BANK INDONESIA

REPORT FOR THE FINANCIAL YEAR 1997/98

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Symbols, Reporting Period, and Source of Data

r	Revised figures
*	Provisional figures
-	Data not available
- -	Nil or less than the last digit
$ or dollar	United States dollar
Rp	Rupiah

Reporting period is the fiscal year, from April 1, 1997 to March 31, 1998.

Source of data is Bank Indonesia, unless mentioned otherwise.

GOVERNOR
BANK INDONESIA

FOREWORD

The year 1997/98 was laden with challenges; indeed, it was the most overwhelming in our economy over the past three decades, as a series of daunting problems emerged continually with their adverse consequences. Triggered by the exchange rate turbulence in July 1997, the crisis has brought about not only grave economic but also social and political impacts, which precipitated the downturn of our economy after achieving remarkable performance over the past few years that has been widely commended. The soaring inflation has harshly hit most people, which was further exacerbated by shortages of essential items, medicines, and spareparts owing to prolonged drought and the pass through effect of the plummeting rupiah. Unsurprisingly, unemployment jumped as a number of enterprises ran into difficulty in continuing operation.

This Annual Report provides a detailed account of economic, monetary, and banking developments and policy responses adopted in 1997/98 with all facts, analyses, and policies are presented objectively. However, in light of the numerous facts and analyses as well as the complexity of the problems, care is required when making association between one fact or policy and another. On this occasion, as foreword, I wish to draw the readers' attention on several pivotal issues worth serious consideration so as to comprehend the economic developments and policy responses as well as challenges and policies to be pursued in the period ahead.

First, the unprecedented changes in 1997/98 occurred rapidly as reflected in the magnitude of the problems and a wide ranging policy responses adopted, particularly since the second quarter. In the first quarter, as in the past few years, the economy remained robust and inflation subdued, which provided a conducive business climate. The buoyant business activity - with support of macro-economic stability - has attracted influx of capital flows. These phenomena, in tandem with stronger privatization process, provided the main impetus for the vibrant economic activity.

The second quarter witnessed a sudden downturn of the economy. The exchange rate crisis in Thailand brought about a contagion effect to other Asian crises, including Indonesia. The corporate sector began to face the problems of servicing its external debts and importing raw materials. Banks ran into problems because of the increasing non-performing loans. This situation was further aggravated by both domestic and foreign speculative attacks taking advantage of the prevailing uncertainty. The crisis worsened as foreign investors lost confidence in Indonesia's economic prospect. As economic prospect in other continents, most notably in the United States, was promising, foreign capital, which had helped finance Indonesia's economic development, showed a simultaneous and massive reversal. These phenomena precipitated the persistent downward pressure on the rupiah.

To ease the pressure on the rupiah, the Government initially responded through exchange rate and interest rate adjustments. In this regard, intervention band of the exchange rate was first widened before being lifted, leaving the rupiah to float freely since August 1997. In pursuit of tight monetary stance, interest rate was raised on several occasions through the sale of Certificates of Bank Indonesia (SBIs) and temporary suspension in the purchase of money market securities (SBPUs), and transfer of the placement of funds of several state-owned enterprises from commercial banks to S81s.

Despite those measures, the rupiah exchange rate crisis developed rapidly into a deep financial and economic crisis that weakened all elements of the economy. The weaknesses in the micro-economic fundamentals also played a role in contributing to the crisis. The apparent weakness amid the difficult economic condition was reflected in the fragile banking sector, resulting from imprudent banking management, Another weakness was also evident in the management of the corporate sector as shown in its high reliance on the short-term external debt. Given the existing weaknesses in the micro-fundamentals, the exchange rate turbulence has rapidly developed into a deep economic crisis as reflected in the sharp contraction of economic activity, hike in unemployment, and acceleration of inflation.

Second, the Government has sought to solve the crisis through the adoption of various measures in the monetary, banking, fiscal, and real sectors, The international community has also committed and materialized its technical and financial assistance to the stabilization and reform program initiated by the Government. Nevertheless, the complexity of the problems has blunted the effectiveness of those measures in achieving its objectives. The storming crisis has set the economy off track without forthcoming signs of abating. The economy grew at a much slower pace, inflation running at a higher rate, exchange rate remaining under pressure, and intermediation in the banking sector stalling. These developments were further aggravated by the erosion of confidence of both domestic and international investors' confidence in the prospect and management of the economy.

The highly complex problems have confronted decision makers -the government, central bank and the corporate sector - with dilemmatic policy options. In the monetary area, the monetary authority was constrained by the availability of policy options for example, restoring monetary stability in a situation of depressed rupiah calls for a tightening of money supply with the implication of high nominal interest rate. In the short run, however, this monetary stabilization will impede business activity, thereby retarding economic growth. It may also aggravate the problem in the banking industry that has been hard hit by the weakening rupiah liquidity problem following the erosion of confidence.

Third, in view of the complexity of the problem, the Government considers it essential to set priority and policy coordination. To this end, three main issues have been considered priority, namely:

(i) containing inflation and stabilizing the rupiah so as to speed up economic recovery; (ii) alleviating the adverse impacts of the crisis on the low-income group; and (iii) restoring confidence in the banking system so as to enable banks to resume intermediation, hence helping reinvigorate the economy. To address those three issues, it is not adequate to rely solely on measures in the area of monetary and banking; rather, coordination between monetary and banking policies on the one hand and fiscal and real sector policies on the other becomes inevitable to ensure its success.

With the hindsight, the measures currently being and to be pursued will be directed to the three aspects as follows:

First, monetary policy will be aimed at containing inflation and stabilizing the rupiah, which requires the maintenance of high nominal interest rate until the rupiah stabilizes at a level reflecting fundamentals.

Second, Bank Indonesia will help strengthen the economically-weak group through the revision and creation of appropriate schemes. In light of the difficult challenges the economy is confronted with, Bank Indonesia has determined to place priority on assisting the group worst hit by the crisis, particularly food-crop farmers and small-scale entrepreneurs. Such assistance is expected to improve the supply side performance, thereby easing the inflationary pressure driven by supply shortage and interruption of distribution of essential products. Another motive to extend such assistance is the fact that food-crop farming and small-scale enterprises are highly labor intensive, hence enabling to absorb more labor.

In this regard, the available credit scheme will be improved and new schemes will be created. In addition, to enhance the capability of rural credit banks (BPRs) to finance small-scale enterprises in rural areas, Bank Indonesia envisages to widen the scope of Bank Indonesia Liquidity Credits (KLBI) built upon existing cooperation with BPRs, including profit-sharing BPRs.

Third, Bank Indonesia will direct the banking industry toward restoring confidence of domestic and international communities in the national banking sector. To this end, Bank Indonesia will maintain the government guarantee scheme on liabilities of locally incorporated banks. In covering such a guarantee, the government fully recognizes the need to provide liquidity support to the banking industry. Without such support, customers will run into difficulty in making withdrawals, sustainability of banks would be at stake, flow of payments would be interrupted, and entire economic activity would stall. In this regard, it is essential that Bank Indonesia will remain vigilant that the liquidity support will not exert more pressure on the expansion of money supply and inflation rate.

To help restore confidence in the banking system, the Government will speed up the implementation of comprehensive reform in the banking sector. The reform will be implemented through four key programs, namely : (i) restructuring the banking industry by the newly established Indonesian Bank Restructuring Agency (IBRA) and by Bank Indonesia; (ii) improving the implementation of prudential principles so as to strengthen the internal banking condition; (iii) strengthening bank supervision function particularly to promote compliance with prevailing rules and regulation; and (iv) improving the necessary *legal instruments and institutions. The government is fully aware that while its benefit will not be derived in the short run, it has remained committed to the pursuit of gradual and sustained restructuring of the banking system.*

The implementation of various reform agenda as I have highlighted earlier will be monitored, adjusted, and improved from time to time. To ensure its success, Bank Indonesia will maintain its cooperation with multilateral financial institutions, especially the International Monetary Fund (IMF), World Bank, and Asian Development Bank (ADB) as well as with other central banks, especially at the regional level. In view of the magnitude and complexity of the problems that we are currently confronted with, it is essential that decision makers maintain perseverance and alertness and the public remain patient so as to allow process of economic recovery to be uninterrupted.

Finally, it is my sincere hope that the 1997/98 Bank Indonesia Annual Report will help the public comprehend our economic condition and policy responses initiated by Bank Indonesia in its support to economic recovery. On behalf of the Board of Directors of Bank Indonesia, I wish to express my gratitude and extend appreciation to all whose contribution and cooperation have enabled the completion of this report in due time.

Jakarta, June 1998
Governor of Bank Indonesia

Syahril Sabirin

Chapter 1 Overview

The year 1997/98 witnessed the most onerous pressures on Indonesia's economy over the course of three decades of development. These pressures, precipitated by the exchange rate crisis beginning in the second half of 1997, has adversely affected the economic per–formance and turned to a prolonged crisis affecting various sectors. The crisis developed rapidly, given the openness of economy and its reliance on the external sector, and was further exacerbated by the existing structural weaknesses in the economy, most notably at the micro level. Inefficient economic management, poor corporate governance, and a fragile banking system have also contributed to developing the exchange rate crisis into a crisis in private external debt and the banking system.

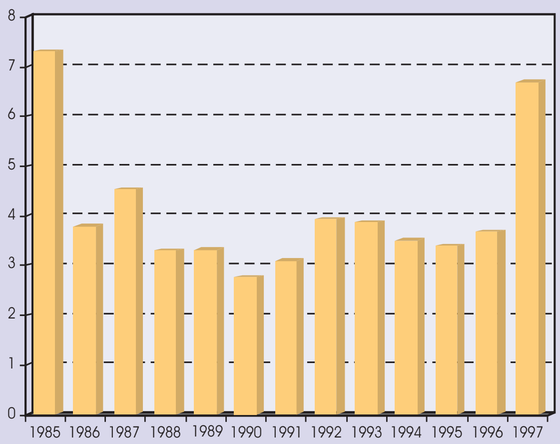
To prevent further deterioration, the Government has initiated a variety of endeavors. However, these efforts have yet to show favorable outcomes owing to the erosion of confidence in management capability and unfavorable economic prospects. Furthermore, the spread of various rumors in the area of politics, in tandem with further deterioration of economic performance, have also hampered the process of economic recovery. As the crisis deepened, financial intermediation, especially in the banking sector, was interrupted, hence impeding the flow of funds for financing investment and production. Accordingly, economic activity saw a sharp contraction, which brought about a drop in gross domestic product (GDP) from 8.0% in 1996 to 4.7% in 1997, a possible hike in open unemployment from 4.9% to 7.5%, and a soaring inflation rate from 5.17% in 1996/97 to 34.22% in 1997/98.

Source of the Problem

The source of the crisis can be traced to the acceleration of the process of Indonesia's economic integration to the world economy which has not been supported by well developed institutions as a prerequisite for the operation of an efficient market economy. On the one hand, the openness of the economy with a free foreign exchange system, together with various deregulations adopted by the Government, has brought about favorable developments to the domestic economy as reflected in the robust economy, modest inflation, and a significant surplus in the balance of payments in the past few years. These favorable developments have strengthened both domestic and foreign investors' confidence in the prospect of Indonesia's economy, which further induced capital inflows and deepened the process of integration in the world economy. On the other hand, the highly dynamic economy has not been supported by the effort to strengthen the business sector and improve public governance as reflected in the lack of transparency and inconsistent policy implementation. Furthermore, the weakness in the availability and quality of information has also compromised the quality of decisions taken by the business sector and the government as well. These factors have weakened the microeconomic fundamentals, hence further undermining the resilience of the economy against external shocks.

The weakening microeconomic fundamentals reflected in the lower efficiency of the management in the private sector during past few years, stemmed mainly from the increasing distortions in resource allocation (by both the private and public sectors) which induced the proliferation of conglomeration, with monopolistic and rent seeking behavior. Despite the rapid growth of investment and production in the past five years, resources had not been optimally utilized, pulling in activities of lower productivity, which led to rising economic inefficiencies as reflected in an increase in the average incremental capital output ratio (ICOR)

Chart 1.1
Incremental Capital Output Ratio



from 3.1 in the period of 1988-1991 to 4.2 in 1992-1997 (Chart 1.1).

The weakening microeconomic efficiency was also reflected in the fragility of the financial sector, especially banking, which was in partly attributable to the unstable macroeconomic condition following the exchange rate turbulence and the high interest rate. Given the unstable macroeconomic environment and the adverse impacts of the measures taken by the Government to address the problem, banks found it difficult to assess credit and market risks accurately.

The major factor contributing to the fragility of the banking sector was the inherent weaknesses prevailing in the national banking industry, that led to its vulnerability to external shocks. First, the implicit guarantee from the central bank that banks should not be allowed to fail — so as to prevent systemic risk to the banking system — had led to moral hazard on the part of bank owners and management. The implicit guarantee induced banks to leverage and encouraged banks to exercise less caution in extending loans to high risk sectors. As a result, commercial bank risk was shifted to the central bank while systemic risk in the banking system mounted.

Second, supervision by the central bank was less than fully effective as the central bank was unable to keep up with the rapid progress and increasing complexity of bank operation. Consequently, bank were lured to overlook prudential principles governing their operations. Although Indonesia had adopted international standards for prudential regulations recommended by the Bank for International Settlements (BIS), the existing weaknesses in law enforcement and lack of central bank independence resulted in ineffective supervision and inadequated corrective measures.

Third, sizable connected lending (either directly or indirectly to individuals or business group), had raised commercial banks' exposure to the risk of non-performing loans. While various disciplinary measures entailing strong sanctions had been introduced to prevent unsound lending practices, violations persisted due mainly to the structure of private national banks' ownership, which tended to be concentrated on few groups or individuals.

Fourth, the relatively low managerial skills in banking had led to the weakening productive asset quality and rising risk exposure. This was aggravated by the existing weaknesses in internal supervision and information system which resulted in the failure to monitor, detect , and solve non-performing loans and excessive risk exposure. These weaknesses had further limited banks' ability in anticipating and overcoming the emergence of financial crisis.

Fifth, lack of transparent information on bank condition had undermined not only the accuracy in the analysis of banks' financial position but also inhibited efforts to introduce social control and market discipline. This factor contributed to the erosion of confidence in the banking sector, which raised the systemic risk in the banking industry.

The weaknesses in the microeconomic fundamentals were also accounted for by the poor corporate governance. The private sector had thus far overlooked the importance of transparency and openness in conducting business, which led to inefficiency and failure to observe sound management principles. In addition, the absence of effective legal institutions, especially in the settlement of the bankruptcy process, has induced moral hazard in the corporate sector. The environment has prompted many corporates to undertake risky investment projects which led to over-investment in sectors vulnerable to changes in exchange rate and interest rate, such as the property sector.

Over-investment by the private sector was driven by two factors. First, the increasing dynamism of Indonesia's economy had created over-confidence on the part of foreign investors, thereby overlooking their prudence in extending loans to the business sector in Indonesia. Second, domestic business sector, taking advantage of interest rate differential, had attracted substantial capital inflows, especially in the form of short-term borrowing. At the same time, the rupiah, which remained stable in the past few years, had provided an implicit guarantee that gave boost to confidence of the business sector in the strength of the economy. The relatively easy access to capital also played a role in the failure to exercise prudence in conducting business as reflected in the emergence of maturity gap (a large share of short-term external debt financing long-term investment). These developments increased the vulnerability of the private sector to exchange rate shocks, which precipitated corporate bankruptcy.

The fundamental microeconomic weaknesses had heightened the dependence on the external sector, especially private external debt, although national saving-investment gap remained at a manageable level. The private sector's dependence on the external financing continued to increase in line with the robust economic activity of the private sector, resulting in the soaring private external debt. Over the past five years, private external debt increased by an average of 28.6% per year, well above that of 0.4% of the public sector, raising the share of the private external debt from 33.9% in 1993/94 to 60.7% in the year under review.

The heavy reliance of the private sector on external debt also reflected inefficiency in the utilization of domestic source of funds due to the inefficient bank intermediation and low productivity of the real sector. Indonesia's national savings accounted for 30.0% of GDP, well above the saving rates in other developing countries. Albeit lower than the national saving rates in Singapore and Japan, accounting respectively for 50.0% and 30.8% of GDP, Indonesia owned a large potential of funds. However, with the higher efficiency in the financial sector and productivity in the real sector, the funds in Singapore yielded higher return, thereby enabling the country to export its funds. The high savings rate and productivity of the real sector in Japan also enabled that country to export part of its savings, despite its relatively less efficient financial sector. This comparison exhibits existing inefficiency in the utilization of domestic funds in Indonesia. While this inefficiency continues to plague the economy, the unequal access to domestic bank funds has further aggravated the situation, thereby increasing the dependency on foreign source of funds.

Given the existing various fundamental weaknesses in domestic economy, the exchange rate shock since mid-1997 has developed rapidly to severe economic and financial crises. On the external sector, the exchange rate crisis had driven substantial net private capital outflows, bringing about a deficit in the balance of payments for the first time since 1989/90. Furthermore, outstanding debt and amortization of principal soared, especially in rupiah term, which caused the default of many firms in their external obligation. On the monetary and banking sector, the exchange rate crisis which was followed by the crisis of confidence had caused banks to incur losses and experience severe liquidity problems, making them dependent on the central bank's liquidity support. The massive liquidity support extended by the central bank in turn prompted the rapid expansion of money supply, which gave further rise to the already high level of inflation as a consequence of pass through effect of the sharp depreciation of the rupiah. On the fiscal front, government expenditure, especially for oil subsidy and repayment of external obligation rose sharply, bringing about a substantial deficit to the operation of government finance. In the real sector, investment and production activity exhibited a contraction and unemployment soared. These developments clearly demonstrated that the crisis had created widespread adverse impacts on the national economy.

To cope with the crisis, the Government has introduced various measures to reinvigorate economic activity. In the implementation, however, the Government has been confronted with the dilemma as mentioned earlier. In the monetary and banking sector, the efforts to stabilize exchange rate through raising interest rates and tightening monetary stance have increased the vulnerability of the banking industry and the business sectors. The central bank therefore, was confronted with dilemma between maintaining monetary stability and rescuing the banking industry and the business sectors. In the fiscal area, the effort to control domestic demand through government spending have been less effective due to lack of transparency and weaknesses in the supervision of government expenditure, including public enterprises. In the industry and trade sectors, the effort to strengthen efficiency and sound competitiion had been impeded by the oligopolistic and monopolistic market and distorted incentive system. These factors reflected the onerous pressure that rendering partial solution to the problem would not adequately solve the prevailing crisis. Therefore, in addition to restoring economic stability, the Government determined to launch across the board reforms.

In the economic area, the reform program was basically intended to strengthen transparency and consistency in implementing economic policy, improve economic efficiency both at the macro- and microeconomic level and help create good corporate governance. On the fiscal front, to improve transparency of fiscal operations, the measure taken was mainly focused on incorporating the off-budgetary outlays to the budget and suspending various subsidies. On the monetary front, the measures included the granting of greater autonomy to the monetary authority so as to strengthen consistency and effectiveness of monetary policies. In the banking sector, the Government launched a restructuring program of the national banking industry, inter alia, through the establishment of the Indonesian Bank Restructuring Agency (IBRA). In addition, more stringent regulations on bank ownership had been effected so as to prevent from the concentration of bank ownership. In the real sector, to strengthen efficiency and competitiveness, the Government embarked on a reform in the area of trade and investment through dismantling monopolistic practices and unsound competition. To ensure the effectiveness in the implementation of the deregulation program, the Government also reformed the legal, social, and political areas. This across the board reform is expected to create a more resilient economy against external shocks.

Economic Developments and Policy Responses

The reporting year also witnessed the rapid downturn of Indonesia's economy owing to the inability of various domestic economic sectors to withstand external shocks. While the economy showed strong growth in the first half of 1997, the following half exhibited a sharp drop. Indeed, some signs of unfavorable trend had appeared in the past few years as reflected in the continuing growth of production of incompetitive sectors, increasing dependence on external debt, weakening non-oil exports while imports rose sharply, and rising commercial bank's risk exposure, particularly in foreign exchange trading.

Table 1.1
Selected Quarterly Macroeconomic Indicators in 1997

Indicator	Qtr.I	Qtr.II	Qtr.III	Qtr.IV
	Annual growth (in percent)			
Gross Domestic Product * **(At constant 1993 prices)**	**8.5**	**6.8**	**2.5**	**1.4**
By Expenditure				
Consumption	8.6	9.2	5.7	–3.7
Gross domestic fixed capital formation	18.1	13.1	–7.1	–3.4
Exports of goods and services	–3.9	3.8	6.0	17.7
Imports of goods and services	18.3	–0.1	5.6	3.9
By Sector				
Agriculture	1.3	0.1	0.7	0.5
Mining and quarrying	3.9	4.6	–1.5	–0.2
Manufacturing	11.2	11.6	2.5	1.6
Electricity, gas, and water supply	12.5	13.1	9.9	12.1
Construction	19.4	16.3	–5.5	–0.6
Trade, hotel, and restaurant	11.7	5.9	4.1	0.9
Transportation and communication	9.7	8.1	9.6	6.4
Financial, rental, and corporate services	7.9	5.9	6.2	–0.5
Services	3.3	2.2	3.9	2.8
Price				
Consumer Price Index	5.29	5.09	7.11	11.60
Monetary Aggregate				
M2	26.7	24.7	26.6	23.2
M1	19.6	21.4	11.0	22.2
Quasi money	28.8	25.7	31.3	23.5
Bank funds	28.3	25.4	30.0	26.9
Claims on business sector	23.7	24.9	33.2	43.4
O/N Interest Rate in Interbank Money Market (in percent)	10.9	13.7	52.6	40.7
Balance of Payments (in billions of $)				
Current account	–2.3	–1.1	–1.5	–0.3
Non oil/gas	–3.3	–1.6	–1.8	–0.6
Exports	9.5	12.0	11.8	11.4
Imports	–10.1	–10.2	–11.2	–9.9
Services (net)	–2.7	–3.4	–2.4	–2.1
Oil/gas (net)	1.1	0.5	0.4	0.4
Capital Account	4.0	2.9	2.5	–4.6
Exchange Rate (Rp/$)				
Average	2,472	2,507	2,742	3,951
End of period	2,491	2,522	3,275	4,650

Sources : – Central Bureau of Statistics
– Bank Indonesia

Those signs of potential problems were not revealed because the macroeconomic developments remained robust as reflected in the high dynamism of the economy up to mid-1997. The economy grew by 7.6% in the first half of 1997 and annual inflation rate eased to 5.09%, the lowest rate since 1993. The current account deficit remained manageable and capital inflows were strong, bringing the overall balance to record a surplus. These developments brought about a rapid expansion of money supply, especially M2, reflecting the increase in money demand prompted by higher income and lower interest rate (Table 1.1).

In view of the strong domestic demand amid the marked expansion of money supply up to mid-1997, the measure taken was directed toward containing the adverse impacts of unsustainable economic growth so as to maintain stability. On the monetary front, to curb the domestic demand the monetary authority , inter alia, increased the statutory reserve requirement and limited the growth of lendings to the property sector. On the fiscal front, the Government continued the maintenance of prudent policy by adopting dynamic and balanced budget.

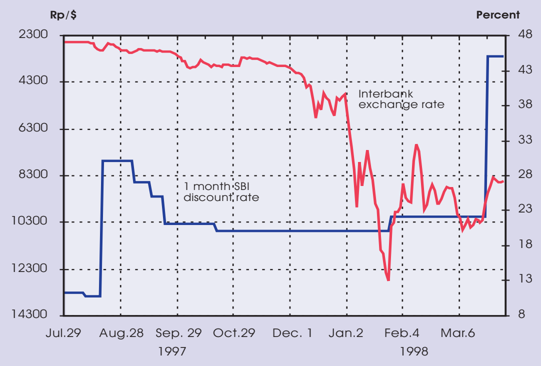
Since mid-1997, however, the monetary situation has changed rapidly. The rupiah exchange rate came under severe pressure precipitated by the currency crisis in Thailand which spread rapidly to other ASEAN countries, including Indonesia and South Korea. The major factor depressing the rupiah was the erosion of foreign investors' confidence in Indonesia's economy because of the existing similarity in economic characteristics to Thailand, resulting in the reversal of capital inflows, which has been an important element in financing national development (Box: The Role of Economic Fundamental and the Contagion Effect on the Asian Crisis). This situation was further aggravated by speculative attacks both in domestic and international markets taking advantage of the spreading political rumors, which heightened business uncertainties. Accordingly, the rupiah fluctuated widely before falling to its lowest level in the second half of 1997/98.

To cope with the battered rupiah, the Government initially relied more on the monetary policy with the hindsight that the pressure was transitory in nature. At the beginning of the crisis, Bank Indonesia widened the intervention band from 8% to 12%, combined with intervention both in the forward and spot markets. In view of the stronger pressure on the rupiah, on August 14, 1997 Bank Indonesia decided to abandon the managed floating exchange rate system and adopt the free floating system. Nevertheless, Bank Indonesia launched interventions on particular occasions to ease the pressure on the rupiah. In addition, several monetary instruments which gave expansionary effects were suspended temporarily, such as the auction of money market securities (SBPUs) and discount facility I (repo) and the purchase of Bank Indonesia certificates (SBIs) on repo basis. To further mop up liquidity, discount rate on SBI was raised, and public enterprises' deposits with state and private banks were shifted into SBIs.

Through the adoption of those measures, monetary developments were kept in check. The annual growth of narrow money decelerated in August 1997 and inflation rate was modest. The pressure on the rupiah eased somewhat although it had depreciated markedly. Between mid-August and the first week of September, the fluctuation of exchange rate in the interbank market moderated and remained stable within a range of Rp2,975 and Rp3,025 per dollar (Chart 1.2).

Nevertheless, the tightening of liquidity and the high level of interest rate in the period of July - August 1997 have exerted severe pressure on the banking and real sectors. The sharp increase in the interbank interest rates weakened the liquidity position of banks and gave an upward pressure on both deposit and lending rates, which impeded the expansion of bank lending and worsened the asset quality of banks. In the real sector, domestic demand, which was the driving force of Indonesia's economy up to the second quarter of 1997, decelerated that led to a moderation in economic growth. Furthermore, the weak financial structure of the corporate sector and failures to improve productivity resulted in a marked slowdown in GDP growth in the third quarter of 1997. This slowdown was mainly re-

Chart 1.2
Rp/$ Exchange Rate and 1 Month SBI Discount Rate
July, 1997 – March, 1998



corded in the construction, property, and manufacturing sectors.

In view of the mounting pressure on the real sector and further deterioration of the banking sector, the Government introduced a policy package of September 3, 1997 covering 10 measures of economic adjustments. While those measures were mainly directed toward restoring stability, they did not only rely on the monetary sector but also widened to include fiscal, banking, and capital market areas. Those measures included fiscal consolidation, prudent easing of monetary stance, bank restructuring, and elimination of the limit on the purchase of stocks by foreign investors in the capital market.

However, the policy package of September 3, 1997 has not been fully implemented as the crisis persisted and brought about much worse impacts than earlier anticipated. The early steps in the fiscal area to streamline government spending through rescheduling and scaling back of projects were not consistently implemented. The easing of monetary stance through the reduction of SBI rates in stages, the resumption of purchase of SBPUs, the redemption of public enterprises' SBIs, and the reduction in the statutory reserve requirment for deposits in the foreign currency had indeed been too early. Consequently, the market perceived the above steps negatively and as a result the rupiah further weakened, reaching a level of around Rp3,600 per dollar in the beginning of the first week of October 1997.

In view of the adverse impacts of the crisis on various economic sectors, the Government launched an across the board policy which covered not only the stabilization program through monetary and fiscal policies but also initiated a reform program in the financial and real sectors. The stabilization and reform program was supported by technical assistance from the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB), and a number of bilateral creditors, which was formalized in the economic stabilization and reform program in November 1997. The support also included financial assistance under the coordination of the IMF in the total of $43 billion. To coordinate the implementation of the reform program, the Government established the Board for Strengthening the Resilience of Economy and Finance (DPKEK).

The reform program supported by the IMF in the short run was intended to restore macroeconomic stability through tightening the monetary and fiscal stance. Over the medium and long run, the program was intended to address fundamental and structural rigidities through dismantling distortions in the economy and strengthening public governance so as to improve economic efficiency. The implementation of the IMF adjustment program in the short run generally entails a slowdown in economic growth and an increase in unemployment. However, following the difficult adjustment period, the economy is expected to be back on the track of high and sustained economic growth.

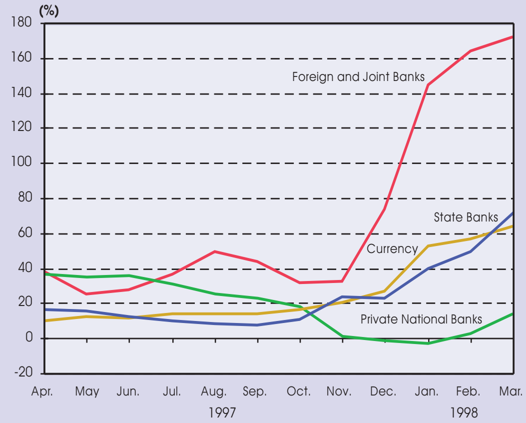
To support the rupiah, the IMF program was also supplemented with concerted intervention by the Government and the Bank of Japan and the Monetary Authority of Singapore in November 1997. To promote exports and increase the supply of dollar, Bank Indonesia also provided both pre and post-shipments rediscount facility to designated exporters. In addition, to strengthen the effectiveness of monetary policy, the Government accorded full autonomy to Bank Indonesia to formulate and implement monetary policy.[1] These effects had been perceived positively by market players as reflected in a rebound in the rupiah exchange rate to Rp3,200 at end of November 1997.

As a first step in the reform program in the banking sector, the Government revoked the license of 16 insolvent banks on November 1, 1997. This revocation, which was initially intended to restore confidence in the banking sector, has been responded negatively by the general public. Concerns on the possibility of another round of bank closures and the absence of guarantee program on deposits spread panic among depositors for the safety of their deposits with commercial banks. This had led to bank runs and a flight from unsound to sound banks (Chart 1.3), which drained banks' liquidity. Credibility of national banks in the international financial community also deteriorated following the issuance of lower ratings by international rating agencies as reflected in the international banks' reluctance to conduct transactions in foreign exchange with and accept the L/C's issued by national banks.

The strong pressure on banking led to severe liquidity problem encountered by virtually all national banks that caused most banks to violate the statutory reserve requirement and posted negative balance with their deposits with Bank Indonesia. The liquidity problem also prompted sound banks, which supplied funds before the crisis, turned to borrower in the interbank money market. This situation was further aggravated by the increasing segmentation in the interbank money market as reflected in the widening spread between the lowest and highest interbank rates. To absorb rupiah liquidity

1) Presidential Decree No. 23 of 1998, dated January 21, 1998.

Chart 1.3
Annual Growth Rates of Currency and Rupiah Time Deposits by Group of Banks



concentrated in strong banks, such as foreign banks, and redistribute that excess liquidity to banks experiencing shortage, Bank Indonesia launched rupiah intervention directly in the money market. To prevent from recurrent runs on all banks, Bank Indonesia – as lender of last resort – provided liquidity support to the banking system. However, the size of the support caused the emergence of a new problem in the form of expansion of money supply, which gave upward pressure on prices and encouraged speculative attacks.

The beginning of 1998 witnessed increasing uncertainties in the monetary and economic developments since the assumptions underlying the draft budget for 1998/99 were considered unrealistic. Therefore, the announcement of the budget was negatively perceived by market players, which resulted in the fall of the rupiah exchange rate. This situation was further exacerbated by the downgrading of Indonesia's sovereign rating to non-investment issued by the Standard and Poor 500 and Moody's. Furthermore, the news on the lay off of workers and the closing of various business activities also raised the community's concerns regarding further deterioration of the economy. The incomplete information on the size of private external debt falling due also played a role in worsening the uncertainty which drove speculative attacks in the foreign exchange market. Accordingly, the rupiah exchange rate came under a renewed pressure, falling to Rp9,500 per dollar at end of the first week of January 1998.

Concurrently, the worsening confidence in the banking system and the rising need for cash to celebrate several holidays which happened to coincide also increased the demand for liquidity. Cash held by the public rose sharply from Rp24.9 trillion at end of November 1997 to Rp37.5 trillion at end of January 1998. Furthermore, the spread of rumors about the shortage of basic necessities also contributed to the buildup to higher inflation expectation, thereby precipitating panic buying of basic necessities and speculative attacks in the foreign exchange market. As a result, inflation soared, reaching 6.88% in January 1998 and the rupiah plummeted to its lowest record of Rp16,000 per dollar in January 22, 1998. The expansion of broad money (M2) also hiked, to 54.9% in January 1998 compared to only 23.2% a month earlier.

In view of the widespread crisis affecting all economic sectors, the Government determined to accelerate the process of stabilization, expanded reform, and simultaneously revised macroeconomic targets, which were formalized in the letter of intent with the IMF on January 15, 1998 (Box : Stabilization and Economic Reform Program). Almost all of the policy agenda under the IMF program had been implemented (Attachment: Policy Commitment under the IMF Program). On the fiscal front, a revision on the 1998/99 budget was carried out through containing the deficit to 1% of GDP, inter alia, by cutting subsidies on fuels, lifting tax exemptions on the national car project, suspending both budgetary and off-budgetary supports for the Nusantara Aircraft Industry (IPTN). On the monetary area, in addition to granting greater autonomy to Bank Indonesia, the Government sought to tighten domestic liquidity through changing the term structure and raising markedly the discount rates on SBIs. On January 27,1998 and March 23, 1998 the discount rates on SBIs were raised gradually, with the highest reaching 45% for 1 month maturity. These measures were also complemented with the effort to stabilize the economy through the establishment of the negotiating team for private external debt settlement (TPULNS) to resolve the external debt problem of the private sector.

The Government also launched various reform programs in the financial and real sectors. The effort to restore confidence and restructure the banking system was conducted through the establishment of the IBRA and the provision of government guarantee scheme on deposit and other liabilities of locally incorporated banks at end of January 1998. The reform in the real sector included, inter alia, accelerating the privatization process of public enterprises, streamlining the role of the State Logistics Agency (Bulog) to rice distributor, and dismantling the monopoly in trade procedures for clove, cement, paper, and wood.

The implementation of several aspects of the stabilization and reform program have aroused different views among domestic economic agents. The implication of cutting subsidy on oil price has been debated in view of the prevailing high inflation rate and the adverse impact on the most vulnerable groups. Debates have also been raised on the dismantling of Bulog's monopoly rights for several essential commodities. The effectiveness of tight monetary stance in curbing the inflationary pressure has also been argued. Basically, the different views reflected the difficult tasks in stabilizing and reforming the economy, which was an indispensible process in bringing the economy back on the right track. The differences were so sharp that challenged the consistency in implementing policies already adopted, for example, inconsistency in the forms of postponement of revocation of tax exemption on imported cars and the emergence of a new trade regulation in excise on tobacco following the dissolution of the Clove Marketing Board (BPPC).

In addition to several aspects relating to stabilization and reform program, different views also propped up regarding the handling of the economic crisis in response to the continued pressure on the rupiah. At end of January 1998, various groups proposed that in coping with the monetary crisis, the Government introduce a currency board arrangement (CBA) to replace the central bank system and other functions under the central bank's authority (Box : Currency Board Arrangement). The persistent debates on the implementation of this system has wasted time and resources, which further heightened economic uncertainties.

At the same time, political uncertainties emerged in anticipation of the convening of the People's Consultative Assembly and the spread of rumors relating to political reform. Those factors aroused concerns of not only domestic and international economic agents but also international organization and bilateral creditors, which formerly offered assistance to the reform program, on the prospect of Indonesia's economy

Against this background, up to the end of the year under review, the economic, monetary, and banking developments continued to deteriorate. The rupiah exchange rate remained weak and for the whole reporting year showed a depreciation of 70.9%. The battered rupiah led to a sharp contraction in non-oil imports, most notably in the second semester of the reporting year. With the improvements in export performance, especially non-oil, the current account deficit dropped to 1.3% of GDP. Over the same period, capital account posted a deficit for the first time since the First-five Year Development Plan owing to a massive reversal of private capital flows. Accordingly, the overall balance recorded a deficit of $10 billion and foreign exchange reserves dropped from 7,0 months to 4.6 months of non-oil imports (Table 1.2).

The crisis also further destabilized the internal balance as reflected in the soaring inflation from 5.17% in 1996/97 to 34.22% at end of the year under review.

The weakening rupiah gave an upward pressure on prices of products with imported inputs. The inflationary pressure was also driven by supply shortage following the long drought, which was further aggravated by panic buying driven by concerns over the expectation of higher inflation.

Table 1.2
Selected Macroeconomic Indicators

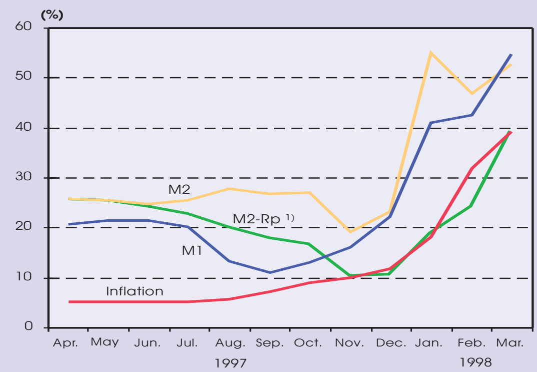
Indicator	1995	1996	1997*
	Percent change		
Gross Domestic Product 1)	**8.2**	**8.0**	**4.7**
By Expenditure			
Consumption	11.2	9.9	4.8
Gross domestic fixed capital formation	14.0	14.5	4.2
Exports of goods and services	7.7	7.6	6.3
Imports of goods and services	20.9	6.9	6.6
By sector			
Agriculture	4.4	3.0	0.6
Mining and quarrying	6.7	5.8	1.6
Manufacturing	10.9	11.6	6.2
Electricity, gas, and water supply	15.9	12.8	11.8
Construction	12.9	12.8	6.4
Trade, hotel, and restaurant	7.9	8.0	5.5
Transportation and communication	8.5	8.7	8.4
Finacial, rental, and corporate services	11.0	9.0	4.8
Services	3.3	3.4	3.0
Unemployment Rate (in percent)	**7.2**	**4.9**	**7.5**
	1995/96	**1996/97**	**1997/98**
	Percent change		
Monetary Aggregate			
M2	27.9	26.7	52.7
M1	18.4	19.6	54.6
Quasi money	31.1	28.8	52.2
Rupiah	33.7	30.5	34.0
Foreign exchange	22.9	23.4	115.8
Bank funds	28.7	28.3	57.8
Rupiah	31.1	29.1	37.7
Foreign exchange	20.6	25.3	136.1
Claims on business sector	21.1	23.7	63.3
Rupiah	22.9	23.7	22.0
Foreign exchange	14.4	23.8	216.8
O/N Interest Rate in Interbank Money Market (in percent)	13.6	13.7	47.0
Price			
Consumer Price Index	8.86	5.17	34.22
	In percent		
Balance of Payments			
Current account deficit/GDP	–3.4	–3.5	–1.3
Government debt service ratio	16.4	14.6	10.2
Gross foreign assets (in months of non-oil/gas import)	5.9	7.0	4.6
Exchange Rate (Rp/$) 2)	2,338	2,419	8,325

1) At constant 1993 price.
2) End of period
Sources : – Central Bureau of Statistics and others (processed)
– Bank Indonesia

In the monetary sector, the expansion of money supply (M2) jumped from 26.7% to 52.7% at end of the reporting year (Chart 1.4). The expansion was in part attributable to the revaluation of foreign exchange savings in rupiah term following the weakening rupiah as reflected in the M2 in rupiah term, which increased by only 39.4%. Another factor contributing to the increase was the soaring demand for cash by depositors due to the deterioration of confidence in the banking sector. This was reflected in the increased share of cash in M1 to 38.8% as against an average of 33.0% in normal situation. The factor affecting the sharp growth of money supply was related to the sizable liquidity support intended to address liquidity shortage experienced by banks, which stood at Rp116.5 trillion at the end of March 1998.

On the fiscal front, the sharp depreciation of the rupiah resulted in the soaring government expenditure because of the ballooning outlays with foreign exchange components, such as amortization of external debt and subsidy on fuel and food procure-

Chart 1.4
Annual Growth Rates of Monetary Aggregates and Inflation



1) Excluding quasi money in foreign currency.

ment. Despite the increase in domestic revenue bolstered by high oil revenues, the fiscal operation ended up with a deficit of 1% of GDP.

The banking sector was also hard hit by the crisis. On the liability side, the pressure on the rupiah resulted in a severe liquidity problem in the banking industry, which gave a sharp rise in the need for funds both to service external obligations falling due and to meet massive withdrawals by depositors. At the same time, the tightening of liquidity, which propelled the interbank interest rate to its peak of 350% in January 1998, further hampered commercial banks' efforts to raise funds from domestic sources, which rendered commercial banks' greater reliance on the central bank's liquidity support. On the asset side, the depressed rupiah raised the risk of non-performing loans, which worsened the productive asset quality. Furthermore, the high interest rate and tight liquidity in the banking industry virtually led the banking operations to a halt. Against this backdrop, substantial losses and worsened solvability of the banking industry in Indonesia would be unavoidable.

In the real sector, the crisis contributed to a contraction in domestic demand and weakened the economic performance markedly. As income fell and purchasing power dropped following the soaring inflation, consumer spending went down and shrank in the last quarter of 1997. Furthermore, a decline was also recorded in investment in sectors vulnerable to exchange rate and interest rate shocks, such as property, automotive, and manufacturing with high import content. This situation was further exacerbated by a cut in bank lending and postponement of several government projects. Accordingly, economic growth slowed down to only 2.0% in the second half of 1997 (Table 1.1).

The deterioration of economic performance brought about a lower employment opportunity and higher level of unemployment. The business sector, which was hit by the crisis, was forced to lay off and temporarily suspend workers. Furthermore, the repatriation of Indonesian overseas workers from countries hit by similar crisis also contributed to worsening the unemployment problem in Indonesia. At end of 1997, open unemployment stood at 7.5%, a jump from 4.9% in the preceding year.

Challenges in 1998/99

In view of the adverse developments prevailing in the year under review, Indonesia anticipates difficult challenges in the years to come. First, restoring stability of the rupiah exchange rate which reflects Indonesia's fundamental economy. The battered rupiah, which fell sharply at end of the reporting year, no longer reflected the fundamental economy. The excessive depreciation has severely weakened entire economic sectors. Investment and international trade have been jeopardized, inflation soared, and external debt burden heightened considerably.

Second, restoring confidence of both domestic and international communities in Indonesia's banking sector. The tendency of depositors to make massive withdrawals has complicated the effort to restore bank soundness and further driven interest rate upward. In addition, the reluctance of foreign banks to resume transactions with Indonesian banks will hamper the effort to raise off-shore funds and international trade. Hence, the erosion of confidence in the banking sector will impede the process of intermediation, which will put lending to productive sectors to a halt. This will further depress economic activity, which has already weakened nowadays.

Third, reinvigorating business activity so as to minimize economic contraction. Business activity has been the hardest hit by the crisis. Output in some economic sectors has declined and in fact some sectors have ceased production. This will contribute to weakening economic activity, increasing unemployment, and raising the number of people living below the poverty line, which may heighten the risk of social unrest.

Fourth, minimizing the adverse impacts of the crisis on the most vulnerable groups through the provision of social safety net. The deterioration of the economic performance has adversely affected the living standard of the people. The soaring inflation, coupled with rising unemployment, has precipitated social unrest in several areas. This condition was further exacerbated by the shortage of basic necessities which may threaten hunger.

Direction of Economic Policy for 1998/99

In view of the difficult challenges mentioned earlier, the direction of economic policy for 1998/99 will continue to be aimed at restoring confidence in Indonesia's economy. The steps to be taken will be based on the stabilization and reform programs as envisaged by the Government with the IMF support.

Monetary policy will be directed toward the efforts to curb inflation so as to support the effort to stabilize the rupiah exchange rate and to create conducive climate for the process of economic recovery and the effort to alleviate poverty. In implementation, Bank Indonesia will maintain interest rate at a level which will adequately provide liquidity without necessarily exerting inflationary pressure. Interest rate will be continually adjusted taking into account the inflation rate.

Fiscal policy will be guided by the prudential principle, which is intended to expedite economic recovery and reduce the adverse impacts of crisis on the community, especially the low income group. The effort to raise government revenue will be carried out through privatization of a number of public enterprises, while simultaneously strengthening efficiency and extensification of tax collection. On the expenditure side, the Government will improve the priority list so that, given the budget constraint, it will continue to stimulate economic activity. Outlays for social safety net to address the effect of the crisis on most vulnerable group will be given a priority. The social safety net program will also be supported by selected credit policy channeled to small-scale entrepreneurs and the low income group while continuing to maintain monetary stability.

The policy in banking will continue to be aimed at improving the soundness of the banking system. The steps already adopted in banking reform in the reporting year will be continued in 1998/99, including accelerating the restructuring program; strengthening the implementation on prudential principles; improving bank supervision; and revising the regulation and legal framework, such as the provision of autonomy to the central bank. With a view to alleviating systemic risk and expediting payment transactions through the banking system, Bank Indonesia will improve the implementation of clearing and settlement so as to develop a reliable and efficient system.

In the real sector, the Government will continue to encourage economic activity through the adoption of structural reform so as to strengthen economic efficiency and resilience. The effort to improve economic efficiency is carried out through privatization program of state enterprises and dismantling of various trade barriers, including an acceleration in the lifting of monopolistic and oligopolistic practices. Those deregulation and debureucratization on various economic aspects will be continued so as to eliminate high cost economy. These measures will be complemented with a resumption in the provision of trade financing, which was interrupted recently. In the legal area, the reform will be carried out through the creation of a bankruptcy law so as to ensure business certainty, which will restore confidence of foreign investors in Indonesia's economy.

Economic Prospect for 1998/99

With the hindsight of the economic developments up to the reporting year, Indonesia's economic performance is projected to weaken further for 1998/99. Economic growth is projected to exhibit a much bigger contraction than negative 5% as earlier anticipated. As signs of exchange rate stabilization and improvement in the banking sector have yet to appear in the short run, it is expected that output of all economic sectors will remain compressed. The deeper contraction in domestic demand, especially private investment and consumer spending, would seem to be unavoidable.

On the external front, the contraction of domestic demand will result in lower imports, especially inputs of industries with domestic market orientation, hence total imports will remain subdued. On the other hand, exports, especially non-oil/gas, is expected to improve following the rupiah depreciation although the world economy will perform less favorably in the coming year. Accordingly, the current account is estimated to record a surplus of 2.4% of GDP.

Inflationary pressure is projected to remain unabated. Despite the sluggish domestic demand, prices will be adjusted upward reflecting a pass through effect of the sharp rupiah depreciation. This estimate is subject to a downside risk owing to the recurrent of long drought which may threaten shortage of food production that will lead to further price increases.

Monetary and banking developments are expected to remain a serious source of concerns. Liquidity will remain tight reflecting the Government's efforts to curb the inflationary pressure and stabilize the exchange rate at a normal level. Expansion of bank credit will be limited as liquidity remains tight and lending rate high. The central bank's effort to tighten liquidity support so as to minimize leakage will also prompt banks to exercise greater caution in conducting their operation. The crisis, which seems to remain unabated, is expected to raise the size of non-performing loans and bank losses due, inter alia, to the substantial increase in bank's foreign indebtedness. These developments will hamper banks' performance and weaken their solvability.

The government fiscal operations will experience a strong pressure due to the anticipated contraction of economic activity, the need to allocate bigger subsidy to finance the social safety net program, the substantial amount to finance bank restucturing program, and the decline of oil price in the international market. On the revenue side, raising earning would be difficult as economic activity shows contraction. Hence the fiscal operation will record a deficit of 3.5% of GDP.

The stabilization and reform program launched by the Government is expected to provide a basis and favorable impacts for strengthening the economic foundation. With a stronger foundation, over the medium and longer term, Indonesia's economy is expected to be more efficient, hence strengthening its competitiveness both in domestic and international markets.

The Role of Economic Fundamental and the Contagion Effect on the Asian Crisis

The result of the previous studies regarding the factors contributing to the currency turmoil experienced by several countries showed that economic fundamentals and contagion effect were the main factors behind the currency crises. With a view of measuring the contribution of those two factors during the Asian Crises, a preliminary study has been carried.

Based on the Probit model, the study displayed that the two factors i.e. fundamental characteristics of a country and currency turmoil in the neighboring countries induce market players to exercise speculative attacks on the currency of that country. The general framework of the model is :

$$Y_{i,t} = a_0 + a_1 X_{i,t} + b_1 Z_{i,t} + e$$

Y is a variable that represents market decision whether to exercise speculative attacks or not the currency of one country. X is a variable that represents contagion effect by observing if a crises in the neighboring countries takes place. Z is a variable that represents economic fundamentals of that country in a certain period of time.

The value of economic fundamentals is the weighted average of eleven economic variables that have been classified into risk levels according to a certain criteria (Table 1). Based on the quarterly data from 1996-1997, the value of economic fundamentals of 8 Asian countries is measured (Table 2).

The value of the contagion effect is one (= 1) if there is a crises in one of the neighboring countries during t period and zero (= 0) if not.

Table 1

Indicator	Weight (In percent)	Degree of Risk			
		No Risk	Low Risk	Moderate Risk	High Risk
1. Current account	7.6	surplus	0–1%	1%< x ≤2%	> 2%
2. Portofolio and other investment	3.5	negative	< 5%	5–10%	>10%
3. Foreign exchange reserves	8.6	> 8 months	6–8 months	3≤ x <6 months	<3 months
4. Foreign debt	5.4	none	<80%	80–160%	>160%
5. Short-term debt	9.5	none	0–50%	50–75%	>75%
6. Credit growth	11.7	<20%	20–40%	40< x ≤ 60%	>60%
7. M2 growth	2.6	<20%	20–40%	40< x ≤60%	>60%
8. Export growth	4.5	>70%	70–50%	30< x ≤50%	<30%
9. Growth of stock price indices	5.2	0–5%	5–10%	11–20%	>20%
10. Budget deficit	6.7	surplus	<1%	1–2%	>2%
11. Real effective exchange rate (REER)	34.7	negative	0≤ x <5%	5–10%	>10%

Using a maximum likelihood method, the result of the probit model is as follows:

$$\text{CRISES} = 0.032\ \text{CONTA} - 0.019\ \text{FUNDA}$$
$$(2.8) \qquad\qquad (-3.8)$$

Log likelihood = - 16.42

The estimation shows that both economic fundamentals and contagion effect have significant roles in bringing about a crises in a country. Every policy slippage that disturbs economic fundamental can open up a possibility for speculators to attack the currency of any country that may end up with an economic crisis. In other words, under global environment, independency in policy making narrows, while, in the contrary, consistent and credible maintenance of economic fundamentals strengthens.

The study also underlines the significant role of contagion effect in triggering a crises which, even becomes greater. This means that maintaining strong economic fundamentals is not sufficient to prevent a crises as the crises in another country may spill over into the country. Having said that, the study emphasized the need to intensify cooperation between countries, especially through regional surveillance, to hinder the spill-over effect from crises in other countries.

Table 2

Period	Malaysia	Indonesia	Philippines	Thailand	Korea	Singapore	Taiwan	Hong Kong
1996								
Qtr. I	225.7	235.6	321.7	261.1	177.9	43.3	61.9	93.6
Qtr. II	212.4	266.8	252.3	125.5	163.6	48.5	91.4	78.0
Qtr. III	190.3	243.4	196.1	175.8	161.0	8.6	61.9	48.5
Qtr. IV	184.1	243.8	184.2	136.3	208.7	43.3	101.8	58.9
1997								
Qtr. I	261.4	213.3	249.7	250.1	186.1	43.3	115.7	147.4
Qtr. II	156.9	172.1	172.9	152.9	183.9	8.6	77.5	104.0
Qtr. III	163.8	204.6	159.1	135.1	183.9	13.1	61.9	78.0
Average	199.2	225.7	219.4	176.7	180.7	29.8	81.7	86.9

Stabilization and Economic Reform Program

Exchange rate crisis that overwhelmed Indonesia since the second quarter 1997/98 has become more severe following the emergence of confidence crises in the financial sector and overall economic activity. Against the possibility of the further worsening economic activity and the concerns over the fundamental weaknesses both in the real sector and the financial sector, government embarked on a reform and stabilization program to restore economic activity.

This program has obtained technical assistance and financial support from a number of international institutions and partner countries coordinated by the IMF. On November 5, 1997, IMF approved an SDR7.3 billion standby loan for Indonesia at the amount of US$10 billions. The World bank and ADB also announced their commitment amounting to US$4.5 billion and US$3.5 billion, respectively. In addition to those packages, the Government has also obtained financial support, as a second line of defence, from partner countries such as Japan, Singapore, the United States, Malaysia, Brunei Darussalam, Australia, China and Hong Kong.

In view of unfavorable economic deve–lopment up to January 1998 as reflected in the weakening of rupiah and high inflation rate, the government decided to accelerate the restoration of economic activity along with the revision of macroeconomics targets. This step had been the basis for further commitment between Indonesia and IMF dated January 15, 1998. Furthermore, in March 1998, the IMF has evaluated the implementation of the reform and stabilization program. Based on fulfillment of the performance criteria set in the previous commitment and the review of economic development, the government and the IMF agreed to update and extend the previous program in a bid to accelerate the recovery of the Indonesian economy.

Measures which had been taken to implement sound economic program up to March 31, 1998 were as follows :

Macroeconomic Policy

Fiscal Policy

Measures in the fiscal sector are basically aimed to strengthen government revenues and initiate various types of austerity measures along with strengthening budget discipline. Several steps which have been taken include :

* to improve the structure and administration of taxation
* to increase tax revenue by raising sales tax on luxury goods, excise taxes on alcoholic beverage and tobacco
* to remove exemption of VAT
* to increase the ratio of taxable land and buildings for estate and forestry to 40 percent.
* to lower subsidies on fuel and electricity gradually.
* to implement fiscal transparency by including investment and reforestation fund within the budget.
* to cancel/postpone some infrastructure projects.

* to lift special exemption on tax, import duty and credit privileges that were initially granted to the National Car project.
* to stop budgetary and extra budgetary support and credit privileges that were previously granted to the Nusantara Aircraft Industry (IPTN) project.
* to assume subsidies on credit to small scale enterprises.
* to broaden the coverage of export draft rediscount facility for priority exporters from covering only post-shipment to including also pre-shipment .
* to give Bank Indonesia full autonomy in implementing monetary policies and interest rate determination
* to establish a negotiation team for the settlement of private external debts.

Monetary Policy

Measures in monetary sector are aimed to stabilize the value of rupiah by controlling liquidity and interest rate consistent with the needs of economic activity. Hence, the government adopted a tight monetary policy to stabilize the rupiah exchange rate while remained committed to supporting the need for liquidity in particular to small and medium scale enterprises and cooperatives. The measures include the following :

* to raise Bank Indonesia Certificate (SBI) discount rate for all maturities
* to intervene in the foreign exchange market when it is deemed effective, through both by Bank Indonesia solely and concerted intervention with central banks from other countries.
* to limit forward transaction between national banks and non-residents up to US$ 5 million.
* to lower statutory reserve requirement for foreign currencies deposits from 5 percent to 3 percent.
* to provide full authority to state banks in determining lending and deposit interest rates.
* to grant special swap facility to priority exporters and forward facility to importers of raw materials for export purposes.

Financial Sector Restructuring

Financial sector restructuring is aimed to strengthen the national financial system through banking restructuring and strengthening legal enforcement of regulation and banking supervision. These steps include :

* to liquidate 16 unviable commercial banks
* to send unsound regional development banks under intensive supervision by Bank Indonesia
* to provide schemes to merge state banks and private banks as well
* to provide a guarantee for all depositors and creditors of all locally-incorporated banks
* to support the scheme of external borrowing guaranteed by creditors country and channel the loan through Indonesian banks for guaranteeing imports L/C and excempting it from commercial offshore loan rules.
* to provide liquidity support to banks, with stricter conditions
* to establish the Indonesian Bank Restructuring Agency (IBRA) that is mainly tasked to implement the guarantee system and banking restructuring process effectively. IBRA is responsible to ministry of finance.
* to increase minimum capital requirements for

banks gradually
* to establish criteria for classifying unsound banks to be transferred to IBRA. It is worth informing that 54 unsound banks had been transferred to IBRA
* to revise the legal framework for bank operations including bankruptcy law, banking transparency law, guarantee issues and regulations on financial instruments.
* to enhance transparency and openness in the banking sector.
* to abolish restriction on the opening foreign bank branches.
* to remove the 49 percent limit on foreign investors in listed companies except that in the banking sector.

Structural Reforms in Real Sector

To improve efficiency and national competitiveness as well as to alleviate poverty, the government restructured the real sector through implementing a reform in the investment and trade sector, privatization and deregulation.

Foreign Trade

* to reduce tariffs on all food items to a maximum of 5 percentage points
* to remove local content requirement on dairy products
* to reduce tariffs on non-food agricultural products by 5 percentage points
* to reduce tariffs on chemical products by 5 percentage points
* to reduce tariffs on steel/metal products by 5 percentage points
* to remove import restrictions on all new and used ships
* to remove export taxes on leather, cork, ores and waste aluminium products
* to remove value added tax on the procurement of raw materials and services by designted exporters (PET) from domestic suppliers.
* to broaden the types of commodities including those under PET from 10 to 29 items.
* to reduce export tax gradually on certain products except for those intended to preserve environment.

Investments

* to remove the limit of 49 percent on foreign ownership in listed companies except for that in the banking sector
* to remove restrictions on foreign investment in palm oil plantations
* to remove restrictions on foreign investment in retail trade

Deregulation and Privatization

* to phase out restrictive marketing arrangements for cement, paper and plywood
* to eliminate price controls on cement (HPS)
* to allow cement producers hold general export license to export
* to eliminate BPPC (Clove Marketing Board)
* to prohibit provincial government from restricting trade inter and intra provinces including cloves and vanilla
* to abolish BULOG's monopoly gradually except determining the floor price of rice and soybean and their distribution
* to allow the private sector to import and sell wheat, wheat flour, soybean, garlic and sugar; to sell and distribute wheat flour; and to import and

carry out marketing of sugar

* to release farmers from requirements for forced planting of sugar cane
* to accelerate the privatization of state enterprises

Social Safety Net

* to maintain government budget expenditure on health and education
* to increase support to low income society by strengthening credit institution for small and medium scale enterprises, particularly in credit appraisal and its supervision.
* to provide liquidity credit in particular to small scale development program (the KKPA and KUK schemes)
* to provide working capital financing facility for small scale enterprises and an easy access to such financing
* to expand projects that based on local society participation (labor intensive program).

Currency Board Arrangement

Definition

Currency Board Arrangement (CBA) is a foreign exchange management system characterized by an institution which has absolute authority based on legislation to issue or create monetary base. Monetary base process must be supported fully by reserves controlled by this institution on the fixed exchange rate. In compliance with its function, this institution can be named either central bank or monetary board.

Monetary base can only be created as long as there is a significant addition of reserves implying that the over all balance of payments are in surplus. In other word, this surplus should be expanding monetary base to keep exchange rate unaltered. Hence, under CBA there is no room to lend to government, banking sector and other parties. Hence, interest rate is fully determined by market mechanism. As a consequence, normally, interest rate movement will follow interest rate development of the country in which its currency was used as a point of reference.

Prerequisite

To excecute its function, CBA must fulfill several prerequisites in certain aspects such as legal, fiscal, monetary, banking and labor market. On the legal side, the existence of CBA must be based on formal laws. The regulations arrange the main issues such as currency reserves, nominal exchange rate, appropriate reserve in correlation with monetary liabilities and monetary operation limits.

On the monetary side, CBA operation should be supported by a certain amount of reserves commensurate to meet any demand for substituting domestic currency with reference currency. Theoretically, the amount of reserves needed is to be equal with the monetary base.

On the banking side, CBA necessitates the soundness of banking industry and reliable banking supervision. The prerequisite is imperative – in contrast with central bank – as CBA no longer functions as lender of the last resort.

On the fiscal aspect, CBA requires strong budget discipline. As a consequence, to fulfill the prerequisite, every government account must be fully backed up by reserves at an amount sufficient to meet the prerequisite.

On the labor market side, CBA requires an undistorted market. Flexible wages and high degree of labor mobility are preconditions to easily adjust the market to economic development.

Advantages

The application of CBA will stabilize domestic currency. Money supply which is fully backed-up by reserves will keep public confidence in holding domestic currency. Besides, CBA will stabilize prices due to monetary discipline on money creation. Experience in several countries that adopt CBA shows that there is a narrower interest rate differential between domestic rate and the rate in the country of currency reserve.

Weaknesses

CBA implementation caused the domestic economy to largely depend on economic developments and policy of the country of currency reserves. Besides, the fiscal policy is the only choice of macroeconomic policy options since the monetary policy is no longer effective.

In the developing countries, the weak banking system is the constraint of the CBA. In case of bank run, CBA has no instrument to deal with the problem.

On the internal and external balance, implementation of CBA is just to bring about conflict of interests. On the one side, the fixed exchange rate could be able to maintain the development momentum while on the other side the pegged rate makes the economy difficult to keep abreast with any external turmoil.

Chapter 2 Economic Growth, Prices, and Employment

The crisis in the rupiah exchange rate, followed by those in the debt and banking industry, resulted in the downturn of the economy in the year under review. Notwithstanding the encouraging growth in the first half of 1997, the Indonesian economy in 1997 recorded a much slower pace of growth, coupled with climbing inflation and rising unemployment. Its growth rate in 1997 was recorded at 4.7%, far lower than 8% in the preceding year or 7.1% as the targeted growth rate in the Sixth Five-year Development Plan (Table 2.1). Inflation rates in 1997 and 1997/98 were posted at 11.05% and 34.22%, respectively, the highest rates ever achieved since 1984 and 1974/75. The declined performance in the reporting year was attributable to the inefficient corporate governance as reflected in numerous distortions in the area of trade and investment.

Table 2.1
GDP and Inflation

Item	1996r	1997*	1997*
	Percent change		In trillions of Rp
Gross Domestic Product 1)	**8.0**	**4.7**	**433.7**
By Expenditure			
Domestic demand 2)	7.8	4.8	444.1
Exports of goods and services	7.6	6.3	119.4
Imports of goods and services	6.9	6.6	129.9
By Sector			
Agriculture	3.0	0.6	64.1
Mining and quarrying	5.8	1.6	38.2
Manufacturing	11.6	6.2	108.6
Construction	12.8	6.4	35.0
Trade, hotel, and restaurant	8.0	5.5	73.2
Others	7.1	5.5	114.5
Bank	9.9	3.5	20.6
Consumer Price Index			
Calender year	6.47	11.05	
Fiscal year 3)	5.17	34.22	

1) At constant 1993 prices
2) Comprising consumption, gross domestic fixed capital formation, and changes of stocks
3) In 1996/97, 1997/98
Source : Central Bureau of Statistics

On the demand side, the slowdown in economic growth in 1997 owed to weakening domestic demand, particularly consumption and private investment. The sluggish consumption, which occurred particularly in the second half of 1997, reflects a decline in purchasing power due to higher inflation rate and slower growth of disposable income. The depreciation of the rupiah exchange rate against the US dollar and a slowdown in agricultural activity pushed up general prices of goods and services. Slower growth in aggregate income as a result of the corporate program to phase out workers in the business sector exacerbated the economic crisis. Meanwhile, private investment began to weaken in mid-1997 as a result of weakening demand, increased costs of production, and financial difficulty in the business sector owing to depreciating domestic currency. Besides, a tightening of banking liquidity also contributed to the sluggish investment.

On the supply side, decelerated growth occurred in manufacturing, agriculture, and trade, hotel, and restaurant, sectors playing a major role in forging GDP. The slowdown began in mid-1997. Higher costs of imported raw materials, higher payment of maturated debts due to the rupiah depreciation, and tight banking liquidity represented the supply side constraints. The slowdown in agriculture that accounted for 14.8% of GDP resulted largely from prolonged drought due to the El Nino effects.

The supply side and distribution constraints resulted in higher rates of inflation in both the calendar and fiscal year. Food was the biggest contributor. In addition to the supply side constraints, the increased demand for basic needs also played a crucial role. The uncertain continuation of supply of goods and services due to the rupiah depreciation in January and February 1998 induced a rush to basic items.

The downturn of economic activity and rising inflation rates adversely affected the employment opportunity. An increasing number of companies laid off their workers or temporarily suspended employment of workers resulting in rising unemployment rate. The rate is expected to rise in 1997. At the same time, in line with climbing inflation rate, particularly from foodstuff, and a slowdown in aggregate income, the number of people under the poverty line are expected to climb as compared to that in the preceding year.

To cope with the disheartening trends, the Government initiated a number of internationally supported reform measures to promote efficiency and Indonesia's economic competitiveness. In the real sector, measures are geared at eliminating inefficient trading rules and reducing distortions in trade and investment.

Saving - Investment Gap

The downturn in economic developments reduced pressure on the external balance. The ratio of aggregate saving to GDP came down as a result of the crisis of confidence in Indonesia's economic prospects. Evidently, the ratio of saving - investment gap to GDP declined from 3.4% in the preceding year to 2.4% (Table 2.2 and Chart 2.1).

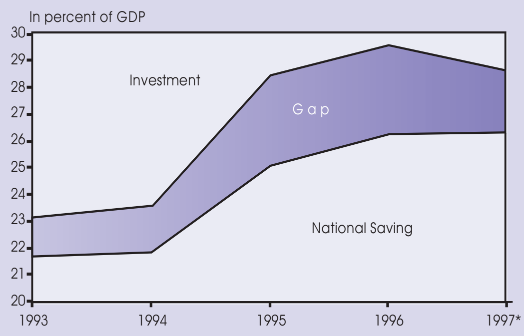
By sector, the saving - investment gap in the private sector widened from 5.8% to 6.5% of GDP. The ratio of private saving to GDP fell although that of private investment to GDP has come down. The lack of confidence in the national banking system and large capital outflows were the key factors in the decline in the ratio of private saving to GDP. Meanwhile, the decline in the ratio of private investment to GDP was attributed to the increased costs of production as a result of the exchange rate depreciation and weakening domestic demand. This was evident in the decline in external capital inflows in the form of foreign direct investment.

