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INDONESIA – ECONOMY 2009
NEWS CLIPPING

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Politicizing Economic Issues

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With parliamentary and presidential elections coming up in April and July respectively, we find it increasingly difficult to ascertain whether politicians or officials, when commenting on economic issues, are making fair observations or are simply campaigning for their parties.

It is understandable if officials of the incumbent government focus their public commentaries on the positive aspects of the economy, while politicians of the opposition parties tend to be extremely critical in their assessment. Look, for example, how President Susilo Bambang Yudhoyono went all out to exploit the government-mandated fuel price cuts over the past three months for his political grandstanding, as if claiming credit for what should have been attributed to the economic downturn in developed economies.

There is nothing wrong, nor illegal, in the official emphasis on the positive multiplier of the fuel-price decrease and other positive indicators of the economy. It is also politically understandable if opposition parties emphasize the shortcomings of the incumbent government, citing the high unemployment and poverty rates.

It would, though, be damaging to the market confidence in our economic management and the credibility of government policies if inordinately optimistic forecasts by officials and members of the President's political camp meant mainly for election grandstanding were seriously considered in policy making.

Likewise, an irrationally adversary stance on the part of the opposition parties in parliament against any law or reform proposals from the government could adversely affect our macroeconomic stability, especially now when firm and quick decisions are required to cope with the fallout from the recession in the world's economic powerhouses.

True, our economic resilience and institutions are now much stronger than during the 1997-1998 economic and political crisis, and our dependence on exports is not as large as many other countries such as Vietnam, Thailand, Malaysia and Singapore.

But the blunt fact is our economy is suffering from the brunt of the sharp downturn in the developed countries and major emerging economies. The government can still be highly optimistic, expecting 4.5-5.5 percent economic growth this year, as against 2.75-4 percent predicted by independent analysts. But it is much better to err on the conservative side than on highly optimistic forecasts because the adjustments needed to cope with the impact of the latter error are more painful for the common people.

This is, we think, the main challenge for Finance Minister Sri Mulyani Indrawati, who is in charge of fiscal management, and Bank Indonesia Governor Boediono as the chief of the monetary management.

Since both officials do not belong to any political parties, their integrity, competence and leadership become the key to maintaining the credibility of government policies. As the leaders of the economic management they should have the courage to stand up against any demand even from the President for economic measures which seem beneficial in the short term but damaging in the long term.

The first test case will be the sorely needed amendments to the 2009 state budget. The budget revision should reflect a consistently high fiscal discipline, despite the big pump priming to cushion the impact of the global economic downturn.

How Will Market Fare This Year?

By Arief Rahardjo , Contributor, Jakarta
1077 words
27 January 2009
The Jakarta Post

Entering the fourth quarter of 2008, Indonesia's economy continued to be under pressure as indicated by several macro-economic indicators. The global financial turmoil, which was triggered by the U.S. subprime crisis that led to the bankruptcy of some giant financial institutions, worsened the global economy and adversely affected the Indonesian economy in the fourth quarter of 2008.

The impact of the global financial crisis on Indonesia was clearly seen in the Indonesian Stock Market and the continuing sharp decline of the composite index. Inflation was surprisingly kept relatively under control during the fourth quarter, reaching only 0.54 percent over the period, compared to the 2 to 2.5 percent recorded in the same period over the last few years.

Indonesia's overall economic growth in 2008 is estimated at around 6 percent, lower than the 6.3 percent achieved in the previous year.

Economic growth in 2009, however, will likely be slower and is projected to be driven mainly by private consumption and government spending (on infrastructure projects).

The macro condition influences the office market in Jakarta. Both leasing inquiries and activities slowed down during the fourth quarter. The global financial crisis started to have a negative impact on Indonesia's economy and business activities in the fourth quarter, particularly in the financial-related sectors such as banking and the stock market.

The banking sector, which has been the main demand generator for office space over the last few years, slowed expansion and even prompted postponement of branch openings during the review quarter.

Leasing inquiries are expected to be modest over the next quarters, with most businesses becoming very cost conscious. There will be more short-term renewals than relocations expected, to put a hold on capital expenditure with less aggressive expansion plans.

