

BANK INDONESIA

REPORT FOR THE YEAR 1954 - 1955



REPORT

**OF THE GOVERNOR OF BANK INDONESIA
FOR THE FINANCIAL YEAR 1954 - 1955**

BANK INDONESIA

Head Office :

DJAKARTA

Branch Office :

AMSTERDAM

Agencies :

DJAWA

BANDUNG, JOGJAKARTA, KEDIRI, MALANG,
SEMARANG, SOLO, SURABAJA, TJIREBON.

SUMATERA

MEDAN, PADANG,
PALEMBANG

KALIMANTAN

BANDJARMASIN, PONTIANAK,

SULAWESI

MAKASAR, MENADO

Report of the Governor

1. GENERAL REVIEW

Due to the open character of our economy, our country is strongly dependent On international business fluctuations. After the second world war it seemed for a while as if this relation existed only in a negative sense. For economic activity in industrialized countries expanded satisfactorily after the Korea boom. But prices of raw materials remained on a low level and the inelasticity of demand proved an obstacle to a compensative increase in the volume of trade, so that on balance export proceeds dropped. This seems contradictory to what could hitherto be observed in the past, namely that admittedly slumps lead to unfavourable prices and proceeds but on the other hand booms turn the scales. As I have already pointed out in my previous report, it was then too early to draw the conclusion that the correlation in case of upward swings had been disrupted. For the large stocks piled up during the Korean crisis affected, as long as they remained on hand, the demand for and consequently the price of raw materials unfavourably. When my preceding annual report went to press, export market trends already indicated a budding improvement which further developed during 1954. Prices of various primary products, inter alia of rubber and tea which are of so great importance to Indonesia, went up. Exports to a so important market as the United States admittedly dwindled (from Rp 1,930 million in 1953 to Rp 1,636 million in 1954) owing to the there prevailing economic recession, but during the second half of the year the low in business activity was reached and the pendulum began slowly to swing up again. The revival of American trade has set in too recently to be of any positive influence already on Indonesian or on any other primary producing countries' exports; West-European countries in particular showed sufficient resistance not only to neutralize but even to counteract the aftermath of the American recession. The expanding business cycles in Western Europe were an important factor in the scope of world economic activity, which was downright favourable during the period under review. To Indonesia the more favourable in that export markets were stimulated.

Or in other words, during the year under review Indonesia's economy was not exposed to such heavy pressure from unfavourable external influences as before. international business conditions positively developed impulses and stimuli. The increase in prices of Indonesian tea and rubber shares first, after wards followed by other securities,

on the Amsterdam Stock Exchange was i.a. related to the recovery of export markets. There were other factors as well, as for instance a certain degree of satiation in domestic stock investment, but the influence of international business cycles on the prices of primary products undoubtedly contributed to the signalised phenomenon.

Naturally the higher level of world markets was to affect the development of our economy, in any case with regard to the balance of payments as also to the budget. The balance of payments could count on higher receipts, the budget, first via indirect later on also from direct taxes, likewise. Here too a time lag in fact exists which renders it at present impossible to definitely determine the effect of the external factors on Indonesia's economy.

In the year under review Indonesia's balances of trade and of payments were admittedly more favourable than in the preceding period. The acute foreign exchange shortage, reaching its nadir in April/May, could be checked. As at the end of April 1954, the Bank Indonesia's ready gold and foreign exchange position (inclusive of the Foreign Exchange Fund's holdings) came to Rp 1,549 billion; as at the end of March 1955 the comparable figure was Rp 2,731 billion. This improvement was not solely due to ampler export proceeds, it was also and even in the first place the result of the import restrictions which of necessity had to be introduced towards the middle of 1954 in order to spare the country's monetary reserves. Other imports were financed out of attracted foreign loans. The balance of payments, by the way, still showed a deficit, if a smaller one than in the previous year.

So far the budget cannot yet boast of increased receipts from indirect taxes or otherwise; on the contrary, Government revenue dropped.

(Rp million)	1953	1954
1st quarter	2,849.8	2,575.3
2nd quarter	4,812.0	2,631.1
3rd quarter	3,002.3	2,597.5
4th quarter	3,046.2	3,734.7
Total revenue	13,710.3	11,538.6

Given the fairly recent recovery of export markets, this development was expectable. Pending the pervasion of this recovery into budget receipts as well, expenditure had better been bridled. This however failed, as is illustrated by the following figures.

