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# Indonesia
# Strategy for Growth and Structural Change

May 3, 1989

Country Department V
Asia Regional Office

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## CURRENCY EQUIVALENTS

Before November 15, 1978 US$1.00 = Rp.415

Annual Average 1979-88

| | |
|---|---|
| 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 |
| 1984 | US$1.00 = Rp.1,026 /a |
| 1985 | US$1.00 = Rp.1,111 |
| 1986 | US$1.00 = Rp.1,283 /b |
| 1987 | US$1.00 = Rp.1,644 |
| 1988 | US$1.00 = Rp.1,681 |

April 28, 1989 US$1.00 = Rp.1,759

## FISCAL YEAR

| | | |
|---|---|---|
| Government | - | April 1 to March 31 |
| Bank Indonesia | - | April 1 to March 31 |
| State Banks | - | January 1 to December 31 |

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

/b On September 12 1986 the Rupiah was devalued from US$1.00 = Rp.1,134 to US$1.00 = Rp.1,644.

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ABSTRACT : This report reviews Indonesia's progress on economic adjustment and outlines a strategy for growth and structural change during the 1990s. Chapter 1 reviews the Government's adjustment program and its impact on economic performance. Chapter 2 provides an analysis of Indonesia's growth prospects over the medium term, focussing on the macroeconomic policy framework and resource mobilization. Subsequent chapters of the report then look at ways growth and structural change can be supported by promoting private sector development (Chapter 3) and the changing role of the public sector (Chapter 4).

# INDONESIA

## COUNTRY ECONOMIC REPORT

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## SUMMARY AND CONCLUSIONS

### Progress on Economic Adjustment

(i) Indonesia experienced a rapid growth of income, consumption and investment during the 1970s. Unlike many other oil exporting countries, Indonesia managed its oil resources well and largely succeeded in protecting the commodity producing sectors (agriculture and manufacturing) from lagging behind the rest of the economy. Furthermore, important social gains were achieved, as reflected in a substantial reduction in the incidence of poverty. However, since 1981 Indonesia has experienced a severe deterioration in its external terms of trade, primarily due to the collapse of oil prices. The losses from falling oil prices were intensified by the adverse effects of international currency fluctuations on debt service payments since mid-1985. On average, Indonesia suffered an income loss equivalent to 9% of its annual GNP due to external shocks over 1983-88. Without a forceful policy response, this large loss of income could have easily destabilized the economy and jeopardized Indonesia's long-term growth prospects.

(ii) The Government's adjustment program. The Government has responded effectively to this challenge by implementing a broad range of adjustment measures and structural policy reforms starting in 1983. In broad terms, two types of policy adjustments have been made. First, the Government has adopted more austere macroeconomic policies to restore financial stability. Second, to sustain the development momentum over the medium to longer term, it has embarked on a major program to restructure the economy, aimed both at reducing Indonesia's heavy dependence on oil as a source of foreign exchange and budgetary revenues, and at improving economic efficiency. The specific policy responses can be grouped in the following four categories:

(a) To restore balance of payments stability and sustain growth over the medium term, the Government adopted an active exchange rate policy. Major devaluations were implemented in March 1983 and September 1986 and the flexibility of the exchange rate was increased through a more actively managed float. In conjunction with prudent fiscal and monetary policies, these measures supported a real effective exchange rate depreciation of about 55% between December 1981 and December 1988. This played a key role in boosting non-oil exports and reducing the current account deficit.

(b) The objectives both of demand restraint and structural change have been served by the implementation of a number of strong fiscal measures, designed to restrain public expenditure, mobilize public revenues and reduce the overall fiscal deficit. Budget austerity and more careful selection of projects reduced public investment by over 30% in real terms over the past six years. A sweeping tax reform implemented over 1984-86 boosted non-oil tax revenues and improved the efficiency of the tax system.

(c) Supportive monetary and financial policies have been maintained to contain inflationary pressures, prevent capital flight, mobilize financial resources and improve the efficiency of use of financial resources. A major financial sector reform was introduced in June 1983, which deregulated domestic interest rates and increased the flexibility of monetary management. A second round of financial measures has been initiated in October-December 1988, aimed at enhancing financial sector efficiency and boosting capital markets.

(d) The Government also initiated a series of trade and other regulatory reforms to support demand management policies in reducing macroeconomic imbalances and to enable a recovery of economic growth over the medium term. These reforms are aimed at developing a more efficient private sector, that can make a significant contribution to employment generation and non-oil export development.

(iii) Adjustment performance. As a result of the Government's balanced adjustment program, good progress has been made towards restoring financial stability and stimulating the recovery of economic growth. Prudent macroeconomic management has helped to reduce current account and fiscal deficits and lower inflation. Along with structural reforms, it has also supported the recovery of economic growth by boosting non-oil exports, stimulating private investment and enabling a noticeable gain in economic efficiency. A better-than-expected overall growth rate has been sustained and there are encouraging signs of a recovery of the non-oil economy. This, in turn, has assisted in containing the social costs of adjustment.

(iv) The Government's adjustment program helped to bring down the current account deficit from 7.9% of GNP in 1982/83 to 2.5% of GNP in 1988/89. The balance of payments adjustment was achieved through a combination of demand management and expenditure switching policies. In the initial phase of adjustment (1983-85), import restraints contributed most to the improvement in the balance of payments. The role of non-oil exports improved considerably in the later years, based on a dramatic response during 1986-88, growing by 20% p.a. in real terms. The specific measures that helped restore balance of payments stability included: (a) depreciation of the real exchange rate which boosted non-oil exports and reduced the demand for imports; (b) the rephasing of large capital projects in May 1983 and cutbacks in real capital spending in subsequent years, which sharply reduced imports of capital goods by the public sector; (c) the redefinition of public expenditure priorities, which diverted expenditures away from relatively import-intensive sectors to less import-intensive sectors; (d) the imposition of strict limits on the use of non-concessional external borrowing; (e) austere budgets and supportive monetary and financial policies, which helped to reduce demand for imports and discouraged capital flight; and (f) trade and other regulatory reforms, which have stimulated non-oil exports.

(v) The Government's prudent fiscal and monetary management has succeeded in reducing fiscal imbalances and domestic inflation. As a result of the tax reform, non-oil taxes (including of the local governments) grew from 8.3% of non-oil GDP in 1982/83 to 11.5% in 1988/89. Expenditure restraint and revenue mobilization measures lowered the overall public sector deficit from 4.9% of GDP in 1982/83 to 3.4% in 1988/89. Budget austerity,

combined with appropriate monetary management, in turn contributed to a reduction in the rate of inflation. Furthermore, the deregulation of interest rates in June 1983 helped to mobilize financial resources and restrained capital flight. The close coordination of exchange rate, fiscal and monetary policies has been a distinguishing feature of the Government's macroeconomic policy framework. It strongly reflects a recognition of the linkage between the exchange rate, interest rate and inflation necessitated by Indonesia's open capital account (allowance of free international capital mobility).

(vi) The large decline in oil revenues convinced the Government of the need to improve economic efficiency and stimulate the private sector. The fairly comprehensive and far-reaching deregulation measures initiated since 1985 were in response to this need. Although the full benefits of these measures have not been reaped yet, there is already some evidence of an improvement in economic efficiency in recent years. For example, the average rate of return on investment increased from 13% in 1982-85 to 22% in 1986-88. Similarly, over the same period, the incremental capital output ratio (ICOR) fell from 7.8 to 5.2 and the average contribution of total factor productivity to economic growth improved from -2.5% p.a.(implying a fall) to 1% p.a. Furthermore, there has been a noticeable improvement in the structure of the economy. Indonesia's dependence on oil has been substantially reduced and the reliance on more promising and sustainable sources of growth has increased.

(vii) The gains in economic efficiency and higher mobilization of non-oil resources have helped to sustain a better-than-expected rate of economic growth, despite the loss of oil revenues. Total GDP grew by an average of 3.3% p.a. during 1981-88; most of this growth came from the non-oil economy. However, the deterioration in the terms of trade had an adverse effect on domestic incomes during 1981-86. The resulting shortfall in resources brought about substantial cutbacks in public investment and reduced the growth of private consumption. Private investment also fell significantly upto 1985. The Government's swift response to strengthen the structural reforms since the collapse of oil prices in 1986 has caused a turnaround in economic activity. The very encouraging non-oil export performance during 1986-88 supported a recovery of the non-oil economy, with growth estimated at 5.6% in 1988. Private investment has also recovered, responding to improved incentives resulting from regulatory reforms and a more buoyant economy.

(viii) Despite considerable success in reducing financial imbalances and the Government's cautious approach to external borrowing, the debt burden has risen sharply due to the adverse external environment faced by Indonesia since the early 1980s. Depreciation of the US Dollar after 1985 added US$12.6 billion (31%) to Indonesia's public debt at end-1988 and US$1.9 billion (25%) to its debt servicing during 1988. Over the same period, oil prices fell by about one half, severely reducing Indonesia's export earnings and capacity to service debt. Even with the high level of debt, and the adverse impact of external shocks, Indonesia has not faced a foreign exchange crisis or a cash flow constraint on payment of its external debt obligations. This reflects the Government's prudent approach to external borrowing and responsive economic management, as well as the strong support provided by the donor community. The Government has maintained strict limits on import-related and commercial credits, and reduced exposure to private banks. This voluntary restraint has limited the total net transfer of resources to Indonesia, but improved the maturity and term structure of external debt. As a result, Indonesia's debt structure is now better than in most developing countries, with a relatively

high share of concessional debt and a relatively low share of variable interest debt. Combined with policies to promote efficiency improvements and non-oil export development, this prudent external borrowing has already led to a decline in several of Indonesia's debt indicators.

(ix) The adjustment process has inevitably involved short-term social costs. Despite the recent recovery in economic growth, per capita income has been adversely affected by the terms of trade loss. Part of the labor market adjustment has taken the form of an increase in the rate of open unemployment in urban areas, especially among young school leavers. However, the main burden of adjustment has fallen on earnings. For most of the labor force -- agriculture, trade, construction and civil servants -- real labor earnings have probably stagnated or declined during the recent adjustment period. However, it is important to note that these trends are due to the major external shock faced by Indonesia and not to the policy response itself. Indeed, the Government has moved to mitigate the social costs of adjustment by reallocating public spending to protect important social programs. For example, the shares of development expenditure allocated for social services and agriculture were significantly increased from 1982/83 to 1987/88. An effort was also made to protect regional transfers, which normally finance small-scale and labor-intensive infrastructure projects at the local level. Given the large magnitude of the income loss, some scaling back of social programs and a reduction in the quality of service did take place. But without this effort to redefine expenditure priorities in support of lower income groups, the social costs of adjustment would have been much higher. More importantly, by restoring stability and promoting restructuring in the economy, the Government's reform program will lay a solid base for sustaining a higher growth path over the medium term. This is essential to absorb the rapidly growing labor force at higher levels of productivity and income.

(x) Preparing for medium-term growth. In view of the existing high debt service burden and considerable uncertainties surrounding oil prices, the adjustment effort will need to continue in the short term. On the other hand, the social objectives of providing higher-earning jobs to a growing labor force and of reducing the incidence of poverty have become more pressing. In order to ensure that the pursuit of these important social goals does not compromise financial stability, the consistency of macroeconomic policies will have to be maintained and the ongoing structural reform program will need to be strengthened. A major factor driving the future external adjustment effort is the external debt situation. A successful debt strategy for Indonesia will involve running some surpluses in the non-interest current account (reducing the current account deficit) as well as enhancing the debt servicing capacity. Both of these will benefit from a sustained growth of non-oil exports. Regarding domestic balance, the reduction of current deficits will require national savings to grow faster than investment. At the same time, significant increases in investment will be necessary to support economic growth and non-oil exports. An important adjustment challenge for the future, therefore, is to increase the national savings rate. The Government will also need to strengthen the ongoing program of structural reforms to increase economic efficiency and stimulate the private sector. Finally, the efficiency and poverty focus of public services will have to be enhanced by strengthening sectoral expenditure programs, increasing cost recovery, targeting subsidies and improving public administration.

Macroeconomic Framework for Growth and Structural Change

(xi) At the macroeconomic level, Indonesia's fundamental medium-term imperative is to absorb the growing labor force at higher levels of productivity at the same time that the debt service burden is reduced to a more manageable level. Given the structure of Indonesia's labor markets, the pace and pattern of economic growth will be the chief determinant of the Government's ability to manage the employment challenge. It is estimated that the non-oil economy needs to expand by 5-6% p.a. to absorb the labor force at rising levels of productivity and income. In order to ensure that this higher growth path does not compromise external stability over the medium term, it will be necessary to reduce the current deficit further. A strategy to reduce the current account deficit to about 1% of GNP by 1995 and keeping it at around this level thereafter will be adequate to bring substantial improvements in Indonesia's debt indicators including the debt service burden. To meet these goals, continued progress will need to be made on diversifying the economy away from dependency on oil, increasing efficiency and resource mobilization in the non-oil economy, stimulating the private sector and lowering the cost of public services and ensuring better targetting.

(xii) These challenges are well recognized by the Government and reflected in the new five-year plan (REPELITA V), which started in April 1989. The Plan's key economic and social objectives include a recovery of economic growth from 4% p.a. during REPELITA IV to at least 5% p.a., provision of productive employment to a growing labor force, and a lowering of the incidence of poverty. At the same time, the Plan aims at reducing the debt service burden significantly. To reconcile the social goals with the objective of financial stability, the Plan aims at strengthening non-oil resource mobilization, stimulating the private sector and improving the allocation of public spending. To support the changing roles of the public and private sectors, public expenditure is to be focused on O&M, the provision of infrastructure and improving human resources; most of the growth in direct production activities is anticipated to come from the private sector.

(xiii) The immediate task ahead is to restore stability while accelerating investment. The restoration of internal and external stability will require continued domestic austerity for another year or so. To achieve a lower current account deficit and to phase out special external assistance it will be important to: (a) maintain the austere stance of the 1989/90 Budget; (b) preserve a competitive exchange rate through coordinated fiscal, monetary and exchange rate policies; and (c) maintain strict control on all public external borrowing. Along with its stabilization efforts, it will be necessary to stimulate investment to provide the basis for a sustained recovery in growth, with this investment directed towards labor-intensive, export-oriented production, and based largely upon the private sector. In the short run, special assistance from the donor community will help in maintaining the investment rate. Over the medium term, the sustainability of the investment and export drive will depend upon an increase in domestic savings to replace foreign savings (and the fast-disbursing assistance in particular). Consequently, considerable emphasis will have to be given to domestic resource mobilization, particularly in the public sector. In parallel, it will be essential to continue with regulatory reforms to promote the efficiency of resource use and remove the remaining impediments to private sector development. Proper management of the public investment program will be needed to support economic

growth, raise the efficiency of public investment and avoid a crowding out of private investment. Significant increases in public expenditure for O&M, physical infrastructure and basic social services will clearly become necessary over the next five years. But at the same time, care has to be taken to avoid an overly ambitious public investment program, as this could run into major project implementation constraints, could create pressure to select low-priority projects and also risk a crowding out of private investment.

(xiv) Medium-term projections. To sustain a 5-6 p.a. growth of the non-oil economy during the 1990s, non-oil exports will have to grow in real terms by about 10% p.a. over the next three years and 7% p.a. during the remainder of the 1990s. This will require the real exchange rate to be maintained at its presently competitive level. Complementary policies to build necessary supply capacities, especially in the manufacturing sector, and to reduce the domestic cost of production through deregulation measures in the transport and financial sectors also will be important. The expansion of non-oil exports coupled with some improvement in the terms of trade will allow Indonesia to sustain a recovery of the non-oil economy to 6% p.a. during the early 1990s, rising further to 6.5% p.a. in the later years. At the same time, the current account deficit will continue to decline, falling to 1% of GNP by 1995/96 and to 0.6% of GNP by 2000/01. The non-interest current account will remain in surplus throughout the projection period. To support this adjustment in the balance of payments and sustain medium-term growth, saving and investment will have to grow faster than output and consumption. Improvements in factor productivity can and should contribute to growth over the medium term. However, sustained growth during the 1990s will require a substantial build-up of production capacity in the agriculture and manufacturing sectors (largely through private investment), as well as supporting improvements in the economic infrastructure (e.g., irrigation, power, telecommunications, transport). As a result, even after allowing for a significant contribution of factor productivity improvements to growth, it is estimated that the rate of fixed investment will need to expand from 20% of GDP currently to 25% of GDP by 1995. To achieve the projected increases in saving and investment rates: (a) the profitability of private investment will need to be improved by further deregulation measures in trade, domestic and foreign private investment, and transport; (b) the real lending rate will need to be reduced by prudent macroeconomic management and by lowering the cost of financial intermediation through implementation of ongoing financial sector reforms; and (c) appropriate fiscal policy aimed at raising public savings and focusing public expenditures on economic infrastructure (to support private investment) will need to be maintained.

(xv) Implications for employment. Because of the flexible nature of Indonesia's labor markets, the policies for growth and employment are largely complementary. During the 1990s, the sources of economic growth will need to be non-oil exports, especially manufactured exports, and non-rice agricultural production, supported by responsive private investment and complementary public investment in essential infrastructure. The manufacturing sector's contribution to output and employment will have to be substantially increased by enhancing profitability in efficient export industries. Similarly, based on concerted efforts to stimulate production in non-rice food crops, smallholder tree crops and non-food farm activities, the agriculture sector will need to continue to play a critical role in providing better income opportunities to farmers and support the development of rural off-farm employment. To achieve these objectives, in addition to the macroeconomic policies stated above, sectoral

policies aimed at improving private sector profitability will have to be strengthened and sustained. This entails continued progress on trade and industrial deregulation, removal of price controls and regulations inhibiting efficient diversification of agricultural production and continued efforts to develop support services, especially in finance and transport. However, specific measures will be needed to improve labor absorption in the services sector, boost employment prospects in the Outer Islands and improve the quality of the labor force. Of particular importance in this regard are the Government's programs for funding O&M, supporting smallholder tree crops development, developing rural infrastructure and improving the quality of education, and programs geared to reducing fertility and improving family health. It will also be important to ensure that policies do not unintentionally discourage employment (e.g. by hindering informal activities or subsidizing farm mechanization).

(xvi) Public resource mobilization. The capacity of the Government to finance investment and support economic growth over the medium term will depend on efforts to improve public resource mobilization. Recent tax reforms have helped to increase non-oil taxes of the Central Government from 7.4% of non-oil GDP in 1982/83 to 10.8% in 1988/89. However, the non-oil tax effort is still significantly below levels prevailing in the ASEAN region. With continued progress in improving tax administration, it would be possible to increase non-oil tax revenues to 13-14% of non-oil GDP by 1995/96. There may also be a need to consider selective increases in the tax base and rates over the medium term, especially if there is a further long-term decline in oil prices. These measures to increase non-oil tax revenues will need to be complemented by a broader effort to strengthen local government finances, improve the efficiency and financial performance of public enterprises, and achieve greater cost recovery from public services. A broadening of the public resource base will also contribute to enhancing efficiency and lowering the cost of public services by supporting a greater role for local governments in the provision of public services, leading to a more efficient public enterprise sector, and enabling an improved quality of services by helping to finance better O&M practices.

(xvii) External borrowing strategy. The macroeconomic projections allow for further reductions in the current account deficit to reduce the burden of external debt. However, in view of higher principal repayments and the need to build up adequate reserves, the annual financing requirement is projected to continue rising. Increasingly, these requirements can be met from private sources: direct foreign investment, private non-guaranteed capital flows, and commercial borrowing by the Government. However, in the short term, the use of import-related credits will have to continue to be restrained, based on selection of priority projects and a careful scrutiny of financing arrangements. Untied commercial credits provide more flexibility but are more expensive than program aid from official sources. Their use will also need to be limited in the short term to reduce the debt service burden. For these reasons, it is essential that IGGI assistance continue to provide the major share of Indonesia's external financing requirements over the next few years. It is therefore recommended that the level of IGGI assistance to Indonesia in 1989/90 be US$4.2 billion, 5% higher than pledged for last year.

(xviii) Indonesia's current circumstances continue to warrant special assistance, in the form of fast-disbursing program aid and local cost financing. Special assistance is intended to provide temporary support to the Government while it implements policies to adjust the balance of payments and the budget to

external shocks, such as lower oil prices and adverse exchange rate changes. The response from IGGI members has been very encouraging, with disbursements of special assistance totalling US$3.7 billion over the past three years. This assistance has played a valuable role in helping the Government push ahead with its trade deregulation measures and in facilitating the recovery of private investment and economic activity. It has also enabled Indonesia to restructure its external debt, improving its average maturity and term structure, while maintaining financial market and investor confidence in the viability of the Government's adjustment program. The balance of payments projections indicate that special assistance requirements will total US$1.8 billion in 1989/90. This is substantially down on the level of US$2.4 billion pledged for last year. This declining trend reflects the Government's commitment to narrow the financing gaps by developing non-oil exports and non-oil budget revenues. Accordingly, the requirements for special assistance are projected to continue falling to US$1.2 billion in 1990/91 and US$0.6 billion in 1991/92, with no new commitments in later years.

(xix) With an appropriate borrowing strategy and supportive macroeconomic policies, the growth of Indonesia's external debt will continue to slow over the next few years. Medium and long-term (MLT) public and private debt disbursed and outstanding (DOD) is projected to rise from US$47.5 billion at end-1988 to US$53.3 billion at end-1990, an increase of only 12%. Furthermore, all of this increase is in the form of official assistance, implying a significant improvement in the overall maturity and term structure of external debt. Partly for this reason, total MLT debt service payments are also projected to grow more slowly than in the recent past, rising from US$7.8 billion (excluding prepayments) in 1988 to US$9.0 billion in 1990, an increase of about 15%. Combined with the projected improvement in economic performance, these trends lead to a substantial improvement in all of the key debt indicators. The ratio of DOD to GNP and exports have been falling since 1987, and these trends are projected to continue throughout the 1990s. Similarly, the total MLT debt service ratio is expected to stabilize around 37% in 1989, and then decline to 34% by 1990 and 24% by 1995.

Promoting Private Sector Development

(xx) The private sector in Indonesia has traditionally played an important role in agriculture, manufacturing and trading activities. However, the role of the public sector expanded rapidly during the 1970s and early 1980s, buoyed by higher oil revenues. Apart from financing a large expansion of infrastructure and social services, public resources were also used to push industrial development into upstream and high-technology areas. Many of these public sector projects were protected by a proliferation of import and investment restrictions. At the same time, many regulatory restrictions designed to guide the development of the private sector were introduced. As a result, the regulatory environment for private sector activity became increasingly cumbersome. The performance of supporting services, especially in the financial and transport sectors, was also constrained by regulatory controls over competition and the dominance of public sector institutions. Since the early 1980s, the Government's strategy towards private sector development has changed significantly. Declining oil prices drastically curtailed the Government's capacity to finance the planned levels of public investment and exposed the dangers of continuing to pursue an inward-looking development strategy. It was recognized that the private sector had to be encouraged to play a greater role in generating new employment opportunities and in increasing

non-oil export earnings. Thus, beginning in 1985, the Government embarked upon a phased program of reforms designed to improve economic efficiency and private sector incentives. This reform process needs to be sustained and complemented by efforts to provide infrastructure and develop good quality transport and financial sector services.

(xxi) Trade reforms. The first steps toward improving the trade regime were taken during 1985 and early 1986, and included: (a) an across-the-board reduction in tariff rates in March 1985; and (b) measures to provide internationally-priced inputs to exporters, announced on May 6, 1986. A further, more fundamental, step was taken in October 1986, when the Government introduced the first of a series of trade deregulation packages. The primary objective of these trade reform measures is to move away from a trade regime based on import license protection towards one based on tariffs. These measures resulted in the removal of 839 items from license control, accounting for 48% of all items and 52% of total import value previously restricted. More importantly, the share of domestic production protected by import licensing declined from 41% in mid-1986 to 29% by end-1988. The reduction in NTBs has been concentrated in those activities with the highest effective rates of protection.

(xxii) The series of deregulatory measures taken since 1985 have significantly improved the transparency of the trade regime and encouraged non-oil exports. The incidence of NTBs has been gradually reduced, and exporters have gained broader access to imported inputs at world prices. Nevertheless, there are outstanding issues with regard to import licensing restrictions and export policy that will need to be addressed. Over the coming year, the Government should continue to remove import licensing restrictions, especially in those areas where they still provide high protection to domestic production. Regarding export policy, the current mix of export restrictions (bans, quotas and approved traders) needs to be carefully reviewed, taking full account of the efficiency, income distribution and employment effects of these interventions.

(xxiii) The move away from NTB protection has inevitably increased the importance of the import tariff schedule. The most significant change in the Indonesian tariff schedule occurred in 1985, when a comprehensive reform resulted in a marked lowering of the average tariff rate from 22% to 13%. One negative aspect of this reform was the introduction of specific duties with high ad valorem equivalent rates. Since 1985 the tariff schedule has been subject to a number of ad hoc changes associated with the series of deregulation packages and, on January 1, 1989, Indonesia converted to the Harmonized System of coding and classifying traded goods. The overall result of these changes has been a gradual decline in the dispersion of tariff rates (primarily due to the replacement of specific duties with ad valorem rates) with little change in the average tariff rate. However, in moving off NTBs a number of split-tariff positions and surcharges have been introduced to protect domestic producers. In addition, surcharges have become increasingly used as a de facto anti-dumping device. As a result, there continues to be a very wide dispersion of tariff rates both between and within sectors and some of the uniformity established in the 1985 tariff reform has been lost. Consequently, a comprehensive rationalization of the tariff schedule should become an important part of the policy agenda. With respect to surcharges, consideration should also be given to instituting a formal anti-dumping mechanism, consistent with GATT principles. Given the complexity of the issues involved in the next phase of trade reform, there is a need to improve the Government's institutional capacity for trade policy analysis.

(xxiv) Domestic incentives and regulatory framework. Starting in 1985, the Government took a series of steps to simplify and relax the regulatory framework. The thrust of these reforms were to: (a) streamline the licensing process; (b) clarify and significantly expand fields of investment open to domestic and foreign private entrepreneurs; (c) reduce the bias against foreign investors in terms of ownership, procurement, employment and marketing; and (d) reduce the scope of the local content program. These measures have improved competition, increased business confidence and lowered the cost of doing business in Indonesia. In response, domestic investment approvals by the Investment Authority (BKPM) rose by 130% in 1987 and by 36% in 1988. Similarly, foreign investment approvals in dollar terms rose by 76% in 1987 and a remarkable 360% in 1988 (to US$4.4 billion). The bulk of this new investment is directed towards export activities. Yet, despite this progress, the investment process remained complex and often daunting to new and existing enterprises. The incomplete coverage of the Investment Priority (DSP) list and the many conditions that were often specified allowed considerable discretion and restrictiveness in investment licensing. Therefore, to introduce greater transparency into the system, and open up new sectors to domestic and foreign investment, the Government has recently transformed the DSP list to a short negative list.

(xxv) It will also be important to address the regulatory complexities and distortions emerging from local regulations, land and labor laws, and the weak corporate legal framework. A major overhaul of local level regulations is needed to make the system timely and transparent. The labor laws need to be reviewed to eliminate superfluous regulations and reporting requirements, allow greater flexibility to firms to respond to market conditions and to gear regulations to supporting a few key social objectives. Fundamental changes are necessary in land laws and procedures. The Government's recent decision to create a new agency for land directly under the President of Indonesia is a welcome indication of future progress. Finally, to ensure that the legal system does not become a major impediment to the deregulation process, it is critical that reform of the legal system be revitalized. Equally important, administrative reform of the court system will be required if the laws are to be implemented in an effective manner.

(xxvi) Policy environment for support services. An essential requirement for promotion of the private sector is the complementary development of financial services and improvements in transport services. With respect to financial services, the future demand for funding by the private sector is expected to greatly exceed current levels as the economy responds to changes in the incentive and regulatory framework and a larger share of activity shifts to the private sector. Mobilizing private resources for long-term loan and equity funding, in addition to meet working capital needs, will pose a significant challenge for the financial sector. Furthermore, the growth of non-oil export activities and the emergence of new private industries will require changes in financial practices such as increased cash-flow rather than asset-based lending, access to venture capital and equity, and more rapid credit processing. The June 1983 financial reform deregulated state bank interest rates and replaced credit ceilings with a system of reserve money management. These measures were effective in spurring a rapid expansion in deposits. Yet, competition remained weak, the role of state banks continued to be dominant, supported by subsidized credits from Bank Indonesia, and the pace of financial innovation after 1983 was slow.

(xxviii) Recognizing the need for increasing the volume and efficiency of financial intermediation and promoting greater private sector participation, the Government announced major financial sector reforms over the past year. These measures are designed to: (a) improve efficiency by increasing competition; and (b) increase the availability of long-term finance by encouraging the development of the capital market. To increase competition, the measures have allowed a larger numbers of market participants (including joint ventures with foreign banks), enlarging their scope of operations and permitting public corporations to place up to 50% of their deposits with private financial institutions. To provide similar tax treatment of income from dividends and interest, a tax of 15% has been imposed on interest income from time deposits. This measure will also provide impetus to the capital market. In addition, a new over-the-counter (OTC) market has been established and private stock exchanges in Jakarta and other cities have been allowed to encourage the capital market. The resulting gain in efficiency from the relaxation of entry barriers coupled with lower reserve requirements should decrease intermediation costs and improve banking practices. The Government is now working to ensure that the recent financial reforms are well implemented, together with complementary improvements in prudential regulations, especially in the area of bank supervision. The next task will be to streamline the regulatory framework for banking, insurance and pensions funds and strengthen the institutional arrangements for prudential regulation. The Government also intends to reduce the role of Bank Indonesia's subsidized credits in order to remove their adverse effects on the allocative efficiency of investment and bank system incentives.

(xxviii) Apart from infrastructure, an important requirement for the efficient provision of transport services is the regulatory framework. For many years, the sector was highly regulated with controls on tariffs, licenses on routes and a range of other permits. This restricted new private investment in the sector, reduced flexibility and raised transport costs to very high levels. The most deleterious regulations were in the maritime transport sector. The customs and ports reform of 1985 resulted in a substantial reduction in freight costs and processing time. Subsequently, through a comprehensive set of reforms in November 1988, the Government has removed virtually all regulatory impediments to the development of an efficient and responsive maritime transport sector. The Government is working to ensure that these reforms are implemented properly and to establish appropriate arrangements for monitoring their operation. The next priority for reform is in the road subsector. Some steps have already been taken, such as the clarification of traffic enforcement authority. Further reforms could include: (a) relaxation of licensing restrictions and tariff controls, especially for urban bus services; (b) increased vehicle weight and dimension limits, coupled with improved enforcement; (c) improved administration and enforcement of regulations concerned with safety; and (d) clarification of institutional responsibilities and improved inter-agency coordination in road traffic and transport matters.

(xxix) Environmental management. While the efficient development of the economy implies a policy of deregulation to remove market distortions and improve incentives, ensuring the sustainability of this development will require active Government involvement in the management of the environment. Indonesia's two key environmental concerns are: (a) land and forestry management in the Outer Islands; and (b) water resource management and pollution control in Java. Deforestation stems from a combination of factors, including inadequate regulation and control over forest concessionaires and deficiencies in land allocation and land use planning. Although Java is well endowed with water

resources, there are already seasonal water shortages, and the water supply/demand balance in several river basins is becoming critical. In addition, pollution in the downstream areas of all the north coast rivers has seriously reduced the amount of raw water that can be used for municipal and industrial purposes.

(xxx) The Government is aware of these issues and has taken several steps in the past year to strengthen institutions and improve policies aimed at ensuring sustainable development. These included: (a) reorganization of the Ministry of Population and Environment to strengthen environment planning and management; (b) formation of a National Land Agency with Presidential supervision; (c) improvements in the management of forestry concessions, including the introduction of a new export tax on sawn timber in March 1989 and intention to increase the reforestation fee starting in July 1989; and (d) the elimination of the pesticide subsidy. The Government has also reiterated its commitment to sustainable development in REPELITA V. Nevertheless, a substantial agenda of policy and institutional reforms remains. In land and forestry management, the role of the new land agency regarding forestry lands needs to be clarified. Further tightening of the management of forest concessions will be important to discourage the rapid exploitation of the forest and obtain adequate revenues from this source. Regarding water pollution, there is a need to enact more realistic and enforceable standards for industrial discharge of waste water, and to establish the institutional arrangements for pollution monitoring and control. A strict policy of ensuring that future industrial investments are in initial compliance with environmental regulations needs to be implemented. Furthermore, firms should not be granted operating licenses without adequate and properly functioning abatement equipment.

## Changing Role of the Public Sector

(xxxi) Supported by higher oil earnings, the public sector played a major development role during the 1970s and early 1980s, by financing a large expansion in infrastructure and social services and also by directly engaging in many production activities (in manufacturing, agriculture and services). The slowdown in oil revenues and the growing budgetary burden of external debt service payments have necessitated a reduction in the economic role of the public sector. This, in turn, has led to the challenge to strengthen sectoral expenditure programs and lower the cost of public services. The Government has responded to the changing circumstances by deregulating the economy to promote the private sector and by focusing expenditure priorities broadly on O&M, infrastructure and social services. Yet, there remains a need to strengthened expenditure priorities at the sectoral level and to improve the planning and budgeting framework for public expenditure management. Even more importantly, there appears to be substantial scope for lowering the cost of public services, raising service quality and ensuring better targeting. This will entail setting appropriate pricing policies for public services, improving public enterprise management and strengthening decentralization of responsibilities to the regional governments. Furthermore, a long-term development challenge would be to reform the civil service in order to support the deregulation and decentralization programs which are underway.

(xxxii) Improving the allocation of public spending. Although REPELITA V foresees a larger role for the private sector in providing the investment needed to generate employment and develop non-oil exports, a major expansion of public investment will be necessary to: (a) avoid bottlenecks to achieving higher growth of non-oil exports and output; (b) promote development of human resources and employment; and (c) support poverty alleviation. The recent focus of development spending on agricultural development, electricity, telecommunications and transport infrastructure, and human resource development programs is clearly consistent with these objectives. REPELITA V allocations show that the Government intends to strengthen this trend. In addition to ensuring that intended priorities are reflected in actual spending, care has to be taken that spending within sectors and between programs are consistent with stated objectives. Given the Government's objectives for REPELITA V, important considerations in design of the public investment program include: (a) an appropriate balance between O&M, rehabilitation and new capacity; (b) the regional distribution of public investment; (c) poverty focus; (d) recognition of the scope for private provision; (e) avoiding large capital-intensive projects; and (f) project implementation constraints.

(xxxiii) To realize its growth and poverty reduction objectives, the Government's target for the agriculture sector is to achieve a growth rate of 3.6% p.a. during REPELITA V, based on an efficient and a more diversified production base. To support this strategy, public expenditure on agriculture during REPELITA V will be concentrated on smallholder tree crop development, irrigation, and research and extension, with emphasis on the Outer Islands and designed to reach the poor. The private sector will be encouraged to take a more prominent role in promoting agricultural processing and in tree crop development, particularly for plantations. The Government will continue to support smallholder cultivation of tree crops, to ensure that potential benefits of earlier investments are realized, and to reach more smallholders, the vast majority of whom have not had the opportunity to benefit from past programs. For irrigation, the Government's first priority is to ensure efficient O&M, followed by rehabilitation, and selective expansion. The focus of research and extension will shift from rice to secondary crops, smallholder tree crops, livestock and fisheries.

(xxxiv) As income and private investment grow there will be increasing demand for transport, power and telecommunications services. Much of the increase in transport services will be provided by the private sector. To facilitate this expansion, the Government's aim is to ensure an adequate and efficient road network. The O&M funding of roads has now increased to satisfactory levels and this priority will be maintained. Greater attention will be given to improve rural roads, especially to support second-stage transmigration and area development projects. This effort will be matched with supporting improvements in the institutional capacity to implement rural road programs. The Government is also re-examining the role of toll roads. In power and telecommunications, the Government will undertake major new investments to meet the large potential demand. The expansion of these key services could be further strengthened by regulatory and institutional reforms designed to provide greater financial and management flexibility to the sector enterprises and encouraging greater private sector participation in the provision of these services.

(xxxv) The priority accorded to human resource development in REPELITA V is aimed at sustaining improvements in economic growth, labor earnings and poverty alleviation over the medium term. The main emphasis will be on quality improvements, with selective expansion carefully targeted to reach the poor. In education, the Government's key priorities are to raise the quality of primary and secondary education. In health, the priorities are to reduce the mortality rate and to improve the use of health services. This will be achieved through a substantial improvement in the quality of health services together with selective increases in health facilities. In family planning, the Government's priority is to target free family planning services to the poorest users while increasing cost recovery from other users. Efforts also will be made in improving basic services such as water supply, sanitation and the kampung improvement program (KIP). The main expenditure priorities are to increase O&M funding, expand the stand-pipe program with careful attention to avoiding water waste, develop low-cost sanitation options, and revitalize the KIP based on community participation.

(xxxvi) Improving the efficiency and effectiveness of public spending will also require a reform of fiscal planning and budgeting. As regards the budgetary process, there are two important issues: (a) the budget is fragmented across multiple budgetary channels; and (b) the links between Government policy objectives and the classification of budget categories in the government accounts are not sufficiently transparent. Because of these problems, it is often difficult to determine whether the allocation of resources for priority uses (such as for O&M) is adequate. Consolidation of funding accounts into fewer budget channels would greatly simplify and facilitate sectoral expenditure planning and monitoring. The Government's planning and budgeting framework also needs to be strengthened by integrating O&M considerations in the planning process, establishing a longer-term framework for the annual budget, strengthening project appraisal capacity and improving the information base for planning and budgeting.

(xxxvii) Pricing policies for public services. Setting prices or user charges to reflect economic cost will improve the efficiency of resource allocation. Charging prices less than economic cost leads to inefficient over expansion of underpriced public services and underutilization of more efficient alternatives. For example, imposing higher registration taxes on medium and heavy load vehicles would reduce road wear and tear by eliminating distortions in the pattern of demand between road and rail. Setting prices lower than economic costs is, however, justified in the presence of externalities to induce socially efficient level of use. In some cases, such as immunization or family planning programs, it may be impossible to estimate the price needed to induce socially desired behavior and the service is best provided free. Subsidized prices are also justified when incomplete financial markets, such as for educational credit or health insurance, serve as a practical constraint on charging higher prices. In these cases, it is appropriate to raise cost recovery from those who do have access to, for example, health insurance while taking steps to expand the availability of schemes for student loan assistance and health insurance coverage.

(xxxviii) Many public services are provided free or at low cost for equity reasons so that poor people have access to them. But in practice this trade-off between efficiency and equity is overstated. Because of budget constraints, the provision of subsidized public services is severely rationed and the poor often do not gain the intended access to the limited supply available. Charging efficiency prices to most users while targetting limited subsidies to poor beneficiaries can, therefore, help to alleviate poverty and improve efficiency at the same time. For example, the average water tariffs for heavy residential users could be raised while a cross-subsidy to the poor in the form of low piped water connection charges or subsidized community standpipes could be provided. User charges are also a potentially important instrument for public revenue mobilization. This would contribute to better O&M, thereby improving the quality of service.

(xxxix) Selected issues in public sector management. Improving the allocation of public spending and appropriate pricing of public services are two key aspects of a strategy to effectively address the issue of public sector efficiency. A closely related critical element is improving overall management of the public sector. Three key management issues in the context of Indonesia's present situation are: (a) management of public enterprises (PEs); (b) decentralization; and (c) civil service reform. Indonesia has a sizeable PE sector operating in most fields of economic activity. There are a number of enterprises that have performed well and generated a healthy financial performance. However, the overall financial performance of PEs is less satisfactory. Some of the factors impinging upon PE performance relate to internal management and technical problems, but others relate more generally to the Government's policy framework for PEs. To help improve the performance of the sector the Government is considering divesting some PEs. It is essential to formulate a comprehensive strategy for PE reform to improve their efficiency and financial performance. These efforts will help to realize the benefits from improved allocation of public spending and better pricing policies, and economic and financial rates of return from many important public investment will improve.

(xl) Due to financial constraints, the Central Government is looking to the local governments to take greater responsibility in financing many development programs from their own resources. A well-managed program of decentralization can provide more opportunities for local initiative in development planning, implementation, and monitoring of public sector programs and projects, and create better accountability while reducing the burden on overstretched central ministries. An effective decentralization strategy will need to be accompanied by important changes in central-local fiscal relations designed to increase financial autonomy of local governments. Appropriate mechanisms will be required to allocate the transfers among regions and to ensure that national priorities are reflected at the local level. Complementary actions will also be needed to clearly define institutional responsibilities and to develop staffing capacity and interagency coordination at the local level.

(xli) The moves towards increased deregulation, PE reform and decentralization have important implications for the size, structure and functions of the Central Government. For example, deregulation in trade, investment and finance has eliminated most of the "control" oriented activities of a large numbers of civil servants. Similarly, a further push towards decentralization will necessitate a shift of important planning and implementation responsibilities to the local government. Moreover, public

enterprise reform involving the privatization of some of these enterprises and enhanced autonomy for others will reduce the scope for their operational control by supervising technical ministries. Accordingly, a major task will be to reexamine the role of some of government institutions, combined with continuous efforts to improve the civil service. This represents a long-term challenge, requiring a careful review of the present situation and an approach towards reform focussed on reducing size, redefining functions, upgrading skills, improving incentives and ensuring accountability for performance.

# CHAPTER 1

## PROGRESS ON ECONOMIC ADJUSTMENT

### A. Introduction

1.01 Indonesia experienced a rapid growth of income, consumption and investment during the 1970s. Unlike many other oil exporting countries, Indonesia managed its oil resources well and largely succeeded in protecting the commodity producing sectors (agriculture and manufacturing) from lagging behind the rest of the economy.1/ Furthermore, important social gains were achieved, as reflected in a substantial reduction in the incidence of poverty.2/ Nevertheless, some structural problems remained, chiefly resulting from the complexities of the Government's regulatory framework, which intensified the adjustment challenges that emerged from a series of external shocks since 1981.

1.02 The main source of turbulence has been a severe deterioration in Indonesia's external terms of trade, primarily due to the collapse of oil prices. The losses from falling oil prices have been magnified by the adverse effects of international currency fluctuations on debt service payments since mid-1985. The Government has responded to these external shocks by implementing a broad range of adjustment measures and structural policy reforms. As a result, the macroeconomic imbalances have been significantly reduced while economic growth has remained positive in per capita terms. Although some short-term social costs have been incurred, Indonesia's long-term growth prospects would undoubtedly have been severely jeopardized if these necessary adjustments had not been implemented.

1.03 At present, the external environment remains difficult and this is likely to persist during the immediate future. Yet, the reduced dependence of the economy on oil earnings resulting from structural reforms has greatly improved Indonesia's capacity to manage external shocks without undue disruption to the domestic economy. Already, there are encouraging signs of a recovery of economic growth and private investment. Provided the Government maintains its ongoing adjustment policies and efficiency drive and there is continued donor support, Indonesia can be expected to move to a sustainable higher growth path and to restore the development momentum during the 1990s.

1.04 Against this backdrop, Indonesia has recently launched its new five-year development plan (REPELITA V), starting in April 1989. The aim of this report is to provide a review of the policy issues relating to achievement of the Plan's major macroeconomic targets. The first chapter examines the nature and magnitude of Indonesia's external shocks (Section B), the policy response (Section C) and the adjustment performance so far (Section D). The analysis focuses on the role of the various policy instruments in the adjustment process and the trade-offs resulting from specific measures, in order to

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1/ See Alan Gelb, Oil Windfalls: Blessing or Curse?, World Bank Research Publication, October 1988.

2/ The percentage of people falling below the designated poverty line fell from 57.1 in 1970 to 39.8 in 1980.

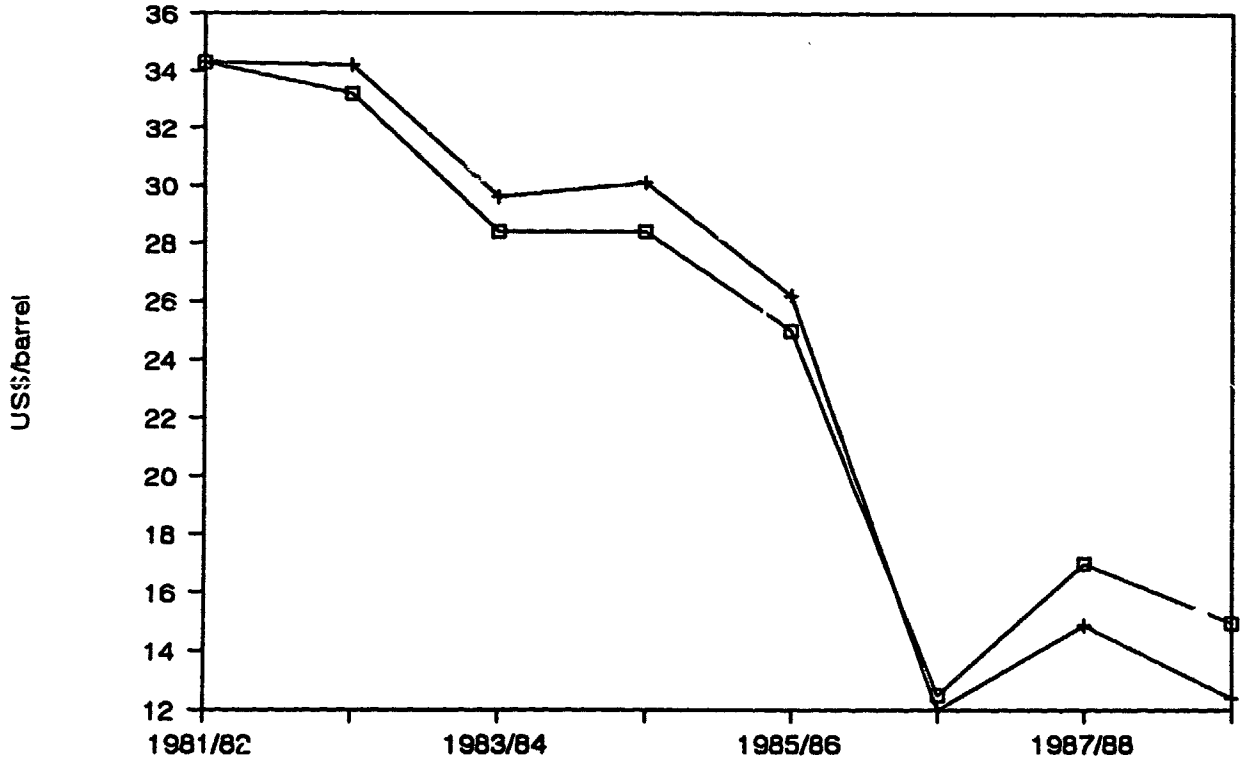
highlight the need to ensure the internal consistency of policies so that the pursuit of social objectives does not compromise financial stability (Section E). Chapter 2 analyses Indonesia's growth prospects over the medium term, given the external environment outlook, focusing on the macroeconomic policy framework and resource mobilization. Subsequent chapters of the report then look at ways economic growth can be supported and real earnings of Indonesia's growing labor force can be enhanced, focusing on economic efficiency and sustainable development, and reviewing the appropriate role of the private and public sectors. A more detailed assessment of economic developments over the past year is provided in Annex 1.

## B. Nature and Magnitude of External Shocks

### Sources of External Disturbances

1.05 Since 1981, Indonesia has experienced a severe deterioration in its external terms of trade. The main factor causing this decline is the price of oil (see Graph 1.1). Indonesia's crude export price climbed to a peak of US$34.3/barrel in 1981/82 and then began to slide steadily until 1985/86, falling to US$25.0/barrel. The oil price collapsed in 1986/87, with the

**GRAPH 1.1 : OIL PRICE TREND**




Note: Real price is in 1981 US$, deflated by MUV.

average price falling to US$12.6/barrel. There was a partial recovery of oil prices during 1987, but they dipped again in 1988. Thus, Indonesia's average crude oil export price stood at US$15.1/barrel in 1988/89, only 36% of the real price in 1981/82. The deep worldwide recession of the early 1980s and the decline in other commodity prices also hurt Indonesia's balance of payments, although lower import prices provided partial relief. The adverse effect of world recession on export volumes was especially severe in 1982/83. Both non-oil export and import prices rose sharply in 1988/89, with non-oil export prices rising faster. But lower oil prices more than offset this small improvement in the non-oil terms of trade. Thus, overall, the downward trend of Indonesia's terms of trade during 1981-88 was primarily the result of lower oil prices, causing a substantial decline in export earnings.

1.06 Since mid-1985, the depreciation of the US Dollar has been another source of external shocks. As a large proportion of Indonesia's foreign debt is denominated in currencies which have appreciated viz-a-viz the dollar, Indonesia's total debt in dollar terms has surged, causing a significant increase in debt service payments (interest and principal). The combination of lower oil prices and adverse affects of international currency fluctuations has caused a rapid increase in Indonesia's debt service burden.

1.07 Compared to many other developing countries, especially in Latin America, Indonesia has suffered less from higher international interest rates. This reflects mainly the predominantly concessional and fixed-interest characteristics of Indonesia's debt structure. Another factor was that the surge in international borrowing rates happened during a period (1978-81) when Indonesia's borrowing requirements were small due to large oil earnings. Thus, overall, the adverse impact of international interest rate movements has been relatively small.

Magnitude of External Shocks

1.08 The magnitude of the adverse effect of external shocks is illustrated in Table 1.1. On average, Indonesia suffered an income loss equivalent to some 9% of its annual GNP due to external disturbances over 1983-88. The loss of income was especially large during 1986-88. As expected, the terms of trade effect was dominant. The interest rate effect was minimal. The loss of income from international currency fluctuations increased significantly in 1987-88. Clearly, the burden imposed by external shocks has been substantial and presented a major challenge to policymakers. Indeed, without a forceful policy response, this large loss of income could have easily destabilized the economy.

## C. The Government's Adjustment Program

1.09 Indonesia's adjustment program was initiated in 1983 and has been intensified since the collapse of oil prices in 1986. In broad terms, two types of policy adjustments have been made. First, the Government has adopted more austere macroeconomic policies to restore financial stability. Second, to sustain the development momentum over the medium to longer term, it has embarked on a major program to restructure the economy, aimed at reducing Indonesia's heavy dependence on oil as a source of foreign exchange and budgetary revenues and improving economic efficiency. The key elements of

Table 1.1: IMPACT OF EXTERNAL SHOCKS, 1983/84-1988/89 /a
(% of GNP)

| | Actual | | | | | Estimated | Average |
|---|---|---|---|---|---|---|---|
| | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 | 1983-88 |
| Loss of income | | | | | | | |
| Terms of trade effect (1981 prices) | 2.5 | 2.0 | 5.7 | 15.6 | 13.3 | 14.1 | 8.9 |
| Exchange rate effect (1981 exchange rate) | -0.2 | -0.3 | -0.4 | 0.3 | 0.9 | 1.5 | 0.3 |
| Interest rate effect (1981 interest rate) | 0.6 | 0.4 | 0.1 | 0.0 | -0.5 | 0.0 | 0.1 |
| Total effect | 2.9 | 2.1 | 5.4 | 15.9 | 13.7 | 15.6 | 9.3 |

/a The effect of a shock in any year is measured as the difference between 1981 price and current price values, and expressed as percentage of GNP.

Source: World Bank staff estimates.

this structural adjustment program include a range of measures to strengthen domestic resource mobilization, to expand non-oil exports and to promote a more competitive and dynamic non-oil economy. A summary of policy measures is provided in Table 1.2. These policies can be grouped under four broad categories: (a) exchange rate management; (b) fiscal policy; (c) monetary and financial policies; and (d) trade and other regulatory reforms.

Exchange Rate Management

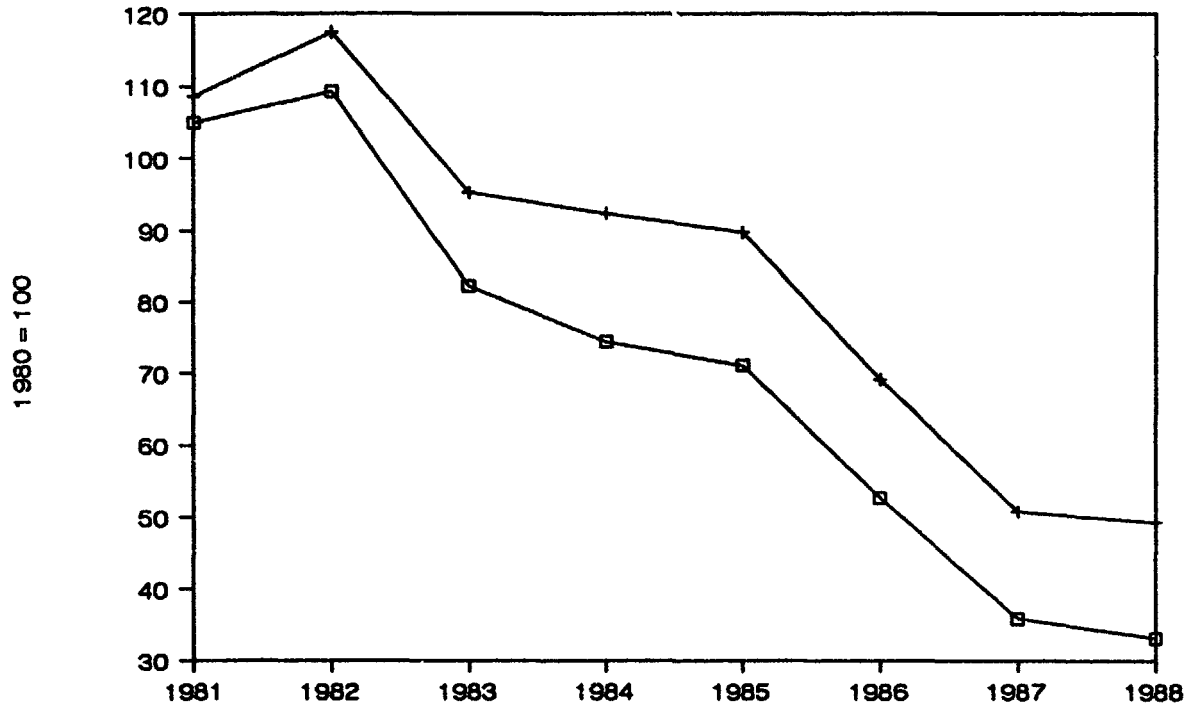
1.10 To restore balance of payments stability and sustain growth over the medium term, a first step was to implement a devaluation of the Rupiah by 28% 3/ in March 1983. At the same time, the flexibility of the exchange rate was increased through a more actively managed float. The Rupiah was again devalued by 31% in September 1986, in response to the rapid decline in oil prices. Since then, the Rupiah has depreciated against a falling US Dollar. The trend of nominal and real effective exchange rates is shown in Graph 1.2. As a result of two maxi-devaluations, a managed float policy and the Government's ability to restrain inflation, Indonesia's real effective exchange rate depreciated by about 55% between December 1981 and December 1988. The downward trend of the real effective exchange rate has generally been maintained throughout the adjustment phase. As discussed later, the substantial depreciation of the real exchange rate has played a crucial role in the adjustment process by stimulating non-oil exports and restraining imports.

3/ Devaluation magnitudes are calculated on the basis of the IMF method. This measures devaluation in terms of the rate of change in the value of foreign currency per unit of the domestic currency (e.g., the value of the US Dollar per unit of Rupiah).

Table 1.2: ADJUSTMENT POLICY RESPONSE, 1983/84-1988/89

| Instruments | Policy description |
|---|---|
| Exchange rate | - Rupiah devalued by 28% in March 1983.<br>- Exchange rate made more flexible since March 1983.<br>- Rupiah devalued by 31% in September 1986.<br>- Exchange rate has depreciated against a falling US Dollar since September 1986. |
| Fiscal policy | - Large capital and import intensive projects rephased in May 1983.<br>- Major cutbacks in government real capital spending since 1983.<br>- Tight control maintained since 1983 on the use of non-concessional import-related credits.<br>- A major tax reform initiated, starting in January 1984.<br>- Follow-up steps taken to strengthen tax administration.<br>- Restraints on civil service employment and salaries. |
| Monetary and financial policies | - A major financial reform initiated in June 1983, involving removal of interest rate and credit ceilings for state bank operations and introduction of new instruments of monetary control.<br>- A new set of financial measures introduced in October and December 1988, aimed at enhancing financial sector efficiency and developing capital markets.<br>- Improved monetary management to control inflation.<br>- Improved short-term monetary management to curb exchange rate speculation. |
| Trade policy | - An across-the-board reduction in nominal tariffs implemented in March 1985.<br>- Measures to provide internationally-priced inputs to exporters announced on May 6, 1986.<br>- Significant reduction in import licensing restrictions initiated through a series of measures in October 1986, January and December 1987, and November 1988.<br>- Steps taken in December 1987 to reduce the anti-export bias of trade policy by reducing regulatory restrictions for exporters. |
| Other regulatory reforms | - Reorganization of customs, ports and shipping operations in April 1985 to reduce freight costs and cut procedural time.<br>- Steps taken through the May 1986, October 1986, January 1987 and December 1987 packages to reduce the investment and capacity licensing requirements, relax foreign investment regulations, and reduce the role of the local content program.<br>- Substantial deregulation of maritime activities announced in November 1988 to reduce costs and encourage private sector participation. |

# GRAPH 1.2 : EXCHANGE RATE MOVEMENTS




NEER = Nominal Effective Exchange Rate.
REER = Real Effective Exchange Rate.

Fiscal Policy

1.11 The objectives both of demand restraint and structural change have been served by the implementation of a number of strong fiscal measures, designed to restrain expenditure and mobilize public resources. Many large capital-intensive projects were rephased in 1983, with estimated foreign exchange savings of US$10 billion. Over the past three years, civil service salaries have been frozen and real capital spending by the Central Government has been cut by more than 25%. Some actions were also taken to restrain public enterprise investment. Tight control has been kept on the use of non-concessional import-related credits since 1984 and equity participation in public enterprises funded through the Budget has been reduced to minimal levels. A sweeping tax reform implemented over 1984-86 boosted non-oil tax revenues and improved the efficiency of the tax system. As a result of these fiscal measures, total non-oil taxes 4/ as a percentage of non-oil GDP grew from 8.3% in 1982/83 to 11.5% in 1988/89 and the overall public sector deficit declined from 4.9% of GDP in 1982/83 to 3.4% of GDP in 1988/89. The new Budget for 1989/90, which corresponds to the first year of REPELITA V, aims at maintaining the austere stance of the previous budgets and strengthening public resource mobilization.

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4/ Consists of non-oil taxes of the Central and local governments.

Monetary and Financial Policies

1.12 Supportive monetary and financial policies have been implemented to contain inflationary pressures, prevent capital flight, mobilize financial resources and improve the efficiency of use of financial resources. The Government has recognized the importance of keeping inflation low to maintain a competitive exchange rate. Moreover, given the openness of the capital account,5/ the need to prevent capital flight by ensuring the attractiveness of domestic currency deposits has also been recognized. A major financial sector reform was initiated in June 1983, which deregulated state bank interest rates, simplified subsidized lending rates for priority sectors and replaced credit ceilings with a system of reserve money management. To support this new direction for monetary management, two instruments of monetary control--rediscount facilities and Bank Indonesia certificates (SBI)--were introduced in February 1984. Subsequently, the flexibility of the money market was enhanced by introducing a new money market instrument (SBPU) in February 1985. As a follow-up to the June 1983 reform, a new set of financial measures was announced on October 27 and on December 20, 1988.6/ These initiatives were aimed at enhancing the efficiency of the financial sector by increasing competition, encouraging the development of the capital market and further improving the effectiveness of monetary management. Apart from these financial sector measures, the Government's monetary expansion targets were generally based on maintaining low rates of inflation. The deregulation of domestic interest rates has helped to restrain capital flight, increase private saving and its mobilization by the banking sector, and reduce inefficient use of financial resources. Cautious monetary management combined with austere budgets have induced a notable reduction in the average rate of inflation since the early 1980s.

Trade and Other Regulatory Reforms

1.13 The Government initiated a series of trade and other regulatory reforms to increase the effectiveness of demand management policies in reducing macroeconomic imbalances and to enable a recovery of economic growth over the medium term. In the area of trade policy, some initial first steps were taken during 1985 and early 1986. An across-the-board reduction in nominal import tariffs was announced in March 1985. Then in May 1986, the Government announced a package of measures designed to provide internationally-priced inputs to exporters. A further, more fundamental, step was taken in October 1986, when the Government announced the first of a series of trade deregulation packages. These reforms sought to reduce the burden of import licensing and signalled the Government's intention to shift to tariffs as the principal instrument of import policy. As a result, the value of imports subject to controls declined from 43% in mid-1986 to 21% in December 1988. More importantly, the proportion of domestic production protected by import licensing restrictions was reduced from 41% to 29%.

1.14 Notable progress was achieved in simplifying and reducing other regulatory impediments. Through a series of steps between May 1986 and December 1987, the investment approval process was streamlined, licensing

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5/ The openness of the capital account refers to the freedom of private capital movement to and from other countries allowed by Indonesia.

6/ Some of these measures were subsequently clarified on March 25, 1989.

requirements were reduced, the bias against foreign investment was curtailed and the role of the local content program was reduced. In May 1989, the Government converted the Investment Priority List to a short negative list, thereby increasing the transparency of the system and opening up new sectors to domestic and foreign market. Reforms in the area of customs, ports and maritime transport implemented in 1985 resulted in a substantial reduction in freight costs and cut procedural time. Subsequently, through the November 21, 1988 package the Government has removed virtually all regulatory constraints on the development of an efficient and responsive maritime transport sector. Along with trade measures, these other regulatory reforms have boosted domestic and foreign investment and non-oil exports by improving business confidence and reducing costs.

## D. Adjustment Performance

### Impact on the Balance of Payments

1.15 The effect of the adjustment program on the balance of payments is summarized in Table 1.3. Following a surge in 1982/83, the current account deficit fell from 7.9% of GNP to 2.4% of GNP in 1985/86. The collapse of oil prices in 1986 again led to a sharp deterioration in the balance of payments, with the current account deficit climbing to 5.9% of GNP. Subsequently, the adjustment measures succeeded in lowering the deficit to less than 3% of GNP in 1987/88-1988/89. Given the large loss of foreign exchange earnings caused by external shocks, the ability to bring down the current deficit to below the pre-external shock level of 1981/82 is evidence of the success of the Government's adjustment program in reducing the external imbalance.

1.16 The balance of payments adjustment was made by a combination of demand management (lower growth) and expenditure switching policies. In the initial phase of the adjustment period (1983-85), expenditure switching was primarily focused on a reduction of imports. A number of factors contributed to the strong import reduction impact. First, by rephasing large projects in May 1983 and by cutting real capital spending in subsequent years, imports of capital goods by the public sector were reduced sharply. Second, by redefining priorities, the Government diverted its expenditures away from relatively high import-intensive sectors (mining and industry) to less import-intensive sectors (agriculture, education and transport). The Government also restrained the import-intensity of capital expenditures of state enterprises by imposing strict limits on the use of non-concessional trade credits. Third, the large depreciation of the real exchange rate raised the price of imports relative to home goods, thereby causing private sector demand to shift away from imports towards domestic substitutes. Fourth, a strong public investment effort during the oil boom period resulted in increased import substitution of important commodities, such as rice, sugar, manufactured food, cement and fertilizer. Finally, imports were also compressed by a proliferation of non-tariff barriers (NTBs) in the form of import licences since early 1980s. However, recognizing the loss of economic efficiency resulting from NTBs, the Government initiated the trade deregulation process in late 1986. Consequently, there will be a much lower reliance on import substitution to provide balance of payments support in the future compared to the past.

**Table 1.3: BALANCE OF PAYMENTS, 1981/82-1988/89**
**(US$ billion at current prices)**

| | Actuals | | | | | Estimated |
|---|---|---|---|---|---|---|
| | 1981/82 | 1982/83 | 1985/86 | 1986/87 | 1987/88 | 1988/89 |
| Merchandise exports (fob) | 23.0 | 18.6 | 18.5 | 13.7 | 18.1 | 19.8 |
| Oil & LNG | 18.8 | 14.7 | 12.3 | 7.0 | 8.6 | 7.7 |
| Non-oil | 4.2 | 3.9 | 6.2 | 6.7 | 9.5 | 12.1 |
| Merchandise imports (cif) | -20.0 | -20.6 | -14.4 | -12.7 | -14.2 | -15.5 |
| Oil & LNG | -5.4 | -4.8 | -3.2 | -2.3 | -2.4 | -2.1 |
| Non-oil | -14.6 | -15.8 | -11.2 | -10.4 | -11.8 | -13.4 |
| Trade balance | 3.0 | -2.0 | 4.1 | 1.0 | 3.9 | 4.3 |
| Non-factor services (net) | -2.6 | -1.7 | -1.9 | -1.6 | -1.5 | -1.8 |
| Interest payments (MLT) | -1.3 | -1.5 | -2.1 | -2.4 | -2.8 | -3.0 |
| Other factor services (net) | -1.9 | -2.2 | -2.3 | -1.2 | -1.5 | -1.7 |
| Official transfers | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 |
| Current account balance | -2.7 | -7.3 | -2.0 | -4.0 | -1.6 | -1.9 |
| Oil and LNG | 9.8 | 7.2 | 5.9 | 2.4 | 3.8 | 3.0 |
| Non-oil | -12.5 | -14.5 | -7.9 | -6.4 | -5.4 | -4.9 |
| Public MLT loans (net) | 2.2 | 4.0 | 1.4 | 2.7 | 2.1 | 2.7 |
| - Disbursements | (3.3) | (5.1) | (3.9) | (5.2) | (6.0) | (7.1) |
| - Principal repayments /a | (-1.1) | (-1.1) | (-2.5) | (-2.5) | (-3.9) | (-4.4) |
| Other capital (net) | 0.6 | 0.0 | 1.5 | -1.7 | 0.7 | -1.6 |
| Use of net foreign assets | -0.1 | 3.3 | -0.9 | 3.0 | -1.2 | 0.8 |
| Memo items: | | | | | | |
| Net official reserves | 6.4 | 3.0 | 5.8 | 5.0 | 6.0 | 5.4 |
| - Months of imports | (3.7) | (2.0) | (5.5) | (4.3) | (4.6) | (3.7) |
| Total net foreign assets | 10.8 | 7.5 | 12.6 | 9.6 | 10.8 /b | 10.0 |
| Current account/GNP (%) | -3.0 | -7.9 | -2.4 | -5.9 | -2.3 | -2.5 |
| Non-interest current account balance | -1.2 | -5.6 | 0.5 | -1.3 | 1.5 | 1.6 |
| - % of GNP | -1.3 | -6.0 | 0.7 | -1.9 | 2.3 | 2.1 |
| MLT debt service/exports (%) /c | 10.4 | 16.8 | 24.4 | 37.3 | 33.9 | 36.3 |

/a Includes prepayments of US$420 million in 1985/86, US$626 million in 1987/88 and US$341 million in 1988/89.

/b Excludes US$326 million of prepayments, committed during the year but not completed until June 1988.

/c Debt service excludes prepayments; denominator is gross exports of goods and services.

Source: Bank Indonesia and World Bank staff estimates.

1.17 The relatively smaller impact of non-oil exports on balance of payments adjustment during the initial years is partly explained by the small non-oil export base at the start. For example, the share of non-oil exports in total exports (goods only in real terms) was only 24% in 1982/83. The performance of non-oil exports began to improve immediately after the institution of the competitive exchange rate policy in March 1983. The expansion of non-oil exports was especially encouraging during 1986-88, growing by about 20% p.a. in real terms. As a result of this, the share of non-oil exports in total exports (in real terms) increased to 41% in 1988/89.7/ Apart from a competitive exchange rate, the recent trade and enterprise deregulation measures have also stimulated non-oil exports. Given the limited scope for further efficient import substitution and uncertain oil price prospects, the ability to sustain the non-oil export momentum will be of critical importance to maintaining external stability and supporting higher economic growth in the future. This also underscores the need to maintain a competitive exchange rate and continue with the regulatory reform program.

1.18 Despite good external adjustment performance and the Government's cautious approach to external borrowing, the debt burden has risen sharply since the early 1980s. By end-1988, the stock of medium and long-term (MLT) public and private debt disbursed and outstanding (DOD) had reached an estimated US$47.5 billion. Many of the debt indicators for Indonesia are also above the average for all developing countries and in line with those for the 17 highly indebted countries.8/ These indicators reflect the adverse external environment faced by Indonesia since the early 1980s. Depreciation of the US Dollar after 1985 added US$12.6 billion (31%) to Indonesia's public debt at end-1988 and US$1.9 billion (25%) to its debt servicing during 1988.9/ Over the same period, oil prices fell by about one half, severely reducing Indonesia's export earnings and capacity to service debt.

1.19 Even with the rise in debt indicators, it is important to distinguish Indonesia from the highly indebted countries in several important respects: (a) it has maintained sound economic policies and a prudent borrowing strategy; (b) as a result, it receives strong financial support from official sources on concessional terms; (c) it has substantial reserves available in the form of foreign exchange and undrawn lines of credit; and (d) it has retained access to new voluntary lending from commercial banks. For these, reasons, Indonesia has not faced a foreign exchange crisis or a cash-flow constraint on payment of its external debt obligations. Net transfers of external assistance have risen sharply from US$0.4 billion in 1986 to US$2.0 billion in 1988. At the same time, the Government has maintained strict limits on import-related and commercial credits, and reduced exposure to private banks. This voluntary restraint has limited the total net transfer of resources to Indonesia, but improved the maturity and terms structure of

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7/ In current prices, the share of non-oil exports grew from 21% in 1982/83 to 61% in 1988/89, reflecting the combined effects of higher non-oil export volumes and prices, and lower oil prices.

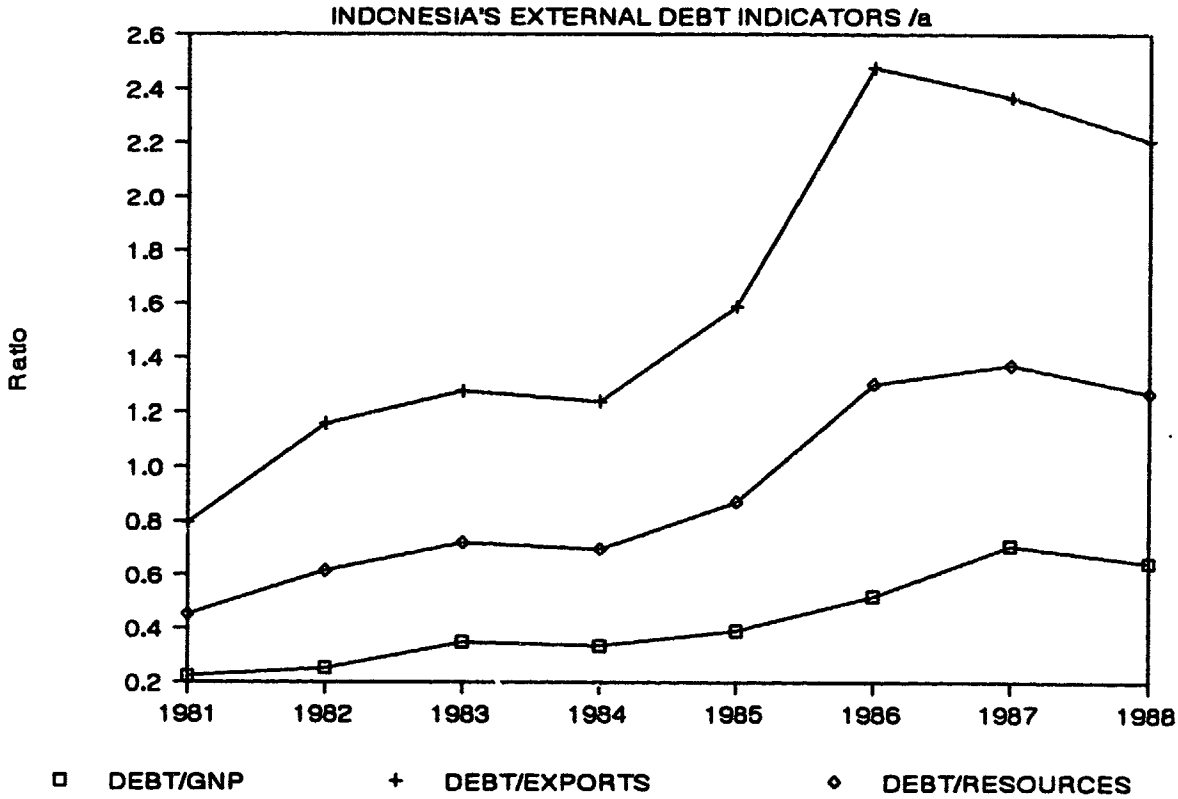
8/ This group comprises of: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia. See, World Debt Tables (1988-89 Edition), World Bank, Washington, D.C.

9/ Excluding credits for LNG expansion, LPG and paraxyelene projects.

external debt. As a result, Indonesia's debt structure is now better than in most developing countries, with a relatively high share of concessional debt and a relatively low share of variable interest debt.

1.20 Indonesia's recent performance compares favorably with that of the highly indebted countries. Even with recourse to debt reschedulings and moratoria, net transfers to most highly indebted countries have turned substantially negative in recent years. This reflects the lost access to new voluntary lending, especially from commercial banks. As a result, economic growth has been curtailed, with declining per capita consumption in 11 of the 17 highly indebted countries. Indonesia has also made substantial cuts in investment since the early 1980s. However, through policies to promote efficiency improvements and non-oil export development, the Government has been able to sustain GDP growth at 3.3% p.a. over the past seven years. As shown in Graph 1.3, the combination of prudent external borrowing and better economic performance has already led to a decline in several of Indonesia's debt indicators (e.g., DOD/exports, DOD/GNP and DOD/resources).10/

**GRAPH 1.3:**




/a MLT debt only.

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10/ The DOD/resource ratio is obtained as a weighted average of DOD/exports and DOD/GNP. This indicator neutralizes the bias of an exchange rate policy in the measurement of the debt problem. See Daniel Cohen, "The Management of the Developing Countries Debt: Guidelines and Applications to Brazil", The World Bank Economic Review, Vol.2, No.1, Washington D.C., 1988.

## Impact on Fiscal Deficit, Inflation and Interest Rates

1.21 Fiscal deficit. The effects of the fiscal measures on public resource mobilization and the Central Government's budget deficit are summarized in Table 1.4. Responding to the tax drive, the Central Government's non-oil taxes grew from 7.4% of non-oil GDP in 1982/83 to 10.8%

Table 1.4: CENTRAL GOVERNMENT BUDGET, 1982/83-1988/89
(Rp. trillion at current prices)

| | Actuals | | | | Estimated |
|---|---|---|---|---|---|
| | 1982/83 | 1985/86 | 1986/87 | 1987/88 | 1988/89 |
| Revenues and grants | 11.9 | 18.8 | 16.7 | 21.8 | 23.5 |
| Oil and LNG taxes | 7.6 | 10.7 | 6.3 | 10.4 | 9.5 |
| Non-oil taxes | 3.8 | 6.4 | 7.9 | 9.0 | 11.9 |
| Non-tax revenues /a | 0.4 | 1.5 | 2.2 | 2.0 | 1.6 |
| Grants | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 |
| Current expenditures | 8.2 | 12.7 | 13.4 | 15.5 | 16.8 |
| External interest | 0.7 | 1.8 | 2.8 | 3.8 | 4.3 |
| Subsidies | 1.4 | 1.4 | 0.9 | 1.4 | 1.0 |
| Other | 6.1 | 9.5 | 9.7 | 10.3 | 11.5 |
| Government savings | 3.7 | 6.1 | 3.3 | 6.3 | 6.7 |
| Capital expenditure | 6.6 | 8.7 | 7.3 | 9.2 | 10.5 |
| Overall balance | -2.9 | -2.7 | -4.0 | -2.9 | -3.8 |
| Financed by: | | | | | |
| External loans (net) | 2.0 | 1.8 | 3.7 | 2.8 | 4.2 |
| Disbursements | 2.7 | 4.3 | 6.8 | 8.8 | 11.2 |
| Principal repayments | 0.7 | 2.5 | 3.1 | 6.0 | 7.0 |
| Asset drawdown /b | 0.9 | 0.9 | 0.3 | 0.1 | -0.4 |
| Memo items (% of GDP): | | | | | |
| Non-oil taxes (% of non-oil GDP) | 7.4 | 8.4 | 9.8 | 9.4 | 10.8 |
| Government savings | 5.7 | 6.4 | 3.3 | 5.3 | 4.9 |
| Overall balance | -4.4 | -2.8 | -3.9 | -2.4 | -2.8 |
| Total expenditure | 22.7 | 22.6 | 20.3 | 20.7 | 20.1 |
| Net domestic expenditure /c | 11.4 | 8.5 | 3.8 | 4.1 | 2.2 |

/a Includes domestic oil surplus in 1986/87.
/b Excludes gain from valuation adjustment in 1986/87, estimated at Rp.1.8 trillion.
/c Defined as the domestic content of expenditure less non-oil revenues.

