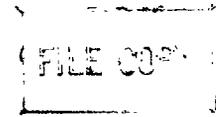


Report No. 5066-IND



Indonesia Policies and Prospects for Economic Growth and Transformation

Part I—Recent Economic Performance and Medium-Term Perspectives
Part II—Selected Issues of Regional and Urban Development

April 26, 1984

East Asia and Pacific Regional Office

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CURRENCY EQUIVALENTS

Before November 15, 1978

US\$1.00 = Rp 415

Annual Averages 1979-83

1979

US\$1.00 = Rp 623

1980

US\$1.00 = Rp 627

1981

US\$1.00 = Rp 632

1982

US\$1.00 = Rp 661

1983

US\$1.00 = Rp 909 /1

April 26, 1984

US\$1.00 = Rp 1,004

FISCAL YEAR

Government

-

April 1 to March 31

Bank Indonesia

-

April 1 to March 31

State Banks

-

January 1 to December 31

/1 On March 30, 1983 the Rupiah was devalued from US\$1.00 = Rp 703 to US\$1.00 = Rp 970.

TITLE : INDONESIA: POLICIES AND PROSPECTS FOR ECONOMIC GROWTH
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ABSTRACT : Part I of this report undertakes a preliminary assessment of the initial impact of the policy measures that the Government adopted in early 1983 in response to the deteriorating external payments position of the country and the need for diversifying the sources of growth and export earnings; it also examines the main issues facing Indonesia in the years ahead and assesses the country's medium-term prospects. Part II discusses some of the main features of regional and urban development in Indonesia during the 1970s, and reviews, on a selective basis, some of the related issues of urbanization and the provision of urban services.

INDONESIA

POLICIES AND PROSPECTS FOR ECONOMIC GROWTH AND TRANSFORMATION

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SUMMARY AND CONCLUSIONS

Recent Trends In Economic Performance and Policies

i. After a period of sustained economic growth and development in the 1970s, Indonesia suffered major economic setbacks in 1982 and early 1983; the deterioration in the international economy, which began in 1980, adversely affected Indonesia initially through the fall in the demand for and prices of the country's traditional exports (primary agricultural commodities); and subsequently, and more dramatically, via depressed oil demand and the fall in oil prices. The adverse external economic developments, which led to heavy pressures on the Rupiah and the country's reserve position, prompted the Government to take decisive actions to deal with the immediate balance of payment difficulties facing the country and to lay the foundation for pursuing a sustainable growth path in a less favorable international environment. The more fundamental measures included the adoption of an austere budget for 1983/84; reduction in subsidies on petroleum products; devaluation of the Rupiah by 28%; rephasing public investment projects; liberalization of the financial sector; and the adoption of a far-reaching tax reform to increase and diversify government revenues in the longer term.

ii. The range of measures adopted and, equally importantly, the speed of the Government's response to the deterioration in internal and external financial stability, were indeed impressive. These measures have been rewarded with considerable success in alleviating the external payments imbalance, through a combination of increased non-oil export receipts and substantial cutbacks in imports. For 1983/84 the current account deficit is estimated at about \$4.2 billion (equivalent to 6% of GNP), compared with \$7.3 billion (8.4% of GNP) in the previous year. The devaluation, which helped to restore confidence in the Rupiah, and the increase in domestic interest rates following the June financial reforms, also led to a reflow of foreign exchange to both the commercial banking system as a whole and to official reserves. As a result, Indonesia's net foreign exchange reserves (official and those of commercial banks) rose by about \$2.0 billion to \$8.4 billion at end 1983/84.

iii. Given the heavy dependence of government revenues on oil export receipts, the weakening of the international oil market in late 1982 and early 1983 had a severe impact on the budget. However, the measures subsequently adopted by the Government, particularly the devaluation, rephasing of the public investment program, and further restraint on current expenditures, have contributed to an emerging healthy public finance outcome. The performance of non-oil taxation has been particularly noteworthy, partly due to the effect of the devaluation, and partly to renewed vigour in collection efforts. The Government has also been very successful in restraining current expenditures. Together with the restraint on public investment, this has led to an increase in government savings with the banking system.

iv. An important aspect of the Government's economic management over the last three years has been the reduction of subsidies for domestic oil consumption and food. As a consequence, budgetary subsidies are estimated to have fallen, in nominal terms, by 40% between 1981/82 and 1983/84. Domestic oil prices have been raised three years in succession. The latest round of increases would generate public savings equivalent to about 1.8% of projected GDP in 1984. Food subsidies were largely eliminated in 1982 following an increase in the price of rice and favorable price developments abroad. The reduction in subsidies has undoubtedly had an adverse impact on the welfare of consumers at a time when incomes were depressed. By skillful economic management, however, the Government has succeeded in mitigating part of this loss by spreading its effect over as large a proportion of the population as possible while simultaneously increasing expenditure allocations to the social sectors.

v. In order to encourage the mobilization of domestic savings and to reduce the dependence of the financial system on liquidity credits from Bank Indonesia, the Government introduced major reforms in the financial sector in June 1983. These measures have led to some noteworthy changes over the past few months. Deposit rates of state banks have increased sharply along with their lending rates. The increase in deposit rates has had a favourable impact on deposit mobilization with time deposits having risen by about 50% by end December. The increase in time deposits has, however, been accompanied by a shortening of maturity structure of the deposits, which, together with the reduced availability of Bank Indonesia liquidity credits, is giving rise to a mismatch between the term structures of deposits and loans. Higher lending rates have also increased cost of credit to borrowers.

vi. GDP growth in 1983 is estimated to have been about 4.5% (in 1981 prices). This represents a significant improvement over the performance in 1982 when GDP growth was essentially flat. This growth was largely attributable to a rebound in oil and LNG production, but nevertheless demonstrates the resilience of the economy. Output of oil (including condensates) is estimated to have grown by about 6%, compared with a decline of 12% in 1982, and there was a significant increase in LNG production due to the early completion of two additional trains at Bontang. Preliminary data suggest that non-oil/LNG GDP increased by about 4%. Agricultural growth is estimated at 3%, compared to 1.8% in 1982. According to World Bank Atlas methodology, Indonesia's GNP per capita in 1983 is provisionally estimated at \$560. Domestic inflation, as measured by the consumer price index (CPI) for 17 cities, registered a 12% increase in 1983 compared to 10% the previous year. This was a remarkable performance given the cost-push shocks to the economy, particularly those related to the rise in the prices of domestic oil products and the devaluation.

Adjustment and Transformation: The Macroeconomic Framework

vii. Short-Term Economic Management. The success achieved in short-term adjustment has inevitably entailed some costs in terms of growth, incomes, investment and employment during 1982-83. The question now is whether Indonesia in the year ahead will be able to restore its growth rates to at least 5% as called for in the REPELITA IV Plan. This report takes the

position that it can. The recovery in GDP growth would be led by increased domestic consumer demand that should follow the rebound in agricultural production and the continued stimulus provided by the rapid expansion of non-oil exports. In addition, the recent increase in civil servants' salaries will also help boost aggregate demand, although some of the income gains of this group will be offset by higher energy and transport costs. Investment demand cannot be expected to lead a recovery, except in highly selective areas. For reasons set out below, the recovery in investment expenditures will have to be managed very carefully to avoid creating new pressures on the balance of payments. On balance, non-oil GDP is projected to expand by about 4% in real terms in 1984, and when the large increases in LNG exports are also taken into account, GDP growth will, in all likelihood, be around 5.5% in 1984. Indonesia's GNP per capita may well exceed \$600 in 1984 (at current prices).

viii. Notwithstanding the favorable prospects for the current year, and given the very success of the short-term adjustment program and understandable objective of restoring the momentum of economic growth, there may be a desire to stimulate recovery further by some combination of expansionary monetary policy and increasing investment outlays of the central government and public enterprises through additional foreign borrowing. The Government is correct in continuing to exercise caution, although there is a strong case for expanding certain kinds of public investment outlays which have a low import content (such as housing and INPRES programs) to facilitate a broad-based recovery and to expand job opportunities. But the expansion would have to be carefully managed and quite selective to avoid creating new pressures on the balance of payments, which could in turn undermine the hard-won gains of the past year. At the outset, it must be recognized that a stronger growth in the non-oil economy will result in increased demand for raw materials and intermediate goods - a demand that should be accommodated and not restricted by resorting to additional import controls that will lead to greater distortions in the economy and take the Government even further from its stated objectives of improving industrial efficiency and lowering costs of production. To accommodate these additional imports, while at the same time ensuring a further reduction of the current account deficit, the increase in imports of capital goods, and hence expenditures on import-intensive investment programs and projects, would have to be managed very carefully.

ix. The Medium-Term Macroeconomic Framework. Indonesia's growth prospects in the medium-term depend to a significant degree on the developments in the international economy. While it is possible that economic performance in the industrial economies will be sluggish in the second half of this decade, in this report a medium-term scenario similar to the "Central case" of the World Development Report 1983 is adopted for the international economic outlook. The evolution of the world oil market remains crucial to Indonesia and is particularly difficult to predict. By 1990, Indonesian crude oil output (including condensates) is projected to reach about 1.8 mbd. Regarding the world price level, it is assumed that the nominal oil price will remain at \$29 per barrel through the end of 1985. Beyond 1985, the price of oil is projected to increase at about 2% p.a. (in real terms). As a result of a gradual improvement in commodity prices from their historically low level of 1982, Indonesia's overall terms of trade are expected to improve by about 9% during 1985-90.

x. The base case scenario presents the likely prospects for the Indonesian economy, on certain assumptions about the rate of growth of the industrialized countries and, more importantly, on the behaviour of the oil markets. During the second half of the decade, overall GDP growth is projected at 5.0% p.a. and that of non-oil GDP at 5.5% p.a. Investment growth is assumed to average about 4% p.a. in 1984-85 and rise to above 5% p.a. during 1986-90. However, given the constraints on the availability of external resources, the projected growth rates would be feasible only if the import-intensity of investment is reduced from recent levels. After a strong performance in 1984 and 1985, when exports are expected to increase by 5.6% p.a. in real terms, they are then projected to expand by only about 4.4% annually during 1986-90. The main reason for this slower growth is the outlook for oil and LNG exports, which will account for about 70% of projected total export receipts in 1984/85. Non-oil/LNG exports, on the other hand, are projected to continue to perform well, growing by 6% p.a. during 1986-90. Earnings from those exports are thus projected to reach some \$13.8 billion by 1990 - an ambitious but extremely important objective for Indonesia. Growth of these exports will depend on appropriate trade policies, which will encourage efficient industries capable of competing in world markets. Thus, reform of the trade regime is a central challenge facing Indonesia at this time.

xi. Given the projected growth in export earnings, continued restraint on imports will be required in the next two years to reduce the current account deficit further. This would mean that imports of goods in nominal terms should be held to no more than \$19.3 billion in 1984/85 and \$20.7 billion in 1985/86, which, in turn, implies no real growth during these two years. The brunt of the restraint must fall on capital goods imports. It is assumed that through careful management of investment demand imports of capital goods would be constrained in real terms to that of 1983/84 for the next three years.

xii. Management of the Investment Program. A key element in reducing further the balance of payments current account deficit during the 1980s will be the way in which the investment program is managed. The severity of the import constraint which is in prospect for Indonesia over the next few years will impose serious limitations on the rate at which Indonesia can undertake new investments. The desirability of import-intensive projects will need to be scrutinized carefully in the context of the foreign exchange availabilities from exports and prudent limits on foreign borrowing; clearly there is a need to extend the discipline of careful scrutiny and review of projects initiated last year to the next few years as well. In addition, to the extent that priority could be given to sectors where import coefficients are low, it would be possible for the Government to lower the average import-intensity of a given level of aggregate investment or to sustain a higher level of aggregate investment with a given level of imports.

xiii. There are indications that the Government's own priorities are changing in these directions; for example, the preliminary sectoral allocations for the next few years for education, health and family planning and housing are significantly larger than the relative shares of public investment allocated to these sectors under REPELITA III. However, the combined share allocated to power, industry, and mining - the most capital-

and import-intensive sectors - is also higher than that in REPELITA III. This raises a potential dilemma, given the serious import constraint facing Indonesia, since these three sectors may pre-empt an unduly large share of the limited capital goods available for the public sector. If this happens, investments in other sectors such as agriculture, education, health and family planning, housing and regional development, which are essential for sustaining growth momentum with greater regional and social equity, could be reduced.

xiv. While the determination of the appropriate scale and mix of public investment will clearly be important, improving the implementation of projects included in the public investment program will be an integral aspect of economic management over the next few years. Implementation delays often increase project costs and the postponement of the benefit stream (in terms of foregone output, incomes and employment) can affect the rates of return and sometimes the economic justification of some projects. As in other countries, a range of economic, financial, technological, social, administrative and institutional factors contribute to implementation delays in Indonesia. The Government has recently established a mechanism for examining a wide range of implementation issues. While this process will take time it may, however, be possible to introduce a number of changes relatively quickly which could help to improve project implementation significantly.

xv. As already noted, the ability of the public sector to finance development activity has diminished sharply. The private sector will, therefore, be called upon to play an increasingly important role in capital formation and in execution of projects and programs. The Government is clearly aware that the acceleration of the process of development is closely linked with the extent to which the resources, energies and ingenuity of the broadest possible spectrum of society is harnessed. Accordingly, it is important to ensure that the private sector be given broad scope for economic action and be free of regulations which inhibit initiative, raise the costs of doing business, and thereby undermine competitiveness. The Government is addressing the difficult task of reducing the scope of regulations and simplifying the regulatory framework. At the same time it is incumbent on the private sector to take a long-term view of the investment opportunities and base its decisions on more realistic expectations about pay-back periods. It should also vigorously endeavor to improve the efficiency of its operations and undertake high quality projects.

xvi. Impact on Employment and Incomes. There is no doubt that the most pressing development issue facing Indonesia is the need for employment creation. During the 1980s, the labor force is projected to grow at an annual rate of 2.7% compared with 2.2% during the 1970s. And during REPELITA IV at least 1.8 million people will enter the labor force each year. Thus Indonesia will encounter a rise in labor force growth during a period when its overall economic growth is expected to be lower. There is a genuine question as to how such an increase can be absorbed in productive employment, given the projected 5% rate of growth of the economy. In the Indonesian context, this squeeze in the labor market is not expected to lead to a dramatic increase in unemployment, except perhaps amongst educated urban youth. However, there is a serious risk of stagnant or declining returns to labor in both rural areas and in the urban informal sector. This would threaten the past progress made

in poverty reduction. There are three broad areas of policy intervention that can support a more labor-intensive pattern of growth. First, although the relative share of agriculture in employment will decline in the long term, it will continue to be the principal employer and should receive priority in investment and pricing policy. Policies to increase cropping intensities on irrigated areas, and diversify crops and raise yields in rainfed areas will help sustain labor demand on Java. The expansion of tree crop output in the Outer Islands, linked with the transmigration program, can also absorb a significant part of the increase in the Javanese rural labor force. Second, industrial policies that encourage productive efficiency and foreign exchange savings can also support employment creation. Export-oriented industries and certain categories of import-substitution industries are quite labor-intensive; given Indonesia's low cost of labor, they will characteristically be economically attractive. Appropriate trade policy and strict economic evaluation of large-scale, capital-intensive investments in both the public and private sectors are necessary for appropriate investment choices. Third, there is considerable scope for increasing the domestic content of public expenditures, and thereby their direct and indirect employment impact. This can be achieved both by shifting expenditures to areas such as rural infrastructure, social and urban services, and by making appropriately labor-intensive choices within programs, such as land clearing in transmigration sites.

xvii. Uncertainties in the Prospects. The base case scenario presents the macroeconomic prospects for Indonesian economy on certain assumptions about domestic efforts and developments in the international economic environment. There are, of course, uncertainties over these developments, and it is quite possible that the external environment will be less favorable. Indonesia is especially vulnerable to the level of the oil price, and an alternate scenario has been examined in which the real price of oil and LNG is assumed to remain constant in real terms after 1985, as compared with an annual real increase of 2% under the base case. This would reduce net earnings from oil and LNG by about \$2 billion by 1990. With vigorous efforts aimed at raising non-oil exports, Indonesia could compensate partly for this shortfall, assuming lower oil prices are not accompanied by low growth in the industrial economies. Nevertheless, the country's capacity to import would grow by only 4.7% p.a. in the second half of the decade compared with 6.2% p.a. under the base case.

xviii. There are two possible policy responses under a such scenario. First, with less favorable international oil prices, for Indonesia to attain the rate of growth and other development objectives envisaged in the base case, it would have to undertake higher external borrowings. By 1990, the current account deficit would widen to about 3.8% of GNP. Financing this deficit and the projected repayments of prior debt obligations would require commitments that are clearly higher than in the base case. Indonesia could avoid a sharp increase in its debt service payments in the 1990s if it could receive additional official assistance from donors as an alternative to extra commercial borrowing. However, if all the additional borrowing were to be on commercial terms, Indonesia's debt servicing obligations would rise rapidly in the early 1990s. There would be a strong case for such support from the donors in these circumstances. The second response to lower oil prices would

be to reduce imports in order to maintain a current account deficit and debt service position comparable to the base case. The cost of such an adjustment would be a reduction in the growth rate by about 1%, to 4% p.a. during 1986-90. At this rate the difficulties of coping with the growth of the labor force and other development problems would be even more serious than in the base case. The sensitivity analysis highlights the need for implementing medium-term policy reforms which would improve the resilience of the economy to potential future external shocks.

Domestic Resource Mobilization and Allocation

xix. The sharp decline in oil revenues and the consequent impact on public sector savings require Indonesia to intensify its efforts at domestic resource mobilization so as to be able to finance an adequate level of investment and improve resource allocation. In this context public finance strategy and policies pursued in the financial sector play a critical role. Financing the future public investment program during a period of constrained foreign borrowing will be a major challenge. While taxes from the oil sector will continue to be the cornerstone of government revenues, the performance of public savings depends critically on non-oil tax revenue generation and continued restraint on current expenditure growth.

xx. Despite the receding fortunes of the oil sector, oil and LNG taxes will continue to remain important though their share in total domestic revenues (66% in 1983/84) is expected to decline significantly over the remainder of the decade. In real terms, oil and LNG revenues are expected to grow by about 5.1% p.a. between 1985-90 -- far below their performance of 1975-80. The slow growth in both oil production levels and prices and rapidly rising costs of crude production account for this modest projection. Revenues associated with LNG production will also be affected by the development of oil prices and the slow, demand-constrained growth in production after 1984/85.

xxi. The 1984/85 budget represents a noteworthy beginning in the direction of improving public savings performance. The budget continues to incorporate important measures to restrain the growth of current expenditures, especially through reductions in subsidies. It also contains major steps aimed at increasing non-oil revenues in the future. In order to increase non-oil tax revenues, the Government has announced major tax reforms designed to broaden the tax base and simplify the tax structure and its administration. The success of the tax reform will, however, depend on the effectiveness of the tax administration that will implement them, and the extent to which the public understands, and identifies with, its aims and objectives.

xxii. The restructuring of the taxation system and increased efforts at collection should reverse the declining trend of non-oil taxes in relation to domestic incomes. The buoyancy of non-oil tax revenues to non-oil GDP fell from 1.0 in the period 1968-78 to 0.8 in the post-1979/80 period. The projections in this report assume that non-oil taxes will achieve a buoyancy of 1.5 with respect to non-oil GDP. While this seems high in comparison to the performance of the past decade, it should be attainable provided the new tax law is forcefully implemented.

xxiii. Increased public savings will require continued restraint on current expenditures. However, the growth of some components of current expenditures is difficult to slow down; and it is important that the public investments over the past decade, particularly in agricultural, irrigation and transport infrastructure, be protected by adequate allocations of funds for their maintenance and operations. The most promising areas for restraining the growth of current expenditures lie in the continued reduction of subsidies. The Government has already discontinued the food subsidies in the 1984/85 budget. Budgetary subsidies for domestic oil in the 1984/85 budget are Rp. 1.1 trillion, despite an average oil price increase of some 35% in January 1984. If domestic oil prices rise on average by 5% p.a. in real terms between 1985 and 1990, and operating efficiency in the sector is improved, the subsidy (1.3% of GDP in 1983/84) can be virtually eliminated by 1990. Budgetary subsidies on fertilizer are assumed to be phased out by 1988/89. It is doubtful that these subsidies are essential for encouraging rice production or other crops. In any event, a gradual increase in producer prices could protect farmer incomes and help maintain production growth.

xxiv. Selected Issues in Financing of Public Enterprises. The financing of public enterprises in an environment characterized by public sector resource constraints and a liberalized financial system presents a set of potentially very difficult and complex problems. With the exception of their modest internal savings, all other sources of public enterprise investment financing have, in the past, been subsidized by the Government in various ways. However, given the Government's stringent resource position, Indonesia can no longer afford to subsidize public enterprises. In this context, two very important issues arise: first, what is the scope for increasing profits and retained earnings; second, what is the capacity of these enterprises for additional debt financing in the form of commercial bank loans or bonds. Increased operating surpluses can potentially come from two main sources: through cost reductions due to improved efficiency; and from a careful review of public enterprise pricing policies. There are many areas where the operational efficiency of public enterprises could be improved; for example, in refinery production, in the transport sector, and in port operations (where increased efficiency will also entail considerable gains to the rest of the economy in terms of reduced delays and costs). In regard to price increases there does appear to be scope for improving the financial position of some enterprises and utilities. For example, despite the recent 32% tariff increase, PLN is expected to earn little or no return on investment in 1984; many of the enterprises engaged in sugar production are currently making losses, due to unduly low prices set by the Government.

xxv. It is the Government's intention that public enterprises should acquire borrowed funds for investment and working capital at market terms, to supplement internally generated resources. Given the recent sharp increases in interest rates, however, this will worsen the financial situation of public enterprises. Secondly, many public enterprises may find it difficult to obtain funds for long periods at market rates, as banks may view them as poor credit risks. The Government could seek to counterbalance these risks by providing interest rate subsidies (and guarantees) to commercial banks, and by encouraging the latter to lend to enterprises at variable rates. But, in view of the budgetary constraints, the Government may not be able to provide large subsidies to public enterprises without reducing financing for other

investments to be undertaken elsewhere. It is, therefore, important to ensure that the projects which public enterprises seek to finance through bank borrowing are economically and financially viable at market rates of interest. It is also necessary to improve the financial and performance data reporting system of public enterprises. Finally, to the extent that losses of some public enterprises are due to inappropriate investment decisions which cannot be corrected by price adjustments and organizational and efficiency improvements, the Government would need to recognize this problem and take appropriate actions, so as to avoid continued subsidies to such enterprises. This may require decisions to write-off past losses, revalue assets, and restructure the capital base of such enterprises through infusions of new equity.

xxvi. Changing Role of The Financial Sector. The liberalization of the financial sector has set the stage for mobilizing greater financial savings, for encouraging higher levels of private savings, and for contributing to a more efficient allocation of funds at a time of resource stringency. Monetary control has become an important area of focus for the monetary authorities in the short term, since Bank Indonesia (BI) no longer fixes interest rates or sets overall and selective credit ceilings. There are several challenges in this area. BI has developed a set of instruments for more effective monetary control. However, refining the process will inevitably take time. In the meantime, to reduce uncertainty in the financial markets, the withdrawal of liquidity credits will need to be managed carefully.

xxvii. For the long term the fundamental problem is to ensure that the banking system plays a more effective role in mobilizing domestic resources and resource allocation decisions. Indonesia's domestic savings potential is considerable. A high proportion of these savings, however, is not financialized; a major objective of financial sector policy, therefore, is to ensure that these private savings are channelled into productive investment through the intermediation of the financial system. However, in the short term some potential conflicts between the resource mobilization and credit allocation objectives have arisen. The increase in deposit rates following the recent financial sector reforms, while encouraging resource mobilization, has also led to high real lending rates. A flexible attitude towards interest rate policies aimed at striking an appropriate balance between resource mobilization needs and stimulating investment in the light of the exigencies of the economy will continue to be important.

xxviii. Consideration should also be given to the need to encourage the development of a capital market and the relevance of interest rates in this context. The present structure of deposit rates differentiates very little between short-term (3 months) and longer-term (24 months) deposit rates. This has led to the shortening of the deposit structure of banks, and to reduced public willingness to hold bonds. Over the longer term, mobilization of domestic resources could also be enhanced through the expansion of banking network, institutional development and creation of new mechanisms and savings instruments, as well as through higher deposit rates. Access to banking facilities, especially in rural areas, is still very limited. Vigorous efforts by state banks to expand banking facilities in rural areas are thus needed. The private banks could also play an important role in this process. At present the role of private banks is limited; it would be desirable to

encourage private banks to expand their operations, combined with a policy of encouraging mergers of smaller banks, "graduating" stronger private banks, and increased banking supervision.

External Trade and Capital Requirements

xxix. The sharp decline in the price of oil has clearly demonstrated the importance of reducing the economy's heavy dependence on this source of foreign exchange earnings. Accordingly, the Government hopes to more than double nominal earnings from non-oil exports over the next five years. Although this is an ambitious target, it should be attainable, provided that: (i) economic recovery in the industrial economies is sustained; (ii) Indonesia's access to those markets is not hampered by protectionist measures; and (iii) most importantly, Indonesia follows appropriate trade and exchange rate policies. In the short-run there are a number of measures which will be required to promote non-oil exports. These include: maintaining a competitive exchange rate; improving export quality; limiting the use of export controls; and other selected measures, such as refining existing policies for export finance, guarantees and insurance. However, these necessary measures, by themselves, will not be sufficient to ensure the success of Indonesia's export drive. Over the long run a more comprehensive trade reform will be required to stimulate industrial efficiency and improve the competitiveness of Indonesian producers.

xxx. Empirical evidence indicates that Indonesia's non-oil exports and imports are quite sensitive to movements in the real exchange rate. Consequently, a competitive exchange rate is a fundamental element in Indonesia's efforts to expand non-oil exports and to continue to reduce the current account deficit to a sustainable level. It is therefore imperative that the impact of the 1983 devaluation is not eroded.

xxxi. Improvements in export quality would also help Indonesia to increase the unit value of exports and penetrate new markets. Such efforts are particularly important in primary exports such as rubber and coffee and in marketing of manufactured goods. The Government recognizes this need and work is underway to set standards for most export products. However, strict measures are needed to ensure implementation of these standards. It is also necessary to limit the use of temporary export controls during periods of domestic shortage. Continued attention also needs to be directed towards more effective implementation of the export promotion package introduced in January 1982. For example, additional efforts are required to build up the newly-created organization which will take over the export guarantee and postshipment insurance schemes, to extend these arrangements to all exporters and to improve the implementation of the duty rebate system. Finally, further efforts are required to establish export estates and export processing zones, to streamline customs administration, and to improve port operations.

xxxii. Indonesia's efforts to expand its exports of manufactured goods are hindered by protectionist policies in developed countries. At present, Indonesia faces significant tariff and non-tariff barriers to the export of the two major categories of manufactured exports - textiles and plywood. If the industrial countries penalize Indonesia for success in exporting such

products, the potential export earnings from these commodities will be lower than projected, and Indonesian producers of other goods will be discouraged from venturing beyond the home market.

xxxiii. Import Policies. Indonesia's trade regime has been characterized by a predilection for high tariffs and quantitative restrictions. The difficult external payments situation faced by the country beginning in 1982 has reinforced this tendency. Despite the tight foreign exchange availability in prospect in the coming years, Indonesia must avoid the temptation to continue relying on high tariffs and quantitative restrictions. These policies run counter to Indonesia's goals of stimulating efficiency in the industrial sector and encouraging the growth of non-oil exports, especially manufactured goods. There is little doubt that increased efficiency and, linked to this, reforms in trade policy are the major remaining policy challenges to be tackled by the Government. In this regard there are many aspects of trade policy which require government attention in the coming year or two. A comprehensive program of reform of the trade regime which can be realistically implemented only over a period of years, might include the following elements: (i) rollback of existing import bans; (ii) gradual reduction greater and uniformity in tariff levels; (iii) adjustment assistance to industries affected by import competition; and (iv) anti-dumping legislation to protect domestic industries from unfair foreign competition.

External Financing Requirements and Borrowing Strategy

xxxiv. By reacting decisively to the deteriorating international economic environment in 1982 and early 1983, Indonesia was able to minimize recourse to excessive external borrowing in its external adjustment process. Nonetheless, substantial levels of borrowings will be required over the coming years to support Indonesia's efforts aimed at resuming growth and the restructuring of its economic base away from dependence on oil.

xxxv. Based on the macroeconomic and policy framework outlined in this report, the current account deficit is expected to fall from an estimated \$4.2 billion (6.0% of GNP) in 1983/84 to \$3.5 billion (3.6% of GNP) by 1986/87. Over the three year period, the cumulative current account deficit would be \$11.2 billion, of which \$5.0 billion comprises interest payments on public sector medium and long-term debt. With a projected \$6.8 billion in amortization of public sector debt and an addition of \$300 million to reserves, the total foreign exchange requirements between 1983/84 and 1986/87 will amount to \$18.3 billion. About \$15.6 billion of these requirements will continue to be met by gross disbursements of public medium and long-term debt. Some \$9 billion will be available from disbursements from previously contracted debt while the remainder would need to be met from new commitments. Total reserves are projected to rise marginally to \$8.7 billion by 1986/87; this level of reserves will provide 4.5 months of import coverage. Given the potential volatility of export receipts and to protect the free convertibility of the rupiah, maintaining a comfortable reserve position is clearly an important aspect of Indonesia's external account management.

xxxvi. External Borrowing Strategy. In order to generate \$6.6 billion in disbursements from new commitments over the next few years, Indonesia will need to borrow about \$4.5 billion annually. Official assistance, primarily composed of concessional bilateral loans and grants and multilateral loans and grants from IGGI members, has been the most important source of funds for Indonesia. Official assistance commitments in 1983 amounted to about \$2.4 billion. This source is of particular importance to Indonesia for supporting its adjustment efforts because of its more favorable terms and associated technical assistance. Larger borrowing on harder terms would be inadvisable in terms of future debt servicing capacity. Consequently, it is recommended that the level of the IGGI commitments to Indonesia for 1984/85 be at least \$2.4 billion.

xxxvii. Import-related credits, consisting of bilateral non-concessional loans, buyers' and suppliers' credits, are an important source of foreign financing for Indonesia. By 1982, this source financed almost 21% of the country's capital goods imports. However, with \$4.0 billion of import-related credits still in the pipeline and more modest levels of public investment, the Government should aim to reduce the commitment level of import-related credits to about \$1.2 billion annually in the next three years. Indonesia's requirements for commercial borrowing in the coming years will be substantially less than the commitments in 1983/84. However, access to the international capital markets will continue to be required. An appropriate level of untied borrowing might be of the order of \$1 billion annually over the next three years. The implied increase in private banks' exposure to Indonesia envisaged in this scenario would not be excessive given current bank exposure levels.

xxxviii. With the high levels of domestic interest rates, there could be substantial demand on the part of the private sector for external borrowing without government guarantees, particularly when investment activity picks up. As part of the overall debt management strategy, it is important that such private borrowing be for projects that clearly contribute to strengthening the country's balance of payments and that the amounts remain within prudent limits. After all, private debt obligations are an integral part of the overall claims on the country's foreign exchange earnings.

xxxix. Debt and Debt Service. Indonesia has been following a very prudent borrowing strategy despite substantial improvements in its creditworthiness, and the overall debt structure remains sound. Apart from working balances of public enterprises, for which information is not readily available, the public sector holds no short-term external debt. The total level of disbursed and outstanding medium and long term external public debt at end December 1983 was \$23.7 billion. The average maturity of MLT debt is estimated at 14 years. The share of official assistance in total disbursed and outstanding public debt was 47% at end-1983, while debt at variable interest rates accounted for only 22%.

xl. The public sector borrowing program outlined above implies a growth of about 12% p.a. in nominal terms in outstanding public MLT external debt during 1984/85 and 1986/87. Private MLT external debt is expected to grow more slowly at about 9% p.a. With the projected levels and composition of

borrowings and export earnings, the public debt service ratio, based on net exports, would rise from an estimated 23% in 1983 to about 28% in 1985 and then gradually decline to about 23% by the end of the decade. With private MLT included, the ratio of debt service payments to gross exports would average about 22% during 1985-88 and decline to 20% in 1990. While debt management would require careful attention in the coming years, the projected debt service payments are not excessive by international standards. With a continued prudent borrowing policy, maintenance of a comfortable level of external reserves to guard against temporary strains on liquidity, concerted efforts at export promotion, and discipline in the public investment program, Indonesia should be able to retain its present high standing in international capital markets.

Selected Issues of Regional and Urban Development

xli. Part II of the present report provides a discussion of some of the main features of regional and urban development in Indonesia during the 1970s, and the issues they raise for the future. The coverage of these issues is, however, highly selective. The problems of spatial development are amongst the most complex facing any country, and the existing body of knowledge on this aspect of Indonesia's development is still very limited. Nevertheless, it is clear that at the local level Indonesia is undergoing tremendous economic and social change, and that it is becoming increasingly important to monitor these trends in conjunction with macroeconomic developments. Accordingly, the World Bank is devoting more attention to the analysis of spatial development processes and policies in Indonesia. At this stage the findings of this research are fairly preliminary. Consequently, the main aim of Part II is to highlight a number of important questions which merit further investigation, rather than to present definite answers.

xlii. Indonesia is a country of tremendous diversity in terms of geography, culture and economic structure. Its 13,677 islands form a land area of 1.9 million sq. km., but its total surface area including the seas within its boundaries is over 4.8 million sq. km., an area roughly the same size as the continental United States. Straddling the equator, it extends 5,110 km from Northwest Sumatra to Irian Jaya on its southeastern border. As a result, it possesses a number of distinct equatorial and monsoonal climatic zones, which, together with variations in soil and topography, have shaped the development of its agriculture and the distribution of its population. As a nation of island peoples, today's Indonesia is rooted in a rich and varied cultural tradition. Its 147 million population is drawn from over 50 ethnic groups with several hundred recognized languages and dialects. This diversity poses tremendous challenges for the Indonesian authorities, both in terms of promoting efficient growth and ensuring that the benefits of economic growth are distributed equitably amongst different groups in society.

xliii. Indonesia's physical, human and economic resources are very unevenly distributed among its main regions. Java, for example, accounts for almost one-half of Indonesia's GDP, 62% of its population, but only 7% of its land area. This uneven pattern of distribution means that there are profound differences in the economic problems faced by different parts of the country. Chapter 5 reviews the economic performance of the main regions during the 1970s and the progress of social development. One of the most notable aspects

of Indonesia's economic performance was that, despite these differences, all five of Indonesia's main regions experienced rapid per capita growth in the 1970s. Per capita growth rates ranged between 4.0% (Sumatra) and 11.7% (Kalimantan). To a large extent these differences were associated with the performance of the mineral sector, particularly petroleum. In the non-mining sector the variations in output were much less pronounced. Generally, the regions with higher output in 1971 experienced the fastest rates of economic growth in the 1970s.

xliv. Two important processes are at work in Indonesia which enable the benefits of growth to be more evenly spread. The first of these is migration. Between 1971 and 1980, 4.3 million Indonesians (or 16% of the natural increase in population) resettled permanently in provinces outside those of their birth. Approximately 1.7 million people moved from Java to the Outer Islands. Of these, 1 million were resettled through the official transmigration program. There has also been substantial rural-urban migration both between and within provinces. This migration has largely taken place in response to the perception of migrants that they can improve their economic and social conditions by moving. Rural-urban migration accounted for slightly more than half of the 9.6 million increase in Indonesia's urban population. The second process is the redistribution of incomes through the government budget. Regional variations in per capita consumption are much less pronounced than differences in per capita output. This is largely due to the impact of taxation on the oil sector.

xlv. From the point of view of spatial development policy, one of the most important features of Indonesia's development is that rural-urban differences in consumption within regions appear to be greater than differences among regions. An analysis of household expenditures indicates that Indonesia's rapid economic development has been accompanied by significant progress in reducing poverty. Between 1970 and 1980, the proportion of the population living in poverty declined from 57% to 40%. This was a remarkable achievement. The reduction in poverty was particularly rapid in the Outer Islands, where poverty incidence was reduced from 43% to 28%. On Java there was also a marked reduction in poverty incidence from 65% to 47%. Between 1970 and 1980 there was a very sharp reduction in urban poverty from 51% to 20%.

xlvi. As in any country there is considerable scope for redistributing incomes and for alleviating regional social disparities through differential levels of public spending. This is a particularly important policy option for Indonesia to explore, since central government expenditures have a marked impact on the economic and social development of the regions. On average, government spending on the regions was equivalent to 13% of provincial non-mining RDGP in 1980. The three poorest provinces, as well as some of the important transmigration provinces, received much higher levels of support. Government spending on the social services has increased at an annual rate of 21% in real terms since 1974/75. The Government has attached high priority to the development of primary school education facilities across the country. The success of this program is evident from the fact that compulsory primary education will commence in Indonesia on June 15. However, there are significant variations among provinces in higher education participation rates, access to safe water, and health service coverage. In general the

level of services provided is higher in urban areas than in rural areas. Thus a major challenge which lies ahead is to expand the coverage of services to rural areas whilst meeting the growing needs of the urban population.

xlvii. Urbanization in Indonesia has been accelerating. During 1971-80 the urban population rose by 4% per annum compared with 2.6% during 1961-71. Similarly, the share of the urban population in total population, which increased from 15% in 1961 to 19% in 1971, jumped to 22% in 1980. A major factor underpinning this growth has been an increase in rural-urban migration. During the 1960s migration accounted for 32% of the increase in the urban population, but between 1971 and 1980 it accounted for 52% of the urban population increase. This migration is closely linked to the dynamic performance of the cities in generating new employment and to the generally better level of social services such as educational and health facilities available in urban areas. Between 1971 and 1980 urban employment increased at an annual rate of 5.7% per annum compared with a rate of only 1.6% in rural areas. Even though in 1971 the urban areas accounted for only 13% of total employment, they generated 41% of all new jobs created in the 1970s. About one-third of this increase was in the manufacturing sector while almost two-thirds of the growth in urban employment occurred in services. In the rural areas the most striking development was the stagnation of agricultural employment in Java, despite the rapid increase in food output achieved. Thus, the 1.6% increase in rural employment was accounted for by increases in non-farm employment on Java and increases in rural employment on the Outer Islands. This trend has important policy implications, since it suggests that Java's rural population will become increasingly dependent on the development of non-agricultural activities for employment. Consequently, urban areas are likely to face a continued influx of migrants from rural areas. Thus it is fairly safe to assume that Indonesia's urban areas will increase in size by at least the present rate of 4% per annum. At this pace, Indonesia's urban population will more than double from its 1980 level of 33 million to 72 million by 2000.

xlviii. One of the major spatial policy concerns of the authorities has been whether the pattern of urbanization has been unbalanced in favor of the growth of large cities, particularly Jakarta. While it is true that the large cities have grown at a slightly faster pace than the medium size and smaller cities, Chapter 6 suggests that it is difficult to argue on the basis of these growth rates that urban growth is excessively concentrated in the large cities. There are a number of factors which are likely to favor the growth of large cities in Indonesia. These include the advantages of locating new investments in close proximity to the major centers of demand and to the ports. In general, it is in the interest of the economy to support investment/location decisions made on this basis, since they lead to lower production costs. However, in addition, there may be certain aspects of the urban policy framework which create biases in favor of large centers and perhaps discriminate against smaller towns and cities. It may be argued that past policies of concentrating public urban economic and social infrastructure investments in the large urban centers and the greater availability of subsidized public services have created a bias in favor of the large centers. It is enormously difficult to quantify the impact of such policies on the rate of growth of different urban centers. Nevertheless, more attention needs to be paid to this particular aspect of government policy.

xlix. It is suggested that there are strong arguments for shifting the emphasis of present urban policies away from administrative restrictions on industrial location decisions. Studies from other countries suggest that the benefits which may be obtained by spreading industry more evenly across the country through administrative controls can frequently be outweighed by additional costs to the economy in terms of reduced efficiency. Although initially more complicated, a better strategy is to ensure that businessmen pay the true costs of operating in particular cities through appropriate tax and user charge regimes. In addition, better transportation links, especially in terms of improving efficiency in the ports, have a crucial role to play in increasing the access of producers in smaller towns and cities to the national market. This would greatly improve the competitiveness of these producers.

l. Although the main emphasis of Chapter 6 is on the pattern of urbanization and urbanization policies, it is important to stress the close linkage between the rate of rural-urban migration and the relative levels of economic and social development in urban and rural areas. More than two-thirds of the rural population will continue to live in rural areas until the end of the century. Any widening of rural-urban disparities could lead to a heavy additional influx of migrants to the urban centers, placing further strains on urban growth. Consequently, Indonesia's urbanization strategy can only be truly effective if it is complemented by policies to improve economic and social conditions in rural areas, both in areas of rural outmigration on Java as well as on the Outer Islands, which possess enormous potential for additional rural employment generation.

li. Based on the analysis undertaken in Chapter 6, it is estimated that while urban areas currently account for only about one quarter of the total population, they will absorb the equivalent of one-half of the increase in Indonesia's population in the 1980's and fully two-thirds of the increase in the 1990's. Consequently, a major effort will be required to finance the projected demand for urban services, given the overall budgetary constraints facing the authorities noted in Part I. Against this background Chapter 7 looks at some of the options the Indonesian authorities may wish to explore to finance these services, and at the managerial and administrative issues posed by Indonesia's rapid urban growth.

lii. During REPELITA III more than two-thirds of urban services were financed by the central government directly, the remaining one-third was financed by local government and central government INPRES programs. Thus it is clear that the urban governments have been heavily dependent on the central government to finance urban services. During REPELITA IV expenditures are expected to more than double in real terms on the basis of current proposals. Chapter 7 argues that there is a strong case for raising the contribution of local governments. Firstly, local government taxation and cost recovery levels are low by international standards, and the further provision of subsidized urban services would tend to exacerbate urban-rural inequalities further. Secondly, urban dwellers are better off than rural dwellers and so are in a better position to contribute toward the cost of meeting such services. Thirdly, increasing the contribution of urban governments would help release central government resources for the rural sector.

liii. Given the expected growth in urban services program, the rewards of better management can be very substantial. The authorities are well aware of the benefits of improved administrative efficiency, and the central government has increasingly emphasized the need to increase the capability of local governments in planning and implementing urban investments. However, these arrangements have resulted in new difficulties, since they have tended to lead to a complex system of administration with overlapping responsibilities, multiple funding channels and weak coordination between different central and local agencies. This is a particularly important issue for the urban sector, because so many activities are interrelated. Tremendous economies can be achieved when land area plans and the provision of road, sewerage, water and electrical supplies are coordinated, for example. For the future, there is considerable scope for gradual change in the management of the urban services program, while preserving the fundamental framework of close cooperation and involvement between central and urban governments.

PART I - RECENT ECONOMIC PERFORMANCE AND MEDIUM-TERM PERSPECTIVES

The sharp decline in the price of oil in March 1983 and the international recession that preceded it seriously endangered Indonesia's external payments stability. The country was faced with a potential current account deficit in excess of 10% of GNP in 1983. Beginning in mid 1982, but particularly in 1983, the Government took a series of bold policy measures in part aimed at dealing with the immediate balance of payments problem. Recognizing, however, that the principal external shock -- i.e., the decline in oil demand and price -- was not of a transient nature, the authorities included in the policy package initiatives designed to increase economic efficiency and to effect structural transformation -- i.e., diversification of the economy's productive structure and sources of foreign exchange earnings and budgetary revenues.

Part I of this report undertakes a preliminary evaluation of the progress made in short-term stabilization and assesses the economy's medium-term prospects for growth and structural transformation, given certain assumptions about the future course of the external environment and further policy initiatives on the domestic front. Chapter 1 examines the recent trends in economic performance and policies, with particular reference to the measures introduced in 1983. Chapter 2 outlines the macroeconomic framework underpinning the assessment of the medium-term prospects along with an analysis of certain aspects of the management of the investment program. Selected issues and prospects related to the role of public finance and the financial sector in domestic resource mobilization and allocation are analyzed in Chapter 3. Chapter 4 first examines the details of the external trade projections and the related policy issues in the sector; it then discusses Indonesia's external capital requirements over the next few years and presents recommendations on external borrowing and debt management strategy.

CHAPTER 1

RECENT TRENDS IN ECONOMIC PERFORMANCE AND POLICIES

A. The Onset of Recession and Policy Responses

Introduction

1.1 Indonesia experienced a period of sustained rapid growth in the 1970s during which GDP expanded at an average annual rate of 7.6%. Not only in absolute terms, but also in comparison to the performance of different groups of countries, Indonesia's record is impressive (Table 1.1). The net impact of the disturbances in the international economic environment during the 1970s on Indonesia was favorable by virtue of the country's position as a significant exporter of oil. The successive oil price rises in the past decade sharply boosted Indonesia's export earnings - from less than 17% of GDP in 1972 to over 30% in 1980. The country's terms of trade improved by more than 200% between 1973 and 1980, and investment expenditures increased at an average rate of about 13% p.a. in real terms during that period, with the public sector being the leading force behind this rapid growth.

Table 1.1: GDP GROWTH - A COMPARATIVE PERSPECTIVE
(Percent per annum; at constant prices)

Country Group	1970-79 Average	1980	1981	1982	1983 Est.	1981-83 Average
Industrial countries	3.2	1.3	1.3	-0.5	2.3	1.0
Developing countries	4.7	3.0	2.7	1.8	1.6	2.0
Low income	4.7	6.1	4.9	4.2	6.1	5.1
Middle-income oil importers	5.5	4.2	0.8	0.7	0.3	0.6
Middle-income oil exporters	5.5	-1.3	4.3	1.6	-0.9	1.6
Indonesia <u>/a</u>	7.6	9.9	7.9	2.3	4.0 <u>/b</u>	4.7

/a At constant 1973 prices. See Table 1.16 for the estimates of growth at constant 1981 prices.

/b World Bank staff estimate. Preliminary official data indicate a growth of 3.1%.

Source: World Development Reports and World Bank staff estimates.

1.2 The improvement in Indonesia's resource position induced by the oil price rises of 1979-80 was particularly significant. The terms of trade improved by 100% between 1978 and 1980. Export earnings from oil and LNG (which was being exported in substantial volumes by the end of the decade) surged by 135% in a span of two years. More significantly, the country's

capacity to import (i.e., export earnings adjusted for the increase in import prices) rose by about 85% between 1978 and 1980, after more than doubling in the preceding five years. The balance of payments current account shifted from a deficit of \$1.1 billion in 1978/79 to a surplus of more than \$2 billion in both 1979/80 and 1980/81, despite a drop in non-oil export earnings in the latter year. Gross official reserves reached an all time high of nearly \$8 billion by end 1980. The ratio of "external resources" (defined as net oil and LNG export earnings plus net capital inflows) to GDP reached about 15% in 1980, compared with 10% in 1978.

The Setback

1.3 The deterioration in the international economic environment which began in 1980 started to take its toll on Indonesia early in 1982. The recession in the industrial countries affected Indonesia adversely in two major ways: initially through the fall in the demand for and prices of the country's traditional exports (primary agricultural commodities); and subsequently, and more dramatically, via the depressed oil demand and the fall in oil prices. The terms of trade for the country's non-oil exports declined by about 12% between 1979/80 and 1982/83. Non-oil export earnings declined from a peak of \$6.2 billion in 1979/80 to \$3.9 billion three years later.

1.4 Despite a decline in its non-oil export earnings and a slower growth in net export revenues from the petroleum sector in 1980/81, Indonesia was able to increase substantially its imports with only a slight decline in its current account surplus. In 1981/82, however, circumstances deteriorated sharply: the growth of net oil and LNG export receipts came to a virtual halt; earnings from non-oil exports declined substantially and yet imports continued to grow. The net result was a swing in the current account deficit of about \$5 billion compared to the previous year (Table 1.2). A further deterioration occurred in 1982/83 with an actual decline - \$3.5 billion - in net oil and LNG export revenues and a (much smaller) drop - \$276 million - in other export receipts. Thus, despite the sharp reduction in the growth of non-oil imports, the current account deficit had widened to 8.4% of GNP by 1982/83. There was no doubt left that the external payments position of the country called for prompt and decisive action. The impact of external shocks on the Indonesian economy was aggravated by the drought in 1982, resulting in a sharp reduction in the GDP growth rate (from 7.9% in 1981 to 2.2% in 1982). ^{/1} The weakening of the international oil market resulting in the price reduction and quota decisions by OPEC in March 1983, coupled with heavy pressure on the rupiah and the country's reserve position provided further impetus - if any were needed - for Indonesia to act swiftly to prevent an external payments crisis.

The Adjustment Response: 1983

1.5 The decline in the export volume and price of oil meant that Indonesia faced the prospect of a current account deficit of at least \$10 billion in 1983/84 unless decisive actions were taken. The Government recognized that such a deficit would create severe problems. A series of initiatives were adopted to deal with the immediate balance of payment difficulties facing the country and to lay the foundation for pursuing a

^{/1} At constant 1973 prices.

Table 1.2: KEY VARIABLES AFFECTING THE CURRENT ACCOUNT BALANCE, 1978/79-1983/84
(\$ million; at current prices)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 Est.
	<u>Level</u>	<u>Change in level from previous year</u>				
<u>Current account balance</u>	-1,109	3,361	-67	-5,084	-4,350	3,075
Net oil and LNG exports	4,010	5,390	3,850	170	-3,476	-111
Non-oil exports	3,979	2,192	-584	-1,417	-276	1,276
Non-oil imports <u>/a</u>	-8,129	-2,136	-3,274	-3,627	-374	2,295
Net factor services <u>/b</u>	-969	-2,085	-59	-210	-224	-385
<u>Memo items</u>						
Current account balance as % of GNP	4.3	4.6	3.2	-3.6	-8.4	-6.0
Terms of trade (% change)	72.0	12.8	3.1	-3.6	-4.4	-2.8

/a Including net non-factor services.

/b Including net transfers.

Source: World Bank staff estimates based on official data..

sustainable growth path in a less favorable international environment. While the adjustment policies began in 1982, the more fundamental measures were introduced during 1983. They consisted of:

- Adoption of an austere budget for 1983/84; current expenditures were expected to slow down by 10% in real terms;
- Reduction in subsidies on petroleum products, food and fertilizer. For the third consecutive year, petroleum prices were increased by a substantial margin (34% in January 1983);
- Devaluation of the rupiah by 28% (to Rp 970 per US dollar on March 30);
- Rephasing of public investment projects with a budgeted foreign exchange expenditure of some \$21 billion; the anticipated foreign exchange savings resulting from the cancellation/postponement of the projects involved were estimated by the Government to be of the order of \$10 billion (May);
- Liberalization of the financial sector, which freed up deposit and lending rates for State Banks, abolished credit ceiling and signalled the Government's intention to reduce liquidity credits (June). This was preceded by a significant tightening of domestic credit;

- Announcement of intention to reduce and simplify the regulations governing economic activity, particularly in the private sector (August); and
- Adoption of a far-reaching tax reform aimed at increasing government revenues by broadening the tax base and simplifying the underlying structure and rates (December).

1.6 The range of measures -- and, equally importantly, the speed with which the Government responded to the deterioration in the internal and external financial stability -- was indeed impressive. It demonstrated quite clearly the Government's awareness that the emergence of a severe imbalance in the external sector was not due to merely transitory factors such as the historically low prices of primary commodities. It also recognized that the main source of the shock -- the sharp reduction in the demand for and the price of oil -- was unlikely to be of a transitory nature and self-correcting. Given the immediate problem, the policy package adopted rightly emphasized aggregate demand restraint through a combination of sharp cutbacks in the public investment program, and measures aimed at restricting credit expansion. The devaluation and import controls were also intended in part to reduce the current account deficit.

1.7 The Government, however, recognizing the structural nature of the problem, blended its short-term stabilization program with attention to longer-term supply-oriented policies. From a longer-term perspective, it is the latter that are critical to success in effecting structural transformation, i.e., diversifying the productive structure of the economy and its sources of foreign exchange earnings; reducing the heavy budgetary and public savings dependence on oil revenues; and improving the efficiency of investment and lowering its import intensity, so as to generate the needed growth and employment opportunities.

1.8 The remaining sections of this chapter are devoted to a review of the immediate impact of these stabilization measures, and recent economic developments. The evaluation of the effects of the policies pursued is necessarily of a preliminary nature given the short time elapsed and incomplete data. Chapters 2-4 will assess the economy's medium-term prospects, after taking account of the 1983 reforms, and discuss the policy issues that remain to be addressed for a continued successful transformation of the economy.

B. Progress in Macroeconomic Adjustment: A Preliminary Assessment

1.9 This section first highlights the impressive success achieved in alleviating the external payments imbalance, through a combination of increased non-oil export receipts and major cutbacks in imports, and in restraining investment expenditures. It then examines selected fiscal developments. The section subsequently describes the financial sector reforms and their impact on resource mobilization in the private sector.

Progress Towards External Equilibrium

1.10 The Current Account Balance. With respect to the external sector, a major objective of the Government since early 1983 has been to reduce the current account deficit, which had reached the unprecedented and unsustainable level of \$7.3 billion (8.4% of GNP) in 1982/83. As illustrated by Table 1.3, there has been very considerable progress on this front. For 1983/84 the estimated deficit is \$4.2 billion (6% of GNP). Several factors have contributed to this impressive progress in restoring external balance. The main ones have been the measures taken in 1983 to reduce aggregate demand and

Table 1.3: SUMMARY OF BALANCE PAYMENTS, 1981/82 - 1983/84
(\$ billion; at current prices)

	<u>Actual</u>		<u>Estimated</u>
	1981/82	1982/83	1983/84
<u>Exports of goods</u>	23.0	18.6	19.8
Oil and LNG	18.8	14.7	14.6
Non-oil/LNG	4.2	3.9	5.2
<u>Imports of goods (cif)</u>	-20.0	-20.6	-18.5
Oil and LNG sector	-5.4	-4.8	-4.7
Non-oil	-14.6	-15.8	-13.8
<u>Trade balance</u>	3.0	-2.0	1.3
<u>Non-factor services (net)</u>	-2.6	-1.7	-1.4
<u>Resource balance</u>	0.4	-3.7	-0.1
<u>Net factor services</u>	-3.4	-3.6	-4.1
<u>Current account balance</u>	-3.0	-7.3	-4.2
Net disbursement of public MLT loans	2.2	3.1	3.5
Net other capital /a	-0.2	0.8	2.4
Change in official reserves (- increase)	1.0	3.4	-1.7
<u>Memo item</u>			
Official reserves	6.4	3.0 /b	4.7 /c

/a Includes estimates of oil and LNG export credits, all debt transactions associated with LNG expansion, direct foreign investment, all private capital flows, and errors and omissions.

/b Net of a drawing of \$70 million from the IMF's Buffer Stock Facility (BSF).

/c Net of a drawing of \$70 million from the IMF's BSF and \$390 million from the Compensatory Financing Facility. These are treated as current external liabilities.

Source: Bank Indonesia and World Bank staff estimates.

thereby imports, the recovery in the industrial countries, particularly the U.S., and government efforts to promote non-oil exports and improved profitability of export activities.

1.11 Recovery in Exports. Promotion of exports - particularly non-oil exports - has been a major concern of the authorities in the past two years. Results so far are very encouraging. The nascent OECD recovery has had a favorable impact on the prices of commodity exports which are important to Indonesia. The prices of most non-oil export commodities have recovered strongly from the record low levels of 1982. The World Bank index of 33 selected commodities (excluding oil) rose by about 14% in 1983. Nominal prices for rubber, coffee and palm oil have increased by 30%, 24% and 84%, respectively, from their lowest levels in 1982. Prices of metals and minerals of interest to Indonesia have also increased somewhat (tin 4%, aluminium 62% and nickel 21%). Prices for timber and its products, however, fell during the first half of 1983 and have only recently recovered to their 1982 levels. In the world oil market, prices have stabilized at the level of about \$29 per barrel for the Saudi marker crude agreed by OPEC in March 1983. With respect to import prices, the appreciation of the U.S. dollar vis-a-vis the currencies of other industrial countries has lowered the dollar index of the price of manufactured imports by developing countries. Taking all of these factors together, Indonesia's overall terms-of-trade declined by about 3% between 1982 and 1983, largely reflecting the lower oil and LNG prices. However, the non-oil terms of trade improved by 9%.

1.12 These developments in the international economy - complemented by the Government's policies to promote non-oil exports (see Chapter 4) - made it possible for Indonesia to enjoy a substantial increase (about 33% in nominal terms) in its non-oil export earnings in 1983/84. This increase far exceeded the small decline in the combined oil and LNG export revenues (less than 2%). The damage caused by the April 1983 explosion at the LNG facility at Bontang, East Kalimantan was quickly repaired, resulting in only a 9% decline in LNG export receipts in 1983/84 compared to the previous year's level. Oil export revenues virtually matched their 1982/83 level. The surge in non-oil export earnings is particularly impressive. The details of the non-oil export performance are given in Table 1.4 and in Annex 1, Table 1. The underlying factors contributing to the substantial rise in non-oil export earnings vary among the major commodities. In some cases, earlier investments paid off handsomely (e.g. palm oil plantations and new fertilizer plants). There is evidence that even in the case of some traditional primary exports, the devaluation has been effective. For example, it is believed that the increased output of rubber - probably largely due to higher levels of tapping by smallholders - has been in response to the higher international prices and the devaluation. The 52% increase in nominal receipts from textile exports is particularly impressive evidence of the impact of the devaluation. It also tends to suggest the Government's attention to non-oil export promotion (see Chapter 4) has begun to yield results.

1.13 Restraining Imports. In combination with export promotion, government policy has been to restrain imports through cutbacks in the investment program, devaluation, and import controls (see Chapter 4). Non-oil/LNG imports are estimated to have declined by about 13% in nominal terms in 1983/84. Although it is not possible to determine the separate effects of the policies aimed at curbing imports, the decline in non-oil imports was broad-based, affecting most of the major import categories, though in varying degrees (see Table 1.5).

Table 1.4: NON-OIL EXPORT PERFORMANCE, 1982/83 AND 1983/84

	1982/83 (\$ million; at current prices)	1983/84 <u>/a</u>	<u>% change, 1983/84 over 1982/83</u> <u>/a</u>	
			Volume	Value
Timber	559	514	-9.0	-8.1
Rubber	615	829	8.7	34.8
Coffee	363	496	22.5	36.6
Palm oil	103	146	37.5	41.7
Tea	116	148	20.6	27.6
Plywood	324	574	62.9	77.2
Textiles	156	237	-	51.9
Fertilizers	18	61	-	238.9
Electrical appliances	112	168	-	50.0
Handicrafts	23	48	-	108.6
Tin	349	331	-6.6	-5.2
Others	1,156	2,118	-	83.2
Total	<u>3,894</u>	<u>5,170</u>		<u>32.8</u>

/a Estimates.

Source: Bank Indonesia and World Bank staff estimates.

In absolute terms, the decline in capital goods imports was the largest - about \$1.6 billion, compared to a \$2.0 billion reduction in all non-oil imports. Similarly, imports of intermediate goods fell in the first quarter of 1983/84 by 40% from the quarter before the devaluation and 17% from the average of the previous five quarters. In the first quarter following the devaluation on March 30, 1983, imports of consumer goods fell by 34% from the previous quarter and by 20% from the average of the previous five quarters.

1.14 Access to Capital Markets and Reserve Management. Indonesia's foreign exchange reserve position improved significantly during 1983/84. Following a loss of some \$3.4 billion during 1982/83, official reserves increased by about \$1.7 billion in 1983/84 (net of a CFF drawing of \$390 million from the IMF). After the heavy outflow of funds in late 1982 and early 1983, renewed confidence in the rupiah following the March 1983 devaluation and the increase in domestic interest rates following the June financial reforms (paras 1.35-43) led to a reflow of foreign exchange to both the commercial banking system as a whole and to official reserves of an estimated \$1 billion. Including the net foreign exchange holdings of commercial banks, total reserves amounted to \$8.4 billion at end 1983/84, an increase of \$2.0 billion compared with end 1982/83.

Table 1.5: NON-OIL IMPORTS, 1982/83 - 1983/84
(\$ billion; at current prices)

	1982/83	1983/84 <u>/a</u>	% Change, constant 1981 prices <u>/a</u>
Consumer goods	2.4	2.0	-17.9
(Food)	(1.3)	(1.4)	5.3
(Non-food)	(1.1)	(0.6)	-49.0
Intermediate goods	5.2	5.2	3.8
Capital goods	8.2	6.6	-16.2
Non-oil imports	<u>15.8</u>	<u>13.8</u>	<u>-10.0</u>

/a Estimate.

Source: World Bank staff estimates.

1.15 The country was able to take advantage of its continued access to international capital markets, obtaining additional commitments of about \$1.7 billion of commercial financing during 1983/84. The response to a syndicated loan in early 1984 was so favorable that its size was raised from \$500 million initially to \$750 million. New commitments of development assistance -- of about \$2.4 billion -- and import-related credits of about \$1.7 billion brought total commitments of external public debt and grants to about \$6.0 billion during the year. Disbursements, net of amortization payments on public debt, totalled \$3.5 billion in 1983/84. Finally, Indonesia qualified for a drawing of \$390 million from the IMF's Compensatory Financing Facility, due to the shortfall in its non-oil export earnings in 1982/83.

Restraining Investment Expenditures

1.16 As noted above, a major factor in improving the current account deficit has been the reduction in capital goods imports. This in turn has been the result of restraint in investment activity. The rephasing exercise in particular resulted in sharp cutbacks in public investment expenditures.

1.17 The growth of public sector investment has closely followed the cycle of oil price increases. Between 1974/75 and 1978/79, the real average annual growth rate of public sector investment was only 4.3% (Table 1.6).^{/1} Both direct government investment and public enterprise investment grew very rapidly after the 1979/80 oil price increase. The real growth in public

^{/1} But this masks a sharp rise in 1975 and 1976 - the years of rapid growth in Pertamina's investments. In fact the average real growth of public enterprise investment during the period 1974/75 - 1978/79 was negative reflecting the caution exercised by the Government in managing public sector investment expenditures during the aftermath of the Pertamina crisis.

Table 1.6: PUBLIC SECTOR INVESTMENT 1974/75 - 1983/84

	As % of GDP			Average Annual Real Growth /a		
	1974/75	1978/79	1982/83	1974/75-1978/79	1978/79-1982/83	1982/83-1983/84 Est.
Direct government	4.3	5.7	8.0	15.9	18.3	-
Public enterprises	7.2	4.4	7.4	-5.2	24.5	-
Total	11.5	10.1	15.4	4.3	21.1	-17.0
<u>Memo item</u>						
As share of GDI (%)	68.2	49.7	68.6			

/a Using the GDI deflator from the national accounts.

Source: Annex I, Table 8.

enterprise investment of almost 25% per year during the period was financed largely from sharp increases in the foreign exchange earnings of the Government and disbursements of public sector external debt.

1.18 Direct government investment has focused on agriculture, infrastructure and human resource development. In particular, investment in the social sectors (education, health, housing, and water supply) grew rapidly, roughly 15% per year in real terms during the period 1975/76 to 1982/83. Amongst infrastructural investments, manpower and transmigration expenditures grew fastest. A large part of the sharp increase in public sector investment since 1979/80 has stemmed from the outlays by public enterprises for major projects in power generation, industry and mining. Public sector industrial investment focused on the development of heavy producer goods industries, such as cement, steel, fertilizer, paper and engineering goods. The Government's intention to continue using the public sector as a spearhead in industrial development was articulated in the August 1982 State Address by the President when 52 key industrial projects were identified for implementation during REPELITA IV. These included 18 projects in the engineering sub-sector, 27 in basic chemicals and 7 in light manufacturing. The total cost was estimated at \$11.8 billion /1, but did not include Pertamina-related projects of the Balikpapan, Cilacap and Dumai refineries, methanol and the LNG expansion with an estimated total cost of \$4.5 billion. /1

/1 At 1980 prices.

1.19 The rapid deterioration of the current account and the sharp change in medium-term external resource prospects precipitated a drastic revision in these plans. In May 1983 the Government initially announced postponement in the implementation of four large Pertamina-related projects, and then reviewed 125 major public sector projects across all the major sectors with a total foreign exchange content of \$21 billion. Altogether 45 projects were eventually affected by this revision process. At the time, foreign exchange expenditures on these projects was expected to fall to \$11.0 billion. Of the total planned net reduction in foreign exchange expenditures amounting to \$10 billion, over \$3 billion was in the first year alone. There is evidence that even direct government investment in infrastructure and social sector investments slowed down in 1983/84. The combined effects of the rephasing of public sector projects and the slowdown in infrastructural investments are estimated to have resulted in about a 17% decline in real terms in public investment outlays in 1983/84 compared to 1982/83. The downward adjustment of the public sector investment program has meant a more acceptable level of shortfall in domestic revenues in relation to total government expenditures in 1983/84. Nevertheless, despite these measures, the budget's foreign exchange surplus (i.e., oil and LNG tax revenues less government expenditures denominated in foreign exchange) was still the lowest since 1975/76.

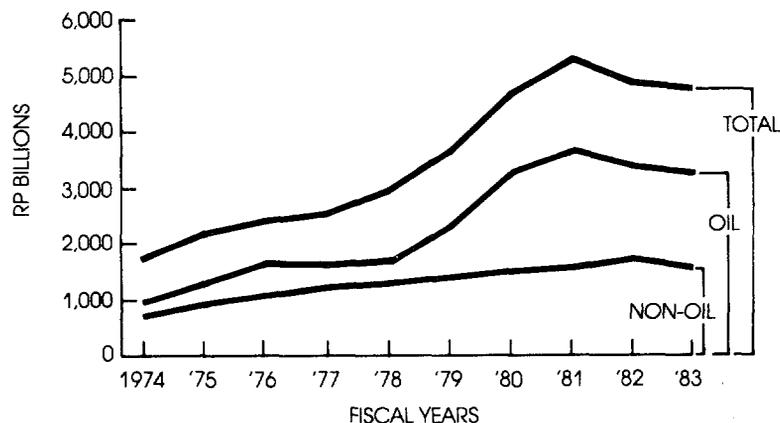
1.20 If these adjustments had not been undertaken, the public sector capital account would have had an overall shortfall equivalent to 13.7% of GDP, resulting in excessive external borrowing and effectively eliminating the Government's savings with the banking system. The Government's foreign exchange balance would have turned to a deficit for the first time, thereby placing the onus on the private sector to be a net foreign exchange earner.

Changes in the Government's Financial Position

1.21 Given the heavy dependence of government revenues on oil export receipts, the weakening of the international oil market in late 1982 and early 1983 had a severe impact on the budget. There was a 12.8% reduction in real terms in Indonesia's oil tax receipts in 1982/83 and, despite an impressive real growth in non-oil tax receipts of 8.7%, overall central government resources declined substantially (Figure 1.1).

Figure 1.1

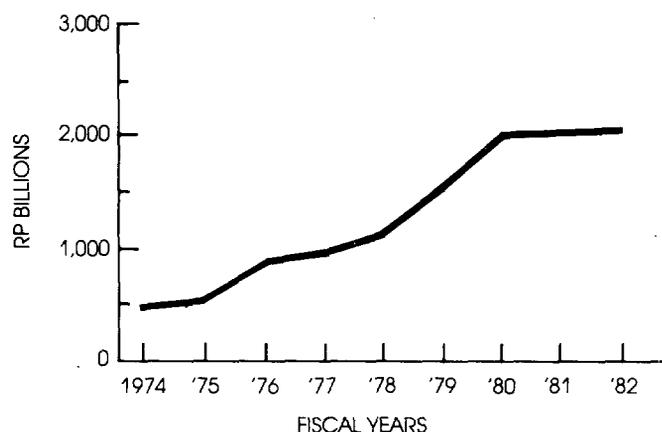
**Central Government Revenues in Real Terms
(At Constant 1974 Prices)**



1.22 Notwithstanding the revenue decline in 1982/83, real public domestic savings remained stable, a result of the Government's ability to keep current expenditures in check (Figure 1.2). However, even with some scaling back from budgeted levels of development expenditures, the excess of the Government's expenditures over revenues (excluding project and program aid) rose to 6% of GDP for the first time since 1975/76. This was financed by drawing down accumulated savings with the banking system of about 1.3% of GDP and (net) disbursements of project and program aid equivalent to about 4.7% of GDP. Project and program aid amounting to 3.2% of GDP was channelled through the budget. The remaining 1.5% comprised off-budget transfers to public enterprises.

Figure 1.2

**Real Public Domestic Savings
(At Constant 1974 Prices)**



1.23 In response to the deteriorating international economic situation, the President introduced an austere 1983/84 budget to Parliament in January 1983. Current expenditures were again to be kept in strict check (civil service emoluments were frozen for a second consecutive year), and incremental oil revenues were to finance development expenditures. As part of the budget package, domestic oil prices were raised in an effort to reduce subsidies and hence current expenditures.

1.24 As 1983/84 unfolded, even this austere budget appeared optimistic. However, the devaluation, rephasing of the public investment program, and further restraint on current expenditures contributed to a healthy public finance outcome. Total receipts were Rp 18.3 trillion for the fiscal year, about Rp 1.7 trillion above the budgeted level (Table 1.7). This was partly explained by the devaluation, which significantly affected the rupiah value of both oil and LNG taxes and project and program aid. The performance of non-oil taxation, however, was particularly noteworthy. Bolstered partly by the effect of the devaluation on non-oil corporate tax collections, but also in large part due to a renewed vigour in collection efforts, overall budget targets for non-oil taxes were reached. The Government was also very successful in restraining current expenditures despite higher than expected oil subsidies and external debt servicing (both due to the devaluation), and a

thirteenth month bonus to civil servants as compensation for the expected rise in prices because of devaluation. This impressive performance in restraining current expenditures was in line with the President's directive that rupiah expenditures be held within budgeted levels. However, this directive also had its effect on the pace of development expenditures which, despite the devaluation, were kept to only 6.5% above budgeted levels. The restraint on development expenditures, however, was not evident in all sectors (see table 1.9).. While expenditures in the agricultural sector fell by 31% in comparison with the previous year, expenditures in the industry and mining sectors rose by 135%. The sharp increase in the latter reflected large investments in refineries and petroleum-related downstream production units which were almost entirely financed by project and program aid. Expenditures in the remaining sectors either kept within budgeted limits or registered modest increases over budgeted levels.

Table 1.7: THE 1983/84 BUDGET OUTTURN
(Rp trillion; at current prices)

	1982/83 Actual	1983/84 Budget	1983/84 Actual
<u>Domestic revenues</u>	<u>12.4</u>	<u>13.9</u>	<u>14.4</u>
Oil and LNG	8.2	8.9	9.5
Non-oil taxes	3.8	4.5	4.4
Non-tax revenues	0.4	0.5	0.5
<u>Project and program aid</u>	<u>1.9</u>	<u>2.7</u>	<u>3.9</u>
<u>Total receipts</u>	<u>14.3</u>	<u>16.6</u>	<u>18.3</u>
<u>Routine expenditures</u>	<u>7.0</u>	<u>7.3</u>	<u>8.4</u>
Personnel & materials	3.4	3.7	3.8
Debt service	1.2	1.4	2.1
Subsidies	2.4	2.2	2.5
<u>Development expenditures</u>	<u>7.3</u>	<u>9.3</u>	<u>9.9</u>
Departments	3.3	3.7	3.2
Other (including INPRES)	2.1	2.9	2.8
Project aid	1.9	2.7	3.9
<u>Total expenditures</u>	<u>14.3</u>	<u>16.6</u>	<u>18.3</u>
<u>Memo item</u>			
Change in government assets with the banking system (— = increase)		0.7	-1.3 /1

/1 Preliminary estimate.

Source: Nota Keuangan, BI Financial Statistics, and World Bank staff estimates.

1.25 The overall impact of government revenues and expenditures on economic activity has been contractionary in 1983/84. The domestic deficit (i.e. all rupiah-denominated revenues less rupiah-denominated expenditures) fell to about 5% of GDP, well below historical levels. The foreign surplus also fell, despite the rephasing of public sector projects, from about 4% of GDP in 1982/83 to about 2% of GDP in 1983/84. The Government's efforts in containing the public investment program to save foreign exchange inevitably affected its rupiah expenditures in the domestic economy. In order to counteract this effect during 1983/84, the Government's intention was to substantially increase expenditures on labor-intensive projects with a low foreign exchange content. Unfortunately, such expenditures in fact fell below budgeted levels; INPRES expenditures, for example, fell 7% short of the annual budgeted target.

The 1984/85 Budget

1.26 The 1984/85 budget represents a noteworthy beginning in the direction of improving public savings performance. The budget continues to incorporate important measures to restrain the growth of current expenditures, especially through reductions in subsidies. It also contains major steps (e.g. greater tax effort) aimed at increasing non-oil revenues in the future. Consequently, public savings are expected to show an improvement, rising to 7.8% of GDP in 1984/85 from an estimated 7.5% in 1983/84 (Table 1.8).

Table 1.8: THE 1984/85 BUDGET

	<u>Rp trillion; at current prices</u>				<u>1983/84-1984/85</u>	
	<u>1982/83</u>	<u>1983/84</u>	<u>1983/84</u>	<u>1984/85</u>	<u>Nominal</u>	<u>Real</u>
	<u>Actual</u>	<u>Budget</u>	<u>Est.</u>	<u>Budget</u>	<u>Growth</u>	<u>Growth</u>
<u>Total government receipts</u>	<u>14.3</u>	<u>16.6</u>	<u>18.3</u>	<u>20.5</u>	<u>12.0</u>	<u>-</u>
Oil and LNG	8.2	8.9	9.5	10.4	8.4	-3.2
Non-Oil revenues	4.2	5.0	4.9	5.8	18.4	5.7
Development funds	1.9	2.7	3.9	4.3	10.3	1.6
<u>Total government expenditures</u>	<u>14.3</u>	<u>16.6</u>	<u>18.3</u>	<u>20.5</u>	<u>12.0</u>	<u>-</u>
Routine expenditures	7.0	7.3	8.4	10.1	20.2	7.4
Development expenditures	7.3	9.3	9.9	10.4	5.1	6.2

Source: The Budget; Nota Keuangan; and World Bank staff estimates.

1.27 The budget was formulated and approved at a time when Indonesia's foreign exchange reserves had improved substantially, the international recovery had strengthened and the world oil market had stabilized. There was, therefore, a tempting opportunity to significantly increase public expenditures, particularly by reintroducing some of the rephased projects. The Government has, however, allowed only a modest increase in total government spending, in line with the expected growth in resources. Although revenues from oil and LNG taxes will decline in real terms, a sharp increase in non-oil taxes and projected disbursements of external assistance will raise

total Government resources by about 2% in real terms; and the Government's commitment to the principle of balanced budgeting implies that total expenditures will rise by only the same magnitude. This increase will take place in the routine expenditure component of the budget, due to the decision to raise civil servants' salaries by 15% and projected increases in external debt service payments. The growth of material expenditures in the routine budget, however, will be tightly constrained.

1.28 As a result, real development expenditures will decline in comparison with 1983/84 levels. A breakdown of planned development expenditures suggests that agriculture, electric power, housing and water supply, health, and manpower and transmigration will be given additional emphasis and expenditures on industry and mining, and transportation and tourism will be restrained (see Table 1.9).

Table 1.9: DEVELOPMENT EXPENDITURES BY SECTOR
(Rp billion)

	1982/83 Actual	1983/84 Actual	1984/85 Budget	1983/84 - 1984/85	
				Nominal Growth	Real Growth
Agriculture and irrigation	931	913	1,402	53.6	37.1
Industry & mining	914	2,153	925	-57.0	-61.6
Electric power	758	660	1,025	55.3	38.7
Transportation & tourism	876	1,527	1,392	-8.8	-18.6
Manpower & transmigration	436	456	675	48.0	32.2
Regional development	712	749	810	8.1	-3.4
Education	703	1,335	1,502	12.5	0.5
Health	260	278	408	46.8	31.0
Housing & water supply	151	221	433	95.9	74.9
General public services	719	899	940	4.6	-6.6
Government capital participation	281	234	227	-3.0	-13.4
Others	619	474	720	51.9	35.6
<u>Total</u>	<u>7,360</u>	<u>9,899</u>	<u>10,459</u>	<u>5.7</u>	<u>-5.7</u>

Source: Nota Keuangan; Budget Data; and World Bank staff estimates.

The Impact of Changing Subsidy Policies

1.29 An important aspect of the Government's economic management over the last three years has been the reduction of subsidies for domestic oil consumption and food. As a consequence, budgetary subsidies are estimated to have fallen, in nominal terms, by over 40% between 1981/82 and 1983/84 from Rp 1.5 trillion to Rp 0.9 trillion. The most prominent area of subsidy reduction has been that of domestic oil consumption. For three years in succession, the Government raised by significant amounts the domestic prices

of petroleum products (Table 1.10). In the aggregate, the latest round of domestic oil price increases raised public savings by about 20% or 1.8% of the projected GDP in 1984.

Table 1.10: DOMESTIC OIL PRICES, 1981-1984
(Rp/liter)

	January 1981	January 1982	January 1983	January 1984	Increase 1981-84 (%)
Aviation fuels	150	240	300	300	100
Super gasoline	220	360	400	400	82
Regular gasoline	150	240	320	350	133
Kerosene	38	60	100	150	300
Automotive diesel oil	53	85	145	220	320
Industrial diesel oil	45	75	125	200	344
Fuel oil	45	75	125	200	344
<u>Weighted average</u>	<u>66</u>	<u>103</u>	<u>160</u>	<u>219</u>	<u>232</u>
% increase over previous year	-	56	55	37	-

Source: MIGAS.

1.30 The four direct sectoral consumers of oil products are households, industry, transport and electricity. /1 If the total additional burden of each round of domestic oil prices increases is given an index of 100, indicative sectoral shares of this burden are illustrated in Table 1.11. /2 The household sector has clearly borne the main brunt of the oil price increases every year through higher prices for kerosene. However, both the transport and the industrial sector have also been affected significantly. The ultimate distributional effects would, of course, depend on the extent to which increased costs in these sectors are passed on to consumers.

1.31 The food subsidy, comprising budgetary allocations for financing BULOG's trading activities, reached an all-time high of Rp 280 billion in 1980/81. It was a quick and demonstrable means of distributing the oil surplus and containing inflation. A subsequent increase in the price of rice in 1982 and favourable price developments abroad effectively eliminated the

/1 Both PLN and privately owned captive power plants.

/2 Calculated by normalizing the multiplicand of the ex-ante consumption shares of each product by sector and the price increase of each product.

Table 1.11: THE BURDEN OF OIL PRICE INCREASES - SECTORAL SHARES
(Percentage distribution)

	January 1982	January 1983	January 1984	Average 1982-84
Transport	32.4	26.8	20.3	26.5
Households	33.3	35.6	34.7	34.5
Industry	24.2	25.2	29.7	26.4
Electricity	10.1	12.4	15.3	12.6
<u>All Sectors</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: The Budget; MIGAS; and World Bank staff estimates.

subsidy. In November 1982 the Government announced an increase in BULOG's floor price for rice and in fertilizer prices, designed to both reduce fertilizer subsidies and maintain production incentives. However, active and timely intervention by BULOG in the domestic market has softened the effect of this measure on consumers.

1.32 The reduction in subsidies has undoubtedly had an adverse impact on the welfare of consumers at a time when incomes were depressed. By skillful economic management, however, the Government has succeeded in mitigating part of this loss by spreading its effect over as large a proportion of the population as possible while simultaneously increasing expenditure allocations to the social sectors. At a time of severe resource constraints the Government not only maintained but also, in some cases, increased expenditures in social sectors directly affecting the poor (Table 1.12). In particular, the rapid expansion of education expenditures has made the important landmark of universal primary education a reality. Expenditures on housing and water supply have been given prominence in the 1984/85 budget. This will help alleviate, to some extent, the welfare costs of the subsidy reductions.

Table 1.12: PUBLIC EXPENDITURES PER CAPITA IN SOCIAL SECTORS,
1980/81-1984/85
(Rp thousand; at 1981/82 prices)

	1980/81	1981/82	1982/83	1983/84	1984/85 Budget
Education	4.2	4.9	4.2	7.0	6.9
Health	1.6	1.9	1.5	1.5	1.9
Housing and Water Supply	1.4	1.1	0.9	1.1	2.0
<u>Total</u>	<u>7.2</u>	<u>7.9</u>	<u>6.6</u>	<u>9.6</u>	<u>10.8</u>

Source: The Budget; Biro Pusat Statistik.

Financial Reforms and Resource Mobilization in the Private Sector

1.33 Until recently, large oil profits and budgetary surpluses enabled the Government to pursue a multiplicity of goals in the financial sector /1, by channelling these surpluses to the banking system through liquidity credits by Bank Indonesia at low interest rates /2. At the same time, Bank Indonesia also regulated the volume, cost and direction of credit through credit ceilings, direct controls on interest rates and the liquidity credit mechanism.

1.34 This system worked quite well in providing increased credit to the economy, channelling resources to priority sectors and programs, and sustaining high levels of domestic production and economic growth. However, several major weaknesses in the banking system began to emerge: (a) the financial system's dependence on substantial infusions of oil profits eroded incentives for state banks to mobilize private financial savings, (state banks largely functioned as conduits for cheap funds provided by the public sector); (b) mandated low interest rates discouraged savings and together with capital-intensity of investment contributed to the misallocation of resources; and (c) as oil prices weakened sharply in 1982, given the free foreign exchange regime and a somewhat over-valued rupiah, an outflow of capital occurred, creating considerable pressure on official reserves.

