

Report No. 5597-IND

Indonesia

Policies for Growth and Employment

Part I — Economic Performance and Policy Priorities

Part II — Employment Trends and Outlook

April 23, 1985

East Asia and Pacific Regional Office

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CURRENCY EQUIVALENTS

Before November 15, 1978

US\$1.00 = Rp 415

Annual Averages 1979-84

1979
1980
1981
1982
1983
1984

US\$1.00 = Rp 623
US\$1.00 = Rp 627
US\$1.00 = Rp 632
US\$1.00 = Rp 661
US\$1.00 = Rp 909 ^{/1}
US\$1.00 = Rp 1,026

April 23, 1985

US\$1.00 = Rp 1,106

FISCAL YEAR

Government
Bank Indonesia
State Banks

-
-
-

April 1 to March 31
April 1 to March 31
January 1 to December 31

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

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ABSTRACT : Part I of this report reviews recent economic performance against the background of the adjustment measures effected over the past three years; assesses the country's economic prospects in the context of a ten year framework; and identifies some of the policy areas that are of key importance in meeting Indonesia's development goals. Part II focuses on the outlook for employment over the next decade, and analyzes the impact of alternative growth and policy scenarios on labor absorption and incomes.

INDONESIA

POLICIES FOR GROWTH AND EMPLOYMENT

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This report was prepared in the World Bank's Jakarta Office under the direction of Javad Khalilzadeh-Shirazi. The contributors to Part I were Frederick Kilby, Vikram Nehru, Para Suriyaarachchi (Resident Staff in Indonesia) and Mark Baird (Indonesia Division). Part II was prepared by Michael Walton, Ho-Shik Kim (Indonesia Division) and Chris Manning (consultant). A draft of the report was discussed with the Government in April 1985.

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LIST OF ABBREVIATIONS AND ACRONYMS

ASKRINDO	- Asuransi Kredit Indonesia - State Credit Insurance Agency
BAPINDO	- Bank Pembangunan Indonesia - Development Bank of Indonesia
BAPPENAS	- Badan Perencanaan Pembangunan Nasional - National Development Planning Board
BI	- Bank Indonesia
BKPM	- Badan Koordinasi Penanaman Modal - Investment Coordinating Board
BPS	- Biro Pusat Statistik - Central Bureau of Statistics
BRI	- Bank Rakyat Indonesia - People's Bank of Indonesia
BULOG	- Badan Urusan Logistik - National Logistics Agency
DIP	- Daftar Isian Proyek - Project Expenditure Authorization
IGGI	- Inter-Governmental Group on Indonesia
INPRES	- Instruksi Presiden - Presidential Instruction (Local Public Works Programs)
IRRI	- International Rice Research Institute
KEPPRES	- Keputusan Presiden - Presidential Decree
KIK	- Kredit Investasi Kecil - Small Investment Credit
KMKP	- Kredit Modal Kerja Permanen - Small Permanent Working Capital Credit
MMS	- Money Market Securities
PERTAMINA	- Pertambangan Minyak Nasional - National Petroleum Corporation
PLN	- Perusahaan Umum Listrik Negara - State Electricity Company
PERUMTEL	- Perusahaan Umum Telekomunikasi - State Telecommunication Company
PUSRI	- Pupuk Sriwijaya - Fertilizer Company
REPELITA III	- Rencana Pembangunan Lima Tahun ke III - Third Development Plan - 1979/80-1983/84
REPELITA IV	- Rencana Pembangunan Lima Tahun ke IV - Fourth Development Plan - 1984/85-1988/89
SAKERNAS	- Survey Angkatan Kerja Nasional - National Labor Force Survey
SBI	- Sertifikat Bank Indonesia - Bank Indonesia Certificate
SEKNEG	- Sekretariat Negara - State Secretariat
SUSENAS	- Survey Sosial Ekonomi Nasional - National Household Income and Expenditure Survey

Note: The report uses the convention of denoting Fiscal Years (FY) with a "/" while period averages are shown by a "-"; i.e. 1983/84 refers to FY1983 and 1983-84 refers to the period 1983 and 1984.

OVERVIEW

Over the past two years Indonesia has made major progress in adjusting to the weakening of the international oil market. The stabilization and adjustment measures adopted in early 1983 have brought gains on a broad front, including a stronger balance of payments, enhanced domestic resource mobilization and reduced inflation. A particularly impressive achievement has been the reduction of the current account deficit from 8.5% of GNP in 1982/83 to an estimated 2.4% in 1984/85. At the same time, the adjustment has entailed some costs, particularly the decline in fixed investment, sluggish recovery in manufacturing, and the faltering of the construction sector. However, a serious deterioration of the employment situation was prevented by a strong performance in agricultural incomes and non-oil exports.

In the years ahead, Indonesia faces the major challenge of generating a pattern and pace of economic growth which would provide adequate employment opportunities and earnings for a rapidly expanding labor force. This challenge must be met in a less favorable international environment: Indonesia is likely to face adverse shifts in external terms of trade, with slowly growing and possibly volatile oil revenues in the remainder of this decade.

There is a significant risk of a worsening of employment prospects, but the base case scenario of the report illustrates that the dual challenge of growth and employment could be effectively met, provided appropriate macroeconomic and employment policies are pursued. The external constraint, however, mandates continued restraint in external borrowing in order to ensure that the debt-service ratio remains within manageable limits. The medium term projections of Indonesia's economic outlook also underscore the importance of vigorous growth of non-oil exports.

The report identifies some of the policy areas that are of key importance in meeting Indonesia's development goals. From the point of view of accelerating economic growth and structural transformation, ensuring external payments stability and enhancing employment prospects, it is essential to develop a broad-based and internationally competitive industrial sector through closer attention to efficiency issues on a broad front, including industrial and trade policy, the banking system and public investment. Efficiency improvements in production and distribution would reduce costs, lower prices, and expand the domestic market. Without this, the required growth of non-oil exports will be difficult to achieve. A key area deserving immediate attention is project implementation -- where slippages can often increase project costs and reduce benefits by delaying their realization.

In addition to appropriate general economic policies, policy areas that can have a major impact on employment generation include: an appropriate pattern of public expenditure; continued priority for agricultural income growth, both on and off Java; careful implementation of the transmigration program, with close coordination of investments in resettlements, tree crops, irrigation and livestock to ensure sustainable incomes for transmigrant families; and a supportive environment for urban informal sector activities. The report stresses that in terms of their implications for government policy, there is a basic consistency among the objectives of growth, employment generation and external payments stability.

SUMMARY AND CONCLUSIONS

Recent Economic Performance and Policies

The Background of Adjustment

i. Over the past two years, Indonesia has made major progress in adjusting to a less favorable resource position stemming from the weakening of the international oil market and the decline in oil prices. During 1983, it initiated a set of decisive stabilization and adjustment measures, including the adoption of an austerity budget for 1983/84, a sharp reduction in subsidies, a drastic rephasing of its public sector investment program, a 28% devaluation of the Rupiah, a major reform of the financial sector, and an overhaul of the tax system. The Government's actions, aided by the recovery of industrial economies, brought about a remarkable improvement in economic performance in 1983/84: non-oil exports increased by 37%; imports fell by 12%; the current account deficit was reduced to 6.0% of GNP (from 8.5% in 1982/83); and the overall fiscal deficit fell to 1.9% of GNP (from 6.3% in the previous year).

Recent Performance

ii. This process of adjustment and consolidation was sustained during 1984, and a successful effort was made to prevent backsliding on the major reforms, particularly in the financial sector and in taxation. Performance in most macroeconomic areas was impressive in 1984/85: the current account deficit fell further, to an estimated 2.4% of GNP; government savings rose by 38%; and non-oil/LNG GDP increased by 4.4% (in 1981 prices). The inflation rate decelerated sharply after March 1984, to an annual rate of less than 4%.

iii. The improvement in the external payments position in 1984/85 took place mainly in non-oil transactions. The non-oil import bill was significantly reduced, primarily due to lower imports of capital goods and food. While export earnings from oil and LNG were essentially unchanged from the previous year's level, a \$500 million increase in non-oil exports helped to raise total export earnings above the previous year's level. This rise in non-oil exports was broad based. Amongst manufactured exports, most of the increase originated from plywood (where substantial new capacity came on stream) and textiles. Total net foreign exchange reserves increased to about \$10 billion, equivalent to over seven months' imports.

iv. The authorities adopted a cautious, mildly expansionary fiscal stance in the 1984/85 budget, with a programmed overall budget deficit equivalent to almost 4% of GNP. However, World Bank staff estimates of the budget outcome indicate that the overall budget was in approximate balance. Total revenues are estimated to have exceeded the target by about 10% in nominal terms, but expenditures fell short of the target by about 8%. In particular, public

investment outlays are estimated to have fallen due to project implementation problems. Thus, government savings rose by 38%. However, the 1984/85 budget's impact on the domestic economy was roughly the same as in the previous year, as the Government's net domestic expenditures, as a percent of GNP, remained unchanged at 9.5%.

v. Overall GDP growth in 1984 is estimated at 6.5% (in 1931 prices) with more than half of this growth stemming from oil, LNG and refining. The non-oil/LNG GDP growth of 4.4% was equal to that in 1983, but still well below the average of 7.6% p.a. during the 1970s. There were continued impressive gains in agriculture, which grew at about 5%; rice production increased by 7%, leading to self sufficiency - a milestone in Indonesia's agricultural development. The growth rate of manufacturing (excluding LNG and refining) recovered to 4.7%, although in several subsectors there was a decline in, or stagnation of, output. Activity in the construction sector stagnated.

vi. The stabilization and adjustment measures have caused some stresses in the economy, particularly in the manufacturing sector. Private fixed investment in manufacturing declined in 1984 for a variety of reasons, including widespread excess capacity and uncertainties associated with the implementation of some of the new policies. Recent additions to production capacity, installed on the basis of earlier expectations of continued rapid growth in domestic demand, remained seriously underutilized. Moreover, profit margins were eroded by cost increases and higher debt servicing associated with the 1983 devaluation, sharply higher domestic real interest rates following the June 1983 financial sector reform, and sluggish sales leading to an accumulation of inventories. In certain subsectors, the financial status of some firms has been adversely affected. These developments have been a significant factor in encouraging further protectionist measures in Indonesia, including new quantitative restrictions and total bans on certain imports.

vii. Despite the recent decline in overall economic growth relative to the performance of the 1970s, the available evidence indicates that the employment situation has not worsened to any significant extent over the past two years, primarily because of a strong recovery in agricultural incomes and non-oil exports. As discussed in Part II of this report, there had been an extended period of favorable employment absorption up to the early 1980s. Between 1971 and 1980, employment increased by 13 million, absorbing a 30% increase in the labor force; and much of the labor force gained from shifts to higher productivity work, and, around the end of the decade, rises in real wages. Open unemployment remained low at only 2% of the labor force and the incidence of poverty was significantly reduced. This was facilitated by rapid GDP growth, a high degree of labor mobility between agriculture and non-agricultural sectors, and government policies which helped labor absorption through major public investments in irrigation, rural infrastructure and transmigration programs.

viii. In an attempt to stimulate the economy, the 1985/86 budget adopts a moderately expansionary stance relative to the 1984/85 budget. Overall government spending is budgeted to increase by 20% in nominal terms and net

domestic expenditures to rise to 11% of GNP. The budget involves a shift in expenditure policy, with a larger share of resources allocated to current expenditures, particularly for increases in salaries. The budgeted growth in government investment expenditures can only be achieved with significantly improved project implementation performance.

ix. The implementation constraints on development budget expenditures, although partly related to limited capacity in the domestic construction and consultancy industries, largely reflect continuing regulatory, procedural and institutional problems. The Government is well aware of these issues and has undertaken several detailed internal reviews to identify and resolve them. Among the actions taken during the past year are measures to: ease procedural bottlenecks affecting procurement decisions and the disbursement of funds; provide additional training in project management and budgetary procedures; and improve inter-ministerial coordination of major projects (such as Bukit Asam) and programs such as transmigration and tree crop development. Other initiatives are underway to review the complex problem of land acquisition, and to assist in the development of the local consulting and contracting industries. It is too early to assess the impact of these procedural changes, but it is clear that this intensive effort will have to be sustained, in order to achieve the necessary improvements in project implementation performance.

x. Progress Towards Deregulation. The Government has recently announced simplifications in the regulatory framework for private investment licensing, and bold and far-reaching reforms to reduce excessive regulation and high costs associated with customs and ports operations. With respect to private investment licensing, effective April 1, 1985, the Government simplified procedures for approval and implementation of investments and reorganized the Investment Coordinating Board (BKPM). In regard to customs procedures, new measures announced on April 4, 1985 (through Presidential Instruction No. 4 on Ports and Shipping and subsequent instructions and decrees) reduced the required import and export procedures to a bare minimum and provide for speedy release of cargo, with considerable savings in costs and time. The various instructions related to port operations seek to increase efficiency in cargo handling, ensure fair and equal treatment to all ocean-going vessels, simplify tariffs and reduce port charges. The implementation of these measures will be a major challenge; but given the Government's commitment to the reform, there are good prospects for a major improvement in customs and port operations in the near future.

Development Objectives and Prospects

xi. With impressive progress made in stabilization, Indonesia now faces the challenge of generating a pattern and pace of economic growth which would provide adequate employment opportunities for a labor force expanding at 2.3% p.a. An estimated additional 17 million people will join the labor force in the next decade. High priority will also need to be given to increasing productivity and income levels of existing workers, particularly those in rural areas.

xii. This challenge comes at a time when the external environment is beset with uncertainty and likely to be less favorable than the 1970s. Indonesia's success in meeting the employment challenge depends crucially on the skill with which it manages the transition from oil dependency to a more diversified semi-industrialized economy. The economic strategy and policies pursued over the next few years will have a significant bearing on the progress that may be achieved in bringing about the structural transformation to a more diversified pattern of growth, foreign exchange earnings and budgetary revenues that will be necessary in the 1990s. Against this background, Indonesia's economic prospects for the next ten years are examined under a base case and two alternative scenarios.

Medium Term Prospects

xiii. In the base case scenario, crude oil prices are expected to remain approximately unchanged at their first quarter 1985 levels through the end of 1986, increase in line with inflation in 1987, rise in real terms thereafter by about 1% annually until 1990, and by 5% annually in the first half of the 1990s. In nominal terms, the oil prices assumed are \$40/bbl in 1990 and \$65/bbl in 1995. It is assumed that oil production will rise to about 1.63 mbd by 1990, but that the production rate will be reduced subsequently by 2% annually as real oil prices rise, so that reserves can be conserved. In these circumstances Indonesia's terms of trade would deteriorate by nearly 5% between 1984 and 1990, but improve by over 3% p.a. during the first half of the 1990s.

xiv. In the next two years (1985-86), the GDP growth rate is likely to be below 4% p.a., given the demand prospects for oil. Combined with the anticipated decline in the terms of trade, gross national income (GNY) is anticipated to grow at about 3% p.a. in 1985-86. In the remainder of the decade, overall GDP is projected to grow at an annual rate of 4.5%, with non-oil/LNG GDP rising by 5% annually. Fixed investment growth is assumed to average about 5% p.a. in 1985-86 and rise to 5.6% p.a. during the rest of the 1980s. Underlying this pattern of recovery is the assumption that project implementation would improve considerably, and that private investment would gradually pick up. However, in view of the external resource constraints, it is assumed that there would be no general shift in the composition of investment toward relatively import intensive projects. A key assumption underlying this growth scenario is that non-oil exports (both from agriculture and manufacturing) would continue to increase rapidly (by about 7% p.a. in real terms during 1986-1995).

xv. For the first half of the 1990s, overall GDP growth is maintained at about 4.3% p.a. with the non-oil/LNG GDP growth rising to 5.6%. With the anticipated improvement in the terms of trade in the early 1990s, GNY would rise by nearly 1% p.a. faster than GDP. On the external side, the base case implies a continued decline in the current account deficit in relation to GNP, from 2.4% in 1984/85 to 1.9% in 1990/91 and 1.5% by the mid 1990s. Reducing the deficit to the projected levels is essential for ensuring that the debt-service ratio in the 1990s remains at a satisfactory level.

xvi. The maintenance of these rates of growth of GDP is essential to the effective absorption of the growing labor force. Given the unfavorable prospects in the external environment, there is a risk of serious employment problems emerging, unless the Government makes a concerted effort to foster a labor intensive pattern of growth in the economy. In many areas, there is a high degree of complementarity between employment needs and other development objectives, notably the need for shifts in industrial and trade policy in favor of a more efficient and export oriented pattern of growth and continued priority to agricultural growth. However, additional policy measures, specifically oriented toward employment will also be necessary, as discussed in Part II.

xvii. On the other hand, if government policies were to be less favorable to employment generation, the employment situation would deteriorate. Such policies would reduce employment opportunities in agriculture and manufacturing by as much as 4-5 million over the next decade, force more workers to seek employment in residual services sectors, and create heavy pressures on the urban informal sector. This, in turn, could lead to stagnant or declining productivity and incomes in those sectors and increased open unemployment. It is possible that both rural and urban income distribution could worsen, and a significant proportion of the urban population could suffer a relative and absolute decline in their living standards.

xviii. As an illustrative exercise, the report analyzes the implications for the Indonesian economy of a lower oil price scenario, i.e. with oil prices declining by \$2/bbl in 1985-86, followed by a slow recovery to reach \$33/bbl (in current prices) by 1990 and \$46 by 1995. The scenario illustrates that, in such an event, the external debt situation would remain manageable, provided a cautious borrowing policy is continued. The implications for growth would depend on Indonesia's success in expanding non-oil exports. With slightly faster non-oil export growth, and some additional restraints on import intensive projects, the GDP growth rate need decline by less than 1% to maintain a viable balance of payments position. The other alternative scenario, that of lower non-oil export performance, would have more serious consequences for growth and external payments stability over the longer term than the lower oil price case. Slower economic growth would also make the task of employment creation more difficult. Reduced resource availability would constrain government investment and could slow down agricultural growth and diversification. An even greater effort would then be necessary to encourage a labor intensive pattern of production in agriculture and manufacturing, combined with additional public expenditures in favor of relatively labor intensive and rural based activities.

xix. Recognizing the uncertain price prospects for oil in the medium term, REPELITA IV attaches particular significance to the promotion of non-oil exports. The prospects for Indonesia's non-oil exports will, in large measure, depend on the success of its manufactured exports. As noted earlier, Indonesia has substantially increased these exports, particularly plywood and textiles, over the past two years. Unfortunately, textile products have

faced growing protectionism — in the form of both tariffs and non-tariff barriers. A rollback in these barriers and a reduction in tariffs for plywood would provide an important measure of additional support for Indonesia's adjustment efforts. At the same time, Indonesia should not lose sight of the fact that there is substantial scope for expansion in textile exports in categories not subject to quotas, as well as in other manufactured goods. Clearly, the problems Indonesia is encountering in the international textile and plywood markets underscore the need for diversifying the mix of its manufactured exports.

xx. Given the uncertainty over oil prices, the projections highlight the need for a cautious external borrowing strategy over the next few years, so that future debt obligations remain manageable. In the near term, Indonesia's debt-service ratio will inevitably rise, given the recent fall in petroleum prices and market constraints on increasing oil exports. However, with continued prudent borrowing and further adjustment on the current account, the debt-service ratio should improve before the end of the decade. The report cautions against undertaking substantially more borrowing than is recommended in the base case. With higher borrowing there would be a risk that the debt-service ratio would deteriorate rapidly in the early 1990s, particularly if the recovery in oil prices is delayed or is more sluggish than envisaged in the base case.

Selected Policies for Growth and Structural Transformation

xxi. Prudent debt management in the near term needs to be supported by longer term measures to stimulate the growth of incomes and employment. In view of the uncertain and less favorable external environment facing Indonesia, there is a need for an even more careful husbanding of resources, and new measures to strengthen the production base of the economy through efficiency improvements and judicious investments. In particular, a vital task will be to foster the development of a broad-based and internationally competitive industrial sector leading to a rapid and sustainable growth of non-oil exports. This is central to the objectives of improving the growth and distribution of income, creating employment opportunities and diversifying sources of export earnings. The report examines some key areas of development strategy and economic policy that can guide this process. It is argued that economic policies need to pay close attention to efficiency issues in industry and trade, in the banking system and in public investment. Additional areas of policy are also examined from the employment vantage. These include continued priority for agricultural income growth, an appropriate pattern of public expenditures, careful implementation of the transmigration program, and a supportive environment for urban informal sector activities.

Industrial and Trade Policy

xxii. The problems of excess capacity and financial stresses in industry are in part a reflection of the past and present industrial policy environment. This environment leads to high cost industries because it shelters manufacturing activities from international, and often also domestic,

competition. It should, of course, be recognized that efficiency in the industrial sector, as in the rest of the economy, depends not only on government economic policies. Efficiency is also profoundly influenced by the cost and quality of physical infrastructure — ports, land transport, power, telecommunications; the level of entrepreneurial and managerial talents, scale of production and the technology employed; and the skill level of the workforce. The Government's recent decisive measures on customs and ports, and the ongoing emphasis on education and management development, should help improve the efficiency of physical and human infrastructure. But an early rationalization of industrial and trade policy is also essential to the success of the campaign to reduce costs in manufacturing, so as to enhance its contribution to growth, incomes and export earnings.

xxiii. Under the present industrial and trade policy environment, large implicit subsidies are provided to several production activities for the domestic market, the costs of which are borne by the domestic consumer. In some cases, domestic value added, when measured in international prices, is negative, indicating that in such activities the net contribution to the balance of payments is negative. By contrast, export oriented industries are disadvantaged by the present incentive structure, because they have to use higher cost, locally produced inputs. Indonesia's recent accession to the GATT Code on Subsidies and Countervailing Duties reflects the full recognition by the Government that unless the problem of high costs is tackled directly, Indonesia's non-oil export drive is unlikely to achieve the desired level of success.

xxiv. In response to excess capacity and slow manufacturing growth, recent Government policy statements emphasize the need to encourage exports of manufactures. In April 1985, the Government reduced both the level and the range of import duties. A reduction in the cost of imported inputs should improve the competitiveness of a wide range of Indonesian industries. On the other hand, several other recent government actions are likely to be counterproductive to the export drive. In particular, quantitative restrictions on the imports of an increasingly wide range of products, and the nature and pace of deletion programs to increase the local content of a number of engineering goods, could encourage potentially costly and uneconomic upstream investments. Such investments create the risk of imposing a long run cost burden on downstream industries, thus jeopardizing the cost competitiveness of exportable products.

xxv. During the 1970s, almost 90% of the growth of manufacturing output was sold in the domestic market, where domestic producers were protected from foreign competition by tariff barriers. Import substituting industrial projects can offer high economic rates of return and deserve high priority provided they are competitive rather than sheltered behind protective barriers. The overall thrust of industrial policy needs to emphasize a shift towards a more cost-competitive industrial structure oriented towards exports. This is important at this juncture for three reasons. First, as noted above, it is the only way of sustaining a sufficiently rapid growth of

non-oil exports -- without which either growth, or balance of payments stability, may have to be sacrificed over the longer run. Second, lowering product costs and prices is the best means of stimulating the growth of domestic demand for manufactures; this in turn would improve overall capacity utilization and growth performance. Third, the resulting broadening of the manufacturing sector is central to the provision of more employment opportunities for the new entrants to the labor force. A clear enunciation of a policy that new industrial investments would be required to be efficient by international standards would help set a better framework for both private and foreign investment.

xxvi. There are several industrial areas where Indonesia probably has a strong dynamic comparative advantage in international trade. One example is light engineering products, which use relatively labor intensive techniques of production. Existing firms in this subsector already exhibit potential for international competitiveness. The mastery of the technology used in these subsectors could provide the necessary base Indonesia needs to undertake more complex production processes. This indicates a need for a shift in emphasis towards light engineering goods. Accordingly, changes in the policy environment and incentive structure are required. In addition, active government support is important for rationalizing existing industries so they can compete more effectively with imports without requiring high protection.

xxvii. As noted earlier, the promotion of capital intensive producer goods industries, in addition to imposing immediate strains on the balance of payments, will substantially reduce the scope for creating gainful employment opportunities. Greater emphasis, therefore, should be given to encouraging the growth of industries which have a greater labor absorption potential, as well as to increasing efficiency and export orientation in manufacturing production. These are not necessarily conflicting objectives; indeed there can be a high degree of complementarity between an efficient, foreign-exchange earning pattern of industrial growth and a relatively labor intensive one. The shifts in the composition of industrial output under a relatively export oriented strategy can have significant employment benefits. Attention also needs to be paid to the relative role of small scale, as against large, production units. The experience of other countries indicates that the best way of sustaining the growth of small scale production units is to encourage a broadly dispersed pattern of demand growth and to remove favored treatment for large scale firms.

xxviii. Trade policy reform is one of the most difficult tasks facing any government and the process must be carefully managed in order to minimize the problems of adjustment. However, the longer present policies continue, the more difficult and costly becomes the task of improving the efficiency and international competitiveness of domestic industry. The present report does not provide a detailed prescription for future policy changes; instead it suggests two areas which are fundamental to such an effort. First, it is important to refrain from introducing new bans and quantitative restrictions and begin to replace existing ones with tariffs. With the recent lowering of

tariffs, there may well be pressures to grant new quantitative restrictions. It would be advisable to firmly resist such pressures. Second, over the medium term, it would be essential to effect a further reduction and greater uniformity in tariffs. During the transitional period to a less protected environment, there would be a need for assistance to those industries which have the potential of becoming competitive in the medium term.

xxix. The banking system can play an important supportive role in reducing investment costs and increasing competitiveness. Given Indonesia's open capital account and the close linkages between domestic interest rates and those abroad, it is difficult to bring down domestic deposit rates. However, the present high cost of credit can be reduced by improving the efficiency of banking operations through more efficient organizational and operational procedures, and improved credit analysis and loan recovery efforts. The banking system can also support the process of industrial and trade policy reform in two other ways. First, it can assist those firms that need to restructure, modernize and adapt their production structure by providing them with technical assistance and financing. Second, banks can contribute to the development of an efficient industrial sector through sound appraisal of projects and the provision of technical assistance and advice especially to smaller businesses and new entrepreneurs. To achieve these goals, it is necessary that financial institutions themselves become more self-reliant, be able to operate independently, and strengthen their capacity for risk assessment.

Public Investment: Issues and Priorities

xxx. As half of all fixed investment in the economy is managed by the public sector, the planning and implementation of the public investment program has a crucial bearing on the goals of efficiency and employment creation. The report takes the view that the public investment priorities proposed for REPELITA IV are broadly appropriate. The planned reallocation of resources (compared to actual expenditures during REPELITA III), from industry and mining to the social sectors, should have a favorable impact on employment generation and foreign exchange use. Every Rupiah invested in the social sectors requires half as much imports, while generating three times as much employment as investments in industry, mines and energy. Given the overall resource constraints, care needs to be exercised to protect high priority investments, especially in agriculture and the social sectors. Within the priority sectors, some shifts in spending would also be appropriate. For example, the emphasis in education expenditures would need to shift from primary school construction to secondary and higher education development. Similarly, the nature of appropriate irrigation investment, especially in Java, needs to be reassessed, in view of recent success in rice production, while some reappraisal of the desirable and affordable level of power investment may be necessary.

xxxi. The potential for altering the sectoral composition of public expenditures is severely constrained by differences in project implementation

capacity between sectors. For example, in the tree crops sector, implementation constraints have kept actual plantings below planned levels -- despite the sector's obvious importance to the domestic economy and exports. Similarly, implementation problems can adversely affect the optimal mix of completed investments; for example, the expansion of PLN's distribution system has been held up by procurement delays, which in turn has contributed to high transmission and distribution losses. The problems of project implementation cannot be solved easily, but they must be tackled if Indonesia is to succeed in meeting its sectoral investment goals. In the industrial sector, there is considerable scope for undertaking new projects. However, the uncertain economic outlook calls for a cautious attitude toward embarking on large, new investments (including those rephased in 1983). Their economic rates of return and, especially, the implications of a possible slowdown in the growth of domestic demand, would need to be carefully scrutinized. Particular care must be exercised concerning projects that would commit the country to high import requirements and additional external borrowing at a time when it faces uncertainty over resource availabilities.

xxxii. Good investment planning based on sound project appraisal requires a strong central framework for ensuring intersectoral and macroeconomic consistency. BAPPENAS already plays a major role in this regard, but there is a need for better coordination and monitoring of line agency programs, and appropriate mechanisms and criteria for adjusting the investment programs in the light of changing conditions of demand, implementation capacity and resource constraints. In addition, increased attention needs to be given to the recurrent cost implications of past and new investment. There is a case for financing more of these recurrent expenditures through cost recovery in public services. Cost recovery can also be improved by increases in interest rates for several credit programs (e.g. smallholder tree crops). Major public utilities, such as PLN and Perumtel, should be able to finance a more significant portion of their investment costs from internally generated funds and reduce their reliance on the government budget. In the case of PLN, there is also considerable scope for increasing revenues through improvements in efficiency, for example by reducing the presently high transmission and distribution losses.

xxxiii. As noted above, the composition of public investment also has a significant impact on employment. Relative shifts toward less import intensive sectors, as reflected in REPELITA IV allocations compared with REPELITA III realizations, increase direct and indirect employment effects. There are many expenditure options with high economic rates of return that are relatively labor intensive: for example, construction and rehabilitation of tertiary canals, rural roads, as well as regular maintenance of infrastructure. While the employment objective should not be the sole determinant of sectoral investment priorities, care should be taken to protect labor intensive activities in the event of resource constraints or a worsening of the employment situation. It would also be desirable to subject investment proposals that require high investment resources per new job to special scrutiny to ensure that they are economically justified. Public expenditures

on transmigration programs have a significant impact on the employment situation. The sponsored transmigration program, together with associated spontaneous flows, could provide employment for about 20% of the increase in the labor force in Java. However, to prevent destabilizing second round migration flows, careful site selection and design of economic activity and close co-ordination of investments in resettlements, tree crops, water-resource and livestock development are needed, in order to generate sustainable incomes for transmigrant families. This could lead to difficulties in achieving current targets.

External Capital Requirements and Borrowing Strategy

xxxiv. Under the base case scenario, Indonesia would require, on average, \$5.2 billion annually in new commitments over the next three years to meet its public sector borrowing requirements. Official assistance (primarily concessional bilateral loans and grants and multilateral loans and grants from members of the Inter-Governmental Group on Indonesia - IGGI) has been the most important source of external finance for Indonesia. Loan commitments from these sources amounted to about \$2.1 billion in 1984, comprising \$0.5 billion in bilateral concessional loans and \$1.6 billion in multilateral loans. In addition, Indonesia received an estimated \$110 million in grants from the IGGI members. It is essential that IGGI members continue to provide a substantial share of Indonesia's external financing requirements in the years ahead. This is particularly important because, given the expected deterioration in the external environment over the remainder of the decade, it would be inadvisable for Indonesia to increase substantially its reliance on commercial borrowing, in view of current real interest rates and maturities. It is, therefore, recommended that the level of IGGI assistance to Indonesia be at least \$2.4 billion in 1985/86 (the same level as recommended and pledged for 1984/85), and that the level of commitments over the next three years average at least \$2.5 billion annually.

xxxv. A public sector borrowing program as outlined above implies an average growth of about 9% annually in the nominal value of outstanding public debt between 1984 and 1990, and a 7% increase during the first half of the 1990s. Medium and long term private debt is expected to rise more slowly, so that its overall share in Indonesia's total external debt would decline. At the projected levels of borrowing under the base case scenario, Indonesia's total debt-service ratio, including private debt, would peak at 24% in 1989. It would then stabilize and decline to 22% by 1995. Even under the alternative low oil price scenario, tighter macro economic management could hold the total debt-service ratio to a peak of 26% in 1989 with a decline to 23% by 1995. While debt service levels of these magnitudes are manageable for Indonesia, the uncertainties of the external environment mandate continued restraint in external borrowing. With prudent borrowing, maintenance of a comfortable level of external reserves to guard against temporary strains on liquidity, concerted efforts to sustain a rapid growth of non-oil exports, and continued discipline in the public investment program, Indonesia should be able to retain its present high standing in international capital markets.

CHAPTER 1

RECENT ECONOMIC DEVELOPMENTS

A. The External Setting and Adjustment: An Overview

1.1 Developments in the Indonesian economy in 1984 need to be viewed against the background of the previous two years, which were dominated by adjustment to the effects of the 1980-83 international recession. The recession severely affected the Indonesian economy in two ways. First, the weakening of the demand for oil in 1982 - which led to the price and quota reductions of March 1983 - reduced Indonesia's gross oil and LNG export earnings from nearly \$19 billion in 1981/82 to \$14.7 billion in 1982/83. Second, the demand for and the prices of the country's traditional non-oil exports (essentially agricultural commodities) declined, thus leading to a fall in non-oil export receipts from over \$6 billion in 1979/80 to less than \$4 billion in 1982/83. The sharp reduction in total export earnings created substantial pressures on the balance of payments, resulting in a current account deficit of \$7.1 billion (equivalent to 8.5% of GNP) in 1982/83, compared to a surplus of \$2.2 billion two years earlier.

1.2 The Government rapidly perceived that (a) the underlying weakness of the international oil markets was not a temporary phenomenon, and (b) current account deficits of the order experienced in 1982/83 could not be sustained. Accordingly, beginning in late 1982 the authorities initiated a set of decisive measures to cope with the immediate external payments difficulties and to address the longer-term structural weaknesses of the economy. The stabilization and adjustment measures included the adoption of an austerity budget for 1983/84 (embodying a sharp reduction in subsidies, especially for petroleum products); a major "rephasing" of the public investment program with anticipated foreign exchange savings of some \$10 billion; and a 28% devaluation of the Rupiah vis-a-vis the US Dollar in March 1983. While the devaluation was also expected to contribute to longer-term structural improvements in the economy, the authorities endeavored to increase domestic resource mobilization through a drastic overhaul of the tax system ^{/1} and a major reform of the financial sector, which freed up deposit and lending rates of the state banks and removed credit ceilings. The Government also announced its intention to simplify the regulatory environment, so as to increase economic efficiency in both the public and private sectors.

1.3 These measures constituted a far-reaching response to the problem at hand. Their effectiveness was significantly aided by the recovery in the U.S. and Japanese economies which got underway during the latter half of 1983 and gathered considerable strength in 1984. The gains were impressive on a broad

^{/1} The new income tax law went into effect in April 1984, but the implementation of the value added tax (VAT) was delayed until April 1985 to allow for the completion of the necessary preparatory work — paras. 1.26-1.31.

front. Non-oil exports increased by about 37% to nearly \$5.4 billion in 1983/84. With stabilized oil and LNG earnings and total imports down by some 12%, the current account deficit was reduced to \$4.2 billion (6.0% of GNP) in 1983/84. The overall fiscal deficit was reduced from 6.3% of GNP to 1.9% over the same period. The financial sector reform and the restoration of confidence in the Rupiah following the March 1983 devaluation contributed significantly to financial savings mobilization. Time deposits in the banking system increased rapidly by about 56% in the nine months following the June 1983 reform which triggered a significant portfolio adjustment by individuals and businesses. GDP, aided by favorable performances in agriculture and the petroleum/LNG sector, grew by an estimated 4.7% in 1983; inflation, as measured by the Consumer Price Index, was contained to an annual rate of 12% despite the sizeable devaluation and significant upward price adjustments for petroleum, power and public transport.

1.4 Broadly speaking, 1984 has been a year of continued adjustment and consolidation. The emphasis was on carrying through the difficult adjustment measures initiated in 1983 and preventing backsliding on the major structural reforms in the financial sector, taxation, and exchange rate management. The performance of most macroeconomic indicators was remarkably good. With strong growth in agricultural production, non-oil/LNG GDP is estimated to have increased by 4.4% in 1984 ^{/1}, while domestic inflation moderated to 9%. The current account deficit was further reduced to \$1.9 billion (2.4% of GNP) and Indonesia's net foreign exchange reserves rose to nearly \$10 billion (7 months of imports). Government savings increased from 8.4% of GNP in 1983/84 to an estimated 9.8% in 1984/85. The impact of the budgetary operations was less expansionary than originally intended. While growth in rural incomes was strong, demand for manufacturing output was modest and construction activity faltered in 1984.

1.5 The stresses caused by the stabilization and adjustment measures were most evident in the manufacturing sector. Additions to production capacity, installed in earlier expectations of continued rapid growth in demand, lay seriously underutilized. In addition, increases in input costs and debt-service obligations (in local currency) associated with the 1983 devaluation, and sharply higher domestic real interest rates following the June 1983 reforms, eroded profit margins and inventories accumulated. These factors and uncertainties associated with the implementation of some of the new policies (for example, the tax reform) also affected private fixed investment adversely. Further softening of oil prices and the strengthening of the US Dollar in international financial markets created new uncertainties toward the end of 1984.

1.6 The remainder of this chapter reviews the recent economic developments and policies in greater detail, while highlighting some of the near and longer term issues which would need to be addressed to ensure that the momentum of development can be strengthened.

^{/1} On the basis of 1981 prices. The growth rate estimate for non-oil/LNG GDP on the basis of 1973 prices is 4.3%.

B. General Economic Trends

Availability and Use of Resources

1.7 Official data on income and expenditure for 1984 are not available. However, preliminary estimates have been prepared by World Bank staff, which form the basis of the assessment that follows. Indonesia's gross national income (GNY) increased by an estimated 7.0% in 1984, reflecting a 6.5% increase in GDP (in 1981 prices) and some modest improvement in the terms of trade (para. 1.46). As noted below, over half of the growth of GDP in 1984 stemmed from oil, LNG, and refining operations (para. 1.11). While this helped to increase government revenues over budgeted levels, the authorities, in view of the continued need for prudent macroeconomic and foreign exchange reserves management, increased government financial savings with the banking system. Concomitantly, the external current account also improved by the equivalent of over 3% of GNP during the year (para. 1.41). Thus, total resource availability increased by only about 3.8%, reflecting the reduced net flow of resources from abroad (Table 1.1). Effective domestic demand in real terms, as measured by aggregate expenditure flows (consumption and fixed investment), increased even less rapidly at the modest rate of 1.1% over 1983. The slow growth of effective demand was in part due to a substantial decline in private investment; also the Government's net domestic expenditures as a ratio of GNP remained unchanged at their 1983/84 level, with the result that there was no rise in the stimulus to the economy, as had been intended by the budget. Government fixed investment expenditures increased slightly (by less than 1%) during 1984. At the same time, its current expenditures in real terms declined by 4% (Table 1.1). Although private consumption is estimated to have increased at 5.3%, this increase mainly took place in the rural economy (para. 1.8). Given the slow growth in demand in urban areas, particularly for manufacturing output, a substantial, largely involuntary, build-up of inventories took place.

1.8 Total consumption increased by an estimated 3.8% in 1984 with divergent movements in government and private consumption. Government consumption expenditures fell, in large part because of reduced subsidies for oil. This reflected price increases (noted above) and a welcome reduction in Pertamina's operating losses. On the other hand, private consumption grew about one percent faster than in 1983. Given the rapid growth of agricultural incomes (para. 1.13), this increase in consumption is likely to have taken place mainly in the rural areas, while consumption in urban areas appears to have stagnated or increased little. This is not surprising because: (a) the price adjustments made over the past few years generally affected basic goods and services which are consumed more in urban areas; and (b) incomes in the non-oil economy outside agriculture grew rather slowly in 1984, as compared to both 1982 and 1983. Moreover, profit margins in the industrial and trading sectors were generally squeezed due to sluggish sales, high interest costs and market resistance to higher output prices. In the manufacturing sector, real wages remained under pressure due to low profitability and measures taken to avoid lay-offs through reductions in shifts, working hours and overtime; and, although a 15% wage increase was given to civil servants as of April 1984, this increase only compensated them partially after two years of erosion of their real incomes.

Table 1.1: EXPENDITURE AND SAVINGS RATIOS, 1981-1984

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
	<u>% of GNY in 1981 prices</u>				<u>annual growth rate (%)</u>		
Gross national income (GNY)	100.0	100.0	100.0	100.0	-1.3	2.4	7.0
External balance <u>/a</u>	3.3	9.1	5.4	2.3	-	-	-
Aggregate resource availability	<u>103.3</u>	<u>109.1</u>	<u>105.4</u>	<u>102.3</u>	<u>4.2</u>	<u>-1.1</u>	<u>3.8</u>
<u>Consumption</u>	<u>79.0</u>	<u>81.8</u>	<u>82.7</u>	<u>80.2</u>	<u>2.2</u>	<u>3.5</u>	<u>3.8</u>
Government	<u>15.1</u>	<u>14.3</u>	<u>13.8</u>	<u>12.4</u>	<u>-6.7</u>	<u>-1.1</u>	<u>-3.8</u>
Private <u>/b</u>	63.9	67.5	68.9	67.8	4.3	4.4	5.3
<u>Gross Investment</u>	<u>24.3</u>	<u>27.3</u>	<u>22.7</u>	<u>22.1</u>	<u>10.7</u>	<u>-14.7</u>	<u>4.0</u>
Changes in stocks	<u>2.1</u>	<u>2.8</u>	<u>0.5</u>	<u>3.2</u>	<u>34.7</u>	<u>-80.6</u>	<u>539.4</u>
Fixed investment	22.2	24.4	22.2	18.9	8.5	-7.0	-9.0
Government	(11.1)	(13.5)	(10.4)	(9.7)	(20.0)	(-21.3)	(0.5)
Private <u>/b</u>	(11.1)	(10.9)	(11.8)	(9.1)	(-3.0)	(10.6)	(-17.3)
<u>Memo items (in percent):</u>							
Domestic savings/GDY	23.9	22.1	23.0	25.0	-	-	-
National savings/GNY	21.0	18.2	17.3	19.8	-	-	-

/a Current account balance, adjusted for terms of trade effect.

/b Includes expenditures by public enterprises financed from sources outside the Government budget.

Source: World Bank staff estimates. The estimates for 1984 are preliminary.

1.9 Available data suggest that fixed investment by the Government increased slightly (less than 1%) in 1984. Planned public sector investment over the past two years was drastically reduced through the rephasing of several major public sector projects. In addition, as discussed in Section C below, the execution of the 1984/85 development budget fell short of the target (para. 1.25).

1.10 The quality of available data on private fixed investment is not very good; but, a review of major subsectors in industry suggests that while weak market demand in the urban economy may have contributed to the decline in private investment, an even more important cause was the existence of substantial excess capacity in many manufacturing subsectors (such as cement, automobiles, motorcycles, tires, various textiles, etc.) due to heavy investments made over the past decade, particularly since the 1979 oil price

increase. Clearly, past demand projections on which these investments were based were overestimated; and the slackening of domestic demand exposed the weaknesses in these forecasts, and caused the overextension of these industries. A further deterrent to private investment was the rise in investment costs and funding difficulties experienced by investors. As noted, the 1983 devaluation substantially increased the costs of imported capital equipment and inputs and debt-service obligations on foreign currency loans, while the rising real costs of domestic borrowing strained the financial position of many business firms. In addition, the availability of longer term funds for investment through the state banks, the development banks and the capital market appears to have been reduced (paras. 1.57-1.60). Finally, uncertainties emanating from the implementation of new tax legislation evidently led to some postponement of investment decisions, as investors adopted a "wait and see" attitude pending the clarification and interpretation of the new tax laws./1

Growth of Domestic Output

1.11 Non-oil/LNG GDP is estimated to have grown at an annual rate of 4.4% (in 1981 prices) in 1984, or at about the same rate as in the previous year (Table 1.2). The agricultural sector recorded impressive gains, while output in the industrial sector as a whole recovered significantly, with a particularly sharp increase in oil refining operations. However, as noted in para. 1.8, in many industrial subsectors sluggish domestic demand appears to have been a major constraint to the absorption of increased output. (Given continued excess capacity and the lack of competitiveness of many products in export markets, these developments raise important questions with regard to industrial development strategy which are discussed in Chapter 3.) Activity in the construction sector stagnated (para. 1.18). In contrast, the oil/LNG sector grew rapidly, paced by a sharp expansion in LNG production. The completion of the refineries at Cilacap, Balikpapan and Dumai also substantially expanded domestic refining capacity. Consequently, overall GDP is estimated to have grown by 6.5% (in 1981 prices) in 1984, with about 53% of this growth originating from oil/LNG/refining operations.

1.12 Growth in the agricultural sector is provisionally estimated to have been about 5%, mainly due to significant production increases in food crops, particularly rice, smallholder cash crops and the fisheries subsector. The rice crop is estimated at a record 25.8 million tons, i.e. 7% more than the 1983 (previous peak) level. Compared to the situation ten years ago, this represents an impressive increase of 68% - clear evidence that the Government's strategy of achieving self-sufficiency in rice has been rewarded. Availability and expanding use of key inputs (fertilizer, insecticides and good quality seed), incentives provided through support prices, subsidies and bank credit for the purchase of inputs, and favorable climatic conditions

/1 The Government subsequently took actions to clarify these rules and reduce these uncertainties; and the simplification of the tax code and the reduction of tax rates should help to encourage investors in the future; see paras. 1.26-1.31.

Table 1.2: GROWTH IN SECTORAL VALUE ADDED, 1982-1984
(in percent p.a. at 1981 prices)

	1982	1983	1984 Prelim. Est.	Sectoral shares in 1984 (% of GDP)	Share of increase in GDP in 1984 (in %)
Agriculture	2.1	4.8	5.0	25.5	20.0
Mining and quarrying	-12.1	5.9	5.0	20.8	16.3
Oil	(-15.7)	(6.0)	(5.6)	(18.0)	(15.8)
Non-oil	(3.5)	(5.0)	(1.0)	(2.8)	(3.5)
Manufacturing	3.1	3.1	24.4	12.8	41.3
LNG	(9.2)	(5.1)	(52.6)	(5.5)	(31.2)
Refining	(-2.9)	(-10.5)	(30.0)	(1.3)	(5.9)
Other	(0.8)	(2.5)	(4.7)	(6.0)	(4.2)
Construction	5.2	5.5	0.0	5.8	0.0
Services	5.5	4.3	4.0	35.2	22.3
<u>Gross domestic product</u>	<u>-0.2</u>	<u>4.7</u>	<u>6.5</u>	<u>100.0</u>	<u>100.0</u>
Non-oil/LNG GDP	3.8	4.4	4.4	76.5	52.9
<u>Memo item:</u>					
GDP at constant 1973 prices /a	2.2	4.3	5.0		
Non-oil/LNG GDP at constant 1973 prices /a	3.6	4.2	4.3		

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

Source: World Bank staff estimates and BPS data.

contributed to the increase in rice production. Timely rains helped to increase acreage under rice by about 5%, while average rice yields increased by about 2% during the year. Favorable weather and support policies also helped to increase the production of secondary food crops such as corn, soya-bean and cassava. The production of cash crops by smallholders — particularly tea, coffee, rubber and sugar — increased significantly during

the year; the first three export commodities continued to benefit from the stimulus of the 1983 devaluation and generally favorable export prices./1

1.13 As a result of the bumper rice crops of the past two years, BULOG - the state logistics board which operates the farm support price schemes - was holding rice stocks of nearly 2.5 million tons at end December 1984. Present indications are that the 1985 rice crop will also be good. Given BULOG's presently high stock levels, its capacity to procure and store substantial additional quantities may be strained; and physical losses and financial costs of such operations are likely to be considerable. Large scale export of rice is not an economic proposition for Indonesia given the relatively high costs of production and low quality. However, with investments aimed at improving rice milling and grading facilities, it may be possible to export modest amounts of rice.

1.14 In the manufacturing sector, value added in activities other than LNG and oil refining recorded a 4.7% increase, representing a significant improvement over the growth rates realized in the preceeding two years. However, several subsectors performed poorly. As discussed below, the relatively weak performance of these subsectors is reflected in widespread excess capacity and poor financial results. There was a 30% increase in value added in the oil refining subsector, following substantial expansion of domestic refining capacity in 1984. When oil refining is included, value added in the manufacturing sector is estimated to have increased by about 9% /2 in 1984.

1.15 As noted earlier, excess capacity in several industries is the result of the recent completion of a large number of public and private investments which were primarily directed at the domestic market and based on optimistic demand forecasts, coinciding with a sharp decline in economic activity. As a result, capacity in some industries far exceeds domestic demand. Some examples are: cement, where production capacity has risen from 5.8 million tons in 1980 to an expected 17.4 million tons in 1985, compared with expected domestic sales of slightly above 10 million tons in 1985; and car tire manufacturing, where installed capacity has risen from 2.7 million units in 1978 to an expected 6.7 million units in 1985, compared with anticipated domestic demand of only about 4 million units in 1985. Estimates by the Ministry of Industry show that in several other industries (for example, televisions, air conditioners, kraft paper, steel slabs, hot-rolled coils

/1 In the case of rubber, export prices reached a peak in early 1984 and declined thereafter.

/2 Excludes LNG.

and hand tractors) production ranged from 25-70% of capacity. Industries particularly affected by slack demand have been consumer durables, notably motor vehicles and home electronic products. The building and construction materials industry has been severely affected by the slowdown in construction activity. As a result of low capacity usage and continued sluggishness in the domestic market, many manufacturers have begun to look abroad for markets, for example in yarn, garments, steel rods, cement, tires and fertilizer.

1.16 Apart from the impact of excess capacity on unit costs, several other developments in 1983 and 1984 also contributed to rising production costs. These included the March 1983 devaluation, increases in domestic energy prices and the sharp rise in real lending rates. Coupled with the inability of manufacturers to pass on cost increases to consumers given present market conditions, this has weakened the financial position of some firms in a number of industries. There are also indications of widespread lengthening of maturities for receivables which is proving costly to finance. These factors have led to some failures in the textile and food processing subsectors, while the financial position of several firms in other subsectors is reported to be weak.

1.17 In contrast, several industries, particularly in the non-durable consumer goods sector (such as matches, kretek cigarettes and batik) experienced good growth in 1984. In addition, the fertilizer and basic chemicals subsectors fared well with the recent completion or expansion of public enterprise plants and increased demand from the agricultural sector for fertilizer and pesticides. Finally, the plywood and sawmilling subsectors registered new export gains; but fierce competition among exporters of plywood threatened the survival of several small mills and prompted a government initiative to organize joint marketing boards to protect the financial viability of the industry and the country's foreign exchange earnings.

1.18 Growth in the construction sector was adversely affected by the decline in investment spending, although there were continued high levels of activity in building construction in Jakarta. Performance in the services sector (on which concrete data are not available) reflected the trends in the major sectors noted above. The modern services sector comprising transport, communications and banking did well, the latter benefiting from the recent financial sector reform. The traditional services sector also experienced some growth; however, weak domestic demand, slow growth in the industrial sector and the reduction in non-oil imports adversely affected the trading subsector.

1.19 Oil and LNG value added, which accounted for about 23% of overall GDP, rose by 14% in 1984, mainly due to a 53% increase in LNG output. Two new trains at Bontang, East Kalimantan were completed in 1983 with an additional two trains at Arum in 1984. These raised LNG production to about 753 million MMBTU in 1984 from 494 million MMBTU in 1983.

Inflation

1.20 Domestic inflation as measured by the Consumer Price Index for 17 cities (CPI) abated in 1984; other indicators, such as the Wholesale Price Index (WPI) and the Essential Commodities Index for rural areas, also confirm this trend (Table 1.3). On the supply side, increased agricultural production, particularly the excellent rice crop, played a major part in this improvement; on the demand side, tight demand management policies also contributed. As noted below, the money supply (M1) increased by 13% during the year, adding little to price pressures.

Table 1.3: RATES OF INFLATION, 1982-84
(in percent p.a.)

	<u>CPI /a</u>		<u>WPI /b</u>			<u>Rural /c</u>	
	Jakarta	17 cities	Agri-culture	Manufac-turing	General excl. exports	Java & Madura	Outer Islands
1982	9.0	10.0	9.5	11.7	10.5	25.6	21.6
1983	11.1	12.0	18.2	17.5	19.8	10.0	11.0
1984	11.2	9.0	8.6	9.8	8.3	4.2	6.9

/a Consumer Price Index.

/b Wholesale Price Index.

/c Combined index of nine essential commodities.

Source: Biro Pusat Statistik.

1.21 The rate of inflation during most of 1984 was in fact much lower than that suggested by the figures in Table 1.3. Most of the rise in all three price indices took place in the first two months of 1984. The dominant cause of this spurt was the substantial (37%) increase in domestic oil prices in January, and associated adjustments in electricity tariffs and transport fares which generally raised manufacturing, transport, and "housing" costs in these indices. In all three cases, as the bumper rice crop was marketed in April/May, the food/agriculture components of the indices began to stagnate or even decline; at the same time, the manufacturing components of the price indices increased little as producers and traders, faced with weak demand and large inventories, refrained from raising prices and trimmed their margins. Thus, the point-to-point inflation rate from April to December 1984 was only about 3% for the WPI and about 2-3% for the essential commodities index for rural areas. In the case of the CPI, the increase in the index for the twelve month period from end-March 1984 to end-March 1985 was only 3.6%.

C. Management of Government Finances

The 1984/85 Budget and Its Outcome

1.22 Given the major efforts by the authorities to adjust to adverse external developments in 1983, the budget was viewed as the most important instrument for further stabilization in 1984/85. Thus, although Indonesia's balance of payments position had begun to improve and the external environment appeared to be more promising, the Government adopted a cautious, mildly expansionary fiscal stance. The overall fiscal deficit was budgeted to rise from 1.9% of GNP in 1983/84 to 3.8% in 1984/85 and provide a modest stimulus to the domestic economy, with net domestic expenditures increasing from 9.5% of GNP to 10.3% (Table 1.4).^{/1} A strong domestic tax effort and restraint on current expenditures were expected to help prevent a sharp reduction in public savings over the 1983/84 levels.

1.23 However, the implementation of the 1984/85 budget fell short of the target. The budget outturn, as estimated by World Bank staff, indicates that the overall budget was in approximate balance. Government investment ^{/2} rose by about 10% in nominal terms to an estimated Rp. 7.8 billion (compared to a budgeted Rp. 8.5 billion), whereas government savings increased by about 38% in nominal terms, from 8.4% of GNP in 1983/84 to 9.8% in 84/85. As a result, government savings with the banking system are estimated to have increased by Rp. 2.5 trillion in 1984/85. As a percent of GNP, net domestic expenditures amounted to 9.5% in 1984/85, largely unchanged from the level in 1983/84, but lower than the budget target of 10.3%. Thus, the 1984/85 budget's impact on domestic economic activity was roughly the same as in the previous year, but less than had been intended by the budget.

1.24 The sharp rise in government savings was essentially the result of three factors. First, oil and LNG revenues are estimated to have been 19% above the 1983/84 levels. Second, non-oil revenues are also estimated at 12% above the previous year's level. Third, domestic oil subsidies declined by about 45% in nominal terms primarily due to efficiency improvements in Pertamina's refineries; this helped to restrain the growth of current expenditures to only about 4% over the previous year's level despite higher personnel expenditures.

^{/1} Net domestic expenditures measure the excess of government rupiah expenditures over government rupiah revenues, and indicate the net effect of the Government's budgetary operations on the domestic economy. It is defined as: Domestic content of current and investment expenditures less domestic non-oil revenues.

^{/2} Government investment expenditures referred to here and in Table 1.4 are calculated by adjusting budgetary development expenditures for changes in government savings with the banking system, the fertilizer subsidy and for the recurrent component of the development budget.

Table 1.4: SUMMARY OF GOVERNMENT FINANCES, 1982/83-1984/85 /a
(Rp. trillion at current prices)

	1982/83	1983/84	1984/85 /b	1984/85 Budget /c
<u>Total revenues</u>	<u>12.6</u>	<u>15.3</u>	<u>17.9</u>	<u>16.2</u>
Oil and LNG	8.4	10.4	12.4	10.4
Non-oil revenues	4.2	4.9	5.5	5.8
<u>Current expenditures /d</u>	<u>-8.3</u>	<u>-9.5</u>	<u>-9.9</u>	<u>-10.8</u>
of which:				
Interest on debt	-0.7	-1.2	-1.5	-1.4
Domestic oil subsidy	-0.9	-0.9	-0.5	-1.1
Fertilizer subsidy	-0.4	-0.3	-0.7	-0.5
<u>Government savings</u>	<u>4.3</u>	<u>5.8</u>	<u>8.0</u>	<u>5.4</u>
<u>Government investment /e</u>	<u>-7.8</u>	<u>-7.1</u>	<u>-7.8</u>	<u>-8.5</u>
<u>Overall balance (- = deficit)</u>	<u>-3.5</u>	<u>-1.3</u>	<u>0.2</u>	<u>-3.1</u>
Financed by:				
Net project and program aid /f	2.7	3.6	2.3	3.1
Asset drawdown /g	0.8	-2.3	-2.5	-
<u>Memo items (in percent):</u>				
Total revenues/GNP	22.8	22.1	22.1	20.0
Total expenditures/GNP	28.9	24.0	20.6	23.8
Overall balance/GNP (- = deficit)	-6.3	-1.9	0.2	-3.8
Net domestic expenditure/GNP /h	15.4	9.5	9.5	10.3

/a Excludes provincial government finances.

/b Provisional estimate.

/c Based on Nota Keuangan (the budget document).

/d To arrive at current expenditures, routine expenditures are adjusted to exclude amortization payments and include both the fertilizer subsidy and the recurrent component of development expenditures.

/e Government investment includes both direct government investment and transfers to public enterprises.

/f Net disbursements of external debt.

/g A negative sign implies asset accumulation with the banking system.

/h Net domestic expenditures is here defined as domestic content of current and investment expenditures less non-oil revenues. See footnote 1 to para. 1.22.

Source: World Bank staff estimates.

1.25 Provisional results indicate that the shortfalls in government investment expenditures in 1984/85 were substantial, particularly on education, transmigration and housing and water supply. Cumulative unspent budgetary allocations are also substantial.^{/1} Transfers to the regions and local governments appear to be on target. However, a substantial proportion of these "expenditures" actually represented unspent disbursements to kabupaten and village accounts; to that extent, in the short run they were merely financial transfers, and the impact of the budget as implemented is probably less than suggested by the data in Table 1.4 above.

The Tax Reform and Its Implementation

1.26 In late 1983 the Government announced a major reform of the tax system comprising a new income tax law and a procedural law which came into effect in January 1984, and a value added tax law which went into effect in April 1985.^{/2} The main objectives of the tax reform were to: (i) reduce the heavy dependence of government revenues on oil and LNG corporate taxes by diversifying domestic receipts; (ii) improve the efficiency of the tax system in terms of coverage and collection rates, and streamline the tax administration; (iii) improve domestic resource mobilization and raise the buoyancy of tax revenues in relation to income growth; and (iv) enhance the elements of equity and social justice in the tax system.

1.27 The new income tax law is a drastic simplification of the earlier tax code. It replaces a complex set of tax rates with just three tax rates (15%, 25% and 35%) applicable uniformly to individuals and companies alike.^{/3} Other major revisions include: a reduction of the average tax rate and higher exemption limits for individuals; the withdrawal of tax holidays, fiscal investment incentives and provisions for indefinite carry-forward of losses incurred in the first six years of operations (investors now benefit from lower marginal tax rates and more generous depreciation allowances); and ceilings on the extent to which interest payments and bad-debt provisions could be deducted from income. The new law also places considerable emphasis on withholding as a means of tax collection.^{/4}

1.28 A principal feature of the new procedural law is self-assessment of tax liability by the taxpayer, with tax authorities auditing a small selection of returns. Other important features of the new system include a system of

^{/1} In particular, cumulative unspent budgetary commitments are large for education, transport and transmigration.

^{/2} The value-added tax law was originally scheduled for July 1984 but was subsequently postponed to April 1985.

^{/3} Under the old law, tax rates ranged from 5% to 50% with 17 intervening rates. These rates were applied subject to various adjustments and credits. Furthermore, the rates and allowable deductions were amended annually.

^{/4} Thus, corporations are required to withhold 15% of domestic payments of dividends, interest, rents and royalties, and 20% of foreign payments.

appeals and refunds, with specific time limits for government action, and legal procedures for punishments and convictions.

1.29 The authorities envisage that a broader tax base and higher yields will augment tax revenues. To broaden the tax base, the Government announced that taxpayers registering by June 1985 could apply for a tax pardon for all previously underreported and undeclared income. According to the authorities, an estimated 820,000 individual and corporate taxpayers had registered by end-March 1984 (as compared to only 550,000 at the end of the previous fiscal year /1) and this number is expected to reach 1,000,000 by end-1985. The Government's efforts are also proving successful in increasing tax collections; although the new income tax law is barely a year old, revenue collections from the income tax in 1984/85 have exceeded those of the previous year.

1.30 Implementing an overhauled tax system has inevitably created a number of problems and ambiguities. Most of these have been resolved, but some still require clarification and/or modification. For example, the maximum allowable debt-equity ratio for the purpose of interest expense deduction was initially set at 3:1 for all types of businesses. This has now been rescinded and differential ratios will be set to take into account financing patterns in various sectors. In addition, the application of the provisions of the income tax law to new contracts in the oil sector needs clarification. Finally, there appears to be a shortage of qualified tax personnel to quickly clarify or resolve problems that have arisen during the early phases of implementation of the new laws.

1.31 The major remaining task confronting the Government in implementing the tax reform is the successful implementation of the value added tax and the sales tax on luxury goods. This represents a major overhaul of the existing indirect tax system, and implementation difficulties will inevitably arise. Judging by the experience of other (developed and developing) economies which have adopted VAT, it will take some time for the Indonesian economy to fully adjust to, and assimilate the procedures and implications of, the new system. To expedite the process, the authorities have been undertaking a major educational campaign.

The 1985/86 Budget: A Shift in Expenditure Policy

1.32 Against the background of the slow pace of activity in some areas of the economy, the 1985/86 budget seeks to provide a fiscal stimulus without jeopardizing the hard-won recent gains in stabilizing the economy. Overall government spending is budgeted at Rp. 21.3 trillion, representing a 20% nominal increase over the 1984/85 projected outturn; but revenues are projected to rise by only 5% (Table 1.5). Consequently the overall fiscal balance is projected to change from an estimated surplus of 0.2% of GNP in 1984/85 to a deficit of 2.9%; and net domestic expenditures to rise from 9.5% of GNP in 1984/85 to 11.0%. If the budget is implemented in full, there would be a sizeable stimulus to the domestic economy.

/1 In 1980/81, less than 200,000 income tax returns were filed, of which 5% were correct assessments. Furthermore, over 40% of taxpayers who filed a return in one year failed to do so in the next year.

Table 1.5: THE 1985/86 BUDGET /a

	/b		/b		/c	
	1984/85 Budget (Rp. trillion at current prices)	1984/85 Estimate	1985/86 Budget	1984/85 Nominal Growth — % p.a.—	1985/86 Real Growth	
<u>Total revenues</u>	<u>16.2</u>	<u>17.9</u>	<u>18.7</u>	<u>4.5</u>	<u>-3.1</u>	
Oil and LNG	10.4	12.4	11.2	-9.7	-16.4	
Non-oil	5.8	5.5	7.5	36.3	26.3	
<u>Current expenditures /d</u>	<u>-10.8</u>	<u>-9.9</u>	<u>-12.8</u>	<u>29.3</u>	<u>19.7</u>	
of which:						
Personnel	-3.2	-3.1	-4.1	32.3	22.5	
Regional transfers	-1.8	-1.9	-2.6	36.8	26.7	
Interest on debt	-1.4	-1.5	-1.8	20.5	11.1	
Subsidies	-1.6	-1.2	-1.2	-	-	
<u>Government savings</u>	<u>5.4</u>	<u>8.0</u>	<u>5.9</u>	<u>-26.3</u>	<u>-31.7</u>	
<u>Government investment /e</u>	<u>-8.5</u>	<u>-7.8</u>	<u>-8.5</u>	<u>9.0</u>	<u>0.9</u>	
<u>Overall balance (- = deficit)</u>	<u>-3.1</u>	<u>0.2</u>	<u>-2.6</u>			
Financed by:						
Net project and program aid /f	3.1	2.3	2.6			
Asset drawdown /g	-	-2.5	-			
Memo items (in percent):						
Overall balance/GNP (- = deficit)	-3.8	0.2	-2.9			
Government savings/GNP	6.7	9.8	6.5			
Net domestic expenditure/GNP /h	10.3	9.5	11.0			

/a Excludes provincial government finances.

/b From Nota Keuangan (the budget document).

/c Compares the budget for 1985/86 with the estimate for 1984/85. Real growth rates were calculated using a deflator of 8%.

/d To arrive at current expenditures, routine expenditures are adjusted to exclude amortization payments and include both the fertilizer subsidy and the recurrent component of development expenditures.

/e Government investment includes both direct government investment and transfers to public enterprises.

/f Net disbursements of external debt.

/g Negative sign implies asset accumulation with the banking system.

/h Net domestic expenditures is here defined as domestic content of current and investment expenditures less non-oil revenues. See footnote 1 to para. 1.22.

Source: World Bank staff estimates.

1.33 In comparison to the 1984/85 budget, the budgetary expenditure allocations in 1985/86 represent a shift in expenditure policy. In view of the perceived need to provide a fiscal stimulus to the economy and the weak project implementation performance in 1984/85, the authorities have allocated a larger proportion of the budget to current expenditures. Thus, for the first time, investment expenditures are budgeted below the level for routine outlays. This strategy also addresses the need to keep foreign borrowing within prudent limits. When compared to the estimated 1984/85 outcome, the allocations for current expenditures represent a 29% nominal increase, and investment expenditures a 9% nominal (or about 1% real) increase. Even this modest increase in budgeted investment expenditures may be difficult to achieve, unless there is some improvement in project implementation (see paras. 1.37-1.40 below).

1.34 Current expenditures include an average increase of 20% in net civil servants' salaries, a large increase in government pensions and a further rise in teachers' salaries. These increases are expected to help develop a "clear and authoritative" state apparatus by improving government employees' salaries and to compensate them for declining real incomes over the past three years. Despite these increases, civil servants' salaries will still not be above their 1982 levels.^{/1} There are two other noteworthy features in routine expenditures. First, external debt-service payments are expected to rise by 17.6% in nominal terms over the 1984/85 outcome. Second, the domestic oil subsidy is budgeted at Rp. 532 billion, roughly equal to the outcome for 1984/85.

1.35 With regard to development expenditures, ^{/2} the sectoral priorities in the new budget are similar to those in last year's budget. In accordance with REPELITA IV objectives, education, transport and agriculture continue to receive the highest priority (over 40% of budgeted development expenditures), closely followed by industry, power and transmigration (25%). The health sector, which accounts for a small share of development expenditures, is the only sector to receive substantial additional funds. The fertilizer subsidy, normally included as a component of the agricultural budget, is also expected to rise by over 20% ^{/3}, although the price of fertilizer was raised by 11% from Rp. 90 per kg to Rp. 100 per kg in November 1984. Allocations of development expenditures to regional and local governments are budgeted to rise by 8.4%, with general and sectoral INPRES programs rising by 8.6% and

^{/1} The average annual real growth of civil servants' salaries in the 1977-85 period has been only about 2.0-2.5%.

^{/2} For differences between the Government's development expenditures and investment expenditures, see footnote 2 to para. 1.22.

^{/3} This compares the 1985/86 budget with the 1984/85 budget allocations. However the fertiliser subsidy in 1984/85 is estimated at Rp 732 billion or 60% above the budgeted level. Thus, the Rp 558 billion budgeted for 1985/86 actually represents a 24% decline in nominal terms from the estimated outcome for 1984/85.

8.0% respectively. Meeting these targets will require considerable improvement in project implementation performance of line ministries and local governments.

1.36 An important feature in the new budget is its emphasis on domestic resource mobilization. Non-oil/LNG revenues are budgeted to increase by nearly 36% (in nominal terms) in part to compensate for an expected decline in oil and LNG revenues from their 1984/85 level. The introduction of VAT alone accounts for one third of incremental non-oil revenues. Of the Rp. 1,666 billion VAT target, about Rp. 531 billion are expected to be derived from domestic oil sales with another Rp. 358 billion from imports. These are reasonable targets, but the remaining Rp. 777 billion to be collected from the domestic manufacturing and construction sectors appears ambitious, particularly in the first year of the new tax. The Government also expects to increase collections from individual and corporate income taxes by 40% compared to 1984/85. Domestic revenues are expected to finance 88% of planned expenditures, with the balance coming from project and program aid.

Measures to Improve Project Implementation Performance

1.37 The implementation constraints on development budget expenditures, although partly related to limited capacity in the domestic construction industry and consultancy services, largely reflect continuing regulatory, procedural and institutional problems.^{/1} A problem area that particularly affects externally aided projects is procurement. Efficiency in procurement is a generally acknowledged objective, the benefits of which are lower costs, speedier implementation and consequently earlier realization of investment returns. However, the desire to utilize local material and services to the maximum extent, which also has worthwhile benefits, has tended to result in protracted delays in finalizing contract awards and, in some cases, to higher costs and delays in their execution. This has been reflected, for example, in the choice of higher cost local steel instead of imported steel, in slow procurement caused by the efforts to find local contractors and consultants, and in slow implementation due to the limited capacity of local contractors.

1.38 The Government is well aware of, and concerned about, these problems. This concern has been expressed at the highest levels and, as a result, a number of actions were taken during the past year to help alleviate these problems. The first category of actions focused on the revision and issuance of decrees to establish new procedures to ease some of the procedural bottlenecks. These new procurement and fund utilization procedures provide clear guidance on government procurement policies (KEPPRES 29 and 30). In November, 1984, the Government issued instructions to project agencies to clear all important procurement parameters with the government committee which oversees procurement (Team 10), before discussing them with lending agencies and/or issuing tender documents. This change is intended to avoid

^{/1} These problems were discussed in last year's economic report; see Indonesia - Policies and Prospects for Economic Growth and Transformation, World Bank Report No. 5066-IND, April 26, 1984.

delays later on in the procurement cycle. Secondly, the Government organized a number of meetings, workshops and discussions at department and inter-department levels and between senior officials, multilateral and bilateral agencies and project agencies on various aspects of implementation problems. These meetings undertook a project-by-project review of implementation problems, evaluated progress, proposed solutions, and instituted an implementation monitoring system with monthly progress reports to BAPPENAS. Immediate attention was given to critical procurement items, and where budgetary provisions were inadequate in priority projects, authorizations were increased. A third set of actions focused on procedures at the working level, particularly in finance and budgeting, with a view to simplifying complex interlocking structures of procedures and practices which have developed over time. Initiatives in this area include: reiteration and clarification of procurement procedures; the preparation and dissemination of a manual on budgetary procedures, and a course on the subject for project managers; greater flexibility in adjusting implementation targets and funds utilization within DIPs; budgeting for early acquisition of land at project sites; and the revision of procedures for disbursement of funds for approved and signed contracts (SK 395).

1.39 Other initiatives to improve project implementation are in progress. A committee chaired by the Minister for the Utilization of the State Apparatus is examining the complex problems of land acquisition with a view to making appropriate recommendations. Billing rates for foreign and local consultants are under review and, in the interim, the existing guidelines are being applied flexibly. Preparation of standard contract documents is under way. Registration of local consultants and the strengthening of the Local Consultants Association (INKINDO) is in progress, as well as training and other measures to strengthen the local contracting industry with support from the World Bank.