(Rp million)	1953	1954
1st quarter	4,221.9	3,413.4
2nd quarter	5,206.9	3,879.6
3rd quarter	2,810.7	3,895.8
4th quarter	3,711.1	3,951.8
Total deficit	15,950.6	15,140.6

Beside the budget deficit the banking system should be mentioned as a money creating source. The volume of money brought into circulation by the banks rose from Rp 2,394 million in 1953 to Rp 2,826 million in all, an increase which remained considerably below the budget deficit which in fact is to be regarded as the principal cause of the increased money supply in 1954.

In countries like Indonesia with imperfect price control and distribution apparatus, the effect of an expanded money supply is wellnigh instantaneously revealed by the level of prices. Rationing and price control were introduced in Indonesia to a certain extent, but it remains an open question whether they were the very means to combat the consequences of inflation. So long as the Government administrative grip on the population is weak, direct control will have but little effect because of innumerable leakages. The aforementioned means would suit only an administration capable to handle them since their effect would otherwise be illusory, leading only to stagnation and disruption. The fact is also too often overlooked that such measures merely aim at combating symptoms, it is indirect methods, monetary and/or fiscal, which should in the first place be considered. The Government should as much as possible refrain from the introduction of measures in the commodity sphere which in spite of the best intentions have mostly an adverse result on account of the defective apparatus.

However that may be, the failing of rationing and price control shapes the price level into an indicator for the extent to which the monetary factors have or have not influenced the commodity sphere. In this respect allowance has to be made not only for the direct effect of budget deficits but also, as I will in more detail explain when giving

the monetary analysis, for the effect of the multiplier which value, I assume, will be high. Further, the velocity of money tends to accelerate—at least in the currency sphere as far as Indonesia is concerned —, which is a wellknown phenomenon with a strongly increasing money supply. Opposite to the inclination to keep larger amounts of cash in hand when prices soar, stands the reluctance for keeping too much cash in hand since money tends to lose its attraction as a store of wealth.

When attempting to closer analyses the effect of the expanded money supply on prices, reservations should be made even though a minutely accurate statistical observation or interpretation is not necessary, if at all possible. In principle, imports are stimulated by a too widely expanded money supply, while exports are impeded (namely owing to increased costprices and to local sales) and the cost of living moves upward. When tracing the monetary forces in these fields certain circumstances peculiar to Indonesia are to be taken into account.

To begin with there is the problem of the rise in the cost of living. Statistically, two spheres are to be distinguished, viz. the towns and the countryside. The family budgets in these two spheres differ; apart from rice, which plays an important role in both budgets, the urban sphere is more strongly dependent on import goods. Further, the urban sphere is not homogenous in so far as it falls apart into an Indonesian and a non-Indonesian part, the latter group outweighing the other as regards its dependence on import goods.

With respect to the development during the year under review, it must be considered fortunate that the available price index numbers for foodstuffs in the countryside were fairly stable. Price index numbers of rice did not deteriorate (1938 = 100, December 1953: 4,043, December 1954: 3,886). Other foodstuffs too, such as maize, coconut oil, salt, ground nuts etc., remained on the same level. Meat and fish rose, but on the whole it can be stated that as far as foodstuffs are concerned, the cost of living index remained stationary.

This does not apply to the towns, where price index numbers of nineteen foodstuffs rose some hundreds of points (300 to 500) from the end-1953 level. Cost of living index numbers for civil servants and unskilled labour were also up (civil servant: January 1950 = 100, December 1953: 238, December 1954: 272.5; unskilled labour: July

1938 = 100, December 1953: 2,421, December 1954: 2,672). An explanation for this divergent development could be found in food-producing agriculture having stepped up in 1954. Where no commodity increase occurred or could occur, as was the case with import goods in the towns—as well as in the countryside, see elsewhere—, prices soared, as did for instance in both spheres the retail price of textiles; as at the end of 1954 it exceeded in the villages of Djawa and Madura the 1953 figures by 33 to 50 %.

As already stated before, expansion of the money supply tends to stimulate imports. But the introduction of a system of import licenses—as a matter of fact one of the few workable means of direct control here—can keep the effective demand for foreign goods artificially low. Opposite to a higher domestic purchasing power, however, this must inevitably lead to an increase in the prices of import goods, which it did. The price rise was moreover stimulated by the otherwise comprehensible wish to ration out as well as possible the too small quantity. The Government tried to materialize this wish by making use of existing or newly created national distribution systems. The still underdeveloped national distribution apparatus and the small quantity of goods available caused the distribution of goods to go still more unsmooth with all its attendant consequences.

