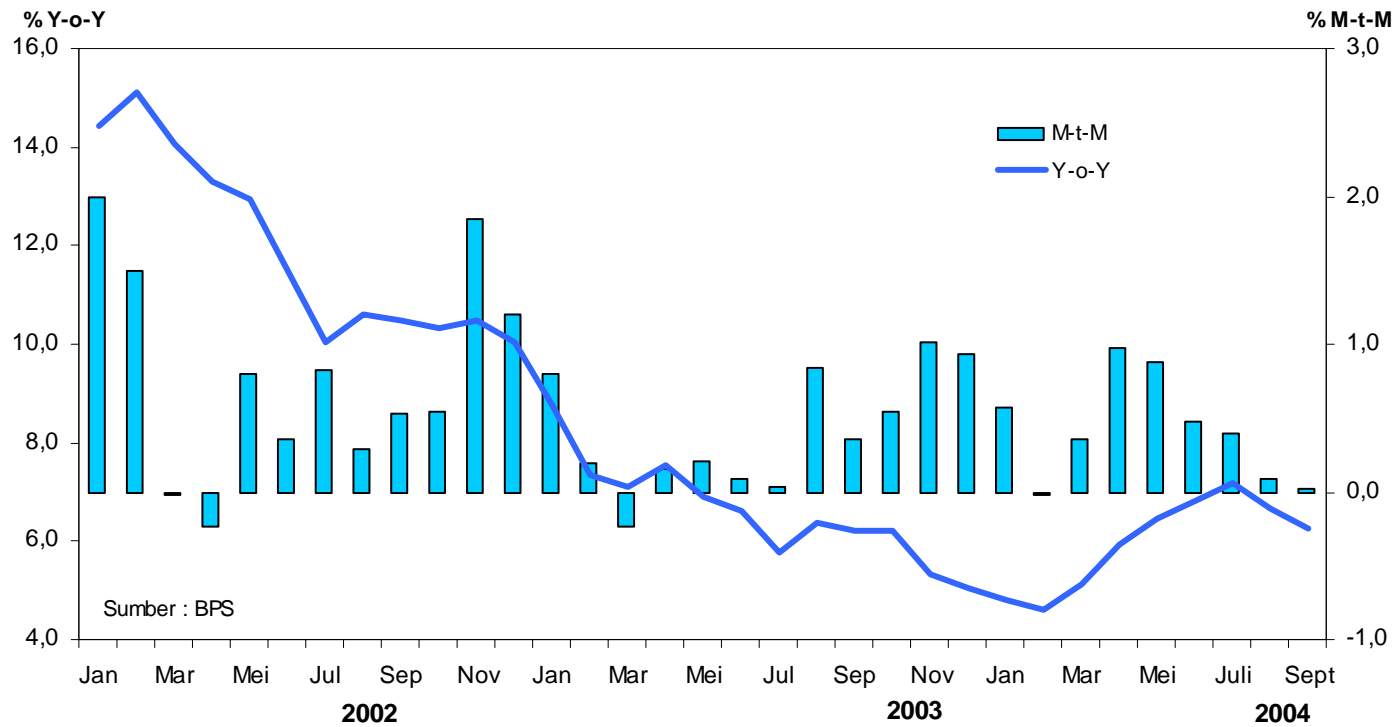
Graph 1. Exchange Rate



Sumber: Bloomber, diolah

- I. The inflation remained under control and has decline in recent months. At the end Q3-2004, the inflation recorded at 6,27(yoy).
- II. Despite forthcoming seasonal pressures, its forecast to reach the target made in the early year of 6 – 6.5%.

Graph 2. Inflation



- III. Monetary policy has been geared toward supporting the downward trend in inflation and maintaining exchange rate stability
- IV. Base money is always under control, inducing better inflation expectation and a stable and stronger exchange rate. As the result of these policies, inflation has dropped substantially from double-digit figures to a single digit low inflation of 5% at end of 2003 and 6.27% at end of September 2004. The central bank certificate (SBI) rate has declined substantially thereby delivering a positive signal to the process of recovery.