Table 2.2
Saving - Investment Gap

Item	1995	1996	1997*
	In trillions of rupiah		
Government Sector			
Saving	27.7	31.0	48.0
Investment 1)	15.5	17.9	22.6
Deficit (–), surplus (+)	12.2	13.1	25.4
Private Sector			
Saving	86.2	108.3	116.0
Investment 1)	113.7	139.7	156.7
Deficit (–), surplus (+)	–27.5	–31.4	–40.7
Gross National Saving	**113.9**	**139.3**	**164.0**
Investment 1)	**129.2**	**157.6**	**179.3**
Saving - Investment Gap	**–15.3**	**–18.3**	**–15.3**
Gross Domestic Product	**454.5**	**532.6**	**624.3**
	In percent of GDP		
Government Sector			
Saving	6.1	5.8	7.7
Investment 1)	3.4	3.4	3.6
Deficit (–), surplus (+)	2.7	2.4	4.1
Private Sector			
Saving	19.0	20.4	18.6
Investment 1)	25.1	26.2	25.1
Deficit (–), surplus (+)	–6.1	–5.8	–6.5
Gross National Saving	**25.1**	**26.2**	**26.3**
Investment 1)	**28.5**	**29.6**	**28.7**
Saving - Investment Gap	**–3.4**	**–3.4**	**–2.4**
Note:			
Current Account Deficit (In billions of $)	–6.8	–7.8	–5.2
Average of Rp/$ exchange rate	2,252.8	2,347.3	2,951.7

1) Excluding change of stock.
Source : Central Bureau of Statistics

Chart 2.1
Saving - Investment Gap



On the government sector, saving-investment surplus rose from 2.4% to 4.1% of GDP. The surplus was shown by the increase in the ratio of government savings to GDP as a result of the increased government revenues, particularly from the oil/gas sources.

Demand

On the demand side, the weakening economic growth in 1997 resulted primarily from contracted domestic demand, particularly since the third and fourth quarters of 1997 due to the crisis in exchange rate and the banking industry. The slowdown in domestic demand originated from a sharp fall in household consumption and private investment. Besides, government consumption also registered a slightly weaker growth. On the external front, both export and import of goods and services underwent a slowing growth compared to that in the previous year (Table 2.3).

Household consumption in 1997 showed a much slower growth, at 5.3%, only half of last year's growth. Consumption was adversely affected by the slowdown in aggregate income and the rising inflation rate. Inflation rate soared from 6.47% in 1996 to 11.05% in 1997. On the other side, the decline in the growth of aggregate income was reflected in the decrease of disposable income growth from 18.2% in 1996 to 17.8% in 1997. The corporate restructuring program to phase out employees also played a role in the above decline. The economic downturn resulted in an increasing number of workers to be laid off or temporarily suspended leading to a slowdown in aggregate income.

Table 2.3
GDP Growth by Expenditure [1)]

Item	1996r Growth	1996r Contribution to change	1997* Growth	1997* Contribution to change
	In percent			
Gross Domestic Product	**8.0**	**8.0**	**4.7**	**4.7**
Domestic Demand	**7.8**	**8.0**	**4.8**	**4.9**
Consumption	9.9	6.8	4.8	3.4
Private	10.9	6.6	5.3	3.4
Government	2.7	0.2	0.2	0.0
Gross domestic fixed capital formation	14.5	4.3	4.2	1.3
Stock changes	–76.1	–3.1	24.9	0.2
External demand	**–0.7**	**0.0**	**9.9**	**–0.2**
Exports of goods & services	7.6	2.0	6.3	1.7
Imports of goods & services	6.9	2.0	6.6	1.9

1) At constant 1993 prices.
Source : Central Bureau of Statistics

The decline in the growth of aggregate consumption resulted also from contraction of consumption credit. In 1997, credit for housing and vehicles experienced a slowing growth in line with a tightening of banking liquidity conditions.

Government consumption also decelerated although not so sharply as that in household consumption. In 1997, it grew by 0.2%, lower than 2.7% in the preceding year, due to budget austerity in the procurement of goods and services.

Both public and private investment in 1997 underwent a sharp slowdown in growth, from 14.5% in the preceding year to 4.2%. Public investment decelerated because of delay and rescheduling of several infrastructure development projects that were considered not urgent. In the meantime, the slowdown in private investment since mid-1997 reflected the less conducive economic conditions. The crisis in exchange rate has raised costs of production and external liabilities. In addition, a tightening of monetary conditions as reflected in the high interest rates has caused several projects to look infeasible for the banks to finance them. As such, domestic demand was under downward pressure leading to a declining profitability for a large number of business enterprises.

Several indicators accounted for the slowdown in private investment. Growth in import volume of capital goods and raw materials came down from 21.4% in the preceding year to 9.0% in 1997. At the same time, growth in investment and working capital credits plummeted from 24.8% to 16.8% and external capital inflows in the form of foreign direct investment dropped from $6.2 million to $4.7 million.

In spite of the decline in realized investment, approved foreign direct and domestic investments kept rising in 1997, from $29.9 billion and Rp100.7 trillion to $33.8 and Rp119.9 trillion, respectively (Table 2.4). However, increased investment approvals stemming from precrisis applications included investment projects that are subject to cancellation or delay in their implementation.

By sector, approved investments were generally concentrated on sectors producing domestically demanded output in the last few years. In view of the value, domestic investors were mostly attracted to manufacturing ventures, especially in chemicals and food, followed by plantation, and electricity, gas, and water supply. At the same period, foreign investors preferred chemical products, transportation, paper, metal products, and electricity, gas, and water supply.

Tabel 2.4
Approved Investment Projects by Sector in 1997

Sector	Investment	Share 1)
	(In trillions of Rp)	(In percent)
Domestic Investment	**119.9**	**100.0**
Manufacturing	79.3	66.1
Chemicals and pharmaceuticals	22.4	18.7
Food	13.0	10.8
Paper	11.8	9.8
Non-metal minerals	11.6	9.7
Other industry	20.5	17.1
Plantation	13.3	11.1
Electricity, gas, and water supply	11.2	9.3
Others	16.1	13.5
	(In billions of $)	(In percent)
Foreign Investment	**33.8**	**100.0**
Manufacturing	23.0	68.0
Chemicals and pharmaceuticals	12.3	36.4
Paper	5.4	16.0
Metal product	2.3	6.8
Non-metal minerals	1.5	4.4
Other industry	1.5	4.4
Transportation	5.9	17.5
Electricity, gas, and water supply	1.8	5.3
Others	3.1	9.2

1) Approved investment to total domestic or foreign investment
Source : Investment Coordinating Board (processed)

Table 2.5
Approved Investment Projects by Region in 1997

Region	Investment	Share 1)
	(In trillions of Rp)	(In percent)
Domestic Investment	**119.9**	**100.0**
West Jawa	37.4	31.2
Riau	11.9	9.9
East Jawa	11.7	9.8
Jambi	9.8	8.2
Jakarta	8.6	7.2
Others	40.5	33.7
	(In billions of $)	(In percent)
Foreign Investment	**33.8**	**100.0**
West Jawa	8.0	23.7
Riau	6.7	19.8
Jakarta	6.1	18.0
East Jawa	4.2	12.4
North Sumatera	3.5	10.4
Others	5.3	15.7

1) Approved investment to total domestic or foreign investment
Source : Investment Coordinating Board (processed)

By region, approved domestic investment tended to favor projects in West Jawa, Riau, East Jawa, Jambi, and Jakarta, while approved foreign investment demonstrated stronger preference for West Jawa, Riau, Jakarta, East Jawa, and North Sumatera (Table 2.5).

Overall external demand contracted GDP growth as the decline in export growth surpassed the fall in import growth. Growth in export of goods and services slowed down from 7.6% in 1996 to 6.3% in 1997 due mainly to export of services. Growth in import of goods and services also decelerated, from 6.9% to 6.6%, as a result of weakening domestic demand and higher prices of imported products brought about by the rupiah depreciation.

Supply

On the supply side, the economic downturn in 1997 resulted primarily from a decline in non-oil/gas activity from 8.3% in 1996 to 5.3% (Table 2.6). The downturn occurred mainly on manufacturing, trade, hotel, and res-

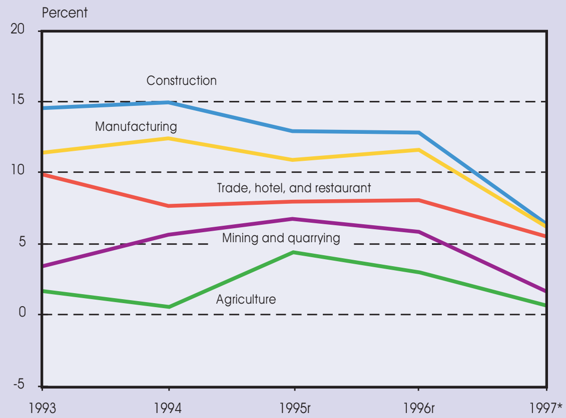
Table 2.6
GDP Growth by Sector 1)

Item	1996r		1997*	
	Growth	Contribution to change	Growth	Contribution to change
	In percent			
Gross Domestic Product	**8.0**	**8.0**	**4.7**	**4.7**
Agriculture	3.0	0.5	0.6	0.1
Mining and quarrying	5.8	0.5	1.6	0.2
Manufacturing	11.6	2.8	6.2	1.5
Electricity, gas, and water supply	12.8	0.1	11.9	0.1
Construction	12.8	1.0	6.4	0.5
Trade, hotel, and restaurant	8.0	1.3	5.5	0.9
Transportation and communication	8.7	0.6	8.4	0.6
Finacial, rental, and corporate services	9.0	0.8	4.8	0.4
Services	3.4	0.3	3.0	0.3
Non-oil/gas	**8.3**	**7.6**	**5.3**	**4.8**
Oil/gas	**4.3**	**0.4**	**–2.0**	**–0.1**

1) At constant 1993 prices
Source : Central Bureau of Statistics

taurant, agriculture, and construction (Chart 2.2). It began in mid-1997 as a result of higher importation costs of raw materials and larger burden on the amortization of external debts. Besides, the crisis in the banking system, that contracted credit growth and raised interest rates, adversely impacted economic activity.

Chart 2.2
Growth Rates of Selected Sectors



Source : Central Bureau of Statistics (processed)

The slowdown in agriculture resulted from the unfavorable natural environment, namely the prolonged drought as a result of El Nino effects, forest fire, and haze that had occurred during the year. The slowdown in non-oil/gas activity was worsened by contracted activity in the oil/gas sector, especially in oil refinery as a consequence of reduced oil-based fuel production.

Growth in the manufacturing sector weakened to 6.2%, down from 11.6% in the preceding year. Non-oil/gas subsector slowed down to 7.4%, while oil/gas registered a negative growth of 3.4% (Table 2.7 and Table 2.8). The high import content in non-oil/gas sector weakened its activity. The crisis in exchange rate since mid-1997 resulted in the increased import prices of raw materials and the compressed household consumption. The weakened non-oil/gas performance mainly occurred on food, beverages, and tobacco. Meanwhile, textile, leather products, and footwear, wood and other forestry products, and transportation, machinery, and equipment recorded negative growths (Table 2.8). Those reflected a slowdown in products such as crude palm oil, fabrics, shoes, plywood, motorcycles, and rice mill (Table 2.9).

In 1997, the agriculture sector experienced a slower growth (0.6%) mainly owing to a negative growth in the food crops and forestry subsector. This was accounted to drought and natural disaster that had taken

Table 2.7
Oil/gas GDP Growth1)

Item	1995r	1996r	1997*
	Percent change		
Oil/gas GDP	**–1.4**	**4.3**	**–2.0**
Oil/gas mining	0.0	1.5	–1.4
Manufacturing	–4.7	11.1	–3.4
Oil refinery	–2.8	16.7	–8.7
Liquefied natural gas	–7.0	4.2	3.8

1) At constant 1993 prices.
Source : Central Bureau of Statistics (processed)

Table 2.8
Growth and Contribution of Non-oil/gas Manufacturing Subsectors to GDP Growth in 1997[1)]

Item	Growth	Contribution to change	Value (In trillions
	(In percent)		of Rp)
Non-oil/gas Manufacturing	**7.4**	**1.6**	**98.1**
Food, beverages, and tobacco	14.8	1.6	50.0
Textile, leather product, and footwear	–1.7	0.0	8.6
Wood and other forestry products	–4.7	–0.1	5.6
Paper and printing products	6.7	0.1	3.9
Fertilizer, chemicals, and rubber products	4.8	0.1	12.1
Cement and non-metal quarrying goods	4.0	0.0	3.3
Base metal, iron, and steel	–0.6	0.0	3.1
Transportation, machinery, and equipment	–1.8	–0.1	11.0
Others	5.3	0.0	0.5

1) At constant 1993 prices
Source : Central Bureau of Statistics

Tabel 2.9
Selected Manufacturing Products

Item	1996/97r	1997/98*	1997/98*
	Percent change		Total
Oil-based fuels (in millions of barels) 1)	4.7	–11.8	214.1
LNG (in millions of MMBTU)3)	4.1	3.3	1,402.6
LPG (in thousands of tonnes) 1)	10.7	–13.1	2,819.6
Textile and textile product			
Fabrics (in millions of meters)	14.3	8.0	10,147.0
Weaving yarn (in thousands of bales)	3.4	3.0	5,556.9
Garment (in millions of dozens)	13.8	3.8	135.9
Staple fibre (in thousands of tonnes) 2)	10.5	18.9	625.4
Sport shoes (in millions of pairs)	8.6	1.0	608.7
Leather shoes (in millions of pairs)	8.7	4.8	90.0
Pulp (in thousands of tonnes)	12.1	19.0	2,697.0
Paper (in thousands of tonnes)	17.2	36.9	5,493.6
Cement (in thousands of tonnes)	3.7	11.0	27,716.4
Palm cooking oil (in thousands of tonnes)	34.9	5.0	2,453.1
Coconut cooking oil (in thousands of tonnes)	38.5	0.0	972.8
Wood products			
Plywood (in millions of m^3)	6.9	5.4	9.8
Sawn timber (in millions of m^3)	2.7	5.3	11.9
Fertilizer (in thousands of tonnes)			
Urea (in thousands of tonnes)	5.2	5.2	6,520.6
ZA and TSP (in thousands of tonnes)	5.2	7.8	1,753.0
Motor vehicles			
Automobiles (in thousands of units)	–16.0	1.0	328.7
Motorcycles (in thousands of units)	36.7	21.0	1,724.7
Rice mill (in thousands of units)	8.3	5.0	2.1
Tire (in thousands of units)	31.1	6.3	70,804.2

1) In calender year of 1996 and 1997
2) Consisting of polyster and viscose rayon
3) In calender year of 1996 and 1997, MMBTU: Mille Mille British Thermal Unit
Sources : – Ministry of Mining and Energy
– Ministry of Industry and Trade

place during the year as well as the increase of prices of agricultural means of production, such as fertilizer.

Paddy, the main component in the foodcrop subsector, registered a negative growth of 3.9% as a result of the drought and reduced harvested (Table 2.10). The prolonged drought up to the first quarter of 1998 could hinder the self-sufficiency program. To anticipate strong demand for rice and support national food inventory, in the first quarter of 1998 the Government imported rice in a sizeable amount. Data from the State Logistics Agency (Bulog) showed that import of rice in that quarter reached 1.8 million tonnes, far greater than 0.2 million tonnes in the same period of the preceding year. On the contrary, domestic procurement of rice amounted to 202.0 tonnes, lower than 600,000.0 tonnes in the same period of the year before.

Meanwhile, value added from the forestry subsector saw a negative growth as a result of weakened growth of logs. In contrast with other subsectors, growth in plantation remained positive, with a slight increase in step with increases in production of several main commodities, such as copra and sugar cane (Table 2.11).

Value added in the mining and quarrying sector fell steeply from 5.8% to 1.6% (Table 2.6). This was in step with the negative growth in the oil/gas mining and quarrying subsector and its slower growth excluding oil/gas. The negative growth resulted from the decline in oil production. Meanwhile, the fall in the growth of mining without oil/gas came from a decline in nickel ore and a slowdown in the production of coal, copper, and tin (Table 2.12).

Table 2.10
Harvested Area, Production, and Average Production of Selected Foodcrops

Item	1996r	1997*	1997*
	Percent change		Total
Paddy [1]			
Harvested area (in thousands of ha)	1.2	–4.6	11,035
Production (in thousands of ha)	2.7	–3.9	31,938
Average production (in tonnes/ha)	1.6	0.8	2.9
Corn [2]			
Harvested area (in thousands of ha)	2.5	–4.7	3,567
Production (in thousands of ha)	12.9	–1.3	9,182
Average production (in tonnes/ha)	10.1	3.6	25.7
Cassava			
Harvested area (in thousands of ha)	6.9	–7.1	1,315
Production (in thousands of ha)	10.1	–4.8	16,186
Average production (in tonnes/ha)	3.1	2.4	123.1
Soybean			
Harvested area (in thousands of ha)	–13.6	–6.3	1,198
Production (in thousands of ha)	–9.7	–3.8	1,459
Average production (in tonnes/ha)	4.4	2.5	12.2

1) Equivalent to rice
2) Kernels
Source : Ministry of Agriculture

Table 2.12
Selected Mining and Quarrying Outputs

Item	1996r	1997*	1997*
	Percent change		Total
Oil/gas			
Oil (in millions of barrels)	–0.6	–1.0	576.9
Natural gas (in millions of MSCF) [1]	5.5	0.1	3,165.7
Non-oil/gas			
Coal (in thousands of tonnes)	21.5	3.5	52,074.3
Copper (concentrate, in thousands of tonnes)	16.0	3.4	1,817.9
Gold (in kilograms)	33.0	7.7	89,978.7
Silver (in kilograms)	–3.7	9.3	279,160.5
Tin (ore, in thousands of tonnes)	33.0	8.1	55.2
Bauxite (in thousands of tonnes)	–6.3	–3.9	808.8
Nickel ore (in thousands of tonnes)	36.4	–17.4	2,829.9

1) MSCF : Mille Standard Cubic Feet
Source : Ministry of Mining and Energy

Value added in the trade, hotel, and restaurant subsector grew at a slower pace from 8.0% in 1996 to 5.5% in 1997 (Table 2.6). In the wholesale and retail trading subsector, the contraction resulted from the large rupiah depreciation, which raised costs of the procurement of imported commodities, and the contracted household consumption. Value added in the hotel subsector was on a low growth tract as a result of lower hotel occupancy rate due, among other things, to a decline in the number of foreign tourists (Table 2.13). This decline resulted from negative rumors about Indonesia as an unsafe tourist destination, in addition to forest fire and haze. Because of the negative rumors,

Table 2.11
Selected Cash Crop Production

Item	1996r	1997*	1997*
	Percent change		Total (In thousands of tonnes)
Rubber	2.6	2.5	1,654
Copra	0.6	4.1	2,829
Palm oil	10.7	13.1	5,609
Sugar cane	–0.1	5.7	2,194
Tea	3.3	1.9	162
Coffee	4.6	1.5	486

Source : Ministry of Agriculture

Table 2.13
Selected Services Indicators

Item	1995	1996r	1997*
Hotel			
Number of hotels (in thousands of units)	8,661	8,689	8,761
Number of rooms (in thousands of units)	66	70	81
Occupation rate (in percent)	52	51	48
Tourists			
Foreign (in thousands of persons) [1]	3,586	5,034	4,191
Communication			
Center's capacity (in thousands of line units)	4,824	6,344	7,392
Installed capacity (in thousands of line units)	4,467	5,809	6,524
Used capacity (in percent)	73.7	72.1	76.4
Number of lines per 100 residents (in line units)	1.69	2.11	2.47

1) Through 7 ports of entry
Source : Ministry of Tourism, Post, and Telecommunication

Indonesia failed to take advantage of relatively inexpensive travel to the country due to foreign currency appreciation.

Value added in the construction sector grew by only half of last year's growth rate to 6.4% in 1997 (Table 2.6). In addition to weakened demand, exchange rate pressure, liquidity scarcity, and several government policies to slow property growth contributed to the sluggish growth in construction. The exchange rate pressure raised costs of raw materials, while liquidity scarcity from the banking industry resisted credit expansion, including property credit. The Government issued several regulations, such as restriction for incorporating land value as part of internal financing, credit restriction for land clearance, and tax on transfer of title, all of which slowed the growth in the construction sector. Such slowdown was reflected in the drop in property sales volume by about 25% as compared to that in the previous year.

In 1997, finance, rental, and corporate services sector grew at a slower pace at 4.8%. The banking subsector was the key cause behind the downturn as banking industry encountered constraints from its revenues and expenditures. On the revenue side, the slowdown resulted from lower performance of the debtors owing to lethargic business activity and setback in the property sector. On the expenditure side, it faced liquidity squeeze that elevated interest expense and exchange rate pressure that, on some conditions, raised foreign currency expenses.

Other sectors, namely transportation and communication; electricity, gas, and water supply, and other services also slowed in their respective growth rates of 8.4%, 11.9%, and 3.0% as a consequence of the economic crisis. The slowdown in transportation and communication resulted from a decreased number of people using its services and reduced demand for telecommunication services in 1997.

Table 2.14
Cumulative Inflation

Calendar year		Fiscal year	
Period	Inflation (In percent)	Period	Inflation (In percent)
1993	9.77	1993/94	7.04
1994	9.24	1994/95	8.57
1995	8.64	1995/96	8.86
1996	6.47	1996/97	5.17
1997	11.05	1997/98	34.22

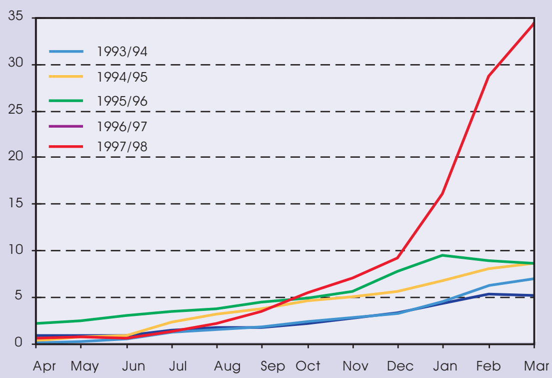
Source : Central Bureau of Statistics

Prices

In 1997/98, cumulative inflation measured by consumer price index (CPI) soared to 34.22%, the highest since 1974/75 (Table 2.14 and Chart 2.3). The high rate of inflation in 1997/98 particularly had occurred since the third quarter of 1997/98. In 1997, overall inflation in the calendar year reached 11.05%, the highest since 1984 (Table 2.14 and Chart 2.4).

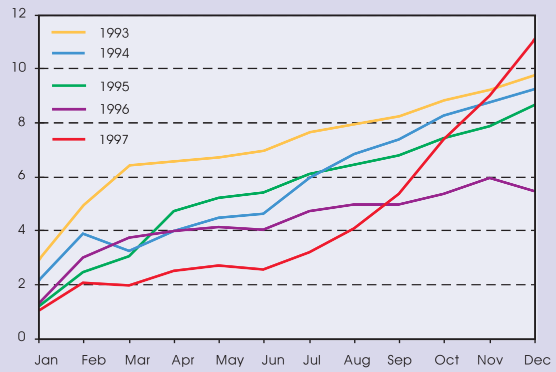
The high inflation rate in 1997, mainly in the fourth quarter, resulted from prolonged drought and forest fire

Chart 2.3
Inflation in 1993/94 - 1997/98



Source : Central Bureau of Statistics

Chart 2.4
Inflation in 1993 - 1997



Source : Central Bureau of Statistics

Table 2.15
Inflation in 1997 and 1997/98 by Group of Goods and Services

Item	1997		1997/98	
	Price Increase	Contribution to change	Price Increase	Contribution to change
	In percent			
Foodstuff	18.45	6.39	46.10	16.89
Housing	6.08	1.74	22.79	6.27
Clothing	7.67	0.76	46.41	4.67
Miscellaneous and services	8.11	2.16	24.86	6.39
General	**11.05**	**11.05**	**34.22**	**34.22**

Source : Central Bureau of Statistics

with its haze that impeded the distribution of foodstuff. Besides, the inflationary pressure also came from an increase in prices of commodities with high import content. The continued pressure on the rupiah exchange rate and the prolonged drought up to the first quarter of 1998 resulted in a decline in the supply of products, especially foodstuff. On the other side, demand for goods and services rose sharply as a result of the seasonal need for welcoming holidays and new year as well as massive purchase of commodities due to the rumors surrounding the scarcity of commodities. The excessive purchase of commodities was in line with the excessive holding of money by the public as reflected in the increase in money supply in that period. As a consequence, inflation rate ascended to 34.22% in 1997/98.

The rising inflation in 1997/98 originated primarily from foodstuff that registered a 46.10% increase and contributed 16.89% to the overall inflation figure (Table 2.15). The soaring price of foodstuff in 1997/98 was dominated by price increases in rice, meal, egg, and milk and its products. Behind this price rise were reduced supply of foodstuff and its interrupted distribution. In the meantime, rumors about scarcity of basic commodities and their expected prices, particularly essential items like rice, cooking oil, and milk, caused a rush to commodities in several regions and led to an excessive accumulation of commodities resulting in real scarcity of goods for a certain period of time. Rice, cooking oil, chicken, dry milk, and eggs were among those commodities contributing to the overall inflation (Table 2.16).

The miscellaneous goods and services registered a 24.86% increase in prices and contributed 6.39% to the inflation (Table 2.15). This was chiefly due to the increase of prices of education and health subgroups. The rise in education was driven by school fee, books, and stationery. The price of books had risen since July 1997 because of the increased price of paper raw materials. While, health rose due to the increase in medical rate and the rise in medicine price.

Meanwhile, prices in housing group saw a 22.79% rise with its 6.27% contribution. The rise was attributable to inflation in household expenses for routine consumption and purchase of equipment, such as soap, mosquito repellent, stove, refrigerator, and other kitchen appliances.

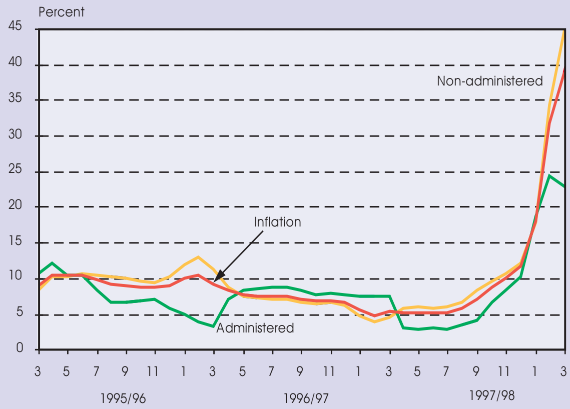
Clothing experienced a 46.41% price increase due mainly to inflation in personal items, such as jewelry gold, watches, and spectacles, mainly in February 1998. Gold

Tabel 2.16
Ten Largest Contributors to the Inflation 1)

Goods and Services	Weight	Cumulative inflation	Contribution to inflation
	1997		
	(In percent)		
Rice	7.01	24.42	1.71
School fee	4.31	15.93	0.69
Jewelry gold	1.60	32.14	0.51
Noodle and meat ball soup	1.12	33.49	0.38
Cooking oil	1.37	24.38	0.34
Non-supervisor labor	2.77	10.57	0.29
Red chili	0.58	43.06	0.25
Red onion	0.55	29.69	0.16
Doctor fee	0.96	19.30	0.19
Tofu	0.55	29.69	0.16
Total 10 goods/services	**20.70**		**4.71**
	1997/98		
Rice	7.01	40.59	2.85
Jewelry gold	1.60	111.91	1.87
Cooking oil	1.37	66.02	0.91
Clove cigarettes	1.89	44.79	0.84
Chicken meat	1.28	65.28	0.84
Dry milk	0.61	130.45	0.79
Cooked rice with side dishes	1.25	58.56	0.73
Medicine with prescription	1.11	58.19	0.65
Chicken eggs	0.89	67.50	0.60
School fee	4.31	13.76	0.59
Total 10 goods/services	**21.32**		**10.67**

1) Monthly cumulative calculation
Source : Central Bureau of Statistics

Chart 2.5
Inflation and Changes in Administered and Non-administered Price Indices in 1995/96 - 1997/98



Source : Central Bureau of Statistics (processed)

price rose as a result of the sharp rupiah depreciation against dollar (Table 2.16), in addition to an increase in the domestic and international demand for gold.

Inflation in non-administered goods amounted to 38.57%, with a contribution of 28.84% to the overall inflation (Table 2.17 and Chart 2.5). In contrast, inflation in administered goods in 1997/98 reached 21.11%, with a contribution of 5.38%. Electricity and telephone bills and cement contributed to the above inflation. Evidently, inflation in non-administered goods governed the overall inflation in 1997/98.

In 1997/98 inflation in non-food/energy amounted to 29.97% (Table 2.17 and Chart 2.6), while in food/energy totalled 40.46% due to a decline in the supply of foodstuff and other essential items, like rice, dry milk, egg, and cooking oil.

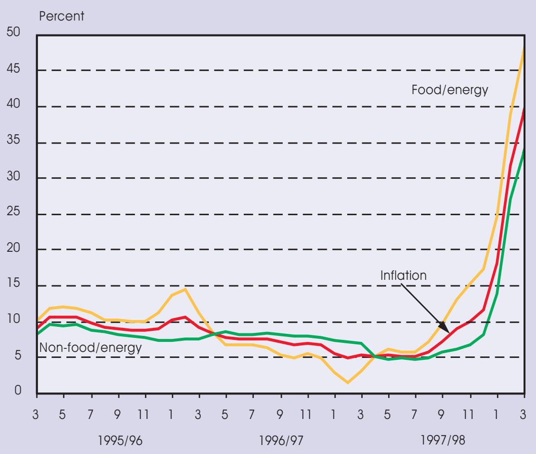
Inflation in traded goods, affected by changes in the international market prices, was recorded at 41.64% with its 28.33% contribution to overall inflation in

Table 2.17
Inflation in 1997 and 1997/98 by Selected Categories 1)

Item	1997 Price increase	1997 Contribution on change	1997/98 Price increase	1997/98 Contribution on change
	In percent			
Administered	9.89	2.50	21.11	5.38
Non-administered	11.47	8.55	38.57	28.84
Food/energy	16.02	6.70	40.46	17.87
Non-food/energy	7.80	4.35	29.97	16.35
Food	18.45	6.39	46.10	16.89
Non-food	7.04	4.66	27.39	17.33
Traded	12.45	8.26	41.64	28.33
Non-traded	8.32	2.79	18.31	5.89
General	**11.05**	**11.05**	**34.22**	**34.22**

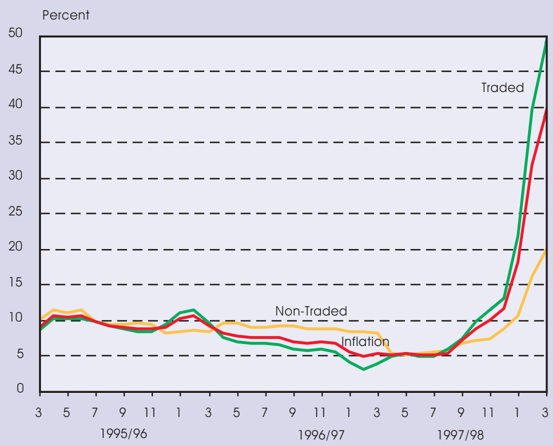
1) Monthly cumulative calculation
Source : Central Bureau of Statistics (processed)

Chart 2.6
Inflation and Changes in Food/Energy, and Non-food/Energi Price Indices in 1995/96 - 1997/98



Source : Central Bureau of Statistics (processed)

Chart 2.7
Inflation and Changes in Traded and Non-traded Price Indices in 1995/96 - 1997/98



Source : Central Bureau of Statistics (processed)

1997/98. The main cause was an increase in costs of production for commodities with high import content, such as dry milk, medicine, and jewelry gold, due to the rupiah sharp depreciation. Conversely, for non-traded goods, inflation was registered at 18.31% with a 5.89% contribution, lower than that for traded goods (Table 2.17 and Chart 2.7). In summary, inflation in traded goods constituted more than 80% of total inflation in 1997/98 because of the effects of the rupiah depreciation.

At the wholesale level, inflation was registered at 25.37%, up from 7.42% in the preceding year (Table 2.18). The inflation was governed by price increase in export products, particularly from non-oil/gas export group, due to the rupiah depreciation against dollar. Inflation in imported products was 23.89%, lower than 57.04% in exported products. This showed that to avoid steep price increase, business enterprises did not increase prices of imported products as much as the depreciation rate of the rupiah against dollar.

Inflation in agricultural products was primarily prompted by inflation in foodstuff. In mining, inflation was stimulated by price increases in coal, while in manufacturing, posting at 9.68%, it was governed by sharp price increases in non-ferrous metals and milling products.

Table 2.18
Changes in Wholesale Price Index [1)]

Group	1995	1996	1997
	Percent change		
Agriculture	19.17	10.82	16.64
Mining and quarrying	11.98	9.63	6.97
Manufacturing	10.69	2.27	9.68
Import	7.02	3.32	23.89
Export	13.04	18.42	57.04
Oil/gas	10.97	28.77	54.04
Non-oil/gas	16.98	–0.97	65.85
General	**11.39**	**7.42**	**25.37**

1) Monthly cumulative calculation
Source : Central Bureau of Statistics

Employment

Weakened domestic demand and various constraints in the production process as a result of the monetary crisis

Table 2.19
Selected Employment Indicators

Indicator	1996	1997*
	In millions of persons	
Labor force	90.1	92.8
Open unemployment	4.4	7.0
Open unemployment (in percent) 1)	4.9	7.5

1) The ratio of open unemployment and labor force
Source : Central Bureau of Statistics et al (processed)

Table 2.20
Regional Minimum Wage 1)

Period	Average		Inflation
	Rupiah/day	Percent change	(In percent)
1993	2,393	17.7	9.77
1994	3,129	30.8	9.24
1995	3,682	17.7	8.64
1996	4,057	10.2	6.47
1997	4,476	10.3	11.05

1) Including Batam
Source : Ministry of Manpower

have adversely affected employment opportunities in Indonesia. A large number of business enterprises have reduced or even closed down their operations. Consequently, demand for worker went down as reflected in increasing workers laid off and temporary suspension.

The Ministry of Manpower reported that in 1997 there were 93 companies that had laid off 41,716 workers. Most of those companies manufactured shoes, garments, and electronic products. Besides, 10 more companies were in the process of laying off 2,068 workers, in addition to the coming addition of 6,523 workers who were currently under temporary suspension basis. In 1998, the number of companies planning to phase out their workers is expected to rise significantly.

On the supply side, labor force entrants in 1997 were projected to rise from 90.1 million persons in 1996 to 92.8 million persons. Accordingly, open unemployment in 1997 was projected to rise up to 7 million persons or 7.5% of total labor force, up from 4.4 million persons or 4.9% in the preceding year (Table 2.19). As a result of the anticipated economic contraction in 1998, the number of open unemployment is predicted to go up.

The unfavorable employment trends also included a decline in real minimum wage level. In contrast with last year's hike in minimum wage level, in 1997 the increase in regional minimum wage rate was lower than the inflation rate. The regional minimum wage rate hike was only 10.3% while inflation rate amounted to 11.05% (Table 2.20). In other words, the real purchasing power of workers declined. In 1998, the regional minimum wage rate is expected to remain unaltered in spite of the fact that cumulative inflation rate up to March 1998 has reached 25.13%.

The portion of the population falling under the poverty line is expected to climb up. With the increased inflation rate, particularly that comes from foodstuff, the poverty line[1)] for rural and urban areas is expected to rise compared to that in the previous year (urban: Rp38,246, rural: Rp27,413). The higher poverty line and the sluggish growth in disposable income resulted in an increased number of destitute people that surpassed 22.5 million persons (the number of people under the poverty line in 1996).

These trends deserve attention. The worsened employment position resulted in higher unemployment rate and reduced real aggregate income leading to social unrest with its adverse effects on the overall economic performance.

1) Poverty line refers to average per capita expenditure disposable for meeting daily consumption, consisting of 2,100 calories plus an allowance for non-food basic items including shelter, clothing, education, health, and durable items.

Chapter 3 Balance of Payments

In 1997/98, Indonesia's balance of payments encountered unprecedented strains emanating from the financial crisis since July 1997. Private sector capital inflows — that remained strong in the first quarter of 1997 — suddenly fell and finally reversed into massive capital outflows. As a result, the capital account that has always been in net surplus since the First Five-year Development Plan converted into a large deficit. The current account indeed improved considerably in the year under review because of a drop in import in response to the exchange rate crisis. Nevertheless, the deficit in the capital account was so large that it necessitated a deficit in the overall balance of payments. Foreign reserves dropped from $26.6 billion to $16.6 billion or equivalent to 4.6 months of non-oil/gas imports (Table 3.1).

The exchange rate crisis that began in July 1997 not only caused a large capital outflow but also invigorated a decline in capital inflow badly needed to finance investment activity and a crisis in private sector external debts. The large capital outflow was particularly evidenced in divestment of portfolio due to deteriorating foreign investors' confidence on Indonesia's economic prospects. The outflow was also perpetuated by the obligation to repay the mature private external debts.

The significant decline in capital inflow was mainly purported by the delay of implementation of foreign direct investments already approved in both the reporting year and the years before. The fall in capital inflow was also evidenced by the decline in private non-bank external borrowing. The key cause was the limiting access to external borrowing affected by the deteriorating Indonesia's rating internationally owing to its higher country risk.

The prolonged weakening of the rupiah exchange rate ultimately swelled the burdens for servicing the external debts. The strains became more apparent because of the significant amount of

Table 3.1
Indonesian Balance of Payments

Item	1995/96	1996/97r	1997/98*
	In billions of dollars		
A. Current Account	**–7.0**	**–8.1**	**–2.5**
1. Goods	6.2	6.2	12.9
a. Exports f.o.b.	47.7	52.0	56.1
i. Non-oil/gas	37.1	39.3	45.8
ii. Oil/gas	10.6	12.7	10.3
Oil	6.5	7.5	5.9
LNG	3.6	4.7	4.0
LPG	0.5	0.5	0.4
b. Imports f.o.b.	–41.5	–45.8	–43.2
i. Non-oil/gas	–37.6	–41.1	–39.1
ii. Oil/gas	–3.9	–4.7	–4.1
Oil	–3.6	–4.4	–3.8
LNG	–0.3	–0.3	–0.3
2. Services	–13.2	–14.3	–15.4
a. Non-oil/gas	–10.0	–10.7	–10.8
b. Oil/gas	–3.2	–3.6	–4.6
i. Oil	–1.7	–1.9	–2.1
ii. LNG	–1.5	–1.7	–2.5
B. Capital Account	**11.5**	**12.7**	**–4.7**
1. Net Official Capital Inflows	–0.2	–0.8	4.4
a. Official inflow	5.7	5.3	8.5
b. Debt repayment	–5.9	–6.1	–4.1
2. Net Private Capital Inflows	11.7	13.5	–9.1
a. Foreign direct investment	5.4	6.5	1.8
b. Others	6.3	6.9	–10.9
C. Total (A + B)	**4.5**	**4.6**	**–7.2**
D. Net Errors & Omissions (C and E)	**–1.8**	**–0.7**	**–2.8**
E. Monetary Movements	**–2.7**	**–3.9**	**10.0**
Note :			
1. Official Reserves	**16.0**	**19.9**	**–**
Equivalent to non-oil/gas imports (months)	**4.6**	**5.2**	**–**
2. Gross Foreign Assets (GFA)	**20.6**	**26.6**	**16.6**
Equivalent to non-oil/gas imports (months)	**5.9**	**7.0**	**4.6**
3. Current Account Deficit/GDP (percent)	**3.4**	**3.5**	**1.3**

unhedged private external debts, the mismatch in financing long-term investments by short-term debts, and the use of the debts for non-foreign exchange generating activities. Moreover, the exchange rate crisis depressed international creditors' confidence on the ability of domestic debtors to repay their debts. Accordingly, the private sector faced difficulties in rolling over their mature debts resulting in the crisis in the private sector debts.

Meanwhile, the ratio of current account deficit to GDP narrowed from 3.5% to 1.3% in the year under review. The improvement was mainly due to a large drop in import growth as a consequence of the continued weakening of the rupiah exchange rate. The growth in total export was disheartening because of a sharp drop in oil/gas exports alongside the fall in oil price and weakened demand. Non-oil/gas exports, despite some constraints to seize export opportunities effectively, showed a vibrant growth as a positive impact of the rupiah depreciation.

The constraints to export drives included lower demand from the beleaguered Japanese economy, interrupted supply of imported materials for exported commodities with high import content, difficulties in procuring containers particularly in the first quarter of 1998, and difficulty in obtaining working capital credits due to high interest rates. Other constraints entailed low efficiency that resulted in wavering international competitiveness mainly against other Asian countries and allegation of dumping practices by countries of export destination.

On the import side, the problems arose from difficulties in obtaining financial supports induced by rejection of Indonesia's import letters of credit (L/C) by correspondent banks as a result of weakening credibility of Indonesian banks in the international eyes (Box : Placement of Bank Indonesia's Fund in Foreign Banks to Confirm L/C Issued by Indonesian Banks). As for the services account, the number of international tourist visits fell significantly because of various news on the haze occuring in some regions and on the unfavorable social and political situation especially in the first quarter of 1998.

To improve the balance of payments performance, in the reporting year the Government introduced several measures covering both capital flows and international trades. Policies for capital flows centered on restoring confidence of foreign investors and on attracting their interests in investing in Indonesia. As such, the Government aims at stabilizing the rupiah exchange rates through raising interest rates. To bring in investors in the stock markets, the Government eliminated restrictions on the maximum amount that foreign investors could purchase shares at the primary markets, except for bank shares. To attract more foreign direct investment, the Government lifted rules on restrictions for foreign investors to invest in coconut palm plantation and in both wholesale and retail business.

To expedite the settlement of private sector debts, the Government set up the Negotiating Team for Private External Debts Settlements (TPULNS) which functions as a mediator between debtors and creditors. The TPULNS Team has managed to establish a contact committee which represents domestic debtors and a steering committee which represents international creditors (Box: Exchange Rate Crisis and Private Sector External Debts).

On the international trade front, the Government continues its efforts to promote efficiency in the real sector. One of the major policies issued in the reporting year was the deregulation package of July 7, 1997 that covers both export and import. The deregulation package aims at enhancing economic efficiency and in perpetuating the Government's compliance with AFTA, APEC, and WTO agreements .

The new measures on export stipulated in the July 1997 deregulation package include, among others, lowered export taxes for 4 coconut palm products. In addition, the Government raised the maximum limit for export of goods exempted from Designated Customs Export Declaration (PEBT) form from Rp100 million to Rp300 million, simplified the PEBT form for easier registrations, and regrouping of export goods under surveillance. In this regard, various types of scraps that were previously prohibited from exporting, are now belong to the export goods under surveillance.

The measures on import in the July 1997 deregulation package cover tariff reductions for 1,600 tariff items consisting of 1,461 manufacturing items, 136 agricultural items, and 3 health items. In addition, the Government also lifted import duties for machinery, materials for the construction of manufacturing and services industries, stipulated a clear import licensing for trawler and used but sea worthy ships,[1] as well as permitted producer importers to import raw sugar that used to be handled solely by the State Logistics Agency (Bulog). To hinder environmental degradation and/or pollution, the Government strengthened the procedures for importing hazardous wastes for raw/supporting materials by requiring such importation to be approved by the Environmental Impact Management Agency (Bapedal).

To further enhance overall efficiency, economic resilience, and global competitiveness, on November 3, 1997 the Government launched another deregulation package. On the export side, 6 facilities were introduced as the following. First, the Government enlarged the coverage of export commodities for designated exporters (PET) from 10 to 19 and, after further review, to 29 groups of commodities.[2] Second, the Government set a standard of conversion for the use of raw/supporting materials as a basis for issuing tax facilities, customs, and excises on certain products. Third, in addition to scheduling import tariff reductions for fishery, chemical, and metal products, the Government also revised and scheduled import tariffs for garlic, soybean, and wheat. Besides, export tax on commodities which have export potentials was scheduled to decline. Fourth, to boost gold jewellery exports, the Government abolished income taxes on imported gold bars. Fifth, the Government also abandoned value added tax for procurement of raw materials and services by designated exporter (PET) from domestic suppliers. Sixth, permissions were granted for companies in bonded zones to sell their output in the form of component to domestic markets at the maximum of 50% of the realized export value.

On the import front, the November 1997 deregulation package incorporated rules on simplifying import licensing and procedures related to leather materials' quarantine and bonded zones. Operating license in the bonded zones is granted by the Ministry of Finance, and for investors that operate within the bonded zones are also allowed to engage in warehousing activities within the zones.

To resist the high-cost economy, the Government eliminated any surcharge on export commodities both in the central and regional governance.[3] In addition, the Government also reduced import duties for selected products,[4] and granted licenses to import machines, machine parts, and other used capital goods.[5]

On the financing side, Bank Indonesia has provided swap and forward facility for selected exporters to ascertain the exchange rates for their foreign exchange receipts or payments.[6] Bank Indonesia has

1) Presidential Decree No. 22 of 1998, dated January 21, 1998; Minister of Industry and Trade Decree No. 229/MPP/Kep/7/1997, dated July 4, 1997
2) Minister of Industry and Trade Decree No. 108/MPP/Kep/2/1998, dated February 27, 1998
3) Presidential Instruction No. 1 of 1998, dated January 21, 1998
4) Minister of Finance Decrees No. 294/KMK.01/1997, No. 477/KMK.01/1997, and No. 17/KMK.01/1998, dated July 4 and September 17, 1997, and January 21, 1998
5) Minister of Industry and Trade Decree No. 98/MPP/Kep/2/1998, dated February 26, 1998
6) Board of Directors of Bank Indonesia Decree No. 30/89/KEP/DIR, dated October 16, 1997

also opened rediscount facility based on domestic letters of credit,[7] and for export drafts originating from both post-shipment[8] or pre-shipment.[9] The policies allowed exporting companies to attain relatively inexpensive working capital for financing their production of export commodities. In addition, Bank Indonesia continued to permit state banks and foreign exchange licensed local government banks to obtain external borrowing and to issue bank guarantee for such debts.[10]

Enhancing confidence of foreign counterparts in Indonesia's economic prospects is of importance to facilitate international trade, particularly import of raw materials and capital goods required for domestic production of outputs to meet both domestic and international demands. Bank Indonesia has set cooperation with international institutions to allow a guarantee facility for L/C issued by national banks. Bank Indonesia has also deposited funds in correspondent banks to facilitate L/C confirmation originating from national banks. The collaboration with monetary authorities from Singapore, Australia, the United States, and Japan, as well as the collaboration with international financial institutions, such as the US Eximbank, the Eximbank of Japan, and the Export Finance and Insurance Corporation of Australia, have produced several guarantee schemes for transactions initiated by Indonesian importers.

In the services area, to encourage progress in the tourism industry, the Government has taken various efforts, including promotion of tourism industry through promotion in other countries and developing infrastructure for sustaining tourists' visits. The Government has also granted privileges for elderly tourists from abroad over the issuance of temporary visit permit up to one year and extension of the permit to a maximum of five times in a row.[11] Besides, the Government has also extended the facility of free visa to visit Indonesia for some countries, such as Hong Kong SAR and South Africa.

However, various improvement measures taken by the Government failed to ease exchange rate turmoil and to regain the investors confidence in Indonesia's economic prospects. Several factors are deemed responsible for these unfavorable outcomes. One of the key factors is the deepening regional economic integration which can make any policies initiated by any individual country less effectiveness. Another key factor that can weaken the effectiveness of such economic measures is the political issues or rumors that for Indonesia in the prevailing situation play an even crucial role in hampering the government's measures.

Current Account

In the reporting period, current account deficit narrowed down by $5.6 billion to $2.5 billion compared to that in the preceding year. The decline came primarily from the surplus in the trade account that mounted by $6.7 despite the deficit in the services account that ascended by $1.1 billion (Chart 3.1). The large surplus in the trade account resulted from surplus in non-oil/gas trade ($6.7 billion) a reversal from the deficit in the preceding year ($1.8 billion). The sharp increase in non-oil/gas export and the falling import accounted for the trade account surplus. However, the surplus in the oil/gas trade showed a decline of $1.9 billion to a level of $6.2 billion due to a sharp decrease in its export (Chart 3.2).

Meanwhile, the services account deficit rose at a slightly higher pace than that in the previous year. The acceleration came primarily from the increase in the deficits of non-oil/gas and oil/gas services due to higher payments of non-freight services.

7) Board of Directors of Bank Indonesia Decree No. 30/138/KEP/DIR, dated November 20, 1997
8) Board of Directors of Bank Indonesia Decree No. 30/193/KEP/DIR, dated February 3, 1998
9) Board of Directors of Bank Indonesia Decree No. 30/194/KEP/DIR, dated February 3, 1998
10) Presidential Decree No. 24 of 1998, dated January 23, 1998
11) Presidential Decree No. 31 of 1998, dated February 23, 1998

Chart 3.1
Current, Trade, and Services Accounts

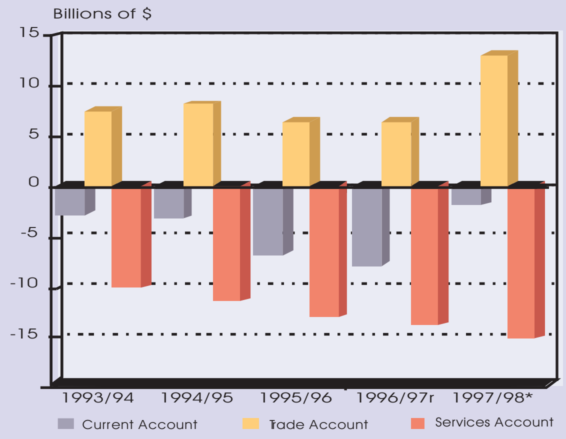
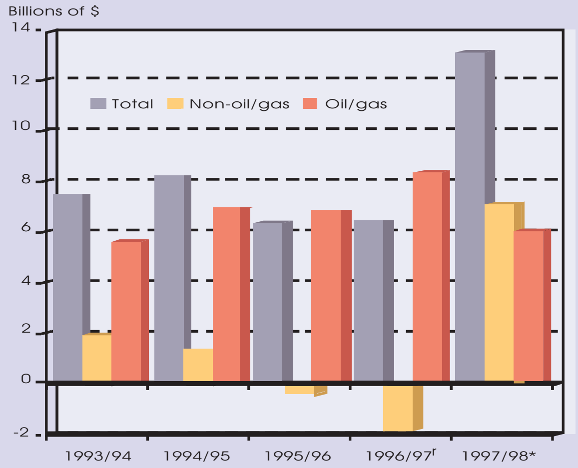


Chart 3.2
Trade Account



Export

Non-oil/gas export in 1997/98 grew significantly, although at the same time oil/gas export fell steeply (Chart 3.3). With that development, total export registered a growth of 7.8% to reach $56.1 billion, compared to last year's growth of 9.0% at the $52.0 billion level.

In the year under review, oil/gas export value dropped by 19.5% in contrast with 20.3% increase in the previous year. The export declines originating from decreases in the exports of crude oil, LNG, and LPG by 22.1%, 14.3%, and 28.8%, respectively. Nevertheless, oil/gas export contributed $10.3 billion to the foreign exchange receipts (Table 3.2).

The large decline in oil/gas export value resulted from a drop in both oil prices (Chart 3.4) and export volume. Oil price plunged from $20.7 per barrel to $16.9 per barrel because of weakened demand and increased supply in the international market. The fall in oil demand, as indicated by the lower export value to the United States, Japan, Korea, and Singapore, owed to the economic crisis in Asian countries and the milder winter season in Europe and America compared with that in the previous year (Table 3.2). On the other hand, the increased supply of oil in the international market was attributed to the agreement set between the United Nations and the Government of Iraq on the oil for food program, quota violation by OPEC member countries, and excessive oil supply from non-OPEC oil-

Chart 3.3
Export Value

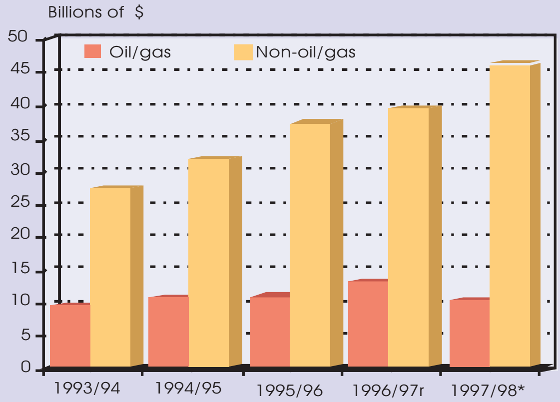
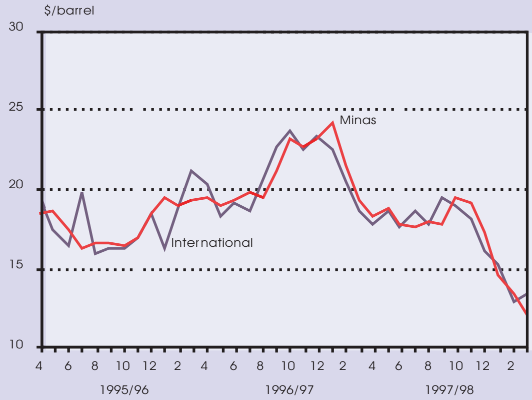


Table 3.2
Oil/gas Exports by Country of Destination

Item	1996/97r Value 1)	1996/97r Share (%)	1997/98* Value 1)	1997/98* Share (%)
Oil				
United States	**586.4**	**7.8**	**398.4**	**6.8**
Crude oil	421.6		343.7	
Oil products	164.8		54.7	
Japan	**2,863.6**	**38.1**	**1,798.3**	**30.7**
Crude oil	2,346.0		1,520.9	
Oil products	517.6		277.4	
Others	**4,063.1**	**54.1**	**3,657.6**	**62.5**
Crude oil	3,216.3		2,864.8	
Oil products	846.8		792.8	
Sub total :	**7,513.1**	**100.0**	**5,854.3**	**100.0**
Crude oil	5,983.9		4,729.4	
Oil products	1,529.2		1,124.9	
Gas				
LNG	**4,686.2**	**100.0**	**4,016.0**	**100.0**
Japan	3,105.7	66.3	2,614.4	65.1
South Korea	1,200.7	25.6	963.8	24.0
Taiwan	379.8	8.1	437.8	10.9
LPG	**572.0**	**100.0**	**407.0**	**100.0**
Japan	446.2	78.0	317.5	78.0
Singapore	11.4	2.0	8.1	2.0
Others	114.4	20.0	81.4	20.0
Sub total	**5,258.2**		**4,423.0**	
Total (oil and gas)	**12,771.3**		**10,277.3**	

1) f.o.b. value in millions of dollars

Chart 3.4
Oil Prices 1)



1) Minas : Sumatran light crude (SLC)
International : Average oil price of Arab Heavy, Brent, Bonny, and West Texas Intermediate (WTI)

Sources : – Ministry of Mining and Energy
– Reuters

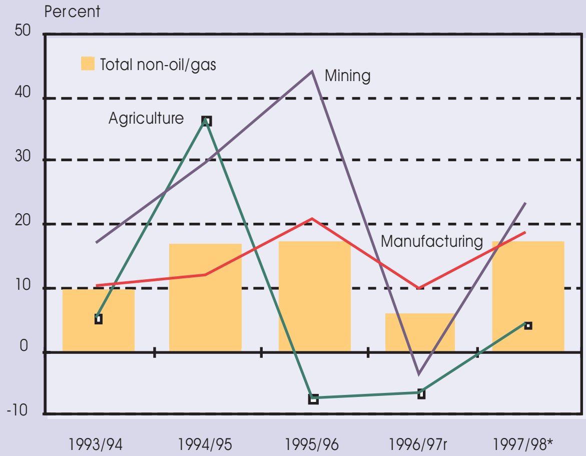
producing countries. To cope with the deteriorating oil price in the future, several countries already agreed to cut down their respective quota. In this regard, Indonesia committed to support OPEC quota reduction from 27.5 million barrels per day to 25.0 million barrels per day.

The fall in oil export volume was also attributed to higher domestic consumption. In the reporting year, domestic oil-based fuel consumption rose slightly from 296.1 million barrels to 318.2 million barrels. The rise primarily occurred in the first quarter of 1997/98 due to the prevailing vigorous business activity. In the second half of 1997/98, however, fuel consumption began to come down because of the weakening activity in industry and transportation.

Meanwhile, non-oil/gas export value in 1997/98 amounted to $45.8 billion or grew by 16.7%. The favorable developments were sustained by higher export growth for all groups of commodities (Chart 3.5).

In general, in the reporting year, most of agricultural products registered higher export growth. The export value of agricultural products, as a group, grew by 4.8% compared favorable with negative growth of 6.8% in the previous year. Several major agricultural

Chart 3.5
Non-oil/Gas Export Growth



commodities that experienced significant growth include pepper, tea, tobacco, and livestock and its products including shrimp. The increase in export of pepper was attributable mainly to the sharp increase in its price. Tea export rose because of its strong demand, coupled with its declining supply on the severe drought in some tea-producing countries, such as Bangladesh, India, and Kenya. Higher growth of tobacco export was mainly due to the increase in its export volume, while the increase in shrimp export was induced by the strong demand from countries of destination, such as Japan and the United States.

In the meantime, export of rubber, a leading agricultural product, underwent a salient decline of 22.1% (Table 3.3). The plunge was due to its falling price (Chart 3.6) resulted from its reduced demand in Asian countries and its increased supply originating from Thailand and Indonesia. The replantation of rubber in Thailand since 1980s and the extended drought in virtually all regions in Indonesia have raised the rubber production in these two countries.

Export of mining products registered a significant growth of 23.2%, in contrast to a negative growth of 4.2% in the preceding year, despite the fall in exports of nickel, aluminum, and tin. Gold and coal registered a sharp increase in their export growth (Table 3.4). The increase of coal export (74.6%) was attributed to the rise in its volume and price, while the driving force for gold export (365.9%) was its rising volume (Chart 3.7). The large rupiah depreciation against dollar has apparently encouraged exporters to sell gold in the international market rather than the domestic one.

Chart 3.6
Prices of Selected Agricultural Commodities
(In thousands of $/tonne)

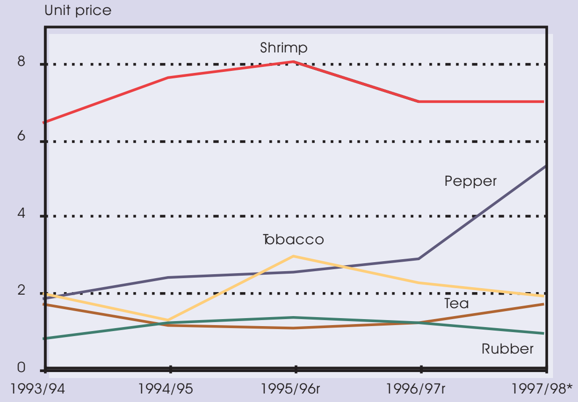
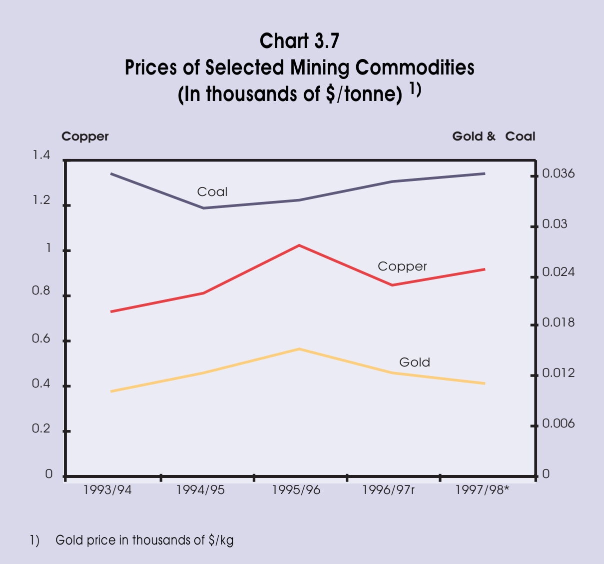


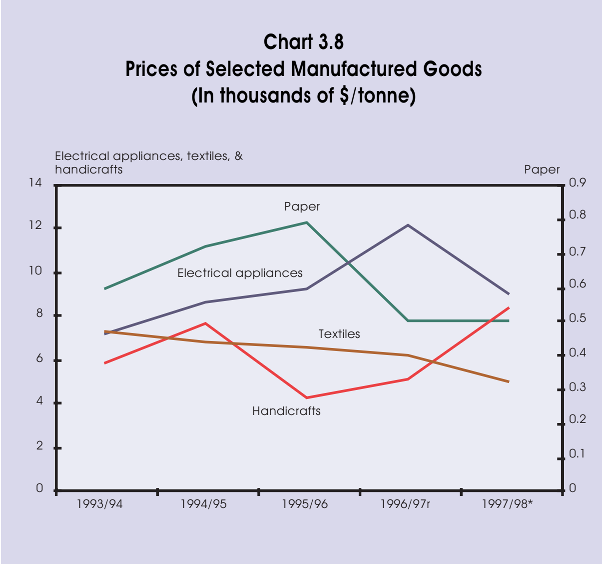
Table 3.3
Export Value of Selected Agricultural Commodities

Commodity	1996/97r	1997/98*	1997/98*	
	Percent change		In millions of $	Share (%)
Rubber	–11.1	–22.1	1,392	26.1
Animal and other animal products	–3.2	17.2	1,922	36.0
- Shrimp	–2.4	9.2	1,087	20.4
Coffee	–7.4	2.2	615	11.5
Tobacco	1.2	88.7	152	2.8
Cocoa	11.1	5.9	284	5.3
Pepper	–43.4	91.4	175	3.3
T e a	22.4	51.4	174	3.3
Others	–13.9	3.8	628	11.8
Total	**–6.8**	**4.8**	**5,342**	**100.0**

Table 3.4
Export Value of Selected Mining Commodities

Commodity	1996/97r	1997/98*	1997/98*	
	Percent change		In millions of $	Share (%)
Coal	–3.3	74.6	1,820	39.4
Copper	–4.3	–3.0	1.461	31.7
Gold	36.6	365.9	387	8.4
Tin	3.1	–5.1	272	5.9
Aluminum	–7.0	–16.0	266	5.8
Nickel	–17.7	–27.1	238	5.1
Others	0.5	–8.2	169	3.7
Total	**–4.2**	**23.2**	**4,613**	**100.0**





Exports of manufactured products gained a strong growth at 17.9% in 1997/98. The remarkable performance resulted primarily from the increase in exports of leading manufactured products, such as textile and its products, palm oil, chemical products, paper and pulp, metal items, machinery, and handicraft (Table 3.5). Out of those products, the high-growth performers were handicraft (205.9%), paper (76.4%), and palm oil (52.3%). This shows that the depreciation of rupiah exchange rate has benefited export commodities with low import content. In addition, the demands for handicraft and paper were strong in the international market. Export of paper also exhibited similar developments. In spite of the declining prices in the international market (Chart 3.8), the large rupiah depreciation induced exporters to selling more in the international market than in the domestic market.

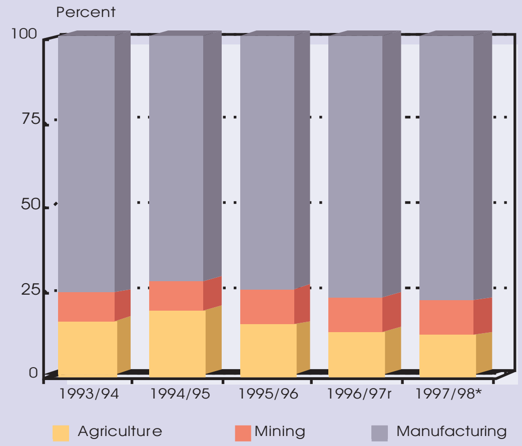
Table 3.5
Export Value of Selected Manufactured Goods

Product	1996/97r	1997/98*	1997/98*	
	Percent change		In millions of $	Share (%)
Textiles and textile products	–2.0	31.4	7,911	22.1
Garments	–0.1	31.5	4,307	12.0
Wood and wood products	5.0	–2.3	5,377	15.0
Plywood	6.4	–11.0	3,211	9.0
Electrical appliances	33.7	–11.4	3,293	9.2
Paper	–7.6	76.4	2,393	6.7
Footwears	–0.8	4.8	2,170	6.0
Chemical products	0.9	42.9	1,863	5.2
Palm oil	1.3	52.3	1,525	4.3
Machineries	28.0	19.8	1,434	4.0
Others	20.8	20.1	9,906	27.6
Total	**9.6**	**17.9**	**35,872**	**100.0**

Nevertheless, some manufactured products, notably electrical appliances and plywood, fail to get the benefit of the rupiah depreciation. Export of electrical appliances plunged mainly because of a sharp fall in their international prices. Meanwhile, the fall in plywood export was induced by interrupted supply of its domestic raw materials due to forest fire in Kalimantan and Sumatra, and by declining demand from Asian countries, such as Japan and South Korea, as the main buyers.

By export share, manufactured products continued to dominate and contribute the biggest share in non-oil/gas exports, i.e. 78.3% in 1997/98, up from 77.5% in the preceding year. The share of mining products also rose, from 9.5% to 10.1%, while agricultural commodities shriveled from 13.0% to 11.6% (Chart 3.9).

Chart 3.9
Share of Commodities in Non-oil/gas Exports



By country of destination, as in the previous year, the list of major non-oil/gas export destinations remained unaltered, i.e. ASEAN, Japan, Europe, and the United States (Chart 3.10). However, there have been some turnabouts in the shares of export to those countries. Export shares to the ASEAN and Europe rose from 15.2% and 20.5% to 19.1% and 21.5%, respectively, while the shares to Japan and the United States declined from 18.3% and 20.2% to 14.9% and 17.8%, respectively.

Import

After registering an increase of 10.4% in the previous year, the value of import declined by 5.8% in 1997/98 with a total amount of $43.2 billion. The slowdown resulted from shriveling imports of both non-oil/gas (5.0%) and oil/gas (13.0%), particularly in the second half of 1997/98. The exchange rate crisis was responsible for most of the decline in non-oil/gas import. The plunge of rupiah has caused the prices of imported goods more expensive in the domestic markets, compressed consumption and various investment activity, and difficulty in opening L/C with international banks. Meanwhile, the decline in oil/gas was due to the fall of oil price in the international market.

For non-oil/gas products, the drops in import were evidenced in all groups. Imports of raw materials and consumer goods dipped by 7.0% and 15.0%, respectively. Meanwhile, import of capital goods slowed down remarkably from a 23.9% growth rate in the preceding year down to 3.4% (Table 3.6).