As to exports I can mention that at the beginning of the period under review Indonesia reacted favourably upon the improved world prices of raw materials. The divergence between internal and external price level narrowed, in other words, the so-called price scissors showed a favourable development during the last few months of 1953 and all through the first half of 1954. Little by little, however, the expanded money supply made its influence felt, the domestic price level rose at unequal pace with international quotations, as is for instance clearly illustrated by the rubber price development (see the paragraph on Rubber).

The increase of the internal price level naturally impedes exports which were already severely afflicted by a Government measure which admittedly was well-intentioned. Some exporters were namely given permission with a view to promote sales abroad to retain part of their foreign exchange receipts. This measure, which has meanwhile been revoked, had a threefold unfavourable effect, namely (1) the Government was deprived of a part of the foreign exchange receipts, (2) the officially allowed retention of foreign exchange enabled exporters to force up local prices in order to fulfil their commitments

while (3) they could underbid both their foreign and domestic competitors, thus unfavourably interfering with the rising trend of world prices. In other words, this policy resulted in internal as well as external price deterioration. Measures like these were not exactly promoting exports. They are a warning that each economic measure generates reactions, the strength of which should be discerned as it is enforced; this is especially valid for an economy as internationally orientated as Indonesia's.

The force exerted by the increasing budget deficits was, seen in the light of the foregoing, in the period under review in the first and strongest place perceptible in the sector of import goods, making itself also felt in the sector of exports as from the middle of 1954, while it hardly affected the countryside. In arriving at this conclusion, two facts should however be mentioned.

Firstly, a continued increase of the money supply will eventually involve the countryside, which at present still enjoys a relative peacefulness, in the price increases. Textiles in this respect hold a strategic position. The peasant sells his rice and other food crops not primarily to obtain money but to be able to buy the goods he needs, i.e. textiles (and cigarettes and kreteks). When these are expensive, the terms of trade between urban and rural sphere deteriorate to the detriment of the peasant. As a consequence, the latter will either increase his prices or hold back his produce, but in both cases a rise in prices will result.

Secondly, the distinction between industrial and financial circulation of money will fade away as the money supply increases, as I already pointed out in my previous annual report. This would mean that goods lose their nature of exclusive trading object and become an investment object as well, which will still further push up prices. An increased velocity of money is attended with a slowing down of the goods velocity, meaning that the flow of both import and export commodities will slacken.

Thus, an expanding money supply on account of generated price increases in the interior, can deprive a country of the opportunity to benefit by an improvement in international trade cycles. All efforts should therefore be concentrated on tuning national business conditions to these improved world conditions, as these will result in ampler foreign exchange receipts and budget revenues, so that both the external as the internal monetary equilibrium can partly be restored.

At the present moment the increase in the money supply is out of all proportion if compared with the quantity of goods coming available, even though the production of food and export crops could be stepped up. Replenishment of import goods is urgently necessary, but the foreign exchange position's improvement is still inadequate. From 1952 to 1953 the money supply in Indonesia increased by 13% mainly as a result of budget deficits. From 1953 to 1954 it increased by no less than 46% whereas the ratio between money supply and ready foreign exchange position, though in absolute sense improved during 1954, remained at about 24%. It is feared that according as exports stagnate owing to disparity between internal and external price level, the foreign exchange position will be unfavourably influenced. I may even forecast that, should the budget deficits sustain, the phenomenon of demand pulls and cost pushes will to an increasing extent be rife.

Our attention should therefore of necessity be focussed on the restoration of the internal equilibrium. This means that top rank priority should be given to the question of eliminating the budget deficit.

The problem of balancing the budget

The tendency towards instability in the budgets of underdeveloped countries can be traced to two causes.

First of all, there are the short term price fluctuations in export markets, which affect both the balance of payments and treasury revenue. In this respect it need not be expected that expenditure will be instantaneously adaptable to revenue. Disequilibriums occur which, due to the absence of a capital market, cannot easily be corrected by the issue of loans. Carrying over cash surpluses from boom years, together with accumulation of foreign monetary reserves, seem to be the best means for overcoming these difficulties. Monetarily, these measures complement each other. By spending surpluses in local currency, a Government appeal to money creating institutions is avoided. The employment of monetary reserves exerts a deflationary force. When sufficient local and foreign currency reserves are lacking, the budget deficit will pave the way to inflation, since production will fall out of step with money creation. The acceptance, if only temporarily, of a budget deficit as the inevitable consequence of decreasing world prices, should invoke keen and constant watchfulness over the volume of expenditure. If it

should not be possible to keep expenditures within the level of revenues, it must still be feasible to weigh their purpose carefully, and to check in time any development inconsistent with decreased revenue. The introduction of efficiency and retrenchments wherever possible is an imperative necessity. It must surely be possible to take additional measures which could exert a favourable influence on production, or eliminate existing obstacles.