Source: Ministry of Finance and World Bank staff estimates.

of non-oil GDP in 1988/89. The expenditure control measures also were largely successful. Thus, despite the growing burden of external interest payments, total expenditure declined from 22.7% of GDP in 1982/83 to 20.1% of GDP in 1988/89. As a result of revenue mobilization and expenditure control measures, the budget deficit narrowed from 4.4% of GDP to 2.8% of GDP over the same period. The restraining influence of the budget is further indicated by the substantial decline in net domestic expenditure as a percentage of GDP (from 11.4% in 1982/83 to 2.2% in 1988/89).

1.22 The Central Government's budget deficit, however, understates the true level of the public sector's net claim on resources because it does not include the operation of state enterprises and local governments. A more useful indicator is the overall public sector deficit which consolidates the total deficit resulting from public sector operations.11/ Moreover, since interest payments on external debt are the result of past deficits rather than current behavior, a measure of the current fiscal policy stance is obtained by subtracting interest payments from the overall public sector deficit, known as the primary deficit. Table 1.5 compares overall public sector deficits in Indonesia with those in other Asian countries. This comparison shows that Indonesia has generally maintained cautious fiscal management, despite the loss of oil revenues. Also encouraging is the trend of the primary balance which registered a small surplus during 1987/88.

Table 1.5: OVERALL PUBLIC SECTOR BALANCES IN SELECTED ASIAN COUNTRIES, 1981/82-1987/88
(% of GDP)

| | 1981/ 1982 | 1982/ 1983 | 1983/ 1984 | 1984/ 1985 | 1985/ 1986 | 1986/ 1987 | 1987/ 1988 | Average 1981/82-1987/88 |
|---|---|---|---|---|---|---|---|---|
| Bangladesh /a | -11.7 | -11.2 | -9.2 | -7.5 | -7.3 | -8.1 | -7.8 | -9.0 |
| India | -6.5 | -7.0 | -7.2 | -8.6 | -8.6 | -9.1 | n.a. | -7.8 |
| Indonesia | -1.9 | -4.9 | -2.6 | 0.6 | -3.1 | -4.4 | -3.2 | -2.8 |
| Malaysia | -19.7 | -18.0 | -15.9 | -12.3 | -5.3 | -9.8 | -7.8 | -12.7 |
| Pakistan /a | -5.5 | -5.6 | -7.4 | -6.2 | -8.1 | -7.7 | -8.8 | -7.0 |
| Philippines /b | n.a. | n.a. | -9.0 | -8.2 | -5.9 | -5.4 | -3.2 | -6.3 |
| Thailand | -7.9 | -5.7 | -4.5 | -6.3 | -4.7 | -2.6 | -2.2 | -4.8 |
| Memo item: | | | | | | | | |
| Indonesia: primary balance | -0.9 | -3.7 | -0.9 | 2.6 | -1.2 | -1.6 | 0.1 | -0.8 |

/a Central Government deficits.
/b As percentage of GNP.

Source: World Bank Country Economic Reports.

11/ This is also known as the public sector borrowing requirement (PSBR).

1.23 Austere budgetary management has been an integral element of the adjustment program and has served to reduce demand pressures on both the balance of payments and prices. By maintaining low deficits and by restraining access to bank credit, the Budget has helped to contain inflation and avoided a crowding-out of private investment. By restraining aggregate demand and by lowering the import-intensity of expenditures, the Budget has also assisted in reducing the current account deficit. For the immediate future, given oil price uncertainties and the expected heavy debt servicing obligations, continued budget austerity will remain important. On the other hand, meeting the objectives of restoring the momentum of growth and poverty reduction will require an expansion in public investment for some infrastructure and basic social services. To reconcile these objectives, it will be essential to raise public savings by improving the allocation of public spending and by strengthening resource mobilization.

1.24 Inflation. The effect of the adjustment program on inflation is summarized in Table 1.6. All three measures of domestic inflation (CPI, WPI and NGDPD) show a significant deceleration of the average rate of inflation. The sharpest reduction is indicated by the CPI, while the WPI shows a more modest decline. Despite large devaluations, the cost-push pressures on domestic inflation during 1981-88 were contained by lower world inflation and

Table 1.6: DOMESTIC INFLATION TREND, 1973-1988
(annual average; % p.a.)

| | 1973-81 | 1981-88 /a |
|---|---|---|
| Domestic inflation indicators | | |
| CPI /b | 15.3 | 8.4 |
| WPI /c | 16.6 | 11.6 |
| NGDPD /d | 15.9 | 9.3 |
| Growth of selected price indices | | |
| Import goods prices /e | 13.6 | 11.4 |
| Exports goods prices /f | 19.0 | 12.7 |
| Rice price /g | 15.7 | 9.1 |
| Non-traded goods prices /h | 14.0 | 8.9 |

/a Price indices for 1988 were adjusted to reflect better the impact of international inflation and rice prices. This is reviewed in greater detail in Annex 1.
/b Because data on CPI-17 cities are available only from 1979, the CPI-Jakarta is used.
/c Non-oil wholesale price index.
/d Non-oil GDP deflator.
/e In domestic currency.
/f In domestic currency; excluding oil.
/g Medium quality wholesale price.
/h Constitutes housing and other services.

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

the Government's ability to restrain the growth of the rice price. Wage-push pressures were very limited. Indonesia has a small formal wage employment sector; moreover, the government sector dominates formal wage employment (where wage adjustments were restrained). Even in the formal manufacturing sector, available evidence suggest a slowdown in the growth of wages. In the informal sector, wage adjustments were generally linked to the price of rice which grew in a stable fashion until 1986 reflecting the virtual attainment of rice self-sufficiency and the impact of the Government's rice price stabilization program.12/ On the demand side, austere budgets and the slowdown of domestic income growth assisted in reducing demand pressure on the exchange rate and in restraining the growth of non-traded sector prices.

1.25 The low transmission of inflationary pressures through cost-push and demand-pull forces was supported by an appropriate monetary response. To curb inflation, the Government responded partly by slowing the rate of growth of reserve money but chiefly by inducing people to hold a larger volume of broad money (M2) by deregulating domestic deposit rates (see Table 1.7). The surge in the growth of quasi-money (time and saving deposits), despite much slower growth of nominal income, contributed to a sharp increase in the financial deepening of the economy (as reflected in the rise in the QM/GDP and M2/GDP ratios). The increase in demand for money in turn relieved demand pressure in the goods market bringing inflation down. On the other hand, financial deepening and the austere budgetary stance allowed an expansion of credit to the private sector thereby avoiding a supply crunch.

Table 1.7: GROWTH OF MONEY AND CREDIT, 1973-1988
(annual average; % p.a)

| | 1973-81 | 1981 88 |
|---|---|---|
| Reserve money | 28.0 | 15.0 |
| Currency and demand deposits (M1) | 32.8 | 12.3 |
| Time and saving deposits (QM) | 33.5 | 39.9 |
| Money supply (M2 = M1 + QM) | 33.0 | 25.1 |
| Domestic credit | 21.5 | 25.7 |
| Private credit | 26.6 | 28.0 |
| Memo items: | | |
| QM/GDP | 5.3 | 13.8 |
| M2/GDP | 15.1 | 24.5 |

Source: Bank Indonesia.

1.26 The ability to bring down inflation even with two major devaluations is a strong indicator of improved overall monetary management. Reserve money growth has been substantially reduced in recent years. Moreover, despite some

12/ Rice prices surged starting late 1987 and the upward trend continued until mid-1988, responding to the 1987 drought which adversely affected rice output. Subsequently, rice prices stabilized in response to improved supply.

initial learning costs, short-term monetary management also improved, as reflected in the Government's success in curbing speculative pressures on the exchange rate in March-June 1987. Nevertheless, the domestic inflation rate still exceeds world inflation and, therefore, current efforts to contain liquidity growth will need to be sustained.

1.27 Interest rates. A major element of the June 1983 financial deregulation package was the decontrol of domestic interest rates. The behavior of domestic interest rates is illustrated in Table 1.8. The sharp rise in state bank deposit rates in conjunction with lower inflation caused real deposit rates to become strongly positive. Similarly, the removal of the ceiling on lending rates led to an increase in the average lending rate. High real lending rates since 1983 have generated some concern about their adverse effect on private investment. Although the interest rate is only one of the variables determining profitability of private investment and the short-term impact on capital formation could well be offset by other factors, continued high real lending rates will slow down private capital formation over the longer term. One way domestic lending rates can be reduced to some extent is by lowering the cost of financial intermediation. The presently large spread

Table 1.8: DOMESTIC INTEREST RATES, 1981-1988
(annual averages; % p.a.)

| | 1981 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|
| Deposit rates /a | 6.0 | 14.6 | 18.0 | 14.5 | 14.6 | 17.0 | 17.6 |
| Real deposit rates /b | -10.7 | 2.8 | 7.5 | 9.8 | 8.8 | 7.5 | 9.1 |
| Av. lending rates (all banks) /c | 15.0 | 18.7 | 23.0 | 20.5 | 20.2 | 21.2 | 21.5 |
| Real lending rates /d | 4.8 | 4.4 | 11.0 | 13.9 | 13.1 | 11.4 | 12.0 |
| Memo items | | | | | | | |
| International interest rates /e | 16.7 | 9.9 | 11.2 | 8.6 | 6.9 | 7.3 | 8.0 |
| Inflation differential between Indonesia and USA /f | 6.5 | 7.5 | 6.2 | 1.0 | 3.8 | 6.2 | 5.3 |
| Swap premium | 5.1 | 5.1 | 5.1 | 5.1 | 5.1/g | 9.1 | 9.1 /h |
| Differential between lending and borrowing rates | | 4.1 | 5.0 | 6.0 | 5.6 | 4.2 | 3.9 |

/a 6-month deposit rate of state banks.
/b Using CPI-17 cities as deflator.
/c Weighted average interest rate for non-priority credits.
/d Using non-oil GDP deflator.
/e 6-month LIBOR for US$ deposits.
/f Using CPI.
/g A new premium of 8.1 was set in September 1986.
/h Since October 27, 1988, the swap premium is determined on the basis of the differential between LIBOR and the average domestic deposit.

Source: Bank Indonesia, International Financial Statistics (IMF) and World Bank staff estimates.

between deposit and lending rates (about 4 percentage points) is a consequence of significant inefficiencies that have persisted in the financial sector despite the 1983 financial reforms. The October-December 1988 financial sector measures are aimed at addressing some of these outstanding problems. These reforms are expected to significantly improve financial sector efficiency by increasing competition and also to increase the availability of long-term finance by stimulating the growth of capital markets. If these reforms are well implemented and followed by measures to improve the Government's capacity for prudential regulation, it should be possible to bring down the average cost of financial intermediation to about 2 percentage points.

1.28 An important issue is the role of monetary policy in the determination of domestic interest rates in Indonesia. Because Indonesia does not regulate private international capital flows and the exchange rate is not fully flexible, the domestic interest rate over the long term will be determined by international interest rates and the expected rate of depreciation of the Rupiah.13/ In the past, three variables affected exchange rate expectations: the swap premium rate, the differential between domestic and international inflation and the price of oil.14/ Exchange rate expectations appear to have been especially sensitive to oil price movements. From 1983-86, the average difference between domestic deposit rates and international interest rates was 6.3%, higher than the swap premium (5.1%) and inflation differential (4.6%). This happened because of uncertainty about the price of oil which prompted fears of exchange depreciation exceeding the level implied by the inflation differential or the swap premium. The September 12, 1986 devaluation and the recovery of oil prices in 1987 tended to have a dampening effect on exchange rate expectations in 1987-1988, but two offsetting influences contributing to adverse expectations were the increase in the inflation differential (5.8%) and the higher swap premium (9.1%). These latter factors caused the difference between domestic and international interest rates to widen even further. The recent move to allow the swap premium to become a market-based value, reflecting international interest differentials, rather than a policy variable is intended to provide flexibility to the swap rate and to dissuade people from believing that the swap premium reflects the Government's view about future exchange rate adjustments. Given that domestic deposit rates will need to be linked to international interest rates to avoid capital flight, the main way monetary policy can affect long-term interest rates is by maintaining low inflation rates thereby dampening expectations about exchange rate depreciation. In the short term, monetary policy can also be used to protect domestic rates from the destabilizing influences of speculative capital flight.15/ But an expansionary monetary policy designed to achieve low interest rates would be self-defeating over the longer-term, leading to high inflation, capital flight and balance of payments instability.

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13/ The domestic rate may adjust to the foreign rate in a lagged fashion and there may be some transaction costs.

14/ The swap facility was set up in 1979 by Bank Indonesia (BI) to allow investors borrowing abroad to hedge against the risk of a major devaluation by purchasing a swap rediscountable at a fixed premium. The swap facility provided only partial arbitrage support, being constrained by limited access and a rigidly set premium (until October 1988).

15/ This was done very successfully during May-June 1987.

Impact on Economic Efficiency

1.29 A critical factor governing the long term success of Indonesia's adjustment effort will be the ability to bring about a substantial improvement in economic efficiency. The negative consequences of Indonesia's complex regulatory framework were masked while oil resources were plentiful. A thorough revamping of the regulatory framework became essential with the substantial decline in oil revenues, especially because the public sector's capacity to support growth through its expenditure programs became constrained and the need to improve economic efficiency and stimulate the private sector became evident. The fairly comprehensive and far-reaching deregulatory measures initiated by the Government since the early 1980s, mentioned earlier, were a response to this need. Given the time lag with which many of these policy initiatives will affect behavior, it is too early to evaluate quantitatively their full impact. Even so, there is some evidence of an improvement in economic efficiency in recent years.

1.30 A rough index of productivity is the aggregate return on investment. Large investment financed through the oil boom fueled the growth of the non-oil economy in 1973-81. Given the low initial capital base, these investments yielded a fairly high average rate of return (see Table 1.9). The return per unit of investment declined sharply in 1982-85, but then picked up noticeably in more recent years. A closely related indicator of capital productivity,

Table 1.9: AGGREGATE EFFICIENCY INDICATORS, 1973-1988

| | 1973-81 | 1982-85 | 1986-88 |
|---|---|---|---|
| A. Rate of return on investment (% p.a.) /a | 31.4 | 13.1 | 21.8 |
| B. Incremental Capital Output Ratio (ICOR) | 2.8 | 7.8 | 5.2 |
| C. Total factor productivity (TFP) change (% p.a.) | | | |
| Growth rate of: | | | |
| Value added /b | 8.0 | 4.0 | 5.1 |
| Factor inputs | | | |
| - Labor | 3.0 | 2.8 | 2.8 |
| - Capital /c | 10.7 | 9.8 | 5.2 |
| Total factor productivity /d | 0.9 | -2.5 | 1.0 |

/a Rate of growth of non-oil GDP as a percentage of average investment rate during the period.
/b Using non-oil GDP.
/c Capital stock derived by using the "perpetual inventory method".
/d TFP change is calculated as the difference between rates of growth of value added and factor inputs (labor and capital); the inputs are weighted by their income shares.

Source: World Bank staff estimates.

the incremental capital-output ratio (ICOR), reveals a similar pattern. A more comprehensive measure of the gain in macroeconomic efficiency is the change in total factor productivity (TFP). The TFP methodology decomposes the rate of change of output into its contributing elements: labor, capital, materials and factor productivity. An improvement in TFP can be used as evidence of an increase in economic efficiency. Table 1.10 summarizes the analysis of TFP, using value added as a measure of production. A striking result is that the main determinant of economic growth in the oil boom period was the rapid build-up of capital stock. Factor productivity improvement played a marginal role. The onset of external shocks reduced factor productivity but this was reversed more recently. Nevertheless, the low contribution of factor productivity to economic growth illustrates the scope for future gains in efficiency.

1.31 The structural reforms which allowed the recent gains in economic efficiency have also supported a noticeable improvement in the structure of the economy (Table 1.10). Indonesia's dependence on oil has been substantially curtailed and the reliance on more promising and sustainable sources of growth has increased. Especially encouraging is the strong positive response of non-oil exports and private investment. The process of structural transformation, however, is not yet complete. But with sustained progress in implementing ongoing reforms and initiating new policy changes in required areas, Indonesia can be expected to reach a higher real growth path on a self-sustained basis.

Table 1.10: INDONESIA'S ECONOMIC STRUCTURE, 1981/82-1988/89
(%)

| | 1981/82 | 1985/86 | 1988/89 |
|---|---|---|---|
| Oil/LNG to total exports /a | 80.8 | 66.6 | 35.8 |
| Non-oil exports to non-oil imports /a | 28.8 | 55.4 | 90.3 |
| Oil/LNG revenues to total revenues | 70.7 | 57.5 | 41.3 |
| Government expenditure to GDP | 22.1 | 22.6 | 20.1 |
| Private fixed investment to total fixed investment /b | 52.1 | 47.9 | 56.9 |
| Non-oil manufacturing to GDP /b | 8.4 | 8.8 | 9.5 |

/a Goods only; in current dollars.
/b Calendar year basis; in 1983 prices.

Source: World Bank staff estimates.

## Impact on Economic Growth and Expenditure

1.32 Impact on economic growth. The Government's balanced adjustment program also helped to sustain a better-than-expected rate of economic growth, despite the loss of oil revenues. As shown in Table 1.11, economic growth did decelerate significantly over the adjustment period, but remained positive in

Table 1.11: OVERALL AND SECTORAL GDP PERFORMANCE, 1973-1988 /a
(real growth, % p.a.)

| | 1973-81 | 1981-88 | 1987 | 1988 |
|---|---|---|---|---|
| GDP | 7.5 | 3.3 | 3.9 | 4.7 |
| Non-oil GDP | 8.0 | 4.3 | 4.6 | 5.6 |
| - Agriculture | 3.4 | 2.9 | 1.8 | 3.8 |
| - Manufacturing /b | 14.1 | 5.2 | 7.1 | 9.0 |
| - Services, etc. | 10.0 | 5.0 | 5.6 | 5.6 |
| Memo item | | | | |
| Per capita GDP | 5.2 | 1.3 | 1.9 | 2.7 |

/a CBS is currently reviewing its data and methodology for estimating GDP. This is expected to result in higher estimates of real growth rates for some sectors, especially in 1988.
/b Excludes LNG and oil refineries.

Source: Central Bureau of Statistics.

per capita terms. Given the severity of the external shocks, the ability to sustain a 3% p.a. expansion of the overall economy and 4% p.a. growth of the non-oil economy while also achieving a substantial reduction in financial imbalances is a notable performance. The contribution of factors underlying rapid growth during the 1970s--oil earnings, rice production and import-substituting manufacturing--weakened in the adjustment phase. But non-oil exports, especially manufactured exports, have emerged as a new source of growth. Already, there are encouraging signs of economic recovery as indicated by the upward trend in the rate of expansion of the non-oil economy since 1987, reaching an estimated 5.6% in 1988.

1.33 Impact on expenditure. The lower growth of GDP in conjunction with the deterioration in the terms of trade had an adverse effect on domestic incomes during 1981-86 (see Table 1.12). The shortfall in resources brought about substantial cutbacks in public investment. Private investment fell noticeably up to 1985 but has been recovering since then. The growth of private consumption also declined significantly, although it still grew faster than national income. Overall, the main adjustment happened in the public sector. As a result of expenditure restraints, especially the large reduction in budget-financed capital spending, the share of public expenditure (consumption and investment) fell from 22.4% of GDP in 1981 to 18.0% in 1988. In the private sector, the decline in investment in the first few years of the adjustment period was caused by higher real interest rates and lower aggregate demand. Since 1986, private investment has been recovering, responding to improved incentives resulting from the regulatory reforms and a more buoyant level of economic activity. Much of this new investment has been directed towards export activities.

Table 1.12: IMPACT OF ADJUSTMENT POLICIES ON NATIONAL EXPENDITURE, 1973-1988

| | Real growth rate; % p.a. | | | | Composition of Expenditures (% of GDP) /a | |
|---|---|---|---|---|---|---|
| | 1973-81 | 1981-88 | 1987 | 1988 | 1981 | 1988 |
| National income | 11.4 | 1.8 | 4.7 | 4.8 | 97.9 | 88.6 |
| Consumption | 8.2 | 3.3 | 2.2 | 4.0 | 69.5 | 69.3 |
| - Public | 10.1 | 2.2 | -3.7 | 1.5 | 10.6 | 9.8 |
| - Private | 7.8 | 3.4 | 3.3 | 4.4 | 58.9 | 59.5 |
| Fixed investment | 11.7 | -0.5 | 1.9 | 7.0 | 24.7 | 18.9 |
| - Public | 11.0 | -2.0 | -1.7 | 6.3 | 11.8 | 8.2 |
| - Private | 12.3 | 0.7 | 4.9 | 7.6 | 12.9 | 10.7 |
| Memo item: | | | | | | |
| Per capita national income | 9.1 | -0.2 | 2.7 | 2.8 | | |
| Per capita private consumption | 5.5 | 1.4 | 1.3 | 2.4 | | |

/a In 1983 prices.

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

1.34 The sharp decline in the investment rate over 1981-88 as a whole has reduced the pace of capital formation, thereby lowering the expansion of the economy's productive capacity. The adverse effect on output growth, however, has been partially offset by improvements in the efficiency of capital use, brought about by improved allocation of resources resulting from interest rate deregulation, real exchange rate depreciation, regulatory reforms and reordering of public expenditure priorities. Although there is still substantial scope for further efficiency gains, it will be difficult to sustain economic recovery over the medium term without a sustained expansion of private investment. Similarly, continued cutbacks in public infrastructure investment could have serious adverse effects on the profitability of private investment over the medium term by creating bottlenecks resulting from inadequate availability of essential services.

## The Social Costs of Adjustment

1.35 The adjustment process has inevitably involved short-term social costs. Despite the recent recovery in economic growth, per capita income has been adversely affected by the terms of trade loss. A full assessment of the social costs of adjustment is precluded by the lack of sufficient data on how the adjustment process has affected poverty and income inequality. Fragmentary evidence suggests, however, that the urban sector has been more adversely affected than the rural sector.

1.36 Part of the labor market adjustment has taken the form of an increase in the rate of open unemployment in urban areas, especially among young school leavers.16/ Because the flexibility of educated urban job seekers is rather limited, a slowdown in demand resulting from lower economic growth and budgetary resource constraints has reduced their rate of absorption in employment (especially in the civil service). However, for the bulk of the urban work force, the main adjustment burden has fallen on earnings (especially in the informal sector). Thus, labor earnings have fallen in trade, and real wages of construction workers and civil servants have stagnated. In manufacturing, real wages have continued to grow, although at a slower pace than before the external shocks. The slowdown in demand during 1982-85 hurt manufacturing sector profits, but the recent surge in non-oil manufacturing exports responding to the real exchange rate depreciation and deregulation measures has supported the recovery of profits in export-based manufacturing enterprises, including small-scale enterprises.

1.37 The adjustment burden appears to have been less severe in rural areas because farm incomes have been relatively protected by: (a) the increase in real rice prices; (b) the real exchange rate depreciation which largely offset lower agricultural export prices; and (c) some profitable diversification away from rice towards non-rice crops, especially fruits and vegetables. However, overall agricultural output was pulled down by the slower growth of rice production. This reduced the demand for farm workers. Similarly, the slowdown in real public expenditure reduced the demand for rural construction workers. Because of the flexible nature of rural labor markets, this did not reduce employment but instead resulted in a stagnation or decline in real agricultural wages. Similarly, real wages in rural construction activities appear to have remained flat.17/

1.38 The above trends in labor earnings are due to the major external shocks faced by Indonesia and not to the policy response itself. Indeed, the Government has moved to mitigate the social costs of adjustment by reallocating public spending to protect important social programs. For example, the shares of development expenditure allocated to social services and agriculture were significantly increased from 1982/83 to 1987/88. An effort was also made to protect regional transfers, which normally finance small-scale and labor-intensive infrastructure projects at the local level. However, given the large magnitude of the income loss, some scaling back of

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16/ Given the structure of Indonesia's labor markets, a slowdown in economic activity is largely manifested in a reduction in labor earnings rather than in employment levels, except in the urban formal sector. Recent data show that more than half of all employment is in agriculture and over 70% in rural areas. Employment outside agriculture is concentrated on services, with manufacturing accounting for only 20% of non-agricultural employment. Outside government services, low and unstable earnings in informal sector activities predominate in urban areas. The considerable flexibility of rural and urban informal labor markets allows a rapid expansion of employment during periods of low economic growth, but at reduced real earnings.

17/ There are some exceptions to these trends, especially in areas where a more diversified rural economy and rural urban linkages have continued to support increases in real agricultural wages.

social programs and a reduction in the quality of service did take place. But without this effort to redefine expenditure priorities in support of lower income groups, the social costs of adjustment would have been much higher. More importantly, by reducing financial imbalances and promoting restructuring in the economy, the Government's reform program has prepared the ground for sustaining a higher growth path over the medium term. This is essential to absorb the rapidly growing labor force at higher levels of productivity and income.

## E. Preparing for Medium-Term Growth

1.39 Indonesia achieved a notable success in its adjustment program during 1983-88. The financial imbalances were significantly reduced and economic growth remained positive in per capita terms. The reliance on oil earnings was curbed and many structural reforms were introduced to increase economic efficiency. As a result of this strong adjustment effort, the economy is now better placed to sustain growth over the longer term. Given the existing high debt service burden and uncertainties surrounding oil prices, the adjustment effort will need to continue in the short term. On the other hand, the social objectives of providing higher-earning jobs to a growing labor force and reducing the incidence of poverty have become more pressing. In order to ensure that the pursuit of social objectives does not compromise financial stability, it is important to maintain the consistency of macroeconomic policies and strengthen the ongoing structural reform program.

### Consistency of Macroeconomic Policies

1.40 External adjustment. A major factor driving the future adjustment effort is the external debt situation. A successful debt strategy for Indonesia will involve both running some surpluses in the non-interest current account (reducing the current account deficit) and enhancing debt servicing capacity. However, there are practical limits to the extent these two objectives can be reconciled. A very ambitious non-interest current account surplus can hurt Indonesia by constraining economic growth and thereby reducing debt servicing capacity over the long term. Lower real growth will also adversely affect Indonesia's ability to address the social objectives of raising labor earnings and reducing poverty. A key factor that will help reconcile the current account adjustment with enhanced debt service capacity is the growth of non-oil exports. The better the non-oil export performance, the greater the success in achieving a reduction in the current account deficit. Moreover, higher non-oil exports will directly increase the current debt service capacity; this in turn will also improve long-term debt service capacity by enabling a faster growth of GDP. Therefore, the future external adjustment strategy will have to rely mainly on non-oil export promotion. There is already a recognition of this in the Government's recent policy framework. Thus, trade deregulation since 1986 is a reflection of the Government's strategy to move away from inefficient import substitution. Also, the combination of a competitive exchange rate and trade reforms boosted non-oil exports during 1986-88. It will be important to continue this strategy. Furthermore, this will need to be combined with other structural reforms to improve incentives for private investment in export-oriented activities.

1.41 Internal adjustment. Indonesia's internal adjustment challenge is illustrated in Table 1.13. The public sector and, until recently, the private sector have been running deficits, as indicated by negative net savings. This has happened even though public and private investment rates have fallen noticeably, implying a sharp reduction in the national savings rate. A high

Table 1.13: SAVING-INVESTMENT BALANCES, 1981-1988 /a
(% of GDP at current prices)

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|
| Total domestic investment | 29.7 | 29.1 | 27.7 | 25.5 | 24.3 | 23.4 | 23.2 | 22.2 |
| - Fixed investment | 24.2 | 25.9 | 25.7 | 22.5 | 20.8 | 20.5 | 19.9 | 20.3 |
| - Change in stocks | 5.5 | 3.3 | 1.9 | 3.0 | 3.5 | 2.9 | 3.3 | 1.9 |
| National savings | 27.8 | 22.6 | 21.4 | 22.0 | 22.0 | 17.9 | 20.0 | 19.8 |
| Saving-investment gap | -1.9 | -6.5 | -6.3 | -3.5 | -2.3 | -5.5 | -3.2 | -2.4 |
| Foreign savings /b | 1.9 | 6.5 | 6.3 | 3.5 | 2.3 | 5.5 | 3.2 | 2.4 |
| Public sector | | | | | | | | |
| Gross domestic investment /c | 10.7 | 12.7 | 12.6 | 10.3 | 10.9 | 9.7 | 9.3 | 9.1 |
| Savings | 9.2 | 8.2 | 9.4 | 10.2 | 8.3 | 4.9 | 5.7 | 6.0 |
| Saving-investment gap | -1.5 | -4.5 | -3.2 | -0.1 | -2.6 | -4.8 | -3.6 | -3.1 |
| Private sector | | | | | | | | |
| Gross domestic investment | 19.0 | 16.4 | 15.1 | 15.2 | 13.4 | 13.7 | 13.9 | 13.1 |
| - Fixed investment | 13.5 | 13.2 | 13.2 | 12.2 | 9.9 | 10.8 | 10.6 | 11.2 |
| - Change in stocks | 5.5 | 3.3 | 1.9 | 3.0 | 3.5 | 2.9 | 3.3 | 1.9 |
| Savings | 18.6 | 14.4 | 12.0 | 11.8 | 13.7 | 13.0 | 14.3 | 13.8 |
| Saving-investment gap | -0.4 | -2.0 | -3.1 | -3.4 | 0.3 | -0.7 | 0.4 | 0.7 |

/a All data converted to calendar year basis.
/b Current account deficit.
/c Fixed investment only. Investment in stock changes is assumed to be financed by the private sector.

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

national savings rate of 28% reached in 1981 was largely the consequence of the oil boom and some reduction was inevitable. But the collapse of oil prices and the surge in external interest payments caused the saving rate to plunge by more than 35% in 1986. The Government's resource mobilization efforts, positive real interest rates and a recovery of economic growth since 1987 have helped to raise the national saving rate, despite the continued burden of higher external interest payments. Given lower oil earnings, a much greater reliance on efficiency improvements will be essential to sustain the growth momentum in the 1990s than in the past. Even so, continued efforts will be necessary to increase the savings rate, so as to: (a) offset the effect of a lower rate of foreign savings (lower current account deficit); and

(b) finance a significant increase in the investment rate to support higher economic growth over the medium term. This is a key adjustment challenge for the 1990s.

1.42 Public and private savings both will have to be raised. As noted, continued reduction in public infrastructure investments will result in reduced productivity of private investment, lowering economic growth over the medium term. Furthermore, continued cutbacks in essential social expenditures will constrain the Government's ability to reduce poverty. Thus, while further rationalization of public expenditure programs and achieving greater efficiency in providing public services will be crucial, the main way that net public saving needs to be raised is by strengthening resource mobilization. This is especially important in view of the considerable uncertainty regarding oil revenues and the growing budgetary burden of external debt. So far, the principal focus of public resource mobilization has been on implementation of the 1983 non-oil tax reform. Although there remains significant potential to raise revenues by improving tax administration, the revenue base will need to be broadened by strengthening local government finances and improving the efficiency and financial performance of state enterprises.

1.43 The sharp decline in the private saving rate reflects in part the slowdown of economic growth. In addition, private consumption was protected through policies such as subsidized liquidity credits, budgetary subsidies and relatively low effective tax rates. These policies led households to perceive the reduction in domestic income resulting from external shocks as largely transitory. Consequently, the burden of adjustment to a lower level of income has fallen disproportionately on savings. Another factor causing a decline in the private saving effort was the slowdown of economic growth. However, an offsetting factor for household saving has been the increase in real interest rates.

1.44 Given the large loss of national income during 1982-86, the Government was legitimately concerned with softening the blow to household consumption. With the encouraging recent upward trend of national income, the policy focus now needs to move towards raising the savings rate by phasing out budgetary subsidies and liquidity credits and by increasing the effective tax rate through improved tax administration.18/ The implementation of the Government's resource mobilization program for the 1989/90 Budget will be an important step in this regard. Concerning recovery of the household saving effort, higher economic growth will have a positive impact. More efficient and enhanced financial intermediation could also be expected to lead to a higher household saving rate. Regarding private business saving, to the extent there has been a transitional loss because of ongoing adjustment to structural reforms, this could be expected to be offset by gains in efficiency once the adjustment process is completed. Thus, the profitability of export-related activities will eventually lead to an increase in the business saving rate, as reinvestment and expansion come on stream.

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18/ Econometric analysis indicates that the permanent income hypothesis helps to explain household consumption (saving) behavior in Indonesia. Once households realize that these are permanent policy changes, perceived permanent income will decline, causing a reduction in consumption. Private savings will fall, but by less than the expansion in government savings, resulting in an increase in domestic savings.

1.45 The appropriate management of domestic interest rates is of critical importance. The deregulation of interest rates has increased private savings and improved the efficiency of use of financial resources; but continued high real lending rates may adversely affect private investment over the medium term. Although this may pose a short-term policy dilemma, the trade-off is more apparent than real over the longer term. As noted earlier, in view of the open capital account, monetary policy cannot sustain low interest rates which are independent of foreign interest rates and expected depreciation of the domestic currency. Even so, it is not obvious that the open capital account will necessarily lead to very high real interest rates over a long period of time. The open capital account will have adverse effects on domestic interest rates only if the Government fails to ensure macroeconomic stability and thereby undermine confidence in its ability to maintain a stable exchange rate. In the past, the need to reduce the Indonesian economy's dependence on oil necessitated large currency devaluation. As further progress is made in this regard, the non-oil current account deficit and inflation trends will dominate exchange rate adjustments. Consequently, the ability to ensure macroeconomic stability will also help to stabilize domestic interest rates.19/

Strengthening Structural Reforms

1.46 To sustain higher growth over the medium term, it will be necessary to strengthen the ongoing program of structural reforms. A key aspect of this is the incentive framework and the regulatory environment underlying production and support services. As noted, the Government expects the private sector to play a more dynamic development role than in the past and to support this strategy major changes in incentive policies and the regulatory framework have been initiated. Many of these reforms have already been implemented and their benefits are being reflected in economic behavior (e.g., the surge in non-oil exports and the higher pace of real growth and private investment). Some of the reforms, especially those initiated in 1988, are still in the process of being implemented. At the same time, the Government will also need to push ahead with new reforms to consolidate past gains and to break through in areas where progress has been less visible. The major policy issues to be addressed over the next few years include: (a) trade policy; (b) the regulatory framework for private domestic and foreign investment; and (c) transport and financial support services.

1.47 Regarding trade policy, further removal of non-tariff barriers and rationalization of tariff rates will be necessary to sustain the non-oil export momentum. Similarly, further simplification of the legal and regulatory framework will be essential to encourage private investment. To bring greater transparency in investment licensing, the Government has recently converted the DSP list into a short negative list. For the future, it will be important to reduce foreign ownership and land-usage restrictions, and remove marketing restrictions. A major overhaul of local-level regulations is also needed. To ensure that private enterprises in the productive sectors fully benefit from these changes, concurrent progress in removing transport and financial sector constraints will be essential. In transport, following implementation of the recent maritime reforms, the next

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19/ The trade-off issue becomes important only if international interest rates are unstable, as in 1978-80.

priority is to tackle the regulatory impediment in the road subsector. Regarding the financial sector, the Government is working to ensure that the recent financial reforms are well implemented, and supported by complementary improvements in bank supervision. The next task will be to streamline the regulatory framework for banking, insurance and pension funds and strengthen the institutional arrangements for prudential regulation. The Government also intends to reduce substantially the role of Bank Indonesia's subsidized credit. While deregulation is critical to enhance economic efficiency and improve incentives, appropriate regulations are required to safeguard the national interest on matters such as environment, protection of infrastructure, public safety, property and user rights. A detailed analysis of the ongoing regulatory reforms and suggested agenda for follow-up actions is contained in Chapter 3.

1.48 A second aspect of structural reform concerns the changing role of the public sector. Supported by oil earnings, the public sector played a major development role in the 1970s and the early 1980s by financing a large expansion in infrastructure and social services and also by directly engaging in many production activities (in manufacturing, agriculture and services). The slowdown in oil revenues and the growing burden of external debt service payments have necessitated a reduction in the economic role of the public sector. This, in turn, has led to the challenge to redefine public expenditure priorities and to lower the cost of public services. Moreover, the move towards deregulation suggests that the role of the bureaucracy needs to change to respond to the new deregulated policy environment. Although the Government has made good progress in redefining broad expenditure priorities, as reflected in a greater focus on O&M, infrastructure and human resource development, there remains a need to strengthen expenditure priorities at the sectoral level and to improve the planning and budgeting framework for public expenditure management. Even more importantly, there appears to be substantial scope for lowering the cost of public services, raising service quality and ensuring better targeting. Key issues include: appropriate pricing of public services, public enterprise management, and the appropriate division of responsibilities between central and local level governments. Finally, a long-term development challenge would be to reform the civil service in order to support the deregulation and decentralization programs which are underway. Chapter 4 examines these issues in greater detail.

# CHAPTER 2

# MACROECONOMIC FRAMEWORK FOR GROWTH AND STRUCTURAL CHANGE

## A. Introduction

2.01 The analysis in Chapter 1 showed that the Government's strong adjustment effort has prepared the ground for strengthening the development momentum during the 1990s. The significant reduction in financial imbalances and lower dependence on oil/LNG resources have increased the resilience of the economy to external shocks. Furthermore, the series of structural reforms undertaken since 1985 will play an important role in supporting higher economic growth without jeopardizing financial stability over the medium term. Indeed, the higher pace of expansion of non-oil exports, private investment and non-oil GDP during the two past years give a strong signal that the Indonesian economy is fast moving towards recovery. Nevertheless, big challenges remain for the 1990s. First, a large pool of Indonesia's work force is currently engaged in low productivity, low earnings employment and there are many educated unemployed in the urban areas looking for jobs. On top of this, some 2.3 million new workers are expected to enter the labor market each year during the 1990s. A key task is to provide productive jobs to the new entrants and those unemployed, while also raising the real earnings of workers employed in low-return pursuits. Second, the Government must regain momentum in its poverty alleviation effort to ensure that the development process does not bypass the under-privileged. Third, continuous efforts will be necessary to develop and enforce mechanisms for protecting the environment, to ensure that growth pressures do not compromise the long-term sustainability of development. These tasks will have to be accomplished against the backdrop of an uncertain external environment and the need to lower the large burden of foreign debt payments.

2.02 Recent progress with policy reforms provides a clear signal of the Government's serious endeavors to tackle these imperatives. Even so, there are many important areas where follow-up steps and new actions will be essential. This chapter analyzes policy issues relating to the macroeconomic framework, public resource mobilization and the external debt strategy. A discussion of medium-term prospects based on key macroeconomic policies and illustrative projections is contained in Section B. This is followed in Section C by a more detailed review of policy options for public resource mobilization. Finally, Section D focuses on issues concerning the external debt strategy, which is consistent with the medium-term macroeconomic framework.

## B. Medium-Term Macroeconomic Framework

### The External Environment

2.03 By reducing the relative dependence on oil, the Government's adjustment program has brought about a significant improvement in the economy's capacity to withstand external shocks. Nevertheless, oil still

remains the largest source of export earnings and government revenues. Moreover, trade deregulation and the focus on export promotion have increased the openness of the economy. So, world economic events will continue to have a major impact on Indonesia's development momentum. Table 2.1 summarizes the key external assumptions underlying Indonesia's medium-term prospects as reviewed in this section.

Table 2.1: SELECTED INDICATORS OF INTERNATIONAL ECONOMIC ACTIVITY, 1988-2000

| | Estimated | Projected /a | | | | Growth rate (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|
| | 1988 | 1989 | 1990 | 1995 | 2000 | 1988-1990 | 1990-1995 | 1995-2000 |
| **Economic activity** | | | | | | | | |
| OECD growth (% p.a.) | 4.0 | 2.0 | 2.3 | 3.0 | 3.0 | 2.2 | 3.0 | 3.0 |
| **Price indices** (1985=100) | | | | | | | | |
| Commodity prices in constant dollars /b | 84.8 | 78.7 | 77.1 | 81.8 | 81.2 | -4.6 | 1.2 | -0.1 |
| Manufacturing unit values in current dollars | 140.7 | 149.5 | 151.7 | 183.0 | 226.6 | 3.8 | 3.8 | 4.4 |
| **Oil prices** (US$/barrel) | | | | | | | | |
| In 1985 dollars /c | 10.7 | 10.4 | 10.9 | 12.0 | 13.4 | 1.0 | 1.9 | 2.2 |
| In current dollars | 15.1 | 15.5 | 16.6 | 22.0 | 30.4 | 7.0 | 5.8 | 6.7 |
| **Interest rates** (%) | | | | | | | | |
| LIBOR /d | 8.0 | 8.5 | 8.4 | 6.9 | 6.7 | | | |
| Real interest rate /e | 4.2 | 3.1 | 2.8 | 2.4 | 1.7 | | | |

/a End of period.
/b Nominal price index for 33 commodities (excluding energy) deflated by the World Bank's manufacturing unit value (MUV) index.
/c Deflated by MUV index.
/d Six-month London Interbank Offered Rate.
/e LIBOR deflated by the change in the US GNP deflator.

Source: World Bank staff estimates.

2.04 Economic activity in OECD countries was more buoyant than expected during 1988, fueled by rapid investment growth. Private sector confidence improved due to a smooth recovery from the financial crisis in October 1987 and the more stable financial and exchange market conditions that prevailed during most of 1988. But higher growth also heightened fears of inflation, prompting monetary authorities in several countries to tighten monetary expansion. This in turn caused nominal interest rates to rise. In the near term OECD growth is expected to fall, reflecting a slower pace of investment and some further monetary tightening. But with concerted efforts to reduce external and internal imbalances in the large industrial countries, OECD

economic activity is projected to recover to 3.0% p.a. over the medium term. Also, lower fiscal deficits in the United States will allow a decline in nominal interest rates during the 1990s.

2.05 Regarding oil prices, there is still considerable uncertainty over short-term prospects. Oil prices plunged in mid-1988, falling to a low of $11.2/barrel during October, due to excessive stock build up and over-production in the OPEC countries. Following a new round of OPEC agreements, a pick up in winter demand, and a series of temporary supply disruptions, oil prices have recovered noticeably in recent months, with Indonesian crude priced above US$18/barrel for April contracts. Given the scope for increased supplies of oil and the expected slowdown in OECD growth, it is unlikely that the current high prices can be sustained. Nevertheless, the present outlook is that the average price will grow to about US$15.5/barrel during 1989/90, half a dollar higher than the average price in 1988/89. The subsequent trend remains favorable with real oil prices rising by 2.1% p.a., reflecting a higher pace of world economic growth and a greater share of OPEC oil in the world market. Even so, the projected oil price in the year 2000 remains less than 50% of the peak levels reached in the early 1980s.

2.06 The short-term outlook for non-oil commodity prices is mixed. Prices of coffee, timber and tin are expected to increase while prices of palm oil, rubber and copper are projected to weaken. Over the medium term, prices of most commodities are expected to improve, boosted by higher world demand. Combined with growth in manufactured export prices, the non-oil terms of trade is therefore projected to show a modest improvement in the medium term (see Table 2.2). Including oil, the overall terms of trade grows by 2.7% p.a. over the 1990-2000 period.

Table 2.2: INDONESIA'S TERMS OF TRADE, 1988/89-2000/01
(1983-84 = 100)

| | 1988/89 | 1989/90 | 1990/91 | 1995/96 | 2000/01 |
|---|---|---|---|---|---|
| Export price index | | | | | |
| Total exports | 85.1 | 87.9 | 92.0 | 127.5 | 178.2 |
| Non-oil exports | 125.3 | 129.6 | 133.1 | 169.2 | 212.3 |
| Imports price index | | | | | |
| Total imports | 124.4 | 129.0 | 133.5 | 157.3 | 197.5 |
| Non-oil imports | 123.7 | 128.3 | 132.6 | 156.0 | 196.0 |
| Terms of trade index | | | | | |
| Total | 68.4 | 68.1 | 68.9 | 81.0 | 90.2 |
| Non-oil | 101.3 | 101.1 | 100.4 | 108.5 | 108.3 |

Source: World Bank staff estimates.

2.07 The projected world economic environment implies that the short-term situation will remain difficult; the terms of trade will improve modestly due to higher oil prices, but a weakening of world demand and higher interest rates will have adverse effects on non-oil exports and debt payments. For the medium term, the terms of trade improvement will be sustained and the balance of payments will be strengthened by higher world demand and lower interest rates. These trends reinforce the importance of maintaining the adjustment program over the next year or so, but they also suggest that the external environment is likely to be supportive of Indonesia's development effort in the 1990s.

## An Overview of the Medium-Term Framework

2.08 At the macroeconomic level, Indonesia's fundamental medium-term imperative is to absorb the growing labor force at higher levels of productivity at the same time that the debt service burden is reduced to a more manageable level. Given the structure of Indonesia's labor markets, the pace and pattern of economic growth will be the chief determinant of the Government's ability to manage the employment challenge. A sustained recovery of growth is also essential to bring about a meaningful improvement in the external debt situation. It is estimated that the non-oil economy needs to expand by 5-6% p.a. to absorb the labor force at rising levels of productivity and income. In order to ensure that this higher growth path does not compromise external stability over the medium term, it will be necessary to reduce the current deficit further. A strategy to reduce the current account deficit to about 1% of GNP by 1995 and keep it at around this level thereafter will bring substantial improvements in Indonesia's debt indicators including the debt service burden.

2.09 To meet these goals, continued progress will need to be made on four related fronts. First, the sources of growth during the 1990s will have to focus on manufactured exports and non-rice agricultural production. Second, the recovery in growth and investment will have to be achieved against the backdrop of a more constrained resource situation, because of lower oil prices and the overhang of external debt. There must continue to be concerted efforts to increase efficiency and resource mobilization in the non-oil economy. Third, with reduced receipts for oil, the Government will not be able to play the same role as in the past in investment and employment creation. The private sector will have to play a much greater role in the creation of productive capacity. And fourth, it will be important to lower the cost of public services and ensure better targetting by improving the allocation of public spending, instituting better cost recovery policies and improving public sector management, including a reform of the civil service.

2.10 These challenges are well recognized by the Government and reflected in REPELITA V. The Plan's key economic and social objectives include a recovery of economic growth from 4% p.a. during REPELITA IV to at least 5% p.a., provision of productive employment to a growing labor force, and a lowering of the incidence of poverty. At the same time, the Plan aims at reducing the debt service burden significantly. To reconcile the social goals with the objective of financial stability, the Plan aims at strengthening non-oil resource mobilization, stimulating the private sector and improving the

allocation of public spending. To support the changing roles of the public and private sectors, public expenditure is to be focused on O&M, the provision of infrastructure and improving human resources; most of the growth in direct production activities is anticipated to come from the private sector.

2.11 The immediate task ahead is to restore stability while accelerating investment. The restoration of internal and external stability will require continued domestic austerity for another year or so. To achieve a lower current account deficit and to phase out special external assistance, it is important to: (a) maintain the austere stance of the 1989/90 Budget; (b) preserve a competitive exchange rate through coordinated fiscal, monetary and exchange rate policies; and (c) maintain strict control on all public external borrowing.

2.12 Along with its stabilization efforts, the Government will need to stimulate investment to provide the basis for a sustained recovery in growth, with this investment directed towards labor-intensive, export-oriented production, and based largely upon the private sector. In the short run, special assistance from the donor community will help in maintaining the investment rate. Over the medium term, the sustainability of the investment and export drive will depend upon an increase in domestic savings to replace foreign savings (and the fast-disbursing assistance in particular). Consequently, considerable emphasis will have to be given to domestic resource mobilization, particularly in the public sector. In parallel, it will be necessary to continue with regulatory reforms to promote the efficiency of resource use and remove the remaining impediments to private sector development.

2.13 Proper management of the public investment program will be essential to support economic growth, raise the efficiency of public investment and avoid a crowding out of private investment. Significant increases in public expenditure for O&M, physical infrastructure and basic social services will clearly become necessary over the next five years. But at the same time, care has to be taken to avoid an overly ambitious public investment program, as this could run into major project implementation constraints, could create pressure to select low-priority projects and also risk a crowding out of private investment.

Medium-Term Projections

2.14 Economic growth. Based on the external environment described above, our illustrative projections of key indicators of Indonesia's medium-term prospects are contained in Table 2.3. The pace of economic growth continues to recover in 1989 even as further reductions of the balance of payments and fiscal imbalances are obtained. The sustained recovery of the non-oil economy to 6-6.5% p.a. during the 1990s is fueled by gains in factor productivity resulting from structural reforms and a strong investment effort. For the longer term, the contribution of the oil sector will decline, with falling crude production projected from the early 1990s.1/ This reduces the average growth of total GDP to 5-5.5% p.a. over the next decade.

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1/ Oil production (crude and condensate) is assumed to peak at 1.40 million barrels per day (MBD) in 1989-90 and then decline in the 1990s.

Table 2.3: SELECTED ECONOMIC INDICATORS, 1981-2000

| | Actual | Projected | | |
|---|---|---|---|---|
| | 1981-88 | 1988-90 | 1990-95 | 1995-2000 |
| Average real growth rates (% p.a.) | | | | |
| Gross national income (GNY) | 1.8 | 5.2 | 6.1 | 6.3 |
| Gross domestic product (GDP) | 3.3 | 4.9 | 5.2 | 5.7 |
| Non-oil GDP | 4.3 | 5.7 | 6.2 | 6.6 |
| Non-oil exports /a | 13.0 | 10.8 | 7.2 | 6.8 |
| Non-oil imports /a | -3.2 | 7.4 | 7.8 | 6.3 |
| Fixed investment | -0.5 | 7.8 | 8.9 | 6.7 |
| - Public | -2.0 | 5.1 | 7.7 | 5.7 |
| - Private | 0.7 | 9.7 | 9.7 | 7.3 |
| Consumption | 3.4 | 4.6 | 5.1 | 6.0 |
| Growth rate of monetary variables (%) | | | | |
| Broad money (M2) | 25.1 | | 15.4 | 14.2 |
| Domestic credit | 25.7 | | 13.0 | 13.6 |
| Private credit | 28.0 | | 13.6 | 13.0 |
| Structure of the economy (%) /b | | | | |
| Non-oil manufacturing/GDP /c | 9.5 | 10.3 | 12.5 | 14.9 |
| Non-oil exports/non-oil imports /d | 90.3 | 92.3 | 97.2 | 99.8 |
| Public savings/GDP | 6.0 | 6.9 | 8.9 | 8.9 |
| National savings/GDP | 19.8 | 20.9 | 25.0 | 26.5 |
| Fixed investment/GDP | 20.3 | 21.4 | 24.6 | 25.4 |
| Private fixed investment/total fixed investment /c | 56.9 | 59.0 | 61.2 | 63.1 |
| Consumption/GDP | 74.[illegible] | 74.3 | 71.3 | 70.9 |
| Macroeconomic balance (%) /b | | | | |
| Current account/GNP | -2.5 | -2.1 | -1.0 | -0.6 |
| Non-interest current account/GNP | 2.1 | 2.3 | 1.8 | 1.2 |
| Overall public sector balance/GDP | -3.4 | -2.7 | -1.2 | -1.0 |
| Public sector primary balance/GDP | -0.1 | 0.2 | 0.8 | 0.3 |
| MLT debt service/exports | 36.3 | 34.4 | 23.8 | 17.1 |
| MLT debt/exports | 220.8 | 204.0 | 151.7 | 109.6 |
| MLT debt/GNP | 64.7 | 60.6 | 46.6 | 33.2 |
| Memo items: | | | | |
| Nominal deposit rate (% p.a.) | 17.6 /e | | 13-14 | 11-12 |
| Nominal lending rate (% p.a.) | 21.5 /e | | 15-16 | 13-14 |
| Domestic inflation rate (% p.a.) | 8.4 | | 6-7 | 6-7 |
| ICOR | 5.2 /f | | 4.3 | 4.3 |
| Labor force growth rate (% p.a.) | 2.9 /e | | 2.7 | 2.5 |
| Employment elasticity | 0.6 /e | | 0.5 | 0.4 |

/a Goods only.
/b End of period; in current prices.
/c In constant 1983 prices.
/d Goods only; in current dollars.
/e End of period.
/f Average for 1986-88.

Source: World Bank staff estimates.

2.15 External balance. The encouraging non-oil export performance over the past two years allowed Indonesia to progress towards economic recovery even as lower oil earnings and larger debt service payments exerted considerable pressure on the balance of payments (see Table 2.4). Despite these adverse factors, the Government was able to contain the current account deficit to US$1.9 billion (2.5% of GNP) in 1988/89. In view of the considerable uncertainties in the world economic environment and the need to reduce the external debt burden, a cautious management of the balance of payments over the next two years will be necessary. As noted, this will require continued budget austerity, maintenance of a competitive exchange rate, prudent monetary management and maintaining strict control over public external borrowing. Accordingly, in Table 2.5, the current account deficit is projected to decline to US$1.8 billion (2.1% of GNP) in 1989/90 and US$1.7 billion (1.9% of GNP) in 1990/91.

2.16 Over the medium term, the assumed pace of economic growth along with the ongoing trade deregulation drive will cause non-oil imports to expand by about 7% p.a. in real terms. On the other hand, further improvements in the current account deficit are necessary to bring down the debt service burden to a more manageable level. To reconcile the growth and external targets, non-oil exports will have to grow in real terms by about 10% p.a. over the next three years and 7% p.a. during the remainder of the 1990s. Given the external environment, this will need the real exchange rate to be maintained at its present competitive level. This is an essential prerequisite; complementary policies to build necessary supply capacities, especially in the manufacturing sector, and to reduce the domestic cost of production through continued deregulation measures in transport and financial sectors will also be important.

2.17 Medium-term prospects for Indonesia's non-oil exports, especially manufactured exports, are bright.2/ Recent experience shows an important shift in the composition of non-oil exports; the share of manufactured exports in total non-oil exports grew from only 16% in 1981/82 to 51% in 1988/89. Until 1986/87, much of this increase came from growth in the two largest manufacturing subsectors: textiles and plywood. Since then, the rise in the share of manufactured exports has resulted from a diversification of the manufacturing export base. Domestic policies are critical to the development of these other manufactured exports because Indonesia's share of the world market for most manufactured products (excluding plywood and textiles) is very small. For other exports, world demand and trade policies in industrial countries will also be important determinants. Assuming that there is no significant increase in the current world trade protection regime, the projected pace of world demand in Table 2.1 should be adequate to support the required growth of non-oil exports at a constant real exchange rate.

2.18 The expansion of non-oil exports coupled with some improvement in the terms of trade will allow Indonesia to sustain a recovery of the non-oil economy to 6% p.a. during the early 1990s, rising further to 6.5% p.a. in later years. At the same time, the current account deficit will continue to decline, falling to 1% of GNP by 1995/96 and to 0.6% of GNP by 2000/01. The non-interest current account will remain in surplus throughout the projection period. The implication of these trends for external financing requirements

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2/ A detailed review of recent non-oil export performance is provided in Annex 1.

Table 2.4: BALANCE OF PAYMENTS, 1988/89-2000/01
(US$ billion at current prices)

| | Estimate | Projections | | | |
|---|---|---|---|---|---|
| | 1988/89 | 1989/90 | 1990/91 | 1995/96 | 2000/01 |
| Merchandise exports (fob) | 19.8 | 21.4 | 23.8 | 38.2 | 61.2 |
| Oil & LNG | 7.7 | 7.6 | 8.2 | 10.1 | 12.2 |
| Non-oil | 12.1 | 13.8 | 15.6 | 28.1 | 49.0 |
| Merchandise imports (cif) | -15.5 | -17.5 | -19.4 | -32.4 | -54.7 |
| Oil & LNG | -2.1 | -2.2 | -2.5 | -3.5 | -5.6 |
| Non-oil | -13.4 | -15.3 | -16.9 | -28.9 | -49.1 |
| Trade balance | 4.3 | 3.9 | 4.4 | 5.8 | 6.5 |
| Oil & LNG | 5.6 | 5.4 | 5.7 | 6.6 | 6.6 |
| Non-oil | -1.3 | -1.5 | -1.3 | -0.8 | -0.1 |
| Non-factor services (net) | -1.8 | -1.6 | -1.6 | -2.0 | -2.0 |
| Interest payments (MLT) | -3.0 | -3.1 | -3.2 | -3.5 | -3.9 |
| Other factor services (net) | -1.7 | -1.3 | -1.7 | -2.2 | -2.6 |
| Official transfers | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 |
| Current account balance | -1.9 | -1.8 | -1.7 | -1.4 | -1.4 |
| Oil & LNG | 3.0 | 3.2 | 3.2 | 3.4 | 2.4 |
| Non-oil | -4.9 | -5.0 | -4.9 | -4.8 | -3.8 |
| Public MLT loans (net) | 2.7 | 1.8 | 1.8 | 1.5 | 1.6 |
| - Disbursements | (7.1) | (6.5) | (6.6) | (6.2) | (7.0) |
| - Principal repayments | (-4.4)/a | (-4.7) | (-4.8) | (-4.7) | (-5.4) |
| Other capital (net) | -1.6 | 0.9 | 1.3 | 1.8 | 2.3 |
| Use of foreign assets | 0.8 | -0.9 | -1.2 | -1.7 | -2.1 |
| Memo items | | | | | |
| Official reserves (net) | 5.4 | 6.4 | 7.5 | 14.9 | 25.1 |
| - Month of imports | 3.7 | 4.0 | 4.2 | 5.0 | 5.0 |
| Total net foreign assets | 10.0 | 10.9 | 12.1 | 18.9 | 28.4 |
| Current account/GNP (%) | -2.5 | -2.1 | -1.9 | -1.0 | -0.6 |
| Non-interest current account/GNP (%) | 2.1 | 2.3 | 2.3 | 1.8 | 1.2 |

/a Includes prepayments of US$341 million.

Source: World Bank staff estimates.

and external debt management are discussed in Section D below. In brief, Indonesia will continue to require untied concessional assistance, but at declining levels, in order to finance the current account deficits for the next three years. For the medium term, rather conservative estimates are used of external borrowing capacity and reserve requirements, to provide flexibility to respond to external shocks without unduly disrupting economic growth (see para 2.30). Given the projected growth in non-oil exports and the terms of trade outlook, the MLT debt service to exports ratio declines from 36% in 1988 to 24% in 1995 and to 17% by the year 2000 (see Table 2.3). Similarly, the MLT debt/exports and MLT debt/GNP ratios show considerable improvement, indicating the reconciliation of economic growth and external balance targets. Furthermore, net official reserves are gradually built up to reach five months of imports by the mid-1990s and then held at that level throughout the remainder of the projection period.

2.19 Internal balance. The projected reduction in the current account deficit will require an increase in domestic saving over investment. On the other hand, even allowing for substantial gains in economic efficiency, the rate of fixed investment will need to expand from 20% of GDP currently to 25% of GDP by 1995 to support the projected growth target. These trends imply that investment and saving will have to grow faster than output and consumption. To achieve the projected expansion of private investment by 10% p.a. during 1990-95 and 7% p.a. thereafter, it will be essential to improve profitability of private investment by improving the business environment. This will require further progress with deregulatory reforms in trade, domestic and foreign private investment, and transport. Furthermore, the real lending rate will need to be brought down by reducing the cost of financial intermediation through implementation of the ongoing financial sector reforms and by continued prudent macroeconomic management, which will enhance confidence in the Rupiah. The projected decline in world interest rates will also help to lower lending rates by reducing the deposit rate. Regarding private saving, despite lower deposit rates, the household saving rate will improve from the recovery of economic growth, while business saving will respond positively to higher profitability. However, these factors alone will not be adequate to achieve the required increases in national saving and investment rates. Fiscal policy will therefore have to play an active role.

2.20 The main task for fiscal policy will be to improve the allocation of public spending, increase public investment in priority areas and further reduce fiscal deficits. This will entail a strong resource mobilization effort, cutbacks in budgetary subsidies, restraint on public consumption expenditures and a careful management of the public investment program. The projections assume that total non-oil revenues (including of the local governments) will grow from 14% of non-oil GDP in 1988/89 to 17% by 1995/96. This will need a strengthening of the non-oil tax effort, greater cost recovery from public services and better economic and financial performance of public enterprises. Except for O&M, other non-interest current expenditures will have to be restrained. Based on these measures and the higher projected oil prices, the public saving rate will grow from 6.0% of GDP to 9.0% by 1995. This improved saving performance will allow public investment to expand by 8% p.a. during 1990-95 and 6% p.a. thereafter. The public sector deficit will fall to 1.2% of GDP by 1995 and the primary balance will remain in surplus

throughout the projection period.3/ The projected pace of public investment and underlying fiscal deficits are also consistent with inflation, private saving and investment targets.4/

2.21 The composition of public investment and the way public resources are generated will have important implications for the consistency of fiscal policy with private saving and investment. The public investment effort will need to be focused on basic infrastructure (power, roads, irrigation and telecommunication) and essential social services (health, basic education, water supply, kampung improvement and family planning). These services are largely complementary rather than competitive with private activities and they therefore will have a positive effect on the private investment rate. Regarding public resource mobilization, most of the additional revenues from non-oil tax sources will need to be obtained from better administration of existing regulations, especially concerning taxes on income and consumption (income tax and the value added tax). Similarly, a greater reliance on cost recovery from public services and policies for efficiency improvements in public sector enterprises will be important to reduce private consumption more than saving. On the whole, the public resource mobilization drive will need to be managed so as to have only a small negative effect on private saving, with most of the incidence falling on private consumption.

2.22 Implications for employment. The factors that contributed to rapid growth during the 1970s and early 1980s--oil exports, rice and import-substituting manufacturing--will not provide the same support to growth in the 1990s. Oil production already is on a declining trend and its contribution to GDP will continue to fall throughout the 1990s. The demand for rice will grow slower than in the past; at the same time, the growing land and water resource constraints on Java will make it progressively difficult to sustain a rapid expansion of rice output. Similarly, the scope for more efficient import substitution in manufacturing is very limited. Moreover, the large loss of oil revenues has severely constrained the public sector's capacity to stimulate growth through expenditure programs. Accordingly, the new forces of growth will have to be non-oil exports, especially manufactured exports, and non-rice agricultural production, supported by responsive private investment and complementary public investment in essential infrastructure. As noted in Chapter 1, the Indonesian economy has already started to undergo this process of structural transformation. Further progress in this regard will be necessary to achieve the growth and employment objectives.

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3/ The projected growth rate of public investment is appropriate in view of the large cutbacks over the past few years and the need to support non-oil exports, private investment, employment and poverty alleviation over the medium term. As private investment is projected to grow even faster, this still results in a fall in the share of public investment, from 43% in 1988 to 37% by 1995.

4/ This consistency check is done by undertaking a monetary programming exercise which ensures that the private sector's credit requirements are consistent with money and total credit expansion implied by the inflation and balance of payments targets. Credit to the public sector is the balancing item, which then defines sustainable fiscal deficits.

2.23 At the sectoral level, the manufacturing sector's contribution to output and employment will have to be substantially increased. The most promising route to sustaining high growth of output and employment in the manufacturing sector is to enhance profitability in efficient export industries, since these industries are relatively labor intensive and have the best market prospects. The projected acceleration of the sector's real growth to over 9% p.a. in the 1990s (see Table 2.5) assumes that an appropriate policy framework will be put in place to boost manufactured exports. The agriculture sector's contribution to GDP is expected to decline steadily during the 1990s. Even so, given agriculture's dominance in employment and output, it will continue to play a central role in sustaining economic activity and absorbing labor over the medium term. The slower pace of rice output expansion than in the 1970s will pull down agriculture's growth performance, but with concerted efforts to stimulate production in non-rice food crops, smallholder tree crops and non-food farm activities, especially in the Outer Islands, an overall growth rate of 3.5% p.a. can be sustained. Regarding infrastructure, the projections assume rapid growth in power and transport activities (11% and 7% p.a. respectively). Adequate expansion of these services will be essential to support growth in manufacturing and agriculture. Other services, being demand driven, are projected to grow in line with the expansion of the non-oil economy.

Table 2.5: GROWTH AND COMPOSITION OF GDP, 1988-2000

| | Growth rates (% p.a.) | | | Share in GDP (%) | |
|---|---|---|---|---|---|
| | Estimate | Projected | | Estimate | Projected |
| | 1981-88 | 1988-90 | 1990-2000 | 1988 | 2000 |
| Non-oil GDP | 4.3 | 5.7 | 6.4 | 80.8 | 90.1 |
| Agriculture | 2.9 | 3.5 | 3.5 | 23.2 | 18.8 |
| Manufacturing | 5.2 | 9.0 | 9.4 | 9.5 | 14.9 |
| Services, etc. | 5.0 | 6.0 | 6.8 | 47.7 | 56.4 |
| Oil/LNG | 0.1 | 2.9 | -0.7 | 19.2 | 9.9 |
| Total GDP | 3.3 | 4.9 | 5.4 | 100.0 | 100.0 |

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

2.24 The projected pace and pattern of real growth coupled with complementary specific employment policies will allow Indonesia to absorb its expanding labor force at a higher level of productivity than in the past (Table 2.6). Because of the flexible nature of Indonesia's labor markets, the policies for growth and employment are largely complementary. Apart from the macroeconomic policy framework reviewed above, sectoral policies aimed at improving private sector incentives will need to be strengthened and sustained. This entails continued progress on trade and industrial

deregulation, removal of price controls and regulations inhibiting efficient diversification of agricultural production, continued efforts to improve the availability and affordability of industrial finance and a carefully designed public investment program to support private investment. In addition, specific measures will be needed to improve labor absorption in the services sector, boost employment prospects in the Outer Islands and improve the quality of the labor force. Of particular importance in this regard are the Government's programs for funding O&M, supporting smallholder tree crop development, developing rural infrastructure and improving the quality of education, reducing fertility and improving family health. It will also be important to ensure that policies do not unintentionally discourage employment (e.g., by hindering informal activities or subsidizing farm mechanization).

Table 2.6: PROJECTED EXPANSION OF EMPLOYMENT AND LABOR PRODUCTIVITY

| | 1990-2000 | | | Share of employment (%) | | Average labor productivity (Rp.million)/b | |
|---|---|---|---|---|---|---|---|
| | Annual increment (million)/a | Growth rate (% p.a.) Value Added | Growth rate (% p.a.) Employment | 1986 | 2000 | 1986 | 2000 |
| Agriculture | 0.58 | 3.5 | 1.3 | 55.1 | 46.5 | 0.5 | 0.7 |
| Manufacturing | 0.61 | 9.4 | 6.6 | 8.2 | 13.2 | 1.2 | 2.0 |
| Construction | 0.18 | 7.0 | 6.0 | 2.8 | 4.3 | 2.4 | 2.7 |
| Services, etc. | 0.92 | 6.7 | 3.0 | 33.9 | 36.0 | 1.4 | 2.0 |
| Total non-oil | 2.28 | 6.4 | 2.6 | 100.0 | 100.0 | 1.0 | 1.5 |

/a The projections of labor force and employment are based on the 1986 SAKERNAS data. The levels of labor force and employment recorded in 1986 SAKERNAS are much higher than the levels used for projections in the last year's Economic Report. Accordingly, the projections of the annual increment to the labor force during the 1990s shown here are higher than projected previously.

/b At 1983 prices.

Source: World Bank staff estimates.

2.25 Implications for public investment priorities. The projections showed that an 8% p.a. real increase in public investment over the 1990-95 period is consistent with the non-oil GDP growth target and sustainable fiscal deficits. A faster growth of public investment would risk crowding out private investment, which needs to be avoided. The composition of public investment will also have a major impact on private investment and employment prospects. In general, public investment will need to be focused on: (a) services which are largely complementary to private investment; (b) supporting activities that promote non-oil exports and employment; and (c) the development of human resources and poverty alleviation.

2.26 The investment priorities reflected in the Government's recent development expenditures indicate that such considerations have been used as guiding principles. As shown in Table 2.7 the largest share of development expenditure has been devoted to infrastructure and production support services (roads, power, irrigation network, port facilities, telecommunication, water resource management, agricultural extension and other agricultural support services). These services are generally complementary to private investment and crucial for the expansion of non-oil exports and employment. The second largest share went to the development of human resources and basic social services (education, health, water supply, housing and family planning). Most importantly, budgetary funding of investment in direct production activities (manufacturing, mining and estate crops) has been shrinking. REPELITA V allocations show that the Government intends to further strengthen this trend over the next five years. Similar trends are assumed in our projections.

Table 2.7: COMPOSITION OF DEVELOPMENT EXPENDITURE, 1979/80-1993/94 /a
(% of total)

| | REPELITA III Actual 1979/80-1983/84 | REPELITA IV Actual /b 1984/85-1988/89 | REPELITA V Plan 1989/90-1993/94 |
|---|---|---|---|
| Infrastructure and production services | 45.7 | 49.2 | 51.4 |
| Human resource development and basic social services | 22.9 | 26.1 | 32.2 |
| Direct production /c | 22.1 | 10.7 | 9.9 |
| General services | 9.3 | 14.0 | 6.5 |
| Total | 100.0 | 100.0 | 100.0 |

/a Excludes defense and fertilizer subsidy.
/b Budget figures for 1988/89.
/c Includes: industry, mining and tree crops.

Source: Ministry of Finance and World Bank staff estimates.

2.27 In addition to ensuring that intended priorities are reflected in actual spending, care has to be taken that spending within sectors and between programs are consistent with stated objectives. Given the Government's objectives for REPELITA V, important considerations in the design of the public investment program include: an appropriate balance between O&M, rehabilitation and new capacity; more equitable regional distribution of public investment (especially to accommodate the faster growth of the labor force in the Outer Islands); targeting for poverty alleviation; the scope for private provision of public services; and avoidance of large capital-intensive projects. Selection of projects should be based chiefly on economic rates of return, with appropriate allowance for social considerations (in line with stated objectives) and project implementation constraints. A review of public investment issues is provided in Chapter 4.

Risks and Uncertainties in Prospects

2.28 In general, Indonesia's medium-term prospects described in Table 2.4 could be adversely affected by three types of risks: (a) deterioration in the external environment; (b) inability to secure the external financing needed to underpin the adjustment program; and (c) slower pace of domestic reforms. The Government's record on economic management, including ongoing reforms, and the exceptionally strong support that these efforts have received from donors suggest that the risks of domestic policy slippage and underfunding of the adjustment program are relatively low for Indonesia. The most significant risk arises from the external environment. Given its structure and openness, Indonesia is vulnerable to an array of external factors including oil prices, other commodity prices, world trade, interest rates and exchange rates. The existence of these uncertainties underscores the need to sustain the policy reform momentum and to maintain a prudent external borrowing strategy.

2.29 Policy reforms and donor support. Indonesia's medium-term prospects are sensitive to assumptions concerning efficiency gains, resource mobilization and donor support (as outlined in Section D below). If structural reforms and resource mobilization efforts were less effective than envisaged, the recovery of economic growth and ability to support poverty alleviation programs both would be adversely affected. Economic growth would be lower than projected because of a smaller contribution of factor productivity improvements to growth and also due to a lower investments rate. A slower pace of structural reforms would constrain the pace of improvement in the business climate thereby slowing down the recovery of private investment. Similarly, the public sector's ability to finance required investments for developing the economic infrastructure and supporting poverty alleviation programs would be constrained by lower domestic resources, and a decline in official assistance as well as limited scope for additional commercial borrowing resulting from less satisfactory policy performance. The end result would be a lower growth path of per capita consumption, stagnant labor incomes and inadequate progress with poverty alleviation. This illustrates the importance of continuing with the Government's structural reform program and domestic resource mobilization effort.

2.30 Adverse external environment. The most important risks are the possibility of a large drop in oil prices and a further decline in the US Dollar in combination with higher international interest rates. To a limited extent, a loss of resources can be offset by drawing on the country's external reserves and pipeline of commercial credits. But any major deterioration in the reserve position, or increased recourse to commercial borrowing could undermine confidence in the adjustment process. Therefore, in the event of an unexpected external shock, it would be important to move quickly to ensure that the current account deficit remains within manageable limits. Adjustment to the new external environment would require an acceleration of economic reform, as well as renewed stabilization efforts. A depreciation of the real exchange rate and tightening of monetary and fiscal policies would need to be accompanied by additional measures to improve competitiveness and promote investment in the non-oil tradeable sector. In the short term, economic growth would be lower than projected. However, growth would recover over the medium term supported by accelerated economic reforms. It is important that the donor community is ready to support the Government's efforts with additional fast-disbursing assistance as needed, to smooth out any transitional difficulties.

## C. Public Resource Mobilization

2.31 The public resource mobilization imperative reflects several important considerations. First, as discussed in the context of the macroeconomic framework, the reconciliation of the growth objective with external balance will require further reductions in the fiscal deficit. Second, the existing external debt burden absorbs 17% of total government expenditure (3.3% of GDP), squeezing resources for other uses. Third, additional resources are needed to finance adequate levels of O&M in order to improve the productivity of public infrastructure and services. Fourth, to support the recovery of economic growth and private investment, some expansion of public investment for infrastructure development will be essential. Finally, the Government's poverty alleviation effort has been constrained by resource scarcity; additional resources are needed to address this key social objective. Of course, redefinition of expenditure priorities and lower costs of service delivery can and should contribute to the resource mobilization drive. However, the scope for further expenditure cutbacks is limited. Generally cautious fiscal management, even during the oil boom period, helped Indonesia contain government spending. Furthermore, following the slump in oil prices, the Government implemented significant cutbacks in capital spending causing total expenditure to fall to 20% of GDP in 1988/89. As shown in Table 2.7, this level of government spending is now comparable to other Asian countries.

2.32 Recognizing the importance of mobilizing non-oil tax revenues and to improve the efficiency and equity of the tax system, the Government initiated a major tax reform starting in January 1984. In response to the resource mobilization objective, non-oil taxes of the Central Government as a percentage of non-oil GDP have surged from 7.4% in 1982/83 to 10.8% in 1988/89.5/ However, the non-oil tax effort is still significantly below those in the ASEAN region (see Table 2.8). With continued progress to improve tax administration, it would be possible to increase revenues to 13-14% of non-oil GDP by 1995/96. While better revenue performance of non-oil taxes will remain a central element of the public resource mobilization strategy, the resource base also needs to be broadened by strengthening local government finances, improving the efficiency and financial performance of public enterprises, and achieving greater cost recovery from public services in general. The objectives of broadening the resource base and providing public services more efficiently are interlinked. To lower cost and improve service quality, the Government intends to increase significantly the responsibility of local agencies in the planning and implementation of public expenditure programs. This will require a major effort to boost local government finances. Similarly, greater cost recovery will induce more efficient use and will improve the quality of service, by helping finance more adequate levels of O&M. The remainder of this section reviews the issues of Central Government non-oil tax effort, local government resource mobilization and public enterprise finance. Cost recovery, public enterprise pricing and management issues are discussed in Chapter 4.

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5/ Taxes collected at the local level have remained between 0.7-0.9% of non-oil GDP.

