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RESTRICTED

Report No. EAP-27a

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

THE INDONESIAN ECONOMY:

RECENT DEVELOPMENTS AND PROSPECTS FOR 1972/73

November 30, 1971

East Asia and Pacific Department

CURRENCY EQUIVALENTS

US$1.00	=	Rp 414
1 Rupiah	=	$0.002
1 million Rupiah	=	$2.415

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This report was prepared in co-operation with the IBRD Resident Staff in Djakarta by an Economic Mission which visited Indonesia in October and November 1971. The Mission consisted of Graeme Thompson (Mission Chief), B. K. Abadian (Chief Economist), Rogelio G. David, John Foster, Harold Pilvin (Economists) and Miss Sandra Shank (Secretary).

BASIC DATA

Area:	1,904,639 square kilometers
Land use as percentage of total area:	
1. Estate agriculture	1.1
2. Other agriculture	13.1
(a) Food crops	(9.3)
(b) Cash crops	(3.8)
3. Forestry reserves	19.3
Population (1971):	124.2 million
Density per square kilometer	65
Estimated rate of growth (1971)	2.6 percent
Density per square kilometer in Java	592

Political Status: Unitary Republic, member of the United Nations and the Association of South-East Asia Nations (ASEAN)

Gross Domestic Product (1971): 1/	Rp. 3,525 billion
Per Capita GDP:	$70-90

Foreign Exchange Reserves:	Dec.1969	Sept.1970	Sept.1971
		($ million)	
Gross	119	157	181
Net	-86	-51	-72

	Sept.1970	Sept.1971	% Change
		(Rp. billion)	
Total Money Supply	226.9	292.0	28.7
Time Deposits (State Banks)	40.6	90.4	122.7
Credit to Enterprise Sector 2/	228.5 3/	365.0 3/	59.7
Price Index (September 1966 = 100)	600	618	3.0

Public Sector Operations (Rp. billion):	1970/71 Actual	1971/72 Rev.Est.	% Change
Government Current Receipts	344.7	423.2	22.8
Government Current Expenditure	287.7	354.3	23.2
Current Budget Surplus	57.0	68.9	20.8
Counterpart Transfers	75.4	97.2	28.9
Project Aid Disbursements	41.6	69.7	67.6
Development Expenditures	167.9	236.7	40.1

1/ Tentative estimate
2/ Includes state enterprises
3/ End of June figures

External Public Debt ($ million):

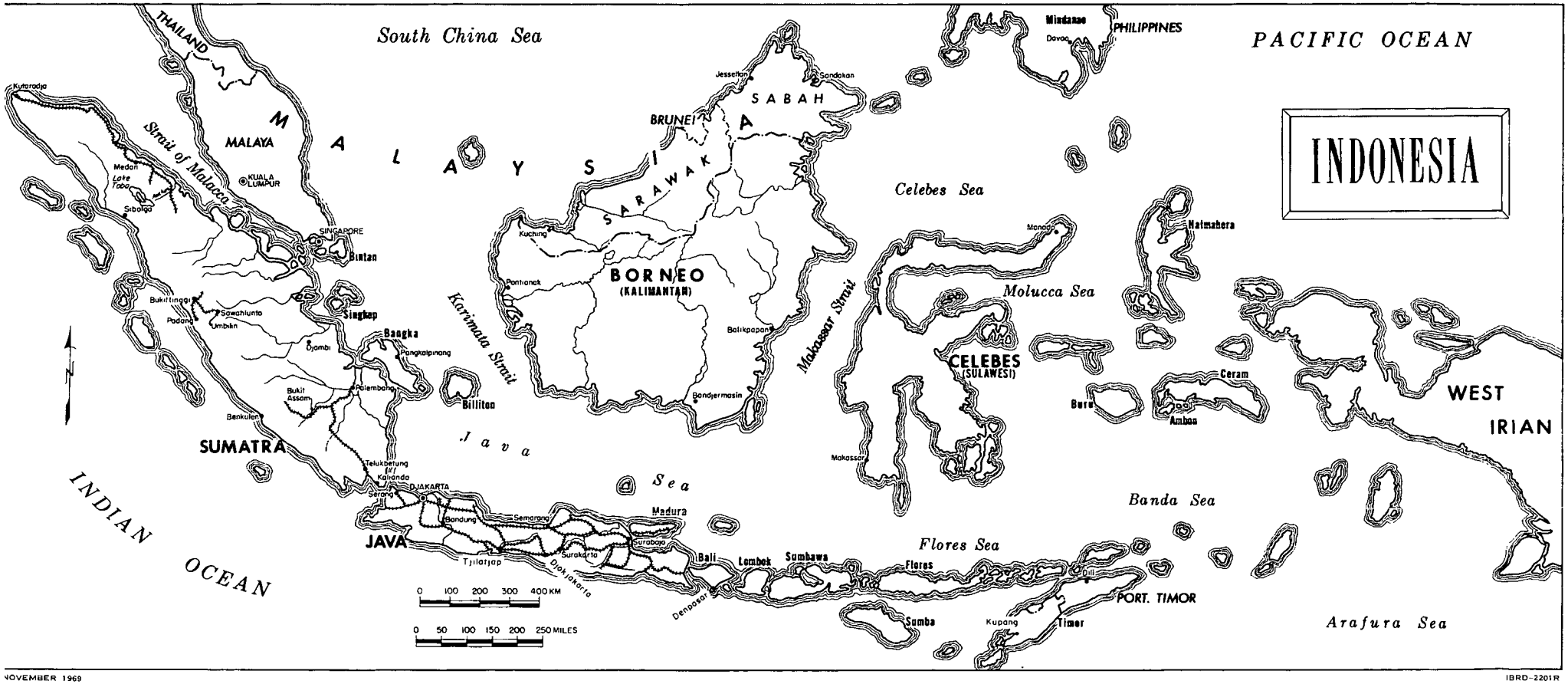
Outstanding as per December 30, 1970	3,478
Debt Service Liability in 1971/72	100
Debt Service as % of Exports	11

Balance of Payments ($ million):

	1970/71 Actual	1971/72 Rev.Est.
Exports of Goods and Services	896	982
Imports of Goods and Services	1,264	1,457
Current Account Deficit	-368	-475

Commodity Concentration of Exports (percent):

	1970/71	1971/72
Rubber	30	23
Oil (net)	15	20
Timber	15	18



NOVEMBER 1969

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SUMMARY AND CONCLUSIONS

i. The last Bank economic reports on Indonesia were those of November 1970 (EAP-19a) and March 1971 (EAP-22). This report is designed to provide, primarily for the member countries of the Inter-Governmental Group for Indonesia, a basis for assessing the request by the Government to the IGGI for project aid commitments of $350 million and program aid commitments of $320 million for the 1972/73 fiscal year. It therefore focuses on recent economic performance, particularly in 1971/72, and the prospects for 1972/73.

ii. The economy appears to be growing during 1971 at around 6-7 percent in terms of GDP and consolidating the trends towards growth in conditions of price stability established in the immediate past. The fourth successive increase in the production of rice, the basic commodity, seems to have been secured. In the industrial sector, especially in textiles, there is further substantial growth. With private foreign investment accelerating and the rehabilitation and expansion of domestic enterprises being fostered by credit expansion, including that of the medium-term credit program, the prospects of industrial development from the present small base are good.

iii. Investment levels in Indonesia are still comparatively low, 13-14 percent of GDP at most with domestic resources, including increased liquidity, financing half of the total or less. Savings propensities appear to be low, and the financing of development programs in the public and private sectors cannot now rely too much on monetary expansion. The onus of mobilizing additional development resources will rest, therefore, primarily on fiscal policy and, if private domestic investment is to be adequately funded, it seems likely that a larger proportion of public savings will have to be channelled to the enterprise sector.

iv. Internal revenues in 1971/72 are now estimated to increase by 20 percent over the previous year and a much larger increase, 36 percent, is projected for 1972/73. The largest single item in this increase, to Rp 574 billion, is in the taxes on expected higher earnings of foreign oil companies. Other revenues are nevertheless planned to increase by 18 percent. The increment of Rp 150 billion will finance increases in salaries and material expenditures in the routine budget, including some extra provision for essential maintenance expenditures, while still allowing for a doubling to Rp 136 billion in the size of the surplus available for the development budget. Together with a slightly smaller amount of counterpart funds than in 1971/72 (an estimated Rp 95 billion instead of the Rp 97 billion forecast for this year), this will provide for a rupiah development budget 40 percent larger than that for 1971/72 and represent an increase of Rp 66 billion over this year's resources.

v. Provision is made in the proposed development budget for increases in infrastructure programs - highways, power, irrigation, railways, telecommunications and ports - and the expansion of education, health and family planning programs and the kabupaten (district development) program. Substantial additional budgetary support is to be provided for the investment credit program. Additional resources may also be allocated for the rehabilitation of minor irrigation systems, for the kabupaten program and for education and health maintenance and supply programs.

vi. The balance of payments performance this year and the prospects for 1972/73 both show the impact of recent and continuing adjustments in the international monetary system. The devaluation on August 23, 1971, indicates how quickly and directly the Indonesian authorities had to respond, in the first phase of the new monetary developments, to external influences on the very open economy, following a moderate loss in the economy's already small foreign exchange reserves. This experience should not be repeated because the prospective increase in oil export earnings offers an opportunity to plan with some confidence for an increase in reserves of $90 million next year. Gross reserves amounted to $170 million at the end of September 1971 and net reserves, minus $85 million.

vii. Exports, with oil on a net basis, are expected to rise by 10 percent in 1971/72 with the prospect of a 29 percent increase in 1972/73. Most of this is acounted for by net oil exports which will increase by 40 percent in 1971/72 because of price increases during the year and over 100 percent in 1972/73 with increased production at the higher prices now established; and by timber exports, up 44 percent in 1971/72 and projected to increase by 27 percent to $220 million in 1972/73. For all other exports, the projections are for a decline in aggregate value in 1971/72 and modest recovery in the following year. Total (net) exports are estimated at $1,270 million in 1972/73.

viii. Imports of goods and services of $1,778 million are projected for 1972/73, an increase of 16 percent if estimated project aid disbursements are excluded in both years. The current account deficit of $508 million would be slightly larger than that forecast for this year. Debt payments are slightly lower, the expected increase in the private capital inflows somewhat higher and the public capital inflow, at $520 million, is higher by $75 million, because of increased project aid utilization, than that forecast for 1971/72.

ix. Of the $520 million projected for public capital inflows next year, $320 million represents program aid in the categories and amounts requested. A food aid request of $110 million, $50 million lower than last year, is possible because of further increases in rice production under official programs and the prospect of another such gain in 1972. At this early stage, however, until more is known about the new rice crop, the request must be regarded as tentative. The other $210 million includes $50 million for the raw cotton supplies the economy is expected to absorb in 1972/73. The non-food, non-cotton program aid requirement, expressed in US dollars, is significantly less that last year's equivalent amount because of recent revaluations against the dollar of the currencies of several IGGI member countries, approximately 6 percent less at currently prevailing exchange rates. Any further revaluations would enlarge the difference. Allowing also for the price increases of internationally traded goods in the past year, the volume decline in imports implied in the new aid request will be substantial. The lower program aid request is possible because of the projected increase in oil earnings next year. Given the uncertainties about other export prospects, the limitations of any projection of import demand on the basis of available data and the need for an increase in reserves, the

request can be considered minimal in relation to Indonesia's resource prospects in 1972/73.

x. The request for $350 million in commitments for project aid is supported by a list of projects with aggregate foreign exchange costs, in the A and B categories, estimated at $579 million. The combined request of $670 million, with a shift in composition towards project aid is, nominally, slightly larger than the request for 1971/72. In terms of valuations against the dollar, then and now, it is somewhat less.

I. THE ECONOMY IN 1971

1. This report is designed to provide, primarily for the member countries of the Inter-Governmental Group for Indonesia, a basis for assessing the request by the Indonesian Government to the IGGI for project and program aid commitments in the amount of $670 million equivalent for the 1972/73 fiscal year. It therefore concentrates on a discussion of recent economic performance, particularly in 1971, and the prospects for 1972/73.

2. Particularly because this report has a short-term focus and purpose, it may be well briefly to sketch the relevant longer-term context. Indonesia is nearing the end of its fifth year under a new Government -- a Government which set as one of its primary goals economic progress. The Government inherited an economy in which physical production and infrastructure facilities were deteriorating, production and distribution was disorganized, Government administration was disintegrating, both the internal and external financial situation was approaching chaos, and per capita and aggregate incomes were declining. Its first task was to restore economic order. This it did.

3. The success of its effort to halt the runaway inflation is now a familiar story. Assistance in the form of food, program and later project aid from friendly countries abroad and from international organizations played an important role in this and in the parallel effort to halt the deterioration and begin the rehabilitation of production and infrastructure facilities. Successful negotiation of a rescheduling of external debt relieved an intolerable burden on the balance of payments. Extinction of most of the elaborate and counter productive structure of Government controls over production and distrubution, and foreign trade and exchange helped to reverse the decline in production and exports. All these together along with new direction and purposeful policy in Government produced a rapid increase in Government revenues, making possible the beginnings of improvement in public services and in public investment. They also stimulated the beginnings of private savings which could be mobilized for the conduct of private production and investment operations. A beginning was made in the reorganization and revitalization of Government enterprises providing public utility services and conducting important production operations in agriculture, mining and industry. Purposeful efforts were made to stimulate domestic private investment especially in manufacturing and transport, and to supplement limited domestic investment capability with private foreign investment, especially in petroleum production, mining, forest production and manufacturing. A special effort was directed toward increasing the production of rice, the major food staple.

4. Some of the results for the economy can be identified. Rice production has increased significantly. Petroleum production and exports have increased substantially in volume and even more in value, and exploration and development activities underway, together with rising prices in export markets, promise further substantial growth. Forestry production and export is expanding rapidly. Textile production has increased and new capacity is being established. Inland and air transport facilities have been much improved. Almost imperceptibly in some sectors, including electric power, highways, manufacturing and others, expansion has begun to accompany rehabilitation.

5. Nevertheless, only the beginnings of progress have been made and the problems which remain to be tackled are enormous. Progress is being made in formulating concrete plans, programs and projects and in arranging and organizing for the execution of such plans, so that deficiencies of this type, though pronounced, are not at the moment the most pressing constraints. The more immediate constraint at this point appears to be in the limited material or financial resources available. The pressure on these resources in the current year is evidenced by the continuing high rates of interest which prevail in the economy, by the loss of foreign exchange reserves experienced, and by the necessity for a devaluation in August designed in part as a precaution in the face of international uncertainties and in part to restrain import demand. In the coming year there is prospect of a significant increment in both foreign exchange earnings and Government revenues as a result principally of sharp increases in oil production and the volume and especially the value of oil exports. The demand for resources is so great, however, that this increment will moderate but not reduce the need for aid to supplement the domestic resources available for enterprise and Government investment and the improvement of essential Government services.

6. No reliable national accounts data measuring aggregate output and income, the sources of income and the use of resources are available for Indonesia. 1/ Reasonably accurate data or indicators are available, however, on particular sectors or types of production and trade activity in 1971. These indicate that agricultural output again increased substantially. Rice production appears to have increased by some 6 percent; other food crop production appears not to have changed appreciably. Production of rubber, oil palm, copra, coffee, tea and other export crops was up somewhat in volume, but prices of most of these commodities, notably rubber, declined. Forestry production continued to increase sharply. Output of tin and nickel ores increased. Crude petroleum production increased only modestly but the sharp price rise which occurred during the year greatly increased the value of this output. Manufacturing output clearly increased, markedly in the textile industry and also in other branches producing a variety of consumer goods and intermediate products. Construction activity clearly grew substantially. Investment, both private and Government, increased. External trade expanded. If a guess were to be hazarded it might be that Gross Domestic Product had grown by not less than 6 to 7 percent, and perhaps by more. At the same time, the general price level appears to have increased comparatively little.

6a. Some of the main available economic indicators are presented in Table 1:

1/ A new program of activity by the Central Bureau of Statistics involving technical assistance from the outside is in preparation. It is expected that within a few years this will produce systematic measures of the most important aspects of economic activity in Indonesia and will permit construction of a more useful and reliable set of national accounts.

Table 1: MAIN ECONOMIC INDICATORS

	1969	1970	1971	% Change 1971
Djakarta C.O.L. Index (Sept. 1966 = 100)	575	626	621 /1	3 /2
Money Supply (Rp billion)	180	241	292 /1	28 /2
Currency	114	153	182	34.0
Demand Deposits	66	88	110	20.8
	1969/70	1970/71	1971/72 /3	
Imports of Goods and Services ($ million)	1,194	1,264	1,457	15.3
Export Receipts ($ million)				
Oil (net)	87	135	192	42.2
Other	659	761	790	3.8
Internal Revenue (Rp billion) /4	244	345	412	19.4
Budget Expenditures (Rp billion)	335	458	596	30.1
Routine	217	288	354	22.9
Development /5	93	128	155 /4	21.1

/1 September 1971.
/2 September 1971 compared with September 1970.
/3 Estimate.
/4 Excluding IPEDA.
/5 Excluding Project aid.

Prices

7. As indicated by the table the main existing measure of consumer prices indicates a high degree of stability. There is evidence that prices of types of goods and services not adequately represented in the index have increased somewhat but not appreciably more. The policy of subsidizing a number of basic commodities, including a number largely imported with program aid, e.g. raw cotton, fertilizer and wheat flour has contributed to the stability of prices of basic consumer goods, as has the policy of stabilizing, and in a sense subsidizing, the prices of petroleum products, one of the few other major commodities for which the prices are administered. Administered prices of public utility services, including electric power and railroad transport have also been kept stable, in some cases with resultant operating losses to service entities, reflected either in cash losses or in inadequate maintenance expenditure. In these instances, however, it may be argued that the consumer is merely being spared the cost of inefficiencies which are in the process of being remedied. One of the most important prices in the economy, the rate (or rates) of interest, has also been stable at a high level, and in real terms has increased.

8. The objectives of the Government's stabilization program now appear to have been achieved and, as measured by the Djakarta cost-of-living index, the rate of price increase has decreased from the already low levels (for Indonesia) of 1969 and 1970 to only 3 percent in the twelve months to September 1971. The return to a more stable price situation has been quite adequately registered by this index. Nevertheless, it does not today provide a fully satisfactory measure of the movement of consumer or other retail prices. Its base, a small sample of household expenditures of the families of industrial workers in 1957/58, does not properly reflect present consumption patterns in Djakarta or Indonesia. A new Djakarta price index has been prepared, using a more comprehensive and up-to-date family consumption expenditure survey undertaken in 1968/69 and measuring price movements in 100 instead of 62 goods and services items. 1/ Surveys of household expenditure patterns in ten other cities are being made in preparation for the introduction of a national price index.

9. The new Djakarta index is still being tested and may need further modification before it replaces the present indicator. It is likely, since economic growth and structural change imply some degree of general price increase and changes in price relationships, that a better index would behave somewhat differently from the present one and provide a firmer base for economic policy decisions. One cornerstone of present price policies is the determination to ensure stability in the prices basic commodities, on welfare grounds, but for this purpose the parallel price index of nine essential goods , and the indices of rice prices in major cities, are the more appropriate indicators.

Production

10. Trends in food and other agricultural production are still the prime determinants of growth in the economy as a whole since agricultural activities contribute about half the national product and provide the employment and income of more than 70 percent of the population. In 1971 it appears that the fourth successive large increase in the production of rice, by far the most important food crop, has been secured. In the rest of the agricultural sector, however, performance has been mixed and, in aggregate, has probably not contributed significantly to economic growth in the same period.

11. Recent trends in production of other major field crops are indicated in Table 2. There is little indication of production increase in 1970 over 1968 or over the 1965/69 average and for maize and cassava the declines are substantial. This probably reflects a shift from other food crops to rice

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1/ The proposed new index gives more weight to housing and clothing and other costs, less to expenditures on food. It distinguishes between different qualities and sources of rice, the main consumer good, and provides more adequately for service and miscellaneous expenditures than the present index.

as a result of the special price and other stimuli to rice production and also as a result of weather conditions specially conducive to the use of land for rice rather than other field crops.

Table 2: PRODUCTION OF MAJOR AGRICULTURAL COMMODITIES

(Thousand of metric tons except as noted)

Commodity	1968	1969 (Revised)	1970 (Prelim)	1971 Estimate
Food crops:				
Rice (milled)	10,166	10,641	11,994	12,716
Maize	3,165	2,293	2,425	2,655
Cassava	11,379	11,034	8,955	9,180
Sweet Potato	2,364	3,021	2,947	3,375
Soya Beans	419	389	390	405
Groundnuts	286	267	301	305
Fish:				
Marine Products	638	785	802	na.
Inland Products	480	429	447	na.
Industrial Crops:				
Rubber (Estates)	206	231	239	na.
(Smallholders)	529	558	571	na.
Sugar (Estates)	526	630	603	na.
(Smallholders)	203	220	230	na.
Palm Oil (Estates)	180	200	207	na.
Tea	41	41	41	na.
Coconut (Smallholder)	na.	1,221	1,280	na.
Livestock Products:				
Meat	na.	309	314	318
Eggs (at 17 per kg)	na.	76	77	78
Milk (millions of liters)	na.	29	29	30
Forest Products:				
All ('000 cu.m.)	5,300	6,206	10,100	na.

Source: Department of Agriculture.

12. The output of estate and smallholder export crops, particularly rubber, which accounts for over 28 percent of non-oil exports, is increasing but has met adverse price trends in external markets. As discussed in more detail in Chapter 3, export earnings other than from oil and lumber are not likely to grow in value in 1971/72 compared with the previous year.

Rice

13. Indonesia's effort to increase rice production has been remarkably successful. While production statistics are open to question, the evidence of stable rice prices and declining imports in the face of increasing demand supports the view that production gains in the last three years approximate those indicated by the production statistics. The major factors responsible appear to be increased use of fertilizer, improved seed varieties and plant protection materials plus extension of area planted and increased labor input. Contributing to these have been Government price support, combined with the fertilizer subsidy, improved distribution of the physical inputs and a large-scale production credit program. The increase in output is all the more notable when it is realized that the extensive rehabilitation of irrigation facilities now under way has not yet had significant impact on the critical matter of water supplies. The better than average weather conditions which have persisted in the past several years have undoubtedly been a critical factor offsetting the fact that there has not yet been time for the effects of irrigation rehabilitation to be widely felt.

14. Rice production is estimated to have increased by 25 percent in the three years from 1968 to 1971. Domestic procurement by BULOG, the official rice agency, increased from 530,000 tons in 1970/71 to a planned and largely achieved 570,000 tons in 1971/72. Imports of rice are likely to decline to 540,000 tons in the same period, a reduction of over 40 percent.

15. Whether this good performance will lead towards self-sufficiency in rice by 1973/74 is open to question because there is uncertainty still about the demand for as well as supply of rice. If the policy of providing rice at a retail price of Rp. 45 per kilogram is maintained and if there should be general price rises during the same period, the real price of rice would decline and, as may already have happened, demand will be increased by price as well as income elasticities and population growth. This could mean that the demand for rice will increase rather more rapidly than estimated earlier and that, even with further solid gains in production, the goal of self-sufficiency in rice may take longer to attain. It is also possible but not certain that, even if the relationship of fertilizer prices to rice prices should remain unchanged, and even if yields of rice per unit of land and labor should increase, the declining value of rice in relation to commodities purchased by farmers would attenuate producer incentives. Consequently the relationships involved merit careful observation as a basis for future policy with respect to rice prices.

16. The prospects for a further increase in rice output next year as a result of the same combination of factors as are responsible for recent increases appear to be good, subject to the weather which may or may not be as favorable as in the immediately preceding years. A production increase of 4 percent, about 500,000 tons, is considered to be a reasonable expectation. There are some factors, including restrictions on new credit to those farmers who have not made adequate progress in repayment of last season's loans and including possible shortages of fertilizer and other inputs in

some areas, which could limit production gains, but these are thought unlikely to prevent the increase sought.

17. Rice aid. On the assumption that a production increase of 4 percent will materialize in 1972, and taking into account a probable carryover of 150,000 tons of aid rice commitments into 1972/73, the prospect of a BUL stock position at the beginning of April of well over 300,000 tons, and assuming commercial imports of rice at the level (35,000 tons) of this year, the best estimate of 1972/73 rice aid requirements at this early stage is 450,000 tons. This would allow for the same quantity of import arrivals (540,000 tons) as this year and a similar carryover to the following year. This projected carryover provides some margin of safety against the contingency that actual rice production may be lower than forecast. Because lower rice production would result in lower incomes and, therefore, less growth in demand for rice, the margin provided in the import estimates is larger than it appears. This preliminary estimate is reflected in the food aid request of $110 million (including wheat) for 1972/73. As always at this early date this is a preliminary estimate subject to revision upwards, or downwards, in the light of further information on production available by the April IGGI meeting.

18. Wheat. Essential imports of wheat flour and their subsidized distribution during the stabilization phase have led to an established market for wheat flour at prices equivalent to those for milled rice. Demand is estimated at 440,000 tons this year at the given price of Rp. 45 per kilogram. Allowing for population and income increases next year and for the assumed price elasticity of demand, a demand growth of about 8 percent to 475,000 tons is expected. The recent establishment of a large mill in Djakarta and construction of mills in Surabaja and Makassar, and a second in Djakarta, will provide during 1972 the capacity to mill all wheat flour needs domestically. The price policy for imported wheat -- the Government now sells wheat grain to millers at under Rp. 22 per kg. and wheat flour to distributors at Rp. 35 per kg. and has agreed on the same prices through August 1972 -- is currently under review to determine whether the subsidies in relation to world prices are appropriate and whether the margin between grain and flour prices is not too wide in comparison with millers' margins in other countries. Almost all wheat is imported, and wheat, which will never be grown in Indonesia, has no nutritional advantage over other grains which can be efficiently produced domestically. There is consequently no valid reason for subsiding wheat distributors, producers or consumers in Indonesia.

19. As indicated above it is possible that no wheat flour imports will be needed in 1972/73. The wheat grain equivalent of expected demand for flour, at the conversion ratio of .72, is about 660,000 tons, perhaps 700,000 tons allowing for the maintenance of a two month's stock of grain and a similar market stock of flour. Depending on sources of supply, this could cost approximately $45 million and this figure is included in the program aid request for 1972/73 for wheat imports. Any residual need for wheat flour imports as a substitute for grain could be accommodated within this total, as could the requirements for bulgur. This commodity is in small demand in

relation to the foodgrains total, but is a useful substitute in certain rice deficit areas.

20. These imports plus estimated domestic output of rice and maize would provide a foodgrain supply, expressed in terms of milled rice, of the following quantities in 1970/71 to 1972/73 (Table 3):

Table 3: MAJOR FOODGRAIN BALANCES

(in million tons)

	1970/71 (Est. Actual)	1971/72 (Estimate)	1972/73 (Projected)
Rice Production	12.0	12.7	13.2
Imports	0.8	0.5	0.5
Total Rice	12.8	13.2	13.7
Wheat Flour (imports)	0.4	0.4	0.5
Maize	2.4	2.7	2.9
Total Foodgrains Supply	15.6	16.3	17.1
Per Capita availability (Kg.)	129	131	134

Other foods, especially cassava and sweet potatoes, form part of the basic diet; they are important additions to these foodgrains supplies and changes in their output materially affect total basic food supply availability.

Industry

21. Production data for the manufacturing sector are incomplete and no current index of industrial production exists. However, data on output of a number of industrial products -- for example, yarns, cloth, cement, paper products, pharmaceuticals and automobile tires - show that there was substantial growth in this sector in 1970/71. On the basis of nine months' production figures of selected consumer items such as matches, cooking oil, soap, toothpaste and others, the output of small-scale manufacturing firms may not increase much this year. For medium to large-scale industries, however, the estimated 14-15 percent increase in raw material imports and 25-26 percent increase in imports in the capital goods categories in these years, plus the substantial credit extension to the enterprise sector, indicate increased output and investment in new capacity. The completion of a number of private investment projects during the first nine months of the year, and the planned opening of more factories in the next six months, give assurance of contineud growth in output.

22. In the textiles sector, in which total planned investment now amounts to about $200 million under the Foreign Investment Law and Rp 162

billion ($390 million) under the Domestic Investment Law, 13 new factories were inaugurated in West and Central Java in recent months. Total cloth output in 1970 reached 450 million meters and is projected to increase by 33 percent to 598 million meters in 1971. Yarn production is expected, on the basis of 8 months actual output, to exceed 210,000 bales in 1971. All the indications are for a growing import demand for raw cotton in the coming years.

23. Cotton aid. Imports of raw cotton have been financed under PL-480 as one of the program aid commodity arrangements. Most spinning capacity is in the government-owned spinning mills and these and other raw cotton users have received the PL-480 supplies at a price well below c.i.f. cost, currently at the valuation of Rp 215 to the US dollar or 52 percent of actual cost. The aim has been to ensure output prices competitive with those of imported yarns, given estimated production costs of average mills and reasonable profits. The aim is also to maintain price stability for batik and other cotton cloth which are basic items of mass consumption. The prices of those cotton yarns imported under PL-480, have for this reason been even more heavily subsidized -- currently, a valuation of Rp 125 to the US dollar is used.

24. With the development of modern textile plants in the private sector, and with increased efficiency expected in the state mills, mainly through higher capacity utilization to be obtained by longer shifts and increased spindle speeds, the subsidy rate is now to be reviewed. Present pricing policies could lead to high profits in the private textile sector and very substantial profits in the efficient state mills, at the same time holding down to present low levels the generation of counterpart funds for the Central Government budget from this component of program aid. The low price of imported cotton may also be impeding the development of cotton production in East Java and the Eastern islands, where experiments indicate that it might possibly be produced at competitive world prices.

25. The economy's absorption of raw cotton has grown from 150,000 bales in 1969/70 to an estimated 250,000 bales this year. Import requirements of around 330,000 bales are projected for next year, at a cost of close to $50 million. This amount is accordingly included in the request for non-food program aid for 1972/73. No request is being made for cotton yarn since supplies estimated as adequate for next year have been assured in response to previous aid requests.

26. Output of (urea) fertilizer from the one producing plant in 1970 amounted to 98,000 tons and is expected to be at approximately the same level in 1971 and 1972. Import demand for all plant nutrients has been projected to increase by 17 percent annually to 1974 from an estimated 220,000 tons in 1969. Import growth in 1970 and 1971 has been contained by the utilization of accumulated stocks but, with a much lower stock position and improved distribution arrangements, import requirements are expected to grow rapidly until the completion of the Pusri fertilizer plant expansion project, schedule for 1973. The Government plans to import some 300,000 tons under official aid arrangements in 1972/73, an increase of 25 percent over the current years.

27. Cement output may decline slightly from the 553,000 tons produced in 1970, but should recover rapidly in the next three years as the expansion and modernization of three major plants is completed. Imports amounted to $14.3 million last year and are estimated to reach around $16 million by the end of this year.

28. For the industrial sector as a whole, 1971 appears as a year of substantial progress, with private foreign investment activities accelerating and the rehabilitation and expansion of domestic industrial enterprises also being fostered by credit expansion, including that of the medium-term credit program. On the administrative side, recent reductions in excessive import duty rates on a large number of selected commodities confirm the Government's desire to promote sound industrial growth from its present small base although rates are still so high on many commodities as to be uncollectable or, if collected, to provide an excessive and uneconomic level of protection. Plans for the establishment of three industrial estates in Java have advanced and offer further prospects for industrial development which will utilize Indonesia's comparative advantages in labor, complementing the opportunities for resource-based industrial growth, mainly outside Java.

29. Apart from the consumer goods and light assembly industries, including electronic components, in which Indonesia has major export potential as well as a growing domestic market, recent investigations suggest that there is now opportunity for economic production in some branches of the engineering and machinery industries and in some of the base metals and chemicals. There are possibilities, deserving more careful study, of a direct reduction steel plant, of certain petrochemical production and of a complex of plants to produce a range of forest-based products.

30. Progress in the minerals sector is dominated by production and price developments in petroleum. Total production is expected to increase by only 5 percent in 1971, to 326 million barrels, but is projected to increase to 440 million barrels, or by 35 percent in 1972. The 1971 price increase, 34 percent for the major exporter of crude oil and more for other exporters, leads to an estimate of gross oil export receipts of $574 million in the current fiscal year, an increase of 30 percent. Given the further price increase on Indonesian crude oil scheduled for January 1, 1972 or earlier, gross receipts from exports of petroleum in 1972 are expected to approach $1 billion. Net foreign exchange receipts from oil, after deducting the foreign exchange costs involved in supplying domestic requirements, the foreign exchange costs of Pertamina's exploration, production, and refining activities, the foreign exchange costs of the production activities of foreign contractors, and the share of foreign contractors in profits, are estimated at $197 million in 1971/72 and $395 million in 1972/73. Government revenues from oil are, as indicated in a subsequent chapter, also expected to rise sharply. Annex A of this report provides details of current and planned production and earnings in an integrated discussion of the oil sector.

31. Trends in the production and exports of tin and other hard minerals, including nickel, bauxite and iron-sand which, with tin, account for some 10 percent of non-oil exports, are discussed later in this report.

Private Foreign Investment

32. Details of investment approvals under the Foreign Investment Law up to September 1971 are presented in Appendix Table 10.1. Applications and approvals have not increased as rapidly as hoped, mainly as a result of a decline in approvals of mining and forestry projects now that concessions cover most of the relevant areas. In part, however, the decline may reflect uncertainty in the minds of potential foreign investors with respect to the stability of the basic policy of attracting foreign investment, and procedural difficulties and obstacles to the conclusion of agreements and arrangements. Among the actions which may have contributed to such uncertainty are the fact that foreign investment in some 39 manufacturing activities was banned early in the year. Although few of these are of great importance the action may have signalled to foreign investors a change in policy. This may have been the effect also of the decree forbidding foreign investors to engage in distribution activities in Indonesia, and of the decree which practically forbade foreign accountants to practice in Indonesia. In respect to procedural obstacles the increasing inability of the Foreign Investment Board to provide a central point of negotiation and one from which decisions could be obtained has been a negative factor.

33. Complete and systematic data on actual investment expenditures on approved foreign and domestic investments are still lacking, since there is as yet no effective machinery for monitoring of such expenditures and of the physical progress of planned projects. The investment rate is still low but growing rapidly. At the end of September 1971, of a total approved planned foreign investment of $1,605 million covering 428 projects, $274 million or 17 percent was reported to have been invested. Allowing for under-reporting, however, this proportion may be more of the order of 20 to 25 percent.

