

**COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
OF THE REPUBLIC OF INDONESIA**

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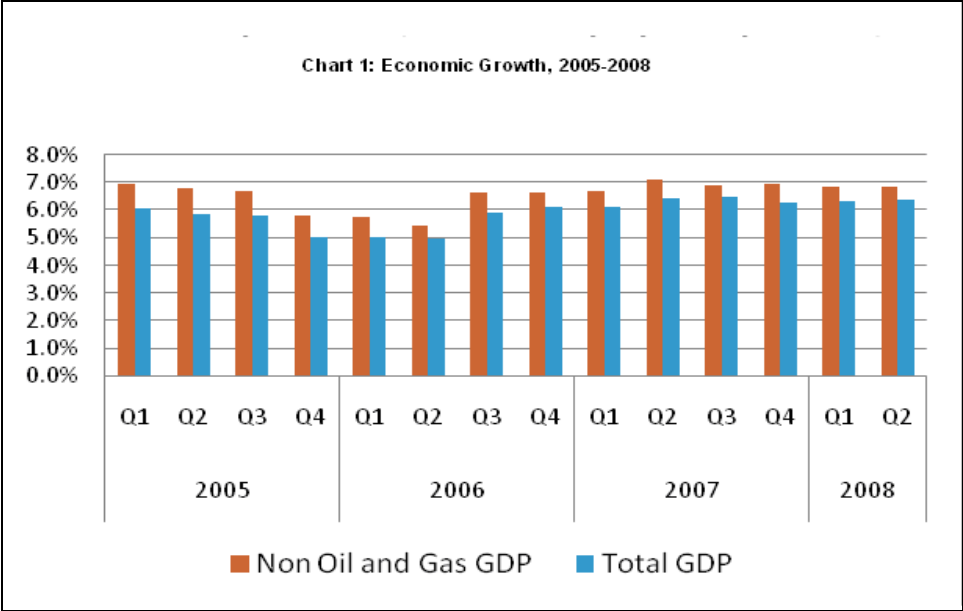
PRESS RELEASE

**COORDINATING MINISTER FOR ECONOMIC AFFAIRS OPTIMISTIC OF HIGH GROWTH
SUSTAINED TO END OF 2008**

Jakarta, 14 August 2008 - Coordinating Minister for Economic Affairs Sri Mulyani Indrawati has expressed optimism for high economic growth to be sustained throughout 2008. This statement came in response to the Central Statistics Agency (BPS) announcement today on Indonesia's economic growth in Q2/2008. According to BPS, the gross domestic product (GDP) charted 6.4% growth (yoy) in comparison to the same quarter in 2007. Measured cumulatively, this brings economic growth for the first half of 2008 to 6.4%, similar to the first half of 2007.

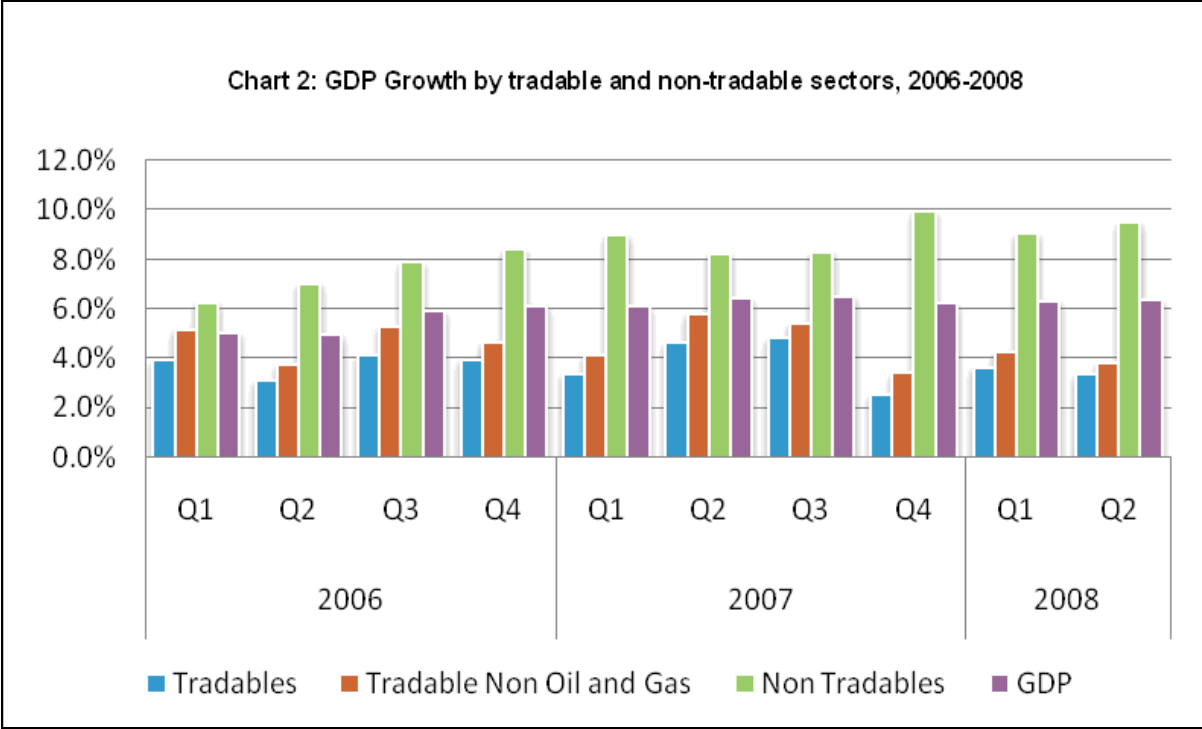
Q2/2008 economic growth surpassed many forecasts