1.40 It is too early to assess the full impact of the procedural changes and instructions outlined above, because of difficulties experienced by project agencies in receiving, correctly interpreting and assimilating changes, particularly for projects initiated under previous procedures. The greatest difficulties occur in those areas where the instructions require or result in the creation of new or additional institutional structures. For example, a new decree (KEPPRES 30) requires the establishment of procurement committees in each department and agency, through which all tenders valued between Rp. 200 million and Rp. 500 million must be cleared; and public enterprises are also now required to clear the procurement of items within this range with these department-level committees.

D. External Trade and Payments

Reduction in the Current Account

1.41 A key objective of the adjustment strategy since late 1982 has been to strengthen the external payments position. As noted earlier, substantial progress in this respect was made in 1984/85 (Table 1.6). The current account

deficit was reduced to an estimated 2.4% of GNP, while official reserves increased significantly both in absolute terms and in relation to the country's import bill. The measures taken by the Government since 1983 to restrain aggregate demand, the postponement of public sector projects that would need large imports, the slowdown of Government's investment expenditures during the past year, and actions to increase non-oil exports by improving the relative profitability of exporting and through promotional activities all contributed to Indonesia's success in strengthening its external payments position last year.

Export Performance

1.42 Although Indonesia's oil export earnings have fallen somewhat over the past two years as a result of declining crude and product prices, Indonesia was able to slightly increase its total 1984/85 export earnings in nominal dollars over the previous year's level. This was because earnings from LNG and non-oil exports increased substantially in volume and value terms. LNG exports increased by 37%, or almost \$900 million, and non-oil exports rose by an estimated \$500 million.

1.43 The expansion of non-oil exports over the past two years has been broad based. Exports of manufactures, in particular, doubled in value between 1982/83 and 1984/85, with a large number of new items, such as ferrous and non-ferrous metal products and rubber products entering the export market for the first time. The existence of excess capacity helped to increase exports such as tires and cement. In the case of primary products, such as tea and coffee, and metals (copper), the devaluation and continuing strong export prices made exporting more attractive. The Government has also acted to avoid a significant erosion of the 1983 devaluation through a managed floating exchange rate policy. However, the task has been a difficult one given the rise in the U.S. Dollar against other major currencies.

1.44 However, the sharp increase in manufactured exports in 1983/84 (over 80% in constant prices) slowed down to an estimated 15% -- still an impressive rate -- in 1984/85. Much of the increase in the value of manufactured exports over the past year stemmed from plywood (where substantial new capacity came on stream) and textiles, despite tariff and non-tariff barriers in a number of industrial countries. As noted, plywood exporters are now facing difficulties (para 1.17). The rest of the manufacturing export base is still quite small; and although several subsectors have substantial excess capacity, these are not competitive in export markets due to their relatively high cost structure (see Chapter 3). The Government has very recently taken major steps to reduce some of these high costs through an extensive reform of customs and ports procedures (discussed in paras 1.70-1.73 below). As part of its non-oil export drive, the Government has also recently sought to expand market outlets by entering into trade agreements with several Eastern European countries. However, the potential benefits of these initiatives are yet to be realized.

Table 1.6: SUMMARY OF BALANCE OF PAYMENTS, 1982/83 - 1984/85
 (\$ billion at current prices)

	1982/83	1983/84	1984/85 Est.
<u>Gross merchandise exports</u>	<u>18.6</u>	<u>19.8</u>	<u>20.2</u>
Oil and LNG	14.7	14.4	14.3
Non-oil/LNG	3.9	5.4	5.9
<u>Gross imports of goods (cif)</u>	<u>-20.6</u>	<u>-18.0</u>	<u>-16.0</u>
Oil and LNG	-4.8	-3.8	-3.1
Non-oil	-15.8	-14.2	-12.9
<u>Trade balance</u>	<u>-2.0</u>	<u>1.8</u>	<u>4.2</u>
<u>Net non-factor services</u>	<u>-1.7</u>	<u>-1.6</u>	<u>-1.6</u>
<u>Resource balance</u>	<u>-3.7</u>	<u>0.2</u>	<u>2.6</u>
<u>Net factor services and transfers</u>	<u>-3.4</u>	<u>-4.4</u>	<u>-4.5</u>
<u>Current account balance</u> (- indicates deficit)	<u>-7.1</u>	<u>-4.2</u>	<u>-1.9</u>
Net disbursements of public ML2 debt	3.1	3.7	2.2
Net other capital /a	0.7	2.1	0.6
Change in net official reserves (-indicates increase)	3.3	-1.6	-0.9
<u>Memo items :</u>			
Total net foreign assets /b	6.3	8.4	9.9
Net official reserves /b	3.0	4.6	5.5
Current account balance as % of GNP	-8.5	-6.0	-2.4

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

/b Net of outstanding drawings from the IMF's Buffer Stock and Compensatory Financing Facilities. These are treated as current external liabilities.

Source: Bank Indonesia and World Bank staff estimates.

1.45 Over the past two years, non-oil exports have made a significant contribution to the reduction in the current account deficit. Following an exceptionally strong performance in 1983/84, non-oil exports are estimated to have risen by a further 10 per cent in value, or by about \$500 million, to an

estimated \$5.9 billion in 1984/85. Since average prices of Indonesia's non-oil exports appear to have declined by 2% over 1983/84 levels, the increase in real terms is about 12% (Table 1.7).

Table 1.7: NON-OIL EXPORT PERFORMANCE, 1982/83 - 1984/85

	\$ million at current prices			% change current \$		% change constant 1981 \$	
	1982/83	1983/84	1984/85/ ^a	1983/84	1984/85	1983/84	1984/85
<u>Primary commodities</u>	<u>2,400</u>	<u>3,080</u>	<u>3,230</u>	<u>28.3</u>	<u>4.9</u>	<u>5.4</u>	<u>5.2</u>
Timber	580	580	480	-	-17.2	-18.2	1.5
Rubber	610	980	990	60.7	1.0	10.9	5.9
Coffee	360	510	530	41.7	3.9	10.4	7.6
Other agriculture	850	1,010	1,230	18.8	21.8	14.4	5.6
<u>Manufactured exports</u>	<u>850</u>	<u>1,480</u>	<u>1,650</u>	<u>74.1</u>	<u>11.5</u>	<u>82.5</u>	<u>15.3</u>
Plywood	320	580	660	81.3	13.8	79.0	23.7
Textiles / ^b	180	360	500	100.0	38.9	111.0	41.1
Elect. appliances	110	130	160	18.2	23.1	20.5	26.9
Other manufactures	240	410	330 / ^c	70.8	-19.5	94.7	-18.8
<u>Metals and non-oil minerals</u>	<u>680</u>	<u>800</u>	<u>1,020</u>	<u>17.6</u>	<u>27.5</u>	<u>18.1</u>	<u>27.3</u>
<u>Total</u>	<u>3,930</u>	<u>5,360</u>	<u>5,900</u>	<u>36.4</u>	<u>10.1</u>	<u>23.6</u>	<u>12.0</u>
Memo item : Non-oil export price index (1981=100)	93.9	103.8	101.9				

/a Preliminary estimates.

/b Includes handicrafts.

/c Decline in 1984/85 was mainly due to reduced re-exports of items with little domestic value added.

Source: Bank Indonesia and World Bank staff estimates.

1.46 Despite the brisk expansion of OECD output and demand in 1984, world commodity prices did not improve significantly and the World Bank's weighted index of non-energy commodity prices rose by only one percent (from 90 to 91).^{/1} The strength of the dollar led to declines in the prices of some of

^{/1} 1979-80 = 100

Indonesia's dollar-denominated exports. Average oil export prices fell by about 2% during the year. Prices of some of Indonesia's major export products such as plywood, rubber and tin, registered sharp declines. There were, however, some bright spots, as coffee, tea, sawnwood and nickel prices rose. On balance the index of Indonesia's non-oil export prices declined somewhat. However, because of declines in the dollar prices of its imports, Indonesia's non-oil terms of trade improved slightly during 1984.

Decline in Imports

1.47 Over the past two years, non-oil imports have declined by about 18% in dollar terms, largely as a result of the stabilization and adjustment measures adopted since late 1982, most notably the rephasing of public sector investment, the depreciation of the exchange rate, and restraints on imports. As Table 1.8 indicates, more than 85% of the decline in total imports has been in the capital goods category and the balance mainly in food imports. The rephasing of public sector investment in May 1983 resulted in considerable foreign exchange savings in 1984/85. Moreover, shortfalls in government investment expenditures in 1984/85 had a particularly pronounced impact on capital goods imports, as project aid-financed imports were reduced. In the case of food items, the decline in 1984/85 was due to a reduction in rice imports by about \$200 million, as increased domestic rice production obviated the need for imports. Although the dollar value of intermediate goods imports fell slightly in 1984/85, there was a small increase in real terms, indicating that imported inputs for domestic production have not been as affected.

Table 1.8: NON-OIL IMPORTS, 1982/83 - 1984/85

	\$ million at current prices			% change current \$		% change constant 1981 \$	
	1982/83	1983/84	1984/85 /a	1983/84	1984/85 /a	1983/84	1984/85 /a
Consumer goods	1,820	1,660	1,520	-8.8	-8.4	-11.0	-8.2
(Food)	(1,270)	(1,130)	(940)	-(11.0)	-(16.8)	(-15.0)	(-15.9)
(Non-food)	(550)	(530)	(580)	-(3.6)	(9.4)	(0.7)	(10.7)
Intermediate goods	4,860	4,660	4,600	-4.1	-1.3	0.1	1.5
Capital goods	9,140	7,920	6,750	-13.3	-14.8	-9.5	-12.3
<u>Total</u>	<u>15,820</u>	<u>14,240</u>	<u>12,870</u>	<u>-10.0</u>	<u>-9.6</u>	<u>-6.8</u>	<u>-7.3</u>
Price index (1981=100)	96.0	92.8	90.4				

/a Preliminary estimates.

Source : World Bank staff estimates.

Rising Import Restrictions

1.48 There is some evidence to suggest that trade policy interventions have also reduced imports in some product groups. Since 1982, the Government made greater use of existing policies on import controls to protect the manufacturing sector from international competition in a slowly growing domestic market. This has been particularly evident in two instances. First, there has been an increase in the number of categories of goods subject to quantitative restrictions and import licensing requirements. In 1983, the Department of Trade issued decrees requiring that some products (iron and steel, paper, food and drinks, and road tires and tubes) could only be imported through state-owned trading companies; in addition, decrees were issued imposing quantitative restrictions on a number of products. In 1984, the list of goods subject to import licensing requirements and quantitative restrictions was further expanded.^{/1} Second, the Government pressed ahead with the promotion of several engineering industries by imposing quotas on imports of assembled engineering products and, with a view to increasing local content, introducing a program of progressive reductions in component imports through import bans. This approach, which had earlier been applied to automobiles and motorcycles, was extended in the past two years to diesel generating sets, heavy equipment parts, earthmoving machinery, tractors and, more recently, machine tools. Thus, although the share of items subject to import restrictions in Indonesia's imports has been small, recent events show a strong trend towards a greater number of controlled items.^{/2} However, in sharp contrast to these trends, the Government also introduced a major tariff change in April 1985, which reduces the level of nominal tariff rates and narrowed their dispersion (see Chapter 3).

Capital Inflows

1.49 Indonesia has enjoyed continued access to the international capital markets on favorable terms. In order to limit public sector borrowing abroad and protect Indonesia's creditworthiness, the Government in October 1984 imposed a ceiling of \$1.5 billion on total public sector export credits to be contracted in 1984/85. Moreover, such financing will be available only for those development projects which will be deemed eligible by the Government, and will be used to procure supplies in an efficient manner.

^{/1} The additions include plastic basic materials, iron or steel pipe joints, oriented polypropylene film, additional categories of heavy equipment and spare parts, a further 77 electronic products, steel sheets, hot and cold rolled coils and plates, cyclamate and explosives for commercial industries.

^{/2} In addition to the restrictions noted above, as part of the Government's policy of developing the domestic shipbuilding industry, imports of new or second-hand ships are now banned.

1.50 In 1984, Indonesia obtained \$1.5 billion of new commitments for public sector borrowing from overseas commercial banks. With commitments of import related credits (\$1.0 billion) and development assistance by the IGGI (\$2.1 billion), total public sector commitments during the year amounted to \$4.6 billion. In addition, Indonesia received about \$110 million dollars in grants from IGGI members. In 1984/85, gross disbursements declined to \$3.8 billion compared with \$5.0 billion in the preceding year, partly as a result of slower than planned rates of project implementation, and the continued effects of project rephasing. In February 1985, Indonesia repaid SDR 115 million to the IMF under the terms of the Buffer Stock and the Compensatory Financing Facilities.

1.51 In 1983, following the devaluation and increased confidence in the Rupiah, there was a significant reflow of private funds; the exact magnitude of this reflow is difficult to gauge, given Indonesia's liberal foreign exchange policies. However, this reflow appears to have tapered off in 1984. Indonesia's net official reserves increased by \$0.9 billion during the fiscal year to reach \$5.5 billion at the end of March 1984. The net foreign assets of the banking system as a whole rose to about \$10 billion, or 7.4 months of total imports of goods.

E. Monetary and Credit Developments

1.52 The financial sector reform of June 1983 is an important element of the Government's adjustment strategy. It is viewed as a major instrument for increasing financial savings and encouraging the evolution of an efficient financial system over the longer term. The reform has already had beneficial effects on financial sector development. Nevertheless, several transitional aspects, discussed below, need to be addressed further to enhance the sector's contribution to growth and development.

1.53 The improvement in the balance of payments, noted earlier, helped to significantly increase net foreign assets held by the banking system. However, the monetary consequences of this increase were almost completely offset by a rise in net government deposits with Bank Indonesia. Bank credit to the private sector increased sharply, at an annual rate of 34% (Table 1.9). But, since credit growth to public enterprises was kept down to 4%, and time deposits with banks increased rapidly following the reform, money supply (M1) increased at the rate of 13%, somewhat below the increase in nominal GDP. Broad money (M2), however, increased by 22%.

Table 1.9: CHANGES IN FACTORS AFFECTING MONEY SUPPLY AND LIQUIDITY, 1982-84
(Rupiah billion)

Changes in	1982	1983/a	1984	Annual Growth in %		
				1982	1983	1984
Net foreign assets	-1,528	3,031	2,767	-23.0	59.1	33.9
Net government deposits	530	-1,293	-2,471	-11.7	32.3	46.6
Credit to public enterprises	732	61	190	17.2	1.2	3.8
Credit to private sector	2,218	2,371	3,646	36.4	28.5	34.1
Net other assets	-593	-582	-858	-	-	-
Time & savings deposits /b	-723	-3,140	-2,262	22.4	79.4	31.9
Money supply (M1)	636	448	1,012	9.8	6.3	13.4
Currency	(377)	(399)	(379)	(14.7)	(13.6)	(11.4)
Demand deposits	(259)	(49)	(633)	(6.6)	(1.2)	(14.9)
Domestic liquidity (M2)	1,359	3,588	3,274	14.0	32.4	22.3
<u>Memo item:</u>						
M2/GDP ratio	18.2	19.9	20.8			

/a Includes changes resulting from the exchange rate adjustment on March 30, 1983.

/b Includes foreign currency deposits.

Source: Bank Indonesia.

Deposit Mobilization

1.54 Considerable progress has been made in the past 18 months towards the objective of increasing deposit mobilization by banks; rupiah time and savings deposits held by banks increased by 74% in the year following the reform (Table 1.10). The sharp rise in nominal and real deposit rates, which followed the reform (see below), led to a shift in the asset preferences of individuals and enterprises from demand deposits and currency to time deposits. In addition, renewed confidence in the Rupiah (which led to some reflow of capital), the modest rate of domestic inflation, a strong foreign exchange reserve position and, finally, favorable tax treatment on interest income /1 all helped increase time and savings deposits. As a result, the ratio of broad money to GDP, at current prices, increased from 18% in 1982 to about 21% in 1984 (Table 1.9).

/1 Interest income from time deposits with maturities of one month and longer are exempt from income taxes for an unspecified "temporary" period.

Table 1.10: GROWTH OF BANK DEPOSITS, 1983-1984
(Rupiah billion)

	1983	1983	1984	1984	Nominal Growth	
	June	Dec.	June	Dec.	Jun 83- Jun 84	Jun 84- Dec 84
					—% p.a.—	
Demand deposits	4,148	4,177	4,095	4,817	-1.3	35.3
Time & savings deposits	3,344	4,694	5,831	6,387	74.4	19.1
State banks /a	(1,531)	(2,593)	(3,132)	(3,228)	(104.6)	(6.1)
Private banks /a	(780)	(1,072)	(1,421)	(1,744)	(82.2)	(45.5)
Foreign currency deposits	<u>2,044</u>	<u>2,289</u>	<u>2,398</u>	<u>2,944</u>	<u>17.3</u>	<u>45.5</u>
<u>Total deposits - all banks</u>	<u>9,536</u>	<u>11,160</u>	<u>12,324</u>	<u>14,148</u>	<u>29.2</u>	<u>29.6</u>

/a Rupiah time deposits.

Source: Bank Indonesia.

1.55 In the last six months of 1984, the growth of rupiah time and savings deposits slowed down to an annual rate of about 19%, while growth of foreign currency (dollar-denominated) deposits accelerated sharply to an annual rate of 46%. Some slowdown in rupiah time deposits was to be expected as portfolio shifts are essentially completed. The pronounced shift from rupiah time deposits to dollar-denominated deposits was, however, probably due to expectations of continued depreciation of the Rupiah against the US Dollar, given the softening of oil prices and the strengthening of the Dollar abroad.

1.56 The changing pattern of deposit growth is a potential source of pressure on bank liquidity and domestic interest rates. Indonesian banks, for reasons of risk aversion, generally redeposit foreign currency deposits abroad; therefore, these funds are not usually available for domestic lending. The slowdown on rupiah deposit growth may thus put pressure on domestic lending rates; it may also make it difficult for private banks to mobilize additional resources to repay maturing liquidity credits and short term loans from Bank Indonesia. The authorities are aware of this problem and have already taken some actions to deal with it (paras 1.64-1.67).

Credit Availability

1.57 The rapid growth of deposits following the reform enabled banks to increase credit by 23% during 1984, with credit to the private sector recovering strongly (Table 1.11). Private and foreign banks, increased their combined share of total bank credit from 15% in March 1983 to 22% in December

1984. However, the lending by state banks did not pick up from the previous year's reduced levels. The state banks now seem less disposed to provide term lending /1, given their reduced access to Bank Indonesia's liquidity credits. As a result, approvals and disbursements of term loans for investment have declined noticeably since June 1983 (Table 1.11). Finally, as state banks accumulated excess liquidity in the early part of 1984, private banks borrowed these funds to expand their lending and a sizeable inter-bank money market developed.

Table 1.11: GROWTH OF BANK CREDIT, 1981-1984
(percent change per annum)

	1981	1982	1983	1984	1983 June - Dec. /a	1984 Jan.-June	1984 Jul.-Dec.
<u>Total bank credit</u>	29.0	28.5	17.5	23.0	23.3	21.7	21.9
State banks	36.7	36.6	21.9	20.3	18.3	19.0	19.6
Private banks	47.3	43.5	57.4	61.6	69.5	60.7	47.8
Foreign banks	32.4	21.5	29.3	21.3	53.9	41.3	1.3
<u>Investment credit</u>							
Disbursed and outstanding	37.4	42.7	33.9	22.0	26.7	21.2	20.5
New approvals	34.4	41.1	38.4	15.1	29.4	5.4	24.2
<u>Memo items:</u>							
<u>Total bank credit to:</u>							
Public enterprises	16.2	17.2	1.2	3.8	12.7	-9.2	17.5
Private sector	40.4	36.4	28.5	34.1	25.4	37.2	26.0

/a Change over end-May 1983, as the financial sector reform became effective on June 1, 1983.

Source: Bank Indonesia.

/1 State banks (including BAPINDO) provide almost all of the term lending at present. As of December 1983, state commercial banks provided 76% of loans with maturities of over 3 years and BAPINDO another 18%.

1.58 The deceleration of the state banks' term lending may also in part be due to depressed demand for term loans. As discussed above, private fixed investment has fallen (para 1.11). High real interest rates which emerged with the rise in nominal rates and the deceleration in the domestic inflation rate over the past year have probably contributed to low investment activity. (Real interest rates on state banks' term loans are now about 10% p.a. compared to -6% in early 1983 and real interest rates on short term working capital loans now range from 10-15% p.a. for state banks and 15-20% for private banks - Table 1.12). In addition, state banks have become less willing to provide term loans, given the increased cost of funds and increased exposure to loan risks in the current economic situation. Finally, it appears that the 18% term lending rate of the state banks is not sufficient to cover the increased costs and risks of term lending.

1.59 Much of the recent credit growth has taken the form of short term working capital loans to the industrial, trade and services sectors. A part of the credit growth has probably been used for financing involuntary inventory accumulation and for additional working capital, in view of increasing delays experienced by many firms in the industrial and trade sectors in regard to repayments of trade credits by their customers. In addition, the sharp increase in interest rates (discussed below) has increased debt servicing requirements of borrowers. These developments call for closer monitoring of credit use and more effective banking supervision by the authorities to avoid potential portfolio problems for weaker banks.

1.60 The developments in the financial sector since June 1983 have also affected the availability of long term funds for investment from the development banks and the capital market. Development banks are now faced with funding problems as they find it difficult to attract low cost funds from the market, given their portfolio problems and the high commercial bank deposit rates. This last factor and the favorable tax treatment of bank deposits have also eroded the attractiveness of the capital market. Since interest and dividend income from capital market instruments are not tax-exempt, companies need to offer gross yields of at least 28-30% p.a. to potential holders of capital market instruments to provide returns comparable to those on bank deposits; at these rates it is no longer attractive to companies to raise funds from the capital market. (These issues are discussed in Chapter 3 below.)

Interest Rate Developments

1.61 An important consequence of the financial sector reform has been the rise in domestic deposit and lending rates. Initially there were some expectations that deposit and lending rates would come down as state banks accumulated more deposits and adjusted to the new competitive environment. However, this has not happened; indeed deposit and lending rates in Indonesia increased further, particularly in the second half of the year (Table 1.12).

Table 1.12: INTEREST RATES OF COMMERCIAL BANKS, 1981-1984
(percent per annum)

	1981 December	1982 December	1983 March	1983 December	1984 December
<u>Nominal deposit rates /a</u>					
State banks	10.2	8.6	9.5	14.8	17.1
Private banks	17.4	17.1	17.4	17.4	20.7
<u>Real deposit rates /b</u>					
State banks	2.7	-1.3	-3.2	2.5	7.4
Private banks	9.4	6.5	4.8	4.8	10.7
<u>Nominal lending rates /c</u>					
State banks	13.5-21	13.5-21	13.5-21	17-23	18-24
Private banks	16-28	16-28	16-28	18-28	24-30
<u>Real lending rates /d</u>					
State banks	5-13	3-10	(-)6-1	(-)2-3	10-15
Private banks	8-20	5-16	(-)4-8	(-)2-8	15-20

/a Nominal rates on 3 month time deposits.

/b Deflated by the Consumer Price Index for the relevant year.

/c Nominal rates on working capital and term loans.

/d Deflated by the Wholesale Price Index for the relevant year.

Source: Bank Indonesia and World Bank staff estimates.

1.62 The June 1983 reform eliminated restrictions on domestic deposit rates in Indonesia. As a result, and given the open capital account, domestic interest rates are now more closely related to interest rates abroad and the expected rate of depreciation of the currency. Generally domestic nominal deposit rates were in line with interest rates abroad and the rate of depreciation of the Rupiah vis-a-vis the US Dollar until about mid 1984. However, in the second half of the year, the rapid appreciation of the US Dollar against other currencies and the softening of oil prices appears to have adversely affected domestic market expectations. This in turn seems to have increased the premium required for holding rupiah deposits and the differentials between domestic deposit rates and those abroad (see below). Finally, given these high deposit rates, the relatively high intermediation costs of Indonesian banks have raised domestic lending rates in Indonesia above international lending rates adjusted for the market operations currency depreciation.

1.63. Against this background, the tightening of money market conditions in Indonesia due to domestic developments put further pressure on interest rates in the second half of 1984. An unexpected build up of net Government deposits with Bank Indonesia of some Rp. 1.8 billion took place during March-August 1984. This led to a tightening of reserve money (which declined by about 4%

over the same period) and bank liquidity, at a time when the private banks continued to expand credit rapidly, borrowing large amounts from the inter-bank market. At the same time the demand for funds in the inter-bank market increased sharply. The Indonesian authorities, in an effort to maintain the competitiveness of the Rupiah in view of the strengthening of the US Dollar in international markets, allowed the Rupiah to depreciate at a somewhat faster pace during July-August than they did earlier in the year./1 This, given the developments discussed in para 1.62, heightened expectations of a significant depreciation of the rupiah and led to speculative portfolio shifts; consequently, inter-bank rates rose to about 80-90% p.a., and in turn put pressure on deposit and lending rates. Although actions by the authorities (para 1.66) eased bank liquidity, domestic deposit and lending rates are still above their pre-August 1984 levels.

Monetary Control and Management

1.64 These developments have highlighted the need for continued flexibility on the part of the authorities in managing the growth of reserve money and bank liquidity, and for closer coordination of monetary and fiscal policies in order to ensure orderly market conditions. As the September episode in the inter-bank market demonstrated, the Government's fiscal operations can lead to significant shifts in bank liquidity and put pressure on interest rates. Hence, offsetting actions by the monetary authorities are required. Bank Indonesia is aware of these needs and has already taken several steps during the past year to deal with the changing priorities of monetary management.

1.65 An initial concern of the authorities in early 1984 was how to mop up prevailing excess liquidity of banks, given the lack of government paper and other securities for conducting open market operations. Accordingly, in February 1984 Bank Indonesia introduced Bank Indonesia certificates (SBIs) with 15-90 day maturities aimed at absorbing excess liquidity. These certificates are issued weekly and carry interest rates determined on an auction basis. However with the tightening money market conditions later in the year, the stock of SBI's reached only Rp. 369 billion by end 1984. Bank Indonesia also introduced two new discount windows, at market rates, in February 1984: a standard lender of last resort window with basic access for a two-week period to assist banks in day to day management of funds, and a long term window providing credit for two to four months to encourage term lending. These facilities, however, were little used, as the banks were strongly encouraged to resort to the inter-bank market first before approaching Bank Indonesia.

1.66 As market conditions tightened, Bank Indonesia set up a temporary "special facility" in September to provide liquidity to banks at market rates; this was used by several private banks who borrowed about Rp. 300 billion. Bank Indonesia also limited each private bank's borrowing from the inter-bank market to 7.5% of deposit liabilities; and to halt the speculation against the Rupiah, slowed down the rate of managed depreciation of the currency.

/1 In 1984, the Rupiah depreciated by 8% against the U.S. Dollar.

These measures succeeded in improving bank liquidity and calming down the inter-bank market. Subsequently, as net government deposits with Bank Indonesia continued to increase, Bank Indonesia increased its lending to banks to ensure adequate liquidity.

1.67 More recently, Bank Indonesia announced a new instrument - Money Market Securities (MMS) - in order to inject liquidity into the banking system by purchasing promissory notes from banks and non-bank financial intermediaries (NBFIs). Under this new scheme, which became effective on February 1, Bank Indonesia will buy MMS directly from banks and NBFIs or through designated security houses (presently FICORINVEST only). Three types of MMS are eligible for discounting: promissory notes issued by banks and NBFIs in borrowing from the interbank market; those issued by customers of banks and NBFIs based on lines of credit from such institutions; and trade bills based on underlying transactions issued by third parties and endorsed by banks and NBFIs. The MMS have a maturity range of 30-90 days, while the discount rate is set by Bank Indonesia according to market conditions; (at present, the discount rate on MMS is 20.5% p.a.). There is evidence that the new scheme has already had a major salutary effect on money market conditions by providing banks and NBFIs access to Bank Indonesia resources at market rates and by encouraging direct trading among banks themselves. As of end-March 1985 total net purchases of MMS made by Bank Indonesia and FICORINVEST stood at Rp 205 billion, mainly from private banks and foreign banks.

1.68 As discussed, monetary and credit developments during the past year have highlighted a number of issues, some of which have been already addressed by the authorities. Others, such as the high real cost of credit and the reduced availability of term lending, could be ameliorated through institutional and efficiency improvements discussed in Chapter 3 below. In addition, the authorities will need to monitor closely the monetary impact of the Government's fiscal operations and developments with regard to the growth of rupiah time deposits of banks noted earlier, in view of their possible impact on bank liquidity and interest rates.

F. Progress Towards Deregulation

1.69 While the Government's macroeconomic strategies have met with considerable success, it has recognized the need for actions at the sectoral and subsectoral levels as key elements of the adjustment process over the longer term. In particular, significant improvements in the regulatory framework and reductions in the structure of domestic costs are essential to the development of an efficient, competitive and dynamic industrial sector in the medium to long term. The use of extensive, and often contradictory, licensing and regulatory requirements has impeded private sector activity in the past, particularly in the manufacturing sector. Similarly, complex regulations which govern customs procedures have entailed considerable delays in the clearance of imported goods through the ports, impeded the flow of non-oil/LNG exports and generally added to costs. In addition, transport

costs, which are currently high in Indonesia, have been an important element of high costs. The maritime transport system is particularly costly owing to the cumbersome port and customs procedures noted above, regulations governing shipping services, the system of shipping route allocation, limited managerial manpower for port operations, underutilization of available ship capacity and deteriorated port structure. These problems have been long-standing and deep-rooted, given the large and powerful bureaucracies which have evolved in the customs and port operations. The Government is fully cognizant of these problems, and has taken major steps very recently to deal with them.

Simplification of Investment Procedures

1.70 With respect to private investment licensing, effective April 1, 1985, the Government simplified procedures for approval and implementation of investments. First, in the case of new investment projects, it is no longer mandatory to obtain temporary approval. Applications which are complete can now be considered for "permanent approval" (in the case of new domestic investments) and for "Presidential approval" (in the case of new foreign investments) without first requiring temporary approval. Second, the maximum period within which BKPM approval has to be given to such projects has been reduced to six weeks, compared to a minimum of three months earlier. Third, the application forms for new investment, as well as for expansion, projects have been simplified and reduced in scope. Finally, a number of requirements which had to be fulfilled earlier before submission of an application to the Investment Coordinating Board (BKPM) or for obtaining temporary approval have been eliminated. These changes are expected to simplify the approval process, reduce the frequency of communications between BKPM and potential investors in obtaining investment approvals, and expedite the approval process. Underlining the increased focus on the promotion of investment, a major internal reorganization of BKPM has recently been effected.

New Customs Regulations

1.71 In order to reduce excessive regulation and bring down costs associated with customs and ports operations, on April 4, 1985 the Government announced, through the Presidential Instruction No. 4 on Ports and Shipping, bold, far-reaching and sweeping reforms. This decision was followed shortly thereafter by a full set of implementing instructions/decrees/regulations. These reforms profoundly affect all aspects of foreign trade procedures, particularly customs, ports and shipping operations.

1.72 In regard to customs, the new measures drastically reduce the required import and export procedures to a bare minimum (i.e. import certification report by a Government appointed surveyor, bills of lading and proof of payment of duty). Export goods are no longer subject to regular customs inspection; exports subject to export certificates, however, will be inspected by Government-appointed surveyors at the ports of destination. Imports, on the other hand, will be inspected at points of origin by Government-appointed surveyors, who would also certify type, quality and volume of goods, prices at points of origin, tariff category and appropriate import tariffs. Under the new procedures, the involvement of the Indonesian

customs will be limited to ensuring that documents noted above are completed, and cargo will be promptly released from Indonesian ports. Assessment of import duties and other taxes will now be made by importers/exporters themselves (on the basis of surveyors' certification), who will make duty payments to designated banks. The new regulations thus provide for speedy release of cargo, simplification of document processing and improved valuation procedures, and should result in savings of cost and time.

Improvements in Ports and Shipping

1.73 The various instructions related to port operations seek to ensure fair and equal treatment to all ocean-going vessels, simplify tariffs and reduce port charges. With respect to port charges, a multiplicity of prevailing charges (e.g., piloting, mooring, stowing, small-boat, harbour-master fees) are to be simplified or eliminated, while other charges such as loading and destination port charges and storage charges at port warehouses are to be reduced. To improve cargo-handling, responsibility for unloading/loading operations on a three shift 24 hour basis will be transferred, within one year, from shipping companies to firms established for this purpose. Port labor wages will be increased and stevedoring fees reduced. To facilitate foreign trade, the General Agency certificate required for foreign flag vessels to call at Indonesian ports has been abolished and other related procedures greatly simplified and reformed. To facilitate inter-islands goods transport, the various requirements imposed on inter-island freighters such as inter-island freight documents, fiscal statements and tax-payment receipts in respect of such vessels are also being removed. To improve handling of goods and documentation, such functions now can be undertaken not only by appointed clearing agents but also by forwarding companies, importers and exporters themselves. Finally, the Presidential Instruction also vests more authority in the newly established Port Administrators who are expected to coordinate and improve port operations. In the main ports, the Administrators will be responsible for all port-related services and report directly to the Minister of Communications.

1.74 The drastic and far-reaching nature of the reforms proposed are a clear indication of the Governments' determination to remove administrative and procedural impediments to achieving a smoother flow of goods (imports as well as non-oil/LNG exports), reducing costs and increasing efficiency in maritime operations. The implementation of these measures will be a major challenge; but given time and the Government's commitment to the reform, there is little reason to doubt that significant progress is likely to be achieved in improving customs and ports operations.

CHAPTER 2

DEVELOPMENT OBJECTIVES AND PROSPECTS

2.1 This chapter presents the main elements of the macroeconomic framework employed in the report for assessing Indonesia's immediate and medium term prospects. The analysis begins with an overview of the external environment confronting Indonesia and its implications for macroeconomic management in the medium term. Section B examines the medium term prospects, against the background of these external conditions. Section C discusses the implications of the analysis for Indonesia's external trade. Finally, the chapter concludes with a discussion of Indonesia's external capital requirements, in the light of the preceding analysis.

A. The External Environment and its Implications for Macroeconomic Management

Introduction

2.2 Indonesia's ability to achieve its goals of sustainable growth with equity in the coming years will depend crucially on the skill with which it manages its transition from oil dependency toward a more diversified semi-industrialized economy. The current magnitude of Indonesia's reliance on oil and LNG resources means that only modest progress can be expected in the present decade. Nevertheless, the economic strategy pursued over the next five years will in large measure determine its ability to make significant progress in this area in the 1990s. In order to bring out these issues more clearly, the present chapter explores the prospects for the economy in the context of a ten-year horizon.

2.3 The current uncertainties in the oil market again underscore the vulnerability of the Indonesian economy to changes in international oil prices. This factor has to be taken into account, particularly in terms of external debt management. Borrowing strategy over the next few years has to recognize that there is only limited scope for increasing external indebtedness. Providing borrowing levels - particularly in the next few years - are kept within prudent levels, Indonesia could maintain a reasonably healthy growth rate even with substantially lower oil prices.

2.4 From the point of view of longer term planning - on the basis of known oil reserves - it is prudent to assume that Indonesia's exportable oil surplus will eventually begin to decline. The assumption made in the present report is that oil production would reach a plateau during the present decade, and may even decline somewhat during the 1990s. Even with a vigorous program to promote energy diversification and its efficient use, rising domestic oil consumption would, therefore, gradually cut into export volumes. Thus, while many observers agree that in the longer term oil prices are likely to rise in real terms, Indonesia cannot rely exclusively on such an increase to fuel its long term growth. Consequently, as the Government recognizes, concerted efforts will be required to accelerate the growth of non-oil exports, not only

to ease the immediate foreign exchange constraints facing Indonesia during REPELITA IV, but to provide a stable alternative source of income and employment growth in the longer term.

2.5 The simultaneous pursuit of external adjustment and domestic growth is not an easy course, as recent experience in Indonesia clearly demonstrates. As noted in last year's report, however, it is possible to meet these objectives given appropriate domestic policies. First, a high rate of growth of non-oil exports is essential. This will require continued investment and timely implementation of projects in traditional exporting activities such as rubber, palm oil and other commercial tree crops, where Indonesia has a clear comparative advantage. But Indonesia must also seek out new export opportunities. Perhaps the most difficult task facing Indonesia today is to shift to a more export oriented pattern of industrial growth. Second, Indonesia must continue to be selective in its investment policy by giving greater encouragement to labor intensive and less import dependent investments. In this context, public enterprise investment (which is less sensitive to market signals) needs to be carefully managed. Moreover, the incentive system for private investment should not be undermined by selective measures of protectionism that encourage uneconomic forms of import substitution. As discussed in Chapter 3, this will require a continuous reassessment of trade policy to ensure that it provides both sufficient incentives for export growth and rewards for international standards of efficiency.

The External Setting

2.6 Indonesia's economic fortunes have become increasingly tied to conditions in the world economy. Of particular importance is the situation in the world oil market, since oil and LNG currently account for 71% of the country's exports and 69% of budget revenues. While the outlook for oil prices dominates any projection of the economy, Indonesia's longer term prospects will also be conditioned by the price prospects for other primary commodities, the growth of world trade and real interest rates. Accordingly, the present section provides a brief overview of the key external assumptions employed in this report as a basis for the analysis of Indonesia's economic prospects.

2.7 During 1984, the OECD area as a whole experienced its best performance in some years, largely as a result of the vigorous growth of the US and Japanese economies. Output growth (5%), and world trade growth (9%), were the most rapid since 1976, while inflation (at 5%) slowed to its lowest rate since 1972. For 1985, it is expected that the US economy will not grow as strongly as in 1984, although the Japanese and European economies are forecast to continue to grow at about last year's rate, so that overall OECD growth should average about 3%. The outlook for 1986 is less clear, and will in large measure depend on the fiscal and monetary policy mix adopted by the industrial economies in 1985. The outlook for interest rates is also difficult to gauge for the same reason. However, for the purposes of the medium term projection, it is assumed both real and nominal interest rates will decline somewhat. Table 2.1 summarizes the key assumptions about the future growth of the world economy and certain other key variables which underlie the assessment of Indonesia's prospects.

Table 2.1: SELECTED INDICATORS OF INTERNATIONAL ECONOMIC ACTIVITY, 1984-95

	1984 Estimate	1985 -----	1986-90 Projected	1991-95 -----
<u>Growth and trade</u>				
OECD growth (% p.a.)	4.8	3.0	3.0	3.5
World trade (% p.a.) /a	9.0	5.0	4-5.0	5-6.0
		1985 -----	1990 Projected	1995 -----
<u>Commodity prices (1981=100)</u>				
Index of 33 commodities (excluding energy) in constant dollars /b	92.8	89.8	95.9	96.9
Index of manufactured unit values	91.4	96.0	140.4	179.2
<u>The oil market</u>				
World demand for oil (mbd) /c /d	46.1	46.7	49.5	53.6
OPEC output (mbd) /d	18.5	18.5	21.5	27.0
<u>International oil price (\$/bbl) /e</u>				
Base case - at 1981 prices	31.1	29.1	28.5	36.3
- at current prices	28.4	27.9	40.0	65.0
Low case - at 1981 prices		27.1	23.4	25.8
- at current prices		26.0	32.9	46.3
<u>Interest rates</u>				
LIBOR /f	11.0	10.0	9.0	8.0

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

/b Nominal price index deflated by the World Bank's Unit Value Index of Manufactured Goods (the MUV index).

/c Excluding centrally planned economies and China.

/d Includes natural gas liquids and condensates.

/e OPEC sales weighted by member country output.

/f 6 Month London Interbank Offered Rate.

Source: World Bank staff estimates and projections.

2.8 There are considerable uncertainties about the evolution of the world economy. For the longer term, the growth of the international economy will largely depend on policies pursued by the OECD economies. While it is possible that the performance of the industrial economies will not improve over past levels, the scenario adopted in the present report assumes that there will be a modest improvement in OECD growth over the rest of the decade,

and a continued improvement in the 1990s. The scenario adopted here lies between that of the high and low cases of the World Development Report 1984, with OECD growth averaging about 3% and world trade expanding by between 4-6%. Exports of manufactures from developing countries are assumed to grow by 8-9%. Given Indonesia's very small share in developing country exports, Indonesia should, with appropriate policies, be able to do significantly better.

2.9 Given the turbulence in the world oil markets in the past nine months, the course of international oil prices is extremely difficult to predict. OPEC's ability to defend its price structure came under severe pressure during 1984. Changes in the pattern of crude oil demand upset traditional differentials between different types of crude, and the strength of the US dollar meant that the official OPEC price rose sharply in non-dollar terms during 1984. The impact of these forces was most readily apparent in the spot market, where lighter crudes were traded at a discount. This prompted a revision in the OPEC price structure in January 1985.

2.10 While most observers do not expect a major change in oil prices, it is likely that the OPEC price structure will continually be tested over the next few years. Looking to the longer term, world demand for oil is now forecast to grow more slowly, as a result of continuing pressures toward conservation, and a slight downward revision in the OECD growth forecast. Oil prices could, therefore, fluctuate within a fairly wide band. Given this uncertainty, in this report we examine the implications of two oil price scenarios.

2.11 In the base case oil price scenario - which is considered the most likely outcome - average crude oil prices are expected to remain approximately unchanged from their current levels until end 1986. In 1987, oil prices are expected to increase in line with international inflation. From 1988 until 1990, oil prices are projected to increase by 1% p.a. in real terms.^{/1} Using the World Bank's Unit Value Index of Manufactured Exports (the MUV index) as a measure of international inflation yields a nominal oil price of \$40/bbl in 1990 at current prices. In the 1990s, oil prices are expected to increase significantly, rising by 5% annually in real terms. Assuming a 5% annual inflation rate, this implies an oil price of \$65/bbl in 1995. There is a possibility that oil price developments may be less favorable for Indonesia than assumed under the base case. A conceivable scenario would be a dramatic break in oil prices, but, given the economics of the oil market, it is very unlikely that oil prices would remain so depressed over a number of years. A more plausible low case scenario would be a further modest decline in nominal oil prices at some point over the next two years, followed by real oil prices rising more slowly than in the base case. Under the low case scenario employed in this report, it is assumed that oil prices decline to \$26/bbl during 1985-86, remain constant in real terms in 1987, and rise by 2% in real terms for the remainder of the projection period. This implies an oil price of \$32.9/bbl in 1990 and \$46.3/bbl in 1995 in current dollars.

^{/1} Accordingly, real oil prices (in 1981 dollars) are now projected to decline from \$31.1/bbl in 1984 to \$28.5/bbl by 1990, compared with an estimate of \$31.3/bbl in 1990 employed in last year's report.

2.12 The outlook for non-energy commodity prices is mixed. The World Bank's overall index of 33 non-energy commodities is projected to decline in real terms in 1985 and 1986 before rising to about 3% above its 1984 level in 1990. This is substantially less than the 13% rise projected a year ago for the same period. Commodity prices are expected to remain unchanged in real terms between 1990 and 1995.

External Terms of Trade Prospects

2.13 The outlook for oil and non-oil commodity prices means that Indonesia's terms of trade are expected to fluctuate markedly during the ten year period analysed in this chapter. In the base case scenario, the terms of trade are expected to deteriorate by about 3% annually (from 95.2 to 88.9) over the next two years, as Table 2.2 shows. This implies an annual loss in Gross National Income (GNY) of nearly one percent during 1985 and 1986. Subsequently the terms of trade are expected to begin to improve from this level. The base case oil price projections imply a sharp improvement in Indonesia's terms of trade in the 1990s. Between 1990 and 1995 the terms of trade are expected to improve by 3.5% annually. This is equivalent to an additional 0.8% increase in GNY annually during this period. The uncertainty over oil prices means that Indonesia's terms of trade outlook could be less favorable than these figures suggest. Under the low case, Indonesia's terms of trade would decline by 5% annually, over the next two years, and fall further over the rest of the decade. In the 1990s, Indonesia's terms of trade would improve, but the low case projection for 1995 would still be worse than 1984.

2.14 Given the high proportion of oil/LNG exports in Indonesia's total exports, the country's terms of trade position is largely determined by movements in oil prices.^{/1} However, the outlook for non-oil commodity prices is also important. This will affect export revenues and the profitability of exports and hence influence the pace at which Indonesia can diversify its export structure. During 1985 and 1986 non-oil export prices are expected to grow more slowly than import prices, so that the terms of trade for non-oil exporters would deteriorate. Moreover, during the second half of the 1980s the prices of coffee, palm oil, sawnwood, metal and tin - which are all of considerable importance to Indonesia - are expected to decline in real terms. Indonesia would only be partly sheltered from these declines by expected increases in plywood and rubber prices, as well as by a shift toward manufactured exports in the composition of its exports. Overall, the non-oil terms of trade would deteriorate during 1985-90 by about 5%. In the 1990s, the terms of trade of non-oil producers would again improve, but would not return to their estimated 1984 levels before 1995.

^{/1} LNG prices are linked to oil prices under long term supply contracts.

Table 2.2: INDONESIA'S TERMS OF TRADE UNDER ALTERNATIVE SCENARIOS, 1981-1995
(Index: 1981 = 100)

	1984 Estimate	1985	1986	1990	1995
		Projections			
<u>The base case</u>					
Oil/LNG export price index	80.2	78.8	80.2	113.0	183.6
Export price index	86.3	87.6	90.7	126.5	191.4
Import price index	90.7	94.9	102.1	140.0	178.8
Terms of trade index	95.2	92.3	88.9	90.4	107.1
<u>The low case</u>					
Oil/LNG export price index	80.2	73.4	73.4	92.8	130.8
Export price index	86.5	85.1	87.6	114.5	163.5
Terms of trade index	95.3	89.7	85.8	81.8	91.4
<u>Memo items:</u>					
Non-oil/LNG export price index	101.9	104.6	112.7	149.3	193.1
Non-oil terms of trade index /a	112.7	110.8	110.9	106.8	108.0

/a Non-oil export prices in relation to non-oil import prices.

Source: World Bank staff estimates and projections.

B. Medium Term Prospects

2.15 The present section provides an assessment of a feasible ten year growth scenario for Indonesia, against the background of the key assumptions about the growth of oil prices and the world economy reviewed above. The base case scenario shows a feasible growth path for the Indonesian economy, provided Indonesia implements the policy measures discussed in Chapter 3. The implications of two alternative scenarios - lower oil prices and lower non-oil exports - are examined subsequently.

The Base Case Scenario

2.16 Economic Growth. Under the base case, non-oil/LNG output is expected to increase slightly faster in 1985 and 1986 than in 1984, as a result of the fiscal boost being given to the economy by the 1985/86 budget. However, real GDP is projected to grow more slowly overall, due to an anticipated decline in the volume of crude oil output in 1985. For the remainder of the decade, as Table 2.3 shows, real GDP growth is projected to expand at an annual rate of 4.5% with non-oil GDP rising by 5.0% annually. For the first half of the 1990s, real GDP growth is maintained at about this level, but a further shift towards non-oil/LNG based growth is shown, with non-oil/LNG growth increasing to 5.6% p.a.

Table 2.3: GROWTH AND COMPOSITION OF GDP UNDER THE BASE CASE, 1984-1995
(at 1981 prices)

	Rates of Growth (% p.a.)				Shares in GDP (%)		
	1984/ <u>a</u>	1985-86	1987-90	1991-95	1984	1990	1995
		Projected			Est.	-Projected-	
Agriculture	5.0	3.7	3.7	3.7	25.5	24.7	24.0
Mining and quarrying	5.0	-0.4	2.1	-1.5	20.8	17.5	13.1
Oil	(5.6)	(-0.8)	(2.2)	(-2.2)	(18.0)	(15.1)	(10.9)
Other mining	(1.0)	(2.5)	(1.4)	(2.5)	(2.8)	(2.4)	(2.2)
Manufacturing	24.4	6.3	6.2	6.4	12.8	14.3	15.8
LNG	(52.6)	(6.6)	(4.0)	(1.8)	(5.5)	(5.6)	(5.0)
Other <u>/b</u>	(9.2)	(6.0)	(8.0)	(9.0)	(7.3)	(8.7)	(10.8)
Construction	0.0	5.2	5.5	6.0	5.8	6.1	6.7
Other services	4.0	5.0	5.5	6.0	35.1	37.4	40.4
<u>GDP</u>	<u>6.5</u>	<u>3.8</u>	<u>4.5</u>	<u>4.3</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Memo items:							
Non-oil/LNG GDP	4.4	4.6	5.0	5.6	76.5	79.3	84.1
GDP growth at 1973 prices	5.0	4.4	5.1	5.4			

/a Provisional estimate.

/b Includes refining.

Source: World Bank staff estimates and projections.

2.17 The growth of value added in agriculture is projected at a trend rate of 3.7% per annum. As noted in Chapter 1, the sector has enjoyed two successive bumper years with rice output reaching new peaks. However, this very success raises important questions for economic policymakers. Over the last 18 months the financial and economic costs of holding substantial rice reserves have become more apparent. It would appear that if production growth remains on trend, rice stocks in Indonesia will continue to grow. Clearly one immediate question is whether it is desirable to increase domestic rice stocks to 5 million tons as programmed under REPELITA IV, or whether less costly approaches to the important goal of national food security are viable. A second, but related, question is the long term role of rice in Javanese agriculture. Over the past 15 years, the expansion of irrigation systems, the adoption of improved strains of rice, and the greater use of fertiliser and pesticides have led to a dramatic increase in production and rural incomes. However, as noted in Part II of this report, with the likely gradual emergence of demand constraints on rice, agricultural income growth in Java will depend on the successful expansion of other crops which can offer improved incomes to farmers and supply Indonesia's emerging agro-industries with products for the domestic market and exports. In some areas this may mean shifting from rice production to new higher valued crops, in others more diversification into secondary crops. In both cases, however, the challenge will be to develop

efficient alternatives to rice monoculture. Clearly, an appropriate pattern of input and producer prices will be a necessary element in such a transition.

2.18 Off Java, the challenges for agricultural policy are equally complex. Indonesia has a clear comparative advantage in tree crop production and, as noted below, excellent export prospects, providing that new planting can be boosted. Here the Government faces multiple objectives. Smallholder development projects have been given top priority on equity grounds. In established areas, the focus is on replanting and rehabilitation. In other areas, tree crops programs are being used to provide opportunities for transmigration. However, both types of schemes face implementation problems. They also place a heavy burden on the government owned estate crop enterprises to provide assistance to smallholders, in addition to their other responsibilities. And while the schemes themselves offer high economic rates of return, the credit system employed does not recover costs fully and is expensive in financial and administrative terms. As the area covered by the tree crop program - currently the largest in the world - expands, these strains could intensify. In addition, the Government wishes to encourage greater private sector investment in the tree crop sector. This will require a satisfactory incentive framework for investors which will enable them to earn an adequate rate of return and provide a greater certainty in respect of export taxes and domestic marketing obligations. A major policy and institutional challenge will be to develop a clear definition of the respective roles of Government estates, extension services, rural financial institutions and private sector investors.

2.19 The non-oil/LNG sector is likely to be the main source of growth of output and employment in the coming years. Accordingly, the manufacturing sector (excluding LNG) is given a particularly important weight in the projections. For 1985 and 1986, manufacturing value added (excluding LNG) is projected to grow at an annual rate of 6% rising to 8% p.a. over the remainder of the decade and 9% p.a. in the 1990s. This will require a marked shift in Indonesia's industrial and trade policies, as discussed in Chapter 3, so that the projected orientation of the manufacturing sector towards exports can be realised. Finally, construction and other services are both projected to grow at average rates of over 5% during the projection period, more rapidly than the rest of the economy. These two sectors are the least import dependent activities in economy, other than agriculture. Balance of payments considerations are, consequently, less of a constraint than in the other sectors. Together, they accounted for 51% of employment in 1981, and, as discussed in Part II, they are likely to account for the bulk of the new jobs created during the projection period.

2.20 For the oil sector, it is assumed that crude oil production will rise to about 1.63 mbd by 1990, but that the production rate is reduced in the 1990s by about 2% annually as real oil prices rise, so that reserves can be conserved. It is estimated that, with a success ratio of 20%, over 250 exploration and appraisal wells must be sunk annually in order to "prove up" sufficient reserves to replace the projected production. In 1984, however, only 204 wells were sunk and the agreed work program calls for 233 new wells in 1985. Although the success ratio in the past two years has been about 30%, this pattern cannot be assumed to continue. Consequently, continued efforts will be required to stimulate exploration, and the development of new fields,

so that the projected production rate can be assured. Indonesia possesses vast natural gas reserves. These can help diversify Indonesia's energy exports, and it is assumed that additional LNG trains and Liquid Petroleum Gas (LPG) facilities can be brought into operation during the 1990s.

2.21 Investment and Savings. Table 2.4 sets out the expenditure side of the base case scenario. Fixed investment is estimated to have declined in 1983 and 1984. But it is shown as rebounding during 1985 and 1986. This would require a significant improvement in project implementation performance, and a modest revival in private investment activity. From 1987 onwards, fixed investment is assumed to pick up further, with a shift toward private sector investment in manufacturing. The scope for increases in capital goods imports is very limited. Consequently, this revival in overall investment activity is predicated on the assumption that the future composition of investment follows the pattern planned under REPELITA IV, and that there are no reallocations of investment from the less import dependent sectors such as health, education and other social sector activities, toward the more import dependent sectors, such as industry (see Chapter 3).

Table 2.4: GROWTH IN GDP BY EXPENDITURE CATEGORY UNDER THE BASE CASE, 1983-1995
(in percent at 1981 prices)

	1983	1984 /a	1985-86	1987-90 Projected	1991-95
<u>Real growth rates</u> (% p.a. at 1981 prices)					
Consumption	3.5	3.8	4.4	4.2	5.0
Fixed investment	-7.0	-9.0	5.1	5.5	5.5
Exports /b	14.2	3.5	3.9	3.4	1.0
Imports /b	-8.6	-7.5	2.5	2.7	4.3
GDP	4.7	6.5	3.8	4.5	4.3
GNP	3.5	6.5	4.1	4.0	4.4
GNY	2.4	7.0	3.2	4.8	5.2
			1986	1990	1995
			Projected		
<u>Share of GNP</u> (% at current prices)					
Gross domestic investment	23.6	21.8	19.9	20.4	21.5
Financed by					
Foreign savings	6.2	2.4	3.1	1.9	1.5
Gross national savings	17.4	19.4	16.8	18.5	20.0
Private	(9.7)	(9.6)	(9.6)	(9.9)	(10.4)
Government	(7.7)	(9.8)	(7.2)	(8.7)	(9.6)

/a Provisional estimate.

/b Includes goods and non-factor services.

Source: World Bank staff estimates and projections.

2.22 The pursuit of external balance of payments stability means that the share of foreign savings available to support domestic investment will sharply decline. Consequently, to meet its investment needs, Indonesia will have to place greater emphasis on a domestic resource mobilization effort, to boost both public and private savings. Government savings are projected to decline in the near term, but then grow faster than GNP for the rest of the scenario period to reach almost 10% of GNP by 1995, as the impact of the new tax regulations will be to improve the buoyancy of fiscal receipts.^{/1} This increase will, however, require successful implementation of the new tax legislation as well as the gradual removal of domestic oil and fertilizer subsidies, and increased cost recovery on public services. Private savings will need to rise from 9.6% of GNP in 1984 to 10.4% of GNP by 1995. The financial sector reform of June 1983 is conducive to further strong growth in financial savings. The distribution of these savings between bank deposits, shares and bonds will, as discussed in Chapter 3, largely depend on tax policy measures influencing the rate of return on these different types of investment.

2.23 Balance of Payments. As noted in para. 2.13, Indonesia's terms of trade are expected to deteriorate over the remainder of this decade. This means its export growth rate will have to exceed the growth of imports, if continued progress is to be made in external adjustment. For 1985, oil exports are expected to remain flat (although there will be a rise in LNG exports) and the overall rate of growth of exports will, again, largely depend on the strength of non-oil exports. Oil exports are projected to increase in volume in 1986. During 1987-90, total exports are projected to rise by 3.4% p.a. with non-oil exports rising at an annual rate of 6% annually and oil/LNG exports increasing by 2% p.a. As discussed in section C, non-oil export growth of this magnitude is well within the capabilities of the Indonesian economy, but will require vigorous efforts on the part of the Government to create the right climate for exporting in both agriculture and industry. In the 1990s, it is assumed that oil/LNG exports will decline by over 2% annually, so that even with an 8% non-oil export growth rate, total exports will increase at an annual rate of only 1%. In the base case scenario, import growth is projected at slightly less than 3% annually during 1985-90. However, the projected improvements in the terms of trade (associated with rising oil prices) will mean that Indonesia will be able to increase imports by over 4% annually in the 1990s whilst securing further reductions in the current account deficit in relation to GNP.

^{/1} As noted in Chapter 1 the major factors underlying the high level of rupiah public savings in 1984/85 were the unanticipated increase in oil revenues, lower than expected oil subsidy payments, and lower current expenditures. On the assumption that this combination of circumstances is unlikely to repeat itself next year, and also given both the slow growth of oil revenues and the sharp increase in current expenditures in 1985/86, public savings would decline in 1985/86 before rebounding in 1986/87.

**Table 2.5: SUMMARY BALANCE OF PAYMENTS UNDER THE BASE CASE,
1983/84-1995/96
(\$ billion at current prices)**

	1983/84	1984/85 Est.	1985/86 -----	1990/91 Projected	1995/96 -----
<u>Gross merchandise exports</u>	19.8	20.2	20.8	36.3	57.5
Oil and LNG	14.4	14.3	14.3	23.9	33.6
Non-oil	5.4	5.9	6.5	12.4	23.9
<u>Gross imports (cif) and NFS</u>	-19.6	-17.6	-19.1	-31.6	-49.7
Oil and LNG	-3.8	-3.1	-3.8	-6.5	-11.0
Non-oil	-14.2	-12.9	-13.6	-22.5	-34.9
Net non-factor services	-1.6	-1.6	-1.7	-2.6	-3.8
Resource balance	0.2	2.6	1.7	4.7	7.8
Net factor services and transfers	-4.4	-4.5	-4.4	-7.2	-10.9
<u>Current account balance</u> (- indicates deficit)	-4.2	-1.9	-2.7	-2.5	-3.1
Net disbursements of public MIT debt	3.7	2.2	3.0	2.3	3.2
Net other capital <u>/a</u>	2.1	0.6	0.1	0.5	0.2
Change in net official reserves (- indicates increase)	-1.6	-0.9	-0.4	-0.3	-0.3
<u>Memo items:</u>					
Total net foreign assets <u>/b</u> (as months of imports of goods)	5.6	7.4	7.1	5.7	4.5
Current account balance as % GNP	-6.0	-2.4	-3.3	-1.9	-1.5
Debt-service ratio (gross) <u>/c</u>	17.8	21.1	21.1	23.8	22.1

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

/b Net of outstanding drawings from the IMF's Buffer Stock and Compensatory Financing Facilities. These are treated as current external liabilities.

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

Source: World Bank staff estimates and projections.

2.24 Table 2.5 shows the balance of payments outcome of the above scenario. Three important assumptions influence this projection. First, that Indonesia's current account deficits do not increase significantly in nominal terms. This implies a continued reduction in the current account in both real

terms, and in relation to GDP. Second, it is assumed that Indonesia will strengthen its non-oil export performance. Accordingly these exports are projected to account for 42% of gross merchandise exports by 1995, compared with less than 30% in 1984/85. Lower non-oil export growth could lead to a significant deterioration in Indonesia's debt-service ratios, as the lower non-oil export growth scenario in the following section illustrates. Third, disbursements of public medium and long term debt are assumed to provide the bulk of the capital inflows necessary to finance the projected current account deficits and the build up in official reserves.

The Low Case Oil Scenario and the Impact of Lower Non-oil Export Growth

2.25 The base case presents a scenario for growth and external payments stability based on the assumptions about the external environment outlined above and appropriate domestic policies. There are two main sources of uncertainty in the analysis. The first concerns the trajectory for oil prices both in the near and longer term. The second relates to Indonesia's future non-oil export performance.

2.26 The Low Case Oil Scenario. As discussed in para. 2.9, there is considerable uncertainty over the future course of oil prices. Accordingly, it is essential for economic policymakers to take into account the possibility that oil prices may be lower than projected in the base case scenario. By way of illustration Table 2.6 shows the implications of a lower oil price scenario for Indonesia - the low case - in which the oil price declines to \$26/bbl during 1985-86, increases in line with international inflation in 1987 and then rises by 2% in real terms for the remainder of the projection period. Under such a scenario, the oil price in current dollars would reach \$33/bbl in 1990 and \$46/bbl in 1995 compared with \$40 and \$65 respectively in the base case (para. 2.11).^{/1}

2.27 In these circumstances, Indonesia's total export earnings, and hence its debt-servicing capacity (in absolute terms), would be considerably reduced. This, in turn, would reduce Indonesia's ability to import.^{/2} It is estimated that the non-oil/LNG GDP growth rate would be about 1% lower than in the base case. Provided Indonesia acted promptly to reduce investment expenditures and hence investment related imports, annual external borrowing over the next 3 years could be kept to the same level as in the base case, and over a longer time period gradually reduced. Thus, by 1990 the value of total debt outstanding and disbursed would be \$0.6 billion less than under the base case and debt would rise more slowly in the 1990s. Inevitably, in the near term the aggregate debt service ratios would rise more rapidly than in the

^{/1} In 1981 prices, the low price scenario assumes an oil price of \$23.4 in 1990 compared with \$28.5 in the base case; in 1995 the oil price would be \$25.8 and \$36.3 respectively.

^{/2} Lower oil prices would increase real aggregate demand in industrial countries, thereby improving Indonesia's non-oil export prospects. Indonesia could therefore partly offset the impact of the decline in oil prices by increased exports.

base case; but the position would gradually improve. In 1990 the aggregate debt-service ratio would reach 26% compared with 24% in the base case but by 1995 the debt service ratio would decline to 23% (compared with 22% under the base case). Similarly, the difference between the ratio of total debt outstanding and disbursed to total exports under the two scenarios would also narrow markedly in the 1990s.

Table 2.6: SELECTED ECONOMIC INDICATORS UNDER ALTERNATIVE OIL PRICE SCENARIOS, 1986-1995

	Average Real Growth (% per annum)			
	Scenario I		Scenario II	
	Base Case		Low Case	
	1986-90	1991-95	1986-90	1991-95
GDP	4.6	4.3	3.9	3.3
Non-oil/LNG GDP	5.0	5.5	4.0	4.4
Exports of goods and non-factor services	4.0	1.0	4.3	1.5
Imports of goods and non-factor services	2.6	4.4	1.1	4.2
Non-oil exports	5.9	8.3	7.0	9.2
	<u>1990</u>	<u>1995</u>	<u>1990</u>	<u>1995</u>
<u>Selected indicators</u>				
Oil price \$/bbl /a	40.0	65.0	32.9	46.3
Total debt (\$ billion) /b	46.9	64.9	46.3	59.9
Debt-service ratios (%)				
- Public (net) /c	29.8	27.1	32.9	27.7
- Total (gross) /d	23.8	22.1	25.6	22.8
- Total DOD/Exports /e	117.9	104.9	125.5	108.7
Current account deficit (as % GNP)	-1.9	-1.5	-1.6	-1.1

/a In current dollars.

/b Public and private medium and long term debt outstanding and disbursed.

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

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

/e The ratio of total outstanding debt to gross exports of goods and services.

Source: World Bank staff projections.

2.28 Lower Non-Oil Exports. Scenario III employs the same oil price and output assumptions as the base case, but explores the implications if non-oil export growth does not improve relative to Indonesia's actual performance during the past 10 years. For this scenario, non-oil exports are shown as growing by their historical rate of 4.5% during 1986-1995, rather than the 7% rate projected under the base case. This scenario indicates that, over the long term, Indonesia's economic position could be more adversely affected by lower non-oil export growth than the lower oil prices assumed under the low case scenario. In the 1986-90 period, the impact on growth and the balance of payments would be fairly modest, because of the currently small share of non-oil exports in total exports. However, over time, the shortfall in export earnings relative to the base case scenario would rapidly climb. In current dollars this would imply a drop in exports of \$1.2 billion in 1990 and \$5.6 billion in 1995. Over the period 1986-1995, the cumulative loss of export earnings would amount to \$23.6 billion. This would have serious implications for the economy. Even with lower imports and GDP growth than in the base case scenario, the current account would not improve relative to GNP. The aggregate debt-service ratio in the 1990s would exceed that under the low oil price scenario and show no sign of improvement, as shown in Figure 2.1. At the same time, Indonesia would remain more heavily dependent on oil/LNG export revenues, and hence potentially more vulnerable to the adverse effects of lower than projected oil prices. To avoid such a scenario, the most critical area for policymakers is the expansion of manufactured exports, since the future growth of these exports will depend on further changes in trade policy discussed in Chapter 3.

FIGURE 2.1
DEBT-SERVICE RATIOS, 1981/82-1995/96
(ALTERNATIVE SCENARIOS)

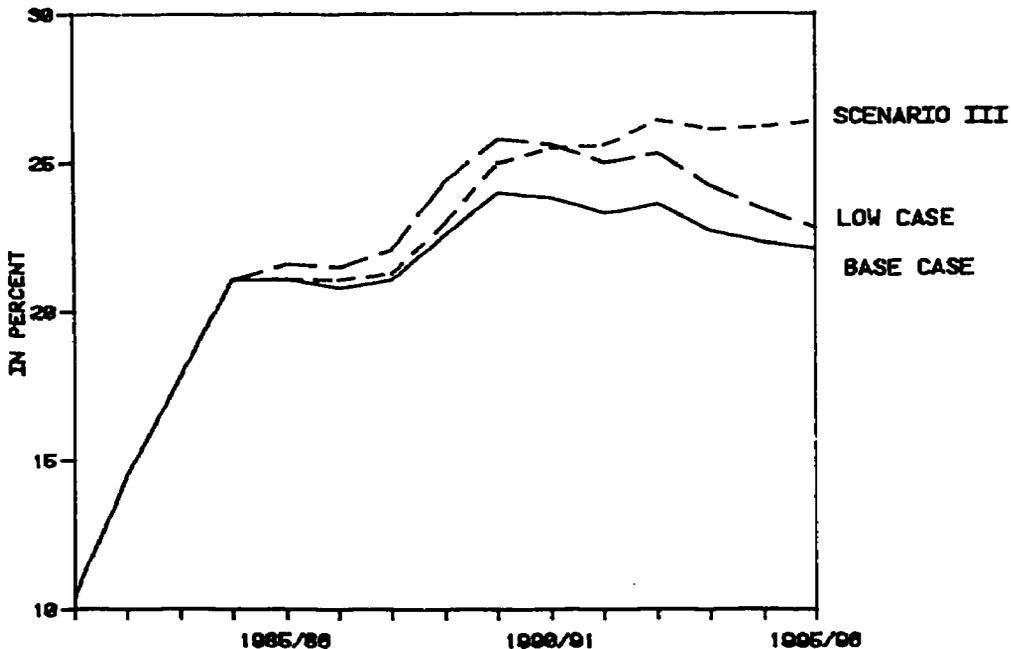


Table 2.7: SELECTED ECONOMIC INDICATORS UNDER ALTERNATIVE EXPORT GROWTH SCENARIOS, 1986-1995

	Average Real Growth (% per annum)		
	Scenario I	Scenario II	Scenario III
	Base Case	Low Case	Lower Non-oil Exports
	1986-95	1986-95	1986-95
Non-oil exports	7.2	8.0	4.5
GDP	4.5	3.6	3.7
Non-oil/LNG GDP	5.3	4.2	4.4
Exports of goods and non-factor services	2.5	2.9	-1.5
Imports of goods and non-factor services	3.5	2.7	2.6
	----- 1995 -----		
Selected indicators			
Oil price \$/bbl /a	65.0	46.3	65.0
Total debt (\$ billion) /b	64.9	59.9	71.3
Debt-service ratios (%)			
- Public (net) /c	27.1	27.7	34.5
- Total (gross) /d	22.1	22.8	26.4
- Total DOD/Exports /e	104.9	108.7	127.0
Current account deficit (as % GNP)	-1.5	-1.2	-2.5
Total net foreign assets in months of imports of goods	4.5	4.5	4.5

/a In current dollars.

/b Public and private medium and long term debt outstanding and disbursed.

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

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

/e The ratio of total outstanding debt to gross exports of goods and services.

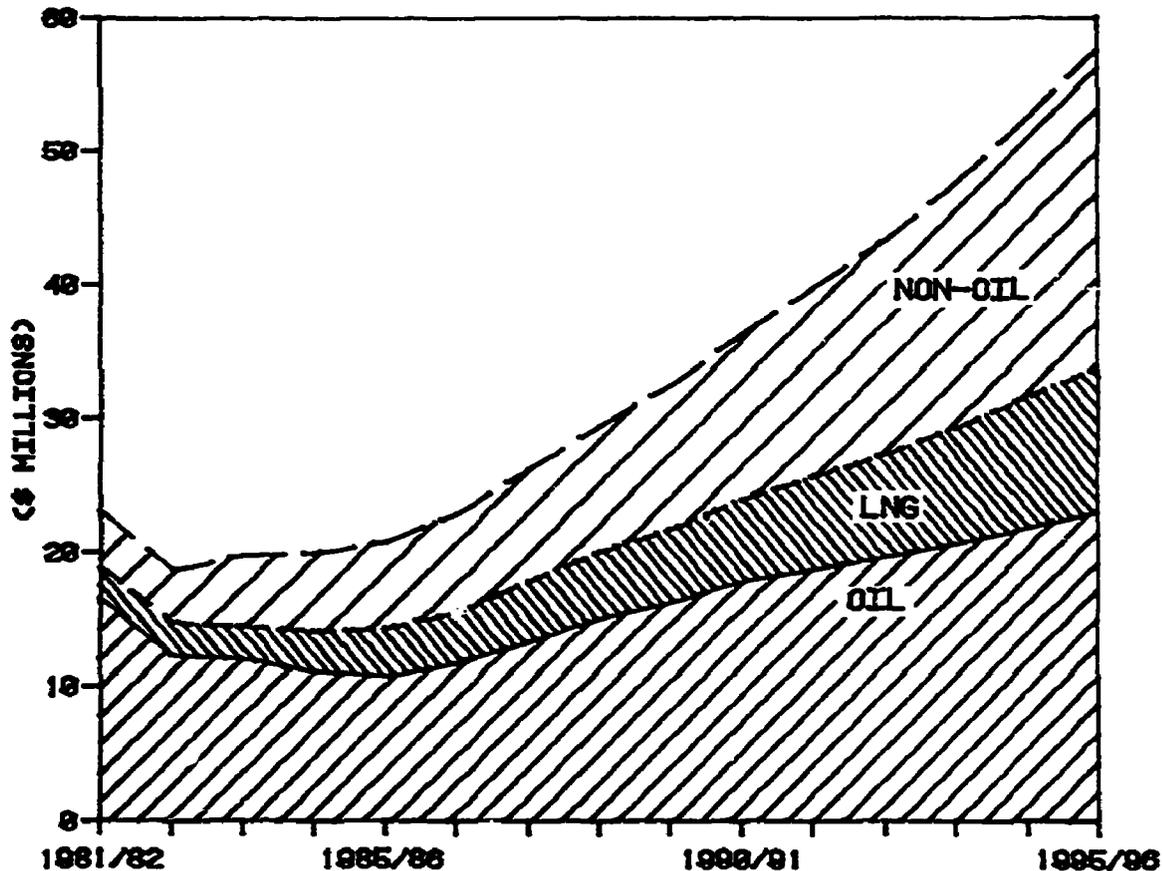
Source: World Bank staff projections.