Domestic Investment

34. The expenditure rate in promoted domestic investment is, as might be expected, higher than in the case of foreign investments, mainly because most of the projects approved are for expansion purposes, have short gestation periods, and do not require as large initial capital outlays. At the end of 1971 total investment expenditures on approved Domestic Investments are estimated at Rp 142 billion or about 33 percent of total approvals. Of this total, roughly 30 percent was spent for imported capital equipment, 50 percent for locally produced fixed assets, and the balance for working capital. Djakarta and the rest of Java account for about 70 percent of these projects, with the rest widely distributed through the outer regions.

35. Just as in the case of the Foreign Investment Board, procedural difficulties appear to have some negative effect. Furthermore, the Board functions principally to determine eligibility for various tax incentives. It does not provide positive help to would-be investors in the form of technical, managerial or other assistance. At present, in fact, no agency of the Government provides such services, although assistance of this type could well make an important contribution to the development of Indonesian entrepreneurship.

Investment Perspectives

36. Although private domestic investment, aided by the tax incentives provided under the Domestic Investment Law and by the medium term credit program, has expanded rapidly, it is still a small part of total investment in the economy. Government investment, investment by Government-owned enterprise and private foreign investment in the aggregate are far larger. There is considerable evidence, however, that the principal constraint at this time is not the paucity or caution of domestic enterprise but the limitations on the resources available. Retained earnings of enterprises are limited, private savings which can be mobilized through the Banking system are growing but limited, and credit creation is of necessity restricted by consideration primarily of balance of payments effects. Although some Government savings derived from the excess of Government revenues over Government expenditures are being transferred through the Banking system to meet the investment capital needs of a few Government enterprises, no other Government budget transfers either through the medium-term credit program or otherwise appear to have been made in the last or the current fiscal year. In the short run, and the longer as well, such transfers need to be made and their amount augmented by foreign private and aid inflows if domestic enterprise is to grow at a significant rate. The reorganization and reactivation of Bapindo, the effort to create several other development finance institutions and the request for project aid for what are called Development Loans through the Banking System are responses to this need, along with efforts to devise additional mechanisms for the stimulation and mobilization of private domestic savings.

37. Total investment expenditures in 1971/72 can be quantified only very approximately. The Central Government investment program in 1971/72 is of the order of $320 million, including the project aid which forms part of it. Provincial and local suthorities may account for another $60 - $70 million. No comprehensive information is available on Government enterprise investment but a total of $150 - $200 million, including $90 million by Pertamina and sizeable amounts by other Government mining enterprises, agricultural estates and industrial companies, appears to be a reasonable approximation. Private foreign investment, including that of foreign oil companies in exploration and production is of the order of $300 million. Private domestic investment is substantially lower. Most enterprise investment by private Indonesian firms appears to be registered under the Domestic Investment Law and data available as a consequence indicate expenditures in 1971 of approximately $160 million. The investment credit program is probably financing half this expenditure.

38. The shortage of loanable funds appears to be the main impediment to more rapid growth of private domestic investment. Admittedly the interest rate, 12 percent per annum, in the medium-term investment credit program is concessional for Indonesia, but there are offsetting deterrents. In spite of provisions in the investment credit program which must deter many potential investors -- the present five-year maximum term, the 25 percent contribution to fixed investment costs with no provision for working capital and the requirement for feasibility studies at the applicant's expense for loans

over about $100,000 -- there is an apparently large backlog of loan applications with participating state banks. An expansion in this program, with due consideration of working capital requirements, longer-term lending and an interest rate somewhat more in line with the scarcity of capital in Indonesia, would seem to deserve full and early consideration. Such expansion is being given higher priority by the Government in its 1972/73 budget plans; it hopes also that increased program and project aid will be available for the purpose so that the total resources available for enterprise investment may be significantly increased.

39. Bank credit to the enterprise sector, including public enterprise, has expanded rapidly over the last two years, by 140 percent in 1969/70 and a further 60 percent to Rp 333 billion in 1970/71. As shown in Table 4, this growth of enterprise credit has been the main factor in monetary expansion.

Table 4: FACTORS AFFECTING MONEY SUPPLY

(in billion Rupiahs)

	1969	1970	September /1 1971
1. Changes in:			
a) Foreign assets	-7.2	12.5	-27.8
b) Credit to Government	14.3	-19.7	8.5
c) Credit to public and private enterprises	82.8	126.7	84.4
d) Time and savings deposits	-37.7	-30.3	44.3
e) Other	13.9	-28.1	44.4
2. Changes in money supply:	66.1	61.1	65.2
a) Currency	39.6	38.5	46.3
b) Demand deposits	26.5	22.6	18.9

/1 Compared to September 1970.

Source: Statistical Appendix Table 6.2.

At the end of 1970/71 disbursements under the medium-term credit program totalled Rp 49 billion, an increase of Rp 33 billion in twelve months, allocated 80 percent to the private enterprise sector. So far in 1971/72 both enterprise credits as a whole and lending under the medium-term program are expanding less rapidly, at annual rates of about 40 percent. The deceleration tends to support the view that opportunities for monetary expansion consistent with internal and external balance are diminishing with the return to more stable price conditions, and that further expansion of the investment credit program will need to be based mainly on sources other than the central bank, which has financed over 60 percent of loans to date.

40 The progress towards internal price stability is illustrated by the summary table below:

Table 5: MONETARY DEVELOPMENTS, 1965-71

(Annual Increase (%))

Year	Djakarta Price Index	Money Supply	Time & Savings Deposits % Change	Money Income Velocity (Est.)
1966	639	754	325	28
1967	113	131	562	
1968	85	122	435	
1969	10	58	314	17
1970	9	34	61	13
July 1971 /1	2	31		11

/1 Compared with July 1970.

41. With the interest rate structure now strongly positive in real terms, time deposits are still increasing rapidly notwithstanding the 15 percent tax levy on interest earnings imposed in July 1971 and are currently supporting a combine expansion of lending by the commercial banks on the very low reserve requirement (3 percent) now in force. Until very recently commercial bank lending to private enterprise has been heavily supported by the central bank. Under the medium term credit program, banks have contributed only 15-20 percent of the amount of loans from own resources, the rest coming from the central bank, and in 1969/70 but not more recently the Government at 4 percent, permitting a minimum 20 percent return on the bank's own share.

42. The Government contribution to the program from the development budget amounted to 33 percent of disbursements in 1969/70, but, except in April 1970, no further transfer from the budget has been made. The Government plans, however, to make additional funds available for the investment credit program in 1972/73 by transfers from the development budget and out of project aid; one commitment of $15 million for investment loans through the banking system (investment credits to production enterprises) has already been made. The Government is also reorganizing and revitalizing BAPINDO as a development finance institution and is providing it with additional capital. Along with the IDA credit now under consideration for BAPINDO and other credits which may be made to this institution, this action will provide a further source of investment finance for production enterprises. These several steps constitute desirable moves in the direction of providing an adequate supply of loanable funds for enterprise investment.

43. The calculations of investment in paragraph 37 suggest a level of investment, including non-monetized investment, of at most 13-14 percent of

GDP with domestic resources including increased liquidity, financing half of this total or less. This indicates the existing low levels of savings and the necessity for increased mobilization of domestic savings as well as increased flow of capital from abroad.

II. FISCAL PERFORMANCE

National Priorities and Fiscal Policy

44. In the stabilization phase now ending the main focus has been on increasing revenue and limiting expenditure. The hyper-inflationary problem had to be tacked in a pragmatic way without special concern for the distributive effects of taxation or the long-term improvement of procedures for raising revenues. Nor could fully adequate attention be given to the content of development and routine budgets. The main emphasis in budgetary policy was on ensuring that expenditure did not exceed revenue and that within the resources available expenditure was directed largely toward support of the main efforts of stabilization and rehabilitation. The Government's budgetary operation and the central bank's direct and indirect credit advances underpinned programs that were of great importance to the success of this effort. Rice production and food procurement schemes in particular received budgetary and credit support. The remarkable success of these efforts has now created the opportunity and emphasizes the need for a major effort on the part of the Government to frame its fiscal policy and operations in a longer term perspective and adapt both revenue and expenditure sides of the budget more fully to the country's needs.

45. The existence of widespread unemployment and underemployment underscores the need for such a major development effort. Indonesia has a labor force of perhaps 40 million and its rate of growth is not much lower than that of the total population -- i.e., 2-2.5 percent a year. For the longer term, the creation of enough employment opportunities for an expanding labor force may be the major challenge for the Government, and for fiscal policy. Investment in the creation of new production and infrastructure facilities and the consequent expansion of output is the basic means by which additional jobs, and incomes, are being and will be created. Although the level of investment has been rising steadily during the past several years, it is still substantially below the level at which it can have an adequate impact, directly and indirectly, on unemployment, given the rate of increase in the labor force. Government investment, primarily in infrastructure improvement and expansion, and both private foreign investment and domestic enterprise (private and Government) investment in new production facilities are all playing a role, along with individual farmers who are extending the areas they cultivate and the input of labor in their operations. Although this may not have been entirely the case a few years ago, it seems clear that the major and most pressing constraint on investment today is the limited availability of resources for investment. An increased flow of resources from abroad, in the form of aid and of private investment, and considerably increased domestic savings mobilized for investment will obviously be needed if the expansion of output and employment is to keep pace with the growth of the labor force and to absorb into productive activity the surplus labor which exists today.

46. Although it was also probably true a few years ago that deficiencies in infrastructure facilities were one of the major conditions which inhibited

enterprise investment in the expansion of production facilities and activities, this factor also is not today so severely limiting a constraint. Large investments are and will continue to be required in the improvement and expansion of these facilities, notably irrigation, electric power, transport and communications. Even more essential, however, will be investment in new and expanded direct production activities. Here, despite the contribution that is being and, hopefully, will continue to be made by foreign enterprise investment, it is clear that the major role must be played by domestic enterprise, both private and government-owned. Given, however, the existing low level of personal and enterprise savings and the time which may be required to increase these private saving propensities, fiscal policy and the fiscal mechanism will need to be used to mobilize investment resources and to channel them to the enterprise sector. It will be necessary and efforts are being made to create a variety of financial institutions and mechanisms designed to stimulate and facilitate private savings and to make these efficiently available for the financing of investment as well as current production operations. It will be necessary also to see to it that tax policies and programs, so far as possible, do not reduce incentives to or directly detract from private savings. As already stated, however, it seems likely that, if the enterprise sector is to obtain resources it needs, a larger proportion of public savings will need to be channeled to this sector through appropriate development finance institutions and the rise of public consumption expenditure will need to be kept appreciably below that of Government revenue.

47. Consequently, the Government confronts and will continue to confront for the foreseeable future extremely difficult choices among competing needs and demands. There is an urgent need for an increase in the level of compensation of government employees in the interests of greater efficiency and integrity in Government administration. There is urgent need for increased expenditure for maintenance of existing Government facilities including not only Government office buildings, but also schools, hospitals, roads and other infrastructure facilities. There is equally urgent need for increased expenditure on such essential public services as education and health where materials and facilities are today grossly inadequate. The task, therefore, of assigning priorities is, and will continue to be, an extremely difficult and complex one involving important social and political as well as strictly economic considerations and will command the most thoughtful and careful consideration on the part of the highest Government authorities.

Routine Expenditure and Public Savings

48. Between 1965 and 1968 total routine expenditure was allowed to grow very modestly, in real terms by less than 4 percent a year. With increased domestic revenues and a greater degree of economic stability, routine expenditures were permitted to rise in 1969/70 and 1970/71 at an annual rate of 15 percent (in real terms) and a slightly higher rate of growth is expected in 1971/72. Table 6 summarizes the annual rates of growth in routine revenues and expenditure.

Table 6: THE ANNUAL RATE OF INCREASE IN ROUTINE REVENUE AND EXPENDITURE, IN REAL TERMS

(in percent)

	Routine Revenue	Routine Expenditure
1965 to 1968	36.0	3.6
1969/70 to 1971/72	18.8	15.3
1970/71 to 1971/72 (revised est.)	12.7 /1	15.8

/1 Excludes Rp 11 billion carryover from the previous fiscal year

49. Between 1965 and 1970/71 the rate of increase in internal revenues was considerably higher than that of routine expenditure. These revenues as a proportion of roughly and probably under estimated GDP increased from about 4 percent in 1965 to around 9 percent in 1969/70 and an estimated 13 percent in 1971/72. Within this aggregate the performance of non-oil tax revenues also shows marked improvement, although at a less spectacular rate. As a proportion of GDP, these revenues rose from perhaps 6 percent in 1967 to about 9 percent in 1970/71 and 1971/72 (see App. Table 6). In addition, local authorities are also expected to raise about Rp 44 billion through various local levies, thus increasing the public sector's overall tax effort to perhaps 10 percent of estimated GDP.

50. As to the Government's overall budgetary performance, the substantial budget deficit of 1965 was eliminated by 1968 and thereafter a modest surplus of internal revenues over routine expenditures ensued (see Table 7). The 1971/72 estimated surplus shows a small decline. A major factor in this has been the resumption of payments on Indonesia's domestic and pre-1967 foreign debts, and the growth of payments on new external borrowing. Debt repayment is, however, a capital transaction and if allowance is made for it, the budgetary surplus in 1970/71 and 1971/72 would be Rp 87.1 billion and Rp 103.5 billion respectively.

Table 7: CENTRAL GOVERNMENT'S ROUTINE BUDGET
(In billions of rupiahs at 1971/72 prices)

	1965	1968	1970/71	1971/72 (Orig. Budget)	1971/72 (Rev. Est.)
1. Revenue	83.6	210.3	365.8	415.9	412.4 /1
2. Expenditure	189.1	210.3	305.9	343.3	354.3
3. Surplus (deficit -)	-105.5	0.0	59.9	72.6	58.1
4. Debt Repayment	2.7	14.0	27.2	37.2	45.6
5. Surplus (deficit) before debt repayment	-102.8	14.0	87.1	109.8	103.7

/1 Excludes carryover of unexpended 1970/71 expenditure authorizations and corresponding funds of Rp 10.8 billion.

Source: Appendix Tables 5.2 and 5.5.

51. Revenue performance. During 1966-68 the rise in revenue receipts was very marked, particularly in taxes on the external trade sector and oil companies. Thereafter, receipts from the external trade sector grew at a rate lower than the overall revenue growth rate. The revised estimate for 1971/72, if realized, will show a modest rise in receipts from external trade of about 8 percent compared to 25 percent in 1969/70 and also in 1970/71. Proceeds from the corporate tax on oil companies increased in 1969/70 - 1971/72 at twice the overall revenue growth rate and a further acceleration is forecast for 1971/72. Since 1968 direct taxes have been increasingly emphasized and this trend is also noticeable in the 1971/72 revised revenue estimates.

52. The revised revenue estimate for 1971/72 is Rp 412.2 billion, almost the same level as in the original budget. Receipts from the corporate tax on oil companies are expected to be Rp 23 billion more than the original estimate and those from the income tax, withholding tax and other corporation taxes about Rp 10 billion more. Compared to the original budget, it is expected that there will be a shortfall of Rp 36 billion in indirect taxes, i.e. Rp 10 billion in receipts from the domestic sales of oil, Rp 5 billion from excise duties and Rp 21 billion from import duties and sales tax on imports. As the economy is expected to grow by about 6-7 percent in the current year, the indifferent performance of "other oil revenues" and excises does not stem from sluggish growth in the domestic consumption of oil products and tobacco. In the external trade category, the large scale rationalization of tariff rates, with a substantial reduction of higher revenues on non-essential imports in September 1971, may have temporarily reduced collections. Lower estimated imports of dutiable goods, following the devaluation, may also have affected collections for this year. In the revised estimate, the corporate tax on oil companies accounts for about 27 percent of total Government revenues. The share of indirect tax receipts in total non-oil tax revenue is now about 82 percent compared to 79 percent in 1968.

53. Despite the Government's remarkable revenue performance in recent years, tax administration does not seem to have improved at a similar pace. The higher receipts came mainly through what is known as the "target" system whereby estimates are made of earnings and disbursements of professional groups, companies and traders, norms are established and targets reflecting these norms passed on to collection officers. Tax collectors, therefore, were under pressure to increase collections up to the level of their targets but not systematically to locate taxable income and assess personal and corporate tax liability in accordance with the law. In the years immediately following the hyper-inflation of 1965, the target system was probably a practical way of collecting increased revenues. With the achievement of relative stability in prices and the improvement of Government finances, efforts should be made to develop more appropriate tax collection and enforcement procedures.

54. Routine expenditure. The Central Government's routine budget is characterized by a rapid and continuing rise in personnel and material expenditures, sustained support of the budgets of local authorities and the rising debt burden.

55. There has been a substantial improvement in the pay scale of Government employees in the recent years. Personnel expenditure in real terms including payments in kind has increased steadily since 1965 (see Table 8). Overall, however, its share of expenditures in the routine budget (excluding debt repayment) has declined from 56 percent in 1968 to 54 percent in 1971/72. Payments in kind, including the rice allowance, have declined in importance. In 1971/72 rice in kind will constitute around 12 percent of personnel expenditure compared to 34 percent in 1968.

Table 8: ANNUAL GROWTH RATES (IN REAL TERMS) OF PRINCIPAL ITEMS IN THE ROUTINE BUDGET

(In percent)

	1965/68	1969/70-1971/72	1971/72
Personnel Expenditure /1	16.7	17.7	21.1
Material Expenditure	15.1	4.5	2.7
Subsidies to Regions	77.0	12.6	12.0
Debt Repayment	72.0	47.0	67.8
Total	3.6	15.3	15.8

/1 Excluding personnel material expenditures.

Source: Appendix Table 5.5.

56. The main features of the 1971/72 routine budget are summarized in Table 9. Two items merit closer examination, namely the provisions for maintenance and for salaries.

Table 9: MAIN ITEMS IN THE 1971/72 ROUTINE BUDGET
(In billion rupiah)

	Amount	Percent Distribution
Maintenance Expenditure	10.7 /1	3.0
Civil Salaries and Pensions	80.2	22.6
-- salaries (domestic)	40.8	11.5
-- salaries (external)	4.2	1.2
-- sugar allowance	0.9	0.3
-- honorarium	3.8	1.0
-- overtime	0.5	0.1
-- special salary increase of the Ministry of Finance	7.5	2.1
-- special salaries	0.3	0.1
-- special allowance for judges	2.0	0.6
-- pensions	20.2	5.7
Armed Forces (Personnel and Maintenance)	116.1	32.8
Material Expenditure (Civil)	28.6	8.1
Domestic	23.3	6.6
External	5.3	1.5
Allocation to local Governments	66.8	18.8
Debt Repayment	45.6	12.9
Other	6.4	1.8
Total	354.3	100.0

/1 Includes Rp 4.9 billion maintenance for the armed forces.

57. Maintenance. In the rehabilitation phase the major part of maintenance and rehabilitation expenditure relating to infrastructure and other public facilities has been financed, albeit very inadequately, from the development budget. In the routine budget maintenance expenditure has been a minor item (see Table 10).

Table 10: MAINTENANCE EXPENDITURE IN THE ROUTINE BUDGET
(In million rupiahs)

	1970/71	1971/72	Percent Distributed in 1971/72
Highways	452	410	3.8
Irrigation Facilities	56	49	0.5
Ports	225	105	1.0
Airports	420	155	1.4
Buildings	4,004	2,197	20.5
Radio-telecommunications	250	158	1.5
Planes	390	1,228	11.4
Ships	596	1,610	15.0
Motor Vehicles	2,278	2,513	23.4
Others	3,156	2,304	21.5
Total	11.827	10.729	100.0

Source: Budget Bureau

The total of Rp 10.7 billion for 1971/72 is very small and overstates actual maintenance expenditures as it apparently includes some operating costs. Close to 50 percent is for the operation and maintenance of non-civilian facilities and equipment. The overall maintenance situation cannot have improved since last year and may have worsened. Some maintenance work is financed from the budgets of local authorities at the provincial and kabupaten levels. It can be concluded that the Government does not have an adequate maintenance program and that increased provision for maintenance in the routine budget is essential. In fact, an adequate provision for a properly prepared maintenance program may have a greater priority than some of the existing development schemes.

58. Salaries. Despite the notable improvement in the pay scales of Government employees, the lower two of the four categories covering about 90 percent of total civil employees probably receive compensation which provides for themselves and their families an amount well below the national family income average. Table 11 summarizes the average salary scale of each of the main four groups. At present, the Central Government has about 542,000 civil employees on its payroll and on the basis of Table 12, total civil service compensation amount to about Rp 40 billion (Table 7). The average annual compensation for Group I and II employees is the equivalent of $96 and $198 respectively. For most employees in all categories a second job or other supplemental income is essential with obvious effects on efficiency and integrity. Employees in Group III and IV get, however, $309 and $497 a year respectively. Some additional compensation in the form of honorarium is also paid, and many employees in Group III and IV have the use of Government-owned houses and cars. Clearly, at all levels, payments in kind are a substantial element of total incomes. In any consideration of salary

Table 11: AVERAGE MONTHLY SALARY FOR GOVERNMENT EMPLOYEES (1971/72)

	Employees not in charge of any Section or Division						Employees with a Responsible Position	
Groups	Basic Salary	Execution Allowance (20%)	Allowance for wife and children 1/	Work Allowance (100% of preceding 4 columns)	Rice Allowance	Total	Position Allowance (40% of basic salary)	Total for those with a Responsible Position
IV	6,274	1,255	533	8,062	1,035	17,159 2/	2,510	19,669
III	3,745	749	318	4,812	1,035	10,659 2/	1,498	12,157
II	2,262	452	192	2,906	1,035	6,847	905	7,752
I	661		56	717	1,863	3,297	-	3,297

1/ The average dependency ratio for civil servants was 2.9 in 1968 - see Statistical Pocketbook of Indonesia, 1969, p. 68.

2/ These figures exclude housing and car allowances.

Source: Budget Bureau

policy changes they should be costed fully. As a separate issue, the question whether payments in kind, on the present scale, are efficient in present conditions of stability should also be considered. Cash payments instead of rice, at the lower end of the scale, or instead of houses, at the upper end, may now be preferred. There may be, therefore, a strong case for a replacement of allowances in kind as well as for an upward revision of cash salary payments.

Table 12: ESTIMATED SALARY PAYMENTS (CIVIL SERVICE). 1971/72

Group	No. of Employees (In 000)	Average Salary per month (In 000 Rp)	Total Salary Payments (In Bln Rp)
I	272.4	3.3	10.8
II	211.5	7.8	19.7
III	52.3	12.2	7.6
IV	5.6	19.7	1.3
Total	541.8		39.4

59. The salary question needs, however, as has been stressed in earlier Bank reports, to be considered in the framework of Government employment and staff policies as a whole. The improvement in administration which is essential cannot be achieved by increases in the level of compensation alone, although there is no doubt that such increase is essential. A rationalization of the whole structure of compensation and an identification of priority Government tasks, of the skills necessary for their performance, and of the relative scarcity of these skills should be the basis for a combination of selective compensation increases combined with such general increases as can be allocated to this purpose in the light of competing needs.

60. There appears to be an obvious need, on welfare grounds, to raise the compensation of the lowest paid civil servants and, to some extent on these grounds and in part on efficiency grounds, to provide a general increase in pay for the higher grades with such an increase substituting in an orderly way for the many devices now employed erratically to augment standard compensation. In addition, selective increases, properly applied, are clearly of prime importance to improve efficiency. The action taken this year to raise very substantially the salary levels of all employees in a single department, however, does not follow these principles and sets a different precedent for further action on government employee compensation. Increases of the order given could not be extended to civil and to military employees of all Departments without seriously impinging on the public savings effort, even if spread over three or four years. Reduction in the excessive numbers of Government employees in some departments would probably produce some savings in Government personnel expenditure, but so long as new job opportunities are not created in adequate numbers elsewhere in the economy, sweeping dismissals of Government employees are not feasible.

The Government Development Program

61. Development activities financed by Government are conducted not only by the Central Government but also by Provincial and local authorities and by Government enterprises, although the role of the Central Government is larger than that of the others. These activities are financed in the case of the Central Government entirely out of the Development Budget. In the case of the Provincial Governments, development activities are financed partly by transfers from the Central Government but also from revenues which accrue directly to them. (Their routine expenditures are also financed both by transfers from the Central Government budget, in this case the routine budget, and revenues they collect themselves). The kabupaten, or districts within the provinces, finance their development activities partly out of their own revenues as well as out of transfers from the development budgets of both the Central and Provincial Governments. The desa, or villages receive grants directly from the Central Government which finance some of their development activities. The Government enterprises finance their investments from their own earnings, by borrowing from domestic Banks and, in some cases, foreign suppliers, and with funds provided out of the Central Government Development Budget in the form of loans or equity investments.

62. Project aid finances part of the Development Budget expenditure of the Central Government and, specifically, contributes to the financing of works executed by the Central Government and some of the Government enterprises, although in the current year there was a first project aid commitment to finance private enterprise investments, with the funds channelled from the Government through the State Commercial Banks to the enterprises.

63. No consolidated tabulation of public sector development operations is yet available. This will be needed if a proper evaluation and review of Government development strategy is to be made.

64. The allocation of Central Government development budget funds (excluding project aid funds) in 1971/72 and several prior years is indicated in Table 13. As is evident, a major part of the expenditure (45 percent in 1971/72) is devoted to the development of basic infrastructure facilities in the fields of irrigation, transportation, electric power and telecommunications. Another important component (12 percent in 1971/72) is expenditure for development of facilities for education, health and family planning. Another (10 percent in 1971/72) was payment, net of recoveries from farmers for the Bimas Gotong Rojong program for increasing rice production of 1969/70 and 1970/71. Another (10 percent in 1971/72), was granted to the kabupaten and desa. A variety of users received lesser allocations. Little of the budget was allocated for industry which figures prominently, however, in the medium term credit program of the Banks. (See Table 14).

Table 13: INDONESIA'S DEVELOPMENT BUDGET 1/

		1969/70	1970/71	1971/72
1.	Agriculture	5,277	4,582	22,886
	Improvement of Major Products	4,408	3,170	4,343
	Production Support Programs	314	543	545
	Forestry Programs	423	560	1,105
	Fishery Programs	132	309	648
	BGR Programs 2/			13,000
	Other Programs			3,245
2.	Irrigation	19,705	19,688	21,866
	Major Irrigation Schemes	19,705	19,558	21,766
	Minor Irrigation Schemes	-	100	100
3.	Industry and Mining	5,565	2,179	2,554
4.	Fuel and Power	4,280	8,051	9,056
	Major Load Centers	4,055	7,527	8,431
	Medium & Small Load Centers	-	98	132
	Gas Projects	225	426	493
5.	Transportation	23,203	21,481	29,344
	Major Roads	10,577	9,076	14,627
	Railroad Projects	2,978	2,685	3,150
	Other	9,648	9,720	11,567
6.	Communication	2,006	2,221	2,678
7.	Urban Development	1,150	2,522	2,632
8.	Rural Development	4,600	11,290	14,073
	Subsidies to Desa	4,600	5,590	5,250
	Subsidies to Kabupaten	-	5,700	8,823
9.	Government Buildings	9,336	12,632	10,699
10.	Tourism	65	50	275
11.	Culture	196	206	206
12.	Pre-investment Studies & Surveys	356	413	644
13.	Social Welfare & Physical Training	751	963	1,052
14.	Education	8,923	10,023	11,080
15.	Manpower Training	131	58	59
16.	Health & Family Planning	3,795	4,426	5,833
17.	Statistics	1,020	1,400	1,119
18.	Miscellaneous	2,007	2,260	2,504
19.	Contingencies & Other	-	-	1,676
	Total	92,366	104,445	140,236

1/ Excludes block allocations to Provincial Governments including West Irian for which sectoral detail is unavailable. See, however, Tables 16 and 17.
2/ Repayments to Bank Indonesia relating to 1969/70 and 1970/71 programs

Source: Appendix Table 5.8

Table 14: INVESTMENT CREDIT PROGRAM
(In billion rupiah)

Sector	Credit Outstanding		
	June 1969	June 1970	June 1971
Agriculture	2.0	7.8	15.2
Industry	0.2	7.8	25.8
Mining	-	0.1	0.1
Construction & Tourism	1.4	8.5	16.8
Other	0.0	0.1	0.8
Total	3.6	24.3	58.7

65. Project Aid. Table 15 provides an estimate, from available data, of project aid utilization, by sector, of specific IGGI commitments to September 1971. The utilization data are indicated both in terms of letters of credit or their equivalent and on a payments basis built up mainly from official data but consistent, as far as checks could be carried out, with the disbursement records of IGGI member countries and agencies. About 80 percent of disbursements are for the main infrastructure sectors and most of the rest is for industrial and agricultural enterprises.

Table 15: PROJECT AID COMMITMENT AND UTILIZATION 1968-71 (September)

(In million dollars)

	Specific Commitment		Utilization based on:	
	Amount	Dist. (In %)	Letter of Credit	Disbursement
Agriculture	73	13	6	6
Estates	61	11	5	5
Other	12	2	1	1
Irrigation	67	12	19	19
Industry and Mining	103	18	19	11
Industry	98	17	17	9
Mining	5	1	2	2
Power	135	24	31	27
Transportation	102	19	55	35
Railways	14	3	7	7
Airports	9	2	8	5
Ports	12	2	9	3
Highways	65	12	30	19
Marine	2	-	1	1
Telecommunication	39	7	11	11
Manpower	5	1	-	-
Urban Development	22	4	6	5
Water Supply	9	2	4	3
Buses	1	-	1	1
Telephone Facilities	12	2	1	1
Technical Assistance	12	2	3	3
Total	558	100	150	117

Source: Bank Indonesia and Mission Estimates.

66. The general allocation of 1971/72 Development Budget resources is, except in the important respect that inadequate priority appears to be given to the investment needs of the enterprise sector, reasonably tailored to Indonesia's needs and expressive of an appropriate balance of priorities. There is, however, considerable room for improvement in the particulars of the allocations. The individual program and project elements of the budget are still in most cases not adequately formulated or carefully evaluated,

although there has been improvement in this respect in the past several years. The extent to which there have been pre-investment, feasibility and other project or program plannning studies prior to investment and budget allocation decisions has greatly increased. The extent to which projects are financed by project aid and the accompanying cooperation by the aid-givers on the preparation and evaluation of programs and projects has also helped. Nevertheless, improvements in the budgetary and planning process are importantly needed.

67. Efforts to formulate and institute improved planning and budgeting processes which would start with improvement in the individual Directorates, Departments and Government enterprises are underway but they need to be pursued more vigorously and purposefully. As an integral part of this effort there needs to be prepared and established a system of progress reporting which would serve both to provide a sounder basis for the planning and budgeting operation and to assist in improving the actual execution of the program by revealing where execution was lagging and why and permitting timely action to be taken to deal with the problems encountered and revealed.

68. Regional Development. Partly because there is a considerable degree of autonomy of the Provincial and local Governments, there is no systematic or comprehensive information available on the development work executed by those levels of Government. Table 16 and 16a provide some but not complete or reliable information on the size of the resources available to the provinces and kabupatens. The Central Government's 1971/72 development budget provides for transfer to provincial, kabupaten and desa programs in 1971/72 of Rp 20.8 billion, Rp 8.9 billion and Rp 5.6 billion respectively. An additional Rp 3.6 billion is provided for West Irian. Allocations made to the provincial governments are based on what each formerly received directly from the ADO export tax. The allocation to the kabupatens is based on the population of each such district, currently at the level of Rp 75 per capita. Desas receive Rp 100,000 each.

69. The local revenues available to the Provincial and local Governments are not large since the major potential sources have been pre-empted by the Central government. Nevertheless, in the aggregate, they are by no means negligible at present and there appears to be a potential for sizeable increase. The Central Government is considering various types of matching formula which would give added stimulus to local revenue raising.

70. The local development works have several merits. They generally lend themselves well to labor-intensive execution and thus provide much needed employment opportunities. They are also based on local knowledge of needs that are more difficult to identify and plan from the center and, therefore, serve as an important complement to the national development program. Without these small projects, major and medium-sized irrigation or highway projects will not be fully utilized. Decentralized planning and execution also appears, according to field observations, to lead to

Table 16: ESTIMATE OF REVENUE AND EXPENDITURE AT THE PROVINCIAL LEVEL FOR 1971/72

(in billion rupiah)

Receipts	111.8	Expenditures	111.8
A. Current Account	81.9	A. Routine	75.4
1. Central Government Transfers	59.5	1. General Services	68.1
		2. Other	7.3
2. Local revenues, of which	22.4		
-- direct taxes			
-- indirect taxes			
B. Development Account	29.9	Development 1/	36.4
1. ADO Transfer	20.8	1. Economic sectors 2/	19.9
2. Local revenues, of which	9.1	2. General services	7.3
		3. Social sector	9.2
-- cess	(2.6)		
-- oil taxes	(1.9)		
-- IPEDA	(0.9)		
-- Royalty and licence fees	(3.7)		

1/ Includes Central Government transfer to Kabupaten Rp 8.8 billion and Central Government transfer to desa Rp 5.2 billion.

2/ Includes cess disbursement.

Source: Compilation of all provincial government budgets excluding Irian Barat (Ministry of Finance and BAPPENAS).

quite efficient execution which benefits from local comprehension and observation. The main constraint on local planning and execution of programs may be the availability of technical personnel in the regions. At the present level of such work, however, and considering its nature, such as the rehabilitation of feeder roads and the construction of tertiary canals and minor water facilities, technical constraints are not yet evident and it is believed that substantial additional resources could be effectively absorbed.

Table 16a: ESTIMATED KABUPATEN /1 BUDGET FOR 1971/72
(In billion Rupiah)

Receipts		42	Expenditures		42
I.	Current Account	20	I.	Routine	28
	-- provincial government transfers	18		-- salaries	22
	-- miscellaneous receipts	2		-- Transfers to desa	3
II.	Development Account	22	II.	Development	18
	-- IPEDA	7		-- Labor	9
	-- Capital transfers:	15		-- Material	5
	Central Gov't	9		-- Transfer to desa	3
	Provincial Gov't	6			

/1 There are about 230 kabupaten. A more meaningful classification and estimation of the kabupaten accounts should be possible.