The notable decline in raw material imports were experienced by imports categories of spareparts and equipment for capital goods, as well as spareparts and equipment for transportation vehicles. Meanwhile, imports category of semi-processed materials for industry

Chart 3.10
Non-oil/gas Exports by Country of Destination
in 1997/98

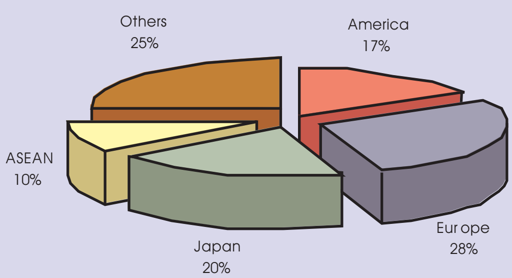


Table 3.6
Import Value of Non-oil/gas by Category of Goods

Category	1996/97r Share	1996/97r Change	1997/98* Share	1997/98* Change
	In percent			
Capital goods	24.4	23.9	26.6	3.4
Raw and auxiliary materials	69.0	4.8	67.5	–7.0
Consumer goods	6.6	12.0	5.9	–15.0
Total	**100.0**	**9.4**	**100.0**	**–5.0**

Table 3.7
Imports of Raw Materials[1)]

Item	1996/97r	1997/98*	1997/98*	
	Percent change		In millions of $	Share (%)
Semi-processed materials for industry	–8.4	8.1	14,080	53.4
Spareparts and equipment for capital goods	3.9	–17.8	3,631	13.8
Spareparts and equipment for transportation vehicles	–17.3	–19.3	2,553	9.7
Raw materials for industry	–4.4	1.8	2,201	8.3
Food and beverage raw materials for industry	44.3	–9.8	1,328	5.0
Others	176.9	–37.5	2,587	9.8
Total	**4.8**	**–7.0**	**26,380**	**100.0**

1) f.o.b.

Table 3.8
Imports of Consumer Goods[1)]

Item	1996/97r	1997/98*	1997/98*	
	Percent change		In millions of $	Share (%)
Durable goods	–16.8	124.9	458	19.9
Food and beverages for households	–1.4	–66.7	354	15.4
Semi-durable goods	6.3	5.4	338	14.7
Non-durable goods	12.2	11.0	317	13.8
Food and beverage materials	–1.7	–6.6	232	10.1
Passenger vehicles	34.5	–47.8	85	3.7
Others	160.2	22.7	514	22.4
Total	**12.0**	**–15.0**	**2,298**	**100.0**

1) f.o.b.

which accounted for the bulk of raw material imports (53.4%) remained to show an increase. The same case was also occurred for category of raw materials for industry which showed an increase notwithstanding at slower rate (Table 3.7). This development showed that raw materials were still available for supporting activity in the industry, including for export. Nevertheless, the growths of raw material imports should have been greater if there be no rejections by overseas banks against L/C issued by Indonesian banks.

Most of consumer goods experienced a slowdown in their imports. Leading the dips were commodities such as food and beverages for households, food and beverage materials, and passenger vehicles. Meanwhile, most of the increase in consumer goods import came from durable consumer goods. Likewise, imports of semi-durable consumer goods and non-durable goods were still increasing, albeit at slower paces than those in the preceding year (Table 3.8).

The slowdown in imports of capital goods were noted mainly on optical, measurement and survey instruments, and cargo vehicles (Table 3.9). Meanwhile, imports of locomotives, vessels and airplanes, and generators and electrical appliances registered even higher growth than those in the preceding year. The increase in import of locomotives, vessels, and airplanes was driven by the government policy to promote efficiency in the domestic industry and flows of goods in the domestic economy (Table 3.9). Import of raw materials represented the biggest share of total imports (67.5%), followed by capital goods (26.6%) and consumer goods (5.9%).

By country of origin, Indonesia imported goods mainly from countries in the ASEAN region, Japan, Europe, and the United States (Chart 3.11). The share of imports from Japan declined from 22.4% to 20.0% and so was the share of the United States, i.e. from 17.5% to 17.4%. On the contrary, the shares of imports from ASEAN and Europe rose from 8.6% and 25.9% to 10.1% and 27.8%, respectively.

Services

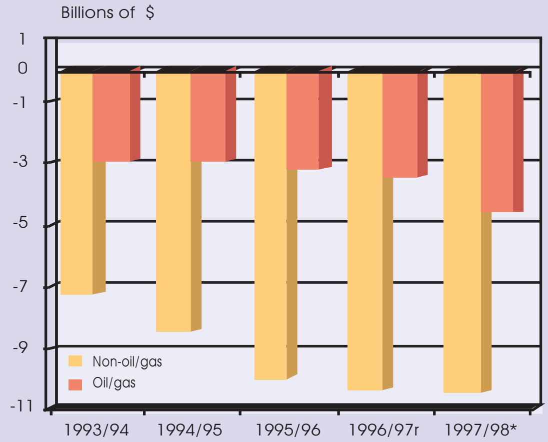
In the reporting year, deficit in the services account widened by $1.1 billion reaching $15.4 billion. The increase in deficit resulted from a $1.0 billion rise in oil/gas services and a $0.1 billion increase in non-oil/gas services (Chart 3.12). The non-oil/gas services remained

Table 3.9
Imports of Capital Goods[1)]

Item	1996/97r	1997/98*	1997/98*	
	Percent change		In millions of $	Share (%)
Machineries	9.4	0.8	6,302	60.7
Generator and electrical appliances	10.3	49.0	1,980	19.1
Locomotives, vessels, and airplanes	47.9	54.8	925	8.9
Optical, measurement, and survey instruments	10.6	–7.9	439	4.2
Cargo vehicles	25.2	–25.8	75	0.7
Tools	–16.8	4.7	32	0.3
Others	435.7	–49.5	636	6.1
Total	**23.9**	**3.4**	**10,389**	**100.0**

1) f.o.b.

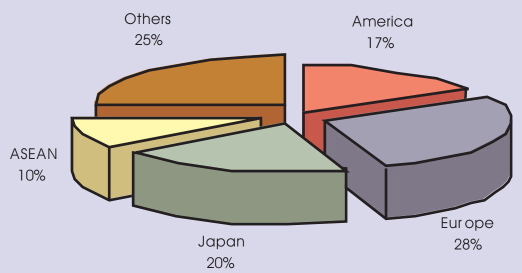
Chart 3.12
Services Account



the largest source of deficit accounting for 70.0% of total deficit in the services account.

The expenditures of non-oil/gas services, were mostly originating from freight on imports, followed by interest payment and profit transfer. Interest payments on external debts increased by $0.9 billion to $7.2 billion in 1997/98. Of this, the share of interest payments on official debt decreased from 43.3% to 34.6%. In other words, interest payments on private debt assumed an even larger share in line with the increase in

Chart 3.11
Non-oil/gas Imports by Country of Origin in 1997/98



the amount and share of the private sector external borrowing. Over the same period, profit transfer to other countries rose from $0.3 billion to $1.4 billion. Meanwhile, as the value of import was shriveling, payments for freight declined by $0.2 billion reaching $4.3 billion in 1997/98.

Tourism continued to account for the largest share of foreign exchange receipts from non-oil/gas services despite the decline in its growth. The receipts from tourism fell by 2.2% reaching $6.1 billion in 1997/98, as a result of the declining tourist arrivals from 5.1 million to 4.9 million persons (Chart 3.13). News about forest fire in Sumatera and Kalimantan and rumors on securities relating to the general election and general assembly session, crime, plane accident and diseases were responsible for the declining tourist arrivals. Meanwhile, remittances from Indonesian workers abroad dropped by $0.1 billion reaching $0.7 billion in 1997/98, due to the declining employment opportunity in Saudi Arabia and Malaysia.

Capital Account

In the reporting year, the capital account posted a deficit for the first time since the First Five-year Develop-

Chart 3.13
Foreign Exchange Receipt
from Tourism and Tourist Inflows

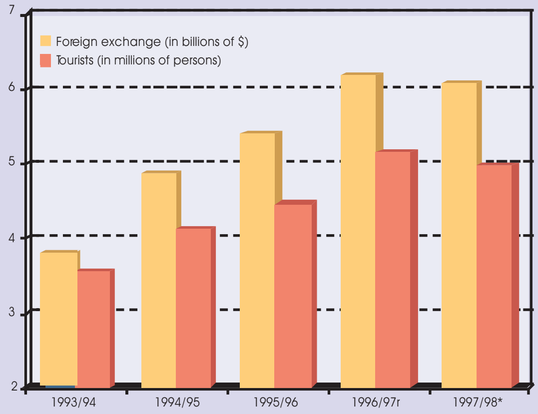


Table 3.10
Outstanding Official Foreign Borrowing

Item	1996/97r	1997/98*	1996/97r	1997/98*
	In billions of $		Percent change	
Old debt [1]	0.4	0.2	–20.0	–50.0
New debt	52.2	54.0	–10.2	3.4
CGI	50.7	48.9	–10.3	–3.6
ODA	35.9	34.3	–13.1	–4.5
Non-ODA	14.8	14.6	–2.6	–1.4
Non-CGI	1.5	5.1	–6.3	240.0
ODA	0.4	3.4 [2]	0.0	750.0
Non-ODA	1.1	1.7	–8.3	54.5
Total	**52.6**	**54.2**	**–10.2**	**3.0**

1) Those obtained prior to July 1966
2) Including IMF balance of payments support loan amounting to $3.0 billion

ment Plan, amounting to $4.7 billion. A huge deficit of $9.1 billion in the private capital flows was responsible for such an unbearable outcome, outstripping the surplus in the government capital flows of $4.4 billion. Private capital flows, that remained in surplus of $5.3 billion during the first half of 1997/98, suddenly dipped and reversed into a huge $14.3 billion deficit in the second half of 1997/98. The crisis has rapidly eroded the confidence of foreign investors on Indonesia's economic prospects. In addition, Indonesia's rating was downgraded due to its higher country risk. As a consequence, the private sector has narrower access to acquire new off-shore loans and to roll-over existing matured debts.

Private capital inflow in 1997/98 dropped by $7.8 billion to reach a $14.5 billion level. The drop resulted from a $3.9 billion fall in foreign direct investment to $4.7 billion and a $2.2 billion decline in non-bank external borrowing to $3.5 billion. Up to the first half of 1997, capital inflow from foreign direct investment remained high. However, in the second half of 1997, foreign capital inflow fell considerably, notwithstanding increased approvals for foreign direct investment. The fall resulted from delay in implementation of the already approved investment projects because of the ongoing economic and monetary crisis.

Private capital outflows in 1997/98 increased sharply by $14.8 billion to reach $23.6 billion level. Bulk of the outflows was mainly taking the form of repayment of mature domestic securities owned by foreign investors totaled $9.3 billion. Most of the securities were in short-term maturities, such as commercial papers (CPs), certificate of deposits (CDs), and promissory notes (PNs). In addition, private capital outflows originating from the repayment of external debts, both by bank and non-bank debtors, recorded a rise of $6.1 billion to $14.3 billion.

In the year under review, the government net capital flow shifted to a surplus of $4.4 billion, from a deficit of $0.8 billion in the previous year. The surplus originated from an increase in the disbursement of official borrowing of $3.2 billion and a decline in the amortization of $2.0 billion. The increase in disbursement came from the release of $3.0 billion IMF assistance under the economic stabilization and reform program, and the draw-down of $841 million standby loan (Table 3.10). Meanwhile, the decline in amortization resulted from the smaller prepayment of $0.3 billion, compared to $1.6 billion in the year before.

Indonesia's overall external debt position at the end of 1997/98 amounted to $137.9 billion, up from $113.1 billion at the end of March 1997 (Table 3.11). In the year under review, private debt in the form of securities, reaching $6.4 billion, began to be included in the definition of Indonesia's external debt, highlighted a progress in data collection system since the securities were not included in the last year's definition. Evidently, the share of private foreign debt rose to 60.7% of total external debt. Out of total private external debt, 15.3% represented banking debt, while 4.4% belonged to the state-owned enterprises. The rest constituted debts of foreign direct investors (PMA), domestic investors (PMDN), non-PMA/PMDN companies, non-bank financial institutions (NBFIs), and others in the form of securities. Based on data up to February 1998, in terms of their respective tenor, out of overall external debt, 10.8% represented short-term debts, while the remainder represented medium- and long-term debts. Out of overall short-term debt, banking sector accounted for 25.3%, while the rest represented non-bank private debts.

In the reporting year, debt service ratio (DSR) of the private sector rose from 19.6% to 29.5%, while that of the Government fell from 14.6% to 10.2%. The sharp increase in the private sector DSR reflected larger burden on external debts in line with the increased size of private foreign borrowing. Meanwhile, the decline in the government sector DSR resulted from a lower principal prepayment of debt in the reporting year. The financing structure that relied heavily on external sources deserves attention as confirmed by the rising ratio of external debts to GDP. The ratios of both the private and the government external debts to GDP rose from 26.1% and 22.7% to 44.0% and 28.5%, respectively. Likewise, the ratio of private debt outstanding to export increased from 100.1% to 129.2%, while that of government declined from 87.1% to 83.6%.

Foreign Exchange Reserves

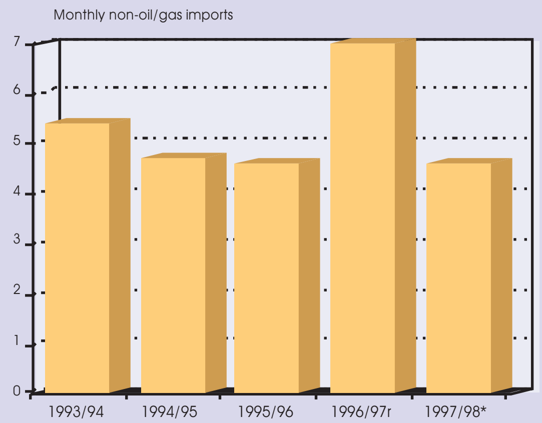
Since January 1998, data on Indonesia's foreign exchange reserves were recorded on the basis of the Gross Foreign Asset (GFA) concept, instead of official reserves that was previously used (Box: Revision of the Foreign Exchange Reserves Concept). Based on the new concept, the amount of Indonesia's GFA in 1997/98 was $16.6 billion, a $10.0 billion decline from

Table 3.11
Outstanding Foreign Borrowing

Item	Outstanding March 31, 1997r		Outstanding March 31, 1998*	
	In billions of $	Share (%)	In billions of $	Share (%)
Official Borrowing	**52.6**	**46.5**	**54.2**	**39.3**
Bilateral[1]	35.2	31.1	33.9	24.6
Multilateral	16.5	14.6	18.5	13.4
Others	0.9	0.8	1.8	1.3
Private Borrowing	**60.5**	**53.5**	**83.7** [2]	**60.7**
Total	**113.1**	**100.0**	**137.9**	**100.0**

1) Including old debts & export credit facility
2) Including securities

Chart 3.14
Foreign Exchange Reserves [1]



1) Since 1996/97 calculated with gross foreign assets (GFA) concept, before that period calculated with official foreign exchange reserves

that in the previous year, or, in its equivalence, representing a fall from 7 months to 4.6 months of non-oil/gas imports (Chart 3.14). The decline in foreign exchange reserves resulted from a huge deficit in the balance of payments, originating mostly from the capital account deficit.

To strengthen the reserves position, Bank Indonesia has withdrawn $3.0 billion under the IMF assistance program in November 1997 and $841 million from the standby loan up to the end of March 1998. Consequently, the remaining standby loan at the end of March 1998 stood at $1,044 million.

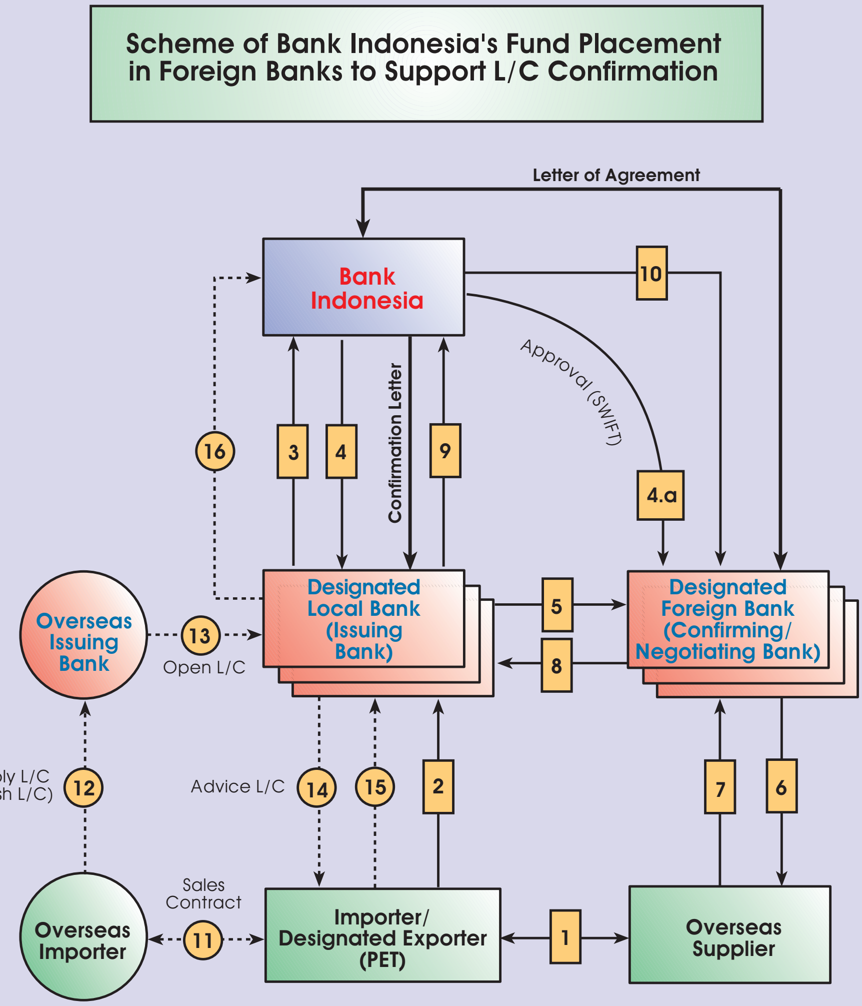
Placement of Bank Indonesia's Fund in Foreign Banks to Confirm L/C Issued by Indonesian Banks

Exchange rate crisis which has translated into prolonged monetary and banking crises brought about confidence crises for international banks and foreign suppliers toward Indonesian banks. This confidence crisis took form of : (i) confirmation requested by international parties to foreign banks both domestic and overseas regarding L/C issued by private national banks and some of state banks; (ii) obstacles faced by opening banks to obtain L/C confirmation from overseas banks; (iii) prohibition by international banks to amend L/C; (iv) discontinuation of credit line by a number of international banks. As a consequence, national banks became more selective in issuing L/C and limited their L/C only in the form of a sight L/C. Some banks even required a 100% deposits against opening L/C.

To restore international confidence in confirming L/C issued by Indonesian banks, Bank Indonesia took some efforts to arrange cooperation with international institutions as well as to provide guarantee for trade finance, in particular to L/C guaranteed by the government. The cooperation has produced several guarantee schemes such as EFIC scheme under the cooperation with Australian Government, and Export Finance and Insurance Corporation (EFIC), GSM-102 under the cooperation with CCC-USDA, and a fund placement scheme in foreign banks in the framework of confirmation of L/C issued by Indonesian banks. Besides, Bank Indonesia sounded out a possibility of placement in other foreign banks. Bank Indonesia also explored a possibility to arrange cooperation with other governments, such as Japan (JEXIM), US-EXIM Bank, Malaysia, Singapore, China, Germany, Canada, and Australia (Chart : Scheme of Bank Indonesia's Fund Placement in Foreign Banks to Support L/C Confirmation).

At the early stage, based on Ministry on Trade and Industry's data, Bank Indonesia has appointed 46 importers that actually are designated exporters (PET), whereas opening banks for L/C are restricted only to state banks excluded PT. Bank Tabungan Negara. In its implementation, this facility was not optimally utilized since some importers failed to obtain additional facility from state banks that stood as a requirement to apply for the guarantee from Bank Indonesia.

Until the end of the reporting year, Bank Indonesia has placed fund amounted to $400 million in four foreign banks, namely Standard Chartered Bank, ABN Amro Bank, Deutche Bank, and Citibank, with individual placement of $100 million. Bank Indonesia proceeds to extend this placement in other foreign banks so as to attain a total of 10 banks.



Note:

1. Sales contract / purchase order/ L/C export
2. Apply L/C (USD) for "Raw Materials for Export Purpose"
3. Application for facility+ copy of L/C's application
4. Approval for facility

4.a. Confirmation of approval (by SWIFT)

5. Open L/C
6. Advice L/C
7. Negotiate L/C
8. Send documents + claim for reimbursement
9. Clean document information
10. Reimbursement authorization
15. Based on export transaction with buyer abroad (number 11 to 14) importer executes payment to bank
16. Payment to Bank Indonesia (at the most of 6 months after BI's account has been debited)

Exchange Rate Crisis and Private External Debts

The exchange rate crisis since July 1997 had a strong correlation with Indonesian private external debts. Experience in other countries shows that speculative attack on exchange rate is common when a country has a large amount of private external debt, in particular if unhedged short term debt is dominant and continuously increasing. Inefficient use of fund resulting from weak public and corporate governance has prompted market sentiment which exerted pressure on the exchange rate. In addition, the weakening exchange rate created panic among borrowers in servicing the maturing debt or the debt that could no longer be rolled over. Consequently, the exchange rate and foreign debt servicing problems worsened.

Table 1
Type of Foreign Financing

Debtor	Source: Government (Bilateral & Multilateral)	Source: Private
Government	Grant Soft Loan →	Commercial Loan Bond ↓
Private	Grant Loan Equity →	Grant Commercial Loan Foreign Direct Investment Portfolio Investment Other Investment

Indonesia's External Debt Developments

The structure of Indonesia's external debt has undergone substantial changes during the last 30 years. In the past, as a new developing country, external debt was assumed by the Government (Table 1). The official borrowing consisted of grant, soft loan (ODA) and non-ODA loan from donor countries and international agencies, in term of bilateral or multilateral creditors under the IGGI/CGI framework. As the Indonesian economy progressed, the availability of soft loan became restricted thus prompted the Government – for special purposes and in a limited amount – to turn to international private creditors by committing to commercial borrowing and bonds. As the pace of development moved faster while there were financial constraints on the Government, the role of the private sector in the economy rose. This was associated to a wide range of deregulation measures taken by the Government, especially since 1980s. For the private sector, its great need for investment vis-a-vis limited domestic sources of fund have led it to external sources. Private investors invited foreign direct investment, secured commercial borrowing, and issued securities to attract foreign portfolio investment. The general conditions for private external borrowing, in term of both interest rate and maturity, were by no means concessionary.

Changes in Indonesia's debt structure – from government to private sector dominated – have been profound in the last five years. In 1993/94, around two third of $83.3 billion Indonesia's external debts constituted official debt while the remainder was private debt (Table 2). In 1997/98 the share of private sector debt expanded to around 59% while that of the government declined to 41% of the total external debts of $131.5 billion. Over the period, private external debts increased rapidly averaging at 28.6% per annum while that of the government was only 0.4% per annum. Accordingly, the debt service

Table 2
Outstanding Foreign Borrowings [1)]

Item	1993/94	1994/95	1995/96	1996/97	1997/98*
	(In millions of $)				
Official Borrowing	55,036.9	62,569.1	58,610.0	52,635.1	54,159.0 [2)]
ODA	39,232.3	44,487.4	42,236.0	36,736.4	37,853.0
Non-ODA	13,491.9	16,375.1	15,345.0	14,910.8	14,632.1
Commercial Loans	2,312.7	1,706.6	1,029.0	987.9	1,673.9
Private Borrowing	28,261.2	38,708.9	47,845.1	60,507.8	77,306.4
Bank	8,206.8	9,017.2	8,930.9	9.622.0	12,826.2
Nonbank	20,054.4	29,691.7	38,914.2	50,885.8	64,480.2
Total	83,298.1	101,278.0	106,455.1	113,142.9	131,465.4

1) Excluding debt instruments/marketable securities
2) Including IMF balance of payments support loan amounting to $3.0 billions

ratio (DSR) for the private sector increased more than double, from 12.8% to 29.4%, while that of the government declined from 19.1% to 10.2% (Table 3). As greater default risk is inherent in private sector debt, the increase of private external obligation implies higher exposure on the country risk for Indonesia.

In terms of debtor, the bulk of private sector external debt was held by non-bank companies, namely foreign direct investment companies, domestic investment companies, and other corporations. In 1997/98, the share of their debts amounted

Table 3
Debt Service Ratio

Item	1993/94	1994/95	1995/96	1996/97	1997/98*
	(In percent)				
Official Borrowing	19.1	17.7	16.4	14.6	10.2
Private Borrowing	12.8	14.9	16.3	19.6	29.4
Total	31.9	32.6	32.7	34.2	39.6

to 83.4% while that for the banking sector was 16.6% of the total debts. Excluded in the private debt figure is other external liabilities which emerged as a result of the burgeoning issuance of securities instruments by other domestic private companies and bought by foreign investors, especially during the last two years. In general, securities transactions – including schemes of certificate of deposit, commercial paper, promissory note, and medium term note denominated in rupiah as well as dollar – benefited from interest rate differential and as such they were very sensitive to exchange rate changes. As an illustration, exchange rate crisis shrunk the obligation in securities from a high of $19.9 billion at the end of June 1997 to some $6.4 billion as of the end of the reporting year.

Policy on Commercial Offshore Loan

As an instrument to curb domestic demand to sustain macroeconomic stability, back in 1991 the Government set up the Team for Commercial Offshore Loan assigned to supervise external private debts. The important objective of this measure was to establish a ceiling for private offshore loan – in terms of its total and its details for state-owned enterprises, banks, and other private-owned enterprises – which should be consistent with the capacity of the Indonesian economy to service the borrowing. Based on the ceiling, the Team made an assessment over the state owned enterprises' proposal on the use of external borrowing which might lead to the postponement or cancellation of the projects. The supervision of banks' offshore loan, covering their allocation and monitoring, was tightly exercised by Bank Indonesia consistent with prevailing policy established by the Team. Meanwhile, the ceiling for offshore borrowing for other private sectors was only meant to be indicative as a guideline for the private sector in obtaining offshore borrowing in line with an open capital account regime prevailing in Indonesia.

The tight implementation and supervision of offshore borrowing for state owned enterprises and banks spurred wide-ranging innovations in the project implementation and in obtaining foreign borrowing by the private sector. Various projects which were once under the arrangement of state-owned company were transferred to the private sector, managed under foreign direct or domestic investment companies, which in effect brought them outside the strictly supervised domain of the Team. The strong investment demand, prompted by optimistic business confidence and large interest rate differential, stimulated burgeoning offshore borrowing activity by the private sector. In addition, this momentum was sustained by strong confidence of international investors in Indonesia's economic developments and prospects. Accordingly, the private external debt outside state-owned enterprises and commercial banks recorded a swift upsurge in its growth. Meanwhile, the external debt of the government, state-owned companies and commercial banks remained manageable.

Monitoring activity entails another important aspect of debt management. With the support of Debt Analysis and Management System (DAMS), developed by Bank Indonesia, and the prevailing reporting system, the data collection for the debts of government, state owned enterprises, and commercial banks could be appropriately maintained. However, the reporting system for offshore borrowing of private companies was yet to be developed. This should be the case as there was no stern sanction against companies failing to report their offshore borrowing.

The Effect of Exchange Rate Crisis

The exchange rate crisis since 1997 have put severe burden and brought about external debt crisis in Indonesia. The crisis was especially centered on private debt outside commercial banks which constituted the dominant share of Indonesia's foreign debts. The weakening of the rupiah put companies in the difficult position in servicing their debts. The major factors behind such situation were the magnitude of the unhedged portion of foreign borrowings and the use of such debts for projects not generating foreign currency (commonly called currency mismatch). The companies' panic to get dollars led to further weakening of the rupiah, which in turn worsened the settlement of foreign debt. This situation was further aggravated by the reluctance of foreign creditors to roll-over maturing private debts.

Nevertheless, the external debt crisis confronted by the banking sector was no means less severe. Notwithstanding various anticipatory measures imposed by the Government, such as policy on commercial offshore loan and net open position (NOP), proved to be ineffective owing to asymmetric settlement on foreign currency denominated assets and liabilities of the banking system. On the asset side, the one denominated in foreign currency did not produce optimal earning as credit that had been extended run into the risk of default owing to wide-range difficulties faced by the debtors. Even, some banks had to cover the failure in servicing foreign debts faced by their own debtors, especially those under the same group. Meanwhile, on the liabilities side, the banking industry faced difficulties as in the case of their debtors, namely exchange rate risks and the failure to roll over credit line by foreign creditors. The matter worsened due to a massive bank rush as a result of the deteriorating public confidence in the banking system following the closure of 16 unviable commercial banks in early November 1997. This had left almost the whole banks in severe liquidity problem. As a result, exchange rate crisis brought about not only increasingly deeper foreign exchange crisis but also a painful banking crisis.

Private External Debt Settlement

In a bid to facilitate and speed up the restructuring of private external debt, in early 1998, through Presidential Decree No. 4 of 1998, the Government set up the Negotiating Team for Private External Debt Settlement. The establishment of this Team underscored the Government's commitment not to bail out private foreign debt. As such, the settlement of private debt should adhere to the principles that (i) participation in the debt settlement scheme is under voluntary basis, (ii) commercial risk remains with the debtors, (iii) maximum cost borne by the Government should be limited at the fair amount, (iv) the Government support will be granted, provided debt restructuring shall take place under strict and clear minimum terms, and (v) negotiation between debtor and creditor persists.

Early step undertaken by the Team was data collection on private debts, comprising private corporate debt, commercial bank debt, and debt for trade finance. The implementation was not an easy one, as not all private companies had reported their debts and not all reports spelled out the real situation. From the prevailing data, debtor companies can be classified into three categories, namely (i) export oriented companies and capable of servicing their debts, (ii) companies having good prospect but facing difficulties due to exchange rate changes, (iii) companies virtually unable to service their debt due to mistakes in the use of borrowing. The companies under the third category are urged to go to arbitration with their creditors.

Furthermore, to facilitate the negotiation process between debtors and creditors, the contact committee was set up to represent Indonesian private debtor group along with three steering committees to represent creditors comprising foreign banks abroad, respectively for the regions of Japan, the United States, and Europe. The main responsibility of these committees is to approach each other so as to establish general guidelines applicable for the settlement of private debts participating in the program.

An alternative approach to the settlement of private debt outside banking system and trade finance is to establish the Indonesian Debt Restructuring Agency (INDRA) – adopted from the debt settlement model "Ficorca" once implemented in Mexico. Basically, this model offers forward foreign exchange cover, provided the debtor companies have serviced their debts in rupiah through INDRA, at a favorable exchange rate. This model has a distinct advantage, namely debt rescheduling through granting a grace period with a maximum of three years for principal repayment and simplification of conversion mechanism for short- and medium-term debts to a maximum of eight years. The downside of this program is, however, to convince the creditors to win their approval over the grace period and prevailing commercial risk not guaranteed by INDRA.

Meanwhile, the alternative approach to the settlement of commercial bank debts and trade financing is based on the government guarantee program over liabilities of commercial banks established under the Indonesian law. As for commercial bank debts, there is an effort to issue new debts – with longer maturity and government guarantee – to replace old debts which met certain conditions. Likewise, the international commercial banks as creditors are requested to continue their trade financing activities – the usual practice– with guarantee from the government.

Revision of the Foreign Exchange Reserves Concept

Up to December 1997 Bank Indonesia had regularly published total official reserves on a monthly basis. For example, by December 1997 total official reserves reached $17.4 billion. In addition to the published official reserves data, however, Bank Indonesia is also in charge of the management of other external assets called contingent foreign assets (CFA). By December 1997, with CFA being recorded at $4.0 billion, gross foreign assets (GFA) controlled by Bank Indonesia amounted to $21.4 billion. In essence, the CFA is a less liquid component of the GFA, therefore it is not readily available as a medium to meet external liabilities.

In accordance with the agreement with IMF, the concept of foreign exchange reserves needs to comply with a more internationally accepted method, namely the Balance of Payments Manual and the Special Data Dissemination Standard (SDDS), both are emanated by IMF. A more compatible reserves data provides more sensibility to international market players as well as more comparability with other nations, thus furnishes a full description of the Indonesian economy.

Accordingly, Bank Indonesia has revised the official reserves concept to the GFA concept affective as of January 1998. By definition, GFA comprises external assets which are readily available and controlled by the monetary authority. Under the GFA concept, external assets consist mainly of statutory reserves and export drafts, both are excluded in the previous concept. By applying the revised concept, Bank Indonesia does not adopt the official reserves format any longer.

In addition to the GFA concept, Bank Indonesia also announces the position of net international reserves (NIR). NIR is defined as GFA minus other Bank Indonesia's foreign liabilities comprising, first, foreign debt which is due within one year (including borrowing from IMF); second, net forward position, both to resident or non-resident; and third, bank's deposit in foreign currency in compliance with the statutory reserves regulation.

With a view to provide more information to the domestic as well as to international market players, Bank Indonesia announces the position of both GFA and NIR at least twice a month, although the SDDS only calls for a monthly update.

Foreign Exchange Reserves
(In billions of dollars)

Item	At the end of March 1998
Gross Foreign Assets	**16,589.8**
Liquid Reserves 1)	10,809.9
Others Reserves 2)	5,779.9
Less Gross Foreign Liabilities	2,940.9
Plus Net Forward Position 3)	–34.0
Less Reserve against FCDs 4)	435.2
Equal Net International Reserves	**13,179.7**

Note :
1) Including gold, securities in foreign currency denomination, other foreign time deposits, and special drawing rights (SDR)
2) Consisting export drafts, time deposits in the overseas branches of national banks, and time deposits at foreign banks to guarantee L/C
3) Forward claims on nonresident minus forward liabilities to nonresident
4) FCDs = Foreign Currency Deposits

Chapter 4 Monetary Developments

Monetary developments became a source of serious concern in the reporting year precipitated by the exchange rate crisis that further developed into a deep financial crisis. The rupiah came under onerous pressure following the reversal of massive capital flows triggered by the financial crisis in Thailand. The rupiah further plummeted as a result of increasing demand for dollar, among others, to meet mature external debts, finance imports, and speculate against the rupiah. Inflation soared due to a combination of problems on both demand and supply sides, in addition to disruption of distribution. These developments reflected the complexity of the problems in the monetary sector.

To cope with those problems, Bank Indonesia widened the intervention band of the exchange rate and tightened liquidity. At the initial stage, Bank Indonesia widened the intervention band from 8% to 12% in addition to conducting interventions both in the spot and forward markets. As the pressure on the rupiah heightened, the intervention band was lifted — leaving the currency to float freely — and intervention intensified. To prevent further depreciation of the rupiah and ease the inflationary pressure, Bank Indonesia tightened domestic liquidity through intensifying the use of open market instruments and raising the discount rate on SBIs sharply.

Despite the adoption of those measures, monetary stability had not been restored. The rupiah remained under intense pressure and investors' confidence in the management and prospect of Indonesia's economy deteriorated. The battered rupiah was attributable to the sizeable demand for dollar to service external obligation, which rendered intervention ineffective, and the emergence of various political rumors, which exerted more pressure on the rupiah.

The situation was further aggravated by the crisis of confidence in the banking sector, which led to massive withdrawals of deposits, transfer of funds from presumably unsound to sound banks, and conversion of rupiah to foreign currencies. The liquidity problem faced by some banks as a consequence of the crisis of confidence necessitated the central bank to provide liquidity support to those problem banks so as to forestall systemic risk, which might prompt the collapse of the banking industry.

In view of the persistent crisis with its widespread adverse impacts across all economic sectors, the government had initiated a comprehensive stabilization and reform program. The program gained technical and financial support from multilateral financial institutions such as the IMF, World Bank, ADB, and a number of bilateral creditors.

Monetary Policy

In the first quarter of the reporting year, the monetary policy stance was directed to reigning in the robust domestic demand so as to maintain stability. The containment of domestic demand was in fact a preemptive measure in view of the strong expansion of bank credit, particularly to finance property projects and consumer products amid an influx of capital inflows, especially of short term. To this end, Bank Indonesia raised the statutory reserve requirement and imposed a limitation on lending to the property sector. These measures, combined with appreciation of the rupiah, had helped curb the inflation rate at a modest level of 5.11% (Table 4.1).

Since July 1997, monetary situation changed dramatically as the rupiah came under pressure. To address this problem, up to August 1997 monetary

Table 4.1
Selected Monetary Indicators

Period	Discount Rate on 1 Month SBI (In percent)	Exchange Rate[1] (Rp/$)	Liquidity Support (In billions of rupiah)	Δ NFA[2] (BI) (In billions of dollars)	Inflation[3] (In percent)
1997					
April	10.625	2,433	9,324	0.83	5.06
May	10.625	2,440	9,248	1.21	5.19
June	10.250	2,450	12,152	0.20	5.09
July	11.125	2,599	10,391	–0.29	5.07
August	30.000	3,035	14,539	–1.16	5.71
September	21.000	3,275	17,129	0.16	7.11
October	20.000	3,670	23,882	–2.96	8.80
November	20.000	3,648	36,672	–2.52	9.96
December	20.000	4,650	62,876	–2.15	11.60
1998					
January	22.000	10,375	92,091	–1.36	18.06
February	22.000	8,750	103,057	–2.86	31.73
March	45.000	8,325	116,457	0.70	39.13

1) End of period
2) NFA = Net Foreign Assets
3) Year on year figures

policy was directed toward tightening domestic liquidity so as to ease the pressure on rupiah. The discount rates on SBIs for various maturities were raised with the highest was recorded for 1 month, namely from 11.12% to 30.00%. In addition, SBPU transaction, rediscount facility, and SBI on repo basis (repurchase agreement) were temporarily suspended. In the area of credit, Bank Indonesia tightened the expansion of liquidity credit either through rescheduling or postponing disbursement of large loans. The government also supported this move by transferring the placement of state enterprises' funds amounting to Rp 3.4 trillion to SBIs.

To improve the effectiveness of monetary policy and the flexibilty of exchange rate, on July 11, 1997, Bank Indonesia widened the intervention band from 8% to 12% combined with intervention in foreign currency market through spot, forward, or swap transactions. The intervention in the short-term managed to resist further depreciation of the rupiah and helped tighten liquidity in the economy. However, with deteriorating monetary trends in South East region and higher speculative pressures, the exchange rate of rupiah started to weaken again. In view to secure foreign exchange reserves and make the monetary policy more effective, the Government, on August 14, 1997, phased out the intervention band and adopted a freely floating exchange rate system. Meanwhile, to resist speculative pressures on rupiah, Bank Indonesia restricted forward rupiah transaction between banks and non-residents. The maximum amount for one client was set at $5 million per bank, except for investment purposes and export-import activities.

As a result of the policies engaged in, monetary situation in September 1997 remained manageable. Exchange rate turbulence moderated after its large swings in the preceding month, while annual inflation rate up to August 1997 stayed at a low rate (Table 4.1). Consequently, it gave a more room to the Government to mitigate the burden in the banking and real sectors. The high interest rate and the weakening rupiah exchange rate had weakened banking liquidity so that impeded credit expansion and worsened banking asset quality. In the real sector, the high interest and weakened exchange rate had constrained the economic activities. Hence, to improve economic resilience, the government in the Cabinet Meeting on September 3, 1997 introduced a policy package covering 10 measures of economic adjustments. Although the package was still aimed at stabilising macroeconomic conditions, it relied not only on monetary policy but also entailed other measures in the fiscal sector, banking sector, and capital market. The policies included liquidity easing in a gradual and prudent manner, in addition to improving the soundness of the financial system, particularly banking sector. The measures in the banking sector included providing liquidity support to viable banks that faced liquidity problem, encouraging merger and acquisition in the banking industry, and revoking business license for unviable banks.

In line with the 10 measures of economic adjustments, Bank Indonesia eased liquidity cautiously. SBI with one month maturity rate were lowered gradually to reach 20.00% per annum. Sound banks that possessed SBI were allowed to reuse the rediscount facility. Besides, Bank Indonesia also liquidated SBI of the state enterprises amounting to Rp5.7 trillion. To ease liquidity problem in the real sector, particularly the small-scale enterprises, Bank Indonesia resumed the application of SBPU facility for sound banks that has been tied with credit to small-scale enterprises. In addition, to lessen the negative impacts of the rupiah exchange rate crisis on the small-scale enterprises and to boost non-oil/gas export, Bank Indonesia allowed any credit expansion beyond the Annual Work Plan (RKT) provided it was a consequence of the rupiah exchange rate alteration. The excess of credit expansion was used to finance activities of small-scale enterprises, cooperatives, and non-oil/gas export.

Nonetheless, the crisis persisted with more severe negative impact beyond the previously expected. Market players responded negatively to the decline in interest rate and the ease of liquidity, resulting in a downward trend of rupiah exchange rate. The Government therefore set a sweeping agenda that covers not only macroeconomic stabilisation program through fiscal and monetary policies, but also reform program in the financial and real sectors. The program is technically and financially supported by multilateral agencies such as the IMF, the World Bank, and the ADB, as well as other bilateral creditors. The internationally supported program was confirmed in the signing of the economic restructuring program in November 1997.

The first step in the reform program in the banking industry was taken on November 1, 1997 when the Government revoked business license of 16 unviable banks. The measure that initially aimed at restoring confidence in the banking system was negatively responded. People withdrew a large amount of currency and transferred their funds from presumably unsound banks to sound banks. Consequently, a number of banks ran into liquidity problem that led to violations of the statutory reserve requirement. A number of banks even experienced negative balance in their accounts at Bank Indonesia. To preclude the domino effect on other banks with a systemic risk for the entire banking system, Bank Indonesia as lender of the last resort provided liquidity support to the problem banks. Up to December 1997, the liquidity support amounted to Rp62.9 trillion originating mainly from discount facility I, discount facility II, and the conversion of negative balance to special SBPUs with a value of Rp37 trillion.

Added to this liquidity problem was stronger segmentation in the interbank money market as reflected in the concentration of liquidity on few banks and the widened range of interbank rate between the highest and the lowest rate. Strong banks, like foreign banks, possessed ample liquidity as they received an influx of funds from the presumably unsound banks. To moderate segmentation, Bank Indonesia intervened directly in the interbank money market through open market operation. This measure was evidently effective in absorbing and redistributing excess liquidity to problem banks. It is noteworthy that direct rupiah intervention in the interbank money market is a more flexible instrument because its discount rate is adaptable to changes in the money market.

To moderate the rupiah exchange rate fluctuations and sustain the desired rate, during September - December 1997 Bank Indonesia had added the supply of dollar to domestic markets through intervention in foreign currency market. That addition depleted net foreign assets of Bank Indonesia by $7.47 billion. Besides, Bank Indonesia lowered the statutory reserve requirement for foreign currency from 5% to 3%. Bank Indonesia also provided rediscount facility on export drafts for exporters and priority exporters in a post-shipment condition and rediscount facility on estimated export draft for priority exporters in a pre-shipment condition. A side from the above sources, the Government augmented the dollar supply through the support from multilateral agencies consisting of the $10 billion standby loan from the IMF, $4.5 billion from the World Bank, and $3.5 billion from the ADB. Up to the end of the reporting year, the IMF has released $3 billion in November 1997.

Up to closing the year of 1997, however, the rupiah exchange rate continued to weaken to Rp4,650 per dollar because of the increased demand for dollar to meet the corporate external liabilities and speculative purposes in the foreign currency market (Table 4.1).

In 1998, monetary conditions worsened. The erosion of confidence in the banking system and the increased demand for currencies to welcome holidays that came in within a short time span contributed to a massive withdrawal of money from the banking system. As a consequence, currency in circulation increased dramatically. Meanwhile, shortages of basic commodities due to prolonged drought and increasingly expensive prices of of imported raw material and panic buying brought about higher inflation. In January inflation rate soared to 6.88%, while exchange rate had been traded at Rp16,000 per dollar.

To cope with the worsened crisis, the Government expedited and broadened the coverage of stabilisation program and economic reform by the signing of the letter of intent with the IMF on January 15, 1998. In the monetary policy area, the Government strove to regaining confidence in the banking system and stabilising the rupiah at a level that was compatible with economic fundamentals through tightening economic liquidity. To restore confidence in the banking system, the Government as of January 27, 1998 has fully guaranted all depositors and creditors of all locally incorporated banks. The guarantee scheme covers all private-owned commercial banks, joint-venture banks, and state-owned banks. In addition, the Government set up IBRA (Indonesian Bank Restructuring Agency) to strengthen soundness of the banking system, restructure the banking industry, and implement the government guarantee scheme.

Besides, to encourage people to put their money back in the national banking system, the SBI rates were raised gradually. Its purpose was to make real interest rate positive to attract foreign capital inflow so as to add to the supply of foreign external reserves and strengthen the rupiah exchange rate. On January 27, 1998 SBI rate increased with the highest SBI rate of 22.0% for one month. On March 23, 1998, the SBI interest rate was elevated again to 45% for one month.

The result of those government measures was a 24.7% appreciation of the rupiah exchange rate from Rp10,375 in January 1998 to Rp8,325 in the end of the reporting year. However, further appreciation of the rupiah was hindered by non-economic factors in January and February 1998. Included were discussion on the plan to apply the Currency Board Arrangement (CBA), announcement of private sector domestic debt, issues about the IMF loan package, and political issues with regard to the convening of the People's Consultative Assembly (MPR). Those non-economic factors so hampered the recovery of confidence of the foreign investors that the high domestic interest rates failed to attract foreign capital as expected.

Monetary Developments

Money Supply

In the reporting year, monetary developments recorded an increase in monetary aggregates as a result of the weakening rupiah exchange rate and the decline in public confidence in the banking system. Besides, the increased demand for the rupiah to meet larger value of transaction as a result of higher inflation has led people to choose a more liquid means of payment. Consequently, the narrowly defined money (M1) rose steeply from 19.6% in the preceding year to 54.6% in the reporting year. Currency was the main factor for the increase in M1 with its 63.9% increase, far higher than 10.4% in the previous year (Table 4.2). The ratio of currency to M1 climbed up from 36.7% in 1996/97 to 38.8% in the reporting year. For comparison, the average normal ratio is 33.0%.

The increased demand for currency commenced particularly in November 1997, right after the revocation of business license of 16 unviable banks (Box: The Impact of Currency Turmoil on Money Demand). The annual growth of currency, that has indicated its increase since July 1997, all of a sudden jumped from 16.0% in October to 20.5% in November 1997. From thereon, the annual growth of currency increased quite fast as to reach 52.4% in January 1998. In February, the demand for currency came down as a positive impact of the government guarantee program on the banking liabilities. However, because public confidence in the banking system has not fully recovered, in March, currency rose again and reached Rp38.2 trillion in the end of the reporting year with an annual growth of 63.9%.

Table 4.2
Annual Growth Rates of Money Supply

End of Period	Currency	Demand Deposits	M1	Quasi Money	M2
	Percent change				
1993/94	24.5	23.5	23.9	19.8	20.8
1994/95	23.2	15.2	18.5	23.3	22.1
1995/96	11.8	23.2	18.4	31.1	28.0
1996/97	10.4	25.6	19.6	28.8	26.7
1997/98					
June	11.7	31.3	23.9	25.9	25.4
September	13.6	9.6	11.0	31.3	26.6
December	26.4	20.0	22.2	23.5	23.2
March	63.9	49.2	54.6	52.2	52.7

Quasi money, comprising rupiah deposits and foreign currency deposits, experienced an annual growth of 52.2%, up from 28.8% in the previous year. Rupiah deposits, composed of time deposits and savings, showed a rapid growth rate of 34.0%, up from 30.5% in the preceding year. The growth of rupiah savings, however, slowed down to 8.6%, far lower than 29.5% in the previous year. On the contrary, rupiah time deposits registered a sharp growth of 48.9% as a result of the increase in interest rates, particularly in the end of the reporting year, leading to a transfer from rupiah savings to rupiah time deposits. Foreign currency deposits also posted a substantial rise of 115.8%, enlarging its share in M2 from 17.4% in March 1997 to 24.6% at the end of the reporting year. The driving force behind this rise was the depreciation of rupiah that swelled the rupiah value of the foreign currency deposits. In terms of dollar, the foreign currency deposits in fact demonstrated a fall from \$21.2 billion at the end of 1996/97 to \$13.3 billion at the end of 1997/98.

On the whole, the broadly defined money (M2), comprising currency, demand deposits, and quasi money, in the reporting year recorded a substantial increase of 52.7%, far higher than 26.7% in the preceding year. Excluding the foreign currency deposit, the rupiah M2 growth was only 39.4%.

From its affecting factors, external factors or net foreign assets in M2 growth contributed an expansionary effect of Rp62.4 trillion as a result of the rupiah exchange rate depreciation (Table 4.3). However, in terms of dollar, net foreign assets factually registered a decline of \$7.3 billion. Meanwhile, the domestic expansionary factor in M2 growth came from claims to business sector, owing to credit provision and other claims, totalled Rp207.4 trillion, up from Rp62.8 trillion in the previous year. The large credit expansion resulted from the enlargement of the rupiah value of foreign currency credit due to the rupiah depreciation. In terms

Table 4.3
Money Supply and Its Affecting Factors

Description	1996/97	1997/98	1997/98
	Changes		End of Period
	In trillions of rupiah		
M1 (Narrow Money)	**10.4**	**34.7**	**98.3**
Currency	2.2	14.9	38.2
Demand deposits	8.2	19.8	60.1
Quasi Money	**51.7**	**120.5**	**351.5**
Time and savings deposits in rupiah	42.0	61.2	240.9
Time deposits in foreign currency	9.7	59.3	110.6
M2 (Broad Money)	**62.1**	**155.2**	**449.8**
Affecting factors			
Net foreign assets	15.2	62.4	112.9
Bank Indonesia	16.6	70.8	134.7
Commercial banks	–1.4	–8.4	–21.8
Net claims on central government	–4.1	–11.6	–40.4
Net claims to IBRA	–	35.0	35.0
Claims on business sector	62.8	207.4	535.1
Claims on government institutions and enterprises	2.5	17.1	29.9
Claims on private enterprises and individuals	60.3	190.3	505.2
Others	–11.9	–138.0	–192.8

Table 4.4
Base Money and Its Affecting Factors

Description	1995/96	1996/97	1997/98
	In trillions of rupiah		
Base Money	**31.4**	**36.2**	**61.8**
Statutory reserve short fall	0	0	2.4
Reserve Money Adjusted	**31.4**	**36.2**	**59.4**
Bank notes and coins outside Bank Indonesia	24.1	27.1	45.1
Demand deposits at Bank Indonesia	7.3	9.1	14.3
Factors Affecting Reserve Money Adjusted	**31.4**	**36.2**	**59.4**
Net foreign assets	47.2	63.9	134.7
Net claims on central government	–16.9	–19.8	–27.1
Claims to commercial banks	20.6	22.5	142.6
Liquidity support	9.6	10.5	116.5
Net claims to IBRA	0	0	87.0
Claims on liquidated banks	0	0	11.9
Claims on com. banks outside IBRA	9.6	10.5	17.6
Liquidity credit	11.0	12.0	26.1
Other claims	1.0	1.0	1.0
Money market operations	–10.8	–21.1	–30.1
Others	–9.7	–10.3	–161.7

of dollar, credit in foreign currency showed a decrease of $2.5 billion. In contrast, credit in rupiah rose by 17.1%, down from 26.3% in the previous year. In the reporting year the government sector generated a contractionary effect of Rp11.6 trillion. The contractionary factor originated mainly from government claims to Bank Indonesia and the rest was from its claims to the banking sector (Rp4.3 trillion). The government claims to Bank Indonesia resulted from an increase in government revenues from oil/gas tax in dollar terms. The depreciation of the rupiah value has raised the rupiah value of the oil/gas tax revenue.

Meanwhile, reserve money, comprising currency and bank's demand deposit at Bank Indonesia, also recorded a substantial increase from Rp36.2 trillion at the end of 1996/97 to Rp59.4 trillion at the end of the reporting year due to the high growth in currency (Table 4.4). On the contrary, demand deposits at Bank Indonesia fell steeply as a result of liquidity scarcity in the banking sector owing to massive public withdrawal of funds. Since the increasing violation of the statutory reserve requirement and the frequent occurrence of negative balance in the bank demand deposits in the central bank, Bank Indonesia revised its concept of high-powered money by converting reserve money to base money (Box: Improvement on the Computation of Reserve Money to Base Money).

From its affecting factors, the expansion of reserve money resulted mainly from an increase in Bank Indonesia's claims to the banking industry. The increased claims stemmed from the increased liquidity support to banks that faced liquidity problem as a result of the crisis in the banking industry. Liquidity support was given in the form of discount facility, money market certificates (SBPU) and special SBPUs, bridging loans to pay depositors of unviable banks whose business license was revoked. Up to the end of March 1998, the outstanding amount of liquidity support totaled Rp.116.5 trillion.

Additionally, claims of Bank Indonesia to the banking industry registered an increase to support the Government credit program such as credits to the State Logistics Agency (Bulog), cooperatives, and small-scale enterprises. The outstanding amount of liquidity support in the end of March 1998 reached Rp26.1 trillion, an increase of 118.9% compared to the same period in the preceding year.

Meanwhile, commensurate with the Government stance to apply a conservative fiscal policy, the government account in Bank Indonesia generated a contractionary factor of Rp7.3 trillion in reserve money growth. Bank Indonesia also contributed to the contraction of reserve money through its open market operation instrument. In the reporting year, the contraction in the reserve money from the open market operation instrument amounted to Rp9.0 trillion.

Table 4.5
Net Open Market Operation

Description	1996/97	1997/98 I	1997/98 II	1997/98 III	1997/98 IV	1997/98
		In billions of rupiah				
Net OMO (I+II+III)	(21,156)	(17,825)	(17,823)	(16,507)	(30,151)	(30,151)
I. SBI	(20,996)	(17,328)	(16,864)	(11,367)	(24,019)	(24,019)
1. SBI Auction/ Intervention	(15,089)	(11,091)	(8,933)	(4,496)	(17,246)	(17,246)
Issuance	(152,538)	(22,566)	(11,999)	(21,831)	(218,834)	(275,230)
Repayment	142,359	26,563	14,158	26,266	206,085	273,072
2. Special SBI[1)]	(6,323)	(6,237)	(9,137)	(7,781)	(7,094)	(7,094)
State Enterprises (BUMN)	(6,323)	(6,237)	(9,137)	(3,447)	–	–
3. SBI Repo	416	–	1,206	910	321	321
II. SBPU Repo	(160)	(497)	(958)	(1,624)	–	–
III. Rupiah Intervention	–	–	–	(3,517)	(6,132)	(6,132)

1) Including SBIs belong to the government of Japan and Singapore

Open Market Operation

To overcome the persisting crisis, Bank Indonesia focused on the use of open market operation (OMO) instruments. In the reporting year, the overall performance of the open market operations have been a greater contraction compared to that in the previous year. The net contractionary resulting from the market operations increased by Rp9.0 trillion to Rp30.1 trillion in the end of 1997/98 (Table 4.5), on account of mostly the large sale of SBIs and direct rupiah intervention by Bank Indonesia in the interbank money market.

At the end of the reporting year, the net SBI outstanding rose to Rp24.0 trillion, from Rp21.0 trillion in the previous year. The growth came from auction/intervention type of SBIs and special type of SBIs belonging to the Government of Singapore and the Government of Japan. The auction/intervention SBIs issued in the reporting year reached Rp275.2 trillion, almost double from that in the preceding year. The large scale of the SBIs issuance confirmed the consistent implementation of contractionary monetary policies by Bank Indonesia through the sale of SBIs.

Trading volume of SBIs in the secondary market by both local and foreign investors saw a decline from Rp2.4 trillion in 1996/97 to Rp1.0 trillion in 1997/98. Meanwhile, SBIs held by nonresidents fell from Rp3.8 trillionat the end of 1996/97 to Rp1.9 trillion at the end of 1997/98. In addition to reflecting the tight rupiah liquidity, the drop of SBI transaction in the secondary market indicated a declining interest of investors in SBI.

In an effort to improve the effectiveness of monetary management, at the end of the third quarter of 1997/98, Bank Indonesia resorted to direct rupiah intervention in the interbank money market. The intervention succeeded in sustaining the open market operations as evidenced in the large amount of Rp6.1 trillion for the rupiah intervention at the end of the reporting year.

Since August 1997, the auction of SBPUs was suspended temporarily to support the implementation of contractionary steps. In substitute, money market securities were only given on a selective basis to some banks that faced liquidity problem. Purchase of SBPU from those banks directly linked to the provision of credit to small-scale enterprises. Bank Indonesia records the purchase of SBPU as liquidity support.

In the meantime, transaction volume of interbank money market as a whole rose from Rp553.1 trillion in 1996/97 to Rp1,172.7 trillion in the reporting year (Table 4.6). The sharp rise reflected the growing dependency of banks on funds availability in the money market. The tightening of liquidity has raised average interbank rate from 13.8% in 1996/97 to 38.3% in 1997/98 (Box: Interbank Rupiah Money Market Turbulence).

Interest Rate

In the reporting year, interest rate surged significantly as a result of the monetary tightening launched by Bank Indonesia. The SBI and SBPU rates went up from 8.46% and 14.29% in the previous year to 26.62% and 28.63% in the reporting year. Likewise deposit rates also registered a rise. The interest rate for 3 month deposit soared from 16.47% in the preceding year to 36.54% in the reporting year. Lending rates for working capital and investment credits reported an increase to 25.63% and 19.18% respectively.

In addition to intervening in foreign currency market over the period of July-August 1997, Bank Indonesia raised SBI discount rates gradually manner to stabilize the rupiah value. The highest rise took place for SBI one month in which discount rate was raised from 11.12% in July 1997 to 30.00% in August 1997 (Table 4.7).

Over the period of September-December 1997, as the monetary situations were perceived as under control in a bid to ease the prevailing tight liquidity, the central bank lowered SBI discount rates gradually. The lowest rate of 20% was for one-month SBI. At the same time, SBI overnight rate slightly came down to 14%.

In the first quarter of 1998, Bank Indonesia tightened liquidity by significantly raising interest rate structure. On January 27, 1998, and March 23, 1998, SBI discount rates for all tenor were lifted gradually with one month SBI having the highest rate at 45%. The purpose was to make real interest rate positive. In effect, it served as an incentive for savers and as means to strengthen rupiah value.

Table 4.6
Transactions and Interest Rates in Jakarta Interbank Money Market

Description	1996/97	1997/98	1997/98 I	II	III	IV
	In trillions of rupiah					
Transaction values						
One day	359.3	1,031.4	103.7	174.2	249.2	504.3
Total	553.1	1,172.7	157.5	210.7	278.1	526.4
	In percent					
Interest rates 1)						
One day	13.7	39.3	13.6	44.5	41.1	57.9
Total	13.8	38.3	13.5	42.7	39.7	57.4

1) Weighted average

Table 4.7
SBI Discount Rates by Maturity, July 1997 – March 1998

Period	Maturity O/N	1 week	2 week	1 month	2 month	3 month	6 month	12 month
	In percent							
1997								
July 29	14.000	10.000	10.500	11.125	–	11.000	11.625	12.250
Aug. 8	14.000	9.500	10.000	10.625	–	10.500	11.125	11.750
Aug. 19	15.000	20.000	22.000	30.000	–	28.000	12.125	12.750
Sep. 4	15.000	20.000	22.000	27.000	–	25.000	12.125	12.750
Sep. 9	15.000	19.000	21.000	25.000	–	23.000	12.125	12.750
Sep. 15	15.000	18.000	20.000	23.000	–	21.000	12.125	12.750
Sep. 22	15.000	17.000	19.000	21.000	–	19.000	12.125	12.750
Oct. 20	14.000	16.000	18.000	20.000	19.000	18.000	12.125	12.750
1998								
Jan. 27	30.000	25.000	24.000	22.000	20.000	19.000	16.000	14.000
Mar. 9	40.000	25.000	24.000	22.000	20.000	19.000	18.000	16.000
Mar. 23	40.000	43.000	44.000	45.000	40.000	30.000	20.000	18.000

With such measures, discount rate for SBI with maturity shorter than one month was turned to have lower rate than that for SBI with one month maturity. In effect, the SBI with maturity one month or less was switched to have a yield curve with positive slope from negative one (Chart 4.1). The change reflected measures of Bank Indonesia to tighten monetary conditions without excessively inducing interest rate increases for medium-term and long-term tenor.

To avoid any inappropriate use of the government's guarantee program by banks in mobilizing funds, Bank Indonesia issued a regulation to limit deposit interest rates set by banks under the government's guarantee program. The regulation, came into effect as of April 16, 1998, stipulates that banks are allowed to set deposit interest rates at a maximum of 125% of the SBI discount rate. However, during the transition period from March 6, 1998, to April 15, 1998, banks were still permitted to offer deposit interest rates to a maximum of 150% of the SBI discount rate.

Exchange Rate

The rupiah exchange rate in the reporting year underwent a strong fluctuation and experienced severe downward pressure impacted by the exchange rate crisis in Thailand. The driving force behind the rupiah turmoil included the fall in confidence of the foreign investors as reflected in the large capital outflows to pay external maturated debts and speculative transactions. In addition, worsening domestic economic fundamentals, due to the crisis of public confidence in the banking system and spiraling inflation was also the main contributor behind the currency turbulence.

Up to July 1997, the rupiah exchange rate movement against dollar remained stable and tended to appreciate (Chart 4.2). The exchange rate moved closely around the lower band of intervention of Bank Indonesia with its depreciation rate of about 1.3% in the period of April - June 1997. This movement was encouraged by the large capital inflows that came to take advantage of the interest rate differential between domestic and international rates.

The contagion effects from the exchange rate turmoil in Thailand spread to other ASEAN countries since July 1997, and accordingly the rupiah was under depressive pressure. The widening of intervention band on July 11, 1997, from 8% to 12% (with lower limit of Rp2,374 and upper limit of Rp2,678 per dollar), failed to abate the depressive pressure. The capital outflows

Chart 4.1
SBI Yield Curve
January – March, 1998

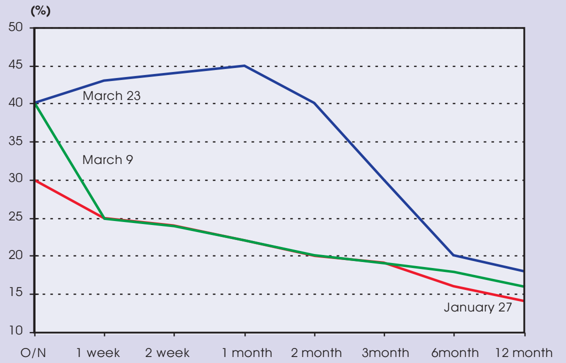
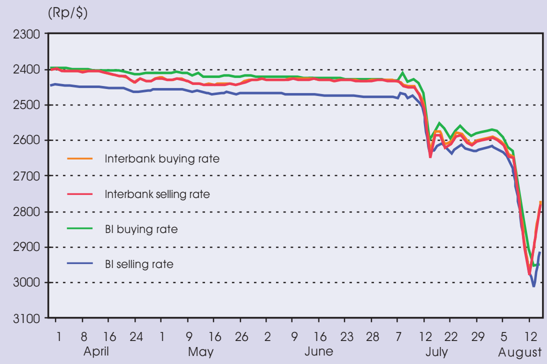


Chart 4.2
Exchange Rate Movement
April 1 – August 15, 1997

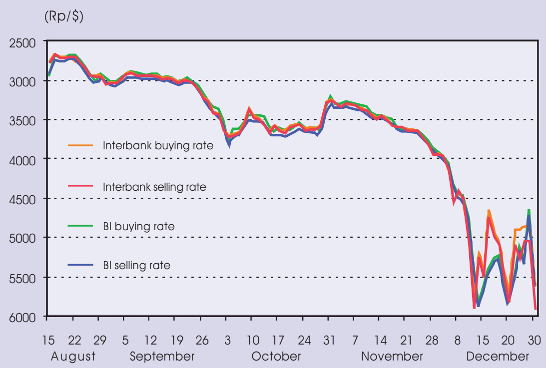


were even higher and the speculative pressure became stronger. Consequently, the rupiah kept on weakening and, by mid-August 1997, the rupiah exchange rate in the foreign currency market managed to surpass the upper limit of intervention band of Bank Indonesia.

In response to the greater pressure on the rupiah and in securing foreign exchange reserves, on August 14, 1997, Bank Indonesia decided to alter the foreign exchange system from managed float to free float. Since then, the rupiah swings became volatile, particularly as a result of the vigorous speculation on the rupiah. The volatility of the rupiah exchange rate altered the trading range from about Rp2,500 - Rp.2,600 per dollar in mid-July 1997 to Rp2,700 - Rp3,000 per dollar. Besides, swap premium also changed from about 9.0% to 30.1%.

Since mid-August to the end of September 1997, the rupiah exchange rate moved in a narrow range, between Rp2,900 - Rp3,000 per dollar (Chart 4.3). This narrow range resulted from government measures to tighten monetary conditions and active intervention by Bank Indonesia in the foreign currency market through spot, forward, and swap transactions. The intervention aimed at supplying dollar when market was running out

Chart 4.3
Exchange Rate Movement
August 15 – December 31, 1997



of it, stabilizing the rupiah exchange rate fluctuation, and providing guidance to market players. In addition, the measures taken by Bank Indonesia were geared at reducing speculative pressure on the rupiah by restricting transactions on forward sale of foreign currency from domestic banks to non-residents. The restriction managed to help stabilize the rupiah volatility.

Since October 1997, the rupiah exchange rate was again under pressure. The exchange rate became turbulent and even rupiah was traded at the lowest point of about Rp16,000 per dollar at the end of January 1998. To address this foreign exchange turmoil, Bank Indonesia added the supply of dollar by lowering the statutory reserve requirement for foreign currency and initiated a concerted intervention with the Monetary Authority of Singapore and Bank of Japan. Unfortunately the rupiah was stable only in the short run because of the crisis of confidence in Indonesia's economic prospects and the high demand for dollar either for speculative transaction or for external debt payments. Because of that, measures by Bank Indonesia to relax tight foreign currency liquidity to stabilize the rupiah value became ineffective.

Since the end of January 1998 up to the end of March, 1998, the rupiah exchange rate inclined to strengthen (Chart 4.4). The Government plan to adopt the Currency Board Arrangement (CBA) managed to strengthen to Rp7,000 per dollar on February 11, 1998. However, the opposite views against the plan emerged to result in the further depreciation of the rupiah value to about Rp8,500 per dollar until the end of March 1998. As such, the rupiah value in the reporting year posted a significant depreciation compared to that in the preceding year. The rupiah exchange rate on the basis of exchange rate used for export drafts experienced a 70.9% depreciation, up from 3.4% in the previous year. The interbank exchange rate recorded a 71.9% depreciation, up from 2.5% in the preceding year (Box: Exchange Rate Turbulence and Its Determinants).

