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Report No. AS-143a

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT ECONOMIC POSITION AND PROSPECTS OF INDONESIA

(in two volumes)

VOLUME I - GENERAL REPORT

October 1, 1968

Asia Department

CURRENCY EQUIVALENTS

B.E. Market Rate

U.S. $ 1.00	=	About Rp. 300
1 Rupiah	=	U.S. $ 0.003
1 Million Rupiahs	=	U.S. $ 3,333

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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R68-190

FROM: The Secretary

October 10, 1968

INDONESIA

There is attached for information a copy of a report entitled "Current Economic Position and Prospects of Indonesia" (AS-143a), in two volumes, as follows:

Volume I - General Report
Volume II - Sectors.

Owing to a shortage in the number of copies, half the number normally sent to each recipient is being distributed at the present time. The balance will be distributed as soon as additional copies become available.

This report is to be discussed at the meeting of the Intergovernmental Group on Indonesia which is to be held in Scheveningen, The Netherlands, from October 21 to October 23, 1968. Although an advance distribution has already been made to the Governments belonging to the Group, it is requested that Executive Directors representing these Governments arrange to transmit copies of the report to the appropriate authorities urgently.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

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October 7, 1968

CORRIGENDUM

Volume I

Page 4, paragraph 9, lines 5 and 6. (CBS) instead of (BPS).

Page 23. Insert 87 as paragraph number for second paragraph this page.

Page 27, paragraph 96, line 5. Substitute "385-390" for "285-290".

Page 28, paragraph 99, line 4. Read "fiber" for "fiver". Line 5, "D.P." for "D.C." Change location of footnote entry 1/ from end of paragraph 101 to end of paragraph 103.

Page 51, paragraph 176. Replace second sentence with "The proposed composition of this request for non-project assistance is different in only a few respects from the estimated actuals in 1968; the most important difference is the increase in the required amount of non-food PL 480 commodities, notably raw cotton and yarns."

Page 62, paragraph 191 (4), line 6. Change "such as" to "other than".

Appendix Table 38. Last total, last column should be $173.86 million.

Appendix Table 41. Change heading of second column from "Category A" to "Category B".

Volume II

Page 3, paragraph 6, line 4. Change "to" to "of".

Page 4, paragraph 6. Delete in last sentence starting "when negotiations .. completed" and substitute "by an IDA credit of $5 million".

Page 15. Add paragraph number 36.

Page 25, paragraph 63, line 10. Delete "to be undertaken" and replace by "completed".

Page 45, paragraph 32, line 10. Delete the first "at".

Page 47, paragraph 40, line 2. Change "were" to "are".

Page 103, paragraph 34, line 10. Change "as" to "than".

CURRENCY EQUIVALENTS

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This report was prepared by a mission that visited Indonesia in July 1968. The members of the mission were:

O. J. McDiarmid	Chief of Mission
Wouter Tims	Chief Economist
Emmerich M. Schebeck	General Economist
Jack Beach	Power
George W. Naylor	Industry (Consultant)
M. D. ffrench-Mullen	Agriculture
Hendrik van Helden	Transportation
Thomas Oursin	Transportation
Miss Kyoko Edayoshi	Secretary

Mr. Chakravarthy P. Vasudevan also assisted in the preparation of this report. Mr. Rogelio G. David assisted in the preparation of the statistical tables.

VOLUME I

TABLE OF CONTENTS

BASIC DATA

	Total	Land Use as % of Total Area
Area: (In square miles)	735,381	1.14 Estate farming 13.10 Smallholder farming 9.30 Food crops 3.80 Cash crops

	Total	Density per Square Mile
Population: (1968)	115.1 million	157

Rate of Growth (1961-1968) = 2.4% per annum.

Density of Main Islands (1968)

Java and Madura	1,459
Sulawesi	116
Sumatra (including surrounding islands)	103
Kalimantan	24
Other Islands	38

Political Status: Member of the United Nations and Association of Southeast Asian Nations (ASEAN).

Gross Domestic Product: (1968) Rp. 2,920 billion

Real Rate of Growth (1961-1968)	=	2.0% per annum
1967-1968	=	4.0%
Per Capita GDP (1968)	=	$83

Net Domestic Product at Factor Cost (1967, at 1960 prices): Rp. 485.3 Million

of which, in percent,

Agriculture	47
Mining and Quarrying	3
Public Administration	5
Manufacturing and Trade	28
Other Economic Sectors	17

Percent of Gross Domestic Product at Market Prices	1968
Gross Investment	6.0
Gross Savings	3.1
Balance of Payments Current Accounts Deficit	2.9
Government Taxation Receipts	5.0
Government Current Revenue	5.1

Resource Gap as % of Investment (1967) 44.3

Money and Credit

Conversion (June 15, 1968)

		D.P. Rate	B.E. Rate
1 Rupiah	=	$ .0028	$ .0033
1 Dollar	=	Rp. 351	Rp. 300

	May 1968 (Rp. Billion)	% Change (1966-1967)
Total Money Supply	83.0	128.6
Time and Savings Deposits	3.3	589.0
Commercial Bank Credit to Private Sector	22.70	68.8 1/
Rate of Change in Prices (percent)		112.2 2/

1/ December 1967-May 1968.
2/ Dec. 31, 1966-Dec. 31, 1967.

Public Sector Operations (Rp. Billion)

	1967 Prov. Actual	1968 Revised Estimates	1969/70 Mission's Estimates
Government Revenue Receipts	60.2	148.8	227.0
Government Expenditures	87.5	193.9	289.5
of which:			
(a) Development	17.5	45.1	75.0
(b) Non-development	70.0	148.8	214.5
Revenue Surplus/Deficit (-)	- 9.8	-	12.5
External Assistance to Public Sector	34.7	49.5	81.5
of which:			
B.E. Loans and Grants	24.7	37.7	55.5
Project Aid	10.0	11.8	26.0

External Public Debt ($ Million)

	As of December 31, 1967
Total External Public Debt	
of which, undisbursed	
Total Debt Service on Guaranteed Debt in 1968 after rescheduling 1967-68 Maturities on pre-1967 Debt	37.5
Payments for Nationalized Properties (1968)	20.8
Debt Service Ratio in 1971 at about the present rate of gross capital inflow	about 28%

Balance of Payments ($ Million)

	1967 Prov. Actual	1968 Revised	% Change
Exports, f.o.b. (oil net)	650	711	9.4
Imports, f.o.b.	- 803	- 909	13.1
Invisibles (net)	- 156	- 192	23.1
Current Account Balance (deficit -)	- 309	- 390	26.2
Commodity Concentration of Exports			
Rubber and oil (net)	51%	51%	
Gross Foreign Exchange Reserves:			
	Negative	Negative	

SUMMARY AND CONCLUSIONS

General

i. The last report on the economic development of Indonesia (No. AS-132a) was circulated on February 21, 1968. That report emphasized the grave shortcomings of Indonesia's past economic performance particularly from 1958 through 1965. The misuse of and the failure to develop its relatively rich natural resources together with irresponsible fiscal, monetary and exchange rate policies resulted in economic stagnation, hyperinflation, and an extremely weak balance of payments position throughout most of this period.

ii. The Suharto Administration assumed responsibility for the Government of Indonesia in mid-1966. Comprehensive changes in economic policy were announced in July and October of that year, with a view to freeing market forces in the economy and re-establishing its economic links with the non-Communist world. With the advice and assistance of the IMF, fiscal and monetary measures were taken to contain the inflation and improve the balance of payments position by more realistic exchange rates. Subsidies were substantially eliminated for the numerous public sector enterprises. New foreign and domestic investment laws were adopted to help revive the private sector. These efforts have been accepted by the members of the Inter-Governmental Group under the chairmanship of The Netherlands as the bases both for the debt rescheduling referred to above and for the start of a substantial program of external aid, which may involve commitments of over $350 million in 1968.

iii. After a period of increasing stability because of improved fiscal performance in most of 1967, there was a rapid rise in prices between December 1967 and March 1968 associated with a threatened scarcity of food supplies. This resulted in a 55 percent increase in the cost of living in Djakarta and a 60 percent decline in the dollar value of the rupiah. Foreign aid and domestic programs designed to prevent a recurrence of these developments have pre-occupied Indonesian authorities in recent months. These programs have met with considerable success since price increases since March have been limited to about 2 percent a month. This has been accomplished by curtailing routine and development expenditures. Nevertheless the money supply has expanded about 60 percent during the first half of 1968. The largest element in this, however, has been for rice procurement financed on credit by the Government, a large portion of which should be liquidated during the latter half of this year.

iv. Slow commitment of aid in the first half of 1968 and some speculation against the rupiah in the foreign exchange market contributed to a decline of the dollar value of the rupiah by about 50 percent during that period. Subsequent acceleration of aid commitments and disbursements, combined with an estimated 8-10 percent increase of export earnings in 1968 as a whole, indicate the possibility of a marked slow-down in the depreciation of the rupiah in the exchange market.

v. The mission that visited Indonesia in July of this year and prepared this report estimated that practically no overall real growth in the economy had occurred in 1967, the gains in mining and a modest improvement in manufacturing being offset by a decline in agricultural output. In 1968, however, thanks to a much improved outlook for agriculture, real economic growth of 4 to 5 percent is anticipated, one to one-and-a-half percent more than the estimated growth in population. In respect of gross investment and gross domestic savings, 1967 was also not a good year; the former may have been around 6 percent and the latter only about 3.5 percent of national income. These are both below levels recorded in recent years but they partly reflect the major emphasis of public policy on financial stabilization rather than investment. The Government is naturally anxious to raise the level of investment and savings as soon as possible, but it is doubtful if 1968 will witness very much change in this regard. The brightest aspect of economic affairs in 1968 is the expected increase in rice production by 5 percent or so, thanks both to favorable weather and sound government programs. This, combined with the liberal food aid Indonesia is now receiving, should enable her this year to avoid a repetition of the food crisis that was so disturbing late in 1967.

vi. One can be less optimistic in respect of rubber, copra and most of the other cash crops, since the same conditions that have restricted the development of this sector (lack of investment incentives, scarcity of funds, and managerial shortcomings) are largely continuing to apply in 1968. However, the Government is reducing export taxes on major export crops and tin, which should have favorable results in a year or so. Meanwhile, oil is the brightest spot in the Indonesian export picture. The increase in exports of oil in 1968 should mean an increase in overall exports by about 10 percent. This trend is expected to continue until at least 1971. Thereafter, the growth or possible decline of the industry will depend upon the outcome of present efforts to bring in new oil fields in the offshore areas and outer islands.

vii. Indonesia has obtained total commitments of foreign aid for 1968 of $355 million and her net capital inflow is likely to rise by a modest amount (probably about $20 million) as compared with 1967. However, she should end the year with a considerably more comfortable pipeline and inventory position than she had at the end of 1967. This was also owing to delays in commitments of all types of aid (only about $20 million of 1968 was committed in the first half year). Indonesia's

already precarious reserve position will probably deteriorate further in 1968 because of an increase in short-term liabilities.

Policy Issues

viii. Last year's mission emphasized the need to review the tax system in order to assure that any increase in taxes fall on property, consumption and income rather than on production and exports. Some steps have been taken in 1968 along the recommended lines, though much remains to be done, particularly in respect of the customs tariff. This report reviews the tariff structure in greater detail and makes some recommendations for changes in this field.

ix. No basic changes have been made in the exchange rate system, and, as already noted, the basic floating rate (B.E. market rate) depreciated sharply (from about 190 to 300 rupiahs to the dollar) early in 1968. The exchange rate structure has been simplified somewhat by eliminating the special rate at which aid funds were sold and bringing a number of administered rates (the valuation rate for customs, the rate used for oil transactions, etc.) closer to the B.E. market rate. During the first half of 1968, efforts by the Central Bank to support the market exchange rates proved rather costly in terms of foreign exchange outlays.

x. There has been a considerable improvement in the Government's pricing policy in respect of the procurement and sale of rice, and this operation should prove much less costly on a net basis than heretofore. Price incentives to the farmer have also been improved by increasing the procurement price in relation to fertilizer and other inputs. The mission recommends that the rice operations of the Government be curtailed as rapidly as the progress of the stabilization program permits.

xi. The previous mission recommended that greater incentives be provided savers by the banking system, and we understand the rate structure has now been raised somewhat on bank deposits. This, combined with greater price stability, should produce a positive interest rate structure for the first time in several years.

xii. Although budgetary discipline has been well maintained in 1968 (there has been no deficit financing for the budget), apart from the share of the export taxes that flow to the regions and are supposed to be used for development purposes, there have been no public savings this year. All development expenditures have been financed from the aid counterpart fund. Consequently, development expenditures suffered, as compared with non-development expenditures, during the period of aid stringency during the first half of 1968. The mission is suggesting that, henceforth, part of the oil revenues be assigned to the development budget.

Aid Requirements

xiii. The mission has made an estimate of Indonesia's import requirements in FY 1969/70 (starting April 1, 1969) for raw materials by consuming sectors and for the first quarter of calendar 1969. On the basis of these estimates as well as other factors in the balance of payments, it recommends that about $400 million of fresh commitments of aid for commercial imports and food be provided during this fifteen-month period. Also, in order that Indonesia may be able to carry forward and somewhat accelerate the modest reconstruction investment program that was started in 1968, the mission recommends that about $200 million of project and other investment-type aid be made available during the same period. This report suggests a list for projects that might be the recipients of this aid.

Creditworthiness

xiv. Indonesia's net foreign exchange reserve position has long been negative, and recently, additional short-term borrowings have been incurred for rice and fertilizer procurement. Prior to 1967 the Government was borrowing abroad large amounts on unfavorable terms for undertakings, most of which were of very low or negative productivity. This resulted in a very heavy accumulation of debt service payments through the 1970's. The payments due after 1970 will be increased further as a result of the rescheduling now agreed or contemplated of the payments on pre-1967 debt originally due during the four years, 1967-1970. Thus, it appears that from 1970 to 1978 the average payment on present debt will be about $200 million a year or about 23 per cent of Indonesia's likely foreign exchange income.

xv. The debt service payments due in the 1970's will probably be in the range of 30 to 40 percent of export earnings on any reasonable assumptions regarding future gross capital inflows and export growth. Clearly, the conclusion of last year's report that, without some substantial rescheduling of payments due during the 1970's Indonesia should receive aid on the softest possible terms, still obtains.

CHAPTER 1

RECENT GENERAL DEVELOPMENTS

1. The last economic report on Indonesia (AS-132a) was distributed to the Executive Directors and to the members of the Intergovernmental Group on Indonesia (IGGI) on February 12, 1968. The purposes of this report are to appraise developments during the first six months of 1968 and to estimate the principal economic factors for the remainder of this year and for fiscal 1969/70. We also review progress in obtaining foreign aid commitments under the project aid program for 1968 which was prepared by the Bank mission that visited Indonesia in November 1967, and present a tentative project aid list for which commitments may be sought in FY 1969/70. Since the Indonesian fiscal year has been changed from the calendar year to the year starting April 1, it was necessary to consider the first three months of calendar 1969 as a separate period.

2. The first half of 1968 exhibited no clearly defined trends but on the whole some promising signs have emerged as compared with 1967. The broad lines of economic policy emphasizing greater freedom of market forces have been continued with some qualifications in respect of the foreign exchange market and the import system. After a precipitous rise in the price level between December and March, associated with a threatening scarcity of food supplies in urban areas and speculation against the rupiah in the foreign exchange market (about 55 percent increase in the cost of living and a 60 percent decline in the dollar price of the rupiah), the escalation of prices declined to less than an estimated 2 percent per month till July. The cumulative increase in the price level during the first half of 1968 was nearly 70 percent (but only about 7 percent of this occurred after the end of March). The food and exchange crises in December and January were reflected in the rise of the B.E. market rate of exchange (the basic rate for foreign trade operations) from about Rp. 160 to Rp. 285 to the dollar. An important decision was taken by the authorities in January to intervene in the market with sales of the Government's own foreign exchange in an attempt to check speculation. As a result of this action, the rate was brought down to Rp. 266 on February 1, but it then rose again to about Rp. 300 at the end of May. A second operation, aimed at a partial stabilization of the basic exchange rate in June and early July, proved expensive in terms of Indonesia's foreign exchange position.

3. The overall budget position was approximately balanced during this period but credit expansion amounted to about Rp. 37 billion through June (60 percent of money supply). However, about 60 percent of this was used for rice procurement which should be substantially liquidated in the last half of the year. In June the ceiling established under the IMF Stand-by was exceeded. Credit for rice procurement between now and the end of the year has now been excluded from the ceiling on the net domestic assets of Bank Negara Indonesia (BNI) Unit I, with the proviso that these credits will again be included under the original ceiling by December 31, 1968.

4. Favorable developments in the first half of 1968 were a better than average main (rainy season) rice crop, promises of $50 to $60 million of additional food aid, and export earnings apparently averaging around 10 percent above 1967 levels. Indonesian statistics do not permit an accurate appraisal of economic growth, but some real growth was probably achieved in the first half of 1968 as compared with the stagnant situation in 1967, despite the fact that, owing to delays in the receipt of foreign aid (the counterpart of which is earmarked for financing the development budget), the development expenditures in the first semester of 1968 were reduced to Rp. 14.6 billion and work on the undertakings in last year's project aid program scarcely got underway. There is indication of a somewhat fuller use of industrial capacity but this seems to be limited to a few lines, principally those involving foreign-owned or managed firms.

5. The previous economic report recommended that the fiscal burden on exports and production be reduced and that taxes on imports, consumption and real property be increased. While no important new measures along this line have been taken,[1] surcharges on imports were increased for non-B.E. items in November 1967 and again on a more general basis in April 1968. However, the tariff has not been restructured to make it an effective instrument either to encourage economic development or to help in maintaining balance of payments equilibrium. A revision of the tariff is now underway but an administrative arrangement for its continuous review and updating does not yet exist as was pointed out in our last economic report. There have been various moves in the direction of consolidating the exchange rate structure by reducing the spread between the basic B.E. rate and the various administered rates used for customs valuation, transactions of the oil sector, and the sale of aid funds made available for commercial imports. In May the special exchange rate applicable to such aid funds was eliminated and all imports except non-essential items (on the D.P. list) now enter at a uniform floating rate.

6. In early July the Government was faced with a very tight reserve position resulting from a combination of repayment obligations on short-term loans and the depletion of reserves because of market interventions in June to support the B.E. rate. This coincided with the conclusion of important foreign aid agreements with IGGI countries, especially Japan, which gave the authorities over $94 million of available foreign commodity aid funds. On July 10 the Government decided to suspend temporarily the sale of Indonesia's own foreign exchange earnings in the B.E. market and thus concentrate import demand on tied aid dollars and on the D.P. market.

7. The management of Indonesia's foreign exchange system in recent months seems open to some criticism on two grounds. Firstly, although the differential between the B.E. market and the B.E. aid rates were already somewhat reduced in line with policies agreed with the IMF, its total elimination disregarded the advantage to importers of acquiring free, as compared with tied, foreign exchange. Since Indonesia's traditional sources of many commercial imports are Singapore and Hong Kong, tied aid funds could not be used for such purchases. Also, prices, particularly in the U.S.,

1/ A proposal is now put forward by the Indonesian authorities to reduce export taxes substantially.

discouraged the absorption of aid-B.E. Secondly, the attempt in June/July 1968 to stabilize the B.E. rate prematurely by market intervention on the part of the Indonesian Central Bank meant a considerable strain on the country's very limited international liquidity. When the sale of market-B.E. was stopped, the pressure on the D.P. rate became acute, thus encouraging "overpricing" by exporters (discussed in more detail in the section on the balance of payments) and, more important perhaps, diverting import demand into less essential goods and encouraging speculative capital flight. Exports, which could only move at the B.E. rate (a rate which now became a function of demand for aid funds) less export taxes, were discouraged. After discussions with the IMF in Djakarta, a decision was taken to resume the sale of market-B.E. as of July 31. The amount of foreign exchange "saved" by the three-week suspension of sales is estimated to be about $17 million, which probably roughly approximates the pent-up demand. At the first call[1] on the B.E. market, the rate was maintained at about Rp. 305 but mainly as a result of liberal supplies made available in the market. Sales on August 2 amounted to $7.7 million, and average sales at the four next calls till August 12 were $2.9 million as compared to an average of $2.5 million in June and July.

8. The last half of 1968 should show a further movement towards greater price stability. Food supplies now on hand or on order balanced against the release programs should result in year-end stocks of over 700,000 tons (more than twice the level estimated for December 31, 1967) and in this period, the sale of imported and some domestic rice and other food should be a counter-inflationary factor. Budgetary discipline will probably be maintained as it was in the first half of the year. While development expenditures will rise, they are to be kept in line with available counterpart generation from B.E.-aid. It is hoped that some progress can be made, however, in dealing with the acute working capital requirements, particularly in the industry and estate sectors.[2] The selectivity of credit controls and a modus vivendi that would permit medium and longer-term institutional financing, even while inflation continues albeit at a slower rate, are pre-conditions for any reasonable growth in industry and estate production. Measures proposed by the Indonesian Government in September 1968 in the field of interest rates on deposits can be considered a first step in the direction of an effective savings policy.

1/ Offering of B.E. foreign exchange in the market.

2/ Over the years a substantial amount of short-term debt liabilities have grown up as between different government agencies and departments, and the existence of these debts inhibits the new transactions between debtor and creditor that are required to get the economy moving. We suggest that the Government consider either (a) a moratorium on or funding of such debts; (b) their total cancellation; or (c) their liquidation by some sort of special earmarked credit that would not aggravate inflation. The problem requires further study to assess both its importance and possible remedies.

Economic Performance in 1967 and Prospects for 1968

9. Although considerable effort is made to improve the scope and quality of statistical information in Indonesia, the presently available information does not yet permit the analysis of macro-economic factors with reasonable accuracy. National product estimates are now available from the Central Bureau of Statistics (B.P.S.) only up to the end of 1966. The mission has made some revisions of the B.P.S. estimates, particularly for construction and ownership of dwellings, and prepared an estimate of the 1967 net domestic product. For the latter, a considerable part of the basic data were provided by the National Planning Organization (BAPPENAS). The industrial origin of the 1967 net domestic product 1/ was estimated directly from changes in physical terms and quantity indexes.

10. The lack of adequate price information and its limited reliability during rapid inflation as is the case in Indonesia, prevented the mission from preparing estimates in current price of the national income and of investment expenditures. All estimates are therefore in constant 1960 prices.

11. Production and Income. The mission's estimate for 1967 indicates insignificant growth which constitutes a marked decline from 1966 when national income grew by about 4 percent.

12. The stagnation of national income during 1967 was largely because of a decline in agricultural net product by about one percent and of construction and general government by about 16 and 11 percent respectively. The decline in agricultural net product was caused by a shortfall in foodgrain production. Tight controls over government expenditures and very restrictive credit policies had a dampening effect on imports and domestic production of construction materials, resulting in a substantial decline of construction activities. The sharp decline in the net contribution of general government expenditures was a result of the continuing inflationary pressure and the consequent reduction in real wages.

13. The fact that the national product probably did not decline in 1967 must be attributed to a better than average growth in mining, manufacturing and trade. Whereas mining declined in 1966 by about 6 percent, as a result of increased petroleum and tin output it showed a real growth of 9 percent in 1967. The 1967 value added estimate of manufacture is based on incomplete information but indicates a real growth rate of 6 percent, primarily resulting from increased food processing (rice milling) and tobacco manufacturing.

14. Although the mission's estimate for 1967 indicates nearly no growth of real national income at factor cost, gross domestic product at market prices increased by 2.5 percent. This wide discrepancy in growth rates is the result of a nearly 55 percent increase in the collection of indirect taxes in 1967.

1/ See Statistical Appendix Tables 8 and 9.

15. The growth prospects for 1968 are dominated by the outlook for rice production. The wet season crop which was harvested in April-May turned out to be significantly better than in the previous year, and the weather conditions so far during the dry season have been favorable, indicating the probability of a good second harvest as well. Provisional estimates put rice production in 1968 at around 5 percent above the 1967 level.

16. Little is known about most other crops at present, but the export data for the first half of 1968 show mixed trends, with rubber, tobacco and pepper declining and some compensation from coffee, tea and copra. Overall growth in the agricultural sector may therefore be around 3 to 4 percent.

17. In the non-agricultural sectors, generally little change is expected. Production growth will depend to a substantial degree on the progress of rehabilitation programs. The mining sector is the only one where substantial growth of production - of the order of 25 percent - is expected, mainly as a result of a 29 percent increase of crude oil output.

18. It appears possible that overall growth of the national product will therefore be around 4 percent in 1968 compared to a growth of only 0.4 percent in 1967. The two years together thus show an annual average rate of growth slightly over 2 percent, i.e. below the mission's estimate for the period 1958 to 1966. As the population increases, probably conservatively estimated at 2.4 percent, the per capita income in those years apparently stagnated or even declined slightly.

19. Investment and Savings. The mission's estimate of gross fixed capital formation in real terms indicates a sharp decline of the investment activity by about 20 percent in 1967. Indonesian capital formation which reached a peak in 1966 returned in 1967 to its low 1963 level. Comparing the available data of investment as a percent of GDP, there appears to be a downward trend: While capital formation was estimated at about 7.5 percent of GDP during 1960-1963, it declined to about 7 percent during 1964-1966 and reached a low of about 5.8 percent in 1967.

20. Considering that Indonesia does not have a broad-based capital goods producing industrial sector, it is understandable that in 1967, with a further decrease of imports of capital goods and raw materials for investment purposes, the decline of capital formation in machinery and equipment was more pronounced than in construction and works. Investment in machinery and equipment declined by about 25 percent, whereas in construction and works it declined by about 16 percent. In the 1967 budget no new projects were initiated and, for the most part, expenditures on continuing projects declined with their gradual completion. If account is taken of the fact that the actual construction of new projects needs considerable preparation, of which little had been started in 1967, it could well be that an even further decline of investment may occur in 1968.

21. Figures for the first four months of 1968 indicate some increase of imports of capital goods and raw materials for investment use under the B.E. arrangement. However, a decline can be foreseen in disbursements of project aid, as the pre-1966 pipeline of such aid is approaching depletion but disbursements against the new commitments in 1968 have hardly started. Taken together, the level of these imports related to investment may be about the same or lower than in the preceding year, and the investment level will therefore not differ significantly from the low estimate for 1967.

22. Public sector development expenditures as proposed in the 1968 budget of the Central Government and measured in constant prices imply an increase in 1968 over 1967 of roughly 20-25 percent. The tight financial position of the Government in the first half of 1968 resulted in a very low rate of implementation, with expenditure authorizations at less than one-third of the budget total for the year. Even with a rapid acceleration in the third quarter, the chances of full implementation are small, as at the end of the third quarter the rainy season will begin to slow down construction activity till March/April 1969.

23. The inflow of foreign assistance increased in 1967 permitting the Indonesian balance of payments to show a rising deficit on current account. This increase of external financing of investment expenditures indicates, in conjunction with the decline of investment, that domestic savings fell at an even sharper rate. Gross domestic savings in 1967 amounted roughly to 3.5 percent of the net national product, with an investment level of about 6.5 percent of NNP. These figures should be used only with caution and reserve, as the investment estimate is based on incomplete and often unreliable data, which may involve serious underestimation of both investment and domestic savings. As in 1967, the current expenditures of the Central Government outstripped current revenues, the public sector contribution to savings was probably negative. Such a net dissaving in this sector is indicated by the use of some part of external resources to finance current expenditures in the central government budget.

24. For 1968, no significant change in the level of domestic savings can be foreseen, as it is unlikely that investment will increase more than the balance of payments deficit.

Population and Family Planning

25. Taken as a whole, Indonesia belongs to the group of Asian countries with a relatively low population density, with 157 persons per square mile in 1968, against 415 in India and 337 in Pakistan in the same year. The concentration of two-thirds of the population of Indonesia on two islands - Java and Madura - with only 7 percent of the land area creates an extreme density in the main population center.

26. In 1968 the total population of Indonesia is estimated by the Indonesian authorities at 115 million, with a population growth rate of 2.5 percent per annum increasing slightly over time. Other estimates show a somewhat higher total population at the date of the census, and higher apparent birth rates.

27. The relatively large age-groups which are now approaching marriage age will probably cause a further rise of the birth rate and, combined with declining mortality, push up the population growth rate. It would not seem at all unrealistic to project an annual increase of the population of around 3 percent by the middle of the 'seventies.

28. The uneven distribution of the population over the different islands is a main reason for a policy of transmigration from Java to other parts of the country. Although in some years around 50,000 people were resettled in this way, there is doubt whether this resulted in any year in a net emigration from Java. Also, a transmigration program of this magnitude only resettles 2-3 percent of the normal annual increase of Java's population.

29. Despite the serious economic and social problems created by a continuously increasing population pressure, no substantial program in the area of family planning exists in Indonesia. The activities of the Planned Parenthood Association were limited to small pilot projects intended to precede a larger program in the coming years. Indications are that the Government will allocate in its Five-Year Plan budget funds for family planning, which would make family planning an official program. The mission strongly supports such a step, but also is aware of the organizational bottlenecks for the implementation of such a program on a sufficiently large scale.

30. The experience in other countries indicates that at least a year is needed to formulate an appropriate program and to outline the basic approach. Another year may be needed to train the large staff which is needed for a nation-wide program; their number could easily be around 25,000 to 50,000 in a country of Indonesia's size. It still will take at least one or two years before the program reaches the required activity level, after basic training programs are completed. Even if a start was made today formulating a family planning program, it therefore would only become fully effective in 1973, towards the end of the Five-Year Plan period. It seems thus clear that there is a pressing need for the creation of a nucleus organization assigned to the task of formulating a family planning program.

CHAPTER 2

PRODUCTION IN 1967 AND 1968

Agriculture

31. In general, the production of major food crops in 1967 remained more or less the same as in 1966. The only increase in production was in rice and, bearing in mind the nature of the statistics available, this increase was hardly significant. During 1968 rice production is expected to rise by at least a-half million metric tons (about 5 percent) as a result of the expansion of the Bimas-Inmas programs and the favorable weather conditions during the 1967/68 wet season and the beginning of the 1968 dry season. For 1968 a significant increase of maize production also is expected. Some improvement may be expected during 1968 in the production of soya beans and groundnuts. The expansion of these minor food crops is hampered, however, by inadequate extension service and lack of demonstration areas.

32. The Bimas and Inmas programs 1/ have both been expanded significantly during the last year and a substantial further expansion was planned for the current dry season crop. The programs, although showing a substantial resilience with regard to use of inputs such as pesticides, fertilizers and improved seed varieties, suffer from lack of extension workers and insufficient credit allocations. Nevertheless, there are clear indications that these programs have contributed over the last four years significantly to the growth of rice production; for 1967 about 400,000 tons of rice (more than 4 percent of the total crop) can be attributed to the various Bimas and Inmas programs.

33. During 1967 the prices of fertilizer, as compared to those of rice, made the application of modern inputs rather unattractive to the farmer. With the new policy in 1968, there has been a renewed interest by rice farmers in fertilizer inputs and it appears that the downward trend in fertilizer use has been at least arrested.

34. The production of cash crops has remained more or less the same in 1966 and 1967. There is little likelihood of there being any major improvement in the production of cash crops during 1968, as the same conditions restricting development of this sector in past years continued to apply in 1968. Only in the tobacco and oil palm industries some expansion of output may occur. Some progress has been made in the estate sector to reduce the backlog of replanting in the oil palm and rubber industries. There is a serious lack of fertilizers and of funds to undertake the necessary rehabilitation of the estates.

1/ Bimas involves extension advice and the application of fertilizers, pesticides and improved seed varieties combined with the necessary credit to purchase those inputs; the Inmas program is a follow-up of Bimas after two years, only differing from the former in that no credit facilities are made available.

35. With regard to tea production, the recent upgrading of standards of plucking already appears to be paying off in the form of additional earnings. Further improvement in plucking, a program for infilling and/or replanting and fertilization are needed to rehabilitate Indonesia's tea estates and to regain the country's position in the international tea market.

36. On an overall basis, present estimates indicate that agricultural production including forestry and fisheries declined in 1967. For 1968 overall output may increase by 3 to 4 percent, depending on the final outcome of the dry season rice crop.

Manufacturing Industry

37. Both in 1967 and 1968, the growth of output in modern manufacturing industries is estimated at around 5-6 percent. The performance of the sector in 1968 is dominated by the improvements in production levels in the cotton textile and tobacco industries. Imports of raw cotton under new U.S. PL 480 arrangements started to arrive during the year and a more constant use of installed spinning and weaving capacity can, therefore, be expected. A number of tobacco and cigarette companies were returned to previous owners and showed improved production levels after the equipment was rehabilitated. Some expansion of output can also be expected in the manufacture of palm oil and crumb rubber.

38. Notwithstanding these advances in output, a large amount of under-utilized capacity persists, partly as a result of lack of demand and the tight monetary controls, together with the stronger competition from imports. The problems are to some extent of a structural character, as most industries were established during years of strong direct controls and are now exposed to the conditions of a basically free market economy. Better utilization of capacity may, therefore, not only require more selectivity in credit controls but also a revision of the import tariff.