71. West Irian. Development in this Province is closely linked to the FUNDWI program. At the request of the Government of Indonesia, FUNDWI has undertaken a wide range of activities in cooperation with various international organizations, as envisaged in the 1967 Survey Mission Report. 1/ Table 17 summarizes the financial allocations by the Indonesian Government and FUNDWI. The total contribution of FUNDWI amounts to $19.7 million and that of the Government for the 1970/71 and 1971/72 fiscal years to about $10.2 million. The program emphasizes the development of transportation, manpower, education, agriculture, forestry and fisheries: Total allocations and earmarkings by FUNDWI amounts to $26.6 million and that by the Indonesian Government to $14.2 million.

1/ A Design for Development in West Irian.

Table 17: WEST IRIAN: ALLOCATION OF FUNDS BY SECTOR, 1970/71 and 1971/72 (in million dollars)

Sectors:	Amount	Percent
1. Agriculture and Community Development	1.0	3.3
2. Forestry	1.7	5.7
3. Animal Husbandry	0.4	1.3
4. Fishery	2.2	7.4
5. Handicrafts	0.2	0.7
6. Power	1.2	4.0
7. Transportation, Telecommunication and Meterology	18.4	61.5
8. Manpower and Education	3.7	12.4
9. Health	1.1	3.7
Total	29.9	100.0

72. The Indonesian Government has also decided to establish, under the auspices of the UN Development Programme, the West Irian Joint Development Foundation (WIJDF). The foundation was formally inaugurated in May 1971 in Djajapura and will have $4 million from FUNDWI (included in the $26.6 million) and an equal amount in local currency from the Government (included in the $14.2 million). The WIJDF will give low interest loans and make equity investments in agricultural processing and fishing as well as export earning projects. It will promote the development of transportation and render management and technical advice.

73. In a joint communique in November 1969 the Indonesian Minister of Finance and the Dutch Minister of Development and Cooperation announced the decision of the Netherlands Government to contribute $5 million to the Asian Development Bank particularly with the further development of West Irian in mind. Immediately thereafter, UNDP also indicated its readiness to identify in consort with the ADB the areas in which the two organizations might cooperate. A framework for further international assistance to West Irian thus appears to be emerging. At present, FUNDWI coordinates, on an informal basis, the work of some eight international agencies. A substitute coordinating organization will need to be shortly appointed by the Government if the development program in West Irian is to proceed uninterruptedly after the completion of the FUNDWI program sometime in 1973. Timely and adequate supply of rupiah counterpart funds is also essential for more rapid progress of the development projects in West Irian.

The Central Government Budget for 1972/73

74. The 1972/73 budget of the Central Government anticipates a real GDP growth of 6 to 7 percent and an increase in the general price level of perhaps 4 to 5 percent. The revenue estimates take these anticipations into account, and except in those cases where there is a more specific basis for estimate, they forecast a higher rate of growth of revenue reflecting the expectation of some improvement in administration and collection. Table 18 summarizes the revenue forecast for 1972/73.

Table 18: ESTIMATE OF GOVERNMENT REVENUE FOR 1972/73
(In billion rupiahs)

		1971/72	1972/73	Changes in percent
I.	Taxes on income	186	295	58 /1
	1. Income tax	18	21	17
	2. Corporate tax	24	29	21
	3. Corporate tax (oil)	111	206	86
	4. Withholding tax	22	26	18
	5. Other	1	1	-
	6. IPEDA	10	12	20
II.	Taxes on domestic consumption	97	115	19
	1. Sales tax	23	29	26
	2. Excises	40	46	15
	3. Other oil revenue	29	35	35
	4. Miscellaneous levies	5	6	20
III.	Taxes on international trade	135	154	14
	1. Import duties	81	94	16
	2. Sales tax on imports	25	30	20
	3. Export tax	29	31	7
IV.	Non tax receipt	4	9	125
	Total domestic revenue	422 /1	574	36

/1 Excluding carryover of Rp 11.0 billion

75. As the table indicates total internal revenues of the Central Government (including IPEDA in both years) are expected to increase by Rp 152 billion or 36 percent. The largest single item of increase (Rp 95 billion) is in the taxes on foreign oil companies, reflecting the large increase in profits which will result from the higher prices and increased volume of exports in 1972. Internal revenues, exclusive of those from this source, are expected to increase by Rp 57 billion or 18 percent. This increase is, as already stated, expected to result in part from better collections, along with the growth of income and a small rise in the price level. No new major revenue measures or increases in tax rates are planned. In fact, the personal income exemption level is to be raised and the tax rates applicable at various income levels are to be reduced; it is expected that these changes will facilitate increased collections, especially over time.

76. Oil: The Government receives revenues from three distinct types of oil sector activity: from a share in the profits of foreign companies producing crude oil under contracts of work and the newer production-sharing contracts; from profits or "taxes" on the domestic sale of petroleum products; and from a tax on the profits of Pertamina's operations. The major source of revenue is the first. Under the Pertamina Law enacted on September 15, 1971, which clarified the organizational and financial relationships between Pertamina and the Government, Pertamina is obliged to transfer all income it receives under contracts of work (effectively 60 percent of Caltex and Stanvac net operating incomes); 60 percent of net operating income under production-sharing contracts; 60 percent of the value of bonuses obtained under the second type of contract; and 60 percent of its own net operating income.

77. Government revenues from the profits of foreign companies in 1971/72 are estimated at Rp 111 billion, an increase of 63 percent over the previous year, resulting mainly from recent price increases for crude oil. For 1972/73 a further major increase to Rp 206 billion, or by 90 percent, seems assured. This will result largely from increased production by Caltex and the higher price of $2.57 per barrel beginning January 1, 1972 or earlier. Increased output under production-sharing contracts is also expected to make a contribution and to produce about Rp 19 billion in revenue compared to only Rp 1.2 billion in 1971/72. A detailed analysis of Government revenues from oil operations, and a comparison of the Indonesian oil revenue system with those of other producing countries, are made in Annex A.

78. Other revenues: The 18 percent increase in internal revenues other than those from foreign oil companies represents another strong revenue effort in most categories. Very approximately estimated the total of these revenues may represent about 10 percent of national income in 1972/73. Given the needs which must be met by Government, however, and the very low level of private savings, this cannot be and is not regarded by the Government as a satisfactory level. Consequently, efforts to further improve tax administration and the structure of taxes are being and should be made. Enlargement of the very small personal income tax base of some 200,000 persons, and of the correspondingly small corporate tax paying population along with more effective assessment and collection seems clearly necessary. The need for comparable measures in the field of customs and other taxes is recognized and in this area vigorous steps to improve administration are now being taken. They would be assisted by a comprehensive rationalization of the import duty structure which would involve reduction in many duties still so high as to be uncollectible and to offer strong inducements to evasion.

Expenditures

79. The provisional, but not yet final, budget expenditure plan for 1972/73 is indicated in Table 19. It is based on the revenue estimates

which indicate an increase of Rp 152 billion in internal revenues and a very slight decline of Rp 2 billion in anticipated counterpart revenues arising from program aid. Total expenditures are planned, including very small contingency provisions, to equal total revenues, and will consequently be Rp 150 billion higher than in 1971/72.

Table 19: CENTRAL GOVERNMENT BUDGET ESTIMATES, 1972/73
(In Rp billion)

		1971/72 (Rev. Est.)	1972/73 (Preliminary)
1.	Internal revenues /1	422 /2	574
2.	Routine budget expenditures	354	438
	Debt payments	46	48
	Personnel /3	233	298
	Other	75	92
3.	Surplus (1-2)	68	119
4.	Counterpart receipts estimate	97	95
5.	Development budget (3+4) /4	165 /5	231
	Total Expenditure (92+5)	519	669

/1 Including Rp 10 billion IPEDA for 1971/72 and Rp 12 billion for 1972/73.
/2 Excludes Rp 11 billion carryover.
/3 Including subsidies to regions for salaries.
/4 Excludes project aid.
/5 This is the present estimate of development expenditure which is lower by Rp 11 billion than the original budget.

80. Out of this total increase in planned expenditure of Rp 150 billion, some 43 percent or Rp 65 billion is tentatively planned to be devoted to increased personnel expenditure, in the civil and military branches of the Central Government (Rp 48 billion) and in the provincial Governments (Rp 17 billion). Only an insignificant part of this is for the employment of additional personnel; the overwhelming part is to be used to increase levels of compensation. Final decisions on the way in which this will be done have not yet been made, but the present intention is to include an across-the-board increase as well as some selective increases (see Table 20).

Table 20: PROPOSED INCREASE IN CENTRAL GOVERNMENT PERSONNEL EXPENDITURE IN 1972/73

(In billion rupiahs)

	Increases	Amount	Percent
1.	Proposed increases in salaries	29.8	62.2
2.	Normal salary increase	4.1	8.5
3.	New personnel	1.9	4.0
4.	Rise in pension	3.0	6.3
5.	Food allowance	3.3	6.9
6.	External	1.4	2.9
7.	Additional payment during Lebaran	3.2	6.7
8.	Other	1.2	2.5
	Total	47.9	100.0

81. Approximately Rp 19 billion or 13 percent of the total increase in planned expenditures is to be used for routine budget expenditures on materials; these include maintenance, supplies and equipment, travel, etc.

82. Approximately Rp 66 billion or 44 percent of the total planned increase in expenditure is allocated to the Development Budget.

83. These allocations mean that in 1972/73 routine budget expenditures for personnel will be 28 percent higher than in 1971/72; routine budget expenditures for materials will increase by 23 percent; development budget expenditures will increase by 22 percent. These relationships are expressive of the very high priority given to improving the level of compensation of Government personnel.

84. Proposed Development Budget Expenditure: As indicated in Table 19 Government savings (the excess of internal revenues over routine budget expenditures) in 1972/73 will be Rp 136 billion (including IPEDA revenues and expenditure of Rp 12 billion), which is more than twice the level of 1971/72. The total rupiah resources now indicated as available for development budget expenditure in 1972/73 are estimated at Rp 231 billion (excluding IPEDA). This includes an estimated Rp 95 billion in counterpart

Table 21: DEVELOPMENT BUDGETS 1972/73[1/]
(Rp billions)

		1971/72 budget	Official forecast 1972/73	Percent change
1.	Economic Sector	140.9	184.5	30.9
	Agriculture[2/]	23.3	13.4	-42.5
	Irrigation	22.4	24.9	11.2
	Industry and Mining	2.7	5.0	85.2
	Electric Power	9.6	16.2	68.7
	Telecommunications, tourism, ports, etc.	12.4	19.4	56.5
	Highways	17.0	23.1	35.8
	Railways	3.2	3.4	6.2
	Regional Developments	38.8	55.4[3/]	12.0[4/]
	Investments through the banking system	11.5	24.7	114.8
2.	Social Sector	24.5	32.0	30.6
	Education, culture	11.7	16.1	37.6
	Health, welfare	5.8	7.9	36.2
	Other (water supply, etc.)	7.0	8.0	14.3
3.	General	10.7	13.6	27.1
	Armed forces	5.0	6.0	20.0
	Other	5.7	7.6	33.3
	Total	176.1[5/]	231.1	24.4[4/]

1/ Excludes project and disbursements.
2/ Includes provision for DGR losses of Rp 13 billion in 1971/72 and Rp 2.5 billion in 1972/73.
3/ Including Rp 12 billion IPEDA transfer.
4/ Excluding IPEDA.
5/ Actual expenditure is expected to amount to Rp 165 billion (see Table 19).

funds generated by program aid, compared to an estimated Rp 97 billion for 1971/72. The figure for next year assumes disbursements of program aid in all categories during 1972/73 of $320 million equivalent, and modifications of pricing policy with respect to one or two main aid commodities (see paras 18 and 24).

85. Project aid disbursements on an arrivals basis are calculated at the equivalent of Rp 58 billion ($140 million) for the next fiscal year, an increase of Rp 11 billion ($27 million) over the estimate on the same basis for the current year.

86. These resources are assigned to a development program provisionally composed as shown in Table 21 which also gives the 1971/72 estimates for comparison. Although, as indicated in paragraph 82, the provisionally planned Rp 231 billion expenditure in the development budget in 1972/73 would be Rp 66 billion, or 44 percent higher than the presently estimated 1971/72 development budget expenditures, the Rp 231 billion figure is only Rp 55 billion higher than the original development authorization for 1971/72. This will finance a substantial increase (approximately Rp 30 billion) in expenditure for major infrastructure facilities - highways, electric power, irrigation, railways, telecommunications and ports - and lesser increases for other purposes, including education, health and family planning, transfers to Provincial and local authorities and others. The allocations made take account of additional rupiah expenditure which will be required to match the estimated increase in project aid disbursements.

87. The allocation in the 1972/73 development budget of Rp 24.7 billion for investments through the banking system more than doubles the original budget allocation for this purpose in 1971/72 and exceeds by a wider margin actually anticipated 1971/72 expenditures for this purpose. This allocation is to be used to provide additional capital to Bapindo, the Development Bank, so that Bapindo, aided also by credits from abroad anticipated under project aid, can substantially enlarge its term lending to the enterprise sector. It also provides additional funds for support of the medium term investment credit program being executed by the state banks, and for term loans and other investments in Government enterprises including a number of the agricultural estates. Finally, it provides for further investment in a few "retarded projects" started with pre-1967 aid. The additional allocation of funds to finance investment by productive enterprises will be a valuable non-inflationary supplement to the resources likely to become available from the banks themselves. It is hoped that budgetary and also aid funds avail- for this purpose will grow in the future. 1/

1/ A considerable number of public sector enterprises are receiving managerial and technical assistance through the medium of project aid. No institutional mechanism as yet exists through which similar assistance is being provided to private sector enterprise, financed either out of internal budgetary resources or project aid. Consideration is being, and needs to be given to the establishment and the funding of such a mechanism in order to assist in the development of Indonesian entrepreneurship.

88. In addition, on the basis of such information as is available. it appears that larger allocations to the rehabilitation of minor irrigation works and to the kabupaten program might be highly productive. Furthermore, increased expenditures for the maintenance of school and health facilities and for the supply of educational and health materials appear to be quite essential. Obviously increases in the amounts allocated to these purposes would require reduction in other planned budgetary allocations. It would be desirable, therefore, that the provisional allocations planned be reviewed and the priorities implicit therein reconsidered. It may well be that a somewhat smaller allocation this year to the increase in levels of Government personnel compensation would be appropriate, despite the desirability on several grounds of properly planned increases of this sort.

III. THE BALANCE OF PAYMENTS: TRENDS AND PROSPECTS

89. In response to the uncertainties created by the international monetary situation and the continued weakness in the prices of most of Indonesia's primary export products, and as a precaution against the possibility of further losses in its slender foreign exchange reserves, the Indonesian authorities devalued the rupiah by 9 percent against the US dollar on August 23. Weighing the revaluations of other major currencies against the dollar since mid-August by the Indonesian import pattern, this is at present (mid-November 1971) equivalent to a devaluation against all major currencies of approximately 13 percent and, if earlier valuation changes are taken into account, of about 15 percent. In relation to the yen, deutsche mark and guilder in particular, the combined effect at present is of a rupiah devaluation of 18-19 percent.

90. The decline in net exchange reserves available to the monetary authority amounted to $50 million in the first half of 1971 even with the SDR allocation of $28 million in January. In the period April to June, the first fiscal quarter of 1971/72, the net reserve loss was $60 million and gross reserves declined by $80 million to slightly over $100 million. Not all the reasons for this deterioration in reserves can be readily identified. Recorded imports of goods c.i.f. were higher by $50 million in the first half of 1971 than in the preceding six months but export earnings were also higher, by $30 million, and the project and program aid and direct investment inflows which finance a third of the import bill decreased only slightly. There is no basis for assuming capital movements out of the economy during this period or a reverse movement in the following fiscal quarter, July-September, when net reserves recovered by $29 million and the higher import bill was covered by an increase of $55 million in program aid disbursements. The losses of the first quarter of 1971/72 account largely for a forecast of a loss of $36 million in net foreign exchange reserves for the year as a whole, excluding the SDR allocation estimated at $28 million, instead of the modest gain hoped for earlier this year.

91. The balance of payments figures for 1970/71 and the estimates for 1971/72 are summarized in Table 22. An increase in gross and net oil export receipts by 30 and 42 percent respectively, but only 4 percent in estimated non-oil exports, combine with larger disbursements of aid and inflows of private direct investment to finance the 1971/72 increase of $193 million in recorded imports of goods and services (non-oil), 17 percent more than the previous year. In the following paragraphs export and import trends are discussed both for 1971/72 and for 1972/73.

Oil Exports

92. Indonesia is enjoying an oil boom in exploration as well as in production. Oil is being actively sought in almost all promising areas throughout Indonesia, particularly offshore, under 46 separate production-sharing contracts. The difference between the Indonesian and other national arrangements for foreign oil operations is explained in detail in Annex A, which also supplies detailed estimates of oil export earnings, gross and net, for 1971/72 and 1972/73.

93. Most Indonesian oil is exported as crude either directly by companies, including Pertamina, or indirectly by Pertamina under contractual arrangements with foreign companies. The dramatic increase in prices from 1970 and early 1971 levels, as a result mainly of the Teheran Agreement of February 1971 between foreign oil companies and six other countries, will raise Indonesia's oil export earnings markedly in 1971 and also in 1972 when the full impact of these price increases will bear on higher production. Indonesia has also gained from the quality of its crude oil -- the low sulphur content now commands a substantial premium in main markets -- and from higher tanker rates which have increased its geographical advantage over Middle East crudes competing in the Japanese market.

94. The gross value of oil exports in 1971 by Caltex, Stanvac, Pertamina and two of the companies operating under production-sharing arrangements and exporting for the first time is now calculated at $574 million, an increase of 30 percent over 1970 when the volume of oil exports was only 5 percent lower but prices were well below present levels. The 278 million barrels of oil exports include 33 million barrels of products from Pertamina's refinery operations, mainly residual fuel oils which attract prices close to those of crude oil. In 1972, with over 390 million barrels of crude equivalent for export, gross oil export proceeds are estimated, at a uniform price of $2.57 per barrel, to reach $1,014 million. 1/

95. Net oil exports represent the value of gross oil exports less (1) the profits of the foreign oil companies; (2) the foreign exchange costs of the production operations of the foreign oil companies; (3) the foreign exchange costs of supply of petroleum products to the domestic market; (4) the foreign exchange costs of Pertamina's exploration, production, refinery and marketing operations, insofar as they are not included in (3) above; and (5) the foreign exchange expenditures of Pertamina on its capital investment program, insofar as they are not financed by loans from abroad, and including its debt payments. A calculation is shown in Table 23. The estimate for 1971/72 (oil operations in a calendar year have their balance of payments and budgetary impact in the equivalent fiscal year, that is, with a lag of one-quarter) is $192 million in net oil exports, an increase of 42 percent over the previous year. For 1972/73, the estimate is $395 million, an increase of over 100 percent. 2/

1/ In Annex A gross oil receipts were estimated at $579 million in 1971/72, $5 million more than the revised figure now available. Receipts in 1972/73 were projected at $997 million. The new projection of $1,014 million reflects greater optimism about the speed with which output will expand in 1972.

2/ Annex A (and Table 23) also show estimates of $197 million and $383 million for net oil receipts in 1971/72 and 1972/73 respectively. The differences derive from the changes in the gross oil export figures explained in footnote 1/.

Table 22: THE BALANCE OF PAYMENTS
1970/71 and 1971/72
($ million)

	1970/71	1971/72 (Rev. Est.)	Change (%)
Exports			
Oil (gross) 1/	443	574	30
Oil sector imports	- 179	- 200	
Investment income payments (oil)	- 129	- 182	
Oil (net)	135	192	42
Other exports	761	790	4
Net Exports	896	982	10
Imports (c.i.f.)			
Program aid	282	345	22
Food grains	(121)	(139)	15
Cotton	(22)	(36)	64
DK imports	(139)	(170)	22
Other	857	954	11
Non-freight services	125	158	26
Total Imports	1,264	1,457	15
Current Account Deficit	368	475	-
Aid	373	445	19
Program	(282)	(345)	22
Project	(91)	(100)	10
Private Capital	111	153	38
Debt Service	- 68	- 103	51
Errors and Omissions	- 55	- 56	
SDR Allocation	28	...	
Monetary Movements	- 21	+ 36	

1/ Including oil sector debt service and hire-purchase payments.

Table 23: ESTIMATED NET OIL EXPORTS FY 1971/72 - 1972/73

	FY 1971/72	FY 1972/73
	(US$ million)	
Tax liability of foreign contractors	272.3	479.1
Less: payments in rupiahs	6.9	7.4
	265.4	471.7
Less: contractors' tax liability settled in kind /1	37.2	57.5
Net foreign exchange earnings from contractors	228.2	414.2
Less: Pertamina's foreign exchange needs for domestic market /2	38.6	38.6
	189.6	375.6
Add: Net foreign exchange earnings from Pertamina's production, refining and marketing operations	7.0	7.0
Net foreign exchange earnings of oil sector	196.6 /3	382.6 /3

/1 Deliveries to domestic market and transport services.
/2 Product imports, refining and transportation.
/3 See footnote to para 95.

Source: Annex A, Table 6.

Other Exports

96. Following a disappointingly slow expansion of 4 percent in 1971/72 -- when only a few commodity exports are likely to increase in value and several, including rubber and copra, show marked declines -- earnings from exports other than petroleum are conservatively projected to reach US$875 million in 1972/73, an increase of about 11 percent from the US$790 million of the current year (see Table 24). The major part of the rise in earnings in 1972/73 would result from a substantial gain in receipts from timber, accounting for some three-fifths of the total increase with rubber and a number of minor exports contributing the remaining growth in earnings. If the projections are realized, timber would rival in importance rubber, traditionally the country's principal non-oil export. The export projection for 1972/73 is thus closely tied to a reasonably favorable outlook for timber; earnings from all other commodities (excluding petroleum) are projected to increase by only 5 percent.

97. The pattern of export growth in 1972/73 would follow a broadly similar pattern evident in the present year, in which a higher level of earnings from the non-oil commodities as a whole has been primarily due

to the continued sharp rise in receipts from exports of lumber, supplemented by gains in earnings from a number of commodities such as nickel, bauxite, and others of agricultural or mineral origin which, in aggregate, have emerged as a source of earning of steadily growing importance.

98. Accompanying the devaluation measure of August 1971, which in itself had the effect of increasing the rupiah returns of Indonesian exports by at least 9 percent, several more direct measures were taken to encourage exports. These included the reduction of cesses and other charges on copra, in particular, but also pepper and coffee. Finished goods and handicrafts, as well as tea, had already been exempted from the tax on exports. In a number of other ways, including the promotion of crumb rubber production and the establishment of an export development institute which will have three marketing centers for industrial, agricultural and handicrafts exports, the Indonesian authorities have actively sought to increase exports other than oil and timber. The healthy growth of the miscellaneous category of exports suggests at least partial success in this endeavor. The apparent lack of a supply response in most major export commodities, however, particularly among smallholders, indicates more fundamental problems and a need for further investigation of the conditions under which producers are operating.

99. The gain since 1970/71 in earnings from lumber -- much of which is directly or indirectly shipped to Japan and the United States -- reflects substantial increases both in volume and unit value. Higher receipts from tobacco in 1971/72 similarly have resulted from a combination of higher prices and volume of shipments, while an increased quantity of sales to Japan is responsible for a gain in earnings from nickel in the current year. In both cases little further increase in earnings is likely to take place next year. The drop in receipts from rubber sales in 1971/72 reflects a decline in export volume as well as price in the face of a world market which has weakened as a result of a slowing down in the pace of economic growth in industrial countries, labor difficulties in the United States and continued competition from synthetic rubber. Exports of Indonesian crumb rubber have, moreover, encountered marketing difficulties which are believed to be temporary.

100. The prospects for significant improvement in earnings from other traditional Indonesian exports in 1972/73 are little better. While in a few instances, such as pepper and other spices, coffee, tobacco and tea, market prices should continue to be attractive, the gains in export volume are likely to be modest or negligible. The fats and oils markets will, in all likelihood, continue to be rather weak. In the case of copra, the depressive effects on export earnings of low prices are likely to be accentuated by further diversion of supplies to the steadily growing domestic market. While the volume of palm oil exports could well be higher than in 1971/72 the outlook is for weakening prices as large supplies of Malaysian palm oil weigh upon the market.

Table 24: NON-OIL COMMODITY EXPORTS, 1970/71 - 1972/73
(US$ Million, c.i.f.)

	1970/71 /1	1971/72 /2	1972/73 /3
Rubber	255	223	235
Lumber	130	173	220
Tin	60	60	63
Coffee	62	60	62
Palm Oil	41	38	36
Tobacco	13	23	23
Tea	23	26	24
Pepper	9	20	18
Copra	33	16	19
Copra Cake	9	13	11
Palm Kernels	5	4	5
Other	94	110	125
Total	761 /4	790 /5	875 /5

/1 Actual
/2 Bank estimate
/3 Bank projection
/4 Bursa receipts
/5 Includes 4 percent adjustment for advance payments

Imports

101. The import projections are shown in Table 25. These use what data are available on imports by economic category in 1970/71 to forecast the import bill for 1971/72, taking the current estimates for direct investment imports and disbursements of project and commodity aid (food and non-food) as data and estimating other categories by using growth trends for each category of imports financed by own earnings and aid exchange. The rates reflect recent experience and assumptions of continued economic growth. Briefly, these are that at 1970/71 exchange rates, the import demand for consumer goods other than foodgrains would increase by 12 percent per annum, that for "other" industrial inputs by 14 percent and that for the "other" capital goods category, by 26 percent in each of the two years.

102. The forecast from 1970/71 conforms in aggregate to the official imports figure for the first semester of 1971/72. For imports during the second half-year, an attempt was made to adjust for the effects of the devaluation of the rupiah in August 1971 and the further effects of the revaluation of certain major currencies against the US dollar. Such changes will affect both the total demand for imports expressed in dollars and the cost in dollars of any given volume of imports. Adjustments for both factors are included in the estimates for 1971/72 and produce a total import bill of $1,300 million.

103. The projection for 1972/73 is from the 1970/71 base and again attempts to provide for the continued effects of rupiah devaluation and other currencies' appreciation against the dollar. This involves the assumption that Indonesia's imports in 1972/73 will be on average 8-10 percent more expensive in dollar terms than if 1970 parities had been maintained. With the Indonesian devaluation, this would make such imports 18-20 percent dearer in rupiah terms if no substitution occurred. The effects of this increase are assumed to fall mainly on consumer goods imports. The import demands for inputs to production and for investment goods are assumed to be inelastic in this price range. The estimated import bill for 1972/73 indicates the current estimates for direct investment imports and disbursements of project and commodity aid.

Table 25: COMMODITY IMPORTS BY ECONOMIC CATEGORY
1970/71 - 1972/73

(US$ Million, c.i.f.)

	1970/71 /1	1971/72 /2	1972/73 /3
Consumer Goods	338	329	308
Food Grains	154	139	110
Other	184	190	198
Production Materials	412	466	555
Fertilizer	27	20	25
Cotton	22	36	50
Other Industrial	363	410	480
Capital Goods	391	504	705
Project Aid/Private Investment	163	224	350
Other	228	280	355
Total	1,139	1,299	1,568

/1 Actual
/2 Bank estimate
/3 Bank projection

104. The estimate of $1,568 million for imports of goods in 1972/73 is subject to margins of error rather larger than most such projections and could, particularly if substantial additional domestic resources are channelled into private sector investment, prove to be too low. It provides for a growth rate of imports as a whole of 21 percent in 1972/73 after the estimated growth of 14 percent this year. The global figures obscure the similarity in growth rates postulated for domestic investment goods and industrial inputs respectively in each year and the projected decline in food aid. The importance of adequate provision for imports, both for continued price stability and for development cannot be overestimated.

The Balance of Payments for 1972/73

105. Balance of payments projections for 1972/73 are set out in Table 26. The very real uncertainties facing Indonesia, and other developing as well as industrial countries, as a result of recent and continuing adjustments in the international monetary system, argue for a cautious assessment of balance of payments issues for next year. The devaluation of August 23, in the opening phase of the new monetary developments, indicates how quickly and directly the Indonesian authorities had to respond to influences on the very open economy, in particular because of the country's minimal foreign exchange reserves. This experience should not be repeated because the quantum jump in oil export earnings apparently assured for 1972/73 offers the opportunity to plan with some confidence for a very considerable increase in reserves next year.

106. The present level of gross foreign exchange reserves, about $180 million, is equivalent to 4-6 weeks of external payments if oil sector transactions are treated on a net basis. For an economy operating, successfully, in as open an environment as that of Indonesia, reserves equivalent to 3-4 months payments may be necessary if a stable exchange base for the working of the economy and for longer-term policy and development planning measures is to be attained.

Table 26: SUMMARY BALANCE OF PAYMENTS, 1972/73

	(US$ Million)
Gross oil exports	1,014
Oil sector imports (g and s)	-299
Investment income payments	-320
Net oil exports	395
Non-oil exports	875
Total net exports	1,270
Imports c.i.f.	-1,568
Services (non-freight)	- 210
Total imports	-1,778
Current account	- 508
Official transfers	520
(Project)	(200)
(Program)	(320)
Private Capital	178
Debt Repayments	- 100
Monetary Movements	- 90 /1

/1 Increase in net foreign exchange reserves.

107. If present expectations of a net reserve loss of $36 million eventuate, then part of the gain postulated for next year will represent a recovery to the position of April 1971. The latest information on external transactions, in the current fiscal quarter, suggests the possiblity of a somewhat smaller reserve loss for the year as a whole and the possibility that, with allowance for an allocation of SDR 28 million in the last fiscal quarter, there may be no deterioration in the reserve position in 1971/72.

108. There can, of course, be no assurance that the planned strengthening of reserves will, in fact, occur. The attempt has been made to project export earnings conservatively, allowing in particular for only very modest recovery in prices of some major commodity exports from present depressed levels and making no assumption of increase for some others. On the import side, however, the estimates of import trends must be treated as tentative. The factors affecting import demand in Indonesia are imperfectly understood and the estimates of growth, while consistent with recorded data for the past three years, may understate next year's actual requirements, particularly since reported data are themselves unsatisfactory and incomplete. On the other hand, debt service payment obligations can be more confidently estimated and will be no higher next year than in 1971/72, mainly because the current years' payments include 18 months or two years' service on external debts consolidated as a result of the Paris debt settlement of April 1970 and only this year confirmed in bilaterial agreements with creditor countries.

Program Aid for 1972/73

109. Indonesia is requesting for 1972/73 the amount of $320 million in program aid in all categories:

	$ Million
Non-food program aid	210
of which cotton requirements	(50)
Food aid	110
	320

110. This is less by $50 million than the request presented at the IGGI meeting of December, 1970 for 1971/72. In real terms, taking account of the revaluation of some of the currencies in which aid is provided, the request is smaller by a wider margin. Most of the reduction reflects the growth in national rice production in recent seasons described in Chapter I and predicted with some confidence for 1972/73. As emphasized in that discussion, the food aid request must be taken as a first estimate of requirements subject, particularly for rice, to substantial upward or downward revision at the April IGGI session when more will be known about crop prospects for 1972. In summary, the new request of $110 million in this category would encompass:

	Quantity (tons)	Value ($ m.)
Rice	450,000	65
Wheat (flour equivalent)	500,000	45

111. The cotton requirements of the economy are also discussed in Chapter I. The request for $50 million of aid in this category represents the 330,000 bales of raw cotton estimated as necessary to support growth of the domestic textiles sector next year.

112. Allowing for the recent revaluation of the currencies of several IGGI member countries against the US dollar, a request expressed in dollars for the same amount of non-food program aid represents a significant decline from last year. In terms of the sources of actual commitments of program aid exchange for 1971/72, a request for $160 million dollars of non-food, non-cotton program aid is approximately 6 percent less, at currently prevailing exchange rates, than the equivalent amount a year ago. Any further revaluation would enlarge this difference. Given also the price increases of internationally traded goods of the categories procurred with program aid, the volume decline in imports implied in the new aid request will be substantial.

113. In the course of 1971/72, the value of program aid absorbed by the economy is estimated at $345 million, although it would be reduced by about $25 million if the planned carryover of 150,000 tons of aid rice commitments eventuated and arrival for the year are held to 540,000 tons. Of the non-food aid, $36 million is the import value estimate for raw cotton and cotton yarn and $170 million the estimate of sales of Devisa Kredit (aid exchange). The utilization of DK aid was low, only $19 million, in the first fiscal quarter but has now accelerated to levels which support the estimate of $170 million for the full year.

114. Until August 1971, purchases of aid exchange had lagged behind availability since the previous December when the preferential exchange rate applicable to sales of aid exchange was abolished. The special credit facilities for aid transactions introduced in January-June 1971 did not appear to eliminate the preference of importers for free foreign exchange rather than exchange subject to aid procurement regulations. For aid from some countries, the extra time involved in import transactions and shipment over long distances meant, at the high Indonesian interest rates for trade credits, considerably higher costs for imports.

115. In August, as one of the measures associated with devaluation, a system of compensation payments was introduced to compensate importers using program aid funds. This provides compensation ranging from Rp 20 to 60 per US dollar or equivalent (5 to 15 percent) according to the source of funds, with the highest amount for tied aid from North America, a payment of Rp 40 on payments involving European suppliers, Rp 30 for US untied aid and for aid imports from Australia and New Zealand and Rp 20 for aid imports from Japan, Australia and New Zealand. One effect is to reduce to an average of

about Rp 380 the counterpart generation per US dollar of DK aid. The more important effect has been the acceleration in sales of DK aid. The estimate of $170 million of sales during 1971/72 would exceed commitments for the current year and involve some reduction in the pipeline of $35 million accumulated at the end of March 1971.

116. The program aid request for 1972/73 can be considered minimal. It is lower than the 1971/72 request principally because it reflects lower food aid requirements as a result of successful efforts to increase the domestic production of rice. The increase in net oil earnings forecast for 1972/73 permits the Government to aim at an increase in foreign exchange reserves which is essential in view of their present low level and the uncertainties of the coming year. Furthermore, no equivalent jump in oil earnings can be forecast for 1973. The understandable concern about the prospects for Indonesian exports in an unpredictable international economy, the limitations of any forecast of import demand on the basis of the less than satisfactory data now available and Indonesia's development needs in 1972/73 and thereafter, combine to make a strong case for adequate program aid to Indonesia in 1972/73. Intensive work now in progress on the improvement of trade and financial data and, more fundamentally, on analysis of the level of import demand likely to be generated by the development process now underway should provide a better basis next year for projecting longer-term balance of payments trends. By then also, the impact of exchange rate readjustments on the Indonesian balance of payments will be known. The assurance of program aid of the dimensions and composition specified in the Indonesian request would, however, substantially assist the Government in facing the uncertainties inherent in any forecast of external trade developments for 1972/73.