Net demand of Jakarta's central business district (CBD) office market during the fourth quarter reached 41,430 sq m, a decrease from the 74,400 sq m recorded in the previous quarter. A significant increase in the total net take up for the whole year, however, was recorded at 311,860 sq m, almost 53 percent higher than that recorded in 2007, bringing the cumulative take up to 3.22 million sq m as of December. Last year's net take up was also noted as the highest annual take up achieved since 1997.

This higher annual net take up increased the occupancy level from 85.2 percent in 2007, to 87.1 percent as of the end of 2008, leaving approximately 476,000 sq m of vacant office space.

What about supply? As of the end of December 2008, the total stock of the CBD rental office market remained at 3.7 million sq m as no new additional supply entered the market during the fourth quarter. Two buildings under construction, which were previously scheduled for completion in the fourth quarter, have been delayed and are expected to enter the market in the first quarter of 2009. They are Menara Dea in Mega Kuningan (13,000 sq m) and Menara Palma on Jl. H.R. Rasuna Said (20,000 sq m).

A total of 324,800 sq m of future supply is expected to enter the Jakarta CBD office market by the end of 2009. About 93 percent of future supplies are Grade-A office buildings, with 60 percent of them scheduled for completion in the second semester of 2009.

The average gross rental in rupiah terms increased by 4 percent over the fourth quarter to Rp 144,100 per sq m per month from Rp 138,600 per sq m per month in the previous quarter. In US dollar terms, the average gross rental rate decreased by 11 percent to US$13.07 per sq m per month, compared to $14.78 per sq m per month in the previous quarter. The rental decrease in US dollars was mainly attributable to the weakening of the rupiah against the US dollar by 14.4 percent over the review quarter.

Over the year, the average gross rental rate within the Jakarta CBD office market grew by almost 12 percent from the Rp 129,100 per sq m per month recorded in December 2007. Grade-A offices experienced the highest increment by 15 percent year-on-year, followed by Grade B and Grade-C by 10 percent and 9 percent, respectively.

As of the end of December 2008, most landlords did not have plans to increase their base rental in 2009. Most landlords maintained the base rental rates at the current level in an attempt to retain tenants as the worsening global financial crisis started to affect tenants' business at the end of 2008.

The worsening global financial crisis also started to affect Jakarta's CBD pre-sales strata-title office submarket in the fourth quarter. Delays in the completion of some strata-title office buildings under construction as well as postponement of marketing and construction commencements of some new strata-title office projects that are still in the early stage of construction or in the planning stage were observed during the review quarter.

Bakrie Tower, which was scheduled for completion in mid 2009, will likely be delayed at least until the end of 2009. The strata-title office component of a mixed-use project, Kota Kasablanka, the Eighty8 @ Kasablanka, has postponed its marketing activity and completion of the project, and will therefore definitely be delayed, probably until 2011 (from the previous schedule of the end of 2009). Likewise, Kuningan City will probably also delay completion until 2011.

In terms of sales price, most projects will likely maintain their offering price at the current level to keep their projects attractive to buyers during 2009. The continuing fall in oil prices, which helps lower inflation, may have a positive impact on the stability of construction costs.

Demand in 2009 is projected to decline due to the global crisis, which is mainly hitting financial-related sectors. Leasing inquiries are also expected to decrease, with most businesses becoming very cost conscious. Occupancy rates will therefore decline as new supply projected to enter the market in 2009 outstrips demand.

Gross rentals are likely to remain relatively stable in 2009 in anticipation of the global economic recession that is predicted to hit Indonesia's economy harder in the coming year.

The writer is associate director of research and advisory, PT Cushman & Wakefield Indonesia

The Economic Stimulation in the Year of Politics

By Umar Juoro, Jakarta
1033 words
27 January 2009
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SBY's administration has been very aggressive lately in stimulating the economy as a response to the impact of the global economic crisis that coincides with the upcoming legislative and presidential elections.

The government plans to increase the budget deficit from 1 percent to 2.5 percent GDP financed by the budget surplus last year and by foreign loans from multilateral and bilateral parties. The budget deficit would increase from Rp 51.3 trillion (US$4.5 billion) to Rp 132 trillion.

This move is welcome as other countries are also aggressively stimulating their economies with large amounts of funding. At the same time Bank Indonesia (independently) cut the interest rate more aggressively by 50 basis points in January and likely another 50 basis points in February as inflation is no longer the issue.