1.35 Financial Reforms. With the erosion of oil revenues, the Government's policy of supporting the banking system with budgetary surpluses became unsustainable. The tight external constraint also necessitated measures to mobilize more domestic savings in order to sustain investment levels.

1.36 Between August 1982 and June 1983 the Government, therefore, adopted a series of new policy measures intended to reduce the dependence of the financial system on liquidity credits, promote greater mobilization of financial savings and financial intermediation, provide greater operational flexibility to commercial banks, and increase the efficiency of resource use. In August 1982, Bank Indonesia withdrew some of the refinancing facilities provided to commercial banks for relatively low priority purposes /3; and in April 1983, state banks' interest rates on six month deposits were freed from BI regulation (state banks were technically free to set rates on deposits of three months or less from 1978 onwards). However, since lending rates of state banks remained fixed, this partial liberalization of deposit rates had little immediate effect.

/1 Given the relatively early stage of development of the Indonesian financial system, the Government through this mechanism endeavoured to: increase availability of credit, especially for investment and for "priority" purposes; support weaker economic groups; strengthen the institutional structure; and augment financial resources for development, while maintaining price stability.

/2 Liquidity credits and public sector deposits together provided over 40% of resources of deposit money banks in December 1982, and over half of their incremental resources between 1979 and 1982.

/3 Refinancing facilities for working capital loans were withdrawn.

1.37 In June 1983, the Government announced further major reforms which included a further liberalization of interest rates of state banks, a significant reduction in the scope of liquidity credits/rediscounting facilities, abolition of overall and selective domestic credit ceilings, and the opening of the domestic financial system to market forces. Firstly, the state banks were allowed to set their own deposit rates on 12 and 24 month deposits (placing them on much the same footing as private and foreign banks in this regard), and to offer bearer certificates of deposits, while the limitations on the acceptance of foreign currency deposits and the 20% withholding tax on domestic dollar deposits were withdrawn in order to encourage the repatriation of funds held abroad. Secondly, lending rates of state banks except those on "priority" programs were liberalized. Thirdly, the scope of liquidity credits was restricted to 14 "priority" programs; 75-100% of loans granted under these priority programs are still eligible for rediscounting at the rate of 3% per annum, but the prescribed lending rates of such programs were raised from 10.5% to 12% earlier to a uniform rate of 12% (with the exception of export credits which will be charged at 9% and student loans at 6%). Finally, all credit ceilings were abolished.

1.38 The Impact on Deposit Mobilization and Interest Rates. During the first 6 months following these reforms, several noteworthy changes in the operations of the banking system have taken place. Firstly, deposit rates of state banks have increased sharply from a range of 6-12% p.a. earlier to 15-18% p.a. (Table 1.13), largely due to aggressive bidding for deposits by state banks. As a result, deposit rates of state banks are now comparable to those of private banks. Secondly, the rise in deposit rates has increased the costs of funds of banks; the average costs of funds will increase further as outstanding liquidity credits are retired by BI, and given the changing mix of banks' deposits (para 3.48). Consequently, state banks have raised their lending rates from around 13% p.a. on average earlier to about 18% for term lending and from 15-21% to 21-24% for working capital loans. Thirdly, the increase in deposit rates has had a favorable impact on deposit mobilization; between May and December 1983 time deposits with all commercial banks increased by about 51% ^{/1} (Table 1.14). Finally, the higher deposit rates together with the devaluation have also encouraged sizeable capital inflows, resulting in a significant improvement in the foreign exchange reserves of the banking system.

1.39 Not all of this increase in time deposits of commercial banks represents a genuine increase in financial savings. Evidently some shift in the pattern of holding financial assets took place. For instance, until September 1982, demand deposits were the fastest growing component of banks' deposit liabilities and the money supply; in late 1982 a substantial decline in demand deposits took place, coinciding with a flight of capital from Indonesia before the March 1983 devaluation. Although, as noted earlier, a significant repatriation of foreign assets is believed to have taken place after the devaluation, demand deposits at end 1983 were well below their September 1982 level (Table 1.14), and the influx of funds has presumably gone

^{/1} Time deposits with state banks (including inter bank deposits) increased more rapidly, rising by 95% over the same period. Private banks and development banks deposit their surplus funds with state banks, so that the deposit liabilities of the latter have continued to rise far more rapidly than consolidated deposits of deposit money banks.

into time deposits. There is also evidence of increased preference of the public at the margin for time deposits vis-a-vis currency holdings; the currency component of the money supply has remained more or less unchanged (around Rp. 3.3 trillion) since June 1983. High time deposit rates, which are now close to or above bond yields, have also eroded incentives to hold bonds and some shift from such assets to time deposits also probably occurred.

Table 1.13: INTEREST RATES OF COMMERCIAL BANKS, 1979-1983
(In percent per annum)

	1979 December	1981 December	1982 December	1983 March	1983 June	1983 December
<u>Deposit rates</u>						
Cetificates of deposits	9.8	10.9	12.5	12.5	14.5	15.4
<u>Time deposits - state banks</u>						
3 months	14.8	15.0	10.0	9.6	16.5	16.5
6 months	6.0	6.0	6.0	6.0	17.0	17.3
12 months	9.0	9.0	9.0	9.0	18.0	18.5
24 months /a	15.0-12.0	15.0-12.0	15.0-12.0	15.0-12.0	17.0	18.3
<u>- private banks</u>						
3 months	16.7	17.4	17.1	17.4	17.4	17.4
6 months	18.3	17.9	18.5	18.6	18.8	18.8
12 months	19.6	19.4	19.3	19.3	19.5	19.7
24 months	19.6	19.0	18.8	19.0	18.8	19.7
<u>State banks lending rates</u>						
Priority programs			10.5-12.0	10.5-12.0	12.0	12.0
Investment credits			13.5	13.5	16.5-18.0	16.5-18.0
Working capital			15.0-21.0	15.0-21.0	16.0-24.0	16.0-24.0

/a Earlier, 15% up to Rp 2,500,000 and 12% over Rp 2,500,000; after June 1, 1983, minimum rate was set at 12%.

Source: Bank Indonesia.

1.40 The increase in time deposits, especially of state banks, has been accompanied by a change in the maturity structure of deposits; while 3, 6 and 12 month deposits have increased sharply, 24 month deposits have declined in absolute terms; the latter which accounted for 57% of time deposits of state banks in May, 1983 now amounts to only 20% (Table 1.15). This shift in the composition of deposits probably reflects the substantial narrowing of rate differentials between short-term and long-term deposits and the consequent attractiveness to depositors of short-term deposits given preferences for liquidity and uncertainties with regard to future price and exchange rate movements. Nevertheless, it has created a mismatch between the structure of deposits and loans, which could give rise to portfolio problems for banks in lending long-term. It is also likely that, given banks' costs of funds, they would be reticent to contribute a significant share for "priority" lending at the rate of 12% p.a. as fixed by the Government.

Table 1.14: BANK DEPOSITS AND MONEY SUPPLY, 1980-1983
(Rp. billion)

	1980 Dec.	1981 Dec.	1982 Sep.	1982 Dec.	1983 May	1983 Dec.
<u>Deposits of commercial banks</u>						
Demand deposits	2,795	3,847	4,705	4,134	4,131	4,177
Time & savings deposits	1,481	2,033	2,391	2,491	3,103	4,694
Foreign currency deposits	1,174	1,094	1,237	1,406	2,098 /a	2,290
Total deposits	<u>5,450</u>	<u>6,974</u>	<u>8,333</u>	<u>8,031</u>	<u>9,332</u>	<u>11,161</u>
<u>Money supply</u>						
Demand deposits	2,842	3,929	4,767	4,187	4,196	4,236
Currency	2,153	2,557	2,826	2,934	3,069	3,333
<u>Changes in factors affecting the money supply /b</u>						
Foreign assets (net)	+3,101	+236	-1,051	-478	+271	+531
Domestic credit	-252	+1,823	+3,015	+466	+506	+290
Time & savings deposits	-859	-534	-437	-287	-739	-974
Other items (net)	<u>-380</u>	<u>-34</u>	<u>-420</u>	<u>-173</u>	<u>+106</u>	<u>+6</u>
Money supply	<u>+1,610</u>	<u>+1,491</u>	<u>+1,107</u>	<u>-472</u>	<u>+144</u>	<u>-147</u>

/a Deposits denominated in foreign currency; following the devaluation, the rupiah value of these deposits increased by Rp 620 billion, due to valuation adjustment.

/b Sign indicates effect on money supply.

Source: Bank Indonesia.

Table 1.15: TIME DEPOSITS WITH STATE BANKS /a, 1979-1983
(In Rp. billion)

	3 months and less	6 months	12 months	24 months	Others	Total
1979 Dec.	7	78	34	589	67	775
1981 Dec.	48	107	82	748	107	1,093
1982 Dec.	45	122	79	849	136	1,231
1983 May	202	188	95	831	133	1,449
1983 Sep.	428	409	483	657	284	2,262
1983 Dec.	679	549	886	566	150	2,831

/a Includes inter-bank deposits.

Source: Bank Indonesia.

1.41 Higher lending rates have also increased the cost of credit to borrowers. The increased cost of credit is a cause for concern, especially since banks, faced with a changing maturity structure of deposits (para 1.40) and uncertainties with regard to future trends in interest rates and the availability of liquidity credits (para 1.42), seem less willing to provide term financing. As noted in para 3.43, however, the scope for reducing interest rates through official actions seems to be limited in the short term; but it may be possible to reduce the cost of credit somewhat in the longer term by lowering the intermediation costs of banks. The uncertainties (para 3.37) faced by banks have also led to a continued preference for excess reserves by banks; the ratio of liquid assets to deposit liabilities stood at 19% at the end of January, 1984. This in turn has somewhat complicated the task of short-term monetary control and management (paras. 3.32-3.37). BI introduced, as of February 1, 1984, its own certificates of indebtedness (SBIs) in part designed as a tool for liquidity management. BI also introduced some further measures (including a reduction in its discount rate) in April which appear to have been aimed at softening the tight money market and encouraging banks to readjust interest rates somewhat.

1.42 A somewhat puzzling short-term phenomenon is the continued high level of short-term deposit rates, given the sharply higher growth of deposits and comfortable liquidity position of banks. This is due to several reasons: Firstly, a large part of outstanding liquidity credits extended by BI earlier for non-"priority" purposes will fall due for repayment over the next 1 to 3 years; and these repayments could be substantial in relation to banks' deposits. Secondly, following the June 1983 reforms banks have to be much more self-reliant; and have maintained excess reserves to guard against temporary liquidity shortages. Thirdly, given the oligopolistic structure of the banking system ^{/1} and the perceived need to repay liquidity credits, individual banks have been unwilling to lower deposit rates for fear of losing deposits/customers to competitors.

1.43 In short, the recent reforms represent a major change in the Government's approach to the management of the financial sector and a further major step forward in the deregulation of economic activity. As noted above, the initial responses to these reforms have been in many respects favorable. However, given the extent and rapidity of the reform process, the transition from a highly controlled to a liberal financial environment has given rise to some uncertainties. The monetary authorities have been actively tackling these issues with the objective of evolving a financial system which can make a significant contribution to the process of structural transformation of the economy. The steps taken by the monetary authorities in recent months are discussed in Chapter 3.

C. Growth, Incomes and Inflation

1.44 The preceding sections have highlighted the Government's success in moving towards external financial stability through a combination of external and domestic policy measures. These have, inevitably, adversely affected growth, incomes and employment in both 1982 and 1983. This section briefly reviews the recent developments in these areas and with respect to inflation.

^{/1} The five state banks account for about 80% of the gross assets of deposit money banks.

GDP Growth and Developments in Selected Sectors

1.45 Following the economy's strong performance in 1981 (6.6% GDP growth), GDP declined by about 0.1% in 1982 while non-oil/LNG GDP increased by about 3.5% (Table 1.16). Given preliminary national accountss data for 1983, the GDP growth rate for 1983 is estimated at about 4.5% and that of non-oil/LNG GDP at about 4.0%. Sectoral growth rates in recent years, and estimates for 1983, are given in Table 1.16. It can be observed that given the substantial adjustment efforts, the adverse impact on growth of non-oil/LNG GDP has been relatively modest over the past two years. According to World Bank Atlas methodology, Indonesia's GNP per capita in 1983 is provisionally estimated at \$560. /1

Table 1.16: GROWTH IN SECTORAL VALUE ADDED, 1981-1983
(In percent p.a.; at 1981 prices)

	1981	1982 /a	1983 /b	Sectoral shares in 1981 (%)
Agriculture	3.5	1.8	3.0	25.3
Mining and quarrying	1.6	-12.1	5.9	24.0
Oil	-0.3	-15.7	6.0	(21.2)
Non-oil	18.4	3.5	5.0	(2.8)
Manufacturing	14.2	1.2	5.0	10.8
LNG	22.1	3.4	7.5	(3.5)
Other	11.1	0.2	3.9	(7.3)
Construction	9.7	5.2	5.5	5.8
Services	9.8	5.5	4.3	34.2
<u>Gross Domestic Product</u>	<u>6.6</u>	<u>-0.1</u>	<u>4.5</u>	<u>100.0</u>
Non-oil/LNG GDP	8.6	3.5	4.0	75.3
<u>Memo item</u>				
GDP growth rate at constant 1973 prices /c	7.9	2.3	4.0	

/a Based on BPS preliminary estimates.

/b World Bank staff estimates in part based on BPS preliminary data.

/c Official statistics use 1973 as the base year for real GDP growth calculations. The most important difference is the relative weight attached to the oil sector, which is much higher in 1981 than in 1973. As a consequence, changes in the level of output of oil have a larger influence on overall growth at 1981 prices.

Source: Biro Pusat Statistik and World Bank staff estimates.

/1 This methodology uses average prices and exchange rates for a three-year period to smooth out effects of changes in exchange rates.

1.46 Despite the lingering effects of the drought, agricultural sector growth in 1983 is provisionally estimated to have been 3%, compared to a 1982 rate of 1.8%. This improved performance largely reflects a better than expected level of rice production. Average rice yields in irrigated areas continued to show improvements, and the reduction in rice crop acreage in non-irrigated areas was compensated for by increases in secondary crop planting. As a result, secondary food crops, notably corn and cassava, also did well. The rainy season began on schedule in much of Java in late 1983, promising a further increase in food production. Rubber output in 1983 rose significantly due to the stimulus of the devaluation. There was also a strong surge in other non-food exports with rubber, coffee, tea and palm oil, all recording significant increases in both volume and value. This is confirmed by provisional production estimates which indicate significant increases in estate and smallholder production of tea, palm oil and sugar.

1.47 Oil production, which contributes about 21% to aggregate GDP, is estimated to have grown by about 6% in 1983. Despite the explosion in March 1983 which temporarily shut down one LNG train at Bontang, East Kalimantan, LNG production in 1983 increased about 7.5% due to the early completion of two additional trains at Bontang.

1.48 In the manufacturing sector (excluding LNG) there appears to have been a significant recovery from the recession of 1982. The quarterly index of industrial production for selected industries at the end of the third quarter in 1983 was up 3.2% over the end-1982 level. However, this recovery has been quite uneven among the major industries. Production levels in plywood, tire, glass and vehicle assembly have shown healthy increases of 24%, 25%, 18% and 19% respectively, but footwear, batik, yarn, thread and basic chemicals remain weak (Annex II, Table 8.1).

1.49 There is little concrete information about the performance of the construction and service sectors, but their growth has probably been in line with the performance of the commodity producing sectors. Growth in the construction sector appears to have held up rather well in the face of cutbacks in public investment and higher interest rates. The service sectors benefited from the nascent recovery in most other sectors. In particular, the modern service sector comprising trade, transport and communications, banking and public administration, performed well. The traditional service sector, which employs the core of Indonesia's urban and rural poor, probably also experienced some growth owing to the improved performance of agriculture, and higher private consumption expenditures.

1.50 Patterns of Expenditure. These output trends have been accompanied by striking changes in the pattern of expenditures in recent years. During the period 1979-81, when the Indonesian economy was adjusting to the two and a half fold increase in the real international price of oil, aggregate demand growth lagged behind income growth, generating a substantial trade surplus. This was entirely appropriate in light of the absorptive capacity of the economy. Between 1978 and 1982, the pattern of expenditures perceptibly changed, with significant increases in the shares of private consumption and public investment. The overall pattern of resource availability and use, however, changed dramatically in 1982. Net imports, which had been negative in the previous four years, turned positive - a mirror image of the emerging trade deficit. The sharp increase in the share of private consumption stemmed partly from adjustments to accumulated savings after the oil shock, while the rise in the share of public investment growth reflected public sector

involvement in large industrial sector projects /1. Government consumption expenditures were kept in check during the entire 1979-82 period, though most noticeably in the last year when the salaries of civil servants were frozen; private sector investment, which had grown more or less in line with GDP expansion in earlier years, is thought to have declined sharply in 1982 with the onset of the recession.

1.51 Gross national savings declined substantially in 1981-82 and the gap between gross domestic investment and national savings (about 3% and 8% in 1981 and 1982, respectively) was covered by large inflows of foreign savings, primarily in the form of increased public sector medium and long term borrowing, and drawing down reserves. As noted earlier, the deteriorating external payments position of the country led the authorities to rephase the public investment program. Private investment activity has inevitably been adversely affected by the cutback in public investment. The rising real rates of interest are also likely to have dampened private investment decisions. These developments were, of course, inevitable in the process of adjusting to a more sustainable current account deficit.

1.52 Since expenditure data are as yet unavailable for 1983, it is difficult to assess the impact of the sequence of government policies on the pattern of expenditure, but the share of the private sector in total expenditure has almost certainly risen. This represents a departure from the trend in recent years. The rephasing of the public investment program altered the balance between public and private investment in GDI, and the restraint on government consumption has similarly increased the share of private consumption in total consumption. Aggregate demand itself has fallen in relation to GDP, as evidenced by a lower import bill. However, given higher growth in 1983, real private expenditure per capita probably rose, though gross national savings as a share of GNP is estimated also to have increased slightly.

Inflation, Incomes and Employment

1.53 Domestic inflation, as measured by the consumer price index (CPI) for 17 cities, registered a 12% increase in 1983 compared to 10% the previous year (Table 1.17). This was a remarkable performance given the cost-push shocks to the economy resulting from the January rise in the price of domestic oil products, the March devaluation and the substantial rise in the nominal interest rates following the financial sector reforms in June 1983. These measures, however, were also contractionary in nature and contributed to dampening domestic demand and levels of economic activity, which in turn undoubtedly influenced secondary price responses. Other contractionary forces included tight monetary and fiscal policies, which have been discussed earlier.

/1 A word of caution about these trends is in order. The national accounts methodology adopted by the Central Bureau of Statistics estimates investment on the basis of capital goods flows. Therefore, changes in stocks, excluded by this definition, is captured by the consumption estimate which is derived as a residual. Since the 1982 recession affected the Indonesian manufacturing sector particularly hard and resulted in large inventory accumulation, private investment may be substantially underestimated, and correspondingly, the estimate for consumption overestimated.

1.54 Over a third of the rise in the price index stemmed from higher domestic oil prices, which increased transport and electricity costs, and slightly less than a quarter is estimated to have been a consequence of the devaluation. Both these events were in the earlier part of the year; inflation in the second semester was running at the rate of only 4% p.a. Low growth in prices for paddy, fresh fish, vegetables, and textiles helped reduce the overall rate of inflation, but the shortage of cooking oil and spices gave rise to a 10% increase in the index of food prices.

1.55 Compared to the CPI, the wholesale price index (WPI) was affected considerably more by the devaluation. During 1983 the WPI had increased by 18.7 percent. The difference in the overall WPI and the CPI movements largely reflects differential coverage, but also may indicate the extent to which the devaluation effect on consumer prices was absorbed at the wholesale stage of distribution in the form of lower trading margins.

1.56 The rural economy seems to have suffered least from the inflationary developments in 1983. The index of prices for nine essential commodities in Java and in the Outer Islands increased by 7% and 10% respectively. A closer inspection of the figures reveals that steadily declining rice prices heavily influenced this index. This is consistent with lower paddy receipts by farmers in West and Central Java. The decline in the overall index occurred despite a sharp rise in coconut cooking oil prices, particularly in rural Java (51.2%), and, of course, significantly higher kerosene prices.

Table 1.17: RATES OF INFLATION
(In percent)

	<u>/a</u>		<u>/b</u>			<u>/c /d</u>	
	CPI	17	Agri-	Manufac-	General	Java &	Outer
	Jakarta	cities	culture	turing	Excl.	Madura	Islands
					Exports		
1979	22.3	21.8	33.1	31.5	34.7	21.4	21.1
1980	11.3	16.0	24.4	20.8	21.8	18.1	18.9
1981	5.8	7.1	7.9	0.9	-3.3	15.3	17.8
1982	8.7	9.7	11.3	9.8	9.0	12.2	13.5
1983	11.1	12.0	15.0	16.4	18.7	7.1	9.2

/a Consumer Price Index.

/b Wholesale Price Index.

/c Estimated.

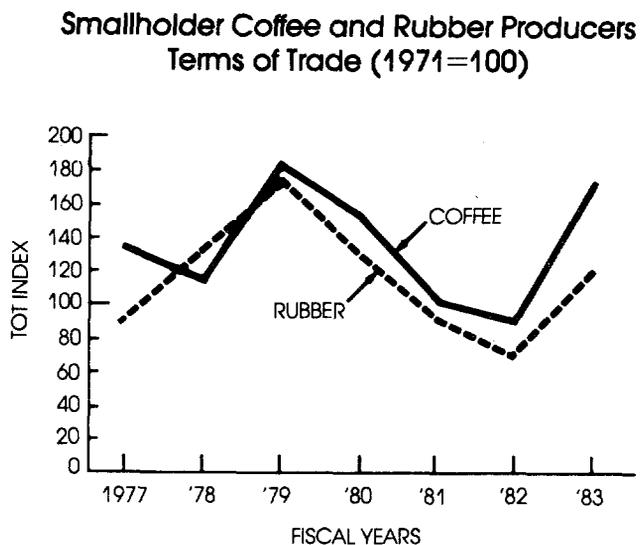
/d Based on the combined index of nine essential commodities.

Source: Biro Pusat Statistik.

1.57 Aggregate income (GNP adjusted for the terms of trade) barely rose in 1983 after suffering a fall of 3.2% in 1982 /1. Most sectors of the economy were affected, but some more than others. In the absence of the relevant data, only qualitative inferences can be advanced in most respects. Fixed income earners and unskilled labourers outside the organized manufacturing sector are likely to have been most adversely affected. The budgetary freeze on civil servants' salaries meant declines in their real incomes by 9.1% in 1982 and 8.3% in 1983 /2. In the organized and small-scale manufacturing sector profits were reduced considerably as substantial excess capacity prevailed in most industries and prices could not be raised to fully compensate for higher energy and imported input costs.

1.58 The poor performance in agriculture in 1982 probably led to stagnant real wages following the significant gains experienced in 1980-81, particularly in rural Java. Despite an improved agricultural performance in 1983, real agricultural wages probably did not rise. However, BULOG sales in rural areas helped keep rice prices low, and stocks were replenished by increased imports. The devaluation and subsequent increases in international commodity prices brought mixed results for agriculture. Some relief was provided to many smallholder coffee and rubber producers, largely situated in Kalimantan, Sumatera and some parts of Java. Their terms of trade, as measured by the ratio of the price indices of rubber and coffee respectively and the price index of nine essential commodities in rural areas improved to historical levels (see Figure 1.3). The implementation of the log export ban is likely to have continued to affect incomes adversely in Kalimantan, Jambi and Maluku, though here again, the devaluation softened the impact of the reduction in production.

Figure 1.3



/1 National income growth was worse than that of GDP because of large net outflows of factor incomes and declining terms of trade.

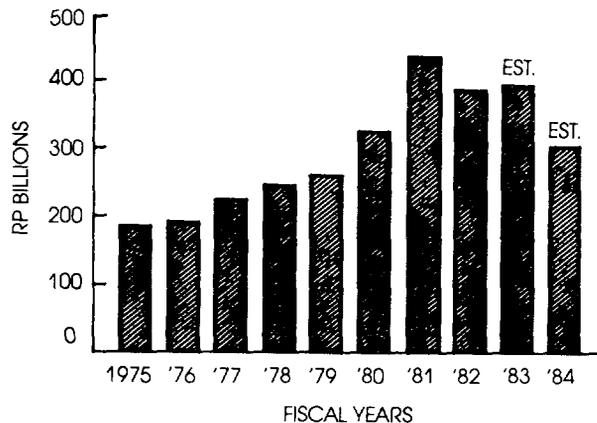
/2 Figures from Nota Keuangan, the budget document.

1.59 Given the paucity of recent employment data, it is impossible to provide quantitative estimates of the impact on employment in various sectors. Nevertheless, it is almost certain that the employment picture worsened considerably in 1982, and remained bleak in 1983. There is increasing evidence to suggest that the agricultural sector's capacity to absorb additional labor is limited. This trend was compounded by the drought in widespread areas of Java in 1982 and 1983. In the organized manufacturing sector, widespread lay-offs were prevented through active government intervention, but it is also unlikely that there was much additional hiring during the period in review. Open unemployment in Indonesia, though rising, continues to be low as most unemployed individuals gravitate to the traditional service sector. This suggests worsening conditions in a sector already characterised by low productivity and low incomes.

1.60 The effect of the Government's INPRES programs on rural incomes and employment appears to have diminished in 1983. In prior years, INPRES programs had grown very fast and contributed significantly to employment generation and capital formation in rural areas. Generating an estimated quarter of a million man-years ^{/1} in 1970, the program had created, directly and indirectly, roughly one and a half million man-years of employment by 1981/82, (or 2.7% of the entire labor force) ^{/2}. However, the pace of implementation appears to have slowed down, and this will have repercussions on rural wages and incomes (see Figure 1-4). Assuming that INPRES will retain its capacity to generate the same amount of employment per unit of real expenditure as it has in the past, the reduction in real terms in 1983/84 implies one-third less employment generation than in 1981/82. The budgeted real reduction for INPRES in 1984/85, following the completion of the primary school building program, will further diminish its impact on income and employment in rural areas.

Figure 1.4

INPRES — Real Expenditures
(At Constant 1974 Prices)



^{/1} This excludes INPRES desa and INPRES forestry for which data was not available. Figures taken from an unpublished World Bank working paper "INPRES Programs - Their Impact and Prospects".

^{/2} Assumes 300 days employment per annum.

CHAPTER 2

ADJUSTMENT AND TRANSFORMATION: THE MACROECONOMIC FRAMEWORK

2.1 This chapter presents the main elements of the macroeconomic framework developed in this report for assessing Indonesia's short and medium-term prospects. The analysis begins in Section A with a discussion of the outlook for the external economic environment. Section B first reviews the key economic management issues facing Indonesia in the short run and then outlines the salient features of the medium-term macroeconomic projections. Section C contains a brief discussion of the impact of the prospective macroeconomic situation on employment and incomes of the poorer segments of the population. The chapter concludes with an analysis of selected issues related to the investment program - a key dimension of short-term adjustment and longer term structural transformation.

A. The External Economic Setting

2.2 The discussion in Chapter 1 underscored the impact of recent international economic developments - both favorable and unfavorable - on Indonesia. Economic interdependence, which manifests itself in a variety of ways, but most prominently through trade and capital flows, has been playing an increasingly important role in shaping the fortunes of different countries. Both the near term and longer term prospects of the industrial economies will continue to have a critical bearing on Indonesia's economic performance. The demand for oil and its price are the most important elements in the external economic scene which are of interest to Indonesia. Prospects for trade expansion in primary commodities and manufactures, as well as the availability of external capital and the level of real interest rates in the international market, are among the other major considerations impinging on Indonesia's ability to regain some of the development momentum that was eroded in the past two years. The remainder of this section, therefore, outlines the outlook and key assumptions on the international economy in the near- and medium-term as a prelude to an analysis of Indonesia's economic prospects.

2.3 The U.S. economy experienced a healthy recovery in 1983, despite a slowdown in the pace of growth in the fourth quarter of the year. Its GNP increased by 3.3% in 1983 and a growth rate of about 5% is forecast for 1984. /1 Japan's GNP growth rate is also expected to be higher in 1984 than in the previous year (4% vs. 3%). Growth in Europe in 1984, though improving, is forecast to be at a considerably lower level than those of the two leading OECD economies. For the OECD economies as a group, growth is currently projected at about 4% in 1984. The international economic outlook for 1985 is less certain. In the absence of a reduction in real interest rates, the pace of recovery may slow down towards the end of this year and in 1985. Based on

/1 OECD Economic Outlook, December 1983.

the present policy stances, the OECD has forecast that the U.S. GNP growth rate will slow down to about 3% in the first half of 1985 (from 3.5% in the previous two quarters). But for the OECD group as a whole, performance in early 1985 is expected to be about the same as in the second half of 1984. While it is not possible to be very precise in this area, it is quite likely that the OECD economies could experience a lower growth of output in 1985 than that currently forecast for 1984.

2.4 Turning to the medium term, the precise course of growth in the international economy depends primarily on the economic policies of the principal OECD countries. The course of these policies is obviously difficult to predict with any precision. However, the continuation of growth at reasonable rates in the U.S. and Japan and its strengthening in Europe are essential for a variety of reasons, not the least of which is the prevention of rising unemployment in these economies and the preservation of international financial order by enabling developing countries to service their debts through greater export earnings. While it is possible that economic performance in the industrial economies will be sluggish in the second half of this decade, in this report a medium-term scenario similar to the "Central case" of the World Development Report 1983 is adopted for the international economic outlook. Thus, it is assumed that the industrial economies' GDP growth will average 3.4% p.a. during 1986-90. Under this growth scenario, world trade is projected to expand at about 5% p.a. in the second half of this decade. Exports of manufactures from developing countries are assumed to grow at 9% annually. Table 2.1 summarizes the key assumptions about the world economy underlying the projections for Indonesia.

2.5 The evolution of the world oil market remains crucial to Indonesia and is particularly difficult to predict. Despite the stability of the world price around the OPEC marker price since February 1983, this report adopts a somewhat more conservative view than last year with respect to developments over the next few years. It is expected that OPEC production will increase from an estimated level of 18.5 mbd in 1983 to 19.8 mbd in 1984 but then rise only marginally in 1985 and 1986. Indonesia can expect to at least maintain its share of total OPEC production of crude (7.43% of the March 1983 quota of 17.5 mbd); however, its output of condensates will increase with the recent completion of two new LNG trains at Arun. By 1990, Indonesian crude oil and condensate output is projected at about 1.8 mbd, which is 0.1 mbd less than predicted last year. Regarding the world price level, it is assumed that the nominal oil price will remain at \$29/bbl through the end of 1985. However, because it is now expected that the U.S. dollar will depreciate against other major currencies less rapidly than previously projected (reflecting in part continued high interest rates in the United States), the real price of oil (which reflects its value relative to the price of manufactured imports ^{/1}) during 1984 and 1985 is expected to be higher than estimated last year. Beyond 1985, the price of oil is projected to increase at about 2% p.a. (in

^{/1} Throughout this report nominal prices are converted to real prices by deflating by the World Bank's index of manufactured unit values (MUV), which is a weighted average of the price of manufactured exports from the industrialized to developing countries. The MUV is projected to increase by about 8% p.a. during the second half of this decade.

Table 2.1: SELECTED INDICATORS OF INTERNATIONAL ECONOMIC ACTIVITY, 1983-90

	1983 Estimate	1984-85 Projected	1986-90		
<u>Growth and trade</u>					
OECD growth (% p.a.)	2.3	3.5	3.4		
World trade (% p.a.) <u>/a</u>	2.0	5.0	5.0		
	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1990</u>
<u>Oil prices</u>					
Index of 33 commodities (excluding energy) in constant dollars (1981 = 100) <u>/b</u>	91.4	93.5	95.7	97.4	104.3
Indonesia's non-oil terms of trade (1981 = 100)	102.4	102.5	101.5	101.8	105.0
Index of manufactured unit values (1981 = 100)	94.9	98.2	106.0	115.6	156.5
<u>The oil market</u>					
World demand for oil (mbd) <u>/c</u> <u>/d</u>	45.6	46.7	47.7	48.8	53.4
OPEC output (mbd) <u>/d</u>	18.5	19.8	20.2	20.7	25.5
Indonesian output <u>/d</u>	1.42	1.47	1.52	1.57	1.79
International oil price (\$/bbl) <u>/e</u>					
Base case - at 1981 prices	30.5	29.7	27.6	28.1	31.3
- at current prices	29.0	29.0	29.0	32.2	48.9

/a Total exports of goods and non-factor services are used as a proxy for world trade.

/b Nominal price index deflated by the manufactured goods unit value (MUV) index.

/c Excluding centrally planned economies and China.

/d Includes natural gas liquids and condensates.

/e OPEC sales weighted by member country output; the average Indonesian export price is \$0.50 higher.

Source: World Bank staff estimates and projections.

real terms) to \$31/bl in 1990. Taking into account the eventual depreciation of the U.S. dollar and OECD inflation, the nominal oil price is projected to be \$49 in 1990. /1

2.6 A gradual improvement in other commodity prices from their historically low level of 1982 is expected. The World Bank's index of prices of 33 selected commodities (excluding energy) is forecast to rise by about 13% in real terms between 1985 and 1990. Indonesia would particularly benefit from the forecast price increases for palm oil, rubber, tin and copper. Indonesia's overall terms of trade are expected to improve by about 9% during 1985-90. This would reverse the trend in the first half of the decade.

2.7 The healthy growth forecast for the OECD economies in 1984 implies that Indonesia will enjoy a more favorable external environment in the current year than it did in 1983, thus assisting domestic recovery. A modest slowdown of growth in the OECD economies in 1985 need not significantly affect Indonesia's economic performance in that year unless, of course, the lower growth is translated into a substantial reduction in the demand for oil and its price.

B. Macroeconomic Framework for Restoring Growth with External Payments Stability

2.8 Pursuit of Indonesia's expressed development objectives of growth and equity will require particular attention during the next several years in two, potentially complementary areas. First, in order to provide employment opportunities for its rapidly expanding labor force, Indonesia will need to raise substantially its domestic growth rate from the sluggish level experienced in 1982-1983. The Government's own target for the REPELITA IV period (1984/85 - 1988/89) is 5% p.a. in real terms. But the pattern of growth over the coming years will be at least as important as its level. It will be essential not only to continue to move toward a more balanced economic structure which is less dependent on the primary sectors of agriculture and natural resource extraction, but also to raise labor absorption capacities in key sectors like industry. Second, in order to ensure external stability in the medium- to long-run, it will be necessary to continue to make progress toward reducing the current account deficit so that future debt service obligations remain manageable. Judging from the experiences of many other countries which rely heavily on commercial loans, this means reducing the current account deficit to the equivalent of about 3% of GNP within the next three to four years and holding it below that level thereafter. Thus, the major challenge for Indonesia will be to continue to strike a balance between adequate growth to improve incomes and job opportunities on the one hand, and the maintenance of internal and external financial stability on the other.

/1 Many other public and private organizations have made forecasts of future oil prices, and there are very large differences among these forecasts, reflecting the major uncertainties about the development of world energy markets. The Bank's forecasts are in the middle of the range of these forecasts and are consistent with the majority view that the price of oil in real terms in 1990 will be somewhat above its 1980 level.

2.9 This will not be an easy task. But it should be possible to meet the foregoing objectives, provided good progress is made on four related fronts. First, there would need to be much greater emphasis on economic efficiency. Given the scarcity of investment funds, the existing and future productive capacity of the economy should be utilized fully and more efficiently. Second, the pattern of future investment will need to become more labor-intensive and less dependent on capital goods imports. Indonesia must, therefore, continue to restrain capital-intensive investments which are heavily dependent on imports. This in turn implies continued discipline in the public investment program. Third, rapid progress in the expansion of non-oil/LNG exports is crucial. The manufacturing sector offers the best prospects in this context. A high rate of expansion of output in the industrial sector with an export-oriented pattern of growth will be required. Trade policy has a central role in influencing progress in the foregoing three fronts (see Chapter 4 for a discussion of trade policy). Fourth, in order to achieve the required rate of investment and growth, domestic resource mobilization through increased public and private savings should continue to receive high priority so that domestic savings can increasingly replace foreign borrowing as the source of investment funds.

Economic Management in the Short Run

2.10 Chapter 1 presented a preliminary assessment of the policy package pursued by the Government in 1983 in response to the international recession and the sharp fall in the country's oil export revenues. It concluded that the policy measures have been highly successful in reducing Indonesia's external payments imbalance and laying the foundation for structural transformation in the longer term. The success achieved in short-term adjustment has inevitably entailed some costs, in terms of growth, investment, incomes and employment. The question now is whether Indonesia in the year ahead will be able to restore its growth rates to about 5%, as called for in the REPELITA IV Plan. This report takes the position that it can. The recovery in GDP growth would be led by the increase in domestic demand that should follow the projected rebound in agricultural production and the continued stimulus provided by the rapid expansion of non-oil exports. In addition, the recent increase in civil servants' salaries will help boost aggregate demand, although some of the income gains of this group will be offset by higher energy and transport costs. The other element in demand management - investment activity - will require careful attention along the lines discussed below. On balance, non-oil GDP is projected to expand by about 4% in real terms in 1984, and, when the large increases in LNG exports are also taken into account, total GDP will, in all likelihood, rise by about 5.5% in 1984.

2.11 Notwithstanding the favorable prospects for 1984-85 and given the very success of the short-term adjustment program and the understandable objective of restoring the momentum of economic growth, there may be a desire to stimulate recovery further by some combination of expansionary monetary policy and increasing investment outlays of the central government and public enterprises through additional foreign borrowing. As the subsequent discussion indicates, there is a case for expanding certain kinds of public investment outlays to facilitate a broad-based recovery in growth and to expand job opportunities. But the expansion would have to be carefully managed and quite selective to avoid creating new pressures on the balance of

payments, which would undermine the hard-won gains of the past year. At the outset, it must be recognized that a stronger growth in the non-oil economy will result in increased demand for raw materials and intermediate goods - a demand that should be accommodated and not restricted by resorting to additional import controls that would lead to further distortions in the economy and take the Government even further from its stated objective of improving industrial efficiency and lowering costs of production. To accommodate these additional imports, while at the same time ensuring a further reduction of the current account deficit, imports of capital goods would have to be restrained.

2.12 The level of public investment spending could be raised somewhat by eliminating the fiscal surplus (estimated to have been Rp 1.2 trillion in 1983/84) and possibly drawing down the Government's substantial holdings with the banking sector. However, to safeguard the fragile balance of payments position, the composition of public investment would need to favor expenditures with minimal import requirements. In this context, the public housing and INPRES programs could be expanded significantly. These would bolster purchasing power (particularly in the depressed rural areas in the case of the INPRES) and contribute significantly to employment creation. It is often argued that the absorptive capacity constraints at the regional and local government levels impose a major obstacle to the expansion of such programs. However, a recent study of the managerial capacity of provincial and Tingkat II governments in 21 of Indonesia's 27 provinces based on observations over the past four years indicates that in recent years the quality of professional manpower in local government has improved considerably, and there is growing evidence that these capacities are underutilized. ^{/1} This would tend to suggest that with flexibility and appropriate support from the Central Government, the INPRES programs can be utilized as a means of injecting purchasing power on a broad geographical basis.

2.13 What should be avoided at this time is a sharp expansion of expenditures on import-intensive public investments financed by increased foreign borrowing from commercial sources. As discussed later in this chapter (Section D), for balance of payments and external debt management reasons, the scope for expanding public investment in the medium term is likely to be somewhat limited, and substantial longer-term commitments to large capital-intensive projects would inevitably pre-empt other necessary investments elsewhere in the economy. Even in the near term, continued discipline in terms of both the level and the composition of the public investment program will be required in the light of the projected resource availabilities over the rest of this decade.

2.14 Another aspect of managing the recovery of the economy in this year ahead concerns interest rates. Given the intricate interplay between the exchange rate and domestic inflationary expectations on the one hand, and the international interest rates on the other, it is unlikely that the present relatively high real domestic interest rates could be lowered to any

^{/1} K. Davey, G. Glenworth, and P. Mawhood: "Education and Training for Government in the Provinces"; background paper for Indonesia - Management Education Study (World Bank, forthcoming).

significant degree for the time being. Moreover, the transition problems stemming from the June 1983 financial reforms will take time to be resolved. In the same vein, the development of a well-functioning capital market, necessary for providing term lending on reasonable terms, is a longer term process. A principal focus of financial policy measures would need to be on these longer term issues, as discussed in Chapter 3. This is not to minimize the dilemma between the need to stimulate private investment and prevent a deterioration of the financial position of business entities resulting from high real interest rates and the sluggishness of aggregate demand on the one hand, and the necessity of preventing capital outflows on the other. It is merely to point out that for the time being economic management policies would need to continue to place emphasis on balance of payments considerations, given the near-term outlook for the international oil market and the relatively low base of non-oil export revenues. Perhaps the best means of effecting a reduction in real interest rates lies in lowering inflationary expectations through continued restraint in government expenditures and by further strengthening the country's balance of payments position along the lines mentioned above so as to reduce speculative foreign currency transactions. In this context, the maintenance of the present healthy external reserves position of some \$8.4 billion is of paramount importance.

2.15 Finally, there is a need to create a stable policy environment for private investment activity. While policy reform is a dynamic process, it is important to carefully phase the introduction of major initiatives affecting economic decision-making by the household and business sectors. Moreover, it is highly desirable that the content of policy changes be unambiguously announced with a timetable well in advance of their implementation. There are, for example, still a number of uncertainties concerning the content and implementation of the new tax laws. It would be advisable to move swiftly to clarify the precise intentions and the implementation procedures of this important economic reform. Rapid implementation of the announced policy of reducing the scope of economic regulations as well as their simplification (Section D), would also contribute to reducing uncertainty in the private sector.

Highlights of Macroeconomic Projections -- The Base Case

2.16 Tables 2.2 and 2.3 summarize the rate and pattern of growth which appear feasible in the near term and during the second half of the decade. During the second half of the decade, overall GDP growth is projected at 5% p.a. and that of non-oil GDP at 5.5% p.a. In the agriculture sector, it is still considered likely that rice production will grow at an average rate of 3.5% over the remainder of the decade, permitting Indonesia to maintain virtual self-sufficiency in rice during years of trend-level production. For the tree crops and highly-income elastic products (such as poultry, fish and horticultural products), somewhat higher growth rates can be expected. In this report it is assumed that agricultural growth rate will be 3.7% p.a. in the remainder of this decade. A growth rate of this magnitude will be important not only for the sake of minimizing net food imports but also for generating employment, improving purchasing power, and reducing rural poverty. In the manufacturing sector, an average growth rate of about 8% should be regarded as a minimum target because of the importance of expanding manufactured exports and helping with labor absorption. Non-LNG manufacturing

should grow by over 10% p.a., with its share in GDP rising from about 7% at the start of the decade to 10% by 1990. In the construction and service sectors, performance will be largely determined by the growth rates in investment demand and the commodity-producing sectors. It is assumed that the growth of the services sector will be in line with the growth of gross national income. Growth prospects for the oil, LNG, and other mining sectors are discussed in the context of export projections in Chapter 4.

2.17 The projected growth rates by expenditure category are set out in Table 2.3. Investment growth is assumed to be at a rate of 4% p.a. in 1984-85 and accelerate somewhat in subsequent years. However, given the constraints on the availability of external resources, the projected growth rates would be feasible only if the import-intensity of investment is reduced from recent levels (see Section D).

Table 2.2: GROWTH AND COMPOSITION OF GDP, 1976-90
(In percent; at 1981 prices)

	<u>Real annual growth rates</u>				<u>Shares in GDP</u>	
	1976-81 Actual	1982-83 Est.	1984-85 --- Projected ---	1986-90 --	1981 Actual	1990 Proj.
Agriculture	3.8	2.4	3.6	3.7	25.2	23.3
Mining	5.4	-4.2	4.0	3.1	24.0	18.5
Oil	n.a.	(-4.9)	3.9	(3.3)	(21.2)	(16.1)
Non-oil	n.a.	(4.3)	4.5	(1.1)	(2.8)	(2.4)
Manufacturing	15.5	3.1	14.2	8.2	10.8	15.0
LNG	n.a.	(5.5)	(27.3)	(3.3)	(3.5)	(5.1)
Other	13.4	(2.0)	(7.0)	(10.8)	(7.3)	(9.9)
Construction	12.7	5.4	5.0	6.0	5.8	6.5
Services	9.9	4.9	4.5	5.5	34.2	36.7
GDP	<u>8.0</u>	<u>2.5</u>	<u>5.1</u>	<u>5.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Memo item</u>						
Non-oil/LNG GDP	8.8	3.9	4.5	5.5	75.3	78.8

Source: 1976-82 Biro Pusat Statistik; 1983-90 World Bank staff estimates and projections.

Table 2.3: GROWTH IN GDP BY EXPENDITURE CATEGORY, 1976-90

	1976-81 Actual	1982-83 Est.	1984-85 ---- Projected ----	1986-90 ----
<u>A. Real growth rates</u>				
(% p.a. at 1981 prices)				
Consumption	11.3	1.8	3.5	4.7
Investment	12.0	3.4	4.0	5.4
Exports <u>/a</u>	-0.3	0.0	5.6	4.4
Imports <u>/a</u>	16.0	-2.4	-0.6	4.1
GDP	8.0	2.0	5.1	5.0
Non-oil/LNG GDP	8.6	3.8	4.5	5.5
GNP	7.1	1.3	5.2	5.1
GDY	9.3	0.9	4.1	4.0
<u>Shares of GDP</u>	<u>1982</u>	<u>1983</u>	<u>1985</u>	<u>1990</u>
(% at current prices)				
Gross domestic investment	24.3	22.0	21.5	22.0
Financed by				
Gross domestic savings	n.a.	16.2	17.6	19.8
Foreign savings	n.a.	5.8	3.9	1.2
<u>Memo item</u>				
Current account deficit				
as % of GNP	7.8	6.0	4.5	1.8

/a Includes goods and nonfactor services.

Source: Based on national accounts statistics from Biro Pusat Statistik for historical data, and World Bank staff projections.

2.18 After a strong performance in 1984 and 1985, when exports are expected to increase by 5.6% in real terms p.a., they are then projected to expand by only 4.4% annually during 1986-90. /1 However, this low average increase conceals two separate trends. After the initial build-up during 1984 and 1985 associated with the rapid increase in LNG exports, real earnings from oil and LNG are projected to grow by about 3.5% p.a. over the rest of the decade (see Chapter 4, Table 4.1). Non-oil/LNG exports, on the other hand, are projected to continue to perform well, growing by 6% p. a. Growth of these exports will depend not only on trends in world prices and demand but also on appropriate policies to promote them and to encourage efficient industries which can compete in world markets. The projected levels of manufactured exports would require concerted efforts (Chapter 4). If non-oil/LNG exports expand as projected, their share in total exports of goods will increase from 18% in 1981 to over 30% in 1990. This would represent significant progress in reducing Indonesia's excessive dependence on petroleum-based exports. However, it seems clear that it will only be in the

/1 Details of the export and import projections are contained in Chapter 4.

1990s that Indonesia will have diversified its export base sufficiently away from oil and oil-related products.

2.19 On the import side, given the projected growth in export earnings described above, continued restraint will be required to reduce the current account deficits. To ensure continued reduction in the current account deficit, imports in nominal terms should be held to no more than \$18.7 billion in 1984/85 and \$20.5 billion in 1985/86. This would imply virtually no real growth during these two years. Under this scenario, different strategies for the various categories of imports will need to be pursued (see Chapter 4).

2.20 Under the foregoing scenario, the current account deficit is projected to decline to 2.9% of GNP by 1987/88 and further to 1.8% by 1990/91. The details of the balance of payments projections as well as the external borrowing requirements and debt servicing are discussed in Chapter 4.

Uncertainties in the Prospects

2.21 The base case scenario presents the macroeconomic prospects for Indonesia on the assumptions outlined above about the rate of growth of the industrial economies, the expansion of world trade, international inflation and, more importantly, on the behavior of the oil markets. It is possible that the external economic environment during the latter half of this decade will be less favorable than assumed in the base case. In particular, the growth of the OECD countries and oil prices may turn out to be lower than those used in the foregoing analysis. Lower growth of the industrial economies would adversely affect Indonesia's ability to increase its non-oil export earnings. However, Indonesia's economic prospects are especially vulnerable to fluctuations in the oil demand and prices. In view of the dominant influence of the behavior of the oil markets on Indonesia's export earnings, an alternative scenario using lower oil prices than those assumed in the base case is examined here for purposes of sensitivity analysis.

2.22 This alternate case assumes that the real price of oil (and LNG) will remain constant after 1985 as compared to a 2% p.a. real increase projected in the base case. Table 2.4 highlights some of the main implications of such a development under two different policy responses. Alternate A shows the outcome for the balance of payments and debt position, if the Government were to compensate for the shortfall in export earnings largely through additional external borrowing, so as to allow the economy to grow at the same rate as in the base case. Alternate B, on the other hand, assumes that the Government will aim at preserving approximately the same debt service ratios as in the base case. The implications of these alternative policy responses are explored below.

Table 2.4: SELECTED ECONOMIC INDICATORS UNDER ALTERNATE SCENARIOS

	<u>Average Real Growth 1986-90 (% per annum)</u>		
	Base Case	<u>Lower Oil Prices</u>	
		Alternate A	Alternate B
GDP	5.0	5.0	4.0
Consumption	4.7	4.6	3.3
Investment	5.4	5.4	3.5
Exports goods and non-factor services	4.4	4.7	4.7
Imports goods and non-factor services	4.1	4.1	2.7
<u>Selected ratios</u>	-----	1990	-----
Terms of trade (1981 = 100)	92.8	85.2	85.2
Debt service ratio (%)			
- Public net <u>/a</u>	23.1	28.3	24.7
- Gross <u>/b</u>	19.8	23.3	21.1
Current account deficit (as % GNP)	1.8	3.8	1.6
Total net foreign assets - as months of imports of goods	3.0	2.8	2.8

/a The ratio of public debt service to net exports, i.e., total exports of goods and services less imports of goods and services of the oil sector.

/b The ratio of total debt service to gross exports of goods and services.

Source: World Bank staff projections.

2.23 A constant real price of oil after 1985 would reduce Indonesia's projected annual net export earnings from oil and LNG by \$2 billion in relation to the base case by 1990. Assuming that lower oil prices are not accompanied by low growth in the OECD economies, the latter's capacity for non-oil imports would increase in relation to its total import bill /1. Thus, with vigorous efforts to promote non-oil exports, Indonesia should be able to increase further its non-oil exports, and partially compensate for lower oil revenues. However, as a result of the deterioration in its terms of trade, Indonesia's capacity to import (export earnings expressed in relation to the cost of its imports) would grow by only 4.7% per year compared with 6.2% under the base case.

/1 However, if lower oil prices were associated with recession in the industrial economies, the demand for exports from developing countries would be depressed and Indonesia could also suffer on this account.

2.24 For Indonesia to attain the rate of growth and other development objectives envisaged in the base case in the face of less favorable international oil prices, it would have to undertake higher borrowings than required under the base case. By 1990, the current account deficit would widen to about 3.8% of GNP (Alternate A). Financing this deficit and the projected repayments of prior debt obligations would require commitments that are clearly higher than in the base case. MLT debt outstanding and disbursed would reach about \$51 billion by 1990 as compared with \$43 billion under the base case. Indonesia could avoid a sharp increase in its debt servicing payments in the 1990s if it could receive additional official assistance from the members of the Inter-Governmental Group on Indonesia (IGGI) as an alternative to extra commercial borrowing. Combined with stepped up efforts to improve non-oil export performance, the country's ability to maintain the debt service ratio at prudent levels would then be enhanced. However, if all the additional borrowings were to be on commercial terms, Indonesia's debt servicing obligations would rise rapidly in the early 1990s.

2.25 Under Alternate B, in order to maintain its debt service ratios at approximately the levels envisaged under the base case, external borrowing would need to be reduced. This in turn implies lower imports, a further curb in investment growth and somewhat lower economic growth. Given import growth of about 2.7%, which would be consistent with the lower borrowings and export revenues projected under Alternate B, the GDP growth rate would decline to 4.0% p.a. during 1986-90. At this rate the difficulties of coping with the growth of the labor force and other development problems would be even more serious than under the base case.

2.26 The possibility of slower growth in oil revenues and less favorable external economic environment than projected in the base case cannot be ruled out. In the face of lower oil prices, Indonesia would need to exert ever greater efforts to expand non-oil exports, undertake further domestic adjustments and gain access to additional borrowing on suitably concessional terms to avoid a further reduction in the growth of output, incomes and employment. The foregoing sensitivity analysis highlights the need spelled out in the base case for implementing medium-term policy reforms which would improve the resilience of the economy to potential future external shocks and would provide a strong case for extending to Indonesia increased levels of official assistance.

C. Impact on Employment and Incomes

2.27 The creation of adequate employment opportunities is the most pressing development issue now faced by Indonesia. The level and distribution of labor incomes are the principal determinants of the welfare of the poor. In the 1980s, the labor force is projected to grow at an annual rate of about 2.7% compared with 2.2% during 1970s. /1 During REPELITA IV there will be of the order of 1.8 million new entrants to the labor force each year. Thus Indonesia will encounter a rise in labor force growth during a period in which the country's resource situation is expected to be much less favorable than in the past. The development of an employment-oriented growth strategy is essential if the past progress in reduction in poverty is to be sustained.

2.28 The past pattern of employment growth is important to understanding the nature of the current problem. During the 1970s growth in employment in agriculture accounted for well under 10% of the total increase in employment, although it remained the predominant employer in the economy, accounting for 56% of the total in 1980. The main sources of employment growth were services, especially trade, transport and public services, that accounted for 60% of the total number of new jobs, and industry, that provided 33% of the total. This occurred against the background of a rapid process of modernization of the economy, in the form of a very substantial increase in the flow of goods and services through the country, and associated high rates of growth in the output of services, 9% p.a., and industry 11% p.a., in the period. Although there is no evidence of any rise in real wages up to about 1978-79, by the end of the decade there were some quite favorable indicators of improved labor market conditions. In 1979-81 there is widespread evidence of a rise in wages in rice cultivation, apparently associated with the emergence of labor shortages at critical periods in the crop cycle. There is also evidence of relatively high returns to labor for rural households in non-farm activities, often associated with temporary migration to urban areas. This supports the view that in this period the overall pattern of growth led to improvements in income earning opportunities for the bulk of laboring households; this is consistent with the evidence of declining poverty incidence shown in Chapter 6.

2.29 There are, however, a number of reasons for being less than sanguine over the current situation. First, although open unemployment is very low, less than 2% according to the 1980 Population Census, underemployment was significant. On the basis of the Government's definition, which defines underemployment as working for two-thirds or less of normal working hours,

/1 These rates of growth are World Bank staff projections derived from analysis of the 1971 and 1980 Population Censuses, and are consistent with the analysis of the rural and urban labor force in Chapter 6. The Central Bureau of Statistics has recently produced labor force projections that use the higher labor force participation rates obtained from the labor force surveys - see Biro Pusat Statistik, Proyeksi Angkatan Kerja Indonesia, 1983-2001, December 1983. The difference in interpretation of the data makes no difference to the analysis of the employment problem.

27% of the labor force were underemployed in rural areas and 17% in urban areas in 1980. /1 Second, agricultural wages appear to have stagnated in the past two years, suggesting that the previous increases represented a temporary adjustment rather than a permanent change in labor market conditions. Indeed analysis of the historical experience of other East Asian rice economies suggest that Indonesia is still a long way from the "turning point" of sustained increases in agricultural wages. /2 Third, if the past pattern of growth in labor productivity growth in agriculture and industry is repeated in the future, then these two sectors will provide employment for only a fraction of new entrants to the labor force. With slower growth in direct government employment, great pressure would then be placed on labor market conditions in the rural non-farm and urban informal sectors. This would open up the prospect of a worsening in income earning opportunities for laboring households dependent on these sectors.

2.30. What policy options does the Government have to improve the employment situation in a period of reduced resource availabilities? The understanding of the relationship between government policy and labor market conditions is still weak, but there are a number of areas in which the general direction of desirable policy is clear.

2.31 The first concerns agriculture. Although in the long term the structural shift in employment away from agriculture should continue, this sector will continue to account for a half or more of total employment, and relatively small shifts in labor demand can have a major impact on the labor market in other sectors. There are several issues. First, an appropriate policy on agricultural mechanization should be maintained. There have already been important technological changes in rice production, notably the substitution of rice mills for hand pounding and the use of the sickle in the place of the ani-ani in harvesting, that have sharply reduced labor use. Hand tractors and mechanical threshers are also beginning to spread in Java. Such innovations may make economic sense and substitute for low-return employment. However, it is essential that the purchase of the equipment should be at economic prices, and in particular that funds from low-interest special programs, such as KIK, not be available for such investments. Also, where such mechanization is economically justified as a consequence of labor shortages at seasonal peaks in labor demand, there is a risk that households that depend primarily on labor incomes will suffer a decline in year-round access to employment. The encouragement of temporary migration between rural areas, through better provision of information on areas of labor shortage, may be an alternative to mechanization under these circumstances. This leads to the second area, of policies that contribute to the spreading of labor demand throughout the agricultural year. There still appears to be considerable scope for increasing cropping intensities on Java through improved water resource development and management. The irrigation sector should continue to

/1 "Normal" working hours are given by the sectoral average of 36 hours per week in agriculture, and 48 hours per week in non-agriculture. Definitions of underemployment are quite problematic, since individuals may choose to have less than full participation in economic activities, owing to commitments to household or other activities.

/2 For an analysis of this issue see Wages and Employment in Indonesia, World Bank Report No. 3586-IND.

receive priority in the allocation of government resources, with an increased emphasis on the operation and maintenance of existing systems. There is also scope for increased production of dryland crops, both for export and to substitute for imports. Many of these, including maize, groundnuts, fruits and vegetables and cassava require labor inputs comparable to or higher than in rice cultivation. Third, investment in agriculture in the Outer Islands will support the transmigration program, which could provide employment for a significant fraction of the underlying increase in the rural labor force on Java. The labor requirements of the principal crops, palm oil, coconut and rubber, are much less than for annual crops on Java, but the potential production increases are large. Moreover a high return to smallholder production of such crops in the Outer Islands, which is the other side of a low employment content, is essential to the success of the transmigration program. Finally, it should be emphasized that there are important multiplier effects from growth in agricultural incomes. The experience of other countries suggests that the growth in employment and incomes in rural non-farm activities is intimately associated with growth in agriculture. /1 It is important that the overall support for growth in incomes in this sector be maintained, and in particular that domestic pricing policy does not lead to a shift in the terms of trade against agriculture.

2.32 The second broad area concerns the pattern of industrial growth. The manufacturing sector only accounts for a small fraction of jobs now, and its primary role in the next decade will not be the direct provision of employment but the earning or saving of foreign exchange to finance the overall growth of the economy. For this, as argued elsewhere, considerations of economic efficiency should be paramount. However, within this general framework, alternative strategies can make greater or lesser contributions to labor absorption. Two general points are important here. First, because of the pattern of import substitution in relatively labor-intensive activities in the past (notably in consumer goods) industries in export-oriented sectors are now characteristically more labor-intensive than in areas of potential import substitution. Examples of products with relatively high employment coefficients and good export potential are plywood, textiles and simple electronics products. Second, there are alternative ways of saving foreign exchange through import substitution: some sectors have a relatively high employment content and larger backward linkages to other sectors of the economy. Some examples, in areas where imports are still quite large, are spinning, food products, textiles and transport equipment. In view of Indonesia's comparative advantage in labor, investments in these areas will characteristically also be relatively attractive economic choices. However private investors now face a distorted pattern of incentives, and analysis of the impact of the current trade regime indicates that it is the relatively capital-intensive sectors that enjoy a higher degree of protection. Reform of the trade regime is needed on employment as well as efficiency grounds. As argued below, in the case of large-scale investments the problems of distorted incentives can be tackled by proper economic evaluation of the projects in both the public and private sectors.

/1 An example of analysis of a South East Asian economy is provided in Thailand: Rural Growth and Employment, World Bank, 1983.

2.33 The third broad area of policy intervention concerns the level and composition of public expenditures. The buoyant overall growth in public expenditure led to major direct increases in employment in the past decade. The direct and indirect effects of the development budget alone probably now account for almost 5 million jobs in the economy, about 9% of total employment. The pattern of expenditure growth also appears to have had significant effects on the process of growth in the past. The Government maintained a pattern of expenditure that was highly diversified across sectors and dispersed over space. The combination of widespread improvements in rural and urban infrastructure and multiplier effects from the domestic component of public spending made an important contribution to the process of modernization and employment growth. The INPRES programs, that took place almost entirely in rural areas or small towns, are particularly good examples. To sustain the process of growth, it is essential to maintain a reasonable rate of real growth of this type of program. Of course this has to be done in the context of the overall resource constraints on public spending. However, it is these categories of expenditures that characteristically have a low import content and so a relatively small impact on the primary constraint, the availability of foreign exchange. This is the main topic of the next section.

D. Management of the Investment Program

2.34 The preceding discussion has highlighted the tight constraints the country will face with respect to the availability of foreign exchange and has stressed the importance of caution and careful management of the investment program, and related to that, capital goods imports. The purpose of this section is to explore the options available to Indonesia in somewhat greater detail.

2.35 The need for raising investment levels in the Indonesian economy over the medium term is beyond question; changing the structure of the Indonesian economy, reducing its dependence on oil, promoting non-oil exports and revamping the industrial structure will inevitably call for considerable additional investment both to set up new capacity and to rehabilitate and modernize existing capacity. Substantial additional investments are also required to improve and expand social and economic infrastructure in such areas as power, transport, education, health, manpower and rural development, while the objectives of urban and regional development are important by themselves and for a variety of social and political reasons (Chapter 5). Finally, the maintenance of an appropriate structure of public investment expenditures is essential to both the direct provision of jobs and to supporting the process of income and employment growth in other sectors of the economy.

2.36 There is little doubt about the economic rationale for a very broad range of such investment outlays. The real issue, however, is how much investment can Indonesia afford to undertake in the next few years, given the severity of the resource constraint which is in prospect. The tight balance of payments outlook and the need for continued prudence in external borrowing will make it difficult for Indonesia to increase imports of capital goods, which are necessary to sustain investment levels, except at a moderate rate; as Table 2.5 indicates, imports of capital goods can grow only by about 2.2%

per annum over the 1983/84-1990/91 period. The implications of such a small real rate of growth of capital goods imports for investment levels are serious; unless the import-intensity of investment can be significantly reduced, total investment in the economy can also grow at only a modest rate, and the investment/GDP ratio is likely to fall significantly over the next few years. Consequently, the Government's objectives with respect to income and employment generation, and access to social services may well be compromised. Thus, the principal challenge facing the authorities with respect to the public investment program is how to strike a balance in its sectoral and project composition so as to ensure that the various development objectives are met.

Table 2.5: PROJECTIONS OF GDP, GDI AND IMPORTS OF CAPITAL GOODS,
1983/84 - 1990/91
(At constant 1981 prices)

	1983/84 Est.	1984/85 ---- Projected ----	1990/91 ----	Growth Rate (% p.a.) 1983/84- 1990/91
<u>In Rp trillion /a</u>				
1. GDP at market prices	54.0	59.3	79.0	5.0
2. Gross domestic investment /b	12.4	12.9	17.4	5.0
3. Capital goods imports (US\$ billion)	7.0	7.0	8.1	2.2
4. Capital goods imports /c	4.4	4.4	5.1	2.2
<u>In percent</u>				
5. Capital goods imports/ investment	35.9	34.5	29.6	
6. Investment/GDP	22.0	21.7	22.0	

/a Except line 3 which is US\$ billion.

/b Assuming some reduction in import intensity of investment as in line 5.

/c Converted from line 3 into constant (1981/82) Rupiah trillions, using a 1981/82 exchange rate of US\$=Rp 633.

Source: World Bank staff estimates and projections.

The Import Intensity of Investment

2.37 Thus, one major problem the Government will have to face in managing the investment program is how to sustain investment levels in the face of import constraints. The import intensity of overall investment has risen quite sharply in recent years from about 31% in late 1970's to about 40% in the 1981/82-1982/83 period; this is believed to have subsequently declined to about 36% in 1983/84 (see below). This rise in import intensity partly reflects the increasing capital and import intensity of public investment (the import intensity of public investment rose from about 35% in late Seventies to about 44% in 1983/84), and partly the effects of the devaluation of the rupiah. The Government's investment strategy in the public sector in the recent past has aimed at encouraging the development of natural resource - based heavy industries, and several large capital-intensive projects were undertaken especially in the industry and mining sectors where import intensity on average has been very high (Table 2.6). If such projects are excluded, however, the underlying trend in the import intensity of investment in Indonesia would not be unduly high. For example, if the six largest projects implemented in the industry and mining sector over the past 2-3 years (i.e. Balikpapan, Cilacap and Dumai refineries, Asahan Aluminium and Arun and Badak LNG projects) /1 are excluded, import intensity of aggregate investment over the 1981/82-1983/84 period would be only about 34% (as compared to about 36% when these projects are included), and of public investment about 41% (44% when these projects are included). However, a number of these lumpy projects (such as oil refineries and LNG plants) have been completed. As discussed in Chapter 1, the rephasing exercise undertaken last year has led to the revision and postponement of several capital-intensive projects which were either planned or in very early stages of implementation and has also contributed to the reduction in import intensity of investment in 1983/84 noted above.

2.38 Nevertheless, as Table 2.7 indicates, the import intensity of investment does vary significantly across sectors. For example, import coefficients are as high as 0.62-0.66 in the case of investments in power and industry while they are about 0.20-0.35 in the case of education, health, housing, agriculture etc. In order to reduce the overall import intensity of investment, therefore, it will be necessary to give somewhat lower priority to import-intensive sectors such as industry, mining and power, and place greater emphasis on such sectors as agriculture, education, health, housing, regional development etc. By redirecting expenditures to sectors with high local content, such a strategy would help sustain a higher level of aggregate investment with a given level of imports; and also reinforce the Government's short-term economic management objectives.

/1 This is not to say that all capital-intensive projects are undesirable; clearly those projects which are net foreign exchange earners (e.g., LNG projects) deserve high priority.

Table 2.6: IMPACT OF LARGE INDUSTRIAL PROJECTS ON IMPORT INTENSITY OF INVESTMENT, 1981/82-1983/84
(Rp billion; at 1981 prices and exchange rates)

	1981/82	1982/83	1983/84 Est.
<u>Gross domestic investment</u>	11,553	13,056	12,357
of which import content	4,556	5,290	4,430
<u>Public investment</u>	6,591	8,282	6,572
of which import content	n.a.	n.a.	2,880
<u>Investment in large industrial projects /a</u>	1,325	1,897	1,056
of which import content	1,049	1,183	610
<u>GDI excluding large industrial projects</u>	10,228	11,159	11,301
of which import content	3,507	4,107	3,820
<u>Public investment excl. large industrial projects</u>	5,266	6,385	5,516
of which import content	n.a.	n.a.	2,270
<u>Import intensity of investment (in percent)</u>			
Total investment	39.4	40.5	35.9
Public investment	n.a.	n.a.	43.8
Large industrial projects	79.2	62.4	57.8
GDI excl. large industrial projects	34.3	36.8	33.8
Public investment excl. industrial projects	n.a.	n.a.	41.2

/a Balikpapan, Cilacap and Dumai Refineries, Asahan Aluminium and Arun and Badak LNG projects.

Source: World Bank staff estimates.

Table 2.7: IMPORT CONTENT OF SECTORAL PROGRAMS AND SECTORAL COMPOSITION OF PUBLIC SECTOR DEVELOPMENT EXPENDITURES

Sector	Import Content In Percent /a	Sectoral Share in Percent	
		REPELITA III	Suggested Composition for 1984/85-1990/91
Agriculture & irrigation	30	14.3	14.0
Industry & mining /a	66	12.1	10.0
Electric power	62	10.0	10.0
Transportation & tourism	43	12.9	10.5
Manpower & transmigration	35	6.1	7.0
Regional development	20	8.5	8.0
Education	20	12.3	14.5
Health, family planning	20	3.8	5.0
Housing & water supply	35	3.0	5.0
Defense and security	42	6.7	6.0
Others /b	20	10.3	10.0
Total development expenditures		<u>100.0</u>	<u>100.0</u>

/a Including "Government Capital Participation".

/b Trade and cooperatives, religion, information, science, law and government apparatus. From 1979/80 includes natural resource development and environment.

Source: World Bank staff estimates and projections.

2.39 The need to reduce the relative proportions of public investment allocated to highly import-intensive sectors (such as power, industry and mining) emerges clearly in Table 2.8 below, which sets out the levels of capital goods imports (at 1981/82 prices) likely to be available over the next few years, gross domestic investment levels as projected in the macro-economic scenario in Table 2.3, and overall import intensity of investment consistent with these aggregates. As is evident from Table 2.8, even on the assumptions that: (a) the aggregate share of industry and power sectors in total public investment will be limited to about 20%; and that (b) import intensity of industrial, mining and power investment will be reduced over time to about 60%, these sectors will pre-empt about 36% of capital goods available to the public sector. Under these somewhat optimistic assumptions, and given the projections of aggregate domestic savings and capital goods imports, the import intensity of investment in all "other" sectors together will need to decline from about 33% in 1984/85 to about 28% by 1990/91 (Table 2.8). The pattern of expenditures suggested in Table 2.7 would be roughly consistent with this decline. On the other hand, if industry and power sectors were to be allocated about 24% of total public investment, and if their import intensities remained unchanged (at 1983/84 levels), then these two sectors will absorb about 46% of public sector capital goods imports; imports of

capital goods which would be available for all "other sectors" will then be sharply reduced. To then maintain the same aggregate level of investment in these sectors would imply that the import content would decline to as low as 25% by 1990/91. Such a decline will be clearly hard to achieve. But, if such a reduction in import intensities in "other" sectors and in industry and power sectors were not achieved, it may prove impossible to increase investment at a rate of 5.0% p.a. as assumed in Table 2.5 above.

Table 2.8: GDI, IMPORTS OF CAPITAL GOODS AND IMPORT INTENSITY OF INVESTMENT; 1983/84-1990/91
(Rp billion; at 1981 prices)

	1983/84 Est.	1984/85 --- Projected ---	1990/91 ---
<u>GDI</u>	<u>12,357</u>	<u>12,852</u>	<u>17,402</u>
Private	5,785	6,154	8,478
Public	6,572	6,698	8,924
<u>Capital goods imports</u>	<u>4,430</u>	<u>4,431</u>	<u>5,154</u>
Private	1,550	1,650	2,062
Public	2,880	2,781	3,092
<u>Import intensity of investment (%)</u>			
GDI	<u>35.9</u>	<u>34.5</u>	<u>29.6</u>
Private	26.8	26.8	24.3
Public	43.8	41.5	31.3
<u>Public investment</u>			
<u>Imports of capital goods</u>			
Industry, mining & power <u>/a</u>	1,444	878	1,124
Other	1,436	1,672	1,968
<u>Import intensity of investment</u>			
Industry, mining & power <u>/a</u>	66.3	69.0	60.0
Other	32.7	33.3	27.9

/a Assuming that the combined share of industry, mining and power in public investment will be reduced to 23% in 1984/85 and 20% in 1990/91; similarly, import-content of investment in industry and power is assumed to decline to 60% in 1984/85 and thereafter.

Source: World Bank staff estimates and projections.

2.40 There appears to be substantial scope for reducing the overall import-intensity of public investment by changing its sectoral composition. The Government would need to continue to exercise restraint on the aggregate amount of investment (and associated foreign borrowing with or without public guarantees) in large, capital- and import-intensive projects that are started in any one year. It would need to scrutinize very carefully for example, the

projected net contributions (including capital goods imports, their financing, and subsequent debt servicing obligations) of large industrial projects to the balance of payments. The main conflicts are likely to arise over the size and allocations between the power and industrial sectors. Undoubtedly the Government will have to continue to make very difficult choices in these sectors as to how much can be afforded from the viewpoint of balance of payments and debt management. Given the overall import constraint, and high import coefficients of investments in both sectors, it is unlikely that equally high priority can be given to both sectors at the same time. For example, a major expansion in power sector investment could probably only proceed if there were reductions in industrial sector investments. The corollary to restraint on import intensive projects is, of course, greater emphasis on sectors where investments have a relatively low import content. As the subsequent discussion of sectoral priorities indicates, there is a wide range of investments in less import-intensive projects and programs which have high priority and have the added advantage of being able to make large contribution to employment creation. The objectives of minimizing the impact of investments on the import bill, and maximizing the direct and indirect impact on the process of generation of domestic incomes and employment are directly complementary to each other.

Sectoral Priorities in the Investment Program

2.41 The foregoing discussion emphasized the need to reduce import-intensity of public investment in order to sustain investment levels in the face of severe import constraints. It argued that such a reduction could be brought about by reducing the relative shares in public investment of highly import-intensive sectors such as industry and power, and by giving higher priority to less import-dependent sectors. A feasible pattern of sectoral allocations of public investment for the rest of the decade which is consistent with the projected availability of capital goods imports is likely to be similar to that suggested in Table 2.7.

2.42 The need for changing sectoral priorities of public investment could also be justified on other grounds. The development of an efficient import-competitive industrial structure in Indonesia will require that the present inward-looking industrial strategy based on excessive protection be changed; in particular, the past heavy emphasis on import substitution in the production of capital goods regardless of economic costs needs to be changed. As regards the power sector, the need for significantly higher levels of investment could be justified on economic grounds, given the low levels of per capita power consumption in Indonesia and the long lead times and the lumpiness of power projects. Quite clearly, supply capacity will be the main constraint to increasing power sales and consumption over the next few years; however, given the resource constraints, it may not be possible to expand power generation capacity as rapidly as may be desirable in order to satisfy fully anticipated growth in demand. In this context, the desirability of stretching out the planned build-up of generation capacity will need to be explored. It is also important to ensure that due consideration is given to efficiency (in terms of least cost) criteria in the choice of investment projects.

2.43 On the other hand, the need to increase investment in sectors with high local expenditure content, such as agriculture, education and manpower development, health and family planning, housing, sanitation and water supply can be justified not only on economic social and humanitarian grounds, but also on the ground that the development of human resources is fundamental to Indonesia's economic prospects in the next decade. Agriculture, the key sector in the economy, will need to receive continued high priority within the public sector investment program, in order that the 3.7% p.a. growth in output is assured. Increasing agricultural production is obviously important for a variety of reasons, including foodgrain self-sufficiency, alleviating balance of payments pressures, and improving income, employment and nutrition levels etc. The inter-sectoral priorities within the agriculture sector, however, will need to be reviewed in view of the import constraint. Import intensity in the agricultural sector does vary substantially among different types of investments; for example, import intensity is highest in respect of multi-purpose dams and new-system construction, while it is the lowest in the case of tertiary construction and rehabilitation and upgrading. The output benefits of these different types of investments are also dissimilar. Rehabilitation and tertiary construction investments also yield benefits in a shorter time and are labor-intensive. The scope for redirecting expenditures from heavily import and capital-intensive irrigation investments to tertiary construction and rehabilitation investments over the next few years should be explored; it should be noted, however, that such investments alone cannot provide the 3.7% p.a. growth in agricultural output and that output gains especially beyond REPELITA IV will require construction of new irrigation systems. Within the agriculture sector, attention should also be given to the tree crop development and transmigration programs, as these are also important for meeting the Government's export targets and employment and regional development objectives over the present and the next decade.

2.44 Experience in other countries which have progressed further along on the path of economic development clearly demonstrates that the returns to increased expenditures on the development of human capital, in terms of increasing literacy, productivity, the quality of the work force, responsiveness to innovations and technical change etc. can indeed be very high in the longer term. In Indonesia's context, the need to sustain economic development with continued political and social harmony, by reducing the large disparities which exist between regions and between different social groups in regard to incomes, employment opportunities and access to basic facilities such as education, health, etc., provides another important dimension to this question (see Chapter 7). The Government recognizes this need and has embarked on a substantial expansion of programs for human resource development over the past few years.^{/1} However, government expenditures in Indonesia in the areas of education, health and family planning, sanitation etc. are still substantially below the international norms which are considered adequate for these sectors, particularly since the initial level of services provided in

^{/1} See Indonesia: Financial Resources and Human Development in the Eighties, World Bank Report No. 3795-IND.

these areas is relatively low in Indonesia. There is, therefore, a continued need to support expenditures (both current and capital) in these sectors. Given the financing constraints, however, there are a number of crucial questions concerning policy and investment strategy in these sectors which need to be addressed, if the momentum of recent progress in these areas is to be continued (see below).

2.45 In the past decade Indonesia has made impressive gains in expanding access to education and improving the skills of the labor force; in particular, the Government's objective of universal access to primary education has been virtually realized. However, enrolment at the secondary school level is still very modest and the capacity of the tertiary system is somewhat deficient, in relation to Indonesia's needs for technically-trained manpower. There are also considerable regional disparities in regard to access to educational opportunities (Chapter 5).

2.46 Since the need for new primary school facilities will gradually decline, the important question now is whether future investment in the education sector should be mainly directed towards the general upgrading of the entire educational system, or to raising comparatively low enrollment rates at the secondary level and to expand technical and tertiary education in a substantial, though selective manner. At the primary school level the main task over the present decade should be to improve quality and reduce drop-out rates through increased attention to teacher training, curriculum development, and the provision of textbooks and teaching aids. At the secondary level, a major increase in investment could be justified on both social and economic grounds. The major issues which need to be addressed in this area are the availability of sufficient numbers of well-trained teachers, the expansion of administrative and planning capacity needed to implement a larger program, and the regional dispersal of secondary education facilities. In tertiary education, an expansion of facilities will need to be supported by improvements in the presently poor quality of programs, inadequate management, low internal efficiency of the university system and staffing. There is also a clear need for expanding vocational training programs. Although the Government has ambitious plans in this area, they are presently held back by the lack of teachers with sufficient industrial and commercial experience, and by the lack of close linkages with prospective employers. Finally, as noted elsewhere, the creation of new facilities at all levels will need to be supported by the adequate provision of recurrent expenditures to provide adequate teacher salaries, equipment and other operating and maintenance expenditures.

2.47 As in education, the basic question with regard to future investment in health is whether priority should be given to further service expansion or to improvements in quality and utilization of health facilities. Continuous Government efforts to systematically build-up health services in recent years have led to dramatic improvements in health care facilities. Notwithstanding these improvements, indicators of health care development (in terms of life expectancy, infant mortality etc.) are less satisfactory than in countries with similar income levels. Similarly, expenditures (both public and private) on health services in Indonesia are less than those in comparable countries. Despite recent rapid expansion, the coverage of health services remains low by international standards; efforts to provide wider coverage of health services

at both the urban and rural level therefore are warranted (see Part II). A particular concern should be to strengthen primary health care and prevention services and the referral system, and to improve co-ordination with other programs such as population, nutrition and income generation activities; and to increase participation of the general population in health programs. Priority should also be given to increasing utilization of existing facilities and to improving their quality. Many of the existing facilities at the kabupaten and village levels remain underutilized due to the low quality of service and lack of supporting staff; efforts should also be made to increase the supply of trained staff, especially health workers, primary health care nurses etc. This should be accompanied by improved maintenance of existing facilities and increased emphasis on immunization, and epidemic and disease control programs. Attention should also be given to improving health service support system such as drugs supply, in-service training and technical and administrative supervision.

2.48 A strong case can be made for increased investment in housing by both the public and private sectors. (Despite the significant expansion of housing finance and construction in recent years the coverage of existing formal programs in the public and private sectors remains quite limited; and given continuing rapid urbanization, the need for adequate housing particularly in urban areas is becoming increasingly acute.) Such investment could also be justified in terms of high employment impact and high domestic content of housing expenditures.

2.49 Given the resource constraints and especially the tight availability of budgetary funds and liquidity credits, however, the likely allocations for the housing sector, (even allowing for increased allocations assumed in Table 2.7) will fall far short housing needs. Efforts should therefore be made to increase the effectiveness of limited public sector allocations by giving continuing priority to sites and services as opposed to full construction of housing units; since site development (including minimum partial construction of dwelling units) on average costs only about 50% of fully completed units, such an approach will help to maximise the number of beneficiaries from limited public expenditures. Secondly, priority should also be given to low-income housing; at present very little of the houses built by PERUMNAS is available to the lower 40% of the population, and housing construction by the private sector caters mainly to the upper income groups. Therefore, in addition to increased emphasis by PERUMNAS on low-income houses, encouragement should also be given to the private sector to build more low-income housing by removing regulations which discourage the construction of such units and by providing assistance and credit to smaller developers. Thirdly, equitable access must be provided to all income groups to institutional credit, while subsidies in the housing sector should be reduced and redirected to the lower income groups who could least afford to pay market interest rates. At present, housing subsidies benefit mainly the upper income groups.