Table 2.8: GOVERNMENT EXPENDITURE AND TAX EFFORT IN SELECTED ASIAN COUNTRIES, 1981-1987 /a
(% of GDP)

| | Expenditure Ratio /b | | | | Tax ratio /c | | | |
|---|---|---|---|---|---|---|---|---|
| | 1981 | 1983 | 1985 | 1987 | 1981 | 1983 | 1985 | 1987 |
| ASEAN Region | | | | | | | | |
| Korea | 17.1 | 17.5 | 17.7 | 17.0 | 15.7 | 16.7 | 16.0 | 15.3 |
| Malaysia | 46.9 | 40.3 | 35.1 | 35.0 | 17.0 | 19.7 | 17.0 | 13.1 |
| Thailand | 20.8 | 19.3 | 20.5 | 18.0 | 13.3 | 14.6 | 14.7 | 14.9 |
| Philippines | 12.7 | 13.6 | 13.6 | 16.1 | 10.3 | 10.4 | 10.0 | 12.1 |
| Indonesia /d | 22.1 | 22.2 | 22.6 | 20.7 | 7.2 | 7.3 | 8.4 | 9.4 |
| Other Asia | | | | | | | | |
| Pakistan | 19.2 | 19.5 | 19.6 | 21.8 | 13.6 | 12.9 | 12.2 | 13.2 |
| India | 16.4 | 17.8 | 20.8 | 21.0 | 7.2 | 7.5 | 8.1 | 8.4 |
| Bangladesh | 18.3 | 19.1 | 17.3 | 19.1 | 7.4 | 6.7 | 7.1 | 7.0 |

/a Central Government only.
/b Excludes amortization payments.
/c Excludes petroleum revenues.
/d Non-oil taxes expressed as a percentage of non-oil GDP.

Source: World Bank Country Economic Reports and IMF International Financial Statistics.

## Central Government Non-oil Tax Effort

2.33 Taxes play a central role in financing government expenditures in most countries. However, the level and composition of taxes vary widely, depending upon the level of economic development, the size of the government and the tax administrative capacity. Like government spending, taxes also have important implications for economic activity and income distribution. An excessively high tax burden, coupled with inefficient collection, can have serious adverse effects on the private sector. Thus, care has to be taken to keep taxes at a manageable level and to raise revenues as efficiently and equitably as feasible. As noted, the tax burden in Indonesia is quite low and there is significant scope for increasing the tax effort. The main issue is to ensure that the disincentive effects of additional taxes on private activity are minimal and that the tax burden does not make the poor worse off.

2.34 Apart from revenue mobilization, a key objective of the 1984 tax reform was to improve the efficiency of the tax system. The tax base was broadened by a substitution of the VAT for the sales tax and by a revamping of the property tax. The reform also considerably simplified the tax structure, relying on relatively low rates and allowing few exemptions and deductions. Special tax incentives such as the investment allowance, tax holidays and accelerated depreciation schemes were abolished. Furthermore, under the new system, the tax obligation is based on self-assessment, thereby reducing the

burden of tax administration and opportunities for abuse. The 1984 tax reform also attempted to ensure that the changes in taxation do not make the poor worse off, primarily by placing low income households as far as possible outside of the tax net. Moreover, a greater degree of progressivity of the tax system was sought through greater taxation of urban properties, better assessment and collection of income tax, and increases in taxes on luxury goods.

2.35 The impact of the reform on the tax structure is illustrated in Table 2.9. An important transformation was achieved, with the structure moving away from inefficient domestic production taxes (sales and excise

Table 2.9: INDONESIA'S TAX STRUCTURE, 1981/82-2000/01
(% of total non-oil taxes)

| | Before reform | After reform | | Projected | | |
|---|---|---|---|---|---|---|
| | 1981/82 | 1987/88 | 1988/89 | 1989/90 | 1995/96 | 2000/01 |
| Income and property taxes | 45.3 | 35.2 | 36.7 | 38.6 | 41.7 | 43.5 |
| Value-added tax | 16.4 /a | 37.5 | 37.8 | 37.4 | 37.0 | 37.0 |
| International trade taxes | 20.5 | 12.5 | 11.3 | 10.6 | 9.8 | 8.0 |
| Excise tax | 16.8 | 12.3 | 11.7 | 10.7 | 8.8 | 8.8 |
| Miscellaneous | 1.0 | 2.5 | 2.5 | 2.7 | 2.7 | 2.7 |
| Memo item: | | | | | | |
| Non-oil taxes (% GDP) | 5.5 | 7.6 | 8.8 | 9.8 | 11.8 | 11.5 |
| Non-oil taxes (% of non-oil GDP) | 7.2 | 9.4 | 10.8 | 12.0 | 13.6 | 13.0 |

/a Refers to sales tax prior to reform.

Source: Ministry of Finance and World Bank staff estimates.

taxes) to less distortionary VAT.6/ Although a lower growth of economic activity and slow progress with tax administration have weakened the relative contribution of income and wealth taxes, an improvement in performance has taken place recently and there are good prospects for a further recovery during 1989/90. Indonesia traditionally has not used international trade taxes as a revenue instrument. Thus, as other taxes (primarily VAT) grew, the share of trade taxes fell up to 1987/88. Since then, trade reforms causing a shift from NTBs to tariff protection have resulted in significant increases in revenues. As the focus of trade policy moves towards a rationalization of the tariff structure, some efficient increases in revenues from international trade taxes will result. Nevertheless, the Government does not intend to rely on this as a revenue instrument. The medium-term projections assume that the

6/ Although the VAT is still not a true consumption tax, as in the developed countries, it does avoid the cascading effects of a sales tax.

increase in the tax ratio to 13-14% of non-oil GDP by 1995/96 will be achieved through a substantial growth in tax collection from income (personal and corporate) and property taxes. The relative contribution of the VAT will be maintained, but the share of domestic production and international taxes will fall further. The realization of the projected level and composition of taxes will depend critically upon a strengthening of tax administration, especially in regard to income and property taxes.

2.36 Tax administration. The importance of improving tax administration was recognized by the Government even from the start of the reform. Initially progress was very slow, although there are now encouraging signs of a pick up in effort. Political support for tax collection has also gained momentum, as reflected in the 1989/90 Budget speech by the President of Indonesia where he declared that the tax effort was an "all-out struggle". Steps to strengthen tax administration have been initiated in most areas. First, as a result of a tax registration campaign launched in August 1986, follow-up steps and some progress with tax audits, there has been an increase in tax compliance (see Table 2.10). Second, the Government took actions to improve the institutional capacity to undertake systematic and efficient audits. The effort focused on training specialized auditors and developing a comprehensive, computerized audit selection system. Finally, the Government has also been trying to tackle weaknesses in the tax collection and payments control system. For example, a new payments control system has been devised which provides computerized updates of incoming transaction documents and individual taxpayers accounts. The system is already functioning in a number of Jakarta district offices and a gradual centralization of payment control activities for all of Jakarta is expected by the end of 1989.

Table 2.10: TAX COMPLIANCE INDICATORS, 1983-87 /a

| | No.of registered taxpayers ('000) | | | Filing ratio /b | |
|---|---|---|---|---|---|
| | 1983 | 1986 | 1987 | 1986 | 1987 |
| Personal income tax /c | 327.5 | 643.0 | 672.4 | 60.0 | 64.0 |
| Corporate income tax | 83.6 | 157.6 | 176.1 | 41.2 | 43.8 |
| Value-added tax (VAT) | n.a | 69.7 | 79.4 | 41.6 | 45.3 |

/a End of year figures.
/b Ratio of filed returns to number of registered taxpayers.
/c Excludes personal income taxpayers on whose behalf personal income tax was withheld and the withholding represented the final tax liability.

Source: Ministry of Finance.

2.37 These initiatives, especially in the field of audits, have resulted in a significant increase in revenues from income taxes since 1986. For example, some Rp. 300 billion was obtained from income tax audits between January 1987 and June 1988. Given the self-assessment nature of the tax

system, selective and effective audits will remain key prerequisites for improving tax compliance and yields. While the current focus on income tax will have to be maintained, the audit effort should be extended towards full auditing of VAT returns.7/ The effectiveness of audits also needs to be enhanced by raising the quality and quantity of auditors. This will entail improving the local audit training program, focusing on the relevance of course contents and appropriate selection of trainees and trainers, and intensifying the foreign training program. A second priority is to strengthen the application of legal sanctions against tax evasion. A third priority is to implement the proposed reorganization of the Directorate General of Taxation along functional lines. By separating operations, support and evaluation functions, the proposed functional reorganization would clearly define areas of management responsibility, enhance the expertise of both the employees and their managers in their trained areas, and greatly simplify communications. The reorganization has been under consideration for some time and specific proposals have been submitted. It will be important to implement this soon, as this will have a significant long-term impact on the efficiency of tax administration. Finally, an effort should be made to develop an integrated management information reporting system, in order to assist tax planning and follow-up measures. Specific recommendations include: streamlining and reducing duplication, eliminating unnecessary reporting requirements, clarifying data needs, identifying key performance indicators for each activity, and automating reporting processes.

2.38 Although improvements in tax administration will remain of central importance for mobilizing non-oil tax revenues, there may be a need to consider selective increases in the tax base and rates over the medium term. This will be especially important to counter a further long-term decline in oil prices. The Government has already taken some actions to enhance the tax base (taxation of interest income, extension of the VAT from the manufacturing to the wholesale level, extension of VAT to include most services, and some increases in the number of items and tax rates in the luxury category). Following satisfactory progress in implementing these changes, additional measures such as extending the coverage of VAT and increasing the effective tax rate for PBB (property tax) may be considered. As discussed below, the effective tax rate is currently only 0.1% and a promising way to enhance local government resources is to raise the effective tax rate on PBB.8/

Strengthening Local Government Finances

2.39 The importance of local authorities in implementing public expenditure programs has been increasing steadily and the Central Government intends to devolve even greater responsibility over the medium term. On the other hand, resources mobilized by local authorities have not increased much despite the fact that central revenues have become more constrained. For example, central transfers still account for over 75% of total revenues of local governments. To support the decentralization policy as well as to

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7/ Presently, VAT audits are undertaken only on monthly returns and in an ad hoc manner.

8/ Although PBB is a local level tax, it is collected by the Central Government. A 10% collection fee is charged for this service.

mobilize additional resources, there is a need to strengthen local government finances by including policies to increase revenues from local sources and by facilitating a greater reliance on borrowing.

2.40 Local level revenues. Property taxes represent a much under-exploited source of revenues for local governments in Indonesia. As part of the tax reform program, a new tax on land and buildings (PBB) was introduced in 1986, with the aim of strengthening the revenue base of local governments and improving the overall equity of property taxation.9/ Under the new law a flat rate of 0.5% tax is imposed on the capital market value of land and buildings. The official assessment ratio is 20% of market value, so that the maximum effective tax rate is only 0.1%. A major issue for the PBB has been the appropriate valuation of properties. As a first step towards improved valuation, a program has been initiated to revalue urban properties based on true market values in three large pilot cities (Jakarta, Bandung and Medan). The program also includes steps to increase property registration and improve the billing and collection procedures. In Jakarta alone, some 300,000 potential high-value properties have been identified, in contrast to the 50,000 properties registered in the current roll. Close involvement of the local government in registrations and collections is expected to help maintain high efficiency. Experience in the pilot cities is expected to be replicated in other cities under a nation-wide program commencing in 1989.

2.41 Steady progress in implementing the PBB is evident from the growth in revenue collections, which rose from Rp.190 billion in 1985/86 to Rp.424 billion in 1988/89. The Government expects that the PBB yield will almost double in 1989/90, based on the pilot program. This is a feasible target. Even so, property tax revenues will reach only 0.5% of GDP and still remain significantly below their potential. While the immediate priority is to improve tax implementation by building on the experience of the pilot program (especially regarding property valuation), there is also a need to consider an increase in the effective tax rate over the medium term. At 0.1%, this rate is among the lowest in the world. In the Philippines, for example, the effective legal rate ranges between 0.4% and 1.4%. In Thailand and India, the rates are 0.8% and 2.6% respectively.10/

2.42 As regards truly local taxes, there are more than 50 such taxes and over 100 charges levied in Indonesia today. Many of these taxes and charges cost more to collect than the revenue they yield. The Government is working on a program which, if implemented, would simplify the taxation structure, enhance the local tax base, improve tax administration and provide more local discretion in rate setting. In this regard, attention needs to be given to a number of issues which include: (a) overlap between PBB and the annual business registration tax on private enterprises imposed in certain regions which, to some extent, are assessed on similar criteria; (b) appropriateness of a betterment levy as an option to recover infrastructure costs which cannot

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9/ PBB replaced seven ordinances, including the old land tax (IPEDA) and net wealth taxes.

10/ See, R. Kelly, Property Tax Reform in Indonesia, Harvard Institute for International Development, paper presented at the Urban Land Seminar held in Sanur, Bali, July 21-24, 1986.

be recovered through user charges; (c) restructuring of the annual motor vehicle tax to relate it more closely to the burden imposed by vehicles on road maintenance; and (d) simplification of procedural requirements for implementing approved reforms.

2.43 Local government borrowing. The present use of borrowing to fund local capital spending is very limited, chiefly reflecting the Government's cautious fiscal management but also due to the lack of institutional arrangements for using this option. Given the constraints on central funds and also the need to support the decentralization objective, borrowing for local capital spending may be appropriate. However, to ensure that fiscal balance is not compromised, debt service payments will need to be linked to user charges for local services generated by the capital payments for which the debt was incurred. In the short term, borrowing will not relieve the demand on central resources due to loan fund capitalization needs. However, loan repayments, if based on viable lending terms, could over time significantly reduce future demands on central resources. Sound lending practices, such as appropriate eligibility and appraisal criteria, would also help strengthen the expenditure program and local institutional capabilities.

2.44 Recognizing the potential long-term role of the borrowing option for funding parts of local capital spending, the Central Government is working towards a consolidation of the existing channels of loans for urban infrastructure investments into a single loan fund, to be known as the Regional Development Account (RDA). To ensure the long-term viability of this fund, consistent lending terms, including a realistic interest rate, and project appraisal based on standard criteria will be essential. Similarly, appropriate cost recovery measures via property taxes and service fees will be necessary. Furthermore, appropriate procedures to enforce repayment will have to be ensured. Finally, the fund should be concerned exclusively with financing local government projects, with the aim of strengthening the capacities and responsibilities of the local governments.

## Finances of Public Enterprises

2.45 A key instrument to raise public savings over the medium term is improving the finances of public enterprises through enhancing efficiency and appropriate tariff adjustments. Although there are some enterprises that are efficient and financially profitable, the overall financial performance of the public enterprise sector is less satisfactory (see Table 2.11). The potential for resource mobilization can be seen from the fact that an increase in the average rate of return on assets of non-financial public enterprises from the present 0.5% to 5% will yield additional revenues of about 2.0% of GDP.

2.46 The Government is well aware of the need to reorganize the public enterprise sector and there has already been a major policy shift in this regard. For example, the relative size of the public enterprise sector has been shrinking over the past few years chiefly because of a slowdown in the transfer of budgetary resources to state enterprises. Reflecting this, the overall budgetary burden of public enterprises has fallen dramatically from 4.6% of GDP in 1983/84 to less than 1% in 1987/88. Furthermore, the use of bank credits, including from Bank Indonesia, has generally been restrained. Finally, public enterprises in Indonesia are not allowed to borrow

Table 2.11: AGGREGATE INDICATORS OF PUBLIC ENTERPRISE FINANCES, 1983/84-1987/88
(%)

| | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 |
|---|---|---|---|---|---|
| Financial profitability | | | | | |
| PE profit/total assets /a | 3.2 | 3.4 | 3.4 | 3.0 | 2.2 |
| NFPE profit/total assets /b | 2.3 | 3.0 | 1.8 | 1.9 | 0.5 |
| NFPE profit/fixed assets | 3.2 | 4.4 | 2.6 | 2.7 | 0.7 |
| NFPE profit/net worth | 4.9 | 6.5 | 4.0 | 4.3 | 1.0 |
| Budget impact | | | | | |
| Overall budgetary burden of PEs (% of GDP) /c | -4.6 | -2.6 | -2.6 | -1.8 | -0.6 |

/a Consolidated public enterprises; profits are defined before tax and treat depreciation as cost. Assets are evaluated at current cost for some enterprises, but for many enterprises assets are measured at historical cost.

/b Consolidated non-financial public enterprises excluding Pertamina; profits are defined before tax and treat depreciation as cost.

/c Defined as: profit transfers plus debt service payments less "two-step loans" less capital participation.

Source: Ministry of Finance and World Bank staff estimates.

independently from foreign sources.11/ The Government also intends to take actions to reform existing enterprises. Accordingly, Presidential instructions were issued in December 1986 for a review of the financial performance of all public enterprises, as a first step toward preparing a plan for sector restructuring through rehabilitation, merger or divestiture. This review has recently been completed and an action plan is being developed. It is expected that a number of public enterprises will enter into joint ventures with the private sector, or issue shares to the public.

2.47 Experience with divestiture in other developing countries suggests that a cautious approach is needed. More fundamentally, divestiture will have to be seen as a part of a broader set of public enterprise reforms. It will have to be based on a careful review and classification of public enterprises based on the types of goods involved and performance. Second, even with a successful divestiture program, some enterprises will remain under state control. A key issue, therefore, is the appropriate policy framework for these enterprises. Finally, for a number of enterprises, pricing policy is

11/ Originally, Pertamina (the state oil company) and Garuda (the state airline) had access to direct external borrowings. Pertamina's access was withdrawn after the 1975 debt crisis. Garuda retained its borrowing right up to 1982, after which this was also rescinded.

also an issue. In general, proper pricing of output is essential to ensure the efficiency and financial viability of public enterprises. Efficient pricing is also needed to avoid wasteful consumption. Public enterprise management and pricing policies are reviewed in Chapter 4.

## D. External Borrowing and Debt Management

### External Borrowing Strategy

2.48 Projections of Indonesia's external capital requirements and sources, based on the macroeconomic scenario presented in Section B, are provided in Table 2.12. The current account deficit is projected to decline to sustainable levels, in response to the Government's program of stabilization and non-oil export development. However, once allowance is made for higher principal repayments and the need to build up adequate reserves (in relation to growing import requirements), the annual financing requirement is projected to continue rising, averaging US$8.4 billion in 1989/90 and 1990/91, 42% higher than over the past three years.

Table 2.12: EXTERNAL CAPITAL REQUIREMENTS AND SOURCES, 1986/87-2000/01
(annual averages in US$ billion)

| | Actual | Projected | | |
|---|---|---|---|---|
| | 1986/87-1988/89 | 1989/90-1990/91 | 1991/92-1995/96 | 1996/97 2000/01 |
| Requirements | 5.9 | 8.4 | 9.0 | 10.7 |
| Current account deficit | 2.5 | 1.7 | 1.3 | 1.6 |
| of which: interest payments | (3.1) | (3.7) | (3.9) | (4.2) |
| Principal repayments | 4.3 | 5.7 | 6.3 | 7.2 |
| Increase in net foreign assets | -0.9 | 1.0 | 1.4 | 1.9 |
| Sources | 5.9 | 8.4 | 9.0 | 10.7 |
| Direct foreign investment (gross) | 0.2 | 0.6 | 1.0 | 1.3 |
| Disbursements of private MLT loans | 1.0 | 1.5 | 2.0 | 2.6 |
| Short-term and other capital (net) /a | -1.4 | -0.2 | -0.1 | - |
| Disbursements of public MLT loans | 6.1 | 6.5 | 6.1 | 6.8 |
| of which: | | | | |
| Project aid | 2.1 | 3.2 | 3.9 | 4.2 |
| Special assistance /b | 1.2 | 1.6 | 0.2 | - |
| Other credits /c | 2.8 | 1.7 | 2.0 | 2.6 |

/a Includes errors and omissions, and valuation adjustments.
/b Fast-disbursing program aid and local-cost financing.
/c Import-related credits, untied commercial credits, and credits for LNG expansion, LPG and paraxylene projects.

Source: World Bank staff estimates.

2.49 An increasing share of this financing requirement is expected to be met by private non-guaranteed capital flows--in the form of direct foreign investment and disbursements of private MLT loans--attracted by the recovery in economic activity and the ongoing regulatory reforms.12/ These inflows are expected to double over the next five years, from US$1.5 billion in 1988/89 to US$3.0 billion in 1993/94. The potential strength of private capital inflows is reflected in the investment approvals by BKPM for PMA companies, which totalled US$4.4 billion in 1988. Assuming that 70% of these investments are realized over the next three years, and that the bulk of the financing comes from overseas, related capital inflows could total about US$1 billion per annum. Therefore, with sustained growth in new investment approvals, the realized private capital inflows could possibly exceed the levels projected in Table 2.12. These trends need to be monitored closely, to ensure that Indonesia's overall debt situation remains manageable. Continued progress on removing distortions in the policy environment will also be important, to ensure that these capital inflows are used to finance economically viable projects.

2.50 Despite the increasing importance of private capital flows, more than three quarters of Indonesia's external financing requirements will have to be met by disbursements of public MLT loans over the next two years. About half of these disbursements are expected to come from existing commitments. The outstanding balance of undisbursed commitments fell by US$1.4 billion during 1988 to about US$18 billion. This decline reflects the shift in official commitments toward fast-disbursing special assistance and the strict limit imposed on new commercial borrowing. The undisbursed balance includes US$2.7 billion of undrawn syndicated loans; the Government intends to keep at least US$2.0 billion of this amount as a contingency against unexpected external shocks. The remaining undisbursed balance is largely tied to implementation of ongoing projects. With sustained improvements in project implementation performance, pipeline disbursements are projected to average about US$3 billion p.a. over the next two years. Assuming continued but declining support in the form of fast-disbursing special assistance, the financing requirement could be met with annual commitments of public loans and grants averaging US$6.1 billion, about the same level as in 1988/89. About 80% of these commitments are projected to be official assistance, primarily from the IGGI. Over the longer term, the composition of commitments shifts increasingly toward import-related and untied commercial credits.13/ The projected requirements by source are summarized in Table 2.13.

2.51 The case for special assistance, in the form of fast-disbursing program aid and local-cost financing, was presented in the last two Economic Reports and endorsed at the subsequent IGGI meetings. Special assistance is intended to provide temporary support to the Government while it implements

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12/ Short-term and other capital flows are also expected to improve substantially over the next few years, reflecting the success of the Government's adjustment program and increased confidence in the value of the Rupiah.

13/ Also as a result of the changing composition of public commitments, and the increasing role of private capital flows, the share of official assistance in total sources of external capital falls from 67% in 1988/89 to 55% in 1990/91 and 41% in 1995/96.

Table 2.13: PROJECTED REQUIREMENTS OF EXTERNAL PUBLIC LOANS AND GRANTS, 1988/89-2000/01
(US$ billion)

| | Estimate | Projected | | | | |
|---|---|---|---|---|---|---|
| | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1995/96 | 2000/01 |
| Project aid | 2.6 | 3.1 | 3.8 | 4.4 | 4.8 | 4.9 |
| Special assistance /a | 2.4 | 1.8 | 1.2 | 0.6 | - | - |
| Import-related credits | 0.6 | 0.5 | 0.6 | 0.8 | 1.3 | 1.7 |
| Untied commercial credits | 0.5 | 0.5 | 0.7 | 0.8 | 1.1 | 1.2 |
| Total | 6.1 | 5.9 | 6.3 | 6.6 | 7.2 | 7.8 |

/a Fast-disbursing program aid and local-cost financing. Special assistance is projected to fall to zero from 1992/93.

Source: World Bank staff estimates.

policies to adjust the balance of payments and the budget to external shocks, such as lower oil prices and adverse exchange rate changes. The response from IGGI members has been very encouraging, with disbursements of special assistance totalling US$3.7 billion over the past three years. This assistance has played a valuable role in helping the Government push ahead with its trade deregulation measures and in facilitating the recovery of private investment and economic activity. It has also enabled Indonesia to restructure its external debt, improving the average maturity and term structure, while maintaining financial market and investor confidence about the viability of the Government's adjustment program. The balance of payments projections presented in Section B indicate that the requirement for commitments of special assistance will total US$1.8 billion in 1989/90. This is substantially down on the level of US$2.4 billion pledged for last year. This declining trend reflects the Government's commitment to narrow the financing gaps by developing non-oil exports and non-oil budget revenues. Accordingly, the requirements for special assistance are projected to continue falling to US$1.2 billion in 1990/91 and US$0.6 billion in 1991/92, with no new commitments in later years.

2.52 The level of project aid commitments has levelled off in recent years, because of the limited scope for starting new projects. There has also been a shift in the composition of project aid toward rehabilitation and sector-based operations. This type of assistance will continue to have a high priority for a number of years. However, as economic activity and investment levels pick up, there will also be more scope for projects to expand capacity. Total commitments of project aid are therefore projected to rise rapidly over the next three years, from US$2.6 billion in 1988/89 to US$4.4 billion by 1991/92. These additional resources should be directed toward priority sectors and programs. As discussed in Chapter 4, public investment during REPELITA V will be focused on: (a) agriculture and rural development; (b) physical infrastructure to support economic growth; and (c) social

programs, especially for poorer income groups and regions. Donors need to work closely with BAPPENAS to develop a pipeline of projects in these areas. In addition, given the increasing role projected for private investment, it will be important to strengthen mechanisms to channel aid-financed funds to the private sector, such as two-step loans and financial sector operations.

2.53 As in the past, a portion of the projected requirements for special assistance and project aid is expected to be provided outside the IGGI. However, these amounts are expected to decline, as the extraordinary financing provided by some donors is phased out. Allowing for this trend, it is recommended that the level of IGGI assistance to Indonesia in 1989/90 be US$4.2 billion, 5% higher than pledged for last year. Over the subsequent four years, the requirement for new commitments from the IGGI is projected to remain high, with a substantial shift from special assistance to project aid.

2.54 Indonesia has made less use of import-related credits in recent years. This trend reflects the Government's decision to reduce public investment in large capital-intensive projects and to place strict limits on the use of non-concessional credit under Presidential Instruction No.8 of 1984. The projections presented in Section B assume that new commitments of import-related credits will be limited to US$0.5 billion in 1989/90 and then gradually increased in later years as opportunities for new investments emerge. However, as in the past, it will be important to review these proposals carefully, to ensure that the projects warrant priority in the public investment program and that the financing arrangements are appropriate. Untied commercial credits provide the Government with more flexibility than import-related credits. However, because of their non-concessional terms, they are less attractive than program aid from official sources. Therefore, new commitments are assumed to be limited to US$0.5 million in 1989/90.14/ This implies a further reduction in commercial bank exposure to Indonesia. In later years, as Indonesia's debt burden eases and special assistance is phased out, the Government should make greater use of its potential access to the commercial markets.

Implications for External Debt Management

2.55 With the borrowing strategy outlined above, the growth of Indonesia's external debt will continue to slow over the next few years. Medium and long-term (MLT) public and private external debt disbursed and outstanding (DOD) is projected to rise from US$47.5 billion at end-1988 to US$53.3 billion at end-1990, an increase of only 12%. Furthermore, all of this increase is in the form of official assistance, implying a significant improvement in the overall maturity and term structure of external debt. Partly for this reason, MLT debt service payments are also projected to grow more slowly than in the recent past, rising from US$7.8 billion (excluding prepayments) in 1988 to US$9.0 billion in 1990, an increase of about 15%. Combined with the projected improvement in economic performance, these trends lead to a substantial

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14/ After drawing US$530 million in March 1989, Indonesia's pipeline of undisbursed syndicated loans totalled about US$2 billion. Of this amount, US$650 million is due to expire in 1989/90. Assuming that this amount is either extended or drawn, and that new commitments and disbursements total US$500 million during the year, the pipeline would be maintained at around US$2 billion.

improvement in all of the key debt indicators. As shown in Table 2.14, the ratios of DOD to GNP and exports have been falling since 1987, and these trends are projected to continue throughout the 1990s. Similarly, the total MLT debt service ratio is expected to stabilize around 37% in 1989, and then decline to 34% in 1990 and 24% by 1995.

Table 2.14: MEDIUM AND LONG-TERM DEBT INDICATORS, 1986-2000
(%)

| | Actual | | | Projected /a | | | |
|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1995 | 2000 |
| DOD/GNP | 51.9 | 71.0 | 64.7 | 63.3 | 60.6 | 46.6 | 33.2 |
| Public | 47.4 | 65.5 | 59.2 | 58.0 | 55.2 | 40.6 | 28.6 |
| Private | 4.5 | 5.5 | 5.5 | 5.3 | 5.4 | 6.0 | 4.6 |
| DOD/exports /b | 247.7 | 236.8 | 220.8 | 216.9 | 204.0 | 151.7 | 109.6 |
| Public | 226.1 | 218.6 | 202.2 | 198.5 | 185.7 | 132.3 | 94.5 |
| Private | 21.6 | 18.2 | 18.6 | 18.4 | 18.3 | 19.4 | 15.1 |
| Debt service/exports /b /c | 37.3 | 33.9 | 36.3 | 37.1 | 34.4 | 23.8 | 17.1 |
| Public | 30.9 | 28.8 | 31.1 | 31.3 | 28.8 | 18.1 | 12.4 |
| Private | 6.4 | 5.1 | 5.2 | 5.8 | 5.6 | 5.7 | 4.7 |
| Interest/exports /b | 16.1 | 14.0 | 13.8 | 13.1 | 12.3 | 8.5 | 5.7 |
| Public | 14.3 | 12.5 | 12.2 | 11.4 | 10.6 | 6.9 | 4.5 |
| Private | 1.8 | 1.5 | 1.6 | 1.7 | 1.7 | 1.6 | 1.2 |

/a Based on exchange rates of December 31, 1988.
/b Denominator is gross exports of goods and services.
/c Debt service excludes prepayments.

Source: Bank Indonesia and World Bank staff estimates.

2.56 The Government continues to handle the administration of its external debt payments in an efficient manner, with no significant errors or delays. However, as noted last year, more can be done in the areas of debt analysis and management. The first priority is to establish a unified debt reporting and analysis system, which can provide up-to-date and comprehensive information to policymakers on the status of Indonesia's external debt. This information can help to guide the Government's overall borrowing strategy. At the same time, Indonesia needs to strengthen its strategy for asset and liability management. Measures to hedge against short-term foreign exchange risk could include greater matching of the currency composition of external reserves and debt, and increasing use of forward foreign exchange transactions. The longer-term strategy for reducing currency risk would entail the gradual diversification of markets and borrowing instruments. In all of these areas, there is a need for strengthening institutional arrangements and staff capability, including through well-focused training programs.

# CHAPTER 3

# PROMOTING PRIVATE SECTOR DEVELOPMENT

## A. Introduction

3.01 The private sector has traditionally played an important role in the Indonesian economy. Agricultural production is dominated by a vast number of private smallholders and over half of manufacturing output derives from the private sector. However, the role of the public sector expanded rapidly during the 1970s and early 1980s, buoyed by higher oil revenues.1/ Much of the increase in public investment supported development of the private sector by increasing the country's physical infrastructure. But, public resources were also used to push public sector development into upstream and high technology areas. Many of these public sector projects were protected by a proliferation of import and investment restrictions. At the same time, many regulatory restrictions designed to guide the development of the private sector were introduced. Certain sectors of the economy were closed to private investment (particularly foreign investment), and the overall incentive framework for manufacturing and agricultural production became biased towards supplying the domestic market. The development of private sector banking and transport services was also constrained by regulatory controls on competition and the dominance of public sector institutions. As a result, the incentive regime and regulatory framework became distorted and non-transparent, misallocating private sector resources and depressing the overall level of private investment.

3.02 Since the early 1980s, the Government's strategy towards private sector development has changed significantly. Declining oil prices drastically reduced both tax revenues and export earnings. This curtailed the Government's capacity to finance the planned levels of public investment and exposed the dangers of continuing to pursue an inward-looking development strategy. The Government responded to this new situation by significantly reducing public expenditures--particularly direct public investment in manufacturing and mining--and by reassessing the role that the private sector should play in the economy. It was recognized that the private sector had to be encouraged to play a greater role in generating new employment opportunities and in increasing non-oil exports earnings. As a result, over the past few years the Government has embarked upon a phased program of reforms designed to improve the incentive framework and simplify economic regulations.

3.03 The Government's intention to encourage the private sector to play a more important role in the economy is clearly reflected in REPELITA V. As public expenditure is to be focussed on the provision of physical infrastructure, improving human resource development and increasing O&M expenditures, most of the growth in manufacturing, agriculture and services is anticipated to come from the private sector. To support this growth, the Plan

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1/ See Tables 2.4 and 2.7 in Chapter 2 for the data underlying the discussion in these opening paragraphs of trends in public and private sector investment.

projects that private sector investment will account for more than half of total investment over the next five years and private sector efficiency will improve markedly. To achieve these objectives, the Plan recognizes the need to develop a "healthy and dynamic investment climate". The progress that the Government has made in creating such an environment, and the priorities for further reform, in the areas of trade policy and the domestic incentive and regulatory framework are discussed in Sections B and C below.

3.04 The ability of the private sector to respond to changes in the incentive and regulatory framework, as well as support the effort to address Indonesia's environmental problems, will depend upon complementary reforms in transport, finance and environmental regulations. Complex and restrictive regulations have raised the costs and constrained the development of good quality transport and financial sector services. Issues related to recent developments in these important support services are discussed in Section D. Finally, while the efficient development of the economy requires policies designed to improve the incentive and regulatory framework, ensuring the sustainability of this development will require more active Government involvement in the management of the environment. Section E discusses the type of measures that are needed to ensure that increased private sector growth is compatible with the Government's environmental objectives.

## B. Trade Policy

### Progress to Date

3.05 The trade regime has played a pervasive role in shaping the structure and efficiency of private sector activity in Indonesia. Throughout the 1970s and early 1980s, Indonesia's trade and industrial policies were inward-looking, promoting investment in highly protected activities geared to supply the domestic market. At the start of the decade the primary instrument of protection was a high and disparate import tariff structure. As pressures began to build from the slowdown in the domestic economy in the early 1980s, tariff protection was supplemented by a proliferation of non-tariff barriers (NTBs) in the form of import licenses. In 1985, the Government instituted an across-the-board reduction in tariffs. The tariff ceiling for most products was lowered from 225% to 60% and the number of tariff levels was reduced from 25 to 11. However, the beneficial effects of this change were significantly reduced by introduction of many specific duties and the increased use of NTBs. By the end of 1985, more than 1,700 items (CCCN categories) were subject to import licensing,2/ accounting for over 40% of total import value and traded domestic production. Although import licenses varied considerably in their degree of restrictiveness, by 1986, the import licensing system was the most important distortionary influence in the trade regime, contributing not only to the high level and variability of protection but also fostering unproductive "rent-seeking" behavior.

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2/ Of the 1700 items, 296 had a formal quota imposed. In addition, there were 24 products under import ban (including automobiles, motorcycles, televisions and radios as completely built-up units).

3.06 The sharp drop in oil prices in early 1986 drastically reduced export and tax revenues, further underlining the need to reorient the private sector away from supplying the domestic market. In response, the Government embarked upon an accelerated and more sweeping program of trade and industrial policy reforms designed to improve the international competitiveness of the private sector and to reduce the bias against exports. The first step was taken on May 6, 1986, when measures to provide internationally-priced inputs to exporters were announced. The May 6 Scheme was designed to protect Indonesian exporters from the "high-cost" local economy by allowing producer-exporters to import their inputs free of import duty and VAT payments.3/ The significance of the facility extended beyond duty/tax exemptions as it also allowed exporters to bypass import license restriction. In addition, a duty drawback facility was created to enable indirect exporters to reclaim import duties.

3.07 Initially there were doubts whether the complex regulations and the creation of a new government body would assist exporters effectively. However, the executing agency (BPKE/PDK) has worked smoothly, with "arms length" administration.4/ There has also been a continuous effort to simplify and standardize application and processing procedures. As shown in Table 3.1, the number of firms using the scheme since 1986 has increased

Table 3.1: IMPLEMENTATION OF MAY 6 SCHEME

| | No.of firms | Value of Imports (US$ million) | | Value of Taxes/a (US$ million) | | Processing Time (No. of days) | |
|---|---|---|---|---|---|---|---|
| | | Approved | Realized | Duty Exempt | Duty Drawback | For Exempt | For Drawback |
| 1986 (July-Dec.) | 242 | 236 | 65 | 76 | 0 | 12 | 24 |
| 1987 (Jan.-Dec.) | 482 | 902 | 297 | 230 | 6 | 7 | 17 |
| 1988 (Jan.-Dec.) | 1,098 | 2,447 | 626 | 855 | 20 | 6 | 13 |

/a On approval basis.

Source: BPKE/PDK.

3/ Exemption from duties/taxes can be given for either a firm's total imported inputs (if the firm exports 85%, subsequently changed to 65%, or more of total production) or on a consignment basis (where a particular importation of inputs is linked with a specific export order). In the former case, duties/taxes are paid ex-post on that proportion of inputs used in production for the domestic market.

4/ Badan Pelayanan Kemudahan Ekspor dan Pengolahan Data Keuangan (formerly P4BM).

rapidly with processing time for applications falling by 50%.5/ This has resulted in the value of imports approved or realized under the scheme doubling over the past two years, to a level which accounts for 20% and 5% of total imports respectively.6/ It is also encouraging to note that access to the scheme has broadened from the initial emphasis on textiles, to include exporters in practically all sectors of the economy. However, while the BPKE/PDK scheme does provide a useful mechanism to assist producer-exporters, it circumvents rather than directly reduces the overall anti-export bias of the trade regime. For example, the scheme can only indirectly encourage domestic import substitution activities to improve efficiency and many smaller exporters may not find it attractive to use the scheme.

3.08 The second, more fundamental, step was taken in October 1986, one month after the 31% exchange rate devaluation, when the Government introduced the first of a series of trade deregulation packages. The primary objective of these trade reform measures is to move away from a trade regime based on import or export license protection towards one based on tariffs. The cumulative impact of the trade reform packages announced between October 1986 and end-1987 is shown in Table 3.2. In brief, these measures resulted in the

Table 3.2: IMPACT OF REFORM PACKAGES ON IMPORT LICENSING COVERAGE SINCE 1986

| Coverage | Mid-1986 | End-1987 | End-1988 |
|---|---|---|---|
| % of CCCN items | 31.5 | 21.7 | 16.3 |
| % of import value | 42.9 | 25.2 | 20.8 |
| % of total domestic production | 41.4 | 37.6 | 28.9 |
| Memo item: | | | |
| % of domestic production in: | | | |
| Manufacturing | 52.0 | 35.3 | 26.0 |
| Agriculture | 65.5 | 64.6 | 50.2 |
| Mining and minerals | 0.2 | 0.2 | 0.2 |

Source: World Bank staff estimates.

5/ In addition to the underlying growth in the scheme, this rapid growth reflects two changes in coverage: (a) the scheme was expanded to incorporate foreign aided public sector projects; and (b) the definition of producer-exporters was changed in December 1987, when the ceiling for qualifying for duty/tax exemption was lowered from 85% to 65% of total production (except for textiles producers).

6/ The large discrepancy between approved and realized import values reflects three factors: (a) producer-exporters can use BPKE/PDK approval to pressure domestic suppliers to become price competitive, and therefore, may not use their approval; (b) producer-exporters may overestimate their current raw material requirements to avoid having to re-submit their application; and (c) there is a backlog in compiling the data on a realizations basis.

removal of 544 items from license control accounting for 31% of all items and 41% of total import value previously restricted. More importantly, the share of manufacturing production protected by import licensing declined from 52% in mid-1986 to 35% by end-1987. The reduction in NTBs was concentrated in activities with the highest effective rates of protection, such as chemicals, iron and steel, engineering goods, paints and dyes, tires and tubes, glass and textiles. The need to obtain an export license was also abolished, and export bans on 10 items and export quotas on 24 items were removed. Finally, as mentioned above, access to the May 6 Scheme was broadened and processing procedures simplified.

3.09 A major package of new trade policy measures was announced in November 1988. A further 295 items were removed from restrictive import licenses, accounting for an additional 17% of all items and 10% of import value previously restricted. The impact on the share of total domestic production protected by import licensing is much larger than previous packages, resulting in a decline from 38% at end-1987 to 29% by end-1988.7/ This reflects an effort to push the reform effort into previously untouched areas that constitute a substantial share of domestic value added in the agriculture and food and beverage sectors, e.g., palm/coconut oil, tobacco, rubber, processed fruit and meat, and cigarettes. With respect to manufactured goods, the November package is significant in that it removed all license restrictions on fertilizers as well as plastics, a hitherto difficult area of reform, and made further in-roads into the steel and textile subsectors. The November package also required existing import license holders to reregister at the regional offices of the Ministry of Trade by December 31, 1988.8/ This was intended to assist the drive to increase non-oil taxes by bringing more firms on to the tax register, and to screen out any non-bona fide firms. The re-registration process appears to have worked smoothly. By February 1, 1989, less than 1% of the 3,667 applicants for new import licenses had been rejected.9/ One distinct benefit of the new licenses is that they are valid for as long as the importer remains in business, whereas previous licenses had to be renewed every 3 or 5 years.

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7/ Of the 29% of domestic production remaining under NTBs, 16 percentage points relate to rice where import restrictions relate primarily to food security objectives. A further 7 percentage points relate to other agriculture and 6 percentage points to manufacturing. The priorities for reform in these areas are discussed in paras 3.11 to 3.12.

8/ To qualify for a new import license, existing importers had to submit their importer identification (API) and tax registration (NPWP) number, and have no record of contravening prevailing legislation and regulations. The deadline for reregistration was subsequently extended to end-January.

9/ Before the reregistration approximately 4,880 import licenses had been issued. Of these, 3,667 reapplied with 3,645 being approved and 22 being rejected. It is also important to note that access by new importers to import licenses remained open during, and after, the reregistration process. New entrants require the same documentation as those reregistering, and some 42 new importers were registered during January and February 1989.

The Current Trade Regime

3.10 The series of deregulation measures taken since 1985 have significantly improved the transparency of the trade regime and encouraged non-oil exports. The incidence of NTBs has been greatly reduced, and exporters have gained broader access to imported inputs at world prices. Nevertheless there are outstanding issues with regard to import licensing restrictions and export policy that will need to be addressed as part of the ongoing reform program. These are discussed below, followed by a more detailed discussion of the tariff schedule where progress has been slower. The move away from NTB protection has inevitably increased the importance of the import tariff schedule. Although the tariff reform of 1985 reduced the average tariff level, statutory tariffs are still quite high and there is wide dispersion in tariff rates. In addition, a number of ad-hoc tariff adjustments have been made in association with the deregulation packages, including the introduction of many split-tariff positions.10/ And, although the reduced tariff ceiling of 60% established in 1985 has been adhered to,11/ surcharges have been introduced for many commodities. Consequently, it will be important to undertake a comprehensive rationalization of the tariff schedule. Given the complexity of the issues involved in the next phase of trade reform, there is a need to improve the Government's institutional capacity for trade policy analysis.

3.11 Import license restrictions. The Government's objective is to gradually eliminate all NTBs, except for a small group of products where health or strategic defense concerns are important. This will require further action to considerably reduce the more than 900 items that remain on the restricted goods list. With respect to manufacturing, most of the NTBs on upstream industries (e.g., basic chemicals, iron and steel, plastics and resins) and many competitive downstream industries (e.g., textiles, woodproducts, paper, glass and rubber/leather goods) have been removed. The remaining agenda with respect to import license restrictions can be divided into two categories. First, a significant proportion of the remaining restrictions within manufacturing are in the engineering, electronics and transport equipment subsectors. In most cases these import license restrictions are linked to the local content or deletion program. Although these programs have been modified (see paras 3.34 to 3.35), they continue to hamper the further efficient development in these subsectors. Reform of these programs would allow the removal of import license restrictions on a large array of both final capital goods and components. This will be an important step in ensuring that downstream users have access to good quality and competitively priced machinery. Second, within those sectors that have already been deregulated there are some important product exceptions which remain under license. These remaining license restrictions are often targeted to particular products manufactured by one firm. For example, several steel

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10/ "Split-tariff" positions are used to subdivide a standard seven or nine digit CCCN/HS product description into finer product groups with differential tariffs or NTBs applied.

11/ The exceptions are 3 metal products and 11 footwear items which receive total tariff protection (i.e. tariff plus surcharge) of 80% and 100% respectively. Motor vehicles/cycles and some associated spare parts continue to receive 100% or 200% tariff rate protection.

products remain under import license restriction, even though the majority of steel items are now under tariff protection. These anomalies create a wide range of protection within an industry, or for a single producer, which greatly reduces the pressures on firms to restructure production towards the most competitive product mix.

3.12 In agriculture, the first significant step towards removing import license protection was taken in the November 1988 package. Given this late start, import license restriction continues to cover a wide range of primary and secondary agricultural crops (e.g., rice, maize, wheat, sugar, coffee, cloves, and fruit) as well as processed agricultural products (e.g., soybean meal, wheat flour, processed meat and fruit). That the pace of reform has been slower in agriculture partly reflects the use of import license restrictions to achieve domestic distribution and food security objectives, and not necessarily to protect domestic producers (e.g., rice). As a result, nominal and effective rates of protection for some crops are low relative to manufactured goods, and prices are in line with world market prices. Nevertheless, import restrictions are creating major distortions in some product markets (e.g., soybean meal and sugar) which, in turn, is undermining the competitiveness of downstream activities, (e.g., livestock and food and beverages). These trade restrictions are often coupled with domestic investment, processing and marketing restrictions which encourage the development of high cost import-substitution activities. The end result is the misallocation of agricultural resources into low return crops, which depresses rural incomes and deters private sector investment. The removal of import license protection on agricultural products needs to be part of a broader reform effort, designed to provide more uniform assistance across crops and to allow greater flexibility for farmers and processors to respond to changing market signals. Where continued protection is desirable, this could be provided through import tariffs.

3.13 Export restrictions. There are a number of export restrictions which are used to guide private sector involvement in selected export activities.12/ During 1986, the coverage of these export restrictions was widened further when the existing export ban on rattan was extended to cover semi-processed rattan and a new export ban was introduced for SIR-50 rubber. Both of these measures were designed to encourage further domestic processing, with the ban on SIR-50 (the lowest grade of rubber) intended to improve the quality image of Indonesian rubber exports. However, most of Indonesia's SIR-50 rubber is produced in areas with poor transport and processing facilities, where upgrading quality may not be financially attractive. As a consequence, the net effect of the export ban is likely to be lower returns to rubber producers in remote areas and an implicit subsidy to users of low quality rubber (e.g., sports shoe manufacturers). In the case of rattan, while a prima facie case for an export tax exists (due to Indonesia's market share and environmental

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12/ Export bans apply to some coffee and rubber grades, rattan, hides, logs, scrap iron and steel; export quotas apply to fertilizer, salt, flour, rice, paper, soybeans and crude palm oil; and approved exporter regulations apply to pepper, cassia vera, nutmeg, mace, sawnwood, some plywood types. In addition, export quality controls apply to fish, manioc, shrimps, coffee, tea, pepper, spices, vegetable oils, cocoa beans, rubber and some wood products.

concerns) the ban has resulted in a loss of government revenues, lower prices for raw rattan producers (mostly the rural poor in the Outer Islands) and has encouraged smuggling.

3.14 While the desire to increase the quality and domestic processing of agricultural commodities is understandable, care needs to be taken in deciding on the appropriate policy instrument through which to achieve these objectives. Aside from distorting price signals, the discretionary element of export bans, quotas and administered approvals has reduced private sector flexibility and increased investor uncertainty. Although ensuring that domestic producers have access to their raw materials at world prices is an important part of the Government's strategy to stimulate non-oil exports, export bans clearly go beyond this objective. Another concern is the power of "approved" exporters or marketing boards, which restrict the exportation of particular agricultural products to designated traders. The desirability of current export restrictions needs to be reviewed carefully, taking full account of the effects on efficiency, income distribution and employment.

3.15 Tariff schedule. The most significant change in the Indonesian tariff schedule occurred in 1985, when an across-the-board reduction in tariff rates was instituted. This reform lowered the ad valorem tariff rate ceiling for most products from 225% to 60% and collapsed the number of tariff levels from 25 to 11. As shown in Table 3.3, this resulted in a marked decline in the average weighted tariff from 22% to 13% by import value or from 26% to 17% by domestic production value. One negative aspect of the 1985 tariff reform was the introduction of many specific duties which had high ad valorem equivalent rates. This caused the index of dispersion to increase significantly from 61.5 to 107.8. From 1985 to 1988 the tariff schedule has been subject to a number of ad-hoc changes associated with the series of

Table 3.3: CHANGES IN THE TARIFF SCHEDULE FOR THE WHOLE ECONOMY SINCE 1985/a

| | Pre-1985 | 1985 | 1988 | 1989 |
|---|---|---|---|---|
| Average Tariff Rates (%) | | | | |
| Unweighted | 37.3 | 27.0 | 24.0 | 24.4 |
| Weighted | | | | |
| - by import value | 22.0 | 13.0 | 14.5 | 14.5 |
| - by domestic production /b | 26.0 | 17.1 | 16.6 | 17.0 |
| Index of dispersion /c | 61.5 | 107.8 | 90.0 | 84.4 |

/a "Pre-1985" refers to the 1983 Tariff Law in effect from 1983 to 1985; 1985 reflects rates in effect after the 1985 reform; 1988 refers to rates in effect after the November 1988 package; and 1989 refers to the Harmonized System as provided by the Department of Finance in February 1989. Tariffs are inclusive of surcharges and specific duties have been converted to ad valorem equivalents.

/b Based on a sample of 1,200 tariff positions.

/c Measured by the coefficient of variation.

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

deregulation packages. These changes have focused on raising some tariff rates to compensate for the removal of NTB protection, and lowering other tariff rates to offset the effect of the September 1986 devaluation and to reduce the costs of imported inputs that are not produced locally. In some instances, a surcharge was also imposed to provide additional, but time-bound, protection to products moved off NTBs.13/ The surcharge provision has also acquired a second function, in that it has been increasingly used as a de facto anti-dumping measure. In this instance, products are designated as surchargable but the rate can initially be set at zero. Another important characteristic of the changes since 1985 is the introduction of split-tariff positions. In many cases these have been used to maintain protection to sub-groups of products produced domestically. The overall result of the changes since 1985 has been a gradual decline in the index of dispersion, from 108 to 84, with little impact on the overall average tariff rate. The overall dispersion index has declined primarily because the ad valorem equivalent of specific duties have declined over time (due to the effect of inflation and devaluation) and some specific duties have been replaced with ad valorem rates as part of the deregulation packages. This has not resulted in a corresponding reduction in the average tariff rate because of the offsetting effect of the aforementioned increase in tariff rates (including surcharges) associated with the move away from NTBs. In addition, split-tariff positions and surcharges have increasingly been used to tailor assistance to suit the requirements of some domestic industries.

3.16 A second important change in the tariff schedule occurred on January 1, 1989 when Indonesia converted from the CCCN classification system (about 5,500 tariff positions) to the new Harmonized System (about 9,000 tariff positions).14/ In making this conversion, the intention was to leave the basic structure of the tariff schedule unchanged. However, the Government did use the opportunity to reduce the number of tariff positions with specific duties from 498 under the 1988 CCCN schedule to 19 in the 1989 HS schedule.15/ This has greatly improved the transparency of the tariff schedule. Before this conversion, the ad valorem equivalent of specific duties ranged from as low as 10% up to 100%. In the new HS system most of the specific duties have been replaced with ad valorem rates in the 50% to 60% range. As a result, the move to ad valorem rates has reduced the overall dispersion of tariff schedule but has also resulted in a clustering of tariff rates at the top of the tariff range (see Graphs 3.1 and 3.2). A negative aspect of the new HS tariff schedule is the increased prevalence of surcharges and the continued use of split-tariff positions. With regard to surcharges the number of items with a non-zero surcharge has increased from 180 in 1988 to at least 231 in the new

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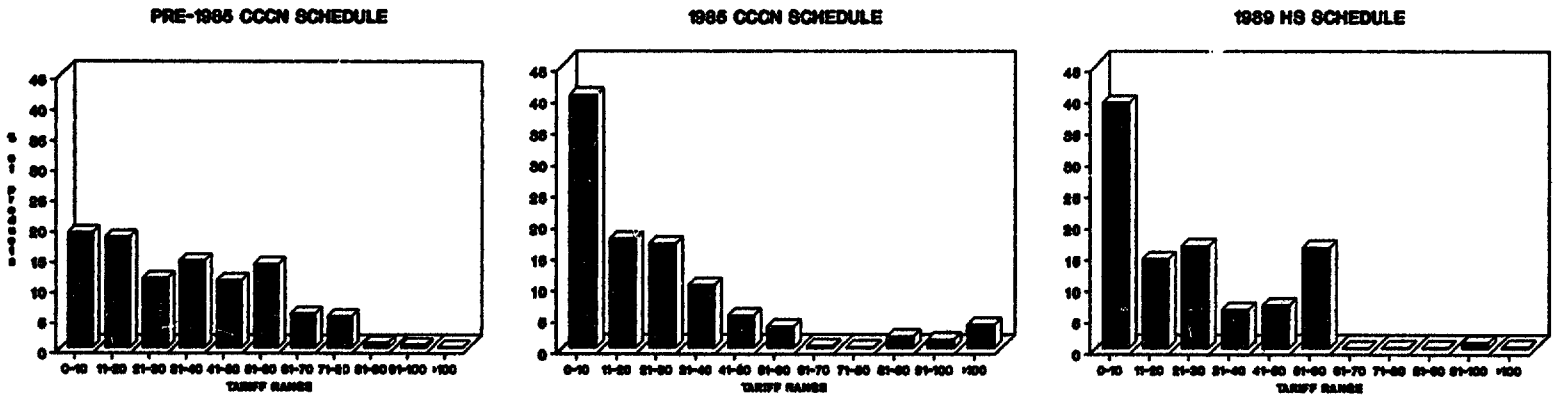
13/ It is the Government's intention that surcharges should automatically expire after one year, unless a valid case can be presented for their renewal.

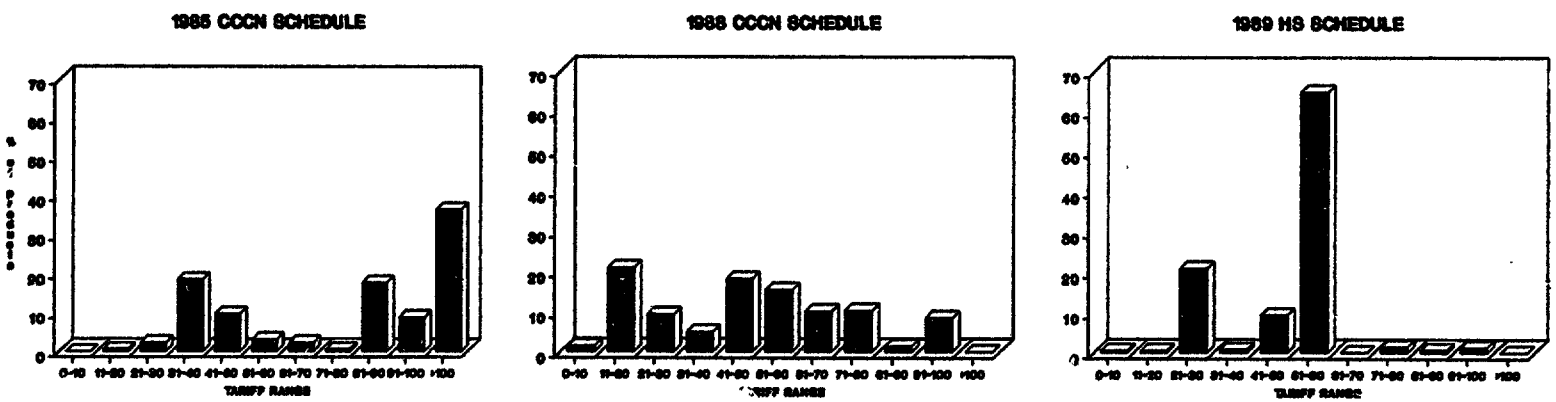
14/ This is in response to a GATT sponsored initiative to convert all member countries to a standard system for classifying traded goods.

15/ The remaining 19 specific duties apply to a subgroup of rubber tyres.

## GRAPH 3.1: CHANGES IN THE TARIFF SCHEDULE, 1985-1989




## GRAPH 3.2: CHANGES IN SPECIFIC RATES, 1985-1989




Specific rates shown as ad valorem equivalents for 1985 and 1988 CCCN schedule

HS schedule, with the average surcharge rate increasing from 22.3% to 24.3%.16/ Surcharges are most commonly used for manufactured goods (e.g., basic iron and steel, metal products, organic chemicals, and food and beverages) and have often been applied on those products that already have above average ad valorem tariff rates. As shown in Table 3.4, there continues to be a very wide dispersion of tariff rates both between and within sectors, with an overall bias against agriculture. The disparate structure of the tariff

Table 3.4: LEVEL AND DISPERSION OF TARIFFS IN BROAD SECTORS, 1985 AND 1989

| | 1985 CCCN Schedule | | | 1989 HS Schedule | | |
|---|---|---|---|---|---|---|
| | Average Tariff | | Index of Dispersion | Average Tariff | | Index of Dispersion |
| | UNW (%) | WGT (%) | | UNW (%) | WGT (%) | |
| Agriculture | 17.4 | 2.9 | 69.1 | 16.9 | 4.2 | 69.3 |
| Mining | 4.6 | 1.0 | 87.6 | 4.5 | 1.0 | 89.7 |
| Manufacturing | 28.4 | 13.8 | 105.6 | 25.5 | 15.4 | 82.9 |
| A. Manufacturing sectors: | | | | | | |
| - Food, bev, tobacco | 36.6 | 15.6 | 86.4 | 28.4 | 15.0 | 61.3 |
| - Textile & leather | 56.0 | 30.7 | 74.0 | 44.0 | 31.9 | 43.9 |
| - Wood & products | 29.6 | 40.1 | 46.6 | 30.8 | 40.0 | 41.6 |
| - Paper & printing | 21.6 | 17.3 | 62.9 | 20.3 | 10.4 | 65.9 |
| - Chems, petrol., coal | 17.0 | 6.8 | 137.7 | 16.7 | 7.3 | 113.5 |
| - Non-metal minerals | 35.5 | 15.8 | 86.9 | 34.1 | 16.8 | 63.4 |
| - Basic metals | 10.4 | 8.4 | 71.8 | 11.7 | 9.4 | 112.5 |
| - Metal prods., machin. | 19.6 | 16.9 | 93.6 | 20.3 | 19.7 | 99.4 |
| - Other manufacturing | 32.0 | 26.1 | 54.9 | 34.1 | 29.7 | 49.0 |
| B. Manufactured products: | | | | | | |
| - Consumer goods | 46.3 | 31.9 | 77.1 | 39.1 | 31.3 | 53.6 |
| - Intermediate goods | 14.7 | 9.4 | 85.9 | 15.4 | 9.9 | 91.7 |
| - Capital goods | 17.2 | 13.1 | 130.4 | 16.4 | 16.3 | 103.7 |

Key to Table:
UNW = Unweighted average tariff.
WGT = Weighted average, using import weights.

Source: Ministry of Finance and Central Bureau of Statistics.

16/ Those goods that have been declared surchargeable, but had the surcharge set at zero are not included. The estimate for the HS tariff schedule excludes a further 100 surcharges that have been included in two recent addendums. This is because it is unclear whether these addendums supersede the new HS tariff book.

schedule at the sector level is exemplified in the basic metals sector where the proliferation of surcharges and split-tariff position since 1985 has resulted in a sharp jump in the index of dispersion. Finally, exemptions from tariffs can also be given on a special case basis to particular traders, which further increases dispersion and allows for administrative discretion.

3.17 In conclusion, the changes made in the tariff schedule since 1985 have had two very important positive features. First, the greater reliance on tariff rates at the expenses of import licensing and specific duties has made the trade regime more transparent. Second, the reduced number of tariff positions with tariff rates above 60% has lowered the overall dispersion of the tariff schedule. On the negative side, the increased prevalence of split-tariff positions and surcharges has resulted in greater disparity between and within some sectors. This move away from uniformity at the sector level is compounded by the remaining import license restrictions (which tend to raise the level of protection above the nominal tariff rate) and the high proportion of imports exempt from import duty.17/ The resulting wide range of protection across sectors and within industries will restrain the way in which the Indonesian economy adjusts to current economic conditions, including its ability to increase non-oil exports.

3.18 The foregoing analysis strongly suggests that the deregulation effort needs to be broadened to encompass all aspects of the trade regime. One important aspect of this broadening will be to undertake a comprehensive rationalization of the tariff schedule. A lower, more uniform tariff schedule would help encourage the expansion of private sector activities with a greater capability of sustaining efficient export and import-substitution activities. It would also be easier to administer--requiring few if any split-tariff positions--and would reduce the incentive for importers to misclassify or smuggle goods. There is also likely to be a positive impact on tax revenue, due to demand effects and fewer exemptions. With respect to surcharges, consideration needs to be given to instituting a formal anti-dumping mechanism that is consistent with GATT principles. This would enable further rationalization of the tariff schedule, while at the same time providing domestic producers with a safeguard against genuine dumping.18/ Finally, as the experience in many countries shows, the process of tariff reform is complex, particularly if instituted in a series of piecemeal changes. Having made the commitment to move to a more transparent trade regime, the Government needs to build-up its analytical capacity for addressing the complex issues that will arise in the next phase of trade policy reform.

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17/ Although Indonesia's current average weighted tariff is 13%, actual tax receipts are equivalent to an average tariff of 6%. This is because over one half of Indonesia's imports are exempt from duty.

18/ GATT principles require that duties only be imposed to the extent of any dumping margin and that they only be imposed once it has been established that: (a) dumping has occurred; (b) injury has been caused or threatened to a domestic industry; and (c) there is a causal link between dumping and injury.

## C. Domestic Incentives and Regulatory Framework

3.19 Apart from trade-related regulations, the performance of the private sector in the early 1980s was also hindered by a multitude of domestic regulations and procedures. Together with overlapping and unclear jurisdictional mandates at the central and local levels, this approach led to the formulation of excessive and sometimes contradictory regulations. Both foreign and domestic entrepreneurs had to contend with a complex regulatory environment which, together with a protective import regime, stifled competition, inhibited flexibility, encouraged "rent seeking" and retarded productivity improvements. The main elements of the regulatory framework were: a restrictive investment and capacity licensing system; extensive regulations of foreign investment; a proliferation of provincial and local level regulations; and rigid land and labor laws and regulations. Moreover, the corporate legal framework of the country became increasingly outmoded. Beginning 1985, the Government has taken a series of steps to simplify and relax the regulatory framework. Further progress in this area will be essential to sustain the growth of non-oil exports and private investment.

### Investment and Capacity Licensing

3.20 Prevailing restrictions. Until recently, the main instrument of investment licensing was the Investment Priority (DSP) list, which regulated entry into specific lines of activity for both foreign and domestic investors. There were four categories of investment specified in the DSP list: those open to foreign investment; those open to domestic firms seeking incentives;19/ those open to small and medium scale industry and domestic investors without incentives; and those closed to further investment. Prior to 1986, the DSP list often indicated the number of projects for which licenses would be given as well as the permitted capacity.

3.21 Apart from the investment license, a firm had to obtain a number of additional licenses and permits including many at the provincial or local level before it could commence operation. These included: the import and export licences described earlier, a domestic trading license, a storage permit, land rights, location permit, nuisance license (including pollution control approval), building permit, safety permit, tax registration and a permanent operating license. Although many of these licenses served legitimate regulatory concerns, the procedures for obtaining the licenses were complex, and represented a significant barrier to entry in terms of time, money and uncertainty. The entire process often took more than two years from the investment proposal stage. The major problems in obtaining these licenses and permits were: (a) the complexity of application procedures; (b) the lack of institutional coordination, so that investors had to secure approvals at several levels of local government and from various agencies; and (c) weak and inefficient administrative capacity at the local level, including shortages of trained staff in most agencies.

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19/ The incentives provided to domestic investors in this category (and to all foreign investors) are exemptions from import duties on capital equipment and the equivalent of two year's supply of raw materials.

3.22 Foreign firms wishing to invest in Indonesia were subject to even more stringent regulations than domestic firms. In addition to generally more restrictive investment licensing restrictions, foreign firms have been treated differently from domestic firms in three respects: (a) minimum initial local ownership and specific regulations on the transfer of the company from foreign ownership to local ownership; (b) prohibition of domestic trading of outputs and marketing of Indonesian export goods as well as restrictions on domestic inputs that could be purchased; and (c) limited access to domestic capital including export finance.

3.23 Although it is not subject to formal investment licensing, primary agriculture also faces a number of significant entry restrictions. In food crops, these restrictions arise from domestic production targeting practices which have led to non-market measures to induce farmers to adopt particular crops. This has been most evident in the case of sugarcane and soybeans. For example, it is estimated that about 150,000 to 200,000 hectares of wet land under sugarcane in Java would be converted to rice if domestic production restrictions were not in force. In treecrops, in addition to the problems in the acquisition of land discussed below, a major entry restriction stems from the PIR-TRANS regulations which requires private investors to serve as development agents for smallholders. Similar provisions apply in the aquaculture sector. These restrictions in primary agriculture have impeded new investment and led to inefficiencies in production.

3.24 Recent reforms. Starting in 1985, a number of measures have been taken by the Government to streamline the investment approval process and relax investment licensing and other controls. In 1985, the maximum number of requirements for an investment application was reduced to 15, compared with 25 in 1984 and 35 in 1977. BKPM's role as a "one-stop" service for foreign and domestic investors was strengthened by giving it executive authority to issue most of the major licenses required in addition to the investment license. In 1986, fields of investment open to private investors were specified more clearly and the number of areas open to foreign and domestic private investment was expanded substantially. A number of further steps were taken in 1987 to relax the investment and capacity licensing system. These included: (a) automatic approval to firms to increase production by up to 30% of their licensed capacity; (b) "broad banding" of investment categories, which promoted greater competition by permitting firms to diversify production and improve their operational flexibility; (c) opening additional fields of investment to domestic and foreign private investors; and (d) streamlining further the requirements for investment licenses, for instance, by extending the validity of the operating license for the entire life of the plant.

3.25 The Government has also taken steps to reduce the impediments to foreign investment. Each of the major packages announced in May 1986, October 1986 and December 1987 included measures to relax foreign investment regulations. As a result of these reforms a number of important changes have been achieved. First, ownership controls have been relaxed by allowing foreign (PMA) firms 100% equity with no divestiture requirements if the production is fully for export, or with an initial equity of 95% if the

investment is in a priority area,20/ and by extending the conversion period to majority ownership in other sectors from 10 to 15 years. Second, firms in priority sectors are allowed to purchase local companies as long as 20% of the equity remains under domestic ownership. Third, the distinction between PMA and PMDN firms has been narrowed by giving PMA firms PMDN status if they have 51% domestic ownership or 45% domestic ownership with 20% of their shares listed on the stock exchange. Fourth, PMA firms have been given equal access to both export credit finance and the swap facility for foreign exchange cover. Finally, marketing restrictions on foreign companies have been eased substantially. PMA firms are allowed to market export goods freely, and foreign firms are allowed to form joint ventures for export marketing with Indonesian partners. The limited purchase license was eliminated so that PMA firms can purchase domestic inputs without restriction, and under the November 1988 package, foreign companies are allowed to establish joint ventures to sell their products in domestic markets as well. These measures have responded to many of the concerns expressed by foreign investors and significantly reduced the differences in treatment between PMA and non-PMA firms.

3.26 The above deregulation measures in conjunction with sound macroeconomic policies have already had a strong positive effect on both domestic and foreign private investment. Domestic investment approvals by the Investment Authority (BKPM) which had sagged since 1983, rose by 134% in 1987 and a further 45% in 1988. Similarly, after recording a sharp and steady decline since 1983, foreign investment approvals in dollar terms rose by 76% in 1987 and a remarkable 300% in 1988 to US$4.4 billion, a level that surpasses other East Asian economies. Moreover, unlike the 1970s and early 1980s when much of private investment was oriented towards import substitution, the bulk of the new investment approvals are directed towards export activities.

3.27 Despite the actions taken and the encouraging trend in investment, the incomplete coverage and non-transparent nature of the DSP list allowed considerable discretion and restrictiveness in investment licensing. The new investment package announced in May 1989 is, therefore, a very important step in the relaxation of the investment licensing system and marks a fundamental shift in the approach to investment licensing. Through this package, the Government has replaced a long and incomplete list of areas open to investment approval by BKPM with a short negative list. In formulating the negative list, there has been a conscious attempt to keep the number of restricted sectors to a minimum and to remove the ad hoc conditions that had been introduced previously. There are two additional important features of the new list: first, it does not distinguish between domestic investment that can be processed by BKPM (PMDN investment) and non-PMDN investment for which discretionary approval was required; and second, in the industrial sector, all areas that are open to domestic investment are also open to foreign investment.21/ As shown in Table 3.5, the result is that many more areas are now open to foreign (PMA) and domestic (PMDN) private investment and that the areas restricted are specified

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20/ Priority investments have been defined as those meeting any of the following criteria: located in specified regional locations, with a 65% export orientation, involving high technology fields or with a project cost exceeding US$10 million.

21/ There are, however, differential restrictions on foreign investment in agriculture and other sectors.

Table 3.5: SUMMARY OF INVESTMENT RESTRICTIONS IN THE INDUSTRIAL SECTOR
(Number of Investment (KKI) Categories)

| | 1987 DSP List | New Negative List |
|---|---|---|
| PMA investment | | |
| Open | 3,172 | 6,560 |
| Restricted /a | 1,801 | 165 |
| Not specified /b | 1,752 | 0 |
| PMDN investment | | |
| Open | 4,062 | 6,560 |
| Restricted /a | 911 | 165 |
| Not specified /b | 1,752 | 0 |

/a Closed or subject to restrictions.
/b Not specified in the DSP list.

Source: BKPM and World Bank staff estimates.

more clearly. By opening the vast majority of investment categories to PMA and PMDN investment, and by specifying clearly the areas in which the Government intends to regulate investment, the new investment list will systematize and extend the relaxation in investment licensing, increase transparency and reduce the scope for discretion. This will lead to a more favorable and stable investment climate for private investors.

3.28 The remaining policy agenda. The adoption of a negative investment licensing list will also provide a clear cut framework for reviewing the validity of remaining restrictions. In addition to the sectors still restricted in the BKPM list, it would be important to review the restrictions that limit entry only to small scale manufacturing. Although these restrictions are loosely applied, elimination of a large proportion of these restrictions is warranted in the current environment and will lead to a further simplification of the investment licensing system. Eventually only a few activities would be regulated on national security or social grounds. It is also important to review the scope for further reduction in requirements for license approval. For instance, with the shift to a negative DSP list, the capacity expansion license, which is required for capacity expansion of more than 30% of authorized capacity, could be dropped. To facilitate investment processing, the authority for investment approval could be decentralized by raising the floor for which investments can be approved locally (at present only Rp.100 million or US$57,000).

3.29 With regard to foreign investment, the remaining areas of concern are: (a) ownership restrictions, which may still hinder new investment and the expansion of existing firms; (b) restrictions on export-oriented firms which are still greater than neighboring countries; (c) land usage and other

restrictions which impede foreign investment in export-oriented agricultural products; and (d) remaining restrictions on domestic marketing by foreign firms.

3.30 To date there has been less attention given to local level regulations, since focus has been concentrated on the nation-wide framework. With progress on the latter, greater attention will have to be given to the problems at the provincial level. A major overhaul of local level regulations is needed to make the system timely and transparent. This is likely to be a time-consuming and difficult process, since practices vary among provinces and there is often limited administrative capacity at the local levels. Accordingly considerable attention will have to be given to streamlining existing regulations and practices, while also developing institutional capacity. Among the steps that could be taken to streamline and simplify the local regulatory process are: (a) enhancing the coordination role of Regional Investment Coordinating Boards (BKPMDs) by giving them an expanded mandate to issue local licenses; (b) enforcing the already prescribed processing time limits; (c) eliminating redundant permits such as the land reservation permit; and (d) decentralizing authority so that there is no need to obtain approval for the same permits at more than one level of government.

Land and Labor Regulations

3.31 The laws governing land ownership are extremely restrictive in Indonesia and the procedures for acquiring, registering and obtaining a title to land are complex. Despite the Basic Agrarian Law of 1960 which was intended to end the duality of land laws established in the colonial period, a substantial proportion of land in Indonesia remains unsurveyed, unregistered and untitled, and is governed by traditional (or the adat) law. Thus, less than a quarter of agricultural land is properly titled or registered. Even the land that is officially registered is subject to several types of land rights with varying degrees of tenure. Private corporations (both domestic and foreign) are not allowed to have right of ownership of land; this right is confined to private Indonesian individuals and government entities. Agricultural lands for plantations are usually given the Right of Exploitation (HGU), whereas factories and business premises usually have the Right of Building (HGB). The maximum time limit on these land rights are 20 to 30 years. The short duration of these land rights (although extendable) creates considerable uncertainty. The acquisition of land can be also very costly and time consuming.

3.32 It is clear that fundamental changes are needed in land laws and procedures. The Government recognizes the seriousness of the situation and has recently created a new agency for land directly under the President. A thorough review of land regulations and practices is needed now to draw up an action program for reform. Such a program of reform could include: (a) an intensive program to complete cadastral surveys and to register and to title land; (b) streamlining of procedures for land acquisition; (c) clarification of the role of the new land agency and strengthening of its institutional capacity at the central and provincial levels; and, (d) relaxation of ownership restrictions and clarification of tenure rights.

3.33 There are five main areas of labor regulations in Indonesia: (a) protection and supervision of workers that includes specific regulations on hours worked and overtime, and, wages and worker welfare; (b) reporting requirements by the company; (c) safety and health standards; (d) hiring, retrenchment and movement of labor between provinces; and (e) employment of expatriate workers. Taken together, these regulations add to costs and reduce operational flexibility. For example, the retrenchment laws discourage employment at the margin and act as an entry barrier to firms. Many of the stated objectives are not met because of lack of enforcement capacity. There are also many superfluous regulations and reporting requirements which need to be reviewed. Accordingly, it will be important to revise labor regulations to focus on a few key social objectives and allow greater flexibility to Indonesian firms to respond to world and domestic market conditions.

Local Content Programs

3.34 Over the last three years, the Government has modified its approach to local content or deletion programs that presently cover a range of products in the engineering, transport equipment and electronics sectors.22/ No new programs have been established since 1986, many programs have had their timetables extended, and modifications have been introduced to make the programs more flexible, for instance by allowing "multi-sourcing" of parts. Nevertheless, the detailed control and import approval required by existing programs are still of concern.

3.35 In order to make the deletion programs more flexible and less subject to discretion, two types of adjustments need to be considered. First, as part of wider trade deregulation, import bans and import licensing restrictions need to be eliminated for both final products and on spare parts and components. Second, the detailed specification of master-lists (that set out the deletion timetable at the firm level) could be replaced with a more generic system of tariff-based protection that balances the interests of the final products and component industries. As intermediate steps, deletion timetables could be further lengthened and the consultation process between domestic producers and the Government could be strengthened so as to avoid overly rigid schedules and costly substitution of inferior local components. The eventual shift of deletion programs to a time-bound and rationalized system of tariff protection will greatly facilitate the operational flexibility of producers, reduce disincentives to new investment and encourage efficient development of these industries within an increasingly complex industrial structure.

Corporate Legal Framework

3.36 A well-functioning legal system is an important prerequisite if the shift towards a less government regulated environment for the private sector is to be successful. The Indonesian legal system falls far short in this regard. Most basic laws date back to the colonial period and have not been

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22/ Currently, the following product groups are subject to local content programs: (a) motor vehicles (deletion for passenger vehicles is voluntary); (b) heavy equipment; (c) mini-tractors; (d) engines; (e) consumer electronics; (f) agricultural machinery; (g) professional electronic equipment; (h) machine tools; and (i) pumps.

reformulated in the face of changing conditions. There are also notable gaps in the legal framework, for instance, on intellectual property rights and the legal and accounting framework for financial transactions (see para 3.41 below). As a result of the general character of most statutes, implementation is often dependent upon subsequent regulations and decrees. The most important weakness in the legal system is enforcement, with a complicated court process, that lacks transparency and precedents. Nor are their any effective arbitration mechanisms outside the court system. Addressing these shortcomings is necessarily a complex and time consuming task that will require substantive revisions of laws, reform of legal procedures and reorientation of institutions. To ensure that the legal system does not become a major constraint to the deregulation process, it is critical that reform of the legal system be revitalized. Many "process" changes can be made easily while the substantive revisions in the laws are being worked out. But, equally importantly, administrative reform of the court system will be required if the laws are to be implemented in an effective manner.

