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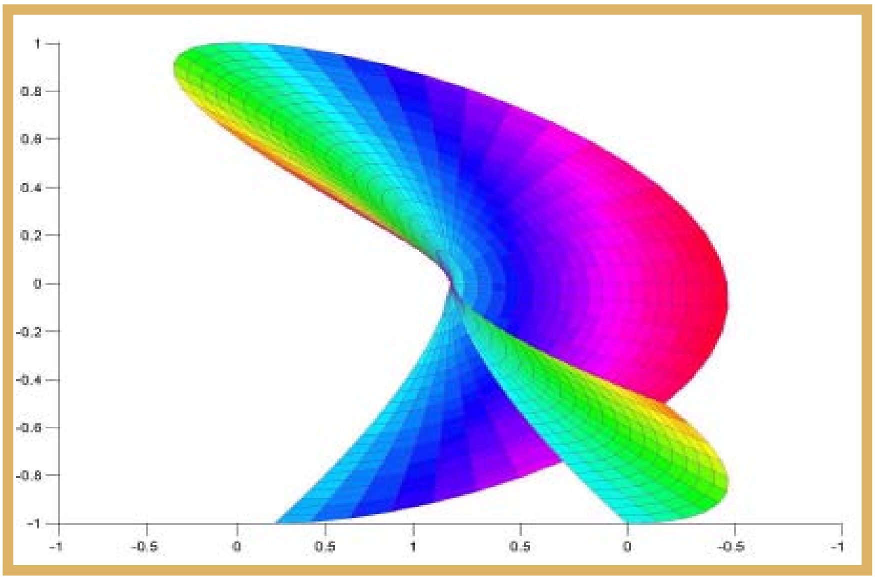
Indonesia Update

- One of the pre-requisite for acceleration in economic growth is availability of adequate infrastructure development. A study indicated that economic growth of about 6 - 7% p.a requires IDR 613 tn in infrastructure development in the next 5 years. Allocation of infrastructure development in Indonesia is lower than that in Malaysia and Thailand. Policies for greater private involvement is critical in the period of constrained fiscal budget.
- Although the market capitalization of infrastructure related companies are relatively high, the total market value of equities and fixed income securities in Indonesia Capital Market is still small. Total infrastructure related equities in JSX is IDR 125 tn and IDR 12.8 tn in debt market for a total of IDR 137.8 tn. Future cash flow certainty and limited instruments in the market are often sited as two main constraints for capital markets development as source of financing for infrastructure development.
- In the last three years, the share of infrastructure financing to total bank loans had increased from 6.5% to 8.3%. So far, commercial banks remained as the main financial source for infrastructure sector. Nonetheless, credit extension to infrastructure sector should be done prudently, since some sub sectors continued to have high NPL ratios.Even in telecommunication industry, the NPL has started to picked-up significantly.
- Two most critical infrastructure development to support economic growth are electricity and transportation facilities. Both have broad implications on the processing industries and logistics which has implication on the Indonesian industries competitiveness.



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Infrastructure Budget in Indonesia

To reach 6% economic growth infrastructure requires IDR 613 tn financing

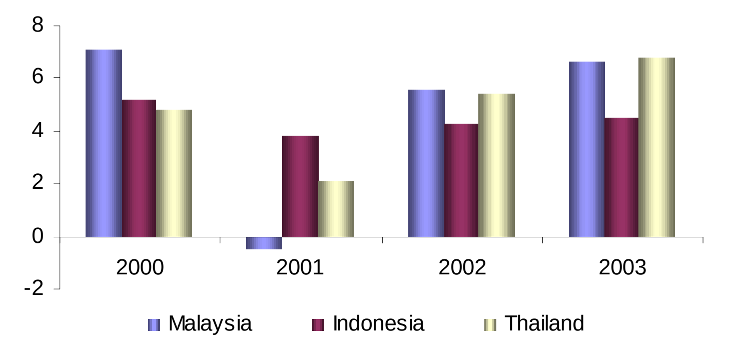
A well-planned Indonesia's infrastucture has to be done in the long term by considering population's growth rate and housing needs especially in major cities. In order to reach an economic growth of 6% in the next 5 years, Indonesia really needs a large amount for infrastructure financing. The Deputy of State Ministry of National Development Planning / National Development Agency (BAPPENAS) for Infrastructure has stated that infrastructure development need a fund for IDR 613.2 trillion or USD72.14. This amount will be used to highways development for 93,700 km, electric generator 21,900 MW, 11 million telephone lines, 18.7 million cellular phone customer, drinking water for 30.5 million people and sanitation for 46.9 million people. This expense is not included expense for other infrastructure development such as transportation, housing, and irrigation.

There is a financing gap for USD 31.34 bn for infrastructure development

Only IDR 346.8 tn or USD 40.8 billion of funds required for infrastructure development is estimated to be available from the government. So there is a financing gap for USD 31.34 billion or IDR 266.4 trillion. This amount needs to be covered by private sector or other financing schemes. Therefore, private investment in infrastructure for USD 6 billion or IDR 51 trillion is needed anually.

Since the crisis, investment growth rate in Indonesia is still low. Therefore, Indonesia's economic growth is lower than Malaysia, Thailand, and Singapore.