C. External Trade

2.29 The preceding section provided an overview of the macroeconomic framework employed in preparing the analysis of Indonesia's economic prospects. The present section reviews the implications of this analysis for

the country's external trade. The analysis presented in this section suggests that a key macroeconomic question facing Indonesia is whether it will succeed in improving its trade performance, so as to permit sustained growth over the next 10 years. This report takes the position that it can do so. However, this is not to deny that Indonesia faces an enormous challenge. As Figure 2.2 shows, under the base case scenario, a major shift in the composition of exports is projected, with non-oil/LNG exports substantially increasing their share in total export earnings over the next ten years. Two tasks emerge for the future. One is that Indonesia will have to substantially boost its non-oil export growth rate. Its traditional agricultural based exports continue to offer good prospects. But the projections above clearly indicate that it is vital for Indonesia to promote its manufactured exports, which, given the appropriate policies (described in Chapter 3 below), have the potential to become a major source of foreign exchange earnings. The second, related, challenge will be to expose its economy to greater competition from imports, so as to create pressures to lower domestic production costs and enable exporters to compete more effectively in foreign markets.

FIGURE 2.2
MERCHANDISE EXPORTS, 1981/82-1995/96
(THE BASE CASE)



Export Prospects

2.30 Oil and LNG. Since 1981 the share of oil and LNG in Indonesia's export earnings has declined from over 80% to 71% in 1984/85. But even at this reduced level, the economy's export base remains highly dependent on energy revenues. Given the potential volatility of world oil prices discussed above (para. 2.10), as well as the uncertain prospects for major additions to oil reserves, Indonesia will need to make substantial further adjustments in the pattern of its export earnings to maintain the momentum of economic growth. Nevertheless, Indonesia is expected to continue to derive more than 60% of its foreign exchange receipts from the oil/LNG sector during the projection period.

2.31 The base case oil export forecast assumes that crude and condensate output during 1985/86 will remain basically unchanged from the 1984/85 level. Oil production, including condensates, is then assumed to rise at an annual rate of 4% during the remainder of REPELITA IV to reach 1.6 mbd in 1988. In order to stretch reserves as far as possible, production is assumed to be maintained at about this level in 1989 and 1990. For the 1990s it is assumed that Indonesia reduces its oil output by about 2% annually, which, allowing for modest increases in domestic consumption and the projected increase in oil prices, would enable it to maintain the value of oil export revenues in real terms.

2.32 Indonesia has made significant strides in controlling domestic oil consumption. Since 1981 domestic oil prices have been substantially increased each year, and with the exception of kerosene and industrial diesel oil, domestic prices have been aligned with international prices. It is estimated that as a result of this effort, oil consumption in the last fiscal year was only slightly higher than in 1981/82, despite an increase of 10% in real GDP during this period. The imposition of VAT on fuel and products, together with further reductions in budgetary subsidies, and efforts already underway toward fuel substitution should help to keep domestic oil consumption under reasonable control. Accordingly, domestic oil consumption is expected to increase by only 2.5% over the remainder of REPELITA IV. The efficient use of energy is extremely important for the economy. For example, if domestic consumption of oil were to rise 1% faster than assumed in the base case, with an unchanged OPEC quota cumulative oil exports during 1985/86 to 1990/91 would decline by \$1.4 billion. Consequently, it is essential that the Government take additional steps to promote efficient energy use over the longer term, so as to keep domestic oil consumption to a minimum. Without such an effort, domestic oil consumption will bite into oil earnings during the 1990s when world demand and real prices are expected to rise.

2.33 The role of LNG has increased significantly in Indonesia's overall energy picture. Indonesia is currently the world's largest LNG exporter. Two new trains at Arun began production during 1984/85, boosting LNG revenues by almost \$900 million or 37%. During 1985/86, LNG output - which is exclusively for exports - is contracted to reach approximately 770 million MMBTU, an increase of 1% over 1984/85. A sixth train is under construction at Arun for export to Korea. It is scheduled to be completed towards the end of 1986. With the completion of this train, Indonesia's capacity will reach 900 million MMBTU. Other markets for LNG are being explored, and with the country's vast

reserves, LNG is expected to comprise a rising share of Indonesia's energy exports. Accordingly, it is assumed that a further round of LNG expansion will take place during the 1990s, bringing Indonesia's production capacity to about 1 billion MMBTU by 1995. At this level, LNG would account for about one quarter of oil/LNG exports compared with about one fifth currently. From the point of view of technical production potentials, Indonesia is capable of exporting a substantially higher volume. The major constraint it faces is to obtain secure long term markets for these valuable energy resources. Overseas markets for LPG are also being actively explored.

2.34 Non-oil Exports. Recognizing that the price prospects for oil are unfavorable in the medium term, the REPELITA IV plan attaches particular significance to the promotion of non-oil exports. It sets an impressive target of \$10.8 billion for non-oil exports in 1988/89 which would, on the basis of the REPELITA IV projection, raise the share of non-oil exports in total goods exports from 27% in 1983/84 to 34.5%. Given the outlook for the international economy outlined above, demand should not prove a constraint to the achievement of this goal, providing that Indonesia does not encounter an increase in protectionism. With the exception of plywood, where Indonesia is the world's largest supplier, as well as tin and coffee (where Indonesia is bound by international marketing agreements), Indonesia's export share generally constitutes a small fraction of total developing country exports. Consequently, it will be Indonesia's own ability to increase exports, rather than external demand considerations, which will determine its success in attaining these goals. The recent measures to deregulate customs, ports and shipping, discussed in Chapter 1, can be expected to significantly improve Indonesia's prospects in this regard.

2.35 As Table 2.8 indicates, non-oil exports are projected to grow strongly under the base case, rising to \$12.4 billion in 1990 and reaching \$23.9 billion in 1995. Indonesia's agricultural products - chiefly rubber, coffee, tea, palm oil and shrimp - which accounted for an estimated 46% of non-oil exports in 1984/85 - are expected to make a substantial contribution towards this growth. It possesses a clear comparative advantage in these products, due to its relatively low labor costs, a favorable climate, and the availability of large tracts of land (off Java) suited to tree crop production. Consequently, with continued investment in this sector, the export prospects are favorable for these commodities as a whole. Nevertheless, the projected growth of agricultural exports cannot be taken for granted and will require strenuous efforts as part of the overall non-oil export drive. The immediate outlook for tree crop exports is, of course, largely determined by past investment, since these plants have gestation periods of 4-8 years. Indonesia's tree crop expansion program is the largest in the world, and will lead to significant increases in tree crop exports in the 1990s. However, the very scale of the program has led to implementation difficulties. As a recent Bank report notes, it is clearly important for the Government to address the institutional constraints which are impeding these new investments, so that the growth of output which will be needed in the 1990s can be assured./1

/1 Indonesia - The Major Tree Crops: a Sector Review, World Bank Report No. 5318-IND, April 15, 1984.

**Table 2.8: PROJECTIONS OF MERCHANDISE EXPORTS BY MAJOR CATEGORIES
UNDER THE BASE CASE, 1984/85-1995/96
(\$ million at current prices)**

	1984/85 Est.	1990/91 — Projected —	1995/96 —	Growth Rate (% p.a. at 1981 prices)		
				1984/85- 1985/86	1986/87- 1990/91	1991/92- 1995/96
				<u>Oil and products</u>	<u>11,050</u>	<u>17,800</u>
<u>LNG</u>	<u>3,290</u>	<u>6,100</u>	<u>10,800</u>	<u>18.4</u>	<u>3.7</u>	<u>1.7</u>
<u>Non-Oil/LNG products</u>	<u>5,900</u>	<u>12,400</u>	<u>23,900</u>	<u>9.8</u>	<u>5.9</u>	<u>8.3</u>
Agricultural products	2,750	5,200	9,000	4.0	4.6	5.2
Timber	480	700	1,400	-6.9	7.6	8.5
Minerals and metals /a	1,020	1,700	2,500	15.7	2.7	2.8
Manufactured goods /b (of which plywood)	1,650 (660)	4,800 (1,700)	11,000 (4,098)	18.7 13.6	8.4 9.6	12.5 13.5
<u>Total</u>	<u>20,240</u>	<u>36,300</u>	<u>57,500</u>	<u>2.2</u>	<u>4.0</u>	<u>1.0</u>
Capacity to import /c	22,890	26,800	33,300	1.7	3.5	4.5

/a Includes aluminum.

/b Includes plywood, textiles, handicrafts, electrical appliances, cement, fertilizer and other manufactures.

/c Exports deflated by the import price index in 1981 prices.

Source: World Bank staff estimates and projections.

2.36 Timber exports - which consist of sawnwood and logs - are projected to decline in 1985/86 due to a tightening of restrictions on log exports. Sawnwood exports are, however, projected to continue to rise, so that by 1990 the value of sawnwood exports alone will exceed the combined value of log and sawnwood exports in 1984/85. The prospects for metal and mineral exports are not particularly bright. World Bank projections indicate that the real prices of tin, nickel and aluminum (which are of importance to Indonesia) are likely to decline over the remainder of the decade. Consequently, Indonesia can only expect modest increases in earnings from this subsector, until the world demand situation improves in the 1990s.

2.37 Market Access. As the REPELITA IV plan correctly stresses, Indonesia's overall non-oil export prospects will, in large measure, depend on the success of its manufactured exports. Between 1980/81 and 1984/85 the value of these exports virtually doubled - to reach an estimated \$1.7 billion in the latter year. The task facing exporters is to more than double these

exports again by the end of the REPELITA IV plan. This will require concerted efforts on the part of the Government, as well as by exporters themselves. The prospects for plywood, which accounted for almost 40% of manufactured exports in 1984/85, are favorable and some rebound in plywood prices is foreseen during 1985. As stressed in last year's report, Indonesia faces high tariff barriers in Japan and Australia and, although exports to the EEC are entitled to enter duty free up to an amount set by a GSP quota, exports above this level face a tariff. (In 1984, for example, Indonesia's GSP quota for plywood exports to the EEC was used up in two months). Indonesia has invested very substantial sums in recent years to improve the quality and range of its plywood exports. Reductions of plywood tariffs would provide a well deserved and very important measure of support for these efforts. Given favorable demand conditions abroad, plywood export volume could increase by over 10% annually over the rest of the decade without hitting capacity constraints.

2.38 The textile and handicraft industry has also scored major successes in boosting exports from \$180 million in 1982/83 to an estimated \$500 million in 1984/85. However, partly in response to this increase, Indonesia has encountered an increase in non-tariff barriers. In particular, in the last three years Ireland, France and the United Kingdom have imposed new restrictions, including specific limits, and bans of indirect imports via other EEC countries, and surveillance on several textile items from Indonesia. In 1983, the USA introduced additional criteria for protective actions in respect of textile imports not subject to quotas. So far 8 items from Indonesia have been affected by this legislation.^{/1} The MFA is scheduled to expire in 1986 and its future is still uncertain. Textile exports are a sensitive matter but an agreement which takes into account the importance of providing market access to developing countries, such as Indonesia, which have a clear comparative advantage in textile production is to the advantage of all sides. At the same time, Indonesia should not lose sight of the fact that there is tremendous scope for expansion of textile exports in categories not subject to quotas, as well as for other manufactured goods. Its ability to do so will depend on whether it can continue to improve the competitiveness and quality of its exports and develop new markets.

Import Needs and Composition

2.39 Indonesia's balance of payments prospects suggest that the growth of imports needs to be restrained over the medium term. The current high level of rice stocks means it should prove possible to reduce food imports further in real terms in the coming years. However, the very modest share of non-food consumer goods in total imports suggests there is not much scope for further import savings in this area. The forecast levels of oil and LNG imports are tied closely to the growth of output in this sector, and for both technical

^{/1} In November 1984 the GATT Textile Surveillance body ruled that 2 of these calls should be withdrawn, one is justified and five require further consultations.

and contractual reasons, this item is not amenable to reduction. Consequently, the major trade-off that Indonesia faces is between non-oil intermediate and capital goods imports.

2.40 This trade-off has major implications for the conduct of economic policy. Capital goods imports are important, since they are essential for long term growth. Intermediate goods, on the other hand, are necessary to maintain existing production, and to provide vital inputs to new projects, as these come on stream. This report takes the view that for the remainder of the decade the relative priority will be intermediate inputs. Accordingly, the base case projection assumes that capital goods imports will increase by only 1% annually in real terms during this period. This implies that it will be important to ensure that new investment projects are selected very carefully. As discussed in Chapter 3, trade policy has an important role to play in this regard by ensuring that investment incentives reward projects which earn export revenues, or save foreign exchange, without raising costs for other producers in the economy. And, as a corollary, public expenditures must support such a pattern by concentrating investments in less import intensive sectors, thereby making more resources available to import inputs for existing production activities.

2.41 In the aggregate, total imports of goods are projected to rise by 2.4% p.a. in real terms during 1986-90, with an increase of 4.3% p.a. envisaged for the first half of the 1990s, as the foreign exchange constraints facing Indonesia begin to ease. The projections of merchandise imports under the base case are shown in Table 2.9.

Table 2.9: PROJECTIONS OF MERCHANDISE IMPORTS BY MAJOR CATEGORY UNDER THE BASE CASE, 1984/85-1995/96 (\$ million at current prices)

	1984/85 Est.	1990/91 — Projected —	1995/96 —	Growth Rate (% p.a. at 1981 prices)		
				1984/85- 1985/86	1986/87- 1990/91	1991/92- 1995/96
Consumer goods						
Food	940	1,500	1,600	-8.3	-1.6	-2.6
Non-food	580	900	1,300	5.2	0.8	1.3
Intermediate goods (non-oil)	4,600	8,800	15,300	1.5	4.2	6.3
Capital goods (non-oil)	6,750	11,300	16,700	-5.6	1.4	3.0
Oil/LNG sector	3,130	6,500	11,000	-1.5	3.3	5.7
Total	16,000	29,000	45,900	-2.7	2.4	4.3

Source: World Bank staff estimates and projections.

D. External Financing Requirements and Borrowing Strategy

2.42 Reduced Debt-servicing Capacity. The uncertain near term outlook for oil prices, coupled with the prospect of a deterioration in Indonesia's overall terms of trade, implies that Indonesia will have to carefully manage its borrowing profile in the medium term. Prudence dictates that Indonesia's borrowing strategy must take full account of the uncertainty over oil prices. This implies a cautious approach to macroeconomic management, with particular emphasis on further external adjustment and careful debt management. The simulation exercises undertaken for this report indicate that, while Indonesia's debt-service ratios will rise sharply over the next few years in the event of a decline in oil prices, this trend could be reversed over a slightly longer time period, providing that borrowing over the next few years is kept within the prudent levels shown under the base case. However, if Indonesia were to undertake significantly higher borrowing than the levels shown in the base case, the resulting debt service could prove unmanageable in the event of lower oil prices. In order to keep the level of borrowing within this limit, it would therefore appear advisable to reduce the current account deficit from its present level to about 2% of GNP before the end of REPELITA IV.

2.43 By pursuing such a strategy, Indonesia can minimize the adverse effects of a possible decline in oil prices in the near term. And over the longer term, by reducing its dependency on oil revenues, Indonesia will be able to maintain the momentum of development in the event of lower than expected growth in real oil prices. If oil prices are lower than assumed under the base case this would, inevitably, call for lower growth in the near term. But, providing borrowing levels are contained, the country's debt-service obligations would remain manageable, and growth performance respectable over the long term, even with considerably lower oil prices than envisaged under the base case scenario - as the low case scenario described above, illustrates (paras. 2.25-2.37).

2.44 External Capital Requirements. Table 2.10 sets out Indonesia's external requirements in summary form for the next three years under the base case assumptions. For the next three years the projected level of gross borrowing is approximately equivalent to the servicing of external debt. Indonesia will also need to provide for a build up in the value of reserves (although the projected increase represents a decline in the ratio of reserves to months of imports of goods). A similar picture emerges for the longer term. For the 1985/86 - 1987/88 period \$5.5 billion of gross disbursements of medium and long term public loans are required annually. Under the low case, the same average level of gross disbursements, i.e. \$5.5 billion, is envisaged over the next three years.

**Table 2.10: EXTERNAL CAPITAL REQUIREMENTS AND SOURCES,
1982/83 - 1987/88
(\$ billion at current prices)**

	Annual Averages	
	1982/83-1984/85	1985/86-1987/88 /a
<u>Requirements</u>	<u>6.2</u>	<u>6.2</u>
Current account deficit	4.4	2.7
(of which interest)	(2.0)	(2.7)
Amortization	2.0	2.8
Change in official reserves	-0.2	0.7
<u>Sources</u>	<u>6.2</u>	<u>6.2</u>
Direct foreign investment (net)	0.3	0.3
Short term and other capital (net) /b	1.6	0.4
Public medium and long term loans /c	4.3	5.5
Official assistance	(1.4)	(2.2)
Import related credits	(1.8)	(1.5)
Commercial credits	(1.1)	(1.8)

/a Refers to the base case.

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

/c Gross disbursements.

Source: World Bank staff estimates and projections.

2.45 External Borrowing Strategy. To generate this level of disbursements, and to establish a pipeline for its future needs, the Indonesian Government will require an average of \$5.2 billion (including grants) in new commitments annually over the next three years. The projections also assume an improvement in project implementation performance so that the undisbursed outstanding commitments (\$9.6 billion) are used more rapidly. Traditionally, Indonesia has met its external public borrowing requirements from three main sources: official assistance, import related credits, and internal borrowings from the commercial markets. The historical pattern of these commitments is shown in Table 2.11.

Table 2.11: COMMITMENTS OF PUBLIC DEBT AND GRANTS, 1980-84
(\$ million at current prices)

	1980	1981	1982	1983	1984 Est.
<u>IGGI</u>	<u>2,417</u>	<u>1,871</u>	<u>2,125</u>	<u>2,337</u>	<u>2,197</u>
Multilateral concessional	189	-	58	-	-
Multilateral nonconcessional	857	1,175	1,348	1,637	1,574
-IBRD	(572)	(837)	(977)	(1,210)	(987)
-ADB	(285)	(338)	(371)	(427)	(587)
Bilateral concessional	1,141	548	555	557	513
Grants	230	148	164	143	110
<u>Import related credits</u>	<u>994</u>	<u>2,798</u>	<u>4,140</u>	<u>1,730</u>	<u>961</u>
Bilateral nonconcessional	453	749	637	259	357
Suppliers' credits	122	1,251	1,713	907	418
Buyers' credits	419	798	1,790	564	186
<u>Commercial credits</u>	<u>1,097</u>	<u>745</u>	<u>961</u>	<u>1,901</u>	<u>1,529</u>
Bonds	45	45	40	116	-
Syndicated loans and untied borrowings	1,052	700	921	1,785	1,529
<u>Total</u>	<u>4,508</u>	<u>5,414</u>	<u>7,226</u>	<u>5,968</u>	<u>4,687</u>

Source: Bank Indonesia and World Bank staff estimates.

2.46 Official assistance, primarily composed of concessional bilateral loans and grants as well as multilateral loans and grants from members of the Inter-Governmental Group on Indonesia (IGGI), has been the most important source of external finance for Indonesia comprising 46% of public debt outstanding at the end of 1984. Commitments in 1984 amounted to about \$2.2 billion, comprising \$513 million in bilateral concessional loans, \$1.6 billion in multilateral loans, and \$110 million in grants. This support is making a highly valued contribution to the Government's development efforts during a period of adjustment to a more difficult external situation.

2.47 It is essential that official assistance from IGGI members continue to provide the core of Indonesia's external financing requirements in the years ahead. Given the expected reduction in Indonesia's terms of trade over the remainder of the decade, it would appear inadvisable to seek substantial increases in commercial borrowing at current real interest rates. It is therefore recommended that the level of IGGI assistance to Indonesia be at least \$2.4 billion in 1985/86 (the same level as recommended and pledged for 1984/85), and that, as shown in Table 2.12, the level of commitments over the next three years average at least \$2.5 billion annually.

Table 2.12: PROJECTED COMMITMENTS OF EXTERNAL PUBLIC DEBT AND GRANTS,
1985/86-1987/88
(\$ million at current prices)

	1985/86	1986/87	1987/88
<u>Official assistance:</u>	<u>2,410</u>	<u>2,520</u>	<u>2,600</u>
- Loans	2,300	2,400	2,475
- Grants	110	120	125
<u>Import related credits</u>	<u>1,300</u>	<u>1,300</u>	<u>1,300</u>
<u>Untied borrowing</u>	<u>1,200</u>	<u>1,300</u>	<u>1,700</u>
<u>Total</u>	<u>4,910</u>	<u>5,120</u>	<u>5,600</u>
<u>Memo item:</u>			
Private external borrowing	650	650	800

Source: World Bank staff estimates and projections.

2.48 Import related credits (IRCs) and commercial loans will both have an important part to play in helping to meet Indonesia's external financing needs during the remainder of the plan period. The terms on import related credits have improved markedly in recent years, as suppliers of capital goods have provided an increased grant element within these loans. There is, at present, some \$2.1 billion outstanding in IRC commitments. Given the projected continued shift away from import intensive public sector projects and the projected slow growth of capital goods imports, these outstanding commitments, together with annual new commitments of \$1.3 billion, should prove sufficient for the needs of the public investment program. In recent years, Indonesia's borrowings from commercial sources have been used as a tool of balance of payments and reserve management, rather than to finance specific projects. This is a trend which can be expected to continue. In 1984 commercial syndications and other commercial placements amounted to \$1.5 billion. These issues were well received by the market, indicating the confidence placed in Indonesia's macroeconomic policies and prudent debt management record. Indonesia can be expected to tap the commercial markets for additional resources to meet its external financing needs. However, given the high level of real interest rates which are expected to prevail during the life of these loans, the extent of this borrowing will need to be carefully controlled with a view to its impact on the debt-service ratio. On balance, it would appear that commercial borrowing over the next three years should not exceed a total of \$4.2 billion.

2.49 As a consequence of Indonesia's liberal foreign exchange system, which provides for full convertibility of the Rupiah, it is difficult to obtain a clear picture of the extent of private non-guaranteed debt. However, based on BIS data and other creditor country reports, external private debt to banks abroad at the end of 1984 is estimated to have been about \$6.5 billion. Of this, medium and long term debt is thought to amount to about \$3.8 billion. With the high levels of domestic interest rates - which on an inflation adjusted basis are higher than those prevailing abroad - there could be substantial demand on the part of the private sector for additional external borrowing. This should be carefully monitored, since these borrowings are generally made on less favorable terms than public sector debt. At the same time, it is important to recognise that this debt represents part of the total obligations of the country. Such borrowing must be kept within reasonable limits, and - as stressed in Chapter 3 - used for economically sound projects.

Projections of Debt and Debt Service

2.50 Indonesia has followed a very prudent debt management strategy over the past decade. As a result it continues to enjoy favorable access to the international capital markets, despite the uncertainties in the oil price situation. The rate of growth of overall debt has been moderate and private debts constitute only a small proportion of its total outstanding external debt. The total level of outstanding and disbursed public external debt (including LNG expansion) is estimated at \$24.6 billion at the end of 1984. An additional amount of \$9.6 billion of previously committed external public debt remains to be disbursed. The average maturity of public medium and long term (MLT) debt is estimated at 14 years, while debt at variable interest rates accounted for less than one quarter of the total.

2.51 The public sector borrowing program outlined above implies an average annual growth of about 9% annually in the nominal value of public debt outstanding and disbursed between 1984 and 1990, and a 7% increase during the first half of the 1990s. Private MLT debt is expected to rise more slowly, so that its overall share in Indonesia's total external debts will decline slightly. In terms of the composition of public MLT debt, as Table 2.13 indicates, the share of official assistance and commercial credits are projected to rise significantly over the rest of the decade, while import related credits will decline. In the 1990s, it is expected that the share of import related credits will continue to decline, while the share of commercial credits will correspondingly increase.

Table 2.13: DISBURSED AND OUTSTANDING MEDIUM AND LONG TERM DEBT, 1981-95
(\$ billion at current prices)

	Total debt				Shares (%)			
	1981	1984	1990 Projected	1995	1981	1984	1990 Projected	1995
Public debt								
Official assistance	9.3	11.4	21.5	29.3	47.7	40.1	45.8	45.2
Import related debt on commercial terms	3.4	6.2	7.8	9.3	17.4	21.8	16.7	14.3
Eurocurrency and other untied borrowings	3.2	5.3	10.9	18.2	16.4	18.7	23.2	28.0
LNG expansion	-	1.7	1.2	0.7	-	6.0	2.6	1.1
Subtotal	15.9	24.6	41.4	57.5	81.5	86.6	88.3	88.6
Private debt	3.6	3.8	5.5	7.4	18.5	13.4	11.7	11.4
Total	19.5	28.4	46.9	64.9	100.0	100.0	100.0	100.0
Memo item:								
Debt-service ratios (%)								
- Public (net) /a	14.4	25.1	29.8	27.1				
- Public (gross) /b	8.2	14.9	19.1	17.6				
- Total public and private (gross)	10.4	21.1	23.8	22.1				

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

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

Source: World Bank staff projections.

2.53 Under the base case scenario, at the projected levels of borrowing Indonesia's total public and private debt-service ratio, on a gross basis, would peak at 24% in 1989. It would then gradually decline to 22% by 1995. The public debt-service ratio, on a gross basis, would rise steadily from 15% in 1984 to 19% in 1989. After 1990 it would decline continuously to less than 18% in 1995. On a net basis, the public debt-service ratio would rise from 25% in 1984 to nearly 30% in 1989, before declining to 27% in 1995. While debt-service levels of these magnitudes are manageable for Indonesia, its borrowing policies will clearly require continued careful attention. With continued prudent borrowing, maintenance of a comfortable level of external reserves to guard against temporary strains on liquidity, concerted efforts at export promotion, and continued discipline in the public investment program, Indonesia should be able to retain its present high standing in international capital markets.

CHAPTER 3

SELECTED POLICIES FOR GROWTH AND STRUCTURAL TRANSFORMATION

A. Introduction

3.1 The preceding chapters have highlighted (i) the significant progress Indonesia has made over the past two years in adjusting to a less favorable international oil market, and (ii) the challenge it faces in generating adequate economic growth and structural transformation over the next decade. As argued in Part II of this report, success on these fronts is essential for providing employment opportunities for a rapidly growing labor force. The challenge that lies ahead comes at a time when the external economic environment is beset by uncertainty and is likely to be, at least for the remainder of the 1980s, less favorable to Indonesia than it was in most of the previous decade. In particular, as discussed in Chapter 2, the country is expected to face adverse terms of trade as well as slowly growing and possibly volatile oil revenues. Under this postulated scenario, development strategy and policies would need to be carefully formulated with a long term perspective in mind. While it is beyond the scope of this report to provide a comprehensive discussion of the issues involved, in this chapter selected key areas of development strategy and economic policy are examined. The principal theme running throughout the chapter is efficiency. In an era of resource stringency, this is a natural focus, for without considerable strengthening of the productive base of the economy through efficiency improvements and judicious investments, future growth is bound to be lower than under the scenarios developed in Chapter 2. It is with higher growth that equity objectives - a cornerstone of social policy in Indonesia - can best be served.

3.2 Against this background, Section B focuses on the inter-related issues of industrial development and trade policy. The development of a broad-based and internationally competitive industrial sector is essential for raising incomes, contributing to employment creation and reducing the economy's dependence on a narrow and vulnerable source of foreign exchange earnings. The recent major policy actions on customs and ports operations, discussed in Chapter 1, should contribute to reducing costs in the industrial sector, and indeed in the economy as a whole. However, without early rationalization of the industrial and trade regime, there are considerable risks that the economy will become increasingly locked into a high cost structure and that the tasks of economic management and structural transformation will become exceedingly difficult. Section C deals with financial sector policies needed to reduce intermediation costs and improve the range of services offered to private investors so as to lower investment costs and increase competitiveness. The final section of the chapter examines selected issues related to efficient utilization of public resources for high priority investments in order to enhance their contribution to overall economic and social development.

B. Industrial Development and Trade Policy

3.3 As noted in Chapter 1, there has been a significant slowdown in the pace of private investment activity in Indonesia over the past year, particularly among medium and large scale enterprises in the manufacturing sector. Market saturation, sluggish domestic demand growth and high real interest rates were cited as the principal contributory factors. These, coupled with uncertainty over oil prices, and hence the future growth rate of the economy, have created a mood of greater caution, and perhaps even some pessimism, amongst the business community. Policy responses to this situation, however, are constrained by tighter external resource availability and greater uncertainty in the external environment. Consequently, it would not be appropriate for the Government to encourage major new capital intensive investment initiatives in the private sector or, for that matter, amongst public enterprises, in areas where there are doubts as to their economic viability. Nor would it be advisable to reactivate the major investment projects rephased or rescheduled in early 1983.

3.4 The task confronting the authorities, therefore, is to develop a strategy for influencing private investment decisions which reflects the country's comparative advantage and takes full cognizance of the difficult and uncertain external trade situation facing the country. In this respect the role of industrial and trade policy would need to be carefully examined with the objective of encouraging efficiency improvements in existing investments and guiding new investments into areas of comparative advantage. This section reviews the emerging problems in the manufacturing sector and the costs associated with current trade and industrial policies and then discusses the need for reform of the present incentive structure for investment in manufacturing. It should, of course, be recognized that efficiency in the industrial sector, as in the rest of the economy, depends not only on government economic policies. The cost and quality of physical infrastructure - ports, land transport, power, telecommunications - entrepreneurial and managerial talent, the scale of production and the technology employed, and the skill level of the workforce also profoundly influence efficiency. The Government's recent decisive measures on customs and ports regulations, and the ongoing emphasis on investment in education and training at all levels should help improve the efficiency of both physical and human infrastructure. However, it is the argument of this section that a reform of industrial and trade policy is essential to the success of the campaign to reduce costs in manufacturing so as to enhance its contribution to growth, incomes and export earnings.

Emerging Problems in the Manufacturing Sector

3.5 Indonesia's manufacturing sector value added grew at an impressive rate of 11.5% p.a. between 1967 to 1982. This growth occurred in essentially two phases. In the first phase before 1975, relatively labor intensive consumer goods industry grew at a rapid rate of 16.5% p.a. As the "easy" possibilities of import substitution were steadily exhausted, the need to maintain the growth momentum in the sector and to widen its base led to the import substitution of technologically complex upstream products. In the

second phase after 1975, intermediate goods production increased at the rate of nearly 18% p.a. on the strength of domestic demand and protection from foreign competition. Towards the latter end of the period, there were major increases in the production of capital goods. With the bulk of the output destined for the home market behind high levels of protection, production costs for many products were high by international standards. Accordingly, exports of manufactures were relatively narrow-based and did not grow appreciably in the 1970s, although, as noted in Chapter 1, slack demand conditions in the domestic market in the past two years have led to the emergence of new export products.

3.6 As discussed in Chapter 1, excess capacity is particularly pervasive in the cement, steel, tires, televisions, automobiles, motorcycles, textiles and plywood industries. Most of these sectors had developed rapidly under the protection of import quotas or complete bans, but the unexpected slowdown in demand after 1981 compelled reductions in output. In several other cases, however, optimistic market forecasts also contributed to the present glut in capacity. For example, it is unlikely that cement demand in 1985 would have reached the capacity level of 17.4 million tons even with uninterrupted growth over the past few years.^{/1} Similarly, continued growth in the demand for tires would still not have been sufficient to raise tire sales to the present capacity level of 10.6 million units in 1985. In these two subsectors, as in others with excess capacity, export prospects will be limited owing to high production costs and international market conditions.^{/2} Consequently, excess capacity is likely to remain a persistent problem until the end of REPELITA IV.

Recent Developments in Trade Policy and Industrial Strategy

3.7 The pattern of industrialization that has emerged over the past two decades in Indonesia has been profoundly influenced by a range of government policies. These policies have been introduced to serve a number of objectives, among which are the deliberate creation of a broad industrial base, generation of employment, promotion of exports, regional development and provision of support to the economically weaker sections of society. The two most important policy instruments employed have been: (i) the protection of domestic industry from foreign competition through tariffs, quantitative restrictions, outright bans on some imports, local content regulations and, more recently, importer licensing ^{/3}; and (ii) the close regulation of business activity through a complex licensing system, and the promotion of investment in government-designated priority sectors by recourse to a variety of tariff exemptions and other concessions granted by the Investment

^{/1} Demand in 1985 is expected to be slightly higher than 10 million tons.

^{/2} In the case of cement, manufacturers are being encouraged to convert to coal-fired systems which could reduce costs by upto 12%.

^{/3} Import check prices and, before the introduction of VAT, the import sales tax were two additional measures used to provide protection to domestic industries.

Coordinating Board (BKPM).^{/1} With respect to the choice of protection instruments, while reportedly the Government has not had a preference for quantitative restrictions, it has often accepted the industry's argument that tariffs alone are not sufficient because of the ineffectiveness of the customs administration. With the introduction of the recent reforms on this front, the rationale for quantitative restrictions should now be less compelling.

3.8 The Reduction in Import Tariffs. Recent government policy statements and actions continue to emphasize the need for increasing non-oil exports. The January 1982 export decree and the March 1983 devaluation went some way towards increasing incentives to export. In March 1985 the Government announced a major reduction in the range and level of nominal import tariffs. Nominal tariffs have been reduced from a range of zero up to 225%, to a range of zero to 60%,^{/2} and most products have had their nominal tariffs reduced by between 5% to 35%. The reduction in the dispersion of nominal tariffs will also introduce greater uniformity in production incentives across different industries. In addition, in an important step towards greater simplification, the number of tariff levels has been reduced from 25 to 11. The tariff changes, coupled with the new customs, ports and shipping regulations, should enhance the cost competitiveness of a wide range of industries.

3.9 Quantitative Restrictions and the Deletion Program. However, a number of other recent actions of the Government have served to promote some potentially costly and uneconomic investments which could prove counterproductive to the export drive. There are two areas of such actions particularly worth noting: (i) the increase in the categories of products subject to importer licensing accompanied by quotas and/or bans; and (ii) regulations requiring increased local content in final products accompanied by a "deletion program".

3.10 With the onset of international recession and the slowdown in the expansion of the domestic market in the early 1980s, Indonesian producers faced increased competition from imports. In response to this and the pressures on the balance of payments arising from the weakening of the oil markets, the Ministry of Trade issued a decree in late 1982 providing general authority to regulate the importation of a range of products through licensed importers. New decrees have since been issued for an increasing number of product categories limiting the number of importers to two or three, often state-owned trading companies; the Ministry of Trade also retains the authority to decide import quantities, which in the case of manufactures is based on advice from the Ministry of Industry.

3.11 The expressed purposes of this scheme are to increase importer specialization, save foreign exchange, prevent dumping from abroad and promote

^{/1} As discussed in Chapter 1, the administrative requirements for investment licensing were simplified beginning April 1985. The 1984 tax reform eliminated the tax incentives which BKPM could previously offer.

^{/2} Except for 19 product groups, or less than 0.5% of the total number of product groups, which still have tariffs above 60%.

the use of domestic industrial products, particularly those for which there is substantial excess capacity. Another stated rationale for the introduction of these policies is to promote domestic interlinkages. Strengthening industrial interlinkages, particularly backward linkages, can help transmit growth from one sector to the rest of the economy. However, interlinkages administratively forged by government policies can run the risk of raising production costs and lowering competitiveness. In the presence of a widespread use of trade barriers it is inevitable that industries with strong backward linkages, while supporting the growth of uncompetitive upstream industries, are hindered in their own development by having to pay higher costs than imports.

3.12 For example, steel imports are controlled by a few trading companies.^{/1} This policy was introduced to increase capacity utilization in steel production but in effect gives very heavy protection to steel producers. Tariffs on steel and steel products range between only 1% and 5%,^{/2} yet domestic steel producers charge prices which are between 26% and 50% above landed international prices.

3.13 High steel prices, in turn, raise the costs of production in downstream industries. A conservative estimate suggests these high steel prices raise costs of production for structural metal products by 10%, metal furniture and fixtures by 9%, and cutlery, handtools and hardware by 7%.^{/3} Many of these products are manufactured in small and medium firms by relatively labor intensive methods. High steel prices penalize these firms by raising their costs. This not only lowers the level of domestic demand for their products, but also reduces their competitiveness in international markets and curbs the growth of employment in manufacturing.

3.14 A further example of the impact of quantitative restrictions on domestic costs is provided by the television industry. The import ban confers absolute protection to television production. The industry now comprises a large number of small firms, served by 20 foreign brands, which cannot capture the benefits of cost reductions from scale economies. Televisions and other electronic consumer goods are therefore between 20% and 50% costlier in Indonesia than in international markets, despite the fact that the industry is well over a decade old in Indonesia. The import ban on televisions is accompanied by a 30% tariff on knocked-down assembly kits (CKD) and 40% on

^{/1} P.T. Krakatau Steel, a public sector steel company responsible for the bulk of Indonesian steel production, is solely responsible for the import of scrap, slabs, billets, hot rolled coils, wire rods and rerolled sheets; P.T. Giwang Selogam, a private sector company, has a monopoly over imports of cold rolled sheets used extensively in the automotive sector; P.T. Timah, a public sector company, is the licensed importer of tin plates; and two public sector trading companies, P.T. Kerta Niaga and P.T. Dharma Niaga, are licensed to import finished steel products.

^{/2} Other than wire rods, which is protected by a tariff of 20%.

^{/3} These are estimates made on the basis of input-output coefficients given in the 1980 Input-Output Tables published by BPS.

electronic components./¹ This differential tariff structure has encouraged domestic producers to rely on CKD imports, rather than developing indigenous technology based on cheap components from alternative suppliers. In addition, electronic components can only be imported by a few licensed importers, adding another step to the import procedure and raising component costs yet further. Instead of enabling a free flow of components at lowest possible costs to stimulate the development of the electronics industry, the differential tariff structure has served to perpetuate the dependence of the industry on the technology embodied in high-cost CKD kits.

3.15 In a bid to accelerate the local manufacture of the component parts of completely knocked down (CKD) kits, the Government has, in several instances, introduced a deletion program designed to reduce gradually the number of parts that can be imported for assembly. Deletion programs have been a cornerstone of the Government's strategy for some time in the automobile and motorcycle industries. More recently, the Government introduced deletion programs for the production of tractors, heavy equipment, diesel generating sets, and machine tools.

3.16 The diesel engine subsector is an example of how deletion programs administered by the Government may affect production and investment efficiency. The c.i.f. import price of CKD kits for diesel engines is often as high, if not higher than the c.i.f. import price of completely built-up (CBU) units. This is because international suppliers are not geared to supplying CKD kits which require special packaging and handling, the cost of which is higher than the assembling of the engine itself. As a consequence, assembly of diesel engines from imported parts does not appear to be an economically viable production activity, but owing to substantial differentials in tariffs for imported CKD kits and CBU units, the five domestic assemblers of diesel engines supplied 60% of total market demand by 1982. The only way the industry could be made efficient is if low cost components could be produced domestically. This supplied the rationale for the diesel engine deletion program. One third of the required parts for diesel engine assembly are already produced in Indonesia as a result of the deletion program, and the Ministry of Industry projects the domestic content to increase to 80% by 1990.

3.17 There are two problems that could arise from such a strategy. First, while there is little doubt that upstream integration is an essential aspect of the industrialization process, the manner in which it is implemented is critical to the final result. Thus, upstream integration in the diesel engine industry may be appropriate for Indonesia, but scale considerations suggest that this need not translate itself to upstream integration in every firm. Yet, given the difficulties of new investors in acquiring investment licences, the implementation of the deletion program has encouraged each manufacturer to set up captive component production facilities; this has discouraged the emergence of international-scale component manufacturers capable of simultaneously supplying a number of assemblers. This is compounded by the

¹ Under the new tariff regulations, the concept of CKDs for electronics has been eliminated. Instead, the tariff rate on components is now 5%.

relatively small size of the Indonesian market by world standards (53,000 diesel engines were produced in 1983). The cost-raising effects of low production levels within each firm cannot be overcome without rationalization of the existing industry and the creation of export markets that can support international scales of production. The second problem arising from a deletion program is that its forced pace has the effect of significantly raising costs of production, particularly as more and more complex parts, or parts requiring large scale production, are mandated to be produced domestically. However, production could proceed for several component parts that can already be produced cost effectively in Indonesia, and several more could be added to these after a reasonable learning period. The failure to increase production efficiency will lead to the creation of a potentially high cost, low volume diesel engine industry which runs the risk of imposing a cost burden on downstream users of the equipment. Greater attention, therefore, needs to be given in advance to the ultimate economic viability and timing of new investments, the optimal scale of production, and the level of local content that can economically be supplied from domestic sources. In essence, premature import substitution should be avoided, particularly when it imposes cost penalties on downstream industries.

The Costs Associated with the Present Policy Environment: Some Evidence

3.18 Government policies designed to protect the manufacturing sector have contributed to the development of many inefficient industries which produce goods at higher cost than comparable imports. The extra cost to domestic consumers amounts to an implicit subsidy to producers. In last year's economic report we cited the example of a few products (cement, steel, color TVs) for which the implicit subsidy per worker employed was very high.^{/1} Table 3.1 provides additional evidence indicating the implicit subsidy per worker for a number of other products. The wide range of production activities receiving implicit subsidies through the incentive system raises the important issue of whether Indonesia, given its present and foreseeable resource constraints, can afford to continue such subsidies over a prolonged period without incurring a heavy penalty in terms of overall economic performance.

3.19 As important is the wide disparity in assistance provided to different industries. For example, the implicit subsidy per unit of value added in the production of non-alcoholic beverages is 23 times as much as that provided to wood and rattan furniture, and 40 times greater than finished textile products. Export oriented industries are disadvantaged by the incentive system because, though they obtain high-cost inputs from domestic suppliers, they have to sell their products on the international market on a competitive basis. This amounts to a tax on the production of these items, which in the case of garments can be as high as 20% for every unit of value

^{/1} Indonesia - Policies and Prospects for Economic Growth and Transformation, World Bank Report No. 5066-IND, April 26, 1984, page 101.

added./¹ Potential exporters are consequently either uncompetitive in international markets or find it financially more rewarding to sell their products in the domestic market behind high protective barriers. Indonesia acceded to the GATT Code on Subsidies and Countervailing Duties in March 1985 and, in accordance with GATT provisions the Government has announced its intention to phase out certain types of export incentives. This underscores the Government's determination to improve the efficiency of the industrial sector and supporting services. Specifically, within the next two years, Indonesia will replace the export certificate scheme with a formal duty drawback system which would ensure that duty exemptions or rebates are provided only for the actual duties paid on imported inputs. In addition, the Government has announced that preferential interest rates provided to exporters for short term export financing will be phased out over the next five years.

Table 3.1: IMPLICIT ANNUAL SUBSIDIES PER WORKER IN SELECTED INDUSTRIES, 1984

Industry	Total implicit annual subsidy / ^a (Rp. billion)	Implicit annual subsidy per worker (Rp. million)
Motorcycles	53.2	5.9
Cosmetics	67.1	4.7
Motor Vehicles	134.4	4.1
Glass	37.5	3.1
Sugar	137.6	1.6

^a The volume of output multiplied by the difference in value added at domestic and international prices.

Source: World Bank staff estimates.

3.20 In addition to substantial transfers from consumers to producers, the high protection of manufactures also tends to encourage uneconomic production activities. Table 3.2 presents estimates of the value of domestic resources (labor and capital) used in saving one US Dollar (for imports) or earning one US Dollar (for exports) for selected manufactures./² In the case of some manufactures (e.g. AC generator sets, color TVs and shock absorbers), the import cost of components is greater than the import price of the completely built up unit. The domestic production of these items actually results in

¹ Other manufacturing activities which are taxed in this manner by the present incentive system include the production of some textile products, some industrial chemicals, meat canning and chocolate.

² The estimates of domestic resource costs used here suffer from data limitations, and hence should be viewed as broad orders of magnitude.

foreign exchange losses to the economy in addition to the domestic resources used in their production. In the case of other selected manufactures shown in Table 3.2, efficiency in the use of domestic resources varies considerably. At an exchange rate of US\$1 = Rp. 1,100, about US\$5 worth of domestic resources go into the production of sheet glass and tires to save US\$1 in imports, a loss of US\$4 to the economy. Similarly, for motorcycles, US\$2 worth of domestic resources are used to save US\$1 in imports, a loss of US\$1. These estimates provide prima facie evidence of the high social cost of such activities. On the other hand, the two export oriented activities in the sample, palm oil refining and rubber processing, earn foreign exchange efficiently.

Table 3.2: DOMESTIC RESOURCES USED IN SAVING OR EARNING US\$1
(FOR SELECTED MANUFACTURES, 1985)

Production of	Sector /a (IS=Import substitute) (EO=Export oriented)	Domestic resources used in saving or earning US\$1 (in Rp)	Implicit subsidy per unit of value added /b
AC generator set	IS	..	NVA /c
Color TV	IS	..	NVA
Shock absorber	IS	..	NVA
Sheet glass	IS	5,370	3.87
Tires	IS	4,720	0.92
Bajaj	IS	3,390	0.62
Motor cycle	IS	2,100	0.65
Polyester cloth	IS	1,770	0.60
Shirt	IS	1,370	0.17
Refined palm oil	EO	870	-0.36
Processed rubber	EO	762	-0.49

.. Not applicable

/a Export oriented industries are defined as those which export more than 5% of their output.

/b The figures are the effective rates of protection expressed as a ratio. They are net of taxes and any other transfer payments.

/c Negative domestic value added at international prices. This indicates that the cost of imported components is greater than the international price of the final product. Hence, the contribution of the activity to the balance of payments is negative.

Source: World Bank staff estimates.

3.21 It must be stressed, however, that import substitution activities per se need not be uneconomic, provided they are competitive with comparable imports, after allowing for a reasonable learning period. But the assured erection of high protective trade barriers tends to encourage investments

which are not internationally competitive and utilize domestic resources uneconomically. The evidence presented in Table 3.2 tends to support the conclusion that the more the protection accorded to a manufacturing activity (measured as the implicit subsidy per unit of value added), the greater are the domestic resources required in earning or saving one US Dollar.

The Need for Change in Industrial and Trade Policy

3.22 The macroeconomic framework in Chapter 2 projects the manufacturing sector to grow at 8% p.a. between 1985 and 1995 compared to 4% p.a. in the first four years of the 1980s and 14% p.a. in the 1970s. Unlike the 1970s, future industrialization would now need to be achieved in an environment of resource stringency. As a consequence, not only would new investments in the manufacturing sector need to be more efficient, but greater efficiency would need to be achieved from existing investments. In the short run, providing demand conditions permit, the efficiency of existing investments would increase as capacity utilization rises. However, even at full capacity, many firms in various industries would not be capable of reaching international levels of competitiveness owing to problems of scale, old technology or other inefficiencies. On the other hand, cost reductions would lead to lower prices, thereby effectively expanding the domestic market as well as enhancing export competitiveness.

3.23 Rapid industrial development in the coming years will also need to be achieved in an environment of slower growth in incomes and domestic demand than in the past. Achieving high manufacturing growth in the face of lower domestic absorption requires a shift in emphasis towards exports. The base case projections in Chapter 2 indicate that to achieve a 5% non-oil GDP growth rate, the manufacturing sector would need to grow by 8-9% p.a. over the next ten years. The narrowing scope for efficient import substitution implies that exports of manufactures would need to rise by almost 11% p.a. (in real terms) to meet this target. Given Indonesia's low base of exports of manufactures, and provided that the mix is diversified, a rate of expansion of this order is unlikely to face external demand constraints.

3.24 During the 1970s, only about 10% of the growth in manufacturing output on average was accounted for by export expansion; for the period 1986-90 this would need to rise to 12%, and thereafter to 14%.^{/1} Such a shift in the pattern of demand is deemed essential for achieving the growth targets for manufacturing and GDP as a whole. Generating the requisite export growth calls for a policy environment which induces domestic manufacturers to accept the challenge of selling their products in the international as well as the domestic market.

^{/1} The sources of growth are measured as the percentages of the increment in manufacturing gross output, and add up to 100%. Other than export expansion, the sources of growth are domestic demand expansion, import replacement and technological change.

3.25 The recent government initiatives in streamlining customs procedures, reducing port costs and lowering nominal tariffs are important steps in this direction. But, as noted earlier, the growing importance of quantitative restrictions on imports, and a rigid application of local content requirements, run counter to the thrust of these important measures. Continuation of these trade barriers will adversely affect Indonesia's export performance, GDP growth and the external payments position. By way of an illustration, we have explored the implications of a lower export growth (i.e. 5% p.a.) of manufactures. In such a situation, total export earnings in 1995 would be \$5.6 billion lower than in the base case. If confronted with this prospect, Indonesia has two possible options. First, the Government could seek to maintain balance of payments stability by reducing the growth rate; this was depicted as Scenario III in Chapter II. Lower growth would naturally have adverse implications for employment and incomes, a subject more fully explored in Part II of this report. In this scenario, the debt-service ratio, though manageable, will also be higher than indicated by prudent debt management standards. Second, in order to attain a GDP growth rate of 4.5% p.a., the Government could borrow more from international capital markets to compensate for the export earnings shortfall. The consequences of such a strategy are depicted as Scenario IV in Table 3.3. It indicates that total external debt would rise to over \$83 billion by 1995 compared to \$65 billion in the base case, and that the total debt-service ratio would consequently rise steadily reaching a high level of 28% compared to 22% in the base case. It is unlikely that such levels of borrowing and debt servicing could be reasonably managed without affecting Indonesia's international credit worthiness.

Table 3.3: PROJECTED PERFORMANCE INDICATORS UNDER ALTERNATIVE TRADE POLICIES, 1986-95

	<u>Base Case</u> 1986-95	<u>Scenario III</u> 1986-95	<u>Scenario IV</u> 1986-95
<u>Growth (in percent)</u>			
GDP	4.5	3.7	4.5
Manufacturing GDP /a	8.0	6.2	8.0
Exports of manufactures	10.4	5.0	5.0
Gross investment	5.1	4.5	5.1
<u>Other indicators</u>			
	<u>1995</u>	<u>1995</u>	<u>1995</u>
Debt-service ratio (%) /b	22.1	26.4	28.0
Total external debt (\$ billion)	64.9	71.3	83.5

/a Excludes LNG.

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

Source: World Bank staff estimates.

3.26 Both scenarios III and IV are unattractive outcomes for Indonesia and emphasize the importance of achieving rapid expansion of exports of manufactures. No doubt, there are marketing risks associated with an export-based growth strategy, particularly those arising from the increasingly protectionist measures adopted by industrial nations. But the present inward-oriented approach runs the more insidious risk of promoting a range of high cost industries that will impose a progressively heavier burden on the country's resources and make it increasingly difficult to accelerate the export of manufactures. The longer the present policies continue, the more difficult and costly becomes the task of improving efficiency and realigning domestic industry with the country's resource availability and dynamic comparative advantage.

Some Elements of Trade Policy Reform

3.27 The previous paragraphs have argued that further industrial development through increased protection and intervention would not be consistent with the objectives of promoting efficiency and growth. Future policies need to ensure that new investments are channelled into economically viable activities requiring little or no assistance in the form of protection or subsidies. There is also a need to render existing investments more efficient so that their contribution to economic growth could be steadily enhanced. The transition from the present system to one which places a premium on efficiency and competitiveness in both export oriented and import substituting industries will require time and careful management. It is beyond the scope of this report to offer a detailed blueprint for the changeover; rather, some broad considerations with regard to trade policy reform are outlined below.

3.28 First, as we noted earlier, import bans ^{/1}, deletion programs, and quantitative restrictions have been an important contributory factor in raising production costs in manufacturing. The reduction of these costs will not only help to increase the competitiveness of non-oil exports, but also, by reducing domestic prices, help to expand domestic demand for manufactures. In the short run, refraining from the introduction of new bans and replacing the existing ones with tariffs should, therefore, have the highest priority. In shifting from bans and quantitative restrictions to tariffs, anti-dumping laws and a system of countervailing duties would need to be established to ensure that Indonesian manufacturers are not seriously affected by dumping from abroad.

3.29 Second, in the medium term, to reduce the bias against exports and to promote efficient investments (both public and private), it is essential to reduce the existing high levels of protection. A step in this direction has already been taken with the recent lowering of tariff rates. However, the tariff reductions may generate pressures to introduce new quantitative restrictions; such pressures should be firmly resisted. Moreover, in encouraging private investment activity, it would also be advisable to resist

^{/1} Including the negative list used by BKPM which itemizes those capital goods that cannot be imported but must be procured locally.

the temptation of offering a protected domestic market as an inducement to potential private and foreign investors. In the medium to long term this will only serve to promote and sustain inefficient industrial investments and frustrate efforts at improving the efficiency of existing industries. The first priority, therefore, should be to improve efficiency in the industrial sector. An efficient industrial sector, in turn, could provide a strong incentive for foreign investors to invest in Indonesia. Such investments, if made judiciously, would help to promote growth, diversify the structure of exports, and increase export earnings. Care should, however, be exercised to ensure that foreign investment is attracted to economically viable activities and areas. In addition, disparities in the rates of protection would need to be further reduced. The realignment of tariffs will impact differently on various industries and firms. Some subsectors will benefit but others will be negatively affected. In some negatively affected subsectors, firms will be able to adjust to the new circumstances with improvements in efficiency. In others, the short term effects could prove disruptive to production and employment; but, if their longer term viability can be established, there is a case for providing temporary and time-bound government support for the adjustment process. The kind of government intervention required may differ from subsector to subsector and would need to be the subject of special studies on each. For example, in the pulp and paper subsector, restructuring would need to take the form of fewer, larger and more energy-efficient firms. Government assistance could be in the form of providing long term finance and technical assistance, particularly to help manufacturers adjust to a new product mix and new markets.

3.30 The engineering sector provides a useful focus to examine how trade and industry policies can be applied to promote efficient and dynamic development. It is a sector which holds significant development potential in Indonesia, but where strategic mistakes can also prove very costly. Until now the development of the engineering sector has closely followed the incentive structure that governs investment and production in the industry as a whole. High protection, often supported by import bans, has encouraged large investments in the manufacture or assembly of complex products such as motor vehicles, heavy plant equipment and large ships. The expectation has been that this would lead to the formation of a supplier network and generate upstream employment. On the other hand, unsupported by the policy environment, light machinery and equipment ^{/1} production contribute a very small share of engineering sector output and comprise a large share of capital goods imports. Yet Indonesia appears to have a potential dynamic comparative advantage in these products, as they require fairly straightforward manufacturing and product technologies, and use relatively labor intensive techniques of production. Existing firms in this subsector already exhibit potential for international competitiveness. The mastery of the technology used in these subsectors could provide the strong technological base Indonesia

^{/1} For example: cables, springs, gears, engine cams, metal containers, machinery, building products, simple fabrications, hand tools, water valves, bearings, sheet metal products, simple plate products, industrial pumps, industrial valves, light cranes, hoists, light agricultural machinery, light construction machinery, etc.

needs to enter more complex production processes. This argues for a shift in emphasis towards light engineering goods. Not only does this require changes in the policy environment and incentive structure, but also active government support to rationalize existing industries so they can compete more effectively with imports without requiring high protection.

C. Issues in Financial Intermediation

3.31 The financial system has an important role to play in supporting the changes in trade and industrial policies discussed above, and facilitating the structural transformation of the economy. Firstly, the financial system will need to mobilize and provide financial resources to the industrial sector as well as other borrowers efficiently and at reasonable cost. As noted, the cost of credit in Indonesia is quite high and this is causing considerable stress on the financial position of many firms; these costs will need to be reduced through increased efficiency of banks (see below). Secondly, the process of industrial and trade policy reform will inevitably hurt some industries, and force others to restructure, modernize and adapt their production structure in order to become competitive. The financial system will need to assist such industries to become competitive and efficient by providing technical assistance and financing packages to enable such enterprises to undertake financial restructuring as well as new investment designed to restructure and adapt their physical production capacity. Thirdly, financial institutions can contribute to the development of an efficient industrial sector through sound appraisal of projects and the provision of technical assistance and advice, especially to smaller businesses and new entrepreneurs. To achieve these goals, it is necessary that financial institutions become more viable and self-reliant, are able to operate independently and have the capacity to assess risks and make good credit judgements. In addition, the development of institutions in the financial sector needs to be encouraged, so as to provide more financing sources and options to potential investors than is presently available.

3.32 As discussed in Chapter 1, the June 1983 reform has cleared the way for the evolution of more self-reliant institutions in the financial sector and greater competition. As noted, however, a number of issues have also emerged. Among those which require further attention are: (a) how to reduce the presently high cost of credit even after adjustment for inflation; (b) how to increase the flow of term lending through commercial banks; and (c) how to strengthen institutions, particularly the development banks and the capital market.

Cost of Credit

3.33 Given Indonesia's open capital account, the close linkages between domestic interest rates and those abroad and the complex factors influencing the formation of exchange rate expectations in Indonesia, particularly uncertainties with regard to future oil price movements, it is difficult for the Government to bring down domestic deposit rates. On the other hand, intermediation costs of state banks (which account for the bulk of term

lending in Indonesia) are relatively high; and actions by these banks themselves to improve their efficiency and reduce their intermediation costs could provide an important means of reducing lending rates over the medium term. This is an important task: if these high interest rates cannot be reduced, they could impede the structural transformation of the economy.

3.34 Intermediation costs of state banks presently average about 7-8 percentage points of the interest rates charged. They mainly reflect high administrative overheads and large write-offs. There is considerable scope for reducing intermediation costs through improvements in the organizational structure and operating procedures of the state banks and reducing write-offs. In general, organizational restructuring, improving management controls, rationalizing personnel use, and improving credit review procedures could lead to a significant reduction in the banks' costs.

3.35 The state banks are keenly aware of these needs. They have begun to take steps to improve their operational efficiency in many of these areas; some have embarked on major organizational improvements. But more needs to be done. Given the magnitudes of arrears and high write-offs, banks will also need to launch aggressive collection efforts to collect past due loans, and to strengthen their loan collection and recovery capabilities. In addition, in order to induce banks to improve their loan collection efforts, present credit insurance arrangements /1 should be improved by reducing insurance coverage provided by ASKRINDO and raising the premia paid by banks to reflect the nature of risks covered.

3.36 The high cost of credit could be also brought down somewhat by lowering the cost of funds of banks. Towards this end, banks will need to expand their base of low cost (particularly demand) deposits, for example by promoting the banking habit through such measures as opening of branches in urban residential and rural areas, setting up special rapid service windows for cashing checks, improving the quality of services and environment in bank offices and creation of savings accounts with unrestricted withdrawal rights. The banks' costs of funds could also be reduced somewhat if Bank Indonesia were to pay interest to banks (for example, close to the average costs of deposits of banks) on banks' reserves held with BI. At present these reserves earn no interest; and this adds about 1-1.5% p.a. to the effective cost of funds of banks.

Long Term lending

3.37 On the supply side, state banks appear to be less inclined than before to provide long term loans, due to increases in their deposit rates and risks after the financial sector reform, informal restraints on lending rates, and the shortening of their deposit mix (see Chapter 1). In order to induce banks to increase term lending, long term lending rates of state banks will need to rise to reflect their costs and risks of lending. This would

/1 At present, 75% of all priority loans of banks are automatically insured by the state credit insurance agency - ASKRINDO; the responsibility of collecting bad loans is generally left to ASKRINDO and the government collection agency which is heavily overburdened.

initially raise costs to borrowers. But, if banks lend at variable rates, as interest rates decline, the average cost to borrowers could be reduced over time as compared to the cost under the present fixed long term rates. In addition, by capping debt-service payments, and if necessary, by extending the maturity of loans, it is possible to protect borrowers and match their debt-service payments with the cash flow of projects. In order to improve their deposit mix, banks will need to diversify the range of instruments offered to depositors and promote longer term CDs; the latter however, requires greater differentiation of deposit rates than is presently paid on 12 and 24 month deposits, particularly by state banks.^{/1} Secondly, if the Government were to continue to run surpluses with Bank Indonesia, the latter could place such funds as CDs with banks and help improve their deposit mix; however, the extent to which this could be done will depend on the growth of government deposits and considerations of liquidity management.

Institutional Development

3.38 An important area requiring the Government's attention is the strengthening of development banks. These banks are already a major source of investment finance; and they should be retained as a major source of term finance. These banks could also play an important developmental role through the appraisal and supervision of projects and technical assistance to smaller and new entrepreneurs. It is also desirable to strengthen these banks as specialized longer term financing institutions, since the commercial banks already provide an adequate supply of short term loans.

3.39 In order to make development banks more effective, it is necessary to build up their institutional capabilities and make them financially viable. A particularly serious problem facing these banks is the poor quality of their portfolios. However, this problem is not confined to the development banks. There are some signs that the portfolios of the commercial banks have also deteriorated in the past 12 months. To improve portfolio quality, (a) action plans should be drawn up to deal with problem loans (by writing off bad loans, rescheduling those which are likely to become delinquent, and making adequate provision for possible losses), and special loan recovery units should be set up to improve loan recoveries; (b) appraisal quality should be improved by consolidating operations, strengthening credit departments at head offices and improving quality control and screening mechanisms; (c) the quality and size of staff in loan appraisal and supervision work should be improved through hiring additional staff and staff training; (d) subsector restructuring programs, with government assistance, should be started to assist projects which have become delinquent due to changes in government policies concerning subsectors; and (e) finally, the legal system for recovery of loans and foreclosures should be streamlined.

3.40 To encourage the development banks to reduce their reliance on government funding over time, a three-pronged approach could be adopted: (a) long term lending rates should be allowed to find their market equilibrium. This would enable the development banks to match their lending

^{/1} Most state banks' deposit rates for 2 year deposits are currently below their rates for 12 month deposits.

rates with their risks and collateral and differentiate between borrowers according to such risks; (b) the Government's equity contributions should be increased in order to build up the capital base of development banks, to enable them to keep down their average costs of blended funds and to borrow from the market; (c) encourage development banks to raise funds directly from the market.^{/1} While such steps should enable development banks to cover the costs of their normal operations, the additional costs involved in providing technical assistance and promotional work to smaller borrowers should be financed by the Government.

3.41 While improvements in the efficiency of the banking system are the clear priority, given the importance of bank debt financing in the economy, the capital market should be developed as an alternative source of investment finance. In particular this would also help improve the financial strength of enterprises by increasing their equity base and reducing their reliance on debt. Among the measures which are needed to revive the capital market the most urgent is the removal of discriminatory tax treatment. This could be done either by removing the tax exemption of time deposits, or by extending the same concession to capital market instruments. Given the risk of capital flight, the practical option may be to exempt interest and dividend income from capital market assets from income and withholding taxes. This is unlikely to lead to significant revenue losses. Reform of the prevailing regulatory framework, and encouraging the growth of new financial instruments and institutions could also help to increase capital market activity levels.

D. Public Investment: Issues and Priorities

3.42 The preceding section has stressed the importance of creating an environment which is conducive to improving efficiency and more judicious investment decisions in the industrial sector. Efficient utilization of scarce public resources for high priority investments is also essential for improving overall economic performance. In this section, we discuss the implications of this outlook for both the levels and composition of public investment. The discussion is organized around the following issues: (i) appropriate levels of public investment, given the projected availability of investible resources; (ii) key considerations that should guide public investment priorities over the medium term; and (iii) proposals for strengthening investment planning and project appraisal.

Resource Availability for Public Investment

3.43 The macroeconomic projections developed in Chapter 2 suggest that the availability of foreign exchange resources for investment will remain tight. Against this background, we have projected total investment to remain at around 20% of GDP through 1990 and then to gradually rise in later years. The Government is keen to harness the private sector to this investment effort.

^{/1} Through time deposits and CDs at competitive rates, direct placements with pension funds and insurance companies at market rates and bond issues in the capital market.

However, for the time being the response is likely to be sluggish, given the existing business conditions of excess capacity and high real interest rates. Public investment will therefore have to be sustained at about 10% of GDP, roughly the average over the past decade.

3.44 The REPELITA IV public investment target only covers expenditures by the Central Government.^{/1} However, in projecting total public investment, we have taken account of the Government's commitment to move a larger share of public investment off the budget, by financing more projects from the internal funds of public enterprises and domestic bank borrowing. On balance, we have projected such off-budget financing to account for about one quarter of public investment over the next few years. This share is somewhat higher than the estimate for 1985 but in line with historical experience.

3.45 In principle, a smaller share of public enterprise investment financed through the budget is desirable: it helps encourage public enterprises to become more commercially viable and to be more selective in their choice of projects. Some public utilities, such as PLN and PERUMTEL, should be able to finance a substantially larger share of their investments from internal funds. However, given the weak financial position of many public enterprises, especially those in the industrial sector, there is a danger that some public enterprises will be tempted to borrow beyond prudent limits. Continued caution will therefore have to be exercised, to ensure that the projects undertaken have adequate economic rates of return, and that overall levels of public investment and related import requirements remain within affordable limits.

Public Investment Priorities

3.46 In the following paragraphs we explore some of the considerations which should guide public investment priorities over the next few years. Particular attention is paid to the following concerns: (i) the impact of the tight and uncertain balance of payments outlook on public investment priorities; (ii) the need to provide productive employment to a growing and increasingly educated labor force; (iii) the importance of relating investments to prudent estimates of existing or emerging demands in the economy; and (iv) the constraints imposed by project implementation capacity.

3.47 In the light of these considerations, this report takes the position that the sectoral composition proposed for REPELITA IV is broadly appropriate. The proposed reallocation of resources (compared to actual expenditures during REPELITA III) from industry and mining to the social sectors - shown in Table 3.4 - should have a favorable impact on the import

^{/1} Development expenditures include two important components of public investment (direct government investment and budgetary transfers to public enterprises), as well as some recurrent expenditures (such as the fertilizer subsidy). The recurrent expenditures are deducted in deriving the public investment series used in this report. Development expenditures authorized but not spent, as reflected in the Government's cash balance with Bank Indonesia, are also deducted.

intensity of investment and employment generation, as well as make a major contribution towards human resource development. Indeed, given the overall resource constraint discussed above, additional efforts to protect high priority investments, especially in agriculture and the social sectors, may well be justified. However, at best, broad sectoral allocations can only highlight the major issues and trade-offs the Government will face in investment planning over the next few years. In the final analysis, investment decisions will have to be taken in the context of well-formulated sectoral programs and based on sound project appraisals.

Table 3.4: SECTORAL COMPOSITION OF DEVELOPMENT EXPENDITURE
(in percent)

Sector	REPELITA III		REPELITA IV	
	Plan	Actual	Plan	Budget /a
<u>Productive sectors</u>	<u>15.9</u>	<u>27.1</u>	<u>17.6</u>	<u>19.5</u>
Agriculture /b	6.9	7.9	6.8	8.5
Industry /c	7.1	12.0	7.5	8.4
Mines	1.9	7.2	3.2	2.6
<u>Economic infrastructure</u>	<u>34.1</u>	<u>25.5</u>	<u>30.8</u>	<u>28.0</u>
Irrigation	7.0	4.5	5.9	5.0
Energy (incl. Power)	11.6	7.9	12.2	9.7
Communications & Tourism	15.5	13.1	12.6	13.3
<u>Social sectors</u>	<u>16.6</u>	<u>15.9</u>	<u>22.9</u>	<u>22.3</u>
Education & Culture	10.4	10.0	14.7	14.3
Health & Population	3.8	3.5	4.5	3.9
Housing & Resettlement	2.4	2.5	3.8	4.1
<u>Other sectors</u>	<u>33.4</u>	<u>31.5</u>	<u>28.7</u>	<u>30.2</u>
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

/a For 1984/85 and 1985/86.

/b Includes fertilizer subsidy.

/c Includes government equity participation.

Source: REPELITA III and IV, and Ministry of Finance.

3.48 Impact on imports and employment. The analysis presented in this report emphasizes the importance for Indonesia to follow a relatively labor intensive development path. Public investment plays a major role in this strategy, both through its influence on the pattern of growth (e.g., by promoting crop diversification in agriculture and the development of export oriented industries) and through its requirements for imports and labor. To help calculate the latter, we have estimated sectoral import and

employment coefficients for development expenditures. These coefficients, summarized in Table 3.5, take into account the direct impact of public investment on imports and employment, as well as the import and employment content of domestically produced goods used for public investment./1

Table 3.5: IMPORT AND EMPLOYMENT COEFFICIENTS /a

	Imports /b	Employment /c
<u>Productive sectors</u>	0.71	0.14
Agriculture	0.45	0.22
Industry	0.87	0.09
Mines	0.91	0.06
<u>Economic infrastructure</u>	0.69	0.23
Irrigation	0.50	0.31
Energy	0.79	0.16
<u>Social sectors</u>	0.44	0.45
<u>All sectors</u>	0.57	0.33

/a Aggregations are based on the plan allocations for REPELITA IV.

/b Coefficients show the import requirements (in rupiah) per rupiah of development expenditures.

/c Coefficients show the labor requirements (in man-years) per million rupiah of development expenditures (in 1980 prices).

Source: World Bank staff estimates, using the 1980 Input-Output Tables and expenditure/final demand relationships developed by the ILO Employment and Income Distribution Project in the Ministry of Manpower.

3.49 As would be expected, there is a marked variation in the coefficients among sectors. Every rupiah invested in the social sectors, for example, requires half as much imports and generates three times as much employment as a similar investment in industry, mines or energy. Similarly, the coefficients suggest that government expenditures in the agricultural and irrigation sectors would have a greater employment effect and result in fewer imports than if a similar amount were invested in the industrial or mining sectors. The overall impact of alternative patterns of public investment on employment creation is discussed further in Part II of this report.

/1 This is still a very partial analysis, which does not allow for the multiplier effects of investment expenditures, nor the impact of alternative project choices on sectoral coefficients. Nevertheless, the results are instructive.

3.50 Ultimately, of course, all public investment projects should be subjected to thorough economic analysis at the appraisal stage, and only undertaken if the rate of return on full economic cost is considered satisfactory. For example, some capital intensive projects, such as the recently completed LNG projects, can have a very positive impact on both net foreign exchange earnings and income generation over the medium term. But there is still considerable scope for improving the import and employment impact of public investment through appropriate project selection and design. There is also a concern that large capital intensive projects can preempt an undue share of future resources, thereby making adjustments to changes in the external environment that much more difficult. In addition, there is compelling evidence to suggest that labor intensive techniques are often appropriate under Indonesian conditions.

3.51 Demand issues. The previous section noted the scope available for generating employment and conserving foreign exchange by varying the pattern of public investment. But changes in the sectoral distribution of public investment must also take into account the pattern of demand for economic and social infrastructure. As shown in Table 3.6, there are a number of key areas of economic and social infrastructure where Indonesia's development still lags behind other countries in the region, even allowing for income differentials. The relatively low ratios for electrification, secondary school enrollment and health services are particularly striking. These are all areas where public investment will continue to play an important role. In some cases, the level of achievement reflects the relatively low historical priority given to the sector in resource allocations. Education, for example, accounted for only 10% of development expenditure during REPELITA III; for other countries in the region, this ratio has been around 20% in recent years. Given the pressing need for skilled manpower, as well as the strong social demand for education, the case for relatively higher allocations to the education sector (as planned for REPELITA IV) would seem to be strong. Even so, care has to be exercised in deciding on the use of these funds. At the primary level, for example, universal enrollment has almost been attained. As a result, the country's new primary school construction requirements are minimal, with investments during REPELITA IV being limited mainly to school rehabilitation and teacher housing for schools in remote areas. Demand for new primary teachers will also fall dramatically, such that many teacher training high schools will become redundant. Therefore, both facilities and resources could be freed up for an expanded program of secondary and higher education development.

