BANK INDONESIA

REPORT FOR THE FINANCIAL YEAR 1998/99

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SURABAYA, TASIKMALAYA, TEGAL, TERNATE
UJUNG PANDANG, YOGYAKARTA

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Symbols, Reporting Period, and Source of Data

r	Revised figures
*	Provisional figures
**	Incomplete figures (based on incomplete data)
. . .	Data not yet available
-	Data not available
x	Break in comparability before and after the symbol
- -	Nil or less than the last digit
$	United States dollar
Rp	Rupiah

Reporting period is the fiscal year, from April 1, 1998 to March 31, 1999.

Source of data is Bank Indonesia, unless mentioned otherwise.

Government Commissioner and Board of Directors as of March 31, 1999

From left to right :

Sitting : Syahril Sabirin (Governor)
Sofjan Djajawinata (Government Commissioner)

Standing : Iwan R. Prawiranata (Director), Dono Iskandar Djojosubroto (Director), Achjar iljas (Director), Miranda S. Goeltom (Director), Subarjo Joyosumarto (Director), Achwan (Director), and Aulia Pohan (Director)

GOVERNOR
BANK INDONESIA

Foreword

It is most gratifying that the progress of the domestic economy at the end of the reporting year suggested early signs of recovery. Economic and financial policies undertaken by Bank Indonesia, supported by other policy measures, have started to render real results. Although the road to economic welfare as in the pre-crisis level remains long and winding, our recent experience and accomplishments have assured us that, with prudence and consistency, all the policies can effectively produce desirable results.

It is indeed undeniable that during the reporting year, weaknesses and inadequacies had coexisted in the formulation and implementation of economic policies. This is attributable to the broad scale and complexity of problems that we all encountered. Added to this was the role of non-economic factors that brought about major changes in the recent social-political settings. These changes are partly reflected in the democratization process of this nation and have a number of ramifications toward the effectiveness and the success of the underlying policies.

Against this background, the Bank Indonesia Report for the Financial Year 1998/99 is presented. On this particular occasion, I would like to draw the readers' attention on several pivotal issues in the economy, monetary and banking developments, policy responses and policy direction in the future; all of which are worth being carefully observed.

The negative impacts of the economic crisis on Indonesia's economy were quite substantial and possibly the worst ever in the reporting year of 1998/99. Nonetheless, during the second half of the financial year, particularly in the fourth quarter, a number of macroeconomic indicators have suggested an encouraging progress. The ongoing crisis, which deepened during the early period of the reporting year, had led our economy into a deep recession. As a result, the unemployment rate rose sharply and income per capita dropped. The performance of the external sector also deteriorated. In spite of the fact that the current account balance was in surplus, the performance of both exports and imports deteriorated. This weakened condition was accompanied by higher inflationary pressures and turbulence in the exchange rate movements.

In response to the above developments, the government sought to pursue policies aimed at regaining economic stability and restoring the overall economy. The focus of economic policies, particularly those associated with Bank Indonesia's activities during 1998/99, basically involved four major areas.

First, on the monetary front, consistent measures have been undertaken to restrain inflationary pressures and turbulence in the exchange rate movements. Price and exchange rate stability constitutes a prerequisite to the restoration process of the banking system, the stagnated real sector and the whole economy. Only through a stable monetary condition can interest rates be gradually reduced and, in turn, accelerate the recovery of business activities.

Second, on the banking front, efforts to restructure and strengthen the banking system have become crucial to our economic reform agenda. The deep crisis devastated our banking system such that most of our banks experienced huge negative capital losses. In such a poor condition, banks were not able to serve the economy. Hence, the required reinvigoration of the banking sector through the recapitalization and restructuring process became the most important key factor in restoring the Indonesian economy.

In this regard, throughout the reporting year, Bank Indonesia together with the government has undertaken a number of fundamental measures on the banking front in order to restore public confidence towards domestic banks and improve the financial condition of banks. To restore public confidence, the government continued to exert the prevailing guarantee on deposits placed on banks at least up to January 2000. The scope of this guarantee scheme was broadened to include rural credit banks. To restore banks' financial condition, Bank Indonesia improved the existing rules based on the prudential principles and strengthened the banking supervision framework.

The third area concerns public and private debt settlement. This is an important factor that determines the success of the recovery program since, on one hand, it directly relates to the credibility of us as a nation and the restoration of foreign investors' confidence toward the prospects for our economy. On the other hand, it is closely associated with both bank and corporate restructuring programs. The settlement of external debts, particularly the private sector debt, will also help regain the access to foreign financing.

One important step that has been undertaken is the Frankfurt Agreement. In addition, the government also established Indonesian Debt Restructuring Agency (INDRA) designed to facilitate corporate debt settlement. To smoothen the negotiation process between debtors and creditors, the government also established a task force under the Jakarta Initiative framework.

The fourth area concerns efforts to lessen the negative impact of the crisis on the poor. In this regard, the government raised expenditures related to Social Safety Net (SSN) programs, oil-based fuel subsidies, and foodstuff. Under the same line, Bank Indonesia extended a number of program credits to help weak and small-scale business entrepreneurs, especially those working in the production and distribution of basic needs.

Furthermore, the reform agenda was also applied in other areas, such as the abolishment of monopolies, the enactment of a new competition law and bankruptcy law, and the establishment of a Commercial Court. These new frameworks are designed to improve the structure of the economy so as to enhance the quality of economic development.

As I have mentioned before, all the measures cannot be expected to instantly bring our economy back to the initial level achieved during the pre-crisis era. The reality suggests that the complexity of problems that we still and will continue to encounter cover the interaction between social and political components with their ramifications for all aspects of our society. In addition, there are pros and cons in the implementation of various policy instruments. For instance, on one hand, the weakening domestic demand requires an expansionary macroeconomic policy. On the other hand, a high inflation rate requires a contactionary macròeconomic --particularly monetary-- policy. In response to this dilemma, the government put a higher priority on price stability that simultaneously restore the accountability of economic policy and confidence on the prospect of the Indonesian economy. In the meantime, on the fiscal front, the appropriate policy stance is suggested to be loosened especially in view of supporting the SSN programs, in order to restore the economy from the crisis.

We are encouraged by the positive developments that began to emerge in the second half of the fiscal year. With a discipline monetary management, monetary stability started to gain its momentum. This condition came along with the improvement in the restructuring process of the banking system. The threat of hyperinflation subsided and up to the end of the reporting year the inflation rate was able to be brought down below the initial target. On the other hand, the rupiah exchange rate stabilized at an appropriate level, despite the disruptions resulting from the unstable social-political condition. Regardless of the fact that the efforts to strengthen the banking system seemed to be slow during the early stage, progress has been noted as can be seen in the restoration of public confidence through the reinvestment of public funds into the banking system.

Towards the future, this positive momentum needs to be maintained. Consistent policy measures and the reform programs need to be continued. In the monetary front, Bank Indonesia will continue to pursue a prudent monetary policy stance and enhance the effectiveness of monetary man-

agement. This will be conducted through the improvement of the money markets inclusive its instruments, and the promotion of transparency and policy accountability. In the banking sector, banking restructuring program will be continued in a consistent manner, in tandem with credit and corporate restructuring programs. The progress of each bank will be carefully monitored from time to time, such that the steps being undertaken can be determined in a timely and proper fashion. In addition, the effectiveness and the quality of banking supervision will continue to be improved through the enhancement in capability and integrity of supervisory staff personnel, the improvement in the prudential principles according to international standards, and law enforcement.

I am fully aware that the endeavors required to reach our goals are not unconstrained. However, with the mandate granted under the new central bank law, Bank Indonesia can better perform its duty as an independent central bank. With a higher degree of accountability and transparency, the implementation of monetary policy can be expected to be more effective.

Finally, I really hope that the Bank Indonesia Report for the Financial Year 1998/99 can be beneficial to the public. This report provides an accountable and transparent information on economic, monetary, and banking developments and policy responses adopted in 1998/99 with all facts, analyses, as well as the complexity of the problems that Indonesia has been facing. Last but not least, on behalf of Bank Indonesia Board of Directors, I would like to express my sincere appreciation to those who have dedicated their time and endeavors to the process of producing this report.

Jakarta, May 1999
Governor, Bank Indonesia

Syahril Sabirin

Chapter 1 Overview

The economic crisis hitting Indonesia since mid-1997 has gradually subsided with the emergence of recovery signs toward the end of 1998/99. Key indicators show that the economy has bottomed out. After a sharp contraction during 1998, the first quarter of 1999 saw a nascent turn around of the Gross Domestic Product (GDP), though still at a negative rate on a yearly basis. This turn around was accompanied by a declining inflation rate since October 1998 and stronger rupiah, which provided room for a phased reduction of interest rates. The significant progress was also recorded in the restructuring of banks and external debts, especially those of banks and the government. With positive hindsight, the stock market was bullish, signaling an initial return of investor confidence on the Indonesia's economic prospects. These developments reflect a turn around from the worst situation of the crisis.

The process of economic stabilization and recovery in Indonesia is in fact slower than that in other Asian countries in crisis (Box: Economic Recoveries in South Korea, Thailand, and Indonesia). To some extent, this relates to the severity of the damage prompted by the crisis that had paralyzed Indonesia's fundamentals, especially, the banking system, business sector, and social and political environment. The deterioration of the economic fundamentals was further compounded by mounting inflationary pressure along with battered rupiah exchange rate during the first half of the reporting year. The threat of hyperinflation was even alarming precipitated by vicious depreciation-inflation spiral following the excessive expansion of money supply. With confidence in the banking system eroded, the financial intermediary function of banks virtually came to a halt, resulting in a sharp fall in production and investment. It ended up with an enormous contraction of the entire economy, accompanied by heightened social and political tensions emanating from massive unemployment and widespread poverty.

To address the crisis, the government sought to initiate a number of policy measures to restore stability, notably in the monetary and banking sectors, and to revive economic activities. However, given the complexity of the problems and constraints on the economic and political fronts, the measures have failed at the implementation level to perform the expected outcome. Evidently, the effectiveness of macroeconomic policies is blunted to resolve the crisis under such environment.

The pursuit of macroeconomic policies to stimulate the economy was confronted with a dilemma. On one hand, domestic demand that had been weakening due to the crisis required expansionary measures. On the other, skyrocketing inflation as a result of the exchange rate depreciation and excessive expansion of money supply called for contraction macroeconomic policy. Added to the dilemma was plunging public confidence during the crisis, especially in the banking system, which interrupted the transmission mechanisms of the monetary policy.

In view of the magnitude and complexity of the problem, the strategy adopted by the government to solve the crisis and reinvigorate the economy can no longer rely solely on macroeconomic policies but also includes appropriate microeconomic policies. Furthermore, institutional reforms are required, including adequate legal system. To this end, in addition to the pursuit of policy mix between tight monetary and expansionary fiscal stance, the government adopted appropriate microeconomic measures.

The microeconomic measures pursued by the government focused on rehabilitating the banking system and the business sector, inclusive of resolving corporate debt overhang and regaining access to international financial market. These measures have been complemented with steps to overcome institutional weaknesses, particularly the legal system through, inter alia, improvements in a number of regulations and laws on the monetary, banking, and real sectors. In addition, to arrest inflationary pressures and minimize the adverse effects of the crisis on the poor, the government sought to secure the availability of basic needs, expedite distribution, and widen the scope of program credits.

At the implementation level, as referred to earlier, the attainment of the policy has been relatively slow. Economic contraction continued up to the fourth quarter of 1998, with unemployment growing and purchasing power sinking (Table 1.1). Annual inflation rate surged sharply up to the second half of the reporting year and the rupiah continued weakening up to the end of the first quarter of the year under review. Consequently, interest rates could not go down rapidly to jumpstart the economy. Efforts to reinvigorate the private sector faced onerous constraints because of the corporate debt overhang and its slow resolution. This unfavorable economic condition resulted in a rapid deterioration in bank performance, despite the success in preventing a further escalation of the banking crisis as reflected in a markedly reduced incident of bank runs. On the external front, the current account scored a surplus, the first time since 1982. However, the surplus was attributed to a steep drop of imports in the face of falling exports, which failed to take advantage of the depreciation of the rupiah. Inflows of private capital remained sluggish but its outflows were not as large as when the crisis started hitting Indonesia.

Nevertheless, with a better-planned economic recovery program, and more consistent implementation, by the end of the reporting year, the Indonesian economy began to show signs of recovery (Chart 1.1).

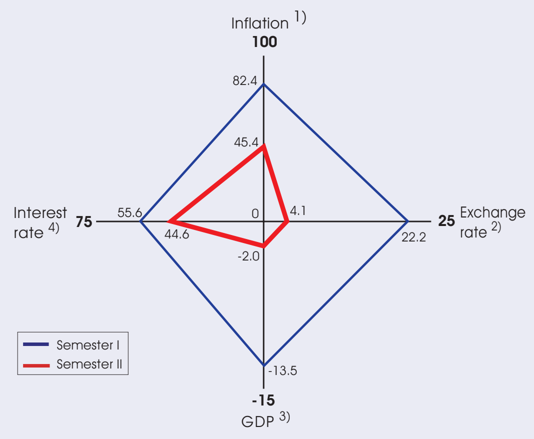
Table 1.1
Selected Macroeconomic Indicators
Calendar Year and Fiscal Year

I t e m	1996	1997	1998*
	At constant 1993 prices (Percent change)		
Gross Domestic Product	**7.8**	**4.9**	**–13.7**
By Expenditure			
Consumption	8.9	5.9	–14.1
Gross domestic fixed capital formation	14.5	8.6	–40.9
Exports of goods and services	7.6	7.8	10.6
Imports of goods and services	6.9	14.7	–5.4
By Sector			
Agriculture	3.1	0.7	0.2
Mining and quarrying	6.3	1.7	–4.2
Manufacturing	11.6	6.4	–12.9
Electricity, gas, and clean water	13.6	12.8	3.7
Construction	12.8	6.4	–39.7
Trade, hotel, and restaurant	8.2	5.8	–19.0
Transportation and communication	8.7	8.3	–12.8
Financing, rental, and corporate services	6.0	6.5	–26.7
Other services	3.4	2.8	–4.7
Unemployment Rate (In percent)	**4.9**	**4.3**	**5.1**
	1996/97	**1997/98**	**1998/99**
	Percent change		
Monetary Aggregate			
M2	26.7	52.7	34.1
M1	19.6	54.6	7.6
Quasi money	28.8	52.2	41.6
Rupiah	30.5	34.0	53.0
Foreign currency	23.4	115.8	16.5
Bank funds	28.3	57.8	32.4
Rupiah	29.1	37.7	40.8
Foreign currency	25.3	136.1	13.2
Claims on business sector	23.7	63.3	–23.1
Rupiah	25.0	16.4	–19.3
Foreign currency	25.9	216.6	–28.9
O/N Interest Rate in Interbank Money Market (In percent)	**13.7**	**47.0**	**64.7**
Price			
Consumer price index	5.17	34.22	45.44
Balance of Payments			
Current account deficit/GDP (In percent)	–3.5	–1.2	3.8
Government debt service ratio (In percent)	14.6	10.1	10.7
Gross foreign assets (In months of non-oil/gas import)	7.0	4.6	10.2
Exchange Rate (In Rp/$)	**2,419**	**8,325**	**8,685**

Sources : - Central Bureau of Statistics
- Bank Indonesia

The monetary and banking sector gradually regained stability. The imminent threat of hyperinflation during the first half of 1998 was under control, as reflected in

Chart 1.1
Inflation, Exchange Rate, Gross Domestic Product, and Interest Rate in 1998/99
(In percent)



1) Year on year.
2) Depreciation to end position 1997/98.
3) Growth compared to the previous semester.
4) Average 1 month deposit interest rate.

the fall of the annual inflation rate from 82.4% in September 1998 to 45.4% at the end of the reporting year. The success in keeping inflation in check had helped to cut the inflation-depreciation spiral as reflected in the strengthening of rupiah along with the deceleration of inflation rate. This trend allowed room for a phased decline of interest rate after reaching its peak in mid-1998/99. Bank deposits, both in rupiah and foreign currency, were also on an upward trend, with the monetary and banking sectors beginning to regain stability. Confidence in the economic prospects started to recover and, in turn, prompted a run-up in the stock market. The signs of turnaround became stronger when the economy recorded a positive growth rate in the last quarter of the reporting year, the first one since the fourth quarter of 1997. Against those positive trends, recovery of the Indonesian economy can be expected to gather momentum provided that the uncertainties, especially in the social and political areas, can be dissolved in the period ahead.

Current Problems

As cited before, the Indonesian economy is currently confronted with four major problems that led to a deepening crisis in 1998/99. These problems include: (i) weak micro-conditions in the banking and corporate sectors and their ramifications for the entire macroeconomic environment; (ii) complexity and scale of the problems faced and their implications on the implementation of economic policies; (iii) non-conducive sociopolitical condition and security with its implication on business risk; and (iv) unfavorable global economic environment.

The first basic problem is associated with the balance sheet effect.[1] The formidable balance sheet effects in a number of sectors, including banking, has not only curtailed business activity but also produced imbalances in the balance sheet of the monetary and fiscal sectors that in turn jeopardized macroeconomic equilibrium.

The balance sheet problem was rooted in the poor management of business entities, as reflected in the mismatch in the balance sheets of a large number of banks and corporations. This mismatch is classified into two components: maturity and currency. Maturity mismatch refers to the use of short-term debt to finance long-term projects. Currency mismatch points to the use of foreign-currency denominated loans to fund rupiah-generating projects that do not earn foreign exchange.

In the pre-crisis era, these mismatches did not engender large difficulties for Indonesia's economy because of the exchange rate stability and the ordinarily smooth rollover of short-term external debts was a common practice. Nonetheless, when the rupiah suddenly

1) The balance sheet effect relates to restraints in economic activity as a result of the aggraviation in the financial status of business entities. Deterioration in financial conditions or balance sheet effects can happen when a sharp increase on the liability side is not matched by a commensurate rise on the asset side, eroding assets quality/value, and a drop in earning capacity as compared to expenses. Against this setting, the business sector tends to prioritize financial recovery as opposed to business development.

plummeted, within a short period of time the corporate and financial institutions were confronted with a massive increase in the rupiah value of their foreign indebtedness. As most of their liabilities had short-term maturities, domestic debtors did not have enough time to restructure their debts. Consequently, many corporations fell technically into a state of bankruptcy. Even if they managed to survive, their room for movement --primarily for investment-- had been substantially narrowed because of their growing operation costs to restore their balance sheets. The mismatch resulted in a dramatic deterioration of performance of not only the business sector, but also banks and the overall economy.

A similar problem was also encountered in the banking sector. This was reflected in banks' poor performance due to the complexity of the problem arising from the effect of imbalances in the banks' financial position. In the earlier fiscal year, banks experienced a great deal of loss as a consequence of the tremendous depreciation of the rupiah. In 1998/99, banks had again to suffer substantial losses as a result of the negative spread and the diminishing quality of their productive assets. The eroding asset quality emerged in consequence of a deteriorating performance of bank debtors. The balance sheet effects entailed greater complexity, as the national banking system was structurally vulnerable to disruptive changes. The vulnerability originated from poor record of the compliance to prudential principles and moral hazard due to inconsistency of law enforcement. These problems resulted in a lengthy process of resolving the banking problems, thereby leading to accumulation of losses and shrinkage of equity. Consequently, the cost to rehabilitate the national banking industry kept on increasing.

The balance sheet effects also hit the monetary sector, particularly as the bank restructuring process dragged on. The crisis of confidence in the national banking system, exacerbated by social and political instability, had led to a massive and sudden withdrawal of deposits. As such, a large number of banks failed to meet their obligations to depositors and to other banks; and forced them to resort to liquidity support from Bank Indonesia.

The extension of liquidity support in addition to fulfilling the function of Bank Indonesia as lender of the last resort was initially aimed at preventing systemic failure of the financial systems. At a later stage, the liquidity support extension became inevitable since Bank Indonesia had committed, as a matter of government policy, to guarantee the safety of deposits placed in the national banking system. The surge in liquidity support triggered a monetary expansion that exceeded the real liquidity needs of the economy. This excessive expansion contributed to a perpetuating inflation-depreciation spiral during the first half of the year under review. The slow balance sheet adjustments in the banking industry and the deepening segmentation in the money market exacerbated the condition.

The government's finances were by no means immune to the balance sheet effects. The balance sheet adjustments in the business and banking sectors, which entailed sizeable costs, resulted in large financial losses. As a result, government tax-based revenue from both sectors shrank. At the same time, oil/gas revenue declined. On the other side of the budget, government expenditures swelled. The increase in government expenditure was primarily driven by the need to ease the burden of the poor hard hit by the crisis through social safety net (SSN) and subsidy allotment. Accordingly, the state budget of 1998/99 ran into a large deficit.

As a consequence of the rigorous balance sheet effects in various sectors, Indonesia's economic recovery process proceeded slowly. In fact, experience in a number of countries suggests that balance sheet adjustments take time to complete. During the adaptation period, business corporations, banks, and the government focused on the internal adjustments in their respective balance sheets. Basically, the balance sheet effects represent a typical problem for countries in crisis after each encountering a bubble economy.

The second fundamental problem rooted with the complexity and scale of the problems. This high complexity results from the existing weaknesses in microeconomic and institutional fundamentals. The fragile fundamentals, which were strongly interrelated, include high dependence on external debt, especially short-term, monopolistic economic structure, poor corporate and public governance, inadequate supervision and inconsistent law enforcement. Consequently, efforts to address the crisis call for better planning and coordinating in addition to entailing high cost.

As an illustration, the large number of banks called for a lengthy process of due diligence before arriving at an accurate conclusion on a list of banks qualified for the recapitalization program. On the fiscal front, the intention to minimize state budget leakage and ensure the attainment of budget objectives had prompted decision-makers to exercise extra caution that caused delays in project implementation. The changes in key positions in the administration also contributed to delays in the implementation of the economic reform agenda.

Delays in the implementation of several important programs, such as bank and external debt restructuring, and SSN, eventually impeded the process of economic recovery and eroded confidence in the success of the economic reform. As a result, a number of policy elements of the program were off-track, which called for substantive revision. These revisions were documented in a series of letters of intent submitted by the Government of Indonesia to the International Monetary Fund (IMF).

The third problem concerns the high business risk. The high risk could be traced not only from the balance sheet effects but also from non-economic factors, such as inadequate infrastructure, inconsistent law enforcement, lack of corporate and government transparency, and uncertain sociopolitical condition. The high business risk, to a certain extent, had driven domestic investors to transfer their capital abroad. At the same time, the business sector confronted difficulties to regain access to external financing, including trade financing. Against this considerable uncertainty, investment activities dropped. Along with the fall of investment was a dramatic plunge in the utilization of production capacity and workforce.

The fourth problem relates to Indonesia's unfavorable external position. At the time when the external boost was much needed, the global economy, aside from the United States (US), exacerbated the problem, such as the lingering crisis in Japan, turbulence in the international financial market, and the marked fall in international prices of commodities. This situation precipitated a reversal of capital flows to the US market as a safe haven.

The unfavorable world economic developments further worsened foreign investors' negative sentiment toward the success of the reform program and economic recovery of countries in crisis, including Indonesia. Economic agents were not convinced of the step taken to solve the crisis and to forestall re-occurrence of similar crisis despite intensive discussions on the efforts to strengthen the architecture of the international monetary system in international financial fora.

The domestic and global distresses made capital outflows inevitable in view of Indonesia's free capital flow regime. As a consequence of large capital outflows, the economy faced a transfer problem that required adjustments in the current account so as to maintain the equilibrium of the balance of payments. Theoritically, the rapid reversal of current account position can materialize through sharp exchange rate depreciation that boost export and dampen import. However, the surplus current account was brought about by a substantial drop in imports, rather than higher exports. Despite the huge depreciation of rupiah, the lackluster performance of exports seemed to be contradictory to the theoretical orthodoxy due to the complexity of the problems earlier mentioned. On the contrary, as a consequence of high dependence on off-shore funds and imported products, the sudden halt of foreign borrowings and the sharp depreciation of the rupiah had not only contributed to falling imports but also a deep contraction of the economy.

Policy

In the reporting year, the strategy of economic policy was focused on fixing the balance sheet effects in a number of sectors through the stabilization of prices and exchange rate, bank restructuring, and settlement of domestic and external debts. The government also strengthened the institutional framework, improved rules and regulations, and alleviated the adverse effects of the crisis on the poor. The commitment to implementing the above policy was supported by the international financial institutions and bilateral creditors.

Monetary

The stability of prices and exchange rate is a prerequisite for economic recovery. Low inflation rate helps stabilize exchange rate and therefore accelerates balance sheet adjustments in the banking and business sectors, particularly for those laden with external debts. The speed in restoring monetary stability determines the reduction of interest rate, which is a prerequisite for the resumption of economic growth. Against this backdrop, monetary policy in the year under review was primarily focused on the efforts to restore exchange rate and price stability.

The efforts to stabilize prices and exchange rate included setting sharper quantitative targets, enhancing the effectiveness of open market operations, reigning in the expansion of liquidity support of Bank Indonesia, and restoring access to external financing. In addition, the government also sought to stabilize prices through raising the supply and improving the distribution of basic necessities.

In pursuit of monetary policy objectives, Bank Indonesia, with support from the IMF, set quantitative targets for base money and its components, namely net international reserves (NIR) and net domestic assets (NDA), which have served as operational guidelines. With a view to strengthening the credibility of the policy among market players, the targets and performance have been made transparent through periodic announcement.

To achieve the quantitative target, open market operation as an essential instrument of monetary policy has been improved. On July 29, 1998, Bank Indonesia changed the auction system of Bank Indonesia Certificate (SBIs) whereby emphasis was shifted from interest rate target to quantitative target. The second change involved broadening the auction participants formerly restricted to primary dealers currently expanded to include bankers, brokers of money and capital markets, and general public. These changes were intended to allow greater competition among auction participants, hence the SBI rate was expected to better reflect the interaction between demand and supply.

With a view to enhancing the efficacy of monetary conduct, Bank Indonesia attempted to narrow segmentation in interbank money market and to contain the expansion of liquidity support. The purpose of narrowing the segmentation in the interbank money market was to strengthen the transmission of monetary policy that had been disturbed by the widening gap between over liquid banks and less liquid banks. To this end, following the guarantee program to domestic banks liabilities introduced in January 1998, the government took over and froze the operation of a number of insolvent banks. In addition, Bank Indonesia issued a regulation on the ceiling of deposit and interbank rates eligible for guaranteed by the government in May 1998. To restrain liquidity support expansion, in addition to applying prudential principles in bank activities, Bank Indonesia prohibited banks that received liquidity support from issuing interbank credit notes. Bank Indonesia also continued to restrict the use of debit notes in the clearing process.

To keep in check monetary expansion of liquidity support originating from government expenditure, Bank Indonesia conducted sterilization in the foreign exchange market, which simultaneously increased supply of foreign exchange, thereby helping to stabilize the rupiah. For better formulation of monetary policy, Bank Indonesia sought to improve the accuracy of data to strengthening coordination with other related institutions and issuing a regulation requiring private corporations to report their foreign commercial debts in April 1998.

To enhance the efficacy of monetary policy and limit failure risk in settling payments, Bank Indonesia resumed its activity to improve the payments system. In this regard, the BI-LINE system --Bank Indonesia's Electronic Information and Transaction Services-- was exercised on trial. It is a new system of electronic fund transfer between banks and between bank branches via Bank Indonesia. Besides, the implementation of real time gross settlement (RTGS) system is expected to begin in 2000. In anticipation of problems related to the millennium bug, Bank Indonesia had improved its system so that, by the end of the reporting year, 18 branches of Bank Indonesia should have completed their preparation for meeting the Y2K Compliance. The other branches of Bank Indonesia are expected to finalize their preparation prior to year 2000. The same preparation applies to all national banks.

To prevent production from collapsing, particularly those requiring imported inputs, Bank Indonesia attempted to overcome limitations in trade financing by re-designing schemes of financing and guarantee and regain access to international lines of credit. The renewed schemes included: (i) providing an equal opportunity for all exporters (priority and non-priority exporters) to take advantage of the prevailing facilities; (ii) lifting restriction on import commodities eligible for financing and guarantee; (iii) increasing the number of banks designated to open L/Cs; and (iv) transferring most of the credit risk from banks to the government. In addition to using foreign exchange reserves held by Bank Indonesia, the financing of such facilities was supported by a number of countries and international agencies. To regain access to international banks, the government through Bank Indonesia provided guarantees to all letters of credit opened by Indonesian banks and bridge financing to settle trade arrears incurred by Indonesian banks to off-shore banks.

In stabilizing prices, the government ensured the sufficiency of basic necessities through rehabilitating distribution networks, removing barriers to import essential items supported by dismantling the monopoly rights of the State Logistic Agency (Bulog), and better targeting of program credit to productive sectors. Besides, the government also raised export tax on a number of basic necessities, such as crude palm oil and its derivatives, and subsidized products, such as rice and wheat flour.

Banking

In the reporting year, banking restructuring program was one of the priority lists of the government economic agenda. In this regard, the government had initiated a number of fundamental measures to restore confidence in the national banking system, improve bank soundness, and prevent the financial crisis from recurring in the future. To restore confidence, the government continued its guarantee program for the safety of deposits up to the year 2000 and broadened the scope of the guarantee to include rural development banks. The inclusion of rural credit banks in the guarantee program was intended to strengthen the role of those banks as intermediate institutions for small and medium-scale entities.

In rehabilitating the soundness of the banking system and enhancing its resilience, as well as precluding the reoccurrence of bank runs in the future, the government continued its banking restructuring program that had begun in the previous reporting quarter. The program rests on four pillars of policy, namely: (i) measures to restructure banks, primarily through recapitalization program, (ii) measures to fix internal conditions, (iii) measures to improve bank regulations and law enforcement, and (iv) measures to strengthen supervision function.

The first pillar is the most essential ingredient of bank restructuring program that aims at reinvigorating a credible national banking industry. The program is directed at restoring banks solvency and profitability so as to enable the resumption of lending. The improvement of bank solvency proceeds with credit restructuring and transfer of non performing loans to the Assets Management Unit (AMU) under the Indonesian Bank Restructuring Agency (IBRA) on the asset side, and a recapitalization program on the liability side. Meanwhile, the restoration of profitability involves three strategies : easing conditions for debtors to settle their debts, facilitating banks that have been restructured and are considered viable, creating an economic environment conducive for business and banking.

In the reporting year, the banking restructuring program focused on addressing the issue of solvency through the recapitalization program. The bank recapitalization program started in the beginning of the year under review. However, because of the complex technical issues and a wide range of problems encountered, including a review of social and political implications of the program, the program could effectively take shape on March 13, 1999, when the government announced its decision to recapitalize 9 private national banks. At a later stage, recapitalization will extend to all state banks and 27 regional government banks.

During the reporting year, the banking crisis had developed from a problem of liquidity into one of solvency. Accordingly, risk premium against failing payment settlement heightened. The solution required more than an ad-hoc supply of liquidity support. Therefore, together with the announcement on the recapitalization program, the government closed down the operation of 38 private national banks and took over the ownership of 7 private national banks. In total, during the reporting year, the government closed 48 banks and by the end of March 1999 the number of banks in operation fell to 170 banks.

Improvements in bank solvency, brought about by the adoption of the actions under the first pillar of the government's program, do not suffice to prevent the recurrence of the crisis in the future. Therefore, the other three pillars were erected to enhance resilience of the banking system against internal and external shocks.

The second pillar covers revisions of the old regulations, such as capital adequacy ratio (CAR) and legal lending limits (LLL), and the introduction of new regulations such as credit restructuring.

The third pillar aims at ensuring law enforcement, enacted under Act No. 10 of 1998 that incorporates substantial changes of Act No. 7 of 1992 on banking. The contents of the new law center on a shift of authority to issue licenses of banks from the Ministry of Finance to Bank Indonesia, elimination of restrictions on foreign investors to own banks in Indonesia, a narrower definition of bank secrecy, and development of syariah banks (profit-sharing banks). The development of syariah banks consists of four key steps: improvement of regulations, establishment of office branches, construction of monetary instruments compatible with the profit-sharing principles, and social introduction of syariah banks.[2)]

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2) Syariah bank is a bank that is based on a profit-sharing principle, prohibits the application of interest rate concept, and applies a partnership principle (Box : The Syariah Banking System in Indonesia, in Chapter 6).

The fourth pillar concerns internal consolidation of Bank Indonesia, more consistent rule enforcement, and changes in bank supervision from regulatory authority to supervisory authority.

External Debt

The settlement of debts owed to domestic and external creditors plays a crucial role in shaping the success of Indonesia's economic recovery. This is because of tight links between bank restructuring and non-bank corporate restructuring. Resolving the external debt overhang will help to restore access to international sources of funds. This in turn will upgrade Indonesia's external position that serves as a primary boost in reinvigorating the economy, in addition to easing pressures on the balance of payments and exchange rate.

One of the important steps in solving the corporate debt overhang, besides recovering access to international sources of fund, is the Frankfurt Agreement. The agreement was reached on June 4, 1998. A team for private external debt settlement represented Indonesian debtors. The team, founded by the government, managed to reach an agreement with external creditors represented by the Bank Steering Committee.

The Frankfurt Agreement covers interbank debt settlement, trade financing, and private corporate debt. The interbank debt settlement program proceeds with an exchange offer program that reschedules bank debts. The first stage of negotiation on debt rescheduling took place in June 1998, and the next stage was approved in London at the end of March 1999. The trade finance program proceeded with reviving credit lines after Bank Indonesia had addressed the overhang of trade arrears. To resolve the corporate debt overhang, the government has set up the Indonesian Debt Restructuring Agency (INDRA). The government has also provided INDRA with facilities to speed up the negotiation process between debtors and creditors through the Jakarta Initiative.

Institutions

To upgrade the institutional and the legal framework of Indonesia's economy, the government issued a number of new laws. The new laws included legislation dealing with Bankruptcy, Anti-Monopoly, Banking, and the Establishment of a Commercial Court. In addition, a number of draft laws or acts await their enactment by the government were in the process of legislation in the parliament. The drafts entail the Bill on Bank Indonesia, the Bill of Foreign Exchange Flow and Exchange Rate System, and the Bill on Arbitrage.

Social Safety Net

In the reporting year, the government initiated a number of measures to alleviate the adverse effects of the crisis, particularly on the poor and low-income community. On the fiscal front, the government raised expenditures that were associated with SSN and subsidies of oil-based fuel, electricity, medicine, and foodstuff. However, given the limited sources of domestic government revenue vis-a-vis huge financial needs, the 1998/99 state budget is estimated to run into a deficit of about 8.5% of GDP. The deficit was far higher than that of 0.8% of GDP in 1997/98. In order to finance the deficit, the government endeavored to obtain higher foreign loans and privatize several state-owned enterprises. The government also curtailed expenditures by lifting a number of subsidies such as for fertilizer and for certain categories of electricity. The deficit finance dropped slightly with the restructuring of a number of official external debts. The official debt restructuring was discussed in the annual meeting of the Consultative Group for Indonesia (CGI) in Paris at the end of July 1998 and agreed in the Paris Club meeting on September 20, 1998.

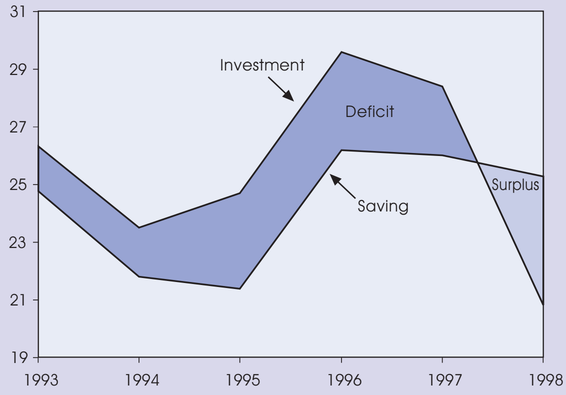
Through expansionary fiscal policies, the government attempted to empower people at the lowest strata. Corresponding to this empowerment was an extension of program credit to small-scale and medium-

Table 1.2
Selected Quarterly Macroeconomic Indicators in1998

Item	Qrt.I	Qrt.II	Qrt.III	Qrt.IV
	Percent change			
Gross Domestic Product (at constant 1993 prices)	**-4.0**	**-12.3**	**-18.4**	**-19.5**
By Expenditure				
Consumption	2.4	4.8	-13.7	-9.3
Gross domestic fixed capital formation	-29.2	-41.4	-46.8	-45.6
Exports	57.5	14.6	18.4	-32.5
Imports	32.6	1.8	5.8	-49.4
By Sector				
Agriculture	2.3	-2.4	-3.0	5.0
Mining and quarrying	-2.5	-5.4	-6.7	-2.1
Manufacturing	1.7	-13.1	-18.8	-19.4
Electricity, gas, and clean water	6.8	1.3	0.0	6.9
Construction	-35.4	-43.0	-43.0	-37.5
Trade, hotel, and restaurant	-10.4	-19.7	-22.8	-22.9
Transportation and communication	3.0	-11.4	-19.7	-22.4
Financial, rental, and corporate services	4.9	-4.7	-39.6	-57.9
Services	-5.2	-3.3	-5.2	-5.2
Price				
Consumer price index	39.1	56.7	82.4	77.6
Monetary				
M2	52.7	80.9	67.3	62.4
M1	54.6	56.5	54.8	29.2
Quasi money	52.2	87.9	70.4	71.7
Banking funds	57.8	89.4	69.2	60.4
Claims on business sector	63.3	102.7	52.0	22.0
O/N Interest Rate in Interbank Money Market (in percent)				
Average	57.9	66.3	74.2	52.8
End of period	51.8	64.6	66.2	33.4
Balance of Payments (in billions of $)				
Current account	1.0	0.7	1.7	1.1
Non-oil/gas	0.8	0.1	1.3	0.7
Exports	10.8	11.5	11.6	9.2
Imports	-7.3	-7.6	-7.6	-6.1
Net services	-2.7	-3.8	-2.7	-2.4
Oil/gas	0.2	0.6	0.4	0.4
Capital account	-6.2	1.2	-0.4	1.5
Exchange Rate (in Rp/$)				
Average	9,150	11,132	11,592	7,525
End of period	14,900	10,700	8,025	8,685

Sources : - Central Bureau of Statistics
- Bank Indonesia

Chart 1.2
Ratios of Saving and Investment over GDP
(In percent)



scale entrepreneurs, specifically those involved in the production and distribution of basic necessities. Its purpose is to strengthen the supply side of essential items in the framework of price stabilization. To fasten transmission of program credits, banks are no longer loaded with default risk as they channeled liquidity credit.

Economic Developments

The crisis prevailing in Indonesia had not only led to a sharp depreciation of the rupiah, but also deep contraction of the economy (Table 1.2). The large exchange rate depreciation and an abrupt cut in the access to international financing had caused a drastic fall in production and employment opportunity. At the same time, a steep surge of inflation rate and a drop in income contributed to a shrinkage in the purchasing power. Consequently, social welfare fell dramatically and incidence of poverty widespread.

The repercussions of the crisis on consumption and investment were so profound, reversing the saving-investment gap from a long-standing deficit that had persisted since 1983 to a surplus in 1998 (Chart 1.2). Parallel with the reversal of saving-investment gap was a surplus of 4 % of GDP in the current account.

In the first half of the year under review, a number of fundamental non-economic problems emerged almost at once. The civil unrest, that caused substantial damage in production and distribution facilities, resulted in a deteriorating business environment. The disruption of distribution networks, coupled with panic buying, had caused an erratic expectation on continuing price escalation. Meanwhile, a change in a number of key positions in the administration and consolidation of a new government contributed to a major slowdown in the recovery process on the economic, political, and social fronts. As a result, the inflation rate soared markedly, the rupiah weakened, and --in consequence of monetary policy tightening-- interest rates increased substantively.

In the second half of the reporting year, a number of economic indicators showed signs of improvement. Monetary stability gradually returned as reflected in easing inflationary pressures since October 1998 and the stronger rupiah. At the same time, the banking system managed to draw larger deposits albeit a steady decline in deposit rates. Along with declining interest rates, stock market activity and share prices staged their rebound.

In 1998, real GDP shrank by 13.7% mainly owing to a remarkable drop in investment and private consumption. The drop of investment resulted from deterioration in the balance sheet effects of the business sector, worsening bank performance and reduced confidence of foreign investors. Another significant cause of the sharp downfall in investment was the weakening demand for private consumption. The fall of consumption was attributed to diminishing purchasing power and gloomy expectation for future income prospects. On the contrary, net external demand grew positively although this growth was not sufficiently large to jumpstart the economy.

On the supply side, in 1998, all production sectors contracted except agriculture and electricity, gas, and clean water. The construction sector was worst hit as it contracted by 39.7%. Manufacturing, with its sizeable share in the formation of GDP, played the largest contraction role in shrinking GDP. The rate of activity decline for the non-oil/gas and oil/gas sectors amounted respectively to 14.8% and 1.0%.

The inflation rate in 1998/99 reached 45.4%, higher than in the earlier fiscal year. Inflationary pressures in the first half of the reporting year originated primarily from interrupted production and distribution of basic necessities, particularly foodstuff. The interruption prompted cost-push inflation as the supply of products shrank. The bursts of inflation also stemmed from pass-through effects of the exchange rate depreciation that ignited prices of imported commodities. On the demand side, monetary expansion also contributed to price escalation. In the second half of the year under review, inflationary pressures subsided. In October 1998 and March 1999, deflation was recorded following the availability adequate supply of essential items and the success in reigning in monetary aggregates.

The exchange rate of the rupiah fluctuated widely in the reporting year. In the first quarter, the rupiah experienced its record depreciation to Rp16,500 per dollar in mid-June 1998. Afterward, owing to sliding inflation rate, the rupiah strengthened and stood at around Rp7,500 per dollar for a few months before drifting downward to a stable range of Rp8,500-Rp9,000 per dollar during the rest of the reporting year. In the last quarter of the year under review, the rupiah confronted intense downward pressure. This pressure was attributable to market turmoil in the international financial market and social and political turbulence inside the country. Added to the domestic unrest was immense uncertainty engendered by the plan to delay the close down of a number of insolvent banks by the government.

In the reporting year, Indonesia's balance of payments recorded a surplus of \$9.2 billion. The surplus reflected surpluses both in the current and capital accounts. As a result of a sharp fall of imports, the current account registered a surplus of \$4.2 billion, 3.8% of GDP. In spite of a significant increase of export volume, the export value of non-oil/gas commodities dropped due to a salient fall of their international prices. The falling international prices also brought down the value of oil/gas exports.

The surplus in the capital account was owed to a large inflow of official capital. In contrast, the inflow of private capital declined as a reflection of low confidence among foreign investors. Numerous efforts to restructure external debts failed to contain private capital outflows. Because of a rise in official foreign debts, outstanding debt increased by 9.3%. As such, the external debt position by the end of March 1999 stood at \$150.9 billion, comprising \$67.2 billion for official debt and \$83.7 billion for private debt.

In the middle of the reporting year, base money trended to stay above its indicative target. The drive was the continued expansion of liquidity support of Bank Indonesia in the first half of the reporting year. Behind this was a massive and sudden withdrawal of deposits, notably in May 1998. Base money started to move within its designated domain since the beginning of the second half of the reporting year following the introduction of the new SBI auction system at the end of July 1998. In the first half of the fiscal year, M1, specifically currency, jumped appreciably. In the subsequent period, the high deposit rates led to a shift from savings to time deposits that culminated in a decline of M1. Meanwhile, during the reporting period, M2 rose sharply although at a slower rate than that in the preceding year. The driving force included an increase of net foreign assets (NFA) of commercial banks and banks higher losses.

As a consequence of the tight monetary policy and the depreciated rupiah, interest rates in the first half of the reporting year increased substantially. As monetary condition began to stabilize, SBI rates moved downward together with other interest rates.

Owing to a massive withdrawal of deposits, issued currency increased sharply, particularly in the first half of the reporting year and started decline in the second half. On the year-on-year basis the annual growth of currency was lower than that in the earlier year. In the meantime, the use of non-cash payment instruments --both paper based and electronic-- decreased except for automated teller machine (ATM) and debit cards. The decrease in non-cash payment instruments was reflected in a lower activity. The ratios of rejected check and bilyet giro over clearing turnover dropped in both volume and value of notes. For Jakarta, the rejected clearing in terms of nominal value increased slightly.

The 1998/99, state budget was planned to register a deficit of 8.5% of GDP. In the end, however, the realized deficit reached only 2.2% of GDP, due to lower government expenditures. The lower expenditures were attributed to exchange rate appreciation, technical constraints in implementing the social safety net program, and the elimination of several subsidies.

On the revenue side, the budgeted amounts were mostly contributed by higher income tax, mainly from interest income, and higher export tax on crude palm oil. Meanwhile, other domestic revenues such as that from the oil/gas sector and from the privatization of state-owned enterprises (BUMN) fell short below their targets. Receipts from foreign aid were also lower than its initial projection. The rescheduling of principal repayment of official external debts helped ease the burdens of the budget. In total, foreign borrowing financed 99% of the state budget deficit, while domestic financing closed the remaining 1%.

The prolonged crisis in the national banking industry has altered the banking structure, worsened its performance, and increased violations of the prudential principles. During the reporting year, the closing and merging of a number of private national banks had lowered the number of banks from 222 to 170. In view of banks' location, 83.6% served the western part of Indonesia, while the rest serves the central and eastern parts. The banking industry was still dominated by 10 banks, the largest ones in terms of asset value, credit extension, and fund mobilization.

In the reporting year, banks showed unbalanced operation reflecting disrupted intermediary function. On one hand, fund raising continued to grow, whilst, on the other, lending kept on sliding, bringing about deterioration on banks profitability. As a consequence, most banks suffered considerable losses. This in turn, eroded banks' equity as suggested by the capital adequacy ratio from an average of 4.3% to minus 24.6%. Against this backdrop, excess liquidity was also found in certain group of banks as a result of their incapability to extend credit. In addition, the number of banks violating the legal lending limits and net open foreign exchange position increased. Nevertheless, the violation was primarily attributed to the eroded banks' equity.

The worsening condition of the economy and the banking industry also adversely affected the performance of nonbank financial institutions, except pension fund institutions and pawnshops. Finance companies suffered from high cost of funds, halted lines of credit from on-shore and off shore sources, and worsening performance of their debtors. Insurance companies also confronted a setback as their liabilities surpassed their foreign currency investment. Also, the increase in their gross claims outstripped that in gross premiums, and a larger number of dollar denominated policyholder that lapsed. On the contrary, pension fund institutions and pawnshops profited from the crisis. Pension fund institutions generated profit mainly from the exchange rate depreciation and increases in interest rates as their assets were mainly locked in rupiah and foreign currency deposits. Pawnshops recorded a rise in their turnover and booked profits, as some bank customers turned to pawnshops.

Following the economic downturn, the capital market in the third quarter of the reporting year staged its downswing. The composite stock price index touched its nadir at 257 in September 1998, alongside a sharp plunge in the market capitalization value. In the fourth quarter of the year under review, the market regained ground following steadier monetary stability and interest rate decline. The composite stock price index (CSPI) moved upward to stay still in a broadly sticky range of 400. This bullish rally lured foreign investors to exercise selective buying, specifically in stocks with large capitalization.

Challenges for 1999/2000 and Policy Directions

Challenges

Against the backdrop of developments up to the end of the reporting year, it is envisaged that the biggest challenge confronted by Indonesia is to accelerate the process of economic recovery through strengthening the effectiveness of both microeconomic and macroeconomic management. The longer the resolution process, the harder the efforts will have to be to escape from the crisis. Given the tremendous balance sheet effects in the country, every delay only raises costs. In addition to enormous material loss, a slow recovery process may heighten the threat of social disorder.

In the monetary sector, the challenge is to strengthen stability of prices and the exchange rates which started to gain ground in the reporting year. Sources of instability, in light of the challenge, include excessive monetary expansion through liquidity supports and burgeoning fiscal deficit in the pursuit of catalyzing domestic demand. The success in restoring monetary stability will allow ample room for interest rate declines required for the economic recovery to proceed rapidly. On the contrary, failure in holding monetary stability will jeopardize all gains attained so far.

In the banking sector, the central challenge is to speed up bank restructuring process that is heavily dependent upon the success in implementing the recapitalization agenda. The restructuring process per se aims at preventing a recurrence of crisis. The success in addressing bank crisis is expected to restore the financial intermediary function of banks. The sector's restoration helps to accelerate recovery in the real sector and to prepare the national banking industry to compete in the globalization era.

During the crisis, an unpleasant confluence of heavy debt burden, a high cost of funds, and an unfavorable business climate hampered progress in the real sector. Added to these impediments was a non-competitive market structure, coupled with a high dependence on domestic market. In the field of management, the business community has not practiced proper and transparent management. Therefore, challenges faced by the real sector include accelerating the settlement of internal and external debts, enhancing efficiency and competitiveness, and supporting the establishment of transparent and market-oriented institutions. Other challenges entail empowering and elevating the role of small-scale entrepreneurs to strengthen the structure of the Indonesian economy. The success in reinvigorating the business community and small-scale entrepreneurs will at the end expedite Indonesia's economic recovery.

Given the crisis in Indonesia, room for employing an expansionary monetary policy to trigger the economy is fairly limited. Fiscal policy has to assume a greater role in stimulating the economy. In exercising its role as a stimulus for the economy, the fiscal policy confronted challenges from the revenue side and the expenditure side. On the revenue side, the challenge focuses on the identification of alternative revenue sources in the face of limited domestic revenues. On the expenditure side, the challenge centers on improving the effectiveness of the social safety nets and other development expenditures, and minimizing bank recapitalization cost. The latter also includes optimizing asset recovery under the IBRA.

The process of economic recovery depends to a large extent on the success in institutional reform, notably the legal system and law enforcement. The challenges in this field include improving existing regulations, enacting new laws that are relevant to problems faced, and implementing the regulations consistently. The required laws should emphasize the need for promoting business transparency and competitive market mechanisms and for enforcing sound corporate and public governance.

Policy Directions

To meet the challenges for the fiscal year 1999/2000, a number of economic measures are geared at strengthening the economic recovery whose signs have started to appear in the second half of the reporting year. It is therefore paramount to continue the implementation of various economic reform programs as a basis for the resumption of sustainable growth.

The monetary policy, through base money restraint, is directed toward maintaining price stability, while the exchange rate is left to market mechanisms. The emphasis on attaining inflation targets is of greater relevance in view of the Bill on Bank Indonesia. The new law specifies the responsibility of Bank Indonesia in attaining and maintaining rupiah stability (Box: Bill on Bank Indonesia). With inflationary pressure easing and nominal exchange rate appreciating, there is room for lowering interest rates.

Bank Indonesia will continue to initiate measures to enhance the effectiveness of its monetary management. The measures include the development of money markets and their instruments, control of liquidity support expansion, and enhancement of transparency and credibility of policies. In the future, Bank Indonesia will pursue to use government bonds as an instrument in open market operations. To reign in the expansion of liquidity support, the government will set up a deposit insurance institution. In meeting a pressing need for transparency as part of its accountability to the public and upgrading the credibility of monetary policy, Bank Indonesia will announce its monetary targets and their level of achievement.

To arrest exchange rate volatility at its early stage and strengthen the formulation of monetary policy, a supervision system on the flows of foreign exchange is essential. To this end, Bank Indonesia has completed the revision of regulations, including the reporting systems, on foreign exchange flows pending for enactment (Box: Bill on Foreign Exchange Flow and Exchange Rate System).

The policies in the banking sector will continue to focus on the restoration of confidence, restructuring, and enhancement of resilience of the national banking system. The recapitalization program that has been translated into action plans will be pursued further and monitored constantly. The action plans include expansion of the equity base, settlement of troubled credits, fulfillment of prevailing conditions, and business development. The recapitalization program will be supplemented by a set of structural reforms, particularly for the state banks, the banks taken over by the government, and regional government banks. The structural reforms entail business restructuring and merging. In addition, an exit policy will apply consistently with a view to establishing a national banking system, consisting of banks with a strong equity base, and a fit and proper human resources.

In the short run, the national banking policy is directed toward forming a core bank, a group of banks with large market share. This core bank will serve as a yardstick to measure progress in the banking industry. In the future, the national banking structure will comprise four groups of banks: the first group centers on international operations, the second focuses on domestic clients, the third operates in local region, and the fourth (including syariah banks) serves small-scale and micro entrepreneurs.

The above objectives require better efficacy and higher quality in the surveillance system. Competence and integrity on the part of those supervising and examining banks will be continually upgraded. In addition, efforts will be made to improve prudential principles so as to meet international standards and law enforcement. Efforts to strengthen compliance will be supported by improvements in the investigation of banks and in bank transparency so as to allow the public to play a greater role in overseeing banks.

In light of the weak private sector to assume a lead role in reviving the economy, the government will assign an expansionary fiscal policy to stimulate domestic demand through increased government expenditure. The fiscal expansion will proceed without the need to resort to financing from domestic sources. However, in the case of bank restructuring program, the government will issue bonds as a means of recapitalizing the banks. The role of regional governments in development activity will be intensified through amendment of regulations on balancing the central and regional government finance. The increase in government expenditures will proceed along with efforts to sharpen expenditure priorities through the removal of ineffective subsidies. On the revenue side, the government will broaden the tax base, intensify tax collection, and improve tax administration. In addition, the government will continue to privatize state-owned enterprises in an effort to obtain additional sources of revenue.

In implementing the SSN, the government has introduced five steps to enhance the quality of planning, implementation, and supervision of the program. The steps comprise: (i) adjusting the geographical targets of the SSN program based on the severity of the problem faced in a number of regions, (ii) transferring responsibility for program implementation to local communities, (iii) emphasizing the effectiveness of the program in accordance with cost disbursements, (iv) promoting the core program to be publicly monitored, and (v) strengthening independent supervision by involving representatives from local communities.

Real sector policies are geared toward encouraging good corporate governance, creating an efficient market system, and developing economically sound small-scale entities. Accordingly, the government will pursue the development of a supportive business climate through the consistent application of an anti-monopoly law, the formulation of a law on arbitrage, and improvement of the existing bankruptcy law. The government will support the implementation of corporate restructuring through the acceleration of domestic and external debt settlement. The debt overhang may be settled independently through separate negotiations between debtors and creditors or through the INDRA and through the Jakarta Initiative. In a bid to boost exports, the government will form an Export Financing Agency (EFA). Additionally, the government will audit a number of strategic state enterprises to make them more efficient and cost-effective, before offering them for privatization. This exercise includes the state electric company, which is currently being restructured. In the context of empowering small and medium-scale entities, the government will improve coordination programs among related policies, review the operations of credit extension to certain designated sectors, and simplify program credit schemes for small and medium-scale entities and cooperatives.

Economic Prospects for 1999

In view of the challenges and policy directions for 1999/2000, the Indonesian economy in 1999 is expected to show a contraction of between 0% and 2%. The inflation rate is projected to be below 15%. On the external front, Indonesia's balance of payments in 1999/2000 is projected to record a lower surplus in the current account (1% to 2% of GDP) and a lower deficit in the capital account. In meeting its commitments, the government will continue to provide fiscal stimulus to jumpstart the economy. Consequently, the 1999/2000, state budget deficit is estimated to rise to around 4.4% of GDP.

Contraction in the economy will persist since domestic demand remains weak, especially for private consumption and investment. Several structural problems, notably the balance sheet effects in the business and banking sectors and sociopolitical uncertainty, continue to hamper investment activity. Accordingly, compatible with a currently indispensable role of the government in stimulating the economy, government consumption and public investment, particularly social safety nets, are estimated to increase sharply. Meanwhile, net external demand cannot be expected to contribute significantly to economic growth.

Indonesia's balance of payments is projected to end up with a surplus and therefore bring in additional foreign exchange. Current account surplus will decline as import growth is projected to outstrip export growth. The increase in exports is expected to come from both the oil/gas and non-oil/gas sectors. Higher international prices of non-oil/gas commodities and oil should account for a rise in the total export values. The official capital inflows will play a central role in meeting the needs for domestic financing. Meanwhile, private capital outflows will not be so dramatic as in the year before.

The inflation rate is projected to remain under control. Inflationary pressures will ease both from the demand and supply sides. On the demand side, declines in inflation rate originate from weakened purchasing power and containment of monetary aggregates. On the supply side, the drive comes from an adequate supply of basic necessities and exchange rate stability.

In step with decelerated inflation, the rupiah exchange rate is estimated to stabilize in a range of Rp7,000-Rp8,000 per dollar. The stabilizing inflation rate and exchange rate allow room for interest rates to continue their downward course.

The monetary aggregates are projected to grow at a slower pace than in the preceding year. The slowdown results from the weak economic activity and a more controllable expansion of liquidity support. The monetary stance will be supported by prudent fiscal policy. Although the operation of government expenditure is estimated to experience a large deficit, its monetary impact will be insignificant since the deficit will be financed by foreign borrowings.

The outcome of the economic prospects depends much on the social and political developments in the country, notably the implementation of the general elections in 1999. The success of the general elections and the formation of a new administration with high credibility will help in restoring confidence of the economic agents. Hence, signs of economic recovery will strengthen during the second half of 1999.

Economic Recoveries in South Korea, Thailand, and Indonesia

The economic and financial crises that had been inflicting several Asian countries, especially South Korea, Thailand, and Indonesia since mid-1997, had caused a deep economic contraction. The crisis began with a substantial outflow of capital that led to exorbitant exchange rate depreciation. This weakening rupiah worsened corporate balance sheets of the private sector. Interruption in the bank's intermediary function complicated the issue. The downward pressure on the economy magnified, following monetary policy tightening applied to stabilize prices and exchange rate.

In addressing the crises, the above countries adopted economic stabilization programs supported by international financial institutions, such as IMF, World Bank, and ADB. The programs in each country have similarities in terms of macroeconomic police adjustments and structural reforms. The monetary policy was directed toward bucking the overshooting of exchange rates that triggered a vicious spiral of depreciation and inflation. The fiscal policy focused on supporting adjustments on the external front and the financial sector restructuring.

In Indonesia, in view of the adverse effects of the crises on the poor, the fiscal policy aimed at recovering people's purchasing power through SSN. The structural reform, especially the bank restructuring, intended to regain market confidence and restore a favorable climate for economic recovery. In addition to the bank restructuring, those countries also initiated structural reforms in the areas of trade, economic and social sectors, and market mechanism.

Albeit the similarities in their recovery programs, the economies of both South Korea and Thailand managed to rebound faster. The faster progress resulted from their earlier and more consistent application of monetary policies, better structure and management of private loans, strong public supports for the recovery program, and a firmer social and political stability.

Signs of strength, especially on the monetary stability side, began to appear in those three countries though not simultaneously. These signs are reflected in exchange rate stability (Chart 1), downward inflationary pressure (Chart 2), and declining interest rates

Chart 1
Exchange Rate Changes

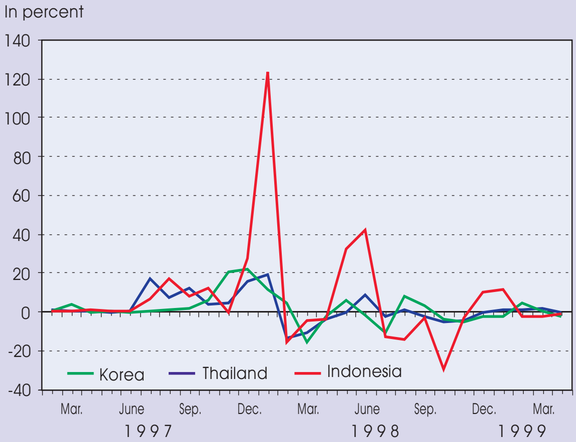


Chart 2
Monthly Inflation

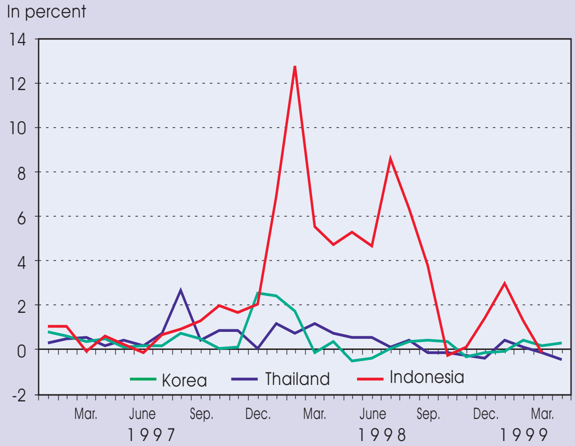


Chart 3
Interest Rate

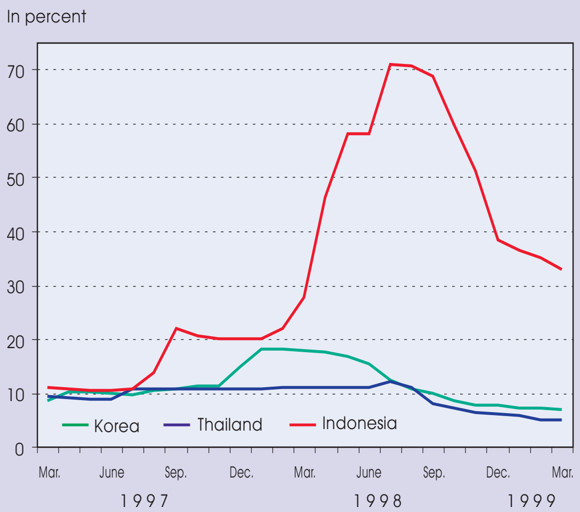
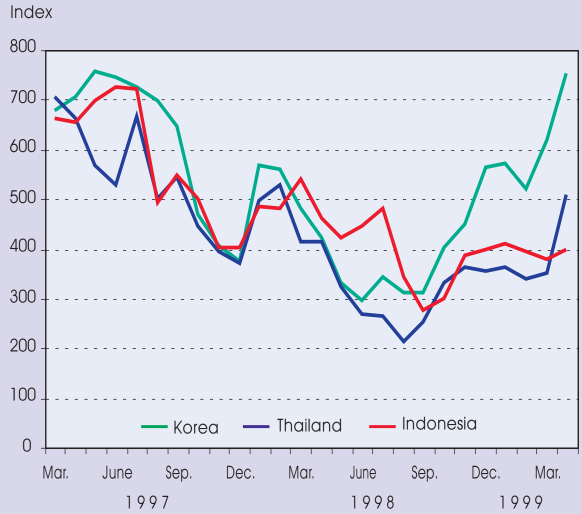


Chart 4
Stock Price Indices



(Chart 3). In addition, larger foreign capital inflows to capital markets, especially in South Korea and Thailand —as highlighted in the bullish move of composite stock price indices-- underscored a return of confidence of the international investors (Chart 4).

In step with a phased return of exchange rate stability, South Korea has been easing its monetary stance since March 1998, while Thailand's interest rate has been coming down since June 1998. The exchange rates in both countries have been decreasing to their pre-crisis rates.

In contrast, interest rate decline in Indonesia has been moving slowly since September 1998 as a result of the monetary expansion. The drive was an increase in liquidity credit aimed at avoiding systemic risk in the national banking system and exchange rate turbulence. Accordingly, declines of interest rate slowed. Interest rate has not gone down to a rate that can revive the real sector eventhough during the reporting year the rate has been sliding appreciably.

The bank and corporate restructuring program in South Korea and Thailand went on track. The corporate external debt settlement in South Korea met its initial success because of a dominant role played by financial institutions in arranging foreign loans. Besides, most of domestic banks in South Korea played a central role as channeling agents for corporations seeking foreign loans.

The corporate debt settlement in Thailand also moved on track since about two third of the corporate foreign debt was organized by foreign bank branches, especially Japanese commercial banks. Meanwhile, Indonesian corporations raised foreign loans directly from external creditors. Consequently, their settlement process lengthened as negotiations between domestic borrowers and external creditors dealt with more complex issues.

The bank restructuring in Thailand and South Korea moved earlier than that in Indonesia. Thailand began in August 1998 and resulted in closure of 56 banks, acceleration of bank consolidation, privatization of some state banks, and bank recapitalization. In South Korea, bank restructuring proceeded with consolidation and mergers. Given the smooth implementation of the bank recovery program, coupled with monetary stability, the bank's intermediary function in Korea and Thailand had resumed. On the contrary, the bank restructuring in Indonesia dragged because a lot of banks were illiquid and insolvent.

As a consequence, the reform program in South Korea and Thailand went on track and this, in turn, accelerated the process of lifting the countries out of their predicament. In 1999, their economies are predicted to run in a positive growth track. At the same time, Indonesia's economic recovery had to tread a slippery path as uncertainty on the sociopolitical front remained. However, an acute awareness from all parties is of utmost importance to prevent the social and political dynamism from deterring Indonesia's economic recovery.

Bill on Bank Indonesia

In line with an increasing complexity of challenges faced by the central bank, efforts to redefine the central bank's role, task, and authority constitute an urgent and pressing agenda that plays an important role in the economic and financial reform program. The redefined role of the central bank gives Bank Indonesia a full autonomy in formulating and implementing policies.

In the short-run, the full autonomy serves indispensably to support the effective formulation and implementation of policies to maintain the stability of the rupiah. In the long run, it serves as a solid basis for the attainment of macroeconomic stability especially in the monetary sector, a sound banking industry, and an efficient and secure payment system. These three issues constitute the prerequisites for sustainable economic development.

The central bank's autonomy represents the central theme of discussions among central bankers, prominent economists, as well as the community at large. This has nothing to do with the strategic role the central bank plays in the economy as a monetary authority in charge of designing and implementing monetary policies, managing and supervising the banking industry, and organizing the payment system. Broadly put, there was a unanimous conclusion that those objectives are best pursued should the central bank be freed from the intervention from the government or other parties outside the central bank.[1] This view is based on two basic reasons as follows.

a. Policy makers and politicians tend to reinforce a faster growth of the economy without adequately taking into account the economic capacity so as to lead to an overheating of the economy.
b. The government often uses central bank's fund to finance deficit of the state budget.