Graph 1. GDP Growth in ASEAN Countries (%YoY)



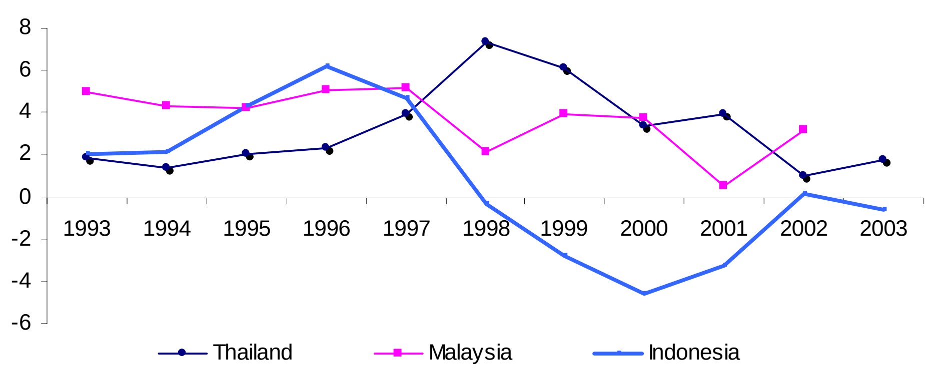
Source: Bloomberg

Indonesia's economic growth is below that of Malaysia and Thailand

Until 2003, Indonesia's economic growth is below that of the neighbouring countries, just as an example, Malaysia and Thailand that also experienced crisis, have recorded economic growth rate of 6.6% and 6.8% respectively, meanwhile Indonesia only reached 4.5%. The fiscal dilemma for Indonesia is between consolidating the budget to improve fiscal sustainability or to leverage fiscal to push economic growth. Unfortunately, due to the need to service our debt and reduce it to sustainable level, limited fiscal flexibility is available. At the same time, investment growth also continued to be sub-dued.

After 1997 crisis, investment in Indonesia is decreased more than investment in Malaysia and Thailand. Until 2003, Foreign Direct Investment (FDI) in Indonesia is still lower than those two countries, even shows a little negative value.

Graph 2. Direct Investment in ASEAN Countries (USD bn)



Source: International Finance Statistic

Low investment was also caused by insufficient infratructure

One of the drive such low investment level is the slow and limited infrastructure development and improvement in Indonesia, inadequate infrastructures can lead to higher costs of doing business in Indonesia compared with in other ASEAN countries. This research intends to make analysis of financing infrastucture development in Indonesia in order to push investment growth and economic growth compared to Malaysia and Thailand.

However, it must be realized there are constraints to make comparative analysis of Indonesia's budget toward neighbour country's due to a different budget classification. Malaysia used functional classification for its financing data, whereas Thailand used departmental classification. Therefore, the analysis is viewed from two different sides. The comparison of Indonesia's infrastructure budget and Malaysia's is using functional usage classification, whilst comparison to Thailands is using departmental approach. The other constraints are the difference in currency used and the size of budget amount. Therefore analysis is focused on financing composition toward the total of Central Government expenditure, not the nominal.

Indonesia's Infrastructure Budget vs Malaysia's

For 2005 budget years, total of central government expenditure for Indonesia reaches IDR 264.9 tn or closely USD 29.1 bn and for Malaysia is MYR 28.3 billion or USD 7.4 bn.

Table 1. Indonesia and Malaysia Central Government Expenditure (% of Total Expenditure)

No.	Function	Indonesia	Malaysia
1	Defence and Internal Security	14.1	10.8
2	Economic Services	9.9	49.2
	Agricultural and rural development	3.5	8.6
	Trade Industry	0.9	6.3
	Transport	3.9	26.3
	Communication	0.2	0.5
3	Social Services	13.1	26.8
	Health	2.5	3.8
	Education	9.7	10.0
	Housing	0.8	6.1
4	General Administration	60.6	13.2

Source: Ministry of Finance of Indonesia and Malaysia

Not all functions in both budgets are equal, so there are some functions is eliminated from calculation. In instance, religion and environment functions in Indonesia don't have an equal post in Malaysia.

In this study, we'll compare only at expenditures for infrastructure sectors such as tranportation, communication, health, and housing. We can see that allocation for infrastructure expenditure in Malaysia is greater than in Indonesia. Allocation for transportation sector in Malaysia is 26.3%, meanwhile in Indonesia is only 3.9%.

Malaysia allocates more budget for infrastructure than Indonesia does

Budget allocation for infrastructure in Malaysia is greater than in Indonesia. Indonesia should be push investment and economic growth by adding allocation in infrastructure to 20% of total central government expenditures. This is important in order to increase competitive value towards surrounding countries. Therefore foreign investors will feel safe to invest in a country that has an adequate infrastructure.

Indonesia’s Infrastructure Budget vs Thailand’s

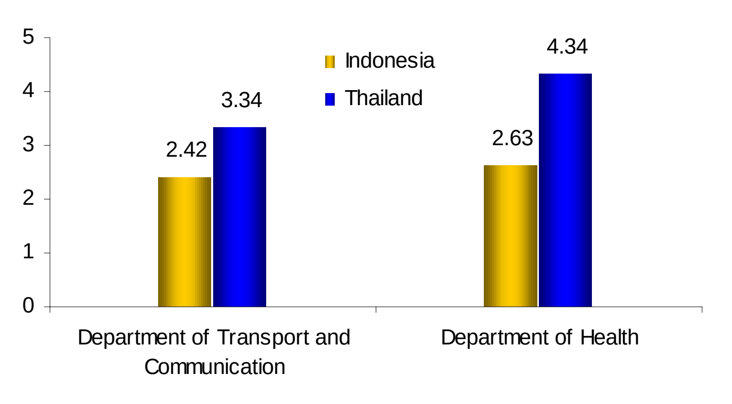
Because of limited data available, comparison analysis of Indonesia and Thailand infrastucture budget is based on 2004 budget year. Total central government expenditures in 2004 reaches THB 949.4 billion (USD 22.9 bn) in Thailand, compared to IDR 255.4 tn (USD 29.7 bn) in Indonesia.

Comparison analysis of Indonesia and Thailand baudget is based on depatmental classification. Because departmental classification in Thailand and Indonesia is different, only budget for transportation, communication and health depatments that can be compared.

In 2004, Thailand also allocated higher allocation for infrastructure than Indonesia did

From budget composition classified by depatment, allocation of infrastrucuture for transportation and communication in Thailand is greater than in Indonesia. Thailand allocates 3.3% for transportation, communication, and information technology, but Indonesia only allocates 2.42%. And so for health-care facilities, Thailand allocates 4.3% for social health improvement projects.

Graph 3. Indonesia and Thailand Government Departmental Expenditure (% of Total Expenditure)



Source: Ministry of Finance of Indonesia and Thailand

Eventhough Indonesia still lags in transportation and health sector, Indonesia has allocated a huge amount for regional housing and infrastructure which is 4.7% of total central government expenditures.