3.52 More generally, demand assumptions for public services need to be carefully considered, with due consideration for cost recovery. A case in point is irrigation. Largely as a result of the major irrigation investments undertaken over the past decade, rice production has risen on average by 5.8% per annum since 1975. As noted in Chapter 1, net domestic production exceeded consumption in 1984 and stocks are at record levels. Barring unfavorable weather, it would appear that rice self sufficiency can be sustained (provided measures are taken to protect recent gains in yields). This implies a re-examination of the nature of appropriate irrigation investments, especially in Java.

3.53 Another relevant example is provided by the power sector. As supply constraints are eased, the Government is expecting electricity sales to continue to grow rapidly. But recent trends suggest that the projected expansion of demand per consumer, in both the industrial and residential sectors, could be overstated. A lower sales growth rate of two to three percentage points could save up to 15% in the planned investment costs. The major impact on the composition of the investment program would be to delay construction on the Muang hydro-station and other new steam-coal plants.

Table 3.6: SELECTED DEVELOPMENT INDICATORS /a

Indicator	Indonesia	Thailand	Philip.	Malaysia	Korea
GNP per capita (US \$)	580	790	820	1,370	1,910
<u>Power</u>					
Consumption per capita (kwh)	99	355	390	676	1,204
Electrification ratio (%)	12	41	43	61	95
<u>Telecommunications</u>					
Telephone density (per 100)	0.4	1.1	1.2	6.3	n.a
<u>Education</u>					
Gross enrollment ratios (%)					
- Primary	97	96	84	96	99
- Secondary	27	29	55	65	84
- Higher	4	4	21	4	22
<u>Health</u>					
Infant mortality rate (per '000)	102	51	51	29	32
Population per physician ('000)	11.5	7.1	8.0	7.9	1.4

/a Most indicators are for 1981 or 1982. Otherwise, the latest available data are used.

Source: World Bank staff estimates.

3.54 Project implementation capacity. The potential for altering the composition of public investments is limited by problems in project implementation. As documented in last year's economic report, these problems include delays in procurement and consultancy approvals, complex budget and finance procedures, difficulties in land acquisition and shortages of skilled manpower. Resultant implementation slippages often increase project costs and delay the realization of benefits, thereby reducing rates of return and possibly undermining the economic justification for the project. A case in point is the tree crops sector, where Indonesia has a clear comparative

advantage in expanding production for both domestic consumption and exports./1 The potential benefits in terms of employment and regional development are also recognized by the Government. Yet, for the three major tree crops - rubber, oil palm and coconut - implementation constraints kept actual plantings to only 0.5 million hectares during REPELITA III, about 30% below planned levels. The Government is presently working on an action program to address existing problems in a number of areas affecting the tree crop development program: land acquisition, manpower training, the coordination of government agencies, particularly agriculture and transmigration, and the management/planning capacity of public estates.

3.55 Similar arguments apply to the telecommunications sector. Here PERUMTEL had originally proposed to add more than one million exchange lines during REPELITA IV. However, once again the binding constraint is implementation capacity. As a result, BAPPENAS has adopted a lower target of 750,000 new lines and, without substantial strengthening of implementation capacity, actual performance could be significantly lower. PERUMTEL is, however, fully aware of the need to improve its implementation capacity and has made this a key objective for REPELITA IV. Some recent actions, such as the introduction of turnkey contracts and a program of technical assistance for project implementation and contracting arrangements, coupled with revenue raising measures (including tariff increases), should considerably improve PERUMTEL's implementation capacity over the medium term.

3.56 Implementation and financial constraints can also adversely affect program composition. A case in point is PLN's investment program during REPELITA III, when 69% of the planned generating capacity was added but only 36% of the planned extension of the distribution network was completed. Two factors account for the relatively large shortfall on distribution investments: (a) their smaller size and shorter implementation schedule makes them more vulnerable to budget cuts; and (b) they are subject to greater procurement delays due to the emphasis given to using local suppliers./2 These tendering delays have contributed to the recent increase in PLN's transmission and distribution losses.

3.57 As discussed in Chapter 1, the Government is fully aware of the need to effect rapid improvements in project implementation and has initiated several measures. Two classes of actions need to be stressed. First, the method and pace of implementation of worthwhile objectives, such as the increased utilization of domestic products, need to be carefully examined to ensure that there are few deleterious, unintended effects, and that the substitution of domestic for foreign products is economical, and contributes to the objective of developing efficient domestic industries and contractors.

/1 See Indonesia - The Major Tree Crops: A Sector Review, World Bank Report No. 5318-IND, April 15, 1984.

/2 The extent of these delays is illustrated by the implementation profiles for power distribution investments in the West Java Region during the final three years of REPELITA III, when the ratio of actual to planned tenders fell from 89%-92% (in 1982/83) to zero to 5% (in 1984/85).

For instance, local inputs priced above international levels put Indonesian contractors and suppliers at a disadvantage in international tendering; similarly, delays in procurement and implementation in order to increase local content, although not always easily assessed, are, nevertheless, often costly. Second, it is important to continue to examine the regulations carefully, prune unnecessary and counterproductive procedures, institute simpler and more efficient systems, and improve management and monitoring of projects. We understand the Government is considering the formation of a Standing Inter-Agency Committee to direct and oversee the development and execution of the measures necessary for speeding up implementation. The secretariat of the committee would be located in BAPPENAS, and staffed by individuals from BAPPENAS, SEKNEG and major line agencies.

Investment Planning

3.58 The previous discussion focused on considerations which should guide the sectoral allocation of public investment. However, the key to good investment planning is sound 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 investment planning in three areas. First, the economic justification of projects could be subjected to closer scrutiny. For REPELITA IV, there are a number of investment proposals that warrant more careful analysis regarding their size (e.g., the program of primary school construction) and timing (e.g., the proposed introduction of mobile car radio telephones). Other investments, such as the proposed mining projects in tin and bauxite, may simply not be justified given present world market conditions. Second, there are areas where investment proposals could be better designed and possibly expanded. A case in point is the health program. Compared to REPELITA III, the subsector share for health centers falls from 31% to 17%, while only a meager allocation is provided for communicable disease control. The size of these programs would seem to be inconsistent with the priority given in the plan to reducing infant mortality. Third, cost estimates - including overall costs, time phasing and the breakdown of local and foreign costs - could be improved./1

3.59 Sound project appraisal is the key to good investment planning. However, without a strong central framework for ensuring intersectoral and macroeconomic consistency, the effort is unlikely to bear fruit. BAPPENAS already plays a major role in the preparation of the five year plan and annual budget decisions on development expenditures. However, decisions are not always made on the basis of comprehensive and up-to-date sectoral investment programs, detailing specific project proposals, multi-year cost projections and total (not just budget) financing requirements; while the links to annual budget decisions are weak. This is an area where BAPPENAS could usefully guide and support the efforts of line agency planning units. BAPPENAS also

/1 A Bank review of the REPELITA IV irrigation program, for example, indicated that total costs are expected to be only Rp. 4.5 trillion, 30% less than allocated in the plan. A major factor in this discrepancy is the recent sharp decline in world bids for civil works contracts.

needs to establish clearer mechanisms and criteria for adjusting the investment program in response to a changing resource environment. Decisive action was taken in mid-1983, when a number of large and import intensive projects were cancelled or rephased to keep the import bill within manageable limits. However, a more continual monitoring and adjustment process is also required. One mechanism for doing this, as suggested in last year's economic report, would be to identify a core program of high priority projects, to be protected against resource shortfalls and implementation delays. The Government has already adopted this approach in the power and telecommunications sectors. However, preparation of a broader core program, reflecting intersectoral priorities as well, would be desirable.

3.60 Finally, increased attention needs to be given to the impact of past and new investments on recurrent financing requirements. For budgetary purposes, guidelines should be agreed between BAPPENAS and the line agencies on appropriate unit costs for recurrent items such as salaries, materials and overheads, in relation to the existing capital stock (e.g. per hectare of irrigated land or per primary school).^{/1} BAPPENAS should also examine closely the recurrent cost impact of new projects. This can often be substantial, especially in the social sectors. For example, World Bank staff estimates suggest that for every Rp. 100 invested in education during the 1980s, an additional Rp. 31 should be added to annual requirements of recurrent expenditures.^{/2} This is almost double the actual budgetary impact of education projects implemented during the late 1970s. Increasingly, these recurrent costs could be covered by user charges at both the central and local levels. However, given the backlog of underfunding that already exists, it is inevitable that further real increases in budget allocations, whether as routine or development expenditures, will be required. At the margin, this may mean sacrificing some new investments. But the benefits, in terms of improved utilization of existing assets and the provision of higher quality services, is likely to be well worth the costs.

3.61 There is also a case for financing more of these recurrent expenditures through cost recovery on public services. There are of course valid social reasons for wanting to limit the burden of cost recovery, especially on the poorer segments of society. Yet the potential benefits, both for resource mobilization and to avoid waste, cannot be dismissed lightly.

3.62 In the irrigation sector, direct cost recovery through land tax (IPEDA) and water charges is very low (generally around 10%-15% of farmers' net profits and 5% of the incremental earnings from irrigation investments). Higher water charges may not always be appropriate, given that many beneficiaries are close to the absolute poverty level. One alternative

^{/1} The Directorate of Irrigation has proposed such guidelines for operation and maintenance expenditures on main irrigation systems. However, these norms have not as yet been approved by BAPPENAS and actual budget allocations have been substantially lower.

^{/2} See Oey Meesook, Financing and Equity in the Social Sectors in Indonesia, World Bank Staff Working Paper No. 703, 1984, p. 14.

approach would be to modify the present IPEDA system, to provide for better land valuations and to earmark a portion of the revenues for operation and maintenance expenditures on irrigation system.^{/1} General increases in IPEDA are also appropriate for improving municipal finances and funding the development of urban services.

3.63 Direct cost recovery can also be improved in certain subsectors, such as housing, and increases in interest rates for other credit programs (e.g. smallholder tree crops) would also seem to be justified on "ability-to-pay" grounds. Major public utilities, such as PLN and PERUMTEL, should be able to finance a more significant portion of their investment costs from internally generated funds, while also contributing to general revenues. For example, in the case of PLN there is considerable scope for reducing transmission and distribution (T&D) losses. Although PLN's T&D losses decreased from 24.1% in 1974/75 to 18.7% in 1982/83, they were much higher than those in neighboring countries (Malaysia 7.6%, Thailand 9.9%, and Korea 6.8%, all in 1982/83). Moreover, the declining trend of PLN's T&D losses was reversed in 1983/84 when they rose to 21%, mainly due to increases in unauthorized/unaccounted for consumption and shortfalls in the implementation of distribution projects.

^{/1} The Government is planning to study alternative institutional arrangements for such a scheme in the West Tarum irrigation area.

Part II - EMPLOYMENT TRENDS AND OUTLOOK

Summary and Conclusions

i. The second part of the report is devoted to the employment problem in Indonesia, with the primary focus on the labor absorption issue. Although there have been significant improvements in the past, the employment problem is still serious. The absorption of an expanding labor force in a period of tighter resource constraints presents a difficult challenge for the country in the next ten years. The analysis indicates that a serious deterioration in the employment situation could occur, unless the Government makes a concerted effort to implement policies conducive to a labor intensive pattern of growth. This will involve both the appropriate macroeconomic policies discussed in Part I, and additional policies with a specific employment orientation.

The Employment Problem

ii. The employment problem currently manifests itself in two forms: in low return work for a significant proportion of the workforce, and in open unemployment. Low returns to labor, and associated household poverty, are most extensive in rural Java, especially amongst the landless and small farmers. But low incomes are also a feature of the rural Outer Islands and urban Indonesia. Open unemployment is almost exclusively an urban phenomenon, and is primarily a problem for first job seekers, the young and the educated.

iii. Past trends in employment and productivity suggest a favorable process of change between the early 1970s and the early 1980s. There was a significant shift in the composition of employment from low productivity food crops to higher productivity activities in other agriculture, manufacturing, trade, and other services. The available evidence also indicates significant wage increases in both agricultural and non-agricultural activities since the end of the 1970s. The process of change has been most rapid in Java, where employment in agriculture declined during this period. This does not mean that agriculture was unimportant: rapid growth in agricultural incomes, supported by buoyant public expenditures, was central to a quite favorable pattern of rural development. Village level studies suggest that economic diversification by households, and a reasonable degree of labor mobility, facilitated a fairly wide participation in this income growth. In the Outer Islands, both rural and urban wages and incomes are higher, but the economies are comparatively less diversified than Java. The agricultural sector has played a much larger role in the direct absorption of labor than in Java.

iv. Aggregate trends in open unemployment have also not been unfavorable: the national unemployment rate of 2%, and the urban unemployment rate of about 6%, have been stable. However, there were some worrisome signs in the 1976-82 period: unemployment rates for general upper secondary school leavers (in

Part II draws upon background work by Yusuf Saefudin, M. Husein Sawit (Center for Agro Economic Research, Bogor) and Ray Byron (consultant).

the 20-24 age group) rose from 32-33% to 37-38% in this period, and unemployment rates also rose for most categories of women and for new entrants with tertiary educational qualifications.

v. The overall trends in employment and incomes were good, but this occurred in a period of rapid economic growth. National income and non-oil output grew at 8-10% p.a. in the decade or so to 1982. Government policy has in the past played an important role in supporting a favorable pattern of growth for employment - agricultural income growth was given high priority, public spending was both sectorally and spatially diversified, and the transmigration program was beginning to provide land and employment for significant numbers of the rural poor in Java. The financial sector reform of June 1983 also led to the removal of most subsidized interest rates in the system, that constituted a significant bias in favor of capital intensive investments prior to this. However, where employment concerns did not coincide with other aims, the latter were often given priority, for example in the preferential treatment for large industry, restrictive policies on the informal sector in some cities, and, amongst the range changes in the 1984 tax reform, the introduction of accelerated depreciation appears to have a bias toward capital intensive choices. Since 1983, the Government has, of necessity, given first priority to short term stabilization, and a serious deterioration in the employment situation was probably only prevented by a significant recovery in agricultural and non-oil export incomes. As overall growth prospects are expected to be favorable than in the 1970s, particular attention will now be needed to ensure an adequate growth in employment opportunities.

Future Prospects

vi. The labor force is projected to grow at about 2.3% p.a. between 1985 and 1995, with no slowdown in growth until the second half of the 1990s. This implies an increase of almost 1.7 million people a year over the next decade. Growth of the labor force by region will be heavily influenced by migration, and with moderate to high levels of transmigration, over half of the increment will be on the Outer Islands. There are some uncertainties over future labor force participation rates, and the Government's projection involves a higher labor force growth, with a rising share of women. If this were to occur, the conclusion of this report on the urgency of the employment problem would apply with even greater force.

vii. If a deterioration of the employment situation is to be prevented, the key requirement is substantial labor absorption in the commodity producing sectors, i.e. only moderate increases in the capital intensity of production. A projection corresponding to the base case of Part I indicates that the economy has the potential to absorb the growth in the labor force, and sustain steady growth in productivity and incomes in all sectors of the economy. However, this will require both appropriate macroeconomic and sectoral policies, notably for industry and agriculture, and specifically employment oriented measures, including policies on agricultural mechanization, public expenditure, transmigration and the urban informal sector. As in the past, the service sectors would be important sources of employment growth. A relatively labor intensive pattern of growth can also help ease the foreign

exchange constraint, since the spending of lower income households is characteristically biased toward domestically produced goods. Sharp contrasts are likely between Java and the Outer Islands: on Java a continued gradual decline in agricultural employment, but a much larger role of manufacturing, is projected; in most of the Outer Islands, agricultural employment will have to expand significantly to absorb the rapid growth of the rural population, especially in destination areas of transmigration.

viii. Two less favorable scenarios were also explored. The first, corresponding to the low non-oil export case of Part I, shows the potential risks of less supportive policies, and of a failure to correct some existing biases in policy. This assumes the same external environment - and so the same level of resources from oil and LNG - but a less labor intensive pattern of growth. Slightly slower agricultural growth, combined with excessive rates of substitution of capital for labor in agriculture and manufacturing, could lead to substantial labor displacement, especially of the landless, in rural Java and insufficient growth of agricultural employment in the Outer Islands and of industrial jobs on Java. Over the next ten years, this could result in the need for 4-5 million more jobs in other sectors of the economy. This would mean either a fall in returns to labor in the urban informal sector and the low wage end of the formal sector, or higher unemployment, or both. This would present a very difficult employment problem, with risks of worsening urban poverty and social dislocation. The second scenario examines the implications of slower growth as a consequence of lower oil prices. The employment problem again worsens, and presents a more difficult challenge over the medium term.

Selected Policy Issues

ix. The scenarios developed in this report are only indicative of alternative patterns of future growth and labor absorption. There are, however, a number of policy areas in which the Government can significantly increase the probability of realizing the more favorable scenario.

x. The continued growth of agriculture will be central to a favorable evolution of the employment situation both on and off Java. On Java, growth in agricultural incomes will be essential to the overall state of the rural economy, and in particular to the continued expansion of the non-farm sector. The two main ingredients for this are the maintenance of expenditures in agricultural infrastructure and a favorable pricing environment. However, because of the apparent emergence of demand constraints for rice in 1984, agricultural diversification will be necessary to continued growth, and high priority should be given to the analysis of options in this area. Policy towards agricultural mechanization will also be important. Agricultural mechanization can be significantly labor displacing, and current evidence suggests that the economic case for it is weak, at least for tractors in Java. In this context, a cautious approach would be appropriate, with no use of subsidized credit. The encouragement of domestic production by small scale producers is likely to be particularly beneficial to fostering the appropriate adaptation of techniques and local repair maintenance facilities. Similar principles on agricultural policy apply to the Outer Islands, but here the scale of required agricultural labor absorption will necessitate more

extensive investment in agriculture. The effective implementation of two major programs, in tree crops and water resource development, will be central to meeting the demand for additional jobs. Finally, in view of the relative scarcity of labor in most areas, a more rapid rate of agricultural mechanization would be expected, but there is still not a case for subsidized credit.

xi. The most important role for the manufacturing sector in the next ten years will need to be the provision of foreign exchange earnings or savings to finance the overall growth of the economy. However, there is a high degree of consistency between an efficient, relatively export oriented manufacturing sector and a labor intensive pattern of future growth. Scenarios of manufacturing growth show that under an export oriented policy (though still with some import substitution) the sector could absorb 20% of the increment to the labor force in the early 1990s (and over 30% on Java), but that with a bias toward import substitution in producer goods this drops to below 10%. This provides strong support for the arguments in Part I on industrial policy. Also important is the relative role of small scale firms, since these now account for the bulk of manufacturing employment. Past growth has been good, despite a bias in past government policies towards large scale firms. The experience of other countries indicates that the best way of sustaining this growth is to encourage a broadly dispersed pattern of demand growth and to remove favored treatment for large scale firms. Special schemes, such as credit for small scale enterprises in both industry and service sectors, can also play a useful supportive role.

xii. Public expenditures have a dual role: in supporting a labor intensive pattern of growth in the commodity producing sectors, for example through investments in rural infrastructure, and through the provision of direct and indirect employment in the implementation phase. For public expenditures to continue to provide an autonomous source of income and employment growth, there is a case for sustaining a moderate rate of growth in the domestic component of the budget. This is affected by the share in total expenditures of sectors and projects with a high domestic content. As discussed in Part I, the shift in composition from the REPELITA III realization to REPELITA IV plans favors such sectors, though if the employment situation were to deteriorate, further shifts could be justified. Although some of these programs, such as INPRES Sekolah Dasar, are not likely to grow as rapidly in the future, there is good evidence of extensive productive investment opportunities in relatively labor intensive activities, such as rural roads and local irrigation. Increased allocations to regular maintenance, instead of periodic rehabilitation, of economic infrastructure can also increase employment effects and reduce imports. A balanced investment program should continue to have both capital and labor intensive activities. However, in view of their much larger use of scarce resources, it would be appropriate to subject projects with unusually high investment costs per job to more rigorous project appraisal to ensure they effectively contribute to the country's economic development.

xiii. Policy on transmigration will have a large influence on the distribution of the growth in the rural labor force; this program can make a

major contribution to the central welfare issue of reducing rural poverty on Java. The geographic orientation of the program is having to change from Sumatra and Sulawesi, that are rapidly running out of new sites, toward Kalimantan and Irian Jaya. This not only makes implementation more difficult, but also raises costs. Preliminary analysis of farm models in these areas suggests that transmigration can have an adequate economic rate of return to the country and provide reasonable incomes to the farmers, provided that there is some form of second stage agricultural development, in tree crops, irrigation or livestock. This is of importance for the labor market, since relatively unsuccessful rural development in transmigration areas could lead to destabilizing second round migration flows, and, for example, unmanageable urban growth in areas such as Kalimantan and Irian Jaya. To realize such a favorable outcome, the linkages with the tree crops and water resource development programs are essential. Owing to implementation (and resource) constraints for these programs, and the competing claims of existing low income farmers in the Outer Islands, there may be difficulties in achieving the Government's current targets for transmigration.

xiv. Finally, although most of the poor will continue to be rural dwellers, the urban labor market will be particularly sensitive to changes in the aggregate employment situation. Youth and educated unemployment is likely to persist, and may worsen with the rapid growth of secondary school leavers. Specific policies oriented toward the unemployed, such as improving the labor exchanges and vocational training, are not likely to have much impact on unemployment rates, though they are valuable in their own right. Policies toward the informal sector could have a much wider impact in urban areas. Present trends toward a more restrictive attitude, especially in Jakarta, could have major costs in employment, for limited benefits. Other cities, notably in East and Central Java, have been more supportive of the informal sector. A tolerant attitude in the short run, and a supportive policy in the medium term, for example through planning enough space for informal sector activities in public areas, will be important if this sector is to continue to play its role in the macro picture of labor absorption. Apart from this, two areas of general policy will influence the evolution of the urban labor market: the degree of success of rural development, through its impact on rural-urban migration rates, and the labor intensity of manufacturing, through the impact on the growth in urban wage employment and wage differentials. With a favorable policy environment in these areas, only moderate increases in urban unemployment and continued growth in incomes amongst poorer urban households appear to be feasible. Without such a supportive environment, there is a risk of a serious deterioration in the urban labor market, with potentially high social costs.

CHAPTER 4

THE EMPLOYMENT PROBLEM

4.1 Over the past fifteen years, employment has received increasing emphasis in policy statements by the Government. While REPELITA I and II placed most weight on the maintenance of stability and support for economic growth, both REPELITA III and IV place great emphasis on the equitable distribution of employment opportunities. Since the slowdown in economic growth in 1982, the issue of the provision of employment for a growing labor force has had a high profile in public debate. In this chapter we first present a summary analysis of the current employment situation and then focus on the labor absorption problem over the next ten years, both in relation to government policy choices, and to alternative views on the state of the international oil market.

A. The Current Situation

The Nature of the Problem

4.2 Two specific issues drive the current concern with employment: the pressure on land and the associated rural poverty in Java; and the high unemployment rates amongst the young, and especially the educated young, in urban areas. A significant proportion of the 65 million members of the labor force now in Indonesia are working in such low return work that their households are living in absolute poverty. /1 Over the next ten years the labor force will increase by about 17 million people. The employment problem faced by the Government in this period involves both increasing the productivity of those now in the labor force and the effective absorption of new entrants into work.

4.3 Rural areas account for a large part of the problem of low return work. About 80% of the labor force, and a higher proportion of households living in poverty, are rural dwellers. The bulk of these are involved in agriculture, but non-farm activities are also important, often as a secondary source of income and employment. Access to land is the primary determinant of economic class, and on Java over a third of rural households lack access to sawah land, but poverty is as extensive amongst smallholders as amongst rural laborers. Average incomes in urban areas are much higher than in rural areas

/1 The definition of absolute poverty is always somewhat arbitrary. In this report we use a standard based on calorie requirements and observed household budgets. The latest systematic assessment is for 1980; it is estimated that almost 40% of the total population fell below the poverty line, of which over 60% lived in rural Java in that year. See Indonesia - Policies and Prospects for Economic Growth and Transformation, World Bank Report No. 5066-IND, April 26, 1984, Chapter 5. Preliminary results for 1981 indicate a somewhat lower, but still significant, poverty incidence. See Appendix 3, Tables 5-7, for estimates of incomes and the distribution of poverty in 1981.

- by 70% in Java in 1981 - but many households still suffer from low incomes. Poor urban households appear to be roughly equally divided between those dependent on wage labor and those working in self-employed activities or family enterprises in the informal sector.

4.4 Open unemployment is primarily an urban phenomenon. It is only weakly related to poverty in Indonesia, since poor households can rarely afford to be unemployed. Although the overall urban unemployment rate, of about 6%, is not high by developing country standards, it is highly concentrated amongst young new entrants to the labor force, and especially recent graduates of secondary schools. Men and women with upper secondary school qualifications in the 20-24 age range experience unemployment rates of 30-40%. For this group unemployment is predominantly associated with better paying wage employment in the formal sector: it reflects an imbalance between the supply and demand for such jobs, and a willingness to wait in the queue for preferred employment.

4.5 Underemployment, in the sense of low hours of work per week, is more extensive than unemployment. About 35% of the total labor force works less than 35 hours per week. This is much more pronounced in rural areas, and is especially associated with agricultural workers. However, it is of less importance than the general problem of low productivity work, since only about 7% of rural workers appear to be underemployed against their will. There are also large numbers in the work force who work long hours. /1

4.6 The view taken on the workings of the labor market has an important impact on the interpretation of the present and future employment problem. /2 The following is a brief summary of the conception used in this report. There is a hierarchy of both wages and labor productivity levels in Indonesia, that stretches from very low return activities in rural Java to high wage urban sector employment in large industrial and other corporations. This is associated with a hierarchy of labor market segments, with varying degrees of mobility between segments. Within rural areas, and between rural areas and both the urban informal sector and low wage formal sector employment, there is a reasonably high degree of mobility: workers can, over a period of time, move between these segments, and wage differentials are not excessive. However, movement into relatively high wage employment in the formal sector is not

/1 About 35% of the total (rural and urban) work force works more than 45 hours a week. See Appendix 3, Tables 9 and 10 for underemployment statistics. 43% of the rural work force worked for less than 35 hours per week in 1982, but only 16% of these should probably be classified as wanting to work longer hours. This gives a figure of 7% of the total rural work force that were underemployed against their will.

/2 The conception of the labor market is largely based on the previous World Bank report on employment, with the exception that recent evidence now indicates a higher degree of mobility within the rural labor market in Java than was concluded in that report. See Indonesia - Wages and Employment, World Bank Country Study, 1985, and Appendix 1 paras. 2 and 23.

free: significant wage differentials are maintained and total employment in these sectors is largely determined by other factors, including production or service technology in the case of industry and finance, and policy and budget considerations in the case of public employment. There is also imperfect inter-regional mobility; this is of particular importance for moves between rural areas in different islands.

Growth in Employment and Labor Productivity - the Past Experience

4.7 The employment experience from the early 1970s to the early 1980s was good, and this appears to have had a significant impact on the welfare of low income households throughout the country. Table 4.1 summarizes the pattern of change between 1971 and 1980.^{/1} In this period the total labor force increased by 30%, or about 13 million people, almost entirely as a consequence of increases in the size of the working age population - there was no change of significance in the overall labor force participation rate.

4.8 Food crops form the largest single sector of employment in both 1971 and 1980, and also has the lowest labor productivity.^{/2} Households that are mainly dependent on this sector for work constitute the largest single poverty group. The most promising development in the period was the combination of a rapid increase in productivity growth within the sector, and a sharp reduction in its importance in providing new employment. The children of many households in the food crops sector, as well as other new entrants to the labor force, were able to find employment in other, relatively high productivity sectors. The most important of these were other agriculture (18% of the incremental labor force) manufacturing (18%) and trade (17%), followed by other services, transport and construction. All services accounted for over 40% of the employment of the incremental labor force. However, the story on productivity growth was mixed for these expanding sectors. Manufacturing and other services enjoyed reasonable productivity growth, but all the other major recipient sectors experienced stagnant or declining productivity.

4.9 Table 4.1 shows that the overall unemployment rate was low and stable in the 1970s. Analysis of the more recent 1976-82 period confirms this picture: the more important urban unemployment rate remained at 6%. However, a more detailed review of trends in this period presents a less sanguine picture, with an increasing concentration of unemployment amongst the young and educated, and rising unemployment amongst women.^{/3} Graduates of upper

^{/1} The comparisons of sectoral employment between 1971 and 1980 in the report are based on the Input-Output Tables for these two years, adjusted to make the assumptions on aggregate employment consistent with each other. The primary source for the employment data used in the Input-Output Tables is the population census of the same year.

^{/2} Throughout this chapter labor productivity is defined as value added per worker in a specific sector.

^{/3} See Appendix 1, paras. 37 to 41, for an account of unemployment trends from the national household surveys in 1976 and 1982.

secondary schools accounted for 40% of all urban unemployed in 1982; and the unemployment rate for both male and female graduates of academic upper secondary schools in the 20-24 age group rose from 32-33% in 1976 to 37-38% in 1982. There is also a general rise in the rates for graduates of tertiary educational institutions. The proportion of women amongst all unemployed increased from 23% to 36%, with a more than doubling in the absolute number in the six year period. Finally, unemployment rates are also significant (at 10% or more) amongst the less educated young (in the 15-24 age range), five to ten years after most would have left school. For all categories, unemployment rates decline sharply amongst older groups in the labor force, in both 1976 and 1982, indicating a process of slow absorption of new labor force entrants into works. However, the rise in rates amongst the key groups suggests that the queue for jobs was growing longer in this period, despite the high rate of economic growth in urban areas.

Table 4.1: EMPLOYMENT AND PRODUCTIVITY, 1971-80

	Employment			Labor productivity /e	
	Composition 1971	1980	Share of increment 1971-80 %	Increase 1971-80 (% p.a.)	Average level, 1980 (Rp'000/worker)
Agriculture	66	57	28	3.6	370
Food crops	(60)	(49)	(11)	(3.9)	(230)
Cash crops	(3)	(4)	(7)	(-1.2)	(1,027)
Other /a	(3)	(5)	(11)	(-3.4)	(1,343)
Manufacturing	7	9	18	3.9	940
Construction	2	3	6	1.8	1,669
Trade	11	12	17	0.3	992
Transport	2	4	7	-2.0	1,121
Public admin.	3	4	4	7.6	1,245
Other services /b	7	8	13	5.7	518
Miscellaneous /c	0	1	4	-3.4	2,086
<u>Total employment /d</u>	<u>98</u>	<u>98</u>	<u>98</u>	<u>4.1</u>	<u>663</u>
Unemployed	2	2	2	n.a.	0
<u>Total labor force</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>n.a.</u>	<u>n.a.</u>

/a Livestock, forestry and fisheries.

/b Social, community, household and personal services.

/c Non-oil mining, electricity, gas and water and finance.

/d Excluding oil and LNG.

/e Annual value added per worker (at 1980 prices.)

Source: World Bank staff estimates based on the reports on the 1971 and 1980 Input-Output Tables and Population Censuses by BPS.

4.10 There are important differences between the various regions of Indonesia. Even with Indonesia divided simply between Java and the Outer Islands, significant contrasts emerge. These are summarized in Table 4.2. The relative labor abundance in Java leads to lower average labor productivity in almost all sectors, but the structural shift in employment out of agriculture is more advanced than in the Outer Islands and has been proceeding more rapidly. There was a decline in the numbers of people employed in agriculture, /1 while manufacturing (at 24%), trade (26%) and other services (34%) accounted for the bulk of the incremental labor force in this period. The rising importance of non-farm activities is as much due to changes within rural areas as to rural-urban migration, and became even more marked in the 1976-82 period. Evidence from villages in West Java (see Appendix 1, paras. 6 to 14), suggests that it was part of a positive process of income growth. Many households were becoming more diversified, and while incomes from rice cultivation continued to be an important source of household income growth for many, non-rice agriculture and non-agricultural incomes were of rising importance. These income gains were widely distributed in the villages studied: farm laborers were major gainers from the growth in non-agricultural incomes, and small scale farmers (with initial cultivation areas of less than 0.25 ha) gained especially from agricultural income growth. As a consequence, the overall distribution of income appears to have remained stable, and the incidence of poverty was significantly reduced in this period of rapid growth. In urban Java the distribution of employment was fairly stable: manufacturing accounted for around a fifth of both average and incremental employment, and trade, transport and other services accounted for about three quarters.

4.11 In the Outer Islands, growth in non-agricultural employment has also been rapid, but most regions continue to be both less urbanized and less economically diversified than Java. Agriculture accounted for over two thirds of total employment and three quarters of rural employment at the beginning of the 1980s, and has been the largest single source of new employment.

4.12 There are three principal factors behind the broadly favorable pattern of labor absorption up to 1980. First, there was rapid growth in agricultural incomes, especially in the rice sector, associated with the expansion of irrigation, intensification and technical innovation, as well as some increase in cultivated area in the Outer Islands. Second, there was very rapid modernization of the economy, in particular in Java, with buoyant growth in the secondary and tertiary sectors - over 10% p.a. - and a large increase in the flow of manufactured and other consumer goods within the economy. Some of this can be linked to multiplier effects of spending by households in both rural and urban areas. Third, there appears to have been a reasonably high degree of labor mobility, between the agricultural sector and low wage and self-employed non-agricultural activities, in both rural and urban areas. This was facilitated by the "transport revolution" - the major increase in transport services, especially in Java, in the 1970s.

/1 This refers to the primary sector of employment of labor force members: as discussed in Appendix 1, para. 6, there was, at least in some areas, an increase in total agricultural employment in terms of hours worked, but this was largely taken up by the existing farming population.

Table 4.2: JAVA AND THE OUTER ISLANDS: PATTERNS OF EMPLOYMENT AND PRODUCTIVITY, 1971-80

	Java			Outer Islands		
	Employment		Labor pro- ductivity	Employment		Labor pro- ductivity
	Compo- sition 1980 (%)	Share of increment 1971-80 (%)	Level, 1980 (Rp. '000/ worker)	Compo- sition 1980 (%)	Share of increment 1971-80 (%)	Level, 1980 (Rp. '000/ worker)
Agriculture	51	-3	324	68	29	433
Manufacturing	11	24	889	6	12	1,102
Construction	4	12	1,880	2	8	1,193
Trade	15	26	893	8	18	1,290
Transport	3	6	773	3	4	1,906
Public admin.	4	34	1,193	4	24	1,225
Other services	11		413	6		833
Miscellaneous /a	1	6	2,100	1	6	2,065
<u>Total /b</u>	<u>100</u>	<u>100</u>	<u>628</u>	<u>100</u>	<u>100</u>	<u>724</u>

/a Non-oil mining, electricity, gas and water, and finance.

/b Excluding oil and LNG.

Source: World Bank staff estimates, derived from reports on the provincial production accounts, the 1980 Input-Output Tables, and the 1971 and 1980 Population Censuses, by BFS.

4.13 The pattern of development outlined above clearly continued until 1982. There is no aggregate information since then, but the 1983 oil price reduction, the need for major stabilization measures and the sharp slowdown in growth in the non-oil economy, have provided a much less favorable environment for employment growth in the past two years. Fortunately the general slowdown coincided with good agricultural performance, notably in the rice sector, both on and off Java, and the micro evidence from Java indicates that rural wages have so far maintained the real gains of the 1980-81 period. Agricultural producers in the Outer Islands, and, to some extent, manufacturers in Java, also benefited from the major improvement in the market for non-oil exports in 1983/84. In other sectors the picture is less good, though not yet serious; the principal change compared with the past appears to have been a much weaker contribution to labor absorption by the manufacturing sector - if past rates of labor productivity growth were maintained, this sector accounted for a negligible proportion of incremental labor absorption between 1980 and the present. This put greater pressure on the service sectors, especially in the urban informal sector, to absorb the growing labor force. The limited available macro and micro evidence suggests there was sufficient growth in

employment opportunities to prevent significant declines in incomes in these sectors. In the formal sector, wages appear to have held up in real terms following the devaluation, partly because of a low inflation rate in the past two years.

Past Government Policy and Employment

4.14 How far has the Government's expressed concern resulted in policies that are favorable to employment creation? Indonesia enjoyed substantial benefits from the two oil windfalls of 1973-74 and 1979-80. The Government's use of these resources was conducive to diversified growth, and compares favorably with many other oil exporters. Good general economic policy often supported the favorable pattern of employment creation described in the previous section. First, high priority was given to agricultural development, in the form of a favorable pricing environment, major investments in improved water availability, the dissemination of new varieties, and the encouragement of fertilizer and pesticide usage. This supported the growth in output and productivity in food crops shown in Table 4.1. Moreover, the buoyant growth in agricultural incomes, and especially rice incomes in rural Java, was central to the expansion in non-farm incomes and employment and the positive pattern of rural-urban linkages. Second, the distribution of public expenditures has had beneficial direct and indirect effects. Development spending was expansive, and its distribution was both sectorally and spatially diversified. Some public investment was, of course, capital intensive. But the emphasis on irrigation, local roads, kampung improvement, primary schools and health centers led to a major increase in construction throughout the economy; in Java and Bali this made use of the pre-existing tradition of labor-intensive construction methods. Although the overall role of construction as a source of permanent employment was not large (6% of incremental employment between 1971-80, shown in Table 4.1), it became a widespread source of supplementary employment and incomes and accounted for a high fraction of incremental employment in rural Java since the mid-1970s. As with agricultural incomes, the multiplier effects of the income increases were important to the expansion of non-farm employment. There was also a special labor intensive public works program, Padat Karya, but this was small relative to overall expenditures. Third, the Government has given high priority to supporting the transmigration of households from rural Java to the Outer Islands. It is too early to form an overall assessment of this program (see Chapter 5), but it has clearly made a contribution to relieving the pressure on the labor market in Java through the provision of land and agricultural employment to the landless or near landless.

4.15 In the area of industrial policy, however, the record is more mixed. The protection of domestic industry certainly helped the major increases in output in the 1970s, but the sectoral biases within the sector were not favorable to employment. The structure of protection favored relatively capital intensive sectors, and the system of regulations and preferential credit terms from the formal financial system was largely oriented toward providing favored status to medium and large scale firms. The Investment Coordinating Board (BKPM) has guidelines to encourage labor intensive industries, but there is little evidence that these have been effective.

Fortunately, the small scale sector proved quite resilient and grew rapidly in response to the high and dispersed growth in demand. But this was in spite of the general thrust of government policy.^{/1} In the case of financial policy, the system prior to the June 1983 reforms, that included the extensive use of subsidized credit facilities, was biased in favor of capital intensive investments. While the 1983 reform had many objectives, the removal of this distortion was clearly beneficial from the viewpoint of employment. Finally, there have been moderate interventions in the area of labor policy, including legislation on conditions of employment and a minimum wage that has generally followed market conditions in the formal sector. This has provided some protection to the workforce in medium and large scale firms, but has not had a major impact on the overall employment situation.

4.16 While the overall impact of medium term policy on employment was quite good, this appears to have been largely a consequence of general economic performance. Where employment considerations have come into conflict with other objectives, the latter have often received priority. Examples are preferential treatment for large scale industry, restrictive policies on the urban informal sector in some cities, and support (in principle) for agricultural mechanization. Amongst the range of measures in the 1984 tax reform, the introduction of accelerated depreciation appears to provide unwarranted incentives for capital intensive investment choices. In the period since 1983, the Government has, of necessity, given first priority to economic stabilization and adjustment, as discussed in Part I. Despite the less favorable macroeconomic environment than in the past, it appears that the employment situation did not deteriorate to a significant extent, primarily as a consequence of the rapid growth in agricultural incomes and the recovery in non-oil export incomes in this period (see para. 4.13).

B. Future Prospects for Employment

4.17 The pattern of growth over the next decade will have a significant impact on the employment situation. There is considerable uncertainty over both macroeconomic resource availabilities and the actual impact of government measures on the pattern of growth, but it is important to have some framework for analyzing future options. In this section we use a simple framework of intersectoral allocation of the labor force, both to develop a picture of likely medium term changes in the structure of employment and to illustrate the potential impact of government policies in selected areas.

4.18 The framework used is based upon the conception of the national labor market outlined in para. 4.06. Employment absorption in the commodity producing sectors is treated as being predominantly determined by technological choices in the production process. Similarly, employment in both public administration and finance is expected to follow an independent underlying rate of growth, a function of recurrent budget availabilities and the size of the financial system. This leaves a residual increase in the

^{/1} The Government has introduced some measures to encourage small scale industries - see para. 5.15 - but these were of minor significance relative to the general thrust of industrial policy.

labor force that is assumed to enter service employment, in trade, transport, social and personal services. Aggregate income in these sectors is projected to be a function of growth in the commodity producing sectors, so that the effect of new entrants is to spread the available income over a larger number of workers. There is a high degree of simplification here, but it is consistent with both the macro evidence of past developments discussed in Section A and various micro studies on Java. It also provides a useful index of the degree of pressure in the overall labor market in the form of the growth in labor productivity (i.e. total income per worker) in these service sectors: the greater the growth in employment relative to total income the slower the growth in productivity. Stagnant or negative growth in productivity indicates a serious employment problem, that would be expected to be reflected in lower labor incomes and wages. A crucial assumption in this conception is reasonably free entry to these sectors: if this does not hold, the residual labor force would be forced into open unemployment or marginal activities in both urban and rural areas. This possibility is also examined.

Labor Force Projections /1

4.19 The growth in the labor force is determined by the growth in the population and changes in the age structure and labor force participation rates. Population growth slowed in the second half of the 1970s, and is projected to continue to decline in the future, as fertility rates come down in response to the spread of family planning, growth in incomes, and increased education; the demographic assumptions used here are close to those used by the Government. As a consequence, the overall population growth rate declines from 2.3% p.a. in the 1970s to 2.1% p.a. in the 1980s and 1.8% p.a. in the first half of the 1990s. As shown in Table 4.3, the decline occurs throughout Indonesia, but some inter-regional variation in demographic assumptions is maintained. The regional distribution of population is also influenced by migration, and government policy is a major factor here. Table 4.3 reports the results under the intermediate transmigration scenario (see para. 5.27). This leads to significantly higher rates of population growth in the Outer Islands than in Java and Bali. By way of comparison, if there were no migration at all, population growth in Java and Bali would be 1.7% p.a., instead of 1.3% p.a., in 1986-90, and that in Kalimantan would be 2.3%, instead of 4.4% p.a., in the same period.

4.20 Although the new entrants to the labor force over the next ten years are all already born, there is some uncertainty over the future evolution of labor force participation rates. The analysis that underlies this report indicates a decline in the overall labor force participation rate (on the basis of the population aged ten and over) from 53.5% in 1980 to 52.5% in 1990, followed by a small rise to 52.9% in the year 2000.^{/2} The implications

^{/1} Appendix 2 presents a summary of the methodology and results for the demographic projections.

^{/2} The approach differs somewhat from that used by the Government, that projects more rapid overall growth in the labor force - of 2.8% p.a. in the second half of the 1980s - and a larger share of women, as compared with this report. See Appendix 2 for a brief discussion of the alternative assumptions.

are summarized in Table 4.3. This shows two important results. First, after declining from 2.7% p.a. in the first half of the 1980s, the rate of growth of the labor force is constant, at 2.3% p.a., in the next ten years; the effects of the decline in population growth are not felt until the 1996-2000 period. Second, as a consequence of migration, the annual increment to the labor force is higher for the combined Outer Islands than for Java and Bali, and it rises for all areas in the 1990s. If migration were to continue at the 1971-80 pace, the situation would be reversed, and the growth in the labor force in Java and Bali would be 1.9% p.a. between 1986 and 1995, with an annual increment of 850,000, over half the all Indonesia total.

Table 4.3: REGIONAL GROWTH IN POPULATION AND THE LABOR FORCE, 1986-95 /a

	Population		Labor Force			
	1986-	1991-	Annual growth		Annual increment	
	1990	1995	1986-	1991-	1986-	1991-
	--- % p.a. ---		--- % p.a. ---		----- '000 -----	
Java-Bali	1.2	1.0	1.5	1.5	640	680
Sumatra	3.1	2.7	3.5	3.2	480	540
Kalimantan	4.8	4.4	4.9	4.5	180	210
Sulawesi	2.9	2.4	2.9	3.0	120	140
Eastern Islands	3.1	3.2	3.2	3.6	140	200
Outer Islands	3.3	3.0	3.6	3.4	920	1,090
<u>Indonesia</u>	<u>2.0</u>	<u>1.8</u>	<u>2.3</u>	<u>2.3</u>	<u>1,560</u>	<u>1,770</u>

/a This is under the intermediate scenario for transmigration, see para. 5.27 and Appendix 2.

Source: World Bank staff projections.

Overview of Potential Labor Absorption under Alternative Policies

4.21 Projections of potential labor absorption over the next ten years show that the current employment problem could worsen, with adverse effects on the distribution of income and potentially serious social consequences, unless the Government makes a concerted effort to adopt policies that support a labor intensive pattern of growth. Unlike the past period of buoyant income growth in the economy, it is unlikely that employment will take care of itself in the future. However, with the combination of appropriate macroeconomic policies

that underly the base case of Part I, plus some additional measures specifically oriented toward labor absorption, the employment problem is potentially manageable./1

4.22 Two scenarios were developed to illustrate the impact of the policy environment on labor absorption and productivity. The first is based on a set of policies favorable to employment. It falls within the macro policy and growth framework of the base case of Part I. The achievement of sustained growth rates over the medium term, through the implementation of policies that will ensure the efficient use of scarce resources in both the public and private sectors, is essential to a favorable outcome for employment. In particular, the required shift in industrial and trade policy, to encourage the development of an efficient and more export oriented industrial sector, will also help foster a more labor intensive pattern of production. However, additional measures, specifically oriented toward employment, will also be required. These include a cautious approach to agricultural mechanization on Java, the avoidance of excessively capital intensive public expenditures, and a tolerant attitude towards urban informal sector activities. Transmigration also plays an important role in providing employment for the poorer segments of the Javanese labor force. Each of the policy areas is discussed in Chapter 5.

4.23 Table 4.4 summarizes the consequences of favorable policy. Under this scenario agriculture absorbs a significant proportion of additional labor, but the share of the sector in total employment declines to below 50% by 1995. This is consistent with continued productivity growth in the sector and a reduction in poverty amongst smallholders. Owing to slower growth in output than in the past, there is little scope for raising the share of manufacturing employment in the short run, but it accounts for 16% of new employment over the ten year period (and 20% in the early 1990s). The residual service sectors would have to provide over 40% of new employment in the 1980s, but this is consistent with moderate growth in productivity (and average incomes), of almost 2% p.a. in the remainder of the 1980s and 3% p.a. in the 1990s.

4.24 While appropriate macroeconomic policies are essential if the employment problem is to be manageable, it is also worth stressing that a labor intensive pattern of growth can also support macroeconomic objectives. Growth in incomes amongst poorer segments of the population tends to be spent on home produced rather than imported goods. It is expected that the structure of demand amongst both rural and urban households will shift away from staple foods toward relatively preferred foods, manufactured consumer goods and services /2, but these sectors still have relatively low import requirements, and will be the main sources of non-oil output growth over the next decade, supplemented, of course, by rising exports.

/1 The conclusion on the urgency of the employment problem is based upon a projected growth in the labor force of 2.3% p.a. If the Government's projection of higher labor force growth were to occur, the labor absorption problem would be even more difficult, especially for women.

/2 See Appendix 1, paras. 19 to 21.

**Table 4.4: EMPLOYMENT AND PRODUCTIVITY GROWTH
UNDER FAVORABLE POLICY, 1986-95**

	Employment			Productivity		
	Composition		Share of increment 1986-1995	Growth 1986-1995 - % p.a. -	Levels /d	
	1980	1995			1985	1995
	----- % -----		----- % -----	- % p.a. -	Rp. '000/worker	
Indonesia						
Agriculture	58	48	24	2.6	430	550
Manufacturing	10	10	16	4.2	1,150	1,740
Construction	3	4	7	1.2	1,750	1,970
Services /a	24	30	41	2.5	870	1,110
Miscellaneous /b	5	8	12	1.4	2,010	2,320
<u>Total /c</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>3.2</u>	<u>760</u>	<u>1,030</u>
Java-Bali						
Agriculture	51	40	-15	3.0	390	520
Manufacturing	11	13	27	4.0	1,090	1,620
Construction	4	5	11	1.0	1,980	2,180
Services /a	29	35	60	3.0	780	1,050
Miscellaneous /b	5	7	16	2.3	2,110	2,640
<u>Total /c</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>3.8</u>	<u>740</u>	<u>1,080</u>
Outer Islands						
Agriculture	68	58	47	2.0	480	580
Manufacturing	6	6	9	4.2	1,350	2,050
Construction	2	3	4	2.0	1,310	1,590
Services /a	18	24	29	1.4	1,060	1,210
Miscellaneous /b	6	8	10	0.3	1,880	1,940
<u>Total /c</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>2.3</u>	<u>770</u>	<u>970</u>

/a Trade, transport, social and personal services.

/b Non-oil mining, electricity, gas and water, finance and public administration.

/c Excludes oil and ING.

/d At 1980 prices

Source: World Bank staff estimates and projections.

4.25 The regional distribution of growth is also important to the evolution of the employment situation. Table 4.4 also provides the results for Java (and Bali) and the Outer Islands, based upon the pattern of growth in the labor force shown in Table 4.3.^{/1} Sharp differences are projected: agriculture sheds labor on Java, but provides a high fraction of new employment on the Outer Islands; manufacturing is of much greater relative importance in Java, and accounts for over 30% of all new employment in the first half of the 1990s, but is relatively unimportant in the Outer Islands; residual services are also much more important in Java, but this is consistent with productivity growth of 3.0% p.a. in these sectors. As a consequence there is a significant narrowing in the gap between sectoral labor productivities between Java and the Outer Islands over the ten year period.

4.26 A second scenario was developed to examine the consequences of unfavorable policy. This clearly shows the potential seriousness of the employment problem. It corresponds to the low non-oil export case of Part I. The most significant differences from the previous scenario apply to the commodity producing sectors. Agriculture grows slightly more slowly (at 3.2% p.a.): in the short run as a consequence of a less favorable investment and pricing environment, and more generally a failure to tackle the difficult problem of agricultural diversification; in the longer term also as a consequence of slower aggregate growth reducing the growth in demand for food. This is compounded by somewhat faster capital-labor substitution through excessive incentives to mechanize agricultural production. The manufacturing sector also follows a more capital intensive and less export oriented path, as a consequence of a failure to correct existing biases in the incentive environment and investment policy.^{/2} These effects would be exacerbated by an insufficiently rural bias to public expenditure policy, and excessive share of relatively uneconomic, capital intensive investments. Lower export growth, and larger resource requirements for investment, also leads to a slowdown in the growth of manufacturing output and employment.

4.27 The pattern of labor absorption would be very different from the favorable policy scenario. By 1995, there would be about 2.6 million less people working in agriculture and 2.1 million less in manufacturing than under the favorable scenario. Although the higher average labor productivity growth in agriculture would have some beneficial effects for farmers, the main beneficiaries would be those that could afford to mechanize, predominantly larger farmers. The loss in potential employment opportunities would primarily affect the households, and especially the children, of landless laborers and small farmers with inadequate access to land to provide employment. There could thus be 4-5 million additional people looking for

^{/1} In the projection model Java-Bali and the Outer Islands are actually the projection units, and Indonesia an aggregation. The results in Table 4.3 are based on the intermediate transmigration scenario described in Chapter 5, para. 5.27.

^{/2} See Chapter 5, paras. 5.10 and 5.11 for a description of the alternative manufacturing scenarios.

work in the residual service sectors over the ten year period, with heavy pressure on the urban informal sector. If these sectors could absorb these numbers, this would lead to stagnant or declining labor productivity (and average incomes) for most of the period. The situation would be exacerbated if the Government implemented restrictive policies on relatively good informal sector work (such as street vending), as is now occurring in Jakarta. Under these circumstances many new entrants would be forced into open unemployment or more marginal service activities.

4.28 Under this scenario there is a high probability that income distribution and poverty would worsen, in both rural and urban areas. In rural areas slower agricultural growth and more rapid labor displacement would tend to lead to lower agricultural wages and incomes of small farmers, with a higher proportion of any gains accruing to larger farmers. In urban areas the combination of slow growth in wage employment in manufacturing and relatively limited access to higher return informal sector activities would lead to much greater downward pressure on labor incomes at the lower end of the informal sector and in low wage activities. Since it is possible that this would co-exist with faster growth in wages at the upper end of the formal sector, owing to the shift toward more capital intensive (and higher labor productivity) techniques here, overall disparities in incomes could rise substantially. The employment situation would be a matter for serious concern under these circumstances, and this provides a compelling case for adopting policies that could increase the probability of realizing the favorable scenario.

Lower Oil Prices and Employment

4.29 The above discussion focused on the impact of alternative policies under the same external environment. We now look at the implications of a worsened external environment, using the low oil price scenario developed in Part I. Lower resource availability reduces the secular growth rate of non-oil GDP to close to 4.2% p.a. and of manufacturing to 7.3% p.a., and, because of demand constraints, feasible agricultural growth is reduced to 3.2% p.a. Since the Government's resource situation would be tighter, it is assumed that the affordable size of transmigration would also be reduced (to the low case described in para. 5.27). If labor productivity growth were the same as in the favorable policy case, there would be a significant reduction of future employment in the commodity producing sectors: agriculture and manufacturing would together employ 2.3 million less in 1995 than under that scenario. This would lead to a difficult employment situation - either stagnant or declining incomes in the residual service sectors or a sharp increase in unemployment. If this were also combined with policies unfavorable to employment the situation could be very severe. To avoid this occurring even higher priority would need to be given to employment.

4.30 Table 4.5 presents the results of a scenario in which the employment situation would remain manageable, through the maintenance of a higher degree of labor intensity in agriculture and manufacturing. This would be more difficult to achieve than in the favorable policy scenario, though the areas

for policy intervention would be the same as discussed above. The maintenance of a supportive environment for agriculture would again be crucial, but it may now be necessary to introduce stronger disincentives to mechanize and to aim for the widest possible participation in new investment programs (such as rubber development). In public expenditure, deeper cuts in the capital intensive sectors would probably be necessary to protect expenditures in social and local economic infrastructure. There would also be a case for an expansion in special labor intensive programs, such as the Padat Karya program, without changing the policy of geographic targeting of its activities, since there may be many local areas with a severe lack of employment opportunities. While the same overall policy stance on manufacturing would be appropriate, there would be a case for a more careful review of the relative role of small and large scale production, since the costs of displacement of household and small enterprise production would be proportionately greater with lower overall growth of the sector. Table 4.5 shows that with such a concerted effort to spread growth evenly, the increase in the labor force could be absorbed into employment with a gradual rise in sectoral labor productivities. This result should not be interpreted as implying that the employment problem could be easily tackled in an environment of low oil prices. It would probably require a major effort on the part of the Government in the above areas to realize such a scenario.

Table 4.5: POTENTIAL LABOR ABSORPTION UNDER A LOW OIL PRICE SCENARIO, 1986-95

	Employment			Labor productivity		
	Composition		Share of increment 1986-1995 — % —	Growth 1986-1995 - % p.a. -	Levels /d	
	1980	1995			1985	1995
	— % —			Rp.'000/worker		
Agriculture	58	51	37	1.6	430	500
Manufacturing	10	10	15	3.3	1,150	1,590
Construction	3	3	4	1.4	1,750	2,010
Services /a	24	29	32	1.5	870	1,010
Miscellaneous /b	5	8	12	0.5	2,010	2,110
<u>Total /c</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>2.0</u>	<u>760</u>	<u>930</u>

/a Trade, transport, social and personal services.

/b Non-oil mining, electricity, gas and water, finance and public administration.

/c Excludes Oil and ING.

/d At 1980 prices.

Source: World Bank staff estimates and projections.

CHAPTER 5

SELECTED POLICY ISSUES AND EMPLOYMENT

5.1 The previous chapter concluded that there is a potentially serious employment problem, but with a concerted effort to support a labor intensive pattern of growth, the problem is potentially manageable. There will be a need both for the effective absorption of new entrants into the labor force and a continued rise in labor productivity and incomes of existing members of the workforce. The general economic policies to sustain growth through the efficient use of resources in both the public and private sectors, that were discussed in Part I, are essential to this, but there will also be a need for specifically employment oriented measures. In this chapter we survey the impact of five areas of government policy on employment. This is not a comprehensive review of policies related to the labor market, but covers the key areas that can influence the fundamental labor absorption problem.

A. Agriculture

5.2 Although the relative role of agriculture in total employment is expected to continue to decline, growth in agricultural incomes is still central to a favorable employment picture, both on and off Java. To avoid excessive rates of rural-urban migration, there will need to be continued growth of jobs for rural households. The growth of the rural labor force is likely to be relatively high in the Outer Islands - around 3% p.a. under the intermediate transmigration scenario (para. 5.27) - but some growth in rural employment on Java, of the order of 1% p.a., will also be necessary. The performance of agriculture will be crucial to this scenario and to the continued improvement of the rural labor market both on and off Java.

5.3 In Chapter 4 we saw that the process of structural change was most advanced in Java. The numbers of people primarily dependent on agriculture declined in the 1970s, to about half of the total workforce at the beginning of the 1980s. However, agricultural income growth has been buoyant right through to 1985, as a consequence of favorable movements of the terms of trade for farmers and significant productivity increases. There have been particularly beneficial links between agricultural income growth, the expansion of the non-farm rural economy, and rural-urban flows of people and goods.^{/1} This pattern of growth would be threatened by worse agricultural prospects. Neither public spending nor rural manufacturing are likely to be sufficiently large sources of autonomous income growth to compensate for a major slowdown in agricultural income growth. Even if agriculture continues to shed labor on Java, the growth in agricultural incomes will be essential to further increases in non-farm employment. On the Outer Islands the role of agriculture will be even more important, since it will have to directly absorb

^{/1} For an account of past patterns of agricultural and non-agricultural income growth, see Appendix 1, paras. 8 to 21.

a significant proportion of the growth in the labor force if the employment situation is to improve. This will require somewhat higher agricultural production increases and some shift in relative priorities in favor of the Outer Islands, though not to the neglect of the agricultural sector on Java. With respect to policy, two of the essential ingredients are a favorable pricing environment, i.e. no, or only gradual, shifts in the terms of trade for agriculture /1, and continued improvements in agricultural infrastructure. The major opportunities for new water resource development are in the Outer Islands, but even in Java there is still scope for increased cropping intensity through modernization of traditional irrigation systems, improved operation of existing schemes, and investments in water storage. The other major agricultural investment program is in the tree crops subsector and this is primarily oriented toward the Outer Islands.

5.4. Continued agricultural growth could, however, be threatened by the emergence of domestic demand constraints for food. As noted in Part I, there is evidence of supply exceeding demand for rice in 1984. The scope for continued growth in production of rice and other staples is likely to be much more limited than in the past. Agricultural diversification into products with better demand prospects will be essential on Java. The Government is proposing to shift its priorities toward support for other agricultural activities, such as corn and soya, vegetables and livestock. Micro evidence from West Java indicates that this process of diversification was already taking place in the 1977-1983 period, in response to rising demand (see Appendix 1, paras. 13 to 17). However, support for this process could be a much more complex matter than the government measures supporting rice production in the 1970s. An appropriate policy package is as yet unclear, and priority should be given to analysis of this issue in the near future.

5.5. The other agricultural issue relevant to employment is the pace of technological change./2 Existing agricultural practices are highly labor intensive, especially in Java, and there is the technical potential for substantial labor displacement through tractorization and other forms of mechanisation. The existing stock of agricultural machinery is very low, but

/1 In practice this implies only a gradual increase in real fertilizer prices, as argued in Indonesia - Policy Options and Prospects for Major Food Crops, World Bank Report No. 3686b-IND, April 4, 1983, though there may be a need to reappraise the difficult trade offs in this area if a significant rice surplus emerges.

/2 The results in this section are mainly based upon papers collected in Faisal Kasryno et al, ed., Consequences of Small Farm Mechanization in Indonesia, 1984; see in particular Yusuf Saefudin, The Comparative Advantage of Mechanized Rice Production. The data is largely for 1979-80. For preliminary analysis of more recent data (from less mechanized villages) see Faisal Kasryno, Efficiency Analysis of Rice Farming in Java, 1977-83 (draft), Center for Agro Economic Research, Bogor, March 1984. This suggests some economic advantages of tractorization, but this does not change the argument in the text on an appropriate incentive policy, in view of the potential employment effects.

it has been increasing rapidly, with a fourfold increase in the numbers of tractors, and even larger increases in threshers, pumps and dryers between 1978 and 1981. Studies in West Java, where ownership of hand tractors has been growing most rapidly, indicate that farmers using tractors for cultivation use about 20% less labor per season in wet rice cultivation. Similar results were found for South Sulawesi. These micro studies suggest that the main effect is to reduce the share of labor and increase the share of capital in value added. Yield effects were negligible, and there were little or no additional economic gains from tractorization.^{/1} Even the direct financial effects were limited, partly because of high tractor prices (significantly above international prices) and inadequate repair and maintenance facilities. There were, however, significant advantages to large farmers, who were the main purchasers, through the reduced effort and uncertainty over organizing labor and the high premium on speed of cultivation. The limited available evidence suggests that threshers and dryers can have economic benefits, but again at the cost of some labor displacement.

5.6 In this context a cautious policy on mechanization is appropriate, at least for Java. Tractor prices are high now, owing to high production and distribution costs, but there is a risk that a sharp reduction in the cost to the farmer of purchasing tractors could lead to an acceleration of the existing process of change, for limited economic benefits. In particular, this implies that there should be no use of subsidized credit facilities: tractors are attractive to lenders since they provide their own collateral and involve large loans. Tractors may form a useful part of BRI's portfolio, but there is no economic case for the use of special programs, such as KIK, for this purpose.^{/2} Under these conditions the very moderate rate of decline of the agricultural workforce on Java shown in the favorable policy case of Chapter 4 is plausible. More rapid mechanization, or slower agricultural production growth, could lead to the release of far more landless laborers than the rural non-farm economy or the urban informal sector could effectively absorb. It should be stressed that this is a complex area, and there is a strong case of additional studies of the situation to update our knowledge.

5.7 In the Outer Islands the situation is somewhat different. In most areas there are shortages of labor and draught animals, and this suggests a stronger case for mechanization than on Java. Conditions vary from area to

^{/1} An economic analysis at efficiency prices showed that rice production makes good economic sense with both mechanized and manual land cultivation, but that there were no additional benefits from mechanization, see Yusuf Saefudin, *op. cit.* The phenomenon of negligible yield effects of mechanization is a general one, see Hans Binswanger, Agricultural Mechanization - A Comparative Historical Perspective, World Bank Staff Working Paper No. 673, 1984.

^{/2} Tractors have been financed by the KIK program in the past, but the village evidence indicates that the bulk of past purchases have been financed by suppliers' credit and own resources.

area. In South Sulawesi the impact of tractorization appears to have been comparable to West Java, with a reduction in labor use, but limited economic advantages. However, in West Sumatra there has been a rapid and successful growth in the use of locally produced threshers, and to a lesser extent, hand tractors, that has been to the benefit of both equipment producers and users.^{/1} In Aceh it is reported that the costs of manual cultivation have become so high (three to four times that on Java) that farmers are moving directly to the use of large four wheel tractors; this may be because of the lack of availability of or information on small tractors. Given this diversity the Government's current policy of selective mechanization in specific geographic regions is appropriate. There is still no case for subsidized credit facilities, and the main instruments of this policy should be extension advice to farmers and provision of information to producers.

5.8 Appropriate industrial policy is also of importance to agricultural mechanization. Although sharp price reductions (of hand tractors, at least) could have undesirable effects on employment, a gradual decline in real prices through increased efficiency of production and distribution would be beneficial. This is best fostered by the encouragement of domestic and international competition. The development of small scale production in the region of use is also important. Appropriate agricultural implements vary substantially according to local economic and agronomic conditions. International experience indicates that small producers can be a major source of innovation and adaptation, since the engineering requirements are low.^{/2} The encouragement of local producers and relatively simple technologies, as in the Government's pilot schemes in West Sumatra, is likely to be much more effective in this regard than attempts to replace existing imported models with large scale production. This approach has the additional important benefit of facilitating the development of local repair and maintenance facilities.

B. Manufacturing

5.9 The manufacturing sector has both a direct and indirect impact on the employment situation. The most valuable macroeconomic contribution of the sector in the next ten years could be the provision of incremental foreign exchange, through an efficient pattern of growth, to compensate for the relative decline in oil earnings. This is essential to the consistency of the overall growth path with macroeconomic resource constraints. The sector's major contribution to employment could be through this indirect mechanism, and direct employment creation should not take priority over measures to foster the efficient industrial production that is a prerequisite to the performance of its macroeconomic, foreign exchange earning role. However, as indicated in Table 4.4, manufacturing does have the potential to become a major source of new employment in its own right, at least on Java. If achieved, this would put Java closer to the pattern of long term growth and structural change that

^{/1} See the Sam H. Johnson et al., Evaluation of IRRI-DITPROD Small Scale Agricultural Equipment Extension Project, January-February 1985.

^{/2} See Hans Binswanger, op. cit.

other major East Asian rice economies have passed through.^{/1} Moreover, there can be a high degree of complementarity between an efficient, foreign exchange earning pattern of industrial growth and a relatively labor intensive one.

5.10 Government policies can have a major influence on employment in manufacturing in Indonesia through the impact on the composition of industrial output and the relative role of large and small scale production. There is a wide variation in the degree of labor intensity of different subsectors, and policies that encourage faster growth in labor intensive sectors raise total industrial employment. This is closely related to a more export oriented policy. The employment implications of the alternative scenarios for industrial growth discussed in Part I are summarized in Table 5.1.^{/2} The first scenario corresponds to the base case of Part I. It assumes a shift in industrial and trade policy to support the growth of an efficient and more export oriented industrial sector (see Chapter 3). There is relatively gradual import substitution (the overall share of imports in final demand for manufactures declines from 35% in 1980 to 27% in 1995), but with a proportionately higher reduction in consumer goods. Manufactured exports grow at 11% p.a. in the 1986-95 period and value added at about 8% p.a. Under this scenario, that forms part of the favorable policy case of Chapter 4, total employment in the sector increases by almost 50%, or by 2.5 million people over the ten year period, and accounts for 16% of national incremental employment. This scenario is particularly beneficial to Java, that is the natural location for labor intensive industries. By the early 1990s, the industrial sector could account for over 30% of new jobs created each year on Java.

5.11 The other scenarios explore the implications of the continuation of the present industrial policy framework, with a bias toward import substitution in relatively capital intensive producer goods sectors. To isolate the effects of varying labor intensity, the second scenario assumes that growth in manufacturing value added could still be about 8% p.a. The share of imports in final demand drops from 35% in 1980 to 22% by 1995, but exports only grow at 5% p.a. As a consequence, total employment only rises by 26% over the ten year period, and there are 1.3 million fewer workers in the sector in 1995 than in the labor intensive scenario. These workers would be forced to look for work in the residual services sectors, leading to a worsening employment situation, especially in urban areas, as outlined in

^{/1} See Chapter 4 of Indonesia - Wages and Employment in Indonesia, op. cit. This would be closer to the Japanese pattern of an extended period of change, rather than the rapid shifts in employment from agriculture to manufacturing in countries such as Korea.

^{/2} The analysis was conducted on the basis of the 1980 Input-Output Tables, at the 66-sector disaggregation, that has 24 manufacturing subsectors. The same elasticities of domestic final demand with respect to national income were assumed for all scenarios, and only minor differences in labor productivity growth at the subsector level. Thus, the main differences are due to different patterns of subsectoral growth.

Chapter 4. However, even this is probably too optimistic. Lower export earnings, combined with the higher investment costs of the capital intensive investment would tend to lower the affordable rate of growth, if the debt service burden is to remain manageable (see para. 3.25). The third scenario illustrates the consequences of a growth in industrial value added of 6% p.a. in 1986-95, as in the low non-oil export scenario of Chapter 2. In this case the sector makes a very small contribution to labor absorption, and by 1995 there are 2.1 million less industrial jobs than under the labor intensive scenario.

Table 5.1: ALTERNATIVE SCENARIOS FOR MANUFACTURING GROWTH, 1986-95

	Growth in value added		Total employment		Share of national incremental employment
	1986-95		1985	1995	1986-95
	% p.a.		'000		%
<u>Labor intensive /a</u>					
Consumer goods	7	3,900	5,600		11
Producer goods	10	1,400	2,200		5
<u>Total</u>	<u>8</u>	<u>5,300</u>	<u>7,800</u>		<u>16</u>
<u>Capital intensive/high growth</u>					
Consumer goods	6	3,900	4,500		4
Producer goods	11	1,400	2,000		4
<u>Total</u>	<u>8</u>	<u>5,300</u>	<u>6,500</u>		<u>8</u>
<u>Capital intensive/low growth /b</u>					
Consumer goods	5	3,900	4,200		2
Producer goods	7	1,400	1,500		1
<u>Total</u>	<u>6</u>	<u>5,300</u>	<u>5,700</u>		<u>3</u>

/a This corresponds to the base case of Chapter 2, and the favorable policy scenario of Chapter 4.

/b This corresponds to the low non-oil export case of Chapter 2 and the unfavorable policy scenario of Chapter 4.

Source: World Bank staff estimates and projections.

5.12 In addition to the varying direct effects shown in Table 5.1, the labor intensive scenario is likely to have more beneficial indirect effects. First, demand linkage effects would be stronger under this scenario - the relatively faster expanding sectors have a higher share of wages in value added, and expenditure analysis of the use of incremental income indicates that this could be a significant source of demand for domestically produced goods and services.^{/1} Second, if past patterns of wage determination continue, a relatively labor intensive pattern of industrial production would be associated with lower wage differentials. This would tend to reduce disparities within the urban labor market, and would thereby lead to a lower rate of unemployment.

5.13 The degree of labor intensity of individual subsectors is often closely related to the share of small scale firms in production. The above scenarios assume that there will not be a major shift in the degree of labor intensity of individual subsectors; a continued role for the small scale sector will be important to this. Small scale production can usefully be divided into household (cottage) and small enterprise activities.^{/2} As shown in Table 5.2 the small scale sector accounted for the bulk of employment, but a fraction of value added, at the end of the 1970s. Productivity is very low, especially for the household sector. However, the growth experience was good, with both the household and small enterprise sectors growing slightly faster than the large scale sector. Micro studies of two major industries in Java, rice milling and weaving, do indicate some displacement of existing small scale activities (and labor) with the introduction of new technologies, but, in both the subsectors studied, the traditional highly labor intensive production technique was not the appropriate economic choice, despite the low economic cost of labor in Java.^{/3} In neither case is the new preferred technique very capital intensive. Moreover, the loss in employment in these specific areas appears to have been more than compensated by the general expansion in non-farm employment in this period.

^{/1} Analysis of the 1981 SUSENAS shows that the bulk of incremental consumption is allocated to housing, education, health, transport, domestically produced manufactures and a variety of foodstuffs, in both rural and urban areas. See Appendix 3, Tables 10 and 11.

^{/2} BPS defines the sectors by number of employees: household (cottage) 1-4; small 5-19; medium 20-99; large 100 and above.

^{/3} See Peter Timmer, "Choice of Technique in Rice Milling in Java", Bulletin of Indonesian Economic Studies, Vol. IX, No. 2, July 1973, and Hal Hill, "The Economics of Recent Changes in the Weaving Industry", idem, Vol. XVI, No. 2, July 1980.