1) See, inter alia, Fraser, B. Central Bank Independence (Reserve Bank of Australia, 1994)

The central bank's independence will enhance its ability to reign in money supply and credit that will in turn affect inflation rate. Several cross-section studies among countries show that countries with independent central banks have lower inflation compared to those with less independent central bank. In a broader scope, autonomy in monetary management -- meaning less intervention in central bank's monetary management – will strongly support the effectiveness of macroeconomic management.

To become effective, the central bank's autonomy shall be based on a formal legal basis. It is of importance to accommodate diverse thoughts that have not yet been incorporated in Act No. 13/1968 on the Central Bank. Particular attention was placed on the autonomy, in institutional aspect (position and status), functional aspect (objective and task), as well as personnel aspect (regulations on leaders of Bank Indonesia). Hence, the government has arranged and forwarded the Bill on Bank Indonesia to the House of Representative on January 12, 1999. The bill --planned to be completed in mid-April 1999-- contains several strategic steps, including (i) role and status of Bank Indonesia, (ii) objectives and tasks of Bank Indonesia, (iii) design and implementation of monetary policies, (iv) banking monitoring and supervision, (v) management and maintenance of uninterrupted payment system, (vi) availability of fund for program credit financing, and (vii) Board of Governors.

The Role and Status of Bank Indonesia

Based on Act No. 13/1968, Bank Indonesia's role and status are emphasized on its role as assisting the President in implementing monetary policies. As a result, Bank Indonesia does not have full autonomy in exercising monetary policy. In Bill on Bank Indonesia, Bank Indonesia's status and role in the national institutional structure is treated differently. The Bill formulizes Bank Indonesia as an autonomous state institution and in its implementation is free from intervention from the government or any third parties, except for issues that are stated clearly in the Bill. The formal inclusion of a status of autonomy in the Bill is needed to give a strong legal basis and ensure the legal certainty and its consistency with Bank Indonesia's institutional status. Prohibition from all kinds of intervention in the implementation of Bank Indonesia's core tasks is meant to protect Bank Indonesia from any third party's interventions ––both direct and indirect–- to influence the execution of Bank Indonesia's tasks, such as through policies or regulations created by the government.

Bank Indonesia's Objectives and Tasks

In Act No. 13 of 1968, the objective of Bank Indonesia is broadly stated as "lifting the social standard of living." Bank Indonesia's primary task is to assist the government in managing, maintaining, and preserving the rupiah stabilization, stimulating production activity and development, and expanding job opportunities to enhance the standard of living. In practice, the primary task has caused several implications. First, the role of Bank Indonesia becomes ambiguous since its role as a monetary authority is relegated to its function as assisting the government. Second, Bank Indonesia's function as a monetary authority is equivocal because of these conflicting assignments. Third, as a result of the first implication, the accountability of monetary policy taken becomes obscure. The context of "assisting' the government gives an impression that its primary task is not the central bank's main task as a monetary authority rather it represents a government's task.

By examining such implications, the objective of Bank Indonesia, incorporated in the Bank Indonesia Bill, is more focused and specific. It is to maintain the rupiah stability. In line with it, to make Bank Indonesia's accountability clearer, its task is divided into three duties, namely (i) determining and implementing monetary policies, (ii) managing and maintaining payment system, and (iii) regulating the banking industry.

Duty to Determine and Implement Monetary Policy

Bill on Bank Indonesia stated that in order to maintain the rupiah stabilization, Bank Indonesia is given the authority to execute monetary policies through setting monetary targets ––with due consideration on inflation rate target–- and monetary restrain. The Bill also regulates various measures to reign in monetary variables which are not completely specified in Act No. 13 of 1968.

Besides, to enhance the effectiveness of monetary management, Bill on Bank Indonesia limits credits provided by Bank Indonesia ––as lender of the last resort–- to conventional banks or financing to bank based on syariah principles. Credit maturity is limited to a maximum of 90 days and the utilization is only to address short-term financing problems. In addition, liquid money market instruments of high value shall guarantee such financing.

Duty to Regulate and Supervise Banks

Article 29, section 1, Act No. 13 of 1968 states that Bank Indonesia is tasked to promote a sound development of banks and credit that shall be the main guidelines for Bank Indonesia's role in the banking supervision.[2] In the new Act, the supervision role will be transferred to a new institution to be established by the year 2002 at the latest.

The consideration to separate the banking supervision from Bank Indonesia is primarily attributed to the presence of conflicting interests between maintaining monetary stability and supervising banks. In a bid to salvage a bank, for instance, Bank Indonesia needs to extend liquidity credit that is not compatible with its duty to maintain the rupiah stability. With this division, Bank Indonesia can concentrate more in performing its monetary policies.

2) By the enactment of Act No. 10 of 1998 regarding the amendment of Act No. 7 of 1992 on Banking, all aspects of banking supervision become Bank Indonesia's authority and responsibility.

Duty to Regulate and Maintain the Payment System

Act No. 13 of 1968, article 30, item a, states that Bank Indonesia guides banks by speeding up and regulating payment mechanisms and establishing an interbank clearing system. This means that Bank Indonesia's duty in the payment system does not stand by itself but is part of Bank Indonesia's job description in banking supervision.

In view of the central bank's role in the payment system, Bill on Bank Indonesia states that the task of regulating and maintaining an efficient, timely, and secure payment system, constitutes one of Bank Indonesia's primary tasks. Accordingly, Bank Indonesia is authorized to decide on and to execute the payment system, both with regard to payment instruments and institutional aspects. In relation to regulating institutional aspects, the Bill stipulates that Bank Indonesia is also authorized to regulate a clearing system and to execute an interbank clearing activity as well as to finalize interbank payment settlements in rupiah and foreign currency. In addition, Bank Indonesia may authorize other parties, subject to several required conditions, to handle the role of an interbank clearing activity and payment settlement in foreign currencies. As for the payment settlements in rupiah Bank Indonesia is the only lawful institution to carry them out. That pertains to the fact that Bank Indonesia is the only institution that has the right to issue the rupiah currency to allow an easy monitoring of bank account balances in the monetary restrain.

Duty to Extend Program Credit

The extension of program credit (such as credit to farmers and other similar schemes) -–the source of which originates from Bank Indonesia liquidity credit-- is no longer within the realm of Bank Indonesia's responsibility to carry out. The pursuit of extending such program credits deviates from the central focus on stabilizing the rupiah. The government supposedly extends the program credit from the state budget. The Act on Bank Indonesia states that the implementation of the program credit to boost small-scale enterprises and cooperatives as well as develop the agricultural and other sectors will be continued by other lawful institution established by the government. This is in line with the law that says that Bank Indonesia is not to provide credit except in its capacity as the lender of the last resort.

Board of Governors

Act No. 13 of 1968 states that Bank Indonesia is headed by a Board of Directors comprising a Governor and 5 to 7 Directors. To avoid being misidentified as a commercial bank due to the "Director" position as the helmsman, the new Act alters the "Director" to "Deputy Governor" and the Board is named the "Board of Governors". The latter Board comprises a Governor, a Senior Deputy Governor, and 4 to 7 Deputy Governors.

Previously, in Act No. 13 of 1968, the Monetary Council was the coordination forum for monetary, fiscal, and real sector policies. In the new Act, the policy mix coordination is regulated as follows.

a. The government shall request for views and advice from Bank Indonesia and/or invite the Governor to attend the Cabinet meeting which discusses economic and financial matters pertaining to the primary responsibility of Bank Indonesia or other matters that fall within the boundary of Bank Indonesia's authority.
b. The Board of Governors provides opinion and consideration to the government on the proposed State Budget as well as on other policies closely related to Bank Indonesia's main duty and authority.
c. The Board meeting, held once a month to decide on the course of monetary policy, can be attended by a minister representing the government. The minister will only have the right to speak, not to vote, in order to secure Bank Indonesia's independence.

In promoting transparency, the Board of Governors must submit a report to the President and make it public at the beginning of the budget (calendar) year. The report contains:

a. The evaluation on the monetary policy implementation during the preceding year, and

b. The annual plan of monetary policy including its targets for the following year that have already factored in the inflation rate target and the whole economic and financial situation.

To maintain the effectiveness of Board's tasks, the Board members are prohibited to:

a. Directly or indirectly own companies or business entities,
b. Assume responsibility in any other organization, except required by his/her position in Bank Indonesia, and
c. Become head or member of any political party.

Bill on Foreign Exchange Flow and Exchange Rate System

In recent years, the global pressures, especially in the financial sector, have resulted in an increasing flow of capital from one country to another. This flow contributed positively to countries with an open capital account regime. Indonesia has adopted a free foreign exchange regime since 1982. The large influx of capital allowed Indonesia to grow at a fast pace during the period of 1982-1997. The fast growth track was also fostered by the vibrant private sector that was fostered by offshore borrowings.

Inadequate information on capital inflows and outflows, however, had led to a serious problem for the economy. The financial crisis since 1997 has suggested that macroeconomic decision makers were not well informed about capital flows, particularly short-term private capital. This limited information slowed the decision making process to meet sustainable monetary stability. Therefore, the adoption of free foreign exchange regime should be complemented by a set of regulations on the foreign exchange monitoring system, such that accurate information on capital flows between residents and non-residents can be tracked down in a timely fashion. This information serves as an insight for formulation of macroeconomic policies and at the same time as an early warning signal to detect risks in consequence of the adoption of a free foreign exchange regime.

Accurate information about capital inflows and outflows can only be retrieved if Bank Indonesia has an effective foreign exchange monitoring system. Accordingly, the government has designed and submitted a Bill on foreign exchange flows and exchange rate system to the Parliament. The main features of the Bill are as follows.

1. Foreign exchange monitoring deals with activities to collect or record all information about transfers of financial assets and liabilities between residents and non-residents including transfers of foreign financial assets and financial liabilities among residents.
2. Residents are individuals, legal entities, or other entities domiciled in Indonesia with a minimum stay of one year, including representatives or diplomatic staff of the Republic of Indonesia assigned to work abroad.
3. Bank Indonesia is in charge of monitoring the flows of capital since the central bank as the monetary authority is responsible for maintaining the stability of the rupiah. Bank Indonesia has the authority to request data and information on all foreign exchange flows conducted by residents.
4. Each resident is obliged to provide information and data to Bank Indonesia or other parties designated by Bank Indonesia about his/her foreign exchange dealings. A regular reporting system on capital flows from banks and non-bank institutions to Bank Indonesia has to prevail based on Bank Indonesia regulations.
5. Data and information on foreign exchange flows shall include value and type of transactions, objectives and purposes of transaction, dealers, and country of origin and of destination.

Chapter 2 Economic Growth, Prices, and Employment

In 1998, the severity of Indonesia's economic crisis deepened before signs of economic recovery appeared in the first quarter of 1999. The economy contracted by 13.7% in 1998, as opposed to its 4.9% expansion in 1997 (Table 2.1). Meanwhile, inflation accelerated precipitously, especially during the first half of the reporting year. The severe economic contraction generated a dramatic deterioration of social welfare which, coupled with increasing unemployment, resulted in heightening social fragility.

In response to the economic crisis, the government introduced various adjustment measures to a number of policy areas, eventhough their impact could not be felt immediately. This was caused by several structural deficiencies that resulted in longer time being required for the policy measures to materialize.

Table 2.1
GDP and Inflation

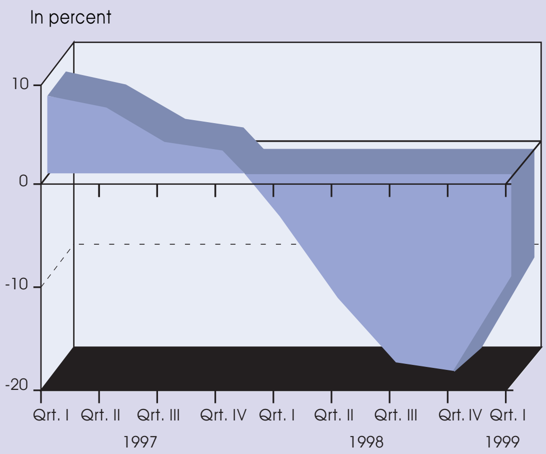
Item	1997[r]	1998*	1999[1)]	1998*
		Percent change		In trillions of Rp
Real Gross Domestic Product	**4.9**	**–13.7**	**–10.3**	**374.7**
By Expenditure				
Domestic demand [2)]	7.0	–17.6	–12.9	373.0
Exports of goods and services	7.8	10.6	–53.5	134.0
Imports of goods and services	14.7	–5.5	–57.1	132.0
By Sector				
Agriculture	0.7	0.2	2.7	64.4
Mining and quarrying	1.7	–4.2	–0.7	36.8
Manufacturing	6.4	–12.9	–9.6	94.8
Electricity, gas, and clean water	12.8	3.7	7.7	5.7
Construction	6.4	–39.7	–5.0	21.1
Trade, hotel, and restaurant	5.8	–19.0	–14.1	59.6
Transportation and communication	8.3	–12.8	–18.3	28.1
Financial, rental, and corporate services	6.5	–26.7	–47.6	28.4
Services	2.8	–4.7	–0.2	35.9
Consumer Price Index				
Calendar year	11.1	77.6		
Fiscal year[3)]	34.2	45.4		

1) Quarter I of 1999.
2) Comprising consumption, gross domestic fixed capital formation, and stock changes .
3) In 1997/98 and 1998/99.
Source : Central Bureau of Statistics

However, with a consistent and focused policy implementation, in the first quarter of 1999, Indonesia's economic activity rebounded. This was accompanied by a subsiding inflation rate. On quarterly basis (quarter to quarter), in the first quarter of 1999, GDP grew by 1.3% --the first time since the fourth quarter of 1997-- eventhough on yearly basis its growth rate remained negative at 10.3% (Chart 2.1).

On the demand side, the economic contraction resulted from a compression of domestic demand, particularly private investment and household consumption. The decline in household consumption was attributed to decreasing real income and depleting wealth. The extended crisis has brought about adverse wealth effects. Meanwhile, the significant fall in private investment was caused by a number of problems confronted by the business community, notably to overcome the balance sheet effects that was brought about by a maturity mismatch as well as a currency

Chart 2.1
Quarterly GDP Growth[1)]



1) Compared to the same quarter in the previous year.

mismatch. On the supply side, almost all economic sectors shrank except electricity, gas, and clean water; and agriculture (particularly export-oriented agriculture). Construction and finance were the hardest hit economic sectors, largely as a result of the excessive exchange rate depreciation.

Despite the sharp overall economic contraction, inflation rate surged, especially for food products. Spiraling inflation was attributable to a scarcity of products as a result of disrupted production and distribution activities, and the pass-through effect of the rupiah depreciation on tradeable goods. Nevertheless, by the end of the reporting year, inflationary pressures began to dissipate because of the implementation of tight monetary policies and the rehabilitation of the production and distribution networks.

Policies Initiated

In order to stabilize and rehabilitate economic activity, the government pursued a number of policy measures on both the demand and supply sides. On the demand side, the policy focused on resuscitating investment and trade activities and alleviating the negative impact of the crisis on the poor. On the supply side, policies were focussed on structural adjustment in order to rehabilitate the banking and business sectors. Meanwhile, efforts to contain inflationary pressures proceeded with monetary tightening and the easing of supply-side shortages through the extension of program credit and the rehabilitating of distribution chains.

To reinvigorate investment activity, the government initiated a wide range of measures. These included, among others, removing import tariffs on a number of capital goods and maintaining tax holiday policies. In promoting aggregate purchasing power and cushioning the most vulnerable segments of the society who were hardest hit by the crisis, the government increased expenditures, particularly that was associated with the social safety nets (SSN). To address the difficulties in opening letter of credit (L/C) for the importation of raw materials and capital goods for export purposes, the government instigated schemes to place funds from Bank Indonesia, the Japan's Export Import Bank (JEXIM Bank) and the United States Export Import Bank (US-EXIM Bank) to support trade financing.

The banking restructuring program --as an integral part of the stabilization policy-- constitutes as a priority measure for economic recovery, primarily in the real sector. Its success is expected to restore the intermediating role of the banking sector. In addition to the banking restructuring program, efforts to revive economic activity have to go hand in hand with the corporate restructuring plan, especially debt restructuring. To address the corporate debt overhang, the government has set up the Indonesian Debt Restructuring Agency (INDRA), supported by the Jakarta Initiative, as a means of accelerating the negotiations between debtors and creditors. These measures were supplemented by reforms to rectify a number of institutional weaknesses. This is particularly the case with respect to the legal system, where the government has, among other actions, established the Commercial Court based on the Bankruptcy Law.[1)]

As part of the stabilization program to ease inflationary pressures on the demand side, Bank Indonesia continued to employ consistently a tight monetary policy. Additionally, in easing inflationary pressures from the scarcity of goods and improving supply-side performance, Bank Indonesia developed and expanded various credit program schemes for the productive sector while also assuming some of the credit risks from commercial banks. To restore the supply-side function, the government reconstructed the distribution system, lifted barriers to imports on a number of basic necessities, and reduced the monopoly of the State Logistic Agency (Bulog). The reconstruction of distribution net-

1) Act No. 4/1998, dated September 9, 1998

works proceeded through extending the number of distribution agents through, among others, the Indonesian Distribution Cooperative (KDI) with the purpose of encouraging the formation of market-driven competitive pricing. To secure the domestic supply of goods, the government raised export tariffs on a number of essential commodities, such as crude palm oil and its derivatives, and restricted exports for several other designated subsidized products, such as rice and wheat flour.

Demand

The Indonesian economy was based upon domestic demands, such that the fall of domestic demand in 1998 generated a significant contraction of the entire economy. In 1998, domestic demand contracted by 17.6%, which accounted for 18.4% of the total contraction of GDP. Meanwhile, net external demand showed a significant increase. However, because of its relatively small contribution to the formation of GDP, the increase in net external demand was insignificant (Table 2.2).

The weakened domestic demand was attributed to a lower level of household consumption and private investment. The growth rate of household consumption dropped from 5.9% in 1997 to -4.1% in 1998. Likewise, investment expenditure grew negatively at -40.9%, after experiencing a positive growth of 8.6% in the preceding year.

The drop in household consumption originated from weakening real income and the adverse wealth effect as a result of the extended crisis. As viewed in terms of overall consumer spending, in 1998 the share of food consumption in disposable income rose as compared to that in the earlier year. This larger share resulted from higher prices of foodstuffs consumed, notably basic necessities. In addition, people reduced expenditure on nonfood items as a result of the crisis (Table 2.3).

Meanwhile, the sharp fall of investment due to plunging private investment was caused by five factors. First, the business community confronted an arduous burden to overcome the balance sheet adjustment as a result of both maturity and currency mismatches. Second, the high interest rate or cost of capital hindered business corporations in running profitable operations. Third, the impeded bank credit cushioned the business sector to get sources of funds to finance its operations. Fourth, a steep fall in aggregate purchasing power resulted in negative expectations for domestic market absorption. Fifth, social insecurity and political instability led to an uncertain business climate.

Table 2.2
GDP Growth by Expenditure 1)

Item	1997r		1998*		1999 2)
	Growth	Contribution to change	Growth	Contribution to change	Growth
	In percent				
Gross Domestic Product	**4.9**	**4.9**	**-13.7**	**-13.7**	**-10.3**
Domestic Demand	**7.0**	**7.1**	**-17.6**	**-18.4**	**-12.9**
Consumption	5.9	4.1	-4.1	-2.9	-2.9
Private	6.6	4.1	-2.9	-1.8	-2.6
Government	0.1	0.0	-14.4	-1.1	-5.9
Gross domestic fixed capital formation	8.6	2.7	-40.9	-13.2	-20.7
Stock changes	25.8	0.4	-137.1	-2.3	-182.7
External Demand	**96.8**	**-2.2**	**-109.5**	**4.7**	**-112.2**
Exports of goods & services	7.8	2.1	10.6	3.0	-53.5
Imports of goods & services	14.7	4.3	-5.5	-1.7	-57.1

1) At constant 1993 prices.
2) Quarter I/1999
Source : Central Bureau of Statistics

Table 2.3
Expenditure Allocation of Household Consumption by Commodity Type 1)

Year	Food	Nonfood
	In percent	
1993	58.0	42.0
1994	57.2	42.8
1995	56.6	43.4
1996	56.3	44.7
1997	57.0	43.0
1998	60.1	39.9

1) At current prices.
Source : Central Bureau of Statistics

Table 2.4
Approved Investment Projects by Sector in 1998[1)]

Sector	Investment	Share[2)]
	In trillions of Rp	In percent
Domestic Investment	**60.7**	**100.0**
Manufacturing	44.9	73.9
Chemicals and pharmaceuticals	15.5	34.4
Food	6.7	14.9
Paper	12.8	28.4
Nonmetal minerals	3.5	7.7
Other manufacturing	6.5	14.5
Plantation	3.5	5.8
Transportation	3.3	5.4
Other sectors	9.1	14.9
	In billions of $	In percent
Foreign Investment	**13.6**	**100.0**
Manufacturing	8.4	61.8
Chemicals and pharmaceuticals	6.2	73.6
Paper	0.0	0.5
Metal product	0.9	10.6
Nonmetal mineral	0.2	2.8
Other manufacturing	1.0	12.5
Real estate and industrial estate	1.3	9.4
Electricity, gas, and clean water	1.8	13.2
Other sectors	2.1	15.5

1) Based on approved investment by government.
2) Approved investment to total domestic or foreign investment.
Source : Investment Coordinating Board (processed)

Table 2.5
Approved Investment Projects by Region in1998 [1)]

Region	Investment	Share[2)]
	In trillions of Rp	In percent
Domestic Investment	**60.7**	**100.0**
South Sulawesi	11.2	18.4
Central Kalimantan	9.1	15.0
West Jawa	8.1	13.4
Riau	4.9	8.1
Jakarta	4.3	7.1
Others	23.2	38.1
	In billions of $	In percent
Foreign Investment	**13.6**	**100.0**
West Jawa	5.5	40.6
Central Jawa	3.1	22.6
Jakarta	1.7	12.5
East Jawa	0.6	4.2
Riau	0.5	4.0
Others	2.2	16.2

1) Based on approved investment by government.
2) Approved investment to total domestic or foreign investment.
Source : Investment Coordinating Board (processed)

Interest in investment also plummeted, as reflected by a drop in approvals for foreign direct investment and domestic investment, each by 59.8% and 49.4%, to $13.6 billion and Rp60.7 trillion, respectively (Table 2.4). Viewed by sectors, the fall in investment approvals was recorded in sectors that had large contributions to GDP, particularly in manufacturing. By location, the domestic investment plans concentrated in South Sulawesi, Central Kalimantan, and West Jawa. In the meantime, the foreign investment centered in West Jawa, Central Jawa, and Jakarta (Table 2.5).

Following the weakening rupiah, net external demand grew appreciably. Exports of goods and services grew at a faster rate from 7.8% in 1997 to 10.6% in 1998. On the contrary, imports of goods and services recorded negative growth of -5.5% in 1998 after experience 14.7% growth in the previous year (Table 2.2).

In the first quarter of 1999, on a quarterly basis (quarter to quarter growth), the growth in GDP underlined an increase in domestic demand from both consumption and investment, though on a yearly basis still recorded a contraction. Consumption expenditure grew by 1.4%, slower than 11.5% in the fourth quarter of 1998. Meanwhile, investment expenditure grew 4.2%, the first time since the third quarter of 1997. On the external front, both export and import expenditures declined from the earlier quarter.

Saving-Investment Gap

As a result of the fall in investment activity, the ratio of the national saving-investment gap over GDP amounted to a surplus of 4.4%, as compared to a deficit of 2.4% in the preceding year (Table 2.6). In line with the sharp fall of private investment, the private saving-investment gap registered a surplus of 4.3% in contrast

Table 2.6
Saving-Investment Gap

I t e m	1996	1997	1998*
	In percent of GDP		
Government Sector			
Saving	5.8	7.7	3.2
Investments 1)	3.4	3.6	3.0
Deficit (–), surplus (+)	2.5	4.1	0.1
Private Sector			
Saving	20.3	18.4	22.1
Investment 1)	26.2	24.8	17.8
Deficit (–), surplus (+)	–5.9	–6.4	4.3
Gross National Saving	**26.2**	**26.0**	**25.3**
Investment1)	**29.6**	**28.4**	**20.9**
Saving - Investment Gap	**–3.4**	**–2.4**	**4.4**
Note :			
Current account deficit (in billions of $)	–7.8	–5.0	4.4
Rp/$ exchange rate (average)	2,347.3	2,951.7	9,874.6

1) Excluding stocks changes.
Source : Central Bureau of Statistics

with a deficit of 6.4% in the year before. In the meantime, the public saving-investment gap posted a lower surplus than that of the previous year.

The sharp fall of private investment, as a result of the large private capital outflow throughout 1998, necessitated adjustments on the external side --as reflected in the conversion in current account from a position of deficit to surplus-- in order to bring the balance of payment back to its equilibrium. The current account adjustment went through exorbitant exchange rate depreciation that paralyzed import activity. The extreme drop in imports appeared partly as a consequence of the high dependence of the domestic economy on foreign financing and import products. The failure of domestic producers, particularly the export-oriented ones, to take advantage of the inordinate exchange rate depreciation of the rupiah resulted primarily from the high import content in the structure of domestic production and several to impediments in trade financing.

Supply

In the light of the supply side, in 1998 the sharp contraction in the economy represented a sum of contractions in all sectors minus a modest expansion for agriculture sector and electricity, gas, and clean water sector (Table 2.7). The non-oil/gas sector contracted by 14.8%, contributing -13.6% to the nation-wide economic contraction. Meanwhile, the oil/gas sector also suffered from contraction, primarily as a result of the weakened world demand and fallen oil price in the international market.

Construction suffered the deepest contraction at a rate of 39.7%, as compared with the expansion the sector underwent in 1997. The main causes of the contraction included an increase in the price of construction materials, a lower market demand, a large debt burden carried by developers and contractors, and a curtailment in the credit lines from the banking industry.

The financial, rental, and corporate service sectors shrank by 26.7% (Table 2.8). The banking sub sector was the hardest hit, followed by building rent. The banking in-

Table 2.7
GDP Growth by Sector 1)

I t e m	1997		1998		1999 2)
	Growth	Contribution to change	Growth	Contribution to change	Growth
	In percent				
Gross Domestic Product	**4.9**	**4.9**	**–13.7**	**–13.7**	**–10.3**
Agriculture	0.7	0.1	0.2	0.0	2.7
Mining and quarrying	1.7	0.2	–4.2	–0.4	–0.7
Manufacturing	6.4	1.6	–12.9	–3.2	–9.6
Electricity, gas, and clean water	12.8	0.2	3.7	0.1	7.7
Construction	6.4	0.5	–39.7	–3.2	–5.0
Trade, hotel, and restaurant	5.8	1.0	–19.0	–3.2	–14.1
Transportation and communication	8.3	0.6	–12.8	–1.0	-18.3
Financial, rental, and corp. services	6.5	0.6	–26.7	–2.4	-47.6
Services	2.8	0.3	–4.7	–0.4	–0.2
Non-oil/gas	**5.5**	**5.0**	**–14.8**	**–13.6**	**–11.0**
Oil/gas	**-1.0**	**–0.1**	**–1.0**	**–0.1**	**–3.9**

1) At constant 1993 prices.
2) Quarter I /1999
Source : Central Bureau of Statistics

Table 2.8
GDP Growth of Financial, Rental, and Corporate Services Sector[1)]

I t e m	1997	1998
	In percent	
Financial, Rental, and Corporate Services	**6.5**	**–26.7**
Banks	7.1	–37.5
Nonbank financial institutions	4.9	–17.2
Financial supporting services	5.1	–16.7
Building rent	5.0	–20.7
Corporate services	8.5	–16.4

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

Table 2.9
Growth of the Non-oil/gas Manufacturing Subsector and Its Contribution to GDP Growth in 1998 [1)]

I t e m	Growth	Contribution to change	Value (in trillions of Rp)
	In percent		
Non-oil/gas Manufacturing	**–14.5**	**–3.3**	**84.0**
Food, beverages, and tobacco	–2.1	–0.3	49.0
Textile, leather product, and footwear	–13.0	–0.3	7.3
Wood and other forestry products	–18.5	–0.2	4.7
Paper and printing products	–11.0	–0.1	3.5
Fertilizer, chemicals, and rubber products	–23.3	–0.6	9.1
Cement and non-metal quarrying goods	–29.4	–0.2	2.3
Base metal, iron, and steel	–28.7	–0.2	2.2
Transportation, machinery, and equipment	–52.0	–1.3	5.4
Others	–24.0	–0.0	0.4

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

dustry suffered from negative spreads, losses from foreign exchange rate differentials, and mounting non-performing loans. The building rent sector grew negatively, corresponding to a major business slowdown, because of a noticeable drop in the demand for office space.

Trade, hotel, and restaurant sectors contracted by 19.0%, particularly as a result of a weakening aggregate purchasing power. The contraction in trade subsector was aggravated by damaged shopping and commercial centers and disrupted distribution networks as a result of the social unrest in a number of regions. Meanwhile, the hotel and tourism industry, which was expected to earn considerable foreign exchange from increased visits of foreign tourists in view of the exchange rate depreciation, could not afford to render positive growth. This was attributable to a higher degree of social unrest and insecurity as well as travel advice by a number of countries.

Manufacturing industry recorded a negative growth of 12.9%, owing to a decline in non-oil/gas manufacture production (Table 2.9), while oil/gas activities continued to expand. The downturn in non-oil/gas business rooted in internal and external pressure. On the internal side, the structural deficiency centered on the high reliance on imports of raw materials and on bank lending. The external pressure was resulted from the weakening of both the rupiah and the market demand. The deteriorating performance of export-oriented manufacturers stemmed from disruption in export-import financing mechanisms and a huge transfer of purchase orders from Indonesia to its competitors as a result of concerns about punctuality in the delivery of orders.

The contraction in transportation and communication originated from a lower mobility of people and goods, and higher transportation costs. The latter were associated with increases in the prices of spare parts for vehicles (Table 2.10). A number of airline flight routes, both domestic and international, were cut and the frequencies of the remaining routes reduced because of imbalances between operational costs and revenues from ticket sales. Meanwhile, high maintenance costs had made some road transportation means infeasible for operation. Nevertheless, railway transport in 1998 continued its positive growth because of switching passengers from previously air and road transportation. On the other hand, growth in communications remained

Table 2.10
GDP Growth of Transportation and Communication Sector 1)

Item	1997	1998
	In percent	
Transportation	**6.4**	**–17.0**
Railway transportation	8.0	5.6
Road transportation	7.5	–21.5
Sea transportation	7.3	–2.2
Rivers and Lakes transportation	3.6	–4.4
Air transportation	1.5	–36.6
Supporting services	5.1	–9.3
Communication	**17.5**	**4.8**

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

positive in response to the increase in telephone line in service, cellular phone subscriber, and the larger use of long-distance calls.

Mining and quarrying experienced a 4.2% contraction as a consequence of the decrease in both domestic and international demands (Table 2.11). Contraction in oil and gas subsector reflected falling performance of oil/gas export due to weakened world demand and increased production in non-OPEC (Organization of Petroleum Exporting Countries) member countries. The setback in quarrying subsector was associated with shrinking activity in the construction sector. In contrast, the mining business exclusive of oil and gas emphatically expanded, particularly from nickel, copper, and coal, due to rising world demand and exchange rate depreciation.

In contrast with other sectors, agriculture continued its positive growth track, primarily from export-oriented agricultural product which benefited from the currency depreciation (Table 2.12). Plantation and fishery subsector recorded positive growth rates at 6.0% and 4.1%. Higher rupiah revenues resulting from the depreciating rupiah and rising world demand contributed to a better performance of plantations as highlighted in the surge of production of crude palm oil, cocoa bean, and tobacco. Fishery activities also recorded higher performance, notably for cultivated shrimp and sea fish, mainly because of their export-oriented feature. Meanwhile, growth of forestry subsector slowed because of the extended consequences of forest fires until the beginning of 1998.

Overall, the growth of agriculture sector slowed as a result of the negative growth of livestocks subsector and foodcrops subsector.The downturn in livestocks stemmed from the closure of a large number of animal husbandry business entities due to their expensive feed inputs. Foodcrops continued to grow negatively, although at a slower pace than that in the earlier year, as a result of the natural disturbance and higher production costs, chiefly for fertilizers.

Table 2.11
GDP Growth of Mining and Quarrying Sector 1)

Item	1997	1998
	In percent	
Mining and Quarrying	**1.7**	**–4.2**
Oil and natural gas	–0.6	–2.1
Non-oil/gas mining	5.2	21.1
Quarrying	6.4	–39.7

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

Table 2.12
GDP Growth of Agriculture Sector 1)

Item	1997	1998
	In percent	
Agriculture	**0.7**	**0.2**
Foodcrops	–2.7	–1.0
Cash crops	1.2	6.0
Livestock, and products	4.9	–6.4
Forestry	8.0	1.0
Fishery	5.8	4.1

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

In addition to agriculture, the electricity, gas, and clean water sector also registered a positive growth of 3.7%. The growth originated from an additional supply of marketable electricity produced by both the private sector and the government.

In the first quarter of 1999, several sectors have led the incipient economic upturn (Table 2.7). The quarter-to-quarter growth of GDP demonstrated the rebound in agriculture (19.7%), transportation and communication (2.0%), and construction (0.9%). The upturn was attributable to seasonal and extraordinary demand to celebrate Eid El Fitr. In comparison with the same quarter of last year, all sectors shrank except agriculture and electricity, gas, and clean water.

Prices

The inflation rate in 1998/99, measured by the annual growth of Consumer Price Index (CPI), reached 45.4%, slightly lower than the 45.9% set as a target by the government. The high inflation rate occurred in the first half of the year under review. Meanwhile, the inflation rate in 1998 amounted to 77.6%, lower than the 80.0% government target (Table 2.13).

The risk of hyperinflation loomed, hanging over the Indonesian economy in the first half of the reporting year as inflation rate reached 38.0%, far higher than 3.5% in the year before. Inflationary pressures stemmed from the supply side as a result of the mind-boggling rupiah depreciation in the previous reporting year and the inadequate supply of goods. The exchange rate depreciation had given rise to sizeable pass through effect that in turn propelled prices across the broad spectrum. Meanwhile, the inadequacy of supplied goods originated from a lower level of production, harvest failure, and interruptions in the distribution function. A number of trading center that was destroyed during the social unrest in May 1998 interrupted the distribution networks. In addition, aggressive monetary expansion contributed in a major way to the bursts of inflation during the period.

Table 2.13
Inflation Rate in1998 and 1998/99 by Group of Goods and Services

Item	1998		1998/99	
	Price increase	Contribution to change	Price increase	Contribution to change
	In percent			
Foodstuff	118.4	25.9	68.5	15.6
Food and beverages	94.3	15.9	52.1	9.1
Housing	41.5	13.7	26.7	8.0
Clothing	98.7	7.6	45.4	3.6
Medical care	86.1	3.9	38.4	1.8
Education, recreation, and sports	38.0	3.4	20.3	1.9
Transportation and communication	55.6	7.3	41.3	5.6
General	**77.6**	**77.6**	**45.4**	**45.4**

Source : Central Bureau of Statistics

In line with the rehabilitation in the distribution systems to channel essential items and the reestablished control of the monetary aggregates, inflationary pressures began to abate in the second half of the reporting year. Inflation fell sharply from a monthly rate of 3.7% in September 1998 to -0.3% in October 1998, marking the emergence of deflation. In the next several months, the inflation rate happened to increase mainly because of seasonal, an additional purchase of goods to welcome New Year and Eid El Fitr. At a later stage, inflation translated again into deflation of 0.2% in March 1999.

As analyzed by different groups of goods and services, inflation rate in the year under review mainly originated from foodstuffs that registered an increase of 68.5%, contributing 15.6% to the total inflation (Table 2.13). The food inflation was caused by higher prices of rice, chicken, eggs, beef, chili, and red onions (Table 2.14). The price increases for rice resulted from its insufficient supply due to an unsuccessful harvest and the excessive inventory accumulation by a number of people due to expectations on continued increase of the price of rice. In addition, the rice inflation was also brought about by higher prices of fertilizers and insect pesticides.

Meanwhile, inflation in livestocks, such as bred chicken, bred chicken egg, and beef was attributed to higher price of feed inputs and to a sharp drop in its production in conjunction with the closure of a number of animal husbandry. Furthermore, price increases for red onions and chili stemmed from supply shortages due to heavy rainfalls.

The prices of processed foods and beverages grew by 52.1%, contributing 9.1% to the total inflation rate. Their increases were attributed to higher prices of mixed rice, noodles, filtered clove cigarettes, and sugar. The increase in noodle prices came from higher wheat prices redemption from the Bulog due to the removal of wheat flour subsidies. The sugar inflation was promoted by its inadequate supply due to the belated supply of imported sugar and adjustments towards market mechanisms to response the termination of price control under the Bulog. In addition, the higher excise taxes on cigarettes increased its prices.

The transportation and communications sector posted a price hike of 41.3%, contributing 5.6% to the total inflation figure. The increased price in this sector was caused by, among others, a rise in price of car and motorcycle, including their parts, as rupiah depreciated. In addition, higher fuel price commencing in May 1998 raised road transportation fare.

Inflation in clothing sector amounted to 45.4%, owing to higher prices of gold jewelry. The exchange rate weakening had resulted in a substantial loss of confidence in the rupiah and fueled inflation expectations. The eroded confidence led to a substitution of currency for gold, one of the hedging alternative as well as profitable investment options.

Administered goods recorded an inflation of 48.0%, contributing 10.4% to the total inflation (Table 2.15). This price hike was attributed to higher prices of

Table 2.14
Twenty Commodities as the Largest Contributors to the Inflation Rate 1)

Commodities	Weight	1998/99 Cumulative price increase	1998/99 Contribution to inflation
	(in percent)		
Rice	4.41	88.66	3.91
Indonesian mixed rice	3.22	48.58	1.56
Red chilli	0.53	281.07	1.50
Noodle	2.06	53.05	1.09
Clove cigarettes	1.54	62.53	0.96
Gasoline station	2.16	43.50	0.94
Innercity transportation	3.07	29.49	0.91
Cane sugar	0.10	80.75	0.80
Automobile	1.18	64.43	0.77
Telephone tariff	2.05	36.04	0.74
Cow meat	1.07	67.34	0.72
House contract	7.45	9.56	0.71
Chicken meat	1.51	42.50	0.64
House rent	4.12	13.74	0.57
Unskilled labor	1.94	28.83	0.56
Chicken egg	0.70	79.20	0.56
Motorcycle	1.22	43.48	0.53
Milkfish	0.37	136.24	0.51
Red onion	0.46	107.02	0.49
White cigarettes	0.95	46.47	0.44
Total 20 commodities	**40.10**		**18.91**

1) Year on year
Source : Central Bureau of Statistics

Table 2.15
Inflation by Several Categories of Goods 1)

Item	1998 Price increase	1998 Contribution to inflation	1998/99 Price increase	1998/99 Contribution to inflation
	In percent			
Administered	66.9	14.5	48.0	10.4
Nonadministered	80.6	63.1	44.8	35.0
Food/energy	98.5	41.4	58.9	26.2
Nonfood/ nonenergy	60.5	36.2	33.8	19.3
Food	108.9	43.7	62.5	23.8
Nonfood	57.4	33.9	33.1	21.6
Tradeable	95.2	57.9	47.9	29.1
Nontradeable	50.7	19.7	41.0	16.3
General	**77.6**	**77.6**	**45.4**	**45.4**

1) Year on year.
Source : Central Bureau of Statistics (processed)

government controlled products such as rice, sugar, cooking oil, fuels, and transportation fares. On the other hand, prices of non-administered goods went up by, 44.8%, contributing 35.0% to the total inflation. Hence, non-administered good dominated as the cause of high inflation in the year under review.

By group of goods transacted, tradeable goods underwent inflation of 47.9%, accounting for 29.1% in the total inflation. The price increase came directly from the pass through effect of the exchange rate depreciation. The weakening rupiah pushed up costs of production, particularly through products that had high import-contents, such as cars and electronic appliances.

On the other side, nontradeable goods were indirectly affected by the exchange rate weakening, as they dealt with the second pass through effect. Accordingly, inflation of non-tradeable goods was recorded at 41.0%, with contribution of 16.3% to the overall inflation. The large role of tradeable goods in the formation of total inflation suggested that exchange rate variations played a crucial role in determining the magnitude of inflation in the country.

Inflation in the food/energy category was registered at 58.9%, with a 26.2% contribution to the total inflation. Meanwhile, the nonfood/nonenergy experienced a price hike of 33.8%, accounting for 19.3% in the total inflation. The significant role of food and energy in inflation formation appeared as a consequence of higher prices of basic necessities such as rice, cooking oil, and sugar.

The wholesale price index was also under upward pressure as it soared by 69.8%, much higher than 27.7% increase recorded in the previous year (Table 2.16). The price escalation was driven by a phenomenal surge of 98.7% in prices of imported commodities. Meanwhile, prices of export commodities rose by 12.7%. The highest price increased in 1998 recorded in agriculture, reaching 92.6%, while manufacturing industry posted an inflation of 84.8%.

Table 2.16
Changes in Wholesale Price Index [1)]

Item	1996	1997	1998
	In percent		
Agriculture	11.3	17.9	92.6
Mining and quarrying	10.0	7.2	43.2
Manufacturing	2.3	10.1	84.8
Import	3.4	26.1	98.7
Export	19.8	64.7	12.7
Oil/gas	42.2	57.2	–1.0
Non-oil/gas	–1.0	82.2	38.8
General	**7.7**	**27.7**	**69.8**

1) Year on year
Source : Central Bureau of Statistics (processed)

Employment

With deepening contractions in the economy, the unemployment rate increased substantially, as direct results of a continuous wave of layoff in a number of sectors. The immense pressure originating from rising production costs, on the one hand, and shrinking domestic market absorption, on the other hand, had caused a large number of entities to downscale their operations. In the meantime, real regional minimum wages dropped as a result of the rising inflation.

The open unemployment figure, which stated at 4.3 million in 1997, climbed to 5.1 million in 1998, equal to 5.5% of the total labor force (Table 2.17). If underemployment, figure of as many as 8.6 million people, were counted, unemployment would have totaled 13.7 million. In spite of the extended downturn, the unemployment rate was relatively low since those being lay off in the formal sector by and large moved to the informal sector in a bid to keep life rolling. With the assumption that every worker bears two people --one spouse and one child-- the increase in the unemployment rate results in the disappearance of purchasing power for some 41.1 million people.

In 1998, as many as 831 companies officially laid off 108,363 workers, while 91 enterprises were in the pro-

Table 2.17
Manpower Indicators
(In millions of person)

Indicator	1997	1998
Labor force	91.3	92.7
Open unemployment	4.3	5.1
Open unemployment (in percent) 1)	4.7	5.5

1) Open unemployment to labor force ratio.
Source : Central Bureau of Statistics and etc. (processed)

cess of laying off 13,323 employees (Table 2.18). The actual figure was envisaged to outstrip the above official one, as numerous corporations did not report their plans to phase out workers to the Ministry of Manpower.

As viewed by sector, manufacturing industry laid off workers most frequently followed by construction, trade, and finance (Table 2.19). Given a lower level of production, the number of layoffs in the manufacturing sector stood at 1.3 million. Another 0.7 million people lost their jobs in the construction sector, since many construction projects, were rescheduled or cancelled.

Table 2.18
Waves of Layoffs in 1998

Month	Laid off		Laid off in process		Sluggish	
	Company	Worker	Company	Worker	Company	Worker
1998						
January	103	10,237	32	2,842	65	28,039
February	93	14,275	20	3,122	31	7,661
March	109	10,908	9	808	41	9,201
April	80	7,775	11	937	24	4,664
May	163	17,596	7	2,800	17	1,153
June	75	6,396	7	776	6	582
July	120	20,800	–	–	12	976
August	8	2,026	1	1,742	1	60
September	12	578	–	–	–	–
October	46	3,384	3	226	6	8,420
November	7	874	–	–	–	–
December	15	13,514	1	70	–	–
Total	**831**	**108,363**	**91**	**13,323**	**203**	**60,756**

Source : Ministry of Manpower

Table 2.19
Labor Force Absorption by Sector

Sector	1997	New Unemployment 1)	1998	New Unemployment 1)
	In millions of persons			
Agriculture	35.8	–1.9	39.4	–3.6
Mining	0.9	0.1	0.7	0.2
Manufacturing	11.2	0.4	9.9	1.3
Electricity, gas, and clean water	0.2	0.1	0.1	0.1
Construction	4.2	0.4	3.5	0.7
Trade	17.2	1.1	16.8	0.4
Transportation and communication	4.2	0.2	4.2	0.0
Finance	0.7	0.0	0.6	0.0
Services	12.6	0.9	12.4	0.2
Total	**87.1**	**1.4**	**87.7**	**–0.6**

1) The differences between total employment in current year to total employment in preceding year
Source : Central Bureau of Statistics

The finance sector also introduced lingering lay off, particularly in the banking industry in consequence of the closure of a number of banks. Given the white collar employees the banking sector employed, the wave of layoffs from this industry had added to the number of intellectual job seekers. Meanwhile, the labor force in agriculture grew, with the absorption of an additional of 3.6 million workers. This employment growth was in line with the larger role that agriculture played as a resilient basis of the economy in the midst of its crisis.

Tabel 2.20
Regional Minimum Wages (UMR) and
Minimum Living Requirements (KHM)

Year	UMR	KHM	UMR	KHM	UMR/KHM 1)
	In rupiah/month		In percent change		In percent
1994	80,000	97,036	33.7	3.2	82.4
1995	93,299	104,217	16.6	7.4	89.5
1996	122,229	132,160	31.0	26.8	92.5
1997	134,986	142,039	10.4	7.5	95.0
1998	155,229	205,112	15.0	44.4	75.7

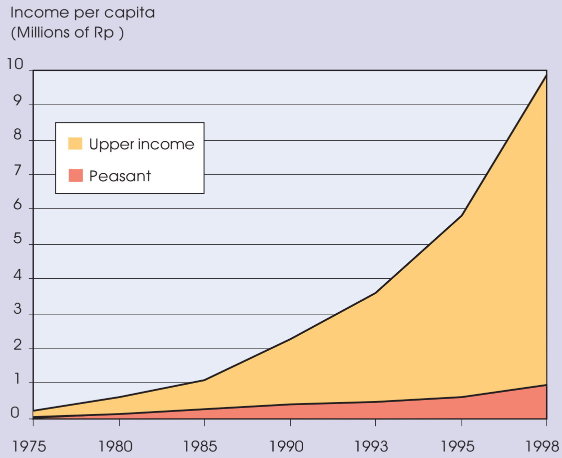
1) UMR to KHM Ratio
Source : Ministry of Manpower

Table 2.21
Disposable Income per Capita by Groups of Households

Type of household	1993	1995	1998
	In thousands of rupiah		
Peasant	468.2	593.0	937.8
Small farmers (land owner 0.5 ha)	757.6	936.3	1,537.6
Farmers (land owner 0.5–1 ha)	901.7	1,201.4	1,989.2
Farmers (land owner >1 ha)	1,471.8	1,762.8	2,954.1
Non-agriculture (low income) in rural areas	632.7	1,768.1	2,798.3
Non classified labor force (rural)	1,325.0	1,675.4	2,505.6
Non-agriculture (upper income) in rural areas	1,853.8	3,439.0	7,408.3
Non-agriculture (low income) in urban areas	1,019.3	2,288.6	3,370.9
Non-classified labor force (urban)	1,235.0	2,048.1	3,123.1
Non-agriculture (upper income) in urban areas	3,105.7	5,241.8	8,940.1
Total	**1,235.5**	**2,038.8**	**3,261.5**

1) Monthly cumulative
Source : Central Bureau of Statistics

Chart 2.2
Income Disparity between Groups of Households



In line with the population growth, the size of the labor force also grew in 1998 by 1.5% to 92.7 million, as compared with that in the earlier year. It included the stock of previously unemployed workers, the newly laid off workers, and new labor force entrants. The excess supply of labor had caused job seekers to take ill-paying jobs, which did not meet their respective aspirations.

Worse still, real wage fell sharply as a result of the high inflation rate. This real wage cut was reflected in a decline in the ratio of regional minimum wages over minimum living requirements from 95.0% in 1997 to 75.7% in 1998 (Table 2.20).

The falling disposable income and rising inflation increased the proportion of the population living under the poverty line. The daily consumption of calories per capita declined from 2,198 in 1997 to 2,040 in 1998. The poorest segment of the population faced greater constraint in consuming a sufficient amount of calories and proteins. Consequently, their minimum health standards were not met and the living quality of their children dropped, leading to a reduced quality of human resources in the future.

The severe depth of the economic contraction had widened the social gap, as highlighted in the wide range of disposable income among households (Table 2.21). The nominal income increase for lower-level households, such as farmers, was not as high as that for higher income households, which generally have more resources (Chart 2.2).

Chapter 3 Balance of Payments

Indonesia's balance of payments in fiscal year 1998/99 was characterized by sluggish international trade and reduced confidence on the part of external market participants. Export and import activities fell, and the private capital account deficit persisted. The low level of exports, for both oil/gas and non-oil/gas commodities, resulted primarily from reduced international prices. The major slowdown in imports originated particularly from the weak of rupiah and importers' difficulties in obtaining adequate trade financing. As a result of the sharp fall in imports, the current account recorded a surplus for the first time during the past 17 years. The large deficit in the private capital account was in large part caused by the ongoing process of solving the external corporate debt overhang. Nonetheless, because of a significant rise in official capital inflows, the overall capital account posted a surplus. Surpluses in both the current and capital accounts led to a surplus in the overall balance of payments, as opposed to a large deficit for the previous year. Gross foreign assets (GFA) and net international reserves (NIR) increased respectively to \$25.7 billion and \$15.8 billion (Table 3.1).

In the reporting year, exports --initially expected to lead the economic revival-- were confronted by external and internal impediments which hampered their ability to benefit from the weakening rupiah. On the external front, world trade volume slumped due to the global crisis that weakened international demand. Lackluster international demand in turn led to reduced prices for many traded commodities, both oil/gas and non-oil/gas. For non-oil/gas commodities in particular, the fall in export prices to a significant extent, was due to greater competition among Asian countries whose currencies all depreciated.

On the domestic side, scarcity of raw materials and intermediate import supplies --because of difficulties with import letters of credit and, in particular, in providing cash collateral to open letters of credit-- resulted in the inability of companies to utilize their optimal production capacity. Consequently,

Table 3.1
The Indonesia Balance of Payments

Item	1996/97	1997/98r	1998/99*
	In billions of dollars		
A. Current Account	**–8.1**	**–1.7**	**4.2**
1. Goods	6.2	13.5	17.6
a. Exports f.o.b.	52.0	56.2	47.4
i. Non-oil/gas	39.3	45.9	40.3
ii. Oil/gas	12.8	10.2	7.2
Oil	7.5	5.9	4.0
LNG	4.7	3.9	2.9
LPG	0.6	0.4	0.3
b. Imports f.o.b.	–45.8	–42.7	–29.8
i. Non-oil/gas	–41.1	–38.6	–26.9
ii. Oil/gas	–4.7	–4.1	–2.9
Oil	–4.4	–3.8	–2.6
LNG	–0.3	–0.3	–0.3
2. Services	–14.3	–15.2	–13.4
a. Non-oil/gas	–10.7	–10.6	–10.8
b. Oil/gas	–3.5	–4.6	–2.6
i. Oil	–1.8	–2.1	–1.3
ii. LNG	–1.7	–2.5	–1.3
B. Capital Account	**12.7**	**–7.6**	**2.2**
1. Net official capital inflows	–0.8	4.2	12.5
a. Official inflows	5.3	8.3	15.4
b. Debt repayment	–6.1	–4.1	–2.9
2. Net private capital inflows	13.5	–11.8	–10.3
a. Foreign direct investment	6.5	1.8	0.1
b. Others	6.9	–13.6	–10.4
C. Total (A + B)	**4.6**	**–9.3**	**6.4**
D. Net Errors and Omissions (C and E)	**–0.7**	**–0.8**	**2.8**
E. Monetary Movements	**–3.9**	**10.1**	**–9.2**
Note :			
1. Net international reserves (NIR)	19.9	13.2	15.8
2. Gross foreign assets (GFA)	26.6	16.5	25.7
equivalent to non-oil/gas imports (months)	7.0	4.6	10.3
3. Current account deficit/GDP (%)	-3.5	–1.2	3.8

their production processes to meet export orders were interrupted and could not proceed smoothly. Another important impediment for exports, most notably non-oil/gas products, was a squeeze on working capital due to the high cost of borrowing. Added to this difficulty was an atmosphere of susceptibility to social disruptions that raised concern to offshore buyers on the punctuality of their delivery orders.

Consequently, foreign importers tended to review their purchase orders with a view to renegotiating their terms. Some even cancelled their contracts with Indonesian producers. Cancelled orders were most common in fashion products, such as garments and shoes. In addition, Indonesian non-oil/gas exporters encountered difficulties in obtaining containers for their export shipments.

Although a surplus was recorded in the capital account for the reporting year, this surplus resulted from official capital inflows, which doubled over the preceding year. This increase was attributed to the disbursements from the IMF and other international donor agencies in the context of their support for Indonesia's economic recovery. On the other side of the ledger, a private capital account deficit persisted as a consequence of the enormous repayments of foreign loans and the low inflows of private capital for direct investment purposes. The high repayment level to foreign creditors stemmed, in part, from the ongoing process of corporate debt restructuring. The external corporate debt restructuring process, excluding interbank debt, dragged because of the difficulties in reaching agreements between debtors and creditors. The low level of private capital inflows for direct foreign investment in Indonesia reflected a low level of confidence on the part of foreign investors in the country's immediate economic prospects.

Trade Policy and External Debt

In view of the strategic role of external financing in restoring the economy and easing balance of payments pressures, the government initiated policies to address the international trade problem and the external debt overhang. The policies include efforts to (i) expedite flows of trade and provide trade financing facilities to generate foreign exchange earnings and (ii) overcome liquidity difficulties in foreign exchange through restructuring of principal and interest payments for maturing short-term external debts.

To address external trade difficulties, Bank Indonesia instituted a number of measures that basically improved the existing financing and collateral facilities (including fund placement by Bank Indonesia). In addition, the measures also broadened such facilities by expanding the coverage of schemes. Included with the measures were providing equal opportunity to all exporters (designated and non-designated exporters), eliminating import barriers for groups of commodities, and expanding L/C's issuing banks to all foreign exchange banks insofar as they do not possess trade arrears.[1)] Out of $1 billion placed by Bank Indonesia as a collateral for import L/Cs, $865 million was realized mostly for imports of fuel by Pertamina (oil state company), of food by Bulog (the National Logistic Agency), and of fertilizer.

In addition to the collateral and trade financing facility from Bank Indonesia were a number of schemes from foreign governments and institutions, such as JEXIM Bank-Japan, EFIC-Australia, US-EXIM Bank, GSM-102-Department of Agriculture-the USA, CWB-Canada, EDC-Canada, ECGD-the UK, and KFW-Germany. Each scheme had different forms and procedures, but all required a guarantee from the government/Bank Indonesia.

The total ceiling of foreign aid pledged was $3.9 billion, and only $1.1 billion (26.7%) was realized. The large size of the unused resources was primarily attribut-

1) Board of Directors Bank Indonesia Decree No. 31/187/KEP/DIR, dated January 11, 1999

able to uncertain expectations on the rupiah exchange rate and the high risk premium carried by the banks in the face of concentrated commercial risks that have not been proportionally spread. Another cause was an unfortunate mismatch of import products between those that were guaranteed and those needed by domestic exporters.

In addressing the issue of low confidence in the national banks, the government, through Bank Indonesia, provided a trade finance facility that guaranteed payments of trade transactions that use L/Cs opened by Indonesian banks.[2] Such a facility required the government to settle all the trade arrears in accordance with the Frankfurt agreement. Therefore, Bank Indonesia had provided bridging finance to national banks to address the arrears.[3] Up to the end of the year under review, Bank Indonesia had settled the trade arrears of national banks for a total of $1.2 billion. This figure comprised trade arrears that fell due on June 30, 1998 amounting to $1.01 billion, those which fell due within the period of July 1, 1998 to December 31, 1998, totaling $0.17 billion, and those which fell due after December 31, 1998 amounted to $0.02 billion.

The settlement of trade arrears enabled the country to obtain credit lines of $2.76 billion from 104 foreign banks. Out of the number of banks, 63 banks submitted their respective confirmation letters that was endorsed by Bank Indonesia to obtain a government warrant worth $2.28 billion (82.6%). In so far, national banks realized an amount of $1.37 billion (60.1%).

To revive the real sector through increased financial services to exporters, it is necessary to expand the coverage of the financing facility through risk sharing of importer's or exporter's obligations to issuing banks. In this regard, Bank Indonesia and the Finance Ministry together with PT Askrindo (state credit insurance) and the public accountant agreed to create an appropriate scheme, namely the Export Guarantee Program on Reviving the Real Sector.[4] This program offered a commercial risk sharing facility between the government, in this case Bank Indonesia, and the issuing bank, in the order of 80% and 20%. PT Askrindo serves as the channeling agent and the public accountant is responsible for monitoring the implementation of the scheme. In this program, Bank Indonesia acts as provider of bridge-financing for any claims under the order of Finance Ministry.

In view of promoting foreign exchange earnings expeditiously, the government/Bank Indonesia by the end of the reporting year took the initiative to establish an Export Financing Agency. The agency was designed to provide investment and working capital funds for exporters as a pre-shipment facility, swap and forward mechanisms for export proceeds as a post-shipment facility, credit collateral for exporters to open import L/Cs for raw materials and supporting materials, and export insurance (Box : Export Financing Agency).

Meanwhile, efforts to restructure the official debts proceeded well, with an agreement between the government and the external creditors represented by 17 donor countries. The agreement was reached through the Memorandum of Understanding (MoU) on the external official debt restructuring under the umbrella of the Paris Club on September 23, 1998. The agreement emphasizes the rescheduling of principal repayments that due within the consolidation period of August 1, 1998 to March 31, 2000.

Based on MoU of the Paris Club, the restructured loan amounted to $4.2 billion, comprising $1.2 billion of soft loans and $3.0 billion of export credits. The con-

2) Presidential Decree No. 120/1998, dated August 12, 1998, Board of Directors Bank Indonesia Decrees No. 31/89/KEP/DIR, dated September 7, 1998, and No. 31/174/KEP/DIR, dated December 22, 1998
3) Board of Directors Bank Indonesia Decree No. 31/53A/KEP/DIR, dated June 19, 1998

4) Minister of Finance Decree No. KEP-046/KM.17/1999, dated January 29, 1999 and Governor Bank Indonesia Decree No. 31/201/KEP/DIR, dated January 29, 1999

cessional loan was rescheduled or refinanced by new loans with a 20-year maturity, including a five-year grace period with prevailing interest rate of concessionary loans. The non-concessional loan was either refinanced or rescheduled with an 11-year maturity, inclusive a three-year grace period and prevailing market interest rate. The loan from the Government of Japan was refinanced with a new loan issued for the same amount of money as the matured one. Further negotiations with external creditors were under way with an emphasis on rescheduling the stand-by loan of 1994 that would be due in March 1999.

With regards to the external private corporate debt, the negotiating team for private external debt settlement (TUPLNS), supported by the government, had conducted a series of negotiations with external creditors represented by the Bank Steering Committee. The negotiation in Frankfurt on June 4, 1998 reached a consensus on settling interbank debt, the private corporate debt, and trade finance.

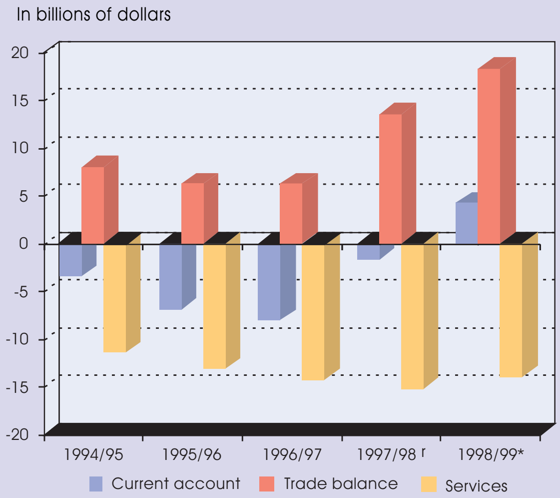
Interbank debt settlement went through interbank debt exchange offer. In the first phase, the exchangeable loan refered to debt that matured up to March 31, 1999. The loans that qualified in terms of their respective maturity were rescheduled by converting them into new loans with a maximum maturity of 4 years. The rescheduled external interbank loans amounted to $3.0 billion, involving 41 banks. In terms of their maturity, the rescheduled loans consist of 13.3% of debt with a 1-year maturity, 26.6% with a 2-year maturity, 48.0% with a 3-year maturity, and 12.1% with a 4-year maturity.

Later on, the London meeting on March 29, 1999, with the Bank Steering Committee resulted in another interbank debt exchange offer. The exchangeable loans refer to those that will be due within the period of April 1, 1999 up to December 31, 2001. Those loans will be transformed into new debts with maturity due in the period of 2002 to 2005. In comparison with the first exchange program in 1998, the 1999 exchange program had a lower interest rate margin. The second program was expected to support fostering Indonesia's long-term restructuring program on the banking industry. In addition, the exchange program strengthened the external payments position and ensured the availability of fund sources for Indonesian banks. So as to enable banks to restructure private credits at commercial rate. Accordingly, the program will benefit not only to banks but also to private sector as a whole.

As regards the short-term corporate debt settlement, the government set up the Indonesian Debt Restructuring Agency (INDRA). INDRA served as an intermediary institution between corporate debtors and external creditors. In its development, after deliberating various insights, INDRA modified its schemes (Box: Revision on the INDRA scheme). In close association with the INDRA scheme, the government established a task force in the form of the Jakarta Initiative to help expedite the negotiations between corporate debtors and creditors. The task force served as a facilitator for indebted corporations facing difficulties in resolving their debt overhang. As such, debtors have three options to resolve the debt issue: joining the INDRA scheme, conducting bilateral negotiations to reach a mutual consensus such as a debt-equity swap, and resorting to a commercial court by using the bankruptcy law. Further, as a supplement to the Jakarta Initiative, the government founded a one-stop service center to facilitate either administration or regulation in the context of corporate restructuring. At the implementation level, up to the end of the reporting year, the task force of the Jakarta Initiative handled 122 cases with totaling debt about $15.5 billion.

Up to the end of the year under review, the various policy measures had not met all their aims, specifically the restoration of international confidence. The main reason was the social and political instability. Additionally, domestic banks had been in the consolidation process. This affected the effectiveness of the policy mea-

Chart 3.1
Current Account, Trade Balance, and Services Account



sures, particularly in trade financing since business sector's prospects and performance could not be disassociated from revitalizing the banking sector.

Current Account

As in other Asian countries that were hard hit by the currency crisis, Indonesia's current account recorded a surplus. In 1998/99, current account surplus reached $4.2 billion, or about 3.8% of GDP, in contrast with the previous year's deficit of $1.7 billion or about –1.2% of GDP. The current account surplus originated from an increase in trade balance surplus by $4.1 billion, despite a decline in the services account deficit by $1.8 billion (Chart 3.1). The higher surplus in the trade account stemmed from an increase in non-oil/gas account in the face of a sharp drop in imports (Chart 3.2). Meanwhile, the lower deficit in the service account resulted from a lower deficit in the oil/gas account due to a decrease in net contractor share.

Exports

After climbing by 7.9% in the preceding year, the value of exports in 1998/99 dropped 15.6% to $47.4 billion. The decline occurred in both the oil/gas and non-oil/gas accounts (Chart 3.3).