Indonesia's transportation system is left far behind Malaysia and Thailand

From this comparison, it can be concluded that in budget allocation for transportation, Indonesia is left far behind those two other countries. Malaysia has succeded in creating mass rapid transit through a monorail development project that can effectively carry large number of people. Meanwhile Thailand planned to invest THB 800 billion investment for the next 5 years to build transportation and industrial infrastructure. These projects will include expansion Laem Chabang harbour, new Bangkok mass transit projects, waterworks improvements, and telecommunication and information technology development.

Improvement in transportation sector in Indonesia is slower than in property sector so there are traffic problems arised in Indonesia larger cities therefore they become a hindrance factor of economic activities in Indonesia. Besides, viewed from its vast area, Indonesia needs a great fund allocation for infrastructure development especialy in transportation sector. Lack of transportation will hamper economic activities in Indonesia. This is will make foreign investors hesitate to invest in Indonesia. So a comprehensive and overall planning to fix transportation sector in Indonesia is needed.

Investment growth in Indonesia is lags Malaysia and Thailand, partly due to inadequate infrastructure development in Indonesia. Viewed from the infrastructure budget allocation, allocation in Malaysia and Thailand is greater than in Indonesia especially in transportation sector. Improvement in transportaion sector in Indonesia is slower than in property so there are traffic problems arised in Indonesia big cities that will hamper economic activities in Indonesia. This condition causes foreign investors hesitate to invest in Indonesia.

Infrastructure Sector in Capital Market

The infrastructure sector has a large stake in overall share in JSX

The infrastructure sector has a large share in Jakarta Stock Exchange (JSX). At end of October 2004, the capitalization value of this sector reached IDR 125.5 tn or approximately 21% of the total market capitalization in JSX, which ranked 2nd, after the financial sector.

Table 2. Market Capitalization by Sector, October 2004

Sector	Market Cap (IDR mn)	Share
Financial	170,133	29%
Infrastructure & Transportation	125,498	21%
Consumption	105,734	18%
Miscellaneous	49,451	8%
Mine	42,793	7%
Basic Industry	37,635	6%
Trade	34,084	6%
Construction & property	13,710	2%
Agriculture	6,887	1%
Total	585,925	100%

Source: Bloomberg

There are 16 issuers in infrastructure sector listed in JSX ...

In terms of number of corporations listed in JSX, up to the end of October 2004, there are 16 issuers in infrastructure sector. Of such number, 9 issuers are in transportation sector, 3 in telecommunication, 2 in non-building construction, 1 issuer each in toll-road and harbour development, and in energy.

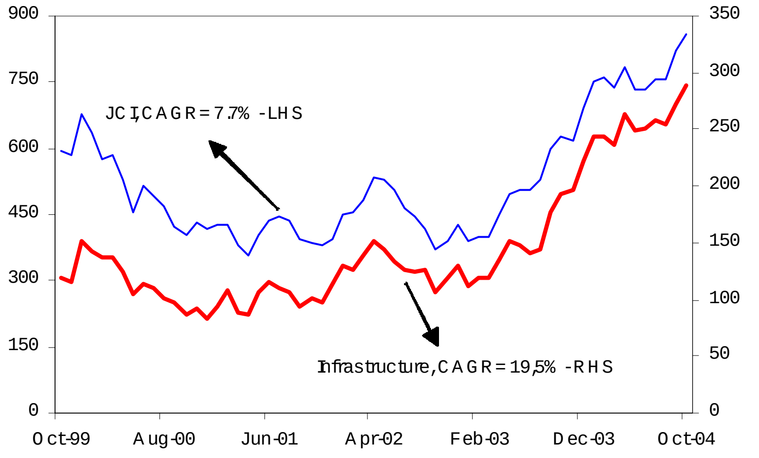
Although the infrastructure sector in Indonesia captures a high share to total equity markets, the nominal value of such capitalization is lower compared to that of other nations in ASEAN region.

Up to October 2004, the infrastructure sector capitalization worths USD13.8 tn. This amount is higher than those value in Malaysia and Philippine. In other hand, Thailand and Singapore recorded capitalization values in this sector respectively USD 30.3 bn and USD 43.42 bn, higher compared to Indonesia.

The infrastructure sector showed an impressive uptrend return compared to overall index on JSX

In terms of return, besides its relatively higher share toward the market capitalization in JSX - which by then, automatically has a greater influence toward the index fluctuation - the infrastructre sector index trend also showed an impressive uptrend compared to overall index of JSX. In the last 5 years, the JCI increases by an average of 7.7%. On other hand, the infrastructure index grew by 19.5% p.a.

Graph 4. JCI Vs Infrastructure Index, 2000 - October 2004



Source: Bloomberg

The high return is mainly driven by telecommunication sector such as PT Telekomunikasi Indonesia and Indosat, two blue chips stocks in JSX; with sound financial performance. Unfortunately, some companies, mainly in transportation sectors, such as Rigs Tender and Humpuss Intermoda still need to unders debt restructuring after the crisis. One couraging sign, the balance sheet and financial performance of companies in the infrastructure sectors are getting better

Debt Capital Market

The infrastructure is a capital intensive sector with longer period to get return

One widely known characteristic of the infrastructure sector is the capital intensive nature of the sector. Moreover, investment in infrastructure sector requires longer period to get return and is usually highly regulated especially in the pricing decision. Therefore, such investment in infrastructure development in the past was conducted dominantly by the government instead of the private sector. Private parties who invest in this sector usually specialize in the areas that have long term certainty especially in the pricing-flexibility.