Table 5.2: THE SHARE OF SMALL AND LARGE SCALE FIRMS IN EMPLOYMENT AND VALUE ADDED IN MANUFACTURING, 1979

	No. of employees	Shares in 1979		Growth in value added 1974-79 /a (% p.a.)
		Value added ----- %	Employment -----	
Household	1-4	12	63	11.9
Small	5-19	7	18	11.9
Medium and large	20 +	81	19	11.6
<u>Total</u>	n.a.	<u>100</u>	<u>100</u>	<u>11.6</u>

/a There was a change in the definition of employment between 1974 and 1979 to exclude part-time workers, rendering employment comparisons unreliable.

Source: Census of Industry 1974/75 and Survey of Small Scale Industries, 1979, BPS.

5.14 The pattern of the 1970s was similar to that in many other Asian economies. At Indonesia's stage of industrial development other countries experienced the parallel expansion of small and large scale enterprise production, as well as a decline in the relative importance of household production./1 This experience also suggests that the most effective way of sustaining this increase is through general rather than specific policies. Two factors have a dominant influence: first, a spatially dispersed pattern of growth of final demand, especially in rural areas; and second, the avoidance of preferential treatment, through credit subsidies, licensing, etc., to large scale firms. In Indonesia the set of policies designed to maintain agricultural income growth on the one hand, and to increase the competitiveness of industry (outlined in Part I) on the other, can also support the expansion of the small scale sector.

5.15 Is there an additional role for special measures to support small scale industries? The Government has introduced a program to encourage subcontracting by large to small firms under the bapak angkat system. This is of particular relevance to the engineering sector. An overall assessment of this policy is not feasible in this report, but some results on the issues are available for the vehicles industry, where one of the instruments for

/1 See Dennis Anderson, Small Industry in Developing Countries, World Bank Staff Working Paper No. 518, 1982. Although the results in Table 5.2 suggest a buoyant growth in value added in the household sector, micro evidence from West Java indicates a decline in importance of some categories of very low return household industries, such as mat or string weaving.

effecting the policy is mandatory subcontracting for specific parts.^{/1} There have been a few cases of successful partnerships developing, notably in the production of hand tractors, but for most firms surveyed, subcontracting has predominantly been with other large scale firms, on the grounds that this was easier and more efficient for the parent company. While the program could have beneficial effects, it would be unwise to have high expectations of its impact on employment creation in manufacturing. Companies may often consider it disadvantageous, because of technical difficulties of supervision and the risk of higher production costs.

5.16 Finally, in the area of credit policy, there is a potential role for special credit programs (though not at subsidized interest rates), since banks tend to be excessively risk averse in their dealings with small scale firms. The KIK/KMKP program is the most important example in Indonesia. Although experiencing some problems of management and poor collection performance, it is, in two respects, well designed: it lets market demand largely determine the shares of working capital and investment loans, and it does not preclude service sector firms. The provision of credit to the small scale trading sector is an effective way of facilitating the transmission of final demand for manufactures to small scale producers.

C. Public Expenditures

5.17 The level and distribution of public expenditures has a powerful influence on the demand for labor through the growth effects of productive investment and the direct and indirect impact of investment demand on employment in the implementation phase. Certain expenditures are relatively favorable to labor demand, and, although employment may not be the primary objective of public expenditures, it is important that it also enter the analysis of intersectoral and project choices.

5.18. The primary focus here is on the expenditure phase of public investments. There are three effects: direct employment in development projects; employment in other sectors whose production increases as a consequence of the public investment demand; and demand-side multiplier effects from the increased household income, especially labor income, created by the public expenditure. All three were significant to the past favorable pattern of growth in output and employment, and there is a case for the maintenance of a moderately expansionary domestic component of public expenditure over the medium term, to support the continuation of this pattern. Demand-side multiplier effects are discussed further for rural Java in Appendix 1 (paras. 19 to 21). They are probably at least as important as the other two effects.

^{/1} See Thee Kian Wie, Subcontracting in the Engineering Subsector in Indonesia, A Preliminary Survey, preliminary draft report, LEKNAS-LIPI, September 1984.

5.19 As discussed in Part I, the composition of investment can influence both the import bill and total employment creation since import and employment coefficients vary by sector (see Table 3.5). To the extent that the Government can effectively switch the composition of investments in favor of less import intensive activities, a higher aggregate level of investment can be implemented. Programs in sectors with low import intensity, for example in the social sectors, regional development (local infrastructure) and transmigration, are less costly in terms of the overall foreign exchange constraint. Employment considerations nicely complement the objective of minimizing import requirements, since investments with a high domestic content characteristically have relatively large direct and indirect employment effects.

5.20 In REPELITA III it is estimated that the direct and indirect effects of development expenditure provided the equivalent of permanent employment for at least 1.9 million people. It was concluded in Part I that the changed sectoral composition in REPELITA IV (compared with the REPELITA III realization) was reasonable and that this would lead to a somewhat more labor intensive pattern of expenditure. This would generate a growth in direct and indirect employment from development spending roughly in line with the growth of the labor force. The relative emphasis on agriculture and local infrastructure in Repelita IV is also supportive of a more labor intensive pattern of growth in the longer term. From the viewpoint of employment, it is of great importance that the Government maintain the composition of expenditure planned for REPELITA IV and resist any pressures to increase the relative allocation to capital intensive sectors. This will probably require a major effort to improve the implementation performance of the less capital intensive programs, notably in the education sector and amongst the INPRES programs. Some increase in support to lower levels of Government may be necessary to achieve this. The institutional capability of local government is often weak, yet, in the oil boom period, kabupaten offices demonstrated their ability to handle sharp increases in the size of construction programs reasonably effectively. In the event of a worsening in the employment situation, it would be appropriate to consider the case for further expenditure switching away from capital intensive sectors to ensure the maintenance of a moderate growth in employment intensive expenditures, especially in rural areas, when this is economically justified and can be effectively implemented.

5.21 The overall intersectoral composition of expenditure is only one aspect of the employment effects of public expenditure. There are also significant variations in labor intensity of expenditures within sectoral programs, and even for the same activity. A systematic analysis of this issue is beyond the scope of this report, but some examples can show the importance of evaluation of the labor intensity of alternative expenditure choices. In the irrigation sector, both rehabilitation and tertiary canal construction are more labor intensive activities than primary canal construction, and much more than dam construction. They also have high economic rates of return. This need not imply that the composition of irrigation expenditure should be adjusted primarily to increase employment; the current program appears to be fairly well balanced. However, in the event of a tighter resource constraint,

or a worsening employment situation, there may be a case for protection of the rehabilitation and tertiary programs. In the transport sector, investments in rural roads are much more labor intensive than for highways or maritime developments. They also make good economic sense./1 A balanced investment program will again include the whole range of activities, but it is important that some priority to rural road development is maintained, both in budget allocations and in efforts to improve implementation. A further area of relevance is the level of recurrent expenditures on infrastructure: in both roads and irrigation the most appropriate technique for regular maintenance is more labor intensive than for periodic rehabilitation, and much more than for replacement investment. It is again beneficial to choose the first option. Although this may require higher fiscal resources in the short run, it usually leads to lower demands on the budget in the medium term.

5.22 In view of the seriousness of the employment situation, the impact on employment should also be one of the factors in the assessment of individual public investments. On the basis of the projected availability of resources for investment in the base case and the projected rise in the labor force, the average investment resources per new job will be of the order of US\$12,500 (in 1985 prices) in the 1986-90 period. The choice of individual projects should, in the final analysis, depend on an evaluation of their economic contribution to the country's development, and there will be both capital and labor intensive projects in a balanced investment program. However, because of their greater usage of scarce resources, there is a case for subjecting large scale and capital intensive projects to special scrutiny. Currently, full economic analyses of projects do not appear to be carried out in a systematic fashion. It is suggested that projects requiring investment resources per job substantially in excess of the indicative figure of US\$12,500 be more carefully evaluated for their overall contribution to the country, through the rigorous use of techniques of economic appraisal.

5.23 Finally, there may be alternative choices of technique in the design of an individual project, and a relatively labor intensive construction technique may be an economic option for the same task. Unlike many other countries, there is no general evidence to suggest that the choice of technique in construction is excessively capital intensive. Java and Bali in particular have a tradition of labor intensive construction methods, and labor productivity is considered to be high by international standards./2 However, there are pressures for project managers to get tasks done quickly and with minimal use of rupiah budget resources, and this could encourage the use of equipment intensive methods: in some areas there may be scope for changing existing practices. One example is the use of labor intensive techniques for land clearing; the Government is now shifting towards this approach in transmigration sites. This requires different organizational arrangements, and in particular the transport of transmigrants prior to land clearing, but case studies suggest that this is an economic choice.

/1 For Java economic rates of return for rural roads investments of the order of 25% have been estimated. See Indonesia - Rural Roads Development Project World Bank Report No. 3585-IND, December 10, 1981.

/2 See Basil Coukis, ed., Labor-based Construction Programs, World Bank, 1983.

D. Transmigration

5.24 The government sponsored transmigration program involves the movement of poor, landless or near landless households from Java and Bali to land rich areas in the Outer Islands. The Government finances economic and social infrastructure in the transmigration site, as well as transport, initial subsistence supplies and agricultural inputs. In addition to the sponsored program, there are substantial flows of "spontaneous" transmigrants. Some of these flows are independent of the sponsored program, but there is also evidence of quite significant spontaneous flows that follow in the wake of the Government's program. Migrants frequently follow the path of relatives, who can provide information on economic prospects and some initial support, as well as a more comfortable social environment in a strange land. This means that the impact of sponsored transmigration on total population flows can be larger than the initial program. Site evaluation and investment planning needs to take account of this. Transmigration has the potential to reap substantial benefits. It can provide employment and land ownership to some of the poorest members of the labor force in Java. It also brings underutilized land into intensive cultivation, raises agricultural production and contributes more broadly to economic development in the Outer Islands.

5.25 Transmigration has played a large role in the total picture of inter-island population movement in the past. The impact on provincial population in 1980 is shown in Appendix 3, Table 4. 220,000 households were moved between 1950 and 1978, and, by 1980, 3% of the total population in the Outer Islands were there as a consequence of sponsored transmigration. If we exclude the two special cases of Lampung and North Sumatra, this was almost half of the total population of Inner Islands' stock living in the Outer Islands.^{/1} In REPELITA III the program accelerated, with a total of 320,000 households moving under the sponsored program.^{/2} The Government estimates from registration statistics that an additional 150,000 families moved spontaneously in REPELITA III, but this probably underestimates the true number. This implies that total migration to the Outer Islands has been providing employment to of the order of 170,000 people p.a., equivalent to 20% of the total increment to the labor force in Java and Bali (and about 30% of the increment to the rural labor force). To a large extent it is providing more productive employment to existing members of the labor force, but this is an equally valuable objective on welfare grounds.

^{/1} There was a transmigration program to Lampung in the colonial period, and there have been major movements of Javanese labor to the North Sumatra tree crop estates - again government sponsored.

^{/2} This excludes officially recorded local transmigrants within Lampung, and a number from the REPELITA II program that moved in 1979. There is also some uncertainty over the extent of local movement in the figure of 320,000. The Government is now aiming for a figure of 10% of transmigrants coming from within the province: in the projections below, the REPELITA III level was reduced by this proportion, for consistency with the treatment of REPELITA IV targets.

5.26 The program does, however, carry risks for the evolution of the labor market. It results in a large increase in the population and labor force in parts of the Outer Islands and also potentially increases the mobility of part of the labor force. If living conditions and incomes do not match the needs or expectations of transmigrants, there is a possibility of significant second round flows of either the original transmigrants, or, after a period, their children. This could involve either a reflow back to Java or to urban centers in the Outer Islands. Either could be destabilizing for the labor market - but because of their relatively small initial size, urban centers in the Outer Islands could face the greater difficulty in labor absorption. To avoid a potentially difficult labor market problem, it is essential that the program be designed to ensure adequate permanent incomes for transmigrant households. Of course, some increase in rural-urban migration in the Outer Islands is unavoidable; indeed, an expansion of the urban economy to complement the rapid rural growth is a desirable development. This implies that, over time, increased emphasis should be given to investment in both urban facilities and productive (especially industrial) investment in these rapidly growing regions.

5.27 An overall assessment of the transmigration program is not feasible now. The two key ingredients for this are evidence on actual household incomes in established transmigration areas, and detailed evaluations of the agronomic and economic potential of likely future sites, and neither are now available.^{/1} However, it is possible to form reasonable alternative views on the future size and direction of flows, and to assess the likely impact on the pattern of growth of the population and the labor force. In Repelita IV the Government plans to move 500,000 households under the sponsored program, and projects that a further 250,000 households will move spontaneously. The planned program represents an increase over achievements in REPELITA III of about 55%. In addition, there is a major change in the direction of movement. The bulk of feasible sites in traditional transmigration regions in Sumatra and Sulawesi have been filled, and the province of Lampung was declared closed to all new transmigration in 1980. Apart from some potential for flows directly associated with tree crops investments on land already earmarked for estate development in Sumatra, the majority of new transmigration sites will be located in Kalimantan and Irian Jaya. Such sites are more remote, costs of movement and infrastructural investment are higher ^{/2}, and the logistics of implementation more difficult. The Government's target appears to be at the upper end of what could feasibly be implemented given managerial constraints - it is termed the high case here - and a lower figure of 400,000 households under the sponsored program in

^{/1} BPS is mounting a household income and expenditure survey in transmigration areas in mid-1985, financed from a World Bank loan for transmigration.

^{/2} The World Bank estimates that the basic costs for on-site development in the REPELITA IV program will be at least \$7,000 and quite possibly more per household, compared with \$5,700 in REPELITA III (both figures in 1985 prices).

REPELITA IV has been used as an intermediate case. /1 The implications of these two scenarios, as well as a low case of 300,000 sponsored transmigrant households in REPELITA IV, were explored through use of a demographic projection model /2. In each case it was assumed that the program would continue in REPELITA V and VI, and that there would be significant associated spontaneous flows.

5.28 The impact of the various scenarios on Java are summarized in Table 5.3. The effect on the labor force is relatively large since transmigrants usually come from groups with higher labor force participation rates. Under the intermediate case total migration (including flows quite independent of transmigration) could provide employment for 30% of the increase in the labor force between 1985 and 1995. The overall effects of the transmigration program account for 20% alone./3 Under the low case the total contribution of migration to employment creation falls to 15% of the growth in

Table 5.3: GROWTH IN POPULATION AND THE LABOR FORCE IN JAVA AND BALI UNDER ALTERNATIVE TRANSMIGRATION SCENARIOS, 1986-95

	Population growth		Annual increment to the labor force	
	1986-90	1991-95	1986-90	1991-95
	% p.a.		'000	
No migration	1.7	1.5	900	980
Past trends /a	1.6	1.4	810	900
Low case	1.6	1.4	750	860
Intermediate case	1.2	1.0	640	680
High case	1.1	0.8	590	540

/a This assumes migration continues at the same absolute levels as between 1971 and 1980.

Source: World Bank staff projections.

/1 As noted above, the transmigration program total includes some local settlers who join the program; it is projected that actual interprovincial flows would be 10% below these aggregate figures.

/2 See Appendix 2. The model takes account both of the direct effect of migration and of the impact on subsequent population growth.

/3 This includes both transmigrants directly sponsored by the Government, and associated spontaneous flows.

the labor force. Despite the large size of the initial population, migration would have a significant impact on total population and labor force levels. As a consequence of migration since 1980, the 1990 population is 4% below what it would otherwise have been in Java and Bali under the intermediate case. This is equivalent to 4.7 million people, of which 4.1 million would be due to the direct and indirect effects of the transmigration program. By the year 2000 the reduction is 8%, equivalent to 11.8 million people, of which 10.6 million would be due to the program.

5.29 There is a much larger relative effect on the recipient areas in the Outer Islands, owing to the smaller initial population levels. This is given for the various scenarios in Table 5.4. This again only covers the effects of migration since 1980. The actual distribution of transmigrants between provinces is based on World Bank estimates of future land potential. The relative shift in favor of Kalimantan and Irian Jaya is clear, and it was assumed that any cutback in the program, as under the low case, would fall largely on these islands. The growth rate of the population rises significantly with transmigration (and of the labor force even more so), and even by 1990 a high proportion of the population is due to migration - 18% in Kalimantan and 26% in Irian Jaya for the intermediate case. These would continue to rise in the 1990s if the program were maintained at the levels assumed. Under the intermediate case, migration would account for 32% of Kalimantan's and 55% of Irian Jaya's population by the year 2000.

Table 5.4: THE POTENTIAL IMPACT OF TRANSMIGRATION ON THE OUTER ISLANDS, 1990-2000

	Population growth rates, 1990-2000					Proportion of Population due to migration, 1990		
	No migration	Past trends	Low	Inter-mediate	High	Low	Inter-mediate	High
	% p.a.					%		
Sumatra	2.1	2.4	2.2	2.5	2.7	6	7	7
Kalimantan	2.1	2.4	2.6	4.0	4.8	13	18	20
Sulawesi	2.1	2.1	2.1	2.3	2.3	2	3	4
Irian Jaya	2.4	2.6	4.9	7.5	8.6	22	26	28
Other /a	2.2	2.2	2.2	2.3	2.3	2	2	3
<u>Total /b</u>	<u>2.1</u>	<u>2.3</u>	<u>2.3</u>	<u>2.9</u>	<u>3.2</u>	<u>6</u>	<u>8</u>	<u>9</u>

/a East Nusa Tenggara, East Timor and Maluku.

/b Excludes Bali and West Nusa Tenggara - source regions for transmigrants.

Source: World Bank staff projections.

5.30 The above figures show the potentially major contribution of the transmigration program to the key welfare issue of reducing rural poverty on Java. However, it would also involve a major commitment of public resources - at an estimated average cost of \$8-10,000 per family, the intermediate case would require of the order of \$3.5 billion at 1985 prices over a five year period.^{/1} If the program is to be viable, and if destabilizing second round migration flows are to be avoided, it is critical that the selection of sites and the design of economic activity be such that the settlers can generate adequate output and incomes. Preliminary analysis of farm models suggests that transmigration might only be justified to sites that also involve second stage agricultural development: either tree crops, wetland agriculture or livestock. The implementation capacity for this type of investment is lower than for a rainfed/subsistence package while the investment required is higher. Owing to these implementation and resource constraints, and the competing claims of existing low income farmers in other parts of the Outer Islands, there may be difficulties in achieving the level of transmigration in current government targets. However, even under the low case developed here, the employment impact is significant, though this would place a greater share of the responsibility for job creation and income formation on rural and urban development within Java.

E. Policy Towards the Urban Labor Market

5.31 There are two aspects of the urban employment problem: relatively high unemployment rates, especially amongst the young and educated; and low incomes in parts of the informal sector and the low wage end of the formal sector. These generally involve different households, since the openly unemployed are characteristically those who can afford the long waiting times for a preferred formal sector job. But both unemployment and low incomes will be quite vulnerable to the pattern of urban growth in the future.

5.32 A major influence on the urban labor market will be the overall pace of urbanization, and, in particular the rate of rural-urban migration. The most important determinant of rural-urban migration over the next ten years is likely to be the degree of success in rural development and the extent of absorption of labor into both farm and non-farm rural employment. The priority to agricultural growth, and supportive public expenditures are the key policy areas here as discussed above. The population and labor force projections (see Appendix 2) assume fairly moderate levels of rural-urban migration in the future, but this still implies rates of urban population growth of about 2.5% p.a. on Java and 4.9% p.a. in the Outer Islands (under the intermediate transmigration scenario).^{/2} This is associated with somewhat higher rates of urban labor force growth (3% in Java, rising to over 6% in the

^{/1} This includes the costs of second stage agricultural development.

^{/2} Since lack of data makes explicit treatment of rural-urban migration flows exceedingly difficult, a steady differential between rural and urban population growth was assumed as a proxy for this relationship.

fastest growing island of Kalimantan). Java is projected to account for over 55% of the annual increment to the urban labor force of 600,000 over the next ten years, compared with 30% of the growth in the rural labor force.

5.33 Both the formal and informal sectors will play a role in the absorption of this labor force growth in urban areas. A gradual increase in the share of the formal sector in urban employment would generally be expected in the process of development, but it is not at all clear that this will occur in the next few years, given the probability of slow growth in public sector and manufacturing employment in the near term. Thus the capacity for the informal sector to absorb new entrants to the labor force will be of particular importance.

5.34 Although there are constraints on the growth in formal sector employment in the short term, there is much greater potential over a ten year period. As discussed in Chapter 4 and Appendix 1 (paras. 37 to 41), access to formal sector employment is central to the rate of unemployment amongst school leavers. The main area in which policy can influence the level of employment is in the manufacturing sector. As discussed in Section B above, if Indonesia follows a relatively labor intensive pattern of growth in this sector, there is scope for a substantial increase in employment, of the order of 2.5 million new jobs over ten years, and many of these would be in urban areas.

5.35 The level of compensation in the upper segments of the formal sector is also a significant determinant of the rate of unemployment - this affects the incentive to wait for a better job. Unlike many other developing countries, government legislation on labor policy does not appear to be a major factor behind high wages at the top of the formal sector. Minimum wages, where they are regularly updated (as in Jakarta), appear to follow the bottom of the market in the medium and large scale sector and are substantially below the top of the market. They perform a useful role in this regard. Trade unions operate within the framework of tripartite discussions on working conditions, especially in negotiations over "Collective Labor Agreements", but these do not usually include wage rates. The explanation for high wages appears rather to lie in the perceived advantages to large scale firms of achieving a reliable, low turnover work force (see Appendix 1, para. 33). A relatively labor intensive pattern of growth within the formal manufacturing sector should help limit any tendency for a widening of differentials.

5.36 Even with a good employment performance by the manufacturing sector there is a risk of a rising disparity between the supply of and demand for formal sector jobs, and so increasing unemployment. Is there scope for specific interventions aimed at getting the unemployed into work? There are two relevant areas of current government policy: the improvement of labor exchanges and the extension of vocational education. However, in neither case is policy likely to have much impact on unemployment rates. First, the evidence on the workings of labor exchanges suggest that they are already capturing a substantial proportion of both the urban unemployed (and especially the educated) and vacancies in the formal sector, and a high proportion of vacancies are filled each month (see Appendix 1, para. 42). The key problem is not weak job matching or lack of information, but a shortage of

good formal sector jobs relative to the expectations of the unemployed. Second, the formal vocational training system does not now have the capacity to implement a broad based effort to upgrade the skills of the unemployed. The key problem is of low and variable quality, especially for the vocational training centers, and the Government has quite correctly decided to focus on upgrading the quality of existing establishments. This is, of necessity, a long term task. In any case, despite the existence of shortages of industrial skills, the potential demand for skilled manpower is small relative to the numbers of unemployed (or even the numbers of educated unemployed).

5.37 The urban informal sector currently has little relationship to educated unemployment, but it will continue to play a major role in labor absorption of less well educated entrants to the urban labor force, especially from rural households. Although this is recognized in REPELITA IV, some aspects of current government policy could limit this role. This is most evident in Jakarta, where informal sector activities have most frequently come into conflict with other objectives of urban development. Currently the two most important cases are becak (cycle rickshaw) drivers and street vendors, though these are only examples of a potentially more widespread issue.

5.38 Becak-free zones have been established for a number of years - and where this eases serious traffic congestion, it is often justified. However the DKI Jakarta government recently took the more drastic step of declaring that all of DKI Jakarta must be becak-free by 1985. This would affect about 40,000 becaks, that provide employment, through day and night shifts, for at least 60,000 drivers. Most are seasonal migrants who rent becaks from small scale urban entrepreneurs, and so rural households will bear the brunt of the income and employment loss./1 Alternatives proposed by the DKI government - joining the transmigraton program, vocational training, rural works programs - are either less attractive to drivers or would involve reduced opportunities for other job seekers. The costs could be significant and, since becaks are already excluded from all arterial roads, it is not clear that there would be major benefits in faster traffic flow.

5.39 Similar issues apply to street vendors, who form the largest informal sector group in Jakarta./2 The DKI government banned operations of vendors and hawkers from 142 "protocol" roads as early as 1972, and has selectively expanded the restricted areas since then, with varying degrees of success. Displaced traders are sometimes offered an alternative locale in new shopping complexes, but have in practice often been precluded from these by high costs./3 As with becak drivers, these restrictive regulations can lead both

/1 See Nurul Fazrie, Sekitar Penghapusan Becak DKI Modernisasi Merenggut Kesempatan Operasi Mereka in Beca-Beca Coba Bawa Saya, Lembaga Studi Pembangunan, Jakarta 1984.

/2 See Hazel Moir, The Jakarta Informal Sector, LEKNAS, 1977.

/3 In one case monthly pre-payments of Rp 100-250,000 were required during the construction phase. See Kompas, February 2, 1982.

to a direct loss of income and employment, and indirect costs through the loss of a highly efficient service for low income consumers.

5.40 Policy in support of the informal sector can take two forms. First there is a strong case against an excessively restrictive policy. Indeed a more supportive environment has been characteristic of other cities, notably in East and Central Java. Any disruption to the modern sector economy is likely to be greatly outweighed by the employment and income benefits, and the gains from the efficient provision of goods and services by the informal sector, especially since a high proportion involve single circular migrants with relatively small demands on urban resources. In the longer term, this can be complemented by a more active urban planning policy, for example in the layout of roads, pavements and markets, that provides adequate space for these activities. A good example of effective urban planning in this area is Jalan Malioboro in Yogyakarta.

5.41 With favorable policies on rural development, manufacturing and the informal sector, a serious deterioration in the urban employment situation appears avoidable. A combination of reasonable prospects at the lower end of the market and little or no widening of wage differentials are important to facilitate the required adjustment in expectations of the better educated part of the labor force. Some rise in the overall urban unemployment rate could occur, especially in the next few years, but this would be relatively moderate (say to the 8-10% range at most). This scenario is also consistent with a gradual growth in incomes of low income urban households.

5.42 Under unfavorable policy there is a high risk of an exacerbation of the problem. Less successful rural development could increase rural-urban migration, and this effect could have the most severe consequences for the landless on Java and unsuccessful transmigrant households. If relatively good informal sector opportunities are restricted, these people would be forced into increasingly low return urban activities, depressing wages at the bottom of the wage sector (e.g. in small scale enterprises or domestic service) and reducing incomes in those parts of the informal sector still open to new entrants. A significant proportion of the population in the low paid part of the services sector could suffer stagnant or declining incomes. A more capital intensive pattern of manufacturing growth would be associated with both low growth in wage employment and, if the past pattern of wage determination continues, higher wage rates at the top of the market. This combination of effects would widen the differential between good formal sector jobs and alternative employment opportunities. In addition to worse prospects for poor urban households, a substantial rise in open unemployment (say to above 10%), would then be a distinct possibility. The two most vulnerable areas under this scenario would be Jakarta, where the open unemployment rate is already relatively high (and which would be hard hit by slower civil service growth) and certain areas in the Outer Islands, notably Kalimantan and Irian Jaya, where there is the potential for sharp increases in the already high rates of urban growth if rural development is weak. Although a majority of poor households would continue to live in rural areas under this scenario, the social costs of a deterioration in the urban labor market could be severe.

PAST PATTERNS OF EMPLOYMENT AND INCOME CHANGE

1. The analysis and policy conclusions in Part II of the report are, to a large extent, based upon a more detailed analysis of past developments in employment in Indonesia. Some of this is covered by the previous World Bank report on employment: in particular, much of the conception of the workings of the labor market is taken from that report.^{/1} However, the bulk of the analysis of changes in employment, productivity and incomes is based on new primary sources of data: the 1981 and 1982 national household budget surveys (SUSENAS) conducted by the Central Bureau of Statistics (BPS) and a series of surveys of the same households in six villages in West Java between 1976-77 and 1983-84, conducted by the Agro Economic Survey in Bogor.^{/2} This Appendix presents a summary account of past developments from these and other sources.

A. Labor Absorption, Wages and Incomes in Rural Areas

2. Rural areas accounted for 78% of the population, 81% of the workforce and 85% of households living in poverty in 1980.^{/3} The bulk of rural dwellers are involved in agriculture, but manufacturing and service activities are also important, often as a secondary source of income and employment. The primary determinant of economic class is access to land, and especially wetland or sawah in Java. It is estimated that 37% of rural households had no operational holdings of sawah in Java in 1973.^{/4} Although there is a wide range in returns to labor in rural areas, there appears to be a fairly high degree of mobility between alternative activities for similar kinds of labor; this appears to better represent the condition of the rural labor market in the early 1980s than the view of significant segmentation between different activities.

3. The analysis focuses on the period from the mid-1970s to the early 1980s. At the beginning of the period the outlook was not bright, especially in Java. The rural economy had recovered from the drought, rice shortages and

^{/1} Indonesia - Wages and Employment, World Bank Country Study, 1985. The major difference in our analysis from the interpretation of the labor market in the previous report concerns the relationship between the rice and other parts of the rural labor market. More recent information, summarized in paras. 8-9 below, suggests that there is less general segmentation of the rural labor market than was previously concluded.

^{/2} The 1983 resurvey was largely funded by the Ford Foundation, with some support from the World Bank.

^{/3} Results of the 1980 Population Census, BPS, and Bhanoji Rao, Poverty in Indonesia, 1970-80, World Bank mimeo, January 1984.

^{/4} See Ben White and Gunawan Wiradi, Pola-pola Penguasaan Tanah DAS Cimanuk: Beberapa Catatan Sementara, Working Paper No. 11, Agro Economic Survey, Bogor, 1981.

escalating prices of 1972-73, but prospects were not good - the new high yielding varieties had proved highly susceptible to the wereng pest and most village based researchers had concluded that poor rural households were not participating in the process of economic growth. The following years saw the withdrawal of the wereng in the face of new resistant varieties, a 60% increase in the rice crop between 1976 and 1983, and a major influx of government expenditures after the second oil windfall. The rural economy grew and changed rapidly in this period, and in Java, some village level researchers were observing significant increases in real agricultural wages and non-farm employment./1

4. The following presents a summary analysis of this process of change, based mainly on the new data sources listed in para. 1. The West Java case studies involved a series of surveys of the same households in 1976-77 and again in 1983-84. The villages are all predominantly wet rice communities and include both lowland and upland cases. They are quite characteristic of Java and provide invaluable complementary information to the macro statistics, though any implications for macro trends from a small sample have, of course, to be treated with caution. No comparable study is available for the Outer Islands, and so the focus here is on Java. This is a good focus, since this is where the changes were both more rapid and complex; it is also where the core of the poverty problem lies.

Changes in Employment

5. Table 1 summarizes the overall changes in rural employment between 1976 and 1982 on the basis of the national labor force surveys. On Java the changes are dramatic. They represent an accentuation of the trends observed between the censuses (summarized for all Java in Table 4.2). Agriculture clearly declines as an employer (though the extent may be partly due to changes in the definition of urban areas /2). The main new development in this period is the much larger relative importance of industry and construction - increased employment in mining, manufacturing and construction was equivalent to almost 90% of the increase in the labor force.

/1 See William Collier et. al., "Acceleration of Rural Development in Java", Bulletin of Indonesian Economic Studies, Vol. XVIII, No. 3, 1982.

/2 BPS changed to a (superior) definition of urban areas in 1980 - see Indonesia - Urban Services Sector Report, World Bank Report No. 4800-IND, June 25, 1984. Both an intercensal and inter labor force comparison show a sharper decline in agricultural employment in rural areas than in rural and urban areas combined. For some reason urban areas capture a higher proportion of the agricultural labor force with the new definition (3% in 1982, compared with 1% in 1976).

Table 1: CHANGES IN RURAL EMPLOYMENT, 1976-82

	Java			Outer Islands		
	Annual growth 1976-82 (% p.a.)	Composition in 1982 (%)	Share of increment 1976-82 (%)	Annual growth 1976-82 (% p.a.)	Composition in 1982 (%)	Share of increment 1976-82 (%)
Agriculture	-0.8	60	-42	4.8	75	70
Manufacturing	5.7	11	45	7.1	7	9
Construction	18.7	4	35	24.9	2	6
Trade	1.6	14	18	2.7	7	4
Transport	5.3	2	9	5.9	2	2
Other services	4.2	9	28	6.1	7	7
Miscellaneous <u>/a</u>	17.7	1	8 <u>/b</u>	27.3	1	2
<u>Total</u>	<u>1.2</u>	<u>100</u>	<u>100</u>	<u>5.3</u>	<u>100</u>	<u>100</u>

/a Mining, electricity, water and gas and finance.

/b Predominantly in mining.

Source: SAKERNAS 1976 and SUSENAS 1982.

6. The results from the West Java villages are broadly consistent with the national survey results, but the more detailed information suggests, in some areas, a different interpretation of macro trends. A summary is given in Table 2. This portrays a picture of economic diversification, and rising importance of non-farm activities, especially in construction and transport labor. The main additional conclusions are as follows. First, most individual households were economically diversified in 1976, and became more so by 1983.^{/1} The vast majority of households (about 95% in both years) devoted some time to on-farm work, but a high and rising proportion (62% in 1976, 70% in 1983) also spent time on non-agricultural activities. Second, total agricultural employment in these villages, in term of hours worked per household, actually increased, by 2.5% p.a., over the seven year period. Much of this was associated with agricultural diversification into non-rice crops, fishponds and livestock. However, this increase was largely picked up by existing farming households and coexisted with a decline in agricultural wage labor. An increase in total employment time in agriculture can be quite consistent with a decrease in the number of people declaring agriculture as their primary occupation, as shown in the macro data; therefore it would be wrong to infer from the latter that agriculture as a whole is of declining

^{/1} The phenomenon of households being involved in a "multiplicity" of occupations was already observed in the early 1970s. See Ben White, "Population, Involution and Employment in Rural Java", Development and Change, 1976. In the national censuses and labor force surveys the sector of employment of an individual refers to the primary activity in the previous week.

significance. Third, there is a sharp reduction in hours worked in household industry. This is also consistent with the macro data, since most household industry in the sample is a secondary and low return activity. The reduction of labor use here was actually a reflection of better alternative activities. The main industry in this sample is string weaving from bamboo in Malausma; this activity absorbed a very large amount of time for very low returns in 1976. Manufacturing activities with a higher return (and so more likely to be a primary source of employment) increased their relative importance between 1976 and 1983.

Table 2: COMPOSITION OF EMPLOYMENT BY HOURS WORKED,
WEST JAVA VILLAGES, 1976 AND 1983

	<u>Average hours per household per annum</u>		
	<u>Sectoral share</u>		<u>Change</u>
	<u>1976</u>	<u>1983</u>	<u>1976-83</u>
	(%)	(%)	(% p.a.)
<u>Agriculture</u>	52	54	2.5
On-farm	(28)	(35)	(5.4)
Farm labor	(24)	(19)	(-1.5)
<u>Non-agriculture</u>	48	46	1.7
Manufacturing	(21)	(12)	(-4.5)
Trade	(13)	(13)	(1.8)
Non-agricultural labor <u>/a</u>	(14)	(21)	(9.5)
<u>Total</u>	<u>100</u>	<u>100</u>	<u>2.3</u>
<u>Memo</u>			
Average number of hours	1,909	2,216	

/a Mainly construction and transport.

Source: Rural Labor Market Surveys, West Java, 1977 and 1984.

7. In the Outer Islands, growth in non-farm employment was even more rapid than in Java, with a very similar pattern of growth rates - construction, manufacturing and mining were again particularly buoyant. But initial employment levels were much lower, and these increases were swamped by a rapid growth in agricultural employment. This is related to another significant difference: the employed in rural Java work much longer hours than in the Outer Islands, an average of 45 hours per week in 1976 compared with 29 hours in the Outer Islands. This is partly a function of higher cropping intensities on Java (so less extreme seasonality of agricultural labor demand), but it is also consistent with less developed activities in the secondary and tertiary sectors, even as a supplementary source of employment.

**Table 3: WAGES IN AGRICULTURAL AND NON-AGRICULTURAL ACTIVITIES,
CIMANUK REGION, WEST JAVA, 1977-1983 /a**

	Hoeing (male)	Planting (female)	Unskilled construction (male)	Skilled construction (male)
Hours worked per day	6-8	4-5	8-10	8-10
<u>Daily wage (Rp)</u>				
1977	229	115	369	696
1980	411	220	709	1,254
1983	665	370	1,196	2,138
<u>Daily wage index (hoeing = 100)</u>				
1977	100	50	161	304
1980	100	45	173	305
1983	100	56	170	322
<u>Average increase, 1977-83 (% p.a)</u>				
Money wages	15.2	16.7	16.8	16.0
Real wages:				
Milled rice	5.3	6.6	6.5	5.8
deflator /b				
Cost of living	1.8	2.8	2.7	1.9
index deflator /c				

/a All data based on monthly observations.

/b Milled rice price in each village.

/c Cost of nine basic commodities in each village weighted by the shares in total rural consumption from SUSENAS 1980.

Source: Agro Economic Survey, Village Data, 1977-1983.

Wages and Returns to Household Labor

8. Previous work on agricultural wages in Java found no trend in real rice wages during the 1970s, despite rising agricultural productivity./1 The village wage data from 1976 to 1983 suggest a significant change in the late 1970s and early 1980s./2 A summary is provided in Table 3. The data suggest

/1 See Indonesia - Wages and Employment, op. cit., Chapter 3.

/2 The source of information is the reported market wage (adjusted for in-kind payments) in the survey villages. The results are based on a detailed analysis in Dipak Mazumdar and M. Husein Sawit, Trends in Rural Wages 1977-83: A Study of the Villages of West Java, draft, January 1985.

three conclusions. First, real wages of both agricultural and non-agricultural labor increased over the period. The bulk of this increase was concentrated in the 1980-81 period, in which a sharp increase in rice production coincided with a major expansion in public expenditure. Second, non-agricultural wages are above agricultural wages (even after allowing for longer hours of work), with a slight widening of differentials over the period. Third, there can be significant fluctuations, including sharp drops, from season to season.

9. The wage labor market is only part of the story. Table 4 presents the results on returns to household labor in all activities, including family enterprises. Both agriculture (family enterprise) and farm labor recorded small decline in returns to labor, but this is due to changes in the composition of labor. In the case of agriculture it reflects an increased share of family labor in total agricultural labor use. Labor productivity in individual activities increased, as expected from the macro and wage data. In farm labor, it is due to a relatively large decline in labor time for better paid male workers in pre-harvest activities; this is again consistent with the observed wage increases. Outside agriculture, the rapid rise in returns to labor is clear and in 1983 earnings per hour for non-agricultural labor were 40% above earnings for farm labor. The very rapid increases in the productivity of household industry were due to a decline in hours worked in low return secondary activities, notably in string weaving in one village.

Table 4: AVERAGE RETURNS TO HOUSEHOLD LABOR IN ALTERNATIVE ACTIVITIES, WEST JAVA VILLAGES, 1976 AND 1983

	<u>Labor income per hour worked</u> /a	
	Level 1983 (Rp/hour)	Real increase 1976-83 (% p.a.)
Agriculture /b	386	-0.9
Farm labor	173	-0.4
Non-agriculture		
Household industry	78	8.9
Trade	354	-0.4
Non-agricultural labor	244	2.4
<u>Average</u>	<u>225</u>	<u>3.6</u>

/a This is the average for households participating in the sector in question.

/b This is calculated as net household cash returns per hour of family labor input; the reason it is higher than for farm and non-agricultural labor is because of the inclusion of returns to land and management in this figure.

Source: Rural Labor Market Surveys, West Java, 1977 and 1984.

Changes in Incomes by Household and Economic Class

10. How were the changes in production and employment distributed amongst households? This is central to an assessment of the welfare benefits of the changes, and in particular to the fundamental objective of reducing rural poverty. This issue can be examined for the six West Java villages. Since the same households were involved in both the 1976-77 and 1984 surveys, it is possible to trace the experiences of individual households during this period of rapid economic change. The general picture is of substantial overall increases in household income, but very wide inter-household differences. Table 5 presents some results. The average increase in village income per capita was 33% over the seven year period, but, owing to much higher proportional increases among relatively poor households, the unweighted increase in household income per capita was 110%. This was associated with a significant reduction in poverty incidence, from 50% in 1976 to 30% in 1983.^{/1} This overall pattern masks major differences between households. About 30% of all households more than doubled their per capita income, while a slightly smaller proportion recorded a decline. There was a high (negative) correlation between initial income and changes in income - poor households were disproportionately represented in the group that enjoyed major gains and vice versa. However, the losers were by no means solely in upper income groups, and 9% of the whole sample actually moved into absolute poverty between 1976 and 1983. Overall, the patterns of upward and downward mobility appear to have broadly offset each other, since the distribution of income is stable. In both 1976 and 1983 the bottom 40% of households received 14% of total income, while the top 20% received 53% in 1976 and 52% in 1983.

11. The large inter-household variation is in part because of the effect of transitory income. Households that are poor in any year are partly so because of their long term income and partly because of temporary occurrences such as harvest failure, sickness of key earners, windfall gains or losses in non-agricultural pursuits and so on. Whether the explanation lies in changes in transitory or permanent income, the pattern of mobility is, in one respect, reassuring: it suggests that in this period of rapid growth in agricultural incomes and labor demand, poverty was only a temporary phenomenon for many households. Not for all, of course: over 20% of all households were poor in both periods, but even this group experienced a 17% increase in per capita income.

^{/1} This uses the estimated cost in 1983 of 30 kg. of milled rice per capita as a cutoff income, in line with the criterion used in Bhanoji Rao, op. cit.

Table 5: AVERAGE PER CAPITA INCOME, WEST JAVA VILLAGES, 1976 and 83 /a

	Mean per capita income			Mean per capita income by group			
	Level in 1976 (Rp '000)	% change, 1976-1983 Per house- hold /b	Per vil lage /c	Bottom 20%, 1976 (Rp '000)		Top 20%, 1976 (Rp '000)	
				1976	1984	1976	1983
<u>Lowland</u>							
Wargabinangun	97	93	11	26	93	242	151
Lanjan	121	166	68	40	167	297	300
<u>Upland</u>							
Sukaambit	189	146	6	28	140	612	362
Gunungwangi	131	84	44	47	146	272	306
Malausma	83	117	50	29	119	170	127
Ciwangi	133	59	35	33	72	357	459
<u>All villages</u>	<u>125</u>	<u>111</u>	<u>33</u>	<u>30</u>	<u>113</u>	<u>373</u>	<u>327</u>

/a All 1976 income data is expressed in 1983 prices (data adjusted using index of nine basic commodities, rural Java).

/b Unweighted mean of percent change for each household.

/c Weighted mean calculated from village income totals 1976 and 1983.

Source: Rural Labor Market Surveys, 1977 and 1984.

12. Analysis of the sources of change in per capita income shows that changes in labor and enterprise income were the principal determinants of overall changes, though for some households changes in dependency ratios and other income (gifts, remittances, earnings from land) were also important. To assess how changes in labor income were distributed between different economic classes, the survey households were divided by size of operational holding of sawah in the wet season of 1976; those with no holdings were divided according to primary source of income, between farm laborers and non-agricultural households. Average incomes are given in Table 6. Farm laborers are the poorest group, with an income 40% below that of small farmers in 1976; average incomes of farmers rise substantially with size of holding, while non-agricultural households have, on average, comparable incomes to medium sized farmers. The average change in incomes between 1976 and 1983 is fairly uniform, though farm laborers, non-agricultural households and medium sized farmers did better than either small or large farmers. The large overall variation in the experience of individual households is also true of each economic class: every group had some large gainers and some losers in this period.

Table 6: HOUSEHOLD INCOME BY ECONOMIC CLASS, WEST JAVA VILLAGES, 1976 and 1983/a

	Share of households in survey (%)	Average household income /b		Average growth 1976-83 (% p.a.)
		1976 (Rp '000 p.a.)	1983	
<u>Landless /c</u>				
Farm laborers	10	224	310	4.7
Non-agricultural	5	461	642	4.8
<u>Farmers</u>				
Small (less than 0.25 ha)	40	402	498	3.1
Medium (0.25-0.5 ha)	23	421	610	5.5
Large (greater than 0.5 ha)	23	710	884	3.1
<u>All households</u>	<u>100</u>	<u>464</u>	<u>602</u>	<u>3.8</u>

/a Excludes 21 extreme values.

/b All 1976 data are in 1983 prices.

/c Classified by major source of household income.

Source: Rural Labor Market Surveys, West Java, 1977 and 1984.

13. The above pattern suggests that highly diverse household experiences overlay more gradual secular changes, in which general economic developments affected the fortunes of the different economic classes. It is the latter that is of primary policy concern. Table 7 gives the sources of income change for the various groups. It shows that the general picture of economic diversification into non-rice agriculture and non-agricultural activities was a phenomenon for all classes. Almost 90% of the farm income gains accrued to households with sawah holdings. Within this group, small farmers did relatively well; although they accounted for only 20% of total farm income in 1976, they secured 40% of the total increase. Inadequate size of holding was clearly not a constraint to agricultural growth in this period. Farm employment declined in absolute terms, and this was especially marked amongst the two groups most dependent on this income source in 1976 - landless farm laborers and small farmers. As already seen, for small farmers this was more than compensated by increased agricultural income; farm laborers, on the other hand, experienced a major shift into non-agricultural wage labor. Finally both medium and large farmers also moved significantly into non-agricultural work: for large farmers this represented a continuation of the 1976 pattern, while for medium farmers it marked a major change from the pattern of the mid-1970s.

Table 7: SOURCES OF INCOME CHANGE BY ECONOMIC CLASS, WEST JAVA VILLAGES, 1976-83
(in percent)

	Landless		Farmers			All Households
	Farm laborers	Non- agricultural	Small	Medium	Large	
Composition of 1976 income						
Farming	17	6	29	67	66	48
Farm laboring	77	11	21	17	7	17
Non-agriculture	6	83	50	16	27	35
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Composition of incremental income 1976-83						
Farming	57	43	83	42	46	55
<u>Sawah rice</u>	(68)	(38)	(46)	(16)	(-12)	(21)
Other sawah/dryland	(-18)	(2)	(11)	(27)	(26)	(18)
Home gardens	(1)	(2)	(10)	(-14)	(16)	(3)
Fishponds	(-)	(1)	(5)	(3)	(5)	(4)
Livestock	(6)	(-1)	(11)	(10)	(11)	(9)
Farm laboring	-69	25	-18	4	6	-7
Non-agriculture	114	32	35	56	48	52
Trade	(27)	(-57)	(-8)	(38)	(-1)	(8)
Home industry	(9)	(-9)	(-7)	(-4)	(27)	(5)
Wage labor	(78)	(98)	(50)	(22)	(22)	(39)
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: Rural Labor Market Surveys, West Java, 1977 and 1984.

14. The above is a highly summary account of a complex picture, but it does provide additional support for the positive assessment of the process of development in rural Java in this period. All of the main economic classes appear to have participated in the process of income growth and diversification in the survey villages. The overall income distribution remained stable and the extent of poverty was reduced. Amongst poorer households, agricultural income growth was particularly important to small farmers, while improved non-farm opportunities were central to the improved welfare of landless farm laborers.

Causes of Changes in Incomes and Employment

15. These beneficial developments in employment and returns to labor appear to be related to two factors: rapid increases in autonomous sources of income from agriculture and public expenditures, and mechanisms that channeled a high proportion of the multiplier effects to the benefit of rural households.

16. Agricultural Incomes. The success story on rice is familiar. Output increased by two thirds on Java between 1976 and 1983; comparable increases were achieved in the Outer Islands. This was due to the continued spread of new varieties, the extension of irrigation systems, increased use of agrochemicals, and favorable policies on output and input pricing.^{/1} A highly subsidized fertilizer price (the domestic price of urea was estimated to be 44% of the economic price in 1982 ^{/2}) has been perceived by the Government to be central to the maintenance of incentives and incomes for farmers in the past. For Java the net effects of this and other price developments between 1976 and 1983 are given in Table 8. The extent of change varies by province, but there is a common pattern of significant terms of trade gains. Low increases in fertilizer prices kept the production cost index down, but equally important were high price rises in non-rice crops, especially in fruits and vegetables. The rice price index is consistently below the consumer price index in 1983, but the overall index of producer prices received is consistently above it.

Table 8: PRICE INDICES AND TERMS OF TRADE FOR JAVANESE FARMERS, 1976-1983

	1983 Price Indices, 1976 = 100			
	West Java	Central Java	Yogyakarta	East Java
<u>Prices Received</u>				
Food crops	258	344	320	351
Rice	(233)	(260)	(210)	(238)
Palawija	(255)	(373)	(295)	(353)
Vegetables	(277)	(599)	(906)	(1,010)
Fruit	(326)	(375)	(267)	(366)
Commercial crops	214	279	354	292
General index	<u>255</u>	<u>335</u>	<u>323</u>	<u>339</u>
<u>Prices Paid</u>				
Household consumption	253	264	265	288
Cost of production	205	245	221	285
Intermediate input	(152)	(170)	(161)	(184)
Factor payments	(230)	(281)	(254)	(339)
Capital formation	(203)	(250)	(269)	(253)
General Index	<u>238</u>	<u>259</u>	<u>256</u>	<u>287</u>
<u>Terms of Trade</u>	<u>107</u>	<u>130</u>	<u>126</u>	<u>118</u>

Source: Indikator Ekonomi, BPS, September 1984.

/1 See World Bank, Indonesia - Policy Options and Strategies for Major Food Crops, Report No. 3686b-IND, April 4, 1983.

/2 Ibid, p. 57.

17. The effect on farm incomes of this favorable production and price situation is clearly seen in the village data. Some further results are given in Table 9. Rice income increased significantly in this period and still accounted for over 60% of total farm income, but the more striking results are the sharp increases in income from non-rice crops, fisheries and livestock (mainly poultry). Agricultural diversification was already an important source of agricultural income growth in this period.

Table 9: LABOR INCOME PER HOUSEHOLD FROM FARMING, WEST JAVA VILLAGES, 1976 AND 1983

	Share of total farm income		Income growth
	1976 (%)	1983 (%)	1976-83 (% p.a.)
<u>Sawah rice</u>	68	61	2.5
Other <u>sawah/dryland</u>	7	14	14.4
Home gardens	17	14	1.6
Fishponds	2	3	9.9
Livestock	5	8	11.9
<u>All farming</u>	<u>100</u>	<u>100</u>	<u>4.3</u>

Source: Rural Labor Market Survey, West Java, 1977 and 1984.

18. Public Expenditures. This second source of autonomous income growth in rural areas is less easy to analyze, since there is no rural-urban breakdown of government spending. However, there is good indirect evidence of the buoyancy of rural based spending. A number of programs in Indonesia's highly diversified development budget involve construction activity in rural areas or small towns: irrigation, primary schools, health centers, rural roads and, to some extent, inter-city roads. One good index of the increases in spending with an influence in rural areas is provided by the INPRES programs. Estimated real spending increased by 14% p.a. on average between 1976 and 1983, though with a clear levelling off after 1981. This was an important source of the increased employment in construction shown in Table 1, and of the increased wages for non-agricultural labor shown in Table 3. (Investment in private housing was probably an additional significant source of rising construction work.)

19. Multiplier Effects. Increases in autonomous income can also have significant demand-side multiplier effects. To analyze this systematically, we need to know how households allocate incremental income. A picture of long term trends can be obtained from a cross-sectional analysis of the distribution of household expenditures from the national household expenditure surveys (SUSENAS). The patterns of average and marginal budget allocations in

1981 are given in Table 10 for both rural and urban Java. They show a major shift out of food into non-agricultural goods and services for incremental budget allocations. In rural areas the preferred sectors for new expenditures are personal and household manufactures (especially vehicles and durables), health and education, and transport. In urban areas housing is also of importance.

Table 10: AVERAGE AND MARGINAL BUDGET SHARES,
RURAL AND URBAN JAVA, 1981 /a

	Average budget shares (%)		Marginal budget shares (%)	
	Rural	Urban	Rural	Urban
Food	42.3	41.7	22.1	31.4
Rice	(14.8)	(10.7)	(2.9)	(4.9)
Other staples	(1.2)	(0.5)	(-0.1)	(0.4)
Meat and fish, dairy	(6.5)	(9.1)	(5.7)	(10.5)
Vegetables	(8.6)	(6.8)	(4.3)	(4.4)
Fruits, oils, spices, etc.	(6.2)	(7.8)	(5.5)	(5.7)
Prepared foods	(4.1)	(5.8)	(3.2)	(4.5)
Other	(0.9)	(1.0)	(0.6)	(1.0)
Beverages, tobacco	7.4	5.0	4.3	2.9
Housing	5.4	13.5	4.8	16.2
Energy	8.8	5.7	3.5	4.0
Health and education	6.0	10.5	10.1	13.3
Transport	2.3	5.1	4.3	6.9
Clothing, footwears, etc.	8.6	9.1	14.6	10.1
Household durables	3.8	3.1	6.8	4.2
Vehicles, other durables	7.8	4.5	27.3	7.6
Recreation & others	0.5	1.8	1.2	2.2
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

/a Obtained from econometric analysis of changes in expenditure for different income groups.

Source: Analysis of SUSENAS 1981.

20. These changes in expenditure at the margin created the demand conditions for the expansion in non-farm production and employment. Although production accounts for Java are unavailable, the differential impact of incremental as against average expenditure can be illustrated by the use of the national Input-Output Tables. This is shown for rural and urban Java in Table 11; it presents the employment effects of the average and marginal composition of expenditures given in Table 10. As expected, there is a major shift toward manufactures of consumer goods, and services, though non-rice agricultural products continue to account for a high fraction of incremental

expenditure. Total employment creation is less at the margin, as a consequence of the higher labor productivity of non-agricultural activities, but household expenditure is still strongly biased toward home produced goods and services.

Table 11: EMPLOYMENT EFFECTS OF AVERAGE AND MARGINAL BUDGET EXPENDITURE, RURAL AND URBAN JAVA, 1981

	<u>Expenditures with average shares</u>		<u>Expenditures with marginal shares</u>	
	Rural	Urban	Rural	Urban
Total employment effect <u>/a</u>	1.52	1.35	1.22	1.21
Share of Employment Effects (%)				
Agriculture	75.0	68.3	50.3	57.1
Rice	(19.8)	(16.0)	(6.2)	(8.8)
Other good crops	(45.3)	(43.8)	(34.8)	(39.5)
Cash crops	(4.7)	(3.6)	(3.8)	(2.8)
Livestock and others	(5.2)	(5.4)	(5.5)	(6.0)
Manufacturing	15.4	14.2	28.7	17.7
Consumer goods	(14.2)	(13.2)	(24.9)	(16.1)
Producer goods	(1.2)	(1.0)	(3.6)	(1.6)
Services	9.6	17.5	21.0	25.2
Trade	(2.5)	(2.9)	(4.0)	(3.4)
Transportation	(1.6)	(3.2)	(4.0)	(4.9)
Public and social services	(4.8)	(9.7)	(11.7)	(14.8)
Other services	(0.7)	(1.7)	(1.3)	(2.3)
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

/a Man-years of employment generated by expenditure of one million rupiah.

Source: World Bank staff estimates, based on SUSENAS 1981 and the Input-Output Tables, 1980, BPS.

21. The above analysis assumes that production will increase in response to increased demand. The evidence on rapid production and employment increases in Java provides support for this. Not all of this occurred within rural areas. In particular, the increased consumption of manufactures characteristically involves urban produced goods. Rural households were still major beneficiaries of this increased production and employment, both through actual increases in rural value added (notably via trade and transport margins associated with the consumption of manufactures) and through temporary migration to urban areas. Rural-urban linkages became much stronger during

this period, in terms of flows of both goods and people. This was facilitated by the "transport revolution" - the vast expansion in transport services throughout Java since the early 1970s. A precondition for this was the major improvement in roads, through increased public expenditures in the transport sector. Equally important is the unusually high population density in Java, that greatly reduces transport times between villages and urban centers. These results are, of course, based upon limited statistics, but they do provide some important quantitative backing for the view taken in the main body of the report on the process of rural production growth and its employment effects.

B. Labor Absorption, Wages and Incomes in Urban Areas

22. The employment situation in urban areas is quite different from that in rural areas. The urban labor force is currently a small fraction of the total labor force (19% in 1980), but it is growing rapidly. It also has a much higher rate of unemployment. The structure of employment is dominated by the service sectors, with a subsidiary but important role for the manufacturing sector. Most sectors involve both "modern" activities, with regular salary and wage employment, and large numbers of self-employed workers or very small scale enterprises, often termed the "informal" sector. Household incomes are characteristically higher than in rural areas.

23. The framework for the analysis of the urban labor market follows that of the previous World Bank report on employment.^{/1} There is a wide range of production and service activities in urban areas, from small scale, self-employed ventures to large scale modern firms. Within this the formal/informal sector division is a useful abstraction. The dividing line is blurred, but roughly half of total urban employment is in each sector. Entry to the informal sector is relatively easy and it has quite close links with the rural labor market via circular migration. As a consequence, the determination of returns to labor is quite competitive. Entry into formal sector employment is not free: wages for unskilled labor rise significantly with the size of firm and there is queuing for good jobs in public and private sector employment. Although government intervention is much more extensive than either in rural areas or for informal sector activities, these do not appear to be the source of relatively high wages in large formal sector firms. The primary reason is rather that firms are prepared to pay for the advantages of a stable and known work force, with some acquired skills.

Current Patterns of Labor Absorption

24. Between 1971 and 1980 the population of urban areas increased at about 4% p.a., with roughly half of the increase coming from natural growth of the 1971 population, and half from rural-urban migration.^{/2} There was a wide variation by island, with Kalimantan and Sumatra growing much faster than

^{/1} See Indonesia - Wages and Employment, op. cit.

^{/2} See Indonesia - Urban Services Sector Report, op. cit., Chapter 1.

Java, as a consequence of higher apparent rural-urban migration rates.^{/1} On the other hand there is considerable micro evidence of high and increasing levels of temporary migration in Java during this period, that explain its relatively low pace of urbanization.

25. The past experience in absorbing this rapid expansion in the labor force into employment has been good. The buoyant growth in public expenditure and the rapid modernization of the economy (in particular with respect to the large increase in the flow of manufactured goods) had a particularly beneficial effect on the demand for labor in urban areas. Overall open unemployment rates have remained low and stable at about 6% of the urban labor force (there was actually a small decline in the rate between 1976 and 1982). Table 12 shows the change in the sectoral distribution of non-agricultural

Table 12: THE DISTRIBUTION OF NON-AGRICULTURAL EMPLOYMENT IN URBAN AREAS, 1976-82 /a

	Composition, 1982			Share of increment, 1976-82		
	Java	Outer Islands	Indonesia	Java	Outer Islands	Indonesia
	----- % -----			----- % -----		
Manufacturing	18	11	16	22	9	20
Construction	6	9	7	7	22	9
Trade	32	34	32	32	27	32
Transport	8	9	9	6	8	7
Other services	34	35	34	32	29	31
Miscellaneous <u>/b</u>	2	2	2	1	3	2
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

/a In 1982, agriculture accounted for 6% of employment in Java, and 10% in the Outer Islands. It has been excluded because the change in urban definition between 1976 and 1982 apparently changed the coverage of agricultural activities, and so distorts the pattern of incremental employment.

/b Mining, electricity, gas and water, and finance.

Source: SAKERNAS, 1976 and SUSENAS, 1982.

/1 Since the 1980 Population Census only recorded inter-provincial movements of migrants and the rural/urban character of the present, and not the previous residence, there are no firm estimates of rural-urban migration rates for Indonesia.

employment between 1976 and 1982. In contrast to rural areas, the employment structure is quite stable: manufacturing is relatively more important in Java, while employment in the urban construction sector was very buoyant in the Outer Islands in this period, but other differences and changes are very small. The service sectors accounted for around three quarters of both average and incremental employment.

26. The formal/informal division of the urban labor force cuts across production sectors. This division is actually an abstraction from a continuum of patterns of enterprise organization, but it is useful in analyzing the labor market. The employment structure in 1980 is shown in Appendix 3, Table 3, using employers and employees as a proxy for formal sector employment. On this basis, 60% of total employment is in the formal sector, but with some small scale enterprises being closer to informal sector activities and the inclusion of temporary migrants, the proportion would drop to about half. Other services (that includes most civil service employment, health, education and domestic service) accounted for almost half of formal sector employment, while trade accounted for almost half in the informal sector. Women play a relatively large role in informal trade, household industry and other services, and form a significant part of the work force in all sectors apart from construction and transport.

27. Educational attainment makes a difference to the sector of employment. For the production sectors these differences are not large, though workers with some education are more likely to be working in other services (including the civil service). Services accounted for 43% of total employment of those with secondary education in 1982, compared with 34% for the whole work force. The differences are more marked with respect to the formal/informal sector distinction. As Table 13 shows, 80% or more upper secondary and tertiary graduates are in the formal sector (wage earners, plus a few employers). It is slightly higher for vocational than general schooling, but with little difference between the sexes. This is an important feature of the labor market. It suggests that the availability of wage employment will be central to the prospects of the large number of new entrants to the labor force with secondary and tertiary education.

28. The civil service plays a special role in the formal sector. It has traditionally been the aspiration of the higher classes, and now of the educated, in Indonesia. A 1980 survey of students in general upper secondary schools found that almost half hoped or expected to become civil servants, as compared to less than a tenth with their eyes on the private sector; and if those looking to the army or teaching are also included, the share of students aspiring to public sector employment rises to over two thirds.^{/1}

^{/1} See Waskito Tjiptosasmito and William Cummings, The Status of Deployment of Teachers in Indonesia, mimeo, August 28, 1981.

Table 13: THE PROPORTION OF URBAN WORKERS IN THE FORMAL SECTOR,
BY EDUCATIONAL ATTAINMENT, 1980 and 1982 /a

Educational Attainment	1980			1982
	Male	Female	Total	Male & Female
	%			%
Up to primary	50	40	47	48
Lower secondary				
General	67	55	65	63
Vocational	74	56	71	72
Upper secondary				
General	80	79	80	79
Vocational	87	90	87	88
Tertiary	92	91	92	94
<u>All workers</u>	<u>60</u>	<u>48</u>	<u>57</u>	<u>59</u>

/a This is the ratio of the number of employers and employees to total employment.

Source: Results of the 1980 Population Census, Series S, No. 2, and SUSENAS 1982, BPS.

29. Table 14 presents some summary statistics on levels of civil service employment. There are currently almost three million public employees in Indonesia, about a quarter of whom are women.^{/1} After very rapid growth in the first half of the 1970s, growth slowed in the second half (to about the level of the total labor force growth) but then rose significantly in the early 1980s. Only about 40% of public employees work in central government offices, but many employees in local government are either seconded from or financed by the center; central government spending has fueled much of the recent expansion in employment. The share of total employment is low - only 4% for all Indonesia - but the expectations of students clearly have some basis in reality: of those in employment, a third of upper secondary school graduates and a half of the graduates of tertiary educational institutions had government jobs in 1980. For women the proportions are even higher. Finally, apart from some concentration of employment in Jakarta, where 12% of the workforce is in government employment, there is a fairly wide dispersion of employment throughout the country; overall, the share of the civil service in aggregate employment is somewhat higher in the Outer Islands than in Java (excluding Jakarta).

/1 Roughly half of these employees are either teachers or health workers.

Table 14: OVERVIEW OF CIVIL SERVICE EMPLOYMENT, 1969-84

Educational Attainment	No. of civil service employees, March 1984 ('000)	Rate of growth			Share of civil service in aggregate employment 1980/81		
		1969-75 -----	1875-81 % p.a.	1981-84 -----	Male -----	Female %	Total -----
Up to primary	605	n.a.	-3	4	2	0	1
Lower secondary	386	n.a.	-1	3	13	18	14
Upper secondary	1,479	n.a.	10	16	29	46	33
Tertiary	277	n.a.	9	11	48	54	49
<u>Total /a</u>	<u>2,784</u>	<u>22</u>	<u>3</u>	<u>11</u>	<u>5</u>	<u>3</u>	<u>4</u>

/a Includes those for whom educational status was unknown.

Source: BAKN/BPS for civil service employment, Results of the 1980 Population Census, BPS for aggregate employment.

Wages, Incomes and Poverty in Urban Areas

30. Wages and incomes in urban Indonesia are characteristically above rural levels, as in most developing countries. The household budget surveys indicate an overall average per capita income differential of about 70% in Java and 40% in Sumatra in 1981 /1, but this masks an enormous diversity in income levels, especially in urban areas. Very little of this variation is due to the sector of primary activity, at least for the major sectors of manufacturing, construction, trade, transport and other services /2, but clear differentials are apparent by occupational status. Table 15 indicates that for the professional classes, incomes in Java are higher than in Sumatra, while for production and service workers they are lower. This is a consequence of Indonesia's relatively unusual spatial structure: Java is the center of Government and has been the recipient of much of the oil income and modern sector investment, but lower rural incomes has to some extent kept down the wages of urban unskilled workers.

/1 See Appendix 3, Table 5.

/2 Ibid.

**Table 15: AVERAGE HOUSEHOLD INCOME BY OCCUPATIONAL STATUS
IN URBAN INDONESIA, 1981
(Rp. per capita per month)**

	Java	Sumatra
Professional	26,200	24,200
Administrative	64,200	35,400
Clerical	24,200	21,200
Sales	17,600	23,600
of which street vendors	16,900	n.a.
Service workers	13,900	15,900
Farmers	10,900	12,900
Production workers	15,100	17,400
<u>Average /a</u>	<u>16,400</u>	<u>18,500</u>

/a This differs from the average reported in Appendix 3, Table 5, owing to slightly different samples.

Source: SUSENAS 1981.

31. The existence of a wide range of urban wages makes generalizations on their behavior difficult. The one good long term data series, for construction workers, indicates a similar pattern to that observed in rural Java: no clear trend in wages until the end of the 1970s, and then a rise around 1980-81. Appendix 3, Table 8, presents some detailed data on wage rates for unskilled workers in formal sector manufacturing and services. In all sectors and regions real wages increased, in some cases quite substantially, between early 1981 and late 1983 - despite the sharp slowdown in growth in the latter year. Regional differentials provide a similar picture to incomes. Manufacturing wages in late 1983 were of the order of Rp. 1,000-1,200 per day in Central Java and Jakarta, compared with Rp. 1,300 a day in South Sumatra, over Rp. 2,000 in North Sumatra and Rp. 2,500 and above in West Kalimantan. These rates apply to only one segment of the market. The characteristic pattern is of a wage ladder within individual subsectors, ranging from small locally owned firms up to large scale joint ventures. Research in Central Java in the mid-1970s found differentials of several times in the cigarette, kretek and weaving industries./1

32. The high wage segment of the formal sector covers both the public and private sector. Both are viewed as preferred sources of employment for new entrants to the labor market, especially amongst the educated. As Table 16

/1 See Chris Manning, Wage Differentials and Labor Market Segmentation in Indonesian Manufacturing, Doctoral Thesis, Australian National University, October 1979.

shows, there are substantial differentials between private and official public sector salaries. Differentials within the private sector are also much larger, both for different skill categories and, as noted above, for different categories of firms for unskilled labor.

Table 16: INDICATORS OF PUBLIC/PRIVATE SALARY DIFFERENTIALS
(Rp. per month)

Level	Civil service /a		Private sector large companies /b 1984	Private to public differential, 1984-1985
	1984/85	1985/86		
I	61,000	73,000	67,000 /c	0.9
II	107,000	129,000	290,000 /d	2.2
III	159,000	191,000	630,000 /e	3.3
IV	254,000	305,000	1,330,000 /f	4.4

/a This is the estimated average salary for a civil servant with ten years experience and a wife and three children.

/b This is an estimate of the average salary, including allowances, for experienced workers in large private companies.

/c Average of rates for semi-skilled workers, from firm visits to manufacturing firms.

/d Average of rates for file clerks, drivers and clerk-typists.

/e Average of rates for typists, supply clerks, teletype operators, motor pool supervisors, account clerks, executive secretaries and reference librarians.

/f Rates for an architect, library director and civil engineer.

Source: World Bank staff estimates, based on data from the Ministry of Finance, firm visits and the American Embassy in Jakarta.

33. The process of wage determination at the upper end of the private sector is important to understanding the urban labor market. Skilled manpower shortages are a factor, but do not explain why the whole wage structure is above the level at the bottom of the market. Previous analysis has concluded that the explanation lies in the advantages to firms of having a known and reliable workforce with low turnover. To achieve this, firms in effect share part of their returns with the workforce./1 The resultant wages are also characteristically higher than minimum wages. This varies by region and by sector, since minimum wages are currently set by province and for different sectors. Table 17 gives the regional minimum wages for three provinces. The

/1 See Indonesia - Wages and Employment, op. cit.; Chris Manning, op. cit.

general policy is to base the rate on market survey information. Where this is frequently updated, as in Jakarta, the result is a market-following floor wage for the large scale sector: this provides a useful function in protecting workers at the lower end of the market without distorting the overall wage structure.^{/1} In provinces where there is no systematic updating, the minimum wage can bear little relation to market conditions. The minimum wage is not currently enforced in the small scale sector: this is appropriate, since this would have excessively high administrative costs, and, if successful, could reduce employment and/or put small scale firms out of business.

Table 17: MINIMUM WAGES FOR THREE PROVINCES, 1977-84

	DKI Jakarta			Central Java			North Sumatra		
	Rp/day	Index /a	CPI /b	Rp/day	Index /a	CPI /b	Rp/day	Index /a	CPI /b
1977	435	100	100	175	100	100	431	100	100
1980	600	128	150	265	151	162	540	125	156
1981	600	138	163	325	186	183	540	125	175
1982	750	172	177	625	357	203	700	162	186
1983	1,050	241	196	625	357	226	700	162	209
1984	1,250	287	224	625	357	247	700	162	237

/a 1977 = 100

/b Consumer Price Index for Jakarta, Semarang and Medan, respectively.

Sources: Statistical Pocketbook Indonesia, BPS, 1983, Buletin Ringkas, BPS, December 1984, Department of Manpower, Pelaksanaan, Kebijakan dan Pelaksanaan Pemerintah Mengenai Penetapan Upah Minimum di Seluruh Indonesia, Jakarta (1982, 1984).

34. The Government directly sets the wages and benefits for workers in government employment. In the draft 1985/86 budget, it was announced that the salaries of civil servants were to be raised so as to improve their net (after-tax) income by 20%, with higher increases for teachers and health workers. Some context for the recent increase is given in Table 18, that summarizes changes in official civil service salaries over the past fifteen years. This includes official supplements, but excludes both the rice allowance and any payments for specific activities. Year to year changes have been highly variable - characteristically a substantial increase in one year has been gradually eroded, in real terms, in the ensuing years. The major increase of the past decade occurred in 1977/78, and subsequently real

^{/1} It is possible that rises in the floor wage can push up the whole structure, but there is no evidence of this in Indonesia.

salaries have peaked in 1981/82 and now in 1985/86. The overall increase since 1977/78 has been quite moderate, and, as seen in Table 16, differentials with the private sector remain large for higher grades. The issue of civil service compensation is complex, but to some extent, these differentials are compensated by the security and prospect of specific payments for studies, etc. in the civil service.

Table 18: GROWTH IN AVERAGE SALARIES OF CIVIL SERVANTS, 1969-85

Level	Average real increase /a			
	1969-76	1976-77	1977-81	1981-85
	% p.a.			
I	16.1	98.4	4.7	4.3
II	11.4	66.2	2.0	1.6
III	11.5	42.9	-0.2	1.6
IV	11.4	66.4	-1.0	1.6
Average	12.0	66.0	2.0	2.6

/a The nominal salaries were deflated by the Indonesia Consumer Price Index after 1977/78, and the Jakarta Cost of Living Index prior to 1977/78. All years are fiscal years, i.e. 1985 is FY1985/86.