On the oil/gas account, declines in export value that took place in the previous year persisted in the reporting year. The value of oil/gas exports fell saliently by 30.1%, as compared to a 19.8% decline for the previous year. The fall, in both oil (-31.4%) and gas (-28.4%), was attributed to lower oil prices in the international market as a result of world excess supply. The decline in export value for oil, LNG, and LPG occurred in all countries of

Chart 3.2
Trade Balance

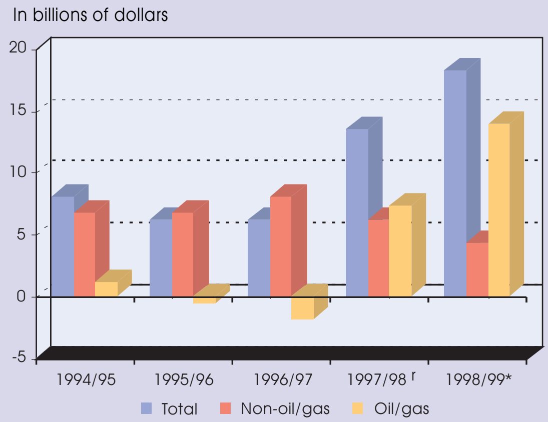


Chart 3.3
Export Value

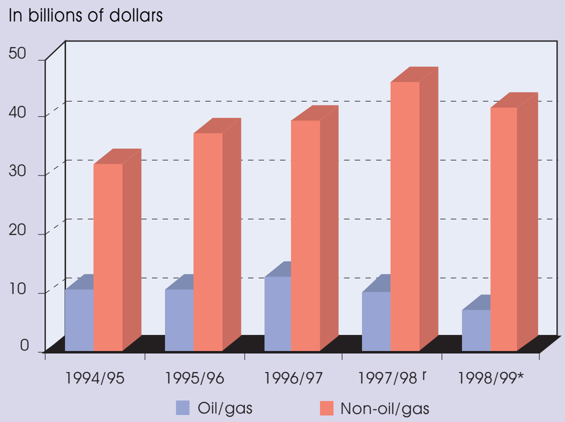
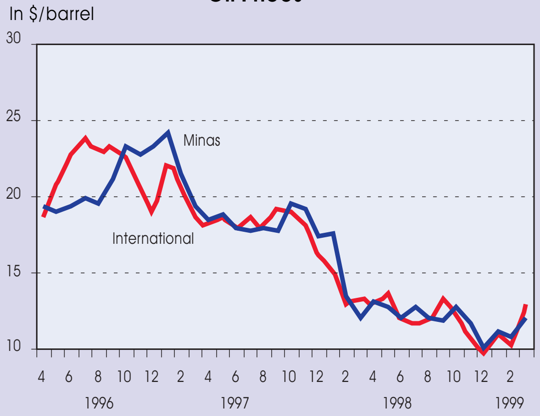


Chart 3.4
Oil Prices 1)



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

Table 3.2
Oil/gas Exports by Country of Destination

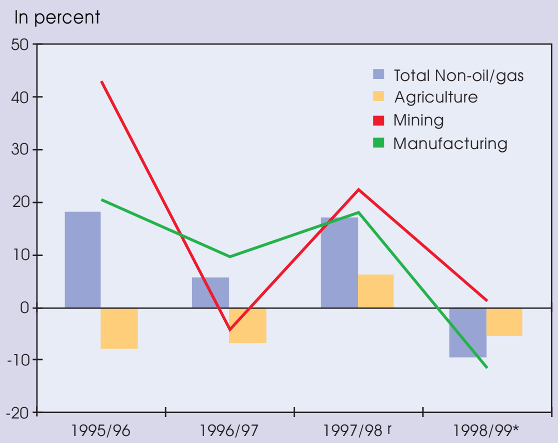
Item	1997/98r		1998/99*	
	Value 1)	Share (%)	Value 1)	Share (%)
A. Oil				
1. United States	**398.4**	**6.8**	**354.4**	**8.8**
Crude oil	343.7		313.7	
Oil products	54.7		40.7	
2. Japan	**1,798.3**	**30.7**	**1,207.1**	**30.0**
Crude oil	1,520.9		1,057.7	
Oil products	277.4		149.4	
3. Others	**3,657.5**	**62.5**	**2,455.5**	**61.1**
Crude oil	2,864.7		2,054.6	
Oil products	792.8		400.9	
Sub total :	**5,854.2**	**100.0**	**4,017.0**	**100.0**
Crude oil	4,729.3		3,426.0	
Oil products	1,124.9		591.0	
B. Gas				
1. LNG	**3,977.5**	**100.0**	**2,908.0**	**100.0**
1. Japan	2,584.8	65.0	1,890.0	65.0
2. South Korea	993.5	25.0	761.2	26.2
3. Taiwan	399.2	10.0	256.8	8.8
2. LPG	**407.0**	**100.0**	**230.0**	**100.0**
1. Japan	339.5	83.4	189.7	82.5
2. Singapore	0.2	0.0	–	–
3. Others	67.3	16.5	40.3	17.5

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

destination (Table 3.2). In 1998/99, the average oil price of Indonesia's oil exports was only $11.8 per barrel, lower than $16.9 in 1997/98 (Chart 3.4). At the end of the year under review, policies to reduce oil production by the OPEC member countries to restore oil prices began to gain ground.

In addition to affecting price, the slide in world demand also reduced the export volume of oil and liquefied petroleum gas (LPG). In 1998/99, the export volume of oil and LPG declined respectively by 2.1% and 21% after experiencing a drop of 3.8% and 15.8% in the preceding year. Meanwhile, the export volume of liquefied natural gas (LNG) slightly increased by 1.0% after registering a 1.2% rise in the previous year.

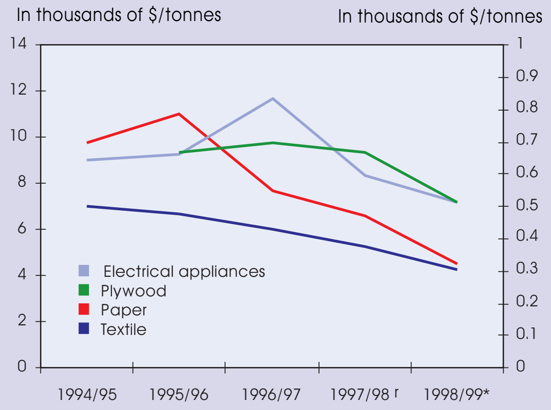
Chart 3.5
Non-oil/gas Export Growth



In the non-oil/gas account, the value of exports in 1998/99 totaled $40.3 billion, a decrease of 12.3%, in contrast with an increase of 17% for the previous year. The decrease originated from a slower growth of exports for manufactured goods, agricultural commodities, and mining products (Chart 3.5).

The export value of manufactured products fell 14.0% in contrast with an 18.1% increase in the year before. This noticeable fall stemmed from lower export prices and sluggish demand, particularly in East Asian countries (Chart 3.6). Besides, the lower export prices also resulted from tighter price competition, notably among Asian countries whose currencies underwent a

Chart 3.6
Prices of Selected Manufactured Goods



large depreciation. The worsening export value of manufactured products originated primarily from declines in the export value of textile and textile products by 16.8%, plywood by 38.4%, palm oil by 34.7%, electrical appliances by 17.7%, and footwear by 32.0% (Table 3.3). The decline in textile and its products was caused by lower export prices despite the increased export volume. The increase of export volume of manufactured products, particularly garments, resulted from

Table 3.3
Export Value of Selected Manufactured Goods

Item	1997/98r	1998/99*	1998/99*	
	Percent change		In millions of $	Share (%)
Textile and textile products	32.0	–16.8	6,614	21.4
Garments	32.0	–16.5	3,613	11.7
Wood and wood products	0.9	–28.0	4,001	12.9
Plywood	–5.9	–38.4	2,091	6.8
Electrical appliances	–12.5	–17.7	2,675	8.7
Paper	72.3	–6.3	2,191	7.1
Chemical products	42.0	12.2	2,078	6.7
Handicraft	178.0	-7.5	1,503	4.9
Machineries	19.0	4.1	1,483	4.8
Footwear	4.8	–32.0	1,476	4.8
Palm oil	57.6	–34.7	1,030	3.3
Others	12.7	–8.9	8,898	28.8
Total	**18.1**	**–14.0**	**30,919**	**100.0**

producer's preference to sell products in the overseas markets in spite of their low prices. In addition, such increase was prompted by an additional textile export quota from the United States. Given the mounting pressures from buyers on exporters to deliver orders quickly, the additional quota was a great assistance because of the high utilization of the existing quota up to September 1998. As understood, markets for textiles and their products consist of markets with and without quotas, whereas the contribution from the quota market to Indonesia's foreign exchange earnings for the textile industry over the past few years had exceeded 50%.

Similar developments took place for plywood. Its value dropped despite a slight increase in its volume. The plywood industry faced formidable challenges as a result of, among others, the removal of export bans on log.[5)] Consequently, a number of companies that manufactured plywood and other manufactured woods confronted difficulties in buying logs as raw materials.

The export of palm oil in the reporting year slipped as a consequence of a major decrease in its export volume. The government happened to ban crude palm oil (CPO) exports to meet its enormous domestic demand. In view of prioritizing supply stability and steady prices inside the country. Although the ban has been lifted [6)] and export prices trended upward, the CPO export value declined compatible with a precipitous fall of its export volume.

Exports of footwear also dropped mainly because of their lower export volume. Purchase orders from abroad decreased in consequence of the lingering buyers concern about the continuity of supply and punctuality of delivery from Indonesia. Footwear exports -- mostly headed for the European and the US markets in the form of branded shoes -– require firm

5) Minister of Trade and Industry Decree No. 185/MPP/Kep/4/1998, dated April 20, 1998
6) Minister of Trade and Industry Decree No. 181/MPP/Kep/4/1998, dated April 17, 1998

punctuality because of the nature of the products. This is associated with seasonal and fashion in the importing countries, hence, timeliness in meeting purchase orders is instrumental. The unstable environment in the country, characterized as prone to internal disruptions, made foreign investors jittery. Accordingly, some buying firms transferred their purchase orders to other supplying countries.

In the midst of a major setback in the export value of manufactured products, the export value of some products managed to grow, such as chemical products, cement, and steel. The drive was their volume that ascended appreciably. Against this backdrop, manufacturing industry continued to play a key role in promoting non-oil/gas export since 76.8% of the non-oil/gas foreign exchange earnings still came from manufacturing (Chart 3.7).

The second largest contributor to foreign exchange earnings was agriculture sector. Because of the low import content of agricultural products, agriculture is expected to contribute significantly to foreign exchange earnings through the non-oil/gas export. However, because of a sharp decline in the prices of agricultural commodities, a considerable increase in the export volume, by 17.1%, failed to raise the value of exports (Chart 3.8). The export value of agricultural goods fell 11.7% in contrast with an increase of 6.0% for the previous year (Table 3.4).

The overall decline in the export value of agricultural commodities reflected a 28.3% decrease in the export value of natural rubber. The driving force was a drastic drop in rubber price as a result of a major slow-

Table 3.4
Export Value of Selected Agricultural Commodities

Commodity	1997/98r	1998/99*	1998/99*	
	Percent change		In millions of $	Share (%)
Animal and animal products	15.7	−11.4	1,680	35.2
- Shrimp	7.8	−7.9	988	20.7
Rubber	−23.9	−28.3	976	20.4
Coffee	−0.8	0.4	599	12.6
Cocoa	9.1	41.4	413	8.7
Pepper	86.1	21.8	207	4.3
Tea	49.6	−17.2	142	3.0
Tobacco	74.9	−6.1	132	2.8
Others	18.9	−12.1	3,292	69.0
Total	**6.0**	**−11.7**	**4,774**	**100.0**

Chart 3.7
Share of Commodities in Non-oil/gas Exports

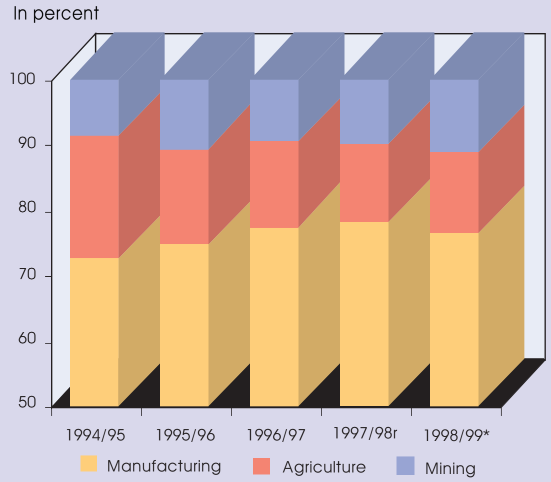
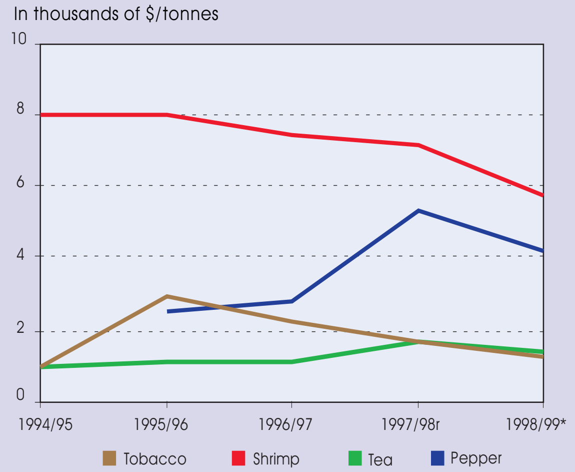


Chart 3.8
Prices of Selected Agricultural Commodities



down in its demand from Japan, Korea, and the US. These three countries confronted a salient downturn in their respective automotive industries that resulted in a declining demand for rubber. On the supply side, depreciating currencies in the rubber-producing countries, such as Indonesia and Thailand, had led to a rise in rubber production for export purposes. Consequently, an excess supply of rubber was inescapable and in turn its price sank. Besides rubber, other primary commodities in the agricultural sector that moved downward were tea, tobacco, and livestock and its products.

On the contrary, the export value of cocoa and pepper increased remarkably. The increased export value of cocoa stemmed from a rise in both price and volume. The higher cocoa price was mainly attributed to a decreased world supply due to a reduced supply from Malaysia that trended to shift to palm oil and from Brazil that experienced a bad harvest. The excess demand for cocoa drove foreign traders to search for cocoa by going directly to its production centers. Accordingly, the export volume of cocoa in the year under review surged rapidly.

The export value of mining products grew at a much slower pace, from 22.4% in the preceding year to

Chart 3.9
Prices of Selected Mining Products
(In thousands of $/tonnes)

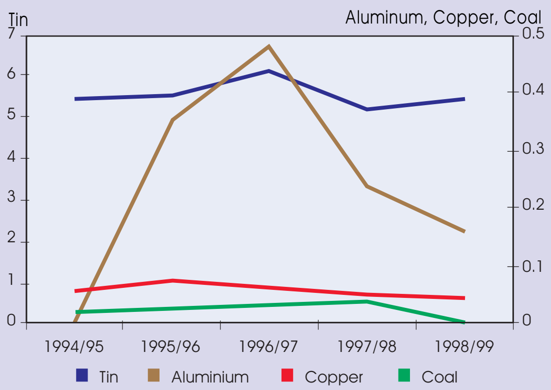


Table 3.5
Export Value of Selected Mining Products

Item	1997/98r	1998/99*	1998/99*	
	Percent change		In millions of $	Share (%)
Copper	–3.4	22.7	1,786	39.0
Coal	75.5	–8.4	1,676	36.6
Gold	321.1	14.5	401	8.7
Tin	–7.7	1.9	270	5.9
Nickel	–31.1	–29.9	158	3.5
Aluminum	–7.1	–45.9	159	3.5
Others	–23.1	–26.9	287	6.3
Total	**22.4**	**-0.2**	**4,579**	**100.0**

–0.2%. This slowing growth came from a lower export value of coal and aluminum. The decrease in the export value of coal originated from its price decline despite an increased volume (Chart 3.9). The decline in coal prices was caused by a fall in prices of other mining products such as oil and gas. Meanwhile, the increase in coal volume resulted from its higher demand from East Asian countries as they were constructing their own coal-based electrical generators. The lower export value of aluminum originated from decreases in both volume and price. Meanwhile, the export value of copper and gold ascended owing to their higher export volumes (Table 3.5).

In 1998/99, countries of destination for Indonesian exports remained centered on the USA, Japan, Southeast Asian countries, and European countries (Chart 3.10). Nonetheless, the shares of export to other countries, such as those in the continents of Africa and Australia, grew. This gives hopes for Indonesia to expand its export markets.

Imports

In 1998/99, the total value of imports dropped drastically by 30.2% to $29.8 billion, as compared with a 6.8% de-

Chart 3.10
Non-oil/gas Exports by Country of Destination in 1998/99

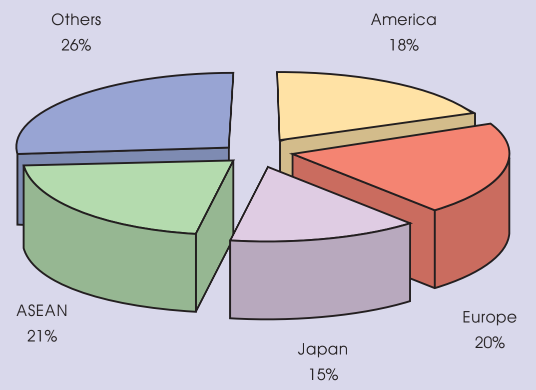


Table 3.7
Imports of Consumer Goods 1)

Item	1997/98r	1998/99*	1998/99*	
	Percent change		In millions of $	Share (%)
Vehicles for non-industry	122.7	–43.2	257	17.1
Durable goods	1,223.8	-8.1	255	17.1
Semi-durable goods	4.0	-31.5	229	15.3
Non-durable goods	9.8	-29.3	221	14.8
Food and beverage materials	-67.0	-55.1	157	10.5
Food and beverage for household	-8.0	–32.3	155	10.4
Other	21.6	–30.0	1,185	79.2
Total	**–16.0**	**–34.1**	**1,497**	**100.0**

1) f.o.b.

crease in the previous year. Both oil/gas and non-oil/gas imports fell by 30.2% and 30.1% respectively. The fall in oil/gas import resulted from a lower price of crude oil. In addition, domestic fuel consumption also declined 3.7% in line with the economic downturn. The drop in non-oil/gas imports was attributable to the high import price in rupiah terms, a major slowdown in production and investment activities in the country, and rejections of import L/Cs due to the foreign parties' low confidence.

The fall in the import value of non-oil/gas commodities came from all groups of products: consumer goods, raw materials, and capital goods (Table 3.6). The import value of consumer goods in the year under review fell by 34.1% to $1.5 billion, mainly as a result of diminishing purchasing power due to an overly exchange rate depreciation. The import fall centered on durable consumer goods and food and beverages for household consumption (Table 3.7). In the reporting year, the government imported essential items in light of social safety net program mainly in the form of food staples, fertilizer, and medicines.

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

Category	1997/98r		1998/99*	
	Share	Change	Share	Change
	In percent			
Capital goods	26.6	2.2	25.2	–33.9
Raw and auxiliary materials	67.5	–8.1	69.2	–28.5
Consumer goods	5.9	–15.9	5.6	–34.1
Total	**100.0**	**–6.8**	**100.0**	**–30.2**

Meanwhile, the decrease in raw materials imports reached 28.5%, lower than an 8.1% decline in the year before. The decline centered on semi-processed raw materials for factories, spare-parts, transportation equipment and their parts, and capital goods equipment. Expensive and scarce imported materials caused a number of manufacturers to reduce their imports. In addition, the supply of raw materials was also disrupted, since a number of plants closed down their operations. These closures not only disrupted the operations of other domestic plants in the light of disappearing materials but also reduced exports of raw materials.

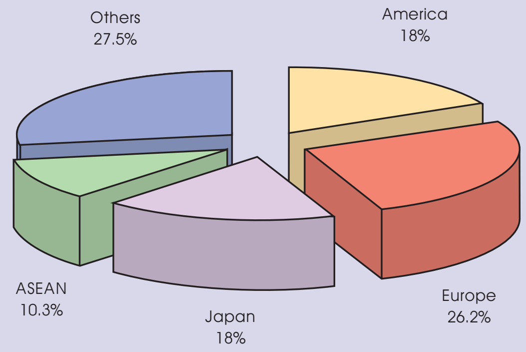
In the midst of the downturn in raw materials imports, however, the imports of unprocessed raw materi-

Table 3.8
Imports of Capital Goods [1)]

Item	1997/98r	1998/99*	1998/99*	
	Percent change		In millions of $	Share (%)
Machineries	–0.3	–30.4	4,333	63.8
Generator and electrical appliances	47.3	–51.5	950	14.0
Locomotives, vessels, and airplanes	53.0	–2.9	887	13.1
Optical, measurement, and survey instruments	–9.0	1.2	439	6.5
Cargo vehicles	–26.7	23.8	92	1.4
Others	–47.5	–86.2	91	1.3
Total	**2.2**	**–33.9**	**6,792**	**100.0**

1) f.o.b.

Chart 3.11
Non-oil/gas Imports by Country of Origin in 1998/99



als, such as cotton, corn, metal and non-metal materials, increased substantially by 47.8% in the reporting year. This increase indicated that, despite the country's indolent economic activity, a number of factories continued operating and hence needed imported raw materials to meet production needs.

The slowdown in domestic manufacturing industry brought down imports of not only raw materials but also capital goods. In the year under review, imports of capital goods dropped 33.9% to $6.8 billion, as compared to a 2.2% rise in the earlier year (Table 3.8). The drive was a lower import of generator and electronic appliances by 1.5%.

One category of capital goods import grew considerably, i.e., by 23.8%, was containers. Despite this growth, it was by no means easy for exporters to get containers.

As in the previous years, share of raw materials in total exports was the largest, namely 69.2%, followed by capital goods and consumer goods, each constituting 25.2% and 5.6%. Meanwhile, in the midst of a considerable import slowdown, Indonesia's imports from Germany, Pakistan, and Saudi Arabia climbed respectively by 2.8%, 208.6%, and 4.7%, after experiencing declines in the preceding year. Japan, the USA, and Germany continued to represent lead countries of origin for Indonesia's imports (Chart 3.11).

Services

Unlike in previous years, deficit in the services account fell during the year under review, from $1.8 billion to $13.4 billion. This lower deficit in the balance of services originated from a decrease of $2.0 billion in the deficit of the oil/gas services to $2.6 billion, whereas the non-oil/gas deficit continued climbing, namely by $0.3 billion (Chart 3.12). The deficit in the balance of non-oil/gas services continued to represent the largest source of deficit, 80.8%, in the services account deficit.

The lower deficit in oil/gas services resulted mainly from non-freight services, which dropped by $1.9 billion to $2.3 billion. The drive was a decline in net contractor share due to lower oil/gas earnings. In addition, in step with declines in oil/gas imports, freight services declined slightly, from $0.4 billion to $0.3 billion.

In the non-oil/gas services accounts, the overall deficit still ascended as a consequence of increased deficit in the non-freight services by $1.9 billion to $8.1 billion. In the meantime, the freight services deficit fell by

Chart 3.12
Services Account

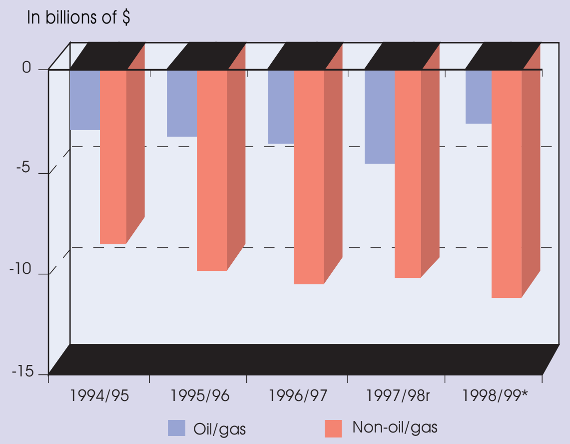
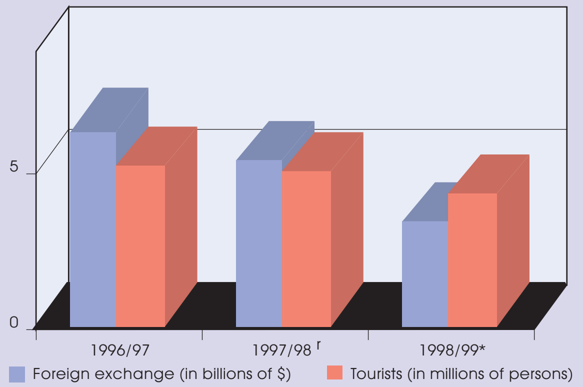


Chart 3.13
Foreign Exchange Earnings from Tourism Industry and Arrival of Foreign Tourist



$1.6 billion along with decreased imports. The higher deficit in the non-freight services stemmed primarily from a rise in interest payments for the external debt to $7.0 billion. The higher interest payments originated from increased interest payments of foreign corporation debt and official debt. Particularly for the official debt interest payment, the rise of $2.9 billion was attributed to higher external official loans outstanding.

On the revenue side of the non-oil/gas services balance, the largest foreign exchange earnings still came from the tourism industry, despite its decrease of $1.8 billion to $4.3 billion. In the reporting year, the number of foreign tourists who visited Indonesia dropped from 4.9 million persons to 4.3 million (Chart 3.13). The main entry gateways for foreign tourists, namely the Ngurah Rai and Soekarno-Hatta airports, with shares amounting respectively to 30.2% and 19.7%, recorded a fall in the arrival of foreign tourists in the reporting year. The fall originated particularly from a lesser number of flight routes to and from Indonesia and the application of travel advisory notes[7)] by the governments of several countries, such as the United States, Japan, and Singapore. Meanwhile, the arrival of foreign tourists in Batam, with its share of 28.6%, continued to rise. In addition, the average amount of expenditure spent per visit of foreign tourists during their stays in Indonesia fell from $1,308.3 to $1,014.9 per capita.

The second largest foreign exchange contributor came from remittances sent by Indonesian workers working abroad. In the reporting year, workers remittances via banks fell drastically as a result of, among others, the government policy to reduce the number of unskilled workers who desired to work abroad and the return of problem workers from some countries, especially Malaysia. Unlike the previous years, in the reporting year, transfers from workers via non-bank institutions started to appear. In total, workers remittence reached $711 million.

In the meantime, grants received by the Government of Indonesia surged from $200 million to $617 million. The grants came largely from Japan and the United States to restore the economy. The grants were granted under the umbrella of the CGI in the form of food aid and technical assistance.

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7) Travel notes describe advice from the government of another country that does not recommend its citizen to visit Indonesia because of social insecurity and political instability in Indonesia

Capital Account

In the year under review, net capital flows reached a surplus of $2.2 billion, in contrast with a deficit of $7.6 billion in the earlier year. The surplus originated from a surplus of $12.5 billion in official capital that surpassed a deficit of $10.3 billion in private capital.

The increase in the official capital surplus in 1998/99 was attributed to higher receipts of loans and lower principal payments of official debt. The high official capital inflows notably came from loans from the IMF in the framework of balance of payments support. These loans rose from $3.0 billion in the earlier year to $6.2 billion in the reporting year. The government also received program support in the form of program loan and sector program loan (SPL). The program support in the reporting year aimed at recovering the economy, including the implementation of social safety net. Under program loans, the government had withdrawn $3.5 billion from ADB, IBRD, and the Government of Japan under the auspices of Miyazawa Plan (Box : Miyazawa Plan) in the form of cash disbursement. Under the SPL, the government received $1.4 billion from OECF, geared, among other things, toward the repayment of government debts. The government also obtained food loans totaling $0.3 billion from Japan. Meanwhile, project aid from CGI, non-CGI, and commercial loans fell $1.3 billion to $4.0 billion. Loans from the CGI fell $2.2 billion to $2.2 billion as a result of the low realization of the government projects. Loans from the non-CGI rose $1.0 billion to $1.1 billion, mainly from JEXIM Bank for trade financing to support exports. Commercial loans declined $0.2 billion to $0.7 billion.

Repayments of government external debt dropped by $1.2 billion to $2.9 billion. The driving force was the rescheduling of sovereign foreign loans that amounted to $0.8 billion in accordance with the Paris Club Agreement in September 1998.

In 1998/99, private capital inflows fell $5.4 billion to $13.7 billion. The drop stemmed from lower capital inflows for direct investment purposes, that stood at $6.0 billion. The unstable economic environment and the intense uncertainty on the social and political fronts had discouraged investors to place their investments in Indonesia.

The private capital outflow reached $24.0 billion. Most of the outflow, as much as $20.4 billion, moved to the repayments of corporate external debt. The amount comprised amortization of the foreign debts of state banks in the amount of $1,5 billion, private national banks in the amount of $2.2 billion, non-bank financial institutions in the amount of $1.5 billion, and other private corporations in the amount of $8.7 billion. The rest represented debt repayments of state-owned enterprises and of foreign direct investment that amounted to $6.5 billion. The large amortization of corporate external debts in the reporting year was attributable to the government regulation that requires private corporations to report the status of their external commercial debt outstanding.[8] The high debt repayments also suggested that restructuring private foreign loans require a longer time frame, due to difficulties in reaching agreements between corporate debtors and external creditors.

Meanwhile, private capital flows for portfolio investment registered a surplus of $1.1 billion, as compared to a deficit of $7.2 billion in the preceding year. The surplus was caused by high receipts from sales of banks' assets abroad in the first quarter of the reporting year and a sharp decrease in repayments and redemption of domestic commercial papers held by foreigners. In the year under review, repayments and redemption of commercial papers by foreign investors fell from $9.3 billion to $1.6 billion.

Against this background, Indonesia's external debt outstanding by the end of 1998/99 stood at $150.9 billion, a 9.3% rise (Table 3.9). Out of total foreign

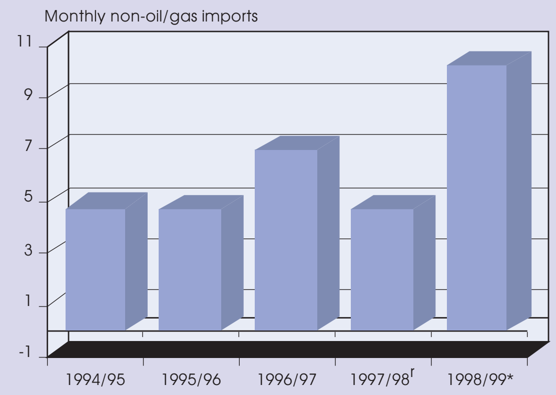
8) Board of Directors Bank Indonesia Decree No. 31/5/KEP/DIR, dated April 8, 1998

Table 3.9
External Debt Outstanding

Item	Outstanding March 31, 1998r		Outstanding March 31, 1999 1)	
	In billions of $	Share (%)	In billions of $	Share (%)
Official debt	**54.2**	**39.3**	**67.2**	**44.6**
Bilateral 2)	33.9	24.6	38.8	25.7
Multilateral	18.5	13.4	26.0	17.2
Others	1.8	1.3	2.4	1.7
Private debt	**83.8**	**60.7**	**83.7**	**55.4**
Total	**138.0**	**100.0**	**150.9**	**100.0**

1) At the end of December 1998.
2) Including old debt and export credit facility.

Chart 3.14
Gross Foreign Assets



loans, the share of the private sector fell from 60.7% to 55.4%. In terms of shares, the debt of the banking sector was 7.2%, and the loans of state–owned enterprises were 2.8%, while the rest represented debts of corporations, non-bank financial institutions, and debts in the form of commercial papers. By maturity, 8.7% accounted for short-term loans, while the rest represented medium and long-term debts. The debt share of the banking sector in the total short-term loan reached 17.7%.

In the reporting year, the debt service ratio (DSR) climbed from 50.7% to 60.0%. The DSRs of both the private and government sectors rose respectively from 40.7% and 10.1% to 49.4% and 10.6%. Behind this rise was the fall in the export of goods and services.

Foreign Exchange Reserves

In the year under review, GFA grew by $9.2 billion to $25.7 billion, equivalent to 10.3 months of non-oil/gas imports (Chart 3.14). Meanwhile, NIR climbed $2.6 billion to $15.8 billion. In strengthening its foreign exchange position, Bank Indonesia withdrew $6.2 billion from the IMF, an increase of $3.2 billion from the outstanding amount in the earlier year.

Revision on The INDRA Scheme

In supporting the corporate debt settlement, the government established the Indonesian Debt Restructuring Agency (INDRA). Since its establishment in August 1998, INDRA has acquainted its program to encourage debtors and creditors to settle their offshore debts under the INDRA scheme. Although the scheme has been intensively introduced to more than 800 corporations through, interalia, workshop, up to the end of March 1999, no corporation has joined the scheme.

Based on insights from workshop participants, the absence of participation in the INDRA scheme was attributed to (i) lengthened negotiations between creditors and debtors that are expected to end in the second half of 1999, (ii) limited cash flow as a result of a sharp drop in sales value, (iii) debtors' concerns over a possible increase in principle debt and monthly installment as a result of rising inflation should they join the scheme, and (iv) an unfavorable political climate that put the business community in a wait-and-see stance due to the upcoming general elections in June 1999.

In this regard, INDRA --together with IMF and the World Bank-- adjusted its scheme mainly by extending the entry period and providing additional options on the rupiah payment to ease debtors' financial burden. The adjustment complied with macroeconomic policies and basic principles, namely without commercial risk and subsidy.

Meanwhile, debtors facing difficulties in negotiating their external debts with creditors are expected to use the Jakarta Initiative as the facilitator. In restructuring corporate debts, the Jakarta Initiative will refer to a restructuring model that suits the INDRA scheme.

Extension of the Registration Period

The registration period is extended from June 30, 1999, to December 31, 1999, bringing about adjustments on several important agenda in the INDRA scheme as follows:

a. The period of the best exchange rate offer and the retroactive[1)] exchange rate adjustment are also extended to December 31, 1999.
b. Corporations joining the INDRA up to June 30, 1999 are given an interest rate discount of 0.5% for the first two years.
c. The buy-down option period is extended into the whole period of January 2000. Such an option includes the opportunity to get a 10% or 20% exchange rate discount from the best exchange rate in exchange for higher rupiah interest rates.
d. The recalculation on the best exchange rate will be implemented on January 1, 2001, based on the best exchange rate from October 1 to December 31, 2000. This exchange rate will be used as long as it is better than the best exchange rate used on December 31, 1999.
e. To participate in the INDRA scheme, debtors shall register their debt outstanding as of April 30, 1998 to Bank Indonesia on June 30, 1999 at the latest.

Additional Options in the INDRA Scheme

To accommodate results of the corporate debt restructuring and ease corporate cash flow burden, the INDRA scheme is complemented with more options as follows.

a. Flexible dollar payment period
The dollar payment period that was initially set for a minimum of eight years could be shortened if there is debt haircut. Such haircut can be in the form of debt forgiveness or debt-to-equity swap without additional conditionalities. For every 20% debt reduction, the maturity could be shortened by one year. On the contrary, should

1) Restitution to debtors on excess payment resulting from the appreciation of rupiah exchange rate

a debtor manage to extend its restructured dollar-denominated debt to a period of more than eight years, it can choose the maturity of rupiah payment commensurate with the dollar debt period.

b. Capping for rupiah installment
To alleviate cash flow burden, a debtor can use rupiah installment capping of 15% per year from its original balance during the grace period. Hence, those corporations can ensure the availability of cash flows irrespective of the rate of inflation as in the INDRA scheme standard. In addition, should a debtor manage to get a grace period for its interest payment, the externally indebted corporation is entitled to have a capping facility of 7.2% per year.

c. Dollar debts with fixed interest rate
Should the restructuring of dollar-denominated debt result in fixed interest rate, debtors are still allowed to join the INDRA scheme on condition that INDRA will swap its fixed rates to floating rates based on LIBOR.

d. Application of premium/discount in the conversion from dollar-denominated to rupiah-denominated debt
For every 1% interest rate above/below LIBOR, the conversion from dollar to rupiah denomination is subject to a premium/discount of 4.17%.

Export Financing Agency

Background

Since 1996 Bank Indonesia has been bringing up the idea of establishing an Export Financing Agency (EFA). Its objective is to maintain export competitive edge, mainly against competitors from other countries which, in general, have been supported by a specific institution in export financing (commonly known as 'export credit agency' – ECA). Based on the agreement between the Governor of Bank Indonesia and the Governor of Japan Export-Import Bank (Jexim Bank), preliminary assessments involving a team from both Bank Indonesia and Jexim Bank proceeded at the end of 1996.

In line with the extended economic downturn in 1998, the establishment of EFA --expected to promote export as an engine of growth-- was indispensable. In this regard, such establishment, initially scheduled in March 2000, was expedited to May 1999 and is expected to operate in June 1999. With the establishment of EFA, trade finance facility will be provided by a specific institution (one door), while Bank Indonesia as a central bank can concentrate its duty on monetary and payment system.

The role of EFA

In the era of free trade and increasing competitiveness, the availability of trade finance facility plays a crucial role in determining the success of exports, particularly export of capital goods. Such facility usually takes the form of medium/long term financing, with an enormous and guaranteed fund (insurance and guarantee function). Basically, the terms and conditions of this scheme are in accordance with the characteristics of capital goods trading arrangement in which the repayments will be conducted following the yield of capital. Through the EFA, exporters are expected to benefit from it and thus boost their export of capital goods.

Unlike commercial banks, EFA provides Trade Finance Facility (TFF) solely to enhance production and export, including those of capital goods under the medium/long term financing scheme. The TFF extended through banks are mainly focused on financing short-term business activities in view of their short-term cycle, while the medium- and long-term schemes are provided to finance projects.

Several countries' experiences have suggested the crucial role of EFA in promoting their exports, such as China, Korea, Malaysia, Singapore, Taiwan, and Thailand. In Indonesia, the EFA is designed to speed up trade financing, especially with regard to capital goods/investments to key manufacturing industries.

Steps in EFA Arrangements

The EFA is established in two steps:

a. Short run

   In the short run, the alternative of the EFA's financing can be carried out by commercial banks or Bank Indonesia taking into account the urgency of financing needed by the export-oriented manufacturing industries.

b. Long run

   The EFA is designed to play the similar role such as those displayed by export-import banks in several countries (Japan, Korea, Malaysia, Taiwan, and Thailand). In view of the long process of establishing the EFA vis-à-vis the urgency of short and medium term financing, it is of great concern to design a short-run financing scheme.

Important Considerations in Setting Up the EFA

a. Export insurance scheme

   Since the establishment of EFA is based on the Government Regulation (GR), its function to facilitate export insurance scheme cannot be put into effect. For the time being, this function should be excluded from the EFA's objective until the legal basis is shifted from a government regulation to an act.

b. Credibility
   Since the EFA takes form of a bank and its legal basis as a business entity hinges on the regulation that is inferior to an act, its credibility may be subject to question. This was attributed to a decline in public confidence in the banking system. Consequently, the EFA has to operate independently and prudently.
c. Capital and sources of fund
   Although the government will cover the initial paid-in capital of the EFA, its magnitude, sources, and ways to pay the equity remain unclear. In addition, it is equally unclear how sources of fund mobilized from any third party will be used for its activities.
d. Tight-schedule to set up the EFA
   The government planned to establish EFA in April 1999 and start the operation in June 1999. Accordingly, extra efforts were required to address numerous issues such as the making of government regulations. The regulations included government equity participation, deed of establishment, articles of association, submission of the government regulation to the State Secretariat Office up to the signing by the President, as well as procurement of infrastructure up to its trial. Although the EFA could be quickly established, its operation, however, took some time to gain acknowledgment from international banks.

Miyazawa Plan

To support Asian countries in overcoming economic crisis and to maintain international financial market stability, in the year under review, the Japanese government introduced a package of financial and technical assistance, known as the Miyazawa Plan. This $30 billion package includes short- and long-term schemes, each of which with a budget of $15 billion.

The short-term scheme, provided in the form of swap arrangement, is directed to meeting urgent needs of fund due to the economic crisis. Meanwhile, the long-term scheme is geared toward assisting the financing of various medium- and long-term economic reform programs, such as (i) the restructuring of corporate debt and financial system, (ii) social safety net, (iii) absorption of manpower, and (iv) trade financing facility and assistance for small-scale entrepreneurs. This long-term assistance scheme is extended in various forms, namely:

a. Official assistance to Asian countries in the forms of loan through JEXIM Bank, acquisition of government bonds by JEXIM Bank, and ODA loans.
b. Support in the form of guarantee mechanism and interest subsidy for Asian countries mobilizing funds from international financial market. In this regard, JEXIM is going to guarantee bank loans, government bonds, and export insurance from those countries.
c. Financial assistance in the form of co-financing with multilateral development banks.
d. Technical assistance for private debt settlement and financial system restructuring.
e. Asian Currency Crisis Support Facility (ACCFS), in cooperation with ADB.

Up to the end of the year under review five Asian countries, namely Indonesia, Malaysia, Korea, Philippines, and Thailand, had been committed to receiving assistance under this program (Table 1).

Asian Currency Crisis Support Facility

ACCSF is one of the facilities provided by ADB to assist Asian countries hit by the currency crisis, such as Indonesia, Korea, Malaysia, Philippines, and Thailand. This facility is aimed at assisting those countries in obtaining co-financing funds or private financial resources for projects and programs approved during the next three years. This facility is extended in the forms of interest rate subsidy, technical assistance grant, and loan guarantee by ADB.

The technical assistance facility is especially directed toward supporting policy planning and human resources development and institutional strengthening; prompting bank and corporate debt restructuring; developing monitoring, supervision, and regulation on the financial sector; improving public sector and corporate governance; and developing social safety net programs. Meanwhile, guarantee program has been prioritized for projects and programs relating to structural adjustments in the financial and real sectors, and social safety net.

This facility is mostly funded by ADB, amounting to $3,06 million, and the Japanese government through the Miyazawa Plan, reaching 7,5 billion yen in the form of grant for repayment of loan interest and technical assistance and 360 billion yen for the guarantee program.

Table 1
Approved Assistance under Miyazawa Plan for Asian Countries

Country	Assistance	Usage	Explanation
Indonesia	$2.4 billion	a. $1.5 billion through Jexim, in the form of: - Parallel loan with IMF/EFF - Co-financing with ADB - Co-financing with World Bank b. $0.9 billion through OECF, in the form of: - Commodity loan, etc. - Health and nutrition sector loan - Social safety net adjustment loan	Assistance to alleviate interest rate burdens through ACCSF is under observation
Korea	$5 billion	Short-term scheme, in the form of swap transaction between Korean won and dollar	
Philippines	$1.4 billion	a. $1.1 billion through JEXIM Bank, in the form of: - Power sector restructuring program loan amounting to $300 million - Banking system reform project loan amounting to $300 million - Two step loan for private sector development amounting to $500 million b. $300 million through OECF for air quality improvement sector loan	
Thailand	$1.8 billion	a. $1.35 billion through JEXIM Bank, in the form of: - Two step loan for manufacturing sector support amounting to $750 million - Economic and financial adjustment loan amounting to $600 million b. $500 million through OECF, in the form of: - Economic recovery and social sector loan amounting to $250 million - Agricultural sector program loan amounting to $250 million	MITI is observing trade insurance facility amounting to $500 million
Malaysia	$1.5 billion	a. $500 million through JEXIM Bank for two step loan for export industry support b. $1 billion through OECF for ODA loan (7 projects)	MITI is observing trade insurance facility amounting to $560 million

Chapter 4 Monetary Developments

Monetary developments, which were under immense pressure up to the middle of the reporting year, were gradually stabilizing. Since October 1998, base money converged within the designated domain defined in the monetary programming. At the same time, growth in both M1 and M2 began to slow, which helped inflation rate to go down and the rupiah strengthen. In addition to the consistent pursuit of monetary policy stance, the lower inflation rate was largely attributed to the improvement in the supply of basic needs. These favorable achievements allowed broader room for the monetary authority to push interest rate gradually down.

The path to achieve monetary stability was by no means unconstrained. Bank Indonesia had to deal with complicated and conflicting issues. On the one hand, restoring stability of price and the exchange rate necessitated tight monetary policy with high interest rate implication. On the other, high interest rate had exacerbated the banking problems and the stagnant real sector. Nevertheless, since price and exchange rate stability was a prerequisite for bringing the economy back on the track of sustained growth, the priority of monetary policy was placed at restoring stability.

At the implementation level, efforts to restore monetary stability were hindered by a number of constraints. These constraints were mainly associated with: (i) difficulties in controlling monetary aggregates brought about by the over expansion of Bank Indonesia liquidity supports to cover guarantee on banks' liabilities; (ii) ineffectiveness of the monetary policy transmission process due to a deepening segmentation in the interbank money market; (iii) interruption in the supply of basic needs; (iv) excessive depreciation of the rupiah caused by non-economic fundamentals and unfavorable external condition.

Monetary Policy

In restoring monetary stability, Bank Indonesia pursued a tight monetary policy stance with base money as a target to control inflation. The target was subject to continuous adjustments in accordance with the real demand in the economy. To achieve the target, Bank Indonesia sought to narrow room for further expansions of liquidity supports, enhance the effectiveness of open market operations, and sterilize government expenditures.

To prevent further expansions of liquidity support, in April 1998, Bank Indonesia imposed high penalty on the discount window facility and commercial banks' negative balance at Bank Indonesia. Limitation on the use of debit notes in the clearing process and prohibition on the use of interbank credit notes for banks receiving liquidity support were also behind the policy. Besides, in May 1998, Bank Indonesia placed ceiling on deposit rates and interbank rate guaranteed by the government. The policy aimed at preventing banks from adopting imprudent measures that lead to self-reinforcing expansions of liquidity support.

In the first half of the reporting year, open market operations were not able to fully absorb all the excess of liquidity in the economy. Accordingly, the target of base money went off-track. The drive was the ineffective Bank Indonesia Certificate (SBI) auction system, since the SBI rates did not meet market expectations, in addition to the continued expansion of liquidity support. To enhance the effectiveness of open market operations, in July 29, 1998, Bank Indonesia improved the SBI auction system by emphasizing on quantitative targets (Box: Improvement in the SBI Auction System and Rupiah Intervention). Besides, Bank Indonesia encouraged tighter competition in the SBI auction activity by employing a rationing system.[1)] Additionally, to provide a wider range of investment options and establish a longer-term yield curve, Bank Indonesia introduced a three-month SBI auction.

Along this line, Bank Indonesia expanded the coverage of rupiah intervention as a means to alleviate the daily fluctuations in the interbank money market. Accordingly, the rupiah intervention not only serves as a contractionary instrument but also as an expansionary one. In addition, Bank Indonesia also initiated active rupiah intervention through money market brokers/dealers on top of regular intervention that has as yet been applied. The active rupiah intervention is to be exercised in the morning session with higher discount rate.

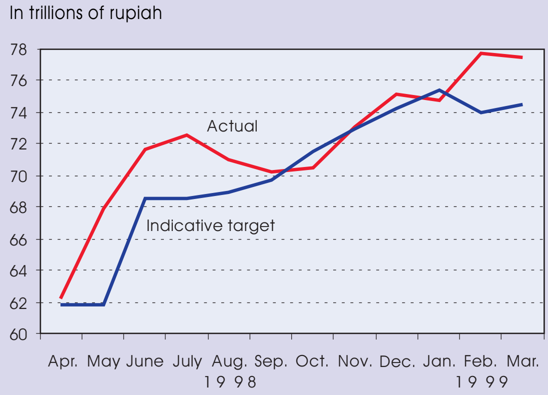
To contain fiscal expansion, Bank Indonesia sterilized government expenditures through the sales of foreign exchange in the exchange market financed by official external sources. The sterilization practically helped to moderate exchange rate fluctuations. In addition, the Finance Ministry in cooperation with Bank Indonesia established a team assigned to improve coordination between monetary and fiscal policies.

Monetary Developments

Money Supply

Base money, particularly in the first half of the reporting year, trended to move above the target as a result of bank runs that led to an upsurge of liquidity support. Attainment of base money target was only apparent in the second half of the reporting year (Chart 4.1). Meanwhile, narrow money (M1) moved steadily after soaring in the first half of the year under review as a consequence of increased currency. Broad money (M2), especially in rupiah-denomination, grew at a high pace during the year. Nevertheless, the growth of domestic liquidity slowed as compared with the earlier year.

Chart 4.1
Base Money and Its Indicative Target



Up to the end of the reporting year, base money reached Rp78.7 trillion, higher than the target of Rp74.5 trillion or a rise of 27.5% from the previous year (Table 4.1). The highest growth was in May 1998 during the outbreak of social unrest, which triggered runs in a number of banks. Accordingly, base money surged to Rp68.0 trillion, far higher than its target of Rp61.9 trillion for the month. The expansion of base money, induced by bank runs, persisted up to June 1998.

In August and September 1998, base money moved above but closer to the target before converging with its target in October and November 1998. The convergence owed to cessation of bank runs and improved SBI auction system in July 1998.

In December 1998, base money moved off track again because of seasonal demand for currency to celebrate Christmas, New Year, and Eid El Fitr. Besides, widespread concerns over the plan to liquidate banks led to a sudden massive withdrawal of deposits and a flight to quality. People transferred their deposits from presumably unsound banks to apparently sound banks. In January 1999, base money managed to move below its ceiling, but stood above its target in February and

1) Rationing is applied if supply in the auction exceeds the desired target. In this respect, all offers with a discount rate relatively the same as the stop-out-rate (SOR) will get SBI on the proportionate basis, while offers with discount rate below SOR will get SBI at the same amount as offered.

Table 4.1
Base Money and Its Affecting Factors

Item	1997/98	1998/99
	In trillions of rupiah	
Base Money	**61.8**	**78.7**
Statutory Reserve Short-Fall	2.4	0
Reserve Money Adjusted	**59.4**	**78.7**
Banknotes and coins outside Bank Indonesia	45.1	52.7
Demand deposits at Bank Indonesia	14.3	26.1
Factors Affecting Reserve Money Adjusted	**59.4**	**78.7**
Net international reserves [1]	134.7	158.3
Net claims to central government	–27.1	122.3
Claims to commercial banks:	142.6	48.0
Liquidity support	116.5	28.0
Net claims to IBRA	87.0	10.2
Claims to liquidated banks	11.9	0
Claims to comm. banks outside IBRA	17.6	17.8
Liquidity credit	26.2	20.0
Other claims	1.0	1.0
Open market operation	–30.1	–61.0
Others (net)	–161.7	–189.9

1) Since June 1997 used exchange rate Rp10,000.00/$.

March 1999. The pressure that triggered bank runs subsided following the announcement on March 13, 1999 by the government on the closure of insolvent banks that did not qualify for the recapitalization program. The announcement helped appease the market as reflected in the decline of base money by the end of March 1999.

In light of factors affecting base money, liquidity support to ailing banks played a dominant role in base money expansion. The highest growth of liquidity support occurred in the first quarter of the reporting year. In the following months, it drifted downward albeit slight increases in February and March 1999. On the whole, the outstanding liquidity support by the end of the reporting year was far lower than that in the earlier year. The lowered outstanding amount of liquidity support was attributable to take-over of liquidity support by the government in December 1998 and February 1999, each amounting to Rp20 trillion and Rp144.5 trillion (Box: Bank Indonesia's Liquidity Support: Its Growth and Resolution).

The other two factors, net claims to central government (NCG) and net international reserves (NIR) rose by Rp149.4 trillion and Rp23.6 trillion. However, should take-over of liquidity support by the government be excluded, NCG would contract by Rp15 trillion. In dollar terms, NIR climbed by $6.6 billion to $15.8 billion at the end of March 1999. As such, adjusted target[2] of NIR totaling $11.4 billion had been exceeded. The NIR expansion mainly came from loan disbursement from international agencies outside the IMF. To eliminate the expansions of base money, Bank Indonesia exercised instruments of open market operations and ended with a net contraction of Rp30.6 trillion.

Up to June 1998, in line with the growth of currency, M1 rose appreciably to Rp109.4 trillion, a 11.3% increase from the outstanding in March 1998. At a further stage, increases in deposit rates exerted a shift from M1 to rupiah quasi money. Accordingly, M1 fell to its nadir at Rp98.9 trillion in October 1998. In the last quarter of the reporting year, public precautionary motive intensified due to growing uncertainty particularly in regards to the implementation of bank recapitalization agenda. People converted their portfolio from less to more liquid assets. Consequently, M1 rose again. Nonetheless, the growth of M1 in the reporting year was slower than that in the preceding year (Table 4.2).

Up to December 1998, M2 grew at a rapid pace before slowing down in the last quarter of the reporting year. The high growth was prompted by an expansion of rupiah quasi money, which was mainly attributed to reinvestment of interest earnings into time deposits because of the attractive deposit rate. The rise in the rupiah quasi money was also contributed by the conver-

2) Adjusted target of NIR is a revision of NIR's target by taking into account its affecting factors, namely foreign loan, payment of external bank arrears, fund placement by Bank Indonesia as a collateral, and take over of export draft by Bank Indonesia.

Table 4.2
Money Supply and Its Affecting Factors

Item	1997/98	1998/99	1998/99
	Change		End of period
	In trillions of rupiah		
M1 (Narrow Money)	**34.7**	**7.4**	**105.7**
Currency	14.9	6.5	44.7
Demand deposits	19.8	0.9	61.0
Quasi Money	**120.5**	**146.1**	**497.6**
Time and savings deposits in rupiah	61.2	127.8	368.7
Time deposits in foreign currency	59.3	18.3	128.9
M2 (Broad Money)	**155.2**	**153.5**	**603.3**
Affecting factors			
Net foreign assets	62.4	74.1	187.0
Bank Indonesia	70.8	18.6	153.3
Commercial banks	–8.4	55.5	33.7
Net claims to central government	–11.6	143.8	103.4
Net claims to IBRA	35.0	–35.0	0.0
Claims to business sector	207.4	–140.8	394.2
Claims to state enterprises	17.1	–10.3	22.4
Claims to private enterprises and individual	190.3	–130.6	371.8
Others	–138.0	111.4	–81.3

sion of deposits from foreign currency into rupiah especially in the first quarter when the rupiah value plummeted to its bottom.

In view of factors affecting M2, the growth of M2 originated from higher net foreign assets (NFA) of commercial banks brought about by capital inflows from international trade flows, and higher net other items (NOI). The biggest component of NOI stemmed from retained losses of banks resulting from high interest expenses paid to depositors. Meanwhile, outside the takeover of liquidity support by the government, NCG exerted contraction forces. This was primarily due to higher fiscal revenue from taxes levied on interest income and disbursement of foreign aid.

NFA of Bank Indonesia, Net Claims to IBRA (the Indonesian Bank Restructuring Agency), and net claims to business sector also changed considerably although their combined influence on the outstanding of M2 was insignificant. The higher net foreign assets of Bank Indonesia originated from withdrawal of official foreign loans was followed by the increase in government account at Bank Indonesia. The lower claims to IBRA resulted from a shift of liquidity support from IBRA to the government thus increase NCG. The claims to the business sector fell sharply as a result of writing off of nonperforming loans at state banks and correction of credit statistics in conjunction with the closing of unsound banks. A large portion of the reduction of claims to the business sector was charged to banks as an equity loss and was recorded as one component in NOI.

Open Market Operation

In the reporting year, open market operations resulted in a net contraction of Rp30.6 trillion, or a rise of 102%. The outstanding SBIs by the end of the reporting year reached Rp60.8 trillion (Table 4.3). The rise originated from sale of SBIs that surged 215%.

In the beginning of the reporting year, liquidity absorption through SBI auction still relied on increases of SBI rates on April 21 and May 7, 1998, and direct intervention in the interbank money market. Eventhough SBI outstanding rose significantly from Rp17.2 trillion in end-March 1998 to Rp48.0 trillion in end-May 1998, excess

Table 4.3
Net Open Market Operation

Item	1997/98	1998/99 I	II	III	IV	1998/99	Δ (In billions of rupiah)
		In billions of rupiah					
SBI	**(24,019)**	**(56,087)**	**(57,269)**	**(49,664)**	**(51,567)**	**(51,567)**	**(27,548)**
SBI auction	(24,340)	(56,107)	(57,269)	(49,664)	(51,818)	(51,818)	(27,478)
SBI state enterprises	0	0	0	0	0	0	0
SBI repo	321	20	0	0	251	251	(70)
Rupiah Intervention	**(6,132)**	**(4,690)**	**10,022**	**9,243**	**(9,228)**	**(9,228)**	**(3,096)**
Contraction	(6,132)	(4,690)	0	0	(9,228)	(9,228)	(3,096)
Expansion	0	0	10,022	9,243	0	0	0
SBPU Repo	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Contraction	**(30,151)**	**(60,777)**	**(47,247)**	**(40,421)**	**(60,795)**	**(60,795)**	**(30,644)**

liquidity was not fully absorbed. As a result, base money remained above its indicative target. With improvement in the SBI auction system, SBI outstanding surged substantially from Rp31.8 trillion in end-July 1998 to Rp53.8 trillion at end-August 1998. Since October 1998, the effectiveness of SBI auction had improved which was of great assistance to the achievement of base money target.

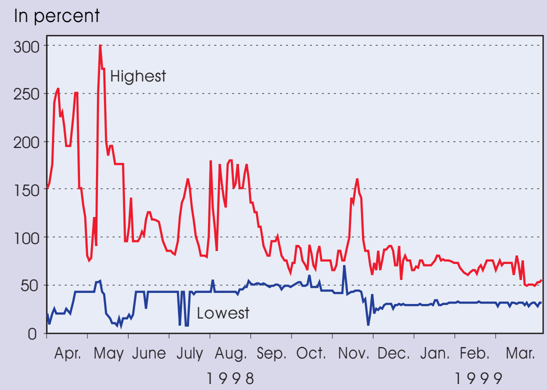
In the reporting year, efforts to restrain liquidity through rupiah intervention intensified. Consequently, the contraction level reached Rp9.2 trillion, up from Rp6.1 trillion in the earlier period. The rupiah intervention also played an important role in pulling out SBI that matured before the auction day. This eased fluctuation in the money market.

The SBI turnover in the secondary market during the reporting year soared markedly from Rp1.0 trillion to Rp84.3 trillion. The substantive upsurge resulted from the large size of SBIs available in the market, the attractive SBI rate, high demand for liquidity from a number of banks, and limited investment portfolio. Nevertheless, foreign investors were not so enthusiastic as reflected in a decline of SBIs held by non-residents by Rp0.3 trillion to Rp1.9 trillion.

Interbank Money Market

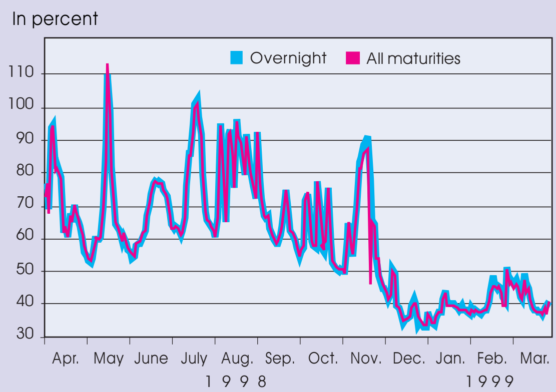
The interbank money market witnessed a deepening segmentation as a consequence of the economic downturn. Strong banks experienced excess liquidity while weak ones encountered liquidity squeeze. As a result, the difference between the highest and the lowest interbank rate widened (Chart 4.2). The fall of public confidence in the national banking system coupled with a massive withdrawal of deposits induced demand for short-term funds by weak banks. As a consequence, interbank transaction value jumped along with volatile interest rate. On the average, its daily transaction value during the reporting year rose appreciably from Rp7.9 trillion in the earlier period to Rp11.5 trillion. The highest turnover took place in September 1998.

Chart 4.2
The Highest and the Lowest Interbank Morning Rates



In the beginning of the reporting year, as a consequence of liquidity tightening, interbank money market conditions were broadly tight. This was highlighted in an increase in weighted average interbank rates for all maturities from 51.4% in end-March 1998 to 70.7% in end-April 1998 (Chart 4.3). The public excessively responded to the government announcement on closing the operations of seven banks and taking over the operations of another seven banks in April 1998. Consequently, bank runs emerged which further widened the spread

Chart 4.3
Overnight and Average Interbank Morning Rates



of interbank rates that culminated with 235 percentage point. The spread narrowed after Bank Indonesia put a ceiling on interest rate guaranteed by the government in May 1998.

In August 1998, interbank money market began fluctuating following the government announcement on freezing the operations of three banks. In November 1998, the money market condition was disrupted as an impact of the Semanggi tragedy. Banks were reluctant to conduct transaction in the money market because of their heightened precaution in response to the worsened security. This precautionary motive led to money market tightening. In February and March 1999, the money market was disrupted as the government postponed its announcement on the liquidation of banks. The market started stabilizing after the government announced the liquidation of banks on March 13, 1999.

In the reporting year, liquidity of state banks and joint banks tightened as reflected in their net positions as borrowers (Chart 4.4). On the other side, private national banks and foreign banks were more liquid with positions as lenders. The foreign banks happened to be borrowers in the third quarter of 1998/99. The shift of funds in the money market from foreign banks and joint banks to national banks highlighted a nascent recovery of confidence in the national banking system.

Interest Rate

The pursuit of tight monetary stance during the reporting year led to increase of interest rates of SBIs, interbank, deposit, and lending (Table 4.4) reaching their peaks in August 1998 (Chart 4.5) right after Bank Indonesia revised the SBI auction system by end-July 1998. Since October 1998, alongside the gradual recovery of monetary stability, interest rate had been sliding in stages.

The rise in SBI rate at the initial stage of the revised auction system explained the high market expectation on the risk premia of the Indonesian economy. However, the revised SBI auction system helped fix the deterred transmission of SBI rates to other interest rates and therefore enhanced the effectiveness of open market operations. Meanwhile, the spread of interest rates between the highest and the lowest ones, that was so wide in the early stage of the new system, commenced to narrow after the application of a rationing system. The rationing encouraged auction participants to be

Chart 4.4
Net Lender in the Money Market by Group of Banks in 1998/99

In billions of Rp

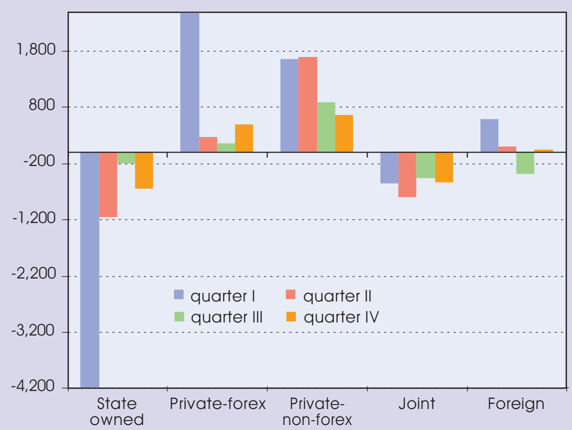


Table 4.4
Interest Rate

Item	1996/97	1997/98	1998/99
	In percent		
SBI			
1 month	13.16	17.40	52.82
PUAB			
O/N	13.70	47.02	64.67
All maturities	10.72	51.42	41.79
Time Deposits			
1 month	16.67	28.34	49.14
3 months	17.09	22.15	42.19
6 months	16.79	16.31	30.17
12 months	16.66	16.79	24.31
24 months	15.79	15.68	16.16
Credits			
Working capital	17.67	22.16	31.77
Investment	15.20	17.34	23.10

Chart 4.5
One Month Interest Rates

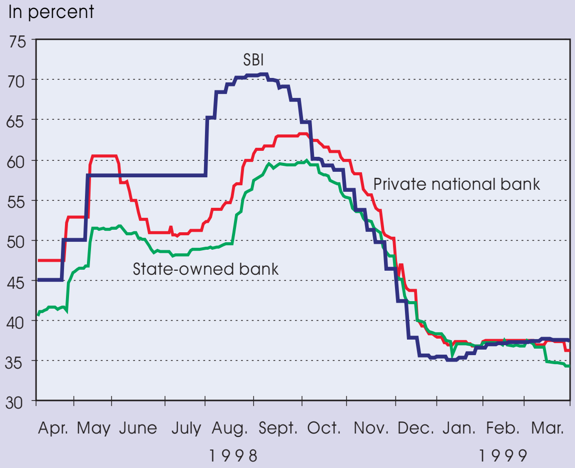
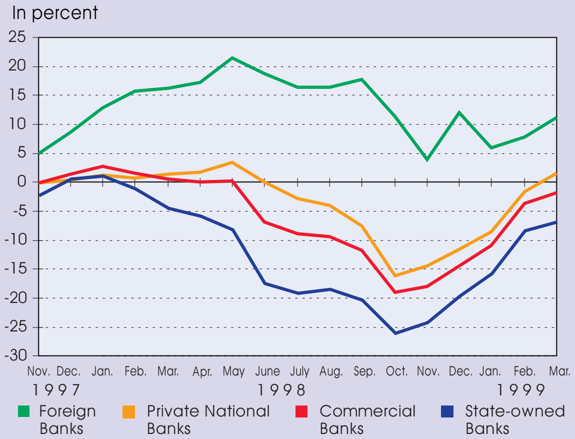


Chart 4.6
Interest Margin 1)



1) Working capital and 3 months time deposit interest rate gap

more competitive in bidding and this tighter competition played a role in lowering interest rate.

A series of economic and political events during the reporting year contributed to interbank rate fluctuation. The economic side centered on closure and freezing of banks, while the political side focused on social upheaval in May and the Semanggi tragedy, both shook the interbank rate. During the reporting year, however, the average interbank rate was on the downward trend.

The increased demand for short-term fund by almost all groups of banks drove deposit rate upward, especially the one-month deposit. The high cost of fund led to a higher lending rate. However, the increase of lending rate was not as fast as the rise of deposit rate. This was associated with the downturn in the real sector that narrowed room for banks to adjust the lending rate in accordance with changes in deposit rate. As a consequence, the spread between lending and deposit rates reversed from positive into negative (Chart 4.6).

Further, alongside the gradual recovery of monetary stability, since September 1998 interest rate continued to decline. The decline in SBI discount rate was followed by decreases in interbank, deposit, and lending rates. These favorable developments were accompanied by improved public expectation on price and exchange rate stability. At the same time, real interest rate turned positive and risk premia on rupiah savings began to narrow. Although domestic interest rate trended downward, its differential with off shore interest rate remained positive. Accordingly, investment in the rupiah options inside the country remained attractive (Box: Some Perspectives Behind High Interest Rates).

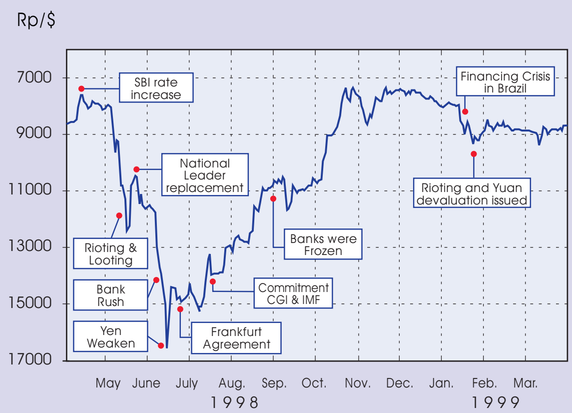
Exchange Rate

In the early reporting year, the rupiah exchange rate remained weak, and even plunged sharply in June 1998. The downward pressure on the rupiah originated from deteriorating economic fundamentals, social and political aggravation, and external corporate debt overhang. Besides, international monetary distress such as the weakening yen also contributed to the formation of negative sentiment on the rupiah.