39. The introduction of the new laws governing both foreign and domestic private investment can be of real significance for future investment in the manufacturing sector. The Foreign Investment Law has already resulted in substantial private capital inflows; it is generally expected that the Domestic Investment Law will have the same effect in due course when other necessary steps are taken to remove legal impediments to private investment and to the creation of a domestic capital market.

40. The rate of industrial development depends to a considerable extent on the speed and efficiency with which the Government can handle its industrial planning and implementation activities. At present there is a serious shortage of personnel to coordinate activities adequately between government agencies and ministries. In addition, there is a large and urgent need for trained managers at all levels which is not sufficiently recognized at present. While it would be desirable for the Government, at its various levels, to transfer many of its industrial properties to the private sector, many steps must be taken before such enterprises would be attractive for private investors. Public policy has been very slow to emerge on this point.

Transport and Communications

41. As was stated by the 1967 mission, the technical capacity of the sector (with the exception of the road network) is by and large adequate to handle considerably more than the present traffic demand. The basic problem remains unsatisfactory and inefficient operation of available capacity leading to financial losses and poor service. The financial position of the agencieis responsible for management of transport facilities are also hampered by their lack of financial resources and the consequences of a tight budgetary and monetary policy.

42. In this situation it is clear that great emphasis must be given to technical and managerial assistance. During the last year the Government has undertaken a number of steps in this direction, arranging for technical and managerial assistance in relation to interinsular shipping, the ports, the national airline, and the Indonesian railways. In 1968 the UN Development Program will finance a highway survey, with the IBRD as Executive Agency. The Planning Bureau (BAPPENAS) will, from the middle of 1969, be assisted by a transport advisory team.

43. With the exception of aviation and interinsular shipping, activities in the transport sector declined further during 1967 and probably also in 1968. Although reliable statistics in the transport sector are scarce or even non-existent, indications are that railway transport in 1967 declined by 25 percent. Coastal and inter-island shipping seems to have recovered slightly from the low level of activity in 1966. The current level of operation is, however, still far below what it was ten years ago and still indicates a poor utilization of available shipping capacity.

44. No data on road transport are available but the decline of imports of buses and trucks in 1967, combined with the lack of spare parts and maintenance facilities, would suggest a further decline of activity in this sector. It should be noted in this connection that significant progress was made in road maintenance and rehabilitation, particularly between main export production areas and their ports.

45. Indonesia's national airline, Garuda, succeeded in maintaining its domestic operations at a reasonable level and increased its activity in 1967 by about 10 percent.

46. The transport sector has been exposed to continually rising costs; both in January and in July of 1967 and 1968 some changes in the rates were allowed by the Government. These across-the-board adjustments did not improve the rate structure however.

Mining

47. Mining has been one of the most rapidly growing sectors of the economy both in 1967 and in 1968. In 1967 the overall growth rate of this sector is estimated at 9 percent, whereas in 1968 current estimates indicate an increase of output of no less than 25 percent. The oil sector represents about 85 percent of the value of output in the mining sector and has in fact been the only industry in which significant growth occurred in

1967 and 1968. Tin mining has continued to stagnate during these years as it is still faced with need for substantial rehabilitation before any significant output increase can be expected. Other mining activities are either small or just about to be started under new contracts recently signed between the Indonesian Government and foreign private mining companies.

Power

48. During 1967 power generation capacity increased by about 0.5 percent. During the first half of 1968, system additions amounted to an additional generating capacity of 2 percent of the existing capacity. In terms of energy generated, there has been little or no growth; in some regions, particularly in Sumatra, there has been a continuing and steady decline over the last two or three years in the level of generation and sales. Some improvement may be expected during 1968 in regions where new units have been installed.

49. Early in 1968, the rate structure for electricity was changed; the new tariffs represent considerable increases in all categories, except for the industrial sector. The high surcharge on users of power during the peak load period has been eliminated, but the industrial tariffs still remain rather high.

CHAPTER 3

INTERNAL FINANCIAL DEVELOPMENTS

Introductory

50. Ever since independence the Indonesian economy has been exposed to inflationary pressures and rising prices. During 1967 the estimated increase of the cost of living in Djakarta was 127 percent, which nevertheless compares favorably with the rise of over 600 percent during the preceding year.

51. The major economic task of the new Indonesian Government which took charge in 1966 has been to stabilize prices. A balanced central government budget, tight control over credits, combined with a system of floating exchange rates supported by increasing flows of external assistance and temporary relief from an excessive debt burden formed the core of the program. The basic purpose of the Government has been to introduce free market conditions and to abandon direct controls as a first step towards a recovery of investment and production.

52. Although the price performance during 1967 was much more favorable than in the preceding year, during the second part of the year the threat of a foodgrain scarcity led to an acceleration of price increases, to some extent supported by a slower than expected rate of disbursement of foreign assistance.

Table 1

Cost-of-Living Index and Rice Prices in Djakarta
(1966 = 100)

	Cost of Living		Price of Rice	
	Index	% Change	Index	% Change
1966	100.0		100.0	
1967	241.3		288.4	
First Quarter	204.8	+32.8	198.5	+52.3
Second Quarter	211.9	+ 3.5	186.1	- 6.2
Third Quarter	237.1	+11.9	297.7	+60.0
Fourth Quarter	311.5	+31.4	471.4	+58.3
1968				
First Quarter	490.7	+57.5	841.5	+78.5
Second Quarter	508.2	+ 3.6	654.2	-22.3

Sources: Cost-of-living Index from the Bureau of Statistics; rice prices from BUL (Bureau of Logistics).

53. Part of the acceleration in prices in the second half of 1967 is a normal seasonal fluctuation, as prices tend to decline at the time of the main harvest in March/April. Experience in other Asian countries with similar dependence on one staple food crop indicates that this usually generates a difference in the cost-of-living index of 10-15 percent between the highest and the lowest level during years with otherwise stable prices.

54. The degree of price stability experienced in Indonesia after the new rice crop was harvested in March/April 1968 is not only related to better fiscal and monetary management than in previous years but also to a more balanced situation regarding demand and supply of essential consumer items. The developments in late 1967 and early 1968, when prices rose sharply, were to a large extent the result of specific scarcities for such essential items as staple food products. The fact that serious inflation could occur, notwithstanding the observance by the Government of a balanced budget policy combined with a fair performance regarding the expansion of credit to the private sector and state enterprises, points to the interrelation between fiscal and monetary policy on the one side and the market situation for essential commodities on the other.

55. After the main rice harvest in 1967, the Government was faced with a difficult choice. Given the fact that releases of rice were substantially subsidized, large imports and releases would have been at the expense of unbalancing the government budget and having to resort to deficit financing. The alternative was to hold on rigorously to the balanced budget even if this created the threat of scarcities in the market for foodgrains. Whatever alternative the Government selected, it is clear that price increases could hardly be avoided; either deficit financing and an expansion of credit beyond desirable limits or a direct rise in prices as a consequence of demand outstripping supply of foodgrains would have been the consequences. If the Government had accelerated its rice import and release program even by resorting to credit expansion and/or deficit financing, the rate of inflation might have been less, whereas with the option taken in practice, the inflationary pressures were enhanced by speculative movements in the market. In any event, it is evident that the efforts to stabilize the economy in 1967 could in no case have resulted in complete stabilization of prices.

56. For the remainder of 1968 the situation has basically improved and will probably continue for 1969/70; the firmer grip which the Government now has on its revenues and expenditures has increased its capability to deal with the inflationary pressures much more effectively. Even with a sufficiently large program for the supply of essential imports, the government budget and the credit situation both remain satisfactory. It is for these reasons that price stability at least until some months into 1969 seems possible.

Money and Credit

57. During the first half of 1968, money supply increased by Rp. 33.1 billion in comparison with an increase of Rp. 29.1 billion over the entire year 1967. Comparing the first half of 1968 with the first half of 1967, the increase in money supply was somewhat larger at 60 percent in the first half of 1968 as compared to 45 percent in the same months of 1967. A considerable difference with earlier years is the relative decline in the share of the Government in the increase of the money supply. In 1966 the increase of net bank claims on the Government accounted for 60 percent of the money supply increase, but in 1967 this was reduced to only 45 percent, and in the first half of 1968 the Government accounted again for 45 percent of the total. 1/

58. In 1967 as well as in the first five months of 1968, the most important factor behind the increase in money supply was the prefinancing requirements of domestic procurement and imports of rice. However, the new rice price policy adopted at the beginning of the year is designed to make a liquidation of rice prefinancing credits possible within the course of the 1968 crop year. However, during the calendar year 1968 it is expected that the effect of rice prefinancing on the money supply will a amount to around Rp. 17.5 billion on a net basis.

59. It is the impression that money supply is increasing at the same rate as prices, indicating no change in the velocity of money. In 1967 there was some increase if the year is taken as a whole, but in the earlier part of the year the velocity of circulation was somewhat reduced. The threatening scarcity of foodgrains and slow disbursement of foreign assistance during the latter part of 1967 and the first months of 1968 may have resulted in the reversal of the earlier decline of the velocity of money circulation. Not too much weight should be given to these observations as price data for Indonesia are unreliable and therefore may lead to unwarranted conclusions; it should also be remembered that a large proportion of additional money was created for the purpose of rice prefinancing which does not necessarily reflect money preferences in the economy.

60. Bank credit in 1967 increased by almost 400 percent. During the first five months of 1968 the increase has been much slower at 30 percent, and it is also clear from the available statistics that a stronger effort is made now to be selective in extending credits. Credit for the purpose of export financing increased in the first five months of 1968 by 77 percent; those for productive purposes by 56 percent; but credits for special projects and to other sectors of the economy have shown a net decline of 14 percent. Credit to the government sector did not increase at all during these five months, leaving the entire credit expansion to the account of the private sector.

1/ These figures exclude credits to government enterprises which for this analysis are included in the private sector.

61. Although credit advances are now made on a more selective basis than in 1967, there still is room for improvement. Central Bank direct credits were gradually reduced as an initial step towards a complete withdrawal of BNI-Unit I from the banking sector which ultimately took place in August 1968. Most of its operations as a commercial bank related to import financing, which was reduced from outstanding credits of Rp. 3.2 billion in December 1967 to Rp. 2.9 billion in the middle of June. Fertilizer credits increased over the same period somewhat, from Rp. 2.5 billion to Rp. 3.2 billion, indicating the slow disbursement of Bimas credits which is also observed and discussed in the section on agriculture of this report.

62. With regard to liquidity credits, the impression is that the composition of new advances was not sufficiently geared to economic priorities, as is demonstrated in the following table:

Table 2

Liquidity Credits of the Central Bank in 1968

(In billions of rupiahs)

	Total Credits Outstanding on 12/31/1967	Composition (in %)	Additional Credit till 6/19/1968	Composition (in %) of Additional Credit	Total Credits Outstanding on 6/19/1968	Composition (in %)
Sugar Industry	3.06	60.2	1.93	30.6	4.99	43.8
Agriculture	0.26	5.1	1.68	26.6	1.94	17.0
Estates	1.03	20.4	-0.29	-4.6	0.74	6.5
Other Production	0.19	3.7	0.34	5.4	0.53	4.6
Exports	0.32	6.3	1.31	20.7	1.63	14.3
Imports (B.E. only)	-	-	0.26	4.1	0.26	2.3
Others	0.22	4.3	1.09	17.2	1.31	11.5
Total	5.08	100.0	6.32	100.0	11.40	100.0

Although credits for the sugar industry were reduced in percentage terms over the period, there was nevertheless an expansion of credit to this sector equivalent to 30 percent of the additional credits advanced. But credits to estates were reduced from an original 20 percent of the total to 6.5 percent; there was even a decline in absolute terms. Together, the credit outstanding for agriculture and estates was reduced as a percentage of the total.

63. There is only little change in the composition of credit to the private sector as can be seen from Table 3. Export financing takes a slightly larger share of the total than a year ago, which is caused by the favorable interest rate charged on those credits. This may also be the reason for a shift

of export credits away from the private to the state commercial banks. No details are available as to the sectoral composition of credits to the productive sector.

Table 3

Credits to the Private Sector, 1967-1968
(In Billions of Rupiahs)

	Production Sector	Export Sector	Others	Total
March 31, 1967				
State Commercial Banks	1.02	0.21	0.16	1.39
Private Foreign Exchange Banks	0.04	0.04	0.04	0.12
Private Commercial Banks	0.42	0.58	0.65	1.65
Total	1.48	0.83	0.85	3.16
(In %)	(46.8)	(26.3)	(26.9)	(100.0)
March 31, 1968				
State Commercial Banks	5.83	4.06	1.85	11.74
Private Foreign Exchange Banks	0.07	0.10	0.13	0.30
Private Commercial Banks	1.54	1.00	2.46	5.00
Total	7.44	5.16	4.44	17.04
(In %)	(43.7)	(30.3)	(26.0)	(100.0)

64. Interest rates. The structure of interest rates was largely maintained during 1968, with preferential rates for the production of food, for exports and some basic commodities, with a general range between 3-5 percent per month. Still, the open market rate is estimated to be much higher, although now reduced to around 9 percent per month. Deposit rates were low of necessity at 2 percent per month, which has so far made it almost impossible to attract substantial deposits apart from those related to the prepayment of imports and import duties. The Government has announced new measures in September, which will go in the direction of increasing the attractiveness of deposits. Lending rates have been somewhat increased and range now between 3 and 7 percent per month with a weighted average of around 4 percent. On demand deposits (less than 3 months) the rate is fixed at 1.5 percent but the rates on time deposits are substantially increased; a rate of 4 percent per month is offered for deposits up to 6 months, 5 percent for time deposits between 6 months and a full year and 6 percent for terms beyond one year.

65. The relatively slow price increase during the last months has now created a situation where interest rates are again positive, as the average monthly price increase has only been some 2 percent per month. It is improbable that this will effectively ease the demand for credit. The outlook for attracting deposits is definitely better if prices continue to rise only slowly.

Fiscal Performance

66. The original budget for the year 1968 was balanced in accordance with the policy declarations of October 1966, with revenues and expenditures both estimated at Rp. 138.7 billion. This included a development budget of Rp. 41.5 billion, to be financed by Rp. 32.7 billion of external resources and counterpart funds and an additional Rp. 8.8 billion from levies on exports (A.D.O. receipts), used for the financing of regional development expenditures. It was explicitly stated that external resources would not - as to some extent happened in 1967 - be used to finance current expenditures.

67. The rapid increase of prices around the turn of the year, combined with the erosion of the external value of the rupiah created a serious budgetary problem. To this was added the large requirement for additional funds to finance the domestic procurement and import of rice and other foodgrains. As the expenditures to be incurred for foodgrain purchases would be compensated largely within the same crop year by receipts from releases to the domestic market, it was decided at the beginning of the second quarter not to include these expenditures any longer in the government cash accounts, but to make special credit facilities available for aid procurement from the BNI-Unit I. This additional credit creation would in the short run be offset by a reduced level of expenditures from foreign aid counterpart funds. However, whatever net credit to BUL1/ would still be outstanding by the end of the current year will be added to the credits outstanding to the rest of the economy under the IMF standby ceiling. On present indications, this could amount to Rp. 17.5 billion (see Table 4).

68. The Routine Budget. For the first three quarters of the year, only quarterly budgets were prepared as the price and exchange situation remained too volatile to attempt a new annual budget. After the preparation of the third quarter budget, revised estimates for the year were made, which are presented in Table 4. Domestic revenues are now estimated at Rp. 148.8 billion, more than 50 percent above the original estimates. The Government still relies heavily on indirect taxes, constituting around two-thirds of total domestic revenues. It is gratifying to notice that some increase in the share of direct tax receipts is projected for 1968.

69. In both the original and revised budgets for 1968, 23 percent of domestic revenues is directly linked to the oil-producing sector and over 40 percent consists of taxes on international trade. The expected rapid expansion of the oil industry in Indonesia and the rising level of imports that will be possible when exports and aid disbursements both increase over the next few years will tend to increase the dependence of government finance on these two sectors.

70. Budgetary current expenditures for 1968 are in the revised budget projected to rise by 147 percent compared to actual expenditures in 1967. If account is taken of the fact that the foreign exchange rate will probably more than double between the two years, and domestic prices increase to about the same extent, this means little real growth of expenditures. It can be

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1/ Badan Urusan Logistik: Bureau of Logistics.

Table 4

Government Receipts and Expenditures in 1968

(In Billions of Rupiahs)

	1968 Original Budget	1968 1st half Actuals	1968 2nd half Budgets	1968 Revised Budget	1969 1st Qtr. Budget
Budget financing:					
1. Routine budget					
a) Receipts	97.2	53.3	94.5	147.8	45.3
b) Expenditures	97.2	62.2	85.6	147.8	45.3
Surplus/deficit(-)	-	- 8.9	8.9	-	-
2. Development budget					
a) Receipts 1/	59.3	21.8	63.4	85.2	32.0
b) Expenditures	59.3	18.5	40.3	58.8	18.0
Surplus/deficit(-)	-	3.3	23.1	26.4	14.0
Extra-budgetary items:					
Rice prefinancing 2/	n.a.	-19.1	4.5	-14.6	17.6
Total Surplus/Deficit(-)	n.a.	-24.7	36.5	11.8	31.6

1/ Including project aid disbursements.

2/ Some other items belong in this category, like credits for fertilizer procurement and Central Bank credits for Government development projects; no data are available but the amounts involved are presumably small.

noted further that the rise of expenditures is mainly related to the implementation of a general increase of the wages and salaries of government employees. This is reflected in a steep rise of personnel expenditures and of subsidies to the regions. The third category where a substantial and larger than average increase is budgeted concerns debt servicing. Material expenditures - the only other major expenditure category - shows hardly any increase in money terms, indicating a substantial reduction in the level of real material expenditures for 1968. As a result, personnel expenditures in 1968 are an even larger proportion of current outlays than in preceding years.

71. The current budget for 1968 in its revised form presents a balanced current account, routine expenditures being kept equal to the projected domestic revenues.

72. The Development Budget. Aid receipts, originally estimated for 1968 at Rp. 32.7 billion, will now, according to the mission's estimates probably be somewhat higher, at Rp. 37.7 billion. Part of this increase is the result of a higher rate of exchange applicable now to foreign assistance receipts; the original figure was equivalent to the US$250 million requested as BE-aid from the donor countries participating in the I.G.G.I.; the revised estimate is based on actual receipts in the first six months and the inflow projected in the budget for the third and fourth quarters of $230 million. The total available external resources excluding project aid will thus probably amount to around Rp. 60-65 billion, of which about Rp. 20 billion will be held against foodgrain prefinancing credits.

73. The development budget will show a significant surplus when this projected inflow of external resources materializes in the latter part of 1968 and development expenditures remain at the present level. The weather conditions towards the end of the year may even slow down developmental activities during the last quarter. External resources (including project aid) amounting for the year to some Rp. 70-75 billion and A.D.O. receipts at Rp. 12.3 billion will compare with development expenditures of about Rp. 59 billion, leaving a surplus of around Rp. 25 billion (see Table 4).

74. Government cash expenditures will, however, be higher as (outside the budget) prefinancing of imports and procurement of foodgrains and the credits for government guaranteed fertilizer operations will require an estimated Rp. 15-20 billion. But this would still leave the Government during the year with a cash surplus of around Rp. 5-10 billion, all in the form of unutilized balances of counterpart funds generated from external resources.

75. The distribution of surpluses and deficits, both in the regular budget as in the extra budgetary cash receipts and outlays is quite erratic. The current budget showed a deficit during the first half of 1968 of Rp. 8.9 billion, which will be entirely compensated by current surpluses in the second half of the year. The development budget showed a small surplus in the first half, notwithstanding very small aid disbursements when authorizations of development expenditures were already issued.

76. This points to the somewhat uncomfortable seasonal dimension of the financing of government activities in general, and especially as regards the development budget and the foodgrains operation. Both require the largest amounts of money during the second and third quarters of the year, whereas during the winter months development outlays will tend to decline and the foodgrains operation will require large releases to the public, thus draining money out of the economy. Assuming smooth flows of aid over the year, this points to the need for considerable expansions of the money supply around the middle of the year, followed by a contraction in the rest of the year.

CHAPTER 4

THE FOOD SITUATION

77. In the years between 1960 and 1965, Indonesia imported around one million tons of foodgrains per year in addition to average domestic production of some 8.3 million tons. The tight control over budgetary expenditures and the difficult foreign exchange situation led to reductions of foodgrain imports over the last two years, with its lowest point of 300,000 tons in 1967. The crop in that year was not particularly favorable, and in the last quarter of 1967, rice prices increased in Djakarta by 58 percent, compared to 50 percent in the preceding six months. In order to try to maintain the real wages of its employees during hyper-inflation, the Government, for several years, has been paying wages mainly in kind with only a small cash supplement. This practice has also been followed by public as well as some private enterprises. Some government-procured rice is also released in rice deficit areas during periods of shortage. Thus the prices at which the Government procures and releases rice is an important factor in the market for this all-important staple. The importance of the government operations is indicated by the fact that, together with wheat and bulgur[1/], it will handle in 1968 some 1.8 million tons of foodgrains, or about 12 percent of the country's total supplies.

78. Indonesia does not constitute one market for rice. Transportation costs and the lack of reliable communications have in fact created many regional markets with independent price movements and price levels depending on local demand and supply. The Government is making an effort to make its procurement of foodgrains into a nation-wide program, which has in 1968 been reasonably successful. Although in some regions the Central Government is only permitted to procure and not to transport to other regions, at least procurement is now taking place in all parts of the country.

79. In late 1967 and early 1968 the Government had little flexibility to operate in the rice market as its stocks had declined to an estimated 300,000 tons, equivalent to about 2 months of release requirements at the beginning of the year. The first quarter of the year - always the most difficult period before the new harvest - showed, therefore, a rapid further rise of foodgrain prices which could not be checked by the small releases the Government made from its stocks.

80. During the current year and for the first months of 1969, the position is more comfortable. The domestic procurement target of 600,000 tons was reached by August, mainly because of the relatively good wet-season harvest and the improvements made in the Government's price policies. During the first quarter of 1968, when rice prices in major cities rose from Rp. 40-50 per kilogram at the beginning to about Rp. 60-90 at the end of the quarter, the average release price from government stocks was still below Rp. 24 per kilogram. In the second quarter, however, the release price was made equal to the domestic procurement price, on the average moving at Rp. 44 per kilogram, when market prices in general came down to Rp. 50-65 per kilogram.

81. Imports were also stepped up considerably and it is expected that Indonesia will import more than 1.2 million tons of foodgrains between

1/ Pre-cooked cracked wheat supplied under the U.S. PL 480 program.

April 1, 1968, and the end of March 1969. This includes 350,000 tons of wheat flour from the United States on a trial basis; the already substantial absorption of wheat and wheat flour should be noted during the first half of 1968, when about 250,000 tons were commercially imported. The rice scarcity at the beginning of the year probably stimulated wheat consumption beyond normal levels, but in the future the maintenance of a sufficiently large price difference with rice appears to make absorption of substantial amounts of imports possible, especially in the months preceding the new 1969 harvest.

82. With the releases now projected by the Government till the end of 1968, there will be enough stocks available in the first quarter of 1969 to maintain releases at a level three times the releases in early 1968 without dropping to the dangerously low stock levels during that period.

83. From the beginning of April 1968 release prices of rice were fixed at Rp. 60 per kilogram for sales to the Government - for payment in kind to government employees - at Rp. 55 for sales to state enterprises and at Rp. 45 for sales to autonomous regions. Prices to state enterprises were raised to Rp. 60 per kilogram by the middle of the year, bringing those in line with the price at which deliveries to the Government take place.

84. The substantial advantages granted to autonomous regions, which benefit almost exclusively the regional military establishment, should be done away with, as there is no economic nor social justification for a differentiation of this magnitude. It also stands in the way of sound price policies and of an at least neutral monetary results from the Government's operations in the foodgrain market.

85. For market releases the price tentatively fixed for the second half of 1968 is Rp. 50 per kilogram, but it is the intention to review this price regularly in order to keep it within about 5-10 percent below the prevailing market price. With the projected release levels in the months ahead, this policy of a close price relationship promises a satisfactory degree of effectiveness in stabilizing foodgrain prices, without - as was the case in earlier years - constituting a burden on the budget caused by low release prices.

Table 5

Purchase and Release Prices of Rice in 1968 1/
(In Rupiahs/kg.)

	Planned for 1968	Actuals First Half 1968
Imported Rice		
(a) Non-PL 480	47.70	47.13
(b) PL 480	61.74	56.44
Domestic Procurement	44.13	43.99
Average Purchase Price	47.65	45.54
Average Release Price	51.92 2/	33.94 3/

1/ Logistics Bureau data. 2/ Excluding first quarter actuals. 3/ Including first quarter actuals of Rp. 23.64.

86. Table 5 shows average purchase and release prices. On the planned prices for 1968, the Bureau of Logistics (BUL) which manages the purchase and sales of foodgrains, will make a gross profit of Rp. 4.27 per kg. rice, or 9 percent. Compared to the domestic procurement price, the margin is larger at about 12 percent; imported rice is relatively more expensive, especially that of U.S. origin.

Under the new system of rice prices for releases from government stocks, the costs and receipts should roughly balance with no direct government subsidy involved. However, the schedules of procurement and releases lead to substantial financing requirements over the year, even if for the full year no net expenditures are required. The heaviest financial requirements are concentrated in the second quarter, after the main crop is harvested, whereas the first quarter shows net receipts.

Table 6

Financing of Foodgrain Operations

(In Billions of Rupiahs)

	Expenditures 1/	Receipts	Net Receipts/Expend.
1968			
1st quarter	2.30	5.10	2.80
2nd quarter	31.74	9.80	-21.94
3rd quarter	20.16	17.38	-2.78
4th quarter	18.40	25.66	7.26
1969			
1st quarter 2/	15.40	33.00	17.60

1/ Including operating expenditures of BUL, on the average amounting to 7.5 percent of purchases.
2/ Mission's estimates.

88. For the period April 1, 1968-March 31, 1969, which coincides with both the crop year and the new fiscal year, total expenditures of BUL including operation costs are estimated at Rp. 85.7 billion; the magnitude of this operation can be judged from the fact that the routine expenditures in the 1968 revised budget are about Rp. 150 billion. Expenditures are for the same 1968-1969 period just about matched by receipts, so that over the year no net financing is required. The addition to stocks of an estimated 225,000 tons, which is entirely financed out of the current account, does not mean that prices are set in a way which result in a net profit of BUL, but that over the year, there is a substantial shift in BUL's foodgrain holdings away from relatively expensive rice to less expensive wheat and bulgur.

89. If for the fiscal year 1969/70 the same purchase and release prices are assumed, and a further increase of stocks at the end of that year to 600,000 tons is postulated, it is possible to estimate the financing requirements of the entire foodgrains market operation for the year. The outcome appears to be considerably less favorable, as a deficit of about Rp. 10-12 billion can be estimated on that basis. The reason for this marked difference from the 1968-1969 crop year is the above-noted fact that during this current year the stock increase will mainly consist of wheat, whereas with assumed balance between wheat supplies and demand in the coming year, the stock additions would mainly consist of more expensive rice.

90. The deficit may be reduced somewhat if international rice prices decline further from the current year's estimate - for Indonesia's imports - of $180 per ton. A decline to $150 per ton would reduce expenditures, and therefore the deficit in BUL's operation, by about Rp. 6 billion. Of more importance, however, is the price at which releases are to be made in future.

91. First, there is no obvious reason why sales to the Government, both central and regional, and to state enterprises, should not be made at going market rates instead of at fixed prices determined for several months in advance. Neither does it seem logical to fix in advance the price of market releases, other than in relation to the prevailing market prices at the time these releases take place. In order to influence the market, it is more important to possess sufficient stocks throughout the year, providing flexibility with regard to the quantities to be made available in the market, than to create large and widening differences between the market price and the current release price. The latter could be fixed at, say, 10-15 percent below the current market price. The stabilization of that market price will have to be guaranteed anyway through the manipulation of the supplies and can only be undertaken effectively if stocks are sufficiently large.

92. Secondly, on the domestic procurement side, it seems advisable to set targets in the future not in terms of the quantities to be procured - although an order of magnitude or range may be estimated in advance - but in terms of price. Stabilization of market prices at the time of the harvest requires that the Government in advance announces its procurement price and indicates its willingness to buy any quantities that will be offered at that price. This could in each season be done just before the harvest is coming in, thus providing some means of estimating market supplies in advance and fixing prices accordingly, but still keeping in mind the need to give the farmer a satisfactory return on the use of modern inputs. During the current season, both a price (or a set of prices by regions) and a procurement quantity were fixed, and as a consequence the completion of the procurement target has not resulted in an equalization of prices between different regions or in different months. Table 7 shows some of the recent evidence of price differences.

93. Of overriding importance is the need for the Government to reduce its involvement in the foodgrains market, especially where this is related to the supplies in kind to government staff. Certainly, where price stability becomes a realistic prospect, the size of these operations should

be contracted with no delay, limiting the involvement of the Government solely to importation of required supplies and such market operations as are needed to stabilize prices during periods of market surplus or shortage.

Table 7
Prices of Rice in Major Cities
(Rp./kg.)

1968	Djakarta	Bandung	Surabaja	Medan	Palembang	Makassar
March 15	85.00	68.80	55.00	39.00	85.00	36.00
March 31	75.00	61.28	46.00	45.00	90.00	42.00
April 15	68.75	50.50	39.00	50.00	45.00	(45.00)
April 30	68.75	56.00	37.50	59.00	42.00	46.20
May 15	67.50	53.00	40.00	64.00	43.00	46.20
May 31	62.50	50.00	47.00	62.00	42.00	46.20
June 15	65.62	52.00	-	60.00	-	-
June 30	67.50	-	-	-	-	-
Procurement Price	48.50	44.88	45.00	41.00	33.27	32.37

94. The standard deviation of prices in major cities at the end of March 1968, presenting a measure of the regional price differentiation, was no less than 65 percent, the rice price ranging between Rp. 42-75 per kilogram. By the end of May, prices had come closer together but the standard deviation was still about 35 percent. This can to a large extent be attributed to the wide differentiation in procurement prices by regions as is shown in Table 7 above. It may be doubted whether the considerable differences in regional procurement prices are economically justifiable.

95. There is a clear relationship between the degree to which regional procurement targets in terms of quantities had been achieved by the middle of 1968 and the ratio between the procurement price and the prevailing market prices in different regions. Procurement below targets is found in regions where the procurement price was set low as compared to the market price, or the reverse. In regions where the procurement price was fixed not more than 15 percent below the market price, the targeted quantities were obtained, but with larger differences, the shortfalls appear to increase. Higher procurement prices in the regions outside Java would have been more desirable both for the purpose of diminishing the wide differences in regional rice prices, but also for meeting the regional procurement targets and encouraging production.

95a. For the new fiscal year 1969/70, Indonesia will again require substantial imports of foodgrains. In terms of population growth alone, the additions to yearly requirements for all foodgrains together grow by about

400,000 tons each year, which already constitute about 4 percent of the current domestic production of rice. Even if in the coming year the domestic output would indeed increase by that percentage, there still would be no reduction in import requirements. In fact, the need to add to the government stocks in order to provide some more operational flexibility in the rice market to assure price stabilization may even then require a further increase of imports of foodgrains.

95b. During the period of April 1968 to March 1969, total imports of foodgrains are expected to reach a level of 1.3 million tons, of which bulgur accounts for 125,000 tons and the rest about equally distributed over rice and wheat. For 1969/70 a similar level of imports is projected at 1.2 million tons, allowing for an addition to stocks between March 1969 and March 1970 of about 170,000 tons, increasing in effect their level by more than 40 percent and at the same time shifting their composition towards a larger component of rice. The availability will nevertheless permit releases in 1969/70 at a level about 200,000 tons above those during the comparable period of April 1968 till March 1969. Table 44 of the Statistical Appendix gives an account of the supplies and releases as programmed in 1968 and projected through March 1970.

95c. In order to bring in the required quantities of imports in time, it is necessary to obtain early indications of the levels of food aid commitments to be expected during the year 1969 in order to permit the issuance of purchase authorizations and opening of letters of credit sufficiently in advance. For the first quarter of 1969 arrivals are determined by orders placed in the latter part of 1968; arrivals during the fiscal year 1969/70 will correspond to letters of credit opened during the calendar year 1969. Table 7a shows the quantities and values projected in this way.

Table 7a
Import Program of Foodgrains in 1969/70
(In terms of letters of credit opened)

	1969	1970 1st Qtr	1969	1970 1st Qtr
	(thousand tons)		(million dollars)	
Rice	550	100	95	15
Wheat	450	100	40	10
Bulgur	200	50	20	5
Total:	1200	250	155	30

Figures for the first quarter of 1970 are included as it is essential for the maintenance of adequate stocks that during that quarter new orders be placed for arrivals around the middle of 1970.