Counterpart Generation

117. Under present subsidy policies the rupiah funds generated by an inflow of $320 million, in the composition specified in the aid request, would permit the transfer to the budget of an estimated Rp 91.4 billion (Table 27).

Table 27: ESTIMATE OF COUNTERPART FUND GENERATION, 1972/73

	Utilization US$ Million	Counterpart US$ Million	Counterpart Rp Billion
Food Aid	110	55.3	23.0
Rice	65	32.0	13.3
Wheat	46	23.3	9.7
Other Program Aid	210	164.8	68.4
Cotton	50	25.5	10.6
Fertilizer	25	15.7	6.5
General	135	123.6	51.3
Total	320	220.2	91.4

As noted earlier in this report, changes in the domestic pricing of two aid commodities, wheat grain and raw cotton, are being considered. The official estimate of Rp 95 billion in counterpart transfers to the budget in 1972/73 takes into account the probability of adjustments in the prices of one or both commodities before or during the fiscal year.

Project Aid

118. The Government is requesting $350 million in new commitments of project aid for the 1972/73 financial year, an increase of $80 million over the request made for 1971/72. The general commitments announced or implied in April 1971 for the current year amounted to $295 million including the estimates totalling $105 million given by IDA and the Asian Development Bank as indicative of the proposed size of their lending programs during the period. These multilateral programs now appear likely to substantially exceed this total.

119. Projectaid commitments amounted to $72 million in 1968, $185 million in 1969, and $288 million for the 15-month period January 1970 to March 1971. The total of all such IGGI commitments to the end of March 1972 is likely to approach $850 million. The utilization of aid to September 1971 is shown in Table 15 (Chapter 2). Total utilization on a letter of credit opening basis is estimated at $220 million and on an arrivals basis $175 million, 1/ leaving pipelines of $630 or $675 million according to the definition used. The utilization of project aid has accelerated and a large proportion is being disbursed within two years of commitment. The sizeable pipeline consists mainly of recent commitments, commitments for major projects with long gestation periods and that part of the general commitments not yet secured by specific loan agreements. Project aid utilization on a letter of credit bases is tentatively estimated at $200 million in 1972/73.

1/ Both figures exclude pre-1967 project aid still disbursing in small quantities, $15 million in 1969/70 and $10 million in 1970/71.

120. This year project and technical assistance lists to be presented by the Indonesian authorities are not duplicated in the Bank report. The preliminary project list, still subject to further review and modification, includes projects in the A and B categories with a foreign exchange component of $569 million. In addition, there are projects in the C category with a very roughly estimated foreign exchange component of $226 million. The categories are those used for 1971/72. Category A consists of projects expected to be ready for commitment at the beginning of the next fiscal year and judged to be technically feasible and economically sound. The estimated foreign exchange cost of such projects is $261 million. Category B projects are those on which feasibility studies are in progress and will be completed during 1972/73. Some of these may prove not to be technically feasible or economically advantageous. Others may require reshaping and their costs may differ from those now estimated, but all projects in this category are already being studied and prepared. The third category (C) projects are those which appear possibly to have merit and to command priority but for which the necessary studies have not yet begun. They are included where there is some possibility that the study could be initiated and completed and a project ready for commitment before the end of 1972/73. Cost estimates on these projects are necessarily very preliminary, and in each case provision for the study appears in the technical assistance list. A summary of the project proposals is given in Table 28.

Table 28: PROJECT PROPOSALS 1972/73

(In US$ thousands)

	STATUS				
Sector	A	B	A + B	C	Total
Agriculture	37,260	69,100	106,360	45,350	151,710
Irrigation	14,200	14,000	28,200	6,500	34,700
Mining	10,490	20,000	30,490	19,000	49,490
Industry	-	25,250	25,250	109,750	135,000
Power	51,780	80,200	131,980	8,100	140,080
Transportation	106,527	64,597	171,124	24,550	195,674
Telecommunication	3,853	6,310	10,163	1,020	11,183
D L B S	30,000	-	30,000	-	30,000
Others	7,000	28,595	35,595	11,800	47,395
Total	261,110	308,052	569,162	226,070	795,232

121. A number of the projects under consideration have appeared in previous lists, in particular in the 1971/72 list, but are now thought unlikely to receive commitments during the current fiscal year and are therefore provisionally included as candidates for 1972/73 project aid. In several instances, these projects are now in the A Category, their feasibility having been established in the course of this year. A number of quite new projects are in the list, however, in most sectors, and in particular in the agriculture, transportation, telecommunications and general categories there is evidence of considerable further progress in pre-investment work, including project preparation. As between the sectors, the share of transportation projects in the total of A and B categories is about 31 percent, agriculture and irrigation another 24 percent and transportation 23 percent.

122. The total aid request of $670 million for all categories of aid is, nominally, slightly higher than that requested for and subscribed in 1971/72. In terms of valuations of other major currencies against the U.S. dollar, then and now, it is somewhat less. The shift in composition towards project aid, within the total, occurs mainly because increased production of rice and petroleum in Indonesia will, if realized, reduce food and non-food program aid requirements next year. Disbursement of aid from 1972/73 commitments and previous IGGI commitments would, on this basis, aggregate $520 million, higher by $75 million, because of increased project aid utilization, than the public capital inflows now forecast for 1971/72.

ANNEX A

THE PETROLEUM SECTOR IN INDONESIA

Introduction

1. The structure of the petroleum industry in Indonesia can be quite simply described. Until 1963 crude oil in Indonesia was produced from fields under concession to companies in the Shell group since the 1890's, Stanvac since 1912 and Caltex since 1935. Law 44 PRP was then enacted in 1960, stipulating that oil and gas activities in Indonesia can be undertaken only through a state enterprise. The old system of concessions was ended in 1963, when the Government-owned oil exploration and production enterprises now consolidated into Pertamina acting as agent for the Government -- entered into "Contracts of Work" 1/ with the above companies for fields which they had previously held under concession. 2/ It bought out Shell's production assets and refineries at the end of 1965 for $110 million, paid over five years. The marketing assets of Shell, Stanuac and Caltex were purchased during 1964 for $12.9 million. PN Pertamina was formed on August 28, 1968 under Government Regulation No. 27/1968 by the merger of Permina and Pertamin. It bought the Sungei Gerong refinery in Central Sumatra from Stanvac on January 5, 1970 for $4,750,000.

The Pertamina Law

2. On September 15, 1971 the Pertamina Law was signed, promulgated and came into effect. The new law clarifies the organizational and financial relationship between Pertamina and the Government. It establishes more clearly the management structure of the company and enables the Government to provide more regular guidance and control. It abrogates Government Regulation No. 27 of 1968, and it embodies the financial provisions of Presidential Decree No. 33 promulgated on June 1, 1971 regarding the transfers of revenue which Pertamina must make to the Government from contractors' and its own operations. These financial provisions in so far as contracts of work are concerned have been in effect since such contracts were instituted, and are effective beginning in the current fiscal year in so far as profit sharing contracts and Petamina's operations are concerned.

3. The organizational provisions are to become effective as of January 1, 1972. Pertamina is a wholly Government-owned corporation. Until now, it has been under the general purview of the Minister of Mines. Under the new Act a Government Board of supervisors is to be appointed 3/ by and be responsible to the President of the Republic, to supervise and give general direction to Pertamina's activities. It consists, ex officio, of the Minister of Mines as Chairman, the Minister of Finance as deputy chairman, and the Minister of Planning (chairman of BAPPENAS). Two other members may be appointed by the President of the Republic. The Board is to have a secretariat to expedite the exercise of its duties.

1/ Under contracts of work, the Government receives 60% of net operating income from oil destined for export, and the contractor receives 40%.

2/ A similar contract was also entered into with Pan American Indonesia Oil Company, but this contract has expired.

3/ The Board is expected to be appointed by January 1, 1972.

4. Under the general direction of the Board of Supervisors Pertamina is managed by a Board of Managing Directors, consisting of a President-director and not more than five directors. The Board is responsible to the Government Board of Supervisors and is also responsible to the Minister of Mines for Pertamina's operational activities. The Board of Managing Directors must obtain the prior approval of the Board of Supervisors for: (i) Pertamina's budget, (ii) alterations to Pertamina's budget and work programs, (iii) actions binding Pertamina's assets as guarantee, (iv) borrowings above a pre-determined limit, (v) creation of Pertamina subsidiaries and engagement of participants, (vi) purchase and sales agreements above a pre-determined limit, and (vii) a yearly financial report consisting of a balance sheet and income statement. This financial report is to be audited by the State Accounting Directorate. The Managing Board must also submit a quarterly report on the budget's implementation and on other activities. The budget must depict clearly the activities of Pertamina, its subsidiaries and participants, must cover the operational and investment plans, and must provide a distinct budget covering production-sharing contract arrangements.

5. Pertamina has exclusive rights to the exploitation of Indonesia's oil and gas resources. In its other production, refining and export marketing operations, Pertamina acts for its own corporate account, subject to the qualification indicated in paragraph 6 below. Pertamina on its own conducts exploration and production activities in certain areas, including those formerly operated by Shell. In other areas, Pertamina operates through contracts of work and "production-sharing" contracts with foreign companies under which the latter make all the investment required in return for a share of any oil which may eventually be produced. 1/ Pertamina also owns and operates all refineries now in operation in Indonesia, including several small and older refineries in its control since World War II, several older refineries purchased from Shell, one older one purchased in 1970 from Stanvac and two newly built by Pertamina itself.

1/ "Production-sharing Contracts" were first introduced in 1966. Pertamina obtains 65% of net operating income, rising to 67-1/2% when output exceeds a predetermined level -- generally 75,000 b/d, though lower in some recent contracts -- and rising to 70% in contracts signed in 1971 with Shell and Continental Oil when output exceeds 200,000 b/d, and with Caltex when it exceeds 100,000 b/d under a new production-sharing contract relating to a new area adjacent to its existing area under contract of work in Sumatra. The contractor retains the balance. The contractor also has to pay for geological data and signature and production bonuses and may have other commitments such as to build refining capacity at his expense to process output from the contractual area, or to offer minority local participation.

6. Pertamina also is the monopoly distributor in the domestic market, except at the retail or near-retail level, of all petroleum products. The latter operation -- and this is the qualification referred to in paragraph 5 -- Pertamina conducts as agent for the Government, receiving cost reimbursement plus a fee for refining and marketing domestically crude owned or purchased by the Government for supply of the domestic market. Domestic market selling prices of products are fixed by the Government; and the Government "tax" on such products is neither a specific nor an ad valorem tax per unit but rather the residual difference 1/ between on the one hand sales receipts and on the other hand, the cost to the Government of crude and products purchased from domestic producers or imported for domestic market supply, plus Pertamina's costs in refining and marketing, less the export receipts from sale abroad by Pertamina of any products refined from Government crude and surplus to domestic market needs.

7. The financial arrangements between Pertamina and the Government are simple. Under the terms of the Law, Pertamina is obliged to deliver to the Government (i) the full 60% share of profits payable by the foreign companies operating under contracts of work; (ii) 60% of the profits of companies operating under production-sharing contracts; 2/ (iii) 60% of Pertamina's own operating profits, and (iv) 60% of bonus receipts by Pertamina. It is our understanding - but it is not certain - that bonus receipts are being defined to include only production bonuses and not signature bonuses or payments for geological data. Pertamina thus retains 40% of its profits from its own direct operations, plus 5, 7-1/2 or 10% as the case may be, of the profits earned by companies under production-sharing contracts, plus, apparently, certain bonus and other payments. The latter, however, become part of Pertamina's operating profits subject to 60% tax. The above payments exempt Pertamina and the contractors from and constitute payment of the following taxes: corporate tax; fixed fee, exploration fee, exploitation fee and other payments related to the granting of mining authority under Law 44 of 1960; collections from oil and gas exports and yields from refining; import duties; and regional development fees. 3/

Oil Production

8. Though commercial production of oil in Indonesia first started in 1893, crude output twenty years ago (1951) was still only 152,000 b/d. Production rose to 467,000 b/d in 1966, 854,000 b/d in 1970 and is expected to average 892,000 b/d (325.7 million barrels) in 1971. Production comes

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1/ In law but not in practice this residual includes both an excise and a sales tax element.

2/ Pertamina, therefore, retains 5% when the contractor's share is 35%.

3/ The Government will, however, continue to pay regional development royalties (IPEDA) to regional Governments from income which Pertamina has deposited with it.

mainly from fields -- particularly the Minas field -- in Central Sumatra operated by Caltex under the contract of work entered into with Pertamina; and it is these fields which have been mainly responsible for the substantial boost in Indonesian output, rather than newly discovered ones (details in Table 1). To a lesser extent, crude is also produced from fields in Central and South Sumatra operated under contracts of work by Stanvac and from fields mainly in North and South Sumatra, Kalimantan and West Irian operated directly by Pertamina. Production started in September 1971 from two newly-discovered fields, offshore N.W. Java, both under production-sharing contracts. These are the Ardjuna field operated by a group headed by Atlantic-Richfield (ARCO) and the Cinta field operated by a group headed by the Independent Indonesian American Petroleum Company (IIAPCO), subsidiary of the Natomas Company of San Francisco. Both crudes are of light gravity and low sulphur content. Each field started operation at about 12,000 b/d and is expected to reach about 25,000 b/d by end-December 1971.

9. In 1972 total production is expected to increase by 35% over 1971 to reach 440.2 million barrels (1,203,000 b/d). This presupposes major increases in output onshore under contracts of work, essentially Caltex, and both on and offshore under production-sharing contracts. Caltex plans to bring production in its contract area up to about 1,000,000 b/d by July 1972 compared with 725,000 b/d average in 1971 and with 752,000 b/d estimated for October-December 1971, by drilling 83 new wells and bringing four new Sumatran fields into production, namely Bangko, South Balam, Menggala and Kotabatak fields. The timing of this increase depends, in particular, on the installation (i) of a new gathering system and pipeline to bring crude from the first three fields to the main Sumatran oil loading port of Dumai, and (ii) of a new pipeline from Kotabatak field into the existing line connecting the Minas field to Dumai. It is also building additional storage tanks and loading facilities and a third pier capable of handling 150,000 d.w.t. tankers at Dumai. This report assumes on the safe side that Caltex's output in 1972 will average about 900,000 b/d (329.4 million barrels). However, if the new gathering system and pipelines could be installed by April 1 rather than the date of July 1, 1972 originally contemplated, it could average up to 950,000 b/d. Under production-sharing contracts output is assumed to grow from the Ardjuna and Cinta fields, and to start from the Attaka field offshore N.E. Kalimantan operated by Union Oil/Japex and from the corridor block in Central Sumatra, assigned by Redco to Stanvac in February 1971. Pertamina's field under development at Djatibarang, W. Java is not expected to start output until early in 1973.

10. Total production estimated for 1971 and expected for 1972 is, therefore, as follows:

	1971		1972	
	(Million Barrels)			
Contracts of work:				
Caltex	264.6		329.4	
Stanvac	21.6		24.2	
		286.2		353.6
Production-sharing contracts:				
ARCO - Ardjuna Field	1.5		17.5	
IIAPCO - Cinta Field	1.5		14.6	
Gulf and Western - Ceram	-		1.4	
Union/Japex - Attaka Field	-		9.6	
Stanvac - Corridor Block	-		7.0	
		3.0		50.1
Pertamina		36.5		36.5
		325.7		440.2

Exploration

11. Prospects for further expansion of Indonesian oil production after 1972 depend in part on the development of reserves already proven in fields now under contracts of work and production-sharing contracts and in part on the outcome of exploration for new fields.

12. Pertamina has just extended Caltex's rights under its contract of work due to expire in 1983 for an additional 18 years, during which the terms for the same area will convert to a 70:30 production-sharing arrangement. As a new feature, Caltex will also pay to Pertamina $18 million in 15 annual installments starting in 1972 as advance rent for use of facilities after 1983 under the extension. This contract applies to an area of 9,898 sq. km. in Central Sumatra, mostly all Caltex area converted in 1963 from the old concession system into a contract of work, plus additional area granted in 1968. It excludes 12,328 sq. km. granted in 1963 to Caltex's parents Texaco and California Standard on which the contract expires in 1983. In addition, Texaco and California Standard have signed a 30 year production-sharing contract -- their first to become operative -- covering another 22,210 sq. km. in Central Sumatra. Production-sharing would start at 65:35 in Pertamina's favor up to 60,000 b/d rising gradually to 70:30 over 100,000 b/d. The signature bonus is US$2 million and the payment for geological data, US$6 million; the expenditure commitment is US$15 million over 8 years.

13. Exploration is being actively pursued in almost all promising area throughout Indonesia, particularly offshore, under some 46 separate production-sharing contracts by end-October 1971 (Table 2). Most of the offshore area from North Sumatra to West Irian has been granted for production-sharing contracts. The companies typically have been required to commit themselves to a minimum exploration outlay within eight years; these commitments totalled about US$450 million as of October 31,1971. Indonesia thus is currently enjoying an oil boom in exploration as well as in production.

14. This has been encouraged by tax arrangements which were deliberately designed to induce foreign oil companies to undertake accelerated exploration and production in Indonesia. These arrangements, since they were initially offered, have been financially somewhat more attractive to the foreign investor than those in many other oil areas. As the effort to attract foreign investment has succeeded, the terms of the tax arrangements -- and specifically for the division of profits -- have been shifted in favor of Indonesia, although they remain relatively attractive to the foreign companies. The increase in tax and royalty payments in the Middle East, which resulted from the Teheran Agreement of February 15, 1971 (see Appendix 1), has increased the share of Middle East Governments vis-a-vis companies operating there so that profit-sharing arrangement in Indonesia are, consequently now even more attractive financially to companies than arrangements in the Middle East. The Middle East, however, has the advantage of low-cost production from large oil reservoirs.

15. The most important difference between the arrangements in Indonesia and, for example, the Middle East, is that in Indonesia the profits from the producing operation are calculated on the basis of actual realized prices and gross receipts, rather than on hypothetical posted prices which international oil companies publish for crude oil exports f.o.b. the major North African and Middle East loading ports (see paragraph 27). The result is that Indonesia and the producing companies both share in the profit gains (or reductions) which result from changes in actual market prices. Under arrangements where taxable income is calculated on the basis of hypothetical profits derived from hypothetical prices upward (or downward) changes in actually realized prices increase (or decrease) the net after tax profits of only the foreign companies, and do not affect Government receipts per barrel of crude.

16. Under both arrangements, of course, the split between the Governments and the companies is further determined by the percentage tax rates or profit shares stipulated for each of the parties. In Indonesia, as the effort to attract foreign investment in oil exploration and production has become increasingly successful, the profit split has in newer contracts been altered in favor of Indonesia, as is evident from the facts cited earlier.

17. Optimism still seems high about continued exploration offshore Indonesia. The size of the new fields thus far developed at Ardjuna and Cinta is not large by Middle East standards, but there is still the possibility that a major field might be discovered, as has recently happened, for example, in Libya, Alaska and the North Sea.

Pro-rata Crude supplied to the Domestic Market

18. In terms of physical flows, a relatively small part of crude oil production in Indonesia is delivered to domestic refineries and a major part is exported as crude. Part of the output of the domestic refineries is sold in the domestic market and part (principally products surplus to domestic market requirements) is exported. Some crude oil for processing in domestic refineries is also imported, primarily to meet the particular product demands of the domestic market; mainly for the same reason there is some import of products, notably kerosene and lubricants. In 1971 the domestic market requirement is currently estimated at about 43.2 million barrels of refined products. For the purpose of calculating pro-rata proved obligations this is taken to equal 48.1 million barrels of crude oil input to domestic refineries, assuming the Indonesia convention of 10% for fuel use and losses in refining. A feature of the Indonesian arrangements is that with the exception of the four earliest production-sharing contracts, each crude oil producer is required to supply to the Government at cost plus 20 cents per barrel a "pro-rata" share of its output. In the case of Pertamina itself and the producers operating under contracts-of-work the pro-rata share they are obliged so to deliver to the Government, is a percentage of their output equal to the percentage of total national output represented by domestic market requirements. It is currently estimated that this will be 14.7 percent for 1971. In the case of production-sharing contracts (other than the four earliest) this percentage is applied not to their total output but only to the contractor's (foreign company) share of that output (after deducting costs and the Government share of output or profits). The remaining contribution due from these operations to the national pro-rata supply must be provided out of the Government-Pertamina share in output under these contracts. Tables 3 and 4 demonstrate the principle for calculating pro-rata crude supplies in 1971 and 1972 respectively.

Crude-in-kind

19. However, the domestic market needs more middle distillates, particularly kerosene, than can be processed at reasonable refining cost from pro-rata crude supplies. Hence, Pertamina refines additional supplies of Indonesian crude. It also imports middle distillates, lubricants and special products, plus small amounts of crude imported for its asphalt-making properties. The additional supplies of domestic crude are received from contractors as "crude-in-kind" and paid for at realized export prices. Under contracts of work, Pertamina can and does opt to receive "crude-in-kind" from each contractor up to 20% of his output. Such deliveries of crude-in-kind valued at export prices pay part of the tax obligations of the contractors. They are passed on to the Government by Pertamina in kind or cash. Under production-sharing contracts, Pertamina is entitled to take its whole share - 65% - of net operating income in kind. Pertamina processes part of the crude-in-kind in its domestic refineries. It exports the remainder and can thereby test the market price for those grades of crude oil which it does not itself produce.

Throughput and Capacity of Domestic Refineries

20. Crude oil delivered to domestic refineries in 1971 is estimated at about 80.6 million barrels, including pro-rata crude, additional crude from Pertamina's fields, crude-in-kind, and crude imports (Table 5). Refining fuel and loss is reported at about 6.5%. The crude input is equivalent to 232,000 barrels per calendar day or to 246,000 barrels per stream day (BPSD), assuming that each refinery shuts down for 35 days on average per year.

21. To handle this crude throughput, Pertamina had about 261,000 BPSD of refinery capacity in early 1970. It has owned and operated all refineries in Indonesia since January 5, 1970 when it bought from Stanvac the Sungei Gerong refinery and its deep water sea terminal at Tanjung Uban, an island off the coast of Sumatra. It had bought Shell's three refineries - Pladju, Balikpapan and Wonokromo -- on January 1, 1966; Caltex has had no refining capacity in Indonesia. Pertamina also owned a small refinery at Pangkalan Brandan in North Sumatra.

22. However, most of these refineries are old. In the last three years Pertamina has, therefore, been engaged in a major expansion of refinery capacity, bringing it to a level of about 385,000 BPSD by November 1971. It brought two new refineries on stream in Central Sumatra, one in September 1971 at Dumai, with a capacity of 100,000 BPSD, and the other in December 1969 at Sungei Pakning with an initial capacity of 25,000 BPSD and now expanded to 50,000 BPSD. The Dumai refinery cost about $37 million and was partly financed by loans from Sumitomo Shoji and Far East Oil Trading Company; they will take most of the refinery's surplus fuel oil for five years, partly as loan repayment and partly as purchases. Refican of Canada has provided assistance in building the Sungei Pakning refinery. However, 75,000 BPSD of distilling capacity -- including 50,000 BPSD at Sungei Gerong, 15,000 BPSD at Pladju, and 10,000 BPSD at Balikpapan -- are about to be phased out on account of age. The provision of 310,000 BPSD of refining capacity is in excess of the refinery capacity required to meet the estimated needs of the domestic market, as present crude input for this purpose would amount to about 265,000 BPSD in 1972 and -- assuming a domestic market growth of 8% yearly -- about 335,000 BPSD by 1975, the year when Pertamina plans to have another new 100,000 bbl/d refinery on stream. Plans are under consideration to modify the older Pladju and S. Gerong refineries -- both at Palembang -- to make petrochemical feedstocks as well as some of their present output of mainline products such as kerosene. The first move to make petrochemicals is the polypropylene plant now being built at Pladju.

23. Pertamina plans to have a new refinery on stream by 1975 having a crude input capacity of 100,000 b/d and a lubricating oil plant. Its site is expected to be at Tjilatjap on the south coast of Central Java, which can provide deep water for large crude oil tankers from the Middle East. It will provide enough additional middle distillates (kerosene and gas oil) and lubricants to the domestic market to minimize or avoid the need for importing these

products until at least 1978. Pertamina will have to export surplus gasoline and fuel oil as is its present practice from existing refineries. Pertamina has signed an agreement with Shell which -- as a first part of the deal -- would provide up to US$100 million to finance the construction of the refinery. The Shell loan is to be repaid with interest by deliveries of Minas-type crude oil valued at the f.o.b. export price effective at the time of delivery; the debt would be serviced over ten years, starting from completion of the refubert. The second part of the deal relates to crude supplies. Shell would supply 65% of the throughput for ten years in the form of Kuwait crude -- having a high sulphur content but good lubricant-making quality -- in return for the same volume of Minas-type crude. Shell would pay cash for the extent to which the f.o.b. value of Minas crude exceeds the c.i.f. refinery value of Kuwait crude. This refinery would bring Pertamina's refining capacity in 1975 up to about 410,000 BPSD, while the crude input needed to operate refineries essentially to supply the domestic market -- surplus products being exported -- is in the order of 335,000 BPSD in 1975 and 420,000 BPSD by 1978, assuming a domestic market growth of 8% yearly.

Tanker Fleet

24. Pertamina is also expanding and improving its inter-island tanker fleet and its terminal and land transport facilities to serve the domestic market and is also expanding its fleet of ocean-going tankers -- which is currently of the 30,000 to 43,000 d.w.t. range by ordering in Norway five 115,000 d.w.t. tankers.

Export Volumes

25. Exports of crude oil in 1971 are estimated at 245.8 million barrels, an increase of 8% over 1970. In 1970 they amounted to 228.3 million barrels, an increase of 21% over 1969. Exports are by Pertamina, Caltex and Stanvac and come from about seven fields, of which the predominant is Minas in Central Sumatra. Sources of crude exported in 1970 were as follows:

	(Million Barrels)	
Pertamina		
Own crude - Rantau	15.9	
- Bunju	2.0	
- Klamono	0.5	
Crude-in-kind - Minas	41.4	
- Duri	2.9	
		62.8
Caltex		
Minas	119.9	
Duri	12.0	
Pematang	19.9	
		151.8
Stanvac		
Lirik/Palai		13.7
TOTAL		228.3

26. Pertamina is, as the sole refiner, the only company exporting refined products from Indonesia. These are mainly fuel oil, waxy residue, some gasoline, and wax. Product exports in 1970 amounted to 35.7 million barrels and are estimated at about 33 million barrels in 1971.

Recent Developments in Indonesian Oil Prices

27. From the late 1950's to about the summer of 1970, world oil sales -- outside the United States -- were characterized by a continuous decline in realized f.o.b. prices from the peak reached during the first closing of the Suez Canal in 1957. The reasons were as follows: (i) some newcomers to Venezuela and North Africa sought a rapid payback on investments in new concessions, (ii) U.S. overseas producers could import only a more limited share of their production into the United States after the import restrictions imposed there voluntarily in 1957 and mandatorily in 1959, (iii) proven recoverable reserves of crude oil were growing worldwide faster than world consumption, and (iv) low freight rates extended international competition over a wider area than previously. However, the posted prices which international oil companies publish for crude exports f.o.b. the major North African and Middle Eastern oil exporting countries remained virtually frozen, because oil royalties and taxes there are generally computed from proceeds based on posted-prices and the Governments there successfully resisted any decrease in posted prices. As a result, crude oil sales both to third parties and to affiliates of international oil groups were made at increasing discounts off published prices posted at main export terminals.

28. Since mid-1970, the buyer's market has come to a dramatic end, with increases in both posted and realized prices and in freight rates. The Teheran Agreement, signed in February 1971, between the Governments of six countries and foreign oil companies for exports via the Persian/Arabian Gulf, and comparable agreements effective March 1971 for exports from Libya, Nigeria and Eastern Mediterranean ports 1/ resulted in a major increase in posted prices and income tax rates, and oil exporters have passed on the resulting increase in royalty and tax payments fully in their realized f.o.b. prices. Furthermore from mid-1970 to early 1971 the closing of the Trans-Arabian Pipeline and the production cut in Libya both made for a sharp increase in the demand for shipping to bring oil to Europe via the Cape of Good Hope and drove up freight rates worldwide. This has raised Middle Eastern crude prices delivered to Far Eastern markets. Consequently, in late March Indonesia's national oil company Pertamina announced an increase in its export price for crude oil sales to Japan and was followed by private companies exporting from Indonesia.

29. The f.o.b. export price of Indonesian crude oil is basically derived as a netback from parity with the c.i.f. price landed at Yokohama of an equivalent Middle Eastern crude, such as Iranian Light -- the crude most widely imported into Japan -- after appropriate adjustment for special product characteristics and particularly for the special value of low sulphur

1/ Agreements are summarized in Appendix 1, and their application is illustrated in Appendices 2 and 3.

fuel oil. Demand is strong for Indonesian crude with its low-sulphur content. This is about only 0.1% weight, compared with 1.35% wt. for Iranian Light, and commands a premium reflecting the increasing differential value of low sulphur fuel oil in the Japanese market. The increase in price announced by Pertamina in March 1971 was from $1.64 to $2.21 per barrel f.o.b. Dumai effective from April 1, 1971 for export sales of 35.0° API Minas crude oil to its 50% affiliate, the Far East Oil Trading Company. It raised prices for other customers from $1.67 and $1.70 per barrel to the same level of $2.21. All these prices are inclusive of 90 days' credit, worth about 3 cents. This increase of 51-57 cents or 30-35% is on the high side of the increase in posted prices - reflected in realized f.o.b. prices - of 27% for Iranian Light and of 30% for Kuwait crudes applicable under the Teheran Agreement for the period June 1971 to December 1972 inclusive (Appendix 2).

30. Minas crude accounts for two-thirds of Pertamina's crude exports. Pertamina receives it as crude-in-kind from Caltex. Another quarter of Pertamina's crude exports are from its own Rantau field in North Sumatra. This is very light -- about 45° API gravity -- and is exported to Japan. Pertamina's f.o.b. export price for this crude prior to April 1 ranged between $1.95 and $2.13; it is reported to have increased by less than the increase in the realized price of Minas crude.

31. The private contractors followed suit and made corresponding increases in their own f.o.b. export prices. Caltex's f.o.b. price for export sales of Minas crude had been $1.67 from July 1970 to March 31, 1971. This was raised to $2.21 per barrel on April 1, 1971. These prices are gross of 120 days' credit -- worth about 3 to 4 cents -- which is granted in sales to third parties and to affiliates in which it has a 50% interest or less. This applies to virtually all its Eastern Hemisphere sales but not to its sales to the U.S. West Coast which are to affiliates. Caltex raised its f.o.b. price on June 1, 1971 for U.S. West Coast sales to $2.35 per barrel. This f.o.b. price differentiation between sales to the U.S. West Coast and Japan can be analyzed on the basis that the price of Minas crude f.o.b. Dumai for exports to the U.S. West Coast is netted back from parity with the c.i.f. price landed at Los Angeles of an equivalent Middle Eastern crude. Freight to the U.S. West Coast from Indonesia is lower than from the Persian/Arabian Gulf by about 37 cents per barrel -- at current average freight rates -- while freight to Japan from Indonesia is about 28 cents lower than the Gulf. Indonesia's additional freight advantage of about 9 cents for export sales to the U.S. West Coast is reflected in its f.o.b. pricing.

32. Stanvac also increased its f.o.b. export price for Minas crude from $1.67 to $2.18 per barrel effective April 1, 1971, with no extended credit terms.

33. The increase of about 57 cents in the Indonesian export price was appreciably higher than the estimated increase in the realized f.o.b. export price of 41 cents for a Middle Eastern crude of equivalent gravity -- Iranian Light -- and reflected both the rising value being placed on low sulphur

crudes and the rise in average tanker freight rates since early 1970, which have heightened Indonesian crude's geographical advantage over Middle Eastern crude for the Japanese market. The new price levels suggested a low sulphur premium of about 23 cents for Minas over Iranian Light crude in the Japanese market in mid-1971. Iranian Light crude of 34.0° API gravity was being priced f.o.b. at roughly $1.79 per barrel - including 90 days credit -- in sales to Japanese refiners and being shipped there for about 48 cents, indicating a c.i.f. price of about $2.27 per barrel, or of about $2.28 for 35.0° gravity. Minas crude sold for $2.21 per barrel plus freight of about 30 cents, indicating a c.i.f. price of about $2.51 and a premium, therefore, of about 23 cents. However, the premium was still clearly below its long-term ceiling equivalent to the cost of desulphurizing oil. The premium for Indonesian crude could be strengthened by the Japanese Government's incentives for cleaner fuel as from November 1971 when it planned to cut the import duty on 1% max. sulphur content crude oil by 5 cents a barrel and on crude oil feed stocks for desulphurization units -- already 13 cents lower than the regular crude oil duty -- by another 9 cents.

34. Consequently, when crude production started in September, 1971 from the Ardjuna and Cinta offshore fields, Pertamina and the contractors priced their respective shares of output at the f.o.b. export price of $2.60 per barrel inclusive of credit terms. The crudes are again of very low sulphur content and of light gravity (37-40° API). Klamono crude of 22.0° API gravity, which has good characteristics in making lubricating oils, also sells for about $2.60 per barrel f.o.b. Pertamina has now also increased its f.o.b. export price for Minas crude, obtained as crude-in-kind, to $2.60 per barrel effective October 1, 1972. The increase is expected to be matched by Caltex and Stanvac by January 1, 1971 or possibly earlier.