To stabilize the rupiah exchange rate, the government employed several measures such as restoration of monetary stability, facilitation of trade finance by Bank Indonesia, restructuring of external corporate debt, and sterilization of government expenditures through sale of foreign exchange in the exchange market. The above measures, in tandem with the downward movement of interest rate in advanced countries, contributed to stabilizing the rupiah and even strengthening in second half of the year under review.

In the first quarter of 1998/99, the rupiah fell deeply to its bottom of Rp16,500 per dollar in June 1998 precipitated by the rapid deterioration of Indonesia's economic fundamentals as reflected in the surge of inflation and deep contraction (Chart 4.7). Monetary expansion in this period resulted in an increased demand for foreign currencies and therefore weakened the rupiah. The dragged progress of the settlement of external corporate debt overhang and the drying up of credit lines for Indonesian banks that were abruptly cut by external creditors contributed to the mounting downward pressure on the rupiah. Added to the immense pressure was a social and political instability in Indonesia following the civil unrest in May 1998 causing a loss of confidence in the economy. The low confidence and frantic speculation --as reflected in a drastic rise of swap premia-- dragged the rupiah into a vicious downward spiral. Additionally, the weakening yen that depreciated to 146.0 yen per dollar in June

Chart 4.7
The Rupiah Exchange Rate



1998 had also battered Asian currencies, including the rupiah.

In the period of July-October 1998, the rupiah rebounded following disbursements of the IMF loans and of aids from other international donor agencies. The exchange rate appreciation emerged as an outcome of improved monetary condition, specifically inflation that declined to a rate lower than expected by the market, and positive sentiment on the banking and the external corporate debt restructuring program. The strengthening rupiah was also shored up by external forces such as the global weakening of the dollar and positive market perception on the launching of the Euro, the European single currency. The dollar was dragged down by two consecutive reductions of interest rate of the Fed fund, each by 25 base points, from 5.25% to 4.75%.

Within the period of November 1998 to mid-January 1999, the rupiah remained a stable in a range of Rp7,500 - Rp8,000. The drive of the stable rupiah was positive market sentiment on the economic development and the policy stance adopted by the government. Several policy measures under way included facilitation of trade finance by Bank Indonesia --such as the import L/C guarantee scheme-- and ongoing bilateral negotiations between corporate debtors and creditors under the umbrella of the Jakarta Initiative. Besides, in sterilizing the government expenditures, Bank Indonesia converted a large sum of foreign currency into the rupiah. The IMF's commitment to further disbursing its loan package and subdued inflation with its better-than-expected rate contributed to the exchange rate stability.

The rupiah weakened somewhat to a range of Rp8,500 – Rp9,200 within the period of February 1999 to mid-March 1999. The depreciation was driven by the meltdown of regional currencies, notably the Thai baht, the Singapore dollar, devaluation of the Brazilian real, and lingering rumor on a probable devaluation of the

China's renminbi. A number of social upheavals inside the country and the delayed liquidation of several insolvent banks in late-February played an important role in magnifying negative sentiment among market players on the frail rupiah.

At the end of the reporting period, the rupiah moved in a tight range of Rp8,500 – Rp8,800. The run-up in the rupiah gained the support from massive rupiah buying in the exchange market, particularly to pay taxes at the end of fiscal year by foreign corporations. The positive sentiment on the rupiah in this period was also sparked by disbursements of loan packages from the IMF, ADB, and JEXIM Bank, as well as the interbank external debt restructuring. The calmer political climate, following the issuance of the Political Act, smooth preparation for the general election, and greater transparency in the government, reversed the previous trend of negative market sentiment.

Meanwhile, sluggish activity of domestic and foreign market players also contributed in easing the pressure on the rupiah. Market players were reluctant to conduct transaction due to thin profitability, especially for spot and forward dealings. Corresponding to the discouragement for market players was a limited number of counterparts. This limitation was attributable to high credit risk, transaction restriction, settlement risk, and Bank Indonesia's commitment to the continual conversion of foreign currencies to sterilize government expenditures.

Along with the movement of the rupiah-dollar rate of exchange, the rupiah's exchange value against other strong currencies also fluctuated. In June 1998, the rupiah depreciated drastically against the Deutsche mark by 45.4%, the U.K. pound sterling by 43.8%, and the Japanese yen by 40.3%. Afterwards, the rupiah value against those currencies picked up and stabilized up to the end of the reporting year.

In June 1998, when the rupiah fell to its lowest level, the real effective exchange rate (REER) depreciated by 67.8%. In the following period, the rupiah began to strengthen as reflected in the appreciation of REER 15.9% by the end of March 1999 as compared to the preceding year.

In the year under review, net foreign exchange transaction between Bank Indonesia and banks ended with an oversold of $2.1 billion, or a net outflow of fund from Bank Indonesia. The net outflows resulted from sterilization of expansionary government expenditures, notably since July 1998. As regards the take-over of export drafts a surplus of $1.4 billion was recorded during the reporting year.

Bank Indonesia's Liquidity Support: Its Growth and Resolution

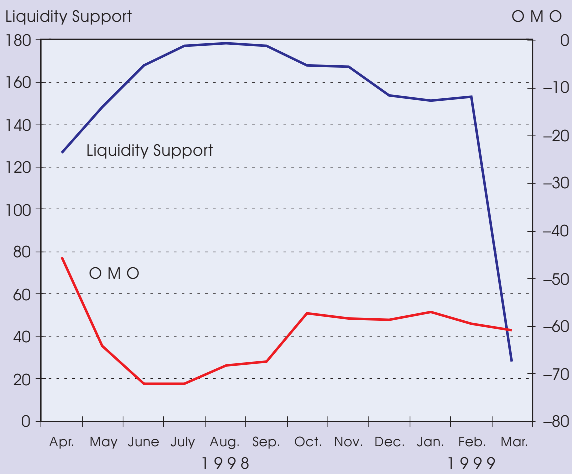
The continuing economic crisis in the reporting year, accompanied by unfavorable social and political conditions in May 1998, worsened public confidence in the national banking system. This condition induced enormous bank runs, which depleted bank liquidity and increased the possibility of systemic failure in the banking system. In addressing the liquidity problem and preventing the systemic failure, Bank Indonesia as lender of the last resort provided liquidity support.

It was realized that the provision of liquidity support would harden Bank Indonesia's efforts in controlling the monetary aggregate. To lessen this negative effect, Bank Indonesia has been intensively conducting open market operation (OMO) and attempting to overwhelm its repayment problems.

Liquidity Support Developments and Its Affecting Factors

The liquidity support developments in the reporting year could be divided into three periods, i.e. (i) April – July 1998, the period of leaping liquidity support, (ii) August 1998 – January 1999, the period of decreasing liquidity support, and (iii) February – March 1999, the period of re-increasing liquidity support (Chart 1).

Chart 1
OMO and Liquidity Support Outstanding [1)]
(in trillions of rupiah)



1) Negative means contraction

During the period of April – July 1998, liquidity support surged sharply as compared to the end of the previous year. In April 1998, liquidity support soared by Rp10.2 trillion as a result of a rush to currency as people reacted excessively to the government policy in taking over some commercial banks. The flight to currency was reflected in sudden and massive withdrawals of deposit from IBRA banks that led to a significant negative balance of the banks' deposit accounts with Bank Indonesia.

In May 1998, liquidity support continued to climb in accordance with the heightened domestic social and political uncertainties. The social unrest followed by a swift shift in the national leadership in mid-May 1998 increased deposit withdrawals from several banks, including a large private bank. Depositors cashed in or transferred their funds and put them in presumably sound banks. As a consequence, at the end of May 1998 liquidity support rose again sharply, reaching Rp148.3 trillion.

During the period of June–July 1998, liquidity support continued to rise as rush persisted in response to the extended political instability. In addition, the increased liquidity support was also associated with the government policy in regaining international confidence in the domestic banking system. Based on Frankfurt agreement on June 4, 1998, the government settled the payment to foreign creditors for trade finance and interbank debt arrears. By the end of July 1998, liquidity support reached Rp177.1 trillion.

During the period of August 1998 – January 1999, the amount of liquidity support decreased. It resulted from the recovery of bank liquidity, the strengthening rupiah, manageable inflation rate, and a stable social and political condition. Another factor affecting a decrease in liquidity support was the return of public confidence in the banking system. The return was evident in the fact that there was no large-scale rush when the government froze the operations of three banks and took over the ownership of seven banks in August 1998.

The positive developments continued in the following months. In December 1998, liquidity support dropped by Rp13.7 trillion to Rp153.5 trillion as a result of the bank restructuring program. The government took over liquidity support by issuing promissory notes. Meanwhile, the fall of liquidity support in January 1999 by Rp2.5 trillion to Rp151 trillion originated from debt repayment by banks.

In February 1999, liquidity support plunged drastically by Rp127.9 trillion to Rp23.1 trillion. The plunge occurred as the government took over most of liquidity support through issuance of promissory notes worth of Rp144.5 trillion. By excluding the take over, liquidity support in this period even increased by Rp16.6 trillion. Widespread concerns among depositors over the safety of their deposits placed in the national banking system as a result of the government plan to liquidate banks and the delay of bank closure announcement caused the rise in liquidity support. Consequently, banks' negative balance with Bank Indonesia rose again.

The public concern continued to occur until the beginning of March 1999 and then began subsiding after the government froze the operations of 38 banks, took over 7 banks, and put 9 banks in the recapitalization program on March 13, 1999. At the end of the reporting year, the liquidity support outstanding stood at Rp28 trillion.

Liquidity Support Assurance and Settlement

To arrest the spiral of depreciation and inflation caused by monetary leakage, Bank Indonesia sought to absorb excess liquidity through open market operation (OMO). In order to increase the effectiveness of OMO, Bank Indonesia improved the OMO system and the liquidity support issuance mechanisms in terms of its prevention and settlement.

To prevent liquidity support from expanding, Bank Indonesia restrained fund withdrawal by bank affiliated parties at the expense of negative balance with Bank Indonesia and imposing a contract followed by binding agreement and/or submission of collateral and statement letter from owners and management of banks joining the blanket guarantee scheme.

The liquidity support settlement is engaged, among others, through delegation of authority from the Minister of Finance to the General Attorney to collect liquidity support from bank owners and management, banning owners and management of banks under IBRA supervision to travel abroad, and sales of banks' assets through IBRA. In addition, based on Presidential Decree No. 55 of 1998, dated April 6, 1998, the government will take over bank liabilities from Bank Indonesia by issuing domestic promissory notes.

Improvement in the SBI Auction System and Rupiah Intervention

To address the crisis that has been plaguing since 1997, priority of monetary policy was placed on arresting the divergent spiral of inflation and depreciation. This policy was exercised through fine-tuning the growth of money supply in step with the real economic growth. As such, the effective use of open market operation (OMO) instruments played a critical role in restraining money supply growth.

In view of the importance of OMO, Bank Indonesia continued to improve those instruments. The latest advancement of OMO instruments was implemented in July 1998. Previously, the open market operations contained some deficiencies: (i) the SBI auction market was relatively small, therefore, the interest rate resulting from SBI auction did not represent market interest rate, (ii) primary dealer did not act as a market maker, and (iii) the secondary market for SBI remained rudimentary so that SBI was not well acknowledged.

To fix those deficiencies and sharpen the effectiveness of monetary restrain, Bank Indonesia improved the OMO regulation as released in Board of Directors of Bank Indonesia Decree No. 31/67/KEP/DIR, dated July 23, 1998, regarding Issuance and Trading of SBI and Intervention of Rupiah. Under the new arrangement, the SBI auction system was mended, among others, by removing primary dealer that resulted in a direct auction mechanism (Table 1). In addition, Bank Indonesia set quantitative targets using stop-out rate (SOR) system and providing an automatic SBI repo facility. The main progress in the SBI auction system and rupiah intervention are as follows:

1. Monetary restrain was accomplished through controlling the quantity of money supply. More precisely, the restrain proceeded with setting targets of as jointly agreed by Bank Indonesia and IMF.
2. Base money restrain was attained by SBI selling and direct intervention in the interbank money market (IMM).
3. SBI selling was conducted through auction under the SOR system. SOR is a discount rate bid of participants at the time the targeted amount of SBI is accomplished after sorting out the lowest offering discount. Therefore, the discount rate is generated through market mechanism.
4. Auction participants are extended to all commercial banks, money market brokers/dealers, and appointed stockbrokers.
5. People are entitled to purchase SBI in the primary market through commercial banks, money market brokers/dealers, or appointed stockbrokers.
6. In addition to one-month maturity, since October 1998, three-month SBI has also been traded. At a further stage, maturities of the SBIs traded are planned to encompass periods of 1, 2, 3, 6, and 12 months.
7. The auction for the one-month SBI is weekly, while for the three-month SBI is monthly.
8. Winners of the bid are cancelled if they do not have sufficient fund to settle the transaction. If the above case recurs, not only will the transaction be cancelled, but also the party will be warned and fined in the amount of 1% of the nominal bidding value won.
9. Bank Indonesia provides facility to purchase the SBIs repo that have not fallen due. The maximum amount of the SBIs that can be repurchased is 25% of the average quantity won by the bank in the last three SBI auctions. The maturity for SBIs, repo is one day (overnight) with the discount rate to be equal to the weighted average of overnight interbank money market rates at the opening session in the last five business days prior to the transaction after considering policy rate. The transaction settlement is completed in the same day.
10. Rupiah intervention is set to support the monetary restrain and to fine tune against interest rate volatility in the interbank money market. Hence, the

rupiah intervention can be either contractionary or expansionary depending on money market condition.

11. Rupiah intervention in the interbank money market could proceed on a daily basis as Bank Indonesia deems necessary. Bank Indonesia sets the discount rate after taking into account of the discount rate in the interbank money market. The maturity varies from overnight to seven days, but transaction has to be settled at the same working day.

The implementation of the improved SBI auction system caused the discount rate to rise appreciably. To prevent the discount rate from rising further, in mid-September 1998, Bank Indonesia applied a rationing technique that limits the number of winners of the bidding at a certain discount rate. Before this technique was employed, the whole number of SBIs bid by each participant would be accepted. With the new technique, however, only part of it could be accepted since winners of the bid at a certain discount rate could come from a larger number of participants.

The rationing policy could affect market perception, therefore, in the next bids participants become more competitive by bidding at a lower rate. This is reflected in the narrower range of discount rates bid from participants and lower average SBI rates resulting from auction.

Further, in January 14, 1999, in line with the monetary developments, instruments of rupiah intervention were intensified through introduction of active rupiah intervention. This instrument was set to support the absorption of excess liquidity through the auction. The principal difference between active and regular rupiah interventions lies in the discount rate. The discount rate for active rupiah intervention is higher than the regular one and the implementation in faster, only in the opening (morning) session.

Table 1
Summarized Comparison of SBI Auction System

Remarks	Old Regulation	New Regulation
1. Selling SBIs	Through auction and intervention/ bilateral	Through auction only
2. Auction frequency	– Daily for 1-week, 2-week, and 1-month SBI – Weekly for 1, 3, 6, and 12-month SBI	– Weekly for 1-month SBI – Monthly for 3-month SBI
3. Auction target release	– 1 business day prior to daily auction – 5 business day, prior to monthly auction Notification of auction target	– 1 business day prior to weekly/ monthly auction Notification of indicative target
4. Auction participants	Primary Dealers (PD) consists of 20 banks. PD must participate in weekly auction and bid in accordance to its bidding commitment	All banks, money market brokers/ dealers, and appointed stockbrokers. Brokers bids for other party interest and not for oneself
5. Auction bid	PD must participate in auction and bid the quantity at least the same as his bidding commitment.	Participants could submit 4 different bids, each with minimum amount of Rp500 million
6. Auction time	– Daily auction: 08.00-11.00 AM. – Weekly auction: 08.00-12.00 AM.	– Weekly and monthly: 08.00 AM-02.00 PM.
7. Bank Indonesia facilities	– Back-up window: a supporting fund once PD have insufficient fund, amount to 50% of the SBI won – Auction services at 0.125% of the bidding won	– Automatic SBIs repo
8. Auction system	SOR with tolerably fluctuations of ±0.5% from previous auction	SOR

Remarks	Old Regulation	New Regulation
9. SOR determination	– Daily Auction: SOR is the discount rate as the auction target accomplished – Weekly Auction: SOR is the discount rate as 60% of the auction target accomplished	– SOR is the discount rate as the auction target accomplished
10. Auction notification	Auction SOR	– Weighted average discount rate of the winning bidder – Quantity of the winning bidder – Percentage of the winning bidder out of total bid
11. Rupiah intervention	– Daily and contractive – 1 day to 1 year maturities	– Daily and could be either contractive or expansive – 1 to 7 day maturities
12. SBI repo	– Bank Indonesia's initiave (based on recommendation by Bank Supervision Department) – COR discount rate for SBPU 7-days is 1% – 1 to 7 day maturities – Maximum SBI repo is 50% of the nominal SBI 1 month and above – Schedule: 08.00-11.00 AM	– Bank's initiative – Weighted average of O/N interest rate in the IMM opening (morning) session in the last five business days before transaction after taking account of policy rate. – 1 day maturity – Maximum SBI repo is 25% of the average bidding quantity the bank won in the last 3 SBI auction held by BI – Schedule: 03.00-04.00 PM

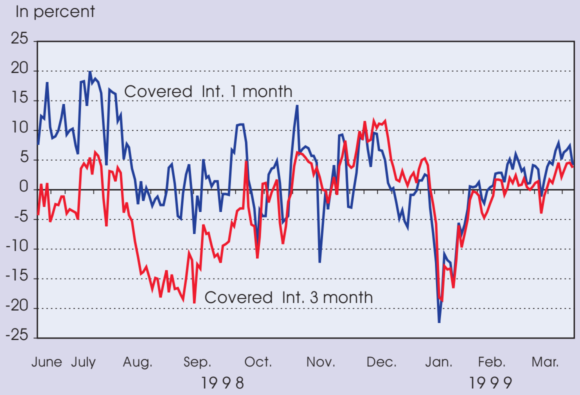
Some Perspectives Behind High Interest Rates

In the year under review, domestic interest rates surged sharply as a result of monetary policy tightening. The policy was applied to absorb excess liquidity to lessen inflationary pressure. The high interest rate triggered public polemic. Some experts believed high interest rate policy would exacerbate the problem and call harder efforts to restore the economy. In addition, the high interest rate stood in the way to lift the real and banking sectors out of the crises. On the other hand, other experts said that high interest rate should hold temporarily until monetary stability is achieved, as reflected in the convergent spiral of inflation and depreciation.

The high interest rate in the year under review could be viewed from the macro and micro perspectives. On the macroeconomic perspectives, the high interest rate reflected the intense spiral of depreciation and inflation in the reporting year. High uncertainty in many aspects --social, political, and economic-- affected behavior and expectation of exchange market players in responding to the weakening rupiah as highlighted in the upside of forward premium movement. This upward moves were not of interest to foreign investors and therefore necessitated the presence of higher domestic interest rates. The high forward premium that continued its ripples in the exchange market reinforced the monetary authority to continue adopting tight stance with by high interest rates. The policy aimed at forging feasible domestic investment prospects for foreign investors, as reflected in the movement of positive covered interest parity (Chart 1).

A similar view also occurred in price movement as a result of high inflationary pressure. The high inflation rate sent real domestic interest rate into negative territory, and compelled high interest rate policy to stay still (Chart 2). The negative real interest rate led people to higher purchases of commodities rather than investment in financial assets. This added to the

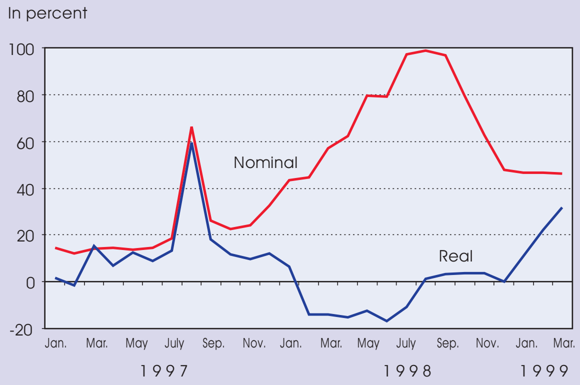
Chart 1
Covered Interest Rate Parity



inflationary pressure. Consequently, to avoid the worst, the high nominal interest rate should hold for the time being.

On the microeconomic perspectives, the persistently high domestic interest rate was caused by fundamental deficiencies that stayed in the national banking industry. The structure of the banking industry that was not fully efficient yet and possessed a high degree of

Chart 2
Nominal and Real Interest Rates[1)]



1) Nominal Interest Rate is a future value of one-month JIBOR over the following year (monthly compounding). Inflation rate is a six-months expected inflation for the next year (moving average). Real interest rate is a comparison of the two variables above.

heterogeneity as reflected in a wide gap between sound and unsound banks, over-liquid and illiquid banks, and so forth. The inefficient and heterogeneous structure posed a heavier burden on efforts to bring down domestic interest rate.

Furthermore, the inefficient and segmented banking structure resulted in an inelastic demand for money. As a result, the attempt to achieve the base money target (quantity targeting) as a monetary policy strategy to absorb excess liquidity necessitated the presence of high interest rates.

Conclusion

The decline in domestic interest rates called for certain conditions. In the short term, the necessary condition was steady monetary stability as shown in a manageable inflation rate and exchange rate appreciation. However, the pursuit of such a condition had to be supplemented by efforts to accelerate the restoration of a sound and efficient banking system. This restoration will expedite the transmission mechanism of monetary policy in the pursuit of lowering domestic interest rate.

Chapter 5 Government Finances

The fiscal policy in 1998/99 was initially designed as a policy mix to help contain a spiral of inflation and depreciation in the monetary sector. The government was cautious in setting a target for the state budget deficit, namely 1-2% of GDP, on January 23, 1998. To catch up with deterioration in the economy and its adverse impact on the community, the initial fiscal stance was adjusted in terms of its assumptions and orientation (Table 5.1). The fiscal policy was re-oriented toward enhancement of the government's role in stimulating the lackluster economy to compensate for the faltering private sector, rekindle employment, and ease the burden of the poor. This reorientation is reflected in the increase in the budget deficit target to 8.5% of GDP, far more expansionary than the initial target. A major change was in the allocation for social expenditure, accounting for 29% of total expenditure, that comprised subsidies and the social safety net (SSN), each constituting 6.2% and 1.9% of the GDP (Box: Social Safety Net).

To meet these targets, the government implemented a number of fiscal strategies. Firstly, priority of the budget was centered on activity that generated employment opportunities, met basic needs in the spheres of education and health, and provided subsidies for essential products to strengthen the SSN Program. Accordingly, a number of less urgent projects were re-scheduled. Secondly, in a bid to alleviate the social impact of the crisis, the budget subsidies for oil-based fuel, electricity, food, and medicine were raised. Thirdly, in an effort to lessen the state budget burden and strengthen foreign exchange reserves, the government re-scheduled repayments of principal of several external debts, notably bilateral loans and export credits. Fourthly, on the revenue side, the government continued to intensify tax collection and remove a number of tax facilities granted in previous years. Fifthly, on the expenditure side, the government financed the budget deficit through external borrowing.

Table 5.1
Changes in Assumptions of the 1998/99 State Budget

	Jan 23, 1998	July 23, 1998
GDP (in trillions of rupiah)	749	952
Economic growth (in percent)	0	–12
Inflation (in percent)	20	66
Oil price (in dollar/barrel)	17.0	13.0
Oil production (in millions of barrel/day)	1.5	1.5
Exchange rate (in Rp/$)	5,000	10,600

Source : Ministry of Finance

The fiscal year 1998/99 state budget realized a deficit of Rp23.6 trillion or 2.2% of the GDP (Table 5.2). The low realized deficit resulted from a number of technical constraints in the implementation of investment expenditure and the incomplete disbursement of subsidies. In addition, the fact that the rupiah was stronger than assumed in the budget contributed to a reduction in government expenditure that deals with foreign currency, such as interest payment on external debts and project aid. Meanwhile, in the midst of an economic downturn, realized revenues remained above the budget target as a result of higher tax revenue, particularly revenue from interest income on deposits and Bank Indonesia Certificates (SBIs).

Domestic Revenue

In the year under review, domestic revenue rose by 48.3% as compared to that in the previous year. In comparison with its budget, the realized domestic revenue reached 107.5% as a consequence of the higher than anticipated non-oil/gas earnings, notably tax-receipts

Table 5.2
Government Finance Operations

Description	1996/97	1997/98	1998/99 Budget	1998/99 Budget-P[1)]	Share[2)]
	In trillions of rupiah				(in percent)
Domestic Revenue	**90.7**	**108.2**	**149.3**	**160.5**	**107.5**
Oil/gas and non-oil/gas	87.6	108.2	149.3	152.8	102.3
Oil/gas	20.1	35.4	49.7	41.3	83.0
Tax	57.3	64.0	72.9	96.4	132.3
Non-tax and net oil profit [3)]	10.2	8.8	26.7	15.1	56.5
Net other revenue [4)]	3.1	0.1	–	7.7	-
Government Expenditure	**82.2**	**113.7**	**230.6**	**184.1**	**79.8**
Operational expenditure	47.5	68.3	141.0	119.3	84.6
International payments	6.6	10.3	31.0	24.1	77.6
Regional routine expenditure	9.4	9.9	13.3	14.1	106.8
Personnel expenditure	14.5	19.2	24.8	24.5	98.8
Material expenditure	8.1	9.0	11.4	11.1	96.8
Others [5)]	8.9	19.9	60.4	45.5	75.2
Investment expenditure[6)]	34.7	45.4	89.7	64.8	72.3
Fiscal Savings [7)]	**43.2**	**40.0**	**8.3**	**41.2**	**494.5**
Saving - Investment Gap	**8.5**	**–5.5**	**–81.3**	**–23.6**	
Financing	**–8.4**	**5.5**	**81.3**	**23.6**	
Domestic [8)]	–6.4	–4.8	–	–24.0	
Net foreign borrowing [9)]	–2.1	10.3	81.3	47.6	

1) Estimated realization.
2) Estimated share of realization to budget.
3) Including revenue from state enterprise privatization.
4) Including unsettled differences.
5) Including subsidies and domestic borrowing.
6) Including banking restructuring cost.
7) Domestic revenue minus operational expenditure.
8) Including monetary correction amounting to Rp2.44 trillion in 1998/99.
9) Foreign debt disbursement minus amortization.
Source : Ministry of Finance (processed)

that constituted 132.3% of the budget. Notwithstanding, however, oil/gas and non-tax revenues and profit from oil proceeds failed to meet their respective targets (Table 5.2).

Key contributors to the higher tax revenue were income taxes and export taxes that reached 192% and 486% respectively of their budget albeit a dwindling aggregate real income. The higher income taxes originated from higher rates on bank deposits and SBIs. Meanwhile, export taxes surged sharply as a consequence of the escalated export tax rate on crude palm oil (CPO) and its derivatives.[1)] Higher revenue from export taxes was also due to the exchange rate deprecia-

1) Finance Minister Decree No. 334/KMK.017/1998 dated July 7, 1998

Table 5.3
Key Ratios in Government Revenue and Expenditure

Description	1996/97	1997/98	1998/99 Budget	1998/99 Budget-P[1)]
	In percent			
Operational expenditure to GDP	8.7	9.7	14.8	11.3
Gross domestic capital formation to GDP	4.9	4.3	6.6	4.6
Government consumption to GDP	6.6	7.8	11.1	8.8
Fiscal saving to GDP	7.9	5.7	0.9	3.9
Surplus/Deficit to GDP	1.5	–0.8	–8.5	–2.2
Non-oil/gas revenue to domestic revenue	74.4	67.3	66.7	69.5
Non-oil/gas revenue to GDP	12.4	10.4	10.5	10.6
Tax revenue to GDP	10.5	9.2	7.7	9.2
Tax revenue to GDP non-oil/gas	11.3	10.1	9.6	10.3

1) Estimated realization.
Source : Ministry of Finance (processed)

tion, especially in the first half of the fiscal year. Despite the nominal increase in tax collection, however, its contribution to GDP remained unchanged at about 9.2% (Table 5.3).

Realized revenue from non-tax sources only amounted to 56.5% of the target. The low realized non-tax revenue stemmed from smaller earnings from privatization of state-owned enterprises. Behind were postponed sales of several state enterprises as a result of low interest of the investors, besides lengthy preparations of state-owned companies for going public. In the reporting year, the government privatized or sold some of its shares in PT Semen Gresik, PT Indofood, and PT Pelindo II. Meanwhile, other main components of the non-tax revenue, such as profit transfer from state enterprises, investment fund account, and reforesting fund, moved slightly above their respective targets.

The plunging oil price in the international market brought down oil/gas revenue to 83.0% of the budget. At the beginning of the fiscal year, the crude oil price remained above the assumed price in the state budget at $13.0 per barrel. However, at a further stage, the oil price drifted downward and even touched its bottom at $10.0 per barrel in January 1999. The crude oil price development also affected natural gas price, especially liquefied natural gas (LNG).

Government Expenditure

Realized government expenditure increased by 61.9% from the earlier year. The drive was a major rise in interest payment of external debts. Compared with the budget, the expenditure only reached 79.8%.

Operating expenditures constituted 84.6% of the budget as a result of the exchange rate appreciation and removal of subsidies for several commodities. The strengthening rupiah, particularly in the second half of the fiscal year, lowered the rupiah value of the interest payment on the official external debts and the subsidy expenditures on a number of imported commodities. Meanwhile, removal of subsidies on several commodities, such as wheat, sugar, and soybean, caused other components of the government operating expenditure to go down.

Realized investment expenditure reached 72.3% of the budget. The low realization was attributable to technical constraints in implementing the rupiah-financing programs of SSN and non-SSN projects as well as project aids. The slow handling of the technical constraints owed to a revision of budget and a change in the program design in July 1998. Consequently, most of the investment expenditures could only be realized in the second half of 1998/99. Additionally, the stronger rupiah than that initially assumed lowered the rupiah component value of the project aid.

Sources of Finance

The government finance operations which registered a deficit of Rp23.6 trillion or 2.2% of the GDP was financed by external borrowing. The net external financing amounted to Rp47.6 trillion, comprising withdrawal of Rp78.3 trillion from foreign aid minus Rp30.7 trillion for repayment of principal of the external debt. Of importance in the amortization of external debt is the rescheduled official external debt as much as $1.7 billion. By kind of assistance, Rp40.4 trillion or 51.6% of the total loans represented program aids from the Asian Development Bank (ADB), the World Bank, and the Government of Japan, while the rest were project aids.

Impact on Domestic Demand

In line with a decline in economic activity and aggregate purchasing power, the government attempted to enhance its role as stabilizer, distributor, and stimulator in the real sector recovery. Nevertheless, contribution of the government to the economy was more pronounced in increased consumption expenditure, particularly on subsidy, than in investment expenditure, both for SSN and non-SSN (Table 5.4). Share of the government consumption in the GDP rose from 7.8% in the preceding year to 8.8%, while its share of investment expenditure remained relatively unchanged.

Table 5.4
Fiscal Impact on Domestic Demand

Description	1996/97	1997/98	1998/99	
			Budget	Budget-P[1)]
	In trillions of rupiah			
I. Government Consumption	**35.9**	**54.6**	**105.5**	**93.0**
Domestic personnel expenditure	14.4	18.1	23.6	23.5
Domestic material expenditure	7.8	8.3	10.1	10.1
Regional routine expenditure	9.4	9.9	13.3	14.2
Other routine expenditure	4.3	18.3	58.5	45.2
II. Gross Domestic Capital Formation	**27.0**	**30.0**	**63.3**	**48.0**
Rupiah funding	22.8	21.7	49.1	38.9
Project aid	4.2	8.3	14.2	9.1
III. Total I + II	**62.9**	**84.6**	**168.8**	**141.0**

1) Estimated realization.
Source : Ministry of Finance (processed)

Table 5.5
Fiscal Impact on Balance of Payments

Description	1996/97	1997/98	1998/99 Budget	1998/99 Budget-P 1)
	Equivalent to trillions of rupiah			
Current Account	**–0.5**	**–2.4**	**–23.4**	**–12.0**
Trade balance	6.2	8.9	8.8	13.1
Exports of oil/gas	14.2	25.1	36.5	30.9
Imports of project aid	–7.7	–15.5	–26.4	–16.8
Others	–0.3	–0.8	–1.4	–1.0
Services	–6.7	–11.3	–32.2	–25.0
Foreign debt interest payment	–6.6	–10.3	–31.0	–24.1
Others	–0.1	–1.0	–1.2	–0.9
Government Net Capital Inflows	**–4.4**	**6.0**	**81.3**	**47.6**
Foreign debt disbursement	11.9	23.8	114.6	78.3
Foreign debt amortization payments	–16.3	–17.8	–33.3	–30.7
Monetary Movement 2)	**–4.9**	**3.6**	**58.0**	**35.6**

1) Estimated realization.
2) Positive means foreign inflows.
Source : Ministry of Finance (processed)

Table 5.6
Fiscal Impact on Monetary Development

Description	1996/97	1997/98	1998/99 Budget	1998/99 Budget-P 1)
	In trillions of rupiah			
Revenue in Rupiah	**76.4**	**83.1**	**112.8**	**129.5**
Oil/gas	5.9	10.2	13.2	10.3
Non-oil/gas 2)	67.5	72.8	99.6	111.6
Net others 3)	3.0	0.1	–	7.7
Expenditure in Rupiah	**67.5**	**86.2**	**170.7**	**141.2**
Operational	40.5	56.2	107.4	93.2
Development	27.0	30.0	63.3	48.0
Monetary Impact 4)	**9.0**	**–3.1**	**–58.0**	**–11.7**

1) Estimated realization.
2) Tax and non-tax revenues.
3) Including unsettled differences.
4) Negative means expansion.

Source : Ministry of Finance (processed)

Impact on Balance of Payments

Contribution of the official capital to the balance of payments increased as compared to that in the preceding year. The increase originated from withdrawal of official debt equivalent to Rp78.3 trillion (Table 5.5). The rescheduling of principal repayment of official debt was significant in lessening principal repayment that fell due in the reporting year. As a result, net official capital inflows in the year under review surpassed that in the previous year. The contribution of both components was of significance to offset increases in import of project aid and interest payment of external debt.

Impact on Monetary Development

The government finance operations exerted an increase of expansionary impacts on money supply as compared with that in the preceding year (Table 5.6). The expansion centered on operating expenditure, notably subsidy that reached Rp45 trillion. On the development expenditure side, expansion stemmed from realized SSN program and bank restructuring.

Government Finance Operations in 1999/2000

In the fiscal year 1999/2000, the government finance is expected to face downward pressure from enormous expenditure need, while domestic revenue sources remain limited. The national economy is projected to remain sluggish, although not as bad as in the earlier year. Consequently, the role of fiscal policy remains strategic to lead the economic recovery. As such, expenditure on a number of subsidies, with sharper emphasis, continues to highlight the government finance operations. Investment expenditure will continue to focus on the SSN program. A greater role in running the program will be placed on the local government to comply with the newly updated regulation on the funding balance between the central and local government.

On the revenue side, oil price at the international market is projected to weaken to an average of $10.5 per barrel and the rupiah is to appreciate as to reduce the rupiah amount of the oil/gas proceeds (Tables 5.7 and 5.8). Meanwhile, non-oil/gas revenue from tax sources, particularly income tax and value added tax,

Table 5.7
Basic Assumptions in the 1998/99 State Budget and the 1999/2000 State Budget

	Budget 1998/99	Budget 1999/2000
GDP (in trillions of rupiah)	952.0	1,224.0
Economic growth (in percent)	–12.0	0.0
Inflation (in percent)	66.0	17.0
Crude oil price (in dollar/barrel)	13.0	10.5
Oil production		
(in thousands of barrel/day)	1,520.0	1,520.0
Exchange rate (in Rp/$)	10,600.0	7,500.0

will decline slightly. In addition, domestic revenue from privatization of state-owned enterprises and non-tax and non-oil/gas revenues will climb.

As a whole, the government revenue from taxes is estimated to stay high albeit a drop in tax revenue from interest income of time deposits due to falling deposit rates. To meet its targets, the government attempts to initiate strategic measures such as broadening of tax bases, intensification of tax collection, and administration improvement.

Meanwhile, half of the government revenue from non-tax sources is expected to originate from sales of 10 state-owned enterprises that are budgeted to stand at around Rp13 trillion. The rest is expected to come from profit from state-owned enterprises, reforestation fund, regular fee of forest proceeds, and other collections from departments.

On the expenditure side, lifting of ineffective subsidies will reduce subsidy expenditure to Rp28 trillion. In the 1998/99 fiscal year, the government removed a number of subsidies such as for wheat, sugar, soybean, and fertilizer.

Oil-based fuel subsidy is projected to fall to Rp10 trillion due to the anticipated exchange rate appreciation and a projected decline in oil price at the international market. Subsidies for aviation turbo fuel and aviation gasoline were lifted to follow international prices. Electricity subsidy was limited to a maximum of Rp7.2 trillion. Higher electricity tariff will be likely applied to manufactures and medium- and upper-scale households.

In the meantime, the government will raise budget for salary/pension pay for public servants and members of armed forces. The salary hike will go up by 40% to allow civil servants to catch up with inflation that eroded their real income in 1998/99. Budget allocation for routine expenditure in certain provinces (subsidy for autonomous provinces) will also rise in step with the

Table 5.8
Government Finance Operations

Description	1998/99*		1999/2000	
	Budget-P 1)	To GDP (%) 2)	Budget	To GDP (%) 3)
	(In trillion Rp)	(In percent)	(In trillion Rp)	(In percent)
Domestic Revenue	**160.5**	**15.2**	**142.2**	**11.6**
Oil/gas and non-oil/gas	152.8	14.5	142.2	11.6
Oil/gas	41.3	3.9	21.0	1.7
Tax	96.4	9.2	94.7	7.7
Non tax and net oil profit 4)	15.1	1.4	26.5	2.2
Net other revenue 5)	7.7	0.7	0.0	0.0
Government Expenditure	**184.1**	**17.5**	**195.7**	**16.0**
Operational expenditure	119.3	11.3	114.5	9.3
Interest payment	24.1	2.3	20.5	1.7
Local government expenditure	14.1	1.4	19.5	1.6
Personnel expenditure	24.5	2.3	33.6	2.7
Material expenditure	11.1	1.0	11.0	0.9
Net foreign borrowing 6)	45.5	4.3	29.9	2.4
Investment expenditure 7)	64.8	6.2	81.2	6.7
Fiscal Saving 8)	**41.2**	**3.9**	**27.7**	**2.3**
Fiscal Saving - Investment Gap	**–23.6**	**–2.2**	**–53.5**	**–4.4**
Financing	**23.6**	**2.2**	**53.5**	**4.4**
Domestic 9)	–24.0	–2.3	0.0	0.0
Overseas 10)	47.6	4.5	53.5	4.4

1) Estimated realization.
2) Estimated GDP for1998/99 amounting Rp1,053.4 trillion.
3) Estimated GDP for 1999/2000 amounting Rp1,224.2 trillion.
4) Including revenue from state enterprise privatization.
5) Including unsettled differences.
6) Including subsidies and domestic debt.
7) Including banking restructuring cost.
8) Domestic revenue minus operational expenditure.
9) Including monetary correction amounting Rp2.44 trillion in 1998/99.
10) Foreign debt disbursement minus amortization.

Source : Ministry of Finance (processed)

government plan to improve the balance between local and central government finance.

Investment priority will continue to center on the SSN program that covers (i) creation of employment opportunities, (ii) protection of basic social needs in the spheres of health and education, (iii) enhancement of resilience in food and nutrition, and (iv) economic recovery, inclusive of assistance for small-scale and medium-scale entities, and cooperatives.

The government has put a budget some Rp17 trillion to restructure the bank that is estimated to reach Rp34 trillion in 1999/2000. The remaining Rp17 trillion is expected to come from sales of bank assets that are currently under supervision of Assets Management Unit (AMU) of IBRA. The budget allocation and sales of assets are estimated to meet fund requirement for the banking restructuring program in 1999/2000 mainly to pay for bond coupon, operating expenses of IBRA/AMU, and other expenses. Investment expenditure will undergo a major change in its pattern because of the switching policy, of which the budget allocation is switched from sector projects (by department) to regional projects (by region), particularly block grant, in larger magnitude.

Based on the above assumptions, deficit of the government finance operations is estimated to reach Rp53.5 trillion or 4.4% of the GDP. The deficit is expected to be funded entirely by external debts, primarily from the World Bank, ADB, the Government of Japan in the context of the Miyazawa Plan, and the Consultative Group for Indonesia (CGI).

Social Safety Net

Social Safety Net (SSN) is a program designed by the government to extend financial assistance to the community. The program is integrated, transparent, and accountable, as it provides a fast and sustainable access directly to the public.[1] The main objectives of the SSN programs are:

a. to generate productive employment opportunities for the jobless labour force in a large number of economic sectors,
b. to increase public income and purchasing power,
c. to raise social welfare, particularly of those hard hit by the crisis, and
d. to coordinate various programs designed to address the crisis and poverty alleviation.

The SSN program comprises four priorities, namely food resilience program, labor-intensive and productive employment creation program, small- and medium-scale businesses development program, and basic community service program, particularly in the areas of health and education.

The food resilience program is designed to provide affordable foodstuff for the poor with ease. This program has four schemes, namely food buffer, food support, food production intensification, and subsidies for fertilizer and capital. The food buffer scheme allocates price subsidies to a number of basic commodities such as rice, sugar, cooking oil, flour, and beans. The food support scheme, conducted through Special Market Operation (SMO), supplies rice to the subsistence level 1 families and to the pre-subsistence families. The food production intensification scheme provides technical assistance to farmers, in cooperation with research institutions and universities. The subsidies for fertilizer and capital scheme allocate subsidies to farmers for importing fertilizer and purchasing production equipment via credit to farmers (KUT) program.

1) Press release on Presidential Decree No. 190 of 1998.

The labor-intensive and productive employment creation program proceeded with, among others, extending the existing labor-intensive program that includes maintaining and improving infrastructure, such as irrigation, road, and school building. This program is carried out in both rural and urban areas.

The small- and medium-scale businesses development program is geared at creating a mechanism that led to a fair and productive business environment, including the extension of low interest credit for small and medium businesses and cooperatives. To support this program, the government has devised competitive business regulations and developed non-bank financial institutions in support of the ongoing banking sector rehabilitation.

The basic social service improvement program places priority to the community services in the areas of health and education. In the health sphere, the program is directed to improving and maintaining the health and nutrition of the poor by means of medical care at community health centers, free pregnancy examination and childbirth assistance for the poor, and food supplement for those in pregnancy, parturition, and breast feeding period, including for 6-24 month old baby suffering a chronic malnutrition. Meanwhile, in the education sphere, the program focuses on maintaining enrollment rate and preventing students from dropping-out. The education program moves through, among others, the removal of a number of education fees and the extension of scholarships.

The four programs are inscribed in 17 development sectors with a total budget of Rp17.3 trillion allocated in July 1998, then revised to Rp18.0 trillion in September 1998. This amount constituted 19.4% of the total development expenditure in the year 1998/99. In view of the low realized SSN, the government will extend the implementation period of the program for 1998/99 up to the end of June 1999. In total, the program is projected to arrive at Rp16.3 trillion, or 90.3% of the Rp18.0 trillion allocated by the budget.

Two main constraints contributed to the slow absorption of SSN. The first was the lack of accurate and complete data on the poverty level at a certain region. In designing the SSN program, the National Development Planning Agency (Bappenas) made use of macro data from the Central Bureau of Statistics, micro data from the National Family Planning Coordinating Board (BKKBN) on pre-subsistence and subsistence level 1 families, and unemployment data from the Ministry of Manpower and the Central Bureau of Statistics. In reality, however, poverty data changed rapidly and drastically as to make recent data difficult to get. The second constraint centered on the inadequate system for monitoring and controlling the implementation of SSN.

To deal with these constraints and prevent fund leakages, the government issued Presidential Decree No. 190 of 1998 on the establishment of Task Force for SSN Improvement. In view of accelerating and improving the efficiency of the SSN, the Bappenas has designed and coordinated the empowerment of region program to address the impact of economic crises. The program, based on the community approach, consists of (i) fast and direct assistance to beneficiaries, (ii) transparent activity plan, (iii) technical and administrative accountability, and (iv) sustainable and self-fulfilling businesses by local community organization.

Chapter 6 Financial Institutions and Capital Market

The financial sector in the reporting year remained broadly off-track. The banking and non-bank financial institutions (NBFIs), except pension fund companies and pawnshops, continued to deteriorate. Nevertheless, a number of government policy measures in the financial sector, particularly the bank restructuring program, have recorded significant progress. However, their results have not yet been all apparent as a result of the complexity of the issues faced. Meanwhile, the stock market --worst hit by the crisis-- began to transmit its growth pulse in the last quarter of the year under review. This nascent progress in the stock market coincided with declining interest rates and a gradual return of investor confidence in Indonesia's economic prospects.

Banking

In the year under review, the banking condition remained under downward pressure. Its rehabilitation proceeded slowly because of the complexity and scale of problems as a result of the severe balance sheet effects in the banking industry and a large number of problem banks. As such, the banking restructuring program entailed a lengthy and intricate preparation, good coordination, and enormous costs. The frail banking structure as a result of internal deficiencies was exacerbated by adverse external forces, such as exchange rate turbulence, high interest rates, social and political uncertainty, and a wide range of negative rumors that triggered bank runs.

The depreciating rupiah, followed by rising interest rates due to policy tightening to stabilize prices and the exchange rate, caused debtors to suffer a greater loss. Banks had to confront a negative net interest margin as a consequence of an inevitable excess of interest expense over interest income. The negative spread caused further losses and reductions of bank equity capital. Their paid-in equity eroded unstoppably. Almost all banks ran out of capital. The high interest rate environment interrupted the intermediary function of the banks as they faced onerous difficulty in extending credit. Consequently, banks tended to place funds in interbank money market (IMM) and Bank Indonesia Certificates (SBIs) in lieu of the real sector where credit risk was mounting.

Settlement of the banking issue had to initially address the internal deficiency. Unfortunately, the deficiency was quite structural as it was rooted in unprofessional management where outside interference was ubiquitous and where the competence and integrity of managers, directors, and owners was somehow lacking. The low level of competence and integrity of bank management resulted in poor risk management as highlighted by numerous violations of prudential principles, high-risk investments, and imprudent funding strategy. Added to these internal weaknesses was an emphatically inadequate internal control. Accordingly, banks' performance was in a shambles as reflected in their unbalanced balance sheet in both the asset and liability sides.

On the asset side, the primary problem centered on the deteriorating quality of productive assets. This problem originated from credit lending that was not based on sound lending criteria. Excessive credits were extended to certain groups and banks' subsidiaries in the form of connected lending that resulted in numerous violations of the legal lending limit (LLL). Another major problem came from a large portion of lending to high-risk sectors, most notably the property.

On the liability side, the main problem was a mismatch of currency and maturity where short-term, unhedged foreign loans were used to finance long-term rupiah-generating projects. In addition, the negative spread during the reporting period magnified the substantial loss from the mismatch and introduced a larger retained loss in the thin equity base of the banks. Consequently, banks became considerably more susceptible to disruptive changes.

The internal deficiency in the banking industry was also associated with ineffective supervision of banks. There were five constraints that shaped the ineffectual bank supervision. First, insufficient number of supervisors. Second, inadequate early warning systems. Third, a conflicting dilemma between consistent implementation of the regulations and concerns over a probable systemic failure. Fourth, the absence of standard operating procedures to exercise an exit policy (a policy that describes ways for any bank to exit from the banking system) that had in fact resulted in moral hazard. Fifth, frequent interference from connected parties that hindered any policy remedy from materializing.

Banking Policy

In view of the formidable problem in the reporting year, measures in the banking industry focused on efforts to rehabilitate its soundness, clean up its system, and prevent such a crisis from recurring. To restore public confidence, the government issued the blanket guarantee scheme to ensure the security of the bank's liability side. The measures were supported by a monetary policy tightening that led to high interest rates to absorb excess liquidity into the banking system. To clean up the banking system, the government initiated the bank restructuring program, principally through its recapitalization plan. The measures all together managed to arrest the banking crisis. Since the middle of the reporting period, bank runs have subsided and funds mobilized from the public have been flowing in. Nevertheless, the banking industry remained off-track. Bank equity continued to dwindle as a result of continuing current operating losses. The losses centered on rising non-performing loans that consistently swelled the provision for loan losses (PPAP). In addition, the negative interest spread added to the losses that narrowed the equity base.

To recover confidence of the domestic and foreign players, the government initiated two strategic steps: (i) introducing the blanket guarantee scheme to both depositors and creditors and (ii) establishing the Indonesian Bank Restructuring Agency (IBRA)[1] assigned to restructure the banking industry. These steps managed to gain ground although greater progress awaits a reversal of the currently bad performance of the banks.

In creating a sound and competitive banking system, the government implemented a comprehensive bank restructuring program, including the firm application of an exit policy. The program encompasses several strategic steps that emphasize the policy to fix bank solvency and profitability, sustain viable banks, and restore bank's function as an intermediary institution. The program continues to focus on four policy pillars consisting of (i) bank restructuring program, especially the bank recapitalization plan, (ii) improvement of internal conditions, (iii) revision of legal apparatus, and (iv) enhancement of bank's supervision function.

The first pillar centers on the bank restructuring to address the issue of solvency (Box: Bank Recapitalization Program). At the implementation level, the government selected banks that (i) can join the recapitalization program supported by the government, (ii) can operate without taking part in the recapitalization program, (iii) are taken over by the government in terms of ownership, and (iv) should be liquidated due to their insolvent status and non-viable prospect. The due diligence process and its finalization to decide the inclu-

1) Bank Indonesia Report for the Financial Year, 1997/98

sion of banks in the recapitalization program required a longer time to complete than anticipated. The review process and determination of banks that still possessed viability to survive and grow and could meet recapitalization criteria necessitated cautious, transparent, and non-discriminatory examinations.

The second pillar concentrates on efforts to improve the bank internal quality to regain its profitability profile and enhance resilience against any external disruptions. Accordingly, the revision of prudential principles should adhere to international rules of conduct and abide with non-discriminatory principles. In the reporting year, Bank Indonesia revised and issued a number of prudential principles, including capital adequacy ratio (CAR),[2] quality of productive assets (KAP),[3] provision for loan losses (PPAP),[4] LLL,[5] annual financial report and its publication,[6] and net open position (NOP).[7] At the same time, two new regulations were introduced on credit restructuring[8] and liquidity monitoring report.[9] With the consistent application of prudential principles and law enforcement, the national banks are expected to operate with manageable risks which will enable them to sustain their operations in the midst of a crisis. In addition, they can also maintain public confidence.

The third pillar focuses on the revision of legal procedures to ensure law enforcement. Accordingly, the government issued Act No. 10 of 1998, concerning amendment of Act No. 7 of 1992 on banking. Some changes substantially affecting the operations of the banking system include (i) transfer of authority on licensing in the banking industry from the Ministry of Finance to Bank Indonesia, (ii) removal of barriers for foreign investors to own locally incorporated banks given the partnershipwith local investors, (iii) development of syariah banks with profit-sharing principles, (iv) narrowing of the coverage of bank secrecy from both sides of the balance sheet, assets and liabilities, to one side only on the liability of the bank, (v) establishment of the Deposit Insurance Institution (LPS), and (vi) formation of a temporary agency to restructure the banking industry. As a follow up, Bank Indonesia has issued a number of regulations as a guide in the implementation of the Act on IBRA[10] and bank secrecy.[11] Meanwhile, a number of other regulations were under completion.

The fourth pillar emphasizes the effectiveness of the bank surveillance system. Accordingly, Bank Indonesia has conducted internal revisions, among others, to change the structural organization of the task force in the banking sector by separating off-site supervision from on-site supervision. Further, in the midst of the crisis, the active on-site supervision was intensified. This measure went hand-in-hand with the ongoing approach on supervision authority that emphasizes the firm and consistent enforcement of regulations. The internal consolidation was also supported by efforts to upgrade the integrity and competence of bank supervisors.

Banking Structure

In consequence of the bank restructuring, the number of banks and their branch offices declined. At the end of the reporting year, there were only 170 banks in operation, a drastic fall from 222 banks in the preceding

2) Board of Directors of Bank Indonesia Decree No. 31/146/KEP/DIR, dated November 12, 1998
3) Board of Directors of Bank Indonesia Decree No. 31/147/KEP/DIR, dated November 12, 1998
4) Board of Directors of Bank Indonesia Decree No. 31/148/KEP/DIR, dated November 12, 1998
5) Board of Directors of Bank Indonesia Decree No. 31/177/KEP/DIR, dated December 31, 1998
6) Board of Directors of Bank Indonesia Decree No. 31/176/KEP/DIR, dated December 31, 1998
7) Board of Directors of Bank Indonesia Decree No. 31/178/KEP/DIR, dated December 31, 1998
8) Board of Directors of Bank Indonesia Decree No. 31/150/KEP/DIR, dated November 12, 1998
9) Board of Directors of Bank Indonesia Decree No. 31/179/KEP/DIR, dated December 31, 1998

10) Government Regulation No. 17 of 1999, dated February 27,1999
11) Board of Directors of Bank Indonesia Decree No. 31/182/KEP/DIR, dated December 31, 1998

Table 6.1
Number of Banks and Bank Offices in Indonesia

Bank	Outstanding 1997/98	Outstanding 1998/99	Growth (%) 1997/98	Growth (%) 1998/99	Share[1] (%) 1997/98	Share[1] (%) 1998/99
I. Commercial Banks						
State banks						
Number of banks	7	7	0.0	0.0	3.2	4.1
Number of offices [2]	1,772	1,865	3.8	5.2	23.4	25.5
Regional government banks						
Number of banks	27	27	0.0	0.0	12.2	15.9
Number of offices	812	821	9.0	1.1	10.7	11.2
Private national forex banks						
Number of banks	77	48	–2.5	–37.7	34.7	28.2
Number of offices	4,158	3,982	3.9	–4.2	54.9	54.5
Private national non-forex banks						
Number of banks	67	45	–19.3	–32.8	30.2	26.5
Number of offices	729	532	–8.2	–27.0	9.6	7.3
Joint banks						
Number of banks	34	33	9.7	–2.9	15.3	19.4
Number of offices	58	62	5.5	6.9	0.8	0.8
Foreign banks						
Number of banks	10	10	0.0	0.0	4.5	5.9
Number of offices	41	41	0.0	0.0	0.5	0.6
Total						
Number of banks	222	170	–6.3	–23.4	100.0	100.0
Number of offices	7,570	7,303	3.1	–3.5	100.0	100.0
II. Rural Credit Banks						
Rural credit banks established before October 1988 package	471	471	0.0	0.0	6.2	6.4
Rural credit banks established after October 1988 package	1,769	1,891	19.2	6.9	23.4	25.9
Rural credit agencies	5,345	5,345	0.0	0.0	70.6	73.2

1) Share to commercial banks.
2) Excluding rural unit of BRI.

Table 6.2
Number of Commercial Bank Offices by Region

Region	Growth (%) 1997/98	Growth (%) 1998/99	1998/99 Number	1998/99 Share (%)	1998/99 Population / Bank offices
West	**8.8**	**–8.1**	**6,103**	**83.6**	**85,023**
Sumatera	6.4	–10.4	999	13.7	42,163
Jawa excluding Jakarta	3.1	–1.7	2,794	38.3	38,635
Jakarta	1.4	-13.8	2,310	31.6	4,225
Central	**5.4**	**–3.4**	**634**	**8.7**	**55,653**
Bali and W. Nusa Tenggara	4.3	–6.7	320	4.4	21,114
Kalimantan	6.5	0.7	314	4.3	34,539
East	**3.4**	**1.3**	**566**	**7.8**	**82,429**
E. Nusa Tenggara, Maluku, Irja, and East Timor	4.6	9.1	204	2.8	43,295
Sulawesi	2.8	–2.7	362	5.0	39,134
TOTAL	**8.2**	**7.0**	**7,303**	**100.0**	**223,105**

reporting year (Table 6.1). In April 1998, the government froze the operations of seven private national banks that were insolvent comprising three private national foreign exchange banks and four private national non-foreign exchange banks. The government also took over the management of seven other private national foreign exchange banks. In August 1998, the government froze again the operations of three banks taken over, namely PT Bank Dagang Nasional Indonesia (BDNI), PT Bank Modern, and PT Bank Umum Nasional (BUN). After the completion of the due diligence process on 176 national banks under the umbrella of the recapitalization program and after existing owners of the banks put up additional paid-in capital, the government announced the due diligence results. There were 99 banks placed under category A, 49 under category B, and 28 under category C. In March 1999, the government announced the takeover of ownership of seven banks, closure of 38 banks, and decided to recapitalize 9 banks under category B, 12 banks in takeover (BTO), 12 regional government banks (BPDs), and all state banks.

With the closure of a number of insolvent banks in the face of an extended economic crisis, the number of bank offices in operation dropped from 7,570 to 7,303. Of the 267 closed offices, 197 offices belonged to private national non-foreign exchange banks. State banks expanded their branch offices from 1,772 in the previous reporting year to 1,865, under purpose of enlarging their customer base. With the expansion of branch offices, the structure of the banking industry remained the same, with the largest market share belonging to the group of private national foreign exchange banks.

Meanwhile, by location, dispersion of bank offices remained broadly the same as in the previous reporting year. The western part of Indonesia dominated the share (Table 6.2) albeit the increase in bank offices in the eastern part, specifically in East Nusa Tenggara (NTT), Maluku, Irian Jaya, and East Timor. The eastern part of Indonesia had the smallest market share of 7.8%. Its small number of bank offices was evident in the ratio of the number of population over the number of banks. The ratio was the highest, namely 43,295 persons per bank as compared with the ratio in Jakarta which stood at 4,225 persons and in Indonesia as a whole at 27,103 persons.

Banking Operation

Revenue from lending continued its slide while interest expense on bank liabilities in the reporting year was on the rise. In other words, its intermediary function was ineffective. The enlargement of allowances for elimination of productive assets as a result of an increase in troubled credits had a negative impact on net income. In addition, banks continued to accumulate losses from the negative interest spread. The rising accumulation of losses continued to reduce bank equity and the banking sector ended the year with a negative equity base.

The bank's gross revenue in the year under review declined by 12.5% as opposed to its sharp upsurge in the preceding reporting year. The BPDs were an exception since their revenue continued to increase, by 89.8%. The increased revenue was attributed to funds from regional development projects placed in the regional government account at BPDs. The largest drop in the gross revenue was experienced by private national banks, followed by joint banks, while foreign banks experienced the smallest decline. The group of private national banks continued to have the largest market share of total revenue in the banking industry (Table 6.3). In line with the performance of commercial banks, rural credit banks (BPRs) also recorded a negative growth in their revenue.

Table 6.3
Total Assets by Group of Banks

Group of Banks	Outstanding (In trilions of Rp)		Percent Change		Share[1)] (In percent)	
	1997/98	1998/99	1997/98	1998/99	1997/98	1998/99
Commercial Banks	**737.6**	**645.8**	**84.6**	**-12.5**	**100.0**	**100.0**
State Banks	296.2	258.8	107.6	-12.6	40.2	40.1
Private National Banks	319.2	263.0	51.2	-17.6	43.2	40.7
Regional Government Banks	11.8	22.4	6.3	89.8	1.6	3.5
Joint Banks	60.1	50.1	204.9	-16.6	8.1	7.8
Foreign Banks	59.9	58.5	254.7	-2.3	8.1	9.1
Rural Credit Banks [2)]	**2.9**	**2.8**	**6.6**	**-3.4**	**0.4**	**0.4**

1) Share of each group of banks to commercial banks.
2) At the end of December 1998.

Funding

In the reporting year, funds mobilization rose 32.4% to Rp599.5 trillion (Table 6.4). The government guarantee

Table 6.4
Fund Mobilization by Type of Deposits

Type of Deposits	Outstanding (In trilions of rupiah)		Growth (%)		Share [1)] (%)	
	1997/98	1998/99	1997/98	1998/99	1997/98	1998/99
Demand deposits	**108.7**	**107.2**	**90.7**	**-1.3**	**24.0**	**17.9**
Rupiah	64.1	60.0	50.3	-6.4	58.9	55.9
Foreign currency	44.6	47.2	210.4	5.9	41.1	44.0
Time deposits	**272.1**	**412.8**	**66.2**	**51.7**	**60.1**	**68.9**
Rupiah	178.0	303.0	49.2	70.3	65.4	73.4
Foreign currency	94.1	109.8	112.1	16.6	34.6	26.6
Savings	**72.1**	**79.5**	**8.8**	**10.1**	**15.9**	**13.2**
Total	**452.9**	**599.5**	**57.8**	**32.4**	**100.0**	**100.0**
Rupiah	314.2	442.5	37.7	40.8	69.4	73.8
Foreign currency	138.7	157.0	136.2	13.2	30.6	26.2

Table 6.5
Share of Deposits by Group of Banks

Group of Banks	Mar.'98	Dec. '98	Jan.'99	Feb. '99	Mar. '99	1998/99
	Share (%)					Δ (%)
Commercial Banks						
State banks	40.4	47.4	46.7	47.0	48.9	60.1
Private national banks	44.1	41.1	41.2	40.7	38.6	15.9
Regional government banks	1.8	1.9	1.9	1.9	1.8	38.4
Joint and foreign banks	13.7	9.7	10.2	10.4	10.7	2.7
Rural Credit Banks 1)	**0.3**	**0.3**	. . .	. . .	. . .	. . .

1) To commercial bank.

Table 6.6
Outstanding of Foreign Borrowings by Group of Banks

Group of Banks	1996/97	1997/98	1998/99	
	In billions of rupiah			In percent
State banks	15,469	40,743	44,666	9.6
Private national forex banks	12,380	36,318	21,088	–41.9
Regional government banks	152	4,339	5,623	29.6
Joint banks	10,065	33,642	24,553	–27.0
Foreign banks	1,362	5,082	4,152	–18.3
T o t a l	**39,428**	**120,124**	**100,082**	**–16.7**

program and high interest rates were behind the rise. The bulk of the increase originated from time deposits, particularly rupiah time deposits. High interest rates and the sluggish economy caused both individual and institutional depositors to place their funds in time deposits, especially short-term time deposits. The amount of one-month deposits surged 123.3% as compared to the preceding year. Its share of total time deposits reached 54.2%. The funding structure that was concentrated on short-term sources increased the risk of asset/liability mismatch.

By size of third-party funds, state banks held the largest share, recording an increase of 60.1% in the reporting year (Table 6.5). This substantial increase resulted from government measures to appoint several state banks to pay cash to depositors of banks liquidated by the government. In general, depositors from liquidated banks shifted their funds to state banks as they still had confidence in the banks.

In the reporting year, foreign loans borrowed by banks dropped by Rp20.0 trillion or 16.7% (Table 6.6). Foreign creditors were reluctant to roll over loans. An extension of new lending required debtors to pay all matured loans. The group of private national foreign exchange banks experienced the largest decline, followed by joint and foreign banks. BPDs' outstanding loans increased because of a rise in managed funding from the central government. The funding originated from external debt for local development projects. Meanwhile, oustanding foreign loans held by state banks remained broadly unchanged.

Fund Uses

In the reporting year, outstanding bank credit fell markedly by Rp110.3 trillion to Rp366.5 trillion in March 1999 (Table 6.7). The decrease to a large extent was attributable to a transfer of state banks' bad debts to the Assets Management Unit (AMU)/IBRA and the elimination of credit data of the 38 liquidated banks from credit statistics of the banking system in March 1999. The bad debts transferred from state banks to AMU/IBRA amounted to Rp106.4 trillion, while the amount of credits from the liquidated banks that was eliminated from the credit statistics stood at Rp25.7 trillion; both totaled Rp132.1 trillion. Should the total amount be included, total bank credit would have risen by Rp21.8 trillion. The rise stemmed from conversion of a certain percentage of letters of credit (L/C) into credit and the interest burden placed on top of the credit. Up to June 1998, bank credit outstanding continued to increase particularly as a result of the weakening rupiah. The exchange rate depreciation had swelled the rupiah value of foreign

Table 6.7
Bank Credits

Bank credit	1997/98	1998/99	1997/98	1998/99	1998/99
	Outstanding (In trilions of rupiah)		Growth (%)		Share (%)
By type of credit	**476.8**	**366.5**	**55.8**	**–23.1**	**100.0**
Investment	132.8	101.6	78.1	–23.5	27.8
Working capital	307.8	238.3	53.4	–22.6	65.0
Consumer	36.3	26.6	17.2	–26.7	7.2
By economic sector	**476.8**	**366.5**	**55.8**	**–23.1**	**100.0**
Agriculture	31.9	29.8	69.1	–6.5	8.1
Mining	7.0	5.6	154.3	–20.2	1.5
Manufacturing	158.0	133.3	94.5	–15.6	36.4
Trade	107.6	71.7	46.5	–33.4	19.6
Services	133.4	97.0	38.2	–27.3	26.5
Others	39.0	29.2	17.1	–25.2	8.0
By category of bank	**476.8**	**366.5**	**55.8**	**–23.1**	**100.0**
State bank	202.6	154.4	82.7	–23.8	42.1
Private national forex bank	192.1	138.4	20.6	–28.0	37.8
Regional government bank	7.1	7.0	–0.2	–2.8	1.9
Joint and foreign bank	75.0	66.8	160.6	–10.9	18.2
In rupiah and foreign currency	**476.8**	**366.5**	**55.8**	**–23.1**	**100.0**
Rupiah	286.9	231.4	17.1	–19.3	63.1
Foreign currency	189.9	135.1	210.5	–28.9	36.9

currency denominated credit. However, with the strengthening of the rupiah and the continued slide in the economy, outstanding bank credit has come down gradually since July 1998.