Coping with Uncertainties in the Investment Program

2.50 It is essential that mechanisms be set in place which would enable the authorities to cope with the uncertainties inherent in managing the investment program, thereby allowing the authorities to adjust the program in a reasonably timely and orderly fashion. The uncertainties which must be

coped with generally arise from two counts: (i) year-to-year uncertainties with regard to resource availabilities, and therefore with regard to the amounts of investment which could be financed in a particular year; and (ii) uncertainties associated with implementation capabilities and the availability of suitable projects in various sectors.

2.51 There are obviously many ways of dealing with uncertainties in financial availabilities; for example, it is often possible to make annual adjustments to the public investment program through the annual development budget process. It is also possible to deal with more difficult and precipitate circumstances by introducing across-the-board cuts in the development program. While both these expedients are often resorted to, they are, however, unsatisfactory for a variety of reasons. Across-the-board cuts do not often differentiate between more important and less important projects, with the result that all projects are equally affected. Secondly, the stop-go approach exacerbates project implementation delays. In the case of Indonesia, given the need to improve project implementation performance in order to mobilize more official development assistance on relatively favorable terms and to reduce presently somewhat high ICORs, such a situation would be particularly undesirable. Selective adjustments through the annual budget, though somewhat better than across-the-board cuts, also have their own pitfalls. The scope for annual adjustments might become limited particularly in a situation where the Government is committed to several large multi-year projects at the same time. Once under way, such projects may be difficult to cut back and consequently will pre-empt the bulk of public resources for several years; as a result other equally desirable projects and sectors with relatively short gestation periods (e.g., INPRES programs) may have to bear a disproportionate share of the required adjustments, while new initiatives in other desirable areas may also be severely hampered.

2.52 It is therefore important that other mechanisms are put in place to ensure that the adjustments to the public investment program are not excessively disruptive. The experience of other countries with such mechanisms have been favorable. For example, it would be extremely useful to prepare multi-year expenditure plans at least for the larger projects. Such an exercise would help to clarify the expenditure commitments (both foreign exchange and domestic currency) on major ongoing projects for two-to-three years at a time; it would also provide guidance to policy makers on the extent to which new project starts could be initiated later, adjustments that will have to be made in other sectoral programs, and if unduly large cuts are to be avoided in these programs, the adjustments which might be required in the larger projects in terms of revisions, rephasing, modifications of projects etc., well ahead of the normal annual budget cycle. In the past year there has been some progress on this front in the course of preparing REPELITA IV. But more work is needed in key sectors, such as industry, power, telecommunications, tree crops, etc. The Government's efforts in this direction will be facilitated if external donors could provide aid indications for more than one year at a time. A second, and even more effective device is that of establishing a core program of high priority projects within a larger development plan. For example, such a core program could be limited to 75-80% of funding that may be available in a particular year and include all high priority projects in all sectors which the Government will want to protect from resource shortfalls and implementation delays. In the event of resource

shortfalls, or during the preparation of the annual budget, these core projects would be protected; and the brunt of adjustment borne by (by definition) less important projects. It is, however, important that such a core program should not include only large indivisible projects in a few sectors. It would represent the sectoral and project mix of investment which the Government would want to undertake if the resource availabilities were to be significantly reduced. If resources were to be significantly more than expectations, or fall below the annual budget targets, the Government could adjust expenditures on non-core projects and programs in the required direction. The Government is already moving in this direction with the first application being in the power sector. Such devices are only some of many possible schemes. Governments have resorted to various budgetary devices to achieve similar objectives: e.g., supplementary budgets, block allocations, and special funds for high priority projects. The essential point is that priorities be established and that high priority projects be assured of financing.

2.53 Another important issue is related to development budget preparation. The programming of the development budget could be considerably facilitated by the inclusion of carry-over allocations from previous budgets in the annual development budget for each year; in fact, the process of effecting orderly adjustments to the public investment program through the mechanisms discussed above would be very difficult to achieve if the authorities have little flexibility to control/regulate carry-over expenditures. At present, financial control is achieved largely by slowing down disbursements from the current year's development budget, so that actual expenditures, including carry-over expenditures, are in line with realized revenues; inevitably this will affect the intra-sectoral priorities set out in the development budget for a particular year, to the extent that the proportion of carry-over expenditures varies among sectors.

2.54 The other important source of uncertainty in the investment program is associated with the pace of project implementation and the adequacy and the degree of preparation of the project pipeline by line ministries and public enterprises. For the reasons discussed above, it is desirable to give increased priority to less import-intensive sectors such as agriculture, education, health, housing, regional development, etc. However, it is important to recognize that progress might be hampered by more limited project and program preparation and implementation capacities in these sectors, as compared to sectors such as power and industry. To that extent, it may be the case that even if larger allocations are made to less import-intensive sectors such as education, health, etc., the pace of utilization/implementation may be slower than hoped for; in such an eventuality the Government may be inclined to increase allocations to, or fund additional new projects, in the power and industry sectors in order to compensate for possible implementation shortfalls elsewhere. In so doing, the overall constraint on capital goods imports is likely to emerge more quickly; and the investment/GDP ratio will decline, as noted in para. 2.31. The important point, however, is that such decisions should be made on a flexible basis, and only after ensuring that implementation in less import-intensive sectors cannot proceed more rapidly because of constraints of administrative capacity, project preparation, etc. It is essential that close attention be given to project preparation and implementation capacities in these less import-intensive sectors. This brings us to the issue of project implementation discussed below.

Improving Project Implementation Performance

2.55 While the determination of the appropriate scale and mix of public investment will clearly be important, improving the implementation of projects included in the public investment program will be an integral aspect of economic management over the next few years. The need to improve project implementation performance can be an important objective by itself; implementation delays often increase project costs and the postponement of the benefit stream (in terms foregone output, incomes and employment) can affect the rates of return and sometimes the economic justification of some projects. This objective is likely to become even more important in Indonesia's present context; given the financial stringency now in prospect and the limitations on Indonesia's capacity to significantly increase investment levels over the next few years, it will be essential to ensure that expensive capital and foreign exchange are not tied up unproductively in slow-moving projects. Accelerated project implementation will also help Indonesia to increase disbursements from the existing project aid pipeline, to induce external donors to augment their future commitments of external assistance to Indonesia by enhancing the confidence of such donors in her implementation capacity, and to generally accelerate the growth process and development momentum.

2.56 Recent experience with World Bank-financed projects suggests that Indonesia's project implementation performance has improved significantly over the past few years. However, despite this noteworthy improvement in recent years, a number of problems remain. As in other countries, a wide range of economic, financial, technological, social, administrative and institutional factors contribute to implementation delays in Indonesia; while a catalogue of all these contributory factors is bound to be voluminous, the experience with World Bank projects in Indonesia indicates that project implementation is hampered by problems in six broad areas: procurement, land acquisition, consultant recruitment, budgetary and financial procedures, the construction industry, and institutional and management framework. Since Bank-financed projects largely follow government procedures in these areas, the problems identified and possible solutions are likely to have a broader relevance beyond Bank-financed projects to those financed by other aid agencies and donors and by the Government itself.

2.57 Delays in procurement are most serious with larger (over Rp 500 million) equipment and civil works contracts which account for the greater part of the development budget outlays. On average the procurement process (from prequalification to contract signature and completion of all necessary reviews) takes 18-20 months for larger civil works contracts procured by international competitive bidding (ICB) and as much as 24-32 months for larger equipment contracts procured by ICB. The present delays with regard to procurement emanate from many sources: lack of standardization with regard to prequalification and contract documentation, delays in initiating the procurement process sufficiently early (agencies are sometimes reluctant to prepare tender documents and to solicit bids before financing is approved), complicated bidding and bid-evaluation procedures, sometimes insufficient awareness on the part of agencies of the procedures to be followed, etc. (see below).

2.58 Land Acquisition Problems. Projects in virtually all sectors require the acquisition by the Government of land and its transfer to project agencies. In many cases, particularly those in Java and in or around major towns, this proves to be a difficult and time-consuming process. The Government does not have the right of eminent domain in Indonesia, so that land acquisition is in fact an unduly time-consuming process. Even if the Government had the right of eminent domain, land acquisition would be hampered by the fact that there are: (a) cumbersome administrative procedures; (b) deficiencies in land records; (c) delays in mapping, surveying and delineating rights of way; and (d) difficulties with regard to price negotiations.

2.59 Budgeting and Finance Procedures. The level of knowledge in Government agencies about the details of Government budgeting and finance procedures is uneven. This is partly because there is no one document which gathers together all of the information on these matters that project staff need to know, and because of insufficient communication between Ministry of Finance and project agencies. For example, many agencies are reluctant to enter into multi-year contracts or to initiate the procurement process early before DIP allocations are finalized, even though this is permitted by Ministry of Finance procedures. Secondly, despite recent improvements, the procedure for DIP revision is still quite complex; consequently funds are not received by some agencies till late in the financial year; departments also have little flexibility for shifting funds from one project to another within broadly defined categories. In a number of projects (such as the World Bank-financed Smallholder Rubber Development Project, urban development projects) the financing plans and procedures for release of funds are very complex, with financing coming from several sources, each with its own set of procedures. In yet others, project implementation is delayed by the fact that the opening of Letters of Credit (L/Cs) for the import of equipment often takes six months or even longer due to the long chain of approvals needed. There are also chronic delays in the initiation of reimbursement applications for those items which have been prefinanced by the Government.

2.60 Consultant Services. Delays in negotiating and approving consultant contracts are a major cause of slow project implementation. Under Bank-financed projects consultants contract procedures (from the initial terms of reference to contract signing) often takes from six months to a year; if anything, this interval seems to be increasing. While the Government is rightly encouraging the development of local consultant capacity and has been urging public sector and non-governmental institutions to increase the role of domestic consultants in implementing the development program, some agencies have proposed roles for Indonesian firms that are inappropriate in relation to the level of experience of such firms. Some agencies are also reluctant to hire foreign consultants except through local firms. There is no doubt that foreign aided projects should seek to support Government efforts to develop domestic consultant industry skills. But a reasonable balance must be struck between the development of the industry and ensuring satisfactory work. The choice of unqualified local firms may only lead to the need to re-do work and hence needless delays in project implementation. In finalizing consultant contracts, BI's guidelines for billing rates for consultants would also need to be interpreted flexibly, taking into account the nature of consultancy services and the degree of specialization required. Finally, the present government contract review procedures are cumbersome. This process could be simplified.

2.61 Institutional and Management Issues. A broad range of problems which adversely affect project implementation is subsumed under this category; many of these problems are project-specific, (for example, weaknesses in project design or in co-ordinating mechanisms), while others (such as deficiencies in sectoral planning, over-burdening of implementing agencies) are of a sectoral nature. There are, nevertheless, a number of project- and sector-specific problems which cut across sectors and projects. For example, the implementation of a number of projects is hampered because of difficulties in attracting, retaining and motivating sufficient numbers of qualified and experienced staff, particularly due to low salaries. In many sectors including irrigation, highways and the social sectors, there is also a need for progressive delegation of implementation and expenditure authority to provincial or kabupaten-level agencies, together with a significant strengthening of manpower resources. Thirdly, the ability of agencies to address and resolve problems affecting implementation varies widely from sector to sector; and there is a continued need for building up the agencies' capacity to design, manage and implement their overall programs. This should also include continued training of staff, particularly in the areas of procurement and disbursement, methods of consultant recruitment, the minimization of delay in consultants' work, and finance and budget procedures.

2.62 The problems and issues raised above differ greatly in their complexity and in the ease with which they can be addressed by the Government; some could be remedied relatively easily. For example, in regard to procurement, the early initiation of the procurement process, standardization of prequalification and contract documents, simplification of bidding requirements and bid-evaluation procedures and liberalizing the use of multi-year contracts, among other steps, would help to reduce the considerable time lags in procurement. Similarly, the issuance of comprehensive guidelines on finance and budgetary procedures, simplification of procedures for the opening of Letters of Credit, greater interaction between Ministry of Finance and agencies with regard to fund release procedures and the establishment of a system of quarterly monitoring of the release of DIP funds to project agencies would help to improve project implementation. On the other hand, others will require considerable analysis and discussion before solutions could be finalized. The Government has established five working committees to examine these issues, and to make recommendations on how the Government should proceed, and is already taking action in a number of areas, such as the standardisation of procurement documents. While this process will take time it may, however, be possible to introduce a number of changes relatively quickly which could help significantly to improve project implementation.

The Role of the Private Sector and Deregulation

2.63 As discussed elsewhere in the report, the ability of the public sector to finance development activity has diminished somewhat. Government savings are expected to increase gradually through continued discipline in restraining current expenditures and rising tax revenues, resulting from the effective implementation of the new tax laws. Nevertheless, the private sector will be called upon to play an increasingly important role in undertaking investment. The Government is clearly aware that the acceleration of the process of development is closely linked with the extent to which the resources, energies and ingenuity of the broadest possible spectrum of society is harnessed.

2.64 Accordingly, it is important to ensure that the private sector be given broad scope for economic action and be free of regulations which inhibit initiative and are of dubious social value. The demarcation of areas for investment by the public and private sectors will need to be reviewed carefully in this light. As a matter of strategy, it may be desirable to provide as much flexibility to the private sector to choose where it wants to invest, without delineating specific areas for private (or public) investment; to the extent that such projects are economically efficient and conform to national priorities they should be allowed to proceed. There are, of course, areas where private investment will not be expected to take place - e.g., large indivisible projects requiring very heavy commitments of resources, infrastructure investments which may be socially desirable but may not be financially profitable for the private sector and so on. While such areas are candidates for public investment, the division between public and private sectors in other less obvious areas will need to be made on a flexible and pragmatic basis.

2.65 In addition, the Government will need to take certain steps to encourage and facilitate private investment. The first is the evolution of a pragmatic policy for the further development of the financial sector (Chapter 3). Private investment in the medium term will depend critically on the adequate availability of credit, both working capital and particularly longer-term credit for financing investment. Insufficient access to and high real cost of long-term credit could become serious impediments to private investment, given the difficulties being currently experienced with regard to term-transformation of funds through the banking system and the high lending rates in prospect for the next few years (paras. 3.47-3.48); and mechanisms will need to be worked out to overcome these problems.

2.66 The second and even more important aspect of fostering an environment conducive to greater private investment activity is the simplification of the regulatory framework. Up to now, extensive and often confusing licensing and regulatory requirements have impeded private sector development, especially in the manufacturing sector. Manufacturing enterprises are subject to a large number of regulations and licensing requirements covering the different stages of their operations - for example, approval of original investment, expansion of capacity, production levels, ownership arrangements, location, imports, exports, transport and marketing, labor, wages, foreign staffing, funding arrangements, etc. Moreover, these licensing and regulatory requirements are imposed at different levels (national, provincial, municipal, local, etc.) and by different agencies. Coordination among agencies is often poor and the procedures for obtaining licences are complex, cumbersome, and usually subject to considerable delays.

2.67 While this complex regulatory system has been inspired by several policy-objectives (for example, by the desire to prevent excess capacity, direct investments into preferred areas, promote regional development and weaker economic groups, etc.), it is not at all certain that these objectives have in fact been realized. What is clear is that these regulations have led to many adverse economic consequences: for example, detailed licensing has failed to prevent the emergence of excess capacity in many industries; the licencing system which provides protection to the early entrants to the industrial sector does not necessarily encourage the establishment of the most

economically efficient units. Furthermore, such a system discriminates against later entrants and particularly smaller firms, and facilitates monopoly situations and exploitation of consumers; and despite the various incentives provided, it has not led to any significant regional dispersion of industry outside Java. On the other hand, import controls, quotas and tariff restrictions which have also formed part of the regulatory framework, have led to the growth of a highly inward-looking inefficient industrial structure, as noted elsewhere in this report. On the whole, the regulatory system is perceived as substantially increasing the operating costs to enterprises in particular, and as Table 4.6 (Chapter 4) indicates so clearly, to society in general.

2.68 The Government is fully aware of the difficulties inherent in the present regulatory system and is engaged in a major effort to reform the system. The BKPM has been reorganized several times (including its conversion to a "one-stop" agency) to improve its efficiency. However, quantitative restrictions, including the excessive licencing of importers, have proliferated in the last two years, complicating the task of promoting efficiency in domestic industries. As noted in Chapter 1, the Government has recently announced its intentions to simplify the regulatory framework and to effect significant reduction and simplification in the licensing requirements by the beginning of the REPELITA IV period. Among the measures already introduced or being contemplated by the Government are: the establishment of a clear framework for government licenses, simplification of the number of licenses and licensing procedures, greater uniformity in the period of validity of licenses, the abolition of trade licenses over imports and exports, and streamlining the issue of licenses in the provinces by converting the Regional Investment Co-ordinating Boards (BKPMs) into one-stop offices. It would be unrealistic to expect such a major overhaul to have an immediate impact in the short-run. It will necessarily take time. It is therefore essential that the Government maintain its commitment to deregulation and that mechanisms are put in place to prevent retrogression in areas in which deregulation is carried out. The simplification of the licensing requirements and procedures, however, will not be easy as it will call for modifications to existing laws, and as many of licenses provide sources of incomes for government agencies and provincial governments. Notwithstanding these difficulties, substantial early progress in improving the regulatory framework, in addition to the reduction in quantitative restrictions and tariffs, will be essential for harnessing the resources, financial and entrepreneurial, of the private sector in order that it play a more active role in the country's development over the coming years.

2.69 At the same time it is incumbent on the private sector to provide an appropriate response to the Government's efforts to improve the climate for private investment by increasing the level of private investment, and even more importantly, by improving the efficiency and quality of private investment projects. In this context it is essential that the private sector take a long-term view of the opportunities for and risks of investment in Indonesia, so that investment decisions are based on more rational and realistic expectations. For example, if the private sector were to continue to expect extremely low pay-back periods (i.e., very high financial rates of returns), the Government's efforts to increase private investment would be of little avail. It is also important that future private investments are efficient, export-oriented, competitive by international standards, and that they do not rely on continued high protection through tariffs and quantitative restrictions. It should be recognized that if such investments cannot compete

effectively in export markets or domestically with potential imports without excessive protection, they will contribute very little to economic growth or to ameliorating the balance of payments. Indeed, as noted in Chapter 4 below, to the extent that private investment projects are not competitive and require high levels of protection and external financing, they could exacerbate Indonesia's balance of payments situation, and make the transformation process much more difficult.

Chapter 3

DOMESTIC RESOURCE MOBILIZATION : SELECTED ISSUES AND PROSPECTS

3.1 The sharp decline in oil revenues and the consequent impact on public sector savings described in Chapter 1 clearly demonstrated how important it is for Indonesia to intensify its efforts at domestic resource mobilization so as to be able to continue to finance an adequate level of investment. The macroeconomic projections presented in Chapter 2 (Table 2.3) indicate that, given the external resource constraint, in order to increase real investment by around 5% p.a. over the present decade, domestic savings must rise from around 16% of GDP in 1983 to about 20% by 1990. Policy measures aimed at generating the modest GDP growth of 5% p.a. in the medium term must, therefore, address not only the foreign exchange constraint through increasing emphasis on non-oil exports, but also alleviate the domestic savings constraint and improve resource allocation. In this context public finance strategy and policies pursued in the financial sector play a critical role. Policies to be implemented in these areas are not only mutually reinforcing but also very much complementary to those needed for addressing the foreign exchange constraint. This chapter outlines and assesses some of the key issues and prospects related to (i) Government revenues and expenditures, particularly in connection with generating greater public savings; and (ii) the role of the financial sector in private savings mobilization and allocation.

A. Public Finance: The Challenge of Increasing Public Savings

3.2 The challenge of financing the public investment program in the future during a period of constrained foreign borrowing lies in the success of public sector resource mobilization efforts. A principal feature of the domestic resource mobilization effort is the future performance of public sector savings. High international oil prices and continued robust international demand for oil in 1980-81 raised total government revenues in relation to GDP from 18.8% in 1978/79 to 22.6% in 1981/82 (Table 3.1). By 1983/84 this ratio had, however, declined to 19.7%. Even with considerable restraint in current expenditures, government savings declined from 8.1% of GDP in 1981/82 to 7.7% in 1982/83. While taxes from the oil sector will continue to be the cornerstone of government revenues, the performance of public savings depends critically on non-oil tax revenue generation and continued restraint on current expenditure growth.

Table 3.1: CONSOLIDATED STATEMENT OF GOVERNMENT FINANCE, 1978/79-1990/91
(% of GDP at current prices)

	Actual		1982/83	Esti- mate 1983/84	Projected		Annual Real Growth 1985-90
	1978/79	1981/82			1984/85	1990/91	
<u>Total revenues</u>	<u>18.8</u>	<u>22.6</u>	<u>20.8</u>	<u>19.7</u>	<u>20.2</u>	<u>22.1</u>	<u>8.0</u>
Non-oil taxes	7.8	6.0	6.4	6.0	6.0	7.5	8.0
Non-tax revenues	0.8	0.6	0.7	0.7	0.7	0.7	4.6
Oil and LNG taxes	10.2	16.0	13.7	13.0	13.5	13.9	8.2
<u>Current expenditures</u>	<u>-12.2</u>	<u>-14.5</u>	<u>-13.1</u>	<u>-12.2</u>	<u>-12.5</u>	<u>-12.8</u>	<u>5.6</u>
(of which:							
domestic oil subsidy)	(-0.9)	(-2.4)	(-1.6)	(-1.3)	(-1.3)	(-)	(-32.9)
Government savings /a	<u>6.6</u>	<u>8.1</u>	<u>7.7</u>	<u>7.5</u>	<u>7.8</u>	<u>9.3</u>	<u>12.2</u>
Government investment	<u>5.7</u>	<u>7.0</u>	<u>8.0</u>	<u>6.5</u>	<u>7.3</u>	<u>7.5</u>	
Financing requirement	<u>-0.9</u>	<u>-1.1</u>	<u>0.3</u>	<u>-1.0</u>	<u>-0.5</u>	<u>-1.8</u>	
<u>Memo item</u>							
Gross domestic investment	20.5	21.4	22.6	22.0	21.7	22.0	5.3

/a Excludes savings by public enterprises.

Source: Biro Pusat Statistik; Budget; BI; World Bank staff estimates.

Measures to Raise Tax Revenues

3.3 As noted in Chapter 1, the Government is taking steps to increase non-oil tax revenues through the reform of the tax laws. The potential for non-oil tax revenue mobilization in Indonesia can be illustrated by comparing its performance with other countries. A cross-country comparison of tax revenues by type of tax indicates that Indonesia compares favourably with many developing countries in terms of total tax revenues as a share of GDP (Table 3.2). However, when taxes on oil are excluded, the ratio of non-oil taxes to GDP (5.9% in 1981/82), is low compared to those for Thailand (13.4%), Philippines (12.3%), Pakistan (14.5%), India (14.1%) and Sri Lanka (22.2%). The average individual income tax between 1978 and 1980 was only 0.4% of GDP for Indonesia, which is the lowest in the sample, except for Brazil (which depends heavily on indirect taxes) and Nigeria (which, other than oil taxes, also collects sizable trade taxes). Indeed it is lower than the average for a sample of 21 countries with a per capita GNP of below \$300 per year. Similarly, non-oil corporate taxes in Indonesia were only 0.9% of GDP in 1979 compared to the average of low income countries of 1.5% and middle income countries of 3.0%.

Table 3.2: TAX REVENUE BY TYPE OF TAX
(% of GDP)

Year	GNP per capita (1979)	Total Taxes	Income Tax		Domestic Taxes on Goods and Services		Foreign Trade		Wealth and Property	
			Individual	Corporate	Sales/VAT	Excises	Import Duties	Export Duties		
India	1978-1980	210	14.05	1.19	1.26	0.12	5.39	2.46	0.12	0.19
Srilanka	1978-1980	230	22.19	0.74	2.03	2.49	3.63	4.06	8.15	0.13
Pakistan	1978-1980	270	14.53	0.94	1.07	0.97	4.20	4.93	0.18	0.09
Kenya	1978-1980	390	20.87	n.a.	n.a.	5.22	2.24	4.72	0.28	0.19
Egypt	1977-1979	400	27.90	1.58	2.96	-	1.91	7.44	0.34	0.58
Thailand	1979-1981	600	13.44	1.12	1.54	2.74	2.88	2.96	0.48	0.12
Philippines	1978-1980	640	12.30	1.74	1.19	1.88	2.67	2.84	0.25	0.67
Nigeria	1975-1977	910	20.61	0.03	16.77	-	0.42	3.36	0.01	-
Korea	1978-1980	1,510	17.05	2.37	2.19	3.84	2.80	3.11	-	0.49
Brazil	1978-1980	1,770	23.19	0.18	1.02	6.79	4.39	0.63	0.34	0.43
Mexico	1978-1980	1,880	13.92	2.53	3.13	2.44	1.77	0.92	1.73	0.02
Venezuela	1978-1980	3,440	19.99	0.72	14.46	-	0.92	n.a.	n.a.	0.07
<u>Indonesia</u>	1978-1980	370	18.74	0.42	13.02	1.09	0.95	1.01	0.8	0.32
Average of low income countries <u>/1</u>	206	13.23	1.22	1.54	1.71	1.63	4.15	1.62	0.26	
Average of middle income countries <u>/2</u>	510	18.55	1.90	3.02	1.54	2.05	5.80	1.15	0.37	

/1 Sample of 21 countries with GNP per capita of less than \$300 per year.

/2 Sample of 43 countries with GNP per capita of between \$300 and \$650 per year.

Source: IMF, Fiscal Affairs Department, "Quantitative Characteristics of the Tax System of Developing Countries" DM/83/79.

3.4 Non-oil Taxes. Before discussing the prospects for non-oil tax revenues, it would be useful to describe briefly the principal features of the newly enacted tax reform. The reform is designed to generate greater non-oil revenues by broadening the tax base and simplifying the tax structure and its administration. The principal components of the new system comprise a new structure of direct taxes, the introduction of a value-added tax and a new set of simplified procedures.

3.5 The New Income Tax Law (Pajak Penghasilan) combines four separate taxes under the old system - the individual income tax (PPd), the corporate income tax (PPs), the withholding tax on interest, dividends and royalties (PBDR) and the withholding tax (MPO). Only three tax rates now apply - 15%, 25%, and 35% - in place of several rates prevailing up to now. The threshold level for individual income tax has been doubled to Rp 3 million per year for a family of five; the tax authorities estimate that 10-15% of the population will qualify as taxpayers. Under the new law, virtually all special tax incentives (such as tax holidays) for investment have been eliminated. The relatively low maximum rate of 35% is, however, a signal to foreign investors of a favourable tax climate. With respect to interest income from time deposits the Government has, for the time being, waived taxation so as to avoid any decline in the level of time deposits held in the country.

3.6 The Value-Added Tax Law (V.A.T.) replaces the former sales tax (PPn), a complicated turnover tax with seven different tax rates. Instead, a flat 10% tax on value added will be charged. The new tax will initially be restricted to the construction sector, manufacturers, and importers of manufactured goods. Unprocessed items will not be taxable and other exemptions include rice, prescription medicines, textbooks, and non-mechanized agricultural equipment. In addition, small firms (to be defined later by Ministerial Decree) will be exempt from this tax. V.A.T. has the potential of increasing revenues significantly, though its effective implementation will take time and considerable effort. In addition to V.A.T., a one-stage luxury surcharge tax (identical to an excise tax), consisting of two rates - 10% and 20% - will be levied either at the time of sale by the manufacturing firm or at the time of importation. Luxury items liable to this tax will include, inter alia, all household electrical appliances, cars, videos, jewellery, and sailboats.

3.7 Finally, the New Procedural Law incorporates the procedures for self-assessment, enforcement, and redress. Full responsibility for filing tax returns and paying taxes will rest with the taxpayer backed by selective audit. The new procedural law also consolidates previously scattered references to enforcement procedures in the statutes for each tax. The authorities have tried to strike a balance between consideration for the taxpayer and collection enforcement. To encourage compliance, mechanisms for redress, appeal and payment of refunds (with time limits for each) have been incorporated into the law.

3.8 The tax reform laws have been long in the making, and the deliberations of the Government are reflected in a well designed package of new taxes and schedules. The success or failure of the new tax system, however, depends on the effectiveness of its implementation, and the extent to which the public understands, and identifies with, its aims and objectives. Preparations have already begun to both educate the public through various forums and to streamline procedures and organizations related to the new system. It must be recognized, however, that the gains (both fiscal and efficiency) from the new tax system will inevitably take time to be fully realized.

Table 3.3: NON-OIL TAXES - BUOYANCY ASSUMPTIONS

Base Used		Historical Estimates		Assumed Buoyancy 1984-90
		1968-78 <u>/b</u>	1979-82 <u>/c</u>	
<u>Taxes on income</u>				
Income tax	Non-oil GDP	1.0	1.0)	1.3
Corporate tax	GDP	1.3	1.3)	
Withholding tax	Non-oil GDP	1.3	1.2)	
IPEDA	GDP	0.9	0.6	1.0
Other	GDP	1.2	1.1	1.1
<u>Taxes on domestic consumption</u>				
Sales tax	Private consumption	1.0	1.1)	1.2 <u>/e</u>
Import sales tax	Imports	0.9	0.9)	
Excise	Domestic private consumption	1.0	0.8	1.0 <u>/e</u>
Miscellaneous levies	GDP	-	1.2	1.2
<u>Taxes on international trade</u>				
Import duties	imports	0.9	0.9	0.9
Export tax	exports	1.0	3.5 <u>/d</u>	1.0
Non-oil tax revenue	Non-oil GDP	1.0	0.8	1.5

/a Using log-linear regression estimation procedures.

/b IMF Staff Working Paper 1978.

/c World Bank Staff Estimates.

/d Due to falling log exports during a period of decline in nominal export value.

/e With respect to manufacturing growth.

Source: World Bank staff estimates and projections.

3.9 Turning now to the medium-term prospects for non-oil tax revenues, the restructuring of the taxation system and increased efforts at collection should reverse the declining trend of non-oil taxes in relation to domestic incomes. The buoyancy of non-oil tax revenues to non-oil GDP in fact fell from 1.0 in the period 1968-78 to 0.8 in the post-1979/80 period (Table 3.3).

The latter period corresponds to the years of rapidly rising oil revenues and it is conceivable that the reduced tax effort may have been one way of redistributing the oil income to the private sector. The projections in this report assume that non-oil taxes will achieve a buoyancy of 1.5 with respect to non-oil GDP (Table 3.3). While the overall assumed buoyancy is high in comparison to the performance of the past decade, it should be attainable providing the new tax law is forcefully implemented. ^{/1}

3.10 Oil and LNG Revenues. In real terms oil and LNG revenues are expected to grow about 5.1% p.a. on average between 1985-90, far below the performance of 1975-80 (Table 3.4). The slow growth in both oil production levels and prices and rapidly rising costs of crude production account for this modest projection. Revenues associated with LNG production will also be affected by the development of oil prices and the slow demand-constrained growth in production after 1984/85.

Table 3.4: OIL AND LNG REVENUES IN THE MEDIUM TERM
(\$ Billion)

	1983/84	1984/85	1990/91	Annual Nominal Growth 1985-90	Annual Real Growth 1985-90
<u>Oil revenues</u>					
Crude production (mby) ^{/a}	504	508	627	-	-
Crude price (\$/bbl) ^{/b}	29.5	29.5	49.4	10.9	2.3
Net operating income	11.7	11.6	21.4	14.0	5.1
Budgetary revenues	<u>8.5</u>	<u>9.9</u>	<u>17.5</u>	<u>13.9</u>	<u>5.1</u>
<u>LNG revenues</u>					
Production (million MMBTU)	500	750	943	-	-
Budgetary revenues	<u>1.0</u>	<u>1.6</u>	<u>3.5</u>	<u>14.1</u>	<u>5.1</u>
Total oil and LNG revenues	<u>9.7</u>	<u>11.5</u>	<u>21.0</u>	<u>13.9</u>	<u>5.1</u>
<u>Memo item:</u>					
Budgetary subsidy (Rp trillion)	0.9	1.1	0.1	-	-

^{/a} Excludes Pertamina.

^{/b} International price of oil plus \$0.50 premium for Indonesia's crude.

Source: World Bank staff estimates.

3.11 Projection of budgetary oil revenues are sensitive to the assumptions about the costs of crude production. The average costs of producing crude in Indonesia is expected to rise rapidly for two reasons: first, as production rises and old fields are depleted, more expensive methods of extraction will

^{/1} Countries such as Malaysia and Kenya have achieved tax buoyancy ratios of the order of 1.4-1.5 over relatively long periods.

be employed, and smaller fields will be brought on stream; and second, the share of Caltex's low cost fields in total production, particularly MINAS, is anticipated to fall and be replaced by relatively high cost crude from other production-sharing contractors. As a consequence of these factors, the average cost of crude is expected to rise by about 8% per year in real terms over the rest of this decade. Finally, with the projected increase in exports of LNG (from 500 million MMBTU presently to about 950 million MMBTU by the end of the decade - see Chapter 4), government revenues are expected to rise by about 14% p.a. in nominal terms between 1985 and 1990.

3.12 Historical and illustrative projections for the composition of Government revenues are presented in Table 3.5. Oil and LNG taxes rose from 33.8% of total domestic revenues, in 1972/73 to 70.7% in 1981/82 and subsequently fell to 66.0% in 1983/84. Despite the receding fortunes of the oil sector, oil and LNG taxes will continue to remain important though their share in total domestic revenues is expected to decline somewhat over the remainder of the decade. The share of non-oil taxes, which fell during the Seventies and early Eighties, should rise again by the end of the decade.

Table 3.5: THE CHANGING STRUCTURE OF GOVERNMENT REVENUES, 1972/73-1990/91
(In percent)

	1972/73	1975/76	1978/79	1981/82	1983/84	1984/85	1990/91
	-----	Actual	-----	-----	Est.	-- Projected --	-----
Oil and LNG taxes	33.8	53.8	54.1	70.7	66.0	66.7	63.5
<u>Direct taxes</u>	<u>17.6</u>	<u>14.2</u>	<u>14.7</u>	<u>11.3</u>	<u>13.3</u>	<u>14.2</u>	<u>14.7</u>
Individual income tax	4.4	2.9	2.9	1.7	2.8		
Corporate tax	5.2	5.9	5.3	4.6	5.3		
Other	8.0	5.4	6.5	5.0	5.2		
<u>Indirect taxes</u>	<u>11.3</u>	<u>8.8</u>	<u>8.1</u>	<u>4.3</u>	<u>5.8</u>	<u>5.6</u>	<u>7.1</u>
Sales tax	6.2	5.5	5.2	2.5	4.0		
Import sales tax	5.1	3.3	2.9	1.8	1.8		
<u>Trade taxes</u>	<u>19.0</u>	<u>10.5</u>	<u>10.8</u>	<u>5.5</u>	<u>4.6</u>	<u>4.7</u>	<u>4.8</u>
Import duties	13.1	7.8	6.9	4.4	3.9	4.0	3.9
Export tax	5.9	2.7	3.9	1.1	0.7	0.7	0.9
<u>Other</u>	<u>15.4</u>	<u>8.3</u>	<u>7.8</u>	<u>5.4</u>	<u>6.7</u>	<u>5.2</u>	<u>6.6</u>
Excises	8.0	4.4	5.9	4.5	5.4	4.2	5.6
IPEDA	2.6	1.6	1.5	0.8	0.9	0.9	0.8
Other	4.8	2.3	0.4	0.1	0.4	0.1	0.2
Non-tax revenue	<u>2.9</u>	<u>4.4</u>	<u>4.5</u>	<u>2.8</u>	<u>3.6</u>	<u>3.6</u>	<u>3.3</u>
Total domestic revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Budget Data and World Bank staff estimates.

Restraining Current Expenditures

3.13 Increased public savings will also require continued restraint in current expenditures. However, the growth of some components of current expenditures is of a structural nature and difficult to slow down. For example, interest payments on foreign debt will double in nominal terms between 1984/85 and the end of the decade. Personnel expenditures, too, are difficult to contain given, for example, the continued emphasis on the expansion in secondary education. Further, as noted in Chapter 2, it is important that the existing stock of public capital, particularly in agricultural, irrigation and transport infrastructure, is well maintained by adequate allocations of funds for their upkeep. Such expenditures often yield higher rates of return than new investments. Moreover, they are generally labor-intensive and have a low import content. Thus, it would appear that the most promising areas for restraining the growth of current expenditures lie in the continued reduction of subsidies.

3.14 Budgetary Subsidies. Budgetary subsidies for domestic oil consumption amounted to 1.6% of GDP in 1982/83. In comparison with an estimated subsidy of Rp 0.9 trillion in 1983/84, the 1984/85 budget has allocated Rp 1.1 trillion for domestic oil subsidies despite an average oil price increase of some 35% in January 1984. The ex-refinery prices of petroleum products in Indonesia exceed the average ex-refinery prices in Singapore. /1 However, it is not clear what other components of Pertamina's expenses are included in the calculation of the budgetary subsidy. Further reductions in the subsidy would require either higher prices or greater operating efficiency in the sector, or both. If domestic oil prices are raised on average by 5% p.a. in real terms between 1985 and 1990, the subsidy can be reduced from 1.4% of GDP in 1983/84 to less than 0.1% by 1990. However, there is scope for improving efficiency in the sector (e.g. by reducing refinery and other losses) thereby moderating the need for future price increases. Of course, higher prices for selected products will not only encourage conservation but also substitution by less expensive energy supplies.

3.15 Turning to other subsidies, the Government has already discontinued food subsidies /2 in the 1984/85 budget. Budgetary subsidies on fertilizer /3 are assumed to be to be reduced overtime. Present subsidies are probably higher than necessary to encourage optimal use of fertilizers; as the subsidies are reduced, the impact on application rates, rice production, and farmer income can be assessed.

/1 The Indonesian average ex-refinery price is estimated at Rp 239.5 per liter compared to the average Singapore ex-refinery price of Rp 209.0 per liter (as of December 22, 1983).

/2 Bulog will, however, continue to be subsidized through below market interest rates on loans from state banks.

/3 In addition to a direct budgetary subsidy, gas is sold to the fertilizer industry at a fraction of its oil-equivalent international price. However, the issue of the pricing of gas for domestic use is a complex one and is not dealt with in this report.

Financing Government Investment

3.16 Over the past five years, the structure of finance supporting the growing level of public investment has changed significantly. The share of total public sector investment financed from government savings rose from about 55% in 1978/79 to 68% in 1981/82. During this period, the Government ran a resource surplus, with government savings always being in excess of direct government investment. In contrast, the public enterprise sector continued to incur resource deficits, which were financed from government savings, on-lent disbursements of external public debt, and domestic borrowing from the banking system. In 1982/83, government savings fell below the level of direct government investment for the first time due to the fall in corporate oil taxes. This fall was compensated, in part, by drawdowns in accumulated government savings with the banking system and higher disbursements of external public debt. In 1983/84 government savings were once again in excess of government investment and in addition the rephasing of public enterprise investment helped maintain the public sector borrowing requirements within reasonable levels. Table 3.6 summarizes expenditure and resource projections for the public sector. Government savings, which fell from 8.1% of GDP in 1981/82 to 7.5% of GDP in 1983/84 are expected to rise to 9.3% of GDP by the end of the decade. This increased level of government savings should cover direct government investment and, in addition, partly compensate for the continued reduction in net disbursements of external debt. This is predicated on the projection that direct government investment gradually increases its share of GDP from 6.5% in 1983/84 to 7.5% in 1990/91 and is consistent with the analysis of the public investment program in Chapter 2, Section D.

Table 3.6: SUMMARY OF PUBLIC SECTOR INVESTMENT AND FINANCE
(% of GDP)

	1978/79	1981/82	1982/83	1983/84	1984/85	1990/91
	-----	Actual	-----	Est.	-- Projected --	-----
<u>Public sector investment</u>	<u>10.1</u>	<u>12.2</u>	<u>15.4</u>	<u>11.7</u>	<u>11.3</u>	<u>11.3</u>
Government	5.7	7.0	8.0	6.5	7.3	7.5
Public enterprise	4.4	5.2	7.4	5.2	4.0	3.8
<u>Public sector savings</u>	<u>7.9</u>	<u>8.7</u>	<u>8.2</u>	<u>8.0</u>	<u>8.3</u>	<u>9.8</u>
Government	6.6	8.1	7.7	7.5	7.8	9.3
Public enterprise	1.3	0.6	0.5	0.5	0.5	0.5
<u>Financing requirement</u>	<u>2.2</u>	<u>3.5</u>	<u>7.2</u>	<u>3.7</u>	<u>3.0</u>	<u>1.5</u>
Domestic borrowing (net)	-0.4	0.5	2.3	-1.6	-0.3	0.6
- Government (net)	1.3	-0.2	1.3	-1.6	-0.8	-
- Public enterprises (net)	0.4	0.7	1.0	-	0.5	0.6
External borrowing (net) <u>/a</u>	3.1	3.0	4.9	5.3	3.3	0.9

/a Excludes borrowing for balance of payments support.

Source: World Bank staff estimates.

Selected Issues in Financing of Public Enterprises

3.17 As the analysis in Table 3.6 indicates, investments by public enterprises are likely to be equivalent to about 3% of GDP in the latter half of the 1980s. Yet their own savings would only be equivalent to about 0.5% of GDP - that is, own savings would only finance about 20% of public enterprise investment. The balance of the financing would have to come from budgetary transfers (via injections of equity), and domestic and foreign borrowing. The prospect of substantial financial deficits in the public enterprise sector raises two very important issues: first, what is the scope for increasing the profits and hence retained earnings of enterprises; secondly, what is the capacity of these enterprises for additional debt financing either from abroad (on-lent by the central government) or from the domestic market in the form of bank loans or bonds.

3.18 While detailed information about the performance of public enterprises is not readily available /1, it does appear that there is scope for increased profitability and hence for enhanced capacity to finance ambitious investment programs from internally generated funds. Increased operating surpluses can potentially come from two main sources: one is through cost reductions due to improved efficiency; and the other is from a careful review of public enterprise pricing policies.

3.19 Indeed, part of the adjustment process towards a more diversified and efficient production structure depends on the extent to which the public enterprise sector can become more efficient. The Government is fully cognizant of the crucial importance of improving public enterprise efficiency. How other countries have managed public enterprises could prove a useful guide in designing policies towards this end. Drawing on cross-country experience, World Development Report 1983 indicates five important elements of the policy environment which are essential for generating efficient performance of public enterprises: (a) policymakers should set clear and attainable objectives for public enterprises; (b) there should be no undue interference in public enterprise operations; (c) management should be held accountable for results; (d) there should be an appropriate framework of managerial incentives; and (e) stress should be laid on developing a team of managers with appropriate skills. /2

3.20 There are many areas where the operational efficiency of public enterprises could be improved. One example is refinery production referred to in para 3.14 above; another is the case of the transport sector and the ports where increased efficiency would not only improve profitability of public agencies in these areas, but also entail considerable gains to the rest of the economy in terms of reduced delays and attendant costs. The multiplicity of objectives set for some public enterprises contributes to conflicting signals and sometimes undesirable operational results. The emphasis on employment, for example, should not be allowed to lead to overmanning and excessive wage

/1 Data available are for capital financial accounts of public enterprises for the years 1974-77 only.

/2 World Bank, World Development Report 1983, Chapter 8.

bills, with adverse consequences for public enterprises' financial performance. Where non-commercial objectives are expected of public enterprises, the Government could make these explicit, so that the benefits and costs of such objectives could be evaluated more clearly. It is also important to design a management system that holds managers responsible for operational results while giving them the means to achieve the desired objectives.

3.21 As far as the question of product prices is concerned, there does appear to be scope for some changes in the pricing policy for public enterprises. For example, in the case of the electricity authority (PLN), the Government has recently increased tariffs by an average of 32%. Despite this increase, however, PLN is expected to show little or no return on investment in 1984; and there is clearly scope (and need) to increase rates of return further. Similarly, many of the estate enterprises engaged in sugar production are currently making losses, largely because of unduly low retail prices set by the Government. In this context, the need for public enterprises to set prices that fully reflect their economic costs cannot be overstressed. In a quite contrary case, the control over the floor price for cement could be relaxed somewhat, partly to encourage greater efficiency of public sector cement companies and partly to reduce the implicit subsidies accruing to the private sector. In such cases, it would be more appropriate to allow a greater role for market forces in encouraging operational efficiency and economically viable investments.

3.22 It is the Government's intention that public enterprises should acquire borrowed funds for investment and working capital at market terms. Given the recent sharp increases in interest rates, however, public enterprises will now have to pay around 18% p.a. on their borrowings, as compared to about 13% p.a. earlier; the proportion of debt, to be financed at such high rates, may also rise to the extent that government equity contributions and subsidized credit are reduced, and internal generation of funds by public enterprises is affected. Indeed, higher cost of credit itself will contribute to a worsening of the financial performance of public enterprises; many enterprises are already facing cash-flow problems, while some of them are incurring losses. Thus, if the increased costs are not matched by corresponding increases in output prices and improvements in efficiency, the implications for the internal generation of funds and debt-equity ratios will need to be reviewed carefully. Indeed the debt-equity ratios of some enterprises may not be appropriate to permit substantial recourse by such enterprises to bank borrowing at market rates.

3.23 This is important because commercial banks, in the wake of the financial reforms, now have considerable autonomy in regard to their portfolio decisions; as noted elsewhere, given the shortening of their deposit structure, they have also become reluctant to provide term-financing. For many public enterprises, therefore, to obtain funds for long periods at market rates may become increasingly difficult as banks may view them as poor credit risks.

3.24 These credit risks may be primarily of two kinds: risks associated with the servicing of debt at high interest rates and those associated with the economic and financial feasibility of the projects themselves. Indeed projects which might have been financially sound at 13% p.a. interest rate may not be sound at 18% p.a. The Government could seek to counterbalance these risks by providing interest rate subsidies and guarantees to commercial banks, and by encouraging the latter to lend to enterprises at variable rates (so that lending rates of banks fully cover their costs of funds). The budgetary costs of such subsidies and the commitments by way of guarantees may need to be evaluated carefully. To the extent that the Government itself is constrained by financial scarcities, it may not be possible to provide large subsidies to public enterprises without reducing financing for other investments to be undertaken elsewhere; while guarantees against defaults could be justified only in instances where the project itself is intrinsically sound, but cannot be financed without such government support. On the other hand, commercial banks should not be asked to finance unviable projects, since it would undermine the financial sector reforms and endanger the viability of the banks themselves.

3.25 It is therefore important to ensure that the projects which public enterprises seek to finance through bank borrowing are economically and financially viable at market rates of interest. To the extent there are viable priority projects, the Government may have to be prepared to assist the enterprises through interest subsidies and guarantees to secure bank financing. In this regard the Government also will need to take steps to strengthen the financial management of public enterprises. At present the lack of adequate financial information on public enterprises is a cause for concern. Such enterprises should be required to provide basic financial data in regard to current performance and detailed programs for financing project outlays, including estimates of internal generation of funds, before they receive commitments from the Government for budgetary funds and guarantees.

3.26 A distinction should also be made between financing problems of public enterprises associated with their projects at current market rates and financial difficulties arising from inappropriate investment decisions in the past. To the extent that these past mistakes cannot be corrected by price adjustments and organizational and efficiency improvements, the Government must recognize this problem and take appropriate actions so as to avoid continued subsidies to such enterprises. This may require decisions to write off past losses, revalue assets, and restructure the capital base of such enterprises through infusions of new equity.

Cost Recovery

3.27 The need for continued emphasis on social and infrastructural investment, both as a direct instrument of economic development and as a necessary pre-requisite for private sector development, was discussed in Chapter 2. Social investments such as in education, health and family planning and investments in physical infrastructure such as roads, bridges, electric power, kampung improvements and port development, would have to be largely undertaken by the Government due to their long gestation periods,

large resource requirements and considerable divergence between social and private profitability. But the burden of these expenditures on the Government can be lightened by appropriate cost recovery efforts, provided that they are progressive in character. Increased cost recovery, by facilitating improved O & M expenditures and further investment, will also help to improve the quality of services being provided by public entities; and, by increasing the revenues of public entities, increase the degree of financial self-reliance of such agencies.

3.28 Thus, decisions by the Government in regard to user charges over the next few years can make an important contribution to public savings and sustaining public investment levels. As noted in last year's report /1, there are a number of areas where cost recovery could be significantly improved by levying higher charges on beneficiaries from public services and investments. Some examples are: education, health and urban services, electric power, transport, and agriculture.

3.29 There is at present virtually no direct cost recovery for capital investment in urban services in Indonesia. But it should be possible to recover part of these costs from the beneficiaries of such investments through increased betterment taxes and water rates. Betterment taxes in particular are desirable on both economic and social grounds. Currently upper income urban landowners not only enjoy the improved facilities from public investment in infrastructure, but can make substantial capital gains when selling land; betterment taxes can prevent these disproportionate gains from accruing to the better off. Similarly, education fees can be increased at the secondary and university levels particularly as the principal beneficiaries are from high income households. In the case of electric power, although tariffs, as already noted, have been increased significantly in both 1983 and 1984, they are still significantly below the latest estimates of long-run marginal cost; further tariff increases in the medium term can be justified on both efficiency and fiscal grounds. Although such increases will impose additional burdens to consumers, this should not be serious as expenditures on electricity account for a very small part of household budgets, and consumption is concentrated among high-income urban households. There is also considerable potential in the transport sector for increasing revenue through improved collection of existing fixed ownership taxes on vehicles and other road subsector taxes. In the agriculture sector, there has been very little cost recovery from public investment in irrigation while substantial subsidies are being provided on fertilizer and other inputs. As noted in para 3.15, fertilizer subsidies could be reduced gradually and the impact on application rates, rice production and farmer incomes be continually assessed. The scope for recovery of costs of inputs provided to smallholders for "estate" crops, and for providing loans at subsidized rates (as discussed in Section B below) will need to be reviewed.

/1 World Bank Report No. 4279-IND, Indonesia: Policies for Growth with Lower Oil Prices, May 12, 1983, pp. 64-73.

B. The Changing Role of the Financial Sector

3.30 The preceding section of this chapter underlined the critical role of fiscal performance in increasing domestic savings over the coming years. Another important aspect of resource mobilization and allocation efforts relates to the role of the financial sector. The liberalization of the financial sector has set the stage for mobilizing greater financial savings, for encouraging higher levels of private savings, and for contributing to a more efficient allocation of investible funds at a time of resource stringency. Development of the financial sector is a key instrument, not only for influencing the level and composition of savings decisions but, equally importantly, for improved resource allocation both in the private sector and in public sector enterprises. This section addresses some of the near and longer-term issues with respect to the financial sector and the contribution it could make in facilitating the required adjustments in the production structure of the economy.

3.31 The issues involved in managing the transition to a more liberal financial environment are principally two-fold: (a) short-run problems of monetary control and management, and (b) more fundamental problems of a longer term nature, such as resource mobilization and financial intermediation, credit allocation and the role of commercial banks especially in financing special programs of the Government, and the management of interest rate policy in an environment characterized by a liberal foreign exchange regime on the one hand and high protection to domestic industry on the other.

Monetary Control and Management

3.32 The issue of monetary control has become an important area of focus for the monetary authorities in the short term, in an environment where Bank Indonesia (BI) no longer fixes interest rates or sets overall and selective credit ceilings. Following the abolition of these direct controls, BI now has to resort to traditional indirect mechanisms, such as reserve requirements, discount rate policy and open market operations, to regulate the volume of bank lending.

3.33 BI has recently taken some important steps to expand and strengthen its repertoire of tools for conducting monetary policy: (a) establishment of a traditional discount window, and (b) the introduction of BI's own certificates (SBIs) in the form of 1 month and 3 month deposit certificates in Rp 50 million, Rp 250 million and Rp 1 billion denominations. These certificates, will carry interest rates determined by a weekly auction system. The SBIs are intended for open market operations. More recently in April BI also reduced the discount rates somewhat on refinance facilities provided to private banks and development banks, slightly reduced the interest rates it pays on SBIs, extended the period of maturity on interbank call money from a maximum of seven days to ninety days, and postponed the withdrawal of maturing liquidity credits from private banks until January 1985 and from development banks until April 1985. These measures have been aimed at softening the tight money market and developing mechanisms for transmitting BI's policy signals to the market.

3.34 There are, however, several potential issues which need to be resolved before traditional instruments can be utilized effectively for purposes of monetary control. The efficacy of some of these instruments in regulating the supply of reserve money available to banks and the cost of credit will be limited by certain special characteristics of the Indonesian monetary and foreign exchange regime. Given the absence of a market for government paper, the scope for conventional open market operations appears to be limited in the short term. BI, as discussed above, is now endeavouring to overcome this handicap by popularizing its own instruments (SBIs) as an alternative to government paper for conducting open market operations. However, government deposits with the banking system are a potential source of providing liquidity to the banking system; but this will require close coordination between fiscal and monetary policies pursued by the authorities. Secondly, given the free foreign exchange regime, a rise in domestic interest rates is likely to induce capital inflows which the banks could then monetize. (However, the access to external financial markets is somewhat limited; generally only larger borrowers or those with overseas connections enjoy such access; BI could also dissuade domestic banks from attempting to circumvent its open-market and discount rate operations through moral suasion). Finally, even when the authorities are able to regulate excess liquidity of banks and the supply of reserve money, their ability to control the supply of money will be somewhat constrained by the fact that at present a uniform reserve requirement ratio does not exist ^{/1}, and, therefore, the money multiplier could vary within significant limits depending on the mix of banks' deposit liabilities.

3.35 Continued priority, therefore, will need to be given to the difficult technical challenges to maintaining monetary control. BI continues to maintain such control through monetary programming and regulating the supply of reserve money. This process involves the prediction of the demand for money, which together with targets for GDP growth and domestic inflation, will determine the targets for money supply and liquidity. This is not normally a difficult problem, but following the recent liberalization of the financial system, there is evidence of a significant shift in the money demand function, with time deposits with banks growing rapidly; this shift will need to be monitored carefully in programming monetary policy.

3.36 Secondly, it would be desirable to make the money multiplier, i.e. the relationship between the monetary base (bank reserves plus currency in circulation) and the supply of money as predictable as possible; as noted earlier, given the different reserve requirements now in force, the relationship between deposits and banks' reserve assets (i.e., the deposit multiplier) is somewhat indeterminate (i.e., the multiplier would vary between

^{/1} For example, the reserve requirement is 15% of demand deposits of all banks, 15% on two-thirds of time and savings deposits of state and foreign banks, and 15% of one-third of time and savings deposits of private and regional development banks; effectively, therefore, there are three reserve ratios - 15%, 10% and 5%.

banks and over time according to the deposit mix of banks). To that extent the establishment of a uniform reserve requirement will considerably facilitate the task of monetary regulation by the authorities. Altering the reserve requirements should be a powerful instrument in the hands of the monetary authorities to regulate the reserve position and liquidity of banks and the money supply. Moreover, reserve requirements could be varied in either direction according to changing needs over time, although care should be taken to not to vary them too frequently.

3.37 To the extent that BI may prefer the present pattern of the distribution of reserves, however, there remains a conflict between this objective and acquiring a firmer grip on the reserve base. Although the liquidity position of banks seems to be comfortable, they continue to offer high deposit rates and compete for deposits. This paradoxical phenomenon, to a large extent, could be ascribed to the uncertainties which the financial sector is currently facing. The financial system over the past year has been exposed to several shocks - liberalization of the banking system, tax reform, uncertainties with regard to interest rates abroad, etc. Since about half of outstanding liquidity credits are, under present policy, recallable by BI over the next one to three years, commercial banks must mobilize additional deposits to replace these liquidity credits; and this may explain the banks' present behaviour with regard to liquidity preference and deposit interest rates. Thus, the withdrawal of liquidity credits would need to be carefully programmed to minimize disruptions in the financial markets.

Resource Mobilization and Financial Intermediation

3.38 The establishment of effective monetary control is essential to the stability of the financial system. In addition, there are several issues which need to be resolved to ensure that the objectives of the financial sector reforms are realized. The banking system clearly will have to play an increasingly important role in mobilizing domestic resources in Indonesia. The role of the banking system, however, will need to be significantly different from the past when it served primarily as a conduit for channelling surplus Government funds into the economy; given the tight budgetary outlook and the reduced availability of liquidity credits through Bank Indonesia, the banking system will have to be considerably more self-reliant in generating financial resources for the economy.

3.39 As noted in para. 3.1 above, intensified efforts to increase domestic savings are essential in order to increase real investment by about 5% p.a. over the next few years. Measures to raise public savings from about 7.5% of GNP in 1983/84 to about 9.3% by 1990/91 (as discussed in paras. 3.1-3.15 above) should be an important element of the Government's strategy for increasing national savings; but at the same time private savings also will need to rise from about 7% of GNP to about 10% over this period. The banking system clearly will need to play an important role in this process by encouraging greater financialization of private savings (para. 3.40). This will be particularly important because the Government expects the banking system to play a larger role than earlier in providing for the credit needs of

public enterprises and the private sector, which in turn is expected to play a more dynamic role in economic activity. In order to meet these credit needs without exacerbating inflationary pressures in the economy it will be essential for the banking system to significantly increase its resource mobilization efforts.

3.40 Indonesia's domestic savings potential is considerable; for example, household expenditure survey data suggest that the average propensity to save in rural areas is fairly high. A high proportion of these savings, however, is not financialized; households often hold their savings in non-financial assets. ^{/1} A major objective of financial sector policy, therefore, is to ensure that these private savings are channelled into productive investment through the intermediation of the financial system.

3.41 Such an objective is compatible with that of ensuring sufficient bank credit for the private sector and public enterprises and for financing the Government's special programs. Financialization of private savings will enable banks to expand credit in a non-inflationary manner, and still maintain domestic price, exchange rate and interest rate stability. However, in the short term some potential conflicts between these objectives have arisen. The increase in deposit rates following the recent financial sector reforms, while encouraging resource mobilization, has also led to high lending rates; these together with the sluggishness of the economy during most of the past year have had some dampening effects on investment and credit demand during 1983 (see Chapter 1). Indeed, there is evidence to show that borrowers in both public and private sectors now find that bank credit has become both more expensive and difficult to obtain; this is because, given the increased debt servicing liabilities of potential borrowers, banks prefer to lend to borrowers with more favorable debt-equity ratios, and therefore require borrowers to come up with proportionately more equity than before.

3.42 An important issue therefore is what an appropriate level of interest rates should be which would both help to increase financial savings and encourage investment. There is clearly no unequivocal answer to this question; while the level (and structure) of interest rates should vary according to market conditions, it is important to ensure, to the extent possible, that domestic interest rates are not too high as to discourage investment and hamper economic recovery. Domestic real interest rates are now clearly positive (around 6-9% per annum). Such high rates will undoubtedly encourage financialization of savings; but, if banks cannot find quality assets/borrowers at appropriately high lending rates, they will endeavour, to the extent possible, to invest surplus funds abroad (thereby exacerbating potential monetary control problems referred to earlier) or to slow-down their deposit mobilization efforts.

^{/1} The proportion of bank deposits (both demand and time and savings) held by individuals was only 27% in August 1983.

3.43 Although the present levels of real interest rates are likely to have a dampening effect on investment activity, the scope for reducing interest rates in the short term is limited as discussed in Chapter 1. Over the longer term, however, the increased resource needs of public enterprises and the private sector can only be financed, given the changed external environment and budgetary outlook, by mobilizing substantial domestic resources. A flexible attitude towards interest rate policies aimed at evolving a more appropriate balance between resource mobilization needs and stimulating investment in the light of the exigencies of the economy is, therefore, needed within the limits set by the close links between domestic and external interest rates.

3.44 Consideration should also be given to the need to encourage the development of a capital market and the relevance of interest rates in this context. The structure of deposit rates now is such that there is very little difference between short-term (3 month) and longer-term (24 month) deposit rates; deposit rates are also well above bond rates (16%). Another consequence of this rate structure, in addition to the shortening of the deposit structure of banks, is to reduce the public's willingness to hold bonds; bond prices have fallen sharply in the past few months and planned bond issues by several companies have been deferred. It is, therefore, important to ensure that the structure of deposit rates does not erode the incentives to hold longer-term financial assets; this would call for a greater differentiation between short- and long-term rates, presumably by some reduction of short-term rates. High interest rates also contribute to corporate distress given the high gearing ratios of many companies (this is likely to be the case particularly in the public sector, although some private companies will also be affected); to that extent, this will affect the growth of a high quality portfolio of semi-public and private debt and the development of a capital market.

3.45 Over the longer term, mobilization of domestic resources could be increased through expansion of the banking network, institutional development and creation of new mechanisms and savings instruments, as well as through higher deposit rates. Access to banking facilities, especially in rural areas is still very low, although the savings potential in these areas is quite high. Increased monetization of the rural economy will also help to improve the deposit mix of banks and keep down the cost of funds. It is, therefore, desirable to focus attention on ways and means of tapping rural savings. An aggressive approach by state banks to expand banking facilities in rural areas is thus needed. At the same time efforts should be made to provide new savings instruments which will increase the inducements to save for individuals and households; some examples are savings schemes which are linked to housing construction/ownership, or those which enable savers to borrow from banks for productive purposes.

3.46 The private banks could also play an important role in this process. At present the role of private banks is restricted by their weak capital structure. Except for a dozen or so of the larger private banks, the capital and total assets of most of the private banks are very small. In addition, the monetary control system which existed until the June reforms also discouraged competition (since credit ceilings limited the scope for

individual banks to increase their market shares) and reduced incentives for banks to merge and become stronger. Admittedly, given their relatively small size and capital resources, many of the private banks are not yet ready for a major expansion of their operations; indeed, much closer supervision of such banks by BI will be needed now, given their increased exposure to competition. Nevertheless, it may be desirable to encourage private banks to expand their operations, combined with a policy of encouraging mergers of smaller banks, "graduating" stronger private banks, and increased banking supervision.

Cost and Allocation of Credit

3.47 Perhaps the thorniest set of operational issues which have arisen are those relating to the cost and allocation of credit. The recent reforms have substantially increased the cost of funds and altered the deposit mix of banks. The resulting increase in lending rates has created serious problems for financing investment in general and the Government's special programs in particular. Secondly, the changing mix of deposits, given the increasing mismatch between the sources of and demand for funds, has exacerbated the problem of term transformation.

3.48 Until recently, the main source of funds of state banks had been zero or low interest-bearing demand deposits, government deposits and liquidity credits from Bank Indonesia. /1 Given the changed balance of payments and budgetary outlook, government deposits are now expected to increase only slowly, while the amount of liquidity credits outstanding is likely to be in fact reduced. A substantial proportion (about half) of outstanding liquidity credits carry maturities below three years, and these will fall due for repayment beginning in early 1984. As a result, incremental resources of state banks will be primarily from relatively high-cost time and savings deposits /2, demand deposits and foreign currency deposits/foreign liabilities. /3 Consequently, incremental costs of resources to state banks on average are unlikely to be less than 11-12% p.a. /4; and since 5-15% of such deposits will need to be kept with BI as reserve requirements (on which no interest is earned), the effective cost of incremental deposits is likely to

/1 As of September 1982 these sources provided 78% of state banks' resources, while time deposits constituted only 11%. Liquidity credits also ensured state banks a predictable source of longer-term funds for financing their term lending operations.

/2 Given the high deposit rates, the mix of potential deposits between demand and time deposits is likely to be weighted significantly in favor of the latter.

/3 Given their high liquidity and substantial holdings of assets abroad, banks also have the option of converting foreign assets into rupiah.

/4 As a result of these changes the average costs of funds to banks (as opposed to incremental costs) will also increase; average cost of funds in fact increased from 3.8% in September 1982 to 7.0% in September 1983).

be around 13-14%. Allowing for banks' overheads, lending rates for investment purposes thus may remain at around 18-19%. As for "priority" /1 programs, given the higher risks of these programs, the costs of lending to banks may range from about 12-17% p.a. depending on the mix of incremental deposits and the amount of liquidity credits provided by Bank of Indonesia for such programs (Table 3.7).

Table 3.7: INDICATIVE COST OF STATE BANKS' FUNDS

Sources of Funds	Average Interest Rate	Ratio of incremental DDs:TDs		
		50:50	40:60	33:67
Demand deposits	3.8%	1.90	1.52	1.25
Time & savings deposits	<u>17.0%</u>	<u>8.50</u>	<u>10.20</u>	<u>11.39</u>
Average incremental cost of funds		10.40%	11.72%	12.64%
Effective cost of loanable funds /a		<u>11.83%</u>	<u>13.24%</u>	<u>14.22%</u>
<u>Costs of lending to "priority" programs /b</u>				
Cost of funds, assuming:				
75% of funds from BI & 25% from banks		5.20	5.56	5.81
60% of funds from BI & 40% from banks		6.53	7.10	7.49
50% of funds from BI & 50% from banks		7.42	8.12	8.61
Administrative costs and risks (Overheads 5%; risk 1-2%; insurance 1%)		<u>7-8%</u>	<u>7-8%</u>	<u>7-8%</u>
Projected costs of lending to "priority" programs		12.20- <u>15.42%</u>	12.56- <u>16.12%</u>	12.81- <u>16.61%</u>

/a 15% of deposits kept with BI as reserve requirements, on which no interest is paid. Funds available for lending 85% of deposits.

/b Assuming varying proportions of liquidity credits from BI, as indicated.

Sources: World Bank staff estimates.

/1 There are at present 14 "priority" programs under which credit is made available to eligible borrowers at below market rates, ranging from 6% to 12% per annum. These programs are subsidised mainly through liquidity credits provided by BI to handling banks at 3% p.a. The main objectives of these programs are to provide financing to weaker economic groups and for "priority" purposes (export production and trade, small enterprise investment, fertilizer, etc.) at concessional rates.

3.49 The Government thus will need to give attention to two important issues: the first relates to term lending in general; and the second to the provision of credit for priority programs and sectors. While banks will need to charge high lending rates to cover the increased costs of funds, the impact of such rates on borrowers and the economy will need to be reviewed. If term lending rates remain at their present high real levels, increasing private investment to support structural change and expand employment opportunities may be harder to achieve.

3.50 On the other hand, the problems with some of the priority programs stem from the fact that lending rates for these programs have been set at levels that are too low (12% p.a.). The latter will have several consequences. Firstly, it increases the risks of misallocation of funds, given the fungibility of money and the lack of adequate supervision capability of handling banks. Secondly, given the high incremental costs of funds to banks, there is little incentive for banks to commit own funds (i.e. other than those derived from BI's liquidity credits) to "priority" purposes or for other term-lending, away from traditional relatively less-risky short term financing. Thirdly, given the limited exposure of handling banks, as is the case at present with many priority programs /1, there is little reason for banks to improve their collection performance, reduce arrears and bring down administrative costs and risk margins. Finally, to the extent banks are deterred, because of insufficient margins, from lending to priority (as well as other) sectors, it will discourage the mobilization of additional financial savings which, as noted earlier, is one of the major macro-economic justifications for the recent reforms.

3.51 The fundamental issue with regard to priority lending, therefore, is to devise appropriate mechanisms which will help provide funds for such programs at desired interest rates and still cover the costs of handling banks so that it will facilitate institutional development and encourage banks to assume greater responsibility for term lending and for the Government's special programs. This is particularly important because Bank Indonesia has indicated that the Government's policy is to progressively reduce the reliance on liquidity credits for funding such programs. The role of special programs, financing arrangements, and the need, if any, for subsidies for such programs, therefore will have to be examined carefully given the market-oriented interest rates elsewhere in the economy.

3.52 There are several options which merit the Government's consideration in this regard. One option is to encourage lenders to lend to priority sectors at market rates which fully reflect the costs and risks of lending to such sectors, while the Government could subsidize borrowers directly to keep their "effective" borrowing costs below market rates. This in turn implies

/1 For instance, liquidity credit finance over 75% of priority lending under several programs; handling banks are also covered by insurance against risks of loss and default up to 75% of loans under some programs.

that it may not be necessary or desirable to have a single uniform rate of lending to priority sectors. This will however require new administrative arrangements which might create some difficulties. Alternatively, the Government could maintain interest rates to borrowers at reasonably low levels and fully compensate lenders by way of interest rate subsidies provided through liquidity credits and budgetary allocations. While this would provide incentives for lenders to mobilize resources and commit them to priority lending, liquidity credits could be reduced over time so that handling banks assume an increasing share of such lending and the burden shared between banks and the budget. A policy of subsidizing interest rates through the budget will also have the advantage that the costs of such subsidies will become more apparent. At the same time, it will be necessary to review present credit insurance arrangements and increase the exposure of lenders (while providing adequate returns to cover the lending risks) in order to bring pressure on handling banks to improve their supervision and loan recovery performance. Finally, it may be desirable to raise priority lending rates, at least for some programs, over time, so as to progressively reduce the budgetary burden of subsidies, as well as to minimize the risks of leakages of funds arising from the wide disparity between priority lending and market rates.

3.53 The choices between these alternative approaches will need to be made carefully, in the light of several considerations. Given the tight budgetary outlook, liquidity credits can increase only modestly in the future, even if the other components of "free money" available to BI to expand liquidity credits were to increase sharply. ^{/1} To the extent that liquidity credits falling due are in fact repaid by banks they could also be used to finance special programs. But, if BI were to inject increasing amounts of liquidity credits for special programs at a time when it is trying to mop up excess liquidity through the issuance of SBIs, the task of establishing short-run monetary control discussed earlier would become more difficult. Such action will also have adverse effects on BI's profitability, since liquidity credits are now made at interest rates of 3% p.a., while BI has to pay 14-15% on its SBIs. Liquidity credits also seem to be less efficient than interest rate subsidies provided through budgetary allocations in leveraging commercial bank funds to priority lending; for example, the liquidity credit approach requires much larger commitment of public funds to induce commercial banks to participate in priority programs, as compared to budgetary subsidies. There are, however, areas (for example involving lending for very long periods) where liquidity credits may be essential to encourage commercial bank participation, especially through risk-sharing; it is important, however, that such areas are chosen carefully and liquidity credits are used on a selective basis.

^{/1} For example, if consolidated bank deposits (and "bankers" deposits with BI on which no interest is paid) increase at an annual rate of 30%, but government deposits with BI do not increase, "free money" available to provide liquidity credits will increase at an annual rate of only 7-8% as compared to nearly 25% in the past.

3.54 The provision of interest rate subsidies for priority programs through the budget may present considerable difficulties, especially given the tight budgetary outlook; it will inevitably pre-empt funds which might be allocated for other purposes. The case for providing subsidies to particular programs, therefore, will need to be evaluated carefully by the Government, in the light of the objectives of such subsidies, past experience and the Government's policy of moving towards a market-oriented financial system. In some priority programs, for instance in housing, there is evidence to show that subsidies accrue mainly to upper income groups, who have the capacity to pay higher interest rates than are presently charged. It is also important to ensure equitable treatment in terms of the relative capacity to pay as between different groups of borrowers in determining interest rates and subsidy levels for particular programs; for instance, it would seem that borrowers in the small enterprise sector who generally enjoy somewhat higher net incomes than small farmers in the agricultural sector could afford somewhat higher interest rates than those paid by small farmers. It is therefore important that the Government initiate a study to assess the capacity to pay of different groups of borrowers under the various priority programs as a part of its overall review of such programs. The objective of such a review thus should be to (a) reduce the scope and number of priority programs by removing from the "priority" category, those whose borrowers are able to bear market rates and (b) and among the remaining ones, reduce the extent of subsidies over time by raising interest rates from their present levels.

CHAPTER 4

EXTERNAL TRADE AND CAPITAL REQUIREMENTS

4.1 While greater domestic savings and improved resource allocation are critical to Indonesia's success in structural transformation, availability of adequate amounts of foreign exchange from both export receipts and external loans will also continue to be of particular importance. The sharp decline in the price of oil has clearly demonstrated the importance of reducing the economy's heavy dependence on a single source of foreign exchange earnings. Increasingly economic policy makers and the public in Indonesia are, as evidenced by an ongoing active debate, recognizing the importance of diversifying the country's sources of foreign exchange earnings away from the petroleum sector. The rapid expansion of non-oil exports is essential to finance the import requirements of the projected investment and GDP growth targets. There is also a clear awareness of the need to economize on the use of scarce foreign exchange. This chapter first examines the trade projections and the key policies underpinning the macroeconomic framework presented in Chapter 2. It then discusses Indonesia's external capital requirements and outlines the principal elements of the recommended external borrowing strategy in the medium term.

A. Export Policies and Prospects

4.2 Indonesia's merchandise exports are dominated by oil and LNG earnings; together these commodities accounted for 74% of estimated export earnings in 1983/84. While export prospects will remain heavily dependent on price and volume developments in these commodities, over the longer term one of the most important challenges facing the economy is to diversify its export base. As Table 4.1 shows, real earnings from oil and related products are projected to remain flat in the next 2 years and to grow only by 2.5% p.a. during the rest of the decade. And, while LNG will provide a substantial boost to export revenues in the near term, the longer term prospects are similar to these for oil. The medium-term prospects for agricultural products appear to be quite favorable. But particular attention needs to be devoted to the promotion of manufactured exports which, with appropriate policies, could become an important source of earnings in the longer term. This task is important not only for reducing the vulnerability of the economy to fluctuations in demand for energy products, but also to enable Indonesia to finance its future import requirements and to service its external debts. Moreover, it is the growth of export earnings from manufactures which will be a key benchmark for assessing the success of Indonesia's broader industrialization effort.

Table 4.1: PROJECTIONS OF EXPORTS OF GOODS BY MAJOR CATEGORIES,
1984/85-1990/91
(\$ billion; at current prices)

	1983/84 Est.	1984/85 -----	1985/86 Projected	1990/91 -----	Growth Rate (% p.a.; 1981 prices)	
					1983/84- 1985/86	1985/86- 1990/91
<u>Oil and products</u>	<u>12.3</u>	<u>12.2</u>	<u>12.3</u>	<u>23.9</u>	<u>1.0</u>	<u>3.6</u>
<u>LNG</u>	<u>2.2</u>	<u>3.2</u>	<u>3.6</u>	<u>7.1</u>	<u>27.3</u>	<u>3.3</u>
<u>Non-Oil/LNG Products</u>						
Agricultural products	2.4	2.4	2.7	5.0	-2.0	4.6
(of which marine products)	(0.3)	(0.3)	(0.4)	(0.5)	(12.0)	(12.0)
Wood products	1.1	1.1	1.1	2.3	0.0	5.1
Minerals and Metals /a	0.8	1.1	1.2	2.5	9.3	4.2
Manufactured Goods /b	0.9	1.2	1.8	4.0	36.5	8.4
Subtotal	<u>5.2</u>	<u>5.8</u>	<u>6.8</u>	<u>13.8</u>	<u>8.2</u>	<u>6.0</u>
<u>Total</u>	<u>19.8</u>	<u>21.2</u>	<u>22.7</u>	<u>44.8</u>	<u>5.3</u>	<u>4.1</u>

/a Includes aluminium.

/b Excludes plywood.

Source: World Bank staff projections.

The Oil and LNG Sector

4.3 The key assumptions about the international oil market were outlined in Chapter 2 (Table 2.1). It is assumed that Indonesia will maintain its present share of the OPEC production quota through 1985/86. Thereafter crude production will be constrained (in the short term because of the OPEC quota and in the medium term due to Indonesia's own production capacity) to increases of about 0.4 to 0.5 mbd each year to reach the Government's estimate of potential capacity of 1.8 mbd by 1990. Continued exploration and development investments are critical for attaining this level of output. Output of condensates (natural gas liquids) will increase in 1984/85 when the two new LNG trains come on stream at Arun in north Sumatra and again in 1986/87 - 1987/88 when the sixth train is constructed at Arun (para 4.5).

4.4 Assuming continued domestic price increases for petroleum products and greater efficiency in the sector, with the dual objectives of eliminating the budget subsidies for these products and inducing further conservation and substitution (particularly in the case of power generation), domestic consumption of fuels is projected to increase by about 2.3% p.a. between 1983/84 and 1986/87 and at 3.5% p.a. thereafter. /1 The importance of

/1 No growth in consumption of petroleum products is assumed for 1984 due to the large price increases for kerosene and diesel fuel in January.

achieving this relatively low rate of growth in domestic consumption cannot be overstated, given the critical need to increase the exportable surplus as the world demand continues to pick up. Given the projected growth of domestic demand for refined products and with the completion of the new refinery capacity at Cilacap, Balikpapan, and Dumai, domestic refinery output will be adequate to satisfy domestic demand for all major products through the end of REPELITA IV, and hence there will be virtually no product imports, except for jet fuel, during this period. With the completion of the hydrocrackers at Balikpapan and Dumai, low-sulphur waxy residues (LSWR), which have constituted the bulk of product exports in the past, will be processed domestically to yield distillates for the domestic market. Exports of LSWR are assumed to fall to zero by 1986/87. However, under the 1983 contract between Pertamina and Japanese companies, output of LPG from the new refineries (equivalent to about 5 million barrels per year) will be exported to Japan under a ten-year contract. It is, therefore, estimated that product exports, including LPG as well as naphtha and other refinery outputs, will average about 10 million barrels per year during 1986/87 - 1990/91 (See Annex 1, Table 4 for further details).

4.5 The contribution of LNG to Indonesia's export earnings will continue to grow rapidly. Two new trains were completed at Bontang, East Kalimantan, in 1983, doubling the LNG output from the Badak field. Two new trains at Arun in North Sumatra have recently been completed. Assuming that the export volume will remain only at contracted levels rather than the maximum capacity of the plants, production and export of LNG in 1984/85 should reach 720 million MMBTU ^{/1}, which would be about 45% above the 1983/84 level. In 1986/87 a sixth train at Arun is expected to come on stream under a contract between Indonesia and Korea signed in August 1983. This new train will raise total LNG exports to at least 900 million MMBTU through the end of the decade. LNG exports in relation to oil are expected to rise from about 19% in 1983/84 to 30% by 1987/88. Although the production potential of Indonesia's gas fields is immense, further LNG expansion will depend on new commitments by importing countries, and in this report it has been assumed that no additional LNG capacity beyond those noted above will be on stream before 1990/91. Details of the projections for LNG are provided in Annex 1, Table 6.

Policies Influencing Non-Oil Export Performance

4.6 As noted in Chapter 1, non-oil exports in 1983/84 recovered at an impressive rate of 32% in nominal terms from their depressed level in the previous year. Recognizing their key role in generating foreign exchange earnings in the face of the outlook for the oil sector, the Government hopes to reach a level of \$10.8 billion for non-oil exports by 1988/89. Provided that (i) economic recovery in the industrial economies along the lines discussed in Chapter 2 is sustained; (ii) Indonesia's access to those markets is not hampered by protectionist measures; and (iii) most importantly, Indonesia follows appropriate trade and exchange rate policies, the Government's target, while optimistic, should be attainable.

^{/1} 1 MMBTU = 52.67 metric tons.

4.7 In the short run, continued attention will be required in a number of areas: maintaining a competitive exchange rate; improving export quality; limiting the use of export controls; and other selected measures, particularly refining existing policies for export finance, guarantees and insurance. These near-term measures can help in paving the way for a much needed more comprehensive trade reform in the future.

4.8 Exchange Rate Policies. A competitive exchange rate is a fundamental element in Indonesia's efforts to expand non-oil exports and to continue to reduce the current account deficit to a sustainable level. There is empirical evidence indicating that Indonesia's non-oil exports and imports are sensitive to relative price changes, implying that changes in the real exchange rate have an important impact on the non-oil trade account.^{/1} Of particular interest is the question of which export commodities are especially sensitive to exchange rate movements. Analysis suggests that while the exports of most primary commodities are not greatly affected in the short run by changes in the real exchange rate, manufactured goods exports are quite sensitive to movements in the real exchange rate.

4.9 Prior to the March 1983 devaluation, Indonesia's competitiveness had been progressively eroded. Figure 4.1 indicates that from the fourth quarter of 1978 (immediately following the 1978 devaluation) until the first quarter of 1983 (immediately before the latest devaluation), the rupiah's nominal effective exchange rate was fluctuating slightly around its post-devaluation level of 1978. Yet, the real exchange rate was on an appreciating trend throughout this period. This indicates that the pre-1983 loss of the competitiveness of the traded goods sector, as measured by the appreciation of the real exchange rate, was mainly due to the high rates of domestic inflation prevailing during that period rather than to any nominal appreciation of the rupiah. The inflation rate in Indonesia was about 22% in 1979 and 16% in 1980. While the inflation rate declined substantially in 1981-82, it exceeded the international inflation rate by about 8 percentage points annually during the period 1980-82. Thus, the impact of the 1978 devaluation, as measured by changes in the real exchange rate, had been fully eroded by end 1982. The March 1983 devaluation restored the competitiveness of the traded goods sectors as the index of the real effective exchange rate returned to roughly the same level as that immediately following the 1978 devaluation. For the future, it is imperative to maintain a competitive exchange rate.