Without aiming at the impossible, Government outlays this year must be handled with utmost care, along the lines indicated above. Admitting that it will be difficult to balance the budget in the short run, it must be possible to limit the budget in such a way as will be least burdensome to economic development. As a monetary target, it could be established that the deficit should not exceed the Government planned imports. In the private sector, imports could be discreetly raised again, to provide an adequate supply of goods on the one hand and to exercise a deflationary effect on the other. Other deflationary forces should be looked for as well. Only then will Indonesia reap the positive fruits of favourable world business cycles, and only thus will it be able to put its own economic development on the right track.

The second cause of the unstable character of underdeveloped countries' budgets is related to the problem of economic development. In international circles a new expression has cropped up, which typifies perfectly the situation in the underdeveloped countries, viz. "revolution of rising expectations". The freedom which came to many of these countries after the second world war, evoked in these peoples the desire for greater prosperity. This new freedom also puts them in a position to contact parts of the world with higher standards of living; the so-called "demonstration effect" began to work on a large scale. New desires are born, new wants are felt, as a mightily incoming tide a potential demand for goods in the widest sense of the world manifests itself. But for the present a wide gulf still separates these rising expectations from their fulfilment. For the countries where these expectations came to life are underdeveloped, i.e. the effective supply is too small to meet the swelling demand. Tensions arise which can be reduced to the underlying wish to meet the growing wants at the quickest possible rate. This can only be contrived by a rapid development of a country's potential sources of wealth. In other words, investments are required. However, since the national income is low, savings are small and inadequate for rapidly expanding the production. In so far as the need for investments leads to foreign currency spending, a constant pressure on the balance

of payments will result: in so far as local currency is at stake, the budget expenditures will be pushed up to an ever increasing height.

This is the fundamental problem with which all underdeveloped countries have to cope. Short term fluctuations of export prices will time and again unbalance both the balance of payments and the budget, while on the other hand the long term growth of wants repeatedly pushes up the level of external and internal spending.

Both factors necessitate a careful watch on developments, if only to make sure that the established objective, growth of the economic system, will not be nipped in the bud by inflationary forces for the sake of meeting the increasing wants. Great selfdiscipline is required to refrain from overambitious, spectacular investments. Labour-intensive projects, which require relatively less capital investment—and therefore less outlays—yet promise to yield quick results, will in general prove the most profitable investments. Setting up consumer goods industries, and other import reducing undertakings, suggests itself as a good starting point.

Over and above this I would bring out a factor which could perhaps offer relief. I should like to make a plea in favour of greater financial autonomy for the lower public bodies. Up to now the *daeraks* (autonomous territories) are for their budgeting wellnigh entirely dependent on the Central Government. The financing of expenditures which are deemed necessary by these autonomous regions is chiefly effected out of Government subsidies. And it is the Central Government which, for that purpose, sees to the collection of revenue from taxes, even in the local sphere. As I have already pointed out in my previous report, the Minister of Home Affairs has been advised by a committee appointed especially for that purpose, to leave the collection of certain specified taxes to the autonomous territories. This would be one step in the direction of the greater financial autonomy which I advocate. A system of subsidies such as exists at present is apt to undermine the sense of responsibility, and to kill all local initiative and ingenuity. According to data supplied by the Ministry of Home Affairs, the *de facto* outlays on behalf of *daeraks* amounted in 1954 to Rp 2,733 million. These expenses were covered from:

own resources	Rp	378	million
receipts from Central Government	“	2,355	million
	Rp	2,733	million

The ratio between own resources and Central Government subsidies should actually be the reverse.

Daeraks can be divided into active and less active ones. The active ones feel themselves suppressed by their subordination to the Central Government the less active ones, not being confronted with responsibilities, are never stirred out of their lethargy. In principle only those *daeraks* which are by nature poor in resources should be eligible for large scale subsidies.

Greater financial independence will stimulate the autonomous territories into higher activity and a greater display of energy. If the responsibility for certain revenue is left to local authorities instead of to the Central Government, receipts would presumably be far more substantial, first because local authorities have a better knowledge of local conditions, second because the region's own interest is at stake. Moreover, the Central Government will thus be relieved of a heavy administrative burden. Several expenses now incurred in this respect could either be reduced or dispensed with entirely. A large number of civil servants can and should be transferred to the *daeraks*, a move which would also involve direct retrenchments for the Central Government. Against the higher expenses of *daeraks*, a higher yield from taxes can be expected.