Chart 4.4
Exchange Rate Movement
January 1 – March 31, 1998

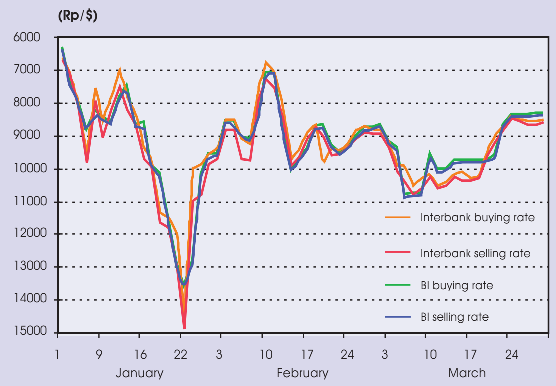
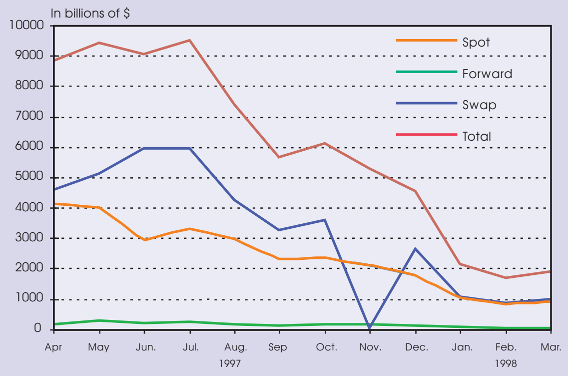


Chart 4.5
Interbank Foreign Exchange Transactions
in 1997/98



In line with the weakening rupiah value against dollar, the rupiah exchange rates against other primary currencies also weakened. In the reporting year, the rupiah exchange rates recorded their depreciation of 69.0% against yen, 67.9 against mark, 71.6% against poundsterling, compared to 11.5%, 1.7%, and 17.1% against the respective currencies in the preceding year.

The rupiah exchange rates against a basket of currencies of Indonesia's trading partners also witnessed a large depreciation of 43.4% in nominal terms and of 59.4% in real terms in the reporting year. The depreciation rates were high compared to the rupiah exchange rate appreciation of 2.5% in nominal terms and 8.2% in real terms against the same basket of currencies in the previous year.

The rupiah exchange rate crisis resulted in a major drop of transaction value in the domestic foreign currency market. Before July 1997, the value of inter-bank foreign currency transaction averaged above $9 billion per day, with its peak totalling $14 billion. After the financial crisis, the value continued to decline and reached an average of $2 billion at the end of the reporting year (Chart 4.5). An important factor behind the decline was the regulation to restrict the forward transaction for the sale of foreign currency between banks and non-residents in August 1997.

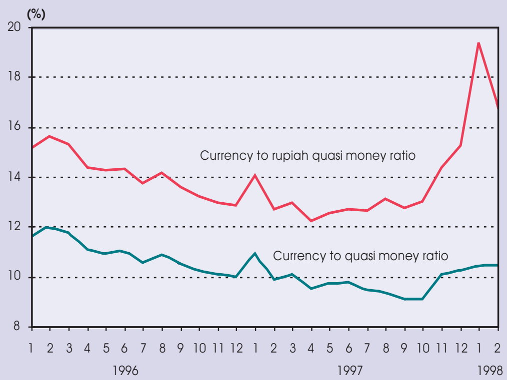
In the reporting year, foreign currency transactions between banks and Bank Indonesia demonstrated an oversold amount of $8.5 billion, originating from intervention by Bank Indonesia particularly during the period of October 1997 - February 1998. In contrast, at the end of the reporting year, the foreign currency transactions resulted in an overbought position deriving from the conversion of banks' export drafts. On the whole, the transactions have brought down Bank Indonesia's foreign exchange reserve from $26.6 billion in the beginning of April 1997 to $16.6 billion at the end of March 1998.

The Impact of Currency Turmoil on Money Demand

The strong depreciation of rupiah since mid July 1997 had brought about a significant change in the public behavior in holding money. This change was becoming serious when public confidence in the banking system decreased due to their perception that the banking sector was vulnerable to fluctuations of currency. This view generated new phenomena in the banking sector when public withdrew their deposits into currency, (called as flight to currency) and transferred their deposits from unsound banks to sound banks (called as flight to quality).

One approach to examine the public behavior in holding money is the ratio of currency to quasi money. The change in the public behavior in holding money is reflected in the increased ratios of currency to quasi money and, particularly currency to rupiah quasi money (Chart 1). The demand for currency became stronger due to weakening confidence in the banking sector, especially after the closure of 16 unviable commercial banks by government at the beginning of November 1997, and seasonal factors that corresponded to Christmas, New Year, and Idul Fitri. As a result, the ratio climbed from only 12.6% at the end of June 1997 to 14.4% at the end of November 1997, and increased sharply to 19.4% in the end of January 1998.

Chart 1
Currency to Quasi Money Ratios



Quantitative Study on The Behavior of Money Demand

One approach to measure the behavior of money demand is the neural network. It is an approach to analyze the relationship among variables, especially nonlinear variables, that stresses on the learning process behavior for the variables in the system[1). Different from the linear method, the neural network introduces the influence of nonlinear variables, through hidden layer of neurons. Alterations in the observed input variable (X) affect the observable output variable (Y) through the hidden layer of neurons. The neural network shows the learning process of economic agents in arriving at a rational decision. The essence of the learning process is that people respond slowly to new information on unexpected events. However, once the new information is comprehended as of permanent nature, the adjustment process will be faster. This process declines gradually at same certain critical points. Based on that characteristics, the review demonstrates that neural network method has stronger statistical advantages than that of the linear approach.

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1) Neural network method is based on an economic theory of rational expectations. More explicitly, see Bishop (1995) "Neural Network for Pattern Recognition", and Sargent (1994) "Bounded Rationality in Macroeconomic"

The impact of the currency turmoil on the money demand behavior was examinated for both currency and quasi money with a sample period from January 1985 to December 1996. The result demonstrates that, as a monetary instrument, interest rate contributes significantly to the behavior of money demand. It means that under normal circumstances, interest rate fits to affect public expectations and public portfolio. Further interpretation is that, in the context of monetary management, a correct interest rate management has a significant impact on the monetary aggregates as reflected in the behavior of money demand.

Nevertheless, the prediction for the period of January to December 1997 shows different outcome as compared to the actual condition, especially for the period of November and December 1997 (Chart 2)[2). The prediction of the model for those two months deviates significantly from the long term trend.

Chart 2
Forecast Error of Demand for Money

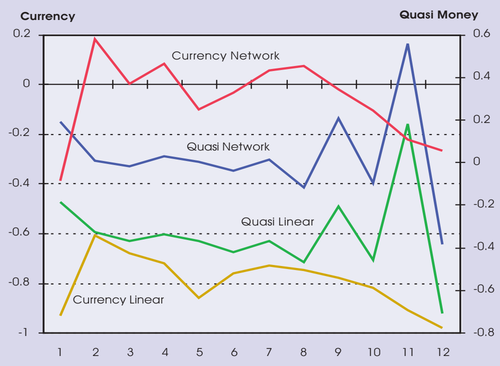
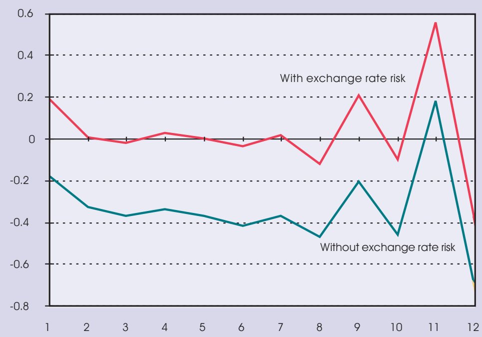


Chart 3
Forecast Error of Demand for Quasi Money



When exchange rate is applied as an independent variable of money demand, the model produces a better outcome[3) except for the month of November 1997 (Chart 3) [4)

It shows that fluctuation of exchange rate has a strong influence on money demand since exchange rate expectation affects the expectation on the real value of the assets in control. To maintain or to increase its real value, some people tend to hold currency to be then converted into foreign currency or fixed assets.

The weak result for November 1997 indicates a decline in public confidence in the national banking system. The liquidation of banks in early November 1997 in the absence of a government guarantee program for public deposits in the banking system, induced panic among depositors and resulted in flight to currency.

Policy Implication

The study on money demand using the neural net-

2) The result shows increasing error for both currency and quasi money in November and December 1997, either from applying neural network or linear method.

3) Applying exchange rate, proxied with exchange rate risk, in the model reduces error for both currency and quasi money.
4) The result shows that error for quasi money for November 1997 remains significant.

work deliveres several policy implications. First, fluctuation of the exchange rate influences the money demand behavior in Indonesia. Accordingly, stabilizing exchange rate becomes a main priority since it controls public expectation which in turn influences the behavior of money demand to be restored into its long-term equilibrium. Second, in line with the measures to stabilize exchange rate, regaining and strengthening public confidence in the banking sector are important agenda to influence money demand behavior. This agenda has to be accompanied with having bank restructuring efforts to rebuild a sound, strong and reliable banking system and establishing a deposit insurance system. Third, as the monetary authority, Bank Indonesia has to maintain a prudent interest rate management so as to produce an appropriate impact on the behavior of money demand.

Improvement on the Computation of Reserve Money to Base Money

Following the monetary upheaval since July 1997, the implementation of tight monetary policy has given rise to liquidity problems to a number of banks, particularly those with extensive foreign exchange liabilities. The condition was exacerbated when the public withdrew funds ensuing the liquidation of 16 unviable banks that eroded public confidence in the banking system. As a consequence, several problem banks violated the statutory reserve and some of them even ran into a tremendous negative balance.

The increasing negative balance, which is treated as a contraction of reserve money, prompts the failure of reserve money — being the operating target in monetary management — to represent the actual condition. Accordingly, to provide a more effective control on money supply via reserve money and also to comply with the IMF criteria in the monetary programming, the computation of reserve money is improved.

Reserve Money

Reserve money is a monetary liability in term of rupiah of the monetary authority to residents, both the commercial banks and the private sector. Liabilities to commercial bank consist of bank reserve, including cash in vault, and bank's demand deposits with the central bank. Liabilities to the private sector consist of currency held by residents and private sector demand deposits at the central bank. In the treatment of reserve money, bank's demand deposit is defined as the net of bank's remaining balance and bank's positive balance deducted by bank's negative demand deposits. In normal circumstances, the amount of negative balance is not so significant that the computation works appropriately. The equation for reserve money is as follows.

RM = C + R

where :

RM = Reserve money

C = Currency held by commercial banks and residents

R = Net commercial banks and private sector demand deposits at the central bank

Base Money

As mentioned above, applying the reserve money as an operating target is not sensible any longer. To provide a correct reserve money, the computation was modified to become reserve money adjusted (RMA). Basically, RMA consists of similar component as reserve money, except that bank's demand deposit includes only the positive bank's balance. In essence, a negative bank's balance is a monetary authority claim to commercial banks, so that it operates as a determinant for the RMA. Following is the equation for RMA.

RMA = C + R positive, or

RMA = C + R + commercial bank's negative balance

The concept of RMA remains erroneous since it still ignores the violation of statutory reserve requirement. Correspondingly, another concept, called base money (BM) concept, is invented. In the BM concept, if bank's positive balance with Bank Indonesia is lower than the statutory reserve, that shortfall is called statutory reserve short fall (SRSF), otherwise SRSF is considered zero. The equation for base money is as follows :

BM = C + R positive + SRSF

Following is a table to itemize the calculation of reserve money, adjusted reserve money, and base money.

Base Money Calculation

(In billions of rupiah)

		Sept. 97	Dec. 97	Mar. 98
A.	**Base Money (B+C)**	41,062	46,690	61,787
B.	**Statutory Reserve Short Fall (F-D2a)**	760	604	2,374
C.	**Reserve Money Adjusted (D+D2b)**	40,302	46,086	59,413
D.	**Reserve Money (1+2+3)**	36,638	44,141	56,409
	1. Banknotes and Coins outside BI	28,253	33,698	45,096
	a. Currency in Circulation	23,916	28,424	38,201
	b. Cash in Vault	4,337	5,274	6,895
	2. Net Bank's Demand Deposit at BI	8,007	10,067	10,266
	a. Positive Balance	11,671	12,012	13,270
	b. Negative Balance	3,664	1,945	3,004
	3. Private Demand Deposit at BI	378	376	1,047
E.	**Deposits at Commercial Bank**	248,620	252,320	312,880
F.	**Statutory Reserve Requirement (5%xE)**	12,431	12,616	15,644

Interbank Rupiah Money Market Turbulence

In the reporting year, the interbank money market (IMM) experienced a tightening of liquidity condition with a marked fluctuation. This was reflected in a relatively high and fluctuating overnight rate, whereas IMM volume tended to rise indicating rising bank's dependency on the IMM fund.

The tight liquidity in the IMM resulted from a large banking liabilities, in terms of both rupiah and foreign currencies, that were even swelled by the exchange rate crisis since July 1997. This condition became more severe owing to a flight to currency and a flight to quality following the liquidation of 16 unviable private national banks in early November 1997.

Liquidity in the IMM grew even tightened as market segmentation increased leading to a more unequal distribution of fund amongst banks. Moreover, efforts taken by the government to curb exchange rate fluctuation, either through open market operation or through the introduction of a new instrument called rupiah intervention, have affected the IMM liquidity as well.

Liquidity Developments

In the first quarter of 1997/98, the period prior to the crises, the IMM was very liquid as shown by a low weighted average overnight rate at 12.92% (Chart 1). Heavy capital inflows taking advantages from the wide interest rate differential contributed to the liquid IMM over the period, besides indicating strong foreign investor confidence. This liquid market caused the spread between the highest and the lowest overnight rate to be as low as 21.00% (Chart 2).

Market Segmentation

Market segmentation is a condition in which participants in the IMM are divided into groups on the basis of ownership or asset size. As an example, there are groups of state banks, private national banks, foreign banks, or big banks (upper tier) and small banks (lower tier).

Segmentation in the IMM is indicated by the spread between the highest and the lowest overnight rate. The spread is attributed to two factors, namely public confidence in the bank and internal policy of each individual bank.

In the second quarter, the IMM tightened while market segmentation widened as shown by a high weighted average overnight interest rate of 47.24%. During the period, the highest overnight rate soared to 300.00% with a spread reaching 285.00%.

Chart 1
Overnight Interest Rate in Morning and Afternoon Interbank Money Market
April, 1997 - March, 1998

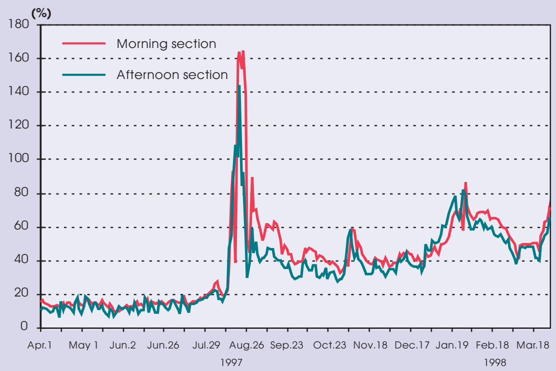
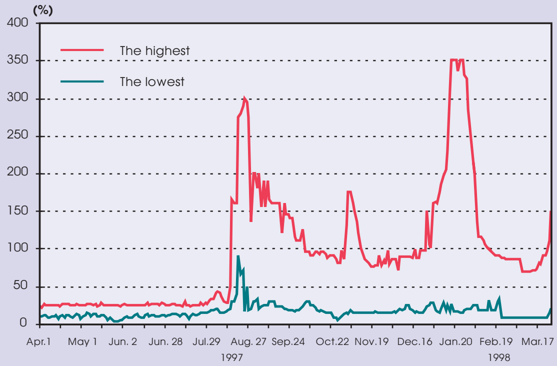


Chart 2
The Highest and the Lowest
Overnight Interest Rate in Morning Interbank Money Market
April, 1997 - March, 1998



The tight IMM resulted mainly from an increased withdrawal of rupiah to be converted to foreign currencies, especially dollar, which further weakening the rupiah exchange rate. To curb further weakening of rupiah, Bank Indonesia exercised tight monetary policy by raising SBI rate, converting state enterprise deposits to SBI, and suspending all expansionary monetary instruments.

Rupiah Intervention

Rupiah intervention is a new mechanism through which the central bank complements its open market operation to directly absorb rupiah liquidity from the IMM. The new mechanism enables Bank Indonesia to absorb funds from banks having excess liquidity yet facing difficulties in lending their funds in the IMM.

At the end of December 1997 total outstanding rupiah intervention stood at Rp3.5 trillion. It increased to Rp6.1 trillion in March 1998.

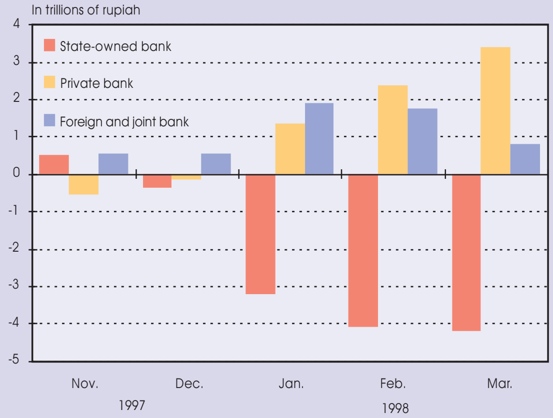
In view of addressing the problems in the banking as well as in the real sector, however, the government adopted measures to ease the liquidity in the middle of September 1997. These measures included providing SBI repo and discount window facility, gradually lowering SBI rates, and redemption SBIs of state owned enterprise.

Despite continued relaxation of the rupiah, IMM remained tight in the third quarter. This was associated with an erosion of public confidence in the banking system, particularly since the liquidation of 16 unviable private national banks in early November 1997. The liquidation triggered a flight to currency and a flight to quality. As a result, the distribution of the rupiah in the banking sector became less equitable thus further exacerbated the segmentation of the IMM. During the period, weighted average overnight rate had risen to 39.02% while spread between the highest and the lowest overnight rate widened from 65.00% at the beginning of the period to 163.00% at the end of the period.

It is worth mentioning that tight liquidity in this period hit state banks alone. Since December 1997 state banks had become borrower whereas foreign banks and several private national banks with ample liquidity had been lenders in the IMM (Chart 3).

In the last quarter of 1997/98, IMM remained tight while segmentation further widened. Weighted average overnight rate stood at 49.58%. The morning quotation of the overnight even hit the highest record of 350.00% in the IMM history, and interest rate spread reached 336.00%, correspondingly. The tight condition during this period, especially in January 1998, resulted from an increase in the demand for

Chart 3
Daily Transaction of Morning Interbank Money Market



liquidity to stockpile nine basic necessities after the grasp of flourishing rumors in the society. Liquidity contraction through both open market operation and rupiah intervention also contributed to the tight IMM.

To restore public confidence in the banking system and to reduce market segmentation, in late January 1998 the government introduced a guarantee program to get over with bank liabilities. This policy managed to bring positive outcome to the IMM as evidenced by decreasing average overnight rate and narrowing interest rate spread from 86.00% and 305.00% in January 1998 to 72.00% and 129.00% at the end of March 1998.

Despite the tightening of liquidity conditions in the reporting year, volume of IMM transactions increased from an average of Rp86.0 trillion in the first quarter to an average of Rp289.0 trillion in the last quarter. The increased volume indicated a rising dependency of banks on the IMM as their source of funds.

Exchange Rate Turbulence and Its Determinants

Until mid of July 1997, domestic money market showed a rapid growth of capital inflows from abroad. Strong confidence of the investors, supported by competitive interest rate differential, drove foreign investors to invest in Indonesia. Mammoth capital inflows tended to place rupiah at the lower bound of intervention band and make rupiah appreciated in real terms.

Since July 1997 until the end of the reporting period, the rupiah value kept oscillating. The fluctuation stemmed from both the demand side and supply side. There were six factors affecting from the demand side. First, contagion effects from monetary and financial crisis in Thailand. Foreign investors withdrew their investment from ASEAN because they viewed that all ASEAN countries had similar problems. Second, rising demand for dollar due to a huge private sector foreign liabilities, that were due and unrollable over, and a strong need to hedge the unhedged foreign debt. Third, uproaring speculation by market participants, both domestic and foreign, owed to easier transaction in the face of growing derivative transactions and rupiah internationalization. Fourth, decreasing confidence in the prospect and ability of Indonesian economy to deal with the financial turmoil. Fifth, tendency of dollar appreciation against almost all currencies in the world so as to lead investors to converting their fund into dollar. And sixth, public vulnerability to rumors, including non-economic rumors especially in the end period of 1997. From the supply side, rupiah fluctuation resulted from an inadequate supply of dollar in foreign exchange market due to a decline in foreign capital inflows and a strong increase in capital outflows. Meanwhile, foreign currency inflows from exports could not match the demand.

As mentioned before, up to July 1997, rupiah tended to appreciate and lie close to the edge of the lower bound of intervention band. Since the second week of July 1997, exchange rate began to fluctuate and faced depreciative pressures. As a pre-emptive action, on July 11, 1997 Bank Indonesia widened intervention band from 8% to 12%, or nominally from Rp192 to Rp304. To prevent rupiah from further depreciation, Bank Indonesia intervened in dollar selling and applied tight rupiah liquidity by raising SBI overnight rate gradually from 7% to 14% on July 21-23,1997, temporary suspended SBPU transaction since July 24, and momentary postponed discount window I facility since August 12, 1997.

Nevertheless, strong depreciative pressures on the rupiah made it slipped further. On August 14, 1997, government eliminated the band of intervention and let exchange rate be determined solely by market mechanism. The implementation of free floating exchange rate regime caused exchange rate to overshoot and drop, the rate dropped significantly to Rp2,800 per dollar from Rp2,650 at the closing of the previous day. The exchange rate upheaval with declining trend kept on propelling so that in the beginning of October 1997 rupiah was traded at around Rp3,600 per dollar. The overshooting resulted from profit taking in the wake of rupiah appreciation, high demand for dollar from domestic companies to pay their matured foreign debt, downgrading national banks rating, and rumors about the bankruptcy of the Indonesian companies.

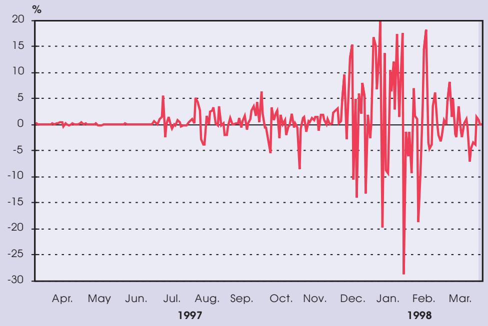
In the second week of October 1997, the rupiah managed to pick up and be traded at Rp3,400 per dollar, specifically on October 8, 1997, after government announced to call for a technical assistance and a long term financial support from international institutions, including from IMF and World Bank. Yet, by the end of November rupiah fell again at around Rp3,600 per dollar, resulting from a downgrade of the long term Indonesia currency rating announced by foreign rating agencies, some liquidity easing measures, and uncertainties of the IMF supported program.

Various economic reforms, banking and financial restructuring, and agreement on financial and technical support from the IMF on November 5, 1997, had a positive response from market participants, especially in the foreign investors. Furthermore, concerted intervention conducted by Bank Indonesia, Bank of Japan, and the Monetary Authority of Singapore on November 3, 1997 had also given a positive impact on the restoration of market confidence as reflected by the appreciation of rupiah to Rp3,200 at the end of November 1997.

In the month of December 1997, rupiah started to oscillate once again and weaken than that on the previous months (Chart 1). Increasing demand for dollar to meet external liabilities, repatriation of foreign investment income and speculative transaction due to political rumors and lower rating of Indonesian companies by foreign rating agencies, had weaken rupiah against dollar. By the end of December, rupiah was traded at Rp5,000 per dollar.

Entering the year of 1998, particularly in January 1998, rupiah was under selling pressure. In the first week of January 1998, rupiah weakened as market responded to unrealistic assumptions used by the

Chart 1
Volatility of Rupiah/$ Exchange Rate
April, 1997 – March, 1998

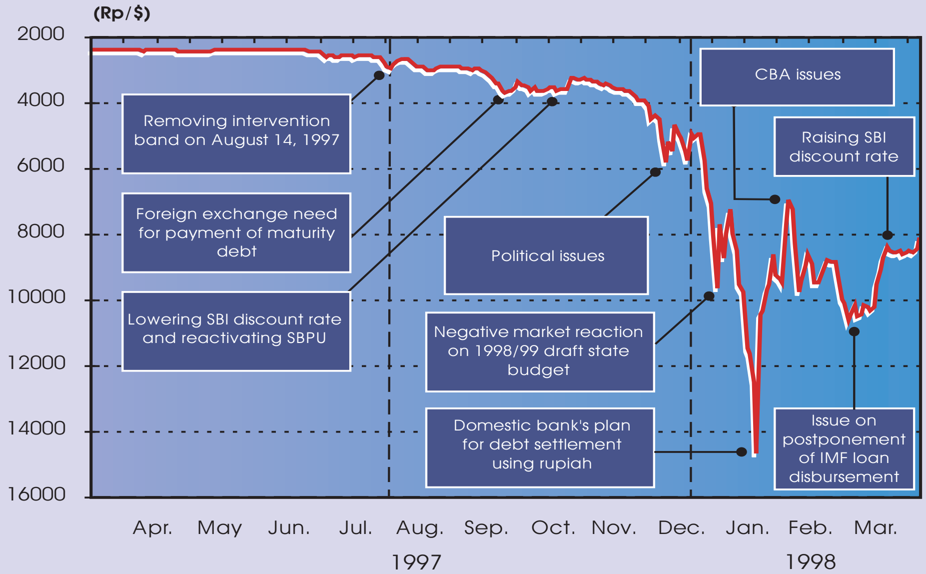


government for the Planned State Budget 1998/99. The disadvantageous perception accelerated the demand for dollar, pushing rupiah further down to Rp9,500 per dollar. After a moderate rebound, on January 22, 1997 rupiah experienced a free fall, down to its lowest level, as it was traded at Rp16,000 per dollar. The extension continuation of exchange rate turbulence resulted from the anxiety toward the ability of the domestic companies to pay their debts since an increasing number of offshore banks stopped their credit lines, and also the ideas of paying foreign currency liabilities in rupiah by national banks (Chart 2).

In February 1998, rupiah relatively strengthened compared to the end of January 1998. The Government's plan to peg the exchange rate through implementing the Currency Board Arrangement (CBA) induced the appreciation of rupiah since February to middle of March 1998. The selling of dollar in anticipation of the implementation of the CBA brought rupiah back to Rp7,000 per dollar on February 11, 1998, although it aggravated again as a result of the opposite views on the plan.

In March 1998, there was a negative response from the market as the IMF delayed the disburse-

Chart 2
Exchange Rate Movement



ment of the package. The IMF viewed Indonesia did not apply the economic reform agenda as agreed by the IMF consistently. Market hesitation increased as the polemic about implementation of CBA was incessant. Up to middle of March 1998, rupiah was traded at Rp10,500 per dollar. Furthermore, at the end of the reporting period, the government announcement on the cancellation of the plan for the CBA implementation, Bank Indonesia policy to raise the SBI rate, and the government attempts to find a solution in managing and solving private sector debt were positively responded by market players, and consequently rupiah strengthened to Rp8,325 at the end of the reporting year.

Chapter 5 Government Finances

The exchange rate turbulence that began since the beginning of the second quarter of 1997/98 adversely affected government finances. Up to the second quarter of 1997/98, the government finance still recorded a surplus of Rp8.0 trillion. However, the continued rupiah depreciation and worsening economic performance in the second half of 1997/98 had caused a deficit in the finance as total expenditures surpassed total revenues. The increased expenditure was mainly attributed to a sharp increase in the fuel subsidy and foreign currency-related expenditures. As a result, in the reporting year, the government finance experienced a deficit of Rp6.3 trillion as compared to the surplus in the preceding year (Table 5.1).

Table 5.1
Government Finance Operations

Description	1995/96[1]	1996/97r	1997/98*	1996/97r	1997/98*
	In trillions of rupiah			percent change	
Domestic revenue	**76.4**	**86.7**	**108.5**	**14.1**	**25.2**
Oil/gas and non-oil/gas	73.0	84.8	106.0	16.2	25.0
Oil/gas	16.1	19.9	35.4	23.6	77.7
Tax	48.4	55.8	64.1	14.6	14.8
Non-tax and net oil profit	8.2	9.1	6.6	11.0	–27.5
Net other revenue [2]	3.0	1.9	2.5	–36.7	31.6
Government expenditure	**65.9**	**80.5**	**114.8**	**22.2**	**42.6**
Operational expenditure	38.0	48.4	70.3	27.4	45.2
Amortization & int. payments	7.2	7.7	11.3	6.9	46.8
Subsidies to local governments	8.2	9.8	9.9	19.5	0.7
Personnel expenditure	13.0	18.0	19.2	38.5	6.5
Material expenditure	5.2	7.2	9.0	38.5	25.4
Others [3]	4.4	5.7	20.9	29.5	266.7
Invesment expenditure[4]	27.9	32.1	44.5	15.1	38.6
Fiscal savings [5]	**38.0**	**38.3**	**38.2**	**0.8**	**–0.1**
Saving - investment gap	**10.1**	**6.2**	**–6.3**		
Financing	**–10.1**	**–6.2**	**6.3**		
Domestic[6]	–8.4	–3.5	–4.0		
Net foreign borrowings[7]	–1.7	–2.7	10.3		

1) Audited
2) Including unsettled differences
3) Including fuel subsidies
4) Development expenditure, excluding inter alia operation and maintenance cost
5) Domestic revenue minus operation expenditure
6) Including monetary correction amounting to Rp16.6 trillion in 1997/98
7) Development revenue minus foreign debt amortization
Source : Ministry of Finance (processed)

Domestic revenues in 1997/98 grew at a higher rate than that in the previous year. The driving force was the increased oil/gas revenue that resulted from the weakening rupiah value and a higher Indonesian Crude Oil Price (ICP) as compared to the projected price in the 1997/98 state budget. Meanwhile, as business activity declined, tax revenues grew at a slightly higher pace than that in the preceding year, although it failed to meet the targeted growth rate in the budget. Similar to the preceding year, the increase in tax revenue resulted from an enlargement of tax base due to the improved identification and registration process of both tax payers and tax objects, an intensified tax collection, a stronger law enforcement, and a better quality of services.

To meet self-sufficiency in financing development, the government devised an act that regulates development fund derived from a Government Non-tax Revenue (GNTR).[1] The Act —legitimised by the Parliament on May 23, 1997— is expected to strengthen the structure of government domestic revenue (non-oil/gas), provide legal assurance, and increase efficiency, in addition to promoting the transparent state finance (Box : Act No.20 of 1997 on Government Non-tax Revenue). The government is committed to expediting the incorporation of the formerly off-budget funds into the budget from 5 years to 3 years.

In the reporting year, the government continued to consolidate fiscal position through austere budget expenditure and stern budget discipline. However,

1) Act No. 20 of 1997 dated May 23,1997

economic downturn necessitated an increase in the subsidy and interest payment on external debt. The measures to curb cost-push inflationary pressure resulted in higher foreign exchange subsidies for imported fuel and basic necessities. The rupiah depreciation had raised overseas expenditures for material and personnel expenses. Nevertheless, its insignificant share made the increase immaterial in term of material and personnel expenditures.

Meanwhile, to reduce pressures on the state finance, the government rescheduled a number of projects. Also, the government streamlined the budget financing and eliminated special treatments on strategic industrial projects in terms of tax facility, import duty, or credit for the national car project.

Hence, in 1997/98, government finance registered a deficit of around 1% to GDP as compared to 1.2% in the preceding year. Government expenditures in term of rupiah experienced an increase and, accordingly, its ratio to GDP rose to 14%. In this period, the government finance operations resulted in an expansionary effect on money supply, an inflow of foreign currency in the balance of payments.

Domestic Revenue

In the reporting year, domestic revenues increased by 25.2%, up from 14.1% in the preceding year (Table 5.1), mainly attributable to significant increases in oil/gas and tax revenues.

The increase of 77.7% in oil/gas revenue as compared to 23.6% in the previous year, is mainly attributable to the rupiah depreciation and a higher average ICP ($16.9% per barrel) than that assumed in the budget ($16.5 per barrel). Although the average ICP in the fourth quarter of 1997/98 was recorded only at $13.1 per barrel, it had reached $18.2 during the first three-quarters.

In the same period, tax revenue is expected to grew by 14.8% as recorded in the preceding year. In spite of the increase, tax revenue failed to hit its target of the 1997/98 budget. Revenues from income tax, value added tax (VAT) and sales tax on luxury goods, and import duties were 2.3%, 0.4%, and 10%, respectively, below the targets mainly due to the economic downturn in inward looking business activities. Sources of income tax which are affected are income tax of articles 22 on import activities as well as 21, 23, and 26. The depreciated rupiah curtailed profits of the importers, foreign debt exposed companies, and import-based companies. Likewise, revenues from VAT and sales tax on luxury goods of the automotive sector decline, compared with the previous year.

Import duties reached 90% of the target because of the implementation of the Deregulation Package introduced in July 1997, in which the government reduced tariff on 1,600 codes, followed by 153 codes in September in the same year. This policy package reflects an active participation of the government in committing to the international free trade era. Likewise, it is set in line with the aim to reduce production cost of export oriented goods so as to promote competitive-ness of Indonesian products in the international market.

Revenues from land and building tax and excise duty recorded 6% and 10% growths higher than that of the targets, respectively. The lofty land and building tax resulted from an updating process of data base of both tax payers and tax objects as well as an improved management information system of tax objects. Furthermore, the government also carried out intensification program of land and building tax by way of individual valuation on particular objects such as electricity power plant and toll road, as well as of adjustment on sales value of commercial tax objects. In addition, the better quality of service extended to taxpayers was made possible by adopting a one stop service with regard to land and building tax.

Revenue of excise duty rose favourably because mainly of increases in cigarettes/tobacco levy —which

Table 5.2
Some Important Ratios in Government Revenues and Expenditures

Description	1995/96[1]	1996/97[2]	1997/98[2]
	In percent		
1. Domestic expenditure to GDP	11.6	12.3	14.0
2. Gross domestic investment to GDP	5.1	5.0	5.2
3. Consumption to GDP	6.5	7.3	8.8
4. Fiscal saving to GDP	8.4	7.3	7.1
5. Non-oil/gas revenue to domestic revenue	78.8	77.0	68.9
6. Non-oil/gas revenue to GDP	13.2	12.5	12.6
7. Tax revenue to GDP	10.8	10.5	10.3
8. Tax revenue to non-oil/gas GDP	11.7	11.4	11.2

1) Audited
2) Estimated
Source : Ministry of Finance (processed)

constituted 95.9% of total excise duties— and tax on alcoholic beverages. The rise of excise duty came from the implementation of excise duties and tobacco product reference price[2] and tariff adjustment in alcoholic beverages, effective as of January 1, 1998.[3]

The other tax revenues were expected to drop by 16.2% below the target. This mainly corresponded with reclassification of auction fee —previously considered as tax revenue— to become non-tax revenue. A decline in economic transactions that used stamps was also accountable for the performance of other tax revenue.

In the reporting year the share of tax revenue in domestic revenue reached 59.1%, down from 64.4% in the preceding year. In correspondence, the ratios of tax revenue to GDP and non-oil/gas GDP decreased slightly from 10.5% and 11.4% to 10.3% and 11.2% respectively (Table 5.2). The ratio of direct tax, which comprised income tax plus land and building tax, to non-oil/gas GDP also declined, namely from 5.7% to 5.5%, whereas the ratio of indirect tax to non-oil/gas GDP increased from 5.7% to 5.8%.

In the meantime, non-tax revenue recorded a 6.5% growth rate, higher than the targeted rate in the budget. The increase resulted from increases in revenues from both department and non-department revenues, adjustment in a number of tariffs, and a more appropriate deposit control to the Treasury. The record of non-tax revenue was also in line with the issuance of the act on government non-tax revenue which was proceeded by Government Regulation No. 22/1997 regarding types of and depositing government non-tax revenue. Hence, the contribution of non-tax revenue is anticipated to multiply in the future.

Government Expenditure B

The year 1997/98 witnessed a considerable increase in government expenditures as compared to that in the previous year. The increase largely resulted from the actual expenditures that surpassed its projected stated in the budget. The depreciation of rupiah induced mounting foreign exchange expenditures, especially in term of interest payments and subsidies for fuel and basic needs. Fuel subsidy —which was not inscribed in the budget— reached Rp16 trillion reflecting attempts exercised by the government to restrain supply side inflation. In addition, fuel import subsidy registered a rise as well as a result of a discrepancy between domestic fuel consumption and domestic production capacity.

Personnel expenditures looked out for an actual of 9.5% off the target as the appointment of government officials and the opening of government representative offices in several partner countries were postponed. On the contrary, material expenditures escalated by 1.5% beyond the targets as a result of larger overseas spending on goods.

Investment expenditures in 1997/98 rose essentially to 38.6% from 15.1% in the preceding year. The strong

2) Minister of Finance Decree No. 91/KMK.05/1997 dated February 25, 1997
3) Minister of Finance Decree No. 623/KMK.05/1997 dated December 18, 1997

depreciation of rupiah enlarged the project aid expenditure, in spite of a lower value —in term of foreign currency— as compared with the budget. In view of preventing investment expenditures from further expansion, the government rescheduled programs/ projects that put rupiah to import and postponed projects still in pipelines, besides retrenching official trips and building constructions. However, implementation of the projects that correlates with public welfare enhancement as well as poverty alleviation such as projects under Presidential Instruction, public health and basic education programs, and program of least-developed villages (IDT) remained on priority.

Table 5.3
Impact of State Budget on Aggregate Demand

Description	1995/96[1]	1996/97r	1997/98*	1996/97r	1997/98*
	In trillions of rupiah			Percent change	
I. Government consumption	**29.4**	**38.7**	**54.8**	**31.7**	**41.6**
Domestic personnel expenditure	12.7	17.6	18.1	38.5	3.3
Domestic material expenditure	4.9	6.9	8.3	41.8	19.7
Subsidies to autonomous region	8.2	9.8	9.9	20.0	0.3
Other routine expenditure	3.5	4.3	18.5	22.6	325.4
II. Gross domestic fixed capital formation	**23.4**	**26.8**	**32.6**	**14.8**	**21.7**
Funding	19.8	22.4	23.1	13.3	3.2
Project aid	3.6	4.4	9.5	22.6	115.6
III. Total (I+II)	**52.8**	**65.5**	**87.4**	**24.2**	**33.5**

1) Audited.
Source : Ministry of Finance (processed)

Sources of Deficit Government Finance

The overall government finance in the reporting year recorded a considerable deficit (Rp6.3 trillion). This deficit was financed by foreign aid which was reflected by a net position of foreign loan disbursement —after a deduction of amortization— that amounted to Rp10.3 trillion. The remainder —approximately reached Rp4.0 trillion after taking into account the impact of exchange rate changes in foreign currency account amounting to Rp16.6 trillion— is deposited in government account with Bank Indonesia and commercial banks.

It is worth noting that in recent years, to abate the distress in public finance, the government has accelerated amortization on commercial debt with high interest rate. For the reporting year, the accelerated amortization totaled Rp0.9 trillion, down from Rp5.6 trillion of the preceding year.

Impact on Domestic Demand

The impact of the 1997/98 budget on real sector was reflected by a 33.5% increase of government expenditure in rupiah as compared with 24.2% in the previous year. The increase mainly originated from a rise of 41.6% in government consumption, while higher gross domestic capital formation grew by only 21.7% (Table 5.3). However, the high inflation prompted real government expenditure to have a negative growth of 0,7%, down substantially from 18.9% of last year. The ratio of government expenditure denominated in rupiah to GDP rose to 14.0% from 12.3% (Table 5.2).

The rising government consumption ––as indicated by an increase in the proportion of government consumption to GDP from 7.3% to 8.8%— was largely attributed to the advent fuel subsidies amounting to Rp16.0 trillion. Meanwhile, actual rupiah financing —excluded expenditure denominated in foreign currency—grew at a slower rate as compared to that in the preceding year owing to rescheduling of both debt and department/government agency sector projects.

Meanwhile, the increase in government expenditure on gross domestic fixed capital formation stated 21.7%, higher than 14.8% in the preceding year. This was brought about by the expansion of project aid expenditure as a result of rupiah depreciation. The ratio of gross domestic fixed capital formation to GDP

Table 5.4
Impact of Government Finance Operation on Monetary Development

Description	1995/96 1)	1996/97r	1997/98*
	In trillions of rupiah		
Revenue in rupiah	**64.7**	**71.5**	**83.3**
Oil/gas	4.8	5.8	10.2
Non-oil/gas 2)	57.0	64.9	70.6
Other revenue (net) 3)	3.0	0.8	2.5
Expenditure in rupiah	**52.8**	**65.5**	**87.4**
Operational	29.4	38.7	54.8
Development	23.4	26.8	32.6
Monetary impacts 4)	**11.9**	**6.0**	**–4.1**

1) Audited
2) Tax and non-tax revenue
3) Including unsettled difference
4) Negative means expansion
Source : Ministry of Finance (processed)

reached 5.2%, slightly higher than that of reported in the preceding year at 5.0%.

Table 5.5
Impact of Government Finance Operation on Balance of Payments

Description	1995/96 1)	1996/97r	1997/98*
	Equivalent to trillions of rupiah		
Current Account	**–1.9**	**0.2**	**–2.2**
Merchandise	5.9	7.5	10.9
Oil dan gas export	11.3	14.1	25.1
Project aid import	–5.4	–6.6	–14.3
Services	–7.8	–7.3	–13.1
Foreign debt interest payment	–7.2	–7.7	–11.3
Others 2)	–0.6	0.4	–1.8
Net Official Capital Inflow	**–1.7**	**–2.7**	**10.3**
Foreign debt disbursement	–11.9	11.9	29.5
Foreign debt amortization payment	–13.6	–14.6	–19.2
Monetary Movement 3)	**–3.6**	**–2.5**	**8.1**

1) Audited
2) Net other foreign currency revenue (right issue abroad of state enterprises minus personnel and material expenditures abroad)
3) Positive means net capital inflow
Source : Ministry of Finance (processed)

Impact on Monetary Development and the Balance of Payments

As opposed to a contractionary effect in the preceding year, government finance in 1997/98 implicated an expansionary effect on money supply (Table 5.4). This was evident in the increase of government expenditure resulting from the advent of fuel subsidies.

With respect to balance of payments, government finance in the reporting year promoted a foreign currency inflow of Rp8.1 trillion, in contrast with an outflow of Rp2.5 trillion in the preceding year (Table 5.5). The net inflow of Rp10.3 trillion resulted from disbursement of foreign loan that surpassed the amortization that was higher than the capital ouflow from amortization.

Government Finance Operations in 1998/99

In 1998/99 government finance is expected to face stronger challenges owing to the continued economic turbulence, while reform program takes longer time to be fully effective. In addition, international oil price tends to fall as to reduce government revenue. At the same time, increasing subsidies as well as foreign debt amortization and banking restructuring cost elevates government expenditure. In this regard, the government is to be more prudent in the management of government finance.

From the revenue side, the monetary turbulence will adversely affect business activities, hence reduced non-oil/gas revenues, particularly tax revenues. The oil/gas revenue, that is expected to come down due to the declined oil price since the fourth quarter of 1997/98, is expectantly to continue falling in 1998/99. The agreement between OPEC and non-OPEC oil exporting countries to reduce production hopefully will give a favourable prospect for meeting government oil/gas revenues target.

Likewise, non-tax revenues will rise as the Act No.20 of 1997 comes into effect. Alongside with increased efficiency of the state-owned enterprises and strengthening the government financial structure, the Government will keep on privatising several competitive market operated state-owned enterprises. The revenue from stock selling will empower budget revenues. Further, the Government, in cooperation with the IMF, will improve tax administration in order to increase revenue.

From the expenditure side, depreciation of rupiah and harvest-failure of main agricultural commodities due to prolonged drought in the previous budget year will raise the other expenses. Other expenditures that will be put in the budget 1998/99 are subsidy expenditure — such as fuel, electricity, and provisions of basic commodities and drugs subsidies— and increasing foreign debt amortization. Another considerable expenditure is the banking restructuring cost that will be borne by government. In addition, the repayment of bridging funds from Bank Indonesia, which was used for replacing the fund of the depositors of 16 liquidated banks, increased domestic debt amortization. Hence, operating expenditure will sharply increase.

In 1998/99, the priority for investment expenditure is directed at providing economic infrastructures, improving of the quality of human resources, and accelerating even development distribution in the eastern Indonesia and other least-developed regions. In favor of supporting labour intensive programs, government will not reschedule projects that have direct correlation with increasing public wealth, labour absorption, and poverty alleviation. In line with that, the development and supervision on cooperatives and small-scale businesses, especially the labour intensive one, will still be put on place.

A slight growth in revenue together with a sharp increase in operating expenditure will reduce the ability of government savings to finance development. Regarding this development, government finance is projected to have around 3-4% deficit of GDP, higher than that of in 1997/98. Source of deficit financing will mostly come from overseas fund.

Act No. 20 of 1997 on Government Non-tax Revenue

Background

The government controls entire state activities and carries out national development, as set forth in the constitution, to strive for the national objective. Accordingly, to accomplish these tasks, the government needs finance which mainly originates from domestic source. In this regard, the government strives to increase domestic revenue from government tax and government sources non-tax (GNTR). Reliance on domestic sources constitutes the commitment of the government to self-fulfilling financing of the state and the country development.

Explanation of article 23 paragraph 2 of the Constitution affirms that any practice, including tax, that burdens the public, has to be based upon by an act that is legitimized by the Parliament. Therefore, as GNTR assigns extra burden to the public, efforts to increase GNTR have to be based on a legal act. In order to apprehend the divergence of laws and ordinances —thus do not provide legal assurance— on which the operation and administration of GNTR was based, the government has issued Act No. 20 of 1997 on Government Non-tax Revenue.

Objectives

With firm adherence to principles of legal assurance, justice, and simplicity, the formulation of GNTR act is directed toward:

1. Supporting the national autonomy in terms of financing the state and its development by means of optimizing the sources of GNTR, sound administration of GNTR, and depositing GNTR to government treasury.
2. Providing a more legal assurance, to demonstrate transparency in the government finance, and assuring justice for the public who participates in development financing with respect to the benefit they earn as a result of their contribution to GNTR.
3. Supporting government policies to enhance economic growth as well as to equally distribute the results of development to all parts of Indonesia.
4. Advocating solid public officials with integrity, simplification of procedure, improved financial as well as budgetary administration, and a more effective control.

Main Contents of Act No. 20 of 1997 on GNTR

The main contents of Act No.20 of 1997 on GNTR comprise as follows:

1. GNTR comprises revenue arises from several sources such as management of government fund, development of natural resources, separate management of the state wealth, government services, court fine and administration fee, grant, and others stipulated in separate acts.
2. The tariff of each GNTR is determined with respect to its burden toward the public, business activities, government activities, and justice.
3. With a view of improving the fiscal discipline of financial and budgetary administration, the entire GNTR revenues have to be deposited directly to government treasury and managed within the budget. Any government institution that is assigned to collect and or levy the GNTR is obliged to submit its plan at least once every fiscal year

and to report the realization at least twice every fiscal year to the respective Minister in written.

4. With a view of advocating solid public officials with integrity, any failure to collect and or levy and deposit GNTR will be sanctioned following the Government Decree No. 30 of 1980 on Discipline of Public Servants and Act No. 31 of 1971 on Elimination of Corruption.
5. With a view of providing certain allocation of funds for particular activities, the government institution is allowed to make use of some proportion of the particular GNTR with the obligation to submit its expenditure plan to the respective minister.
6. The collection system of GNTR comprises two methods, namely predetermined by a government institution and self assessment.
7. In case of dispute between these two methods, the payee is able to express objection and file a charge in the administrative court.
8. In case of suspicion that the payee commits a criminal action with regard to GNTR, the government institution determines the amount of GNTR obliged to the payee without considering the expiration date. Repetition of the crime implies stronger sanction.

Chapter 6 Banks and Other Financial Institutions

Banking

In the reporting year, the banking industry experienced a formidable crisis as a result of the rupiah foreign exchange turbulence and declining of public confidence. The plummeting of rupiah posed a severe liquidity problem in the banking industry. In addition to external causes, the internal weaknesses also played a crucial role in exacerbating the banking problem. Included were weak management, excessive credit concentration, moral hazard, inadequate and intransparent information on the financial condition of the banks, and ineffective supervision by Bank Indonesia.

Management inadequacy manifested itself in the ineffective internal control and limited information system. Consequently, implementation of the self-regulatory banking system that has been emphasized in the last few years was proved ineffective. This weakness contributed substantially to misuse and abuse of authority that exposed the risk of failure in the banking system. In addition, it contributed also to a more consentrated credit extension to only a limited number of debtors, particularly to individuals/business groups that had close ties with the banks. This credit concentration brought about excessive reliance on the resilience of the business activity being financed. Consequently, once the crisis had affected the business activity it eventually led to worsen the banking performance as a whole.

Meanwhile, the unclear resolution mechanism to the problem banks, particularly, on the issue of exit mechanism, has induced moral hazard that led to high-risk attitude among bankers. The absence of deposit insurance scheme necessitated the provision of central banks' implicit guarantee for the survival of any particular commercial bank to preclude systemic failure in the banking system. Besides, the supervision and guidance by Bank Indonesia were ineffective because of weak law enforcement and lack of independence. Such situation was further worsened by incomplete information available for the public regarding financial condition of any particular bank such that social control over the banking system can not be appropriately implemented.

The banking conditions became more severe following massive banking rush and interbank fund transfer owing to the weakening confidence in the banking system, particularly after revocation of the business license of 16 unviable banks in the early of November 1977. Consequently, banks should operate under abnormal condition could not operate normally. Violations of the prudential principles were widespread, liquidity and capital adequacy ratio dropped drastically, and reliance on liquidity support from Bank Indonesia rose sharply. These accumulated problems disrupted intermediation process and accordingly brought about unfavourable impact on the entire economy.

Before the crisis began up to the mid-1997, however, economic activity remained buoyant at an increasing pace. Funds mobilized by the banking industry showed a rapid growth while credit expanded vigorously as well, particularly that for the property sector (Table 6.1). The excessive expansion, especially that for private national foreign exchange bank, was also occured in the liabilities side denominated in foreign currency as reflected in the worsening net open position. On the assets side, non-performing loans in several national banks tended to rise while business efficiency worsened. As a consequence, it induced increasing vulnerability of the banking system against economic turbulence.

Table 6.1
Selected Banking Indicators

Indicator	1995	1996	1997	1997/98
	In billions of rupiah			
Deposits	214,764	281,718	357,613	452,937
Credits	234,611	292,921	378,134	476,841
Property	42,793	58,797	68,318	70,112
Consumer	25,310	35,579	39,769	39,061
Non-performing loans	24,400	27,957	30,802	109,780 [1)]
FA/FL ratio [2)]	57.7	42.9	50.5	22.2
Off-balance sheet accounts				
Claims	76,213	121,853	478,813	174,574
Liabilities	178,423	208,903	1,060,349	439,343
OCOI [3)]	0.92	0.92	0.95	1.01

1) According to the previous regulation, the amount was Rp62,558 billions
2) FA/FL = Foreign Assets/Foreign Liabilities, in percent
3) OCOI = Operating Cost/Operating Income, in absolute figures

Against the backdrop of fragile banking system, the rupiah exchange rate turbulence has put a number of banks under severe liquidity squeeze. The depreciation of the currency, which had inflated the rupiah value of the foreign currency debt, wosened the liquidity situation. Such situation was further exacerbated as debtors of the banks also encountered difficulty to meet the foreign currency denominated debts, which in turn, it finally led to the crisis in the banking industry.

The banking crisis was further compounded by the various rumors about the national banking conditions. Consequently, the policy, that revoked the business license of 16 unviable banks, defeated its purpose. The initial purpose to strengthen confidence turned out to be counterproductive as it worsened the confidence. The downgraded rating for Indonesia and the pessimistic outlook for the banking industry given by the international rating agencies contributed to the decline in public confidence in the banking system, of both the domestic and international players.

Public panic led to a massive withdrawal of funds and a transfer of funds from apparently unsound banks to presumably sound ones. Consequently, several banks that once belonged to the category of sound banks and functioned as lenders of funds in the money market were adversely affected by the crisis and converted their position from lenders to borrowers in the money market. Meanwhile, national banks' credibility also depreciated internationally as evidenced by an increasing number of international banks declined to deal with national banks in foreign currency and letters of credit. As a result, not only did liquidity worsen, but profitability and solvency of the banks were aggravated as reflected in the increase in non-performing loans and in the decrease in return on assets.

To restore confidence in the banking system, at the end of January 1998, the Government decided to guarantee payment of banks' liability to depositors and domestic and international creditors[1)] (Box: The Government Guarantee Program over Commercial Banks Liabilities). This program is expected to last until the establishment of Deposits Insurance Scheme that was scheduled to go into effect before the year 2000. This measure was followed by the establishment of the Indonesian Bank Restructuring Agency (IBRA) with the objective to restore the soundness of problem banks (Box: Indonesian Bank Restructuring Agency).[2)]

However, these two policies were found to be as inadequate the banking crisis continued. It was spreading and heading to cripple the national banking system. The liquidity difficulty has led several banks to violate the statutory reserve requirement and even experience negative balances in their demand deposits at Bank Indonesia. At the same time, massive withdrawal of funds continued to exacerbate the problem. In response, Bank Indonesia was prompted to play its role as the lender of the last resort, namely providing liquidity support to troubled banks under the government's

1) Presidential Decree No. 26/1998, dated January 26 ,1998
2) Presidential Decree No. 27/1998, dated January 26 ,1998

guarantee program (Box: Bank Indonesia's Liquidity Support). The support takes the form of discount windows, special money market securities (special SBPUs), subordinated loan, and overdraft facility on banks' demand deposit at Bank Indonesia.

In line with the worsening banking liquidity, the liquidity support given to beleaguered banks rose considerably since December 1997, from Rp62.8 trillion to Rp116.5 trillion in the end of the reporting year. Out of Rp116.5 trillion, Rp87.0 trillion, or about 75%, was liquidity support for banks under the supervision of IBRA, and therefore recorded as claims of Bank Indonesia to IBRA.

To regain confidence and expedite the restructuring process of the banking system, the Government adopted a comprehensive banking reform, an essential element in the IMF-supported economic reform and restructuring program.

The implementation of the banking reform agenda highlights four ingredients. First, improve further the enforcement of prudential rules to strengthen internal conditions and resilience against external disturbances. Included in the program were measures to raise minimum requirement for bank capital, improve regulation on productive asset quality and provision of allowance for productive asset amortization, and enhance transparency and access of information on financial reports to the public. Second, strengthen supervision function by enforcing rules, enhancing skills and expertise of bank supervisor, and reevaluating organization structure of banking supervision. Third, improve rules and legal infrastructure that entails a review of Banking Law Draft, Bankruptcy Law Draft, and establish Deposit Insurance Institution. Fourth, improve the soundness of the banking industry. In addition to setting up IBRA, the Government also encourages interbank merger.

Banking Structure

The banking restructuring and reform program aims at creating a national banking structure which is more consolidated but less concentrated. The existing structure was mostly composed of small banks with small capital. Such structure embedded a number of internal weaknesses such as low efficiency, high intermediation cost, low competitiveness, and difficult supervision created by too many banks being supervised . As a result, the structure was fragile to macroeconomic turbulence.

In effort to improve the structure, Bank Indonesia raised minimum capital requirement, reviewed the creation of banking stratification based on risk-taking capacity, and encouraged the implementation of merger and consolidation.

Under this measure, the Government also improved the mechanism of entry to and exit from the banking industry. Factors, that served as points of consideration in designing the mechanism, included Bank Indonesia's supervision capacity and the need to set a competitive banking industry. For the entry gate, the Government tightens conditions for establishing new banks, inclusive of raising minimum capital requirement. For the exit gate, particularly to resolve troubled banks, the Government amended the regulation on revocation of business licenses, set plans for forming deposit insurance institution, and transferred the supervision of beleaguered banks to IBRA.

As an implementation of the efforts to restore the soundness of the banking system, Bank Indonesia transferred the supervision of 54 ailing banks to IBRA, comprising 4 state banks, 23 private national foreign exchange banks, 14 private non foreign exchange national banks, 11 local government banks, and 2 joint banks that formerly belonged to Non-bank Financial Institutions (Table 6.2). The transfer aimed at addressing the beleaguered banks in a faster and more efficient way.

As of March 1998, the number of banks have declined from 238 to 222 following the revocation of business license of 16 unviable banks on November 1, 1997. Meanwhile, the growth of bank offices in the reporting period slowed down compared to that in the preced-

Table 6.2
Number of Commercial Banks under Supervision of Bank Indonesia and IBRA in 1997/98

Group of Banks	Institution		Total
	Bank Indonesia	IBRA	
Commercial Banks	**168**	**54**	**222**
State banks	3	4	7
Private nasional foreign exchange banks	54	23	77
Private nasional non-foreign exchange banks	53	14	67
Local government banks	16	11	27
Joint banks	32	2	34
Foreign banks	10	–	10

ing year (Table 6.3). The slowdown was virtually across the board and the private national non-foreign exchange banks even experienced a rising negative growth. On the contrary, local government banks and foreign banks saw an increase in the growth of their offices. The decline in the number of banks and the slower growth of bank offices underlined a downturn in business activity as the banks entered a consolidation phase.

By region, all regions registered a slowdown in the growth of bank offices except Kalimantan (Table 6.4). The western Indonesian region recorded the highest growth rate of bank offices which resulting in a persistence concentration of banks in the western region. The growth of bank offices in the central and eastern Indonesian region remained positive despite its declining rate, in which Sulawesi posted the lowest growth.

Meanwhile, in the reporting year, the unbalanced structure of the banking industry increased in line with increasingly larger domination of first-tier banks. The role of first-tier banks that belonged to top 10 and 20 banks, in terms of business value, third-party fund, and bank credit as a whole experienced an increase (Table 6.5).

Table 6.3
Number of Banks and Bank Offices in Indonesia

Bank	1996/97	1997/98	1997/98
	Percent change		Total
I. Commercial Banks			
State banks			
Number of banks	0.0	0.0	7
Number of offices [1)]	4.1	3.8	1,772
Local government banks			
Number of banks	0.0	0.0	27
Number of offices	6.1	9.0	812
Private national foreign exchange banks			
Number of banks	2.6	–2.5	77
Number of offices	16.4	3.9	4,15
Private national nonforeign exchange banks			
Number of banks	–5.7	–19.3	67
Number of offices	–3.6	–8.2	729
Joint banks			
Number of banks	0.0	9.7	34
Number of offices	5.8	5.5	58
Foreign banks			
Number of banks	0.0	0.0	10
Number of offices	2.6	5.1	41
Total commercial banks			
Number of banks	–1.3	–6.3	222
Number of offices	9.6	3.1	7,570
II. Rural Credit Banks			
1. Rural credit banks established after October 1988 package	3.1	4.7	1,412
2. Rur al credit banks established before October 1988 package	-0.6	20.2	774
Sub-total (1+2)	**1.9**	**9.7**	**2,186**
3. Rural financial institutions	0.0	–2.4	7,193
a. Rural fund and credit institutions	0.0	–6.4	1,848
b. Rural credit agencies	0.0	0.0	5,345
Total rural credit banks (1+2+3)	**0.4**	**0.6**	**9,379**

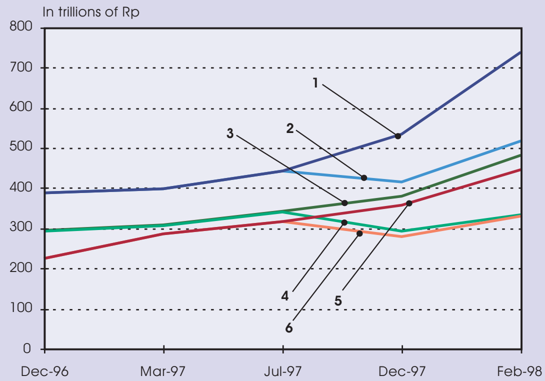
1) Excluding rural unit of BRI.

The greater concentration of banks resulted from depreciated exchange rate and transfer of funds from medium-scale and low-scale banks to the first-tier banks referred to as “flight to quality”. Such increased concentration was not in line with the measures to create more consolidated but less concentrated banking structure.

Table 6.4
Number of Commercial Bank Offices by Region

Region	1996/97	1997/98	1997/98
	Percent change		Total
West	**9.4**	**8.8**	**6,811**
Sumatera	7.2	6.4	1,106
Jawa excluding Jakarta	9.1	3.1	2,820
Jakarta	9.6	1.4	2,517
Central	**5.5**	**5.4**	**647**
Bali & West Nusa Tenggara	4.8	4.3	338
Kalimantan	6.3	6.5	309
East	**11.9**	**3.4**	**551**
East Nusa Tenggara, Maluku, Irian Jaya, and East Timor	10.1	4.6	183
Sulawesi	12.9	2.8	368
Total	**9.3**	**8.2**	**8,009**

Chart 6.1
Assets, Credits, and Deposits Based on Rp/$ Exchange Rate at the End of Each Period and at the End of June 1997



Note :
1) Assets based on Rp/$ at the end of each period
2) Assets based on Rp/$ at the end of June 1997
3) Credits based on Rp/$ at the end of each period
4) Credits based on Rp/$ at the end of June 1997
5) Deposits based on Rp/$ at the end of each periode
6) Deposits based on Rp/$ at the end of June 1997

Business Activity

Banking business activity, as reflected in business value, credit extension, and fund mobilization, saw a rapid increase. The sharp rupiah exchange rate depreciation against dollar has been the major factor behind the increase. However, holding the exchange rate constant, business activity slowed down as a consequence of the banking crisis (Chart 6.1).

Business volume in the year under review rose sharply by 84.6% to Rp737.6 trillion, from Rp399.6 trillion in

Table 6.5
Banking Concentration

Group of Banks	1996	1997	1997/98
	In percent		
Based on Asset			
Top 10	60.0	59.2	61.3
Top 20	73.0	72.7	75.0
Based on Credit			
Top 10	59.0	58.4	66.6
Top 20	72.3	72.4	79.8
Based on Deposit			
Top 10	60.5	58.4	64.6
Top 20	73.9	72.4	80.5

Table 6.6
Total Assets by Group of Banks

Group of Banks	1996/97	1997/98	1997/98	
	Percent change		Outstanding (In trillions of Rp)	Share[1] (In percent)
I. Commercial Banks	**24.5**	**84.6**	**737,6**	**100.0**
State banks	15.2	107.6	296.2	40.2
Private national banks	35.7	51.2	319.2	43.2
Local government banks	19.4	6.3	11.8	1.6
Joint banks	10.5	204.9	60.1	8.1
Foreign banks	25.7	254.7	59.9	8.1
II. Rural Credit Banks	**14.1**	**6.6**	**2.9**	**0.4**

1) Share of each group of bank to commercial banks

the previous year (Table 6.6). With constant exchange rate, business value only grew by 18.2%, down from a year earlier. By group of banks, share of state banks in the reporting year showed a 40.2% increase, against with 35.7% in the previous year. The driving force behind the high increase was the transfer of funds from private national banks. Other high-growth banks belonged to joint banks and foreign banks. Rural credit banks grew at a slower pace because of more intensive competition against other banks.

Sources of Fund

Funds mobilized by the banking industry in the year under review went up sharply by 57.8% from Rp286.9 trillion to Rp452.9 trillion (Table 6.7). Holding the exchange rate constant, the growth was only 24.2%, lower than that in the previous year. In terms of growth rate, demand deposit recorded the highest rate followed by time and saving deposits. In terms of its share in fund mobilization, time deposit remained the largest source of banking funds.

Table 6.7
Fund Mobilization by Type of Deposits

Type of Deposits	1996/97	1997/98	1997/98	
	Percent change		Outstanding (In billions of Rp)	Share (In percent)
Demand deposits	**29.1**	**90.7**	**108,703**	**24.0**
Rupiah 26.1	50.3	64,074	58.9	
Foreign currency	39.2	210.4	44,629	41.1
Time deposits	**27.4**	**66.2**	**272,061**	**60.1**
Rupiah 29.8	49.2	177,954	65.4	
Foreign currency	21.4	112.1	94,106	34.6
Savings	**29.6**	**8.8**	**72,173**	**15.9**
Total	**28.3**	**57.8**	**452,937**	**100.0**
Rupiah 29.1	37.7	314,202	69.4	
Foreign currency	26.3	136.2	138,735	30.6

Table 6.8
Share of Deposits by Group of Banks

Group of Banks	Dec. 96	Dec. 97	Jan. 98	Feb. 98	Mar. 98
	Share (In percent)				
Commercial Bank					
State banks	36.0	42.8	47.7	47.0	46.6
Private national foreign exchange banks	49.7	43.2	36.9	37.1	37.6
Private national non-foreign exchange banks	5.5	2.2	1.5	1.9	2.3
Local government banks	2.8	2.2	1.6	1.7	1.6
Joint banks	1.7	2.4	3.0	3.0	2.8
Foreign banks	4.1	7.2	9.3	9.3	9.2
Rural Credit Banks [1]	0.5	0.4	0.3	0.3	0.3

1) To commercial banks

The decline in public confidence has caused a transfer of large amount of fund to presumably sound banks as reflected in increasing shares of state banks, joint banks, and foreign banks. By contrast, the shares of private national banks, regional development banks, and rural credit banks came down compared to the previous year's shares (Table 6.8). The shift in fund allocation affected banking liquidity, particularly for the private national banks, as reflected in an increase in violations of the statutory reserve requirement and the in increasing amount of liquidity support from Bank Indonesia.

Table 6.9
Outstanding of Foreign Borrowings by Group of Banks

Group of Banks	1995/96	1996/97	1997/98
	(In billions of rupiah)		
Commercial Bank	**30,195**	**39,427**	**120,124**
State banks	11,125	15,469	40,743
Private national banks	8,821	12,380	36,318
Local government banks	24	152	4,339
Joint banks	9,085	10,065	33,642
Foreign banks	1,140	1,362	5,082

Meanwhile, incoming borrowing in foreign currency increased rapidly from Rp39.4 trillion in the preceding year to Rp120.1 trillion (Table 6.9). This sharp increase resulted from intensifying foreign borrowing activities and sharp depreciation of exchange rate. The foreign debts denominated in foreign currency played a major role in provoking a banking liquidity crisis as there a lot of debtor-customers asked for a rescheduling plan for servicing the debts while the banks at the same time remained obliged to service their obligation punctually.

Use of Fund

The exchange rate turmoil in the reporting year had brought about a slower credit expansion. In the reporting year, credit grew by 55.8% (Table 6.10). However, holding the exchange rate constant, credit expansion growth was recorded at only by 12%, much lower than 26.3% in the preceding year. In the first quarter of 1997/98, credit grew at annual rate of 29.6%. However, with constant exchange rate, over the period of July 1997 - March 1998, credit expansion increased by only 3.2%, at annual rate. The increase took place in the period of July - November 1997, while, after November, credit growth even contracted.