Gross Value of Oil Exports, FY 1971/72 and 1972/73

35. The gross value of oil exports during FY 1971/72 is estimated at US$579.0 million, an increase of 30% over 1970 when it was $444 million. This estimate is a close approximation made by deducting from total Indonesian oil output of 325.7 million barrels in 1971 the crude oil equivalent 48.1 million barrels, of products consumed in the domestic market, leaving the equivalent of about 277.6 million barrels of crude oil for export. Actually, a minor part of the export, some 33 million barrels, was exported in the form of products refined in the domestic refineries (paragraph 26). These products consisted mainly of fuel oil and waxy distillate the average f.o.b. export price of which appears to be only marginally different from that of crude oil, so that the estimation of gross receipts on this basis is very close to actual recorded receipts.1/

36. For the purpose of calculating gross oil exports, crude oil prices reported actually to have been realized in various periods of the year have been taken. Stanvac and Caltex exports to the Eastern Hemisphere have been

1/ In 1970 this method indicates the same value of oil exports as the addition of crude oil exports by contractors and of crude and product exports by Pertamina.

valued net of export credit at $1.67 per barrel in the first quarter and $2.18 in the remaining three quarters of 1971. These prices are also taken for Pertamina's exports except that those for the fourth quarter are valued at $2.57 net of credit, as are all exports from the new Ardjuna and Cinta offshore fields. Caltex's exports to the U.S. West Coast are valued at $1.67 per barrel January-March, at $2.21 April-May and at $2.35 from June 1. Crude oil exports from Indonesia are mainly to Japanese refiners, for most of whom 90-120 days' credit is typical. Contractors make their cash payments of tax about 15 days after the calendar quarter during which they made their exports. Hence, shipments during the calendar year lead to financial transactions one quarter later, i.e. during the Government's financial year for balance of payments and tax purposes.

37. Output of crude in 1972 is estimated at 440 million barrels, and the pro rata crude obligation at 52 million barrels, leaving 388 million barrels of crude equivalent for export. Agreements have already been reached that as of January 1972 selling prices will be uniformly $2.57, net of credit; on the assumption that this price will prevail throughout 1972, gross oil export proceeds are calculated at $997 million (see Table 4).

Net Value of Oil Exports, 1971 and 1972

38. The net value of oil exports is conceptionally calculated by (a) estimating the foreign exchange provided by foreign contractors in settlement of their Indonesian tax obligations - other than those settled by provision of goods and services in kind - and (b) deducting the foreign exchange costs incurred by Pertamina acting as Government agent in supplying the domestic market, and (c) adding the net foreign exchange gain or loss in Pertamina's other operations. Conceptually, the net value of oil exports equal the value of gross oil exports less (a) the foreign exchange costs of the production operations of the foreign oil companies, (b) the profits of the foreign oil companies, (c) the foreign exchange costs of supplying the domestic market, which include all crude oil purchases aside from pro-rata crude, the cost of imported products, and the foreign exchange costs of part of Pertamina's production, refining and marketing operations, and (d) the balance of the foreign exchange costs of Pertamina's operations. Calculation on this basis would produce the same result as the conventional calculation. It should be noted that this concept of net foreign exchange receipts from oil operations is a rather unusual one in that the deductions from the gross receipts include not only the foreign exchange costs involved in generating the gross receipts but also the foreign exchange costs involved in supplying petroleum products to the domestic market. Net oil exports are estimated at $196.6 million in FY 1971/72, compared with $126 million in FY 1970/71, and are foreseen to rise to $382.6 million in FY 1972/73 (see Table 6 for details). This assumes that Caltex's production in 1972 will average 900,000 b/d (paragraph 3). If it should average 950,000 b/d, net oil exports would be increased by $25.5 million.

Government Revenue - General

39. Government revenues from petroleum are of three sorts: (1) the Government share of the profits from the crude petroleum production and marketing operations of the foreign oil companies under contracts-of-work and production-sharing contracts; (2) the Government tax on Pertamina's profits from its production, refining and domestic and foreign marketing oeprations; (3) the Government "tax" on sales of petroleum products in the domestic market, which is the residual difference between, on the one hand, total sales receipts and, on the other hand, costs plus a fee to Pertamina, which acts as agent for the Government in the domestic supply and distribution operation, including both refining and marketing.

40. Under the Pertamina law which was enacted on September 15, 1971, Pertamina is obliged to transfer income from contractors' operations to the Government as follows: (i) all income obtained under Contracts of Work (60% of operating profits), (ii) 60% of net operating income from Production-Sharing Contracts, 1/ and (iii) 60% of the bonuses obtained under Production-Sharing Contracts. Under the Law it must also transfer to the Government 60% of net operating income obtained from its own operations.

Government Revenue from Contracts of Work

41. Under contracts of work the Government's revenue is computed as follows. The contractors' gross proceeds are determined by adding their actual receipts from sales of crude exports (including all crude-in-kind) and receipts from pro-rata deliveries to the Government for the domestic market (20 cents U.S. fee plus reimbursement of cost). From their gross proceeds, their actual operating costs, including depreciation, on all output, including that delivered as pro-rata crude to the domestic market, are deducted to arrive at net operating income. They then pay to Pertamina 60% of this net operating income in full discharge of their fiscal obligation to the Government.

42. The contractors pay this obligation partly in kind and partly in cash. Their settlement in kind during each calendar quarter's activities consists of (i) services, particularly inter-island transport of crude oil and refined products, and (ii) crude-in-kind for the domestic market. They pay their remaining tax obligation in foreign exchange 15 days after the end of each quarter's activities. Pertamina transfers to the Government all income received in cash or kind under contracts of work in the form of either US dollars or Rupiahs.

43. Government revenues for FY 1971/72 from contracts of work are estimated at Rp 107.3 billion (US$269.2 million). This is an increase of 57% over

1/ Pertamina obtains 65% of net operating income, rising to 67-1/2% and -- in three contracts -- thereafter to 70%, when export exceeds predetermined level. It is required to transfer to the Government 60% of net operating income, keeping the remaining 5% (rising when output exceeds certain levels).

the amount of Rp 68.5 billion received in FY 1970/71 and results mainly from the increases in export price in 1971 and to a much lesser extent from the 4% increase in production over 1970 and the Rupiah devaluation on August 23, 1971. The calculations for FY 1971/72 and 1972/73 are given in Tables 3 and 4.

44. Government revenues for FY 1972/73 from contracts of work are estimated at Rp 179.6 billion (US$432.8 million). This estimated increase of 67% over 1971/72 again results primarily from the prospect that crude will be exported at $2.57 per barrel under these contracts during 1972, and that crude oil exports will increase by 12% over 1971.

Government Revenues from Production-Sharing Contracts

45. Under production-sharing contracts the Government's revenue is computed as follows. The contractor is first allowed to deduct from gross output a volume of oil up to 40% of the export value of production in compensation for development and operating costs. The remaining volume of crude oil is then shared 65% by Pertamina and 35% by the contractor. Except in the first few contracts, these percentages move in Pertamina's favor to 67-1/2% when production reaches a level determined in advance in each contract -- typically 75,000 b/d but less in recent contracts and to 70% when production reaches 200,000 b/d in two recent contracts and 100,000 b/d in a third. In all cases, Pertamina is required to transfer to the Government 60% of the export value of the shared volume (net after costs) and it keeps the balance of 5%, 7-1/2% or 10% as the case may be. In those contracts which require the contractor to supply pro-rata crude, the pro-rata obligation of the contractor is determined by his share and not -- as under contracts of work -- by the total output. Hence, Government revenue is not reduced by the inclusion of a pro-rata obligation in production-sharing contracts. 1/ By the same token the contractor's fee on pro-rata crude is not liable to tax and his operating cost in producing such crude is included within the deduction of up to 40% of output allowed for all development and operating costs.

46. Output under production-sharing contracts first began in September 1971. Government revenue in FY 1971/72 from such output is estimated at only Rp 1.2 billion (US$2.8 million). For FY 1972/73 it is forecast at Rp 19.2 billion (US$46.3 million).

Government Revenue from Foreign Contractors

47. Total Government revenue from foreign oil companies operating under contracts of work and production-sharing contracts is, therefore, estimated at Rp 108.5 billion (US$272.1 million) in FY 1971/72, an increase of 58% over FY 1970/71. It is forecast at Rp 198.8 billion (US$479.1 million) in FY 1972/73, an increase of 83% over FY 1971/72. This assumes Caltex's production in 1972 to average 900,000 b/d. If it should reach 950,000 b/d (paragraph 3), Government revenues in FY 1972/ would reach Rp 209.4 billion (US$ 504.6 million).

1/ See paragraph 53 for a comparison of the ratio of national share and contractor's share under Contracts of Work and Production-sharing Contracts.

Government Revenue from Bonus Payments by Contractors

48. To the above amounts bonus production payments from production-sharing contracts need to be added. The new Pertamina Law of 1971 requires Pertamina to transfer to the Government 60% of bonus revenues. During 1971 and 1972 output from fields operated under such contracts is not expected to exceed the contractual points at which production bonuses become payable. However, signature bonuses and payments for geological data amounted to US$19 million from new production-sharing contracts signed during 1971 up to October 31, i.e. with Djawa Shell, Calasiatic and Topco (Caltex Pacific Indonesia's parent companies), Atlantic-Richfield, and Continental Oil. In 1972 the first yearly payment of $2 million is due from Caltex as advance rent to Pertamina for use of facilities under production-sharing contracts after 1983 on part of its existing area under contract of work (paragraph 16). If, however, all these payments are included, then Government revenue in FY 1972/73 is estimated at some Rp. 206.4 billion.

Comparison of National Share and Private Producers' Share in Indonesia and in Other Countries

49. It is instructive to look at the ratio of national share and private producers' share in Indonesia and in other countries under their quite different fiscal systems, both before and after the recent rounds of increases in posted prices and tax rates in the Middle East. An accurate comparison is difficult to make, particularly because information on realized export prices during 1971 is incomplete. Furthermore, pro-rata crude in Indonesia also has to be taken into account in making the above comparison.

50. The Government share under Contracts of Work from all except pro-rata deliveries was about 85 cents per barrel at the export price prior to April 1, 1971 and about $1.18 thereafter (table below). The contractor's share was on the average 57 cents per barrel prior to April 1 and about 78 cents thereafter. However, Indonesia benefits additionally by virtue of the fact that it receives pro-rata crude at lower than the export price. Whereas the f.o.b. export price was $1.64 prior to April 1 and $2.18 thereafter (net of credit), the contractors receive only reimbursement of operating cost (an average of 22 cents) plus a fee of 8 cents after tax (20 cents before tax) on pro-rata crude. Thus, the Indonesian share in the case of pro-rata crude was $1.34 prior to April 1 and $1.88 thereafter. On a weighted average basis taking together export and pro-rata crude, this means that the national share was 92 cents and the contractor's share 50 cents prior to April 1, and $1.28 and 68 cents per barrel respectively thereafter. On this basis the ratio of national share to contractor's share under Contracts of Work was 65:35 both prior to April 1, 1971 and subsequently.

National and Contractors' "Take" under Contracts of Work

	Until March 31, 1971			From April 1, 1971			
	Pro-Rata Sales (14.7%)	Exports (85.3%)	Total (100%)	Pro-Rata Sales (14.7%)	Exports (85.3%)	Total (100%)	Increase in Total
Export Value (net of credit)	1.64	1.64	1.64	2.18	2.18	2.18	+0.54
Less production cost	0.22	0.22	0.22	0.22	0.22	0.22	-
Net Operating Income (derived from Export value)	1.42	1.42	1.42	1.96	1.96	1.96	+0.54
National Share	1.34	0.85	0.92	1.88	1.18	1.28	+0.36
Contractor's Share	0.08	0.57	0.50	0.08	0.78	0.68	+0.18

51. As the increase in net operating income under Contracts of Work has been shared 60:40 by the Indonesian Government and private contractors not only has the national share from contractors' crude exports increased by 36 cents per barrel but the contractor's own "take" has also increased by 18 cents since April 1. This is in contrast with the situation in the Middle East following the rise in tax rate in November 1970 and the Teheran Agreement of February 1971 where the increase in net taxable income has been almost entirely taken by the Middle East Governments. The net taxable income there is assessed from tax-reference "posted prices" and not from realized f.o.b. prices. The Middle East producing companies' share per barrel - realized f.o.b. prices less tax paid cost - has scarcely changed, as they are reported to have succeeded in raising their realized f.o.b. prices by an amount just equal to - or at most 5 cents per barrel higher than - their increased tax burden. For example, from Iranian Light crude - roughly equivalent to Minas crude - the Iranian Government's share has increased by 41 cents per barrel to a level of $1.32, while the producing companies' share remains at about 37 cents (Appendix 2). Thus, the Indonesian contractor's "take" of about 50 cents prior to April 1 was more attractive by about 13 cents than that of the Middle East producer, and the present "take" of about 68 cents per barrel is more attractive to the contractor by 31 cents.

52. Under the early production-sharing contracts which have no pro-rata provision, and do not increase allocable income in Pertamina's favor when output exceeds a contractual point, the ratio of national share to contractor's

share is 65:35. However, the Government receives only 60% of the net operating income, as Pertamina is entitled to retain 5%.

53. Under production-sharing contracts with pro-rata provision, Indonesia benefits additionally by the extent to which pro-rata crude is priced lower than crude for export. For example, when net operating income is allocated 65% to Pertamina, the national share is as follows:

	Volume (one barrel)	Export & Pro-rata Price (US cents)	Value of Barrel
Production	1.00		
Less 40% allowed to contractor to cover costs	0.40		
Oil to be shared	0.60		
Contractor's share at 35%	0.210		46.6
i) pro-rata deliveries (14.7%)	(0.031)	(20.0)	(0.6)
ii) exported	(0.179)	(257.0)	(46.0)
Pertamina's share at 65%	0.390	257.0	100.2
Add: national benefit from obtaining pro-rata crude at 20 cents instead of $2.57	0.031	237.0	
Total national share			107.5

The ratio of national share to contractor s share in this example is 70:30. It rises to 72:28 when output rises above the contractual point, at which the allocable volume is shared 67.1/2:32.1/2. 1/ It would rise to approximately 74:26 when the allocable volume is shared 70:30.

1/ The title to equipment bought by a production-sharing contractor becomes that of Pertamina for no charge; the contractor has in addition to pay to Pertamina an annual rental equal to 10% of the value of the equipment -- as from the start of commercial production. The contractor can include both the amortization of his investment in the equipment and the rental as costs within the 40% maximum allowance. This has the effect of reducing taxable profit by the amount of the rental and therefore reducing Pertamina's share of this profit. It also has the effect, however, of giving to Pertamina 100% of the amount by which profit is reduced, rather than 60%. The rental arrangement is thus an additional benefit to the national share but is hard to quantify at present.

54. Thus the ratio of national share to contractor's share in Indonesia is currently 65:35 under Contractor of Work (paragraph 50), 65:35 under the first four Production-sharing Contracts (paragraph 52) and 70:30-rising to 72:28 and 74:26 when output rises above certain contractual points - under subsequent Production-sharing Contracts. (paragraph 53). When these contracts were entered into, the ratios were in line with those generally prevailing in Venezuela, Libya and the Middle East, which had risen gradually after 1964 to a level between 67:33 and 70:30 by the beginning of 1970 (Appendices 2 and 3). The recent rounds of increases in tax rates and posted prices in these and other countries, however, have resulted in ratios of about 77:23 there.

55. As these data on comparative ratios indicate, Indonesia's share, vis-a-vis the producing companies, of total profits is at present characteristically lower than that of many other major oil producing countries, although it is closer to the latter in more recent contracts. It is not clear, however, what significance should be attached to this fact. For one thing, under the arrangements which prevail in the Middle East and other areas where Government-company shares are not fixed by contractual arrangements, changes in posted and actually realized prices, and in the relationship between the two, could alter the Government-company division of total profits. Under the Teheran Agreement (see Appendix 1) posted prices -- and hence the producer's f.o.b. tax-paid costs - will rise yearly on each January 1, 1973-1975. If actually realized prices should increase by no more than or by less than the increase in taxes, then the Government share of total operating profits in those areas would increase and the company share decline. If, of course, realized prices should increase by more than the increase in taxes, then, the reverse would be true. The fact that this latter event is unlikely suggests that, in reality and especially over the long term, the division of total profits between Governments and producing companies is not a function of the particular form of the contractual relationships but rather reflects the basic differences in the production and marketing positions of various countries and regions and, consequently, the basic negotiating strengths of the Governments and the companies, respectively, in various areas. It may, to some extent, also reflect the will and skill of the negotiators in each area, although in these days of growing knowledge and sophistication on the part of Governments in oil matters, it does not seem likely that differences in will and skill can be a significant factor.

56. In this context, it is apparent that there have been, and are, both relative strengths and weaknesses in Indonesia's position. Among the weaknesses have been the fact that until relatively recently Indonesia was not a country in which foreign investors were prepared to risk their resources. Furthermore, there was no evidence and uncertain prospect that very large pools of oil, which could be developed and operated at low unit cost, were present. On the other hand, Indonesia had several advantages, including the low sulphur content of its oils and its relative proximity to the large and rapidly growing Japanese market.

Government Revenue from Domestic Oil Marketing

57. Mainline oil products are supplied and marketed in Indonesia by Pertamina, acting as the Government's agent. It collects the gross proceeds

of marketing these products at Government-fixed retail prices and receives reimbursement of its basic costs plus a fee for conducting the domestic distribution operation. The Government retains the net profit from the operation.

58. The eight products thus distributed are avaiation gasoline, aviation turbine fuel, two grades of motor gasoline, kerosene, gas oil, diesel oil and fuel oil. Motor gasoline accounts for 25% of the market and kerosene for 44%. Their prices are not varied according to the size of customer or distance from main tank installation or refinery. This pricing policy gives no incentive to consumers to receive supplies in bulk or to site themselves close to main supply points. By the same token it gives a subsidy to consumers taking small volumes or sited far from main supply points. This may be necessary and desirable on social and other grounds but it does not encourage the most economic use of oil products.

59. The basic costs to the Government in domestic distribution comprise: (i) the cost plus fee of 20 cents per barrel paid for pro-rata crude supplied by contractors and Pertamina itself; (ii) the purchase at f.o.b. export price crude-in-kind also needed to charge domestic refineries to meet the domestic market's heavy middle distillate needs; (iii) costs of transport of crude oil by Caltex, Stanvac, and Pertamina to these refineries; (iv) the cost plus fee of 10 cents per barrel to Pertamina for refining; (v) costs of sea freight of products by Caltex and Pertamina; (vi) inland marketing costs (transport, storage, etc.) plus 10 cents per barrel marketed fee to Pertamina; and (vii) the c.i.f. cost of importing kerosene, gas oil and a little fuel oil. The above costs include depreciation on Pertamina's assets insofar as they are used in the domestic distribution operation and not for other operations. They also include a share of Pertamina's head office costs. The proceeds from the export of products refined from Government crude but surplus to domestic needs and therefore exported are credited to the domestic operation.

60. Government receipts from the domestic operation increased from Rp 17.4 billion in FY 1969/70 to Rp. 28.8 billion in FY 1970/71, reflecting the sharp increase in the retail prices of gasoline, kerosene and other products put into effect in 1970/71, offset a little by the increases in costs resulting from the rise in the exchange rate from Rp 300 to 324 per US dollar on January 1, 1970 and to Rp 378 on April 17, 1970.

61. A further increase of about Rp 10 billion for FY 1971/72 was anticipated because of (a) an expected rise of some 10% in sales volumes and (b) the shift of consumption from 79 octane to 87 octane gasoline whose price is Rp 5 per litre higher. However, the present official estimate of 1971/72 Government receipts is now Rp. 29.3 billion or only slightly more than in 1970/71. The main reason appears to be that the basic costs have been increased by (a) the higher Rupiah cost of the foreign exchange component of operating costs resulting automatically from the Rupiah devaluation of August 1971 and (b) the higher price of crude-in-kind supplied as from April 1, 1971, $2.17 per barrel, an increase of 42 cents over the price understood to be previously incorporated into the basic cost. On the other hand, the prices of products refined from such crude-in-kind and exported as surplus to domestic market requirements are understood to have risen by only half as much and thus to have provided a smaller credit offset in the domestic operation to the increased cost of crude-in-kind.

62. Indonesia benefits from the fact that it receives a major part (the pro-rata crude) of the crude petroleum required by the domestic market at a cost well below export prices. This benefit accrues in the first instance to the Government which is the recipient of the low-priced pro-rata crude. In 1971 the total cost to the Government of pro-rata crude oil was approximately $75 million less than if this crude had been valued at export prices. The consumer in Indonesia pays for petroleum products at a price fixed by the Government which includes four elements: (a) the actual cost of producing or purchasing crude oil supplied to the domestic market; (b) the actual cost of refining and distributing products; (c) a fee or margin above costs providing a modest return on the capital invested by Pertamina in the production, refining and distribution operation; and (d) a tax in the form of the net receipts of the Government above these costs. The Government net or "tax" per average unit of product sold currently equals approximately 50% of the pre-tax cost, and in 1971 was the equivalent in the aggregate of approximately $75 million which happens to equal almost exactly the amount of the Government benefit from its receipt of crude oil at lower than export prices. The consumer therefore could be considered in effect to be paying for petroleum at the export price but with no tax whatever. Alternatively, the consumer could be considered to be paying a price which includes the $75 million benefit or discount below export prices, plus a tax which happens to be currently just about equal to the discount below export prices. In either case, given the fact that a 50 percent tax on petroleum products is not unusual, it would appear to be the Indonesian consumer rather than the Government which receives the benefit of the especially low prices, lower than export prices, at which most of the crude oil for the domestic market is received.

63. In 1971 furthermore the Indonesian consumer has been sheltered from the effects of the two events which sharply increased the costs, in rupiahs, of supplying the domestic market. Prices to the Indonesian consumer, at least for the time being, have not been increased above their early 1971 levels despite the fact that export prices of petroleum have increased and a devaluation has occured.

64. Given the small volumes distributed over large distances, the distribution costs are bound to be high. However, it is desirable that these costs be carefully examined and that every opportunity be made to make the operation more efficient and less costly. This applies equally to the cost which Pertamina incurs in operating its fields, refineries and tanker fleet, and other elements of its costs.

Government Revenue from Pertamina's overall Operation

65. Pertamina acts as agent for the Government in the domestic oil distribution operation. It receives, in addition to reimbursement of costs, a fee for the refining (10 cents per barrel) and marketing (10 cents per barrel) services so performed. It also receives a fee (20 cents per barrel) for the pro-rata crude it delivers to the Government. Pertamina distributes solvents and other special products, bitumen, wax, lubricants and greases for its own account in the domestic market. It exports on its own account (a) part of the crude oil produced from its own fields, (b) part of the

crude oil obtained under crude-in-kind arrangements, and (c) products surplus to domestic market requirements refined from its own crude and crude-in-kind. It receives income from chartering freight to third parties. It receives production bonuses, signature bonuses and payments for geological data from foreign contractors.

66. Pertamina's costs incurred on its own account are those for exploration, production, refining, freight and head office, to the extent that these costs are not allocated to the Government's domestic distributionn operation and reimbursed by the Government.

67. Its net profit before tax in FY 1971/72 is officially estimated at about US$10 million, resulting in a tax liability of US$6 million (Rp 2.4 billion) at the 60% rate applicable, under the Presidential decree and the new Pertamina law, throughout FY 1971/72. Since the fees which Pertamina receives for the production, refining, and distribution services it performs in supplying the domestic market in themselves approximately equal $10 million, it is clear that its costs in its other export-oriented operations, including depreciation of newly acquired assets, are so high as virtually to offset completely its receipts from these operations.

68. In conclusion, it is evident that Pertamina has fulfilled its most important task quite effectively. This task was to bring about the exploration and development of Indonesia's petroleum resources. Necessarily, since Pertamina, and Indonesia as a whole, did not possess and could not in any case afford to risk the financial resources, the technology, the organization and personnel, or the marketing channels, to do this job on its own, it had to be done by inducing and attracting private foreign capital to do so. In this not altogether easy task, in view of past history, it has been eminently successful. It has also, in the process, developed its own capabilities sufficiently that it may have discovered and may be able on its own to exploit a new and possibly good-sized reserve in West Java. Pertamina has also considerably improved and expanded the refining and distribution facilities needed to meet the growing petroleum product requirements of the domestic market, and these products will to an increasing extent be the major means of meeting Indonesia's requirements of primary energy, and, by fueling electric power generation, of secondary energy as well. Pertamina has been criticized but is perhaps to be commended for the enterprise and initiative it has displayed in using the resources at its command to meet needs to which other public and private enterprises were not at the time responding. Given the fact, however, that the income and the foreign exchange originating in the oil sector is likely to be so large and increasingly important a part of Indonesia's total income and foreign exchange receipts, the recent action to ensure that a major part of these accrues directly to the Government and that Pertamina's plans and operations are more fully integrated with those of the Government as a whole seems wise. It would be unfortunate, however, if this should impair Pertamina's effectiveness in performing its task of maximizing the great contribution which Indonesia's petroleum resources can make to its economic progress.

Appendix 1

MAIN FEATURES OF OIL SETTLEMENTS, 1970-1971

i. Effective September 1, 1970 the Libyan Government succeeded in negotiating with oil companies an immediate rise of about 30 cents per barrel f.o.b. loading port in their posted price (i.e. tax-reference prices) for Libyan crude oil exports, rising to 40 cents by 1975, and an increase in the tax rate from 50 percent to 54-58 percent. This was the most substantial international increase in tax rates since 1957.

ii. Posted prices were thereupon raised by 20 cents for Iraqi and Saudi Arabian crude exported through Eastern Mediterranean ports and by 25 cents in Nigeria effective September 1, 1970. Libya's lead was also followed by governments in the Persian/Arabian Gulf which increased the income tax rate from 50 percent to 55 percent as from November 14, 1970 for oil exported from the Gulf; postings for medium and heavy crudes ex Iran, Kuwait and Saudi Arabia were raised by 9 cents per barrel. In December 1970 Venezuela passed a law raising its oil tax rate from 50 percent to 60 percent retroactive to January 1, 1970 and enabling it to fix tax reference prices unilaterally.

iii. Then followed the Teheran Agreement of February 14, 1971 between six Gulf State members of the Organization of Petroleum Exporting Countries (OPEC) - Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia - and 22 oil companies covering oil exported from the Gulf. Its provisions constitute a final settlement of Government "take" and companies' financial obligations from February 15, 1971 to December 31, 1975. The income tax rate was stabilized at 55 percent. Crude oil posted prices were increased on February 15, 1971 by another 35 cents per barrel including 2 cents for freight disparities, rising on June 1, 1971 and each January 1, 1973 - 1975 by 2-1/2 percent of the posted price on the preceding day for inflation and by another 5 cents for general escalation. Effective February 15, 1971 they were also increased by 0.5 cents for every degree below 40.0° API down to 30.0° (subject to further negotiation below that level) gravity, and the posted prices of Iranian Heavy, Arabian Medium and Kuwait crudes were increased by 1 cent and that of Basrah crude by 6 cents per barrel. The posted prices currently in effect since June 1 and by 50.5 cents for Kuwait crudes compared with prices in effect immediately before the Teheran Agreement of February 14.

iv. As from February 15, 1971 the Teheran Agreement also eliminated the OPEC allowances, granted for tax purposes (i) as a percentage of posted price, (ii) for crudes above 27.0° API gravity and (iii) for marketing. The percentage and gravity allowances had been introduced in 1964 to ease the initial increased burden of Government take when royalty was made a deductible expense from posted price in computing net taxable income, instead of being treated as a tax offset; the allowances were to have been phased out gradually by 1975. The effect of the Teheran Agreement on Government revenues is to increase them by about 32-34 cents per barrel (about 34-36 percent), from the level in effect immediately prior to the Agreement to that

in effect now (since July 1), with automatic increases up to 1975 (see Appendix 2). This is additional to their earlier increase effective November 1970 of 8 cents resulting from the rise in tax rate of 55 percent and of another 4 cents resulting from the rise in posted price for medium and heavy crudes.

v. Under the Tripoli Agreement of April 2, 1971 effective March 20, 1971, the Libyan Government and the oil companies agreed that its provisions constituted a firm settlement from March 20, 1971 to December 31, 1975. The income tax rate was consolidated at 55 percent, except for Occidental Petroleum whose rate is 60 percent. The base posting was increased by 52 cents including a premium of 10 cents for sulphur-content of 0.5 percent wt. maximum, rising by 2 cents per barrel each January 1, 1972 - 1975. On March 20, 1971 and on each January 1, 1973 - 1975, the posted price also rises by 2-1/2 percent of the price on the preceding day for inflation and by another 5 cents for general escalation. Effective March 20, 1971, the posted price is increased by 0.2 cents per barrel for each 0.1° API above 40.0° and is decreased by 0.15 cents per barrel for each 0.1° API below 40.0°. Two temporary premia have also been introduced as from March 20, 1971 for addition to the posted price, reflecting Libya's freight advantage over Middle Eastern crudes to the European market. These are of 12 cents per barrel, applied essentially while the Suez Canal is closed to tankers and of 13 cents, reassessed quarterly as from July 1, 1971 to the extent that the London tanker brokers' monthly Average Freight Rate Assessment (AFRA) for Large Range 2 Vessles (45,000 - 79,999 dwt) exceeds 72 percent of the reference tariff Worldscale (currently therefore 10.6 cents). The effect of the Agreement on posted price is to increase it by 90 cents per barrel, equivalent to 34 percent, from the level immediately prior to March 20, 1971 to that in effect now (since July 1).

vi. As from March 20, 1971, the Tripoli Agreement also eliminated the OPEC allowance for marketing; those for gravity and percentage had been waived since the 1967 closure of the Suez Canal. The Agreement increases Government revenue by about 62 cents per barrel (+45 percent), and this is additional to its increase of about 27 cents effective September 1, 1970 when the posted price and tax rate were increased (see Appendix 3 for illustration).

vii. The Nigerian settlement followed the pattern and timing of the Tripoli Agreement, including the tax rate, the amount of increase in base posting including low-sulphur premium, the escalation formula and the freight premia. The OPEC allowance for gravity and percentage were eliminated retroactively from January 1, 1970 and for marketing from March 20, 1971. Royalties are standardizedat 12-1/2 percent of posted price for onshore fields and 10 percent for offshore and are based at export terminal value and no longer at field storage value. The harbor dues are no longer deductible from posted price for royalty and tax assessment but in compensation are reduced from 6 cents to a level of 2 cents per barrel. The effect of the settlement on posted price is to increase it by 84 cents per barrel (+35 percent), from the level immediately prior to March 20, 1971, to that in effect now (since July 1) and correspondingly to increase Government revenue

by about 65 cents per barrel (44 percent), and this is additional to the 13 cents increase as from September 1, 1970.

viii. The two sets of settlement between the Iraqi and Saudi Arabian Governments and the oil companies for crude exports ex Mediterranean terminals follow the pattern and timing of the Tripoli Agreement, including the tax rate, amount of increase in base posting excluding any premium for sulphur content which for their crudes exceeds 0.5 percent weight, the escalation formula and the freight premium. The OPEC gravity and percentage allowances on Saudi Arabian crude had been waived since the 1967 closure of the Suez Canal and are now eliminated; they have never applied to Iraqi crude. The effect of the settlement on Government revenues is to increase them by about 47 cents per barrel (+35 percent), and this is additional to increases in November 1970 of about 27 cents for Iraqi crude and of about 10 cents for Arabian.

x. In June 1971, the Algerian Government announced its intention to base taxation as from March 20, 1971 on posted prices modelled on the pattern and timing of the Tripoli Agreement. This comprises the amount of increase in base posting including low-sulphur premium, the escalation formula and temporary freight premia. Royalty will be expensed in the computation ofnn net taxable income; the tax rate of 55 percent - effective since 1969 - had previously included royalty. Until 1965 Algerian oil tax had been based on realised prices and thereafter on tax reference prices, which were substantially lower for French companies than others and were higher than realised prices but lower than the posted prices set at the Government's behest. In 1970 the Government expropriated with compensation the non-French companies, excepting Getty which operates under a contract revised in 1968 and EL Paso which has contracted to export liquified natural gas to the United States subject to U.S. Government approval. Following 18 months of inconclusive negotiations with the French Government to raise tax reference prices, the Algerian Government brought in a new oil code establishing the state oil concern SONATRACH as a 51 percent partner with foreign oil companies with appropriate compensation - as in the Getty agreement - and obliging French companies to retain gross export proceeds for three months in Algeria. In June 1971 agreement was reached with the first main French company, CFP, on the new terms outlined above, including an increase in tax reference prices retroactively from January 1, 1969 to March 19, 1971.