95d. The value of total foodgrain imports in 1969 will thus be significantly less than in 1968, when total expenditures amount to about $225 million; the difference is to a large extent reflected in imports which will carry over to the beginning of 1969 (but for which payments were made in 1968) and larger purchases of rice with the country's own foreign exchange resources and short-term credits. In addition, some shift from expensive rice to cheaper wheat will reduce the cost of the import program.

CHAPTER 5

BALANCE OF PAYMENTS AND FOREIGN EXCHANGE POLICY

96. Indonesia has had substantial deficits in the current account of its balance of payments for a long period. In 1966, the deficit decreased to about $140 million but during 1967 and according to present estimates also in 1968, the average level of the deficit increased again to about $285-$290 million. As exports have been rising substantially, the increase of the deficit indicates an even more rapid rise of imports of goods and services, of which a substantial proportion is financed with foreign aid.

Exports

97. Exports (with crude oil on a gross basis) are likely to increase from $770 million in 1967 to an estimated $848 million in 1968, an increase of somewhat over 10 percent. Part of the gross oil exports must, however, be subtracted as these constitute foreign exchange expenditures related to the production of crude oil, the marketing of oil products in Indonesia itself and the transfers of profits by the foreign oil companies. In Statistical Appendix Table 35 an account is given of the relations between gross exports of crude oil and the net exports which are shown in the balance of payments. Net exports in this table are defined as gross receipts less the foreign currency costs of producing oil exports and foreign investment income. In Statistical Appendix Table 32 the other items involving foreign exchange receipts and expenditures related to the oil sector are brought together.

98. Although net oil imports in 1967 constituted only about 20 percent of total exports, their share in the increase of exports in 1968 is almost one-third.

99. The regulations relating to Indonesian exports specify (in the non-oil sector) two categories of commodities indicated by A and B. Category A contains most of the major agricultural export crops and exports of tin, whereas Category B embraces a large number of minor export items. In 1967 about 80 percent of total exports belonged to Category A. The receipts from exports are only partly surrendered by the exporter; practice has been and still is, notwithstanding substantial changes in the regulations, that check prices (the amount surrendered and on which export taxes are levied) are fixed by commodity, leaving any receipts above the check price to the exporter. This portion of export receipts can be sold by the exporter in the D.P. market or remitted abroad and is known as the export overprice. In 1967 estimated have been made (on a sample basis) of the amounts of overprice by commodities. The total overprice for that year is estimated at $96 million or about 18 percent of total non-oil exports. The Indonesian Government has indicated the view that the overprice percentage has declined somewhat during the first half of 1968. Table 35 of the Statistical Appendix shows 1967 exports both excluding and including overprice by commodities and it will be observed that there are wide divergencies in overprice percentages. On the average, overprice in Category A is about 11 percent of the surrendered value of

exports, whereas in Category B the average overprice is more than 60 percent, but also within the categories the percentages differ considerably, ranging in Category A from 2½ percent (tin) to 40 percent (coffee), whereas the range in Category B is less wide from 37 percent (hard fiver) to 57 percent (miscellaneous commodities). As the D.C. market rate has been generally about 15 percent above the B.E. rate during the past year, these variations in overprice percentages in fact constitute different effective exchange rates to the exporters and amount, therefore, to considerable discrimination between exporters of different commodities.

100. The reforms of July 28, 1967, had specified that overprice would be eliminated for the principal export items and that check prices would only be retained to keep track of export proceeds. However, this has not materialized. An additional point which tends to complicate and diffuse the effective export rate structure is that the check prices, notably on exports in Category B, are determined by the exporters' associations which probably explains to some extent the spread between such prices and the actual price obtained.

101. Table 8 shows that exports in Category A increased according to present estimates in 1968 by 5.2 percent. The largest contribution to this increase is made by two products: copra and coffee. Copra prices have increased over the last month and shipments during the first half of 1968 have shown a very substantial increase compared to last year. On the other hand, exports of pepper and palm oil are expected to decline during the year; in the case of pepper, the failure of the crop has resulted in an export decline, whereas for palm oil the price decline is the main cause of lower export proceeds.[1/]

102. In Category B, an export increase is projected of 13.9 percent. In this group of commodities, the main items showing substantial growth are tea and timber, compensated to some extent by a decline of corn exports included in the other food items.

Export Policy

103. As was noted above, the overprice system gives rise to significant exchange rate discrimination between different categories of exports. In addition, the present system of export taxation tends to aggravate this situation. All non-oil exports are subject to a 10-percent tax on the surrendered value (that is, excluding overprice) which is transferred to the regional governments for the financing of their development program. In addition, on all items in Category A a flat export tax of 15 percent of the surrendered value is levied.

104. In Table 41 of the Statistical Appendix an attempt has been made to estimate the effects of taxation and the continuation of the overprice practice on the receipts of exporters per dollar of exports. Figures relate to the middle of 1968 when the B.E. rate at which foreign exchange was surrendered was Rp. 300 per U.S. dollar and the D.P. rate was Rp. 351 per U.S. dollar. The results of the calculation show that after tax and sales of overprice foreign exchange in the D.P. market, on the average exporters

1/ Now reduced to 5 percent.

Table 8

Exports of Goods, 1967 and 1968

(In Millions of U.S. Dollars)

	1967	1968	% Change
Category A	404	425	5.2
Category B	108	123	13.9
Unallocated	14	13	-
Total excluding oil	526	561	6.7
Net exports of oil	124	150	21.0
Total exports	650	711	9.4

received a rate of Rp. 250 to the dollar, considerably below the prevailing B.E. rate. However, there is a striking difference between exporters in Category A and those in Category B, the first group receiving an implicit exchange rate of Rp. 238 per dollar, the second group receiving Rp. 301 to the dollar or 26 percent more than the first category, but still just equal to the B.E. market rate. A simple calculation proves how dangerous the present system is, especially when exporters' associations can to an extent determine by themselves the overprice percentage. If they shift one percent of their gross export receipts into the overprice, they gain an additional rupiah amount to the equivalent of Rp. 110 per dollar, which in fact means that this operation gives them a marginal exchange rate of Rp. 360 to the dollar (Rp. 110 plus the basic Rp. 250).

105. This also demonstrates the complexity of the system and the inherent difficulties for the exporter in estimating the price he will ultimately receive for his product.

Imports

106. Indonesia's non-oil imports (c.i.f.) are expected to reach a level of $921 million in 1968, or about 15.5 percent above the level of 1967. A substantial part of this import increase is related to the increase in the availability and use of B.E. aid and food aid. On the basis of letters of credit opened, aid flows in these categories increase by $101 million in 1968, thus financing 80 percent of the growth of imports. A second important source of import financing, increasing by $36 million in 1968, is short-term credits taken by the Central Bank for the financing of foodgrain imports. There is a notable improvement in the composition of imports in 1968 as compared to the preceding year. Raw materials imports increase according to present estimates from $242 million in 1967 to $320 million in 1968, an increase of 32 percent. Some decline is estimated in the imports of capital goods, which is the result of smaller disbursements of project aid; the pipeline of earlier project aid commitments is becoming rather small and new commitments have come late in the year, consequently reducing the total project aid disbursement level. Imports of consumer goods increase in 1968 by 17 percent or slightly faster than total imports, but this increase is entirely in the imports of foodgrains; other consumer goods imports are probably reduced by some 10 percent, mainly as a result of the increased import tariff on finished textiles introduced in April 1968.

External Assistance

107. Indonesia obtained total commitments of aid for 1968 of about $355 million. Out of this amount, $184 million was for B.E. aid (excluding food); $100 million is food aid, and $69 million is commitment for new project financing. At the end of 1967, a pipeline of aid imports to arrive after the end of the year of $92 million was still available but when project contracts subject to cancellation are included, the pipeline is estimated at $85 million, half of which consisted of B.E. aid and the other half of project aid. Total sales of B.E. aid including food aid are estimated for 1968 at $185 million which compares with $163 million in 1967, an increase

Table 9

Balance of Payments, 1966-1968
(In Millions of U.S. Dollars)

	1966 (revised)	1967 (revised provi-sional)	1968 original estimates 1/	1968 revised estimates
Export Earnings(f.o.b.)	614	650	706	711
1. Non-oil exports	(504)	(526)	(556)	(568)
2. Net exports of oil	(110)	(124)	(150)	(150)
Import Payments(f.o.b.)	-588	-803	-869	-909
1. Non-oil imports	(518)	(726)	(773)	(813)
2. Cost of oil for domestic market	(45)	(47)	(58)	(58)
3. Oil industry's capital goods imports	(25)	(30)	(38)	(38)
Trade Balance	26	-153	-163	-198
Net Services (excl. oil)	-165	-156	-200	-192
Current Account (deficit-)	-139	-309	-363	-390
Gross Capital Inflow	169	375	448	415
1. Official	(119)	(265)	(369)	(342)
2. Other (net)	(50)	(110)	(79)	(73)
Debt Service	-62	-54	-84	-72
Net Capital Inflow	107	321	364	343
Changes in Reserves (increase-)	41	13	-1	49
Errors and Omissions	-9	-25	-	-2
Financing of Current Account	139	309	363	390

1/ With revised data for the oil sector.

of 14 percent. As B.E. sales in the earlier part of 1968 were rather low as a result of late commitments, only part of the total sales will materialize in the form of arrivals of commodities in Indonesia during 1968. It is, therefore, expected that disbursements of B.E. aid (equated to arrivals of aid commodities) will amount to $160 million, still significantly more than the disbursement of $142 million in the preceding year.

108. The largest increase was in the category of food aid imports, notably from the U.S.A. It is estimated that during 1968 a total value of $70 million of foodgrains will be supplied to the Indonesian market, as against arrivals in 1967 of $30 million.

109. Project aid disbursements from the pre-1967 pipeline are now estimated at $26 million, whereas late commitments of project aid in 1968 will result in a low disbursement from new project aid of about $20 million. Together with the increase of exports, the total availability of foreign exchange to Indonesia on a gross basis is expected to increase in 1968 by $148 million as compared to 1967 (but excluding short-term credits). About one-third of this increment is provided from exports, the rest from increased aid disbursements.

Short-term Credits and Reserves

110. As of June 30, 1968, net outstanding foreign credits amounted to $63.3 million, of which $30 million was for rice, $24.3 million for fertilizer, and $9 million tanpa[1] cover. Although $12 million of the rice credit was paid off on July 15, additional credits have been obtained and total outstanding credits (of a year or less) was estimated at about $72 million at the time of the mission's visit as compared with the ceiling of $75 million established in the Fund Stand-by Agreement. Total foreign exchange reserves have been negative since 1964, and no substantial change occurred in Indonesia's reserve position in the first quarter of 1968 when net liabilities amounted to about $34 million, not counting the foreign exchange liabilities of the commercial banks (apart from the foreign exchange fund and the issue department of BNI-Unit I). During the second half of 1968 substantial short-term credits obtained by the Central Bank for the financing of rice imports led to a net increase of short-term liabilities of $49 million for the year.

Exchange Rate System

111. Some singnificant developments have taken place recently in Indonesia's exchange rate system. Its evolution since the reforms of July 28, 1967, have been generally in the direction of consolidation and unification. But this has not yet produced optimum results in terms of export incentives and the apportionment of foreign exchange resources according to priority uses. "Overpricing" and export taxes, etc., without due regard to the competitive position of the items to which they apply, still continue. It was understood that when the average effective rate of the export taxes was reduced from about 33 to about 22 percent of the B.E. rate on July 28, 1967, overpricing would be eliminated for the principal export items and that the check prices would only be retained to keep track of export proceeds. However, this has not materialized. While a larger portion of the exporters' proceeds now has to be deposited in the foreign exchange banks at the B.E. rate and be subject to export taxes, a substantial but variable remainder (the amount in excess of the check price) can be sold in the D.P. market or remitted abroad. The continuation

1/ Financed from abroad without letters of credit or other "cover."

of this procedure permits the exporter to recoup, by the sale of his overprice portion, part of the export tax he has to pay to the Government. An additional point which tends to complicate and diffuse the effective export rate structure is that the check prices are determined by the exporters' associations and the spread between such prices and the actual prices obtained by the exporters differ substantially from commodity to commodity and from time to time. Thus the multiplicity of export rates may even have increased.

112. The effective export rate for a commodity is thus a function of (a) the B.E. market rate (which, as noted above, to some extent has been controlled by market intervention by the Central Bank); (b) the difference between the check price and the export price of the commodity; (c) the D.P. rate at which this difference can be sold to importers (commodities and invisibles) or those desiring to remit funds abroad; and (d) the amount of the export tax. The number and variability of these factors make it very difficult for an exporter to predict just what his rupiah proceeds for any period in advance will be and thus compounds the difficulties usually experienced by the trade under a floating exchange rate system. It also makes government revenues from export and import taxes rather difficult to predict. Insofar as export taxes are concerned, they will be higher, the higher the B.E. market rate, and the higher the check price set by the exporters' associations. Conversely, the lower the check price in relation to the actual export price, the greater the availability of D.P. foreign exchange and thus funds for the import of less essential items (goods on the D.P. list). Since these are more heavily taxed, this should produce a larger revenue from import duties. Thus the Government's fiscal interest in having a set of higher check prices to maximize export taxes is, at least in part, offset by the larger revenues obtained from taxes on D.P. imports. This has been given by the Government as a reason for the retention of the D.P. rate system, together with the desire to provide a channel for the repatriation of capital at an advantageous exchange rate. Perhaps a more pursuasive consideration is that, if the overprice-D.P. mechanism did not exist, the incentives for smuggling would be even stronger than at present. In the geographic and administrative context of Indonesia, this must be recognized as a telling argument. Nevertheless, there is clearly a pressing need for simplification of the exchange rate system and this can only be accomplished through a combination of complementary measures such as the reduction or elimination of export taxes (with necessary revenue substitutes), the elimination of the overpricing system and the necessary corresponding reduction in the reliance by importers on access to D.P. foreign exchange. The goal would be a unitary export rate (which, as long as inflation persists, will have to be a floating rate) with vouchers or certificates being issued to exporters (including some invisibles) which could be sold to importers of less essential items or to those seeking to remit funds out of the country for various authorized purposes.1/ Under

1/ While not questioning the desirability of the basic decontrol measures taken in 1966 on foreign exchange transactions, the mission has some doubts whether Indonesia can afford the apparently complete freedom of capital movements that prevails at the present time.

such a system, the effective rates at which foreign exchange is transferred as between buyers and sellers would be less intertwined with fiscal considerations.

113. In summary, the changes made during the past year have not contributed substantially to the unification of effective exchange rates (except for the elimination of the B.E.-aid rate) and the improvements that have been achi achieved concerned mainly improvements in the classification of imports from the standpoint of meeting the priority needs of the country. Here again, however, the expansion of the prohibited list may be questioned as a measure for the development of a sound longer-range foreign trade policy. A further differentiation of effective import rates has been achieved by tax measures, notably the hiking of the surtax on non-B.E. imports in November 1967 and the recent requirement for advance payment of import duties on B.E. imports and tax clearance on D.P. imports.

114. Although the Government continued during 1968 to maintain a foreign exchange system based on a floating exchange rate, an attempt was made in June-July 1968 to stabilize the B.E. rate at about Rp. 300 to the dollar. Partly as a consequence of this intervention, the reserves behind the B.E. market are still very limited, and stabilization of the rate (except to eliminate short-run fluctuations) is feasible in the foreseeable future.

115. In order to stimulate sales of aid-B.E., which now has the same market price as general-B.E., measures were taken in relation to the availability of import credit and prepayment of import duties which tend to discriminate in favor of imports financed by aid-B.E. The foreign exchange banks have been instructed to supply importers with aid-B.E. entitlements whenever importers want to import goods from countries which are supplying B.E.-aid. Until the end of August this did not operate satisfactorily, but there are indications that in September the use of aid-B.E. has increased, especially for imports from Japan.

116. As noted in Chapter 1, the management of Indonesia's foreign exchange system over the last few months seems open to some criticism. Although the credit measures and the requirement to prepay import duties on imports not financed with aid-B.E. have tended to compensate to some extent for the elimination of the spread between the aid and the general B.E. rates, this may create new problems in the future. With prevailing high interest rates, a differentiation between imports as to their eligibility for credit makes a very substantial difference in the cost of importation. A succesful stabilization policy will, however, tend to reduce the cost of credit to borrowers, and as a consequence the effective discrimination between imports will decline. This in turn could lead to a widening advantage for general-B.E. over aid-B.E. and thus hamper the disbursement of commodity aid.

117. The restriction of supplies in the B.E. market resulted in pressure on the D.P. rate which rose to Rp. 420 per U.S. dollar in the middle of July, while the B.E. rate remained at about Rp. 300 per U.S. dollar during this entire period. The normal relationship between the two rates was significantly affected. There can be no doubt that such wide disparity between the B.E. and D.P. rates as has occurred during July adds substantially to the attractiveness of overpricing by exporters, thus reducing the inflow of general-B.E. earned by exporters.

118. With the return of sales of general-B.E. in the market since the end of July, the Indonesian Government has also undertaken to limit the difference between the B.E. and D.P. rates to a specified permissive percentage. Although this policy will prevent exporters from receiving more than a specified margin on their overprice earnings, it may also require the Indonesian Government to intervene from time to time in the D.P. market, thus making available its scarce foreign exchange resources for non-essential imports. The continuing efforts of the Government to avoid speculative rate increases in the B.E. market leave little scope for intervention in the D.P. market. Proposals for changes in the commodity import lists for different categories of financing are contemplated but will take some time before those can be implemented. The present situation (in September 1968) is rather unsatisfactory, as the B.E. rate has maintained a slow upward trend and is now at Rp. 320 per U.S. dollar, whereas the D.P. rate has increased very rapidly to a level of Rp. 440 per U.S. dollar, a difference of roughly 40 percent. A reduction of the overprice on exports, if not compensated by another system which provides incentives to the exporter and at the same time provides an earmarked flow of more expensive foreign exchange for less essential commodities, would tend to increase the difference between the two rates even further.

Management of Foreign Exchange

119. A rapid increase of domestic prices set in motion by shortages or expectations of shortages for the major food item, rice, will tend to divert demand away from now relatively more expensive domestic supplies to imported goods, as the international price level will not change to any appreciaable extent. Under the system of floating exchange rates, this must result in a more rapid use of available foreign exchange, both the country's own earnings as well as foreign assistance, unless the Government fixes in advance its foreign exchange release pattern to the market. With a system of rather inflexible release levels - which would be the most realistic approach for a country not possessing any foreign exchange reserves - the growth of import demand will necessarily result in an increase of the rate at which foreign exchange is sold.

120. The main foreign exchange rate has indeed risen considerably - albeit with a time lag - over the past 18 months, although not as much as the domestic price level, as far as the Djakarta price index can be considered representative. It is, however, difficult to make any precise statements as price data are unreliable and in fact three exchange rates - general-B.E., aid-B.E., aid-B.E., and D.P. - must be taken into account.

121. There has been widespread concern that the upward movement of the B.E. rate, which is by far the most important one, would generate a cost-push inflation. Therefore, in the past, the Government was slow in adjusting the aid-B.E. rate upwards in line with the market rate for general-B.E., and to adjust the customs valuation rate. Even if the most simplified approach is taken, assuming that the effect of an increase in the B.E. rate is passed on to the domestic price level irrespective of the kind of imports that flow into the country, it seems that the cost-push effects can only be marginal. Total imports of goods and services in 1968

are estimated to amount to about US$1,000 million; at the present B.E. rate this is equivalent to Rp. 300 billion, or about 11 percent of the national product. If customs duties are added - at an incidence of 24 percent on imported goods - the landed cost of imports will be about Rp. 350 billion, or 13 percent of the NDP. Even when a multiplier of 2.0 is assumed, a 10.0 percent price increase of imports would at most increase domestic prices by 2.6 percent.

122. The composition of imports, with some 25 percent consisting of consumer goods excluding foodgrains, makes it highly unlikely that a price effect of this magnitude would ever materialize. Domestic prices and incomes otherwise remaining constant, the demand for these imports would simply decline when the B.E. rate rises. In addition, substantial imports of foodgrains were subsidized when sold to consumers until the beginning of 1968 and the costs of this operation had to be accommodated in the government budget or within the agreed credit limits. With only 35 percent of imports consisting of raw materials, the danger of cost-push inflation generated from the foreign exchange market side must then be considered rather small.

123. As was already suggested earlier, it is much more likely that the domestic price increase, resulting from specific market situations (as for rice earlier in 1968), from inflationary financing operations by the Government and/or from inflationary credit expansion to the private sector and the government enterprises, has exerted considerable influence on the foreign exchange rate. Import demand created by a relative (as compared to domestic prices) decline of import prices, in conjunction with an inflexible supply of foreign exchange will result in a rise of the foreign exchange rate up to the point where domestic and import prices are adjusted and import demand reduced to a level that can be sustained by the present and expected supplies of foreign exchange.

124. Therefore, it appears more realistic to put every effort behind a stabilization of domestic prices, both through appropriately designed fiscal and monetary policies, as well as by providing sufficient supplies of basic staple products for the domestic market throughout the year rather than trying to control the foreign exchange rate in a direct way. This would stabilize import demand and make the foreign exchange rate more the function of foreign exchange availabilities alone, instead of being a function also of fluctuations in the domestic price level and in associated import demand.

125. The foreign exchange policy was considered during the first half of 1968 as one of the most important instruments for stabilization. Whenever the Government sets the stabilization of the exchange rate system as the main target, the required foreign exchange management is clearly determined: Releases must be sufficiently large to meet any demand for foreign exchange that may exist in the market. The recognition that such a stabilization policy is not only dangerous and liable to collapse whenever the availability of foreign exchange becomes too small to support the

foreign exchange rate is now reinforced by the observation that such policy may not be the right way to stabilize the domestic price level and may even distract attention from domestic operations which are truly inflationary. This calls for a revision of the type of operations the Government pursues in the foreign exchange market. Instead of patterning releases into the B.E. market according to the apparent demand, there should be a fixed pattern of such releases, determined some time in advance on the basis of a full-scale foreign exchange budget.

Foreign Debt

126. The conclusions in respect of Indonesia's foreign debt problem have not changed from last year, when we concluded that the accumulation of debt service payments during the 1970's resulting in part from the rescheduling operations already agreed or contemplated (1967-1970), have produced a level of debt service obligations (a) excessive in relation to probable foreign exchange earnings; and/or (b) so large as to require a very high level of gross capital inflow in order to support an acceptable development program. Since the calculations that were included in the last year's report, some further refinements of the data have been made (by the Government with the assistance of the IMF) and these indicate a somewhat higher level of debt service payments (after rescheduling either through 1968 or 1970) than were projected last year. With the rescheduling through 1968 and taking account only of debts incurred up to the middle of 1968, the average debt service from 1970 through 1978 will be nearly level, at an average of about $200 million a year. With the rescheduling through 1971, average payments for the period 1972-1978 would be about $220 million. The effect of a $500 million a year gross capital inflow after 1968 (on DAC terms) would be to raise these amounts by about $100 million a year, namely to about $300-$320 million respectively. With a 5 percent a year export expansion, this would mean that by 1978 about 37 percent of Indonesia's disposable foreign exchange income (oil on a net basis) would be pre-empted for foreign debt service.

127. The mission intended to determine, on the basis of the new information available on external debt before and after rescheduling 1967 and 1968 maturities, the grant element in the new repayment schedules. The lack of information on original schedules and data of commitment/disbursement of those loans make such a comparison difficult. Instead, an estimate is made of the present value of benefits to Indonesia following rescheduling. From Table 4 of the Statistical Appendix it is clear that the rescheduling of 1967 and 1968 maturities (but especially the first year) has a very substantial net benefit; the table also demonstrates some disadvantage to Indonesia in the sense that the costs of this operation fall for a major part between 1974 and 1978.

128. A rescheduling of maturities through 1971 has less substantial benefits as the amounts involved are much smaller. In this case again, about two-thirds of the costs to Indonesia are concentrated on the years 1974 to 1978, leading to the extremely high debt servicing ratios noted earlier (see Tables 3 and 5 of the Statistical Appendix).

CHAPTER 6

FISCAL AND BALANCE OF PAYMENTS PROSPECTS

129. The 1969/70 budget of the Central Government will probably be submitted towards the end of 1968. Therefore, the mission could not be provided with any official estimates of the government financial position and the balance of payments for the next fiscal year during its stay in Indonesia. Official estimates were provided just before this report was finalized. The analysis in this chapter is largely based on estimates made by the mission.

130. We have related the outlook for 1969 to longer-range projections, encompassing the five years including 1973 and coinciding with the period for which the Indonesian Government is now constructing a five-year plan. We made these preliminary projections for that period in order to clarify the nature and magnitude of some of the major problems to be faced in those years. The rough outline of possible developments during that period and the policy issues to be faced form also a background for the mission's proposed program for 1969.

Fiscal Policy and Outlook

131. The Government was faced during the period before 1967 with a rapid decline in the effectiveness of the revenue collection machinery which only brought in a fraction of the potential revenues. The inflationary trends of those years aggravated this situation as was explained in last year's report.

132. The emphasis of recent fiscal moves has therefore been put on the improvement of collections and surcharges under the existing taxation system, with little attempt to change the structure itself. This strategy has so far shown reasonable success. The Finance Ministry introduced for the budget year 1968 self-assessment and withholding schemes for the income and corporation taxes. Surcharges on imports were imposed in August and November 1967 and some further tariff increases were introduced in April 1968. With the 1968 budget, the coverage of the sales tax was extended to imports. Changes in the import duty valuation rate are now made on an automatic basis on the 29th of each month; the rate is fixed at the B.E. rate for that day less five points.

133. Last year's mission emphasized the need to review the tax system in order to assure that any increases in the tax burden should fall on property, consumption and income rather than on the production and export sectors. The measures taken in 1968 all are in that direction, but are of limited significance in terms of structural revisions. The increases in the import tariff have been concentrated on the luxury and non-essential commodities, but so far have not produced the required level or composition of the tariff either for the purpose of encouraging economic development or to help in maintaining balance of payments equilibrium. In last year's report the case was made for some tariff protection at least during the present transitional phase of Indonesia's industrial development.

134. This mission reviewed the tariff structure in greater detail and in conjunction with import policy. Its findings are as follows[1]:

(a) The classification of imports as used for the import policy distinguishes three lists of commodities eligible for financing under the B.E. system (Lists A, B and C), characterized as very essential, essential and less essential commodites respectively. Aid funds may be used only for categories A and B. All commodities not included in those three lists can only be imported with D.P. or free foreign exchange. Substantial shifts of items between these lists are required if commodities are to be classified according to economic priority;

(b) Together with that shift of items between lists in respect of import financing, changes are required in the classification of items by tariff brackets. For a considerable number of items, specifically in the categories of essential consumer goods and production materials for agriculture, lower tariffs should apply; an even larger number could be moved to higher brackets, notably in the categories of non-essential consumer goods and the raw materials to produce those goods;

(c) The creation of higher brackets than are in existence at present should be considered for a number of non-essential consumer goods.

135. The mission estimates that the implementation of these proposals would not only improve revenues considerably (increasing the incidence of import duties from the present 24 percent to about 30 percent) but would rationalize the tariff structure, making it an effective instrument to guide the composition of imports in line with the requirements of a well-conceived development program. This matter is discussed in more detail in Annex II .

136. In direct relation to these proposals, it must be clear that a tariff structure cannot be static. The changing structure of production, utilization of capacity, factor costs, demand and prices of imports will require continuous review and periodic adjustment. Generally, this is done by a permanent government commission operating in an advisory capacity more or less independent from the administrative departments; in Indonesia no such institution exists now, but proposals are now being discussed in the Government.

137. Elsewhere in this report, the problems related to export taxes are raised and their reduction or elimination advocated. In combination with an improved tariff structure, such elimination would not necessarily result in a loss of revenues, but would shift the tax burden away from exports to imports. With regard to A.D.O. (regional share of export taxes) receipts, the problem is somewhat more complicated as elimination or

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1/ A description of the proposed revision is given in some more detail in Annex II.

reduction would require compensation in the form of additional subsidies by the Central Government to the regions. This would replace present foreign exchange receipts of the regions by local currency; as long as the exchange rate is unstable, this will be of limited attractiveness for the regions but the distribution of tax revenues in the form of foreign exchange is something of an anomaly in any case.

138. Sales tax and excises, to the extent that these are collected on domestic products, still lend themselves to some expansion of coverage. The excises are almost entirely collected from tobacco products and the sales tax is limited in scope by a number of exemptions for domestically produced consumer goods. Additional revenue could be collected, either by expansion of the tax coverage, or by the imposition of higher rates.

139. During 1968 the current account of the Central Government, generally called the routine budget, is expected to balance, but for 1969 a small surplus has been projected based on the proposed earmarking of part of the Government's revenues from foreign oil companies for development purposes. The ability of the public sector to generate increasing surpluses during the coming years will depend not only on the Government's effectiveness and aggressiveness in collecting existing and new taxes, but also on its policies with regard to current expenditures.

140. In 1968 total tax receipts will probably amount to about 5 percent of the national product which is very low indeed. As noted above, this low level of revenues is not so much the consequence of low tax rates or an insufficient tax base, but is due largely to the ineffectiveness of the collection machinery. Efforts which are presently underway to tighten the control over collections will show up by way of larger revenues in the next few years. Full use of the economy's production potential will also add significantly to revenues, whereas the projected growth of exports and inflows of foreign aid will result in a rapid increase of imports and thus lead to a considerable growth of government revenues from import duties. The projected increase of crude oil production will also create rapidly increasing flows into the government budget.

141. It seems, therefore, reasonable to set a target for government revenues in 1973 at a level of about 11 percent of the national product; if oil revenues are excluded, this would be about 9 percent of the national product. The share of indirect taxes is presently about two-thirds of total revenues and should decline over the course of the five years to less than 60 percent. As indirect taxes are mainly levied on imports, the implications of the projected increase of those revenues in terms of import tariff rates and of additional indirect taxes on domestic production, will be discussed under the balance of payments heading.

142. Government expenditures presently consist, about 70 percent, of personnel expenditures. Material expenditures and debt servicing account for the rest. In the present projections the assumption has been made that only small increases in personnel expenditures will be allowed after

1969. As the largest part of subsidies to the regions consist of personnel expenditures, the same assumption applies there. For debt servicing payments, the assumption is made that maturities through 1971 will be rescheduled by participating countries. Material expenditures have continually declined in real terms and have reached a level which seriously hampers the operation of the government sector and the state enterprises. Increases of about 20 percent per annum have therefore been projected for material expenditures till 1973.

143. It will be clear that some of the assumptions regarding current government expenditures are very rigorous and will put the Government under considerable strain. Similarly, the capacity to generate increasing revenues may have been over-estimated and, in combination with projected expenditures, may therefore overstate the Government's capacity to generate a revenue surplus. The projections as shown in Table 10[1/] indicate that on the assumptions made here, the Government will be generating a revenue surplus close to 25 percent of current revenues; adding to this revenue surplus an estimated surplus on capital account to be generated by government savings schemes and from debt servicing payments to the Center by the regions, total public savings in 1973 could possibly amount to somewhat over 3 percent of the national product and close to 40 percent of total domestic savings. This would still leave a requirement of private savings at about 5 percent of the national product compared to the present 2½-3 percent. There can be no doubt that such an increase of private savings will require major changes in institutional arrangements for private investment, especially with regard to taxation of corporations, legislation pertaining to private companies, the interest rate structure, and industrial finance banking.

144. First estimates of the government budget for the first quarter of 1969 were provided to the mission in July 1968 (as this quarter is between the calendar year 1968 and the new fiscal year starting April 1, 1969, it is referred to as the "fifth" quarter). Estimates of possible revenues and expenditures during the fiscal year 1969/70 were made by the mission.

1/ A more detailed account for 1969/70 is given in Tables 27, 28 and 30 of the Statistical Appendix.

Table 10

Government Current and Capital Accounts, 1968-1973

(In Billions of Rupiahs, at 1968 Prices)

	Calendar 1968	(Fiscal Years) 1969/ 1970	1970/ 1971	1971/ 1972	1972/ 1973	1973/ 1974
Current Revenues						
1. Direct Taxes	49	83	105	135	150	170
(a) On Oil	25	50	65	75	80	85
(b) Non-Oil	24	33	40	60	70	85
2. Indirect Taxes	96	142	185	200	230	255
3. Other Receipts	4	2	-	-	-	-
Total	149	227	290	335	380	425
Current Expenditures						
1. Personnel	73	96	100	104	108	112
2. Material	31	41	50	60	70	80
3. Debt Service	13	27	35	45	60	60
4. Subsidies to Regions	27	45	48	48	53	53
5. Other	5	6	7	8	9	10
Total	149	215	240	265	300	315
Revenue Surplus	-	12	50	70	80	110
Net Capital Account	12	7	5	10	15	20
Total Domestic Resources For Development	12	19	55	80	95	130
Gross Foreign Official Capital Inflow	82	130	150	205	260	250
Less: Transfers to Private Sector	-	-	10	20	30	40
Public Sector Total Resources For Development	94	149	195	265	325	340
Actual Development Expenditures	57	133	185	265	325	340

Source: Appendix Tables 25 and 27.