Table 3. Infrastructure Bonds Listed in SSX

Company	Sector	Amount (IDR bn)
Adhi karya Tbk	Construction	400
Waskita Karya (Persero)	Construction	100
Wijaya Karya (Persero)	Construction	200
Perusahaan Listrik Negara (Persero)	Electric	600
Pembangunan Perumahan (Persero)	Property	400
Citra Sari Makmur	Telecommunication	185
Excelcomindo Pratama	Telecommunication	1,250
Indosat Tbk	Telecommunication	4,750
Telekomunikasi Indonesia Tbk	Telecommunication	1,000
Citra Marga Nushapala Persada Tbk	Toll, airport and port	224
Jasa Marga (Persero)	Toll, airport and port	2,200
Arpeni Pratama Ocean Line	Transportation	171
Berlian Laju Tanker Tbk	Transportation	600
Serasi Auto Raya	Transportation	300
Total		**12,380**

Source: Surabaya Stock Exchange (SSX)

In more developed capital markets, debt capital markets are often one of the key source of financing for infrastructure sector. Institutional investor in debt capital markets often have long term maturity and therefore matches the long term horizon of the underlying projects.

In Indonesia for the time being, there are only 20 corporations that operate in infrastructure sector, utility and transportation. Of this number, 16 corporations have issued bonds to the infrastructure projects financing.

Infrastructure bonds are mostly dominated by telecommunication and transportation companies

As with the JSX, infrastructure companies who issue bonds are dominated by telecommunication and transporation. Four largest issuers are Indosat, Exelcomindo, Jasa Marga and Telekomunikasi Indonesia. These companies makes up 74% of total bonds in infrastructure sector of IDR 12.4 tn or only USD 1.37 bn, a low amount for an economic that requires at least USD 6.3 bn in infrastructure financing per year. Based on sub sector, the composition of bonds issuers are telecommunication (58 %), toll and harbour (20%), transportation (9%), construction (6%), electricity (5%), and property (3%).

In our view, there are 2 main problems that hinders the development of bond market in infrastructure financing:

1. The default experience in the past. Many bond infrastructure particularly in the harbour, transportation and construction had default in the past. This may reduce investors confidence in the sector.

2. The lack of the certainty in deciding the infrastructure service pricing, especially for those that related to public good infrastructure.

There are some good trend related to the infrastructure financing

However there are some points that show good trend related to the infrastructure financing. Some companies, ie Jasa Marga, start to introduce new option for bond, which was known as *Kontrak Investasi Kolektif Efek Beragun Aset* (KIK - EBA), a type of Asset Backed Securities.

KIK-EBA or is the participating unit of the collective investment contract comprises of the financial asset or similar, in the form of receivable from such commercial papers. With this instrument, the development of infrastructure Indonesia would increase faster due to the variety of the financing source.

Conclusion

Up to the end of October 2004, the capitalization value of this sector worths IDR 125.5 tn or approximately 21% of the total market capitalization in JSX, which ranked 2nd, behind the financial sector.

Eventhough the infrastructure sector in Indonesia records a high market share, the nominal value of such capitalization is lower compared to other nations in ASEAN. Up to October 2004, the infrastructure sector capitalization worths USD13.8 tn. This amount is higher than those value in Malaysia and Philippine. In other hand, Thailand and Singapore recorded capitalization values in this sector respectively USD 35.3 bn and USD 15.7bn, higher compared to Indonesia.

Corporations in infrastructure, utility and transportation in the JSX mostly operate in telecommunication toll road and transportation. This applies to SSX as well.

In addition, to stocks issuance, in financing of infrastructure is generally dominated by the bond issuance. Other instrument as warrant and right are still scarce.

Currently some companies that operate in the infrastructure sector have explored the possibility of issuing the KIK-EBA. One of them is the PT Jasa Marga that specializes in developing the toll-road. By the evolving of the financing instruments in capital market, the Indonesia infrastructure is expected to boost.

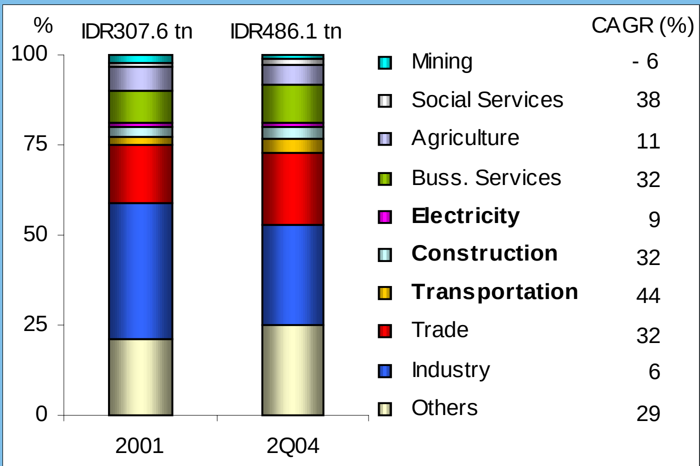
Banking Loans to Infrastructure-Related Sectors

As already explained in the previous section, infrastructure development in Indonesia is relatively slow, due to the low government budget. This part will discuss the role of banking system in infrastructure development in Indonesia.

Infrastructure related sector's share to total bank loans increased from 6.5% to 8.3%

Between 2001-mid 2004, total bank loans grew 20% annually, faster than average growth of total deposits (5% annually). Bank loans to infrastructure related sectors, such as construction and transportation sectors, grew faster than the average national credit growth. Meanwhile, electricity-gas-water, other infrastructure related sector, only grew by 9%. Nevertheless, fast growth in infrastructures-related sectors was rather trivial, since they grew from the very low level. Infrastructure-related sectors' share to total banking system's credit increased from 6.5% in 2001 to 8.3% in 2004, while its outstanding credit rose from IDR 20.3 tn to IDR 40.3 tn.

Graph 5. Loans Share and Growth by Economic Sector, 2001 - 2Q04



Source: Bank Indonesia, Bank Mandiri's Calculation

Among the three sectors, loans to transportation, warehousing & telecommunication sector enjoyed the highest growth rate of 44% with total outstanding of IDR 18.5 tn. Loans growth in construction sector reached 30.7% annually, while outstanding credit to electricity-gas-water only grew by 9% p.a.

Loans to transportation, warehousing & telecommunication experienced the highest growth rate, ...