The question is whether the stimulus will be effective and whether the political environment will support the move.

In the post-1998 crisis era, the main problem of economic development in Indonesia is actually not so much to do with financing, but its execution and getting things done.

The large budget surplus in 2008 shows the government has been able to increase revenue significantly both from tax and non-tax revenues.

However, this also shows that budget management is not that sound. Goods expenditure was only about 83 percent.

Despite the report of capital expenditure reaching more than 90 percent, there is doubt whether this is really spending with tangible results, or whether it is simply still at the bidding process level.

Not to mention a huge amount of unspent budget at the local government level that reached around Rp 45 trillion. Judging from this, the effectiveness of the stimulation is in doubt if the priority is for the government's large infrastructure projects.

Certainly, infrastructure development is very important, but the focus should be on selected projects where the bidding process is manageable, the implementation reaches its target and it is also accountable. Otherwise, this would create another long process of corruption investigations later on.

The government also would like to stimulate the private sector through tax incentives, especially VAT and duty free waivers.

This would synergize with the implementation of the reduction of tariffs for income tax based on the new tax law.

This policy could directly benefit companies, so that they could maintain capacity and keep their workers from being laid off by using funds that are supposed to be paid for VAT and duty fee.

The problem is how to select which sectors and companies get the facility.

The other area for additional expenditure is the program related to reducing unemployment and poverty. As the economy slows down, probably in the range of 4-5 percent growth, the problem of unemployment will worsen as companies lay off their workers.

Poverty might also be getting worse, but the decrease in the price of basic necessities triggered by cutting the price of fuel would play an important role as a cushion for the poor.

Nevertheless, the poor need support from the government to deal with the worsening economic conditions. Increasing subsidies for SMEs under the Kredit Usaha Rakyat (KUR or the People's Entrepreneurship Credit) program is a good idea, but this mainly reaches SMEs that are already bankable.

In fact the rolling fund to community groups is an appropriate program. However, there should be some improvement in accountability, as the Minister of Finance postponed the program based on the Supreme Audit Agency's (BPK) report.

Cash transfer is considered to be an effective program that can reach the poor directly. In order for the poor to be able to use the cash wisely however, the conditionality program is more appropriate, where the fund can only be used for education, health, and basic necessities.

It is a good idea to extend these programs at the sub-district level (kecamatan) under the PNPM program.

However this does cause resentment from local government leaders who have political backgrounds other than the ruling parties Golkar and Partai Demokrat.

In principle, the more direct the stimulus into companies and households, the more effective it becomes. Relying too much on the government, both central and local, to undertake large-scale projects would have little chance of success. There should be a selective approach in this area.

This has a lot to do with the low capacity of the bureaucrats, including their difficulties in handling audit processes and corruption investigations.

In prioritizing the direct program, the issue is how to identify the target groups, so that it would not end up in the wrong hands.

Political resistance is a serious parallel issue here, as politicians are very sensitive to government programs that benefit certain political parties and candidates.

Members of parliament, especially from the opposition party the PDI-P, rejected the idea of implementing the economic stimulus immediately using the additional budget under an emergency agreement, without having to wait for the formal revision that could only be implemented in June.

The opposition also criticizes the ruling party's (the Partai Demokrat) campaign highlighting the SBY government's success in cutting fuel prices three times, while actually it is simply the consequence of the decline in the world's oil price.

Considering this political issue, it is wise for the government to facilitate a wider participation, including the opposition, to take part in the effort to handle the impact of the global economic crisis.

Since the opposition party is also strongly represented in local governments, it is politically wise to let them contribute to planning the economic stimulus and in implementing it.

The PNPM program, or others similar to it, should not just be claimed as the current government's program, but part of a common, integrated effort.

Similarly the argument for allowing the immediate use of the additional budget should also be considered a common effort.

At this difficult time, a common effort is really needed. Each political party and candidate can claim their contribution and the results that have certainly benefited the people.

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Riding out Economic Storm

1276 words
27 January 2009
The Jakarta Post

The theory of chaos in natural science explains how a butterfly beating its wings over the Amazon can lead to a hurricane in the Caribbean.

