



Republic of Indonesia

Press Release

Explanation of the Government's Annual Work Plan for 2008; And Economic Growth and Reduction in Unemployment in first quarter 2007 confirm increase sustained real sector growth

Wednesday, May 16, 2007 –Yesterday's plenary session of the Unified Indonesian Cabinet, led by President Susilo Bambang Yudhoyono, approved the Government's Annual Work Plan (RKP) for 2008. Based on the achievements in 2006, estimates for 2007 and challenges faced in 2008 the Government has determined that the key theme for 2008 is "Accelerating Economic Growth to reduce Poverty and Unemployment".

A. Development Projections and Priorities in the RKP 2008

The RKP indicates that in 2008 the Indonesian economy is projected to grow 6.8 percent and that:

- Inflation will be 6.0 percent
- Open Unemployment 8.0-9.0 percent
- Poverty 15.0-16.8 percent.

The Government Work program has three key areas of focus:

- Prioritizing the allocation of the budget resources consistent with the national priorities in the RKP;
- Prioritizing government policies to accelerate economic growth and reduce poverty and unemployment; and
- Prioritizing institutional reforms designed to support sustained economic growth.

The process of bringing the budget allocation into consistency with development priorities has going on for two years. The indicative budget ceilings in the proposed 2008 budget reflect the culmination of the Government's efforts to achieve this by working with Parliament. The process of aligning budget allocations to priorities can not be separated from broader expenditure reforms including the introduction of performance based budgeting as indicated in Law No. 17/2003. The resulting changes in budget allocations from 2005 to 2008 are found in Table 2, where the increase in support for growth is clear with support for human development and poverty reduction also strong.

Budget mainstreaming can also be seen in the choice of priorities in 2008. For example all central government poverty activities will be directed to support the implementation of the National Program for People's Empowerment [PNPM] to avoid duplication and maximize impact on poverty reduction.

Under PNPM the Central Government will increase the partnership with regional governments built up in recent years. In addition to improving bottom-up planning this partnership will allow regional governments to better align their objectives with national efforts.

Another example of budget mainstreaming and spending consistent with development priorities can be found in infrastructure. In 2008 infrastructure allocations will be directed toward activities and regions with the largest impact on growth and poverty reduction without ignoring equity. For example, development and/or the improvement of irrigation systems will go to regions with the highest yields per hectare supporting increased food production and, in turn, the development of the rural economy thus increasing employment and reducing poverty.

Development priorities can be seen in the following table:

Table One: Development Priorities RKP 2008

- I. Increase investment, exports and employment
- II. Revitalize agriculture, fishery and forestry and rural development
- III. Speed up infrastructure development and improve energy management
- IV. Increase the access to and quality of education and health
- V. Increase the effectiveness of poverty reduction
- VI. Eliminate corruption and increase the pace of bureaucratic reform
- VII. Strengthen defense and domestic security
- VIII. Improve the management and risk of natural disasters and accelerate the reduction of infectious diseases

The current budget allocation according to development priorities is indicated in Table 2:

**Table 2:
Budget Allocation by Development Category
(Ministry/Agency in Trillions of Rupiah)**

	2005	2006	2007	2008	% change 08 over 07
Basic Service, Poverty, and Equity	40.6	66.6	86.4	99.1	14.7
Support for Growth	38.4	56.1	75.1	90.4	20.4
Priority Supporting Programs	38.3	63.8	74.0	73.1	-1.2
Other	10.2	17.7	22.4	24.2	8.0
	127.5	204.2	257.9	286.8	11.2

Source: Bappenas and Ministry of Finance

Note: Basic service, poverty and Equity are priority IV and V in RKP 2008

Support for Growth is priority I, II and III in RKP 2008

Priority Supporting Programs is priority VI, VII and VIII in RKP 2008

B. Accelerating growth reduces the number of unemployed in first quarter 2007

Improving economic activity in 2007 will make achieving the Government's growth projections in 2008 easier.

Yesterday the Central Statistics Agency (BPS) (May 16, 2007) indicated that GDP growth in the first quarter of 2007 was 5.97% far higher than the same quarter in 2006 at 4.98%. This rate of growth will provide a solid foundation for accelerating growth this year and increases confidence that the target of 6.3% growth for the year as a whole will be achieved.

The increase in economic activity was driven by an improved performance in exports and investment and supported by solid private consumption growth.

**Table 3 Gross Domestic Product
Growth 2006=2007
(in percent)**

	2006					2007
	Q1	Q2	Q3	Q4	Total	Q1
GDP Total	5.0	5.0	5.9	6.1	5.5	6.0
GDP non oil & gas	5.7	5.4	6.6	6.6	6.1	6.5
GDP Non Financial	5.9	5.7	6.9	6.7	6.3	6.6
Domestic Demand	1.0	3.0	6.4	7.6	4.5	5.4
Consumption	2.9	3.0	3.0	3.8	3.2	4.5
Investment	1.1	1.1	1.3	8.2	2.9	7.5
Exports	11.6	11.3	8.2	6.1	9.2	8.9

Source: Central Statistics Agency

If we disaggregate GDP between the oil & gas sector and the non-oil & gas sector, we clearly see that non-oil and gas sector growth is accelerating. In the first quarter 2007, the non-oil gas sector was growing 5.7%, by the fourth quarter it had accelerated to 6.6% and reached almost the same level in the first quarter of 2007 at 6.5%.