Coordinating Minister Sri Mulyani explained that even in spite of the current slowdown and uncertainties in the global economy, the Indonesian economy is growing at an impressive rate. The growth rate in Q2/2008 means that the Indonesian economy has charted growth at over 6 percent for a straight 8 quarters in a row. The non-oil and gas sector, on which most Indonesians depend for their livelihood, has maintained about 7% growth since Q2/2006. In Q2/2008, non-oil and gas GDP mounted by 6.9%, slightly ahead of the 6.8% recorded in Q1/2008.



A Reuters survey conducted a few days ago found that analysts and economists from 13 banks and securities houses estimated Q2/2008 and first half 2008 economic growth at 6.1% and 6.0% respectively.

BPS explained that with the exception of the transportation and communications sector, Q2/2008 growth was dominated by non-tradable sectors (construction, utilities and trade), the traditional sources of growth over the last ten years. Coordinating Minister Sri Mulyani welcomed the heartening 5.3% growth in the agriculture, livestock farming and fisheries sector during the first half of 2008, citing this achievement as reason for pride. Some goods producing sectors, such as the foodstuffs, estates, electronic goods and the two-wheeled and four-wheeled automotive industry subsectors, also underwent expansion in the first half of 2008.



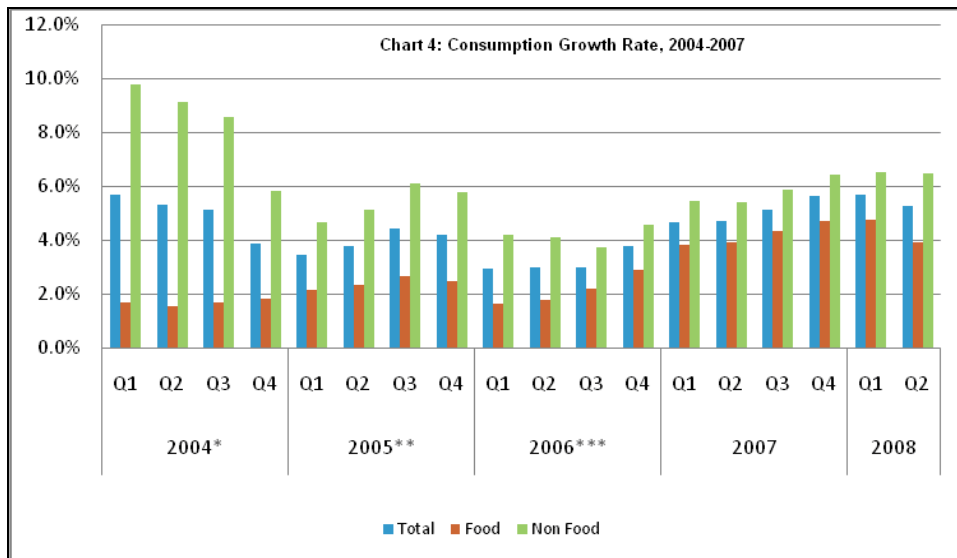
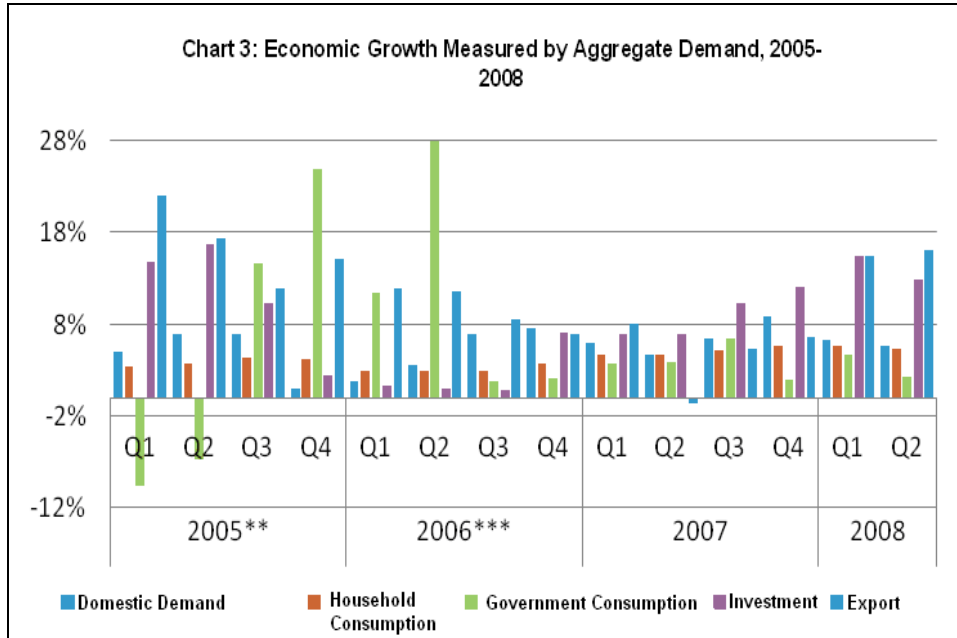