145. The most important assumptions underlying the mission's estimates are:

(a) A revision of the import tariff as described earlier (see Annex II), leading to an increase of the average duty on imports from 23.7 percent in 1968 to 30 percent in 1969/70;

(b) Elimination of the 15 percent (central) export tax on commodities in export category A; 1/

(c) Reduction of the present 10 percent A.D.O. levy on all non-oil exports to 5 percent in 1969/70, with full compensation by the Central Government in the form of additional subsidies to the regions;

(d) Full implementation of the salary increases for government employees granted in January 1968 but so far only partly implemented;

(e) Generation of a surplus on current account of the budget amounting to an equivalent of 25 percent of revenues from foreign oil companies;

(f) Inclusion of all project aid disbursements in the development budget.

146. It has been assumed that the basic exchange rate will be Rp. 300 per U.S. dollar, and the estimates are in constant (July 1968) prices.

147. The mission's estimates of budgetary receipts in 1969/70 show an increase over the revised budget estimates for 1968 of over 50 percent. A considerable part of this increase is the result of the price increases which are taking place during 1968. When it is assumed that during the latter part of 1968 prices will show no appreciable rise over the level reached in the middle of the third quarter, the total increase of prices between the end of 1967 and 1968 works out at 57 percent and is reflected in the estimates of budgetary receipts during the current year. As the price increase measured between the average for 1968 and the projected average for 1969 will be considerably less, part of the increase in budgetary receipts in the latter year constitute a heavier tax burden on the economy in real terms.

148. Receipts from direct taxes are projected to grow somewhat faster than those from indirect taxes. The most important factor behind the rise of direct tax receipts is the growth of revenues from the foreign oil companies. Indirect tax receipts would be higher by about Rp. 8 billion if export taxes would be maintained for the next year.

1/ This has now been reduced to 5%, which, plus the 10% ADO means a total export tax on Category A items of 15%.

149. The proposal to earmark 25 percent of oil revenues for development purposes in 1969/70 implies that current expenditures in that year should be kept Rp. 12.5 billion below the level of current receipts. This is not a very substantial amount, and in terms of total receipts it represents only 5 percent of the projected current revenues of the Government. The projections in Table 10 , of course, assume that the surplus will increase in subsequent years.

150. On the expenditure side, the largest increases in the mission's budget projections are in the category of personnel expenditures, subsidies to the regions and debt repayments. The implementation of the salary proposals of early 1968 to the full extent will boost personnel expenditures by about 30 percent. In this connection, it may also be suggested again, as was done in the previous report, that the Government start as soon as possible to replace allowances in kind by cash payments of wages and salaries. So far, such a move has been made difficult because of the continuing inflation, but if in the period under review a reasonable measure of price stability can be obtained, there seems to be little reason to maintain the present system of salary payments in kind.

151. Subsidies to regions will, by the end of 1968, already reach a level of about Rp. 35 billion on an annual basis. The proposed increase to a level of Rp. 45 billion in 1969/70 is designed to more than compensate for the loss of A.D.O. revenues to the regions when their rate is reduced from the present 10 to 5 percent. This would involve for the regions a loss of revenues of about Rp. 7.5 billion; as A.D.O. receipts are available to the regions in the form of foreign exchange, it may be necessary on political grounds to over-compensate the regions for this loss in terms of rupiahs so as to counteract the objection that a replacement of foreign exchange receipts by local currency subsidies will imply a loss of revenues to the regions in real terms.

152. As was stated earlier, material expenditures have, over the past year, declined considerably and have now probably reached a level which barely can sustain the operation of the Government. The increase proposed in expenditures under this heading in 1969/70 is probably barely sufficient to bring back those expenditures in real terms to their 1967 level. As there is a lack of detail on the type of expenditures included in this category, it is not possible to analyze with any accuracy whether the proposed allocation is by any means sufficient.

153. Development Budget. Development expenditures in 1968 are estimated in the revised budget at Rp. 45 billion. This includes both Central Government projects and the contribution of the Central Government to the development fund as well as projects implemented by regional governments to the extent that those are financed from A.D.O. receipts. The total excludes disbursements of project aid which are presently estimated about Rp. 12 billion so that in fact development expenditures may reach a level of Rp. 57 billion in 1968. The financial resources for this program stem entirely from A.D.O. receipts and external resources; there is no surplus

on current account during 1968 to finance any development expenditures. External resources available to finance the development program will probably exceed the actual development expenditures by some margin. Total disbursements of non-project aid are estimated for 1968 at $230 million or about Rp. 60 billion. If overall credit ceilings are to be observed, part of this will have to be left unspent in order to offset the credits extended to BUL for the financing of its foodgrain marketing and procurement program. Elsewhere in this report, the total net requirements for this purpose are estimated at Rp. 17.5 billion. In addition, some of the counterpart funds will be held as an offset against the financing of fertilizers and pesticides imports. Roughly speaking, total external resources that could be spent for development during 1968 without inflationary consequences can be estimated at about Rp. 35 to Rp. 40 billion. The estimate in the budget is Rp. 37.7 billion.

154. On the basis of projected disbursements of non-project aid during 1969/70 of about $350 million or Rp. 105 billion, and assuming again some offsetting against prefinancing operations, external resources for that year have been put at Rp. 90 billion. Together with the disbursements of project aid, A.D.O. receipts, and the projected surplus on current account of the central budget, total resources for development are projected to amount to Rp. 133 billion, an increase of more than 125 percent over the current year.

Tentative Budget Proposals of the Government

155. The budget proposals put forward by the Indonesian Government for the next fiscal year are in general agreement with the estimates and projections of the mission as described above. The level of current receipts is budgeted at Rp. 224 billion, which compares to the mission's projection of Rp. 227 billion; there is a provision for the generation of a surplus on current account which exceeds the mission's recommendation; the development budget is projected at a lower level, but this may in the end come out to be a more realistic approach.

156. When a comparison is made in more detail, significant differences can be noted. With regard to tax receipts, the Bank mission assumed that it would be possible to increase the share of direct taxes from about 33 percent in 1968 to almost 37 percent in 1969/70, but the Indonesian budget proposals go much beyond this, raising this share to no less than 42 percent. In absolute terms, this requires almost doubling of receipts by some 35 percent.

157. The rapid increase of corporation tax receipts from foreign oil companies is estimated about the same in the two projections; the major difference is in respect of income tax and non-oil corporate tax receipts. This is probably mainly the result of the increase of the rates at which the withholding for income and corporation taxes are assessed from September 1. It should be realized, however, that such measures have a once-and-for-all effect on revenues and therefore result in higher receipts only in the year after thier introduction. The same holds true for such measures as increased duty and sales tax prepayment requirements on some categories of imports.

158. The indirect tax receipts for 1969/70 are estimated at significantly different levels in the mission's projections as compared to the Government's budget proposals. The largest difference is in import duties, where the proposed revisions of the tariff schedule, as described elsewhere in this report, bring the mission's estimate about 30 percent above the Government's budget proposals. As the mission has made its suggestions on the tariff revision for the purpose of reflecting economic priorities in the composition of imports and not primarily because of the potentials of import duties for revenue purposes, the discussion of these proposals is contained in the next paragraphs on the balance of payments.

159. The Indonesian Government proposes to earmark in the future 10 percent of its total current revenues for development financing instead of adopting the mission's recommendation to earmark a specific proportion of the oil revenues for this purpose. Although the present proposal of the Government is a laudable step in the direction of lesser dependence on foreign assistance for the financing of the development program and greater reliance on domestic savings, there is nevertheless one aspect to this which should not be overlooked. Oil revenues constitute a rapidly increasing source of dependable revenues, therefore, their earmarking creates certainty about the level of future development resources, whereas earmarking of a percentage of all revenues makes those resources for development more dependent on year-to-year decisions regarding the imposition of additional taxation.

160. Considerable differences exist with regard to the development program, both in terms of resources and expenditures. The reduction in A.D.O. receipts suggested in the mission's budget is not incorporated in the Indonesian Government's budget proposal; it is understandable that such a move requires long and difficult preparation but it should also be stressed that the elimination of disincentives to exports has a high priority. External resources inflows are estimated at very different levels, even if account is taken of the possible requirements to finance extrabudgetary expenditures like the prefinancing of rice purchases by BUL or the credits to farmers in the context of the Bimas and Bimas Baru programs. The Indonesian budget proposals in fact only reflect an inflow of foreign program-type assistance of $250 million, which is considerably below the projections discussed further in this chapter in relation to the balance of payments.

161. Expenditures of the Central Government in the two projections show major deviations: the inclusion of the costs of petroleum products used by the Armed Forces are for the first time included in the material expenditures, but at a level which is considerably beyond actuals for 1968. These budgeted outlays may at a later stage be reduced to more normal levels. The second element of difference is in the debt servicing, where the Indonesian authorities present a considerably lower estimate on the basis of assumed further rescheduling of debt to the Soviet Union and Eastern European countries. There may be some doubt about the desirability of such optimistic projections at the present stage; a higher estimate for those expenditures combined with a somewhat reduced revenue surplus may be a better alternative at the moment.

162. The development program in 1968 is still a rather small component in total national expenditures: its share in the gross domestic product at market prices is only 2 percent in that year. The increases suggested by the mission's estimates and in the Indonesian budget proposals would increase this share to about 4 percent of the GDP, which still is rather low. It is not possible to say which portion of the development expenditures is actually fixed investment, but from whatever detailed information the mission obtained, it appears that a substantial portion of total development outlays is in fact current expenditure in a strict national accounting sense.

Balance of Payments and External Aid Requirement

163. In order to link up the balance of payments properly with the Central Government's budget, separate projections are made for the first quarter of 1969 and for the new fiscal year which will run from April 1, 1969, to March 31, 1970.[1] The two main elements from which the balance of payments estimates presented here are derived, are a projection of exports and an estimate of import requirements, notably of raw materials. Estimates of required disbursements of foreign aid are derived from these two projections. The mission's overall balance of payments projections are in Table 14.

Exports

164. Total exports of goods for the fiscal year 1969/70 are projected at 10 percent above the current estimates of exports in 1968. The oil sector takes a major share in the projected export increase, accounting for about 70 percent of the total increment with a growth rate of one-third. Non-oil exports are projected to grow by 4.3 percent, which is considerably below the growth rate presently estimated for 1968. This is mainly because of the slow growth in Category A - Exports, which contain the major export products and which are projected to grow by only about 3 percent. Rubber accounts for close to 50 percent of Category A - Exports, and is expected to show hardly any increase of exports during the next year. The decline of the productivity of the rubber estates and the lesser attraction of rubber as compared to rice production in smallholder areas, combined with persistent declines in the international market, account for this pessimistic outlook. Exports of copra are assumed to decline from the very high level reached in 1968. Exports in Category B will, according to the projections presented here, grow by about 8 percent. For most commodities in this category, little change is expected with the exception of timber exports where the substantial investments presently being made will be reflected in a further rise of foreign exchange earnings. Tea exports are projected to decline somewhat from the relatively high export level in 1968.

Import Requirements

165. Little is known about Indonesia's import requirements as data on its industrial structure and import dependence by sectors are almost entirely lacking. Studies that were made in the past give some indication of requirements levels but admittedly the estimates are generally weak and unreliable. An estimate prepared in 1963 for the Development Projections Consulting

1/ See Table 39 of the Statistical Appendix for the mission's estimate of B.E. and food aid requirements for these two periods.

Service contains an estimate for 1964.[1] A second estimate was made in July 1967 on behalf of the U.N. Industrial Development Organization. This report had a wider scope, as it surveyed the entire Indonesian industrial structure and, in the process, estimates of import requirements were made.[2] Both approaches are geared to a reasonable level of capacity utilization; in general, import requirements as shown in these studies relate to the use of 60-80 percent of one-shift capacity.

166. Import data for Indonesia are incomplete, and therefore, not fully reliable. Comparisons between data from the Central Bank on letters of credits opened, payments made for imports, and customs records on actual arrivals show considerable differences both in their totals and the commodity composition. Part of this can be explained as differences in timing but this is obviously not always the reason. The import estimates presented in Table 11 are based on payments data from Bank Negara Indonesia Unit I (the Central Bank) and these usually overestimate the level of imports; generally in Indonesia, letters of credit opened and import payments made exceed customs totals for imports.

167. In general, the imports in 1968 appear to be reasonably well in line with the estimates of requirements in 1964. With a few exceptions, the levels correspond fairly well and it is also clear that 1968 shows substantial improvement over the rather distorted import composition in 1967. Notably in the textiles sector, improvements are a result of larger supplies under PL 480 combined with higher tariffs since April 1968 on cloth as compared to raw cotton and yarns. Still, the utilization of capacity in some major industrial sectors remained low. Although the main bottlenecks for better utilization are more in the field of managment and credit facilities, an improvement in production levels will necessarily entail - at least in the short run - a rising demand for imported inputs.

1/ Document A.I.D. C-2354 Report on Shortage of Imported Production Materials and Spare Parts, Survey and Research Corporation and Daniel, Mann, Johnson and Mendenhall, April 1964.

2/ UNIDO Report to the Government of Indonesia, EPTA and SIS Industrial Survey Mission Report, July 1967. The estimates of requirements for 1964 are given in value terms and are therefore more easily usable within the detailed quantity estimates of the UNIDO report. Therefore, the mission has made use mainly of the older document and the estimates contained therein.

Table 11

Imports of Major Raw Materials Items, 1964-1968

(In Millions of U.S. Dollars)

	1964 Requirements	1967 Actuals	1968 Estimate	Fiscal 1969/70 Projection
Fertilizers	22	25	50	75
Other Agricultural Inputs	n.a.	5	15	25
Raw Cotton	13	9	27	30
Yarns	45	8	40	49
Cambrics, greys	18	51	23	18
Chemicals for Textile Industry	8	6	10	13
Iron and Steel, Metal Products	24	25	30	40
Petroleum Products	17	11	12	13
Paper and Products	20	16	18	25
Chemicals	22	15	15	20
Total:	189	171	240	308

168. In 1969/70, together with a number of smaller items, the estimated import requirements of raw materials and other production goods amount to $520 million for fifteen months, or $416 million on an annual basis; this is a sizable increase as compared to the estimate for the current year of $320 million. The estimate includes a provision for imports of components and spares for capital goods of $20 million.

169. $68 million of the additional $96 million (on an annual basis) of raw materials imports are for the uses specified in Table 11. The remaining $28 million is principally for an increase in spare parts (see Table 12).

170. Fertilizer imports are estimated on the basis of current plans regarding the distribution of fertilizers in Bimas and Inmas areas during the dry season 1969, the wet season 1969-70, and also takes account of some part of the dry season requirements in 1970. The estimate represents the equivalent of 800,000 tons of urea; the value of those imports may have been somewhat overestimated as prices may decline further.

171. In the textiles sector the rehabilitation of the spinning capacity and a further increase of capacity utilization will result in a larger demand for raw cotton. The very low level of operation in the weaving sector can be increased considerably during the next year and is the main reason for a 30 percent increase of yarn and raw cotton imports. Higher production levels in the weaving sector could, to some extent, reduce imports of cambrics from present levels.

Program Aid Requirements

172. To reach a level and composition of raw materials imports as indicated above, it is not sufficient to count exclusively on additional aid to finance these imports, nor would it be appropriate to force a new pattern on imports by way of direct controls. It is the mission's firm opinion that a diversion of foreign exchange away from finished consumer goods is possible, freeing part of Indonesia's foreign exchange resources for the acceleration of raw materials supplies. Changes in the present import tariff could bring about such a shift. Import demand for consumer goods, excluding foodgrains and some other items like pharmaceuticals, will have to be constrained by tariff rate changes. With the proposed changes in the tariff structure, it seems possible to transfer about $50 million from consumer goods imports to raw materials imports, thus financing 40 percent of the required increase of the latter imports.

173. With the projected requirements for imported raw materials and consumer goods in 1969/70, the required disbursements of B.E. and food aid can be derived. The country's own foreign exchange earnings - taken here as the net current account surplus of the oil sector plus gross non-oil exports - are first used to meet obligations for which no other resources are available: debt servicing liabilities and the net imports of services

excluding freight charges on imports. This leaves (as shown in detail in Table 12) an amount of foreign exchange which may be used for imports of goods (c.i.f.).

174. The presentation in Table 12 confronts the total import requirements with the availability of foreign exchange. The assumption is made that Indonesia will - unlike 1968 - not be able to resort to short-term borrowing for financing rice imports.

175. On the import side, a reduction of consumer goods imports excluding foodgrains is proposed, which is to be brought about by a revision of the tariff schedule. As a result on a twelve months basis the overall level of goods imports will decline slightly, notwithstanding substantial increases in the imports of raw materials and capital goods. This points to the fact that the emphasis of the import program in 1969/70 is more on the improvement of the import composition than on the level of imports. As Indonesia's own foreign exchange available for the financing of imports will in fact decrease on an annual basis, the small addition to total imports must be financed with an increase of program aid. 1/ This leads to a figure of $400 million of program aid (B.E.-aid plus food-aid) to be made available to Indonesia for the fifteen months period till March 1970 for the same amount of import payments to be made during that year. The details are shown in Table 12; the projected composition of imports in a somewhat less aggregative form is given in Table 39 of the Statistical Appendix.

176. It will be observed that a disbursement level of B.E. and food aid of U.S.$320 million for a twelve-month period is only 7 percent above the level of aid disbursements (in terms of letters of credit opened) in 1968. The proposed composition of this request for non-food PL 480 commodities, notably raw cotton and yarns. The level of general B.E.-aid will, according to these projections, be about the same as in 1968.

177. In terms of actual arrivals, the substantial amount of letters of credit being opened against B.E.-aid in the last part of 1968 - mainly as a consequence of late commitments of aid for 1968 - could increase arrivals during the first quarter to $90 million and leave a pipeline at the beginning of the fiscal year 1969/70 of $60 million. With a reasonable timing of new commitments in 1969/70, it appears possible to reach a level in terms of arrivals of goods during the fiscal year of some $350 million for B.E. and food aid. Table 13 summarizes the projections for B.E. and food aid in terms of new commitments and arrivals and the overall balance of payments is shown in Table 14.

1/ The increase in exports being slightly more than offset by the increase in debt service.

Table 12

Requirements of B.E. and Food Aid, 1967-1969/70
(Payments basis)

(In Millions of US Dollars)

	1967	1968	Fifteen months 1/1/1969 to 3/31/1970	Corresponding 1/ requirements for a 12-month period
A. Sources of Foreign Exchange:				
1. Exports	583	630	846	677
(a) Oil sector (net)	57	69	121	97
(b) Non-oil	526	561	725	580
2. Miscellaneous Capital Receipts	80	58	30	24
3. Disbursements of Project Aid	69	45	93	74
4. Total Availability (1 + 2 + 3)	732	733	969	775
5. Invisibles and Monetary Movements	-131	-109	-239	-191
(a) Debt Servicing	-54	-72	-120	-96
(b) Changes in Reserves	13	49	-4	-3
(c) Errors and Omissions	-25	-2	-	-
(d) Non-freight Services	-65	-84	-115	-92
6. Available for Imports excluding B.E. and Food Aid (4 - 5)	601	624	730	584
7. B.E. and Food Aid	196	297	400	320
8. Total Imports (CIF)	797	921	1,130	904
B. Uses of Foreign Exchange for Imports:				
1. Foodgrains, Medical Supplies	150	240	200	160
2. Materials for Agriculture	30	65	125	100
3. Materials for Textiles	74	100	135	108
4. Materials for Investment	50	60	90	72
5. Provision for Spare Parts	-	-	20	16
6. Capital Goods	165	145	225	180
7. Materials for Consumer Goods	88	95	150	120
8. Consumer Goods	240	216	185	148

1/ First quarter calendar 1969 and 1969/70 data are in Statistical Appendix Table 39.

Table 13

Commitments and Disbursements (Arrivals) of B.E. and Food Aid

(In Millions of U.S. Dollars)

	1967	1968	1969 1st Qtr	1969/70
Food Aid				
Pipeline, beginning of period	8	-	30	16
Fresh Commitments	22	100	30	140
Total Available	30	100	60	156
Disbursements (Arrivals)	30	70	44	138
Pipeline, end of period	-	30	16	18
B.E.-Aid				
Pipeline, begining of period	-	42	66	70
Fresh Commitments	184	184	50	180
Total Available	184-	226	116	250
Disbursements (Arrivals)	142	160	46	212
Pipeline, end of period	42	66	70	38

Table 14

Balance of Payments Projections 1968 to 1969/70

(In Millions of U.S. Dollars)

	1968 Revised Estimates	Fifteen Months Projection	Corresponding 12 months Estimates
Export Earnings (f.o.b.)	711	968	774
1. Non-Oil Exports	(561)	(725)	(580)
2. Net Exports of Oil	(150)	(243)	(194)
Import Payments (f.o.b.)	-909	-1,166	-933
1. Non-Oil Imports	-813	-1,026	-821
2. Cost of Oil for Domestic Market	(58)	(87)	(70)
3. Oil Industry's Capital Goods Imports	(38)	(53)	(42)
Trade Balance	-198	-198	-159
Net Services (excl. oil)	-192	-230	-184
Current Account (deficit-)	-390	-428	-343
Gross Capital Inflow	414	552	442
1. Official	(342)	(494)	(395)
2. Other (net)1/	(72)	(58)	(47)
Debt Service	-73	-120	-96
Net Capital Inflow	341	432	346
Changes in Reserves (increase-)	49	-4	-3
Financing of Current Account	390	428	343

1/ Including foreign oil companies' investment.

Source: Mission's estimates.

Project Aid to March 31, 1970

178. The most important feature of the aid program in FY 1969/70 should be an increase in commitments of project aid necessary to sustain even a modest increase in the level of disbursements. If Indonesia is going to mount a successful longer-range reconstruction and development program, it will be necessary, over the next few years, to build up a pipeline of project commitments comparable to that in Pakistan. For such a typical project program, the ratio between the (first of year) pipeline and annual disbursements should be about 2.5:1. For Indonesia a somewhat lower ratio may be satisfactory for some time because of the higher proportion of short gestation undertakings characteristic of rehabilitation as contrasted with the launching of new investments undertakings. Last year's mission recommended a group of projects and miscellaneous investment undertakings with a total cost of about $186 million and expected to result in disbursements of around $80 million during the first year after the commitments were made. However, this program included some projects (Pusri fertilizer) for which only studies and/or engineering needed commitments in 1968.

179. While all but a small number of items on this list have either been accepted by or are under negotiation with the donor countries, commitments made or in prospect at this time are about $80 million. Even under optimistic assumptions, this is not likely to produce a level of disbursements through March 31, 1969, of more than about $30 million, resulting in a project aid pipeline from 1968 commitments as of that date of about $50 million. This, of course, is additional to the undisbursed pipeline of pre-1967 project aid which may be about $16 million.

180. As last year, the mission's approach to assisting the Indonesian Government in preparing its project aid request for 1969/70 was to see what projects could be presented as reasonably ready for commitment up to March 31, 1970. We arrived at a tentative list of projects with a foreign exchange costs amounting to some $275 million (see Annex III) from which commitments are requested of $200 million. The latter figure includes an amount of capital investment supplies (discussed below) of some $50 million. This plus the $400 million of program aid might appear at first as a substantial increase in the level of foreign assistance to Indonesia (from about $355 million in 1968 to $600 million). However, a substantial part of this increase will go into the project aid pipeline and the total is requested for a fifteen-months period instead of the usual year-basis.

181. The breakdown by sectors of the foreign exchange component of the projects considered by the mission as suitable for commitment sometime before March 31, 1970, is shown in the following table. It is contemplated that $200 million will be selected from this list by Indonesia and the donor countries and agencies. The project-by-project breakdown of the 1969/70 projects is in Annex III and discussed in detail in Volume II of this report.

Table 15

Sectoral Summary of 1969/70 Project Aid

(In Thousands of U.S. Dollars)

	Projects	Capital Supplies	Total
Agriculture	51,750	1,550	53,300
Industry	72,000	2,650	74,650
Power	52,730	27,350	80,080
Transportation	32,200	20,000	52,200
Communications	10,057	-	10,057
Water Supply	6,100	-	6,100
Total:	224,837	51,550	276,387

Source: Annex III.

182. The state of preparation of projects varies greatly among sectors and agencies. Those in power and transportation and the largest elements in the industrial sector are generally much better prepared than in agriculture. Thus again, as in 1967, we were confronted with the choice between proposing a relatively large investment in agriculture which may not materialize as against possibly somewhat lower priority but much more readily manageable investments in other sectors. The industry allocation is based on the assumption that only $35 million of the $50 million requirement for the Pusri project will have to be committed in 1969/70. Another point on the 1969/70 project list is the fact that we have included over $25 million for the rehabilitation of export producing estates, even though no projects for this purpose are available as yet. This is justified since it is anticipated that production from these estates will decline unless adequate replanting and rehabilitation programs are implemented. Most of this financing will be for local currency expenditures.

Local Currency Financing

183. In 1969/70 and probably for several years to come, most of the rupiah financing for the rehabilitation and development program will have to be provided from external sources by local currency or program financing. As noted above, in the 1969/70 project program several items for the rehabilitation of the estate sector are proposed. The rupiah component of these projects will be high, e.g. 70 to 90 percent of the total cost. A question arises as to the best technique for financing this by external aid. Three alternatives may be considered, namely (a) to obtain a project loan or credit for the entire cost of the project; (b) seek foreign financing for only the foreign exchange cost (10 to 30 percent of the total cost of the project) and finance the rupiah costs from the counterpart fund generated from B.E. and food aid; and (c) obtain a project loan for, say, 50 percent of the cost of the project (the direct foreign exchange expenditure from such a loan would be 20 to 60 percent) and finance the rest of the rupiah cost from the development budget (financed in the main from B.E. and food aid counterpart). This, of course, is a variant of the old problem of program vs. project financing of local costs. In addition to the importance of the problem because of lack of public savings in Indonesia, an additional consideration is the fact that almost all of Indonesia's foreign aid is country, and to some extent, commodity tied (the latter by virtue of negative lists). This raises a problem of how the "free" foreign exchange generated by financing the local cost of projects can be administered to meet the tying requirement. If B.E. and/or food aid is used to generate local currency for these projects, such aid would, of course, be tied. Therefore, the simplest solution would be to follow alternative (b). The trouble with this is that it would make the "project" financing relatively small and thus the leverage of the donor to supervise the project would be limited. More important, it would magnify the commodity, as compared with the project, portion of the aid program, an effect running counter to the preference we assume donors have for project rather than commodity aid financing. All things considered, alternative (c) mentioned above may be best. Thus a project with a large local cost component would be financed through two channels. A project loan would be obtained for, say, 50 percent of the total cost of the project to cover the foreign exchange cost and part of the rupiah cost. The other 50 percent of the cost would be financed from the development budget. This approach has been followed in drawing up the 1969/70 project aid program.

Capital Supplies

184. In last year's "project" list, there were a number of items such as asphalt for roads, steel for bridges, etc., which did not conform to the normal definition of a "project". In addition, there were some requirements for comparatively small items of capital equipment required for the balancing or improvement of existing plant and facilities. It has turned out to be rather difficult to obtain some of these items under the project assistance program and suggestions have been made that they be included in commodity (B.E.) aid. This would have the disadvantage of enhancing the

commodity aid program. To meet this problem for 1969/70, we are proposing to have a third category of aid, namely, materials and equipment for investment purposes, which is identifiable as to end use but which is not suitable for project financing. Power distribution materials and equipment might also be included in this category. We have estimated the amount required for this third category at about $50 million.

Project Aid for the Private Sector

185. Under present institutional and other arrangements, all project assistance going to Indonesia is channelled to the public sector agencies and enterprises. There are no medium- or long-term credit facilities (either for rupiahs or foreign exchange) available to the private sector. Even the Government Development Bank, BAPINDO, cannot make long-term loans because of the inflationary situation. It is making some short-term loans to government enterprises from a Rp. 7 billion Special Fund provided in the 1968 development budget. It has also made a small amount of loans to the private sector from deposits. We are proposing to include in the 1969/70 program $20 million, which would be loaned through BAPINDO or other financial institutions. As discussed in Volume 2, chapter 2, considerable technical assistance would be needed to make such an operation successful.

Conclusions on Foreign Aid Requirements

186. It is, of course, difficult to look ahead as far as we have attempted to in this report to predict Indonesia's foreign aid requirements up to March 31, 1970. There are many unknown factors in the situation. At the same time, any shorter time span would not provide the Government with an adequate basis for its budget and development planning. We feel that our estimates of a total of $600 million of new foreign aid commitments ($400 million B.E. and food, and $200 million for projects and capital supplies) have generally been based on rather optimistic assumptions regarding the economic performance of the economy. They have also been based on the assumption that Indonesia will continue, in 1969 and 1970, to receive the same treatment in respect of her foreign debts as she received in 1967 and 1968. In brief, we consider this level of aid as necessary if Indonesia is to complete her stabilization program and make a start towards rehabilitation and development during this period.

CHAPTER 7

THE FIVE-YEAR RECONSTRUCTION PROGRAM

187. The problems that have confronted the Indonesian Government and its economic planners since the present administration assumed power in mid-1966 have emerged mainly from the environment of financial instability and general economic disarray that it inherited. Thus the policy measures adopted and the investment and reconstruction programs undertaken have been directed mostly at short-range objectives rather than more distant time horizons and growth objectives. This is not to say that many of the policies and programs that have been adopted will not affect both the structure and the modus operandi of the Indonesian economy for several years to come. For example, the emphasis on the elimination of subsidies, budgetary constraints, qualitative credit controls, and moves in the direction of improving the balance of payments position by adjusting the effective exchange rates, are likely to continue regardless of the consequences of longer-range economic planning.

188. Despite the priority of short-range policies and programs, those responsible for Indonesia's economic affairs have felt some sense of urgency about producing a five-year plan, albeit in very general terms and with a high degree of flexibility to accommodate annual programming. Thus, the National Planning Council (Bappenas) has produced a paper entitled "Basic Patterns of National General Program and the Five-Year Development Program". Perhaps the very general principles set forth in this document have performed the desirable political function of reassuring the public that a period of development and growth may indeed be possible, if the present austerity achieves its purpose of stabilizing, and to some extent rationalizing, the economic system of the country.

189. The Basic Patterns document does not alter the priorities established by previous policy statements. Agriculture, particularly food production, diversification of foreign exchange earnings, encouragement of industries to produce equipment and inputs for the agricultural sector and to process agricultural products, the strengthening of infrastructure, particularly transport and communications, the absorption of excess manpower and the encouragement of regional development is again the stated order of priority. The document does not quantify targets either of investment or growth at any level of aggregation though some very tentative projections are now being prepared of possible capital requirements.

190. In view of the very early stage of the planning process and the fact that this mission was concerned chiefly with 1969/70 projections and aid requirements, a detailed criticism of the work thus far done on the Five-Year Plan would not be useful or constructive. However, a few general comments may be made:

(a) While the overall objectives of the program have been given the priority classification as indicated above, this has not been reflected in the sector divisions of the document. All the different steps (which, for the most part are unexceptionable) for increasing agricultural and industrial production appear to be given about the same weight, whereas it is extremely doubtful if they all can be carried out simultaneously, given both the financial and human constraints that are present. As the Plan is made, it would be useful if the programs and measures to be taken were bunched into packages with complementary components (such as agricultural credit cum supplies of inputs) and if each package were given priority both in respect of time and their claims on financial resources, foreign and domestic.

(b) In the effort to be comprehensive and to consider all possible objectives, contradictory purposes are sometimes cited. For example, the tax system is to be made both more progressive and at the same time is not to discourage increased savings and investment. Another example is, while espousing the banning of imports for protective purposes, the planners warn that price increases and tendencies towards monopoly should be avoided. In another field, it is assumed that no conflict exists between regional autonomy on financial matters and development objectives, including achieving the maximum return on investment. Experience does not support this conclusion. The failure to face up to and select policy alternatives detracts from the value of the paper.

(c) A third general shortcoming is that the planners have not taken account of some of the important policy matters which are still unresolved but which will have an important bearing on the longer-range reconstruction and development effort in Indonesia. While one part of the paper indicates that the Government is to concentrate its development efforts on infrastructure, security, social welfare, education and public health, elsewhere we are told that government enterprises are to be improved with no indications of disinvestment or even consolidation. No recognition is given to the fact that the Government and local authorities acquired the present large array of public sector enterprises as a result of sweeping nationalization measures and not in response to any logical or even conscious policies in respect of the proper spheres of the public and private sectors. As we indicate elsewhere in this report, there is a need for a clear definition of the role that the Government intends to play, particularly in the industrial and estate sectors. This document seems to leave it open to the Government to enter into industry for a variety of reasons ranging from increasing employment, supplying inputs for agriculture, to

the upgrading and diversification of exports. Lack of public policy on this point, together with a number of obsolete legal impediments to the establishment and financing of private enterprise, makes the recently enacted Domestic Investment Law largely a dead letter. Only the recently established or returned foreign-owned enterprises are showing much vitality.