Narrowing the focus further, by taking out the financial sector (banks and non-banks) as well as the oil & gas sector, we can generate an estimate of is generally regarded as the "real" sector. Table three indicates that there has been strong "real" sector growth for a number of quarters.

Economic Performance

There are a number of indicators of improved investment and economic performance overall. For example, data from the Investment Board [BKPM] indicates that domestic investment realizations in Quarter I grew by 60.56% over the same quarter a year ago. Over the same period Foreign Investment Approvals grew by 15.4%. These growth rates are a reflection of the improving confidence of domestic and foreign investors.

To maintain this positive momentum and support sustainable growth the Government will again issue an integrated policy reform package including the (i) improving the investment climate, (ii) renewing the financial sector, and (iii) accelerating infrastructure phase II (extending the current reform agenda). In addition the Government will issue (vi) a set of policies to support the development of Micro, Small and Medium Establishments (SME).

The focus of the proposed SME reforms is to accelerate economic activity as these SMEs play a multi-dimensional role including incubating the entrepreneurs that are the source of future growth and employment.

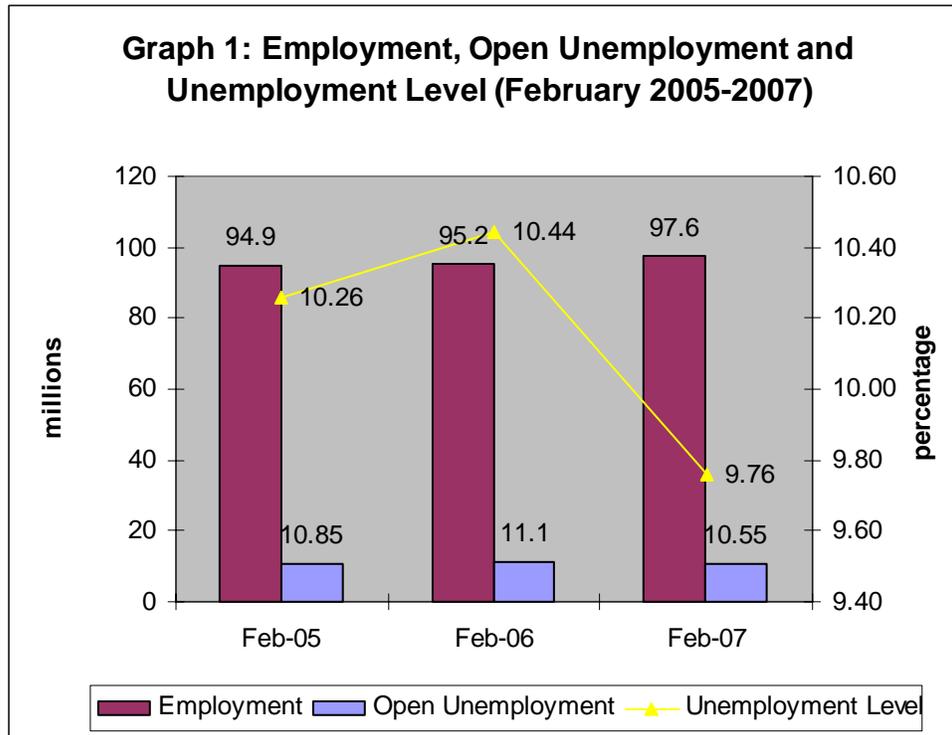
Growth in Employment and Reduction in Unemployment

Accelerating real sector growth, as indicated by the growth in Quarter I 2007 is already increasing the economy's labor absorptive capacity.

If we see from Graph 1, between February 2005 and February 2007, there has been a reduction in open unemployment of 300 thousand people. This reduction in unemployment would have been even larger if compared to last year's peak in unemployment (February 2006 at 11.1 million), from which unemployment has now fallen by 550 thousand people.

With the addition of the new entrants in the last 2 years (February 2007 – February 2005) total employment has grown by 2.7 million people. And in the last year employment has grown by 2.4 million workers.

Graph 1:
Employment, Open Unemployment and
the Unemployment Rate (February 2005-2007)



Poverty Reduction

Accelerating poverty reduction in 2008 will be based on a program that directs economic activities toward those living in poverty; widens Community Driven Development programs; increases the access of the poor to basic services especially in disadvantaged and isolated regions; safeguards the stability of basic commodities; and builds a social protection system for the poor. To execute these programs in 2008 the government proposes to allocate a budget of Rp. 57.9 trillion an increase of 13.1% over this years Rp. 51.2 trillion. The implementation of this program is expected to reduce the percent of those living in poverty from 17.75% in 2006 to 15-16.8% in 2008.

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