Furthermore, sub sector analysis shows that fast loans growth is experienced by sectors with high commercial certainty. Telecommunication sub sector, for instance, currently has very high annual growth (69%). It is also important to note that despite of its fast growth, telecommunication sector has the highest outstanding compared to other sub sectors.

... due to high commercial certainty

Beside telecommunication, transportation sub sector also grew fast with high outstanding. Credit growth and vast market in those two sub sectors underline the importance of commercial certainty for banking loan extension. Without commercial certainty, it will be difficult for banks to extend their loans.

Table 4. Loan Outstanding to Infrastructure Related Sectors

Economic Sector & Sub Sector	Outstanding (IDR bn)				CAGR (%)
	2001	2002	2003	2Q04	2001-1Q04
Electricity, gas, and water					
a Electricity	4,179	3,937	3,811	5,161	8.8
b Gas	362	340	579	473	11.4
c Water	84	75	85	97	6.2
Construction					
a Housing	294	427	382	956	60.3
b Land for Transmigration	3	3	3	2	-21.1
c Roads and Bridges	905	1,217	1,337	1,669	27.7
d Electricity	79	562	1,602	807	153.6
e Project finance by foreign loan	289	89	228	231	-8.5
f Others	6,663	7,074	8,990	12,401	28.2
Transportation, Warehousing & Telecom.					
a Transportation	4,267	6,280	8,436	8,788	33.5
b Warehousing	687	722	722	482	-13.2
c Telecommunication	2,471	5,356	6,911	9,186	69.1

Source: Bank Indonesia, Calculated

Other important thing to note is the fact that those two sub sectors have been deregulated. Deregulation grants greater flexibility for price determination hence improve infrastructure-related sectors commercialization.

Loan to electricity sub sector will likely to increase further

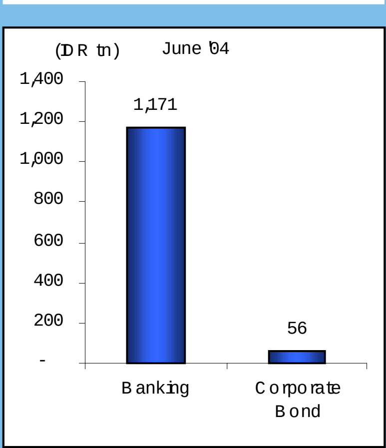
Within the electricity-gas-water sector, most credit was extended to the electricity sub sector. This sub sector grew by 8.8%, from IDR 4.62 tn in 2001, to IDR 5.16 tn in 2Q04. Since there are still many households in Indonesia which have no access to electricity, credit to electricity sub sector will likely to increase in the future. Furthermore, electricity needs for industrial purposes also tend to increase. In 1998, electricity consumption in Indonesia was at 65.3 Mwh, while it became 93.3 Mwh in 2002. Indonesian government plans to build a 21,900 Mw new power plant during 2005 - 2010 to anticipate the increasing demand for electricity.

Role of Banking in Financing Infrastructure Development

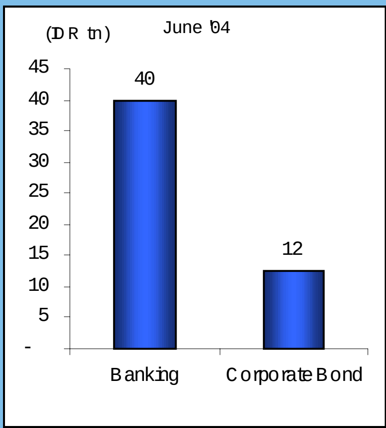
Compared to other financing sources, banking sector remains the most important source, including in financing infrastructures development. As of June 2004, total assets of banking as one of financing sources was IDR 1,171 tn, while total capitalization of corporate bonds reached IDR 56 tn.

Banking remains the most importance financing source ...

Graph 6. Total Assets and Capitalization



Graph 7. Total Assets & Capitalization of Infrastructure Financing



Source: Bank Indonesia & Other Resources

Further, total bank loans for financing infrastructure was IDR 40 tn, while total bonds for infrastructure-related sectors only reached IDR 12.4 tn. This indicates that banking sector is still very important in promoting infrastructure development. Therefore, the government should issue policies that create incentives for banking sector to extend their loans to infrastructure sectors. Nonetheless, these policies should be implemented prudently to avoid moral hazard.

... and still very important in promoting infrastructure development

Relatively High NPL

Despite its improvement, performance of loans in infrastructure - related sector was far from optimal. In 2Q04, transportation, warehousing, & telecommunication, which had the greatest outstanding loan, also had the highest NPL ratio (7.8%). Telecommunication sub sector had both the highest outstanding loan and NPL ratio (8.6%), while transportation sub sector's NPL ratio was 6.2%.

Several sub sectors related to infrastructure had relatively high NPL

Among construction sub sector, land for transmigration has the highest NPL ratio

NPL ratio on construction sector was considerably low (4.9%). The same case also occurs in other constructions sub sector, which has the highest outstanding but with only 4.4% NPL ratio. Roads and bridges sub sector had high NPL ratio of 11.3%. Land for Transmigration sub sector had the highest NPL, but its outstanding loans was very small. The rest sub sectors had relatively lower NPL ratios.

Table 5. NPL's of Infrastructure Sector, 2001 - 2Q04

Economic Sector & Sub Sector Related to Infrastructure	NPL (%)			
	2001	2002	2003	2Q04
Electricity, gas, and water	2.5	18.5	7.3	6.8
a Electricity	2.4	17.0	8.5	6.1
b Gas	4.2	38.1	0.7	15.5
c Water	0.4	7.9	0.5	1.8
Construction	14.7	9.5	6.0	4.9
a Housing	56.4	3.3	7.8	5.9
b Land for Transmigration	18.5	14.1	14.5	25.0
c Roads and Bridges	28.4	9.5	5.4	11.3
d Electricity	14.1	1.6	0.3	0.3
e Project finance by foreign loan	44.2	14.9	1.3	0.4
f Others	9.8	10.4	7.2	4.4
Transportation, Warehousing & Telecomm.	13.9	2.2	7.1	7.8
a Transportation	9.3	3.2	6.1	6.2
b Warehousing	4.7	2.8	15.9	26.2
c Telecommunication	25.4	1.1	7.5	8.6

Source: Bank Indonesia

Several sub sector has low NPL, which were supported by high credit growth rate

Some of economic sub sectors did have low NPL ratios, e.g. water (1.8% in 2Q04), electricity construction (0.3% in 2Q04), and project financed by foreign loans (0.4%). NPL decline on those sub sector were supported by high credit growth rate, as already mentioned earlier.