By use of credit, all types of credit declined almost proportionately. By the end of the reporting year, working capital credit continued to have the largest share of 65%, followed by investment credit of 27.8%, and consumer credit of 7.2%. Just like the use of credit, all economic sectors registered a decline in credit. Credit extended to the manufacturing sector, the largest sector in the economy, showed a negative decline of 15.6%. Its share, however, increased from 33.1% to 36.4% since lending to other sectors fell at a faster pace.

The largest decline in credit was posted by the trade sector (33.3%), while the agricultural sector recorded a decline in credit outstanding of 6.5%. The steep fall of credit outstanding in the trade sector originated from dwindling real income and disrupted distribution networks. The modest fall in the agricultural sector resulted from good performance of a number of exported commodities from the sector, in addition to an increase in program credit. Meanwhile, the extension of property credit to finance construction, real estate, and house ownership by the end of the reporting year amounted to Rp60.4 trillion, a 20% increase as compared to the previous year. The largest decrease in extended credit was recorded in the real estate sector at 23.1%.

By group of banks, the largest decrease of 28% in credit outstanding occurred in the private national banks, followed by state banks, foreign and joint banks, and BPDs. The large drop in credit outstanding by the group of private national banks was attributed to the closure of several private national banks, the decline experienced by state banks owed to a transfer of bad debt from state banks to AMU/IBRA within the context of bank restructuring. Against this backdrop, the group of state banks had the largest share of credit outstanding albeit its slight decrease from 42.5% to 42.1%.

Such business developments --viewed from sales revenue, fund mobilization, and credit extension-- resulted in a further concentration of the banking industry in the 10 largest banks (Table 6.8). The role of the 10

Table 6.8
Banking Concentration

Group of Banks	1997	1997/98	1998/99
	In percent		
Based on Asset			
Top 10	59.2	61.3	62.6
Top 20	72.7	75.0	77.3
Based on Deposit			
Top 10	58.4	64.6	75.2
Top 20	72.4	80.5	88.6
Based on Credit			
Top 10	58.4	66.6	69.2
Top 20	72.4	79.8	83.2

largest banks in fund gathering rose appreciably. This stronger domination deterred progress in developing a sound banking system since market mechanisms were lacking. In addition, any disruption in one or more of the members of the big ten banks has the potential to interrupt the entire banking system.

Small-scale Business Financing

Consistent with the economic picture as a whole, during the reporting year, small-scale business financing that originated from either bank credit or program credit grew at a slowing pace. The slower growth resulted from liquidity strains and the depletion of the capital base as well as high lending rates. Given the difficulty to extend credit to small-scale enterprises (KUK), Bank Indonesia initiated measures to delay the enforcement of sanctions for not extending such credit since 1998 up to an unspecified time to be decided later. In addition, another strategy --through determination of credit quota to small-scale enterprises, technical assistance, and institutional building-- continued as last year.

In coping with recent economic and banking conditions, the strategy to develop small-scale business in the reporting year emphasized on earmarking fund for small-scale business entities, particularly funds from Bank Indonesia liquidity credit (KLBI). With this strategy, liquidity credit in the reporting year expanded to Rp5.7 trillion.

As such, banks were encouraged and stimulated to accelerate the extension of program credit as a credit scheme to implement the government program (in general to finance small-scale business). Its source is liquidity credit. Although this credit was not in the same spirit as in the Policy Package of 29 January 1990, the strategy was launched as an attempt to help the government to cushion the adverse impact of the crisis on the poor and empower them.

To support small-scale entrepreneurs, Bank Indonesia initiated several policies that entailed: (i) enlarging the share of liquidity credit to 100%, (ii) refunctioning bank as a channeling agent for program credit, (iii) broadening institutional networks to channel program credit, (iv) widening access of small-scale business to banks to obtain program credit, and (v) establishing a special task force for credit.

The policy to enlarge the share of liquidity credit to 100% was initiated under consideration that banks currently confronted a liquidity and capital squeeze as a result of high deposit rates. The enlargement of the share of liquidity credit went hand-in-hand with the provision of gross spread or attractive fee for banks to extend the program credit. This provision allows banks to extend the credit without involving their own financial resources and at the same time gaining administrative fee income. The policy applies for all Bank Indonesia program credit schemes, except for low/very low cost housing (KPRS/RSS) and micro credit project (PKM) schemes.

In view of the high risk embodied in the program credit that discouraged banks to extend credits, the government for the time being decided to take over the risk of several program credit schemes. The bank's function converted from an executing agent to a channeling agent. The policy applies to schemes of credit to farmers (KUT), credit to primary cooperatives for members (KKPA) in the field of poultry husbandry, and credit to small-scale and micro entrepreneurs (KPKM) through commercial banks.

The expansion of institutional networks to extend program credit proceeded by (i) involving BPRs as channeling agents for several program credit schemes, (ii) including syariah banks (commercial and syariah BPRs) as channeling agents for several program credit schemes, (iii) relaxing criteria of soundness for banks extending program credit schemes, and (iv) waiving the LLL condition for banks serving as channeling agents.

To broaden the access of small-scale entrepreneurs to banks to obtain program credits, in the reporting year, Bank Indonesia attempted to (i) relax conditions for obtaining credit, (ii) simplify credit approval procedures, (iii) lower lending rates for program credit, (iv) broaden the coverage of existing program credit, such as KKPA to conduct business as fishermen and farmers of poultry husbandry, and (v) create new credit schemes, such as KPKM, working capital credit for BPR (KMK-BPR), and profit-sharing financing (Box: Program Credit Schemes).

In promoting the program credit schemes and recommending changes in regulations to boost the schemes, the government has set up Special Task Force for Credit. The team is responsible for introducing the schemes to people, especially small-scale entrepreneurs and cooperatives, the target of the schemes.

In view of the fact that the program credit serves as a working capital credit to help small-scale entrepreneurs, the government paid particular attention to it. Nevertheless, because of domestic resource constraints, the government sought external financing. In the reporting year, it managed to get a two step loan (TSL) under the auspices of the Kreditanstalt fur Wierderaufbau (KfW) of Germany to help finance small and medium-scale entrepreneurs.

In addition, the strategy to provide technical assistance and institutional building in the reporting year proceeded through the Small-scale Enterprise Development Project (PPUK), Bank and Self-help Group Link Project (PHBK), and Micro Credit Project (PKM) for technical assistance and strengthening of BPRs and rural financial institutions (LKP), particularly by means of PKM scheme. The PKM got financial support representing as much as 60% of the total funds received from the Asian Development Bank (ADB). Up to the end of the reporting year, Rp88 billion has already been disbursed.

Despite various efforts as described above, outstanding credit to KUK in the reporting year continued to slide both in nominal terms and in the ratio of outstanding KUK to total bank outstanding credit. The slide of 42% was from Rp65.9 trillion and 13.0% as the ratio in the beginning of the reporting year to Rp38.2 trillion and 8.9% as the ratio at the end of the period. The number of banks meeting the criteria specified in the ratio of KUK also dropped, from 134 in the beginning of the reporting year to 51. The failing banks were private national banks. This resulted from the liquidation and merger of a number of banks during the reporting year, in addition to the economic downturn.

By use of credit, there was a shift in the composition of the KUK from working capital credit (48.0%), consumer credit (35.3%), and investment credit (16.6%) at the beginning of the year to consumer credit (43.0%), working capital credit (42.2%), and investment credit (14.8%) by the end of the period. The change resulted from a major decline in working capital credit due to the economic slowdown and stagnated consumer credit --notably housing and vehicle credits extended by banks-- since they could not be withdrawn at once.

KUK's collectibility in the reporting year also worsened, as reflected in a drop of the share of liquid credit from 84.6% at the end of the previous reporting year to 77.4% in the end of the reporting year and a rise of the share of bad credit from 3.9% to 9.4%.

Almost all KUK receivers (98.6%) were debtors with ceiling of Rp50 million and part of them were receivers of credits for feasible projects (KKU). In the reporting year, the number of KUK receivers increased 18.2%, from 48,338 at the end of the previous reporting year to 57,156 at the end of the reporting year. Its amount of credit also rose, namely 27.1%, from Rp674.6 billion to Rp857.1 billion.

Meanwhile, liquidity credit for program credit decreased 23.7%, from Rp26.2 trillion by the end of the preceding reporting year to Rp20.0 trillion. This drop was attributed to full payment of credit to the State Logistics Agency (Bulog) amounting to Rp9.6 trillion. The driving force was the removal of a number of subsidies such as wheat, food made of soybean, and corn although on the other side of the equation the government raised food subsidies to cushion the adverse impact of the crisis on the poor. Meanwhile, non-Bulog program credit climbed by Rp3.4 trillion and the largest allocation was to farmers (KUT). The next largest was an increase of liquidity credit earmarked for the KUT, from Rp308 billion in 1997/98 to Rp4.1 trillion in the reporting year. The expansion of the KUT was attributable to a shift in the function of banks from executing to channeling agents. The simplification of procedures in the extension of KUT aims at enabling farmers to get the credit necessary to enhance their productivity. Increased productivity was needed to make a staple food available for the people at large.

Financial Performance and Compliance with the Prudential Principles

As a result of the disrupted intermediary function of bank during the crisis, bank performance worsened. Excess liquidity was rife as indicated by the loan to deposit ratio (LDR) over deposits because banks failed to extend credit. The ratio dropped from 83.2% in the preceding year to 71.9% by the end of February 1999 (Table 6.9). Despite the excess liquidity, a number of banks faced a shortage of liquidity as a consequence of deeper segmentation in the money market. Interest rates remained high and a number of banks violated

Table 6.9
Loan to Deposit Ratio (LDR)

Group of Banks	1996/97	1997/98	February 1999
	In percent		
Commercial Banks	**79.60**	**83.20**	**71.92**
State bank s	78.50	87.20	67.26
Private national forex banks	80.20	90.60	75.81
Private national nonforex banks	87.50	80.30	61.67
Regional government banks	55.30	50.30	33.99
Joint banks	88.80	123.10	138.09
Foreign banks	79.40	60.30	60.15

Table 6.10
Violation on Statutory Reserve Requirement Regulation

Group of Banks	Mar. '97	Mar. '98	Mar. '99
	Number of banks		
Commercial Banks			
Rupiah	**111**	**111**	**40**
Foreign currency	**39**	**39**	**12**
State banks			
Rupiah	7	7	1
Foreign currency	7	7	0
Private national forex banks			
Rupiah	55	55	19
Foreign currency	25	25	9
Private national nonforex banks			
Rupiah	35	35	7
Foreign currency	0	0	0
Regional government banks			
Rupiah	6	6	8
Foreign currency	1	1	0
Joint banks			
Rupiah	5	5	2
Foreign currency	6	6	3
Foreign banks			
Rupiah	3	3	3
Foreign currency	0	0	0

the condition of statutory reserve requirement during the reporting year (Table 6.10). The increase in liquidity support in the year under review suggests the presence of liquidity difficulty.

Meanwhile, banks' profitability dropped drastically and even became negative. The faltering profitability was attributed to operating loss suffered by banks as a result of swelling non-performing loans as troubled assets and a negative interest spread.

The return on assets (ROA) and the ratio of operating cost on operating income (OCOI) fell in almost all banks (Table 6.11). The ROA fell from 0.38% to -22.59%. The group of private national forex banks suffered the worst ROA. The OCOI in the reporting year increased noticeably from 1.01 to 1.70, indicating the low degree of efficiency in the operations of banks. The worst performance was that of the state banks.

The worsening profitability resulted in a sharp fall of bank equity outstanding. Some banks even had a

Table 6.11
Return On Assets and Operating Cost on Operating Income Ratio

Group of Banks	1996/97	1997/98	1998/99
I. Return on Assets (ROA)[1]			
Commercial Banks	**1.17**	**0.38**	**–22.59**
State banks	0.82	0.34	–24.88
Private national forex banks	1.13	–0.47	–29.24
Private national nonforex banks	0.31	0.97	–0.35
Regional government banks	2.17	1.79	1.29
Joint banks	2.49	1.54	–9.88
Foreign banks	4.48	5.18	–0.77
II. Operating Cost on Operating Income (OCOI)[2]			
Commercial Banks	**0.93**	**1.01**	**1.70**
State banks	0.94	1.03	2.05
Private national forex banks	0.93	1.02	1.65
Private national nonforex banks	1.00	1.03	1.03
Regional government banks	0.88	0.94	0.93
Joint banks	0.82	0.91	1.28
Foreign banks	0.74	0.88	0.84

1) In percent
2) Absolute value

negative equity position. The erosion of equity was indicated by the declining capital adequacy ratio (CAR) from 4.3% at the end of the previous reporting year to -24.6% in the end of the reporting year (Table 6.12). The worsening solvency as indicated by the CAR occurred in state banks (-38.4%), followed by private national foreign exchange banks (-18.8%), and joint banks (-7.7%). Some banks still had positive CAR, namely private national nonforeign exchange banks, BPDs, and foreign banks.

The number of banks violating the LLL rose from 56 in December 1997 to 137 in December 1998 (Table 6.13). All state banks and most of private national banks violated this condition. However, in March 1999, the number of banks violating the LLL decreased as compared to those in December 1998 as a result of the liquidation of 38 banks and the transfer of bad debt from state banks to AMU/IBRA. In addition, a number of banks also violated the condition of NOP, in a time when exchange rate turbulence ruled in the first half of the year under review.

Tabel 6.12
Capital Adequacy Ratio (CAR)

Group of Banks	1996/97	1997/98	February 1999
	In percent		
Commercial Banks	12.2	4.3	–24.6
State banks	13.9	2.4	–38.4
Private national forex banks	10.3	5.3	–18.8
Private national nonforex banks	9.7	15.9	10.4
Regional government banks	14.7	9.2	13.5
Joint banks	18.0	4.8	–7.7
Foreign banks	13.8	12.8	12.9

As a ramification of the crisis, a large number of credits translated into trouble ones, most of them were credits that ignored the LLL principle. As the crisis entered into a deeper stage, the number of troubled credits surged, from 19.8% to 58.7% (Table 6.14). The upsurge occurred in private national foreign exchange banks, followed by joint and foreign banks. Meanwhile, BPDs experienced a slight rise in illiquid credits. The quality of productive assets deteriorated since the quality of fund investment of the banks also worsened, from 9.7% to 48.3%.

Tabel 6.13
Violation on Legal Lending Limit and Net Open Position

Group of Banks	Dec. '96	Dec. '97	Dec. '98	March'99
	Number of banks			
I. Legal Lending Limit (LLL)				
Commercial Banks	**52**	**56**	**137**	**84**
State banks	1	4	7	7
Private national forex banks	14	18	56	28
Private national nonforex banks	25	7	34	14
Regional government banks	5	7	12	10
Joint banks	6	18	25	22
Foreign banks	1	2	3	3
II. Net Open Position (NOP)				
Commercial Banks	**5**	**22**	**66**	**44**
State banks	1	2	7	7
Private national forex banks	4	11	41	19
Regional government banks	0	2	2	13
Joint banks	0	5	13	14
Foreign banks	0	2	3	1

Table 6.14
Non-performing Loan by Group of Banks

Group of Banks	1996/97	1997/98	1998/99
	In percent		
Commercial Banks	**9.3**	**19.8**	**58.7**
State banks	14.2	24.2	47.5
Private national forex banks	4.4	12.8	76.9
Private national nonforex banks	16.5	19.9	38.9
Regional government banks	13.9	15.8	17.0
Joint banks	7.7	25.3	64.6
Foreign banks	2.7	24.4	49.9

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

Description	1996/97	1997/98	1998/99
	Number of offices		
Rural credit agencies	5,345	5,345	5,345
Others	1,955	2,240	2,362
Total (in billions of rupiah)	**Dec '96**	**Dec '97**	**Dec '98**
Total assets	2,760	2,944	2,981
Deposits	1,577	1,601	1,527
Credits	2,141	2,288	1,986
Paid-in capital	529	623	706
Profits (loss)	45	30	(42)
Share to commercial banks (In percent)			
Total assets	0.54	0.41	0.32
Credits	0.65	0.51	0.37
Deposits	0.52	0.40	0.24

Rural Credit Banks (BPR)

In the reporting year, BPR faced tighter competition, a shallow capital base and weak management. Those problems were exacerbated by the crisis. Consequently, several BPR lurched into default and were in a critical illiquid position.

To address these vulnerabilities, Bank Indonesia introduced four policy steps. First, it continued efforts to settle the BPR that were in trouble in three years at the maximum. Second, it empowered BPR through the extension of liquidity credit and the implementation of a guarantee program to BPR. Third, it improved supervision systems, including regulations to establish and operate the banks. Fourth, it helped develop small-scale entrepreneurs through cooperation between the Governments of Indonesia/Bank Indonesia and the Government of Germany (represented by GTZ). The GTZ managed to set up an association of rural credit institution in Bali. The grant aims at preparing the establishment of Deposit Insurance Institution (LPS) and improving the supervision system for BPR.

During the reporting year, the number of BPR increased by 122 comprising 17 new banks and 105 renewed banks originating from the strengthening of the rural fund and credit institutions (LDKP) (Table 6.15). The addition of banks resulted from the realization of requests submitted in the previous year. The sales revenue of these banks also rose, by 1.3% in 1998. The rise stemmed from additional funds from increased paid-in capital by 13.3% due to the establishment of new BPR. However, at the same period, fund mobilization dropped 4.6%, number of depositors reached 4.7 million, and total funds amounted to Rp1.5 trillion. The amount of credit extended to 2.2 million debtors fell 13.2% to Rp2.0 trillion. In contrast, the outstanding of credit extended to other rural development banks surged by 89.6% to Rp715 billion. The decline in credit lending resulted in worsening profitability of the BPR that even turned negative.

Syariah Bank (Profit-sharing Bank)

With a view to developing a banking system on the basis of syariah principles (profit-sharing principles) that coexists with the conventional banking system in a dual banking system, in the reporting year, the government introduced the concept of syariah banking system in an Act No. 10 of 1998. Its objective is to provide bank services to people that cannot accept the concept of interest and to develop financing based on partnership principles (Box: The Syariah Banking System in Indonesia).

The development of syariah banks on an institutional basis has begun since 1992 through the establishment of PT Bank Muamalat Indonesia (BMI), followed by several syariah rural credit banks (BPRS). It grew slowly in the following years. At the end of 1998, there were only 78 syariah banks, consisting of BMI and 77 BPRS. By region, 67 banks with 70 offices were located in the western part of Indonesia, 7 banks with 8 offices in the eastern part, and 5 banks with 6 offices in the central part. This fact was contradictory to the large market potential for this kind of bank considering that the moslem population in Indonesia stood at about 185 million. There are four key factors contributing to the slow progress in the development of syariah banks: (i) inadequate regulations, (ii) limited office networks, (iii) lack of information and public understanding of the syariah banks, and (iv) the absence of a money market among syariah banks.

Non-bank Financial Institutions (NBFIs)

The economic and monetary crisis which has generated the balance sheet effects on all business entities delivered different impacts on NBFIs. The high interest rate and the exchange rate volatility depleted the equity base of finance companies. As a result, the finance companies could not meet the condition of minimum capital requirement at end-October 1998. To save them, the government extended the deadline for fulfillment of the condition of minimum capital requirement by a maximum of two years.[12)] Insurance companies also faced the adverse impact of the crisis in the form of balance sheet effects on foreign-currency denominated insurance policies and investments. In contrast, pension fund companies and pawnshops managed to take advantage of the crisis. The pension fund companies benefited from high deposit rates since most of their portfolio was invested in rupiah and foreign currency time deposits. Likewise, pawnshops also profited from the crisis since banks ran into difficulty to extend credit albeit a greater need for people hit by the crisis to get credit. This gave broader room for pawnshops to expand their business.

Finance Companies

Finance companies confronted an inevitable downturn as compared with the preceding year as reflected in the declining number of companies and their business setback. The number of finance companies having license to operate fell from 248 in the end of 1997 to 245 since three companies had been liquidated while 12 other companies were under liquidation process during 1998. There were, however, most companies --out of 233 companies still in operation-- had already downsized their assets and human resources by laying off some of their employees. In terms of revenue, their total financing value and total assets have dropped, respectively, by 23% and 14% from that in the preceding year.

In 1998, all finance companies' activities decreased. In terms of market share, leasing continued to have the largest share, namely 53.4%. Consumer financing declined from the second largest share to the third one in the reporting period as a result of a sharp fall in the amount of vehicle financing (Table 6.16). As of December 1998, the order of market share was composed of leasing with 53.4%, factoring with 27.2%, consumer financing with 17.9%, and credit card financing with 1.4%.

In 1998, finance companies' sources of fund originating from equity and liability fell by Rp6,891 billion (Table 6.17). Their equity in the reporting year dropped by 83%, much higher than the decrease of 5% in the preceding period. The sharp drop stemmed from a loss of Rp4,661 billion suffered by the finance companies, in addition to a depletion of Rp877 billion in the paid-in

12) Minister of Finance Decree No. 446/KMK.017/1998, dated September 29, 1998

Table 6.16
Selected Indicators of Finance Companies [1)]

Indicator	1996/97	1997/98	1998/99
	In billions of rupiah		
Number of companies [2)]	**252**	**248**	**245**
Business activities	**26,586**	**38,034**	**29,278**
Leasing (contract value)	12,129	16,904	15,644
Factoring (financing value)	8,035	10,097	7,973
Consumer financing (contract value)	**6,361**	**10,601**	**5,248**
Credit Card (financing value)	61	432	413
Financial outstanding	**23,743**	**39,187**	**38,677**
Domestic	12,921	17,538	18,604
Foreign	10,822	21,649	20,072

1) End of period outstanding.
2) In units.

Table 6.17
Finance Companies' Sources and Uses of Funds

	1996	1997	1998
	In billions of rupiah		
Sources :	**33,591**	**50,520**	**43,629**
Domestic bank borrowing	11,853	15,454	14,374
Foreign bank borrowing	9,173	19,279	16,396
Other domestic borrowing	1,017	1,539	2,936
Other foreign borrowing	1,467	1,836	2,732
Capital	8,190	7,788	1,309
Others	1,891	4,624	5,882
Uses :	**33,591**	**50,520**	**43,629**
Financing	26,586	38,034	29,278
Bank deposit	1,697	2,624	6,028
Equity	2,254	620	263
Others	3,054	9,242	8,060

capital as a consequence of liquidation of finance companies. The loss was attributed to (i) higher cost of fund as a result of the weakening of rupiah against the dollar which caused a rise of 455% in the non-operating cost, (ii) high lending rates that led to an increase of 55% in the interest expense for the user of the service, (iii) a large number of customers ran into default which, in turn, reduced revenue from consumer financing by 26%. Because of the business downturn, finance companies' liabilities to domestic and external banks swelled at a time when profitability faltered resulting in the uneven balance sheet.

Meanwhile, finance companies' sources of fund originating from loans from domestic and external banks fell by 6.9% and 14.9%, respectively, as compared with increases of 30.4% and 110.2% in the previous year (Chart 6.1). The fall was attributed to the credit crunch in the domestic banking industry and the loss of confidence of off-shore banks. High leverage caused finance companies to be extremely susceptible to exchange rate weakening and upward moves of interest rate as highlighted in the financial distress faced by the finance companies in 1998. This distress was exacerbated by the unfortunate mismatch of currency as foreign-currency loans were invested in rupiah-generating projects.

The largest use of funds by finance companies was financing as much as 67.2% (Chart 6.2). Compared with the outstanding in December 1997, financing in December 1998 fell by 23% in all activities. The fall in consumer financing was Rp5.4 trillion (50.5%), factoring Rp2.1 trillion (21%), leasing Rp1.3 trillion (7.5%), and credit card Rp19 billion

Chart 6.1
Finance Companies' Sources of Fund

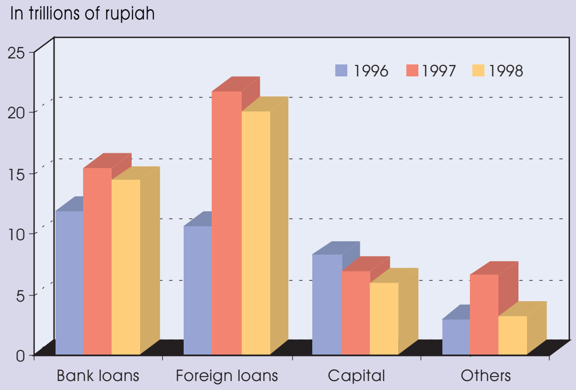


Chart 6.2
Finance Companies' Fund Placement

In trillions of rupiah

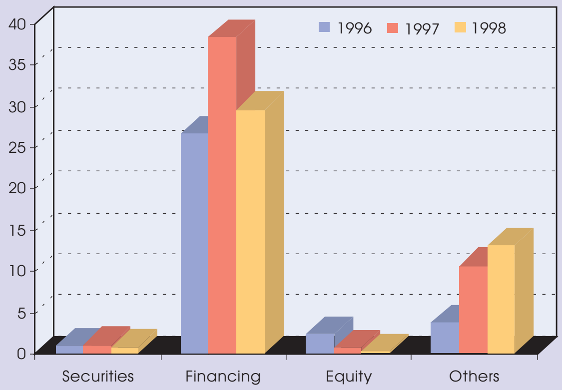


Table 6.18
Selected Indicators of Venture Capital Companies

	1996	1997	1998*
	In units		
Number of Companies	**42**	**59**	**61**
National private	12	18	18
Joint venture	10	16	16
Local company	20	25	27
Number of Investee Companies	**516**	**540**	**227**
National private	78	33	9
Joint venture	2	11	3
Local company	436	496	215
Value activities[1)]	**42,675**	**283,755**	**123,821**
National private	22,208	146,728	54,148
Joint venture	2,143	85,675	46,158
Local company	18,324	51,352	23,505

1) In millions of rupiah.
Source : Ministry of Finance

(4.4%). The driving force was the economic downturn, coupled with high deposit rates that led finance companies to parking their funds in banks. The placement of funds in banks rose by Rp3,405 billion or 129.8% in December 1998 from that in December 1997.

Despite the addition of two local venture capital companies, the venture capital business fell significantly (Table 6.18). Total investment of venture capital as its core business dropped 56% as a consequence of a decline in paid-in capital. The number of investees declined by 313 companies or 58%. The main cause was the business slowdown that suspended the investment in addition to the shortfall of funds in venture capital, especially local venture capital companies (PMVDs).

Insurance and Reinsurance Companies

As of July 1998, there were 178 insurance and reinsurance companies consisting of 62 life assurance companies, 107 indemnity insurance companies, 4 reinsurance companies, and 5 social security insurance companies. There was only an addition of one national indemnity insurance company (Table 6.19).

The total assets of insurance industry in Indonesia in 1997 reached Rp32 trillion, a rise of 43.7%. The largest increase was registered in life assurance as it rose by 69% to Rp12.3 trillion, the highest rank in terms of total assets compared with other companies under the same category (Table 6.20). In line with the increased value of assets, the fund invested by the insurance companies in 1997 also climbed, by 30% to Rp23.5 trillion. The largest share of investment funds was recorded by social security insurance and life assurance, amounting to 47% and 38%, respectively. The investment portfolio of insurance companies was time deposits (64%), equity participations (10.8%), and SBIs (7.2%) (Chart 6.3).

On the revenue side, gross premiums increased 21.4% to Rp10.4 trillion. The largest mobilization of gross premiums came from indemnity insurance and reinsurance (39%), followed by life assurance (35%), and social security insurance (26%). The large premium increase for indemnity insurance owed to a rising demand for covering risk against rioting. The contribution of the insurance industry to gross domestic product (GDP) was re-

Table 6.19
Number of Insurance and Reinsurance Companies [1)]

Type of Company	1995	1996	1997	July 1998
	In units			
Life Assurance	**53**	**56**	**62**	**62**
State	1	1	1	1
National private	37	38	39	39
Joint venture	15	17	22	22
Indemnity Insurance	**97**	**98**	**106**	**107**
State	3	3	3	3
National private	78	77	81	82
Joint venture	16	18	22	22
Reinsurance	**4**	**4**	**4**	**4**
State	2	2	2	2
National private	2	2	2	2
Social Insurance	**5**	**5**	**5**	**5**
Total	**159**	**163**	**177**	**178**
Supporting Companies	**115**	**117**	**120**	**120**
Insurance broker	68	68	68	68
Reinsurance broker	8	10	13	13
Adjuster	21	21	22	22
Actuarial consultant	18	18	18	18

1) Outstanding end of period.
Source : Ministry of Finance

Table 6.20
Business Activity of Insurance and Reinsurance Companies

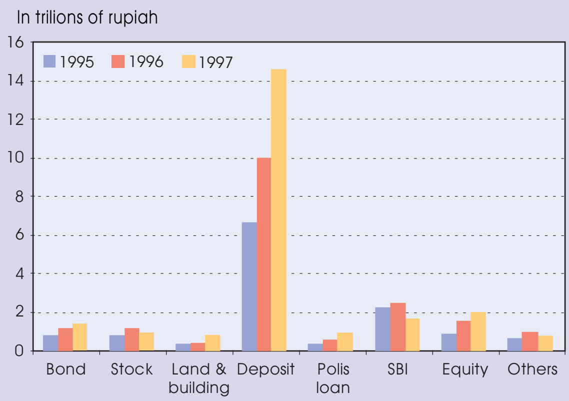
Description	1995	1996	1997
	In trillions of rupiah		
Total assets	**17.3**	**22.3**	**32.0**
Life assurance	4.9	7.3	12.3
Social insurance	7.7	9.3	11.5
Indemnity insurance and reinsurance	4.7	5.7	8.2
Gross premium	**7.3**	**8.6**	**10.4**
Life assurance	2.1	2.9	3.6
Social insurance	1.9	2.1	2.7
Indemnity insurance and reinsurance	3.3	3.6	4.1
Claims	**2.5**	**3.5**	**4.9**
Life assurance	0.6	1.0	1.9
Social insurance	0.9	1.1	1.2
Indemnity insurance and reinsurance	1.0	1.4	1.8
Investment	**13.4**	**17.8**	**23.5**
Life assurance	3.4	5.7	8.0
Social insurance	7.0	8.6	10.4
Indemnity insurance and reinsurance	3.0	3.5	5.1

Source : Ministry of Finance

flected in the ratio of gross premium to GDP that stood at 1.67%.

Meanwhile, the gross claim of the insurance companies in 1997 increased 38.9%. The claim was dominated by life assurance companies that rose by 84%. The indemnity claim exceeding gross premium caused a rise in the ratio of indemnity claim over gross premium income from 43% in 1996 to 47% in 1997. This indicated a worsening performance of insurance companies in the year under review.

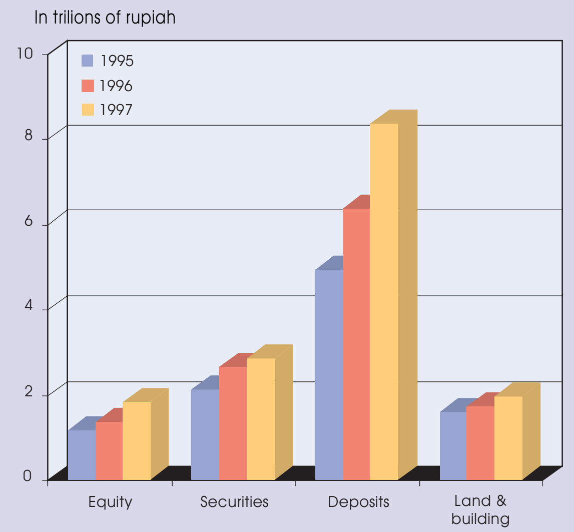
Chart 6.3
Insurance Companies' Fund Placement



In 1998, the economic crisis also hit insurance companies in Indonesia. Imbalances between the assets and liabilities of life assurance companies were apparent as a result of the excess of foreign currency denominated revenue from policy premium over foreign currency investment. In the first half of 1998, the amount of claims paid by life assurance companies surged by more than 100% from the total claim outstanding in 1997 to some Rp3.8 trillion. Besides, rescheduled construction projects also contributed to a slide of indemnity insurance. The stagnated investment funds of insurance companies placed in a number of banks that were liquidated resulted in an idle amount of Rp350 billion. In addition, during the period of post rioting in May 1998 up to June 1998, there were 10 insurance companies suffering losses with the lowest loss amounting to Rp15 billion and the highest loss reaching Rp120 billion.

On the account of insurance services in the balance of payments, its deficit decreased from Rp463 billion in 1996 to Rp407 billion in 1997. The outflow of reinsurance premium value was registered at Rp1.6 trillion, while earnings from commission and recovery claim from placement in off-shore reinsurance companies reached Rp1.2 trillion. The net transaction value from the outflow of reinsurance stood as a deficit of Rp395 billion, while the inflow of overseas reinsurance ended with a deficit of Rp12 billion.

Chart 6.4
Pension Funds' Investment



Pension Fund

Up to December 1998, the number of employer-managed pension fund (DPPK) companies reached 306, a rise of 4.5% from the preceding year. At the same time, the number of financial institution pension fund (DPLK) companies dropped to 20 because of liquidation. In 1998, there were 72 proposals for establishing pension funds and converting pension fund foundations to pension fund companies. The proposals remain under review.

The total net assets of pension funds in 1997 rose 22% to Rp16.2 trillion, due to an increase in the investment value of pension funds. Fund placement of pension funds in foreign-currency denominated investments increased as a result of the exchange rate depreciation, while the rise in rupiah investment owed to higher interest income. The pension funds under state-owned enterprises (DP-BUMN) dominated the net assets of pension funds in 1997 with shares constituting 81% of total assets.

Member contribution, the main income source, climbed by 10.5% to Rp1.6 trillion. On the other hand, payment of pension benefit, the primary cost of services sold, increased by Rp183.3 billion to Rp993.8 billion. As such, pension funds in 1997 achieved a surplus of Rp0.6 trillion.

The investments of pension funds in 1997 increased 19% to Rp15 trillion. Investment in time deposits constituted the largest income earner, followed by shares, bonds, and other marketable securities (Chart 6.4). In the meantime, eventhough the number of the DP-BUMN were less than 20% of the total pension fund companies, their investment share remained dominant as they reached 82% of the total investment. In other words, the DP-BUMN provided a large contribution as a source of financing for national development and played an important role among NBFIs in Indonesia.

Pawnshops

In 1998, the pawnshop business moved upward as a result of a large addition of clients coming from the banking industry. The sluggish credit extension in the banking industry had caused a large number of debtors to go to pawnshops as an alternate source of financing. They borrowed money from pawnshops to meet routine business needs such as purchases of raw materials, payment of payroll and other emergency needs.

The higher business performance of pawnshops was highlighted in sales value, gross revenue, operating profit and number of clients. The sales value increased by 50% to Rp3.1 trillion. Outstanding credit surged 50.7% to Rp792.9 billion. Gross revenue increased 57.8% to Rp306.6 billion. The largest source of gross revenue came from interest income which accounted for Rp319 billion or 88.6% of total gross revenue. The increase was attributed to changes in interest rates and storage fees.[13)] Meanwhile, bad debt, as reflected in the number of goods auctioned, remained low at Rp21.9 billion, or 0.7% of total sales value.

On the side of fund sources, in 1998 most of funds in pawnshop originated from bank loans and paid-in capital amounting to 32% and 30%, respectively. To strengthen the capital base, pawnshops issued Bond V (the fifth time bond issues) amounting to Rp150 billion in June 1998, borrowed funds from the government in the form of Investment Fund Account (RDI) amounting to Rp100 billion in September 1998, and received Bank Indonesia liquidity credit totaling Rp100 billion in 1998.

In the midst of the crisis, pawnshops played an important role in assisting the low-income segment of the society. Most of the 633 offices throughout Indonesia experienced an upsurge in the number of clients. The number of clients in 1998 soared by 93.7% to 10,277,584. Their simpler and faster procedures, coupled with interest rates that were close to the bank lending rate, put pawnshops as a complementary source of finance for small-scale clients that were in need of funds.

13) Board of Directors of State Pawnshop Circular Letter No. 37-OPP.1/1/23 dated July 30, 1998

Capital Market

The performance of the market development in the year under review was highly correlated with domestic economic performance. The deepening crisis was symmetrical with the severe downturn in the stock market up to the third quarter of the reporting year. The composite stock price index (CSPI) and the market capitalization sagged deeply. Signs of turnaround were apparent in the last quarter together with firmer monetary stability inside the country and stronger expectations of investors, especially foreign investors, on Indonesia's economic recovery.

Behind the poor performance of the stock market up to the third quarter was the severely negative impact of the crisis on corporate balance sheets. As a result, they could not meet prevailing obligations and produce a profit. The downward pressure on the stock market was compounded by falling confidence of both domestic and foreign players in the economic reform agenda. Spiraling interest rates complicated the issue further and led domestic players to redirect their portfolios to banks. Inside the bourse, the regulations on trading were violated. Consequently, the confidence of the market participants plunged to its low ebb which caused stock market prices to tumble erratically.

Just like the stock market, the bond and mutual fund markets went off-track. Transaction and frequency of bond trading and net asset value of mutual funds dropped. To reinvigorate the capital market and prevent abuses of regulations from harming investors in the stock market, in the reporting year, the government introduced a number of regulations.

To allow stock issuers to strengthen their equity base, the government issued a regulation that permitted them to do rights issues up to 5% of their paid-up capital in a three-year period, without giving a preferred option to current shareholders.[14)]

In satisfying the principles of disclosure in designing financial reports, the excess from exchange rate variations on the assets and liabilities of stock issuers that are denominated in foreign currency and unhedged can be treated in the same period or be deferred systematically over the lifetime of the above mentioned assets or liabilities. Should the listed company decide to defer the excess of exchange rate variations, it should disclose the cumulative amount of the gain or loss from exchange rate variations in order that the amount can be amortized over time.[15)]

To augment the existing regulations from violations by means of insider information, the Capital Market Supervisory Agency (Bapepam) issued new regulations that serve as a guideline for examination of suspected trading involving insider information. The regulation outlines steps to investigate with a view to getting evidence or information about violations in the stock market.[16)]

To avoid market manipulation, insider trading and conflict of interest in certain transactions, Bapepam set conditions for repurchases of stocks issued by listed companies. The policy rules that offer to buy back shares should be based on the lower or the same price as that in the previous transaction and the maximum transaction value of the repurchased stocks in one day should not exceed 25% of the daily trading value. Besides, insiders of the listed company should not take part in the transaction of shares issued by that listed company in the same day when the listed company buys back its shares in the stock exchange.[17)]

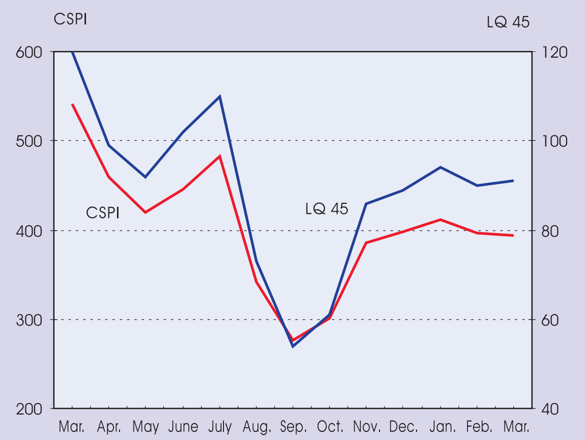
Of interest was the postponement for the second time of scriptless transactions that had been planned to be implemented in the reporting year. This resulted from insufficient funds due to the large exchange rate depreciation. This postponement delayed the application of an all automated program for stock trading at the Jakarta Stock Exchange (JSX).

Notwithstanding, those policies failed to deliver outcome as expected. The shattered confidence of the investors resulted in the bearish move of the benchmark index. Domestic instability on the social and political front and the large demonstrations that rallied frequently slowed the confidence recovery process. At the same time, there were several factors that put pressure on CSPI, among others, the unpleasant confluence of high deposit rates and bearish indices at the regional bourses as the yen weakened against the dollar. In addition to the tumbling index, other indicators such as market capitalization, trading value and number of new stock issuers also confirmed the faltering of the stock market.

In the year under review, the index fell below the resistance level of 400 in June 1998, even though it rebounded bit by bit to reach 484 in July 1998. The rebound was shored up by arbitrage-buying of investors in dual-listed stocks, especially PT Telkom and PT Indosat, and the run-up in the regional bourses. Furthermore, the government was successfull in obtaining loans from various international and bilateral agencies. The signing of the Paris Club agreement on external official debt also sparked positive sentiment among foreign investors and thus purchases of shares of Indonesian companies. Nevertheless, the index renewed its slide (Chart 6.5) in consequence of large scale demonstrations in Jakarta, the

14) Chairman of Capital Market Supervisory Agency Decree No. Kep-44/PM/1998 dated August 14, 1998
15) Chairman of Capital Market Supervisory Agency Decree No. Kep-49/PM/1998 dated September 7, 1998
16) Chairman of Capital Market Supervisory Agency Decree No. Kep-20/PM/1998 dated May 27, 1998
17) Chairman of Capital Market Supervisory Agency Decree No. Kep-45/PM/1998 dated August 14, 1998.

Chart 6.5
CSPI and LQ 45 Index
at Jakarta Stock Exchange



marked fall of prices of dual-listed stocks, and rumors of the application of foreign exchange controls in Indonesia. On September 21, 1998, the composite price index plummeted to a level below 300 and touched its nadir during the year under review at 256.8.

Owing to the nascent monetary stability, the strengthening of the rupiah against the dollar, and the recovery of the US Stock market, foreign investors renewed their interest in blue chip stocks. This caused the index to soar to 398 at the end of December 1998. Buying by investors in anticipation of the probable decline of SBI rates also played a role in the upward movement of the index.

The beginning of 1999 witnessed the January effect[18)] that infiltrated the Asian and regional bourses. Listed companies bought back some of their shares and investors placed large buying orders in the face of declining interest rates. In January 1999, the benchmark index reached 457.9. However, concerns of investors over the social and political fragility prior to the general election, and the slowdown of the listed companies drove investors to selective buying stocks with large capitalization. Consequently, the index was stuck in a broadly flat range of 390-400 at the end of the reporting year.

The market capitalization of both the JSX and Surabaya Stock Exchange (SSX) in the reporting year also slipped alongside the declining prices of marketable securities traded in both floors (Table 6.21). The bullish moves underscored the ebbed confidence of the investors in the economic prospect and the battered business of the listed companies in the midst of the extended turbulence on the social and political front. The pummeled stock prices resulted in a slide by Rp55.8 trillion or 24.9% of the market capitalization at the Jakarta Stock Exchange at the end of the reporting year. The market capitalization at the Surabaya Stock Exchange slipped by Rp50.8 trillion or 25.1% as a result of the downgrade of all bonds issued. Up to the end of the year under review, out of 70 bond issuers, two bonds were ranked D (default).

In the reporting year, the trading value at the Jakarta Stock Exchange dropped as there were no fresh leads that pushed investors to lodge orders. In the meantime, there was only one new listed company and the emission increased by Rp4.3 trillion or some 6.0%. The extended crisis ruined the performance of companies that planned to go public.

In the reporting year, foreign investors exercised net buying of Rp3.4 trillion (Table 6.22). They happened to end up with net selling of Rp200 billion in the first quarter as a result of their selling of blue chip stocks. At that time, the stock market was under mounting pressure as a result of the extended downturn. At a further stage, foreign investors managed to square their position and regained their net buying status. Their net buying peaked in February 1999 after reaching Rp1.5 trillion following profit-taking on dual-listed stocks such as PT

18) January effect or January fever happened when fund manager tend spread funds to all stock market at early year to stimulus stock trading

Table 6.21
Selected Indicators of Capital Market

Indicator	1997/98	1998/99				End of period outstanding
		I	II	III	IV	
Stocks						
Number of companies	306	307	307	307	308	308
Issuance						
Volume (in billions of stock)	52.9	57.1	57.1	62.7	62.7	62.7
Value (in trillions of Rp)	71.6	74.0	74.0	75.9	75.9	75.9
Market capitalization (in trillions of Rp)						
JSX	223.3	188.1	116.6	175.7	167.5	167.5
SSX	202.0	170.8	130.1	157.8	151.2	151.2
Trading						
JSX						
Volume (in billions of stock)	104.5	18.8	16.2	19.1	9.7	63.8
Value (in trillions of Rp)	129.3	21.1	19.5	18.7	9.9	69.2
SSX						
Volume (in billions of stock)	4.7	0.3	0.7	0.9	0.4	2.3
Value (in trillions of Rp)	9.2	0.3	0.5	1.6	0.3	2.8
Composite stock price index						
JSX	541.4	445.9	276.2	398.0	394.2	394.2
SSX	483.1	401.7	220.9	351.5	351.0	351.0
Bonds						
Number of companies	70	70	70	70	70	70
Issuance (in trillions of Rp)	18.7	18.9	18.9	18.9	18.9	18.90
Outstanding value (in trillions of Rp)	15.5	15.1	14.6	14.7	14.3	14.30
Outstanding volume (in units of bonds)	224,999	215,094	203,987	202,397	181,298	181,298
Trading value (in trillions of Rp)	5.3	0.7	1.8	1.1	1.1	4.7
Trading frequency	1,493	225	542	338	332	1,437
Mutual funds						
Number of mutual funds	77	77	81	81	81	81
Number of shareholders	20,618	19,938	14,860	11,232	7,280	7,280
NAV [1] (in trillions of Rp)	4.0	3.1	2.8	2.9	3.0	3.0

1) Net assets value.
Source : Capital Market Supervisory Agency

Telkom, PT Indosat, and PT Tambang Timah coupled with exchange rate weakening. The arbitrage managed to propel the index since the three dual-listed stocks dominated (24.0%) of the capitalization value at the Jakarta Stock Exchange. With the recovery of monetary conditions, foreign investors realigned their stance to exercise selective buying stocks with large capitalization. Accordingly, their contribution to the share trading in the reporting year climbed from 25.8% to 27.1% (Table 6.23).

Table 6.22
Outstanding and Trading of Stocks of Foreign Investors [1]

Description	1997/98	1998/99				end of period outstanding
		I	II	III	IV	
Outstanding						
Volume (in billions of stock)	35.9	35.5	35.7	39.2	36.1	36.1
Value (in trillions of rupiah)	57.6	47.5	29.3	45.3	45.4	45.4
Stock trading						
Buying transaction						
Volume (in billions of stock)	37.3	5.3	4.0	4.7	3.8	17.8
Value (in trillions of rupiah)	66.6	8.7	7.3	8.0	6.1	29.2
Selling transaction						
Volume (in billions of stock)	37.3	5.9	5.0	4.3	2.9	18.1
Value (in trillions of rupiah)	64.6	8.9	6.4	6.0	4.5	25.8

1) At the Jakarta Stock Exchange.
Source : Jakarta Stock Exchange

Just like movements of share trading, performance of bond and mutual funds also slid. Given the unchanged number of bond issuers during the reporting year, the value of bond issued rose by Rp150 billion owing to the coming of Bond V from the state pawnshop in July 1998. The inflow of new bonds, however, could not match the outflow of bonds that had fallen due. Consequently, total bonds outstanding dropped Rp980 billion.

The bond transaction value in the secondary market at the Surabaya Stock Exchange was recorded at Rp 0.9 trillion. Out of the 75 bonds traded up to the end

Table 6.23
Share of Foreign Ownership to Market Capitalization [1]

Year	Foreign Ownership (In millions of rupiah)	Market Capitalization (In millions of rupiah)	Share (In percent)
1997/98	57,615	223,309	25.8
1998/99	45,444	167,518	27.1

1) At the Jakarta Stock Exchange.
Source : Jakarta Stock Exchange

of the reporting year, all were transacted at prices below their par values. Besides, Indonesian Credit Rating, Ltd. (Pefindo) had downgraded rates of almost all bond issuers from stable to negative outlook with most of them being rated as junk-bonds (below BBB). Up to February 1999, out of 75 bonds registered at the Surabaya Stock Exchange, only 6 had the rating of A-, most of them represented bonds issued by the state-owned enterprises. Meanwhile, bonds issued by banks experienced a credit rating downgrade and some belonged to a speculative investment level.

On the other side, mutual funds moved downward alongside the slide in stocks. Their net asset value (NAV) dropped Rp0.6 trillion as a result of selling by investors following the run-down of the benchmark index and high interest rates. The number of mutual fund companies in the reporting year, however, increased by four. Holders of the mutual fund accounts at end-February 1999 fell by 5,057 units. Evidently, mutual fund companies failed to attract small investors. Out of the four categories offered in the stock market, fixed income has been the largest category with managed public funds totaling Rp1.96 trillion, followed by the stock category (Rp515 billion), the mixed category (Rp499 billion), and the money market category (Rp40 billion).

The bearish performance of the stock market in the reporting year narrowed its role as an alternative source of financing. This was evident in a decrease of the ratio of funds gathered in the capital market over bank credit from 18.9% in the earlier year to 17.4% in the year under review (Table 6.24).

Meanwhile, most of the stock bourses in Asia drifted downward (Chart 6.6) as highlighted by the across-the-board plunge of indices: Malaysia by 180 points or 25%, Thailand by 124 points or 26.7%, Singapore by 237 points or 14.4%, Tokyo by 1,896 points or 11.7%, and Hong Kong by 1,645 points or 14.3%.

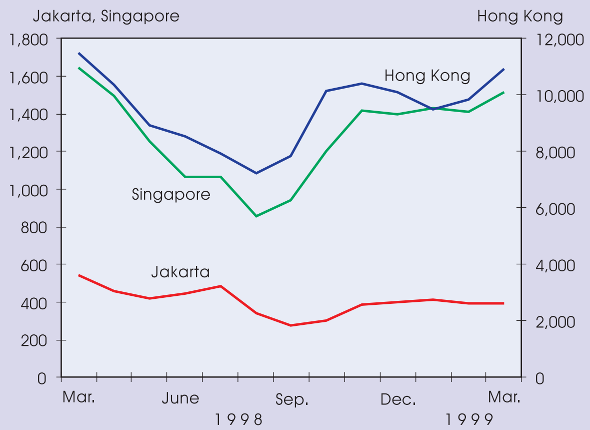
On the contrary, stock markets in Europe and America during the year exhibited their bull run with the exception of the phenomenon of Black Monday II on August 31, 1998, at the Wall Street bourse which

Table 6.24
Market Capitalization to Bank Credits Ratio

Year	Issuance value 1) (a) (In trilions of rupiah)	Bank credits (b) (In trilions of rupiah)	Market cap to bank credits ratio (a : b) (In percent)
1996/97	65.6	306.1	21.4
1997/98	90.3	476.9	18.9
1998/99	94.8	545.5	17.4
1998/99 2)	94.8	312.9	30.3

1) Including stocks and bonds.
2) Based on Rp/$ exchange rate at the end of July1998.
Source : Capital Market Supervisory Agency (processed)

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



sent negative ripples across the globe. As a result, in the US, the Dow Jones index plummeted by 513 points or 6.4%, the sharpest tumble over the past 10 years. This downfall dragged other indices down including those in Tokyo (3.69%), Hong Kong (2.92%), the UK (5.3%), and others around the globe, inclusive of that at the Jakarta Stock Exchange (4.8%). Lingering concerns over the global crisis made investors jittery. The depreciation of the rubble and the yen, both against the dollar, with the yen's value sinking markedly in August 1998, exacerbated the skittish mood among investors.

Program Credit Schemes

Bank Indonesia has provided program credit schemes designed to support the government programs in promoting the low-income segment of the society. These credits are bank credits that originate partly or entirely from Bank Indonesia liquidity credit. There are a number of credit schemes, provided by Bank Indonesia, that exist up to the end of the reporting year as follows.

1. **Credit to Farmers (KUT)**
   KUT was introduced in 1985 to replace the Mass Information Program (Bimas) Credit scheme. This credit is extended to farmers through cooperatives and community self-help groups and is designed to finance paddy, secondary crop, and cash crop intensification. Its maximum amount is around Rp2 million per hectare, with an interest rate of 10.5% p.a. and a maximum maturity of 12 months.

2. **Credit for Cooperatives (KKop)**
   KKop was introduced in 1974 and has been extended to cooperatives for the procurement of paddy, secondary crops, cash crops, cloves, and fertilizer; the distribution of rice, cooking oil, refined sugar, and soybean; and agribusiness activity as well. The maximum amount of this credit is Rp350 million for each commodity/cooperative, with an interest rate of 16% p.a. and a maximum maturity of 12 months, except for agribusiness activity with a maximum maturity of 10 years.

3. **Credit to Primary Cooperative for Members (KKPA)**
   a. **General KKPA**
      General KKPA was introduced in 1988 and has been extended to primary cooperative members to finance business activities of active members in all economic sectors. Its maximum amount is Rp50 million, with an interest rate of 16% p.a. and a maximum maturity of 15 years.
   b. **KKPA for Sugarcane Plantation (KKPA TR)**
      In 1975, the government began to implement the Small-scale Sugarcane Intensification Program. This scheme was then adjusted to the KKPA scheme in 1990 and has been extended to farmers through primary cooperatives to finance sugarcane plantation. Its terms and conditions are similar to those under the General KKPA scheme, except for the maximum maturity of 24 months.
   c. **KKPA for Small-holders of Nucleus Estate-Transmigration (KKPA PIR Trans)**
      KKPA PIR Trans was introduced in 1995 and designed to finance hard crop plantation for new transmigration members in new locations in the eastern part of Indonesia. Its terms and conditions are similar to those of the General KKPA scheme.
   d. **KKPA for Financing of Indonesian Labors (KKPA TKI)**
      KKPA TKI was introduced in 1996 and has been extended to Indonesian labor applicants through Indonesian Labor Providing Agencies (PJTKI) for their preparation and overseas departure. Its terms and conditions are similar to those of the General KKPA scheme, except the arrangement and maturity are at a maximum of 30 months.
   e. **KKPA for Fishermen (KKPA Nelayan)**
      KKPA for Fishermen was introduced in December 1998 and has been extended to individual fishermen, and also as a group, through primary cooperatives to finance fishing and its processing activity. Its terms and conditions are similar to those of the General KKPA.
   f. **KKPA for Poultry Breeders (KKPA Unggas)**
      KKPA for Poultry Breeders was introduced in December 1998 and has been extended to poultry

breeders through primary cooperatives. Its terms and conditions are similar to those of the General KKPA scheme, except the arrangement and maturity are at a maximum of 5 years.

g. **Financing to Primary Cooperatives for Members through Syariah Banks (PKPA Syariah)**
PKPA Syariah was first introduced through Bank Muamalat Indonesia in 1997. This scheme has been extended to finance the business of primary cooperative members in all economic sectors. Its terms and conditions are similar to those of the General KKPA scheme, except that they are based on syariah bank principles (profit sharing).

4. Credit for Low/Very Low Cost Housing (KPRS/RSS)

KPRS/RSS was introduced in 1976 and has been extended to low-income group to finance ownership of low/very low cost houses, from type 18 to 36. KPRS/RSS are extended with a ceiling of Rp26 million, an interest rate ranging from 8.5% to 14% p.a., and a maximum maturity of 20 years.

5. Credit to Small-scale and Micro Entrepreneurs (KPKM)

a. **KPKM through Commercial Banks (KPKM Bank Umum)**
KPKM Bank Umum was introduced in January 1999 and has been extended to small-scale entrepreneurs to finance their business in all economic sectors. The ceiling of this scheme is Rp30 million, with an interest rate of 16% p.a. and a maximum maturity of 5 years.

b. **KPKM through Rural Credit Banks (KPKM BPR)**
KPKM BPR was introduced in October 1998 and has been extended to small-scale entrepreneurs by rural credit banks. Its ceiling is Rp5 million, with an interest rate of 16% (flat) p.a. and a maximum maturity of one year.

c. **Financing to small-scale and micro entrepreneurs through syariah rural credit banks (PPKM BPRS)**
PPKM BPRS was introduced in October 1998 and has been extended to small-scale entrepreneurs in all economic sectors. Its terms and conditions are similar to those of the KPKM BPR, except it is channeled through syariah rural credit banks under profit sharing principles.

6. Working Capital Credit for Rural Credit Banks (KMK BPR) and Working Capital Financing for Syariah Rural Credit Banks (PMK BPRS)

a. **KMK BPR**
KMK BPR was introduced in June 1998 and has been extended to debtors of rural credit banks having productive business, not limited to any specific economic sector. KMK BPR is extended up to a maximum of Rp15 million, with an interest rate up to 30% p.a. and a maturity of 12 months.

b. **PMK BPRS**
PMK BPRS was introduced in June 1998 and has been extended to syariah rural credit bank debtors to finance their business activities, not limited to any specific economic sector. Its terms and conditions are the same as those of the KMK BPR, except it is channeled through syariah rural credit banks.

7. Micro Credit Project (PKM)

PKM was introduced in 1995 and has been provided to low-income individuals who own business, not restricted to any specific economic sector. Its maximum credit is Rp2 million, with an interest rate determined by the market and a maximum maturity of 18 months.

Bank Recapitalization Program

One of the government measures in the bank restructuring program is bank recapitalization that covers all banks, including banks under IBRA supervision, except joint banks and foreign bank offices. This program is intended to bring both the banking industry and individual banks back to their soundness so that they are able to maximize their contribution to the national economy. On the banking side, this program is designed to sustain banks that have viable prospects to continue to operate and grow, particularly in the course of accelerating progress in economic recovery through ownership restructuring. The bank recapitalization program was initiated to deal with deficiency of capital that most banks faced. The essential components of the program are described as follows.

Bank Selection Program

As an initial selection step, the government classifies banks into three categories, namely A, B, and C, based on their respective capital adequacy ratio (CAR). Banks of A category are banks with CAR of 4% or more, B category with CAR from –25% up to less than 4%, and C category with CAR less than –25%. Banks of A category are not required to participate in the recapitalization program but they have to prepare their business plans. Banks of B category are required to participate in the recapitalization program as long as they meet certain criteria. Meanwhile, banks of C category have 30 days to add to their equity base or improve their productive asset quality to the level of B category to meet the criteria for inclusion in the recapitalization program.

In determining those category Bank Indonesia conducted due diligence. The due diligence focused on capital and productive assets with due considerations on subsequent events, and its process involved international auditors.

Bank Participation Process in Recapitalization Program

To be eligible in the recapitalization program, a bank of B category is required to (i) fulfill fit and proper criteria for its owner and management and (ii) submit its business plan to Bank Indonesia within one month. This business plan mainly entails:

a. bank's current condition, together with obstacles and/or weaknesses calling for attention
b. employed assumptions
c. steps and settlement schedule for non-performing loan
d. steps and settlement schedule for non-performing property loan with debtors connected or unconnected with banks, excluding those under small-scale housing credit schemes (KPRS/RSS)
e. business development plan describing bank strategy to improve short- and long-term performance and soundness
f. plan to fully comply with the existing regulations, such as :
   - settlement on Legal Lending Limit (LLL) violation for credits extended to debtors connected and unconnected with banks no later than 12 months since the signing of the recapitalization agreement,
   - improvement on the quality of remaining credits extended to debtors, connected with banks but did not violate the LLL, by at least placing them into debts with special attention (classification 2) that should be settled within no more than three months since the signing of the recapitalization agreement,
   - settlement on net open position (NOP) violation.
g. financial projection that describes bank's plan in maintaining the soundness of the entire financial as-

pects, including its CAR achievement of 8% by the end of 2001

h. settlement plan of Bank Indonesia liquidity support (BLBI) within three years, with a recovery scheme of 20% in the first year, 30% in the second year, and 50% in the third year
i. plan to meet the capital adequacy requirement
j. plan to merge with other banks (if any)

Assessment on Work Plan and Fulfillment of Fit and Proper Test

Research and assessment on the work plan are gradually conducted by the Technical Committee, Evaluation Committee, and Policy Committee which cover the following items.

a. Assessment on the main criteria, including:
   - commitment of shareholders and/or new investors to add at least 20% of capital inadequacy to achieve a 4% CAR,
   - amount of capital inadequacy in accordance with the result of due diligence and subsequent events,
   - compliance with the existing regulations (LLL, NOP, etc.),
   - projection of a CAR of 8% at end of 2001, and
   - plan to meet conditions of the Commercial Bank Recapitalization Program.
b. Assessment on additional criteria, including:
   - asset recovery plan,
   - business development plan,
   - soundness level development, and
   - potential profit up to the year 2000.

The work plan will be classified satisfactory if all components of the main criteria (point a) are fulfilled.

The assessment of fit and proper test fulfillment is conducted on bank shareholders, board of commissioners, and board of directors. Bank shareholders subject to assessment are those owning more than 25% share or those proved to have control over the bank (controlling shareholders). Fit and proper test consists at least of:

a. fulfillment of written commitment to Bank Indonesia,
b. enlistment of the delinquent people in the banking sector,
c. enlistment of bad debts in the banking sector,
d. integrity,
e. intervention in bank operation (especially for shareholders),
f. financial engineering on deviation/violation (especially for board of commissioners and directors),
g. violation on prudential principles (especially for board of commissioners and directors),
h. competence and independence (especially for board of commissioners and directors).

Fit and proper test is classified satisfactory after fulfilling all of the above criteria.

Independent observers, representing IMF, World Bank, and ADB attended every Committee Meeting. They were to observe the discussion without any voting rights in the decision making.

Implementation of the Recapitalization Program

Banks participating in the recapitalization program are required to sign a recapitalization agreement and to transfer their respective bad credits to AMU-IBRA. In this regard, the government will bind the bank owner and management to protect its interest and ensure that its investment value with the bank would be well maintained. The recapitalization agreement includes three parts as follows.

a. Investment Terms and Conditions

This part describes determination of investment requirements and regulations that, among others, includes:

- obligation for the controlling shareholders to pay a minimum of 20% of the capital required for recapitalization,
- government equity participation is in the form of preferred stock that is convertible to common stock,
- obligation for the controlling shareholders to settle bank-connected loan which exceeds LLL within one year,
- obligation for the bank to transfer its bad credit

at nil value to AMU-IBRA,
- government voting rights as bank shareholder on strategic issues (strategic voting rights),
- government participation in corporate governance to determine the corporate course,
- divestment regulation on government stock.

b. Performance Contract

This part constitutes the agreement contract on the business plan covering the obligation of bank management in attaining the required CAR and other set financial indicators as well as improvement of the quality of productive assets and corporate efficiency.

c. Shareholders Settlement Agreement

This part describes settlement of bank-connected loan by the controlling shareholders. The shareholders are obliged in a year to accomplish the settlement of all bank-connected loans exceeding LLL and clean up the remaining loans which are unable to meet the loan quality of classification 2.

Meanwhile, participating banks in the recapitalization program are obliged to transfer all non-bank connected bad credits (category 5) at nil value to AMU-IBRA in order to clean up their balance sheet. Those banks can also transfer their non-performing credits (category 3) and doubtful credits (category 4) to AMU-IBRA at a value determined by an independent third party appraiser.

AMU-IBRA will run loan workout on the transferred loans to maximize their return. In view of the large amount in the account to be managed, AMU-IBRA is able to sub-contract the loan management to eligible banks. The proceeds from the loan repayment will be used to dilute the size of government stocks in the participating banks.

Non-performing Loan Settlement

The transferred bad debt recovery has to be used to replace part or all of the government equity in the banks.

Divestment on Government Stocks

The government can divest part or all of its equity stocks in bank in the following ways.

a. Within three years up to the year 2001, bank shareholders can re-purchase stocks owned by the government with a call option.
b. Proceeds from collection of credit that has been submitted to AMU-IBRA should be used to repurchase/reduce government equity in the bank.
c. After the year 2001, the government can sell its remaining equity stocks to the public after first of all offering them to banks shareholders.

Resolution of Bank Non-Eligible for Recapitalization Program

By considering the financial conditions, office network, human resources, and business development, the Evaluation Committee assesses several alternative courses of actions on:

a. bank of B category that is not recommended to participate in the Commercial Bank Recapitalization Program,
b. bank unable to fulfill its obligation in the Commercial Bank Recapitalization Program, and
c. bank of C category that is unable to increase its capital and therefore it cannot be classified into B category.

Based on the assessment, the Steering Committee can merge the bank with banks of B category or A category, provided that the merged bank is at least included in B category that meet the recapitalization requirement. However, if the merger cannot be accomplished, the Steering Committee will lift the bank business license and liquidate it with or without previously freezing its operations.

Monitoring of Banks Participating in Recapitalization Program

Close and continuous supervision is needed to ensure the effective implementation of the recapitalization program. This supervision will be done by three parties, namely the compliance director, Bank Indonesia supervisor, and the Evaluation Committee.

The Syariah Banking System in Indonesia

Background

Act No. 7 of 1992 on Banking has provided a framework for a dual-banking system where profit-sharing and conventional banks coexist and operate alongside each other. In addition, the government has intensified to improve the profit-sharing banking system , as expectations on this syariah banking services increase.

To satisfy such expectations, the government, together with the Parliament, issued Act No. 10 of 1998 regarding the amendment of Act No. 7 of 1992 on Banking. This amendment confirms the role of syariah banking institution, as well as its business activities. In general, the basic differences between the syariah and the conventional banking systems are described in Table 1.

Policy Direction

To develop the syariah banking system, the policy focuses on (i) arranging and improving regulations for syariah banks, (ii) disseminating information on syariah banks, (iii) developing networks of syariah banks, and (iv) accommodating financial market instruments for syariah banks in order to increase the syariah banking competence.