Looking ahead, tradable sectors are also expected to become engines of growth, given that in past experience, these sectors played a leading role in job creation and poverty reduction. A wide range of policies have been launched in recent years, including the fiscal incentives for investment (Government Regulation No. 1/2007), the designation of Batam, Bintan and Karimun islands as special economic zones with the possibility of expanding to other regions and the overall improvement in the investment climate.

Greater equilibrium in sources of growth

As expected, domestic demand eased in comparison to Q1/2008. This change was particularly noticeable in private consumption, with growth slipping 5.7 percent (Q1/2008) to 5.3% (Q2/2008). The less vigorous consumption comes in response to increased food prices - with food inflation running at more than 15% in Q2/2008 in part due to the effects of the fuel price hike.

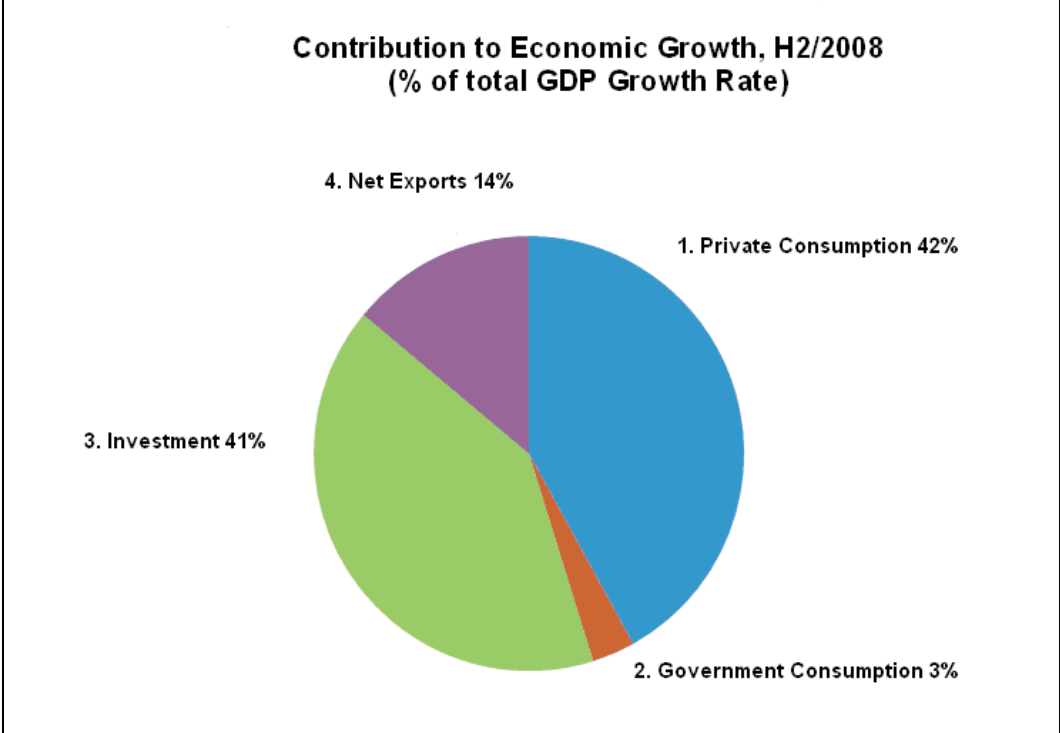
During this period, non-food consumption was unexpectedly strong. It is thought that escalating commodity prices have bolstered the purchasing power of some economic actors – producers or traders – which in turn has brought on expanding demand for non-food items. The expansion also reflects and is consistent with the structural transformation that accompanies rising per capita incomes and reduction in poverty levels. Improved per capita income will lead to more rapid growth in non-food consumption vis-à-vis consumption of foods. This is also