Holding the exchange rate constant, much of credit growth originated from the rise in working capital credit. In general, by economic sector, except for agriculture and manufacturing, all sectors showed a sharp slow down in credit growth. As in earlier year,

Table 6.10
Bank Credits

Bank Credit	1996/97	1997/98	1997/98 1)	1997/98	1997/98 1)	1997/98	1997/98 1)
	Percent change			Outstanding (In billions of Rp)		Share (In percent)	
By type of credit	**26.3**	**55.8**	**12.0**	**476,841**	**342,816**	**100.0**	**100.0**
Investment	20.2	78.1	9.6	132,771	81,727	27.8	23.9
Working capital	28.9	53.4	12.9	307,778	226,460	64.5	66.0
Consumer	25.1	17.2	11.9	36,282	34,629	7.7	10.1
By economic sector	**26.3**	**55.8**	**12.0**	**476,841**	**342,816**	**100.0**	**100.0**
Agriculture	19.1	69.1	35.3	31,865	25,488	6.7	7.4
Mining	123.7	54.3	45.1	6,964	3,972	1.5	1.2
Manufacturing	11.2	94.5	13.1	157,982	91,842	33.1	28.0
Trade	30.6	46.5	6.8	107,607	78,466	22.6	22.9
Services	38.9	38.2	7.9	133,382	104,080	28.0	30.4
Others	25.1	17.1	16.9	39,041	38,968	8.1	10.1
By category of bank	**26.3**	**55.8**	**12.0**	**476,841**	**342,816**	**100.0**	**100.0**
State banks	16.0	82.7	38.8	202,569	153,877	42.5	44.9
Private national banks	36.8	20.6	–6.2	192,076	149,355	40.3	43.6
Local government banks	28.3	–0.2	–1.7	7,181	7,075	1.5	2.1
Foreign and joint banks	14.2	160.6	12.9	75,015	32,509	15.7	9.4
In rupiah and foreign currency	**26.3**	**55.8**	**12.0**	**476,841**	**342,816**	**100.0**	**100.0**
Rupiah	26.3	17.1	17.1	286,925	286,925	60.2	83.7
Foreign currency	26.2	210.5	–8.6	189,916	55,891	39.8	16.3

1) Based on Rp/$ exchange rate at the end of June 1997

credit to mining activities registered the highest growth. In the meantime, export credit stood at Rp51.0 trillion by the end of 1997, down 6.3% from the year before.

Credit to the property sector in the reporting year showed a slow down as well. At the end of the year under review, property credit was registered at Rp70.1 trillion, reflecting a low growth of 10.2%, and even much lower than 41.6% in the year before. Holding exchange rate constant, property credit recorded even a decline by 8.6%.

In addition to the effect originating from foreign exchange turbulence, the slower pace of credit growth in the property sector was attributable to a government policy to curb its growth. The policy was implemented through moral suasion to banking sectors as there is inherent risk in the property credit namely liquidity risk known as mismatch, credit risk due to overvalued collateral and market risk due to pseudo price and volatile market. As a follow-up steps for the policy, in July 1997, Bank Indonesia issued a regulation that prohibits commercial banks from extending credit to real estate developers and/or assuming a guarantee over securities issued by developers to finance land acquisition and/or land developing, except for low-income or very low income credit scheme.[3)]

By group of banks, measured at constant exchange rate, credit expansion for national banks group recorded slower growth rates, even negative, except for state banks. By currency used, credit in rupiah denomination expanded at a slower pace, while credit in foreign currency grew negatively.

Small-scale Business Financing Ungu

As a consequence of weakened economic performance, a number business activities slowed down or even stagnated. There were unavoidable downsizing phase which led to a lay-offs workers. In response, the Government announced an integrated measures to provide social safety net benefiting small-scale business activities and low-income segment of society. The measures include capital support, supplementary program, and establishment of supporting group (Box: Measures to Cushion the Adverse Effects of the Monetary Crisis on Small-scale Enterprises and Lower Income Segments).

In the reporting year, the basic strategy for financing small-scale business activities remained the same as that in the previous year, namely requiring banks to provide credit to small-scale enterprises (KUK), offering financial aid through liquidity credit from Bank Indonesia and channeling two-step loans, offering technical support, and developing institutions.

In the beginning of the reporting year, the Government improved the regulations on the provision of credit to small-scale enterprises.[4)] The improvement aims at strengthening the commitment and motivation of banks, and confirming penalty and reward for attaining the targets of providing credit to small-scale enterprises. The basic elements of the measures encompass the following: (i) all banks, including foreign banks and joint banks, are responsible for disbursing as low as 22.5% or 25% of total bank lending to small-scale enterprises; (ii) broadened coverage of credit to small-scale enterprises by raising ceiling from Rp250 million to Rp350 million; (iii) adjusted the term small-scale enterprise by referring to Act No.9 of 1995 about Small Scale Entity; and (iv) sanction and incentives are no longer tied with the provision of soundness rating, but with financial matters.

In the reporting year, the Government also introduced Integrated Partnership Program (PKT).[5)] Such program is intended to speed up and broaden bank services to small-scale enterprises and support the Na-

3) Board of Directors of Bank Indonesia Decree No. 30/46/KEP/DIR dated July 7, 1997

4) Board of Directors of Bank Indonesia Decree No. 30/4/KEP/DIR dated April 4, 1997

5) Board of Directors of Bank Indonesia Decree No. 30/55/KEP/DIR dated August 8,1997

tional Partnership Movement (GKN). PKT, or integrated partnership program, is a joint venture endeavor between small-scale and big-scale enterprises that involves bank as credit provider in a cooperation manifested in a "letter of intent." To meet the objective, the Government provided facilities as follows: (i) the ceiling credit of Rp700 million for small-scale enterprises under the Integrated Partnership Program, can be classified as Credit to Small-scale Enterprises; (ii) the ceiling credit of Rp2.0 billion for cooperatives under the Integrated Partnership Program can be classified as Credit to Small-scale Enterprises, and (iii) provision of Credit to Small-scale Enterprises under the Integrated Partnership Program can be given through big-scale enterprises insofar as this provision is effectively benefiting the small-scale enterprises.

Besides, in the reporting year, Bank Indonesia improved regulation on credit program under liquidity credit from Bank Indonesia (KLBI) support. The goals are to enhance bank services to small-scale enterprises including cooperatives and to make its services more effective. This measures includes: (i) enlarging the coverage of credit to farmers (KUT) for East Timor Province exclusively by incorporating activities beyond the intensification of paddy, secondary crops, and cash crops, namely agricultural activities in a broader definition including agricultural infrastructure, fishery, and livestock; (ii) broadening the coverage of Credit to Rural Unit Cooperatives (KKUD) beyond the procurement of paddy, secondary crops, cash crops, cloves, and fertilizer, namely investment activities in agribusiness;[6] and (iii) widening the coverage of Primary Cooperative Credit for Member Scheme beyond the financing of the productive activity of their members namely cooperatives as business entities.[7]

6) Board of Directors of Bank Indonesia Decree No. 30/98/KEP/DIR dated October 28, 1997
7) Board of Directors of Bank Indonesia Decree No. 30/97/KEP/DIR dated October 28, 1997

To overcome medium-term and long-term liquidity shortages, particularly for small-scale businesses, and to boost non-oil/gas export, the Government managed to obtain foreign financing from international financial institutions through two-step loan program. The funds came from the Exim Bank of Japan (EXIM VI) for credit to small-scale enterprises and venture capital corporations, Exim Bank of China (EXIM Taiwan) for cooperatives members through groups and cooperatives, World Bank for Solar Home System Project (SHS), Asian Development Bank for Micro Credit Projects (PKM), and Overseas Economic Cooperation Fund (OECF) for Pollution Abatement Equipment Project (PAE Stage II).

Bank Indonesia also continued its technical assistance through Small-scale Enterprise Development Project (PPUK) and Bank and Self-help Group Link Project (PHBK). Besides, the central bank also continued to develop Micro-credit Project (PKM) to give financial support to low-income clients in rural areas and technical support to strengthen rural financial institutions (LKP) such as Rural Credit Bank (BPR) and Rural Fund and Credit Institution (LDKP).

Institutional development was carried out through interbank cooperation, within commercial banks (banks with numerous offices and with limited number of offices) and between commercial banks and rural credit banks, including islamic rural banks. In addition, Bank Indonesia in cooperation with Ministry of Finance planned put the efforts to promote the role of state credit insurance (PT Askrindo) in providing guarantee to small-scale enterprises in a bid to boost their access to the banking system.

The growth rate of credit to small-scale enterprises by the end of the reporting period was recorded at 32.5%, a significant rise from Rp49.7 trillion in the end March 1997 to Rp65.9 trillion at the end of March 1998. Such significant growth rate resulted from the broadened coverage of the KUK term and expanded scope of the credit. Meanwhile, collectibility of the credit in the reporting year saw a decline. The share of performing loan fell from 92.7% in end-March 1997 to 84.6% at end-March 1998, while the share of non performing loan rose from 3.1% by end-March 1997 to 3.9% in end-March 1998. The number of banks that complied with the KUK criteria for credit to small-scale enterprises amounted to 134 banks (60.4% of all banks), an addition of 21 banks (18.6%) compared to that in the preceding year. The number of accounts increased by 17.1% from 7.6 million accounts in end-March 1997 to 8.9 million accounts at end-March 1998. Most of the credits (97.7%) in the year under review represented credits to clients with a ceiling of Rp50 billion. This large portion showed that the credits remained benefiting small-scale clients.

As part of credit to small-scale enterprises, Credit for Feasible Projects (KKU) evidently also recorded a 21.9% rise from Rp536.7 billion in end-March 1997 to Rp674.6 billion by end-March 1998. The number of customers that received the credit registered a 26.0% increase from 38,393 customers in end-March 1997 to 48,338 customers in the end of the reporting year.

The provision of the technical support under the Small-Scale Enterprise Development Project (PPUK) was implemented by identifying 2,801 projects. Out of the number of identified projects, 1,828 had been implemented under the credit to small-scale enterprises (KUK). Its value totaled Rp1,440 billion covering 282,496 small-scale enterprises and cooperatives, most of which were implemented through nucleus-plasma partnership scheme. Partnership pattern was developed through the approach of Integrated Small-scale Business Partnership Project (PKUKT). There were about 232 projects which have been implemented with a credit value of Rp599 billion, involving 53,757 plasma units. In the reporting year, the Government has created 8 lending models, most of which were for agricultural purposes. Besides, the Government has trained 9,887 officers of the Small-scale Business Development Unit (UPUK) and 2,428 bank credit officers.

The number of Community Self-help Development Institutions that have become members of the Bank and Self-help Group Link Project (PHBK) amounted to 184 institutions. The banks have served 12,467 Self-help Groups (KSM) with the credit value totaling Rp94.1 billion for 475,824 group members. The number of groups, credit value, and number of members in the reporting year increased by 64.3%, 82.0%, and 73.8% respectively from those in the preceding year. In implementing the micro credit program (PKM), the Government has selected 27 self-help development institution (LPSM), 5 local government banks (BPD), and 290 rural financial institutions (LKP) as participants in the micro credit program (PKM) with realized credit amounting to Rp6.5 billion for 37,457 micro clients.

Compliance with Prudential Regulation and Business Performance

The ongoing crisis has worsened banking performance as indicated by tight liquidity, falling profitability and equity, and rising non performing loan. As a result, the banking industry witnessed increased violations covering the statutory reserve requirement, loan to deposit ratio (LDR), net open position (NOP), capital adequacy ratio (CAR), and legal lending limit (LLL).

The tight liquidity was reflected in the violation of statutory reserve requirement that tended to rise both in the quantity of banks and their frequency (Table 6.11), most of which happened in the fourth quarter of 1997/98. The LDR saw a rise from 79.6% in the previous year to 83.2% (Table 6.12). Although as a whole, the LDR remained satisfactory, the number of banks that violated the ratio increased from 11 banks in the previous year to 40 banks in the year under review.

In addition to the above two indicators, the tight liquidity in the banking industry can also be indicated by an increase in net open position that was even faster in the beginning of 1998 in line the sharp rupiah exchange rate depreciation against dollar. The vast increase was

Table 6.11
Violation on Statutory Reserve Requirement Regulation

Group of Banks	Dec. 96	Dec. 97	Jan. 98	Feb. 98	Mar. 98
	Number of banks				
Commercial Bank	**72**	**111**	**120**	**120**	**111**
State banks	3	5	7	7	7
Private national foreign exchange banks	26	54	60	59	55
Private national nonforeign exchange banks	29	33	33	35	35
Local government banks	4	5	5	4	6
Joint banks	6	8	10	10	5
Foreign banks	4	6	5	5	3

Table 6.12
Banks' Performance Indicators: CAR, LDR, and NOP

Group of Banks	1995/96	1996/97	1997/98
	Ratio (In percent)		
I. Capital Adequacy Ratio (CAR)			
Commercial Bank	**12.0**	**12.2**	**4.3**
State banks	13.7	13.9	2.4
Private national foreign exchange banks	10.1	10.3	5.3
Private national nonforeign exchange banks	11.0	9.7	15.9
Local government banks	14.7	14.7	9.2
Joint banks	16.5	18.0	4.8
Foreign banks	14.0	13.8	12.8
II. Loan to Deposit Ratio (LDR)			
Commercial Bank	**80.6**	**79.6**	**83.2**
State banks	80.1	78.5	87.2
Private national foreign exchange banks	80.7	80.2	90.6
Private national nonforeign exchange banks	92.3	87.5	80.3
Local government banks	47.8	55.3	50.3
Joint banks	90.1	88.8	123.1
Foreign banks	85.4	79.4	60.3
III. Net Open Position (NOP)			
Commercial Bank	**11.7**	**10.6**	**36.4**
State banks	11.5	12.2	43.5
Private national foreign exchange banks	13.5	12.9	30.2
Local government banks	14.6	12.2	62.8
Joint banks	7.6	7.9	22.6
Foreign banks	11.3	7.9	23.0

registered in local government bank, followed by state bank and private national foreign exchange bank which underlined the vulnerability of the banking industry to against foreign exchange changes. The management of net open position in the midst of the crisis was increasingly complex as an otherwise sound bank might end up violate the rule.

The worsening banking profitability particularly in the second half of the reporting year is indicated by some indicators, namely return on assets (ROA) and return on equity (ROE), and the ratio of operating cost on operating income (OCOI). By group of banks, performance of private national foreign exchange banks and state banks worsened while that for foreign banks posted remarkable progress (Table 6.13).

Solvency of the banking industry, as shown by capital adequacy ratio, declined from 12.2% in the preceding year to 4.3% resulted mostly from an increase in the inherent risk of bank assets without significant changes in their capital. The sharpest decline was recorded in joint bank, followed by state banks and private national foreign exchange banks.

Meanwhile, there was persistent violation in legal lending limit owing to the weakening of the rupiah exchange rate. This was the case due to large amount of credits denominated in foreign currencies extended to group-customers. Up to the end of 1997, 51 banks were reported to have violated the limit, an increase from 46 banks in the preceding year. Consequently, non performing loan rose from 9.3% to 19.8% of total credit outstanding. This increase underlined the deterioration in the quality of most of their productive assets which in turn resulted in lower profitability and tight liquidity (Table 6.14).

Table 6.13
Banks' Performance Indicators : ROA, ROE, and OCOI

Group of Banks	1995/96	1996/97	1997/98
	In percent		
I. Return on Assets (ROA)			
Commercial Bank	**1.15**	**1.17**	**0.38**
State banks	0.62	0.82	0.34
Private national foreign exchange banks	1.37	1.13	–0.47
Private national nonforeign exchange banks	0.20	0.31	0.97
Local government banks	2.15	2.17	1.79
Joint banks	2.52	2.49	1.54
Foreign banks	4.50	4.48	5.18
II. Return on Equity (ROE)			
Commercial Bank	**16.32**	**15.64**	**5.94**
State banks	12.49	13.56	7.53
Private national foreign exchange banks	17.95	14.88	–6.71
Private national nonforeign exchange banks	3.15	3.32	8.55
Local government banks	25.30	25.13	22.28
Joint banks	20.17	19.48	15.34
Foreign banks	40.08	37.38	66.77
III. Operating Cost on Operating Income (OCOI)	Absolute figures		
Commercial Bank	**0.92**	**0.93**	**1.01**
State banks	0.93	0.94	1.03
Private national foreign exchange banks	0.94	0.93	1.02
Private national nonforeign exchange banks	0.98	1.00	1.03
Local government banks	0.85	0.88	0.94
Joint banks	0.80	0.82	0.91
Foreign banks	0.75	0.74	0.88

Deterioration in the banking performance was reflected in increased losses resulting from worsening productive asset quality and weakening rupiah exchange rate. Several banks, accordingly, became illiquid and insolvent. To restore the soundness of banking system, the supervision of insolvent and illiquid banks was transferred to IBRA.

Table 6.14
Non-performing Loans

Group of Banks	1995/96	1996/97	1997/98
	In percent		
Commercial Bank	**10.6**	**9.3**	**19.8**
State banks	16.6	14.2	24.2
Private national foreign exchange banks	4.0	4.4	12.8
Private national nonforeign exchange banks	14.7	16.5	19.9
Local government banks	18.5	13.9	15.8
Joint banks	7.4	7.7	25.3
Foreign banks	2.8	2.7	24.4

Rural Credit Bank

In the reporting year, Bank Indonesia approved the establishment of 63 new rural credit banks (BPR), including 7 islamic rural credit banks. The addition of new rural banks was not as many as that in the beginning of 1990s that exceeded 300 banks per annum. The slow down in the yearly growth was attributable to the government policy on the establishment of new banks that placed emphasis on the quality rather than quantity. The policy aims at improving public confidence in rural credit banks. In addition to rural credit bank, in the reporting year, the Government has transformed 132 rural fund and credit institutions (LDKP) into rural credit banks.

The rural banks managed to mobilize Rp.1.6 trillion fund from 4.6 million depositors/savers and to loan Rp2.3 trillion in the form of credit to 2.4 million clients (Table 6.15). The business volume up to the end of the reporting year grew by 6.7%, lower than 14.1% in the previous year owing to the monetary crisis and the crisis of confidence in the banking system. The crises put the banks in a difficult position as they had to compete with commercial banks that have raised interest rates at a very high level. Inevitably, a lot of rural banks' clients have transferred their money from rural banks to commercial banks in the pursuit of higher interest income earnings. Because of high cost of fund, rural banks faced difficulty to extend credits that resulted in a decline in credit expansion. In addition, the crises also brought down the capability of the banks' clients to repay their loans that resulted in an increase in non performing credits from 11% in the preceding year to 13%.

In the reporting year, particularly in the beginning of 1998, the Government had took an initiate evaluation on the future of the rural credit bank. The review, based also on the insight from the public, focused on promotion of rural credit banks by providing government's guarantee program as that applicable to depositors of the commercial banks.

Table 6.15
Number of Offices and Selected Indicators of Rural Credit Bank

Description	1995/96	1996/97	1997/98
	Number of offices		
Rural credit agencies	5,345	5,345	5,345
Rural fund and credit institutions	1,978	1,978	1,848
Others	1,955	1,955	2,186
	Dec. 95	**Dec. 96**	**Dec. 97**
	In billions of rupiah		
Total assets	2,418	2,760	2,944
Deposits	1,405	1,577	1,601
Credits	1,883	2,141	2,288
Paid in capital	446	529	623
Profits	36	45	30
	Proportion to Commercial Banks (In percent)		
Total assets	0.58	0.54	0.41
Credits	0.70	0.65	0.51
Deposits	0.60	0.52	0.40

Profit-sharing Bank

The number of islamic banks or profit-sharing banks in the year under review increased by 6 banks which brought the total number to 78 profit-sharing banks comprising 1 commercial bank and 77 rural credit banks. The banking crisis has also adversely affected the activity of the profit sharing banks in terms of severe liquidity difficulty as a result of massive withdrawal of funds from the banks. Performance of the banks deteriorated in terms of worsened productive asset quality and increased non performing credit.

The share of islamic banks in the overall banking system remained small, 0.07% for assets and 0.08% for both deposit and credit. The islamic banks encountered three main constraints. First, their existence is not widely known because of limited publicity of the activity of the profit-sharing bank as compared to commercial bank such that public was more familiar with conventional bank than syari'ah bank. Second, constraint in capital, particularly for the islamic rural credit bank, that restricts operation scale and expansion of branch offices. Third, constraint in human resources that have the banking expertise in the operations of islamic banks.

To support further development of the banks, Bank Indonesia has reviewed the existing rules to set specific rules consistent with the profit-sharing principles and prudential banking principles. With the more specific rules, the islamic bank is expected to expand augment its contribution to the national banking system in particular and to national development in general.

Banking Policy Outlook

The tough situation faced virtually by all banks calls for systemic restructuring program. The most urgent element in the program is to restore confidence. Although the restoration is also subject to other non-banking factors, regaining confidence necessitates an integrated policy that is consistent with the restructuring program endorsed by the Government.

Therefore, the future policy will address not only the quality improvement of internal governance by the management and owners of the banks, but also of external governance by the market and general public, as well as Bank Indonesia as supervisor of the national banking system. Restoration of confidence necessitates policies to address the problems not only in individual banks but also in the overall banking system and in the macro environment.

For the individual banks, the restructuring measures will cover not only financial aspects, but also the operations, The resolution will differ from one bank to another. Nevertheless, the policy will be transparent so that it will give an incentive for the management and owners of the banks. The restructuring measures initiated by IBRA will continue and include the possibilities of management takeover and ownership restructuring. Likewise for banking system, the restructuring program will entail a shake up in the banking system configuration with a view to streamlining its numbers and reforming its structure so as to produce a consolidated but less concentrated shape.

The objective of the restructuring program is to set a more competitive banking structure with clearer criteria for entry and exit mechanisms. The criteria prevent the system from a possibility of facing a dilemma "too big to fall" and excessive moral hazard. Therefore, the restructuring measures will encompass regulations to maintain and develop an overall banking system.

At the macro level, the Government will support banking development through banking policies that are consistent with macroeconomic management, particularly with measures to restore the confidence of both economic players at home and abroad.

The policy outlook will focus on transforming existing banking configuration to a more consolidated system that facilitates its members with incentives to operate efficiently, safely, and profitably based on prudent management principles. The objective is to form banking classification that consists of international bank, national bank, regional bank, and rural bank, each of which possesses different capital requirement and scope of activity. To stimulate regional economic development, the Government will require banks to reinvest a part of mobilized fund back to the respective region through credit extension.

To provide incentives to the management and owners of the bank to perform efficiently, the Government will improve banking infrastructure, including upgrading the competence of the management and bank owners, in addition to enhancing self-regulatory banking.

The Government will consistently implement the legal lending limit principles and the information on this issue will be made transparent to the public. Bank Indonesia will continue to improve transparency and disclosure of banks' financial status so as to enable people to take part in the supervision of the banking performance.

To discourage moral hazard, originating from liquidity support and rescue effort by Bank Indonesia, the central bank will disclose support and policy to every individual bank in more transparent way. Further more, in a bid to protect, referred to as safety net, the plan to establish deposit insurance institution will be realized promptly.

In the area of bank supervision, focus will be given to the improvement of effectiveness and quality through the application of consolidated supervision. Surveillance on capital adequacy and bank liquidity position will be enhanced by requiring banks to submit monthly report on the above subjects. On the whole, supervision of risk management will get attention as Bank Indonesia will train bank supervisors to better understand risks management. Besides, Bank Indonesia will provide guidelines for banking sector to prepare transparency and information disclosure as well as application of core principles for effective supervision as stipulated in the Basle Committee.

Other Financial Institutions

Performance of other financial institutions up to the third quarter of 1997 remained progressive. However, since the fourth quarter of 1997, the performance of finance company, insurance, and pension fund, commenced to subside due to the monetary crisis. The crisis has raised cost of fund of those institutions as the rupiah turmoil has pushed interest rate up. Additionally, collectibility of accounts receivable in general also registered a decline in step with the economic downturn. Meanwhile, as a result of the policy to broaden the area of services in terms of regions and improve efficiency, the state pawnshop company recorded a buoyant development. The monetary crisis led to a robust demand for its services because of its swift and uncomplicated process. The issue of declined collectibility of fixed collateral can be surmounted in the pawnshop as it justified moveable collateral that had value exceeding the amount of credit obtained.

In the meantime, bearishness dominated the stock market as indicated by the downward movement of the composite price index alongside the falling trend of fluctuating prices of the individual shares. In the beginning of July 1997, stock market peaked but then fell drastically in harmony with the rupiah depreciation. The composite stock price index (CSPI), experienced a price rise as a result of the arbitrage move on shares with dual listing arrangement in the beginning of 1998. However, the composite index dropped in the beginning of March 1998 due to a tight money policy. By the end of March 1998 the capital market rebounded as a result of investor's optimism on the results of economic reform package, rescheduling of private debts, and expectations on the continued strengthening of the rupiah exchange rate against dollar.

In supporting fund mobilization for housing ownership financing, the Government issued a regulation on Secondary Mortgage Facility (SMF).[8] The SMF provides secondary financing facility for housing by giving medium-term or long-term loans to banks that provides housing credit. The collateral includes the claim on the amortization and interest payment of the credit and the title on the building and/or land. To invigorate stock market activity, the Government has lifted limitation of share ownership (except banks) for foreign investors. To develop securities market, the Government has issued regulations on asset-backed securities and Indonesian Stock Deposit Custodian Corporation.

Finance Companies

In December 1997, the number of finance companies other than venture capital companies amounted to 248 companies following the closure of 4 inactive companies (Table 6.16). Out of 248 companies, 224 companies, or 90%, remained active. Despite the closure, total financing value increased 43% compared to that in the year before, although the growth rate in the fourth quarter (8.7%) was down from 14.4% in the third quarter. The business volume was reflected in increased total assets, even though its growth rate of 17% in the fourth quarter was slightly lower than 18% in the third quarter.

The market share of finance company by category of activity shifts Leasing companies represented the largest share (45%), while the market share of consumer financing increased to 28%, greater than 27% share of factoring companies. Credit card operations recorded a rapid increase despite its small share of 1%.

With regard to sources of fund, finance companies relied largely on domestic and foreign borrowings (Chart

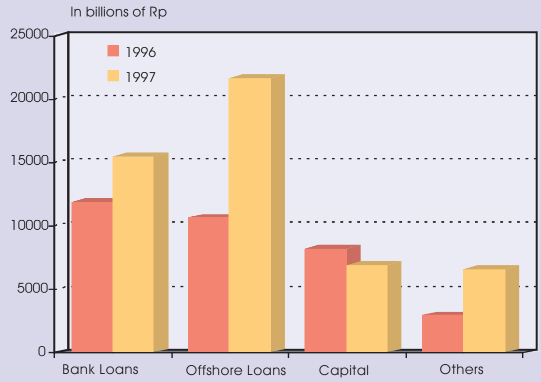
8) Minister of Finance Decree No. 132/KMK.014/1998 dated February 27, 1998

Table 6.16
Selected Indicators of Finance Companies

Indicator	1995	1996	1997*
	In billions of rupiah		
Number of companies [1]	**254**	**252**	**248**
Business activities	**25,867**	**26,586**	**38,033**
Leasing (contract value)	8,498	12,129	16,904
Factoring (financing value)	11,662	8,035	10,097
Consumer financing (contract value)	5,425	6,361	10,601
Credit card (financing value)	282	61	432
Financial position			
Total assets	23,899	33,591	50,520
Total equity	4,215	8,191	7,787
Net investment	18,719	26,691	39,996
Outstanding borrowings	**17,692**	**23,743**	**39,187**
Domestic	10,442	12,921	17,538
Foreign	7,250	10,822	21,649

1) In units
Source : Ministry of Finance (processed)

Chart 6.2
Finance Companies' Source of Fund



6.2). External borrowing rose sharply and as it was accompanied by sharp rupiah depreciation of rupiah, its share in total borrowing surpassed the share of domestic source. Meanwhile, fund that originated from bank loan recorded an increase in spite of a decrease in its share of total fund. Nevertheless, bank loan remained the largest share (88%) in the domestic source of fund.

Meanwhile, the capital of finance companies fell 5% to Rp7.8 trillion. The fall resulted from the decreased number of finance companies and business losses in December 1997. Up to the end of 1997, finance companies as a whole recorded a business loss of Rp188 billion. The loss was attributed to a rise in cost of fund in line with the increase in interest rate and exchange rate depreciation. Although revenues rose 55% compared to that in the previous year, expenditures increased more rapidly by 93%. Cost components that climbed up included interest expense by 48% or Rp1.7 trillion, and swap premium by 107% or Rp0.3 trillion.

Regarding the placement of funds, financing activities remained to have the largest share, followed by securities placement buying and equity participation (Chart 6.3). Equity participation in the reporting year declined. In line with the rise in financing activity, over the past three years, the ratio of financing by finance companies, particularly leasing, to bank credit was on the rise (Table 6.17). The progress resulted from a more flexible financing procedure than that for credit extended by banks.

The number of venture capital companies and their equity participation recorded an increase although the number of investee companies declined (Table 6.18). In 1997, the number of venture capital increases by 17 companies originating from 6 private national companies, 6 joint venture companies, and 5 local venture capital companies (PMVD). Up to the end of 1997, there were 25 local venture capital companies, of which 24 companies were situated in the provinces and 1 company was in the district. These companies held venture capital in 464 investee companies. Total equity value up to December 1977 rose by 435% because of measures to establish venture capital in various provinces. The measures included the channeling of two-step loans and the provision of training for venture

Chart 6.3
Finance Companies' Fund Placement

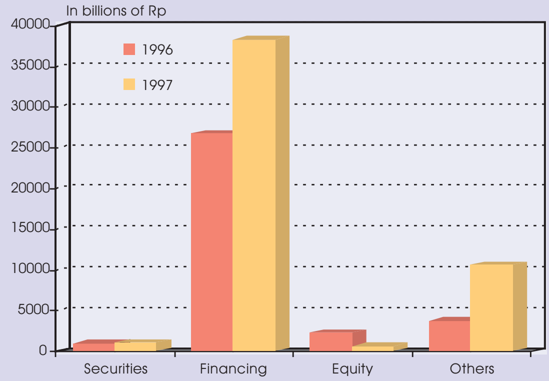


Table 6.18
Selected Indicators of Venture Capital Companies

Indicator	1995	1996	1997*
	In units		
Number of companies	33	42	59
Private national	10	12	18
Joint venture	7	10	16
Local companies	16	20	25
Number of investee companies	**151**	**516**	**504**
Private national	40	78	33
Joint venture	7	2	7
Local companies	104	436	464
Value of activities[1)]	148,842	42,675	228,281
Private national	129,941	22,208	129,304
Joint venture	14,325	2,143	49,444
Local companies	4,576	18,324	49,533

1) In millions of rupiah
Source : Ministry of Finance

capital account officer. The venture capital companies are allowed to undertake profit sharing deal with other investee companies.

In 1997, the number of investee companies declined to 12 companies due to the end of the participation period and difficulty of venture capital companies to seek new investee companies in the midst of economic downturn. During the last 6 years (1991-1997), total activities value reached Rp526.6 billion to finance 1,230 investee companies.

Insurance and Reinsurance Companies

In August 1997, the number of insurance and reinsurance companies increased to 171 companies and the number of insurance-support companies reached 120 companies (Table 6.19). The addition resulted from an increase in joint-venture companies in the field of life assurance or indemnity companies. The increased number of joint ventures indicated that foreign investor viewed the national insurance market had considerable potential, while the market in advanced countries was increasingly competitive as a result of over supply.

Total asset soared by 29% in 1996 owing primarily to asset growth in life assurance. The largest asset came from social security insurance, followed by life assurance, indemnity, and reinsurance (Table 6.20)

Meanwhile, investment by insurance companies rose 34% to Rp18 trillion, representing 80% of total assets. This pattern of portfolio investment remained the same as that of in the preceding years. Most of the fund was invested in time deposit (55%), SBIs (15%), and direct participation (10%).

In the revenue side, gross premium value in 1996 increased by 17.4% that resulted mainly from indemnity and reinsurance, followed by life assurance and social security insurance. Manifestly, the ratio of gross premium to GDP was 1.62% as last year.

Table 6.17
Financial Ratio of Finance Companies to Banks

Ratio	1995	1996	1997*
	In percent		
Finance companies' assets/banks' assets	7.7	8.7	9.6
Leasing financing/bank investment credits	14.3	17.2	16.8
Factoring financing/bank working capital credits	6.7	3.6	3.6

Table 6.19
Number of Insurance and Reinsurance Companies

Type of Company	1994	1995	1996	1997*
	In units			
Life insurance	**49**	**53**	**56**	**58**
State	1	1	1	1
Private national	40	40	37	38
Joint venture	8	15	17	19
Indemnity insurance	**92**	**97**	**98**	**103**
State	2	3	3	3
Private national	75	78	77	79
Joint venture	15	16	18	21
Reinsurance	**4**	**4**	**4**	**5**
State	2	1	1	2
Private national	2	3	3	3
Social insurance	**5**	**5**	**5**	**5**
Total	**150**	**159**	**163**	**171**
Supporting companies insurance	**110**	**115**	**117**	**120**
Insurance broker	71	68	68	68
Reinsurance broker		8	10	13
Adjuster	21	21	21	21
Actuarial consultant	18	18	18	18

Source : Ministry of Finance

Claims paid by insurance companies in 1996 increased by 29% as a result of market fire in several places and accidence in the transportation sector. This payment was primarily made by indemnity and reinsurance, followed by social security. The ratio of claims to premium saw an increase from 33.6% in 1995 to 36.9% in 1996.

Notwithstanding the encouraging development, domestic insurance companies continued to face constraints in equity and skills. Consequently, quite a few insurance companies had to reinsure abroad as reflected in the rising insurance services account deficit in the balance of payments. In 1996, however, the deficit came down by 44% to Rp464 billion because of the claim payment accepted from abroad.

In the fourth quarter of 1997, insurance business faced several challenges. Gross premium tended to rise

Table 6.20
Business Activity of Insurance and Reinsurance Companies

Indicator	1994	1995	1996*
	In billions of rupiah		
Total assets	**14,415.4**	**17,269.8**	**22,263.6**
Life insurance	4,018.0	4,893.5	7,315.8
Social insurance	6,505.7	7,633.1	9,291.3
Indemnity insurance & reinsurance	3,891.7	4,743.2	5,656.5
Gross premium	**5,851.2**	**7,315.9**	**8,591.9**
Life insurance	1,625.1	2,078.7	2,855.2
Social insurance	1,539.0	1,905.2	2,119.3
Indemnity insurance & reinsurance	2,687.1	3,332.0	3,617.4
Claims	**2,050.8**	**2,455**	**3,170.9**
Life insurance	369.5	546.4	642.0
Social insurance	708.6	893.7	1,109.0
Indemnity insurance & reinsurance	972.7	1,014.9	1,419.9
Investment	**10,696.6**	**13,441.5**	**17,759.4**
Life insurance	2,614.9	3,368.7	5,743.1
Social insurance	5,669.4	7,048.9	8,560.0
Indemnity insurance & reinsurance	2,412.3	3,023.9	3,456.3

Source : Ministry of Finance

because of increased sovereign risk and adjustment in nominal premium payable as a result of the price increases of goods insured. Insurance of machinery was conspicuously affected. Although gross premium inclined to improve, its collectibility tended to decline because of the economic downturn.

In the beginning of 1998, life assurance faced liquidity difficulty attributed to a large number of clients cashed in their assurance certificates. Some domestic insurance companies had to wrestle with financial mismatch of using dollar-based income for rupiah-based investment. The cash conversion for dollar-denominated assurance was carried out in terms of rupiah using the prevailing exchange rate.

Pension Fund

Up to the end of 1997, the number of employer-managed pension funds (DPPK) and financial institution pension funds (DPLK) increased to 292 units and 23 units respectively.

Meanwhile, total net asset held by pension funds rose by 23.5% to Rp13.3 trillion in the end of 1996. The increase resulted from member contributions and a rise in investments coming also from an addition of pension funds approved by the Government. The contributions rose by 25.6% to Rp1.5 trillion in 1996. The increase in net assets was in step with the increase in investment. In 1996, investment rose 22.4% to Rp12.5 trillion. Investment in time deposits constituted the highest share, followed by placement in securities and holdings of land and building (Chart 6.4). Meanwhile, total pension on pension benefits increased 36.4% to Rp810 billion.

The monetary crisis did not significantly affect net assets of pension fund up to the end of 1997. The capability to pay contribution, however, tended to decline, while returns from their portfolio investment also came down as a result of the fall in share prices. This fall led pension funds to a change in their investment policy from shares to time deposits.

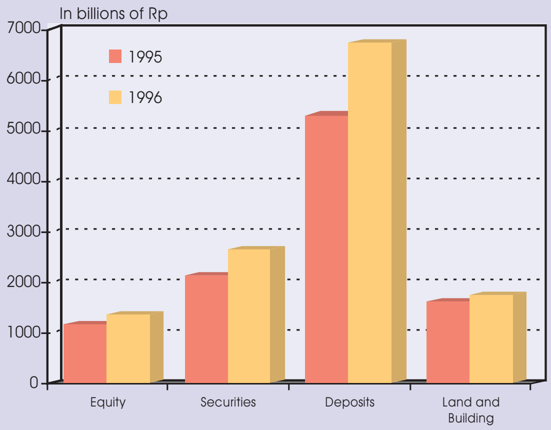
Pawnshops

The state pawnshop company recorded a remarkable progress. The monetary crisis brought up the need for liquidity and pawnshop services are of greater interest to people because of their simpler and faster nature of operations. The greater interest was reflected in the increase in the amount of loans, net profit, and the number of customers. In 1997, the outstanding loans climbed by 21% to Rp2.1 trillion given to about 23 million pawned goods. Net profit registered a 30% increase to Rp41.6 billion. The number of customers rose 5.4% to 5.3 million people.

The business progress resulted from an expansion of its service areas and enhanced efficiency. Up to the end of 1997, the number of operating units increased by 24 units to 622 units that consisted of 559 branch offices and 63 sub-branch offices. Enhanced efficiency was attributable to further developments in the computerized system in branch offices and human resources development. The number of employees was streamlined to give room for improvement of manpower quality as indicated by the increased share of university-graduated staffs of total manpower.

In fund mobilization, the state pawnshop company issued bonds (Emisi Obligasi IV) with a total amount of Rp.100 billion and the bond has been liquidated in early July 1997. In addition, the company has stretched the maturity its medium-term notes (MTN) II amounted to Rp52.5 billion, while the rest, Rp6 billion has been paid all.

Chart 6.4
Pension Funds' Investment



Source : Ministry of Finance

Capital Market

In 1997/98, the capital market showed a bearish performance. Up to the first quarter of the year under review, the market remained progressing. However, the monetary turmoil that began in the second quarter has brought about heavy pressure on the capital market performance. The turmoil has reduced the capability of the listed companies to meet their liability and yield profit, resulting in the selling pressure by investors. Added to the problem was the high interest rate that led investors to reallocating their fund from stocks to time deposits. In addition, the declining confidence of the domestic and international investors in Indonesia's economic prospects caused additional adverse impact on the market. The composite price index in the year under review plummeted by 120 points or 18%. The same unfortunate destiny was shared by bonds and mutual funds. The number of companies that issued bonds in the capital market dropped saliently after the crisis compared with that in the first quarter of the reporting year. Meanwhile, net asset worth of mutual funds was on the decline.

In the reporting year, the Government introduced several measures to reinvigorate the capital market. To maintain security and prudence for investors to transact at the market, the Government imposed restrictions on financing securities transaction for clients and conditions for implementation of margin trading in the Indonesian Stock Exchanges.[9)] Margin trading is only allowed for clients that own net worth more than Rp.1 billion and yearly annual revenue income of more than Rp200 million.

In the reporting year, the Government has removed the 49% limit on foreign investors to purchase shares at the initial price offer for listed companies except shares from the banking industry.[10)] The measures aim at reinvigorating the lethargic stock market activity due to the monetary crisis. In the meantime, to provide an alternative source of liquid financing, the Government introduced a set of regulations on the asset backed securities. Assets are securitized through conversion of account receivables or claims that are inherently less liquid, such as credit for housing ownership. This policy encompasses (i) the provision on the role of investment manager in asset backed securities,[11)] (ii) the provision on the role of custodian bank in asset-backed securities,[12)] (iii) the provision on the guidelines for format and content of the prospectus for the initial public offering of asset-backed securities [13)], and (iv) the provision on the guidelines for collective investment contracts of asset-backed securities.[14)]

The Government issued regulations on public offering of the Indonesian Depository Receipt (IDR).[15)] This measure aims at allowing foreign companies to register their shares at the bourse, institutionalize asset securities activity, and foster legal foundations for scripless trading. Another set of regulations on merger or acquisition were introduced to strengthen the structure of listed companies.[16)]

In 1997/98, the Government liquidated the Indonesian Stock Deposit Custodian Corporation (PT KDEI) and changed it to the Indonesian Stock Central Custodian Corporation (PT KSEI). PT KSEI serves as the only settlement and custody institution (LPP) that supports the capital market activity in accord with Act No. 8 of 1995 concerning the capital market. PT KSEI will for the first time apply scripless share trading in Jakarta Stock Exchange that does not require physical delivery of stocks. However, its implementation will be delayed attributable to higher prices of the hardware that surpasses the prevailing budget. On the other side, the Indonesian Stock Clearing and Guarantee Corporation (PT KPEI) continues its function as the clearing and guarantee institution (LKP).

To revitalize bond trading at the secondary market, in June 1997, the Surabaya Stock Exchange (SSE)

9) Chairman of Capital Market Supervisory Agency Decree No. Kep 09/PM/1997, dated April 30, 1997
10) Minister of Finance Decree No. 445/KMK.01/1997, dated September 4, 1997
11) Chairman of Capital Market Supervisory Agency Decree No. Kep 46/PM/1997, dated December 26, 1997
12) Chairman of Capital Market Supervisory Agency Decree No. Kep 47/PM/1997, dated December 26, 1997
13) Chairman of Capital Market Supervisory Agency Decree No. Kep 51/PM/1997, dated December 26, 1997
14) Chairman of Capital Market Supervisory Agency Decree No. Kep 53/PM/1997, dated December 26, 1997
15) Chairman of Capital Market Supervisory Agency Decree No. Kep 49/PM/1997, dated December 26, 1997
16) Chairman of Capital Market Supervisory Agency Decree No. Kep 52/PM/1997, dated December 26, 1997

introduced the Over the Counter-Fixed Income Service (OTC-FIS), which is a bond trading system through over the counter. Most of the bond trading at the secondary market centered in the Surabaya Stock Exchange that accounted for 90% of total issued bond value in Indonesia.

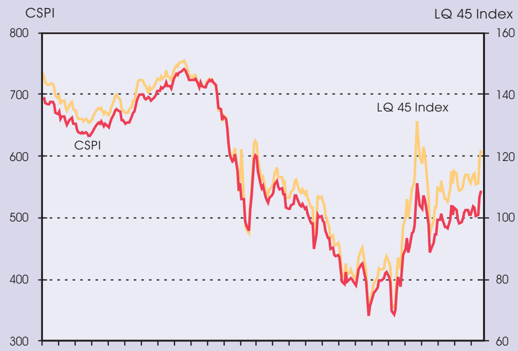
As a consequence of several policies introduced, the stock market saw an encouraging growth in the first quarter of the year under review. Nevertheless, the monetary turmoil reversed the trend in the quarters ahead as indicated by the worsening indicators such as the composite price index, market capitalization value, trading value, and the number of new listed companies.

The index showed a bullish trend in the first quarter of 1997/98 resulting from profits attained by the listed companies that exceeded the projection and the positive sentiment from the bullish Wall Street index. On July 8th, 1997, the composite price index managed to reach its high of 740.833 in the history of the Jakarta Stock Exchange (JSX).

In August 1997, the exchange rate turbulence started to affect the market adversely as the index plunged drastically (Chart 6.5). Although the index managed to rebound after the Government removed the measures that put the 49 percent limit on foreign investors holding in the stock market, the rebound did not last long as the rupiah continued to depreciate sharply against dollar. The index has eventually sunk to its bottom at 399.536 on December 15th, 1997.

In the fourth quarter, the composite price index began to pick up. The key factors behind this moderate pickup were the arbitrage by foreign investor towards shares having dual listing such as Telkom, Indosat and Tambang Timah on further rupiah depreciation, and the optimism of the investors on the bourse's prospects. The investors were optimistic over the IMF supported reform package of the Government and the ongoing process of resolving the private external debts.

Chart 6.5
CSPI and LQ 45 Index at the Jakarta Stock Exchange



At the same time, market capitalization value at the JSX and the SSE slid as a result of the monetary crisis (Table 6.21). The market capitalization value at the JSX remained bullish in the end of the reporting year. It slid by Rp4.9 trillion or a 2% drop compared to that in preceding year, although in the first quarter of the reporting year the value managed to strengthen. The SSE's market capitalization value ascended sharply in the first quarter, but then slipped again to a value lower than that in the previous year because of a decrease in prices of stocks traded, particularly those with large capitalization value.

Unlike market capitalization, the value of traded stocks and the number of listed companies registered a rise. The value of stocks traded rose by Rp101.1 trillion or 359%. The rise indicated the active stock trading at the bourse in under both regular transaction or negotiation which can be attributable to increasingly lower prices of several stocks listed in the bourse. Meanwhile, the number of listed companies in the reporting year increase considerably by 35 companies, 15 of which had registered their shares before the crisis erupted. The rest also had already their plans to go public in the pre-crisis era. In line with the addition of listed companies, the value of issued shares climbed up by Rp19.5 trillion.

Table 6.21
Selected Indicators of Capital Market

Indicator	1996/97	1997/98 I	II	III	IV	Total/ end of period
Stocks						
Number of Companies	271	286	293	304	306	306
Issuance						
Volume (In millions of stocks)	27.3	38.6	40.4	51.5	52.9	52.9
Value (In trillions of rupiah)	52.1	61.8	63.9	70.8	71.6	71.6
Market capitalization						
(In trillions of rupiah)						
JSX	228.2	259.6	203.7	159.9	223.3	223.3
SSE	203.8	232.4	185.9	141.6	202.0	202.0
Trading						
JSX						
Volume (In millions of stocks)	12.5	15.2	23.0	25.9	40.4	104.5
Value (In trillions of rupiah)	28.2	30.6	35.0	26.8	36.9	129.3
SSE						
Volume (In millions of stocks)	0.5	0.9	1.9	1.6	0.3	4.7
Value (In trillions of rupiah)	2.2	1.9	4.7	2.0	0.7	9.2
Composite stock price index						
JSX	662.2	724.5	546.6	401.7	541.4	541.4
SSE	594.0	642.9	488.7	351.9	483.0	483.0
Bonds						
Number of companies	57	68	70	70	70	70
Issuance value						
(In trillions of rupiah)	13.5	18.5	18.7	18.7	18.7	18.7
Outstanding Value						
(In trillions of rupiah)	10.5	13.0	16.2	15.8	15.5	15.5
Outstanding Volume						
(In units of bonds)	432,015	450,841	434,887	241,256	224,999	224,999
Trading value (In trillions of rupiah)		1.4	1.4	1.2	1.3	5.3
Trading frequency		421	366	337	369	1,493
Mutual Funds						
Number of mutual funds	39	60	67	77	77	77
Number of shareholders	5,624	9,627	20,603	20,234	20,618	20,618
NAV 1) (In trillions of rupiah)	5.0	7.3	6.6	4.9	4.0	4.0

1) Net assets value
Source : Capital Market Supervisory Agency

Table 6.22
Outstanding and Trading of Stocks of Foreign Investors 1)

Item	1996/97	1997/98 I	II	III	IV	Total/ end of period
Outstanding						
Volume (In billions of stocks)	24.0	26.5	32.4	34.5	35.9	35.9
Value (In trillions of rupiah)	63.9	71.7	56.0	39.3	57.6	57.6
Stock trading						
Buying transactions						
Volume (In billions of stocks)	18.7	6.1	8.7	10.4	12.1	37.3
Value (In trillions of rupiah)	53.1	15.8	17.4	13.3	20.1	66.6
Selling transactions						
Volume (In billions of stocks)	17.6	5.9	9.7	10.4	11.3	37.3
Value (In trillions of rupiah)	49.6	15.1	18.1	13.2	17.6	64.6

1) At the Jakarta Stock Exchange
Source : Capital Market Supervisory Agency

Foreign investors in the year under review as a whole recorded net buying of Rp2.6 trillion (Table 6.22). However, in the second quarter of 1997/98, they registered considerable net selling of Rp700 billion after they released shares, particularly the blue chip ones when the market began to be under siege. Since third quarter, however, foreign investors picked up their position as net buyers.

In the fourth quarter, net buying position reached Rp2.5 trillion due to the arbitrage on shares with dual listing arrangement (domestic and abroad) such as Telkom, Indosat, and Tambang Timah on the sharp rupiah depreciation (Table 6.23). The foreign institutional investors discharged their share holding abroad (New York or London) than it was followed by buying the same shares in JSX at the lower prices following the depreciation of rupiah. With this action, the index of CSPI in JSX got a lift as the three shares comprises 25% of total market capitalization value in JSX.

The stock share owned by foreign investors in the reporting period declined in the reporting year from 28.0% in the previous year to 25.8% (Table 6.24). This was in line with Indonesia's economic downturn which made foreign investors more selective in buying in the Jakarta stock market.

In the reporting year, the number of listed companies for the bond issued in the SSE increased by 13 companies with total value rising to Rp5.0 trillion. Most of them, 11 companies, issued bonds in the first quarter of the year under review, underlying the tendency that bond issuing is no longer a viable alternatives for financ-

Table 6.23
Market Capitalization of Dual Listed Stocks [1)]

Stocks	Market capitalization (In billions of Rp)	Share (In percent)
Telkom	38,499	17.2
Indosat	14,393	6.4
Tambang Timah	3,648	1.6
Others	166,766	74.6
Total	**223,309**	**100.0**

1) At the end of March 1998
Source : JSX Monthly Statistics, March 1998 (processed)

ing investment. The value of bond trading at the secondary market in SSE reached Rp5.3 trillion. The prices of the 84 bonds traded up to the end of the reporting year averaged below the nominal value. In addition, the Credit Rating Indonesia, Ltd. (PT Pefindo) has downgraded the ratings of almost all bond issuers from stable grade to negative outlook grade, most of which were rated as junk bond (below BBB). Out of the 84 bond issued in the SSE were rated A (as of January 1998). Most of the bonds were issued by state-owned enterprises. Meanwhile, the bond issued by banks were downgraded and some of them were even viewed as speculative grade for investment.

Table 6.24
Share of Foreign Ownership to Market Capitalization [1)]

Period	Foreign ownership (In millions of Rp)	Market Capitalization (In millions of Rp)	Share (In percent)
1996/97	63,905	228,213	28.0
1997/98	57,615	223,309	25.8

1) At the Jakarta Stock Exchange
Source : JSX Monthly Statistics

Just as the bearish development occurred in the stock market, mutual funds also shared the bearish trend. Their net asset value dropped by Rp1.0 trillion as a result of redemption by the investors on the decline in CSPI and the high interest rate. The total number of licensed mutual funds in the reporting year increased to 38 companies. Holders in the mutual funds in the year under review increased to 14,994 holding units, suggesting that mutual funds managed to attract small-scale investors.

Out of the four categories offered in the stock market (as of February 1998), the fixed income has been the largest category to managed public at Rp2.6 trillion, followed by mixed category (Rp801.1 billion), stock category (Rp684.0 billion), and money market (Rp59.0 billion).

Alongside the rupiah depreciation, the role of capital market as an alternative source of financing for the business came down. This was indicated by declining ratio of funds accumulated in the capital market to bank credit from 21.4% in the preceding year to 18.9% (table 6.25). However, holding the exchange rate of June 1997, the ratio rose to 26.3% stemming from the fall in credit expansion in the banking industry due to the slackening business activity and the high interest rate.

The currency turmoil in Asia countries affected adversely not only the Indonesian bourse but also the regional bourses (Chart 6.6). In general regional stock markets plummeted as indicated by remarkable Malaysia by 480 points or 39.9%, Thailand by 246 points or 34.9%, Singapore by 444 points or 21.4%, South Korea by 196 points or 29.0%, Tokyo by 1,476 points or 8.2%, and Hongkong by 1,016 points or 8.1%.

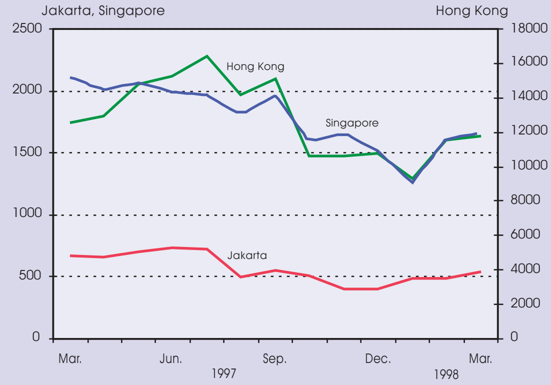
Stock markets in Europe and the United States were also afflicted by the crisis in Asia, although as a whole the markets managed to pick up. On October 27th, 1997, the world stock exchange experienced the greatest crash after the Black Monday on October 26, 1987. The fall began in Hongkong by 13.7%, followed by

Table 6.25
Market Capitalization Ratio to Bank Credits

Period	Issuance Value[1] (a) (In trillions of Rp)	Bank credits (b) (In trillions of Rp)	Market cap. ratio to bank credits (a : b) (In percent)
1995/96	45.5	242.4	18.8
1996/97	65.6	306.1	21.4
1997/98	90.3	476.9	18.9
1997/98 [2]	90.3	342.8	26.3

1) Including stocks and bonds
2) Based on Rp/$ exchange rate at the end of June 1997
Source : Capital Market Supervisory Agency (processed)

Chart 6.6
Stock Price Indices in Jakarta, Singapore, and Hong Kong Stock Exchanges



the Wall Street (7.2%), Tokyo (4.3%), England (3.1%), Germany (4.7%), and other stock exchanges in the world, including the JSX (8.8%). The main cause was panic selling by foreign investors who projected that the currency turmoil would spread throughout Asia. Hongkong, one of the few countries adopting pegged exchange rate regime, was expected to be the next target of speculators. Nevertheless, with its large foreign reserves, Hongkong managed to surmount the speculative attack. Consequently, the Hang Seng Index and indices in the European and American stock exchanges, managed to rebound swiftly.

The Government Guarantee Program over Commercial Banks' Liabilities

Exchange rate crises, coupled with banks' internal problem, has deteriorated public confidence in the banking system. This condition was not only unfavorable for the development of banking sector but at the same time it could also shake the fundamental existence of any bank as a trust institution. This confidence crisis could trigger a massive rush in the banking sector. In an integrated banking system, any problem faced by any bank can quickly exert negative impacts on others. This was mainly due to irrational speculative motive of the fund owners which could be easily influenced by rumors. The failure to stop the spill over might create a situation in which disruptive effects of any problem banks may quickly spread into other banks and lead to systemic risk of the banking system.

An alternative to prevent such risk is through establishing a guarantee program. In a number of countries, such guarantee, among others, can be formulated through deposits insurance system known as deposits insurance scheme. Under this program, the fund owners can obtain guarantee from a certain insurance institution that their money in the banks will be fully returned if their banks face difficulties. In the United States, the history of deposits insurance began with the economic crisis in 1930s as indicated by the establishment of the Federal Deposits Insurance Corporation (FDIC) and Federal Savings and Loan Insurance Corporation (FSLIC) in 1934. FDIC was established to manage insurance system for banks while FSLIC to manage insurance system for savings and loans institutions. The main objective of the two institutions is to provide security to depositors of their deposits. Hence, if banks or saving institutions in which depositors put their fund suffer losses , such fund would be reclaimed through FDIC or FSLIC in accordance with the prevailing insurance. The participation of all financial institutions in the deposits insurance program is a compulsory.

In advanced countries, in general, there are various schemes of deposits insurance program such as those applied in the United State. The schemes are either mandatory as well as voluntary schemes. As for their operating institutions, there are variations among countries which are managed by government institution such as that in the United States and handled by private institution such as that implemented in Germany and France.

There is a concern that the formation of such deposit insurance institution may induce moral hazard among participating banks and financial institutions in the program. However, such attitude can be minimized through increasing the effectiveness of supervision function over the participating financial institutions.

Since the inception of monetary crises, Indonesian banking system underwent an extremely unfavorable situation. The main problem faced by the banks was the deterioration of public confidence. In view of this situation, an alternative effort to re-establish the soundness of the system is to guarantee the claims of depositors as well as creditors. As currently, this program is unavailable in the Indonesian banking system while there is an immediate need to restore confidence in the banking system. The Government is therefore obliged to take necessary steps to regain the confidence through the establishment of the government guarantee program over the payment obligation of commercial banks.

Through Presidencial Decree No. 26 of 1998, dated January 26, 1998, the government decided to offer a guarantee over liabilities of all locally incorporated banks. Unlike the deposits insurance program which in general provides a guarantee only to the depositors, the Indonesian Government guarantee also includes a guarantee to the claims of creditors in term of rupiah as well as foreign currency. In addition, the participation of banks in such program is on an optional basis. However, considering that the program is part of the efforts to restructure the Indonesian banking system for restoring confidence in the banking sector, nearly all national banks joined the program. Meanwhile, a number of joint banks have their own scheme of guarantee as determined by their foreign partner.

The term obligation included in the government guarantee program as stated in Joint Decree of the Board of Managing Directors of Bank Indonesia and the Chairman of Indonesian Bank Restructuring Agency dated March 6, 1998 covers liabilities of banks both on-balance sheet and off-balance sheet. As for on balance sheet items, there include deposits (demand deposits, time deposits, saving deposits, certificate of deposits, and deposites on call); loan supported by underlying loan agreement; commercial papers issued by banks (among others floating rate notes, floating rate certificate of deposits, and medium term notes); issued bonds; customer's deposit guarantee; and other liabilities. Meanwhile, off-balance sheet items include import transactions, such as letters of credit, guarantees, and other liabilities implied under UCP 500; guarantee related to stand-by L/C and bank guarantee, and liabilities related to swap transaction which has underlying definite foreign exchange transaction.

It is understood that efforts to regain public confidence needs more than announcing the program itself. However, the program contributed very positively to the banking sector, as evidenced by increasing flows of returning funds gradually to the banking sector. As such it is expected that this program, coupled with other restructuring measures in the banking sector, will help to restore public confidence in the national banking sector. It is worthnoting that the sound banking system is a prerequisite to bring about national economic recovery.

Indonesian Bank Restructuring Agency (IBRA)

In line with the guarantee program for all claims of depositors and creditors of locally incorporated banks, through Presidential Decree No. 27 of 1998, dated January 26 1998, the Government established the Indonesian Bank Restructuring Agency (IBRA). IBRA is an autonomous agency, operating under the auspices of the Ministry of Finance, with two main functions: (i) to supervise banks in need of restructuring and (ii) to be the asset management agency that it acquires in the course of the bank restructuring.

Bank Indonesia assesses the condition of banks. Those failing to meet certain standards are to be reviewed by IBRA (called as restructured banks). This procedure is in line with article 37 paragraph 2 of Banking Act No. 7 of 1992, including the settlements of Bank Indonesia liquidity support to those respective banks as well. Starting from the delivery date of the banks to IBRA, under this review, as approved by shareholder meetings, the banks' board of directors and the commissioners specify that they will comply with all steps in the restructuring process carried out by IBRA. It means that for the purpose of supervision, restructured banks have to submit all information and clarification of their business activities, including all of their business documents, to IBRA. As in Bank Indonesia supervision, the information is absolutely classified and unpublished. Meanwhile, in order to meet IBRA standard regarding bank soundness, for a certain period, the settlements of Bank Indonesia liquidity support for restructured banks are considered a government capital participation.

Based on Presidential Decree No. 34, dated March 5, 1998, some of IBRA's authorities are as follows.

1. To request the restructured bank to comply with all requirements regarding the practice of bank soundness and to enhance the banking performance, including improvements in the financial, operational, and management aspects.
2. To request the restructured bank's board of directors and commissioners and shareholders to sign all conditions regarding the restructuring process and to guarantee the repayment of Bank Indonesia liquidity support that has already been or will be withdrawn.
3. To ask the restructured bank to submit restructuring plan under requirement, rule, and procedure set by IBRA, including its schedule and actions.
4. To investigate the restructured bank, to acquire documents and information, to inquire evaluation report of the restructuring progress and other evidence needed.
5. To monitor, secure, and restructure the restructured bank's assets.
6. To calculate and to bear the restructured bank's loss.
7. To take any course to any party related with the restructured bank's assets.
8. To require the restructured bank to write off all bad assets.
9. To require the restructured bank's shareholders to add capital.

Based on those authorities, IBRA will investigate the restructured bank's condition and at the same time impose the bank to set the its restructuring plan. To maintain the effectiveness of the restructuring process, IBRA will evaluate that plan continuously. In case the restructured bank no longer meet criteria of structured banks set by IBRA anymore, the supervision on the bank will be returned to Bank Indonesia. However, in case the bank is not able to meet the full soundness, IBRA will take over the bank's operations; determine the maximum compensation for directors, commissioners, and employees; take over the management including revaluating the bank's assets; merge, amalgamate, and/or acquire the bank; control, sell, or shift the bank's assets held by third party; and request the responsibility of the shareholders involved directly or indirectly to the loss of the bank.

The criteria of placing a bank under IBRA review are as follows. First, the bank has used Bank Indonesia liquidity support more than 200% of its paid up capital, its capital adequacy ratio (CAR) is less than or equal to 5%, and it fails to repay discount facility during the maximum 21 days after maturity date. In this scenario, the bank will be grouped into restructured bank of category C. Second, the bank has used Bank Indonesia liquidity support more than Rp2 trillion and the ratio of the fund to its capital is more than or equal to 500%. The bank will be grouped info restructured bank of category B; IBRA will take over and monitor the bank tightly (called as bank in takeover). Third, the ratio of Bank Indonesia liquidity support to the bank's capital is more than or equal to 500% and the ratio of liquidity support to its assets is more than or equal to 75%. The bank will be grouped info restructured bank of category A; IBRA will suspend the bank's business operations (called as suspended bank).

The mobility of bank supervision from Bank Indonesia to IBRA, or vice versa, can take place any time depending on the bank's own performance. So can the shifting of category of the restructured bank, from category C to B, or the other way round, it can happen very fast. However, the reason to place a bank under the review of IBRA is not only based on those three criteria mentioned above but also on other considerations, such as plan for merger between restructured bank and other banks not included in the category. It is intended make the merger process simple and efficient.

By those criteria, functions, tasks, and authorities of IBRA, as of March, 1998 Bank Indonesia has released the supervision of 54 commercial banks to the agency. Bank Indonesia viewed them as calling for restructuring and some were even under the plan of merger. By ownership, 4 out of those banks were state banks, 37 private national banks, 2 joint banks and 11 local development banks. Meanwhile, by category, 7 banks were suspended and other 7 in takeover.

In the context of the government guarantee program for paying all claims of the commercial banks, under Presidential Decree No. 27 of 1998, IBRA was appointed as the institution to carry out the mission. The program will take place for two years, since January 26, 1998 up to January 31, 2000, or 6 months after the program expires.

Currently, IBRA is examining the possibility to develop a specialized asset management corporation to speed up the process of the settlement of restructured bank's assets. This is aimed at expediting the recovery process so that the restructured banks can enter the proposed deposit insurance scheme.

Bank Indonesia's Liquidity Support

The currency crisis has brought about severe burden on the national banking system. Nearly the whole banks across the country, including sound banks in the pre-crises era, encountered serious liquidity problem. An increasing number of banks failed to comply with the statutory reserve requirements and carried negative balance in their account with Bank Indonesia. Such problems necessitated the Government to resort liquidity support which by the end of the reporting year surpassed Rp100 trillion.

The large magnitude of liquidity support prompted public controversy. Some viewed the support as an equivalent to Bank Indonesia liquidity credit intended to support various schemes of government programs. The others viewed the support as a means subsidizing the banks

Definition

Liquidity support is a loan given to banks facing liquidity difficulty in their daily activities. This difficulty may emerge as a result of massive cash withdrawal by depositors triggered by declining public confidence in the banking system.

Under normal circumstances, bank's common means of addressing liquidity problems is to withdraw their own money deposited in Bank Indonesia, or look for interbank call money. However, since the inception of the confidence crises in the banks, there was a large amount of fund withdrawal at unprecedented frequencies. Given a large proportion of fund being invested in the medium/long term maturities, there were shortages of liquid assets in the bank as a result of the huge amount of withdrawal. Consequently, interest rates soared and some banks had to cope with negative balance in their account with Bank Indonesia.

In the face of confidence crisis in the financial system, banking industry is confronted with a common problem. The large amount of withdrawal occurred in any particular bank, with domino effect, may quickly spill over into rush to currency in other banks, disregarding their soundness. In effect, the rush to currency may cripple the overall banking system, create chaos in the payment system, and bring about sector wide stagnation. Against this concern, liquidity support is inevitable to avoid further systemic risk.

Basically, liquidity support is a sort of credit extended to the banks to accommodate the cash withdrawal. This measure is in line with government's policy to warrant the safety of public deposits in the banks and with the role of Bank Indonesia as the lender of the last resort. The magnitude of the liquidity support is to diminish in accord with the gradual restoration of public confidence.

No Subsidy in Liquidity Support for Banks

As in the case of commercial credits, liquidity support is extended with strict terms and without subsidy elements. For any liquidity support obtained by commercial banks, Bank Indonesia charges high interest rates, well above the market interest rates.

Consistent with the prevailing regulation, penalty for statutory reserves shortfall was applied at 150% of average overnight JIBOR for the first day and 400% for the following days, while the rate for discount facility was set at 150% of average overnight JIBOR. For negative balance the penalty was set at 150% of average overnight JIBOR for the first day and raised to 500% for the following days. It is worthnoting that the prevailing JIBOR rate at the end of the reporting year was 52%. Therefore, the interest rate for liquidity support was set at a high 78% for the first day and even higher for the following days. The prevailing high rates for penalty as well as discount facility are to discourage commercial banks from using such facilities as a source of funds for their business activities. Therefore, given the high interest rate, commercial banks are to rely on the other sources of fund before they resort to Bank Indonesia.

Liquidity Support Development

As of December 1997, the amount of liquidity support reached Rp62.8 trillion. The bulk of liquidity support was held to special money market securities which is a conversion from negative balance in Bank Indonesia, and to discount facility I and II in the wake of massive cash withdrawal by the public following the liquidation of 16 inviable banks on November 1, 1997.

During January 1998, cash withdrawal by the public was continuing and even accelerating. As a result, negative balance in Bank Indonesia increased by around Rp30 trillion and by around Rp10 trillion during February 1998 to reach Rp116.5 trillion at the end of March 998.

A lot of the liquidity support went to problem banks. As the supervision of such banks was moved to IBRA, the claim on liquidity support was also turned to IBRA. The claim of Bank Indonesia to IBRA amounted to Rp87 trillion at the end of reporting year.