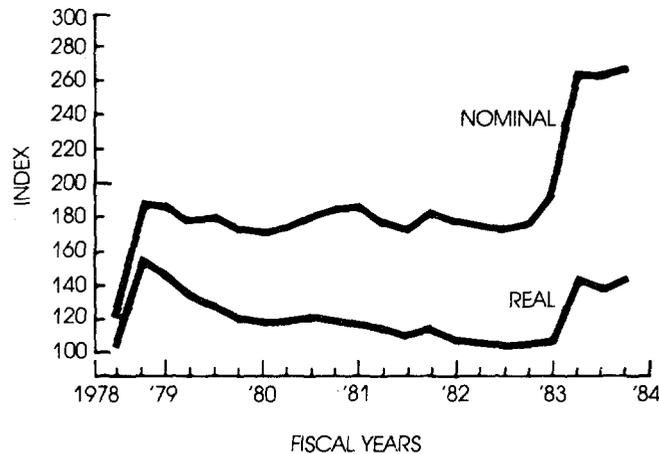
4.10 Improving Export Quality. It is well known that an improvement in quality would lead to an increase in the unit value of exports and probably would enable Indonesian producers to penetrate new markets as well as to increase their shares of existing ones. In the primary goods sector, coffee and rubber exports face important quality problems. As a result of low quality, Indonesian rubber is sold at a discount on the world market. One of the main causes of this problem is the inadequacy of the present grading system. Because of the deficiencies in the grading system which leads to

^{/1} See Kincaid, G.R. "The Impact of the 1978 Exchange Rate Adjustment in Indonesia on the Non-Oil Trade Account" IMF mimeo, 1983. The import demand function was calculated to have a short-run relative price elasticity of -0.2 and a long-run elasticity of -0.3, while the short and long-run elasticities of export supply with respect to relative prices were 0.6 and 6.0 respectively.

uncertainty concerning the exact quality of the good being traded, buyers demand and receive a price discount. Inadequate safeguards in the grading system also reduces smallholders' incentive for improving the quality of their products. Government officials estimate that an improvement of quality control measures could result in a 9% increase in the value of rubber exports. As a result of poor quality, coffee is also being sold at a discount on the world markets. Although currently Indonesia's share of the international coffee market is supported by the ICO quota system, in the long run, when those quotas are relaxed, its share may decrease as buyers replace low quality Indonesian coffee with higher quality coffee from other sources.

Figure 4.1

Real and Nominal Effective Exchange Rates
(1975 (2 QTR.) = 100)



4.11 Quality plays an even more important role in the marketing of manufactured goods, where Indonesian exporters need to penetrate new markets and are facing competition from many established producers. There are numerous examples in manufacturing industry where the domestic inputs available to final producers are not of a sufficient quality to permit successful exporting, yet exporters are continually denied access to imported inputs of appropriate standards. In other cases, domestic inputs are competitive in terms of quality; but limited quantities constitute a bottleneck to a successful export drive. In the manufacturing sector, the success in increasing plywood exports is noteworthy. There are indications that there has been some improvement in the quality of those exports (para 4.21). As a result, Indonesian producers have been able to penetrate new markets, most notably in the United States. The continued success of this industry will depend upon the producers' ability to maintain high standards of quality, as well as upon their success in diversifying their product mix to meet the specific demands of individual markets.

4.12 The Government recognizes the importance of this issue. The Directorate of Standardization and Normalization at the Ministry of Trade has already set standards that should be met by 23 export commodities, and work is

underway to set standards for an additional 70 commodities. However, after setting standards, strict measures to ensure their implementation will be needed. Presently, the Ministry of Trade has centers throughout the country, which are responsible for testing goods and issuing quality certificates. It is necessary to study measures that would enhance those centers' ability to enforce quality standards. Also, one of the main reasons for the low quality of exports is that many of the producers of new export commodities are not familiar with the export markets and therefore tend to underestimate the impact of quality on the value of their products. The National Agency for Export Development (NAFED) is attempting to address this problem by organizing seminars that supply firms with information concerning the requirements of foreign markets.

4.13 Limiting Use of Export Controls. In some commodity markets the Government has pursued a policy of ensuring adequate domestic supplies at reasonably stable prices for essential commodities by resorting to quantitative export restrictions and high export duties. Recent examples of this policy are the cancellation of cement exports in October 1983 and the increase in the export tax on crude palm oil to 37.2% in February 1984. These decisions were taken in response to shortages, and consequently rising prices, in the domestic market. One consequence of this disruption of export markets, particularly stemming from ad hoc policies, is to weaken potential customers perception of the reliability of Indonesian exporters. Recapturing market shares often poses a serious problem and entails a potentially high cost in terms of export promotion objectives. While the availability of adequate domestic supplies of domestic goods is certainly a valid objective, consideration should be given to achieving it without disrupting exports. One approach, which has already been adopted in a number of cases, is to allow imports during periods of domestic shortages, so as to enable exporters to fulfill their contracts. However, for such a policy to work fully, domestic prices need to be at, or near, international prices, and importers must be permitted maximum flexibility to respond quickly to market signals, otherwise import subsidies would be required. In the short run, the foreign exchange cost of this policy would be minimal. The increase in the import bill would be approximately balanced by greater export revenues. The medium and long-term benefits of such a policy by way of establishing Indonesia as a reliable source of supply would certainly outweigh its rather modest costs. A related policy issue is the problem of responding to imbalances in supply and demand across regions. Given the large size of the country, it is not necessarily economical to limit exports to overseas markets from surplus regions so as to meet local shortages in distant domestic markets. The authorities have recognized the need for greater flexibility in this area by allowing simultaneous exports and imports in different parts of the country. This trend should be encouraged so as to enable Indonesia to benefit fully from its comparative advantage.

4.14 Other Measures to Promote Exports. To complement the policies discussed above, continued attention needs to be directed towards more effective implementation of the export promotion package introduced in January 1982. The pre-shipment finance and guarantee scheme has improved the access of exporters to working capital. The Government has prepared well-conceived implementation guidelines, but additional efforts are required to achieve the overall objectives of automaticity and coverage of all exporters (including small firms and indirect exporters, i.e. suppliers of inputs to exporting firms). For the export guarantee scheme and post-shipment insurance (through which exporters insure themselves against non-payment by their customer abroad

and thereby more easily obtain conventional short-term export credits), the immediate need is to build up the newly-created, specialized organization which will take over these responsibilities from P.T. Askrindo.

4.15 With respect to the duty rebate scheme, the present system of export certificates and prior exemption from duties continues to experience technical and implementation difficulties. They are not yet fully effective in rebating all duties, and many exporters (including indirect exporters) are inadequately covered or not covered at all. Remedying these remaining deficiencies deserves high priority.

4.16 Finally, continuing efforts are required to establish export estates and export processing zones, to streamline customs administration, and to improve port operations. The feasibility studies have been completed for both export estates (EEs) and export processing zones (EPZs). The EEs would provide special facilities for firms which export a minimum specified share of their output and make substantial use of domestic inputs. Although firms in the EEs would not enjoy direct access to duty-free imports, as would be permitted in an EPZ, they could utilize the export certificate scheme to obtain duty rebates and would enjoy simplified import and custom procedures and improved support services. Regarding customs administration, it has long been recognized that very slow and cumbersome customs procedures are a major impediment to internal and external trade. Determined implementation of measures to streamline and improve customs administration is essential to the expansion of Indonesia's international trade. In this connection, technical assistance from the U.S. Customs Service is now being utilized. Similarly, improved port operations are needed to increase efficiency in the trading system. The Government's action during this last year to establish four independent public corporations to operate the "gateway" ports of Tanjung Priok (Jakarta), Tanjung Perak (Surabaya), Belawan (Medan), and Ujung Pandang is a very important step in this direction. It provides a foundation for efficient management of these ports. Now considerable support is required to build up the managerial, technical, and financial capabilities of these port corporations.

4.17 Access to Markets. Indonesia's efforts to expand its exports of manufactured goods are hindered by protectionist policies among developed countries. At present Indonesia faces significant tariff and non-tariff barriers to the export of the two major categories of manufactured exports - textiles and plywood. The EEC has quotas on Indonesian trousers, blouses, and shirts; the U.S. has placed quotas on shirts, trousers, and coats; Sweden has restrictions on shirts, trousers, T-shirts, underwear, and blouses; and Canada has restrictions on shirts and trousers. In the case of plywood, the major barriers facing Indonesian exports are high tariffs in Japan (15-20%), Australia (35% ^{/1}), and, to a lesser extent, the EEC (11% for quantities above the GSP quota ^{/2}). Indonesia has a comparative advantage in textiles and plywood. If the industrial countries penalize Indonesia for success in exporting such products, not only will its potential export earnings from these commodities be lower than projected, but it will also deter the Indonesian producers of other goods from venturing beyond the home market. Consequently, Indonesia's capacity to import from the industrial economies will be curtailed. And there will, of course, be adverse effects on domestic growth and employment.

^{/1} This duty is being reduced in stages to 25% in 1986.

^{/2} This duty will be 10% after the full implementation of the Tokyo Round negotiations.

Prospects for Non-Oil Export Receipts

4.18 The strong performance of non-oil exports in 1983/84 demonstrates the potential for expansion throughout REPELITA IV provided, as discussed earlier, the external conditions and domestic policies are favorable. Given appropriate policies, non-oil exports should well exceed \$10 billion by the end of REPELITA IV. Detailed projections are given in Annex 1, Table 1.

4.19 Forestry Products. The timber industry in Indonesia is currently undergoing a major change. As a result of the Government's policy of phasing out log exports, there has been a massive shift from the production and export of logs to the production of sawnwood, plywood and veneers. The main momentum for the growth of the wood processing sector has come from the plywood industry, with its production growing from 279 thousand cu.m. in 1978 to 2,359 thousand cu.m. in 1982. Currently, there are 72 plywood mills operating in Indonesia with a production capacity of approximately 3.8 million cu.m.; and there are still some 56 more mills under construction. As a result, the value of plywood exports are expected to increase from around \$325 million in 1982/83 to over \$1.5 billion in 1990/91, amounting to two-thirds of the total value of all timber product exports (Table 4.2).

Table 4.2: EXPORT PROJECTIONS FOR TIMBER PRODUCTS, 1984/85-1990/91

	1984/85	1985/86	1986/87	1990/91
<u>Logs</u>				
Volume (million cu.m.)	1.63	-	-	-
Value (\$ million)	142	-	-	-
<u>Sawnwood /a</u>				
Volume (million cu.m.)	1.63	1.97	2.30	2.80
Value (\$ million)	304	412	473	783
<u>Plywood /b</u>				
Volume (million cu.m.)	2.38	2.70	3.06	4.04
Value (\$ million)	600	721	889	1,539
<u>Total value (\$ million)</u>	<u>1,046</u>	<u>1,133</u>	<u>1,362</u>	<u>2,322</u>

/a Includes residual logs after 1984/85.

/b Includes veneers.

Source: World Bank staff projections.

4.20 Production of sawnwood has also been growing in the past few years, but at lower rates than plywood. In the period 1977-82, sawnwood production expanded at an average annual rate of approximately 1.5%. As for the production of logs, the increase in plywood production has led to a sharp increase in the domestic demand for logs. In the period 1977-82, domestic consumption of logs rose at an average annual rate of approximately 9.3%, with the sharpest increase occurring after 1980. However, the Government's policy

has resulted in reduced log exports, which declined from \$1,550 million in 1979/80 to \$311 million in 1982/83. It is estimated that in the coming years only small quantities of logs which are not suitable for domestic processing will be exported.

4.21 A major obstacle to greater expansion of Indonesian plywood exports has been their relatively low quality. In 1980 around 68% of total plywood exports went to the Middle East and China markets, which have traditionally bought a lower quality, lower priced product. However, in the last two years there seems to have been an improvement in quality. This is evidenced by the fact that the percentage share of exports to the United States, which has traditionally demanded a higher quality product, has risen from 10.7% in 1980 to 21% in 1982 and is expected to be around 30% in 1983. Indonesian producers are now in a position where they can plan to diversify their output away from mainly standard size plywood to meet the specific demands of different markets and to produce goods with a higher value added.

4.22 It must be stressed that the projected increases in plywood exports will depend upon Indonesia's ability to penetrate new markets in the Middle East, Japan and Australia. As discussed earlier, presently Indonesia faces high tariff barriers in Japan and Australia. The removal (or, at least, a reduction) of the tariff barriers would provide a significant boost to Indonesia's plywood industry. Also, exports to the EEC are constrained by the quota set according to the GSP system. An increase in this quota reflecting Indonesia's greater export potential is one of the Indonesian Plywood Association's (APKINDO) major goals.

4.23 Agricultural Products. Due to global excess supply, the value of Indonesian coffee exports has been declining at the rate of 10% p.a. during the period 1979/80 to 1982/83. Indonesian exports are constrained by the International Coffee Organization (ICO) quota which was 142,013 tons for 1983. In addition to exports to quota countries, some 80 to 90 thousand tons are exported annually to non-quota countries at prices substantially lower than the quota price. In order to encourage exports to non-quota countries, the Government has instituted a linkage system according to which companies who sell more in the non-quota market are given a larger share of the quota market. The Government is also attempting to increase export earnings by instituting a new system of quality control. However, in the export projections it is assumed that there will be no increase in non-quota exports due to the low price, which Indonesian producers find unattractive, and that there will be only a slow increase in Indonesian's ICO quota.

4.24 Natural Rubber is Indonesia's largest non-oil export earner after plywood. In 1980, Indonesia's share of global rubber production was approximately 27%. Indonesia ranks as the world's second largest producer of natural rubber after Malaysia. The world demand for natural rubber is expected to grow for the next decade and a half at a faster pace than in the 1960s and 1970s. Moreover, due to increasing labor costs and competition for land from other tree crops, Malaysia's rubber production is expected to stagnate. Thus, Indonesia will have the opportunity to increase its exports and its share of the world market. With this prospect in sight, expansion of supply will be critical. As the gestation period for rubber trees is about 7 years, the prospective output during REPELITA IV has been largely determined by past efforts. The projections shown in Table 4.2 are based on current information about existing trees. But for the years beyond REPELITA IV, increased investments in rubber plantations would contribute significantly to

export earnings. Special attention should be given to increasing the productivity of smallholder rubber as nearly 75% of Indonesian rubber is produced by smallholders, and productivity in that sector is much lower than productivity on estates.

Table 4.3: PROJECTIONS OF RUBBER PRODUCTION AND EXPORTS, 1984/85 - 1990/91 ('000 tons)

	1984/85	1985/86	1986/87	1990/91
Production	985	1,004	1,033	1,324
Domestic Consumption	79	85	92	116
Exports	906	919	941	1,208
Value (million US\$)	880	962	1,096	2,042

Source: World Bank staff projections.

4.25 Other than increasing rubber production, greater export revenues can be achieved by increasing quality. Currently, Indonesian rubber is sold at prices that are lower than those of the same grade rubber produced by Malaysia. The Government estimates that if quality control measures were improved so that Indonesian export prices become comparable to Malaysia's, the country's export earnings would be 9% higher (based on 1979 prices). It should also be noted that Indonesia mainly produces lower grades of rubber; approximately two-third of exports consist of Standard Indonesian Rubber (SIR) 20 and (SIR) 50. In view of the substantial price differential between the various grades, it may be possible in the long run to increase export revenues by shifting into the production of some of the higher grades.

4.26 In the period 1979/80 to 1981/82, the value of palm oil exports dropped from \$257 million to \$79 million. This performance resulted from a decline in both the export volume (at an average annual rate of 36%) and the international price (from \$654/MT in 1979 to \$445/MT in 1982). The dramatic fall in the export volume was caused by rising domestic consumption as palm oil has been increasingly used as a substitute for coconut oil (domestic production of the latter has been contracting because of inadequate rejuvenation). In 1982/83 exports, however, increased to \$103 million, and the export value in 1983/84 is estimated to be \$146 million. The medium and long-term prospects for palm oil exports are quite encouraging because both domestic production and international prices are expected to increase. It is projected that production will increase from 1.0 million tons in 1988 to 2.4 million tons in 1995. Assuming that domestic consumption will increase at an average annual rate of around 9%, export values are projected to exceed the 1979/80 record by 1989/90.

4.27 Minerals and Metals. In 1983/84, export earnings from minerals and metals are estimated to have been about 22% higher than 1982/83, largely due to the increase in aluminum exports. Production from the Asahan project was 140,000 tons in 1983/84, and it is expected that the full capacity of 225,000 tons will be reached next year. According to the agreement with the Japanese companies involved, 25-30% of output could be allocated to the domestic market. Domestic consumption in 1983/84 will be almost 30,000 tons and it is projected to increase at the rate of 9% p.a. The export price is based on a formula which ensures that it will move closely with the international prices. The Asahan Development Authority is currently considering further expansion which seems feasible but could not come on stream until the early 1990s. After the reduction in the real price of nickel since 1979, there was some recovery in 1983. Therefore, prospects for Indonesia's nickel exports in the medium term appear more encouraging than they did a year ago. Accordingly, exports of nickel matte are projected to increase from about 19,000 tons in 1983/84 to 29,000 tons in 1989/90, and exports of nickel ore will also increase from 0.85 million tons in 1983/84 to 2 million tons in 1989/90. Production and exports of ferronickel are expected to remain at the full capacity level of around 5,000 tons.

4.28 As a result of weak demand, tin export earnings declined in nominal terms from \$454 million in 1980/81 to \$349 million in 1982/83; and due to the slow global recovery and competition from other metals they are not expected to return to their 1980/81 level earlier than 1987/88. Tin production which is estimated to be around 25.5 thousand tons in 1983/84 is projected to reach 31 thousand tons by 1988/89. Domestic consumption of tin is currently around 500 tons/year but is expected to rise to around 1,200 tons a year in 1986/87 when the Cilegon tin plating plant will be completed. Copper concentrate output is expected to remain stable at full capacity; but the copper content is projected to increase from about 35% to around 40%.

4.29 Manufactured Goods. As noted elsewhere, Indonesia's industrial policy during the Seventies emphasized the growth of import-substituting industries, paying little attention to the development of manufactured exports. As a result, although Indonesia's industrial base has expanded significantly and a rapid rate of growth in manufacturing production was achieved during the past decade, the quantum and the rate of growth of manufactured exports (excepting plywood) have remained quite modest. Thus, the share of manufactured exports (excluding plywood) in total non-oil exports presently remains around a meagre 17%. Sustained growth of manufactured exports will be especially important in reaching the projected levels of non-oil export receipts in the coming years. Explicitly, exports of these manufactures will need to rise from a small base by 15% p.a. in real terms during the remainder of this decade to reach their projected level of \$4.0 billion in 1990. Presently, the principal products exported, other than plywood, are textiles and electric appliances. The projected growth of these products, fertilizers, for which production capacity is expanding rapidly, and handicrafts are presented in Table 4.4. However, to meet the \$4.0 billion target, nearly 60% of the projected increase in total exports of manufactures between 1983/84 and the end of the decade would have to be generated by a broad range of products (the "others" category).

Table 4.4: COMPOSITION OF EXPORTS OF MANUFACTURES, 1982/83-1990/91
(\$ million; at current prices)

	1982/83	1983/84	1985/86	1990/91
Textiles	156	237	304	758
Electric Appliances	112	168	241	600
Fertilizers	11	61	84	237
Handicrafts	23	48	61	150
Others	256	366	1,138	2,288
Total <u>/a</u>	<u>558</u>	<u>880</u>	<u>1,828</u>	<u>4,033</u>
<u>Memo Item</u>				
Exports of manufactures as % of total non-oil/LNG exports <u>/a</u>	14.3	17.0	27.1	29.2

/a Excluding plywood.

Source: World Bank staff estimates and projections.

4.30 Manufactured export growth of these magnitudes, while ambitious, are attainable given appropriate policies and supporting programs. Certainly, the external environment facing Indonesian manufactured exports is likely to be favorable over the next few years. Recent analysis by World Bank staff suggests that world demand for manufactured exports from developing countries will grow by 9% p.a. in real terms between 1985-95. As indicated in Table 4.5, this is a much faster rate of growth than those anticipated for nonfuel primary products or fuels. Historically several East Asian economies have achieved very rapid growth of manufactured exports, far exceeding these rates.^{/1} Of course, the world economic environment for manufactured exports from developing countries was more favorable during a good part of the last two decades than it is likely to be in the coming decade. Nevertheless, it is reasonable to expect that, given its very low share in world manufactured goods trade at present, Indonesian exports of manufactures can grow at comparable rates to those estimated for developing countries as a whole.

^{/1} For example, during the period 1962-82, Korea's manufactured export growth in real terms, averaged 39% p.a., Thailand's 20% p.a., Singapore's 12% p.a., and Hongkong's 11% p.a. During the more recent period 1977-82 when export markets became more difficult to penetrate, Korea was able to increase her manufactured exports at an average rate of 12% p.a., Thailand by 16% p.a., Singapore by 26% p.a. and Hongkong by 10% p.a. in real terms.

Table 4.5: EXPORTS OF DEVELOPING COUNTRIES, 1980-95

	1980 Value (\$ million)	Average Annual Percentage Growth at 1980 prices	
		1980-85	1985-95
Total Merchandise	434	5.6	5.5
Nonfuel primary products	126	2.1	2.4
Fuels	163	3.8	2.9
Manufactures	130	9.1	8.9
Nonfactor services	78	5.6	5.4
Goods and nonfactor services	512	5.6	5.5

Source: World Bank staff estimates and projections.

4.31 In the rest of this century, the dynamics of regional comparative advantage will offer Indonesia new opportunities for exports. But Indonesia needs to develop a coherent strategy for capitalizing on these opportunities. Given Indonesia's small share in manufactured exports from developing countries, demand conditions will not be the main constraint. Rather the bottleneck is likely to be domestic supplies in the quality, range and quantities needed for a successful export drive. In this respect, the key determinant as to whether supplies will be adequate will depend on the profitability of investment in export oriented industries. This in turn hinges on the policy environment facing potential exporters. A range of factors will influence the attractiveness of exports including the exchange rate, transport costs, regulations and last but by no means least tariff policies and the availability of imported inputs where domestic inputs are not suitable for the needs of export markets.

4.32 Indonesia's key resource is its abundant and low cost labor force -- a labor force which, as experience has demonstrated, is easily trainable and disciplined under proper management. As wage rates rise in countries such as Korea and Hong Kong, Indonesia could develop a competitive edge over them in a broad range of labor-intensive manufactures. It is not difficult to cite possible candidates: garments, electronics, furniture and wood products, and simpler engineering goods. Undoubtedly, other products will emerge, as the natural process of shifting comparative advantage unfolds.

4.33 Exports of Services. An important element in improving Indonesia's current account lies in improving foreign exchange earnings of non-factor and factor services. The most prominent foreign exchange earner among non-factor services is tourism. The results for 1983 indicate Indonesia's potential for tourism. The total number of visitors in 1983 will be somewhat above the record level of about 600,000 in 1981, reflecting in part new government policies, such as increasing the number of international airports (from three to eight) and allowing tourists from 26 countries to enter Indonesia without

visas for up to two months. For the future Indonesia should be able to continuously expand its earnings from tourism. Substantial expansion of hotel capacity is also underway: Jakarta will have over 5,000 additional rooms and Bali about 2,000 by 1985/86. Given vigorous promotional efforts, foreign exchange earnings from tourism should grow substantially during the decade to about \$1.4 billion by 1990/91. In addition to tourism, the maritime transport sector can also significantly improve foreign exchange earnings, if Indonesia shipping can be made more competitive. The Government has already taken some steps in this regard and is pushing ahead with improving the incentive structure for Indonesian shipping companies. The major foreign exchange earnings from factor services is interest on net foreign assets of the banking system. Workers remittances remain a small fraction of factor service receipts. The Government is committed to vigorously supporting the employment of Indonesians abroad with reputable, preferably Indonesian, companies. While the demand for labour in the Middle East will not be as buoyant as in the past, it has hardly been tapped by Indonesia, and significant gains could still be made if it is actively explored.

B. Import Policies and Requirements

4.34 Indonesia's trade regime has been characterized by a predilection for high tariffs and quantitative restrictions. The difficult external payments situation faced by the country beginning in 1982 has reinforced this tendency. With the tight foreign exchange availability in prospect in the coming years, the temptation to continue to rely on high tariffs and quantitative restrictions in conducting trade policy is strong. However, there is ample cross-country evidence suggesting that such a strategy entails high costs in terms of economic efficiency, growth and employment. This section begins with a review of the recent developments in import management policies in Indonesia, followed by a discussion of the conflict between the import regime on the one hand, and the objectives of promoting the development of an efficient industrial development and rapid growth of exports of manufactures on the other. The section then offers some recommendations for the reform of the system of tariff and non-tariff barriers and concludes with a brief discussion of the future capacity to import underlying the macroeconomic projections presented in Chapter 2.

The Continuing Problem of Protectionism

4.35 The High Cost of Protection. Indonesia's industrialization during the past two decades has taken place behind high protective barriers, both tariffs and quantitative restrictions. Industrial development has been virtually synonymous with import substitution. The incentive system has embodied effective protection rates of generally high levels with wide dispersion, and has strongly favored production for the domestic market. The pattern of industrial development has contributed little to employment generation and to saving, on a net basis, foreign exchange.^{1/} In this regard, the experience of Indonesia bears close resemblance to that of many other developing countries.

4.36 The proliferation of protectionist measures throughout the world in recent years, particularly during the international recession of 1980-82, combined with the rapid deterioration in Indonesia's balance of payments position in 1982/83 have increased domestic pressures for additional controls over imports. In late 1982, the Ministry of Trade issued decrees providing general authority to regulate the import of electric and electronic products; chemical products; metal products; automotive spare parts; machinery, machine equipment, and spare parts; textile products; heavy equipment and spare parts; and foods, drinks, and fruits. The expressed purposes of the new policy were threefold: to increase the specialization and hence competence of importing companies; to save foreign exchange; and to encourage domestic industrial production. The initial thrust of the new policy was to limit the number of "registered" importers for each category of goods and improve collection of up-to-date statistics. Special task forces were set up in the Ministry of Trade to oversee implementation. For some product groups (for example, iron and steel, paper, foods, drinks, and fruits, road tires and tubes), subsequent decrees typically appointed two state-owned trading companies as exclusive importers. These firms were required to draw up, in consultation with the Ministry of Trade, annual plans for the procurement and distribution of these products. Based on these plans, the Ministry would determine the quantities of each product to be imported. In some cases, e.g., steel products and newsprint, fixed selling prices were stipulated by decree. In other instances, e.g., electronic and chemical products, a larger number of registered importers, including public and private trading companies and producers, were approved; but the quantities, types, and procedures of imports were still subject to regulation. As late as December 1983, new decrees were issued extending quantitative controls over glass products, hand tractors, rice milling equipment, polymers and polyvinyl chloride, hand sprayers, and cans. In some cases, controls have been used to completely ban imports.

4.37 The import controls imposed during the past two years have undoubtedly contributed to some extent to the reduction in imports during 1983/84 and hence to the improvement of the current account balance. As effective as the restrictions have been in reducing the current account deficit in the past year, they impose important costs on the economy as a whole. If they are retained they will further distort the pattern of industrial growth and reduce the incentives for the creation and expansion of those industries which can efficiently compete with imports or in export markets. By raising domestic prices for certain products, the import restrictions draw new investment into production of these products without regard to the efficiency with which they can be produced in Indonesia. In this respect, quantitative restrictions are more damaging than import tariffs: whereas a tariff establishes a domestic price at a given level above the world price, a quantitative restriction allows the domestic price to rise to whatever level required for domestic industry to cover its costs. By reducing the incentives for efficient growth of domestic industries, these restrictions seriously undermine Indonesia's ability to establish a favorable balance of trade in the medium to long run.

/1 A number of previous World Bank reports have presented empirical evidence on these points. See, for example, Chapter 6 of Indonesia: Policies for Growth with Lower Oil Prices, Report No. 4279-IND.

4.38 This inward-looking strategy has two major problems which, if not corrected, will become increasingly severe in the near future. First, high levels of protection have made possible the growth of industries which are relatively inefficient and thus produce goods at higher cost than comparable imports. For some industries, the domestic resource cost of replacing a unit of imports is much higher than the domestic resource cost of either import replacement or additional export earnings in other subsectors. The extra cost to domestic consumers, which amounts to an implicit subsidy to producers in protected industries, is quite high, as indicated by the rough estimates for five selected products presented in Table 4.6. These illustrative broad orders of magnitude indicate that the implicit subsidy per worker (in the form of higher domestic costs in relation to imported costs of comparable items) is as high as \$18,200 in the case of cement and \$36,300 for steel billets in any given year. These are very high levels of subsidy, and the question must be asked where a country like Indonesia can afford such expensive subsidies over an extended period. The costs of protection may be justified temporarily as a necessary means to promote infant industries which, once well established, would be able to produce efficiently. But continued high levels of protection will not only reduce pressures for improving efficiency among already established industries, but will also increase the likelihood that new investments will take place in industries in which Indonesia is not likely to become an efficient producer for the foreseeable future and in which the capital cost per new job created is very high.

4.39 The second major problem with an inward-looking strategy is that it severely reduces the potential rate of growth. With the emphasis on import substitution over the past two decades, more than 95% of consumer goods and 65% of producer goods (largely intermediates) now consumed in Indonesia are produced domestically. With the limited scope left for reasonably efficient import substitution, as already is the case with respect to consumer goods, the rate of growth of the manufacturing sector will be limited by the growth in domestic demand - perhaps in the range of 3-7% for many products. Thus, high growth rates in the manufacturing sector - which are necessary to realize structural transformation of the economy in the coming years and to generate employment - will require that Indonesia's industries be able to compete successfully in export markets. It is also important to note that further import substitution will increasingly need to be in areas where economies of scale are important and capital, technological and managerial inputs are high. This increases the likelihood that import substitution will be highly inefficient unless export markets are tapped. For these reasons Indonesia can no longer afford the path it has followed over the past decade or so. It now needs to adopt a trade and industrial strategy which provides equal incentives for production for the domestic market and for exports.

Table 4.6: THE IMPLICIT COSTS OF PROTECTION FOR SELECTED PRODUCTS, 1983

	Portland Cement	Television (21" color)	Kraft Paper	Synthetic Yarn	Steel Billets
Implicit subsidy to domestic producers /a (in US\$ million)	156.8	43.6	1.8	24.6	74.8
<u>Memo Items:</u>					
Import price (cif)	Rp41,475/bag	Rp500,000/set	Rp301/kg	Rp3,000/kg	Rp166/kg
Domestic sales price	Rp66,975/bag	Rp740,000/set	Rp533/kg	Rp3,307/kg	Rp440/kg
Subsidy per worker	US\$18,200	US\$26,900	US\$5,600	US\$1,020	US\$36,300

/a The implicit subsidy to domestic producers is defined as $Q_d * [(P_d - t_i P_i A_i) - P_m]$, where Q_d = domestic production, P_d = domestic price net of domestic sales tax, and P_m = c.i.f. import price; t_i = import tariff and import sales tax on imported inputs; A_i = import content; P_i = Price of imported input. Where import content figures were unavailable, A_i is assumed to be zero. (This imparts an upwards bias of probably a small magnitude to the estimated subsidy.)

Source: World Bank staff estimates.

4.40 There is little doubt that increased efficiency and, linked to this, reforms in trade policy are the major remaining policy challenges which remain to be tackled by the Government. In this respect, the goals of stimulating efficiency in the industrial sector and encouraging the growth of non-oil exports, especially manufactured goods, are closely interrelated. Only an efficient industrial sector will be able to compete effectively in export markets. In this regard there are many aspects of trade policy which require government attention in the coming year or two. In some areas, determined implementation of policies already announced is required. However, other policies now in place are not conducive to promoting efficient industrial growth, and these will need careful reconsideration.

4.41 Reform of Tariff and Non-Tariff Policies. The substantial improvement in the current account deficit in the past year does not justify the retention of trade restrictions. The longer the present protective measures remain in place, the greater will be the pressures from the vested interests for their continuation and hence the greater the distortions in resource use and investment patterns. Consequently, the Government should consider a comprehensive program of reform of the trade restrictions. A program of reform might include the following elements: (i) rollback of import bans; (ii) gradual reduction in tariffs; (iii) adjustment assistance to

industries affected by import competition; and (iv) anti-dumping legislation to protect domestic industries from unfair foreign competition. While this may give rise to some increase in imports of consumer and intermediate goods in the short term, the projections in this report suggest that such an increase can be accommodated given continued success in non-oil export promotion and restraints on import-intensive public investments. Looking beyond the immediate desirability of reducing quantitative restrictions, it is essential to initiate a long-range program of tariff reform to lower the general level of effective protection and reduce the substantial differences in levels of protection afforded various industries. A first step would be to refrain from introducing any further import restrictions and to roll back those currently in place. This should be followed by a reduction of tariff barriers on intermediate and final goods, so as to encourage greater price competition and reduce costs in domestic industries. A number of sub-sectoral studies, currently underway or to be initiated soon, will provide the analytical basis for the preparation of a well-designed programs of adjustment assistance for those industries which will require substantial restructuring as levels of protection are reduced. The formulation of the legal and administrative framework for anti-dumping practices should also move forward expeditiously as an integral part of the proposed trade reform package.

4.42 Considering that a comprehensive trade policy reform can be realistically implemented only over a period of years, it is essential to prevent the undertaking of investments which are financially attractive given the current levels of protection but are economically unprofitable. Indonesia does not yet have a mechanism for thorough economic evaluation of industrial projects, either public or private, except perhaps for very large public projects. In this context the Government has a heavy responsibility on two counts. First, for obvious reasons, it is in its own interest to undertake projects that are economically viable and to strive to minimize their cost as far as possible. Secondly, it should be able to point to its own procedures as a model for the private sector. Time and money spent wisely on evaluation of large projects is likely to pay off handsomely. There is, therefore, an urgent need to improve the authorities' technical and analytical capability to undertake such evaluations. It is understood that the Government is giving high priority to this matter.

The Future Capacity to Import

4.43 As already noted, the short-term adjustment measures implemented in 1983 were highly successful in reducing the real volume of imports in 1983/84. However, as Table 4.7 indicates, given the export projections in Table 4.1 above, and the need to restrain future borrowing, the growth of imports will continue to be severely constrained. For the medium term, growth of about 4% is consistent with the projected growth in GDP of 5% during 1985-90. Indonesia's terms of trade are expected to decline during 1984 and 1985, but will improve in the latter half of the decade, so that by 1990 its terms of trade will recover to its 1983 level. Consequently, during the period 1984-90, an increase in the capacity to import will need to come largely from a rise in the volume of exports.

Table 4.7: PROJECTIONS OF IMPORTS BY MAJOR CATEGORY, 1984/85-1990/91
(\$ billion; at current prices)

	Est. 1983/84	1984/85 -----	1985/86 Projected	1990/91 -----	Growth Rate (% p.a.; 1981 prices)	
					1983/84- 1985/86	1985/86- 1990/91
<u>Current Prices</u>						
Consumer goods	2.0	2.0	2.0	3.0	-8.0	0.3
Food	(1.4)	(1.4)	(1.3)	(1.7)		
Non-food	(0.6)	(0.6)	(0.7)	(1.3)		
Intermediate goods (non-oil)	5.2	5.6	6.3	12.8	4.1	6.6
Capital goods (non-oil)	6.6	6.9	7.4	12.7	0.0	3.1
Oil/LNG sector	4.7	4.9	5.0	9.0	-3.1	4.3
Total	<u>18.5</u>	<u>19.3</u>	<u>20.7</u>	<u>37.5</u>	<u>-0.5</u>	<u>4.2</u>
<u>Memo item</u>						
Capacity to import <u>/a</u>	21.0	21.7	21.5	28.8	1.2	6.2

/a Exports of goods deflated by the import price index, in 1981 prices.

Source: World Bank staff projections.

4.44 Imports of food are expected to decline somewhat in real terms and remain relatively flat in nominal terms as the result of declining imports of rice and sugar. Imports of wheat and other high income-elastic products which cannot be produced economically in Indonesia will continue to grow steadily. Imports of other consumer goods are estimated to grow in real terms at the same rate as private consumption, i.e. about 3% p.a. The volume of imports of intermediate goods is directly related to a large extent to domestic manufacturing output. Based on its historical relationship, the elasticity of the intermediate goods imports with respect to manufactured goods production is projected to be about 0.7. Given a growth rate of about 10% p.a. for the manufacturing sector (excluding LNG), intermediate goods imports in real terms are therefore projected to grow about 6.6% p.a.

4.45 Capital goods imports are linked to the level and composition of domestic investment. As discussed in Chapter 2, further progress in reducing the current account deficit will depend crucially on holding down capital good imports. The projections hold the level of capital goods at their estimated 1983/84 level for the period 1984/85 to 1986/87. This will require, as discussed in Chapter 2 (Section D), careful management of the public investment program.

4.46 Imports of Services. Factor and non-factor service payments are significant elements in the balance of payments. Together they represented an outflow of \$6.8 billion in 1983/84. Amongst factor service payments, the most important element was \$1.5 billion of interest on public and private medium and long-term debt. This is expected to double by 1990. Interest payments on short-term debt are also expected to increase by 50% from about \$400 million in 1983/84 to \$600 million in 1990. Finally repatriation of interest and profits from direct foreign investments should rise from \$700 million to \$1.1 billion in line with the growth in the total stock of foreign-owned capital over the same period.

4.47 Taking into account the new production sharing contract with Caltex, the largest oil producer, which reduces Caltex's share to 12% of net operating income, as well as the fact that increasing costs of production will reduce the ratio of net operating income to gross revenues, it is projected that remittance payments for oil and LNG combined will grow from about \$2.6 billion in 1983/84 to \$3.6 billion in 1988/89. This will however be largely offset by improvements in the position of other non-factor service items. Payments for these items are expected to fall substantially for two reasons. First, Indonesia is making a determined effort to shift international cargoes from foreign to Indonesian vessels, thereby reducing net transport costs on its services account. The 1982 decree requiring all government-owned cargoes to be transported on Indonesian ships is now being enforced fairly rigorously. However, this policy may entail significant costs to the economy if Indonesian vessels operate considerably less efficiently than foreign vessels. In such a case, any savings on the services account could be more than offset by the extra costs entailed. Second, in early 1983 the Government imposed a relatively high exit tax on Indonesian citizens going abroad, and this has significantly reduced the number of Indonesian tourists going abroad.

C. External Financing Requirements and Borrowing Strategy

External Financing Requirements

4.48 Based on the macroeconomic framework presented in Chapter 2, the details of the projected trends in exports and imports, and the recommended policy measures particularly with respect to the public investment program and the trade regime, Table 4.8 sets out a summary of the projected balance of payments for the next three years. The current account deficit is expected to fall from an estimated \$4.2 billion ^{/1} or 6.0% of GNP in 1983/84 to \$3.5 billion or 3.6% of GNP by 1986/87. Over the three year period, the cumulative current account deficit would be \$11.2 billion of which \$5.0 billion comprises interest payments on public sector medium and long-term debt (Table 4.9). With a projected \$6.8 billion in amortization of public sector debt and an addition of \$300 million to reserves, the total external capital requirements during the three year period 1984/85 - 1986/87 will amount to \$18.3 billion. About \$15.6 billion of these requirements would need to be met by gross disbursements of public medium and long-term debt. Almost \$9 billion will be available from disbursements of previously contracted debt, so the remaining \$6.6 billion would need to be met from new commitments.

^{/1} Including net official transfers and interest on private debt.

Table 4.8: SUMMARY BALANCE OF PAYMENTS, 1982/83-1986/87
(\$ billion; at current prices)

	<u>1982/83</u> Actual	<u>1983/84</u> Est.	<u>1984/85</u> -----	<u>1985/86</u> Projected	<u>1986/87</u> -----
<u>Gross merchandise exports</u>	<u>18.6</u>	<u>19.8</u>	<u>21.2</u>	<u>22.7</u>	<u>26.6</u>
Oil and LNG	14.7	14.6	15.4	15.9	18.8
Non-oil	3.9	5.2	5.8	6.8	7.8
<u>Gross imports (cif) and NFS</u>	<u>-22.3</u>	<u>-19.9</u>	<u>-20.6</u>	<u>-22.0</u>	<u>-24.6</u>
Oil and LNG	-4.8	-4.7	-4.9	-5.0	-5.7
Non-oil	-15.8	-13.8	-14.4	-15.7	-17.7
Net non-factor services	-1.7	-1.4	-1.3	-1.3	-1.2
<u>Resource balance</u>	<u>-3.7</u>	<u>-0.1</u>	<u>0.6</u>	<u>0.7</u>	<u>2.0</u>
<u>Net factor services and transfers</u>	<u>-3.6</u>	<u>-4.1</u>	<u>-4.3</u>	<u>-4.7</u>	<u>-5.5</u>
<u>Current account balance /a</u>	<u>-7.3</u>	<u>-4.2</u>	<u>-3.7</u>	<u>-4.0</u>	<u>-3.5</u>
<u>Net disbursements of public MLT debt</u>	3.1	3.5	3.2	3.0	2.6
<u>Net other capital /b</u>	0.8	2.4	0.4	1.1	1.2
<u>Change in official reserves /c</u>	3.4	-1.7	0.1	-0.1	-0.3
<u>Memo items</u>					
<u>Total net foreign assets /c</u>	6.4	8.4	8.3	8.4	8.7
- as months of imports of goods	3.7	5.4	5.2	4.9	4.5
Current account deficit as % GNP	8.4	6.0	4.6	4.5	3.6

/a These differ from Bank Indonesia figures which exclude net official transfers and interest on private debt.

/b Includes estimates of oil and LNG export credits, all debt transactions associated with LNG expansion, direct foreign investment, and all private capital flows; for historical data, it also includes errors and omissions.

/c Net of a drawing of \$ 70 million from the IMF's Buffer Stock Financing Facility and \$ 390 million from the Compensatory Financing Facility. These are treated as external current liabilities.

Source: Bank Indonesia for 1982/83; World Bank staff estimates and projections.

Table 4.9: SUMMARY OF EXTERNAL CAPITAL REQUIREMENTS AND SOURCES,
1984/85-1986/87
(\$ billion; at current prices)

	1984/85 - 1986/87
<u>Requirements</u>	<u>18.3</u>
Current account deficit (excluding interest)	6.2
Interest	5.0
Amortization	6.8
Change in official reserves	0.3
<u>Sources</u>	<u>18.3</u>
Direct foreign investment (net)	1.5
Short-term and other capital (net) <u>/a</u>	1.2
Medium and long-term loans (gross)	15.6
Official assistance	(6.9)
Import-related	(4.9)
Financial markets	(3.8)

/a Includes all flows in the oil and LNG capital account, and all net private capital flows.

Source: World Bank staff estimates.

4.49 The sharp reduction in the external current account balance from \$7.3 billion in 1982/83 to an estimated \$4.2 billion in 1983/84, through a combination of improvements in non-oil export performance and import reductions, contributed to an increase in total net foreign assets from \$6.4 billion at end March 1983 to an estimated \$8.4 billion /1 at end March 1984. The latter provides an import coverage equivalent to 5.4 months of imports of goods. As Table 4.8 indicates, total reserves are expected to rise marginally to \$8.7 billion by 1986/87. In terms of import coverage, this represents a reduction to an equivalent of 4.5 months, which would still be adequate. Given the potential volatility of export receipts, and to protect the free convertibility of the rupiah, maintaining a comfortable reserve position is clearly an important aspect of Indonesia's external account management.

/1 Excluding drawings from the IMF's BSF and CFF (see footnote c to Table 4.1.)

External Borrowing Strategy

4.50 As noted in para 4.48, Indonesia will require \$6.6 billion in disbursements from new commitments, or an average of \$2.2 billion a year, over the period 1984/85-1986/87. To generate this level of disbursements and to accomodate its future requirements, Indonesia would need new loan commitments of about \$4.5 billion a year during the period. Indonesia has traditionally met its external borrowing requirements from three principal sources - official assistance, import-related credits, and untied borrowings from the international capital markets. Table 4.10 shows the historical patterns of commitments.

Table 4.10: HISTORICAL COMMITMENTS OF PUBLIC DEBT AND GRANTS 1979-84
(\$ million; at current prices)

	1979	1980	1981	1982	1983	1984 <u>1st Qtr.</u> Estimate
<u>Official assistance</u>	<u>2,386</u>	<u>2,304</u>	<u>1,805</u>	<u>2,049</u>	<u>2,414</u>	<u>551</u>
Bilateral	1,294	1,234	579	647	728	259
- Grants	144	179	97	110	93	n.a
- Concessional loans	1,150	1,055	482	537	635	259
Multilateral	1,092	1,070	1,226	1,402	1,686	292
- Grants	26	51	51	54	50	n.a
- Loans	1,066	1,019	1,175	1,348	1,636	292
<u>Import-related on "commercial"</u> <u>terms</u>	<u>1,147</u>	<u>611</u>	<u>2,769</u>	<u>3,055</u>	<u>1,694</u>	<u>232</u>
Official	87	440	673	706	199	114
Buyers' credits	831	449	874	1,549	559	118
Suppliers' credits	229	122	1,222	800	936	-
<u>Untied borrowing</u>	<u>2,192</u>	<u>1,097</u>	<u>746</u>	<u>961</u>	<u>1,941</u>	<u>797</u>
Financial institutions	759	1,052	700	646	1,580	797
Bonds	63	45	46	315	361	-
<u>Sub-total grants</u>	<u>170</u>	<u>230</u>	<u>148</u>	<u>164</u>	<u>143</u>	<u>n.a</u>
<u>Sub-total loans</u> <u>and credits</u>	<u>5,555</u>	<u>3,782</u>	<u>5,172</u>	<u>5,901</u>	<u>5,906</u>	<u>1,580</u>
<u>Total</u>	<u>5,725</u>	<u>4,012</u>	<u>5,320</u>	<u>6,065</u>	<u>6,049</u>	<u>1,580</u>

Source: World Bank's Debtor Reporting System; Bank Indonesia; Bappenas.

4.51 Official Assistance. Official assistance, primarily composed of concessional bilateral loans and grants and multilateral loans and grants from members of the Inter-Governmental Group on Indonesia (IGGI), has been the most important source of funds, comprising 36% of debt outstanding at end 1983. Commitments in 1983 amounted to about \$2.4 billion, including \$143 million in grants (Table 4.10). Bilateral concessional loans accounted for \$635 million and multilateral loans for \$1,636 million of the IGGI commitments. Commitments of both bilateral and multilateral assistance in 1983 increased sharply over the levels of 1981 and 1982, as donors had pledged at the IGGI to support the Government's determined effort to address the problems of adjusting to lower oil prices. This increased level of support is making an important contribution to the Government's efforts to adjust the economy to the realities of a tighter resource situation.

4.52 It is essential that official assistance from IGGI members continue to provide a substantial part of Indonesia's external financing requirements for some years to come. Such assistance will continue to be of particular importance to Indonesia in supporting the country's adjustment efforts because of its more favorable terms and associated technical assistance. As indicated in Chapter 2, substantially larger borrowing by Indonesia on harder terms would be inadvisable in terms of future debt-servicing capacity. It is recommended that the level of the IGGI assistance to Indonesia for 1984/85 be at least \$2.4 billion (see Table 4.11).

Table 4.11: PROJECTED COMMITMENTS OF EXTERNAL PUBLIC DEBT
AND GRANTS 1984/85 - 1986/87
(\$ million)

	1984/85	1985/86	1986/87
<u>Official assistance</u>	<u>2,400</u>	<u>2,400</u>	<u>2,500</u>
- Loans	2,300	2,300	2,400
- Grants	100	100	100
<u>Import-related credits</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>
<u>Untied borrowing</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
<u>Total</u>	<u>4,600</u>	<u>4,600</u>	<u>4,700</u>

Source: World Bank staff estimates.

4.53 Bilateral and multilateral donors have for some time been partners in development with the Government of Indonesia. They have supported the economic priorities of the Government, and have acquired a stock of knowledge on project design and implementation in Indonesia. In considering future programs donors might want to continue to place emphasis on human resource development through education and training, health, nutrition, water supply and housing projects; infrastructural development, primarily in agriculture and transportation; and programs and projects designed to increase employment. There are some indications that a larger share of some concessional assistance programs is now being offered by donors in conjunction with commercial import financing to finance capital- and import-intensive projects in the industrial and energy sectors in particular. This is an unfortunate trend where such concessional assistance is not additional to that already pledged. It directs scarce concessional funds away from some of the priority areas noted above for which commercial funding is not normally available and into areas where it is a readily available alternative.

4.54 In addition to maintaining their level of commitments, IGGI members can also support the Indonesian development process by exploring means to improve the disbursement rate on their loans. The Government can also help accelerate disbursements considerably by removing bottlenecks hampering the speedy implementation of foreign financed projects (See Chapter 2, Section D). Another possible route to facilitate a more rapid transfer of resources would be to raise the share of domestic costs financed from abroad.

4.55 Last year several IGGI countries responded to the sudden deterioration in Indonesia's external payments position by offering quick disbursing commodity aid. While the need for such assistance is not as pressing as it was last year, it would be desirable that such aid continue to be available in 1984/85 as an important component of IGGI assistance. Commodity aid has the advantage of being fast disbursing, generally includes commodities which are in excess supply in lending countries, is offered at highly concessional rates, and frees the borrower's foreign exchange which can then either be used to finance development, strengthen reserves or reduce foreign borrowing on hard terms.

4.56 Import-Related Credits. Import-related credits, consisting of bilateral non-concessional loans, and fixed interest buyers' and suppliers' credit are an important source of foreign financing for Indonesia. By 1982, this source accounted for almost 21% of the country's capital goods imports. Inevitably, as a consequence of rephasing the public investment program, disbursements of import-related credits fell from \$3.1 billion in 1982 to \$1.7 billion in 1983. The terms of import-related credits, however, improved markedly as suppliers of capital goods provided more generous grant elements. With \$4.0 billion of import-related credits still in the pipeline /1 an additional \$1.2 billion of commitments annually is considered sufficient for supporting the reduced public investment program and is consistent with debt management requirements.

/1 \$1.5 billion from suppliers' credits, \$1.1 billion from bilateral non-concessional sources and \$1.4 billion from fixed interest buyers' credits from private financial institutions.

4.57 Commercial Loans. Traditionally, borrowings from the Eurocurrency markets and private placements were linked to public investment projects for planning purposes, but in 1983 this practice was altered. The level of direct borrowing from international financial markets is now determined by balance of payments considerations so as to close the gap between foreign exchange requirements and what will be available from official assistance and import-related credits. The overall strategy whereby the Government is solely responsible for public sector borrowing /1 allows Indonesia to borrow at the best terms possible and to maintain discipline in external borrowing. In 1983 Indonesia took steps to broaden the range of commercial debt instruments available to the Government. It increased its untied borrowings, with total commitments amounting to \$1.9 billion, comprising one large and some small syndications, a floating rate note issue, bankers' acceptance facilities, bond issues and private placements. In early 1984, international banks demonstrated their confidence in Indonesia's economic management policies by offering a \$750 million syndication at favorable terms in response to a Government request for \$500 million.

4.58 Indonesia's requirements for commercial borrowing in the coming years will require continued access to international capital markets. Partly to compensate for lower commitments from import-related credits, but also for purposes of balance of payments support, an appropriate level of untied borrowing would be of the order of \$1.0 billion annually over the next three years. Availability of funds in these amounts and at reasonable terms should not be a problem for Indonesia. Most private banks are relatively underlent to Indonesia, in part owing to debt management policies of the Government. Indonesia has established a reputation for prudent debt management and the range of policy reforms implemented over the past two years provide convincing evidence of the Government's determination to make the necessary, but sometimes painful, adjustments to avoid unsustainable current account deficits and external debt difficulties.

4.59 Borrowing by the Private Sector without Government Guarantee. Partly as a consequence of a free foreign exchange system in Indonesia, information on private non-guaranteed external debt is not readily available. However, based on official data and other sources /2, the stock of disbursed and outstanding private non-guaranteed debt is estimated to have been about \$7 billion at end 1982, of which \$3.2 billion was medium and long-term debt. The estimated level of short-term debt of \$3.9 billion represented an estimated 30% increase over the previous year, probably resulting from liberal access to Bank Indonesia's swap facilities. There are indications that private short-term debt remained essentially unchanged in 1983. The magnitude of short-term debt, mostly trade-related, would appear to be reasonable in relation to the financing requirements of imports.

/1 Pertamina and Garuda are essentially the only two public sector agencies of any significance which are authorized to borrow abroad directly, with prior Government approval.

/2 Bank for International Settlements and the International Monetary Fund.

4.60 With the high levels of domestic interest rates, there could be substantial demand on the part of the private sector for foreign loans, particularly when investment activity picks up. Leasing companies have already registered rapid increases in financing private sector imports of capital goods. While precise figures are unavailable, it is believed that foreign-currency denominated leases do not exceed \$250 million at present. It is assumed that in the future private short-term debt will rise in line with private sector import requirements and private unguaranteed MLT debt will rise such that net transfers (gross disbursements net of debt service) remain negligible. As part of the overall debt management strategy it is important that private external borrowings are monitored. Mechanisms for this purpose are in place. It is also important that the growth of private non-guaranteed debt is kept within reasonable limits and that this debt is used for economically sound projects. The central issue remains that of controlling the overall level of debt.

Projections of Debt and Debt Service

4.61 Indonesia has been following a very prudent borrowing strategy despite substantial improvements in its creditworthiness. The rate of growth of debt has been moderate, although the share of borrowing at commercial rates from private financial institutions has risen rapidly in recent years (Table 4.12), albeit from very low levels. Apart from working balances of public enterprises, for which information is not readily available, the public sector holds no short-term external debt. As of end December 1983, the total level of disbursed and outstanding medium and long-term external public debt was \$23.7 billion. An additional \$11.2 billion of previously committed external public MLT debt remains to be disbursed. The average maturity of public medium and long-term debt at end 1983 is estimated at 14 years. The share of official assistance (bilateral concessional and multilateral concessional and non-concessional) in total disbursed and outstanding public debt was 47% at end 1983, while debt at variable interest rates accounted for only 22%. Table 4.13 presents selected debt indicators for Indonesia and a set of comparator countries. In most respects Indonesia compares well with the countries in the sample.

Table 4.12: GROWTH AND COMPOSITION OF DEBT, 1973-83

	Nominal Growth in Disbursed Debt		Composition		Level
	(% p.a.)		(%)		(\$billion)
	1973-78	1978-83	1978	1983	1983
<u>Public debt /a</u>					
<u>Official assistance</u>	<u>14.0</u>	<u>8.1</u>	<u>45</u>	<u>36</u>	<u>11.2</u>
Bilateral concessional	11.0	3.6	38	24	7.6
Multilateral	50.0	24.9	7	12	3.6
<u>Import-related credits</u>	<u>31.0</u>	<u>11.5</u>	<u>18</u>	<u>17</u>	<u>5.4</u>
Bilateral non-concessional	84.0	9.8	4	4	1.1
Suppliers' credits	18.1	5.5	9	6	2.0
Buyers credits	54.0	19.1	5	7	2.2
<u>Untied borrowings</u>	<u>75.2</u>	<u>20.3</u>	<u>12</u>	<u>17</u>	<u>5.3</u>
Commercial credits	73.4	20.5	11	16	5.0
Bonds	-	17.9	1	1	0.3
<u>LNG expansion</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>1.8</u>
Sub-total	<u>21.2</u>	<u>14.4</u>	<u>75</u>	<u>76</u>	<u>23.7</u>
<u>Private debt /a</u>					
Medium and long-term	n.a.	1.6	17	12	3.6
Short-term /c	n.a.	18.9	8	12	3.7
Sub-total	<u>n.a.</u>	<u>9.4</u>	<u>25</u>	<u>24</u>	<u>7.3</u>
Total debt	<u>n.a.</u>	<u>12.5</u>	<u>100</u>	<u>100</u>	<u>31.0</u>

/a Based on BI Statistics and Bank staff estimates.

/b This includes any working balances of public enterprises.

Source: Debtor Reporting System, BI and World Bank staff estimates.

Table 4.13: INTERNATIONAL COMPARISONS OF SELECTED DEBT INDICATORS - 1982

	Indonesia	Korea	Thailand	Nigeria	Brazil	Mexico
Private creditors/DOD <u>/a</u> (%)	39.7	58.5	31.4	81.2	82.8	85.9
of which, Variable interest loans/DOD (%)	(20.4)	(40.9)	(30.8)	(73.7)	(70.2)	(75.7)
Total debt service/gross exports (%) <u>/b</u>	11.3	13.1	8.4	4.7/ <u>c</u>	33.4	28.2/ <u>c</u>
Official reserves/total debt service (%)	197.5	79.3	339.2	143.9	40.4	58.6
Official reserves/DOD (%)	24.4	14.7	43.1	31.7	8.4	11.6/ <u>c</u>
<u>Memo item</u>						
Average terms: New commitments of public debt						
Interest (%)	9.4	11.5	9.5	13.9	13.0	14.8
Maturity (years)	15.1	13.1	19.1	8.9	11.2	6.3

/a Public and publicly guaranteed debt outstanding and disbursed (DOD).

/b Total debt service on public and publicly guaranteed debt as percent of exports of goods and all services.

/c For 1981.

Source: World Bank, World Debt Tables (1983/84); and World Bank staff estimates for Indonesia.

4.62 The public sector borrowing program outlined earlier implies an average annual growth of about 11.6% in outstanding public MLT external debt from 1984/85 to 1986/87. Private MLT external debt is expected to grow more slowly at 9.2%. As a percentage of gross exports, outstanding public debt is expected to fall marginally from about 123% to 117% over the same period. In terms of the composition of MLT, the shares of import-related credits and untied commercial borrowings are expected to remain stable over the next several years (Table 4.14). However, under the borrowing scenario envisaged in the report, a decline in their shares will occur by 1990.

Table 4.14: DISBURSED AND OUTSTANDING MEDIUM AND LONG-TERM DEBT, 1981-90
(\$ Billion, at Current Prices)

	Total Debt				Shares (%)			
	1981	1983	1985	1990	1981	1983	1985	1990
<u>Public debt</u>								
Official assistance	9.3	11.2	14.7	23.1	48	41	43	50
Import-related debt on commercial terms	3.3	5.4	7.9	7.8	17	20	21	17
Euro-currency and other untied borrowings	3.1	5.3	6.7	7.1	16	19	19	16
LNG expansion	-	1.8	1.7	1.0	-	7	5	2
Sub-total	<u>15.7</u>	<u>23.7</u>	<u>30.1</u>	<u>39.9</u>	<u>81</u>	<u>87</u>	<u>88</u>	<u>85</u>
<u>Private debt</u>	<u>3.6</u>	<u>3.6</u>	<u>4.1</u>	<u>7.9</u>	<u>19</u>	<u>13</u>	<u>12</u>	<u>15</u>
<u>Total</u>	<u>19.3</u>	<u>27.3</u>	<u>34.2</u>	<u>46.0</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<u>Memo item:</u>								
Debt service ratios (%)								
- Public (net) /a	14.2	22.6	28.1	23.4				
- Public (gross) /b	7.9	13.3	16.2	14.0				
- Total public and private (gross)	10.1	19.2	21.7	19.9				

/a The ratio of debt service to net exports, that includes merchandise non-oil exports and net oil and LNG exports (i.e. gross exports less imports of goods and services of the oil sector).

/b The ratio of debt service to gross exports of goods and services.

Source: World Bank staff projections.

4.63 The Government continues to manage its external debt quite prudently. Until 1982, Indonesia had succeeded in maintaining its public debt service ratio /1 at or below 20%. However, because of the sharp drop in oil export receipts in 1983, the debt service ratio rose to 23% in that year. The debt service ratio, based on the conventional concept of gross exports, was only about 13% in 1983. With private MLT included, the total debt-service ratio was 19% in that year./2 With the projected levels and composition of

/1 Defined as public debt-service as a share of net exports.

/2 The definition used here is the ratio of public and private debt service to gross exports of goods and services.

borrowings and export earnings, Indonesia's public debt-service ratio, based on net exports, would rise to about 28% in 1985 and then gradually decline to about 23% by the end of the decade. With private MLT included the total debt-service ratio would average about 22% during 1985-88 and decline to 20% in 1990. While debt management would require careful attention in the coming years, the projected debt service payments are not excessive by international standards. With prudent borrowing policy, maintenance of a comfortable level of external reserves to guard against temporary strains on liquidity and concerted efforts at export promotion and discipline in the public investment program, Indonesia should be able to retain its present high standing in international capital markets.

PART II - SELECTED ISSUES OF REGIONAL AND URBAN DEVELOPMENT

OVERVIEW

This part of the present report provides a discussion of some of the main features of regional and urban development in Indonesia during the Seventies, and the issues they raise for the future. The coverage of these issues is, however, highly selective. The problems of spatial development are amongst the most complex facing any country and the existing body of knowledge on this aspect of Indonesia's development is still very limited. Nevertheless, it is clear that at the local level, Indonesia is undergoing tremendous economic and social changes, and that it is becoming increasingly important to understand these trends in conjunction with macroeconomic developments. Accordingly, the World Bank is devoting more attention to the analysis of spatial development processes and policies in Indonesia. At this stage the findings of this research are fairly preliminary. Consequently, the main aim here is to highlight a number of important questions which merit further investigation, rather than to present definitive answers.

One of the primary objectives of development policy in Indonesia is to ensure that the benefits of economic and social development are equitably distributed. However, as a nation of geographically scattered Islands with tremendous variations in levels of physical and human resources, Indonesia faces special problems in achieving this goal. Chapter 5 provides an assessment of some of Indonesia's achievements in this area. It suggests that, by and large, most regions can point to significant gains in economic output over the Seventies. Similarly, there have been widespread improvements in social welfare across the country, as a result of substantial increases in government expenditures on education and health-related activities. Nevertheless, progress has been uneven among provinces. Although regions with higher per capita output levels in 1971 grew faster than poorer regions during the Seventies, there were no simple patterns between regional incomes, output growth and changes in social welfare.

The most striking spatial pattern which has emerged over the Seventies has been the rapid reduction in urban poverty. This decline has been accompanied by a significant acceleration in Indonesia's urbanization rate. During the Seventies Indonesia's urban population grew more than twice as rapidly as the rural population, largely because of a heavy inflow of migrants from rural to urban areas.

This rapid urbanization, together with its associated rural urban migration, is one of the key spatial trends in Indonesia's economic and social development. If, as seems likely, Indonesia's urbanization continues at its present rate, the urban population will more than double from its 1980 level of 33 million to 72 million by 2000. One of the major challenges facing Indonesia will be to ensure that this urban growth makes the fullest possible contribution to the overall development of the economy. Accordingly, Chapter 6 examines some of the main policy instruments available to the authorities for influencing the distribution of economic activity among cities. While these policies can only be effective when complemented by appropriate rural development and transmigration policies, the discussion of these elements of spatial policy, lies largely beyond the scope of the present report.

Based on the analysis undertaken in Chapter 6, it is estimated that, although urban areas currently account for only about one quarter of the total population, they will absorb the equivalent of one-half of the increase in Indonesia's population in the 1980's and fully two-thirds of the increase in the 1990's. Consequently, a major effort will be required to finance the projected demand for urban services, given the overall budgetary constraints facing the authorities noted in Part I. Against this background Chapter 7 looks at some of the options the Indonesian authorities may wish to explore to finance these services, and at the managerial and administrative issues posed by Indonesia's rapid urban growth.

CHAPTER 5

KEY FEATURES OF SPATIAL DEVELOPMENT DURING THE SEVENTIES

A. Introduction

5.1 Indonesia is a country of tremendous diversity in terms of geography, culture, and economic structure. Its 13,677 islands form a land area of 1.9 million sq. km., but its total surface area including the seas within its boundaries is over 4.8 million sq. km., an area roughly the same size as the continental United States. Straddling the equator, it extends 5,110 km from Northwest Sumatra to Irian Jaya on its southeastern border. As a result, it possesses a number of distinct equatorial and monsoonal climatic zones, which, together with variations in soil and topography, have shaped the development of its agriculture and the distribution of its population. As a nation of island peoples, today's Indonesia is rooted in a rich and varied cultural tradition. Its 147 million population is drawn from over 50 ethnic groups with several hundred recognized languages and dialects. This diversity poses tremendous challenges for the Indonesian authorities, both in terms of promoting efficient growth and ensuring that the benefits of economic growth are distributed equitably amongst different groups in society. /1

5.2 Indonesia's physical, human and economic resources are very unevenly distributed between its main regions. Java, for example, accounts for almost one-half of Indonesia's GDP, 62% of its population, but only 7% of its land area. This uneven pattern of distribution means that there are profound differences in the economic problems faced by different parts of the country. This chapter reviews the economic performance of the main regions during the Seventies and the progress of social development. One of the most notable aspects of Indonesia's economic performance is that, despite these differences, all five of Indonesia's main regions experienced rapid per capita growth in the past decade. Per capita growth rates ranged between 4.0% (Sumatra) and 11.7% (Kalimantan) in real terms. To a large extent these differences were associated with the performance of the mineral sector, particularly petroleum. In the non-mining sector the variations in output were much less pronounced. Generally, the regions with higher output in 1971 experienced the fastest rates of economic growth in the Seventies. Consequently, regional differences in output tended to widen. However, this chapter argues that, while further work is needed to assess the extent to which regional variations in output growth rates reflect genuine differences in comparative advantages, the authorities should not be unduly concerned with this trend.

5.3 Two important processes are at work in Indonesia which enable the benefits of growth to be more evenly spread. The first of these is migration. Between 1971 and 1980, 4.3 million Indonesians (or 16% of the

/1 The material for this chapter is largely based on Indonesia: Selected Issues in Spatial Development, World Bank Draft Report No. 4476-IND.

natural increase in population) resettled permanently in provinces outside those of their birth. Approximately 1.7 million people moved from Java to the Outer Islands. Of these, 1 million were resettled through the official transmigration program. By far the most dynamic spatial trend in population distribution has been the acceleration of urbanization. Between 1971 and 1980 the urban population increased at an annual rate of 4% compared with a rate of 2.6% in the Sixties. Rural-urban migration accounted for slightly more than half of the 9.6 million increase in Indonesia's urban population. The second process is the redistribution of incomes through the government budget. Regional variations in per capita consumption are much less pronounced than differences in per capita output. This is largely due to the impact of taxation on the oil sector.

5.4 From the point of view of spatial development policy, one of the most important features of Indonesia's development is that rural-urban differences in consumption within regions appear to be greater than differences among regions. An analysis of household expenditures indicates that Indonesia's rapid economic development has been accompanied by significant progress in reducing poverty. Between 1970 and 1980, the proportion of the population living in poverty declined from 57% to 40%. This was a remarkable achievement. The reduction in poverty was particularly rapid in the Outer Islands, where poverty incidence was reduced from 43% to 28%. On Java there was also a marked reduction in poverty incidence from 65% to 47%. Between 1970 and 1980 there was a very sharp reduction in urban poverty from 51% to 20%.

5.5 As in any country there is considerable scope for redistributing incomes and for alleviating social disparities through differential levels of public spending. This is a particularly important policy option for Indonesia to explore since central government expenditures have a marked impact on the economic and social development of the regions. Average government spending on the regions was equivalent to 13% of provincial non-mining GDP in 1980. The three poorest provinces, as well as some of the important transmigration provinces, received much higher levels of support. However, it does not appear to be the case that public expenditures have had as a significant redistributive impact across regions as taxation. Government spending on the social services has increased at an annual rate of 21% in real terms since 1974/75. The Government has attached high priority to the development of primary school education facilities across the country. The success of this program is evident from the fact that compulsory primary education will commence in Indonesia on June 15. However, there are significant variations among provinces in higher education participation rates, access to piped water, and health service coverage. In general the level of services provided in urban areas is higher than in rural areas. Thus a major challenge which lies ahead is to expand the coverage of services to rural areas whilst meeting the growing needs of the urban population.

B. Regional Variations in Economic Structure

5.6 As Table 5.1 indicates, Indonesia's physical, human, and economic resources are very unevenly distributed between its five main regions. Indonesia's average population density is only about 78 persons per sq.km. This is well below the average for Asia and compares with average population densities of 29 for the low income countries and 34 for the lower middle income countries. However, 62% of Indonesia's population lives on Java,

which accounts for only 7% of the land area. Consequently, Java's population density (at 690 persons per sq.km) is higher than any other country, including Bangladesh (630). In contrast, the island of Kalimantan, which accounts for 28% of Indonesia's land surface, has a population density of only 12 persons per sq.km. These differences in population density have a profound impact on the nature of the development problems of each of the five regions. Java's fundamental development problems center around its high population density, limited prospects for increasing its cultivable land area, and the related problems of landlessness, overcrowding and poverty. In contrast, Kalimantan is sparsely populated, possesses vast areas of unexploited virgin jungle and only a minimal amount of economic infrastructure. While there are notable differences between Kalimantan and the other Outer Islands of Indonesia, they too are for the most part lightly populated and lacking in infrastructure.

Table 5.1: REGIONAL ECONOMIC INDICATORS, 1980
(Indonesia = 100)

	Java	Sumatra	Kalimantan	Sulawesi	E.Islands and Irian Jaya	Indonesia
Land Area	6.9	24.7	28.1	9.8	30.5	100
Population	61.9	19.0	4.6	7.0	7.5	100
Labor Force	64.1	19.9	4.9	7.0	7.1	100
GDP <u>/a</u>	47.1	31.4	10.2	5.3	6.0	100
GDP per capita	75.5	166.7	225.9	74.5	83.3	100

/a 1979 current prices, including mining.

Source: Indonesia: Selected Issues in Spatial Development, World Bank Draft Report No. 4476-IND.

5.7 In terms of economic importance, Java generates slightly less than half of Indonesia's GDP. Its fertile soils produce almost 50% of the country's agricultural output, 65% of its domestic food supply, and 62% of its rice. Although it is less well endowed with minerals, particularly oil, and consequently only accounts for 10% of Indonesia's mineral production, Java plays a dominant role in Indonesia's industrial life. In 1979, Java accounted for about 76% value added in manufacturing. Medium and large manufacturing enterprises tend to be even more concentrated in Java (85.5% of value added). However, the distribution of small-scale enterprises, which generally produce less sophisticated products and cater to local markets, follows the pattern of population distribution more closely. The production of services is also a relatively higher proportion of regional gross domestic product (RGDP) on Java

than in the Outer Islands. Services accounted for about 40% of Java's RGDP compared with 27% for the other regions in 1979. This largely reflects Java's role as the administrative and commercial center of Indonesia and its high share in total population.

5.8 Although Java employs 64% of Indonesia's labor force it accounts for only 47% of its GDP, reflecting lower average output per worker than for the rest of the country. As a result of this lower average output, RGDP per capita on Java is only 76% of the average for Indonesia, even though the labor force participation rate (LFPR) is above the national average. 1 A major factor influencing relative levels of RGDP is the distribution of mineral deposits. The bulk of Indonesia's oil and gas production, which is responsible for almost a quarter of the country's GDP, takes place outside of Java. Oil production is highly capital-intensive and characterized by very high output per worker, as reflected by the fact that less than 0.3% of the labor force is employed in this sector. Consequently, RGDP per capita on Sumatra and Kalimantan, where mining accounts for 47% and 42% of RGDP respectively, is considerably greater than the national average. Similarly, oil production in Irian Jaya significantly boosts the average level of RGDP per capita for the Eastern Islands group. A second factor influencing relative RGDP levels is that agricultural labor productivity in the Outer Islands is about 40% higher than on Java. On Kalimantan and Sulawesi, agricultural labor productivity is almost double that of Java. This is a reflection of the higher land-labor ratios found on the Outer Islands and Java's relative concentration on rice production, which is highly labor intensive and requires a substantial seasonal labor input.

5.9 The technological character of the oil sector tends to limit its interaction with the rest of the economy. Therefore, although it has made a substantial contribution to overall GDP growth in Indonesia and has a dramatic impact on the level of output of certain regions and provinces, in terms of regional development policy, it is more useful to examine the performance of the non-oil sector. A second reason for considering the non-oil sector separately from the oil sector is that its direct impact on regional incomes is considerably smaller than its contribution to regional output. In Indonesia the bulk of oil revenues accrue to the Central Government. Local wages form only a small proportion of production costs, and most of the direct expenditures which are associated with oil production (and would benefit the local economies concerned) take place during the initial investment period. Unfortunately, the regional national accounts currently available do not identify the oil sector separately, but the non-mining sector provides a reasonable proxy for the non-oil sector. 2

1 The LFPR is defined as the percentage of the population which is economically active. The LFPR for Java in 1980 is estimated at 36.0 compared with 34.8 for Indonesia as a whole.

2 The non-mining sector excludes oil and gas extraction, but includes refining and processing activities.

5.10 As Table 5.2 indicates, Indonesia's non-mining GDP per capita increased at an annual rate of 5.0% in real terms during 1971-79. This compares with a rate of 5.8% for total GDP per capita during the period.

Table 5.2: REGIONAL DEVELOPMENT INDICATORS, 1971-79
(At 1973 constant prices)

	RGDP per capita growth (% p.a.)	Non-mining RGDP per capita growth (% p.a.)	Non-mining RGDP per capita index (Indonesia = 100)	
			1971	1979
Java	4.6	4.4	93	89
Sumatra	4.0	5.6	121	127
Kalimantan	11.7	7.7	140	172
Sulawesi	5.7	5.3	98	100
Eastern Islands and Irian Jaya	6.5	5.3	81	82
Indonesia	<u>5.8</u>	<u>5.0</u>	<u>100</u>	<u>100</u>

Source: Indonesia: Selected Issues in Spatial Development,
World Bank Draft Report No. 4476-IND.

5.11 As might be expected, given the leading role of the oil sector in the Indonesian economy, regional differences in the growth of non-mining RGDP per capita were far less marked than for total GDP per capita. A second development highlighted in Table 5.2 is that the per capita increases in non-mining RGDP were strongly correlated with absolute differences in non-mining RGDP. Thus while there were very substantial gains in non-mining RGDP throughout Indonesia, the regions with higher non-mining RGDP per capita in 1971 experienced more rapid growth than the regions with lower RGDP per capita. Consequently, regional output disparities tended to widen somewhat.

5.12 The widening disparities in per capita output levels which have emerged during the Seventies are a source of concern for the Government. This spatial dimension of economic growth is important because it is closely linked to political considerations of inter-regional equity, national cohesion and socio-economic integration. However, substantial regional differences in output levels and growth rates are a common feature of many countries. For the most part they reflect the generally low degree of economic integration between different parts of a country. Consequently, the appropriate policy response is to focus on measures to improve the internal mobility of labor and capital and to promote domestic trade. However, in Indonesia these differences are exacerbated by the uneven distribution of natural resources, which in turn influences the location of related processing activities. Further work is needed to identify the impact of this factor in Indonesia. This would enable policymakers to judge the extent to which the output growth differences which have emerged are due to the comparative resource endowments of particular parts of the country.

5.13 However, it can be argued that - although there may be some scope for slowing or reducing output disparities - equalising regional per capita output levels is neither a realistic nor an appropriate target for policymakers in Indonesia. Firstly, the uneven distribution of natural resources means that regional output variations are to a large extent inevitable in a country such as Indonesia. Secondly, it is important to draw a distinction between changes in the pattern of output and trends in income distribution. It is the latter which is more relevant to considerations of regional equity. Consequently it is necessary to examine the relationship between output and incomes. This is because productive activities - as in the case of oil - do not always generate corresponding incomes in the region concerned, and because income can be redistributed through taxation. In addition, spatial variations in availability of public services must also be considered, since these form an important component of public welfare. Before turning to these issues, it is necessary to provide a brief overview of the changing pattern of population distribution in Indonesia. This is important for two reasons. Firstly, migration is an important channel for reducing inequality, since the main motive for migration is the opportunity it provides for individuals to improve their incomes and access to public services. Secondly, it serves to highlight a second important dimension of spatial development in Indonesia - the contrast between rural and urban areas.

C. Population Growth and Labor Mobility.

5.14 Between 1971 and 1980 Indonesia's population increased at an average annual rate of 2.3% ^{/1}. This compares with a 2.1% rate recorded during the period 1961-71. The acceleration in the rate of growth of population in the 1970's was due to declines in mortality which outweighed the effect of the reduction in fertility during this period.

5.15 Interprovincial Movements. Since international migration is insignificant, Indonesia's total population growth rate is determined by the natural increase in population. However, at the regional level population growth is influenced by two factors: the natural rate of increase in population, and interregional population movements. As Table 5.3 indicates, Indonesia's population dynamics are characterized by significant regional variations in demographic trends as a result of these two factors. There are, for example, notable differences between the rate of increase of population on Java and on the Outer Islands. On Java, the population increased at an average rate of 2.0% per annum. On the Outer Islands, regional population growth rates were higher, ranging between 2.2% (Sulawesi) and 3.3% (Sumatra). At the provincial level the variation in the rate of population increase was even greater. On Java the rate of population increase ranged from 1.0% for Yogyakarta to 3.9% for DKI Jakarta. Even greater provincial variations were recorded on the Outer Islands.

5.16 Between 1971 and 1980, 4.3 million Indonesians resettled permanently in provinces outside those of their birth. This total movement was equivalent to about 15.6% of the natural increase in Indonesia's population during this period (27.6 million). Approximately 2.1 million migrants resettled in the Outer Islands. Of these, 1 million were resettled through the official

^{/1} The material for this chapter is based on the 5.0% sample of the 1980 census. Some adjustments may be required to reflect the full census results, as they become available.

Table 5.3: ESTIMATES OF NET MIGRATION AND NATURAL INCREASE
COMPONENTS OF POPULATION CHANGE IN PROVINCES, 1971-80
(in percent per annum)

Province	Growth rate	Net migration	Natural increase
DKI Jakarta	3.93	1.15	2.78
West Java	2.66	0.03	2.63
Central Java	1.64	-0.57	2.21
D.I. Yogyakarta	1.10	0.15	0.95
East Java	1.49	-0.26	1.75
<u>JAVA</u>	<u>2.04</u>	<u>-0.14</u>	<u>2.18</u>
Aceh	2.93	0.17	2.76
North Sumatra	2.60	-0.22	2.82
West Sumatra	2.21	-0.36	2.57
Riau	3.11	0.37	2.74
Jambi	4.07	0.99	3.08
South Sumatra	3.32	0.37	2.95
Bengkulu	4.39	1.31	3.08
Lampung	5.77	2.04	3.73
<u>SUMATRA</u>	<u>3.34</u>	<u>0.76</u>	<u>2.58</u>
West Kalimantan	2.31	0.07	2.24
Central Kalimantan	3.43	0.68	2.75
South Kalimantan	2.16	0.13	2.03
East Kalimantan	5.73	1.50	4.23
<u>KALIMANTAN</u>	<u>2.99</u>	<u>0.61</u>	<u>2.38</u>
North Sulawesi	2.31	0.06	2.25
Central Sulawesi	3.86	1.10	2.85
South Sulawesi	1.74	-0.30	2.04
South East Sulawesi	3.09	0.42	2.67
<u>SULAWESI</u>	<u>2.20</u>	<u>0.11</u>	<u>2.09</u>
Maluku	2.88	0.24	2.64
Irian Jaya	2.67	0.26	2.41
B a l i	1.69	-0.14	1.82
West Nusa Tenggara	2.36	-0.12	2.48
East Nusa Tenggara	1.95	-0.08	2.03
<u>EASTERN ISLANDS</u>	<u>2.05</u>	<u>0.09</u>	<u>1.98</u>
<u>TOTAL INDONESIA</u>	<u>2.33</u>	<u>0.00</u>	<u>2.33</u>

Source: World Bank staff estimates based on the 1980 population census.

transmigration program, so that spontaneous and official transmigration were about equal in overall importance. However, the net flow from Java to the Outer Islands was only about 1.1 million, once allowance is made for movements from the Outer Islands to Java (0.55 million) and migration between the Outer Islands themselves (0.45 million).

5.17 This migration had an important impact on population growth in some parts of Indonesia. In particular, certain provinces which were important transmigration sites experienced a significant boost to their overall population growth rates, as a result of interprovincial migration. Most notable in this regard were Jambi, Bengkulu and Lampung on Sumatra, Central and East Kalimantan and Central Sulawesi, where population increased by an additional 1% or more per year on account of net migration. Metropolitan Jakarta also recorded a substantial increase in its population on account of net migration. The major outflows of population due to interprovincial migration were from Central and East Java, but there were also overall net migratory losses in some of the provinces of the Outer Islands. Except in the case of Central Java, however, these net outflows did not have a major effect on the rate of growth of the population. Consequently, for most provinces net migration has had very little direct impact on population change.

5.18 Urbanization and Rural-Urban Migration. By far the most dynamic spatial trend in Indonesia has been the rapid spread of urbanization. During the 1970's Indonesia's urban population increased almost twice as fast as its total population. Moreover, the tempo of urbanization has been accelerating. Indonesia's measured urban population increased at an annual rate of 4.0% in the 1970's, compared with a 2.6% rate in the 1960's. Rural-urban migration

Table 5.4: INDICATORS OF URBANIZATION-INTERNATIONAL COMPARISONS

	Urban population as % of total population, 1981	Average annual growth of population (% per annum) 1970-81			
		Total	Urban	Rural	(Urbanization rate) /a
Indonesia	23	2.3	4.0	1.7	(2.3)
Middle income countries	45	2.4	4.1	1.0	(3.1)
Low income countries	21	1.9	4.4	1.4	(3.0)
Comparator countries					
Philippines	37	2.7	3.7	2.2	(1.5)
Malaysia	30	2.5	3.3	2.2	(1.1)
Thailand	15	2.5	3.4	2.3	(1.1)
India	24	2.1	3.7	1.6	(2.1)
Pakistan	29	3.0	4.3	2.5	(1.8)
Nigeria	21	2.5	4.8	1.9	(2.9)
Egypt	44	2.5	2.9	2.2	(0.7)

/a Defined as the difference between urban and rural population growth rates.