consistent with the available micro data, such as the upward trend in sales of motorcycles and electronics goods and mounting household electricity consumption.

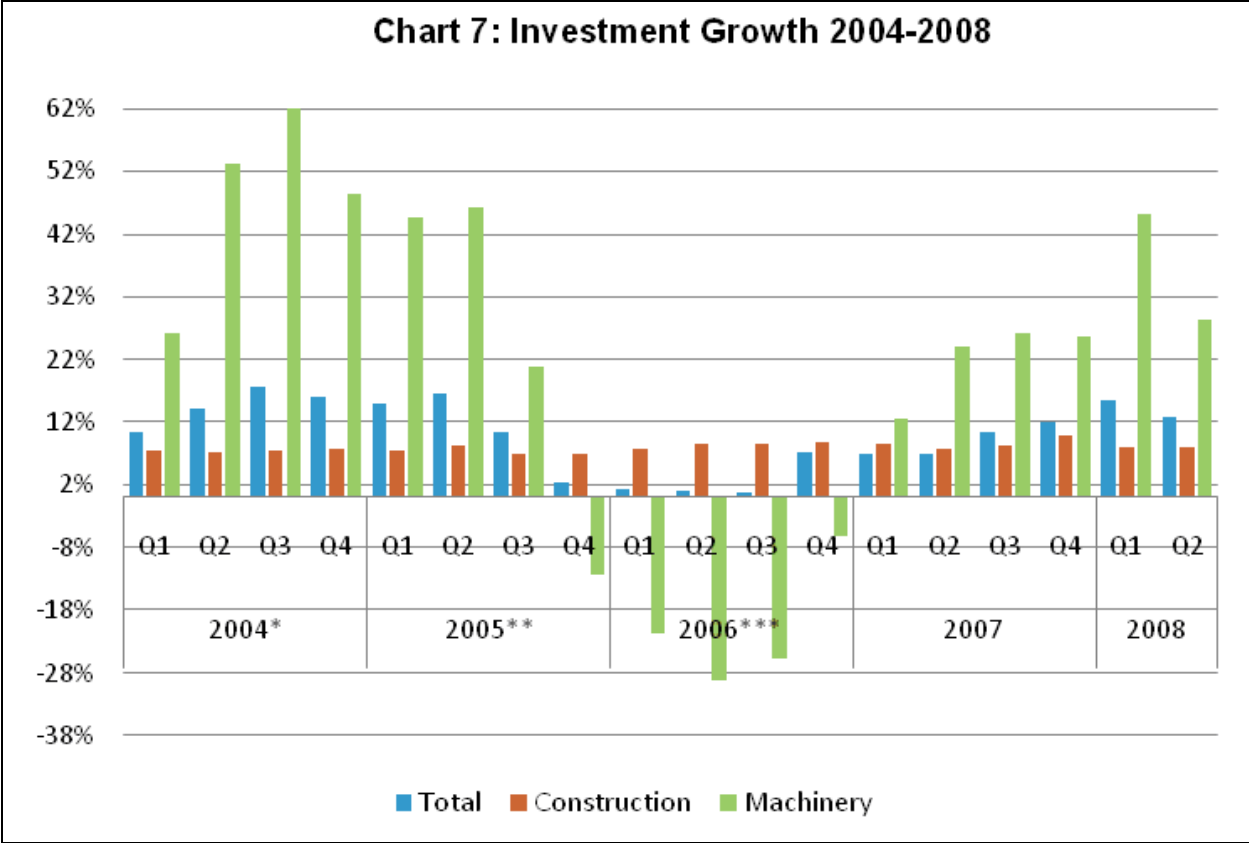


Investment alongside net exports and consumption has reached a level of greater equilibrium in contribution to growth compared to a few years ago when growth relied more heavily on expansion in consumption and exports. During the first half of 2008, the contribution of

investments and net exports (exports minus imports) to GDP growth rose to 41 percent and 14 percent from the earlier levels of 35 percent and 8 percent in 2007. Conversely, the proportion of private consumption to growth in the first half of 2008 fell to 42 percent from 52 percent recorded previously (2007).



Investment growth in Q1 and Q2/2008 reached 15.4% and 12.8% with the result that the investment to GDP ratio for the first half of 2008 strengthened to 23.3%.



Encouragingly, investment growth has been recorded for each component, led by investment in machinery. The rising investment in machinery is strongly correlated with future improvement in the GDP and export expansion. The upturn in investment is closely linked to improvements in the investment climate implemented as part of the economic reforms envisaged in Presidential Instructions (Inpres) Nos. 6/2007 and 5/2008. For example, the Government has streamlined procedures for establishment of companies, with the expected processing time slashed from 104 days (IFC survey 2007) to about 20 days. In the field, the implementation of these changes has already brought encouraging results. One example is the steady reduction in total days required for establishment of a PT (limited liability) company. In the past, it would have taken one month to obtain legal validation from the Ministry of Law and Human Rights. However, according to monitoring by the Office of the Coordinating Minister for Economic Affairs in June 2008, out of thousands of incoming applications, 95% were completed in 7 days or less. Further improvement is expected to be implemented through the formation of the Integrated Single Window Service at the provincial and regency levels.

More vigorous export growth despite slowing global demand

The improved economic growth in the first half is closely linked to the investment growth that embarked on recovery in Q4/2006. Micro data points to an improvement of exports not only of

primary and energy commodities, but also in manufactured products. The escalating export growth in during Q2/2008 indicates an ongoing diversification in the nature of these exports and also their destinations. As a result, while economic growth in the OECD countries is in decline, Indonesia's exports continue to forge ahead.