COMPARISON OF GOVERNMENT AND OIL COMPANIES' "TAKE" IN INDONESIA, IRAN, KUWAIT AND SAUDI ARABIA 1970-1971

(US CENTS PER BARREL)

Crude Oil	Indonesian		Iranian Light			Kuwait			Arabian Heavy		
Gravity (degrees API)	35.0°		34.0°			31.0°			27.0°		
Sulphur Content (% wt.average)	0.1%		1.35%			2.5%			2.85%		
Effective Date of Agreement	1970 (av.)	Apr. 1 1971	To Nov.13 1970	Nov.14 1970	Feb.15 1971	To Nov.12 1970	Nov.13 1970	Feb.15 1971			Feb.15 1971
Date of Price Calculation	Jan.1 1970	July 1 1971	Jan. 1 1970	Jan. 1 1971	July 1 1971	Jan. 1 1970	Jan. 1 1971	July 1 1971	Jan.1 1970	Jan.1 1971	July 1 1971
Posted Price of Crude Exports	162.0	221.0 a/	179.0	179.0	227.4 b/	159.0	168.0	218.7 b/	147.0	156.0	206.4 b/
Realised Price	142.8 c/	192.0 c/	-	-	-	-	-	-	-	-	-
Less:											
Gravity Allowance	-	-	3.1	3.5	-	1.8	2.0	-	-	-	-
Percent Allowance	-	-	6.3	3.6	-	5.6	3.4	-	5.1	3.1	-
Marketing Allowance	-	-	0.5	0.5	-	0.5	0.5	-	0.5	0.5	-
Production Cost	22.0	22.0	11.0	11.0	11.0	6.0	6.0	6.0	10.0	10.0	10.0
Royalty	-	-	22.5	22.5	28.4	20.0	21.0	27.3	18.8	19.5	25.8
Deductible Costs	22.0	22.0	43.4	41.1	39.4	33.9	32.9	33.3	34.4	33.1	35.8
Net Taxable Income	121.0	170.0	135.6	137.9	188.0	125.1	135.1	185.4	112.6	122.9	170.6
Income Tax	@ 60%	@ 60%	@ 50%	@ 55%	@ 55%	@ 50%	@ 55%	@ 55%	@ 50%	@ 55%	@ 55%
	70.6	100.0	67.8	75.8	103.4	62.6	74.3	101.9	56.3	67.6	93.8
Add Royalty	-	-	22.5	22.5	28.4	20.0	21.0	27.3	18.8	19.5	25.8
Government "Take"	70.6	100.0	90.3	98.3	131.8	82.6	95.3	129.2	75.1	87.1	119.6
Add: Production Cost	22.0	22.0	11.0	11.0	11.0	6.0	6.0	6.0	10.0	10.0	10.0
Cost to Producer	92.6	122.0	101.3	109.3	142.8	88.6	101.3	135.2	85.1	97.1	129.6
Realised Price	143.0	192.0	138.0 d/	146.0 d/	179.5 d/	127.0	n.a.	171.2 e/	124.0 d/	n.a.	163.0
Producer's "Take"	50.2	70.0	36.7	36.7	36.7	38.4	n.a.	36.0	38.9	n.a.	33.4
Ratio of Government "Take" to Producer's "Take"	65:35 f/	55:35 f/	71:29	73:27	78:22	68:32	n.a.	78:22	66:34	n.a.	78:22

NOTES: a/ Average export price during 1970 realised by private producing companies - Caltex and Stanvac - was $1.62 per barrel fob Dumai. Pertamina's corresponding price was $1.70 which it raised to $2.21 as from April 1, 1971, for Japanese sales to its 50% affiliate, Far East Trading Company. Private companies are assumed to have adopted the same price for sales to affiliates.

b/ The base postings for the Gulf exporters of Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia were increased on February 15, 1971, by 33¢ per barrel, rising on June 1, 1971 and on each January 1, 1973 - 1975 by 2½% for inflation plus 5¢ for general escalation. They also rise by 0.5¢ for every degree below 40° down to 30° API and by 2¢ for freight disparities.

c/ Per average barrel produced for export and domestic sales by private companies.

d/ Realised fob price in January 1970 was the price paid by Japanese refiners; it includes about 4.5 cents representing 90 days' credit. The price is assumed to have increased in step with tax increases thereafter.

e/ Lowest price bid for supplies of 3.1 million barrels to YPF, Argentina, effective June 1, 1971; it includes 90 days' credit, worth about 4.5 cents per barrel.

f/ Adjusted for benefit from pro-rata crude.

COMPARISON OF GOVERNMENT AND OIL COMPANIES' "TAKE" IN INDONESIA, LIBYA, NIGERIA AND VENEZUELA 1970-1971

(US CENTS PER BARREL)

Crude Oil	Indonesian		Libyan			Nigerian			Venezuelan		
Gravity (degrees API)	35.0°		40.0°			34.0°			25.5° (av.)		
Sulphur Content (% wt.average)	0.1%		0.25%			0.15%			1.55%		
Effective Date of Agreement			To Aug.31 1970	Sept.1 1970	Mar.20 1971	To Aug.31 1970	Sept.1 1970	Mar.20 1971	To Dec. 1970	Dec. 1970	Mar.18 1971
Date of Price Calculation	1970 (av.) Jan.1 1970	Apr. 1 1971 July 1 1971	Jan. 1 1970	Jan. 1 1971	July 1 1971	Jan. 1 1970	Jan. 1 1971	July 1 1971	1969 (av.)	1970 (av.)	July 1 1971
Posted Price of Crude Exports	162.0	221.0[a]	223.0	255.0[b]	319.7[c]	217.0	242.0	300.2[c]	-	-	-
Add Temporary Premium - Suez[d]	-	-	-	-	12.0	-	-	12.0	-	-	-
- Freight[e]	-	-	-	-	10.6	-	-	7.3	-	-	-
Less Harbour Dues	-	-	-	-	-	6.0	6.0	-	-	-	-
Total	-	-	223.0	255.0	342.3	211.0	236.0	319.5	-	-	-
Realised Price	142.8[f]	192.0[f]	-	-	-	-	-	-	192.7	193.6	240.0[g]
Less:											
Gravity Allowance	-	-	-	-	-	1.9[l]	1.9[l]	-	-	-	-
Percent Allowance	-	-	-	-	-	13.7[l]	15.3[l]	-	-	-	-
Marketing Allowance	-	-	0.5	0.5	-	0.5	0.5	-	-	-	-
Production Cost	22.0	22.0	30.0	30.0	30.0	35.0	35.0	35.0	53.2	53.3	53.7
Royalty	-	-	28.0	31.8	42.8	25.1[h]	28.3[h]	39.9[h]	47.5	49.4	51.7
Deductible Costs	22.0	22.0	58.5	62.3	72.8	76.2	81.0	74.9	100.7	102.7	105.4
Net Profit before Tax	120.8	170.0	164.5	192.7	269.5	134.8	155.0	244.6	92.0	90.9	134.6
Additional Income Assessed from Reference Prices	-	-	-	-	-	-	-	-	9.3	10.5	25.4
Net Taxable Income	120.8	170.0	164.5	192.7	269.5	134.8	155.0	244.6	101.3	101.4	160.0
Income Tax	@ 63%	@ 60%	@ 50%	@ 55%	@ 55%	@ 50%	@ 50%	@ 55%	@ 52%	@ 60%	@ 60%
	70.6	100.0	82.3	106.0	148.2	67.4	77.5	134.5	50.5[i]	58.0[i]	92.6[i]
Add Royalty	-	-	28.0	31.8	42.8	25.1[h]	28.3[h]	39.9[h]	47.5	49.4	51.7
Supplemental Payment	-	-	-		9.0[j]	6.0[j]	6.0[j]	2.0[j]	-	-	-
Government "Take"	70.6	100.0	110.3	137.8	200.0	98.5	111.8	176.4	98.0	107.4	144.3
Add: Production Cost	22.0	22.0	30.0	30.0	30.0	35.0	35.0	35.0	53.2	53.7	53.7
Cost to Producer	92.6	122.0	140.3	167.8	230.0	133.5	146.8	211.4	151.2	160.7	198.0
Realised Price	143.0	192.0	194.0	-	-	192.0[k]	-	-	192.7	193.6	240.0[g]
Producer's "Take"	50.2	70.0	53.7	-	-	58.5	-	-	41.5	32.9	42.0
Ratio of Government "Take" to Producer's "Take"	65:35[m]	65:35[m]	67:33	-	-	63:37	-	-	70:30	77:23	78:22

NOTES:

a/ Average export price during 1970 realised by private producing companies - Caltex and Stanvac - was $1.62 per barrel fob Dumai. Pertamina's corresponding price was $1.70 which it raised to $2.21 as from April 1, 1971, for Japanese sales to its 50% affiliate, Far East Trading Company. Private companies are assumed to have adopted the same price for sales to affiliates.

b/ Posted price of $2.55 per barrel from September 1, 1970, was to increase by 2¢ per barrel for low-sulphur content each January 1, 1971-1975.

c/ The base posting is $3.07 in Libya and $2.86 in Nigeria per barrel and includes a 10¢ premium for sulphur content of 0.5% wt. maximum, rising by 2¢ per barrel each January 1, 1972-1975. On March 20, 1971 and each January 1, 1973-1975, it is also increased by 2½% for inflation plus 5¢ per barrel for general escalation.

d/ Allowance basically terminates when Suez Canal opens to 38 feet draft.

e/ Quarterly as from July 1, 1971 the premium is 0.058¢ in Libya and 0.04¢ in Nigeria per barrel for each 0.1% point of the reference tariff Worldscale by which large Vessel 2 AFRA exceeds Worldscale 72 in preceding quarter. AFRA (Average Freight Rate Assessment) is a weighted index of spot and long-term Charter rates and of oil company-owned tanker rates frequently used in the oil trade, and is published monthly for four different sizes of tankers.

f/ Per average barrel produced for export and domestic sales by private companies.

g/ Estimated price assumes that it was increased, in line with the concessionaires' intention, by the same amount as the increase in income tax. In December 1970 the Government increased the income tax rate to 60% retroactively throughout 1970, and raised tax reference prices as from March 18, 1971.

h/ Since March 20, 1971 royalty is based on posted price at export terminal instead of at well head as beforehand. Gathering cost is assumed to be 10¢ per barrel.

i/ Income tax assessments are slightly lower than is indicated from the relationship of income tax rate to net taxable income, as investment credit and tax relief are then granted.

j/ In Libya the estimated supplemental payment is in settlement of income tax imposed by Government in September 1970 retroactively to 1965. In Nigeria harbour dues were deductible for royalty and tax assessment until March 20, 1971.

k/ Realised price is taken from the Nigerian Economic Report (AW 10) at £N 5 per long ton fob Bonny, which indicated a discount of 11.5% off posted prices.

l/ Under the Nigerian agreement effective March 20, 1971, the allowances were eliminated for marketing as from that date and for gravity and percentage as from January 1, 1970.

m/ Adjusted for benefit from pro-rata crude.

TABLE 1

INDONESIA: ACTUAL AND FORECAST CRUDE OIL PRODUCTION, 1966-1972

(Millions of Barrels)

	1966	1967	1968	1969	1970	1971	1971 1st Qtr.	1971 2nd Qtr.	1971 3rd Qtr.	1971 4th Qtr.	1972
Pertamina: Own Production											
Unit I (P. Brandan)	9.1	12.2	13.8	13.7	16.7		3.85	3.84			
Rantau Field											
Unit II (Pladju)	17.1	14.7	14.1	12.9	10.4		2.71	2.76			
S. Sumatra Field				(11.2)	(8.9)		(2.31)	(2.39)			
Djambi Field				(1.7)	(1.5)		(0.40)	(0.37)			
Unit III (Wonokromo)	0.1	0.1	Neg.	0.1	0.1	0.1	0.02	0.03			
Kruka & Bongas Fields							(0.02)	(0.03)			
Djatibarang Field	-	-	-	-	-	-	(-)	(-)	(-)	(-)	
Unit IV (Balikpapan)	11.1	9.0	8.6	8.1	7.8		1.83	1.87			
Tandjung, Tarakan, Bunju											
Unit V (Sorong)	0.6	0.6	0.6	0.5	0.5		0.12	0.12			
Klamono Field											
Block B											
Bula & Ceram Fields	-	-	-	-	-		-	0.25			
TOTAL PERTAMINA	38.0	36.6	37.1	35.3	35.5	36.5	8.48	8.88	9.4	9.5	36.5
Contracts of Work											
1. Caltex											
Minas Field	94.1	111.7	143.2	183.4	220.6		60.84	59.85			
Pematang Field	-	2.2	4.8	19.2	22.5		-	-			
Duri Field	17.0	16.0	15.7	15.4	14.7		3.46	3.40			
Total Caltex	111.1	129.9	163.8	217.9	257.9	264.6	64.30	63.25	67.8	69.2	329.4
2. Stanvac											
Central Sumatra (Lirik)	12.6	12.2	12.4	11.7	9.7		2.5	2.6			
South Sumatra Field	8.3	6.9	6.1	5.7	8.0		2.1	2.8			
Total Stanvac	20.9	19.1	18.5	17.4	17.7	21.6	4.6	5.4	5.7	5.9	24.2
3. Lemigas	0.5	0.5	0.4	0.4	0.5	(0.5)	(0.13)	(0.13)	(0.12)	(0.12)	(0.5)
Kawengan Field											
TOTAL CONTRACTS OF WORK	132.5	149.5	182.7	235.7	276.1				73.5	75.1	353.6
Production-sharing Contracts											
Gulf and Western Industries	-	-	-	-	-	-	-	-			1.4
ARCO Group - Ardjuna Field	-	-	-	-	-	1.5	-	-			17.5
IIAPCO Group - Cinta Field	-	-	-	-	-	1.5	-	-			14.6
Union/Japex - Attaka Field	-	-	-	-	-	-	-	-	-	-	9.6
Stanvac - Corridor Block	-	-	-	-	-	-	-	-	-	-	7.0
TOTAL PRODUCTION-SHARING CONTRACTS	-	-	-	-	-	3.0	-	-	-	3.0	50.1
TOTAL PRODUCTION	170.5	186.1	219.9	270.9	311.5	325.7	77.5	77.7	82.9	87.6	440.2

TABLE 2

INDONESIA: PRODUCTION SHARING CONTRACTS

Contractor	Date of Contract Signing	Area	Location	Pertamina's Share: 65% then 67.5% on output exceeding	70% on output exceeding	Signature bonus and Payment for Geological data	Production Bonus Output	Production Bonus Bonus	Minimum exploration investment in first 8 years		Remarks
		(sq.km.)		(b/d)	(b/d)	(US$ million)	(b/d)	(US$ million)	(US$ million)		
Assamera	1 Sep. 1961 26 Nov. 1966	7,000	Onshore N. Sumatra	(60%) (65%)					7.5		
Refican	10 Mar. 1964	19,400	On and Offshore N. Sumatra	(65%)					10.0		In September 1965 Refican assigned offshore area to NOSODECO (Japex) and April 1971 Japex assigned half to Gulf Oil. In March 1968 Refican assigned an onshore area to Mobil.
ARCO Group; ARCO, IIAPCO, Natomas International, Carver-Dodge Oil and Warrior Oil	18 Aug. 1966	52,400	Offshore N.W. Java	(65%)		-	-	-	7.5		Ardjuna field started producing on 1 September, 1971.
Japex (and CFP-Total)	6 Oct. 1966	34,125	Offshore E. Kalimantan (Bunju and Mabakan)	(65%)		-	-	-	7.5	over 6 years	CFP-Total has acquired a 50% interest in Japex's remaining area (24,577 km)
Kyushu (50%), Union Carbide (25%) and BP (25%)	20 Oct. 1966	70,800	Offshore S.E. Kalimantan	(65%)		-	-	-	7.5		In September 1967 Refican assigned its interest to Kyushu which in March 1969 brought in Union Carbide, which in turn brought in BP.
Kyushu (50%), Union Carbide (25%) and BP (25%)	22 Nov. 1966	127,000	Offshore S. and S.E. Kalimantan	-		-	50,000 100,000	5.0 10.0			
Ashland Oil and Refining, Cities Service (operator), Monsanto Chemical & Robina Oil	1 Apr. 1967	154,700	Offshore N.E. Java including island of Madura	(65%)		-	40,000 50,000	1.0 4.0	7.5		
Continental Oil (50%), Union Oil (50%)	12 May 1967	165,000	Onshore S.E. Kalimantan	75,000		1.0	75,000	3.0	12.0	over 6 years	
Union Oil	26 Jan. 1968	85,900	Off and Onshore N.W. Sumatra	50,000		0.5	75,000	1.0	4.6	over 6 years	
International Oil Exploration	8 Apr. 1968	28,812	Offshore S.E. Timor	75,000		-	50,000	1.0	2.45	over 6 years	
Superior Oil (50%), Phillips (36% and operator) and AGIP (14%)	28 May 1968	64,750	Offshore and onshore S.W. Irian	100,000		1.5	100,000	2.0	17.0		
CFP-Total	6 Jul. 1968	20,600	Off and Onshore E. Sumatra	75,000		1.0	100,000 200,000	1.0 1.0	4.0	in first 6 years, 10.5 total	
IIAPCO Group: IIAPCO (68%), Carver-Dodge International (23%), Warrior International (7%) and Indomar (1%)	6 Sept 1968	110,000	Offshore S.E. Sumatra	75,000		1.25	75,000	3.5	22.5	in first 10 years	In June 1971 Shell acquired a 50% share of IIAPCO's 56.6% interest in unexplored area
AGIP (60%) and Phillips Petroleum (40%)	10 Oct. 1968	104,800	Offshore the Vogelkop peninsula of W. Irian	75,000		1.5	75,000 100,000 200,000	0.5 1.5 2.0	16.0		Reducing to 15,000 km^2 after 10 years. Construction of local refinery after certain production level
Continental Oil (75%) and Getty Oil (25%)	16 Oct. 1968	100,000	S. China Sea (Block B)	75,000		7.0 bonus	50,000 100,000	3.0 3.0	14.0	in first 6 years	Construction of local refinery after certain production level. Reconnaissance work in 1968.
Mobil	16 Oct. 1968	40,000	Straits of Malacca Offshore N.E. Sumatra	(65%)		0.5	50,000 100,000 200,000 300,000	5.0 5.0 5.0 5.0	5.5	in first 6 years	
Redco	15 Oct. 1968	11,460	Onshore Sumatra, Kalimantan and Java	(65%)					5.5		On Feb 2 1971 Redco assigned the Corridor area in Sumatra to Stanvac.

INDONESIA: PRODUCTION SHARING CONTRACTS

TABLE 2

Contractor	Date of Contract Signing	Area (sq. km.)	Location	Pertamina's Share: 67.5% on output exceeding (b/d)	65% then 70% on output exceeding (b/d)	Signature bonus and Payment for Geological data (US$ million)	Production Bonus Output (b/d)	Production Bonus Bonus (US$ million)	Minimum exploration investment in first 8 years (US$ million)	Remarks
Union Oil	25 Oct. 1968	12,600	Offshore E. Kalimantan	50,000		0.425	75,000 175,000	1.5 1.5	4.0 in first 6 years	The Attaka Reef beneath Union and Japex's adjacent areas is being developed jointly for production by late 1972.
Frontier (1% and contractor), AGIP (29% and operator), Phillips (29%), Tenneco (29%)	1 Nov. 1968	113,600	S. China Sea (Block C)	50,000		1.55	50,000 200,000	2.0 5.0	15.45	
Gulf Oil	17 Dec. 1968	170,000	S. China Sea (Block D)	75,000		1.55	50,000 75,000 100,000 200,000	0.5 1.0 2.0 2.0	11.3	
AGIP (33% & operator), Phillips (33%) and Tenneco (33%)	19 Dec. 1968	107,000	S. China Sea (Block A)	75,000					21.0	
S.E. Asia Oil & Gas (25%) and Gulf Oil (75%)	14 June 1969	104,000	Offshore S. Sulawesi	75,000		0.25	75,000 100,000	1.0 1.0	8.0	Dearborn bought out Pakistan National Oil's 50% interest in 1969 and sold it to Gulf Oil in June 1970
Jenney Oil (operator) and Syracuse Oil (12.5% each), States Marine International & Santa Fe Internation (each 37.5%)	8 Aug. 1969	47,250	On and Offshore Karimata island between S.E.Sumatra and S.W. Kalimantan (Block E)	60,000		3.0	25,000 50,000 100,000	1.25 3.0 5.0	11.9	Pertamina's share @ 67.5% thus starts lower than the 75,000 b/d elsewhere
	8 Aug. 1969	69,250	On and Offshore Mentawai islands off S.W. Sumatra	65,000		0.75	30,000 60,000	1.2 2.75	11.6	Marathon Oil acquired a 50% interest in Mentawai Islands block in October 1971
Dearborn Computer & Marine	9 Aug. 1969	47,500	On and Offshore Halmahera Island in the Sulawesi Sea	75,000		1.4	50,000 100,000	1.0 2.25	7.25	
Asia Oil Corporation (U.S. White Shield) 36.7%, Tri-Continental (Pexamin) 15%, Aminoil (48.3%)	9 Aug. 1969	772,500	Offshore Lampung in S. Sumatra and Banten in W. Java	75,000		2.5	50,000 200,000	1.0 5.0	17.5	5% interest available for domestic private capital - a new feature) and 20% of profits to be invested in Indonesia
Gulf and Western Industries	1 Nov. 1969	373,500	On and Offshore Ceram, Ambon, Baru and Sula Islands in the Moluccas	55,000		5.0	25,000 50,000 100,000	1.5 3.0 5.0	14.5 Refinery or petrochemical plant	
CFP/Total	9 Dec. 1969	143,000	Onshore Sumatra (Tebe, Taluk, D)	75,000		2.0			10.0	
Kaltim Shell	6 Dec. 1969	32,500	Onshore E. Kalimantan	75,000		5.0			20.9 over 6 years	
Wendell Phillips Oil Co. (50%) and Tesoro Petroleum (50%)	4 Feb. 1970	32,000	On and offshore W. Irian	75,000		0.50			17.5	
Texaco-Chevron (Calasiatic-Topco)	9 Feb. 1960	72,000	Offshore between Java and Sulawesi (Lombok)	65,000		2.0			9.8	
BP Petroleum Development Indonesia Ltd.	2 Mar. 1970	24,000	Offshore N.E. Kalimantan	75,000		0.75	50,000 100,000	1.0 2.0*	8.5	*Plus additional investments in downstream operations
Jenney Oil group and Pan Ocean Oil	May 1970	48,563	On and Offshore Simeulue Island off S.W. Sumatra							
Pan Ocean Oil (35.1%) and Houston Oils (3.9%) and Kondur (10%)	5 Aug. 1970	40,000	Offshore E. Sumatra in the Riau Islands	75,000		0.40			11.0	Acquired from Kondur in May 1971.
Trend Exploration Ltd.	15 Aug. 1970		Onshore W. Irian	75,000		0.15			5.35	In April 1971 Southern Cross Ltd. and North Central Oil Corp. acquired 10% interest
Whitestone Indonesia Inc. (20%) Gulf Oil (80%)	24 Oct. 1970	15,540	Onshore W. Irian	15,000	75,000	0.30		Yes	10.15	
Gulf Oil	24 Oct. 1970	8,547 17,353	On and Offshore W.Sulawesi Onshore S.W. Sulawesi	75,000		1.0			8.5	
Pertamina (25%), Pexa Oil (7.5%), Whitney Oil (45%), and Pexamin (22.5%)	28 Nov. 1970	1,535	Onshore S.E. Kalimantan	See remarks		0.25	75,000	Refinery or petrochemical plant (cost or output undisclosed)	7.25	Pertamina's share is 73.25% of output, changing to 75.625% if output exceeds 75,000 b/d but it will have 25% working interest and bear this share of costs

INDONESIA: PRODUCTION SHARING CONTRACTS

TABLE 2

Contractor	Date of Contract Signing	Area	Location	Pertamina's Share, 65% then 67.5% on output exceeding	70% on output exceeding	Signature bonus and Payment for Geological data	Production Bonus Output	Production Bonus Bonus	Minimum exploration investment in first 8 years		Remarks
		(b/d)		(b/d)	(b/d)	(US$million)	(b/d)	(US$million)	(US$million)		
Djawa Shell	15 Jan. 1971	9,500	Offshore S. of Central Java	75,000	200,000	4.0	50,000 15,000	1.0 1.0	6.0	in first 3 years and 12.0 in next 5	5% interest available for Indonesian-owned private company or state entity; a new feature
Jenney Oil group and Pan Ocean Oil	Mar. 1971	6,475	On and Offshore Simeulue Island off S.W. Sumatra								
Calasiatic-Topco	9 Aug. 1971	22,201	Onshore Central Sumatra	60,000	100,000	8.0			15.0		
Caltex	9 Aug. 1971	9,894	Onshore Central Sumatra		All output	18.0					Contract is effective from 1983 and covers area now under contract of work which expires in 1983. $18 million is advance rental due in 15 installments beginning in 1972.
ARCO	9 Aug. 1971	16,835	Onshore E. Kalimantan		4.0 + 1.0						
Continental Oil	28 Oct. 1971			60,000	200,000	2.1					

GOVERNMENT REVENUES FROM FOREIGN OIL CONTRACTORS, FY 1971/72

	CALENDAR YEAR 1971				
	Jan.-March Actual	April-June Actual	July-Sept.	Oct.-Dec.	Total
	(millions of barrels)				
Production					
CPI	64.3	63.3	67.8	69.2	264.6
PTSI	4.6	5.4	5.7	5.9	21.6
Production-sharing contracts	-	-	-	3.0	3.0
Pertamina	8.6	9.0	9.4	9.5	36.5
	77.5	77.7	82.9	87.6	325.7
Less pro-rata deliveries to domestic market @ 14.7%					
CPI	9.5	9.4	10.0	10.2	39.1
PTSI	0.7	0.8	0.8	0.9	3.2
Production-sharing contracts	-	-	-	-	-
Pertamina	1.2	1.3	1.5	1.8	5.8
	11.4	11.5	12.3	12.9	48.1
Crude Oil Exports (including crude-in-kind)					
CPI	54.8	53.9	57.8	59.0	225.5
PTSI	3.9	4.6	4.9	5.0	18.4
Production-sharing contracts	-	-	-	3.0	3.0
Pertamina	7.4	7.7	7.9	7.7	30.7
	66.1	66.2	70.6	74.7	277.6
Government share per barrel from Contracts of Work	(US dollars per barrel)				
CPI					
Export price to Eastern Hemisphere (net of credit)	1.67	2.18	2.18	2.18	
Less operating cost	0.18	0.18	0.18	0.18	
Net operating income	1.49	2.00	2.00	2.00	
Tax @ 60%	0.894	1.20	1.20	1.20	
PTSI					
Export price (no credit granted)	1.67	2.18	2.18	2.18	
Less operating cost	0.88	0.88	0.88	0.88	
Net operating income	0.79	1.30	1.30	1.30	
Tax @ 60%	0.474	0.78	0.78	0.78	

GOVERNMENT REVENUES FROM FOREIGN OIL CONTRACTORS, FY 1971/72

	FISCAL YEAR 1971/72				
	April-June	July-Sept.	Oct.-Dec.	Jan.-March	Total
	(US$ million)				
Government revenue from Foreign Contractors					
Contracts of Work - CPI[d]	49.2	65.2	70.2	71.6[c]	256.2
- PTSI	1.8	3.6	3.8	3.9[c]	13.1
Production-sharing contracts[b]	-	-	-	2.8	2.8
	51.0	68.8	74.0	78.3	272.1
Government revenue from Foreign Contractors converted into Rupiahs at following exchange rates	(Rupiah per US dollar)				
	378	378[a]	415[a]	415	
	(Rp. billion)				
Government revenue from Foreign Contractors	19.4	26.7	29.7	32.7	108.5

Notes: a/ US$15.8 million of contractors' tax obligations met by providing services were converted at Rp 415 per US dollar during July-Sept.& at US$30.0 at Rp378 during Oct.-Dec.

b/ Volume of output, net of production costs allowed at 40% of output, is shared 65% by Pertamina and 35% by contractors. From its share, Pertamina transfers the value of 60% to the Government at export price of $2.57 per barrel, and retains the remaining 5%.

c/ If Caltex and Stanvac were to export at $2.57 per barrel in October-December 1971, their tax assessment would increase by US$13.2 million in FY 1971/72 (Rp 5.5 billion) and $1.2 million (Rp 0.5 billion) respectively.

d/ About 30 million barrels of Caltex's exports are to the U.S. West Coast. They were priced at $1.70 f.o.b. January-March, at $2.21 f.o.b. April-May and at $2.35 f.o.b. as from June 1, 1971, no credit being granted. The additional revenue due to the Government is included above.

TABLE 4

FORECAST OF GOVERNMENT REVENUE FROM OIL CONTRACTORS, FY 1972/73

	VOLUME			UNIT PRICE/COST		VALUE OF EXPORTS	VALUE OF GOVERNMENT REVENUE			
Contracts of Work	CPI	PTSI	Total	CPI	PTSI		CPI	PTSI	Total	Total
	(millions of barrels)			(US$ per barrel)		(US$ million)	(US$ million)			(Rp billion)
Production	329.4	24.2	353.6							
less pro-rata deliveries to domestic market @ 11.9%	39.2	2.9	42.1							
Exports of crude (including all crude-in-kind)	290.2	21.3	311.5	2.57	2.57	800.6				
less operating cost				0.20	1.00					
Net operating income				2.37	1.57					
of which Government receives 60%				1.422	0.942		412.7	20.1	432.8	179.6
Production sharing Contracts	ARCO a/	Others	Total							
Production	17.5	32.6	50.1							
less 40% allowed to contractors to cover costs	7.0	13.0	20.0			51.4				
Oil to be shared	10.5	19.6	30.1							
Pertamina's share @ 65%	6.8	12.7	19.5							
less pro-rata deliveries to domestic market	2.0	3.1	5.1							
Pertamina's crude available for export	4.8	9.6	14.4			37.0				
Government receives 60% of oil to be shared	(6.3)	(11.7)	(18.0)	2.57	2.57		16.2	30.1	46.3	19.2
Contractor's share @ 35%	3.7	6.9	10.6							
less pro-rata deliveries to domestic market @ 11.9%	-	0.8	0.8							
Contractor's exports	3.7	6.1	9.8			25.2				
Total Contractors						914.2			479.1	198.8
Pertamina			Total							
Production			36.5							
less pro-rata deliveries from own fields @ 11.9%			4.3							
Exports of crude from own fields			32.2			82.3				
Total Production			440.2							
less pro-rata deliveries			52.3							
Crude oil exports			387.9			997.0				

Notes:

a/ No pro-rata provision

CRUDE OIL AVAILABILITY AND DISPOSAL IN INDONESIA

1968-71

(thousand barrels)

	1968 Actual	1969 Actual	1970 Actual	1971 Estimated
Crude Oil Availability				
Production of Crude	219.9	270.9	311.6	325.7
Imports of Crude	0.3	0.4	0.8	0.7
Total Availability	220.2	271.3	312.4	326.4
Crude Oil Exports				
Pertamina (including Lemigas)	27.2	38.9	62.8	56.1
Own Crude	(15.1)	(14.9)	(18.5)	(17.0)
Crude-in-kind	(12.1)	(24.0)	(44.3)	(39.1)
Contracts of work (Net of crude-in-kind)	118.3	149.9	165.4	186.7
Caltex	(104.1)	(134.6)	(151.7)	(172.6)
Stanvac	(14.2)	(15.3)	(13.7)	(14.1)
Production-sharing contracts (Net of crude-in-kind)	-	-	-	3.0
	145.5	188.8	228.3	245.8
Crude Oil Input to Local Refineries				
Crude input by Stanvac to S. Gerong	21.6	22.2	-	-
Local production by Pertamina	8.6	?	15.9	19.5
Crude imports by Pertamina	0.3	0.4	0.8	0.7
Pro-rata supplies from contractors				
Contracts of work				
Caltex			37.1	39.1
Stanvac			2.5	3.2
Production-sharing contracts	-	-	-	-
Crude oil purchase from Caltex			22.6	-
Crude-in-kind from contractors				
Caltex			3.7	18.1
Stanvac	-	-	1.2	-
In transit			-2.6	
	72.3	76.1	81.5	80.6
Crude Oil Exports & Refinery Input	217.8	264.9	309.8	326.4
Increase (+) or decrease (-) in Crude Oil Stocks	+2.4	+6.4	+2.6	+14.1
TOTAL DISPOSAL	220.2	271.3	312.4	324.7

REFINED PRODUCT AVAILABILITY AND DISPOSAL
(thousand barrels)

	1968	1969	1970	1971	1972
Refined Product Availability					
Crude input into local refineries	72.3	76.1	81.5 1/	80.6	83.5
Less refinery fuel and loss	6.8	6.0	5.5	6.0	4.0
Locally refined products	65.5	70.1	76.0	74.6	79.5
Product imports	3.5	3.2	2.1	4.0	4.0
TOTAL PRODUCT AVAILABILITY	69.0	73.3	78.1	78.6	83.5
Refined Product Sales					
Supplies to domestic market	37.3	39.7	40.0	43.2	46.0
Government account	0.3	0.4	0.5	0.5	
Pertamina account					1.5
Export Sales (including bunkers)	28.8	34.9	37.5	33.0	36.0
	66.4	75.0	78.0	76.7	83.5
Increase (+) or decrease (-) in Refined Product Stocks	+2.6	-1.7	+0.1	+1.9	-
TOTAL DISPOSAL	69.0	73.3	78.1	78.6	83.5

1/ 6.3 million barrels of crude were supplied to S. Pakning and topped there during 1970 when refinery started up. Of the output, 2.2 million barrels of unseparated tops were delivered as feedstock to the Pladju refinery, and the balance was presumably stored at S. Pakning.

Source: Pertamina, actual data 1968 - June 30, 1971
Government estimate for production, 1971
Mission estimate for other data, 1971

TABLE 6

ESTIMATED NET OIL EXPORTS FY 1971/72 - 1972/73

	FY 1971/72	FY 1972/73
	(US$ millions)	
Tax liability of contractors (see Tables 3 and 4)	272.3	479.1
Less: CPI's payment of tax obligation in surplus Rupiah, limited to foreign exchange portion of pro-rata crude for which CPI was paid in Rupiah	1.5	2.0
	270.8	477.1
Less: Contractors' tax liability settled in kind		
a) Deliveries of crude-in-kind to domestic market	27.8	48.1
b) Sea freight of crude and products	9.4	9.4
c) 60% of pro-rata crude fee, payable in Rupiahs and withheld against contractors' tax obligation	5.4	5.4
Net foreign exchange earnings from contractors	228.2	414.2
Less: Pertamina's foreign exchange needs for domestic market		
a) Inter-island freight	**17.4**	**17.4**
b) Refined product imports	**16.4**	**16.4**
c) Refining at S. Pakning	**4.8**	**4.8**
	189.6	**375.6**
Add: Net foreign exchange earnings from Pertamina's production, refining and marketing operations	**7.0**	**7.0**
Net foreign exchange earnings of oil sector	**196.6**	**382.6** a/

Source: Based on data provided by PERTAMINA

STATISTICAL APPENDIX

Table 1.1: Area and Population of Main Islands

(Population in thousands)

Island	Area (in) sq.miles)	1961	1962 /2	1964	1966	1967	1968	1969	1970	1971	1972
Kalimantan	208,286	4,120	4,220	4,433	4,661	4,782	4,907	5,037	5,172	5,312	5,458
Sumatra (incl. surrounding islands)	182,859	15,803	16,189	17,003	17,879	18,343	18,823	19,322	19,840	20,387	20,946
Sulawesi	72,986	7,109	7,283	7,649	8,043	8,251	8,468	8,692	8,925	9,167	9,418
Java and Madura	51,032	63,226	64,661	67,690	70,943	72,660	74,440	76,286	78,201	80,187	82,248
Other Islands /1	220,218	7,129	7,303	7,670	8,067	8,275	8,492	8,717	8,951	9,195	9,447
Total	735,381	97,387	99,656	104,445	109,593	112,311	115,130	118,054	121,089	124,248	127,517
Rate of Increase (%)	-	-	2.32	2.39	2.45	2.48	2.51	2.54	2.57	2.61	2.63

/1 Includes Halmahera, Ceram, Sumbawa, Timor, Flores, Bali, Lombok and West Irian.