Source: World Development Report 1982, 1983; World Atlas 1982.

had a substantial impact on urban growth. Between 1971 and 1980 more than 4.6 million people moved from rural to urban areas, and the children born to these migrants added a further 0.4 million to the urban population. Thus rural-urban migration accounted for about half of the total urban population increase of 9.6 million.

5.19 As Table 5.4 indicates, it is estimated that 23% of Indonesia's 1981 population lived in urban areas. This was a slightly higher proportion than that for the low income countries (21%), but well below the average for middle income countries (45%). Although Indonesia's urban population is not growing as rapidly as Pakistan's or Nigeria's, for example, it is increasing significantly faster than the other large East Asian countries. Indonesia's urbanization rate - defined as the gap between the rate of growth of the urban population and the rural population - at 2.3%, is now one of the highest in the region.

5.20 Regional data on the distribution of urban population in 1980 and estimated rates of urban growth are shown in Table 5.5. Java accounts for 22.9 million of Indonesia's 32.8 million urban dwellers. Of these 6.1 million live in Jakarta, the capital city. Despite this seeming concentration, the share of the urban population in total population on Java at 25% is only slightly higher than in the major population centers in the Outer Islands, where the share of urban population ranges between 16% and 21%. The Eastern Islands region is significantly less urbanized, but it accounts for only 7% of Indonesia's total population and 4% of the urban population. The Outer Islands are all urbanizing at a faster rate than Java. If the present pattern of urban growth continues, the differences in relative urbanization between Java and the Outer Islands would disappear well before the end of the century.

Table 5.5: TOTAL AND URBAN POPULATION, SEPTEMBER 1980,
AND GROWTH BY PROVINCE, 1971-80

	Total population	Urban population	% Urban	Average annual growth 1971 - 1980	
				Total population	Urban population
Java	91,270	22,926	25.1	2.0	3.0
(DKI Jakarta)	(6,503)	(6,072)	(93.4)	(3.9)	(3.9)
Sumatra	28,016	5,481	19.4	3.3	5.1
Kalimantan	6,723	1,441	21.4	3.0	6.4
Sulawesi	10,410	1,654	15.9	2.2	5.1
Eastern Islands and Irian Jaya	10,517	1,341	12.8	2.2	3.6
Total Indonesia	<u>146,935</u>	<u>32,846</u>	<u>22.4</u>	<u>2.3</u>	<u>4.0</u>

Source: World Bank staff estimates.

5.21 The rapid pace of urbanization in Indonesia and the associated movement of people from rural to urban areas give rise to a number of important spatial policy issues. Firstly, in view of the substantial contribution of migration to total urban growth it is clearly essential to determine the factors influencing rural-urban and interprovincial migration decisions and their impact on employment. Secondly, if present trends continue, the arithmetic of compound growth implies an increase in the urban population from 32.6 million in 1980 to 71.9 million by 2000. Such a scenario implies that about one half of the increase in the population in the 1980s and fully two-thirds of the increase in the 1990s will take place in urban areas. Policy makers in Indonesia are understandably concerned to ensure that this urbanization process is managed successfully. Consequently it is important to analyse the pattern of urban development and the impact of policies to influence city growth. These issues are discussed in Chapter 6.

D. Spatial Dimensions of Income and Poverty

5.22 Spatial Income Disparities. One of the fundamental principles of national income accounting is the identity between production and income, once allowance is made for net balance of payments items. However, as noted above, for individual regions there may be substantial differences between production, income and expenditure levels. There are a number of factors which explain the emergence of these differences between production and income. Firstly, the regional pattern of ownership does not necessarily correspond with the pattern of production, so that the profits from particular activities in a given region may accrue to individuals living in another part of the country. Secondly, there are also large numbers of both permanent and temporary regional migrants in Indonesia who send a part of their income to their families. However, the most important influence on the redistribution of income between regions is central government taxation.

5.23 In the 1982/83 budget, 59% of the Central Government's revenue came from income taxes on oil production. Since Indonesia's oil production is located in only three of five main regions, this fact alone accounts for a major element of income redistribution within the Indonesian economy.

5.24 Unfortunately, it is very difficult to construct regional national accounts which capture the differences between production and income flows successfully. There is no data available on the pattern of regional incomes in Indonesia for example. However, household survey data provide some insight into regional variations in living standards and incomes ^{/1}. Some measures of the importance of the difference between regional consumption and production may be ascertained from Table 5.6 which provides indexes of per capita output (including and excluding mining) and consumption. The results of this exercise have to be interpreted with considerable caution, because household survey data tend to under-report the consumption of higher income households. This means that income inequalities are understated. Even allowing for this problem, it seems fairly clear that central government budgetary policies have resulted in a significant reduction in regional income inequality in Indonesia. Average per capita RGDP levels (including mining) range between 226% of the Indonesian average (Kalimantan) and 75% (Sulawesi). The variation

^{/1} For a discussion of some of the difficulties associated with such analysis see, for example, G.A. Hughes and I. Islam Inequality in Indonesia: A decomposition analysis, Bulletin of Indonesian Economic Studies (BIES), March 1981.

in per capita consumption is much smaller, ranging between 77% of the average for Indonesia (Eastern Islands) and 129% (Kalimantan). This redistribution effect is largely associated with oil taxes, but it may also be true for the effect of taxes on the non-mining sector of the economy. This is because the variations in regional consumption levels are also smaller than the variations in non-mining sector output per capita.

Table 5.6: REGIONAL VARIATIONS IN PER CAPITA OUTPUT AND CONSUMPTION, 1980
(Index: Indonesia = 100)

	Per capita	Per capita RGDP (excl. mining)	Per capita consumption		
			Total	Rural	Urban
Java	76	89	97	66	129
Sumatra	167	127	116	102	138
Kalimantan	226	172	129	118	139
Sulawesi	75	100	87	80	120
Eastern Islands and Irian Jaya	83	82	77	72	98
Indonesia	<u>100</u>	<u>100</u>	<u>100</u>	<u>77</u>	<u>129</u>

Source : World Bank staff estimates.

5.25 Overall, the survey data suggest that distribution policies between regions have been successful. Java's average per capita consumption is 97% of the Indonesian average, even though its total and non-mining per capita RGDP levels are only 76% and 89% of the Indonesian average respectively. The level of per capita consumption on Sulawesi and the Eastern Islands is slightly lower than might be expected given their relative non-mining per capita RGDP. However, the differences are fairly small, which suggests that the impact of central government taxation was rather neutral or fairly limited. Sumatra's per capita consumption level corresponds fairly closely with its relative non-oil RGDP. But Kalimantan's per capita consumption is considerably lower, this may be due to the importance of non-oil tax receipts on Kalimantan, such as taxes on its timber reserves.

5.26 Table 5.6 also provides some data on regional consumption standards of rural and urban areas. This data strongly suggests that urban-rural differences in consumption within regions are far more significant than regional differences. On Java, for example, per capita consumption in the rural areas is only one half of the level in the urban areas. Urban-rural differences are less pronounced in the other regions, but it nevertheless remains the case that the urban areas of Indonesia are characterized by considerably higher consumption levels than rural areas. This is an important

finding since it underscores the importance of monitoring the pattern of development in rural and urban areas, and the need for careful planning at the regional level through the regional BAPPEDAS to take account of these disparities.

5.27 Trends in Poverty Incidence. One of the most fundamental problems facing Indonesia is the question of poverty. Consequently, it is also important to consider the influence of economic growth and income distribution on poverty both at the national and at the local level. Over the course of the 1970s, Indonesia made significant progress in tackling its poverty problem. Between 1970 and 1980 the proportion of the population living in poverty declined from 57% to 40% (see Table 5.7) /1. This was a remarkable achievement. Although the paucity of data preclude a detailed analysis of this question, the household survey data suggest that the pattern of growth has resulted in quite significant changes in the spatial dimensions of poverty in Indonesia. First, the reduction in poverty was particularly rapid in the Outer Islands. On the Outer Islands, the proportion of the population living in poverty declined from 43% to 28%; in Java the decline was from 65% to 47% of the population.

5.28 The second important spatial trend in poverty in Indonesia has been rapid reduction in urban poverty incidence during the Seventies. In 1970 the incidence of poverty in urban areas was 51% of the population. The incidence of urban poverty was somewhat lower than in rural areas, where 59% of the population were living in poverty. Between 1970 and 1980 there was a very sharp reduction in urban poverty. The reduction in urban poverty has been more rapid in Java than the Outer Islands, with the result that urban poverty rates are now more uniform across the country. However, improvements in rural poverty have been more difficult to bring about. Nevertheless the high priority attached to rural development has resulted in a substantial reduction in the incidence of rural poverty which was reduced to 52% in Java in 1980 and lowered to 30% on the Outer Islands.

/1 The definition of poverty is based on a minimum food expenditure requirement of 17.6 kg of rice per month per capita which is required to provide 2,150 calories and 30 grammes of protein per day. In addition, an allowance is made for non-food basic items such as shelter and clothing, related to the consumption expenditures of households subsisting at the minimum food expenditure level.

Table 5.7: REGIONAL VARIATIONS IN POVERTY INCIDENCE, 1970-80
(% of Population)

	1970	1976	1978	1980
<hr/>				
<u>Java</u>				
Urban	56.3	33.8	27.5	20.9
Rural	67.0	62.7	65.0	52.0
Sub-total	<u>65.0</u>	<u>57.3</u>	<u>57.9</u>	<u>46.9</u>
<u>Outer Islands</u>				
Urban	40.8	28.0	21.2	17.3
Rural	43.9	39.6	34.3	30.3
Sub-total	<u>43.2</u>	<u>37.3</u>	<u>31.8</u>	<u>28.0</u>
<u>Indonesia</u>				
Urban	50.7	31.51	25.2	19.7
Rural	58.5	54.5	54.0	44.6
Total	<u>57.1</u>	<u>50.1</u>	<u>48.5</u>	<u>39.8</u>

Source: World Bank staff estimates.

5.29 The survey data suggest that the impact of the overall reduction in poverty incidence in Indonesia has been most notable in the urban areas. Overall, the urban areas can point to a steady reduction in the incidence of poverty both in Java and on the Outer Islands. Despite the rapid rate of urbanization, the numbers of poor people living in urban areas declined from 10.3 million to 5.5 million. The Government has made considerable efforts to promote rural development through agriculture and related investments. In rural Java, the incidence of poverty declined only slightly between 1970 and 1978 and the absolute number of people living in poverty continued to rise. However, after 1978 poverty incidence began to decline significantly and the absolute size of the rural poverty group on Java fell sharply. /1

/1 On the Outer Islands the reduction in rural poverty was more continuous over the decade. However, despite this relative success there are still marked regional variations in rural poverty incidence on the Outer Islands (see Appendix Table 4). On Sumatra and Kalimantan, rural poverty incidence in 1980 averaged 20% and 12% respectively, while in Sulawesi and the Eastern Islands the rates were 39% and 47%.

5.30 Fortunately, while Indonesia faces an enormous challenge in reducing poverty, the problem of deprivation is less pervasive. The overall incidence of deprivation, which is defined as the proportion of the population whose food needs are not fully satisfied, is only 3.3%. Thus, the overwhelming majority of Indonesia's poverty group is able to satisfy its food needs, but does not earn sufficient income to meet the rest of their non-food basic needs.

5.31 Table 5.8 shows the provinces in Indonesia where the incidence of deprivation exceeded 10% in 1980, i.e. three times the average for Indonesia as a whole. All three of the provinces concerned were in the Eastern Islands region. The level of per capita non-mining RGDP does not appear to explain the high incidence of deprivation in these areas. For example, Maluku's per capita output is 10% higher than the Indonesian average, but the incidence of deprivation is four times higher than in Indonesia as a whole. Equally striking, is the contrast between West and East Nusa Tenggara; both have approximately the same level of per capita output, but the incidence of deprivation in the former province is less than half that of the latter. The absence of any relationship between per capita output and the incidence of deprivation in these provinces suggests that special measures are required to ensure that the development of these regions helps alleviate the plight of the economically deprived and that the food requirements of these groups are adequately met, especially in the rural areas. This might, for example, include a greater emphasis in labor based construction programs, in infrastructural investment such as roads, irrigation and watershed management schemes. In the short term, this would help to generate additional employment opportunities and raise incomes, whilst improving the quality of the infrastructure over the long run, so as to provide a basis for sustainable growth.

Table 5.8: PROVINCES WHERE THE INCIDENCE OF DEPRIVATION EXCEEDED 10% in 1980

Province	Non-mining per capita GDP 1979	Rural deprivation incidence (%)	Urban deprivation incidence (%)	Total deprivation incidence (%)
West Nusa Tenggara	45.8	23.8	3.4	20.9
East Nusa Tenggara	44.9	47.3	9.2	44.4
Maluku	110.6	14.8	3.2	13.5
Indonesia	100.0	3.8	1.5	3.3

Source: World Bank staff estimates.

E. Spatial Variations in Government Spending and Services

5.32 The Pattern of Government Expenditures. As noted above, central government taxation has a substantial impact on the spatial pattern of income in Indonesia. While relatively little is known on the spatial dimensions of tax incidence, other than that the oil producing regions make a substantial contribution to the overall budget, rather more information is available on the pattern of public expenditures, particular at the provincial level. This information is of particular importance, since public sector investment and the provision of public services have a profound influence on the pattern of economic and social development in the long run and can play a major role in reducing regional disparities.

5.33 In Indonesia, central government support for local development takes three main forms: budgetary transfers for development expenditures (INPRES grants); subsidies to support routine expenditures of local governments (the central government subsidy or SDO); and development spending of central government departments in the regions. /1 In broad terms, central government support accounts for about 80-90% of development and routine expenditures in the regions. Consequently, the Central Government has a considerable degree of influence on the distribution of public services between provinces and the composition of local services, both in terms of the balance between rural and urban areas and the overall sectoral composition of services.

5.34 Table 5.9 shows the distributions of regionally incurred central government development expenditures, INPRES grants and central government subsidies to the routine budgets of local government. It therefore attempts to draw together all of the available information on the total financial impact of central government expenditures on the position of the individual provinces of Indonesia. In order to bring out the magnitude of this spending in relation to the pattern of per capita output, the provinces of Indonesia have been ranked according to their level of per capita non-mining RGDP in 1980.

/1 This category includes most foreign aid.

Table 5.9: PER CAPITA BUDGETARY TRANSFERS AND CENTRAL GOVERNMENT DIRECT DEVELOPMENT EXPENDITURES 1980/81

Province	1980 non-mining RGDP per capita Rp '000	Inpres grant Rp/cap	Central subsidy Rp/cap	Central development expenditure Rp/cap	Total spending % non-mining RGDP
South East Sulawesi	87	13,523	10,177	36,618	72
West Nusa Tenggara	97	5,692	6,536	10,342	23
East Nusa Tenggara	97	5,704	11,406	9,805	27
D.I. Jogjakarta	119	4,697	9,084	10,801	22
Central Java	127	2,830	6,305	4,967	11
West Java	131	3,015	6,353	8,176	13
Lampung	146	4,629	7,038	8,293	13
Jambi	146	9,497	7,541	26,864	30
East Java	147	3,022	5,479	4,902	9
Central Sulawesi	147	10,896	8,973	20,110	27
Bengkulu	148	14,185	8,106	34,319	38
West Sumatra	153	5,653	7,563	17,400	20
Bali	153	6,889	8,220	12,288	18
Aceh	157	6,849	8,069	19,467	22
South Sulawesi	158	4,968	7,045	9,754	14
West Kalimantan	168	8,339	8,267	12,754	17
South Kalimantan	181	7,804	10,266	22,712	23
North Sulawesi	196	7,920	13,609	16,364	19
Irian Jaya	197	11,365	27,197	28,016	34
North Sumatra	205	5,034	8,530	10,908	12
Maluku	223	8,801	8,998	16,275	15
South Sumatra	228	6,507	5,276	18,131	13
Riau	250	7,292	10,187	23,557	16
Central Kalimantan	270	13,075	11,359	21,794	17
DKI Jakarta	448	2,042	6,690	94,031	23
East Kalimantan	740	10,431	10,431	25,354	6
<u>Indonesia</u>	<u>167</u>	<u>4,465</u>	<u>7,111</u>	<u>9,961</u> /a	<u>13</u>

Source: World Bank staff estimates based on national and provincial budget data.

/a Excluding DKI Jakarta. The figure including Jakarta is 13,661. The high figure for Jakarta reflects the substantial level of spending on the apparatus of the Central Government rather than on the development of Jakarta itself.

5.35 As Table 5.9 indicates, these expenditures are very substantial in relation to the size of the provincial economies. On average total expenditures in 1980/81 amounted to 13% of provincial non-mining RGDP. Expenditures in the three poorest regions in relation to non-mining RGDP were even higher. In South East Sulawesi, West Nusa Tenggara and East Nusa Tenggara expenditures reached 72%, 23% and 27% of non-mining RGDP respectively. These expenditure levels reflect the Government's commitments to reducing the high level of poverty and deprivation in these regions.

5.36 It could be argued that the arrangements for financing government expenditures could pay more attention to the ability of the regions to contribute toward these costs. There may, for example, be very strong economic arguments for upgrading the infrastructure of an affluent region by building better roads. But this decision can be separated from the decision as to how such improvements should be financed. This would enable the authorities to focus more explicitly on the question of redistributing incomes toward the more needy regions which are less capable of funding their local development efforts. Otherwise, regions with a strong economic base and the greatest potential for rapid development may tend to receive the benefit of better economic and social infrastructure and a disproportionate share of central funds. The authorities are aware of these issues and have begun introducing programs to encourage regional governments to contribute more to their own development, either through increased local taxation, or the greater use of local authority borrowing from the Central Government. The INPRES Pasar program, for example, which covers the development of wholesale and retail markets is based on loans rather than outright grants to local authorities. Such an approach has much to commend it and could usefully be expanded to other areas. This would enable the authorities to provide more selective support to lower income areas. As noted in Chapter 7, there is considerable scope for shifting towards this pattern in the context of financing urban services.

5.37 Access to Services. The provision of social services, has been accorded high priority by the Indonesian authorities, particularly since the launching of the 5 Year Plan in 1974/75. Between 1974/75 and 1982/83 spending on the social services climbed from 8.2% to 21.2% of total central government development expenditures. Real expenditures on health (19% p.a.), education (28% p.a.), housing and water supply (38% p.a.), all increased at a fast pace. These expenditures have resulted in profound improvements in the quality of life for the average Indonesian. Compared to their counterparts 10 years ago, today's Indonesians are, for example, better educated, have substantially improved access to public health services, and are far more likely to use piped water for drinking and bathing.

5.38 As a result of the emphasis placed on primary health care and primary education, tremendous strides have been made in providing for basic needs. As Table 5.10 indicates primary education enrollment rates have risen sharply particularly in rural areas. The success of the primary education program is underscored by the fact that progress has been so rapid in the last three years that the remaining differences between rural and urban enrollment rates have been virtually eliminated, so that universal primary education will be introduced on June 15, 1984.. Similarly, there has been a dramatic decline in infant mortality rates across the country in both rural and urban areas. There

are wide variations among provincial school enrollment rates beyond the primary level, access to safe water, and health service coverage. At present an average urban dweller has far better access to educational services, particularly beyond the primary school level. Among 13-15 years olds, for example, urban school attendance rates are more than 50% higher than in rural areas. There are relatively few junior secondary schools and almost no senior secondary school located in rural areas of Indonesia, either on Java or the Outer Islands. ^{/1} Consequently, rural students wishing to have a secondary education are faced with the choice of either commuting daily into towns and cities or migrating. Survey data indicate that more than 30% of senior secondary students actually live away from home. Thus a major challenge which lies ahead will be to improve the educational opportunities of rural youth beyond the primary school level and expanding the coverage of social and public services in rural areas from the present levels whilst meeting the growing needs of urban dwellers.

5.39 These observations are very important from the point of view of spatial policy. As already noted, in rural areas average consumption levels are lower, and poverty incidence is higher than in urban areas. It appears that the distribution of social infrastructure and basic social services also favors urban dwellers. At present many of these services are provided free or well below their economic cost. Thus urban dwellers, who are already better off in terms of income, enjoy disproportionate access to subsidized services. This situation is undesirable not only from the point of view of urban-rural equity, but also from the point of view of spatial efficiency, since the provision of subsidized services creates a bias in favor of rural-urban migration. The future investment requirements of urban areas are very great. But it would appear that considerations of equity and efficiency both call for a greater contribution on the part of urban dwellers toward meeting the costs of the services they will require. This in turn would help release resources for greater investment in rural areas. Consequently, Chapter 7 explores some of the options the central authorities might consider for financing urban services.

^{/1} Indonesia - Secondary Education: Issues and Programs for Action, World Bank, November 1983.

Table 5.10: INDONESIA-SELECTED SOCIAL INDICATORS, 1971-1980

Province	School enrollment ratios				Infant mortality rate		Population per health center ('000) 1980
	7-12 year olds		13-15 year olds		1971	1980	
	1971	1980	1971	1980			
DKI Jakarta	67	91	56	77	125	81	56
West Java	56	82	37	54	159	131	48
Central Java	58	85	39	57	147	108	36
D.I. Yogyakarta	67	92	58	80	147	63	32
East Java	61	85	44	58	133	113	38
<u>Sub-total Java</u>	<u>59</u>	<u>85</u>	<u>42</u>	<u>59</u>	<u>138</u>	<u>104</u>	<u>41</u>
D.I. Aceh	68	86	60	69	130	91	16
North Sumatra	68	87	51	68	112	89	37
West Sumatra	68	89	49	71	142	122	28
Riau	51	78	40	64	116	113	24
Jambi	59	79	42	57	157	120	24
South Sumatra	62	83	47	61	153	98	36
Bengkulu	64	82	54	59	148	107	15
Lampung	59	81	40	57	145	98	30
<u>Sub-total Sumatra</u>	<u>64</u>	<u>84</u>	<u>48</u>	<u>64</u>	<u>139</u>	<u>93</u>	<u>28</u>
West Kalimantan	44	67	41	59	138	117	18
Central Kalimantan	65	83	57	66	129	100	10
South Kalimantan	68	85	47	48	142	122	16
East Kalimantan	59	79	47	66	118	100	10
<u>Sub-total Kalimantan</u>	<u>60</u>	<u>77</u>	<u>46</u>	<u>61</u>	<u>139</u>	<u>106</u>	<u>14</u>
North Sulawesi	78	89	59	68	112	96	21
Central Sulawesi	73	86	64	66	136	129	14
South Sulawesi	56	79	46	61	154	108	24
South East Sulawesi	59	81	64	64	160	117	19
<u>Sub-total Sulawesi</u>	<u>62</u>	<u>82</u>	<u>52</u>	<u>61</u>	<u>149</u>	<u>108</u>	<u>21</u>
Bali	57	85	35	66	132	89	38
West Nusa Tenggara	42	73	32	43	170	188	34
East Nusa Tenggara	61	76	62	70	136	125	20
Maluku	73	86	69	74	141	125	16
Irian Jaya	84	67	86	58	n.a.	125	8
East Timor	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<u>Sub-total E. Islands</u>	<u>63</u>	<u>84</u>	<u>50</u>	<u>63</u>	<u>n.a.</u>	<u>n.a.</u>	<u>20</u>
<u>TOTAL INDONESIA</u>	<u>60</u>	<u>84</u>	<u>44</u>	<u>60</u>	<u>140</u>	<u>105</u>	<u>31</u>
Indonesia Urban	73	90	63	74	114	87	n.a.
Indonesia Rural	58	81	40	48	150	114	n.a.

Source: World Bank staff estimates.

CHAPTER 6

URBANIZATION AND SPATIAL DEVELOPMENT POLICY

A. Introduction

6.1 As noted in Chapter 5, urbanization in Indonesia has been accelerating, during 1971-80 the urban population rose by 4% per annum compared with 3.6% during 1961-71. Similarly, the share of the urban population in total population, which increased from 15% in 1961 to 19% in 1971, jumped to 22% in 1980. The present chapter highlights some of the main features of the urbanization process in Indonesia. /1 A major factor underpinning this growth has been an increase in rural-urban migration. During the Sixties migration accounted for 32% of the increase in urban population, but between 1971 and 1980 migration accounted for 52% of the urban population increase. This migration is closely linked to the dynamic performance of the cities in generating new employment and to the generally better level of social services such as educational and health facilities available in urban areas. Between 1971 and 1980 urban employment increased at an annual rate of 5.7% per annum compared with a rate of only 1.6% in rural areas. Even though in 1971 the urban areas accounted for only 13% of total employment, they generated 41% of all new jobs created in the Seventies. About one third of this increase was in the manufacturing sector while almost two-thirds of the growth in urban employment occurred in services. In the rural areas the most striking development was the stagnation of agricultural employment in Java, despite the rapid increase in food output achieved. Thus, the increase in rural employment was accounted for by increases in non farm employment on Java and increases in the Outer Islands. This trend has striking policy implications, since it suggests that Java's rural population will become increasingly dependent on the development of non-agricultural activities for employment. Consequently, urban areas are likely to face a continued influx of migrants from rural areas. Thus it is fairly safe to assume that Indonesia's urban areas will increase in size at least at the present rate of 4% per annum. At this pace, Indonesia's urban population will more than double from its 1980 level of 33 million to 72 million by 2000.

6.2 One of the major spatial policy concerns of the authorities has been whether the pattern of urbanization has been unbalanced in favor of the growth of large cities, particularly Jakarta. While it is true that the large cities have grown at a slightly faster pace than the medium size and smaller cities, the present chapter suggests that it is difficult to argue on the basis of these growth rates that urban growth is excessively concentrated in the large cities. There are a number of factors which are likely to favor the growth of large cities in Indonesia. These include the advantages of locating new investments in close proximity to the major centers of demand and to the ports. In general, it is in the interest of the economy to support investment/location decisions made on this basis, since they lead to lower production costs. However, in addition, there may be certain aspects of the urban policy framework which create biases in favor of large centers and perhaps discriminate against smaller towns and cities. To some extent the

/1 Much of the material for this chapter is drawn from Indonesia: Urban Services Sector Report, World Bank Report No. 4800-IND.

past policies of concentrating urban economic and social infrastructure in the large urban centers and the greater availability of subsidized public services may have created a bias in favor of the large centers. In addition, the importance of physical proximity to central government officials for obtaining licenses and permits favors a Jakarta location. It is enormously difficult to quantify the impact of such policies on the rate of growth of different urban centers. Nevertheless, more attention needs to be paid to these particular aspects of government policy.

6.3 The present chapter suggests that there are strong arguments for shifting the emphasis of present urban policies away from administrative restrictions on industrial location decisions. Studies from other countries suggest that the benefits which may be obtained by spreading industry more evenly across the country through administrative controls can frequently be outweighed by additional costs to the economy in terms of reduced efficiency /1. Although initially more complicated, a better strategy is to ensure that businessmen pay the true costs of operating in particular cities through appropriate tax and user charge regimes. In addition, better transportation links, especially in terms of improving efficiency in the ports, have a crucial role to play in increasing the access of producers in smaller towns and cities to the national market. This would greatly improve market opportunities for these producers.

6.4 Although the main emphasis of the present chapter is on the pattern of urbanization and urbanization policies, it is important to stress the close linkage between the rate of rural-urban migration and the relative levels of economic and social development in urban and rural areas. More than two-thirds of the rural population will continue to live in rural areas until the end of the century. Any widening of rural-urban disparities could lead to a heavy additional influx of migrants to the urban centers, placing further strains on urban growth. Consequently, Indonesia's urbanization strategy can only be truly effective if it is complemented by policies to improve economic and social condition in rural areas, both in areas of rural outmigration on Java as well as the Outer Islands, which possess enormous potential for additional rural employment generation.

B. Trends in Urban Development and Concentration

6.5 As noted in Chapter 5, the pace of urbanization accelerated in Indonesia from an annual rate of about 3.6% in the Sixties to about 4% in the Seventies. As Table 6.1 indicates, this acceleration was more rapid than that for the total population, which grew at an annual rate of 2.3% during the 1970's, compared with 2.1% during the 1960's. It also contrasts markedly with the situation in rural areas, which recorded a slight decline in population growth from 1.8% to 1.7% a year.

/1 For example, "Industrial Location Policy, the Indian Experience", World Bank Staff Working Paper No. 620.

Table 6.1: URBANIZATION IN INDONESIA, 1961-80

	<u>1961-71</u>		<u>1971-80</u>	
Population growth rate (% per annum)				
Urban	3.6		4.0	
Rural	1.8		1.7	
Total	<u>2.1</u>		<u>2.3</u>	
	<u>Millions</u>	<u>%</u>	<u>Millions</u>	<u>%</u>
Natural increase of existing urban population	4.59	68	4.63	48
Migration	2.17	32	5.0	52
(From other provinces)	(n.a)	(n.a)	(1.6)	(17)
(From within the province)	(n.a)	(n.a)	(2.92)	(30)
(Natural increase of migrants)	(n.a)	(n.a)	(0.42)	(5)
Increase of urban population	<u>6.76</u>	<u>100</u>	<u>9.63</u>	<u>100</u>

Source: World Bank staff estimates.

6.6 This acceleration in urbanization came as a surprise to many analysts. Based on the age and sex structure of the urban population in 1971, the expectation was that the rate of urban population growth would decline. However, the rise in rural-urban migration more than offset the decline in the natural rate of growth of Indonesia's urban population. As a result, rural-urban migration generated 52% of the increase in urban population between 1971 and 1980 compared with only 32% in the 1960s. In absolute terms the number of rural-urban migrants more than doubled, rising from 2.2 million to 5 million. Based on the available evidence, it appears that about one-third of the migrants to urban areas crossed provincial boundaries, while the remainder migrated from rural to urban areas within provinces.

6.7 Based upon probable rates of decline in fertility and mortality, Indonesia's population growth rate is projected to fall from 2.3% in the 1970's to 2.0% in the 1980s and 1.8% in the 1990s. However, it is unlikely that the urban population growth rate will decline below the current 4% rate (see para 6.21). At this rate, the urban population would rise from 32.6 million people in 1980 to almost 49 million people by 1990. Moreover, if the trend continues through the Nineties about 72 million people will be living in urban areas by the year 2000. One of the most significant aspects of such a trend is that the rise in the urban population would be equivalent to 49% of the increase in Indonesia's population during the Eighties and 67% of the increase in the Nineties.

6.8 Such a scenario has a number of important policy implications. First of all it implies that there will be a continued heavy flow of migration from rural to urban areas. This flow of migrants can be expected to be a source of significant pressure in the urban labor markets and is likely to limit the growth of real wages in urban areas in many unskilled and semi-skilled occupations. Secondly, it suggests that the future rate of growth of different cities is likely to be strongly influenced by their relative attractiveness to migrants. If, as at present, the availability of subsidized public services remains concentrated in the larger cities, the pattern of urban growth is likely to be skewed toward these centers. Thirdly, it suggests that the incremental demand of cities for investment in economic and social infrastructure is likely to rise sharply in relation to existing levels.

Table 6.2: REGIONAL URBANIZATION TRENDS, 1971-2000
(mid-year estimates)

	<u>Population (millions)</u>				<u>Average Annual Growth %</u>		
	<u>1971</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>1971-80</u>	<u>1980-90</u>	<u>1990-2000</u>
<u>Urban</u>							
Java	17.5	22.8	30.6	41.2	3.0	3.0	3.0
Outer Islands	5.4	9.8	18.0	30.7	6.8	6.1	5.5
Sub-total	<u>22.9</u>	<u>32.6</u>	<u>48.6</u>	<u>71.9</u>	<u>4.0</u>	<u>4.0</u>	<u>4.0</u>
<u>Rural</u>							
Java	58.4	68.0	76.2	82.1	1.7	1.1	0.7
Outer Islands	37.7	45.4	53.9	59.6	2.0	1.7	1.0
Sub-total	<u>96.1</u>	<u>113.4</u>	<u>130.1</u>	<u>141.7</u>	<u>1.8</u>	<u>1.4</u>	<u>0.9</u>
INDONESIA	<u>119.0</u>	<u>146.0</u>	<u>178.7</u>	<u>213.6</u>	<u>2.3</u>	<u>2.0</u>	<u>1.8</u>

Source: World Bank staff estimates and projections, assuming inter-provincial and rural-urban migration patterns are unchanged from 1975-80 rates, and that fertility declines, so that Indonesia reaches a stationary population by the year 2025.

6.9 From the point of view of regional development, one of the most interesting aspects of the pattern of urbanization in Indonesia has been the rapid rate of population increase in the urban areas of the Outer Islands. As Table 6.2 indicates, during the 1970's the urban population of the Outer Islands increased at an annual rate of 6.8%, or more than double the 3.0% rate recorded in Java. There is some question as to whether such a rate can be sustained in the future. But even assuming some deceleration in the rate of population increase, if the urban centers on the Outer Islands continue to grow more rapidly than on Java, the overall distribution of population will change markedly during the coming decade. For illustrative purposes Table 6.2 sets out a projection of the distribution of population in Indonesia, assuming

that the rate of urban population growth in Java and for Indonesia as a whole remains unchanged at 3.0% and 4.0% respectively until 2000 and that interprovincial migration rates continue at their 1975-80 levels ^{/1}. Under such a scenario, the urban population in Java would climb from 23 million in 1980 to 41 million by 2000, while the urban population on the Outer Islands would rise from 18 million to 31 million. The rural population on Java would grow more slowly than during the Seventies, but in absolute terms would increase from 68 million in 1980 to 82 million by 2000. Such a projection has to be regarded as highly tentative, since changes in interprovincial migration patterns and rural urban migration trends could radically change the population distribution (para 6.38). It implies a reduction in the rate of urban population increase in the Outer Islands to 6.1 percent in the Eighties and 5.5 percent in the Nineties. Nevertheless, it would lead to a dramatic rise in the share of the Outer Islands in both the urban and total population of Indonesia.

6.10 Although it may be argued that the Outer Islands cannot continue to urbanize at such a rapid pace, the underlying policy message of such a calculation remains valid. That is to say, if urban growth on the Outer Islands can be successfully stimulated, it would greatly reinforce the efforts of the authorities to encourage migration from rural areas in Java to the Outer Islands. The growth of these urban centers would offer two important advantages to the economy. First of all, it would provide an alternative for young people who currently are migrating from the Outer Islands to urban Java. Secondly, it might help to relieve the pressure on the urban areas of Java by diverting rural-urban migration towards the Outer Islands. Many of these rural-urban migrants may not be interested in resettling in rural transmigration sites, but might welcome the opportunity to find urban employment on the Outer Islands.

6.11 A closely related issue in terms of Indonesia's urbanization strategy is whether the past pattern of urbanization has resulted in an excessive concentration of population in the large urban centers of Java, and whether Indonesia should seek to promote smaller urban centers both in Java and the Outer Islands. As Table 6.3 indicates, in 1980 Indonesia had thirty-six medium and large sized cities, with populations in excess of 100,000, and an additional 293 with populations of between 20,000 and 100,000. As a group, these 329 centers included all but 13% of the 33 million urban residents of Indonesia. Five urban centers, four of which are located in Java, had populations in excess of one million and housed 40% of the urban population. DKI Jakarta alone, with 6.4 million residents, accounted for one-fifth of Indonesia's urban population. Thirty-one medium-sized centers (100,000 - 1 million) contained roughly one quarter of the urban population, with the rest found largely in the small cities.

^{/1} On this basis the net outflow of population from Java to the Outer Islands would amount to about 1.7 million in the 1980s and 1.3 million in the 1990s.

Table 6.3: SIZE DISTRIBUTION OF INDONESIA'S CITIES AND TOWNS, SEPTEMBER 1980

Size of city	Total Inhabitants (million)	% of Urban Population	No. of Cities
Less than 20,000	4.3	13.1	369
20,000 - 100,000	6.8	20.7	293
100,000 - 500,000	6.1	18.6	27
500,000 - 1 million	2.5	7.6	4
More than 1 million	13.1	39.9	5
Total	<u>32.8</u>	<u>100.0</u>	<u>670</u>

Source: (a) 1980 Census for population of kotamadya roughly adjusted for the major cities of Jakarta, Bandung, Surabaya, and Surakarta to take account of growth of metropolitan areas outside kotamadya boundaries. (b) 1978 Dalam Negeri "Camat" survey results updated to 1980, assuming 8% cumulative population growth in all cities between 1978 and 1980.

6.12 Policymakers in Indonesia have devoted considerable attention to the question of whether Jakarta has grown excessively in relation to the other urban areas of Indonesia. From these data it does not appear to be the case that Jakarta has reached a size which is detrimental either to the economy as a whole, or to the rest of the urban system. This is not to deny the very substantial challenges facing the authorities in coping with the problems of Jakarta in terms of pollution, congestion and public health. Nevertheless, judged by the standards of other developing countries the share of the Jakarta in the total urban population (19%) is quite low. For the low income countries as a group, the proportion in 1980 was 28%, while for middle income countries the comparable figure was 29%. As Table 6.4 indicates, Jakarta's share in the urban population is also quite low by the standards of other countries in the region, or for example, Mexico, where similar concerns have been voiced.

6.13 Table 6.4 also provides an alternative measure of urban concentration, known as the four-city primacy index. This index is the ratio of the population of the largest city to the next three largest cities. In the case of Indonesia the index is 1.34. This ratio is again much lower than for Mexico, and lies between the indexes for Korea and Malaysia and the index for the Philippines. This reflects the fact that the next 3 largest cities after Jakarta all have populations which are relatively small compared with Jakarta. In the case of the Philippines and Malaysia, the bulk of the urban population is concentrated in the four largest cities yielding a low index number. Indonesia's primacy index is associated with a highly dispersed pattern of urban development. The four largest cities of Indonesia, together account for only 46 percent of the urban population.

Table 6.4: INDICATORS OF URBAN CONCENTRATION-SELECTED COUNTRIES

	Share of largest city in urban population, 1980	Four-city primacy index (1976) /a
Indonesia	19	1.34
Low income countries	28	n.a.
Middle income countries	29	n.a.
Mexico	32	2.63 (2.75)
Brazil	15	0.81 (1.91)
Thailand	69	(n.a.)
Malaysia	27	0.69
Philippines	30	0.75
Korea	41	1.54

/a The index is the ratio of the largest city over the next 3 largest. The numbers in parentheses give the index for these centers when allowance is made for the spread of their population beyond the legal boundaries of these cities.

Source: World Development Report 1983; Bertrand Renaud National Urbanization Policy in Development Countries, Oxford University Press.

6.14 Table 6.5 provides an estimate of the growth of urban centers classified according to city size during the 1960's and 1970's. The data suggest that the acceleration in the growth of population in the 1970s over the 1960s was associated with the growth of large and medium cities. There was a notable acceleration in the growth of medium cities (100 - 500,000 population), but they accounted for only about 18% of the total growth in the urban population. During the same period the population of the large cities (500,000 and above) increased by 5.2 million. Consequently they accounted for 50% of the total increase in urban population.

6.15 Overall, however, it is important to note that there was very little difference in the growth of rates of the large and medium cities. Even the variation in the growth rates between the medium and large cities and the smaller centers does not seem to be undue cause for concern. Moreover, Jakarta, or even the JABOTABEK region, has not increased its share of the urban population significantly over the past decade. In many ways the variation in urban growth rates between Java and the Outer Islands is far more striking than the variation in city growth rates classified by size. These calculations suggest that the smaller urban centers of Java have not grown as rapidly as in the Outer Islands. However, further research is required to ascertain whether this is a statistical anomaly or whether there have been genuine economic differences in the performance of smaller towns on Java compared to the Outer Islands.

Table 6.5: GROWTH RATES OF URBAN CENTERS AND PROJECTED POPULATION DISTRIBUTION BY CITY SIZE

Size of city	Average population growth		Population		Distribution	
	% per year		(million)		1980	2000
	1961-1971	1971-1980	1980	2000	1980	2000
Large cities <u>/a</u>	3.5	4.1	15.6	38.9	47.6	53.6
Medium cities <u>/b</u>	2.4	3.8	6.1	12.9	18.6	17.8
Small cities and towns <u>/c</u>	3.0	3.2	11.1	20.8	33.8	28.6
Total	<u>3.2</u>	<u>3.9</u>	<u>32.8</u>	<u>72.6</u>	<u>100.0</u>	<u>100.0</u>

/a Currently over 500,000.

/b Currently 100-500,000.

/c Currently below 100,000.

Source: World Bank staff estimates.

6.16 In the final analysis it is difficult to make any assessment of the extent to which the pattern of urban growth has been biased towards any particular urban centers purely on the basis of differences in urban growth rates. There is no a priori reason for expecting large urban centers to grow more or less rapidly than smaller centers, or for judging whether particular city sizes are optimal. The only way policymakers can be sure that the pattern which does emerge is efficient and is in the best interests of the economy as a whole is by developing an urban policy framework which encourages efficient location decisions on the part of investors and individual urban dwellers. This means that the degree of bias in the pattern of urban growth is dependent on the total impact of public policies with respect to taxation, the provision and pricing of public services, and the regulatory environment. It may be argued that the understandable emphasis on upgrading the economic and social environment of larger cities coupled with low levels of user charges made these centers relatively more attractive to investors and migrants than smaller urban centers. Similarly, the complex and detailed system of industrial regulation pursued by the central government makes it more desirable to locate in the Jakarta region in order to obtain easier access to government officials. But in practice it is almost impossible to quantify the impact of these factors on the growth of particular cities. They are, nevertheless, a key aspect of national urbanization strategy. Policymakers will have to devote increasing attention to the careful analysis of these issues, as the urban population expands.

6.17 If, as seems reasonable, the trends of the past decade are projected forward then, as Table 6.5 indicates, the distribution of urban population will continue to shift in favor of the present medium and large cities, while the proportion of the population living in small cities and towns will decline from about 34% to 30%. A narrowing of urban growth differentials would slow this tendency, but would not affect the most fundamental policy issue facing Indonesia. That is the challenge of absorbing a tremendous increase in the population of its large and medium cities over the remainder of the century. If Indonesia's nine largest cities (those with 1980 populations of more than 500,000) continue to grow at the same rate as during the 1970s, their total population will rise by 23 million to 40 million. Even if there is some slowdown in the growth rates of these centers, the problems of financing and administrating the growth of Indonesia's largest cities would appear to be particularly important, if they are to cope with increases in population of anything approaching this magnitude. Consequently, Chapter 7 focuses on questions of financing urban services and the administrative issues involved in coping with the rapid increase in urban growth.

C. Urbanization and Employment

6.18 The surge in rural urban migration which occurred during 1971-80 has been associated with dramatic changes in the pattern of employment in the rural areas of Indonesia. In 1971 the agricultural sector accounted for 76% of rural employment; however, as Table 6.6 shows it was responsible for only 8.5% of the net increase in rural employment in the period 1971-80. Consequently, the overall share of agriculture in rural employment declined to 67%. The slow rate of growth of agricultural employment during this period was the result of a decline in agricultural employment in Java, coupled with only modest (1% yearly) growth of agricultural employment on the Outer Islands. Although other figures suggest slightly different agricultural employment growth rates, the overall pattern of declining or at least stagnating agricultural employment in Java is unquestionable. However, it is certainly the case that as a result of improved irrigation and new seed varieties cropping intensity has increased substantially. This has led to a rise in the number of hours worked in agriculture thereby reducing underemployment in the former slack seasons. However, since this work is now more evenly spread over the year it does not appear to have led to an increase in the number of people employed in agriculture. In addition, technical innovations, such as mechanical rice hulling and the use of the sickle in rice harvesting have reduced labor demand. For the future, the introduction of the hand tractor and mechanical reaping and transplanting are likely to limit further the growth of demand for agricultural labor in Java /1. The slow growth of agricultural employment on the Outer Islands is more difficult to explain. It may be the case that in these areas increases in non-agricultural employment opportunities have enabled agricultural households to devote more family labor to off-farm employment. But it may be the case that technical progress in agriculture in the Outer Islands may also be leading to a slowdown in the growth of demand for agricultural labor. Overall, it seems that substantial further research is needed to examine the impact of the changes in agricultural technology on employment and incomes in Indonesia.

/1 For a discussion of these issues, see for example The Impact of Agricultural Mechanization on Production and Employment in Rice Areas of West Java, J. Lingrad and S. Baygo, BIES April 1983.

6.19 The sluggish growth of agricultural employment has had a profound impact on the employment situation in Indonesia. During the decade over 6 million young people from agricultural households entered the labor force, but only about 1 in 9 found a regular job in agriculture. Of the remaining 5.4 million about 3.1 million found employment in rural areas. Approximately half of these jobs were in industry and the remainder were in the service sectors. But it is likely that much of this employment involved part time jobs, because about 34% of rural workers in non-agricultural activities work less than 35 hours a week. It is also probable that a number of these workers became seasonal migrants, spending part of their time in urban areas to supplement their rural incomes ^{/1}. Even more important, 2.4 million workers were unable to find even part time work in rural areas or decided that permanent urban migration offered better employment opportunities. About 0.4 million of these workers found employment in the industrial sector, but the vast majority worked in the low productivity, low wage service sector. It is the migration of these 2.4 million workers which played a key role in the urbanization process in the Seventies.

Table 6.6: STRUCTURE AND GROWTH OF EMPLOYMENT IN RURAL AND URBAN AREAS, 1971-1980

	Rural			Urban		
	% of total employment (1980)	Increase 1971-1980	% of total increase	% of total employment ('000)	Increase 1971-1980 ('000)	% of total increase
<u>Agriculture, Forestry, Fishing</u>	<u>67.3</u>	<u>458</u>	<u>8.5</u>	<u>9.3</u>	<u>231</u>	<u>6.2</u>
<u>Industry</u>	<u>13.0</u>	<u>2,265</u>	<u>41.8</u>	<u>28.8</u>	<u>1,191</u>	<u>31.9</u>
Manufacturing	7.9	1,062	19.6	14.1	679	18.2
Construction and utilities	2.6	670	12.4	5.9	252	6.7
Other industry ^{/a}	2.5	533	9.8	8.8	260	7.0
<u>Services</u>	<u>19.7</u>	<u>2,690</u>	<u>49.7</u>	<u>61.9</u>	<u>2,312</u>	<u>61.9</u>
Trade, restaurants, hotels	10.3	1,197	22.1	24.9	859	23.0
Other services	9.4	1,493	27.6	37.0	1,453	38.9
<u>Total</u>	<u>100.0</u>	<u>5,408</u>	<u>100.0</u>	<u>100.0</u>	<u>3,734</u>	<u>100.0</u>

^{/a} Transport, storage and communications.

Source: World Bank staff estimates based on data from 1980 Census, seasonally adjusted to mid-year.

^{/1} Although the census material does not capture this circular migration, village level data suggest that at least 25% of rural households in Java have one or more family members working for part of the year in urban areas. See Indonesia: Urban Services Sector Report, World Bank Report No. 4800-IND, for a detailed discussion of these issues.

6.20 While the low growth of rural employment has been a major factor in explaining rural-urban migration, especially in Java, it is important to point out that this movement would not have been possible unless urban centers had succeeded in generating new jobs for rural migrants. Few migrants can afford to remain unemployed for more than a brief period. In this respect urban areas have been a remarkable source of employment growth. Although they accounted for only 13% of total employment in 1971 they generated 41% of all new jobs in the Seventies. Employment in urban areas increased at an annual rate of 5.7%, compared with 1.6% in rural areas. In the urban areas, 32% out of all new jobs were generated in industry, and 62% in the service sectors. This growth resulted in a marked shift in the distribution of industrial and service employment toward urban areas. One of the most striking features of the Indonesian economy has been the success of rural migrants in breaking into the urban job market, despite their limited capital resources and their generally low degree of educational attainment. Equally noteworthy is the fact that the vast majority of these migrants would not have moved if they did not feel that they would be better off than they would have been were they to have remained in the rural areas.

Table 6.7: DISTRIBUTION OF RURAL AND URBAN LABOR FORCE 1970-80, AND PROJECTIONS TO 2000

	<u>Total (millions)</u>				<u>Average annual increase %</u>		
	1971	1980	1990	2000	1971-80	1980-90	1990-2000
Urban	5,781	9,519	16,571	24,749	5.7	5.7	4.0
Rural	35,530	40,938	49,291	55,536	1.6	1.9	1.2
<u>Total</u>	<u>41,311</u>	<u>50,458</u>	<u>65,862</u>	<u>80,285</u>	<u>2.2</u>	<u>2.7</u>	<u>2.0</u>

Source: World Bank staff estimates.

6.21 The earlier analysis of population trends argued that the urban population will in all likelihood continue to grow at about 4% yearly during the 1980s and 1990s. The reasons for this view are: the continued disparities in the amount and quality of public services in rural and urban areas; the low rate of agricultural employment growth in the Outer Islands and the decline in agricultural employment in Java; and the strong tendency for new industrial and service sector job creation to be concentrated in urban centers. These trends have considerable implications for the labor market in Indonesia. Table 6.7 sets out a summary of the projected growth of the urban and rural labor force that is consistent with the earlier population projections. During the 1980s the Indonesian labor force is projected to grow at an annual rate of 2.7% compared with 2.2% in the 1970s due to a rise in the working age (15-59 years) population. This acceleration will exert strong pressures on both rural and urban labor markets. The rural areas will

experience a rise in the rate of labor force growth to 1.9% compared with 1.6% in the 1980's. Such an acceleration of labor force growth is likely to be a significant source of stress in the overall rural employment situation. As a result, rural wage levels are not likely to increase very rapidly during the coming decade. In turn this is likely to place a brake on the growth of urban incomes, particularly in unskilled and semi-skilled occupations in both manufacturing and service occupations. During the Nineties, however, this demographic pressure is expected to ease somewhat.

D. Spatial Development Policy Issues

6.22 The Government has at its disposal a number of instruments to influence the spatial distribution of population and economic activity. These include various measures such as investment incentives, and infrastructure development to influence the location of new industries, policies governing domestic transport services, the provision of public services and investment in rural development and transportation. The purpose of this section is to review selectively these policies and to assess the extent to which they have, or in the future might, influence the distribution of population among regions or between urban and rural areas within regions.

6.23 Industrial Location Policies. A number of different factors have had an influence on the pattern of industrial location in Indonesia. These include: the location of raw materials for such industries as cement, ore processing, petrochemicals and forest products etc; the degree of urban concentration for consumer goods industries; access to ports for industries based on imported goods, or where exports are an important part of final sales; and specific incentives designed to influence location decisions directly. The latter has been one of the principal policy instruments that Indonesia has employed for influencing the pattern of urbanization. Two main arguments account for this focus on industrial investment. Firstly, industrial investment can have powerful multiplier effects leading to the generation of new jobs in the service sectors of the economy and in related local industries supplying inputs or processing the products of the new industry. Secondly, industrial location decisions can be influenced by economic regulation, since there is generally some degree of flexibility in the choice of industrial location. Both of these arguments are justified to a degree. However, their validity varies considerably depending on the specifics of the industry concerned and the existing level of development of the region selected for preferential treatment. At the same time, policymakers have to bear in mind the potential costs of regulating investment activities. Unfortunately, while many of the benefits of a new investment in a particular region are generally readily apparent, the costs associated with influencing such investment decisions are less easily calculated. These include possible losses in operating efficiency, and the choking off of some investments which might make sense in the location preferred by the investor, but are simply unprofitable in the locations selected by the authorities.

6.24 In terms of the regulatory environment, the manufacturing sector in Indonesia may be divided into three main categories. Firms falling under the purview of the BKPM, firms subject to BRO regulations, and the unlicensed sector. There are no precise estimates of the distribution of employment or output among these three categories. It is generally believed that virtually all medium and large-scale firms are subject to either BKPM or BRO regulation while small-scale industries are more or less free from official controls. On this basis, the regulatory system probably covers about three-quarters of manufacturing value added, but perhaps as little as 20% of manufacturing employment. This relative balance between high coverage of output but low coverage of employment is important, because it suggests that the primary impact of industrial regulation will be on industrial productivity rather than industrial employment (and by implication urbanization).

6.25 Until December 1983 when the new tax laws were introduced, BKPM regulations covered all manufacturing firms with any degree of foreign equity and all purely domestic firms who wish to obtain tax or investment incentives. Although the impact of the new tax law is unclear, it appears that BKPM still imposes restrictions in industrial locations through an investment priority list known as the DSP. The DSP specifically bans new investment in certain activities, bans other investments from certain areas, and obliges investors in other sectors to locate in prescribed areas. It should be noted, however, that the reasons for such a system are not purely spatial considerations. Other arguments are sometimes advanced for particular sub-sectors such as the need to limit overcapacity or to ensure economies of scale are achieved. In the past 6 years the number of manufacturing activities subject to restriction appears to have increased. In the 1977 list only 21 out of 67 investment fields were subject to location restrictions. In the 1982/83 list the system was changed to one which classifies investments by item rather than fields of activity. This change implies a somewhat more detailed system of regulation, since narrower product ranges are now controlled. Under the new system 250 out of a possible 1877 industrial items were subject to restrictions and 75 items were completely closed to investment in 1982/83.

6.26 As an example, under the 1982/83 list seventeen items in metal products and metal building materials are restricted to locations outside Jakarta; sixteen categories are barred from the JABOTABEK region, including various types of electrical appliances, metal products, and metal building materials. Seventy-four items are forbidden from locating in Java; these run the gamut from printing for cans, printers ink, and plastic bags, to steel bars for concrete, metal desks, ceramics, roofing nails, and gymnastics equipment.

6.27 Companies regulated under the BRO are subject to licensing for both new investments and capacity expansion. Licenses are issued primarily by the Directorate General of Miscellaneous Industries of the Ministry of Industry in Jakarta. Until recently no formal DSP system was used for BRO firms; since 1982 the Department of Industry has introduced investment restrictions. Once

again, the guiding principle behind such a system is the avoidance of significant excess capacity in industrial subsectors by controlling the degree of competition. Historically, BRO firms have found licenses for new or expanded capacity easier to obtain than BKPM firms /1.

6.28 Although more detailed work is necessary to quantify the impact of such restrictions, studies from other developing countries suggest that they distort efficient location behavior. In general, measures to curb investment in Java probably have similar negative tendencies, since they reduce the access of new investments to plentiful supplies of labor, large nearby potential markets, well developed infrastructure, and abundant natural or semiprocessed resources. Based on the experience of other countries it is reasonable to predict a number of undesirable consequences of such an approach. These include: decreased overall investment, more capital-intensive investment in the face of costlier non-Java labor, reduced export potential given higher costs, and reduced realization of economies of scale. Thus, the use of investment restrictions to encourage decentralized development can tend to reduce the overall efficiency of the national investment effort.

6.29 While it is very difficult to assess the impact of such regulations on regional development, there is little evidence to suggest that it has been successful in influencing the overall pattern of manufacturing output or employment. As Table 6.8 indicates between 1971 and 1979, there was a very pronounced shift in the share of manufacturing output from Java to Sumatra. However, the bulk of this shift is associated with the development of the petroleum sector, where Sumatra possesses clear locational advantages. It is also interesting to note that Jakarta's manufacturing output growth rate was significantly above the national average, despite the conscious attempt to discourage further growth in the capital. More importantly, from the point of view of employment policy, there was almost no shift in the regional distribution of manufacturing employment, Java accounted for 78% of total manufacturing employment in 1971 and 77% of manufacturing employment in 1980. It is likely that much of the growth in manufacturing employment occurred in small unregulated enterprises, so it would appear difficult to argue that the regulation system has accomplished very much in the way of directly influencing the broad pattern of urbanization in Indonesia.

/1 As in the case of more highly regulated BKPM firms, additional permits are needed; the number varies depending on the location and activity of the enterprises concerned.

Table 6.8: REGIONAL TRENDS IN MANUFACTURING OUTPUT
AND EMPLOYMENT GROWTH, 1970-80

	Manufacturing output (1973 constant prices % distribution)			Manufacturing employment		
	1970	1979	Annual Growth (%)	1971	1980	Annual Growth (%)
Java (Jakarta)	75.5 (11.0)	63.6 (13.5)	10.6 (15.3)	77.6 (4.4)	76.8 (6.7)	5.4 (10.6)
Sumatra	17.1	28.5	19.3	8.4	9.0	6.4
Kalimantan	3.0	3.7	15.4	1.8	2.9	11.3
Sulawesi	3.2	3.0	11.9	5.8	5.9	5.8
Eastern Islands + Irian Jaya	1.2	1.2	12.9	6.3	5.3	3.6
Indonesia	100.0	100.0	12.7	100.0	100.0	5.5
(Urban)	(n.a)	(n.a)	(n.a)	(23.4)	(30.8)	(8.8)
(Rural)	(n.a)	(n.a)	(n.a)	(76.6)	(69.2)	(4.4)

Source: World Bank staff estimates.

6.30 The apparent lack of influence of industrial regulation on the pattern of spatial development does not imply that regulations should be tightened. Such a move would be contrary to the best interests of the economy. Rather the present system should be streamlined so that only the very largest industrial investments are subjected to spatial restrictions. This would serve several objectives. Firstly, it would enable the authorities to concentrate their attention on the careful analysis of the impact of major investments, so that the merits and costs of alternative locations can be carefully assessed. Secondly, it would oblige investors to examine the market closely and to locate their projects where they make the clearest economic sense. Thirdly, by widening the area of choice it would enable different cities and towns to grow according to their own particular comparative advantages and perhaps reduce the attractiveness of a Jakarta location based in the need to maintain close controls with central government officials.

6.31 Transportation. A move toward more decentralized economic decisionmaking will only succeed in promoting an efficient pattern of spatial development if it is complemented by improvements in the transportation network. Good transport links play a vital role in the process of national economic integration. They lead to deeper trade links between regions and greatly expand the development potential of the areas they serve. In the absence of a well balanced transportation network between urban centers, businesses will inevitably gravitate toward the larger urban areas, so as to have ready access to the largest markets. High transport costs confer a measure of protection on local businesses and limit the role of intra-urban competition in stimulating efficient production practices. This in turn raises costs to domestic consumers and hampers the growth of export oriented industries. For all these reasons Indonesia quite rightly places high priority on the development of a well balanced transportation network.

6.32 In contrast to the concept of optimal city size, it is much more practical to develop an operational concept for coordinated and regionally balanced transport development. This is because it is possible to make a reasonably reliable assessment of the costs and benefits of various improvements to the transportation network. In Indonesia's case it seems fairly clear that one of the most urgent areas for attention is the ports. It is difficult to develop an accurate picture of the costs of shipping in Indonesia, but a reasonable estimate is that for a typical inter-island freight shipment (i.e. involving two ports) 30% of the direct cost involves land transportation costs, 5% of the cost is in shipping and 65% involves port costs. Detailed studies reveal that various reforms, including improved route allocation procedures, tariff rationalisation and better repair and maintenance could reduce direct port and shipping costs by 50%. In addition, there are indirect costs, involving pilferage, damage and unofficial payments. Some estimates place these indirect costs at about 100-150% of the direct costs. The Government is aware of these problems and is undertaking a program of action designed to upgrade the ports network and improve managerial practices. Together these measures could have a substantial impact on Indonesia's long-run development by encouraging inter-island trade. /1 While it will be far from easy to implement a coordinated approach to improve port efficiency and curb unofficial payments, it would be well worth the effort. Together, these two measures could reduce the cost of inter-island freight dramatically. Such a change would make a far greater contribution to Indonesia's efficient spatial development than, for example, attempts to modify industrial location decisions through licensing arrangements.

/1 The importance of efficient sea links for the regional development strategy of particular provinces is brought out in a number of studies. See, for example, "Delineation of Planning Regions and Hierarchy of Development Centers", Maluku Regional Planning Project, LTA-72.

6.32 The Provision of Public Services. In addition to providing adequate transport links the authorities may also choose to stimulate the growth of particular centers through the provision of public services. This includes both urban economic infrastructure, such as roads and water supply, and improvements in social services, such as education and health facilities. There are a number of reasons for recommending such an approach. Firstly, good infrastructure lowers the costs of doing business for enterprises, even when these services are paid for through local taxation and reasonable user charge regimes. Less apparent is the important role that improvements in infrastructure can play in helping attract and retain highly skilled workers, managers and entrepreneurs. This point has been confirmed by recent work on the United States and Brazil ^{/1}. The availability of such a pool of individuals in turn encourages enterprises to locate in these areas. These incentives are likely to be particularly strong in Indonesia since skilled labor shortages are frequently a constraint to the growth of businesses. In addition, as noted in Chapter 5, the availability of public services, particularly educational facilities, appears to be a significant factor in influencing rural-urban migration decisions. In this respect, the Government's policy of expanding such programs as KIP and the IKK water supply schemes, and upgrading educational facilities in smaller cities and towns can be expected to play a constructive role in stimulating their broader economic development. As facilities improve in smaller urban communities, rural-urban migrants would be encouraged to move to such areas rather than other larger centers.

6.33 The Government has also established a number of industrial estates which generally cater to industries producing light manufactures. These industrial estates are generally located in existing well established areas of manufacturing such as Jakarta, Surabaya and Ujung Pandang. Their expansion in selected areas can help ease bottlenecks to the industrial development of existing centers and should be encouraged, since producers in these centers have historically proven capable of paying for the industrial amenities these industrial parks include. However, the Government should proceed cautiously in areas where manufacturing activities are less well established, such as the proposed sites in Lampung and Banjarmasin in Kalimantan. A careful determination is required to assess whether the availability of such infrastructure is the key constraint to the accelerated development of manufacturing in these centers. Otherwise the Government runs the risk of investing in some infrastructure which may not be fully utilised. A second related approach which requires careful scrutiny on the part of planners is the development of industrial zones. A number of centers around the country have been identified for development, based largely on access to raw materials. These zones are being developed as a part of the planned expansion of Indonesia's basic industries such as metalworking and basic chemicals. They take advantage of the fact that the costs of infrastructure can be shared among a group of large investors. The Government is proceeding with the

^{/1} For example, V. Henderson, "Urban Development in Brazil", World Bank discussion paper, 1983; V. Henderson, "Population Composition of Cities: Restructuring the Tiebout Model", Working Paper No. 82-16, Brown University, 1982.

careful planning of the supporting infrastructure for such centers. This cautious approach is well advised, particularly where these zones do not coincide with existing centers of industry. As in the case of industrial estates, the experience of other countries suggests that pioneering sites can sometimes prove to be a costly and ineffective strategy for accelerating the industrialisation of remote or less developed areas.

6.34 Rural Development. As already noted, the main determinant of the future growth of the urban population will be the rate of migration from rural to urban areas. Consequently, a comprehensive urbanization strategy must address the issue of rural development squarely. For the rest of the decade, approximately one million rural people will enter the labor force each year in Java. They basically face three options: either they find employment in rural Java, migrate to urban areas, or move to the Outer Islands. Few will be able to afford the luxury of idleness. Their decision will be based on an assessment of the level of personal incomes and the quality and cost to them of public services which they can expect under each alternative. Thus the outcome of the migration decision will largely depend on the Government's success in fostering economic and social development in rural areas and reducing the gap between economic and social standards in rural and urban areas. In particular it will be crucial to raise rural incomes, so as to generate additional jobs in the non-agricultural sector of the rural economy. While the challenges of rural sector development in Indonesia should not be underestimated, the experience gained over the past decade provides a basis for an accelerated development effort.

6.35 Although technological progress in the food crop sector may tend to dampen the growth of labor demand, a continued emphasis on improving the efficiency of food crop production on Java is one of the keys to a successful rural sector policy. Past investments in irrigation, fertilizer distribution, the introduction of improved rice varieties and extension services have all contributed toward Indonesia's remarkable success in increasing rice output, which increased at a trend rate of 4.5% during 1968-81. Future irrigation investments in rehabilitation, upgrading and tertiary works should continue to provide high economic returns. These investments, together with improvements in extension to assist farmers in adopting more complex cropping patterns, should enable farmers to significantly increase their incomes in the 1980s. This rise in agricultural incomes should, in turn, provide a sustainable basis for increases in the demand for the goods and services produced by the non-agricultural sectors of the rural economy, which have been such a strong source of rural employment growth in the Seventies. As in the case of the urban sector, improved transport links have an important role to play in improving the access of the rural sector to the market, lowering production costs and improving profitability. In this respect, the Government's decision to give greater support to the development of a rural roads network is particularly encouraging.

6.36 If the patterns of rural-urban migration and inter-island migration observed during 1975-80 continue, rural Java is likely to experience serious population pressures in the 1980's and 1990's. Given the experience of the Seventies, when increases in the rural population contributed to the problems of shrinking farm sizes, growing landlessness, and to the slow pace of poverty reduction, such a scenario is of considerable concern. Even with a strong expansion in non-farm employment activities, population increases may pose serious strains on the capacity of the rural economy to generate adequate income and employment levels for rural dwellers.

6.37 Against this background, the Government rightly attaches high priority to an increase in the rate of transmigration from Java to the Outer Islands. During REPELITA III important progress has been achieved in terms of the number of families settled, the area of land developed, extensions in the coverage of the program to new donor and recipient regions and the creation of new employment. Compared to a five year target of 0.5 million families for REPELITA III, 0.4 million families were resettled in the first three and one-half years of the plan and about 0.7 million new jobs in agriculture were created ^{/1} These figures represent a more than two-fold increase in the total levels of resettlement and job creation recorded during the preceding two five year plan periods combined. As a result of the crash planning and settling techniques used, most of these migrants achieved only subsistence level agriculture. However, even at this level the general welfare of transmigrants was better than that in their regions of origin, and the transmigration program succeeded in raising the social status of landless farmers to that of full farmers with 2 to 5 ha. of land.

6.38 For REPELITA IV even more ambitious targets have been set. The aim is to resettle 0.8 million families, which given average family sizes of 5 persons implies a total flow of 3.6 million people from Java to the Outer Islands. If REPELITA IV targets are projected forward for the remainder of century, 7 million people would relocate in the 1980s and a further 8 million transmigrants would move during the 1990s. This compares with a gross outflow of 1.7 million people from Java to the Outer Islands during 1971-80. The transmigration targets, if achieved, would therefore result in a dramatic redistribution of Indonesia's population in the years ahead.

6.40 The earlier projections incorporated in Table 6.2 incorporated the assumption that inter-island migration would continue at the same rates as during the 1975-80 period. This would entail a net outflow from Java to the Outer Islands of about 1.7 million in the current decade and 1.3 million in the 1990's. Obviously, if the more ambitious targets of the transmigration program are met, the distribution of population would be dramatically different. As Table 6.9 indicates, the population increase which could be expected on Java on the basis of 1975-80 trends would amount to 16 million each decade. However, a transmigration program of the scale envisaged by the REPELITA IV target would entail an additional outflow of 5.4 million people in the current decade, so that Java's population would increase by only 11.6 million. In the next decade, the target would imply an additional outflow of

^{/1} "Mid-Term Review of the Transmigration Program Under REPELITA III", Junior Ministry of Transmigration January 15, 1983.

6.7 million people. Also, since most migrant families tend to be young, there are second round effects on population distribution, since more children would be born in the Outer Islands. This factor would reduce Java's population growth by a further 1 million people in the 1990s.

Table 6.9: IMPLICATIONS OF NEW TRANSMIGRATION PROGRAM TARGETS
FOR POPULATION DISTRIBUTION, 1980-2000
(Millions)

	Java		Outer Islands	
	1980-90	1990-2000	1980-90	1990-2000
Population growth <u>/a</u>	16.0	16.5	17.9	18.4
Additional outflows (inflows)	-5.4	-6.7	(5.4)	(6.7)
Demographic impact	-	-1.2	-	1.2
Change in population	11.6	8.6	23.3	26.3

/a Based on 1975-80 trends in inter-island migration and population change.

Source: World Bank staff estimates and projections.

6.41 Once allowance is made for urban growth, the transmigration targets imply almost no increase in the rural population on Java during the 1980s and possibly even a decline in the rural population during the 1990s. This would lead to an increase in the average age of the rural population, and possibly a rise in the dependency ratio. Such a shift may have profound effects in the labor markets, and on the pace of mechanization - as well as in the social structure - of rural areas. On the Outer Islands, the changes in population distribution would mirror the pattern on Java. The transmigration targets imply a much more substantial increase in the rate of rural population growth than could be expected in the basis of 1975-80 trends, a potential further acceleration in rural-urban migration within the Outer Islands, or perhaps both.

6.42 The sheer scale of the proposed transmigration program poses a number of interesting longer-term policy questions for Indonesia's future spatial development. An acceleration of the rural outflow from Java to the Outer Islands might, for example, significantly slow the pace of Javanese urbanization. But, a substantial increase in the rural population in the Outer Islands might result, over the longer run, in a further acceleration in the rate of urbanization on the Outer Islands, if the younger members of transmigrant families eventually opt for migration to urban areas. However, if the urban areas of the Outer Islands prove unable to absorb such an increase, these people might conceivably migrate to urban areas in Java. Thus, the transmigration program must be linked to the broader regional development of the Outer Islands. Otherwise, it might be that the rural transmigration program may only be the first stage of a two-step migration

process. In the first stage transmigrant families would move from rural Java to the Outer Islands. In the second stage, there would be a reflux of transmigrants to urban Java, as the younger generation of transmigrants enter the labor market.

6.43 The authorities are already devoting some attention to this issue. Proposals are being prepared for the development of some 50 new towns in transmigration areas. These new towns would mainly be established around existing villages, although several would be completely new sites. The new towns would serve as centers for the processing and marketing of the agricultural products of the rural transmigration areas, enabling the transmigrants to move beyond pure subsistence agriculture. In addition, they would provide focal points for the provision of goods and services to the rural hinterland. It is envisaged that new towns could prove capable of supporting populations averaging 20,000 people. Consequently, an additional 1 million transmigrants might be attracted through such a program. Although further work is needed to transform these initial ideas into reality, they mark an important step forward in the evolution of the Government's approach to transmigration. The integrated planning of rural and urban development in the transmigration zones creates a basis for a more broadly based regional development strategy for the Outer Islands than has been achieved heretofore.

CHAPTER 7

URBANIZATION - FINANCIAL AND ADMINISTRATIVE ISSUES

A. Introduction

7.1 Over the past decade, and particularly during REPELITA III, the authorities have achieved many notable successes in expanding the coverage of urban services. However, further challenges lie ahead, both in terms of meeting the existing unsatisfied demand for urban services and providing for the projected more than doubling of the urban population by 2000. The government has expressed a strong commitment to upgrade the level of urban services across the country. Consequently, during REPELITA IV the financial outlays for urban services are expected to rise sharply in relation to those of the past plan period. As noted in Part I of the present report, the Government faces a difficult financial picture in the coming years in view of the outlook for oil revenues. Against this more constrained environment, it would appear that increases in urban investment may call for changes in the approach to financing the urban service program, so as to avoid straining the central government budget. This issue is examined in the first part of the present chapter. The second part of the chapter reviews the role of central and local governments in the provision of urban services. It examines the case for streamlining the present administrative arrangements, so as to give local governments a greater degree of responsibility for the detailed planning and implementation of urban services. /1

7.2 During REPELITA III more than two-thirds of urban services were financed by the Central Government directly, the remaining one-third was financed by urban government and INPRES grants. Thus it is clear that the urban governments have been heavily dependent on the Central Government to finance urban services. During REPELITA IV expenditures are expected to more than double in real terms. The present chapter argues that there is a strong case for raising the financial contribution of urban governments. Firstly, urban government taxation and cost recovery levels are low by international standards, and the further provision of subsidised urban services would tend to exacerbate urban-rural inequalities further. Secondly, urban dwellers are better off than rural dwellers and so are in a better position to contribute toward the cost of meeting such services. Thirdly, increasing the contribution of urban governments would help release central government resources for the further development of rural areas.

7.3 Given the expected growth in the urban services program the rewards of better management can be very substantial. The authorities are well aware of the benefits of improved administrative efficiency and the Central Government has increasingly emphasised the need to increase the capability of

/1 The material for this chapter is drawn from Indonesia: Urban Services Sector Report, World Bank Report No. 4800-IND.

urban governments in planning and implementing urban investments. However, these arrangements have resulted in new difficulties, since they have tended to lead to a complex system of administration, with overlapping responsibilities, multiple funding channels and poor coordination between different central and local agencies. This is a particularly important issue for the urban sector, because so many activities are interrelated. Tremendous economies can be achieved when land area plans and the provision of road, sewerage, water and electrical supplies are coordinated, for example. For the future, there is considerable scope for gradual change in the management of the urban service program while preserving the fundamental framework of close cooperation and involvement between central and urban government.

B. Expenditures on Urban Services

7.4 Table 7.1 presents estimates of average annual spending on major urban services in the first few years of REPELITA III by all levels of Government. This includes estimates for water supply, drainage, sanitation, roads and footpaths and urban transport. Housing is excluded, but it is believed that public housing accounted for less than one-tenth of all new urban dwellings during REPELITA III. Also excluded are expenditures on items such as health and education. It would be very useful if the authorities were to undertake the collection of such data for policy and planning purposes. Based on the evidence of service provision it would appear that urban areas account for a high proportion of total expenditures in those sectors. As Table 7.1 indicates, total investment in major urban services averaged Rp. 263 billion during this period - the equivalent of about 0.6% of GDP or 2.5% of gross fixed investment in the economy.

7.5 Of the total amounts involved, water supply absorbed about 29% and drainage and sanitation about 13% of total spending. Progress in ensuring access to safe water has been particularly noteworthy. Water production capacity has increased from 20,000 litres per second at the end of REPELITA II to 33,000 litres per second at the end of REPELITA III. This production level is sufficient to provide 60% of the urban population with piped drinking water, although only about 30% of the urban population is actually served, because the distribution network is lagging behind production facilities. Nevertheless, this is a major step forward compared to the position in 1980, when only a quarter of the urban population had access to piped water. Budgetary allocations for drainage and sanitation have been relatively small as the primary government effort has been concentrated on water supply. This emphasis has been correct, however, since without adequate supplies of good quality water, the impact of investment in sanitation facilities on health tends to be limited. In spite of the lower priority accorded to drainage rehabilitation and solid waste disposal, programs implemented during REPELITA III have improved conditions for 1.6 million and 3 million urban residents respectively.

Table 7.1: TOTAL ANNUAL SPENDING ON URBAN SERVICES BY CENTRAL AND LOCAL AUTHORITIES - AVERAGE 1979/80 - 1982/83 /a
(Rp. billion; at current prices)

	Central Government	Local authorities <u>/b</u>	Total	Percent of total	Percent of GDP
Water supply	72.2	4.0	76.2	29.0	0.16
Drainage and sanitation <u>/c</u>	18.2	16.5	34.7	13.2	0.07
Kampung improvement (KIP)	11.9	6.0	17.9	6.8	0.04
Urban roads	17.5	40.0	57.5	21.9	0.12
Traffic management	2.8	1.4	4.2	1.6	0.01
Public transport	40.0	1.6	41.6	15.8	0.09
Others <u>/d</u>	3.0	27.9	30.9	11.7	0.06
<u>Total</u>	<u>165.6</u>	<u>97.4</u>	<u>263.0</u>	<u>100.0</u>	<u>0.55</u>
<u>Routine expenditure</u>	<u>n.a.</u>	<u>50</u>	<u>n.a.</u>	<u>-</u>	<u>0.11</u>

/a Includes only expenditures actually incurred in urban areas; i.e. excludes central overhead.

/b Includes provincial, district (kabupaten/kotamadya) and urban village (kelurahan) spending; includes local spending of central grants to local authorities.

/c Includes cleansing services, human and solid waste disposal, drainage and flood prevention; the latter two services accounting for the bulk of central spending.

/d Includes markets, fire service, parks, etc.

Source: Ministries of Public Works and Finance and a sample survey of 27 kabupaten/kotamadya accounts.

7.6 The Kampung Improvement Program accounts for about 7% of expenditures on urban services. The program was initially launched in Jakarta in 1969 to upgrade services in the densely populated low income areas of the city where environmental conditions were worst. The success of this effort has led to its rapid growth in Jakarta and is widespread introduction in other cities and towns. Jakarta has now upgraded all of its worst kampungs, covering 3 million people; Surabaya is about halfway through its program, which will ultimately benefit about 0.8 million people; and good progress is being made in the other major cities in Indonesia. The Central Government has also introduced a "perintis" (stimulus) program to service the needs of both large cities and smaller cities and towns. It is estimated that over the course of REPELITA III, this program led to the upgrading of more than 11,000 ha of urban kampungs covering some 2.5 million individuals in over 200 towns.

7.7 Urban roads and public transport account for about one-third of expenditures on urban services. Despite this effort, the urban road system is coming under increasing strain as a result of the rapid growth in traffic. Over the last decade, the number of passenger vehicles has increased at an annual rate of 15%, with most of this growth concentrated in and around major population centers. As a result, traffic conditions have deteriorated, particularly in metropolitan areas. A recent study by Bina Marga has concluded that 17% of existing road services in urban areas need to be replaced over the next five years due to structural deficiencies, while 32% are inadequate to cope with the expected traffic volume. The public transport system also faces serious problems. As a result of controlled fares, a large number of private bus companies have been unable to operate satisfactorily and have been nationalized at their own request. In turn, the Government has been obliged to subsidize the operating costs of these companies and finance capital expenditures. The budgetary implications of this move toward greater public ownership have been substantial. Even though nationalised bus companies operate in only 6 cities they account for 15% of total spending on urban services, or more than double the amount spent on the Kampung Improvement Program.

7.8 It is clear that the level of spending on urban services will rise sharply during REPELITA IV to meet the needs of both the existing urban dwellers and the expected 1.6 million annual increase in the urban population. In the context of the UN's Water Supply and Sanitation Decade, the Government has set the goals of increasing the access of the urban population to safe drinking water to 75% and to sanitation facilities to 60% by 1990. This compares with estimated 1984 access levels of about 50% and 30%, respectively. The Kampung Improvement Program is expected to continue to expand into unimproved areas at about the present rate (3,000 ha per annum), but upgrading already improved areas will require additional funding. In the case of urban roads there has been a significant deterioration in conditions caused by the pressures of increased traffic. The costs of urban roads are so great that it would not be feasible to reverse this trend over the coming REPELITA, given the likely level of available funds. However, even a more modest target would imply a substantial rise in spending. The costs of meeting the required increase in urban transport services are more difficult to predict. These will depend critically on government decisions on the blend of private and public transport supplies and whether to shift from road to rail in Jakarta. However, even without major new initiatives, urban transport expenditures are expected to rise substantially during REPELITA IV.

7.9 Based on the main objectives set for the REPELITA plan, the initial spending targets proposed by the individual line agencies would involve an average annual increase of about 18% in real terms. However, as pointed out by a recent Bank study, with selective cuts in the investment plan, it should be possible to meet the government's principal objectives and especially the high priority investments in water supply and investment with an increase of about 13% in real terms. /1 This would imply a rise in spending from an average level of Rp. 285 million during REPELITA III to Rp. 529 during REPELITA IV (at constant 1982 prices). The details of the spending requirements for individual programs are shown in Table 7.2.

/1 Indonesia: Urban Services Sector Report, World Bank Report No. 4800-IND.

Table 7.2: ESTIMATED FINANCIAL REQUIREMENTS FOR INVESTMENT
IN URBAN SERVICES DURING REPELITA IV
(Rp billion; at constant 1982 prices)

	<u>1979/80 - 1982/83</u>		<u>1984/85 - 1988/89</u>		
	Average annual expenditure /a	Shares (%)	Required average annual expenditure /a	Shares (%)	Average annual real growth (%)
Water supply	82	29	220	42	19
Drainage and sanitation	38	13	96	18	13
Kampung improvement	19	6	38	7	13
Urban transport					
Urban roads	62	22	100	19	12
Traffic management	5	2	13	2	17
Public transport	45	16	20	4	-15
Others /b	34	12	42	8	4
Total	<u>285</u>	<u>100</u>	<u>529</u>	<u>100</u>	<u>13</u>

/a Development expenditure by all levels of government. Routine expenditures would be over and above the indicated levels, and would amount to about Rp 145 billion per year.

/b Assumed to grow in line with urban population growth.

Source: World Bank staff estimates.

C. Financing Urban Services

7.10 During REPELITA III urban services accounted for about 3.5% of the central government development budget. Assuming an increase of about 5% in real terms in the central government development budget, the share of urban services would rise to 5.1% under such a revised program. Given the need to maintain the momentum of development in other sectors, it may be difficult to increase the share of urban services to such an extent. Although there may be scope for some increase in the share of urban services, at the margin the authorities face a trade off between increasing the contribution of local governments to the funding of urban services, or cutting the urban services program back further than assumed in Table 7.2.

7.11 At present, as Table 7.3 shows, local governments contribute only about one-third toward the costs of spending on urban services. However, the proportions vary greatly. Local governments fund only about 5% of the costs of the water supply program, but they finance two-third of the costs of urban roads and traffic management. A reasonable target might be to increase the share of local government from 36% to 56%. This would be feasible through a blend of increased local taxes and charges, higher levels of cost recovery and a greater reliance on borrowing from the central government, as outlined below.

Table 7.3: ANNUAL SOURCES OF SPENDING FOR SELECTED URBAN SERVICES, 1979/80 - 1982/83

	<u>Percent distribution</u>			Percent of overall total spending
	Central Govt.	Local govt. authorities <u>/a</u>	Item total	
Water supply	95	5	100	29
Sanitation and drainage	52	48	100	13
Kampung improvement	66	34	100	7
Urban roads and traffic management	33	67	100	23
Public transport	96	4	100	16
Others	10	90	100	12
<u>Total</u>	<u>64</u>	<u>36</u>	<u>100</u>	<u>100</u>

/a Includes local borrowing from the Central Government, and local spending of some central government grants.