191. While it is well to set forth broad objectives (providing they are not mutually contradictory), they should not be mistaken for concrete policies. There are a large number of subjects on which such policies will have to be developed early in the preparation of any development plan. Some examples may be cited:

(1) There has been general reluctance to permit the payment of realistic interest rates on bank deposits, perhaps because of concern that it would have a cost-push effect on the cost of living. This does not seem to be a legitimate concern at present, since limitations on the supply of capital rather than its cost are inhibiting the productive activity necessary to make the supply of goods balance monetary expansion. There is every indication that the opportunity cost of capital in Indonesia is very much higher than the interest charged on the rationed credit provided by the State banking institutions. This is reflected in the interest rates prevailing in the free market. Some recent changes in the interest rate structure indicate that the Government is somewhat less reluctant now to raise interest rates to levels necessary to attract savings.

(2) While the document speaks of the general objective of increasing public savings, it does not propose any formula for accomplishing this, such as allocating a portion of certain revenues (e.g., oil) to the development program. While such a measure might be criticized on theoretical grounds, it has worked rather well in other oil-producing countries and should certainly be considered by Indonesia. The proposal to allocate a portion of total revenues to development, as in the budget for 1969/70, may be mentioned here, but it is essential that more specific targets be set in this respect for subsequent years.

(3) The document puts a good deal of emphasis on the use of taxation and credit policies as a means of directing investment into sectors of high priority. However, up to now, the qualitative credit control program of the Government has not been used very effectively and credit has tended to flow rather indiscriminately into uses deemed important in the short run and for political reasons. The only way perhaps that direct taxation can be effective in the accomplishment of investment priorities is through the tax exemptions provided under the foreign and domestic investment laws. However, the administration of the foreign investment law up to the present time has been rather indiscriminate, granting exemptions to nearly all comers regardless of priority or even need for granting such favors in order to attract investment. It remains to

be seen whether the foreign investment law can be administered in such a manner that the benefits would be an incentive to attract desired investments rather than a right accorded to all.

(4) Despite the limitations mentioned in (3) above, the Plan document assumes that the Government will make sure that the "right" items are produced or imported and that the "wrong" items are excluded. This concern over the composition of imports and production, while understandable during a period of austerity, may not be justified if it involves measures such as the imposition of higher taxes on unessentials. The document hints at an excessive degree of "planning" in its references to "items consistent with the Plan objectives".

(5) There are many important issues not touched upon in the Plan document. Some of these are:

(a) The rate structure for both transportation and public utilities;

(b) The autonomy of government enterprises, particularly in respect of employment and other managerial decisions;

(c) Channels of distribution to be used for agricultural inputs;

(d) It is most important to decide early in the course of economic planning in Indonesia the scope that such planning should take and the instruments to be used in its implementation. This is not dealt with in the present document.

Structure of the Future Program

192. The mission has attempted in the following paragraphs to quantify the magnitudes of the task for the next five years and to indicate some of the instruments that may play a role in their fulfillment. Fiscal projections are in Table 10. The estimates should not be considered an effort to formulate accurate projections but are more in the nature of an attempt to define the range within which the principal macro-economic factors may fall to produce a rate of growth which at least exceeds the increase in population.

193. The growth of the economy in the next five years will depend on sectors where a better utilization of existing capacity can increase production without large amounts of additional investment. This is probably possible, not only in large-scale manufacturing industries but also in construction, and to a lesser extent in the mining sector. Long gestation periods for capital investments in the agricultural sector make unlikely

any substantial increase of production in that sector as a consequence of structural improvements. Growth in agricultural production over the next five years will have to come largely from the improved provision of current inputs like fertilizers, pesticides, and improved seed varieties. Growth in this sector will, therefore, be dependent to a major extent on the degree to which the Indonesian Government will be able to improve the supply and distribution of these inputs; this will not only pose considerable administrative and organizational problems, but also require substantial additional investment in supporting infrastructure.

Table 16

Net Domestic Product by Sectors of Origin

(In Billions of Rupiahs, at 1968 prices)

	1968	1969	1970	1971	1972	1973
Agriculture	1,245	1,280	1,320	1,360	1,410	1,465
Food crops	(820)	(845)	(875)	(905)	(940)	(980)
Cash crops	(225)	(230)	(235)	(240)	(250)	(260)
Other	(200)	(205)	(210)	(215)	(220)	(225)
Mining	105	135	165	175	185	220
Manufacturing	315	330	345	375	400	435
Large-scale	(115)	(125)	(135)	(155)	(175)	(200)
Small-scale	(200)	(205)	(210)	(220)	(225)	(235)
Construction	62	100	125	150	180	200
Public Utilities	8	10	12	15	18	22
Transport	70	73	76	80	85	90
Other Services	855	892	917	955	992	1,018
Net Domestic Product (at factor cost)	2,660	2,820	2,960	3,110	3,270	3,450
Index (1968 = 100)	100.0	106.0	111.3	116.9	122.9	129.7
Rate of Growth (%)		+6.0	+5.0	+5.0	+5.1	+5.5

194. Even with an assumed growth rate in agriculture of about 3 - 3½ percent per annum, it will be possible to obtain overall growth rates in the economy during the next five years between 5 - 5½ percent per annum. This rather optimistic outlook is based on substantial increases of output in the mining sector where production is expected to more than double between 1968 and 1973; even more rapid growth can be projected in the construction sector, mainly in connection with a significant acceleration of investment expenditures, which could more than triple its output from presently depressed levels; in the manufacturing sector better utilization of existing capacity and implementation of the industrial investment program proposed elsewhere in this report, could at least generate a growth rate of 6 - 7 percent per annum in large scale establishments. The latter is a conservative estimate, but in the manufacturing sector much will depend on the future course of events regarding denationalization of public enterprises and transfers of such operations to the private sector, for which reason this estimate has been kept low deliberately at the present stage. In Table 16 a summary of the sectoral growth projections is given; for most years the projected growth rate is about 5 percent with some acceleration towards the end of the period. The higher growth rate in 1969 at 6 percent is mainly the result of the substantial increases projected for the mining sector and for construction activity, the latter based on the projected acceleration in public sector development expenditures.

195. It is extremely hazardous to make any estimate on future investment requirements or to project rates of savings in the coming years. What follows should therefore be considered only a rough order of magnitude without any claim to accuracy. The normal procedure of using sectoral capital/output ratios and estimated gestation periods between investment expenditures and consequent output increases are only appropriate in very few sectors and even there only to a limited extent. It is known that output in a number of sectors could be substantially increased with relatively small amounts of additional investment expenditures. A number of rehabilitation projects proposed or under negotiation at present bear testimony to this, whereas in a number of instances this report points to such opportunities in a number of manufacturing establishments. In the agricultural sector increases in output will be largely determined by increases of current inputs, not the normal concept of the function of a capital/output ratio. This does not mean, of course, that no investments in agriculture are required but only that such investments during the next five years will most probably show their effects on output in years beyond the five-year period.

196. The approach adopted here is therefore as follows. It is assumed that by 1973 the rehabilitation program will have been completed in most sectors of the economy and existing production capacity will be utilized by that year to a reasonable and acceptable extent. Additional production after 1973 will require investment in additional capacity; a normal capital/output ratio approach can therefore be used to determine the investment level in 1973 required to generate growth in subsequent years at a sustained rate of 5 - 6 percent per annum.

Table 17

Investment, Savings and External Resources, 1968-1973
(In Billions of Rupiahs at 1968 Prices)

	1968	1969	1970	1971	1972	1973
Net Domestic Product	2,660	2,820	2,960	3,110	3,270	3,450
Depreciation 1/	160	170	180	190	200	210
Indirect Taxes (net)	100	144	185	200	230	255
Gross Domestic Product at Market Prices	2,920	3,134	3,325	3,500	3,700	3,915
Gross Fixed Investment	190	245	350	450	550	600
Gross Domestic Savings	85	140	190	235	285	340
External Resources 2/ (net)	105	130	160	215	265	260
Debt Servicing 3/	20	25	35	45	60	60
External Resources (gross)	125	155	195	260	325	320
Of which:						
(a) Private (net) 4/	35	25	35	45	55	60
(b) Official	90	130	160	215	270	260
Official Capital (gross) (in Millions of Dollars)	295	430	535	715	900	865
Offcial Capital (net) (in Millions of Dollars)	220	350	415	570	700	665

1/ Estimated as 6 percent of NDP.
2/ Arrivals bases.
3/ With rescheduling of maturities through 1971.
4/ Including changes in reserves.

197. In 1967 domestic savings in Indonesia amounted probably to 3 - 4 percent and gross fixed investment to around 6 percent of the national prod product. As projected investment requirements bring the investment level in 1973 to about 15 percent of the national income, it is clear that even the boldest assumptions about domestic savings could not possibly provide adequate domestic financing for this investment level. If Indonesia were to finance its entire investment program in 1973 from domestic resources, its marginal rate of savings would have to be over 50 percent of the additional income generated during the period. This, of course, is clearly not feasible; even the most optimistic plans of other Asian countries with a significantly better institutional framework for generating savings than Indonesia have

never planned for marginal rates of savings beyond 30 percent; in actual fact it is doubtful whether any of the developing countries have ever achieved marginal rates of savings for a sustained period of time beyond the 20 - 25 percent range. The assumption of a 25 percent marginal rate of savings as is adopted here can therefore be considered heroic and is based on quite favorable assumptions with regard to savings incentives for the private sector, in respect of current and capital revenue in the public sector and the ability of the Government to hold down current expenditures. Even so, with a marginal rate of savings of 25 percent, the share of domestic savings in the financing of gross investment will only increase slightly from 50 percent in 1968 to 55 percent in 1973, therefore leaving a rapidly increasing amount of external resource requirements in absolute terms. A summary of these projections is given in Table 17.

198. Present policies regarding foreign private investment promise an increasing inflow of private capital into Indonesia. In 1968 the total capital inflow from non-official sources will be about $60 million and it is assumed that by 1973 this will increase to about $200 million. A very substantial portion of this inflow will relate to investments in the mining sector; also some allowance is made here for a gradual reduction of presently smuggled exports. 1/ As in our export projections present smuggling is not taken into account, it seems appropriate to make this allowance here.

199. After taking account of private capital inflows, the remaining external resource requirements still show a very substantial increase over the five years, from about $220 million in 1968 to $650-700 million in 1973. In order to find gross requirements of foreign capital from official sources, future debt servicing payments must be added. The assumption is made that countries participating in the rescheduling of Indonesian debt will agree to rescheduling of all maturities on pre-1967 debt up to and including 1971. This will still leave debt service payments of $200 million towards the end of the five years bringing the gross inflow requirements of official capital to around $850-900 million. After rescheduling through 1971 the required inflow of official capital on a gross basis for the five years together will amount to some $3.4 billion or an average of $690 million per annum. This is almost twice the level of those inflows estimated and projected for 1968 and 1969 together.

200. It should be realized that this estimate of foreign aid requirements is so far only based on a calculation of investment requirements and the assumed savings potential of the Indonesian economy. Nothing has been said so far about the balance of payments and the future level of Indonesian import requirements.

1/ Nowhere else has any allowance been made for the effects of reduced smuggling; the policies regarding exports and foreign exchange management as proposed in earlier parts of this report are inter alia designed to increase the relative attractiveness of legal exports and there should therefore be some additional foreign exchange inflow included somewhere in the balance of payments projections.

201. The savings target described above must partly be met by a growing surplus of current government revenues over current government expenditures.

202. The estimated required capital inflows in the preceding paragraphs together with a projection of export earnings give a set of estimates of future availabilities of foreign exchange for financing imports. These projections are summarized in Table 18. As can be seen from those projections, there would be a very significant increase in the total available foreign exchange, rising by some 80 percent during the five-year period.

203. Import requirements related to the rehabilitation and development program will claim as increasing portion of foreign exchange available for non-oil imports. In Table 19 a tentative composition of non-oil imports is shown. In 1968 imports of investment goods amount to roughly 25 percent of total fixed investment. This is a rather low percentage as compared to other developing countries and probably is the result of a relatively large share of non-monetized investment in the total of expenditures of fixed assets. The acceleration of development expenditures during the coming years will have the effect of increasing the share of monetized investment with a high import component. Therefore, the projections in Table 19 with regard to imports of investment goods and of raw materials for investment use are both based on the assumption that they will increase in proportion to total fixed investment. By 1973 investment goods imports are projected at one-third of total expenditures on fixed assets.

204. Substantial increases have also been projected for imports on behalf of the agricultural sector. It will take several years before Indonesia will be able to expand its production of fertilizers and agricultural equipment but in the meantime, the expansion of Bimas and Inmas programs must continue and will therefore result in substantial increases of import requirements. The projection for 1973 is equivalent to imports of about 2,000,000 tons of urea and even more than that if the present decline of fertilizer prices will continue. In direct relation to these estimates of imported agricultural inputs, the projections for foodgrain imports show a decline of such requirements from 1971 onwards.

205. When import requirements of foodgrains, agricultural raw materials and for investment purposes are added together and compared to the total availability of foreign exchange for non-oil imports, an impression is obtained of the required changes in the structure of imports over the next five years. The total of development program related imports as defined above must rise from its level of 55 percent of total imports in 1968 to 75 percent by 1973. In actual fact, this means that imports of finished consumer goods and raw materials for the production of such goods will almost stay throughout the five-year period at their 1968 level. The rehabilitation and development program will, beyond doubt, create larger requirements of imported raw materials for consumer goods production and by implication there must therefore be a significant decline in imports of finished consumer goods.

Table 18

Balance of Payments Projections, 1968-1973
(In Millions of Dollars, at 1968 Prices)

	1968	1969	1970	1971	1972	1973
Export Earnings	710	775	855	880	905	970
Gross Capital Inflow						
1. Official	295	430	535	715	900	865
2. Private (net)1/	120	85	115	150	185	200
Debt Service	-75	-85	-115	-145	-195	-200
Total Financing	1,50	1,205	1,390	1,600	1,795	1,835
Foreign Exchange Payments						
(a) Related to oil	95	105	115	125	135	150
(b) Net (non-oil) services	190	200	220	240	260	280
(c) Non-oil imports f.o.b.	765	900	1,055	1,235	1,400	1,405
Total Payments	1,050	1,205	1,390	1,600	1,795	1,835

1/ Includes changew in reserves.

Table 19

Composition of Non-oil Imports, c.i.f., 1968-1973
(In Millions of Dollars, at 1968 Prices)

	1968	1969	1970	1971	1972	1973
Investment Goods	145	210	315	435	570	660
Raw Materials:						
(a) For investment goods	60	95	135	180	240	275
(b) For agriculture	65	100	130	160	180	180
Foodgrains						
Other imports	380	405	410	435	445	355
Total imports	850	1,010	1,170	1,370	1,565	1,570

200. The estimates of import requirements given above, however crude these may be, nevertheless demonstrate the tightness of Indonesia's future foreign exchange position once the rehabilitation and development program gets under way. It should also be realized that these projections assume very high availabilities of foreign assistance; if for any reason aid is not forthcoming at those projected levels, the required changes in the composition of imports may have to be more substantial or to be brought about at an earlier time. This again points to the urgency of revisions in the import tariff schedule.

ANNEX I

MISSION'S ESTIMATES OF NATIONAL INCOME AND EXPENDITURES

1. Estimates of net domestic product at constant prices - prepared by the Indonesian Central Bureau of Statistics (CBS) - extend up to and including 1966. The preparation of the mission's national accounts involve both a revision of previous CBS estimates of value added in construction and ownership of dwellings as well as a provisional estimate of the 1967 net domestic product.

2. Total net domestic product at constant 1960 prices is derived by aggregating net value added in all economic activities for which estimates could be made. Most of the estimates for 1967 are obtained by extrapolation from the 1966 net value added on the basis of output indices. The mission was provided with most of the production estimates by the National Planning Agency (BAPPENAS) and developed its own estimates for construction, transportation and communications, trade and ownership of dwellings.

3. Data on production are scanty, both for past and present years. The 1967 estimates of production growth in the various sectors are therefore necessarily based on incomplete information, covering only some of the products. From an inspection of the weights in the total production of agriculture, mining and quarrying, manufacturing, transportation and communications and electricity and gas in 1960, those products included in our estimates comprise about 60 to 95 percent of the total value added in those sectors.

4. The 1967 growth of output of the above mentioned sectors is estimated by using these weights for obtaining production indices for 1966 and 1967. Since the estimated growth between 1960 and 1966 from these sample indices are quite close to the sectoral growth estimates of the official national accounts, it is reasonable to use the growth estimates for 1967 in conjunction with the official estimates of value added in 1966.

5. The mission made a very tentative estimate of net value added in construction. Based on ratios observed in other developing countries, the value added in construction is estimated as 70 percent of the gross fixed capital formation in construction.

6. Net value added in trade (for both wholesale and retail trade) is estimated as a function of the marketed surplus of domestic commodity production plus commodity imports and exports.

7. Net value added in banking and services is estimated by methods employed by the CBS and described in Volume VI of IBRD Report on Indonesia, February 12, 1968.

8. Value added from ownership of dwellings is estimated from the total value of housing in 1960 which was obtained as a product of the estimated number of rural and urban dwelling units and the average value per

unit. The annual value of rentals was then taken as 10 percent of the total value of housing. The constant price estimates for subsequent years are extrapolations based on population growth.

9. The contribution of public administration and defence to the net domestic product is estimated from the realized Central Government's personnel expenditures in 1967 and the estimated routine expenditures of Regional Governments deflated by the 1960 cost of living index.

10. Capital Formation: The constant price estimates of gross fixed capital formation have been revised and updated by the Indonesian Central Bureau of Statistics (CBS), up to and including 1966 on lines suggested by the last IBRD Mission. Updating and revision of current price estimates are lagging behind.

11. For 1967 the mission has prepared a constant price estimate of gross fixed capital formation separately for construction and machinery, and revised the CBS estimates for 1965 and 1966.

12. Gross Fixed Capital Formation in Construction: The delivered value of imported construction materials is estimated from the landed value of imported building materials (including a 45 percent markup on the c.i.f. value for costs of duties, transport and delivery) and a quantum index, prepared by the CBS from physical quantities and weights of imported commodities. Since no data are available to construct a quantum index of domestically produced construction materials after 1963, the CBS derived this index for the later years by extrapolations based on the quantum index of imported raw materials. Although the mission is aware of the shortcomings of this estimate it was not possible, in view of the lack of available data, to produce an alternative estimate. The index of imported raw materials for construction was prepared independently by the mission for the years 1963 to 1967 to estimate the quantity of domestically produced construction materials. Based on this, the CBS estimates for 1965 and 1966 were revised. The value of bamboo used for construction was added to the delivered value of imported and domestically produced construction material. Since no data are available on the value of bamboo used for construction in 1967, this was derived by extrapolation of the 1960 value based upon a quantum index of forestry production.

13. To take account of locally produced items, such as sand, stone etc. an additional 24 percent is added to the delivered value of all construction materials. Based on a survey of the Bandung Housing Center, CBS made an upward revision of the percentage markup for salaries, wages, contractor profits and other expenses from 49 percent to 70 percent in 1968. This markup is added to the total value of all building materials thus estimated. The constant price estimate of total fixed capital formation in construction and works is obtained by adding the above total to the value estimate of simple rural housing construction.

14. The CBS estimates of investment in simple rural housing construction has been compiled for 1963 on the basis of National Sample Survey data on the quantity of bamboo cut for use of housing construction and the

imputed value of the farmers' own labor. The estimates for all other years were obtained by extrapolation from the 1963 figure, based on data on bamboo cuttings. Since no data on bamboo cuttings were available for 1967, the estimate of simple rural housing investment was obtained by extrapolations based on total forestry production index.

15. Capital Formation in Machinery and Equipment: The constant 1960 price estimates were computed from the 1960 landed value and quantum index of imported machinery and equipment compiled by the CBS. To the landed value of imported machinery and equipment, which is adjusted for tariffs and taxes, a 50 percent markup was added for transport and installation costs. The value of domestically produced machinery and equipment was estimated from the 1960 producer value, which is adjusted for a 20 percent markup for installation costs, and a quantum index of imported raw materials. Due to the lack of data CBS was not able to derive a quantum index of domestically produced machinery and equipment after 1963. The quantum index for the following years up to 1966 is therefore based on the index of imported raw materials. For the years 1963 to 1967 the mission prepared independently an index of imported raw materials for machinery and equipment. On the basis of this index, the CBS estimates for domestically produced machinery and equipment were revised. With regard to the installed value of machinery and equipment produced by small scale and household industry it was assumed by the mission that its value remained unchanged in 1967. Finally, the total value of planes purchased were obtained and included in the total of gross fixed capital formation in machinery and equipment.

ANNEX II

IMPORT AND TARIFF POLICY

Introduction

1. In Chapter 4 we observed that import duties and surcharges not only constitute the largest single source of revenues but also that a revision of the tariff schedule was necessary in order to conform import policy to national economic objectives during this transition period. It is also important that the tariff, as a revenue device, be made as effective as possible and that the tax burden be more equitably distributed and reflect the capacity to pay of those on whom the incidence falls.

2. The mission feels that during this period all sectors of the economy should not be fully exposed to the full force of international competition. This would not only put additional strains on the balance of payments and the exchange rate, but at the same time render the domestic adjustment process more difficult. Existing production capacity which, after due rehabilitation and balancing, combined with improvements in management and labor force training, may well be able to compete in the international market, either by way of exporting or through the production of import substitutes of acceptable quality at competitive prices. Creating free market conditions at a moment when the rehabilitation program has only just begun, may result in a loss of such productive capacity. The tariff schedule is an important instrument, which can provide industries the breathing spell during which their rehabilitation can proceed. It will, of course, not be an easy task to distinguish those industries which are capable of competing with imports after such rehabilitation (including the restoration of capacity operations) and those which are permanently unsuited to Indonesian conditions and would therefore indefinitely require an unreasonably high protective tariff.

3. It appears also that the import policy and the tariff schedule are both insufficiently geared to the need for a reduction of the share of consumer goods in the import bill. Even when such essential consumer goods as foodgrains and pharmaceuticals are excluded, the share of consumer items and their raw material component represent well over 40 percent of total commodity imports in 1967 and probably in 1968. The changes in the tariff schedule that were introduced recently go in the direction suggested above, but substantial additional changes could add to the beneficial effects.

Changes in the Import Tariff Enacted in April 1968

4. On April 24, 1968, a number of revisions were made in the customs tariff schedule.[1/] These changes affected 342 items in the schedule or close to 25 percent of the total number. In general, the changes were upward and

1/ This was the first attempt in recent years to revise the tariff schedule as such. Previously in 1967 and early 1968, surcharges had been applied that tended to, *inter alia*, increase the duties on less essential imports.

especially concentrated in the category of luxury consumer goods. However, a number of other categories were also affected. In conjunction with the increase of tariff rates, the number of different rates has greatly increased. Whereas the old tariff schedule (before the introduction of the import surcharges) only distinguished 8 or 10 different rates, the present situation shows tariff rates at almost any level between zero and 250 percent. Whereas the previous list was clearly too small, it may be questioned whether the present one is not too large, since small differences between rates make little sense.

5. In order to obtain a better insight concerning the effects of those changes, all 1,376 items of the customs tariff were first classified by commodity categories and tariff brackets. The following classification by commodity groups is made purely on the basis of the commodity descriptions given in the tariff schedule and comparisons with similar classification being used elsewhere. The mission is glad to note that, as a first step in developing a more rational tariff schedule, the Indonesian authorities are conforming their commodity classification to the Brussels' nomenclature.

Table 1

Changes in the Tariff Schedule on April 24, 1968

Commodity Category	No. of Items	Unweighted Average		Percent Change	Median Tariff Rate	
		Before April 24, 1968	After April 24, 1968		Before April 24, 1968	After April 24, 1968
A. Consumer Goods						
1) Luxury	421	121.2	136.0	+12.2	125	125
2) Non-essential	176	52.6	61.4	+16.7	50	50
3) Essential	43	27.3	25.6	- 6.2	5	5
B. Raw Materials						
1) For Agriculture	13	20.0	23.2	+16.0	5	5
2) For Textiles	51	30.8	28.2	- 8.4	15	15
3) For Other Consumer Goods	176	38.1	40.5	+ 6.3	30	30
4) For Investment Use	264	25.4	26.3	+ 3.5	15	15
C. Investment Goods	232	17.8	18.3	+ 2.8	5	5
Total	1,376	57.6	64.8	+12.5	50	50

6. In Table 1 the changes in the tariff schedule are analyzed on the basis of the unweighted average tariffs before and after the most recent revision of rates. This rough summary of the rate structure indicates certain features that would seem to require correction. For example, the average tariff on imported capital goods is significantly lower than the average tariff on raw materials for producing such goods in Indonesia. It is rather striking that the tariff increases on luxury goods in April was only 12 percent, whereas the tariff increase on raw materials for the agricultural sector is in the order of 16 percent.

7. The last two columns of Table 1 show the median values of tariffs in each commodity category. The fact that there is no change in any of those values as a result of these changes in the tariff schedule indicates that the rate structure was not significantly affected.

8. From a comparison of total customs receipts and the level of dutiable imports in 1968, the average level of the tariff can be calculated at about 23 percent. This compares with an unweighted averate of the tariff of 65 percent; in other words, the higher rates apply generally to relatively unimportant import items. It can be demonstrated that the average level of the custom tariffs probably went up by about 2-1/2 percent as a result of the measures of April 1968.

9. A comparison of the Indonesian and Pakistani patterns of import duties as shown below, demonstrates that - despite the April 1968 revision of the Indonesian tariff - the average rates on Indonesian imports is considerably below the Pakistan incidence. Only after the revision suggested below will the Indonesian average incidence approach that of Pakistan.

Table 2

Comparison of the Pakistan and Indonesian Incidence of Import Duties on Broad Categories (Percentage of Value of Imports)

	Pakistan	Indonesia	
	1965/66	1968	After Proposed Tariff Revision
Consumer Goods 1/	43.6	45.0	72.0
Raw Materials for Consumer Goods 2/	37.4	23.0	35.0
Raw Materials for Capital Goods 3/	32.1	15.0	15.0
Capital Goods	19.6	30.0	35.0
Total	28.9	21.7	30.0

1/ Imports of foodgrains excluded.
2/ Exclusive of fertilizers.
3/ Exclusive of coal, coke, and briquettes.
Source: IBRD Pakistan Report of April 1968.

10. General suggestions with regard to desirable changes in the tariff, as summarized in the following paragraphs, are based on a review of the tariff structure in some detail. Table 3 shows the composition of the new tariff by broad commodity categories. As the commodity groups in Table 3 are ordered roughly according to economic priorities, one would expect to find the items grouped along a diagonal from upper left to lower right, so that essential items would generally fall in the low tariff brackets and conversely the least essential ones in the highest tariff groups. As can be seen in Table 3, there is a wide spread of rates in each of the commodity categories. With the exception of the raw materials for agriculture and for the textile industry, the spread of the tariff rates for all other raw materials extends over the entire range; in a tariff schedule reflecting the requirements of economic development, one would rather expect that the tariff rates for the raw materials imports would concentrate more in the lower brackets. Luxury consumer goods, both on grounds of equity and revenue considerations, should be found mainly in the higher brackets; although there is a significant concentration around the 100 to 250 percent tariff rate, the spread is nevertheless very considerable over the entire range. A revision in the tariff schedule must in this case clearly involve a reduction in the spread and result in a more distinct concentration by commodity categories in fewer tariff brackets.

11. However, a reclassification of the tariff schedule alone would not be sufficient to establish an effective and rational tariff policy if it was not in conjunction with the revision of the import lists by items of the commodity categories. Under the import policy reform of January 27, 1968, imports are divided into three main categories: the B.E.-list, the D.P. category and a category consisting of goods of which imports are prohibited. The B.E.-list in turn is subdivided in three lists of which B.E.-A list includes all commodities labeled as very essential, the B.E.-B list covers essential, and the B.E.-C list less essential goods. Imports covered by these B.E. lists are eligible for General-B.E. financing, whereas Aid-B.E. can be used only for B.E.-A and B.E.-B imports. In addition to B.E. funds, also D.P. and free foreign exchange may be used to finance imports of the B.E. category. In contrast, the items contained in the D.P. list can only be financed by D.P. and free foreign exchange.

Table 3

Items of Customs Tariff Classified by Commodity Categories and Tariff Rates

Tariff Rate (%)	Commodity Categories								Total
	Essential Consumer Goods	Raw Materials for Agriculture	Raw Materials for Capital Goods	Raw Materials for Textiles	Capital Goods	Raw Materials for Consumer Goods	Non-Essential Consumer Goods	Luxury Consumer Goods	
0 to 10	27	8	109	23	120	35	14	3	339
11 to 20	-	1	49	6	42	35	13	8	154
21 to 40	3	1	50	6	43	38	37	14	192
41 to 60	7	2	31	9	17	35	38	27	166
61 to 100	5	1	13	6	8	21	49	95	198
101 to 150	1	-	11	1	2	8	19	106	148
151 to 250	-	-	1	-	-	4	6	150	161
Over 250	-	-	-	-	-	-	-	18	18
Total	43	13	264	51	232	176	176	421	1,376

12. Table 4 shows the classification of items by the import lists referred to above and according to the mission's classification of commodity categories. Considering the erratic spread of items in each commodity category over all import lists, and the rather heavy concentration of items in the D.P. list, it is not surprising that the measures introduced by the import policy reform of January 1968 have only affected marginally the composition of imports. The large number of items eligible only for D.P. financing is also creating a strong demand for D.P. and free foreign exchange funds, thus causing the D.P. rate to fluctuate sometimes considerably above the B.E. rate. From Table 4, it appears also that a number of items in the various commodity categories may not be appropriately classified according to their relative priorities. At present the D.P. list not only includes about 50 percent of all essential consumer goods items but also a large number of raw material items for agriculture, capital goods, and textiles. In our opinion, these items should rather be included in the B.E. list whereas non-essential consumer goods and luxury goods should be transferred from the B.E. list to the D.P. list. This would result in a better allocation of scarce B.E. funds.

Table 4

Items of the Customs Tariff Classified by Import Lists and Commodity Categories

Commodity Categories	Import Lists				Total
	BE-A	BE-B	BE-C	DP,FX	
	Very Essential Commodities	Essential Commodities	Less Essential Commodities	Non-Essential Commodities	
1. Essential Consumer Goods	6	15	2	20	43
2. Raw Materials for Agriculture	4	5	-	4	13
3. Raw Materials for Capital Goods	3	154	8	99	264
4. Raw Materials for Textiles	4	24	7	16	51
5. Capital Goods	6	181	3	42	232
6. Raw Materials for Consumer Goods	3	66	14	93	176
7. Non-Essential Consumer Goods	2	32	16	126	176
8. Luxury Consumer Goods	-	11	10	400	421
Total:	28	488	60	800	1,376

13. Although the transfer of items from one list to another is an effective instrument for short-term policy, it must be kept in mind that too frequent changes will disturb normal commercial activities. Therefore, these changes should take place at specifically announced dates and be limited to a total of two; i.e., before the beginning of each budget-year and before the second semester of the budget.

14. Table 5 shows the composition of the present import lists by tariff brackets and indicates the range of the tariff rate according to the economic priority of the commodities. Under the present classification, import items are spread in each list over a wide tariff range. This is an indication that the ranking of commodities by tariff brackets is not always reflecting appropriate emphasis as to economic priority. Otherwise, one would not find a large number of less essential and non-essential commodities in low tariff brackets. As it was mentioned earlier, it is not easy to find an economic justification for the fact that tariffs below 100 percent are imposed on the majority of non-essential goods (BE-C list). One would expect that commodities essential to the economy would be charged with a low tariff, particularly since most of these are raw materials. But notwithstanding the fact that these commodities are imperative for the better utilization of domestic production capacity, it does not seem appropriate with a view to the existing foreign exchange scarcity that out of 488 items classified as essential commodities 268 items have a tariff from only zero to 10 percent.

15. As was mentioned earlier, a revision of the tariff must go hand-in-hand with a revision of the import lists. The basic aim of the proposals outlined is the establishment of (i) an effective tariff rate structure according to the economic priorities of imports, and (ii) an appropriate classification of import lists by types of financing according to the same priorities.

16. Table 6 presents the mission's tentative proposals for revision of tariff rates by commodity classification and Table 7 presents the proposed classification of customs tariff items by import lists and commodity categories. The number of items which would be eligible for financing through the B.E. market is increased substantially, thus leaving non-essential and luxury goods for financing only through the D.P. market. Hence, a more rational allocation of B.E. funds can be achieved. Very essential and essential commodities (essential consumer goods as well as raw materials for agriculture, for capital goods, and for textiles) should be eligible for Aid-B.E. financing. All capital goods and raw materials for consumer goods should, aside from D.P. funds, be restricted to financing through the General-B.E. market. As it was already mentioned, this would not place any restriction on imports of capital goods, since most of these are imported through project aid or by foreign investors.

17. A revision, along similar lines as proposed here would provide not only for a proper classification of import commodities according to their priorities of financing, but would also assure, as seen in Table 8, that the economic priorities of these imports are reflected in their tariff rates.