/2 These projections are based on the assumption that the rate of population increase for Java and Madura was 2.24% in 1961; progressing linearly to 1972 according to the equation: $r = 2.24 + 0.03t$ (where r is the rate of increase and t the number of years since 1961). For the other islands the equation is: $r = 2.41 + 0.03t$. A new population census was begun in September 1971.

Source: Central Bureau of Statistics

TABLE 3.1

BALANCE OF PAYMENTS SUMMARY 1970/71-1972/73
(in million US dollars)

	1970/71 Actual	1971/72 Est.	1972/73 Proj.
Exports			
Oil (gross)	443	574	1,014
Oil sector imports	-179	-200	- 299
Investment income	-129	-182	- 320
Oil (net)	135	192	395
Other imports	761	790	875
Net exports	896	982	1,270
Imports			
Program aid	282	345	320
Foodgrains	(121)	(139)	(110)
Cotton	(22)	(36)	(50)
BE/DK imports	(139)	(170)	(160)
Other	857	954	1,248
Non-freight services	125	158	210
Total imports	1,264	1,457	1,778
Current Account Deficit	368	475	508
Aid	373	445	520
Program	(282)	(345)	(320)
Project	(91)	(100)	(200)
Private Capital	111	153	178
Debt Service Payments	-68	-103	-100
Pre-1967 debt	(40)	(66)	(53)
Post-1967 debt	(28)	(37)	(47)
SDRs	28	....	....
Errors and omissions	-55	-56	....
Monetary movements	-21	+36	-90

Source: Based on data provided by Bank Indonesia.

TABLE 3.2

STATUS OF PROJECT AID BY DONOR COUNTRY 1/

(in millions of US dollars)

Donor Country	Value of Agreement	Value of Contracts Signed	Value of L/C Opened	Disbursement
1. Australia	18.50	-	2/	5.47
2. Belgium	0.80	0.80	0.80	0.78
3. Denmark	4.00	3.95	3.87	1.57
4. France	10.53	9.55	8.01	5.05
5. Germany	40.46	11.83	11.75	9.27
6. Japan	81.14	41.63	41.63	39.22
7. Netherlands	51.75	-	23.31	17.27
8. United Kingdom	3.88	-	3.80	3.49
9. United States	109.23	13.83	9.82	5.79
10. I.D.A.	227.40	57.51	34.31	28.52
11. A.D.B.	11.13	1.24	1.24	1.18
Total	563.82 3/	140.34	138.54 4/	117.61

1/ Based on reports dated June - September 1971.

2/ No L/C's are required.

3/ Includes available funds not yet earmarked for specific projects.

4/ Differs from Appendix Table 3.3 because some countries do not require L/C openings.

Source: Bank of Indonesia and information from donor countries.

TABLE 3.3

PROJECT AID COMMITMENT AND UTILIZATION 1968-71

(In million dollars)

	Commitment		Utilization based on:	
	Amount	Dist. (In %)	Letter of Credit	Disbursement
Agriculture	73	13	6	6
Estates	61	11	5	5
Other	12	2	1	1
Irrigation	67	12	19	19
Industry and Mining	103	18	19	11
Industry	98	17	17	9
Mining	5	1	2	2
Power	135	24	31	27
Transportation	102	19	55	35
Railway	14	3	7	7
Airports	9	2	8	5
Ports	12	2	9	3
Highway	65	12	30	19
Ship	2	-	1	1
Telecommunication	39	7	11	11
Manpower	5	1	-	-
Urban Development	22	4	6	5
Water Supply	9	2	4	3
Buses	1	-	1	1
Telephone Facilities	12	2	1	1
Technical Assistance	12	2	3	3
Total	558	100	150	117

Source: BAPPENAS

TABLE 3.4

AID COMMITMENT AND DISBURSEMENT 1966-71
(in million dollars)

	1966	1967	1968	1969	1970/71	1971/72 1/
Aid Commitment	—	183	376	524	624	611
1. program aid	—	183	299	322	341	344
2. project aid	—	—	77	202	283	267
Aid Disbursement	—	195	246	264	326	248
1. program aid	—	195	246	249	284	188 3/
2. project aid 2/	—	—	—	15	42	60 3/
Pipeline at the End of the Period	35	23	153	413	711	1074
1. program aid	35	23	76	149	206	362 3/
2. project aid	—	—	77	264	505	712 3/

1/ To end September 1971

2/ Utilization basis

3/ As of the end of the second quarter of the fiscal year

Source: BAPPENAS

TABLE 3.5

PROJECT AID COMMITMENTS BY SOURCE 1968-71[1/]

(in million dollars)

	1968	1969	1970	1971/72
Australia	2.77	3.86	3.25	7.05
Belgium		0.80	2.10	
Canada		0.40	1.21	5.00[2/]
Denmark		4.00		
France	4.25	6.30	7.22	
Germany	10.50	14.21	18.77	24.67[2/]
Japan	40.00	55.00	60.60	65.96[2/]
Netherlands	6.50	27.79	12.00[3/]	15.00
United Kingdom	0.85	0.96	1.84	12.00[4/]
United States	5.18	26.30	31.40	45.70[2/]
I.D.A.	7.00	59.00	104.90	56.50[3/]
A.D.B.		3.43	20.11	35.00[2/]
Total	77.05	202.05	263.40	266.88

1/ Status October 15, 1971

2/ 1971

3/ 1970/71

4/ 1971/74

Source: BAPPENAS

TABLE 3.6

PROJECT AID COMMITMENTS BY DEPARTMENT 1968-71
(in million US dollars)

	1968	1969	1970	1971/72
Department of Agriculture	1.8	24.7	38.7	36.3
Department of Public Works	48.8	80.2	103.5	131.5
- water resources	25.6	7.4	35.7	18.8
- electricity	17.2	42.2	51.8	62.2
- highways	3.7	28.0	12.8	47.4
- housing, urban development etc.	2.3	2.6	3.2	3.1
Department of Communication	19.8	34.2	47.9	52.8
- railway	6.3	6.4	6.8	14.4
- sea transportation	4.8	9.8	8.1	15.3
- air transportation	3.0	9.9	4.6	5.7
- post and telecommunication	5.7	8.1	28.4	17.4
Department of Industry	1.8	40.2	51.5	11.0
Department of Mines	2.1	2.5	0.9	1.7
Banking System	--	--	15.0	7.5
Others	2.6	20.3	6.7	21.2
Total	76.9	202.1	254.2	262.0

Source: BAPPENAS

TABLE 3.7

COMMITMENT AND DISBURSEMENT OF PRE-1967 PROJECT AID

(in millions of US. dollars)

Country	Amount of Contract	Disbursement As of Dec.1966	1967	1968	1969	1970	Total as of Dec. 1970
I. Participating Creditors	218.8	92.6	51.5	11.8	10.1	9.5	175.5
France	65.8	45.1	6.7	0.7	1.0	-	53.5
Germany	56.6	20.4	21.2	3.5	1.6	0.9	47.6
Netherlands	22.2	6.3	10.5	-	-	-	16.8
Italy	74.2	20.8	13.1	7.6	7.5	8.6	57.6
II. Non Participating Creditors	114.5	59.0	17.7	8.3	5.2	2.0	92.2
Yugoslavia	42.9	19.4	9.7	5.0	4.4	1.1	39.6
East Germany	52.3	28.8	7.9	0.6	0.6	0.9	38.8
Hungary	9.2	5.5	-	2.7	-	-	8.2
Chechoslovakia	9.1	4.8	-	-	-	-	4.8
Bulgaria	1.0	0.5	0.1	-	0.2	-	0.8
	333.3	151.6	69.2	20.1	15.3	11.5	267.7

Source: Bank Indonesia

TABLE 3.8

UTILIZATION OF PROGRAM AID 1969/70-1971/72
(in million US dollars)

	1969/70 Jan/Mar.	1970/71 Actual	1971/72 Estimate
1. Aid Exchange Loans	132.3	122.0	140.4
Belgium	1.4	1.4	2.3
Canada	-	-	6.5
France	7.9	2.7	6.3
Germany	11.2	21.0	20.2
India	0.1	0.1	-
Japan	64.8	58.2	55.1
Netherlands	2.4	-	3.2
New Zealand	-	0.5	0.6
United Kingdom	6.4	5.2	9.0
United States	38.1	32.9	37.2
2. Aid Exchange Grants	27.3	17.9	29.6
Australia	10.4	5.1	10.5
Netherlands	16.9	12.8	19.1
3. Commodity Loans	151.0	118.6	148.8
PL 480 non-food	45.9	21.8	36.0
PL 480 rice	74.8	57.7	59.0
PL 480 wheat	30.3	25.1	33.8
Japan rice	-	14.0	20.0
4. Other Food	31.9	25.1	23.0
Australia	7.7	5.2	6.2
Belgium	0.9	0.8	0.4
Canada	2.6	2.7	2.7
France	1.6	0.9	0.9
Germany	1.8	0.7	0.6
Italy	0.4	1.4	-
Japan	15.0	10.0	10.0
Netherlands	1.9	0.7	0.5
United Kingdom	-	2.7	1.7
Total	342.5	283.6	341.8

Source: Bank Indonesia

TABLE 3.9

COUNTERPART FUND ESTIMATES 1972/73[1/]

Type of Program Aid	Utilization ($ million)	Volume (Unit Price)	Gross Counterpart (Rp. billion)	Surrender Price Per Unit (Rps.)	Freight & Other Charges (Rps. billion)	Net Counter-part receipts ($ million)
1. Non-Food Aid	210					
- General (DK)	135	--	51.3	380/$	--	51.3
- Fertilizer	25	360,000 tons ($70/T)	6.5	18,144/Ton	--	6.5
- Cotton	50	330,000 bales ($152/bls)	10.6	215/$	--	10.6
2. Food Aid	110					
- Rice	64	450,000 tons ($142/ton)	18.0	40/Kg		13.3
- Wheat Grains	46	700,000 tons ($65/ton)	15.2	21.75/Kg	6.4	9.7
Total	320		101.6			91.4

1/ Based on current surrender prices

Source: Bank Indonesia

TABLE 4.1

NON STANDARD/REVISED

INDONESIA - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1970
AFTER THE 1970 REORGANIZATION AGREEMENTS /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 1

Source	Debt Outstanding December 31, 1970	
	Disbursed only	Including undisbursed
TOTAL EXTERNAL PUBLIC DEBT /2	2,949,540	3,477,558
PRE JULY 1, 1966 DEBT	43,155	43,533
Debts subject to reorganization - suppliers	21,571	21,571
Debts not subject to reorganization - suppliers	21,584	21,962
REORGANIZED DEBT	1,763,733	1,774,477
Western countries	650,869	661,613
France	101,757	101,757
Germany (Fed. Rep. of)	123,940	123,940
Italy	115,076	125,820
Japan	78,673	78,673
Netherlands	24,396	24,396
United Kingdom	24,106	24,106
United States	182,921	182,921
Eastern countries and Yugoslavia	1,112,864	1,112,864
Bulgaria	1,437	1,437
China (Mainland)	21,543	21,543
Czechoslovakia	68,746	68,746
Germany (East)	56,537	56,537
Hungary	17,154	17,154
Poland	96,563	96,563
Rumania	13,088	13,088
U.S.S.R.	734,333	734,333
Yugoslavia	103,463	103,463
POST JUNE 30, 1966 DEBT	1,142,652	1,659,548
Suppliers /3	108,614	108,614
Canada	10,100	10,100
Japan	54,614	54,614
United Kingdom	30,000	30,000
United States	13,900	13,900
Loans from international organizations	5,908	186,989
Asian Development Bank	800	16,090
IDA	5,108	170,899
Loans from governments	853,060	1,188,875
Belgium	3,930	4,100
Denmark	1,167	4,000
France	9,438	34,219
Germany (Fed. Rep. of)	70,826	97,685
India	13,176	13,333
Japan	266,741	341,436
Netherlands	35,930	67,190

See footnotes at end of table.

TABLE 4.1 NON STANDARD/REVISED

INDONESIA - EXTERNAL PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1970
AFTER THE 1970 REORGANIZATION AGREEMENTS /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

Page 2

Source	Debt Outstanding December 31, 1970	
	Disbursed only	Including undisbursed
Loans from governments (cont.)		
New Zealand	194	560
United Kingdom	13,051	15,996
United States	438,606	610,355
Nationalization	175,070	175,070

/1 Debt with an original or extended maturity of over one year.
/2 Includes arrears of principal and excludes arrears of interest up to December 31, 1970 as shown below:

(In thousands of U.S. dollars)

	Principal	Interest
TOTAL	50,950	7,645
Pre July 1, 1966 Debt - suppliers	23,351	2,650
Reorganized Debt - Eastern Countries and Yugoslavia	27,599	4,995
Bulgaria	830	92
China (Mainland)	6,771	579
Hungary	5,166	272
Rumania	1,387	277
Yugoslavia	13,445	3,775

/3 Includes Pertamina debts contracted up to March 31, 1970.

Note :

1. Bilateral agreements on the 1970 Debt Reorganization have been concluded for the following countries:
   - France, Germany (Fed. Rep. of), Netherlands and U.S.A.
   - Czechoslovakia, Germany (East), Poland and U.S.S.R.
2. The following countries have not yet concluded bilateral agreements; debt projections were estimated as indicated below:
   - Italy, Japan and United Kingdom were based on: (a) the general terms of the multilateral agreement and (b) assumptions.
   - Bulgaria, China (Mainland), Hungary, Rumania and Yugoslavia were based on pre 1970 Debt Reorganization agreements.

Economic and Social Data Division
Economic Program Department
September 29, 1971

NON-STANDARD/REVISED

TABLE 4.2

INDONESIA - ESTIMATED PUBLIC DEBT OUTSTANDING AS OF DECEMBER 31, 1970
AFTER THE 1970 REORGANIZATION AGREEMENTS

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST (BEGIN OF PERIOD) INCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
	TOTAL EXTERNAL PUBLIC DEBT			
1971	3,425,477	117,612	33,713	151,325
1972	3,307,865	100,582	37,751	138,333
1973	3,207,283	92,172	37,948	130,120
1974	3,115,111	92,554	39,316	131,870
1975	3,022,557	97,636	38,669	136,305
1976	2,924,921	90,306	36,747	127,053
1977	2,834,615	98,188	35,282	133,470
1978	2,736,427	117,932	33,939	151,871
1979	2,618,495	116,867	32,503	149,370
1980	2,501,628	110,963	30,092	141,055
1981	2,390,665	115,248	30,307	145,555
1982	2,275,417	116,187	28,976	145,163
1983	2,159,230	120,867	27,536	148,403
1984	2,038,363	116,253	25,711	141,964
1985	1,922,110	115,288	38,536	153,824
1986	1,806,822	115,307	37,213	152,520
1987	1,691,515	112,735	35,474	148,209
1988	1,578,780	110,186	33,911	144,097
1989	1,468,594	102,120	32,433	134,553
1990	1,366,474	96,372	31,246	127,618
1991	1,270,102	93,208	30,305	123,513
1992	1,176,894	107,305	37,687	144,992
1993	1,069,589	103,045	36,643	139,688
1994	966,544	101,527	35,716	137,243
1995	865,017	100,333	34,823	135,156
1996	764,684	99,148	33,975	133,123
1997	665,536	99,146	33,140	132,286
1998	566,390	99,160	32,307	131,467
1999	467,230	99,021	31,468	130,489
2000	368,209	29,052	7,429	36,481

Note: Includes service on all debt listed in Table 4.1 prepared September 29, 1971 with the exception of the following, for which repayment terms are not available: (In thousands of U.S. dollars)

Total	52,091
Pre July 1, 1966 Debt - suppliers	23,754
Reorganized Debt - Eastern Countries and Yugoslavia	27,599
Bulgaria	830
China (Mainland)	6,771
Hungary	5,166
Rumania	1,387
Yugoslavia	13,445
Post June 30, 1966 Debt	738

TABLE 5.1

CENTRAL GOVERNMENT REVENUE, 1965-1972/73

(In Billions of Rupiahs)

	1965	1966	1967	1968	1969/70	1970/71	1971/72 (Budget)	1971/72 (July Program)	1971/72 (Revised Estimate)	1972/73 (Preliminary Estimate)
Direct Taxes	0.27	1.79	16.81	51.04	91.47	121.66	144.00	169.40	175.70	295.40
Income Tax	0.04	0.64	3.13	9.43	12.06	13.37	15.70	19.60	18.40	21.40
Corporation Tax	0.09	0.61	3.42	9.50	15.64	20.68	21.60	24.10	24.00	28.90
Corporation Tax on Foreign Oil Company			7.38	25.51	48.33	68.82	87.20	104.90	110.50	206.40
Withholding Tax			0.69	6.37	15.27	18.59	19.10	20.50	22.30	26.10
Other	0.14 1/	0.54 1/	2.19 1/	0.23	0.17	0.20	0.40	0.30	0.50	0.60
IPEDA										12.00
Indirect Taxes										
A. Domestic Sector	0.31	4.88	14.60	36.70	68.09	92.00	110.80	100.70	96.70	115.00
Sales Tax	0.10	1.72	4.20	9.17	15.10	18.28	20.70	21.00	22.50	28.70
Excises	0.13	2.22	7.00	16.57	32.09	38.88	45.60	42.90	40.00	45.80
Net Profit from Oil	0.02	0.08	1.61	7.74	17.46	30.42	39.10	32.10	29.30	34.80
Other	0.06	0.86	1.79	3.22	3.44	4.42	5.40	4.70	4.90	5.70
B. External Trade Sector	0.05	5.65	27.50	57.26	80.97	117.83	156.90	124.70	135.60	154.40
Import Duties	0.05	3.69	16.90	37.30	57.67	70.70	98.60	73.20	81.50	93.90
Sales Tax on Imports	-	-	-	6.04	15.86	22.10	29.60	22.80	25.30	29.60
Export Taxes, Central Gov't	-	1.96	10.60	13.92	7.44	25.03	28.70	28.70	28.80	30.90
Non-Tax Receipts	0.29	0.82	1.30	4.75	3.17	13.11	4.26	15.20	4.20 2/	8.80
GRAND TOTAL	0.92	13.14	60.21	149.75	243.70	344.60	415.96	410.00	412.20	573.60

1/ Includes contribution to local Government.
2/ Excludes Rp 11 billion of the unused fund of the preceding fiscal year.

Source: Ministry of Finance

TABLE 5.2

CENTRAL GOVERNMENT REVENUE, 1965-1971/72
(In real terms at 1971/72 prices: Billions of Rupiahs)

	1965	1966	1967	1968	1969/70	1970/71	1971/72 Budget Estimate	1971/72 Revised Estimate	Annual Growth 1965-68 (in %)	Annual Growth 1969/70-1971/72 (in %)	Increase in 1971/72 (Revised Est.) over 1970/71 (in %)
Direct Taxes	24.55	15.30	53.03	71.69	109.15	129.15	144.00	175.70	43.0	25.0	36.0
Income Tax	3.64	5.47	9.87	13.24	14.39	14.19	15.70	18.40	52.0	16.7	29.7
Corporation Tax			10.78	13.34	18.67	21.95	21.60	24.00	145.0	13.6	9.3
Corporation Tax on Oil Company	8.18	5.21	23.28	35.83	57.67	73.06	87.20	110.50		35.0	51.2
Withholding Tax			2.18	8.95	18.22	19.73	19.10	22.30		6.3	13.0
Other	12.73	4.62	6.92	0.33	0.20	0.22	0.40	0.50	(-) 23.0	23.0	127.3
Indirect Taxes											
A. Domestic Sector	28.18	41.71	46.06	51.54	81.25	97.66	110.80	96.70	22.0	11.4	(-) 1.0
Sales Tax	9.09	14.70	13.25	12.88	18.02	19.41	20.70	22.50	12.4	7.7	15.9
Excises	11.82	18.98	22.08	23.27	38.29	41.27	45.60	40.00	25.0	5.8	(-) 3.1
Net Profit from Oil	1.82	0.68	5.08	10.87	20.84	32.29	39.10	29.30	80.0	24.0	(-) 9.3
Other	5.45	7.35	5.65	4.52	4.10	4.69	5.40	4.20	(-) 6.0	7.3	4.5
B. External Trade Sector	4.55	48.29	86.75	80.42	96.63	125.08	156.90	135.60	160.0	13.6	8.4
Import Duties	4.55	31.54	53.31	52.39	68.82	75.05	98.60	81.50	126.0	3.0	8.6
Sales Tax on Imports	-	-	-	8.48	18.93	23.46	29.60	25.30		9.6	7.8
Export Taxes, Central Gov't	-	16.75	33.44	19.55	8.88	26.57	28.70	28.80		80.0	8.4
Non-tax Receipts	26.36	7.01	4.10	6.67	3.78	13.92	4.26	4.20[1]	(-) 9.5	100.0	(-) 69.4
GRAND TOTAL	83.64	112.31	189.94	210.32	290.81	365.82	415.96	412.20	36.0	18.8	12.7

1/ Excludes Rp 11 billion carryover of the preceding fiscal year.

TABLE 5.3

REVENUE AND TAX PERFORMANCE

1965 - 1972/73

(In Billion Rupiahs)

Year	GDP 1/	Total Revenue	Total Tax Revenue	Total Non-oil 2/ Tax Revenue	AS PERCENT OF GDP: Total Revenue	AS PERCENT OF GDP: Total Tax Revenue	AS PERCENT OF GDP: Total Non-oil Tax Revenue
1965	23.7	0.9	0.6	n.a.	3.8	2.5	n.a.
1966	315.9	13.1	12.3	n.a.	4.1	3.9	n.a.
1967	847.8	60.2	58.9	51.5	7.1	6.9	6.1
1968	1,993.9	149.8	145.0	119.5	7.5	7.2	6.0
1969/70	2,604.4	243.7	240.5	192.2	9.4	9.2	7.4
1970/71	2,900.0	344.6	331.5	262.7	11.9	11.4	9.1
1971/72 (latest revision)	3,200.0	412.2	393.9	283.4	12.9	12.3	8.9
1972/73 (Est.)	3,525.0	561.6 3/	552.8	346.4	15.9	15.7	9.8

1/ For calendar years; upto 1970 the figures are based on official estimates. The figure for 1972 is based on a growth assumption of 7% and an average price hike of 3% (6% at the end of the period).

2/ Non-oil tax excludes corporate tax on oil, but includes other oil revenues.

3/ Excludes IPEDA

Source: Calculated by the mission.

TABLE 5.4

ROUTINE EXPENDITURE, 1965-1972/73

(In Billions of Rupiahs)

	1965	1966	1967	1968	1969/70	1970/71	1971/72 Budget	1971/72 (Revised)	1972/73 (Preliminary Est.)
Personnel Expenditure	0.67	14.14	31.63	68.92	93.11	119.74	153.80	154.20	203.80
Rice Allowance in kind	0.67	7.55	8.99	26.78	18.46	22.15	20.50	20.50	20.50
Rice Allowance in cash			3.62	9.40	10.39	11.40	12.50	13.10	13.10
Salaries, etc.		6.25	18.38	25.82	56.43	70.60	101.60	95.40	142.40
Other domestic personnel expenses				4.36	3.76	10.81	14.20	19.70	20.90
External personnel expenses		0.34	0.64	2.56	4.07	4.78	5.00	5.50	6.90
Material Expenditures	0.39	7.94	20.34	38.48	61.02	74.26	79.34	80.50	102.50
Personnel material expenses	0.39	5.45	16.15	9.42	10.73	11.70	12.10	12.10	15.40
Domestic material expenses				22.73	42.40	56.28	59.04	59.20	76.70
External material expenses		2.49	4.19	6.33	7.89	6.28	8.20	9.20	10.40
Subsidies to Region	0.07	1.88	8.88	25.54	44.12	56.17	66.80	66.80	83.50
West Irian	0.07	1.82	1.33	4.58	8.93	10.07	10.60	10.60	10.60
Local Government		0.06	7.55	20.96	35.19	46.10	56.20	56.20	72.90
ADO Substitution	-	-	-	-	-				
Debt Repayment	0.03	0.45	3.72	9.98	14.44	25.60	37.20	45.60	47.70
Internal Debt	0.03	0.09	1.25	1.91	1.74	2.00	8.40	8.40	9.00
External Debt		0.36	2.47	8.07	12.70	23.60	28.80	37.20	38.70
Other Expenditure	0.92	1.28	5.45	6.83	3.85	12.41	6.20	7.20	5.00
Total	2.08	25.69	70.02	149.75	216.54	288.18	343.34	354.30	442.50

Source: Ministry of Finance

TABLE 5.5

ROUTINE EXPENDITURE, 1965-1971/72
(In real terms at 1971/72 prices: Billions of Rupiahs)

	1965	1966	1967	1968	1969/70	1970/71	1971/72 Budget	Annual Growth Rate (In %) 1965/68	1969/70-1971/72	1970/71 1971/72
Personnel Expenditure	60.91	120.85	99.78	96.80	111.11	127.11	154.20	16.7	17.7	21.1
Rice Allowance in kind		64.53	28.36	37.61	22.03	23.51	20.50		(-)3.7	(-)12.8
Rice Allowance in cash			11.42	13.20	12.40	12.10	13.10		0.4	8.3
Salaries, etc.				36.27	67.34	74.95	95.40		23.0	35.6
Other domestic personnel expenses	60.91	53.42	57.98	6.12	4.49	11.48	19.70	16.7	77.0	27.3
External personnel expenses		2.90	2.02	3.60	4.85	5.07	5.50		1.6	(-)8.5
Material Expenditures	35.45	67.86	64.16	54.04	72.82	78.83	80.50	15.1	4.5	2.7
Personnel material exp.				13.23	12.80	12.42	12.10		(-)5.8	(-)2.6
Domestic material exp.	35.45	46.58	50.95	31.92	50.60	59.74	59.20	15.1	30.0	1.0
External material exp.		21.28	13.22	8.89	9.42	6.67	9.20			37.9
Subsidies to Region	6.36	16.07	28.01	35.87	52.65	59.63	66.80	77.0	12.6	12.0
West Irian	6.36	15.56	4.19	6.43	10.66	10.69	10.60		(-)0.1	(-)0.8
Local Government		0.51	23.82	29.44	41.99	48.94	56.20	77.0	15.7	
ADO Substitution	-	-	-	-	-	-	-			14.8
Debt Repayment	2.73	3.85	11.74	14.02	17.23	27.18	45.60	72.0	47.0	67.8
Internal Debt	2.73	0.77	3.95	2.68	2.08	2.12	8.40		100.0	296.2
External Debt		3.08	7.79	11.34	15.15	25.05	37.20		38.0	48.5
Other Expenditure	83.64	10.94	17.19	9.59	4.59	13.17	7.20	(-)200.0	16.2	(-)45.3
Total	189.09	219.57	220.88	210.32	258.40	305.92	354.30	3.6	15.3	15.8

TABLE 5.6

DEVELOPMENT BUDGET, 1965-1972/73

(In billion Rupiahs)

	1965	1966	1967	1968	1969/70	1970/71	1971/72 (Budget Estimate)	1972/73 (Preliminary Estimate)
Development Budget:								
Central Government Dept			11.73	28.94	79.74	82.97	125.44	170.20
Financing through Banking System			1.62	5.28	7.58	1.00	11.50	12.50
Local Authorities	0.45	3.74	2.34	-	2.60	31.90	35.28	39.90
West Irian			-	-	2.91	0.78	3.50	3.50
Limas			-	-	-	9.57	-	-
Others			1.84	1.32	-	1.95	-	-
Project Loans			-	-	25.30	41.58	66.15	83.00
Total	0.45	3.74	17.53	35.54	118.13	169.75	241.87	309.10
Financing of Development Budget:								
Surplus of the routine budget	(-)1.16	(-)12.55	(-)9.81	0.00	27.16	56.42	72.62	131.10 1/
Program Aid	-	-	24.69	35.54	65.76	78.95	103.10	95.00
Project Aid	-	-	-	-	25.30	41.58	66.15	83.00
Total	(-)1.16	(-)12.55	14.88	35.54	118.22	176.95	241.87	309.10

1/ Includes IPEDA

Source: BAPPENAS

TABLE 5.7

DEVELOPMENT BUDGET, 1965-1971/72
(In real terms at 1971/72 prices: In billions of Rupiahs)

	1965	1966	1967	1968	1969/70	1970/71	1971/72 Budget Estimate	Annual Growth Rate (In %) 1965-68	1968-1971/72	1971/72 over 1970/71
Central Government Departments			37.01	40.65	95.16	88.08	125.44	-	35.0	42.4
Financing through Banking System			5.11	7.42	9.04	1.06	11.50	-	22.0	984.9
Local Authorities			7.38	-	3.10	33.86	35.28	-	48.0	4.2
West Irian	40.91	31.97	-	-	3.47	0.83	3.50	-	-	321.7
Bimas			-	-	-	10.16	-	-	-	-
Others			5.80	1.85	-	2.07	-	-	-	-
Project Loans			-	-	30.19	44.14	66.15	-	-	49.9
Total	40.91	31.97	55.30	49.92	140.96	180.20	241.87	6.9	70.0	34.2

TABLE 5.8

CENTRAL GOVERNMENT DEVELOPMENT BUDGET

1969/70 - 1971/72

(In million Rupiah)

	Sector and Sub-sector	1969/70	1970/71	1971/72
I.	Agriculture	5,277	4,582	22,886
	Improvement of Major Products	4,408	3,170	4,343
	Rice	1,563	2,256	2,082
	Maize	463	116	87
	Cassava	13	9	6
	Sugar	3	11	7
	Tobacco	-	-	-
	Rubber	17	75	70
	Palm Oil	-	-	-
	Tea	-	-	-
	Other Export Products	83	221	143
	Quarantine, Horticulture, etc.	2,021	252	1,531
	Animal Husbandry	245	230	417
	Production Support Programs	314	543	545
	Fertilizer	-	-	-
	Improved Seed	173	169	135
	Small Irrigation Schemes, including under minor irrigation schemes	6	1	3
	Warehousing and cold storage facilities	15	38	37
	Agricultural marketing-incl. price support programs	14	35	45
	Agricultural credit	-	-	-
	Rivers and canals dredging, survey, extension, etc.	106	300	325
	Forestry Programs	423	560	1,105
	Development of intra-structure	92	90	503
	Improvement of forests	331	470	527
	Fishery Programs	132	309	648
	Inland & onshore-equipment	132	143	543
	Offshore	-	166	105
	Bimas Loss	-	-	13,000
	Agricultural Processing Industries	-	-	-
	Other Agricultural Programs	-	-	3,245

TABLE 5.8

	Sector and Sub-sector	1969/70	1970/71	1971/72
II.	Irrigation	19,705	19,688	21,866
	Major Irrigation Projects	19,705	19,588	21,766
	Minor Irrigation Schemes			
	Direct Program	-	100	100
	Provision for credit	-	-	-
	Provision for equipment	-	-	-
III.	Industry and Mining	5,565	2,179	2,554
	Research Center and Pilot Projects	1,520	920	893
	Utilization of postponed Projects	700	286	333
	Metal Industry, Machinery	1,900	135	309
	Research on Oil & Natural Gas	100	135	117
	Geological Survey	382	411	393
	Improvement of Mining Facilities	263	292	281
	Improvement of Coal Mining	700	-	228
	Industrial Credit Program			
	Private Sector			
	Public Sector			
	Technical Assistance			
	Private Sector			
	Public Sector			5
IV.	Fuel and Power	4,280	8,051	9,056
	Major Load Centers (Electricity)	4,055	7,527	8,431
	Generation	2,833	5,277	4,910
	Transmission	505	557	995
	Distribution (bycentre)	717	1,693	2,526
	Medium & Small Load Centers (Electricity)	-	98	132
	Generation	-	98	132
	Transmission			
	Distribution			
	Gas Project	225	426	493
	Petroleum Sector	-	-	-
	Refineries			
	Distribution			
V.	Transportation	23,203	21,481	29,344
	Major Road Projects	10,577	9,076	14,627
	Secondary Road Projects	-	-	-
	Railroad Projects	2,978	2,685	3,150
	Airport Projects	1,676	2,000	3,470
	Ports	3,381	2,846	3,550

TABLE 5.8

	Sector and Sub-sector	1969/70	1970/71	1971/72
	Transport Equipment			
	Planes	2,601	-	-
	Ships	-	54	753
	Heavy Equipment/logistic	1,383	3,498	1,894
	Soil test	257	373	100
	Roads & Bridges Survey - final engineering	350	767	778
	Asphalt Production	-	-	-
	Testing facilities for land vehicles, godown & quay	-	182	90
VI.	Communication	2,006	2,221	2,678
	Telephone services for major town	752	707	765
	Intercity telephone services	295	81	86
	Postal services	110	121	230
	Telegraph services	302	200	225
	Other telecommunication projects, earth satellite, microwave system, etc.	547	1,112	1,372
VII.	Urban Development	1,150	2,522	2,632
	Housing program in major cities	100	167	127
	Water supply & sewerage schemes in major cities	1,050	2,355	2,505
	Urban transportation for major cities			
	Program for medium-sized and small towns			
	Housing			
	Watersupply & sewerage			
VIII.	Rural Development	4,600	11,290	14,073
	Subsidies to Desa	4,600	5,590	5,250
	Subsidies to Kabupaten	-	5,700	8,823
IX.	Government Construction	9,336	12,632	10,699
	Administrative buildings	3,329	5,602	3,383
	Security and defense	4,000	4,500	5,000
	Legislative bodies	699	667	667
	Finance Department	1,308	1,863	1,649
X.	Tourism	65	50	275
XI.	Culture	196	206	206
XII.	Pre-investment Studies & Surveys relating to:	356	413	644
	Agriculture & Irrigation	46	47	76
	Industry & Mining	-	-	-
	Transport	-	-	-
	Other Economic Sector	310	366	568