Table 1
Basic Differences between Syariah and Conventional Banking Systems

Syariah Bank	Conventional Bank
– Based on profit margins – Relationship between bank and customer is in the nature of partnership – Uses real funds – Investment activity is based on Islamic principles – Supervised by Islamic Supervisory Board	– Uses interest rates – Relationship between bank and customer is in the nature of commercial business – Creates money – Investment activity is not based an Islamic principles – No Islamic Supervisory Board

Improvements of the Syariah Banking Regulation

The implementation of Act No. 10 of 1998 has created an opportunity to improve syariah banking laws. Ideally, those laws cover broad and thorough regulations as for commercial banks, covering organization, supervision, prudential regulation, accounting system, capital adequacy ratio, and financial reports. Considering the broad coverage of required regulations, the implementation will be on a step-by-step basis according to priorities. In addition, the new regulations also entail standard arrangements of accountancy and operations of liquidity instruments of syariah banks.

Dissemination of Information on Syariah Banks

Bank Indonesia, together with groups of Moslem leaders, universities, Islamic training centers, training institutions, and mass media are disseminating information on syariah banks. These activities are particularly designed for potential banks (which may convert to or open syariah branch office), heads of universities, leaders of Islamic organizations, entrepreneurs, and others, held in the form of seminar, workshop, panel discussion, dialog, talk show, and training. These activities are not only to provide a better understanding of the operations of syariah bank but also expected to change Moslem community's behavior in applying bank services. Therefore, the utilization of syariah bank services, that have been initially based upon religious considerations, will base on commercial and universal advantages that any client of the bank can enjoy.

Development of Bank Office Networks

There are three ways to develop the syariah bank office network, namely (i) the establishment of new banks, (ii) the conversion of conventional commercial banks into syariah banks, and (iii) the opening of syariah full branch offices in conventional commercial banks. From a macroeconomic perspective, the development of the syariah bank office network is aimed at creating a banking system which has a strong segmentation, improving efficiency, and expanding equal distribution of economic yields. From a microeconomic perspective, the establishment of syariah banks is aimed at creating banks with a strong capital foundation, fit and proper management, and an integrated supervision of Islamic aspects. It is expected to provide a strong banking system, in line with standards of Islamic principles.

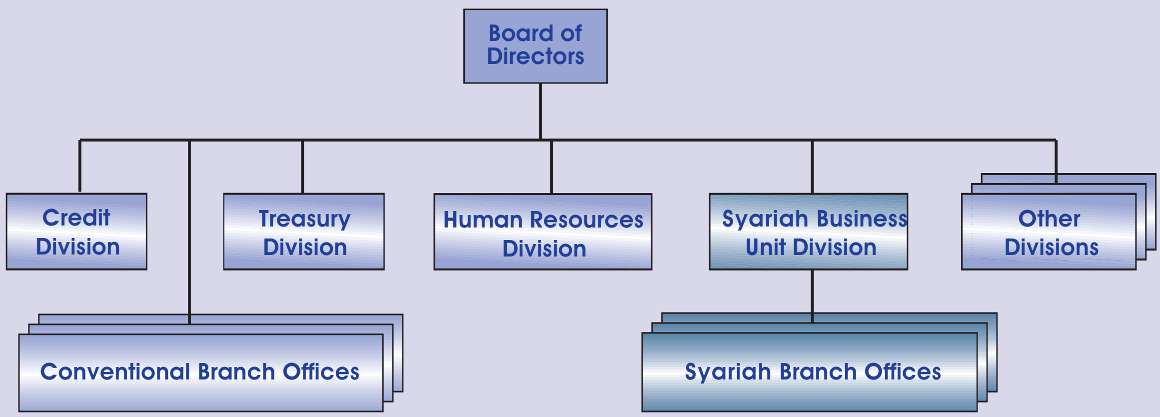
Syariah Full Branch Mechanism

Act No. 10 of 1998 accommodates the full branch concept by providing commercial banks with an opportunity to open full branch offices operating under syariah principles. The creation of full branch mechanism aims at establishing syariah bank networks more quickly and efficiently since it uses the existing infrastructure of the network of conventional banks. The organization structure of a full branch office is presented in Chart 1.

From an internal point of view, the opening of a full branch office by a conventional commercial bank will create an opportunity to generate new income from an unexplored market segment. The segment represents part of the Moslem community who believes that interest-based income offered by conventional banks is forbidden. From an external point of view, the opening of a full branch office will assign bank as a financial institution to provide dual-banking system services for customers. This specific market segmentation requires the syariah bank management to allow room for the compatible coexistence of both the profit-oriented business and Islamic principles.

Although the full branch mechanism is similar to the window mechanism in Malaysia, there is a clear distinction in the area of organization. By organization, the full branch is a branch office in which transactions are recorded separately from its head office or other conventional bank branch offices. Therefore, customers are guaranteed under syariah banking principles. Meanwhile, under the windows system in Malaysia, a syariah bank operates jointly in one branch office, hence there is a risk of fusing syariah and conventional transactions that can reduce customer confidence on syariah banking.

Scheme 1
Organization Structure of Syariah Full Branch Within Conventional Banks



Establishment of Syariah Interbank Money Market

In supporting use of funds and liquidity requirements, the syariah banking system also requires money market instruments, which differ from the conventional ones. The interbank money market mechanism and liquidity instruments, such as SBI and SBPU, are inappropriate for the syariah banking system because they are based on interest rates. Therefore, the smooth operations of syariah banks in Indonesia requires some regulations for the interbank money market and liquidity instruments that are based on the Islamic principles (profit-sharing principles).

Chapter 7 Payment System

As discussed in the previous annual report, the banking crisis had highlighted payment settlement risk. This higher risk was potential to become a systemic risk that could seriously harm the entire financial system. To protect the system from a systemic failure, Bank Indonesia provided liquidity support to banks suffering negative balances. However, the enormous size of liquidity support required monetary management and prudential banking principles. To reduce the risk of payment failure and to accelerate cash payments, Bank Indonesia introduced several policy measures, in addition to improving the payment system. To promote efficiency, effectiveness, and safety of the payment system, Bank Indonesia implemented the Jakarta Electronic Clearing System (JECS) and further developed the payment system.

Payment System Policy and Development

In the year under review, Bank Indonesia restricted the use of debit notes in clearing to prevent them being used in unsound banking practices, and to sustain prudential principles in the operations of banks.[1] Under this regulation, debit notes can only be used to withdraw fund from other banks for the credit of the issuing bank or its depositors. The maximum amount of debit notes is confined to be no more than Rp10 million and it only constitutes claims on endorsed traveller's checks or bank administration fee. Any violation against the regulation is subject to a penalty of a certain percentage of the nominal value.

As regards the issuance of banknotes and coins, Bank Indonesia printed notes in addition to the routine printing to strengthen the cash position with a view to accomodating requests for large withdrawals of currency. These newly printed banknotes were mainly in denominations of Rp50,000.00 and Rp20,000.00. To meet public needs for small denominations, Bank Indonesia issued new coins with Rp100.00 and Rp50.00 denominations made of domestic aluminum.[2]

Meanwhile, to improve the quality of banknotes in circulation, the invalidity marking rate (PTTB) were normalized. To tackle the counterfeiting of money that rose during the crisis, Bank Indonesia improved coordination with Coordinating Board for Elimination of Counterfeit Money (Botasupal) and rectified reporting systems on counterfeit money.

In developing payment system, Bank Indonesia conducted a try-out of the Bank Indonesia Electronic Information and Transaction Services (BI-LINE) system that serves as an electronic transfer of funds among banks and bank branches through their accounts at Bank Indonesia. The system will basically replace the bilyet giro of Bank Indonesia that has functioned as a medium of exchange of interbank or inter-office transactions through Bank Indonesia. The BI-LINE offers two distinct advantages, namely (i) eliminating delivery problems and, therefore, addressing the issue of money in transit, and (ii) minimizing mismatch as bank can get access to Bank Indonesia regional offices.

In anticipation of the millenium bug that may arise in year 2000, Bank Indonesia improved the payment system and its supporting systems. Bank Indonesia has applied the Year 2000 (Y2K) compliance in the local clearing semi-automated (SOKL) program

1) – Board of Directors of Bank Indonesia Decree No. 31/1/KEP/DIR, dated April 3, 1998
   – Circular Letter of Bank Indonesia No. 31/4/UAK, dated April 4, 1998

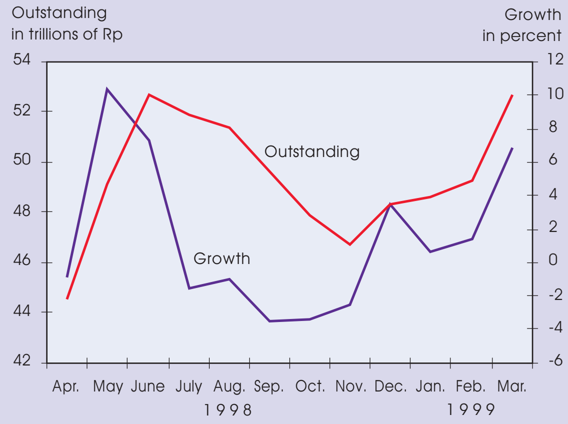
2) Board of Directors of Bank Indonesia Decree No. 31/193/KEP/DIR, dated January 25, 1999

and reading and sorting machines as well as in its accounting system. Up to the end of the reporting year, 18 Bank Indonesia have completed the preparation for Y2K compliance. Prior to year 2000, all regional offices are expected to finalize the preparation. Bank Indonesia has also encouraged banks to meet the Y2K compliance.

To preclude payment settlement from failure of settlement and float, particularly for transactions of large amounts, it is envisaged that payment settlement requires on-line real time transaction without going through a clearing process. As such, Bank Indonesia has continued to develop a real time gross settlement (RTGS) system that started in the previous year. The system is expected to be effective as of the year 2000 (Box: Real Time Gross Settlement).

Also being set up is the Jakarta Electronic Dollar Denominated Fund Transfer System (STDDJ) that allows instantaneous and inexpensive local transfers of dollar by means of electronic media and in real time fashion. This system development was designed to catch up with rising need for speedy transfers of foreign currency denominated fund, notably dollar, in line with greater openness of the Indonesian economy and a faster pace of economic globalization process.

Chart 7.1
Outstanding and Growth Rate of Issued Currency in 1998/99

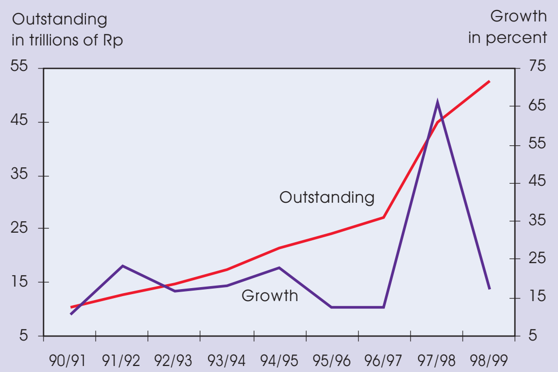


Payment Instruments

As a consequence of spreading social unrest and concerns over liquidation of banks in the beginning of the reporting year, banks were rushed and, therefore, demand for currency soared considerably as reflected in a larger outstanding of issued currency. As the concerns faded away, issued currency dropped until November 1998 (Chart 7.1). At the end of the reporting year, social eruptions and postponement of the bank restructuring program caused issued currency to take off again. However, on a yearly basis, its growth slowed significantly as compared with that in the preceding year (Chart 7.2). Higher deposit rates and the government blanket guarantee program bucked trends to hold currency, thus demand for currency stabilized.

Meanwhile, the use of non-cash payment instruments, both paper-based and electronic media, declined, except automated teller machine (ATM) and debit/smart card that climbed appreciably. The greater use of ATM and debit/smart card in transactions was due to their ease and safety. In the first quarter of the year under review rush in the banking sector had also triggered a greater use of ATM.

Chart 7.2
Outstanding and Growth Rate of Issued Currency in 1990/91 - 1998/99



Tabel 7.1
Issued Currency

Item	1996/97	1997/98	1998/99
	Nominal (In trillions of rupiah)		
Currency	**27.1**	**44.9**	**52.7**
Banknotes	26.4	44.2	51.7
Coins	0.7	0.7	1.0

Cash Payment Instruments

Issued currency in the reporting year showed a sharp growth during May and June 1998. Civil unrest and sudden succession in the national leader prompted a flight to currency that threatened cash adequacy of Bank Indonesia. Nevertheless, in line with rising interest rate and the government blanket guarantee program, the flight to currency subsided gradually. The outstanding of issued currency by the end of the year reached Rp52.7 trillion, a rise of 17.4% compared with the earlier year. The rise was caused by an increase in banknotes by Rp7.5 trillion or 16.9% from the previous year (Table 7.1).

Bank Indonesia was well aware of the public need for small denominations of currency. New coins with denominations of Rp100.00 and Rp50.00 were printed and had been circulated since March 30, 1999. Presently, four types of coins with Rp100.00 denomination and three types of coins with Rp50.00 denomination are in circulation, all of them represents as a valid means of payments. Up to the end of the reporting year, there have been a total of eight denominations of valid banknotes and seven denominations of valid coins in circulation (Table 7.2).

Banknotes

The share of banknotes to total issued currency reached 98.1%, down from 98.4% in the preceding year. Denominations of Rp10,000.00 and above dominated the banknotes. The share of Rp50,000.00 banknote increased while the rest decreased (Table 7.3). The increase in Rp50,000.00 banknotes was attributed to a higher demand as a means of payments and a store of value when the rupiah value has increasingly depreciated.

Table 7.2
Valid Rupiah Banknotes and Coins

Banknotes	Coins
Rp 50,000.00/ EY 93/95	Rp 1,000.00/ PA
Rp 50,000.00/ Plastic/93	Rp 500.00/ JA
Rp 20,000.00/ EY 92/95	Rp 100.00/ BR
Rp 20,000.00/ EY 98	Rp 100.00/ EY 73
Rp 10,000.00/ EY 92	Rp 100.00/ EY 78
Rp 10,000.00/ EY 98	Rp 100.00/ EY 99
Rp 5,000.00/ EY 92	Rp 50.00/ EY 71
Rp 1,000.00/ EY 92	Rp 50.00/ KO
Rp 500.00/ EY 92	Rp 50.00/ EY 99
Rp 100.00/ EY 92	Rp 25.00/ NU
Rp 0.01/ DW	Rp 25.00/ EY 71
	Rp 5.00/ EY 79
	Rp 5.00/ EY 74
	Rp 1.00/ EY 71

Notes:
BR : Bull racing
DW : Dwikora
EY : Emission Year
JA : Jasmine
KO : Komodo
NU : Nutmeg
PA : Palm

Table 7.3
Issued Banknotes by Denomination

Denomination (Rupiah)	1997/98	1998/99	1998/99	
	Percent change		Outstanding (In billions of rupiah)	Share (Percent)
50,000.00	87.5	128.4	24,393.0	47.2
20,000.00	32.0	4.5	14,043.0	27.2
10,000.00	96.1	–40.6	8,391.0	16.2
5,000.00	158.9	–20.9	2,918.0	5.6
1,000.00	7.8	17.5	1,244.0	2.4
<1,000.00	12.5	6.4	725.0	1.4

Table 7.4
Stocks, Inflows, Outflows, and Printing of Money

Item	1996/97	1997/98	1998/99
	Nominal (In billions of rupiah)		
Stock	**19,863.3**	**3,873.1**	**54,261.2**
Banknotes	19,634.6	3,643,4	51,141.2
Coins	228.7	229.7	120.0
Inflows	**63,277.6**	**81,510.8**	**109,490.1**
Banknotes	63,211.0	81,453.1	109,459.3
Coins	66.6	57.7	30.8
Outflows	**66,370.9**	**99,406.4**	**117,054.5**
Banknotes	66,219.1	99,262.5	116,840.6
Coins	151.8	143.9	213.9
Printing	**21,670.2**	**23,283.0**	**78,447.5**
Banknotes	21,545.3	23,180.3	78,387.0
Coins	124.9	102.7	60.5

In the reporting year, outflows of banknotes reached Rp116.8 trillion or a rise by 17.6%, while the inflows amounted to Rp109.5 trillion or an increase of 34.4% (Table 7.4) thus resulting in a net outflow of Rp7.3 trillion, down from Rp17.8 trillion in 1997/98. Net outflows were registered in cities outside Jawa Island, while net inflows in Jawa, except Jakarta. The largest net outflow of banknotes was recorded in Jakarta, as it stood at Rp14.0 trillion, followed by Ujung Pandang that reached Rp1.1 trillion. The largest net inflow of banknotes was registered in Semarang and Bandung, amounting to Rp6.0 trillion and Rp5.1 trillion, respectively.

The large inflow of banknotes indicated a large size of worn-out banknotes no longer fit for circulation. This resulted from a policy to extend the lifetime of Rp5,000.00 banknote and above in the previous year. The policy was discontinued as of September 1998 when invalidity marking rate had been returned to be normal. The increased cash inflow, specifically the worn out banknotes, caused the invalidity marking banknotes to rise considerably at the end of the reporting year (Table 7.5).

Coins

The share of coins to total issued currency at the end of the reporting year remained low at 1.9%. The insignificant use of coins stemmed from the existence of banknotes with the same denominations that served as substitutes. Banks' preference to banknotes --because the volume of coins is relatively bigger and heavier-- also made coin circulation low.

In nominal terms, issued coins rose by 24.7%; the largest increase was for denominations of Rp1,000.00 and Rp500.00. However, denomination of Rp100.00 in the reporting year maintained its biggest share whereas shares of smaller denominations declined (Table 7.6).

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
Average lifetime (months)	**30**	**26**	**16**	**12**
Invalidity marking rate (%)	**12.8**	**28.5**	**55.9**	**44.4**
Apr. to Aug. 1998	1.3	2.1	3.6	12.1
Sep. 98 to Mar. 1999	17.7	49.5	78.7	85.7

Tabel 7.6
Issued Coins by Denomination

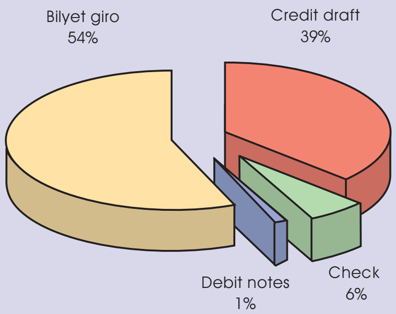
Denomination (In rupiah)	1997/98	1998/99	1998/99	
	Percent change		Outstanding (In billions of rupiah)	Share (Percent)
1,000.00	–1.4	97.5	108.6	11.8
500.00	–1.4	58.4	108.0	11.7
100.00	15.1	18.5	508.0	55.1
50.00	7.7	6.3	143.1	15.5
25.00	1.9	3.9	42.1	4.6
< 25.00	–0.3	0.8	12.0	1.3

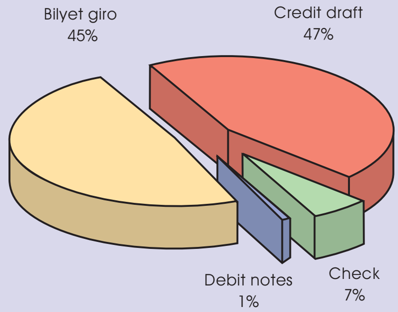
In line with banknotes, coins also registered net outflows in the year under review. The net outflows occurred in all cities, except Semarang, with the largest registered in Jakarta and Surabaya, amounting to Rp106.2 billion and Rp31.8 billion, respectively. Large net outflows of coins originated from higher public demand for small denominations.

Non-cash Payment Instruments Using Paper Media

The use of non-cash paper-based payment instruments dropped in terms of volume and value as compared with the previous year. This was evident in the number of drafts and payment transaction value, particularly those going through clearing at Bank Indonesia. By number of drafts, the composition of clearing drafts shifted as compared with the previous year. The share of credit drafts to total drafts increased from 39.0% in 1997/98 to 47.0%, while debit drafts fell from 61.0% to 53.0% (Chart 7.3).

Chart 7.3
Shares of Payment Instruments Using Paper Media in 1997/98 and 1998/99





The change in composition of draft volume was also followed by a change in the nominal transaction value. In 1997/98, the total nominal value of paper-based drafts reached Rp5,823 trillion, which Rp3,807 trillion out of it, or 65.4%, constituted credit drafts. In 1998/99, the total volume of paper-based drafts declined to Rp4,151 trillion, of which Rp3,755 trillion accounted for credit drafts. Meanwhile, debit drafts in the reporting year decreased as compared with the earlier year because of declined nominal value of debit notes. The transaction value of debit notes fell by 95.3% from Rp1,604 trillion (27.6%) in 1997/98 to Rp76.0 trillion (1.8%). This sharp fall reduced risk of payment failure by means of non-cash paper-based payment instruments.

Non-cash Payment Instruments Using Electronic Media

Transactions through non-cash payment using electronic media in the reporting year increased markedly. The media included debit instruments, such as ATM, debit/smart card, and electronic fund transfer/point of sales (EFT/POS). The use of credit instruments such as credit card for transaction purposes dropped as com-

Table 7.7
Payment Instruments Using Electronic Media

Instrument	Nominal (In billions of rupiah)		Transaction (In thousands)	
	1997	1998	1997	1998
ATM	13,500	28,248	11,747	22,907
Debit/Smart Card	300	6,951	934	21,488
Credit Card	8,400	6,585	25,000	20,526
EFT/POS	. . .	613	. . .	2,581
Total	**22,200**	**42,397**	**37,681**	**67,502**

pared with the previous year. By the end of 1998, the nominal transaction value using electronic instruments surged 90% to Rp42.4 trillion from Rp22.2 trillion in the preceding year (Table 7.7). The value comprised Rp35.8 trillion standing for debit instruments and Rp6.6 trillion for credit instruments. The greater use of debit instruments was attributable to wider networks of merchants nationwide, in addition to its safety if compared with hard cash.

The decline of credit instruments was driven by banks that tend to reduce its credit deliberately, especially consumer credit, and to minimize payment risk, in lieu with looming widespread default. Also, the customers were compelled to be more cost-effective as banks charged a fee for credit card transactions.

Automated Teller Machine

During 1998 the use of ATM increased significantly, specifically for cash withdrawal which rose by 109.2%, up from 30% in the preceding year, to Rp28.2 trillion. The frequency of cash retraction through the ATM had risen from 11.1 million to 22.9 million transactions, in particular since June 1998.

Debit Card

Debit/smart card in 1998 gained greater popularity. Its transaction value went up by 2,2%, as compared with –1% in 1997, to Rp6.9 trillion. Volume of transactions also surged from 934 thousand to 21.5 million. The upsurge owed to an increasing number of merchants nationwide that accept the card, in addition to its safety, and a swift shift from credit card to debit card.

Credit Card

The use of credit card went down in 1998, both in terms of volume and transaction value. Volume of transactions dropped from 25 million to 20.5 million, whereas value of transactions fell 21.6%, from Rp8.4 trillion to Rp6.6 trillion. The decline was associated with a slower growth of consumer credit in the banking industry to avert higher payment risk. In addition, people were reluctant to use credit card because of its high interest rate and additional fee charged to customers.

Table 7.8
Clearing Circulation and Rejection in Indonesia

Clearing Notes	Growth 1996	Growth 1997	Growth 1998	Total 1998
	In percent			
Circulation				
Nominal	11.5	13.6	22.5	5,553.1 1)
Notes	2.1	3.2	14.5	86.3 2)
Rejection on bad checks and bilyet giro				
Nominal	22.3	103.1	–	3.3 1)
Notes	28.1	0.0	49.2	0.3 2)
Rejection to circulation ratio				
Nominal	–	–	–	0.1 3)
Notes	–	–	–	0.4 3)

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

Clearing Activity

In line with the economic downturn, clearing activity in 1998 declined both in term of turnover and rejection

Table 7.9
Clearing Circulation and Rejection by Region in 1998

Item	Nominal Value: Rupiah (In trillions of Rp)	Nominal Value: Share (In percent)	Volume: Notes (Thousands)	Volume: Share (In percent)
Circulation				
Jakarta	4,663.7	83.9	41.6	48.2
Outside Jakarta	889.4	16.1	44.7	51.0
Rejection on bad checks and bilyet giro				
Jakarta	1.9	57.6	102.0	32.0
Outside Jakarta	1.4	42.4	216.4	68.0
Rejection to circulation ratio				
Jakarta	0.04	–	0.3	–
Outside Jakarta	0.16	–	0.5	–

rates. The number of drafts cleared in the year under review reached 86.3 million while the nominal value stood at Rp5,553.1 trillion, falling by 22.5% and 14.5%, respectively (Table 7.8). This decline was followed by a decrease in the ratio of rejection of bad checks and bilyet giro over clearing turnover. In terms of nominal value and draft number, the ratio fell from 0.1% and 0.5%, respectively, to 0.06% and 0.37%.

By region, 83.9% of the national clearing value accounted for clearing activity in Jakarta, and the rest to regions outside Jakarta. In terms of rejection of bad checks and bilyet giro, 57.6% constituted the share of rejection in Jakarta (Table 7.9). The ratio of rejection of bad checks and bilyet giro over national clearing turnover declined both in nominal value and number of drafts. For Jakarta, in nominal value, the ratio climbed from 3% to 4% in the reporting year. Clearing in the interbank money market which only took place in Jakarta rose 6%, from Rp6,329 trillion in 1997 to Rp6,707 trillion in 1998.

Real Time Gross Settlement

A smooth and efficient functioning of the national payment system is of importance not only to speed up the daily economic activity but also to support the effectiveness of monetary and banking policies. Accordingly, Bank Indonesia sought to improve the smoothness and efficiency of the payment system, through, inter alia, developing a Real Time Gross Settlement (RTGS) system. The RTGS is a payment mechanism that settles instantaneously (real time) and electronically without clearing process. Its use is mostly for high-value, important, and high-risk transactions.

The plan to apply the RTGS system is based on several reasons. First, almost two third of payments done through Bank Indonesia are of high-value transaction with nominal value of Rp1 billion and above. Second, the increasing demand for a fast, global, and high-value transaction settlement, especially in the money market (rupiah or foreign exchange) and in the local and international stock markets. Third, the need to lower the likelihood of expansion of central bank liquidity support, and reestablish a sound banking system.

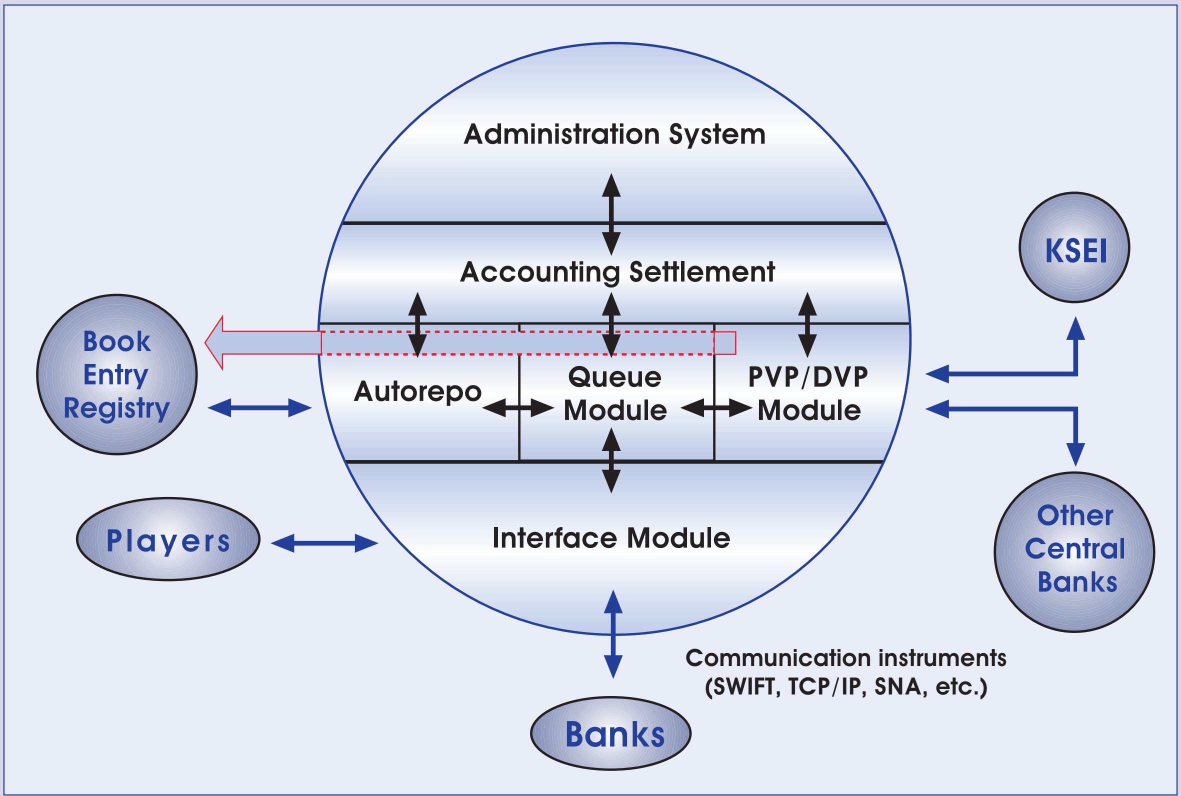
The RTGS system is based on principles standardized by the Committee Payment System and Settlement (CPSS), and the Bank for International Settlement (BIS), serving as guidance for every central bank. These principles include congruence between monetary and banking policies, especially in the implementation of prudential principles in the banking system, the settlement of final and irrevocable transactions, and prohibition of negative balance of the commercial bank account at the central bank.

The RTGS mechanism works as follows. Bank instructs payment order from its customer through the RTGS system at Bank Indonesia by means of various communication instruments, such as SWIFT and SNA (Scheme 1). Should the ordering bank have sufficient amount of fund, the payment order can be directly finalized. On the contrary, if the fund is not adequate, the order will be put on queue until the fund is available. To overcome this liquidity problem, the RTGS system can automatically exercise autorepo, which sells automatically bank's securities, especially SBI, to Bank Indonesia.

Besides completing interbank payment transaction upon customer request, the RTGS system can also be used to expedite payment settlement in the foreign exchange market (payment versus payment/PVP), in the capital market, debit instrument in the money market (delivery versus payment/DVP), and other high-value and important transactions through Bank Indonesia. The payment settlement processes for PVP, DVP, and government account are treated in the same way as for customer request.

With regard to the DVP transaction, Bank Indonesia's RTGS system will cooperate with the Indonesian Stock Central Custodian (KSEI). Meanwhile, concerning the PVP transaction, the RTGS system will collaborate with other central bank payment settlement system. The prerequisite for the RTGS system to work properly is the presence of Centralized Settlement Account (CSA) and Book Entry Registry (BER). Through the implementation of the CSA, every bank has only one account that is centralized at central bank. Meanwhile, the BER functions as an on-line and automatic registration and administration house for bank's securities, such as SBI, promissory note, and commercial paper. With the presence of CSA and BER, the RTGS system is expected to accommodate all banking, money market, capital market, and other transactions.

Scheme 1
RTGS Mechanism



Chapter 8 World Economy and International Cooperation

The world economy in 1998 highlighted the extended economic crises in Asia. As a consequence of the reduced inflows of capital into the Asian markets, both the financial and real sectors in Asian countries suffered. Regional economies shrank considerably, coupled with extensive currency depreciation and skyrocketing inflation. The crisis spread to other developing countries beyond the Asian boundary, especially after a similar crisis erupted in Russia with its damaging ramifications across the world financial system. Sluggish domestic demand in emerging countries had adversely impacted export performance and consumer and investor confidence in advanced economies resulting in a slower pace of their economic growth in 1998. The economic crises that were experienced in nearly all regions of the world caused global growth to decelerate appreciably from 4.2% to 2.2% (Table 8.1). Associated with the major slowdown in global demand, growth of trade volumes slowed markedly, followed by a significant fall in prices of primary commodities, both oil/gas and non-oil/gas commodities. Meanwhile, the world witnessed a new financial history in the making when the single European currency, the euro, came into being on January 1, 1999 (Box : The Impact of Euro in Asia and Indonesia).

In 1998, the developing economies grew at only 2.8%, down from 5.7% in the previous year. The downturn was across the board, except in Africa, whereas some of the Asian countries experienced negative economic growth.

The inflation rate in developing economies climbed from 9.2% to 10.2%. This was more pronounced in the Asian continent where the inflation climbed from 4.7% to 7.9%. In South America which is accustomed to rapid price hikes, the inflation rate decreased from 13.9% to 10.3% in 1998. Inflation in developing countries in the Middle East and Europe remained high at 23.6%. To dampen inflation and strengthen their exchange rates, the countries in crisis followed a policy of high interest rates since end-1997, although this policy was gradually moderated. Despite its adverse impacts on the real sector and the banking sector, the high interest rate policy succeeded in strengthening the affected exchange rate and contained inflation.

Linked with the Asian crises was a severe drop in capital flows to developing economies which began in 1997 and decreased further in 1998. Capital flows dropped from $212.1 billion in 1996 to $149.1 billion and eventually to $64.3 billion in 1998. In the Asian region, specifically in the crisis countries, the end result was net capital outflows. The capital inflow for direct investment was recorded at $4.9 billion in 1998, but the outflows for

Tabel 8.1
Selected World Economic Indicators

Description	1996r	1997r	1998*
Economic Growth (In percent)			
World	4.3	4.2	2.2
Industrial countries	3.0	3.0	2.0
Developing countries	6.5	5.7	2.8
Countries in transition	–1.0	1.9	–1.9
Inflation (In percent)			
Industrial countries	2.2	2.0	1.3
Developing countries	14.1	9.2	10.2
World Trade Volume (Percent change)	7.0	9.9	3.3
Yen/Dollar Exchange Rate (Average)	108.8	121.8	131.3
World Trade Prices (Percent change)			
Manufactured goods	–3.0	–8.1	–2.5
Non-oil/gas primary commodities	–1.2	–3.3	–15.6
Oil	18.4	–5.4	–30.5
Interest Rates in Industrial Countries (Percent average)			
Short-term	3.70	3.70	4.40
Long-term	5.80	5.10	4.50

Source : IMF, World Economic Outlook, April 1999 portfolio investment and other investment purposes stood respectively at $6.5 billion and $43.6 billion. In total, the net capital outflows in Asian developing countries reached $45.3 billion.

The Asian crisis also took its fall on advanced countries. The slowdown in the demand of developing countries for the outputs of advanced economies adversely affected the current account balance of a number of advanced countries, such as the US, Germany, France, Italy, the UK, and Canada. The spreading Asian crises sparked negative sentiment among consumers and investors and resulted in reduced aggregate demand in several advanced countries. As a result, the advanced countries' economies registered a slowing pace of growth from 3.0% in 1997 to 2.1% in 1998, with Japan, Italy, and Canada experiencing a major slowdown, whereas the US and Germany remained broadly unaffected.

The US economy has been expanding over the past seven years. Fiscal consolidation yielded a budget surplus, robust aggregate demand resulted in strong economic growth and the rate of inflation was low. In 1998, the US economy grew by 3.6%, comparable to the previous year, while the inflation rate dropped from 2.3% to 1.6%. With the advantage of a flexible labor market, the unemployment rate dropped from 4.9% to 4.5%. The vibrant economy led to an appreciation of the dollar against other world currencies such as yen, Deutch mark, French franc, and pound sterling. The dollar's strengthening continued up to the third quarter of 1998 before the Federal Reserve Board cut interest rates. The strengthening dollar and the Asian crisis caused the US external balance to deteriorate which was reflected by a widening current account deficit from 1.9% to 2.7% of GDP.

In 1998, the Japanese economy was still struggling in recession. The economy slid deeper into recession after its growth rate fell from 1.4% in 1997 to –2.8%. Faltering domestic demand, partly as a result of the government policy to raise consumption tax in 1995, precipitated the extended downturn. Other causes that had led to the extended recession included interrupted credit lending and disrupted business activity due to negative pressures on the banking system, cancellation of the fiscal stimulus package as announced in 1997, and repercussion from the Asian crisis. As a result of the economic malaise, Japan's unemployment rate jumped from 3.4% to 4.2%. To jumpstart the economy, the government of Japan reduced consumption tax by 2 trillion yen, reintroduced a fiscal stimulus package amounting to 16 trillion yen, and lowered interbank interest rate from 0.45% to 0.25%. Meanwhile, its current account surplus rose by 1% of GDP to 3.2% of GDP. The rise originated from lower imports as a result of weakened aggregate demand and a drop in prices of primary commodities. The latter contributed to bringing down inflation from 1.7% to 0.4%.

The growth rate of the German economy in 1998 rose by 0.5% to 2.7%, bolstered by robust domestic demand. During the same period, the benchmark interest rate fell by 0.5% to 1.0%. The strong economy resulted in a decline in the unemployment rate from 11.5% to 10.9%. However, the current account deficit rose from 0.2% to 0.4% of GDP.

The world economy also witnessed an economic crisis in Russia in August 1998, which was brought about by both internal and external forces. The external forces included lower oil prices and the Asian crisis, while the internal causes centered on unstable economic fundamentals as evidenced by a disequilibrium, high dependency on short-term foreign capital inflows, and a dragged structural reform. The crisis in Russia sparked anxious ripples in the global financial market that led to a larger foreign capital outflow from developing economies and growing concerns over a probable shrink of global credit.

The financial turmoil hits major stock markets across the globe. In October 1998, stock indices around the globe plunged sharply. To address the worldwide turbulence, the US Federal Reserve Board lowered its interest rate, a measure that transmitted a positive signal to the stock market which in turn stimulated rises in other major stock indices. The buying of blue chip stocks in each country played a crucial role in the upswing that further shored up the composite stock index in each country.

The economic and financial crisis in Russia magnified the severity of the Asian crisis. A number of developing countries' currencies were put under further strong pressure. The intensity of the pressure faced by each country was a function of the degree of international integration of local financial markets, its economic fundamentals, and its financial and trade links with Russia and other emerging market economies. Countries that were hard hit by the Russian crisis included the Ukraine and other countries of the former Soviet Union as well as developing countries of Latin America, such as Brazil, Mexico, and Argentina. Developing countries in Asia were spared much of the impact of the Russian crisis thanks to the appreciation of the yen against dollar and the current account surpluses in Asian countries.

The slowing growth of domestic demand in all regions reduced the expansion of world trade volume appreciably, from 9.9% in 1997 to 3.3% in 1998. Exports from advanced countries dropped from 10.4% to 3.3%. At the same time, exports from developing countries grew at a much slower pace, from 11.3% to 2.9%. The slowing growth of world trade was followed by a fall in world commodity prices. Compared with the previous year, prices of manufacturing products, oil, and non-oil/gas primary commodities declined by 2.5%, 30.5%, and 15.6%, respectively. Consequently, the terms of trade of oil-exporting countries and primary commodity exporting countries worsened by 18% and 3.2%.

Following its introduction on January 1, 1999, the euro came under pressure and began to depreciate. Up to end-March 1999, the euro has depreciated by about 10%. The depreciation resulted from the worsening of economic fundamental of countries in the Euro area and of the heightened tensions in Europe as a result of the NATO assault on the Republic of Yugoslavia .

On the international monetary front, concerns over the economic slowdown --while inflation remained subdued-- led to interest rate declines in advanced countries. Consequently, currencies of the crisis countries strengthened significantly in the second half of 1998 after depreciating in the first half. The strengthening yen against the dollar also underpinned the appreciation of Asian currencies. This appreciation followed the government of Japan's agreement to commit to restructuring its banking industry and announcement of a fiscal stimulus package. No sooner than the Asian currencies strengthened against the dollar, the Asian countries lowered their interest rates to boost their bank restructuring programs and the economic recovery process. Despite the easing of monetary policy in the advanced economies, however, the world economic prospects for 1999 were not robust as the advanced economies remained sluggish overall except for that of the US.

International Economic Cooperation

Efforts to shun the economic crisis dominated the issue of international cooperation in the year under review. This was evident, among others, in the role played by international agencies in supporting the resolution of the crisis in Indonesia. This sector wide cooperation contributed positively, both in technical and non-technical terms, to the restoration of the Indonesian economy.

In the reporting year, cooperation in the monetary, financial, and banking spheres centered on discussion on strengthening the architecture of the international monetary system. This was part of the attempt to strengthen the international monetary system with a view to creating the stability of financial systems and attaining the effectiveness of international financial markets. The discussion on strengthening the architecture of the international monetary system also spurred in regional fora, such as in the Executive Meeting of East Asia and Pacific Central Bankers (EMEAP) and the ASEAN Central Bank Forum (ACBF).

In the field of economic development, the World Bank, in cooperation with the IMF, had initiated a number of measures to support the process of economic recovery in countries plagued by the crisis. Besides, efforts to address the debt overhang in poor countries through the Highly Indebted Poor Countries (HIPCs) continued to proceed.

In the meantime, cooperation on trade at the global and regional levels was focused on the implementation of the agreement and endeavors to strengthen the international trade system. At the global level, the World Trade Organization (WTO) continued its key role as the largest organization in the global trade issue. At the regional level, the Asia-Pacific Economic Cooperation (APEC) and Association of Southeast Asian Nations (ASEAN) exercise the role.

Cooperation in Monetary, Finance, and Banking

International Monetary Fund (IMF)

Important topics discussed by the IMF in international fora in the reporting year basically covered the issues of quota, capital account convertibility, and the new architecture of the international monetary system.

The realization of an increase in the IMF quota in February 1999 would be effective after countries representing 85% of the IMF total quota stated their commitment to meet their respective obligation. This served as a follow-up of the agreement among member countries on the IMF resolution concerning the 11th Quota Increase of 45% as approved in the previous year. In this regard, Indonesia has met the obligation on the increase of quota by SDR581.7 million. With the increase, Indonesia's total quota stood at SDR2,079 billion, although in terms of voting power, Indonesia suffered a reduction from 1.02% to 0.98%.

In addition to determining the voting power, the amount of quota determines the size of facility the IMF can give to member countries. In the economic restructuring program (November 1997 – November 2000), in November 1997 Indonesia received a commitment in the form of Standby Arrangement (SBA) totaling SDR7.3 billion (around $9.8 billion). In the reporting year, the IMF agreed to raise its assistance twice, namely in July 1998 by SDR1 billion ($1.4 billion) and in March 1999 by SDR714 million ($1 billion). Accordingly, the total IMF loan package up to the end of the reporting year has amounted to SDR9 billion ($12.3 billion). At a further stage, in August 1998, the IMF agreed to meet the request of the government of Indonesia for converting the undisbursed SBA commitment into the Extended Fund Facilities (EFF) that have softer financial conditions. Up to the end of March 1999, disbursement of SBA/EFF has reached SDR6.8 billion ($9.3 billion), designated to strengthen the balance of payments.

Meanwhile, the financial crisis in Asia that has spread to other continents managed to catch the global attention to the role of capital flow in the world economic order. To this end, the inclusion of the regulations on the capital flow liberalization as an amendment in the IMF Articles Agreement has been deemed indispensable. Up to the end of the reporting year, discussions on the capital flow have emphasized on the importance of sequencing the liberalization process in step with the level of economic progress and the adequacy of legal and institutional infrastructure. The discussion on capital flow at the international convention resulted in an agreement that in a state of emergency a country is allowed to exercise a temporary control of capital flows.

On the other side, the financial crisis has suggested the importance of strengthening the international monetary system. The Interim Committee meeting in April 1998 agreed on the significance of strengthening the domestic financial system, promoting the public and corporate transparency, increasing the involvement of the private sector in resolving crisis, and enhancing prudence for integrating the economy into the global financial market. In strengthening the architecture of the international monetary system, international standards and principles of good practice were adopted. The principles aimed at (i) achieving effective supervision on banks, securities companies, insurance corporations, and financial conglomeration; (ii) improving institutional infrastructure through bankruptcy law and orderly payment system; and (iii) strengthening transparency, market disciplines, corporate governance, and risk management of financial institutions.

The higher demand for a greater involvement of the IMF and the World Bank in economic issues and the global finance underscored the importance of better coordination to reduce duplication of work performed by them. The World Bank and the IMF were required to develop vulnerability indicators and early warning signals of imminent crises through a constant surveillance of financial systems, and provided assistance in crisis management.

Central Bank Cooperation

In the reporting year, Bank Indonesia continued to enhance cooperation with other central banks, especially in resolving the ongoing financial crisis faced by several Asian countries. The cooperation proceeded through bilateral as well as regional fora, such as ACBF and EMEAP.

In the ASEAN circle, ACBF has conducted a number of meetings to discuss experience in dealing with the crisis, recent economic development, Bilateral Payments Arrangement (BPA), ASEAN Swap Arrangements (ASA), and ASEAN Surveillance. Results of the discussions were forwarded to ASEAN Select Committee.

The Third EMEAP Governor Meeting which was held in Tokyo in mid-July 1998 discussed international investment and financial stability, yen liquidity facility, and the unfolding of EMEAP internet facility. The meeting also discussed economic and monetary developments in the Asia-Pacific rim with an emphasis on the financial crisis.

The G-22 Finance Ministers and Central Bank Governors Meeting, held in April 1998 in Washington, D.C., concluded to form three groups of task forces. The assignment was to examine the issues related with the stability of the international financial system and the effective functioning of global financial markets. The task force declared that transparency was an indispensable and effective means of enhancing performance and public accountability of international financial institutions. In addition, a number of policy areas, including corporate governance, risk management, safety net management, and improvement of sound standards and practices, required greater attention in the pursuit of strengthening financial system.

Cooperation in Development

World Bank

In the reporting year, the 57th Development Committee Meeting discussed the issues, among others, of partnership of the World Bank with other institutions, implementation of HIPC Initiative, assistance for countries in the post-conflict era, and financial sources of the IMF and the International Development Agency (IDA). To eradicate poverty and improve social welfare of countries in crisis, the World Bank agreed to simultaneously strengthen the structural, social, and institutional policies. The activities centered on efforts to strengthen the financial sector, establish a sound business environment, rehabilitate the public sector, enhance private sector transparency, and improve SSN. The meeting also emphasized on the importance of collaboration of the World Bank with the United Nations, the IMF, and other international institutions to develop good practice principles in structural and social policies, inclusive of labor force standards.

Efforts to address the debt problems of poor countries displayed progresses. These included: (i) implementation of IMF participation in the HIPC Initiative, (ii) extension of the qualification period to meet the criteria of HIPC Initiative assistance up to 2000, and (iii) increase of flexibility in evaluating the performance of policy measures initiated by countries that have just shun the conflict. The meeting encouraged countries in needs for the assistance to initiate adjustment measures as a prerequisite for obtaining the HIPC Initiative.

With regard to the IMF restructuring program in Indonesia, the World Bank has declared its commitment of $4.5 billion for the financial sector restructuring, SSN, education, and the privatization program. Out of the total commitment, $1.0 billion has been disbursed in the form of policy support loan for restructuring program and poverty eradication.

Islamic Development Bank (IDB)

The 23rd IDB Board of Governors Annual Meeting in Cotonou, Benin, in November 1998 agreed to leave the President of the IDB with a broader authority to approve on import financing from non-IDB countries and to extend the maturity of a Longer Term Trade Financing Scheme. The meeting also discussed the establishment of the IDB Infrastructural Fund to finance infrastructure development in member countries. The fund originated from member countries and other international institutions.

Three lessons can be drawn from the crises in Indonesia, Malaysia, Russia, and Latin American countries: (i) social and economic impacts, (ii) appropriate policy response, and (iii) prevention of the crisis from a recurrence.

In 1998/99 the total commitment of IDB assistance for Indonesia reached $500 million, a rise of $150 million from the previous year. Out of the figure, $280 million has been disbursed for the importation of foodstuff and medicine to cushion the adverse effects of the crisis. Besides, the IDB and other Islamic banks will invest fund of $100 million in the Jakarta Stock Exchange under the profit-sharing system.

Asian Development Bank (ADB)

The 31st ADB Annual Meeting was held in April 1998, in Manila, the Philippines. The meeting agreed, among others, on the importance of monitoring ASEAN countries which had been discussed in the 2nd ASEAN Finance Ministerial Meeting (AFMM) in Jakarta.

With regard to the IMF program package, ADB had a commitment of $3.5 billion. Out of the figure, $1.05 billion was disbursed for renewal of the financial sector management and $100 million for the SSN program. On March 25, 1999, ADB gave a new commitment of $1.02 billion apart from the IMF package. Out of the figure, $200 million was disbursed for the electricity sector program, $50 million for the nutrition and health program, and $70 million for public assistance and regional governments.

Cooperation in Trade

World Trade Organization (WTO)

In May 1998, WTO conducted meetings at the ministerial level in Geneva. Its agenda focused on the implementation of WTO agreements on the benefits of multilateral trade system viewed by developing countries as being unfair and imbalance. The agenda also stretched to application of Special and Differential Treatment (SDT), support from member countries for dispute settlement mechanism that had time flexibility, and development of Regional Trade Arrangements (RTA).

In December 1998, the WTO conducted a review on Indonesian trade policy. In general, WTO member countries responded positively to Indonesia's deregulation, liberalization, and privatization measures that were more conducive for foreign investment. However, the WTO requested that the liberalization launched unilaterally by the government be tied in a commitment to minimize discrepancy between application and commitment.

Looking ahead, topics of discussion in the WTO will include support from several member countries on the European Union proposal to commence a new round of multilateral trade negotiation. Other topics are negotiation prospects for liberalization in the field of agriculture and application of the same tariff rate for commodities traded through electronic media.

Asia-Pacific Economic Cooperation (APEC)

The series of APEC meetings in the reporting year ended at the 6th APEC Economic Leaders Meeting (AELM) held in Kuala Lumpur, Malaysia. The meeting resulted in a declaration on "Strengthening the Foundations for Growth" that contained a renewed APEC vision through (i) creation of Asia-Pacific welfare society, (ii) establishment of a conducive environment for flows of trade, investment, and technology, and (iii) enhancement of economic capacity. Within the APEC informal meetings four key topics were under discussion, including financial crisis and strengthening of multilateral trade systems.

In the area of financial crises, the meeting agreed to take a number of steps to (i) support the economies of countries hit by the financial crisis, (ii) create financial stability, and (iii) stimulate regional economic growth. APEC economic leaders also urged the World Bank, ADB, and other private and public institutions to devise a concrete strategy to strengthen the SSN. To strengthen the national and global financial systems, it was agreed to restructure the financial and corporate sectors, increase private capital flows, and strengthen the architecture of the international financial system.

In strengthening the international trade system, the APEC economic leaders discussed the impact of globalization on the multilateral trade system and emphasized on the importance of advancing the economic cooperation in the Asia-Pacific continent. As understood, expansion of trade and investment served as a key element in the economic recovery and growth in the region. In this regard, the economic leaders welcomed the implementation and revision of individual action plans in a bid to realize the "Bogor Goals" in addition to progress achieved in the Early Voluntary Sector Liberalization Package comprising nine sectors. Besides, the 6th AELM officially accepted three new country members, namely the Federation of Russia, Peru, and Vietnam. As such, the number of APEC members rose to 21 countries.

ASEAN Cooperation

The ASEAN meetings organized in the year under review included the ASEAN Finance Ministerial Meeting (AFMM), ASEAN Select Committee Meeting, and ASEAN Senior Finance Officials Meeting (ASFOM).

Topics of discussion in the fora of ASEAN finance cooperation were dominated by efforts to address the economic crisis in the ASEAN countries and prevent the crisis from a recurrence. The agenda, having been in the process of discussions hitherto, focused on the Hanoi Plan of Action (HPA) that comprised, inter alia, ASEAN Surveillance Process (ASP) and BPA. The HPA represented a proposal consisting of steps to be pursued by the ASEAN member countries to meet the ASEAN Vision 2020. The vision aimed at attaining an outward-looking ASEAN society with peaceful, stable, and prosperous life, while able to cooperate firmly in a dynamic economic environment.

The objective of the ASP was to reduce risks of a recurrence of crisis as it could function as an early warning signal capable of detecting vulnerabilities in the economies of the ASEAN member countries. The surveillance mechanism was designed to create an early warning system against the crisis so that pre-emptive policy responses could be devised punctually and to measure vulnerabilities of the economies of the ASEAN member countries. It was also expected that the scheme improved policy coordination and enhanced peer monitoring among ASEAN member countries in addressing macroeconomic issues.

In reducing dependency on dollar, strengthening intra-ASEAN trade, and enhancing economic and financial cooperation among member countries, the ASEAN meetings introduced the BPA scheme. Only the Philippines and Malaysia have the scheme heretofore, since Indonesia, Myanmar, and Thailand were in the initial stage of exploring the scheme.

Another important meeting was the 6th ASEAN Summit in Hanoi, Vietnam, in December 1998. The summit resulted in (i) effort to accelerate the implementation of the ASEAN Free Trade Area (AFTA), (ii) short-term policy in the field of investment, (iii) ASEAN Investment Cooperation (AICO), and (iv) formalization of the second round of negotiations on services.

The Impact of the Euro on the Asian Region

The establishment of the European Economic and Monetary Union (EMU) as declared in the Maastrich Treaty (1992), was entering into its final stage when the single Euro[1] currency came into initial use in January 1, 1999. At this moment, the Euro Zone has 11 members out of 15 European Union[2] members i.e. Austria, Netherlands, Belgium, Finland, Ireland, Italy, Germany, Luxembourg, France, Portugal and Spain. With the Euro in place, exchange rate and monetary policies in the Euro Zone are determined by the European Central Bank (ECB).

The Euro's Impact on the Regional Financial Market

The Euro was basically designed to accelerate trade and investment in European countries in addition to lessening the domination of US$ dollar as a world hard currency. Although the US dollar has been widely adopted throughout the world, given the economic strength of Euro countries, the Euro will play a larger role in the middle and long-term (Table 1). The presence of Euro and ECB is also expected to bring about a macro-economic stability conducive to sustainable economic growth in the Euro zone.

Nonetheless, movement of the Euro exchange rate vis-à-vis other currencies is highly dependent upon the success of Euro countries in reforming their markets, particularly the commodity and labor ones. With the Euro in command, the countries within the Euro Zone no longer have individual exchange rate policy. As a result, should an external shock strike the domestic market in each country should adjust accordingly.

Table 1
Scale of the Economy and Share World Major Currencies

Description	United State	Japan	European Union (EU 15)
	In percent		
Economic Scale			
Segment on world GDP, 1996	20.7	8.0	20.4
Segment on world export, 1996	15.2	6.1	14.7
Utilizing segment			
On currency			
World trading, 1992	48.0	5.0	31.0
Development countries debt, 1996	50.2	18.1	15.8
Global reserve, 1995	56.4	7.1	25.8

Source : IMF, World Economic Outlook, October 1997

The unification of 11 markets and 11 currencies resulted in greater market access among countries under the EMU and the reduction of foreign exchange risk. In the financial market, this is termed as the financial big bang that has made the Euro financial market to be one of the biggest world money markets. In the meantime, the GDP of EMU reached $6.802 billion, slightly lower than the USA GDP ($7.100 billion). Some experts believed that the financial big bang would play a major role in the European financial money market. This condition will in turn lead to a rapid development of the Euro Bond market to become the second largest market after the United States.

Along this line, the future of the world trade is envisaged to center on a tripod of economic activity, namely the USA, Europe and Japan. The three world major currencies are expected to play a dominant role

1) Despite its legal status as a legitimate means of payment, up to 1 January 2002 (transition period), the euro prevails in the form of interbank electronic notes or non-cash payment instrument. During this transition period, the local currency existing in each country remains valid.
2) Four members of the European Union that have not joined the EMU are Denmark, United Kingdom, Sweden, and Greece. In contrast with the European Union, the Euro zone was introduced for country members of the European Union that join and apply the single Euro currency.

in the international financial market. Accordingly, the movements of these three world currencies will dictate the fluctuations of other currencies. With regard to other Asian currencies, the establishment of tri-polar currencies is expected to shape the stability of world currencies. In addition, it also allows more room for Asian countries to diversify risk in a bid to soften the negative impact of the world currencies movements on the Asian currencies.

The Impact of the Euro on Indonesia's Economy

The European integration on the economic and monetary fronts posed both opportunities and challenges for Indonesia especially in the field of trade and investment. Conventionally, the EMU countries have been major business partners and investors for Indonesia. Over the last few years, they have served as the third largest counterpart after Japan and the USA. Up to March 1999, share of Indonesian export to the EMU countries reached 18% and import constituted 22%, while their share of investment in Indonesian stood at 41% of the total foreign investment.

The other benefit from the unification of the 11 markets is a greater market opportunity for Indonesian exports. In this setting, the export of Indonesia's commodities to the EMU market would only need to go through one gate of entry, given the unified trading regulations and the single currency. As a result, transaction cost would be less expensive and foreign exchange risk came down. This opportunity, however, can be of good use should competitiveness of Indonesian products be enhanced to deal with tighter competition in the world trade, given the fact that other countries outside EMU also face the same opportunity.

The Euro's application is also of benefit to importers as it takes away the problem of inconvertibility of several EMU currencies in the Asian market. The single currency would ease import funding.

The short-term effects of the Euro for investment activity remain indiscernible. In the long-run, however, the inflow of capital from EMU countries to Indonesia is not only a matter of investment prospects, but also of its denomination or the extent to which Indonesia would welcome the euro-denominated investment. On the contrary, given the strong economic fundamentals of EMU countries combined with their commitment to maintaining price and exchange rate stability, the Euro per se is potential to become a safe haven for investors in placing their portfolio. Hence, countries, including Indonesia, could choose the Euro as one of the components of their portfolio investment and foreign exchange reserves.

The establishment of tri-polar currencies will raise market confidence in the European money market. With a larger and more efficient financial market, competition for underwriting bond and syndicated bank loans will be tighter. This opens up possibilities for the government of Indonesia to issue euro-denominated bonds that in turn lead to a reduction of hedging cost. As such, this will entail greater opportunity for Indonesia to borrow funds in the European money market. Besides, the enhanced efficiency in the European stock market will encourage Indonesian corporations to list stocks in the European countries.

In the meantime, the implication of the Euro on the rupiah exchange rate in the near foreseeable future remains unclear. The experience showed that regional sentiment and the exchange rate of the dollar against the yen largely governed fluctuations of the rupiah. This is conceivable by the fact that contribution of the USA and Japanese economies to Indonesia is more dominant than that of the EMU countries.

Appendices

Appendix A.1

Condensed Balance Sheet of Bank Indonesia
as of March 31, 1997, 1998, and 1999
(In billions of rupiah)

Assets	1997	1998	1999	Liabilities	1997	1998	1999
1. Gold and Foreign Assets	64,088	143,099	227,415	1. Monetary Liabilities	35,352	59,413	72,796
A. Gold and Foreign Currencies	63,862	141,930	226,280	A. Banknotes and Coins	27,065	45,096	52,660
B. Other Foreign Assets	226	1,169	1,135	B. Commercial Banks'			
2. Claims on Public Sector	116	98,942	188,267	Demand Deposits	7,905	13,270	19,290
A. Central Government	116	4,144	179,338	C. Private Sectors'			
B. Official Entities and				Demand Deposits	382	1,047	846
Public Enterprises	0	0	0	2. Foreign Exchange Deposits	2,749	3,667	7,004
C. Special Government				A. Banks' Demand Deposits	2,748	3,623	6,927
Institution	0	94,798	8,929	B. Other Demand Deposits	1	44	77
3. Claims on Banks	19,016	36,288	32,343	3. Foreign Liabilities	976	9,548	103,360
4. Money Market Securities	2,737	4,468	1,780	A. Foreign Exchange Liabilities	767	1,155	29,375
5. Claims on Private Sector	859	6,545	937	B. Other Foreign Liabilities	209	8,393	73,985
6. Other Assets	3,833	12,723	5,575	4. Government Deposits	19,916	38,963	67,309
				A. Current Account	18,204	28,275	64,753
				B. Counterpart Funds	1,385	1,843	385
				C. Import Guarantee	327	1,091	1,433
				D. Special Government			
				Institution	0	7,754	738
				5. Bank Indonesia Certificates	20,996	30,151	61,296
				6. Capital Account	2,589	3,055	76,628
				7. Other Liabilities	8,071	157,286	136,924
Total	**90,649**	**302,083**	**456,317**	**Total**	**90,649**	**302,083**	**456,317**

Appendix A.2

Income Statement of Bank Indonesia
(In millions of rupiah)

	Description	Audited		Unaudited
		March 31, 1997	March 31, 1998	March 31, 1999
1.	Operating Income	4,695,615.4	23,051,162.3	43,642,381.4
2.	Direct Expenses	2,627,813.0	16,678,618.8	35,632,530.4
3.	Gross Profit (1–2)	2,067,802.4	6,372,543.5	8,009,851.0
4.	General and Administration Expenses	876,935.6	4,862,524.7	6,712,267.6
5.	Operating Profit (3–4)	1,190,866.8	1,510,018.8	1,297,583.4
6.	Other Income and Expenses	3,529.1	762,250.4	307,345.6
7.	Income Before Tax (5+6)	1,194,395.9	2,272,269.2	1,604,929.0
8.	Income Tax	378,306.2	718,536.6	537,592.0
9.	Social Welfare Donation	16,321.8	0.0	0.0
10.	Net Income (7–8–9)	799,767.9	1,553,732.6	1,067,337.0

Appendix B

Government Commissioner and Board of Directors

as of March 31, 1999

Government Commissioner

Sofjan Djajawinata

Board of Directors

Governor

Syahril Sabirin

Managing Directors

Iwan R. Prawiranata
Miranda S. Goeltom
Aulia Pohan
Subarjo Joyosumarto
Achwan
Dono Iskandar Djojosubroto
Achjar Iljas

Appendix C

Organization and Personnel

In the context of enhancing performance of its main functions as the central bank, in the year under review, Bank Indonesia improved its internal management and banking sectors. The reorganization in the internal management aimed at sharpening the effectiveness of support functions to give a greater focus on planning and supervision. The banking sector reorganization aimed at promoting its performance based on Bank Indonesia's autonomy in supervising banks.

To raise the effectiveness and efficiency of Bank Indonesia Representative Offices in implementing duties to support the Head Office, Bank Indonesia improved their organization.

In view of the reorganization, Bank Indonesia revised its structure. By the end of the reporting year, its organization structure changed from 19 departments to 20 departments and 2 bureaus at the head office in Jakarta. The number of representative offices abroad reduced from 5 to 4. Meanwhile, the number of regional offices remained unchanged at 42.

The number of personnel at the end the reporting year was 6,172 persons. Out of the number, 3,299 persons were at the Head Office, 2,852 at the regional offices, and 21 at the representative offices.

Number of Personnel

No.	Year	Head Office	Regional Offices	Representative Offices	Total
1.	1996/97	3,292	2,987	95 1)	6,374
2.	1997/98	3,341	2,882	67 1)	6,290
3.	1998/99	3,299	2,852	21	6,172

1) Including personnel studying abroad.

Department Directors

Accounting Department	:	Bun Bunan E.J. Hutapea
Bank Examination Department I	:	Haswandi S. Efendy
Bank Examination Department II	:	Hifni Arkian
Bank Supervision Department I	:	S. Ch. Fadjriah
Bank Supervision Department II	:	R. Maulana Ibrahim
Banking Regulation and Development Department	:	Erman Munzir
Communication and Security Department	:	Maskan Iskandar
Credit Department	:	Abubakar Karim
Currency Circulation Department	:	H.Y. Susmanto
Economic and Monetary Statistics Department	:	Ending Fajar
Economic Research and Monetary Policy Department	:	Bambang S. Wahyudi
Foreign Exchange Department	:	Djakaria
Human Resources Department	:	Ratnawati Priyono
Internal Audit Department	:	Octo R. Nasution
Internal Resources Research and Development Department	:	Sulastinah Tirtonegoro
International Department	:	Burhanuddin Abdullah
Legal Department	:	Moh. Sis Abadi
Logistics Department	:	M. Ashadhi
Monetary Management Department	:	Made Sukada
Rural Credit Bank Supervision Department	:	Imam Sukarno
Office of the Governor	:	Perry Warjiyo
Office of Secretariat	:	Sutardi

Representative Managers

London	:	Maman H. Somantri
New York	:	Aslim Tajuddin
Singapore	:	Bachri Ansjori
Tokyo	:	Baridjussalam Hadi

Regional Office Managers

Category I

Bandung	:	Abdul Salam
Medan	:	Adi Putra Hasan
Semarang	:	S. Budi Rochadi
Surabaya	:	Sidarto

Category II

Bandar Lampung	:	Imrandani
Banjarmasin	:	Suryanto
Denpasar	:	J.B. Sudibyo
Manado	:	Emri
Padang	:	Aris Anwari
Palembang	:	Langka Ardimudinar
Ujung Pandang	:	Tjarlis Gafar
Yogyakarta	:	Achil Ridwan D.