Comparison with Bank Indonesia Liquidity Credit (KLBI)

The liquidity support for commercial banks should be perceived differently from KLBI which so far is extended to finance various government programs. KLBI is a credit scheme extended by Bank Indonesia to finance government programs through commercial banks. KLBI was especially extended to finance various projects benefiting directly to small-scale enterprises and lower income segment of the society, such as Credit to Farmer (KUT), Credit for Low/ Very Low Cost Housing (KPRS/SS), Credit to Primary Cooperative for Member (KKPA), and Credit to Rural Unit Cooperative (KKUD). KLBI has been instrumental in improving social welfare and in narrowing social gap.

KLBI channeled to commercial banks had relatively lower interest rates to make such credit accessible for targeted borrower. In effect, interest rates subsidy is embedded in KLBI scheme to support lower income group. Currently, interest rates for KLBI is in the range of 8.5% to 14%, well below the interest rates for the general credits. The difference constitutes interest rates subsidy from the Government to lower income groups which will be included in the budget starting from 1998/99 fiscal year.

Measures to Cushion the Adverse Effects of the Monetary Crisis on Small-scale Enterprises and Lower Income Segments

The currency crisis since July 1997 has led to a liquidity problem and increased cost of fund prompted by rising interest rates in most banks. The problem originated from the tight monetary policy set to address exchange rate crisis as well as a rush triggered by crisis in confidence. Such problems resulted in a decline, or in some cases even a halt, in the new credit extension by banks, including credit to small-scale enterprises (KUK). Before the crisis, KUK extended amounted to Rp1.9 trillion per month. However, following the crisis, it slowed down significantly, to only Rp500 billion a month. In addition, the implementation of some programmed credits was also hampered. Although such program was financed primarily by Bank Indonesia, part of the finance came from the banks. Hence, a sharp increase in bank deposit rates has raised the cost of funds of the programmed credits. This was especially the case for credits under the schemes of credit to primary cooperative for member (KKPA) and credit to rural unit cooperative (KKUD).

In an effort to cushion the negative effects of monetary crisis on small-scale business activity and low income segments of the society, the Government set up programs to stimulate small-scale business activities. Such programs also aimed at providing social safety nets, as one element in the reform agenda stipulated by the Government and the IMF. The provision consists of the following.

1. Bank Indonesia encourages banks to step up the extension of programmed credit by resorting on short-term measures as follows.
   a. prioritizing the withdrawal of Bank Indonesia liquidity credit to finance programmed credits, especially credit to farmers (KUT), KKUD, and KKPA.
   b. resuming the SBPU scheme by giving priority to banks which extended large amounts of KUK.
   c. raising interest rates for KKPA and KKUD from 14% p.a. to 16% p.a., including 2% fee for cooperative, to avoid excessive burden from commercial banks.
   d. encouraging cooperation and enhancing bank assistance for rural credit bank, in a bid to magnify the role of this bank as a spearhead in economic empowerment of the people, especially those living in rural areas.
2. The Government provides working capital credit facility for small- and medium-scale enterprises (KMK-UKM) through state banks and Bank Bukopin, by utilizing state enterprises' fund deposited in those banks. Such a scheme is used to finance labor-intensive UKM provided the project is viewed feasible by participating banks. The scheme is provided primarily for laid-off workers and exporters having both producer/non-producer type of UKM, distributors of staple goods, as well as cooperative members. The maximum credit line is Rp25 million per worker and Rp3 billion per UKM with an interest rate of 17% per annum.
3. The Government is making every effort to promote the poor by designing an aid program

for least developed villages and establishing a credit scheme called Credit for Developing Business Cooperation (KPKU) directed to the groups of family welfare program (Prokesra groups) that cooperate with UKM.

4. The Government promotes labor intensive public work program and allocates special budgetary fund to finance such program.

Table 7.2
Valid Rupiah Banknotes and Coins

Banknotes			Coins		
Rp	50,000.00/	EY 93/95	Rp	1,000.00/	P
Rp	50,000.00/	Plastic/93	Rp	500.00/	J
Rp	20,000.00/	EY 92/95	Rp	500.00/	EY 97
Rp	20,000.00/	EY 98	Rp	100.00/	BR
Rp	10,000.00/	EY 92/95	Rp	100.00/	EY 78
Rp	10,000.00/	EY 98	Rp	100.00/	EY 73
Rp	5,000.00/	EY 92	Rp	50.00/	KO
Rp	1,000.00/	EY 92	Rp	50.00/	EY 71
Rp	500.00/	EY 92	Rp	25.00/	N
Rp	100.00/	EY 92	Rp	25.00/	EY 71
Rp	0.01/	DWK	Rp	5.00/	EY 79
			Rp	5.00/	EY 74
			Rp	1.00/	EY 71

Notes
BR : Bull Racing J : Jasmine N : Nutmeg
DWK : Dwikora KO : Komodo P : Palm
EY : Emission Year

payment transactions due to increasing bad cheques and, at the same time, increased withdrawals of deposit out of the banking system as well as transferring money abroad for speculative purposes.

Up to end of the year under review, the situation has not been fully contained. Government guarantee to all liabilities, including deposits, of commercial banks since the end of January 1998 has regained public confidence only temporarily. Bank runs for cash reemerged in March 1998 following various negative issues surrounding the banking system.

As part of money circulating operation, Bank Indonesia has intensified the promotion of coins for transactions. In this regards, Bank Indonesia has stopped issuing Rp100.00 and Rp500.00 banknotes and issued Rp500.00 coins with a new design. Bank Indonesia also improved the security features of the new banknotes of Rp10,000.00 and Rp20,000.00 denominations. These new denominations have been issued and circulated since February and January 1998, respectively. Meanwhile, in 1997/98, denominations of issued banknote and coin series were the same as those of the preceding year (Table 7.2).

Table 7.3
Issued Banknotes by Denomination

Denomination (In rupiah)	1996/97	1997/98*	1997/98*	
	Percent change		Outstanding (In billions of Rp)	Share (In percent)
50,000.00	13.3	98.2	11,247.0	25.4
20,000.00	29.5	32.9	13,480.1	30.4
10,000.00	–1.6	79.7	13,168.9	29.7
5,000.00	–7.5	186.8	4,331.0	9.8
1,000.00	16.0	23.7	1,348.9	3.0
<1,000.00	17.5	20.6	798.5	1.8

Banknotes

In the year under review, banknotes in circulation increased to 98.4% of the total issued currency, compared with 97.4% in the preceding year. Banknotes of Rp10,000.00 denomination and above represented the

Table 7.4
Stock, Inflows, Outflows, and Printing of Currency

Item	1995/96	1996/97r	1997/98*
	Nominal (In billions of rupiah)		
Stock	23,328.5	19,863.4	6,701.0
Banknotes	23,252.2	19,634.6	6,375.4
Coins	76.3	228.8	325.6
Inflows	54,709.0	63,277.6	78,676.1
Banknotes	54,666.3	63,211.0	78,614.1
Coins	42.7	66.6	62.0
Outflows	57,337.7	66,371.9	96,483.3
Banknotes	57,194.8	66,220.1	96,353.8
Coins	142.9	151.8	129.5
Printing of Currency	30,742.9	21,545.3	23,282.7
Banknotes	30,618.0	21,420.4	23,180.3
Coins	124.9	124.9	102.7

is urgently needed since clearing volume in Jakarta constitutes more than half of the national volume and a share of 90% of total national payment values. The JECS is expected to be fully implemented for all clearing participants in Jakarta in 1998/99.

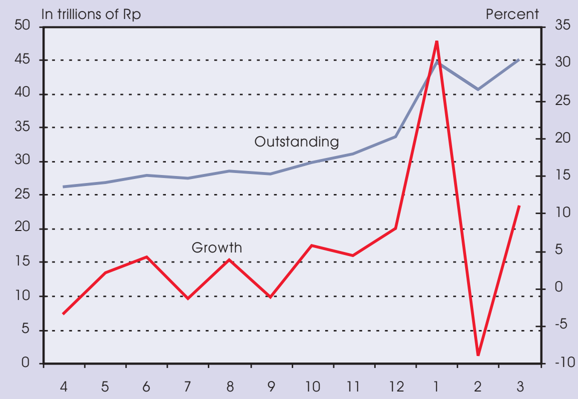
From the cash payment system, various steps have been taken to enhance the efficiency and safety of the cash payment which includes coins and banknotes. Bank Indonesia has stopped issuing banknotes in Rp100.00 and Rp500.00 denominations and gradually will reduce the issuance of smaller denominations in an effort to promote the use of coins.

Furthermore, to deter counterfeit, Bank Indonesia has issued new Rp20,000.00 and Rp10,000.00 notes with improved security features. The design has also been modified to make it easier for people to acknowledge the authenticity of banknotes. In line with effort to prevent money counterfeit and to ensure adequate supply of cash money domestically, Bank Indonesia restricted the amount of cash that can be brought into and out of the country.

Payment Instruments

Following the deterioration of public confidence in the banking system, the demand for currency rose sharply as reflected in enormous withdrawals for cash out of the banking system in the year under review. This phenomenon caused a sharp increase in issued currency (Chart 7.1). In contrast, the use of non-cash payment instruments showed a decreasing trend although on 'year on year' basis it continued to record an increase as compared to that in the preceding year. The non-cash payment instruments consist of paper media, such as cheques, bilyet giro, and debit notes; and electronic media, such as credit cards, debit cards, and automatic teller machine (ATM) cards.

Chart 7.1
Outstanding and Growth Rate of Issued Currency in 1997/98



Cash Payment Instruments

By the end of 1997/98, issued currency stood at Rp45.1 trillion or increased by 66.4% from the preceding year. The increase mainly occurred in banknotes which climbed by Rp18.0 trillion or 68.2%, higher than that of Rp3.0 trillion or 12.8% in the preceding year (Table 7.1). The rapid growth of issued currency took place mostly after November 1997 when 16 insolvent private national commercial banks were liquidated and public confidence in the banking system dropped. The crisis in confidence has caused a significant decline in non-cash

Table 7.1
Issued Currency

Item	1995/96	1996/97	1997/98
	Nominal (In trillions of Rp)		
Issued Currency	24.0	27.1	45.1
Banknotes	23.4	26.4	44.4
Coins	0.6	0.7	0.7

Chapter 7 Payment System

The national payment system during 1997/98 experienced a severe problem due to the acceleration of non-payment risk that hindered a proper functioning of the system following the financial crises in the economy. This has resulted in increasing payment burden of Bank Indonesia as a provider of final settlement services. Shortages of liquidity in the banking system together with bank-runs that took the form of enormous fund transference (flight to quality) and fund withdrawals (called as flight to currency) from the nation's banking system have further exacerbated the situation. Consequently, Bank Indonesia was forced to provide liquidity support for banks experiencing runs in order to minimize the systemic risk in the banking system, albeit reducing the effectiveness of monetary control and banking prudential regulation.

Several reasons of Bank Indonesia's high payment burden include some deficiencies in the clearing process and the absence of a real time interbank payment system. Both weaknesses are responsible for the delay in the finality of payment settlements, hence creating significant money in transits (float) in the system and increasing payment risks for Bank Indonesia. Furthermore, payment settlements for both high and small values were done simultanously through interbank clearing system. Indeed, there was no priority for high-value payment settlements that have higher risk than that of the small one, hence bringing about inefficiency in the payment settlement process and exposing Bank Indonesia to higher payment risk should the settlement process fail.

Payment System Policy

In efforts to reduce the risk of payment settlement failures, in the year under review Bank Indonesia initiated numerous attempts, such as upholding bank discipline and capability of liquidity management and improving certain infrastructures for safe, reliable, and efficient payment system. In that regard, Bank Indonesia plans to control the use of debit notes as a clearing instrument which is due to implementation in the beginning of the coming fiscal year. Under the new regulation, the use of debit notes in clearing system will be restricted to payments for banking service fee and traveller's cheques with a limited nominal amounts. Any violation is subject to penalty at a certain percentage of the nominal value.

In line with effort to reduce the risk of settlement failure, during the year Bank Indonesia completed the study on the improvement of clearing and settlement system which is scheduled for implementation in the fiscal year of 1998/99. The study includes the separation of clearing and settlement for high-value transactions from the small one. The high-value transaction will have the same day settlement using gross posting method while the small-value transaction will be settled on the next day as implemented at present. If a bank's deposit with Bank Indonesia is in a short position, the settlement will be postponed until the respective bank provides the fund. With a forceful sanction, the system is expected to improve bank discipline in managing its liquidity, thereby lessening the settlement failure risk.

As an effort to fasten the settlement process, at the end of 1997/98 Bank Indonesia conducted a trial run for the Jakarta Electronic Clearing System (JECS). This system, which uses electronic communication and image technology devices, has been tried out to 10 clearing participants and will be expanded to include other clearing participants. The implementation of the JECS

Table 7.5
Average Lifetime and Invalidity Marking Rate of Banknotes by Denomination

Item	Rp50,000.00	Rp20,000.00	Rp10,000.00	Rp5,000.00
Lifetime (months)	**30**	**26**	**16**	**12**
Invalidity marking rate (%)	**14.8**	**20.6**	**24.5**	**49.6**
- Apr. to Oct. 1997	26.3	32.9	41.9	73.7
- Nov. 1997 to Mar. 1998	1.8	2.5	4.4	32.6

Table 7.6
Issued Coins by Denomination

Denomination (In rupiah)	1996/97	1997/98*	1997/98*	
	Percent change		Outstanding (In billions of Rp)	Share (In percent)
1,000.00	68.9	–1.4	50.8	7.1
500.00	9.1	–1.4	66.5	9.2
100.00	14.9	15.1	412.9	57.3
50.00	9.6	7.7	133.4	18.5
25.00	2.4	1.9	40.1	5.6
< 25.00	0.0	–0.3	16.8	2.3

largest portion of banknotes in circulation while that of Rp5,000.00 recorded the highest growth (Table 7.3).

The high increase of the Rp5,000.00, Rp10,000.00, and Rp50,000.00 denominations was driven mainly by the demand for high value cash transactions, while the increase of Rp20,000.00 denomination occurred as a result of the greater use of ATM.

In the year, banknotes out of Bank Indonesia's vaults reached Rp96.4 trillion, a rise of 45.5% of those in the preceding year. At the same period, banknote inflow reached Rp78.6 trillion or increased by 24.4% (Table 7.4). A higher growth of outflow compared to that of inflow took place in Jakarta, with a 37.9% growth, followed by Surabaya and Bandung with a 15.6% and a 10.7% growth, respectively. Other cities in Jawa and outside Jawa Island, in general, experienced net banknote inflow.

To anticipate the increase in demand for money due to financial crisis, since November 1997 Bank Indonesia has lengthened the lifetime circulation for some banknotes, especially those of large denominations – Rp5,000.00 and above (Table 7.5).

Coins

The share of coins to total issued currency at the end of 1997/98 continued to be very low (1.6%), even showed a decrease from the previous year due to the existence of banknotes of the same value as the substitute. Besides, banks were reluctant to withdraw coins from public because of the considerable volume and weight. The promotion of coins has increased the circulation of Rp100.00 coins but the other denominations showed a decrease (Table 7.6).

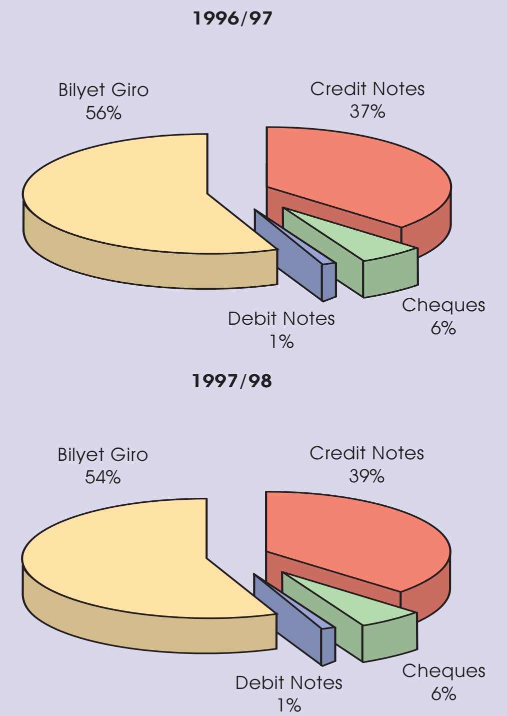
As coins have been circulating since 1973 and physically bad coins were also frequently found, in April 1997 Bank Indonesia issued a regulation on Invalidity Marking of Coins which was published in the State Gazette No. 46, June 10,1997.

Non-cash Payment Instruments Using Paper Media

In the year under review, the role of non-cash paper instruments in payment declined as reflected in the decreased volume of their notes in transactions. Their value of transactions, however, increased as compared to those in the previous year. These developments were captured through both clearing and non-clearing systems.

Patterns of the use of clearing instruments have been changing. In 1997/98, debit instruments accounted for 60.5%, down from 63.0% in the preceding year, while credit instruments reached 39.5%, up from 37.0% (Chart 7.2). The change in the composition was

Chart 7.2
Use of Paper Based Instruments in 1996/97 and 1997/98



in line with the needs to have more certainty of the availability of the funds for payment.

The transaction value of non-cash paper instruments increased by 19.6% compared to that in the preceding year. However, since November 1997, the transaction value has showed a slower growth. Its growth slowed down to an average of Rp435 trillion in the period of November 1997 to March 1998, as compared to Rp520 trillion in the period of April to October 1997. These developments might be affected by the perceived higher risk associated with the non-cash payment instruments.

Non-cash Payment Instruments Using Electronic Media

Intensified competition among banks has encouraged banks to improve customer service. This has been reflected in the growing activities in retail banking and a more diversified payment instruments, such as credit cards, debit cards, direct/phone banking, ATM and electronic fund transfer/point of sales (EFT/POS), smart cards, and new released products, such as electronic money.

Credit Cards

Compared to last year, the credit card operation in 1997 showed favorable developments. The number of banks and finance companies operating in credit card grew significantly although most of them involved in joint ventures with international credit card companies. Up to the end of 1997, the volume of credit card transactions in Indonesia reached Rp8.4 trillion or increased sharply by 78.7%, compared to 35.2% in the preceding year. Meanwhile, total transaction reached 25 million.

Debit Cards

The number of debit card issuing banks in 1997 was approximately the same as that in the preceding year. Until 1997, the total number of debit cards issued has reached 1 million cards with a transaction value of Rp300 billion compared to 954.5 thousand cards and a transaction value of Rp303.7 billion in the preceding year.

Other Payment Instruments

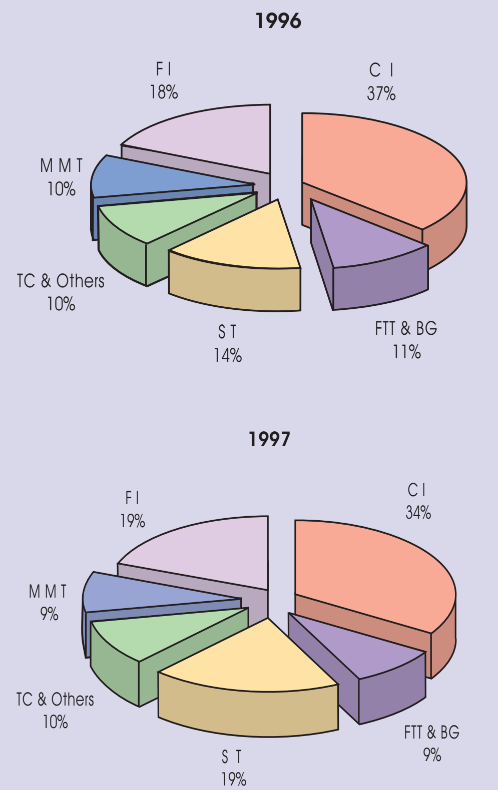
One of the most popular instruments for cash withdrawal and with increasing trend in Indonesia is ATM. Until 1997, the total number of ATM machines was 4,000 units, while ATM cards issued were 4 million cards, significantly higher than those recorded last year at 2.9 million cards. Meanwhile, ATM transaction volume in 1997 reached Rp13.5 trillion or increased by 30.0% from that in the preceding year.

Many other banking products have been or will be released, such as EFT/POS, phone/direct banking, and smart card. At the end of 1997/98, five commercial banks introduced smart card.

International Transfer Payment

Indonesian banks, including Bank Indonesia, use the service of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) in transferring funds for international payments. At the end of 1997/98, SWIFT membership in Indonesia accounted for 70 local banks and 10 sub-member banks of foreign/joint-venture banks. This membership showed an extension from 52 local banks and 10 sub-member banks in the preceding year. Messages carried through SWIFT are illustrated in Chart 7.3.

Chart 7.3
Fund Transfer Orders through SWIFT in 1996 and 1997



Notes
BG : Bank Guarantees
MMT : Money Market Transactions
ST : Securities Transactions
CI : Companies & Individuals
FI : Financial Institutions
FTT : Foreign Trade Transactions
TC : Traveller's Cheque

Clearing Activity

In general, clearing activity experienced an increase both in clearing circulation and rejection. In 1997, total clearing volume were 114.4 million notes, with a nominal value of Rp6,496.0 trillion (Table 7.7).

Geographically, Jakarta, with a clearing value of Rp5,829.0 trillion and a clearing volume of 55.4 million, remained the biggest clearing region in Indonesia. Clearing activity outside Jakarta reached only a value of Rp640.0 trillion, with a volume of 56.0 million notes. Nationally, Jakarta's clearing value and volume represented 90.1% and 49.7% of the national total, respectively (Table7.8).

The number of bad cheques and rejected bilyet giro outside Jakarta were larger than those in Jakarta, both in terms of value and volume. During 1997, bad cheques and bilyet giro rejections outside Jakarta were

Table 7.7
Clearing Circulation and Rejection in Indonesia

Item	Growth 1995	Growth 1996	Growth 1997	1997 Total
	Percent change			
Circulation				
– Nominal	67.0	11.5	13.6	6,496.0 1)
– Notes	5.2	2.1	3.2	111.4 2)
Rejection on bad cheques and bilyet giro				
– Nominal	–12.6	22.3	103.1	6.5 1)
– Notes	–13.4	28.1	0.0	0.6 2)
Rejection to circulation ratio				
– Nominal	-	-	-	0.1 3)
– Notes	-	-	-	0.5 3)

1) In trillions of rupiah.
2) In millions notes.
3) In percent.

Table 7.8
Clearing Circulation and Rejection by Region in 1997

Item	Nominal Value		Volume	
	Rupiah (In trillions of Rp)	Share (%)	Notes (Thousand)	Share (%)
Circulation				
– Jakarta	5.829,0	90,1	55.431	49,7
– Outside Jakarta	640,0	9,9	56.001	50,3
Rejection on bad cheques and bilyet giro				
– Jakarta	1,5	23,1	176,0	30,4
– Outside Jakarta	5,0	76,9	402,0	69,6
Rejection to circulation ratio	In percent			
– Jakarta	0,03	–	0,3	–
– Outside Jakarta	0,8	–	0,7	–

recorded at Rp5 trillion, representing 76.9% to total rejection, compared to Rp1.5 trillion or 23.1% in Jakarta. In terms of volume, 402 thousands, or 69.6% of total cheques and bilyet giro notes were rejected outside Jakarta, while Jakarta rejected 176 cheques and bilyet giro notes, or 30.4% of the total (Table 7.8).

It should be noted that the above clearing process excludes interbank money market clearing. The interbank money market clearing system that settled one day after (T+1), between 8.00 and 10.30 Western Indonesian Time, was conducted only in Jakarta. For the first nine months of 1997/98, the nominal value of interbank money market clearing increased by 17.0%, from Rp3,819.6 trillion to Rp4,469.9 trillion. This increase represented higher bank dependency towards interbank money market.

Chapter 8 World Economy and International Cooperation

World Economy

Since mid-1997, world economic developments have been overshadowed by economic crises in Asia, following the exchange rate crisis in Thailand. From Thailand, the crisis spread over to some ASEAN countries and South Korea. Malaysia and the Philippines were also hit by the crisis, but these countries faced less severe situation than Indonesia, Thailand, and South Korea. In early 1998, the situation in Thailand and South Korea showed a recovering progress, while in Indonesia, up to the end of the year under review, the crisis continued without any signs of improvement. As a result, Asian economic growth slowed down from 8.3% in 1996 to 6.8% in 1997. The Asian economy is predicted to grow at 4.9% in 1998, owing to the contractions faced by most affected countries. In contrast, China, the biggest developing economy in Asia, was the least affected by the crisis as most of its foreign investment were in the form of direct investment and its controlled foreign exchange regime had not given any room for currency speculation.

The economic crises in Asia, however, did not give any serious impact to the world economy in 1997, yet the impact is expected to start materializing in 1998. In 1997, the world economy managed to maintain its high growth of 4.1%, comparable to that in the preceding year. The high economic growth in North America and increasing growth in European Union countries assembled the world economic developments. In addition, East and Central European countries also showed a robust growth. After years of economic contraction, during the reporting year the economies in transition experienced positive growth for the first time, following the implementation of economic transformation measures.

In 1998, world economic growth is predicted to slow down to 3.3%, mostly stemming from the impact of economic crises in Asia. However, the negative impact will not be evenly experienced across countries as it depends on several factors, such as the size of trade and financial links with the economies in crisis and the prevailing economic condition during the crisis. Countries with low economic activities, such as Japan, will face a more emphatically severe impact following the contraction in the economies in crisis. Meanwhile, for countries that run the risk of overheating, such as the United States and the United Kingdom, the impact will tend to move into in their favor as inflationary pressure is diluted.

In the meantime, inflation rate in advanced economies as measured by the change in consumer price index declined from 2.4% in 1996 to 2.1% in 1997 (Table 8.1). The decline in prices occurred virtually in all advanced countries except Japan after running into deflation in the preceding year. It resulted from weaking of primary commodity prices, both oil and non-oil in the international market. Behind the moderation inflation rate was the weakening demand in developing countries, particularly those hit by the crisis. In addition to the compression of domestic demand, the economy of countries in crisis had to wrestle with rising inflation resulting from the pass through effect of the large depreciation of their currencies.

On the international monetary side, the year witnessed a fall in interest rates in some industrial countries. This fall resulted from capital outflows reversal from crisis-hit Asian countries and lower budget deficit due to higher tax revenues on the buoyant economic growth. As for capital flows, the uncertainties of economic and

Table 8.1
Selected World Economic Indicators

Description	1995r	1996r	1997*
Economic Growth (In percent)			
World	3.6	4.1	4.1
Industrial countries	2.1	2.5	2.9
Developing countries	6.0	6.6	5.8
Countries in transition	–1.3	–0.2	1.7
Inflation (In percent)			
Industrial countries	2.4	2.4	2.1
Developing countries	21.7	13.7	8.6
World Trade Volume (Percent change)	9.5	6.7	9.5
Yen/Dollar Exchange Rate (Average)	94.1	108.8	120.5
World Trade Prices (Percent change)			
Manufactured goods	10.3	–3.2	–9.2
Non-oil/gas primary commodities	8.2	–1.3	–4.0
Oil	8.0	18.9	–5.9
Interest Rates in Industrial Countries (Percent average)			
Short-term	5.1	3.9	3.8
Long-term	6.7	6.0	5.3

Source : IMF, World Economic Outlook, March 1998

political situation in crisis-hit countries have worsened business climate so as to discourage foreign investors to invest in this region. In light of these developments, capital flow to developing countries, especially to Asia, declined sharply from the highest record of $240 billion in 1996 to $150 billion in 1997. In 1998, net capital flow to emerging countries is expected to reach $120 billion. Out of this amount, net capital flow to the Asian region is only $4.3 billion, far lower than $100.9 billion in 1996.

In line with the high economic growth, world trade volume grew by 9.5% in 1997, compared with 6.7% in the previous year. This strengthening trade volume resulted from the increasing trade among OECD countries, which has the biggest share in the world trade volume. Meanwhile, primary commodity prices decreased sharply, contributing a favorable impact to a decline in the inflation rate, especially in industrial countries. This development, however, brought about an adverse impact on the worsening terms of trade for producing countries, notably those experiencing the crisis, including Indonesia.

International Economic Cooperation

Economic crisis in Asia that started with currency crisis in Thailand has become a dominant topic of discussion in various fora both within regional Asia as well as at the global level. The currency crisis that brought about contagion effect has been one of the negative consequences inherent in the open financial system that is lacked of adequate support by sustainable domestic financial system and sufficiently prudent measures on capital flows, especially those of short-term maturities. The world economic and financial integration process, in line with the increasingly stronger World Trade Organization (WTO) and other regional agreements and cooperations, such as ASEAN Free Trade Area (AFTA) and Asia-Pacific Economic Cooperation (APEC), gave an opportunity for the Indonesian economy to strengthen and create a conducive climate for increasing business activities, including investment. However, the opportunity carries potential threat, if market openness does not come along with improvements in efficiency and competitiveness and supportive infrastructure.

Cooperation in international trade, both at global and regional levels, is focused in the efforts to liberalize trade in financial services. At the global level, in December 1997, WTO Committee for Trade in Financial Services (CTFS) reached an agreement on the liberalization of trade in financial services. This agreement is supported by cooperation at the regional level. The APEC and ASEAN are also committed to supporting efforts to accelerate negotiations in a bid to implement free market in the area of services.

The cooperation in monetary, financial, and banking areas were characterized by discussions on the economic and monetary crisis in Asia. Regional level meetings, such as Executive's Meeting of East Asia and Pacific Central Bankers (EMEAP), Southeast Asian Central Banks (SEACEN), and ASEAN discussed efforts to stabilize and strengthen the financial system, in anticipation of economic and financial challenges through the creation of regional surveillance mechanism. In addition, to restore the Indonesian economy from currency turmoil, in the reporting year the Government of Indonesia signed an agreement with the IMF on the implemention of a stabilization program and economic reform. The IMF program reflects an important effort for the Indonesian economy to pull out from the crisis and sustain the development. This is consistent with the IMF role in (i) helping its member countries having balance of payments problems, (ii) conducting research on various economic aspects with implementation of several requirements, and (iii) coordinating financial assistance and technical support from international institutions and partner countries. This program is also supported by the World Bank and the Asian Development Bank (ADB), especially in banking restructuring and real sector structural reform, and partner countries.

Meanwhile, in the area of economic development, the World Bank in cooperation with the IMF continued to ease debt burdens of the poor countries, alleviate poverty, and implement good governance. So was the case at the regional level, the ADB continued its focus in poverty alleviation, private sector development, environment preservation, and other social projects.

Cooperation in Trade

World Trade Organization

WTO's activities during the reporting year had focused on the issue of financial services liberalization. These activities culminated in December 1997, in Geneve, where negotiations on the financial services liberalization took place. An agreement on the liberalization of financial services, covering banking and non-banking services, was reached the commitment of which will be ratified in January 1999.

In the CTFS meeting in December 1997 Indonesia submitted a new Schedule of Commitment (SOC) which, among other things, included (i) protection on foreign ownership in joint bank, (ii) equal treatment on paid-in capital between national and joint bank, (iii) substitution of economic need test with job training obligation for foreign manager and expert in the banking area, and (iv) equal treatment on taxes between national and joint bank. The subsequent judicial process for Indonesia is to prepare ratification on the financial services agreement to be in accord with the Indonesian law. At present, there is only less than one year time left before each country's SOC will take into effect. In light of this development, the national banking system is under the restructuring program in a bid to improve bank soundness and to prepare for any potential consequences.

Asia-Pacific Economic Cooperation

The series of APEC ministerial-level and senior official meetings held in the reporting year were concluded in the Fifth APEC Economic Leaders Meeting (AELM) in November 1997, in Vancouver, Canada. In this meeting, APEC economic leaders announced a declaration, entitled Connecting the APEC Community. The declaration contains APEC's cooperation results that have been under the implementation stage, along with APEC's visions in facing the 21st century. Among those visions are (i) the ability of APEC in adapting to new developments, (ii) liberalization of trade and sustainability of investment, (iii) formulation of APEC agenda on cooperation in science, technology, and industry in the 21st century, (iv) equal distribution of income, alleviation of poverty, along with improvement of life quality in a sustainable development, and (v) maintainance and improvement of the economy and public prosperity in Asia-Pacific.

In this meeting, APEC economic leaders also signed a declaration on "Vancouver Framework for Enhanced Public-Private Partnership for Infrastructure", aimed at providing policy foundation in developing financing mechanism and infrastructure investment, which are deemed more appropriate for the private sector. This framework paves the way for developing cooperation to strengthen the ability of APEC economies in the management of infrastructure development. In addition, the APEC economic leaders supported the efforts to strengthen cooperation between export credit agencies and export financing institutions that have been accommodative in developing infrastructure in the APEC region. Indonesia was asked to continuously hold the chairmanship of workshop on infrastructure that would further develop cooperation in this area.

On the monetary side, the APEC economic leaders also paid attention to the currency turmoil in some Asian countries. In this respect, the APEC economic leaders decided to accelerate the implementation of Manila Framework that had been agreed by finance minister and central bank governor deputies in Manila. The APEC economic leaders also supported a joint ministerial statement on "Early Voluntary Sectoral Liberalization" (EVSL), identifying 9 sectors to be liberalized in the near future.

ASEAN Cooperation

In line with negotiations taking place under the framework of WTO General Agreement on Trade in Services (GATS), ASEAN cooperation in the reporting year was also featured by discussions on the liberalization of trade in services. The ultimate target of those negotiations is to reach an agreement on trade in services which reflects an extension of commitment reached in GATS/WTO — known as GATS-plus — as stated in the ASEAN Framework Agreement on Services (AFAS). For the initial step, the coverage of AFAS is focused only on 7 services sector, such as financial services, telecommunication services, tourism services, air cargo services, sea cargo services, business services, and construction services. To make ASEAN an interesting region to invest and manufacture, ASEAN countries strive to accelerate the conclusion of AFAS negotiation.

The 14th meeting of the Coordinating Committee on Services (CCS) in Jakarta, in February 1998, agreed to discuss each commitment submitted by all ASEAN countries in the CTFS/WTO meeting in December 1997. In a bid to accelerate the negotiation it was decided that every country is required to submit its respective initial indicative GATS-plus offers and indicative roadmap.

Meanwhile, the second ASEAN Finance Ministerial Meeting (AFMM) was held in Jakarta, in February 1998. The meeting agreed on some important issues, including (i) the implemention of concerted regional effort to regain foreign investors' confidence, so as to encourage foreign investment to flow back to ASEAN countries, (ii) the establishment of regional surveillance that enable ASEAN countries to identify quickly and avoid the emergence of a condition that can trigger crisis in the future, and (iii) the use of ASEAN currency as a payment instrument on intra-regional trade and to lower the dependency on hard currency in inter-country trade.

Cooperation in Monetary, Finance, and Banking

International Monetary Fund

In the reporting year, the important issues in the IMF agenda were the Quota Review, the Special Drawing Rights (SDR) allocation, and the creation of the Supplemental Reserve Facility (SRF). Meanwhile, the amendment for Capital Account Convertibility (CAC) still need further discussion.

Following the long discussion since 1995, the Interim Committee meeting, held in Hong Kong SAR in

September 1997, agreed on the increase of the eleventh quota by 45%, from SDR146,226.1 million to SDR212,028.2 million. Of that increase, 75% will be distributed under proportional basis, 15% under selective basis, and the remaining 10% under ad-hoc basis. As understood, this quota distribution is linked to each member country's economic developments, especially in the external sector, in the last several years, so it will show each country's role compared to others. With this resolution, Indonesia's quota will increase from SDR1,497.6 million to SDR2,079.3 million, however, in terms of its share to the total IMF quota, it decreased from 1.02% to 0.98%. In effect, Indonesia's voting power has declined.

The Interim Committee meeting also agreed on a revision on the IMF Article Agreement on SDR allocation. Previously, SDR was only allocated to member countries of SDR Department and was linked to their respective quota. Under this new agreement, all member countries get equal SDR allocation through one time special SDR allocation, with the ratio of 29.32% of the ninth quota review. With the new allocation, total SDR allocation doubled from SDR21.43 billion to SDR42.87 billion. Indonesia will also get an additional allocation of SDR200.08 million, so that its accumulative allocation will increase from SDR239 million to SDR439.08 million.

To strengthen surveillance and encourage member countries to implement the appropriate policy in preventing the crisis, the IMF Board of Executives agreed to create SRF in December 1997. This financial assistance facility is given to member countries encountering severe short-term balance of payments problem following the decline of market confidence. SRF assistance will be given if policy implementation and short-term financing can not overcome the balance of payments problem. SRF financing has been used as supplemental source of fund or extended arrangement, which was previously given to member countries.

In line with world economic integration, international monetary system is increasingly affected by capital flows. In this respect, it creates a dilemma as there still is an asymmetrical treatment between current account and capital account in the IMF Article Agreement. For the current account, each member country is required to eliminate restrictions on payment and international transfer transaction. In contrast, the IMF Article Agreement does not specifically regulate the capital transaction. Interim Committee meeting in 1997 agreed to amend Article Agreement on CAC regulation by adding the IMF special objectives to stimulate liberalization of capital flows and provide the IMF with a required jurisdiction. Based on this amendment, the IMF has a leverage to regulate the capital account transactions of its member's countries. Some major elements of the amendment include (i) method that will be used should be in line with the prevailing current payment, (ii) coverage of capital flows, which includes underlying capital transaction (except inward direct investment), inward and outward capital payments as well as capital transfer, and (iii) temporary restriction on balance of payments and macroeconomic management, market and institution development, prudential opinion, as well as national and international security. Subsequently, IMF makes efforts to encourage member countries to implement capital transaction liberalization prudently after financial turmoil that created contagion effect, due mainly to reversal of capital flows.

In view of the financial and economic crises in Asia in the year under review, the IMF gave financial and technical assistance to some member countries hit by the crisis. The program is a stand-by loan arrangement (SBA) maturing in 3 years, involving a large amount of fund. It was decided within a short time span to help the economies to recover. Stabilization and economic reform programs related with the agreement include macroeconomic policy adjustment, banking/financial sector restructuring, as well as structural reform in the real sector. On this matter, the IMF agreed to provide SBA commitment for Indonesia amounting to $10.15 billion (equivalent to SDR7.3 billion or about 490% of quota).

Central Bank Cooperation

In the year under review, Bank Indonesia enhanced cooperation with other central banks and international financial institutions, primarily to resolve the economic crises in Asia. The cooperation was implemented under bilateral and regional levels, such as SEACEN forum, along with the broader fora, such as EMEAP and Bank for International Settlements (BIS).

Under the SEACEN framework, in addition to research and training implemented by the SEACEN Centre, in the reporting year the 33rd SEACEN Governor's Meeting was held in February 1998, in Denpasar. The 1998/99 SEACEN work program and budget are among those approved in the meeting. In view of the financial turmoil that hit Asia, in fiscal year 1998/99 the SEACEN Centre will focus on the efforts to strengthen monetary stability and restructure the financial sector, through a cooperation in research on the financial crisis and the appropriate policy response to handle it. The meeting also discussed financial sector stability and the development of international capital flow.

On this occasion, central bank governors and monetary authorities of ASEAN countries held an informal meeting to discuss the possibility of using ASEAN currency in the intra-ASEAN trade settlement. This informal meeting agreed to form a technical team that would study the detailed mechanism and the implication of using the ASEAN currency. As a follow up, the technical team held a meeting in Kuala Lumpur, resulting in (i) the use of ASEAN currency in economizing the use of foreign exchange, stimulating trade, and strengthening economic and financial cooperation in ASEAN, (ii) the implementation of the ASEAN currency on a voluntary basis to increase the efficiency of transaction settlements while remaining in line with international agreement and national regulation, and (iii) the establishment of clearing agent in each country to satisfy its infrastructure requirements.

Within the ASEAN scope, it was agreed that central bank cooperation and consultation need to be formalized in the ASEAN Central Bank Forum (ACBF). This agreement was reached in a central bank and monetary authority deputy governor meeting in early November 1997 in Kuala Lumpur. The forum was set to increase economic and financial cooperation through (i) increasing the efforts to encounter economic and financial challenge, (ii) evaluating economic and financial risk potential, and (iii) formulating policy alternatives in a bid to enhance financial stability in ASEAN member countries. It discussed the possibility to set ASEAN Facility under the ASEAN Fund, as a substitute of the ASEAN Swap Arrangement, which (i) is linked to IMF program and its conditionality, (ii) is used only to encounter contagion effect and systemic risk, (iii) is used as a second line of defense after the use of all IMF facilities, and (iv) in terms of its size, is in the range of $3-5 billion.

In the Asia-Pacific fora, a deputy level meeting of Asian finance ministries and central banks was held in Manila, in November 1997, to discuss the current economic crisis hit the region. The meeting concluded four initiatives, called the Manila Framework agreement, to be implemented by Asia-Pacific countries so as to strengthen their financial stability, i.e. (i) to establish regional surveillance mechanism to facilitate the IMF's global surveillance, (ii) to strengthen economic and technical collaboration enhance domestic financial system, (iii) to improve IMF capability to appropriately respond to the crisis faced by its members, and (iv) to establish financing arrangement to complement the IMF's assistance.

The EMEAP Deputy Governor Meeting which was held in Singapore in March 1998 discussed (i) the effectiveness of program and economic policies, (ii) the balance between exchange rate and interest rate in monetary policies, and (iii) the efforts to restore investors' confidence. As a follow up, at end of March 1998, EMEAP Governors convened to discuss (i) regional surveillance on economic developments following the implementation of economic reform in Indonesia, Thailand, and Korea, (ii) lessons that can be gleaned from the crisis in Asia, (iii) the issue on the use of regional currency for inter-Asia trade, and (iv) the development of economic and technical cooperation.

In the efforts to expand Indonesia's export market, Bank Indonesia continued to enhance cooperation with other central banks outside Indonesia's major trading partners through banking arrangements. In the year under review, Bank Indonesia signed three banking arrangements with Romania, Argentina, and Slovakia.

Following the Basle Committee on Banking Supervision Meeting in March 1997, in the reporting year the Committee completed the drawing up of Basle Core Principles for effective banking supervision which comprises 25 basic principles. Such principles have been implemented in G-10[1)] as well as non G-10 countries. In addition, it is used by the IMF and the World Bank to maintain a sound banking system needed to support the efforts to sustain the stability of global financial system. In this regard, Bank Indonesia continued to comply with the Basle Core Principles so as to strengthen the national banking system.

Cooperation in Development

World Bank

Important topics discussed in the 1997 World Bank Development Committee Meetings include the debt initiatives for the heavily indebted poor countries (HIPCs), in cooperation with the IMF; the role of private sector in infrastructure development; the development of Multilateral Investment Guarantee Agency (MIGA); the fight against corruption; and the implementation of good governance.

As an implementation of the creation of HIPC Initiative, endorsed in Board of Governors Meeting in 1996, up to the end of reporting year total loan extended to ease the debt burden of poor countries amounted to \$0.9 billion. The financing of this program comes from creditors' participation, both multilateral and bilateral financial institution creditors. The meeting has collected contribution from the participating amounting to \$100 million and it is expected that other countries are to participate. In these regards, the Government of Indonesia, under the coordination of the World Bank, pledged \$10 million worth of commitment.

Furthermore, to alleviate poverty, the World Bank has set up a program to encourage the participation of private sector in infrastructure development. In this regard, the World Bank is to improve its role as a catalyst through action program which includes financial assistance, consultation services, risk reduction, knowledge improvement, and information provision. For this purpose, the World Bank is set to coordinate with recipient countries in preparing development plans and strategies.

In view of increasing demand for MIGA's service, the 1997 Development Committee Meeting re-emphasized its support to further develop MIGA. The problem of limited resource of funds for financing MIGA's operation was solved with an agreement to provide financial source package which consists of three parts, namely a grant amounting to \$150 million from the International Bank for Reconstruction and Development (IBRD), \$150 million as paid in capital, and \$700 million as subscribed capital.

The World Bank and the IMF share the view that corruption and poor governance will threaten eco-

1) G-10 countries are: Belgium, Netherlands, Luxembourg, Canada, France, Germany, Italy, Japan, United Kingdom, United States of America, Sweden, and Switzerland.

nomic stability and sustainable development, and will adversely affect international support for development cooperation. Therefore, the meeting agreed to provide a greater role for The World Bank and the IMF, given their capacity and jurisdiction, to support government institutions in each member country. In this regard, the meeting stressed the importance of a just and consistent approach, and the need to put explicitly attention to governance and corruption issues, for example in deciding the debt extension.

In the framework of Indonesia-IMF Agreement on economic reform for Indonesia, the World Bank has committed to providing loan amounting to $4.5 billion. In addition to financial assistance, the World Bank provides technical assistance, among other things, in the framework of bank restructuring and reducing social and economic tension on the poor which was brought about by the economic crisis.

Islamic Development Bank

The 22nd Board of Governors Meeting of the Islamic Development Bank (IDB) in Damascus, Syria, in November 1997, agreed that through Islamic Bank Portfolio, IDB was to provide assistance to Indonesia and Malaysia, both were facing crisis. The assistance was extended through the purchase of listed stocks. With regard to the assistance for Indonesia, an IDB team is to discuss, the amount and scheme of the assistance with the Indonesian party.

It is worth mentioning that the loan commited to Indonesia over the period of 1997/98 amounted to $150 million, rose from $100 million in the preceding year. However, it has not been fully optimized due to administrative constraints in the stage of proposal.

Asian Development Bank

The 30th ADB Board of Governors Meeting, held in Fukuoka, Japan, in May 1997, endorsed, among others, the finalization of Asian Development Fund (ADF) VI replenishment, amounting to $6.3 billion. The fund is to be used for supporting poor countries with soft loan over a four year period (1997-2000). To replenish the next fund (ADF VII), developed countries approved the implementation of graduation system for countries eligible to receive ADF.

In the year under review, the ADB formed Asian Development Bank Institute (ADBI) in Tokyo to support human resource development and research supporting the effectiveness of ADB operations. Currently, ADBI is conducting a study on the anticipation of mega-city management (including Jakarta) and a wide range of problems which is to emerge in the year 2025.

To increase its role in extending loan to developing country members, the ADB pays more attention to the alleviation of poverty, development of the private sector, provision of technical assistance in good governance, and improvement of cooperation with other international and regional institutions. In this respect, the ADB has extended its pledge amounting to $3.5 billion for Indonesia and technical assistance in the framework of the Indonesia-IMF economic reform program. The ADB technical assistance, inter alia, is intended to support the bank restructuring program.

Consultative Group for Indonesia

The 6th Consultative Group for Indonesia (CGI) Meeting was held in Tokyo in July 1997. As in the previous year, the main objective of the meeting was to set the amount of aid needed by Indonesia, considering the economic performance and progress of projects financed by the CGI. The meeting committed to providing loans amounting to $5,299.3 million, compared with $5,260.5 in the preceding year. Out of this amount, $2,262.7 million constituted bilateral loans and $3,036.6 multilateral loans. The financing was primarily focused on the development of human resource, alleviation of poverty, management of environment, development of infrastructure, and development of the eastern region of Indonesia.

The CGI commitments were based on considerations that (i) the number of poor people in Indonesia remained considerable, (ii) the CGI's assistance was associated with technical assistance, reliable project assessment, and project preparation, (iii) CGI's loan was the only long-term financing source for the unattractive investment for the private sector, and (iv) risk diversification and the maturity of this official assistance would restore the profile of Indonesia's debt service.

APPENDICES

APPENDIX A.1

Condensed Balance Sheet of Bank Indonesia
as of March 31, 1996, 1997, and 1998
(In billions of rupiah)

Assets	1996	1997	1998
1. Gold and Foreign Assets	47,594	64,088	143,099
A. Gold and foreign currencies	47,295	63,862	141,930
B. Other foreign assets	299	226	1,169
2. Claims on Public Sector	3,325	116	98,942
A. Central government	3,322	116	4,144
B. Official entities and public enterprises	3	0	0
C. Special government institution	0	0	94,798
3. Claims on Banks	17,756	19,016	36,288
4. Money Market Securities	2,599	2,737	4,486
5. Claims on Private Sector	909	859	6,545
6. Other Assets	3,978	3,833	12,723
Total	**76,161**	**90,649**	**302,083**

Liabilities	1996	1997	1998
1. Monetary Liabilities	31,052	35,352	59,413
A. Banknotes and coins	24,003	27,065	45,096
B. Commercial banks' demand deposits	6,670	7,905	13,270
C. Private sectors' demand deposits	379	382	1,047
2. Foreign Exchange Deposits	2,380	2,749	3,667
A. Banks' demand deposits	2,364	2,748	3,623
B. Other demand deposits	16	1	44
3. Foreign Liabilities	1,290	976	9,548
A. Foreign exchange liabilities	945	767	1,155
B. Other foreign liabilities	345	209	8,393
4. Government Deposits	20,237	19,916	38,963
A. Current account	18,559	18,204	28,275
B. Counterpart funds	1,273	1,385	1,843
C. Import guarantee	405	327	1,091
D. Special government institution	0	0	7,754
5. Bank Indonesia Certificates	10,822	20,996	30,151
6. Capital Account	2,070	2,589	3,055
7. Other Liabilities	8,310	8,071	157,286
Total	**76,161**	**90,649**	**302,083**

APPENDIX A.2

Income Statement of Bank Indonesia
(In millions of rupiah)

Description		Audited		Unaudited
		March 31, 1996	March 31, 1997	March 31, 1998
1.	Operating income	3,662,857.2	4,695,615.4	23,051,162.3
2.	Direct expenses	2,096,537.5	2,627,813.0	16,678,618.8
3.	Gross profit (1–2)	1,566,319.7	2,067,802.4	6,372,543.5
4.	General & administrative expenses	738,390.3	876,935.6	5,349,306.2
5.	Operating profit (3–4)	827,929.4	1,190,866.8	1,023,237.3
6.	Other income and expenses	319,531.3	3,529.1	762,250.4
7.	Income before tax (5+6)	1,147,460.7	1,194,395.9	1,785,487.7
8.	Income tax	372,484.1	378,306.2	571,866.1
9.	Social welfare donation	15,499.5	16,321.8	24,272.4
10.	Net Income (7–8–9)	759,477.1	799,767.9	1,189,349.2

APPENDIX B

Government Commissioner and Board of Directors

as of March 31, 1998

Government Commissioner

Sofjan Djajawinata

Board of Directors

Governor

Syahril Sabirin

Managing Directors

Haryono
Mukhlis Rasyid
Aulia Pohan
Iwan R. Prawiranata
Miranda S. Goeltom
Achwan
Subarjo Joyosumarto

APPENDIX C

Organization and Personnel

In order to improve the effectiveness and efficiency of Bank Indonesia Representative Offices' tasks to support the Head Office's duties, in the year under review, Bank Indonesia improved the organization of its representative offices abroad. The aims of this reorganization are to improve the vision, target, strategy, function and main tasks of the representative offices; to improve the basis for determining their working regions; and to alter other organization instruments.

Despite the reorganization, the number of departments and offices remained unchanged, with 19 departments at the Head Office in Jakarta, 42 regional offices throughout the country, and 5 representative offices abroad.

The number of personnel at the end of March 1998 was 6,290 persons; 3,341 of them were posted at the Head Office, 2,882 at the regional offices, and 67 at the representative offices.

Number of Personnel

Year	Head Office	Regional Offices	Representative Offices 1)	Total
1995/96	4,145	3,483	70	7,698
1996/97	3,292	2,987	95	6,374
1997/98	3,341	2,882	67	6,290

1) Including those studying abroad

Department Directors

Accounting Department	:	Bun Bunan Hutapea
Foreign Exchange Department	:	Djakaria
Legal and Secretariat Department	:	Bambang Setijoprodjo
Communication and Security Department	:	Santo Silaban
Credit Department	:	Abdul Salam
Logisitics Department	:	Imam Sukarno
International Department	:	Sumitro
Monetary Management Department	:	C. Harinowo
Internal Resources Research and Development Department	:	Adolf Latuhamallo
Banking Regulation and Development Department	:	Sukarwan
Rural Credit Bank Supervision Department	:	Tontowi Djauhari
Bank Supervision Department I	:	Koesworodjati
Bank Supervision Department II	:	Ahmad Basuki
Bank Supervision Department III	:	S. Budi Rochadi
Internal Control Department	:	Dudung Sjarifudin
Currency Circulation Department	:	Gusti Made Setat
Economic Research and Monetary Policy Department	:	Achjar Iljas
Economic and Monetary Statistics Department	:	Erman Munzir
Human Resources Department	:	Ratnawati Priyono

Representative Managers

Kuala Lumpur	:	Rusli Simanjuntak
London	:	H.Y. Susmanto
New York	:	Sulastinah Tirtonegoro
Singapore	:	Bachri Ansjori
Tokyo	:	Haswandi S. Effendy

Regional Office Managers

Category I

Bandung	:	Warsono Santoso
Medan	:	Adi Putra Hasan
Semarang	:	Sidarto
Surabaya	:	M. Ashadi

Category II

Bandar Lampung	:	Goegoen Roekawan
Banjarmasin	:	Maskan Iskandar
Denpasar	:	J.B. Sudibyo
Manado	:	Prihono Bagio
Padang	:	Abubakar Karim
Palembang	:	Azis Sanuri
Ujung Pandang	:	Sidik Suharto
Yogyakarta	:	Adji Mulawarman Hasan

Category III

Ambon	:	Sumadi
Banda Aceh	:	Ahmad Lastawan Ramly
Cirebon	:	Imrandani
Jambi	:	Irman Djaja Dalimi
Jayapura	:	Rubino
Malang	:	Langka Ardimudinar
Mataram	:	RD. Sukmana
Pekanbaru	:	Dedy Rohendy
Pontianak	:	Hertono Cokropranowo
Samarinda	:	Muhammad Ali Tarmizi
Solo	:	Moeljono

Category IV

Balikpapan	:	Dedy Sutady
Bengkulu	:	Djatiwalujo
Dili	:	Sabar Lumbantoruan
Jember	:	Ahmad Sukandar
Kediri	:	Nugroho Endropranoto
Kendari	:	–
Kupang	:	Budhi Santoso
Palangka Raya	:	Rizaf Anwar
Palu	:	M. Wignya Suprapta
Pematang Siantar	:	Moehardhono Sumali
Purwokerto	:	Sarman Bona Sihotang
Tasikmalaya	:	Suwondo
Tegal	:	Sunarko

Category V

Batam	:	Norman John
Lhokseumawe	:	Suwarna Karpi
Padang Sidempuan	:	Budiman Usman
Sampit	:	Amin Sisworo
Sibolga	:	Iman A. Kusrochjono
Ternate	:	Sunaryo

APPENDIX D.1

POLICY COMMITMENTS UNDER THE IMF PROGRAM[1)]

Fiscal Issues

	Policy Action	Target Date	Status
1.	Remove VAT exemption arrangements	April 1, 1998	Done
2.	Increase proportion of market value of land and buildings assessable for tax to 40 percent for plantation and forestry	March 31, 1998	Done
3.	Introduce single tax payer registration number	June 30, 1998	Under preparation
4.	Increase non-oil tax revenue by raising annual audit coverage, developing improved VAT audit programs, and increasing recovery of tax arrears	June 30, 1998	Under preparation
5.	Increase in two stages excise taxes on alcohol and tobacco to reflect exchange rate and price developments	December 1, 1997 and July 1, 1998	First stage done
6.	**Raise profit transfers to the budget from state enterprises, including Pertamina**	During 1998/99	Under preparation
7.	Raise prices on sugar, wheat flour, corn, soybeanmeal and fishmeal	April 1, 1998	Done
8.	Eliminate subsidies on sugar, wheat flour, corn, soybeanmeal and fishmeal	October 1, 1998	
9.	Accelerate provisions under the Nontax Revenue Law of May 1997, to require all off-budget funds to be incorporated in budget within three years (instead of five years)	To be continued	Ongoing
10.	Incorporate accounts of Investment Fund and Reforestation Fund within budget	FY 1998/99	Done
11.	Ensure reforestation funds used exclusively for financing reforestation programs	FY 1998/99	Ongoing
12.	Central Government to bear cost of subsidizing credit to small-scale enterprises through state banks	FY 1998/99	Done
13.	Cancel 12 infrastructure projects	January 1998	Done
14.	Discontinue special tax, customs, or credit privileges granted to the National Car Project	January 1998	Done
15.	Phase out local content program for motor vehicles	2000	
16.	Discontinue budgetary and extrabudgetary support and privileges to Nusantara Aircraft Industry (IPTN) projects	January 1998	Done

1) New or strengthened commitments since the January 15, 1998 memorandum of economic and financial policies are printed in bold.

17.	**Conduct revenue review with Fund assistance**	Over program period; first step by end-September 1998	

Monetary and Banking Issues

	Policy Action	Target Date	Status
1.	Provide autonomy to BI in formulation of monetary and interest rate policy	February 1998	Presidential decree issued
2.	**Publish key monetary data on a weekly basis**	April 24, 1998	
3.	Submit to Parliament a draft law to institutionalize Bank Indonesia's autonomy	December 1998	Being prepared with the cooperation of Bundesbank experts
4.	Provide autonomy for state banks to adjust interest rates on credit and deposit liabilities, within any guidelines applying to all banks	March 1998	Done
5.	Impose limits on and phase out BI credits to public agencies and public sector enterprises	To be continued	Ongoing
6.	Strengthen BI's bank supervision department and strengthen enforcement of regulations	To be continued	Ongoing
7.	Upgrade reporting and monitoring procedures for foreign exchange exposures of banks	June 30, 1998	Under preparation
8.	**Appoint high level foreign advisors to BI to assist in the conduct of monetary policy**	June 30, 1998	
9.	**Set minimum capital requirements for banks of Rp250 billion by end-1998, after loan loss provisions**	April 22, 1998	
10.	Make loan loss provisions fully tax deductible, after tax verification	April 22, 1998	
11.	Establish program for divestiture of BI's interests in private banks	To be continued	Ongoing
12.	Conduct thorough review of central bank and banking laws in preparation for revising legal framework for banking operations	September 30, 1998	Under preparation
13.	Require all banks to prepare audited financial statements	January 1998	Done
14.	Require banks to publish regularly more data on their operations	December 31, 1999	Under preparation
15.	Lift restrictions on branching of foreign banks	February 1, 1998	Done
16.	Submit to Parliament a draft law to eliminate restrictions on foreign investment in listed banks and amend bank secrecy with regard to nonperforming loans	June 30, 1998	Under preparation

17.	Eliminate all restrictions on bank lending except for prudential reasons or to support co-operatives or small scale enterprises	Over program period	Ongoing

Bank Restructuring

	Policy Action	Target Date	Status
1.	Close 16 inviable banks	November 1, 1997	Done
2.	Replace the closed banks' management with liquidation teams	December 1, 1997	Done
3.	Compensate small depositors in the 16 banks	January 1, 1998	Done
4.	Place weak regional development banks under intensive supervision by BI	December 1, 1997	Done
5.	Provide liquidity support to banks, subject to increasingly restrictive conditions	November 1, 1997	Done
6.	**Provide external guarantee to all depositors and creditors of all locally-incorporated banks**	January 27, 1998	Done
7.	**Establish Indonesian Bank Restructuring Agency (IBRA)**	January 27, 1998	Done
8.	**Determine uniform and transparent criteria for transferring weak banks to IBRA**	February 11, 1998	Done
9.	**Transfer 54 weak banks to IBRA**	February 27, 1998	Done
10.	**Tranfer claims resulting from past liquidity support from BI to IBRA**	April 22, 1998	Under preparation
11.	**Transfer to IBRA control of seven banks accounting for over 75 percent of past BI liquidity support and seven banks that have borrowed more than 500 percent of their capital**	April 22, 1998	Done
12.	**IBRA will continue to take control of or freeze additional banks that fail to meet liquidity or solvency criteria. Where necessary, any such action will be accompanied by measures to protect depositors or creditors in line with the government guarantee**	Over program period	
13.	**Establish new asset management entity for bad debts under IBRA supervision**	June 30, 1998	Under preparation
14.	**Establish independent review committee to enhance transparency and credibility of IBRA operations**	June 30, 1998	Under preparation
15.	**Conduct portfolio, systems, and financial reviews of all banks under IBRA supervision as well as major banks not under IBRA supervision by internationally recognized audit or firms**	August 30, 1998	Under preparation
16.	**Prepare plan for restructuring banks under IBRA supervision through mergers, transfers of assets and liabilities, or recapitalization prior to privatization**	October 31, 1998	Under preparation

17.	Ensure that state banks sign performance contracts, prepared by the Ministry of Finance with World Bank assistance	March 31, 1998	Done
18.	Merge two state-owned banks and conduct portfolio reviews on those two banks	June 30, 1998	Under preparation
19.	Draft legislation enabling state bank privatization	June 30, 1998	Under preparation
20.	Introduce private sector ownership of at least 20 percent in at least one state bank	November 1, 1998	Done
21.	Prepare state-owned banks for privatization	2001	
22.	Develop rules for the Jakarta Clearing House that will transfer settlement risk from BI to participants	April 1, 1998	Done
23.	Introduce legislation to amend the banking law in order to remove the limit on private ownership of banks	June 30, 1998	Under preparation
24.	Introduce deposit insurance scheme	Program period	

Foreign Trade

	Policy Action	Target Date	Status
1.	Reduce by 5 percentage points tariffs on items currently subject to tariffs of 15 to 25 percent	March 31, 1998	Done
2.	Cut tariffs on all food items to a maximum of 5 percent	February 1, 1998	Done
3.	Abolish local content regulations on dairy products	February 1, 1998	Done
4.	Reduce tariffs on non-food agricultural products by 5 percentage points	February 1, 1998	Done
5.	Gradually reduce tariffs on non-food agricultural products to a maximum of 10 percentage points	2003	Under preparation
6.	Reduce by 5 percentage points tariffs on chemical procucts	January 1, 1998	Done
7.	Reduce tariffs on steel/metal products by 5 percentage points	January 1, 1998	Done
8.	Reduce tariffs on chemical, steel/metal, and fishery products to 5–10 percent	2003	
9.	Abolish import restrictions on all new and used ships	February 1, 1998	Done
10.	Phase out remaining quantitative import restrictions and other non-tariff barriers	End-program	
11.	Abolish export taxes on leather, cork, ores, and waste aluminium products	February 1, 1998	Done
12.	Reduce export taxes on logs, sawn timber, rattan and minerals to a maximum of 30 percent	First step by April 22, 1998	

	by April 15, 1998; 20 percent by end-December 1998, and 15 percent by end-December 1999 and 10 percent by end-December 2000		
13.	Phase in resource rent taxes on logs sawn timber and minerals	First step by April 22, 1998	
14.	Replace remaining export taxes and levies by resource rent taxes as appropriate	Over program period	
15.	Eliminate all other export restrictions	Over program period	Under preparation
16.	Remove ban on palm oil exports and replace by export tax of 40 percent. The level of the export tax will be reviewed regularly for possible reduction, based on market prices and the exchange rate and reduced to 10 percent by end-December 1999	April 22, 1998	Agreed

Investment and Deregulation

	Policy Action	Target Date	Status
1.	Remove the 49 percent limit on foreign investment in listed companies	September 1997	Done (except for banks)
2.	Issue a revised and shortened negative list of activities closed to foreign investors	June 30, 1998	Under preparation
3.	Remove restrictions on foreign investment in palm oil plantations	February 1, 1998	Done
4.	Lift restrictions on foreign investment retail trade	March 31, 1998	Done
5.	Lift restrictions on foreign investment in wholesale trade	April 22, 1998	Done
6.	Dissolve restrictive marketing arrangement for cement, paper, and plywood	February 1, 1998	Done
7.	Eliminate price controls on cement	November 3, 1997	Done
8.	Allow cement producers to export with only a general exporter license	February 1, 1998	Done
9.	Free traders to buy sell and transfer all commodities across district and provincial boundaries, including cloves, cashew nuts and vanilla	February 1, 1998	Done
10.	Eliminate Clove Marketing Board (BPPC)	June 30, 1998	Done
11.	Abolish quota limiting the sale of livestock	September 30, 1998	Under preparation
12.	Prohibit provincial governments from restricting trade within and between provinces	February1, 1998	Done
13.	Enforce prohibition of provincial and local export taxes	January 1998	Done
14.	Take effective action to allow free competition in : a. importation of wheat, wheat flour, soybeans and garlic ;	February 1998	Done

	b. sale or distribution of flour ; and		
	c. importation and marketing of sugar		
15.	Release farmers from requirements for forced planting of sugar cane	Februari 1998	Done

Privatization and Public Enterprises

	Policy Action	Target Date	Status
1.	Conduct a public expenditure and investment review in collaboration with World Bank	June 30, 1998	Ongoing
2.	Establish procedures for government procurement and contracting for private sector involvement in the provision of infrastructure	June 30, 1998	Partially done
3.	Establish clear framework for management and privatization of government assets, including criteria for determining whether enterprises are privatized, restructured or closed. Also establish transparent sales process	September 30, 1998	Under preparation
4.	**Announce 7 enterprises to be privatized in 1998/99**	April 24, 1998	Under preparation
5.	Identify an additional 5 enterprises to be listed in 1998/99	June 30, 1998	Under preparation
6.	**Divest the 7 enterprises**	March 31, 1999	Under preparation
7.	**Establish transparent procedures for divestiture and privatization**	June 30, 1998	Under preparation
8.	**Prepare action plans for all 164 public enterprises**	September 30, 1998	Under preparation
9.	**Offer for sale additional tranches of government-controlled shares in public enterprises already listed**	During 1998/99	Under preparation
10.	Establish clear profit and performance targets for remaining government enterprises	September 30, 1998	Under preparation
11.	Audit inviable public enterprises	December 31, 1998	
12.	Develop a plan for closing inviable public enterprises	September 30, 1998	Under preparation
13.	Move oversight of public enterprises to the Ministry of Finance and establish a Privatization Board	January 1998	Minister for State Enterprises appointed

Social Safety Net

	Policy Action	Target Date	Status
1.	Introduce community-based work programs to sustain purchasing power of the poor in both rural and urban areas	Fiscal year 1998/99	Under preparation with assistance of the World Bank
2.	Increase subsidies for food and essential items	Fiscal year 1998/99	Done

Environment

	Policy Action	Target Date	Status
1.	Draft and establish implementation rules for the new environmental law	December 31, 1998	Under preparation
2.	Accelerate programs for converting to cleaner fuels	December 31, 1999	Under preparation
3.	Review and raise stumpage fees	June 30, 1998	Under preparation
4.	Auction forest concessions and lengthen concession periods	June 30, 1998	Under preparation
5.	Allow transferability of forestry concessions and delink their ownership from processing for new concessions	June 30, 1998	Under preparation
6.	Implement performance bonds and reduce land conversion targets to environmentally sustainable levels	December 31, 1998	