Chaos theory is at work in the international economy today. The tangled web of complex financial products created to bankroll America's housing boom has unleashed the worst financial crisis since the Great Depression.

Major corporate failures have induced pressures powerful enough to bring down the US financial system and a painful global economic slump. Markets have entered a vicious cycle of asset deleveraging, price declines and investor redemptions. They have had a tempestuous effect, causing Alan Greenspan, the former chairman of the US Federal Reserve, to describe it as a "once-in-a-century credit tsunami". Consider the effect it has had on the world's largest economies.

Volvo truck sales in the US in the third quarter of 2007 were 42,000. During the same period last year, they crashed down to 75. Instructively, the US industrial output was down 7.8 percent last month. Construction of new homes fell 15.5 percent from November to December last year, to an annual rate of 550,000, the slowest pace on record. The pace of new-home construction was 45 percent below its level of a year earlier. The American unemployment rate has risen to 7.2 percent, and economists warn that the rate could reach 9 percent as the recession drags on.

Elsewhere, the ramifications are just as galling. Japanese industrial output fell by 8.1 percent in November 2008, the largest on record.

In the 27-nation European Union, new industrial orders fell by 17.9 percent year-on-year in October. Along the same lines, Germany saw exports plunge by 10.6 percent in November last year, a record month-on-month decrease for the world's largest exporter. This is already resulting in negative GDP growth and declining overall trade volumes.

China's economy slowed so sharply in the final quarter of 2008 to just 6.8 percent as thousands of factories that sold to overseas markets shut, dragging growth of the world's third-largest economy to a seven-year low.

As many as six million people have now lost jobs in the cities as the export-dependent economy is hammered by a slowdown in demand. Not all butterflies though cause hurricanes or tsunamis. Millions of butterflies flap billions of times all over the world with marginal consequence.

Asian countries like China, Japan and Singapore are clearly facing the full wrath of credit tsunami. But others in the region, especially Indonesia, appear to be coping a lot better. There are two broad reasons. Firstly, several of these countries are not dependent on exports for economic growth.

And secondly, the financial systems of several of these countries are relatively safe from any immediate crisis.

The underlying reason for Asia's seeming insulation is that the region's financial institutions, unlike their European counterparts, have only limited exposure to toxic assets - subprime and related products. Post-1998 reform and restructuring have significantly improved these institutions.

Empirical evidence supports this: The low incidence of non-performing loans, high capital adequacy ratios, rates of return on assets, and other key indicators. Indonesian banks, in particular, have one of the best risk-weighted capital adequacy ratios in Asia. They also have the lowest ratio of loans to domestic deposits in the region after China and the Philippines. Indonesia is fast emerging as the babe in the woods.

This might not be immediately apparent. The rupiah has stabilized at around 11,000 per dollar in recent weeks after suffering from a sharp sell-off last year as investors pulled out from Indonesia's stock and bond markets, taking the unit to a decade low. The currency fell 14 percent in 2008, becoming one of the worst performers in Asia, while Indonesia's main stock index plunged nearly 51 percent.

Certainly, the Indonesian economy is slowing. It did in the final quarter last year as global demand for commodities cools. Jakarta has estimated that the economy expanded 5.8 to 5.9 percent in the fourth quarter of the last year from the same period in 2007. The economy grew 6.1 percent in the third quarter from a year earlier. The government forecast is 6.2 percent growth for 2008. It might be lower though in 2009, hovering between 4.5 to 5.5 percent. But this is still much better than many other Asian countries.

Singapore, the region's most prosperous economy, is hurting. Its GDP is expected to shrink up to 5 percent this year. It contracted a seasonally adjusted 16.9 percent in the fourth quarter, the largest decline since the Singapore government began publishing the indicator in 1975.

Malaysia's economic growth this year might slow to an eight-year low of 2.5 percent. In Thailand, the economy is also struggling from a drop in business confidence after protracted political unrest last year.

Indonesia appears to be coping much better economically. In part, this is a function of political stability which was conspicuously absent in 1998. There is also greater freedom of maneuver, the government no longer constrained by conditions set by the International Monetary Fund. There is no panacea for this crisis. But Jakarta has taken a number of critical steps in reviving the economy - some of which pre-dated the current problems.