## D. Support Services

3.37 An important requirement for the rapid development of the private sector is the concomitant development of financial services and improvements in basic infrastructure. With respect to financial services, the future demand for funding by the private sector is expected to greatly exceed current levels as the economy responds to changes in the incentive and regulatory framework and a larger share of activity shifts to the private sector. The projections presented in Chapter 2 indicate that total private investment (fixed investment plus changes in stock) in current prices will grow from about Rp.17 trillion in 1988 to Rp.49 trillion by 1995. Clearly, mobilizing resources for long-term loan and equity funding of private investment, in addition to meeting growing working capital needs, will pose a significant challenge for the financial sector. Furthermore, the growth of non-oil export activities and the emergence of new private industries will require changes in financial practices such as cash-flow rather than asset-based lending, increased access to venture capital and equity, and more rapid credit processing. With regard to the provision of basic infrastructure, the public sector will continue to play the dominant role, but there is an interest in encouraging an expanded role for the private sector in selected areas, particularly transport. The progress that has been made in the provision of financial and transport services, and the scope for further reform, are discussed below.

### Financial Services

3.38 Structure of the financial sector. About 40% of Indonesia's private savings are currently intermediated by the financial system. The level of financial development measured by M2/GDP, which was 32% in 1988, is low compared to other Asian nations. The deposit to money ratio, however, is relatively high indicating a significant use of demand deposits as a means of payment. As in many other developing countries, the Indonesian financial

sector is dominated by its banking system which controls over 85% of all financial assets in the organized sector (see Table 3.6). Indonesia has a small stock market with 24 listed companies and a few bond issues, and an over-the-counter (OTC) market that recently began operations.

Table 3.6: STRUCTURE AND GROWTH OF ORGANIZED FINANCIAL SECTOR, 1982-87

| | Number | | Gross assets (Rp. tril.) | | Share of assets (%) | | Asset growth (% p.a.) |
|---|---|---|---|---|---|---|---|
| | 1982 | 1987 | 1982 | 1987 | 1982 | 1987 | 1982-87 |
| Bank Indonesia | 1 | 1 | 13.7 | 35.5 | 42.2 | 32.8 | 21.0 |
| Deposit money banks | 115 | 110 | 15.9 | 59.6 | 49.0 | 55.1 | 30.2 |
| - National FX banks | 15 | 15 | 12.7 | 48.5 | 39.1 | 44.8 | 30.7 |
| - Foreign banks | 11 | 11 | 1.2 | 2.8 | 3.7 | 2.6 | 18.5 |
| - Other commercial banks | 61 | 56 | 0.7 | 4.4 | 2.2 | 4.1 | 44.4 |
| - Development Bank /a | 28 | 28 | 1.3 | 3.9 | 4.0 | 3.6 | 24.6 |
| Non-bank intermediaries /b | 14 | 14 | 0.8 | 2.3 | 2.5 | 2.2 | 23.5 |
| Savings banks | 3 | 3 | 0.5 | 2.0 | 1.5 | 1.9 | 32.0 |
| Insurance companies | 83 | 102 | 0.7 | 3.5 | 2.1 | 3.3 | 38.0 |
| Leasing companies | 34 | 83 | 0.1 | 1.7 | 0.3 | 1.6 | 76.2 |
| Pension funds /c | 78 | 154 | 0.7 | 3.2 | 2.1 | 3.0 | 35.5 |
| Other credit /d | 5,809 | 5,789 | 0.1 | 0.4 | 0.3 | 0.3 | 32.0 |
| All institutions | 6,137 | 6,256 | 32.5 | 108.2 | 100.0 | 100.0 | 27.2 |

/a Including 27 regional development banks.
/b Investment and development finance companies.
/c Excludes pension funds that are not registered with the Ministry of Finance.
/d Village, paddy, petty traders' and employees banks, and state pawn shops. Excludes assets of foundations and informal financial institutions, for which estimates are unavailable.

Source: Bank Indonesia, Ministry of Finance and World Bank staff estimates.

3.39 An important structural characteristic of the financial industry is the high degree of concentration across all segments and the extent of public ownership of financial institutions. Table 3.7 shows that the five largest institutions manage between 65-75% of assets in each line of business with the

Table 3.7: ASSET CONCENTRATION IN THE FINANCIAL SECTOR, 1982-1987

| | Number of Institutions 1987 | Five-Institutions Concentration Ratio /a 1982 | 1987 |
|---|---|---|---|
| Banks | 80 | 80.4 | 74.9 |
| Insurance companies | 84 | 60.7 | 64.4 |
| Leasing companies | 83 | 83.1 | 30.9 |
| Pension funds | 43 | - | 65.5 |
| NBFI | 12 | 69.0 | 69.0 |

/a The proportion of assets held by the five-largest institutions in each major segments.

Source: Bank Indonesia, Ministry of Finance, and World Bank staff estimates.

exception of leasing. The Government owns the five largest banks and is directly or indirectly involved in the ownership of institutions in every segment of the industry. With the possible exception of India, Indonesia has the largest public financial sector in Asia.

3.40 The asset and liability structure of the banking system is biased towards short-term instruments. For example, in 1987, 30% of deposits were demand deposits, 65% were time deposits (almost all in maturities of 12 months or less) and 5% were savings deposits. In line with the short-term deposit base, loans were also primarily short term. In 1987, 62% of loans were granted for up to one year, 7% for 1-3 years and 31% for 3 years and over. A significant proportion of bank lending for priority sectors is refinanced by BI at preferential rates. Depending on the priority attached to the borrower's activity, commercial banks can refinance 65-100% of their loans with BI at rates as low as 3%, which are on-lent to borrowers at rates as low as 12%. This facility, known as liquidity credits (LC), constitutes a significant subsidy to both the intermediary and the borrower in most cases. During 1988, LCs constituted around 20% of new credit to public enterprises and the private sector.23/ The bulk of these credits is channelled through the state commercial banks. The LC programs have induced significant distortions in the financial sector and complicated monetary management. The main problems are: (a) they provide a subsidy to the intermediary and borrower, which creates a disincentive for the intermediary to seek long-term deposits and for the borrower to issue equity; (b) LCs fragment the financial markets by creating differential costs for borrowers with similar risk and maturity profiles; (c) they affect the relative price of long-term funds (credit, bonds, equity) by exogeneously increasing the supply at a "subsidized price"; and (d) LCs make reserve money management difficult because they represent an open-ended injection of high-powered money.

23/ In addition, direct credit from BI increased by Rp.134 billion between November 1987 and November 1988.

3.41 The lack of mature legal and accounting systems is also a major impediment to financial sector development. There are no requirements for non-financial private firms--except the 24 companies listed on the Jakarta Stock Exchange--to lodge financial statements for registration with a statutory body or to conduct audits. Compliance with generally accepted auditing practices is patchy, and the reliability of accounting information is questionable. The lack of transparency and consistency in financial data is a major element in raising the risk, and therefore the cost of transactions. This problem is compounded by regulations which have not kept pace with business practices, and by unpredictable implementation. As a result, simple legal issues can become major hurdles. For example, enforcing collateral requirements is often a complex, expensive process, with no certainty of being really secure. This, in turn, can restrict the volume of finance extended by intermediaries.

3.42 Policy developments. In June 1983, the Government initiated a reform program that deregulated state bank interest rates, replaced credit ceilings with a system of reserve money management and simplified interest rates on subsidized credit at a higher average rate. These reforms spurred a rapid expansion in deposits and to a limited extent helped stimulate competition among banks. Financial assets held by the banking system rose from 18% of GDP in 1982 to 29% in 1987, and private banks increased their market share in spite of regulatory curbs on their expansion. In addition, the range of non-credit financial services widened with the establishment of several new insurance and leasing institutions.

3.43 Although deposits increased substantially after 1983, success in other areas was limited and several important issues remained. First, despite the reforms, competition remained weak due to regulatory restrictions on operations and entry barriers. As a result, efficiency of the financial sector has been low, partly reflected in relatively high intermediation costs. Second, the state banks continued to dominate the banking system partly because: (a) regulations covering branching, capital adequacy, loan-loss provisions, etc. favored them; and (b) they had preferential access to deposits from public enterprises. Third, the expansion of LC lending kept the financial market fragmented and adversely affected long-term funds mobilization. Fourth, the ability of state banks to refinance a substantial proportion of their loans with BI at a subsidized rate resulted in perfunctory credit analysis and poor loan portfolios. Finally, the legal and accounting framework for the financial sector remained weak.

3.44 The 1988 policy reforms. The Government announced major financial sector reforms on October 27 and December 20, 1988 to address some of these issues.24/ The main objectives of these measures were to enhance financial sector efficiency by encouraging competition and increase the availability of long-term finance by promoting the development of the capital market. Steps were also taken to improve the stability of the financial system, by strengthening prudential regulations and monetary control. The specific measures included: (a) permitting the entry of new private banks, including joint ventures with foreign banks; (b) allowing domestic banks to open branches throughout Indonesia and NBFIs and foreign banks to open offices in seven major cities; (c) permitting new rural banks to be established in districts outside the capital; (d) easing the requirements to become a foreign exchange bank;

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24/ Some of these measures were subsequently clarified on March 25, 1989.

(e) allowing state enterprises to place up to 50% of their total deposits with private banks and NBFIs; (f) allowing NBFIs to issue certificates of deposit; (g) levying a withholding tax of 15% on time deposits and certificates of deposit, with eliminated the discrimination against other securities market instruments; (h) establishing an OTC (as announced in late 1987) to enable smaller firms to issue shares; (i) allowing the private sector to operate stock exchanges in Jakarta and other major cities; (j) permitting banks and NBFIs to raise capital from securities market; (k) simplifying the entry into insurance, leasing, consumer finance, venture capital and securities activities; (l) defining loan concentration ratios for banks and NBFIs that limit lending to a single borrower or group; (m) specifying minimum capital requirements for banks and NBFIs and solvency ratios for insurance companies; (n) eliminating differential reserve requirements for banks and liability categories by establishing a uniform and lower rate of 2%; (o) extending the maturities on monetary instruments and taking steps to develop the secondary market; and (p) relating the reswap premium on foreign exchange transactions to interest rate differentials.

3.45 These actions represent a dramatic departure from the past when regulations facilitated the domination of state banks and prevented the development of other segments of the financial market. The relaxation of entry barriers will allow the private sector, domestic and foreign, to compete with public financial institutions on a more equal basis. The resulting gain in efficiency, together with the lower reserve requirements, will reduce intermediation costs and improve banking practices. While implementation of these changes will obviously take time, there are already signs that the financial sector will be significantly altered. In response to the new measures, there have been a large number of applications for setting up new banks. As of end-February, licenses had been approved for 7 new national commercial banks, 3 joint ventures with foreign banks and 47 secondary banks. Several foreign banks are considering opening branches. In addition, activity on the Jakarta Stock Exchange has picked up sharply since October and the first issue on the new OTC market was successfully completed in early 1989.

3.46 Remaining agenda. As a result of these measures, the financial sector is expected to undergo a major restructuring over the next few years, with increased competition over a broad range of financial services among a larger number of institutions. The immediate priority for follow-up is therefore to strengthen further the Government's capacity for prudential regulation, especially in the area of bank supervision. Prudential regulations will need to apply evenly to state and private banks and include: (a) limitations on the ownership of newly licensed banks by an individual or group; (b) reexamination of capital adequacy requirements to include off-balance sheet items such as contingent liabilities; (c) more stringent guidelines for income recognition; (d) strengthening the link between asset quality and loan loss provisions and allowing full tax deductibility of provisions expense; and (e) clearly defining BI's capability to intervene in problem institutions prior to insolvency. It will be important to strengthen BI's ability to supervise a growing number of institutions by:
(a) rationalizing the data collection and information retrieval systems for off-site surveillance; (b) requiring standard financial reports based on agreed accounting principles; (c) basing bank ratings on examination reports, off-site surveillance data and judgemental factors rather than just compliance with regulations; and (d) relating frequency of BI examinations to

institutional risk. These requirements for sound prudential management are fully recognized by Bank Indonesia and a program of improved bank supervision is underway with technical assistance from the IMF and ADB.

3.47 With increased competition it will become even more important to conduct audits of the state commercial banks to assess the true condition of their portfolios, estimate losses and reconstitute their capital before further deterioration occurs. The recapitalization would provide an opportunity to reduce government ownership by issuing shares to the public through the stock markets. This action will need to be complemented by increasing the management autonomy of state banks and gradually delinking their renumeration from civil service scales. At the same time, some of the associated NBFIs could be privatized. Early action is also required to improve the legal and accounting systems for the financial sector. As a priority measure, BI will need to implement the proposed collateral registration system to cover all banks and NBFIs and consider establishing a credit information system. In addition, BI's chart of accounts for banks and NBFIs also needs to be reviewed and updated to facilitate effective supervision. Finally, the recent steps to boost capital market activities are an encouraging development to support the availability of long-term finance. In addition, the Government is committed to reducing the role of the LCs. While reforming LC programs is crucial for promoting capital markets, specific actions will have to be studied carefully and implemented gradually to avoid market disruptions.

Transport Services

3.48 For many years, the transport sector, especially the maritime subsector, was highly regulated, with controls on freedom of entry, market segmentation, investment choice, tariffs, route structures and other operational decisions restricting private sector participation, impairing efficiency and flexibility, and thereby raising costs. The Government took the first major step towards correcting the regulatory problems in the maritime subsector in April 1985. This reform streamlined customs procedures, opened all sizeable seaports to international shipping, amended port management arrangements, and removed tariff controls on domestic sea cargos. The measures had an immediate positive impact, with cargo clearance and ship turnaround times reducing substantially, freight rates for exports and imports declining markedly on many routes, and the quality of services to shippers and consignees improving as international services were extended to more ports. The performance of the national shipping industry, however, continued to be constrained by excessive controls, which had been further exacerbated in 1984 by the introduction of a policy of compulsory scrapping of ships beyond a certain age. This had a serious impact on domestic general cargo shipping by considerably reducing fleet capacity and causing several lines to cease operations. The result was considerable uncertainty within the industry and continued poor service at high cost.

3.49 In 1988, the Government introduced further sweeping reforms to address these concerns. The suspension of the compulsory scrapping policy in February 1988 was followed by the announcement, on November 21, 1988, of a second major package of maritime reforms which: (a) reduced the number of types of shipping business licenses from five to two; (b) relaxed vessel ownership requirements applying to shipping business licence issue;

(c) permitted national and foreign lines to establish joint venture companies to serve domestic and international routes; (d) eliminated the requirement for shipping lines to possess a separate operating license; (e) freed non-shipping companies to undertake the sea transport of their own products and raw materials without a shipping business license; (f) permitted shipping lines to determine their own route structures, vessel assignments and sailing frequencies without government approval; (g) permitted national lines to charter foreign flag vessels without government approval; (h) allowed Indonesian entities to buy or sell Indonesian flag vessels without government approval and removes controls on vessel docking; and (d) lifted the freeze on the issue of shipping business licenses--in effect since 1976--and simplified and streamlined the license application process.

3.50 By reducing and simplifying business licensing procedures, by allowing shipping lines to determine their own route structures and schedules, and by easing entry by both foreign and domestic companies, this comprehensive set of reforms has removed most regulatory impediments to the development of an efficient and responsive maritime transport industry. As a result, Indonesia now has a more open and unregulated shipping industry than most maritime nations. Although it is too early to assess the full impact of these measures, there are already indications that the shipping industry is beginning to respond in ways which will stimulate competition and greatly benefit its users. The Government is working to ensure that the recent reforms are implemented properly and to establish appropriate arrangements for monitoring their operation. Attention now needs to turn to modernizing and strengthening the regulations concerning maritime safety and pollution and, equally importantly, to improving enforcement effectiveness in these areas.

3.51 The next priority for regulatory reform is in the road transport subsector, where the key regulations date back to the mid-1930s and have since been subjected to frequent piecemeal amendments. Here the problems caused by excessive economic regulation--which is exercised principally through business and route licensing procedures and tariff controls--are compounded by poor delineation of the responsibilities of the many central and regional government agencies involved in administration and enforcement. Their impact is most evident in the passenger transport field, and particularly in urban bus services, although road freight transport is also affected to a lesser extent. Regulations pertaining to vehicle weights and dimensions limits, which are intended to protect public road infrastructure from excessive damage by heavy commercial vehicles, also have an important bearing on road transport system efficiency and costs, and the limits presently applying to the key interurban links have already been shown to be too low. The required increases, however, will need to be harmonized with road construction standards and changes in the road user charge regime,25/ and should be introduced progressively in line with a publicized program of road and bridge improvements which will provide a basis for planning within the vehicle assembly and road transport industries. The Government is currently developing a modern and comprehensive body of road traffic and transport regulations, which is also expected to provide for substantial improvements in areas pertaining to safety. The implementation of these regulations are of high priority. Attention also needs to be given to establishing a more satisfactory regulatory regime for public road transport and a clearer and

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25/ This is reviewed in Chapter 4.

more appropriate division of responsibilities for road traffic and transport matters between central and regional government agencies.

3.52 Special attention needs to be directed to the road transport of agricultural products, where marketing costs have been increased by local regulations affecting their overland movement, particularly outside Java. These include the issuance of movement permits for ex-village removal of agricultural goods (Ijin Pengeluaran Hasil Bumi), passage fees at village, district and regency borders, and informal fines for overloading trucks. Recent case studies suggest that such levies may account for as much as 50% of the overland transport cost for low-value agricultural produce. Such levies are generally highly regressive in that agricultural commodities and distant producing regions are taxed more heavily than are higher-value commodities or producing regions located near urban consumption centers. It is important, therefore, to extend the deregulation efforts down to the lowest administrative levels.

## E. Environmental Management: An Update

3.53 Introduction. While the efficient development of the economy implies a policy of deregulation in the industrial, trade and financial sectors, ensuring the sustainability of this development will require more active government involvement in the management of the environment. Indonesia's major environmental problems are primarily related to population growth and spatial patterns of development. Pressures on land and forest resources are expected to intensify, particularly in the Outer Islands. Furthermore, industrialization and increasing population densities along Java's north coast are resulting in shortages of clean water in the rivers flowing through the major cities of Indonesia. The non-oil export drive will intensify these trends. Timber and tree crop exports will continue to provide substantial export revenues and manufactures will be the fastest growing export items.

3.54 Related issues of environmental management were reviewed in last year's Economic Report and discussed as the special topic at the 1988 meeting of the IGGI. A fuller discussion is provided in the World Bank report entitled "Indonesia: Forest, Land and Water: Issues in Sustainable Development" (to be issued shortly). In brief, the two key environmental concerns for Indonesia are:26/

(a) Land and forest management on the Outer Islands. If the Outer Islands are to achieve expected growth rates in both timber production and tree crop development, while absorbing smallholders seeking agricultural land, improved forest policies and sound land use decisions will be required.

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26/ There are, of course, many other important environmental issues in Indonesia; management of other critical ecosystems, air pollution, solid waste management, energy conserv[illegible], and conservation of endangered wildlife are a few examples [illegible]nce many of the policy actions recommended are generic in na[illegible], a number of these will address the other issues as well.

(b) Water resource management and pollution control on Java. If the growth of manufacturing and industry on Java is to be sustained, early action to ensure adequate water supplies and to control pollution will be needed.

3.55 Indonesia has a large area under forest cover and these forests are of enormous commercial and ecological value. In spite of the abundance of this forest cover, there is reason for concern. It is estimated that Indonesia's forests are disappearing at a rate of nearly one million hectares per year. While it is difficult to disaggregate the causes of this degradation since logging creates opportunities for smallholder movement onto forested land, Bank estimates suggest that about half of deforestation is from smallholder agricultural conversion, one quarter from development projects, and the rest from poor logging practices and fire. Some of the area converted by smallholders may regenerate into secondary forest, but little of the deforested land will be suitable for timber production. These losses of Indonesia's forest resources stem from a combination of factors, including inadequate regulation and control over forest concessionaires and deficiencies in land allocation and land use planning.

3.56 Although Java is well endowed with rainfall, its rivers are less than 50 km long and very shallow catchments combined with deforestation have increased the variability in run-off and caused water shortages in dry years. Currently, irrigated agriculture is the major user of surface water, but urban and industrial water use is expected to grow rapidly, which may imply increasing shortages of water in the future. The need is becoming acute for protection and conservation of catchment areas and for improved management of river basin resources and their allocation. These shortages of water are being exacerbated by a rapid deterioration in water quality. Pollution in the downstream areas of almost all the north coast rivers has seriously reduced the availability of raw water for municipal and urban uses. Moreover, this water pollution poses an immediate threat to human welfare and industrial growth. Although industrial pollution is less pervasive than human waste, it has far more serious consequences, as toxic substances and heavy metals can become concentrated in the food chain and cannot be removed from water by standard methods of water treatment. Due to the serious health consequences of water pollution from industrial sources and the large percentage of Indonesians (predominantly the poor) who use river water as their primary source of drinking water, efforts to regulate the activities of the private sector are critical both to future growth and human welfare.

3.57 The Government is aware of these issues and has taken several steps in the past year to strengthen institutions and improve policies aimed at ensuring sustainable development. Important changes have been effected to improve environmental management in Indonesia. First, the Ministry of Population and Environment has been reorganized into five divisions. An Assistant Minister for Natural Resource Management is expected to be appointed to develop procedures in spatial planning and to guide the management of critical ecosystems; this will help strengthen land and resource management. Also, an Assistant Minister for the Management of Resource Degradation is to be appointed to promote environmental impact assessments (EIA) and establish pollution control and hazardous waste management. Second, a National Land Agency (Badan Pertanahan Nasional) was formed by removing the Directorate General Agraria and the Provincial Agraria offices from the Ministry of Home

Affairs and making the new agency directly answerable to the President. This new agency can make an important contribution in coordinating land use planning and carrying out land registration. Third, improvements are being made in the management of forestry concessions: the Ministry of Forestry has tightened enforcement over the activities of forest concessionaires through increased inspections, and by reducing the large backlog of uncollected royalties (these have been reduced from about US$80 million to US$20 million). More importantly, the Government introduced a new export tax on sawn timber (with a median rate of around US$40 per cu.meter) in March 1989 and has announced a 150% increase in the reforestration fee (from US$4 per cu.meter to US$10 per cu.meter). A first increase of 75% is expected to be implemented in July 1989 and the remaining will be implemented a year later. The increase in export tax will yield revenue of US$100 million p.a. while the full implementation of the reforestation fees will provide additional revenue of about US$180 million p.a. Finally, an important step was made to address problems of water pollution, when the Government announced in December 1988 its intention to eliminate subsidies on pesticides. In the past, subsidies on pesticides have discouraged traditional methods of eradicating pests and hence, made the integrated pest management program relatively less attractive. The elimination of the subsidy should, therefore, help reduce water pollution from pesticides.

3.58 Nevertheless, a substantial agenda of policy and institutional reforms remains. In land and forestry management, the role of the new land agency regarding forest lands needs to be clarified. There is also a need to complete the geodetic reference system and to undertake a systematic review of land policy covering, inter alia, the appropriate allocation of land for forestry and agriculture and the management of other critical ecosystems. Further tightening of the management of forestry concessions is also necessary. An important opportunity to change the current concession system will arise during the REPELITA V period, as many timber concessions are due to expire in the next five years. Another important step is to ensure that the Government fully collects the fees from forestry concessionaires, in order to discourage the rapid exploitation of the forest and increase revenues. Regarding water pollution, there is a need to enact more realistic and enforceable standards for industrial discharge of waste water. These standards would need to be industry specific, limited to a few easily monitored variables, and based upon the use of the receiving water bodies. The next step is to establish the institutional arrangements for pollution monitoring and control. A strict policy of ensuring that future industrial investments are in initial compliance with environmental regulations needs to be implemented. Furthermore, it will be important to ensure that no firm is granted operating licenses without adequate and properly functioning abatement equipment. For this purpose, the preparation of EIAs for each proposed investment, as currently required under regulation PP29, is critical to ensuring initial and continuing compliance. These EIAs need to be clearly focused on the environmental consequences of the proposed investment and processes for their review need to be firmly established.

# CHAPTER 4

## CHANGING ROLE OF THE PUBLIC SECTOR

### A. Introduction

4.01 Buoyed by higher oil revenues, the role of the public sector expanded rapidly during the 1970s. However, the scope for public sector activity was harply curtailed by the decline in oil prices after 1982. As reviewed in Chapter 1, an austere fiscal policy has been a key element of the Government's adjustment program. This was combined with a redefinition of broad public expenditure priorities to guard against a rapid decline in economic growth due to severe investment cutbacks. Chapter 2 argued that a strong investment effort will be essential to sustain growth over the medium term. Public investment will have to play an important role without which the recovery of private investment and economic growth will be jeopardized. A recovery of public investment is also essential to regain momentum in the Government's poverty alleviation effort. Yet, overall resource constraints coupled with the need to finance private sector investment will limit the size of the public investment program, making public sector efficiency improvements even more imperative. An essential requirement will be to improve the allocation of public spending. This will entail undertaking a careful review of sectoral expenditure priorities, strengthening fiscal planning and budgeting, and improving project implementation capacity. Against a background of clear expenditure priorities, better pricing policies can help to improve investment decisions, raise operational efficiency and effectiveness, and reduce inequalities in public service provision.

4.02 Improving the allocation of public spending and appropriate pricing of public services are two key aspects of a strategy to effectively address the issue of public sector efficiency. A closely related critical element is improving overall management of the public sector. Three key management issues in the context of Indonesia's present situation are: (a) management of public enterprises (PEs); (b) decentralization; and (c) civil service reform. Indonesia has a sizeable PE sector operating in most fields of economic activity. As shown in Chapter 2, the overall financial performance of PEs needs to be strengthened. It will be essential to formulate a comprehensive strategy for PE reform to improve their efficiency and financial performance. These efforts will help to realize the benefits from improved allocation of public spending and better pricing policies, and economic and financial rates of return from many important public investment will improve.

4.03 Due to financial constraints, the Central Government is looking to the local governments to take greater responsibility in financing many development programs from their own resources. A well-managed program of decentralization can provide more opportunities for local initiative in development planning, implementation, and monitoring of public sector programs and projects, and create better accountability while reducing the burden on overstretched central ministries. An effective decentralization strategy will need to be accompanied by important changes in central-local fiscal relations designed to increase financial autonomy of local governments. Appropriate mechanisms will be required to allocate the transfers among regions and to ensure that national priorities are reflected at the local level.

Complementary actions will also be needed to clearly define institutional responsibilities and to develop staffing capacity and interagency coordination at the local level.

4.04 The moves towards increased deregulation, PE reform and decentralization have important implications for the size, structure and functions of the Central Government and its civil service. For example, deregulation in trade, investment and finance has eliminated most of the "control" oriented activities of a large numbers of civil servants. Similarly, a further push towards decentralization will necessitate a shift of important planning and implementation responsibilities to the local government. Moreover, public enterprise reform involving the privatization of some of these enterprises and enhanced autonomy for others will reduce the scope for their operational control by supervising technical ministries. These examples show how ongoing major policy reforms and resource constraints have posed new challenges for the organization and management of the public sector. Accordingly, a major long-term task will be to review the role of some government institutions, combined with continuous efforts to improve the civil service.

4.05 REPELITA V recognizes this changing role of the public sector. To support this change, public expenditures will be focused on O&M, the provision of infrastructure and improving human resources. The public sector's involvement in direct production activities will be curtailed by limiting new investments as well as by divesting some of the PEs. Moreover, the Central Government intends to devolve greater responsibility to the local governments in implementing public expenditure programs. This chapter reviews some of the major issues which need to be addressed in shaping the public sector's transition to this new role. Section B examines issues in setting sectoral expenditure priorities in the context of REPELITA V and improving fiscal planning and budgeting. Section C then analyzes the implications for pricing policies for publicly provided goods and services. Finally, Section D reviews the longer-term agenda for strengthening the Government's institutional capacity to plan and manage the changing role of the public sector in the Indonesian economy.

## B. Improving the Allocation of Public Spending

### Overview

4.06 During the 1970s, Indonesia used its increased oil revenues to embark upon an extended program of public investment. Many of these investments have paid off, as reflected in significant improvements in economic infrastructure, human resources and a rapid growth in agriculture, especially rice. But over the past five years public investment has been cut substantially in real terms to adjust to the realities of lower oil revenues. These cuts were effected by a marked shift in the composition of public development spending, reflecting a strategic reexamination of the role of the public sector in promoting growth (see Table 4.1). The key elements of the Government's response were: (a) a sharp reduction in the budget share devoted to industry and mining, from 22%

Table 4.1: SECTORAL DISTRIBUTION OF DEVELOPMENT EXPENDITURE, 1979/80-1993/94
(% of total)

| | REPELITA III | REPELITA IV | | REPELITA V |
|---|---|---|---|---|
| | Actual 1979/80-1983/84 | Plan 1984/85-1988/89 | Actual /a 1984/85-1988/89 | Plan 1989/90-1993/94 |
| Industry and mining | 21.7 | 11.5 | 10.2 | 4.9 |
| Industry | 7.8 | 5.8 | 5.6 | 2.1 |
| Business development | 5.7 | 2.3 | 2.6 | 1.7 |
| Mining | 8.2 | 3.4 | 2.1 | 1.1 |
| Agriculture | 17.1 | 18.9 | 15.9 | 20.8 |
| Agriculture /b | 3.9 | 3.7 | 5.4 | 9.8 |
| Irrigation | 5.1 | 6.4 | 4.4 | 6.2 |
| Transmigration | 5.3 | 6.2 | 3.9 | 3.0 |
| Resources and environment | 2.8 | 2.7 | 2.3 | 1.7 |
| Infrastructure | 23.4 | 26.6 | 28.7 | 30.0 |
| Energy | 9.0 | 13.1 | 12.3 | 9.9 |
| Transportation and communications | 14.4 | 13.5 | 16.4 | 20.2 |
| Regional development /c | 9.6 | 7.3 | 10.2 | 10.5 |
| Human resource development | 18.9 | 24.6 | 21.1 | 27.2 |
| Education and manpower | 11.9 | 15.7 | 13.6 | 16.7 |
| Health | 2.4 | 2.8 | 2.1 | 2.6 |
| Population and welfare | 1.5 | 2.0 | 1.4 | 1.4 |
| Housing and water supply | 3.1 | 4.1 | 4.0 | 6.5 |
| General services /d | 9.3 | 11.0 | 14.0 | 6.5 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 |
| Memo Item: | | | | |
| Total (Rp.trillion, current prices) | 34.1 | 73.4 | 44.6 | 101.7 |
| Total (Rp.trillion, 1983 prices) | 47.4 | 53.0 | 32.2 | 47.7 |

/a Actual data for 1984/85-1987/88; budget figures for 1988/89.
/b Excluding fertilizer subsidy (assumed to total Rp.1 trillion for REPELITA V).
/c Comprises INPRES grants, which include specific sectoral allocations.
/d Excluding defense.

Source: Ministry of Finance and BAPPENAS plan documents.

during REPELITA III to 10% in REPELITA IV; (b) an increase in the share going to infrastructure and agriculture, rising from 40% to 45% in REPELITA IV; and (c) an increase in the share allocated to human resource development, from 19% to 21%. Since 1987/88, there also has been a growing recognition of the need to increase outlays for more efficient operations and maintenance (O&M) in order to maintain and improve the quality and productivity of the massive investment in infrastructure made in the 1970s and early 1980s. This redefinition of expenditure priorities has helped to improve efficiency and soften the adverse impact of the large cutbacks in public investment expenditure on economic growth, employment and the availability of basic services.

4.07 For the 1990s, a recovery of public investment in priority areas will be essential to support economic growth. Accordingly, the focus of REPELITA V has shifted from the management of expenditure cutbacks during REPELITA IV to the management of a sizeable expansion in public development spending. Allocations for REPELITA V (Table 4.1) show that the Government intends to further strengthen the priorities that emerged during REPELITA IV. Thus, special emphasis is placed in the new plan on the funding of O&M. Some Rp.11 trillion (11% of total REPELITA V development spending) is to be spent for O&M. To ensure that this allocation results in more efficient O&M, supportive policies and institutions to strengthen the planning and implementation of O&M programs will be needed. The plan's emphasis on infrastructure and agriculture support services is appropriate. As noted in Chapter 2, adequate availability of economic infrastructure will be essential to support economic growth, non-oil exports, private investment and employment. Similarly, the provision of supportive agriculture services will be necessary to sustain the projected rate of growth of agricultural output and provide higher earnings to the smallholders and landless poor. A stronger priority accorded to the development of human resources in the plan is a reflection of the Government's intention to boost labor earnings and help alleviate poverty. A skilled and productive labor force is essential to realize Indonesia's long-term growth potential; improvements in labor productivity also provide the best means for sustainable increases in real earnings and reduction in the incidence of poverty.

4.08 While a significant expansion of public investment in priority areas will be necessary during the 1990s, this will need to be based on a careful evaluation of projects with due regard for implementation constraints. Although the planned overall size of development expenditures in real terms in REPELITA V is similar to the actual outcome in REPELITA III, this represents a 48% increase in real terms over REPELITA IV. More importantly, the composition of expenditure in REPELITA V is significantly different from REPELITA III. The REPELITA V allocations further shift budgetary resources away from industry and mining (expenditures managed by public enterprises) but allow for substantial increases in infrastructure and human resources (programs largely managed by the Government). Thus, infrastructure outlays (in real terms) will grow by 55% over REPELITA IV and by 30% over REPELITA III, while spending on human resources is to expand by 91% in real terms over REPELITA IV and by 44% over REPELITA III. The proposed large expansion in spending on infrastructure and human resources will pose a major design and implementation challenge for new projects. Although recent experience shows that the Government has achieved significant progress in improving project implementation performance, this happened in a period when

the size of the public investment program was shrinking. Without continuing efforts to improve project implementation capacity, the Government's investment program in the 1990s could run into major implementation problems. This highlights the need to take into account explicitly the underlying implementation constraints in different sectors when selecting new public investment projects.

4.09 As discussed in last year's Economic Report, many of the problems impeding project implementation are related to the functioning of the government apparatus, including the agencies involved. These include, in particular, procurement, land acquisition, budgeting and finance procedures, consulting and construction services, and institutional and managerial problems. Although the Government has already made notable progress in addressing these issues, there is considerable room for further improvement. Internal institutional limitations have also contributed to project implementation difficulties in many sectors, including agriculture (tree crops, transmigration programs), urban, transport, telecommunications and health. Efforts to strengthen internal project implementation capacities of public sector entities will also be crucial to maximize the returns to investments. Finally, an efficient construction industry is essential to improve project implementation capacity in both the public and private sectors.

4.10 Improving the efficiency and effectiveness of public spending will also require a reform of fiscal planning and budgeting. As regards, the budgetary process. There are two important issues: (a) the budget is fragmented across multiple budgetary channels; and (b) the links between government policy objectives and the classification of budget categories in the government accounts are not sufficiently transparent. Because of these problems, it is difficult to determine whether the allocation of resources for priority uses (such as for O&M) is adequate. Consolidation of funding accounts into fewer budget channels would greatly simplify and facilitate sectoral expenditure planning and monitoring. Against this background, the remainder of this section looks in greater detail at important issues in setting sectoral expenditure priorities and fiscal planning and budgeting procedures.

## Sectoral Expenditure Priorities

4.11 Agriculture. The Government recognizes the importance of the agriculture sector in achieving Indonesia's growth and poverty reduction objectives. For REPELITA V, the Government's target is to sustain a growth rate of 3.6% p.a., based on an efficient and more diversified production base. Accordingly, the Government's public expenditure priorities during the REPELITA V period will be concentrated primarily in three areas--smallholder tree crop development, irrigation, and research and extension--with emphasis on the Outer Islands (especially transmigration areas) and designed to reach the poor. The private sector will be encouraged to take a more prominent role in promoting agricultural processing and in tree crop development, particularly for plantations, consistent with the overall strategy for REPELITA V of limiting the involvement of the public sector in directly productive activities. The Government will continue to support smallholder cultivation of tree crops to ensure that the potential benefits of earlier investments are realized, and to reach more smallholders, the vast majority of

whom have not had the opportunity to benefit from past programs. In this regard, the successful PMU-based schemes will give increased emphasis to setting up nurseries to supply good quality planting materials, together with advice on recommended practices, to farmers on the perimeters of existing smallholder schemes.

4.12 To ensure further growth in rice production, as well as secondary crops, the Government will increase expenditures on irrigation. Increased expenditures are also important because irrigation is a powerful tool for reaching poor farmers, since it is a major way in which the earning power of very small plots of land can be significantly increased and sustained. These expenditures will be used to raise the efficiency of existing systems and to offset losses in prime, irrigated rice lands along the north coast of Java by a selective expansion of the irrigation network. Appropriately, first priority will be given to adequate provision of O&M for existing systems. Rates of return from O&M in irrigation are estimated at about 20-25%, and the level of expenditures is among the lowest in Asia. A second priority will be the rehabilitation of many existing surface irrigation and swamp systems, in order to bring them up to acceptable technical standards and the full development of new schemes. This involves upgrading and repairing water control and regulatory structures, constructing new canals to ensure that water reaches the entire command area, and desilting existing canals. Many of these needs result from past underfunding of O&M.

4.13 The rate of expansion of the irrigation network, which has been drastically scaled back during the adjustment period, is another important expenditure priority of REPELITA V. In addition to some expansion on Java, new investments are proposed in selected areas in the Outer Islands. Provinces currently being considered by the Government for network expansion are Lampung, Jambi, West Kalimantan, NTT, East Timor and Irian Jaya. While the equitable distribution of irrigation services is an important policy objective, the suitability of new areas for irrigated crops needs to be carefully evaluated in the context of the viability of each scheme and returns on alternative expenditures for irrigation as well as other rural investments that would promote employment and raise income. In addition, it is estimated that 5.6 million hectares of coastal lowland or tidal swamps may be suitable for agricultural development. This area is larger than the total irrigated area in Indonesia today and it has greater agricultural potential than most of the remaining upland rainfed areas. Realizing the long-term promise of swampland development will, however, require overcoming substantial technical, managerial, institutional and environmental problems.

4.14 In the past, the structure of research and extension services has been oriented primarily towards achieving rice self-sufficiency. During the REPELITA V period, these services will give increasing support to the diversified growth of secondary crops, smallholder tree crops, livestock and fisheries. In addition, more attention will be devoted to ensuring that poor farmers have a greater opportunity to benefit from these services than in the past. Funding for research and extension has been variable, and also low relative to requirements. Moreover, the proportion funded from the Government's own resources has declined significantly. These factors have resulted in an underutilization of staff and equipment, and

inefficiencies resulting from breaks in the funding of long-term programs. Since 1970, agricultural research has been heavily concentrated on the genetic improvement of rice. The Government recognizes that diversification of the production base will require greater emphasis on crop research relevant to the Outer Islands, uplands and swamps. Maximizing farm incomes and employment will also require research specifically designed for the various agro-ecological zones. Currently, research activities are heavily concentrated in the Bogor and Malang areas. The decentralization of research programs and staff will be an important first step in increasing the relevance of research activities for non-rice farmers. In extension, disseminating new technologies appropriate for rice growing and secondary crops in the Outer Islands, upland areas and swamps will be accorded a higher priority. This in turn will lead to an improvement and modification of the content, quality, and relevance of training programs for the subject matter specialists and field-level extension workers. More sophisticated skills will be required in areas such as farming systems, farm management analysis and integrated pest management. Improving research and extension in these areas will involve higher levels of expenditure than in the past, particularly for O&M.

4.15 Transport. An important objective of the Government's transport policies are to reduce regional disparities, foster national unity and support development of the private sector. During the REPELITA I-IV periods, massive public investments extended the coverage, increased the capacity and improved the standards of the country's transport infrastructure. As outlined in Chapter 3, eliminating the remaining regulatory constraints and creating increased opportunities for private sector involvement will form one component of Indonesia's transport strategy for REPELITA V. A second key component will be to ensure that public resources are allocated to projects and activities which will yield the highest returns. This strategy will help to raise service quality and lower transport costs. Transport's share of Government development spending (16-20% in recent years) reflects the large role currently played by the public sector, with expenditures on road infrastructure alone now totalling around US$1 billion annually. During REPELITA V the Government intends to pursue policies to encourage greater private sector participation. The private sector has already demonstrated an interest in greater involvement in infrastructure provision and management (e.g., terminals) as well as in the operation of transport services, and the Government will continue to encourage such participation by removing the remaining regulatory impediments.

4.16 Over half of total transport spending is devoted to roads. The public sector provides most of the road infrastructure, and also has some involvement in service provision. O&M funding, which was a major issue in the past, has now increased to more satisfactory levels while the available resources are being used more efficiently as a result of significant improvements in planning and implementation capabilities at the national and provincial levels.1/ The Government has continued to accord high

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1/ In particular, the adoption of more appropriate design standards and a modern pavement management program.

priority to rural roads, and will strive to improve the effectiveness of this expenditure by strengthening the responsible agencies, particularly the district public works units (DPUKs). Future levels of spending, therefore, need to be closely matched to improvements in their absorptive capacities. In the medium and long-term perspective, there is no question that Indonesia needs to invest substantially in high capacity roads to cope with congestion problems in a few specific corridors. However, the phasing and standards of such roads need to be carefully considered and the appropriateness of tolling examined, particularly when user charges are increased in other ways (see paras. 4.50 and 4.51).

4.17 In the railway sector, high costs coupled with low tariffs have necessitated large operating subsidies by the Government in addition to its bearing all investment and major maintenance costs. During the REPELITA V period, the main focus of the medium-term investment program will need to be on projects which permit increased utilization of existing facilities and contribute to improvements in safety. Consideration of major expansion projects, such as new lines or electrification, are generally being deferred until such time as planned institutional changes are implemented and the new corporation has demonstrated its capacity to function as an effective commercial organization. Major ongoing investment projects, such as the development of the Jabotabek commuter railway, are being carefully reviewed in light of emerging information on levels and patterns of demand for these services.

4.18 In air transport, the Government provides virtually all infrastructure and is also the dominant operator. The quality of services has improved substantially in recent years through improvements in management and investments in new equipment and airports. However, demand has not always kept up with new investments and overcapacity has resulted in some cases, particularly in the case of wide-bodied jets operating on low density routes. The use of wide-bodied jets has also necessitated early upgrading of airports which could have been postponed had smaller aircraft been used. The Government is taking steps to improve the integration of investment planning in the aviation sector, in particular with regard to investments in airport upgrading and new aircraft.

4.19 In the maritime transport sector, the port investment program for the initial years of REPELITA V will be oriented mainly towards projects which improve the capacity of existing berths, particularly those which support the spread of containerization and the introduction of other modern shipping/cargo handling systems, and the construction of new berths which support the development of non-oil exports. Facility planning will need to be closely coordinated with the shipping lines which utilize the facilities. High priority also needs to be given to further investments designed to improve maritime safety within the context of an overall masterplan. Given the demonstrated interest and capacity of the private sector to expand its role in the provision of shipping, the use of budgetary funds for the purchase of commercial vessels could be extremely selective, e.g., for pioneer services in the Outer Islands.

4.20 Power. The Government's expanded expenditure program in the power sector is based upon the significant increases in demand which will occur as a result of the expansion of non-oil exports and enhanced income

opportunities in the rural areas. Estimates suggest that about one half of the rural households and at least three quarters of urban households can afford electricity at the current level of incomes. Against this potential demand, PLN now serves only about 54% of urban households and 13% of rural households. Second, less than half of the industrial sector's electricity requirements are met from PLN's2/ grid, although PLN's supplies are more economical in the long term for all but special situations (about 10-20% of total requirements).

4.21 Given this unmet demand for power, PLN's proposed investment program is intended to raise its installed capacity from the current (1988/89) level of 8.5 GW to 12.1 GW by the end of REPELITA V (1993/94) and to 22.4 GW by 2000/01. This amount of installed capacity would raise the electrification ratio from 24% (54% urban and 13% rural) in 1988/89 to 35% (71% urban and 21% rural) by the end of the REPELITA V period and to 54% (81% urban and 40% rural) by 2000/01, largely meeting existing demand. In reaching these electrification targets, power generation needs to be focused on least-cost options. A comparison of economic costs indicates that natural gas and coal, as compared to oil, nuclear and geothermal, are the least cost alternatives for power generation. At present, electricity generation is still based to a large extent on petroleum products (45%); to achieve the substitution of natural gas and coal for petroleum products, the Government will need to ensure an appropriate pricing policy for energy resources.

4.22 Telecommunications. Telecommunication services provide important benefits to private sector development in the form of reduced costs of information flows and productivity gains through the coordination of production and distribution throughout the economy. An efficient telecommunications sector is also a vital component of any strategy designed to attract export-oriented foreign investment, as it facilitates communications with parent companies and markets. Government expenditure programs and policies in the telecommunications sector for REPELITA V recognize the importance of a reliable and efficient telecommunications system and are, therefore, focused on raising service standards to levels more comparable with other ASEAN countries. This will help to overcome the acute shortage of subscriber lines and of interexchange equipment, and the resulting high level of network and terminal congestion. Increasing the number of available lines will ease existing supply constraints in telephone service. Currently, there are 530,000 applicants for telephone service (almost half the number of subscribers); real demand is probably substantially higher because many prospective subscribers are discouraged from applying by the long delays in obtaining service.

4.23 The Government's expenditure priorities in telecommunications are, therefore, to raise access to and improve the quality of service. The primary physical target is to add 4.5 million direct (or local) exchange lines, increasing capacity by more than 400% and raising the telephone density to 1.84/100 persons by the year 2005. Achievement of this target

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2/ PLN refers to the state electricity company.

would clearly be desirable given the long waiting lists for such service and the benefits of increased telecommunications evidenced in other ASEAN countries. For the REPELITA V period, the following expenditure priorities would appear to be consistent with achieving the Government objectives given existing institutional constraints: (a) accelerating the completion of the work (600,000 line units) remaining from the ongoing REPELITA IV program; (b) ensuring effective utilization of idle capacity through rehabilitation of the existing networks and commissioning of available circuits; and (c) aiming to make significant progress in preparing for the new works to install at least 300,000 line units during the latter part of the REPELITA V period. The Government is also making progress in improving Perumtel's 3/ project implementation capacity and encouraging private sector participation, both of which are necessary for the successful implementation of this REPELITA V program and achievement of the longer-term goals of adequate access and high service quality. Increased private sector participation would facilitate achievement of these expansion plans by alleviating some of the existing technical and staffing constraints. The Government and Perumtel need to begin to identify private sector opportunities, such as the provision of certain network telecommunications services or contracting out of design, construction or maintenance of public facilities.

4.24 Human resource development and basic services. Human resource development (education, health, population, and housing and water supply) is a key policy instrument in supporting the Government's strategy to increase economic growth and reduce the incidence of poverty. As noted, the Government is aware of the importance of human resource development and REPELITA V budget allocations reflect this priority, with a much larger share of development expenditures devoted to human resource development (see Table 4.1). In the past, public investments have focused on an expansion of facilities. This expansion has paid off, as reflected in increased access to services and large improvements in literacy rates and health standards, as well as lower fertility rates. During the REPELITA V period, the main emphasis of expenditure policies and programs will be on raising the quality of these essential services, and on a selective expansion of facilities carefully targeted to improve access by the poor.

4.25 In education, raising primary school enrollment has been a major and successful focus of policymakers during the last 15 years. With primary school enrollments now around 94%, the Government is now turning its attention to expansion of secondary and higher education. The key issues in general education which are being addressed in REPELITA V are: (a) to raise the quality of primary and secondary education; (b) to clarify the role of the public sector in the provision of upper secondary education and higher education; and (c) to strengthen and expand vocational and non-formal education. Raising the quality of basic education (grades 1-9) is of particular importance, since basic education is most relevant to achieving Indonesia's poverty alleviation goals, and ensuring adequate preparation for productive employment or for further studies. Quality deficiencies are also apparent at other levels of education. The major

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3/ Perumtel is a state-owned corporation responsible for all domestic telecommunications services.

problem is that most schools lack adequate O&M funding to provide the necessary materials for a quality education, thereby reducing the effectiveness of expenditures on teacher salaries. Increasing O&M outlays for the education sector to address these quality deficiencies, particularly at the primary level, is a major objective of Government policy during REPELITA V.

4.26 Second, the Government is committed, over the longer term, to raising enrollments at the secondary and higher education levels. This will be important in achieving adequate human resource development to support the growth process. During the REPELITA V period, an appropriate expansion strategy will be developed in order to ensure that there is minimum disruption to ongoing activities in the sector. Regarding lower secondary education, the Government's objective is to achieve universal education through grade 9 over the medium term. This is appropriate for a country at Indonesia's stage of development. Expansion of lower secondary enrollments, however, will be phased so as to ensure that existing programs are not deprived of essential resources to maintain and improve educational quality, and that fully qualified teaching and administrative staff are available to staff new schools. Similarly there are two important considerations in determining the pace of expansion of higher education. First, labor market trends show that: (a) in the past, civil service employment has absorbed most of the graduates of upper secondary schools who did not progress to higher education; in the future, civil service recruitment is unlikely to absorb more than a very small fraction of graduates; and (b) present unemployment among university graduates diminishes the future employment prospects for many university graduates. Second, in view of the largely private nature of the benefits of higher education, it is appropriate for the private sector to assume a larger role in providing higher education. The Government's current policy of improving cost recovery in public universities is appropriate, but this needs to be complemented by a long-term strategy to shift responsibilities for provision to private sources. The Government, however, will continue to play an important role in quality control, including accreditation of private institutions.

4.27 Finally, there will be an emphasis on the quality of public vocational education and the role of non-formal education. Over the longer term, the private sector will play a significantly larger role in providing and bearing the cost of high quality training, and the Government will assist this process by improving labor market information about employment and training, including costs and benefits of different training schemes. In the short to medium term, it will be necessary to ensure better utilization and improved efficiency of existing government training facilities. Non-formal education programs (DIKMAS) also have great potential for improving skills in the agricultural and informal sectors, and particularly for reaching the poor. Moreover, the income generating components of DIKMAS can directly raise the income of the poor, while endowing them with marketable skills.

4.28 Key <u>health</u> sector objectives in REPELITA V are to reduce the mortality rate and to improve the utilization of curative health services, particularly among the poor. Although a significant mortality decline has

been achieved, the infant mortality rate remains high compared to the average prevailing in the East and Southeast Asia region. Similarly, the utilization of curative services remains low: outpatient visits average around 0.5 per person and inpatient admissions average around 8 per 1,000 per year. Comparable figures for Sri Lanka are 2.1 outpatient visits per person and 161 inpatient admissions per 1,000 per year. Both mortality and service utilization rates are also characterized by large regional inequalities which are closely associated with differences in per capita income between provinces.

4.29 Government programs for REPELITA V will address these concerns through improving the quality of health services together with selective expansion of community health facilities. Since further reductions in infant mortality depend critically on the ability of the community health system (health centers and subcenters) to provide outreach support to the village-level POSYANDU system for delivering core preventive health services, the Government will focus on increasing the availability of skilled manpower (doctors and nurses) in outlying areas, providing complementary supplies such as drugs, vaccines and fuel for transport, and improving the management of health services. The prospects for raising service utilization will depend on: (a) further increases in the density and operational funding of community health facilities; and (b) strong efforts to upgrade the quality of lower level (class C and D) hospitals by redistributing specialist physicians from overstaffed tertiary hospitals, by improving the staffing of diagnostic services (laboratory and radiography technicians) and of equipment repair and maintenance facilities, and by providing adequate resources to overcome the shortage of funds for spare parts and expendable items such as laboratory reagents. Higher levels and better targeting of recurrent expenditure on O&M to support improvements in the availability of staff (including incentive payments to induce doctors to move to poor remote areas) and in the provision of critical complementary inputs needed to make health staff fully productive, constitute the most important expenditure priorities in the health sector for REPELITA V.

4.30 The benefits of family planning, in addition to lower population growth, include improved health status for both women and children. In the last two decades, Indonesia has implemented one of the most successful family planning programs in the world. The proportion of eligible couples using contraception now exceeds 45%, compared to under 10% in 1970; the total fertility rate has declined by two children to 3.4; and the crude birth rate is 28 per 1000 compared to 43 per 1000 in 1970. Until now, the public sector has been the main source of family planning services. The Government is aware of the need to sustain progress in this area and is poised to face the difficult challenge of extending the family planning program to more clients who are harder to reach: those with higher family size preferences, those who tend to live in less accessible areas and those who are unable to pay for family planning. Supplies of contraceptives for the public program need to be assured, since a decline would endanger the program's future progress.

4.31 Efforts will be undertaken to improve the availability of basic services such as housing, water supply, sanitation and other community services. Without progress in improving living standards, the effectiveness of improvements in health and education could be seriously impaired. Although the basic goals are the same, Government strategies and priorities will necessarily differ between urban and rural areas, because of different needs and the institutional framework. In rural areas, the Government will concentrate on water supply and sanitation. In urban areas, a broader program of infrastructure provision is envisioned, because the availability of housing, water supply, waste disposal, flood protection and other community services have not kept pace with the rapid urbanization of the economy.

4.32 The effectiveness of past Government efforts in the provision of rural water supply and sanitation (RWS&S) has been limited by institutional difficulties. During REPELITA IV, the Government appropriately scaled down the INPRES funding program for rural water supply and sanitation because of serious implementation problems. Recognizing the importance of RWS&S, the Government will make a renewed effort during the REPELITA V period. This effort would have only modest expenditure implications, since low-cost approaches have proven to be the most successful both in Indonesia and other countries. A key element of such a program is health education. Without improved awareness of the health benefits from better water supply and sanitation practices, physical investment will produce only limited benefits. Also, better practices will in some cases reduce the need for physical investments. At present, institutional responsibilities for rural water supply and sanitation are dispersed between the Ministries of Health, Public Works and Home Affairs; better coordination by a designated lead agency in charge of implementation is also a focus of REPELITA V. A number of pilot projects in RWS&S have proven successful in the past. An important component of these efforts has been active community involvement in financing and undertaking operations and maintenance of the systems. The performance of these pilot projects needs to be carefully evaluated with a view to replication on a wider scale.

4.33 In urban areas, the provision of basic services is gaining urgency with the rapid growth of urban areas, particularly the larger cities. The present urban population of 43 million is growing at over 4% per annum, twice as fast as the overall rate of population growth. During REPELITA IV, the structure of public expenditures on urban infrastructure was dominated by heavy, centrally-funded grants for investments in primary infrastructure. During REPELITA V, a change in priorities is necessary to ensure that expenditures support the Government's emphasis on human resource development and poverty reduction. In this regard, the Government is undertaking a critical reevaluation of a number of major expenditure commitments carried over from REPELITA IV, since the size of these projects may tend to dominate available expenditures and thus leave little room for a reordering of priorities. Increased local government and community participation will be essential to define such priorities.

4.34 In housing, policy over the longer term would entail the withdrawal of the public sector from the direct provision of housing, with correspondingly greater emphasis on kampung improvement in low income

areas. Policy changes introduced by the Government during the REPELITA IV period were designed to achieve this objective and have resulted in a significant expansion of housing supply at lower cost. The private sector share of the Government's housing program has increased from 53% in the early years of REPELITA IV to 75% at present. Higher efficiency in the private sector and willingness to produce smaller units enabled a restructuring of the housing program to provide about 25,000 additional units (an increase of 8% over the original plan). Moreover, the average cost per unit of housing provided has declined by 13%. The financing of these houses has been at subsidized interest rates through the Government's housing bank (BTN); the rate of subsidy has declined during REPELITA IV. Available evidence suggests that the program is still reaching, on average, households well above the median income level in urban areas. During the REPELITA V period, Government efforts to target subsidies to lower-income groups will be intensified. Expanding and improving the efficiency of the housing finance system through attracting more private savings and involving other financial institutions is also a priority. Other measures will also be undertaken during REPELITA V to cater to lower income groups. First, consideration is being given to expanding the range of housing products to make them more affordable and appropriate for lower income groups. Currently, the lowest quality product remains the $15m^2/60m^2$ core house. Other options such as serviced plots will also be explored. Second, changes are needed in the regulatory environment affecting the housing sector, such as improving land administration to lower land costs and, adopting appropriate design and construction standards. Finally Government financing of low cost/low income rental housing could be considered. If it remains necessary to provide a subsidy, the use of more transparent and better targeted mechanisms, such as direct subsidies to beneficiaries, may be more appropriate.

4.35 In urban water supply, the Government is committed to expanding the availability of piped water systems and to ensuring that the poor have better access to water through public standpipes. This will entail a reexamination of ongoing commitments in two areas as a first priority for REPELITA V. Prior commitments to water treatment facilities in some cities, notably Jakarta, will be closely reexamined in view of anticipated difficulties and delays in marketing the water to be produced. Also, commitments to the current small-town (IKK), low cost water supply program supported by various donors needs to be reassessed in view of technical and institutional weaknesses. A more selective approach based on a careful assessment of existing facilities, upgrading of these facilities, and in particular, ensuring that water is distributed to the poor would likely yield greater benefits. Therefore, during the REPELITA V period, Government expenditure priorities in this subsector are to ensure adequate O&M, and to improve and expand the public standpipe program. Particular attention is needed to improve O&M of public water enterprises in order to improve their performance. At present, unaccounted for water losses in municipal systems are estimated at about 40%. Already more than one half of the existing systems do not provide water continuously for 24 hours/day. Piped water quality is typically poor (40% of the enterprises report having no laboratory equipment), necessitating boiling for human consumption. A major O&M upgrading effort is planned to resolve these problems.

4.36 The provision of water to those poor urban residents unable to afford private connections is another priority. At the end of REPELITA IV, the number of public standpipes will be about 14,000; the number constructed during REPELITA IV was well below 5,000 compared to about 9,000 during REPELITA III. These achievements are significantly below the stated target of providing 50% of urban residents with piped water supply. The Government recognizes the importance of providing water to the poorest urban residents and is committed to expanding the number of public standpipes during the REPELITA V period. The provision of more public standpipes will be accompanied by a review of the current distribution system. At present, this water is distributed by concessionaires, who in many cases operate as a contrived monopoly or cartel. The rates paid by the end users can be much higher than the official price. One possibility for improving the system would be to allow any customer with a connection to the public system to sell water.

4.37 Other subsectors, such as waste management and the KIP, also have important implications for human resource development. Diseases related to the lack of facilities for human waste disposal diminish the health and productivity of Indonesia's urban population. The 1985 intercensal survey indicated that only 38% of the urban population had access to private latrines with septic tanks. The Government is aware of the needs in this area and is scaling back pilot investments in sewerage systems in major cities. This will be accompanied by the introduction of lower cost techniques, such as are being implemented in Jakarta. Similarly, the extensive scale of urban flood control programs are being reconsidered in the absence of any established O&M capacity. The KIP suffered expenditure reductions during REPELITA IV, and those activities undertaken were of less benefit to the poor, e.g. kampung roads. A community-based integrated KIP program, including physical, social and financial services, is currently being explored as a new means of targeting poverty alleviation expenditures to the urban poor. This will be important in revitalizing the KIP program.

## Planning and Budgeting Procedures

4.38 Fiscal planning. The main challenge forced on the Government during the previous five-year plan (REPELITA IV) was to cut public spending in line with the sharp reduction in budgetary resources. The nature of the challenge now facing the Government in fiscal planning for the medium term is different. With improved prospects for resource availability, the more difficult task ahead is to ensure that additional resources are allocated to maximize their contribution to Indonesia's major development objectives. This will require strengthening of the Government's institutional capacity for planning and budgeting public expenditures. At the same time, the phasing out of special assistance in favor of project aid will increase Indonesia's need to coordinate this assistance within a strong central framework for project selection.

4.39 Indonesia's five-year development plans provide a useful indicative summary of the Government's view of economic prospects and the implications for sectoral expenditure programs. They are therefore not intended to provide a basis for identifying detailed expenditure priorities. As a result: (a) they do not provide a comprehensive listing

of project proposals and costs; (b) the broad sectoral allocations provided in the plans relate only to development expenditure by the Central Government, and exclude investments financed by local governments and public enterprises; (c) the full O&M implications of existing and new public infrastructure and programs are not explicitly incorporated; and (d) the sectoral plan allocations are not disaggregated on an annual basis, which makes it difficult to relate them to budgetary expenditures or to identify issues of project timing and phasing. At the same time, many line agencies (e.g., PLN, Perumtel and Public Works) do maintain sectoral investment programs, both for their own planning purposes and for budget submissions to BAPPENAS (Ministry of Planning). These programs include substantially more project detail than is available in the plan. However, they are not always consistent with the Government's overall investment priorities or expected financial and implementation constraints. Pressures to push ahead can therefore mount, especially if favorable external financing is readily available.

4.40 It is appropriate that the primary responsibility for preparing sectoral investment programs remains with the line agencies, which are in the best position to know their detailed needs. Frequently, however, the existing planning capacity within line ministries is fragmented among individual directorates. In such cases, improved coherence of sectoral plans and programs will require strengthened ministry-wide planning capacity and improved cooperation among individual directorates. In addition, BAPPENAS will need to further strengthen guidelines for project selection and its capacity for ensuring macroeconomic and inter-sectoral consistency. For this purpose, it would be useful to keep an inventory of project profiles, that are updated on a regular basis. The standardized profile would contain five major components: a concise description of project content and objectives, an identifying title and project number, an estimate of total investment costs, a proposed annual phasing of investment costs, and an estimate of incremental recurrent costs (disaggregated between staffing and non-personnel inputs) arising from the project. If regularly prepared and updated, these simple profiles would greatly strengthen the data base available to fiscal planners on the magnitude and timing of costs associated with new and ongoing development projects.

4.41 For planning purposes, a strong O&M policy requires that O&M norms should be agreed between BAPPENAS and the sectoral agencies on appropriate unit costs for recurrent expenditure items such as salaries, materials and transport in relation to the existing capital stock (e.g., per primary school, per health center or per hectare of irrigated land). It is also important to review systematically the future recurrent cost impact of new development projects to ensure that aggregate O&M requirements induced by the investment program are consistent with available budgetary resources. Moving towards a comprehensive planning framework which explicitly includes recurrent expenditure would enable the Government to address the high priority which is accorded to O&M requirements in the formulation of sectoral expenditure plans, and strengthen its ability to ensure balanced growth in investment and O&M funding in future.

4.42 The key to these improvements in fiscal planning is sound <u>project appraisal capacity</u> to ensure efficient project selection and design. In Indonesia greater use of project appraisal techniques, with adequate

provision for central review and quality control, could help to strengthen expenditure planning in three areas. First, the economic justification of projects could be subjected to more rigorous scrutiny. Second, there are areas where expenditure proposals could be better designed and possibly expanded. Third, cost estimates, including overall costs, time phasing and the breakdown between investment and recurrent costs, could be improved. This is an area where BAPPENAS could usefully guide and support the efforts of planning units in the sectoral agencies. This, in turn, will require substantial strengthening of planning capacity at the sectoral level with more staff trained in project appraisal and policy analysis.

4.43 Annual budgeting. Ideally the annual budget should be a one-year time slice of a medium-term expenditure plan. However, in practice many of the more difficult expenditure decisions in Indonesia are made in the context of the budget cycle. Time pressures often do not permit full review of expenditure proposals. As a result, it is not always easy to link budgetary decisions with identified expenditure priorities. There are two major areas of concern.

4.44 First, from a sectoral perspective the structure of the budget is fragmented across multiple budgetary channels. Development project funding is channelled through a number of sources, the most important of which include: (a) the normal DIP allocations to central sectoral departments; (b) INPRES grant funding for regional governments, which is split between several different block and sectoral grant programs; and (c) external loans channelled through the BLN or special accounts. There are also other financing accounts, such as the RDI, which are supplementary to the official budget. As with projects, recurrent expenditure financing for O&M is also fragmented, including sectoral allocations in both the central routine and development budgets, as well as lump-sum transfers (the SDO salary grant) to regional governments. Consolidation of these accounts into fewer budget channels would greatly simplify and facilitate sectoral expenditure planning and monitoring.

4.45 Second, the links between policy objectives and the classification of budget categories in the government accounts are not sufficiently transparent. Two key aspects of budget classification relate to the consideration of budget priorities between investment and recurrent expenditures, and between different sectoral programs. The large O&M content of development budget spending through the DIP, INPRES and BLN channels is not always identified separately from investment expenditure. Because of this, it is difficult to focus on the adequacy of resources for O&M expenditures. Similarly, problems arise in the sectoral allocation of resources due to program classifications between the development and routine budgets, and the lack of sectoral identification for some important budgetary expenditures, notably the SDO salary grant to the regional governments. These problems in the classification of budgetary information make it difficult to aggregate budgetary statistics into consolidated statements of sectoral expenditures.

4.46 Improvements in these aspects of the budget system would strengthen the available information on total government expenditure on individual sectors, its composition between recurrent and investment

spending, and its allocation between different sectoral programs. Improving the classification system for budgetary disbursements in the government accounts is, therefore, an essential short-term prerequisite for more effective expenditure planning. In the longer term, however, it would be necessary to move towards reform of the underlying budget structure aimed at consolidation of existing funding channels.

## C. Pricing Policies for Public Services

4.47 The major expansion in publicly provided goods and services over the last decade has brought substantial benefits to a large part of the population. However, most services have been financed from budgetary revenues, with beneficiaries often paying only a small share of the costs. This policy of subsidized pricing has had adverse effects on efficiency, equity and revenue mobilization in the face of Indonesia's emerging fiscal constraints. Against a background of clear spending priorities, appropriate pricing policies can help to improve investment decisions, raise operational efficiency and effectiveness, and reduce inequalities in public service provision. In addition to traditional infrastructure and services, the public sector is also involved in the production of commercial goods through a large number of state enterprises. Although the Government's current strategy is to reduce its role in providing these goods, a significant involvement is likely to persist for some time. Accordingly, appropriate pricing policies for these goods are also necessary.

4.48 For pricing purposes, the public sector may be grouped into three broad categories: (a) those operating in an actual or potentially competitive environment, either domestically or internationally (agricultural, manufacturing and energy products); (b) those operating in a monopolistic environment because of lumpiness of investment (power, ports, and telecommunications); and (c) those providing services which have significant externalities (health, education, family planning, water supply, roads and agricultural services). For enterprises which operate in a competitive environment, prices are best left to be determined by market forces. In the case of enterprises which operate under monopoly conditions, prices need to be set in relation to economic cost and to ensure a minimum rate of return on assets (the latter criterion is important for enterprises facing decreasing marginal costs). The pricing policy challenge is most difficult for the third category of goods. Setting prices to reflect economic cost will improve the efficiency of resource allocation. However, setting prices lower than economic cost is justified in the presence of externalities to induce socially efficient levels of use. In some cases, such as immunisation or family planning programs, it may be impossible to estimate the price needed to induce socially desired behavior and the service is best provided free. Subsidized prices are also justified when incomplete financial markets, such as for educational credit or health insurance, serve as a practical constraint on charging higher prices.

4.49 Many public services are provided free or at low cost for equity reasons so that poor people have access to them. But in practice this trade-off between efficiency and equity is usually overstated. Because of budget constraints, the provision of subsidized public services is severely rationed and the poor often do not gain the intended access to the limited supply available. As a result, subsidized services disproportionately benefit the better-off. Charging efficiency prices to most users while targeting limited subsidies to poor beneficiaries can, therefore, help to alleviate poverty and improve efficiency at the same time. User charges are also a potentially important instrument for public revenue mobilization. Even when this revenue is not transferred directly to the central budget, higher prices will reduce the need for borrowing or transfers from the budget to pay for subsidized expenditures. These direct and indirect revenue effects of user charges would help to finance expansion and improved quality of priority public services. Against this general background, the remainder of this section examines key pricing policy issues in selected sectors.

Roads

4.50 When properly structured so that payments by different categories of users reflect their road wear and tear, the user charge regime for roads would: (a) induce operators to make economically efficient investment and operating decisions; (b) contribute towards eliminating distortions in the pattern of demand for different transport modes (particularly between road and rail); and (c) mobilize revenues to fund the road programs. Recent estimates show that although receipts from road user taxes are roughly comparable with the level of government spending on roads (excluding toll roads for which cost recovery is lower), these accrue principally from users of small gasoline-engined passenger vehicles, reflecting the substantial implicit tax on gasoline. By contrast, the level of cost recovery from operators of heavy commercial freight transport vehicles, which necessitate the construction of strong road pavements and cause most of the damage to them, is low. This distortion arises mainly from two factors: the continuing government subsidy of diesel fuel oil below its economic cost, and the low annual registration tax for heavy vehicles.

4.51 Appropriate pricing of diesel to reflect world prices would be a necessary step but still not sufficient to remove the distortion resulting from low registration taxes on medium and heavy goods vehicles. Not only is the average registration tax low, but the present structure of the tax does not reflect the road damage caused by these vehicles. To correct this problem, the present tax based on engine size above 3.5 ton gross vehicle weight needs to be replaced by tax rates reflecting vehicle weight when laden. A phased increase of the annual registration fees would allow the transport industry to adjust gradually. Compliance could be increased by requiring proof of annual tax payment for renewal of the license plate.

Agricultural Support Services

4.52 Fertilizer subsidies. During the last two decades Indonesia has encouraged the development of its agricultural sector by providing a broad program of support for most agricultural inputs. This has entailed

subsidizing fertilizer at prices below its economic cost and enforcing a uniform price for different fertilizer types across all regions. These subsidies have encouraged farmers to adopt new technologies, thereby assisting Indonesia achieve its goal of rice self-sufficiency. However, current fiscal constraints have refocused attention on their affordability and efficiency effects within the broader context of public expenditure priorities. Annual fertilizer subsidies over the past three years amounted to Rp.700-800 billion, equivalent to about a third of total agricultural development expenditures. Fertilizer prices are about 60% of world prices, well below the level in most other countries in the Pacific region. As a result, Indonesian farmers use more fertilizer than other comparable Asian farmers and the marginal return in terms of increased output is below the social cost of the subsidy. The Government is aware of these issues and has responded by increasing fertilizer prices by an average of 20% in 1988. However, the average subsidy on fertilizer use still remains substantial; furthermore, increased demand resulting from higher agricultural prices (particularly for rice) may offset the effect of this price increase on the total subsidy bill. While some reduction in the budgetary burden of the fertilizer subsidy could be achieved by improving efficiency in domestic production, distribution and consumption, most of the adjustment will need to be made by increasing farmgate prices.

4.53 Irrigation service fee. In the st, the Government did not pursue an active cost recovery policy for irrigation services, because of: (a) reluctance to tax overtly a rural sector considered (particularly in the 1970s) to be extremely poor and disadvantaged in their terms of trade with their urban counterparts; and (b) sensitivity to traditional sentiments that water should be free. Farmers are responsible for the construction and O&M of the tertiary systems through their own work and payments in kind. To date, some cost recovery for main and secondary systems has been through the land tax. Recognizing the tight budgetary situation, and the need for higher levels of O&M funding, the Government has adopted a policy of transferring O&M responsibility to provincial governments, with these expenditures financed through recovery of PBB (land and property tax) and, increasingly, through irrigation service fees which would ultimately become the main source of O&M funds.

4.54 There have already been some initiatives towards collecting irrigation service fees. In South Sulawesi province, a fee has been collected in the Sadang irrigation area (25,000 ha) for the last five years. Recently, the provincial government in South Sulawesi has formulated an ordinance to introduce the fee on a province-wide basis. A small fee (about Rp.1,000/ha/year) has been collected, together with other village taxes and contributions, in the Simalungun irrigation system in North Sumatra. A fee has also been collected in Bali. However, these initiatives do not provide an adequate basis for launching a nationwide system of irrigation service fees capable of financing all the costs of efficient O&M of irrigation systems. It will be important, therefore, to make progress in implementing pilot programs on a wider scale in order to test the feasibility of alternative approaches for future replication.

This would help clarify issues regarding the appropriate nature of the fees (e.g., whether the charge should be on a per hectare basis or in the form of explicit water charges on bulk sales to water users), the farmers' willingness to pay, and the organizational arrangements needed for revenue collection and monitoring.

Water Supply

4.55 Water supply is a major component of public spending on urban services; user charges can play an important role in generating additional revenues to finance this spending as well as improving efficiency. This is reflected in the Central Government's water tariff guidelines issued at the end of REPELITA III, which provide for full cost recovery including depreciation and interest charges. In practice, however, actual water rates are set by the local governments which own and operate the water enterprises. Two key features of the present tariff structure are: (a) the large cross-subsidy provided to residential users from surcharges on high volume commercial and industrial users; and (b) the high connection charge which is typically set between 100% and 200% of costs. These arrangements are not consistent with the equity objective. The lump-sum connection charge of Rp.200-300,000 effectively prevents the poor from gaining access to subsidized piped water. As a result, the domestic consumption subsidy disproportionately benefits the better-off users who are able to afford the connection charge and who consume water much more heavily than low-income users. The structure of the cross-subsidy is also inconsistent with the efficiency objective. Excessively high industrial and commercial tariffs add to production costs and may induce some companies to provide their own supplies, leading to inefficient overextraction of ground water resources.

4.56 Local implementation of the central tariff policy also fails to meet the revenue objective of full cost recovery. Estimates show that in 1987 the majority of water enterprises recovered less than the full costs of supply and about one fifth of them failed to cover operating expenditures. This unsatisfactory financial performance reflects several factors: (a) setting average tariff levels below users' willingness to pay; (b) poor investment choices in financially non-viable water supply schemes; and (c) weak management capacity resulting in high unit costs of supply because of unaccounted water losses and inflated overheads.

4.57 It will be important to develop a strategy to overcome these deficiencies in the tariff structure if the rapidly growing needs for urban water supplies are to be met in future. The main elements could be to: (a) raise the average tariff to a level which meets the financing objective by providing an adequate rate of return on capital, including assets created by grants and equity contributions; and (b) simplify and redesign the tariff structure. For efficiency reasons, the cross-subsidy tax on industrial and commercial users could be dropped. However, for equity reasons, the surcharge could be shifted onto heavy users of domestic water supplies (for households using over 30 $m^3$/month) who are most likely to belong to higher-income households. The cross-subsidy can then be targeted to the poor, in the form of subsidized connection charges to lower income families and subsidized standpipe connections for the poor. Alternatively, it could be provided in the form of subsidized lifeline rates for very low

levels of household consumption (below 5 $m^3$/month). The above strategy might be applicable to all large and medium sized cities and towns, and in particular to the Jakarta metropolitan area where opportunities for cross-subsidy from well-to-do consumers exists. To be effective, the strategy would need to be supplemented in many cases with a policy for charges for groundwater reflecting the economic cost of ground water extraction. For small towns in underdeveloped regions, full cost recovery may not always be feasible. In these cases, to ensure that the central government grant funds are properly utilized, it will be important to undertake a proper economic evaluation of water supply investment to examine the least-cost solution for improving the water supply to acceptable standards for the low-income part of the population.

Social Services

4.58 Education and training. School fees at primary level were phased out in the late 1970s because they were seen as inconsistent with the public good nature of primary education as reflected in the Government's policy of compulsory schooling through grade 6. Public secondary school fee levels are set by the head of the provincial education office for each secondary school. School principals can grant students a partial or complete exemption from fees but few students (about 2%) request such an exemption. In higher education, individual universities are classified into one of the several student fee categories established yearly in the Joint Decree of the Minister of Education and Culture and the Minister of Finance.

4.59 Public secondary school and university fee revenues are collected monthly, remitted to the Ministry of Finance, and then transferred back to schools in the form of a quarterly grant (the DPP). The DPP is intended to meet most non-salary operations and maintenance needs of individual schools, while salary costs are met largely by the routine budget. School fee receipts (SPP) and the corresponding grants (DPP) account for a relatively small proportion of central government recurrent outlays on secondary education (8%), and a larger proportion for higher education (18%). An important form of extrabudgetary financing for public schooling is the parents' association contribution (BP3) for primary and secondary schools. The amount and use of the BP3 contribution is determined jointly by parents and school principals. Receipts from the BP3 contribution are retained by the school and are entirely extra-budgetary. A uniform per-student contribution is established for each school. Payment by parents is considered mandatory, although parents who cannot afford it can request to be exempted from payment. There is no restriction on the size of the BP3 levy for public primary schools. For public secondary schools, it is limited to the amount of school fees for a particular school, but schools can raise additional funds by informally imposing a registration fee for new students. In affluent urban communities, the amount of this registration fee is often very high. Overall, it appears that communities throughout Indonesia contribute significantly to improve the quality of their schools through BP3 contributions. For example, estimates for several secondary schools in Java show that BP3 monthly contributions and the informal registration fee together accounted for 80% of total non-salary recurrent resources.