Other

	Policy Action	Target Date	Status
1.	**Establish monitoring system for structural reforms**	April 22, 1998	Under preparation
2.	**Appoint auditors as necessary to ensure effective progress in implementing structural reforms and make auditor reports available to the Fund, World Bank, and Asian Development Bank**	As necessary	
3.	Make credible progress toward an agreement on corporate debt restructuring	April 22, 1998	Under preparation
4.	**Prepare regulations establishing procedures for mergers, acquisitions, and exit which facilitate corporate restructuring while safeguarding against anti-competitive behavior**	September 30, 1998	Under preparation
5.	**Submit to Parliament draft law on competition policy**	December 31, 1998	
6.	**Enact government regulation in lieu of law to amend the bankruptcy law and establish a special commercial court**	April 22, 1998	
7.	**Submit to Parliament law on bankruptcy for ratification**	June 30, 1998	

APPENDIX D.2

Provisions on Monetary, Banking, and Capital Market Issued in 1997/98

Date	Policy/Regulation	Number
1997		
APRIL		
4	Improving provision on small-scale enterprise credit, such as determining the group of authorized bank, maximum credit ceiling, small-scale enterprise criteria, partnership designs, liabilities calculation, and type of sanctions	BD BI No. 30/ 4/KEP/DIR CL No. 30/1/UK
16	Implementing new provisions on statutory reserve requirement from 3% to 5%	
30	Improving the procedure for assesing commercial bank soundness	BD BI No. 30/11/KEP/DIR CL No. 30/2/UPPB
30	Improving the procedure for assesing rural credit bank soundness	BD BI No. 30/12/KEP/DIR CL No. 30/3/UPPB
JULY		
7	Restricting credits by commercial banks for land acquisition and/or development, except for the construction of low cost houses	BD BI No. 30/ 46/KEP/DIR CL No. 30/2/UK
22-24	Raising overnight SBI discount rate from 7% to 12%, 12% to 13%, and 13% to 14%	
24	Temporary suspending transaction of money market securities	
AUGUST		
8	Granting small-scale enterprise credits to support integrated partnership program as well as to develop cooperatives through expanding the coverage of integrated partnership and raising the maximum credit ceiling for small-scale enterprises	BD BI No. 30/ 55/KEP/DIR
12	Discountinuing discount window facility I	

Note : BD BI : Board of Directors of Bank Indonesia Decree; CCMS : Chairman of Capital Market Supervisory Agency Decree; CIBRA: Chairman of IBRA Decree; CL : Circular Letter of Bank Indonesia; GR : Government Regulation; JD : Joint Decree; MF : Minister of Finance Decree; PD : Presidential Decree

Date	Policy/Regulation	Number
13	Raising overnight discount rate on Bank Indonesia certificate (SBI) from 14% to 15%	
14	Eliminating exchange rate intervention band, temporary suspending back-up window facility and SBI repurchase agreement	
18	Raising SBI discount rate from 10.5% to 20% for 7 days , from 11% to 22% for 14 days, from 11.62% to 30% for 1 month, and from 11.5% to 28% for 3 months	
22	Amending provisions and procedures for revocation of business licences, dissolution, and liquidation of banks	MF No. 448/ KMK.017/97 BD BI No. 30/63/KEP/DIR GR No. 40/1997
SEPTEMBER		
3	Announcing ten comprehensive steps of policy measures, such as (i) easing liquidity gradually, (ii) providing assistance to banks with temporary liquidity problems, and (iii) encouraging unsound banks to be merged or to be acquired by sound banks unless they would be liquidated in accordance with existing regulatory procedures	
4	Lowering SBI discount rate by 3 percentage point for 1 month and 3 months to 27% and 25%, respectively	
9	Lowering SBI discount rate to 19% for 7 days, 21% for 14 days, 25% for 1 month, and 23% for 3 months	
11	Reactivating discount window facility I	
15	Lowering SBI discount rate to 18% for 7 days, 20% for 14 days, 23% for 1 month, and 21% for 3 months	
22	Lowering SBI discount rate to 17% for 7 days, 19% for 14 days, 21% for 1 month, and 20% for 3 months	
OCTOBER		
6	Signing a banking arrangement between Bank Indonesia and The National Bank of Slovak within the framework to enhance economic cooperation and intra-trade	CL No. 30/25/ULN

Date	Policy/Regulation	Number
7	Lowering penalty for violation of foreign currency statutory reserve from 0.1% to 0.04% per day	BD No. 30/ 86/KEP/DIR CL No. 30/08/UPPB
10	Improving procedure for evaluating capital requirement of foreign exchange bank	CL No. 30/09/UPPB
16	Providing swap and forward facilities for designated exporters, including for importing basic material for export purposes within the framework to boost non-oil/gas export	BD No. 30/89/KEP/DIR CL No. 30/27/ULN
20	Lowering the ratio of statutory reserve requirement in foreign currency from 5% to 3%	BD No. 30/89.A/KEP/DIR CL No. 30/10/UPPB
20	• Reactivating facility for money market securities • Lowering SBI discount rate to 16% for 7 days, 18% for 14 days, 20% for 1 month, and 19% for 3 months	
28	Amending provision on credits for rural cooperatives (KKUD) such as widening the scope of agricultural product which are financed	BD No. 30/97/KEP/DIR
28	Amending provision on credits for primary cooperative for member (KKPA).	BD No. 30/98/KEP/DIR
NOVEMBER		
1	Revoking business licences of 16 inviable national private commercial banks, consisting of : Bank Andromeda, Bank Anrico, Bank Astria Raya, Bank Harapan Santosa, Bank Citrahasta Dhanamanunggal, Bank Dwipa Semesta, Bank Guna Internasional, Bank Industri, Bank Jakarta, Bank Kosagraha Semesta, Bank Mataram Dhana Arta, Bank Pacific, Bank Pinaesaan, Bank Sejahtera Bank Umum, South East Asia Bank Ltd, dan Bank Umum Majapahit.	MF No. 524-539/KMK.017/97
4	Providing rediscount facilty of export earning transaction for exporters and designated exporters and future export earning of designated exporters within the framework to boost non-oil/gas export, develop domestic foreign currency market, and help exporters obtaining fund	BD No. 30/132/KEP/DIR CL No. 30/29/ULN

Date	Policy/Regulation	Number
6	Amending provision on money market securities facility that to be connected with deposit and credit expansion limit by Bank Indonesia	
12	• Reactivating SBPU transaction issued by bank • Allowing credit expansion to exceed bank action plan as long as it is a new credit for small-scale enterprises, cooperatives and as an effort to boost non-oil/gas exports, or caused by exchange rate changes	CL No. 30/12/UPPB
20	Improving re-discount facility for domestic L/C in order to boost export and to encourage domestic transaction	BD No. 30/138/KEP/DIR CL No. 30/33/ULN
24	Instructing state-owned enterprises to invest 1% of their net profit into capital market	
25	Amending provision on low cost housing which covers proportion, interest rate, and installment period of Bank Indonesia liquidity credit	BD No. 30/141/KEP/DIR
DECEMBER		
5	Stipulating Act on Commodity Futures Trading	Act No. 32/1997
26	Issuing 15 new regulations by The Capital Market Supervisory Agency (Bapepam) in order to encourage the capital market activities	DCCMS No. KEP 39-53/PM/1997
31	Converting discount window facillity II and commercial bank negative balance at Bank Indonesia into special money market securities	
1998		
JANUARY		
2	Announcing a merger plan among 4 state-owned banks : BBD, BDN, Bank Exim, dan Bapindo. In addition, BTN would become a subsidiary of BNI. The merger would be prepared during January - March 1998, with July 31, 1998 at the latest	

Date	Policy/Regulation	Number
9	Appointing the negotiating team for private external debt settlement	PD No. 4/1998
10	Postponing and reevaluating 15 megaprojects	PD No. 5/1998
18	Providing swap facility to exporters with interest rate as swap premium in Jakarta market minus 1 percentage point	
21	Providing autonomy for Bank Indonesia in formulating monetary managament, interest rate, exchange rate, and foreign exchange policy.	PD No. 23/1998
26	Providing a full guarantee to all depositors and creditors (except sub-ordinated debt) of all locally incorporated bank	PD No. 6/1998 MF No. 26/ MK.017/98 JD of Board of Directors of Bank Indonesia and Chairman of IBRA, No. 30/270/KEP/DIR and No. 1/BPPN/98
26	Establishing Indonesian Bank Restructuring Agency (IBRA) that operates under the auspices of Ministry of Finance, with the main task of securing the implementation of guarantee program and banking restructuring process	PD No. 27/1998
28	Raising SBI discount rate to 30% for O/N, 25% for 7 days, 20% for 1 month, and 19% for 3 months	
FEBRUARY		
1	• Limiting the growth of foreign currency deposits and liabilities either linked or non-linked to trade transactions, including the opening of L/C • Limiting the growth of credit and maximum interest rate received by depositors (125% of JIBOR) and creditors	
2	Regulating the flow of rupiah currency from or into the territory of the Republic of Indonesia	GR No. 18/1998 BD No. 30/ 191.A/KEP/DIR CL No. 30/46/ULN

Date	Policy/Regulation	Number
27	Implementing prudential banking regulation regarding interbank liabilities, claims take over, deposits rate, and provision fund	BD No. 30/266/KEP/DIR CL No. 30/15/UPPB
27	Amending an earning asset quality provision	BD No. 30/ 267/KEP/DIR CL No. 30/16/UPPB
27	Amending provision on the formation of earning asset depreciation	BD No. 30/ 268/KEP/DIR CL No. 30/17/UPPB
MARCH		
2	Providing a bridging financing loan for the rest of deposits in liquidated banks	Announcement No. 30/12/UHS/SKD
5	Delegating the task and authority of the IBRA	PDNo. 34/1998
6	Improving discount window facility, the sanctions against violation of statutory reserve requirement, and negative balance at Bank Indonesia which is linked to JIBOR	BD No. 30/271/KEP/DIR CL No. 30/18/UPPB
9	Improving minimum capital requirement regulation for locally incorporated bank to Rp1 trillion by the end of 1998, Rp2 trillion by the end of 1999, Rp3 trillion by 2003, as well as raising the maximum foreign share in joint venture bank	GR No. 38/1998
11	Raising overnight SBI discount rate to 40%	
11	Setting a new calculation of deposit rate from a certain percentage point of JIBOR to that of SBI. The highest rate is 125 percent of the SBI rate	CL No. 30/20/UPPB
16	Placing Bank Indonesia's fund in 10 overseas bank and 6 state-owned bank, amounting to $1 billion as a guarantee for opening L/C	
23	Raising SBI discount rate to 43% for 7 days, 44% for 14 days, 45% for 1 month, and 30% for 3 months	

APPENDIX E

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Table 1
Gross Domestic Product by Expenditure
(In billions of rupiah unless otherwise noted)

Type of expenditure	1993	1994r	1995r	1996r	1997*
	At constant 1993 prices				
Consumption	222,715.1	238,504.7	265,096.0	291,400.6	305,332.0
Private	192,958.4	208,062.1	234,245.4	259,719.2	273,592.5
Government	29,756.7	30,442.6	30,850.6	31,681.4	31,739.5
Gross domestic fixed capital formation	86,667.3	98,589.0	112,386.4	128,698.6	134,033.5
Change in stock [1)]	10,545.5	14,836.0	15,852.7	3,791.1	4,733.1
Exports of goods and services	88,230.9	97,002.1	104,491.8	112,391.4	119,445.0
less Imports of goods and services	78,383.0	94,291.0	114,034.6	121,862.8	129,858.4
Gross Domestic Product	**329,775.8**	**354,640.8**	**383,792.3**	**414,418.9**	**433,685.2**
Net factor income from abroad	–12,552.6	–9,729.8	–11,923.8	–12,486.8	–14,093.8
Gross National Product	**317,223.2**	**344,911.0**	**371,868.5**	**401,932.1**	**419,591.4**
less Net indirect taxes	21,171.1	22,174.5	23,209.6	22,173.2	21,000.8
less Depreciation	16,488.8	17,732.0	19,189.6	20,720.9	21,684.3
National income	**279,563.3**	**305,004.5**	**329,469.3**	**359,038.0**	**376,906.3**
	At current market prices				
Consumption	222,715.1	259,133.3	315,460.6	371,885.3	430,548.4
Private	192,958.4	228,119.3	279,876.4	331,586.1	388,255.1
Government	29,756.7	31,014.0	35,584.2	40,299.2	42,293.3
Gross domestic fixed capital formation	86,667.3	105,380.6	129,217.5	157,652.7	179,269.2
Change in stock [1)]	10,545.5	13,326.5	15,900.4	6,371.5	17,994.0
Exports of goods and services	88,230.9	101,331.9	119,592.5	137,533.3	174,423.1
less Imports of goods and services	78,383.0	96,952.6	125,656.9	140,812.0	177,897.6
Gross Domestic Product	**329,775.8**	**382,219.7**	**454,514.1**	**532,630.8**	**624,337.1**
Net factor income from abroad	–12,552.6	–10,248.4	–13,366.1	–14,272.2	–19,117.5
Gross National Product	**317,223.2**	**371,971.3**	**441,148.0**	**518,358.6**	**605,219.6**
less Net indirect taxes	21,171.1	23,898.9	27,486.5	28,498.1	30,232.9
less Depreciation	16,488.8	19,111.0	22,725.7	26,631.5	31,216.9
National income	**279,563.3**	**328,961.4**	**390,935.8**	**463,229.0**	**543,769.8**
Memorandum item:					
Per capita Gross Domestic Product					
in thousands of rupiah	1,758.0	2,004.6	2,346.0	2,706.0	3,124.0
in dollars	842	928	1,044	1,155	1,089
Per capita Gross National Product					
in thousands of rupiah	1,691.1	1,950.9	2,277.0	2,633.5	3,028.3
in dollars	810	903	1,013	1,124	1,055
Per capita National Income					
in thousands of rupiah	1,490.3	1,725.3	2,017.8	2,353.4	2,720.9
in dollars	714	798	898	1,004	948

1) Residual
Source : Central Bureau of Statistics

Table 2
Gross Domestic Product by Business Sector
(In billions of rupiah)

Business Sector	At constant 1993 prices					At current market price				
	1993	1994	1995r	1996r	1997*	1993	1994	1995r	1996r	1997*
Agriculture, livestock, forestry, and fishery	**58,963.4**	**59,291.2**	**61,885.2**	**63,742.6**	**64,149.1**	**58,963.4**	**66,071.5**	**77,896.2**	**88,040.8**	**100,349.1**
Foodcrops	32,093.4	31,407.8	32,951.7	33,647.0	33,048.1	32,093.4	34,941.0	42,199.6	47,622.1	54,238.5
Non-foodcrops	9,014.8	9,471.6	9,912.0	10,330.6	10,771.7	9,014.8	10,587.2	12,666.6	14,147.8	16,259.9
Livestock and products	6,202.7	6,451.4	6,789.5	7,132.4	7,422.0	6,202.7	7,102.3	8,078.7	9,347.1	10,856.9
Forestry	6,267.6	6,300.9	6,303.6	6,384.2	6,345.9	6,267.6	6,897.4	7,390.4	7,883.0	8,545.4
Fishery	5,384.9	5,659.5	5,928.4	6,248.4	6,561.4	5,384.9	6,543.6	7,560.9	9,040.8	10,448.4
Mining and quarrying	**31,497.3**	**33,261.6**	**35,502.2**	**37,568.6**	**38,181.5**	**31,497.3**	**33,507.1**	**40,194.7**	**45,915.7**	**59,492.1**
Oil and natural gas	23,120.8	23,719.6	23,719.9	24,062.8	23,734.3	23,120.8	23,070.0	25,409.7	28,119.9	37,317.6
Others	8,376.5	9,542.0	11,782.3	13,505.8	14,447.2	8,376.5	10,437.1	14,785.0	17,795.8	22,174.5
Manufacturing Industry	**73,556.3**	**82,649.0**	**91,637.1**	**102,259.7**	**108,631.4**	**73,556.3**	**89,240.7**	**109,688.7**	**135,580.9**	**159,829.9**
Oil/gas	9,793.8	10,268.8	9,782.4	10,863.9	10,492.2	9,793.8	10,439.1	11,398.6	14,194.3	16,391.8
Petroleum oil refinery	5,540.5	5,547.9	5,392.1	6,291.5	5,747.1	5,540.5	5,855.1	6,599.1	8,340.1	8,475.8
LNG	4,253.3	4,720.9	4,390.3	4,572.4	4,745.0	4,253.3	4,584.0	4,799.5	5,854.2	7,915.9
Non-oil/gas	63,762.5	72,380.2	81,854.7	91,395.8	98,139.3	63,762.5	78,801.6	98,290.1	121,386.6	143,438.2
Electricity, gas, and water supply	**3,290.2**	**3,702.7**	**4,291.9**	**4,840.5**	**5,413.9**	**3,290.2**	**4,577.1**	**5,655.4**	**6,593.7**	**7,586.3**
Construction	**22,512.9**	**25,857.5**	**29,197.8**	**32,923.7**	**35,036.9**	**22,512.9**	**28,016.9**	**34,451.9**	**42,024.8**	**47,012.9**
Trade, hotel, and restaurant	**55,512.9**	**59,504.1**	**64,230.8**	**69,372.0**	**73,160.5**	**55,512.9**	**63,858.7**	**75,639.8**	**88,877.8**	**104,432.9**
Wholesale and retail trade	44,604.8	47,619.5	51,396.6	55,497.3	58,756.0	44,604.8	51,133.8	60,378.8	70,786.8	83,453.5
Hotel and restaurant	10,692.8	11,884.6	12,834.2	13,874.7	14,404.5	10,692.8	12,724.9	15,261.0	18,091.0	20,979.4
Transportation and communications	**23,248.9**	**25,188.6**	**27,328.6**	**29,701.1**	**32,204.1**	**23,248.9**	**27,352.6**	**30,795.1**	**34,926.3**	**42,231.8**
Transportation	20,101.2	21,400.2	22,931.5	24,444.6	26,040.3	20,101.2	23.191.0	25,476.7	29,246.4	35,198.5
Communication	3,147.7	3,788.4	4,397.1	5,256.5	6,163.8	3,147.7	4,161.6	5,318.4	5,679.9	7,033.3
Financial, rental, and corporate services	**28,047.8**	**30,901.0**	**34,313.0**	**37,400.5**	**39,184.0**	**28,047.8**	**34,505.6**	**39,510.4**	**44,371.4**	**49,564.7**
Bank [1]	14,005.3	15,944.6	18,108.5	19,903.2	20,597.1	14,005.3	17,817.5	20,852.3	23,070.7	25,372.6
Rental and corporate services	14,042.5	14,956.4	16,204.5	17,497.3	18,586.9	14,042.5	16,688.1	18,658.1	21,300.9	**24,192.1**
Services	**33,361.4**	**34,285.1**	**35,405.7**	**36,610.2**	**37,723.8**	**33,361.4**	**35,089.4**	**40,681.9**	**46,299.4**	**53,837.3**
Public administration	22,458.0	22,752.0	23,045.9	23,338.4	23,616.5	22,458.0	22,754.9	26,555.2	29,752.9	33,596.6
Private	10,903.4	11,533.1	12,359.8	13,271.7	14,107.3	10,903.4	12,334.5	14,126.7	16,546.5	**20,240.7**
GROSS DOMESTIC PRODUCT	**329,775.8**	**354,640.8**	**383,792.3**	**414,418.9**	**433,685.2**	**329,775.8**	**382,219.7**	**454,514.1**	**532,630.8**	**624,337.1**
Non-oil/gas	**296,861.2**	**320,652.4**	**350,290.0**	**379,492.2**	**399,458.7**	**296,861.2**	**348,710.6**	**417,705.8**	**490,316.6**	**570,627.7**
Oil/gas	**32,914.6**	**33,988.4**	**33,502.3**	**34,926.7**	**34,226.5**	**32,914.6**	**33,509.1**	**36,808.3**	**42,314.2**	**53,709.4**

1) Including other financial institutions and financial supporting services
Source : Central Bureau of Statistics

Table 3
Terms of Trade Effect on Gross Domestic Product
(In billions of rupiah unless otherwise noted)

Indicator	1993	1994r	1995r	1996r	1997*
1. Exports of goods and services					
at current market prices	88,230.9	101,331.9	119,592.5	137,553.3	174,423.1
2. Exports of goods and services					
at constant 1993 market prices	88,230.9	97,002.1	104,491.8	112,391.4	119,445.0
3. Export deflator [(1 : 2) x 100] 1)	100.0	104.5	114.5	122.4	146.0
4. Imports of goods and services					
at current market prices	78,383.0	96,952.6	125,656.9	140,812.0	177,897.6
5. Imports of goods and services					
at constant 1993 prices	78,383.0	94,291.0	114,034.6	121,862.8	129,858.4
6. Import deflator [(4 : 5) x 100] 1)	100.0	102.8	110.2	115.5	137.0
7. Terms in trade index [(3 : 6) x 100] 1)	100.0	101.7	103.9	106.0	106.6
8. Changes in terms of trade index 2)	–1.3	1.7	2.2	2.0	0.6
9. Real import capacity on export					
[(1 : 6) x 100]	88,230.9	98,571.9	108,523.1	119,076.5	127,316.1
10. Terms of trade effect (9 – 2)	0	1,569.8	4,031.3	6,685.1	7,871.1
11. Changes in terms of trade effect 3)	–	–	156.8	65.8	17.7
12. GDP at constant 1993 prices	329,775.8	354,640.8	383,792.3	414,418.9	433,685.2
13. Changes in GDP at constant 1993 prices 3)	7.3	7.5	8.2	8.0	4.7
14. Gross Domestic Income (10 + 12)	329,775.8	356,210.6	387,823.6	421,104.0	441,556.3
15. Changes in Gross Domestic Income 3)	6.9	8.0	8.9	8.6	4.9

1) In index, 1993 = 100
2) Annual changes
3) In percent
Source : Central Bureau of Statistics

Table 4
Selected Manufacturing Products

Product	Unit	1993/94	1994/95	1995/96r	1996/97r	1997/98*
Oil-based fuels 1)	**million barrels**	**211.0**	**208.2**	**229.7**	**240.6**	**214.1**
LNG 1)	**million MMBTUs**	**1,275.4**	**1,376.8**	**1,303.4**	**1,357.4**	**1,402.6**
LPG 1)	**thousands of tonnes**	**2,863.6**	**2,894.2**	**2,942.1**	**3,256.1**	**2,829.6**
Plywood and sawn timber						
Plywood	millions of m3	9.5	9.4	8.7	9.3	9.8
Sawn timber	millions of m3	10.8	10.9	11.0	11.3	11.9
Fertilizer						
Urea fertilizer	thousands of tonnes	5,132.7	5,435.3	5,894.7	6,200.0	6,520.6
ZA and TSP fertilizer	thousands of tonnes	1,708.9	1,820.0	1,546.3	1,626.4	1,753.0
Cement	**thousands of tonnes**	**18,990.0**	**21,907.0**	**24,097.0**	**24,976.0**	**27,716.4**
Pulp 2)	**thousands of tonnes**	**1,304.0**	**1,314.3**	**2,022.0**	**2,266.4**	**2,697.0**
Paper	**thousands of tonnes**	**2,489.3**	**3,054.0**	**3,425.8**	**4,013.8**	**5,493.6**
Textile and weaving yarn						
Textile	million meters	7,878.5	8,001.0	8,221.0	9,400.0	10,147.0
Weaving yarn	thousand bales	4,933.7	5,171.0	5,219.0	5,395.0	5,556.9
Garment	millions of dozen	92.9	96.0	115.0	130.9	135.9
Staple fiber	thousands of tonnes	403.5	440.5	476.3	526.1	625.4
Motor vehicle tires						
Automobile tires	thousand units	9,385.9	11,911.2	23,908.0	28,406.0	31,814.7
Motorcycle tires	thousands units	7,646.7	8,096.6	26,926.0	38,225.0	38,989.5
Basic metal						
Sponge iron	thousands of tonnes	1,428.6	1,507.3	1,714.0	2,038.5	1,576.4
Steel ingot	thousands of tonnes	2,416.8	1,941.0	2,609.0	2,400.0	2,216.7
Concrete steel bar	thousands of tonnes	1,381.0	1,293.0	2,256.2	2,592.6	2,202.6
Wire rod	thousands of tonnes	526.0	672.0	696.3	620.0	672.7
Steel wire	thousands of tonnes	198.0	152.5	117.4	122.4	132.3
Steel pipe	thousands of tonnes	500.6	858.0	547.2	520.6	571.0
Galvanized iron sheet	thousands of tonnes	309.1	368.0	458.0	415.0	
Aluminum plate	thousands of tonnes	44.1	46.4	50.5	53.8	51.2
Transportation means						
Automobiles	thousands units	209.2	325.0	387.5	325.5	328.7
Motorcycles	thousands units	454.8	781.0	1,042.9	1,425.4	1,724.7
Aircrafts	units	6.0	7.0	8.0	9.0	11.0
Helicopters	units	7.0	8.0	9.0	10.0	11.0
Steel vessels	thousands of BRT	92.5	102.4	106.5	111.8	120.7
Others						
Clove cigarettes	billion pieces	135.5	150.1	161.9	164.7	171.7
White cigarettes	billion pieces	44.3	44.3	47.7	43.6	46.1
Refined coconut oil	thousands of tonnes	639.4	661.4	702.2	972.8	972.8
Olein	thousands of tonnes	1,249.6	1,505.5	1,731.3	2,336.3	2,453.1
Laundry soap	thousands of tonnes	290.8	326.9	337.1	340.5	343.9
Detergent	thousands of tonnes	283.0	307.8	325.5	354.8	386.7
Electric/telecommunication cords	thousands of tonnes	107.3	138.5	131.7	144.9	137.6
Light bulbs/TL bulbs	million units	374.9	487.7	524.6	618.0	716.9
Radio and radio cassette recorders	thousan units	5,660.0	7,358.0	9,230.9	11,814.0	12,641.0
Car radio cassette recorders	thousand units	1,700.0	2,210.0	2,850.7	3,676.0	4,117.1
Television set	thousand units	1,476.0	1,918.0	2,455.5	3,166.0	3,640.9
Refrigerators	thousand units	248.9	323.6	404.5	513.0	590.0
Sewing machines	thousand units	53.2	55.8	61.4	67.2	69.6
Storage batteries	thousand units	11,600.0	11,500.0	14,300.0	14,300.0	16,200.0
Dry batteries	million units	1,463.4	1,563.7	2,154.0	2,607.0	3,128.4
Pesticide sprayers	thousand units	381.6	390.4	450.0	556.0	641.0
Hand tractors	units	9,350.0	9,818.0	11,330.0	11,860.0	12,157.0
Diesel engines	thousand units	71.0	74.6	77.5	91.0	104.7
Hullers	units	1,511.0	1,587.0	1,829.0	1,980.0	2,079.0
Sports shoes	million pairs	350.1	461.3	555.0	602.5	608.7
Leather shoes	million pairs	63.0	65.5	79.0	85.9	90.0

*) At the end of December 1997
1) At the end of calendar year.
2) Including integrated pulp industry.
Sources : – Ministry of Industry and Trade
– Ministry of Mining and Energy

Table 5
Selected Agricultural Products
(In thousands of tonnes unless otherwise noted)

Product	1993	1994	1995r	1996r	1997*
Foodcrops					
Rice	31,318	30,317	32,334	33,216	31,938
Corn	6,460	6,869	8,246	9,307	9,182
Cassava	17,285	15,729	15,441	17,002	16,186
Sweet potatoes	2,088	1,845	2,171	2,018	1,939
Peanuts	639	632	760	738	710
Soybeans	1,709	1,565	1,680	1,517	1,459
Mung beans	322	284	325	301	284
Cash crops					
Rubber	1,476	1,499	1,573	1,614	1,654
Smallholder	1,102	1,139	1,191	1,225	1,259
Estate	374	360	344	389	395
Copra	2,606	2,649	2,704	2,719	2,829
Palm oil	3,421	4,008	4,480	4,960	5,609
Palm kernels	602	797	942	1,051	1,145
Sugar cane	2,330	2,454	2,077	2,076	2,194
Tea	165	139	154	159	162
Smallholder	37	30	33	33	33
Estate	128	109	121	126	129
Coffee	439	450	458	479	486
Smallholder	410	422	430	448	455
Estate	29	28	28	31	31
Tobacco	121	130	140	140	140
Smallholder	119	128	137	136	136
Estate	2	2	3	4	4
Pepper	66	54	59	63	63
Cloves	67	78	90	94	99
Cacao	258	270	305	318	333
Forestry					
Log 1)	26,848	24,027	24,850	26,069	22,705
Livestocks					
Meat	1,378	1,493	1,507	1,632	1,749
Egg	573	689	736	780	818
Milk 2)	388	427	433	441	446
Fishery					
Sea	2,886	3,080	3,293	3,503	3,728
Inland	909	900	971	1,017	1,062

1) Fiscal year, in thousands cubic meters
2) In millions of liters
Sources : – Supplement to the President's Report to the People's Consultative Assembly (MPR), March 1, 1998
– Ministry of Agriculture

Table 6
Outputs, Harvested Areas, and Average Production of Paddy and Secondary Crops

Type of crop	1993r	1994r	1995r	1996r	1997*
Outputs (in thousands of tonnes)					
Paddy [1]	48,181	46,642	49,744	51,102	49,135
Corn (kernel)	6,460	6,869	8,246	9,307	9,182
Cassava	17,285	15,729	15,441	17,002	16,186
Sweet potatoes	2,088	1,845	2,171	2,018	1,939
Peanuts	639	632	760	738	710
Soybeans	1,709	1,565	1,680	1,517	1,459
Mung beans	322	284	325	301	285
Harvested areas (in thousands of hectares)					
Paddy [1]	11,013	10,734	11,439	11,570	11,035
Corn (kernel)	2,940	3,109	3,652	3,744	3,567
Cassava	1,402	1,357	1,324	1,415	1,315
Sweet potatoes	224	197	229	212	204
Peanuts	624	643	739	689	650
Soybeans	1,470	1,407	1,477	1,279	1,198
Mung beans	374	292	361	331	318
Average production (in quintals per hectare)					
Paddy [1]	48.2	46.6	49.7	51.1	49.1
Corn (kernel)	22.0	22.1	22.6	24.9	25.7
Cassava	123.3	116.0	116.6	120.2	123.1
Sweet potatoes	93.2	93.6	94.9	95.3	95.1
Peanuts	10.2	9.8	10.3	10.7	10.9
Soybeans	11.6	11.1	11.4	11.9	12.2
Mung beans	8.6	9.7	9.0	9.1	9.0

1) Equivalent to unhulled rice

Sources : – Supplement to the President's Report to the People's Consultative Assembly (MPR), March 1, 1998
– Ministry of Agriculture

Table 7
Selected Mining and Quarrying Outputs

Output	Unit	1993	1994	1995	1996	1997
Crude oil	millions of barrels	557.7	588.4	586.3	582.7	576.9
Natural gas	billions of cubic feet	2,661.9	2,941.6	2,999.2	3,164.0	3,165.7
T i n	thousands of tonnes	28.6	30.6	38.4	51.0	55.2
C o a l	thousands of tonnes	27,569.4	31,012.1	41,421.7	50,332.1	52,074.3
Copper (concentrate)	thousands of tonnes	928.2	1,065.5	1,516.6	1,758.9	1,817.9
Nickel						
Nickel ore	thousands of tonnes	1,975.8	2,311.5	2,513.4	3,426.9	2,829.9
Ferro-nickel (ingot)	thousands of tonnes	23.8	26.2	54.3	46.7	48.7
Ferro-nickel (Ni content)	thousands of tonnes	5.3	5.7	10.7	9.6	10.0
Nickel matte	thousands of tonnes	37.0	48.5	49.3	43.5	33.7
Bauxite	thousands of tonnes	1,320.4	1,342.4	899.0	842.0	808.8
Iron sands	thousands of tonnes	341.3	334.9	348.4	425.1	487.4
Gold	kilograms	42,083.8	42,597.0	62,817.9	83,564.1	89,978.7
Silver	kilograms	90,285.4	107,025.6	265,212.4	255,404.0	279,160.5

Sources : Ministry of Mining and Energy

Table 8
Selected Tourism Indicators

Indicator	Unit	1993	1994	1995	1996	1997*
Foreign tourists[1)]	**thousands of persons**	**3,403**	**4,006**	**4,324**	**5,034**	**4,191**
Ports of entry						
Airports	units	23	23	23	23	23
Seaports	units	11	11	11	11	11
Tourist points of interest	**areas**	**23**	**23**	**23**	**23**	**23**
Facilities						
Star-rated hotel	units	564	624	697	725	797
Number of rooms	rooms	53,134	59,091	66,357	69,994	81,368
Occupation rate	percent	51	52	48	49	48
Non-star-rated hotel [2)]	units	7,274	7,663	7,964	7,964	7,964
Travel agencies [3)]	**units**	**1,539**	**1,760**	**2,041**	**2,225**	**2,561**

1) Those recorded through 7 ports of entry
2) Including Melati rated and others
3) Including branch offices and agents
Source : Ministry of Tourism, Post, and Telecommunication

Table 9
Selected Telecommunication Indicators

Indocator	Unit	1993	1994	1995r	1996	1997
Telephone						
Central's capacity	line units	2,915,065	3,866,578	4,824,282	6,343,695	7,392,197
Installed capacity	line units	2,409,576	3,426,756	4,467,291	5,808,849	6,523,724
Customers	line units	1,863,947	2,462,831	3,290,854	4,186,030	4,982,466
Non-PBH	line units	1,713,008	2,209,087	2,822,264	3,661,516	4,399,577
PBHline units	92,938	172,582	360,333	389,972	416,165	
Coin public telephones	line units	41,674	49,969	56,906	68,972	78,778
Card public telephones	line units	7,882	18,765	33,751	37,641	43,049
Telecommunication stalls	line units	8,445	12,428	17,600	27,929	44,897
Utilized capacity	percent	77.36	71.87	73.67	72.06	76.37
Cellular						
Customers	line units	53,438	78,024	210,643	562,517	916,173
Telex						
Customers	line units	16,484	15,672	14,562	13,814	13,265
Accomplished dialing						
Local	percent	44.7	52.7	55.2	57.9	60.43
Long distance direct dialing	percent	36.3	42.7	47.6	53.2	56.5
Number of lines per 100 residents	line units	0.99	1.28	1.69	2.11	2.47
International direct dialing coverage						
Countries of destination	countries	204	219	243	252	261

Source : – PT. Telekomunikasi Indonesia
– PT. Indosat

Table 10
PLN Electric Power Installed Capacity
(In MW)

Fiscal	Electric generators						Total
	Water powered	Steam powered	Gas and steam powered	Diesel powered	Gas powered	Geothermal powered	
1993/94	2,178	3,891	1,817	2,097	1,243	140	13,569
1994/95**r**	2,178	4,755	3,942	2,164	982	305	14,370
1995/96**r**	2,180	4,821	4,413	2,218	1,020	308	14,986
1996/97**r**	2,180	4,920	4,412	2,350	1,105	308	15,940
1997/98 1)	2,436	6,870	5,589	2,515	1,298	360	19,068

1) In calendar year 1997.
Source : State Electric Company (PLN)

Table 11
Electric Power Production
(In millions of KWH) 1)

Fiscal	PLN	Non-PLN	Total
1993/94	45,469	1,250	46,719
1994/95	52,075	1,304	53,379
1995/96	59,830	1,281	61,111
1996/97 r	67,356	1,649	69,005
1997/98 2)	68,975	1,870	70,845

1) Only those distributed by PLN to general public
2) Up to February 1998
Source : State Electric Company (PLN)

Table 12
Approved Domestic Investment Projects by Sector
(In billions of rupiah)

Sector	1993	1994	1995r	1996r	1997	Total 1) 1968 –1997	
						Value	Projects
Agriculture, forestry, and fishery	**3,092.5**	**7,401.0**	**10,097.0**	**16,072.1**	**14,807.7**	**81,382.4**	**1,738**
Agriculture	2,735.0	4,544.8	7,190.9	15,284.4	13,737.5	65,847.0	1,107
Forestry	257.5	261.5	1,476.4	45.6	165.5	6,563.5	297
Fishery	100.0	2,594.7	1,429.7	742.1	904.7	8,971.9	334
Mining	**69.2**	**112.4**	**205.1**	**460.1**	**126.3**	**5,518.5**	**173**
Manufacturing	**24,032.1**	**31,921.7**	**43,341.8**	**59,217.7**	**79,334.3**	**389,250.8**	**6,464**
Food	2,073.1	4,044.8	5,106.1	13,748.3	13,048.6	48,482.6	990
Textile	3,539.0	5,518.3	7,176.6	3,365.8	6,831.3	54,539.0	1,330
Wood	1,373.6	1,171.2	2,009.8	1,128.9	762.2	16,310.7	809
Paper	2,208.7	3,749.3	6,032.6	12,763.9	11,841.9	55,118.2	408
Chemical and pharmaceutical	7,767.1	5,377.8	9,021.6	13,392.7	22,497.2	98,644.0	1,330
Non-metal mineral	5,399.2	8,546.9	9,088.9	7,964.8	11,638.7	60,971.4	437
Basic metal	186.7	1,663.9	2,380.5	4,460.7	8,021.5	29,403.8	213
Metal products	1,460.8	1,783.5	2,338.5	2,375.9	4,683.9	25,193.9	848
Others	23.9	66.0	133.3	16.7	9.0	587.2	99
Construction	**186.6**	**731.1**	**847.7**	**1,550.0**	**877.0**	**5,924.4**	**158**
Hotel	**3,051.3**	**4,341.9**	**3,792.5**	**5,019.3**	**2,587.9**	**31,304.3**	**723**
Transportation	**3,827.4**	**3,119.8**	**3,965.9**	**3,065.0**	**4,649.4**	**23,208.5**	**975**
Real estate and office building	**4,392.9**	**3,803.8**	**5,337.2**	**9,425.7**	**4,300.5**	**36,551.9**	**368**
Other services	**798.4**	**1,857.4**	**2,265.8**	**5,905.3**	**13,189.8**	**29,663.4**	**346**
T o t a l	**39,450.4**	**53,289.1**	**69,853.0**	**100,715.2**	**119,872.9**	**602,804.2**	**10,945**

1) From July 1968 to December 1997, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 13
Approved Domestic Investment Projects by Province
(In billions of rupiah)

Province	1993	1994	1995	1996	1997	Total 1) 1968 – 1997	
						Value	Projects
Jawa and Madura	**27,278.0**	**36,466.0**	**41,807.1**	**43,772.3**	**63,680.8**	**359,799.3**	**7,206**
Jakarta	8,828.9	5,968.3	11,645.2	14,395.5	8,553.5	65,885.0	1,806
West Jawa	11,681.8	15,863.0	19,338.0	19,213.5	37,423.5	192,597.1	3,338
Central Jawa	2,768.1	5,766.9	5,499.0	3,366.9	5,764.2	36,691.7	728
Yogyakarta	220.6	422.9	39.6	222.5	235.6	1,996.0	119
East Jawa	3,778.6	8,444.9	5,285.3	6,573.9	11,704.0	62,629.5	1,215
Sumatera	**4,473.7**	**8,518.6**	**13,074.9**	**24,033.6**	**33,561.7**	**119,933.3**	**1,758**
Aceh	304.9	127.6	280.6	1,474.8	1,114.1	6,586.9	127
North Sumatera	1,491.8	804.7	1,703.8	2,364.0	3,395.5	15,348.8	432
West Sumatera	15.9	573.3	716.4	3,066.7	522.6	6,958.7	139
Riau	961.4	3,682.5	4,309.9	8,854.8	11,862.4	43,805.5	448
Jambi	279.3	1,066.5	737.7	925.5	9,793.5	15,003.2	88
South Sumatera	854.0	360.5	3,628.2	5,024.1	5,391.4	18,656.8	280
Bengkulu	57.5	192.9	1,167.2	404.7	630.7	4,066.5	64
Lampung	508.9	1,710.6	531.2	1,919.0	851.5	9,506.9	180
Kalimantan	**3,377.5**	**4,113.7**	**8,378.9**	**18,432.4**	**13,935.7**	**63,768.0**	**840**
West Kalimantan	540.2	932.0	1,051.0	9,316.4	3,825.9	21,867.6	261
Central Kalimantan	2.8	873.2	1,857.9	2,182.9	1,688.0	7,059.6	137
South Kalimantan	1,107.8	366.1	195.2	2,709.9	4,300.1	12,008.2	165
East Kalimantan	1,726.7	1,942.4	5,274.9	4,223.2	4,121.7	22,832.6	277
Sulawesi	**1,138.9**	**1,656.8**	**2,710.9**	**6,272.9**	**3,849.9**	**22,696.6**	**480**
North Sulawesi	275.4	583.6	1,062.9	326.1	277.8	4,153.5	109
Central Sulawesi	122.5	30.9	1,219.5	2,636.8	725.5	5,870.5	75
South Sulawesi	679.4	673.0	376.5	2,597.5	1,880.0	9,285.2	259
Southeast Sulawesi	61.6	369.3	51.9	712.5	966.6	3,387.4	37
Nusa Tenggara	**116.5**	**69.2**	**205.1**	**244.6**	**1,222.5**	**3,880.3**	**126**
West Nusa Tenggara	98.0	46.9	183.7	0.7	352.5	2,120.4	68
East Nusa Tenggara	18.5	22.3	21.4	243.9	870.0	1,759.9	58
Bali	**444.6**	**1,716.3**	**1,320.8**	**561.3**	**850.7**	**9,320.4**	**302**
East Timor	**0.0**	**55.1**	**2.0**	**450.0**	**–**	**735.7**	**11**
Maluku	**2,192.0**	**51.4**	**1,750.6**	**282.6**	**1,060.0**	**7,630.8**	**129**
Irian Jaya	**429.2**	**642.0**	**602.7**	**6,665.5**	**1,711.6**	**15,039.8**	**93**
T o t a l	**39,450.4**	**53,289.1**	**69,853.0**	**100,715.2**	**119,872.9**	**602,804.2**	**10,945**

1) From July 1968 to December 1997, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 14
Approved Foreign Direct Investment Projects by Sector
(In millions of dollars)

Sector	1993	1994	1995	1996	1997	Total 1) 1967 – 1997 Value	Projects
Agriculture, forestry, and fishery	**160.1**	**729.9**	**1,384.3**	**1,521.5**	**463.7**	**6,467.7**	**270**
Agriculture	138.2	690.4	1,153.1	1,306.2	436.6	5,148.7	157
Forestry	–	–	–	135.5	–	639.3	26
Fishery	21.9	39.5	231.2	79.8	27.1	679.7	87
Mining	**–**	**–**	**–**	**1,696.7**	**1.6**	**9,369.0**	**124**
Manufacturing	**3,421.4**	**18,738.8**	**26,891.9**	**16,072.2**	**23,017.3**	**131,894.0**	**3,344**
Food	161.6	1,234.8	1,331.8	691.4	572.8	5,378.1	250
Textile	419.4	396.4	471.1	514.6	372.6	6,982.6	549
Wood	38.6	68.1	262.9	101.1	69.7	1,409.6	238
Paper	201.6	5,120.1	2,540.5	2,907.3	5,353.3	25,247.5	94
Chemical and pharmaceutical	1,177.1	7,743.2	19,404.4	7,404.6	12,376.4	60,376.1	754
Non-metal mineral	97.8	631.9	289.3	789.8	1,457.3	6,878.6	138
Basic metal	180.3	2,081.6	291.7	650.9	357.0	8,074.6	113
Metal products	1,115.0	1,423.1	2,258.0	2,938.6	2,331.7	16,926.5	1,101
Others	30.0	39.6	42.2	73.9	126.5	620.4	107
Construction	**96.9**	**76.5**	**205.8**	**296.8**	**306.8**	**1,707.2**	**300**
Hotel	**394.4**	**343.6**	**998.8**	**1,716.5**	**462.6**	**10,947.7**	**205**
Transportation	**85.4**	**145.1**	**5,539.5**	**694.6**	**5,900.0**	**14,266.3**	**159**
Real estate and office building	**598.0**	**1,027.8**	**1,192.0**	**3,000.3**	**1,397.6**	**11,207.5**	**177**
Other services	**3,385.6**	**2,622.6**	**3,702.3**	**4,932.8**	**2,282.9**	**18,239.6**	**984**
T o t a l	**8,141.8**	**23,724.3**	**39,914.7**	**29,931.4**	**33,832.5**	**204,099.0**	**5,563**

1) From June 1967 to December 1997, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 15
Approved Foreign Direct Investment Projects by Province
(In millions of dollars)

Province	1993	1994	1995	1996	1997	Total 1) 1967 – 1997	
						Value	Projects
Jawa and Madura	**6,569.5**	**14,356.3**	**27,491.9**	**17,908.4**	**20,535.0**	**129,839.1**	**4,290**
Jakarta	1,669.1	1,832.3	4,030.8	4,403.9	6,136.1	31,457.1	1,633
West Jawa	2,508.0	4,446.3	12,474.4	7,760.1	7,973.3	57,916.5	2,010
Central Jawa	50.3	1,830.2	726.7	3,273.7	2,195.7	10,731.6	151
Yogyakarta	56.3	0.2	79.5	69.0	14.3	306.0	18
East Jawa	2,285.8	6,247.3	10,207.5	2,401.7	4,215.6	29,427.9	478
Sumatera	**1,362.3**	**5,515.0**	**5,464.0**	**4,297.6**	**11,163.9**	**42,066.2**	**684**
Aceh	528.6	1,050.2	1,624.8	525.8	771.9	4,449.6	31
North Sumatera	72.3	225.3	658.1	614.7	3,514.6	9,495.2	133
West Sumatera	65.7	97.7	118.4	79.3	7.1	488.8	31
Riau	609.4	3,964.3	598.8	1,664.5	6,743.0	17,082.0	392
Jambi	0.3	39.3	24.1	9.0	–	4,095.4	3
South Sumatera	–	82.9	1,968.3	1,292.3	73.2	4,930.4	45
Bengkulu	34.0	8.6	19.7	64.2	–	198.0	16
Lampung	52.0	46.7	451.8	47.8	54.1	1,326.8	33
Kalimantan	**12.8**	**2,058.3**	**1,649.2**	**2,876.6**	**1,056.1**	**10,641.2**	**184**
West Kalimantan	2.0	7.7	175.3	547.1	28.2	879.5	45
Central Kalimantan	–	0.0	73.4	140.2	6.0	496.8	35
South Kalimantan	9.8	1,951.0	84.9	19.2	438.7	3,323.0	38
East Kalimantan	1.0	99.6	1,315.6	2,170.1	583.2	5,941.9	66
Sulawesi	**40.2**	**1,448.4**	**2,394.4**	**2,552.6**	**426.0**	**8,815.3**	**118**
North Sulawesi	32.0	40.5	164.3	72.3	358.8	1,167.7	43
Central Sulawesi	–	6.3	105.6	10.0	5.5	166.9	17
South Sulawesi	8.2	1,395.3	2,114.0	2,467.5	58.3	7,350.0	45
Southeast Sulawesi	–	6.3	0.5	2.8	3.5	130.7	13
Nusa Tenggara	**3.8**	**7.3**	**99.9**	**1,385.0**	**14.5**	**3,532.7**	**40**
West Nusa Tenggara	1.3	2.3	61.9	1,316.2	0.6	3,392.9	25
East Nusa Tenggara	2.5	5.0	38.0	68.8	14.0	139.8	15
Bali	**47.8**	**29.2**	**228.7**	**380.0**	**114.7**	**2,983.5**	**188**
East Timor	–	–	**29.2**	**2.8**	–	**32.1**	–
Maluku	–	–	**244.7**	**4.9**	**17.8**	**386.8**	**17**
Irian Jaya	**105.4**	**309.9**	**2,322.5**	**523.5**	**504.4**	**5,802.1**	**42**
Jumlah	**8,141.8**	**23,724.4**	**39,914.7**	**29,931.4**	**33,832.5**	**204,099.0**	**5,563**

1) From June 1967 to December 1997, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 16
Approved Foreign Direct Investment Projects by Country of Origin
(In millions of dollars)

Country of origin	1993	1994	1995	1996	1997	Total 1) 1967 – 1997 Value	Total 1) 1967 – 1997 Projects
Europe	**930.0**	**3,385.4**	**8,951.6**	**5,233.4**	**11,740.2**	**36,540.9**	**787**
Netherlands	311.4	165.7	360.1	1,329.5	319.5	5,161.4	177
Belgium	9.9	0.0	9.3	39.5	16.5	341.1	28
United Kingdom	301.1	2,957.1	6,322.1	3,390.6	5,473.6	19,574.8	235
Germany	120.6	113.1	1,344.6	164.9	4,467.8	6,285.8	116
France	158.0	37.1	498.4	70.8	456.6	1,459.3	69
Switzerland	17.9	70.8	44.9	160.1	73.5	932.0	58
Others	11.1	41.6	372.2	78.0	932.7	2,786.5	104
America	**526.5**	**1,027.0**	**2,795.2**	**754.5**	**1,112.8**	**10,686.1**	**374**
United States	444.5	977.0	2,770.6	642.1	1,017.7	9,664.0	289
Canada	46.5	39.0	10.5	35.8	6.2	145.0	51
Others	35.5	11.0	14.1	76.6	88.9	877.1	34
Asia	**3,652.5**	**14,168.8**	**9,234.7**	**18,371.3**	**15,169.6**	**95,383.0**	**3,514**
Hong Kong	384.1	6,041.7	1,763.3	1,105.6	251.0	13,897.8	368
Japan	836.0	1,562.5	3,792.0	7,655.3	5,421.3	33,438.9	1,004
South Korea	661.4	1,849.1	674.7	1,231.4	1,409.9	9,006.3	479
Malaysia	36.7	421.8	877.0	1,393.3	2,289.3	5,446.5	204
Philippines	–	35.9	31.2	3.1	–	89.8	16
Singapore	1,454.6	1,664.4	1,468.5	3,131.0	2,298.6	16,964.8	706
Taiwan	131.4	2,487.6	567.4	534.6	3,419.4	12,507.9	600
Thailand	2.7	11.7	34.5	1,610.6	19.1	1,765.7	30
Others	145.6	94.1	26.1	1,706.4	61.0	2,265.3	107
Australia	**158.0**	**53.3**	**3,712.4**	**515.7**	**187.5**	**8,143.9**	**295**
Africa	**384.0**	**6.4**	**0.0**	**5.7**	**93.5**	**1,059.5**	**20**
Joint countries	**2,490.8**	**5,083.5**	**15,221.0**	**5,050.8**	**5,528.9**	**52,285.6**	**573**
T o t a l	**8,141.8**	**23,724.4**	**39,914.7**	**29,931.4**	**33,832.5**	**204,099.0**	**5,563**

1) From June 1967 to December 1997, after taking into account cancellation and shifting of projects from foreign to domestic investment.
Source : Capital Investment Coordinating Board

Table 17
Monthly Average Wages by Economic Sector
(In thousands of rupiah)

Sector	Average minimum wage					Average maximum wage				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
Plantation	170	240	272	271	414	1,835	1,835	1,927	1,941	4,273
Mining and quarrying	414	487	506	573	952	3,998	4,669	4,906	5,297	8,236
Manufacturing	196	207	238	241	433	2,920	3,112	3,453	3,453	6,050
Construction	290	296	327	409	644	2,656	2,777	3,047	3,621	6,380
Electricity, gas, and water supply	155	173	267	312	468	2,644	2,744	3,552	3,908	5,862
Trade/bank and insurance	305	326	368	399	627	3,733	4,506	4,904	5,808	9,308
Transportation	223	467	494	494	901	2,805	4,311	4,399	4,399	6,598
Services	235	235	281	333	552	2,271	2,509	2,780	2,780	4,419

Source : Ministry of Manpower

Table 18
Consumer Price Index (Composite of 27 Cities)
(April 1988 through March 1989 = 100)

End of period	Foodstuff	Housing	Clothing	Miscella-neous	General Index	Changes in the General Index[1] (In percent)
1993/94	149.02	165.06	143.55	155.77	154.41	+7.04
1994/95	167.29	180.76	151.70	163.48	168.18	+8.57
1995/96	190.39	192.15	162.05	175.45	183.65	+8.86
1996/97						+5.17
April-June	184.71	194.48	163.89	185.23	185.06	0.77
July-September	184.58	196.84	165.50	188.63	186.76	0.91
October-December	189.99	198.00	166.76	190.72	189.62	1.53
January-March	197.63	198.92	170.02	192.60	193.36	1.96
1997/98						+34.22
April	197.65	200.83	170.14	194.46	194.44	0.56
May	198.25	201.28	170.29	194.62	194.81	0.19
June	196.80	201.82	170.31	194.79	194.48	–0.17
July	198.96	202.24	170.64	196.16	195.77	0.66
August	201.05	203.33	171.49	198.25	197.50	0.88
September	204.89	204.99	172.53	200.81	200.04	1.29
October	212.29	207.40	176.59	202.11	204.02	1.99
November	220.06	208.52	176.26	203.71	207.38	1.65
December	227.88	210.36	179.96	206.72	211.62	2.04
January	251.02	218.01	202.57	215.32	226.17	6.88
February	291.36	239.87	234.22	235.37	255.03	12.76
March	307.16	248.26	263.50	245.43	269.03	5.49

1) Annual and quarterly changes of CPI are calculated on a cumulative basis as summation of the monthly percentage changes.
Source : Central Bureau of Statistics

Table 19
Wholesale Price Index[1)]
(1983 = 100)

Group	1993/94	1994/95	1995/96	1996/97	1997	Changes of 1997 over 1996 (In percent)
Agriculture	260	313	367	408	445	11.57
Mining and quarrying	222	244	273	302	318	7.29
Manufacturing	220	237	260	267	275	3.71
Imports	212	218	234	244	261	7.42
Exports	154	165	182	209	238	17.29
Oil/gas	131	135	146	181	204	18.26
Non-oil/gas	231	268	304	305	353	15.23
General index	205	222	245	262	282	8.96

1) Average figures in the fiscal/calendar year
Source : Central Bureau of Statistics

Table 20
Balance of Payments [1]
(In millions of dollars)

Item	1993/94	1994/95	1995/96	1996/97r	1997/98*
A. Balance of goods and services	**–2,940**	**–3,488**	**–6,987**	**–8,069**	**–2,492**
1. Merchandise, exports f.o.b.	36,504	42,161	47,754	52,038	56,105
imports f.o.b.	–29,127	–34,122	–41,502	–45,819	–43,152
2. Freight and insurance on imports	–3,194	–3,751	–4,569	–5,039	–4,750
3. Other transportation	–981	–929	–962	–1,012	–902
4. Travel	2,174	2,892	3,149	3,836	3,967
5. Investment income	–5,872	–7,064	–7,851	–8,148	–9,634
5.1. Oil and LNG sector	–1,987	–1,942	–2,052	–2,052	–2,774
5.2. Direct investment and others	–3,885	–5,122	–5,799	–6,096	–6,860
6. Government, not included elsewhere	–153	–164	–190	–240	–232
7. Other services	–2,291	–2,511	–2,816	–3,685	–3,894
Balance of goods (1)	**7,377**	**8,039**	**6,252**	**6,219**	**12,953**
Balance of services (2 through 7)	**–10,317**	**–11,527**	**–13,239**	**–14,288**	**–15,445**
B. Grants	**200**	**240**	**230**	**250**	**333**
8. Private	–0–	– –	– –	– –	–0–
9. Government	200	240	230	250	333
C. Current account (A + B)	**–2,740**	**–3,248**	**–6,757**	**–7,819**	**–2,159**
D. Capital movements	**4,784**	**3,894**	**8,582**	**8,519**	**4,991**
D.1. Other than reserves	5,511	4,510	11,233	12,417	–5,031
10. Direct investment and other long-term capital movements	5,213	4,259	11,160	12,362	–5,114
10.1. Direct investment	1,917	2,566	5,357	6,546	1,832
10.2. Bonds	– –	– –	– –	– –	– –
a. Official	– –	– –	– –	– –	– –
b. Private	–0–	–0–	–0–	–0–	–0–
10.3. Other long-term capital movements	3,242	1,693	5,803	5,816	–6,946
a. Official	863	–135	–439	–1,070	4,042
b. Private	2,379	1,828	6,242	6,886	–10,988
11. Short-term capital movements	298	251	73	55	83
11.1. Official	–0–	–0–	–0–	–0–	–0–
11.2. Private	298	251	73	55	83
D.2. Reserves	–727	–616	–2,651	–3,898	10,022
12. Monetary gold	–148	9	–43	142	142
13. Special Drawing Rights	–0–	–0–	–7	6	6
14. Reserves position in the Fund	6	–27	15	15	15
15. Foreign exchange	–585	–598	–2,615	–4,061	–4,061
16. Others	–0–	–0–	–1	–0–	13,920
E. Errors and Omissions (between C and D) [2]	**–2,044**	**–646**	**–1,825**	**–700**	**–2,832**

1) Presentation follows the IMF standard
2) Positive is for credit and negative for debit

Table 21
Export Value[1)]
(In millions of dollars)

Item	1993/94r	1994/95r	1995/96r	1996/97r	1997/98*
Non-oil/gas	**27,170**	**31,716**	**37,138**	**39,267**	**45,828**
Wood and wood products	6,152	5,171	5,226	5,561	5,443
Plywood	4,507	3,359	3,390	3,606	3,211
Sawn timber	147	168	154	134	99
Others	1,498	1,644	1,682	1,821	2,133
Rubber	974	1,511	2,011	1,789	1,392
Coffee	345	747	650	602	615
Palm oil	555	965	988	1,001	1,525
Shrimp and other animal products	1,476	1,636	1,694	1,640	1,922
Shrimp	883	980	1,020	996	1,087
Others	593	656	674	645	836
Tea	144	102	94	115	174
Foodstuffs	619	698	757	883	961
Tapioca	74	47	80	45	19
Copra cakes	65	71	75	106	82
Others	480	580	602	733	860
Pepper	56	86	161	91	175
Tobacco	71	71	79	80	152
Hides	41	49	44	37	57
Cacao	187	233	241	268	284
Rattan and rattan products	346	356	378	291	147
Textile and textile products	5,651	5,716	6,145	6,022	7,911
Handicrafts	689	991	568	584	1,788
Electrical appliances	1,290	2,038	2,779	3,716	3,293
Urea fertilizer	168	192	281	302	304
Cement	47	30	13	12	54
Iron steel	451	767	583	542	817
Paper	520	1,002	1,467	1,356	2,393
Glasswares	159	166	215	218	279
Footwears	1,650	1,936	2,085	2,070	2,170
Mining products	2,278	2,725	3,912	3,746	4,613
Tin	86	145	278	287	272
Copper	744	903	1,574	1,506	1,461
Aluminum	166	251	341	317	266
Nickel	329	368	397	327	238
Gold	202	75	61	83	387
Coal	647	862	1,078	1,043	1,820
Natural sands	10	21	43	31	30
Others	94	100	140	153	139
Others	3,301	4,528	6,766	8,339	9,361
Oil[2)]	**5,512**	**6,312**	**6,529**	**7,513**	**5,854**
Gas	**3,822**	**4,133**	**4,087**	**5,258**	**4,423**
LNG	3,507	3,746	3,603	4,686	4,016
LPG	315	387	484	572	407
Total	**36,504**	**42,161**	**47,754**	**52,038**	**56,105**

1) Commodity classification system changed from CCCN to HS in 1991/92, shifting the grouping of some export commodities
2) Consisting of crude oil and oil products

Table 22
Export Volume
(In thousands of tonnes unless otherwise noted)

Item	1993/94r	1994/95r	1995/96r	1996/97r	1997/98*
Non-oil/gas	**109,618**	**105,556**	**159,113**	**125,569**	**245,466**
Wood and wood products	8,317	6,696	6,631	7,416	7,560
Plywood	5,993	5,034	5,035	5,182	4,987
Sawn timber	172	175	159	149	118
Others	2,152	1,487	1,437	2,085	2,455
Rubber	1,253	1,296	1,453	1,481	1,528
Coffee	331	262	269	388	366
Palm oil	1,563	1,903	1,719	1,847	3,007
Shrimp and other animal products	527	567	569	577	815
Shrimp	136	129	127	134	146
Others	391	438	442	443	669
T e a	120	90	86	97	102
Foodstuffs	2,253	2,497	2,257	2,168	2,617
Tapioca	813	432	633	410	215
Copra cakes	492	803	857	909	1,178
Others	948	1,262	767	849	1,224
Pepper	30	37	62	32	33
Tobacco	35	55	28	36	79
Hides	3	2	2	--	1
Cacao	184	215	217	226	213
Rattan and rattan products	114	115	107	84	36
Textile and textile products	762	844	922	1,003	1,503
Handicrafts	115	129	131	116	213
Electrical appliances	175	238	299	317	388
Urea fertilizer	1,453	1,307	1,310	1,495	2,360
Cement	872	600	239	192	1,403
Iron steel	984	972	775	768	1,051
Paper	872	1,387	1,856	2,491	4,749
Glasswares	337	368	456	623	698
Footwears	211	224	221	195	194
Mining products	83,412	80,674	133,093	97,433	209,486
T i n	17	27	45	47	52
Copper	1,022	1,127	1,561	1,796	1,932
Aluminum	297	404	983	660	1,196
Nickel	1,613	1,756	1,957	2,141	1,850
Gold [1]	–	6,354	4,070	7,195	35,974
Coal	17,973	27,351	32,511	29,473	50,260
Natural sands	19,700	46,200	88,300	53,289	84,143
Others	42,790	3,809	7,736	10,027	70,053
Others	5,695	5,078	6,411	6,584	7,064
O i l (million barrels) [2]	**352**	**389**	**383**	**365**	**351**
G a s					
LNG (million MMBTUs) [3]	1,277	1,368	1,264	1,370	1,394
LPG	2,546	2,530	2,610	2,487	2,073

1) Volume in kilogram
2) Consisting of crude oil and oil products
3) MMBTUs : mille mille British thermal units

Table 23
Non-oil/gas Export Value by Country of Destination
(In millions of dollars unless otherwise noted)

Continent/country	1993/94		1994/95		1995/96		1996/97r		1997/98*	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Africa	**477.2**	**1.8**	**608.8**	**1.9**	**693.6**	**1.9**	**630.9**	**1.6**	**819.7**	**1.8**
America	**5,352.5**	**19.7**	**6,346.9**	**20.0**	**6,983.0**	**18.8**	**7,928.5**	**20.2**	**8,143.5**	**17.8**
United States	4,577.9	16.8	5,391.4	17.0	5,837.2	15.7	6,400.8	16.3	6,844.1	14.9
Canada	411.7	1.5	332.4	1.0	366.4	1.0	795.2	2.0	397.2	0.9
Others	362.9	1.3	623.1	2.0	779.4	2.1	732.6	1.9	89.9	0.2
Asia	**15,369.2**	**56.6**	**17,617.1**	**55.5**	**21,241.7**	**57.2**	**22,039.4**	**56.1**	**26,172.9**	**57.1**
ASEAN	4,062.2	15.0	4,830.4	15.2	5,743.1	15.5	5,987.8	15.2	8,756.9	19.1
Brunei Darussalam	30.2	0.1	46.9	0.1	26.3	0.1	29.8	0.1	58.3	0.1
Malaysia	571.8	2.1	766.8	2.4	1,069.0	2.9	1,082.0	2.8	1,336.4	2.9
Philippines	251.6	0.9	383.4	1.2	623.8	1.7	548.2	1.4	747.2	1.6
Singapore	2,841.6	10.5	3,203.0	10.1	3,412.0	9.2	3,678.4	9.4	5,911.8	12.9
Thailand	367.0	1.4	430.3	1.4	612.0	1.6	649.3	1.7	703.2	1.5
Hong Kong	1,001.3	3.7	1,423.6	4.5	1,575.4	4.2	1,576.2	4.0	2,406.0	5.3
South Korea	1,022.0	3.8	1,112.5	3.5	1,437.5	3.9	1,299.7	3.3	1,321.7	2.9
Taiwan	1,011.6	3.7	1,159.4	3.7	1,084.3	2.9	1,097.2	2.8	1,396.1	3.0
China	655.0	2.4	825.0	2.6	943.8	2.5	953.3	2.4	1,560.3	3.4
India	95.7	0.4	265.1	0.8	378.9	1.0	402.7	1.0	626.8	1.4
Pakistan	112.3	0.4	143.8	0.5	115.4	0.3	122.0	0.3	187.3	0.4
Japan	5,545.9	20.4	5,983.8	18.9	7,000.1	18.8	7,198.3	18.3	6,827.8	14.9
Middle East	547.9	2.0	467.0	1.5	1,420.6	3.8	1,393.3	3.5	1,655.3	3.6
Iraq	5.2	0.0	9.2	0.0	5.9	0.0	1.1	0.0	22.8	0.0
Iran	0.0	0.0	0.0	0.0	141.7	0.4	113.6	0.3	64.7	0.1
Saudi Arabia	508.4	1.9	422.2	1.3	481.8	1.3	519.9	1.3	612.8	1.3
Kuwait	0.0	0.0	0.0	0.0	64.4	0.2	73.4	0.2	61.3	0.1
Jordan	0.0	0.0	0.0	0.0	66.0	0.2	47.9	0.1	61.7	0.1
Arab Emirates	0.0	0.0	0.0	0.0	554.3	1.5	526.0	1.3	656.7	1.4
Others	34.3	0.1	35.7	0.1	106.5	0.3	111.3	0.3	175.3	0.4
Others	1,315.3	4.8	1,406.1	4.4	1,542.6	4.2	2,009.0	5.1	1,434.6	3.1
Europe	**5,499.1**	**20.2**	**6,579.4**	**20.7**	**7,620.4**	**20.5**	**8,056.9**	**20.5**	**9,874.4**	**21.5**
European Community	5,046.5	18.6	6,025.7	19.0	6,747.7	18.2	7,016.2	17.9	9,152.2	20.0
Netherlands	1,120.8	4.1	1,389.9	4.4	1,497.3	4.0	1,577.1	4.0	1,832.7	4.0
Belgium-Luxemburg	368.1	1.4	421.2	1.3	542.9	1.5	667.1	1.7	828.7	1.8
United Kingdom	987.7	3.6	1,067.7	3.4	1,159.0	3.1	1,170.9	3.0	1,244.7	2.7
Italy	474.1	1.7	580.2	1.8	676.9	1.8	562.0	1.4	641.3	1.4
Germany	1,155.1	4.3	1,324.6	4.2	1,453.6	3.9	1,419.9	3.6	1,512.2	3.3
France	451.2	1.7	450.7	1.4	533.3	1.4	550.5	1.4	538.5	1.2
Others	507.4	1.9	791.3	2.5	884.7	2.4	1,068.7	2.7	2,554.1	5.6
Former Soviet Union	0.0	0.0	0.0	0.0	140.9	0.4	127.7	0.3	110.7	0.2
Other Eastern Europe	112.3	0.4	202.9	0.6	241.6	0.7	213.6	0.5	207.9	0.5
Others	322.3	1.2	350.8	1.1	490.2	1.3	699.5	1.8	403.6	0.9
Australia & Oceania	**472.0**	**1.7**	**563.9**	**1.8**	**599.4**	**1.6**	**611.2**	**1.6**	**817.5**	**1.8**
Total	**27,170.0**	**100.0**	**31,716.0**	**100.0**	**37,138.0**	**100.0**	**39,267.0**	**100.0**	**45,828.0**	**100.0**