Indonesia's central bank has already cut its benchmark rate by three-quarters of a percentage point in the past two months. With the BI rate kept at 8.75 percent, Indonesia offers a healthy 8.5 percentage-point premium over the US fed funds rate, which should help revive growth. Keeping government debt low has been a priority. Today, Indonesia has US$52 billion in reserves - a marked improvement from over a decade ago.

These initiatives have allowed President Susilo Bambang Yudhoyono to push forward a large fiscal stimulus that would ease some of the pressure on unemployment. He has announced plans to spend more than Rp 72 trillion on infrastructure and other projects to boost growth and create jobs in a country where the unemployment rate is the highest in Asia.

But government spending, along with a resilient FDI and strong private consumption ensures that the Indonesian economy appear to be on the front foot compared to other regional states. Credit agencies in the main are affirming a stable outlook for Indonesia. Fitch Ratings has retained Indonesia's BB sovereign rating. It is one notch above the rating of both its rivals Standard & Poor's which has a BB-minus rating and Moody's which has rated the country Ba3.

Indonesia is still vulnerable to external finances. Efforts to raise foreign direct investment and export competitiveness will likely remain challenging against a backdrop of palpable weakness in resource-based activities, as well as poor investor appetite for risk. These risks, however, are offset by the strength of Jakarta's fiscal discipline. It is also explained by the fact that it is not export-dependent.

China, Japan, South Korea, Singapore, and to a lesser extent Malaysia and Thailand, are reeling as exports evaporate. Just a small chunk of Indonesia's GDP - 12 percent - relies on exports to Europe and the United States. As a result, it is riding out the storm better than its neighbors.

After being underrated, for so long, with critics repeatedly writing its economic obituary, the country might appear to be an anomaly in this global financial crisis. There is no butterfly effect for Indonesia.

Gita Wirjawan is Chairman of PT Ancora International

How Low Can We Go?

By Anton Sitorus , Researcher
923 words
23 January 2009
The Jakarta Post

To help keep the engine of the economy rolling, the central bank cut the benchmark interest rate (BI Rate) down to 8.75 percent earlier this month. The move received a warm welcome from industry players including property companies with hopes that the cut would help improve buyer confidence, thus leading to increasing sales.

Lower interest rates would also help ease developer's burdens in securing development capital, of which a big part is, in most cases, sourced from bank.

However, it seems that such conditions are not going to materialize any time soon, at least over the next three months. Banks are still reluctant to lower their interest rates.

A cautious approach toward the economy to minimize the impact from ongoing uncertainties in the global financial market has became one of the main reasons why banks are slow to cut their interest rates to consumers.

Currently, the effective loan interest rate for housing (KPR) and apartments (KPA) stands between 14 and 16 percent per annum. Compared to 2-3 years ago, this is much higher and is increasingly becoming a burden to both existing consumers as well as new loan applicants.

On the other hand, tight liquidity in the banking sector has made loan allocation processes to both retail and corporate costumers slower and more difficult.

As the result, sales in the last few months, especially in the housing and condominium market, fell to a minimum level.

The same trend is also seen on the development side.

In the last three months, there have been almost no new projects launched onto the market as developers have began to shift their focus to existing and ongoing projects to achieve target sales rates, and at the same time, to try to meet existing construction schedules.

Therefore, how far could we expect the interest rate to decline further this year?

And if it is successfully brought down to a relatively low level (i.e. the same as in 2004), what is the likely impact on the growth of the property market going onward?

In its recent press releases, the central bank signaled that there is still room for further interest rate cuts as pressure from inflation slowly evaporates - thanks to cuts in fuel prices over the last two months.

Some analysts predict the BI rate may drop further to 8 percent on the basis that inflation can be brought down to between 5 and 7 percent by the end of the year.

As the government continues to urge industry players to adjust prices of goods and services to align with the downward trend on fuel prices (and interest rates), many think that this new inflation target is reasonably fair.

As such, the projection that the BI rate would decline further to around 8 percent may also be feasible - a few research houses even forecast the BI rate may dip to around 7.0 to 7.5 percent this year.

This scenario is interestingly similar to the period in 2004 which also took place during an election year (see above chart).

In 2004, when the country conducted the first direct presidential election in Indonesian history, many people doubted that the property market could grow at a positive level during that period.