4.60 For primary and lower secondary education, higher cost recovery is not appropriate, but may be justified for upper secondary education, particularly in vocational specializations. Beneficiary charges in the form of secondary school fees and BP3 contributions already finance a substantial share of total recurrent outlays. Higher charges at the primary or lower secondary levels are likely to conflict with the Government's policy of initiating compulsory schooling through grade 9 during REPELITA V. However, higher cost recovery for upper secondary public education might be considered to help defray the higher costs of courses in vocational and technical specializations. For higher education, which is more a private good than a public good, there is significant scope to increase the level of cost recovery, provided it is combined with provision for needs-based scholarships or student loan assistance.

4.61 Appropriate forms of cost recovery for vocational training are desirable for several reasons: to defray public costs of activities which yield direct private benefits, to generate adequate revenues to permit the programs to attract and retain qualified instructors with work experience, and to encourage involvement in the design of training programs by the enterprises which employ their graduates. However, there is generally no cost recovery in government-provided vocational training programs, notably in those provided by the Ministry of Manpower. Cost recovery will need to be introduced together with ongoing efforts to upgrade the quality of these programs. This could take the form either of trainee user charges or of a levy or an earmarked training tax on enterprises which recruit the graduates of public training programs. Alternatively, client charges could be introduced for enterprises which draw upon the services of the Industrial Training Development Units (ITDUs) which are being piloted by the Ministry of Manpower to provide assistance to enterprises in establishing and improving in-plant training programs.

4.62 Health services. Although Indonesia has adopted a policy of charging fees for services, the revenue yield is low with only 10% of total recurrent expenditure recovered through user charges. Although cost recovery ratios are higher for hospitals, averaging about 20%, even these are low compared to the performance of some developing countries. For example, cost recovery in hospitals averages 40% in Thailand and about 80% in China. These figures suggest that there may be scope for mobilizing additional resources by raising user charges in Indonesia. However, caution is needed before any increase in charges is adopted in order to ensure that equity and efficiency objectives are also adequately reflected in the fee structure.

4.63 For equity reasons it is desirable in principle to charge higher prices to the better-off and lower prices to the poor, provided that fees are consistent with ability to pay in order to maintain utilization of necessary health services. This need for selectivity in targeting fees substantially limits the potential revenue impact of pricing policy in the health sector. The price discrimination can be achieved in three main ways: within facilities, by targeting price increases to achieve full cost recovery for the higher quality classes of hospital inpatient accommodation which tend to be self-selected by the better-off; among individuals, by

targeting price increases at those who are protected by health insurance coverage, in particular at beneficiaries of the ASKES health insurance scheme for public employees; and among geographic regions, by targeting price increases to facilities in higher income regions. Regional differentiation of fees by income level would need to be linked explicitly with a policy of redistributing central subsidies from richer to poorer regions in order to compensate for their lower ability to pay.

4.64 For efficiency reasons, it would also be appropriate to consider redesigning the tariff structure. In particular, for curative care, higher fees need to be charged for hospital than for health center outpatient visits, and also for non-referred use of higher level hospitals, in both cases in order to encourage efficient use of the health service referral system. At the same time, fees should not be charged for preventive health services including immunization, other communicable disease control activities (e.g., malaria and tuberculosis control), prenatal care and health education.

4.65 Measures to strengthen cost recovery policy in REPELITA V need to be accompanied by improvements in the availability and efficiency of health insurance coverage in Indonesia. Since insurance coverage is a key criterion for price discrimination, the currently low base of enrollment serves as a major practical constraint on achieving significant increases in cost recovery. Options for consideration include the following. First, there is a case for raising ASKES premiums in order to reimburse the cost of services. Estimates show that ASKES reimbursements presently recover only about 20% of actual costs, resulting in a disproportionately large public subsidy to these better-off users. Those covered could also be required to pay an out-of-pocket copayment (either a deductible or coinsurance for services provided) instead of benefiting from first-rupiah insurance coverage. As well as serving the objectives of revenue generation and equity, this would promote efficiency by reducing the strong incentive on the demand side for ASKES beneficiaries to overuse services in the face of presently zero net prices. Second, efforts to implement the PKTK proposal to extend mandatory health insurance coverage to private sector employees could be encouraged, but only on an experimental basis in order to clarify an appropriate design. To satisfy the revenue objective, particular attention needs to be given to ensuring that payroll deduction rates and associated reimbursement levels are set high enough to achieve full cost recovery for public services. Third, efforts to promote extension of rural health insurance through the dana sehat will need to be reassessed, on the grounds both that past performance has demonstrated their inability to provide efficient insurance coverage, and also that poor rural villagers need to be protected from price increases which would necessitate provision of health insurance coverage.

4.66 Family planning. The Government is reexamining its policy of subsidizing family planning services for those who have the capacity and willingness to pay for contraceptives from private sources. However, its goals for expanding contraceptive prevalence to achieve target rates of population growth may conflict with this plan to transfer increasing responsibility for family planning services to the private sector. Not only are the costs of family planning service delivery higher in areas

where there is most scope for expansion of the program, but also potential users in those areas have lower average income and are thus less able to pay for the costs of privately provided services than are most current users who receive free family planning services under the public program. In order to avoid this potential conflict, the public program will need to discriminate carefully between those users who can pay for family planning services, while concentrating its efforts on providing free or subsidized services to users who are not able to pay.

## D. Selected Issues in Public Sector Management

### Public Enterprise Reform

4.67 Indonesia has 214 centrally owned and numerous provincial and local public enterprises (PEs). The central enterprises operate in a variety of sectors such as agriculture, manufacturing, trading, banking, other services and public utilities. They are classified under three categories, departmental agencies, state corporations and limited companies and are supervised by 14 ministries. The objectives of PEs are to: (a) earn profits and contribute to government revenues; (b) contribute to national economic development; (c) provide public utility services; (d) undertake pioneering activities that the private sector would not; and (e) provide guidance to the private sector and cooperatives and complement their overall activities. PEs are required to prepare corporate plans on a rolling basis though, until now, less than half have been able to comply with this condition. The annual budgets of PEs are examined by their supervising (technical) ministries and the Ministry of Finance (MOF) which provides subsidies, equity, etc. for them in the government budget. PEs are required to submit monthly financial reports to their supervising ministries and MOF. The audit of PE accounts is undertaken by an independent audit agency (BPKP).

4.68 Problems of the PE sector. As noted in Chapter 2, the overall financial performance of PEs will need to be improved. The current capacity utilization rate for many non-financial enterprises is reported to be 50%, and overstaffing is believed to be serious in most of the PEs. Some of the factors contributing to these difficulties relate to internal management problems and technical difficulties. But there are many systemic bottlenecks emanating from the Government's policy framework for PEs. A first problem is the multiplicity of objectives. While the Government has classified PEs into different categories and stated the general objectives for them, the conflicts between objectives continue to exist and have not been resolved at the individual enterprise level. A second problem is limited accountability. There is no evidence of a general agreement on performance criteria and indicators of the entire sector or for groups of enterprises. In the absence of a performance oriented approach, the tendency has been to focus on procedural compliance. A third difficulty is constraints on PE autonomy. In general, bureaucratic involvement in the day-to-day management of PEs is reported to be widespread.

4.69 Policy framework for the PE sector. In recognition of the need to improve PE sector's performance, the Government is working on an action plan to reform the PE sector. The current focus is to identify enterprises which can enter into joint ventures with the private sector or issue shares to the public. This is an important start. However, most of the problems constraining PE performance, identified above, cannot be resolved in the short term. There is clearly a need to develop a medium to long-term (5-10 years) perspective to reform the sector in light of the country's changing environment and priorities and the cummulative experience in managing PEs so far. The starting point has to be a careful review of the Government's objectives for the PE sector given the present focus on efficiency and private sector development, followed by an appropriate classification of areas or sectors of activity in which PEs will continue to operate and sectors from which PEs will exit. As a general criterion, the production and distribution of purely private goods and services are best left to the private sector. Even for natural monopolies and public utilities, over the long term the Government may wish to regulate their operations rather than own them. Alternatively, joint ownership with private partners may be considered, especially if the judgement is that complete private ownership is infeasible. State ownership will progressively need to be confined to strategic and quasi-public or social goods producing enterprises.

4.70 The Government's planned divestiture program has to be seen as a part of this broader framework. Experience with divestiture suggests that a cautious approach is needed. The problem areas that require careful attention include the following. First, there is a potential conflict of interest in that governments do not want to sell profitable enterprises and private parties do not want to buy the unprofitable ones. Marketability is therefore a key issue. Second, schemes to sell public enterprise shares in an underdeveloped capital market could result in slow or weak response. So, the existence of a relatively active capital market will be necessary to divest state enterprises through a sale of shares. Third, divestiture may lead to some loss of employment and compensatory measures may be needed. This could constrain progress as governments typically want to minimize the compensation burden on their finances. Fourth, there may be thorny issues regarding asset pricing and in the handling of liabilities of enterprises proposed for sale which could drag the divestiture process over a long period of time. Finally, an important lesson is the need for transparency when enterprises are to be sold. Public debate is inevitable; the challenge is to inform this debate with a balanced appreciation of both the costs and benefits of privatization.

4.71 These considerations may limit the scope and pace of a divestiture program in Indonesia and this makes a broader reform of the PE sector even more imperative. In view of the problems highlighted above a reform of the institutional framework will involve: (a) setting clear objectives for enterprises which can be translated into quantified and monitorable targets; (b) selecting managers capable of operating a commercial venture and compensating them adequately; (c) providing managers with sufficient autonomy to achieve agreed objectives; (d) holding managers accountable for results and linking incentives to performance; and (e) limiting government's role primarily to setting the policy framework for state enterprises, appointing managers, setting performance targets, monitoring and rewarding performance.

4.72 Corporate plans can be used as a basis to agree upon medium-term goals and strategies for PEs. If this is difficult, relatively simple performance contracts can be negotiated on an annual basis between PE managements and the Government. Contracts have been used with varying degrees of success in France and a number of Francophone African countries. Apart from enhancing accountabilty, the very process of discussing and negotiating agreements can be instructive for both the Government and the PEs. Once goals and targets are agreed upon, the PE management will need to be given the required degree of autonomy to operate and achieve the results expected of them. Some general guidelines are: (a) the proper role of the Government would be to exercise strategic control while PE managers would have operational control over their enterprises. Strategic control implies a decisive role in goal setting, key investment and financial decisions, appointment of the board of directors and chief executive, compensation and incentives for senior managers, performance monitoring and evaluation, and audit. Within this framework, PE managers would evolve their systems and practices and take operational decisions; (b) the more competitive the environment, the greater the scope for PE autonomy. The use of departmental procedures such as a priori control over items of expenditures would need to be minimized except for those noted above. PEs will need to be encouraged to adopt commercial practices; and (c) for PEs operating in a non-competitive setting, the degree of autonomy given may be of a lower order. Regulation of prices, control over personnel compensation, etc., may be necessary in such cases. Even in these cases, however, there is a need to focus increasingly on key performance indicators rather than on detailed day-to-day controls.

4.73 Accountability for results can be enforced only when there are agreed upon targets, good information systems, and an effective organizational focal point within the Government to monitor, evaluate and reward or penalize managers. Creation of a viable accountability system is therefore essential. Performance indicators would be few, easy to measure, and weighted in terms of relative importance. Measures of public profitability, total factor productivity, etc., have been used in some countries (as, for example, in Korea). Under monopoly conditions, cost indicators would be more appropriate. The performance monitoring, evaluation and reward system would be located outside the technical ministries which supervise PEs. This is to ensure greater objectivity and the use of common standards wherever possible. To ensure motivation, the performance linked incentive system would need to follow up evaluation through the provision of bonuses for PE managers and staff as is being done in some other countries. Non-monetary incentives also could be used to motivate managers even in commercial PEs.

4.74 For the proper balance between accountability and autonomy to function, it is important to clarify the relations between the Government and PEs. In Indonesia, an oversight agency in the Ministry of Finance and supervisory units in technical ministries are already in place. The challenge is to ensure their competence and proper functioning. The oversight unit could play the performance evaluation role while the PE boards and supervising ministries could lead the goal-setting and contract-making process. This approach calls for an arms-length relationship between ministries and their PEs. If ministries and senior ministry

officials are to negotiate goals for PEs and hold them accountable, they would not be involved in their day to day operations and receive benefits from PEs. PE management boards would be small, but professional in orientation, with members who understand the business, and who can question and guide the management. Most of the ministry's policy making and review function for individual PEs would move to the PE boards. Strengthening PE management is another important aspect of PE reform. Experts outside of government would have to be brought into PE boards. Personnel policies and compensation systems would need to facilitate recruitment and retention of competent managers.

Decentralization

4.75 The objective of decentralization is to provide more opportunities for local initiative in planning and implementation of public sector programs and projects in order to reduce the fiscal and administrative burden on overstretched central ministries. There are several indicators of progress towards decentralization in Indonesia. First, local governments have an identity of their own and they do perform a mix of functions at the grassroots level. Second, through the INPRES programs, local governments have been given authority to manage considerable budgetary resources and have developed considerable experience and some expertise in implementing a variety of projects. Third, local governments have worked with central and provincial government staff, and donor agencies, and have developed some measure of institutional capacity which is a useful foundation for coping with further growth and greater responsibilities in the future. Fourth, through PP No.14/87, the Government has decentralized selected public works functions. The Government intends to strengthen this move towards decentralization over the longer term. For example, in his 1988 Independence Day Speech, the President of Indonesia indicated that decentralization will be a major thrust of government policy during REPELITA V.

4.76 The basic structure. The Indonesian regional government system operates at four levels: province, kabupaten (district) or kotamadya (municipality), kecamatan (subdistrict), and desa (village). Law No. 5 of 1974 sets out the basis for the system, concentrating on "first" level (province) and "second" level (district or municipality) regions. There are 27 provinces, varying greatly in area and population. Outside the special provinces of Jakarta and Yogyakarta, there are three provinces in Java each with populations between 25 and 29 million; Kalimantan, by contrast, has four provinces with a combined population of 6.7 million. Kabupaten and kotamadya have equal status as second level authorities. There are 339 of these authorities, of which 49 are kotamadyas, constituting the larger towns, while kabupatens cover smaller towns and the whole of the rural area. Below the kabupaten and kotamadya are approximately 3,600 kecamatans and 66,000 desas. The structure of desa (village) administration varies greatly between provinces, partly reflecting differences in local traditional organization.

4.77 Each level of regional government is headed by an administrator who is both the chief executive of the regional authority and representative of the Central Government with coordinating powers in respect of all services. To assist the chief executive at each level,

there is a secretariat. In practice, the strength and effectiveness of these secretariats varies greatly from province to province, and between regencies and municipalities in the same province. Each province has also a regional Development Planning Board (BAPPEDA). The BAPPEDAs, which are constituted separately from the secretariat, directly assist the governor in preparing the overall provincial plan and the province's sectoral five-year development plans, formulating annual implementation plans to be financed by the province and the Central Government, and supervising implementation, monitoring and evaluation activities.

4.78 Functional responsibilities are conferred upon regional governments by regulation and they vary among provinces. Responsibility for primary education, public health (excepting communicable disease), provincial and district roads, agriculture, animal industry, plantations, fisheries and forestry is universally devolved on regional government. Some other functions such as traffic control and social affairs are delegated to a few of the larger provinces only. Regional government services are discharged at the provincial and district level by sectoral agencies known as DINAS. These are departments of the regional government under the administrative control of the governor, walikota or bupati. They are subject also to technical supervision and guidance by the appropriate technical agency at the superior level. Central government responsibilities at the provincial and local levels are normally discharged by a regional "vertical" office known as the KANWIL. The relationship between KANWIL and DINAS varies according to the practice of each central ministry and is also different from one province to another. There are, of course, many KANWILs which have no relationship to a DINAS since local government has no responsibility in their field.

4.79 Emerging problems. The Government has made progress in strengthening provincial and local governments. Even so, there are a number of factors which stand in the way of full scale decentralization. These include:

(a) At the local level, there is evidence of a move from implementation to the planning or design of projects and related activities. However, the latter continues to be primarily the responsibility of higher levels of government, especially the central technical ministries. In some sectors such as urban development, local authorities are beginning to play an increasing role in the planning function. But this is less true of other sectors such as education and health where central control of design continues to be strong.

(b) Local governments are small organizations with limited staff and technical competence. Local personnel have no career or transfer prospects outside of their government. Training opportunities and facilities for their development are far more limited than for those at the central or provincial level. It is, therefore, more difficult for local governments to attract and retain good people. The lower the quality of personnel, the greater the reluctance of higher levels of government to give them increased responsibilities. The distrust of local capacity is thus perpetuated by this vicious circle. An intermediate solution has been to reassign central staff to local agencies.

(c) The move towards decentralization may lead to numerous conflicts of interests and legitimate concerns which will tend to delay progress. First, increased decentralization necessarily entails a sharing of power between different ministries and levels of government. Second, many civil servants located in Jakarta would be required to move to the provinces and lower level, raising many legitimate social concerns relating to relocation.

(d) At present, central transfers still account for 75% of total revenues of combined local governments. The pattern of grant allocation also does not provide any incentive to regions to mobilize more local resources. The steady growth of central funding has clearly displaced the contributions of the community to village development projects. The fiscal dependency of local governments on central transfers will make the reversal of this trend an up-hill task.

4.80 Prospects. The above factors will constrain overall progress towards decentralization. However, even if a comprehensive move to decentralization is not feasible in the near term, further progress can be made, especially in sectors and in regions which are more ready for experimentation in this area. For the country as a whole, there is a strong case for involving local governments in the design and planning of projects so that they can take on increased responsibilities and build on what they have learned from implementation. This is a logical sequence and one in which central and provincial technical agencies could assist them. Such a shift will need to be supported by the following actions:

(a) The local revenue mobilization capacity will need to be substantially strengthened along the lines reviewed in Chapter 2. This is an essential requirement for effective decentralization. It will be important to transfer an increasing share of Central Government funds as loans serviced by the locally-mobilized revenues.

(b) Central and provincial agencies will increasingly need to play the role of guides to local governments, providing them with technical assistance to improve their quality and standards of performance. Central staff, for example, will need to work together with their counterparts at the local level so as to build the latter's planning competence.

(c) A careful review of the functions of the central offices at the regional level and of the provincial and local government offices concerned with such work will need to be undertaken so that overlaps and conflicts are minimized and organizational structures are rationalized.

(d) The planning and budgeting system in local governments will need to be streamlined to facilitate the proposed increased role in design and possibly in resource mobilization. This is the only way to instill greater responsibility and accountability at the local level.

(e) Greater attention will need to be given to personnel system reform at the local level so as to attract and retain better quality people. Opportunities for transfer, career development, and promotion within the province is one obvious option to consider. Stronger incentives for some of the central technical staff to move to local governments (which will also reduce overstaffing at the center) is another. The need for improving training opportunities to local staff cannot be overemphasized. A beginning can be made to streamline the personnel system by improving job analysis, job descriptions and general information systems on a pilot basis and extracting its lessons for replication on a national scale. Phased graduation from implementation to design and then to resource mobilization and management cannot be achieved without strengthening local institutional capacity.

Modernization of the Civil Service

4.81 Indonesia's Central Government consists of 21 ministries and 18 non-departmental government institution. Civil servants are divided into four echelons with 90% of the top and middle level management positions belonging to the Central Government. The present structure of the civil service is the outcome of a major administrative reform carried out in 1974. No such major reforms have been undertaken since then. The key agencies with primary responsibilities for continuing administrative reform and personnel management are the Ministry of Administrative Reform (MENPAN) and the Civil Service Administration Agency (BAKN) respectively.

4.82 The recent moves toward increased deregulation and decentralization are likely to have important and far-reaching implications for the size, structure and functions of the Government and for the civil service in particular. The main issues are as follows:

(a) The number of civil servants has doubled in the last decade (from 1.8 million in 1978 to 3.6 million in 1988). The share of personnel expenditures in Central Government routine spending (excluding debt service payments) has grown from 53% in 1979/80 to 83% in 1989/90. Overstaffing is reported to be of the order of 30-50% in many agencies.

(b) The Central Government's dominant role is expected to shift to the analysis of policy options, guidance and technical assistance to other levels of government, and the monitoring and evaluation of performance.

(c) The mix of central civil servants will need to shift in favor of more educated and skilled personnel who need to be better equipped to perform the policy analytic and supportive roles referred to above. At present, only about 15% of civil servants have university-level training. Nearly a third have had only junior high school or less education. The vast majority of civil servants are thus not equipped to play the new roles expected of the civil service.

(d) The organizational structure of the Government will require rationalization to eliminate overlaps and conflicts.

(e) A behavior based more on collegiality and the use of knowledge and less on authority and rank will have to be created.

(f) Nearly 90% of the civil servants belong to the Central Government, though about half of them are deputed to the regions or other institutions. Over 40% of all civil servants are employed by ministries. The permanent cadres available to the regional governments which might be given increased responsibilities are negligible in number. This pattern is not consistent with the concept of increased decentralization.

4.83 The compensation policies and practices of the Government need careful review. The nominal compensation packages seem inadequate at all levels, but the reality is that the actual incomes of many civil servants are much higher. Many receive extra payments for being involved with project-related work. Those supervising PEs receive payments such as sitting fees which add to their income. Many others hold part-time jobs which enhance their earnings. The negative consequences of such practices are several. Activities which offer additional payments naturally receive more attention than others. The neglect of O&M, for example, could be partly attributed to this tendency. Those who benefit monetarily from PEs will certainly tend to keep close links with them and will be averse to their divestiture and any other actions which upset the status quo. This is an inefficient arrangement because only some ministries and persons benefit from the system while others performing equally important and legitimate duties are compensated on a different basis.

## RECENT ECONOMIC DEVELOPMENTS

### Economic Activity

1. Total Gross Domestic Product (GDP) rose by an estimated 4.7% in 1988. Most of this expansion came from the non-oil economy, which grew by 5.6%, compared to 4.6% in 1987 (see Table 1). Within the non-oil economy, performance was buoyed by the recovery of growth in agriculture following the 1987 drought, with favorable weather conditions resulting in record rice production. Faster growth in manufacturing was also a major factor, reflecting the continued strong performance of manufacturing exports.

Table 1: GROWTH IN SECTORAL VALUE ADDED, 1978-1988 /a
(% p.a. at 1983 prices)

| | Average 1978-82 | Average 1983-86 | 1987 | 1988 | Sector shares in 1988 (% of GDP) |
|---|---|---|---|---|---|
| Oil/LNG sectors | -2.5 | 3.3 | 0.9 | 0.7 | 19.2 |
| Oil & gas | -4.5 | -0.2 | -0.1 | -1.4 | 14.5 |
| LNG & refined oil | 21.8 | 20.6 | 4.6 | 7.8 | 4.7 |
| Non-oil sectors | 6.9 | 4.0 | 4.6 | 5.6 | 80.8 |
| Agriculture | 5.0 | 3.6 | 1.8 | 3.8 | 23.2 |
| Mining | 9.2 | 12.6 | 10.1 | 18.9 | 1.3 |
| Manufacturing | 9.3 | 5.6 | 7.1 | 9.0 | 9.5 |
| Construction | 11.0 | 0.1 | 4.2 | 7.0 | 5.7 |
| Other services | 9.3 | 4.2 | 5.7 | 5.4 | 41.1 |
| Gross Domestic Product (GDP) | 5.3 | 3.9 | 3.9 | 4.7 | 100.0 |

/a CBS is currently reviewing its data and methodology for estimating GDP. This is expected to result in higher estimates of real growth rates for some sectors, especially in 1988.

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

2. The Oil/LNG sector grew by 0.7% in 1988, slightly down from 0.9% in 1987, mainly because of lower oil production. Oil production fell from 1.38 million barrels a day (MBD) in 1987 to 1.35 MBD largely due to marketing difficulties encountered over the July-November period.1/ The growth of

1/ This was a transitory problem resulting from price negotiation differences between Indonesia and her buyers. OPEC agreements required that Indonesia use a reference price of US$17.5/barrel for export contracts during 1988. As market prices were much lower, Indonesia had to negotiate a policy of buyer incentives to sell its oil.

domestic gas production also slowed down, from 10.3% in 1987 to 6.3% in 1988. Value added from refinery and LNG/LPG continued to show strong growth due to increased LNG exports resulting from two new LNG contracts signed with Japan and the start of LPG delivery to Japan based on the 1987 contract. As a result of these new contracts, LNG production expanded by 9% to 920 trillion BTU in 1988. The first LPG shipment of the 1987-contracted 1.95 million tons per year (about 100 trillion BTU) to Japan started in July 1988, which contributed to the continued strong growth in value added from refinery/LNG.

3. Agricultural production is estimated to have grown by 3.8% in 1988, a significant improvement over the 1.8% estimated for 1987. This primarily reflected the recovery of agriculture from the adverse effects of the delayed rainfall and drought that depressed last year's performance. The Ministry of Agriculture estimates rice output to have grown by a strong 3.8% in 1988, primarily due to increased yields with area rising only slightly. Most other food crops are also estimated to have recovered strongly from the drought, with estimated growth rates of 20% for corn, 7% for soybean and 13% for cassava. While the unusually strong growth in corn partly reflected the cropping cycle (five crops in two years), it also resulted from the adoption of improved open-pollinated HYV and hybrid corn varieties and area gains. Sugar production is estimated to have increased primarily due to output expansion from public estates on the Outer Islands (e.g., Lampung and Kalimantan). However, sugar imports have increased and some land on Java has been switched out of sugar into more profitable rice production.

4. Non-food agriculture also performed well, with the continued expansion in tree crops (particularly oil palm) supported by solid gains in other cash crops (e.g., shrimps, coffee, tea). While the strong growth in oil palm production for 1988 (over 10%) may partly be due to under-reporting in previous years, it also reflected the coming-on-stream of past PIR and NES investments as well as private investment. With respect to other cash crops, domestic shrimp production continued to expand rapidly, as indicated by the 20% gain in shrimp export volumes during 1988. This sector has attracted considerable foreign investment and has recently made renewed efforts to improve quality control to address concerns in some importing countries, particularly the United States. Both coffee and tea have recovered well from the drought, with coffee production being encouraged by an increased export quota allocation and a new government initiative to upgrade quality.

5. Growth of the manufacturing sector (excluding LNG and oil refining) accelerated to an estimated 9.0% during 1988, compared to 7.1% in 1987 and an average 5.6% p.a. over the period 1983-86. This resulted from strong growth across a wide range of manufacturing activities in response to the series of measures that the Government has taken to improve the overall incentive and regulatory framework. Clearly much of this expansion stemmed from the sustained and broadly-based increase in manufactured exports. While traditional manufactured exports (i.e., textiles and plywood) continue to play an important role, an increasing proportion of output growth is being derived from non-traditional manufactured exports. Growth has been particularly strong in the glass, paper, rubber products and footwear industries. Although the strong performance of the manufacturing sector has raised capacity utilization levels across many industries, the surge in foreign and domestic private investment is moderating supply constraints and should sustain growth over the medium term.

6. Construction sector activity is also estimated to have picked up in 1988, rising by about 7.0%, compared to 4.2% in 1987 and 0.1% during the period 1983-86. The improved performance of the construction sector reflected the higher demand for construction services brought about by the surge in private investment. The services sector has also gained from stronger private sector growth, expanding by an estimated 5.4% in 1988. This growth was spread fairly evenly across transport, communications, utilities and financial services. A continued strong performance of tourism has also contributed to the growth in services sector activities. Total tourism receipts have doubled over the last two years and are now estimated to exceed US$1.3 billion, making tourism one of Indonesia's major foreign exchange earning activities.

7. Income and Expenditure. Indonesia's gross national income (GNY) continued its recovery from the 1986 decline, growing by 4.8% in 1988 compared to 4.7% in 1987 (see Table 2). This allowed a notable recovery of domestic investment and consumption, especially in the private sector. Public consumption and investment rose by 1.5% and 6.3% respectively in 1988. The growth of private consumption rose from 3.3% in 1987 to 4.4% in 1988. At the same time the growth of private investment accelerated from 4.9% in 1987 to 7.6% in 1988. This reflected a strong response to the non-oil export boom and continuing improvements in the incentive framework for private sector development resulting from the regulatory reforms.

Table 2: INCOME AND EXPENDITURE, 1978-1988
(at 1983 prices)

| | Growth rates (% p.a.) | | | | Share in GDP (%) |
|---|---|---|---|---|---|
| | Average 1978-82 | Average 1983-86 | 1987 | 1988/a | 1988 |
| Consumption | 9.3 | 2.8 | 2.2 | 4.0 | 69.3 |
| - Public | 12.6 | 3.6 | -3.7 | 1.5 | 9.8 |
| - Private | 8.7 | 2.6 | 3.3 | 4.4 | 59.5 |
| Fixed investment | 10.7 | -6.5 | 1.9 | 7.0 | 19.0 |
| - Public | 12.6 | -11.1 | -1.7 | 6.3 | 8.2 |
| - Private | 9.1 | -2.3 | 4.9 | 7.6 | 10.8 |
| GDP | 5.3 | 3.9 | 3.9 | 4.7 | 100.0 |
| GNP | .. | 4.3 | 4.1 | 4.7 | 96.3 |
| GNY | 6.5 | 1.3 | 4.7 | 4.8 | 88.6 |

/a Preliminary.

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

The Balance of Payments

8. Indonesia's balance of payments was adversely affected by the decline in oil prices during 1988/89 (see Table 3). Net oil/LNG earnings are estimated at US$3.0 billion, 21% lower than in 1987/88 and only about half of the level in 1985/86. However, the impact on the current account has been partially offset by the continuing strong performance of non-oil exports. Non-oil export earnings reached an estimated US$12.1 billion in 1988/89, 27% higher than the year before. Although non-oil imports also rose strongly, in response to the recovery in economic activity and the recent trade reforms, the non-oil current account was further reduced in 1988/89, indicating the continuing success of the Government's adjustment program. Overall, the current account deficit rose slightly to US$1.9 billion (2.5% of GNP). Financing of this deficit was facilitated by disbursements of special assistance from IGGI members, which reached US$2.0 billion in 1988/89. However, because of a net outflow of "other" capital (including errors and omissions) and the lower-than-expected oil prices, net foreign assets of the banking system declined over the year. Net official reserves also fell to around US$5.4 billion, covering 3.7 months of (higher) import requirements.

9. Exports. International oil prices weakened in 1988/89; the decline was very sharp between July-November 1988, but a recovery happened starting in December. Overall, the average export price reached US$15.1/barrel, lower than US$17.6/barrel obtained in 1987/88. Combined with lower exports of crude and petroleum products, resulting from a production fall, gross earnings from oil exports fell to US$5.2 billion in 1988/89, from US$6.2 billion in the previous year. The volume of LNG/LPG exports grew by 10% in 1988/89 partly due to the two new Japanese contracts. The first shipment of LPG to Japan also commenced in July 1988, contributing to the higher LNG/LPG export volumes. Although the average LNG price was somewhat lower than in 1987/88, the impact of the reduction in oil prices was not fully transmitted to LNG prices. This happened because of the longer-term nature of LNG contracts which caused the LNG price to be artificially sustained at its previously negotiated higher level which was based on the GSP price of oil.2/ The Government has agreed to compensate the buyers the overpayment resulting from this source. The terms and conditions for this overpayment (about US$126 million) are still under negotiations. The higher LNG (including LPG) volumes resulted in an increase in export earnings from this source to US$2.5 billion despite a small decline in realized average price. Overall, total gross earnings from oil and LNG in 1988/89 fell to US$7.7 billion, from US$8.6 billion in the previous year.

10. Indonesia's non-oil exports grew an estimated 13.6% in real terms during 1988/89, exceeding the projections made in last year's Economic Report. This strong performance has been underpinned by the continued rapid expansion in manufactured goods exports (see Table 4). Of particular note is the 45% real growth in the wide range of products grouped together under "other" manufacturing. The strong growth of this diversified group of commodities

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2/ The GSP refers to the official OPEC reference price for Indonesian crude. The GSP for 1988 was set at US$17.5/barrel. The actual market price of crude was in the range of US$11.0-15.0/barrel between July-December 1988.

Table 3: BALANCE OF PAYMENTS, 1982/83-1988/89
(US$ billion at current prices)

| | Actuals | | | | Estimate |
|---|---|---|---|---|---|
| | 1982/83 | 1985/86 | 1986/87 | 1987/88 | 1988/89 |
| Merchandise exports (fob) | 18.6 | 18.5 | 13.7 | 18.1 | 19.8 |
| Oil & LNG | 14.7 | 12.3 | 7.0 | 8.6 | 7.7 |
| Non-oil | 3.9 | 6.2 | 6.7 | 9.5 | 12.1 |
| Merchandise imports (cif) | -20.6 | -14.4 | -12.7 | -14.2 | -15.5 |
| Oil & LNG | -4.8 | -3.2 | -2.3 | -2.4 | -2.1 |
| Non-oil | -15.8 | -11.2 | -10.4 | -11.8 | -13.4 |
| Trade balance | -2.0 | 4.1 | 1.0 | 3.9 | 4.3 |
| Non-factor services (net) | -1.7 | -1.9 | -1.6 | -1.5 | -1.8 |
| Interest payments (MLT) | -1.5 | -2.1 | -2.4 | -2.8 | -3.0 |
| Other factor services (net) | -2.2 | -2.3 | -1.2 | -1.5 | -1.7 |
| Official transfers | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 |
| Current account balance | -7.3 | -2.0 | -4.0 | -1.6 | -1.9 |
| Oil & LNG /a | 7.2 | 5.9 | 2.4 | 3.8 | 3.0 |
| Non-oil | -14.5 | -7.9 | -6.4 | -5.4 | -4.9 |
| Public MLT loans /b | 4.0 | 1.4 | 2.7 | 2.1 | 2.7 |
| - Disbursements | (5.1) | (3.9) | (5.2) | (6.0) | (7.1) |
| - Principal repayments /c | (-1.1) | (-2.5) | (-2.5) | (-3.9) | (-4.4) |
| Other capital (net) | 0.0 | 1.5 | -1.7 | 0.7 | -1.6 |
| Use of net foreign assets /d | 3.3 | -0.9 | 3.0 | -1.2 | 0.8 |
| Memo items: | | | | | |
| Net official reserves /e | 3.0 | 5.8 | 5.0 | 6.0 | 5.4 |
| - Months of imports | 2.0 | 5.5 | 4.3 | 4.6 | 3.7 |
| Total net foreign assets /d | 7.5 | 12.6 | 9.6 | 10.8 /f | 10.0 |
| Current account/GNP (%) | -7.9 | -2.4 | -5.9 | -2.3 | -2.5 |

/a Gross earnings from oil/LNG exports less payments for imports and services related to the sector.
/b Includes credits for LNG expansion, LPG and paraxylene projects.
/c Includes prepayments of US$420 million in 1985/86, US$626 million in 1987/88 and US$341 million in 1988/89.
/d Of the banking system (Bank Indonesia and commercial banks).
/e Net of outstanding drawings from IMF's Buffer Stock and Compensatory Financing Facilities.
/f Excludes US$326 million of prepayments committed during the year but not completed until June 1988.

Source: Bank Indonesia and World Bank staff estimates.

reflects the underlying competitiveness of the Indonesian economy. The maintenance of an appropriate exchange rate and the series of deregulation reforms started in 1986 have played an important part in creating and maintaining this competitiveness. Mainly in response to the Government's policy actions, non-oil exports have expanded from US$6.7 million in 1986/87 to an estimated US$12.1 million in 1988/89, an average real growth of 20% p.a. over the past two years.

Table 4: NON-OIL MERCHANDISE EXPORTS, 1982/83-1988/89

| | Value at current prices (US$ million) | | | | Real growth rates (% p.a.) | | |
|---|---|---|---|---|---|---|---|
| | Actual | | | Estimate | 1982/83- | 1986/87- | 1987/88- |
| | 1982/83 | 1986/87 | 1987/88 | 1988/89 | 1986/87 | 1987/88 | 1988/89 |
| Agricultural commodities | 2,398 | 3,262 | 3,885 | 4,592 | 7.3 | 15.0 | 3.7 |
| Timber products | 575 | 436 | 627 | 760 | -4.2 | 13.8 | 9.7 |
| Rubber | 615 | 752 | 1,055 | 1,278 | 4.9 | 12.6 | 0.6 |
| Coffee | 363 | 752 | 497 | 555 | 6.7 | -11.4 | 12.0 |
| Palm oil | 103 | 114 | 214 | 328 | 15.9 | 23.7 | 12.4 |
| Tea | 116 | 106 | 119 | 138 | 8.2 | -5.3 | 9.2 |
| Shrimp | 204 | 317 | 368 | 580 | 7.2 | 56.9 | 20.0 |
| Rattan | 82 | 99 | 162 | 56 | 6.8 | 16.5 | -67.4 |
| Others | 340 | 687 | 844 | 898 | 9.9 | 23.8 | 3.0 |
| Minerals & metals | 676 | 725 | 1,080 | 1,381 | 9.9 | 15.0 | -3.5 |
| Tin | 349 | 156 | 143 | 172 | -3.0 | -8.4 | 12.8 |
| Gold | 0 | 61 | 308 | 260 | - | 347.8 | -11.7 |
| Aluminum | 48 | 201 | 245 | 313 | 53.4 | -14.1 | -27.0 |
| Copper | 115 | 144 | 186 | 227 | 5.7 | 7.0 | 7.9 |
| Nickel (total) | 139 | 112 | 146 | 350 | -1.6 | -20.4 | 20.8 |
| Others | 25 | 52 | 51 | 59 | 27.0 | -26.3 | -21.3 |
| Manufactured goods | 854 | 2,744 | 4,537 | 6,128 | 33.8 | 42.6 | 27.1 |
| Textiles | 180 | 774 | 1,283 | 1,757 | 42.0 | 50.9 | 26.5 |
| Plywood/ panel products | 324 | 1,156 | 1,834 | 2,034 | 35.5 | 29.5 | 10.4 |
| Others | 350 | 814 | 1,420 | 2,338 | 27.1 | 51.9 | 45.2 |
| Total non-oil exports | 3,928 | 6,731 | 9,502 | 12,100 | 13.6 | 25.8 | 13.6 |

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

11. Agricultural commodity exports increased moderately in 1988/89, with strong performance in timber products, shrimp, coffee, tea and palm oil, offsetting slower growth in rubber and a sharp decline in rattan. Timber products continued to expand from their low point in 1986, with solid growth

in sawn timber being supported by rapid growth in wood products. Export earnings from the two dominant estate crop exports, rubber and palm oil, continued to rise, albeit at a slower rate. Rubber export earnings held up well despite lower volume growth due to continued high world prices, whereas palm oil earnings increased due to a 12% increase in volumes and high prices. Export volumes of two important beverage crops, tea and coffee, are estimated to have grown by a robust 9% and 12% respectively in 1988/89, rebounding from the drought-induced shortfalls of last year. Coffee export earnings expanded in response to a higher quota allocation for Indonesia under the International Coffee Agreement (ICA), increased sales to non-quota countries, and a renewed effort to improve quality. The recovery of the tea sector enabled Indonesia to enlarge its share of the world market at the expense of other suppliers where domestic production has been disturbed (e.g., Sri Lanka) or where domestic consumption has shown strong growth (e.g., India). Increased domestic and foreign investment in shrimp production has supported the continued rapid growth in shrimp exports. Since the restructuring of the industry in the mid-1980s, shrimp export earnings have almost tripled, registering a further 20% volume gain in 1988/89. On the negative side, the sharp fall in the export of semi-processed rattan, down 67%, has restrained the overall growth in agricultural exports. This resulted from the Government's decision to ban the export of semi-processed rattan and webbing from mid-1988 in order to encourage domestic rattan manufacturing activities.

12. Despite an overall decline in volumes, metals and minerals export earnings increased due to the continued strengthening in world prices. The decline in volumes primarily reflects the contractual dispute concerning the large joint-venture company which exports aluminum ingots to Japan. As a result of this dispute, aluminum export volumes are estimated to have declined by 27%, although the effect on export earnings was moderated by improved aluminum prices. The estimated decline in gold exports also dampened the overall performance of the metals and minerals sector. This reflected a levelling off in the growth of gold exports following the very rapid expansion after the export ban was lifted in 1986/87. These adverse developments have been partly offset by strong performances in tin and nickel exports. Tin export earnings have increased due to a higher Indonesian quota allocation from the Association of Tin Producing Countries (ATPC) and a moderate increase in prices resulting from the gradual decline in tin stocks. Nickel output increased significantly in 1988/89 due to the reopening of the ferronickel plant. This has enabled Indonesia to take full advantage of a substantial increase in world nickel prices.

13. The major driving force behind the expansion in Indonesia's non-oil exports continues to be manufactured goods. For the second consecutive year, manufactured export earnings have contributed about two thirds of the increase in non-oil export earnings. About 57% of this increase was contributed by the diversified group of commodities group together in "other" manufactured goods. The growth in textiles slowed to an estimated 26% this year, as compared with an average growth rate of over 40% since the early 1980s. Although the further expansion of Indonesia's textile exports is constrained by quotas imposed under the Multifibre Agreement (MFA), the Government successfully negotiated a larger quota allocation in 1988 and exports to non-quota markets have also increased. The slower increase in plywood exports reflects the maturing of the domestic industry. Previously high growth rates reflected the small base from which domestic plywood production began and the fact that

Indonesia quickly took an increasing share of the world market. As Indonesia is now the dominant world market supplier of plywood, the expansion of the domestic industry will increasingly be constrained by the growth in world demand. In addition, greater concern for the environmental impact of the plywood industry on forest resources has led the Government to restrain future growth. One indication of this concern was the decision to restrict investment in new plywood capacity from mid 1988.

14. Export earnings from the diversified group of commodities that comprise "other" manufacturing are estimated to have increased from US$0.8 billion in 1986/87 to over US$2.3 billion in 1988/89, an average real growth rate of about 48% p.a. The continued strong expansion of this group of commodities reflects the increased foreign and domestic investment that has occurred in manufactured exports over the last two years. This investment has been attracted to Indonesia by both the underlying competitiveness of the economy (particularly since the September 1986 devaluation) and the series of deregulation measures which have simplified investment procedures and reduced barriers to trade. As shown in Table 5, this increase in "other" manufactured exports has occurred across a wide range of products. Many commodities that accounted for less than US$10 million of export earnings in 1985 have grown

Table 5: MAJOR ITEMS WITHIN "OTHER" MANUFACTURED EXPORTS
(US$ million at current prices)

| Products | Actual 1985 | Actual 1986 | Actual 1987 | Estimate 1988 | Nominal Growth rate 1985-88 (% p.a.) |
|---|---|---|---|---|---|
| Plastics | 1.5 | 12.5 | 24.7 | 56.1 | 232.7 |
| Ceramics | 0.5 | 1.2 | 4.5 | 14.1 | 212.8 |
| Glass & its products | 8.3 | 12.7 | 30.7 | 93.7 | 124.1 |
| Other articles of basic metal | 5.4 | 7.6 | 17.4 | 56.9 | 119.6 |
| Sandal, shoes | 8.2 | 8.8 | 23.5 | 82.6 | 116.1 |
| Furniture | 7.1 | 9.2 | 27.2 | 69.7 | 113.9 |
| Iron & steel | 34.2 | 69.5 | 196.0 | 296.2 | 105.2 |
| Paper & its products | 20.9 | 31.8 | 95.8 | 138.2 | 87.5 |
| Rubber products | 7.5 | 11.3 | 24.2 | 48.8 | 86.5 |
| Matting | 13.3 | 19.4 | 47.2 | 76.4 | 79.2 |
| Cements | 21.5 | 39.8 | 56.1 | 75.6 | 52.1 |
| Other | 93.8 | 122.7 | 91.9 | 240.7 | 36.9 |
| Processed food | 56.7 | 81.5 | 105.9 | 139.2 | 34.9 |
| Pharmaceutical products | 6.5 | 7.0 | 9.4 | 15.4 | 33.3 |
| Leather & its products | 37.5 | 43.9 | 53.8 | 77.6 | 27.4 |
| Fertilizer | 80.0 | 127.3 | 86.0 | 134.1 | 18.8 |
| Animal feed | 90.8 | 97.8 | 113.2 | 147.5 | 17.5 |
| Total | 493.5 | 703.9 | 1,007.6 | 1,762.6 | 52.8 |

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

rapidly over the past four years and now make a substantial contribution to total export earnings. Of particular note is the strong performance of the plastics, ceramics, glass, basic metal products, shoes, furniture, paper, and rubber industries, all of which have grown at over 80% p.a. in nominal terms during the period 1985 to 1988.

15. Imports. During the early 1980s, import levels were compressed as a result of the Government's efforts to reduce external and internal deficits to stabilize the economy. Although there was a proliferation of NTBs on imports during this period, most of this adjustment was rightly achieved by macro-policy instruments. An appropriate exchange rate policy was used to hold the general level of imports down, while successive real cuts in development expenditures reduced capital goods import further (see Table 6). As a result of these policies, the overall level of imports declined by an average 11.1% p.a. over the period 1982/83 to 1986/87. However, as the economy has moved from stabilization towards adjustment and growth, imports have begun to expand. Strong private sector growth (coupled with the gradual removal of NTBs) has reversed the previous decline resulting in an average 5.8% p.a. increase in real non-oil imports over the past two years.

Table 6: NON-OIL MERCHANDISE IMPORTS, 1982/83 - 1988/89

| | Value at current prices (US$ million) | | | | Real growth rates (% p.a.) | |
|---|---|---|---|---|---|---|
| | Actual | | | Estimate | 1982/83- | 1986/87- |
| | 1982/83 | 1986/87 | 1987/88 | 1988/89 | 1986/87 | 1988/89 |
| Consumer goods | 1,945 | 1,132 | 1,202 | 1,485 | -10.8 | 8.6 |
| - Food | 1,345 | 711 | 820 | 1,000 | -11.1 | 12.2 |
| - Non-food | 600 | 421 | 382 | 485 | -10.0 | -0.6 |
| Intermediate | 4,869 | 4,248 | 4,886 | 5,525 | -5.0 | 5.7 |
| Capital goods | 9,010 | 5,005 | 5,675 | 6,425 | -15.1 | 5.0 |
| Total | 15,824 | 10,385 | 11,763 | 13,435 | -11.1 | 5.8 |

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

16. Consumer goods imports are estimated to have grown by 8.6% over the period 1986/87 to 1988/89, due primarily to the growth in food imports. The growth in food imports (corn, soybeans, and wheat) was particularly strong in 1987/88 due to the drought-induced shortfall in domestic production and, in the case of soybean, to expansion of the domestic processing industry. While the growth in food imports has slowed during 1988/89 as a result of the improved performance of the agricultural sector, the effects of the drought are expected to continue to be felt for rice and sugar. Rice imports have been required during 1988/89 to rebuild national stocks, and sugar imports

have increased due to the effects of the drought on young sugarcane plantings in 1987/88 and the reallocation of land on Java away from sugar into paddy. Non-food consumer goods imports registered strong growth in 1988/89 as demand recovered from the devaluation induced decline in 1987/88. The better performance of the economy and the removal of import restrictions have also contributed to this growth.

17. Imports of intermediate and capital goods are estimated to have grown in real terms by 5.7% and 5.0% p.a. respectively since 1986/87, reversing the 11% p.a. decline between 1982/83 and 1986/87. This is primarily due to strong private sector growth, particularly those activities oriented towards the export market. A 5.6% growth of the non-oil economy and a 8% increase in real private investment have contributed to a noticeable increase in private sector imports of intermediate and capital goods. The series of government measures designed to reduce import license restrictions and to provide exporters with access to inputs at world prices have also played an important part in allowing imports to increase.

18. Capital flows and debt. Disbursements of public MLT loans totalled an estimated US$7.1 billion in 1988/89, higher than in 1987/88 (US$6.0 billion) and the average for the previous three years (US$4.3 billion). The shift in the structure of disbursements, away from commercial borrowing toward special assistance from official donors, continued during 1988/89. Because of higher non-oil export earnings, the debt service ratio stabilized at an estimated 36% during 1988.

19. Disbursements of project aid, primarily from the IGGI, rose to around US$2.4 billion in 1988/89, accounting for about one third of public MLT disbursements. Project implementation performance remained good, following significant improvements over the past two to three years. In particular, the provision of local-cost financing by donors has continued to play an important role in overcoming the shortage of rupiah counterpart funds. At the same time, the shift in the composition of new commitments toward special assistance has meant that the pipeline of project aid is now falling. Therefore, without an increase in new commitments of project aid, disbursement levels would start to decline in future years.

20. The provision of special assistance, in the form of fast-disbursing program aid and local-cost financing, made a significant contribution to financing the current account deficit over the past year. Pledges of special assistance at the 1989 IGGI meeting totalled US$2.4 billion, including US$1.7 billion from Japan (the OECF and Japan Exim Bank), US$300 million from the World Bank, US$150 million from ADB, and US$200 million from other bilateral sources. Actual disbursements of special assistance during 1988/89 are estimated at about US$2.0 billion, bringing the total over the past three years to US$3.7 billion. By financing 15% of non-oil imports in 1988/89, special assistance has played a valuable role in helping the Government push ahead with its trade deregulation measures and in facilitating the recovery of private investment and economic activity. It has also enabled Indonesia to improve the terms structure of its external debt, while maintaining confidence in financial markets about the viability of the Government's adjustment program.

21. There has been a steady decline in the use of import-related credits in recent years, with disbursements falling from a peak of US$2.1 billion in 1983/84 to less than US$1.0 billion in 1988/89. This trend reflects the Government's decision to reduce public investment in large capital-intensive projects and to place strict limits on the use of non-concessional financing under Presidential Instruction No. 8 of 1984. Disbursements of untied commercial credits totalled US$1.3 billion in 1988/89. However, the net impact on the balance of payments was less, due to US$341 million of prepayments on revolving lines of credit and more expensive bond issues.3/ With new commitments during the year of US$0.5 billion, the pipeline of undisbursed commercial credits totalled about US$2.0 billion at the end of March 1989.

22. Other capital flows 4/ had a negative impact on the balance of payments in 1988/89. This was despite a rise in direct foreign investment and net inflows of private MLT loans. The major negative factor seems to have been speculative capital outflows during the first half of the year, which peaked in October prior to the announcement of the financial sector reforms. The impact of these outflows on official reserves was partially marked by an increase in swaps with Bank Indonesia during this period. These swaps were subsequently drawn down as confidence in the Rupiah strengthened during the second half of the year. Official reserves were also adversely affected by the lower-than-expected oil prices for the year as a whole. As a result, net official reserves fell by US$0.6 billion during 1988/89 to US$5.4 billion. This level of reserves is adequate to finance 3.7 months of (higher) import requirements. Total net foreign assets of the banking system also fell over the year by US$0.8 billion to US$10.0 billion.

23. Indonesia's stock of MLT external debt outstanding rose slightly during 1988 to an estimated US$47.5 billion. Of this amount, US$43.5 billion was public debt, including US$23.4 billion of official assistance. In contrast to earlier years, there was no adverse affect on the debt burden from international exchange rate movements over the past year. Even so, total MLT debt payments (excluding prepayments) rose sharply, from US$6.7 billion in 1987 to US$7.8 billion in 1988. This trend reflects higher interest payments on the rapidly expanding stock of official assistance, and the higher principal repayments falling due on commercial credits disbursed in the early 1980s. However, because of higher non-oil export earnings, the debt service ratio stabilized at around 36% in 1988. As discussed in Chapter 2, the debt service ratio and other debt indicators are projected to decline steadily in future years.

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3/ Prepayments through June 1988 have been accounted for in 1987/88, when the related disbursements were made. By disbursing expiring lines of credit, and prepaying revolving credits, Indonesia has been able to avoid a reduction in the pipeline of undisbursed commercial credits.

4/ As defined in Table 1, other capital flows are a residual item, including direct foreign investment, oil/LNG export credits, all private capital flows, valuation adjustments, and errors and omissions.

Budgetary Developments

24. The Central Government's Budget for 1988/89 assumed an average oil price of US$16/barrel, lower than the average price for 1987/88 (US$17.6/barrel). To offset the loss of oil/LNG revenues the Budget projected a noticeable increase in non-oil taxes (by 30%). As shown in Table 7, the combination of better non-oil tax effort and strong expenditure restraint was projected to bring about a sharp reduction in the budget deficit in 1988/89 (from 2.4% of GDP in 1987/88 to 0.4%). Although the actual average oil export price was lower than expected, oil revenues exceeded the Budget target because of the use of the higher GSP price for calculating oil company tax liabilities until the end of December 1988.5/ Non-oil tax and non-tax revenues also exceeded the budgeted amounts. So, the total of domestic revenues exceeded the Budget projection. Together with larger aid disbursements, this additional revenue allowed the Government to boost expenditures from their underbudgeted levels. The budget deficit grew slightly but the austere stance of the Budget was retained. This is reflected by the fact that net domestic expenditure (which measures the Budget's net addition to aggregate demand) declined from 4.1% of GDP in 1987/88 to 2.2% GDP in 1988/89, and the primary budget balance (excluding interest payments) remained in surplus.

25. Revenues. Despite lower world oil prices and domestic crude production than budgeted, oil/LNG revenues exceeded the target. As noted, this was largely due to the use of the official GSP price for determining the tax liabilities of oil companies until December 1988; however, another contributing factor was back-payments (from Pertamina and private oil companies) from previous operations. Non-oil taxes also exceeded the budget target despite lower revenues from value added taxes (VAT). The VAT target was too optimistic in the first place, although an additional effort was made to come closer to the target by implementation of new measures starting January 15, 1989. These included extension of the VAT to domestic airline tickets and telecommunications, and some increases in the scope and tax rates for luxury goods. Nevertheless, actual collection was still Rp.0.3 billion lower than budgeted (a shortfall of about 6%). This loss was more than compensated by higher receipts from income taxes, reflecting the effects of improved economic activity, better audit effort and implementation of the tax on time deposits (starting November 1989), and larger receipts from custom duties and export taxes resulting from the higher-than-expected growth in imports and exports. The target for property tax was also exceeded, although the yield remains considerably below potential. Similarly, non-tax revenues exceeded their projected amounts, because of higher fees for certain public

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5/ As noted, the GSP price was set at US$17.5/barrel. Some tax incentives were given to oil companies which lowered the taxable price to about US$15.9/barrel from April to December 1988. Since January 1989, actual export prices are being used for calculating tax liabilities of oil companies. Between January-March 1989, the average price was US$16.7/barrel. Therefore, for 1988/89 as a whole, the effective average export price for oil revenues was US$16.1/barrel, slightly higher than projected in the Budget.

Table 7: CENTRAL GOVERNMENT BUDGET, 1986/87-1989/90
(Rp. trillion at current prices)

| | Actuals 1986/87 | Actuals 1987/88 | Budget 1988/89 | Estimated 1988/89 | Budget 1989/90 |
|---|---|---|---|---|---|
| Revenues and grants | 16.7 | 21.8 | 21.9 | 23.5 | 25.3 |
| Oil and LNG | 6.3 | 10.4 | 8.9 | 9.5 | 7.9 |
| Non-oil taxes | 7.9 | 9.0 | 11.7 | 11.9 | 14.9 |
| Non-tax revenue /a | 2.2 | 2.0 | 1.2 | 1.6 | 2.4 |
| Grants | 0.3 | 0.4 | 0.1 | 0.5 | 0.1 |
| Current expenditures | 13.4 | 15.5 | 15.1 | 16.8 | 18.5 |
| External interest | 2.8 | 3.8 | 4.1 | 4.3 | 4.8 |
| Subsidies | 0.9 | 1.4 | 0.5 | 1.0 | 0.2 |
| Other | 9.7 | 10.3 | 10.5 | 11.5 | 13.5 |
| Government savings | 3.3 | 6.3 | 6.8 | 6.7 | 6.8 |
| Capital expenditure | 7.3 | 9.2 | 7.4 | 10.5 | 10.8 |
| Overall balance | -4.0 | -2.9 | -0.6 | -3.8 | -4.0 |
| Financed by: | | | | | |
| External loans (net) | 3.7 | 2.8 | 0.6 | 4.2 | 4.0 |
| Disbursements | 6.8 | 8.8 | 7.1 | 11.2 | 11.3 |
| - Project aid | (4.1) | (5.4) | (6.0) | (5.6) | (7.2) |
| - Other /b | (2.7) | (3.4) | (1.1) | (5.6) | (4.1) |
| Principal repayments | 3.1 | 6.0 | 6.5 | 7.0 | 7.3 |
| Asset drawdown /c | 0.3 | 0.1 | 0.0 | -0.4 | 0.0 |
| Memo items (% of GDP) | | | | | |
| Revenue and grants | 16.4 | 18.3 | 16.1 | 17.3 | 16.5 |
| Non-oil taxes (% of non-oil GDP) | 9.8 | 9.4 | 10.6 | 10.8 | 11.9 |
| Government savings | 3.3 | 5.3 | 5.0 | 4.9 | 4.5 |
| Overall balance | -3.9 | -2.4 | -0.4 | -2.8 | -2.6 |
| Total expenditure | 20.3 | 20.7 | 16.5 | 20.1 | 19.1 |
| Net domestic expenditure /d | 3.8 | 4.1 | -0.9 | 2.2 | 0.4 |
| Primary balance /e | -1.1 | 0.8 | 2.7 | 0.4 | 0.6 |

/a Includes domestic oil surplus in 1986/87 and 1989/90 (Budget).
/b Includes program loans, rupiah support and commercial borrowing.
/c Excludes gain from valuation adjustment in 1986/87, estimated at Rp.1.8 trillion.
/d Defined as the domestic content of expenditure less non-oil revenues.
/e Overall budget balance less interest payments.

Source: Ministry of Finance and World Bank staff estimates.

services (health, education and passports) and forest concessions, larger contributions from state financial enterprises and Bank Indonesia, and a somewhat higher use of funds from the RDI account.6/

26. Expenditures. Current expenditures in 1988/89 are estimated to have grown by 8% from the previous year's level, reflecting the higher interest payments on external debt, higher rice prices (affecting the rice allowance) and a 10% salary increase from January-March 1989. The budgetary burden of interest payments on external debt grew from Rp.3.8 trillion to Rp.4.3 trillion, mainly due to the debt overhang. Budgetary subsidies on account of fertilizer and pesticides remained large during 1988/89 because the prices of these publicly distributed items continued to be substantially below cost. The Government's wage bill exceeded the budget level partly because of the surge in rice prices which raised the cost of the food allowance, but also because of the long-expected increase in employee wages. Although the 15% pay hike was announced in the context of the new Budget for 1989/90, the first 10% increase was implemented in January 1989. This pay rise is appropriate as Government employees have experienced a decline in real income resulting from the wage freeze over the past three years.

27. The level of capital expenditures in 1988/89 was much higher than budgeted, due to improved rupiah availability based on special assistance (program aid and local-cost financing) from the IGGI and progress in removing other constraints on project implementation. As a result, capital spending increased by 5% in real terms from the previous year's level. The budget deficit was financed mainly by net disbursements from external aid (project aid and program loans) and the rupiah counterpart of commercial borrowings undertaken for balance of payments support.

28. The Budget for 1989/90. In January, the Government announced its Budget for 1989/90 (see Table 7). Overall, the new Budget reflects the Government's aim to continue making progress with the adjustment process while also making an effort to address some of the longer-term issues concerning the recovery of economic growth and reduction of poverty. Recognizing the uncertainties in the international oil market, the Budget assumed an average oil price of US$14/barrel, US$2.1 lower than realized in 1988/89 (for tax purposes). On the other hand, to finance a 15% structural increase in wages of government employees and to support economic growth and poverty alleviation by maintaining the level of capital spending at the past year's level, the Government intends to substantially step up its non-oil revenue mobilization drive, consisting of a big push to strengthen tax administration, a limited increase in the VAT tax base, elimination of the pesticide subsidy, generation of surplus from domestic oil sales and better cost recovery from public services. The Budget also expects to obtain a similar level of net foreign assistance as in the past year to finance the projected capital spending. Based on these assumptions, the budget deficit is expected to fall to 2.6% of

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6/ he RDI is a special account maintained by the Treasury with Bank Indonesia concerning the administration of the two-step loans (foreign loans contracted through the Budget and on-lent to state enterprises). Amortization and interest payments by state enterprises are first channelled to the RDI account; actual drawdown for use in the Budget is made on a needs basis.

GDP (from 2.8% of GDP in 1988/89). The net domestic expenditure is projected to decline from 2.2% of GDP in 1988/89 to 0.4% of GDP in 1989/90, while the primary balance remains in surplus.

29. The 1989/90 Budget is consistent with the dual aims of reducing macroeconomic imbalances in the economy, while also supporting a recovery in investment and productive activities. During the year, it will be important to monitor implementation of the public resource mobilization program, as well as budget spending levels, to ensure that the fiscal stance remains appropriate and that there is no crowding out of the private sector. The Budget's non-oil tax targets, although still significantly below potential, will pose a major challenge for tax administration. In responding to this challenge, some of the key steps will be: (a) implementation of the proposed reorganization of the Tax Directorate; (b) enlarging the scope and effectiveness of tax audits; (c) stronger political support for the tax collection effort; and (d) implementing more effective sanctions for defaulters.

30. As noted, Oil/LNG revenue projections in the Budget were based on an average oil price of US$14/barrel. This was a prudent planning assumption in the context of the oil price outlook at the time when the Budget was prepared. Since then, oil price developments have become more favorable, and the current average market price for Indonesia's crude is about US$18/barrel. Our projections in Chapter 2 are based on an average oil price of US$15.5/barrel for 1989/90. In the event that Indonesia gains a significant revenue windfall from higher-than-anticipated oil prices, it will be important to preserve the austere stance of the Budget by using some of the revenues to reduce net external borrowing rather than increase domestic public expenditure. Also, it will be essential to ensure that the oil revenue windfall does not result in a slowdown in the non-oil revenue mobilization effort.

Money and prices

31. Monetary policy. During 1988, monetary policy remained focused on maintaining the stability of the exchange rate and prices. Unlike in 1987, speculative pressures on the exchange rate were minimal. There was a temporary disturbance in money and foreign exchange markets immediately after the announcement of the financial deregulation measures in October. A short-term liquidity shortage developed causing inter-bank interest rates to move up to 18% in November, from around 15% over the past few months. However, the situation returned to normal soon with inter-bank rates falling back to 12-15% and no speculative pressures on the exchange market.

32. A key indicator of the monetary policy stance is the change in reserve money (see Table 8). Net foreign assets of Bank Indonesia fell noticeably due to a large amount of foreign debt payments over the March-September period. The monetary authorities only partially sterilized this fall in foreign assets (currency and BI credits). The monetary authorities also countervailed the expansionary influence of a reduction in reserve requirements introduced in the October financial package by requiring that most of the additional funds be held in the form of SBIs. On the whole, reserve money registered a decline, suggesting a conservative monetary policy stance.

Table 8: CHANGES IN FACTORS AFFECTING MONEY SUPPLY AND LIQUIDITY, 1985-88

| Changes in | 1985 | 1986 /a | 1987 | 1988 | Annual growth (%) /b 1986 /c | 1987 /d | 1988 |
|---|---|---|---|---|---|---|---|
| Net foreign assets | 2,182 | 1,850 | 2,452 | -549 | 29.8 | 15.3 | -3.0 |
| Use of Government deposits | -626 | 470 | 1,529 | 248 | 24.9 | -2.2 | 3.3 |
| Credit to public enterprises | 421 | 227 | 729 | 659 | 6.8 | 12.2 | 9.8 |
| Credit to private sector | 3,333 | 4,547 | 6,245 | 11,069 | 19.3 | 28.1 | 38.9 |
| Net other assets | -94 | -2,586 | -4,731 | -3,314 | -30.1 | -39.7 | -27.0 |
| Broad money (M2) | 5,216 | 4,508 | 6,224 | 8,113 | 15.0 | 22.5 | 23.9 |
| Narrow money (M1) | 1,523 | 1,573 | 1,008 | 1,707 | 17.5 | 8.6 | 13.5 |
| - Currency | 728 | 898 | 444 | 464 | 20.2 | 8.3 | 8.0 |
| - Demand deposits | 795 | 675 | 564 | 1,243 | 15.3 | 8.9 | 18.0 |
| Time & saving deposits (QM) | 3,693 | 2,935 | 5,216 | 6,406 | 13.0 | 32.6 | 30.2 |
| Rupiah liquidity /e | 4,883 | 3,180 | 5,883 | 6,416 | 18.9 | 25.5 | 22.2 |
| Reserve money | 1,020 | 1,373 | 858 | -490 | 24.2 | 11.0 | -6.0 |
| Memo items: | | | | | | | |
| M2/GDP ratio | 24.5 | 28.3 | 29.6 | 31.8 | | | |
| QM/GDP ratio | 13.8 | 16.4 | 18.5 | 20.9 | | | |

/a Includes effect of exchange rate adjustment on September 12, 1986.
/b Year-end growth rates in monetary aggregates.
/c Excludes valuation changes resulting from the September 12 devaluation.
/d Excludes recording adjustment on unused commercial loans amounting to Rp.1,725 billion, which were previously shown as "net government deposits", but since September 1987 shown as Bank Indonesia assets and moved to "net other assets".
/e Excludes foreign currency deposits.

Source: Bank Indonesia.

33. Narrow money grew faster than in the last year because of higher income. Time and saving deposits also continued to grow at an impressive pace supported by higher real interest rates. Together, these trends caused broad money supply to expand even faster than in the past year. The growth in the demand for broad money, responding to the growth of income and higher real interest rates, caused inflation to fall even as broad money supply increased significantly faster than nominal income. The resultant rise in financial deepening in turn contributed to the mobilization of savings for financing private economic activities.

34. Credit and interest rates. The large increase in time and saving deposits allowed domestic credit to grow even more rapidly than last year. The main source of credit expansion was the private sector. The pick up in real economic activity, especially non-oil exports and private investment,

contributed to this strong demand for credit. However, the continued large growth in private sector credit, far in excess of the expansion of output and prices, would seem to suggest that the transitional problems of adjustment to the deregulated economic environment are still prevalent. However, the growth of credit to state enterprises was contained at below last year's pace, suggesting a slowdown in public enterprise activities and more restrained access to Bank Indonesia credit.

35. Apart from the rise in deposits, domestic credit also grew because of continued provision of direct credits by Bank Indonesia, especially liquidity credits. Some Rp.3.2 trillion were provided through the liquidity credit mechanism (about 20% of the expansion in total credit to public enterprises and the private sector). This mechanism is intended to channel credits to priority sectors at lower than market interest rates. However, recognizing the resultant distortions, the Government intends to phase out the use of liquidity credit over the medium term.

36. The nominal deposit rates increased a little (see Table 9), responding to higher international interest rates and the tax on interest income. The

Table 9: INTEREST RATES OF COMMERCIAL BANKS, 1985-88 /a

| | December 1985 | December 1986 | December 1987 | June 1988 | September 1988 |
|---|---|---|---|---|---|
| Nominal deposit rates /b | | | | | |
| State banks | 16.0 | 14.7 | 17.3 | 17.5 | 18.0 |
| Private banks | 17.8 | 16.2 | 19.3 | 19.3 | 19.6 |
| Real deposit rates /c | | | | | |
| State banks | 11.3 | 8.9 | 7.8 | 9.0 | 9.5 |
| Private banks | 13.1 | 10.4 | 9.8 | 10.8 | 11.1 |
| Nominal lending rates /d | | | | | |
| State banks | 15.3 | 18.5 | 20.0 | 19.9 | 20.0 |
| Private banks | 24.2 | 23.0 | 23.6 | 23.7 | 23.6 |
| Real lending rates /e | | | | | |
| State banks | 8.7 | 11.4 | 10.2 | 10.4 | 10.5 |
| Private banks | 17.6 | 15.9 | 13.8 | 14.2 | 14.1 |
| | 1985 | 1986 | 1987 | 1988 | |
| Memo items | | | | | |
| LIBOR /f | 8.6 | 6.9 | 7.3 | 8.0 | |
| Inflation differential between Indonesia and USA | 1.0 | 3.8 | 6.2 | 5.3 | |

/a For Rupiah transactions, excluding liquidity credit program.
/b Nominal rates on six-month time deposits.
/c Using CPI deflator.
/d Average nominal rates on working capital.
/e Using non-oil GDP deflator.
/f London Interbank offered rate on six month US Dollar deposits.

Source: Bank Indonesia and IMF International Financial Statistics.

lending rates also rose marginally, reflecting the increase in the deposit rates. The prevailing high real lending rates have raised legitimate concerns about their adverse effects on private investment. Consequently, one of the key objectives of the financial sector reform introduced in 1988 was to reduce real lending rates by lowering the spread between borrowing and lending rates through increased competition. Another specific action was to reduce and unify the reserve requirements at 2%, to lower the effective cost of borrowing. Implementation of the ongoing financial sector reforms coupled with continued prudent macroeconomic management will help to reduce domestic interest rates over the medium term. Finally, the Government introduced important measures to boost capital market operations, aimed at increasing the availability and affordability of long-term finance. The measures included the removal of tax bias against income from dividends, introducing an over-the-counter market (OTC), allowing the operation of private stock exchanges and easing licensing requirements for new capital market operations.

Domestic Inflation

37. Overall inflation has fallen in 1988 (see Table 10). As measured by the urban consumer price index (CPI) for 17 cities, the annual inflation rate fell from 9.5% in 1987 to 8.5% in 1988. The growth of the wholesale price index (WPI) came down substantially in 1988 because of a relatively stable exchange rate which helped to contain the growth in domestic import prices. Also import margins have been reduced because of the removal of NTBs, reducing the growth of import prices. Nevertheless, the sharp fall in the rate of increase in the domestic price of imported goods from 23% in 1987 to 3% in 1988 which is shown in the official data appears to be overstated. Our adjusted estimates, based on the depreciation of the nominal effective exchange rate (8%) and the increase in the dollar import price index (6%), suggest a much lower decline in domestic import prices. Adjusting for this, we estimate that the growth of the WPI fell from 23% in 1987 to around 12% in 1988. Because of weaker pass-through effects of exchange rate changes on the CPI due to the austere budget and cautious monetary management, the behavior of the CPI was more strongly affected by the behavior of rice prices during both 1987 and 1988. The sharp rise in urban rice prices in 1988, growing by 25% on average, neutralized the inflation-dampening influence of the lower growth of prices of imported, exported and non-traded goods.

38. The differential impact of inflation has adversely affected the poor. Specific indexes for low-income groups show higher inflation rates than the general indicators. In 1988, the basic needs consumption index (KFM) rose by about 10%, somewhat higher than the general CPI, reflecting the more rapid rise in the cost of nine essential commodities (NEC) which are prominent in the consumption basket of the urban and rural poor. More importantly, the NEC index for urban areas increased by 13% while the rural index rose sharply by 17%, in both cases representing a significant increase over the inflation rates experienced in 1987 (7% and 13% respectively).

Table 10: DOMESTIC INFLATION INDICATORS, 1985-88
(% change; period average/a)

| | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|
| **General Indicators** | | | | |
| CPI-17 cities | 4.7 | 5.8 | 9.5 /b | 8.5 /b |
| WPI /c | 5.2 | 6.9 | 20.7 | 10.0 /d |
| Non-oil GDP deflator | 6.6 | 7.1 | 9.8 | 9.5 |
| **Specific Indicators** | | | | |
| CPI-Jakarta | 4.9 | 5.5 | 9.6 /b | 8.7 /b |
| CPI-22 cities /e | 7.9 | 6.2 | 14.1 | 8.9 |
| KFM-K3 /f | 12.7 | 13.5 | 21.9 | 9.7 |
| Nine essential commodities | | | | |
| - Urban /g | 2.4 | 5.4 | 6.7 | 13.4 |
| - Rural /h | -1.1 | 11.8 | 12.9 | 17.1 |
| Farmers household consumption /i | 11.6 | 12.2 | 16.7 | 5.3 |
| **Proximate Indicators** | | | | |
| Import goods prices | 5.3 | 8.4 | 22.5 | 11.5 /d |
| Export goods prices | 1.0 | 13.0 | 30.8 | 7.7 |
| Urban rice prices /j | 2.6 | -10.6 | 11.6 | 24.8 |
| Non-traded goods prices | 6.9 | 3.7 | 8.2 | 4.7 |

/a Previous Economic Reports used a year-end basis.
/b Revised estimates reflecting adjusted rice prices for Jakarta.
/c Excluding exports of oil and gas.
/d Revised estimates reflecting adjusted import prices.
/e Weighted average of individual city indexes.
/f Physical Minimum Requirements index for 3-child family; weighted average for 26 provinces (excluding East Timor).
/g Component of CPI-17 cities index.
/h Unweighted average of Java and Madura and Outer Islands.
/i Component of Farmers' Terms of Trade index; weighted average for Yogyakarta and West, Central and East Java.
/j Weighted average of urban medium-quality rice prices in 26 provinces (excluding East Timor).

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

# INDONESIA

## COUNTRY ECONOMIC REPORT

## STATISTICAL ANNEX

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/a These tables have been prepared according to standardized World Bank concepts and definitions to facilitate cross-country comparisons and aggregations. The data in the Standard Tables may not always agree with similar data in the preceding tables.