Source: Table 7.1.

7.12 Local Taxes and Revenues. Using data on the kotamadya as examples of urban local revenue sources, one finds that 45% of average receipts are composed of taxes, with the remainder being charges. Of the taxes raised, on average half are IPEDA land and property taxes. /1 The IPEDA property tax is the most widely collected direct tax in Indonesia, and its rolls include 3.5 million registered urban payers. Unfortunately, this type of tax is poorly exploited. There are various reasons for the poor performance of the property tax. Firstly, the tax rates are very low, both absolutely and relatively to rates prevailing in other countries. Secondly, the tax rolls are incomplete and a severe problem of under-registration appears to exist. Thirdly, a large number of assessments on low value properties are not cost-effective, since the collection costs are higher than the associated revenues. In addition the taxes on higher-value urban properties tend to be underassessed. As a result this type of taxation, which provides almost 20-50% of revenue for most developed cities in the world, accounts for only 5% or 10% of total revenues in Indonesia's cities.

7.13 The Government is aware of these problems and proposals are under consideration which would result in increases in the IPEDA tax rate on urban properties. The scope for increased tax effort is illustrated by the fact

/1 Since DKI Jakarta is a province, the proportions there are different; taxes account for the bulk (83%) of per capita revenues. Property tax yields, in turn, are equal to only 9% of local tax receipts.

that many cities in developing countries have tax levels of 1% of market value, whereas in Indonesia it is estimated that urban IPEDA averages about 0.1% of market value. A ten-fold increase in the property tax efforts would be a major undertaking, but one which could be achieved over, say, a ten-year period. During that period, tax rates could be raised, assessments could be brought closer in line with market valuations; and collection efforts could be redirected to more affluent taxpayers. One way to stimulate the local tax effort might be to link an increasing proportion of central government grants and loans to local authorities on a graduated matching funds basis. Under such a system, the more affluent cities might receive government grants in a certain proportion to their revenue collection rates, whilst less affluent cities would be given higher premiums. This would increase the incentive for cities to collect taxes, whilst avoiding a widening of differentials between rich and poor cities.

7.14 Other potential sources of local revenues include vehicle taxes, particularly the annual license fees and vehicle transfer fees collected by provinces. There are, in addition, poorly exploited provincial gasoline sales surcharges and kotamadya parking charges. At present, license and transfer fees account for 80% of provincial tax receipts; they are particularly important to DKI Jakarta where 19% of all registrations and 70% of all vehicle transfers occur. /1 Reliance on this source of revenues serves a dual purpose of diversifying the local tax base, earmarking funds for local road improvements, and discouraging the rate of increase in vehicular traffic. The yield from taxes could be increased by dropping current exemptions applicable to government vehicles and by raising fees for trucks and buses to levels comparable to those applicable to cars. At present, the provincial surcharge on gasoline yields no more than 3% of provincial tax receipts and amounts to only Rp. 1.05 per liter. The same rationale presented above could be used to justify higher surcharges; raising the rate to Rp 10 per liter would yield enough revenues to finance half the projected annual urban road programs for REPELITA IV. Together with use of a portion of the license and transfer fees, this would allow all road investment programs to be easily financed.

7.15 Other fiscal measures could also be contemplated which would help to discourage vehicle use, especially in congested city centers. This course of action would be consistent with the philosophy that it is easier to encourage public transportation by penalizing private vehicle use than it is to provide purely positive incentives - such as subsidized fares - for public vehicle use. One simple measure would be to raise parking charges in larger cities. Currently these vary from Rp 50 to Rp 200 (Jakarta only) and are invariant with length of stay. These rates, levied as they are on the affluent, could surely be raised to conform with charges typical in other international centers, eventually reaching levels of Rp 1,000 - Rp 2,000. This would provide an attractive substitute for the more difficult scheme sometime proposed of licensing vehicular access to city centers on a daily, monthly, or yearly basis.

/1 The license fee is equivalent to 2-3% of market value. The transfer tax is 10% of assessed value at the time of the first transfer and 5% thereafter.

7.16 Less is known about other existing taxes at the local level, especially the reasons for marked variations in receipts per head and in growth rates over time. These taxes are assessed primarily on entertainment, recreation, and economic activity. It would be useful to undertake a set of studies on the procedures involved in assessing, collecting, and accounting for local revenues with a view to improving the efficiency of assessments and collections, and of reducing collection costs. While many uncertainties exist concerning these miscellaneous taxes, the associated receipts per capita are low by international standards. Special consideration should be given to unexploited sources of revenues, such as that which could be derived from extending present kotamadya/kabupaten taxes on economic activity from restaurants and hotels to retailing and manufacturing. Even at a modest rate, such taxes could yield revenues sufficient to finance a significant fraction of new urban services investment over the next decade.

7.17 Cost Recovery. With few exceptions there is virtually no direct cost recovery for capital investments in urban services in Indonesia. The general policy has been that recurrent expenditures should be recovered through user charges, where possible, but that the initial capital investment should be provided to the users in the form of grants. This policy has been based on arguments of affordability, fairness, and externalities. The poor are deemed incapable of paying their way; charging poorer communities for improvements earlier provided freely to more affluent neighborhoods is considered unfair; finally, some services are assumed to benefit the community at large and, it is argued, should be paid by all. In practice these guidelines have not been strictly implemented, and many urban services do not even generate sufficient revenues to cover recurrent expenditures. Unfortunately, in the present environment of fiscal stringency, communities face the choice between either limited, highly subsidized services or more widespread services, based on greater levels of cost recovery. Some of the most promising areas for improved cost recovery are water supply, sanitation and public transportation. In addition the wider use of betterment taxes could considerably raise local government incomes.

7.18 At present, the policy of the Central Government with respect to water tariffs is that they should cover operation, maintenance and depreciation. However, no provision is made for the payment of central government grants. This policy, when applied to forecast investment programs, will finance less than 20% of annual investments by 1991. By contrast a policy of replacing grants with say 20-year, 4% per annum loans would generate, in debt repayments alone, enough to finance nearly 40% of annual investments by 1991. The effects would not be immediately apparent in the first few years, but would yield large benefits within a decade.

7.19 Planned carefully, such improved cost recovery should not unduly burden the poor. A survey undertaken in selected East Java cities in preparation for the World Bank's First East Java Water Supply Project suggests that consumers are willing to pay water tariffs which would be sufficient to cover this level of grant repayment. This would amount to a charge of about 4% of their income for clean water on a regular basis, and up to 7% when they are paying off debts for connection charges. Evidence from other countries also suggests that consumers are willing to pay similar proportions of their income for clean water. An appropriate pricing policy also needs to be

developed for the poorest 20% of the population that cannot afford house connections. A judicious combination of grants for the provision of standpipes and tariffs paid by a group of families responsible for individual units would allow recovery of operating costs and of some spatial expenses. The same general principles can be applied to sanitation services. If commercial wash-houses/toilets are assigned to small groups of families, who would pay a fixed monthly fee for unlimited use, it should be possible to recover most capital costs in addition to operating and maintenance expenses. For example, for roughly Rp. 2,000 per family per month, 5-7 families can pay for water charges and annual emptying of the pit, and repay an interest-free loan in four years. Only the most destitute households would require other solutions, such as larger, multiple-unit communal facilities.

7.20 An additional area for close scrutiny involves public transportation. As noted above, bus fares are controlled for each type of service, and government owned systems in Jakarta and eight other large cities are explicitly subsidized. Publicly-owned companies receive Rp. 30 billion a year in capital grants, as well as subsidies to cover annual operating subsidies. This is unfortunate from various perspectives. There is little evidence that such subsidies limit the diversion of passengers to private vehicles. Furthermore, the controlled fares system has done widespread damage to private bus companies and obstructed the development of higher quality, higher priced microbus services; this is likely to increase congestion by reducing public transit service. Finally, there is little reason to subsidize a "basic need" for middle and lower income individuals who happen to live in a handful of large cities. It is precisely by placing the burdens of congestion on all users of roads - private and public vehicles - that a balance is reached between the attractive features of large centers and the disamenities. A doubling of bus fares in January 1983 and the further 25% increases in January 1984 were important contributions to resolving the issues in this field, and point the way to full cost recovery at some point in the future.

7.21 There is one final candidate for cost recovery through user charges: neighborhood improvements whose benefits cannot be allocated to each household by charging specific tariffs. Included among these are road surfacing, drainage, footpaths, and water mains. These investments do have one feature that makes cost recovery possible: they tend to increase land prices in the adjoining areas. In many parts of the world, betterment or "valorization" taxes are able to recoup most or all of the investment costs. Jakarta has the only example of a betterment tax in Indonesia. It is being used in particular areas of the city on an experimental basis; it allows for the recovery up to 60% of the cost of new or improved infrastructure through the use of a special tax. The tax is calculated and announced before improvements are made; it must be paid within three years after completion of the work, with financial penalties for late payment and denial of building permits until the tax is paid and has been fairly successful in recovering costs. The results of this experiment appear to warrant an extension of this effort, both within Jakarta and to other cities. If project standards are kept moderate, construction takes place in stages and the major burden is placed on middle and upper income beneficiaries, the taxes should be affordable to all income groups, even if the proportion of costs recovered were increased substantially.

7.22 Existing legislation in Jakarta also allows for the collection of an "excess" profits tax tied to land value increases in excess of 300% over the first two years following the completion of public works; it would be collected on change of ownership, and would thus be relatively painless. Though this section of the special tax law was never put into effect, it would represent a useful way to recover additional costs while preventing disproportionate windfalls gains from accruing to landowners. It deserves closer scrutiny.

7.23 Local Borrowing as a Tool. In global terms, borrowing by local governments is presently unimportant. It accounts for only 1%-1.5% of local government spending, and 2%-3% of kotamadya/kabupaten spending. Most loans are directed at municipal services, and may account for up to 20% of water supply and kampung improvement activities. It would seem desirable that wealthier local communities be required to finance a higher proportion of their development from loans rather than grants, following the example of Jakarta and Bandung in water supply investment. In order to facilitate this transition consideration should be given to establishing a consolidated fund for lending to municipalities for urban service investments. This fund could bring together various sources of loanable funds from both central government and foreign sources. These funds could then be onlent to local authorities in a consistent manner giving due weight to the capacity of the local authorities to service these debts based on their performance in recovering costs and on local taxation efforts. This approach would greatly increase the incentive for local authorities to generate local revenues to help in financing the provision of urban services. As a starting point it should be possible to expand the existing arrangements by establishing a revolving fund. Such a fund could be capitalized by a corresponding reduction in development expenditures from the levels projected under REPELITA IV, so that there would be no requirement for additional government expenditures under such a scheme. Once these initial contributions have established the fund at an appropriate level, however, the fund would be able to operate on a self-financing basis as repayments of earlier loans could be ploughed back into new investment. Thus over the longer term the Central Government would be able to reduce its contribution to the funding of urban service investments.

D. Central and Local Public Administration

7.24 The organization of public administration in Indonesia is highly complex. These arrangements reflect the interplay of historical, technical and philosophical factors. From the historical point of view, Indonesia's need to consolidate its national identity upon independence with an extremely limited cadre of skilled administrators called for a relatively centralized approach to decision making. However, technical factors, including the desire to move fairly quickly on pressing development problems often led to the proliferation of specialized agencies operating with quite different administrative and financial procedures, so that this centralized approach has not created a uniform organizational structure. Finally, the philosophy of government in Indonesia places great importance in the concept that local administrations should be responsible for assisting in the realization of national development goals and objectives, as well as for meeting local needs. This has resulted in the evolution of a complicated institutional relationship between central government departments and local administrations.

7.25 As far as the organisation of local government is concerned, Indonesia is divided into 27 provinces for administrative purposes. These 27 provinces are further divided into 301 second level units, which are known as regencies or municipalities. Broadly speaking, the (247) regencies are rural in character, while the 54 municipalities are predominantly urban. There are separate regional administrations at both the provincial and second level of government in Indonesia. Both levels of government have their own legislative and administrative arms. The legislative arms consist mainly of locally elected representatives. The executive arms are headed by nominees of the legislature who are appointed by the central government Department of Home Affairs. These regional executive arms are in turn organized into a number of local departments (the Dinas), which parallel central departments in a number of areas, but are responsible for the provision of local government services. Thus most medium and large size cities have their own legislative and administrative bodies.

7.26 In keeping with the philosophy of Indonesian government, provincial governors and the chief executives of municipalities and regencies exercise a dual role. They are responsible for the administration of local government and are also the local representatives of the President. In this latter role, they are responsible for generally overseeing the work of the central government and for coordinating the work of central and regional government agencies. This means that the central government departments operating at the regional level are subject to the authority of the regional heads of government for coordination purposes, as well as to the central government ministries. Although this structure in theory permits a distinction to be made between central government and regional government activities, in practical terms the division of responsibilities between central and regional government is far from clear cut. The arrangement has two drawbacks. Firstly, the overlapping of central and local government means that it is difficult to avoid some duplication of effort, inconsistencies and omissions. Secondly, the process of coordination itself can often prove time consuming and inefficient, and it necessarily places considerable demands on the limited administrative resources of both central and regional governments.

7.27 Central government departments play a dominant role in the provision of public services in Indonesia. Responsibility for technical aspects of urban services is vested largely in various departments of the Ministry of Public Works (Pekerjaan Umum, P.U). However, the Ministry of Health (Kesehatan) is also involved in monitoring and improving the quality of water supplies and sanitation facilities; it also constructs small-scale schemes for water supply and human waste disposal in rural areas. The Ministry of Communications (Perhubungan) is responsible for traffic control and public transport. And street lighting is provided through the National Electricity Corporation (PLN). Almost all of these central government departments have established a set of branch offices at the provincial level and frequently central government sub-branches have been set up in individual cities and towns. These local offices are responsible for implementing the development programs of the central departments, as well as administering ongoing programs. The strong vertical relationships within specific departments often mean that coordination between different departments tends to be weak, especially at the local level. This is a particularly serious problem for urban services, because of the need to pursue an integrated approach to the development of densely populated settlements.

7.28 As a country of such great size and diversity, Indonesia faces difficult choices in trying to strike a balance in the degree of centralization of the public administration. It is undoubtedly true that as Indonesia develops, more responsibility for the implementation of local services must be devolved to lower levels. However, it is important that central guidance on policy and resource allocation decisions be broadly maintained.

7.29 Managing Urban Services. The case for increased city-wide management of the urban services program is generally agreed by all concerned. Firstly, urban problems, and priorities for infrastructure and services, vary enormously from one place to another. Until now, the fragmentation of responsibilities and the rigidities in central finance, which presently funds the majority of urban services mean that municipal authorities have had little or no influence over the balance of priorities. For example, finance may be available for kampung improvement, when what is needed is city-wide drainage. There is a clear need for flexibility to modify standard solutions and fixed cost allocations, and to allow local discretion on the balance of priorities within the national objective of addressing basic needs.

7.30 Secondly, as the number of sectoral programs in a city grows, it is important that standards and the phasing of investment be coordinated. It is obvious that water supply systems should serve communal toilet and bathing facilities, that water pipes should be laid down before a Kampung Improvement Program footpath is laid over them, and that road and footpath improvements be coordinated. But at present there is insufficient coordination among the various programs. One of the root causes of these difficulties is the fragmentation of authority and finance in the urban services sector.

7.31 In addition, increased responsibility and control is a prerequisite for a "psychology of involvement" at the local level. For example, local governments tend to spend a disproportionate amount of their funds and efforts on those sectors that they feel they have most control over, such as local road works. Few local governments attach a high priority to providing public water standpipes, partly because they regard this as the responsibility of either the water supply program or the national Kampung Improvement Program. Experience suggests that the balance between different programs is likely to be enhanced where overall responsibility for the program lies with the local authorities.

7.32 In many respects, the Government has made substantial progress in delegating responsibility to local governments. The rapid expansion of the INPRES program, the creation and strengthening of the BAPPEDAs, and the introduction of "perintis" or "stimulus" programs in kampung improvement and solid waste, are important elements of this effort. While there is no question about whether this process of decentralization should continue - it is universally agreed that it must - there is considerable debate over the appropriate speed of the process.

7.33 One problem which limits the scope for devolution is that the technical and managerial strength of local governments, both at the province and at the municipal level varies greatly. Some of the larger provinces (which are bigger than most countries in the world) have fairly sophisticated

administrative apparatuses, and a relatively high level of technical competence, and the same is true of some of the major municipalities. Other provinces and many regency administrations need to be considerably strengthened before they will be able to take on additional responsibilities. This is a crucial area where more investigation into staffing characteristics is needed to provide a basis for manpower projections and training programs.

7.34 On the technical side, delegation must clearly be very selective. Few municipalities have the capacity to design or construct water treatment works or even large drainage pipes and canals. However, the general success of the INPRES programs suggests that, with support from provincial agencies, the second level governments have a substantial capacity for design and supervision in small projects. On the managerial side given the variability of local capacities, a flexible approach is necessary. But there has often been an understandable reluctance to grant a level of autonomy at one province or municipality that cannot be granted to all. /1 This reluctance appears to be breaking down, and this is an important development. /2 To the extent that central authorities are able to selectively devolve responsibility to the stronger provinces and in turn to the stronger Level II authorities, more central time and manpower may be concentrated on assisting the weaker local agencies. It must be acknowledged that in the early stage of any process of delegation, the effort may appear to be more trouble than it is worth. But, over the longer term, the advantages of improved local coordination are likely to outweigh the costs of these initial difficulties.

7.35 Questions of manpower are central to the success of the expanded urban services program in the coming years; the lack of sufficiently qualified staff is already a constraint to effective implementation. An analysis of the manpower situation in the sector reveals three general points. First, while the average level of formal education of technical and managerial staff at the central government level appears adequate, the number of staff is insufficient even for the present investment program, let alone for the expanded REPELITA IV program. With this small number of staff, the chief role of the central government agencies must increasingly be to advise and guide local staff rather than to be directly involved in designing and approving contracts. Second, technical staffing at the kotamadya/kabupaten level is probably adequate in terms of numbers, but seriously deficient in terms of formal education: it is these staff who must be the primary target for training and upgrading programs and who must take primary responsibility for the success of the REPELITA IV program. Third, the local planning and coordinating units, the BAPPEDAs, are now fairly well stocked with relatively well educated staff. Nevertheless, as cities continue to grow and the number of projects rises, it is essential that greater emphasis be given to raising the ability, experience, and authority of the planning and coordinating bodies (the BAPPEDAs) at the city level. /3

/1 The exception to this is Jakarta, which has always assumed much greater local management than have other cities.

/2 For example, under the World Bank's upcoming Fifth Urban Project, the Government is introducing a management structure unique to the four cities concerned (Surabaya, Surakarta, Semarang and Ujung Pandang).

/3 USAID is playing an active role in the development of programs to strengthen the local BAPPEDAs in Indonesia.

7.36 Recognizing the shortage of skills in the implementation of its investments, the Government has embarked upon a major expansion in training and manpower development. The Ministries of Public Works and Home Affairs both have large programs, and the Ministries of Finance and Communications and BAPPENAS also organize relevant courses. While there is still scope for making courses more relevant and less traditionally "classroom" in approach, these programs are now making a substantial contribution. Some sectors are much better organized than others. For example, in water supply, an impressive training and upgrading program is well underway, in conjunction with detailed manpower planning exercises. In marked contrast, there has been virtually no manpower planning or in-service training for the various sanitation programs.

7.37 In view of the acute scarcity of well-qualified staff, it is obviously essential that the most efficient use be made of available skills. In particular, it is important that higher-skilled staff be protected from routine duties that could be delegated to lower levels. In this regard there is scope for considerable improvement in almost all urban services. For example, much skilled manpower at the Ministry of Public Works is spent in contract administration that could probably be undertaken effectively at the local and provincial levels. This would leave more time for central government staff to develop, train staff, and establish effective guidance and monitoring. Similar improvements in efficiency could also be made at lower levels, freeing up the provincial staff for supervision and quality control.

7.38 In some cases, where local authorities are particularly weak, it may be possible to involve the private sector. Experimentation is underway to hire private companies for solid waste disposal and for emptying septic tanks, although there have been some difficulties in ensuring a good quality of service. One possibility worth consideration on a pilot basis, perhaps in the Outer Islands, is the granting of a water supply concession to a private company. The concessionaire would construct the water supply works with funds supplied by GOI to standards defined by Cipta Karya and would contract to operate the system for an agreed period at tariff levels and operating practices agreed with GOI, and possibly remit an agreed fee to the kabupaten/kotamadya. Such an approach, which is commonly used in West Africa and in France, would further test and utilize the capacity of the private sector to assist in the delivery of public services.

7.39 In terms of coordination of the various sectoral programs, there is certainly greater scope for a local role than at present. Interviews with Level II BAPPEDAs usually indicate a lack of an overall view of the development effort, due to the many programs and budgets over which local authorities have no control and sometimes little knowledge. Most local authorities do not produce consolidated statements of all that is spent on various sectors within the locality, so it is not surprising that there is not as much complementarity among programs as there should be. This is due to a combination of two related factors; lack of prior information of sectoral programs plans, and a lack of time to spend on coordination - due to the burden of excessive administrative paperwork associated with the various programs and budgets. The Government is aware of these difficulties and is

gradually addressing them within existing legal and political constraints. For example, under the upcoming Fifth Urban Development Project, supported by the World Bank, the government intends to consolidate all central level budgets for KIP into one, and to strengthen the role of the local agencies; this will significantly improve the scope for local coordination.

7.40 The Administrative Framework. The above considerations suggest that over the coming years some important changes must take place in the way the urban services program is administered. Some of these changes are already being considered, while some may not be possible for several years. Two areas are particularly important: coordination at the central level and coordination at the city level.

7.41 As in all governments, there is a split in Ministerial responsibilities between "technical" matters which are the responsibility of sectoral ministries (Public Works being the most prominent), "administrative" matters which are the concern of Home Affairs, "resource allocation" (BAPPENAS), and "financial" control (Ministry of Finance). At the local level, the provision of urban services is, of course, a synthesis between technical (planning and design), administrative (staff, land acquisition and tenure, user charges) and financial matters (funds, auditing, taxation measures). Because these functions and their reporting, accounting and evaluation are segmented into ministerial responsibilities which extend vertically into the various Dinas of the local government, there is often a problem of mismatches in timing between these various aspects of development. As the management of the overall program is progressively delegated to the Level II authorities, a more formal mechanism for coordinating central agencies may be required. For example, a major function of the Central Government under any new system might be the broad assessment of the overall financial, technical and manpower needs of particular cities, but not necessarily deciding the precise sectoral allocation of investments. No single central agency can currently take this broad overall view. One possibility would be strengthening the existing coordination mechanisms to address such issues as overall policies and funding allocations for the urban sector, and coordination external financial assistance and supervision of technical assistance. It might also play a central role in the coordination of services across province boundaries, such as water systems. Many countries have some type of urban services board usually in conjunction with an urban development fund for making loans to municipalities.

7.42 For Jakarta and some of the larger municipalities, the Government is encouraging the development of a system of financial and physical planning that brings together spending plans from all central sectoral departments. In Jakarta and Surabaya, three-year rolling plans are being introduced. In Surabaya the rolling plans are based upon an established Program Planning and Budgeting System (PPBS), specially modified for the Indonesian context. /1 Plans are underway to extend this system to four more large cities over the next two years.

/1 See for example Cipta Karya: Financial Planning and Control in DKI, Jabotabek Team, Report No. I/26, September 1982; and M. Page: The Design and Implementaion of a System of Resources Planning, Programming and Budgetting for the Kotamadya Surabaya, April 1982.

7.43 For medium and smaller cities a simpler approach is needed. A simple spatial planning process is available which could be undertaken by local staff under joint guidance and short training from the Directorates of City and Regional Planning. The main features are: (a) use of aerial photographs generated by the large program of urban aerial photography mapping now under way; (b) carefully defining priorities (c) development of action plans for each area of special focus, based on the budgetary allocations indicated by central and provincial governments. This process could be incorporated in and perhaps be a principal focus of the local five-year plans. But, in addition, it is desirable that such plans be regularly updated based on annual reviews of a three-year rolling plan. This would help overcome a serious weakness of the present local plans, which is that they are usually drawn up without reference to the likely level of financial resources available from higher levels of government, and therefore become quickly out of date.

7.44 While major changes in the administration of urban services may not be possible immediately, a number of measures and studies might be undertaken in the near future to improve the efficiency of program implementation within the existing administrative framework itself. These include:

- (a) Designing an information system on urban services and finance. Currently key data on urban conditions, existing levels of service, consolidated expenditures on services by different agencies and local staffing levels and skills are not available in a form that is required by central decision makers to make policy judgments on overall priorities among cities and sectors. Since the information is essential to several agencies, a joint committee of the Ministries of Home Affairs, Public Works and Finance, and BAPPENAS might prove best suited to directing this work.
- (b) Studying options for restructuring grant and loan allocations and the establishment of an urban development fund. In many aspects the authorities have already taken a number of steps in this direction. The study would review the potential for building on this mechanism and the feasibility of consolidating various fund sources and augmenting them for the expansion of urban services, reviewing the system of internal and external sources of loans with a view to providing a consistent grant/loan system for local governments which would respond to local variations in need and provide incentives for performance.
- (c) Preparing a pilot urban management project, in which one province and several municipalities would be given additional responsibilities for management and coordination of block grants from the central government. The project would have training and technical assistance components and would be carefully monitored for potential replication.
- (d) Studying staffing levels and variations in technical and administrative capacities of key agencies at the province and Level II. This would provide a basis for formulating training programs that are more responsive to the major deficiencies among the various local governments.

Appendix
Table 1

PROVINCIAL ECONOMIC INDICATORS, 1980
(Indonesia = 100)

	Land area	Population	Labor force	GDP /a	GDP /a per capita
DKI Jakarta	0.03	4.4	3.9	9.0	204.0
West Java	2.4	18.6	16.6	13.1	70.2
Central Java	1.8	17.2	19.2	10.2	59.3
D.I. Yogyakarta	0.2	1.9	2.4	1.0	55.7
East Java	2.5	19.8	22.2	13.6	68.7
<u>JAVA: Sub-total</u>	<u>6.9</u>	<u>61.9</u>	<u>64.1</u>	<u>47.1</u>	<u>75.8</u>
D.I. Aceh	2.9	1.8	1.61	3.4	192.5
North Sumatra	3.7	5.7	5.7	6.0	105.8
West Sumatra	2.6	2.3	2.1	1.6	70.7
Riau	4.9	1.5	1.3	11.6	790.4
Jambi	2.4	1.0	0.9	0.9	89.2
South Sumatra	5.4	3.1	3.1	5.4	170.7
Bengkulu	1.7	0.5	0.5	0.4	67.4
Lampung	1.1	3.1	2.9	2.1	65.3
<u>SUMATRA: Sub-total</u>	<u>24.7</u>	<u>19.0</u>	<u>19.9</u>	<u>31.4</u>	<u>164.7</u>
West Kalimantan	7.6	1.7	1.9	1.3	77.8
Central Kalimantan	8.0	0.7	0.7	0.8	124.4
South Kalimantan	2.0	1.4	1.4	1.2	84.0
East Kalimantan	10.0	0.8	0.7	7.0	837.1
<u>KALIMANTAN: Sub-total</u>	<u>28.1</u>	<u>4.6</u>	<u>4.9</u>	<u>10.2</u>	<u>224.0</u>
North Sulawesi	1.0	1.4	1.3	1.3	92.3
Central Sulawesi	3.6	0.9	0.8	0.6	67.3
South Sulawesi	3.8	4.1	3.2	3.0	73.8
South East Sulawesi	1.4	0.6	0.5	0.3	49.1
<u>SULAWESI: Sub-total</u>	<u>9.8</u>	<u>7.0</u>	<u>7.0</u>	<u>5.3</u>	<u>74.5</u>
Bali	0.3	1.7	1.9	1.3	74.5
West Nusa Tenggara	1.0	1.9	1.7	0.8	45.8
East Nusa Tenggara	2.5	1.8	2.0	0.8	44.9
Maluku	3.9	0.9	0.8	1.1	110.2
Irian Jaya	22.0	0.8	0.7	2.0	255.9
East Timor	0.8	0.4	-	-	-
<u>OTHERS: Sub-total</u>	<u>30.5</u>	<u>7.5</u>	<u>7.1</u>	<u>6.0</u>	<u>84.0</u>
<u>INDONESIA: TOTAL</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

/a 1979 current prices.

Source: Central Bureau of Statistics; and World Bank staff estimates.

Appendix
Table 2

PROVINCIAL DEVELOPMENT INDICATORS, 1971-1979

	Population growth	Non mining RGDP per capita growth (1973 constant prices)	Non mining RGDP per capita index (1973 constant prices)		Non mining RGDP per capita index (current prices)	
			1971	1979	1971	1979
DKI Jakarta	4.0	6.6	207.4	235.2	236.5	263.2
West Java	2.7	3.7	97.4	88.4	87.5	77.9
Central Java	1.7	4.1	77.5	72.9	76.9	76.3
D.I. Yogyakarta	1.1	9.7	37.1	53.1	68.5	71.7
East Java	1.5	3.1	86.5	75.2	89.9	88.3
<u>JAVA: Sub-total</u>	<u>2.0</u>	<u>4.4</u>	<u>92.7</u>	<u>89.3</u>	<u>93.6</u>	<u>93.8</u>
D.I. Aceh	2.9	2.8	107.5	91.2	103.6	92.5
North Sumatra	2.6	5.0	141.4	141.9	136.0	122.0
West Sumatra	2.2	5.5	96.6	100.9	92.5	91.0
Riau	3.1	12.1	54.9	93.5	136.9	148.2
Jambi	4.1	4.4	160.5	153.9	148.9	108.8
South Sumatra	3.3	6.8	165.3	190.6	178.6	134.7
Bengkulu	4.4	3.8	106.3	97.3	91.2	86.1
Lampung	5.8	1.0	102.4	75.4	95.7	85.1
<u>SUMATRA: Sub-total</u>	<u>3.3</u>	<u>5.0</u>	<u>124.1</u>	<u>124.9</u>	<u>128.3</u>	<u>111.7</u>
West Kalimantan	2.3	4.2	108.1	102.4	106.4	100.1
Central Kalimantan	3.5	7.5	124.9	151.3	117.1	160.0
South Kalimantan	2.2	6.3	124.6	138.6	107.9	108.0
East Kalimantan	5.8	7.0	295.9	347.2	245.1	427.3
<u>KALIMANTAN: Sub-total</u>	<u>3.0</u>	<u>6.8</u>	<u>142.6</u>	<u>164.8</u>	<u>128.1</u>	<u>170.3</u>
North Sulawesi	3.9	5.7	177.3	126.4	132.9	117.3
Central Sulawesi	2.2	6.0	72.6	79.2	61.1	86.2
South Sulawesi	1.7	7.7	80.3	99.1	82.4	94.6
South East Sulawesi	3.1	2.2	73.7	59.8	68.3	51.6
<u>SULAWESI: Sub-total</u>	<u>2.2</u>	<u>4.9</u>	<u>98.5</u>	<u>99.5</u>	<u>89.1</u>	<u>94.3</u>
Bali	1.7	5.5	99.2	104.0	111.8	95.4
West Nusa Tenggara	2.4	5.9	48.5	52.4	54.9	58.1
East Nusa Tenggara	1.9	4.7	60.5	59.5	50.7	57.8
Maluku	2.9	3.2	122.3	107.3	116.5	132.4
Irian Jaya	2.4	8.0	133.5	168.4	116.9	117.1
East Timor	n.a	n.a	n.a	n.a	n.a	n.a
<u>OTHERS: Sub-total</u>	<u>2.8</u>	<u>5.5</u>	<u>82.7</u>	<u>86.5</u>	<u>82.4</u>	<u>83.2</u>
<u>INDONESIA: TOTAL</u>	<u>2.3</u>	<u>4.9</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bureau of Statistics; and World Bank staff estimates.

Appendix
Table 3

SECTORAL GROWTH TRENDS BY PROVINCE 1971-1979
(in constant 1973 prices)

	Agriculture	Mining	Manufacturing	Construction	Service	Total
DKI Jakarta	-1.4	-	15.0	14.0	9.0	10.0
West Java	2.6	5.9	11.7	21.2	7.7	6.8
Central Java	0.6	-0.9	9.7	11.0	11.0	6.0
D.I. Yogyakarta	8.6	14.0	10.8	16.4	12.2	11.1
East Java	2.9	10.3	7.2	4.5	6.4	4.8
<u>JAVA: Sub-total</u>	<u>2.2</u>	<u>5.6</u>	<u>10.6</u>	<u>14.7</u>	<u>8.4</u>	<u>6.6</u>
D.I. Aceh	3.6	-	12.2	9.9	9.5	13.6
North Sumatra	5.4	6.1	14.6	27.0	7.7	8.0
West Sumatra	3.7	-0.6	7.4	27.2	11.0	8.1
Riau	3.1	2.6	32.7	2.6	18.6	4.3
Jambi	6.8	-4.2	4.3	59.3	7.7	8.8
South Sumatra	3.0	1.8	26.7	4.3	9.5	9.5
Bengkulu	3.3	21.8	8.2	31.2	14.3	9.3
Lampung	4.2	-	13.4	0.4	12.5	7.6
<u>SUMATRA: Sub-total</u>	<u>4.5</u>	<u>4.8</u>	<u>20.1</u>	<u>20.1</u>	<u>9.8</u>	<u>7.8</u>
West Kalimantan	2.9	15.2	18.6	17.6	10.0	6.9
Central Kalimantan	8.5	-	26.3	31.0	13.9	11.6
South Kalimantan	5.6	2.2	5.9	28.1	13.2	8.8
East Kalimantan	8.5	47.2	12.0	14.6	18.9	22.5
<u>KALIMANTAN: Sub-total</u>	<u>5.9</u>	<u>43.1</u>	<u>15.3</u>	<u>20.6</u>	<u>15.3</u>	<u>14.4</u>
North Sulawesi	0.9	112.6	12.0	3.3	4.1	3.8
Central Sulawesi	8.7	42.2	28.1	15.7	14.2	10.8
South Sulawesi	9.3	30.9	11.1	16.2	9.5	10.3
South East Sulawesi	2.4	0.6	6.6	4.3	13.0	4.8
<u>SULAWESI: Sub-total</u>	<u>6.5</u>	<u>18.9</u>	<u>11.7</u>	<u>12.1</u>	<u>7.9</u>	<u>7.9</u>
Bali	3.5	21.5	20.3	11.2	9.5	7.2
West Nusa Tenggara	5.3	32.6	5.4	22.0	13.9	8.9
East Nusa Tenggara	4.3	-	13.8	5.6	14.0	6.9
Maluku	1.3	16.9	16.0	40.0	12.7	6.7
Irian Jaya	12.0	64.6	7.5	6.9	9.6	18.0
East Timor	n.a	n.a	n.a	n.a	n.a	n.a
<u>OTHERS: Sub-total</u>	<u>5.3</u>	<u>53.3</u>	<u>15.5</u>	<u>13.8</u>	<u>11.4</u>	<u>9.8</u>
<u>INDONESIA: TOTAL</u>	<u>3.7</u>	<u>9.6</u>	<u>12.9</u>	<u>16.0</u>	<u>9.2</u>	<u>7.8</u>

Source: Central Bureau of Statistics and World Bank staff estimates.

Appendix
Table 4

PEOPLE IN POVERTY AND INCIDENCE OF POVERTY,
BY PROVINCE, 1980

Province	Total population ('000)	People in poverty ('000)	Incidence of poverty (%)	Population in deprivation ('000)	Incidence of deprivation (%)
DKI Jakarta	6,320.8	1,066.5	16.9	40.1	0.6
West Java	26,983.7	8,810.7	32.7	81.0	0.3
Central Java	25,092.1	14,529.8	57.9	178.4	0.7
D.I. Yogyakarta	2,729.3	1,634.1	59.9	97.4	3.6
East Java	28,879.9	15,847.8	54.9	210.9	0.7
<u>Total Java</u>	<u>90,005.8</u>	<u>41,888.9</u>	<u>46.5</u>	<u>607.8</u>	<u>0.7</u>
D.I. Aceh	2,561.0	224.9	8.8	42.1	1.6
North Sumatra	8,204.0	1,676.2	20.4	215.9	2.6
West Sumatra	3,359.3	470.1	14.0	110.9	3.3
Riau	2,131.1	284.0	13.3	143.5	6.7
Jambi	1,409.6	111.5	7.9	33.6	2.4
South Sumatra	4,532.5	617.1	13.6	173.0	3.8
Bengkulu	754.8	158.3	21.0	67.3	8.9
Lampung	4,494.6	2,043.6	45.5	228.7	5.1
<u>Total Sumatra</u>	<u>27,446.9</u>	<u>5,585.7</u>	<u>20.4</u>	<u>1,015.0</u>	<u>3.7</u>
West Kalimantan	2,447.0	229.5	9.4	129.5	5.3
Central Kalimantan	934.3	115.0	12.3	/a	/a
South Kalimantan	2,032.3	253.4	12.5	17.6	0.9
East Kalimantan	1,181.3	158.3	13.4	104.2	8.8
<u>Total Kalimantan</u>	<u>6,594.9</u>	<u>756.2</u>	<u>11.5</u>	<u>251.3</u>	<u>2.6</u>
North Sulawesi	2,081.6	680.9	32.7	13.6	0.6
Central Sulawesi	1,256.4	362.2	28.8	52.1	4.1
South Sulawesi	5,976.1	2,525.4	42.3	253.8	4.2
South East Sulawesi	919.3	451.5	49.1	48.4	5.3
<u>Total Sulawesi</u>	<u>10,223.4</u>	<u>4,020.0</u>	<u>39.3</u>	<u>367.9</u>	<u>3.6</u>
B a l i	2,440.3	934.9	38.3	n.a.	n.a.
West Nusa Tenggara	2,686.0	1,343.1	50.0	561.9	20.9
East Nusa Tenggara	2,696.5	1,527.0	56.6	1,198.5	44.4
Maluku	1,378.6	537.5	39.0	186.4	13.5
Irian Jaya	219.8	17.2	7.8	12.9	5.9
East Timor	n.a.	n.a.	n.a.	n.a.	n.a.
<u>Total E. Islands</u>	<u>9,421.6</u>	<u>4,399.7</u>	<u>46.7</u>	<u>2,461.8</u>	<u>26.1</u>
<u>TOTAL INDONESIA</u>	<u>144,102.2</u>	<u>56,650.5</u>	<u>39.3</u>	<u>4,703.8</u>	<u>3.3</u>

/a Insignificant.

Source: Central Bureau of Statistics; and World Bank staff estimates.

STANDARD TABLES

The following three tables have been prepared according to standardized World Bank concepts and definitions to facilitate cross-country comparisons and aggregations. These data may not always agree with similar data in the main statistical appendix.

Standard Table 1: INDONESIA
 NATIONAL ACCOUNTS SUMMARY
 (Rp. billions; at current prices)

	1978	1979	1980	1981	1982
1. Gross Domestic Product	22,746	32,027	45,446	54,027	59,633
2. Resource Gap (m-x)	-607	-2,807	-4,565	-2,712	923
3. Imports (g+nfs)	4,342	6,781	9,226	12,297	14,258
4. Exports (g+nfs)	4,950	9,587	13,791	15,009	13,336
5. Total Expenditures	22,139	29,220	40,881	51,315	60,556
6. Consumption	17,234	22,181	30,922	38,592	46,415
7. Government	2,659	3,733	4,688	5,788	6,247
8. Private	14,575	18,448	26,234	32,804	40,168
9. Investment	4,905	7,039	9,959	12,723	14,140
10. Fixed Investment	4,671	6,704	9,485	12,117	13,467
11. Changes in Stocks	234	335	474	606	673
12. Domestic Savings	5,512	9,846	14,524	15,435	13,218
13. Net Factor Income	-1,242	-2,217	-2,806	-3,258	-3,117
14. Current Transfers	-	-	-	-	-
15. National Savings	4,270	7,629	11,718	12,177	10,100
<u>Average Exchange Rates</u>					
16. Rupiah per US\$	442	623	627	632	661
17. Rupiah per SDR	814	826	799	750	764

The national accounts data in current rupiah are World Bank estimates, based on data published by the Central Bureau of Statistics. The published statistics have been modified to include estimates of changes in stocks. Imports and exports of goods and non-factor services are taken from dollar values reported in Table 3 and converted at the period average rupiah/dollar exchange rate.

Standard Table 2: INDONESIA
 NATIONAL ACCOUNTS SUMMARY
 (\$ millions; at constant 1980 prices)

	1978	1979	1980	1981	1982
1. Gross Domestic Product	62,085	65,970	72,482	78,231	79,984
2. Terms of Trade Effect	-11,755	-5,906	-	134	-82
3. Gross Domestic Income	50,330	60,065	72,482	78,365	79,902
4. Resource Gap	-1,434	-5,093	-7,280	-3,940	1,277
5. Imports (g+nfs)	10,252	12,305	14,715	17,865	19,730
6. Capacity to Import	11,685	17,398	21,995	21,805	18,453
7. (Exports (g+nfs))	(23,440)	(23,304)	(21,995)	(21,671)	(18,535)
8. Total Expenditures	48,897	54,971	65,202	74,426	81,179
9. Consumption	35,976	41,480	49,318	55,734	61,036
10. Government	6,463	6,749	7,477	8,235	8,149
11. Private	29,512	34,731	41,841	47,499	52,886
12. Investment	12,921	13,491	15,884	18,692	20,143
13. Fixed Investment	12,306	12,849	15,128	17,802	19,184
14. Changes in Stocks	615	642	756	890	959
15. Domestic Saving	14,355	18,585	23,164	22,632	18,866
16. Net Factor Income	-2,743	-4,171	-4,475	-4,725	-4,179
17. Current Transfers	-	-	-	-	-
18. National Saving	11,612	14,413	18,689	17,906	14,687
Rupiah Deflators 1980=100					
19. Gross Domestic Product	0.5843	0.7743	1.0000	1.1014	1.1891
20. Imports (g+nfs)	0.6755	0.8789	1.0000	1.0949	1.1526
21. Exports (g+nfs)	0.3368	0.6561	1.0000	1.1046	1.1475
22. Total Expenditures	0.7221	0.8478	1.0000	1.0997	1.1897
23. Government Consumption	0.6561	0.8821	1.0000	1.1210	1.2226
24. Private Consumption	0.7877	0.8472	1.0000	1.1015	1.2114
25. Fixed Investment	0.6054	0.8321	1.0000	1.0856	1.1196
26. Changes in Stocks	0.6054	0.8321	1.0000	1.0856	1.1196
27. Exchange rate index	1.4186	1.0064	1.0000	0.9921	0.9486

Standard Table 3 : INDONESIA
BALANCE OF PAYMENTS
(\$ millions; at current prices)

	1978	1979	1980	1981	1982
1. <u>Exports (g+nfs)</u>	<u>11,198</u>	<u>15,389</u>	<u>21,995</u>	<u>23,749</u>	<u>20,175</u>
2. Merchandise (fob)	11,019	15,138	21,762	24,387	19,711
3. Non-factor services	179	251	233	362	464
4. <u>Imports (g+nfs)</u>	<u>-9,824</u>	<u>-10,884</u>	<u>-14,715</u>	<u>-19,458</u>	<u>-21,571</u>
5. Merchandise (fob)	-8,382	-9,240	-12,599	-16,605	-18,354
6. Non-factor services	-1,442	-1,644	-2,116	-2,853	-3,217
7. <u>Resource Balance</u>	<u>1,374</u>	<u>4,505</u>	<u>7,280</u>	<u>4,291</u>	<u>-1,396</u>
8. <u>Net Factor Income</u>	<u>-2,810</u>	<u>-3,559</u>	<u>-4,475</u>	<u>-5,155</u>	<u>-4,716</u>
9. Factor receipts	111	147	213	1,177	1,039
10. Factor payments	-2,921	-3,706	-4,688	-6,332	-5,755
11. (M< interest on public debt)	(-485)	(-635)	(-724)	(-978)	(-1,161)
12. <u>Net Current Transfers</u>	-	-	-	-	-
13. Transfer receipts	-	-	-	-	-
14. Transfer payments	-	-	-	-	-
15. <u>Current Balance</u>	<u>-1,436</u>	<u>946</u>	<u>2,805</u>	<u>-864</u>	<u>-6,112</u>
<u>M&LT Capital Inflow</u>	<u>859</u>	<u>1,117</u>	<u>2,077</u>	<u>2,901</u>	<u>4,233</u>
16. Direct investment	279	226	184	133	226
17. Official grant aid	14	30	55	250	163
18. Net public M< loans	661	604	1,877	2,202	3,029
19. Disbursements	(1,638)	(1,939)	(2,864)	(3,203)	(4,176)
20. Repayments	(-977)	(-1,335)	(-987)	(-1,001)	(-1,146)
21. Other M< (net)	-95	257	-39	316	815
22. <u>Net Credit from IMF</u>	-	-	-	-	-
23. Disbursements	-	-	-	-	-
24. Repayments	-	-	-	-	-
25. <u>Net Short-Term Capital</u>	<u>121</u>	<u>-451</u>	<u>-823</u>	<u>-288</u>	<u>506</u>
26. <u>Capital Flows NEI</u>	<u>-214</u>	<u>-125</u>	<u>-177</u>	<u>491</u>	<u>234</u>
27. <u>Errors and Omissions</u>	<u>607</u>	<u>-107</u>	<u>-1,570</u>	<u>-2,122</u>	<u>-472</u>
28. <u>Changes in Net Reserves</u> (- indicates increase)	<u>63</u>	<u>-1,380</u>	<u>-2,312</u>	<u>-118</u>	<u>1,611</u>

As official balance of payments data published by Bank Indonesia are on a fiscal year basis, the above table was based on calendar year data in Balance of Payments Statistics published by the IMF. Flows in public medium and long-term external debt are based on the World Bank's Debtor Reporting System.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

ANNEX I: ANALYSIS AND PROJECTIONS TABLES

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INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Exports by Commodity, 1974-75 - 1990/91
(US\$ million)

	Actual										Esti- mate	Projected				
	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84		1984/85	1985/86	1986/87	1988/89	1990/91
Export values at current prices																
Timber /a	615	527	885	543	1,130	2,166	1,672	752	559	514	446	412	473	621	783	
Rubber	425	381	577	608	774	1,101	1,078	770	614	829	880	962	1,096	1,498	2,042	
Coffee	92	112	330	626	508	715	588	343	364	496	449	476	515	599	674	
Other agricultural exports																
Palm oil	184	142	147	202	221	257	178	79	103	146	189	186	232	292	381	
Tea	50	50	64	120	98	91	97	94	116	148	130	150	161	192	250	
Tobacco	36	40	41	59	58	60	69	49	37	72	74	81	81	92	120	
Pepper	22	25	55	62	66	46	51	49	41	66	45	50	55	66	86	
Others	199	195	248	278	344	679	540	595	502	618	620	674	796	1,064	1,392	
Subtotal agriculture	<u>1,623</u>	<u>1,472</u>	<u>2,347</u>	<u>2,898</u>	<u>3,199</u>	<u>5,115</u>	<u>4,273</u>	<u>2,731</u>	<u>2,336</u>	<u>2,889</u>	<u>2,833</u>	<u>2,991</u>	<u>3,409</u>	<u>4,424</u>	<u>5,728</u>	
Tin	166	158	181	253	324	388	454	437	349	331	325	377	426	552	715	
Other metals and minerals																
Nickel	-	-	-	-	-	95	165	145	139	174	224	268	325	493	696	
Aluminum	-	-	-	-	-	-	-	-	48	173	288	306	328	376	531	
Copper	102	74	95	74	64	95	115	133	115	89	115	127	146	190	266	
Others	28	25	44	36	49	31	40	41	25	60	119	137	157	209	294	
Subtotal metals and minerals	<u>296</u>	<u>257</u>	<u>320</u>	<u>363</u>	<u>437</u>	<u>609</u>	<u>774</u>	<u>756</u>	<u>676</u>	<u>827</u>	<u>1,071</u>	<u>1,215</u>	<u>1,382</u>	<u>1,820</u>	<u>2,504</u>	
Manufactures																
Plywood	-	-	-	-	-	-	-	199	324	574	600	722	889	1,147	1,539	
Others	114	144	196	245	360	447	540	484	558	880	1,312	1,828	2,087	3,007	4,033	
Subtotal manufactures	<u>114</u>	<u>144</u>	<u>196</u>	<u>245</u>	<u>360</u>	<u>447</u>	<u>540</u>	<u>683</u>	<u>882</u>	<u>1,454</u>	<u>1,912</u>	<u>2,550</u>	<u>2,976</u>	<u>4,154</u>	<u>5,572</u>	
Total non-oil exports	<u>2,033</u>	<u>1,873</u>	<u>2,863</u>	<u>3,507</u>	<u>3,979</u>	<u>6,171</u>	<u>5,587</u>	<u>4,170</u>	<u>3,894</u>	<u>5,170</u>	<u>5,816</u>	<u>6,756</u>	<u>7,767</u>	<u>10,398</u>	<u>13,804</u>	
Oil and products	4,548	5,410	6,350	7,192	6,858	10,995	15,187	16,482	12,282	12,330	12,210	12,329	14,623	19,299	23,937	
LNG	-	-	-	162	516	1,345	2,111	2,342	2,461	2,230	3,211	3,613	4,152	5,682	7,092	
Total oil and LNG	<u>4,548</u>	<u>5,410</u>	<u>6,350</u>	<u>7,354</u>	<u>7,374</u>	<u>12,340</u>	<u>17,298</u>	<u>18,824</u>	<u>14,743</u>	<u>14,560</u>	<u>15,422</u>	<u>15,942</u>	<u>18,775</u>	<u>24,981</u>	<u>31,029</u>	
Total exports	<u>6,581</u>	<u>7,283</u>	<u>9,213</u>	<u>10,861</u>	<u>11,353</u>	<u>18,510</u>	<u>22,885</u>	<u>22,994</u>	<u>18,637</u>	<u>19,730</u>	<u>21,238</u>	<u>22,698</u>	<u>26,542</u>	<u>35,379</u>	<u>44,833</u>	
Price indices (1981/82 = 100)																
Timber	39	49	55	62	63	111	134	100	98	95	98	106	115	137	158	
Rubber	59	53	70	74	89	114	130	100	80	104	111	119	132	162	191	
Coffee	57	51	112	187	129	135	121	100	97	121	125	131	140	158	174	
Other agriculture	89	72	80	97	90	101	117	100	84	90	96	100	109	130	154	
Tin	45	49	53	76	91	109	119	100	91	87	90	101	112	137	161	
Other metals and minerals	88	76	74	76	77	99	111	100	92	92	95	103	115	143	176	
Manufactures	59	67	68	74	87	97	105	100	98	95	98	106	115	137	156	
Oil and products	25	34	36	38	38	64	93	100	93	83	83	83	96	118	136	
LNG	-	-	-	38	38	64	93	100	101	87	87	87	100	123	146	
Export values at constant prices (1981/82 = 100)																
Timber	1,577	1,076	1,609	1,521	1,794	1,951	1,248	752	570	542	455	389	411	453	495	
Rubber	720	719	824	822	870	966	829	770	768	799	793	808	830	929	1,060	
Coffee	161	220	295	335	394	530	486	343	375	411	359	363	368	378	384	
Other agriculture	552	628	694	743	874	1,122	799	866	1161	1167	1,102	1,141	1,215	1,319	1,448	
Tin	369	322	342	333	356	356	382	437	381	381	361	373	380	404	439	
Other metals and minerals	148	130	188	145	147	223	288	319	383	549	785	814	831	889	1,013	
Manufactures	193	215	288	331	414	461	514	683	872	1,530	1,951	2,407	2,583	3,031	3,567	
Total non-oil exports	<u>3,720</u>	<u>3,310</u>	<u>4,240</u>	<u>4,230</u>	<u>4,849</u>	<u>5,609</u>	<u>4,546</u>	<u>4,170</u>	<u>4,306</u>	<u>5,379</u>	<u>5,806</u>	<u>6,295</u>	<u>6,618</u>	<u>7,403</u>	<u>8,406</u>	
Oil and products	18,192	15,912	17,639	18,926	18,047	18,742	18,600	16,481	13,227	14,800	14,657	14,799	15,274	16,364	17,626	
LNG	-	-	-	426	1,358	2,102	2,269	2,343	2,442	2,555	3,679	4,139	4,136	4,601	4,858	
Total oil and LNG	<u>18,192</u>	<u>15,912</u>	<u>17,639</u>	<u>19,352</u>	<u>19,405</u>	<u>20,844</u>	<u>20,869</u>	<u>18,824</u>	<u>15,669</u>	<u>17,355</u>	<u>18,336</u>	<u>18,938</u>	<u>19,410</u>	<u>20,965</u>	<u>22,484</u>	
Total exports	<u>21,912</u>	<u>19,222</u>	<u>21,879</u>	<u>23,582</u>	<u>24,254</u>	<u>26,453</u>	<u>25,415</u>	<u>22,994</u>	<u>19,975</u>	<u>22,734</u>	<u>24,142</u>	<u>25,233</u>	<u>26,028</u>	<u>28,368</u>	<u>30,890</u>	

/a Includes plywood up to 1980/81.

Source: World Bank staff estimates.

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Imports by Category, 1975-90
(US\$ million)

	Actual								Esti- mate	Projected				
	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91
<u>Current Prices</u>														
Food	565	693	1,106	946	1,393	1,485	1,637	1,296	1,419	1,357	1,328	1,374	1,351	1,721
Other consumer goods	200	260	281	344	365	540	743	1,146	566	604	658	772	1,016	1,290
Intermediate goods	1,869	1,867	2,275	2,561	3,501	4,274	4,983	5,192	5,218	5,563	6,310	7,456	9,751	12,793
Capital goods	2,456	3,347	3,579	3,692	3,769	5,538	7,198	8,190	6,640	6,860	7,408	8,075	10,333	12,716
Total non-oil imports	5,090	6,167	7,241	7,543	9,028	11,837	14,561	15,824	13,843	14,384	15,704	17,677	22,451	28,520
Oil sector	2,262	2,640	2,909	3,364	2,940	4,050	5,407	4,802	4,730	4,876	4,961	5,657	7,023	9,035
Non-factor services (net)	345	490	536	586	1,237	1,702	2,604	1,715	1,400	1,409	1,292	1,247	1,418	1,559
Imports and NFS	7,707	9,297	10,686	11,493	13,205	17,589	22,572	22,341	19,973	20,669	21,957	24,581	30,892	39,114
<u>Price Index</u>														
Food	74	52	55	75	68	90	100	83	86	96	105	115	135	159
Other goods	60	62	66	77	87	98	100	98	95	98	106	115	137	156
Total non-oil imports	61	61	64	77	87	99	100	97	94	98	106	115	137	156
Oil sector	48	49	53	60	74	93	100	98	95	98	106	115	137	156
Non-factor services (net)	61	62	67	77	88	97	100	98	95	98	106	115	137	156
Imports and NFS	56	58	61	71	84	97	100	97	95	98	106	115	137	156
<u>Constant 1981 Prices</u>														
Food	764	1,333	2,011	1,261	2,048	1,650	1,637	1,567	1,650	1,420	1,260	1,200	1,000	1,080
Other consumer goods	333	419	426	447	419	551	743	1,170	597	617	623	669	741	826
Intermediate goods	3,115	3,011	3,447	3,326	4,024	4,361	4,983	5,298	5,500	5,677	5,962	6,463	7,114	8,191
Capital goods	4,093	5,398	5,423	4,795	4,332	5,651	7,198	8,357	7,000	7,000	7,000	7,000	7,539	8,142
Total non-oil imports	8,305	10,161	11,307	9,829	10,377	11,947	14,561	16,392	14,747	14,714	14,485	15,332	16,394	18,239
Oil sector	4,733	5,388	5,489	5,607	3,973	4,355	5,407	4,899	4,986	4,975	4,687	4,904	5,124	5,785
Non-factor services (net)	566	790	800	761	1,406	1,755	2,667	1,750	1,487	1,440	1,220	1,081	1,035	1,348
Imports and NFS	13,604	16,339	17,596	16,197	15,756	18,057	22,635	23,041	21,220	21,129	20,752	21,317	22,553	25,372

Source: World Bank staff estimates.

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Balance of Payments, 1973-90
(US\$ million)

	Actual										Esti-	Projected				
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	mate	1983/84	1984/85	1985/86	1986/87	1988/89
Summary of balance of payments																
1. Exports	3,010	6,581	7,283	9,213	10,861	11,353	18,510	22,865	22,994	18,637	19,730	21,238	22,698	26,542	35,379	44,832
(a) Oil and LNG (gross)	1,105	4,548	5,410	6,350	7,354	7,374	12,340	17,298	18,824	14,743	14,560	15,422	15,942	18,775	24,981	31,028
(b) Non-oil	1,905	2,033	1,873	2,863	3,507	3,979	6,171	5,567	4,170	3,894	5,170	5,816	6,756	7,768	10,398	13,804
2. Imports (including net NFS)	-3,592	-6,514	-7,707	-9,297	-10,686	-11,493	-13,205	-17,589	-22,572	-22,341	-19,973	-20,669	-21,957	-24,581	-30,892	-39,114
(a) Oil sector /a	-460	-1,910	-2,272	-2,640	-2,909	-3,364	-2,940	-4,050	-5,407	-4,802	-4,730	-4,876	-4,801	-5,657	-7,023	-9,035
(b) Non-oil imports	-2,938	-4,341	-5,090	-6,167	-7,241	-7,543	-9,028	-11,837	-14,561	-15,824	-13,843	-14,384	-15,865	-17,677	-22,451	-28,520
(c) NFS (net)	-194	-263	-345	-490	-536	-586	-1,237	-1,702	-2,604	-1,715	-1,400	-1,409	-1,291	-1,247	-1,418	-1,559
3. Resource balance	-582	67	-424	-84	175	-140	5,305	5,296	422	-3,703	-243	569	741	1,961	4,487	6,718
4. Factor services	-170	-205	-430	-718	-865	-1,015	-3,106	-3,165	-3,442	-3,705	-4,080	-4,360	-4,823	-5,544	-6,997	-8,408
(a) Interest public debt /b	-62	-80	-165	-318	-441	-485	-635	-724	-977	-1,161	-1,179	-1,432	-1,664	-1,882	-2,212	-2,398
(b) Other (net) /c	-108	-125	-265	-400	-424	-530	-2,471	-2,441	-2,465	-2,543	-2,894	-2,932	-3,164	-3,667	-4,791	-6,016
5. Net transfers	50	75	75	61	66	46	52	76	67	105	95	100	110	120	130	150
6. Balance on current account	-702	-63	-779	-741	-624	-1,109	2,251	2,207	-2,953	-7,303	-4,228	-3,691	-3,972	-3,463	-2,380	-2,540
7. Direct foreign investment	331	538	454	287	285	271	217	140	142	311	234	400	500	550	650	800
8. Public M & LT loans /b																
(a) Disbursement	909	1,120	2,152	2,332	1,956	1,638	1,939	2,864	2,566	4,250	4,991	5,108	5,186	5,224	5,143	6,120
(b) Amortization	-149	-212	-352	-437	-825	-977	-1,335	-987	-1,001	-1,148	-1,541	-1,937	-2,231	-2,671	-3,812	-4,234
(c) Net disbursements	760	908	1,800	1,895	1,131	660	604	1,877	1,565	3,102	3,450	3,171	2,955	2,553	1,331	1,886
9. Other capital (net)	-25	-1,392	-1,839	-440	-141	886	-1,382	-1,488	258	540	2,223	-49	638	654	484	521
10. Change in reserves (- increase)	-364	9	364	-1,001	-651	-708	-1,690	-2,736	988	3,350	-1,679	71	-121	-294	-85	-667
11. Net official reserves	929	920	556	1,557	2,208	2,916	4,606	7,342	6,354	3,004	4,683	4,612	4,733	5,027	4,973	5,640
Reserves in months of non-oil imports + NFS	3.5	2.4	1.2	2.8	3.4	4.3	5.6	6.5	4.4	2.1	3.7	3.5	3.3	3.2	2.5	2.3
Public debt services as % of exports /d	8.3	6.3	10.3	11.7	15.9	18.4	16.0	11.5	13.2	20.9	21.8	26.4	27.6	27.4	26.7	23.1
Memorandum item																
Total net foreign assets /e										6,321	8,355	8,284	8,405	8,698	8,746	9,312
In months of imports of goods										3.7	5.4	5.2	4.9	4.5	3.6	3.0
Current account deficit as % of GNP										8.4	6.0	4.6	4.5	3.6	2.0	1.8

/a See Table 4 of this Appendix.

/b Based on IBRD external debt data.

/c After 1980/81 includes estimated interest on private short-term debt.

/d Oil exports on net basis.

/e Includes net foreign assets of deposit money banks in addition to official reserves.

Source: World Bank staff estimates.

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Oil Sector Projection, 1983-90

(Volumes in million barrels per year; values in US\$ million)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
<u>Prices (\$ per barrel)</u>								
Crude	29.50	29.50	29.50	33.90	37.62	41.76	45.72	49.38
Products (exports)	26.50	31.27	31.27	35.94	39.88	44.26	48.47	52.34
Products (imports)	36.88	36.88	36.88	42.38	47.03	52.20	57.15	61.72
1. <u>Crude production</u> (volume) /a	535	538	558	577	595	620	639	657
2. <u>Refining inputs</u> (volume)	193	192	209	193	199	205	212	219
A. Crude domestic (volume)	157	156	174	159	165	172	179	186
B. Crude imports (volume)	36	36	36	36	36	36	36	36
(value)	1,077	1,077	1,077	1,237	1,373	1,524	1,669	1,802
3. <u>Domestic consumption</u> (volume)	157	160	163	168	174	180	186	193
A. Domestic refineries (volume)	133	148	163	168	174	180	186	193
B. Imports (volume)	24	12	0	0	0	0	0	0
(value)	885	442	0	0	0	0	0	0
4. <u>Gross exports</u> (value)	12,330	12,210	12,329	14,622	16,675	19,299	21,654	23,936
A. Crude (volume)	378	382	386	421	433	451	463	474
(value)	11,153	11,272	11,391	14,263	16,276	18,856	21,169	23,413
B. Products (volume)	44	30	30	10	10	10	10	10
(value)	1,177	938	938	359	399	443	485	523
5. <u>Crude and product imports</u> (2B + 3B) (volume)	1,962	1,519	1,077	1,237	1,373	1,524	1,669	1,802
6. A. Production-related imports	2,565	3,091	3,634	4,148	4,604	5,175	6,051	6,866
B. Non-factor service imports	387	415	457	515	579	658	728	794
C. Factor service payments	1,398	1,159	1,206	1,410	1,584	1,819	2,027	2,237
7. <u>Oil current account</u> (4-5-6)	6,018	6,026	5,955	7,312	8,535	10,123	11,179	12,237
<u>Memorandum items</u>								
Domestic processing capacity	140	240	260	260	260	260	260	260
Costs of production per barrel	5.78	6.67	7.41	8.43	9.59	10.95	12.43	13.69

Source: World Bank staff estimates.

/a Includes condensates.

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Projection of Domestic Refining Capacity, 1980-90
(million barrels per year)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91
<u>Refining Capacity /a</u>									
Existing (nine refineries)	140	140	140	140	140	140	140	140	140
New refineries									
Balikpapan					50	60	60	60	60
Cilacap					50	60	60	60	60
Subtotal					<u>100</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>
<u>Total Domestic</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>240</u>	<u>260</u>	<u>260</u>	<u>260</u>	<u>260</u>

/a Capacity for input of crude. This does not include new hydrocracker at Dumai, which will process LSWR (31 m. bbl. per year), not crude. This does not include the proposed but indefinite Sorong/Jakarta/Batam Island refinery that would come on stream in the late 1980s or early 1990s.

Source: Ministry of Mining and Energy.

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LNG Current Account, 1981-90

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91
	----- Actual -----		- Est. -	----- Projected -----				
Export volume (MMBTU)	458.0	477.8	500	720	810	810	900	950
of which								
Existing plants <u>/a</u>	(458.0)	(477.8)	(500)	(720)	(810)	(810)	(810)	(810)
New plants <u>/b</u>	-	-	-	-	-	-	(100)	(140)
Price (\$/MMBTU) <u>/c</u>	5.11	5.15	4.46	4.46	4.46	5.13	6.31	7.46
Gross export value (\$ million)	2,340	2,461	2,230	3,211	3,613	4,152	5,682	7,092
Imports, of goods and services <u>/d</u>	960	1,081	946	1,316	1,407	1,631	2,117	2,640
Net foreign exchange earnings on current account	1,382	1,379	1,283	1,895	2,206	2,521	3,565	4,452

/a Includes 5 trains at Arun and 4 trains at Bontang. Assumes that exports in 1984/85 are limited to minimum volumes under contract.

/b Assumes that additional train for export to Korea comes on stream in 1987/88 and that a further expansion of about 50 MMBTU (1 m. tons) is on stream in 1990/91.

/c FOB basis; price movements after 1983/84 are assumed to be same in percentage terms as for crude oil.

/d Includes factor service payments (contractors' shares for LNG plants and cost of gas recovery).

Source: Bank Indonesia and World Bank staff estimates.

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Terms of Trade Index, 1973-90
(1981/82 = 100)

	Non-oil exports: <u>/a</u> Non-oil imports (including NFS)	Total exports: <u>/b</u> Total imports (including NFS)
1973/74	96.0	50.0
1974/75	90.0	60.0
1975/76	76.0	62.0
1976/77	95.0	70.0
1977/78	107.0	72.0
1978/79	107.0	50.0
1979/80	120.0	86.0
1980/81	108.0	97.0
1981/82	100.0	100.0
1982/83	93.5	96.3
1983/84	102.4	92.2
1984/85	102.5	89.9
1985/86	101.5	85.0
1990/91	105.0	92.8

/a Based on price indices of non-oil exports (Table 1) and non-oil imports, including net NFS (Table 2).

/b Based on price indices of total exports (Table 1) and imports, including net NFS (Table 2).

Source: World Bank staff estimates.

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The Public Sector Capital Account
(Rp billion; at current prices)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 Est.
<u>Government Sources</u>	<u>928</u>	<u>1,512</u>	<u>1,581</u>	<u>1,589</u>	<u>1,965</u>	<u>2,117</u>	<u>3,513</u>	<u>5,968</u>	<u>8,375</u>	<u>9,032</u>
Public national savings /a	451	659	1,059	1,239	1,581	2,440	3,986	4,562	4,905	5,950
Net foreign savings /b	429	830	865	701	677	895	1,275	1,543	2,639	4,382
Government borrowing /c	48	3	-343	-351	-293	-1,210	-1,740	-137	831	-1,300
<u>Uses</u>	<u>928</u>	<u>1,512</u>	<u>1,581</u>	<u>1,589</u>	<u>1,965</u>	<u>2,117</u>	<u>3,513</u>	<u>5,968</u>	<u>8,375</u>	<u>9,032</u>
Rupiah transfers to public enterprises /d	136	186	329	270	199	322	909	949	891	814
Foreign exchange transfers to public enterprises /e	334	556	698	298	440	303	586	1,182	2,674	3,642
Direct government investment /f	458	770	754	1,021	1,326	1,450	2,018	3,837	4,810	4,576
<u>Public Enterprise Sources</u>	<u>768</u>	<u>1,321</u>	<u>1,146</u>	<u>749</u>	<u>997</u>	<u>667</u>	<u>2,093</u>	<u>2,750</u>	<u>4,426</u>	<u>4,798</u>
Net foreign savings /a	384	556	498	290	440	345	586	1,102	2,674	3,642
Transfers from central government /h	136	186	329	270	199	322	909	949	891	814
Interest savings /i	198	217	196	227	250	275	300	312	365	400
Domestic borrowing /j	100	262	123	-46	100	-275	298	287	496	-58
<u>Uses - Public enterprise investment</u>	<u>768</u>	<u>1,321</u>	<u>1,146</u>	<u>749</u>	<u>997</u>	<u>667</u>	<u>2,093</u>	<u>2,750</u>	<u>4,426</u>	<u>4,798</u>

/a Total government revenues (including regional governments) less current expenditures.

/b Gross disbursements of public debt less amortization payments.

/c Net changes in government savings with the financial system.

/d From the budget.

/e Includes budget and off-budget transfers to public enterprises.

/f Calculated as a residual.

/g Foreign exchange transfers from central government.

/h Rupiah transfers from central government.

/i Estimate based on 1974-77 public enterprise capital account survey, BPS.

/j Excludes Bulog, also excludes Pertamina until 1978/79.

Source: Budget Data; BI Financial Statistics; DRS.

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Population 1930, 1961, 1971 1980: Average Annual Growth Rates, 1930-80
and Population Density, by Region and Province
('000)

Region	Census				Growth rate (%)			Density (persons/sq km)	
	1930	1961/a	1971/a	1980	1930-61	1961-71	1971-80	1971	1980
<u>Java</u>	<u>41,718</u>	<u>62,993</u>	<u>76,103</u>	<u>91,282</u>	<u>1.3</u>	<u>1.9</u>	<u>2.0</u>	<u>576</u>	<u>691</u>
DKI Jakarta	811	2,907	4,576	6,506	4.2	4.6	4.0	7,756	11,027
West Java	10,586	17,615	21,633	27,490	1.7	2.1	2.7	467	593
Central Java	13,706	18,407	21,877	25,365	1.0	1.7	1.7	640	742
DI Jogjakarta	1,559	2,241	2,490	2,745	1.2	1.1	1.1	786	866
East Java	15,056	21,823	25,527	29,175	1.2	1.6	1.5	533	609
<u>Sumatra</u>	<u>8,255</u>	<u>15,743</u>	<u>20,813</u>	<u>27,980</u>	<u>2.1</u>	<u>2.8</u>	<u>3.3</u>	<u>44</u>	<u>59</u>
Lampung	361	1,668	2,777	4,622	5.1	5.2	5.8	83	138
Bengkulu	323	406	519	768	0.7	2.5	4.4	25	37
South Sumatra	1,378	2,773	3,444	4,621	2.3	2.2	3.3	33	44
Riau	493	1,235	1,642	2,163	3.0	2.9	3.1	17	22
Jambi	245	744	1,006	1,440	3.6	3.1	4.1	22	32
West Sumatra	1,910	2,319	2,793	3,402	0.6	1.9	2.2	56	68
North Sumatra	2,541	4,969	6,623	8,357	2.2	2.9	2.6	94	119
Aceh	1,003	1,629	2,009	2,608	1.6	2.1	2.9	36	47
<u>Kalimantan</u>	<u>2,169</u>	<u>4,102</u>	<u>5,153</u>	<u>6,721</u>	<u>2.1</u>	<u>2.3</u>	<u>3.0</u>	<u>10</u>	<u>13</u>
West Kalimantan	802	1,581	2,020	2,483	2.2	2.5	2.3	14	17
Central Kalimantan	203	497	700	950	2.9	3.5	3.5	5	7
South Kalimantan	836	1,473	1,699	2,069	1.8	1.4	2.2	45	55
East Kalimantan	329	551	734	1,219	1.7	2.9	5.8	4	7
<u>Sulawesi</u>	<u>4,232</u>	<u>7,079</u>	<u>8,535</u>	<u>10,377</u>	<u>1.9</u>	<u>1.9</u>	<u>2.2</u>	<u>45</u>	<u>55</u>
Central Sulawesi	390	652	914	1,289	1.7	3.4	3.9	13	18
North Sulawesi	748	1,351	1,718	2,091	1.9	2.4	2.2	90	110
South Sulawesi	2,657	4,517	5,189	6,054	1.7	1.4	1.7	71	83
Southeast Sulawesi	436	559	714	943	0.8	2.5	3.1	26	34
Bali	1,101	1,783	2,210	2,470	1.6	1.8	1.7	381	426
West Nusa Tenggara	1,016	1,808	2,202	2,724	1.9	2.0	2.4	109	135
East Nusa Tenggara	1,343	1,967	2,295	2,722	1.2	1.6	1.9	48	57
Maluku	579	790	1,089	1,407	1.0	3.3	2.9	15	19
Irian Jaya	179	758	923	1,146	4.8	2.0	2.4	2	3
East Timor	n.a.	n.a.	n.a.	553	n.a.	n.a.	n.a.	n.a.	n.a.
<u>Total Indonesia</u>	<u>60,593</u>	<u>97,019</u>	<u>119,233</u>	<u>147,383</u>	<u>1.5</u>	<u>2.1</u>	<u>2.3</u>	<u>63</u>	<u>78</u>

n.a. = not available.

/a Includes adjustment for the exclusion of rural Irian Jaya.

Sources: Population Census Reports, 1961 and 1971, Preliminary Results, 1980 Census; and Statistical Pocketbook 1979/80.

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Distribution of Population by Age Group and Sex

Age group	1961			1971			1980		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
0-4	8,524	8,644	17,168	9,716	9,571	19,287	10,865	10,307	21,172
5-9	7,741	7,696	15,437	9,641	9,357	18,998	10,905	10,379	21,284
10-14	4,345	3,888	8,237	7,374	6,946	14,320	9,916	8,463	17,659
15-19	3,861	3,901	7,762	5,678	5,784	11,462	7,678	7,851	15,529
20-24	3,476	4,369	7,845	3,577	4,433	8,010	5,973	6,976	12,949
25-34	7,386	8,604	15,991	77,47	9,300	16,047	9,529	9,867	19,396
35-44	5,762	5,403	11,164	7,069	7,134	14,203	7,779	8,173	15,952
45-54	3,586	3,509	7,095	4,315	4,223	8,538	5,699	5,938	11,637
55-64	1,912	1,864	3,776	2,122	2,265	4,387	3,292	3,449	6,741
65+	1,182	1,245	2,427	1,415	1,557	2,971	2,281	2,705	4,986
Unknown	60	57	118	4	4	8	34	44	78
<u>Total</u>	<u>47,838</u>	<u>49,181</u>	<u>97,019</u>	<u>58,658</u>	<u>60,575</u>	<u>119,233</u>	<u>73,231</u>	<u>74,152</u>	<u>147,383</u>
----- Percentage distribution -----									
0-4	17.8	17.6	17.7	16.6	15.8	16.2	14.8	13.9	14.4
5-9	16.2	15.6	15.9	16.4	15.4	15.9	14.9	14.0	14.4
10-14	9.1	7.9	8.5	12.6	11.5	12.0	12.6	11.4	12.0
15-19	8.1	7.9	8.0	9.7	9.5	9.6	10.5	10.6	10.5
20-24	7.3	8.9	8.1	6.1	7.3	6.7	8.2	9.4	8.8
25-34	15.4	17.5	16.5	13.2	15.4	14.3	13.0	13.3	13.2
35-44	12.0	11.0	11.5	12.1	11.8	11.9	10.6	11.0	10.8
45-54	7.5	7.1	7.3	7.4	7.0	7.2	7.8	8.0	7.9
55-64	4.0	3.8	3.9	3.6	3.7	3.7	4.5	4.7	4.6
65+	2.5	2.5	2.5	2.4	2.6	2.5	3.1	3.6	3.4
Unknown	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: 1961, 1971 and 1980 censuses.

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COUNTRY ECONOMIC MEMORANDUM

Gross Domestic Product by Industrial Origin at Current Market Prices, 1967-82
(Rp billion)

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/a
Agriculture	457	1,069	1,339	1,575	1,646	1,837	2,710	3,497	4,003	4,812	5,906	6,706	8,996	11,290	13,643	15,668
Farm food crops	301	726	823	962	961	1,071	1,573	2,096	2,555	3,044	3,660	3,991	4,892	6,358	8,102	9,961
Farm nonfood crops	46	133	199	214	196	226	323	386	358	481	762	801	1,201	1,305	1,327	1,227
Estate crops	19	47	69	83	107	118	152	191	184	213	326	404	590	693	904	1,026
Livestock products	33	53	89	103	124	135	173	223	303	346	305	462	690	991	1,258	1,418
Forestry	6	35	59	102	142	173	355	423	413	513	525	653	1,048	1,142	1,140	983
Fishery	54	75	101	112	116	114	134	179	191	215	328	393	575	803	912	1,053
Mining & quarrying	23	87	129	173	294	491	831	2,374	2,485	2,930	3,600	4,358	6,980	11,673	12,971	11,708
Manufacturing	62	179	251	312	307	448	650	890	1,124	1,453	1,817	2,420	3,311	5,288	5,822	7,681
Electricity, gas & water	3	9	13	15	18	20	30	52	70	98	106	118	149	225	288	380
Construction	14	45	75	100	128	174	262	406	590	813	1,023	1,242	1,790	2,524	3,118	3,507
Commerce, hotels, etc.	149	356	476	619	592	769	1,118	1,775	2,104	2,552	2,959	3,450	4,725	6,391	7,966	8,865
Transport & communications	19	57	77	96	162	182	257	442	521	663	843	1,032	1,422	1,965	2,352	2,795
Banking, etc.	4	12	22	33	45	53	83	113	151	207	236	396	655	752	1,404	1,604
Ownership of dwelling	17	41	53	66	85	103	143	194	258	319	542	671	914	1,200	1,439	1,703
Public administration & defense	41	116	136	183	214	290	405	585	864	1,074	1,394	1,685	2,200	3,142	3,905	4,429
Other services	59	125	147	169	181	197	264	380	473	547	607	668	835	996	1,119	1,293
Gross Domestic Product	848	2,097	2,718	3,340	3,672	4,564	6,753	10,708	12,643	15,467	19,033	22,746	32,027	45,446	54,027	59,633

/a Preliminary estimates

Note: Totals do not add due to rounding.

Source: BPS.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Percentage Distribution of GDP at Current Market Prices, 1971-82
(%)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<u>Economic Sectors</u>												
Agriculture, forestry, fishery	44.8	40.3	40.1	32.7	31.7	31.1	31.0	29.5	28.1	24.9	25.3	26.3
Mining	8.0	10.8	12.3	22.2	19.7	18.9	18.9	19.2	21.8	25.7	24.0	19.6
Manufacturing	8.4	9.8	9.6	8.3	8.9	9.4	9.6	10.6	10.3	11.6	10.8	12.9
Electricity, gas & water	0.5	0.4	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6
Construction	3.5	3.8	3.9	3.8	4.7	5.3	5.4	5.5	5.6	5.6	5.8	5.9
Transport & communications	4.4	4.0	3.8	4.1	4.1	4.3	4.3	4.5	4.4	4.3	4.4	4.7
Other services	30.4	30.9	29.8	28.4	30.3	30.4	30.1	30.2	29.3	27.4	29.2	30.0
<u>Gross Domestic Product</u>	<u>100.0</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<u>Expenditure Categories</u>												
Private consumption	77.6	72.5	71.1	68.6	69.1	68.4	65.6	66.8	60.9	60.5	64.8	70.9
Government consumption	9.3	9.1	10.6	7.8	9.9	10.3	10.9	11.7	11.7	10.3	10.7	10.5
Gross domestic investment	15.8	18.8	17.9	16.8	20.3	20.7	20.1	20.5	20.9	20.9	22.4	22.6
Exports, net	-2.7	-0.4	0.4	6.8	0.7	0.6	3.4	1.0	6.5	8.3	2.1	-4.0
<u>Gross Domestic Product</u>	<u>100.0</u>											

Source: Based on BPS data (Tables 2.1 and 2.5).

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COUNTRY ECONOMIC MEMORANDUM

Gross Domestic Product by Industrial Origin at Constant 1973 Market Prices, 1971-82
(Rp billion)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/a
<u>Agriculture</u>	<u>2,441</u>	<u>2,479</u>	<u>2,710</u>	<u>2,811</u>	<u>2,811</u>	<u>2,944</u>	<u>2,981</u>	<u>3,135</u>	<u>3,256</u>	<u>3,425</u>	<u>3,594</u>	<u>3,670</u>
Farm food crops	1,436	1,415	1,573	1,681	1,696	1,756	1,734	1,836	1,909	2,073	2,261	2,294
Farm nonfood crops	302	329	323	307	312	325	392	388	402	417	430	459
Estate crops	154	160	152	174	183	188	201	210	231	233	244	285
Livestock products	160	169	173	186	202	216	177	184	202	212	220	230
Forestry	258	276	355	325	274	310	318	352	338	308	246	196
Fishery	131	130	134	138	144	150	159	166	174	182	194	204
Mining & quarrying	551	674	831	859	828	952	1,070	1,049	1,047	1,035	1,069	940
Manufacturing	490	564	650	755	848	930	1,058	1,236	1,395	1,750	1,878	1,901
Electricity, gas & water	25	26	30	37	41	46	49	57	69	78	90	106
Construction	171	222	262	320	365	385	464	529	562	639	720	758
Commerce, hotels, etc.	924	1,028	1,118	1,224	1,294	1,351	1,438	1,530	1,681	1,852	2,043	2,159
Transport & communications	210	229	257	288	303	343	439	514	560	609	677	717
Banking, etc.	64	75	83	88	102	117	151	165	180	208	231	258
Ownership of dwelling	93	121	143	174	198	209	252	288	306	336	359	377
Public administration & defense	326	393	405	443	564	596	689	768	805	972	1,076	1,115
Other services	250	256	264	270	277	284	280	297	304	311	319	326
<u>Gross Domestic Product</u>	<u>5,545</u>	<u>6,067</u>	<u>6,753</u>	<u>7,269</u>	<u>7,631</u>	<u>8,156</u>	<u>8,882</u>	<u>9,567</u>	<u>10,165</u>	<u>11,169</u>	<u>12,055</u>	<u>12,325</u>

/a Preliminary estimates.