Table 5

Items of the Customs Tariff Classified by Import Lists and Tariff Brackets

Tariff Rate (%)	Import Lists				Total
	BE-A Very Essential Commodities	BE-B Essential Commodities	BE-C Less Essential Commodities	DP, FX Non-Essential Commodities	
0- 10	26	268	12	33	339
11- 20	2	114	5	33	154
21- 40	-	88	16	88	192
41- 60	-	15	15	136	166
61-100	-	2	6	190	198
101-150	-	-	4	144	148
151-250	-	1	2	158	161
250	-	-	-	18	18
Total	28	488	60	800	1,376

Table 6

Proposed Reclassification of Customs Tariff Rates by Commodity Categories

Tariff Rate (%)	Commodity Categories								Total
	Essential Consumer Goods	Raw Materials for Agriculture	Raw Materials for Capital Goods	Raw Materials for Textiles	Capital Goods	Raw Materials for Consumer Goods	Non-Essential Consumer Goods	Luxury Consumer Goods	
0 to 10	21	8	109	-	-	-	-	-	138
11 to 20	22	5	77	23	120	35	-	-	282
21 to 40	-	-	78	28	42	35	-	-	183
41 to 60	-	-	-	-	70	38	27	-	135
61 to 100	-	-	-	-	-	68	75	-	143
101 to 150	-	-	-	-	-	-	74	52	126
151 to 250	-	-	-	-	-	-	-	201	201
Over 250	-	-	-	-	-	-	-	168	168
Total	43	13	264	51	232	176	176	421	1,376

Table 7

Reclassification of Custom Tariff Items by Import Lists and Commodity Categories

Commodity Categories	Import Lists				Total
	BE-A Very Essential Commodities	BE-B Essential Commodities	BE-C Less Essential Commodities	DP, FX Non-Essential Commodities	
1. Essential Consumer Goods	21	22	-	-	43
2. Raw Materials for Agriculture	13	-	-	-	13
3. Raw Materials for Capital Goods	157	107	-	-	264
4. Raw Materials for Textiles	28	23	-	-	51
5. Capital Goods	-	-	232	-	232
6. Raw Materials for Consumer Goods	-	-	176	-	176
7. Non-Essential Consumer Goods	-	-	-	176	176
8. Luxury Consumer Goods	-	-	-	421	421
Total	219	152	408	597	1,376

Table 8

Reclassification of Custom Tariff Items by Import Duties and Tariff Brackets

Tariff Rate (%)	Import Lists: BE-A Very Essential Commodities	BE-B Essential Commodities	BE-C Less Essential Commodites	DP, FX Non-Essential Commodities	Total
0- 10	126	12	-	-	138
11- 20	78	49	155	-	282
21- 40	37	69	77	-	183
41- 60	-	-	108	27	135
61-100	-	-	68	75	143
101-150	-	-	-	126	126
151-250	-	-	-	201	201
Over 250	-	-	-	168	168
Total	241	130	408	597	1,376

17. In Table 9 the changes in the tariff schedules, as a result of the proposed revision, are analyzed by commodity categories on the basis of average tariffs. Substantial reduction in the average tariff rates would occur for essential consumer goods as well as for raw materials for agriculture and textiles, whereas the average tariff on all other commodities would increase by about 25 to 55 percent. Considering, however, the low tariff structure of Indonesia at present, an upward alignment of tariff rates in such a magnitude seems necessary to establish an economically rational tariff schedule. As can be seen, the proposed revision would imply an increase of the average tariff rate by about 42 percent. This, in turn, would raise the average incidence on imports from a present level of about 23 percent to about 33 percent if the composition of imports remained the same. But the expected shift in the direction of lower tariff items (equivalent now to more essential items) will reduce the incidence to probably around 30 percent, or to an increase of about one-third over present levels. Such an increase of the tariff incidence by about 10 percent would be required if export taxes are entirely abolished and compensated by increased customs receipts.

Table 9

Mission's Proposed Changes in the Tariff Schedule

Commodity Category	No. of Items	Tariff Rate as of Apr. 24, 1968	Tariff Rate Proposed by the Mission	Percent Change
		Unweighted Average		
A. Consumer Goods				
1) Essential	43	25.6	10.1	-60.5
2) Non-Essential	176	61.4	94.3	+53.6
3) Luxury	421	136.0	210.7	+54.9
B. Raw Materials				
1) For Agriculture	13	23.2	8.9	-61.6
2) For Capital Goods	264	26.3	15.3	+41.8
3) For Textiles	51	28.2	23.2	-17.7
4) For Consumer Goods	176	40.5	50.7	+25.2
C. Investment Goods	232	18.3	28.3	+54.6
Total	1,376	64.8	91.9	+41.8

18. Although the direction and magnitude of the desirable changes in the tariff schedule are indicated clearly in the preceding paragraphs and tables, the proposed revision does not deal with each single import item in detail. This proposal is merely an outline of a rational economic approach and as such provides a guideline to establish an effective import policy for Indonesia.

19. Once a revision along those lines is put into effect, only minor adjustments of the import and tariff policy will be required from time to time; as is mentioned elsewhere in this report, a permanent government commission to deal with the import tariff and its specific adjustments could be helpful in keeping this protective structure in line with the changing economic situation.

ANNEX III

PROJECT AID PROGRAM FOR 1969/70

(In Thousands of U.S. Dollars)

	Total Foreign Exchange Element	Committed in 1968	Commitments Requested by the Indonesian Government in 1969	Commitments Recommended by the Mission for: Project Aid	Capital Supplies
A. AGRICULTURE					
Ministry of Public Works and Power					
1. Brantas River Basin	14,700	13,100	1,600	1,600	-
2. Tjimanuk River Basin	1,000	-	1,000	1,000	-
3. Rehabilitation and Extension of Irrigation Systems	13,000	5,000	8,000	8,000	-
4. Rehabilitation of River and Canal Dredgers	2,050	250	1,800	800	1,000
5. Sempor Irrigation & Dam	4,800	-	4,800	4,800	-
6. Tidal Irrigation	2,000	-	2,000	2,000	-
7. Dredging of River Mouths	3,550	-	3,550	1,000	-
8. Tadjum Irrigation	650	-	650	650	-
9. Hydraulic Institute	1,400	-	1,400	1,400	-
10. Solo River Basin	22,000	-	1,500	1,500	-
11. Volcanic Debris Control	1,000	-	1,000	1,000	-
12. Flood Control of Rivers	2,700	-	2,700	1,200	-
Ministry of Agriculture					
13. Production of Improved Seed	1,100	-	1,100	1,100	-
14. Small Irrigation Pumps	600	-	600	600	-
15. Vehicles & Boats for Extension Service	550	-	550	-	550
16. Rehabilitation of Sugar Industry	3,125	1,125	2,000	1,200	-
17. Rehabilitation of Rubber & Oil Palm Estates	18,500	-	18,500	12,000	-
18. Rehabilitation of Smallholder Rubber	5,000	-	5,000	-	-

PROJECT AID PROGRAM FOR 1969/70 (Cont'd.)

(In Thousands of U.S. Dollars)

	Total Foreign Exchange Costs	Committed in 1968	Commitments Requested by the Indonesian Government in 1969	Commitments Recommended by the Mission for: Project Aid	Capital Supplies
A. AGRICULTURE (continued)					
Ministry of Agriculture (continued)					
19. Rehabilitation of Tea Estates	10,000	-	10,000	4,000	-
20. Rehabilitation of Catchment Area of Brantas River	2,500	-	2,500	2,500	-
21. Rehabilitation of Catchment Area of Tjimanuk River	2,500	-	2,500	2,500	-
22. Rehabilitation of Catchment Area of Draturseluna River	2,500	-	2,500	2,500	-
23. Mechanization of Fishing Boats	500	-	500	500	-
24. Service and Storage Facilities Tuna Fishing	2,000	-	2,000	2,000	
Sub-Total - AGRICULTURE	117,725	19,475	77,750	51,750	1,550
				53,300	

PROJECT AID PROGRAM FOR 1969/70 (Cont'd.)

(In Thousands of U.S. Dollars)

	Total Foreign Exchange Element	Committed in 1968	Commitments Requested by the Indonesian Government in 1969	Commitments Recommended by the Mission for: Project Aid	Capital Supplies
B. POWER					
(25. Rehabilitation & Reinforcement of Electrification 1/	5,000	-	5,000	-	5,000
(26. Systems throughout Indonesia 1/	5,500	1,200	5,500	-	5,500
27. Tandjung Priok Steam Station	12,000	7,000	5,000	5,000 2/	-
28. Riam Kanan Hydro Station	12,250	5,380	3,500	3,500	-
29. Karang Kates Hydro Station	10,690	-	10,690	10,690	-
30. Semarang Steam Station	15,125	-	15,125	10,000	-
31. Batang Agam Hydro Station	5,000	-	5,000	5,000 3/	-
32. Tonsea Lama Hydro Station	325	-	325	-	-
33. Asahan River Hydro Power Development	50,000/ 70,000	-	50,000/ 70,000	-	-
34. Garung Hydro Station	7,500	-	7,500	7,500	-

1/ The two amounts shown refer to Java and the Outer Islands, respectively.
2/ The Gas Turbine Plant for Djakarta was accepted on the assumption that the third unit of the Tandjung Priok Steam Station would not be available in time to avert a serious power shortage in Djakarta. If agreement is reached in time for the steam station to be constructed soon, the gas turbine plant may not be necessary.
3/ As suggested in paragraph 68 of chapter 2, this project requires further study in view of the possible alternative source of power from coal.

PROJECT AID PROGRAM FOR 1969/70 (Cont'd.)

(In Thousands of U.S. Dollars)

	Total Foreign Exchange Element	Committed in 1968	Commitments Requested by the Indonesian Government in 1969	Commitments Recommended by the Mission for: Project Aid	Capital Supplies
B. POWER (continued)					
35. West Java Transmission Network	85,000 1/	-	3,750	-	3,750
36. East Java Transmission Network	50,000 1/	-	1,800	-	1,800
37. Central Java Transmission Network	50,000 1/	-	2,500	-	2,500
38. Rural Electrification	9,500	-	9,500	-	5,500
39. Medan Steam Station	9,000	-	9,000	7,000	-
40. Gas Turbine Plant for Djakarta	6,000	-	6,000	4,000 2/	-
41. Survey of Energy Resources	3,100	-	3,100	-	3,100
42. Rehabilitation of Gas Distribution Networks and Gas Repair Industry	200	-	200	-	200
43. Research Laboratory for Gas Industry	40	-	40	40	-
Sub-Total - POWER	336,130/ 356,130	13,580	143,530/ 163,530	52,730 / 80,080	27,350 /

1/ These amounts were not evaluated by the mission.
2/ The Gas Turbine Plant for Djakarta was accepted on the assumption that the third unit of the Tandjung Priok Steam Station would not be available in time to avert a serious power shortage in Djakarta. If agreement is reached in time for the steam station to be constructed soon, the gas turbine plant may not be necessary.

PROJECT AID PROGRAM FOR 1969/70 (Cont'd.)

(In Thousands of U.S. Dollars)

	Commitments Required in 1969/70
C. TRANSPORTATION[1/]	
44. City Buses	1,400
45. Sea Transport	
Ports	2,500
Rehabilitation of Dredging Equipment	3,000
Dredging - Foreign Firms	5,000
Dock and Repair Facilities	1,200
Rehabilitation of Fleet (PELNI)	3,500
Marine Telecommunications	2,000
Rehabilitation of Navigation Aids	2,000
Marine Safety	1,000
	20,200
46. Aviation	
Airports and Facilities	6,000
47. Railways	
Trucks and Bridges	3,700
Diesels and Spares	3,000
Telecommunications	500
Ferry Service	500
Data Processing	.300
	8,000
48. Roads	
Asphalt	3,400
Bridge Material	1,200
Road Equipment and Spare Parts	6,200
Workshop for Maintenance of Equipment	800
Foreign Contractors	5,000
	16,600
Sub-Total - TRANSPORTATION	52,200

1/ This list has not been evaluated by the mission in any detail.

PROJECT AID PROGRAM FOR 1969/70 (Cont'd.)

(In Thousands of U.S. Dollars)

	Total Foreign Exchange Element	Committed in 1968	Commitments Requested by the Indonesian Government in 1969	Commitments Recommended by the Mission for: Project Aid	Capital Supplies
D. TELECOMMUNICATIONS 1/					
49. Local Exchanges	9,514	-	9,514	4,612	-
50. Long Distance Schemes - other than HF Systems	5,050	-	5,050	3,400	-
51. Long Distance Schemes - HF Systems	2,340	-	2,340	1,640	-
52. Motor Vehicles	440	-	440	-	265
53. Training	140	-	140	140	-
Sub-Total - TELECOMMUNICATIONS	17,484	-	17,484	9,792	265
				10,057	

1/ A latter revision of this list with more detail and slightly different distribution is given in Volume 2, Chapter 4, Table 9.

PROJECT AID PROGRAM FOR 1969/70 (Cont'd.)

(In Thousands of U.S. Dollars)

	Commitments Required in 1969/70
E. WATER SUPPLY	
54. Flood Control - Djakarta	1,100
55. Water Supply for Cities	5,000
Sub-Total - WATER SUPPLY	6,100
F. INDUSTRY	
56. Urea Fertilizer - Pusri 1/	35,000
57. Cement - Gresik	5,000
58. Tin	
(a) Rehabilitation of Power Plant - Bangka	3,500
(b) Rehabilitation of Dredger	3,500
(c) New Dredger	5,000
59. Industrial Finance Institutions	20,000
60. Miscellaneous Capital Supplies	2,650
Sub-Total - INDUSTRY	74,650
Grand Total Possible 1969/70 Commitments	276,387

1/ The present estimates of the total cost of the Pusri project is $50 million. The amount that will have to be committed in the first year has not yet been determined. The mission hopes it will not exceed $35 million, but this depends upon the possibility of segmentizing the project.

STATISTICAL APPENDIX

1/ Rubber estate.

STATISTICAL APPENDIX (continued)

Table 1

Total Debt Service on Guaranteed[1/] Public Debts as of June 30, 1968
After Rescheduling 1967-68 Maturities

(In Millions of Dollars)

	Participating Countries 2/	Other Payments 3/	Eastern Countries 4/	New Loans as of 1968 II	Total
Up to 1967	-	-	-	-	-
1968	-	17.6	14.3	5.6	37.5
1969	80.4	21.3	21.1	11.3	134.1
1970	70.1	21.8	75.9	17.2	185.0
1971	79.3	6.4	97.5	17.4	200.6
1972	75.8	4.4	96.2	20.3	196.7
1973	66.0	4.0	101.0	21.2	192.2
1974	61.9	9.2	101.6	20.8	193.5
1975	67.2	9.6	97.9	31.6	206.3
1976	69.4	9.7	90.2	31.1	200.4
1977	66.2	9.6	97.1	27.5	200.4
1978	74.9	10.2	95.8	28.8	209.7
1979	24.4	5.5	88.3	27.7	145.9
1980	3.2	5.6	81.0	26.3	116.1
1981	0.9	5.6	84.8	25.7	117.0
1982 & up	0.9	136.6	164.3	229.2	531.0
Total	740.6	277.1	1,307.0	541.7	2,866.4

1/ The service on the following categories of debts to Participating and Other Western Countries are excluded from this table:

a) Non-guaranteed debt	$51.8 million
b) Debts with unknown guarantee status	$40.4 million
c) Debts subject to cancellation	$35.4 million
d) Contracted debts with zero (nil) disbursement to date	$ 3.4 million
Total	$131.0 million

2/ France, Germany, Italy, Japan, The Netherlands, United Kingdom, United States.

3/ Includes service on debt to Pakistan and compensation for nationalized properties.

4/ Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Rumania, U.S.S.R., Yugoslavia and Mainland China. Debts to these countries have all been assumed to be government guaranteed.

Source: International Monetary Fund.

Table 2

Effects of Rescheduling 1967/68 Maturities on Total Debt Service Payments
As of June 30, 1968

(In millions of dollars)

	Original Schedules 1/				1967/68 Maturities Rescheduled 1/			
	Participating Countries	Other Payments	Eastern Countries	Total	Excluding New Loans as of 1968 II	Including New Loans as of 1968 II	(5)-(4)	(6)-(4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Up to 1967	243.1	-	291.1	534.2	-	-	-534.2	-534.2
1968	94.1	17.6	114.8	226.5	31.9	37.5	-194.6	-189.0
1969	80.4	21.3	109.7	211.4	122.8	134.1	-88.6	-77.3
1970	70.1	21.8	119.2	211.1	167.8	185.0	-43.3	-26.1
1971	56.6	6.4	91.0	154.0	183.2	200.6	29.2	46.6
1972	31.3	4.4	82.1	117.8	176.4	196.7	58.6	78.9
1973	18.4	4.0	68.7	91.1	171.0	192.2	79.9	101.1
1974	15.6	9.2	63.0	87.8	172.7	193.5	84.9	105.7
1975	10.1	9.6	57.7	77.4	174.7	206.3	97.3	128.9
1976	9.6	9.7	52.8	72.1	169.3	200.4	97.2	128.3
1977	7.9	9.6	41.9	59.4	172.9	200.4	113.5	141.0
1978	6.3	10.2	5.1	21.6	180.9	209.7	159.3	188.1
1979	4.4	5.5	3.4	13.3	118.2	145.9	104.9	132.6
1980	3.2	5.6	2.2	11.0	89.8	116.1	78.8	105.1
1981	0.9	5.6	1.0	7.5	91.3	117.0	83.8	109.5
1982 and up	0.9	136.6	3.0	140.5	301.8	531.0	161.3	390.5
Total:	652.9	277.1	1,106.7	2,036.7	2,324.7	2,866.4	288.0	829.7

1/ In compiling original schedules of debt service, both the Bank's files and IMF sources were used, whereas for reschedules only the latter were utilized.

Table 3

Effects of Rescheduling Maturities Due in 1968 Through 1971
on Total Debt Service as of June 30, 1968

(In Millions of Dollars)

	Total Original Service As of June 30, 1968 1/	After Rescheduling 1967/68 2/	(2)-(1)	After Rescheduling 1969	(4)-(1)	After Rescheduling 1970	(6)-(1)	After Rescheduling 1971	(8)-(1)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Up to 1967	534.2	-	534.2	-	534.2	-	534.2	-	534.2
1968	232.1	37.5	194.6	37.5	194.6	37.5	194.6	37.5	194.6
1969	222.7	134.1	88.6	53.7	169.0	53.7	169.0	53.7	169.0
1970	228.3	185.0	43.3	185.0	43.4	114.9	113.4	114.9	113.4
1971	171.4	200.6	29.2	200.6	29.2	200.6	29.2	144.0	27.4
1972	138.1	196.7	58.6	196.7	58.6	196.7	58.6	196.7	58.6
1973	112.3	192.2	79.9	200.0	87.7	200.0	87.7	200.0	87.7
1974	108.6	193.5	84.9	205.3	96.7	212.2	103.6	212.2	103.6
1975	109.0	206.3	97.3	217.8	108.7	227.9	118.9	233.4	124.4
1976	103.2	200.4	97.2	211.5	108.3	221.5	118.3	229.8	126.6
1977	86.9	200.4	113.5	215.4	128.5	225.1	138.2	233.3	146.6
1978	50.4	209.7	159.3	224.3	173.9	237.3	186.9	245.2	194.8
1979	41.0	145.9	104.9	160.1	119.1	172.7	131.7	183.1	142.1
1980	37.3	116.1	78.8	133.9	96.6	146.3	109.0	156.6	119.3
1981	33.2	117.0	83.8	117.0	83.8	132.6	99.4	142.6	109.4
1982 and up	369.7	531.0	161.3	531.0	161.3	531.0	161.3	543.4	173.7
Total:	2,578.4	2,866.4	288.0	2,889.7	311.3	2,910.0	331.6	2,926.4	348.0

1/ See Tables 1 and 2.
2/ See Table 2.

Table 4

Estimate of Benefits Due to Rescheduling

(In millions of dollars)

	Present Value at 10% Discount Rate of				
	Original Schedule	Debt Service With 1967-68 Rescheduling	Debt Service With Rescheduling Thru 1971	Benefits of 1967-68 Rescheduling (1)-(2)	Benefits of 1971 Rescheduling (1)-(3)
	(1)	(2)	(3)	(4)	(5)
1967-68	745.1	34.1	34.1	+711.0	+711.0
1969-73	621.6	617.3	464.1	+4.3	+157.5
1974-78	201.4	431.4	491.1	-230.0	-289.7
1979-83	85.6	159.6	191.0	-74.0	-105.4
1984 and after	24.8	57.5	58.9	-32.7	-34.1
Total:	1,678.5	1,299.9	1,239.2	378.6	439.3
Net Benefits as % of Original Cost				22.6	26.2

Source: Mission's estimates.

Table 5

Debt Service Ratios

	Foreign Exchange Earnings 1/		Service Payment on			Total	Total Service	Debt Service Ratios			
	Low Variant	High Variant	Existing Debt as of June 30, 1968 2/	Gross Capital Inflow 3/		Service Payments (3)+(4)	Payments After Rescheduling Through 1971	(5) as a % of (1)	(5) as a % of (1)	(6) as a % of (1)	(6) as a % of (2)
	(In $ million)		(In $ million)					(In Percent)			
	(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)	(10)
1967	650	650	-	-	(245) 4/	-	-	-	-	-	-
1968	711	711	37.5	6.5	(275)	44.0	44.0	6.2	6.2	6.2	6.2
1969	763	776	134.1	16.0	(315)	150.1	69.7	19.7	19.7	9.1	9.0
1970	829	853	185.0	28.1	(400)	213.1	143.0	25.7	25.0	17.2	16.8
1971	839	881	200.6	41.0	(450)	241.6	185.0	28.8	27.4	22.0	21.0
1972	843	906	196.7	56.7	(550)	253.4	253.4	30.1	28.0	30.1	28.0
1973	885	971	192.2	74.7	(650)	267.0	274.8	30.2	27.5	31.1	28.3
1974	926	1,040	193.5	94.4	(650)	287.9	306.6	31.1	27.7	33.1	29.5
1975	970	1,111	206.3	119.6	(650)	325.9	353.0	33.6	29.3	36.4	31.8
1976	1,025	1,198	200.4	154.9	(600)	355.3	382.7	34.7	29.7	37.3	31.9
1977	1,086	1,293	200.4	194.2	(600)	394.6	427.5	36.3	30.5	39.4	33.1
1978	1,150	1,398	209.7	233.1	(550)	442.8	478.3	38.5	31.7	41.6	34.2
1979	1,219	1,514	145.9	279.4	(550)	425.3	462.5	34.9	28.1	37.9	30.5
1980	1,295	1,641	116.1	328.0	(500)	444.1	484.6	34.3	27.1	37.4	29.5
1981	1,377	1,783	117.0	374.9	(500)	491.9	517.5	35.7	27.6	37.6	29.0

1/ Export projections are in accordance with those shown in the Appendix of a paper entitled "Indonesia's Debt Profiles," prepared by the IMF for the meeting of creditor countries in October 1968. These figures have been used here for the purpose of consistency in presentation, as the export projections presented here are substantially in line with those in last year's Economic Report.

2/ After rescheduling 1967/68 maturities and including service on new debt contracted June 30, 1966-June 1968. See Table 2, column 6.

3/ Figures in brackets indicate annual gross capital inflow, serviced on DAC terms: 20 years maturity, 7 years grace and 3 percent interest.

4/ Service on this amount is assumed included in Service on Existing Debt (col. 3).

Source: Mission's estimates based on data supplied by IMF.

Table 6

Area and Population of Main Islands

(Population in Thousands)

Island	Area (in sq.miles)	1961	1962 2/	1963	1964	1965	1966	1967	1968
Kalimantan	208,286	4,120	4,220	4,325	4,433	4,545	4,661	4,782	4,907
Sumatra (including surrounding islands)	182,859	15,803	16,189	16,588	17,003	17,433	17,879	18,343	18,823
Sulawesi	72,986	7,109	7,283	7,462	7,649	7,842	8,043	8,251	8,468
Java and Madura	51,032	63,226	64,661	66,148	67,690	69,287	70,943	72,660	74,440
Other Islands 1/	220,218	7,129	7,303	7,484	7,670	7,865	8,067	8,275	8,492
Total	735,381	97,387	99,656	102,007	104,445	106,972	109,593	112,311	115,130
Rate of Increase (%)	-	-	2.32	2.35	2,39	2.41	2.45	2.48	2.50

1/ Includes Halmahera, Seram, Sumbawa, Timor, Flores, Bali, Sombok 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 1971 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 $r = 2.41 + 0.03t$.

Source: Central Bureau of Statistics.

Table 7

Population Projection According to Age and Sex

	1969 ('000)	1969 (%)	1973 ('000)	1973 (%)	Annual Rate of Growth (In Percent)
Male:					
Age 0 - 14	25,948	22.1	26,747	20.8	0.8
15 - 29	13,504	11.5	17,199	13.4	6.2
30 - 44	10,034	8.5	9.708	7.6	-0.8
45 - 59	6,103	5.2	7,087	5.5	3.8
60 - 74	2,197	1.9	2,569	2.0	4.0
75 and over	322	0.3	406	0.3	6.0
Sub-Total	58,108	49.5	63,716	49.6	2.3
Female:					
Age 0 - 14	25,737	21.9	26,231	20.4	0.5
15 - 29	13,356	11.4	16,890	13.1	6.0
30 - 44	11,642	9.9	11,591	9.0	-0.1
45 - 59	5,879	5.0	6,911	5.4	4.1
60 - 74	2,307	2.0	2,736	2.1	4.3
75 and over	369	0.3	470	0.4	6.2
Sub-Total	59,290	50.5	64,829	50.4	2.3
Total Population	117,398	100.0	128,545	100.0	2.3

Source: BAPPENAS.

Table 8

Industrial Origin of Net Domestic Product at Factor Cost - Constant 1960 Prices
Indonesia, 1958 - 1967

(In Billions of Constant 1960 Rupiahs)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
1. Agriculture	196.0	203.2	205.2	205.0	217.0	207.3	217.5	219.2	229.2	227.6
2. Mining and Quarrying	9.7	10.8	12.0	12.2	12.9	13.3	13.9	15.3	14.4	15.7
3. Construction	13.0	15.3	13.9	17.9	15.6	11.9	12.0	12.3	14.3	12.0
4. Manufacturing	51.3	48.8	48.1	52.8	51.5	50.4	50.7	53.7	53.1	56.3
5. Transportation and Communications	11.5	12.4	13.2	13.5	13.9	14.3	14.0	14.2	14.3	14.0
6. Electricity and Gas	0.8	0.9	0.9	1.0	1.1	1.3	1.4	1.4	1.4	1.5
7. Trade	57.9	56.6	59.4	68.4	63.1	68.3	73.4	77.8	77.1	80.0
8. Banking	2.8	2.9	3.3	4.1	3.3	2.6	3.4	3.2	2.2	2.2
9. Ownership of Dwellings	22.9	23.4	24.0	24.6	25.2	25.8	26.4	27.0	27.7	28.4
10. Services	21.2	21.9	22.1	22.5	23.3	23.6	24.2	24.9	25.4	25.9
11. Public Administration and Defense	25.6	20.7	16.1	17.8	8.9	11.3	12.6	14.6	24.4	21.7
12. Net Domestic Product at Factor Cost	412.7	416.9	418.2	439.8	435.8	430.1	449.5	463.6	483.5	485.3

Source: Central Bureau of Statistics and Mission's Estimates.

Table 9

Industrial Origin of Net Domestic Product at Factor Cost - Constant 1960 Prices
Indonesia 1968 - 1966

(In Percent)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
1. Agriculture		48.7	49.1	46.6	49.8	48.2	48.4	47.3	47.4	46.9
2. Mining and Quarrying		2.6	2.9	2.8	3.0	3.1	3.1	3.3	3.0	3.2
3. Construction		3.7	3.3	4.1	3.6	2.8	2.7	2.6	3.0	2.5
4. Manufacturing		11.7	11.5	12.0	11.8	11.7	11.3	11.6	11.0	11.6
5. Transport and Utilities		3.2	3.4	3.3	3.4	3.6	3.4	3.4	3.2	3.2
6. Trade		13.6	14.2	15.6	14.5	15.9	16.3	16.8	16.0	16.5
7. Banking and Other Services		11.6	11.8	11.6	11.9	12.1	12.0	11.9	11.4	11.6
8. Public Administration and Defense		4.9	3.8	4.0	2.0	2.6	2.8	3.1	5.0	4.5
9. NDP at Factor Cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
			Annual Rate of Real Growth							
1. Agriculture		3.7	1.0	0.0	5.9	-4.5	4.9	0.8	4.6	-0.7
2. Mining and Quarrying		11.3	11.1	1.7	5.7	3.1	4.5	10.1	-6.0	9.0
3. Construction		17.7	-9.2	28.8	-12.9	-23.7	0.8	2.5	16.3	-16.1
4. Manufacturing		-4.9	-1.4	9.8	-2.5	-2.1	0.6	5.9	-1.1	6.0
5. Transport and Utilities		8.1	6.0	2.8	3.4	4.0	-1.3	1.3	0.6	-1.3
6. Trade		-2.3	4.9	15.2	-7.7	8.2	7.5	6.0	-0.9	3.8
7. Banking and Other Services		2.8	2.5	3.6	1.2	0.4	3.8	2.0	0.4	2.2
8. Public Administration and Defense		-19.1	-22.3	10.6	-50.0	27.0	11.5	15.9	67.1	11.1
9. NDP at Factor Cost		1.0	0.3	5.2	-1.1	-1.3	4.5	3.1	4.3	0.4

Source: Central Bureau of Statistics and Mission's Estimates.

Table 10

Investment and Savings, 1964-1967

(In Millions of US Dollars)

	1964	1965	1966	1967	1968
A. Total Investment (Gross Fixed Capital Formation) 1/	761.0	740.0	825.0	650.0	637.0
B. Gross Domestic Savings					
1. Current Account Deficit	230.0	248.0	148.0	309.0	390.0
2. Gross Domestic Savings	531.0	492.0	677.0	341.0	247.0

1/ The dollar value of gross domestic fixed capital formation is derived from constant 1960 rupiah values by applying the 1960 exchange rate (US$ = 45 Rp.). The constant 1960 dollar values were inflated with the IFS price index of exports from developed countries.

Source: Mission's estimates.

Table 11

Money Supply 1/

(In Millions of Rupiahs)

End of the Period		Total Money Supply	Increase in Money Supply	Currency		Current Deposits	
				Amount	%	Amount	%
1963:	December	278	142	172	62	106	38
1964:	December	725	448	447	62	278	38
1965:	March	852	126	619	73	233	27
	June	1,116	264	790	71	396	29
	September	1,669	553	1,163	70	506	30
	December	2,591	922	1,904	73	687	27
	Total 1965		1,866				
1966:	March	5,771	3,180	4,061	70	1,709	30
	June	10,672	4,901	7,962	75	2,710	25
	September	15,338	4,667	11,588	76	3,750	24
	December	22,626	7,288	14,874	66	7,752	34
	Total 1966		20,036				
1967:	January	23,032	406	15,924	69	7,108	31
	February	23,646	614	16,961	72	6,685	28
	March	24,617	971	17,647	72	6,970	28
	April	27,062	2,444	18,923	70	8,139	30
	May	30,784	3,722	21,475	70	9,309	30
	June	32,990	2,206	22,660	69	10,330	31
	July	36,298	3,308	24,719	68	11,580	32
	August	38,545	2,247	26,209	68	12,336	32
	September	39,177	632	27,766	71	11,411	29
	October	42,891	3,715	28,758	67	14,133	33
	November	45,491	2,600	29,902	66	15,589	34
	December	51,719	6,228	34,585	67	17,134	33
	Total 1967		29,093				
1968:	January	57,234	5,515	37,145	65	20,089	35
	February	62,042	4,808	39,882	64	22,160	36
	March	64,082	2,040	41,873	65	22,209	35
	April	70,132	6,050	46,297	66	23,835	34
	May	79,229	9,097	51,058	64	28,171	36
	June 2/	84,818	5,589	57,240	67	27,578	33
	July 2/	89,667	4,849	60,757	68	28,910	32
	August 2/	88,720	-947	61,841	70	26,879	30
	Total 1968		37,001				

1/ Revised data; includes non-foreign exchange banks.
2/ Provisional data.
Source: Bank Negara Indonesia-Unit I.

Table 12

Causative Analysis of Money Supply, 1966-1968

(In Billions of Rupiahs)

	1966	1967 1st Half Year	1967 2nd Half Year	1968 1st Half Year
Money Supply, beginning of period	2.59	22.63	32.99	51.72
Changes caused by:				
1. General Government	12.04	8.13	5.45	13.92
2. State Enterprises	2.98	2.96	1.46)	22.71
3. Private Sector	2.55	2.30	10.15)	
4. Foreign Sector	-0.06	0.30	-1.32	3.38
5. Other	2.53	-3.33	2.99	-8.78
Total Changes	20.04	10.36	18.73	31.23
Money Supply, end of period	22.63	32.99	51.72	82.95
Changes in:				
a. Currency in Circulation	12.97	7.79	11.92	24.31
b. Demand Deposits	7.07	2.57	6.81	6.92

Source: Bank Negara Indonesia Unit I.