Financial autonomy would compel the various territories to face reality. Overambitious plans and projects will immediately confront them with the problem of finding the means to finance them. In contrast to the past, they would have to solve this problem themselves. The feeling of being suppressed by a Central Government unwilling or unable to furnish the means for financing certain projects would be gone. In short, if the *daeraks* themselves are responsible, they will soon enough develop an appreciation of what is desirable and/or what is possible. And this will favourably affect the expenditure side of the budget.

But granting financial autonomy has more consequences than those discussed above. Once local independence has become definite, the respective region will wish to and will have to exercise it. In future, both expenditures and receipts will have to be determined and handled by themselves. There is reason to hope that local perception will improve.

There are other advantages. Nowadays everybody has become so familiar with thinking in terms of money that in Indonesia one often loses sight of reality. If for the sake of economic development investments are desired, first of all the money required to buy goods is sought. This approach presupposes an economic structure in which everything is expressed in terms of money. But this assumption is not wholly applicable to Indonesia. We must distinguish between a monetised and a non-monetised sphere; the monetised sphere thinks and calculates in terms of money. In the other sphere money has only a supplemental function, while exchange is for the greater part effected in terms of goods and services. This latter sphere is larger than is generally presumed. In the Indonesian villages and countryside a situation has been preserved in which money as a medium of exchange is of little or no importance. It is not the volume of money one possesses that counts as a standard for wealth but the goods at one's disposal: houses, grounds, crops, live-stock, etc.

Investments have to be made out of accumulated savings. Should such savings be sought in the form of money, in an economic sector which has savings available only in the form of goods and services, there will, in terms of money, always be a deficiency in financial resources. But what does reality show? In many of the regions which offer no possibility for money investment, mosques and schools are built, roads and bridges constructed or repaired, etc. Based on the gotong rojong system (i.e. mutual aid), a social institution typical of the Indonesian village and countryside, savings in kind — wood, bricks, sand together with the available implements and manpower - are utilized to undertake investments. This kind of Indonesian economic reality is familiar to the daerahs; they know its limitations and they know its possibilities. Once they are thrown on their own resources by financial autonomy, they will have no need to draw exclusively upon money means but will have also at their disposal “real” capital resources: goods and services. Insufficient means of finance could in principle be offset by a system, still to be outlined, of savings in kind, based on customs still rife in the interior. Thus sources which from a social-economic viewpoint have hardly been tapped, can be resorted to for the promotion of economic development and prosperity. In this way the whole community, the monetised and the non-monetised part together, can partake in the process of economic growth which is necessary for raising the standard of living. It should be left to the activity of local authorities to mobilise the economic potential of Indonesia in the non-monetised sphere.

By focussing attention on money, the outlook for possible means of construction and development becomes blurred. Local autonomy will help to tap better resources, since the daerahs can then fall back on the money as well as on the goods and services sphere. The activation of daerahs through greater financial independence will in my view considerably relieve the budget burden for the Central Government. It is a wiser policy to step up investment capacity in the direction indicated above than to try, as is sometimes suggested, to drain the countryside and villages of their money means which, as a matter of fact, are often not abundantly available.

Financial autonomy can facilitate economy, efficiency, determination of correct investment priorities, an understanding of the severe consequences of a heavily overdrawn budget, and improved budgetary control—all traditional means of achieving budgetary equilibrium. In my view it will also contribute substantially to limitation of the amplitude of budget fluctuations.

Though control over financial and monetary forces is significant, the fact should be kept in mind that it is production that counts in the long run. To attain monetary equilibrium alone is no end in itself; it should be accompanied by achieving a level of activity on which productive forces can be fully employed and developed. Restoration of monetary equilibrium is required for this development to be feasible and unhampered. At present, the monetary situation, unbalanced by a large budget deficit, hampers production capacity. Removal or modification of the monetary disequilibrium and the restoration of internal stability, will favour production and external stability. This does not imply that all sectors of production have already been unfavourably influenced by the monetary situation. For foodproducing agriculture—which belongs principally to the non-monetised part of Indonesia—and for the time being, despite inflation, mining (oil) and export agriculture as well have been able to step up production, while other sectors still lag behind. An increase in labour productivity is necessary, since prosperity and wealth,—the fulfilment of rising expectations,—are only feasible by a grim will to keep toiling. It is therefore to be regretted that industrial development, despite the favourable factors, was checked by the difficulties encountered in the importation of the necessary raw materials and capital goods. Manufacturing industry especially might otherwise have been able to meet the demand for various consumer goods and even for basic materials and capital goods. Among the aforementioned favourable factors may be ranked the fact that the imposed import restrictions for the time being bar foreign competition. Another factor is the availability of foreign loans.