Source: World Bank staff estimates, based on information provided by the Ministry of Finance.

35. Incomes within the informal sector also vary greatly. Members of this sector can be broadly divided into three categories. The highest income group are small scale entrepreneurs, often working by themselves or with family members. The best example is established street vendors, for whom micro studies indicate average earnings of Rp. 4,000-5,000 per day in Java, with some earning substantially more. Second, there are individuals who are essentially unskilled workers, with earnings comparable to or higher than wages at the lower end of the urban wage ladder. Becak drivers and refuse collectors are good examples, with incomes in Java of the order of Rp. 1,000-3,000 per day. The third group are involved in lower return activities, and include people such as kulis (market porters) or cigarette scavengers, with daily incomes of the order of Rp. 1,000 or less. These are all average incomes and an important characteristic of informal sector work is a high variability in incomes from day to day and, in some cases, between seasons.

36. Higher incomes and wages also lead to much lower poverty incidence in urban than rural areas. It has been estimated that in urban Java 30% of households had an expenditure level below an estimated subsistence requirement in 1980, compared with over 50% in rural Java, and 20% in urban Sumatra.^{/1} Furthermore, rising incomes led to a significant reduction in incidence over the course of the 1970s. But urban poverty does exist and could become a more serious problem with slower growth. Poverty occurs in all the major production sectors, and, for Java at least, households in poverty are roughly equally divided between those dependent on wage and informal sector employment.

Unemployment

37. In this section the structure of unemployment and the pattern of change between 1976 and 1982 is examined. This is an interesting period for the unemployment situation, since high formal sector growth coincided with the beginning of a large influx of secondary school leavers into the urban labor force. Overall urban unemployment rates are not high by developing country standards, but unemployment is becoming increasingly concentrated amongst the young and the secondary educated. As there appears to be reasonably free entry into informal sector activities, unemployment is predominantly associated with the formal sector: it reflects an imbalance between the supply of and demand for formal sector jobs. It is thus very much a function of the labor market structure outlined in the introduction to this appendix. The existence of limited numbers of preferred jobs, whether due to high wage differentials within the private sector or the other attractions of public sector employment, provides incentives for waiting.

38. The statistics suggest the unemployed are largely new entrants to the labor force looking for their first job (70% of unemployed males and over 80% of unemployed females in 1982) and are often single. Workers with dependents can rarely afford to be unemployed. There is also a heavy concentration amongst the educated and the young. Table 19 presents data on unemployment rates and the composition of unemployment by completed level of schooling for 1976 and 1982. Unemployment rates in both periods, standardized for varying age structures among schooling groups, rise with educational level, reaching a peak among upper secondary school leavers. Graduates of general (academic) secondary schools experience slightly higher rates than vocational graduates, especially at the upper secondary level. Overall unemployment rates are fairly stable over this period. There are, however, two less positive trends. First, unemployment rates of females increased for all categories except lower secondary academic school graduates. The data, consistent with 1971-80 census trends, suggests that recent increases in urban female labor force participation rates since 1971 have been matched by increasing difficulty for women to find jobs.^{/2} The proportion of females among all unemployed increased from 23% to 36% over the period, with the absolute number of recorded female unemployed more than doubling in the six year period.

^{/1} See Bhanoji Rao, *op. cit.* Preliminary analysis of SUSENAS 1981 suggests a somewhat lower poverty incidence, see Appendix 3, Table 6.

^{/2} The unstandardized rates by educational category indicate this trend more clearly and suggest younger, educated females are especially finding it harder to obtain employment in recent years.

Second, the absolute numbers looking for work has become increasingly dominated by upper secondary leavers, contributing in 1982 over 40% of all urban unemployed in 1982. For males the proportion of unemployed in 1976 did not differ substantially from the proportion of the labor force in each schooling category, but by 1982 those with primary education or less, accounting for 60% of the labor force, amounted to only 41% of all unemployed (see Appendix 3, Table 11).

Table 19: OPEN UNEMPLOYMENT IN URBAN INDONESIA BY EDUCATIONAL ATTAINMENT, 1976 AND 1982
(in percent)

Completed education	Male		Female		Both sexes	
	1976	1982	1976	1982	1976	1982
<u>Age-standardized open unemployment rates</u>						
Below primary	5.0	3.3	2.1	2.6	3.9	3.3
Primary	6.2	4.2	3.6	4.8	5.8	4.4
Lower secondary						
General	7.8	6.0	10.1	7.7	8.3	6.6
Vocational	7.7	9.5	6.2	6.3	7.4	7.6
Upper secondary						
General	11.8	11.4	16.6	17.3	12.9	13.1
Vocational	10.8	9.5	13.2	13.5	10.8	11.0
Tertiary	8.0	8.3	6.3	7.5	7.4	7.9
<u>All levels</u>	<u>6.9</u>	<u>5.6</u>	<u>4.9</u>	<u>6.5</u>	<u>6.4</u>	<u>6.0</u>
<u>Distribution of the unemployed</u>						
Below primary	24.9	16.2	19.0	16.7	23.5	16.4
Primary	33.0	24.7	22.5	19.9	30.6	23.0
Lower secondary						
General	14.1	13.4	18.5	11.4	15.1	12.7
Vocational	4.1	4.0	2.5	2.1	3.7	3.3
Upper secondary						
General	12.7	21.6	16.7	22.4	13.6	21.9
Vocational	9.6	17.3	17.8	23.3	11.5	19.5
Tertiary	1.6	2.8	3.0	4.2	1.9	3.3
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
<u>Memo item</u>						
Unemployment level ('000s)	359	422	109	238	467	660

Source: SAKERNAS 1976 and SUSENAS 1982 (special tables prepared by BPS).

39. Unemployment rates by age and education are given in Appendix 3, Table 12. About 40% of the total unemployed fall in the 20-24 age group, with very high unemployment rates, of 30-40%, amongst male and female graduates of general upper secondary schools and female graduates of vocational schools. The specific changes between 1976 and 1982 follow the broad pattern described above: unemployment rates undergo a moderate decline for most categories of males and a moderate rise for most females in the 15-19 and 20-24 age groups. However, there are two important exceptions: first there was a significant rise in the unemployment rate for both male and female graduates of general upper secondary schools in the 20-24 age group, from 32-33% in 1976 to 37-38% in 1982; and, second, there is a general rise in the rate for those with tertiary education in the 25-29 age group, and a dramatic increase, from 14% to 31%, for females. Finally, while the primary focus is on educated unemployment, the data also shows high unemployment rates (10% and above) amongst the less educated (primary and below) in the 15-19 and 20-24 age groups, five to ten years after most of these young people left school.

40. Overall, a detailed review of unemployment presents a less sanguine picture than the low aggregate unemployment rate indicates. The general pattern is of peaks in unemployment amongst young school leavers followed by major declines in the 25-29 and 30+ age ranges. The stability of this pattern between 1976 and 1982 suggests a slow process of absorption of new labor force entrants into work. A tracer study of secondary school leavers in the late 1970s concluded that long working periods paid off in terms of better paid jobs.^{/1} However, the rise in unemployment rates amongst key groups (and especially amongst females) suggests that the queue for preferred jobs is getting longer, and is now also affecting tertiary graduates.

41. There is some regional variation in unemployment, summarized in Appendix 3, Tables 13-14. The higher rates in Jakarta stand out: no doubt a consequence of higher migration, especially of the better educated, to the capital city and more attractive formal sector job opportunities in the public and private sectors. Unemployment rates are somewhat lower for the rest of urban Java, and fall in between the two in urban areas in the Outer Islands. However, the structure of unemployment is quite uniform throughout Indonesia, and inter-regional differences are much less marked than between age and education categories.

42. Labor Exchanges and the Registered Unemployed. The Government reactivated the labor exchanges in 1983 and official data suggest that a large number of the unemployed have been registering since then. Between 26,000 (March 1983) and 107,000 (September 1984), with a mean of 46,000, registered each month throughout the country between January 1983 and September 1984.^{/2} The number of unemployed registered with the Department of Manpower has ranged from 300,000-400,000 per month over the same 21 month period, equivalent, on

^{/1} See David Clark, How Secondary School Graduates Perform in the Labor Market: A Study of Indonesia, World Bank Staff Working Paper No. 615, 1983.

^{/2} The large month to month variations are closely related to the number of school leavers entering the labor market, peaking in August and September each year.

average, to over half the total of 660,000 unemployed recorded by SUSENAS 1982. Table 20 gives figures on the composition. This shows the disproportionately high share of upper secondary school leavers - the group experiencing the highest unemployment rates. New vacancies registered each month were about 10,000 for the period January 1983 to September 1984, and official figures record that an impressive average of 40% were filled each month, declining to slightly below 30% in the later months of 1984. Just for this 21 month period 144,000 new jobs were reportedly found in labor exchanges in Indonesia, a figure which compares favorably, for example, with an approximate increase in urban wage workers outside agriculture of about 100,000 per annum in the 1970s (or even of all wage workers outside agriculture of approximately 275,000 a year).^{/1} However, there is a large imbalance between the numbers of registered unemployed and vacancies, and the ratio of placements to registered unemployed is low - never above 4% per month and declining in 1984 to below 2%.

Table 20: JOB SEEKERS AND JOB PLACEMENTS RECORDED BY THE LABOR EXCHANGES, INDONESIA, DECEMBER 1983 AND SEPTEMBER 1984.

Level of schooling	December 1983						September 1984		
	New job seekers		Placements		Stock at end of month		New job seekers	Place-ments	Stock at end of month
	Male	Female	Male	Female	Male	Female			
Primary or less	16	10	32	49	12	4	8	32	11
Lower secondary	12	6	19	12	15	8	14	14	10
Upper secondary	61	70	45	31	68	80	71	49	74
- Academic	(26)	(30)	(18)	(19)	(30)	(37)	(41)	(23)	(38)
- Vocational	(16)	(2)	(15)	(1)	(20)	(2)	(9)	(11)	(13)
- Economic	(10)	(19)	(8)	(9)	(11)	(28)	(12)	(9)	(12)
- Other	(9)	(19)	(4)	(2)	(7) ^{/a}	(13) ^{/a}	(9)	(6)	(11)
Tertiary	11	14	6	7	5	8	9	5	5
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Number ('000)	23	10	3	2	193	53	107	4	538 ^{/b}

^{/a} An error in the raw date for subgroups of upper secondary education is presumed to be derived from the "other SMA" category.

^{/b} The large increase in absolute numbers compared with December 1983 is mainly a consequence of large numbers of school leavers registering in August-September.

Source: Department of Manpower statistics (unpublished) and Department of Manpower, Berita Pasar Kerja, No. 11, March 1984, pp. 57-70.

^{/1} The calculations are based on the 1971 and 1980 censuses. The data on placements are likely to be reflected in much lower employment growth, since many new employees would replace previous employees.

POPULATION AND LABOR FORCE PROJECTIONS /1

1. The demographic projections that underlie the analysis of this report were run on spatially disaggregated projection models in the World Bank. This involved assumptions in four areas: underlying demographic parameters, especially fertility and death rates; interprovincial migration; the pace of urbanization; and labor force participation rates by age-sex category. The demographic assumptions are close to those used by the Government /2, but the other three areas go beyond existing work and are briefly summarized here.

2. There are two sources for the assumptions on interprovincial migration. For the underlying trend, the observed pattern between 1971 and 1980 was taken, with a slowdown in the 1990s and some modification for specific provinces (notably Lampung) where the potential for additional immigration was known to be limited. The sponsored transmigration program subsequent to 1980 was treated as being additional to these underlying flows. A number of alternative scenarios were developed to reflect different levels of the whole program; these are discussed in Chapter 5. For the distribution across source provinces in the Inner Islands the historical pattern from transmigration statistics was taken, while the distribution across destination provinces was based upon a very preliminary World Bank assessment of the absorptive capacity of different regions. The age-sex composition of transmigrants is based on past experience, and households that migrate are assumed to have the fertility and mortality rates of destination areas. In each scenario it was assumed that there would be additional spontaneous flows following the sponsored movement - this was made a function of the total previous transmigrant population (net of estimated backflow).

3. Some uncertainty surrounds the likely future rate of urban growth, both because of our weak understanding of the determinants of rural-urban migration in Indonesia and the changed economic situation. As a simplifying assumption, we took a stable differential between rural and urban growth, but with a downward adjustment in the historically high differential in Kalimantan and Sulawesi to the level prevailing in Sumatra - otherwise implausibly high rates of urban growth would occur in the former two provinces. Summary results for urban and rural population growth under two of the migration scenarios are given in Table 1. These should be treated as reasonable, but only indicative, scenarios. As discussed in the text, the realization of the relatively moderate implicit rates of rural-urban migration will, in part, depend on successful rural development.

/1 The demographic projections were conducted by Sulekha Patel (Population, Health and Nutrition)

/2 See Proyeksi Penduduk Indonesia, 1980-2000, BPS.

Table 1: URBAN AND RURAL POPULATION GROWTH, 1986-95

	Urban share		Population growth, 1986-95			
	1980	1995	Low transmigration		Intermediate transmigration	
			Urban	Rural	Urban	Rural
	% -----		% p.a. -----			
Java-Bali	25	33	2.9	0.8	2.5	0.5
Sumatra	20	27	4.3	2.1	4.7	2.4
Kalimantan	21	30	5.0	2.7	6.4	2.4
Sulawesi	16	22	4.2	2.0	4.4	2.2
Eastern Isles	12	16	4.3	2.6	4.6	2.9
Outer Islands	18	25	4.4	2.2	4.9	2.7
<u>Indonesia</u>	<u>22</u>	<u>30</u>	<u>3.4</u>	<u>1.4</u>	<u>3.3</u>	<u>1.4</u>

Source: World Bank staff estimates and projections.

4. Labor force participation rates were projected by age-sex and urban-rural category for each island. In the past, recorded rates have been systematically higher for the labor force surveys than for the censuses. The baseline rates were obtained by adjusting the 1980 Population Census to reflect the better coverage of the surveys.^{/1} Then for the future, a gradual decline was assumed for the 10-14 and 15-19 age groups, with the spread of education, and for the 64+ group in urban areas. An increase in urban female labor force participation was also assumed on the basis of observed trends in the 1970s. For all other age-sex categories there is insufficient evidence of systematic changes, either within the labor force survey series or between the 1971 and 1980 censuses, to warrant the projection of changes in labor force participation rates in the future. A summary of the resultant assumed rates for all Indonesia in 1980 and 2000 is given in Table 2. The demographic projection models did not project an age-sex composition separately for urban and rural areas - current data make this a very difficult task. Instead it was assumed that the urban share of the labor force will move in line with the share in population. This could slightly underestimate the growth in the urban labor force, if there are further relative shifts in the working age population in favor of urban areas. The resulting patterns of growth in the labor force for two of the migration scenarios is given in Table 3.

^{/1} For a description of the methodology, see Zainab Bakir and Chris Manning, Partisipasi Angkatan Kerja, Kesempatan Kerja dan Pengangguran di Indonesia, Universitas Gadjah Mada, Yogyakarta, 1983.

Table 2: ESTIMATED ACTUAL AND PROJECTED LABOR FORCE PARTICIPATION RATES, 1980 AND 2000 /a
(in percent)

Age	Urban male		Urban female		Rural male		Rural female	
	1980	2000	1980	2000	1980	2000	1980	2000
10-14	3.3	0.0	4.6	0.0	18.4	9.2	17.5	8.8
15-19	29.0	14.5	30.2	15.1	56.7	45.4	36.2	28.9
20-24	75.4	n.c./b	34.7	41.6	92.5	n.c.	42.2	n.c.
25-29	93.5	n.c.	32.9	39.5	98.1	n.c.	41.2	n.c.
30-34	98.0	n.c.	32.2	38.6	98.8	n.c.	44.6	n.c.
35-39	98.4	n.c.	34.1	40.9	98.9	n.c.	47.3	n.c.
40-44	97.7	n.c.	38.7	46.4	98.5	n.c.	50.6	n.c.
45-49	93.9	n.c.	38.9	46.7	98.0	n.c.	52.7	n.c.
50-54	86.4	n.c.	37.2	44.6	95.7	n.c.	52.3	n.c.
55-59	70.5	n.c.	29.1	34.9	88.3	n.c.	43.9	n.c.
60-64	59.9	n.c.	23.8	28.6	80.5	n.c.	35.0	n.c.
65+	37.2	18.6	13.2	6.6	56.8	n.c.	20.4	n.c.
Total /c	62.5	59.0	28.0	28.6	74.4	71.1	38.4	36.0

/a This presents the aggregate results and assumptions; the labor force projection was actually developed for the five major island groups.

/b n.c. = no change from the 1980 estimated rate.

/c As a proportion of the population aged ten and over. The 2000 averages given are for the 1980 age-sex structure, to isolate the effects of assumed changes in the labor force participation rates.

Source: World Bank staff estimates and projections based upon the Results of the 1980 Population Census, BPS.

5. As noted in the text, the Government's projection has an overall rate of growth of the labor force of 2.8% p.a. in the 1986-95 period./1 The underlying projection involves the extrapolation of age-sex labor force participation rates on the basis of fitted trend lines from the censuses and surveys between the 1961 Population Census and SUSENAS 1981. In our view this is somewhat biased upwards, especially for females, in part as a consequence of different labor force concepts between the censuses and surveys, and an unusually high result for 1981. While some uncertainty surrounds future labor

/1 See Proyeksi Angkatan Kerja Indonesia, 1983-2001, BPS.

force participation rates (that will, amongst other things, depend on future economic growth) we consider the more gradual rise in female labor force participation in the 20-64 age range given in Table 2 to be the more likely prospect. The initial results of SUSENAS, 1982 also suggest a somewhat more moderate overall rate of growth of the labor force.

Table 3: GROWTH IN THE URBAN AND RURAL LABOR FORCE, 1986-95

	<u>Low transmigration</u>				<u>Intermediate transmigration</u>			
	<u>Growth</u>		<u>Increment</u>		<u>Growth</u>		<u>Increment</u>	
	<u>Urban</u>	<u>Rural</u>	<u>Urban</u>	<u>Rural</u>	<u>Urban</u>	<u>Rural</u>	<u>Urban</u>	<u>Rural</u>
	<u>— % p.a. —</u>		<u>— '000 —</u>		<u>— % p.a. —</u>		<u>— '000 —</u>	
Java-Bali	3.3	1.3	381	432	3.0	1.0	340	327
Sumatra	4.8	2.6	127	313	5.1	3.0	139	360
Kalimantan	5.2	3.0	40	94	6.5	4.3	53	144
Sulawesi	4.5	2.4	35	90	4.9	2.6	36	99
Eastern Isles	4.5	2.9	26	123	4.9	3.2	29	139
Outer Islands	4.8	2.7	228	621	5.2	3.1	258	742
<u>Indonesia</u>	<u>3.7</u>	<u>1.9</u>	<u>608</u>	<u>1,053</u>	<u>3.7</u>	<u>1.9</u>	<u>597</u>	<u>1,068</u>

Source: World Bank staff projections.

6. The final element of importance to the analysis is the educational composition of the labor force. An approximate projection was developed based on projected school enrollments and estimated labor force participation rates; the results are given in Table 4. In 1990 the labor force will be much better educated than in 1980. The proportion of the labor force with secondary or tertiary education doubles, and there are rapid rates of growth in these categories - around 10% p.a. These results are for the total labor force, but it is likely that urban areas will account for a high proportion of the growth in the educated labor force, if past patterns are maintained.

Table 4: THE EDUCATIONAL COMPOSITION OF THE LABOR FORCE, 1971-90

	<u>Composition</u>			<u>Growth rates</u>		<u>Share of</u>
	<u>1971</u>	<u>1980</u>	<u>1990</u>	<u>1971-80</u>	<u>1980-90</u>	<u>urban areas</u>
	----- % -----			----- % p.a. -----		----- % -----
Less than primary	71.2	67.0	46.9	2.0	-0.9	12
Primary	21.8	21.3	28.3	2.4	5.3	23
Junior high	4.0	5.2	10.0	5.2	9.5	48
Senior high	2.5	5.8	13.4	12.4	11.6	57
Tertiary	0.5	0.8	1.4	8.5	8.0	77
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>2.5</u>	<u>2.6</u>	<u>19</u>

Source: Results of the 1971 and 1980 Population Censuses, BPS and World Bank staff projections.

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Appendix 3: STATISTICS ON EMPLOYMENT AND INCOMES

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Sectoral Employment and Productivity, 1971 and 1980

	Employment			Productivity			Growth in value- added (% p.a.) 1971-80	Elasti- city of employ- ment 1971-80
	Levels /a		Growth (% p.a.) 1971-80	Levels		Growth (% p.a.) 1971-80		
	('000)			(Rp '000/worker)				
	1971	1980		1971	1980			
Agriculture								
Food crops	26,121	27,500	0.6	163	230	3.9	4.5	0.13
Cash crops	1,206	2,134	6.6	1,149	1,027	-1.2	5.2	1.25
Livestock	348	1,200	14.7	2,194	992	-8.4	5.1	2.90
Forestry	135	502	15.6	4,008	2,815	-3.9	11.2	1.39
Fishery	602	827	3.6	1,139	958	-1.9	1.6	2.22
Subtotal	28,413	32,164	1.4	268	370	3.6	5.1	0.27
Mining								
Petroleum /b	46	28	-5.4	119,776	421,115	15.0	8.8	-0.62
Other	46	333	24.7	4,500	1,883	-9.2	13.2	1.86
Subtotal	92	361	16.4	62,471	34,401	-6.4	8.9	1.84
Manufacturing								
Food processing	615	1,187	7.6	1,050	1,474	3.8	11.7	0.65
Textiles	933	1,235	3.2	230	467	8.2	11.6	0.27
Wood & products	455	1,071	10.0	80	312	16.3	28.9	0.36
Paper & products	54	81	4.6	1,408	1,550	1.1	5.7	0.81
Chemicals	150	185	2.4	2,428	3,343	3.6	6.1	0.39
Non-metallic	244	411	6.0	445	593	3.2	9.4	0.64
Iron & steel	14	52	15.5	4,082	4,223	0.4	15.9	0.97
Engineering	328	777	10.1	1,212	1,337	1.1	11.3	0.89
Other	86	288	14.4	141	216	4.9	19.9	0.72
Subtotal	2,879	5,289	7.0	664	940	3.9	11.2	0.63
Electricity, gas & water	40	62	4.9	402	373	-0.8	4.1	1.21
Construction	728	1,547	8.7	1,418	1,669	1.8	10.7	0.82
Services								
Trade	4,574	6,793	4.5	970	992	0.3	4.8	0.94
Transport	1,021	1,972	7.6	1,346	1,121	-2.0	5.4	1.40
Financial & business	100	282	12.2	8,339	8,341	0.0	12.2	1.00
Public administration	1,423	1,982	3.8	643	1,245	7.6	11.7	0.32
Other	2,998	4,688	5.1	314	518	5.7	11.1	0.46
Subtotal	10,116	15,717	5.0	840	1,031	2.3	7.4	0.68
Total	42,268	55,140	3.0	591	877	4.5	7.6	0.40

/a Sectoral employment levels were obtained by a proportionate adjustment in the estimates in the Input-Output Tables to reflect a revised aggregate employment level. The latter was calculated on the basis of an adjusted labor force participation rate for 1980 (see Annex 2) and an estimated employment rate.

/b Includes ING.

Source: World Bank staff estimates, based upon the 1971 and 1980 Input-Output Tables, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMTotal Employment by Sector, Java and the Outer Islands, 1976 and 1982
(in thousands)

Sector	1976			1982		
	Java	Other	Indo-nesia	Java	Other	Indo-nesia
<u>Urban: Male & Female</u>						
Agriculture	197	539	736	503	291	794
Mining	9	13	22	24	33	56
Manufacturing	670	204	874	1,341	267	1,608
Electricity, gas and water	14	6	20	26	8	34
Construction	239	86	325	439	237	676
Trade	1,341	672	2,014	2,340	858	3,198
Transport	415	180	594	612	235	847
Finance, insurance, etc.	50	14	64	64	16	80
Other services	1,550	688	2,238	2,521	887	3,408
<u>Subtotal</u>	<u>4,486</u>	<u>2,401</u>	<u>6,887</u>	<u>7,870</u>	<u>2,832</u>	<u>10,702</u>
<u>Rural: Male & Female</u>						
Agriculture	18,395	9,986	28,381	17,545	13,255	30,799
Mining	71	20	91	211	123	334
Manufacturing	2,287	807	3,094	3,194	1,220	4,414
Electricity, gas and water	6	1	7	16	12	28
Construction	393	98	491	1,099	371	1,471
Trade	3,711	1,090	4,800	4,078	1,278	5,356
Transport	498	192	690	679	270	949
Finance, insurance, etc.	17	13	30	25	8	33
Other services	1,992	818	2,809	2,553	1,164	3,717
<u>Subtotal</u>	<u>27,370</u>	<u>13,023</u>	<u>40,394</u>	<u>29,401</u>	<u>17,700</u>	<u>47,100</u>
<u>Urban & Rural: Male & Female</u>						
Agriculture	18,593	10,525	29,117	18,048	13,546	31,593
Mining	81	33	113	235	155	391
Manufacturing	2,957	1,011	3,968	4,535	1,487	6,022
Electricity, gas and water	20	7	27	42	20	62
Construction	631	184	815	1,538	608	2,146
Trade	5,052	1,762	6,814	6,418	2,136	8,554
Transport	913	371	1,284	1,291	505	1,796
Finance, insurance, etc.	68	27	94	89	24	113
Other services	3,541	1,505	5,047	5,074	2,051	7,125
<u>Total</u>	<u>31,856</u>	<u>15,424</u>	<u>47,280</u>	<u>37,270</u>	<u>20,532</u>	<u>57,802</u>

Source: SAKERNAS 1976 and SUSENAS 1982, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMThe Distribution of Urban Employment Between the Formal
and Informal Sectors, 1980

	<u>Formal/enterprise /a</u>			<u>Informal/household /b</u>		
	<u>Total</u> ('000)	<u>Compo- sition</u> (%)	<u>Share of women</u> (%)	<u>Total</u> ('000)	<u>Compo- sition</u> (%)	<u>Share of women</u> (%)
Agriculture	341	6.2	24.9	549	13.6	21.7
Industry /c	1,177	21.4	29.4	317	7.8	38.2
Construction	394	7.2	2.3	145	3.6	1.4
Trade	416	7.6	21.9	1,976	48.9	44.8
Transport	461	8.4	2.8	268	6.6	0.7
Finance	200	3.6	17.0	10	0.2	10.0
Other services	2,500	45.5	31.4	776	19.2	32.7
<u>Total /d</u>	<u>5,489</u>	<u>100.0</u>	<u>24.8</u>	<u>4,041</u>	<u>100.0</u>	<u>34.2</u>

/a Employers and employees.

/b Self-employed, self-employed with family members and family workers.

/c Includes mining, manufacturing and utilities.

/d Excludes "others" and "unstated".

Source: Results of the 1980 Population Census, Series S, No. 2, BPS.

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COUNTRY ECONOMIC MEMORANDUM

Migrants in the Outer Islands as a Result of Sponsored
Transmigration between 1950 and 1978 and Associated Population Growth

Province	Sponsored transmigration		Javanese, Sundanese Madurese and Balinese speakers, 1980		Proportion of migrants in total population in 1980	
	Individuals moved 1950-78	Expected population in 1980	Number	Proportion of sponsored	Sponsored	Total /b
	'000		'000	%	%	
Aceh	8	9	175	5	0	7
North Sumatra	16	26	1,768	1	0	21
Riau	17	23	190	12	1	6
West Sumatra	27	38	56	68	2	3
Jambi	58	69	255	27	5	18
Bengkulu	29	36	135	27	5	18
South Sumatra	259	427	635	67	9	14
Lampung	220	348	3,401	10	8	74
<u>Subtotal</u>	<u>634</u>	<u>976</u>	<u>6,615</u>	<u>15</u>	<u>3</u>	<u>24</u>
West Kalimantan	31	42	198	21	2	8
Central Kalimantan	12	18	63	28	2	7
South Kalimantan	46	66	116	57	3	6
East Kalimantan	40	58	126	46	5	10
<u>Subtotal</u>	<u>130</u>	<u>183</u>	<u>503</u>	<u>36</u>	<u>3</u>	<u>7</u>
North Sulawesi	15	22	31	72	1	1
South Sulawesi	39	51	54	96	1	1
Central Sulawesi	51	63	72	88	5	6
Southeast Sulawesi	27	35	46	75	4	5
<u>Subtotal</u>	<u>131</u>	<u>171</u>	<u>202</u>	<u>85</u>	<u>2</u>	<u>2</u>
East Nusatenggara	0	0	3	8	0	0
Maluku	4	7	16	44	1	1
Irian Jaya /a	4	6	4	138	0	0
<u>Subtotal</u>	<u>4</u>	<u>13</u>	<u>24</u>	<u>56</u>	<u>0</u>	<u>0</u>
<u>Total</u>	<u>900</u>	<u>1343</u>	<u>7,344</u>	<u>18</u>	<u>3</u>	<u>15</u>
Excluding North Sumatra and Lampung	664	969	2,175	45	3	6

/a There appears to be an error in the Irian Jaya figures, either due to an undercount of Javanese in the 1980 Census, or because migrants were actually moved after the Census was completed.

/b Inner Island language speakers.

Source: Ministry of Transmigration, Results of the 1980 Population Census, BPS and World Bank calculations.

INDONESIACOUNTRY ECONOMIC MEMORANDUMAverage Household Income by Sector in Urban and Rural Indonesia, 1981 /a
(Rp '000 per capita per month)

Sector /b	Java		Sumatra		Other Indonesia	
	Urban	Rural	Urban	Rural	Urban	Rural
Agriculture	11.3	9.4	13.0	13.4	16.0	12.3
Mining	32.9	9.2	29.3	16.8	20.9	16.0
Manufacturing	18.3	10.1	17.7	16.5	19.6	13.8
Electricity, gas and water	23.4	n.a.	17.7	n.a.	23.9	n.a.
Construction	17.7	10.3	17.1	15.4	18.1	14.7
Trade	17.6	11.7	23.5	17.0	22.7	16.8
Transport	15.8	12.0	17.4	17.1	18.2	31.5
Finance	30.4	n.a.	39.0	n.a.	33.4	n.a.
Other services	19.7	16.1	19.8	18.0	21.2	19.4
Average	17.7	10.3	19.9	14.2	20.2	13.5
Index (rural Java = 100)	172	100	193	138	196	131
Urban-rural differential		1.7		1.4		1.5

/a This includes wage plus enterprise income, but excludes "other" income, that is entirely nonlabor income.

/b This is the primary sector of activity of the household head.

Source: SUSENAS 1981, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMThe Distribution of Poverty in Urban Areas, 1981 /a
(in percent)

Sector	Java		Sumatra	
	Share of Households		Share of Households	
	Below the poverty line	Above the poverty line	Below the poverty line	Above the poverty line
Agriculture	21	7	31	10
Manufacturing	14	14	6	9
Construction	10	7	9	6
Trade	23	27	24	32
Transport	12	10	12	9
Other services	19	33	17	31
Other /b	1	2	0	3
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Formal	52	60	36	50
Informal	48	40	64	51
Apparent poverty incidence	18		6	

/a This is derived from a poverty line estimated on the basis of calorie requirements and observed household budgets. See Bhanaji Rao, Poverty in Indonesia, 1970-80, World Bank mimeo, January 1984.

/b Mining, electricity and finance.

Source: SUSENAS 1981, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMThe Distribution of Poverty in Rural Areas, 1981 /a
(in percent)

Sector	Java		Sumatra	
	Share of Households		Share of Households	
	Below the poverty line	Above the poverty line	Below the poverty line	Above the poverty line
Agriculture	79	66	90	75
Manufacturing	5	6	3	3
Construction	4	4	1	2
Trade	6	11	2	8
Transport	2	3	0	2
Other services	4	10	3	9
Other /b	1	1	0	1
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Household enterprises	70	70	88	81
Wage labor	30	30	12	19
Apparent poverty incidence		38		16

/a This is derived from a poverty line estimated on the basis of calorie requirements and observed household budgets. See Bhanoji Rao, Poverty in Indonesia, 1970-80, World Bank mimeo, January 1984.

/b Mining, electricity and finance.

Source: SUSENAS 1981, BPS.

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Average Daily Wages for Specific Unskilled Jobs in Selected Industries
and Provinces, 1981 and 1983

	Hotel (room boy)	Transport (drivers assistant)	Manufacturing							
			Food		Textiles		Chemicals		Sawmill/furniture	
			Occupation	Rp.	Occupation	Rp.	Occupation	Rp.	Occupation	Rp.
North Sumatra										
February 1981	1,069	1,544	Ice maker	1,856	Yarn spinner	706	Chemicals processor	1,262	Wood cutter	1,367
November 1983	1,423	2,000		2,287		-		2,054		2,067
% (real) increase /a	(14)	(19)		(4)	-			(43)		(32)
South Sumatra										
February 1981	1,450	983	Ice maker	648	Spinning mach. op	1,624	Rubber extrude op.	983	Veneer mach. op.	525
November 1983	2,021	1,986		1,318		-		1,323		-
% (real) increase /a	(16)	(79)		(33)	-			(38)		(46)
DKI Jakarta										
February 1981	1,927	1,224	Noodles maker	844	Weaver (clothing)	800	Chemicals processor	938	Lathe operator	724
November 1983	2,488	2,927		1,241		999		1,487		1,202
% (real) increase /a	(9)	(119)		(26)		(5)		(38)		(46)
Central Java										
February 1981	824	994	Noodles maker	525	Cutting & tailoring	528	Chemicals processor	732	Processing mach. op.	486
November 1983	1,383	1,794		1,090		999		1,180		563
% (real) increase /a	(42)	(57)		(84)		(66)		(38)		(-8)
West Kalimantan										
February 1981	-	-	Bread maker	857	-	-	Rubber proc. mach. op.	1,189	Processing mach. op.	1,860
November 1983	-	-		1,642		-		2,561		3,080
% (real) increase /a				(67)				(91)		(41)
South Sulawesi										
February 1981	1,023	-	Ice maker	828	Dyer	963	-	-	Sawmill mach. op.	653
November 1983	1,508	-		947		1,584	-	-		1,081
% (real) increase /a	(25)			(-8)		(42)				(43)

/a Deflated by the CPI for the major cities in each region.

Source: Survei Upah 1981, 1983, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMIndicators of Underemployment, 1980

	Mean hours worked per week	Proportion working less than 35 hours per week (%)
<u>Urban</u>		
Both sexes	46.8	17.6
<u>Rural</u>		
Male		
Agriculture	36.7	39.3
Other	44.4	23.6
All sectors	39.1	34.4
Female		
Agriculture	28.9	62.8
Other	38.4	42.1
All sectors	32.4	55.1
Both sexes		
Agriculture	34.3	46.8
Other	42.2	30.5
All sectors	36.9	41.3

Source: Results of the 1980 Population Census, Series S, No. 2, BPS.

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COUNTRY ECONOMIC MEMORANDUM

Reasons for Low Work Hours, Both Sexes, Rural Indonesia 1982
(in percent)

Hours worked	Proportion of total employees /a	Underemployed			Sub- Total	Part-time worker			Other /b		
		Looking for work	Dis- cou- raged	Not capable of looking for work		Unne- cessary	At school	House- wife	Sub- total	Other	Sub- total
1 - 9	3.2	5.2	0.7	8.0	13.9	15.6	16.7	31.0	63.3	22.8	100
10 - 24	21.6	6.7	0.9	9.6	16.6	23.8	9.0	24.0	56.8	26.6	100
25 - 34	18.2	6.9	1.2	7.3	15.4	33.1	1.6	14.2	48.9	33.7	100
<u>Sub-total</u>	<u>43.0</u>	<u>6.4</u>	<u>1.0</u>	<u>8.6</u>	<u>16.0</u>	<u>27.4</u>	<u>6.5</u>	<u>20.6</u>	<u>54.5</u>	<u>29.5</u>	<u>100</u>
All employees	100.0	6.2	1.0	8.8	16.0	36.3	2.8	12.9	52.0	32.0	100

/a Excluding those temporarily out of work.

/b No breakdown available of this category.

Source: SUSENAS 1982, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMThe Distribution of the Labor Force and Unemployed by Education,
Urban Indonesia, 1976 and 1982
(in percent)

Completed education	Male				Female			
	1976		1982		1976		1982	
	Labor force	Unem- ployed	Labor force	Unem- ployed	Labor force	Unem- ployed	Labor force	Unem- ployed
Below primary	33.5	24.9	29.1	16.2	54.7	19.0	49.5	16.7
Primary	31.7	33.0	30.4	24.7	22.9	22.5	22.1	19.9
Lower secondary								
General	12.2	14.1	12.5	13.4	6.8	18.5	7.4	11.4
Vocational	3.5	4.1	2.0	4.0	2.4	2.5	2.2	2.1
Upper secondary								
General	9.1	12.7	11.7	21.6	4.4	16.7	6.5	22.4
Vocational	6.2	9.6	10.3	17.3	7.2	17.8	10.0	23.3
Tertiary	3.8	1.6	4.0	2.8	1.6	3.0	2.3	4.2
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Number ('000)	5,218	359	7,565	422	2,207	109	3,649	238

Source: SAKERNAS 1976 and SUSENAS 1982, BPS.

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COUNTRY ECONOMIC MEMORANDUM

Youth Unemployment Rates by Age and Education,
Urban Indonesia, 1976 and 1982
(in percent)

Age and completed education	Male		Female	
	1976	1982	1976	1982
<u>15-19</u>				
Below primary	22.3	11.4	6.5	7.1
Primary	26.2	20.3	7.5	10.2
Lower secondary				
General	31.4	25.5	26.3	20.3
Vocational	35.3	19.6	24.0	15.1
<u>All levels</u>	<u>26.3</u>	<u>20.4</u>	<u>9.9</u>	<u>12.9</u>
<u>20-24</u>				
Below primary	11.5	9.9	3.0	4.1
Primary	13.9	9.3	8.3	10.0
Lower secondary				
General	19.9	16.9	23.4	24.0
Vocational	18.1	16.3	9.7	17.2
Upper secondary				
General	32.2	37.1	33.4	38.0
Vocational	27.6	25.1	21.9	32.9
<u>All levels</u>	<u>18.2</u>	<u>17.6</u>	<u>14.4</u>	<u>18.8</u>
<u>25-29</u>				
Below primary	3.0	3.2	2.0	3.3
Primary	4.7	3.4	3.4	5.9
Lower secondary				
General	7.9	4.0	12.4	5.0
Vocational	7.1	6.4	6.0	1.0
Upper secondary				
General	8.4	7.2	5.9	11.8
Vocational	5.8	7.2	9.1	6.7
Tertiary	7.4	9.4	13.6	30.5
<u>All levels</u>	<u>5.8</u>	<u>4.9</u>	<u>5.5</u>	<u>6.9</u>

Source: SAKERNAS 1976 and SUSENAS 1982, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMUnemployment by Education and Region, Both Sexes, Urban Indonesia, 1980
(in percent)

Completed schooling	Unemployment rates				Proportion of unemployed			
	DKI Jakarta	Other Java	Outer Islands	Indonesia	DKI Jakarta	Other Java	Outer Islands	Indonesia
Below primary	2.7	1.4	1.9	1.7	22.8	26.5	26.0	25.3
Primary	4.0	2.4	2.4	2.7	26.5	25.8	23.3	25.4
Lower secondary								
General	5.0	3.4	2.8	3.6	15.5	12.5	12.6	13.4
Vocational	3.3	3.0	2.6	3.0	1.7	3.6	2.5	2.8
Upper secondary								
General	5.0	4.6	4.6	4.7	18.0	12.4	17.0	15.1
Vocational	6.0	5.3	4.7	5.3	13.0	17.2	16.7	15.9
Tertiary	1.7	2.0	1.6	1.8	1.4	2.1	2.0	2.1
<u>All levels</u>	<u>3.8</u>	<u>2.4</u>	<u>2.7</u>	<u>2.8</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
No. unemployed ('000)					77	131	68	275

Source: Results of the 1980 Population Census, Series S, No. 2, and provincial results, BPS.

INDONESIACOUNTRY ECONOMIC MEMORANDUMUnemployment by Age and Region, Both Sexes, Urban Indonesia, 1980
(in percent)

Age group	Unemployment rates				Proportion of unemployed			
	DKI Jakarta	Other Java	Outer Islands	Indonesia	DKI Jakarta	Other Java	Outer Islands	Indonesia
10-14	8.3	4.3	5.1	5.2	2.8	2.9	2.4	2.8
15-19	9.7	5.9	7.1	7.0	27.8	24.1	22.3	24.7
20-24	8.8	5.8	6.6	6.7	42.6	37.9	41.2	40.0
25-29	2.8	2.1	2.4	2.4	13.2	13.8	15.6	14.1
30+	1.0	0.5	0.9	0.9	13.6	21.3	18.5	18.4
<u>All ages</u>	<u>3.8</u>	<u>2.4</u>	<u>2.7</u>	<u>2.8</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
No. unemployed (' 000)					77	131	68	275

Source: Results of the 1980 Population Census, Series S, No. 2 and provincial results, BPS.

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Annex I: ANALYSIS AND PROJECTIONS TABLES

List of Tables

1. Exports by Commodity, 1975/76 - 1995/96
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COUNTRY ECONOMIC MEMORANDUMExports by Commodity, 1975/76 - 1995/96
(US\$ million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91	1995/96
	Actual									Est.	Projected				
Export values at current prices															
Timber /a	527	885	943	1,130	2,166	1,672	753	575	582	475	388	440	583	698	1,389
Rubber	381	577	608	776	1,101	1,078	768	615	986	992	1,091	1,267	1,659	2,146	3,828
Coffee	112	330	626	508	715	588	344	363	506	530	563	629	698	930	1,459
Other agricultural exports															
Palm oil	142	167	202	221	257	178	79	103	92	213	190	227	262	352	718
Tin	30	64	120	98	91	97	94	116	156	232	223	236	269	316	534
Tobacco	40	41	59	58	60	69	49	37	50	58	47	52	59	74	119
Pepper	25	35	62	66	46	51	49	41	58	67	49	53	62	80	131
Others	195	248	278	344	679	540	454	548	655	662	704	805	1,119	1,333	2,194
Subtotal agriculture	<u>1,472</u>	<u>2,347</u>	<u>2,898</u>	<u>3,199</u>	<u>5,115</u>	<u>4,273</u>	<u>2,990</u>	<u>2,398</u>	<u>3,083</u>	<u>3,229</u>	<u>3,257</u>	<u>3,709</u>	<u>4,711</u>	<u>5,950</u>	<u>10,373</u>
Tin	158	181	253	324	388	454	435	349	309	318	348	381	458	542	794
Other metals and minerals															
Nickel	-	-	-	-	95	165	165	139	180	204	218	228	295	337	494
Aluminium	-	-	-	-	-	-	-	48	165	293	299	313	337	376	562
Copper	74	95	74	64	95	115	120	115	89	89	109	119	139	164	262
Others	25	44	36	49	31	40	18	25	58	119	150	166	207	257	418
Subtotal metals and minerals	<u>257</u>	<u>320</u>	<u>363</u>	<u>437</u>	<u>609</u>	<u>774</u>	<u>718</u>	<u>676</u>	<u>801</u>	<u>1,023</u>	<u>1,220</u>	<u>1,207</u>	<u>1,436</u>	<u>1,676</u>	<u>2,530</u>
Manufactures															
Plywood	-	-	-	-	-	-	199	324	579	640	732	842	1,135	1,705	4,098
Others	144	196	245	360	447	540	646	530	905	989	1,403	1,598	2,151	3,058	6,886
Subtotal manufactures	<u>144</u>	<u>196</u>	<u>245</u>	<u>360</u>	<u>447</u>	<u>540</u>	<u>865</u>	<u>853</u>	<u>1,484</u>	<u>1,649</u>	<u>2,135</u>	<u>2,440</u>	<u>3,285</u>	<u>4,762</u>	<u>10,984</u>
Total non-oil exports	<u>1,873</u>	<u>2,863</u>	<u>3,506</u>	<u>3,996</u>	<u>6,171</u>	<u>5,587</u>	<u>4,173</u>	<u>3,927</u>	<u>5,368</u>	<u>5,901</u>	<u>6,516</u>	<u>7,354</u>	<u>9,433</u>	<u>12,348</u>	<u>23,887</u>
Oil and products	5,410	6,350	7,192	6,858	10,995	15,187	16,482	12,283	12,050	11,051	10,714	11,769	15,023	17,732	22,808
INC	-	-	182	516	1,345	2,111	2,343	2,461	2,399	3,290	3,339	3,743	4,997	6,096	10,762
Total oil and INC	<u>5,410</u>	<u>6,350</u>	<u>7,374</u>	<u>7,374</u>	<u>12,340</u>	<u>17,298</u>	<u>18,824</u>	<u>14,744</u>	<u>14,449</u>	<u>14,341</u>	<u>14,253</u>	<u>15,512</u>	<u>20,020</u>	<u>23,847</u>	<u>33,570</u>
Total exports	<u>7,283</u>	<u>9,213</u>	<u>10,880</u>	<u>11,370</u>	<u>18,511</u>	<u>22,885</u>	<u>22,998</u>	<u>18,671</u>	<u>19,817</u>	<u>20,241</u>	<u>20,769</u>	<u>22,866</u>	<u>29,452</u>	<u>36,235</u>	<u>57,457</u>
Price indices (1981/82 = 100)															
Timber	49	55	62	63	111	134	100	98	121	97	93	97	108	116	154
Rubber	53	70	74	89	134	130	100	80	116	110	117	130	158	185	250
Coffee	51	112	187	129	135	121	100	97	123	120	123	134	140	176	238
Other agricultural exports	72	80	97	90	101	117	100	98	103	118	117	125	148	161	209
Tin	49	57	76	91	109	119	100	91	91	88	94	100	113	126	164
Other metals and minerals	76	74	76	77	99	111	100	95	95	96	100	106	116	128	170
Manufactures	67	68	74	87	97	105	100	98	93	90	95	103	122	142	182
Oil and products	34	36	38	38	64	93	100	93	82	80	79	80	95	113	184
INC	-	-	38	38	64	93	100	101	85	84	90	91	109	129	209
Export values at constant prices (1981/82 = 100)															
Timber /a	1,076	1,609	1,521	1,794	1,951	1,248	753	587	480	488	416	451	538	601	903
Rubber	719	824	822	870	946	829	768	765	849	899	934	972	1,051	1,170	1,529
Coffee	220	295	335	394	530	486	344	373	412	443	457	470	499	529	614
Other agricultural exports	628	694	743	874	1,122	799	725	860	984	1,039	1,035	1,101	1,195	1,335	1,772
Tin	322	342	333	356	356	382	435	382	341	361	372	380	404	429	485
Other metals and minerals	130	188	145	147	223	288	283	345	517	732	776	783	841	886	1,020
Manufactures	215	288	331	414	441	514	865	670	1,587	1,830	2,238	2,370	2,701	3,349	6,045
Total non-oil exports	<u>3,310</u>	<u>4,240</u>	<u>4,230</u>	<u>4,849</u>	<u>5,609</u>	<u>4,546</u>	<u>4,173</u>	<u>4,182</u>	<u>5,171</u>	<u>5,791</u>	<u>6,229</u>	<u>6,528</u>	<u>7,229</u>	<u>8,299</u>	<u>12,369</u>
Oil and products	15,912	17,639	18,926	18,047	18,742	18,600	16,481	13,227	14,765	13,779	13,398	14,674	15,785	15,715	12,425
INC	-	-	426	1,358	2,102	2,269	2,343	2,444	2,810	3,914	3,939	4,092	4,604	4,731	5,141
Subtotal oil and INC	<u>15,912</u>	<u>17,639</u>	<u>19,352</u>	<u>19,405</u>	<u>20,844</u>	<u>20,869</u>	<u>18,824</u>	<u>15,671</u>	<u>17,575</u>	<u>17,693</u>	<u>17,337</u>	<u>18,764</u>	<u>20,389</u>	<u>20,446</u>	<u>17,546</u>
Total exports	<u>19,222</u>	<u>21,879</u>	<u>23,582</u>	<u>24,254</u>	<u>26,453</u>	<u>25,415</u>	<u>22,998</u>	<u>19,853</u>	<u>22,746</u>	<u>23,484</u>	<u>23,766</u>	<u>25,294</u>	<u>27,617</u>	<u>28,745</u>	<u>29,935</u>

/a Includes plywood until 1980/81.

Source: World Bank staff estimates and projections.

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Imports by Category, 1975/76 - 1995/96
(US\$ million)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91	1995/96
	Actual										Est. Projected				
At Current Prices															
Food	565	693	1,106	946	1,393	1,485	1,637	1,270	1,130	940	908	993	1,227	1,438	1,624
Other consumer goods	200	260	281	344	365	540	743	554	534	575	604	649	772	919	1,251
Intermediate goods	1,869	1,867	2,275	2,361	3,301	4,274	4,983	4,861	4,661	4,600	4,904	5,456	6,884	8,818	15,276
Capital goods	2,456	3,347	3,579	3,692	3,769	5,538	7,198	9,139	7,921	6,750	7,200	7,800	9,320	11,263	16,702
Total non-oil imports	5,090	6,167	7,241	7,543	9,028	11,837	14,561	15,824	14,246	12,865	13,616	14,899	18,202	22,438	34,853
Oil and LNG sector	2,272	2,640	2,909	3,364	42,940	4,050	5,407	4,802	3,839	3,135	3,801	4,113	5,188	6,540	10,989
Non-factor services (net)	345	490	536	586	1,237	1,702	2,602	1,713	1,570	1,611	1,650	1,772	2,145	2,608	3,822
Total imports and NFS	7,707	9,297	10,686	11,493	13,203	17,589	22,570	22,339	19,655	17,611	19,067	20,784	25,535	31,586	49,664
Price index (1981/82 = 100)															
Food	74	52	55	75	68	90	100	77	80	79	77	84	108	132	169
Other consumer goods	60	62	66	77	87	98	100	98	94	91	96	103	120	140	179
Intermediate goods	61	61	64	77	87	99	100	98	94	91	96	103	120	140	179
Capital goods	61	61	64	77	87	99	100	98	94	91	96	103	120	140	179
Total non-oil imports	61	61	64	77	83	97	100	96	93	90	94	102	119	140	179
Oil and LNG sector	48	49	53	60	74	93	100	98	94	91	96	103	120	140	179
Non-factor services (net)	61	62	67	77	88	97	100	98	94	91	96	103	120	140	179
Total imports and NFS	57	57	61	71	82	96	100	97	93	91	95	102	120	140	179
At constant 1981/82 prices															
Food	746	1,333	2,011	1,261	2,048	1,650	1,637	1,658	1,410	1,186	1,186	1,186	1,140	1,093	959
Other consumer goods	333	419	426	447	419	551	743	564	568	629	629	629	641	654	698
Intermediate goods	3,155	3,011	3,447	3,326	4,024	4,361	4,983	4,951	4,954	5,031	5,108	5,286	5,718	6,280	8,523
Capital goods	4,093	5,398	5,423	4,795	4,332	5,651	7,198	9,307	8,420	7,382	7,499	7,557	7,741	8,021	9,320
Total non-oil imports	8,305	10,161	11,307	9,829	10,823	12,213	14,561	16,479	14,271	14,227	14,421	14,658	15,240	16,048	19,500
Oil and LNG sector	4,733	5,388	5,489	5,607	3,973	4,335	5,407	4,890	4,080	3,428	3,959	3,985	4,309	4,657	6,132
Non-factor services (net)	566	790	800	761	1,406	1,755	2,602	1,745	1,669	1,762	1,719	1,717	1,782	1,857	2,133
Total imports and NFS	13,604	16,339	17,596	16,197	16,202	18,323	22,570	23,114	21,101	19,417	20,098	20,360	21,331	22,563	27,764

Source: World Bank staff estimates and projections.

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Balance of Payments, 1974/75 - 1995/96
(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	1988/89	1990/91	1995/96
	Actual										Est.	Projected				
1. Exports	6,581	7,283	9,213	10,861	11,370	18,510	22,885	22,994	18,672	19,817	20,243	20,769	22,868	29,452	36,235	57,457
(a) Oil and LNG (gross)	4,548	5,410	6,350	7,354	7,374	12,340	17,297	18,824	14,744	14,449	14,342	14,253	15,512	20,020	23,847	33,370
(b) Non-oil	2,033	1,873	2,863	3,507	3,996	6,171	5,587	4,170	3,928	5,367	5,902	6,516	7,356	9,432	12,387	23,886
2. Imports (including net NPS)	-6,514	-7,707	-9,297	-10,686	-11,493	-13,205	-17,589	-22,570	-22,339	-19,655	-17,611	-19,067	-20,784	-25,535	-31,586	-49,664
(a) Oil and LNG sector	-1,910	-2,272	-2,640	-2,909	-3,364	-2,940	-4,050	-5,407	-4,802	-3,839	-3,135	-3,801	-4,113	-5,188	-6,540	-10,989
(b) Non-oil imports	-4,341	-5,090	-6,167	-7,241	-7,543	-9,028	-11,837	-14,561	-15,824	-14,246	-12,865	-13,616	-14,899	-18,202	-22,438	-34,853
(c) NPS (net)	-263	-345	-490	-536	-586	-1,237	-1,702	-2,602	-1,713	-1,570	-1,611	-1,630	-1,772	-2,145	-2,608	-3,822
3. Resource balance	67	-424	-84	175	-123	5,305	5,296	424	-3,667	163	2,632	1,703	2,085	3,917	4,649	7,793
4. Factor services (net)	-205	-430	-718	-865	-1,032	-3,106	-3,165	-3,210	-3,572	-4,476	-4,596	-4,528	-4,994	-6,370	-7,287	-10,946
(a) Interest on public debt	-80	-165	-318	-441	-485	-635	-724	-996	-1,146	-1,257	-1,621	-1,598	-1,851	-2,377	-2,800	-3,876
(b) Other (net) /a	-125	-265	-400	-424	-547	-2,471	-2,441	-2,214	-2,426	-3,219	-2,976	-2,929	-3,143	-3,993	-4,487	-7,070
5. Net transfers	75	75	61	66	46	52	76	67	105	95	100	110	120	130	150	100
6. Balance on current account	-63	-779	-741	-624	-1,109	2,251	-2,207	-2,719	-7,134	-4,214	-1,864	-2,715	-2,790	-2,323	-2,488	-3,053
7. Direct foreign investment	538	454	287	285	271	217	140	142	311	193	250	230	275	325	375	479
8. Public MIT loans																
(a) Gross disbursements	1,120	2,152	2,332	1,956	1,638	1,939	2,864	2,673	4,192	4,965	3,828	4,988	5,428	6,159	6,892	10,062
(b) Amortization	-212	-352	-437	-825	-977	-1,335	-987	-1,053	-1,102	-1,295	-1,628	-1,980	-2,137	-3,394	-4,603	-6,867
(c) Net disbursements	908	1,800	1,895	1,131	660	604	1,877	1,620	3,090	3,670	2,200	3,008	3,291	2,764	2,290	3,195
9. Other capital (net)	-1,392	-1,839	-440	-141	886	-1,382	-1,488	-31	383	1,974	287	-143	-103	24	132	-300
10. Change in reserves (- increase)	9	364	-1,001	-651	-708	-1,690	-2,736	988	3,350	-1,619	-873	-400	-673	-791	-309	-320
11. Net official reserves	920	556	1,557	2,208	2,916	4,606	7,342	6,354	3,004	4,623	5,496	5,896	6,568	7,534	8,325	9,075
Memorandum items																
Reserves in months of non-oil imports + NPS	2.4	1.2	2.8	3.4	4.3	5.6	6.5	4.4	2.0	3.4	4.4	4.5	4.5	4.3	3.8	2.7
Public debt service as % of exports /b	6.3	10.3	11.7	15.9	18.4	16.0	11.5	14.4	19.4	19.4	25.1	27.4	27.1	29.3	29.8	27.1
Total net foreign assets (\$ billion) /c								10.6	6.3	8.4	9.9	10.3	11.0	12.8	13.8	17.1
In months of imports of goods								6.4	3.7	5.6	7.4	7.1	6.9	6.5	5.7	4.5
Current account balance as % of GNP								-3.3	-8.5	-6.0	-2.4	-3.3	-3.1	-2.1	-1.9	-1.5

/a After 1980/81 includes estimated interest on private short-term debt.

/b Oil exports on net basis.

/c Includes net foreign assets of deposit money banks in addition to official reserves.

Source: World Bank staff estimates and projections.

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Oil Sector Projection, 1984/85-1995/96
(Volumes in million barrels per year; values in US\$ million)

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1995/96
Prices (\$ per barrel)								
Crude	28.40	27.90	28.40	31.00	33.70	36.76	40.00	65.00
Products (exports)	27.01	27.34	28.40	31.62	35.39	38.60	42.00	70.85
Products (imports)	34.08	30.69	31.24	34.10	37.07	40.44	44.00	71.50
1. <u>Crude production /a</u>	<u>533</u>	<u>518</u>	<u>551</u>	<u>569</u>	<u>588</u>	<u>588</u>	<u>595</u>	<u>528</u>
2. <u>Refining inputs (volume)</u>	<u>220</u>	<u>248</u>	<u>248</u>	<u>248</u>	<u>248</u>	<u>248</u>	<u>248</u>	<u>250</u>
A. Crude domestic	197	212	212	212	212	212	212	214
B. Crude imports (volume)	23	37	37	37	37	37	37	37
3. <u>Domestic consumption</u>	<u>159</u>	<u>162</u>	<u>166</u>	<u>171</u>	<u>175</u>	<u>179</u>	<u>184</u>	<u>210</u>
A. Domestic refineries	151	154	158	163	167	171	176	202
B. Imports (volume)	8	8	8	8	8	8	8	8
(value)	273	246	250	273	297	323	352	572
4. <u>Gross exports (value)</u>	<u>11,051</u>	<u>10,714</u>	<u>11,769</u>	<u>13,327</u>	<u>15,023</u>	<u>16,218</u>	<u>17,752</u>	<u>22,808</u>
A. Crude (volume)	366	307	340	358	376	376	383	315
(value)	9,548	8,560	9,646	11,095	12,676	13,827	15,338	20,443
B. Products (volume)	56	79	75	71	66	62	57	33
(value)	1,503	2,155	2,123	2,232	2,347	2,391	2,414	2,366
5. <u>Crude and product imports (2B + 3B)</u>	<u>934</u>	<u>1,264</u>	<u>1,287</u>	<u>1,404</u>	<u>1,527</u>	<u>1,665</u>	<u>1,812</u>	<u>2,945</u>
6. A. Production-related imports	1,967	2,250	2,598	2,978	3,417	3,939	4,560	7,840
B. Non-factor service imports	620	698	751	811	876	946	1,022	1,304
C. Factor service payments	1,664	1,510	1,599	1,753	1,997	2,148	2,331	3,259
7. <u>Oil current account (4-5-6)</u>	<u>5,866</u>	<u>4,992</u>	<u>5,534</u>	<u>6,340</u>	<u>7,207</u>	<u>7,520</u>	<u>8,027</u>	<u>7,441</u>
Memorandum items								
Domestic processing capacity	220	250	275	275	275	275	275	275
Costs of production per barrel	4.34	5.43	5.89	6.54	7.27	8.38	9.58	18.56

/a Includes condensates.

Source: World Bank staff estimates and projections.

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Projection of Crude Oil Refining Capacity, 1981/82 - 1995/96
(million barrels per year)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91	1995/96
<u>Refining Capacity /a</u>									
Existing (nine refineries)	140	140	140	140	140	155	155	155	155
New refineries									
Balikpapan				40	55	60	60	60	60
Cilacap				40	55	60	60	60	60
<u>Subtotal</u>				<u>80</u>	<u>110</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>
<u>Total Domestic</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>220</u>	<u>250</u>	<u>275</u>	<u>275</u>	<u>275</u>	<u>275</u>

/a Capacity for input of crude. This does not include the new hydrocracker at Dumai, which will process LSWR (31 m. bbl. per year), not crude, nor does it include the proposed but indefinite Sorong/Jakarta/Batam Island refinery that could come on stream in the late 1980s or early 1990s.

Source: Ministry of Mining and Energy.

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LNG Current Account, 1981/82 - 1995/96

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1990/91	1995/96
	-----	Actual	-----	Est.	-----	-----	Projected	-----	-----	-----
Exports (f.o.b.)	2,343	2,461	2,399	3,290	3,539	3,743	4,494	4,997	6,095	10,762
Imports of goods and services /a	960	1,084	1,044	1,338	1,591	1,682	1,940	2,112	2,190	3,806
<u>Balance on current account</u>	<u>1,382</u>	<u>1,377</u>	<u>1,355</u>	<u>1,952</u>	<u>1,948</u>	<u>2,061</u>	<u>2,554</u>	<u>2,884</u>	<u>3,906</u>	<u>6,956</u>
<u>Memo items</u>										
Price (\$/MMBTU) /b	5.12	5.15	4.37	4.30	4.60	4.68	5.11	5.55	6.59	10.71
Export volume (million MMBTU)	458.0	477.8	549.4	765.5	770.0	800.0	880.0	900.0	925.0	1,005.0
of which										
Existing plants /c	(458.0)	(477.8)	(549.4)	(765.5)	(770.0)	(800.0)	(800.0)	(800.0)	(800.0)	(800.0)
New plants /d	-	-	-	-	-	-	(80.0)	(100.0)	(125.0)	(205.0)

/a Includes factor service payments (contractors' shares for LNG plants and cost of gas recovery).

/b FOB basis; price movements after 1983/84 are assumed to be same in percentage terms as for crude oil.

/c Includes 5 trains at Arun and 4 trains at Bontang. Assumes that exports in 1984/85 are limited to minimum volumes under contract.

/d Assumes that additional train for export to Korea comes on stream in 1987/88 and that a further expansion of about 50 million MMBTU (1 million metric tons) is on stream in 1990/91.

Source: Bank Indonesia and World Bank staff estimates and projections.

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Terms of Trade Index, 1973/74 - 1995/96
(1981/82 = 100)

	Non-Oil Exports: <u>/a</u> Non-Oil Imports (including NFS)	Total Exports: <u>/b</u> Total Imports (including NFS)
1973/74	96.0	50.0
1974/75	90.0	60.0
1975/76	76.0	62.0
1976/77	95.0	70.0
1977/78	107.0	72.0
1978/79	107.0	50.0
1979/80	120.0	86.0
1980/81	108.0	97.0
1981/82	100.0	100.0
1982/83	97.8	97.4
1983/84	111.8	93.7
1984/85	112.7	95.2
1985/86	110.8	92.3
1990/91	106.8	90.4
1995/96	108.0	107.1

/a Based on price indices of non-oil exports (Table 1) and non-oil imports, including net NFS (Table 2).

/b Based on price indices of total exports (Table 1) and imports, including net NFS (Table 2).

Source: World Bank staff estimates and projections.

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The Public Sector Capital Account, 1974/75 - 1984/85
(Rp billion)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85 /h
Government sources	928	1,492	1,547	1,522	1,888	2,047	3,403	5,763	7,788	7,107	7,787
Public national savings /a	451	659	1,025	1,172	1,504	2,370	3,876	4,357	4,327	5,840	7,977
Net foreign savings /b	429	830	865	701	677	895	1,275	1,543	2,639	3,609	2,310
Government borrowing /c	48	3	-343	-351	-293	-1,218	-1,748	-137	822	-2,342	-2,500
Uses	928	1,492	1,547	1,522	1,888	2,047	3,403	5,763	7,788	7,107	7,787
Transfers to public enterprises /d	470	742	1,027	568	639	625	1,495	2,131	3,565	4,456	3,800
Direct government investment /e	458	750	520	954	1,249	1,422	1,908	3,632	4,223	2,651	3,987
Public enterprise sources	768	1,221	1,346	749	989	1,773	2,093	2,730	4,143	4,761	4,910
Transfers from Central Government	470	742	1,027	568	639	625	1,495	2,131	3,565	4,456	3,800
Internal savings /f	198	217	196	227	250	275	300	312	365	401	450
Domestic borrowing /g	100	262	123	-46	100	-873	298	287	213	-96	660
Uses											
Public enterprise investment	768	1,221	1,346	749	989	1,773	2,093	2,730	4,143	4,761	4,914

/a Total government revenues (excluding regional governments) less current expenditures.

/b Gross disbursements of public debt less amortization payments.

/c Net changes in government savings with the financial system.

/d Includes budget and off-budget transfers to public enterprises.

/e Calculated as a residual.

/f Estimate based on 1974-77 public enterprise capital account survey, BPS.

/g Excludes Bulog; also excludes Pertamina until 1978/79.

/h Preliminary.

Source: World Bank staff estimates based on budget data, Bank Indonesia financial statistics and the World Bank Debtor Reporting System.

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Annex II: HISTORICAL DATA

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Population 1930, 1961, 1971 and 1980: Average Annual Growth Rates, 1930-80
and Population Density, by Region and Province
(^{'000})

Region	Census				Growth rate (%)			Density (persons/sq km)	
	1930	1961 /a	1971 /a	1980	1930-61	1961-71	1971-80	1971	1980
Java	41,718	63,059	76,086	91,270	1.3	1.9	2.0	576	690
DKI Jakarta	811	2,973	4,579	6,503	4.3	4.4	4.0	7,761	11,022
West Java	10,586	17,615	21,624	27,454	1.7	2.1	2.7	467	593
Central Java	13,706	18,407	21,877	25,373	1.0	1.7	1.7	640	742
DI Yogyakarta	1,559	2,241	2,489	2,751	1.2	1.1	1.1	785	868
East Java	15,056	21,823	25,517	29,189	1.2	1.6	1.5	532	609
Sumatra	8,255	15,739	20,809	28,017	2.1	2.8	3.4	44	59
Lampung	361	1,668	2,777	4,625	5.1	5.2	5.8	83	139
Bengkulu	323	406	519	768	0.7	2.5	4.5	25	36
South Sumatra	1,378	2,773	3,441	4,630	2.3	2.2	3.4	33	45
Riau	493	1,235	1,642	2,169	3.0	2.9	3.1	17	23
Jambi	245	744	1,006	1,446	3.6	3.1	4.1	22	32
West Sumatra	1,910	2,319	2,793	3,407	0.6	1.9	2.2	56	68
North Sumatra	2,542	4,965	6,622	8,361	2.2	2.9	2.6	94	118
Aceh	1,003	1,629	2,009	2,611	1.6	2.1	3.0	36	47
Kalimantan	2,170	4,102	5,155	6,723	2.1	2.3	3.0	10	12
West Kalimantan	802	1,581	2,020	2,486	2.2	2.5	2.3	14	17
Central Kalimantan	203	497	702	954	2.9	3.5	3.5	5	6
South Kalimantan	836	1,473	1,699	2,065	1.8	1.4	2.2	45	55
East Kalimantan	329	551	734	1,218	1.7	2.9	5.8	4	6
Sulawesi	4,231	7,079	8,528	10,409	1.7	1.9	2.2	45	55
Central Sulawesi	390	693	914	1,290	1.9	2.8	3.9	13	19
North Sulawesi	748	1,310	1,719	2,115	1.8	2.8	2.3	90	111
South Sulawesi	2,657	4,517	5,181	6,062	1.7	1.4	1.8	71	83
Southeast Sulawesi	436	559	714	942	0.8	2.5	3.1	26	34
Other Islands	4,219	7,106	8,630	11,071	1.7	2.0	2.8	15	19
Bali	1,101	1,783	2,120	2,470	1.6	1.7	1.7	381	444
West Nusa Tenggara	1,016	1,808	2,203	2,725	1.9	2.0	2.4	109	135
East Nusa Tenggara	1,344	1,967	2,295	2,737	1.2	1.6	2.0	48	57
Maluku	579	790	1,089	1,410	1.0	3.3	2.9	15	19
Irian Jaya	179	758	923	1,174	4.8	2.0	2.7	2	3
East Timor	n.a.	n.a.	n.a.	555	n.a.	n.a.	n.a.	n.a.	37
Total Indonesia	60,593	97,085	119,208	147,490	1.5	2.1	2.3	62	77

n.a. = not available.

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

Sources: BPS, Population Census Reports, 1961 and 1971, 1980 and Statistical Yearbook 1982.

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COUNTRY ECONOMIC MEMORANDUM

Distribution of Population by Age Group and Sex, 1961, 1971, 1980

Age Group	1961			1971			1980		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
0-4	8,529	8,649	17,178	9,674	9,560	19,234	10,813	10,339	21,152
5-9	7,745	7,700	15,445	9,593	9,302	18,895	10,891	10,480	21,371
10-14	4,353	3,892	8,245	7,406	6,875	14,281	9,225	8,550	17,775
15-19	3,865	3,905	7,770	5,627	5,779	11,406	7,637	7,866	15,503
20-24	3,480	4,373	7,853	3,627	4,461	8,088	5,965	7,000	12,965
25-34	7,392	8,610	16,002	7,722	9,226	16,948	9,587	9,832	19,419
35-44	5,765	5,406	11,171	7,062	7,119	14,181	7,846	8,119	15,965
45-54	3,587	3,511	7,098	4,360	4,213	8,573	5,743	5,905	11,648
55-64	1,913	1,865	3,778	2,224	2,373	4,597	3,312	3,412	6,724
65+	1,183	1,245	2,428	1,450	1,539	2,989	2,269	2,667	4,936
Unknown	60	57	117	7	8	15	17	13	30
<u>Total</u>	<u>47,872</u>	<u>49,213</u>	<u>97,085</u>	<u>58,753</u>	<u>60,455</u>	<u>119,208</u>	<u>73,306</u>	<u>74,184</u>	<u>147,490</u>
----- Percentage distribution -----									
0-4	17.8	17.6	17.7	16.5	15.8	16.1	14.8	13.9	14.3
5-9	16.2	15.6	15.9	16.3	15.4	15.9	14.9	14.1	14.5
10-14	9.1	7.9	8.5	12.6	11.4	12.0	12.6	11.5	12.1
15-19	8.1	7.9	8.0	9.6	9.6	9.6	10.4	10.6	10.5
20-24	7.3	8.9	8.1	6.2	7.4	6.8	8.1	9.4	8.8
25-34	15.4	17.5	16.5	13.1	15.3	14.2	13.1	13.3	13.2
35-44	12.0	11.0	11.5	12.0	11.8	11.9	10.7	10.9	10.8
45-54	7.5	7.1	7.3	7.4	7.0	7.2	7.8	8.0	7.9
55-64	4.0	3.8	3.9	3.8	3.9	3.9	4.5	4.6	4.6
65+	2.5	2.5	2.5	2.5	2.5	2.5	3.1	3.6	3.3
Unknown	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: BPS 1961, 1971 and 1980 census.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Gross Domestic Product by Industrial Origin at Current Market Prices, 1967-83
(Rp. billion)

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Agriculture	457	1,069	1,339	1,575	1,646	1,837	2,710	3,497	4,003	4,812	5,906	6,706	8,996	11,290	13,643	15,668	18,772
Farm food crops	299	726	822	961	961	1,071	1,573	2,095	2,554	3,044	3,660	3,992	4,892	6,357	8,102	9,961	12,381
Farm nonfood crops	46	133	199	214	196	226	323	386	358	481	762	802	1,201	1,304	1,327	1,227	1,496
Estate crops	19	47	69	83	107	118	152	191	184	213	326	404	590	693	904	1,026	1,146
Livestock products	33	53	89	103	124	135	173	223	303	346	305	462	690	991	1,258	1,418	1,521
Forestry	6	35	59	102	142	173	355	423	413	513	525	653	1,048	1,142	1,140	983	1,040
Fishery	54	75	101	112	116	114	134	179	191	215	328	393	575	803	912	1,053	1,188
Mining & quarrying	23	87	129	173	294	491	831	2,374	2,485	2,930	3,600	4,358	6,980	11,673	12,971	11,708	13,824
Manufacturing	62	179	251	312	307	448	650	890	1,124	1,453	1,817	2,420	3,311	5,288	5,822	7,681	8,918
Electricity, gas & water	3	9	13	15	18	20	30	52	70	98	106	118	149	225	288	300	503
Construction	14	45	75	100	128	174	262	406	590	813	1,023	1,242	1,790	2,524	3,118	3,507	4,434
Commerce, hotels, etc.	149	356	476	619	592	769	1,118	1,775	2,104	2,552	2,959	3,450	4,775	6,391	7,966	8,865	10,875
Transport & communications	19	57	77	96	162	182	257	442	521	663	843	1,032	1,422	1,965	2,352	2,795	3,325
Banking, etc.	4	12	22	33	45	53	83	113	151	207	236	396	655	752	1,404	1,604	1,841
Ownership of dwelling	17	41	53	66	85	103	143	194	258	319	542	671	914	1,200	1,439	1,703	1,962
Public administration & defence	41	116	136	183	214	290	405	585	864	1,074	1,394	1,685	2,200	3,142	3,905	4,429	5,225
Other services	59	126	147	168	181	197	264	380	473	546	607	668	833	996	1,119	1,293	1,536
Gross domestic product	848	2,097	2,718	3,340	3,672	4,564	6,753	10,708	12,643	15,467	19,033	22,746	32,025	45,446	54,027	59,633	71,215

/a Preliminary.