But surprisingly, the market performed significantly well on the back of a peaceful and smooth election process and a record low interest rate environment (the benchmark interest rate in 2004 was brought down to 7.3 percent by mid-2004 and continued to hover around that level until early 2005).

In the condominium market for instance, 2004 was considered the peak year for new launches with more than 22,000 units coming onto the market in Jakarta whiletransactions totaled about 12,000 units during that year - comparing favorably to 6,500 units sold in 2008.

Now, with relatively similar socio-political settings and similar interest rates, can history repeat itself? Are we going to see another record high on new launches and property transactions this year?

Most views, including ours, tend to see this as unlikely considering the current economic context which is increasingly affected by the global financial crisis.

The cautious approach taken by the banks can be seen as an indication on how slow business activity would go this year.

On the high risk environment due to uncertainty in the economy (meanwhile, we think uncertainty in the socio-political environment is less threatening, judging from the 2004 election experience) it is anticipated that both individual and corporate business expansions may go into lower gear.

As such, we are not expecting any significant growth to take place in the supply and demand side of the property market this year.

Thus, the main play for 2009 would be focused on existing marketing and quality review to sharpen the competitive edge of projects.

Having said that, it is none other than the consumers who will enjoy the most benefit.

Any prospective buyer or newly identified incoming offer would be treated more seriously given these market conditions. Now is probably the right time to hunt for a good quality property at a good price.

So if you are a cash-rich investor who has enjoyed the taste of a high deposit interest rate, why not try to set aside an amount to increase your property portfolio.

Who knows? Maybe you could get a good bargain. It would pretty much depend on how low we can go.

The writer is the head of research department at Jones Lang LaSalle Indonesia.

Global Crisis: Government Slammed for Unrealistic Unemployment, Poverty Targets

By Desy Nurhayati , THE JAKARTA POST, JAKARTA
596 words
13 January 2009
The Jakarta Post

Experts have criticized the government for claiming they will continue to drive down unemployment and poverty rates despite data showing the global financial crisis is due to hit Indonesian industries hard and lead to mass layoffs.

The Manpower Ministry recently announced more than 42,000 workers had been laid off as labor-intensive export industries shut down operations amid the global economic turmoil.

The Indonesian Rattan Furniture and Craft Producers Association (AMKRI) has announced the industry may have to lay off nearly 35,000 workers in the early part of this year while the Indonesian Textile Association (API) predicts around 120,000 layoffs will occur next year.

Chairman of the Indonesian Employers Association (Apindo) Sofyan Wanandi said the global crisis had forced industries to reduce their production capacities by up to 30 per cent, meaning at least 500,000 workers could be jobless by mid-2009.

Despite the gloomy forecast from business experts, the government has drawn on entirely separate data to optimistically claim they will continue to drive down unemployment and poverty rates this year after having reduced levels in 2008.

Coordinating Minister for Peoples Welfare Aburizal Bakrie said last week Indonesia's unemployment rate dropped from around 10.55 million in 2007 to 9.43 million people in 2008.

Despite warnings, the government outlined its ambitious target to reduce the unemployment rate to seven million people and slash poverty from 35 million people to 31 million people.

"The targets are unrealistic and too ambitious. As part of the global economic system, the government should have considered the external factors that are guaranteed to affect Indonesia's financial condition," Maxensius Tri Sambodo of the Indonesian Institute of Science (LIPI) said.

Maxensius argued unemployment rates will actually escalate due to mass layoffs, which will in turn see a spike in poverty levels. Even though subsidized fuel prices were slashed twice last month, and the government is considering further cuts depending on global prices, the impacts of the crisis will be felt as unemployment rises.

"Poverty rates will increase, not because of commodity prices but due to massive layoffs and loss of income. This in turn will weaken consumer spending," he said, adding that a government failure to successfully enact anticipatory measures would cause an even greater downturn.

Aburizal said the governments various poverty-reduction programs, including direct cash aid (BLT), the Mandiri National Community Empowerment Program (PNPM Mandiri) and credit for small and medium enterprises (KUR) would help keep unemployment and poverty rates low.

Drajad Wibowo, an expert and member of the House of Representative's Commission XI overseeing economic issues, said the government's targets were a little over-zealous but were calculated using dubious and unreliable data from the Central Statistic Agency (BPS).