The achievement of monetary and economic equilibrium supposes action in the sphere of money as well as in the sphere of goods, with the monetary equilibrium to be realized at as high a production level as possible.

External factors, so prominent in the development of our country's economy, were favourable during the year under review. The effect of those external factors, international business cycles with now relatively attractive export markets, was impeded by internal factors, such as the extensive budget deficit, generating inflationary forces which interfered with the exportation of our produce, and still lagging production, especially in the industrial sector.

International developments still continue their favourable trend while the fear for a recession in the United States has disappeared. In large parts of the world prosperity prevails, offering a favourable climate for the development of underdeveloped countries. It is now entirely up to Indonesia itself to share the prosperity other countries enjoy, by removing in the first place the obstacles of a too widely expanded money supply and a too intricate system of regulations; the stepping up of production will then automatically contribute to the harmonious development of our economy.

II. INTERNATIONAL DEVELOPMENTS

Introductory

The international business cycle moved during 1954 on the whole on a high level. The year commenced with favourable economic conditions in Western Europe and a constant growth in Eastern Europe, but with a less satisfactory development in some other parts of the world, in particular with indications of weakness in the United States. The question early in 1954 was whether the American recession, which had started in the second half of 1953, would come to a stand or would develop into a depression and crisis. What caused special concern were the consequences thereof for Western Europe and the underdeveloped areas, considering the latter's dependence upon the big European and American markets.

Business conditions in America proved to have vigour enough to curb the downward movement. The first three quarters of 1954 showed a development whereby the recession was smoothing, even to make room for a slight improvement during the last quarter, which fortunately continued in the first months of 1955. Eventually the American G.N.P. declined in 1954 by 2% as compared with the preceding year (in absolute figures \$ 7.7 billion).

The effect of this decline on West European economy was on the whole not so serious as had been expected. In Western Europe there was apprehension not so much of a slight or moderate recession in America, but rather of a development which would end in a reversal. Sufficient reserves had been built up to accommodate the shocks of a not too strong recession so that continuance of economic activity was safeguarded. By the end of 1953 the continental E.P.U. countries and the United Kingdom had at their disposal \$ 10 billion and \$ 2 billion worth of gold and foreign exchange, respectively, as against \$ 5.5 billion and \$ 2 billion in 1948, the year preceding the one in which also an American recession manifested itself. In fact, Western Europe in 1954 proved to be able not only to digest American recession but even to make further progress; industrial production increased and was throughout higher than the 1953 level. In Eastern Europe too production continued to increase, especially in the manufacturing sector, even though the rhythm slowed down due to the desire rife in 1954 to pay more attention to consumption.

For the underdeveloped areas, with their open economies, the business cycle in 1954 was of great significance. Admittedly, in the years following the Korea boom development all over the world was in general on the increase without any appreciable positive benefit being derived therefrom by the primary producing countries, but on the other hand there is hardly any room for doubt about the effect of a depression or adverse business cycle on the demand for primary goods. Further, distinction should be made between short term and long term influences. An upward movement can for some time draw upon available supplies of raw materials, as happened after the Korea boom, but in the long run fresh demand will not fail to present itself. Considering the development of the business cycle in 1954, it was only to be expected that external factors would improve to some extent for the underdeveloped countries. Admittedly, actual demand from America declined due to diminished activity, but after the downward movement had come to a stand the level of the business cycle in America was still satisfactory so that there was no serious slackening of demand, also due to the stability of prices. Actually the G.N.P. in 1954 was larger than in any year after the second world war, when disregarding 1953. But there was moreover the growing economy in Europe, being in want of the raw materials from the underdeveloped areas and having to increase the importation thereof in so far as the supplies no longer sufficed. The result was that exportation of primary commodities extended somewhat, causing the continuous and alarming deterioration of the external position of the underdeveloped areas to come to a stop. This in turn enabled the sales of American and European goods to these areas to increase on the whole. The question as to in how far this development will be lasting depends on manifold factors, but it is beyond doubt that a stable, high level business cycle, or better still an expanding world economy will be of great significance for the underdeveloped areas, which in turn, according as they have developed, can render increasingly more assistance to economic activity elsewhere.

It is desirable that better recognition of interrelation and interdependence of the economies of the different parts of the world will within the foreseeable future lead to international co-operation in the sphere of trade cycle control, when it will at the same time be possible to allow for the specific problems of the underdeveloped areas with their extremely sensitive and delicate structure.