Note: Totals do not add due to rounding.

Source: BPS.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Percentage Distribution of GDP at Constant Market Prices, 1971-82
(%)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<u>Economic Sectors</u>												
Agriculture, forestry, fishery	44.0	40.8	40.1	38.7	36.8	36.1	33.6	32.8	32.0	30.7	29.8	29.8
Mining	9.9	11.1	12.3	11.8	10.9	11.7	12.1	11.0	10.3	9.3	8.9	7.6
Manufacturing	8.8	9.3	9.6	10.4	11.1	11.4	11.9	12.9	13.7	15.3	15.6	15.4
Electricity, gas & water	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.9
Construction	3.0	3.7	3.9	4.4	4.8	4.7	5.2	5.5	5.5	5.7	6.0	6.2
Transport & communications	3.8	3.8	3.8	4.0	4.0	4.2	4.9	5.4	5.5	5.4	5.6	5.8
Other services	30.1	30.9	29.8	30.2	31.9	31.3	31.7	31.8	32.3	32.9	33.4	34.3
<u>Gross Domestic Product</u>	<u>100.0</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<u>Expenditure Categories</u>												
Private consumption	73.7	71.3	71.1	75.7	74.7	75.5	72.0	71.9	77.4	80.0	84.6	88.0
Government consumption	9.3	9.2	10.6	8.8	11.0	11.0	11.8	12.8	13.2	13.3	13.6	13.2
Gross domestic investment	15.7	17.0	17.9	19.8	21.6	21.4	22.9	24.4	24.0	25.7	28.0	29.5
Exports, net	1.3	2.5	0.4	-4.3	-7.3	-7.9	-6.7	-9.1	-14.6	-19.0	-26.2	-30.7
<u>Gross Domestic Product</u>	<u>100.0</u>											

Source: Based on BPS data (Tables 2.3 and 2.6).

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COUNTRY ECONOMIC MEMORANDUM

Expenditures on GDP at Current Market Prices, 1971-82
(Rp billion)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/b
Private consumption /a	2,848	3,309	4,804	7,348	8,732	10,572	12,481	15,185	19,514	27,477	34,996	42,255
Gov't consumption	341	414	716	841	1,254	1,591	2,077	2,659	3,733	4,688	5,788	6,247
Gross domestic investment	580	857	1,208	1,797	2,572	3,205	3,826	4,671	6,704	9,485	12,117	13,467
Export of goods & non-factor services	527	762	,356	3,045	2,897	3,621	4,513	4,947	9,628	13,844	14,928	13,345
Less import of goods & nonfactor services	624	778	1,331	2,318	2,812	3,522	3,865	4,742	7,555	10,048	13,802	15,681
<u>Gross Domestic Product</u>	<u>3,672</u>	<u>4,564</u>	<u>6,753</u>	<u>10,708</u>	<u>12,643</u>	<u>15,467</u>	<u>19,033</u>	<u>22,746</u>	<u>32,025</u>	<u>45,446</u>	<u>54,027</u>	<u>59,633</u>
Net factor income abroad	-68	-144	-245	-499	-557	-483	-678	-867	-1,484	-2,029	-1,925	-1,958
GNP	3,604	4,420	6,508	10,209	12,086	14,984	18,355	21,879	30,541	43,417	51,102	57,675
GDS	483	841	1,233	2,519	2,657	3,304	4,475	4,902	8,778	13,281	12,679	11,131
GNS	415	697	988	2,020	2,100	2,821	3,797	4,035	7,294	11,252	11,318	9,173
GDI/GDP (%)	15.8	18.8	17.9	16.8	20.3	20.7	20.1	20.5	20.9	20.9	22.4	22.6
GDS/GDP (%)	13.2	18.4	18.3	23.5	21.0	21.4	23.5	21.6	27.4	29.2	23.5	18.7
GNS/GNP (%)	11.5	15.8	15.2	19.8	17.4	18.8	20.7	18.4	23.9	25.9	21.0	15.4

/a Residual.

/b Preliminary estimates.

Note: Totals do not add due to rounding.
Source: BPS.

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COUNTRY ECONOMIC MEMORANDUM

Expenditures on GDP at Constant 1973 Market Prices, 1971-82
(Rp billion)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/b
Private consumption /a	4,088	4,324	4,804	5,502	5,699	6,154	6,400	6,880	7,866	8,927	10,193	10,849
Government consumption	518	561	716	641	836	897	1,044	1,288	1,345	1,490	1,641	1,624
Gross domestic investment	867	1,032	1,208	1,440	1,650	1,749	2,028	2,333	2,436	2,868	3,375	3,637
Export of goods & nonfactor services	943	1,143	1,356	1,445	1,410	1,650	1,806	1,824	1,822	1,719	1,678	1,444
Less import of goods & nonfactor services	871	993	1,331	1,759	1,964	2,293	2,395	2,698	3,304	3,862	4,832	5,229
<u>Gross Domestic Product</u>	<u>5,545</u>	<u>6,067</u>	<u>6,753</u>	<u>7,269</u>	<u>7,631</u>	<u>8,156</u>	<u>8,871</u>	<u>9,567</u>	<u>10,165</u>	<u>11,169</u>	<u>12,055</u>	<u>12,325</u>
Net factor income abroad	-95	-184	-245	-378	-389	-314	-420	-493	-649	-780	-674	-652
Terms of trade effect	-211	-312	0	862	616	748	997	688	2,382	3,606	3,542	3,004
GDY	5,334	5,443	6,753	8,131	8,247	8,904	9,901	10,255	12,547	14,775	15,597	15,329
GNP	5,450	5,883	6,508	6,891	7,242	7,842	8,451	9,074	9,516	10,389	11,381	11,673
GNY	5,239	5,259	6,508	7,754	7,858	8,590	9,481	9,762	11,898	13,995	14,923	14,677
GDS	728	870	1,233	1,989	1,737	1,853	2,424	2,147	3,336	4,358	3,763	2,856
GNS	633	686	988	1,611	1,348	1,539	2,004	1,654	2,687	3,578	3,089	2,204
GDI/GDP (%)	15.6	17.0	17.9	19.8	21.6	21.4	22.9	24.4	24.0	25.7	28.00	29.51
GDS/GDY (%)	13.6	16.0	18.3	24.5	20.1	20.8	24.5	20.9	26.6	29.5	24.1	18.6
GNS/GNY (%)	12.1	13.1	15.2	20.8	17.2	17.9	21.1	16.9	22.6	25.6	20.7	15.0

/a Residual.

/b Preliminary estimates.

Note: Totals do not add due to rounding.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Estimate of the Terms of Trade Effects, 1972-82
(Rp billion)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/a
Exports in current prices	762	1,356	3,045	2,897	3,621	4,513	4,974	9,628	13,849	14,928	13,345
Exports in 1973 prices	1,143	1,356	1,445	1,410	1,650	1,806	1,824	1,822	1,719	1,678	1,444
Export price index	67	100	211	205	219	250	273	528	806	890	924
Imports in current prices	778	1,331	2,318	2,812	3,522	3,865	4,742	7,555	10,080	13,802	15,681
Imports in 1973 prices	993	1,331	1,759	1,964	2,293	2,395	2,698	3,304	3,803	4,832	5,229
Import price index	78	100	132	143	151	161	176	229	265	286	300
Exports (import capacity)	977	1,356	2,307	2,026	2,398	2,803	2,512	4,204	5,226	5,220	4,448
Terms of trade effect	-166	-	862	616	748	997	688	2,382	3,507	3,542	3,004
Terms of trade index	86	100	160	143	145	155	138	231	310	311	308
Net factor income from abroad in current prices	-144	-245	-499	-557	-483	-678	-867	-1,484	-2,011	-1,925	-1,958
Net factor income from abroad in 1973 prices	-185	-245	-378	-389	-314	-420	-493	-649	-759	-674	-652

/a Preliminary estimate.

Note: Totals do not add due to rounding.

Source: Based on BPS data (Tables 2.5 and 2.6).

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COUNTRY ECONOMIC MEMORANDUM

Average Growth Rates and Selected Economic Indicators, 1966-81

	1966-71 (% p.a.)	1971-76 (% p.a.)	1976-81 (% p.a.)
Agriculture	5.0	3.9	4.1
Industry	14.1	12.9	10.2
Mining	-	11.6	2.3
Manufacturing	-	13.7	15.1
Electricity, gas, water	-	12.9	14.4
Construction	-	17.6	13.3
Services	10.5	9.2	10.2
GDP	8.6	8.0	8.1
Private consumption	8.0	8.5	10.6
Government consumption	6.5	11.6	12.8
Total consumption	7.5	8.9	10.9
GDI	18.6	15.7	14.1
Exports	12.2	10.5	0.3
Imports	17.9	22.7	16.1
GDY	-	10.8	12.0
Factor payments	-	27.0	16.5
GNP	8.7	7.4	7.7
GNY	-	10.4	11.7
GDS	-	20.5	15.2
GNS	-	19.4	15.0

Economic indicators

	Constant prices			Current prices	
	1966-71	1971-76	1976-81 /a	1976-81	/a
ICOR /b	1.4	2.4	2.9	-	
GDI/GDP	-	19.5	25.0	21.2	
Average domestic savings rate	6.7	19.9	25.1	25.0	
Marginal domestic savings rate	-	43.1	49.0	24.3	
Average national savings rate	-	16.8	21.4	21.7	
Marginal national savings rate	-	27.0	24.6	22.0	
Imports/GDP	-	22.8	32.9	23.1	
Exports/GDP	-	19.5	17.1	27.6	
Import elasticity	2.1	2.8	2.0	1.1	

/a Average values are based on the five years 1977 to 1981, and marginal values on changes between 1976 and 1981; similarly earlier periods.

/b GDI 1976-80: GDP 1976-81.

Source: Based on BPS data, Tables 2.1-2.7.

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COUNTRY ECONOMIC MEMORANDUM

Balance of Payments, 1973/74 - 1982/83
(US\$ million)

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
1. Net oil <u>/a</u>	641	2,638	3,138	3,710	4,352	3,785	6,308	9,345	8,379	5,788
2. Net LNG <u>/a</u>	-	-	-	-	93	225	667	1,256	1,382	1,378
3. Nonoil (net)	<u>-1,397</u>	<u>-2,776</u>	<u>-3,992</u>	<u>-4,512</u>	<u>-5,135</u>	<u>-5,165</u>	<u>-4,777</u>	<u>-8,470</u>	<u>-12,551</u>	<u>-14,239</u>
Exports, f.o.b.	1,905	2,033	1,873	2,863	3,507	3,979	6,171	5,587	4,170	3,894
Imports, c.i.f.	-2,938	-4,341	-5,090	-6,167	-7,241	-7,543	-9,028	-11,837	-14,561	-15,824
Service (nonfreight)	-364	-468	-755	-1,208	-1,401	-1,601	-1,920	-2,220	-2,160	2,309
4. Current account (1+2+3)	<u>-756</u>	<u>-138</u>	<u>-854</u>	<u>-802</u>	<u>-690</u>	<u>-1,155</u>	<u>2,198</u>	<u>2,131</u>	<u>-2,790</u>	<u>-7,073</u>
5. SDRs	-	-	-	-	-	64	65	62	-	-
6. Official transfer & capital	<u>643</u>	<u>660</u>	<u>1,995</u>	<u>1,823</u>	<u>2,106</u>	<u>2,101</u>	<u>2,690</u>	<u>2,684</u>	<u>3,521</u>	<u>5,011</u>
IGGI	556	513	945	1,596	1,694	1,625	2,237	2,406	2,415	2,905
Program aid	281	180	74	147	157	94	239	118	50	21
Project aid	275	333	871	1,449	1,537	1,531	1,998	2,288	2,365	2,884
ODA	(275)	(333)	(482)	(513)	(661)	(814)	(1,106)	(1,299)	(996)	(1,356)
Non-ODA	(-)	(-)	(389)	(936)	(876)	(659)	(892)	(989)	(1,369)	(1,528)
Non-IGGI	87	147	1	227	412	534	453	278	1,106	2,106
Cash loan	-	-	1,049	-	-	-	-	-	-	-
7. Debt repayment (principal)	-81	-89	-77	-166	-761	-632	-692	-615	-809	-926
8. Miscellaneous capital	<u>549</u>	<u>-131</u>	<u>-1,075</u>	<u>38</u>	<u>176</u>	<u>392</u>	<u>-1,315</u>	<u>-361</u>	<u>1,140</u>	<u>1,795</u>
Direct investment	331	538	454	287	285	271	217	140	142	311
Oil sector	18	13	14	-32	-50	75	-1,240	-685	791	1,322
Others	200	-682	-1,543	-217	-59	196	-292	184	207	162
9. Total (4 through 8)	<u>355</u>	<u>302</u>	<u>-11</u>	<u>893</u>	<u>831</u>	<u>770</u>	<u>2,946</u>	<u>3,901</u>	<u>1,062</u>	<u>-1,193</u>
10. Errors & omissions	5	-311	-353	108	-180	-62	-1,256	-1,165	-2,050	-2,087
11. Monetary movements	<u>-360</u>	<u>9</u>	<u>364</u>	<u>-1,001</u>	<u>-651</u>	<u>-708</u>	<u>-1,690</u>	<u>-2,736</u>	<u>988</u>	<u>3,280</u>

/a Gross exports of products less imports of goods and services of the oil and LNG sectors respectively.

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Nonoil Exports, 1971/72 - 1982/83

	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83 /a
<u>Timber</u>												
Value	170	275	720	615	527	885	943	1,130	2,166	1,672	952	883
Volume	8,840	12,701	15,704	12,434	11,335	15,770	15,717	16,141	16,259	11,642	5,960	4,960
Price	19	22	46	49	46	56	60	70	133	144	160	178
<u>Rubber</u>												
Value	215	211	483	425	381	577	608	774	1,101	1,078	770	614
Volume	809	826	902	843	846	892	873	928	1,015	954	881	877
Price	266	255	535	505	450	647	697	834	1,084	1,130	874	701
<u>Palm Oil</u>												
Value	45	42	89	184	142	147	202	221	257	178	79	103
Volume	212	245	279	303	417	415	438	415	440	376	182	315
Price	212	171	319	607	341	354	461	533	584	473	433	327
<u>Coffee</u>												
Value	54	83	79	92	112	330	626	508	715	588	343	368
Volume	72	111	96	105	142	143	179	232	238	232	218	238
Price	750	748	823	876	789	2,308	3,496	2,190	3,004	2,534	1,573	1,521
<u>Tea</u>												
Value	31	31	31	50	50	64	120	98	91	97	94	116
Volume	46	46	46	51	61	64	60	65	69	77	88	68
Price	674	674	674	980	820	996	2,007	1,508	1,319	1,260	1,075	1,714
<u>Tobacco</u>												
Value	20	32	46	36	40	41	59	58	60	69	49	37
Volume	19	27	35	26	23	21	27	27	24	31	26	19
Price	1,053	1,185	1,314	1,385	1,756	1,954	2,194	2,130	2,500	2,226	1,856	1,947
<u>Pepper</u>												
Value	21	21	31	22	25	55	62	66	46	51	49	40
Volume	24	24	25	14	17	33	31	38	24	32	38	34
Price	875	875	1,240	1,571	1,454	1,668	2,012	1,729	1,917	1,594	1,291	1,200
<u>Palm Kernel</u>												
Value	5	4	6	8	4	4	5	2	12	7	4	1
Volume	59	51	37	30	41	30	25	6	33	30	21	5
Price	85	78	162	267	98	140	218	333	364	233	195	189
<u>Copra</u>												
Value	8	6	3	-	-	-	-	-	13	-	-	-
Volume	67	61	21	-	-	-	-	-	27	-	-	-
Price	119	98	143	-	-	-	-	-	481	-	-	-
<u>Copra Cake</u>												
Value	12	14	19	22	29	36	33	34	52	46	32	38
Volume	236	303	224	236	363	375	301	323	354	390	300	367
Price	51	46	85	93	80	96	111	105	146	118	108	104
<u>Tapioca</u>												
Value	14	12	7	30	17	10	13	28	59	36	20	9
Volume	434	304	117	455	234	133	184	435	545	334	266	107
Price	32	39	60	66	73	75	68	64	108	108	76	86
<u>Other Food Stuff</u>												
Value	28	26	49	47	37	52	48	65	79	99	71	50
<u>Animal Products</u>												
Value	23	42	90	92	105	146	179	214	255	224	213	243
<u>Tin</u>												
Value	64	70	98	166	158	181	253	324	388	454	437	349
Volume	20	21	22	24	22	27	25	26	27	30	31	27
Price	3,200	3,333	4,455	6,917	7,541	6,707	10,110	12,454	14,370	15,133	14,037	12,836
<u>Copper</u>												
Value	-	13	56	102	74	95	74	64	95	115	120	115
Volume	-	28	126	222	189	230	188	168	187	117	214	209
Price	-	464	444	459	392	413	395	382	508	650	561	550
<u>Other Minerals</u>												
Value	18	19	21	28	25	44	36	49	126	205	187	212
<u>Miscellaneous</u>												
Value	56	76	77	114	144	196	245	361	656	668	750	716
Total Value	784	977	1,905	2,033	1,873	2,863	3,506	3,996	6,171	5,587	4,170	3,894

/a Preliminary estimate.

Value: In US\$ million

Volume: In thousands of tons

Price: US\$/ton

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Export Values by Country of Destination, 1971-83
(%)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Japan	44.6	50.7	53.2	53.5	44.1	41.7	40.2	39.2	46.1	49.3	47.6	50.2	44.9
ASEAN	17.7	9.7	11.7	8.6	10.3	8.9	10.6	12.7	14.3	12.6	13.6	15.7	16.8
Malaysia	2.5	1.7	1.0	1.0	0.9	0.3	0.2	0.2	0.4	0.3	0.3	0.3	0.3
Philippines	2.1	0.5	-	-	0.5	1.1	1.2	1.7	1.1	0.8	1.6	1.3	1.2
Singapore	13.0	7.5	10.6	7.5	8.9	7.5	9.2	10.7	12.6	11.3	11.5	14.0	15.2
Thailand	-	-	-	0.1	-	-	-	0.1	0.2	0.2	0.1	0.1	0.2
Other Asia	3.6	4.7	5.4	3.8	4.3	4.3	5.8	5.8	5.9	4.3	3.7	5.4	4.4
USA	15.6	14.9	14.5	21.3	26.3	28.7	27.8	25.4	20.3	19.6	19.3	15.9	20.4
Other America	0.5	4.2	2.1	6.0	8.3	7.6	5.3	6.9	3.0	4.5	7.9	4.2	5.1
EEC	13.6	11.9	8.8	4.9	5.6	7.2	8.5	7.5	7.6	6.3	4.2	3.9	4.5
France	0.6	0.6	0.5	0.3	0.2	0.4	0.6	0.5	0.5	0.5	0.2	0.2	0.3
West Germany	5.0	3.7	3.7	2.2	1.9	2.4	2.2	1.9	2.2	1.8	1.0	1.1	1.1
Netherlands	5.8	4.4	3.1	1.9	2.5	2.7	3.4	3.0	2.6	1.9	1.4	1.2	1.4
United Kingdom	1.0	1.3	1.0	0.3	0.4	0.5	0.6	0.5	0.6	0.6	0.5	0.6	0.9
Other EEC	1.2	1.9	0.5	0.1	0.6	1.2	1.7	1.6	1.7	1.5	1.1	0.8	0.8
Other Europe	2.3	2.7	2.4	1.4	0.7	1.0	1.0	1.2	1.1	1.0	1.1	0.6	0.9
Australia	2.0	0.8	1.7	0.3	0.3	0.4	0.5	0.9	1.2	1.5	1.8	3.0	1.2
Other Oceania	-	0.1	-	-	-	-	-	0.1	0.3	0.5	0.8	1.2	1.4
Africa	0.1	0.3	0.2	0.2	0.1	0.2	0.3	0.3	0.2	0.3	0.2	0.3	0.3
<u>Total</u>	<u>100.0</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/a January to August.

Source: Indikator Ekonomi (BPS).

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Import Values by Country of Origin, 1971-83
(%)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Japan	32.8	34.0	29.3	29.4	30.9	26.2	27.1	30.1	29.2	31.5	30.1	25.4	22.2
ASEAN	7.7	9.3	8.7	9.3	8.6	14.0	14.3	9.7	11.7	12.5	12.8	19.6	25.2
Malaysia	0.4	0.5	0.5	0.3	0.4	0.4	0.3	0.3	0.5	0.3	0.4	0.3	0.4
Philippines	0.2	0.3	0.5	0.3	0.3	0.3	0.3	1.1	0.7	0.8	1.9	1.4	1.5
Singapore	6.3	6.5	4.9	6.5	7.2	9.7	8.6	6.8	7.5	8.6	9.4	16.7	22.0
Thailand	0.8	2.0	2.8	2.2	0.7	3.6	5.1	1.5	3.0	2.7	1.1	1.2	1.4
Other Asia	11.7	11.8	17.3	16.5	14.3	12.8	16.9	17.0	18.7	19.6	15.5	15.0	15.3
USA	15.8	15.6	18.8	15.9	14.1	17.4	12.4	12.4	14.3	13.0	13.5	14.3	14.6
Other America	0.5	0.7	0.9	1.4	1.8	1.2	2.3	2.4	1.8	1.9	2.8	1.8	2.0
EEC	20.3	17.8	16.5	17.7	18.6	21.2	20.8	19.0	14.9	13.3	16.6	15.8	13.2
France	1.5	1.3	1.7	1.9	1.9	3.5	3.0	2.5	2.0	2.2	2.6	3.4	3.6
West Germany	9.5	7.5	7.2	8.2	7.6	8.6	7.8	8.9	6.4	6.3	6.8	7.1	4.3
Netherlands	4.6	4.3	3.3	2.7	2.8	3.0	4.2	2.2	1.7	1.1	1.5	1.1	1.6
United Kingdom	4.2	4.1	3.8	3.8	3.5	3.1	3.8	3.1	2.7	2.4	4.1	2.6	1.9
Other EEC	0.5	0.6	0.5	1.1	2.8	3.0	2.0	2.3	2.1	1.3	1.6	1.6	1.8
Other Europe	5.3	3.7	3.2	5.4	5.8	2.4	2.2	4.5	3.9	2.7	3.4	4.2	4.2
Australia	2.9	3.3	3.5	3.4	3.3	3.4	3.0	3.3	3.1	3.5	2.7	2.2	2.3
Other Oceania	0.1	0.3	0.2	0.4	0.3	0.4	0.5	0.6	0.6	0.7	0.7	0.6	0.4
Africa	2.9	3.5	1.6	0.6	2.3	1.0	0.5	1.0	1.8	1.2	1.9	1.2	0.5
<u>Total</u>	<u>100.0</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/a January to August.

Source: Indikator Ekonomi (BPS).

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Oil Balance of Payments, 1976/77 - 1982/83
(US\$ million)

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
1. Exports, FOB	6,349.7	7,191.7	6,857.9	10,994.5	15,186.6	16,481.5	12,283.1
C.O.W.	2,880.5	2,776.2	2,628.2	3,330.2	4,843.9	5,329.3	3,691.2
Prod. sharing	1,561.8	1,750.8	1,755.2	2,210.7	3,049.5	3,674.3	3,775.5
In kind (COW + PS)	1,221.7	1,703.3	1,594.5	2,670.5	3,707.4	3,333.2	2,507.7
Pertamina	685.7	961.4	880.0	2,783.1	3,585.8	4,054.7	2,308.7
2. Imports	-1,948.0	-1,640.0	-1,829.4	-2,844.8	-3,913.2	-5,278.0	-4,645.2
C.O.W.	-111.0	-138.9	-111.9	-146.6	-244.2	-222.7	-576.5
Prod. sharing	-1,024.6	-720.3	-827.6	-683.0	-1,308.0	-1,486.0	-1,545.0
Pertamina	-812.4	-780.8	-889.9	-2,015.2	-2,631.0	-3,569.3	-2,523.7
3. Services	-692.1	-1,200.0	-1,243.1	-1,841.9	-1,929.0	-2,824.8	-1,849.7
C.O.W.	-438.6	-497.5	-472.2	-663.8	-908.0	-890.0	-621.6
Prod. sharing	-92.4	-433.1	-433.3	-807.2	-540.5	-980.0	-850.8
Pertamina	-161.1	-269.4	-348.6	-400.9	-480.5	-954.8	-377.3
4. Current account (1+2+3)	3,709.6	4,351.7	3,785.4	6,307.8	9,344.4	8,378.7	5,788.2
C.O.W.	2,330.9	2,139.8	2,044.1	2,577.7	3,691.7	4,216.6	2,493.1
Prod. sharing	444.8	597.4	505.3	692.6	1,471.0	1,298.3	1,379.7
In kind (COW + PS)	1,221.7	1,703.3	1,594.5	2,670.5	3,707.4	3,333.2	2,507.7
Pertamina	-287.8	-88.8	-358.5	367.0	474.3	-469.4	-592.3
5. Miscellaneous capital	710.3	-198.4	10.5	-904.3	-659.2	300.1	554.0
Reimbursement LNG	69.3	15.4	-	5.2	-	-	-
Debt repayments	-458.8	-278.5	-220.8	-169.3	-151.0	-127.0	-76.4
Short-term	(-98.1)	(-12.0)	(-7.2)	(-8.8)	(-2.7)	(-9.6)	-
MP/LT borrowing	(-145.4)	(-106.1)	(-92.0)	(-82.0)	(-60.5)	(-22.7)	-
Special projects	(-34.8)	(-28.2)	(-32.1)	(-14.4)	(-)	(-12.9)	-
Crude debt repayments	(-207.5)	(-132.2)	(-89.5)	(-64.1)	(-87.8)	(-81.8)	(-76.4)
Project prefinancing	-59.8	-8.7	-13.6	-3.0	-	-	-
Oil export credit	-234.0	-73.4	244.9	-737.2	-508.2	427.1	630.4
Payments due	(4,177.5)	(5,343.1)	(5,179.3)	(6,906.7)	(10,760.9)	(11,401.0)	(9,243.2)
Receivables	(-4,411.5)	(-5,269.7)	(-4,934.4)	(-7,643.9)	(-11,269.1)	(-10,973.9)	(-8,612.8)
6. Total (4+5)	2,999.3	4,153.3	3,795.9	5,403.5	8,685.2	8,678.8	6,342.2
7. Errors and omissions	-50.3	15.0	39.2	182.6	-65.6	792.1	254.5
8. Monetary movements	-2,949.0	-4,168.3	-3,835.1	-5,586.1	-8,619.6	-9,470.9	-6,596.7

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

LNG Balance of Payments, 1977/78 - 1982/83
(US\$ million)

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83
1. Exports, FOB	<u>161.7</u>	<u>516.2</u>	<u>1,345.3</u>	<u>2,110.5</u>	<u>2,342.6</u>	<u>2,461.1</u>
C&F	188.9	604.3	1,511.0	2,320.4	2,587.8	2,689.3
MMBTU (million)	(71.2)	(216.3)	(373.1)	(424.3)	(458.0)	(477.8)
M/T (million)	(1.4)	(4.1)	(7.3)	(8.2)	(8.9)	(9.3)
Price (\$/MMBTU)	(2.63)	(2.79)	(4.05)	(5.47)	(5.65)	(5.53)
Freight	27.2	88.1	165.7	209.9	245.2	228.2
\$/MMBTU	(0.42)	(0.43)	(0.45)	(0.49)	(0.54)	(0.48)
2. Imports, CIF	<u>-17.0</u>	<u>-52.8</u>	<u>-95.4</u>	<u>-136.3</u>	<u>-129.1</u>	<u>-156.7</u>
3. Services	<u>-52.2</u>	<u>-238.8</u>	<u>-582.7</u>	<u>-718.6</u>	<u>-831.3</u>	<u>-926.9</u>
Cost of recovery	-21.8	-222.8	-428.2	-221.3	-216.0	-300.2
Contractor's share	-30.4	-15.8	-153.7	-495.6	-613.3	-624.7
Other charges	-	-0.2	-0.8	-1.7	-2.0	-2.0
4. Current account (1+2+3)	<u>92.5</u>	<u>224.6</u>	<u>667.2</u>	<u>1,255.6</u>	<u>1,382.2</u>	<u>1,377.5</u>
5. Miscellaneous capital	<u>-79.0</u>	<u>-146.6</u>	<u>-334.8</u>	<u>-149.6</u>	<u>-190.4</u>	<u>-168.7</u>
Debt repayments (JILCO ex-escrow account)	-29.7	-96.7	-140.4	-238.0	-167.1	-172.6
(Net transfer to escrow and special account)	-49.3	-49.9	-194.4	88.4	-23.3	3.9
6. Total (4+5)	<u>13.5</u>	<u>78.0</u>	<u>332.4</u>	<u>1,106.0</u>	<u>1,191.8</u>	<u>1,208.8</u>
7. Errors and omissions	13.9	1.5	-23.5	-102.6	-52.6	-49.3
8. Monetary movements	<u>-27.4</u>	<u>-79.5</u>	<u>-308.9</u>	<u>-1,003.4</u>	<u>-1,139.2</u>	<u>-1,159.5</u>
BUN	-11.9	-28.4	-263.1	-979.2	-1,112.8	-1,130.3
Pertamina	-0.8	-2.5	-6.7	-24.2	-26.4	-29.2
Pertamina (straight to BI as debt repayments)	-14.7	-48.6	-39.1	-	-	-

Source: Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

External Public Debt Outstanding Including Undisbursed as of December 31, 1982
With Major Reported Additions Through December 31, 1983

Debt Repayable in Foreign Currency and Goods
(US\$'000)

Type of creditor Creditor country	Debt outstanding			Major reported additions, Jan 1-Dec 31, 1983
	Disbursed	Undisbursed	Total	
<u>Suppliers' Credits</u>				
Australia	2,127	93	2,220	-
France	3,510	16,467	19,977	-
Germany, Fed. Rep. of	58,937	-	58,937	-
Japan	1,524,257	1,338,712	2,862,969	661,626
Korea, Rep. of	94,061	754	94,815	-
Netherlands	8,257	-	8,257	-
Pakistan	-	12,682	12,682	-
Switzerland	817	-	817	-
Tanzania	513	-	513	-
United Kingdom	5,669	11,086	16,755	23,797
United States	-	-	-	2,273
Yugoslavia	55,015	16	55,031	-
<u>Total Suppliers' Credits</u>	<u>1,753,163</u>	<u>1,379,810</u>	<u>3,132,973</u>	<u>687,696</u>
<u>Financial Institutions</u>				
Austria	25,231	1,577	26,808	2,752
Belgium	82,395	21,272	103,667	36,232
Canada	350,000	-	350,000	-
France	283,999	838,862	1,122,861	12,411
Germany, Fed. Rep. of	421,194	168,716	589,910	42,078
Hong Kong	706,038	30,000	736,038	-
Italy	4,079	2	4,081	-
Japan	380,435	124,357	504,792	326,703
Netherlands	193,196	97,675	290,871	194,328
Norway	40,308	19,799	60,107	-
Singapore	208,236	275,209	483,445	-
Sweden	48,577	153,985	202,562	-
Switzerland	21,361	106,490	127,851	4,474
United Kingdom	195,291	746,369	941,660	90,586
United States	1,918,055	122,311	2,040,366	1,006,411
<u>Total Financial Institutions</u>	<u>4,878,395</u>	<u>2,706,624</u>	<u>7,585,019</u>	<u>1,715,975</u>
<u>Bonds</u>				
Germany, Fed. Rep. of	42,079	-	42,07	-
Japan	127,650	-	127,650	42,550
Kuwait	20,610	-	20,610	-
Netherlands	20,004	-	20,004	38,102
Saudi Arabia	75,000	-	75,000	-
Switzerland	236,603	-	236,603	-
United Kingdom	-	-	-	250,000
<u>Total Bonds</u>	<u>521,946</u>	<u>-</u>	<u>521,946</u>	<u>330,652</u>
<u>Nationalization</u>				
Netherlands	143,265	-	143,265	-
<u>Total Nationalization</u>	<u>143,265</u>	<u>-</u>	<u>143,265</u>	<u>-</u>

Type of creditor Creditor country	Debt outstanding			Major reported additions, Jan 1-Dec 31, 1983
	Disbursed	Undisbursed	Total	
<u>Multilateral Loans</u>				
Asian Development Bank	420,938	1,436,501	1,857,439	88,700
EEC	4,383	1,117	5,500	-
IBRD	1,734,578	3,013,719	4,748,297	1,209,900
IDA	707,271	225,891	933,162	-
Islamic Development Bank	-	8,825	8,825	-
<u>Total Multilateral Loans</u>	<u>2,867,170</u>	<u>4,686,053</u>	<u>7,553,223</u>	<u>1,298,600</u>
<u>Bilateral Loans</u>				
Australia	6,240	3,557	9,797	-
Austria	76,632	13,202	89,834	-
Belgium	51,954	16,518	68,472	-
Bulgaria	1,658	-	1,658	-
Canada	185,304	285,371	470,675	16,251
China	55,968	-	55,968	-
Czechoslovakia	55,288	-	55,288	-
Denmark	64,343	21,457	85,800	-
Egypt, Arab Rep. of	2,707	-	2,707	-
France	226,751	162,235	388,986	-
German Dem. Rep.	45,469	-	45,469	-
Germany, Fed. Rep. of	818,454	668,739	1,487,193	176,781
Hungary	13,791	-	13,791	-
India	5,259	69,418	74,677	4,567
Iran	94,713	24	94,737	-
Italy	38,758	-	38,758	-
Japan	2,781,286	1,155,927	3,937,213	-
Kuwait	7,021	76,456	83,477	-
Netherlands	382,163	178,137	560,300	4,662
New Zealand	2,339	352	2,691	-
Pakistan	6,579	-	6,579	-
Poland	77,658	-	77,658	-
Romania	11,135	-	11,135	-
Saudi Arabia	52,890	54,892	107,782	50,072
Spain	209,147	36,553	245,700	-
United Arab Emirate	7,761	7,249	15,010	-
United Kingdom	8,755	25,186	33,941	51,663
United States	2,109,549	882,507	2,992,056	133,081
USSR	617,330	305	617,635	-
Yugoslavia	102,121	4,320	106,441	-
Multiple lenders	142,588	-	142,588	-
<u>Total Bilateral Loans</u>	<u>8,261,611</u>	<u>3,662,495</u>	<u>11,924,106</u>	<u>437,077</u>
<u>Total External Public Debt</u>	<u>18,425,550</u>	<u>12,434,982</u>	<u>30,860,532</u>	<u>4,470,000</u>

Notes: (1) Only debts with an original or extended maturity of over one year are included in this table.

(2) Major reported additions to December 31, 1983 converted to US dollars at end-1982 exchange rates. At average 1983 exchange rates, these commitments amounted to \$4,412 million.

Source: IBRD Debtor Reporting System based on data provided by Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

Service Payments, Commitments, Disbursements and Outstanding Amounts of External Public Debt /a
(US\$'000)

Year	Debt outstanding at beginning of period		Transactions during period					Other changes	
	Disbursed only	Including undisbursed	Commitments	Disbursements	Service payments			Cancellations	Adjustment /b
					Principal	Interest	Total		
<u>Actual</u>									
1977	10,001,650	14,534,173	1,720,488	1,956,138	820,999	440,695	1,261,694	14,249	714,419
1978	11,658,326	16,133,832	3,288,390	2,205,368	1,548,319	513,797	2,062,116	40,543	1,113,907
1979	13,107,267	18,947,267	4,196,933	1,865,411	1,328,656	770,911	2,099,567	132,208	-450,013
1980	13,234,366	21,215,677	4,181,794	2,536,401	952,713	819,224	1,771,937	118,261	8,742
1981	14,882,067	24,335,514	5,184,447	2,355,823	1,000,994	972,724	1,973,718	163,286	-1,270,911
1982	15,739,462	27,079,185	5,903,274	4,252,434	1,148,080	1,159,983	2,308,063	9,477	-964,386
1983	18,425,550	30,860,516							
<u>Projected</u>									
1983	18,425,550	30,860,516	4,470,000	4,971,907	1,544,274	1,228,126	2,772,400	-	60,702
1984	21,792,433	33,725,540	-	3,944,667	1,908,517	1,449,725	3,358,242	-	32
1985	23,828,606	31,817,055	-	3,007,418	2,206,481	1,597,560	3,804,041	-	14
1986	24,629,553	29,610,588	-	2,163,160	2,150,019	1,640,511	3,790,530	-	8
1987	24,642,707	27,460,577	-	1,456,194	2,356,866	1,628,867	3,985,733	-	21
1988	23,742,043	25,103,732	-	671,196	2,733,359	1,534,036	4,267,395	-	24
1989	21,679,903	22,370,397	-	341,046	2,707,986	1,361,159	4,069,145	-	-5
1990	19,312,964	19,662,406	-	216,368	2,467,019	1,175,775	3,642,794	-	17
1991	17,062,330	17,195,404	-	108,344	2,076,143	1,002,516	3,078,659	-	4
1992	15,094,534	15,119,265	-	22,676	1,956,394	878,230	2,834,624	-	23
1993	13,160,838	13,162,894	-	1,671	1,724,053	745,647	2,469,700	-	-14
1994	11,438,442	11,438,827	-	385	1,307,008	627,744	1,934,752	-	17
1995	10,131,836	10,131,836	-	-	1,122,349	549,591	1,671,940	-	24
1996	9,009,511	9,009,511	-	-	1,098,261	481,961	1,580,222	-	-10
1997	7,911,240	7,911,240	-	-	1,042,189	415,399	1,457,588	-	3

/a Projected based on debt outstanding including undisbursed as of December 31, 1982. Includes only debt committed January 1, 1900 - December 31, 1983. Debt repayable in foreign currency and goods.

/b This column shows the amount of arithmetic imbalance in the amount outstanding including undisbursed from one year to the next. The most common causes of imbalances are changes in exchange rates and transfer of debts from one category to another in the table.

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COUNTRY ECONOMIC MEMORANDUM

External Debt By Country and Type of Creditor as of December 31, 1982
(US\$ million)

	Bilateral/ multilateral		Other /a		Total	
	Dis- bursed only	Incl. undis- bursed	Dis- bursed only	Incl. undis- bursed	Dis- bursed only	Incl. undis- bursed
Australia	6	10	2	2	8	12
Austria	77	90	25	27	102	117
Belgium	52	68	82	104	134	172
Canada	185	471	350	350	535	821
France	227	389	287	1,143	514	1,532
Germany, Fed. Rep. of	818	1,487	522	691	1,340	2,178
Italy	39	39	4	4	43	43
Japan	2,781	3,937	2,032	3,495	4,813	7,432
Netherlands	382	560	365	462	747	1,022
New Zealand	2	3	-	-	2	3
Switzerland /b	-	-	259	365	259	365
United Kingdom	9	34	201	958	210	992
United States	2,109	2,992	1,918	2,040	4,027	5,032
<u>Total Bilateral IGGI</u>	<u>6,688</u>	<u>10,080</u>	<u>6,048</u>	<u>9,642</u>	<u>12,736</u>	<u>19,731</u>
Asian Development Bank	420	1,857	-	-	420	1,857
IBRD/IDA	2,445	5,686	-	-	2,445	5,686
<u>Total Multilateral IGGI</u>	<u>2,867</u>	<u>7,544</u>	<u>-</u>	<u>-</u>	<u>2,867</u>	<u>7,543</u>
<u>Total IGGI</u>	<u>9,555</u>	<u>17,624</u>	<u>6,048</u>	<u>9,642</u>	<u>15,603</u>	<u>27,266</u>
Non-IGGI	1,573	1,844	1,248	1,741	2,821	3,585
<u>Total</u>	<u>11,128</u>	<u>19,468</u>	<u>7,296</u>	<u>11,383</u>	<u>18,424</u>	<u>30,860</u>

/a Suppliers, financial institutions, bonds, nationalization debt.

/b Bilateral debts amounting to about \$15 million were cancelled in 1978.

Note: Data in this table refer to public sector and medium-term debt with an original maturity of one year or more. Figures rounded to nearest million. Totals may not add due to rounding.

Source: IBRD Debtor Reporting System based on data provided by Bank Indonesia.

INDONESIACOUNTRY ECONOMIC MEMORANDUMExternal Public Debt as of December 31, 1982,
by Major Currencies and Countries

	<u>Amount (\$ billion)</u>		<u>Share (%)</u>	
	<u>Disbursed</u>	<u>Total</u>	<u>Disbursed</u>	<u>Total</u>
<u>Currency</u>				
US dollar	7.94	9.96	43	32
Yen	3.86	6.33	21	21
DM	1.52	2.36	8	8
NLG	0.74	1.02	4	3
Ruble	0.62	0.62	3	2
Fr. franc	0.47	1.49	3	5
Other	1.09	2.44	6	8
Multiple	2.18	6.64	12	22
<u>Total</u>	<u>18.42</u>	<u>30.86</u>	<u>100</u>	<u>100</u>
<u>Country</u>				
Japan	4.81	7.43	26	24
USA	4.03	5.03	22	16
Germany, Fed. Rep. of	1.34	2.18	7	7
Netherlands	0.75	1.02	4	3
France	0.51	1.53	3	5
USSR	0.62	0.62	3	2
Other countries	3.40	5.42	18	18
Multilateral organizations	2.96	7.63	16	25
<u>Total</u>	<u>18.42</u>	<u>30.86</u>	<u>100</u>	<u>100</u>

Source: IBRD Debtor Reporting System based on data provided by Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

Loan Commitments by Country, 1975-82
(US\$ million)

	<u>Bilateral/multilateral /a</u>								<u>Other /b</u>								<u>Total</u>								
	1975	1976	1977	1978	1979	1980	1981	1982	1975	1976	1977	1978	1979	1980	1981	1982	1975	1976	1977	1978	1979	1980	1981	1982	
Australia	-	-	-	6	3	2	-	4	-	-	6	-	-	-	-	-	-	-	6	6	3	2	-	4	
Belgium	9	8	9	10	11	3	9	-	126	-	-	-	15	31	24	7	135	8	9	10	26	34	33	7	
Canada	14	223	5	61	11	-	149	40	-	-	-	350	-	-	-	-	14	223	5	411	11	-	149	40	
France	16	-	76	77	105	123	-	21	331	88	50	132	221	234	579	275	347	88	126	209	326	357	579	296	
Germany, Fed. Rep. of	126	13	76	86	240	179	159	381	3	470	-	76	395	177	79	39	129	483	76	162	635	356	238	420	
Italy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Japan	173	132	419	187	640	505	358	251	213	335	79	212	291	188	1,246	973	386	467	498	399	931	693	1,604	1,224	
Netherlands	-	89	41	-	55	113	2	95	310	1	-	9	37	6	40	87	310	90	41	9	92	119	42	182	
New Zealand	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1	-	-	-	-	-	-	
Switzerland	-	-	-	-	-	-	-	-	-	-	-	-	153	45	-	200	-	-	-	-	153	45	-	200	
United Kingdom	-	-	-	-	-	-	-	27	143	50	-	42	47	4	90	826	143	50	-	42	47	4	90	853	
United States	143	430	112	389	178	334	43	435	905	249	204	685	425	512	400	316	1,048	679	316	1,074	603	846	443	751	
<u>Total Bilateral</u>																									
IGGI	482	896	738	816	1,242	1,259	719	1,253	2,031	1,192	338	1,505	1,585	1,198	2,458	2,723	2,513	2,088	1,076	2,321	2,827	2,457	3,177	3,976	
Asian Development Bank	78	109	136	199	235	285	338	371	-	-	-	-	-	-	-	-	78	109	136	199	235	285	338	371	
IBRD/IDA	311	564	406	551	815	734	837	977	-	-	-	-	-	-	-	-	311	564	406	551	815	734	837	977	
<u>Total Multilateral</u>																									
IGGI	389	673	542	750	1,056	1,019	1,175	1,348	-	-	-	-	-	-	-	-	389	673	542	750	1,050	1,019	1,175	1,348	
<u>Total IGGI</u>	871	1,569	1,280	1,566	2,298	2,278	1,894	2,601	2,031	1,192	338	1,505	1,585	1,198	2,458	2,723	2,902	2,761	1,618	3,071	3,877	3,476	4,352	5,324	
Non-IGGI	200	128	103	25	38	267	466	33	175	244	-	193	265	440	354	547	375	372	103	218	309	707	820	580	
<u>Total</u>	1,071	1,697	1,383	1,591	2,336	2,545	2,360	2,634	2,206	1,436	338	1,698	1,850	1,630	2,812	3,270	3,277	3,133	1,720	3,288	4,186	4,182	5,172	5,903	

/a Specific loan and/or project agreements signed including official export credits. Amounts may, therefore, differ from donor's pledge or budget allocation, general agreements, frame agreements, exchange of notes and other forms of bilateral commitment preceding specific commitments. Grants are excluded.

/b Suppliers, financial institutions, bonds.

Note: Data in this table refer to public sector medium- and long-term loans with a maturity of one year or more. Figures rounded to nearest million. Totals may not add due to rounding.

Source: IBRD Debtor Reporting System based on data provided by Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

IGGI and Non-IGGI Disbursements and Net Resource Transfers, 1975-82
(US\$ million)

	Bilateral/multilateral /a								Others /b								Total							
	1975	1976	1977	1978	1979	1980	1981	1982	1975	1976	1977	1978	1979	1980	1981	1982	1975	1976	1977	1978	1979	1980	1981	1982
Gross Disbursements																								
Bilateral IGGI	390	613	476	575	503	671	772	724	1,526	1,315	988	1,167	826	1,134	777	1,996	1,916	1,928	1,464	1,742	1,329	1,805	1,549	2,720
Multilateral IGGI	184	291	268	216	279	431	476	714	-	-	-	-	-	-	-	-	184	291	268	216	279	431	476	714
Total IGGI	574	904	744	791	782	1,102	1,248	1,438	1,526	1,315	988	1,167	826	1,134	777	1,996	2,100	2,219	1,732	1,958	1,608	2,236	2,025	3,434
Non-IGGI	4	16	124	144	44	28	129	389	24	97	101	104	214	272	414	429	28	113	225	248	258	300	543	818
Total Gross Disbursements	578	920	868	935	826	1,130	1,377	1,827	1,550	1,412	1,089	1,271	1,040	1,406	1,191	2,425	2,128	2,332	1,957	2,206	1,865	2,536	2,569	4,252
Net Disbursements /c																								
Bilateral IGGI	357	560	394	447	332	476	536	448	1,300	1,063	307	(138)	(136)	576	182	1,365	1,657	1,623	701	309	196	1,052	718	1,813
Multilateral IGGI	184	290	266	208	252	393	419	616	-	-	-	-	-	-	-	-	184	290	266	208	252	393	419	616
Total IGGI	541	850	660	655	584	869	955	1,064	1,300	1,063	307	(138)	(136)	576	182	1,365	1,841	1,913	967	517	448	1,445	1,137	2,429
Non-IGGI	(27)	(16)	91	76	(25)	(59)	50	295	(35)	2	78	65	114	197	381	379	(62)	(14)	169	141	89	138	431	674
Total Net Disbursements	514	834	751	731	559	810	1,005	1,359	1,265	1,065	385	(73)	(22)	773	563	1,744	1,779	1,898	1,135	657	537	1,584	1,568	3,104
Net Resource Transfers /d																								
Bilateral IGGI	290	470	280	303	141	294	351	256	1,198	868	38	(407)	(578)	118	(374)	752	1,488	1,338	318	(104)	(437)	412	(23)	1,008
Multilateral IGGI	180	282	230	144	167	286	293	457	-	-	-	-	-	-	-	-	180	282	230	144	167	286	293	457
Total IGGI	470	752	510	447	308	580	644	713	1,198	868	38	(407)	(578)	118	(374)	752	1,668	1,620	548	40	(270)	698	270	1,465
Non-IGGI	(28)	(19)	81	58	(45)	(81)	25	231	(36)	(30)	66	46	82	148	297	248	(64)	(49)	147	104	37	67	322	479
Total Net Resource Transfers	442	733	591	505	263	499	669	944	1,162	838	104	(362)	(496)	266	(77)	1,000	1,604	1,571	694	143	(234)	765	592	1,944

/a Excluding grants.

/b Suppliers, financial institutions, bonds.

/c Equals gross disbursements minus amortization.

/d Equals gross disbursements minus debt service.

Note: Data in this table refer to disbursements and resource transfers of public sector medium- and long-term debt with a maturity of one year or more. Figures rounded to nearest million. Totals may not add due to rounding.

Source: IBRD Debtor Reporting System based on data provided by Bank Indonesia.

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Summary External Debt Data, 1975-82 /a

	1975	1976	1977	1978	1979	1980	1981	1982
External Debt Data (US\$ million)								
<u>Disbursed and Outstanding Debt (DOD) /b</u>	7,994	10,002	11,658	13,107	13,234	14,882	15,739	18,426
Bilateral/multilateral	5,008	5,913	7,075	8,390	8,436	9,400	10,070	11,129
Other /c	2,986	4,089	4,583	4,717	4,798	5,482	5,669	7,297
<u>Total Debt Outstanding, Including Undisbursed (TDO) /b</u>	11,697	14,534	16,133	18,948	21,215	24,337	27,079	30,861
Bilateral/multilateral	7,121	8,828	10,588	12,751	14,177	16,537	17,850	19,478
Other /c	4,576	5,706	5,545	6,197	7,038	7,800	9,229	11,383
<u>Commitments</u>	3,277	3,133	1,720	3,288	4,196	4,182	5,172	5,903
Bilateral/multilateral	1,071	1,697	1,336	1,550	2,314	2,514	2,360	2,633
Other /c	2,206	1,436	385	1,738	1,882	1,668	2,812	3,270
<u>Gross Disbursements</u>	2,127	2,332	1,956	2,205	1,865	2,537	2,569	4,252
Bilateral/multilateral	578	920	867	935	740	1,087	1,378	1,827
Other /c	1,549	1,412	1,089	1,270	1,126	1,450	1,191	2,425
<u>Net Disbursements</u>	1,779	1,899	1,135	657	537	1,584	1,568	3,104
Bilateral/multilateral	514	834	750	730	484	776	1,005	1,360
Other /c	1,265	1,065	385	(73)	52	808	563	1,744
<u>Net Resource Transfers</u>	1,604	1,572	694	143	(234)	766	592	1,944
Bilateral/multilateral	442	733	591	505	194	474	670	944
Other /c	1,162	838	104	(362)	(428)	292	(78)	1,000
<u>Public Debt Service</u>	523	761	1,262	2,062	2,100	1,771	1,977	2,308
Amortization	348	434	821	1,548	1,329	953	1,001	1,148
Interest	175	327	441	514	771	818	976	1,160
<u>Public Debt Service</u>	523	761	1,262	2,062	2,100	1,771	1,977	2,308
Bilateral/multilateral	136	187	277	429	545	613	708	884
Other /c	388	574	985	1,632	1,554	1,158	1,269	1,424
Disbursement Indicators (%)								
<u>Undisbursed Debt/TDO /b</u>	32	31	28	31	38	39	42	40
Bilateral/multilateral	30	33	33	34	41	43	44	43
Other /c	35	28	17	24	32	30	39	36
<u>Gross Disbursements/Commitments</u>	65	74	114	67	44	64	50	72
Bilateral/multilateral	54	54	65	60	32	48	58	69
Other /c	70	98	283	73	60	87	42	74
<u>Gross Disbursements/Undisbursed Debt and Commitments /d</u>	36	34	31	28	19	21	18	25
Bilateral/multilateral	21	24	20	18	11	14	14	18
Other /c	48	47	54	47	33	37	23	36
<u>Net Disbursements/Gross Disbursements</u>	84	81	58	30	29	62	61	73
Bilateral/multilateral	89	91	87	78	65	71	73	74
Other /c	82	75	35	-	5	56	47	72
<u>Net Resource Transfers/Gross Disbursements</u>	75	67	35	6	-	30	23	46
Bilateral/multilateral	76	80	68	54	26	44	49	52
Other /c	75	59	10	-	-	20	(7)	41

/a Data in this table refer to public sector medium- and long-term loans. Loans with a maturity of less than one year and grants are not included.

/b End of year.

/c Suppliers, financial institutions, bonds, nationalization debt.

/d Gross disbursements as a percent of undisbursed debt (TDO-DOD) at the beginning of the year plus commitments during the year.

Source: IBRD Debtor Reporting System based on data provided by Bank Indonesia.

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Selected Debt Indicators, 1974-82 /a

	1974	1975	1976	1977	1978	1979	1980	1981	1982
Ratio DOD/exports <u>/b</u>	0.80	0.87	0.87	0.92	1.03	0.71	0.58	0.65	0.84
Ratio DOD/GDP	0.25	0.26	0.27	0.25	0.25	0.26	0.20	0.18	0.20
Ratio TDO/exports <u>/b</u>	1.01	1.24	1.27	1.34	1.42	1.02	0.93	1.06	1.45
Ratio TDO/GDP	0.35	0.38	0.39	0.35	0.37	0.41	0.33	0.32	0.34
Debt service/exports (%)	4.42	7.18	8.26	11.62	18.15	11.35	7.73	8.60	12.38
Debt service/GDP (%)	1.13	1.71	2.04	2.75	4.00	4.10	2.44	2.32	2.55
Debt service/government revenue (%)	6.89	9.87	10.98	14.93	23.87	19.61	10.83	10.25	12.31
Interest on DOD/average DOD <u>/c</u> (%)	1.38	2.44	3.63	4.07	4.15	5.85	5.82	6.37	6.79
Total debt service/average DOD <u>/c</u> (%)	5.03	7.29	8.46	11.65	16.65	15.94	12.60	12.91	13.51
Amortization/average TDO <u>/c</u> (%)	2.70	3.36	3.31	5.35	8.83	6.62	4.18	3.89	3.96
Total debt service/gross disbursements (%)	26	25	33	65	94	113	70	77	54
Gross disbursements/imports (incl. NFS) (%)	17	28	23	17	18	11	12	11	19
Net disbursements/imports (incl. NFS) (%)	14	23	19	10	5	3	8	7	14
Net resource transfers/imports (incl. NFS) (%)	13	21	16	6	1	-	4	3	9
<u>In US\$ Billion</u>									
GDP	25.90	30.50	37.30	45.90	51.60/e	51.25/f	72.70	85.36	90.53
Exports <u>/d</u>	6.60	7.28	9.21	10.86	11.36	18.50	22.90	22.99	18.64
Imports + net NFS <u>/d</u>	6.51	7.70	9.30	10.69	11.49	14.04	18.65	22.57	22.34
Government revenues <u>/d</u>	4.24	5.30	6.93	8.45	8.64/g	10.71	16.36	19.29	18.75

/a All ratios involving exports and imports treat trade flows relating to oil on a gross basis. Values appearing in the 1980 report have been recalculated. Exports include.

/b These ratios use a one-year lag on debt data.

/c Average of debt outstanding at the beginning and end of the year.

/d GOI fiscal year.

/e Converted at an average 1978 exchange rate of US\$1 = Rp 441.

/f 1979 and 1980 converted at an exchange rate of US\$1 = Rp 625. 1981 converted at an exchange rate of US\$1 = Rp 637.

/g Converted at an average 1978/79 exchange rate of US\$1 = Rp 494.

Note: DOD = Disbursed and outstanding debt
TDO = Total debt outstanding, incl. undisbursed

Source: Debt data from Table 4.7; GDP from Table 2.1; exports and imports from Tables 3.1, 3.5, 3.6; Government revenues from Table 5.1

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COUNTRY ECONOMIC MEMORANDUM

Central Government Budget Summary, 1973/74 - 1984/85
(Rp billion)

	Actual										Budget	
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
1. Domestic revenue	977.1	1,759.2	2,200.8	2,877.0	3,508.2	4,266.1	6,696.8	10,227.0	12,212.6	12,418.3	13,823.6	16,149.4
2. Routine expenditure /a	704.1	1,000.5	1,246.8	1,610.3	2,120.5	2,743.7	4,061.8	5,800.0	6,978.0	6,996.0	7,275.1	10,101.1
3. Government saving (1-2)	<u>273.0</u>	<u>758.7</u>	<u>954.0</u>	<u>1,266.7</u>	<u>1,387.7</u>	<u>1,522.4</u>	<u>2,635.0</u>	<u>4,427.0</u>	<u>5,235.0</u>	<u>5,422.3</u>	<u>6,548.5</u>	<u>6,048.3</u>
4. Development expenditures	473.7	966.4	1,425.2	2,043.5	2,157.6	2,555.6	4,014.2	5,916.1	6,940.0	7,360.0	9,290.3	10,459.3
5. Balance (3-4)	<u>-200.7</u>	<u>-207.7</u>	<u>-471.2</u>	<u>-776.8</u>	<u>-769.9</u>	<u>-1,033.2</u>	<u>-1,379.2</u>	<u>-1,489.1</u>	<u>-1,705.0</u>	<u>-1,937.0</u>	<u>-2,741.8</u>	<u>-4,411.0</u>
Financed by:												
6. Counterpart funds /b	93.6	37.6	20.5	10.2	35.8	48.2	64.8	64.1	45.0	15.0	5.0	39.5
7. Project aid	114.1	195.9	471.4	773.6	737.6	987.3	1,316.3	1,429.7	1,664.0	1,925.0	2,736.8	4,371.5
8. Change in balances (- = increase)	-7.0	-25.8	-20.7	-7.0	-3.5	-2.3	-1.9	-4.8	-4.0	-2.3	-	-

/a Includes debt service payments.

/b Program aid.

Source: Ministry of Finance.

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COUNTRY ECONOMIC MEMORANDUM

Central Government Receipts, 1973/74 - 1984/85
(Rp billion)

	Actual										Budget	
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
<u>Taxes on Income</u>	511.1	1,234.5	1,558.3	2,029.2	2,515.9	2,996.3	5,129.3	8,230.3	10,100.3	10,009.9	11,605.1	12,968.3
Income tax	33.3	43.4	65.3	87.4	103.0	122.2	148.1	164.2	207.2	288.8	398.8	577.6/e
Corporate tax	49.3	100.0	131.3	132.1	176.5	226.5	297.1	447.6	559.1	674.5	757.4	1,873.5
Corporate tax on oil	346.9	973.3/a	1,205.2	1,593.4	1,946.5	2,308.7	4,259.6	7,019.6	8,627.8	8,170.4	9,520.2	10,366.6
Withholding tax	56.5	78.4	97.0	147.0	202.3	232.5	291.3	433.5	513.0	641.9	628.1	-
IPEDA	19.5	29.0	35.8	42.6	53.3	63.1	71.4	87.2	94.5	105.2	132.4	150.6
Other	5.2	10.4	23.7	26.7	34.3	43.3	61.8	78.2	98.7	129.1	168.2	-
<u>Taxes on Domestic Consumption</u>	168.0	161.0	234.4	322.1	376.2	491.4	537.2	732.9	888.0	1,137.4	1,392.1	1,761.1
Sales tax	55.6	86.3	122.4	164.6	183.8	221.1	192.2	265.6	310.7	476.6	575.2	958.2/f
Excises	62.4	76.2	98.5	131.7	180.4	252.9	326.4	437.9	544.2	620.1	773.2	727.5
Other oil revenues	37.8	-16.0	-1.3	16.6	-/b	-/b	-/b	-/b	-/b	-/b	-	-/b
Miscellaneous levies	12.2	15.4	14.8	9.2	12.0	17.4	18.6	29.4	33.1	40.7	41.7	75.4
<u>Taxes on International Trade</u>	253.6	300.7	309.5	421.5	482.7	587.0	843.0	948.1	887.9	835.4	916.5	805.0
Import duties	132.4	160.9	175.1	256.0	286.9	295.3	316.7	448.0	536.2	521.9	557.0	681.4
Sales tax on imports	51.5	69.1	73.4	102.0	115.5	125.5	137.2	195.1	223.3	231.0	255.5	-
Export tax	69.7	70.7	61.0	63.5	79.3	166.2	389.1	305.0	128.4	82.5	104.0	123.6
<u>Nontax Receipt</u>	44.4	62.1	98.6	104.2	133.4	191.4	187.3	315.7	336.4	435.6	514.0	615.0
Domestic Revenue	977.1	1,759.2	2,200.8	2,877.0	3,508.2	4,266.1	6,696.8	10,227.0	12,212.0	12,418.3	14,432.7	16,149.4
<u>Development Funds</u>	207.7	233.5	491.9	783.8	773.4	1,035.5	1,381.1	1,493.8	1,709.0	1,940.0	3,882.4	4,411.0
Counterpart funds /c	93.6	37.6	20.5	10.2	35.8	48.2	64.8	64.1	45.1	15.1	14.9	39.5
Project aid /d	114.1	195.9	471.4	773.6	737.6	987.3	1,316.3	1,429.7	1,663.9	1,924.9	3,867.5	4,371.5
<u>Total Revenues</u>	1,184.8	1,992.7	2,692.7	3,660.8	4,281.6	5,301.6	8,077.9	11,720.9	13,921.6	14,358.3	18,315.1	20,560.4

/a Excludes underpayment of revenues, estimated at about Rp 340 billion, due to the Government by Pertamina.

/b Oil subsidies shown as Government expenditures (see Table 5.3).

/c Program aid.

/d Includes commercial bank and suppliers' credits for development programs/projects.

/e Includes withholding tax.

/f Includes domestic sales tax, tax sales on imports

Source: Ministry of Finance.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Central Government Expenditures, 1973/74 - 1984/85
(Rp billion)

	Actual											Budget
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
<u>Personnel Expenditures</u>	258.9	408.0	565.0	639.4	880.8	1,001.6	1,419.9	2,023.3	2,277.0	2,418.1	2,757.0	3,189.5
Wages and salaries	166.5	292.8	386.4	425.8	661.1	760.3	1,053.9	1,482.9	1,660.0	1,749.0	1,496.0	2,307.9
Rice allowance	50.7	60.2	116.5	124.4	125.6	132.8	179.9	252.0	253.0	289.9	346.1	415.7
Food allowance	16.2	26.5	33.1	49.7	50.9	51.2	109.9	193.2	241.0	255.0	261.3	286.6
Other	18.2	17.9	17.5	26.2	28.4	33.6	47.1	61.2	80.0	78.5	87.6	99.9
External	7.3	10.6	11.5	13.5	14.8	23.7	29.1	34.0	43.0	45.7	66.0	79.4
<u>Material Expenditures</u>	109.1	167.0	292.3	325.2	356.5	419.5	569.0	670.6	923.0	1,041.2	1,057.1	1,263.9
Domestic	99.5	155.2	280.1	315.8	346.3	398.4	539.6	637.8	891.0	1,007.4	1,007.0	1,207.8
External	9.6	11.8	12.2	9.4	10.0	21.1	29.4	32.8	32.0	33.8	50.1	56.1
<u>Subsidies to Regions</u>	113.1	206.9	256.6	311.0	469.9	522.3	669.9	976.1	1,209.0	1,315.4	1,546.9	1,784.6
West Irian Jaya	8.2	13.2	13.4	18.6	18.7	22.1	25.0	33.9	42.0	43.0	41.5	48.2
Other regions	104.9	193.7	243.2	292.4	451.2	500.2	644.9	942.2	1,167.4	1,272.4	1,505.4	1,736.4
<u>Debt Service Payments</u>	73.7	69.2	67.9	180.3	227.6	534.5	684.1	784.8	931.0	1,224.5	2,102.6	2,686.1
Internal	11.1	5.2	2.8	11.3	6.9	8.8	36.5	30.8	16.0	19.8	29.8	30.0
External	62.6	64.0	65.1	169.0	220.7	525.7	647.6	754.0	915.0	1,204.7	2,072.8	2,656.1
<u>Other Expenditures</u>	149.3	149.4	65.0	154.4	185.9	265.8	718.9	1,345.1	1,638.0	997.1	948.1	1,177.0
Food subsidy	-	144.0	50.0	39.1	-	43.5	124.9	281.7	224.0	-	-	-
Oil subsidy	-	-	-	34.5	65.1	197.0	534.9	1,020.0	1,316.0	-/f	928.1	-/f
Others	149.3	5.4	15.0	80.8	120.8/a	25.3	59.1/b	43.4/c	98.0/d	-	20.0	-
<u>Routine Expenditures</u>	704.1	1,000.5	1,246.8	1,610.3	2,120.5	2,743.7	4,061.8	5,800.0	6,978.0	6,996.3	8,411.8	10,101.1
<u>Development expenditures /e</u>	473.7	966.4	1,425.2	2,043.5	2,157.6	2,556.6	4,014.2	5,916.1	6,940.0	7,359.6	9,899.2	10,459.3
<u>Total Expenditures</u>	1,117.8	1,966.9	2,672.0	3,653.8	4,278.1	5,299.3	8,076.0	11,716.1	13,918.0	14,355.9	18,311.0	20,560.4

/a Includes debt service transfer to Pertamina (Rp 86.4 billion).

/b Includes Pertamina subsidy (Rp 48.1 billion).

/c Includes general election (Rp 16.5 billion).

/d Includes general election (Rp 81.0 billion).

/e For details, see Tables 5.4 and 5.5.

/f Breakdown not yet available.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Development Expenditures, 1973/74 - 1984/85
(Rp billion)

	Actual										Budget	
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
1. Departments	<u>167.3</u>	<u>221.6</u>	<u>384.9</u>	<u>590.9</u>	<u>744.5</u>	<u>851.0</u>	<u>1,480.3</u>	<u>2,533.2</u>	<u>2,725.0</u>	<u>3,260.9</u>	<u>3,219.5</u>	<u>3,510.0</u>
2. General Inpres programs	<u>48.7</u>	<u>101.3</u>	<u>129.0</u>	<u>143.7</u>	<u>167.7</u>	<u>181.6</u>	<u>218.8</u>	<u>326.8</u>	<u>449.0</u>	<u>535.3</u>	<u>538.7</u>	<u>547.7</u>
Subsidies to provinces	<u>20.8</u>	<u>47.4</u>	<u>54.0</u>	<u>61.5</u>	<u>75.4</u>	<u>86.8</u>	<u>100.7</u>	<u>166.7</u>	<u>215.0</u>	<u>253.0</u>	<u>253.0</u>	<u>253.0</u>
Subsidies to kabupatens	<u>19.2</u>	<u>42.5</u>	<u>59.1</u>	<u>62.4</u>	<u>69.1</u>	<u>70.9</u>	<u>87.1</u>	<u>119.4</u>	<u>163.0</u>	<u>193.9</u>	<u>194.1</u>	<u>201.9</u>
Subsidies to villages	<u>5.7</u>	<u>11.4</u>	<u>15.9</u>	<u>19.8</u>	<u>23.2</u>	<u>23.9</u>	<u>31.0</u>	<u>50.7</u>	<u>71.0</u>	<u>88.4</u>	<u>91.6</u>	<u>92.8</u>
3. Sectoral Inpres programs	<u>19.2</u>	<u>25.0</u>	<u>65.1</u>	<u>94.1</u>	<u>137.0</u>	<u>176.0</u>	<u>252.0</u>	<u>377.3</u>	<u>585.0</u>	<u>444.2</u>	<u>771.2</u>	<u>809.7</u>
Primary schools	<u>17.2</u>	<u>19.7</u>	<u>49.9</u>	<u>57.3</u>	<u>85.0</u>	<u>111.8</u>	<u>155.8</u>	<u>249.9</u>	<u>375.0</u>	<u>267.4</u>	<u>549.3</u>	<u>580.8</u>
Health	-	<u>5.3</u>	<u>15.2</u>	<u>20.8</u>	<u>26.3</u>	<u>26.9</u>	<u>30.0</u>	<u>50.4</u>	<u>78.8</u>	<u>80.3</u>	<u>87.3</u>	<u>98.4</u>
Markets	-	-	-	-	<u>1.2</u>	<u>1.3</u>	<u>12.4</u>	<u>2.5</u>	<u>6.0</u>	<u>4.5</u>	<u>10.6</u>	<u>10.6</u>
Replanting/afforestation	-	-	-	<u>16.0</u>	<u>24.5</u>	<u>36.0</u>	<u>40.8</u>	<u>48.6</u>	<u>70.4</u>	<u>49.6</u>	<u>59.4</u>	<u>39.8</u>
Roads	-	-	-	-	-	-	<u>13.0</u>	<u>25.9</u>	<u>54.8</u>	<u>42.4</u>	<u>64.6</u>	<u>80.1</u>
4. IPEDA	<u>19.5</u>	<u>28.0</u>	<u>34.6</u>	<u>42.2</u>	<u>52.5</u>	<u>63.1</u>	<u>71.4</u>	<u>87.2</u>	<u>94.0</u>	<u>105.2</u>	<u>182.4</u>	<u>150.6</u>
5. Irian Jaya and East Timor	<u>3.3</u>	<u>4.0</u>	<u>5.5</u>	<u>5.0</u>	<u>9.0</u>	<u>10.3</u>	<u>6.6</u>	<u>6.4</u>	<u>6.8</u>	<u>5.7</u>	<u>5.2</u>	<u>8.5</u>
Subtotal of transfers to lower levels of government (2-5)	<u>85.7</u>	<u>158.3</u>	<u>234.2</u>	<u>285.0</u>	<u>366.2</u>	<u>431.0</u>	<u>548.8</u>	<u>807.7</u>	<u>1,134.8</u>	<u>1,090.4</u>	<u>1,447.5</u>	<u>1,516.5</u>
6. Fertilizer subsidy	<u>33.0</u>	<u>227.2</u>	<u>134.5</u>	<u>107.3</u>	<u>31.8</u>	<u>82.6</u>	<u>125.0</u>	<u>283.6</u>	<u>371.0</u>	<u>420.1</u>	<u>324.2</u>	<u>458.7</u>
7. Government capital participation (PMP)	<u>40.8</u>	<u>91.1</u>	<u>108.7</u>	<u>217.9</u>	<u>166.9</u>	<u>128.5</u>	<u>252.8</u>	<u>476.5</u>	<u>481.0</u>	<u>336.6</u>	<u>591.7</u>	<u>359.6</u>
8. Others	<u>10.0</u>	<u>67.7</u>	<u>64.0</u>	<u>79.8</u>	<u>109.8</u>	<u>75.1</u>	<u>291.0</u>	<u>385.5</u>	<u>565.3</u>	<u>326.7</u>	<u>448.7</u>	<u>243.0</u>
Total (1-8)	<u>336.3</u>	<u>765.9</u>	<u>926.3</u>	<u>1,280.9</u>	<u>1,419.8</u>	<u>1,568.3</u>	<u>2,697.9</u>	<u>4,486.4</u>	<u>5,276.2</u>	<u>5,434.7</u>	<u>6,031.6</u>	<u>6,087.8</u>
9. Project aid	<u>114.1</u>	<u>195.9</u>	<u>471.4</u>	<u>773.6</u>	<u>737.6</u>	<u>987.3</u>	<u>1,316.3</u>	<u>1,429.7</u>	<u>1,663.9</u>	<u>1,924.9</u>	<u>3,867.5</u>	<u>4,371.5</u>
Total (1-9)	<u>450.9</u>	<u>961.8</u>	<u>1,397.7</u>	<u>2,054.5</u>	<u>2,156.8</u>	<u>2,555.6</u>	<u>4,014.2</u>	<u>5,916.1</u>	<u>6,940.1</u>	<u>7,359.6</u>	<u>9,899.2</u>	<u>10,459.3</u>

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Development Expenditures by Sector, 1975/76 - 1984/85
(Rp billion)

Sector	Actual								Total		1979/80		1980/81		Actual		1982/83		1983/84		Budget	
	1975/76		1976/77		1977/78		1978/79		Repelita II						1981/82						1984/85	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Agriculture & irrigation (Of which fertilizer subsidy)	270	19.0	364	17.8	380	17.6	450	17.6	1,763	19.3	509	12.7	929	15.7	954	13.7	931	12.7	913	9.2	1,402	13.4
	(134)	(9.4)	(105)	(5.1)	(64)	(3.0)	(83)	(3.2)	(609)	(6.7)	(125)	(3.2)	(284)	(4.8)	(371)	(5.3)	(461)	(6.3)	-	-	(459)	(4.4)
Industry & mining	120	8.4	201	9.8	139	6.4	205	8.0	734	8.0	403	10.0	415	7.0	530	7.6	914	12.4	2,153	21.7	926	8.9
Electric power	123	8.6	224	11.0	223	10.3	272	10.6	920	10.1	330	8.2	507	8.6	827	11.9	758	10.3	660	6.7	1,025	9.8
Transportation & tourism	326	22.9	408	20.0	355	16.5	413	16.2	1,627	17.8	485	12.0	780	13.2	808	11.6	876	11.9	1,527	15.4	1,392	13.3
Manpower & transmigration	10	0.7	27	1.3	61	2.8	95	3.7	196	2.1	162	4.0	325	5.5	416	6.0	436	5.9	456	4.6	675	6.5
Regional development	165	11.6	190	9.3	251	11.6	275	10.8	1,019	11.1	336	8.4	482	8.1	616	8.9	712	9.7	749	7.6	810	7.7
Education	114	8.0	136	6.7	211	9.8	251	9.8	763	8.3	362	9.0	575	9.7	726	10.5	703	9.6	1,335	13.5	1,502	14.4
Health	38	2.7	45	2.2	71	3.3	79	3.1	255	2.8	142	3.5	218	3.7	285	4.1	260	3.5	278	2.8	253	2.4
Housing & water supply	14	1.0	27	1.3	90	4.2	56	2.2	192	2.1	117	2.9	191	3.2	167	2.4	151	2.1	221	2.2	433	4.1
General public services /a	74	5.2	110	5.4	123	5.7	224	8.8	583	6.4	473	11.8	700	11.8	800	11.5	719	9.8	899	9.1	67	0.6
Government capital participation	132	9.3	234	11.5	190	8.8	162	6.3	823	9.0	485	12.0	389	6.6	389	3.1	281	3.8	234	2.4	162	1.6
Others /b	39	2.7	79	3.9	65	3.0	73	2.9	274	3.0	250	6.3	405	6.8	422	6.0	619	8.4	474	4.8	1,813	17.3
Total Development Expenditures	1,425	100.0	2,044	100.0	2,157	100.0	2,556	100.0	9,148	100.0	4,054	100.0	5,917	100.0	6,940	100.0	7,360	100.0	9,899	100.0	10,459	100.0
Total (excl. fertilizer subsidies)	1,291		1,939		2,093		2,473		8,540		3,929		5,633		6,569		6,899		-		10,000	

/a Law and order, defense and security, government apparatus.

/b Trade and cooperatives, religion, information and science. From 1979/80 includes natural resource development and environment.

/c At time-weighted average exchange rate for FY78/79 of US\$1 = Rp 494.

Source: Ministry of Finance.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Project Aid by Sector, 1975/76 - 1984/85
(Rp billion)

Sector	Actual																		Budget	
	1975/76		1976/77		1977/78		1978/79		1979/80		1980/81		1981/82		1982/83		1983/84		1984/85	
	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %	Amt.	share %
Agriculture & irrigation	43	9	116	15	145	20	135	14	155	11.8	223	15.6	230	14.7	101	5.3	155	4.0	530	12.1
Industry & mining	76	16	143	18	95	13	199	20	324	24.6	226	15.8	661	42.4	734	38.1	} 2,235	57.8	769	17.6
Electric power	90	19	171	22	164	22	208	21	240	18.2	264	18.5	308	18.5	506	26.3			730	16.7
Transportation & tourism	227	48	283	37	213	29	250	25	192	14.6	308	21.5	298	19.1	332	17.3	887	22.9	761	17.4
Manpower & transmigration	1	.	1	.	10	1	12	1	23	1.7	39	2.7	38	2.4	15	0.8	45	1.2	151	3.4
Regional development	.	.	2	.	8	1	8	1	18	1.4	24	1.7	24	1.5	3	0.2	7	1.2	42	1.0
Education	7	1	5	1	29	4	35	4	43	3.3	50	3.5	43	2.8	24	1.3	211	5.5	285	6.5
Health	7	1	6	1	15	2	22	2	34	2.6	36	2.6	41	2.6	24	1.3	37	1.0	122	2.8
Housing & water supply	3	1	3	.	28	4	18	2	28	2.1	33	2.3	22	1.4	21	1.1	51	1.3	199	4.6
General public services	-	-	-	-	-	-	54	5	175	13.3	154	10.7	145	9.3	83	4.3	152	3.9	322	7.4
Government capital participation	7	1	7	1	8	1	33	3	34	2.6	36	2.5	28	1.8	47	2.4	45	1.2	201	4.6
Others	11	2	37	5	23	3	13	1	50	3.8	37	2.6	30	1.9	35	1.8	42	1.1	261	6.0
<u>Total Project Aid /a</u>	<u>471</u>	<u>100</u>	<u>774</u>	<u>100</u>	<u>738</u>	<u>100</u>	<u>987</u>	<u>100</u>	<u>100</u>	<u>100.0</u>	<u>1,430</u>	<u>100.0</u>	<u>1,561</u>	<u>100.0</u>	<u>1,925</u>	<u>100.0</u>	<u>3,867</u>	<u>100.0</u>	<u>4,372</u>	<u>100.0</u>

/a Includes commercial credits for development programs/projects.

Note: . = less than 1. Totals may not add due to rounding.

Source: Ministry of Finance.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Money Supply, 1971-83
(Rp billion)

End of period	Total	Change	%	Currency		Demand deposits	
				Position	%	Position	%
1971	320.8	+70.5	+28.2	199.4	62	121.4	38
1972	474.6	+153.8	+48.0	271.8	57	202.8	43
1973	669.0	+194.4	+41.0	375.0	56	294.0	44
1974	937.5	+268.5	+40.1	494.2	53	443.3	47
1975	1,250.1	+312.6	+33.3	625.3	50	624.8	50
1976	1,603.0	+407.9	+32.6	781.0	49	822.0	51
1977	2,006.4	+403.4	+25.2	979.1	49	1,027.3	51
<u>1978</u>		<u>+481.9</u>	<u>+24.0</u>				
Qtr I	2,110.9	+104.5	+5.2	1,035.8	49	1,075.1	51
Qtr II	2,240.5	+129.7	+6.1	1,110.1	50	1,130.4	50
Qtr III	2,370.7	+130.2	+5.8	1,155.9	49	1,214.8	51
Qtr IV	2,488.3	+117.6	+5.0	1,239.9	50	1,248.4	50
<u>1979</u>		<u>+890.2</u>	<u>+35.8</u>				
Qtr I	2,799.9	+311.6	+12.5	1,368.7	49	1,431.2	51
Qtr II	3,020.7	+220.8	+7.9	1,508.7	50	1,512.0	50
Qtr III	3,180.0	+159.3	+5.3	1,499.7	47	1,680.3	53
Qtr IV	3,378.5	+198.5	+6.2	1,545.4	46	1,833.1	54
<u>1980</u>		<u>+1,632.8</u>	<u>+48.3</u>				
Qtr I	3,759.4	+380.8	+11.3	1,736.2	46	2,023.2	54
Qtr II	4,171.4	+412.0	+11.0	1,947.5	47	2,223.9	53
Qtr III	4,695.3	+523.9	+12.6	2,143.4	46	2,551.9	54
Qtr IV	5,011.3	+316.0	+6.7	2,169.5	43	2,841.8	57
<u>1981</u>		<u>+1,462.7</u>	<u>+29.2</u>				
Qtr I	5,214.0	+202.7	+4.0	2,229.0	43	2,985.5	57
Qtr II	5,598.5	+384.5	+7.4	2,364.7	42	3,233.9	58
Qtr III	5,990.0	+391.5	+7.0	2,444.0	41	3,546.0	59
Qtr IV	6,474.0	+484.0	+8.1	2,545.0	39	3,929.0	61
<u>1982</u>		<u>+1,118.0</u>	<u>+17.3</u>				
Qtr I	6,777.0	+303.0	+4.7	2,544.0	38	4,233.0	62
Qtr II	7,175.0	+398.0	+5.9	2,648.0	37	4,527.0	63
Qtr III	7,593.0	+448.0	+5.8	2,826.0	37	4,767.0	63
Qtr IV	7,592.0	-1.0	-	2,909.0	38	4,683.0	62
<u>1983</u>		<u>+57.0</u>	<u>+0.8</u>				
Qtr I	7,379.0	-213.0	-2.8	3,000.0	41	4,379.0	59
Qtr II	7,508.0	+129.0	+1.7	3,286.0	44	4,222.0	56
Qtr III	7,716.0	+208.0	+2.8	3,307.0	43	4,409.0	57
Qtr IV	7,649.0	-67.0	-0.9	3,324.0	43	4,325.0	57

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Changes in Factors Affecting Money Supply, 1972-83
(Rp billion)

End of period	Net foreign assets	Net claims on central government	Claims on official entities & public enterprises	Blocked account	Claims on business & individuals	Time & savings deposits /a	Net other items
1972	212.3	-50.8	-3.0	-	183.4	-72.2	-115.9
1973	75.3	-33.4	-57.8	-	407.6	-98.1	-214.8
1974	364.0	-131.9	294.7	-	146.9	-196.3	-208.9
1975	-588.5	162.0	926.4	-415.0	298.4	-213.3	142.6
1976	345.0	-333.4	449.8	-51.4	356.8	-300.3	-113.7
1977	568.5	-275.0	34.8	67.3	284.2	-96.5	-179.9
<u>1978</u>	<u>718.3</u>	<u>-264.8</u>	<u>973.2</u>	<u>-76.9</u>	<u>587.4</u>	<u>-195.6</u>	<u>-1,259.7</u>
Qtr I	8.1	-12.9	-18.0	81.7	156.0	-39.7	-70.7
Qtr II	-40.4	-99.4	189.9	6.7	115.4	-76.6	34.1
Qtr III	134.4	-88.7	134.5	-12.2	82.3	-26.9	-93.3
Qtr IV /b	616.2	-63.8	666.8	-153.1	233.7	-52.4	-1,129.8
<u>1979</u>	<u>1,779.2</u>	<u>-832.6</u>	<u>371.5</u>	<u>84.8</u>	<u>555.5</u>	<u>-516.4</u>	<u>-551.8</u>
Qtr I	245.9	-39.5	55.3	4.1	201.1	-34.8	-120.5
Qtr II	340.0	-208.2	87.5	8.8	202.4	-116.3	-93.5
Qtr III	341.3	-290.9	53.9	42.0	275.6	-234.2	-28.4
Qtr IV	852.0	-294.0	174.7	29.9	-123.6	-131.1	-209.4
<u>1980</u>	<u>3,055.4</u>	<u>-1,891.9</u>	<u>487.8</u>	<u>-5.2</u>	<u>1,178.8</u>	<u>-858.6</u>	<u>-333.6</u>
Qtr I	1,009.3	-424.8	-66.0	-	203.5	-168.8	-172.2
Qtr II	1,126.7	-841.9	198.5	-2.1	243.4	-302.7	-9.9
Qtr III	687.9	-266.8	210.4	-1.0	388.4	-303.1	-191.9
Qtr IV	231.5	-358.4	144.9	-2.1	343.5	-83.9	40.4
<u>1981</u>	<u>269</u>	<u>-572</u>	<u>594</u>	<u>36</u>	<u>1,755</u>	<u>-535</u>	<u>-68</u>
Qtr I	301	-299	-14	-	321	4	-94
Qtr II	-187	-418	72	41	579	-71	368
Qtr III	119	-139	307	-1	493	-356	-31
Qtr IV	36	284	229	-4	362	-112	-311
<u>1982</u>	<u>-653</u>	<u>432</u>	<u>672</u>	<u>107</u>	<u>2,625</u>	<u>-688</u>	<u>-1,377</u>
Qtr I	27	172	141	-4	536	-146	-423
Qtr II	-724	-153	325	-2	835	-159	277
Qtr III	-287	450	296	80	592	-131	-583
Qtr IV	331	-37	-90	33	662	-252	-648
<u>1983</u>	<u>1,312</u>	<u>-1,245</u>	<u>191</u>	<u>118</u>	<u>1,905</u>	<u>-2,498</u>	<u>875</u>
Qtr I	-438	559	-377	-	736	-294	73
Qtr II	429	-348	316	-1	47	-597	280
Qtr III	671	-867	-12	-3	620	-655	457
Qtr IV	596	-494	200	122	502	-1,051	60

/a Includes foreign currencies deposits held by residents.