Source: BPS.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Distribution of GDP at Current Market Prices, 1971-83
(In percent)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
<u>Economic sectors</u>													
Agriculture, forestry and fishery	44.8	40.2	40.1	32.7	31.7	31.1	31.0	29.5	28.1	24.8	25.3	26.3	26.4
Mining	8.0	10.8	12.3	22.2	19.7	18.9	18.9	19.2	21.8	25.7	24.0	19.6	19.4
Manufacturing	8.4	9.8	9.6	8.3	8.9	9.4	9.5	10.6	10.3	11.6	10.8	12.9	12.5
Electricity, gas and water	0.5	0.4	0.4	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.7
Construction	3.5	3.8	3.9	3.8	4.7	5.3	5.4	5.5	5.6	5.6	5.8	5.9	6.2
Transport and communications	4.4	4.0	3.8	4.1	4.1	4.3	4.4	4.5	4.4	4.3	4.4	4.7	4.7
Other services	30.4	30.9	29.8	28.5	30.5	30.4	30.1	30.2	29.3	27.5	29.3	30.0	30.1
<u>Gross domestic product</u>	<u>100.0</u>												
<u>Expenditures categories</u>													
Private consumption	77.6	72.5	71.1	68.6	69.1	68.4	65.6	66.8	60.9	60.5	65.8	69.9	69.1
Government consumption	9.3	9.1	10.6	7.9	9.9	10.3	10.9	11.7	11.7	10.3	10.7	11.5	10.9
Gross domestic investment	15.8	18.8	17.9	16.8	20.3	20.7	20.1	20.5	20.9	20.9	21.4	22.6	24.1
Exports, net	-2.6	-0.4	0.4	6.8	0.7	0.6	3.4	1	6.5	8.3	2.1	-3.9	-4.2
<u>Gross domestic product</u>	<u>100.0</u>												

/a Preliminary.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Gross Domestic Product by Industrial Origin at Constant Market Prices, 1971-83
(Rp. billion)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Agriculture	2,441	2,479	2,710	2,811	2,811	2,944	2,992	3,135	3,256	3,425	3,594	3,670	3,846
Farm food crops	1,436	1,415	1,573	1,681	1,696	1,755	1,735	1,835	1,909	2,073	2,260	2,295	2,413
Farm nonfood crops	302	329	323	307	312	325	385	388	402	417	430	460	485
Estate crops	154	160	152	174	183	188	201	210	231	233	244	285	388
Livestock products	160	169	173	186	202	216	177	184	202	212	22	230	241
Forestry	258	276	355	325	274	310	335	352	338	308	246	196	203
Fishery	131	130	134	138	144	150	159	166	174	182	194	204	217
Mining and quarrying	551	674	831	859	828	952	1,070	1,049	1,047	1,035	1,069	940	957
Manufacturing	490	564	650	755	848	930	1,058	1,236	1,395	1,705	1,878	1,901	1,943
Electricity, gas and water	25	26	30	37	41	46	49	57	69	78	90	106	113
Construction	171	222	262	320	365	385	464	529	563	639	720	759	805
Commerce, hotels, etc.	924	1,028	1,118	1,224	1,294	1,351	1,438	1,530	1,681	1,852	2,043	2,159	2,240
Transport and communications	210	229	257	288	303	343	439	514	560	609	677	717	753
Banking, etc.	64	75	83	88	102	117	151	165	180	208	231	258	277
Ownership of dwelling	93	121	143	174	198	209	252	288	306	336	359	377	401
Public administration and defence	326	393	405	443	564	596	689	768	805	972	1,076	1,115	1,176
Other services	250	256	264	270	277	283	280	296	303	310	318	323	331
Gross domestic product	5,545	6,067	6,753	7,269	7,631	8,156	8,882	9,567	10,165	11,169	12,055	12,325	12,842

/a Preliminary.

Source : BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Distribution of GDP at Constant Market Prices, 1971-83
(In percent)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 /a
<u>Economic sectors</u>													
Agriculture, forestry and fishery	44.0	40.9	40.1	38.7	36.8	36.1	33.7	32.8	32.0	30.7	29.8	29.8	29.9
Mining	9.9	11.1	12.3	11.8	10.9	11.7	12.0	11.0	10.3	9.3	8.9	7.6	7.5
Manufacturing	8.8	9.3	9.6	10.4	11.1	11.4	11.9	12.9	13.7	15.3	15.6	15.4	15.1
Electricity, gas and water	0.5	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.9	0.9
Construction	3.1	3.7	3.9	4.4	4.8	4.7	5.2	5.5	5.5	5.7	6.0	6.2	6.3
Transport and communications	3.8	3.8	3.8	4.0	4.0	4.2	4.9	5.4	5.5	5.5	5.6	5.8	5.9
Other services	29.9	30.9	29.8	30.3	31.9	31.3	31.6	31.8	32.2	32.9	33.4	34.3	34.5
<u>Gross domestic product</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>							
<u>Expenditure categories</u>													
Private consumption	73.7	71.3	71.1	75.7	74.7	75.5	72.1	71.9	77.4	79.4	85.9	86.8	89.6
Government consumption	9.3	9.2	10.6	8.8	11.0	11.0	11.8	12.8	13.2	13.3	13.6	14.4	13.7
Gross domestic investment	15.6	17.0	17.9	19.8	21.6	21.4	22.8	24.4	24.0	25.9	26.7	29.5	30.5
Exports, net	1.3	2.5	0.4	-4.3	-7.3	-7.9	-6.6	-9.1	-14.6	-18.7	-26.2	-30.7	-33.8
<u>Gross domestic product</u>	<u>100.0</u>	<u>100.00</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>						

/a Preliminary.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Expenditures on GDP at Current Market Prices, 1971-83
(Rp. billion)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Private consumption	2,848	3,309	4,804	7,344	8,732	10,572	12,481	15,184	19,514	27,504	35,560	41,671	49,231
Government consumption	341	414	716	841	1,254	1,591	2,077	2,659	3,733	4,688	5,788	6,832	7,791
Gross domestic investment	580	857	1,208	1,797	2,572	3,205	3,826	4,671	6,704	9,485	11,553	13,467	17,188
Export of goods and non-factor services	527	762	1,356	3,044	2,897	3,621	4,513	4,974	9,629	13,849	14,928	13,345	17,733
Less import of goods and non-factor services	624	778	1,331	2,318	2,812	3,522	3,864	4,742	7,555	10,080	13,802	15,682	20,728
<u>Gross domestic product</u>	<u>3,672</u>	<u>4,564</u>	<u>6,753</u>	<u>10,708</u>	<u>12,643</u>	<u>15,467</u>	<u>19,033</u>	<u>22,746</u>	<u>32,025</u>	<u>45,446</u>	<u>54,027</u>	<u>59,633</u>	<u>71,215</u>
Net factor from income abroad	-68	-144	-245	-499	-557	-483	-678	-867	-1,484	-2,011	-1,925	-1,958	-3,036
GNP	3,604	4,420	6,508	10,209	12,086	14,984	18,355	21,879	30,541	43,435	52,102	57,675	68,179
GDS	483	841	1,233	2,523	2,657	3,304	4,475	4,903	8,778	13,254	12,679	11,130	14,193
GNS	415	697	988	2,024	2,100	2,821	3,797	4,036	7,294	11,243	10,754	9,172	11,157
GDI/GDP (%)	15.8	18.8	17.9	16.8	20.3	20.7	20.1	20.5	20.9	20.9	21.4	22.6	24.1
GDS/GDP (%)	13.2	18.4	18.3	23.6	21.0	21.4	23.5	21.6	27.4	29.2	23.5	18.7	19.9
GNS/GNP (%)	11.5	15.8	15.2	19.8	17.4	18.8	20.7	18.4	23.9	25.9	20.6	15.9	16.4

/a Preliminary.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Expenditures on GDP at Constant 1973 Market Prices, 1971-83
(Rp. billion)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Private consumption	4,088	4,324	4,804	5,502	5,699	6,154	6,400	6,880	7,866	8,867	10,350	10,698	11,501
Government consumption	518	561	716	641	836	896	1,044	1,288	1,345	1,490	1,641	1,775	1,759
Gross domestic investment	867	1,032	1,208	1,440	1,650	1,749	2,027	2,333	2,436	2,896	3,219	3,637	3,921
Export of goods and nonfactor services	943	1,143	1,356	1,445	1,410	1,650	1,806	1,824	1,822	1,719	1,678	1,444	1,535
Less import of goods and nonfactor services	871	993	1,331	1,759	1,964	2,293	2,395	2,698	3,304	3,803	4,833	5,229	5,874
<u>Gross domestic product</u>	<u>5,545</u>	<u>6,067</u>	<u>6,753</u>	<u>7,269</u>	<u>7,631</u>	<u>8,156</u>	<u>8,802</u>	<u>9,567</u>	<u>10,165</u>	<u>11,169</u>	<u>12,055</u>	<u>12,325</u>	<u>12,842</u>
Net factor income abroad	-95	-184	-245	-378	-389	-314	-420	-493	-649	-759	-674	-653	-835
Terms of trade effect	-211	-170	0	861	616	701	997	1,002	2,383	3,507	3,542	3,004	3,489
GDY	5,334	5,897	6,753	8,130	8,247	8,857	9,879	10,569	12,548	14,676	15,597	15,329	16,331
GNP	5,450	5,883	6,508	6,891	7,242	7,842	8,462	9,074	9,516	10,410	11,381	11,672	12,007
GNY	5,239	5,713	6,508	7,752	7,858	8,543	9,459	10,076	11,899	13,917	14,923	14,676	15,496
GDS	728	1,012	1,233	1,987	1,712	1,807	2,435	2,461	3,337	4,319	3,606	2,856	3,071
GNS	633	828	988	1,609	1,323	1,493	2,015	1,968	2,688	3,560	2,932	2,203	2,236
GDI/GDP (%)	15.6	17.0	17.9	19.8	21.6	21.4	22.8	24.4	24.0	25.9	26.7	29.5	30.5
GDS/GDY (%)	13.6	17.2	18.3	24.4	20.8	20.4	24.6	23.3	26.6	29.4	23.1	18.6	18.8
GNS/GNY (%)	12.1	14.5	15.2	20.8	16.8	17.5	21.3	19.5	22.6	25.6	19.6	15.0	14.4

/a Preliminary.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Estimate of the Terms of Trade Effects, 1972-83
(Rp. billion)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983/a
Exports in current prices	762	1,356	3,044	2,897	3,621	4,513	4,974	9,629	13,849	14,928	13,345	17,733
Exports in 1973 constant prices	1,143	1,356	1,445	1,410	1,650	1,806	1,824	1,822	1,719	1,678	1,444	1,535
Export price index	67	100	211	205	219	250	273	528	806	890	924	1,155
Imports in current prices	778	1,331	2,318	2,812	3,522	3,864	4,742	7,555	10,080	13,802	15,682	20,728
Imports in 1973 constant prices	993	1,331	1,759	1,964	2,293	2,395	2,698	3,304	3,803	4,833	5,229	5,874
Import price index	78	100	132	143	154	161	176	229	265	286	300	353
Exports (import capacity)	973	1,356	2,306	2,026	2,351	2,803	2,826	4,205	5,226	5,220	4,448	5,024
Terms of trade index	85	100	160	144	143	155	155	231	304	311	308	327
<u>Terms of trade effect</u>	<u>-170</u>	<u>-</u>	<u>861</u>	<u>616</u>	<u>701</u>	<u>997</u>	<u>1,002</u>	<u>2,383</u>	<u>3,507</u>	<u>3,542</u>	<u>3,004</u>	<u>3,489</u>
Net factor income from abroad in current prices	-144	-245	-499	-557	-483	-678	-867	-1,484	-2,011	-1,925	-1,958	-3,036
Net factor income from abroad in 1973 prices	-184	-245	-378	-389	-314	-420	-493	-649	-759	-674	-653	-835

/a Preliminary.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Balance of Payments, 1973/74 - 1983/84
(US\$ million)

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
1. Net oil /a	641	2,638	3,138	3,710	4,352	3,785	6,308	9,345	8,379	5,788	6,016
2. Net LNG /a	-	-	-	-	93	225	667	1,256	1,382	1,378	1,355
3. Non-oil (net)	-1,397	-2,776	-3,992	-4,512	-5,135	-5,165	-4,777	-8,470	-12,551	-14,205	-11,522
Exports, FOB	1,905	2,033	1,873	2,863	3,507	3,979	6,171	5,587	4,170	3,928	5,367
Imports, CIF	-2,938	-4,341	-5,090	-6,167	-7,241	-7,543	-9,028	-11,837	-14,561	-15,824	-14,346
Services (nonfreight)	-364	-468	-755	-1,208	-1,401	-1,601	-1,920	-2,220	-2,160	2,309	-2,543
4. Current account (1+2+3)	-756	-138	-854	-802	-690	-1,155	2,198	2,131	-2,790	-7,039	-4,151
5. SDRs	-	-	-	-	-	64	65	62	-	-	-
6. Official capital	643	660	1,995	1,823	2,106	2,101	2,690	2,684	3,521	5,011	5,793
IGGI	356	313	945	1,596	1,694	1,567	2,237	2,406	2,415	2,905	4,255
Program aid	281	180	74	147	157	94	239	118	50	21	84
Project aid	275	333	871	1,449	1,537	1,473	1,998	2,288	2,365	2,884	4,171
ODA	(275)	(333)	(482)	(513)	(661)	(814)	(1,106)	(1,299)	(996)	(1,356)	(1,902)
Non-ODA	(-)	(-)	(389)	(936)	(876)	(659)	(892)	(989)	(1,369)	(1,528)	(2,269)
Non-IGGI	87	147	1,050	227	412	534	453	278	1,106	2,106	1,538
7. Official debt repayment (principal)	-81	-89	-77	-166	-761	-632	-692	-615	-809	-926	-1,010
8. Miscellaneous capital	549	-131	-1,075	38	176	392	-1,315	-361	1,140	1,795	1,191
Direct investment	331	538	454	287	285	271	217	140	142	311	193
Others	218	-669	-1,529	-249	-109	121	-1,532	-501	998	1,484	998
9. Total (4 through 8)	355	302	-11	893	831	770	2,946	3,901	1,062	-1,159	1,823
10. Errors and omissions	5	-311	-353	108	-180	-62	-1,256	-1,165	-2,050	-2,121	247
11. Monetary movements	-360	9	364	-1,001	-651	-708	-1,650	-2,736	988	3,280	-2,070

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

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Non-Oil Exports, 1971/72 - 1983/84

	1971/72	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84/a
Timber													
Value	170	275	720	615	527	885	943	1,130	2,166	1,672	952	899	1,123
Volume	8,840	12,701	15,704	12,436	11,335	15,770	15,717	16,141	16,259	11,682	5,949	5,101	5,481
Price	19	22	46	49	46	56	60	70	133	143	160	176	205
Rubber													
Value	215	211	483	425	381	577	608	774	1,101	1,078	770	614	962
Volume	809	826	902	843	846	892	873	928	1,015	954	883	877	1,079
Price	264	255	535	505	450	647	697	834	1,084	1,130	872	701	892
Palm oil													
Value	45	42	89	184	142	147	202	221	257	178	79	103	83
Volume	212	245	279	303	417	415	438	415	440	376	183	315	244
Price	21	171	319	607	341	354	461	533	584	472	434	327	342
Coffee													
Value	54	83	79	92	112	330	626	508	715	588	343	363	469
Volume	72	111	96	105	142	143	179	232	238	232	219	239	268
Price	750	748	823	876	789	2,308	3,496	2,190	3,004	2,538	1,564	1,522	1,748
Tea													
Value	31	31	31	50	50	64	120	98	91	97	94	116	148
Volume	46	46	46	51	61	64	60	65	69	77	88	68	82
Price	674	674	674	980	820	996	2,007	1,508	1,319	1,259	1,075	1,711	1,813
Tobacco													
Value	20	32	46	36	40	41	59	58	60	69	49	37	47
Volume	19	27	35	26	23	21	27	27	24	31	26	19	26
Price	1,053	1,185	1,314	1,385	1,756	1,954	2,194	2,130	2,500	2,252	1,857	2,018	1,828
Pepper													
Value	21	21	31	22	25	55	62	66	46	51	49	41	55
Volume	24	24	25	14	17	33	31	38	24	32	38	34	46
Price	875	875	1,240	1,571	1,454	1,668	2,012	1,729	1,917	1,627	1,291	1,199	1,214
Palm kernel													
Value	5	4	6	8	4	4	5	2	12	7	4	1	4
Volume	59	51	37	3 ^a	41	30	25	6	33	30	21	3	16
Price	85	78	162	267	98	140	218	333	364	221	195	193	237
Cocoa cake													
Value	20	20	22	22	29	36	33	34	65	46	32	38	27
Volume	303	364	245	236	363	375	301	323	381	390	300	368	261
Price	66	55	90	93	80	96	111	105	171	117	108	104	105
Tapioca													
Value	14	12	7	30	17	10	13	28	59	36	20	9	32
Volume	434	304	117	455	234	133	184	435	545	334	266	106	300
Price	32	39	60	66	73	75	68	64	108	109	76	86	107
Other foodstuffs													
Value	28	26	49	47	37	52	48	65	79	99	71	50	99
Animal products													
Value	23	42	90	92	105	146	179	214	255	224	214	251	255
Tin													
Value	64	70	98	166	158	181	253	324	388	454	437	349	309
Volume	20	21	22	24	22	27	25	26	27	30	31	27	24
Price	3,200	3,333	4,455	6,917	7,541	6,707	10,110	12,454	14,370	14,874	14,037	12,931	12,715
Copper													
Value	-	13	56	102	74	95	74	64	95	111	120	115	80
Volume	-	28	126	222	189	230	188	168	187	184	207	209	154
Price	-	464	444	459	392	413	395	382	508	600	580	550	520
Other minerals													
Value	18	19	21	28	25	44	36	49	126	205	187	212	375
Miscellaneous													
Value	56	76	77	114	144	196	245	361	656	570	613	730	1,167
Total value	784	977	1,905	2,033	1,873	2,863	3,506	3,996	6,171	5,485	4,034	3,928	5,235

/a Preliminary figures.

Value: US\$ million.

Volume: '000 tons.

Price: US\$/ton.

Source: Bank Indonesia (based on L/C applications).

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Export Values by Country of Destination, 1971-84
(In percent)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984/ <u>a</u>
Japan	44.6	50.7	53.2	53.4	46.9	41.7	40.2	39.2	46.1	50.3	47.5	50.1	45.8	47.4
ASEAN	17.7	9.7	11.8	8.7	10.3	8.9	10.6	12.7	14.3	12.7	13.6	15.7	16.4	10.9
Malaysia	2.5	1.7	1.1	1.0	0.9	0.3	0.2	0.2	0.4	0.3	0.3	0.3	0.3	0.5
Philippines	2.1	0.5	-	-	0.4	1.1	1.2	1.7	1.1	0.8	1.6	1.3	1.1	0.8
Singapore	13.0	7.5	10.6	7.5	8.9	7.5	9.2	10.7	12.6	11.6	11.5	14.0	14.8	9.2
Thailand	-	-	-	0.1	-	-	-	0.2	0.2	0.1	0.1	0.1	0.2	0.4
Other Asia	3.6	4.7	5.2	3.8	4.3	4.3	5.8	5.8	5.8	3.9	3.7	4.9	4.7	6.8
USA	15.6	14.9	15.7	21.3	26.3	28.7	27.7	25.4	20.3	19.6	19.3	15.9	20.2	21.3
Other America	0.5	4.2	2.2	6.1	5.5	7.6	5.4	6.9	3.0	4.1	7.9	4.3	4.9	4.7
EEC	13.6	11.9	10.3	5.3	5.7	7.3	8.5	7.5	7.5	5.8	4.2	4.0	4.5	4.6
France	0.6	0.6	0.5	0.3	0.2	0.4	0.6	0.5	0.5	0.5	0.2	0.3	0.3	0.2
West Germany	5.0	3.7	3.7	2.2	1.9	2.4	2.2	1.9	2.2	1.6	1.0	1.1	1.2	1.1
Netherlands	5.8	4.4	3.1	1.9	2.5	2.7	3.4	3.0	2.6	1.7	1.4	1.2	1.4	1.4
United Kingdom	1.0	1.3	1.0	0.3	0.4	0.5	0.6	0.5	0.6	0.6	0.5	0.6	0.9	0.8
Other EEC	1.2	1.9	1.9	0.6	0.6	1.3	1.7	1.6	1.6	1.4	1.1	0.8	0.7	1.1
Other Europe	2.3	2.7	0.9	0.8	0.7	0.9	0.9	1.2	1.3	1.1	1.1	0.6	0.9	1.3
Australia	2.0	0.8	0.5	0.3	0.3	0.4	0.6	0.9	1.2	1.4	1.8	3.0	1.0	1.4
Other Oceania	-	0.1	-	-	-	-	-	0.1	0.3	0.5	0.8	1.2	1.2	1.0
Africa	0.1	0.3	0.2	0.3	-	0.2	0.3	0.3	0.2	0.2	0.1	0.3	0.4	0.6
Total	100.0													

/a January to October.

Source: BPS, Indikator Ekonomi.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Import Values by Country of Origin, 1971-84
(In percent)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 /a
Japan	32.8	34.0	29.3	29.4	31.0	26.2	27.1	30.1	29.2	31.5	30.1	25.4	23.2	23.7
ASEAN	7.7	9.3	8.7	9.3	8.6	14.0	14.3	9.7	11.6	12.5	12.8	19.6	23.9	12.8
Malaysia	0.4	0.5	0.5	0.3	0.4	0.3	0.3	0.3	0.5	0.3	0.4	0.3	0.4	0.6
Philippines	0.2	0.3	0.5	0.3	0.3	0.3	0.3	1.1	0.7	0.8	1.9	1.4	1.1	0.1
Singapore	6.3	6.5	4.9	6.5	7.2	9.7	8.6	6.8	7.4	8.6	9.4	16.7	21.2	12.0
Thailand	0.8	2.0	2.8	2.2	0.7	3.6	5.1	1.5	3.0	2.7	1.1	1.2	1.3	0.9
Other Asia	11.7	11.8	17.4	16.4	14.4	12.8	17.0	17.0	18.7	19.7	15.5	15.0	14.0	18.4
USA	15.8	15.6	18.8	15.9	14.0	17.4	12.4	12.4	14.3	13.0	13.5	14.3	15.5	17.9
Other America	0.5	0.7	0.9	1.4	1.8	1.3	2.3	2.3	1.8	1.9	2.8	1.8	1.9	2.9
EEC	20.3	17.8	17.7	19.3	18.6	21.2	20.8	18.9	14.9	13.3	16.6	15.8	13.7	14.8
France	1.5	1.3	1.7	1.9	1.9	3.5	3.0	2.5	2.0	2.2	2.6	3.4	3.6	3.1
West Germany	9.5	7.5	7.2	8.2	7.6	8.5	7.9	8.9	6.4	6.3	6.8	7.1	4.5	5.9
Netherlands	4.6	4.3	3.3	2.7	2.8	3.1	4.2	2.2	1.7	1.1	1.5	1.1	1.6	2.0
United Kingdom	4.2	4.1	3.8	3.8	3.5	3.1	3.8	3.1	2.7	2.4	4.1	2.6	2.2	2.1
Other EEC	0.5	0.6	1.7	2.7	2.8	3.0	1.9	2.2	2.1	1.4	1.5	1.6	1.7	1.7
Other Europe	5.3	3.7	2.1	3.9	5.7	2.4	2.0	4.7	4.0	2.7	3.4	4.1	4.1	5.1
Australia	2.9	3.3	3.3	3.4	3.3	3.3	3.0	3.3	3.1	3.5	2.7	2.2	2.5	2.6
Other Oceania	0.1	0.3	0.2	0.4	0.3	0.4	0.5	0.6	0.6	0.7	0.7	0.6	0.4	0.5
Africa	2.9	3.5	1.6	0.6	2.3	1.0	0.5	1.0	1.8	1.2	1.9	1.2	0.8	1.3
<u>Total</u>	<u>100.0</u>													

/a January to October.

Source: BPS, Indikator Ekonomi.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Oil Balance of Payments, 1976/77 - 1983/84
(US\$ million)

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
1. <u>Exports, FOB</u>	6,349.7	7,191.7	6,857.9	10,994.5	15,186.6	16,481.5	12,283.1	12,050.4
COW	2,880.5	2,776.2	2,628.2	3,330.2	4,843.9	5,329.3	3,691.2	3,762.5
Production sharing (PS)	1,561.8	1,750.8	1,755.2	2,210.7	3,049.5	3,674.3	3,775.5	3,369.3
In kind (COW + PS)	1,221.7	1,703.3	1,594.5	2,670.5	3,707.4	3,333.2	2,507.7	2,071.1
PERTAMINA	685.7	961.4	880.0	2,783.1	3,585.8	4,054.7	2,308.7	2,847.5
2. <u>Imports</u>	-1,948.0	-1,640.0	-1,829.4	-2,844.8	-3,913.2	-5,278.0	-4,645.2	-3,601.2
COW	-111.0	-138.9	-111.9	-146.6	-244.2	-222.7	-576.5	-614.4
PS	-1,024.6	-720.3	-827.6	-683.0	-1,308.0	-1,486.0	-1,545.0	-1,028.1
PERTAMINA	-812.4	-780.8	-889.9	-2,015.2	-2,631.0	-3,569.3	-2,523.7	1,958.7
3. <u>Services</u>	-692.1	-1,200.0	-1,243.1	-1,841.9	-1,929.0	-2,824.8	-1,849.7	-2,433.0
COW	-438.6	-497.5	-472.2	-633.8	-908.0	-890.0	-621.6	-887.8
PS	-92.4	-433.1	-422.3	-807.2	-540.5	-980.0	-850.8	-1,085.1
PERTAMINA	-161.1	-269.4	-348.6	-400.9	-480.5	-954.8	-377.3	-460.1
4. <u>Current account (1+2+3)</u>	3,709.6	4,351.7	3,785.4	6,307.8	9,344.4	8,378.7	5,788.2	6,016.2
COW	2,330.9	2,139.8	2,044.1	2,577.7	3,691.7	4,216.6	2,493.1	2,260.3
PS	444.8	597.4	505.3	692.6	1,471.0	1,298.3	1,379.7	1,256.1
In kind (COW + PS)	1,221.7	1,703.3	1,594.5	2,670.5	3,707.4	3,333.2	2,507.7	2,071.1
PERTAMINA	-287.8	-88.8	-358.5	367.0	474.3	-469.4	-592.3	-428.7
5. <u>Miscellaneous capital</u>	710.3	-198.4	10.5	-904.3	-659.2	300.1	554.0	331.6
Reimbursement ING	69.3	15.4	-	5.2	-	-	-	-
Debt repayments	-458.8	-278.5	-220.8	-169.3	-151.0	-127.0	-76.4	-59.2
Short-term	(-98.1)	(-12.0)	(-7.2)	(-8.8)	(-2.7)	(-9.6)	-	-
MP/LT borrowing	(-145.4)	(-106.1)	(-92.0)	(-82.0)	(-60.5)	(-22.7)	-	-
Special projects	(-34.8)	(-28.2)	(-32.1)	(-14.4)	(-)	(-12.9)	-	-
Crude debt repayments	(-207.5)	(-132.2)	(-89.5)	(-64.1)	(-87.8)	(-81.8)	(-76.4)	(-59.2)
Project prefinancing	-59.8	-8.7	-13.6	-3.0	-	-	-	-
Oil export credit	-234.0	-73.4	244.9	-737.2	-508.2	427.1	630.4	390.8
Payments due	(4,177.5)	(5,343.1)	(5,179.3)	(6,906.7)	(10,760.9)	(11,401.0)	(9,243.2)	(8,766.6)
Receivables	(-4,411.5)	(-5,269.7)	(-4,934.4)	(-7,643.9)	(-11,269.1)	(-10,973.9)	(-8,612.8)	(-8,375.8)
6. <u>Total (4+5)</u>	2,999.3	4,153.3	3,795.9	5,403.5	8,685.2	8,678.8	6,342.2	6,347.8
7. <u>Errors and omissions</u>	-50.3	15.0	39.2	182.6	-65.6	792.1	254.5	-121.5
8. <u>Monetary movements</u>	-2,949.0	-4,168.3	-3,835.1	-5,586.1	-8,619.6	-9,470.9	-6,596.7	-6,460.3

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

LNG Balance of Payments, 1977/78 - 1983/84
(US\$ million)

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
1. Exports, FOB	<u>161.7</u>	<u>516.2</u>	<u>1,345.3</u>	<u>2,110.5</u>	<u>2,342.6</u>	<u>2,461.1</u>	<u>2,398.9</u>
G&P	188.9	604.3	1,511.0	2,320.4	2,587.8	2,689.3	2,622.0
MMBTU (million)	(71.2)	(216.3)	(373.1)	(424.3)	(458.0)	(477.8)	(549.4)
M/T (million)	(1.4)	(4.1)	(7.3)	(8.2)	(8.9)	(9.3)	(-)
Price (\$/MMBTU)	(2.63)	(2.79)	(4.05)	(4.98)	(5.12)	(5.15)	(4.37)
Freight	-27.2	-88.1	-165.7	-209.9	-245.2	-228.7	223.1
\$/MMBTU	(0.42)	(0.43)	(0.45)	(0.49)	(0.54)	(0.48)	(0.50)
2. Imports, CIF	<u>-17.0</u>	<u>-52.8</u>	<u>-95.4</u>	<u>-136.3</u>	<u>-129.1</u>	<u>-156.7</u>	<u>-237.4</u>
3. Services	<u>-52.2</u>	<u>-238.8</u>	<u>-582.7</u>	<u>-718.6</u>	<u>-831.3</u>	<u>-926.9</u>	<u>-807.0</u>
Cost of recovery	-21.8	-122.8	-428.2	-221.3	-216.0	-300.2	-338.9
Contractor's share	-30.4	-115.8	-153.7	-495.6	-613.3	-624.7	466.2
Other charges	-	-0.2	-0.8	-1.7	-2.0	-2.0	-1.9
4. Current account (1+2+3)	<u>92.5</u>	<u>224.6</u>	<u>667.2</u>	<u>1,255.6</u>	<u>1,382.2</u>	<u>1,377.5</u>	<u>1,345.0</u>
5. Miscellaneous capital	<u>-79.0</u>	<u>-146.6</u>	<u>-334.8</u>	<u>-149.6</u>	<u>-190.4</u>	<u>-168.7</u>	<u>-227.2</u>
Debt repayments (JILCO ex-escrow account)	-29.7	-96.7	-140.4	-238.0	-167.1	-172.6	-195.4
(Net transfer to escrow and special account)	-49.3	-49.9	-194.4	-88.4	-23.3	3.9	-31.8
6. Total (4+5)	<u>13.5</u>	<u>78.0</u>	<u>332.4</u>	<u>1,106.0</u>	<u>1,191.8</u>	<u>1,208.8</u>	<u>1,127.3</u>
7. Errors and omissions	13.9	1.5	-23.5	-102.6	-52.6	-49.3	-254.5
8. Monetary movements	<u>-27.4</u>	<u>-79.5</u>	<u>-308.9</u>	<u>-1,003.4</u>	<u>-1,139.2</u>	<u>-1,159.5</u>	<u>-872.8</u>
BUN	-11.9	-28.4	-263.1	-979.2	-1,112.8	-1,130.3	n.a.
Pertamina	-0.8	-2.5	-6.7	-24.2	-26.4	-29.2	n.a.
Pertamina (to BI as debt repayments)	-14.7	-48.6	-39.1	-	-	-	n.a.

Source: Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

External Public Debt Outstanding Including Undisbursed as of December 31, 1983
with Major Reported New Commitments through December 31, 1984

Debt Repayable in Foreign Currency and Goods
(US\$ '000)

Type of creditor/ Creditor country	Debt outstanding			Major reported new commitments Jan. 1-Dec. 31, 1984
	Disbursed	Undisbursed	Total	
Suppliers' credits				
Australia	1,659	85	1,744	-
France	13,029	859	13,888	-
Germany, Fed. Rep. of	37,892	-	37,892	-
Japan	2,096,890	2,510,588	4,607,478	301,413
Korea, Rep. of	91,778	31,421	123,199	-
Netherlands	3,995	-	3,995	-
Pakistan	-	12,682	12,682	-
Switzerland	747	-	747	-
United Kingdom	13,754	20	13,774	-
United States	-	2,273	2,273	-
USSR	1,323	305	1,628	-
Yugoslavia	59,575	16	59,591	-
Total suppliers' credits	2,320,642	2,558,250	4,878,892	301,413
Financial institutions				
Austria	23,129	2,374	25,503	35,647
Belgium	70,669	52,507	123,176	-
Canada	318,182	-	318,182	-
France	379,541	577,965	957,506	36,338
Germany, Fed. Rep. of	389,344	62,133	451,477	-
Hong Kong	734,269	-	734,269	7,597
Italy	3,178	-	3,178	-
Japan	732,154	386,649	1,118,803	379,350
Netherlands	172,666	203,583	376,249	20,005
Norway	38,450	14,418	52,868	-
Singapore	455,109	3,145	458,254	-
Sweden	44,208	139,050	183,258	-
Switzerland	20,768	99,260	120,028	-
United Kingdom	604,302	539,651	1,143,953	480,397
United States	2,366,246	422,269	2,788,515	2,791
Multiple lenders	-	-	-	750,000
Total financial institutions	6,352,215	2,503,006	8,855,221	1,712,125
Bonds				
Germany, Fed. Rep. of	73,426	-	73,426	-
Japan	167,973	-	167,973	-
Kuwait	19,141	-	19,141	-
Netherlands	47,316	-	47,316	-
Saudi Arabia	75,000	-	75,000	-
Switzerland	226,912	-	226,912	-
United Kingdom	250,000	-	250,000	-
Total bonds	859,768	-	859,768	-
Nationalization				
Netherlands	116,561	-	116,561	-
Total nationalization	116,561	-	116,561	-

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COUNTRY ECONOMIC MEMORANDUM

External Public Debt Outstanding Including Undisbursed as of December 31, 1983
with Major Reported New Commitments through December 31, 1984

Debt Repayable in Foreign Currency and Goods
(US\$ '000)

Type of creditor/ Creditor country	Debt outstanding			Major reported new commitments Jan. 1-Dec. 31, 1984
	Disbursed	Undisbursed	Total	
Multilateral loans				
ADB	568,078	1,491,302	2,059,380	790,000
EEC	5,500	-	5,500	-
IBRD	2,136,387	3,727,966	5,864,353	987,200
IDA	762,589	164,575	927,164	-
IFAD	5,083	71,450	76,533	-
Islamic Development Bank	-	8,376	8,376	-
Total multilateral loans	3,477,637	5,463,669	8,941,306	1,777,200
Bilateral loans				
Australia	7,671	55	7,726	43,525
Austria	71,913	5,566	77,479	-
Belgium	42,963	20,220	63,183	-
Bulgaria	1,575	-	1,575	-
Canada	226,152	245,991	472,143	26,892
China	51,064	-	51,064	-
Czechoslovakia	52,524	-	52,524	-
Denmark	64,619	4,489	69,108	-
Egypt, Arab Rep. of	2,548	-	2,548	-
France	183,959	121,448	305,407	12,627
Germany, Dem. Rep. of	43,195	-	43,195	-
Germany, Fed. Rep. of	855,427	464,476	1,319,903	138,564
Hungary	13,101	-	13,101	-
India	16,191	55,993	72,184	-
Iran	73,660	24	73,684	-
Italy	31,607	-	31,607	-
Japan	2,952,514	1,190,010	4,142,524	359,534
Kuwait	16,790	121,746	138,536	-
Netherlands	352,362	121,983	474,345	50,070
New Zealand	1,989	315	2,304	-
Pakistan	6,579	-	6,579	-
Poland	73,775	-	73,775	-
Romania	10,579	-	10,579	-
Saudi Arabia	57,718	87,080	144,798	-
Spain	212,574	6,584	219,158	-
United Arab Emirate	12,242	1,733	13,975	-
United Kingdom	7,473	69,048	76,521	-
United States	2,312,361	732,405	3,044,766	262,164
USSR	584,960	-	584,960	-
Yugoslavia	94,454	4,320	98,774	-
Multiple lenders	124,764	-	124,764	-
Total bilateral loans	8,559,303	3,253,482	11,812,785	893,376
Total external public debt	21,686,126	13,778,407	35,464,533	4,684,114

Note: Only debts with an original or extended maturity of over one year are included in this table.

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

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COUNTRY ECONOMIC MEMORANDUM

Service Payments, Commitments, Disbursements and Outstanding Amounts of External Public Debt /a
(US\$ '000)

Year	Debt outstanding at beginning of period		Transactions during period				Other changes		
	Disbursed only	Including undisbursed	Commitments	Disbursements	Service payments		Cancel-lations	Adjust-ment /b	
					Principal	Interest	Total		
<u>Actual</u>									
1977	10,001,648	14,574,783	1,720,488	1,958,958	820,999	440,695	1,261,694	14,249	736,687
1978	11,669,764	16,196,710	3,284,605	2,214,595	1,548,319	513,797	2,062,116	40,543	1,144,859
1979	13,149,658	19,037,312	4,101,018	1,887,248	1,328,656	770,911	2,099,567	128,423	-478,831
1980	13,277,847	21,202,420	4,277,370	2,550,504	935,337	823,134	1,758,471	118,261	25,668
1981	14,971,338	24,451,860	5,266,296	2,672,846	1,052,836	994,322	2,047,158	163,286	-1,291,014
1982	15,869,989	27,211,020	7,061,392	4,192,257	1,101,950	1,144,679	2,246,629	7,042	-947,406
1983	18,515,124	32,216,014	5,622,011	4,965,184	1,294,859	1,255,900	2,550,759	179,341	-937,166
1984	21,686,126	35,464,533	4,684,114	3,828,300	1,628,410	1,619,467	3,247,877	44,383	-1,639,438
<u>Projected</u>									
1985	22,863,311	36,836,416	-	3,624,047	1,980,216	1,597,316	3,577,532	-	833,491
1986	24,461,097	34,022,709	-	3,078,317	2,093,412	1,707,845	3,801,257	-	36
1987	25,446,028	31,929,333	-	2,570,683	2,451,965	1,761,332	4,213,297	-	10
1988	25,564,753	29,477,378	-	1,771,986	2,897,171	1,729,506	4,626,677	-	18
1989	24,439,587	26,580,225	-	987,942	3,081,692	1,610,105	4,691,797	-	10
1990	22,345,850	23,498,543	-	513,373	2,900,134	1,433,116	4,333,250	-	41
1991	19,959,113	20,598,450	-	318,086	2,525,283	1,243,891	3,769,174	-	1
1992	17,751,920	18,073,168	-	224,333	2,326,388	1,094,294	3,420,682	-	20
1993	15,649,879	15,746,800	-	96,922	2,001,923	948,144	2,950,067	-	18
1994	13,744,895	13,744,895	-	-	1,586,498	813,739	2,400,237	-	35
1995	12,158,432	12,158,432	-	-	1,346,326	715,003	2,061,329	-	3

/a Based on debt outstanding including undisbursed as of December 31, 1983 and major transactions during 1984.

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

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

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COUNTRY ECONOMIC MEMORANDUM

External Public Debt by Country and Type of Creditor as of December 31, 1983
(US\$ million)

	<u>Bilateral/ multilateral</u>		<u>Other /a</u>		<u>Total</u>	
	<u>Dis- bursed only</u>	<u>Incl. undis- bursed</u>	<u>Dis- bursed only</u>	<u>Incl. undis- bursed</u>	<u>Dis- bursed only</u>	<u>Incl. undis- bursed</u>
Australia	8	8	2	2	10	10
Austria	72	77	23	26	95	103
Belgium	43	63	71	123	114	186
Canada	226	472	318	318	544	790
Denmark	65	69	-	-	65	69
France	184	305	393	971	577	1,276
Germany, Fed. Rep. of	855	1,320	501	563	1,356	1,883
Italy	32	32	3	3	35	35
Japan	2,953	4,143	2,997	5,894	5,950	10,037
Netherlands	352	474	341	544	693	1,018
New Zealand	2	2	-	-	2	2
Norway	-	-	38	53	38	53
Spain	213	219	-	-	213	219
Sweden	-	-	44	183	44	183
Switzerland	-	-	248	348	248	348
United Kingdom	7	77	868	1,408	875	1,485
United States	2,312	3,045	2,366	2,791	4,678	5,836
<u>Total bilateral IGGI</u>	<u>7,324</u>	<u>10,305</u>	<u>8,212</u>	<u>13,228</u>	<u>15,536</u>	<u>23,533</u>
ADB	568	2,059	-	-	568	2,059
IBRD/IDA	2,899	6,792	-	-	2,899	6,792
EEC	6	6	-	-	6	6
<u>Total multilateral IGGI</u>	<u>3,473</u>	<u>8,856</u>	<u>-</u>	<u>-</u>	<u>3,473</u>	<u>8,856</u>
<u>Total IGGI</u>	<u>10,797</u>	<u>19,161</u>	<u>8,212</u>	<u>13,228</u>	<u>19,009</u>	<u>32,389</u>
Non-IGGI	1,240	1,593	1,437	1,483	2,677	3,076
<u>Total</u>	<u>12,037</u>	<u>20,754</u>	<u>9,649</u>	<u>14,711</u>	<u>21,686</u>	<u>35,465</u>

/a Suppliers, financial institutions, bonds, nationalization debt.

Note: Data in this table refer to public sector and medium-term debt with an original maturity of one year or more. Figures rounded to nearest million. Totals may not add due to rounding.

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

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COUNTRY ECONOMIC MEMORANDUM

External Public Debt as of December 31, 1983
by Major Currency and Country

	<u>Amount (\$ billion)</u>		<u>Share (%)</u>	
	<u>Disbursed</u>	<u>Total</u>	<u>Disbursed</u>	<u>Total</u>
<u>Currency</u>				
US dollar	9.14	11.07	42	32
Yen	5.03	7.92	23	23
DM	1.53	2.25	7	6
NLG	0.69	1.02	3	3
Rouble	0.58	0.58	3	2
Fr. franc	0.55	1.26	2	4
Other	1.44	2.64	7	8
Multiple	2.73	7.92	13	23
<u>Total</u>	<u>21.69</u>	<u>34.66</u>	<u>100</u>	<u>100</u>
<u>Country</u>				
Japan	5.95	9.04	27	26
USA	4.68	5.84	22	17
Germany, Fed. Rep. of	1.36	2.02	6	6
Netherlands	0.69	1.02	3	3
France	0.58	1.34	3	4
USSR	0.58	0.58	3	2
Other countries	4.26	5.87	20	17
Multilateral organizations	3.48	8.94	16	26
<u>Total</u>	<u>21.69</u>	<u>34.66</u>	<u>100</u>	<u>100</u>

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

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COUNTRY ECONOMIC MEMORANDUM

Loan Commitments by Country, 1975-83
(US\$ million)

	<u>Bilateral/Multilateral /a</u>									<u>Other /b</u>									<u>Total</u>								
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1975	1976	1977	1978	1979	1980	1981	1982	1983	1975	1976	1977	1978	1979	1980	1981	1982	1983
Australia	-	-	-	6	3	2	-	4	-	-	-	6	-	-	-	-	-	-	-	6	6	3	2	-	4	-	
Austria	-	-	-	-	-	115	-	-	-	-	-	-	-	-	28	-	3	-	-	-	-	-	115	28	-	3	
Belgium	9	8	9	10	11	3	10	-	7	126	-	-	15	31	24	7	50	135	8	9	10	26	35	34	7	57	
Canada	14	224	5	61	11	-	149	40	17	-	-	-	350	-	-	-	-	14	224	5	411	11	-	149	40	17	
Denmark	-	57	-	-	10	54	-	-	-	-	-	-	-	-	-	-	-	-	57	-	-	10	54	-	-	-	
France	16	-	77	77	20	208	-	40	10	331	88	50	132	221	234	579	330	92	348	88	127	209	241	442	579	370	102
Germany, Fed. Rep. of	126	13	76	86	240	162	209	272	170	3	470	-	77	396	177	79	39	60	129	483	76	162	635	339	289	311	229
Italy	-	-	-	-	-	-	-	-	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4	
Japan	173	132	419	187	640	505	358	251	291	213	334	79	212	291	189	1275	933	1499	386	465	498	398	931	693	1632	1184	1790
Netherlands	-	89	41	-	55	113	2	95	4	310	1	-	9	37	6	40	78	214	310	90	41	9	92	119	42	173	219
New Zealand	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	1	-	-	-	-	-	-	-
Norway	-	-	-	-	-	-	-	-	-	-	90	-	-	-	-	-	-	-	-	90	-	-	-	-	-	8	-
Spain	-	-	-	-	-	-	316	17	24	-	-	-	-	-	-	-	-	-	-	-	-	-	-	316	17	24	
Sweden	-	-	-	-	-	-	-	-	-	-	-	48	7	-	-	176	-	-	-	-	-	48	7	-	-	176	-
Switzerland	-	-	-	-	-	-	-	-	-	-	-	-	153	45	-	200	4	-	-	-	-	-	153	45	-	200	4
United Kingdom	-	-	-	-	-	-	-	27	49	144	50	-	42	47	4	90	1045	432	144	50	-	42	47	4	90	1072	480
United States	143	430	112	389	178	334	43	431	186	905	249	204	685	425	512	400	316	1009	1048	679	315	1074	603	846	443	747	1194
<u>Total bilateral</u>	<u>483</u>	<u>953</u>	<u>738</u>	<u>816</u>	<u>1167</u>	<u>1496</u>	<u>1085</u>	<u>1176</u>	<u>762</u>	<u>2032</u>	<u>1281</u>	<u>338</u>	<u>1554</u>	<u>1592</u>	<u>1198</u>	<u>2516</u>	<u>3133</u>	<u>3362</u>	<u>2515</u>	<u>2234</u>	<u>1076</u>	<u>2369</u>	<u>2759</u>	<u>2694</u>	<u>3601</u>	<u>4309</u>	<u>4124</u>
<u>IGGI</u>	<u>78</u>	<u>109</u>	<u>136</u>	<u>199</u>	<u>235</u>	<u>285</u>	<u>338</u>	<u>371</u>	<u>223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78</u>	<u>109</u>	<u>136</u>	<u>199</u>	<u>235</u>	<u>285</u>	<u>338</u>	<u>371</u>	<u>223</u>	
ADB	311	564	406	551	815	734	837	977	1210	-	-	-	-	-	-	-	-	-	311	564	406	551	815	734	837	977	1210
IBRD/IDA	-	-	-	-	6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	-	-	-	-
EEC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<u>Total multilateral</u>	<u>389</u>	<u>673</u>	<u>542</u>	<u>750</u>	<u>1056</u>	<u>1019</u>	<u>1175</u>	<u>1348</u>	<u>1433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>389</u>	<u>673</u>	<u>542</u>	<u>750</u>	<u>1056</u>	<u>1019</u>	<u>1175</u>	<u>1348</u>	<u>1433</u>
<u>IGGI</u>	<u>871</u>	<u>1626</u>	<u>1279</u>	<u>1565</u>	<u>2223</u>	<u>2515</u>	<u>2260</u>	<u>2524</u>	<u>2195</u>	<u>2032</u>	<u>1281</u>	<u>338</u>	<u>1554</u>	<u>1592</u>	<u>1198</u>	<u>2516</u>	<u>3133</u>	<u>3362</u>	<u>2904</u>	<u>2907</u>	<u>1617</u>	<u>3119</u>	<u>3815</u>	<u>3713</u>	<u>4776</u>	<u>5656</u>	<u>5557</u>
<u>Total IGGI</u>	<u>200</u>	<u>72</u>	<u>103</u>	<u>23</u>	<u>28</u>	<u>125</u>	<u>212</u>	<u>74</u>	<u>54</u>	<u>175</u>	<u>154</u>	<u>-</u>	<u>143</u>	<u>258</u>	<u>440</u>	<u>279</u>	<u>1331</u>	<u>11</u>	<u>375</u>	<u>226</u>	<u>103</u>	<u>166</u>	<u>286</u>	<u>565</u>	<u>490</u>	<u>1405</u>	<u>65</u>
Non-IGGI	1071	1697	1382	1588	2251	2640	2472	2597	2249	2207	1435	338	1697	1850	1638	2794	4464	3373	3278	3132	1721	3285	4101	4277	5266	7061	5622
<u>Total</u>	<u>1071</u>	<u>1697</u>	<u>1382</u>	<u>1588</u>	<u>2251</u>	<u>2640</u>	<u>2472</u>	<u>2597</u>	<u>2249</u>	<u>2207</u>	<u>1435</u>	<u>338</u>	<u>1697</u>	<u>1850</u>	<u>1638</u>	<u>2794</u>	<u>4464</u>	<u>3373</u>	<u>3278</u>	<u>3132</u>	<u>1721</u>	<u>3285</u>	<u>4101</u>	<u>4277</u>	<u>5266</u>	<u>7061</u>	<u>5622</u>

/a Specific loan and/or project agreements signed including official export credits. Amounts may, therefore, differ from donor's pledge or budget allocation, general agreements, frame agreements, exchange of notes and other forms of bilateral commitment preceding specific commitments. Grants are excluded.

/b Suppliers, financial institutions, bonds.

Note: Data in this table refer to public sector medium and long term loans with a maturity of one year or more. Figures rounded to nearest million. Totals may not add due to rounding.

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

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

IGGI and Non-IGGI Disbursements and Net Resource Transfers, 1975-83
(US\$ million)

	Bilateral/Multilateral /a									Other /b									Total								
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1975	1976	1977	1978	1979	1980	1981	1982	1983	1975	1976	1977	1978	1979	1980	1981	1982	1983
Gross disbursements																											
Bilateral IGGI	394	615	478	621	510	677	775	1061	983	1526	1323	1046	1192	852	1152	894	1955	2902	1919	1938	1524	1813	1362	1828	1669	3015	3885
Multilateral IGGI	184	291	268	216	279	431	476	714	713	-	-	-	-	-	-	-	-	184	291	268	216	279	431	476	714	713	
Total IGGI	578	906	746	837	789	1108	1251	1775	1697	1526	1323	1046	1192	852	1152	894	1955	2902	2103	2229	1791	2029	1641	2259	2144	3730	4599
Non-IGGI	-	15	122	98	37	22	112	61	49	24	89	46	88	210	269	417	401	317	24	103	168	186	246	291	528	462	367
Total gross disbursements	578	920	867	935	826	1130	1363	1836	1746	1549	1412	1092	1280	1061	1421	1310	2356	3219	2127	2332	1959	2215	1887	2551	2673	4192	4965
Net disbursements /c																											
Bilateral IGGI	361	562	396	494	340	475	531	784	640	1300	1070	364	-114	-114	604	246	1364	2199	1661	1632	760	380	226	1079	776	2148	2839
Multilateral IGGI	184	290	266	208	252	393	419	617	605	-	-	-	-	-	-	-	-	184	290	266	208	252	393	419	617	605	
Total IGGI	545	852	662	702	591	869	949	1401	1245	1300	1070	364	-114	-114	604	246	1364	2199	1845	1922	1026	588	477	1473	1195	2765	3444
Non-IGGI	-31	-18	89	29	-32	-59	38	-30	-50	-36	-6	23	49	113	201	388	356	277	-66	-24	112	79	81	143	425	325	226
Total net disbursements	515	834	751	731	559	810	987	1370	1194	1264	1064	387	-65	-1	805	633	1720	2476	1779	1899	1138	666	559	1615	1620	3090	3670
Net resource transfers /d																											
Bilateral IGGI	295	473	282	347	145	288	339	570	402	1197	875	92	-389	-562	135	-330	750	1528	1492	1348	374	-42	-417	422	9	1320	1930
Multilateral IGGI	180	282	230	144	167	286	293	458	397	-	-	-	-	-	-	-	-	180	282	230	144	167	286	293	458	397	
Total IGGI	475	755	512	491	312	574	632	1028	799	1197	875	92	-389	-562	135	-330	750	1528	1672	1630	604	102	-250	708	301	1778	2327
Non-IGGI	-32	-21	79	15	-49	-75	20	-64	-77	-37	-38	14	36	87	159	304	232	164	-68	-59	93	51	38	84	325	168	87
Total net resource transfers	443	734	592	506	263	499	652	964	722	1160	837	106	-353	-475	293	-26	981	1692	1604	1572	697	153	-212	792	626	1946	2414

/a Excluding grants.

/b Suppliers, financial institutions, bonds.

/c Equals gross disbursements minus amortization.

/d Equals gross disbursements minus debt service.

Note: Data in this table refer to disbursements and resource transfers of public sector medium and long term debt with a maturity of one year or more. Figures rounded to nearest million. Totals may not add due to rounding.

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

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Summary External Debt Data, 1975-83 /a

	1975	1976	1977	1978	1979	1980	1981	1982	1983
(in US \$ million)									
External debt data									
<u>Disbursed and outstanding debt (DOD) /b</u>	7,994	10,002	11,670	13,150	13,278	14,971	15,870	18,515	21,686
Bilateral/multilateral	5,004	5,910	7,073	8,389	8,509	9,506	10,058	11,112	12,037
Other /c	2,990	4,092	4,597	4,762	4,769	5,465	5,813	7,403	9,649
<u>Total debt outstanding, including undischarged (TDO) /b</u>	11,741	14,575	16,197	19,037	21,202	24,452	27,211	32,216	35,465
Bilateral/multilateral	7,119	8,828	10,635	12,835	14,199	16,675	17,965	19,549	20,754
Other /c	4,622	5,747	5,562	6,202	7,003	7,777	9,246	12,667	14,711
<u>Commitments</u>	3,278	3,132	1,721	3,285	4,101	4,277	5,266	7,061	5,622
Bilateral/multilateral	1,071	1,697	1382	1,588	2,251	2,640	2,472	2,597	2,249
Other /c	2,207	1,435	338	1,697	1,850	1,638	2,794	4,464	3,373
<u>Gross disbursements</u>	2,127	2,332	1,959	2,215	1,887	2,551	2,673	4,192	4,965
Bilateral/multilateral	578	920	867	935	828	1,130	1,363	1,836	1,748
Other /c	1,549	1,412	1,092	1,280	1,061	1,421	1,310	2,356	3,219
<u>Net disbursements</u>	1,779	1,899	1,138	666	559	1,615	1,620	3,090	3,670
Bilateral/multilateral	515	834	751	731	559	810	987	1,370	1,194
Other /c	1,264	1,064	387	-65	-1	805	633	1,720	2,476
<u>Net resource transfers</u>	1,604	1,572	697	153	-212	792	626	1,946	2,414
Bilateral/multilateral	443	734	592	506	263	499	632	964	721
Other /c	1,160	837	106	-353	-475	293	-26	981	1,692
<u>Public debt service</u>	523	761	1,262	2,062	2,100	1,758	2,047	2,247	2,551
Amortization	348	434	821	1,348	1,329	935	1,033	1,102	1,295
Interest	175	327	441	514	771	823	994	1,145	1,256
<u>Public debt service</u>	523	761	1,262	2,062	2,100	1,758	2,047	2,247	2,551
Bilateral/multilateral	135	186	276	429	563	631	711	872	1,024
Other /c	388	574	986	1,633	1,537	1,127	1,336	1,375	1,527
(in percent)									
<u>Disbursement indicators</u>									
<u>Undisbursed debt/TDO /b</u>	32	31	28	31	37	39	42	43	39
Bilateral/multilateral	30	33	33	35	40	43	44	43	42
Other /c	35	29	17	23	32	30	37	42	34
<u>Gross disbursements/commitments</u>	65	74	114	67	46	60	51	59	88
Bilateral/multilateral	34	34	63	39	37	43	35	71	78
Other /c	70	98	323	75	57	87	47	53	95
<u>Gross disbursements/undisbursed debt and commitments /d</u>	36	34	31	28	19	21	18	23	26
Bilateral/multilateral	21	24	20	18	12	14	14	17	16
Other /c	48	46	55	48	32	37	26	30	37
<u>Net disbursements/gross disbursements</u>	84	81	58	30	30	63	61	74	74
Bilateral/multilateral	89	91	87	78	68	72	72	75	68
Other /c	82	75	35	-5	-	57	48	73	77
<u>Net resource transfers/gross disbursements</u>	75	67	36	7	-11	31	23	46	69
Bilateral/multilateral	77	80	68	54	32	44	48	53	41
Other /c	75	59	10	-28	-45	21	-2	42	53

/a Data in this table refer to public sector medium and long term loans. Loans with a maturity of less than one year and grants are not included.

/b End of year.

/c Suppliers, financial institutions, bonds, nationalization debt.

/d Gross disbursements as a 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 MEMORANDUM

Central Government Budget Summary, 1973/74 - 1985/86
(Rp. billion)

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	Actual					Budget	
							1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
1. Domestic revenue	967.7	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	16,149.4	18,677.9
2. Routine expenditures /a	713.3	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	10,101.1	12,399.0
3. Government saving (1-2)	<u>254.4</u>	<u>737.6</u>	<u>909.3</u>	<u>1,276.2</u>	<u>1,385.5</u>	<u>1,522.4</u>	<u>2,635.0</u>	<u>4,427.0</u>	<u>5,235.0</u>	<u>5,422.0</u>	<u>6,020.9</u>	<u>6,048.3</u>	<u>6,278.9</u>
4. Development expenditures	450.9	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	10,459.3	10,647.0
5. Balance (3-4)	<u>-196.5</u>	<u>-224.2</u>	<u>-488.4</u>	<u>-778.3</u>	<u>-771.3</u>	<u>-1,033.2</u>	<u>-1,379.2</u>	<u>-1,489.1</u>	<u>-1,705.0</u>	<u>-1,937.6</u>	<u>-3,878.3</u>	<u>-4,411.0</u>	<u>-4,368.1</u>
Financed by:													
6. Counterpart funds /b	89.8	36.1	20.2	10.2	35.8	48.2	64.8	64.1	45.1	15.1	14.9	39.5	70.9
7. Project aid	114.1	195.9	471.4	773.6	737.6	987.3	1,316.3	1,429.7	1,663.9	1,924.9	3,867.5	4,371.5	4,297.2
8. Change in balances (- = increase)	-7.4	-7.8	-3.2	-5.5	-2.1	-2.3	-1.9	-4.7	-4.0	-2.4	-4.1	0	0

/a Includes debt service payments.

/b Program aid.

Source: Ministry of Finance.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Central Government Receipts, 1973/74 - 1985/86
(Rp. billion)

	Actual										Budget		
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Taxes on income	505.0	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	12,968.3	14,401.1
Income tax	34.4	43.3	61.7	84.2	104.6	122.2	148.1	164.2	207.2	288.8	398.8	577.6/e	797.3/e
Corporate tax	44.2	91.2	128.2	127.2	169.5	226.5	297.1	447.6	559.1	674.5	757.4	1,873.5	2,276.7
Corporate tax on oil	344.6	973.1/a	1,249.1	1,619.4	1,948.7	2,308.7	4,259.6	7,019.6	8,627.8	8,170.4	9,520.2	10,366.6	11,159.7
Withholding tax	56.8	83.3	97.3	148.4	201.7	232.5	291.3	433.5	513.0	641.9	628.1	-	-
IPEDA	19.5	28.0	34.6	42.2	52.5	63.1	71.4	87.2	94.5	105.2	132.4	150.6	167.4
Other	5.5	9.8	21.2	25.2	34.3	43.3	61.8	78.2	98.7	129.1	168.2	/f	/f
Taxes on domestic consumption	165.4	158.6	231.3	319.6	397.8	491.4	537.2	732.9	888.0	1,137.4	1,392.1	1,761.1	2,726.1
Sales tax	54.6	84.9	119.2	162.3	203.4	221.1	192.2	265.6	310.7	476.6	575.2	958.2 /f	1,666.4/g
Excises	61.7	74.4	97.3	130.7	181.9	252.9	326.4	437.9	544.2	620.1	773.2	727.5	963.3
Other oil revenues	37.6	-15.9	-1.1	15.9	-/b	-/b	-/b	-/b	-/b	-/b	-/b	-/b	-/b
Miscellaneous levies	11.5	15.2	15.9	10.7	12.5	17.4	18.6	29.4	33.1	40.7	43.7	75.4	96.4
Taxes on international trade	247.5	299.8	308.1	421.3	481.7	587.0	843.0	948.1	887.9	835.4	916.0	805.0	818.8
Import duties	128.2	160.6	174.0	257.4	286.9	295.3	316.7	448.0	336.2	521.9	557.0	681.4	717.1
Sales tax on imports	50.7	68.9	72.5	102.2	114.6	125.5	137.2	195.1	223.3	231.0	255.0	-/g	-/g
Export tax	68.6	70.3	61.6	61.7	80.2	166.2	389.1	305.0	128.4	82.5	104.0	123.6	101.7
Nontax receipt	49.8	66.6	110.4	118.5	143.6	191.4	187.3	315.7	336.4	435.6	519.5	615.0	731.9
domestic revenue	967.7	1,753.7	2,241.9	2,906.0	3,534.0	4,266.1	6,696.8	10,277.0	12,212.6	12,418.3	14,432.7	16,149.4	18,677.9
Development funds	203.9	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	4,411.0	4,368.1
Counterpart funds /c	89.8	36.1	20.2	10.2	35.8	48.2	64.8	64.1	45.1	15.1	14.9	39.5	70.9
Project aid /d	114.1	195.9	471.4	773.6	737.6	987.3	1,316.3	1,429.7	1,663.9	1,924.9	3,867.5	4,371.5	4,297.2
Total revenues	1,171.6	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	20,560.4	23,046.0

/a Excludes underpayment of revenues, estimated at about Rp. 340 billion, due to the Government by PERTAMINA.

/b Oil subsidies shown as government expenditures (see Table 5.3).

/c Program aid.

/d Includes commercial bank and suppliers' credits for development programs/projects.

/e Since 1984/85 withholding tax neglected and combined with income tax.

/f Classification changed to other tax and included in miscellaneous levies.

/g Since 1984/85 classification changed to value-added tax and tax on luxury goods.

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Central Government Expenditures, 1973-74 - 1985/86
(Rp. billion)

	Actual										Budget		
	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
<u>Personnel expenditures</u>	268.9	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	3,189.5	4,117.3
Wages and salaries	173.9	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	2,307.9	3,115.8
Rice allowance	50.6	59.5	111.9	114.9	126.2	132.8	179.9	252.0	253.3	289.9	346.1	415.7	482.5
Food allowance	16.8	24.4	43.5	45.7	47.8	51.2	109.9	193.2	241.0	254.9	261.3	286.6	313.3
Other	20.2	24.7	25.8	36.9	31.5	33.6	47.1	61.2	80.0	78.6	87.6	99.9	116.6
External	7.4	9.8	12.7	14.3	14.8	23.7	29.1	34.0	43.0	45.7	66.0	79.4	89.1
<u>Material expenditures</u>	110.1	175.2	304.9	339.7	376.8	419.5	569.0	670.6	922.4	1,041.2	1,057.1	1,263.9	1,529.9
Domestic	98.3	158.4	283.1	320.8	358.6	398.4	539.6	637.8	890.5	1,007.4	1,007.0	1,207.8	1,451.8
External	11.8	16.8	21.8	18.9	18.2	21.1	29.4	32.8	31.9	33.8	50.1	56.1	78.1
<u>Subsidies to regions</u>	108.6	201.9	284.5	313.0	478.4	522.3	669.9	976.1	1,209.4	1,315.4	1,546.9	1,784.6	2,590.0
West Irian Jaya	10.3	14.3	18.7	19.7	21.7	22.1	25.0	33.9	42.0	43.0	41.5	48.2	-/f
Other regions	98.3	187.6	265.8	293.3	456.7	500.2	644.9	942.2	1,167.4	1,272.4	1,505.4	1,736.4	
<u>Debt service payments</u>	70.7	73.7	78.5	189.5	228.3	534.5	684.1	784.8	931.0	1,224.5	2,102.7	2,686.1	3,559.5
Internal	8.2	6.4	6.8	24.4	7.4	8.8	36.5	30.8	16.0	19.8	29.8	30.0	30.0
External	62.5	67.3	71.7	165.1	220.9	525.7	647.6	754.0	915.0	1,204.7	2,072.9	2,656.1	3,529.5
<u>Other expenditures</u>	155.0	145.2	70.8	151.0	172.2	265.8	718.9	1,345.2	1,637.1	997.1	948.1	1,177.0	602.3
Food subsidy	153.0	141.0	50.0	39.0	-	43.5	124.9	281.6	224.0	1.0	-	-	-
Oil subsidy	-	-	-	-	65.1	197.0	534.9	1,022.0	1,316.0	962.0	928.1	1,147.0	532.3
Others	2.0	4.2	20.8	112 /a	107.1 /b	25.3	59.1 /c	41.5	97.1 /d	34.1	20.0	30.0	70.0/g
<u>Routine expenditures</u>	713.3	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	10,101.1	12,399.0
<u>Development expenditures /e</u>	450.9	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	10,459.3	10,647.0
<u>Total expenditures</u>	1,164.2	1,977.9	2,730.3	3,684.3	4,305.7	5,299.3	8,076.0	11,716.1	13,917.6	14,355.9	18,311.0	20,560.4	23,046.0

/a Includes debt service transfer to PERTAMINA (Rp. 31 billion) and general election (Rp. 37 billion).

/b Includes PERTAMINA subsidy (Rp. 86.4 billion).

/c Includes PERTAMINA subsidy (Rp. 48.1 billion).

/d Includes general election (Rp. 81.0 billion).

/e For details, see Tables 5.4 and 5.5.

/f Classification changed to wage/salary and nonwage/salary expenditures.

/g Includes preparation of general election (Rp. 40.0 billion).