NPL ratio of electricity-gas-water sector also improved from 18.5% in 2002 to 6.8% in 2Q04. Furthermore, NPL ratio of electricity sub sector declined to 6.1% in 2Q04, supported by loans expansion from IDR 3.81 to IDR 5.16 in 2Q04. Meanwhile NPL ratio of gas sub sector fluctuated. After declining to 0.7% in 2003, it rose again to 15.5% in 2Q04 due to significant increase on loans categorized as sub standard. Nonetheless, credit to gas sub sector was considerably low.

Conclusion

There was a slight improvement in banking loans extension to infrastructure-related sectors, despite its low quantity. Banking loans to these sectors (i.e. transportation, warehousing, & telecommunication sector, construction sector, and electricity, gas, & water sector) only reached 8.3% of total outstanding banking loans. Nonetheless, the share had risen from 6.5% in 2001. Meanwhile, loans to top three sectors (i.e. manufacturing, trade, and others) decreased from 75% to 73%.

As infrastructures development is needed to support Indonesian economic growth, commercial banks can exploit this opportunity by extending loans to infrastructure-related sectors. High economic growth rate will be difficult to achieve without sufficient infrastructures for investment.

Banking sector still plays important role to promote infrastructure development as reflected by total banking loans to infrastructure-related sectors, which in 2Q04 reached IDR 40 tn. As comparison, total bonds issued for these sectors were only at IDR 12.4 tn. The government needs to create more incentives to boost banking credit expansion to infrastructure sectors. However, these incentives should be granted carefully to prevent moral hazard.

Nonetheless, NPL ratios for some infrastructure-related sub sectors were still high. Commercial banks should extend their loans to those sub sectors prudently.

Slow Infrastructure Growth

The development of infrastructure in Indonesia is still slow ...

Infrastructure is critical sector to support economic growth for a country. In the short term, infrastructure development will cause multiplier effect for other economic sectors, and create jobs. Meanwhile, in the long term it will decrease "cost of doing business" and prevent bottlenecks in various economic activities.

Although infrastructure sector is often said as an economic engine, in fact the development of infrastructure in Indonesia is still slow. This part will explain infrastructure development especially that is related to road and electricity.

... and lags that in other Asian countries

Infrastructure for land transportation facility, in Indonesia lags that in the other Asian countries. Toll road for example, in the last 26 years is only available for 453 km, or shorter than in Malaysia (1,127 km) and in China (4,375 km). Meanwhile from 5,042 km of railroad facility in Indonesia, there is only 211 km in addition since 1980.

Some existing infrastructures are in bad conditions ...

Minimum maintenance worsen the land transportation, many existing infrastructures are in bad conditions. As an illustration, nowadays around 11.7% of national roads or 26,866 km in length is in bad conditions. Moreover almost a half of regency road or 240,946 km in length is in bad conditions.

Table 6. Road Condition in Indonesia, 2Q03

Road Category	Length (Km)	Condition (%)			
		Good	Medium	Poor	Bad
National Road	26,866	64.3	24.0	6.9	4.8
Provincial Road	37,164	34.1	32.1	16.9	16.9
Regency Road	240,946	19.0	34.0	28.5	18.5
Town Road	25,518	9.0	87.0	4.0	-

Source: Miscellaneous

Government restarted the development of infrastructure, ...

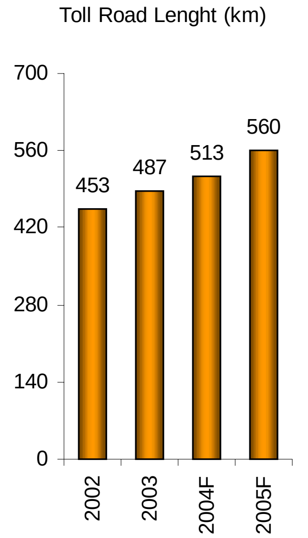
Along with improvement in Indonesia's economic condition, some of infrastructure development projects are restarted, such as development of toll - road, restructuring of 26 private electric power stations (Independent Power Producers/IPP), also flood prevention projects in Jakarta and its environments.

Toll Road Project

Development of toll road facility in the year 2003-2004 is targeted to total 59.8 km in addition, include Jakarta Outer Ring Road (JORR), Cipularang toll road, and toll road in East Java area, as shown in table 2.

... including toll road in Java ...

Graph 8. Toll Road



Graph 9. Toll Road Project

Year		Project	Lenght (km)
2003	JORR	Pondok Pinang - Veteran	2.7
		Taman Mini-Ceger	0.7
		Ceger-Hankam	3.3
		Veteran-Ulujami	1.3
	Cipularang	Cikampek-Sadang-Purwakarta	13.5
		Padalarang By Pass	6.0
	Others	Pondok Aren - Ulujami	7.0
			34.5
2004	JORR	Hankam Raya - Jatiasih	4.0
		Jatiasih - Cikunir	4.0
	East Java	Waru-Krian	17.3
			25.3
2005	JORR	Ulujami-Kebon Jeruk	7.0
		Kebon Jeruk-Penjaringan	9.7
		Cakung-Cilincing-Tanjung Priok	10.0
	East Java	Krian-Mojokerto	20.0
			46.7
	TOTAL		**106.5**

Source: Ministry of Housing and Infrastructure

In 2005, the government planned to build Jakarta Outer Ring Road (JORR) for 26.7 km and Krian-Mojokerto (in East Java) toll road for 20 km. Thus the total of toll road length in 2004 will be 513 km.