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Population And Growth Rates by Province, 1930-1985

| Region | Population ('000) | | | | | Average growth rate (% p.a.) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1930 | 1961 /a | 1971 /a | 1980 | 1985 | 1930-61 | 1961-71 | 1971-80 | 1980-85 |
| Java | 41,718 | 63,059 | 76,086 | 91,270 | 99,853 | 1.3 | 1.9 | 2.0 | 1.8 |
| DKI Jakarta | 811 | 2,973 | 4,579 | 6,503 | 7,886 | 4.3 | 4.4 | 4.0 | 3.9 |
| West Java | 10,586 | 17,615 | 21,624 | 27,454 | 30,830 | 1.7 | 2.1 | 2.7 | 2.3 |
| Central Java | 13,706 | 18,407 | 21,877 | 25,373 | 26,945 | 1.0 | 1.7 | 1.7 | 1.2 |
| DI Yogjakarta | 1,559 | 2,241 | 2,489 | 2,751 | 2,930 | 1.2 | 1.1 | 1.1 | 1.3 |
| East Java | 15,056 | 21,823 | 25,517 | 29,189 | 31,262 | 1.2 | 1.6 | 1.5 | 1.4 |
| Sumatra | 8,255 | 15,739 | 20,809 | 28,017 | 32,604 | 2.1 | 2.8 | 3.4 | 3.1 |
| Lampung | 361 | 1,668 | 2,777 | 4,625 | 5,906 | 5.1 | 5.2 | 5.8 | 5.0 |
| Bengkulu | 323 | 406 | 519 | 768 | 943 | 0.7 | 2.5 | 4.5 | 4.2 |
| South Sumatra | 1,378 | 2,773 | 3,441 | 4,630 | 5,370 | 2.3 | 2.2 | 3.4 | 3.0 |
| Riau | 493 | 1,235 | 1,642 | 2,169 | 2,548 | 3.0 | 2.9 | 3.1 | 3.3 |
| Jambi | 245 | 744 | 1,006 | 1,446 | 1,745 | 3.6 | 3.1 | 4.1 | 3.8 |
| West Sumatra | 1,910 | 2,319 | 2,793 | 3,407 | 3,698 | 0.6 | 1.9 | 2.2 | 1.7 |
| North Sumatra | 2,542 | 4,965 | 6,622 | 8,361 | 9,422 | 2.2 | 2.9 | 2.6 | 2.4 |
| Aceh | 1,003 | 1,629 | 2,009 | 2,611 | 2,972 | 1.6 | 2.1 | 3.0 | 2.6 |
| Kalimantan | 2,170 | 4,102 | 5,155 | 6,723 | 7,722 | 2.1 | 2.3 | 3.0 | 2.8 |
| West Kalimantan | 802 | 1,581 | 2,020 | 2,486 | 2,819 | 2.2 | 2.5 | 2.3 | 2.5 |
| Central Kalimantan | 203 | 497 | 702 | 954 | 1,118 | 2.9 | 3.5 | 3.5 | 3.2 |
| South Kalimantan | 836 | 1,473 | 1,699 | 2,065 | 2,273 | 1.8 | 1.4 | 2.2 | 1.9 |
| East Kalimantan | 329 | 551 | 734 | 1,218 | 1,512 | 1.7 | 2.9 | 5.8 | 4.4 |
| Sulawesi | 4,231 | 7,079 | 8,528 | 10,409 | 11,554 | 1.7 | 1.9 | 2.2 | 2.1 |
| Central Sulawesi | 390 | 693 | 914 | 1,290 | 1,511 | 1.9 | 2.8 | 3.9 | 3.2 |
| North Sulawesi | 748 | 1,310 | 1,719 | 2,115 | 2,313 | 1.8 | 2.8 | 2.3 | 1.8 |
| South Sulawesi | 2,657 | 4,517 | 5,181 | 6,062 | 6,610 | 1.7 | 1.4 | 1.8 | 1.7 |
| Southeast Sulawesi | 436 | 559 | 714 | 942 | 1,120 | 0.8 | 2.5 | 3.1 | 3.5 |
| Other Islands | 4,219 | 7,106 | 8,630 | 11,071 | 12,316 | 1.7 | 2.0 | 2.8 | 2.2 |
| Bali | 1,101 | 1,783 | 2,120 | 2,470 | 2,649 | 1.6 | 1.7 | 1.7 | 1.4 |
| West Nusa Tenggara | 1,016 | 1,808 | 2,203 | 2,725 | 2,995 | 1.9 | 2.0 | 2.4 | 1.9 |
| East Nusa Tenggara | 1,344 | 1,967 | 2,295 | 2,737 | 3,061 | 1.2 | 1.6 | 2.0 | 2.3 |
| Maluku | 579 | 790 | 1,089 | 1,410 | 1,609 | 1.0 | 3.3 | 2.9 | 2.7 |
| Irian Jaya | 179 | 758 | 923 | 1,174 | 1,371 | 4.8 | 2.0 | 2.7 | 3.2 |
| East Timor | n.a | n.a | n.a | 555 | 631 | n.a | n.a | n.a | 2.6 |
| T o t a l Indonesia | 60,593 | 97,085 | 119,208 | 147,490 | 164,049 | 1.5 | 2.1 | 2.4 | 2.2 |

/a Includes adjustment for the exclusion of rural Irian Jaya.

Source: Central Bureau of Statistics, Population Census Reports, 1961, 1971, and 1980; Statistical Yearbook Of Indonesia, 1984; and SUPAS 1985.

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Distribution of Population by Age Group and Sex, 1961-1985

('000)

| Age Group | 1961 Males | 1961 Females | 1961 Total | 1971 Males | 1971 Females | 1971 Total | 1980 Males | 1980 Females | 1980 Total | 1985 Males | 1985 Females | 1985 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 0-4 | 8,529 | 8,649 | 17,178 | 9,675 | 9,560 | 19,235 | 10,872 | 10,422 | 21,294 | 11,008 | 10,543 | 21,551 |
| 5-9 | 7,744 | 7,701 | 15,445 | 9,593 | 9,302 | 18,895 | 10,889 | 10,446 | 21,335 | 11,378 | 10,739 | 22,117 |
| 10-14 | 4,353 | 3,892 | 8,245 | 7,406 | 6,875 | 14,281 | 9,179 | 8,525 | 17,704 | 10,783 | 10,113 | 20,896 |
| 15-19 | 3,865 | 3,905 | 7,770 | 5,627 | 5,779 | 11,406 | 7,552 | 7,806 | 15,358 | 8,335 | 8,232 | 16,567 |
| 20-24 | 3,480 | 4,373 | 7,853 | 3,627 | 4,461 | 8,088 | 6,010 | 7,055 | 13,065 | 6,385 | 7,903 | 14,288 |
| 25-34 | 7,392 | 8,610 | 16,002 | 7,722 | 9,226 | 16,948 | 9,685 | 9,920 | 19,605 | 12,026 | 12,442 | 24,468 |
| 35-44 | 5,765 | 5,406 | 11,171 | 7,062 | 7,119 | 14,181 | 7,876 | 8,172 | 16,048 | 8,538 | 8,485 | 17,023 |
| 45-54 | 3,587 | 3,511 | 7,098 | 4,360 | 4,213 | 8,573 | 5,761 | 5,856 | 11,617 | 6,418 | 6,514 | 12,932 |
| 55-64 | 1,913 | 1,865 | 3,778 | 2,224 | 2,373 | 4,597 | 3,297 | 3,354 | 6,651 | 4,150 | 4,474 | 8,624 |
| 65+ | 1,183 | 1,245 | 2,428 | 1,450 | 1,539 | 2,989 | 2,200 | 2,593 | 4,793 | 2,619 | 2,954 | 5,573 |
| Unknown | 60 | 57 | 117 | 7 | 8 | 15 | 11 | 9 | 20 | 4 | 3 | 7 |
| Total | 47,871 | 49,214 | 97,085 | 58,753 | 60,455 | 119,208 | 73,332 | 74,158 | 147,490 | 81,644 | 82,402 | 164,046 |
| | Percentage distribution | | | | | | | | | | | |
| 0-4 | 17.8 | 17.6 | 17.7 | 16.5 | 15.8 | 16.1 | 14.8 | 14.1 | 14.4 | 13.5 | 12.8 | 13.1 |
| 5-9 | 16.2 | 15.6 | 15.9 | 16.3 | 15.4 | 15.9 | 14.8 | 14.1 | 14.5 | 13.9 | 13.0 | 13.5 |
| 10-14 | 9.1 | 7.9 | 8.5 | 12.6 | 11.4 | 12.0 | 12.5 | 11.5 | 12.0 | 13.2 | 12.3 | 12.7 |
| 15-19 | 8.1 | 7.9 | 8.0 | 9.6 | 9.6 | 9.6 | 10.3 | 10.5 | 10.4 | 10.2 | 10.0 | 10.1 |
| 20-24 | 7.3 | 8.9 | 8.1 | 6.2 | 7.4 | 6.8 | 8.2 | 9.5 | 8.9 | 7.8 | 9.6 | 8.7 |
| 25-34 | 15.4 | 17.5 | 16.5 | 13.1 | 15.3 | 14.2 | 13.2 | 13.4 | 13.3 | 14.7 | 15.1 | 14.9 |
| 35-44 | 12.0 | 11.0 | 11.5 | 12.0 | 11.8 | 11.9 | 10.7 | 11.0 | 10.9 | 10.5 | 10.3 | 10.4 |
| 45-54 | 7.5 | 7.1 | 7.3 | 7.4 | 7.0 | 7.2 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 | 7.9 |
| 55-64 | 4.0 | 3.8 | 3.9 | 3.8 | 3.9 | 3.9 | 4.5 | 4.5 | 4.5 | 5.1 | 5.4 | 5.3 |
| 65+ | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 3.0 | 3.5 | 3.2 | 3.2 | 3.6 | 3.4 |
| Unknown | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source : Central Bureau of Statistics, Census Reports, 1961, 1971, 1980 and 1985; Intercensal Population Survey, 1985.

Statistical Annex
Table 1.3

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Employment by Main Industry , 1971-1985 /a

| Main Industry | 1971 million | 1971 % | 1980 million | 1980 % | 1982 million | 1982 % | 1985 million | 1985 % |
|---|---|---|---|---|---|---|---|---|
| Agriculture, forestry, hunting & fishery | 26.47 | 64.15 | 28.04 | 54.79 | 31.59 | 54.66 | 34.14 | 54.64 |
| Mining and quarrying | 0.09 | 0.22 | 0.37 | 0.72 | 0.39 | 0.67 | 0.42 | 0.67 |
| Manufacturing | 2.68 | 6.50 | 4.36 | 8.52 | 6.02 | 10.42 | 5.80 | 9.28 |
| Electricity, gas & water | 0.04 | 0.10 | 0.08 | 0.16 | 0.06 | 0.10 | 0.07 | 0.11 |
| Construction | 0.68 | 1.65 | 1.57 | 3.07 | 2.15 | 3.72 | 2.10 | 3.36 |
| Wholesale and retail trade & restaurants | 4.26 | 10.32 | 6.61 | 12.92 | 8.55 | 14.79 | 9.35 | 14.96 |
| Transportation, storage & communications | 0.95 | 2.30 | 1.47 | 2.87 | 1.79 | 3.10 | 1.96 | 3.14 |
| Finance, insurance, real estate & business services | 0.09 | 0.22 | 0.23 | 0.45 | 0.11 | 0.19 | 0.25 | 0.40 |
| Public services | 4.12 | 9.99 | 7.74 | 15.12 | 7.13 | 12.34 | 8.32 | 13.32 |
| Others | 1.88 | 4.56 | 0.71 | 1.39 | 0.00 | 0.00 | 0.07 | 0.11 |
| Total | 41.26 | 100.00 | 51.18 | 100.00 | 57.79 | 100.00 | 62.48 | 100.00 |

/a Refers to population 10 years of age and above who worked during the week previous to the census.

Source: Central Bureau of Statistics, Statistical Yearbook of Indonesia, 1975, 1982, 1985.

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Gross Domestic Product by Industrial Origin at Current Market Prices, 1978-1987 /a

(Rp. billion)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /b |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 6,744.7 | 9,374.0 | 11,725.5 | 13,648.9 | 15,000.5 | 17,696.2 | 20,333.9 | 22,413.2 | 24,695.9 | 29,208.2 |
| Farm food crops | 3,892.3 | 4,774.0 | 6,102.5 | 7,825.6 | 9,162.0 | 11,057.4 | 12,606.0 | 13,760.8 | 14,965.9 | 17,647.1 |
| Farm non-food crops | 985.6 | 1,506.6 | 1,924.2 | 1,909.1 | 1,703.4 | 2,294.9 | 2,738.7 | 2,978.5 | 3,503.1 | 4,138.7 |
| Estate crops | 229.5 | 350.2 | 303.1 | 430.8 | 448.7 | 375.3 | 593.0 | 714.6 | 633.2 | 859.3 |
| Livestock products | 560.9 | 836.7 | 1,191.0 | 1,465.2 | 1,598.9 | 1,754.3 | 2,084.1 | 2,427.0 | 2,637.2 | 3,003.5 |
| Forestry | 620.0 | 1,283.9 | 1,412.1 | 1,041.8 | 973.5 | 994.2 | 939.0 | 938.0 | 1,000.6 | 1,310.4 |
| Fishery | 456.4 | 622.6 | 792.6 | 976.4 | 1,114.0 | 1,220.1 | 1,373.1 | 1,594.3 | 1,955.9 | 2,249.2 |
| Mining and quarrying | 4,262.7 | 6,865.8 | 11,238.3 | 13,217.5 | 12,153.0 | 13,967.9 | 15,985.8 | 15,403.6 | 10,274.1 | 15,044.6 |
| Oil & natural gas | 4,081.1 | 6,541.4 | 10,610.2 | 12,673.4 | 11,648.1 | 13,346.2 | 15,409.2 | 14,740.9 | 9,495.9 | 14,069.8 |
| Other | 181.6 | 324.4 | 628.1 | 544.1 | 504.9 | 621.7 | 576.6 | 662.7 | 778.2 | 974.8 |
| Manufacturing | 2,816.3 | 4,002.9 | 6,353.4 | 7,066.8 | 7,482.3 | 8,211.3 | 11,081.6 | 12,903.8 | 13,584.7 | 15,952.0 |
| Refinery oil | 115.4 | 97.3 | 94.0 | 180.0 | 155.3 | 129.4 | 625.7 | 1,862.9 | 1,896.8 | 1,798.6 |
| LNG | 199.8 | 581.6 | 1,198.4 | 1,282.0 | 1,615.4 | 1,871.2 | 2,706.7 | 2,423.7 | 1,968.6 | 2,120.9 |
| Other | 2,501.1 | 3,324.0 | 5,061.0 | 5,604.8 | 5,711.6 | 6,210.7 | 7,749.2 | 8,617.2 | 9,719.3 | 12,032.5 |
| Electricity, gas & water | 128.0 | 129.6 | 230.6 | 291.9 | 340.5 | 524.3 | 655.2 | 781.3 | 907.6 | 1,018.5 |
| Construction | 1,370.7 | 1,945.4 | 2,582.4 | 3,500.1 | 3,769.1 | 4,597.2 | 4,756.8 | 5,301.8 | 5,313.7 | 6,087.4 |
| Trade | 3,321.9 | 5,029.5 | 7,322.8 | 8,955.5 | 10,179.4 | 12,009.4 | 13,973.5 | 14,697.5 | 16,284.0 | 19,251.8 |
| Retail & wholesale trade | 2,685.2 | 4,220.9 | 6,314.1 | 7,761.1 | 8,799.1 | 10,411.7 | 12,063.5 | 12,666.0 | 14,074.3 | 16,736.1 |
| Hotels & restaurants | 636.7 | 808.6 | 1,008.7 | 1,194.4 | 1,380.3 | 1,597.7 | 1,910.0 | 2,031.5 | 2,209.7 | 2,515.7 |
| Transport & communications | 1,233.7 | 1,680.7 | 2,210.7 | 2,370.4 | 3,163.5 | 3,978.0 | 5,112.5 | 6,050.5 | 6,408.0 | 7,405.4 |
| Transport | 1,166.5 | 1,567.6 | 2,060.4 | 2,182.3 | 2,941.9 | 3,693.7 | 4,611.3 | 5,538.5 | 5,822.4 | 6,744.3 |
| Communications | 67.2 | 113.1 | 150.3 | 188.1 | 221.6 | 284.3 | 501.2 | 512.0 | 585.6 | 661.1 |
| Banking, etc. | 470.0 | 773.1 | 924.4 | 1,574.2 | 1,782.8 | 2,039.2 | 2,691.8 | 2,802.4 | 3,281.4 | 4,000.6 |
| Ownership of dwellings | 703.1 | 959.7 | 1,227.9 | 1,494.1 | 1,731.1 | 1,961.8 | 2,275.9 | 2,443.0 | 2,631.6 | 2,901.2 |
| Public administration & Defence | 1,765.6 | 2,098.5 | 3,225.4 | 4,203.3 | 4,705.5 | 5,711.5 | 6,469.9 | 7,925.1 | 8,307.3 | 8,911.8 |
| Other services | 1,185.8 | 1,485.5 | 1,872.1 | 2,098.6 | 2,338.8 | 3,000.8 | 3,717.9 | 3,998.6 | 4,134.8 | 4,737.0 |
| Gross Domestic Product | 24,002.5 | 34,344.7 | 48,913.5 | 58,421.3 | 62,646.5 | 73,697.6 | 87,054.8 | 94,720.8 | 95,823.1 | 114,518.5 |

/a The new national account series is based upon a frame which is consistent with the 1980 Input-Output table, updated to 1983 through the incorporation of new information from surveys.
/b Preliminary figures.

Source : Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Gross Domestic Product by Industrial Origin at Constant 1983 Market Prices, 1978-1987

(Rp. billion)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /a |
|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 14,381.2 | 15,338.1 | 16,399.2 | 17,187.0 | 17,370.9 | 17,696.2 | 18,431.1 | 19,209.0 | 19,707.4 | 20,230.4 |
| Farm food crops | 8,399.8 | 8,855.9 | 9,661.1 | 10,639.1 | 10,736.0 | 11,057.4 | 11,598.7 | 11,894.6 | 12,187.2 | 12,419.4 |
| Farm non-food crops | 1,442.5 | 1,659.2 | 1,837.1 | 2,010.0 | 2,033.3 | 2,294.9 | 2,349.3 | 2,575.7 | 2,590.4 | 2,702.7 |
| Estate crops | 437.6 | 469.7 | 497.9 | 517.6 | 592.4 | 375.3 | 445.5 | 510.8 | 561.8 | 534.0 |
| Livestock products | 1,247.6 | 1,440.3 | 1,585.9 | 1,620.6 | 1,695.8 | 1,754.3 | 1,890.1 | 2,036.5 | 2,062.1 | 2,102.7 |
| Forestry | 1,871.2 | 1,867.2 | 1,700.9 | 1,260.6 | 1,146.4 | 994.2 | 894.4 | 850.7 | 888.7 | 987.6 |
| Fishery | 982.5 | 1,045.8 | 1,116.3 | 1,139.1 | 1,167.0 | 1,220.1 | 1,253.1 | 1,340.7 | 1,417.2 | 1,484.0 |
| Mining & quarrying | 16,363.8 | 16,092.6 | 16,077.8 | 16,340.1 | 13,876.2 | 13,967.9 | 14,788.7 | 13,980.5 | 14,629.7 | 14,090.6 |
| Oil & natural gas | 15,923.0 | 15,590.2 | 15,524.7 | 15,767.2 | 13,249.0 | 13,346.2 | 14,203.4 | 13,368.7 | 13,974.1 | 13,392.8 |
| Other | 440.8 | 502.4 | 553.1 | 572.9 | 627.2 | 621.7 | 585.3 | 611.8 | 655.6 | 697.8 |
| Manufacturing | 5,107.5 | 5,952.0 | 7,304.4 | 7,878.4 | 7,973.1 | 8,211.3 | 9,770.3 | 10,678.2 | 11,181.5 | 12,053.6 |
| Refinery oil | 147.8 | 172.7 | 185.8 | 169.8 | 142.3 | 129.4 | 386.5 | 759.0 | 917.9 | 926.5 |
| LNG | 725.1 | 1,230.0 | 1,671.9 | 1,711.6 | 1,781.7 | 1,871.2 | 2,790.2 | 2,918.5 | 2,9[illegible].8 | 3,268.4 |
| Other | 4,234.6 | 4,549.3 | 5,446.7 | 5,997.0 | 6,049.1 | 6,210.7 | 6,593.6 | 7,000.7 | 7,340.8 | 7,858.7 |
| Electricity, gas and water | 243.7 | 265.2 | 312.1 | 360.8 | 421.6 | 524.3 | 550.3 | 594.9 | 645.9 | 715.2 |
| Construction | 2,904.1 | 3,265.5 | 3,849.8 | 4,367.9 | 4,408.5 | 4,597.2 | 4,393.8 | 4,508.0 | 4,609.0 | 4,802.9 |
| Trade | 8,231.6 | 8,933.7 | 10,112.4 | 10,949.5 | 11,756.5 | 12,009.4 | 12,159.7 | 12,456.1 | 12,996.0 | 13,773.8 |
| Retail & wholesale trade | 6,887.3 | 7,547.1 | 8,628.1 | 9,417.5 | 10,210.1 | 10,411.7 | 10,451.5 | 10,712.9 | 11,223.9 | 11,953.1 |
| Hotels & restaurants | 1,344.3 | 1,386.6 | 1,484.3 | 1,532.0 | 1,546.4 | 1,597.7 | 1,708.2 | 1,743.2 | 1,772.1 | 1,820.7 |
| Transport & communications | 2,505.8 | 2,670.0 | 2,910.5 | 3,309.3 | 3,539.6 | 3,978.0 | 4,442.4 | 4,481.8 | 4,630.6 | 4,848.1 |
| Transport | 2,366.3 | 2,513.4 | 2,722.1 | 3,083.1 | 3,276.4 | 3,693.7 | 4,008.1 | 4,031.8 | 4,141.9 | 4,312.9 |
| Communications | 139.5 | 156.6 | 188.4 | 226.2 | 263.2 | 284.3 | 434.3 | 450.0 | 488.7 | 535.2 |
| Banking, etc. | 1,121.5 | 1,343.7 | 1,234.0 | 1,940.7 | 2,034.9 | 2,039.2 | 2,422.3 | 2,430.6 | 2,565.0 | 2,678.6 |
| Ownership of dwellings | 1,461.7 | 1,573.1 | 1,683.0 | 1,822.7 | 1,878.9 | 1,961.8 | 2,072.3 | 2,145.2 | 2,220.8 | 2,298.9 |
| Public administration & defence | 3,385.2 | 3,762.2 | 4,128.3 | 4,664.6 | 5,266.0 | 5,711.5 | 5,996.7 | 6,455.1 | 6,862.1 | 7,366.1 |
| Other services | 2,483.8 | 2,580.9 | 2,663.3 | 2,792.1 | 2,851.0 | 3,000.8 | 3,116.8 | 3,180.2 | 3,270.2 | 3,448.9 |
| Gross Domestic Product | 58,189.9 | 61,777.0 | 66,674.8 | 71,613.1 | 71,377.2 | 73,697.6 | 78,144.4 | 80,119.6 | 83,318.2 | 86,307.1 |

/a Preliminary figures.

Source : Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Expenditure on GDP at Current Market Prices, 1978-1987

(Rp. billion)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /b |
|---|---|---|---|---|---|---|---|---|---|---|
| Private consumption | 15,125.5 | 19,516.3 | 25,594.9 | 32,293.0 | 37,923.7 | 44,739.3 | 54,398.9 | 56,857.9 | 60,591.0 | 69,438.7 |
| Government consumption | 2,556.5 | 3,277.4 | 5,147.7 | 6,452.0 | 7,228.7 | 8,077.3 | 9,121.5 | 10,893.1 | 11,328.7 | 11,763.5 |
| Gross fixed investment | 2,494.1 | 7,667.8 | 10,549.8 | 14,134.5 | 15,822.4 | 18,973.8 | 19,625.2 | 19,618.3 | 20,805.7 | 24,615.7 |
| Changes in stock /a | 3,239.6 | 1,481.7 | 1,344.7 | 3,174.7 | 1,418.6 | 2,694.7 | 2,551.5 | 5,517.9 | 2,799.9 | 5,528.0 |
| Exports of goods and nonfactor services | 5,316.7 | 10,147.5 | 16,162.2 | 16,401.5 | 15,324.5 | 20,447.7 | 22,984.9 | 21,671.1 | 21,165.2 | 29,776.2 |
| Less: Imports of goods and nonfactor services | 4,729.9 | 7,746.0 | 9,885.6 | 14,034.4 | 15,071.4 | 21,235.1 | 18,627.2 | 19,837.5 | 20,867.4 | 26,613.6 |
| Gross Domestic Product | 24,002.5 | 34,344.7 | 48,913.5 | 58,421.3 | 62,646.5 | 73,697.6 | 87,054.8 | 94,720.8 | 95,823.1 | 114,508.5 |

/a Residual.
/b Preliminary figures.

Source : Central Bureau of Statistics.

Statistical Annex
Table 2.4

INDONESIA

COUNTRY ECONOMIC REPORT

Expenditure on GDP at Constant 1983 Market Prices, 1978-1987

(Rp. billion)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /b |
|---|---|---|---|---|---|---|---|---|---|---|
| Private consumption | 29,848.1 | 32,491.4 | 36,037.0 | 39,698.9 | 42,171.5 | 44,739.3 | 46,898.3 | 48,040.9 | 49,637.8 | 52,115.5 |
| Government consumption | 5,128.0 | 5,743.3 | 6,874.0 | 7,550.7 | 8,230.3 | 8,077.3 | 8,353.0 | 8,991.2 | 9,241.3 | 9,225.7 |
| Gross fixed investment | 11,289.1 | 12,381.8 | 15,646.0 | 17,658.7 | 18,740.3 | 18,973.8 | 17,847.5 | 16,768.1 | 17,333.5 | 18,101.6 |
| Changes in stock /a | (136.6) | (103.3) | (3,198.6) | 5,138.2 | 2,881.6 | 2,694.7 | 1,027.3 | 4,400.1 | 4,266.9 | 3,425.1 |
| Exports of goods and nonfactor services | 24,254.9 | 24,810.4 | 26,182.0 | 21,456.7 | 19,524.1 | 20,447.7 | 20,562.6 | 18,915.1 | 21,636.5 | 22,950.6 |
| Less: Imports of goods and nonfactor services | 12,193.6 | 13,546.6 | 14,865.6 | 19,890.1 | 20,170.6 | 21,235.[illegible] | 16,544.3 | 16,995.8 | 18,797.8 | 19,511.4 |
| Gross Domestic Product | 58,189.9 | 61,777.0 | 66,674.8 | 71,613.1 | 71,377.2 | 73,697.6 | 78,144.4 | 80,119.6 | 83,318.2 | 86,307.1 |

/a Residual.
/b Preliminary figures.

Source: Central Bureau of Statistics.

Statistical Annex
Table 2.5

INDONESIA

COUNTRY ECONOMIC REPORT

Distribution of GDP at Current Market Prices, 1978-1987

(%)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /a |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic sectors** | | | | | | | | | | |
| Agriculture, forestry, fishery and livestock | 28.1 | 27.3 | 24.0 | 23.4 | 23.9 | 24.0 | 23.4 | 23.7 | 25.8 | 25.5 |
| Mining & quarrying | 17.8 | 20.0 | 23.0 | 22.6 | 19.4 | 19.0 | 18.4 | 16.3 | 10.7 | 13.1 |
| Manufacturing | 11.7 | 11.7 | 13.0 | 12.1 | 11.9 | 11.1 | 12.7 | 13.6 | 14.2 | 13.9 |
| Electricity, gas and water | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.7 | 0.8 | 0.8 | 0.9 | 0.9 |
| Construction | 5.7 | 5.7 | 5.3 | 6.0 | 6.0 | 6.2 | 5.5 | 5.6 | 5.5 | 5.3 |
| Transport & communications | 5.1 | 4.9 | 4.5 | 4.1 | 5.0 | 5.4 | 5.9 | 6.4 | 6.7 | 6.5 |
| Other services | 31.0 | 30.1 | 29.8 | 31.4 | 33.1 | 33.5 | 33.5 | 33.6 | 36.1 | 34.8 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Expenditure categories** | | | | | | | | | | |
| Private consumption | 63.0 | 56.8 | 52.3 | 55.3 | 60.5 | 60.7 | 59.0 | 60.0 | 63.2 | 60.6 |
| Government consumption | 10.7 | 9.5 | 10.5 | 11.0 | 11.5 | 11.0 | 10.5 | 11.5 | 11.8 | 10.3 |
| Gross domestic investment | 23.9 | 26.6 | 24.3 | 29.6 | 27.5 | 29.4 | 25.5 | 26.5 | 24.6 | 26.3 |
| Net exports | 2.4 | 7.0 | 12.8 | 4.1 | 0.4 | -1.1 | 5.0 | 1.9 | 0.3 | 2.8 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

/a Preliminary figures.

Source: Tables 2.1 and 2.3.

INDONESIA

COUNTRY ECONOMIC REPORT

Distribution of GDP at Constant 1983 Market Prices, 1978-1987

(%)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /a |
|---|---|---|---|---|---|---|---|---|---|---|
| **Economic Sectors** | | | | | | | | | | |
| Agriculture, forestry, fishery and livestock | 24.7 | 24.8 | 24.6 | 24.0 | 24.3 | 24.0 | 23.6 | 24.0 | 23.7 | 23.4 |
| Mining & quarrying | 28.1 | 26.0 | 24.1 | 22.8 | 19.4 | 19.0 | 18.9 | 17.4 | 17.6 | 16.3 |
| Manufacturing | 8.8 | 9.6 | 11.0 | 11.0 | 11.2 | 11.1 | 12.5 | 13.3 | 13.4 | 14.0 |
| Electricity, gas and water | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| Construction | 5.0 | 5.3 | 5.8 | 6.1 | 6.2 | 6.2 | 5.6 | 5.6 | 5.5 | 5.6 |
| Transport & communications | 4.3 | 4.3 | 4.4 | 4.6 | 5.0 | 5.4 | 5.7 | 5.6 | 5.6 | 5.6 |
| Other services | 28.7 | 29.5 | 29.7 | 31.0 | 33.3 | 33.5 | 33.0 | 33.3 | 33.5 | 34.3 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| **Expenditure categories** | | | | | | | | | | |
| Private consumption | 51.3 | 52.6 | 54.0 | 55.4 | 59.1 | 60.7 | 60.0 | 60.0 | 59.6 | 60.4 |
| Government consumption | 8.8 | 9.3 | 10.3 | 10.5 | 11.5 | 11.0 | 10.7 | 11.2 | 11.1 | 10.7 |
| Gross domestic investment | 19.2 | 19.9 | 18.7 | 31.8 | 30.3 | 29.4 | 24.2 | 26.3 | 25.9 | 24.9 |
| Net exports | 20.7 | 18.2 | 17.0 | 2.2 | -0.9 | -1.1 | 5.1 | 2.4 | 3.4 | 4.0 |
| Gross Domestic Product | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

/a Preliminary figures.

Source: Tables 2.2 and 2.4.

INDONESIA

COUNTRY ECONOMIC REPORT

Balance of Payments, 1974/75 - 1988/89
(US$ million)

| | 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 | 1987/88 | 1988/89 /c |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Net oil exports /a | 2,638 | 3,138 | 3,710 | 4,352 | 3,785 | 6,308 | 9,345 | 8,379 | 5,788 | 6,016 | 5,845 | 4,004 | 1,426 | 2,334 | 1,532 |
| 2. Net LNG exports /a | 0 | 0 | 0 | 93 | 225 | 667 | 1,256 | 1,382 | 1,378 | 1,355 | 1,971 | 2,119 | 1,158 | 1,426 | 1,483 |
| 3. Non-oil exports (net) | -2776 | -3972 | -4512 | -5135 | -5165 | -4777 | -8470 | -12551 | -14205 | -11522 | -9784 | -7955 | -6635 | -5467 | -4924 |
| Exports, fob | 2,033 | 1,873 | 2,863 | 3,507 | 3,979 | 6,171 | 5,587 | 4,170 | 3,928 | 5,367 | 5,907 | 6,175 | 6,731 | 9,502 | 11,922 |
| Imports, cif | -4341 | -5090 | -6167 | -7241 | -7543 | -9028 | -11837 | -14561 | -15824 | -14346 | -12921 | -11186 | -10385 | -11763 | -13409 |
| Services (nonfreight) | -468 | -755 | 1208 | -1401 | -1601 | -1920 | -2220 | -2160 | -2309 | -2543 | -2770 | -2944 | -2981 | -3206 | -3437 |
| 4. Current account (1+2+3) | -138 | -834 | -802 | -690 | -1155 | 2,198 | 2,131 | -2790 | -7039 | -4151 | -1968 | -1832 | -4051 | -1707 | -1909 |
| 5. SDRs | | | | | | | | | | | | | | | |
| 6. Official capital disbursements | 660 | 1,995 | 1,823 | 2,106 | 2,101 | 2,690 | 2,684 | 3,521 | 5,011 | 5,793 | 3,519 | 3,432 | 5,472 | 4,575 | 5,897 |
| IGGI | 513 | 945 | 1,596 | 1,694 | 1,567 | 2,237 | 2,406 | 2,415 | 2,905 | 4,255 | 3,189 | 2,751 | 3,978 | 4,368 | 4,785 |
| Program aid | 180 | 74 | 147 | 157 | 94 | 239 | 118 | 50 | 21 | 84 | 52 | 38 | 48 | 30 | 23 |
| Project aid | 333 | 871 | 1,449 | 1,537 | 1,473 | 1,998 | 2,288 | 2,365 | 2,884 | 4,171 | 3,137 | 2,713 | 3,930 | 4,338 | 4,762 |
| ODA | 333 | 482 | 513 | 661 | 814 | 1,106 | 1,299 | 996 | 1,356 | 1,902 | 1,442 | 1,332 | 1,932 | 2,807 | 3,386 |
| Non-ODA | 0 | 389 | 936 | 876 | 659 | 892 | 989 | 1,369 | 1,528 | 2,269 | 1,695 | 1,381 | 1,998 | 1,531 | 1,376 |
| Non-IGGI | 147 | 1 | 227 | 412 | 534 | 453 | 278 | 1,106 | 2,106 | 1,538 | 330 | 681 | 1,494 | 207 | 1,112 |
| Cash loan | 0 | 1,049 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7. Amortization | -89 | -77 | -166 | -761 | -632 | -692 | -615 | -809 | -926 | -1010 | -1292 | -1644 | -2129 | -3049 | -3733 |
| 8. Other capital (net) | -131 | -1075 | 38 | 176 | 542 | -1312 | -361 | 1,140 | 1,795 | 1,191 | 499 | 572 | 1,232 | 1,709 | -215 |
| Direct investment | 538 | 454 | 287 | 285 | 271 | 217 | 140 | 142 | 311 | 193 | 245 | 299 | 252 | 544 | 570 |
| Oil sector | 13 | 14 | -32 | -50 | 75 | -1237 | -685 | 791 | 1,322 | n.a | n.a | n.a | n.a | n.a | n.a |
| Others | -682 | -1543 | -217 | -59 | 196 | -292 | 184 | 207 | 162 | 998 | 254 | 273 | 980 | 1165 | -785 |
| 9. Total (4 through 8) | 302 | 9 | 893 | 831 | 856 | 2,884 | 3,839 | 1,062 | -1159 | 1,823 | 758 | 528 | 524 | 1,528 | 40 |
| 10. Errors and omissions | -311 | -353 | 108 | -180 | -62 | -1256 | -1165 | -2050 | -2121 | 247 | -91 | -498 | -1262 | 57 | -717 |
| 11. Monetary movements /b | 9 | 344 | -1001 | -651 | -794 | -1628 | -2674 | 988 | 3,280 | -2070 | -667 | -30 | 738 | -1585 | 677 |

/a Gross exports less imports of goods and services of the oil and LNG sector respectively.

/b A negative amount refers to an accumulation of assets.

/c Preliminary figures.

Source: Bank Indonesia.

Statistical Annex
Table 3.2

INDONESIA

COUNTRY ECONOMIC REPORT

Non-oil Exports, 1981/82 - 1988/89

| | Value (US $ million) | | | | | | | | Volume ('000 tons) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 /a | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 /a |
| **Agricultural** | 2,930 | 2,722 | 3,662 | 3,663 | 3,780 | 4,419 | 5,703 | 6,629 | | | | | | | | |
| Timber | 952 | 899 | 1,161 | 1,167 | 1,217 | 1,592 | 2,457 | 2,769 | 5,938 | 5,101 | 5,843 | 5,201 | 4,670 | 5,387 | 5,825 | 7,151 |
| a. Log | 404 | 310 | 257 | 195 | 2 | 3 | 2 | n.a | 4,212 | 2,285 | 2,532 | 1,223 | 79 | 168 | 140 | n.a |
| b. Plywood | 199 | 324 | 579 | 697 | 848 | 1,152 | 1,867 | 2,132 | 4,607 | 2,676 | 1,203 | 2,105 | 2,405 | 2,979 | 3,860 | 4,667 |
| c. Sawn timber | 244 | 254 | 302 | 320 | 328 | 408 | 574 | 632 | 1,100 | 1,562 | 1,630 | 1,786 | 2,017 | 2,227 | 2,981 | 2,477 |
| d. Other | 2 | 10 | 15 | 16 | 18 | 25 | 13 | 170 | n.a | n.a | n.a | 87 | 40 | 42 | 44 | 1,939 |
| Rubber | 770 | 615 | 987 | 859 | 712 | 753 | 1,020 | 1,278 | 863 | 877 | 1,145 | 1,042 | 1,082 | 1,023 | 1,163 | 1,265 |
| Palm oil | 113 | 103 | 85 | 86 | 170 | 114 | 184 | 459 | 184 | 238 | 206 | 196 | 302 | 390 | 655 | 481 |
| Coffee | 347 | 343 | 505 | 548 | 437 | 423 | 477 | 337 | 219 | 236 | 228 | 308 | 267 | 310 | 285 | 277 |
| Tea | 97 | 116 | 130 | 211 | 135 | 108 | 108 | 128 | 88 | 68 | 85 | 91 | 101 | 93 | 90 | 102 |
| Tobacco | 49 | 37 | 50 | 22 | 33 | 49 | 80 | 58 | 28 | 18 | 38 | 21 | 24 | 27 | 28 | 57 |
| Pepper | 49 | 41 | 39 | 66 | 85 | 132 | 132 | 132 | 38 | 32 | 31 | 14 | 43 | 38 | 37 | 34 |
| Copra cake | 33 | 38 | 33 | 16 | 35 | 39 | 39 | 47 | 301 | 367 | 338 | 213 | 433 | 348 | 322 | 340 |
| Tapioca | 20 | 9 | 33 | 31 | 45 | 52 | 92 | 101 | 267 | 107 | 288 | 418 | 545 | 439 | 822 | 836 |
| Rattan | 85 | 82 | 87 | 56 | 80 | 99 | 151 | 56 | 84 | 89 | 83 | 101 | 92 | 116 | 125 | 44 |
| Hides | 32 | 25 | 27 | 40 | 37 | 45 | 55 | 43 | 6 | 6 | 6 | 2 | 8 | 10 | 6 | 5 |
| Other foodstuff | 71 | 50 | 101 | 98 | 122 | 89 | 93 | 126 | 704 | 492 | 900 | 748 | 885 | 542 | 1,459 | 1,383 |
| Animal products | 213 | 251 | 276 | 219 | 274 | 380 | 421 | 770 | 105 | 106 | 192 | 87 | 109 | 128 | 176 | 201 |
| of which shrimps | 161 | 204 | 208 | 183 | 228 | 317 | 348 | 610 | 36 | 44 | 44 | 44 | 52 | 58 | 88 | 96 |
| Others | 144 | 93 | 98 | 155 | 160 | 175 | 375 | 223 | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| **Mineral** | 756 | 676 | 800 | 775 | 800 | 725 | 1,055 | 1,136 | | | | | | | | |
| Tin | 437 | 349 | 309 | 252 | 248 | 156 | 163 | 172 | 31 | 27 | 24 | 22 | 23 | 24 | 22 | 25 |
| Copper | 135 | 115 | 80 | 135 | 139 | 122 | 182 | 225 | 210 | 217 | 181 | 225 | 270 | 271 | 260 | 313 |
| Nickel | 125 | 130 | 170 | 121 | 120 | 113 | 149 | 160 | 1,174 | 922 | 721 | 825 | 873 | 1,588 | 1,228 | 1,568 |
| Aluminum | n.a | 48 | 193 | 208 | 229 | 201 | 242 | 307 | n.a | 32 | 121 | 124 | 219 | 172 | 159 | 119 |
| Granite | 0 | 0 | 13 | 8 | 8 | 8 | 6 | 6 | 933 | 676 | 169 | 1,300 | 1,194 | 1,272 | 815 | 840 |
| Gold | 0 | 0 | 0 | 0 | 0 | 61 | 286 | 222 | | | | | n.a | 5 | 21 | 15 |
| Others | 36 | 20 | 54 | 53 | 49 | 43 | 48 | 52 | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| **Manufactured** | 333 | 530 | 905 | 1,469 | 1,595 | 1,587 | 2,744 | 3,993 | | | | | | | | |
| Textiles | 122 | 158 | 280 | 418 | 577 | 632 | 956 | 1,354 | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| Handicraft | 19 | 25 | 42 | 116 | 167 | 142 | 257 | 403 | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| Electrical app. | 72 | 112 | 130 | 132 | 45 | 5 | 7 | 14 | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| Cement | 23 | 6 | 11 | 14 | 23 | 47 | 47 | 72 | 471 | 236 | 306 | 516 | 863 | 2,012 | 1,868 | 2,960 |
| Fertilizer | 11 | 21 | 50 | 31 | 109 | 97 | 100 | 126 | 41 | 103 | 377 | 208 | 1,047 | 1,212 | 1,120 | 976 |
| Others | 80 | 207 | 349 | 757 | 655 | 645 | 1,379 | 2,024 | n.a | n.a | n.a | n.a | n.a | n.a | n.a | n.a |
| **Unclassified** | 151 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | n.a | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Non-oil Exports** | 4,170 | 3,928 | 5,367 | 5,907 | 6,175 | 6,731 | 9,502 | 11,758 | | | | | | | | |

/a Preliminary figures.

Source: Bank Indonesia (based on PEB Export Declaration Form).

INDONESIA

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Value of Exports by Principal Country of Destination, 1974-1988
(US$ million)

| Countries | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 /a |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asean | 644.9 | 732.1 | 758.2 | 1,154.9 | 1,477.9 | 2,232.5 | 3,053.6 | 3,414.8 | 3,499.1 | 3,476.3 | 2,487.3 | 1,982.2 | 1,514.9 | 1,703.3 | 1,894.7 |
| Malaysia | 73.9 | 64.4 | 22.5 | 20.8 | 21.0 | 66.2 | 66.8 | 74.9 | 59.1 | 58.0 | 88.2 | 76.6 | 82.3 | 93.8 | 170.9 |
| Thailand | 8.2 | 3.3 | 1.8 | 4.5 | 18.0 | 37.5 | 32.7 | 35.0 | 26.3 | 48.8 | 87.5 | 81.4 | 83.0 | 87.2 | 132.3 |
| Philippines | 2.5 | 31.7 | 90.0 | 126.0 | 197.9 | 165.0 | 181.2 | 610.8 | 262.8 | 241.9 | 166.1 | 108.6 | 108.4 | 70.6 | 75.3 |
| Singapore | 558.2 | 632.7 | 643.9 | 1,003.6 | 1,241.0 | 1,963.8 | 2,770.9 | 2,894.1 | 3,120.9 | 3,127.8 | 2,125.5 | 1,625.6 | 1,238.9 | 1,449.2 | 1,508.3 |
| Brunei | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.4 | 2.5 | 3.9 |
| Hongkong | 24.2 | 26.0 | 23.9 | 27.6 | 43.0 | 99.1 | 151.9 | 134.7 | 145.0 | 181.7 | 261.3 | 348.4 | 345.2 | 419.6 | 512.9 |
| Japan | 3,066.5 | 3,331.8 | 3,527.3 | 4,360.8 | 4,525.6 | 7,191.9 | 12,021.5 | 11,829.7 | 11,192.9 | 9,878.6 | 10,552.5 | 8,589.5 | 6,322.1 | 7,303.5 | 7,307.7 |
| Other Asia | 259.6 | 278.8 | 341.7 | 800.8 | 631.0 | 806.7 | 801.6 | 805.4 | 970.3 | 800.9 | 1,254.0 | 1,474.6 | 1,170.3 | 1,868.5 | 2196.8 |
| Africa | 23.7 | 2.5 | 20.1 | 30.1 | 37.0 | 32.1 | 56.1 | 36.8 | 56.8 | 78.8 | 139.6 | 160.4 | 179.3 | 150.4 | 251.6 |
| USA | 1,580.3 | 1,865.5 | 2,452.0 | 3,011.6 | 2,962.2 | 3,170.7 | 4,801.4 | 4,852.2 | 3,546.0 | 4,266.7 | 4,506.7 | 4,040.2 | 2,901.5 | 3,348.6 | 2818.9 |
| Canada | 4.5 | 9.2 | 17.6 | 60.8 | 30.4 | 28.0 | 67.9 | 26.1 | 18.9 | 28.5 | 43.7 | 42.5 | 39.9 | 94.4 | 88.1 |
| Other America | 442.9 | 380.0 | 630.5 | 559.2 | 765.9 | 430.5 | 956.3 | 1,960.4 | 928.9 | 1,014.9 | 1,030.9 | 328.2 | 182.1 | 47.8 | 45.3 |
| Australia | 23.8 | 20.6 | 31.2 | 60.5 | 107.0 | 190.0 | 339.1 | 447.3 | 674.2 | 208.4 | 275.2 | 149.2 | 158.6 | 309.8 | 261.5 |
| Other Oceania | 1.0 | 1.1 | 3.2 | 1.6 | 6.5 | 51.0 | 108.5 | 211.2 | 278.0 | 284.1 | 235.7 | 80.5 | 83.1 | 43.0 | 29.2 |
| EEC | 390.6 | 404.8 | 619.8 | 919.4 | 873.9 | 1,173.0 | 1,387.7 | 1,062.7 | 893.7 | 952.7 | 1,036.1 | 1,113.0 | 1,339.7 | 1,541.2 | 1,915.9 |
| United Kingdom | 21.9 | 31.4 | 44.6 | 61.7 | 53.6 | 88.9 | 141.7 | 131.0 | 126.4 | 199.0 | 167.7 | 191.4 | 196.6 | 212.4 | 319.1 |
| Netherlands | 139.4 | 180.7 | 228.3 | 372.1 | 354.5 | 398.1 | 414.6 | 324.2 | 265.2 | 289.2 | 331.6 | 302.0 | 255.2 | 299.4 | 511.2 |
| West Germany | 161.4 | 132.6 | 204.1 | 235.4 | 226.2 | 337.6 | 389.0 | 236.1 | 252.7 | 252.2 | 246.3 | 254.9 | 332.2 | 361.1 | 399.1 |
| Belgium & Luxemburg | 11.5 | 11.3 | 12.1 | 22.8 | 18.2 | 17.8 | 22.8 | 18.2 | 16.7 | 32.9 | 69.3 | 75.3 | 80.5 | 104.1 | 127.8 |
| France | 23.5 | 13.3 | 33.2 | 63.1 | 54.7 | 76.9 | 122.2 | 51.7 | 77.2 | 53.1 | 48.5 | 70.2 | 95.6 | 101.8 | 123.8 |
| Denmark | 10.2 | 8.8 | 25.5 | 53.7 | 20.2 | 45.8 | 40.0 | 12.7 | 9.2 | 7.4 | 9.0 | 2.6 | 5.8 | 12.8 | 15.2 |
| Ireland | 0.5 | 0.9 | 0.6 | 3.2 | 1.1 | 0.2 | 0.7 | 0.5 | 0.6 | 0.8 | 0.1 | 1.6 | 3.9 | 2.8 | 17.8 |
| Italy | 22.7 | 23.5 | 73.2 | 109.2 | 125.8 | 208.6 | 254.2 | 167.2 | 141.3 | 119.6 | 43.3 | 152.0 | 151.8 | 172.9 | 195.3 |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 96.8 | 0.0 | 1.4 | 1.4 | 6.7 | 6.7 | 6.7 | 1.8 |
| Portugal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 6.6 | 10.4 | 20.5 |
| Spain | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 55.2 | 68.6 |
| Soviet Union | 26.0 | 25.6 | 36.8 | 32.3 | 51.6 | 54.8 | 72.9 | 80.0 | 22.4 | 50.3 | 58.7 | 77.9 | 52.0 | 82.4 | 33.0 |
| Others in Europe | 35.7 | 24.5 | 47.0 | 73.3 | 91.3 | 129.8 | 152.2 | 187.3 | 102.4 | 144.6 | 206.1 | 194.4 | 174.3 | 133.3 | 127.4 |
| Total | 7,426.3 | 7,102.5 | 8,546.5 | 10,852.7 | 11,643.2 | 15,590.1 | 23,950.4 | 25,164.5 | 22,328.3 | 21,145.9 | 21,887.8 | 18,586.7 | 14,805.0 | 17,135.6 | 17,483.0 |

/a Preliminary figures through November 1988.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Value of Imports by Principal Country of Origin, 1974-1988
(US$ million)

| Countries | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 /a | 1985 | 1986 | 1987 | 1988 /b |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asean | 359.7 | 412.1 | 791.4 | 889.1 | 652.0 | 838.9 | 1,350.4 | 1,702.1 | 3,301.6 | 3,914.8 | 1,948.0 | 962.4 | 1,120.9 | 1,382.0 | 1,180.4 |
| Malaysia | 13.0 | 20.4 | 19.4 | 18.1 | 21.7 | 35.2 | 35.9 | 59.6 | 56.3 | 60.0 | 86.2 | 52.4 | 50.4 | 138.9 | 256.1 |
| Thailand | 89.8 | 94.7 | 205.2 | 318.1 | 100.5 | 218.6 | 288.1 | 146.6 | 196.5 | 208.7 | 75.6 | 44.0 | 76.1 | 63.4 | 82.3 |
| Philippines | 11.7 | 13.8 | 18.8 | 19.5 | 76.5 | 58.7 | 60.1 | 574.9 | 247.8 | 181.6 | 15.0 | 23.0 | 28.2 | 82.7 | 97.6 |
| Singapore | 250.2 | 343.2 | 549.8 | 533.4 | 453.2 | 536.4 | 936.3 | 1,243.4 | 2,819.0 | 3,464.5 | 1,791.4 | 839.1 | 968.8 | 1,084.7 | 811.1 |
| Brunei | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.4 | 0.3 | 1.1 |
| Hongkong | 116.6 | 54.9 | 67.9 | 62.1 | 142.2 | 101.6 | 139.4 | 67.8 | 86.6 | 64.8 | 85.9 | 52.5 | 94.3 | 104.1 | 120.7 |
| Japan | 1,131.0 | 1,477.4 | 1,485.4 | 1,689.0 | 2,016.4 | 2,103.4 | 3,413.0 | 3,889.0 | 4,278.5 | 3,793.1 | 3,307.7 | 2,622.1 | 3,128.2 | 3,558.6 | 3,061.5 |
| Other Asia | 513.1 | 628.5 | 880.0 | 995.9 | 994.7 | 1,248.8 | 1,992.3 | 1,988.1 | 2,451.5 | 2,220.1 | 2,337.5 | 1,726.7 | 1,680.9 | 1,923.9 | 2,113.7 |
| Africa | 24.5 | 108.1 | 57.8 | 29.0 | 68.9 | 131.7 | 130.4 | 252.2 | 201.5 | 134.8 | 171.4 | 160.3 | 102.9 | 153.2 | 160.7 |
| USA | 609.8 | 670.0 | 987.8 | 777.3 | 832.2 | 1,027.8 | 1,409.2 | 1,794.7 | 2,417.2 | 2,533.7 | 2,559.9 | 1,720.9 | 1,683.4 | 1,416.6 | 1,567.8 |
| Canada | 96.0 | 92.9 | 75.8 | 85.8 | 85.6 | 66.7 | 89.8 | 101.5 | 136.1 | 182.0 | 316.8 | 188.1 | 217.3 | 305.0 | 241.7 |
| Other America | 16.3 | 23.8 | 14.9 | 78.7 | 76.5 | 55.8 | 111.0 | 265.8 | 165.5 | 129.4 | 138.8 | 190.5 | 174.3 | 211.0 | 200.7 |
| Australia | 129.7 | 158.7 | 189.5 | 185.9 | 217.9 | 222.5 | 377.6 | 362.1 | 364.6 | 402.3 | 372.0 | 460.5 | 413.4 | 462.7 | 517.3 |
| Other Oceania | 14.3 | 13.9 | 22.0 | 28.5 | 37.9 | 42.6 | 75.5 | 98.0 | 95.7 | 72.4 | 78.2 | 68.8 | 71.3 | 79.7 | 81.8 |
| EEC | 743.3 | 885.1 | 1,204.1 | 1,296.0 | 1,267.4 | 1,073.7 | 1,444.7 | 2,200.0 | 2,655.9 | 2,234.1 | 2,061.9 | 1,706.1 | 1,795.5 | 2,353.5 | 2,257.4 |
| United Kingdom | 147.0 | 164.7 | 176.9 | 234.9 | 207.6 | 198.0 | 261.2 | 546.7 | 445.3 | 364.4 | 297.2 | 300.4 | 341.7 | 325.4 | 303.9 |
| Netherlands | 101.9 | 133.1 | 173.2 | 259.2 | 145.7 | 119.1 | 115.5 | 202.8 | 184.9 | 257.3 | 256.1 | 215.1 | 188.3 | 316.1 | 271.7 |
| West Germany | 315.3 | 363.3 | 485.0 | 491.4 | 595.2 | 462.5 | 685.3 | 904.9 | 1,192.7 | 1,141.2 | 820.1 | 677.1 | 716.1 | 896.3 | 813.0 |
| Belgium & Luxemburg | 42.5 | 46.6 | 80.2 | 57.7 | 32.7 | 63.2 | 59.2 | 85.6 | 86.5 | 124.8 | 101.8 | 100.7 | 88.5 | 142.0 | 141.3 |
| France | 74.1 | 89.3 | 201.1 | 187.5 | 165.9 | 143.4 | 235.6 | 344.4 | 570.9 | 591.1 | 431.9 | 284.4 | 280.7 | 392.0 | 419.6 |
| Denmark | 9.5 | 12.1 | 9.0 | 12.2 | 60.3 | 19.0 | 11.7 | 14.1 | 53.8 | 20.5 | 19.5 | 18.1 | 25.7 | 25.9 | 18.9 |
| Ireland | 1.8 | 0.5 | 0.7 | 1.2 | 2.2 | 1.7 | 3.3 | 3.8 | 2.5 | 8.0 | 8.4 | 8.8 | 4.5 | 6.2 | 5.7 |
| Italy | 51.2 | 75.5 | 68.9 | 51.5 | 58.6 | 67.1 | 75.9 | 95.7 | 104.2 | 124.7 | 113.2 | 101.4 | 143.7 | 236.8 | 208.2 |
| Greece | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.5 | 2.6 | 3.7 | 0.1 | 0.3 | 1.8 | 2.4 |
| Portugal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.3 | 5.7 | 5.7 |
| Spain | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 65.6 | 100.6 |
| Soviet Union | 12.8 | 37.4 | 16.7 | 10.1 | 14.8 | 13.6 | 19.8 | 41.1 | 39.2 | 24.9 | 12.1 | 3.3 | 5.2 | 15.5 | 44.9 |
| Others in Europe | 132.8 | 237.3 | 120.0 | 124.9 | 287.0 | 269.4 | 274.3 | 411.7 | 663.0 | 641.7 | 490.1 | 364.9 | 434.8 | 510.4 | 446.1 |
| Total | 3,841.9 | 4,769.8 | 5,673.1 | 6,230.3 | 6,690.4 | 7,202.5 | 10,834.4 | 13,272.1 | 16,858.9 | 16,351.8 | 13,882.1 | 10,259.1 | 10,719.4 | 12,511.8 | 12,014.2 |

/a Since 1984, excludes the value of processing deals in the oil sector.
/b Preliminary figures through November 1988.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Summary of External Debt Data, 1976-1988 /a

| | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **External debt data** | (US $ million) | | | | | | | | | | | | |
| Disbursed and outstanding debt (DOD) /b | 10,002 | 11,670 | 13,150 | 13,278 | 14,971 | 15,870 | 18,513 | 21,654 | 22,355 | 26,868 | 32,891 | 41,322 | 41,286 |
| Bilateral/multilateral | 5,910 | 7,073 | 8,389 | 8,509 | 9,506 | 10,059 | 11,111 | 11,969 | 12,166 | 14,583 | 17,417 | 22,010 | 22,372 |
| Other /c | 4,092 | 4,597 | 4,761 | 4,769 | 5,465 | 5,811 | 7,403 | 9,685 | 10,188 | 12,285 | 15,475 | 19,312 | 18,914 |
| Total debt outstanding, including undisbursed (TDO) /b | 14,575 | 16,197 | 19,037 | 21,202 | 24,452 | 27,210 | 32,225 | 35,567 | 36,587 | 42,492 | 49,865 | 59,852 | 58,048 |
| Bilateral/multilateral | 8,828 | 10,636 | 12,835 | 14,199 | 16,677 | 17,966 | 19,254 | 19,334 | 19,284 | 21,885 | 24,866 | 30,602 | 31,139 |
| Other /c | 5,747 | 5,561 | 6,202 | 7,003 | 7,775 | 9,244 | 12,972 | 16,233 | 17,303 | 20,608 | 24,999 | 29,250 | 26,909 |
| Commitments | 3,133 | 1,721 | 3,285 | 4,101 | 4,277 | 5,266 | 7,074 | 5,723 | 4,780 | 4,185 | 4,172 | 5,464 | 5,573 |
| Bilateral/multilateral | 1,698 | 1,383 | 1,590 | 2,247 | 2,639 | 2,472 | 2,304 | 1,134 | 1,750 | 1,301 | 1,104 | 3,061 | 3,418 |
| Other /c | 1,435 | 338 | 1,695 | 1,854 | 1,638 | 2,795 | 4,770 | 4,589 | 3,029 | 2,883 | 3,068 | 2,403 | 2,155 |
| Gross disbursements | 2,332 | 1,959 | 2,215 | 1,887 | 2,551 | 2,672 | 4,191 | 4,929 | 3,804 | 3,622 | 4,149 | 5,277 | 6,377 |
| Bilateral/multilateral | 920 | 867 | 935 | 826 | 1,131 | 1,363 | 1,835 | 1,681 | 1,731 | 1,327 | 1,463 | 2,539 | 2,628 |
| Other /c | 1,412 | 1,092 | 1,280 | 1,062 | 1,420 | 1,309 | 2,356 | 3,249 | 2,073 | 2,295 | 2,686 | 2,738 | 3,750 |
| Net disbursements | 1,898 | 1,138 | 667 | 559 | 1,616 | 1,620 | 3,089 | 3,642 | 2,192 | 1,273 | 1,814 | 2,168 | 1,611 |
| Bilateral/multilateral | 834 | 751 | 732 | 560 | 811 | 987 | 1,368 | 1,131 | 1,146 | 692 | 551 | 1,378 | 1,317 |
| Other /c | 1,064 | 387 | -65 | -1 | 804 | 632 | 1721 | 2512 | 1045 | 581 | 1263 | 789 | 294 |
| Net resource transfers | 1,572 | 698 | 153 | -212 | 792 | 626 | 1942 | 2387 | 564 | -371 | -231 | -175 | -919 |
| Bilateral/multilateral | 734 | 592 | 506 | 263 | 500 | 652 | 959 | 660 | 583 | 20 | (309) | 445 | 257 |
| Other /c | 837 | 106 | -353 | -475 | 292 | -27 | 983 | 1727 | -19 | -391 | 78 | -620 | -1175 |
| Public debt service | 761 | 1,262 | 2,062 | 2,099 | 1,758 | 2,047 | 2,249 | 2,542 | 3,240 | 3,993 | 4,380 | 5,452 | 7,296 |
| Amortization | 434 | 821 | 1,548 | 1,328 | 935 | 1,032 | 1,103 | 1,287 | 1,613 | 2,349 | 2,334 | 3,119 | 4,766 |
| Interest | 327 | 441 | 514 | 771 | 823 | 994 | 1,146 | 1,255 | 1,628 | 1,644 | 2,046 | 2,342 | 2,530 |
| Public debt service | 761 | 1,262 | 2,062 | 2,099 | 1,758 | 2,047 | 2,249 | 2,542 | 3,240 | 3,993 | 4,380 | 5,452 | 7,296 |
| Bilateral/multilateral | 186 | 276 | 429 | 563 | 631 | 711 | 876 | 1,020 | 1,162 | 1,307 | 1,772 | 2,094 | 2,371 |
| Other /c | 575 | 986 | 1,633 | 1,536 | 1,128 | 1,336 | 1,373 | 1,522 | 2,092 | 2,686 | 2,608 | 3,358 | 4,925 |
| **Disbursement indicators** | (%) | | | | | | | | | | | | |
| Undisbursed debt/TDO /b | 31 | 28 | 31 | 37 | 39 | 42 | 43 | 39 | 39 | 37 | 34 | 31 | 29 |
| Bilateral/multilateral | 33 | 33 | 35 | 40 | 43 | 44 | 42 | 38 | 37 | 33 | 30 | 28 | 28 |
| Other /c | 29 | 17 | 23 | 32 | 30 | 37 | 43 | 40 | 41 | 40 | 38 | 32 | 30 |
| Gross disbursements/commitments | 74 | 114 | 67 | 46 | 60 | 51 | 59 | 86 | 80 | 87 | 99 | 97 | 114 |
| Bilateral/multilateral | 54 | 63 | 59 | 37 | 43 | 55 | 80 | 148 | 99 | 102 | 133 | 83 | 77 |
| Other /c | 98 | 323 | 76 | 57 | 87 | 47 | 49 | 71 | 68 | 80 | 88 | 114 | 174 |
| Gross disbursements/undisbursed debt and commitments /d | 34 | 31 | 28 | 19 | 21 | 18 | 23 | 25 | 20 | 20 | 21 | 24 | 26 |
| Bilateral/multilateral | 24 | 20 | 18 | 12 | 14 | 14 | 18 | 18 | 19 | 16 | 17 | 24 | 22 |
| Other /c | 46 | 55 | 48 | 32 | 37 | 26 | 29 | 32 | 22 | 23 | 24 | 23 | 31 |
| Net disbursements/gross disbs | 81 | 58 | 30 | 30 | 63 | 61 | 74 | 74 | 58 | 35 | 44 | 41 | 25 |
| Bilateral/multilateral | 91 | 87 | 78 | 68 | 72 | 72 | 75 | 67 | 66 | 52 | 38 | 54 | 50 |
| Other /c | 75 | 35 | -5 | -0 | 57 | 48 | 73 | 77 | 50 | 25 | 47 | 29 | 8 |
| Net resource transfers/gross disbs | 67 | 36 | 7 | -11 | 31 | 23 | 46 | 48 | 15 | -10 | -6 | -3 | -14 |
| Bilateral/multilateral | 80 | 68 | 54 | 32 | EBR | 37 | 52 | 39 | 34 | 1 | (21) | 18 | 10 |
| Other /c | 59 | 10 | -28 | -45 | 21 | -2 | 42 | 53 | -1 | -17 | 3 | -23 | -31 |

/a Data in this table refer to public sector medium and long term loans. Loans with a maturity of less than one year; credits for LNG expansion, LPG and paraxylene projects; and grants are not included.
/b End of year.
/c Suppliers' credits, loans from financial institutions, bonds, nationalization debt.
/d Gross disbursements as a percentage of undisbursed debt (TDO-DOD) at beginning of year plus commitments during the year.

Source: IBRD Debtor Reporting System, based on data provided by Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

External Public Debt Outstanding as of December 31, 1988

(US$ '000)

| Type of creditor/ Creditor country | Debt outstanding Disbursed | Undisbursed | Total | Major reported new commitments Jan 1-Dec 31 1988 |
|---|---|---|---|---|
| **Suppliers' credits** | | | | |
| Finland | 0 | 12,081 | 12,081 | 0 |
| France | 269 | 0 | 269 | 0 |
| Japan | 4,088,176 | 2,208,709 | 6,296,885 | 71,463 |
| Korea, Rep. of | 34,014 | 0 | 34,014 | 0 |
| Pakistan | 7,610 | 0 | 7,610 | 0 |
| Switzerland | 1,084 | 0 | 1,084 | 0 |
| United Kingdom | 0 | 0 | 0 | 0 |
| United States | 799 | 0 | 799 | 0 |
| Yugoslavia | 14,918 | 0 | 14,918 | 0 |
| Total suppliers' credits | 4,146,870 | 2,220,790 | 6,367,660 | 71,463 |
| **Financial institutions** | | | | |
| Austria | 64,416 | 65,386 | 129,802 | 36,514 |
| Belgium | 98,455 | 83,350 | 181,805 | 18,748 |
| Finland | 0 | 0 | 0 | 0 |
| France | 838,585 | 343,869 | 1,182,454 | 0 |
| Germany, Fed. Rep. of | 291,683 | 27,424 | 319,107 | 3,652 |
| Hong Kong | 102,938 | 848,650 | 951,588 | 0 |
| Italy | 2,814 | 0 | 2,814 | 0 |
| Japan | 4,182,670 | 442,308 | 4,624,978 | 312,443 |
| Netherlands | 332,286 | 159,602 | 491,888 | 1,225 |
| Norway | 15,804 | 0 | 15,804 | 0 |
| Singapore | 71,084 | 176 | 71,260 | 0 |
| Sweden | 149,523 | 35,371 | 184,894 | 0 |
| Switzerland | 33,457 | 57,559 | 91,016 | 0 |
| United Kingdom | 1,474,725 | 362,944 | 1,837,669 | 237,328 |
| United States | 1,080,109 | 0 | 1,080,109 | 0 |
| Multiple Lenders | 656,250 | 0 | 656,250 | 0 |
| Total financial institutions | 9,394,799 | 2,426,639 | 11,821,438 | 609,910 |
| **Bonds** | | | | |
| Germany, Fed. Rep. of | 168,510 | 0 | 168,510 | 171,179 |
| Japan | 119,190 | 0 | 119,190 | 0 |
| Kuwait | 7,105 | 0 | 7,105 | 0 |
| Netherlands | 28,745 | 0 | 28,745 | 0 |
| Saudi Arabia | 75,000 | 0 | 75,000 | 0 |
| Switzerland | 192,500 | 0 | 192,500 | 0 |
| United Kingdom | 103,600 | 0 | 103,600 | 0 |
| United States | 300,000 | 0 | 300,000 | 0 |
| Total Bonds | 994,650 | 0 | 994,650 | 171,179 |
| **Nationalization** | | | | |
| Netherlands | 141,037 | 0 | 141,037 | 0 |
| Total nationalization | 141,037 | 0 | 141,037 | 171,179 |

INDONESIA

COUNTRY ECONOMIC REPORT

External Public Debt Outstanding as of December 31, 1988

(US$ '000)

| Type of creditor/ Creditor country | Debt outstanding | | | Major reported new commitments Jan 1-Dec 31 1988 |
|---|---|---|---|---|
| | Disbursed | Undisbursed | Total | |
| **Multilateral loans** | | | | |
| ADB | 192,814 | 145,309 | 338,123 | 79,442 |
| EEC | 5,500 | 0 | 5,500 | 0 |
| IDA | 860,643 | 1,921 | 862,564 | 0 |
| IFAD | 35,763 | 85,280 | 121,043 | 14,249 |
| Islamic Development Bank | 868 | 9,332 | 10,200 | 0 |
| Nordic Invest Bank | 20,000 | 44,500 | 64,500 | |
| Total multilateral loans | 1,115,588 | 286,342 | 1,401,930 | 93,691 |
| **Bilateral loans** | | | | |
| Australia | 28,775 | 6,500 | 126,866 | 128,186 |
| Austria | 454 | 32,515 | 24,330 | 0 |
| Belgium | 90,437 | 10,557 | 91,580 | 0 |
| Brunei | 100,000 | | 100,000 | 100,000 |
| Bulgaria | 1,160 | 0 | 1,160 | 0 |
| Canada | 227,721 | 184,772 | 300,697 | 0 |
| China | 65,260 | 0 | 65,260 | 0 |
| Czechoslovakia | 38,703 | 0 | 38,703 | 0 |
| Denmark | 10,345 | 1,793 | 11,937 | 0 |
| Egypt, Arab Rep. of | 1,751 | 0 | 1,751 | 0 |
| France | 415,961 | 201,421 | 592,903 | 0 |
| Germany, Fed. Rep of | 1,205,703 | 435,862 | 1,443,673 | 22,367 |
| Germany, Dem. Rep of | 31,828 | 0 | 31,828 | 0 |
| Hungary | 9,653 | 0 | 9,653 | 0 |
| India | 0 | 6,455 | 0 | 0 |
| Italy | 50,228 | 47 | 50,264 | 0 |
| Japan | 8,301,468 | 3,815,612 | 12,243,328 | 2,185,047 |
| Kuwait | 44,567 | 68,121 | 139,103 | 19,621 |
| Netherlands | 798,278 | 159,746 | 940,144 | 161,417 |
| New Zealand | 1,361 | 0 | 1,361 | 0 |
| Pakistan | 4,257 | 0 | 4,257 | 0 |
| Poland | 54,361 | 0 | 54,361 | 0 |
| Romania | 7,794 | 0 | 7,794 | 0 |
| Saudi Arabia | 51,134 | 128,479 | 172,909 | 0 |
| Switzerland | 0 | 39,906 | 33,909 | 0 |
| United Arab Emirate | 7,086 | 1,713 | 8,799 | 0 |
| United Kingdom | 6,869 | 117,007 | 6,869 | 0 |
| United States | 1,903,843 | 753,313 | 2,388,283 | 33,084 |
| USSR | 431,016 | 0 | 431,016 | 0 |
| Yugoslavia | 65,157 | 0 | 65,157 | 0 |
| Multiple lenders | 0 | 0 | 20,000 | 20,000 |
| Total bilateral loans | 13,955,170 | 5,963,819 | 19,407,895 | 2,669,722 |
| Total external public debt | 29,748,114 | 10,386,496 | 40,134,610 | 3,444,786 |

Source: IBRD Debtor Reporting System, Based on data provided by Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Service Payments, Commitments, Disbursements and Outstanding Amounts of External Public Debt

(US$ '000)

| Year | Debt outstanding at end of period | | Transactions during period | | | | | Other changes | |
|---|---|---|---|---|---|---|---|---|---|
| | Disbursed only | Including undisbursed | Commitments | Disbursements | Service payments | | | Cancellations | Adjustments /a |
| | | | | | Principal | Interest | Total | | |
| **Actual** | | | | | | | | | |
| 1978 | 13,149,657 | 19,037,301 | 3,284,604 | 2,214,594 | 1,547,948 | 513,797 | 2,061,745 | 40,544 | 1,144,480 |
| 1979 | 13,277,846 | 21,202,410 | 4,101,016 | 1,887,248 | 1,328,284 | 770,911 | 2,099,195 | 128,425 | -479,198 |
| 1980 | 14,971,336 | 24,451,888 | 4,277,370 | 2,550,504 | 934,966 | 823,134 | 1,758,100 | 118,261 | - |
| 1981 | 15,869,751 | 27,210,095 | 5,266,295 | 2,672,426 | 1,052,465 | 994,322 | 2,046,787 | 163,286 | -1,292,336 |
| 1982 | 18,512,721 | 32,225,484 | 7,073,633 | 4,191,347 | 1,102,579 | 1,146,369 | 2,248,948 | 7,042 | -948,622 |
| 1983 | 21,654,028 | 35,567,357 | 5,722,732 | 4,929,036 | 1,286,618 | 1,255,341 | 2,541,959 | 188,042 | -906,198 |
| 1984 | 22,354,503 | 36,587,226 | 4,779,554 | 3,804,242 | 1,612,566 | 1,627,764 | 3,240,330 | 25,234 | -2,121,884 |
| 1985 | 26,868,014 | 42,492,087 | 4,184,609 | 3,621,630 | 2,348,780 | 1,643,975 | 3,992,755 | 518,554 | 4,587,586 |
| 1986 | 32,891,385 | 49,864,981 | 4,172,076 | 4,148,693 | 2,334,380 | 2,045,687 | 4,380,067 | 187,967 | 5,723,165 |
| 1987 | 41,322,087 | 59,852,143 | 5,464,433 | 5,277,278 | 3,109,755 | 2,342,323 | 5,452,078 | 657,206 | 8,289,690 |
| 1988 | 41,285,540 | 58,047,649 | 5,573,073 | 6,377,296 | 4,766,341 | 2,529,574 | 7,295,915 | 676,121 | -1,935,104 |
| **Projected** | | | | | | | | | |
| 1989 | 41,111,873 | 51,794,520 | | 4,347,223 | 4,446,974 | 2,527,741 | 6,974,715 | 1,732,243 | -73,911 |
| 1990 | 39,604,204 | 47,315,200 | | 2,971,650 | 4,479,301 | 2,440,736 | 6,920,037 | | -18 |
| 1991 | 37,915,406 | 43,079,284 | | 2,547,134 | 4,235,937 | 2,281,939 | 6,517,876 | | 21 |
| 1992 | 35,765,313 | 38,788,799 | | 2,140,437 | 4,290,527 | 2,146,626 | 6,437,153 | | 42 |
| 1993 | 32,707,905 | 34,376,059 | | 1,355,392 | 4,412,797 | 1,973,431 | 6,386,228 | | 57 |
| 1994 | 29,971,270 | 30,837,763 | | 801,690 | 3,538,314 | 1,761,924 | 5,300,238 | | 18 |
| 1995 | 27,132,310 | 27,573,668 | | 425,150 | 3,264,101 | 1,587,604 | 4,851,705 | | 6 |

/a This column shows the amount of arithmetic imbalances in the amount outstanding, including undisbursed, from one year to the next. The most common causes of imbalances are changes in exchange rates and transfers of debts from one category to another in the table.