This phenomenon indicates that Indonesia faces constraints on the supply side, and especially in construction of infrastructure. The Government is engaged in a multifaceted drive to expand infrastructure capacity. First, it has increased budget expenditure allocations for infrastructure development by taking advantage of the fiscal space created through the fuel price hikes in 2005 and 2008. Second, the Government is also extending explicit and implicit guarantees that enable SOEs such as PLN (the state electricity concern) or private corporations (IPPs and toll road operators) to construct and operate infrastructure in risk-sharing arrangements with the Government. Third, the Government is promoting private sector participation in the construction and operation of infrastructure through the demonopolisation of SOEs. For this reason, all laws concerning infrastructure have been amended to extend opportunities to the private sector. Some of these changes have already been implemented.

Outlook and challenges

A downward trend in oil and commodity prices will ease the pressure on households and business in Indonesia. This is expected to auger a gradual recovery in household consumption. With more stable prices, the purchasing power of poor and semi-poor households will be more secure, particularly on the eve of the Ramadan fasting month and the Eid-ul-Fitr festivities. It is very likely that aggregate demand in the second half of 2008, buoyed by the religious festivities, will regain momentum with growth along the lines of the second half of 2007.

At the same time, Coordinating Minister Sri Mulyani explained that in the usual pattern, Government expenditures gather pace during the second half of each year. In view of the continued strong growth in capital goods imports and bank credit expansion, investment growth is predicted to remain high during the second half of 2008, especially given that the largest share of capital expenditures will take place at the end of the third quarter and during Q4/2008.

Despite this, net export growth is forecasted to slow down as a result of falling commodity prices. Reinforcing this trend is the absence of signs pointing to economic recovery in industrialised countries.

In view of this trend, Coordinating Minister for Economic Affairs Sri Mulyani predicts that second half growth in 2008 will be at least as high as for the first half. As a result, economic growth for 2008 overall will come within the range of 6.2-6.4 percent. (END)