Table 13

Consolidated Balance Sheet of Bank Negara Indonesia Unit I

Foreign Exchange and Private Commercial Banks

(In Millions of Rupiahs)

	December 1966	March 1967	June 1967	September 1967	December 1967	March 1968	June 1968 1/
Assets							
1. Cash	1,351.4	1,482.0	2,168.0	2,339.1	3,411.6	3,248.6	3,248.6
2. Gold and Foreign Exchange	114.1	225.4	329.0	470.4	52,625.6	55,248.5	53,763.8
3. Advance to Government	17,892.5	21,979.2	25,702.5	26,323.5	40,596.1	46,000.7	71,882.2
4. Government Guarantee Account 2/	-	-	-	-	-	24,000.0	32,482.7
5. Credits	6,987.9	8,278.0	12,970.4	18,978.2	30,517.8	34,404.1	34,156.2
6. Investment	10.6	8.6	3.1	3.7	2.3	2.2	2.1
7. Miscellaneous	3,222.6	1,094.2	2,481.9	4,912.2	8,620.4	11,008.3	16,992.1
Assets = Liabilities	29,579.1	33,067.4	43,654.9	53,027.1	135,773.8	173,912.4	212,527.7
Liabilities							
8. Foreign Exchange Liabilities	79.3	75.3	72.5	62.9	53,018.2	51,812.4	50,162.7
9. Currency (Held by Public)	16,635.0	20,066.4	25,505.2	30,835.2	38,863.3	46,493.5	60,767.4
10. Private Current Deposits	7,752.0	6,970.3	10,329.7	11,411.1	18,273.6	22,209.4	23,041.3
11. Government Current Deposits	3,601.3	3,526.3	3,006.7	4,220.8	11,462.1	38,760.4	51,210.8
12. Time Deposits	339.6	550.8	1,041.6	1,440.4	2,339.7	3,327.1	3,337.1
13. Counterpart Fund	1.1	0.7	10.7	20.0	794.1	3,485.2	16,730.4
14. Miscellaneous	1,170.8	1,877.6	3,688.5	5,036.7	11,022.8	7,824.4	7,278.0

1/ Second week of June.
2/ Revolving fund for financing of rice imports, local procurement of rice, and imports of cotton for government mills.
Source: Bank Negara Indonesia Unit I.

Table 14

Balance Sheet of Bank Negara Indonesia Unit I

(In Millions of Rupiahs)

	December 1966	March 1967	June 1967	September 1967	December 1967	March 1968	June 1968 1/
Assets							
1. Gold and Foreign Exchange	(-)23.4	(-)14.6	4.8	154.7	52,597.4	85,174.5	77,540.5
2. Advances to Government	18,792.4	20,926.8	25,824.7	24,628.1	41,643.4	45,850.7	71,506.1
3. Government Guarantee Account	-	-	-	-	-	24,000.0	32,482.7
4. Loans to:							
a. Banks	1,502.3	2,404.0	3,290.8	4,399.2	5,036.2	7,204.2	11,232.1
b. Others	1,597.9	1,531.1	2,646.4	4,368.4	12,090.6	10,625.7	10,377.8
5. Investment	0.7	0.7	0.7	0.7	0.7	0.6	0.5
6. Miscellaneous	1,492.1	1,393.5	2,136.6	4,665.4	8,649.5	11,244.2	14,523.9
Assets = Liabilities	23,362.0	26,241.5	33,904.0	38,216.5	120,017.8	184,099.9	217,663.6
Liabilities							
7. Foreign Exchange Liabilities	79.3	75.3	72.5	62.9	53,018.3	81,773.7	73,974.6
8. Currency (Held by Public)	16,635.0	20,066.4	25,505.2	30,835.2	38,863.3	46,493.5	60,767.4
9. Government Current Deposits	2,870.6	2,171.9	761.2	1,458.8	8,254.5	35,827.9	46,206.5
10. Other Current Deposits							
a. Banks	871.9	2,281.2	4,138.5	3,750.7	6,045.4	3,446.5	3,177.8
b. Others	1,058.2	797.1	1,211.6	948.0	2,208.2	2,717.1	3,549.0
11. Counterpart Fund	1.1	0.7	10.7	20.0	794.1	3,485.1	16,730.4
12. Miscellaneous	1,845.9	848.9	2,204.3	1,140.9	10,834.0	10,356.1	13,257.9

1/ Second week of June.
Source: Bank Negara Indonesia Unit I.

Table 15

Liquidity Position of Foreign Exchange and Private Commercial Banks

(In Millions of Rupiahs)

		(1) Total Liquid Assets 1/	(2) Short-term Liabilities	(3) Liquidity Position 2/ (In percent)	(4) Minimum Liquidity Requirement 3/
1963:	December	57.4	100.4	57.2	30.1
1964:	December	86.2	226.4	38.1	67.9
1965:	December	480.6	796.0	60.4	238.8
1966:	June	1,059.2	3,098.1	34.2	929.4
	December	2,953.8	6,668.5	44.3	2,000.6
1967:	March	3,956.6	7,552.8	52.4	2,265.8
	June	5,084.4	11,307.7	45.0	3,392.3
	July	5,376.4	13,248.4	40.6	3,974.5
	August	5,873.5	13,085.6	44.9	3,925.7
	September	5,613.8	13,403.5	41.9	4,021.1
	October	5,481.3	14,721.3	37.2	4,416.4
	November	6,013.4	15,918.7	37.8	4,775.6
	December	7,991.2	19,305.1	41.4	5,791.5
1968:	January	7,737.3	20,617.2	37.5	6,185.2
	February	7,931.5	22,691.3	35.0	6,807.4
	March	7,374.9	22,968.6	32.1	6,890.6

1/ Cash + current deposit with Bank Negara Indonesia Unit I and cash balances with other banks.

2/ Column (1) divided by column (2) and multiplied by 100.

3/ 30 percent of column (2).

Source: Bank Negara Indonesia Unit I.

Table 16

Bank Credits Outstanding as of May 1968

(In Billions of Rupiahs)

	January 1967	December 1967	% Change	March 1968	May 1968	% Change Mar.'68 Over Dec.'67	% Change May'68 Over Dec.'67
Utilization							
Production	3.51	13.34	280.0	17.09	20.77	28.1	55.7
Export	1.01	4.66	361.4	7.19	8.24	54.3	76.8
Special Projects	0.48	0.67	39.6	0.72	0.76	7.5	13.4
Other	1.22	12.05	887.7	11.19	10.21	(-)7.1	(-)15.3
Total	6.22	30.72	393.9	36.19	39.98	17.8	30.1
Source							
Government Banks	5.01	26.04	419.8	30.83	34.07	18.4	30.8
To Government	3.62	17.27	377.1	16.78	17.28	(-)2.8	neg.
To Private Sector	1.39	8.77	530.9	14.05	16.79	60.2	91.4
Private Banks	1.21	4.68	286.8	5.36	5.91	14.5	26.3
To Private Sector	1.21	4.68	286.8	5.36	5.91	14.5	26.3
Total	6.22	30.72	393.9	36.19	39.98	17.8	30.1
Sectors							
Government	3.62	17.27	377.1	16.78	17.28	(-)2.8	neg.
Private	2.60	13.45	417.3	19.41	22.70	44.3	68.8
Total	6.22	30.72	393.9	36.19	39.98	17.8	30.1

Source: Bank Negara Indonesia Unit I.

Table 17

Composition of Credit Advances of Principal Banking Sectors

		State Commercial Banks						Private Foreign Exchange Banks				Private Commercial Banks			
		Total (In Mn. Rupiahs)	Government Sector (%)	Private Sector (%)	Production Sector (%)	Export Sector (%)	Other (%)	Total (In Mn. Rupiahs)	Production Sector (%)	Export Sector (%)	Other 0(%)	Total (In Mn. Rupiahs)	Production Sector (%)	Export Sector (%)	Other (%)
1963:	December	35.3	41.1	58.9	43.3	29.5	27.2	3.1	59.6	16.6	23.8	13.6	50.4	9.5	40.1
1964:	December	95.5	40.8	59.2	45.2	32.2	22.6	3.1	56.8	9.8	33.4	27.5	51.7	6.1	42.2
1965:	December	311.2	29.9	70.1	47.2	37.2	15.6	10.2	37.7	6.8	55.5	155.3	48.4	5.8	45.8
1966:	December	3,060.7	68.2	31.8	75.3	14.4	10.3	81.3	44.9	12.1	43.0	1,141.6	43.1	9.9	47.0
1967:	March	4,210.1	67.0	33.0	73.4	15.1	11.5	119.0	31.8	32.9	35.3	1,646.8	25.5	35.3	39.2
	June	6,170.4	55.7	44.3	63.7	21.6	14.7	192.4	17.6	33.5	48.9	2,619.1	22.9	39.9	37.2
	July	7,499.8	48.3	51.7	58.4	26.5	15.1	224.9	38.7	29.5	31.8	3,134.1	22.2	40.3	37.5
	August	7,890.1	39.0	61.0	52.0	33.0	15.0	249.3	17.9	32.2	49.9	3,573.5	20.5	37.5	42.0
	September	9,282.1	40.9	59.1	53.6	31.7	14.7	236.3	17.6	44.4	38.0	3,266.4	23.7	39.7	36.6
	October	10,682.4	40.6	59.4	53.4	30.8	15.8	267.6	20.7	29.6	49.7	3,229.7	30.8	23.2	46.0
	November	11,472.3	41.2	58.8	58.1	27.8	14.1	265.0	21.3	30.0	48.7	4,976.1	28.0	34.9	37.1
	December	13,395.8	36.3	63.7	53.9	31.4	14.7	285.0	33.2	36.3	30.5	4,267.3	34.0	24.9	41.1
1968:	January	14,064.5	36.2	63.8	52.4	32.0	15.6	276.5	25.3	25.4	49.3	4,673.4	33.3	23.2	43.5
	February 1/	11,497.9	33.0	67.0	51.1	33.7	15.2	295.5	26.7	26.2	47.1	4,809.6	29.4	23.8	46.8
	March 1/	15,777.6	25.6	74.4	49.6	34.6	15.8	295.3	22.8	33.3	43.9	4,998.1	30.8	20.1	49.1

1/ Preliminary figures.

Source: Bank Negara Indonesia Unit I.

Table 18

Cost-of-Living Index in Djakarta

(September 1966 = 100)

	Food		Housing		Clothing		Others		General Index	
	Index	Percentage Change	Index	Percentage Change	Index	Percentage Change	Index	Percentage Change	Index	Percentage Change
1966 Average	81		71		60		80		76	
January	33	42.10	32	147.00	17	61.40	23	78.50	28	54.10
March	48	30.90	31	1.30	24	12.00	52	47.30	44	22.80
June	77	37.80	80	154.50	44	18.50	62	8.60	69	34.50
September	100	10.90	100	15.50	100	16.10	100	23.20	100	14.30
December	137	0.30	124	17.70	99	8.80	155	3.30	133	3.00
1967 Average	227	180.25	254	257.75	108	80.00	210	162.50	206	171.05
January	150	9.48	161	30.89	99	0.00	166	7.10	145	9.02
February	182	21.33	203	26.09	100	1.01	202	21.69	174	20.00
March	191	4.95	216	6.40	95	(-)5.00	210	3.96	180	3.45
April	195	2.09	235	8.80	86	(-)9.47	203	(-)3.33	181	0.56
May	189	(-)3.08	240	2.13	98	13.95	208	2.46	181	0.00
June	193	2.12	284	18.33	96	(-)2.04	209	0.48	187	3.31
July	202	4.66	245	(-)13.73	105	9.38	209	0.00	191	2.14
August	218	7.92	244	(-) 0.41	113	7.62	209	0.00	201	5.24
September	250	14.68	250	2.46	119	5.31	216	3.35	222	10.45
October	272	8.80	261	4.40	121	1.68	226	4.63	238	7.21
November	339	24.63	397	52.11	122	0.83	233	3.10	287	20.59
December	338	(-)0.29	307	(-)22.67	137	12.30	233	0.00	283	(-)1.39
1968										
January	506	49.70	326	6.19	169	23.36	287	23.18	395	39.58
February	559	10.47	310	(-) 4.91	179	5.92	316	10.10	432	9.37
March	562	10.54	332	7.10	182	1.68	367	16.14	445	3.01
April	502	(-)10.68	351	5.72	204	12.09	384	4.63	419	(-)5.84
May	517	2.99	515	46.72	222	8.82	389	1.30	444	5.97

Source: Central Bureau of Statistics.

Table 19

Average Monthly Price Index of
Nine Principal Household Consumption Items in Djakarta 1967
(October 1966=100)

	1967												1968				
	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May
1. Rice	126.11	155.25	156.21	150.80	127.39	135.35	145.22	173.57	238.85	297.77	430.89	429.94	719.74	850.00	755.41	593.15	581.21
2. Salted Fish	153.65	212.75	266.35	242.82	248.63	262.59	253.76	260.51	291.29	295.41	290.63	313.73	339.76	420.86	500.71	563.57	612.04
3. Cooking Oil	162.52	240.44	227.89	189.46	201.14	212.62	207.13	213.19	238.86	247.13	234.32	252.37	350.79	379.68	387.57	402.90	417.98
4. Sugar	99.24	101.97	107.52	102.62	99.75	102.47	116.50	112.92	112.82	112.97	114.53	132.24	197.53	226.03	286.07	362.56	323.36
5. Salt	164.42	298.77	328.83	405.52	429.45	454.60	449.69	436.81	441.72	442.33	448.47	460.12	460.12	460.12	460.12	460.12	460.12
6. Kerosene	97.79	157.35	268.38	149.26	211.76	246.32	161.03	154.41	167.65	257.35	450.00	283.09	297.79	270.59	311.03	350.00	509.56
7. Soap	145.10	195.20	201.80	171.10	165.90	172.10	171.00	171.00	196.60	200.00	200.00	219.30	285.10	306.20	282.90	299.10	330.04
8. Textile-Coarse	82.87	77.07	69.90	66.67	78.80	83.63	86.60	102.15	111.35	122.13	125.60	145.25	181.45	211.92	208.35	223.82	236.92
9. Batik-Coarse	78.34	77.77	79.05	70.39	72.37	73.25	73.17	81.26	87.69	88.88	88.09	92.05	107.61	114.27	109.51	113.32	124.99
Overall Index	120.46	149.65	156.76	144.35	134.35	143.26	145.82	166.50	213.91	258.07	353.28	350.41	552.82	645.99	590.27	494.33	498.39

Source: Central Bureau of Statistics.

Table 20

Cost-of-Living Index in Some of the Principal Cities

(September 1966=100)

	Java						Sumatra		Kalimantan		Sulawesi	Other
	Djakarta	Bandung	Semarang	Jogjakarta	Surabaja	Malang	Medan	Palembang	Pontianak	Bandjarmasin	Makassar	Mataram
1963 December	1.11	1.43	1.47	1.52	1.54	1.40	1.21	1.27	1.40	1.25	1.25	1.27
1964 December	2.61	3.18	3.09	3.04	2.99	2.77	...	2.23	3.32	2.55	2.56	2.88
1965 December	18.12	20.51	17.50	19.66	17.80	16.54	16.18	15.81	...	14.17	16.03	...
1966 March	43.72	49.48	39.63	41.20	40.54	36.23	37.28	43.74	43.75	56.59	43.85	44.40
June	68.74	66.71	62.00	70.84	61.74	59.68	61.84	67.22	68.54	82.57	65.69	57.27
September	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
December	133.23	149.14	142.97	142.16	127.13	148.46	...	150.53	167.74	...	155.55	121.18
1966 Average	76.36	81.59	77.51 3/	77.83	72.44	73.83	61.47 2/	77.45	80.58	77.34 3/	70.19 2/	67.06 3/
1967 January	145.43	163.59	167.10	155.33	139.95	161.10	177.76	157.74	188.26	...	183.15	137.83
February	173.75	190.33	165.19	165.95	165.68	184.95	188.74	181.89	201.75	156.77	204.24	129.72
March	180.27	209.66	189.14	201.13	182.13	175.33	197.58	194.23	205.55	164.05	205.94	149.70
April	181.44	193.36	183.81	201.17	184.89	171.56	194.69	195.29	212.33	181.67	205.33	159.92
May	181.06	189.98	...	198.24	189.40	170.63	197.25	210.27	223.03	193.46	260.49	150.09
June	186.84	207.18	...	206.04	199.05	182.01	201.77	214.84	237.93	216.10	261.11	156.03
July	190.63	227.15	...	219.25	...	197.14	212.75	234.92	...	234.99	269.37	171.83
August	200.86	220.39	212.96	214.11	...	223.40	226.16	244.13	...	223.82	...	178.34
September	221.75	255.97	221.62	231.73	...	259.65	262.63	249.54	...	223.03	...	189.13
October	237.70	265.48	...	...	...	266.35	274.88	269.73	...	219.16	...	202.85
November	287.21	314.37	...	333.14	...	308.97	...	283.98	...	235.76	...	...
December	282.67	328.35	...	...	290.81	319.33	300.79	347.44	...	262.26	...	...
1967 Average	205.80	230.48	189.97 1/	212.61 2/	193.13 4/	218.37	221.36 3/	232.00	211.47 1/	210.10 3/	227.09 4/	162.55 2/
1968 January	395.20				427.16			444.98		316.94		
February	431.70				430.81			477.31				
March	445.17				472.34			514.85				
April	418.99							406.67				
May	443.36							443.67				
June	445.09											

1/ Average of 6 months.
2/ Average of 10 months.
3/ Average of 11 months.
4/ Average of 7 months.
Source: Central Bureau of Statistics.

Table 21

Price of Rice in Principal Cities

(In Rupiahs per Liter of Rice)

End of the Period	Djakarta	Bandung	Semarang	Surabaya	Medan	Palembang	Makassar	Menado
1965:								
March	0.44	0.33	0.29	0.22	0.27	0.33 1/	0.34 1/	0.60
December	3.37	2.80	2.90	...	2.00	2.00	...	2.00
1966:								
March	7.50	6.30	4.40	4.00	2.80	...	3.50	2.00
June	7.81	6.75	5.60	4.50	6.20	7.50	5.15	5.25
September	10.63	8.50	9.75	10.50	12.00	7.50	6.56	9.50
December	15.63	13.00	12.25	11.50	10.50	...	6.25	12.50
1967:								
March	20.00	16.50	13.75	14.00	14.00	16.00	7.50	20.00
June	18.75	16.50	14.80	11.00	22.00	17.00	9.50	17.50
September	30.00	27.00	25.00	20.00	32.00	30.00	11.25	31.50
December	47.50	57.00	43.00	37.00	33.00	61.00	...	36.50
1968:								
March	87.50	68.80	60.00	57.50	45.00	90.00	42.00	67.50
June	65.63	52.00	...	...	66.00	42.00	46.20	53.50

1/ End of June figures.

Source: Bank Negara Indonesia Unit I.

Table 22

Monthly Rations for Employee and Family in Karet V, N. Sumatra, July, 1968

Commodity	Unit of Measure	Worker	Adult Non-Worker	Child
Rice	kg	15.0	9.00	7.50
Sugar	kg	1.0	0.50	0.25
Salt	kg	0.5	0.25	0.25
Salted Fish	kg	1.5	1.00	0.50
Coconut Oil	liter	1.5	0.30	0.30
Kerosene	liter	2.4	-	-
Soap	bar	3.0	-	0.50
Legumes	kg	0.5	-	-
Tea	kg	0.5	-	-
Cloth	meter	2.0	1.00	1.00
Milk	tin	-	-	1.00

N.B. Worker's rice ration per week is cut if absent from work without permission.

Source: P.N.P. Karet V.

Table 23

Monthly Prices of Ration Items at Karet V, N. Sumatra for First Seven Months of 1968

(In Rupiahs)

Commodity	Unit of Measure	January	February	March	April	May	June	July
Rice	kg	35.00	33.75	33.40	36.60	50.53	58.00	51.00
Sugar	kg	30.00	26.00	47.50	60.00	70.00	70.00	65.00
Salt	kg	10.00	11.63	11.50	11.75	10.50	10.50	7.19
Salted Fish	kg	31.25	37.08	41.88	33.67	41.67	41.50	39.50
Coconut Oil	liter	87.50	97.50	95.00	92.50	91.75	92.00	84.66
Kerosene	liter	2.90	2.90	2.90	2.90	4.00	4.00	4.00
Soap	bar	10.19	11.38	11.75	11.75	14.25	11.00	9.54
Legumes	kg	52.50	50.63	60.00	56.25	43.75	42.50	39.11
Tea	kg	60.00	63.75	70.00	67.00	72.50	72.50	75.00
Cloth	meter	65.00	62.50	74.73	82.00	90.63	100.00	91.60
Milk	tin	45.63	43.63	46.88	48.50	46.88	65.00	57.08
Total		429.97	440.75	495.54	502.92	536.46	567.00	523.68
Percentage rise from January 1968		100	103	115	117	125	132	122

Source: P.N.P. Karet V.

Table 24

Ration Costs in January and July, 1968, for Three Types of Employees at Karet V, N. Sumatra

	Bachelor			Man and Wife			Man, Wife & 3 Children		
Commodity	Quantity	January Cost Rupiahs	July Cost Rupiahs	Quantity	January Cost Rupiahs	July Cost Rupiahs	Quantity	January Cost Rupiahs	July Cost Rupiahs
Rice	15.0 kg	525.00	765.00	24.0 kg	840.00	1,224.00	46.5 kg	1,627.50	2,371.50
Sugar	1.0 kg	30.00	65.00	1.5 kg	45.00	97.50	2.25 kg	67.50	146.25
Salt	0.5 kg	5.00	3.59	0.75 kg	7.50	5.39	1.5 kg	15.00	10.79
Salted Fish	1.5 kg	46.88	59.25	2.5 kg	78.13	98.75	4.5 kg	140.63	177.75
Coconut Oil	1.5 lt	131.25	126.99	1.8 lt	157.50	152.39	2.7 lt	236.25	228.58
Kerosene	2.4 lt	6.96	9.60	2.4 lt	6.96	9.60	2.4 lt	6.96	9.60
Soap	3.0 bars	30.57	28.62	3.0 bars	30.57	28.62	4.5 bars	45.86	42.93
Legumes	0.5 kg	26.25	19.55	0.5 kg	26.25	19.55	0.5 kg	26.25	19.55
Tea	0.5 kg	30.00	37.50	0.5 kg	30.00	37.50	0.5 kg	30.00	37.50
Cloth	2.0 m	130.00	183.20	3.0 m	195.00	274.80	6.0 m	390.00	549.60
Milk	-			-			3.0 tins	136.89	171.24
Total		961.91	1,298.30		1,416.91	1,948.10		2,722.84	3,765.29
% increase			135.0			137.0			138.0

Source: P.N.P. Karet V.

Table 25

Budgetary Receipts, 1968-1969

(In Billions of Rupiahs)

	1967	1968					1969	1969/70	
	Prov. Actuals	Original Budget	Revised Budget	1st Half Prov. Actuals	3rd Qtr. Budget	4th Qtr. Program	1st Qtr. Estimates	Mission's Estimates	Government Budget Proposals
A. Ordinary Receipts	60.2	97.2	148.8	54.2	45.4	49.2	45.2	227.0	224.0
Direct Taxes	16.8	32.2	49.3	15.9	16.2	17.2	16.3	83.0	94.2
1. Income Tax	3.1	9.3	9.3	2.7	3.5	3.1	3.3	13.0	16.5
2. Corporation Tax	10.8	22.4	33.2	11.1	10.6	11.5	10.2	60.0	63.7
a. Foreign Oil Companies	...	16.4	25.5	8.1	8.4	9.0	7.6	50.0	48.7
b. Others	...	6.0	7.7	3.0	2.2	2.5	2.6	10.0	15.0
3. Other	2.9	0.5	6.8	2.1	2.1	2.6	2.8	10.0	14.0
Indirect Taxes	42.0	64.2	95.9	36.5	28.5	30.9	28.7	142.0	127.3
1. Sales Taxes	5.1	9.3	12.6	3.6	4.2	4.9	5.4	22.0	22.0
a. on Imports		3.8	5.5	0.3	2.3	2.8	3.0	...	10.0
b. on Domestic Products		5.5	7.1	3.3	1.9	2.1	2.4	...	12.0
2. Excises	7.7	10.9	14.0	6.0	3.9	4.0	6.0	24.0	28.2
3. Import Duties	16.9	25.9	40.8	16.8	11.2	12.8	9.4	78.0	60.0
4. Export Taxes	10.6	10.5	16.2	7.4	4.5	4.3	4.0	-	-
5. Additional Oil Revenues	(	6.0	9.2	1.2	4.0	4.0	3.0	14.0	14.1
6. Other	(1.7	1.6	3.1	1.5	0.7	0.9	0.9	4.0	3.0
Non-Tax Receipts	1.4	0.8	3.6	1.8	0.7	1.1	0.2	2.0	2.5
B. Extraordinary Receipts 4/	24.7	41.5	50.0	11.7	15.6	16.8	13.7	97.0	n.a.
Foreign Grants and Loans	24.7	32.7	37.7 1/	6.8	12.0	13.0	12.0 2/	90.0	59.0
ADO	-	8.8	12.3 3/	4.9 3/	3.6 3/	3.8 3/	1.7 3/	7.0 3/	n.a.
Total Receipts: a) Including ADO	84.9	138.7	198.8	65.9	61.0	66.0	58.9	324.0	n.a.
b) Excluding ADO	84.9	129.9	186.5	61.0	57.4	62.2	57.2	317.0	283.0

1/ According to Mission's calculations based on B.E. disbursements and projections, total external resources available in 1968 amount to Rp. 49.0 billion.
2/ Mission's estimates.
3/ Mission's estimates; see Table 28.
4/ Excluding disbursements of project aid.
Source: Department of Finance and Mission's estimates.

Table 26

Percentage Composition of Domestic Revenues

(In Percent)

	1962	1963	1964	1965	1966	1967	1968 Original Budgets	1968 Revised Budgets	1969/70 Mission's Estimates	1969/70 Government Budget Proposals
1. Direct Taxes	26.8	21.8	25.4	33.2	17.2	27.9	33.1	33.1	36.6	42.1
2. Indirect Taxes	47.3	68.8	61.9	61.3	60.6	69.8	66.0	64.4	62.6	56.8
3. Non-Tax Receipts	25.9	9.4	12.7	5.5	22.4	2.3	0.9	2.5	0.8	1.1
Domestic Revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: 1962-1966 Data are from Table 25, Vol II, IBRD AS-132a; 1967-1969 are from Table 25.

Table 27

Budgetary Expenditures, 1967 - 1969/70

(In Billions of Rupiahs)

	1967	1968					1969	1969/70	
	Provisional Actual	Original Budget	Revised Budget	1st Half Provisional Actual	3rd Quarter Budget Program	4th Quarter Budget Program	1st Quarter Estimate	Mission Estimate	Government Budget Proposals
A. Routine Budget	70.0	97.2	148.8	60.9	42.2	45.7	45.2	214.5	204.0
1. Personnel Expenditures	22.2	39.7	73.1	33.2	18.5	21.4	23.1	95.5	93.4
a. Rice allowance in kind	8.2	...	...	...	7.5	7.5	6.6	26.0	26.5
b. Rice allowance in cash	3.6	...	...	...	3.2	3.2	3.0	12.0	12.0
c. Salaries, wages, pensions	8.8	...	...	...	6.4	7.1	12.1	51.5	48.5
d. Other domestic expenditures	0.6	...	...	...	0.5	2.7	0.5	2.0	2.0
e. External personnel expenditures	1.0	...	...	...	0.9	0.9	0.9	4.0	4.0
2. Material Expenditures	29.8	32.8	31.4	10.4	11.2	9.8	9.5	41.0	50.6
a. Personnel material expenditures	8.6	8.8	...	...	3.6	3.6	3.6	15.0	14.6
b. Domestic material expenditures	17.3	19.4	...	...	5.4	3.3	3.3	14.0	26.7 4/
c. External material expenditures	3.9	4.6	...	...	2.2	2.9	2.7	12.0	9.3
3. Subsidies to Regions	8.9	15.0	26.7	10.7	7.4	8.6	9.2	45.0	41.3
4. Debt Repayment	3.7	6.4	13.0	4.0	4.1	4.9	3.4	27.0	16.5
5. Other Expenditures	5.4	3.3	4.6	2.6	1.0	1.0	-	6.0	2.2
B. Development Budget	17.5	41.5	45.1 1/	14.6	12.7	16.8	11.2	75.0	100.0
1. Central Government Projects	15.2	25.7	27.8	6.8 2/	7.3	9.5	6.0	53.0	n.a.
a. Civilian	...	22.2	24.3	6.1	6.8	7.5			
b. Military	...	3.5	3.5	0.7	0.5	2.0			
2. Capital Share in DFI	-	7.0	5.0	1.6 2/	1.8	1.7	1.5	12.0	n.a.
3. A.D.O.	-	8.8	12.3 2/	4.9 2/	3.6 2/	3.8 2/	1.7 2/	7.0	n.a.
4. Other	2.3	-		1.3 2/		1.8	2.0	3.0	n.a.
Total Budget:	87.5 (10.0) 3/	138.7 (17.8)	193.9 (11.8)	75.5	54.9	62.5	56.4 (3.5)	289.5 (26.0)	304.0 (21.0)

1/ Including revised estimates for ADO receipts.
2/ Mission's estimates, see Table 28.
3/ Figures in brackets represent Project Aid disbursements not included in total budget.
4/ Including costs of petroleum products used by the Armed Force.
Source: Department of Finance and Mission's estimates where indicated.

Table 28

Development Budgets and Financing 1967 - 1969/70

(In Billions of Rupiahs)

	1967	1968		1969	1969/70	
	Prov. Actual	Original Budget	Revised Budget	1st Qtr. Estimate	Mission's Estimate	Government Budget Proposals
Current Receipts	60.2	97.2	147.8	45.2	227.0	224.0
Current Expenditures	70.0	97.2	147.8	45.2	214.5	204.0
Surplus/Deficit Current Account	-9.8	-	-	-	+12.5 1/	+20.0 4/
External Resources:						
a. BE Counterpart 2/	24.7	32.7	61.1	26.8	105.0	59.0 5/
b. Project Aid	10.0	17.8	11.8	3.5	24.5	21.0
ADO - Receipts	-	8.8	12.3 3/	1.7 3/	7.0 3/	n.a.
Available for Development	24.9	59.3	85.2	32.0	149.0	115.0 6/
Surplus/Deficit(+)	+2.6	-	-26.4	-14.0	-16.5	-
Total Development Expenditures	27.5	59.3	58.8	18.0	132.5	115.0

1/ Equivalent to 20 percent of revenues from foreign oil companies.
2/ Full amount of disbursements of BE- aid and food aid, before allowing for rice and fertilizer prefinancing requirements.
3/ Mission's estimates.
4/ Represents about 10 percent of total current revenues.
5/ After allowance for extrabudgetary expenditures.
6/ Including ADO receipts at 10 percent of non-oil exports.

Source: Department of Finance.

Table 29

1968 Central Government Projects by Departments

(In Millions of Rupiahs)

	Total Cost Including Foreign Exchange Component 1/	Percentage Composition	Supplementary Budget	First Half Disbursements	Col.(4) as a % of Cols.(1)+(3)
	(1)	(2)	(3)	(4)	(5)
A. Civilian Projects					
1. Agriculture	1,233.5	4.8	...	285.5	23.1
2. Light Industry and Power	3,229.5	12.6	...	1,245.0	38.6
3. Mines	163.5	0.6	...	43.7	26.7
4. Finance	1,586.3	6.2	153.8	398.6	22.9
5. Communication	3,406.3	13.3	...	345.7	10.1
6. Maritime Affairs	2,300.6	9.0	...	583.2	25.3
7. Public Works	6,170.0	24.0	1,155.7	3,530.6	48.2
8. Home Affairs (including Autonomous Regions)	1,075.6	4.2	50.0	197.2	17.5
9. Education	1,915.0	7.5	...	561.4	29.3
10. Justice	410.0	1.6	0.9	145.0	35.3
11. Health	200.0	0.8	...	63.8	31.9
12. Religion	176.6	0.7	...	48.9	27.7
13. Other	292.7	1.1	781.4	418.0	38.9
Sub-Total A	22,159.6	86.4	2,141.8	7,866.6	32.4
B. Military Projects					
14. Army	1,177.9	4.6	...	414.1	35.2
15. Navy	991.5	3.8	...	264.3	26.7
16. Air Force	944.3	3.7	...	251.7	26.7
17. Police	386.3	1.5	...	103.0	26.7
Sub-Total B	3,500.0	13.6	...	1,033.1 2/	29.5
Total excluding Supplementary Budget	25,659.6	100.0			
Total including Supplementary Budget	27,801.4				

1/ No direct allocation of foreign exchange is made in the Development Budget for 1968.