/b Includes foreign exchange valuation adjustment.

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Consolidated Balance Sheet of Monetary System, 1974-83
(Rp billion)

End of period	1974	1975	1976	1977	1978 /a	1979	1980	1981	1982	1983/b	
Assets											
<u>Foreign Assets (net)</u>	660	72	417	985	1,663	(650)	3,483	6,538	6,807	5,125	7,754
<u>Domestic Credit</u>	1,395	2,366	2,789	2,900	4,046	(474)	4,225	3,979	5,791	9,282	10,006
<u>Claims on Public Sector</u>	317	991	1,056	883	1,441	(433)	1,065	-360	-304	927	102
<u>Central government</u>	-167	-5	-338	-613	-878	(46)	-1,711	-3,619	-4,191	-3,757	-4,545
Official entities and public enterprises	484	1,411	1,861	1,895	2,756	(551)	3,167	3,655	4,247	4,936	5,009
Government-blocked account	-	-415	-466	-399	-476	(-164)	-391	-396	-360	-252	-362
<u>Claims on Private Sector</u>	1,078	1,376	1,732	2,017	2,605	(41)	3,160	4,339	6,095	8,355	9,904
Loans	1,032	1,321	1,655	1,939	2,494	(34)	2,993	4,107	5,844	8,038	9,474
Other claims	46	55	78	78	111	(7)	167	232	251	317	430
<u>Total Assets/Liabilities</u>	<u>2,055</u>	<u>2,438</u>	<u>3,205</u>	<u>3,885</u>	<u>5,749</u>	<u>(1,124)</u>	<u>7,708</u>	<u>10,517</u>	<u>12,598</u>	<u>14,411</u>	<u>17,760</u>
Liabilities											
<u>Import deposits</u>	283	79	88	146	174	(58)	213	365	298	300	261
<u>Other items (net)</u>	320	381	486	608	1,726	(983)	2,279	2,461	2,595	3,036	3,663
<u>Money and Quasi-Money</u>	1,452	1,978	2,631	3,131	3,809	(83)	5,216	7,691	9,705	11,075	13,836
<u>Money</u>	937	1,250	1,603	2,006	2,488	(-)	3,379	4,995	6,474	7,121	7,716
Currency	494	625	781	979	1,240	(-)	1,546	2,153	2,545	2,934	3,307
Demand deposits	443	625	822	1,027	1,248	(-)	1,833	2,842	3,929	4,187	4,409
<u>Quasi-Money</u>	515	728	1,028	1,125	1,320	(83)	1,837	2,696	3,231	3,954	6,120

/a Includes revaluation of foreign exchange on account of November 15, 1978 devaluation. Amount of adjustments is shown in brackets.

/b As of September 1983.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Consolidated Balance Sheet of Monetary Authorities, 1974-83
(Rp billion)

End of period	1974	1975	1976	1977	1978 /a	1979	1980	1981	1982	1983/b
Assets										
Foreign assets	619	253	628	1,057	1,652 (561)	2,626	4,216	4,033	3,667	4,605
<u>Claims on Public Sector</u>	<u>349</u>	<u>1,254</u>	<u>1,448</u>	<u>1,537</u>	<u>2,434 (543)</u>	<u>2,723</u>	<u>3,018</u>	<u>3,444</u>	<u>3,735</u>	<u>2,730</u>
Central Government	122	368	239	312	509 (62)	580	604	860	1,109	461
Official entities and public sector enterprises	227	886	1,209	1,225	1,925 (481)	2,143	2,414	2,584	2,626	2,269
Claims on deposit money banks	294	565	640	682	846 (-)	1,129	1,722	2,548	3,742	4,309
Other assets	46	80	84	33	74 (2)	158	289	536	2,120	1,763
<u>Total Assets/Liabilities</u>	<u>1,230</u>	<u>2,145</u>	<u>2,801</u>	<u>3,301</u>	<u>5,002(1,106)</u>	<u>6,636</u>	<u>9,245</u>	<u>10,561</u>	<u>13,254</u>	<u>13,406</u>
Liabilities										
<u>Reserve Money</u>	<u>773</u>	<u>1,038</u>	<u>1,333</u>	<u>1,670</u>	<u>1,847 (-)</u>	<u>2,421</u>	<u>3,258</u>	<u>3,838</u>	<u>3,997</u>	<u>4,713</u>
Currency outside banks and government	494	625	781	979	1,240 (-)	1,545	2,153	2,545	2,934	3,306
Currency and deposits of banks	250	382	523	623	551 (-)	780	1,058	1,199	1,010	1,345
Other deposits	29	31	29	68	56 (-)	96	47	82	53	62
Government deposits	242	704	950	1,154	1,646 (180)	2,362	3,912	4,553	4,566	4,848
Other liabilities	215	403	518	477	1,509 (926)	1,853	2,075	2,169	4,691	3,845

/a Includes revaluation of foreign exchange on account of November 15, 1978 devaluation. Amount of adjustments is shown in brackets.

/b As of September 1983.

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Banking System Credits by Economic Sector, 1974-83 /a
(Rp billion)

Sectors	1974	1975	1976	1977	1978/b	1979/c	1980	1981	1982	1983
<u>Agriculture /d</u>	116.4	220.2	265.6	270.0	344.8	438.8	526.0	813	1,025	1,258
In rupiah	116.4	211.9	255.4	264.4	344.3	436.7	525.9	813	1,025	1,258
In foreign exchange	-	8.3	10.2	5.6	0.5	1.4	0.1	-	-	-
<u>Mining</u>	10.7	741.3	1,035.9	1,061.7	1,699.4	1,892.6	1,865.9	1,693	1,472	800
In rupiah	10.7	88.4	175.6	197.2	230.3	1,892.6	1,865.9	1,693	1,472	800
In foreign exchange /e	-	652.9	860.3	864.5	1,469.1	-	-	-	-	-
<u>Manufacturing Industry /d</u>	358.9	718.8	990.4	1,156.2	1,624.3	1,933.2	2,563.2	3,324	4,717	6,035
In rupiah	358.9	508.1	739.4	904.3	1,264.8	1,525.7	2,175.9	2,938	4,221	5,406
In foreign exchange	-	210.7	251.0	251.7	359.5	397.5	387.3	386	496	629
<u>Trade /f</u>	626.8	766.3	858.1	911.2	1,113.8	1,377.9	1,976.7	3,062	4,129	5,319
In rupiah	604.5	741.1	836.7	897.7	1,105.3	1,333.5	1,970.9	3,046	4,009	4,935
In foreign exchange	22.3	25.2	21.4	13.5	8.5	4.4	5.8	16	120	384
<u>Service Rendering Industry</u>	121.7	171.7	260.5	319.1	388.6	422.0	482.4	675	1,046	1,394
In rupiah	121.7	166.2	253.4	310.9	384.9	417.8	475.8	672	1,043	1,385
In foreign exchange	-	5.5	7.1	8.2	3.7	4.2	6.6	3	3	9
<u>Others</u>	338.2	132.2	156.0	218.3	223.3	244.0	466.1	592	633	711
In rupiah	173.5	127.3	154.3	217.8	220.4	241.5	464.1	592	631	710
In foreign exchange	164.7/g	4.9	1.7	0.5	2.9	2.5	2.0	-	2	1
<u>Total</u>	1,572.7	2,750.5	3,566.5	3,936.5	5,394.2	6,267.8	7,880.3	10,159	13,022	15,517
In rupiah /h	1,385.7	1,843.0	2,414.8	2,792.5	3,550.0	5,857.3	7,478.5	9,754	12,401	14,494
In foreign exchange	187.0	907.5	1,151.7	1,144.0	1,844.2	410.0	401.8	405	621	1,023

/a Credits outstanding end of period. Includes unpaid interest. Excludes interbank credits, credits to Government and to nonresidents, special liquidity credits, special credit and foreign exchange component of project aid.

/b Includes foreign exchange revaluation (Rp 681.8 billion).

/c Includes foreign exchange revaluation (Rp 698.0 billion).

/d Processing of agricultural products is classified into manufacturing industry according to International Standard Industrial Classification (ISIC) 1968.

/e Includes credits to Pertamina for repayment of foreign borrowing. Since March 1979, credit in foreign exchange to Pertamina has been converted to credits in Rupiah.

/f Includes credits for food procurement and hotel projects.

/g Includes credits in foreign exchange for all sectors.

/h Includes investment credits, small-scale investment credits (KIK) and permanent working capital credits (KMKP).

Source: Bank of Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Banking System Credits by Type of Bank, 1974-83 /a
(Rp billion)

Sectors	1974	1975	1976	1977	1978/b	1979/c	1980	1981	1982	1983
<u>Bank Indonesia (Direct Credits) /d</u>	<u>230.7</u>	<u>893.6</u>	<u>1,211.6</u>	<u>1,229.3</u>	<u>1,934.9</u>	<u>2,163.1</u>	<u>2,454.1</u>	<u>2,649</u>	<u>2,771</u>	<u>2,357</u>
In rupiah	230.7	244.8	351.3	364.8	465.8	2,163.1	2,454.1	2,649	2,771	2,357
In foreign exchange	-	648.9	860.3	864.5	1,469.1	-	-	-	-	-
<u>State Commercial Banks/f</u>	<u>1,135.8</u>	<u>1,601.9</u>	<u>2,007.5</u>	<u>2,266.7</u>	<u>2,831.8</u>	<u>3,269.8</u>	<u>4,300.6</u>	<u>5,881</u>	<u>8,031</u>	<u>10,019</u>
In rupiah	1,003.8	1,397.2	1,774.7	2,058.2	2,548.5	2,957.3	3,959.5	5,523	7,474	9,113
In foreign exchange	132.0	204.7	232.8	208.5	283.3	312.5	341.1	358	557	906
<u>National Private Banks</u>	<u>89.1</u>	<u>132.7</u>	<u>197.4</u>	<u>257.0</u>	<u>365.4</u>	<u>493.7</u>	<u>711.2</u>	<u>1,081</u>	<u>1,554</u>	<u>2,272</u>
In rupiah	88.9	131.2	195.8	254.1	359.9	466.2	705.1	1,069	1,534	2,242
In foreign exchange	0.2	1.5	1.6	2.9	5.5	26.9	6.1	12	20	30
<u>Foreign Banks</u>	<u>117.1</u>	<u>122.3</u>	<u>150.0</u>	<u>183.5</u>	<u>262.0</u>	<u>341.8</u>	<u>414.4</u>	<u>548</u>	<u>666</u>	<u>869</u>
In rupiah	62.3	69.8	93.0	115.4	175.7	271.2	359.8	513	622	782
In foreign exchange	54.8	52.5	57.0	68.1	86.3	70.6	54.6	35	44	87
<u>Total</u>	<u>1,572.7</u>	<u>2,750.5</u>	<u>3,566.5</u>	<u>5,394.2</u>	<u>5,467.3</u>	<u>6,267.8</u>	<u>7,880.3</u>	<u>10,159</u>	<u>13,022</u>	<u>15,517</u>
In rupiah /g	1,385.7	1,843.0	2,214.8	3,550.0	3,623.0	5,857.8	7,478.5	9,754	12,401	14,494
In foreign exchange	187.0	907.5	1,151.7	1,144.0	1,844.2	410.0	401.8	405	621	1,023

/a Credits outstanding end of period. Includes unpaid interest. Excludes interbank credits, credits to Government and to nonresidents, special liquidity credits, special credit and foreign exchange component of project aid.

/b Includes foreign exchange revaluation (Rp 681.8 billion).

/c Includes foreign exchange revaluation (Rp 698.0 billion).

/d Excludes Bank Indonesia credits to banks.

/e Includes credits to Pertamina for repayment of foreign borrowing. Since March 1979, credit in foreign exchange to Pertamina has been converted to credits in Rupiah.

/f Includes BAPINDO.

/g Includes investment credits, small investment credits (KIK) and permanent working capital credits (KMKP).

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Small-Scale Investment Credits and
Permanent Working Capital Credits, 1974-83
 (Rp billion)

Year	Small-scale investment credits /a			Permanent working capital credits /a		
	Number of applications approved ('000s)	Approved value -- (Rp billion) --	Out-standing	Number of applications approved ('000s)	Approved value -- (Rp billion) --	Out-standing
1974	10	15	13	15	16	13
1975	17	28	22	24	29	19
1976	28	50	36	166	67	41
1977	40	74	50	322	115	62
1978	55	106	65	420	177	84
1979	72	163	99	644	305	154
1980	115	314	210	890	569	321
<u>1981</u>	167	528	353	1,242	1,062	635
<u>1982</u>						
Qtr I	176	571	374	1,298	1,178	704
Qtr II	184	608	387	1,342	1,300	770
Qtr III	193	648	400	1,383	1,378	784
Qtr IV	195	659	400	1,392	1,406	795
<u>1983</u>						
Qtr I	213	723	414	1,486	1,542	815
Qtr II	218	749	409	1,531	1,627	845
Qtr III	222	778	411	1,553	1,679	872
Qtr IV	223	789	403	1,577	1,761	856

/a Cumulative as of end of period.

/b As of November 1983 (provisional figures).

Source: Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

Medium-Term Investment Credits by Economic Sector, 1973-83 /a
(Rp million)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 /c
<u>Credit Approved /b</u>	<u>162,329</u>	<u>196,617</u>	<u>255,066</u>	<u>320,002</u>	<u>352,324</u>	<u>438,353</u>	<u>566,233</u>	<u>879,743</u>	<u>1,238,000</u>	<u>1,866,000</u>	<u>2,989,000</u>
Agriculture	16,291	19,739	34,354	44,434	61,824	80,601	108,750	151,739	212,000	277,000	477,000
Manufacturing industry	80,952	96,637	108,658	130,264	143,782	154,174	189,132	265,454	431,000	812,000	1,218,000
Mining	495	221	154	5,296	5,296	5,142	5,277	5,245	37,000	40,000	71,000
Communication & tourism	56,812	67,312	96,763	125,465	125,920	177,271	248,320	418,018	503,000	656,000	1,084,000
Others	7,779	12,708	15,137	14,543	15,502	21,149	14,754	39,287	55,000	81,000	139,000
<u>Credit Outstanding</u>	<u>111,083</u>	<u>136,997</u>	<u>177,788</u>	<u>246,156</u>	<u>278,180</u>	<u>332,492</u>	<u>396,987</u>	<u>554,834</u>	<u>816,000</u>	<u>1,227,000</u>	<u>1,640,000</u>
Agriculture	8,044	12,644	26,857	38,922	52,072	67,288	73,179	92,299	148,000	199,000	268,000
Manufacturing industry	59,640	69,331	78,306	94,066	105,754	115,190	140,247	176,889	256,000	505,000	630,000
Mining	161	147	143	4,278	3,277	2,122	1,222	219	25,000	31,000	41,000
Communication & tourism	38,501	45,758	62,222	99,985	106,556	133,630	172,420	257,532	357,000	437,000	628,000
Others	4,737	9,117	10,260	8,905	10,521	14,262	9,919	28,892	36,000	55,000	73,000

/a Excludes small-scale investment credits and permanent working capital credits.

/b Cumulative as of end of period. Excludes repayments.

/c As of October 1983.

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Time Deposits with State Banks, 1971-83
(Rp million)

End of:	24 months	18 months	12 months	6 months	3 months & less	Total /a	Interbank time deposits /b	Non- resident time deposits /b
1971	-	-	75,291	15,552	13,591	104,627	14,843	9,308
1972	-	-	107,576	28,699	9,550	145,825	23,898	20,050
1973	-	-	129,382	14,162	5,371	148,215	8,998	7,385
1974	179,934	8,090	37,226	8,298	5,093	238,641	6,983	82
1975	335,476	10,281	27,372	9,212	3,971	386,312	5,065	469
1976	517,568	3,987	48,500	25,082	16,575	611,712	14,466	862
1977	604,825	1,896	33,559	40,967	10,869	691,846	13,480	974
<u>1978</u>								
Qtr I	615,913	599	34,621	34,308	1,477	686,918	13,997	486
Qtr II	622,049	45	39,000	44,632	1,865	707,591	13,615	451
Qtr III	623,876	-	39,491	55,700	2,226	721,293	13,306	216
Qtr IV	608,971	-	42,115	51,718	3,808	706,612	12,840	190
<u>1979</u>								
Qtr I	608,194	-	36,259	58,304	5,121	707,878	14,479	170
Qtr II	616,609	-	30,191	55,489	5,811	708,101	15,441	156
Qtr III	615,288	-	28,939	64,927	2,768	711,922	15,915	161
Qtr IV	607,017	-	29,871	74,693	3,822	715,403	16,230	1,104
<u>1980</u>								
Qtr I	610,360	-	31,726	75,312	7,106	724,504	19,589	1,012
Qtr II	616,849	-	34,086	72,020	2,639	725,594	19,379	628
Qtr III	646,050	-	36,248	64,826	3,724	750,848	20,600	526
Qtr IV	656,215	-	34,447	38,747	4,988	734,447	19,888	559
<u>1981</u>								
Qtr I	692,309	-	33,502	24,918	2,918	753,647	16,149	565
Qtr II	720,211	-	37,085	25,237	2,948	785,481	21,572	186
Qtr III	748,100	-	38,900	23,300	3,500	813,800	-	-
Qtr IV	765,200	-	42,800	18,500	2,700	829,200	-	-
<u>1982</u>								
Qtr I	777,300	-	40,000	10,000	3,800	831,100	-	-
Qtr II	811,900	-	36,400	8,000	2,800	859,000	-	-
Qtr III	819,400	-	38,500	9,100	5,900	872,900	-	-
Qtr IV	848,700	-	39,300	10,100	5,300	903,400	-	-
<u>1983</u>								
Qtr I	848,300	-	42,300	11,600	3,600	905,800	-	-
Qtr II	763,200	-	111,900	119,300	129,600	1,129,000	-	-
Qtr III	655,800	700	417,000	210,400	297,700	1,581,700	-	-
Qtr IV	538,700	1,400	837,900	298,600	449,100	2,125,800	-	-

/a Up to 1974, includes interbank time deposits and nonresident time deposits. Since 1975, based on the decree of the Board of Directors of Bank Indonesia No. 5/16/Kep/DIR, September 20, 1972, excludes interbank time deposits and nonresident time deposits.

/b Not published after 1981.

Source: Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

State Bank Lending Rates and Rediscount Rates and Percentage of
Refinancing Facilities Provided by Bank Indonesia, 1976-82

	Bank lending rates /a			Rediscount percentage /b			Rediscount rates /a		
	Effective: 04/01/76	01/01/78	01/18/82/c	04/01/76	01/01/78	01/18/82	04/01/76	01/01/78	01/18/82
Short-Term Credit /d									
Supply & distribution of rice, paddy & corn by BUUDs/KUDs	9	9		100	100		3	3	
BIMAS & INMAS credits for rice & secondary crops	12	12		100	100		3	3	
Collection & distribution of smallholders' salt by BUUDs/KUDs & PN Caram & working capital credits for PN Caram	12	12		80	75		6	4	
Operation of wheat flour mills	12	12		70	75		6	4	
Export & production of export goods	12	12		70	75		5	4	
Preshipment									
Strong export commodities			9			60			3
Other commodities			6			60			3
Postshipment (all of export commodities)			6			60			3
Production, import & distribution of fertilizer & insecticides for use by smallholders	12	12		85-80	75		6	4	
Aid-financed import & distribution of nonfood commodities	12-18	12		100-50	75		6-10	4	
Collection & distribution of agricultural produce, animal husbandry & fishery by BUUDs/KUDs & cooperatives	15	12		70	75		10	4	
Smallholders' agriculture, handicrafts, animal husbandry, poultry, farming & fishery	15-18	12		50-70	75		10	4	
Manufacturing & service-rendering industries									
Rice mills/hullers & sugar mills	15	13.5/e		70	70		10	6	
Textiles	15	13.5/e		70	10		10	6	
Coconut oil & palm oil, agricultural equipment, paper, cement & printing & publishing	18	13.5/e		50	70		10	6	
Public transportation	15	13.5/e		70	70		10	6	
Tourism	24	13.5/e		-	70		-	6	
Other production activities, import & distribution of supervised goods & domestic trade	18	13.5/e		50	70		10	6	
Sugar stock	18	13.5/e		75	70		10	6	
Contractors of DIP, INPRES & local government-financed & contractors of low-cost housing projects	21	13.5/e		20	70		10	6	
Other contractors	21	15		20	60		10	6	
Imports & distribution of other import goods	24	18		-	40		-	6	
Other credits, n.c.s.	24	21		-	25		-	6	
Investment (Medium-Term) Credits by Category /e /f									
Up to Rp 75 million	12	10.5		80	80		4	3	
Above Rp 75 million to Rp 200 million	12	12.0		75	75		4	4	
Above Rp 200 million to Rp 500 million	15	13.5		70	70		6	4	
Above Rp 500 million to Rp 1,500 million /g	15	13.5		65	65		6	4	
Small Investment Credits (KIK)									
Credits of no more than Rp 10 million /h	12	10.5		80	80		4	3	
Permanent Working Capital Credits (KMKP)									
Credits of no more than Rp 10 million /h	15	12		70	75		8	4	

/a Annual interest rates in percent.

/b Percentage of loan refinanced by Bank Indonesia.

/c Except for outstanding credits which will be effective from March 1, 1982. Lending banks will accept an interest compensation from the Central Bank at the rate of 3% except credits for strong export commodities in stage of preshipment.

/d Category as defined in January 1, 1978 regulations.

/e Effective October 1, 1982, these loans were no longer eligible for rediscount.

/f Before January 1, 1978, the maximum amount for each category is as follows: Up to Rp 25 million, above Rp 25 million to Rp 100 million, above Rp 100 million to Rp 300 million, above Rp 300 million.

/g In June 1980, the maximum amount was increased from Rp 1,500 to Rp 2,500 million.

/h Before February 1977, the maximum amount of KIK and KMKP was Rp 5 million.

Source: Data provided by the Indonesian authorities.

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COUNTRY ECONOMIC MEMORANDUM

State Bank Lending Rates and Rediscount Rates and Percentage
Refinancing Facilities Provided by Bank Indonesia Since June 1, 1983
(%)

	Interest to customer p.a.	Minimum % of self-financing of customer against the total cost need	Liquidity credit Amount	Interest rate p.a.
<u>Working Capital Credit</u>				
BIMAS credit	12	0	100	3
Permanent working capital (KMKP)	12	0	75	3
BIMAS fertilizer and pesticide production, import and distribu- tor credit	12	25	75	3
National private estate credit (PSN) Credit to cooperatives for the mem- bers thereof and in the framework of procuring the goods of high priority	12	30	75	3
Export credit	Stipulated by the rela- tive bank /a	15	60	3
<u>Investment Credit</u>				
Mini credit	12	0	100	3
Midi credit	12	0	100	3
Small investment credit (KIK)	12	0	80	3
Estate credit				
Smallholders nucleus estate (PIR) Rejuvenation, rehabilitation and expansion of export crops (PRPTE)	12	0	80	3
National private estate (PSN)	12	10	85	3
Rice field plotting /b	12	0	80	3
Investment credit up to Rp 75 mil- lion	12	10	80	3
Credit to cooperatives for the mem- bers thereof and in the framework of procuring the goods of high priority	12	0	90	3
<u>Other Credit /c</u>				
Housing ownership credit (KPR)	5-9	10-20	80	3
Indonesian students credit (KMI)	6	0	100	3
Students dormitory credit	5	0	80	3

/a If the export has been really realized, the interest rate shall be stipulated at 90% p.a.

/b Prior to the credit granting to the farmers, it shall be granted in the form of the direct credit by Bank Indonesia to the Ministry of Agriculture.

/c The former provision shall remain applicable until the further stipulation.

Source: Data provided by Indonesian authorities.

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COUNTRY ECONOMIC MEMORANDUM

Interest Rates on Deposits at Commercial Banks, 1978-83
(% p.a.)

	Demand deposits /b	Tabanas savings deposits /c	Taska savings deposits	Certificate of deposits /d	State banks' time deposits					Private national banks' /a time deposits				
					Less than 3 mos.	3 mos.	6 mos. /e	12 mos.	24 mos. /f	Less than 3 mos.	3 mos.	6 mos.	12 mos.	24 mos.
1978														
March	3/1.8	15/6	9	6.1			6	9	15/12	10.5	13.3	16.2	18.6	20.8
June	3/1.8	15/6	9	6.1			6	9	15/12	10.8	13.3	15.8	18.0	21.2
September	3/1.8	15/6	9	7.6			6	9	15/12	12.0	13.1	15.2	17.6	21.1
December	3/1.8	15/6	9	7.6			6	9	15/12	12.8	12.5	15.6	17.2	20.7
1979														
March	3/1.8	15/6	9	7.6			6	9	15/12	13.9	14.8	16.0	17.2	20.3
June	3/1.8	15/6	9	7.6			6	9	15/12	12.9	15.8	15.9	17.7	19.9
September	3/1.8	15/6	9	9.5			6	9	15/12	13.2	15.1	16.8	18.0	20.5
December	3/1.8	15/6	9	9.8	14.3	14.8	6	9	15/12	16.2	16.7	18.3	19.6	19.6
1980														
March	3/1.8	15/6	9	10.0	7.0	8.8	6	9	15/12	14.3	17.2	18.5	19.5	19.8
June	3/1.8	15/6	9	11.6	7.0	8.8	6	9	15/12	14.2	16.1	17.8	20.1	19.3
September	3/1.8	15/6	9	9.3	7.0	8.8	6	9	15/12	14.6	17.6	18.7	20.2	19.5
December	3/1.8	15/6	9	10.2	9.0	15.0	6	9	15/12	14.2	16.1	17.8	20.1	19.3
1981														
March	3/1.8	15/6	9	10.4	9.0	12.0	6	9	15/12	15.9	16.8	17.7	20.0	18.9
June	3/1.8	15/6	9	10.9	13.1	15.0	6	9	15/12	16.4	18.0	18.8	20.4	19.4
September	3/1.8	15/6	9	10.9	13.8	15.0	6	9	15/12	16.2	17.2	17.8	19.5	19.4
December	3/1.8	15/6	9	10.9	12.5	15.0	6	9	15/12	15.4	17.4	17.9	19.4	19.0
1982														
March	3/1.8	15/6	9	11.3	12.0	12.0	6	9	15/12	15.9	16.8	18.1	19.3	18.6
June	3/1.8	15/6	9	12.5	12.0	10.0	6	9	15/12	16.7	17.4	18.3	19.4	17.9
September	3/1.8	15/6	9	12.5	9.0	9.8	6	9	15/12	16.7	17.7	18.5	19.4	18.8
December	3/1.8	15/6	9	12.5	9.0	10.0	6	9	15/12	16.9	17.1	18.5	19.3	18.8
1983														
March	3/1.8	15/6	9	12.5	12.0	9.6	6	9	15/12	17.9	17.4	18.6	19.3	19.0
June /g	3/1.8	15/12	9	14.5	15.5	16.5	17	18	17/h	16.3	17.4	18.8	19.5	18.8

/a Average rate of interest at selected banks (based on daily averages for the last month of the period through April 1983 for private banks, and May 1983 for state banks; end of period data used thereafter).

/b Until February 1978, 4.5% for demand deposits exceeding Rp 50 million, 3% for smaller amounts. From March 1978, 3% for amounts above Rp 50 million, 1.8% for Rp 1-50 million, and individually determined for amounts below Rp 1 million.

/c Fifteen percent up to Rp 200,000, 6% above Rp 200,000.

/d Midpoint of range for six month rate.

/e Since January 1978, banks are free to set interest rates on deposits three months and less.

/f Effective January 1978, 15% for amounts up to Rp 2.5 million and 12% for amounts above Rp 2.5 million.

/g Ceiling on the deposit interest rate ceiling at state ceiling removed on June 1, 1983.

/h With 12 percent legal minimum rate starting in June 1983.

Source: Data provided by the Indonesian authorities.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Principal Agricultural Products by Subsectors, 1968-83
('000 tons)

Product	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/a	1983/a
Food Crops																
Rice	11,667	12,249	13,140	13,724	13,183	14,607	15,276	15,185	15,845	15,876	17,525	17,872	20,163	22,286	22,839	23,961
Corn	3,166	2,292	2,825	2,606	2,254	3,690	3,011	2,909	2,572	3,143	4,029	3,606	3,991	4,509	3,235	5,180
Cassava	11,356	10,917	10,478	10,690	10,385	1,186	13,031	12,546	12,191	12,488	12,902	13,751	13,726	13,301	12,988	13,219
Sweet potato	2,364	2,260	2,175	2,211	2,066	2,387	2,469	2,433	2,381	2,460	2,083	2,194	2,079	2,094	1,676	3,231
Soya beans (shelled)	420	389	498	516	518	541	589	590	522	523	617	680	653	704	521	580
Groundnuts (shelled)	287	267	281	284	282	290	307	380	341	409	446	424	470	475	437	477
Fishery																
Saltwater fish	723	785	807	820	836	889	949	997	1,082	1,158	1,227	1,318	1,395	1,408	1,490	1,577
Freshwater fish	423	429	421	424	433	389	388	393	401	414	420	430	455	506	530	522
Meat and Poultry																
Meat	305	309	314	332	366	379	403	435	449	468	475	486	506	596	629	-
Eggs	51	58	59	68	78	81	98	112	116	131	151	164	173	275	297	-
Milk (mln liters)	29	29	29	36	38	35	57	51	57	61	62	72	78	86	117	-
Cash Crops																
Rubber	735	777	802	804	804	844	817	782	857	844	884	898	1,002	1,046	861	1,017
Palm oil	181	189	217	248	269	290	348	397	431	473	532	642	701	748	873	972
Coconut/copra	1,133	1,221	1,208	1,149	1,311	1,237	1,341	1,375	1,532	1,518	1,575	1,582	1,764	1,812	1,736	1,628
Coffee	150	175	186	196	214	150	149	160	193	194	222	228	285	295	266	234
Tea	73	62	64	71	51	67	64	69	73	79	88	125	106	110	92	111
Cloves	17	11	15	14	15	22	15	15	20	41	22	35	39	40	31	32
Pepper	47	17	17	26	13	29	27	23	37	43	46	47	37	39	37	32
Tobacco	54	84	78	76	79	80	79	82	89	84	81	87	118	118	117	122
Cane sugar	752	922	873	1,041	1,133	1,009	1,237	1,227	1,321	1,438	1,616	1,601	1,832	1,700	1,862	2,164
Cotton	-	3	3	2	1	1	3	2	1	1	1	1	1	10	18	-
Forestry ('000 cu m)																
Teakwood	468	520	568	770	597	676	620	595	480	573	475	575	500	3,955	6,046	-
Other timber	4,783	7,587	11,856	12,968	17,120	25,124	22,660	15,701	20,947	22,939	30,619	25,852	21,240	15,954	13,015	-

/a Preliminary figures.

Source: Supplement to the President's Report to Parliament, August 1983.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Agricultural Production of Major Crops by Type of Product, 1970-82
('000 tons)

Product	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982/a
<u>Smallholders</u>													
Rubber	571	572	559	599	571	536	610	584	612	616	705	740	549
Coconut/copra	1,198	1,147	1,308	1,233	1,335	1,370	1,527	1,513	1,554	1,561	1,737	1,789	1,713
Coffee	170	178	196	140	132	144	178	181	206	209	266	276	246
Cloves	15	14	13	22	15	15	17	37	21	35	39	40	31
Tea	21	24	7	14	15	14	13	14	17	17	21	22	18
Sugar	196	211	247	199	250	223	267	352	485	498	749	1,364	1,505
Tobacco	69	69	74	69	69	74	76	72	68	73	101	103	106
Pepper	17	24	18	29	27	23	37	43	46	47	37	39	37
Cotton	3.0	2.0	2.0	1.1	2.9	2.4	0.9	0.9	1.0	1.0	6.0	10.0	18.0
Palm oil	-	-	-	-	-	-	-	-	-	-	-	-	-
Palm kernel	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>Private Estates</u>													
Rubber	113	114	128	109	108	109	104	107	110	112	111	114	122
Coconut/copra	2	2	3	4	6	5	5	6	21	21	22	23	23
Coffee	6	7	6	4	7	6	6	6	7	8	6	6	7
Cloves	..	..	..	0.1	0.2	0.1	0.2	1.6	0.2	0.2	0.2	0.2	-
Tea	9	10	7	10	11	10	11	11	15	16	17	18	10
Sugar	74	122	130	118	127	126	152	162	71	73	114	116	112
Tobacco	-	-	-	-	-	-	-	-	-	-	-	-	-
Pepper	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton	-	-	-	-	-	-	-	-	-	-	-	-	-
Palm oil	70	79	81	82	104	126	145	147	165	168	202	206	279
Palm kernel	15	18	17	18	21	24	27	29	22	23	36	37	43
<u>Government Estates</u>													
Rubber	118	118	121	137	138	137	142	147	162	170	186	192	190
Coconut/copra	-	-	-	-	-	-	-	-	-	-	-	-	-
Coffee	9	11	12	6	10	10	10	10	10	11	13	13	13
Cloves	-	-	-	-	-	-	-	-	-	-	-	-	-
Tea	34	37	37	43	40	46	49	51	59	92	68	70	64
Sugar	603	708	756	693	860	878	902	924	960	1,030	968	220	245
Tobacco	9	7	5	11	8	8	11	12	13	14	15	15	11
Pepper	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton	-	-	-	-	-	-	-	-	-	-	-	-	-
Palm oil	147	170	189	207	244	271	286	338	367	474	499	542	594
Palm kernel	33	39	42	46	52	57	56	64	72	85	90	98	104
<u>Total</u>													
Rubber	802	804	808	845	818	782	856	838	884	898	1,002	1,046	861
Coconut/copra	1,200	1,149	1,311	1,237	1,341	1,375	1,532	1,518	1,575	1,582	1,759	1,812	1,736
Coffee	185	196	214	150	149	160	194	197	223	228	285	295	266
Cloves	15	14	13	22	15	15	20	39	21	35	39.2	40	31
Tea	64	71	51	67	65	70	73	76	91	125	106	110	92
Sugar	873	1,041	1,133	1,009	1,237	1,227	1,321	1,438	1,516	1,601	1,831	1,700	1,862
Tobacco	78	76	79	80	77	82	87	84	81	87	116	118	117
Pepper	17	24	18	29	27	23	37	43	46	47	37	39	37
Cotton	3	2	2	3	3	2	3	2	1	1	6	10	18
Palm oil	217	249	270	289	348	397	431	483	532	642	701	748	873
Palm kernel	48	57	59	64	73	81	83	93	94	108	126	135	147

.. = Not available.

/a Preliminary figures.

Sources: Department of Agriculture; the Supplement to the President's Report to Parliament, August 1983; and Nota Keuangan 1983/84.

INDONESIACOUNTRY ECONOMIC MEMORANDUMRice - Area Harvested, Production and Yield, 1968-83

Year	Area harvested ('000 ha)	Average yield (tons/ha)	Paddy /a output ('000 tons)	Rice output ('000 tons)
1968	8,021	2.80	22,435	11,667
1969	8,014	2.94	23,556	12,249
1970	8,135	3.11	25,269	13,140
1971	8,324	3.17	26,392	13,724
1972	7,987	3.17	25,351	13,183
1973	8,403	3.34	28,091	14,607
1974	8,509	3.45	29,376	15,276
1975	8,495	3.44	29,202	15,185
1976	8,368	3.64	30,470	15,845
1977	8,360	3.65	30,531	15,876
1978	8,929	3.77	33,702	17,525
1979	8,850	3.90	34,369	17,872
1980	9,005	4.31	38,775	20,163
1981	9,382	4.57	42,861	22,286
1982/b	8,988	4.89	43,917	22,837
1983/b	9,102	5.06	46,079	23,961

/a Dry stalk paddy.

/b Preliminary figures.

Source: Supplement to the President's Report to Parliament, August 1983.

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COUNTRY ECONOMIC MEMORANDUM

BULOG Rice Program, 1978/79 - 1984/85
(In thousand ton)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 ^{/c}	1984/85 ^{/d}
Beginning stock	459	708	886	1,242	1,591	1,013	1,293
Domestic procurement	881	431	1,635	1,952	1,933	1,082	1,600
Import:	1,268	2,580	1,213	437	506	1,120	500
PL-480	(304)	(353)	(101)	(46)	(-)	(65)	(45)
Other food	(15)	(327)	(198)	(48)	(-)	(140)	(-)
Commercial	(949)	(1,900)	(914)	(343)	(506)	(915)	(455)
<u>Total availability</u>	<u>2,608</u>	<u>3,719</u>	<u>3,734</u>	<u>3,631</u>	<u>4,030</u>	<u>3,215</u>	<u>3,893</u>
Distribution	1,858	2,834	2,480	2,014	2,972 ^{/a}	1,894	2,350
Government	(608)	(666)	(649)	(806)	(1,320)	(1,409)	(1,400)
State enterprises	(106)	(90)	(89)	(95)	(105)	(84)	(100)
Market operations	(1,032)	(2,036)	(1,628)	(1,033)	(1,517)	(375)	(750)
Other	(106)	(42)	(114)	(80)	(29)	(26)	(100)
Losses	46	8	12	26	45	28	35
End stock	708	886	1,242	1,591	1,013	1,293	1,008
<u>Memorandum item:</u>							
Rice production ^{/b}	17,325	17,872	20,163	22,286	22,837	23,961	24,723

^{/a} Since January 1982, all regions have received rice in kind; formerly, surplus regions received food allowance.

^{/b} On calendar year basis.

^{/c} Preliminary as of March 7, 1984.

^{/d} Official estimate.

Source: Data provided by the Indonesian authorities.

INDONESIACOUNTRY ECONOMIC MEMORANDUMArea Covered Under Rice Intensification Programs, 1969-82
('000 ha)

Year	Bimas	Of which Insus	Inmas	Of which Insus	Total
1969	1,309	-	821	-	2,130
1970	1,248	-	845	-	2,093
1971	1,396	-	1,393	-	2,789
1972	1,203	-	1,966	-	3,169
1973	1,832	-	2,156	-	3,988
1974	2,676	-	1,048	-	3,724
1975	2,683	-	1,957	-	3,640
1976	2,424	-	1,189	-	3,613
1977	2,059	-	2,181	-	4,240
1978	1,960	-	2,888	-	4,848
1979	1,571	-	3,452	-	5,023
1980	1,374	420	4,142	640	5,516
1981	1,267	587	4,658	1,119	5,925
1982 <u>/a</u>	1,707	857	5,293	2,315	7,000

/a Preliminary figures.

Source: Supplement to the President's Report to Parliament, August 1983.

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COUNTRY ECONOMIC MEMORANDUM

Quarterly Index of Manufacturing Production From Selected Industrial Groups /a
(Quarterly average 1975 = 100)

Description	Annual Average			1982 (by quarter)				1983 /b (by quarter)		
	1979	1980	1981	I	II	III	IV	I	II	III
Manufacture of condensed and dried milk, creamery and processed butter, fresh and preserved cream (4)	201	234	235	197	229	282	247	244	277	281
Manufacture of malt liquors and malt (4)	118	129	147	180	149	175	177	188	186	193
Manufacture of clove cigarettes (20)	120	151	180	163	187	193	206	175	196	207
Cigarettes manufacturing (13)	131	130	124	117	117	114	112	114	122	122
Yarn and thread manufacturing (20)	111	118	126	129	124	113	118	117	113	112
Weaving mills except jute-weaving products (193)	122	126	138	137	133	123	128	118	118	118
Manufacturing of batik (10)	117	117	99	106	115	111	107	104	102	102
Knitting mills (32)	77	88	89	85	82	78	79	77	82	83
Manufacture of footwear (14)	112	130	123	124	127	122	122	124	125	126
Plywood manufacturing (6)	220	392	471	447	471	374	404	446	439	452
Manufacture of paper (all kinds) (8)	151	153	152	156	148	148	154	137	154	160
Manufacture of basic chemicals except fertilizer (13)	124	128	127	121	126	129	143	132	131	134
Manufacture of fertilizer (3)	336	466	492	510	482	501	489	554	564	571
Manufacture of paint, varnisher, lacquers (7)	98	115	159	168	164	166	172	132	130	140
Manufacture of matches (7)	139	179	189	194	215	232	278	324	302	326
Manufacture of tires and tubes (12)	227	257	301	342	288	256	288	305	311	319
Manufacture of glass and glass products (17)	171	208	257	234	225	189	188	223	223	223
Manufacture of cement (7)	314	367	395	407	421	421	429	387	420	442
Iron and steel basic industries (15)	443	1,034	1,248	1,031	947	784	1,118	1,127	1,119	1,137
Manufacture of structural metal products (24)	154	172	188	183	198	207	196	208	195	205
Manufacture of dry-cell batteries (12)	180	228	231	236	247	255	331	344	353	362
Manufacture of radio, TV, cassette and other communication equipment and apparatus (16)	230	340	348	344	336	306	345	338	370	370
Motor vehicles assembling and manufacturing (17)	117	194	256	262	228	190	233	206	207	225
Motorcycles and three-wheel motor vehicles assembling and manufacturing (5)	75	114	161	184	159	187	219	197	126	140
<u>General Index</u>	<u>158</u>	<u>194</u>	<u>214</u>	<u>213</u>	<u>211</u>	<u>210</u>	<u>220</u>	<u>215</u>	<u>220</u>	<u>227</u>

/a Based on Laspeyres formula.

/b Preliminary estimate.

Note: Figures within brackets () under column "Description" indicate the number of establishments covered in that group.

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COUNTRY ECONOMIC MEMORANDUM

Production of Minerals, 1973-82

Year	Petroleum (mln bbls)	Tin concentrate -----	Copper ore concentrate -----	Nickel ore ('000 tons)	Bauxite -----	Coal -----	Iron sand concentrate -----	Gold (kg)	Silver (kg)	Natural gas (mcf)
1973	489	22.6	125.9	867.3	1,229.4	148.8	280.9	352.1	9,371.9	186.1
1974	502	25.7	212.6	878.9	1,290.1	156.2	365.2	265.3	6,464.6	202.2
1975	477	25.3	201.3	801.0	992.6	206.4	353.0	330.7	4,754.7	222.2
1976	550	23.4	223.3	1,102.0	940.3	182.9	292.3	355.2	3,397.5	312.1
1977	615	25.9	189.1	1,302.5	1,301.4	230.6	311.5	255.9	2,831.9	542.8
1978	597	27.4	180.9	1,256.5	1,007.7	264.2	233.3	253.9	2,506.4	820.1
1979	580	29.4	188.8	1,552.7	1,051.9	278.6	79.9	170.0	1,644.6	998.4
1980	577	32.5	186.9	1,537.6	1,249.1	304.0	74.7	256.1	2,354.6	1,045.7
1981	585	35.4	188.5	1,543.2	1,203.4	350.4	86.6	183.1	2,000.2	1,123.7
1982	488	33.8	223.7	1,640.9	700.2	481.0	144.5	222.7	3,057.9	1,111.9

Source: Department of Mines and Energy.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Crude Oil Production by Company
('000 barrels)

	Pertamina	Lemigas	Contract of work				Production sharing contract	Total	Output daily average
			Caltex	C&T	Stanvac	Subtotal			
1969	35,298	376	217,912	-	17,365	235,277	-	270,951	742
1970	35,535	465	257,877	-	17,674	275,551	-	311,552	854
1971	34,776	575	262,846	-	22,951	285,979	4,524	325,673	892
1972	37,697	369	303,826	-	27,173	330,999	26,516	395,581	1,081
1973	38,543	431	351,528	1,035	22,768	375,331	74,231	488,536	1,339
1974	40,143	362	329,907	1,959	16,626	348,492	112,840	501,838	1,375
1975	32,590	306	300,879	1,944	13,889	316,712	127,247	476,855	1,306
1976	31,333	268	304,616	1,803	12,787	319,206	199,512	550,319	1,508
1977	30,706	285	292,950	2,459	11,974	307,383	277,812	616,186	1,688
1978	31,273	195	275,349	2,266	11,853	289,468	275,762	596,698	1,635
1979	30,316	213	266,048	1,856	10,811	278,715	271,203	580,447	1,590
1980	29,891	205	258,325	2,046	11,577	271,948	274,971	577,015	1,577
1981	29,515	176	255,515	1,799	13,141	270,454	284,694	584,839	1,600
1982 Jan	2,443	15	19,554	177	1,081	20,812	22,836	46,105	1,487
Feb	2,123	12	15,247	160	1,011	16,418	21,823	40,375	1,442
Mar	2,356	15	18,115	152	1,135	19,402	23,827	45,600	1,471
Apr	2,306	16	13,091	159	1,105	14,355	20,400	37,078	1,236
May	2,335	15	12,461	149	1,159	13,769	22,610	38,728	1,249
Jun	2,239	14	13,666	106	1,090	14,862	22,367	39,483	1,316
Jul	2,314	17	13,025	101	1,331	14,457	23,679	40,267	1,299
Aug	2,295	18	12,398	84	1,125	13,607	23,964	39,885	1,287
Sep	2,206	18	12,528	91	1,090	13,709	21,398	37,330	1,244
Oct	2,248	17	14,821	92	1,124	16,038	22,501	40,803	1,316
Nov	2,215	18	15,940	79	1,074	17,090	21,229	40,555	1,355
Dec	2,273	21	15,081	72	1,091	16,242	23,421	41,960	1,360
1983 Jan	2,306	21	12,376	65	1,064	13,505	22,089	37,521	1,223
Feb	2,052	19	7,136	66	952	8,154	18,225	28,451	-
Mar	2,285	22	13,711	80	1,083	14,874	19,367	36,548	-

Source: Central Statistics Bureau.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Petroleum Products - Supply and Demand, 1970-82
(Million bbl)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Production of crude	311.6	325.6	395.6	488.5	501.8	476.9	550.3	615.1	596.8	580.4	577.0	584.8	488.2
Crude imports	0.8	2.8	2.7	1.9	2.7	2.6	7.7	29.7	31.1	30.5	32.9	37.0	40.1
Subtotal	<u>312.4</u>	<u>328.4</u>	<u>398.3</u>	<u>490.4</u>	<u>504.5</u>	<u>479.5</u>	<u>558.0</u>	<u>644.8</u>	<u>627.8</u>	<u>610.9</u>	<u>609.9</u>	<u>621.8</u>	<u>528.3</u>
Crude exports	228.1	239.6	299.1	269.5	378.9	363.1	449.5	485.3	472.0	410.8	378.8	383.4	320.9
Crude available for refineries	84.3	88.8	96.2	120.9	125.6	116.4	108.5	159.5	155.8	200.2	231.2	238.4	207.4
Changes in crude stocks (decrease = -)	0.6	-1.2	-4.3	1.6	0.7	2.9	-4.8	7.3	-5.0	14.2	38.3	44.7	24.8
<u>Refinery Inputs (including swaps)</u>	<u>83.7</u>	<u>90.0</u>	<u>100.5</u>	<u>119.3</u>	<u>124.9</u>	<u>113.4</u>	<u>113.7</u>	<u>153.8</u>	<u>159.5</u>	<u>186.0</u>	<u>192.9</u>	<u>193.7</u>	<u>182.6</u>
Refinery consumption	7.5	7.6	7.7	8.0	7.7	6.7	6.4	11.2	9.4	8.0	8.0	6.5	6.5
<u>Refinery Output</u>	<u>76.2</u>	<u>82.4</u>	<u>92.8</u>	<u>111.8</u>	<u>117.7</u>	<u>106.7</u>	<u>107.3</u>	<u>142.6</u>	<u>150.1</u>	<u>178.0</u>	<u>184.9</u>	<u>187.2</u>	<u>176.1</u>
<u>Export of Refined Products</u>	<u>36.3</u>	<u>33.6</u>	<u>46.0</u>	<u>56.5</u>	<u>45.1</u>	<u>36.6</u>	<u>36.3</u>	<u>51.4</u>	<u>40.3</u>	<u>49.4</u>	<u>53.4</u>	<u>49.9</u>	<u>39.0</u>
Waxy residues	27.2	32.5	39.7	53.8	41.3	32.6	35.2	42.1	36.3	48.9	51.0	47.9	33.7
Bunker fuel, avtur, etc.	9.1	1.1	6.4	2.7	3.8	4.1	6.6	9.3	4.0	0.4	2.4	2.0	5.3
<u>Available for Domestic Consumption</u>	<u>39.9</u>	<u>48.8</u>	<u>46.8</u>	<u>55.3</u>	<u>72.6</u>	<u>70.1</u>	<u>71.5</u>	<u>91.2</u>	<u>109.8</u>	<u>123.7</u>	<u>126.0</u>	<u>137.3</u>	<u>137.1</u>
Product import	2.1	4.2	8.6	11.9	12.8	15.	030.4	18.3	16.9	15.3	21.1	42.7	39.8
<u>Total Supply</u>	<u>42.0</u>	<u>53.0</u>	<u>55.6</u>	<u>67.2</u>	<u>85.4</u>	<u>85.1</u>	<u>101.9</u>	<u>109.5</u>	<u>126.7</u>	<u>138.7</u>	<u>147.1</u>	<u>180.0</u>	<u>176.9</u>
<u>Domestic Consumption</u>	<u>39.2</u>	<u>44.2</u>	<u>50.7</u>	<u>58.6</u>	<u>67.9</u>	<u>77.5</u>	<u>87.7</u>	<u>98.5</u>	<u>113.0</u>	<u>124.8</u>	<u>139.6</u>	<u>154.0</u>	<u>159.1</u>
Changes in refined stocks	2.4	8.8	4.9	8.6	17.5	7.6	14.2	11.0	13.7	13.9	7.5	26.0	17.8

Source: Migas.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Domestic Sales of Petroleum Products, 1971-82 /a
(In '000 bb1)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Aviation gas	144	118	123	139	139	143	128	134	126	130	110	102
Aviation turbo	961	1,200	1,658	2,150	2,579	2,758	2,913	3,494	3,665	4,356	4,869	4,894
Premium gasoline	100	201	359	496	661	706	710	728	618	466	391	239
Regular gasoline	10,409	10,779	11,757	12,787	14,284	15,606	17,356	19,608	21,294	23,323	25,650	25,770
Kerosene	18,927	20,697	23,146	26,769	30,623	33,259	36,880	41,717	45,457	48,979	52,501	51,843
Motor diesel	6,895	9,027	11,838	14,524	18,023	22,749	27,041	31,709	34,542	40,118	44,747	49,291
Industrial diesel	2,364	2,676	3,488	4,022	4,673	5,429	6,239	6,744	7,333	7,829	9,410	9,383
Fuel oil	4,095	5,379	7,924	8,755	7,844	8,222	10,296	11,061	11,894	15,470	17,570	19,303
<u>Total</u>	<u>43,895</u>	<u>50,077</u>	<u>60,293</u>	<u>69,642</u>	<u>78,826</u>	<u>88,872</u>	<u>101,563</u>	<u>115,195</u>	<u>124,929</u>	<u>140,671</u>	<u>155,248</u>	<u>160,825</u>

/a Excluding lubricating oil and other products.

Source: Department of Mines and Energy.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Cost of Living Index in Jakarta, 1970-79
(Index: April 1977/March 1978 = 100)

End of period	Food-stuffs	Change (%)	Housing	Clothing	Other	General	Change (%)	Period average	
								General index	Change (%)
1970	26.2	+1.3	38.5	43.3	38.5	30.8	+8.9	30.1	+12.3
1971	26.8	+2.2	38.9	44.4	39.9	31.6	+2.6	31.4	+4.4
1972	38.7	+44.6	39.4	44.2	41.3	39.7	+25.7	33.4	+6.4
1973	49.7	+28.4	45.3	58.3	52.4	50.6	+27.4	43.8	+31.0
1974	65.7	+32.2	55.6	77.7	74.0	67.4	+33.3	61.6	+40.6
1975	81.1	+23.4	73.6	84.9	80.1	80.6	+19.7	73.4	+19.1
1976	91.8	+13.2	90.9	94.9	92.3	92.1	+14.2	87.9	+19.8
<u>1977</u>		+12.4					+11.8	97.6	+11.0
Qtr I	94.1	+2.5	94.8	95.9	93.7	94.2	+2.3		
Qtr II	96.3	+2.3	96.4	97.4	97.0	96.5	+2.4		
Qtr III	100.2	+4.0	99.3	101.3	100.5	100.3	+3.9		
Qtr IV	103.2	+3.0	102.8	101.8	102.6	103.0	+2.7		
<u>1978</u>		+4.4					+6.7	105.5	+8.1
Qtr I	104.1	+0.8	104.1	102.1	103.0	103.7	+0.7		
Qtr II	103.5	-0.6	105.3	103.3	104.0	103.7	-		
Qtr III	104.3	+0.8	105.3	105.2	109.7	105.4	+1.7		
Qtr IV	107.8	+3.4	105.7	110.4	118.8	109.9	+0.7		
<u>1979</u>		+27.1					+24.6	127.0	+20.4
Qtr I	114.7	+6.4	107.3	118.4	123.2	116.0	+5.6		
Qtr II /a	127.2	+10.9	122.2	125.9	131.3	127.8	+10.2		
Qtr III	137.8	+8.3	124.8	140.4	137.8	135.7	+6.2		
Qtr IV	137.0	-0.6	125.1	147.0	139.1	136.9	+0.9		

/a As of April 1979, the Cost of Living Index was replaced by the Jakarta Consumer Price Index (Table 9.2).

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Jakarta Consumer Price Index
(Index: April 1977/March 1978 = 100)

		Index					% change				
		Food	Housing	Clothing	Other	General	Food	Housing	Clothing	Other	General
	Weight	(40)	(28)	(10)	(22)	(100)					
1979	March	114.8	118.5	135.7	117.0	118.4	-	-	-	-	-
	April	117.3	122.5	136.7	122.6	121.9	2.1	3.4	0.7	4.8	2.0
	May	122.4	134.1	139.9	123.0	127.6	4.3	9.4	2.3	0.4	4.7
	June	127.3	135.0	144.3	124.7	130.6	4.0	0.6	3.2	1.4	2.4
	July	130.0	134.8	151.2	127.7	133.0	2.1	(0.1)	4.8	2.4	1.8
	August	137.6	135.1	155.9	129.5	136.9	5.8	0.3	3.1	1.4	3.0
	September	137.9	137.8	160.9	130.9	138.6	0.2	2.0	3.2	1.1	1.2
	October	136.4	138.3	163.4	131.5	138.6	(2.4)	0.4	1.9	0.5	-
	November	136.7	138.6	163.0	132.1	138.8	0.2	0.2	(0.6)	0.4	0.1
	December	137.2	138.1	168.5	132.1	139.9	0.4	(0.3)	3.4	0.7	0.7
1980	January	138.2	141.2	169.8	131.2	140.6	0.7	2.2	0.8	0.7	0.6
	February	141.1	142.0	176.1	131.3	142.7	2.2	0.6	3.7	0.1	1.5
	March	139.2	144.0	178.1	132.8	143.0	(1.4)	1.4	1.1	1.2	0.2
	April	138.1	147.3	176.1	133.5	143.8	(0.8)	2.3	(1.1)	0.5	0.6
	May	141.7	154.0	178.2	141.1	148.7	2.6	4.6	1.1	5.7	3.4
	June	144.1	158.8	178.8	142.7	151.4	1.7	3.1	0.4	1.1	1.8
	July	144.2	158.7	180.2	143.6	151.7	0.1	(0.1)	0.8	0.6	0.2
	August	148.4	157.4	183.4	144.7	153.6	2.9	(0.8)	1.7	0.8	1.2
	September	145.5	160.2	184.0	144.8	153.3	(2.0)	1.8	0.3	0.1	(0.2)
	October	148.7	160.9	184.2	144.9	154.8	2.2	0.4	0.1	0.1	1.0
	November	154.0	161.5	184.5	144.4	157.0	3.6	0.4	0.2	(0.3)	1.4
	December	152.7	160.8	184.5	144.9	156.4	(0.8)	(0.4)	0.0	0.3	(0.6)
	<u>Total</u>						<u>11.3</u>	<u>16.4</u>	<u>9.5</u>	<u>9.7</u>	<u>11.8</u>
1981	January	155.1	162.4	184.7	145.2	157.9	1.6	1.0	0.1	0.2	1.0
	February	157.6	162.6	184.9	145.8	159.1	1.6	0.1	0.1	0.4	0.8
	March	160.2	164.6	185.1	145.9	160.8	1.7	1.2	0.1	0.1	1.1
	April	160.5	168.3	185.3	146.2	162.0	0.2	2.2	0.1	0.2	0.8
	May	160.8	168.3	185.4	146.7	162.2	0.2	-	0.1	0.3	0.1
	June	161.5	169.9	185.5	146.8	163.0	0.4	1.0	0.1	0.1	0.5
	July	162.8	169.4	185.5	146.9	163.4	0.8	(0.3)	-	0.1	0.2
	August	164.0	168.3	185.6	147.5	163.7	0.7	(0.6)	-	0.4	0.2
	September	162.0	168.3	185.7	148.4	163.1	(1.2)	-	0.1	0.6	(0.4)
	October	165.0	171.1	185.7	149.2	165.3	1.9	1.7	-	0.5	1.3
	November	162.7	172.0	186.1	149.2	164.6	(1.4)	0.5	0.2	-	(0.4)
	December	163.0	175.4	186.2	149.2	165.7	0.2	2.0	-	-	0.7
	<u>Total</u>						<u>6.7</u>	<u>9.1</u>	<u>0.9</u>	<u>3.0</u>	<u>5.9</u>
1982	January	168.1	188.4	186.8	159.7	173.8	3.1	7.4	0.3	7.0	4.9
	February	167.1	191.9	186.8	161.4	174.7	(0.6)	1.8	-	1.1	0.5
	March	168.5	194.3	186.8	161.4	176.0	0.8	1.3	-	-	0.7
	April	168.4	194.3	186.8	161.4	176.0	(0.1)	-	-	-	-
	May	169.6	194.6	186.6	161.5	176.5	0.7	0.5	(0.1)	0.1	0.3
	June	168.6	195.6	187.9	161.6	176.6	(0.5)	0.5	0.7	0.1	0.1
	July	171.8	195.7	189.0	161.8	178.0	1.8	-	0.6	0.1	0.8
	August	168.2	196.2	188.9	163.3	177.0	(2.1)	0.3	(0.1)	0.9	(0.6)
	September	167.8	198.0	188.9	163.3	177.4	(0.2)	0.9	-	-	0.2
	October	169.8	201.5	189.2	164.9	179.5	1.2	1.8	0.2	1.0	1.2
	November	170.2	202.2	189.2	164.9	179.9	0.2	0.3	-	-	0.2
	December	171.5	202.9	189.2	164.9	180.6	0.8	0.3	-	-	0.4
	<u>Total</u>						<u>5.2</u>	<u>15.7</u>	<u>1.6</u>	<u>1.5</u>	<u>9.0</u>
1983	January	173.5	213.2	189.2	190.0	189.9	1.2	5.1	0.0	15.2	5.1
	February	170.7	219.6	189.2	192.1	191.0	-1.6	3.0	0.0	1.1	0.6
	March	167.9	219.5	189.2	192.1	189.8	-1.6	0.0	0.0	0.0	-0.6
	April	172.0	222.4	189.2	192.1	193.4	2.4	1.3	0.0	0.0	1.9
	May	173.5	223.6	189.2	197.3	194.3	0.9	0.5	0.0	2.7	0.5
	June	180.7	224.2	189.2	197.4	197.4	4.1	0.3	0.0	0.1	1.6
	July	183.9	224.0	189.2	197.4	198.6	1.8	-0.1	0.0	0.0	0.6
	August	185.1	223.1	189.2	199.7	199.4	0.7	-0.4	0.0	1.2	0.4
	September	186.6	223.6	189.2	199.7	200.1	0.8	0.2	0.0	0.0	0.4
	October	184.9	223.9	189.2	199.9	199.5	-0.9	0.1	0.0	0.1	-0.3
	November	184.6	225.4	189.5	201.0	200.1	-0.2	0.7	0.0	0.6	0.3
	December	186.4	224.6	189.5	201.1	200.6	1.0	-0.4	0.0	0.0	0.2
	<u>Total</u>						<u>8.7</u>	<u>10.7</u>	<u>0.2</u>	<u>22.0</u>	<u>11.1</u>

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUMIndonesia Consumer Price Index
(Index: April 1977/March 1978 = 100)

	Weight /a	Index					% change				
		Food	Housing	Clothing	Other	General	Food	Housing	Clothing	Other	General
		(46)	(24)	(11)	(19)	(100)					
1979	March	120.5	120.9	134.7	119.1	121.8	-	-	-	-	-
	April	122.5	125.0	137.4	126.1	125.5	1.7	3.4	2.0	5.9	3.0
	May	126.4	131.6	140.0	126.7	129.3	3.2	5.3	1.9	0.5	3.0
	June	130.7	133.4	144.6	127.9	132.3	3.4	1.4	3.3	0.9	2.3
	July	134.2	134.5	150.4	132.2	135.6	2.7	0.8	4.0	3.4	2.5
	August	139.1	135.7	155.1	134.2	138.8	3.6	0.9	3.1	1.5	2.3
	September	138.9	137.4	159.1	135.3	139.8	(0.1)	1.1	2.6	0.9	0.7
	October	138.5	139.9	163.4	137.0	141.0	(0.3)	1.8	2.7	1.2	0.9
	November	139.9	140.2	163.5	137.6	141.8	1.0	0.2	-	0.4	0.6
	December	141.1	140.9	168.2	137.7	143.1	0.9	0.5	2.9	0.1	0.9
1980	January	143.0	143.4	169.8	137.9	144.8	1.3	1.8	1.0	0.1	1.2
	February	146.0	144.8	173.3	138.4	146.8	2.1	0.9	2.1	0.3	1.4
	March	144.8	146.7	173.8	139.6	147.1	(0.8)	1.3	0.3	0.9	0.2
	April	144.9	149.9	174.1	142.5	148.7	0.1	2.2	0.1	2.1	1.0
	May	149.3	157.4	176.4	150.1	154.3	3.0	4.9	1.3	5.3	3.8
	June	151.3	161.1	178.8	151.3	156.6	1.3	2.4	1.4	0.8	1.5
	July	152.6	162.1	180.8	154.5	158.3	0.9	0.6	1.1	2.1	1.1
	August	155.9	162.0	184.9	155.1	160.2	2.2	(0.1)	2.3	0.4	1.2
	September	155.1	164.2	185.5	156.2	160.8	(0.5)	1.4	0.3	0.7	0.4
	October	159.2	165.6	188.4	158.0	163.5	2.6	0.9	1.6	1.2	1.7
	November	165.6	167.7	190.3	158.7	167.1	4.0	1.3	1.0	0.4	2.2
	December	165.7	168.7	190.8	159.1	167.6	0.1	0.6	0.3	0.3	0.3
	<u>Total</u>						<u>17.4</u>	<u>19.7</u>	<u>13.4</u>	<u>15.5</u>	<u>17.1</u>
1981	January	169.1	169.6	191.8	160.8	169.8	2.1	0.5	0.5	1.1	1.3
	February	171.0	170.4	192.4	161.5	170.9	1.1	0.5	0.3	0.4	0.6
	March	172.6	171.8	192.8	161.9	172.1	0.9	0.9	0.2	0.2	0.7
	April	173.6	175.0	193.4	163.0	173.7	0.6	1.9	0.3	0.7	0.9
	May	173.7	175.5	193.7	163.3	174.0	0.1	0.3	0.1	0.2	0.2
	June	174.4	176.9	194.4	163.5	174.7	0.4	0.8	0.4	0.1	0.4
	July	177.0	178.3	196.9	165.2	176.8	1.5	0.8	1.3	1.0	1.2
	August	178.4	178.3	197.2	166.4	177.7	0.8	-	0.2	0.7	0.5
	September	177.4	178.3	197.3	166.7	177.4	(0.6)	-	-	0.2	(0.2)
	October	180.3	179.7	198.3	168.3	179.5	1.6	0.8	0.5	1.0	1.2
	November	178.5	180.3	198.4	168.7	178.9	(1.0)	0.3	-	0.2	(0.3)
	December	179.3	182.3	198.2	168.8	179.8	0.4	1.1	(0.1)	-	0.5
	<u>Total</u>						<u>8.2</u>	<u>8.1</u>	<u>3.9</u>	<u>6.1</u>	<u>7.3</u>
1982	January	184.5	194.9	199.9	181.9	188.3	2.9	6.9	0.9	7.8	4.7
	February	183.7	198.4	200.2	183.7	189.3	(0.4)	1.8	0.2	1.0	0.5
	March	183.4	200.1	200.3	183.9	189.6	(0.2)	0.9	0.1	0.1	0.2
	April	182.4	200.7	200.4	184.6	189.5	(0.5)	0.3	0.1	0.4	-
	May	182.8	201.3	200.9	184.8	189.9	0.2	0.3	0.2	0.1	0.2
	June	183.4	202.0	202.0	184.9	190.5	0.3	0.4	0.5	-	0.3
	July	186.5	203.0	204.1	186.4	192.6	1.7	0.5	1.0	0.8	1.1
	August	183.8	203.2	203.8	187.5	191.7	(1.4)	0.1	(0.2)	0.6	(0.5)
	September	186.3	205.0	204.5	187.1	193.4	1.4	0.9	0.3	(0.2)	0.9
	October	189.2	208.0	204.8	189.0	195.8	1.6	1.5	0.1	1.0	1.2
	November	190.4	208.9	205.1	189.3	196.7	0.6	0.4	0.1	0.2	0.5
	December	192.7	209.8	205.8	189.3	197.8	1.2	0.4	(0.1)	-	0.6
	<u>Total</u>						<u>7.5</u>	<u>15.1</u>	<u>3.4</u>	<u>12.1</u>	<u>10.0</u>
1983	January	195.6	223.2	205.3	209.4	206.9	1.5	6.4	-0.2	10.6	4.6
	February	192.1	229.7	204.9	210.3	207.2	-1.8	2.9	-0.2	0.4	0.1
	March	189.7	228.8	204.6	210.6	206.0	-1.2	-0.4	-0.1	0.1	-0.6
	April	194.8	233.2	207.8	216.6	211.0	2.7	1.9	1.6	2.8	2.4
	May	197.9	234.4	209.2	216.9	212.8	1.6	0.5	0.7	0.1	0.9
	June	205.2	234.9	210.2	217.2	216.2	3.7	0.2	0.5	0.1	1.6
	July	208.2	235.3	212.1	217.7	217.9	1.5	0.2	0.9	0.2	0.8
	August	207.2	235.4	212.4	219.4	217.8	-0.5	0.0	0.1	0.8	-
	September	210.5	236.4	213.0	219.5	219.6	1.6	0.4	0.3	0.0	0.8
	October	209.7	237.1	213.2	220.1	219.6	-0.4	0.3	0.1	0.3	-
	November	209.7	238.0	213.7	221.4	220.2	0.0	0.4	0.2	0.6	0.3
	December	212.7	238.1	214.0	221.5	221.5	1.4	0.0	0.1	0.0	0.6
	<u>Total</u>						<u>10.4</u>	<u>13.5</u>	<u>4.0</u>	<u>17.0</u>	<u>12.0</u>

/a Arithmetic average of weights for 17 cities.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Wholesale Price Indices in Indonesia, 1972-81 /a
(1971 = 100)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981 /b	1982 /b
Agriculture	118	159	218	256	321	392	430	571	712	821	911
Food crops	126	162	194	230	296	343	368	488	619	732	864
Commercial crops	91	148	225	182	265	411	451	604	632	674	690
Livestock	118	156	218	255	293	349	394	522	706	830	877
Mining & quarrying	113	125	164	195	210	237	262	343	433	528	609
Manufacturing	110	154	189	202	238	265	294	388	469	525	574
Imports	110	140	184	200	215	225	244	346	402	432	453
Exports	119	179	377	368	393	447	488	969	1,437	1,586	1,632
Nonoil exports	105	166	219	182	226	290	329	653	768	757	776
General index excluding exports	112	151	196	217	256	292	320	430	523	583	633
General index	114	157	232	247	283	323	354	538	706	784	831

/a Average index for each year. The publication of this series stopped in 1982. See Table 9.3.2 for new series based on 1975 = 100.

/b For 1981 and 1982, the series has been extended by use of the 1975 index.

Source: Indikator Ekonomi (BPS).

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Wholesale Price Indices in Indonesia, 1975-83 /a
(1975 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983/b
Agriculture	100	123	144	162	213	262	302	336	375
Food crops	100	125	142	154	201	257	304	359	-
Commercial crops	100	130	167	195	251	268	286	293	-
Livestock	100	115	133	152	201	268	315	383	-
Mining & quarrying	100	113	130	144	175	218	266	311	334
Manufacturing	100	115	128	139	178	210	235	257	298
Imports	100	103	108	118	153	174	191	201	232
Exports	100	103	116	127	246	375	414	430	498
Nonoil exports	100	117	148	171	303	365	360	370	478
General index	100	110	122	134	195	254	282	302	348
General index excluding exports of petroleum	100	113	124	136	176	208	243	263	288

/a Average for year.

/b Average index January-November.

Source: Indikator Ekonomi (BPS).

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Domestic Price of Petroleum Products, 1972-84
(Rp/liter)

	1972	1973	1974	1975	1976	1977	1978	1979	<u>/a</u> 1980	1981	<u>/b</u> 1982	<u>/b</u> 1983	<u>/b</u> 1984
Aviation gas	35	40	50	62	70	70	70	100	150	150	240	300	300
Aviation turbo	30	40	50	62	70	70	70	100	150	150	240	300	300
Premium gasoline	40	45	55	67	90	90	90	140	220	220	360	400	400
Regular gasoline	35	41	46	57	70	70	70	100	150	150	240	320	350
Kerosene	10	11.5	13	16	18	18	18	25	37.5	37.5	60	100	150
Motor diesel (solar)	14	16	19	22	25	25	25	35	52.5	52.5	85	145	220
Industrial diesel	8.5	9	13	19	22	22	22	30	45	45	75	125	200
Fuel oil	6.5	7.5	12	19	22	22	22	30	45	45	75	125	200

/a From May 1980.

/b Prices increased in January.

Source: Migas.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Approved Foreign Investment by Sector, 1967-83 /a
(US\$ million)

Sector	1967-76	1977	1978	1979	1980	1981	1982	1983/b	Total 1967-83
Agriculture	84.4	21.4	3.1	22.2	50.2	25.0	15.9	-	222.2
Forestry	147.3	28.5	38.6	39.7	38.6	157.6	63.3	-	513.6
Fishery	45.3	2.7	16.6	38.4	2.9	21.6	6.2	-	133.7
Mining & quarrying	1,057.4	0.5	38.1	350.0	3.0	17.0	226.4	19.0	1,711.4
<u>Manufacturing</u>	<u>2,819.6</u>	<u>245.0</u>	<u>280.8</u>	<u>1,516.2</u>	<u>708.9</u>	<u>854.4</u>	<u>1,245.9</u>	<u>1,751.6</u>	<u>9,422.4</u>
Food	175.4	7.3	5.5	63.5	14.2	40.5	6.4	-	312.8
Textiles & leather	842.6	68.9	113.8	91.4	77.4	138.6	46.9	11.9	1,391.5
Wood & wood products	22.3	-	1.0	6.0	11.2	123.6	15.5	12.9	192.5
Paper & paper products	85.7	9.7	0.5	10.4	2.3	48.5	-	628.9	786.0
Chemicals & rubber	308.6	50.3	25.4	380.2	282.2	255.3	351.5	125.2	1,778.7
Nonmetallic minerals	310.9	18.3	19.7	76.7	222.1	20.1	62.5	11.9	742.2
Ferrous metals	820.4	18.4	9.9	843.5	-	84.8	3.6	819.2	2,599.8
Metal products	248.7	72.1	98.1	44.5	98.8	143.0	759.5	141.6	1,606.3
Other	5.0	-	6.9	-	0.7	-	-	-	12.6
Construction	62.4	2.5	5.4	0.5	7.7	48.8	30.9	1.5	159.7
<u>Trade & Wholesale</u>	<u>167.8</u>	<u>7.0</u>	<u>9.7</u>	<u>3.0</u>	<u>38.6</u>	<u>-</u>	<u>19.2</u>	<u>25.0</u>	<u>270.3</u>
Wholesale trade	11.7	-	-	-	-	-	2.2	-	13.9
Hotels	156.1	7.0	9.7	3.0	38.6	-	17.0	25.0	256.4
<u>Transport & Communication</u>	<u>44.6</u>	<u>-</u>	<u>-</u>	<u>0.2</u>	<u>31.6</u>	<u>-</u>	<u>17.8</u>	<u>-</u>	<u>94.2</u>
Transport	44.6	-	-	0.2	31.6	-	17.8	-	94.2
Communication	-	-	-	-	-	-	-	-	-
Real estate & business services	234.8	20.2	4.4	45.2	-	23.4	204.9	92.6	625.6
Other services	14.7	-	-	-	2.0	-	-	-	-
<u>Total</u>	<u>4,663.6</u>	<u>327.9</u>	<u>396.7</u>	<u>2,015.4</u>	<u>881.5</u>	<u>1,147.8</u>	<u>1,830.5</u>	<u>1,889.7</u>	<u>13,153.1</u>

/a Intended Capital Investment. Amounts represent original approval plus approved expansion minus cancellation.

/b Preliminary estimates.

Source: Investment Board.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Implementation of Foreign Investment by Sector, 1967-83
(US\$ million)

Sector	1967-76	1977	1978	1979	1980	1981	1982	1983/a	Total 1967-83
Agriculture	40.2	12.5	10.1	4.3	14.5	13.0	5.8	2.3	102.7
Forestry	260.3	22.1	15.0	19.2	26.2	34.9	11.0	2.6	391.3
Fishery	67.8	2.8	13.5	10.5	7.9	0.4	9.0	-	111.9
Mining & quarrying	299.2	20.1	57.3	47.5	49.4	70.0	32.2	17.7	593.4
<u>Manufacturing</u>	<u>1,726.6</u>	<u>186.2</u>	<u>267.0</u>	<u>192.0</u>	<u>235.4</u>	<u>243.5</u>	<u>378.9</u>	<u>220.3</u>	<u>3,449.9</u>
Food	136.4	11.9	14.9	7.1	7.4	15.8	7.1	1.2	201.8
Textiles & leather	716.9	27.9	31.4	41.7	78.7	102.5	69.7	14.1	1,082.9
Wood & wood products	20.7	1.4	0.4	0.1	2.3	2.2	23.9	8.6	60.6
Paper & paper products	17.9	9.6	11.8	1.4	6.1	2.5	1.6	-	50.9
Chemicals & rubber	237.9	28.0	71.7	44.8	32.0	44.5	164.9	110.5	734.4
Nonmetallic minerals	210.8	42.9	9.0	3.2	30.0	30.9	49.4	15.9	392.1
Ferrous metals	111.8	27.8	37.8	47.5	23.9	7.9	28.5	54.0	339.2
Metal products	263.4	35.4	89.9	36.0	52.0	35.3	33.8	15.8	561.6
Others	10.8	1.3	0.1	10.2	2.0	1.9	-	0.2	26.5
Construction	34.5	3.0	1.4	12.0	0.8	0.6	6.9	-	59.2
<u>Trade & Hotels</u>	<u>79.8</u>	<u>6.2</u>	<u>17.2</u>	<u>4.3</u>	<u>0.4</u>	<u>2.9</u>	<u>-</u>	<u>0.2</u>	<u>111.0</u>
Wholesale trade	10.1	-	0.7	-	-	2.5	-	0.2	13.5
Hotels	69.7	6.2	16.5	4.3	0.4	0.4	-	-	97.5
<u>Transport & Communication</u>	<u>16.3</u>	<u>2.0</u>	<u>4.7</u>	<u>21.9</u>	<u>4.8</u>	<u>1.3</u>	<u>-</u>	<u>-</u>	<u>51.0</u>
Transport	9.7	1.8	1.3	0.1	2.1	0.2	-	-	15.2
Communication	6.6	0.2	3.4	21.8	2.7	1.1	-	-	35.8
Real estate & business services	76.5	3.8	14.0	6.9	7.2	12.4	6.1	3.8	130.7
Others	109.5	0.1	5.0	-	-	-	-	-	114.6
<u>Total</u>	<u>2,710.7</u>	<u>258.8</u>	<u>405.2</u>	<u>318.6</u>	<u>346.6</u>	<u>379.0</u>	<u>449.9</u>	<u>246.9</u>	<u>5,115.7</u>

/a Preliminary estimates.

Source: Bank Indonesia.

INDONESIACOUNTRY ECONOMIC MEMORANDUMApproved Domestic Investment /a by Sector, 1968-82
(Rp billion)

Sector	1968-75	1976	1977	1978	1979	1980	1981	1982/b
Agriculture, fisheries & livestock	89.6	42.3	49.4	100.4	36.4	126.9	192.0	511.0
Forestry	178.7	35.1	64.0	58.5	81.8	397.6	313.0	182.0
Mining	50.0	-	-	18.3	32.9	37.1	13.5	453.0
<u>Manufacturing</u>	<u>1,125.3</u>	<u>174.6</u>	<u>401.4</u>	<u>531.2</u>	<u>502.3</u>	<u>861.5</u>	<u>1,791.0</u>	<u>2,096.0</u>
Textile	405.5	42.5	75.0	167.6	41.8	143.6	96.0	77.0
Chemicals	178.8	-2.2	98.7	103.0	142.0	431.6	893.0	542.0
Electric manufacturing	24.2	-	-	-	-	-	-	-
Other manufacturing	516.8	134.3	227.7	260.6	318.5	286.3	802.0	1,477.0
Construction	14.2	-1.2	-	2.6	2.1	1.5	15.1	16.0
Hotel	79.7	6.8	4.1	11.6	12.4	1.0	52.6	70.0
Real estate	92.4	41.3	35.2	15.0	3.8	24.0	-12.5	71.0
Others	111.7	7.4	19.9	24.2	16.9	53.9	61.0	461.0
<u>Total</u>	<u>1,741.6</u>	<u>276.3</u>	<u>574.5</u>	<u>761.8</u>	<u>688.6</u>	<u>1,503.6</u>	<u>2,426.0</u>	<u>3,860.0</u>

/a Intended capital investment. Figures represent original approvals plus approved expansions minus cancellations.

/b Preliminary estimate.

Source: Investment Coordinating Board.