Source: Ministry of Finance.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Development Expenditures, 1973/74 - 1985/86
(Rp. billion)

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	Actual					Budget	
							1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
1. Departments	<u>167.3</u>	<u>221.6</u>	<u>384.9</u>	<u>590.9</u>	<u>744.5</u>	<u>851.0</u>	<u>1,480.3</u>	<u>2,533.2</u>	<u>2,724.6</u>	<u>3,260.9</u>	<u>3,219.5</u>	<u>3,510.0</u>	<u>3,644.3</u>
2. General INPRES programs	<u>45.7</u>	<u>101.3</u>	<u>129.0</u>	<u>143.7</u>	<u>167.7</u>	<u>181.6</u>	<u>218.8</u>	<u>336.8</u>	<u>448.1</u>	<u>535.3</u>	<u>538.8</u>	<u>547.7</u>	<u>594.5</u>
Subsidies to provinces	<u>20.8</u>	<u>47.4</u>	<u>54.0</u>	<u>61.5</u>	<u>75.4</u>	<u>86.8</u>	<u>100.7</u>	<u>166.7</u>	<u>215.0</u>	<u>253.0</u>	<u>253.1</u>	<u>253.0</u>	<u>280.0</u>
Subsidies to kabupatens	<u>19.2</u>	<u>42.5</u>	<u>59.1</u>	<u>62.4</u>	<u>69.1</u>	<u>70.9</u>	<u>87.1</u>	<u>119.4</u>	<u>162.6</u>	<u>193.9</u>	<u>194.1</u>	<u>215.9</u>	<u>215.9</u>
Subsidies to villages	<u>5.7</u>	<u>11.4</u>	<u>15.9</u>	<u>19.8</u>	<u>23.2</u>	<u>23.9</u>	<u>31.0</u>	<u>50.7</u>	<u>70.5</u>	<u>88.4</u>	<u>91.6</u>	<u>92.8</u>	<u>98.6</u>
3. Sectoral INPRES programs	<u>19.2</u>	<u>25.0</u>	<u>65.1</u>	<u>94.1</u>	<u>137.0</u>	<u>176.0</u>	<u>252.0</u>	<u>377.2</u>	<u>584.5</u>	<u>444.2</u>	<u>771.2</u>	<u>809.7</u>	<u>872.8</u>
Primary schools	<u>17.2</u>	<u>19.7</u>	<u>49.9</u>	<u>57.3</u>	<u>85.0</u>	<u>111.8</u>	<u>155.8</u>	<u>249.8</u>	<u>374.5</u>	<u>267.4</u>	<u>549.3</u>	<u>580.8</u>	<u>617.0</u>
Health	-	<u>5.3</u>	<u>15.2</u>	<u>20.8</u>	<u>26.3</u>	<u>26.9</u>	<u>30.0</u>	<u>50.4</u>	<u>78.8</u>	<u>80.3</u>	<u>87.3</u>	<u>98.4</u>	<u>114.5</u>
Markets	-	-	-	-	<u>1.2</u>	<u>1.3</u>	<u>12.4</u>	<u>2.5</u>	<u>6.0</u>	<u>4.5</u>	<u>10.6</u>	<u>10.6</u>	<u>11.5</u>
Replanting/afforestation	-	-	-	<u>16.0</u>	<u>24.5</u>	<u>36.0</u>	<u>40.8</u>	<u>48.6</u>	<u>70.4</u>	<u>49.6</u>	<u>59.4</u>	<u>39.8</u>	<u>42.3</u>
Roads	-	-	-	-	-	-	<u>13.0</u>	<u>25.9</u>	<u>54.8</u>	<u>42.4</u>	<u>64.6</u>	<u>80.1</u>	<u>87.5</u>
4. IPEDA	<u>19.5</u>	<u>28.0</u>	<u>34.6</u>	<u>42.2</u>	<u>52.5</u>	<u>63.1</u>	<u>71.4</u>	<u>87.2</u>	<u>94.5</u>	<u>105.2</u>	<u>132.4</u>	<u>150.6</u>	<u>167.4</u>
5. Irian Jaya and East Timor	<u>3.3</u>	<u>4.0</u>	<u>5.5</u>	<u>5.0</u>	<u>9.0</u>	<u>10.4</u>	<u>6.6</u>	<u>6.4</u>	<u>6.8</u>	<u>5.7</u>	<u>5.2</u>	<u>8.5</u>	<u>8.8</u>
Subtotal of transfers to levels of government (2-5)	<u>85.7</u>	<u>158.3</u>	<u>234.2</u>	<u>285.0</u>	<u>366.2</u>	<u>431.1</u>	<u>548.8</u>	<u>807.6</u>	<u>1,133.9</u>	<u>1,090.4</u>	<u>1,447.6</u>	<u>1,515.5</u>	<u>1,643.5</u>
6. Fertilizer subsidy	<u>33.0</u>	<u>227.2</u>	<u>134.5</u>	<u>107.3</u>	<u>31.8</u>	<u>82.6</u>	<u>125.0</u>	<u>283.6</u>	<u>371.4</u>	<u>420.1</u>	<u>324.2</u>	<u>458.7</u>	<u>557.8</u>
7. Government capital participation (FMP)	<u>40.8</u>	<u>91.1</u>	<u>108.7</u>	<u>217.9</u>	<u>166.9</u>	<u>128.5</u>	<u>252.8</u>	<u>476.5</u>	<u>480.9</u>	<u>336.6</u>	<u>591.7</u>	<u>359.6</u>	<u>255.6</u>
8. Others	<u>10.0</u>	<u>67.7</u>	<u>64.0</u>	<u>79.8</u>	<u>109.8</u>	<u>75.1</u>	<u>291.0</u>	<u>385.5</u>	<u>565.3</u>	<u>326.7</u>	<u>448.7</u>	<u>243.0</u>	<u>248.6</u>
Total (1-8)	<u>336.8</u>	<u>765.9</u>	<u>926.3</u>	<u>1,280.9</u>	<u>1,419.2</u>	<u>1,568.3</u>	<u>2,697.9</u>	<u>4,486.4</u>	<u>5,276.1</u>	<u>5,434.7</u>	<u>6,031.7</u>	<u>6,087.8</u>	<u>6,349.8</u>
9. Project aid	<u>114.1</u>	<u>195.9</u>	<u>471.4</u>	<u>773.6</u>	<u>737.6</u>	<u>987.3</u>	<u>1,316.3</u>	<u>1,429.7</u>	<u>1,663.9</u>	<u>1,924.9</u>	<u>3,867.5</u>	<u>4,371.5</u>	<u>4,297.2</u>
Total (1-9)	<u>430.9</u>	<u>961.8</u>	<u>1,397.7</u>	<u>2,054.5</u>	<u>2,156.8</u>	<u>2,555.6</u>	<u>4,014.2</u>	<u>5,916.1</u>	<u>6,940.0</u>	<u>7,359.6</u>	<u>9,899.2</u>	<u>10,459.3</u>	<u>10,647.0</u>

Source: Ministry of Finance.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Development Expenditures by Sector, 1975/76 - 1985/86
(Rp. billion)

Sector	1975/76	1976/77	1977/78	1978/79	1979/80 Actual	1980/81	1981/82	1982/83	1983/84	1984/85 Budget	1985/86 Budget
Agriculture and irrigation (of which fertilizer subsidy)	257 (135)	356 (107)	380 (32)	450 (83)	508 (125)	929 (284)	954 (371)	931 (420)	913 (324)	1,402 (459)	1,430 (558)
Industry and mining	124	195	139	205	356	491	827	913	2,153	926	931
Electric power	128	218	223	272	376	431	530	758	660	1,025	1,026
Transportation and tourism	312	429	355	413	466	780	807	876	1,527	1,392	1,425
Manpower and transmigration	12	27	61	95	162	326	417	436	456	675	677
Regional development	173	190	251	275	336	482	616	711	749	810	868
Education	114	136	211	251	362	575	726	703	1,032	1,502	1,511
Health	38	48	71	79	142	218	286	259	279	253	255
Housing and water supply	13	30	90	56	117	191	166	151	221	433	438
General public services /a	72	114	123	225	473	700	800	785	899	940	971
Government capital participation	115	225	190	162	466	389	389	281	234	227	229
Others /b	40	87	63	73	250	404	422	556	776	874	886
<u>Total development expenditures</u>	<u>1,398</u>	<u>2,055</u>	<u>2,157</u>	<u>2,556</u>	<u>4,014</u>	<u>5,916</u>	<u>6,940</u>	<u>7,360</u>	<u>9,899</u>	<u>10,459</u>	<u>10,647</u>
<u>Total (excluding fertilizer subsidies)</u>	<u>1,264</u>	<u>1,948</u>	<u>2,125</u>	<u>2,473</u>	<u>3,929</u>	<u>5,633</u>	<u>6,569</u>	<u>6,940</u>	<u>9,575</u>	<u>10,000</u>	<u>10,089</u>

/a Law and order, defense and security, government apparatus.

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

Source: Ministry of Finance.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Project Aid by Sector, 1975/76 - 1985/86
(Rp. billion)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
	-----				Actual	-----				Budget	Budget
Agriculture and irrigation	43.0	106.7	145.5	135.2	154.5	223.0	135.9	101.0	155.0	529.6	472.5
Industry and mining	76.4	137.3	95.4	199.0	306.8	225.9	580.9	733.8	1,051.0	769.3	760.7
Electric power	89.7	165.2	163.9	207.8	257.2	264.9	308.2	506.0	1,182.0	729.7	826.2
Transportation and tourism	226.5	303.8	212.9	249.7	192.4	308.0	263.6	332.1	889.0	760.8	789.9
Manpower and transmigration	0.6	1.0	9.8	11.6	23.0	31.1	30.5	14.9	45.0	150.5	137.0
Regional development	0.4	1.5	7.9	7.9	18.2	23.6	16.7	2.6	7.0	42.3	25.9
Education	7.3	5.3	29.5	35.3	42.8	50.0	36.7	24.2	211.0	284.7	237.8
Health	6.9	5.9	14.8	21.7	34.4	36.2	33.6	23.7	37.0	75.5	65.4
Housing and water supply	2.8	2.9	28.1	18.3	28.1	33.0	21.7	21.2	51.0	198.8	163.8
General public services	-	-	-	54.1	174.9	153.8	180.0	83.2	152.0	322.1	321.2
Government capital participation	6.7	7.3	23.1	33.1	34.3	35.6	27.9	46.7	45.0	200.7	217.9
Others /a	11.1	36.7	6.7	13.6	49.7	44.6	28.2	35.5	42.0	307.5	278.9
Total project aid /b	471.4	773.6	737.6	987.3	1,316.3	1,429.7	1,663.9	1,924.9	3,867.0	4,371.5	4,297.2

/a Since 1979/89 includes natura resource development and environment.

/b Includes commercial credits for development programs/projects.

Source: Ministry of Finance.

INDONESIACOUNTRY ECONOMIC MEMORANDUMMoney Supply, 1975-84
(Rp. billion)

End of period	Money Supply			Currency		Demand deposits	
	Total	Change Amount	%	Amount	Share (%)	Amount	Share (%)
1975	1,250	313	33	625	50	625	50
1976	1,603	353	28	781	49	822	51
1977	2,006	403	25	979	49	1,027	51
<u>1978</u>		<u>482</u>	<u>24</u>				
Qtr I	2,111	105	5	1,036	49	1,075	51
Qtr II	2,240	129	6	1,110	50	1,130	50
Qtr III	2,370	130	6	1,156	49	1,214	51
Qtr IV	2,488	118	5	1,240	50	1,248	50
<u>1979</u>		<u>897</u>	<u>36</u>				
Qtr I	2,800	312	13	1,369	49	1,431	51
Qtr II	3,005	205	7	1,493	50	1,512	50
Qtr III	3,160	155	5	1,480	47	1,680	53
Qtr IV	3,385	225	7	1,552	46	1,833	54
<u>1980</u>		<u>1,610</u>	<u>48</u>				
Qtr I	3,797	412	12	1,774	47	2,023	53
Qtr II	4,179	382	10	1,955	47	2,224	53
Qtr III	4,682	503	12	2,130	45	2,552	55
Qtr IV	4,995	313	7	2,153	43	2,842	57
<u>1981</u>		<u>1,491</u>	<u>30</u>				
Qtr I	5,214	219	4	2,229	43	2,985	57
Qtr II	5,618	404	8	2,384	42	3,234	58
Qtr III	5,997	379	7	2,451	41	3,546	59
Qtr IV	6,485	489	8	2,557	39	3,928	61
<u>1982</u>		<u>636</u>	<u>10</u>				
Qtr I	6,775	290	4	2,541	38	4,234	62
Qtr II	7,171	396	6	2,643	37	4,528	63
Qtr III	7,593	422	6	2,826	37	4,767	63
Qtr IV	7,121	-472	-6	2,934	41	4,187	59
<u>1983</u>		<u>448</u>	<u>6</u>				
Qtr I	7,379	258	4	3,000	41	4,379	59
Qtr II	7,505	126	1	3,284	44	4,221	56
Qtr III	7,716	211	3	3,307	43	4,409	57
Qtr IV	7,569	-147	-2	3,333	44	4,236	56
<u>1984</u>		<u>1,012</u>	<u>13</u>				
Qtr I	8,055	486	6	3,554	44	4,501	56
Qtr II	8,183	128	2	4,047	49	4,136	51
Qtr III	7,961	-222	-3	3,641	46	4,321	54
Qtr IV	8,581	620	8	3,712	43	4,869	57

Source: Bank Indonesia.

INDONESIACOUNTRY ECONOMIC MEMORANDUMChanges in Factors Affecting Money Supply, 1975-84
(Rp. billion)

End of period	Net foreign assets	Net claims on Central Government	Claims on official entities & public enterprises	Blocked account	Claims on business & individuals	Time & savings deposits /a	Net other items
1975	-588	162	926	-415	-298	-213	143
1976	345	-334	450	-51	356	-300	-113
1977	568	-274	34	67	284	-96	-180
1978	678	-265	901	-77	587	-196	-1,146
1979	1,655	-825	371	85	555	-516	-428
1980	3,101	-1,916	488	-5	1,180	-859	-379
1981	118	-560	593	36	1,756	-535	83
1982	-1,528	422	732	108	2,218	-723	-593
1983	3,031	-1,305	61	12	2,371	-3,140	-582
<u>1984</u>	<u>2,767</u>	<u>-2,595</u>	<u>190</u>	<u>124</u>	<u>3,646</u>	<u>-2,262</u>	<u>-858</u>
Qtr I	1,178	-103	-57	-3	911	-610	-830
Qtr II	532	-828	-174	63	1,081	-563	17
Qtr III	49	-901	287	-6	779	-514	84
Qtr IV	1,008	-763	134	70	875	-575	-129

/a Includes foreign currency deposits held by residents.

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Consolidated Balance Sheet of The Monetary System, 1975-84
(Rp. billion)

End of period	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Assets										
<u>Foreign assets (net)</u>	<u>72</u>	<u>417</u>	<u>985</u>	<u>1,663</u>	<u>3,318</u>	<u>6,419</u>	<u>6,657</u>	<u>5,129</u>	<u>8,160</u>	<u>10,928</u>
<u>Domestic credit</u>	<u>2,366</u>	<u>2,788</u>	<u>2,900</u>	<u>4,046</u>	<u>4,232</u>	<u>3,979</u>	<u>5,802</u>	<u>9,282</u>	<u>10,421</u>	<u>11,786</u>
<u>Claims on public sector</u>	<u>991</u>	<u>1,056</u>	<u>883</u>	<u>1,441</u>	<u>1,073</u>	<u>-360</u>	<u>-292</u>	<u>970</u>	<u>-262</u>	<u>-2,543</u>
Central government	-5	-339	-613	-878	-1,703	-3,619	-4,179	-3,757	-5,062	-7,657
Official entities and public enterprises	1,411	1,861	1,895	2,796	3,167	3,655	4,247	4,979	5,040	5,230
Government-blocked account	-415	-466	-399	-476	-391	-396	-360	-252	-240	-116
<u>Claims on private sector</u>	<u>1,376</u>	<u>1,733</u>	<u>2,017</u>	<u>2,604</u>	<u>3,159</u>	<u>4,339</u>	<u>6,094</u>	<u>8,312</u>	<u>10,683</u>	<u>14,329</u>
Loans	1,321	1,655	1,939	2,493	2,993	4,107	5,844	7,995	10,184	13,550
Other claims	55	78	78	111	166	232	250	317	499	779
<u>Total assets/liabilities</u>	<u>2,438</u>	<u>3,205</u>	<u>3,885</u>	<u>5,749</u>	<u>7,550</u>	<u>10,398</u>	<u>12,459</u>	<u>14,411</u>	<u>18,581</u>	<u>22,714</u>
Liabilities										
<u>Import deposits</u>	<u>79</u>	<u>88</u>	<u>146</u>	<u>174</u>	<u>213</u>	<u>365</u>	<u>298</u>	<u>300</u>	<u>242</u>	<u>218</u>
<u>Other items (net)</u>	<u>382</u>	<u>486</u>	<u>608</u>	<u>1,726</u>	<u>2,115</u>	<u>2,342</u>	<u>2,445</u>	<u>3,036</u>	<u>3,676</u>	<u>4,559</u>
<u>Money and Quasi money</u>	<u>1,978</u>	<u>2,631</u>	<u>3,131</u>	<u>3,809</u>	<u>5,222</u>	<u>7,691</u>	<u>9,716</u>	<u>11,075</u>	<u>14,663</u>	<u>17,937</u>
<u>Money</u>	<u>1,250</u>	<u>1,603</u>	<u>2,006</u>	<u>2,488</u>	<u>3,385</u>	<u>4,995</u>	<u>6,485</u>	<u>7,121</u>	<u>7,569</u>	<u>8,581</u>
Currency	625	781	979	1,240	1,552	2,153	2,557	2,934	3,333	3,712
Demand deposits	625	822	1,027	1,248	1,833	2,842	3,928	4,187	4,236	4,869
<u>Quasi money</u>	<u>728</u>	<u>1,028</u>	<u>1,125</u>	<u>1,321</u>	<u>1,837</u>	<u>2,696</u>	<u>3,231</u>	<u>3,954</u>	<u>7,094</u>	<u>9,356</u>

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Consolidated Balance Sheet of the Monetary Authorities, 1975-84
(Rp. billion)

End of period	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Assets										
Foreign assets	<u>246</u>	<u>620</u>	<u>1,057</u>	<u>1,652</u>	<u>2,626</u>	<u>4,216</u>	<u>4,033</u>	<u>3,667</u>	<u>5,314</u>	<u>8,047</u>
<u>Claims on public sector</u>	<u>1,254</u>	<u>1,448</u>	<u>1,537</u>	<u>2,434</u>	<u>2,723</u>	<u>3,018</u>	<u>3,444</u>	<u>3,777</u>	<u>2,725</u>	<u>1,399</u>
Central government	368	239	312	509	580	604	860	1,109	495	679
Official entities and public sector enterprises	886	1,209	1,225	1,925	2,143	2,414	2,584	2,668	2,230	720
Claims on deposit money banks	565	640	681	846	1,129	1,722	2,548	3,742	4,365	6,938
Other assets	80	94	25	70	158	289	536	2,068	2,379	3,464
Total assets/liabilities	<u>2,145</u>	<u>2,802</u>	<u>3,300</u>	<u>5,002</u>	<u>6,636</u>	<u>9,245</u>	<u>10,561</u>	<u>13,254</u>	<u>14,783</u>	<u>19,848</u>
Liabilities										
Reserve money	<u>1,038</u>	<u>1,333</u>	<u>1,670</u>	<u>1,847</u>	<u>2,429</u>	<u>3,258</u>	<u>3,838</u>	<u>3,997</u>	<u>4,888</u>	<u>5,473</u>
Currency outside banks and government	625	781	979	1,240	1,552	2,153	2,557	2,934	3,333	3,712
Currency and deposits of banks	382	523	623	551	780	1,058	1,199	1,010	1,496	1,709
Other deposits	31	29	68	56	96	47	82	53	59	52
Government deposits	704	950	1,154	1,646	2,354	3,912	4,553	4,566	5,284	7,494
Other liabilities	448	518	476	1,547	1,853	2,075	2,170	4,691	4,611	6,881

Source: Bank Indonesia.

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Banking System Credits by Economic Sector, 1975-84 /a
(Rp. billion)

Sectors	1975	1976	1977	1978/b	1979/c	1980	1981	1982	1983/d	1984
<u>Agriculture</u>	220	266	270	345	438	539	813	1,025	1,226	1,318
In rupiah	212	256	265	344	436	539	813	1,025	1,226	1,318
In foreign exchange	8	10	5	1	2	-	-	-	-	-
<u>Mining</u>	741	1,036	1,062	1,699	1,893	1,867	1,693	1,472	806	384
In rupiah /e	89	176	197	230	1,893	1,867	1,693	1,472	806	384
In foreign exchange	653	860	865	1,469	-	-	-	-	-	-
<u>Manufacturing industry /f</u>	719	990	1,156	1,624	1,933	2,213	2,762	3,923	5,207	6,667
In rupiah	508	739	904	1,265	1,536	1,826	2,376	3,429	4,595	6,205
In foreign exchange	211	251	252	359	397	387	386	494	612	462
<u>Trade /g</u>	766	858	911	1,114	1,336	1,976	3,062	4,129	5,132	6,344
In rupiah	741	837	898	1,105	1,334	1,970	3,046	4,009	4,781	6,299
In foreign exchange	25	21	13	9	4	6	16	120	351	45
<u>Service rendering industry /h</u>	172	260	319	389	422	946	1,385	1,867	2,277	3,169
In rupiah	166	253	311	385	418	939	1,382	1,860	2,253	3,088
In foreign exchange	6	7	8	4	4	7	3	7	24	81
<u>Others</u>	132	156	219	223	244	333	444	606	651	931
In rupiah	127	154	218	221	241	331	444	606	651	929
In foreign exchange	5	2	1	2	3	2	-	-	-	2
<u>Total</u>	2,750	3,566	3,937	5,394	6,268	7,874	10,159	13,022	15,299	18,813
In rupiah /d	1,842	2,414	2,793	3,550	5,858	7,472	9,754	12,401	14,312	18,223
In foreign exchange	907	1,151	1,144	1,844	410	402	405	621	987	590

/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 (Rp. 681.8 billion).

/c Includes foreign exchange revaluation (Rp. 698.0 billion).

/d Includes foreign exchange revaluation (Rp 251 billion).

/e Includes credits to PERTAMINA for repayment of foreign borrowing. Since March 1979, credit in foreign exchange to PERTAMINA has been converted to rupiah credits.

/f Processing of agricultural products is classified into 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.

/g Includes credits for food procurement and hotel projects.

/h Credits for electricity, gas and water supply is included service rendering industry sector.

Source: Bank Indonesia.

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Banking System Credits by Type of Bank, 1975-84 /a
(Rp. billion)

Sectors	1975	1976	1977	1978/b	1979/c	1980	1981	1982	1983/g	1984
<u>Bank Indonesia (direct credits) /d</u>	893	1,212	1,229	1,935	2,163	2,454	2,649	2,771	2,356	870
In rupiah	244	351	365	466	2,163	2,454	2,649	2,771	2,356	870
In foreign exchange	649	861	864	1,469	-	-	-	-	-	-
<u>State commercial banks /e</u>	1,602	2,007	2,267	2,832	3,270	4,295	5,881	8,031	9,787	13,345
In rupiah	1,398	1,774	2,058	2,549	2,958	3,954	5,523	7,474	8,910	12,959
In foreign exchange	204	233	209	283	312	341	358	557	877	386
<u>National private banks /f</u>	133	197	257	366	493	711	1,081	1,554	2,294	3,552
In rupiah	131	197	254	360	466	705	1,069	1,534	2,279	3,480
In foreign exchange	2	0	3	6	27	6	12	20	15	72
<u>Foreign banks</u>	122	150	184	262	342	414	548	666	862	1,046
In rupiah	70	93	116	176	271	359	513	622	767	914
In foreign exchange	52	57	68	86	71	55	35	44	95	132
<u>Total /g</u>	2,750	3,566	3,937	5,394	6,268	7,874	10,159	13,022	15,299	18,813
In rupiah	1,843	2,415	2,793	3,550	3,858	7,472	9,754	12,401	14,312	18,223
In foreign exchange	907	1,151	1,144	1,844	410	402	405	621	987	590

/a Credits outstanding at end of period. Includes investment credits, KIK and RMKP. Excludes interbank credits, credits to Central Government and to non-residents, and foreign exchange component of project aid.

/b Includes foreign exchange revaluation (Rp. 681.8 billion).

/c Includes foreign exchange revaluation (Rp. 625 billion).

/d Excludes liquidity credits but includes credits to Pertamina for repayment of foreign borrowing.

/e Includes state development bank.

/f Combined national private banks and local development banks.

/g Includes foreign exchange revaluation (Rp. 251 billion).

Source: Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

Small-Scale Investment Credits and
Permanent Working Capital Credits, 1975-84
(Rp. billion)

Year	Small-scale investment credits /a			Permanent working capital credits /a		
	Number of applications approved ('000s)	Approved value — (Rp billion) —	Out-standing	Number of applications approved ('000s)	Approved value — (Rp billion) —	Out-standing
1975	17	28	22	24	29	19
1976	28	50	36	166	67	41
1977	40	74	50	322	115	62
1978	55	106	65	420	177	84
1979	72	163	99	644	305	154
1980	115	314	210	890	569	321
<u>1981</u>	167	528	353	1,242	1,062	635
<u>1982</u>						
Qtr I	176	571	374	1,298	1,178	704
Qtr II	184	608	387	1,342	1,300	770
Qtr III	193	648	400	1,383	1,378	784
Qtr IV	200	685	405	1,423	1,454	791
<u>1983</u>						
Qtr I	213	723	414	1,486	1,542	815
Qtr II	218	749	409	1,531	1,627	845
Qtr III	222	778	411	1,553	1,697	872
Qtr IV	225	799	393	1,592	1,798	858
<u>1984</u>						
Qtr I	228	825	387	1,621	1,861	867
Qtr II	231	882	380	1,658	1,961	865
Qtr III	238	872	376	1,718	2,073	886
Qtr IV	241	898	359	1,749	2,136	882

/a Cumulative as of end of period.

Source: Bank Indonesia.

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Medium-Term Investment Credits by Economic Sector, 1975-84 /a
(Rp. million)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 /c
Credit approved /b	255,066	320,002	352,324	438,353	566,233	879,743	1,238,000	1,866,000	3,213,000	3,584,000
Agriculture	34,354	44,434	61,824	80,601	108,750	151,739	212,000	277,000	513,000	572,000
Manufacturing industry	108,658	130,264	143,782	154,174	189,132	265,454	431,000	812,000	1,309,000	1,460,000
Mining	154	5,296	5,296	5,142	5,277	5,245	37,000	40,000	76,000	85,000
Communication and tourism	96,763	125,465	125,920	177,271	248,320	418,018	503,000	656,000	1,165,000	1,300,000
Others	15,137	14,543	15,502	21,149	14,754	39,287	55,000	81,000	150,000	167,000
Credit outstanding	177,788	246,156	278,180	332,492	396,987	554,834	816,000	1,227,000	1,740,000	2,042,000
Agriculture	26,857	38,922	52,072	67,288	73,179	92,299	148,000	199,000	285,000	375,000
Manufacturing industry	78,306	94,066	105,754	115,190	140,247	176,889	256,000	505,000	669,000	785,000
Mining	143	4,278	3,277	2,122	1,222	219	25,000	31,000	43,000	51,000
Communication and tourism	62,222	99,985	106,556	133,630	172,420	257,532	357,000	437,000	665,000	736,000
Others	10,260	8,905	10,521	14,262	9,919	28,892	36,000	55,000	78,000	95,000

/a Excludes small-scale investment credits and permanent working capital credits.

/b Cumulative as of end of period. Excludes repayments.

/c Provisional figures as of June 1984.

Source: Bank Indonesia.

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COUNTRY ECONOMIC MEMORANDUM

Time Deposits with State Banks, 1975-84
(Rp. million)

End of	24 months	18 months	12 months	6 months	3 months & less	Total <u>/a</u>	Interbank time deposits <u>/b</u>	Non- resident time deposits <u>/b</u>
1975	335,476	10,281	27,372	9,212	3,971	386,312	5,065	469
1976	517,568	3,987	48,500	25,082	16,575	611,712	14,466	862
1977	604,825	1,896	33,559	40,967	10,869	691,846	13,480	974
1978								
Qtr I	615,913	599	34,621	34,308	1,477	686,918	13,997	486
Qtr II	622,049	45	39,000	44,632	1,865	707,591	13,615	451
Qtr III	623,876	-	39,491	55,700	2,226	721,293	13,306	216
Qtr IV	608,971	-	42,115	51,718	3,808	706,612	12,840	190
1979								
Qtr I	608,194	-	36,259	58,304	5,121	707,878	14,479	170
Qtr II	616,609	-	30,191	55,489	5,811	708,101	15,441	156
Qtr III	615,288	-	28,939	64,927	2,768	711,922	15,915	161
Qtr IV	607,017	-	29,871	74,693	3,822	715,403	16,230	1,104
1980								
Qtr I	610,360	-	31,726	75,312	7,106	724,504	19,589	1,012
Qtr II	616,849	-	34,086	72,020	2,639	725,594	19,379	628
Qtr III	646,050	-	36,248	64,826	3,724	750,848	20,600	526
Qtr IV	656,215	-	34,447	38,747	4,988	734,447	19,888	559
1981								
Qtr I	692,309	-	33,502	24,918	2,918	753,647	16,149	565
Qtr II	720,211	-	37,085	25,237	2,948	785,481	21,572	186
Qtr III	748,100	-	38,900	23,300	3,500	813,800	-	-
Qtr IV	765,200	-	42,800	18,500	2,700	829,200	-	-
1982								
Qtr I	777,300	-	40,000	10,000	3,800	831,100	-	-
Qtr II	811,900	-	36,400	8,000	2,800	859,000	-	-
Qtr III	819,400	-	38,500	9,100	5,900	872,900	-	-
Qtr IV	848,700	-	39,300	10,100	5,300	903,400	-	-
1983								
Qtr I	848,300	-	42,300	11,600	3,600	905,800	-	-
Qtr II	763,200	-	111,900	119,300	129,600	1,124,000	-	-
Qtr III	655,800	700	417,000	210,500	297,700	1,581,700	-	-
Qtr IV	538,700	1,400	837,900	298,700	449,100	2,125,800	-	-
1984								
Qtr I	499,200	1,000	1,061,400	335,800	460,500	2,357,900	-	-
Qtr II	374,700	1,700	1,368,800	665,500	494,200	2,905,900	-	-
Qtr III	292,900	1,800	1,596,400	673,000	356,400	2,920,500	-	-
Qtr IV	277,300	2,300	1,676,400	557,900	472,000	2,985,900	-	-

/a Excludes interbank time deposits and nonresident time deposits.

/b Not published after second quarter 1981.

Source: Bank Indonesia.

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Interest Rates on Deposits at Commercial Banks, 1978-83
(% p.a.)

	Demand deposits <u>/b</u>	TABANAS savings deposits <u>/c</u>	TASKA savings deposits	Certificate of deposits <u>/d</u>	State bank time deposits					Private national bank <u>/a</u> time deposits				
					Less than 3 mos.	3 mos.	6 mos. <u>/e</u>	12 mos.	24 mos. <u>/f</u>	Less than 3 mos.	3 mos.	6 mos.	12 mos.	24 mos.
1978														
March	3/1.8	15/6	9	6.1			6	9	15/12	10.5	13.3	16.2	18.6	20.8
June	3/1.8	15/6	9	6.1			6	9	15/12	10.8	13.3	15.8	18.0	21.2
September	3/1.8	15/6	9	7.6			6	9	15/12	12.0	13.1	15.2	17.6	21.1
December	3/1.8	15/6	9	7.6			6	9	15/12	12.8	12.5	15.6	17.2	20.7
1979														
March	3/1.8	15/6	9	7.6			6	9	15/12	13.9	14.8	16.0	17.2	20.3
June	3/1.8	15/6	9	7.6			6	9	15/12	12.9	15.8	15.9	17.7	19.9
September	3/1.8	15/6	9	9.5			6	9	15/12	13.2	15.1	16.8	18.0	20.5
December	3/1.8	15/6	9	9.8	14.3	14.8	6	9	15/12	16.2	16.7	18.3	19.6	19.6
1980														
March	3/1.8	15/6	9	10.0	7.0	8.8	6	9	15/12	14.3	17.2	18.5	19.5	19.8
June	3/1.8	15/6	9	11.6	7.0	8.8	6	9	15/12	14.2	16.1	17.8	20.1	19.3
September	3/1.8	15/6	9	9.3	7.0	8.8	6	9	15/12	14.6	17.6	18.7	20.2	19.5
December	3/1.8	15/6	9	10.2	9.0	15.0	6	9	15/12	14.2	16.1	17.8	20.1	19.3
1981														
March	3/1.8	15/6	9	10.4	9.0	12.0	6	9	15/12	15.9	16.8	17.7	20.0	18.9
June	3/1.8	15/6	9	10.9	13.1	15.0	6	9	15/12	16.4	18.0	18.8	20.4	19.4
September	3/2.8	15/6	9	10.9	13.8	15.0	6	9	15/12	16.2	17.2	17.8	19.5	19.4
December	3/1.8	15/6	9	10.9	12.5	15.0	6	9	15/12	15.4	17.4	17.9	19.4	19.0
1982														
March	3/1.8	15/6	9	11.3	12.0	12.0	6	9	15/12	15.9	16.8	18.1	19.3	18.6
June	3/1.8	15/6	9	12.5	12.0	10.0	6	9	15/12	16.7	17.4	18.3	19.4	17.9
September	3/1.8	15/6	9	12.5	9.0	9.8	6	9	15/12	16.7	17.7	18.5	19.4	18.8
December	3/1.8	15/6	9	12.5	9.0	10.0	6	9	15/12	16.9	17.1	18.5	19.3	18.8
1983														
March	3/1.8	15/6	9	12.5	12.0	9.6	6	9	15/12	17.9	17.4	18.6	19.3	19.0
June <u>/g</u>	3/1.8	15/12	9	14.5	15.5	16.5	17	18	17/h	16.3	17.4	18.8	19.5	18.8

/a Average rate of interest at selected banks. Based on daily averages for the last month of the period through April 1983 for private banks and May 1983 for state banks; end of period data used thereafter.

/b Until February 1978, 4.5% for demand deposits exceeding Rp. 50 million, 3% for smaller amounts. From March 1978, 3% for amounts above Rp. 50 million, 1.8% for Rp. 1-50 million, and individually determined for amounts below Rp. 1 million.

/c Up to Rp. 200,000 15%, 6% above Rp. 200,000, 6% above Rp. 200,000.

/d Midpoint of range for six month rate.

/e Since January 1978, banks are free to set interest rates on deposits three months and less.

/f Effective January 1978, 15% for amounts up to Rp. 2.5 million and 12% for amounts above Rp. 2.5 million.

/g Ceiling on the deposit interest rate ceiling at state ceiling removed on June 1, 1983.

/h Starting in June 1983 12% legal minimum rate.

Source: Bank Indonesia.

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Principal Agricultural Products by Subsectors, 1968-84
(**'000 tons**)

Product	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 /a
Food Crops																	
Rice	11,667	12,249	13,140	13,724	13,183	14,607	15,276	15,185	15,845	15,876	17,525	17,872	20,163	22,286	22,837	23,961	24,701
Corn	3,166	2,292	2,825	2,606	2,254	3,690	3,011	2,909	2,572	3,143	4,029	3,606	3,991	4,509	3,235	5,095	5,412
Cassava	11,356	10,917	10,478	10,690	10,385	1,186	13,031	12,546	12,191	12,488	12,902	13,751	13,726	13,301	12,988	11,651	14,702
Sweet potato	2,364	2,260	2,175	2,211	2,066	2,387	2,469	2,433	2,381	2,460	2,083	2,194	2,079	2,094	1,676	2,644	2,257
Soya beans (shelled)	420	389	498	516	518	541	589	590	522	523	617	680	653	704	521	568	783
Groundnuts (shelled)	287	267	281	284	282	290	307	380	341	409	446	424	470	475	437	469	535
Fishery																	
Saltwater fish	723	785	807	820	836	889	949	997	1,082	1,158	1,227	1,318	1,395	1,408	1,491	1,600	1,670
Freshwater fish	427	429	421	424	433	389	388	393	401	414	420	430	455	506	507	520	549
Meat and Poultry																	
Meat	305	309	314	332	366	379	403	435	449	468	475	486	506	596	629	671	694
Eggs	51	58	59	68	78	81	98	112	116	131	151	164	173	275	297	316	329
Milk (mln liters)	29	29	29	36	38	35	57	51	57	61	62	72	78	86	117	143	170
Cash Crops																	
Rubber	735	777	802	804	804	844	817	782	857	844	884	898	1,002	1,046	899	1,230	1,107
Palm oil	181	189	217	248	269	290	348	397	431	473	532	642	701	748	884	907	1,038
Coconut/copra	1,133	1,221	1,208	1,149	1,311	1,237	1,341	1,375	1,532	1,518	1,575	1,582	1,759	1,812	1,723	1,607	2,015
Coffee	150	175	186	196	214	150	149	160	193	194	223	228	285	295	281	302	309
Tea	73	62	64	71	61	67	64	69	73	79	91	125	106	110	93	113	116
Cloves	17	11	15	14	15	22	15	15	20	41	21	35	39	40	33	45	56
Pepper	47	47	17	26	13	29	27	23	37	43	46	47	37	39	34	40	41
Tobacco	54	84	78	76	79	80	79	82	89	84	81	87	116	118	106	120	121
Cane sugar	752	922	873	1,041	1,133	1,009	1,237	1,227	1,321	1,438	1,516	1,601	1,831	1,700	1,618	1,693	1,769
Cotton	-	3	3	2	1	1	3	2	1	1	1	1	1	10	15	8	40
Forestry ('000 cu m)																	
Teakwood	468	520	568	770	597	676	620	595	480	573	475	575	500	578	692	716	450
Other timber	4,783	7,587	11,856	12,968	17,120	25,124	22,660	15,701	20,947	22,366	25,781	26,256	21,240	15,376	12,323	8,986	754

/a Preliminary figures.

Source: Supplement to the President's Report to Parliament, January 1985.

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Agricultural Production of Major Crops by Type of Product, 1970-83
('000 tons)

Product	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Smallholders														
Rubber	571	572	559	599	571	536	610	584	612	616	705	740	586	910
Coconut/copra	1,198	1,147	1,308	1,233	1,355	1,370	1,527	1,513	1,554	1,561	1,737	1,789	1,707	1,592
Coffee	170	178	196	140	132	144	178	181	206	209	266	276	262	285
Cloves	15	14	13	22	15	15	17	37	21	35	39	40	32	44
Tea	21	24	7	14	15	14	13	14	17	17	21	22	17	25
Sugar	196	211	247	199	250	223	267	352	485	498	749	1,364	1,373	1,339
Tobacco	69	69	74	69	69	74	76	72	68	73	101	103	97	111
Pepper	17	24	18	29	27	23	37	43	46	47	37	39	34	40
Cotton	3.0	2.0	2.0	1.1	2.9	2.4	0.9	0.9	1	1	6	10	13	6
Palm oil	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Palm kernel	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Private estates														
Rubber	113	114	128	109	108	109	104	107	110	112	111	114	125	124
Coconut/copra	2	2	3	4	6	5	5	6	21	21	22	23	11	11
Coffee	6	7	6	4	7	6	6	6	7	8	6	6	6	7
Cloves	0.1	0.2	0.1	0.2	1.6	0.2	0.2	0.2	0.2	0.2	0.2
Tea	9	10	7	10	11	10	11	11	15	16	17	18	16	16
Sugar	74	122	130	118	127	126	152	162	71	73	114	116	72	72
Tobacco	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pepper	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Palm oil	70	79	81	82	104	126	145	147	165	168	202	206	285	286
Palm kernel	15	18	17	18	21	24	27	29	22	23	36	37	47	47
Government estates														
Rubber	118	118	121	137	138	137	142	147	162	170	186	192	189	197
Coconut/copra	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Coffee	9	11	12	6	10	10	10	10	10	11	13	13	13	10
Cloves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tea	34	37	37	43	40	46	49	51	59	92	68	70	61	72
Sugar	603	708	756	693	860	878	902	924	960	1,030	968	220	182	176
Tobacco	9	7	5	11	8	8	11	12	13	14	15	15	9	8
Pepper	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cotton	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Palm oil	147	170	189	207	244	271	286	338	367	474	499	542	599	621
Palm kernel	33	39	42	46	52	57	56	64	72	85	90	98	110	115
Total														
Rubber	802	804	808	845	818	782	856	838	884	898	1,002	1,046	900	1,231
Coconut/copra	1,200	1,49	1,311	1,237	1,341	1,375	1,532	1,518	1,575	1,582	1,759	1,812	1,718	1,603
Coffee	185	196	214	150	149	160	194	197	223	228	285	295	281	302
Cloves	15	14	13	22	15	15	20	39	21	35	39.2	40	32.2	44.2
Tea	64	71	51	67	65	70	73	76	91	125	106	110	94	113
Sugar	873	1,041	1,133	1,009	1,237	1,227	1,321	1,438	1,516	1,601	1,831	1,700	1,627	1,587
Tobacco	78	76	79	80	77	82	87	84	81	87	116	118	106	119
Pepper	17	24	18	29	27	23	37	43	46	47	37	39	34	40
Cotton	3	2	2	3	3	2	3	2	1	1	6	10	13	6
Palm oil	217	249	270	289	348	397	431	483	532	642	701	748	884	907
Palm kernel	48	57	59	64	73	81	83	93	94	108	126	135	157	162

Sources: Department of Agriculture; Supplement to the President's Report to Parliament, August 1984; and Nota Keuangan 1983/84.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Rice - Area Harvested, Production and Yield, 1968-84

Year	Area harvested ('000 ha)	Average yield (tons/ha)	Paddy output ('000 tons)	Rice output ('000 tons)
1968	8,021	2.17	17,413	11,667
1969	8,014	2.28	18,282	12,249
1970	8,135	2.41	19,612	13,140
1971	8,324	2.46	20,484	13,724
1972	7,987	2.46	19,676	13,183
1973	8,403	2.59	21,801	14,607
1974	8,509	2.64	22,464	15,276
1975	8,495	2.63	22,331	15,185
1976	8,368	2.78	23,301	15,845
1977	8,360	2.79	23,347	15,876
1978	8,929	2.89	25,772	17,525
1979	8,850	2.97	26,283	17,872
1980	9,005	3.29	29,652	20,163
1981	9,382	3.49	32,774	22,286
1982	8,988	3.74	33,584	22,837
1983	9,162	3.85	35,303	24,006
1984 /a	9,636	3.94	37,978	25,825

/a Preliminary figures.

Source: BPS.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

BULOG Rice Program, 1978/79 - 1983/84
('000 tons)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84 /c
Beginning stock	459	708	886	1,192	1,594	911
Domestic procurement	881	431	1,635	1,953	1,933	1,208
Import:	1,268	2,580	1,213	437	506	1,115
PL-480	(304)	(353)	(101)	(46)	(-)	(65)
Other food	(15)	(327)	(198)	(48)	(-)	(140)
Commercial	(949)	(1,900)	(914)	(343)	(506)	(909)
<u>Total availability</u>	<u>2,608</u>	<u>3,719</u>	<u>3,734</u>	<u>3,582</u>	<u>4,033</u>	<u>3,234</u>
Distribution	1,858	2,834	2,531	1,972	3,105/a	1,872
Government	(608)	(666)	(649)	(806)	(1,320)	(1,373)
State enterprises	(106)	(90)	(89)	(95)	(95)	(89)
Market operations	(1,032)	(2,036)	(1,646)	(1,033)	(1,529)	(399)
Other	(106)	(42)	(147)	(38)	(161)	(11)
Losses	46	8	1	16	17	28
End stock	708	886	1,192	1,594	911	1,334
<u>Memorandum item:</u>						
Rice production /b	17,325	17,872	20,163	22,286	22,837	23,961

/a Since January 1982, all regions have received rice in kind; formerly, surplus regions received food allowance in money.

/b On calendar year basis.

/c Preliminary.

Source: BULOG.

INDONESIACOUNTRY ECONOMIC MEMORANDUMArea Covered Under Rice Intensification Programs, 1969-83
('000 ha)

Year	BIMAS	Of which INSUS	INMAS	Of which INSUS	Total
1969	1,309	-	821	-	2,130
1970	1,248	-	845	-	2,093
1971	1,396	-	1,393	-	2,789
1972	1,203	-	1,966	-	3,169
1973	1,832	-	2,156	-	3,988
1974	2,676	-	1,048	-	3,724
1975	2,683	-	1,957	-	3,640
1976	2,424	-	1,189	-	3,613
1977	2,059	-	2,181	-	4,240
1978	1,960	-	2,888	-	4,848
1979	1,571	-	3,452	-	5,023
1980	1,374	420	4,142	640	5,516
1981	1,384	587	4,802	1,119	6,186
1982	1,296	832	5,047	2,113	6,343
1983	1,401	955	5,222	2,484	6,623

Source: Supplement to the President's Report to Parliament, August 1984.

INDONESIA
COUNTRY ECONOMIC MEMORANDUMQuarterly Index of Manufacturing Production For Selected Industrial Groups, 1979-1984 (111) /a
(Quarterly average; 1975 = 100)

Description	Annual average			1982 (by quarter)				1983 /b (by quarter)				1984 /b		
	1979	1980	1981	I	II	III	IV	I	II	III	IV	I	II	III
Dairy products (4)	201	234	235	197	229	282	247	244	275	281	246	221	216	199
Malt liquors and malt (4)	118	129	147	180	149	175	177	188	186	198	200	212	209	282
Clove cigarettes (20)	120	151	180	163	187	193	206	175	197	200	214	206	232	219
White cigarettes (13)	131	130	124	117	117	114	112	114	122	118	127	118	116	113
Yarn and thread (20)	111	118	126	129	124	113	118	117	113	111	117	123	126	123
Weaving except jute products (193)	122	126	138	137	133	123	128	116	118	118	129	124	126	123
Batik (10)	117	117	99	106	115	111	107	104	102	110	106	122	122	111
Knitting products (32)	77	88	89	85	82	78	79	77	82	83	84	84	78	82
Footwear (14)	112	130	123	124	127	122	122	149	176	144	145	180	183	179
Plywood (6)	220	392	471	447	471	374	404	446	439	429	439	382	374	470
Paper (all kinds) (8)	151	153	152	156	148	148	154	137	154	116	109	103	102	106
Basic chemicals except fertilizer (13)	124	128	127	121	126	129	143	132	123	137	136	160	159	148
Fertilizer (5)	336	466	492	510	482	501	489	554	564	571	552	631	700	763
Paint, varnishes, lacquers (7)	98	115	159	168	164	166	172	132	148	151	156	156	165	175
Matches (7)	139	179	189	194	215	232	278	324	305	271	265	308	306	305
Tires and tubes (12)	227	257	301	342	288	256	288	305	311	319	267	264	305	311
Glass and glass products (17)	171	208	257	234	226	189	188	223	223	223	241	242	259	241
Cement (10)	314	367	395	407	421	420	429	415	451	475	501	484	442	454
Iron and steel (15)	443	1,034	1,248	1,031	947	784	1,118	1,127	1,119	1,117	1,223	1,232	1,123	1,111
Structural metal products (24)	154	172	188	183	198	207	196	208	195	205	205	217	212	167
Dry-cell batteries (12)	180	228	231	236	247	255	331	341	343	285	343	315	302	305
Electronic and communication equipment (16)	230	340	348	344	336	306	345	338	370	370	325	263	287	300
Motor vehicles assembly (17)	117	194	256	262	222	189	233	206	199	225	160	192	152	199
Motorcycles and three-wheel motor vehicles (5)	75	114	161	184	159	167	219	197	111	103	111	94	115	76
<u>General Index</u>	<u>158</u>	<u>194</u>	<u>214</u>	<u>213</u>	<u>211</u>	<u>210</u>	<u>220</u>	<u>217</u>	<u>223</u>	<u>224</u>	<u>226</u>	<u>230</u>	<u>238</u>	<u>235</u>

/a Based on Laspeyres formula.

/b Preliminary figures.

Note: Figures within brackets in "Description" column indicate the number of establishments covered in that group.

Source: Biro Pusat Statistik.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Production of Minerals, 1973-84

Year	Petroleum (mln bbls)	Tin concentrate	Copper ore concentrate	Nickel ore ('000 tons)	Bauxite	Coal	Iron sand concentrate	Gold (kg)	Silver (kg)	Natural gas (mcf)
1973	488.5	22.6	125.9	867.3	1,229.4	148.8	280.9	352.1	9,371.9	186.1
1974	501.8	25.7	212.6	878.9	1,290.1	156.2	365.2	265.3	6,464.6	202.2
1975	476.9	25.3	201.3	801.1	992.6	206.4	353.0	330.1	4,754.7	222.2
1976	550.3	23.4	223.3	828.9	940.3	182.9	292.3	355.2	3,397.5	312.1
1977	615.1	25.9	189.1	967.9	1,301.4	230.6	311.5	255.9	2,831.9	542.8
1978	596.7	27.4	180.9	1,206.7	1,007.7	264.2	233.3	253.9	2,506.4	820.1
1979	580.4	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	186.9	1,537.6	1,249.1	304.0	62.9	247.9	2,196.0	1,045.7
1981	584.8	35.2	188.5	1,543.2	1,203.2	350.4	86.6	183.1	2,000.2	1,123.7
1982	488.2	33.8	223.7	1,640.9	700.2	481.0	144.5	222.7	3,057.9	1,111.9
1983	490.5	26.6	205.0	1,298.0	777.9	485.7	124.9	259.5	1,793.7	1,186.4
1984 /a	259.8	10.3	92.7	586.9	442.7	348.7	45.1	142.6	926.6	700.5

/a Up to second quarter.

Source: Department of Mines and Energy.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Crude Oil Production by Company, 1969-1984
(^{'000} bbls)

	PERTAMINA	LEMIGAS	Contract of work				Production sharing contract	Total	Average daily output
			Caltex	C&T	Stanvac	Subtotal			
1969	35,298	376	217,912	-	17,365	235,277	-	270,951	742
1970	35,535	465	257,877	-	17,674	275,551	-	311,552	854
1971	34,776	575	262,846	-	22,951	285,979	4,524	325,673	892
1972	37,697	369	303,826	-	27,173	330,999	26,516	395,581	1,051
1973	38,543	431	351,528	1,035	22,768	375,331	74,231	488,536	1,339
1974	40,143	362	329,907	1,959	16,626	348,492	112,840	501,838	1,375
1975	32,590	306	300,879	1,944	13,889	316,712	127,247	476,855	1,306
1976	31,333	268	304,616	1,803	12,787	319,206	199,512	550,319	1,508
1977	30,706	285	292,950	2,459	11,974	307,383	277,812	616,186	1,688
1978	31,273	195	275,349	2,266	11,853	289,468	275,762	596,698	1,635
1979	30,316	213	266,048	1,856	10,811	278,715	271,203	580,447	1,590
1980	29,891	205	258,325	2,046	11,577	271,948	274,971	577,015	1,577
1981	29,515	176	255,515	1,799	13,141	270,454	284,694	584,839	1,600
1982	27,374	196	175,928	1,422	13,214	190,564	270,055	488,189	1,354
1983:	27,443	233	-	-	-	223,967	238,848	490,491	1,342
January	2,306	21	12,376	65	1,064	13,505	22,089	37,921	1,223
February	2,052	19	7,136	66	952	8,154	18,225	28,450	1,016
March	2,285	22	13,711	80	1,083	14,874	19,367	36,548	1,179
April	2,226	23	18,352	146	1,042	19,540	20,190	41,979	1,399
May /a	2,280	21	-	-	-	21,896	19,168	43,366	1,399
June	2,281	20	-	-	-	20,890	18,877	42,068	1,402
July	2,328	18	-	-	-	21,475	20,123	43,944	1,418
August	2,294	17	-	-	-	21,913	19,479	43,703	1,410
September	2,185	18	-	-	-	21,085	18,670	41,958	1,399
October	2,245	18	-	-	-	21,763	19,875	43,901	1,416
November	2,155	18	-	-	-	21,924	19,530	42,627	1,421
December	2,805	18	-	-	-	17,948	23,255	44,026	1,420
1984:									
January /b	2,766	19	-	-	-	463	40,964	44,218	1,426
February	2,564	16	-	-	-	424	38,336	41,340	1,427
March	2,692	16	-	-	-	468	41,314	44,490	1,435
April	2,529	18	-	-	-	477	39,862	42,886	1,435
May	2,619	19	-	-	-	489	40,834	43,961	1,418
June	2,467	18	-	-	-	459	40,006	42,950	1,432
July	2,458	17	-	-	-	476	40,499	43,450	1,402

/a Since May 1983, contract of work data have been consolidated.

/b Since January 1984, data of Caltex have been excluded from the contract of work and they have been included in the production sharing contract.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Petroleum Products - Supply and Demand, 1970-84
(Million bble)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 /a
Production of crude	311.6	325.6	395.6	488.5	501.8	476.9	550.3	615.1	596.8	580.4	577.0	584.8	488.2	454.5	431.5
Crude imports	0.8	2.8	2.7	1.9	2.7	2.6	7.7	29.7	31.1	30.5	32.9	37.0	22.0	25.7	36.8
Subtotal	312.4	328.4	398.3	490.4	504.5	479.5	558.0	644.8	627.8	610.9	609.9	621.8	510.2	480.2	468.3
Crude exports	228.1	239.6	299.1	269.5	378.9	363.1	449.5	485.3	472.0	410.8	378.8	383.4	320.9	330.2	329.1
Crude available for refineries	84.3	88.8	96.2	120.9	125.6	116.4	108.5	159.5	155.8	200.2	231.2	238.4	189.3	150.0	139.2
Changes in crude stocks (decrease = -)	0.6	-1.2	-4.3	1.6	0.7	2.9	-4.8	7.3	-5.0	14.2	38.3	44.7	6.7	48.2	42.4
Refinery inputs (including swaps)	83.7	90.0	100.5	119.3	124.9	113.4	113.7	153.8	159.5	186.0	192.9	193.7	182.6	198.2	181.6
Refinery consumption	7.5	7.6	7.7	8.0	7.7	6.7	6.4	11.2	9.4	13.0	13.5	6.5	6.5	7.2	7.2
Refinery output	76.2	82.4	92.8	111.8	117.7	106.7	107.3	142.6	150.1	172.0	179.4	187.2	176.1	191.0	174.4
Export of refined products	36.3	33.6	46.0	56.5	45.1	36.6	36.3	51.4	40.3	49.4	53.4	49.9	39.0	43.3	57.9
Waxy residues	27.2	32.5	39.7	53.8	41.3	32.6	35.2	42.1	36.3	48.9	51.0	47.9	33.7	40.5	43.7
Bunker fuel, avtur, etc.	9.1	1.1	6.4	2.7	3.8	4.1	6.6	9.3	4.0	0.4	2.4	2.0	5.3	2.8	14.2
Available for domestic consumption	39.9	48.8	46.8	55.3	72.6	70.1	71.5	91.2	109.8	123.7	126.0	137.3	137.1	147.7	116.5
Product import	2.1	4.2	8.6	11.9	12.8	15.0	30.4	18.3	16.9	15.0	22.0	42.6	28.0	23.5	2.5
Total supply	42.0	53.0	55.6	67.2	85.4	85.1	101.9	109.5	126.7	138.7	148.0	179.9	165.1	171.2	119.0
Domestic consumption	39.2	44.2	50.7	58.6	67.9	77.5	87.7	98.5	113.0	134.3	141.8	156.0	161.1	159.9	143.5
Changes in refined stocks	2.4	8.8	4.9	8.6	17.5	7.6	14.2	11.0	13.7	4.4	0.2	23.9	4.0	11.3	26.1

/a Up to November 1984.

Source: MIGAS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Domestic Sales of Petroleum Products, 1971-84 /a
(^{'000} bbls)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Aviation gas	144	118	123	139	139	143	128	134	134	130	110	103	85	72
Aviation turbo	961	1,200	1,658	2,150	2,579	2,758	2,913	3,494	3,656	4,355	4,869	4,899	4,424	3,800
Premium gasoline	100	201	359	496	661	706	710	728	618	466	392	238	244	518
Regular gasoline	10,409	10,779	11,757	12,787	14,284	15,606	17,356	19,608	21,295	23,321	25,648	25,709	24,309	24,817
Kerosene	18,927	20,697	23,146	26,769	30,623	33,259	36,880	41,717	45,457	48,975	52,497	51,778	48,133	45,198
Motor diesel	6,895	9,027	11,838	14,524	18,023	22,749	27,041	31,709	34,595	40,116	44,737	48,918	49,409	48,056
Industrial diesel	2,364	2,676	3,488	4,022	4,673	5,429	6,239	6,744	7,581	7,829	9,391	9,311	10,076	10,044
Fuel oil	4,095	5,379	7,924	8,755	7,844	8,222	10,296	11,061	13,626	15,739	17,587	19,341	22,293	21,587
<u>Total</u>	<u>43,895</u>	<u>50,077</u>	<u>60,293</u>	<u>69,642</u>	<u>78,826</u>	<u>88,872</u>	<u>101,563</u>	<u>115,195</u>	<u>126,962</u>	<u>140,931</u>	<u>155,231</u>	<u>160,297</u>	<u>158,973</u>	<u>154,092</u>

/a Excluding lubricating oil and other products.

Source: Department of Mines and Energy.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

Indonesia Consumer Price Index, 1979-February 1985
(Index: April 1977/March 1978 = 100)

	Index					% Change					
	Food	Housing	Clothing	Other	General	Food	Housing	Clothing	Other	General	
	Weight /a	(46)	(24)	(11)	(19)	(100)					
1979	141.1	140.9	168.2	137.7	143.1	22.9 /b	22.1 /b	33.2 /b	20.8 /b	23.3 /b	
1980	165.6	168.7	190.8	159.1	167.6	19.1	20.0	13.0	18.6	18.5	
1981	179.3	182.3	198.2	168.8	179.8	5.2	8.3	3.7	5.8	5.9	
1982	January	184.5	194.9	200.0	181.9	188.3	2.9	6.9	0.9	7.8	4.7
	February	183.7	198.4	200.2	183.7	189.3	-0.4	1.8	0.1	1.0	0.5
	March	183.4	200.1	200.3	183.9	189.6	-0.2	0.9	-	0.1	0.2
	April	182.4	200.7	200.2	184.6	189.5	-0.5	0.3	-	0.4	-0.1
	May	182.8	201.3	200.9	184.8	189.9	0.2	0.3	0.3	0.1	0.2
	June	183.4	202.0	202.0	184.9	190.5	0.4	0.4	0.6	0.1	0.3
	July	186.5	203.0	204.1	186.4	192.6	1.7	0.5	1.0	0.8	1.1
	August	183.8	203.2	203.8	187.5	191.7	-1.5	0.1	-0.2	0.6	-0.5
	September	186.3	205.0	204.5	187.1	193.4	-1.4	0.9	0.3	-0.2	0.9
	October	189.2	208.0	204.8	189.0	195.8	1.6	1.5	0.2	1.0	1.2
	November	190.4	208.9	205.1	189.3	196.7	0.6	0.4	0.1	0.2	0.4
	December	192.7	209.8	205.0	189.3	197.8	1.2	0.4	0	0	0.6
	<u>Total</u>						7.3	14.3	3.4	11.8	9.7
1983	January	195.6	223.2	205.3	209.4	206.9	1.5	6.4	-0.1	10.6	4.6
	February	192.1	229.7	204.9	210.3	207.2	-1.8	2.9	-0.2	0.4	0.1
	March	189.7	228.8	204.6	210.6	206.0	-1.2	-0.4	-0.2	0.1	-0.6
	April	194.8	233.2	207.8	216.6	211.0	2.7	2.0	1.6	2.8	2.4
	May	197.9	234.4	209.2	217.0	212.8	1.6	0.5	0.7	0.2	0.9
	June	205.2	234.9	210.2	217.2	216.2	3.7	0.2	0.5	0.1	1.6
	July	208.2	235.3	212.1	217.7	217.9	1.4	0.2	0.9	0.2	0.8
	August	207.2	235.4	212.4	219.4	217.8	-0.5	0.0	0.1	0.3	-
	September	210.5	236.5	213.0	219.5	219.6	1.6	0.5	0.3	0.1	0.8
	October	209.7	237.1	213.2	220.1	219.6	-0.4	0.3	0.1	0.3	-
	November	209.7	238.0	213.7	221.4	220.2	0.0	0.4	0.2	0.6	0.3
	December	212.7	238.1	214.0	221.5	221.5	1.4	0.0	0.2	0.0	0.6
	<u>Total</u>						10.0	12.9	4.3	16.3	11.5
1984	January	219.8	250.6	214.5	227.2	229.1	3.3	5.3	0.2	2.5	3.4
	February	222.6	259.9	214.9	227.7	232.9	1.3	3.7	0.2	0.2	1.7
	March	220.5	263.9	215.1	229.8	233.4	-0.9	1.5	0.1	0.9	0.2
	April	221.2	265.6	215.7	240.3	236.5	0.3	0.7	0.3	4.6	1.3
	May	224.3	265.9	216.0	240.9	238.0	1.4	0.1	0.1	0.2	0.7
	June	225.3	266.1	217.5	240.9	238.7	0.5	0.1	0.7	0.0	0.3
	July	225.9	267.3	218.8	241.7	239.6	0.3	0.5	0.6	0.3	0.4
	August	223.2	267.9	219.7	244.1	239.2	-1.2	0.2	0.4	1.0	-0.2
	September	222.5	268.0	219.8	244.6	239.0	-0.3	0.0	0.0	0.2	-0.1
	October	221.5	268.5	220.3	246.0	239.1	-0.4	0.2	0.3	0.6	0.0
	November	220.9	269.5	220.5	246.4	239.1	-0.3	0.3	0.1	0.1	0.0
	December	226.4	270.0	220.6	246.5	241.6	2.5	0.2	0.0	0.0	1.0
	<u>Total</u>						6.3	12.8	3.0	10.9	8.8
1985	January	227.1	272.4	220.8	247.2	242.8	0.3	0.9	0.1	0.3	0.5
	February	223.9	272.9	220.9	247.4	241.5	-1.4	0.2	0.0	0.1	-0.5
	March	224.3	273.5	221.1	248.1	242.1	0.2	0.2	0.1	0.3	0.2

/a Arithmetic average of weights for 17 cities.

/b March-December annualized rate.

Source: BPS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Wholesale Price Indices in Indonesia, 1975-84 /a
(1975 = 100)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984 /b
Agriculture	100	123	144	162	213	262	302	336	382	430
Food crops	100	125	142	154	201	257	304	361	430	492
Commercial crops	100	130	167	195	251	268	285	289	331	380
Livestock	100	115	133	152	201	268	315	330	349	384
Mining & quarrying	100	113	130	144	175	218	266	311	339	370
Manufacturing	100	115	128	139	178	210	234	257	301	339
Imports	100	103	108	118	153	174	191	201	243	270
Exports	100	103	116	127	246	375	414	430	514	580
Nonoil exports	100	117	148	171	303	365	360	371	513	608
General index	100	110	122	134	195	254	283	302	357	401
General index excluding exports of petroleum	100	113	124	136	176	208	243	263	315	355

/a Average for year.

/b Average January - November 1984.

Source: BPS, Indikator Ekonomi.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Domestic Prices of Petroleum Products, 1972-85
(Rp./liter)

	1972	1973	1974	1975	1976	1977	1978	1979	1980/a	1981	1982/b	1983/b	1984/b	1985/c
Aviation gas	35	40	50	62	70	70	70	100	150	150	240	300	300	300
Aviation turbo	30	40	50	62	70	70	70	100	150	150	240	300	300	300
Premium gasoline	40	45	55	67	90	90	90	140	220	220	360	400	400	400
Regular gasoline	35	41	46	57	70	70	70	100	150	150	240	320	350	350
Kerosene	10	11.5	13	16	18	18	18	25	37.5	37.5	60	100	50	50
Motor diesel (solar)	14	16	19	22	25	25	25	35	52.5	52.5	85	145	220	220
Industrial diesel	8.5	9	13	19	22	22	22	30	45	45	75	125	200	200
Fuel oil	6.5	7.5	12	19	22	22	22	30	45	45	75	125	200	200

/a From May 1980.

/b Prices increased in January.

/c Excludes value added tax.

Source: MIGAS.

INDONESIA
COUNTRY ECONOMIC MEMORANDUMApproved Foreign Investment by Sector, 1977-83 /a
(US\$ million)

Sector	1977	1978	1979	1980	1981	1982	1983/b	Total 1977-83
<u>Agriculture</u>	21.4	3.0	16.2	55.9	25.0	15.9	13.0	150.4
<u>Forestry</u>	28.5	38.6	12.1	8.2	115.2	57.2	8.7	268.5
<u>Fishery</u>	2.7	23.1	21.1	2.9	21.6	6.2	3.7	81.3
<u>Mining & quarrying</u>	200.5	38.1	65.5	3.0	28.5	226.4	19.0	581.0
<u>Manufacturing</u>	<u>327.4</u>	<u>274.8</u>	<u>1,157.7</u>	<u>772.6</u>	<u>835.0</u>	<u>1,213.3</u>	<u>1,751.6</u>	<u>7,212.5</u>
Food	8.3	5.5	60.7	14.2	40.5	6.0	11.9	147.2
Textiles & leather	70.8	114.6	33.6	77.4	138.6	46.1	112.4	593.5
Wood & wood products	-	1.0	6.0	10.8	123.6	5.7	12.9	160.0
Paper & paper products	9.7	0.4	11.2	2.3	48.5	-	724.0	796.1
Chemicals & rubber	49.3	25.4	63.9	282.0	36.4	340.4	202.0	1,499.5
Nonmetallic minerals	98.3	19.7	76.7	222.1	20.2	60.5	44.0	541.5
Basic metals	18.4	9.9	561.1	0.4	84.8	3.6	881.0	1,559.2
Metal products	72.16	92.0	44.5	1,629	142.4	750.7	643.3	1,908.6
Other	-	6.2	-	0.7	-	-	-	6.9
<u>Construction</u>	0.8	5.4	0.5	7.7	48.8	39.3	73.4	175.9
<u>Trade & Wholesale</u>	<u>7.0</u>	<u>9.7</u>	<u>3.0</u>	<u>38.6</u>	-	<u>19.2</u>	<u>77.9</u>	<u>155.4</u>
Wholesale trade	-	-	-	-	-	2.2	-	2.2
Hotels	7.0	9.7	3.0	38.6	-	17.0	77.9	153.2
<u>Transport & Communication</u>	=	=	<u>0.2</u>	<u>25.1</u>	=	<u>17.9</u>	<u>0.3</u>	<u>43.5</u>
Transport	=	-	0.2	25.1	-	17.9	0.3	43.5
Communication	=	-	-	-	-	-	-	-
<u>Real estate, business services and other services</u>	20.2	4.4	43.9	-	18.2	204.9	1,086.0	400.3
<u>Total</u>	<u>327.9</u>	<u>397.1</u>	<u>1,320.2</u>	<u>913.9</u>	<u>1,092.3</u>	<u>1,800.4</u>	<u>2,926.2</u>	<u>9,068.8</u>

/a Intended Capital Investment. Amounts represent original approval plus approved expansion minus cancellation.

/b Provisional figures.

Source: Bank Indonesia.

INDONESIA
COUNTRY ECONOMIC MEMORANDUM

Implementation of Foreign Investment by Sector, 1977-83
(US\$ million)

Sector	1977	1978	1979	1980	1981	1982	1983 /a	Total 1977-83
Agriculture	12.5	10.1	4.3	14.5	13.0	5.8	2.3	62.5
Forestry	22.1	15.0	19.2	26.2	34.9	11.0	2.6	131.0
Fishery	2.8	13.5	10.5	7.9	0.4	9.0	-	44.1
Mining and quarrying	20.1	57.3	47.5	49.4	70.0	32.2	17.7	294.2
<u>Manufacturing</u>	<u>186.2</u>	<u>267.0</u>	<u>192.0</u>	<u>235.4</u>	<u>243.5</u>	<u>378.9</u>	<u>220.3</u>	<u>1,722.4</u>
Food	11.9	14.9	7.1	7.4	15.8	7.1	1.2	65.4
Textiles and leather	27.9	31.4	41.7	78.7	102.5	69.7	14.1	366.0
Wood and wood products	1.4	0.4	0.1	2.3	2.2	23.9	8.6	38.9
Paper and paper products	9.6	11.8	1.4	6.1	2.5	1.6	-	33.0
Chemicals and rubber	28.0	71.7	44.8	32.0	44.5	104.9	110.5	496.4
Nonmetallic minerals	42.9	9.0	3.2	30.0	30.9	49.4	15.9	181.3
Basic metals	27.8	37.8	47.5	23.9	7.9	28.5	54.0	227.4
Metal products	35.4	89.9	36.0	52.0	35.3	33.8	15.8	298.2
Others	1.3	0.1	10.2	2.0	1.9	-	0.2	15.7
Construction	3.0	1.4	12.0	0.8	0.6	6.9	-	24.7
<u>Trade & Hotels</u>	<u>6.2</u>	<u>17.2</u>	<u>4.3</u>	<u>0.4</u>	<u>2.9</u>	<u>-</u>	<u>0.2</u>	<u>31.2</u>
Wholesale trade	-	0.7	-	-	2.5	-	0.2	3.4
Hotels	6.2	16.5	4.3	0.4	0.4	-	-	27.8
<u>Transport & Communication</u>	<u>2.0</u>	<u>4.7</u>	<u>21.9</u>	<u>4.8</u>	<u>1.3</u>	<u>-</u>	<u>-</u>	<u>34.7</u>
Transport	1.8	1.3	0.1	2.1	0.2	-	-	5.5
Communication	0.2	3.4	21.8	2.7	1.1	-	-	29.2
Real estate, business services and other services	3.9	19.0	6.9	7.2	12.4	6.1	3.8	59.3
Total	258.8	405.2	318.6	346.6	379.0	449.9	246.9	2,405.0

/a Preliminary estimates.

Source: Bank Indonesia.

INDONESIA

COUNTRY ECONOMIC MEMORANDUM

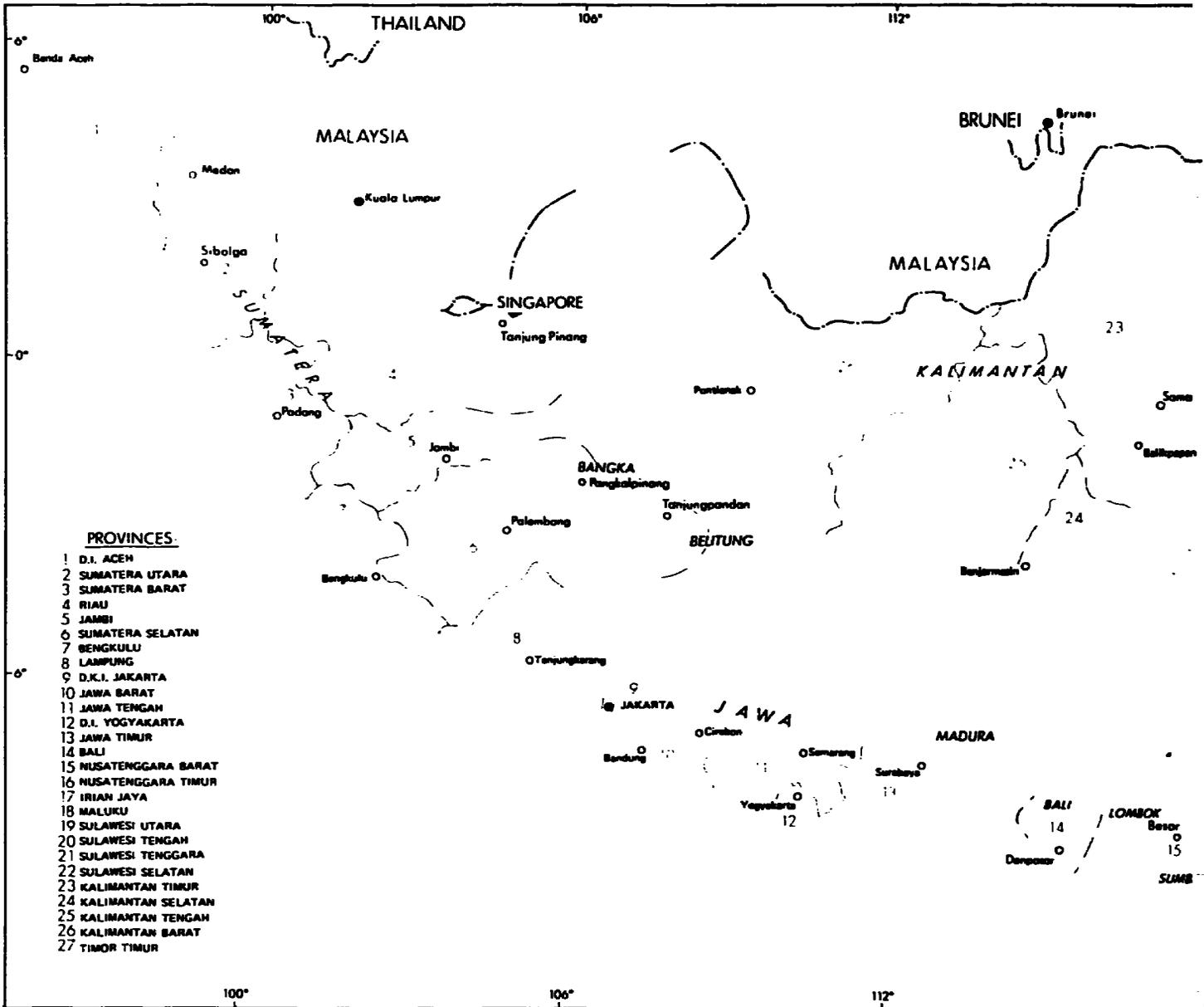
Approved Domestic Investment by Sector, 1977-83 /a
(Rp. billion)

	1977	1978	1979	1980	1981	1982	1983
Agriculture, fisheries and livestock	49	100	39	30	60	62	477
Forestry	80	59	80	115	175	93	106
Mining	64	18	33	55	13	52	57
<u>Manufacturing</u>	<u>392</u>	<u>522</u>	<u>580</u>	<u>1,093</u>	<u>306</u>	<u>1,419</u>	<u>4,552</u>
Textile	75	168	56	74	129	178	298
Chemicals	99	103	141	162	193	205	733
Other manufacturing	228	261	319	857	1,177	1,241	3,421
Construction	-	5	5	4	8	16	198
Hotel	4	12	13	10	54	76	282
Real estate	35	15	6	16	5	74	169
Others	20	24	18	35	70	143	203
<u>Total</u>	<u>575</u>	<u>758</u>	<u>774</u>	<u>1,308</u>	<u>1,691</u>	<u>1,949</u>	<u>5,982</u>

/a Intended capital investment, comprising original approvals plus approved expansions minus cancellations.

/b Preliminary estimate.

Source: Bank Indonesia.



124°

130°

136°

PHILIPPINES

INDONESIA

- CITIES OR TOWNS
- RIVERS
- - - PROVINCIAL BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



SULAWESI

HALMAHERA

OBHI

KEPULAUAN SULA

BURU

SERAM

IRIAN JAYA

PAPUA NEW GUINEA

FLORES

SUMBA

TIMOR

0 100 200 300 400
MILES

0 100 200 300 400 500
KILOMETERS

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124°

130°

136°