At this moment, government offered toll road projects to investor for a total of 808 km or with the value of IDR 76 trillion, divided to 320 km in Java, 305 km in Sumatera, 11 km in Sulawesi, and 172 km in Kalimantan.

Canal Development

... canal development in Jakarta, ...

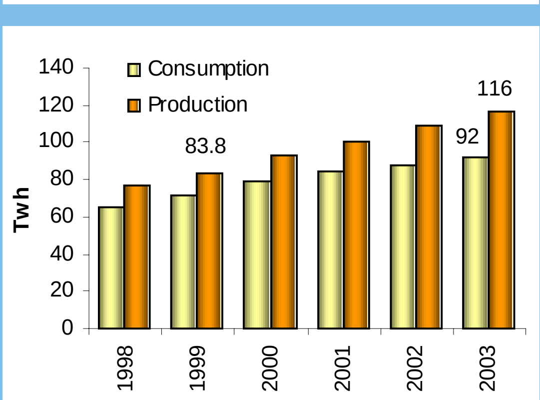
To prevent flood in Jakarta, government is planning to build Banjir Kanal Timur (BKT) for 23.5 km in length. BKT will cross over six river, those are Cipinang, Sunter, Buaran, Jati Kramat, Cakung, and Blencong and then is directed to the sea. The development of the canal is planned for 7 years and estimated will cost IDR 4.12 trillion. In 2003, government had budgeted IDR 98 billion for canal development from the sea (Marunda area) for 2.4 km in length.

Electric Generator Development

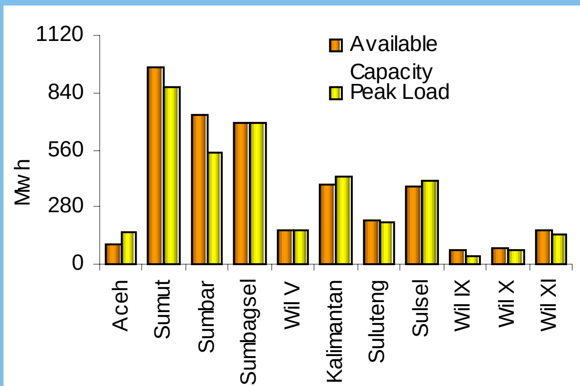
... and electricity in some areas

Electric generator capacity until 2003 is 116 Twh, or increased by 6.4% YoY. This amount is greater than the electricity demand 91.8 Twh. Nevertheless, unequal distribution of electricity supply is cause electricity crisis in some areas. According to Ministry of Energy and Mineral Resources, there are 3 areas that suffer electricity crisis since 2001, namely Aceh, South Sumatera, Central and South Kalimantan, and South Sulawesi. That means there will be periodical blackout on peak load time.

Graph 10. Electricity Supply & Demand



Graph 11. Distribution of Electricity Supply



Source: Department of Energy & Mineral Resources

If there is no additional capacity, Java - Bali areas, West Sumatera, and Riau will have electricity crisis in 2008.

Electricity consumption in 2008 will be increased to 126 Twh, or by 6.6% p.a. approximately. Meanwhile generator capacity is targeted to 133 Twh.

Constraints

Private investors participation is needed ...

In a study supported by ADB, National Development Planning Agency (BAPPENAS) has stated that to grow by 6% p.a., Indonesia needs approximately USD 72 billion or IDR 613 trillion for developing infrastructure for next 5 years or USD 150 billion for next 10 years or closely IDR 130 trillion p.a. In the mean time in 2004 State Budget (APBN), there is only IDR 18 trillion allocated for infrastructure development, include those financed by project loans. The government needs participation private investors to develop infrastructure.

... but the government faced some constraints to attract

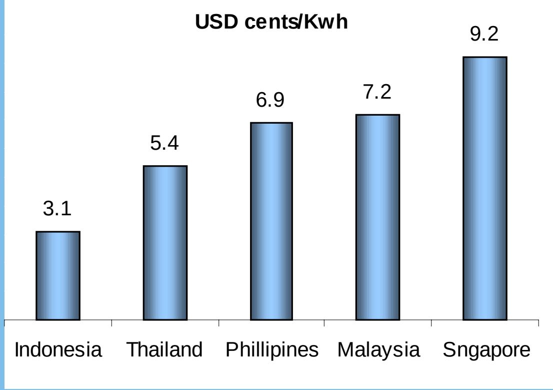
However, the government faced some constraints to attract private sector participation like:

1. A lack of interest from investor in infrastructure development in Indonesia. This thing is influenced by these factors:

    a. In sufficient law certainty. Case of PLTP (Pembangkit Listrik Tenaga Panas Bumi) Karaha Bodas, for instance, which is brought to trial by International Arbitration Court. This case aroused by Indonesia government's decision to stop Karaha Bodas project unilaterally, due to economic crisis. Other than inconsistencies in government decision, local autonomy also creates a lack of legal guarantee in Indonesia.

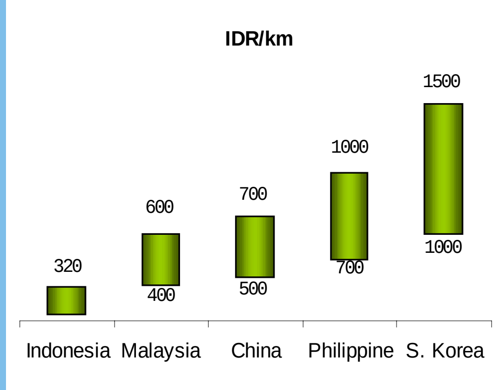
    b. Low sales price of service provided. Currently, base electricity and toll road fares in Indonesia are much lower than those in regional base.

Graph 12. Electricity Tarrif



Source: Department of Energy & Mineral Resources

Graph 13. Toll Road Tarrif



Source: Kompas

c. Despite the low price realization, cost of capital for the industry remains high. It's estimated that it raises up to 17%. Interviews with transportation operators indicated that to be sustainable, they can only pay up to 14% in debt.

