

corporate sector, you cannot expect high economic growth. As an alternative, there is also a debt market in bonds, so companies with a high credit rating, like the cigarette company Sampoerna or the automotive company Astra, can go to the debt market with a relatively lower coupon rate compared to what they would get for a loan from a bank. From the bank they would be charged from 13.5% interest rate, while by going into the debt market they could get a coupon as low as 12.5% or perhaps even lower. So the bond market is a possibility for financing, though it is still very limited to certain companies. The government is issuing what they call Surat Utang Negara (or SUN) which is basically like a long term treasury note, and these have had strong sales. But the problem is that a lot of the liquidity in the bank cannot be allocated into the real economy so the funds end up going back into the central bank to buy SBI.

So, we see that the banking sector is improving, and that's good for those who work in a bank, because that means they get a better bonus. When we look at the banking sector in terms of third party funds, we see that this is increasing continuously, to 895 trillion rupiah up to the month of May. But when you look into the level of long deposit ratio, that is only 45.6%, and it should normally be about 80%. So out of the, more or less, 900 trillion rupiah liquidity we have accumulated in the banks, only about half is allocated into credit. So in Indonesia there is no problem with liquidity. The problem is how to allocate the liquidity into the productive sector. This is the hardest part. When you look at how the net interest market is affecting the profitability of the bank, it's continuously increasing.

Consumer confidence is rising, I think, due to expectations of the future. This is normal, not only because of the new government coming in, but for Indonesians it is very easy now to get credit, not only for the middle classes, but for the lower middle classes, as they can get easy credit to buy motorcycles or electronics and so forth from finance companies backed by the big banks. That is why consumer debt growing rapidly, unlike debt in the corporate sector.

Looking at the macro situation, fiscal consolidation has been very good. The Minister of Finance, Budiono is being praised for his success in making the deficit lower and lower. This year, it will probably be 1.3%, and next year probably about 0.8% of GDP, with perhaps a balanced budget by 2006. But of course the question is about growth. However, the pressure for debt service is still quite significant, with a debt ratio – total debt to GDP – of about 60%. One