"You can play around with data but not with reality," he said.

Drajad said state programs such as KUR and PNPM might aid in boosting the government's political image but would provide few remedies for the economy.

With the elections fast approaching, issues of poverty and unemployment have been capitalized by the government to draw voters while opposition groups have politicized the situation to attack the incumbent government.

An Indo Baramoter poll conducted last month however revealed many voters were pessimistic the elections would have any impact improving economic conditions.

According to the survey, around 60 percent of respondents were unsure whether the elections would reduce unemployment rates while nearly 50 percent did not believe the elected government could decrease the price of basic commodities.

Global Crisis Cuts Massive Chunk from Export Figures

The Jakarta Post , Jakarta
508 words
3 February 2009
The Jakarta Post

The country is getting pummeled by the global economic meltdown, with December exports plunging 20 percent from a year earlier as overseas demand shrinks.

December exports were also down 9.97 percent from the previous month, the Central Statistics Agency (BPS) said Monday.

The decline in monthly and yearly figures overshadow a 20 percent rise in full-year exports from 2007, with exports continuing to take a beating in the last three months of the year, just as the global financial crisis began unfolding.

With the downturn slashing demand and contributing further to the already plummeting prices of key global commodities, Indonesia's exports decreased by 9.57 percent to US$8.7 billion in December, from $9.6 billion in the previous month.

Non-oil and gas exports, which constituted almost 80 percent of total exports, were down by 8.84 percent to $7.45 billion. The year-on-year figures show a larger decrease in non-oil and gas exports of 11.59 percent.

"The largest decrease in non-oil and gas exports is that of animal or organic fat and oil exports, down to $835 million from $1.2 billion," BPS deputy chairman Ali Rosidi said at a press conference.

"On the other hand, ores, iron slag and metal dust exports recorded the largest increase, up by $191 million."

Oil and gas exports also slowed in December from the previous month by 13.69 percent, down to $1.2 billion from $1.4 billion.

Crude oil exports decreased to $455.5 million from $484.6 million, processed oil decreased much more drastically - down 58.19 percent to $96.8 million from $231.5 million - while gas exports dropped to $691.4 million from $724.8 million.

Non-oil and gas exports to Japan decreased to $1 billion in December from $1.1 billion in November, while to the United States they dropped to $907 million from $935.2 million. Exports to these two countries contributed almost 25 percent to Indonesia's total non-oil and gas exports.

The IMF has said Japan and the US economies may shrink by 2 percent this year.

The domestic outlook remains bleak as well, with exports very likely to plunge further as the world is tipped into recession.

Economists predict the impacts of the global turmoil will likely hit the local market the hardest by mid-2009.

"Exports have been declining since October, and the year-on-year figure also shows the same trend," Rosidi said.

"However, we still managed to record a surplus in the trade balance."

The country notched up total exports in 2008 of $136.76 billion, almost 20 percent higher than the $114.1 billion recorded the previous year. However, the trade surplus stood at $8 billion, 80 percent lower than the surplus of $40 billion recorded in 2007.

The declining surplus reflects a sharp rise in imports, valued at $128 billion in 2008, compared to $74 billion in the previous year. (hdt)

Economic Slowdown Could Halve Overseas Remittances

The Jakarta Globe
January 29, 2009
News / National / Article

The amount of money sent home by Indonesians working abroad will fall this year due to the global economic slowdown triggered by the financial crisis, government officials and economists believe.

About five million Indonesians work overseas, 65 percent in the domestic sector, mainly in Middle East countries, and sent about $6 billion home in 2007, according to the National Agency for the Placement and Protection of Indonesian Workers.

The amount is equal to 1.6 percent of gross domestic product, making remittances Indonesia's second-largest foreign exchange earner after oil and gas, said agency chairman Mohammad Jumhur Hidayat.

The total amount of money sent to Indonesia could be as high as $11 billion annually as transactions worth more than Rp 5 million are not recorded as remittances by the central bank because they are considered business transactions, and some workers send money with friends or relatives, Hidayat said.

No figures were available for the whole of 2008, but up until April, $2.23 billion had been remitted, the agency said.