2. Technical factors like area releasing for toll road development.

Infrastructure is a vital means to support a country economic development, because it can create multiplier effect in increasing of productivity and efficiency to the other economic sectors.

Limited government budget for infrastructure development needs to be handled to create a favorable climate for investment. Therefore, it will motivate private sector to invest in infrastructure sector so will reduce government burden in supplying those facilities.

BANK MANDIRI

ECONOMIC & FINANCIAL RESEARCH

December 2004

INDONESIA MACRO ECONOMIC PROFILE

						2003			2004									
Indicator	Unit	2000	2001	2002	2003	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Output																		
GDP (current price)	IDR tn	1,389.8	1,684.3	1,897.8	2,086.8			524.2			553.2			568.1				
GDP (at 2000 price)	IDR tn	1,389.8	1,442.9	1,504.4	1,572.2			390.2			409.1			409.6				
Real GDP Growth (YoY)	%	5.2	3.8	4.3	4.5			4.1			5.0			4.3				
Prices																		
- CPI (1996 = 100)	Index	221.37	249.15	274.13	287.99	282.48	285.34	278.99										
- CPI (2002 = 100)	Index				109.83			109.83	110.45	110.43	110.83	111.91	112.9	113.44	113.88	113.98	114.00	114.64
- Inflation Rate (MoM)	%					0.55	1.01	0.94	0.57	-0.02	0.36	0.97	0.88	0.48	0.39	0.09	0.02	0.56
- Inflation Rate (YoY)	%	9.35	12.55	10.03	5.06	6.22	5.33	5.06	4.82	4.60	5.11	5.92	6.47	6.83	7.20	6.67	6.27	6.22
- Inflation Rate (YtD)	%	9.35	12.55	10.03	5.06	3.05	4.08	5.06	0.60	0.55	0.91	1.89	2.80	3.29	3.69	3.78	3.80	4.38
- WPI (1993 = 100)	Index	376	408	424	427	422	423	427	432	434	440	445	460	464	461	469		
Exchange Rate																		
Average	IDR/USD	8,534	10,266	9,261	8,577	8,441	8,496	8,488	8,386	8,425	8,569	8,608	8,965	9,382	9,037	9,235	9,183	9,096
End of Period	IDR/USD	9,595	10,400	8,940	8,465	8,495	8,537	8,465	8,441	8,447	8,587	8,661	9,210	9,415	9,168	9,328	9,170	9,090
External Sectors																		
Exports	**USD m**	**61,688**	**56,321**	**57,006**	**61,023**	**4,992**	**4,933**	**5,226**	**5,035**	**4,901**	**5,070**	**5,205**	**5,497**	**5,683**	**5,676**	**6,311**	**7,152**	
- Oil/gas	USD m	14,012	12,636	12,110	13,643	1,026	1,059	1,168	1,197	1,138	1,198	1,182	1,345	1,353	1,230	1,314	1,467	
- Non-oil/gas	USD m	47,676	43,685	44,897	47,380	3,966	3,874	4,058	3,837	3,763	3,871	4,024	4,152	4,331	4,445	4,997	5,685	
Import	**USD m**	**32,921**	**30,962**	**31,304**	**32,390**	**2,750**	**2,699**	**2,824**	**2,746**	**2,893**	**3,132**	**3,458**	**3,222**	**3,545**	**4,114**	**4,025**	**4,231**	
- Oil/gas	USD m	5,863	5,472	6,521	7,532	616	635	572	697	776	949	864	800	824	1,011	1,039	1,140	
- Non-oil/gas	USD m	27,060	25,490	24,783	24,858	2,134	2,065	2,252	2,049	2,117	2,183	2,594	2,422	2,721	3,103	2,986	3,091	
Balance of Trade	**USD m**	**28,767**	**25,359**	**25,702**	**28,633**	**2,242**	**2,234**	**2,402**	**2,289**	**2,008**	**1,937**	**1,748**	**2,275**	**2,139**	**1,562**	**2,286**	**2,922**	
Current Account	**USD m**	**7,992**	**6,901**	**7,822**	**7,251**			**1,624**			**-658**			**843**				
CA/GDP	**%**	**4.9**	**4.8**	**4.5**	**3.0**			**2.6**			**-1.0**			**1.4**				
Net International Reserves	USD m	17,792	18,305	17,043	19,955	19,783	19,815	19,955	20,022	20,042	20,991	20,893	19,521	17,680	18,305	18,002	18,037	18,397
Monetary																		
M0	IDR tn	125.6	127.8	138.3	166.5	140.1	175.5	166.5	146.6	142.5	142.7	146.3	147.5	156.5	174.5	172.7	175.4	185.1
M2	IDR tn	747.0	844.0	883.9	955.7	926.3	944.6	955.7	947.3	935.7	935.2	930.8	953.0	975.2	975.1	980.2		
Outstanding Credit	IDR tn	269.0	307.6	365.4	437.9	421.3	432.2	437.9	432.7	437.0	446.6	454.9	471.1	486.1	488.4	505.2		
Outstanding Deposit	IDR tn	720.4	809.1	845.0	902.3	881.7	877.8	902.3	889.1	881.1	881.6	875.3	897.8	915.0	911.3	921.4		
Lending Rate (working capital)	%	18.43	19.19	18.25	15.07	15.77	15.45	15.07	14.99	14.79	14.61	14.48	14.27	14.10	13.99	13.84		
1-month Interest Rate (SBI)	%	14.53	17.62	12.93	8.31	8.48	8.49	8.31	7.86	7.70	7.42	7.33	7.32	7.34	7.36	7.37	7.39	7.41
1-month Deposit Rate	%	11.16	14.54	12.81	6.62	7.47	6.98	6.62	6.27	5.99	5.86	5.86	6.16	6.23	6.26	6.28		
Overnight Interest Rate	%	12.04	16.01	12.34	8.25	8.34	8.42	8.25	8.07	7.61	7.33	7.17	7.08	7.03	6.58	6.66	6.42	8.30

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