Source: IBRD Debtor Reporting System, based on data provided by Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Central Government Budget Summary, 1974/75 - 1989/90

(Rp. billion)

| | Actual | | | | | | | | | | | | | | Budget | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1987/88 | 1988/89 | 1989/90 |
| 1. Domestic revenues | 1,753.7 | 2,241.9 | 2,906.0 | 3,534.4 | 4,266.1 | 6,696.8 | 10,227.0 | 12,212.6 | 12,418.3 | 14,432.7 | 15,905.5 | 19,252.8 | 16,140.6 | 20,803.3 | 21,803.0 | 25,249.8 |
| 2. Routine expenditures /a | 1,016.1 | 1,332.6 | 1,629.8 | 2,148.9 | 2,743.7 | 4,061.8 | 5,800.0 | 6,977.6 | 6,996.3 | 8,411.8 | 9,429.0 | 11,951.5 | 13,559.3 | 17,481.5 | 20,066.0 | 23,445.0 |
| 3. Government saving (1-2) | 737.6 | 909.3 | 1,276.2 | 1,385.5 | 1,522.4 | 2,635.0 | 4,427.0 | 5,235.0 | 5,422.0 | 6,020.9 | 6,476.5 | 7,301.3 | 2,581.3 | 3,321.8 | 1,737.0 | 1,804.8 |
| 4. Development expenditures | 961.8 | 1,397.7 | 2,054.5 | 2,156.8 | 2,555.6 | 4,014.2 | 5,916.1 | 6,940.0 | 7,359.6 | 9,899.2 | 9,951.9 | 10,873.1 | 8,332.0 | 9,477.4 | 8,897.6 | 13,129.9 |
| 5. Balance (3-4) | -224.2 | -488.4 | -778.3 | -771.3 | -1033.2 | -1379.2 | -1489.1 | -1705.0 | -1937.6 | -3878.3 | -3475.4 | -3571.8 | -5750.7 | -6155.6 | -7160.6 | -11325.1 |
| Financed by: | | | | | | | | | | | | | | | | |
| 6. Counterpart funds /b | 36.1 | 20.2 | 10.2 | 35.8 | 48.2 | 64.8 | 64.1 | 45.1 | 15.1 | 14.9 | 69.3 | 69.2 | 1,957.5 | 727.8 | 1,163.0 | 1,798.9 |
| 7. Project aid | 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 | 3,408.7 | 3,503.4 | 3,794.7 | 5,430.2 | 5,997.6 | 9,526.2 |
| 8. Change in balances (- = increase) | -7.8 | -3.2 | -5.5 | -2.1 | -2.3 | -1.9 | -4.7 | -4.0 | -2.4 | -4.1 | -2.6 | -0.8 | -1.5 | -2.4 | 0.0 | -0.0 |

/a Includes debt service payments.
/b Program aid.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC REPORT

Central Government Receipts, 1974/75 - 1989/90
(Rp. billion)

| | Actual | | | | | | | | | | | | | | Budget | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1987/88 | 1988/89 | 1989/90 |
| Taxes on income | 1,228.7 | 1,592.1 | 2,046.6 | 2,511.3 | 2,996.3 | 5,129.3 | 8,230.3 | 10,100.3 | 10,009.9 | 11,605.1 | 12,846.5 | 13,624.9 | 8,798.1 | 12,985.7 | 12,939.9 | 13,485.8 |
| Income tax | 43.3 | 61.7 | 84.2 | 104.6 | 122.2 | 148.1 | 164.2 | 207.2 | 288.8 | 398.8 | 450.7 | 674.7 | 2,270.5 | 2 663.4 | 3,762.1 | 4,947.6 |
| Corporate tax /a | 91.2 | 128.2 | 127.2 | 160.5 | 226.5 | 297.1 | 447.6 | 559.1 | 674.5 | 757.4 | 1,670.5 | 1,638.5 | | | | |
| Corporate tax on oil /b | 973.1 | 1,249.1 | 1,619.2 | 1,948.7 | 2,308.7 | 4,259.6 | 7,019.6 | 8,627.8 | 8,170.4 | 9,520.2 | 10,429.9 | 11,144.4 | 6,337.6 | 10,047.2 | 8,855.8 | 7,899.7 |
| Witholding tax /c | 83.3 | 97.3 | 148.2 | 201.7 | 232.6 | 261.9 | 433.5 | 513.0 | 641.9 | 658.6 | | | | | | |
| IPEDA/property tax /d | 28.0 | 34.6 | 42.2 | 52.4 | 65.1 | 71.2 | 82.2 | 92.5 | 105.2 | 132.1 | 157.2 | 167.5 | 190.0 | 275.1 | 322.0 | 638.5 |
| Others /e | 9.8 | 21.2 | 25.2 | 34.3 | 43.3 | 61.8 | 78.2 | 98.7 | 129.1 | 168.2 | 138.4 | | | | | |
| Taxes on domestic consumption | 158.6 | 231.3 | 319.6 | 397.8 | 491.4 | 537.2 | 732.9 | 888.0 | 1,137.4 | 1,392.1 | 1,509.8 | 3,478.6 | 5,156.3 | 4,719.0 | 6,391.1 | 8,135.4 |
| Sales/value added tax | 84.9 | 119.2 | 162.3 | 203.4 | 221.1 | 192.2 | 265.6 | 319.7 | 476.6 | 575.2 | 637.2 | 2,324.7 | 2,800.1 | 3,380.4 | 4,787.6 | 5,830.9 |
| Excises | 74.8 | 97.1 | 130.7 | 181.0 | 256.0 | 326.6 | 437.6 | 544.6 | 620.1 | 773.6 | 872.6 | 943.7 | 1,053.8 | 1,105.7 | 1,331.5 | 1,887.0 |
| Other oil revenues /f | -13.8 | -1.1 | 15.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1010.0 | 0.0 | 0.0 | 392.5 |
| Miscellaneous levies | 15.2 | 15.9 | 10.7 | 12.5 | 17.4 | 18.6 | 29.4 | 33.1 | 40.7 | 43.7 | 0.0 | 208.2 | 190.4 | 222.9 | 272.0 | 424.6 |
| Taxes on international trade | 299.8 | 308.1 | 421.3 | 481.7 | 587.0 | 843.0 | 948.1 | 887.9 | 835.4 | 916.0 | 861.9 | 657.8 | 1038.9 | 1121.9 | 1212.7 | 1581.0 |
| Import duties | 160.6 | 174.0 | 257.4 | 286.9 | 295.3 | 316.7 | 448.0 | 536.2 | 521.9 | 557.0 | 530.1 | 607.3 | 960.1 | 938.4 | 1068.3 | 1421.2 |
| Sales tax on imports /g | 68.9 | 72.5 | 102.3 | 114.6 | 125.3 | 137.6 | 192.1 | 223.3 | 231.0 | 255.0 | 240.8 | | | | | |
| Export tax | 70.3 | 61.6 | 61.7 | 80.2 | 166.2 | 389.1 | 305.0 | 128.4 | 82.5 | 104.0 | 91.0 | 50.5 | 78.8 | 183.5 | 144.4 | 159.8 |
| Nontax receipts | 66.6 | 110.4 | 118.5 | 143.6 | 191.4 | 187.3 | 315.7 | 336.4 | 435.6 | 519.5 | 687.3 | 1,491.5 | 1,147.3 | 1,976.7 | 1,259.3 | 2,047.6 |
| Domestic revenue | 1,753.7 | 2,241.9 | 2,906.0 | 3,534.4 | 4,266.1 | 6,696.8 | 10,227.0 | 12,212.6 | 12,418.3 | 14,432.7 | 15,905.5 | 19,252.8 | 16,140.6 | 20,803.3 | 21,803.0 | 25,249.8 |
| Development funds | 232.0 | 491.6 | 783.8 | 773.4 | 1,035.5 | 1,381.1 | 1,493.8 | 1,709.0 | 1,940.0 | 3,882.4 | 3,478.0 | 3,572.6 | 5,752.2 | 6,158.0 | 7,160.6 | 11.325.1 |
| Program aid | 36.1 | 20.2 | 10.2 | 35.8 | 48.2 | 64.8 | 64.1 | 45.1 | 15.1 | 14.2 | 69.3 | 69.2 | 1,957.5 | 727.8 | 1,163.0 | 1,798.9 |
| Project aid /h | 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 | 3,408.7 | 3,503.4 | 3,794.7 | 5,430.2 | 5,997.6 | 9,526.2 |
| Total revenues | 1,985.7 | 2,733.5 | 3,689.8 | 4,307.8 | 5,301.6 | 8,077.9 | 11,720.8 | 13,921.6 | 14,358.3 | 18,315.1 | 19,383.5 | 22,825.4 | 21,892.8 | 26,961.3 | 28,963.6 | 36,574.9 |

/a Since 1986/87 included in income tax.
/b For 1974/75, excludes underpayment of revenues, estimated at about Rp. 340 billion, due to Government from Pertamina.
/c Since 1984/85, witholding tax eliminated as separate category and combined with income tax.
/d Since January 1986, Ipeda replaced by property tax.
/e Classification changed to other tax (included in miscellaneous levies which consist of other taxes and stamp duty).
/f Oil subsidies shown as Government expenditures from 1977/78 (see Table 5.3).
/g Since 1984/85 classification changed to value-added tax and tax on luxury goods.
/h Includes commercial bank and suppliers' credits for development projects.

Source: Ministry of Finance.

**INDONESIA**

**COUNTRY ECONOMIC REPORT**

**Central Government Expenditures, 1974/75 - 1989/90**
(Rp. billion)

| | | | | | | | Actual | | | | | | | | Budget | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1987/88 | 1988/89 | 1989/90 |
| Personnel expenditures | 420.1 | 593.9 | 636.6 | 893.2 | 1,001.6 | 1,419.9 | 2,023.3 | 2,277.7 | 2,418.1 | 2,757.0 | 3,046.8 | 4,018.3 | 4,310.6 | 4,616.9 | 4,816.3 | 5,966.5 |
| Wages and salaries | 301.7 | 400.0 | 424.8 | 672.9 | 760.3 | 1,053.9 | 1,482.9 | 1,660.4 | 1,749.0 | 1,996.0 | 2,206.6 | 3,072.6 | 3,330.0 | 3,561.0 | 3,739.2 | 4,607.8 |
| Rice allowance | 59.5 | 111.0 | 117.8 | 126.2 | 132.8 | 170.0 | 385.0 | 351.3 | 285.8 | 340.3 | 407.0 | 405.7 | 400.7 | 450.7 | 485.7 | 516.4 |
| Food allowance | 27.7 | 73.5 | 75.7 | 129.8 | 151.2 | 109.0 | 169.9 | 271.0 | 251.0 | 270.1 | 271.4 | 306.4 | 288.3 | 369.1 | 355.2 | 318.4 |
| Other | 24.4 | 45.8 | 42.0 | 37.9 | 31.6 | 27.1 | 77.6 | 81.0 | 234.3 | 281.3 | 271.4 | 181.1 | 697.3 | 627.1 | 320.8 | 370.7 |
| External | 9.8 | 12.7 | 14.3 | 14.8 | 23.7 | 29.1 | 34.0 | 43.0 | 45.7 | 66.0 | 72.1 | 82.2 | 109.6 | 129.9 | 130.6 | 165.0 |
| Material expenditures | 175.2 | 304.9 | 339.7 | 376.8 | 419.5 | 569.0 | 670.6 | 922.4 | 1,041.2 | 1,057.1 | 1,182.8 | 1,367.1 | 1,366.5 | 1,329.3 | 1,333.2 | 1,476.6 |
| Domestic | 158.4 | 283.1 | 320.8 | 358.6 | 398.4 | 539.6 | 637.8 | 890.5 | 1,007.4 | 1,007.0 | 1,134.2 | 1,309.5 | 1,293.6 | 1,238.9 | 1,222.0 | 1,345.0 |
| External | 16.8 | 21.8 | 18.9 | 18.2 | 21.1 | 29.4 | 32.8 | 31.9 | 33.8 | 50.1 | 48.6 | 57.6 | 72.9 | 90.4 | 111.2 | 131.6 |
| Subsidies to region /a | 201.9 | 284.5 | 313.0 | 478.4 | 522.3 | 669.9 | 976.1 | 1,209.4 | 1,315.4 | 1,546.9 | 1,883.3 | 2,489.0 | 2,649.7 | 2,815.6 | 2,893.0 | 3,594.1 |
| Irian Jaya | 14.3 | 18.7 | 19.7 | 21.7 | 22.1 | 25.0 | 33.9 | 42.0 | 43.0 | 41.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other region | 187.6 | 265.8 | 293.3 | 456.7 | 500.2 | 644.9 | 942.2 | 1,167.4 | 1,272.4 | 1,505.4 | 1,883.3 | 2,489.0 | 2,649.7 | 2,815.6 | 2,893.0 | 3,594.1 |
| Debt service payments | 73.7 | 78.5 | 189.5 | 228.3 | 534.5 | 684.1 | 784.8 | 931.0 | 1,224.5 | 2,102.7 | 2,776.5 | 3,323.1 | 5,058.1 | 8,204.6 | 10,646.0 | 12,236.8 |
| Internal | 6.4 | 6.8 | 24.4 | 7.4 | 8.8 | 36.5 | 30.8 | 16.0 | 19.8 | 29.8 | 39.3 | 20.0 | 0.0 | 39.1 | 40.0 | 148.8 |
| External | 67.3 | 71.7 | 165.1 | 220.9 | 525.7 | 647.6 | 754.0 | 915.0 | 1,204.7 | 2,072.9 | 2,737.2 | 3,303.1 | 5,058.1 | 8,165.5 | 10,608.0 | 12,088.0 |
| Other expenditures | 145.2 | 70.8 | 151.0 | 172.2 | 265.8 | 718.9 | 1,345.1 | 1,637.1 | 997.1 | 948.1 | 539.5 | 754.0 | 174.4 | 515.1 | 375.5 | 171.0 |
| Food subsidy | 141.0 | 50.0 | 39.0 | 0.0 | 43.5 | 124.9 | 281.6 | 224.0 | 1.0 | 0.0 | 0.0 | 0.0 | 29.4 | 0.0 | 266.5 | 0.0 |
| Oil subsidy | 0.0 | 0.0 | 0.0 | 65.1 | 197.0 | 534.0 | 1,022.0 | 1,316.0 | 962.0 | 928.1 | 506.7 | 374.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others /b | 4.2 | 20.8 | 112.0 | 107.1 | 25.3 | 59.1 | 41.5 | 97.1 | 34.1 | 20.0 | 32.8 | 379.8 | 145.0 | 515.1 | 109.0 | 171.0 |
| Routine expenditures | 1,016.1 | 1,332.6 | 1,629.8 | 2,148.9 | 2,743.7 | 4,061.8 | 5,799.9 | 6,977.6 | 6,996.3 | 8,411.8 | 9,428.9 | 11,951.5 | 13,559.3 | 17,481.5 | 20,066.0 | 23,445.0 |
| Development expenditures /c | 961.8 | 1,397.7 | 2,054.5 | 2,156.8 | 2,555.6 | 4,014.2 | 5,916.1 | 6,940.0 | 7,359.6 | 9,899.2 | 9,951.9 | 10,873.1 | 8,332.0 | 9,477.4 | 8,897.6 | 13,129.9 |
| Total expenditures | 1,977.9 | 2,730.3 | 3,684.3 | 4,305.7 | 5,299.3 | 8,076.0 | 11,716.0 | 13,917.6 | 14,355.9 | 18,311.0 | 19,380.8 | 22,824.6 | 21,891.3 | 26,958.9 | 28,963.6 | 36,574.9 |

/a Since 1984/85, this item is sub-divided into wage/salary and non wage/salary expenditures without identifying regions.
/b This line shows debt service transfers to PERTAMINA (1976/77 - Rp. 31 billion, 1977/78 - Rp. 86.4 billion), PERTAMINA subsidy (1979/80 - Rp. 81.0 billion) and expenditures on the general election (1976/77 - Rp. 37.0 billion, 1981/82 - Rp. 81.0 billion, 1985/86 - Rp. 40 billion).
/c For details see tables 5.4 and 5.5.

Source: Ministry of Finance.

Statistical Annex
Table 5.4

INDONESIA

COUNTRY ECONOMIC REPORT

Development Expenditures, 1974/75 - 1989/90
(Rp. billion)

| | Actual | | | | | | | | | | | | | | Budget | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1987/88 | 1988/89 | 1989/90 |
| 1. Departments | 221.6 | 384.9 | 590.9 | 744.5 | 851.0 | 1,480.3 | 2,533.2 | 2,724.6 | 3,260.9 | 3,219.5 | 3,474.4 | 4,466.5 | 2,003.6 | 2,112.7 | 1,120.4 | 1,474.0 |
| 2. General INPRES programs | 101.3 | 129.0 | 143.7 | 167.7 | 181.6 | 218.8 | 336.8 | 448.1 | 535.3 | 538.8 | 540.4 | 574.5 | 567.6 | 655.6 | 703.2 | 706.0 |
| Subsidies to provinces | 47.4 | 54.0 | 61.5 | 75.4 | 86.8 | 100.7 | 166.7 | 215.0 | 253.0 | 253.1 | 253.0 | 287.3 | 293.1 | 290.4 | 324.0 | 324.0 |
| Subsidies to kabupatens | 42.5 | 59.1 | 62.4 | 66.1 | 70.8 | 87.1 | 119.4 | 162.6 | 193.9 | 184.1 | 184.6 | 188.6 | 188.1 | 263.0 | 267.2 | 270.0 |
| Subsidies to villages | 11.4 | 15.9 | 19.8 | 25.2 | 25.9 | 31.0 | 50.7 | 70.5 | 88.4 | 91.6 | 92.8 | 98.6 | 86.4 | 102.2 | 112.0 | 112.0 |
| 3. Sectoral INPRES programs | 25.0 | 65.1 | 94.1 | 137.0 | 176.0 | 252.0 | 377.2 | 584.5 | 444.2 | 771.2 | 824.4 | 753.7 | 720.6 | 450.7 | 402.8 | 535.9 |
| Primary schools | 19.7 | 49.9 | 57.3 | 85.0 | 111.8 | 155.8 | 249.8 | 374.5 | 267.4 | 549.3 | 572.0 | 526.1 | 495.9 | 193.3 | 112.5 | 100.0 |
| Health | 5.3 | 15.2 | 20.8 | 26.3 | 26.8 | 30.0 | 50.5 | 78.8 | 80.3 | 87.4 | 95.6 | 110.6 | 107.7 | 73.0 | 91.1 | 122.2 |
| Markets | 0.0 | 0.0 | 0.0 | 7.6 | 7.3 | 12.2 | 2.5 | 8.0 | 4.3 | 10.9 | 21.2 | 6.4 | 11.5 | 3.0 | 3.0 | 3.0 |
| Replanting/reforestration | 0.0 | 0.0 | 16.0 | 24.5 | 36.0 | 40.8 | 48.8 | 70.4 | 49.6 | 59.2 | 61.1 | 43.5 | 30.4 | 12.2 | 16.2 | 16.2 |
| Roads | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.0 | 25.9 | 54.8 | 42.4 | 64.6 | 101.1 | 70.1 | 74.9 | 164.2 | 180.0 | 294.5 |
| 4. IPEDA | 28.0 | 34.6 | 42.2 | 52.5 | 63.1 | 71.4 | 87.2 | 94.5 | 105.2 | 132.4 | 157.2 | 167.5 | 171.0 | 222.8 | 260.8 | 517.2 |
| 5. Irian Jaya and East Timor | 4.0 | 5.5 | 5.0 | 9.0 | 10.4 | 6.6 | 6.4 | 6.8 | 5.7 | 5.2 | 4.2 | 6.9 | 7.3 | 5.2 | 6.0 | 0.0 |
| Subtotal of transfers to local governments (2 - 5) | 158.3 | 234.2 | 285.0 | 366.2 | 431.1 | 548.8 | 807.6 | 1,133.9 | 1,090.4 | 1,447.6 | 1,526.2 | 1,502.6 | 1,466.5 | 1,334.3 | 1,372.8 | 1,759.1 |
| 6. Fertilizer subsidy | 227.2 | 134.5 | 107.3 | 31.8 | 82.6 | 125.0 | 283.6 | 371.4 | 420.1 | 324.2 | 731.6 | 477.1 | 467.2 | 756.4 | 200.0 | 155.0 |
| 7. Government capital participation (PMP) | 91.1 | 108.7 | 217.9 | 166.9 | 128.5 | 252.8 | 476.5 | 480.9 | 336.6 | 591.7 | 336.1 | 412.3 | 85.9 | 336.1 | 87.5 | 58.0 |
| 8. Others | 67.7 | 64.0 | 79.8 | 109.8 | 75.1 | 291.0 | 385.5 | 565.3 | 326.7 | 448.7 | 474.9 | 511.2 | 514.1 | 514.5 | 119.3 | 157.6 |
| Total (1 - 8) | 765.9 | 926.3 | 1,280.9 | 1,419.2 | 1,568.3 | 2,697.9 | 4,486.4 | 5,276.1 | 5,434.7 | 6,031.7 | 6,543.2 | 7,369.7 | 4,537.3 | 5,054.0 | 2,900.0 | 3,603.7 |
| 9. Project aid /a | 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 | 3,408.7 | 3,503.4 | 3,794.7 | 4,423.4 | 5,997.6 | 9,526.2 |
| Total (1 - 9) | 961.8 | 1,397.7 | 2,054.5 | 2,156.8 | 2,555.6 | 4,014.2 | 5,916.1 | 6,940.0 | 7,359.6 | 9,899.2 | 9,951.9 | 10,873.1 | 8,332.0 | 9,477.4 | 8,897.6 | 13,129.9 |

/a For 1987/88, excluding project aid in Rupiah.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC REPORT

Development Expenditures by Sector, 1974/75 - 1989/90
(Rp. billion)

| Sector | 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 | 1987/88 | 1988/89 | 1989/90 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | | | | | | | | | Budget | |
| Agriculture and irrigation | 301.8 | 257.0 | 356.1 | 380.1 | 450.3 | 508.2 | 929.1 | 953.9 | 931.1 | 912.9 | 1,699.1 | 1,137.5 | 889.9 | 1,937.1 | 1,299.5 | 1,994.2 |
| (of which fertilizer subsidy) | (227.2) | (134.5) | (107.3) | (31.8) | (82.6) | (125.0) | (283.6) | (371.4) | (420.1) | (324.2) | (731.6) | (477.1) | (467.2) | (756.4) | (200) | (155) |
| Industry and mining | 70.7 | 124.1 | 194.9 | 139.0 | 205.0 | 402.6 | 490.9 | 826.7 | 913.1 | 2,153.1 | 839.2 | 1,189.0 | 680.7 | 335.4 | 374.2 | 523.1 |
| Electric power | 79.0 | 127.7 | 218.1 | 223.3 | 271.8 | 330.1 | 430.7 | 530.2 | 758.2 | 659.5 | 911.4 | 1,446.9 | 960.4 | 1,084.9 | 1,086.8 | 1,433.4 |
| Transportation and tourism | 123.5 | 311.6 | 428.8 | 354.7 | 413.2 | 465.8 | 780.5 | 807.2 | 875.8 | 1,527.7 | 1,428.3 | 1,484.3 | 1,131.4 | 1,597.6 | 1,654.3 | 2,522.1 |
| Manpower and transmigration | 4.5 | 11.9 | 27.1 | 60.7 | 94.7 | 162.2 | 326.4 | 416.5 | 436.0 | 456.4 | 421.6 | 665.1 | 292.4 | 199.7 | 226.0 | 335.3 |
| Regional development | 135.9 | 172.9 | 190.0 | 250.6 | 275.1 | 335.8 | 482.4 | 615.9 | 711.3 | 748.7 | 790.8 | 849.9 | 938.9 | 930.2 | 1,032.2 | 1,552.3 |
| Education | 47.2 | 113.7 | 135.5 | 210.6 | 251.1 | 361.4 | 574.7 | 725.7 | 703.2 | 1,032.1 | 1,231.0 | 1,412.9 | 1,184.4 | 1,180.8 | 1,075.6 | 1,683.2 |
| Health | 25.3 | 37.7 | 48.2 | 71.4 | 79.4 | 142.4 | 218.1 | 285.5 | 259.3 | 278.7 | 320.0 | 397.9 | 325.9 | 225.3 | 289.2 | 434.1 |
| Housing and water supply | 6.5 | 13.3 | 30.4 | 89.5 | 55.6 | 117.3 | 190.7 | 166.3 | 150.7 | 220.9 | 224.2 | 334.6 | 336.6 | 431.6 | 438.4 | 620.1 |
| General public services /a | 48.5 | 72.2 | 113.9 | 123.1 | 224.7 | 472.5 | 699.3 | 799.6 | 785.5 | 899.2 | 927.1 | 976.5 | 768.8 | 652.1 | 647.7 | 940.7 |
| Government capital participation | 97.8 | 115.4 | 225.2 | 190.0 | 161.6 | 465.6 | 388.9 | 389.4 | 280.7 | 233.9 | 291.7 | 220.5 | 211.4 | 219.2 | 207.9 | 291.3 |
| Others /b | 21.1 | 40.2 | 86.3 | 63.8 | 73.1 | 250.3 | 404.4 | 423.2 | 554.7 | 776.1 | 867.5 | 758.0 | 611.2 | 683.5 | 566.0 | 800.2 |
| Total development expenditures | 961.8 | 1,397.7 | 2,054.5 | 2,156.8 | 2,555.6 | 4,014.2 | 5,916.1 | 6,940.1 | 7,359.6 | 9,899.2 | 9,951.9 | 10,873.1 | 8,332.0 | 9,477.4 | 8,897.8 | 13,129.9 |
| Total ( excluding fertilizer subsidy) | 734.6 | 1,263.2 | 1,947.2 | 2,125.0 | 2,473.0 | 3,889.2 | 5,632.5 | 6,568.7 | 6,939.5 | 9,574.7 | 9,220.3 | 10,396.0 | 7,864.8 | 8,721.0 | 8,697.8 | 12,974.9 |

/a Law and order, defence and security, government apparatus.
/b Trade and cooperatives, religion, information and science. From 1979/80 includes natural resource development and environment.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC REPORT

Project Aid by Sector, 1974/75 - 1989/90

(Rp. billion)

| | Actual | | | | | | | | | | | | | | Budget | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 1987/88 | 1988/89 | 1989/90 |
| Agriculture and irrigation | 26.3 | 43.0 | 106.7 | 145.5 | 135.2 | 154.5 | 223.0 | 135.9 | 101.0 | 155.0 | 472.1 | 180.2 | 236.8 | 575.8 | 985.4 | 1674.6 |
| Industry and mining | 64.1 | 76.4 | 137.3 | 95.4 | 199.0 | 306.8 | 225.9 | 580.5 | 733.8 | 1,051.0 | 670.9 | 668.2 | 631.8 | 266.7 | 319.7 | 491.5 |
| Electric power | 38.5 | 89.7 | 165.2 | 163.9 | 207.8 | 257.2 | 264.8 | 308.2 | 506.0 | 1,182.0 | 653.4 | 1,172.2 | 790.9 | 768.7 | 1,059.5 | 1400.4 |
| Transportation and tourism | 42.2 | 226.5 | 303.8 | 212.9 | 249.7 | 192.4 | 308.0 | 263.6 | 332.1 | 889.0 | 600.6 | 687.8 | 728.9 | 844.5 | 1,300.7 | 2002.6 |
| Manpower and transmigration | 0.2 | 0.6 | 1.0 | 9.8 | 11.6 | 23.0 | 31.1 | 30.5 | 14.9 | 45.0 | 75.7 | 35.6 | 123.1 | 61.7 | 92.9 | 173.6 |
| Regional development | 0.4 | 0.4 | 1.5 | 7.9 | 7.9 | 18.2 | 24.6 | 16.7 | 2.6 | 7.0 | 1.0 | 7.6 | 24.6 | 4.1 | 44.5 | 307.5 |
| Education | 7.8 | 7.3 | 5.3 | 29.5 | 35.3 | 42.8 | 50.0 | 36.7 | 24.2 | 211.0 | 179.7 | 58.6 | 345.6 | 717.7 | 779.5 | 1302.6 |
| Health | 7.4 | 6.9 | 5.9 | 14.8 | 21.7 | 34.4 | 36.2 | 33.6 | 23.7 | 37.0 | 77.5 | 56.1 | 100.1 | 37.6 | 87.0 | 143.4 |
| Housing and water supply | 1.1 | 2.8 | 2.9 | 28.1 | 18.3 | 28.1 | 33.0 | 21.7 | 21.2 | 51.0 | 83.7 | 77.3 | 139.3 | 273.0 | 395.7 | 560 |
| General public services | 0.0 | 0.0 | 0.0 | 0.0 | 54.1 | 174.9 | 153.9 | 179.5 | 83.2 | 152.0 | 254.9 | 186.1 | 257.0 | 349.9 | 382.3 | 641.3 |
| Government capital participation | 6.7 | 6.7 | 7.3 | 23.1 | 33.1 | 34.3 | 35.6 | 27.9 | 46.8 | 45.0 | 160.3 | 203.0 | 185.2 | 168.3 | 204.3 | 280.2 |
| Others /a | 1.2 | 11.1 | 33.7 | 6.7 | 13.6 | 49.7 | 44.6 | 29.1 | 35.4 | 42.0 | 178.9 | 170.7 | 231.4 | 355.4 | 346.1 | 548.5 |
| Total project aid /b | 195.9 | 471.4 | 773.6 | 737.6 | 987.3 | 1,316.3 | 1,429.7 | 1,663.9 | 1,924.9 | 3,867.0 | 3,408.7 | 3,503.4 | 3,794.7 | 4,423.4 | 5,997.6 | 9,526.2 |

/a Since 1979/80 includes natural resources development and environment.
/b Includes commercial credits for development programs/projects.
For 1987/88, excluding project aid in Rupiah.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC REPORT

Money Supply, 1974-1988

(Rp. billion)

| End of | Total | Currency | | Demand deposits | | Change over period | |
|---|---|---|---|---|---|---|---|
| | | Amount | (%) | Amount | (%) | Amount | (%) |
| 1974 | 937 | 494 | 53 | 443 | 47 | 268 | 40 |
| 1975 | 1,250 | 625 | 50 | 625 | 50 | 313 | 33 |
| 1976 | 1,603 | 781 | 49 | 822 | 51 | 353 | 28 |
| 1977 | 2,006 | 979 | 49 | 1,027 | 51 | 403 | 25 |
| 1978 | 2,488 | 1,240 | 50 | 1,248 | 50 | 482 | 24 |
| 1979 | 3,385 | 1,552 | 46 | 1,833 | 54 | 897 | 36 |
| 1980 | 4,995 | 2,153 | 43 | 2,842 | 57 | 1,610 | 48 |
| 1981 | 6,486 | 2,557 | 39 | 3,929 | 61 | 1,491 | 30 |
| 1982 | 7,121 | 2,934 | 41 | 4,187 | [illegible] | 635 | 10 |
| 1983 | 7,569 | 3,333 | 44 | 4,236 | 56 | 448 | 6 |
| 1984 | 8,581 | 3,712 | 43 | 4,869 | 57 | 1,012 | 13 |
| 1985 | 10,104 | 4,440 | 44 | 5,664 | 56 | 1,523 | 17 |
| 1986 | 11,677 | 5,338 | 46 | 6,339 | 54 | 1,573 | 16 |
| 1987 | 12,685 | 5,782 | 46 | 6,903 | 54 | 1,008 | 9 |
| 1988 | 14,392 | 6,246 | 43 | 8,146 | 57 | 1,707 | 14 |

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Changes in Factors Affecting Money Supply, 1974-1988

(Rp. billion)

| End of period | Net foreign assets | Public Sector: Net claims on Central Government | Public Sector: Claims on official entities & public enterprises | Public Sector: Blocked account /a | Claims on business & individuals | Time & savings deposits /b | Net other items | Total change in Money Supply: Amount | Total change in Money Supply: Percentage (%) |
|---|---|---|---|---|---|---|---|---|---|
| 1974 | 364 | -132 | 294 | - | 147 | -196 | -209 | 268 | 40 |
| 1975 | -588 | 162 | 926 | -415 | 298 | -213 | 143 | 313 | 33 |
| 1976 | 345 | -333 | 449 | -51 | 356 | -300 | -113 | 353 | 28 |
| 1977 | 568 | -275 | 35 | 67 | 284 | -96 | -180 | 403 | 25 |
| 1978 /c | 50 | -311 | 349 | 88 | 546 | -112 | -128 | 482 | 24 |
| 1979 | 1,788 | 1,779 | 371 | 85 | 557 | -516 | -436 | 897 | 36 |
| 1980 | 3,040 | -1,868 | 489 | -5 | 1,178 | -859 | -365 | 1,610 | 48 |
| 1981 | 149 | -591 | 593 | 36 | 1,756 | -535 | 83 | 1,491 | 30 |
| 1982 | -1,237 | 129 | 689 | 109 | 2,260 | -724 | -591 | 635 | 10 |
| 1983 /d | 1,069 | -1174 | -85 | 118 | 2,223 | -2,520 | 817 | 448 | 6 |
| 1984 | 3,531 | -3,359 | 190 | 124 | 3,646 | -2,262 | -686 | 1,012 | 13 |
| 1985 | 1,751 | -278 | 511 | 64 | 3,333 | -3,693 | -165 | 1,523 | 17 |
| 1986 /e | 1,870 | 498 | 252 | -29 | 4,547 | -2,935 | -2,630 | 1,573 | 16 |
| 1987 | 2,444 | 1,541 | 720 | -3 | 6,245 | -5,216 | -4,723 | 1,008 | 9 |
| 1988 | -549 | 229 | 659 | 18 | 11,069 | -6,406 | -3,313 | 1,707 | 14 |

/a Refers to government accounts blocked for special purposes.
/b Includes foreign currency deposits held by residents.
/c Does not include revaluation adjustment to foreign exchange balances resulting from the rupiah devaluation of November 15, 1978. The adjustments amount to Rp. 650 billion in net foreign assets; Rp. 46 billion in net claims on Central government; Rp. 551 billion in claims on official entities; Rp. 164 billion in blocked account; Rp. 41 billion in claims on businesses and individuals; Rp. 83 billion in time and savings deposits; and Rp. 1,041 billion in net other items.
/d Does not include revaluation adjustment to foreign exchange balances resulting from the rupiah devaluation of March 30, 1983. The adjustments amount to Rp. 1,962 billion in net foreign assets; Rp. 131 billion in net claims on Central government; Rp. 146 billion in claims on official entities and public enterprises; Rp. 106 billion in blocked account; Rp. 148 billion in claims on businesses and individuals; Rp. 620 billion in time and savings deposits; and Rp. 1,399 billion in net other items.
/e Includes revaluation adjustment due to devaluation on September 12, 1986.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Consolidated Balance Sheet of the Monetary System, 1974-1987
(Rp. billion)

| End of period | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 /b | 1984 | 1985 | 1986 /c | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net foreign assets | 653 | 72 | 417 | 985 | 1,663 | 3,318 | 6,419 | 6,811 | 5,565 | 8,837 | 12,368 | 14,119 | 15,989 | 18,433 |
| Domestic credit | 1,504 | 2,367 | 2,788 | 2,900 | 4,046 | 4,232 | 3,979 | 5,651 | 8,846 | 9,744 | 10,345 | 13,975 | 19,245 | 27,755 |
| Claims on public sector | 317 | 991 | 1,056 | 883 | 1,442 | 1,073 | -360 | -443 | 534 | -939 | -3,984 | -3,687 | -2,966 | -699 |
| Central government | -167 | -5 | -339 | -613 | -878 | -1,703 | -3,619 | -4,330 | -4,193 | -5,739 | -9,098 | -9,376 | -8.878 | -7337 |
| Claims on official entities and public enterprises /a | 484 | 1,411 | 1,861 | 1,895 | 2,796 | 3,167 | 3,655 | 4,247 | 4,979 | 5,040 | 5,230 | 5,741 | 5,993 | 6,722 |
| Government-blocked account | 0 | -415 | -466 | -399 | -476 | -391 | -396 | -360 | -252 | -240 | -116 | -52 | -81 | -84 |
| Claims on private enterprises and individuals | 1,187 | 1,376 | 1,732 | 2,017 | 2,604 | 3,159 | 4,339 | 6,094 | 8,312 | 10,683 | 14,329 | 17,662 | 22,209 | 28,409 |
| Loans | 1,141 | 1,321 | 1,655 | 1,939 | 2,493 | 2,993 | 4,107 | 5,844 | 7,995 | 10,184 | 13,550 | 16,392 | 20,409 | 26,027 |
| Other claims | 46 | 55 | 77 | 78 | 111 | 166 | 232 | 250 | 317 | 499 | 779 | 1,270 | 1,800 | 2,382 |
| Assets = liabilities | 2,157 | 2,439 | 3,205 | 3,885 | 5,709 | 7,550 | 10,398 | 12,462 | 14,411 | 18,581 | 22,713 | 28,094 | 35,234 | 46,188 |
| Import deposits | 283 | 79 | 88 | 146 | 174 | 213 | 365 | 298 | 300 | 242 | 218 | 268 | 402 | 424 |
| Net other items | 313 | 382 | 486 | 608 | 1,726 | 2,114 | 2,342 | 2,448 | 3,036 | 3,676 | 4,558 | 4,673 | 7,169 | 11,879 |
| Money and quasi money | 1,152 | 1,978 | 2,631 | 3,131 | 3,809 | 5,223 | 7,691 | 9,716 | 11,075 | 14,663 | 17,937 | 23,153 | 27,661 | 33,885 |
| Money | 637 | 1,250 | 1,603 | 2,006 | 2,488 | 3,386 | 4,995 | 6,485 | 7,121 | 7,569 | 8,581 | 10,104 | 11,677 | 12,685 |
| Currency | 494 | 625 | 781 | 979 | 1,240 | 1,552 | 2,153 | 2,557 | 2,934 | 3,333 | 3,712 | 4,440 | 5,338 | 5,782 |
| Demand deposits | 143 | 625 | 822 | 1,027 | 1,248 | 1,83[illegible] | 2,842 | 3,928 | 4,187 | 4,236 | 4,869 | 5,664 | 6,339 | 6,903 |
| Quasi money /d | 515 | 728 | 1,028 | 1,125 | 1,321 | 1,837 | 2,696 | 3,231 | 3,954 | 7,094 | 9,356 | 13,049 | 15,984 | 21,200 |

/a For 1979, includes changes resulting from the exchange rate adjustment on November 15, 1978 from Rp. 415 to Rp. 625 per US$.

/b Includes changes resulting from the exchange rate adjustment of March 30, 1983 from Rp. 702.50 to Rp. 970 per US$.

/c Includes changes resulting from the exchange rate adjustment on September 12, 1986 from Rp 1,134 to Rp 1,644 per US$.

/d For 1979, includes revaluation of foreign exchange deposits amounting to Rp. 99 billion.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Consolidated Balance Sheet of the Monetary Authorities, 1974-1987
(Rp. billion)

| End of period | 1974 | 1975 | 1976 | 1977 | 1978/a | 1979 | 1980 | 1981 | 1982 | 1983 /b | 1984 | 1985 | 1986 /c | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Foreign assets | 612 | 246 | 620 | 1,057 | 1,652 | 2,626 | 4,216 | 4,033 | 3,667 | 5,314 | 8,047 | 9,279 | 9,358 | 12,442 |
| Claims on public sector | | | | | | | | | | | | | | |
| Central government | 122 | 368 | 239 | 312 | 509 | 580 | 604 | 860 | 1,109 | 495 | 679 | 1,037 | 2,822 | 3,619 |
| Official entities and public enterprises | 227 | 886 | 1,209 | 1,225 | 1,925 | 2,143 | 2,414 | 2,584 | 2,626 | 2,230 | 720 | 761 | 901 | 1,014 |
| Claims on private enterprises and individuals | 9 | 14 | 17 | 21 | 33 | 45 | 69 | 108 | 227 | 186 | 233 | 363 | 443 | 421 |
| Loans | 4 | 8 | 3 | 4 | 10 | 20 | 40 | 65 | 145 | 127 | 150 | 202 | 243 | 332 |
| Other claims | 5 | 6 | 14 | 17 | 23 | 25 | 29 | 43 | 82 | 59 | 83 | 161 | 200 | 89 |
| Claims on deposit money banks | 294 | 565 | 640 | 681 | 846 | 1,129 | 1,722 | 2,548 | 3,742 | 4,365 | 6,938 | 7,633 | 8,672 | 10,261 |
| Other assets | 37 | 66 | 77 | 4 | 37 | 113 | 220 | 428 | 1,883 | 2,193 | 3,231 | 3,907 | 6,935 | 6,294 |
| Total assets/liabilities | 1,301 | 2,145 | 2,802 | 3,300 | 5,002 | 6,636 | 9,245 | 10,561 | 13,254 | 14,783 | 19,848 | 22,980 | 29,131 | 34,051 |
| Reserve money | 773 | 1,038 | 1,333 | 1,670 | 1,847 | 2,629 | 3,258 | 3,826 | 3,997 | 4,888 | 5,473 | 6,435 | 7,808 | 8,646 |
| Currency outside bank and government | 494 | 625 | 781 | 979 | 1,240 | 1,552 | 2,153 | 2,545 | 2,934 | 3,333 | 3,712 | 4,440 | 5,338 | 5,782 |
| Currency held by banks | 53 | 66 | 80 | 95 | 113 | 147 | 192 | 238 | 268 | 293 | 387 | 557 | 626 | 680 |
| Bankers' deposits | 197 | 316 | 443 | 528 | 438 | 633 | 866 | 961 | 742 | 1,203 | 1,322 | 1,334 | 1,633 | 2,057 |
| Private sector demand deposits | 29 | 31 | 29 | 68 | 56 | 97 | 47 | 82 | 53 | 59 | 52 | 104 | 211 | 127 |
| Foreign currency and other deposits /d | 2 | 4 | 3 | 1 | 3 | 27 | 41 | 104 | 57 | 110 | 25 | 64 | 42 | 305 |
| Bankers' restricted and foreign exchange deposits | 75 | 70 | 49 | 50 | 38 | 56 | 101 | 94 | 115 | 231 | 220 | 245 | 355 | 348 |
| Import deposits | 57 | 19 | 51 | 103 | 105 | 126 | 119 | 134 | 46 | 74 | 33 | 23 | 0 | 0 |
| Foreign liabilities | - | 42 | 111 | 112 | 229 | 193 | 149 | 177 | 30 | 29 | 24 | 812 | 1,022 | 1,065 |
| Government deposits | 242 | 704 | 950 | 1,154 | 4,647 | 2,354 | 3,912 | 4,553 | 5,009 | 5,961 | 8,935 | 9,110 | 10,697 | 11,383 |
| Current account | 224 | 270 | 422 | 677 | 4,094 | 1,755 | 3,341 | 4,134 | 4,225 | 4,546 | 6,946 | 6,388 | 4,667 | 7,074 |
| Blocked account | 0 | 415 | 466 | 399 | 476 | 391 | 396 | 360 | 252 | 240 | 115 | 52 | 81 | 84 |
| Aid counterpart funds | 18 | 19 | 62 | 78 | 77 | 208 | 175 | 59 | 89 | 498 | 433 | 439 | 1,182 | 1,860 |
| Others /e | - | - | - | - | - | - | - | - | 443 | 677 | 1,441 | 2,231 | 4,767 | 2,365 |
| Capital accounts | 137 | 149 | 182 | 190 | 1,133 | 1,393 | 966 | 810 | 600 | 612 | 1,179 | 1,322 | 3,206 | 2,791 |
| Other liabilities | 13 | 164 | 122 | 20 | 39 | 58 | 699 | 851 | 3,407 | 2,878 | 3,959 | 4,969 | 6,000 | 10,540 |

/a Includes changes resulting from the exchange rate adjustment on November 15, 1978 from Rp. 415 to Rp. 625 per US$, amounting to Rp. 561 billion.
/b Includes changes resulting from the exchange rate adjustment on March 30, 1983 from Rp. 702.50 to Rp. 970 per US$.
/c Includes changes resulting from the exchange rate adjustment on September 12, 1986 from Rp 1,134 to Rp 1,644 per US$.
/d For 1979, includes revaluation on foreign exchange deposits amounting to Rp. 17 billion.
/e This items record long term foreign liability which previously were recorded into foreign liabilities.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC REPORT

Banking System Credits by Economic Sector, 1974-1987 /a

(Rp. billion)

| Sectors | 1974 | 1975 | 1976 | 1977 | 1978 /b | 1979 /c | 1980 | 1981 | 1982 | 1983 /i | 1984 | 1985 | 1986 /j | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 116 | 220 | 266 | 270 | 345 | 438 | 539 | 813 | 1,025 | 1,226 | 1,318 | 1,656 | 2,097 | 2,656 |
| In rupiah | 116 | 212 | 256 | 265 | 344 | 436 | 539 | 813 | 1,025 | 1,226 | 1,318 | 1,656 | 2,097 | 2,630 |
| In foreign exchange | 0 | 8 | 10 | 5 | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 26 |
| Mining /d | 11 | 741 | 1,036 | 1,062 | 1,699 | 1,893 | 1,867 | 1,693 | 1,472 | 806 | 384 | 258 | 394 | 385 |
| In rupiah | 11 | 89 | 176 | 197 | 230 | 1,893 | 1,867 | 1,693 | 1,472 | 806 | 384 | 258 | 394 | 372 |
| In foreign exchange | 0 | 652 | 860 | 865 | 1,469 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 13 |
| Manufacturing industry /e | 359 | 719 | 990 | 1,156 | 1,624 | 1,933 | 2,213 | 2,762 | 3,923 | 5,207 | 6,667 | 7,592 | 9,005 | 10,917 |
| In rupiah | 359 | 508 | 739 | 904 | 1,265 | 1,536 | 1,826 | 2,376 | 3,429 | 4,595 | 6,205 | 7,069 | 8,839 | 10,508 |
| In foreign exchange | 0 | 211 | 251 | 252 | 359 | 397 | 387 | 386 | 494 | 612 | 462 | 523 | 166 | 409 |
| Trade /f | 627 | 766 | 858 | 912 | 1,114 | 1,338 | 1,976 | 3,062 | 4,129 | 5,132 | 6,344 | 7,255 | 8,399 | 10,247 |
| In rupiah | 604 | 741 | 837 | 898 | 1,105 | 1,334 | 1,970 | 3,046 | 4,009 | 4,781 | 6,299 | 7,214 | 8,329 | 10,065 |
| In foreign exchange | 23 | 25 | 21 | 14 | 9 | 4 | 6 | 16 | 120 | 351 | 45 | 41 | 70 | 182 |
| Service rendering industry /g | 122 | 172 | 260 | 319 | 389 | 422 | 946 | 1,385 | 1,867 | 2,277 | 3,169 | 4,183 | 4,345 | 5,460 |
| In rupiah | 122 | 166 | 253 | 311 | 385 | 418 | 939 | 1,382 | 1,860 | 2,253 | 3,088 | 4,047 | 4,130 | 5,151 |
| In foreign exchange | 0 | 6 | 7 | 8 | 4 | 4 | 7 | 3 | 7 | 24 | 81 | 136 | 215 | 309 |
| Others | 339 | 132 | 156 | 219 | 223 | 244 | 333 | 444 | 606 | 651 | 931 | 1,213 | 2,162 | 3,187 |
| In rupiah | 174 | 127 | 154 | 218 | 221 | 241 | 331 | 444 | 606 | 651 | 929 | 1,210 | 2,156 | 3,143 |
| In foreign exchange /h | 165 | 5 | 2 | 1 | 2 | 3 | 2 | 0 | 0 | 0 | 2 | 3 | 6 | 44 |
| Total | 1,574 | 2,750 | 3,566 | 3,938 | 5,394 | 6,268 | 7,874 | 10,159 | 13,022 | 15,299 | 18,813 | 22,157 | 26,402 | 32,852 |
| In rupiah | 1,386 | 1,842 | 2,415 | 2,793 | 3,550 | 5,858 | 7,472 | 9,754 | 12,401 | 14,312 | 18,223 | 21,454 | 25,945 | 31,869 |
| In foreign exchange | 188 | 907 | 1,152 | 1,145 | 1,844 | 410 | 402 | 405 | 621 | 987 | 590 | 703 | 457 | 983 |

/a Credits outstanding end of period. Includes investment credits, KIK and KMKP. Excludes interbank credits, credits to central government and to nonresidents, and foreign exchange component of project aid.
/b Includes foreign exchange revaluation amounting to Rp. 681.8 billion.
/c Includes foreign exchange revaluation amounting to Rp. 698.0 billion.
/d Includes credits to PERTAMINA for repayment of foreign borrowing. Since March 1979, credit in foreign exchange to PERTAMINA has been converted to rupiah credits.
/e Processing of agricultural products is classified under manufacturing industry according to International Standard Industrial Classification (ISIC 1968). Starting 1980, credits for construction which were previously included in manufacturing industry are now included in service-rendering industry.
/f Includes credits for food procurement and hotel projects.
/g Credits for electricity, gas and water supply are included in service-rendering industry sector.
/h 1974 figure refers to credits in foreign exchange given to all sectors, except trade.
/i Includes foreign exchange revaluation amounting to Rp. 251 billion.
/j Includes revaluation adjustment due to the devaluation of September 12, 1986.

Source: Bank Indonesia.

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COUNTRY ECONOMIC REPORT

Banking Credits Outstanding in Rupiah and Foreign Exchange by Group of Banks, 1974-1987 /a

(Rp. billion)

| | 1974 | 1975 | 1976 | 1977 | 1978 /b | 1979 /c | 1980 | 1981 | 1982 | 1983 /d | 1984 | 1985 | 1986 /e | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Indonesia direct credits /f | 231 | 893 | 1,212 | 1,229 | 1,935 | 2,163 | 2,454 | 2,649 | 2,771 | 2,356 | 870 | 964 | 1,144 | 1,347 |
| In rupiah | 231 | 244 | 351 | 365 | 466 | 2,163 | 2,454 | 2,649 | 2,771 | 2,356 | 870 | 964 | 1,144 | 1,347 |
| In foreign exchange | 0 | 649 | 861 | 864 | 1,469 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| State commercial banks /g | 1,136 | 1,602 | 2,007 | 2,267 | 2,832 | 3,270 | 4,295 | 5,881 | 8,031 | 9,787 | 13,345 | 15,374 | 17,782 | 21,676 |
| In rupiah | 1,004 | 1,397 | 1,774 | 2,058 | 2,549 | 2,958 | 3,954 | 5,523 | 7,474 | 8,910 | 12,959 | 14,925 | 17,711 | 21,225 |
| In foreign exchange | 132 | 205 | 233 | 209 | 283 | 312 | 341 | 358 | 557 | 877 | 386 | 449 | 71 | 451 |
| National Private Banks /h | 89 | 133 | 197 | 257 | 366 | 493 | 711 | 1,081 | 1,554 | 2,294 | 3,552 | 4,746 | 6,272 | 8,423 |
| In rupiah | 89 | 132 | 197 | 254 | 360 | 466 | 705 | 1,069 | 1,534 | 2,279 | 3,480 | 4,631 | 6,061 | 8,175 |
| In foreign exchange | 0 | 1 | 0 | 3 | 6 | 27 | 6 | 12 | 20 | 15 | 72 | 115 | 211 | 248 |
| Foreign Banks | 117 | 122 | 150 | 184 | 262 | 342 | 414 | 548 | 666 | 862 | 1,046 | 1,073 | 1,204 | 1,406 |
| In rupiah | 62 | 70 | 93 | 116 | 176 | 271 | 359 | 513 | 622 | 767 | 914 | 934 | 1,029 | 1,122 |
| In foreign exchange | 55 | 52 | 57 | 68 | 86 | 71 | 55 | 35 | 44 | 95 | 132 | 139 | 175 | 284 |
| Total | 1,573 | 2,750 | 3,566 | 3,937 | 5,394 | 6,268 | 7,874 | 10,159 | 13,022 | 15,299 | 18,813 | 22,157 | 26,402 | 32,852 |
| In rupiah | 1,386 | 1,843 | 2,415 | 2,793 | 3,550 | 5,858 | 7,472 | 9,754 | 12,401 | 14,312 | 18,223 | 21,454 | 25,945 | 31,869 |
| In foreign exchange | 187 | 907 | 1,151 | 1,144 | 1,844 | 410 | 402 | 405 | 621 | 987 | 590 | 703 | 457 | 983 |

/a Credits outstanding at end of period. Includes investment credits, KIK and KMP. Excludes interbank credits, credits to Central Government and to non-residents, and foreign exchange component of project aid.
/b Includes foreign exchange revaluation amounting to Rp. 681.8 billion.
/c Includes foreign exchange revaluation amounting to Rp. 698.0 billion.
/d Includes foreign exchange revaluation amounting to Rp. 251.0 billion.
/e Includes revaluation adjustment due to devaluation on September 12, 1986.
/f Excludes liquidity credits, includes credits to Pertamina for repayment for foreign borrowing.
/g Includes state development bank and liquidity credits.
/h Includes liquidity credits. National private banks refer to national private commercial banks and regional development banks.

Source : Bank Indonesia.

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COUNTRY ECONOMIC REPORT

Small-Scale Investment Credits and Permanent Working Capital Credits, 1974-1987

| | 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 | 18 |
| 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 | 119 | 321 | 210 | 905 | 602 | 312 |
| 1981 | 173 | 540 | 380 | 1,272 | 1,124 | 647 |
| 1982 | 207 | 669 | 407 | 1,462 | 1,535 | 803 |
| 1983 | 231 | 812 | 393 | 1,633 | 1,884 | 856 |
| 1984 | 250 | 921 | 366 | 1,809 | 2,309 | 928 |
| 1985 | 266 | 1,015 | 328 | 1,996 | 2,768 | 885 |
| 1986 | 283 | 1,135 | 305 | 2,147 | 3,241 | 879 |
| 1987 | 295 | 1,268 | 297 | 2,278 | 3,780 | 903 |

/a Cumulative as at end of period.

Source: Bank Indonesia.

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COUNTRY ECONOMIC REPORT

Investment Credits by Economic Sector, 1980-1987 /a

(Rp. billion)

| End of period | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|
| Credits approved /b | 1,675 | 1,906 | 2,679 | 3,900 | 4,509 | 5,898 | 7,966 | 9,814 |
| Agriculture | 277 | 340 | 467 | 734 | 809 | 1,402 | 2,274 | 2,584 |
| Mining | 5 | 40 | 54 | 57 | 179 | 229 | 363 | 382 |
| Manufacturing industry | 911 | 911 | 1,369 | 1,983 | 2,374 | 2,765 | 3,253 | 3,540 |
| Trade | 53 | 87 | 134 | 129 | 237 | 277 | 369 | 355 |
| Service rendering industry | 422 | 516 | 641 | 986 | 866 | 1,173 | 1,638 | 2,900 |
| Others | 7 | 12 | 14 | 11 | 44 | 52 | 69 | 53 |
| Credits outstanding /b | 1,296 | 1,436 | 2,099 | 2,861 | 3,802 | 4,802 | 6,167 | 7,338 |
| Agriculture | 137 | 202 | 322 | 477 | 555 | 877 | 1,233 | 1,644 |
| Mining | 2 | 26 | 34 | 49 | 178 | 224 | 367 | 342 |
| Manufacturing industry | 820 | 741 | 1,095 | 1,635 | 2,102 | 2,423 | 3,061 | 3,531 |
| Trade | 41 | 73 | 120 | 115 | 168 | 281 | 332 | 325 |
| Service rendering industry | 289 | 390 | 519 | 576 | 770 | 975 | 1,108 | 1,460 |
| Others | 7 | 4 | 9 | 9 | 29 | 22 | 66 | 36 |

/a Excludes investment credits from Bank Indonesia; includes State Development Bank and Local Developments Banks. Data with the same classification prior to 1980 are not available.

/b Excludes Small Scale Investment Credits, investment credits to the Central Government and foreign exchange components of project aid.

Source: Bank Indonesia.

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COUNTRY ECONOMIC REPORT

Time Deposits with State Banks, 1981-1987

(Rp. billion)

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|
| 24 months | 748.3 | 848.5 | 565.8 | 280.4 | 411.1 | 518.5 | 785.8 |
| 12 months | 81.5 | 79.1 | 885.9 | 1,721.0 | 2,794.5 | 3,867.1 | 4,212.5 |
| 6 months /a | 106.8 | 121.8 | 549.3 | 720.9 | 725.8 | 950.1 | 715.9 |
| 3 months or less | 42.1 | 44.5 | 679.3 | 672.7 | 1,306.7 | 1,322.7 | 3,495.8 |
| Matured | 103.4 | 125.6 | 142.9 | 10.0 | 10.9 | 13.1 | 13.7 |
| Others | 10.9 | 11.3 | 7.6 | 91.9 | 87.9 | 58.2 | 59.1 |
| Total /b | 1,093.0 | 1,230.8 | 2,830.8 | 3,496.9 | 5,336.9 | 6,729.7 | 9,282.8 |

/a Includes some 9 month deposits during 1984.
/b Includes interbank time deposits and residents' time deposits.

Source: Bank Indonesia.

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COUNTRY ECONOMIC REPORT

Interest Rates on Deposits at Commercial Banks, 1978-1988 /a
(% p.a)

| End of Period | Demand Deposits /b | TABANAS Savings Deposits /c | TASKA Savings Deposits /d | Certificate of Deposits /e | State Bank Time Deposits | | | | | Private National Bank /a Time Deposits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Less than 3 mos /f | 3 mos | 6 mos | 12 mos | 24 mos | Less than 3 mos /f | 3 mo | 6 mos. | 12 mos. | 24 mos. |
| 1978 /g | 1.8-3 | 6-15 | 9.0 | 7.6 | | | 6.0 | 9.0 | 12-15 | 12.8 | 12.5 | 15.6 | 17.2 | 20.7 |
| 1979 | 1.8-3 | 6-15 | 9.0 | 9.8 | 10.6 | 5.1 | 6.0 | 9.0 | 12-15 | 16.2 | 16.7 | 18.3 | 19.6 | 19.6 |
| 1980 | 1.8-3 | 6-15 | 9.0 | 10.2 | 7.2 | 8.2 | 6.0 | 9.0 | 12-15 | 14.2 | 16.1 | 17.8 | 20.1 | 19.3 |
| 1981 | 1.8-3 | 6-15 | 9.0 | 10.9 | 12.1 | 10.2 | 6.0 | 9.0 | 12-15 | 15.4 | 17.4 | 17.9 | 19.4 | 19.0 |
| 1982 | 1.8-3 | 6-15 | 9.0 | 12.5 | 7.7 | 8.6 | 6.0 | 9.0 | 12-15 | 16.9 | 17.1 | 18.5 | 19.3 | 18.8 |
| 1983 /h | 1.8-3 | 12-15 | 9.0 | 15.4 | 14.4 | 14.8 | 13.1 | 17.5 | 12.5 | 18.7 | 17.4 | 18.8 | 19.7 | 19.3 |
| 1984 | 1.8-3 | 12-15 | 9.0 | 16.5 | 15.1 | 17.1 | 17.2 | 18.7 | 17.2 | 19.8 | 20.7 | 20.7 | 20.4 | 21.0 |
| 1985 | 1.8-3 | 12-15 | 9.0 | 14.5 | 13.4 | 14.6 | 16.0 | 17.8 | 18.3 | 14.6 | 15.9 | 17.8 | 19.8 | 21.3 |
| 1986 | 1.8-3 | 12-15 | 9.0 | 14.0 | 13.3 | 14.2 | 14.7 | 15.2 | 16.0 | 14.8 | 15.5 | 16.2 | 17.3 | 20.1 |
| 1987 | 1.8-3 | 15.0 | 9.0 | 15.6 | 15.5 | 17.0 | 17.3 | 17.0 | 17.4 | 17.2 | 18.6 | 19.3 | 19.1 | 19.7 |
| 1988 | 1.8-3 | 15.0 | 9.0 | 15.9 | 15.8 | 16.2 | 18.2 | 17.8 | 16.8 | 20.3 | 20.1 | 20.3 | 20.2 | 20.9 |

/a Weighted average rate of interest at selected banks.

/b From March 1983, 3% for amounts above Rp. 50 million, 1.8% for Rp. 1 to 50 million, and individually determined for amounts less than Rp. 1 million.

/c "TABANAS" or "Tabungan Pembangunan Nasional" (National Development Savings) is an ordinary savings account sponsored by "Bank Tabungan Negara" (State Saving Bank) and offered by all state owned and some private national commercial banks, and post offices. Until June 1, 1983: 15% for amounts of Rp. 200,000 or less; 6% above Rp. 200,000. From June 1983: 15% for Rp 1 million or less; 12% for more than Rp. 1 million.

/d "TASKA" or "Tabungan Asuransi Barjangka " (Insured Time Deposits) is an ordinary time deposits sponsored by "Bank Tabungan Negara" and offered by the same institutions described in (c) above.

/e Midpoint of range for six months rates.

/f One month time deposits rate used as representative rate.

/g Effective January 1978: 15% for Rp. 2.5 million or less; 12% for more than Rp.2.5 million for 24 months State Bank time deposit.

/h Ceiling on time deposit interest rates at state banks removed on June 1, 1983.
12% legal minimum rate starting in June 1983 for 24 months State Bank time deposit.

Source: Bank Indonesia.

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COUNTRY ECONOMIC REPORT

Principal Agricultural Products by Subsectors, 1974-1987

('000 tons)

| Product | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /a |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Food crops** | | | | | | | | | | | | | | |
| Rice | 15,276 | 15,185 | 15,845 | 15,876 | 17,525 | 17,872 | 20,163 | 22,286 | 22,837 | 24,006 | 25,932 | 26,542 | 27,104 | 27,453 |
| Corn | 3,011 | 2,909 | 2,572 | 3,143 | 4,029 | 3,606 | 3,991 | 4,509 | 3,235 | 5,087 | 5,288 | 4,330 | 5,920 | 5,093 |
| Cassava | 13,031 | 12,546 | 12,191 | 12,488 | 12,902 | 13,751 | 13,726 | 13,301 | 12,988 | 12,103 | 14,167 | 14,037 | 13,312 | 14,479 |
| Sweet potato | 2,469 | 2,433 | 2,381 | 2,460 | 2,083 | 2,194 | 2,079 | 2,094 | 1,676 | 2,213 | 2,156 | 2,161 | 2,091 | 1,905 |
| Soya beans (shelled) | 589 | 590 | 522 | 523 | 617 | 680 | 653 | 704 | 521 | 536 | 769 | 870 | 1,227 | 1,151 |
| Groundnuts (shelled) | 307 | 380 | 341 | 409 | 446 | 424 | 470 | 475 | 437 | 460 | 535 | 528 | 642 | 524 |
| **Fisheries** | | | | | | | | | | | | | | |
| Saltwater fish | 949 | 997 | 1,082 | 1,158 | 1,227 | 1,318 | 1,395 | 1,408 | 1,490 | 1,682 | 1,713 | 1,822 | 1,923 | 2,029 |
| Freshwater fish | 388 | 393 | 401 | 414 | 420 | 430 | 455 | 506 | 524 | 533 | 548 | 573 | 607 | 638 |
| **Meat and dairy** | | | | | | | | | | | | | | |
| Meat | 403 | 435 | 449 | 468 | 475 | 486 | 571 | 596 | 629 | 650 | 742 | 808 | 860 | 927 |
| Eggs | 98 | 112 | 116 | 131 | 151 | 164 | 259 | 275 | 297 | 319 | 355 | 370 | 432 | 495 |
| Milk /b | 57 | 51 | 57 | 61 | 62 | 72 | 78 | 86 | 117 | 143 | 179 | 192 | 220 | 227 |
| **Cash crops** | | | | | | | | | | | | | | |
| Rubber | 817 | 782 | 857 | 844 | 884 | 898 | 1,020 | 963 | 900 | 1,007 | 1,033 | 1,055 | 1,109 | 1,1 |
| Palm oil | 348 | 397 | 431 | 473 | 532 | 642 | 701 | 748 | 884 | 979 | 1,147 | 1,243 | 1,350 | 1,4 |
| Coconut/copra | 1,341 | 1,375 | 1,532 | 1,518 | 1,575 | 1,582 | 1,759 | 1,812 | 1,718 | 1,604 | 1,750 | 1,920 | 2,114 | 2,0 |
| Coffee | 149 | 160 | 193 | 194 | 223 | 228 | 285 | 295 | 281 | 305 | 315 | 311 | 339 | 3 |
| Tea | 64 | 69 | 73 | 79 | 91 | 125 | 106 | 110 | 94 | 110 | 126 | 127 | 136 | 1 |
| Cloves | 15 | 15 | 20 | 41 | 22 | 35 | 39 | 40 | 32 | 41 | 49 | 42 | 55 | |
| Pepper | 27 | 23 | 37 | 43 | 46 | 47 | 37 | 39 | 34 | 46 | 46 | 41 | 40 | |
| Tobacco | 79 | 82 | 89 | 84 | 81 | 87 | 116 | 118 | 106 | 109 | 108 | 161 | 164 | 1 |
| Cane sugar | 1,237 | 1,227 | 1,321 | 1,438 | 1,516 | 1,601 | 1,831 | 1,700 | 1,627 | 1,628 | 1,810 | 1,899 | 1,894 | 2,1 |
| Cotton | 3 | 2 | 1 | 1 | 1 | 1 | 6 | 10 | 13 | 14 | 12 | 45 | 53 | — |
| **Forestry /c** | | | | | | | | | | | | | | |
| Teakwood | 620 | 595 | 480 | 573 | 475 | 495 | 613 | 578 | 692 | 718 | 758 | 777 | 798 | 689 |
| Other timber | 22,660 | 15,701 | 20,947 | 22,366 | 26,256 | 25,520 | 21,702 | 14,024 | 13,236 | 24,180 | 27,716 | 24,277 | 27,403 | 31,089 |

/a Preliminary figures.
/b In liters million.
/c In '000 cubic meters.

Source: Supplement to the President's Report to Parliament, August 16, 1988.

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Production of Major Crops by Type of Estate, 1974-1987

('000 tons)

| Product | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 /a |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Smallholders** | | | | | | | | | | | | | | |
| Rubber | 571 | 536 | 610 | 584 | 612 | 616 | 705 | 740 | 586 | 673 | 704 | 720 | 763 | 801 |
| Coconut/copra | 1,335 | 1,370 | 1,527 | 1,513 | 1,554 | 1,561 | 1,737 | 1,789 | 1,707 | 1,590 | 1,734 | 1,905 | 2,098 | 1,985 |
| Coffee | 132 | 144 | 178 | 181 | 206 | 209 | 266 | 276 | 262 | 287 | 291 | 288 | 316 | 332 |
| Cloves | 15 | 15 | 17 | 37 | 21 | 35 | 39 | 40 | 32 | 40 | 48 | 41 | 53 | 56 |
| Tea | 15 | 14 | 13 | 14 | 17 | 17 | 21 | 22 | 17 | 23 | 24 | 30 | 31 | 32 |
| Sugar | 250 | 223 | 267 | 352 | 485 | 498 | 749 | 1,364 | 1,373 | 1,249 | 1,397 | 1,450 | 1,417 | 1,599 |
| Tobacco | 69 | 74 | 76 | 72 | 68 | 73 | 101 | 103 | 97 | 100 | 104 | 156 | 159 | 108 |
| Pepper | 27 | 23 | 37 | 43 | 46 | 47 | 37 | 39 | 34 | 46 | 46 | 41 | 40 | 49 |
| Cotton | 3 | 2 | 1 | 1 | 1 | 1 | 6 | 10 | 13 | 13 | 11 | 45 | 53 | 23 |
| Palm oil | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Palm kernel | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Private estates** | | | | | | | | | | | | | | |
| Rubber | 108 | 109 | 104 | 107 | 110 | 112 | 111 | 114 | 125 | 133 | 121 | 124 | 150 | 133 |
| Coconut/copra | 6 | 5 | 5 | 6 | 21 | 21 | 22 | 23 | 11 | 14 | 13 | 15 | 16 | 17 |
| Coffee | 7 | 6 | 6 | 6 | 7 | 8 | 6 | 6 | 6 | 8 | 9 | 10 | 10 | 10 |
| Cloves | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 2 | 1 |
| Tea | 11 | 10 | 11 | 11 | 15 | 16 | 17 | 18 | 16 | 17 | 18 | 17 | 18 | 41 |
| Sugar | 127 | 126 | 152 | 162 | 71 | 73 | 114 | 116 | 72 | 88 | 83 | 106 | 106 | 158 |
| Tobacco | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pepper | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cotton | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Palm oil | 104 | 126 | 145 | 147 | 165 | 168 | 202 | 206 | 285 | 269 | 329 | 339 | 385 | 385 |
| Palm kernel | 21 | 24 | 27 | 29 | 22 | 23 | 36 | 37 | 47 | 68 | 69 | 71 | 73 | 73 |
| **Government estates** | | | | | | | | | | | | | | |
| Rubber | 138 | 137 | 142 | 147 | 162 | 170 | 186 | 192 | 189 | 201 | 208 | 211 | 196 | 198 |
| Coconut/copra | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Coffee | 10 | 10 | 10 | 10 | 10 | 11 | 13 | 13 | 13 | 10 | 15 | 13 | 13 | 15 |
| Cloves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tea | 40 | 46 | 49 | 51 | 59 | 92 | 68 | 70 | 61 | 70 | 84 | 80 | 87 | 84 |
| Sugar | 860 | 878 | 902 | 924 | 960 | 1,030 | 968 | 220 | 182 | 291 | 330 | 343 | 371 | 371 |
| Tobacco | 8 | 8 | 11 | 12 | 13 | 14 | 15 | 15 | 9 | 9 | 4 | 5 | 5 | 7 |
| Pepper | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cotton | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Palm oil | 244 | 271 | 286 | 338 | 367 | 474 | 499 | 542 | 599 | 710 | 814 | 904 | 965 | 1,026 |
| Palm kernel | 52 | 57 | 56 | 64 | 72 | 85 | 90 | 98 | 110 | 97 | 177 | 187 | 193 | 201 |
| **Total** | | | | | | | | | | | | | | |
| Rubber | 817 | 782 | 856 | 838 | 884 | 898 | 1,002 | 1,046 | 900 | 1,007 | 1,033 | 1,055 | 1,109 | 1,132 |
| Coconut/copra | 1,341 | 1,375 | 1,532 | 1,519 | 1,575 | 1,582 | 1,759 | 1,812 | 1,718 | 1,604 | 1,747 | 1,920 | 2,114 | 2,002 |
| Coffee | 149 | 160 | 194 | 197 | 223 | 228 | 285 | 295 | 281 | 305 | 315 | 311 | 339 | 357 |
| Cloves | 15 | 15 | 17 | 39 | 21 | 35 | 39 | 40 | 32 | 41 | 49 | 42 | 55 | 57 |
| Tea | 66 | 70 | 73 | 76 | 91 | 125 | 106 | 110 | 94 | 110 | 126 | 127 | 136 | 157 |
| Sugar | 1,237 | 1,227 | 1,321 | 1,438 | 1,516 | 1,601 | 1,831 | 1,700 | 1,627 | 1,628 | 1,810 | 1,899 | 1,894 | 2,128 |
| Tobacco | 77 | 82 | 87 | 84 | 81 | 87 | 116 | 118 | 106 | 109 | 108 | 161 | 164 | 115 |
| Pepper | 27 | 23 | 37 | 43 | 46 | 47 | 37 | 39 | 34 | 46 | 46 | 41 | 40 | 49 |
| Cotton | 3 | 3 | 1 | 1 | 1 | 1 | 6 | 10 | 13 | 13 | 11 | 45 | 53 | 23 |
| Palm oil | 348 | 397 | 431 | 485 | 532 | 642 | 701 | 748 | 884 | 979 | 1,143 | 1,243 | 1,350 | 1,411 |
| Palm kernel | 73 | 81 | 83 | 93 | 94 | 108 | 126 | 135 | 157 | 165 | 246 | 258 | 266 | 274 |

/a Preliminary figures.

Source: Supplement to President's Report to Parliament, August 16, 1988.

INDONESIA

COUNTRY ECONOMIC REPORT

Rice - Area Harvested, Production and Yield, 1974-1987

| Year | Area harvested ('000 ha) | Average yield (tons/ha) | Paddy output ('000 tons) | Rice output /a ('000 tons) |
|---|---|---|---|---|
| 1974 | 8,509 | 2.6 | 22,464 | 15,276 |
| 1975 | 8,495 | 2.6 | 22,331 | 15,185 |
| 1976 | 8,368 | 2.8 | 23,301 | 15,845 |
| 1977 | 8,360 | 2.8 | 23,347 | 15,876 |
| 1978 | 8,929 | 2.9 | 25,772 | 17,525 |
| 1979 | 8,850 | 3.0 | 26,283 | 17,872 |
| 1980 | 9,005 | 3.3 | 29,652 | 20,163 |
| 1981 | 9,382 | 3.5 | 32,774 | 22,286 |
| 1982 | 8,988 | 3.7 | 33,584 | 22,837 |
| 1983 | 9,162 | 3.9 | 35,302 | 24,006 |
| 1984 | 9,764 | 3.9 | 38,134 | 25,932 |
| 1985 | 9,902 | 4.0 | 39,033 | 26,542 |
| 1986 | 9,988 | 4.0 | 39,726 | 27,014 |
| 1987 /b | 9,908 | 4.1 | 40,372 | 27,453 |

/a Estimated on the basis of a conversion factor of 0.68 from paddy into rice.
/b Preliminary figures.

Source: Supplement to President's Report to Parliament, August 16, 1988.

Statistical Annex
Table 7.4

INDONESIA

COUNTRY ECONOMIC REPORT

BULOG Rice Program, 1978/79 - 1989/90
('000 tons)

| | 1978/79 | 1979/80 | 1980/81 | 1981/82 | 1982/83 | 1983/84 | 1984/85 | 1985/86 | 1986/87 | 1987/88 | 1988/89 /c | 1989/90 /g |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Beginning stock | 459 | 708 | 886 | 1,242 | 1,623 | 1,045 | 1,455 | 2,387 | 2,122 | 1,775 | 764 | 769 |
| Domestic procurement | 881 | 431 | 1,635 | 1,952 | 1,933 | 1,195 | 2,374 | 1,943 | 1,586 | 1,306 | 1,443 | 2,000 |
| Import: | 1,268 | 2,580 | 1,213 | 437 | 506 | 1,115 | 187 | 0 | 41 | 79 | 420 | 317 |
| PL-480 | 304 | 353 | 101 | 46 | 0 | 65 | 54 | 0 | 0 | 0 | 54 | 0 |
| Other food /e | 15 | 327 | 198 | 48 | 0 | 140 | 0 | 0 | 41 | 79 | 366 | 317 |
| Commercial | 949 | 1,900 | 914 | 343 | 506 | 910 | 133 | 0 | 0 | 0 | 0 | 0 |
| Total availability | 2,608 | 3,719 | 3,734 | 3,631 | 4,062 | 3,355 | 4,016 | 4,330 | 3,749 | 3,160 | 2,627 | 3,086 |
| Distribution | 1,852 | 2,834 | 2,480 | 2,014 | 2,972 | 1,872 | 1,612 | 2,186 | 1,954 | 2,372 | 1,840 | 2,144 |
| Government /a | 608 | 666 | 649 | 806 | 1,320 | 1,373 | 1,368 | 1,414 | 1,498 | 1,525 | 1,518 | 1,560 |
| State enterprises | 106 | 90 | 89 | 99 | 105 | 89 | 59 | 77 | 94 | 97 | 110 | 110 |
| Market operations /f | 1,032 | 2,036 | 1,628 | 1,033 | 1,518 | 399 | 69 | 277 | 175 | 640 | 200 | 450 |
| Other /d | 106 | 42 | 114 | 80 | 29 | 11 | 116 | 418 | 187 | 110 | 12 | 24 |
| Losses | 46 | 8 | 12 | 26 | 45 | 28 | 17 | 22 | 20 | 24 | 18 | 22 |
| End stock | 708 | 806 | 1,242 | 1,591 | 1,045 | 1,455 | 2,387 | 2,122 | 1,775 | 764 | 769 | 920 |
| Memorandum item: | | | | | | | | | | | | |
| Rice production /b | 17,325 | 17,872 | 20,163 | 22,286 | 22,837 | 24,006 | 25,933 | 26,542 | 27,014 | 27,253 | 28,403 | 29,257 |

/a Since June 1982, all regions have received rice in kind; formerly, surplus regions received food allowances in money.
/b On calendar year basis.
/c Provisional figures.
/d Includes export of 95,000 tons in 1984/85 and 400,000 tons in 1985/86, 173,750 tons in 1986/87 and 100,000 tons in 1987/88.
/e In 1987/88 and 1988/89, the figures show repayment of rice loans.
/f Includes special sales at reduced prices of submarket standard rice of 130,000 tons in 1985/86 and 150,000 tons in 1986/87.
/g Estimates.

Source: BULOG (Badan Urusan Logistic/State Logistic Board).

INDONESIA

COUNTRY ECONOMIC REPORT

Area Covered Under Rice Intensification Programs, 1974-1987

('000 ha)

| Year | BIMAS /a | INMAS /c | Total | Or which INSUS /b |
|---|---|---|---|---|
| 1974 | 2,676 | 1,048 | 3,724 | 0 |
| 1975 | 2,683 | 1,957 | 3,640 | 0 |
| 1976 | 2,424 | 1,189 | 3,613 | 0 |
| 1977 | 2,059 | 2,181 | 4,240 | 0 |
| 1978 | 1,960 | 2,888 | 4,848 | 0 |
| 1979 | 1,571 | 3,452 | 5,023 | 0 |
| 1980 | 1,374 | 4,142 | 5,516 | 1,060 |
| 1981 | 1,384 | 4,802 | 6,186 | 1,706 |
| 1982 | 1,296 | 5,047 | 6,343 | 2,945 |
| 1983 | 1,308 | 5,387 | 6,695 | 3,477 |
| 1984 | 434 | 6,936 | 7,370 | 3,606 |
| 1985 | 200 | 7,461 | 7,661 | 4,100 |
| 1986 | 258 | 7,533 | 7,791 | 4,480 |
| 1987 | n.a | n.a | 8,038 | 4,924 |

/a BIMAS = Bimbingan massal (Mass rice planting guidance program).
/b INSUS = Intensifikasi khusus (Special intensification program).
/c INMAS = Intensifikasi massal (Mass intensification program).

Source: Supplement to the President's Report to Parliament, August 15, 1988.