United States of America

The American G.N.P. decreased from a record level of \$ 364.9 billion in 1953 to \$ 357.2 billion in 1954. Responsible for this decrease were government expenditure and the investments of private enterprise. Government expenditure (federal as well as local) decreased from \$ 85.2 billion in 1953 to \$ 77.5 billion in 1954; the corresponding figures of gross investments by private enterprise were \$ 51.4 billion and \$ 46.1 billion respectively. As a result, actual demand in 1954 declined by a sum of \$ 13 billion.

The decrease in government expenditure was partly caused by the termination of the Korea conflict; on the other hand it was the result of the deliberate policy to arrive at a balanced budget. Economy was principally exercised in the defense sector, the expenditure of which decreased from \$ 52 billion in 1953 to \$ 43 billion in 1954. Some compensation in respect of government expenditure could be found in the increased expenditure of the lower public bodies (states and municipalities), namely \$ 25.1 billion in 1953 and \$ 27.5 billion in 1954. As far as the investments by private enterprise are concerned, the decrease mainly took place in inventories. The volume of fixed invest-

TABLE 1 — BUSINESS INDICES OF THE UNITED STATES					
	Industrial production (physical volume) unadjusted 1947/49=100	Persons unemployed in % of total employed	Wholesale commodity prices 1947/49=100	Consumer prices 1947/49=100	Stock market prices 1939=100
1938	48	—	51	60	—
1950	112	5.2	103	103	154
1951	120	3.1	115	111	185
1952	124	2.7	112	114	195
1953	134	2.5	110	114	193
1954 1st quarter	124	5.8	111	115	203
2nd quarter	124	5.5	111	115	221
3rd quarter	123	5.2	110	115	237
October	126	4.4	110	114	244
November	128	4.7	110	115	254
December	130	4.5	110	114	268
4th quarter	128	4.5	110	114	255

Source : Federal Reserve Bulletin

ment was practically maintained (\$ 49.8 billion in 1954 against \$ 49.9 billion in 1953); inventories however decreased in 1954 by \$ 3.7 billion, causing the total gross investments eventually to be \$ 49.8 billion less \$ 3.7 billion is \$ 46.1 billion, against \$ 51.4 billion in 1953.

The fact that the G.N.P. did not in the end fall down to such a level as corresponded to the decreased expenditure of Government and private enterprise (\$ 13 billion), was chiefly due to the trend of the spendings by the private sector whose purchases went up from \$ 230.1 billion in 1953 to \$ 234 billion in 1954. This may be considered to be a remarkable feature. In the first place the question arises how it was possible for the combined income of all the private households to afford increased spendings despite the undeniable deterioration of the business cycle. There was decidedly no dissaving to any appreciable extent. On the other hand, entirely in line with expectations, earned income decreased from \$ 204.4 billion in 1953 to \$ 202.3 billion in 1954. Still the aggregate personal income decreased only slightly, namely from \$ 286.1 billion in 1953 to \$ 285.5 billion in 1954. The explanation cannot be furnished by the sectors of the so-called proprietor's income, wherein the farmers' share diminished (1953: \$ 12.2 billion; 1954: \$ 11.9 billion as did the business and professional share (1953: \$ 26.2 billion; 1954: \$ 25.9 billion).

It was the so-called built-in establishers in the economy which started doing their work in 1954, also in the sector of private households. The dividends from certain funds created in the past got loose with the decline of economic activity, and thus the transfer payments came to \$ 15.9 billion in 1954, against \$ 13.8 billion in 1953.

Moreover, the government within the framework of its economic policy reduced the taxes. This reduction was very opportune when trade conditions declined; it worked as a stabiliser. First of all this cut in taxes helped industry and trade. Their aggregate profits decreased from \$ 39.4 billion in 1953 to \$ 35 billion in 1954. Owing to the alleviation of the tax burden, which totalled \$ 21.1 billion in 1953 but \$ 17.2 billion in 1954, the net profits decreased by only \$ 500 million (from \$ 18.3 billion in 1953 to \$ 17.8 billion in 1954). The dividends paid could even be raised from \$ 9.4 billion (1953) to \$ 9.9 billion (1954) by reducing the undistributed profits from \$ 8.9 billion to \$ 8 billion. As regards personal incomes the effect of the tax cut was such that the decrease of these incomes could entirely be absorbed and even compensated.

As a result of measures which in a certain degree boiled down to trade cycle control (increased dividends and reduced taxes), it was in 1954 possible for the available income, notwithstanding the recession, to rise by the not inconsiderable amount of \$ 3.4 billion, out of which the majority of the increased purchases by the private households were financed. The increased purchases were made in the sectors of non-durable consumer goods and of services; durable consumer goods displayed a decline. In all sectors (inclusive of durable consumer goods) the purchases increased in 1954 from quarter to quarter, which is indicative of a growing confidence in the developments. This confidence on the part of the private households was the second remarkable feature of business conditions in America. Theoretically, a development in opposite direction would have been possible. The decline of the production of the manufacturing industry and the increased unemployment might have resulted in an increase not of the spendings but of the savings, with all its attendant direct and cumulative consequences. However, private consumption did not decrease; on the contrary savings were even slightly lower than before.