2/ First Half Authorization.

Source: Budget Office, Djakarta.

Table 30

Estimates of Net Government Revenues from the Oil Sector

(In Millions of Dollars)

	1967 1/	1968	1969 1st Qtr.	1969/70
I. Foreign Oil Companies				
1. Exports	173	216	64	310
2. Crude in kind for domestic market	9	8	2	7
3. Operating expenditures:				
(a) related to exports	43	47	13	53
(b) related to domestic marketing	23	34	9	44
(c) less: fees for pro rata/addit. crude	10	11	3	12
4. Investment income (40% of 1 + 2 - 3a + 3c)	60	74	22	110
5. Government gross share (60% of 1 + 2 - 3a) + 3c)	89	111	34	166
6. Debt repayment (P.T.S.I.) and currency adjustments	(4)	5	2	6
7. Government net share (5 - (2 + 3b + b)	53	64	21	109
II. State Oil Companies				
1. Exports	71	71	18	72
2. Operating expenditures:				
(a) related to exports	(17)	16	4	19
(b) related to domestic marketing 2/	(24)	24	6	28
3. Current surplus/deficit	30	31	8	25
III. Government Sector				
1. Net share from foreign oil companies (I.7)	53	64	21	109
2. Current surplus from state oil companies (II.3)	30	31	8	25
3. Government net current income (1 + 2)	83	95	29	134
4. Capital expenditures:				
(a) capital expenditures state oil companies	(20)	23	5	20
(b) debt repayments (to Shell Oil)	27	22	5	20
5. Government income after capital expenditures	36	50	19	94

1/ Figures in brackets are Mission's estimates.

2/ Includes tankers freight for State oil companies.

Source: Data obtained from the Indonesian authorities.

Table 31

Net Exports of Crude Oil, 1968-1973

(In Millions of U.S. Dollars)

	1968	1969	1970 1/	1971	1972	1973
A. Exports						
Foreign Oil Companies Contract of Work	216.2	284.7	377.2	398.7	354.4	283.3
Foreign Oil Companies Production Sharing	-	-	-	-	67.5	257.0
State Oil Companies	70.6	73.2	65.7	59.4	53.2	47.0
	286.8	357.9	442.9	458.1	475.1	587.3
B. Foreign Currency Cost of Production Exports						
Foreign Oil Companies Contract of Work	46.9	48.5	62.9	65.1	58.6	47.8
Foreign Oil Companies Production Sharing	-	-	-	-	27.0	102.8
State Oil Companies	16.1	19.2	18.6	17.9	17.1	16.7
	63.0	67.7	81.5	83.0	102.7	167.3
C. Foreign Investment Income						
Foreign Oil Companies Contract of Work	74.0	102.2	135.1	153.6	144.7	122.9
Foreign Oil Companies Production Sharing	-	-	-	-	14.2	54.0
	74.0	102.2	135.1	153.6	158.9	176.9
Exports Net (A-B-C)	149.8	188.0	226.3	221.4	213.5	243.1

1/ Data supplied by Directorate-General of Oil and Gas project exports for 1970 at $442.9 million, of which foreign oil companies provide $419.2 million. The figure given here is an interpolation between 1969 and 1971, made independently by Mr. J. van Ypersele of the IMF-staff.

Table 32

Balance of Payments Items Related to the Oil Sector

(In Millions of U.S. Dollars)

	1967	1968	1969 1st Qtr.	1969/70
Gross Export Receipts	244	287	82	382
Less: Cost of Production for Export	-60	-63	-17	-72
Foreign Companies Investment Income	-60	-74	-22	-110
Net Export Receipts	124	150	43	200
Current Foreign Exchange Costs of Domestic Marketing 1/	-47	-58	-15	-72
Imports of Investment Goods/ Services	-30	-38	-10	-43
Current Account Surplus	47	54	8	85
Inflow of Foreign Oil Companies' Investment	(10)	15	5	23
Debt Repayments (to Shell)	-27	-22	-5	-20
Net Foreign Exchange Availability	30	47	8	88

1/ Although part of the costs of domestic supplies may have been met in local currency, the total costs have been included here as no further detail is available. This is in conformity with the treatment of these costs in last year's report and in the official balance of payments.

Source: Directorate General of Oil and Gas.

Table 33

Counterpart Generation of B.E. Aid, 1968*

	Germany	Nether-lands	U.S.	Australia	Japan	U.K.	France	Canada & Belgium	Total
January	-	0.1	1.2	-	2.0	1.0	-	-	4.3
February	1.9	0.8	0.1	-	-	0.2	-	-	3.0
March	2.3	3.5	0.4	-	-	-	0.5	-	6.7
	4.2	4.4	1.7	-	2.0	1.2	0.5	-	14.0
April	3.4	2.6	0.5	-	0.3	-	-	-	6.8
May	4.2	0.1	0.8	-	-	-	-	-	5.1
June	2.3 1/	4.7 1/	-	-	13.4 1/	-	-	-	20.4 1/
Total Jan.-June:	14.1	11.8	3.0	-	15.7	1.2	0.5	-	46.3
Balance:	1.6	7.7	25.4	14.2	6.6	1.2	7.0	0.7	114.4
Projections 1968:									
July - Sept.	1.6	3.3	8.0	6.4	25.0	0.6	2.5	-	47.4
Oct. - Dec.	-	4.4	8.0	4.4	25.0	0.6	2.5	0.7	45.6
Jan. - Mar.	-	-	9.4	3.4	6.6	-	2.0	-	21.4
Total	15.7	19.5	28.4	14.2	72.3	2.4	7.5	0.7	160.7

* Relates to L/C's opened.

1/ Reserved for fertilizer.

Source: Bank Negara Indonesia Unit I.

Table 34

Aid Disbursements 1967-1968

(In millions of dollars)

Aid-Giving Country	1967 Commitments	1967 L/C's Opened	1967 Disbursements	1967 Pipeline	1968 Commitments	1968 L/C's Opened	1968 Disbursements	1968 Pipeline
I. B.E.-aid (excluding food)								
India	13.3	13.3	13.2	0.1	-	-	0.10	--
Netherlands	33.3	31.5	25.0	8.3	19.40	21.20	23.30	4.40
West Germany	31.6	30.2	28.0	3.6	12.60	14.00	16.20	-
Japan	60.0	55.3	50.0	10.0	65.00	59.70	43.40	31.60
U.S.A.	37.5	26.0	20.0	17.5	60.36 1/	71.50	67.10	10.76
France	1.0	1.0	1.0	-	7.00	7.00	2.50	4.50
U.K.	1.2	-	-	1.2	3.60	3.60	2.40	2.40
Australia	5.8	5.3	4.8	1.0	8.90	7.10	4.50	5.40
Belgium	-	-	-	-	0.40	0.40	0.40	-
Canada	-	-	-	-	0.30	0.30	0.30	-
Sub-total	183.7	162.6	142.0	41.7	177.56	184.80	160.20	59.06
II. Food Aid								
U.S.A.	22.0	30.1	30.1	-	91.00	85.00	65.00	26.00
Japan	-	-	-	-	5.00	5.00	2.50	2.50
Australia	-	-	-	-	3.70	3.70	2.50	1.20
Sub-total	22.0	30.1	30.1	-	99.70	93.7	70.00	29.70
III. Other Grants	3.0	3.0	3.0	-	-	-	-	-
IV. Project Aid								
(a) Project Pipeline								
France	-	-	0.7	1.2	-	-	1.20	-
West Germany	-	-	4.4	8.5	-	-	7.20	1.30
U.K.	-	-	10.5	2.3	-	-	2.30	-
Italy	-	-	38.0	16.1	-	-	8.10	8.00
Yugoslavia	-	-	9.0	19.0 2/	-	-	7.20	7.00 4/
Bulgaria	-	-	0.5	0.5	-	-	0.30	0.20
Hungary	-	-	5.6	2.8 3/	-	-	-	- 4/
Sub-total	-	-	68.7	50.4	-	-	26.30	16.50
(b) New Commitments 1968								
U.S.A.	-	---	-	-	6.64	-	n.a.	n.a.
U.K.	-	-	-	-	0.56	-	0.56	-
Australia	-	-	-	-	1.50	-	0.50	1.00
France	-	-	-	-	4.20	-	1.00	3.20
West Germany	-	-	-	-	6.75	-	2.00	4.75
Japan	-	-	-	-	40.00	-	8.00	32.00
Netherlands	-	-	-	-	13.90	-	6.80	7.10
I.D.A.	-	-	-	-	5.00	-	2.50	5.00
Sub-total	-	-	-	-	78.55	--	21.36	57.19
Total Project Aid	-	-	68.7	50.4	78.55	-	47.76	73.69
Total	198.7	195.7	243.8	92.1	355.51	278.50	277.86	162.35

1/ Excluding $6.64 million of B.E. aid earmarked for projects.
2/ Of which $4.8 million subject to cancellation.
3/ Subject to cancellation.
4/ After cancellations.
Source: Data on L/C's Opened are from BNI-I; all other data are from BAPPENAS.

Table 35

Indonesia: Export Estimates for 1968 and 1969/70
(In Millions of Dollars)

	1967 Excluding Overprice	1967 Including Overprice	1968 3/ Revised Estimates	1969 1st Quarter Projections	1969/70 3/ Projections
Category A					
1. Rubber	189.0	205.3	210.0	52.0	215.0
2. Copra	18.0	21.0	38.0	11.0	34.0
3. Tobacco	28.7 1/	30.0	30.0	10.5	30.0
4. Coffee	45.0	63.1	75.0	11.5	76.0
5. Pepper	18.2	19.3	7.0	2.5	18.0
6. Palm Oil	28.1	29.3	25.0	7.0	27.0
7. Palm kernels	4.0	4.1	4.0	1.0	4.0
8. Tin	31.5	32.3	36.0	8.0	34.0
Total Category A	362.5	404.4	425.0	103.5	438.0
Category B					
9. Tea	10.0	16.2	24.0	6.0	20.0
10. Sugar	0.1	0.1	-	-	-
11. Hard Fibre	0.8	1.1	0.5	-	0.5
12. Hides	5.0	7.9	9.0	2.0	10.0
13. Rattan	1.3	2.1	2.1	0.5	2.0
14. Mace, nutmeg	3.2	5.1	3.5	1.0	4.0
15. Timber	6.2	10.3	20.0	6.0	28.0
16. Other food	9.1	14.2	6.0	2.0	8.0
17. Other spices	6.5	10.2	10.0	2.0	10.5
18. All other commod.	24.4	41.1	47.4	12.5	50.0
Total Category B	66.6	108.3	122.5	32.0	133.0
Total A and B	429.1	512.7	547.5	135.5	571.0
Overprice	95.9	12.3 2/	13.0	3.5	14.0
Unallocated	1.0	1.0	—	—	—
Total exports of goods (excluding oil)	526.0	526.0	560.5	139.0	585.0
Net export receipts from oil	124.0	124.0	150.0	43.0	200.0
Total exports	650.0	650.0	710.5	182.0	785.0

1/ Including additional receipts of US$7.5 million over declared f.o.b. value at the Bremen (Germany) auctions.
2/ Unallocated.
3/ Estimates and projections include overprice allocated to commodities according to ratio applicable in 1967.
Source: Bank Negara Indonesia Unit I.

Table 36

Exports of Principal Cash Crops, 1960-1967

(In thousand metric tons)

Exports	1960	1961	1962	1963	1964	1965	1966	1967
Sugar	186	143	168	106	105	70	28	-
Tea	39	36	33	31	36	70	28	39
Coffee	43	67	58	81	63	108	98	82
Rubber	468	657	692	582	659	708	680	620
Palm Oil	109	118	100	110	133	126	177	125
Palm Kernels	34	33	31	31	33	33	32	32
Tobacco	19 1/	20	15	16	24	16	19	8 1/
Fibers	16	13	8	3	1	2	4	9
Copra	169	251	110	109	176	123	119	316
Kapok	3	3	2	2	3	1	-	n.a.
Pepper	13	19	11	28	23	12	21	22
Nutmeg	5	3	4	-	5	4	-	n.a.

1/ Figures are incomplete.

Source: BAPPENAS.

Table 37

Balance of Payments Estimates, 1966-1968

(In Millions of Dollars)

	1966 Revised Estimate	1967 Provisional Actual	1968 Revised Estimate
Goods and Services			
Oil Sector			
1. Exports, f.o.b.	215	244	287
2. Production cost of exports	-55	-60	-63
3. Foreign companies' investment income	-50	-60	-74
4. Foreign exchange cost of domestic marketing	-45	-47	-58
5. Imports of capital goods	-25	-30	-38
Sub-total	40	47	54
Non-oil Sector			
1. Exports, f.o.b.	504	526	561
2. Imports, f.o.b.	-518	-7265	-813
3. Services (net)	-165	-156	-192
Sub-total	-179	-356	-444
Current Account Balance (deficit -)	-139	-309	-390
Official Transfers and Capital	119	265	342
Program Loans and Grants (L/C's opened)	...	196	297 1/
Project Credits (disbursements)	...	69	45
Miscellaneous Capital	50	110	73
Direct Investment		18	23 2/
Repatriation of Capital	50	64	21
Other Credits		28	29
Debt Service	-62	-54	-72
Errors and Omissions	-9	-25	-2
Monetary Movements	41	13	49
IMF Position	--	-14	-5
Other Short-term Movements	41	27	54

1/ Including $22 million from commitments against 1969.
2/ Including investment of $15 million by foreign oil companies.

Source: Data supplied by Indonesian authorities; 1968 estimates are those of the Mission.

Table 38

Breakdown of Imports, 1963 - 1967*

Items	Gross Weight in 1000 kg.					C.I.F. Value in Million U.S.$				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
Consumption Goods										
1. Milk and Cream	13,081	10,022	2,774	5,092	11,614	7.76	3.49	1.70	2.19	5.42
2. Rice and Sticky Rice	487,076	1,084,670	818,745	281,126	56,222	70.11	163.92	132.75	58.11	14.22
3. Flour	72,999	31,867	32,354	48,034	152,720	7.89	4.04	3.86	3.94	16.85
4. Pharmaceuticals	1,297	1,224	1,674	2,415	3,258	5.59	3.48	4.08	4.39	8.62
5. Colored and Printed Fabrics	15,294	11,382	7,399	13,312	19,374	19.57	38.47	13.68	29.39	32.92
6. Kerosene	3	3	-	-	13,302	ng.	ng.	-	-	0.62
7. Ordinary and Power Driven Sewing-Machines	978	1,429	1,537	2,498	3,218	0.58	0.40	1.04	0.84	1.90
8. Other Consumption Goods	53,445	76,203	62,967	151,778	194,821	43.09	85.06	73.55	205.81	241.72
Total	644.113	1,216,800	927,450	504,255	454,529	154.60	298.86	230.67	304.67	322.27
Basic and Auxiliary Materials										
9. Cloves and Clove-Stems	5,424	8,897	4,641	6,830	13,857	2.78	5.21	3.76	4.11	9.66
10. Chemicals	84,483	61,431	63,711	59,756	70,074	14.57	10.83	11.35	9.18	21.27
11. Chemical Products and Preparations	35,111	17,581	15,870	14,165	31,973	18.89	8.44	8.39	5.76	19.30
12. Materials for Paints and Tar	6,386	2,677	2,969	2,137	3,353	3.76	4.66	6.21	2.98	5.74
13. Ammonium Sulphate	140,583	91,737	97,470	62,083	71,130	6.41	4.20	8.35	3.82	3.93
14. Other Fertilizers	234,794	83,668	103,780	81,740	160,393	15.37	5.88	8.79	5.43	17.41
15. Cardboard, Paper and Newsprint	48,892	56,081	50,145	27,442	42,705	9.59	10.95	11.34	6.93	10.27
16. Cotton Yarn	22,785	25,738	42,742	18,585	10,190	25.52	30.63	45.54	11.50	10.69
17. Yarns of Other Materials	353	1,652	2,811	2.714	3,837	0.37	1.88	2.83	3.03	3.41
18. Bleached Cambric and Shirting	5,662	6,512	11,113	5,850	15,190	9.37	10.95	20.95	18.01	27.57
19. Cement	195,430	176,910	345,508	83,656	197,073	4.15	4.16	7.59	9.41	5.36
20. Iron Bars for Concrete	40,557	32,806	72,016	77,878	8,078	7.19	3.58	29.64	1.71	1.01
21. Steel Plates	42,171	38,910	47,793	48,800	65,822	6.68	6.48	10.25	5.32	12.28
22. Iron Nails	4,492	1,859	2,247	19,831	2,748	0.66	0.41	0.33	2.38	0.59
23. Mineral Oils and Their Products	1,462,504	66,945	92,923	21,124	120,141	31.59	8.28	12.63	7.75	12.09
24. Other Basic and Auxiliary Materials	215,685	1,129,320	223,658	232,182	305,449	51.24	57.51	78.71	86.63	78.17
Total	2,543,310	1,802,724	1,179,397	764,773	1,122,013	208.14	174.06	266.66	183.94	238.75
Capital Goods										
25. Iron and Steel Pipes	14,846	21,231	22,306	48,660	23,023	4.34	7.63	6.42	10.12	6.34
26. Driving Machines (except those using oil as fuel)	4,422	4,428	3,131	3,286	4,467	6.69	5.51	3.34	2.84	9.51
27. Engines Using Oil as Fuel for Stationary Enterprises, Ships and Cars	3,612	34,799	7,083	4,364	4,738	8.67	11.81	21.82	6.92	13.08
28. Engines for Industry and Commerce	33,766	28,607	29,535	40,191	23,359	37.99	37.42	38.13	17.54	34.81
29. Ordinary Cars	5,600	9,759	13,317	3,717	10,399	9.32	14.88	18.82	0.78	7.24
30. Buses and Vans	4,631	17,780	16,630	11,415	6,817	6.95	25.95	23.47	15.12	9.15
31. Other Capital Goods	67,339	86,275	59,303	125,304	71,342	66.03	125.87	108.83	146.69	93.73
Total	134,216	202,879	151,305	236,937	144,145	140.00	229.07	220.83	200.01	238.75
32. Returned Goods, etc.	1	4	-	-	-	ng.	ng.	-	-	-
Total of Imports	3,321,640	3,222,487	2,258,152	1,505,965	1,720,687	502.74	701.98	718.17	688.61	734.89

* Figures may not add up due to rounding.

Source: Central Bureau of Statistics.

Table 39

Requirements of B.E. and Food Aid, 1967-1969/70
(based on payments statistics)
(In Millions of U.S. Dollars)

	1967	1968	1st Qtr of 1969	Fiscal Year 1969/70	Total 15 Months from 1/1/69 to 31/3/70
A. Sources of Foreign Exchange:					
1. Exports	583	630	173	673	846
(a) oil (net)	57	69	13	108	121
(b) non-oil	526	561	140	585	725
2. Misc. Capital Receipts	50	58	10	20	30
3. Sub-total (1+2)	663	688	183	693	876
4. Invisibles and Monetary Movements	-131	-109	-68	-171	-239
(a) debt servicing	-54	-72	-39	-81	-120
(b) changes in reserves	13	49	- 4	-	- 4
(c) errors and omissions	-25	- 2	-	-	-
(d) non-freight services	-65	-84	-25	-90	-115
5. Sub-total (3-4)	502	579	115	522	637
6. Program aid Disbursements (on the basis of letters of credit opened)	196	297	80	320	400
7. Disbursements-Project aid	69	45	10	83	93
8. Total Available for Imports	797	921	205	925	1,130
B. Composition of Imports					
(a) food and medical supplies	150	240	30	170	200
(b) materials for agriculture	30	65	25	100	125
(c) materials for textiles	74	100	25	110	135
(d) materials for investment	50	60	15	75	90
(e) provision for spare parts	-	-	-	20	20
(f) capital goods	165	145	30	195	225
(g) materials for other consumer goods	88	95	30	120	150
(h) other consumer goods	240	216	50	135	185
	797	921	205	925	1,130

Table 39a

Composition of Imports, 1967-1969/70
(excluding non-food consumer and capital goods)
(In Millions of U.S. Dollars)

	1967	1968	1st Qtr of 1969	Fiscal Year 1969/70	Total 15 Months from 1/1/69 to 31/3/70
1. Essential Consumer Goods	150	240	30	170	200
(a) Rice: i) PL-480	20	60	15	65	80
ii) Cash imports	90 1/	90	-	30	30
(b) Wheat: i) PL-480	-	31	10	40	50
ii) Cash imports	18	27	-	-	-
(c) Other foodgrains	3	17	-	20	20
(d) Other items	10	15	5	15	20
2. Materials for Agriculture	30	65	25	100	125
(a) Fertilizers	25	50	20	75	95
(b) Other items	5	15	5	25	30
3. Materials for Textiles	74	100	25	110	135
(a) Raw cotton	9	27	5	30	35
(b) Cotton yarn	5	35	6	34	40
(c) Other yarn	3	5	2	15	17
(d) Cambrics	51	23	10	18	28
(e) Chemicals	6	10	2	13	15
4. Materials for Investment	50	60	15	75	90
(a) Iron and Steal	25	30	5	40	45
(b) Cement	5	5	-	5	5
(c) Spare parts	10	15	5	15	20
(d) Other items	10	10	5	15	20
5. Additional Spare Parts				20	20
6. Materials for Consumer Goods	88	95	30	120	150
(a) Chemicals	15	15	5	20	25
(b) Paper and Products	16	18	5	25	30
(c) Cotton piece goods	20	10	2	10	12
(d) Cloves	13	16	5	20	25
(e) Tobacco	-	6	3	5	8
(f) Other items	24	30	10	40	50
Total	392	560	125	595	720

1/ From Table 40, Statistical Appendix.
Source: BNI-Unit I; projections are made by the mission.

Table 40

Imports by Commodities and Foreign Exchange Availabilities 1967
(In Millions of U.S. Dollars)

	BE & ADO Imports	Aid & Grant Imports	DP & Free Imports	Total
Rice	75	22		97
Wheat flour	14	3		17
Cloves	13	-		13
Other food			14	14
Chemical products	11	14		25
Pharmaceutical products	5	2	1	7
Dyestuff	2	2		4
Textile dyes	2	3		5
Fertilizers	11	11		22
Tires	6	3		9
Other paper	3	2		5
Newsprint	2	1		3
Writing/printing paper	4	2		6
Raw cotton	-	9		9
Yarn	7	1		8
Textile	110	15	25	150
Cambrics	19	5		24
Gunny bags	4	3		7
Asphalt	4	-		4
Cement	4	1		5
Iron and steel bars	1	2		3
Concrete iron	1	2		3
Wire	2	3		5
Iron and steel sheets	7	3		10
Tinplate	-	2		2
Agricultural machinery	-	-		-
Office machinery	1	1		2
Industrial machinery	6	7		13
Electrical equipment	12	15	9	36
Spare-parts, railways	1	3		4
Tractors	2	1		3
Jeeps	2	1		3
Buses and trucks	2	4	3	9
Chassis	-	1		1
Spare-parts, road transport	7	12		19
Spare-parts, air transport	-	-		-
Spare-parts, sea transport	2	1		3
Medical/optical equipment	1	2		3
Other	53	29	75	157
Total	396 1/	188 2/	127	711

1/ Includes utilized licences for BE without cover amounting to $26 million at the end of 1967.

2/ Includes rice imports under PL-480 expended in 1967 (US$22 million); excludes grant imports from U.K., Canada, and Australia in early 1967 (US$2.6 million) and imports financed by Project aid ($62.2 million).

Source: Data obtained from Indonesian authorities.

Table 41

Receipts of Exporters on One Dollar of Non-Oil Exports

	Export in Category A	Export in Category A	Weighted Average
Total Value ($)	1.000	1.000	1.000
of which:			
Surrendered	0.895	0.615	0.850
Overprice	0.105	0.385	0.150
Tax on Surrendered Value (%)	25	10	22.6
Tax in Dollars ($)	0.224	0.062	0.192
Receipts of Exporter 1/ in Rupiahs, from			
a. Overprice	36.8	135.1	52.7
b. Surrendered Value excl. Tax	201.3	165.9	197.4
Total	238.1	301.0	250.1

1/ At BE-rate of Rp. 300/US$ and DP-rate of Rp. 351/US$ as on July 15, 1968.

Source: Mission's estimates.

Table 42

Gold and Foreign Exchange Reserves, December 1960-March 1968

(In Millions of Dollars)

End of Period	Official Reserves: For Exchange Fund and Issue Department of BNI Unit I: Gross Reserves	Official Reserves: For Exchange Fund and Issue Department of BNI Unit I: For Exchange Liabilities	Net Reserves	Banking Department of BNI Unit I	Other Reserves: Other Foreign Exchange Banks: Gross Exchange Holdings	Total
1960	313	12	301	27	84	111
1961	133	11	122	7	150	157
1962	108	14	94	23	20	43
1963	58	74	-16	10	51	61
1964	25	74	-49	10	46	56
1965	21	94	-73	13	55	68
1966:						
March	17	108	-91	12	31	43
June	17	100	-83	15	22	37
September	31	102	-71	25	12	37
December	23	100	-77	35	28	63
1967:						
January	19	99	-80	32	31	63
February	17	97	-80	31	29	60
March	17	94	-77	27	26	53
April	19	92	-73	32	25	57
May	21	92	-71	39	27	66
June	20	92	-72	26	25	51
July	23	91	-68	24	27	51
August	20	92	-72	24	26	50
September	19	92	-73	16	30	46
October	17	92	-75	26	38	64
November	5	90	-85	26	33	59
December	6	84	-78	25	16	41
1968: 1/						
January	5	83 2/	-78	29	14	43
February	5	82 2/	-77	24	6	30
March	11	95 2/	-84	30	16	46

1/ Provisional figures.

2/ Includes foreign exchange liabilities to IMF.

Source: Bank Negara Indonesia Unit I.

Table 43

Exchange Rates

(In Rupiahs per U.S. Dollar)

				B.E. Market Rate	B.E. Credit Rate	D.P. Market Rate
1966:	October	3		120	-	135
	November	14		85	85	95
	December	15		88.5	85	105
1967:	January	18		94	85	112
	February	14		97	90	116
	March	14		112.5	90	121
	April	14		105	90	115.5
	May	13		138	112	145
	May	16		139	120	146
	June	15		137	132	148
	July	15		137	132	150
	August	15		143	131	160
	September	15		147	131	165
	October	16		150	131	166
	November	16		163	131	177.5
	December	16		198	140	218
1968:*	January	15	(5)	285	140	285
	February	16	(13)	261	238	287.5
	March	15	(15)	260	235	290
	April	15	(19)	275	240	315
	May	15	(8)	289	265	347.5
	June	15	(5)	300	300	351

Notes:
1) Prior to May 16, 1967, the BE Credit rate fixed by Bank Negara Indonesia Unit I applies also to payments paid for from the foreign Foreign Exchange Fund.
2) Commencing May 15, 1967, the rate applicable for payments paid for from the Foreign Exchange Fund was the BE market rate fixed by Bank Negara Indonesia Unit I.
3) Commencing May 27, 1968, the BE Credit is integrated into BE market, by which there is only one rate applicable either for BE originated from foreign aid or that originated from exports. This rate is also applicable for payments paid for from the Foreign Exchange Fund.
4) Commencing May 16, 1967, the rates for BE, BE Credit and DP are the effective rates at the Foreign Exchange Bourse (The Foreign Exchange Bourse was established and officially opened on May 8, 1967.

* Figures between brackets are the dates of notification for the DP market rates.

Source: Bank Negara Indonesia Unit I.

Table 44

Foodgrain Balances, 1968 - 1969/70

(In Thousand Tons)

	1968		1969		1970
	Jan.-Mar.	Apr.-Dec.	Jan.-Mar.	Apr.-Dec.	Jan.-Mar.
Stock, Opening	300	130	616	400	900
Imports	200	980	350	900	300
a) Rice	-	550	150	400	150
b) Bulgur	-	100	50	150	50
c) Wheat	200	330 1/	150 1/	350	100
Domestic Procurement	46	606 2/	95	800	120
Available	546	1,716	1,061	2,100	1,320
Releases	416	1,100 3/	661	1,200	750
Stock, Closing	130	616	400	900	570

1/ Assumes imports of 50% of PL-480 contract before December 31, 1968, and 50% thereafter.

2/ Includes 50,000 tons of domestically produced artificial rice, and gradually increasing quantities in subsequent periods.

3/ Assumes releases of 130,000 tons of wheat and wheat flour.

Source: General Logistics Council (BUL) and Mission's estimates.

Table 45

Status of Project Assistance Committed before 1968

(In Millions of U.S. Dollars)

		Contract	Disbursement till 1-1-1968	Pipeline	Estimated Disbursement in 1968	1969
I. Manufacturing						
1. Italy	Gresik Petrochemicals	56,100	40,000	16,100	8,100	8,000
2. Bulgaria	Electric motors Metrika	991	500	491	300	191
3. Yugoslavia	Road rollers	6,038	1,217	4,821 1/	1,200	-
II. Power						
1. Yugoslavia	Electrical distribution equipment	3,650	246	3,404	1,860	1,544
2. Yugoslavia	Steam power plants	18,556	7,732	10,824	5,412	5,412
III. Sea Communications						
1. France	Lighthouse equipment	1,389	651	738	738	-
2. France	Tugboats	516	76	440	440	-
IV. Railways						
1. Hungary	Railway coaches	9,206	6,440	2,766 1/	-	(2,766)
V. Telecommunications						
1. United Kingdom	Telephone cable, wire	13,356	11,052	2,304	2,304	-
2. West Germany	Equipment for telecom.	5,963	3,724	2,239	2,239	-
3. West Germany	Automatic telephone exchanges	7,046	734	6,312	5,000	1,312
	Total	122,811	72,372	50,439	27,593	19,225

1/ Cancellation expected before the end of 1968.

Source: BAPPENAS.

Table 46

1968 Project Aid Proposals, Commitments, and Expected Disbursements as of July 31, 1968

(In Thousand of US Dollars)

	Proposed	Committed	Under Negotiation	Expected Disbursement 1/
AGRICULTURE				
Rehabilitation of Irrigation (IDA)	1,400		5,000	2,500
Seed Production (U.S.)	200	)	566	566
Vehicles Extension Service	250	)		
Sugar Boilers (Dutch)	1,125	1,125		200
Rehabilitation of Dredgers (U.S.)	250		250	250
Brantas River (Japan)	13,100	13,100		4,118
Sub-Total	16,325	14,225	5,816	7,634
Not Taken Up	4,100			
Total	20,425	14,225	5,816	7,634
		20,041		
POWER				
Riam Kanan (Japan)	8,800	5,380		1,600
Tandjung Priok (Japan)	12,000	7,000		1,000
Rehabilitation Distribution Outside Java (Dutch)	4,000	1,200		1,000
Sub-Total	24,880	13,580		3,600
Not Taken Up	18,190	--		--
Total	43,070	13,580		3,600
INDUSTRY				
Paper (Japan) (Gowa?)	620	680		680
Soda Waru (Japan)	750	750		750
Tin (Dutch)	21,745	909		909
Tin (U.S.)			4,000	
Pusri Fertilizer	50,000	Studies	4,000	
Gresik Cement	2,000			
Sub-Total	75,115	2,339	8,000	2,339
Not Taken Up	6,538			
Total	81,653	10,339		

Table 46 (page 2)

	Proposed	Committed	Under Negotiation	Expected Disbursement
TRANSPORT AND COMMUNICATIONS				
Buses (Australia)	1,000		450	450
Railway				
Tracks and Bridges (Germany)	3,600		500	500
Tracks and Bridges (Australia)				
Diesels (Germany)	3,000		2,500	
Aviation				
Airplane Rehabilitation (Canada)	1,000		350	
New Aircraft (Dutch)	4,500		6,500	
Maritime				
Coastal Communication (Japan)	1,700	1,275		1,275
Microwave, Bandung-Semarang (Japan)	2,000	2,000		2,000
Rehabilitation of Lighthouses (France)	2,000		2,000	2,000
Dredging (U.S.)	6,000		1,000	1,000
Dredging (Australiaa)			800	800
Rehabilitation of Government Vessels (Dutch)	2,000	655		655
Rehabilitation of Docks (Dutch)	1,800	600		600
Roads				
Asphalt (Dutch)	4,000	1,000		1,000
Roads (U.S.)	3,000		3,000	
Tele-communications				
Telephone Semarang (Germany)	1,100	2,200		1,100
Rehabilitation of Telecom. (Australia)	2,000		250	250
Rehabilitation of Telecom. (Germany)			1,400	
Sub-Total	38,700	7,730	18,750	11,630
Not Taken Up	3,000			
Total	41,700	7,730	18,750	
		26,480		

Table 46 (page 3)

	Proposed	Committed	Under Negotiation	Expected Disbursement
WATER SUPPLY				
Drinking Water (France)[2/]	2,000	2,000		2,000
Grand Total	188,848	39,874	32,566	27,203
		72,440		

1/ Before April 1, 1969.

2/ Was not included in the 1968 project list.

Source: Data obtained from Indonesian authorities and Mission's estimates.