Table 24
Non-oil/gas Import Value by Country of Origin [1)]
(In millions of dollars unless otherwise noted)

Continent/country	1993/94		1994/95		1995/96		1996/97r		1997/98*	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Africa	**72**	**0.3**	**296**	**1.0**	**360**	**1.0**	**499**	**1.2**	**519**	**1.3**
America	**3,536**	**14.0**	**4,973**	**16.3**	**6,347**	**16.9**	**7,186**	**17.5**	**6,784**	**17.4**
United States	2,527	10.0	3,810	12.5	4,617	12.3	5,293	12.9	5,152	13.2
Latin America	540	2.1	727	2.4	968	2.6	973	2.4	880	2.3
Canada	398	1.6	403	1.3	654	1.7	811	2.0	696	1.8
Others	72	0.3	42	0.1	108	0.3	108	0.3	56	0.1
Asia	**13,743**	**54.3**	**16,562**	**54.4**	**19,662**	**52.3**	**20,199**	**49.1**	**18,355**	**47.0**
ASEAN	1,557	6.2	1,966	6.5	2,944	7.8	3,537	8.6	3,937	10.1
Brunei Darussalam	0	0.0	1	0.0	1	0.0	5	0.0	2	0.0
Malaysia	414	1.6	433	1.4	618	1.6	710	1.7	663	1.7
Philippines	42	0.2	60	0.2	68	0.2	106	0.3	116	0.3
Singapore	900	3.6	1,051	3.5	1,423	3.8	1,641	4.0	2,081	5.3
Thailand	201	0.8	422	1.4	835	2.2	1,075	2.6	1,076	2.8
Hong Kong	215	0.8	190	0.6	237	0.6	261	0.6	310	0.8
India	350	1.4	254	0.8	586	1.6	899	2.2	592	1.5
Iraq	0	0.0	0	0.0	2	0.0	2	0.0	5	0.0
Japan	7,144	28.2	8,457	27.8	9,488	25.2	9,220	22.4	7,806	20.2
South Korea	1,830	7.2	2,074	6.8	2,278	6.1	2,513	6.1	1,996	5.1
Myanmar	16	0.1	55	0.2	116	0.3	34	0.1	15	0.0
Pakistan	42	0.2	24	0.1	142	0.4	58	0.1	63	0.2
China	839	3.3	1,573	5.2	1,357	3.6	1,313	3.2	1,356	3.5
Saudi Arabia	324	1.3	233	0.8	302	0.8	169	0.4	127	0.3
Taiwan	1,217	4.8	1,391	4.6	1,686	4.5	1,633	4.0	1,485	3.8
Others	209	0.8	373	1.1	525	1.4	560	1.4	662	1.7
Australia & Oceania	**1,152**	**4.5**	**1,432**	**4.7**	**2,340**	**6.2**	**2,587**	**6.3**	**2,543**	**6.5**
Europe	**6,809**	**26.9**	**7,162**	**23.5**	**8,887**	**23.6**	**10,655**	**25.9**	**10,865**	**27.8**
European Community	5,506	26.8	5,653	18.6	6,936	18.4	8,223	20.0	8,831	22.6
Netherlands	521	2.1	454	1.5	570	1.5	508	1.2	564	1.4
Belgium-Luxemburg	332	1.3	281	0.9	384	1.0	388	0.9	341	0.9
United Kingdom	659	2.6	567	1.9	966	2.6	1,114	2.7	1,248	3.2
Italy	804	3.2	939	3.1	757	2.0	1,280	3.1	1,093	2.8
Germany	2,170	8.6	2,298	7.6	2,844	7.6	3,045	7.4	2,867	7.3
France	690	2.7	694	2.3	948	2.5	1,115	2.7	2,198	5.6
Others	331	1.3	420	1.1	468	1.2	772	1.9	519	1.3
Former Soviet Union	106	0.4	276	0.9	377	1.0	356	0.9	324	0.8
Other Eastern Europe [2)]	118	0.5	264	0.9	135	0.4	183	0.4	124	0.3
Others	1,079	4.3	984	3.2	1,440	3.8	1,893	4.6	1,587	4.1
Total	**25,311**	**100.0**	**30,476**	**100.0**	**37,597**	**100.0**	**41,126**	**100.0**	**39,067**	**100.0**

1) Import value, f.o.b.
2) Comprising Czech, Slovak, East Germany, Hungary, Poland, Romania, Bulgaria, and former Yugoslavia

Table 25
Money Supply
(In billions of rupiah unless otherwise noted)

End of period	M1 [1]		Quasi money [2]		M2 [3]		
	Outstanding	Share (%)	Outstanding	Share (%)	Outstanding	Changes (%)	
						Annual	Quarterly
1993	36,805	25.3	108,397	74.7	145,202	22.0	6.5
1993/94	37,908	25.5	110,921	74.5	148,829	20.8	2.5
1994	45,374	26.0	129,138	74.0	174,512	20.2	7.1
1994/95	44,908	24.7	136,793	75.3	181,701	22.1	4.1
1995	52,677	23.7	169,961	76.3	222,638	27.6	8.0
1995/96	53,162	22.9	179,331	77.1	232,493	28.0	4.4
1996	64,089	22.2	224,543	77.8	288,632	29.6	11.0
1997							
January	65,876	22.6	224,977	77.4	290,853	30.5	
February	64,985	22.2	228,255	77.8	293,240	28.6	
March	63,565	21.6	231,016	78.4	294,581	26.7	2.1
April	64,583	21.6	231,016	77.2	299,277	25.7	
May	65,240	21.5	238,427	78.5	303,667	25.4	
June	69,950	22.4	242,889	77.6	312,839	25.4	6.2
July	69,268	21.8	248,265	78.2	317,533	25.3	
August	65,235	20.0	260,676	80.0	325,911	27.7	
September	66,258	20.1	262,816	79.9	329,074	26.6	5.2
October	67,351	19.8	273,393	80.2	340,744	27.0	
November	69,856	21.1	260,703	78.9	330,559	19.2	
December	78,343	22.0	277,300	78.0	355,643	23.2	8.1
1998							
January	92,800	20.6	357,897	79.4	450,697	55.0	
February	92,509	21.5	337,732	78.5	430,241	46.7	
March	98,270	21.8	351,554	78.2	449,824	52.7	26.5

1) Consisting of currency and demand deposits
2) Consisting of time and savings deposits in rupiah and foreign currency, and demand deposits in foreign currency held by resident
3) Consisting of M1 and quasi money

Table 26
Factors Affecting Money Supply
(In billions of rupiah)

Item	1993/94	1994/95	1995/96	1996/97	1997 I	1997 II	1997 III	1997 IV	1998 I	1997/98
Changes of broad money (M2)	**25,669**	**32,872**	**50,792**	**62,088**	**5,950**	**18,258**	**16,235**	**26,569**	**94,181**	**155,243**
Narrow money M1	7,316	7,000	8,254	10,403	–524	6,385	–3,692	12,085	19,927	34,705
Currency	3,016	3,562	2,219	2,191	825	442	162	4,508	9,772	14,884
Demand deposits	4,300	3,438	6,035	8,212	–1,349	5,943	–3,854	7,577	10,155	19,821
Quasi money 1)	18,353	25,872	42,538	51,685	6,474	11,873	19,927	14,484	74,254	120,538
Affecting factors :										
Net foreign assets	–3,196	–3,975	9,102	15,227	–138	4,698	12,430	354	44,945	62,427
Net claims on central government	–1,937	–2,710	–5,200	–4,107	229	–6,119	–4,894	–5,704	5,110	–11,606
Net claims on IBRA	–	–	–	–	–	–	–	–	35,039	35,039
Claims on entities/ enterprises and individuals	35,344	39,485	48,328	62,827	11,841	23,972	47,272	53,963	82,235	207,442
Claims on official entities/ public enterprises	1,331	–574	3,252	2,479	347	1,863	1,473	1,605	12,124	17,065
Claims on private enter- prises and individuals	34,013	40,059	45,076	60,348	11,494	22,109	45,799	52,358	70,111	190,377
Net other items	–4,542	73	–1,438	–11,859	–5,982	–4,293	–38,573	–22,044	–73,148	–138,059

1) Consisting of time and savings deposits in rupiah and foreign currency, and demand deposits in foreign currency held by residents

Table 27
Interest Rates on Time Deposit by Group of Banks and Denomination[1)]
(In percent per annum)

Maturity	March 1994		March 1995		March 1996		March 1997		March 1998	
	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency
State banks										
1 month	8.24	4.85	13.67	6.32	15.21	6.30	13.99	5.76	42.92	9.15
3 months	9.14	7.79	12.61	6.69	14.96	9.57	13.90	6.18	25.42	9.21
6 months	10.99	5.25	13.62	7.10	16.22	9.81	15.51	6.71	17.16	7.64
12 months	12.65	6.10	12.68	6.46	15.94	7.55	15.76	6.97	20.01	7.86
24 months	14.28	7.00	13.20	7.92	14.94	8.00	–	7.35	16.02	7.39
Private national banks										
1 month	11.28	5.31	16.90	7.02	17.60	7.24	6.30	6.83	46.33	10.44
3 months	12.62	5.72	16.90	7.24	17.91	7.60	16.93	6.73	30.43	8.99
6 months	13.39	5.97	16.01	7.34	17.70	7.97	17.06	7.84	23.58	7.90
12 months	14.42	6.63	14.89	6.92	17.36	8.21	17.08	7.84	18.21	7.89
24 months	18.08	7.80	19.20	7.03	16.35	8.10	17.18	8.17	17.08	7.90
Local government banks										
1 month	9.27	4.90	12.18	6.11	14.95	6.82	14.53	6.74	34.51	6.91
3 months	10.27	5.07	12.64	6.26	15.60	6.63	15.17	6.74	22.81	6.59
6 months	12.21	5.36	13.43	8.04	16.16	7.16	14.91	7.14	14.21	7.19
12 months	13.77	6.50	13.28	5.86	15.92	7.33	16.21	7.37	17.21	7.14
24 months	16.14	–	13.27	–	13.30	–	15.22	–	14.30	–
Foreign and joint banks										
1 month	8.90	3.48	13.56	5.80	14.78	4.90	13.21	4.92	23.80	5.93
3 months	8.89	3.59	13.39	5.63	14.48	4.82	14.10	4.35	18.81	5.57
6 months	7.82	3.50	14.25	4.65	15.97	5.34	15.46	5.31	20.45	5.73
12 months	12.12	3.55	13.60	4.87	16.20	5.53	13.82	5.20	18.72	6.13
24 months	14.62	–	13.86	–	16.51	7.24	16.55	6.98	15.26	4.00
All commercial banks										
1 month	10.37	4.93	16.16	6.75	17.15	6.83	15.92	6.42	44.54	9.21
3 months	11.53	5.25	15.92	6.99	17.29	7.88	16.47	6.46	27.26	8.67
6 months	11.94	5.52	14.57	7.13	16.88	8.72	16.37	7.20	19.05	7.62
12 months	13.40	6.16	13.87	6.58	16.68	7.75	16.39	7.13	19.50	7.68
24 months	15.40	5.25	14.45	7.63	15.39	7.95	15.95	7.20	16.02	7.00

1) Weighted average at the end of period

Table 28
Interbank Call Money in Jakarta

End of period		Value of transaction (In billions of rupiah)	Weighted average interest rate (In percent per annum)
1993 :	January – December	90,106	8.72
1994 :	January – December	110,991	9.79
1995 :	January – December	189,257	13.64
1996 :	January – December	477,564	13.96
1997 :	January – December	784,368	26.98
1994 :	January – March	25,616	7.44
	April–June	27,535	9.31
	July–September	27,579	10.75
	October–December	30,261	11.64
1995 :	January – March	33,451	12.75
	April–June	40,276	15.10
	July–September	57,297	13.03
	October–December	58,233	13.66
1996 :	January – March	62,559	12.83
	April–June	123,832	14.61
	July–September	148,358	14.75
	October–December	142,815	13.63
1997 :	January	52,345	12.72
	February	41,032	12.75
	March	44,744	10.73
	January–March	138,121	12.08
	April	52,512	13.47
	May	50,102	13.46
	June	54,915	13.41
	April–June	157,529	13.45
	July	62,329	15.45
	August	55,934	61.24
	September	92,407	51.41
	July-September	210,670	42.70
	October	110,827	39.29
	November	67,564	40.21
	December	99,657	39.54
	October-December	278,048	39.68
1998 :	January	112,071	56.73
	February	168,224	63.93
	March	246,052	51.42
	January-March	526,347	57.36

Table 29
Discount Rates on Rupiah Certificate of Deposit by Group of Banks[1)]
(In percent per annum)

Maturity	1994 March	1995 March	1996 March	1997 March	1997/98 June	1997/98 Sep.	1997/98 Dec.	1997/98 March
State banks								
1 month	8.01	13.38	14.80	9.14	11.92	24.06	18.05	44.29
3 months	9.16	13.01	14.72	14.98	13.60	23.08	23.71	25.92
6 months	11.07	13.67	15.86	13.69	13.89	18.80	23.42	22.73
12 months	13.81	14.16	15.05	15.59	15.41	15.15	14.21	18.10
24 months	13.04	12.34	12.03	13.76	13.72	11.33	14.01	13.96
Private national banks								
1 month	11.47	17.22	17.86	16.08	15.49	35.19	29.41	44.39
3 months	12.88	17.37	18.15	16.43	15.82	26.23	30.29	48.95
6 months	14.24	16.37	17.75	16.35	15.46	17.46	22.11	34.03
12 months	14.23	16.42	17.51	15.74	15.51	15.33	15.63	16.34
24 months	12.65	12.52	17.51	17.52	17.20	17.51	17.47	17.17
Local government banks								
1 month	11.16	12.07	13.61	13.97	13.46	22.91	22.49	59.96
3 months	11.54	12.50	19.54	16.98	16.15	15.61	20.85	56.37
6 months	12.02	12.66	18.97	14.85	15.72	16.61	15.71	15.64
12 months	14.89	13.59	17.42	18.09	18.00	18.01	18.04	17.67
24 months	15.04	11.00	14.50	–	–	–	13.86	14.50
Foreign and joint banks								
1 month	11.75	11.50	14.64	14.00	12.97	18.47	13.02	24.00
3 months	11.51	11.19	15.31	12.00	12.57	12.83	20.41	20.75
6 months	11.09	14.97	15.87	13.23	13.19	18.60	19.08	22.70
12 months	–	16.66	16.35	12.85	15.50	23.61	–	21.08
24 months	–	–	–	–	–	–	–	–
All commercial banks								
1 month	11.38	17.11	17.81	14.72	15.22	31.35	28.80	44.50
3 months	12.80	17.28	17.88	16.34	15.60	24.25	27.56	45.54
6 months	14.03	15.72	17.47	15.81	15.18	17.80	22.40	27.31
12 months	13.90	15.46	16.06	15.68	15.52	16.28	15.58	17.19
24 months	12.91	12.39	13.02	15.29	15.07	11.95	16.95	16.38

1) Weighted average at the end of period

Table 30
Issuance, Repayment, and Outstanding of Bank Indonesia Certificates (SBIs)
(In billions of rupiah)

Period	Issuance	Cumulative Issuance	Repayment	Cumulative Repayment	Outstanding
1993/94	**149,240**	**447,567**	**152,479**	**427,796**	**19,771**
April–June	19,390	317,717	23,670	298,987	18,730
July–September	43,579	361,296	43,646	342,633	18,663
October–December	52,391	413,687	47,619	390,252	23,435
January–March	33,880	447,567	37,544	427,976	19,771
1994/95	**78,240**	**525,807**	**86,836**	**514,632**	**11,175**
April–June	16,759	464,326	21,292	449,088	15,238
July–September	16,992	481,318	18,139	467,227	14,091
October–December	24,487	505,805	23,524	490,751	15,054
January–March	20,002	525,807	23,881	514,632	11,175
1995/96r	**111,200**	**632,689**	**111,557**	**625,655**	**10,818**
April–June	21,171	546,978	21,341	535,973	11,005
July–September	27,485	574,463	27,981	563,954	10,509
October–December	30,048	604,511	28,707	592,661	11,850
January–March	32,496	637,007	33,528	626,189	10,818
1996/97					
April-June	28,979	665,986	27,337	653,526	12,460
July–September	29,420	695,406	30,411	683,937	11,469
October–December	67,053	762,459	59,970	743,907	18,553
January–March	41,839	804,298	39,396	783,303	20,996
1997					
January	16,394	778,853	15,055	758,962	19,893
February	15,287	794,140	12,029	770,991	23,151
March[r]	10,158	804,298	12,313	783,304	20,996
April	8,856	813,154	12,746	796,050	17,106
May	14,928	828,082	13,809	809,859	18,224
June	5,509	833,591	6,405	816,264	17,329
July	4,405	837,996	6,976	823,240	14,757
August	5,704	843,700	3,682	826,922	16,778
September	10,141	853,841	10,056	836,978	16,864
October	14,898	868,739	17,836	854,814	13,925
November	57,001	925,740	58,098	912,912	12,828
December	13,171	938,911	18,965	931,877	7,034
1998					
January	17,519	956,430	15,044	946,921	9,509
February	80,163	1,036,593	80,712	1,027,633	8,960
March	132,327	1,168,920	124,362	1,151,995	16,925

Note :
SBI was introduced in February 1984. Since July 1987, the 7 day SBI started to be auctioned. Since October 1988, it was expanded with the 180 day SBI and since February 23, 1991 with the 360 day SBI.

Table 31
Discount Rates on Bank Indonesia Certificate [1)]
(In percent per annum)

Period	7 days	14 days	28 days	90 days	180 days	360 days
1993/94						
June	9.43	9.19	10.63	10.41	11.00	11.00
September	8.41	8.82	8.82	9.68	10.14	11.92
December	8.08	8.52	9.03	9.46	9.63	10.55
March	6.72	7.38	7.79	9.24	9.00	9.63
1994/95						
June	8.93	9.50	9.51	11.19	11.15	–
September	9.89	9.50	10.63	11.75	12.25	12.25
December	10.42	10.63	11.53	12.88	13.00	–
March	12.27	13.33	13.82	14.04	14.50	14.56
1995/96						
June	12.99	13.89	14.41	14.38	–	–
September	11.92	12.45	13.49	13.88	–	14.50
December	12.65	13.13	13.65	14.08	–	–
March	12.86	13.16	13.98	–	–	–
1996/97						
June	12.75	13.13	13.75	–	–	–
September	12.75	13.00	13.75	–	–	–
December	11.72	11.94	12.88	13.75	13.90	14.17
March	7.88	9.06	10.88	11.85	–	–
1997						
January	10.19	11.22	12.23	13.13	13.50	13.75
February	9.28	10.22	11.73	12.77	12.75	13.22
March	7.88	9.06	10.88	11.85	–	–
April	7.56	8.63	10.75	11.61	–	–
May	7.50	8.63	10.63	–	–	12.75
June	7.38	8.56	10.50	11.25	11.97	12.50
July	8.63	9.50	11.00	11.13	11.56	12.25
August	15.00	60.25	20.75	–	–	–
September	18.25	20.00	22.00	–	–	–
October	16.50	18.50	20.50	–	–	–
November	16.00	18.00	20.00	–	–	–
December	16.00	18.00	20.00	–	–	–
1998						
January	16.00	18.00	20.00	–	–	–
February	25.00	24.00	21.13	–	–	–
March	34.00	–	33.50	–	–	–

1) Weighted average

Table 32
Money Market Securities (SBPU) Transactions between Bank Indonesia and Banks
(In billions of rupiah)

Period	Buying	Selling	Outstanding
1993/94	**24,521**	**24,408**	**2,732**
April–June	6,425	7,533	1,511
July–September	6,620	6,506	1,625
October–December	2,791	3,021	1,395
January–March	8,685	7,348	2,732
1994/95	**95,478**	**94,074**	**4,137**
April–June	16,739	16,132	3,340
July–September	22,578	22,540	3,371
October–December	19,627	19,158	3,839
January–March	36,542	36,247	4,137
1995/96	**124,995**	**126,551**	**2,580**
April–June	49,294	49,303	4,128
July–September	25,416	27,378	2,165
October–December	28,921	26,882	4,205
January–March	21,364	22,988	2,580
1996/97	**116,114**	**116,026**	**2,670**
April–June	54,044	55,407	1,218
July–September	20,511	20,390	1,339
October–December	25,605	26,773	171
January–March	15,954	13,455	2,670
1997			
January	6,271	5,517	925
February	6,082	6,336	672
March	3,601	1,602	2,670
April	5,462	6,582	1,549
May	6,015	6,212	1,353
June	7,460	6,686	2,126
July	17,215	18,924	418
August	13,870	14,223	65
September	19,046	19,090	21
October	20,785	20,564	242
November	38,404	34,644	4,002
December	35,745	36,291	3,455
1998			
January	70,851	68,656	5,650
February	96,799	102,158	291
March	89.459	85.660	4.090

Table 33
Government Revenue
(In billions of rupiah)

Description	1993/94p	1994/95p	1995/96p	1996/97r	1997/98	
					Budget	Actual*
Oil/gas and non-oil/gas revenues	**56,113**	**66,418**	**73,014**	**84,792**	**88,061**	**105,984**
Oil and gas receipts	12,503	13,537	16,055	19,872	14,871	35,357
O i l	9,472	10,004	11,964	14,520	10,688	25,522
Gas	3,031	3,533	4,091	5,353	4,183	9,835
Non-oil/gas receipts	43,610	52,881	56,959	64,920	73,190	70,627
Income tax	14,759	18,764	21,012	25,496	29,118	28,458
Value-added tax on goods and services and sales tax on luxury goods	13,943	16,545	18,519	20,393	24,601	24,501
Import duties	3,555	3,900	3,029	2,807	3,322	2,990
Excise duties	2,626	3,153	3,593	4,217	4,436	4,807
Export duties	14	131	186	70	100	125
Land and building tax	1,485	1,647	1,894	2,280	2,505	2,655
Others	283	302	453	570	633	530
Non-tax and net oil receipts	6,945	8,439	8,273	9,087	8,475	6,561
Net other revenues [1]	**3,846**	**2,701**	**2,886**	**2,020**	**0**	**2,508**
Total of Domestic Revenue	**59,959**	**69,119**	**75,900**	**86,812**	**88,061**	**108,591**

p) Audited
1) Errors and omissions
Source : Ministry of Finance (processed)

Table 34
Government Expenditure
(In billions of rupiah)

Description	1993/94p	1994/95p	1995/96p	1996/97r	1997/98	
					Budget	Actual*
Operational expenditure	**30,129**	**33,401**	**37,937**	**48,511**	**51,566**	**68,251**
Personnel expenditure	11,145	12,595	13,002	18,021	21,192	19,175
Rice allowance	834	973	734	1,139	1,310	916
Salaries and pensions	9,145	10,181	11,048	14,507	17,048	15,236
Food allowance	493	756	560	1,175	1,234	1,199
Other domestic personnel expenditure	418	368	370	748	1,010	792
Overseas personnel expenditure	255	317	290	451	591	1,031
Material expenditure	3,032	4,319	5,176	7,244	8,895	9,032
Domestic	2,848	4,101	4,876	6,914	8,478	8,275
Overseas	185	218	300	330	417	757
Subsidies to local governments	6,909	7,272	8,226	9,841	11,536	9,872
Irian Jaya/non-personnel expenditure	334	353	419	519	568	526
Other autonomous regions/ personnel expenditure	6,575	6,919	7,807	9,322	10,968	9,347
Amortization and interest payment	6,278	6,249	8,708	9,042	7,876	11,894
Domestic debt	121	104	1,620	1,311	334	1,640
Foreign debt	6,157	6,145	7,088	7,731	7,541	10,254
Food stock expenditure	0	0	0	0	0	0
Subsidies on fertilizer	175	815	143	368	137	547
Others including national defence and security	2,590	2,151	2,682	3,996	1,930	17,731
Investment expenditure	**27,706**	**29,206**	**27,879**	**32,121**	**37,826**	**45,490**
Ministries/institutions	10,368	10,568	10,221	11,118	13,950	10,676
Regional development	5,516	7,353	7,212	8,489	9,910	10,025
Subsidies to villages	392	433	426	459	469	469
Subsidies to regencies	916	2,558	2,474	2,920	3,484	3,465
Subsidies to provinces	741	1,331	1,257	1,424	1,662	1,662
Land and building tax	1,334	1,683	1,724	2,075	2,280	2,416
Construction of primary schools	595	538	494	595	663	663
Subsidies for construction/ reconstruction of market	3	0	0	0	0	0
Public health services	340	412	339	536	608	608
Subsidies for supplementary food program to primary students	- -	- -	- -	- -	265	262
Subsidies for afforestation and reforestation	111	0	0	0	0	0
Presidential instruction on road infrastructure	1,084	0	0	0	0	0
Presidential instruction on least-developed villages	- -	398	498	480	480	480
Other expenditure	1,069	1,447	1,437	1,466	940	972
Government equity participation	381	425	380	505	177	119
Others	688	1,022	1,057	961	763	854
Development budget reserves	0	0	0	0	0	0
Project aid	10,753	9,838	9,009	11,048	13,026	23,817
T o t a l	**57,835**	**62,607**	**65,817**	**80,632**	**89,391**	**113,741**

p) Audited
Source : Ministry of Finance (processed)

Table 35
Development Expenditure by Sector
(In billions of rupiah)

Sector	1993/94p	1994/95p	1995/96p	1996/97r	1997/98 Budget	1997/98 Actual*
General government	**1,100**	**1,297**	**1,237**	**1,808**	**2,177**	**2,012**
Finance	0	132	7	115	162	244
Science, technology, and research	535	502	432	743	882	817
State apparatus and control	486	551	624	765	911	796
Law	79	106	117	153	195	137
Politics and international	0	6	57	31	27	19
Education	**2,718**	**3,021**	**3,073**	**3,571**	**4,583**	**4,609**
Education	2,718	2,992	3,037	3,527	4,512	4,561
Youth and sports	0	29	36	44	71	48
Health	**1,084**	**1,255**	**1,159**	**1,331**	**2,196**	**2,106**
Population and family welfare	275	273	266	309	691	546
Health	809	982	894	1,022	1,505	1,560
Social security and welfare	**75**	**78**	**93**	**252**	**592**	**588**
Social welfare	75	71	84	171	303	372
Women's role, children, and youth	0	7	9	81	290	216
Housing and settlement	**5,324**	**6,606**	**7,664**	**8,457**	**9,384**	**9,876**
Transmigration area development	4,370	5,677	6,188	6,762	7,164	6,918
Mass housing and settlement	954	929	1,477	1,695	2,220	2,959
Recreation and religion services	**457**	**332**	**370**	**442**	**657**	**571**
National culture and belief in Oneness of God	44	47	58	65	94	66
Religion	77	131	239	236	304	255
Information, communications, and mass media	336	154	74	140	259	250
Economy	**16,522**	**14,963**	**15,042**	**17,226**	**19,203**	**26,630**
Energy	3,983	3,806	3,074	3,808	4,363	6,483
Agriculture and forestry 1)	2,855	2,812	2,645	3,142	3,992	5,118
Mining and industry	968	540	843	781	650	1,318
Transportation and communications	7,193	6,349	5,841	6,845	7,813	10,999
Other economic services	1,523	1,456	2,639	2,651	2,385	2,712
Total	**27,280**	**27,552**	**28,638**	**33,086**	**38,791**	**46,391**

p) Audited
1) Excluding subsidies on fertilizer
Sources : Ministry of Finance (processed)

Table 36
Funds Mobilized by Commercial Banks [1]
(In billions of rupiah)

End of period	Demand deposits			Time deposits			Savings deposits	Total
	Rupiah	Foreign currency	Sub-total	Rupiah [2]	Foreign currency	Sub-total		
1993	24,639	7,722	32,361	50,854	23,856	74,710	35,608	142,679
1993/94	23,834	7,968	31,802	49,004	26,179	75,183	37,613	144,598
1994	29,750	9,347	39,097	62,382	28,608	90,990	40,319	170,406
1994/95	27,710	7,724	35,434	66,311	31,156	97,467	40,921	173,822
1995	34,529	9,579	44,108	88,894	34,538	123,432	47,224	214,764
1995/96	33,814	10,330	44,144	91,867	36,547	128,414	51,170	223,728
1996	44,817	12,675	57,492	119,165	43,496	162,661	61,565	281,718
1997								
January	43,410	13,398	56,808	118,317	42,857	161,174	62,245	280,227
February	44,872	13,344	58,216	118,147	43,098	161,245	64,897	284,358
March	42,628	14,375	57,003	119,283	44,374	163,657	66,321	286,981
April	44,320	13,769	58,089	120,645	44,940	165,585	67,944	291,618
May	44,546	14,625	59,171	121,228	45,420	166,648	69,508	295,327
June	47,785	14,585	62,370	123,221	46,834	170,055	70,614	303,039
July	48,805	16,913	65,718	120,692	58,015	178,707	71,579	316,004
August	41,291	20,892	62,183	134,681	69,902	204,583	57,843	324,609
September	43,482	21,913	65,395	136,167	69,419	205,586	56,751	327,732
October	43,327	24,317	67,644	137,477	74,469	211,946	60,089	339,679
November	45,430	23,804	69,234	130,000	68,993	198,993	61,303	329,530
December	53,103	30,125	83,228	125,743	80,652	206,395	67,990	357,613
1998								
January	58,477	59,393	117,870	126,023	149,583	275,606	76,514	469,990
February	61,248	52,522	113,770	139,068	112,733	251,801	81,334	446,905
March	64,074	44,629	108,703	177,954	94,106	272,060	72,173	452,936

1) Including funds held by the Central Government and nonresidents
2) Including certificates of deposit

Table 37
Demand Deposits by Denomination and Group of Commercial Banks
(In billions of rupiah)

End of period	State banks			Private national banks			Local government-owned banks			Foreign & joint banks			T o t a l		
	Rupiah	Foreign currency	Sub-total	Rupiah	Foreign currency	Sub-total	Rupiah	Foreign currency	Sub-total	Rupiah	Foreign currency	Sub-total	Rupiah	Foreign currency	Sub-total
1993	11,009	1,716	12,725	9,952	4,279	14,231	2,406	0	2,406	1,271	1,728	2,999	24,638	7,723	32,361
1993/94	9,836	1,951	11,787	10,441	4,273	14,714	2,054	0	2,054	1,503	1,744	3,247	23,834	7,968	31,802
1994	12,364	2,142	14,506	12,124	5,088	17,212	3,452	0	3,452	1,811	2,116	3,927	29,751	9,346	39,097
1994/95	11,696	1,197	13,693	11,460	3,332	14,792	2,912	1	2,913	1,642	2,393	4,035	27,710	7,723	35,434
1995	13,659	2,739	16,038	14,335	4,140	18,475	4,610	1	4,611	1,925	3,058	4,983	34,529	9,578	44,108
1995/96	12,705	2,276	14,981	15,274	4,525	19,799	3,556	2	3,558	2,279	3,527	5,806	33,814	10,330	44,144
1996	15,536	2,836	18,372	21,620	5,601	27,221	4,375	2	4,377	3,286	4,236	7,522	44,817	12,675	57,492
1997															
January	14,437	3,094	17,531	21,496	5,839	27,335	4,194	1	4,195	3,283	4,464	7,747	43,410	13,398	56,808
February	14,624	2,770	17,394	22,769	5,989	28,758	3,990	2	3,992	3,489	4,583	8,072	44,872	13,344	58,216
March	14,111	3,024	17,135	21,873	6,764	28,637	3,287	2	3,289	3,357	4,585	7,942	42,628	14,376	57,004
April	14,439	2,242	16,681	23,440	6,919	30,359	3,031	2	3,033	3,410	4,606	8,016	44,320	13,769	58,089
May	14,372	2,159	16,531	23,153	7,796	30,949	3,368	2	3,370	3,653	4,668	8,321	44,546	14,625	59,171
June	15,698	2,127	17,825	24,696	7,345	32,041	3,524	2	3,526	3,867	5,111	8,978	47,785	14,585	62,370
July	15,120	2,458	17,578	24,993	8,648	33,641	3,824	2	3,826	4,868	5,805	10,673	48,805	16,913	65,718
August	13,620	4,034	17,654	20,374	10,167	30,541	3,608	3	3,611	3,689	6,688	10,377	41,291	20,892	62,183
September	14,029	3,555	17,584	21,283	10,821	32,104	3,559	3	3,562	4,611	7,534	12,145	43,482	21,913	65,395
October	14,593	4,638	19,231	20,817	11,762	32,579	3,798	5	3,803	4,119	7,912	12,031	43,327	24,317	67,644
November	16,624	4,823	21,447	20,338	10,927	31,265	3,955	6	3,961	4,513	8,048	12,561	45,430	23,804	69,234
December	17,492	7,125	24,617	24,301	12,693	36,994	4,014	7	4,021	7,296	10,300	17,596	53,103	30,125	83,228
1998															
January	18,770	15,556	34,326	26,674	20,967	47,641	3,906	20	3,926	9,127	22,850	31,977	58,477	59,393	117,870
February	19,504	14,816	34,320	27,189	16,931	44,120	3,855	20	3,875	10,700	20,755	31,455	61,248	52,522	113,770
March	20,595	9,638	30,233	28,663	14,812	43,475	2,738	12	2,750	12,078	20,167	32,245	64,074	44,629	108,703

Table 38
Time Deposits in Rupiah and Foreign Currency with Commercial Banks by Maturity
(In billions of rupiah)

End of period	24 months	12 months	6 months	3 months	1 month[1)]	Others	Total
1993	585	15,393	19,592	15,718	18,883	4,539	74,710
1993/94	617	15,670	19,198	17,321	18,520	3,857	75,183
1994	533	13,407	20,753	20,380	28,276	7,641	90,990
1994/95	591	14,044	23,234	21,714	31,132	6,752	97,467
1995	1,374	19,231	29,548	26,931	36,870	9,478	123,432
1995/96	1,318	20,393	29,777	27,813	40,560	8,553	128,414
1996	1,214	25,255	40,598	32,932	50,511	12,151	162,661
1997							
January	1,290	26,763	40,694	33,299	48,771	10,357	161,174
February	1,226	27,472	41,841	33,511	48,181	9,014	161,245
March	1,334	27,711	42,190	33,251	47,441	11,730	163,657
April	1,366	27,806	43,063	33,429	48,530	11,391	165,585
May	1,400	27,560	43,017	33,504	49,622	11,545	166,648
June	1,371	28,384	41,942	33,367	52,478	12,513	170,055
July	1,316	28,341	45,618	34,040	54,564	14,829	178,707
August	1,251	25,844	38,908	36,002	80,421	22,156	204,583
September	1,201	23,996	34,455	40,058	87,465	18,411	205,586
October	910	24,127	32,209	42,519	88,844	23,337	211,946
November	664	23,452	27,495	38,032	85,897	23,453	198,993
December	359	25,377	28,664	34,637	88,987	28,371	206,395
1998							
January	459	31,881	43,894	39,946	116,390	43,036	275,606
February	414	31,550	34,894	32,663	112,455	39,825	251,801
March	2,140	28,937	27,841	30,101	138,596	44,445	272,060

1) Including mature time deposits

Table 39
Time Deposits in Rupiah with Commercial Banks by Ownership
(In billions of rupiah)

End of period	Residents										Non-residents	Total
	Govern-ment	Official entities	Insurance companies	State enterprises	Private enterprises	Social institutions	Coopera-tives	Indivi-duals	Others	Sub-total		
1993	2,206	876	2,306	4,768	10,153	5,515	139	20,284	4,247	50,494	360	50,854
1993/94	2,370	633	2,547	3,626	9,551	5,772	134	20,386	3,628	48,647	357	49,004
1994	2,820	1,135	3,482	3,993	14,014	7,040	256	24,995	4,248	61,983	399	62,382
1994/95	2,701	1,388	3,463	3,874	12,606	7,375	224	28,280	5,739	65,830	481	66,311
1995	3,549	1,658	4,113	6,143	17,329	8,512	281	36,150	10,751	88,486	408	88,894
1995/96	3,790	1,821	4,084	5,851	17,251	8,419	241	37,627	12,658	91,742	125	91,867
1996	3,990	2,134	4,933	6,131	26,792	10,684	341	46,617	17,359	118,981	184	119,165
1997												
January	3,914	2,006	5,108	6,171	24,963	10,655	287	47,279	17,717	118,100	217	118,317
February	3,814	2,031	5,151	6,332	24,736	10,832	314	47,529	17,165	117,904	243	118,147
March	4,079	1,991	5,480	5,836	26,117	10,923	322	47,668	16,581	118,997	286	119,283
April	4,455	1,733	5,194	6,674	25,419	11,583	321	50,033	14,917	120,329	316	120,645
May	4,773	1,614	5,687	6,228	26,363	11,997	296	49,845	14,153	120,956	272	121,228
June	4,413	1,522	6,070	5,719	27,103	11,584	313	50,369	15,815	122,908	313	123,221
July	4,708	1,723	5,521	5,853	25,364	11,804	413	50,366	14,737	120,489	203	120,692
August	3,857	1,731	5,783	6,040	27,494	11,413	351	64,387	13,314	134,370	311	134,681
September	3,865	1,856	5,176	5,848	26,288	12,394	338	67,483	12,657	135,905	262	136,167
October	4,627	2,157	6,527	5,468	25,993	12,833	409	67,690	11,496	137,200	277	137,477
November	6,469	2,319	6,615	6,292	24,642	12,517	306	60,268	10,324	129,752	248	130,000
December	5,363	1,786	6,323	6,540	26,512	12,784	282	56,856	9,031	125,477	266	125,743
1998												
January	6,741	1,599	6,694	5,959	28,357	12,943	310	56,344	6,772	125,719	304	126,023
February	8,446	1,627	6,120	7,641	31,135	14,124	336	62,414	6,808	138,651	417	139,068
March	6,124	1,882	6,845	11,470	35,877	13,344	420	94,053	7,500	177,515	439	177,954

Table 40
Certificates of Deposit
(In billions of rupiah)

End of period		State banks	Private banks	Total
1993		686	1,705	2,391
1993/94		468	1,494	1,962
1994		329	2,122	2,451
1994/95		802	2,717	3,519
1995		2,938	4,827	7,765
1995/96		3,805	6,749	10,554
1996		4,320	11,061	15,381
1997	January	4,353	11,418	15,771
	February	3,855	11,243	15,098
	March	3,205	11,113	14,318
	April	2,038	10,877	12,915
	May	1,987	10,111	12,098
	June	1,923	10,791	12,714
	July	1,762	9,906	11,668
	August	1,757	9,426	11,183
	September	1,827	8,562	10,389
	October	1,892	7,252	9,144
	November	1,536	6,288	7,824
	December	777	5,894	6,671
1998				
	January	495	3,530	4,025
	February	502	3,329	3,831
	March	493	3,409	3,902

Table 41
Savings Deposits with Commercial Banks by Type

End of period	Savings deposits withdrawable anytime		Savings deposits		Other savings deposits		Total	
	Depositors (thousands)	Outstanding (billions of Rp)	Depositors (thousands)	Outstanding (billions of Rp)	Depositors (thousands)	Outstanding (billions of Rp)	Depositors (thousands)	Outstanding (billions of Rp)
1993	29,870	30,676	77	52	10,397	4,880	40,344	35,608
1993/94	30,246	32,660	56	70	10,316	4,883	40,618	37,613
1994	31,542	35,093	61	57	11,926	5,169	43,529	40,319
1994/95	32,532	35,951	108	94	12,085	4,877	44,725	40,922
1995	34,584	42,455	152	72	13,535	4,697	48,271	47,224
1995/96	34,582	45,874	172	81	14,443	5,215	49,197	51,170
1996	38,044	55,858	216	131	15,324	5,577	53,584	61,566
1997								
January	38,328	56,711	216	127	15,225	5,407	53,769	62,245
February	38,836	59,188	220	131	15,368	5,579	54,424	64,897
March	38,767	60,521	238	140	15,522	5,661	54,527	66,322
April	39,717	62,160	248	179	15,574	5,606	55,539	67,945
May	40,144	63,585	249	181	15,631	5,742	56,024	69,508
June	40,239	64,812	253	185	15,951	5,617	56,443	70,614
July	41,251	65,730	256	192	16,008	5,657	57,515	71,579
August	41,363	52,849	271	207	16,432	4,787	58,066	57,843
September	42,280	51,910	267	190	16,414	4,651	58,961	56,751
October	45,750	54,986	264	163	17,068	4,940	63,082	60,089
November	42,796	56,254	263	167	17,294	4,882	60,353	61,303
December	42,872	62,765	274	173	17,295	5,052	60,441	67,990
1998								
January	45,598	70,963	266	183	17,521	5,368	60,385	76,514
February	43,483	75,524	265	188	17,855	5,622	61,603	81,334
March	43,232	66,653	271	220	19,102	5,300	62,605	72,173

Table 42
Commercial Bank Credits by Denomination and Economic Sector [1)]
(In billions of rupiah)

Denomination and economic sector	1993/94	1994/95	19995/96	1996/97	June 1997	Sep. 1997	Dec. 1997	Mar. 1998
Credits in rupiah	**126,753**	**157,206**	**193,951**	**244,960**	**262,670**	**274,710**	**261,534**	**286,925**
Agriculture	10,646	12,399	13,955	16,158	17,026	17,049	20,340	22,829
Mining	292	338	533	1,353	1,259	1,284	2,769	2,724
Manufacturing	37,609	43,130	48,817	53,071	54,871	58,051	56,123	64,261
Trade	32,130	37,326	44,668	57,331	61,177	62,296	57,471	66,313
Services	31,246	43,829	59,336	83,737	92,004	97,203	85,598	91,861
Others	14,830	20,184	26,642	33,310	36,333	38,467	39,233	38,937
Credits in foreign currency	**30,417**	**38,943**	**48,472**	**61,165**	**66,138**	**93,807**	**116,600**	**189,916**
Agriculture	1,790	1,892	1,874	2,687	2,904	4,299	5,662	9,036
Mining	363	616	691	1,385	1,153	2,589	2,547	4,240
Manufacturing	15,874	19,837	24,206	28,163	30,190	43,307	55,556	93,721
Trade	6,433	8,038	11,565	16,131	17,059	20,578	24,793	41,294
Services	5,945	8,549	10,117	12,766	14,802	22,988	27,971	41,521
Others	12	11	19	33	30	46	71	104
Total	**157,170**	**196,149**	**242,423**	**306,125**	**328,808**	**368,517**	**378,134**	**476,841**
Agriculture	12,436	14,291	15,829	18,845	19,930	21,708	26,002	31,865
Mining	655	954	1,224	2,738	2,412	3,873	5,316	6,964
Manufacturing	53,483	62,967	73,023	81,234	85,061	101,358	111,679	157,982
Trade	38,563	45,364	56,233	73,462	78,236	82,874	82,264	107,607
Services	37,191	52,378	69,453	96,503	106,806	120,191	113,569	133,382
Others	14,842	20,195	26,661	33,343	36,363	38,513	39,304	39,041

1) In rupiah and foreign currency, excluding interbank credit, credit to the Central Government and nonresidents, and foreign currency components of project aid

Table 43
Commercial Bank Credits by Type of Credit and Economic Sector [1)]
(In billions of rupiah)

Type of credit and economic sector	1993/94	1994/95	1995/96	1996/97	June 1997	Sep. 1997	Dec. 1997	Mar. 1998
Working capital credits	**114,218**	**145,388**	**180,411**	**231,582**	**250,234**	**278,506**	**277,399**	**344,070**
Agriculture	3,543	4,076	4,960	6,805	7,602	8,506	11,373	15,423
Mining	288	466	953	2,198	1,849	2,906	3,995	5,038
Manufacturing	35,386	45,520	49,074	55,749	60,274	72,077	76,585	109,415
Trade	31,612	38,829	47,435	60,675	64,255	67,477	64,336	82,228
Services	28,369	39,029	51,328	72,812	79,891	89,027	81,606	92,925
Others	14,842	20,195	26,661	33,343	36,363	38,513	39,304	39,041
Investment credits	**42,952**	**50,761**	**62,012**	**74,543**	**78,574**	**90,011**	**100,735**	**132,771**
Agriculture	8,893	10,215	10,869	12,040	12,328	13,202	14,629	16,442
Mining	189	215	271	540	563	967	1,321	1,926
Manufacturing	18,097	20,447	23,949	25,485	24,787	29,281	35,094	48,567
Trade	6,951	6,535	8,798	12,787	13,981	15,397	17,928	25,379
Services	8,822	13,349	18,125	23,691	26,915	31,164	31,763	40,457
Others	--	--	--	--	--	--	--	--
Total	**157,170**	**196,149**	**242,423**	**306,125**	**328,808**	**368,517**	**378,134**	**476,841**
Agriculture	12,436	14,291	15,829	18,845	19,930	21,708	26,002	31,865
Mining	655	954	1,224	2,738	2,412	3,873	5,316	6,964
Manufacturing	53,483	62,967	73,023	81,234	85,061	101,358	111,679	157,982
Trade	38,563	45,364	56,233	73,462	78,236	82,874	82,264	107,607
Services	37,191	52,378	69,453	96,503	106,806	120,191	113,569	133,382
Others	14,842	20,195	26,661	33,343	36,363	38,513	39,304	39,041

1) In rupiah and foreign currency, excluding interbank credit, credit to the Central Government and non-residents, and foreign currency components of project aid

Table 44
Commercial Bank Credits by Group of Banks and Economic Sector 1)
(In billions of rupiah)

Group of bank and economic sector	1993/94	1994/95	1995/96	1996/97	June 1997	Sep. 1997	Dec. 1997	Mar. 1998
1. State banks	**73,443**	**81,333**	**95,619**	**110,900**	**117,057**	**131,840**	**153,266**	**202,569**
Agriculture	9,989	11,026	11,657	12,381	12,781	13,222	14,279	15,445
Mining	214	534	612	1,257	1,146	2,138	1,939	3,062
Manufacturing	28,452	30,059	32,846	34,807	34,811	39,667	46,868	68,699
Trade	15,798	16,385	19,900	22,934	25,468	28,310	32,970	49,571
Services	10,987	14,489	19,181	25,251	27,506	31,866	39,421	46,952
Others	8,003	8,840	11,423	14,270	15,345	16,637	17,789	18,840
2. Private national banks	**64,967**	**90,792**	**116,401**	**159,248**	**173,933**	**191,721**	**168,723**	**192,076**
Agriculture	1,959	2,722	3,582	5,805	6,413	7,561	10,185	13,940
Mining	185	226	352	1,013	935	1,138	2,500	2,460
Manufacturing	15,427	20,633	24,560	29,841	32,756	39,248	35,592	41,888
Trade	19,437	24,850	31,662	44,423	46,638	47,571	40,513	45,360
Services	23,072	33,418	44,382	63,451	70,977	79,473	63,716	73,457
Others	4,887	8,943	11,863	14,715	16,214	16,730	16,217	14,971
3. Local government-owned banks	**3,383**	**4,099**	**5,201**	**7,194**	**7,792**	**7,513**	**7,539**	**7,181**
Agriculture	147	168	211	245	258	268	267	273
Mining	9	8	10	15	17	18	21	21
Manufacturing	269	321	370	371	379	393	429	461
Trade	844	904	1,053	1,130	1,190	1,217	1,206	1,225
Services	1,015	1,194	1,534	2,699	2,843	2,349	2,386	1,946
Others	1,099	1,504	2,023	2,734	3,105	3,268	3,230	3,255
4. Foreign and joint banks	**15,377**	**19,925**	**25,202**	**28,783**	**30,026**	**37,443**	**48,606**	**75,015**
Agriculture	341	375	379	414	478	657	1,271	2,207
Mining	247	186	250	453	314	579	856	1,421
Manufacturing	9,335	11,954	15,247	16,215	17,115	22,050	28,790	46,934
Trade	2,484	3,225	3,617	4,975	4,940	5,776	7,575	11,451
Services	2,117	3,277	4,357	5,102	5,480	6,503	8,046	11,027
Others	853	908	1,352	1,624	1,699	1,878	2,068	1,975
5. All commercial banks (1 through 4)	**157,710**	**196,149**	**242,423**	**306,125**	**328,808**	**368,517**	**378,134**	**476,841**
Agriculture	12,436	14,291	15,829	18,845	19,930	21,708	26,002	31,865
Mining	655	954	1,224	2,738	2,412	3,873	5,316	6,964
Manufacturing	53,483	62,967	73,023	81,234	85,061	101,358	111,679	157,982
Trade	38,563	45,364	56,233	73,462	78,236	82,874	82,264	107,607
Services	37,191	52,378	69,454	96,503	106,806	120,191	113,569	133,382
Others	14,842	20,195	26,661	33,343	36,363	38,513	39,304	39,041

1) In rupiah and foreign currency, excluding interbank credit, credit to the Central Government and non-residents, and foreign currency components of project aid

Table 45

Banknote Flow in Bank Indonesia Jakarta and Regional Offices

(In trillions of rupiah)

Office	1993		1994		1995		1996		1997	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
Jakarta	8.9	15.3	10.3	18.8	11.7	21.3	9.6	19.3	18.6	32.1
Bandung	7.0	4.7	8.5	5.5	10.3	6.3	11.8	7.0	13.9	9.1
Semarang	6.3	3.8	7.5	4.3	8.9	4.7	9.9	5.1	11.7	6.9
Surabaya	6.9	6.7	8.2	7.9	10.0	9.0	11.4	10.3	13.7	13.3
Medan	2.8	3.0	3.4	3.6	4.0	4.2	4.5	4.6	6.9	7.7
Padang	1.9	2.5	2.2	3.1	2.8	3.7	3.1	4.1	4.1	5.6
Ujung Pandang	2.3	2.7	2.7	3.2	3.2	3.7	4.0	4.1	4.6	5.4
Banjarmasin	1.8	2.5	2.1	3.0	2.5	3.5	2.9	3.9	3.5	4.9
T o t a l	**37.9**	**41.2**	**44.9**	**49.3**	**53.4**	**56.4**	**57.2**	**58.4**	**77.0**	**85.0**

Table 46

Share of Currency Outflow in Bank Indonesia Jakarta and Regional Offices by Denomination in 1997

(In percent)

Office	Rp50,000.00	Rp20,000.00	Rp10,000.00	Rp5,000.00	<= Rp1,000.00	Total
Jakarta	25.03	37.28	30.02	4.35	3.32	100.00
Bandung	30.06	37.78	26.40	3.66	2.10	100.00
Semarang	31.54	40.26	23.34	2.78	2.09	100.00
Surabaya	26.34	37.18	30.47	3.39	2.64	100.00
Medan	10.30	39.60	42.75	5.41	1.95	100.00
Padang	17.01	33.54	41.36	6.12	1.97	100.00
Ujung Pandang	15.81	35.85	37.57	7.96	2.81	100.00
Banjarmasin	14.65	33.86	42.42	6.77	2.30	100.00

Table 47
Coin Flow in Bank Indonesia Jakarta and Regional Offices
(In billions of rupiah)

Office	1993		1994		1995		1996		1997	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
Jakarta	3.8	17.5	5.0	45.8	8.4	83.5	13.5	94.9	14.4	79.5
Bandung	4.8	5.0	3.8	7.0	7.0	8.2	14.5	8.6	17.3	8.7
Semarang	7.6	5.2	6.7	6.6	13.1	11.5	22.5	8.8	23.2	7.4
Surabaya	2.1	8.1	1.9	9.6	2.0	10.3	3.9	10.4	2.9	15.9
Medan	0.6	3.5	0.7	4.9	0.7	8.8	1.4	6.5	2.0	7.4
Padang	0.4	3.0	0.3	3.6	0.6	4.9	0.6	4.3	0.7	7.3
Ujung Pandang	1.1	2.6	0.7	4.1	1.0	4.8	1.3	4.9	1.0	7.4
Banjarmasin	0.2	2.2	0.4	3.3	0.5	3.7	1.0	4.6	0.7	6.1
T o t a l	**10.6**	**47.7**	**19.5**	**84.5**	**33.3**	**135.7**	**58.7**	**143.0**	**62.2**	**139.7**

Table 48
World Economic Growth
(In percent)

Country	1993r	1994r	1995r	1996r	1997
World	**2.7**	**4.0**	**3.7**	**4.1**	**4.1**
Industrial countries	**0.9**	**2.9**	**2.1**	**2.7**	**3.1**
7 major industrial countries	1.0	2.8	2.0	2.5	2.8
United States	2.3	3.5	2.0	2.8	3.8
Japan	0.3	0.6	1.5	3.9	0.9
Germany	–1.2	2.7	1.8	1.4	2.2
France	–1.3	2.8	2.1	1.5	2.4
Italy	–1.2	2.2	2.9	0.7	1.5
United Kingdom	2.1	4.3	2.7	2.3	3.5
Canada	2.5	3.9	2.2	1.2	3.8
Others	2.0	4.5	4.3	3.8	4.0
Developing countries	**6.5**	**6.8**	**6.0**	**6.6**	**5.8**
Africa	0.9	2.5	2.9	5.6	3.0
Middle East and Europe	3.9	0.4	3.6	5.0	4.4
Latin America	3.9	5.1	1.2	3.5	5.0
Asia	9.3	9.6	9.0	8.3	6.7
NIEs Asia	6.3	7.6	7.3	6.4	6.1
China	13.5	12.6	10.5	9.7	8.8
ASEAN	7.2	8.1	8.2	7.1	3.9
Indonesia	7.3	7.5	8.2	8.0	4.7
Singapore	10.4	10.1	8.8	6.9	7.8
Malaysia	8.3	9.2	9.5	8.6	7.8
Thailand	8.3	8.8	8.7	5.5	–0.4
Philippines	2.1	4.4	4.8	5.7	5.1
Vietnam	8.1	8.8	9.5	9.3	7.5
Countries in transition	**–7.6**	**–7.6**	**–0.8**	**–0.2**	**1.7**
Central and Eastern Europe	–3.6	–3.0	1.4	1.5	2.6
Russia	–8.7	–12.6	–4.0	–2.8	0.4
Transcaucasus and Central Asia	–10.1	–10.2	–4.3	1.0	2.2

Sources : – IMF, World Economic Outlook, March 1998
– Bank Indonesia

Table 49
World Inflation
(In percent)

Country	1993r	1994r	1995r	1996r	1997
Industrial countries	**2.9**	**2.3**	**2.4**	**2.4**	**2.1**
7 major industrial countries	2.8	2.2	2.3	2.2	2.0
United States	3.0	2.6	2.8	2.9	2.3
Japan	1.2	0.7	–0.1	0.1	1.7
Germany	4.4	2.7	1.8	1.5	1.8
France	2.1	1.7	1.8	2.0	1.2
Italy	4.6	4.1	5.2	3.9	1.7
United Kingdom	3.0	2.4	2.8	2.9	2.8
Canada	1.8	0.2	2.2	1.6	1.4
Others	4.0	4.1	3.7	3.2	2.6
Developing countries	**46.9**	**51.4**	**21.3**	**13.7**	**8.6**
Africa	30.3	36.1	33.8	26.2	11.4
Middle East and Europe	24.6	31.9	35.9	24.5	22.7
Latin America	208.8	210.2	35.9	22.3	13.1
Asia	10.3	14.7	11.9	6.7	3.9
NIEs Asia	4.6	5.7	4.7	4.3	1.5
China	13.0	21.7	14.8	6.1	1.5
Indonesia	9.8	9.2	8.6	6.5	11.1
Singapore	2.2	3.1	1.7	1.4	2.0
Malaysia	3.5	3.7	3.4	3.5	2.7
Thailand	3.4	5.1	5.8	5.9	5.6
Philippines	7.6	9.1	8.1	8.4	5.1
Vietnam	5.2	14.5	12.7	5.7	3.1
Countries in transition	**609.3**	**268.4**	**124.1**	**41.4**	**27.6**
Central and Eastern Europe	357.7	153.3	75.3	32.4	38.3
Russia	895.9	302.0	190.1	47.8	14.7
Transcaucasus and Central Asia	1.224.2	1.667.7	183.6	69.2	26.8

Sources : – IMF, World Economic Outlook, March 1998
– Bank Indonesia

Table 50
Interest and Exchange Rates

Item	1993r	1994r	1995r	1996r	1997*
Interest rate in industrial countries (in percent)					
Short term	5.30	4.70	5.10	3.90	3.80
Long term	6.50	7.00	6.70	6.00	5.30
Exchange rate					
Yen/USD	111.20	102.21	94.06	108.78	120.50
DM/USD	1.65	1.62	1.43	1.50	1.73
USD/GBP	1.50	1.53	1.58	1.56	1.64

Sources : – IMF, World Economic Outlook, March 1998
– IMF, International Financial Statistics

Table 51
World Trade Indicator
(Annual percent change)

Indicator	1993r	1994r	1995r	1996r	1997*
Volume	**4.2**	**10.2**	**10.2**	**6.3**	**9.8**
Price					
Industrial goods	–5.7	3.1	10.3	–3.2	–9.3
Non-oil/gas primary commodities	1.8	13.6	8.2	–1.3	–4.0
Oil	–11.6	–5.5	8.0	18.9	–5.9

Source : IMF, World Economic Outlook, March 1998

Tabel 52
Current Accounts in Industrial and Developing Countries
(In percent of GDP)

Country	1993r	1994r	1995r	1996r	1997*
7 major industrial countries					
United States	–1.4	–1.9	–1.8	–1.9	–2.0
Japan	3.1	2.8	2.2	1.4	2.2
Germany	–0.7	–1.0	–1.0	–0.6	–0.3
France	0.7	0.6	0.7	1.3	2.7
Italy	0.9	1.3	2.3	3.2	2.9
United Kingdom	–1.6	–0.2	–0.5	–0.1	0.3
Canada	–3.9	–2.7	–1.0	0.4	–2.0
Developing countries					
China	–2.7	0.6	0.2	0.9	2.4
Indonesia	–1.6	–1.7	–3.3	–3.4	–2.7
Singapore	7.5	17.1	16.9	15.7	15.2
Malaysia	–4.8	–6.3	–10.0	–4.9	–4.8
Thailand	–5.9	–5.6	–7.8	–7.9	–2.2
Philippines	–5.5	–4.6	–4.4	–4.7	–5.4

Sources : – IMF, World Economic Outlook, March 1998
– Bank Indonesia

APPENDIX F

List of Abbreviations

ACBF	ASEAN Central Bank Forum
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
ADF	Asian Development Fund
AELM	APEC Economic Leaders Meeting
AFAS	ASEAN Framework Agreement on Services
AFMM	ASEAN Finance Ministerial Meeting
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-east Asian Nations
Askrindo	PT Asuransi Kredit Indonesia (State Credit Insurance)
ATM	Automatic Teller Machine
Bapedal	Badan Pengendalian Dampak Lingkungan (Environmental Impact Management Agency)
BI	Bank Indonesia
BIS	Bank for International Settlements
BM	Base Money
BPD	Bank Pembangunan Daerah (Local Government Bank)
BPPC	Badan Penyangga Pemasaran Cengkeh (Clove Marketing Board)
BPR	Bank Perkreditan Rakyat (Rural Credit Bank)
BRI	Bank Rakyat Indonesia (State Bank)
Bulog	Badan Urusan Logistik (State Logistics Agency)
BUMN	Badan Usaha Milik Negara (State-owned Enterprise)
CAC	Capital Account Convertibility
CAR	Capital Adequacy Ratio
CBA	Currency Board Arrangement
CCC-USDA	The Commodity Credit Corporation - United States Department of Agriculture
CCS	Coordinating Committee on Services
CDs	Certificate of Deposits
CFA	Contingent Foreign Assets
CGI	Consultative Group for Indonesia
CPI	Consumer Price Index
CPs	Commercial Papers
CSPI	Composite Stock Price Index
CTFS	Committee for Trade in Financial Services
DAMS	Debt Analysis and Management System
DPPK	Dana Pensiun Pemberi Kerja (Employer-managed Pension Fund)

DPKEK	Dewan Pemantapan Ketahanan Ekonomi dan Keuangan (The Board for Strengthening the Resilience of Economy and Finance)
DPLK	Dana Pensiun Lembaga Keuangan (Financial Institution Pension Fund)
DSR	Debt Service Ratio
EFIC	Export Finance and Insurance Corporation
EFT/POS	Electronic Fund Transfer/Point of Sales
EMEAP	Executive's Meeting of East Asia and Pacific Central Bankers
EVSL	Early Voluntary Sectoral Liberalization
FA	Foreign Assets
FCDs	Foreign Currency Deposits
FDIC	Federal Deposit Insurance Corporation
FL	Foreign Liabilities
FOB	Free on Board
FSLIC	Federal Savings and Loan Insurance Corporation
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GFA	Gross Foreign Assets
GKN	Gerakan Kemitraan Nasional (National Partnership Movement)
GNTR	Government Non-tax Revenue
GSIC	Government of Singapore Investment Corporation
HIPCs	Heavily Indebted Poor Countries
HPS	Harga Pedoman Setempat (price control on cement)
IBRA	Indonesian Bank Restructuring Agency
IBRD	International Bank for Reconstruction and Development
ICP	Indonesian Crude Oil Price
ICOR	Incremental Capital Output Ratio
IDB	Islamic Development Bank
IDR	Indonesian Depository Receipt
IDT	Inpres Desa Tertinggal (Presidential Instruction for Least-developed Villages)
IGGI	Inter-governmental Group on Indonesia
IMF	International Monetary Fund
IMM	Interbank Money Market
INDRA	Indonesian Debt Restructuring Agency
IPTN	PT Industri Pesawat Terbang Nusantara (Nusantara Aircraft Industry, State-owned Indonesian Aircraft Manufacturer)
JECS	Jakarta Electronic Clearing System
JIBOR	Jakarta Interbank Offered Rate
JSX	Jakarta Stock Exchange
KDEI	PT Kustodian Depositori Efek Indonesia (Indonesian Stock Deposit Custodian Corporation)

KKPA	Kredit Kepada Koperasi Primer untuk Anggotanya (Credit to Primary Cooperative for Member)
KKU	Kredit Kelayakan Usaha (Credit for Feasible Projects)
KKUD	Kredit kepada Koperasi Unit Desa (Credit to Rural Unit Cooperative)
KLBI	Kredit Likuiditas Bank Indonesia (Bank Indonesia's Liquidity Credit)
KMK-UKM	Kredit Modal Kerja bagi Usaha Kecil Menengah (Working Capital Credit for Small and Medium-scale Enterprises)
KPEI	PT Kliring dan Penjaminan Efek Indonesia (Indonesian Stock Clearing and Guarantee Corporation)
KPKU	Kredit Pengembangan Kemitraan Usaha (Credit for Developing Business Cooperation)
KPRS/SS	Kredit Pemilikan Rumah Sederhana/Sangat Sederhana (Credit for Low/Very Low Cost Housing)
KSM	Kelompok Swadaya Masyarakat (Self-help Group)
KSEI	PT Kustodian Sentral Efek Indonesia (Indonesian Stock Central Custodian Corporation)
KUK	Kredit Usaha Kecil (Credit to Small-scale Enterprises)
KUT	Kredit Usaha Tani (Credit to Farmer)
L/C	Letter of Credit
LDKP	Lembaga Dana dan Kredit Pedesaan (Rural Fund and Credit Institution)
LDR	Loan to Deposit Ratio
LKP	Lembaga Keuangan Pedesaan (Rural Financial Institution)
LKP	Lembaga Kliring dan Penjaminan (Clearing and Guarantee Institution)
LLL	Legal Lending Limit
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LPP	Lembaga Penyimpanan dan Penyelesaian (Settlement and Custody Institution)
LPSM	Lembaga Pengembangan Swadaya Masyarakat (Self-help Development Institution)
MIGA	Multilateral Investment Guarantee Agency
MMBTU	Mille Mille British Thermal Unit
MPR	Majelis Permusyawaratan Rakyat (People's Consultative Assembly)
MSCF	Mille Standard Cubic Feet
MTNs	Medium Term Notes
NAV	Net Assets Value
NBFIs	Non-bank Financial Institutions
NIEs	Newly Industrializing Economies
NIR	Net International Reserve
NFA	Net Foreign Assets
NOP	Net Open Position
OCOI	Operating Cost on Operating Income
ODA	Official Development Assistance

OECD	Organization for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
OMO	Open Market Operation
O/N	Overnight
OPEC	Organization of Petroleum Exporting Countries
OTC-FIS	Over the Counter-Fixed Income Service
PAE	Pollution Abatement Equipment Project
PEBT	Pemberitahuan Ekspor Barang Tertentu (Designated Customs Export Declaration)
Pefindo	PT Pemeringkat Efek Indonesia (Credit Rating Indonesia, Ltd.)
PET	Perusahaan Eksportir Tertentu (Designated Exporter)
PHBK	Pengembangan Hubungan Bank dan Kelompok Swadaya Masyarakat (Bank and Self-help Group Link Project)
PKM	Proyek Kredit Mikro (Micro Credit Project)
PKT	Program Kemitraan Terpadu (Integrated Partnership Program)
PKUKT	Proyek Kemitraan Usaha Kecil Terpadu (Integrated Small-scale Business Partnership Project)
PMA	Penanaman Modal Asing (Foreign Direct Investment)
PMDN	Penanaman Modal Dalam Negeri (Domestic Investment)
PMVD	Perusahaan Modal Ventura Daerah (Local Venture Capital Company)
PNs	Promissory Notes
PPUK	Proyek Pengembangan Usaha Kecil (Small-scale Enterprise Development Project)
Qtr	Quarter
REER	Real Effective Exchange Rate
RKT	Rencana Kerja Tahunan (Annual Work Plan)
RM	Reserve Money
RMA	Reserve Money Adjusted
ROA	Return on Assets
ROE	Return on Equity
SBA	Stand-by Arrangement
SBIs	Sertifikat Bank Indonesia (Bank Indonesia Certificates)
SBPUs	Surat Berharga Pasar Uang (Money Market Securities)
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
SEACEN	South East Asian Central Banks
SHS	Solar Home System Project
SMF	Secondary Mortgage Facility
SOC	Schedule of Commitment
SRF	Supplemental Reserve Facility
SRSF	Statutory Reserve Short Fall
SSE	Surabaya Stock Exchange

SWIFT	Society for Worldwide Interbank Financial Telecommunication
TPULNS	Tim Penyelesaian Utang Luar Negeri Swasta (Negotiating Team for Private External Debt Settlement)
UCP	Uniform Customs and Practice for Documentary Credit
UKM	Usaha Kecil dan Menengah (Small and Medium-scale Enterprises)
UPUK	Unit Pengembangan Usaha Kecil (Small-scale Business Development Unit)
VAT	Value Added Tax
WTO	World Trade Organization