TABLE 5.8

		1969/70	1970/71	1971/72
XIII.	Social Welfare & Physical Training	751	963	1,052
	Social Welfare	660	839	928
	Sports & Physical Training	91	124	124
XIV.	Education	8,923	10,023	11,080
	Primary	360	423	423
	Urban			
	Rural			
	Secondary	3,048	2,972	2,792
	Urban			
	Rural			
	University Projects	1,737	1,739	2,539
	Literary campaign & adult education	160	156	156
	Aid to private sector	-	-	-
	Other educational programs (religious)	3,618	4,733	5,170
XV.	Manpower Training	131	58	59
XVI.	Health and Family Planning	3,795	4,426	5,833
XVII.	Statistics	1,020	1,400	1,119
	Population census	900	1,200	918
	Agricultural census	-	-	-
	Sample survey - rice	120	127	127
	Education, socio-economic and population sample	-	-	-
	Other sample surveys	-	73	74
XVIII.	Miscellaneous	2,007	2,260	2,504
	Information	590	704	900
	Judicial Affairs	1,060	1,208	1,261
	Religious Affairs	357	348	343
XIX.	Other Expenditures in Economic Sectors (incl. contingencies)	-	-	1,676
	Total	92,366	104,445	140,236

Source: Budget Bureau

TABLE 5.9

REGIONAL GOVERNMENT REVENUES BY SOURCES 1971/72

	D.C.I. Djaja	Central Djawa	Jogjakarta	West Kalimanten	Central Kalimanten	South Kalimanten	North Sulawesi	Central Sulawesi	South Sulawesi	South East Sulawesi	Bali	West Nusa Tenggara
A. Current Account												
1. Sales and charges	98	55	110	14	3	-	77	68	20	-	99	105
2. Net profit from public enterp.	40	230	5	28	-	4	13	-	-	3	4	3
3. Depreciation reserves of public enterp.	-	-	-	13	-	-	-	5	-	1	1	-
4. Income from ownership of property	22	-	20	-	-	-	4	-	27	1	2	1
5. Direct taxes	1,952	390	117	23	8	50	411	10	41	10	19	24
6. Indirect taxes	-	55	-	455	540	92	-	-	84	19	49	-
7. Social Security contribution	1,300	-	-	-	-	-	-	-	-	-	-	-
8. Current transfer from:												
Central Government	4,700	9,315	1,373	1,611	1,374	1,451	1,266	1,115	2,223	862	1,047	868
Local Authority	-	-	-	-	-	-	-	-	-	-	-	-
Abroad	-	-	-	-	-	-	-	-	-	-	-	-
9. Other Current	153	1,351	208	100	102	63	-	8	-	30	123	28
Sub-total (A)	8,265	11,396	1,833	2,244	2,027	1,660	1,771	1,206	2,395	926	1,344	1,029
B. Development												
1. Taxes on capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital transfers from:												
ADO	300	1,055	-	1,187	321	605	397	250	150	113	140	25
Rural Development	-	-	-	-	-	-	232	-	-	-	-	-
Cess	-	50	-	-	10	15	508	338	213	47	135	-
Oil taxes (gasoline, kerosene)	330	170	29	28	3	20	20	5	45	4	27	-
IPEDA, IREDA, SW	-	3	27	10	-	6	13	11	40	42	4	13
Abroad	-	-	-	-	-	-	-	-	-	-	-	-
3. Net borrowing												
Domestic	-	-	-	-	-	-	-	-	-	-	-	-
Abroad	-	-	-	-	-	-	-	-	-	-	-	-
4. Other Capital Receipts and Payments (net)	2,000	80	-	-	-	-	-	21	147	-	-	230
Sub-total (B)	2,630	1,358	56	1,225	334	646	1,170	625	595	206	306	268
GRAND TOTAL	10,895	12,754	1,889	3,469	2,361	2,306	2,941	1,831	2,990	1,132	1,650	1,297

TABLE 5.9

	East Nusa Tenggara	West Djawa	Atjeh	North Sumatra	West Sumatra	Riau	Pengklu	Lampung	West Irian	Totals
A. Current Account:										
1. Sales and charges	76	247	364	154	17	111	4	127	18	1,767
2. Net profit from public enterp.	8	487	-	19	4	-	-	2	-	850
3. Depreciation reserves of public enterp.	-	50	-	-	-	-	-	-	-	70
4. Income from ownership of property	1	-	11	-	-	-	-	-	-	89
5. Direct taxes	7	692	52	507	-	37	43	32	42	4,467
6. Indirect taxes	-	519	157	36	193	-	1	-	2	2,202
7. Social security contribution	-	-	-	-	-	-	-	-	-	1,300
8. Current transfer from:										
Central Government	1,430	6,552	1,902	2,600	1,755	2,373	655	1,053	460	45,985
Local Authority	-	-	-	-	-	-	-	-	-	-
Abroad	-	-	-	-	-	-	-	-	-	-
9. Other Current	176	-	211	1,077	73	242	68	26	21	4,060
Sub-total (A)	1,696	8,547	2,697	4,393	2,042	2,763	771	1,240	543	60,790
B. Development:										
1. Taxes on capital	-	-	-	-	-	-	-	-	-	-
2. Capital transfers from:										
ADO	136	968	690	5,327	550	-	155	1,488	4	13,861
Rural Development	-	-	-	-	-	-	-	-	-	232
Cess	-	-	97	413	-	15	-	251	-	2,092
Oil taxes (gasoline, kerosene)	28	50	201	194	-	-	-	35	-	1,189
IPEDA, IREDA, SW	150	84	24	40	31	-	-	85	-	583
Abroad	-	-	-	-	-	-	-	-	-	-
3. Net Borrowing										
Domestic	-	-	-	-	-	-	279	-	-	279
Abroad	-	-	-	-	-	-	-	-	-	-
4. Other Capital Receipts and Payments (net)	-	-	-	747	-	-	64	730	-	4,019
Sub-total (B)	314	1,102	1,012	6,721	581	15	498	2,589	4	22,255
GRAND TOTAL	2,012	9,649	3,709	11,114	2,623	2,778	1,269	3,829	547	83,045

Source: BAPPENAS

TABLE 5.10

REGIONAL GOVERNMENT ROUTINE EXPENDITURE 1971/72

	D.C.I. Djaja	Central Djawa	Jogjakarta	West Kalimanten	Central Kalimanten	South Kalimanten	North Sulawesi	Central Sulawesi	South Sulawesi	South East Sulawesi	Bali	West Nusa Tenggara	East Nusa Tenggara	West Djawa	Atjeh	North Sumatra	West Sumatra	Riau	Pengklu	Lampung	West Irian	Total
1. General Services	2,669	1,348	543	447	1,157	427	299	355	392	280	149	85	632	2,230	477	509	1,889	235	163	287	111	14,684
2. Education	350	4,235	673	226	471	520	632	195	48	3	612	3	419	2,995	210	1,109	29	13	12	88	76	12,919
3. Health	227	121	28	114	24	98	89	27	108	43	160	52	48	77	63	348	12	14	39	261	25	1,978
4. Social Welfare	37	95	10	23	-	29	-	2	13	6	3	20	-	39	26	112	-	-	17	49	4	485
5. Housing	20	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3	-	-	-	-	8	31
6. Other Social	-	-	-	-	-	-	265	-	-	-	-	62	-	-	-	-	-	-	-	5	15	347
7. Agriculture	67	197	56	289	99	85	16	47	66	68	118	-	94	295	287	125	22	68	61	107	-	2,167
8. Mining and Industry	14	25	11	22	8	12	-	-	-	-	-	-	-	32	16	9	1	6	3	11	7	177
9. Transport & Communication	470	360	41	51	88	71	78	32	211	34	37	132	23	226	285	513	79	75	30	52	23	2,931
10. Multipurpose Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11. Other Economics	68	7	3	-	-	-	-	3	-	-	41	-	-	5	-	2,197	-	-	35	-	36	2,395
12. Subsidy to Kabupaten	-	3,132	-	-	273	274	-	485	1,638	-	200	622	108	1,976	1,365	-	187	-	344	610	118	11,332
13. Subsidy to Private Sector	248	89	301	88	-	10	270	-	-	-	-	-	339	-	-	-	-	782	-	-	43	2,170
14. Advances (e.g., salaries)	-	1,201	36	-	-	-	25	-	-	3	-	-	-	-	185	-	-	-	-	-	-	1,450
15. Contingencies	-	50	-	-	-	5	-	-	-	5	-	-	-	-	-	-	-	50	-	-	-	110
TOTAL	4,170	10,880	1,702	1,260	2,120	1,531	1,674	1,146	2,476	442	1,320	976	1,663	7,875	2,914	4,925	2,219	1,243	704	1,470	466	53,176

Source: BAPPENAS

TABLE 5.11

REGIONAL GOVERNMENT DEVELOPMENT EXPENDITURES 1971/72

	D.C.I. Djaja	Central Djawa	Jogjakarta	West Kalimanten	Central Kalimanten	South Kalimanten	North Sulawesi	Central Sulawesi	South Sulawesi	South-East Sulawesi	Bali	West Nusa Tenggara	East Nusa Tenggara	West Djawa	Atjeh	North Sumatra	West Sumatra	Riau	Pengklu	Lampung	West Irian	Totals
A. Fixed Capital Formation																						
1. General Services	-	15	2	923	95	15	40	103	-	30	19	47	28	89	91	218	131	69	59	51	-	2,025
2. Education	-	11	6	2	11	77	-	21	93	5	21	-	-	51	78	105	15	61	11	2	-	570
3. Health	185	60	10	-	-	20	-	-	34	30	20	4	-	6	-	101	45	19	21	25	-	580
4. Social Welfare	42	-	5	-	-	-	-	-	-	-	-	4	-	-	5	9	-	-	17	7	-	89
5. Housing	-	29	-	12	-	28	40	-	-	20	13	-	-	-	5	-	-	85	-	-	-	232
6. Other Social	130	-	-	-	4	59	-	-	-	15	2	12	2	31	11	-	-	10	-	43	-	319
7. Agriculture	-	85	9	181	2	111	-	23	184	23	4	40	21	18	12	465	75	1	44	35	-	1,333
8. Mining and Industry	51	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7	-	5	2	-	65
9. Transport and Communication	3,033	113	3	1,328	4	242	110	75	263	21	95	129	46	269	151	758	87	456	313	63	-	7,559
10. Multi-purpose Projects	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11. Other Economics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	1
B. Other Capital Formation	2,923	427	50	457	34	323	332	214	64	4	144	-	29	211	448	414	83	499	-	1	-	6,657
C. Transfers:																						
Kabupaten	-	120	-	783	-	7	239	199	-	-	-	26	86	-	-	1,514	30	-	30	700	-	3,734
Public Corporations	-	100	1	-	50	-	8	-	-	3	-	-	46	10	50	201	-	-	-	-	-	469
Private Sector	-	-	-	229	-	6	-	-	-	-	9	-	-	22	21	-	-	-	-	-	-	287
Other	-	-	-	226	-	-	-	-	82	-	-	60	-	-	-	1,006	-	-	66	1,431	-	2,871
D. Direct Loans	-	-	-	-	67	25	-	-	-	-	-	-	-	45	-	595	-	-	-	-	-	732
E. Purchase of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	-	-	-	-	-	5
F. Change in Cash Balances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	6,364	960	86	4,141	267	913	769	635	720	151	327	322	258	752	872	5,392	473	1,200	566	2,360	-	27,528

Source: BAPPENAS

TABLE 5.12

CONSOLIDATED BUDGET OF
REGIONAL GOVERNMENTS 1971/72

(In million Rupiah)

Receipts:	83,045
A. Current Account:	60,790
1. Sales & charges	1,767
2. Net profit from public enterprises	850
3. Depreciation reserves of public enterprises	70
4. Income from ownership of property	89
5. Direct taxes	4,467
6. Indirect taxes	2,202
7. Social security contribution	1,300
8. Transfer from the central Government	45,985
9. Other	4,060
B. Development	22,255
1. Capital transfers from:	
- ADO	13,861
- Rural Development	232
- Cess	2,092
- Oil taxes (gasoline, kerosene)	1,189
- IPEDA, IREDA	583
2. Net Domestic Borrowing	279
3. Other Capital Receipts and Payments (net)	4,019

Expenditure:	80,701
A. Routine:	53,173
1. General Services	14,684
2. Education	12,919
3. Health	1,978
4. Social Welfare	485
5. Housing	31
6. Other Social	347
7. Agriculture	2,167
8. Mining and Industry	177
9. Transport & communications	2,931
10. Other economic sectors	2,395
11. Subsidy to Kabupaten	11,332
12. Subsidy to private sector	2,170
13. Advances on salaries, etc.	1,450
14. Contingencies	110
B. Development:	27,528
I. Fixed Capital Formation	12,773
1. General Services	2,025
2. Education	570
3. Health	580
4. Social Welfare	89
5. Housing	232
6. Other Social	319
7. Agriculture	1,333
8. Mining & Industry	65
9. Transport & comm.	7,560
II. Other Capital Formation	6,657
III. Transfers	7,361
1. Kabupaten	3,734
2. Public corporations	469
3. Private Sector	287
4. Other	2,871
IV. Direct Loans	732
V. Purchase of Assets	5

1/ Exclude: South Sumatra, Moluccas, East Djawa, Djambi, East Kalimanten.

Source: Calculated by the mission on the basis of data provided by BAPPENAS.

TABLE 5.13

NUMBER OF GOVERNMENT EMPLOYEES BY AGENCIES

Department/Institutions	I	II	III	IV	Total	Percent Distribution
A. State Institutions						
1. Congress	103	55	27	-	185	-
2. Parliament	262	195	78	10	545	0.1
3. Advisory Council	50	23	16	3	92	-
4. State Attorney	5,682	5,632	1,540	302	13,156	2.4
5. Supreme Court	113	52	18	10	193	-
6. Audit Council	174	379	80	11	644	0.1
B. Departments						
1. Defense and Security	-	-	-	-	-	
2. Foreign Affairs	505	438	383	113	1,439	0.3
3. Home Affairs	7,457	6,353	988	173	14,971	2.8
4. Justice	15,394	7,510	1,644	390	24,938	4.6
5. Finance	17,592	13,161	2,478	332	33,563	6.2
6. Health	30,241	7,661	1,985	203	40,090	7.4
7. Information	6,943	7,900	1,097	68	16,008	3.0
8. Agriculture	7,092	2,577	1,349	228	11,246	2.1
9. Trade	1,442	1,693	505	77	3,717	0.7
10. Communication	11,285	4,192	1,438	171	17,086	3.2
11. Industry	1,938	1,578	829	160	4,505	0.8
12. Public Work and Electric Power	4,039	1,988	903	193	7,123	1.3
13. Mining	1,066	736	353	36	2,191	0.4
14. Education and Culture	71,350	66,124	22,746	2,527	162,747	30.0
15. Labor	1,780	1,582	670	100	4,132	0.8
16. Transmigration and Cooperation	4,185	3,578	758	31	8,552	1.6
17. Social Affair	2,756	1,670	470	53	4,949	0.9
18. Religion	74,643	73,530	11,188	285	159,646	29.5
C. Non-departmental Bodies						
1. State Secretariat	612	386	121	34	1,158	0.2
2. Presidential Secretariat	629	76	11	2	718	0.1
3. Military Presidential Secretariat	12	8	-	-	20	-
4. Indonesian Science Institutions	792	272	198	20	1,282	0.2
5. Institute of Public Administration	136	89	64	11	300	0.1
6. League of National Aeronautical & Outer Space	13	14	13	-	40	-
7. National Intelligence	31	21	10	-	62	-
8. Board of Telecommunication	16	7	2	1	26	-
9. Board of Aeronautical and Outer Space	6	3	7	-	16	-
10. Board of Atomic Energy	268	200	132	17	617	0.1
11. Board of National Development Planning	119	66	57	10	252	0.1
12. Coordination Office of National Intelligence	95	89	10	3	197	-
13. Office of Personnel Affair	496	297	63	16	872	0.2
14. Central Bureau of Statistics	3,080	1,363	106	9	4,558	0.8
15. National Archive	26	8	-	3	37	-
TOTAL	272,428	211,506	52,337	5,602	541,873	100.0

TABLE 6.1

MONEY SUPPLY

(In billions of Rupiahs)

	Total Money Supply	Currency	Demand Deposits	Annual and (Quarterly) Percentage Changes in Money Supply
1964	0.7	0.4	0.3	161
1965	2.6	1.8	0.8	271
1966	22.2	14.4	7.8	754
1967	51.4	34.0	17.4	131
1968	113.9	74.7	39.2	122
1969				58
March	130.9	80.9	50.0	(15)
June	146.4	88.6	57.8	(12)
September	169.5	101.9	67.6	(16)
December	180.0	114.3	65.7	(6)
1970				34
March	210.7	126.3	84.4	(17)
June	216.4	131.7	84.7	(3)
September	226.9	135.9	91.0	(5)
December	241.1	152.8	88.3	(6)
1971				
January	254.1	157.2	96.9	
February	260.4	160.4	100.0	
March	270.2	166.8	103.4	(12)
April	273.2	169.5	103.7	
May	279.1	171.1	108.0	
June	289.1	178.6	110.5	(7)
July	292.1	180.3	111.8	
August 1/	290.5	181.4	109.1	
September 1/	292.0	182.1	109.9	(1)

1/ Provisional data

Source: Bank Indonesia

TABLE 6.2

CHANGES IN FACTORS AFFECTING MONEY SUPPLY, 1969-SEPTEMBER 1971

(In billions of rupiahs)

		Changes during Period								
		1970					1971			
	1969 Total	I Qtr.	II Qtr.	III Qtr.	IV Qtr.	Total	I Qtr.	II Qtr.	III Qtr.	Total
Net foreign Assets	- 7.2	6.2 1/	5.3	9.1	- 8.1	12.5	2.5 2/	-29.5	7.3	-19.7
Net Claims on Government	-15.0	5.5	-20.2	-11.9	14.7	-11.9	- 3.8	2.8	- 6.5	- 7.5
Gross Claims	46.9	-24.4	- 3.7	-11.5	25.2	-14.4	-13.5	0.7	2.0	-10.8
Government Cash and Deposits	-61.9	29.9	-16.5	- 0.4	-10.5	2.5	9.7	2.1	- 8.5	3.3
Net Rice Credit	29.3	0.1	- 0.3	7.1	-14.7	- 7.3	5.3	8.7	2.0	16.0
Gross credit	35.2	-12.9	3.1	8.5	-14.2	-15.	- 6.2	4.9	7.7	6.4
PL 480 deposits	- 5.9	13.0	- 3.4	1.4	- 0.5	7.7	11.5	3.8	- 5.7	9.6
D I C S	5.4	2.1	1.0	1.2	2.0	6.3	1.2	1.2	0.8	3.2
Net claims on state enterprises and the private sector	82.8	34.8	24.9	35.7	31.3	126.7	32.9	16.4	- 1.4	47.9
Gross credit	82.3	29.4	27.2	43.8	29.2	129.6	25.0	19.3	6.4	50.7
Import deposits	0.5	5.4	- 2.3	- 8.1	2.1	- 2.9	7.9	- 2.9	- 7.8	- 2.8
Net other items	8.5	-12.6 1/	- 0.6	-22.5	1.3	-34.4	5.8 2/	33.9	3.4	43.1
Total Money supply	66.1	30.7	5.7	10.5	14.2	61.1	29.1	18.9	3.0	51.0
Currency	39.6	12.0	5.4	4.2	16.9	38.5	14.0	11.8	3.6	29.4
Demand deposits	26.5	18.7	0.3	6.3	- 2.7	22.6	15.1	7.1	- 0.6	21.6
Time and savings deposits	37.7	5.4	4.4	8.2	12.3	30.3	14.8	14.6	2.6	32.0

1/ Including Rp. 11.3 billion related to the first allocation of special drawing rights

2/ Including Rp. 10.5 billion related to the second allocation of special drawing rights

Source: Bank Indonesia

TABLE 6.3

PRICES AND REAL CASH BALANCES, 1967-71

	Money Supply (in bln of Rp)	Djakarta Price Index	Index of Real Cash Balances	Quarterly Charge in Real Cash Balances (in %)
1967				
IV Quarter	51.4	283	141	
1968				20
I Quarter	62.9	445	110	(-22)
II Quarter	85.9	455	147	(34)
III Quarter	94.9	493	150	(2)
IV Quarter	113.9	523	169	(13)
1969				45
I Quarter	130.9	555	183	(8)
II Quarter	146.4	521	218	(19)
III Quarter	169.5	545	243	(11)
IV Quarter	180.0	575	245	(1)
1970				22
I Quarter	210.7	614	267	(9)
II Quarter	216.4	611	275	(3)
III Quarter	226.9	600	294	(7)
IV Quarter	241.1	626	299	(2)
1971				
I Quarter	270.2	662	317	(6)
II Quarter	289.9	626	360	(14)

Source: Based on data provided by Bank Indonesia.

TABLE 6.4

TOTAL BANK INDONESIA CREDITS

(In millions of Rupiahs)

	1966	1967	1968	1969	1970	September 1971 1/
Credit to Bank	1.5	5.0	30.1	79.5	112.8	133.8
Sugar	0.7	3.1	6.5	9.1	12.0	11.4
Production	0.7	3.1	6.5	7.0	7.8	10.8
Distribution				2.1	4.3	0.6
Estates	0.7	1.0	1.7	3.6	3.1	1.9
Agriculture		0.3	3.0	26.3	28.4	25.5
Fertilizer		0.3	1.4	17.9	17.1	10.6
Bimas			1.6	2.6	4.6	8.3
Other				5.8	6.8	6.7
Exports		0.3	2.9	7.9	9.4	7.7
Cotton PL480			10.6	13.2	12.3	17.3
Flour PL480				1.9	2.2	1.2
BE Imports			3.6	5.8	3.4	4.0
Medium Term				5.5	26.4	50.1
Manufacturing			1.0	3.3	5.5	2.3
Transportation				1.4	1.2	1.2
West Irian					2.8	2.8
Other	0.1	0.3	0.9	1.6	6.1	8.2
Direct Credit	1.5	12.1	61.8	87.4	96.8	110.0
Fertilizer		2.4	14.6	-	-	-
Food Procurement		-	37.2	72.4	61.7	63.2
BE Imports		8.2	0.6	0.4	0.4	0.4
Flour PL480			3.2	2.1	7.3	12.3
West Irian			1.0	4.0	-	-
Medium Term				1.3	0.7	0.5
Manufacturing			1.2	1.4	1.3	1.6
Exports		0.3	0.4	0.4	0.4	0.4
Bimas Gotong Rojong (Pertani)				1.2	13.9	17.7
Sugar Imports				1.0	-	0.3
Other	1.5	1.2	3.5	3.1	11.1	13.6
TOTAL	3.0	17.1	92.0	166.9	209.6	243.8

1/ End of September 1971

Source: Bank Indonesia

TABLE 7.1

AGRICULTURAL PRODUCTION, 1967-1971

(In thousand metric tons)

	1967	1968	1969	1970 1/	1971 3/
Rice (Milled)	9,047	10,166	10,642	11,417	12,716
Corn (in kernels)	2,369	3,166	2,293	2,425	3,700
Cassava (roots)	10,746	11,356	11,034	8,955)	16,350
Sweet potatoes	2,144	2,364	3,021	2,947)	
Peanuts (shelled)	241	287	267	298)	1,080
Soybeans	416	420	389	390)	
Rubber	701	736	785	812	839
Estate	(201)	(206)	(227)	(241)	(240)
Smallholder	(500)	(530)	(558)	(571)	(599)
Oil palm products					
Palm oil	174	180 2/	189	214	210
Palm kernels	35	39 2/	42	48	45
C o f f e e	159	156	176	185	193
Estate	(19)	(13)	(14)	(16)	(15)
Smallholder	(140)	(143)	(163)	(169)	(178)
T e a					
Estate	33	41	41	44	41
Smallholder (gree tea)	38	33	22	24	25
S u g a r					
Estate (centrifugal)	656 2/	602 2/	725	708	691
Other (non centrifugal)	250	202	220	230	220
C o p r a (coconut)	1,094	1,130	1,221	1,280	1,300
Tobacco	100	52	73	51	70
Spices	74	70	40	48	39
Capok	29	21	29	30	33

1/ Provisional
2/ Revised
3/ Target
Source: Department of Agriculture & Central Bureau of Statistics

TABLE 7.2

PRODUCTION OF SELECTED MANUFACTURED PRODUCTS

		Unit	1968	1969	1970	1971 (Estimate
1.	Fertilizer	ton	95.170	84.170	98.407	107.019
2.	Cement	ton	411.038	534.017	553.365	532.918
3.	Paper	ton	11.266,9	15.760,9	21.800	25.723
4.	Tires					
	- tires (automobiles)	pieces	238.911	259.031	369.507	494.141
	- tubes (automobiles)	pieces	159.809	226.981	236.628	237.052
	- tires (bicycles)	pieces	1.184.822	2.241.015	2.011.892	1.879.800
	- tubes (bicycles)	pieces	226.962	161.056	182.273	337.901
5.	Bottles	ton	5.784	9.561	11.315	3.601
6.	Caustic Soda	ton	1.019,2	1.112,5	1.772	4.034
7.	Oxygen	m3	1.855.975	2.130.073	2.294.718	3.241.469
8.	Yarn	bales	130.000	160.500	218.000	240.000
9.	Textiles	mill.meters	316,5	415,2	598,3 1/	650 1/
10.	Soap	ton	200.000	250.000	130.190	137.967,67
11.	Coconut Oil	ton	208.00	249.790	257.284	266.242
12.	Baking Oil	ton	23.465	28.067	26.503	27.278
13.	Matches	mill.box	238	268	284	354,27
14.	Toothpaste	mill.tubes	13	16	21,7	13,93
15.	Cigarettes	mill.pieces	14,8	10,9	12,595	11,854
16.	Wet cell battery	pieces	28.600	32.000	56.150	NA
17.	Radio	pieces	391.750	363.500	393.211	"
18.	Television	pieces	1.200	4.500	4.752	"
19.	Electric Light Bulb Lamp	pieces	5.862.900	8.212.286	5.090.405	"
20.	Ironbars	ton	-	4.500	4.752	NA
21.	Union pipes	ton	1.197	1.957	1.872	"
22.	Dry Battery	pieces	4.377.000	4.500.000	4.502.400	"
23.	Assembled Motorcars	pieces	2.403	3.037	2.098	"
24.	Sewing Machines	pieces	4.000	14.000	13.443	"
25.	Assembled motorcycles	pieces	6.247	21.388	31.080	"
26.	Equipment/spares Agric/mines/textile	ton	1.114	1.900	5.520	"

1/ Fiscal 1970/71 data

Source: Department of Industry

TABLE 7.3

PRODUCTION OF HARD MINERALS, 1961-71

Year	Tin (Quintal)	Nickel (ton)	Bauxite (ton)	Gold (kg)	Silver (kg)	Coal (ton)	Iron Sand (ton)
1961	185,217	13,682	441,166	178.6069	10,562.107	560,388	-
1962	175,871	10,777	491,298	120.2486	7,299.717	471,104	-
1963	131,242	45,528	506,241	137.4243	8,672.228	591,356	-
1964	166,062	49,225	647,805	181.9927	7,897.404	445,862	-
1965	149,343	101,136	688,259	209.0762	9,293.817	590,548	-
1966	127,856	117,401	701,223	128.1895	6,867.181	319,829	-
1967	138,271	170,601	920,166	241.1376	9,610.852	208,363	-
1968	169,387	261,973	879,323	185.638	9,613,258	175,673	-
1969	174,155	256,213	926,341	256.6022	10,589.944	190,899	-
1970	190,905	600,000	1,229,175	236.6456	8,802.858	176,520	-
1971 1/	196,669	985,470	1,236,847	315.8905	9,232.455	197.735	358.292

1/ **Preliminary estimates**

Source: Department of Mining

TABLE 9.1

CONSUMER PRICE INDEX FOR DJAKARTA, 1970-71

(September 1966 = 100)

	Food (63%)	Housing (11%)	Clothing (9%)	Miscel-laneous (17%)	General Index (100%)	Yearly and Quarterly Change (%)	Monthl Change (%)
1970						+ 8.9	
January	643	776	361	700	617		+ 7.3
February	636	766	377	715	617		--
March	630	769	379	714	614	+ 6.8	- 0.5
April	612	769	379	719	605		- 1.5
May	612	769	385	723	607		+ 0.3
June	603	838	394	740	611	- 0.5	+ 0.7
July	605	851	394	736	613		+ 0.3
August	602	834	396	744	611		- 0.3
September	583	815	396	749	600	- 1.8	- 1.8
October	582	815	396	746	599		- 0.2
November	606	871	424	750	622		+ 3.9
December	612	871	426	750	626	+ 4.3	+ 0.6
1971							
January	639	883	426	760	644		+ 2.9
February	664	883	426	769	661		+ 2.6
March	667	883	426	770	662	+ 5.8	+ 0.2
April	653	863	426	771	653		- 1.4
May	632	825	424	771	638		- 2.3
June	604	879	424	771 1/	626	- 5.4 1/	- 1.9
July	604	879	424	771	626		--
August	595	871	424	773	620		- 0.9
September	592	866	427	770	618	- 1.3	- 0.3

1/ Revised

Source: Central Bureau of Statistics

TABLE 10.1

FOREIGN INVESTMENT PROJECTS APPROVED BY THE GOVERNMENT

(in thousands of US $)

Field of Activity 1/	Cumulative since 1967 Number	Cumulative since 1967 Amount 2/	1967	1968	1969	1970	1971 3/
Agriculture, Forestry & Fishing	112	490,149	12,000	86.895	286.000	88.704	16.550
Agriculture	46	74,694	-	16,790	2.000	53,354	2,550
Forestry	56	401.905	7.000	67.105	283.500	32.300	12.000
Fishing	10	13.550	5.000	3.000	500	3.050	2.000
Mining & Quarrying	14	541.507	76.500	82.000	304.707	300	78.000
Metal ore	9	465.027	76.500	82.000	304.527	-	2.000
Other	5	76.480	-	-	180	300	76.000
Manufacturing	242	459.116	27.969	50.021	74.912	126.487	179.727
F o o d	32	52.370	10.619	9.647	17.048	10.156	4.900
Textile and Leather	31	158.266	-	841	33.550	24.250	99.625
Wood & wood product	3	1.200	-	-	-	500	700
Paper & paper products	11	10.150	-	-	750	3.400	6.000
Chemical & Rubber	77	82.494	15.700	10.947	14.340	25.374	16.133
Non metalic mineral	10	62.692	-	2.778	900	29.700	29.314
Basic metal	7	11.682	-	-	-	4.682	7.000
Metal products	64	74.682	1.400	22.278	8.324	28.125	14.555
Other	7	5.580	250	3.530	-	300	1.500
Construction	25	35.083	2.000	6.700	6.390	17.593	2.400
Trade & Hotels	8	51.427	-	2.730	2.797	1.500	44.400
Wholesale Trade	1	1.500	-	-	-	1.500	-
Hotels	7	49.927	-	2.730	2.797	-	44.400
Transport & Communications	13	12.012	6.100	162	1.050	500	4.200
Transport	12	5,912	-	162	1.050	500	4.200
Communications	1	6.100	6.100	-	-	-	-
Community, Social & Personal Services	14	15.609	-	1.024	5.650	1.430	7.505
Social & Related Community	7	879	-	24	-	230	625
Recreational & Cultural	7	14.730	-	1.000	5.650	1.200	6.880
T o t a l	428	1.604.903	124.569	229.532	681.506	236.514	332.782

1/ Classification according to "International Standard Industrial Classification of All Economic Activities" (Statistical Office of the United Nations, Statistical - Papers, series M. No. 4)

2/ Intended Capital Included Indonesian Share in the Joint Enterprises

3/ Through September, 1971

Source: Foreign Investment Board and Bank Indonesia

TABLE 10.2

IMPLEMENTATION OF FOREIGN INVESTMENT PROJECTS[1]

(in thousands of US$)

Field of Activity[2]	REALIZATION					
	Total	1967	1968	1969	1970	1971[3]
Agriculture, Forestry & Fishery	85,609.77	661.60	2,923.68	14,931.69	34,292.27	32,800.53
Agriculture	3,939.91	-	108.95	849.61	1,412.03	1,568.32
Forestry	69,008.63	661.60	2,813.86	10,922.34	28,779.08	25,831.75
Fishery	12,661.23	-	0.87	3,159.74	4,100.16	5,400.46
Mining & Quarrying	30,769.63	2.50	904.29	3,229.20	7,692.98	18,940.66
Metal ore	30,704.24	2.50	904.29	3,229.20	7,691.67	18,876.58
Other	65.39	-	-	-	1.31	64.08
Manufacturing	131,827.57	814.17	10,696.51	23,098.44	45,504.34	51,714.11
Food	34,239.51	-	3,400.69	4,304.36	14,602.26	11,932.20
Textile & Leather	29,870.20	-	387.83	2,241.19	9,552.86	17,688.32
Wood & Wood product	-	-	-	-	-	-
Paper & Paper product	3,360.92	-	-	249.76	1,143.50	1,967.66
Chemical & Rubber	23,226.40	640.81	1,782.27	4,888.25	7,324.94	8,590.13
Non Metalic Mineral	2,655.01	-	260.36	576.20	897.46	920.99
Basic Metal	618.42	-	-	-	52.34	566.08
Metal Product	34,503.93	117.40	4,570.89	10,126.75	10,509.37	9,179.52
Other	3,353.18	55.96	294.47	711.93	1,421.61	869.21
Construction	9,046.03	-	1,158.62	2,172.83	3,535.17	2,179.41
Trade & Hotels	5,098.00	-	-	281.62	665.22	4,151.16
Wholesale Trade	570.07	-	-	-	267.66	302.41
Hotels	4,527.93	-	-	281.62	397.56	3,848.75
Transport & Communication	6,781.55	61.00	2,248.27	2,114.10	1,562.32	795.86
Transport	2,010.55	-	44.19	191.53	1,216.49	558.34
Communication	4,771.00	61.00	2,204.08	1,922.57	345.83	237.52
Community, Social & Personal Services	4,863.61	-	164.79	549.58	2,308.12	1,841.12
Social & Related Community	41.46	-	-	-	41.46	-
Recreational & Cultural	4,822.15	-	164.79	549.58	2,266.66	1,841.12
T O T A L	273,996.16	1,539.27	18,096.16	46,377.46	95,560.42	112,422.85
(Incl. imports financed by DICS)	(9,719.15)	(-)	(-)	(2,934.52)	(5,950.49)	(834.14)

1/ Classification according to: "International Standard Industrial Classification of All Economic Activities" (Statistical Office of the United Nations, Statistical-Papers, Series M. No. 4)
2/ Through September 1971.
3/ Excluding cash transfer during the 3rd quarter, 1971.

Source: Bank Indonesia
Customs Administration