According to Oxford Analytica, a global consulting firm, the financial crisis and ensuing economic downturn is significantly slowing the flow of remittances to developing countries for the first time in almost a decade.

It said the impact on recipient countries would be felt this year.

The International Labor Organization said last month that millions of migrant workers faced layoffs and worsening conditions as the effect was felt in employing countries.

“Past experience makes us painfully aware that migrant workers, especially female workers and those with irregular status, are among the hardest hit and most vulnerable during crisis situations,” said Juan Somavia, ILO director-general.

Some employers have decided not to renew work contracts with Indonesian workers and countries such as South Korea have postponed their intake of foreign workers until later this year, Hidayat said.

Hidayat said his agency was looking at potential markets such as South Africa, Madagascar and eastern European countries to offset slower demand in the Middle East, East Asia and Malaysia, where many Indonesians work.

“Madagascar needs a lot of mining engineers so it is a good market for our workers,” he said.

Some economists have predicted that Indonesian remittances would only reach around $3 billion this year, half the amount sent home in 2007.

“The biggest revenue sources are Malaysia and the Middle East. Given the fact that Malaysia’s economy is under pressure and growth for this year is expected at around 3 percent, obviously job absorption will be affected,” said Chatib Basri, an economist from the University of Indonesia.

“The Middle East is also experiencing economic slowdown, although not as bad as Malaysia.”

Last month, Indonesia’s ambassador to Malaysia, Da’i Bachtiar, said about 300,000 of the 1.2 million Indonesian workers in Malaysia may have to return home as companies were forced to cut their workforce due to the crisis. Several electronic goods manufacturers are not renewing contracts.

However, Bachtiar said the plantation and service sectors were not yet affected.

Abdul Malik Harahap, director for Indonesian migrant workers placement at the Ministry of Manpower and Transmigration, said the impact of the credit crunch on remittances was likely to start being felt around April 2009.

IRIN

Staying Positive in Difficult Global Times

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Editorial

The world is in the grip of an unprecedented crisis. Events over the past month seem to indicate that the financial tsunami that began more than 18 months ago has snowballed into a multidimensional crisis with socioeconomic, political and cultural ramifications.

With so much negative news in the media, Indonesians can be forgiven for thinking that social disorder and disharmony are rife, that our economic and financial systems are about to collapse and that our very way of life is under threat. Indeed, we face a crisis that is of a global nature and dimension and Indonesia will not be immune to the fallout.

This makes it imperative that our leaders and business elite work together to create a productive agenda in overcoming the crisis. We need to have a sense of maturity, political unity and progressive thinking to safeguard the nation’s interests. And in a politically charged climate, political leaders in particular must be mature in accepting defeat at the polls with grace and not as sore losers. The ongoing gubernatorial election dispute in East Java, where there have been two revotes and one recount, is a perfect illustration of how the political elite need to adhere to the rules of the game.

Indonesians should not be swayed by the negative news they read in the newspapers and see on television. In a political season, facts are often distorted to suit narrow agendas and individuals have a habit of overemphasizing the bad news. We thus have to be extra cautious of what we are told by politicians and make the effort to look behind the headlines to discern the truth.

The fact of the matter is that despite the severity of the global crisis, Indonesia is in good shape compared to its neighbors. Our economy remains robust and we will post positive GDP growth this year. Our democracy is maturing and we have stable social and political environments. Our banking system is intact and operating efficiently with most local banks still issuing loans to corporations. Bank Indonesia's latest move to further ease credit lines to small and medium enterprises is spot on and illustrates that the central bank is on top of the situation.

The same cannot be said for other nations such as China, India, Thailand, Malaysia, Singapore and the Philippines, where the crisis is having a deep impact. Compared to the problems facing these nations, Indonesia is a haven of political and economic stability.

Indonesia also has a strong government that has displayed outstanding leadership and shown a willingness to be bold in its response to the global crisis. As we enter the political season, now in full swing, any attempt to sow seeds of discord or social unrest must not be tolerated. While we savor our democracy and celebrate our ability to elect our leaders freely, we must not allow politicians to speak and act without responsibility and accountability. They must not only respect the Constitution and the rules of the game, they must also show deference to the government in power.

Indonesia has a lot going for it and the country is moving in the right direction. We need to stay positive and retain our sense of perspective in such globally trying times.