Category III

Ambon	:	Sumadi
Banda Aceh	:	Mudiar Durin
Cirebon	:	Djatiwalujo
Jambi	:	Asikin Sudjaja
Jayapura	:	C.Y. Boestal
Malang	:	M. Zaeni Aboe Amin
Mataram	:	R.D. Sukmana
Pekanbaru	:	Haslim Hasanuddin
Pontianak	:	Hertono Cokropranowo
Samarinda	:	Sarman Bona Sihotang
Solo	:	Moeljono

Category IV

Balikpapan	:	Dedy Sutady
Bengkulu	:	Cheppy Sumawijaya
Dili	:	Johannes Toegono
Jember	:	Ahmad Sukandar
Kediri	:	Budhi Santoso
Kendari	:	Tjahjo Oetomo K.
Kupang	:	–
Palangka Raya	:	Moenandar
Palu	:	M. Wignya Suprapta
Pematang Siantar	:	Moehardhono Sumali
Purwokerto	:	Iman Achmad Kusrochjono
Tasikmalaya	:	Suwondo
Tegal	:	Sunarko

Category V

Batam	:	Moch. Zaenal Alim
Lhokseumawe	:	Suwarna Karpi
Padang Sidempuan	:	Zurkon Kusuma
Sampit	:	Amin Sisworo
Sibolga	:	Isa Anshory
Ternate	:	Sunaryo

Appendix D

Provisions and Policies on Monetary and Financial Sectors Issued in 1998/99

Date	Policy/Regulation	Number
1998		
April		
4	The government froze the operations of seven banks, namely Bank Kredit Asia (Istismarat), Bank Centris International, Bank Deka, Bank Subentra, Bank Pelita, Bank Hokindo, and Bank Surya. At the same time, the management of seven banks, namely Bank Dagang Nasional Indonesia, Bank Exim, Bank Danamon, Bank Umum Nasional, Bank Tiara Asia, Bank PDFCI, and Bank Modern, were taken over by IBRA. A bank is classified frozen if its amount of liquidity support obtained from Bank Indonesia is equal or above 75% of its total assets and 500% of its paid-in capital. A bank is classified taken over if its amount of liquidity support obtained from Bank Indonesia is more than 500% of its paid-in capital and totalled of more than Rp2 trillion. In addition, the supervision on banks with CAR below 5% will be transferred to IBRA.	
4	Regulation regarding the use of debit note in clearing activity. This regulation is designed to prevent the misuse of debit note which is deemed inappropriate according to the principles of sound banking practice.	BD BI No. 31/1/KEP/ DIR and CL BI No. 31/4/ UAK
6	Regulation regarding the issuance of domestic bond in which its maturity, grace period, amortization and interest rate payment are determined by the Minister of Finance. For the first phase, a value of Rp80 trillion bond will be issued and the next issuance will be determined by the Minister of Finance. The fund will be utilized to pay back Bank Indonesia liquidity support used by banks taken over by IBRA.	PD No. 55/1998
8	Regulation regarding the obligation of private corporations to report their external debt position to Bank Indonesia : 1. All foreign commercial loans received by corporations must be reported to Bank Indonesia.	PD No. 56/1998 and BD BI No. 31/5/KEP/Dir

Note : BD BI: Board of Directors of Bank Indonesia Decree; CCMS: Chairman of Capital Market Supervisory Agency Decree; CL BI: Circular Letter of Bank Indonesia; GR: Government Regulation; JD: Joint Decree; LGB: Local Government Bank; MF: Minister of Finance Decree; MIT: Minister of Trade and Industry Decree; PD: Presidential Decree; PI: Presidential Instruction

<table>
<tr><th>Date</th><th>Policy/Regulation</th><th>Number</th></tr>
<tr><td></td><td>2. Corporations who had never notified their loan magnitude were obliged to report to Bank Indonesia on April 30,1998 at the latest. Any delay of report is subject to a penalty of Rp500,000.00 per week of delay.
3. Those to be reported are :
a) The principal of loan and/or its changes, no later than 14 days after the endorsement of the loan agreement or its changes.
b) The monthly loan disbursement, no later than the fifteenth of the subsequent month.
4. Those who deliberately do not submit their report to Bank Indonesia are subject to a penalty of one per mil (1 0/00) of their external loans.</td><td></td></tr>
<tr><td>15</td><td>Bank Indonesia announced Indonesia's external debt provisional figures as of the end January 1998 based on the latest data of April 3, 1998 ($133.7 billion), comprising official debt of $53.5 billion (long-term debt) and private corporation debt of $80.2 billion. Private corporation debt consists of $72.8 billion of commercial loan and $7.4 billion of securities. Among Indonesia's external debt, some $15.6 billion are short-term liabilities, comprising $9.6 billion of commercial loan and $6 billion of securities.</td><td></td></tr>
<tr><td>20</td><td>The establishment of the Monetary Monitoring Committee, comprising :
1. Miranda S. Goeltom, Coordinator
2. Sean Nolan, Deputy Division Chief, IMF
3. Jaime Jaramillo, US Treasury Expert
4. Dietrich Domanski, Deutsche Bundesbank Expert.</td><td>BD BI No. 31/16/ Kep/DIR</td></tr>
<tr><td>21</td><td>Bank Indonesia re-raised SBI rates as follows.
<table>
<tr><th>Maturity</th><th>before (%)</th><th>current (%)</th></tr>
<tr><td>1 day (O/N)</td><td>40</td><td>44</td></tr>
<tr><td>2 days</td><td>41</td><td>45</td></tr>
<tr><td>3-6 days</td><td>42</td><td>46</td></tr>
<tr><td>1 week</td><td>43</td><td>48</td></tr>
<tr><td>2 weeks</td><td>44</td><td>49</td></tr>
</table></td><td></td></tr>
</table>

Date	Policy/Regulation	Number
	1 month 45 50 2 months 40 44 3 months 30 34 6 months 20 23 12 months 18 21	
22	The composition of Bills on Bank Indonesia and Amendment on Banking Act.	PI No. 14/1998
24	The establishment of Coordinating Team for Commercial Bank Merger, Consolidation, and Acquisition, to provide a "one stop service" for bank merger, consolidation, and acquisition.	CL BI No. 31/3/UPPB and BD BI No. 31/18/KEP/DIR
May		
6	The establishment of Team for the Evaluation of State-owned Enterprise Privatization.	PD No. 72/1998
7	Bank Indonesia re-raised SBI rates as follows. Maturity before % current % 1 day (O/N) 44 48 2 days 45 49 3-6 days 46 50 1 week 48 54 2 weeks 49 56 1 month 50 58 2 months 44 53 3 months 34 44 6 months 23 34 12 months 21 33	
27	Guidelines for inside trading investigation.	CCMS No. Kep-20/PM/1998
29	Blanket guarantee scheme on deposit and interbank money market, as follows:	BD BI No. 31/32/KEP/DIR and CL BI No. 31/04/UPPB

Date	Policy/Regulation	Number
	Deposit Guarantee – The government will not guarantee any deposit with interest rate higher than the maximum limit of JIBOR in the previous week – The maximum rupiah deposit rate guarantee is determined by the average rupiah deposit rate offered by JIBOR banks in the previous week plus 5% margin – The maximum foreign currency deposit rate is determined by average foreign currency deposit rate offered by JIBOR banks in previous week plus 1% margin. **Interbank Money Market** Banks are allowed to determine their interbank rates based on the market rate. In this regard, the government guarantees only the principal plus the maximum interest rate determined in the previous week. – The maximum rupiah interbank rate is determined by the weighted average of rupiah IMM overnight rate offered by JIBOR banks in the previous week – The maximum foreign currency interbank rate is determined by the weighted average of foreign currency IMM overnight rate offered by JIBOR banks in the previous week.	
June		
9	Banks are obliged to release their financial statements in time and format as determined by Bank Indonesia. The financial statements transparency is deemed necessary so as to restore public confidence on the banking system. Those reports are : 1. Annual Financial Report audited by public accountant to be submitted before April in the following year 2. Published Financial Report, to be released at least twice a year (June and December) 3. Consolidated Financial Statement and Combined Financial Statement for banks, head offices of which reside in Indonesia and hold stocks or claims of ownership on other financial institutions more than 50% of those institutions.	BD BI No. 31/140/KEP/DIR and CL BI No. 31/5/UPPB
19	The settlement of foreign exchange bank arrears are: – Bank Indonesia carries out advance payment to creditors	BD BI No. 31/53A/KEP/DIR

Date	Policy/Regulation	Number
	to cover foreign exchange banks' arrears based on the outstanding amount as of June 30, 1998. The arrears cover short-term foreign exchange contracts, short-term option, trade finance, and interest on short/long-term loans. Those foreign exchange banks include the existing foreign exchange banks, banks in takeover, frozen banks, and liquidated banks. – This advance payments shall be repaid to Bank Indonesia no longer than 360 days after the arrears are assumed by Bank Indonesia and are allowed to be extended. The interest rate imposed on this advance payments in foreign currency is one year LIBOR at the repayment date plus 3%. As for rupiah advance payments, the interest rate refers to the prevailing SBI rate at the repayment date plus 2%. As for frozen and liquidated banks, no interest rate is imposed.	
July 1	To maximize the use of banks' own resources, Bank Indonesia issued regulations on discount facility, reserve requirement violation, and negative banks' demand deposit with Bank Indonesia, as follows. 1. Discount Facility – Discount Facility is designed to cover inadequate minimum reserve requirement and/or to cover/to anticipate the possibility of negative banks' demand deposit balance. – Banks are required to submit a proposal and provide a minimum collateral of no less than the amount of discount facility. – The maximum maturity of this facility is one month and can be extended every time by one month. – Obligation for banks receiving this facility. – Requirements for discount facility extension. 2 Reserve Requirement Violations in Rupiah – Banks violating the minimum reserve requirement are subject to a penalty of 125% of the average JIBOR overnight rate prevailing in the date of violation. 3. Negative Banks' Demand Deposits with Bank Indonesia – Banks unable to cover their negative demand deposits balance will be charged 125% of the average	BD BI No. 35/55/KEP/DIR and CL BI No. 31/7/UPPB

Date	Policy/Regulation	Number
	JIBOR overnight rate at the date of negative balance emerges.	
7	The stipulation on export tax for palm oil, coconut oil, and its products.	MF No. 334/KMK. 017/1998
23	The issuance and trading of SBI, and rupiah intervention: SBI Auction – The sale of SBI is conducted through auction under SOR system. The auction participants comprise banks and brokers. – Banks and brokers offer their bids in terms of quantity and discount rates for 1,2,3,6,12 month maturities to Bank Indonesia. Participants shall own a minimum positive deposit balance with Bank Indonesia. – SBI auction is conducted every Wednesday or the next working day if Wednesday is a holiday. During the auction, banks and brokers offer their bids from 08.00 a.m. to 02.00 p.m. through RMDS, telephone, facsimile, or other facilities determined by Bank Indonesia. – The indicative target and its detail are announced one day prior to the auction day. Rupiah Intervention – Bank Indonesia engages in the rupiah intervention every working day from 08.00 a.m. to 04.00 p.m. – The rupiah intervention discount rate is determined by Bank Indonesia based on interbank money market rate. – The maximum period of intervention is 7 days.	BD BI No. 31/67/KEP/DIR and CL BI No. 31/2/UOPM
27	Regulations regarding export restriction on certain commodities receiving government subsidies. Commodities such as fish flour, wheat, rice, wheat flour, soybean, cane sugar, and kerosene are imported with a special exchange rate determined by the government. Therefore, those commodities will be subject to export tax. As of July 28 to August 16, 1998, export of these products are prohibited.	MIT No. 350/MPP/Kep/7/1998

Date	Policy/Regulation	Number
August		
14	Capital increment without rights to advance reservation on securities.	CCMS No. Kep. 44/PM/ 1998
14	Stipulation on stock buyback option by issuers or listed companies.	CCMS No. Kep. 45/PM/ 1998
21	The government undertook further measures towards seven banks (banks in takeover) placed under IBRA supervisory since April 4, 1998 and one bank suddenly illiquid due to massive withdrawals : – Freezing three banks, i.e. Bank Dagang Nasional Indonesia, Bank Umum Nasional, and Modern Bank – Taking over three banks, i.e. Bank Danamon Indonesia, Bank Tiara Asia, and Bank PDFCI. Further takeover was on BCA due to bank runs. – Bank Exim will be merged with other state-owned banks: Bank Dagang Negara, Bank Bumi Daya, and Bapindo under one management unit of Bank Mandiri.	
September		
19	To accelerate export, the government assigned Indonesian Credit Insurance Company (PT Askrindo) as handling agent to guarantee import L/C financed by bank credit. The number of handling banks in this program were 21 banks.	JD Min. of Fin. and Gov. of BI (No. KEP-730/KM.17/ 1998 and No.31/98/KEP/ DIR
30	The government announced the details of recapitalization program regarding the classification of banks under three categories based on their CAR figures resulted from due diligence.	
1999		
January		
8	Approval on the increase of Indonesia's quota in the IMF. Based on IMF Board of Governors Decree through Resolution No. 53-2 of January 30, 1998 regarding the increase in quota of Fund members eleventh general review, Indonesia's quota is raised from SDR1,497,600,000.00 to SDR2,079,300,000.00.	PD No. 3 of 1999

Date	Policy/Regulation	Number
18	State participation in commercial banks' and regional government banks' (BPD) capital. The equity originates from state wealth excluded from the state budget. The public equities participation are as follows: 1. BPD DI Aceh, amounting to Rp80,945 million 2. BPD North Sumatera, amounting to Rp259,926 million 3. BPD Bengkulu, amounting to Rp6,303 million 4. BPD Lampung, amounting to Rp18,580 million 5. BPD West Kalimantan, amounting to Rp65,919 million 6. BPD East Kalimantan, amounting to Rp15,973 million 7. BPD North Sulawesi, amounting to Rp31,849 million 8. BPD Central Sulawesi, amounting to Rp2,791 million 9. BPD West Nusa Tenggara amounting to Rp21,523 million 10. BPD East Nusa Tenggara amounting to Rp10,823 million 11. PT Bank Lippo Tbk., amounting to Rp3,753,000 million 12. PT Bank Sembada Artanugroho, amounting to Rp18,461 million	GR No. 4 of 1999
26	To ease state budget burden, retail prices of avtur and avgas were no longer administered and are left to be determined by market forces. In addition, retail prices of domestic oil-based fuels continue to be administered as follows (including VAT of10%) : 1. Premium : Rp1,000.00 2. Kerosene : Rp280.00 3. Engine oil : Rp550.00 4. Diesel oil : Rp500.00 5. Combustion oil : Rp350.00	PD No. 10 of 1999, dated January 26, 1999
February		
8	In view of the recapitalization program, all commercial banks are subject to a due diligence (financial audit) and are presently classified into three categories : 1. Category A, including banks with CAR 4% or more 2. Category B, including banks with CAR less than 4% to –25% 3. Category C, including banks with CAR less than -25% Banks eligible to join the recapitalization program are those of B category and are obliged to submit business plan to Bank Indonesia. In addition, majority of shareholders, board of commissioners and directors of those banks have to pass fit and proper test. Bussiness plan is defined as a proposed plan to	JD Min. of Fin. and Gov. of BI No. 53/KMK/017/1999 and No. 312/12/KEP/GBI

Date	Policy/Regulation	Number
	improve business performance, as well as to fulfill prudential banking practice according to targets set by those banks. Fit and proper test is evaluation on the competence and integrity of major shareholders, board of comissioners and directors in controlling the operation of commercial banks. Banks of category A are excluded from the recapitalization program. Banks of category C within 30 days after the due diligence are subject to be revoked or recommended to be taken over by IBRA. The recapitalization program is also applied to all state-owned banks, regional government banks, and banks in takeover (BTO).	
26	The Parliament approved the proposed State Budget for 1999/2000, a revision of the initial Budget draft of January 5, 1999, under the assumptions: economic growth of 0%, inflation 17.4%, oil production 1,520 thousand barrels per day, oil price $10.5/barrel, and exchange rate Rp7,500/dollar. Domestic Revenues : Rp142,203.8 – Oil/gas Rp 20,965.0 – Non-oil/gas Rp121,238.8 Foreign Revenues : Rp 77,400.0 – Program Loans Rp 47,400.0 – Project Loans Rp 30,000.0 Routine Expenditures : Rp137,155.5 – Personnel Expenditures Rp 33,569.1 – Material Expenditures Rp 11,039.0 – Local Routine Expenditures Rp 19,497.6 – Interest Payment and Amortization Rp 44,810.9 – Others Rp 28,238.9 Development Expenditures : Rp 82,448.3 – Rupiah Financing Rp 52,448.3 – Project Financing Rp 30,000.0	
March 13	The government undertook an important measure aimed at improving the national banking sector. a. Toward banks under category C to be closed (17 banks): PT Bank Aken, PT Bank Sahid Gajah Perkasa, PT Bank Putra	

Date	Policy/Regulation	Number
	Surya Perkasa, PT Bank Namura Internusa, PT Bank Dana Asia, PT Bank Budi Internasional, PT Bank Yakin Makmur, PT Bank Lautan Berlian, PT Bank Dana Hutama, PT Bank Orient, PT Bank Papan Sejahtera, PT Bank Pesona Kriyadana, PT Bank Tata, PT Bank Intan, PT Bank Asia Pacific, PT Bank Sewu Internasional, and PT Bank Hastin Internasional. b. Banks under category B (37 banks) consisted of : – Banks to be closed (21 banks) due to insolvency : PT Bank Indonesia Raya Tbk., PT Bank Umum Servitia Tbk., PT Bank Dharmala, PT Bank Mashill Utama Tbk., PT Bank Arya Panduarta, PT Bank Central Dagang, PT Bank Bahari Tbk., PT Bank Ciputra, PT Bank Metropolitan Raya, PT Bank Alfa, PT Bank Kharisma, PT Bank Dewa Rutji, PT Bank Bumi Raya Utama, PT Bank Baja Internasional, PT Bank Sanho, PT Bank Dagang dan Industri, PT Bank Sino, PT Bank Indotrade, PT Bank Ficorinvest Tbk., PT Bank Uppindo, and PT Bank Bepede Indonesia. – Banks to be taken over by the government (7 banks). These banks have a large number of depositors : PT Bank Duta Tbk., PT Bank Nusa Nasional, PT Bank Risjad Salim Internas, PT Bank Tamara, PT Bank Pos Nusantara, PT Jaya Bank Internasional, PT Bank Rama Tbk. – Banks eligible to be recapitalized (9 banks) based on financial conditions, management quality, and prospects. These banks' owners are required to inject at least 20% of capital in order to comply with 4% CAR. Those banks are: PT Bank Lippo Tbk., PT Bank Internasional Ind. Tbk., PT Bank Arta Media, PT Bank Bali Tbk., PT Bank Bukopin, PT Bank Niaga Tbk., PT Bank Universal Tbk., PT Bank Prima Express, PT. Bank Patriot. c. Banks of category A (74 banks) were not required to joint this recapitalization program.	

Table 1
Gross Domestic Product by Expenditure
(In billions of rupiah unless otherwise noted)

Type of expenditure	1994	1995	1996[r]	1997	1998
			At constant 1993 prices		
Consumption	238,504.7	265,096.0	288,697.6	305,618.2	293,059.7
Private	208,062.1	234,245.4	257,016.2	273,917.4	265,912.7
Government	30,442.6	30,850.6	31,681.4	31,700.8	27,147.0
Gross domestic fixed capital formation	98,589.0	112,386.4	128,698.6	139,724.8	82,633.0
Change in stock [1]	14,836.0	15,852.7	5,873.1	7,390.7	–2,741.4
Exports of goods and services	97,002.1	104,491.8	112,391.4	121,157.9	134,049.9
less Imports of goods and services	94,291.0	114,034.6	121,862.8	139,796.1	132,282.4
Gross Domestic Product	**354,640.8**	**383,792.3**	**413,797.9**	**434,095.5**	**374,718.8**
Net factor income from abroad	–9,729.8	–11,923.8	–12,486.8	–15,462.9	–18,171.6
Gross National Product	**344,911.0**	**371,868.5**	**401,311.1**	**418,632.6**	**356,547.2**
less Net indirect tax	22,174.5	23,209.6	22,469.6	26,252.8	–1,737.1
less Depreciation	17,732.0	19,189.6	20,689.8	21,704.9	18,735.9
National Income	**305,004.5**	**329,469.3**	**358,151.7**	**370,674.9**	**339,548.4**
			At current market prices		
Consumption	259,133.3	315,460.6	372,393.6	431,674.3	730,228.2
Private	228,119.3	279,876.4	332,094.4	388,722.3	681,491.0
Government	31,014.0	35,584.2	40,299.2	42,952.0	48,737.2
Gross domestic fixed capital formation	105,380.6	129,217.5	157,652.7	177,700.4	206,611.3
Change of stock [1]	13,326.5	15,900.4	5,800.4	17,859.7	–23,256.6
Exports of goods and services	101,331.9	119,592.5	137,533.3	174,871.3	500,652.8
less Imports of goods and services	96,952.6	125,656.9	140,812.0	176,599.8	424,662.6
Gross Domestic Product	**382,219.7**	**454,514.1**	**532,568.0**	**625,505.9**	**989,573.1**
Net factor income from abroad	–10,248.4	–13,366.1	–14,272.2	–18,355.0	–53,893.7
Gross National Product	**371,971.3**	**441,148.0**	**518,295.8**	**607,150.9**	**935,679.4**
less Net indirect tax	23,898.9	27,486.5	28,918.9	37,828.7	–4,102.0
less Depreciation	19,111.0	22,725.7	26,628.5	31,275.4	49,478.7
National Income	**328,961.4**	**390,935.8**	**462,748.4**	**538,046.8**	**890,302.7**
Memorandum item :					
Per capita Gross Domestic Product					
in thousands of rupiah	2,004.6	2,346.0	2,706.0	3,130.1	4,877.8
in dollars	928	1,044	1,153	1,061	494
Per capita Gross National Product					
in thousands of rupiah	1,950.9	2,277.0	2,633.5	3,038.2	4,612.1
in dollars	903	1,013	1,122	1,030	467
Per capita National Income					
in thousands of rupiah	1,725.3	2,017.8	2,351.3	2,692.4	4,388.5
in dollars	798	898	1,002	912	444

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 prices				
	1994	1995	1996[r]	1997[r]	1998*	1994	1995	1996[r]	1997[r]	1998*
Agriculture, livestock, forestry, and fishery	**59,291.2**	**61,885.2**	**63,827.9**	**64,289.5**	**64,433.5**	**66,071.5**	**77,896.2**	**88,791.7**	**100,150.5**	**186,482.7**
Foodcrops	31,407.8	32,951.7	33,647.0	32,752.8	32,410.1	34,941.0	42,199.6	47,622.1	51,561.6	88,546.1
Non-foodcrops	9,471.6	9,912.0	10,354.9	10,483.0	11,107.8	10,587.2	12,666.6	14,434.6	16,389.2	36,377.0
Livestock and products	6,451.4	6,789.5	7,133.4	7,483.1	7,002.8	7,102.3	8,078.7	9,523.7	11,688.1	19,743.3
Forestry	6,300.9	6,303.6	6,444.1	6,960.5	7,032.6	6,897.4	7,390.4	8,170.4	9,633.5	19,294.7
Fishery	5,659.5	5,928.4	6,248.6	6,610.0	6,880.0	6,543.6	7,560.9	9,040.8	10,878.1	22,521.7
Mining and quarrying	**33,261.6**	**35,502.2**	**37,739.3**	**38,385.9**	**36,787.5**	**33,507.1**	**40,194.7**	**46,088.1**	**54,509.9**	**127,216.7**
Oil and natural gas	23,719.6	23,719.9	24,062.7	23,919.7	23,412.8	23,070.0	25,409.7	28,118.4	33,280.4	83,051.1
Others	9,542.0	11,782.3	13,676.6	14,466.2	13,374.9	10,437.1	14,785.0	17,969.6	21,229.5	44,165.5
Manufacturing	**82,649.0**	**91,637.1**	**102,259.7**	**108,828.5**	**94,808.3**	**89,240.7**	**109,688.7**	**136,425.8**	**159,747.7**	**259,564.0**
Oil/gas	10,268.8	9,782.4	10,863.8	10,650.2	10,846.7	10,439.1	11,398.6	14,194.3	16,137.0	31,391.4
Petroleum oil refinery	5,547.9	5,392.1	6,291.4	5,925.5	6,086.3	5,855.1	6,599.1	8,340.0	8,172.2	11,313.9
LNG	4,390.3	4,572.4	4,572.4	4,724.7	4,760.3	4,799.5	5,854.2	5,854.1	7,964.8	20,077.7
Non-oil/gas	72,380.2	81,854.7	91,395.9	98,178.3	83,961.6	78,801.6	98,290.1	122,231.5	143,610.7	228,172.6
Electricity, gas, and clean water	**3,702.7**	**4,291.9**	**4,876.7**	**5,498.6**	**5,702.1**	**4,577.1**	**5,655.4**	**6,892.7**	**7,939.3**	**11,530.6**
Construction	**25,857.5**	**29,197.8**	**32,923.7**	**35,040.7**	**21,116.4**	**28,016.9**	**34,451.9**	**42,024.8**	**46,181.1**	**53,841.3**
Trade, hotel, and restaurant	**59,504.1**	**64,230.8**	**69,475.0**	**73,503.6**	**59,572.2**	**63,858.7**	**75,639.8**	**87,137.4**	**103,762.8**	**147,477.6**
Wholesale and retail trade	47,619.5	51,396.6	55,513.5	58,822.1	47,287.4	51,133.8	60,378.8	69,375.4	81,724.2	115,039.7
Hotel and restaurant	11,884.6	12,834.2	13,961.5	14,681.5	12,284.8	12,724.9	15,261.0	17,762.0	22,038.6	32,437.9
Transportation and communication	**25,188.6**	**27,328.6**	**29,701.1**	**32,169.4**	**28,051.3**	**27,352.6**	**30,795.1**	**34,926.4**	**42,231.8**	**53,639.5**
Transportation	21,400.2	22,931.5	24,444.6	25,995.9	21,580.1	23,191.0	25,476.7	29,246.5	35,198.5	43,539.5
Communication	3,788.4	4,397.1	5,256.5	6,173.5	6,471.3	4,161.6	5,318.4	5,679.9	7,033.3	10,100.0
Financial, rental, and corporate services	**30,901.0**	**34,312.9**	**36,384.2**	**38,730.1**	**28,372.5**	**34,505.6**	**39,510.4**	**43,981.6**	**58,691.2**	**81,469.5**
Bank [1)]	15,944.6	15,754.8	18,886.8	20,143.2	13,338.4	17,817.5	20,852.3	21,853.4	29,536.2	45,462.5
Rental and corporate services	14,956.4	15,146.3	17,497.3	18,587.0	15,034.1	16,688.1	18,658.1	22,128.1	29,155.0	36,007.0
Services	**34,285.1**	**35,405.7**	**36,610.2**	**37,649.0**	**35,874.9**	**35,089.4**	**40,681.9**	**46,299.5**	**52,291.7**	**68,351.2**
Public administration	22,752.0	23,045.9	23,338.4	23,616.5	21,965.3	22,754.9	26,555.2	29,752.9	32,127.9	37,249.9
Private	11,533.1	12,359.8	13,271.7	14,032.5	13,909.6	12,334.5	14,126.7	**16,546.6**	**20,163.7**	**31,101.3**
GROSS DOMESTIC PRODUCT	**354,640.8**	**383,792.1**	**413,797.9**	**434,095.5**	**374,718.8**	**382,219.7**	**454,514.1**	**532,568.0**	**625,505.9**	**989,573.1**
Non-oil/gas	**320,652.4**	**350,289.9**	**378,871.2**	**399,525.4**	**340,459.4**	**348,710.6**	**417,705.8**	**490,255.3**	**576,088.6**	**875,130.6**
Oil/gas	**33,988.4**	**33,502.2**	**34,926.7**	**34,568.9**	**34,259.3**	**33,509.1**	**36,808.3**	**42,912.7**	**49,417.4**	**114,442.5**

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	1994	1995	1996[r]	1997*	1998*
1. Exports of goods and services at current market prices	101,331.9	119,592.5	137,553.3	174,871.3	500,652.8
2. Exports of goods and services at constant 1993 market prices	97,002.1	104,491.8	112,391.4	121,157.9	134,049.9
3. Export deflator [(1 : 2) x 100][1)]	104.5	114.5	122.4	144.3	373.5
4. Imports of goods and services at current market prices	96,952.6	125,656.9	140,812.0	176,599.8	424,662.6
5. Imports of goods and services at constant 1993 prices	94,291.0	114,034.6	121,862.8	139,796.1	132,282.4
6. Import deflator [(4 : 5) x 100][1)]	102.8	110.2	115.5	126.3	321.0
7. Terms in trade index [(3 : 6) x 100][1)]	101.7	103.9	105.9	114.3	116.3
8. Changes in terms of trade index (%) [2)]	1.7	2.2	1.9	7.9	1.8
9. Real import capacity on export (1 : 6) x 100	98,571.9	108,523.1	119,076.5	138,457.1	155,966.6
10. Terms of trade effect (9 – 2)	1,569.8	4,031.3	6,685.1	17,299.2	21,916.7
11. Changes in terms of trade effect (%)	–	156.8	65.8	158.8	26.7
12. GDP at constant 1993 prices	354,640.8	383,792.3	413,797.9	434,095.5	374,718.8
13. Changes in GDP at constant 1993 prices (%)	7.5	8.2	7.8	4.9	–13.7
14. Gross Domestic Income (10 + 12)	356,210.6	387,823.6	420,483.0	451,394.7	396,635.5
15. Changes in Gross Domestic Income (%)	8.0	8.9	8.4	7.4	–12.1

1) In index, 1993 = 100.
2) Annual changes.
Source : Central Bureau of Statistics

Table 4
Selected Manufacturing Products

Product	Unit	1994/95	1995/96	1996/97	1997/98	1998/99
Oil-based fuels [1]	**million barrels**	**208.2**	**229.7**	**240.6**	**214.1**	**252.0**
LNG [1]	**million MMBTUs**	**1,376.8**	**1,303.4**	**1,357.4**	**2,789.2**	**2,331.2**
LPG [1]	**thousands of tonnes**	**2,894.2**	**2,942.1**	**3,256.1**	**2,789.2**	**2,331.2**
Plywood and sawn timber						
Plywood	millions of m3	9.4	8.7	9.3	9.6	8.6
Sawn timber	millions of m3	0.9	11.0	11.3	11.9	10.5
Fertilizer						
Urea fertilizer	thousands of tonnes	5,435.3	5,894.7	6,189.1	6,293.6	6,091.7
ZA and TSP fertilizer	thousands of tonnes	1,820.0	1,546.3	1,626.0	1,226.9	936.6
Cement	**thousands of tonnes**	**21,907.0**	**24,097.0**	**24,976.0**	**27,716.4**	**23,728.9**
Pulp [2]	**thousands of tonnes**	**1,314.3**	**2,022.0**	**2,266.4**	**2,697.0**	**...**
Paper	**thousands of tonnes**	**3,054.0**	**3,425.8**	**4,013.8**	**5,493.6**	**...**
Textile and weaving yarn						
Textile	million meters	8,001.0	8,221.0	9,400.0	10,147.0	9,233.0
Weaving yarn	thousand bales	4,933.7	5,219.0	5,395.0	5,556.9	6,724.0
Garment	millions of dozen	96.0	115.0	130.9	135.9	128.3
Staple fiber	thousands of tonnes	440.5	476.3	526.1	625.4	597.6
Motor vehicle tires						
Automobile tires	thousands tonnes	11,911.2	23,908.0	17,398.9	19,364.0	16,700.0
Motorcycle tires	thousands tonnes	8,096.6	26,926.0	10,474.6	11,165.8	9,602.6
Basic metal						
Sponge iron	thousands of tonnes	1,507.3	1,714.0	2,038.5	1,576.4	1,574.4
Steel ingot	thousands of tonnes	1,941.0	2,609.0	2,400.0	2,216.7	1,573.9
Concrete steel bar	thousands of tonnes	1,293.0	2,256.2	2,592.6	2,202.6	1,246.9
Wire rod	thousands of tonnes	672.0	696.3	620.4	672.7	683.5
Steel wire	thousands of tonnes	152.5	117.4	122.4	132.3	20.0
Steel pipe	thousands of tonnes	858.0	547.2	520.6	571.0	275.6
Galvanized iron sheet	thousands of tonnes	368.0	458.0	415.0	349.3	169.1
Aluminium plate	thousands of tonnes	46.4	50.5	53.8	51.2	122.4
Transportation means						
Automobiles	thousands of tonnes	325.0	387.5	325.5	389.9	53.5
Motorcycles	thousands of tonnes	781.0	1,042.9	1,425.4	1,861.1	576.2
Aircrafts	units	7.0	8.0	9.0	11.0	...
Helicopters	units	8.0	9.0	10.0	11.0	...
Steel vessels	thousands of BRT	102.4	106.5	111.8	120.7	113.7
Other						
Clove cigarettes	billion pieces	150.1	161.9	164.7	171.7	178.5
White cigarettes	billion pieces	44.3	47.7	43.6	46.1	...
Refined coconut oil	thousands of tonnes	661.4	702.2	371.6	538.3	414.5
Olein	thousands of tonnes	1,505.5	1,731.3	1,858.1	2,691.7	2,072.7
Laundry soap	thousands of tonnes	326.9	337.1	340.5	343.9	240.7
Detergent	thousands of tonnes	307.8	325.5	354.8	386.7	270.7
Electric/telecommunication cords	thousands of tonnes	138.5	131.7	144.9	137.6	55.2
Light bulbs/TL bulbs	million units	487.7	524.6	618.0	716.9	573.5
Radio and radio casette recorders	thousands of tonnes	7,358.0	9,230.9	11,814.0	12,641.0	10,112.8
Car radio casette recorder	thousands of tonnes	2,210.0	2,850.7	3,676.0	4,117.1	3,293.7
Television set	thousands of tonnes	1,918.0	2,455.5	3,160.0	3,640.9	2,912.7
Refrigerators	thousands of tonnes	323.6	404.5	513.0	590.0	472.0
Sewing machines	thousands of tonnes	55.8	61.4	67.2	69.6	...
Storage batteries	thousands of tonnes	11,500.0	14,300.0	14,300.0	16,200.0	...
Dry batteries	million units	1,563.7	2,154.0	2,607.0	3,128.4	2,502.7
Pesticide sprayers	thousands of tonnes	390.4	450.0	556.0	641.0	28.6
Hand tractors	units	9,818.0	11,330.0	11,860.0	12,157.0	11.9
Diesel engines	thousands of tonnes	74.6	77.5	91.0	104.7	1.9
Hullers	units	1,587.0	1,829.0	1,980.0	2,079.0	615.0
Sport shoes	million pairs	461.3	555.0	602.5	439.8	373.8
Leather shoes	million pairs	65.5	79.0	85.9	67.9	57.7

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	1994	1995	1996	1997r	1998*
Foodcrops					
Rice	30,317	32,334	33,216	32,095	31,507
Corn	6,869	8,246	9,307	8,771	10,095
Cassava	15,729	15,441	17,002	15,134	14,728
Sweet potatoes	1,845	2,171	2,018	1,847	1,928
Peanuts	632	760	738	688	691
Soybeans	1,565	1,680	1,517	1,357	1,306
Mung beans	284	325	301	262	303
Cash crops					
Rubber	1,499	1,573	1,614	1,553	1,549
Smallholder	1,139	1,191	1,225	1,174	1,181
Estate	360	344	389	379	368
Copra	2,649	2,704	2,719	2,792	2,796
Palm oil	4,008	4,480	4,960	5,380	5,006
Palm kernels	797	942	1,051	1,229	1,175
Sugarcane	2,454	2,077	2,076	2,192	1,079
Tea	139	154	159	154	157
Smallholder	30	33	33	33	34
Estate	109	121	126	121	123
Coffee	450	458	479	428	396
Smallholder	422	430	448	396	367
Estate	28	28	31	32	29
Tobacco	130	140	140	210	137
Smallholder	128	137	136	206	134
Estate	2	3	4	4	3
Clove	78	90	94	59	59
Cacao	270	305	318	330	331
Forestry					
Log 1)	24,027	24,850	26,069	29,149	9,814
Livestock					
Meat	1,493	1,507	1,632	1,559	1,490
Egg	689	736	780	761	579
Milk (in millions of liters)	427	433	441	424	434
Fishery					
Sea	3,080	3,293	3,503	3,482	3,616
Inland	900	971	1,017	1,099	1,145

1) Fiscal year, in thousands of cubic meters.
Sources : – Supplement to the Presidential Report to the People's Consultative Assembly, dated March 1,1998
– Ministry of Agriculture

Table 6
Production, Harvested Areas, and Average Production of Paddy and Secondary Crops

Type of crops	1994^r	1995^r	1996^r	1997^r	1998*
Production (in thousands of tonnes)					
Paddy[1)]	46,642	49,744	51,102	49,377	48,472
Corn (kernel)	6,869	8,246	9,307	8,771	10,059
Cassava	15,729	15,441	17,002	15,134	14,728
Sweet potatoes	1,845	2,171	2,018	1,847	1,928
Peanuts	632	760	738	688	691
Soybeans	1,565	1,680	1,517	1,357	1,306
Mung beans	284	325	301	262	303
Harvested area (in thousands of hectares)					
Paddy[1)]	10,734	11,439	11,570	11,141	11,613
Corn (kernel)	3,109	3,652	3,744	3,355	3,834
Cassava	1,357	1,324	1,415	1,243	1,205
Sweet potatoes	197	229	212	195	201
Peanuts	643	739	689	628	650
Soybeans	1,407	1,477	1,279	1,119	1,091
Mung beans	292	361	331	294	338
Average production					
(in quintals per hectare)					
Paddy[1)]	46.6	49.7	51.1	44.3	41.7
Corn (kernel)	22.1	22.6	24.9	26.1	26.2
Cassava	116.0	116.6	120.2	121.7	122.2
Sweet potatoes	93.6	94.9	95.3	94.5	96.1
Peanuts	9.8	10.3	10.7	11.0	10.6
Soybeans	11.1	11.4	11.9	12.1	12.0
Mung beans	9.7	9.0	9.1	8.9	9.0

1) Equivalent to unhulled rice.
Sources : – Supplement to the Presidential report to the People Consultative Assembly, dated March 1,1998
– Ministry of Agriculture

Table 7
Selected Mining and Quarrying Products

Product	Unit	1994	1995	1996r	1997	1998
Crude oil	millions of barrels	588.4	586.3	582.6	576.9	569.1
Natural gas	billions of cubic feet	2,941.6	2,999.2	3,164.0	3,165.7	2,978.7
Tin	thousands of tonnes	30.6	38.4	51.0	55.1	53.9
Coal	thousands of tonnes	31,012.1	41,421.7	50,332.0	54,608.3	54,608.3
Copper (concentrate)	thousands of tonnes	1,065.5	1,516.6	1,758.9	1,817.9	2,640.0
Nickel						
Nickel ore	thousands of tonnes	2,311.5	2,513.4	3,426.8	2,829.9	2,736.6
Ferro-nickel (ingot)	thousands of tonnes	26.2	54.3	46.7	48.7	41.5
Ferro-nickel (Ni content)	thousands of tonnes	5.7	10.7	9.6	9.9	8.5
Nickel matte	thousands of tonnes	48.5	49.3	43.5	33.6	35.7
Bauxite	thousands of tonnes	1,342.4	899.0	841.9	808.7	1,055.6
Iron sands	thousands of tonnes	334.9	348.4	425.1	487.4	560.5
Gold	kilograms	42,597.0	62,817.9	83,564.1	89,978.7	124,018.7
Silver	kilograms	107,025.6	265,212.4	255,404.0	279,160.5	348,973.8

Source : Ministry of Mining and Energy

Table 8
Selected Tourism Indicators

Indicator	Unit	1994	1995	1996	1997[r]	1998*
Foreign tourists[1)]	**thousands of person**	**4,006**	**4,324**	**5,034**	**5,185**	**4,337**
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	624	697	725	797	810
Number of rooms	rooms	59,091	66,357	69,994	81,368	82,498
Occupancy rate	percent	52	48	49	48	40
Non-star-rated hotel [2)]	units	7,663	7,964	7,964	8,798	8,798
Travel agencies [3)]	**units**	**1,760**	**2,041**	**2,225**	**2,563**	**2,612**

1) Those recorded through seven 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

Indicator	Unit	1994	1995r	1996	1997	1998
Telephone						
Central's capacity	line units	3,866,578	4,824,282	6,343,695	7,392,197	8,152,017
Installed capacity	line units	3,426,756	4,467,291	5,808,849	6,523,724	7,197,099
Customers	line units	2,462,831	3,290,854	4,186,030	4,982,466	5,571,644
Non-PBH	line units	2,209,087	2,822,264	3,661,516	4,399,577	4,948,506
PBH line units	line units	360.333	389.972	416.165	406.487	–
Coin public telephones	line units	49,969	56,906	68,972	78,778	78,190
Card public telephones	line units	18,765	33,751	37,641	43,049	51,279
Telecommunication stalls	line units	12,428	17,600	27,929	44,897	87,182
Utilized capacity	percent	71.87	73.67	72.06	76.37	77.42
Cellular						
Customers	line units	78,024	210,643	562,517	916,173	1,065,820
Telex						
Customers	line units	15,672	14,562	13,814	13,265	10,317
Accomplished dialing						
Local	percent	52.70	55.20	57.90	60.43	68.07
Long distance direct dialing	percent	42.70	47.60	53.20	56.50	62.04
Number of lines per 100 residents	line units	1.28	1.69	2.11	2.47	2.73
International direct dialing coverage						
countries destination	countries	219	243	252	261	261

Sources : – 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	
1994/95	2,178	4,755	3,942	2,164	982	305	14,370
1995/96	2,180	4,821	4,413	2,218	1,020	308	14,986
1996/97	2,180	4,920	4,412	2,350	1,105	308	15,940
1997/98	2,436	6,870	5,589	2,515	1,298	360	19,068
1998 [1)]	3,002	6,770	6,561	2,517	1,347	360	20,557

1) In calendar year 1998.
Source : State Electric Company (PLN)

Table 11
Electric Power Production
(In millions of KWH) [1)]

Fiscal	PLN	Non-PLN	Total
1994/95	52,075	1,304	53,379
1995/96	59,830	1,281	61,111
1996/97	67,356	1,649	69,005
1997/98	68,975	1,870	70,845
1998 [2)]	74,585	2,832	77,417

1) Only those distributed by PLN to general public
2) In calender year 1998
Source : State Electric Company (PLN)

Table 12
Approved Domestic Investment Projects by Sector
(In billions of rupiah)

Sector	1994	1995	1996	1997	1998	Total 1) 1968 to1998	
						Value	Project
Agriculture, forestry, and fishery	**7,401.0**	**10,097**	**16,072.1**	**14,807.7**	**5,315.1**	**84,113.8**	**1,709**
Agriculture	4,544.8	7,190.9	15,284.4	13,737.5	4,757.9	67,379.1	1,094
Forestry	261.5	1,476.4	45.6	165.5	542.9	7,006.4	299
Fishery	2,594.7	1,429.7	742.1	904.7	14.3	9,728.3	316
Mining	**112.4**	**205.1**	**460.1**	**126.3**	**116.3**	**5,747.6**	**174**
Manufacturing	**31,921.7**	**43,341.8**	**59,217.7**	**79,334.3**	**44,908.0**	**432,320.3**	**6,464**
Food	4,044.8	5,106.1	13,748.3	13,048.6	6,711.8	54,589.9	983
Textile	5,518.3	7,176.6	3,365.8	6,831.3	1,137.6	54,922.1	1,338
Wood	1,171.2	2,009.8	1,128.9	762.2	1,971.9	18,288.6	814
Paper	3,749.3	6,032.6	12,763.9	11,841.9	12,754.1	67,338.5	410
Chemical and pharmaceutical	5,377.8	9,021.6	13,392.7	22,497.2	15,583.2	117,810.5	1,328
Non-metal mineral	8,546.9	9,088.9	7,964.8	11,638.7	3,469.0	62,738.0	437
Basic metal	1,663.9	2,380.5	4,460.7	8,021.5	1,786.3	28,495.1	211
Metal products	1,783.5	2,338.5	2,375.9	4,683.9	960.9	27,017.7	841
Others	66.0	133.3	16.7	9.0	533.2	1,119.9	102
Construction	**731.1**	**847.7**	**1,550.0**	**877.0**	**1,992.0**	**7,881.0**	**158**
Hotel	**4,341.9**	**3,792.5**	**5,019.3**	**2,587.9**	**1,150.4**	**31,636.8**	**715**
Transportation	**3,119.8**	**3,965.9**	**3,065.0**	**4,649.4**	**3,260.5**	**26,131.0**	**989**
Real estate and office building	**3,803.8**	**5,337.2**	**9,425.7**	**4,300.5**	**1,547.5**	**36,811.6**	**368**
Other services	**1,857.4**	**2,265.8**	**5,905.3**	**13,189.8**	**2,459.5**	**26,534.9**	**352**
T o t a l	**53,289.1**	**69,853.0**	**100,715.2**	**119,872.9**	**60,749.3**	**651,177.0**	**10,929.0**

1) From July 1968 to December 1998, 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	1994	1995	1996	1997	1998	Total 1) 1968 to 1998 Value	Total 1) 1968 to 1998 Projects
Jawa and Madura	**36,466.0**	**41,807.1**	**43,772.3**	**63,680.8**	**18,871.5**	**370,266.9**	**7,248**
Jakarta	5,968.3	11,645.2	14,395.5	8,553.5	4,289.7	68,682.0	1,792
West Jawa	15,863.0	19,338.0	19,213.5	37,423.5	8,117.1	194,682.0	3,372
Central Jawa	5,766.9	5,499.0	3,366.9	5,764.2	2,574.9	38,414.3	739
Yogyakarta	422.9	39.6	222.5	235.6	6.0	1,932.0	118
East Jawa	8,444.9	5,285.3	6,573.9	11,704.0	3,883.8	66,315.6	1,227
Sumatera	**8,518.6**	**13,074.9**	**24,033.6**	**33,561.7**	**10,668.4**	**129,669.3**	**1,748**
Aceh	127.6	280.6	1,474.8	1,114.1	1,297.3	8,750.5	134
North Sumatera	804.7	1,703.8	2,364.0	3,395.5	1,101.5	15,408.3	418
West Sumatera	573.3	716.4	3,066.7	522.6	336.8	7,125.3	143
Riau	3,682.5	4,309.9	8,854.8	11,862.4	4,925.1	50,079.7	453
Jambi	1,066.5	737.7	925.5	9,793.5	1,429.4	16,057.9	87
South Sumatera	360.5	3,628.2	5,024.1	5,391.4	882.7	19,443.3	278
Bengkulu	192.9	1,167.2	404.7	630.7	4.0	2,835.5	57
Lampung	1,710.6	531.2	1,919.0	851.5	692.6	9,968.8	178
Kalimantan	**4,113.7**	**8,378.9**	**18,432.4**	**13,935.7**	**11,966.6**	**73,224.9**	**834**
West Kalimantan	932.0	1,051.0	9,316.4	3,825.9	416.9	21,583.8	259
Central Kalimantan	873.2	1,857.9	2,182.9	1,688.0	9,093.4	16,051.0	144
South Kalimantan	366.1	195.2	2,709.9	4,300.1	640.6	12,461.8	164
East Kalimantan	1,942.4	5,274.9	4,223.2	4,121.7	1,815.7	23,128.3	277
Sulawesi	**1,656.8**	**2,710.9**	**6,272.9**	**3,849.9**	**13,022.9**	**35,307.4**	**445**
North Sulawesi	583.6	1,062.9	326.1	277.8	1,132.4	5,937.6	87
Central Sulawesi	30.9	1,219.5	2,636.8	725.5	630.7	5,744.1	64
South Sulawesi	673.0	376.5	2,597.5	1,880.0	11,168.7	20,147.2	259
Southeast Sulawesi	369.3	51.9	712.5	966.6	91.1	3,478.5	39
Nusa Tenggara	**69.2**	**205.1**	**244.6**	**1,222.5**	**1,288.5**	**5,152.2**	**124**
West Nusa Tenggara	46.9	183.7	0.7	352.5	638.5	2,757.7	73
East Nusa Tenggara	22.3	21.4	243.9	870.0	650.5	2,394.5	51
Bali	**1,716.3**	**1,320.8**	**561.3**	**850.7**	**804.6**	**9,772.4**	**302**
East Timor	**55.1**	**2.0**	**450.0**	**–**	**2,802.6**	**3,311.6**	**8**
Maluku	**51.4**	**1,750.6**	**282.6**	**1,060.0**	**44.5**	**7,675.3**	**133**
Irian Jaya	**642.0**	**602.7**	**6,665.5**	**1,711.6**	**1,278.7**	**16,797.0**	**87**
T o t a l	**53,289.1**	**69,853.0**	**100,715.2**	**119,872.9**	**60,749.3**	**651,177.0**	**10,929**

1) From July 1968 to December 1998, 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	1994	1995	1996	1997	1998	Total 1) 1967 to 1998	
						Value	Projects
Agriculture, forestry, and fishery	**729.9**	**1,384.3**	**1,521.5**	**463.7**	**998.2**	**7,367.9**	**318**
Agriculture	690.4	1,153.1	1,306.2	436.6	965.2	6,091.6	193
Forestry	–	–	135.5	–	–	639.3	26
Fishery	39.5	231.2	79.8	27.1	33.0	637.0	99
Mining	**–**	**–**	**1,696.7**	**1.6**	**0.3**	**9,531.8**	**205**
Manufacturing	**18,738.8**	**26,891.9**	**16,072.2**	**23,017.3**	**8,388.2**	**139,240.2**	**3,722**
Food	1,234.8	1,331.8	691.4	572.8	342.0	5,663.4	273
Textile	396.4	471.1	514.6	372.6	216.9	7,196.8	625
Wood	68.1	262.9	101.1	69.7	70.8	1,474.6	290
Paper	5,120.1	2,540.5	2,907.3	5,353.3	40.8	25,925.1	105
Chemical and pharmaceutical	7,743.2	19,404.4	7,404.6	12,376.4	6,178.8	65,054.7	823
Non-metal mineral	631.9	289.3	789.8	1,457.3	237.1	7,116.0	153
Basic metal	2,081.6	291.7	650.9	357.0	394.4	8,446.7	125
Metal products	1,423.1	2,258.0	2,938.6	2,331.7	890.5	17,726.8	1,212
Others	39.6	42.2	73.9	126.5	16.9	636.1	116
Construction	**76.5**	**205.8**	**296.8**	**306.8**	**197.8**	**1,787.0**	**331**
Hotel	**343.6**	**998.8**	**1,716.5**	**462.6**	**451.1**	**11,199.8**	**253**
Transportation	**145.1**	**5,539.5**	**694.6**	**5,900.0**	**79.0**	**14,495.0**	**183**
Real estate and office building	**1,027.8**	**1,192.0**	**3,000.3**	**1,397.6**	**1,270.9**	**12,411.2**	**192**
Other services	**2,622.6**	**3,702.3**	**4,932.8**	**2,282.9**	**2,177.6**	**20,461.1**	**1,336**
T o t a l	**23,724.3**	**39,914.7**	**29,931.4**	**33,832.5**	**13,563.1**	**216,494.0**	**6,540**

1) From June 1967 to December 1998, 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	1994	1995	1996	1997	1998	Total 1) 1967 to1998	
						Value	Projects
Jawa and Madura	**14,356.3**	**27,491.9**	**17,908.4**	**20,535.0**	**10,840.4**	**141,147.8**	**4,936**
Jakarta	1,832.3	4,030.8	4,403.9	6,136.1	1,700.1	33,051.0	1,943
West Jawa	4,446.3	12,474.4	7,760.1	7,973.3	5,504.1	63,295.0	2,230
Central Jawa	1,830.2	726.7	3,273.7	2,195.7	3,066.7	13,803.7	189
Yogyakarta	0.2	79.5	69.0	14.3	6.0	312.5	29
East Jawa	6,247.3	10,207.5	2,401.7	4,215.6	563.5	30,055.6	545
Sumatera	**5,515.0**	**5,464.0**	**4,297.6**	**11,163.9**	**1,415.7**	**41,887.9**	**828**
Aceh	1,050.2	1,624.8	525.8	771.9	6.2	2,846.5	36
North Sumatera	225.3	658.1	614.7	3,514.6	229.6	9,728.8	154
West Sumatera	97.7	118.4	79.3	7.1	175.8	664.6	39
Riau	3,964.3	598.8	1,664.5	6,743.0	537.1	17,7549.4	475
Jambi	39.3	24.1	9.0	–	201.9	4,331.1	8
South Sumatera	82.9	1,968.3	1,292.3	73.2	129.3	5,104.8	55
Bengkulu	8.6	19.7	64.2	–	37.7	235.5	20
Lampung	46.7	451.8	47.8	54.1	98.1	1,427.2	41
Kalimantan	**2,058.3**	**1,649.2**	**2,876.6**	**1,056.1**	**722.7**	**11,289.8**	**248**
West Kalimantan	7.7	175.3	547.1	28.2	251.2	1,168.7	65
Central Kalimantan	0.0	73.4	140.2	6.0	0.4	526.2	52
South Kalimantan	1,951.0	84.9	19.2	438.7	73.4	3,263.8	47
East Kalimantan	99.6	1,315.6	2,170.1	583.2	297.7	6,331.1	84
Sulawesi	**1,448.4**	**2,394.4**	**2,552.6**	**426.0**	**192.7**	**8,980.5**	**139**
North Sulawesi	40.5	164.3	72.3	358.8	157.4	1,336.3	52
Central Sulawesi	6.3	105.6	10.0	5.5	6.9	172.3	19
South Sulawesi	1,395.3	2,114.0	2,467.5	58.3	27.8	7,326.6	55
Southeast Sulawesi	6.3	0.5	2.8	3.5	0.6	145.3	14
Nusa Tenggara	**7.3**	**99.9**	**1,385.0**	**14.5**	**57.2**	**3,594.7**	**55**
West Nusa Tenggara	2.3	61.9	1,316.2	0.6	34.6	3,438.6	39
East Nusa Tenggara	5.0	38.0	68.8	14.0	22.6	156.1	16
Bali	**29.2**	**228.7**	**380.0**	**114.7**	**308.5**	**3,221.3**	**257**
East Timor	**–**	**29.2**	**2.8**	**–**	**12.4**	**45.2**	**2**
Maluku	**–**	**244.7**	**4.9**	**17.8**	**4.9**	**393.6**	**25**
Irian Jaya	**309.9**	**2,322.5**	**523.5**	**504.4**	**8.6**	**5,933.2**	**50**
T o t a l	**23,724.4**	**39,914**	**29,931.4**	**33,832.5**	**13,563.1**	**216,494.0**	**6,540**

1) From June 1967 to December 1998, 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	1994	1995	1996	1997	1998	Total [1)] 1967 to1998 Value	Projects
Europe	**3,385.4**	**8,951.6**	**5,233.4**	**11,740.2**	**5,311.0**	**41,918.5**	**931**
Netherlands	165.7	360.1	1,329.5	319.5	411.8	5,650.6	206
Belgium	0.0	9.3	39.5	16.5	11.5	352.5	38
United Kingdom	2,957.0	6,322.1	3,390.6	5,473.6	4,745.3	24,352.4	281
Germany	113,1	1,344.6	164.9	4,467.8	71.0	6,308.7	142
France	37,1	498.4	70.8	456.6	7.5	1,464.8	74
Switzerland	70,8	44.9	160.1	73.5	35.1	965.1	64
Others	41,6	372.2	78.0	932.7	28.8	2,824.4	126
America	**1,027**	**2,795.2**	**754.5**	**1,112.8**	**699.9**	**11,395.0**	**472**
United States	977,0	2,770.6	642.1	1,017.7	568.3	10,218.9	330
Canada	39.0	10.5	35.8	6.2	8.1	151.4	100
Others	11.0	14.1	76.6	88.9	123.2	1,024.7	42
Asia	**14,168.8**	**9,234.7**	**18,371.3**	**15,169.6**	**4,673.8**	**100,170.9**	**4,021**
Hong Kong	6,041.7	1,763.3	1,105.6	251.0	549.1	14,411.4	384
Japan	1,562.5	3,792.0	7,655.3	5,421.3	1,330.7	34,778.7	1,070
South Korea	1,849.1	674.7	1,231.4	1,409.9	202.4	8,975.7	587
Malaysia	421.8	877.0	1,393.3	2,289.3	1,060.2	6,628.9	268
Philippines	35.9	31.2	3.1	–	62.5	152.3	17
Singapore	1,664.4	1,468.5	3,131.0	2,298.6	1,267.4	18,360.0	828
Taiwan	2,487.6	567.4	534.6	3,419.4	165.4	12,794.5	683
Thailand	11.7	34.5	1,610.6	19.1	2.8	1,768.5	34
Others	94.1	26.1	1,706.4	61.0	33.3	2,301.0	150
Australia	**53.3**	**3,712**	**515.7**	**187.5**	**85.1**	**6,649.6**	**362**
Africa	**6.4**	**0.0**	**5.7**	**93.5**	**75.2**	**1,134.7**	**27**
Others	**5,083.5**	**15,221.0**	**5,050.8**	**5,528.9**	**2,718.4**	**55,225.3**	**727**
T o t a l	**23,724.4**	**39,914.7**	**29,931.4**	**33,832.5**	**13,563.1**	**216,494.0**	**6,540**

1) From June 1967 to December 1998, 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				
	1994	1995	1996	1997	1998[1)]	1994	1995	1996	1997	1998[1)]
Plantation	240	272	271	414	285	1,835	1,927	1,941	4,273	2,850
Mining and quarrying	487	506	573	952	650	3,998	4,669	4,906	5,297	5,589
Manufacturing	207	238	241	433	295	2,920	3,112	3,453	3,453	4,088
Construction	296	327	409	644	439	2,656	2,777	3,047	3,621	4,570
Electricity, gas, and clean water	173	267	312	468	312	2,644	2,744	3,552	3,908	3,908
Trade/bank and insurance	326	368	399	627	429	3,733	4,506	4,904	5,808	6,208
Transportation	467	494	494	901	598	2,805	4,311	4,399	4,399	4,401
Services	235	281	333	552	391	2,509	2,780	2,780	4,419	3,233

1) January to July 1998.
Source : Ministry of Manpower

Table 18
Consumer Price Index (Composite of 27 Cities)
(April 1988 to March 1989 = 100)

End of period	Food-stuff	Prepared food and beverage	Housing	Clothing	Medical care	Education, recreation, and sport	Transpor-tation and communication	General Index	Changes in General Index
1993/94 [1)]	149.02	-	165.06	143.55	155.77	-	-	1544.41	+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	197.63	-	198.92	170.02	192.60	-	-	193.36	+5.17
1997/98									+8.65
April-June	196.80	-	201.82	170.31	194.79	-	-	194.48	–0.17
July-September	204.89	-	204.99	172.53	200.81	-	-	200.04	1.29
October-December	227.88	-	210.36	179.96	206.72	-	-	211.62	2.04
January-March	307.16	-	248.26	263.50	245.43	-	-	269.03	5.49
1998/99 [2)]									+35.44
April	176.56	153.16	131.56	163.39	164.12	136.76	125.65	148.83	4.70
May	183.42	159.28	136.99	176.01	168.06	138.69	147.33	156.63	5.24
June	196.39	167.92	139.17	195.29	171.97	140.84	150.38	163.89	4.64
July	220.27	184.01	146.93	219.23	186.41	150.44	155.57	177.92	8.56
August	240.31	200.02	153.51	225.73	197.99	160.18	159.83	189.13	6.30
September	261.00	205.95	155.92	225.22	204.49	162.17	163.18	196.23	3.75
October	256.16	207.21	157.35	220.97	208.58	162.83	163.60	195.70	-0.27
November	255.70	208.64	158.11	215.99	210.71	162.34	163.47	195.86	0.08
December	263.22	211.58	159.03	219.71	212.54	161.84	163.70	198.64	1.42
January	281.09	213.80	160.62	232.11	214.07	161.40	164.95	204.54	2.97
February	287.60	216.87	162.06	234.23	214.12	161.89	164.29	207.12	1.26
March	281.65	216.34	162.92	234.71	215.80	162.05	169.15	206.75	-0.18

Notes :
1) Based on living cost survey (SBH) in 1988/89, consisting of 4 groups of expenditure; columns 2 and 3 are groups of food; columns 6, 7, and 8 are groups of miscellanieous.
2) From April 1998 using base year 1996 = 100 to calculate inflation, consisting of 7 groups.
Current monthly index compared to last month's index used to calculate monthly inflation.
Current monthly index compared to December's index (for calendar year) or March's index (for fiscal year) used to calculate cumulative inflation.

Table 19
Wholesale Price Index 1)
(1983 = 100)

Group	1994/95	1995/96	1996/97	1997/98[r]	1998/99	Changes of 1998 over 1997 (in percent)
Agriculture	313	367	408	483	857	68.60
Mining and quarrying	244	273	302	327	433	24.53
Manufacturing	237	260	267	297	504	65.23
Imports	218	234	244	326	630	129.59
Exports	165	182	209	324	573	148.74
Oil/gas	135	146	181	270	455	132.35
Non-oil/gas	304	304	305	508	978	181.61
General index	222	245	262	335	602	101.80

1) Average figures in the fiscal/calendar year.
Source : Central Bureau of Statistics

Table 20
Balance of Payments [1]
(In millions of dollars)

Item	1994/95	1995/96	1996/97	1997/98[r]	1998/99*
A. Balance of goods and services	**–3,488**	**–6,987**	**–8,069**	**–1,899**	**3,630**
1. Merchandise, exports f.o.b.	42,161	47,754	52,038	56,162	47,427
imports f.o.b.	–34,122	–41,502	–45,819	–42,704	–29,795
2. Freight and insurance on imports	–3,751	–4,569	–5,039	–4,701	–3,014
3. Other transportation	–929	–962	–984	–902	–849
4. Travel	2,892	3,149	3,836	3,967	2,077
5. Investment income	–7,064	–7,851	–8,402	–9,595	–9,680
5.1. Oil and LNG sector	–1,942	–2,052	–2,307	–2,774	–1,487
5.2. Direct investment and others	–5,122	–5,799	–6,095	–6,821	–8,193
6. Government, not included elsewhere	–164	–190	–240	–232	–37
7. Other services	–2,511	–2,816	–3,459	–3,896	–2,500
Balance of goods (1)	**8,039**	**6,252**	**6,219**	**13,458**	**17,632**
Balance of services (2 through 7)	**–11,527**	**–13,239**	**–14,288**	**–15,357**	**–14,003**
B. Grants	**240**	**230**	**250**	**200**	**617**
8. Private	– –	– –	– –	–□–	–□–
9. Government	240	230	250	200	617
C. Current account (A + B)	**–3,248**	**–6,757**	**–7,819**	**–1,699**	**4,246**
D. Capital movements	**3,894**	**8,582**	**8,519**	**2,473**	**–7,029**
D.1. Other than reserves	4,510	11,233	12,417	–7,630	2,205
10. Direct investment and other long-term capital movements	4,259	11,160	12,362	–7,713	2,205
10.1. Direct investment	2,566	5,357	6,546	1,833	114
10.2. Bonds	– –	– –	– –	– –	– –
a. Official	– –	– –	– –	– –	– –
b. Private	–□–	–□–	–□–	–□–	–□–
10.3. Other long-term capital movements	1,693	5,803	5,816	–9,546	2,092
a. Official	–135	–439	–1,070	4,198	12,521
b. Private	1,828	6,242	6,886	–13,744	–10,430
11. Short-term capital movements	251	73	55	83	–□–
11.1. Official	–□–	–□–	–□–	–□–	–□–
11.2. Private	251	73	55	83	–□–
D.2. Reserves	–616	–2,651	–3,898	10,103	–9,234
12. Monetary gold	9	–43	142	155	34
13. Special Drawing Rights	–□–	–7	6	–462	366
14. Reserves position in the Fund	–27	15	15	261	– –
15. Foreign exchange	–598	–2,615	–4,061	3,330	–9,627
16. Others	–□–	–1	–□–	6,819	–7
E. Errors and omissions (between C and D) [2]	**–646**	**–1,825**	**–700**	**–747**	**2,782**

1) The presentation follows the IMF standard.