INDONESIA

COUNTRY ECONOMIC REPORT

Index of Manufacturing Production by Selected Industry Group, 1975-1988 /a

(1975 = 100)

| Code of Industry Group | Description /b | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 /c |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31121 | Condensed and dried milk, creamery and processed butter, fresh and preserved cream (4) | 100 | 148 | 174 | 173 | 201 | 234 | 235 | 239 | 261 | 220 | 207 | 197 | 212 | 229 |
| 31330 | Malt liquor and malt (4) | 100 | 94 | 103 | 105 | 118 | 129 | 147 | 170 | 144 | 107 | 119 | 125 | 141 | 138 |
| 31420 | Clove cigarettes (20) | 100 | 104 | 125 | 122 | 120 | 151 | 180 | 187 | 196 | 224 | 246 | 267 | 296 | 317 |
| 31430 | Other cigarettes (13) | 100 | 104 | 105 | 116 | 131 | 130 | 125 | 115 | 120 | 117 | 97 | 86 | 74 | 74 |
| 32111 | Yarn and thread (20) | 100 | 109 | 101 | 112 | 111 | 118 | 126 | 121 | 114 | 123 | 111 | 115 | 125 | 125 |
| 32112 | Weaving mills (except jute weaving products (193) | 104 | 108 | 109 | 112 | 122 | 126 | 139 | 130 | 121 | 125 | 127 | 132 | 154 | 166 |
| 32114 | Batik (10) | 100 | 114 | 113 | 117 | 117 | 117 | 99 | 110 | 106 | 114 | 100 | 101 | 109 | 103 |
| 32130 | Knitting mills (32) | 100 | 95 | 89 | 90 | 77 | 88 | 89 | 81 | 82 | 80 | 84 | 89 | 64 | 75 |
| 32400 | Footwear (4) | 100 | 114 | 115 | 119 | 112 | 130 | 123 | 124 | 153 | 179 | 173 | 174 | 176 | 191 |
| 33113 | Plywood (6) | 100 | 118 | 197 | 218 | 220 | 392 | 471 | 424 | 438 | 418 | 387 | 429 | 557 | 648 |
| 34111 | Paper manufacture (all kinds) (8) | 100 | 98 | 107 | 134 | 151 | 153 | 152 | 152 | 129 | 164 | 182 | 206 | 219 | 335 |
| 35110 | Basic chemicals (except fertilizer) (13) | 100 | 97 | 97 | 87 | 124 | 128 | 127 | 130 | 132 | 147 | 149 | 155 | 170 | 175 |
| 35120 | Fertilizer (5) | 100 | 83 | 161 | 192 | 336 | 466 | 492 | 496 | 560 | 706 | 850 | 930 | 927 | 846 |
| 35210 | Paint, varnish, and lacquers (7) | 100 | 97 | 92 | 101 | 98 | 115 | 159 | 168 | 147 | 164 | 189 | 199 | 160 | 178 |
| 35232 | Matches (7) | 100 | 103 | 113 | 124 | 139 | 179 | 189 | 230 | 291 | 323 | 389 | 395 | 474 | 541 |
| 35510 | Tyres and tubes (12) | 100 | 137 | 168 | 203 | 227 | 257 | 301 | 294 | 300 | 300 | 311 | 329 | 356 | 417 |
| 36210 | Glass and glass products (17) | 100 | 94 | 139 | 160 | 171 | 208 | 257 | 209 | 227 | 247 | 250 | 244 | 348 | 417 |
| 36310 | Cement (9) | 100 | 125 | 178 | 255 | 314 | 367 | 395 | 419 | 566 | 616 | 686 | 767 | 806 | 858 |
| 37100 | Basic iron and steel industries (15) | 100 | 137 | 141 | 180 | 443 | 1034 | 1248 | 970 | 1147 | 1165 | 1158 | 1359 | 1423 | 1539 |
| 38130 | Structural metal products (24) | 100 | 109 | 133 | 154 | 154 | 172 | 188 | 196 | 203 | 197 | 214 | 218 | 252 | 291 |
| 38312 | Drycell batteries (12) | 100 | 115 | 149 | 165 | 180 | 228 | 231 | 267 | 328 | 316 | 343 | 358 | 393 | 365 |
| 38320 | Radio, TVs, cassettes, other communication equipment and apparatus (16) | 100 | 125 | 180 | 232 | 230 | 340 | 349 | 333 | 351 | 279 | 243 | 217 | 208 | 241 |
| 38430 | Motor vehicles assembly and manufacture (17) | 100 | 108 | 122 | 136 | 117 | 194 | 256 | 227 | 198 | 179 | 183 | 211 | 233 | 218 |
| 38440 | Motor cycles and three wheel motor vehicles, assembly and manufacture (5) | 100 | 89 | 76 | 89 | 75 | 114 | 161 | 187 | 130 | 93 | 100 | 128 | 117 | 102 |
| | General index | 100 | 109 | 125 | 146 | 158 | 194 | 214 | 214 | 229 | 241 | 258 | 275 | 290 | 299 |

/a The annual figures shown here are calculated as the average of quarterly indices.
/b Figures in brackets "()" indicate the number of establishments covered in that group.
/c Average of three quarters.

Source: Central Bureau of statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Production of Minerals, 1974-1987

| Year | Petroleum (mln bbls) | Tin concentrate | Copper ore concentrate | Nickel ore | Bauxite | Coal | Iron sand concentrate | Gold /a (kg) | Silver /a (kg) | Natural gas (mcf) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | ('000 tons) | | | | | | | | |
| 1974 | 502.0 | 25.7 | 212.6 | 878.9 | 1,290.1 | 156.2 | 365.2 | 265.3 | 6,464.6 | 202.2 |
| 1975 | 477.0 | 25.3 | 201.3 | 801.1 | 992.6 | 206.4 | 353.0 | 330.7 | 4,754.7 | 222.2 |
| 1976 | 550.0 | 23.4 | 223.3 | 1,102.0 | 940.3 | 182.9 | 292.3 | 355.2 | 3,397.5 | 312.1 |
| 1977 | 615.0 | 25.9 | 189.1 | 1,302.5 | 1,301.4 | 230.6 | 311.5 | 255.9 | 2,831.9 | 542.8 |
| 1978 | 597.0 | 27.4 | 180.9 | 1,256.5 | 1,007.7 | 264.2 | 233.3 | 253.9 | 2,506.4 | 820.1 |
| 1979 | 580.0 | 29.4 | 188.8 | 1,551.9 | 1,051.9 | 278.6 | 79.9 | 170.0 | 1,644.6 | 998.4 |
| 1980 | 577.0 | 32.5 | 186.1 | 1,537.4 | 1,249.1 | 338.0 | 62.9 | 247.9 | 2,196.0 | 1,045.7 |
| 1981 | 584.8 | 35.4 | 188.5 | 1,543.2 | 1,203.4 | 392.8 | 86.6 | 183.1 | 2,000.2 | 1,123.8 |
| 1982 | 488.2 | 33.8 | 223.7 | 1,640.9 | 700.2 | 588.0 | 144.5 | 222.7 | 3,057.9 | 1,111.9 |
| 1983 | 490.5 | 26.6 | 205.0 | 1,278.0 | 777.9 | 648.2 | 132.9 | 2,391.5 | 35,473.1 | 1,186.4 |
| 1984 | 516.5 | 23.2 | 190.3 | 1,066.8 | 1,003.2 | 1,468.2 | 83.0 | 2,247.1 | 38,794.7 | 1,506.7 |
| 1985 | 483.8 | 21.8 | 223.4 | 961.9 | 830.5 | 1,491.7 | 130.9 | 2,619.4 | 38,327.3 | 1,580.0 |
| 1986 | 507.2 | 24.0 | 251.2 | 1,533.1 | 648.8 | 1,725.4 | 152.3 | 3,303.5 | 46,596.0 | 1,628.9 |
| 1987 | 479.0 | 24.1 | 259.8 | 1825.7 | 635.3 | 1887.0 | 194.0 | 3,752.8 | 50,485.4 | 1,731.1 |

/a Since 1983, production of gold and silver including private enterprises.

Source: Central Bureau of Statistics.

Statistical Annex
Table 8.3

INDONESIA

COUNTRY ECONOMIC REPORT

Crude Oil Production by Company, 1974-1988

('000 bbls)

| | PERTAMINA | LEMIGAS | Contract of work | | | | Production sharing contract | Total | Average daily output |
|---|---|---|---|---|---|---|---|---|---|
| | | | Caltex | C&T | Stanvac | Subtotal | | | |
| 1974 | 40,143 | 362 | 329,907 | 1,959 | 16,626 | 348,492 | 112,840 | 501,837 | 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 | 1,504 |
| 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 | 30,253 | 213 | 266,048 | 1,856 | 10,811 | 278,715 | 271,203 | 580,384 | 1,590 |
| 1980 | 29,812 | 205 | 258,325 | 2,046 | 11,577 | 271,948 | 274,971 | 576,936 | 1,576 |
| 1981 | 29,398 | 176 | 255,515 | 1,799 | 13,141 | 270,455 | 284,694 | 584,723 | 1,602 |
| 1982 | 27,280 | 196 | 175,928 | 1,422 | 13,214 | 190,564 | 270,055 | 488,095 | 1,337 |
| 1983 /a | 27,374 | 233 | | | | 233,790 | 203,134 | 464,531 | 1,273 |
| 1984 | 31,421 | 203 | | | | 5,767 | 431,121 | 468,512 | 1,280 |
| 1985 | 30,211 | 170 | | | | 6,421 | 394,436 | 431,238 | 1,181 |
| 1986 | 29,321 | 193 | | | | 7,327 | 470,387 | 507,228 | 1,390 |
| 1987 /b | 24,554 | 198 | | | | 9,765 | 444,317 | 479,058 | 1,312 |
| 1988 | 24,836 | | | | | 14,813 | 451,637 | 491,286 | 1,342 |

/a Since May 1983, contract of work data have been consolidated.
/b Preliminary figures.
/c Since 1988, Lemigas data have been included to Pertamina.

Source: Ministry of Mines and Energy, Directorate General Oil & Gas.

INDONESIA

COUNTRY ECONOMIC REPORT

Petroleum Product Supply and Demand, 1974-1988

(million bbls)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 /a |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Production of crude | 501.8 | 476.9 | 550.3 | 615.1 | 596.8 | 580.4 | 577.0 | 584.8 | 488.2 | 454.5 | 468.5 | 431.2 | 507.2 | 479.1 | 491.3 |
| Crude imports | 2.7 | 2.6 | 7.7 | 29.7 | 31.1 | 30.5 | 32.9 | 37.0 | 22.0 | 25.7 | 34.2 | 32.1 | 27.7 | 30.2 | 20.1 |
| Subtotal | 504.5 | 479.5 | 558.0 | 644.8 | 627.9 | 610.9 | 609.9 | 621.8 | 510.2 | 480.2 | 502.7 | 463.3 | 534.9 | 509.3 | 511.4 |
| Crude exports | 378.9 | 363.1 | 449.5 | 485.3 | 472.0 | 410.8 | 378.8 | 383.4 | 320.9 | 330.2 | 354.6 | 295.1 | 327.4 | 291.9 | 276.6 |
| Crude available for refineries | 125.6 | 116.4 | 108.5 | 159.5 | 155.9 | 200.1 | 231.1 | 238.4 | 189.3 | 150.0 | 148.1 | 168.2 | 207.5 | 217.4 | 234.8 |
| Changes in crude stocks (decrease = -) | 0.7 | 3.0 | -5.2 | 5.7 | -3.6 | 14.1 | 38.2 | 44.7 | 6.7 | -34.0 | -42.6 | -31.6 | -10.0 | -16.4 | -5.4 |
| Refinery input (including swaps) | 124.9 | 113.4 | 113.7 | 153.8 | 159.5 | 186.0 | 192.9 | 193.7 | 182.6 | 184.0 | 190.7 | 199.8 | 217.5 | 233.8 | 240.2 |
| Refinery consumption | 7.7 | 6.7 | 6.4 | 11.2 | 9.4 | 13.0 | 13.5 | 6.5 | 6.5 | 7.2 | 9.2 | 21.0 | 14.2 | 15.2 | 13.2 |
| Refinery output | 117.2 | 106.7 | 107.3 | 142.6 | 150.1 | 173.0 | 179.4 | 187.2 | 176.1 | 176.8 | 181.5 | 178.8 | 203.3 | 218.6 | 227.0 |
| Exports of refined products | 45.1 | 36.7 | 41.8 | 51.4 | 40.3 | 49.3 | 53.4 | 49.9 | 39.0 | 43.3 | 66.0 | 47.3 | 55.2 | 62.4 | 63.7 |
| Waxy residues | 41.3 | 32.6 | 35.2 | 42.1 | 36.3 | 48.9 | 51.0 | 47.9 | 33.7 | 40.5 | 49.9 | 32.1 | 34.9 | 42.2 | 45.3 |
| Bunker fuel, AVTUR, etc. | 3.8 | 4.1 | 6.6 | 9.3 | 4.0 | 0.4 | 2.4 | 2.0 | 5.3 | 2.8 | 16.1 | 15.2 | 20.3 | 20.2 | 18.4 |
| Available for domestic consumption | 72.1 | 70.0 | 65.5 | 91.2 | 109.8 | 123.7 | 126.0 | 137.3 | 137.1 | 133.5 | 115.5 | 131.5 | 148.1 | 156.2 | 163.3 |
| Product imports | 12.8 | 15.0 | 30.4 | 18.3 | 16.9 | 15.0 | 22.0 | 42.6 | 28.0 | 23.5 | 5.0 | 2.7 | 5.4 | 10.3 | 13.3 |
| Total supply | 84.9 | 85.0 | 95.9 | 109.5 | 126.7 | 138.7 | 148.0 | 179.9 | 165.1 | 157.0 | 120.5 | 134.2 | 153.5 | 166.5 | 176.6 |
| Domestic consumption | 67.9 | 77.5 | 87.7 | 98.5 | 113.0 | 134.3 | 141.8 | 156.0 | 161.1 | 155.5 | 157.6 | 155.3 | 152.8 | 162.9 | 171.3 |
| Changes in refined stocks | 17.0 | 7.5 | 8.2 | 11.0 | 13.7 | 4.4 | 6.2 | 23.9 | 4.0 | 1.5 | -37.1 | -21.1 | 0.7 | 3.6 | 5.3 |

/a Preliminary figures.

Source: Ministry of Mines and Energy, Directorate General Oil & Gas.

INDONESIA

COUNTRY ECONOMIC REPORT

Domestic Sales of Petroleum Products, 1974-1988 /a

('000 bbls)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 /b |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aviation gas | 139 | 139 | 143 | 128 | 134 | 134 | 130 | 110 | 103 | 83 | 73 | 66 | 63 | 56 | 60 |
| Aviation turbo | 2,150 | 2,579 | 2,758 | 2,913 | 3,494 | 3,656 | 4,355 | 4,869 | 4,899 | 3,686 | 4,374 | 4,442 | 3,806 | 4,199 | 4,445 |
| Premium gasoline | 496 | 661 | 706 | 710 | 728 | 618 | 466 | 392 | 238 | 247 | 523 | 738 | 1,024 | 1,431 | 1,838 |
| Regular gasoline | 12,787 | 14,284 | 15,606 | 17,356 | 19,608 | 21,295 | 23,321 | 25,648 | 25,709 | 24,380 | 24,909 | 25,206 | 27,083 | 29,048 | 30,855 |
| Kerosene | 26,769 | 30,623 | 33,259 | 36,880 | 41,717 | 45,457 | 48,975 | 52,497 | 51,778 | 48,224 | 45,213 | 43,954 | 43,618 | 43,352 | 44,664 |
| Motor diesel | 14,524 | 18,023 | 22,749 | 27,041 | 31,709 | 34,595 | 40,116 | 44,737 | 48,918 | 49,790 | 48,567 | 47,682 | 47,421 | 54,075 | 59,143 |
| Industrial diesel | 4,022 | 4,673 | 5,429 | 6,239 | 6,744 | 7,581 | 7,829 | 9,391 | 9,311 | 9,978 | 10,285 | 10,329 | 8,855 | 8,319 | 8,809 |
| Fuel oil | 8,755 | 7,844 | 8,222 | 10,296 | 11,061 | 13,626 | 15,739 | 17,587 | 19,341 | 21,149 | 23,625 | 22,863 | 18,004 | 19,054 | 18,097 |
| Total | 69,642 | 78,826 | 88,872 | 101,563 | 115,195 | 126,962 | 140,931 | 155,231 | 160,297 | 157,537 | 157,569 | 155,280 | 149,874 | 159,534 | 167,911 |

/a Excluding lubricating oil and similar products.
/b Preliminary figures.

Source: Ministry of Mines and Energy, Directorate General Oil and Gas.

INDONESIA

COUNTRY ECONOMIC REPORT

Consumer Price Index, 1979 - 1988 /a

(April 1977 - March 1978 = 100)

| End of | Foodstuff | Housing | Clothing | Others | Total | Change (%) |
|---|---|---|---|---|---|---|
| 1979 | 141.1 | 140.9 | 168.2 | 137.7 | 143.1 | 21.8 /b |
| 1980 | 165.6 | 168.7 | 190.8 | 159.1 | 167.6 | 17.1 |
| 1981 | 179.3 | 182.3 | 198.2 | 168.8 | 179.8 | 7.3 |
| 1982 | 192.7 | 209.5 | 205.0 | 189.3 | 197.9 | 10.0 |
| 1983 | 212.7 | 238.1 | 214.0 | 221.5 | 221.5 | 12.0 |
| 1984 | 226.4 | 270.0 | 220.6 | 246.5 | 241.6 | 9.1 |
| 1985 | 230.9 | 289.4 | 228.0 | 259.7 | 252.2 | 4.4 |
| 1986 | 263.9 | 302.9 | 250.4 | 275.0 | 275.3 | 9.2 |
| 1987 | 296.1 | 321.5 | 270.4 | 297.9 | 300.8 | 9.2 |
| 1988 | 320.1 | 335.4 | 280.0 | 307.4 | 317.6 | 5.6 |

/a The consumer price index for Indonesia has been used commencing March 1979 to replace the Jakarta cost of living index.

/b Percentage change of CPI for the period January through December 1979 using the rate of increase of the Jakarta cost of living index for period January through March 1979.

Source: Central Bureau of Statistics.

INDONESIA

COUNTRY ECONOMIC REPORT

Indonesia Wholesale Price Index, 1983-1988 /a

(1983 = 100)

| Sectors /b | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| Agriculture (44) | 100 | 113 | 118 | 128 | 145 | 163 |
| Mining & quarrying (6) | 100 | 109 | 117 | 125 | 132 | 143 |
| Manufacturing (140) | 100 | 108 | 115 | 123 | 143 | 156 |
| Imports (53) | 100 | 113 | 119 | 129 | 158 | 163 |
| Exports (38) | 100 | 112 | 113 | 85 | 118 | 125 |
| Excluding petroleum (34) | 100 | 114 | 115 | 130 | 170 | 183 |
| Petroleum (4) | 100 | 112 | 113 | 73 | 103 | 108 |
| General index (281) | 100 | 111 | 116 | 116 | 142 | 151 |
| General index excluding exports (243) | 100 | 111 | 117 | 127 | 149 | 160 |
| General index excluding imports & exports of petroleum (224) | 100 | 110 | 116 | 125 | 146 | 161 |

/a This new index replaces the previous WPI based on 1975. Figures show the average for year.
/b Figures within brackets "()" indicate the number of items represented in that sector.

Source: Central Bureau of statistics.

Statistical Annex
Table 9.3

INDONESIA

COUNTRY ECONOMIC REPORT

Domestic Prices of Petroleum Products, 1974-1988

(Rp./liter)

| | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 /a | 1981 | 1982 /b | 1983 /c | 1984 /d | 1985 /e | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aviation gas | 50 | 62 | 70 | 70 | 70 | 100 | 150 | 150 | 240 | 300 | 300 | 330 | 250 | 250 | 250 |
| Aviation turbo | 50 | 62 | 70 | 70 | 70 | 100 | 150 | 150 | 240 | 300 | 300 | 330 | 250 | 250 | 250 |
| Premium gasoline | 55 | 67 | 90 | 90 | 90 | 140 | 220 | 220 | 360 | 400 | 400 | 440 | 440 | 440 | 440 |
| Regular gasoline | 46 | 57 | 70 | 70 | 70 | 100 | 150 | 150 | 240 | 320 | 350 | 385 | 385 | 385 | 385 |
| Kerosene | 13 | 16 | 18 | 18 | 18 | 25 | 38 | 38 | 60 | 100 | 150 | 165 | 165 | 165 | 165 |
| Motor diesel | 19 | 22 | 25 | 25 | 25 | 35 | 53 | 53 | 85 | 145 | 220 | 242 | 200 | 200 | 200 |
| Industrial diesel | 13 | 19 | 22 | 22 | 22 | 30 | 45 | 45 | 75 | 125 | 200 | 220 | 200 | 200 | 200 |
| Fuel oil | 12 | 19 | 22 | 22 | 22 | 30 | 45 | 45 | 75 | 125 | 200 | 220 | 200 | 200 | 200 |

/a From May 1980.
/b Price increased on January 1.
/c Price increased on January 7.
/d Price increased on January 12.
/e Price increased on April 1, due to the application of 10% VAT.

Source: Ministry of Mines and Energy, Directorate General Oil and Gas.

Statistical Annex
Table 10.1

INDONESIA

COUNTRY ECONOMIC REPORT

Approved Foreign Investment by Sector, 1977-1988 /a
(US$ million)

| Sector | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 21.4 | 3.0 | 16.2 | 56.0 | 25.0 | 9.0 | 9.8 | 0.2 | 9.0 | 125.9 | 116.7 | 7.7 |
| Forestry | 28.5 | 38.6 | 12.1 | 8.2 | 15.2 | 32.4 | 6.5 | 0.0 | 0.0 | 0.0 | 4.6 | 26.3 |
| Fishery | 2.7 | 23.1 | 21.1 | 2.9 | 21.6 | 3.0 | 20.9 | 0.0 | 11.3 | 3.9 | 12.0 | 45.7 |
| Mining & quarrying | 200.5 | 38.1 | 65.5 | 3.0 | 28.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Manufacturing | 327.4 | 274.8 | 1,157.7 | 770.9 | 833.8 | 1,120.0 | 2,615.2 | 1,001.7 | 687.3 | 536.7 | 852.3 | 3,828.0 |
| Food | 8.3 | 5.5 | 60.7 | 14.2 | 40.5 | 5.8 | 83.0 | 77.0 | 5.9 | 34.1 | 54.1 | 231.0 |
| Textiles & leather | 70.8 | 114.6 | 33.6 | 76.3 | 138.6 | 25.5 | 11.6 | 1.2 | 6.8 | 9.0 | 117.9 | 213.2 |
| Wood & wood products | 0.0 | 1.0 | 6.0 | 10.8 | 123.9 | 5.4 | 12.9 | 0.0 | 0.0 | 31.9 | 24.8 | 104.3 |
| Paper & paper products | 9.7 | 0.4 | 11.5 | 9.4 | 28.5 | 0.2 | 722.3 | 0.0 | 25.1 | 46.8 | 108.9 | 1,505.9 |
| Chemicals & rubber | 46.3 | 25.3 | 363.6 | 281.9 | 235.2 | 317.0 | 182.8 | 95.7 | 337.8 | 293.8 | 208.9 | 1,542.4 |
| Nonmetallic minerals | 98.3 | 19.7 | 76.7 | 222.1 | 20.3 | 57.1 | 26.8 | 0.0 | 2.5 | 0.0 | 251.3 | 20.8 |
| Basic metals | 15.2 | 9.9 | 567.1 | 0.0 | 84.8 | 3.4 | 835.7 | 609.1 | 65.0 | 39.4 | 6.9 | 61.3 |
| Metal products | 72.6 | 92.0 | 42.5 | 162.5 | 141.2 | 705.6 | 716.1 | 210.0 | 242.2 | 81.7 | 56.9 | 126.8 |
| Others | 0.0 | 6.2 | 0.0 | 0.7 | 0.0 | 0.0 | 0.9 | 8.7 | 0.0 | 0.0 | 2.9 | 9.7 |
| Construction | 0.8 | 5.4 | 0.5 | 7.7 | 48.8 | 11.0 | 43.5 | 17.0 | 122.3 | 64.7 | 42.2 | 2.4 |
| Trade & hotels | 7.0 | 9.7 | 3.0 | 38.6 | 0.0 | 17.0 | 78.0 | 84.0 | 0.0 | 0.0 | 196.0 | 404.6 |
| Wholesale trade | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hotels | 7.0 | 9.7 | 3.0 | 38.6 | 0.0 | 17.0 | 78.0 | 84.0 | 0.0 | 0.0 | 196.0 | 404.6 |
| Transport & communications | 0.0 | 0.0 | 0.2 | 25.1 | 0.0 | 0.0 | 0.0 | 4.2 | 0.0 | 70.0 | 213.0 | 2.5 |
| Real estate and business services | 20.3 | 4.4 | 43.9 | 0.0 | 18.2 | 204.2 | 108.3 | 0.0 | 28.9 | 25.0 | 20.3 | 117.3 |
| Total | 608.6 | 397.1 | 1,320.2 | 912.4 | 1,091.1 | 1,396.6 | 2,882.2 | 1,107.1 | 858.8 | 826.2 | 1,457.1 | 4,434.5 |

/a Intended Capital Investment. Amount represents original approvals plus expansions minus cancellations.

Source: Bank Indonesia and Investment Coordinating Board (BKPM).

Statistical Annex
Table 10.2

INDONESIA

COUNTRY ECONOMIC REPORT

Implementation of Foreign Investment by Sector, 1977-1987 /a
(US$ million)

| Sector | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture | 12.5 | 10.1 | 4.3 | 14.5 | 13.0 | 5.8 | 6.7 | 4.1 | 3.7 | 4.0 | 10.9 |
| Forestry | 22.1 | 15.0 | 19.2 | 26.2 | 34.9 | 11.0 | 15.9 | 16.3 | 2.7 | 0.0 | 7.2 |
| Fishery | 2.8 | 13.5 | 10.5 | 7.9 | 0.4 | 9.0 | 5.8 | 0.7 | 0.2 | 0.0 | 0.0 |
| Mining and quarrying | 20.1 | 57.3 | 47.5 | 49.4 | 70.0 | 32.2 | 110.0 | 46.1 | 31.0 | 265.0 | 121.5 |
| Manufacturing | 186.2 | 267.0 | 192.0 | 235.4 | 243.5 | 388.3 | 358.0 | 233.7 | 468.7 | 180.4 | 504.1 |
| Food | 11.9 | 14.9 | 7.1 | 7.4 | 15.8 | 7.1 | 4.5 | 17.7 | 159.4 | 5.2 | 23.1 |
| Textiles and leather | 27.9 | 31.4 | 41.7 | 78.2 | 102.3 | 62.7 | 23.3 | 8.6 | 17.4 | 2.8 | 12.5 |
| Wood and wood products | 1.4 | 0.4 | 0.1 | 3.3 | 2.2 | 29.7 | 13.7 | 13.2 | 11.9 | 0.0 | 2.6 |
| Paper and paper products | 9.6 | 11.8 | 7.4 | 6.1 | 2.5 | 1.6 | 5.8 | 2.8 | 3.5 | 22.8 | 0.0 |
| Chemicals and rubber | 28.0 | 71.7 | 44.8 | 32.0 | 44.5 | 164.9 | 177.5 | 67.2 | 60.1 | 11.9 | 81.0 |
| Nonmetallic minerals | 22.9 | 9.0 | 3.2 | 30.0 | 30.9 | 33.0 | 36.7 | 25.1 | 2.7 | 1.5 | 2.0 |
| Basic metals | 27.8 | 37.8 | 47.5 | 32.9 | 9.9 | 28.5 | 59.4 | 22.5 | 47.4 | 120.4 | 338.5 |
| Metals products | 35.4 | 86.8 | 32.0 | 52.0 | 35.3 | 59.8 | 37.2 | 29.6 | 160.1 | 13.8 | 39.1 |
| Others | 1.3 | 0.1 | 10.2 | 2.0 | 1.9 | 0.0 | 2.4 | 5.7 | 1.2 | 0.0 | 0.0 |
| Construction | 3.0 | 1.4 | 12.0 | 0.8 | 0.6 | 6.9 | 0.5 | 0.5 | 1.8 | 5.4 | 66.6 |
| Trade & hotels | 6.2 | 17.2 | 4.3 | 0.4 | 2.9 | 0.0 | 2.1 | 7.2 | 8.7 | 7.3 | 0.0 |
| Wholesale trade | 0.0 | 0.7 | 0.0 | 0.0 | 2.5 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hotels | 6.2 | 16.5 | 4.3 | 0.4 | 0.4 | 0.0 | 1.7 | 7.2 | 8.7 | 7.3 | 0.0 |
| Transport & communications | 2.0 | 4.7 | 21.9 | 4.8 | 1.3 | 0.0 | 0.0 | 2.4 | 1.0 | 0.0 | 0.0 |
| Transport | 1.8 | 1.3 | 0.1 | 2.1 | 0.2 | 0.0 | 0.0 | 0.2 | 1.0 | 0.0 | 0.0 |
| Communications | 0.2 | 3.4 | 21.8 | 2.7 | 1.1 | 0.0 | 0.0 | 2.2 | 0.0 | 0.0 | 0.0 |
| Real estate, business services and others | 3.9 | 19.0 | 6.9 | 7.2 | 12.4 | 6.1 | 17.9 | 77.0 | 80.8 | 27.9 | 13.0 |
| Total | 258.8 | 405.2 | 318.6 | 346.6 | 379.0 | 459.3 | 516.9 | 388.0 | 598.6 | 490.0 | 723.3 |

/a Excluding investment in petroleum and banking sectors.

Source: Bank Indonesia and Investment Coordinating Board (BKPM).

INDONESIA

COUNTRY ECONOMIC REPORT

Approved Domestic Investment by Sector, 1977-1988 /a

(Rp billion)

| Sector | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agriculture, fisheries and livestock | 49.4 | 100.4 | 39.0 | 30.0 | 60.0 | 62.0 | 681.0 | 277.0 | 899.1 | 1,879.4 | 2,885.4 | 2,697.7 |
| Forestry | 64.0 | 58.5 | 80.0 | 115.0 | 175.0 | 93.0 | 149.3 | 19.0 | 36.5 | 20.7 | 640.1 | 486.6 |
| Mining | 0.0 | 18.3 | 33.0 | 55.0 | 13.0 | 52.0 | 578.1 | 7.8 | 37.6 | 89.0 | 289.7 | 110.5 |
| Manufacturing | 401.4 | 531.2 | 580.0 | 1,093.0 | 1,306.0 | 1,419.0 | 3,791.5 | 1,332.3 | 1,632.2 | 1,842.3 | 5,518.1 | 9,746.8 |
| Textiles | 75.0 | 167.6 | 61.0 | 162.0 | 195.0 | 110.0 | 103.5 | 127.0 | 97.0 | 262.5 | 1,288.7 | 2,308.9 |
| Chemicals | 98.7 | 103.0 | 141.0 | 57.0 | 193.0 | 205.0 | 765.9 | 272.0 | 928.1 | 773.4 | 2,046.6 | 3,038.7 |
| Electrical goods | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other manufacturing | 227.7 | 260.6 | 378.0 | 874.0 | 918.0 | 1,104.0 | 2,922.2 | 933.3 | 607.1 | 806.4 | 2,182.8 | 4,399.2 |
| Construction | 0.0 | 2.6 | 5.0 | 4.0 | 8.0 | 16.0 | 195.3 | 67.1 | 270.1 | 74.4 | 49.6 | 31.4 |
| Hotels | 4.1 | 11.6 | 13.0 | 10.0 | 54.0 | 76.0 | 255.2 | 213.9 | 311.5 | 17.0 | 138.8 | 537.0 |
| Real estate | 35.2 | 15.0 | 6.0 | 16.0 | 5.0 | 74.0 | 204.0 | 31.0 | 168.4 | 18.6 | 23.4 | 811.2 |
| Others /b | 19.9 | 24.2 | 18.0 | 35.0 | 70.0 | 157.0 | 1,151.0 | 1.0 | 394.3 | 475.3 | 719.9 | 494.7 |
| Total | 574.0 | 761.8 | 774.0 | 1,358.0 | 1,691.0 | 1,949.0 | 7,005.4 | 1,949.0 | 3,749.7 | 4,416.7 | 10,265.0 | 14,915.9 |

/a Figures refer to intended capital investments, and represent original approvals plus approved expansion minus cancellations.
/b Includes transportation sector.

Source: Investment Coordinating Board.

# INDONESIA

## COUNTRY ECONOMIC REPORT

### National Accounts Summary at Current Prices, 1977-1987

(In billions of national currency units)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Origin and Use of Resources** | | | | | | | | | | | |
| A.1. GDP at market prices | 20,084.0 | 24,002.0 | 34,345.0 | 48,914.0 | 58,421.0 | 62,646.0 | 73,698.0 | 87,055.0 | 94,721.0 | 95,823.0 | 113,014.0 |
| 2. Net indirect taxes | 846.0 | 1,029.0 | 1,305.0 | 1,635.0 | 1,752.0 | 2,133.0 | 2,547.0 | -- | -- | -- | -- |
| 3. GDP at factor cost | 19,238.0 | 22,973.0 | 33,040.0 | 47,279.0 | 56,669.0 | 60,514.0 | 71,151.0 | -- | -- | -- | -- |
| 4. Agriculture | 5,940.0 | 6,745.0 | 9,374.0 | 11,726.0 | 13,649.0 | 15,001.0 | 17,696.0 | 20,334.0 | 22,413.0 | 24,696.0 | 29,337.0 |
| 5. Industry | 6,880.0 | 8,578.0 | 12,944.0 | 20,405.0 | 24,076.0 | 23,745.0 | 27,301.0 | 32,479.0 | 34,391.0 | 30,080.0 | 37,814.0 |
| a. Manufacturing | 2,115.0 | 2,816.0 | 4,003.0 | 6,353.0 | 7,067.0 | 7,482.0 | 8,211.0 | 11,082.0 | 12,904.0 | 13,585.0 | 15,932.0 |
| b. Mining and quarrying | 3,521.0 | 4,263.0 | 6,866.0 | 11,238.0 | 13,218.0 | 12,153.0 | 13,968.0 | 15,986.0 | 15,404.0 | 10,274.0 | 14,747.0 |
| c. Other (by difference) | 1,244.0 | 1,499.0 | 2,075.0 | 2,813.0 | 3,792.0 | 4,110.0 | 5,122.0 | 5,412.0 | 6,083.0 | 6,221.0 | 7,135.0 |
| 6. Services, etc. | 7,264.0 | 8,680.0 | 12,027.0 | 16,783.0 | 20,696.0 | 23,901.0 | 28,701.0 | 34,241.0 | 37,917.0 | 41,047.0 | 45,863.0 |
| B.1. Resource balance | 969.0 | 587.0 | 2,402.0 | 6,277.0 | 2,367.0 | 253.0 | -787.0 | 4,358.0 | 1,834.0 | 298.0 | 3,161.0 |
| 2. Exports of GNFS | 4,824.0 | 5,317.0 | 10,148.0 | 16,162.0 | 16,402.0 | 15,325.0 | 20,448.0 | 22,985.0 | 21,671.0 | 21,165.0 | 29,779.0 |
| 3. Imports of GNFS | 3,855.0 | 4,730.0 | 7,746.0 | 9,886.0 | 14,034.0 | 15,071.0 | 21,235.0 | 18,627.0 | 19,838.0 | 20,867.0 | 26,618.0 |
| C.1. Domestic absorption | 19,116.0 | 23,416.0 | 31,943.0 | 42,637.0 | 56,054.0 | 62,393.0 | 74,485.0 | 82,697.0 | 92,887.0 | 95,525.0 | 109,853.0 |
| D.1. Total consumption, etc | 14,419.0 | 17,682.0 | 22,794.0 | 30,742.0 | 38,745.0 | 45,152.0 | 52,817.0 | 60,520.0 | 67,751.0 | 71,920.0 | 81,202.0 |
| 2. Private, etc | 12,422.0 | 15,126.0 | 19,516.0 | 25,595.0 | 32,293.0 | 37,924.0 | 44,739.0 | 51,399.0 | 56,858.0 | 60,591.0 | 69,439.0 |
| a. Statistical discrepancy | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 3. General government | 1,997.0 | 2 556.0 | 3,277.0 | 5,148.0 | 6,452.0 | 7,229.0 | 8,077.0 | 9,122.0 | 10,893.0 | 11,329.0 | 11,764.0 |
| E.1. Gross domestic investment | 4,696.0 | 5,734.0 | 9,150.0 | 11,895.0 | 17,309.0 | 17,241.0 | 21,668.0 | 22,177.0 | 25,136.0 | 23,606.0 | 28,650.0 |
| 2. Fixed investment | -- | -- | 7,668.0 | 10,550.0 | 14,135.0 | 15,822.0 | 18,974.0 | 19,625.0 | 19,618.0 | 20,806.0 | 24,616.0 |
| 3. Increase in stocks | -- | -- | 1,482.0 | 1,345.0 | 3,175.0 | 1,419.0 | 2,695.0 | 2,552.0 | 5,518.0 | 2,800.0 | 4,035.0 |
| **Memorandum Items:** | | | | | | | | | | | |
| G.1. Net factor income | -336.0 | -462.0 | -1,484.0 | -2,011.0 | -1,925.0 | -3,036.0 | -3,360.0 | -4,168.0 | -3,932.0 | -4,053.0 | -6,041.0 |
| 2. Net current transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.0 | 54.0 | 68.0 | 91.0 | 184.0 |
| 3. Gross national product | 19,749.0 | 23,540.0 | 32,860.0 | 46,903.0 | 56,496.0 | 59,611.0 | 70,338.0 | 82,887.0 | 90,789.0 | 91,771.0 | 106,973.0 |
| H.1. Gross domestic saving | 5,665.0 | 6,321.0 | 11,551.0 | 18,171.0 | 19,676.0 | 17,494.0 | 20,881.0 | 26,534.0 | 26,970.0 | 23,903.0 | 31,812.0 |
| 2. Gross national saving | 5,330.0 | 5,858.0 | 10,067.0 | 16,160.0 | 17,751.0 | 14,458.0 | 17,531.0 | 22,421.0 | 23,106.0 | 19,942.0 | 25,955.0 |
| I.1. Exports of GNFS as per BOP | 4,513.0 | 4,974.0 | 9,629.0 | 13,849.0 | 15,034.0 | 13,394.0 | 17,490.0 | 21,876.0 | 21,513.0 | 19,547.0 | 30,958.0 |
| a. Difference with NA (%) | -7.0 | -7.0 | -5.0 | -17.0 | -9.0 | -14.0 | -17.0 | -5.0 | -1.0 | -8.0 | 4.0 |
| 2. Imports of GNFS as per BOP | 3,865.0 | 4,742.0 | 7,555.0 | 10,080.0 | 13,608.0 | 15,025.0 | 20,037.0 | 19,786.0 | 19,813.0 | 20,770.0 | 27,386.0 |
| a. Difference with NA (%) | 0.0 | 0.0 | -3.0 | 2.0 | -3.0 | 0.0 | -6.0 | 6.0 | 0.0 | 0.0 | 3.0 |
| 3. Net factor Inc. as per BOP | -678.0 | -867.0 | -1,484.0 | -2,011.0 | -1,941.0 | -1,980.0 | -3,319.0 | -4,166.0 | -3,934.0 | -4,125.0 | -7,203.0 |
| a. Diff. w/ NA (% of I.1) | 8.0 | 8.0 | 0.0 | 0.0 | 0.0 | -8.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.0 |
| 4. Net current transfers as per BOP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.0 | 54.0 | 68.0 | 91.0 | 184.0 |
| a. Diff. w/ NA (% of I.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Exchange rates:** | | | | | | | | | | | |
| J.1. IFS conversion rate | 415.0 | 442.1 | 623.1 | 627.0 | 631.8 | 661.4 | 909.3 | 1,025.9 | 1,110.6 | 1,282.6 | 1,643.8 |
| 2. IEC Conversión rate | 415.0 | 442.1 | 623.1 | 627.0 | 631.8 | 661.4 | 909.3 | 1,025.9 | 1,110.6 | 1,282.6 | 1,643.8 |
| **Memorandum Item** | | | | | | | | | | | |
| GDP at MP (Current Mill US$) | 48,396.1 | 54,298.2 | 35,122.6 | 78,013.3 | 92,474.0 | 94,715.2 | 81,052.4 | 84,857.1 | 85,288.0 | 74,710.1 | 68,751.5 |

Statistical Annex
Table 11.2

INDONESIA

COUNTRY ECONOMIC REPORT

National Accounts Summary at Constant 1983 Prices, 1977-1987

(In billions of national currency units)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Origin and Use of Resources** | | | | | | | | | | | |
| A.1. GDP at market prices | 54,023.5 | 58,189.9 | 61,777.0 | 66,674.9 | 71,613.2 | 71,377.3 | 73,697.7 | 78,144.5 | 80,119.7 | 83,318.3 | 86,127.6 |
| 2. Net indirect taxes | 2,275.6 | 2,494.6 | 2,347.3 | 2,228.7 | 2,147.6 | 2,430.3 | 2,547.0 | -- | -- | -- | -- |
| 3. GDP at factor cost | 51,747.9 | 55,695.3 | 59,429.7 | 64,446.1 | 69,465.6 | 68,947.0 | 71,150.7 | -- | -- | -- | -- |
| 4. Agriculture | 13,674.8 | 14,381.2 | 15,338.1 | 16,399.2 | 17,187.0 | 17,370.9 | 17,696.2 | 18,431.1 | 19,209.0 | 19,707.4 | 20,252.8 |
| 5. Industry | 23,820.1 | 24,619.1 | 25,575.3 | 27,544.1 | 28,947.2 | 26,679.4 | 27,300.7 | 29,503.1 | 29,761.6 | 31,066.1 | 31,566.8 |
| a. Manufacturing | 4,372.0 | 5,107.5 | 5,952.0 | 7,304.4 | 7,878.4 | 7,973.1 | 8,211.3 | 9,770.3 | 10,678.2 | 11,181.5 | 12,020.3 |
| b. Mining and quarrying | 16,691.4 | 16,363.8 | 16,092.6 | 16,077.8 | 16,340.1 | 13,876.2 | 13,967.9 | 14,788.7 | 13,980.5 | 14,629.7 | 13,983.0 |
| c. Other (by difference) | 2,756.8 | 3,147.8 | 3,530.7 | 4,161.9 | 4,728.7 | 4,830.1 | 5,121.5 | 4,944.1 | 5,102.9 | 5,254.9 | 5,563.5 |
| 6. Services, etc. | 16,528.6 | 19,189.6 | 20,863.6 | 22,731.5 | 25,478.9 | 27,326.9 | 28,700.7 | 30,210.2 | 31,149.0 | 32,544.7 | 34,307.9 |
| B.1. Resource balance | 13,191.3 | 12,061.3 | 11,263.8 | 11,316.4 | 1,566.6 | -646.5 | -787.4 | 4,018.3 | 1,919.3 | 2,838.7 | 5,652.5 |
| 2. Exports of GNFS | 24,015.5 | 24,254.9 | 24,810.4 | 26,182.0 | 21,456.7 | 19,524.1 | 20,447.7 | 20,562.6 | 18,915.1 | 21,636.5 | 25,279.2 |
| 3. Imports of GNFS | 10,824.2 | 12,193.6 | 13,546.6 | 14,865.6 | 19,890.1 | 20,170.6 | 21,235.1 | 16,544.3 | 16,995.8 | 18,797.8 | 19,626.7 |
| C.1. Domestic absorption | 40,832.1 | 46,128.6 | 50,513.2 | 55,358.4 | 70,046.6 | 72,023.8 | 74,485.1 | 74,126.2 | 78,200.4 | 80,479.6 | 80,475.1 |
| D.1. Total consumption, etc | 31,137.6 | 34,976.1 | 38,234.7 | 42,910.9 | 47,249.5 | 50,401.9 | 52,816.5 | 55,251.3 | 57,032.1 | 58,879.1 | 61,341.2 |
| 2. Private, etc | 2,6778.0 | 29,848.1 | 32,491.4 | 36,036.9 | 39,698.8 | 42,171.6 | 44,739.2 | 46,898.3 | 48,040.9 | 49,637.8 | 52,115.5 |
| a. Statistical discrepancy | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 3. General government | 4,359.6 | 5,128.0 | 5,743.3 | 6,874.0 | 7,550.7 | 8,230.3 | 8,077.3 | 8,353.0 | 8,991.2 | 9,241.3 | 9,225.7 |
| E.1. Gross domestic investment | 9,694.5 | 11,152.5 | 12,278.5 | 12,447.5 | 22,797.0 | 21,621.8 | 21,668.5 | 18,874.8 | 21,168.2 | 21,600.4 | 19,133.8 |
| 2. Fixed investment | -- | -- | 12,381.8 | 15,646.0 | 17,658.7 | 18,740.3 | 18,973.8 | 17,847.5 | 16,768.1 | 17,333.5 | 18,101.6 |
| 3. Increase in stocks | -- | -- | -103.3 | -3,198.5 | 5,138.3 | 2,881.5 | 2,694.7 | 1,027.3 | 4,400.1 | 4,266.9 | 1,032.2 |
| **Memorandum Items:** | | | | | | | | | | | |
| G.1. Net factor income | -4,452.5 | -5,039.6 | -6,031.6 | -5,686.4 | -4,942.4 | -2,995.9 | -3,359.7 | -3,702.1 | -3,580.4 | -3,650.7 | -4,454.2 |
| 2. Net current transfers | -- | -- | -- | -- | -- | -- | 9.1 | 48.8 | 57.3 | 79.2 | 140.3 |
| 3. Gross national product | 49,571.0 | 53,150.3 | 55,745.4 | 60,988.4 | 66,670.8 | 68,381.3 | 70,338.0 | 74,442.4 | 76,539.3 | 79,667.6 | 81,673.4 |
| H.1. Gross domestic saving | 12,414.6 | 12,665.3 | 16,478.4 | 21,886.0 | 26,151.7 | 21,960.5 | 20,881.1 | 22,745.2 | 22,739.1 | 21,868.7 | 21,464.6 |
| 2. Gross national saving | -- | -- | -- | -- | -- | -- | 17,530.5 | 19,091.9 | 19,216.0 | 18,297.2 | 17,150.7 |
| I.1. Capacity to import | 13,544.3 | 13,706.4 | 17,746.5 | 24,304.1 | 23,244.8 | 20,509.3 | 20,447.7 | 20,414.7 | 18,566.7 | 19,066.1 | 21,957.5 |
| 2. Terms of trade adjustment | -10,471.2 | -10,548.5 | -7,063.9 | -1,877.9 | 1,788.1 | 985.2 | 0.0 | -147.9 | -348.4 | -2570.4 | -3321.7 |
| 3. Gross domestic income | 3,552.3 | 47,641.4 | 54,713.1 | 64,796.9 | 73,401.3 | 72,362.5 | 73,697.7 | 77,996.6 | 79,771.3 | 80,747.8 | 82,805.9 |
| 4. Gross national income | 39,099.8 | 42,601.7 | 48,681.5 | 59,110.5 | 68,458.9 | 69,366.5 | 70,338.0 | 74,294.5 | 76,190.9 | 77,097.1 | 78,351.7 |
| J. GDP at current MP | 20,084.4 | 24,002.5 | 34,344.7 | 48,913.5 | 58,421.3 | 62,646.5 | 73,697.7 | 87,054.9 | 94,720.9 | 95,823.2 | 113,013.8 |

INDONESIA

COUNTRY ECONOMIC REPORT

Implicit Deflators for National Accounts, 1977-1987

(In national currency 1983 = 100)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Origin and Use of Resources** | | | | | | | | | | | |
| A.1. GDP at market prices | 37.2 | 41.2 | 55.6 | 73.4 | 81.6 | 87.8 | 100.0 | 111.4 | 118.2 | 115.0 | 131.2 |
| 2. Net indirect taxes | 37.2 | 41.2 | 55.6 | 73.4 | 81.6 | 87.8 | 100.0 | -- | -- | -- | -- |
| 3. GDP at factor cost | 37.2 | 41.2 | 55.6 | 73.4 | 81.6 | 87.8 | 100.0 | -- | -- | -- | -- |
| 4. Agriculture | 43.4 | 46.9 | 61.1 | 71.5 | 79.4 | 86.4 | 100.0 | 110.3 | 116.7 | 125.3 | 144.9 |
| 5. Industry | 28.9 | 34.8 | 50.6 | 74.1 | 83.2 | 89.0 | 100.0 | 110.1 | 115.6 | 96.8 | 119.8 |
| a. Manufacturing | 48.4 | 55.1 | 67.3 | 87.0 | 89.7 | 93.8 | 100.0 | 113.4 | 120.8 | 121.5 | 132.5 |
| b. Mining and quarrying | 21.1 | 26.0 | 42.7 | 69.9 | 80.9 | 87.6 | 100.0 | 108.1 | 110.2 | 70.2 | 105.5 |
| c. Other (by difference) | 45.1 | 47.6 | 58.8 | 67.6 | 80.2 | 85.1 | 100.0 | 109.5 | 119.2 | 118.4 | 128.2 |
| 6. Services, etc. | 44.0 | 45.2 | 57.6 | 73.8 | 81.2 | 87.5 | 100.0 | 113.3 | 121.7 | 126.1 | 133.7 |
| B.1. Terms of Trade (Px/Pm) | 56.4 | 56.5 | 71.5 | 92.8 | 108.3 | 105.0 | 100.0 | 99.3 | 98.2 | 88.1 | 86.9 |
| 2. Exports of GNFS | 20.1 | 21.9 | 40.9 | 61.7 | 76.4 | 78.5 | 100.0 | 111.8 | 114.6 | 97.8 | 117.8 |
| 3. Imports of GNFS | 35.6 | 38.8 | 57.2 | 66.5 | 70.6 | 74.7 | 100.0 | 112.6 | 116.7 | 111.0 | 135.6 |
| C.1. Domestic absorption | 46.8 | 50.8 | 63.2 | 77.0 | 80.0 | 86.6 | 100.0 | 111.6 | 118.8 | 118.7 | 136.5 |
| D.1. Total consumption, etc | 46.3 | 50.6 | 59.6 | 71.6 | 82.0 | 89.6 | 100.0 | 109.5 | 118.8 | 122.1 | 132.4 |
| 2. Private, etc | 46.4 | 50.7 | 60.1 | 71.0 | 81.3 | 89.9 | 100.0 | 109.6 | 118.4 | 122.1 | 133.2 |
| 3. General government | 45.8 | 49.9 | 57.1 | 74.9 | 85.4 | 87.8 | 100.0 | 109.2 | 121.2 | 122.6 | 127.5 |
| E.1. Gross domestic investment | 48.4 | 51.4 | 74.5 | 95.6 | 75.9 | 79.7 | 100.0 | 117.5 | 118.7 | 109.3 | 149.7 |
| 2. Fixed investment | -- | -- | 61.9 | 67.4 | 80.0 | 84.4 | 100.0 | 110.0 | 117.0 | 120.0 | 136.0 |
| 3. Increase in stocks | -- | -- | -1,434.5 | -42.0 | 61.8 | 49.2 | 100.0 | 248.4 | 125.4 | 65.6 | 390.9 |
| **Memorandum Items:** | | | | | | | | | | | |
| F.1. Net factor income | 7.5 | 9.2 | 24.6 | 35.4 | 38.9 | 101.3 | 100.0 | 112.6 | 109.8 | 111.0 | 135.6 |
| 2. Net current transfers | -- | -- | -- | -- | -- | -- | 100.0 | 111.4 | 118.2 | 115.0 | 131.2 |
| 3. Gross national product | 39.8 | 44.3 | 58.9 | 76.9 | 84.7 | 87.2 | 100.0 | 111.3 | 118.6 | 115.2 | 131.0 |
| G.1. Gross domestic saving | 45.6 | 49.9 | 70.1 | 83.0 | 75.2 | 79.7 | 100.0 | 116.7 | 118.6 | 109.3 | 148.2 |
| 2. Gross national saving | -- | -- | -- | -- | -- | -- | 100.0 | 117.4 | 120.2 | 109.0 | 151.3 |
| H.1. IEC merch. trade indices | | | | | | | | | | | |
| 2. X prices (Px) US$, 1980=100 | 47.8 | 48.3 | 69.2 | 100.0 | 106.4 | 97.4 | 88.9 | 87.7 | 82.9 | 56.7 | 69.3 |
| 3. M prices (Pm) US$, 1980=100 | 63.7 | 73.5 | 84.7 | 100.0 | 101.4 | 96.7 | 93.4 | 91.4 | 89.7 | 88.8 | 102.7 |
| 4. Terms of Trade (Px/Pm) | 75.1 | 65.7 | 81.6 | 100.0 | 104.9 | 100.8 | 95.2 | 95.9 | 92.4 | 63.9 | 67.5 |

INDONESIA

COUNTRY ECONOMIC REPORT

## Balance of Payments Summary at Current Prices, 1977-1987

(In millions of US dollars)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| A.1. Exports of GNFS | 10,874.3 | 11,251.7 | 15,453.6 | 22,088.3 | 23,797.0 | 20,251.0 | 19,235.0 | 21,324.0 | 19,371.0 | 15,240.0 | 18,833.0 |
| 2. Merchandise (FOB) | 10,759.9 | 11,018.9 | 15,138.4 | 21,761.6 | 23,348.0 | 19,747.0 | 18,689.0 | 20,754.0 | 18,527.0 | 14,396.0 | 17,991.0 |
| a. of which: Manufacture | 191.2 | 225.5 | 488.4 | 533.1 | 732.5 | 867.6 | 1,617.7 | 2,166.0 | 2,460.9 | 2,961.0 | 4,826.4 |
| 3. Non-factor services | 114.4 | 232.9 | 315.2 | 326.7 | 449.0 | 504.0 | 546.0 | 570.0 | 844.0 | 844.0 | 842.0 |
| B.1. Imports of GNFS | 9,312.1 | 10,727.1 | 12,125.4 | 16,076.5 | 21,540.0 | 22,716.0 | 22,037.0 | 19,286.0 | 17,840.0 | 16,194.0 | 16,660.0 |
| 2. Merchandise (FOB) | 7,473.3 | 8,382.1 | 9,240.4 | 12,598.8 | 16,542.0 | 17,854.0 | 17,726.0 | 15,047.0 | 12,705.0 | 11,938.0 | 14,263.0 |
| a. of which: Manufacture | 5,680.9 | 6,451.6 | 6,902.8 | 9,213.4 | 12,873.9 | 13,318.2 | 12,365.2 | 11,383.4 | 8,954.3 | 10,141.7 | 11,247.1 |
| 3. Non-factor services | 1,838.8 | 2,345.0 | 2,885.0 | 3,477.7 | 4,998.0 | 4,862.0 | 4,311.0 | 4,239.0 | 5,135.0 | 4,256.0 | 2,397.0 |
| C.1. Resource balance | 1,562.1 | 524.6 | 3,328.2 | 6,011.8 | 2,257.0 | -2,465.0 | -2,802.0 | 2,038.0 | 1,531.0 | -954.0 | 2,173.0 |
| D.1. Net factor income | -1,633.4 | -1,960.6 | -2,382.4 | -3,207.0 | -[illegible],073.0 | -2,993.0 | -3,650.0 | -4,061.0 | -3,542.0 | -3,216.0 | -4,383.0 |
| 2. Factor receipts | 51.4 | 57.6 | 82.7 | 119.7 | 1,081.0 | 1,023.0 | 631.0 | 828.0 | 768.0 | 732.0 | 709.0 |
| a. of which labor income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 3. Factor payments | 1,684.7 | 2,018.2 | 2,465.1 | 3,326.7 | 4,154.0 | 4,016.0 | 4,281.0 | 4,889.0 | 4,310.0 | 3,948.0 | 5,092.0 |
| a. of wh. LT interest (DRS) | 609.4 | 719.8 | 1,048.9 | 1,181.1 | 1,431.4 | 1,568.3 | 1,635.5 | 1,907.6 | 1,920.1 | 2,360.3 | 2,747.9 |
| E.1. Net current transfers (prv) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 | 53.0 | 61.0 | 71.0 | 112.0 |
| 2. Transfer receipts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 | 53.0 | 61.0 | 71.0 | 112.0 |
| a. of wh. workers remit. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 10.0 | 53.0 | 61.0 | 71.0 | 112.0 |
| 3. Transfer payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| F.1. Curr.Acct.Bal exc.off.trans | -71.2 | -1,436.0 | 945.7 | 2,804.8 | -816.0 | -5,458.0 | -6,442.0 | -1,970.0 | -1,950.0 | - 4,099.0 | -2,098.0 |
| G.1. Long-term capital inflow | 1,515.4 | 1,600.1 | 1,348.8 | 2,348.9 | 2,401.0 | 5,230.0 | 5,427.0 | 3,095.0 | 1,907.0 | 3,070.0 | 3,134.0 |
| 2. Net direct investment | 234.7 | 279.2 | 226.1 | 180.0 | 133.0 | 225.0 | 292.0 | 222.0 | 310.0 | 258.0 | 425.0 |
| 3. Net official transfers | 24.5 | 13.8 | 29.7 | 201.0 | 250.0 | 134.0 | 104.0 | 114.0 | 27.0 | 188.0 | 261.0 |
| 4. Net LT loans (DRS) | 1,356.0 | 864.7 | 658.6 | 1,617.5 | 2,056.9 | 2,710.0 | 3,842.3 | 2,591.6 | 1,278.1 | 1,802.2 | 2,456.5 |
| a. disbursements | 2,726.9 | 2,974.8 | 2,670.0 | 3,245.6 | 3,845.5 | 4,650.4 | 5,865.0 | 4,884.2 | 4,385.0 | 4,668.5 | 6,190.9 |
| b. repayments | 1,370.9 | 2,110.1 | 2,011.4 | 1,628.1 | 1,788.6 | 1,940.4 | 2,022.7 | 2,292.6 | 3,106.9 | 2,866.3 | 3,734.4 |
| 5. Other LT inflows (net) | -99.7 | 442.4 | 434.4 | 350.4 | -38.9 | 2,161.0 | 1,188.7 | 167.4 | 291.9 | 821.8 | -8.5 |
| H.1. Other items (Net) | -448.3 | 7.3 | -850.2 | -2,725.4 | -1,959.0 | -1,625.0 | 1,198.5 | -143.9 | 553.2 | 25.6 | 108.0 |
| 2. Net short-term capital | -393.0 | 141.4 | -447.7 | -818.2 | -290.0 | 526.0 | 731.0 | 476.0 | -98.0 | 1,295.0 | -243.0 |
| 3. Capital flows n.e.i. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 4. Errors and omissions | -55.3 | -134.2 | -402.6 | -1,907.3 | -1,669.0 | -2,151.0 | 467.5 | -619.9 | 651.2 | -1,269.4 | 351.0 |
| I.1. Changes in net reserves | -995.9 | -171.3 | -1,444.4 | -2,428.2 | 374.0 | 1,853.0 | -183.5 | -981.1 | -510.2 | 1,003.4 | -1,144.0 |
| 2. Use of IMF credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 445.1 | -31.9 | -367.0 | 5.2 | 600.0 |
| 3. Other reserve changes | -995.9 | -171.3 | -1,444.4 | -2,428.2 | 374.0 | 1,853.0 | -628.5 | -949.1 | -143.2 | 998.2 | -1,744.0 |
| Memorandum Items: | | | | | | | | | | | |
| J.1. X of Goods (UN Trade Systm) | 10,852.6 | 11,643.2 | 15,590.1 | 21,908.9 | 22,260.3 | 19,747.0 | 20,961.0 | 20,345.0 | 18,711.0 | 13,567.0 | 17,650.7 |
| a. Difference w/ BOP (%) | 1.0 | 6.0 | 3.0 | 1.0 | -5.0 | 0.0 | 12.0 | -2.0 | 1.0 | -6.0 | -2.0 |
| 2. M of Goods (UN Trade Systm) | 8,495.0 | 9,493.0 | 1,0364.0 | 14,139.0 | 18,527.0 | 19,996.0 | 19,853.0 | 16,853.0 | 14,23[illegible].0 | 13,103.0 | 14,452.6 |
| a. Difference w/ BOP (%) | 14.0 | 13.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 10.0 | 1.0 |
| K.1. Holdings of Reserves (IFS line 11.d+gold at LON.pr.) | 2,536.6 | 2,676.7 | 4,205.2 | 6,[illegible]03.0 | 6,248.0 | 4,562.7 | 4,902.6 | 5,730.0 | 5,989.2 | 5,264.7 | 7,094.9 |

# INDONESIA

## COUNTRY ECONOMIC REPORT

### National Accounts Summary at Constant 1980 Prices, 1977-1987

(In billions of national currency units)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Origin and Use of Resources** | | | | | | | | | | | |
| A.1. GDP at market prices | 39,627.0 | 42,688.7 | 45,317.2 | 48,913.5 | 52,544.7 | 52,360.6 | 54,067.8 | 57,339.3 | 58,780.1 | 61,133.3 | 63,196.0 |
| 2. Net indirect taxes | 1,669.4 | 1,830.1 | 1,722.0 | 1,635.0 | 1,575.5 | 1,782.9 | 1,868.5 | -- | -- | -- | -- |
| 3. GDP at factor cost | 37,957.6 | 40,858.6 | 43,595.1 | 47,278.5 | 50,969.2 | 50,577.7 | 52,199.2 | -- | -- | -- | -- |
| 4. Agriculture | 9,777.5 | 10,282.6 | 10,966.8 | 11,725.5 | 12,288.8 | 12,420.3 | 12,652.9 | 13,178.3 | 13,734.5 | 14,090.9 | 14,480.8 |
| 5. Industry | 17,646.0 | 18,237.9 | 18,946.2 | 20,404.7 | 21,444.1 | 19,764.1 | 20,224.4 | 21,855.9 | 22,047.4 | 23,013.8 | 23,384.7 |
| a. Manufacturing | 3,802.7 | 4,442.5 | 5,177.1 | 6,353.4 | 6,852.7 | 6,935.0 | 7,142.2 | 8,498.3 | 9,287.9 | 9,725.7 | 10,455.3 |
| b. Mining and quarrying | 11,667.2 | 11,438.2 | 11,248.6 | 11,238.3 | 11,421.7 | 9,699.4 | 9,763.5 | 10,337.2 | 9,772.3 | 10,226.1 | 9,774.0 |
| c. Other (by difference) | 2,176.0 | 2,357.1 | 2,520.5 | 2,813.0 | 3,169.8 | 3,129.7 | 3,318.7 | 3,020.5 | 2,987.2 | 3,062.0 | 3,155.4 |
| 6. Services, etc. | 12,203.5 | 14,168.2 | 15,404.2 | 16,783.3 | 18,811.8 | 20,176.2 | 21,190.5 | 22,305.0 | 22,998.1 | 24,028.7 | 25,330.5 |
| B.1. Resource balance | 7,626.8 | 6,863.9 | 6,307.0 | 6,276.6 | 18.4 | -1,361.1 | -1,498.9 | 1,691.4 | 374.1 | 855.7 | 2,553.2 |
| 2. Exports of GNFS | 14,824.8 | 14,972.6 | 15,315.5 | 16,162.2 | 13,245.3 | 12,052.3 | 12,622.4 | 12,693.3 | 11,676.3 | 13,356.3 | 15,604.9 |
| 3. Imports of GNFS | 7,198.1 | 8,108.7 | 9,008.5 | 9,885.6 | 13,226.9 | 13,413.4 | 14,121.3 | 11,001.9 | 11,302.2 | 12,500.5 | 13,051.7 |
| C.1. Domestic absorption | 32,000.3 | 35,824.8 | 39,010.2 | 42,636.9 | 52,526.3 | 53,721.8 | 55,566.7 | 55,647.9 | 58,406.0 | 60,277.6 | 60,642.8 |
| D.1. Total consumption, etc | 22,736.5 | 25,167.8 | 27,277.1 | 30,742.4 | 30,742.1 | 33,060.5 | 34,860.8 | 37,611.6 | 38,178.2 | 39,636.8 | 42,359.1 |
| 2. Private, etc | 19,471.7 | 21,327.6 | 22,976.2 | 25,594.7 | 25,087.6 | 26,897.2 | 28,812.0 | 31,356.4 | 31,445.0 | 32,716.3 | 35,450.3 |
| a. Statistical discrepancy | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 3. General government | 3,264.8 | 3,840.2 | 4,301.0 | 5,147.7 | 5,654.5 | 6,163.4 | 6,048.8 | 6,255.3 | 6,733.2 | 6,920.5 | 6,908.8 |
| E.1. Gross domestic investment | 9,263.8 | 10,657.0 | 11,733.0 | 11,894.5 | 21,784.2 | 20,661.2 | 20,705.8 | 18,036.3 | 20,227.8 | 20,640.8 | 18,283.7 |
| 2. Fixed investment | -- | -- | 8,348.8 | 10,549.8 | 11,906.9 | 12,636.2 | 12,793.7 | 12,034.2 | 11,306.4 | 11,687.7 | 12,205.6 |
| 3. Increase in stocks | -- | -- | 3,384.2 | 1,344.7 | 9,877.3 | 8,025.0 | 7,912.2 | 6,002.0 | 8,921.4 | 8,953.1 | 6,078.2 |
| **Memorandum Items:** | | | | | | | | | | | |
| G.1. Net factor income | -1,574.4 | -1,782.0 | -2,132.8 | - 2,010.7 | -1,747.6 | -1,059.4 | -1,188.0 | -1,309.0 | -1,266.0 | -1,290.9 | -1,575.0 |
| 2. Net current transfers | 20.1 | 10.8 | 24.4 | 126.0 | 142.0 | 74.1 | 6.7 | 35.8 | 42.0 | 58.1 | 102.9 |
| 3. Gross national product | 38,052.6 | 40,906.7 | 43,184.4 | 46,902.8 | 50,797.1 | 51,301.3 | 52,879.8 | 56,030.2 | 57,514.1 | 59,842.5 | 61,621.0 |
| H.1. Gross domestic saving | 11,072.7 | 11,663.0 | 14,525.9 | 18,171.1 | 24,015.1 | 20,886.3 | 20,182.2 | 20,610.1 | 21,272.4 | 20,819.2 | 19,833.7 |
| 2. Gross national saving | 9,518.4 | 9,891.8 | 12,417.6 | 16,286.4 | 22,409.5 | 19,901.2 | 19,000.9 | 19,336.9 | 20,048.5 | 19,586.4 | 18,361.7 |
| I.1. Capacity to import | 9,007.0 | 9,114.7 | 11,801.4 | 16,162.2 | 15,457.8 | 13,638.7 | 13,597.7 | 13,575.8 | 12,346.9 | 12,678.9 | 14,601.7 |
| 2. Terms of trade adjustment | -5,817.9 | -5,857.9 | -3,514.1 | 0.0 | 2,212.5 | 1,586.4 | 975.3 | 882.4 | 670.5 | -677.4 | -1,003.2 |
| 3. Gross domestic income | 33,809.1 | 36,830.8 | 41,803.1 | 48,913.5 | 54,757.2 | 53,947.0 | 55,043.0 | 58,221.7 | 59,450.6 | 60,456.0 | 62,192.8 |
| 4. Gross national income | 32,234.7 | 35,048.8 | 39,670.3 | 46,902.8 | 53,009.6 | 52,887.7 | 53,835.1 | 56,912.7 | 58,184.6 | 59,165.1 | 60,617.8 |

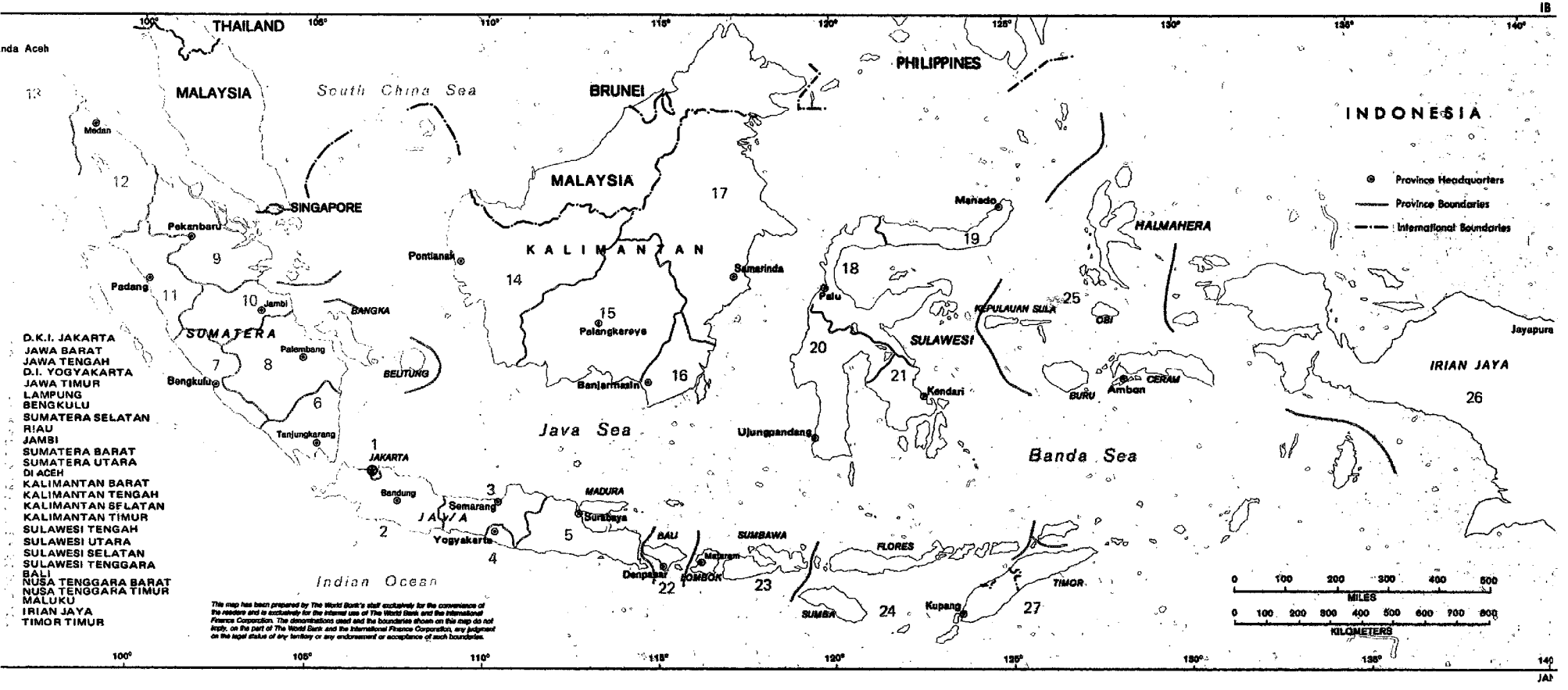
INDONESIA

COUNTRY ECONOMIC REPORT

Implicit Deflators for National Accounts, 1977-1987

(In national currency 1980 = 100)

| | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Origin and Use of Resources** | | | | | | | | | | | |
| A.1. GDP at market prices | 50.7 | 56.2 | 75.8 | 100.0 | 111.2 | 119.6 | 136.3 | 151.8 | 161.1 | 156.7 | 178.8 |
| 2. Net indirect taxes | 50.7 | 56.2 | 75.8 | 100.0 | 111.2 | 119.6 | 136.3 | -- | -- | -- | -- |
| 3. GDP at factor cost | 50.7 | 56.2 | 75.8 | 100.0 | 111.2 | 119.6 | 136.3 | -- | -- | -- | -- |
| 4. Agriculture | 60.8 | 65.6 | 85.5 | 100.0 | 111.1 | 120.8 | 139.9 | 154.3 | 163.2 | 175.3 | 202.6 |
| 5. Industry | 39.0 | 47.0 | 68.3 | 100.0 | 112.3 | 120.1 | 135.0 | 148.6 | 156.0 | 130.7 | 161.7 |
| a. Manufacturing | 55.6 | 63.4 | 77.3 | 100.0 | 103.1 | 107.9 | 115.0 | 130.4 | 138.9 | 139.7 | 152.4 |
| b. Mining and quarrying | 30.2 | 37.3 | 61.0 | 100.0 | 115.7 | 125.3 | 143.1 | 154.6 | 157.6 | 100.5 | 150.9 |
| c. Other (by difference) | 57.2 | 63.6 | 82.3 | 100.0 | 119.6 | 131.3 | 154.3 | 179.2 | 203.6 | 203.2 | 226.1 |
| 6. Services, etc. | 59.5 | 61.3 | 78.1 | 100.0 | 110.0 | 118.5 | 135.4 | 153.5 | 164.9 | 170.8 | 181.1 |
| B.1. Terms of Trade (Px/Pm) | 60.8 | 60.9 | 77.1 | 100.0 | 116.7 | 113.2 | 107.7 | 107.0 | 105.7 | 94.9 | 93.6 |
| 2. Exports of GNFS | 32.5 | 35.5 | 66.3 | 100.0 | 123.8 | 127.2 | 162.0 | 181.1 | 185.6 | 158.5 | 190.8 |
| 3. Imports of GNFS | 53.6 | 58.3 | 86.0 | 100.0 | 106.1 | 112.4 | 150.4 | 169.3 | 175.5 | 166.9 | 203.9 |
| C.1. Domestic absorption | 59.7 | 65.4 | 81.9 | 100.0 | 106.7 | 116.1 | 134.0 | 148.6 | 159.0 | 158.5 | 181.1 |
| D.1. Total consumption | 63.4 | 70.3 | 83.6 | 100.0 | 126.0 | 136.6 | 151.5 | 160.9 | 177.5 | 181.4 | 191.7 |
| 2. Private | 61.2 | 66.6 | 76.2 | 100.0 | 114.1 | 117.3 | 133.5 | 145.8 | 161.8 | 163.7 | 170.3 |
| 3. General government | 63.8 | 70.9 | 84.9 | 100.0 | 128.7 | 141.0 | 155.3 | 163.9 | 180.8 | 185.2 | 195.9 |
| E.1. Gross domestic investment | 50.7 | 53.8 | 78.0 | 100.0 | 79.5 | 83.4 | 104.6 | 123.0 | 124.3 | 114.4 | 156.7 |
| 2. Fixed investment | -- | -- | 91.8 | 100.0 | 118.7 | 125.2 | 148.3 | 163.1 | 173.5 | 178.0 | 201.7 |
| 3. Increase in stocks | -- | -- | 43.8 | 100.0 | 32.1 | 17.7 | 34.1 | 42.5 | 61.9 | 31.3 | 66.4 |
| **Memorandum Items:** | | | | | | | | | | | |
| F.1. Net factor income | 21.3 | 25.9 | 69.6 | 100.0 | 110.1 | 286.6 | 282.8 | 318.4 | 310.6 | 313.9 | 383.5 |
| 2. Net current transfers | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 136.3 | 151.9 | 161.2 | 156.8 | 178.9 |
| 3. Gross national product | 51.9 | 57.5 | 76.1 | 100.0 | 111.2 | 116.2 | 133.0 | 147.9 | 157.9 | 153.4 | 173.6 |
| G.1. Gross domestic saving | 51.2 | 54.2 | 79.5 | 100.0 | 81.9 | 83.8 | 103.5 | 128.7 | 126.8 | 114.8 | 160.4 |
| 2. Gross national saving | 56.0 | 59.2 | 81.1 | 99.2 | 79.2 | 72.7 | 92.3 | 115.9 | 115.2 | 101.8 | 141.4 |
| H.1. IEC merch. trade indices | | | | | | | | | | | |
| 2. X prices (Px) US$, 1980=100 | 47.8 | 48.3 | 69.2 | 100.0 | 106.4 | 97.4 | 88.9 | 87.7 | 82.9 | 56.7 | 69.3 |
| 3. M prices (Pm) US$, 1980=100 | 63.7 | 73.5 | 84.7 | 100.0 | 101.4 | 96.7 | 93.4 | 91.4 | 89.7 | 88.8 | 102.7 |
| 4. Terms of Trade (Px/Pm) | 75.1 | 65.7 | 81.6 | 100.0 | 104.9 | 100.8 | 95.2 | 95.9 | 92.4 | 63.9 | 67.5 |


IB
THAILAND
MALAYSIA
South China Sea
BRUNEI
PHILIPPINES
INDONESIA
SINGAPORE
Medan
Pekanbaru
Padang
Jambi
Palembang
Bengkulu
Tanjungkarang
SUMATERA
BANGKA
BELITUNG
Pontianak
KALIMANTAN
Palangkaraya
Banjarmasin
Samarinda
Palu
Manado
HALMAHERA
KEPULAUAN SULA
OBI
SULAWESI
Kendari
Ujungpandang
BURU
CERAM
Ambon
Jayapura
IRIAN JAYA
Java Sea
Banda Sea
JAKARTA
Bandung
Semarang
JAVA
Yogyakarta
MADURA
Surabaya
BALI
Denpasar
LOMBOK
Mataram
SUMBAWA
FLORES
SUMBA
Kupang
TIMOR
Indian Ocean
Province Headquarters
Province Boundaries
International Boundaries
0 100 200 300 400 500
MILES
0 100 200 300 400 500 600 700 800
KILOMETERS
D.K.I. JAKARTA
JAWA BARAT
JAWA TENGAH
D.I. YOGYAKARTA
JAWA TIMUR
LAMPUNG
BENGKULU
SUMATERA SELATAN
RIAU
JAMBI
SUMATERA BARAT
SUMATERA UTARA
DI ACEH
KALIMANTAN BARAT
KALIMANTAN TENGAH
KALIMANTAN SELATAN
KALIMANTAN TIMUR
SULAWESI TENGAH
SULAWESI UTARA
SULAWESI SELATAN
SULAWESI TENGGARA
BALI
NUSA TENGGARA BARAT
NUSA TENGGARA TIMUR
MALUKU
IRIAN JAYA
TIMOR TIMUR
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