2) Positive is for deficit, negative is for surplus,

Table 21
Export Value [1)]
(In millions of dollars)

Item	1994/95	1995/96	1996/97	1997/98r	1998/99*
Non-oil/gas	**31,716**	**37,138**	**39,267**	**45,924**	**40,272**
Wood and wood products	5,171	5,226	5,561	5,619	4,054
Plywood	3,359	3,390	3,606	3,392	2,091
Sawn timber	168	154	134	98	83
Others	1,644	1,682	1,821	2,129	1,880
Rubber	1,511	2,011	1,789	1,361	976
Coffee	747	650	602	597	599
Palm oil	965	988	1,001	1,578	1,030
Animal and other animal products	1,636	1,694	1,640	1,897	1,680
Shrimp	980	1,020	996	1,073	988
Others	656	674	645	824	692
Tea	102	94	115	172	142
Foodstuffs	698	757	883	889	974
Tapioca	47	80	45	19	22
Copra cakes	71	75	106	80	45
Others	580	602	733	790	907
Pepper	86	161	91	170	207
Tobacco	71	79	80	140	132
Hides	49	44	37	57	77
Cacao	233	241	268	292	413
Rattan and rattan products	356	378	291	147	52
Textile and textile products	5,716	6,145	6,022	7,951	6,614
Handicrafts	991	568	584	1,625	1,503
Electrical appliances	2,038	2,779	3,716	3,251	2,675
Fertilizer	192	281	302	304	131
Cement	30	13	12	55	93
Iron steel	767	583	542	840	866
Paper	1,002	1,467	1,356	2,337	2,191
Glasswares	166	215	218	279	259
Footwears	1,936	2,085	2,070	2,170	1,476
Mining products	2,725	3,912	3,746	4,586	4,579
Tin	145	278	287	265	270
Copper	903	1,574	1,506	1,455	1,786
Aluminium	251	341	317	294	159
Nickel	368	397	327	226	158
Gold	75	61	83	350	401
Coal	862	1,078	1,043	1,829	1,676
Natural sands	21	43	31	31	19
Others	100	140	153	136	110
Others	4,528	6,766	8,339	9,607	9,546
Oil [2)]	**6,312**	**6,529**	**7,513**	**5,854**	**4,017**
Gas	**4,133**	**4,087**	**5,258**	**4,384**	**3,138**
LNG	3,746	3,603	4,686	3,977	2,908
LPG	387	484	572	407	230
Total	**42,161**	**47,754**	**52,038**	**56,162**	**47,427**

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)

I t e m	1994/95r	1995/96r	1996/97	1997/98r	1998/99*
Non-oil/gas	**105,556**	**159,113**	**125,569**	**233,359**	**187,056**
Wood and wood products	6,696	6,631	7,416	7,631	7,787
Plywood	5,034	5,035	5,182	5,064	5,094
Sawn timber	175	159	149	124	128
Others	1,487	1,437	2,085	2,443	2,564
Rubber	1,296	1,453	1,481	1,492	1,637
Coffee	262	269	388	357	414
Palm oil	1,903	1,719	1,847	3,109	1,949
Animal and animal products	567	569	577	820	924
Shrimp	129	127	134	149	183
Others	438	442	443	671	741
T e a	90	86	97	102	113
Foodstuffs	2,497	2,257	2,168	2,591	2,194
Tapioca	432	633	410	202	228
Copra cakes	803	857	909	1,139	907
Others	1,262	767	849	1,250	1,059
Pepper	37	62	32	32	50
Tobacco	55	28	36	82	123
Hides	2	2	--	2	15
Cacao	215	217	226	219	309
Rattan and rattan products	115	107	84	37	24
Textile and textile products	844	922	1,003	1,516	1,565
Handicrafts	129	131	116	213	217
Electrical appliances	238	299	317	390	365
Fertilizer	1,307	1,310	1,495	2,377	1,215
Cement	600	239	192	1,415	4,058
Iron steel	972	775	768	1,161	4,031
Paper	1,387	1,856	2,491	4,981	7,573
Glasswares	368	456	623	714	945
Footwear	224	221	195	195	165
Mining products	80,674	133,093	97,433	196,572	138,676
T i n	27	45	47	51	51
Copper	1,127	1,561	1,796	1,939	2,881
Aluminium	404	983	660	1,231	1,076
Nickel	1,756	1,957	2,141	1,862	1,530
Gold [1)]	6,354	4,070	7,195	22,694	41,177
Coal	27,351	32,511	29,473	50,630	52,963
Natural sands	46,200	88,300	53,289	84,352	68,542
Others	3,809	7,736	10,027	56,507	11,632
Others	5,078	6,411	6,584	7,351	12,257
O i l (in millions of barrels) [2)]	**389**	**383**	**365**	**351**	**344**
G a s					
LNG (in millions of MMBTUs) [3)]	1,368	1,264	1,370	1,387	1,401
LPG	2,530	2,610	2,487	2,094	1,654

1. Volume in kilograms.
2. Consisting of crude oil and oil products.
3. MMBTU : mille mille British thermal unit.

Table 23
Non-oil/gas Export Value by Country of Destination
(In millions of dollars unless otherwise noted)

Continent/country	1994/95		1995/96		1996/97[r]		1997/98[r]		1998/99*	
	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)	Value	Share (%)
Africa	**608.8**	**1.9**	**693.6**	**1.9**	**630.9**	**1.6**	**840.2**	**1.8**	**894.3**	**2.2**
America	**6,346.9**	**20.0**	**6,983.0**	**18.8**	**7,928.5**	**20.2**	**8,273.9**	**18.0**	**7,498.4**	**18.6**
United States	5,391.4	17.0	5,837.2	15.7	6,400.8	16.3	6,845.3	14.9	6,280.8	15.6
Latin America	620.9	2.0	747.9	2.0	795.2	2.0	794.8	1.7	459.3	1.1
Canada	332.4	1.0	366.4	1.0	375.9	1.0	402.6	0.9	416.2	1.0
Others	2.2	0.0	31.5	0.1	356.6	0.9	231.2	0.5	342.1	0.8
Asia	**17,617.1**	**55.5**	**21,241.7**	**57.2**	**22,039.5**	**56.1**	**26,610.4**	**57.1**	**22,747.1**	**56.5**
ASEAN	4,830.4	15.2	5,743.1	15.5	5,987.8	15.2	8,767.7	19.1	8,113.5	20.1
Brunei Darussalam	46.9	0.1	26.3	0.1	29.8	0.1	53.1	0.1	40.6	0.1
Malaysia	766.8	2.4	1,069.0	2.9	1,082.0	2.8	1,399.2	2.9	1,358.9	3.4
Philippines	383.4	1.2	623.8	1.7	548.2	1.4	726.7	1.6	583.1	1.4
Singapore	3,203.0	10.1	3,412.0	9.2	3,678.4	9.4	5,883.7	12.9	5,165.2	12.8
Thailand	430.3	1.4	612.0	1.6	649.3	1.7	704.9	1.5	965.6	2.4
Hong Kong	1,423.6	4.5	1,575.6	4.2	1,576.2	4.0	2,361.2	5.3	1,797.9	4.5
India	265.1	0.8	378.9	1.0	402.7	1.0	786.7	1.7	667.3	1.7
Iraq	9.2	0.0	5.9	0.0	1.1	0.0	23.3	0.1	51.7	0.1
Japan	5,983.8	18.9	7,000.1	18.8	7,198.3	18.3	6,821.5	14.9	5,794.0	14.4
South Korea	1,112.5	3.5	1,437.5	3.9	1,299.7	3.3	1,305.7	2.8	1,140.7	2.8
Myanmar	38.7	0.1	74.3	0.2	97.7	0.2	238.2	0.5	74.3	0.2
Pakistan	143.8	0.5	115.4	0.3	122.0	0.3	184.2	0.4	145.2	0.4
China	825.0	2.6	943.8	2.5	953.3	2.4	1,541.2	3.4	1,269.6	3.2
Saudi Arabia	422.2	1.3	481.8	1.3	519.9	1.3	615.1	1.3	477.0	1.2
Taiwan	1,159.4	3.7	1,084.3	2.9	1,097.2	2.8	1,388.5	3.0	1,251.6	3.1
Others	1,403.4	4.4	2,401.0	6.5	2,783.6	7.1	2,576.9	5.6	1,964.5	4.9
Australia & Oceania	**563.9**	**1.8**	**599.4**	**1.6**	**611.2**	**1.6**	**833.3**	**1.8**	**922.0**	**2.3**
Europe	**6,579.4**	**20.7**	**7,620.4**	**20.5**	**8,056.9**	**20.5**	**9,366.3**	**20.4**	**8,210.1**	**20.4**
European Community	6,025.7	19.0	6,747.7	18.2	7,016.2	17.9	8,494.3	18.5	**7,395.4**	**18.4**
Netherlands	1,389.9	4.4	1,947.3	4.0	1,577.1	4.0	1,809.9	3.9	1,471.1	3.7
Belgium and Luxemburg	421.2	1.3	542.9	1.5	667.1	1.7	828.9	1.8	747.4	1.9
United Kingdom	1,067.7	3.4	1,159.0	3.1	1,170.9	3.0	1,261.9	2.7	1,103.3	2.7
Italy	580.2	1.8	676.9	1.8	562.0	1.4	656.0	1.4	718.6	1.8
Germany	1,324.6	4.2	1,453.6	3.9	1,419.9	3.6	1,510.6	3.3	1,460.5	3.6
France	450.7	1.4	533.3	1.4	550.5	1.4	548.5	1.2	530.9	1.3
Others	791.3	2.5	884.7	2.4	1,068.7	2.7	1,878.4	4.1	1,363.6	3.4
Former Soviet Union	–	–	140.9	0.4	127.7	0.3	116.3	0.3	61.0	0.2
Other Eastern Europe	202.9	0.6	241.6	0.7	213.6	0.5	207.5	0.5	326.3	0.8
Others	350.8	1.1	490.2	1.3	699.4	1.8	548.3	1.2	427.4	1.1
T o t a l	**31,716.0**	**100.0**	**37,138.0**	**100.0**	**39,267.0**	**100.0**	**45,924.0**	**100.0**	**40,272.0**	**100.0**

Table 24
Non-oil/gas Import Value by Country of Origin[1]
(In millions of dollars unless otherwise noted)

Continent/country	1994/95 Value	1994/95 Share (%)	1995/96 Value	1995/96 Share (%)	1996/97 Value	1996/97 Share (%)	1997/98r Value	1997/98r Share (%)	1998/99* Value	1998/99* Share (%)
Africa	**296**	**1.0**	**360**	**1.0**	**499**	**1.2**	**506**	**1.3**	**372**	**1.4**
America	**4,973**	**16.3**	**6,347**	**16.9**	**7,186**	**17.5**	**6,653**	**17.2**	**4,887**	**18.1**
United States	3,810	12.5	4,617	12.3	5,293	12.9	5,1059	13.1	3,859	14.3
Latin America	727	2.4	968	2.6	973	2.4	850	2.2	450	1.7
Canada	403	1.3	654	1.7	811	2.0	684	1.8	533	2.0
Others	42	0.1	108	0.3	108	0.3	59	0.2	45	0.2
Asia	**16,562**	**54.4**	**19,662**	**52.3**	**20,199**	**49.1**	**18,163**	**47.0**	**12,904**	**47.9**
ASEAN	1,966	6.5	2,944	7.8	3,537	8.6	3,837	10.0	2,944	10.9
Brunei Darussalam	1	0.0	1	0.0	5	0.0	2	0.0	3	0.0
Malaysia	433	1.4	618	1.6	710	1.7	654	1.7	395	1.5
Philippines	60	0.2	68	0.2	106	0.3	114	0.3	91	0.3
Singapore	1,051	3.5	1,423	3.8	1,641	4.0	2,056	5.3	1,479	5.5
Thailand	422	1.4	835	2.2	1,075	2.6	1,052	2.7	975	3.6
Hong Kong	190	0.6	237	0.6	261	0.6	317	0.8	298	1.1
India	254	0.8	586	1.6	899	2.2	565	1.5	292	1.1
Iraq	0	0.0	2	0.0	2	0.0	5	0.0	1	0.0
Japan	8,457	27.8	9,488	25.2	9,220	22.4	7,717	20.0	4,699	17.4
South Korea	2,074	6.8	2,278	6.1	2,513	6.1	1,988	5.1	1,485	5.5
Myanmar	55	0.2	116	0.3	34	0.1	15	0.0	12	0.0
Pakistan	24	0.1	142	0.4	58	0.1	58	0.1	179	0.7
China	1,573	5.2	1,357	3.6	1,313	3.2	1,370	3.5	1,042	3.9
Saudi Arabia	233	0.8	302	0.8	169	0.4	127	0.3	133	0.5
Taiwan	1,391	4.6	1,686	4.5	1,633	4.0	1,469	3.8	1,073	4.0
Others	373	1.1	525	1.4	560	1.4	656	1.7	746	2.8
Australia & Oceania	**1,432**	**4.7**	**2,340**	**6.2**	**2,587**	**6.3**	**2,554**	**6.6**	**1,892**	**7.0**
Europe	**7,162**	**23.5**	**8,887**	**23.6**	**10,655**	**25.9**	**10,743**	**27.8**	**6,884**	**25.6**
European Community	5,653	18.6	6,936	18.4	8,223	20.0	8,758	22.7	5,871	21.8
Netherlands	454	1.5	570	1.5	508	1.2	553	1.4	376	1.4
Belgium and Luxemburg	281	0.9	384	1.0	388	0.9	327	0.8	276	1.0
United Kingdom	567	1.9	966	2.6	1,114	2.7	1,263	3.3	914	3.4
Italy	939	3.1	757	2.0	1,280	3.1	1,061	2.7	499	1.9
Germany	2,298	7.6	2,844	7.6	3,045	7.4	2,876	7.4	2,956	11.0
France	694	2.3	948	2.5	1,115	2.7	2,165	5.6	602	2.2
Others	420	1.1	468	1.2	772	1.9	514	1.3	248	0.9
Former Soviet Union	276	0.9	377	1.0	356	0.9	364	0.9	128	0.5
Other Eastern Europe[2]	264	0.9	135	0.4	183	0.4	120	0.3	69	0.3
Others	984	3.2	1,440	3.8	1,893	4.6	1,501	3.9	816	3.0
Total	**30,476**	**100.0**	**37,597**	**100.0**	**41,126**	**100.0**	**38,619**	**100.0**	**26,938**	**100.0**

1) Import value, f.o.b.
2) Comprising Bulgaria, Czech, East Germany, Hungary, Poland, Romania, Slovak, 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
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
1996/97	63,565	21.6	231,016	78.4	294,581	26.7	2.1
1997	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
April	95,265	21.1	356,546	78.9	451,811	69.9	
May	103,839	21.1	388,486	78.9	492,325	62.1	
June	109,377	19.4	454,823	80.6	564,200	80.4	25.4
July	105,719	19.0	449,248	81.0	554,967	74.8	
August	103,875	19.5	430,130	80.5	534,005	63.9	
September	101,855	18.7	441,693	81.3	543,548	65.2	–3.7
October	98,895	18.8	426,226	81.2	525,121	54.1	
November	100,263	18.4	443,818	81.6	544,080	64.6	
December	100,489	17.6	470,036	82.4	570,525	60.4	5.0
1999							
January	101,245	17.2	488,440	82.8	589,685	30.8	
February	102,750	17.2	493,060	82.8	595,810	38.5	
March [4]	105,705	17.5	497,620	82.5	603,325	34.1	5.7

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 residents.
3) Consisting of narrow money (M1) and quasi money.
4) List of frozen banks has been published (7 banks in April 1998, 3 banks in August 1998, and 38 banks in March 1999).

Table 26
Factors Affecting Money Supply
(In billions of rupiah)

Item	1994/95	1995/96	1996/97	1997/98	1998				1999	1998/99
					I	II	III	IV	I	
Changes of broad money (M2)	**32,872**	**50,792**	**62,088**	**155,243**	**94,181**	**114,376**	**–20,652**	**26,977**	**32,800**	**153,501**
Narrow money (M1)	7,000	8,254	10,403	34,705	19,927	11,107	–7,522	–1,366	5,216	7,435
Currency	3,562	2,219	2,191	14,884	9,772	6,728	–2,199	–1,331	3,288	6,486
Demand deposits	3,438	6,035	8,212	19,821	10,155	4,379	–5,323	–35	1,928	949
Quasi money [1]	25,872	42,538	51,685	120,538	74,254	103,269	–13,130	28,343	27,584	146,066
Affecting factors										
Net foreign assets	–3,975	9,102	15,227	62,427	44,946	133,358	–45,681	–58,411	44,792	74,058
Net claims on central government	–2,710	–5,200	–4,107	–11,606	5,110	–27,862	12,633	27,654	131,358	143,790
Net claims on IBRA	–	–	–	35,039	35,040	–1	–439	–4,907	–29,693	–35,040
Claims on entities/ enterprises and individuals	39,485	48,328	62,827	207,442	82,083	174,426	–146,283	–54,158	–114,677	–140,692
Claims on official entities/ public enterprises	–574	3,252	2,479	17,065	11,972	–1,648	–2,492	–1,443	–4,558	–10,293
Claims on private enterprises and individuals	40,059	45,076	60,348	190,377	70,111	176,074	–143,791	–52,715	–110,119	–130,399
Net other items	73	–1,438	–11,859	–138,059	–72,998	–165,545	159,118	116,799	1020	111,385

1) Consisting of time and savings deposits in rupiah and foreign currency, and demand deposits in foreign currency held by residents.

Table 27
Interest Rate on Time Deposit by Group of Banks and Denomination [1]
(In percent per annum)

Maturity	March 1995		March 1996		March 1997		March 1998		March 1999	
	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency	Rupiah	Foreign currency
State banks										
1 month	13.67	6.32	15.21	6.30	13.99	5.76	42.92	9.15	36.97	11.96
3 months	12.61	6.69	14.96	9.57	13.90	6.18	25.42	9.21	35.10	11.83
6 months	13.62	7.10	16.22	9.81	15.51	6.71	17.16	7.64	32.32	7.85
12 months	12.68	6.46	15.94	7.55	15.76	6.97	20.01	7.86	30.04	13.20
24 months	13.20	7.92	14.94	8.00	–	7.35	16.02	7.391	18.34	15.06
National private banks										
1 month	16.90	7.02	17.60	7.24	6.30	6.83	46.33	10.44	37.84	11.37
3 months	16.90	7.24	17.91	7.60	16.93	6.73	30.43	8.99	34.84	9.16
6 months	16.01	7.34	17.70	7.97	17.06	7.84	23.58	7.90	31.51	9.05
12 months	14.89	6.92	17.36	8.21	17.08	7.84	18.21	7.89	31.85	12.81
24 months	19.20	7.03	16.35	8.10	17.18	8.17	17.08	7.90	23.84	12.75
Regional government banks										
1 month	12.18	6.11	14.95	6.82	14.53	6.74	34.51	6.91	36.66	12.22
3 months	12.64	6.26	15.60	6.63	15.17	6.74	22.81	6.59	33.70	10.74
6 months	13.43	8.04	16.16	7.16	14.91	7.14	14.21	7.19	27.51	11.26
12 months	13.28	5.86	15.92	7.33	16.21	7.37	17.21	7.14	25.41	13.13
24 months	13.27	–	13.30	–	15.22	–	14.30	–	15.58	–
Joint and foreign banks										
1 month	13.56	5.80	14.78	4.90	13.21	4.92	23.80	5.93	30.46	4.46
3 months	13.39	5.63	14.48	4.82	14.10	4.35	18.81	5.57	29.65	4.07
6 months	14.25	4.65	15.97	5.34	15.46	5.31	20.45	5.73	35.01	5.40
12 months	13.60	4.87	16.20	5.53	13.82	5.20	18.72	6.13	34.67	4.94
24 months	13.86	–	16.51	7.24	16.55	6.98	15.26	4.00	13.19	4.00
All commercial banks										
1 month	16.16	6.75	17.15	6.83	15.92	6.42	44.54	9.21	37.26	10.81
3 months	15.92	6.99	17.29	7.88	16.47	6.46	27.26	8.67	34.85	9.39
6 months	14.57	7.13	16.88	8.72	16.37	7.20	19.05	7.62	32.57	7.88
12 months	13.87	6.58	16.68	7.75	16.39	7.13	19.50	7.68	30.06	12.20
24 months	14.45	7.63	15.39	7.95	15.95	7.20	16.02	7.00	18.69	14.61

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)
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
1998 :	January – December	2,104,924	64.08
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–March	138,121	12.08
	April–June	157,529	13.45
	July-September	210,670	42.70
	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
	April	174,209	70.68
	May	142,035	63.84
	June	184,469	64.63
	April–June	500,713	66.38
	July	175,450	75.40
	August	207,500	80.64
	September	242,381	66.34
	July–September	625,331	74.13
	October	163,500	59.60
	November	181,010	64.99
	December	108,023	39.45
	October–December	452,533	54.68
1999 :			
	January	58,862	37.70
	February	60,189	39.42
	March	53,994	41.79
	January–March	173,045	39.64

Table 29
Discount Rate on Rupiah Certificate of Deposit by Group of Banks [1)]
(In percent per annum)

Maturity	1995	1996	1997	1998	1998/99			
	March	March	March	March	June	September	December	March
State banks								
1 month	13.38	14.80	9.14	44.29	52.44	60.53	43.95	37.96
3 months	13.01	14.72	14.98	25.92	43.55	50.76	55.30	36.94
6 months	13.67	15.86	13.69	22.73	15.21	31.58	32.18	28.13
12 months	14.16	15.05	15.59	18.10	37.10	21.84	23.86	23.60
24 months	12.34	12.03	13.76	13.96	14.10	13.30	12.90	14.22
National private banks								
1 month	17.22	17.86	16.08	44.39	53.53	64.59	44.26	38.77
3 months	17.37	18.15	16.43	48.95	58.25	49.92	48.62	39.53
6 months	16.37	17.75	16.35	34.03	29.77	77.43	38.35	32.62
12 months	16.42	17.51	15.74	16.34	24.27	46.02	49.89	52.40
24 months	12.52	17.51	17.52	17.17	17.45	17.44	15.93	30.00
Regional government banks								
1 month	12.07	13.61	13.97	59.96	58.22	60.13	40.49	31.90
3 months	12.50	19.54	16.98	56.37	28.16	47.43	52.57	35.48
6 months	12.66	18.97	14.85	15.64	17.00	19.91	22.00	26.26
12months	13.59	17.42	18.09	17.67	17.38	17.48	21.20	25.21
24 months	11.00	14.50	–	14.50	14.50	14.50	14.50	14.50
Joint and foreign banks								
1 month	11.50	14.64	14.00	24.00	–	32.25	58.46	48.41
3 months	11.19	15.31	12.00	20.75	23.09	–	39.91	34.00
6 months	14.97	15.87	13.23	22.70	32.25	63.12	–	35.50
12 months	16.66	16.35	12.85	21.08	21.08	21.08	–	–
24 months	–	–	–	–	–	–	–	–
All commercial banks								
1 month	17.11	17.81	14.72	44.50	53.43	62.75	45.94	39.57
3 months	17.28	17.88	16.34	45.54	39.45	49.93	49.99	38.68
6 months	15.72	17.47	15.81	27.31	26.99	54.23	35.50	30.89
12 months	15.46	16.06	15.68	17.91	26.43	28.86	41.51	28.77
24 months	12.39	13.02	15.29	16.38	16.50	16.51	14.56	14.53

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
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
1995/96	**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	**167,291**	**2,928,149**	**157,114**	**2,864,673**	**20,996**
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
1997/98	**364,622**	**10,905,697**	**368,691**	**10,735,465**	**16,925**
April–June	29,293	2,474,827	32,960	2,422,173	17,329
July–September	20,250	2,535,537	20,714	2,487,140	16,864
October–December	85,070	2,733,390	94,899	2,699,603	7,034
January–March	230,009	3,161,943	220,118	3,126,549	16,925
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
April	57,109	1,226,029	53,915	1,205,910	20,119
May	74,759	1,300,788	47,102	1,253,012	47,776
June	70,416	1,371,204	70,181	1,323,193	48,011
July	59,261	1,430,465	75,454	1,398,647	31,818
August	53,402	1,483,867	31,410	1,430,057	53,810
September	48,701	1,532,568	53,785	1,483,842	48,726
October	53,530	1,586,098	62,224	1,546,066	40,031
November	39,299	1,625,397	38,604	1,584,670	40,726
December	49,428	1,674,825	47,389	1,632,059	42,765
1999					
January	35,896	1,710,721	37,438	1,669,497	41,223
February	44,599	1,755,320	36,314	1,705,811	49,805
March	47,946	1,803,266	48,540	1,754,351	48,914

Note :
SBI was introduced in February 1984. Since July 1988, SBI has been sold by auction (SOR system).

Table 31
Discount Rates of Bank Indonesia Certificate[1)]
(In percent per annum)

Period	7 days	14 days	28 days	90 days	180 days	360 days
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[r]	7.61	8.70	11.07	11.88	–	–
1997/98[r]						
June	7.29	8.50	10.50	11.25	12.0	12.50
September	18.35	20.06	22.00	–	–	–
December	16.00	18.00	20.00	–	–	–
March	29.24	–	27.75	–	–	–
1998						
January	16.69	18.00	20.00	–	–	–
February	25.00	24.00	22.00	–	–	–
March	29.24	–	27.75	–	–	–
April	44.25	46.50	46.43	–	–	–
May	52.00	54.25	58.00	39.00	–	–
June	–	52.81	58.00	–	–	–
July	54.00	56.00	70.81	–	–	–
August	–	–	70.73	–	–	–
September	–	–	68.76	–	–	–
October	–	–	59.72	61.00	–	–
November	–	–	51.25	51.60	–	–
December	–	–	38.44	39.00	–	–
1999						
January	–	–	36.43	36.75	–	–
February	–	–	37.50	37.50	–	–
March	–	–	37.84	38.00	–	–

1) Weighted average.

Table 32
Money Market Securities (SBPU) Transactions between Bank Indonesia and Banks
(In billions of rupiah)

Period	Buying	Selling	Outstanding
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
1997/98	**421,111**	**419,690**	**9,692**
April–June	18,937	19,480	2,126
July–September	50,131	52,237	21
October–December	94,934	91,499	3,455
January–March	257,109	256,474	4,090
1998			
January	70,851	68,656	5,650
February	96,799	102,158	291
March	89,459	85,660	4,090
April	13,840	17,914	16
May	15,617	14,913	1,440
June	13,472	14,766	146
July	23,543	22,377	1,313
August	256	290	1,279
September	337	1,390	227
October	1,170	232	1,165
November	143	146	1,162
December	29	172	1,018
1999			
January	0	0	1,018
February	0	0	1,018
March	0	0	1,018

Table 33
Government Revenue
(In billions of rupiah)

Description	1994/95p	1995/96p	1996/97p	1997/98r	1998/99 Budget	1998/99 Actual*
Oil/gas and non-oil/gas revenues	**66,418**	**73,014**	**90,669**	**108,246**	**149,303**	**160,471**
Oil and gas receipts	13,537	16,055	20,137	35,357	49,711	41,254
O i l	10,004	11,964	14,783	25,522	32,909	25,829
G a s	3,533	4,091	5,354	9,835	16,803	15,425
Non-oil/gas receipts	52,881	56,959	67,493	72,827	99,591	111,555
Income tax	18,764	21,012	27,062	28,458	25,846	49,714
Value added tax on goods and services and sales tax on luxury goods	16,545	18,519	20,351	24,501	28,940	28,386
Import duties	3,900	3,029	2,579	2,990	5,495	2,218
Excise duties	3,153	3,593	4,263	4,807	7,756	7,974
Export duties	131	186	81	125	943	4,582
Land and building tax	1,647	1,894	2,413	2,655	3,411	3,163
Others	302	453	591	530	540	462
Non-tax and net oil receipts	8,439	8,273	10,153	8,761	26,660	15,056
Net other revenues [1)]	**2,701**	**3,000**	**3,039**	**62**	**–**	**7,662**
Total of Domestic Revenue	**69,119**	**76,014**	**93,708**	**108,308**	**149,303**	**168,133**

p) Audited.
1) Errors and omissions.
Source : Ministry of Finance (processed)

Table 34
Government Expenditure
(In billions of rupiah)

Description	1994/95p	1995/96p	1996/97p	1997/98r	1998/99 Budget	1998/99 Actual*
Operational Expenditure	**33,401**	**37,979**	**47,270**	**68,251**	**140,972**	**119,280**
Personnel expenditure	12,595	13,001	14,455	19,175	24,781	24,480
Salaries and pension	10,181	11,048	13,005	15,236	19,120	19,089
Rice allowance	973	734	768	916	1,872	1,606
Food allowance	756	560	101	1,199	1,484	1,687
Other domestic personnel expenditure	368	370	480	792	1,155	1,161
Overseas personnel expenditure	317	290	103	1,031	1,150	937
Material expenditure	4,319	5,175	8,109	9,032	11,425	11,058
Domestic	4,101	4,876	7,825	8,275	10,060	10,054
Overseas	218	300	284	757	1,365	1,004
Subsidies to reginonal governments	7,272	8,227	9,358	9,872	13,290	14,194
Personnel expenditure	6,919	7,807	8,874	9,347	12,607	13,512
Non-personnel expenditure	353	419	484	526	683	682
Amortization and interest payment	6,249	8,750	11,015	11,894	32,975	24,314
Domestic debt	104	1,620	4,589	1,640	1,940	220
Foreign debt	6,145	7,130	6,426	10,254	31,035	24,094
Food stock expenditure	0	0	0	0	0	0
Subsidies on fertilizer	815	143	186	547	2,125	2,125
Others including national defence and security	2,151	2,682	4,148	17,731	56,376	43,109
Investment Expenditure	**29,206**	**27,879**	**34,767**	**45,490**	**89,654**	**64,822**
Ministries/institutions	10,568	10,221	11,160	10,676	13,493	12,482
Regional development	7,353	7,212	8,869	10,025	13,806	12,636
Subsidies to villages	433	426	458	469	477	477
Subsidies to regencies	2,558	2,474	2,941	3,465	3,765	3,730
Subsidies to provinces	1,331	1,257	1,394	1,662	1,741	1,741
Land and building tax	1,683	1,724	2,396	2,416	3,049	2,847
Construction of primary schools	538	494	592	663	595	586
Subsidies for construction/ reconstruction of market	0	0	0	0	0	0
Public health services	412	339	564	608	846	827
Subsidies for supplementary food program to primary students	0	0	0	262	415	414
Subsidies for afforestation and reforestation	0	0	0	0	0	0
Presidential instruction on road infrastructure	0	0	0	0	0	0
Presidential instruction on least-developed villages	398	498	524	480	205	205
Social safety net (SSN) enlargement program	0	0	0	0	2,714	1,809
SSN and social empowerment fund	0	0	0	0	0	0
Other expenditure	1,447	1,437	2,838	972	21,814	13,787
Government equity participation	425	380	830	119	75	1,962
Others	1,022	1,057	2,008	854	21,738	11,826
Development budget reserves	0	0	0	0	0	0
Project aid	9,838	9,009	11,900	23,817	40,541	25,917
Total	**62,607**	**65,858**	**82,037**	**113,741**	**230,626**	**184,102**

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

Table 35
Development Expenditure by Sector
(In billions of rupiah)

Sector	1994/95p	1995/96p	1996/97p	1997/98r	1998/99 Budget	1998/99 Actual*
General government	**1,101**	**1,237**	**1,808**	**2,012**	**17,574**	**12,497**
Finance	35	7	226	244	15,436	10,460
Science, technology, and research	388	432	555	817	1,144	922
State apparatus and control	569	624	837	796	787	947
Law	91	117	151	137	167	137
Politics and international	18	57	40	19	40	32
Education	**2,939**	**3,073**	**3,784**	**4,609**	**6,082**	**6,082**
Education	2,909	3,037	3,741	4,561	6,019	6,019
Youth and sports	31	36	43	48	63	63
Health	**1,166**	**1,159**	**1,492**	**2,106**	**3,751**	**3,374**
Population and family welfare	270	266	333	546	582	594
Health	896	894	1,159	1,560	3,168	2,781
Social security and welfare	**91**	**93**	**118**	**588**	**1,037**	**776**
Social welfare	91	84	102	372	594	427
Women's role, children, and youth	0	9	17	216	443	348
Housing and settlement	**6,990**	**7,664**	**9,087**	**9,876**	**25,487**	**14,529**
Transmigration area development	5,462	6,188	7,156	6,918	19,092	11,321
Mass housing and settlement	1,528	1,477	1,930	2,959	6,395	3,208
Recreation and religion services	**457**	**370**	**492**	**571**	**958**	**704**
National culture and belief in Oneness of God	44	58	66	66	100	68
Religion	77	239	282	255	476	328
Information, communication, and mass media	336	74	145	250	382	308
Economic	**16,634**	**15,042**	**19,171**	**26,629**	**33,485**	**29,907**
Energy	3,983	3,074	2,934	6,483	7,009	5,829
Agriculture and forestry 1)	1,993	2,645	3,410	5,118	10,134	9,865
Mining and industry	968	843	1,452	1,318	839	559
Transportation and communication	7,226	5,841	6,226	10,999	10,824	8,756
Other economic services	2,463	2,639	5,149	2,712	4,680	4,897
Total	**27,300**	**28,638**	**35,952**	**46,391**	**90,558**	**67,869**

p) Audited.
1) Excluding subsidies on fertilizer.
Source : 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		
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
1996/97	42,628	14,375	57,003	119,283	44,374	163,657	66,321	286,981
1997	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
April	56,928	40,127	97,055	199,344	88,583	287,927	66,026	451,008
May	59,459	46,857	106,316	212,729	111,966	324,695	62,859	493,870
June	62,380	67,345	129,725	219,917	156,223	376,140	67,936	573,801
July	58,999	59,216	118,215	232,393	143,071	375,464	69,223	562,902
August	59,285	50,602	109,887	238,121	130,127	368,248	65,594	543,729
September	58,786	49,109	107,895	256,290	127,378	383,668	62,793	554,356
October	56,026	34,505	90,531	276,873	96,992	373,865	63,155	527,551
November	60,192	36,501	96,693	292,063	92,608	384,671	64,801	546,165
December	58,067	39,351	97,418	303,016	103,782	406,798	69,308	573,524
1999								
January	59,508	44,574	104,082	300,555	116,803	417,358	75,358	596,798
February	58,698	43,754	102,452	303,654	116,999	420,653	77,824	600,929
March	60,002	47,244	107,246	303,022	109,778	412,800	79,453	599,499

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			Regional government 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
1993/94	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
1996/97	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	14,375	57,003
1997	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
April	19,885	7,519	27,404	26,869	12,553	39,442	2,804	8	2,812	7,370	20,047	27,417	56,928	40,127	97,055
May	21,576	9,515	31,091	25,058	13,414	38,472	3,226	12	3,238	9,599	23,916	33,515	59,459	46,857	106,316
June	22,998	14,215	37,213	26,840	19,098	45,938	3,549	13	3,562	8,993	34,019	43,012	62,380	67,345	129,725
July	23,112	11,885	34,997	24,677	16,300	40,997	3,867	10	3,877	7,343	31,021	38,364	58,999	59,216	118,215
August	24,293	9,897	34,190	24,001	14,603	38,604	4,014	11	4,025	6,977	26,091	33,068	59,285	50,602	109,887
September	25,080	10,712	35,792	23,694	14,326	38,020	4,175	12	4,187	5,837	24,059	29,896	58,786	49,109	107,895
October	23,977	7,185	31,162	22,388	10,665	33,053	4,658	10	4,668	5,003	16,645	21,648	56,026	34,505	90,531
November	26,285	7,869	34,154	22,903	12,045	34,948	4,906	12	4,918	6,098	16,575	22,673	60,192	36,501	96,693
December	24,751	8,476	33,227	23,151	13,447	36,598	4,895	13	4,908	5,270	17,415	22,685	58,067	39,351	97,418
1999															
January	24,757	9,903	34,660	23,731	15,101	38,832	5,183	16	5,199	5,837	19,554	25,391	59,508	44,574	104,082
February	25,212	9,212	34,424	22,574	14,821	37,395	5,241	17	5,258	5,671	19,704	25,375	58,698	43,754	102,452
March	28,271	11,624	39,895	21,921	14,255	36,176	4,374	12	4,386	5,436	21,353	26,789	60,002	47,244	107,246

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	T o t a l
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
1996/97	1,334	27,711	42,190	33,251	47,441	11,730	163,657
1997	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
April	2,365	26,957	24,145	23,951	164,498	46,011	287,927
May	2,372	27,990	28,360	21,921	189,302	54,750	324,965
June	2,482	29,921	34,117	191,82	231,130	59,308	376,140
July	2,451	27,218	29,296	15,931	229,632	70,936	375,464
August	2,395	25,709	23,821	14,036	231,519	70,768	368,248
September	779	24,131	19,883	13,041	262,865	62,969	383,668
October	514	22,355	16,846	18,357	260,326	55,467	373,865
November	461	20,172	16,266	40,213	256,495	51,064	384,671
December	610	21,039	17,151	50,352	266,585	51,061	406,798
1999							
January	396	19,244	20,583	47,384	277,370	52,381	417,358
February	399	17,616	19,772	34,456	299,382	49,028	420,653
March	502	15,449	19,414	24,840	307,611	44,984	412,800

1) Including mature time deposit.

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		
1993/94	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
1996/97	4,079	1,991	5,480	5,836	26,117	10,923	322	47,668	16,581	118,997	286	119,283
1997	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
April	7,302	1,685	6,689	12,039	36,710	13,942	442	112,753	7,371	198,933	411	199,344
May	7,159	1,828	7,104	11,268	39,892	14,577	412	121,745	8,204	212,189	540	212,729
June	5,596	1,380	7,089	11,768	43,218	15,200	553	124,648	9,954	219,406	511	219,917
July	7,255	1,860	7,210	13,164	42,063	15,112	866	135,477	8,649	231,656	737	232,393
August	8,187	1,405	6,795	14,197	39,963	14,824	635	142,839	8,629	237,474	647	238,121
September	8,911	1,360	6,947	15,186	40,803	16,577	726	156,229	8,973	255,712	578	256,290
October	8,224	1,407	7,180	15,909	43,607	18,625	766	169,303	11,285	276,306	567	276,873
November	7,636	2,656	7,678	18,410	45,424	19,412	751	176,987	12,577	291,531	532	292,063
December	8,805	3,626	8,399	18,241	46,408	20,041	768	182,561	13,555	302,404	612	303,016
1999												
January	12,310	2,846	7,252	13,236	48,766	20,324	703	182,117	12,313	299,887	668	300,555
February	8,649	2,659	7,927	17,495	49,539	20,211	684	184,651	11,090	302,905	749	303,654
March	8,150	3,320	7,963	16,755	47,583	17,970	726	188,258	11,487	302,212	810	303,022

Table 40
Certificates of Deposit
(In billions of rupiah)

End of period	State banks	Private banks	Total
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
1996/97	3,205	11,113	14,318
1997	777	5,894	6,671
1998			
January	495	3,530	4,025
February	502	3,329	3,831
March	493	3,409	3,902
April	325	3,096	3,421
May	353	2,933	3,286
June	424	2,986	3,410
July	413	2,781	3,194
August	436	2,621	3,057
September	481	2,852	3,333
October	629	4,610	5,239
November	895	4,692	5,587
December	1,792	5,004	6,796
1999			
January	1,109	3,979	5,088
February	791	3,236	4,027
March	829	2,825	3,654

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 (billion rupiah)	Depositors (thousands)	Outstanding (billion rupiah)	Depositors (thousands)	Outstanding (billion rupiah)	Depositors (thousands)	Outstanding (billion rupiah)
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
1996/97	38,767	60,521	238	140	15,522	5,661	54,527	66,322
1997	42,872	62,765	274	173	17,295	5,052	60,441	67,990
1998								
January	42,598	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	42,232	66,653	271	220	19,102	5,300	62,605	72,173
April	55,173	61,019	269	221	19,150	4,786	74,592	66,026
May	55,032	57,876	263	217	20,580	4,766	75,875	62,859
June	44,610	62,902	261	227	21,008	4,807	65,879	67,936
July	45,132	64,139	264	239	20,390	4,845	65,786	69,223
August	45,697	59,395	341	1,435	20,562	4,764	66,600	65,594
September	45,902	56,623	274	1,407	19,998	4,763	66,174	62,793
October	46,371	56,378	283	1,788	19,980	4,989	66,634	63,155
November	47,529	58,778	263	1,237	19,382	4,786	67,174	64,801
December	46,292	62,506	307	1,908	18,890	4,894	65,489	69,308
1999								
January	45,362	68,150	262	1,740	19,236	5,108	64,860	75,358
February	33,126	70,965	221	1,675	18,879	5,184	52,226	77,824
March	45,442	72,328	222	2,047	18,549	5,078	64,213	79,453

Table 42
Commercial Bank Credits by Denomination and Economic Sector [1]
(In billions of rupiah)

Denomination and economic sector	1994/95	19995/96	1996/97	1997/98	June 1998	Sep. 1998	Dec. 1998	March 1999
Credits in Rupiah	**157,206**	**193,951**	**244,960**	**286,925**	**288,760**	**297,634**	**313,118**	**231,423**
Agriculture	12,399	13,955	16,158	22,829	25,747	26,029	29,430	26,093
Mining	338	533	1,353	2,724	2,986	2,854	2,729	2,572
Manufacturing	43,130	48,817	53,071	64,261	71,563	80,980	85,594	58,950
Trade	37,326	44,668	57,331	66,313	58,269	57,912	59,830	46,746
Services	43,829	59,336	83,737	91,861	92,752	94,221	101,129	68,099
Others	20,184	26,642	33,310	38,937	37,443	35,638	34,406	28,963
Credits in Foreign Currency	**38,943**	**48,472**	**61,165**	**189,916**	**337,705**	**238,341**	**174,308**	**135,120**
Agriculture	1,892	1,874	2,687	9,036	15,913	11,131	9,878	3,717
Mining	616	691	1,385	4,240	6,660	4,883	3,180	2,983
Manufacturing	19,837	24,206	28,163	93,721	165,436	118,516	86,074	74,333
Trade	8,038	11,565	16,131	41,294	77,628	52,748	36,534	24,959
Services	8,549	10,117	12,766	41,521	71,898	50,967	37,995	28,882
Others	11	19	33	104	170	96	647	246
T o t a l	**196,149**	**242,423**	**306,125**	**476,841**	**626,465**	**535,975**	**487,426**	**366,543**
Agriculture	14,291	15,829	18,845	31,865	41,660	37,160	39,308	29,810
Mining	954	1,224	2,738	6,964	9,646	7,737	5,909	5,555
Manufacturing	62,967	73,023	81,234	157,982	236,999	199,496	171,668	133,283
Trade	45,364	56,233	73,462	107,607	135,897	110,660	96,364	71,705
Services	52,378	69,453	96,503	133,382	164,650	145,188	139,124	96,981
Others	20,195	26,661	33,343	39,041	37,613	35,734	35,053	29,209

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/sector	1994/95	1995/96	1996/97	1997/98	June 1998	Sep. 1998	Dec. 1998	March 1999
Working Capital Credits	**145,388**	**180,411**	**231,582**	**344,070**	**436,960**	**379,066**	**345,962**	**264,926**
Agriculture	4,076	4,960	6,805	15,423	22,684	19,828	22,058	16,926
Mining	466	953	2,198	5,038	6,493	5,402	3,880	3,693
Manufacturing	45,520	49,074	55,749	109,415	164,713	139,759	121,867	94,439
Trade	38,829	47,435	60,675	82,228	96,342	80,169	72,065	57,050
Services	39,029	51,328	72,812	92,925	109,115	98,174	91,039	63,609
Others	20,195	26,661	33,343	39,041	37,613	35,734	35,053	29,209
Investment Credits	**50,761**	**62,012**	**74,543**	**132,771**	**189,505**	**156,909**	**141,464**	**101,617**
Agriculture	10,215	10,869	12,040	16,442	18,976	17,332	17,250	12,884
Mining	215	271	540	1,926	3,153	2,335	2,029	1,862
Manufacturing	20,447	23,949	25,485	48,567	72,286	59,737	49,801	38,844
Trade	6,535	8,798	12,787	25,379	39,555	30,491	24,299	14,655
Services	13,349	18,125	23,691	40,457	55,535	47,014	48,085	33,372
Others	--	--	--	--	--	--	--	--
Total	**196,149**	**242,423**	**306,125**	**476,841**	**626,465**	**535,975**	**487,426**	**366,543**
Agriculture	14,291	15,829	18,845	31,865	41,660	37,160	39,308	29,810
Mining	954	1,224	2,738	6,964	9,646	7,737	5,909	5,555
Manufacturing	62,967	73,023	81,234	157,982	236,999	199,496	171,668	133,283
Trade	45,364	56,233	73,462	107,607	135,897	110,660	96,364	71,705
Services	52,378	69,453	96,503	133,382	164,650	145,188	139,124	96,981
Others	20,195	26,661	33,343	39,041	37,613	35,734	35,053	29,209

1) In rupiah and foreign currency, excluding interbank credit, credit to the Central Government and nonresidents, 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/sector	1994/95	1995/96	1996/97	1997/1998	June 1998	Sep. 1998	Dec. 1998	March 1999
1. State Banks	**81,333**	**95,619**	**110,900**	**202,569**	**256,354**	**231,292**	**220,747**	**154,377**
Agriculture	11,026	11,657	12,381	15,445	16,313	14,894	17,012	15,166
Mining	534	612	1,257	3,062	3,876	2,687	1,989	1,688
Manufacturing	30,059	32,846	34,807	68,699	95,974	90,709	84,510	56,848
Trade	16,385	19,900	22,934	49,571	62,394	49,699	43,601	31,698
Services	14,489	19,181	25,251	46,952	59,301	55,344	55,792	33,078
Others	8,840	11,423	14,270	18,840	18,496	17,959	17,843	15,899
2. Private National Banks	**90,792**	**116,401**	**159,248**	**192,076**	**241,833**	**209,107**	**193,361**	**138,358**
Agriculture	2,722	3,582	5,805	13,940	21,473	19,709	20,272	12,113
Mining	226	352	1,013	2,460	2,800	2,517	2,414	2,104
Manufacturing	20,633	24,560	29,841	41,888	63,919	52,544	45,416	35,171
Trade	24,850	31,662	44,423	45,360	51,678	45,201	40,687	27,766
Services	33,418	44,382	63,451	73,457	87,752	76,140	72,058	52,547
Others	8,943	11,863	14,715	14,971	14,211	12,996	12,514	8,657
3. Regional Government Banks	**4,099**	**5,201**	**7,194**	**7,181**	**7,009**	**6,769**	**6,570**	**6,977**
Agriculture	168	211	245	273	281	290	354	719
Mining	8	10	15	21	22	20	19	19
Manufacturing	321	370	371	461	513	438	409	394
Trade	904	1,053	1,130	1,225	1185	1,131	1,053	996
Services	1,194	1,534	2,699	1,946	1903	1,883	1,820	2,030
Others	1,504	2,023	2,734	3,255	3,105	3,007	2,915	2,819
4. Regional and Joint Banks	**19,925**	**25,202**	**28,783**	**75,015**	**121,269**	**88,807**	**66,748**	**66,831**
Agriculture	375	379	414	2,207	3,593	2,267	1,670	1,812
Mining	186	250	453	1,421	2,948	2,513	1,487	1,744
Manufacturing	11,954	15,247	16,215	46,934	76,593	55,805	41,333	40,870
Trade	3,225	3,617	4,975	11,451	20,640	14,629	11,023	11,245
Services	3,277	4,357	5,102	11,027	15,694	11,821	9,454	9,326
Others	908	1,352	1,624	1,975	1,801	1,772	1,781	1,834
5. All Commercial Banks (1 through 4)	**196,149**	**242,423**	**306,125**	**476,841**	**626,465**	**535,975**	**487,426**	**366,543**
Agriculture	14,291	15,829	18,845	31,865	41,660	37,160	39,308	29,810
Mining	954	1,224	2,738	6,964	9,646	7,737	5,909	5,555
Manufacturing	62,967	73,023	81,234	157,982	236,999	199,496	171,668	133,283
Trade	45,364	56,233	73,462	107,607	135,897	110,660	96,364	71,705
Services	52,378	69,454	96,503	133,382	164,650	145,188	139,124	96,981
Others	20,195	26,661	33,343	39,041	37,613	35,734	35,053	29,209

1) In rupiah and foreign currency, excluding interbank credit, credit to the Central Government and nonresidents, and foreign currency components of project aid.

Table 45
Banknote Flow in Bank Indonesia Jakarta and Regional Offices
(In trillions of rupiah)

Office	1994		1995		1996		1997		1998	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
Jakarta	10.3	18.8	11.7	21.3	9.6	19.3	18.6	32.1	24.2	39.8
Bandung	8.5	5.5	10.3	6.3	11.8	7.0	13.9	9.1	17.9	14.6
Semarang	7.5	4.3	8.9	4.7	9.9	5.1	11.7	6.9	14.5	9.3
Surabaya	8.2	7.9	10.0	9.0	11.4	10.3	13.7	13.3	18.8	18.5
Medan	3.4	3.6	4.0	4.2	4.5	4.6	6.9	7.7	9.4	10.3
Padang	2.2	3.1	2.8	3.7	3.1	4.1	4.1	5.6	5.8	8.7
Ujung Pandang	2.7	3.2	3.2	3.7	4.0	4.1	4.6	5.4	7.3	8.8
Banjarmasin	2.1	3.0	2.5	3.5	2.9	3.9	3.5	4.9	4.8	7.2
T o t a l	**44.9**	**49.3**	**53.4**	**56.4**	**57.2**	**58.4**	**77.0**	**85.0**	**102.7**	**117.2**

Table 46
Share of Currency Outflow in Bank Indonesia Jakarta and Regional Offices by Denomination in 1998
(In percent)

O f f i c e	**Rp50,000.00**	**Rp20,000.00**	**Rp10,000.00**	**Rp5,000.00**	**<= Rp1,000.00**	**T o t a l**
Jakarta	41.49	18.71	29.79	8.69	1.32	100.00
Bandung	40.05	30.41	22.71	5.44	1.39	100.00
Semarang	35.88	36.58	22.17	4.20	1.17	100.00
Surabaya	36.47	30.85	26.97	4.39	1.32	100.00
Medan	18.58	28.25	41.22	10.07	1.88	100.00
Padang	38.77	26.33	23.75	9.29	1.86	100.00
Ujung Pandang	39.44	28.85	21.98	7.55	2.18	100.00
Banjarmasin	36.05	27.11	23.58	10.32	2.94	100.00

Table 47
Coin Flow in Bank Indonesia Jakarta and Regional Offices
(In billions of rupiah)

Office	1994		1995		1996		1997		1998	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
Jakarta	5.0	45.8	8.4	83.5	13.5	94.9	14.4	79.5	4.4	105.5
Bandung	3.8	7.0	7.0	8.2	14.5	8.6	17.3	8.7	10.8	12.9
Semarang	6.7	6.6	13.1	11.5	22.5	8.8	23.2	7.4	13.9	8.3
Surabaya	1.9	9.6	2.0	10.3	3.9	10.4	2.9	15.9	1.2	32.8
Medan	0.7	4.9	0.7	8.8	1.4	6.5	2.0	7.4	3.3	11.2
Padang	0.3	3.6	0.6	4.9	0.6	4.3	0.7	7.3	0.3	14.1
Ujung Pandang	0.7	4.1	1.0	4.8	1.3	4.9	1.0	7.4	0.5	12.6
Banjarmasin	0.4	3.3	0.5	3.7	1.0	4.6	0.7	6.1	0.7	15.5
Total	**19.5**	**84.5**	**33.3**	**135.7**	**58.7**	**143.0**	**62.2**	**139.7**	**35.1**	**212.9**

Table 48
World Economic Growth
(In percent)

Country	1994^r	1995^r	1996^r	1997^r	1998*
World	**4.0**	**3.7**	**4.3**	**4.2**	**2.2**
Industrial countries	**3.2**	**2.6**	**3.2**	**3.2**	**2.0**
Seven major industrial countries	2.9	2.1	3.0	3.0	2.1
USA	3.5	2.3	3.4	3.9	3.6
Japan	0.6	1.5	5.0	1.4	–2.8
Germany	2.7	1.2	1.3	2.2	2.7
France	2.8	2.1	1.6	2.3	3.0
Italy	2.2	2.9	0.7	1.5	1.3
United Kingdom	4.4	2.8	2.6	3.5	2.6
Canada	4.7	2.6	1.2	3.8	2.8
Others	4.6	4.4	3.8	4.2	1.5
Developing countries	**6.8**	**6.0**	**6.5**	**5.7**	**2.8**
Africa	2.1	3.0	5.8	3.2	3.6
Middle East and Europe	0.7	3.8	4.7	4.5	3.3
Latin America	5.2	1.2	3.5	5.1	2.5
Asia	9.6	9.0	8.2	6.6	2.6
NIEs Asia	7.6	7.3	6.3	6.0	–1.5
China	12.6	10.5	9.7	8.8	7.8
ASEAN	8.1	8.2	7.1	3.8	–9.4
Indonesia	7.5	8.2	7.8	4.9	–13.7
Singapore	10.1	8.8	6.9	8.0	1.5
Malaysia	9.2	9.5	8.6	7.7	–6.8
Thailand	8.8	8.7	5.5	–0.4	–8.0
Philippines	4.4	4.8	5.7	5.2	–0.5
Vietnam	8.8	9.5	9.3	8.8	3.5
Countries in transition	**–7.1**	**–1.5**	**–1.0**	**1.9**	**–1.9**
Central and Eastern Europe	–2.8	1.6	1.6	2.8	2.5
Russia	–11.6	–4.8	–5.0	0.7	–5.7
Transcaucasus and Central Asia	–11.4	–4.7	-3.7	1.0	-4.2

Sources : – IMF, World Economic Outlook, April 1999
– Bank Indonesia

Table 49
World Inflation
(In percent)

Country	1994r	1995r	1996r	1997r	1998*
Industrial Countries	**2.6**	**2.5**	**2.4**	**2.1**	**1.6**
Seven major industrial countries	2.2	2.3	2.2	2.0	1.3
USA	2.6	2.8	2.9	2.3	1.6
Japan	0.7	–0.1	0.1	1.7	0.4
Germany	2.7	1.8	1.5	1.8	1.0
France	1.7	1.8	2.0	1.2	0.7
Italy	4.1	5.2	3.9	1.7	1.7
United Kingdom	2.4	2.8	2.9	2.8	2.6
Canada	0.2	2.2	1.6	1.4	1.2
Others	4.1	3.7	3.2	2.5	2.7
Developing countries	**51.6**	**22.3**	**14.1**	**9.2**	**10.2**
Africa	37.5	34.1	26.7	11.0	8.5
Middle East and Europe	31.9	35.9	24.6	22.8	23.6
Latin America	208.9	35.9	20.8	13.9	10.3
Asia	15.9	12.8	8.3	4.7	7.9
NIEs Asia	5.6	4.6	4.3	3.4	4.4
China	21.7	14.8	6.1	2.8	–0.8
Indonesia	9.2	9.0	6.6	10.3	77.7
Singapore	3.1	1.7	1.4	2.0	–0.3
Malaysia	3.7	3.4	3.5	2.7	5.3
Thailand	5.1	5.8	5.9	5.6	8.1
Philippines	9.1	8.1	8.4	6.0	9.7
Vietnam	14.5	12.7	5.7	3.2	7.7
Countries in transition	**268.4**	**124.1**	**41.4**	**27.9**	**21.0**
Central and Eastern Europe	153.3	75.3	32.4	38.4	17.6
Russia	302.0	190.1	47.8	14.7	26.0
Transcaucasus and Central Asia	1,667.7	183.6	68.7	30.8	19.8

Sources : – IMF, World Economic Outlook, April 1999
– Bank Indonesia

Table 50
Interest and Exchange Rates

Item	1994r	1995r	1996r	1997r	1998*
Interest rate in industrial countries (in percent)					
Short term	4.40	4.90	3.70	3.70	4.40
Long term	6.80	6.40	5.80	5.10	4.50
Exchange Rate					
Yen/USD	102.21	94.06	108.78	120.99	120.58
DM/USD	1.62	1.43	1.50	1.73	1.68
USD/GBP	1.53	1.58	1.56	1.64	1.66

Sources : – IMF, World Economic Outlook, October 1998
– IMF, International Financial Statistics, January 1999

Table 51
World Trade Indicator
(Annual percent change)

Indicator	1994r	1995r	1996r	1997r	1998*
Volume	**9.2**	**9.5**	**7.0**	**9.9**	**3.3**
Price					
Industrial goods	3.1	10.1	–3.0	–8.1	–2.5
Non-oil/gas primary commodities	13.4	8.4	–1.2	–3.3	–15.6
Oil	–5.0	7.9	18.4	5.4	–30.5

Source : IMF, World Economic Outlook, April 1999

Table 52
Current Accounts in Industrial and Developing Countries
(In percent of GDP)

Country	1994	1995	1996	1997[r]	1998*
Seven major industrial countries					
USA	–1.9	–1.8	–1.9	–1.9	–2.7
Japan	2.8	2.2	1.4	2.2	3.2
Germany	–1.0	–1.0	–0.6	–0.2	–0.4
France	0.6	0.7	1.3	2.8	2.7
Italy	1.3	2.3	3.2	3.0	2.3
United Kingdom	–0.2	–0.5	–0.1	0.6	–0.8
Canada	–2.7	–1.0	0.4	–1.5	–2.1
Developing countries					
China	0.6	0.2	0.9	3.3	2.4
Indonesia	–1.7	–3.3	–3.4	–2.7	4.0
Singapore	17.1	16.9	15.7	15.8	20.9
Malaysia	–6.3	–10.0	–4.9	–5.1	15.7
Thailand	–5.6	–7.8	–7.9	–1.9	12.2
Philippines	–4.6	–4.4	–4.7	–5.2	2.0

Sources : – IMF, World Economic Outlook, April 1999
– Bank Indonesia

Appendix F

List of Terminologies and Abbreviations

ACBF	ASEAN Central Bank Forum
ACCSF	Asian Currency Crisis Support Facility
ADB	Asian Development Bank
AELM	APEC Economic Leaders Meeting
AFMM	ASEAN Finance Ministerial Meeting
AFTA	ASEAN Free Trade Area
AICO	ASEAN Investment Cooperation
AMU	Assets Management Unit
APEC	Asia-Pacific Economic Cooperation
ASA	ASEAN Swap Arrangements
ASEAN	Association of Southeast Asian Nations
ASFOM	ASEAN Senior Finance Officials Meeting
Askrindo	PT Asuransi Kredit Indonesia (state credit insurance)
ASP	ASEAN Surveillance Process
ATM	Automated Teller Machine
Bapepam	Badan Pengawas Pasar Modal (Capital Market Supervisory Agency)
Bappenas	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency)
BER	Book Entry Registry
BG	Bilyet Giro
BI	Bank Indonesia
BI-LINE	Bank Indonesia Layanan Informasi dan Transaksi secara Elektronis (Bank Indonesia Electronic Information and Transaction Services)
Bimas	Bimbingan Massal (Mass Information)
BIS	Bank for International Settlements
BKKBN	Badan Koordinasi Keluarga Berencana Nasional (National Family Planning Coordinating Board)
BMI	Bank Muamalat Indonesia
Botasupal	Badan Koordinasi Pemberantasan Uang Palsu (Coordinating Board for Elimination of Counterfeit Money)
BPA	Bilateral Payments Arrangement
BPD	Bank Pembangunan Daerah (Regional Government Bank)
BPR	Bank Perkreditan Rakyat (Rural Credit Bank)
BPRS	Bank Perkreditan Rakyat Syariah (Syariah Rural Credit Bank)
BPS	Badan Pusat Statistik (Central Bureau of Statistics)
BTO	Bank Take Over

BUMN	Badan Usaha Milik Negara (State-owned Enterprises)
Bulog	Badan Urusan Logistik (State Logistics Agency)
CAR	Capital Adequacy Ratio
CBS	Claims on Business Sector
CDs	Certificate of Deposits
CGI	Consultative Group for Indonesia
COR	Cut-off Rate
CPI	Consumer Price Index
CPO	Crude Palm Oil
CPSS	Committee of Payment System and Settlement
CSA	Centralized Settlement Account
CSPI	Composite Stock Price Index
DAMS	Debt Analysis and Management System
DM	Deutch Mark
DP-BUMN	Dana Pensiun Milik BUMN (Pension Funds under State-owned Enterprises)
DPLK	Dana Pensiun Lembaga Keuangan (Financial Institution Pension Fund)
DPPK	Dana Pensiun Pemberi Kerja (Employer-managed Pension Fund)
DSR	Debt Service Ratio
DVP	Delivery Versus Payment
ECA	Export Credit Agency
ECB	European Central Bank
EFA	Export Financing Agency
EFC	Export Finance Credit
EFF	Extended Fund Facilities
EFIC	Export Finance and Insurance Corporation
EFT/POS	Electronic Fund Transfer/Point of Sales
EMEAP	Executive's Meeting of East Asia and Pacific Central Bank
EMU	European Economic and Monetary Union
FDI	Foreign Direct Investment
FED	Federal Reserve Bank (US Central Bank)
FOB	Free on Board
Forex	Foreign exchange
G-22	Government of 22 countries
GBP	Great Britain Poundsterling
GDP	Gross Domestic Product
GFA	Gross Foreign Assets
GTZ	Deutsche Gesellschaft fur Technische Zusammenarbeit
HIPC	Highly Indebted Poor Country

HPA	Hanoi Plan of Action
IBRA	Indonesian Bank Restructuring Agency
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IDB	Islamic Development Bank
IMF	International Monetary Fund
IMM	Interbank Money Market
INDRA	Indonesian Debt Restructuring Agency
Irja	Irian Jaya (West Irian)
JECS	Jakarta Electronic Clearing System
JEXIM-Bank	Japan's Export-Import Bank
JIBOR	Jakarta Interbank Offered Rate
JSX	Jakarta Stock Exchange
KBI	Kantor Bank Indonesia (Bank Indonesia Regional Office)
KDI	Koperasi Distribusi Indonesia (Indonesian Distribution Cooperatives)
KfW	Kreditanstalt fur Wierderaufbau
KKPA	Kredit kepada Koperasi Primer untuk Anggotanya (Credit to Primary Cooperatives for Members)
KKPA Nelayan	KKPA for Fishermen
KKPA PIR-Trans	KKPA for Small-holders Nucleus Estate-Transmigration
KKPA TKI	KKPA for Financing Indonesian Workers
KKPA TR	KKPA for Small-scale Sugarcane Plantation
KKPA Unggas	KKPA for Poultry Breeders
KKU	Kredit Kelayakan Usaha (Credit for Feasible Project)
KLBI	Kredit Likuiditas Bank Indonesia (Bank Indonesia Liquidity Credit)
KMK-BPR	Kredit Modal Kerja kepada BPR (Working Capital Credit for Rural Credit Bank)
KPKM	Kredit untuk Pengusaha Kecil dan Mikro (Credit to Small-scale and Micro Enterpreneurs)
KPKM-BPR	KPKM through Rural Credit Banks
KPR	Kredit Pemilikan Rumah (Credit for Housing)
KPRS	Kredit Pemilikan Rumah Sederhana/Sangat Sederhana (Credit for Low/Very Low Cost Housing)
KSEI	PT Kustodian Sentral Efek Indonesia (Indonesian Stock Central Custodian Corporation)
KSM	Kelompok Swadaya Masyarakat (Self-help Group)
KUK	Kredit Usaha Kecil (Credit to Small-scale Enterprises)
KUT	Kredit Usaha Tani (Credit to Farmers)
KWH	Kilowatt per Hour
L/C	Letter of Credit

LDKP	Lembaga Dana dan Kredit Pedesaan (Rural Fund and Credit Institution)
LDR	Loan to Deposit Ratio
LIBOR	London Interbank Offered Rate
LKP	Lembaga Keuangan Pedesaan (Rural Financial Institution)
LLL	Legal Lending Limit
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LPS	Lembaga Penjamin Simpanan (Deposit Guarantee Institution)
M1	Narrow Money
M2	Broad Money
MITI	Ministry of International Trade and Industry (of Japan)
MMBTU	Mille Mille British Thermal Unit
MoU	Memorandum of Understanding
MW	Megawatt
NATO	North Atlantic Treaty Organization
NAV	Net Asset Value
NBFI	Non-bank Financial Institution
NCG	Net Claims on Central Government
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NIEs	Newly Industrial Economies
NIR	Net International Reserves
NOP	Net Open Position
OCOI	Operational Cost and Operational Income Ratio
ODA	Official Development Assistance
OECF	Overseas Economic Cooperation Fund
OMO	Open Market Operation
O/N	Overnight
OPEC	Organization of Petroleum Exporting Countries
PD	Primary Dealer
Pefindo	PT Pemeringkat Efek Indonesia (Credit Rating Indonesia, Ltd.)
Pertamina	Perusahaan Tambang Minyak Nasional (State Oil Company)
PHBK	Proyek Hubungan Bank dengan Kelompok Swadaya Masyarakat (Bank and Self-help Group Link Project)
PJTKI	Perusahaan Jasa Pengerah Tenaga Kerja Indonesia (Indonesian Labor Providing Agency)
PKM	Proyek Kredit Mikro (Micro Credit Project)
PKPA Syariah	Pembiayaan kepada Koperasi Primer untuk Anggotanya melalui Bank Syariah

	(Finance to Primary Cooperatives for Members through Syariah Bank)
PLN	PT Perusahaan Listrik Negara (State Electric Company)
PMVD	Perusahaan Modal Ventura Daerah (Local Venture Capital Company)
PnDB	Pendapatan Domestik Bruto (Gross Domestic Income)
PPKM	Pembiayaan kepada Koperasi Pengusaha Kecil dan Mikro (Finance to Small-scale and Micro Enterpreneurs)
PPKM BPRS	PPKM for Syariah Rural Credit Bank
PPUK	Proyek Pengembangan Usaha Kecil (Small-scale Enterprise Development Project)
PTTB	Pemberian Tanda Tidak Berharga (invalidity marking rate)
Puskesmas	Pusat Kesehatan Masyarakat (Community Health Center)
PVP	Payment Versus Payment
RDI	Rekening Dana Investasi (Investment Fund Account)
REER	Real Effective Exchange Rate
RMDS	Reuters Monitoring Dealing System
ROA	Return on Assets
RR	Reserve Requirement
RTA	Regional Trade Arrangements
RTGS	Real Time Gross Settlement
SBA	Standby Arrangement
SBH	Survey Biaya Hidup (Living Cost Survey)
SBI	Sertifikat Bank Indonesia (Bank Indonesia Certificate)
SBPU	Surat Berharga Pasar Uang (Money Market Securities)
SDR	Special Drawing Rights
SDT	Special and Differential Treatment
SOKL	Semi Otomasi Kliring Lokal (Semi-automated Local Clearing)
SOR	Stop-out Rate
SPL	Sector Program Loan
SSN	Social Safety Net
SSX	Surabaya Stock Exchange
STDDJ	Sistem Transfer Dana Dolar secara Elektronis Jakarta (Jakarta Electronic Dollar Denomination Fund Transfer System)
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TFF	Trade Finance Facility
TPT	Tekstil dan Produk Tekstil (textile and its products)
TSL	Two Step Loan
UK	United Kingdom
UKM	Usaha Kecil Menengah (Small and Medium-scale Enterprises)
UMR	Upah Minimum Regional (Regional Minimum Wages)

UN	United Nations
UPUK	Unit Pengembangan Usaha Kecil (Small-scale Business Development Unit)
US	United States of America
USD	United States Dollar
US-EXIM Bank	United States Export-Import Bank
UYD	Uang yang Diedarkan (issued currency)
WTO	World Trade Organization
Y2K	Year 2 Kilo (2000)