Consumers' credit, which amounted to \$ 30.1 billion at the end of 1954, against \$ 29.5 billion at the end of 1953, offers another telling figure in this connection. The reduction of the rate of interest, after it had been raised in the beginning of the period of the Eisenhower Government, was also intended to support the spending power (of private enterprise too) by expanding credit facilities.

TABLE 2 — BALANCE OF TRADE OF THE UNITED STATES (U.S. \$ million)			
	Exports	Imports	Surplus
1951	15,041	11,071	3,970
1952	15,196	10,785	4,411
1953	15,755	10,966	4,789
1954	15,078	10,286	4,792
1953 3rd quarter	3,796	2,698	1,098
4th quarter	3,844	2,586	1,258
1954 1st quarter	3,400	2,519	881
2nd quarter	4,300	2,748	1,552
3rd quarter	3,559	2,451	1,108
4th quarter	3,819	2,568	1,251

Source : International Financial Statistics

The influence of American economy on the outside world was twofold: imports into the United States declined, and exports from the United States increased. Trade conditions in America succeeded in 1954 in acquiring stability at a level which was still high. In the first few months of 1955 they strengthened. The index figure for industrial production continued to increase in January and February. Expressed on year basis, the G.N.P. for the first quarter of 1955 was \$ 369 billion (1954: \$ 357.2 billion). This figure is indicative of an improvement as compared with the more or less established level. Of course, the results obtained in the first quarter are not yet decisive for the further development.

The relative mildness of the decline and the still high level of activity have prevented the price level from being seriously interfered with; to the exclusion of agricultural produce, the system of prices could be considered stable; on the stock exchange even an increase could be observed. This comparative stability was also reflected in the prices of the goods purchased by the United States, for which goods that country is of so great importance as a buyer.

What the future is holding in store, is hard to predict. Weak points are the still difficult situation in the agricultural sector where prices are still on the decrease, as also the earnings of the farmers. In addition, the stocks laid in with a view to supporting agriculture are becoming larger and larger. These surplus stocks may constitute a menace to the economies of countries outside the United States. It is desirable that the way of disposing of them should be made a matter of international consultations; likewise maybe the solution to the problem as such, since other producers of primary goods too are being confronted with it. Another phenomenon continuing to occupy the attention, is the unemployment, the volume of which is great. On the other hand it is evident that no government can let the development of the business cycle have its own course and America's arsenal for controlling trade conditions is holding sufficient weapons still which have only partly been used (housebuilding, road construction, hospitals, schools, taxes, etc.).

Europe

Western Europe

The development of the West European business cycle had never been so favourable as in 1954. Despite the recession in the United States economic activity continued to increase. The G.N.P. of the O.E.E.C. group showed a marked increase:

(1938 = 100)	1949	1950	1951	1952	1953	1954 (provisional)
Volume of G.N.P.	105	113	120	122	128	134
Industrial production	110	122	134	135	142	154

Unlike in the year 1953, when industrial production admittedly increased, but France constituted an exception thereto, in 1954 all countries of Western Europe shared in the growth.

The expansion of West European economy materialized within the frame work of monetary stability. The so-called internal monetary equilibrium was on the whole maintained, while no extraordinary balance of payments difficulties presented themselves. This course of affairs had the constant attention of the various governments but there was no need to resort to drastic measures. Many factors which had led to stresses, such as a strong demand on account of depleted stocks, the necessity for recovery and reconstruction with the attendant need of investments, had gradually become things of the past, and the economy of Western Europe could with its increasing strength better than before bear the burdens of defense.

In the monetary sphere the governments allowed the money supply to expand somewhat, but decidedly not by way of a deficit spending policy. The volumes of money during September 1953 —September 1954 increased by from about 5 to 12 per cent. Belgium, Switzerland and the United Kingdom remained below 5 % Austria and Greece recorded higher percentages (on account of devaluation of their currencies), viz. 26 and 32 respectively. The figure for Turkey was also high, namely 26%. Actual demand was furthermore supported by cuts in taxes in various countries, such as the United Kingdom, the Netherlands and France. Nominal and real wages increased in general, **but** in

most cases this increase still kept pace with the increase in productivity. The fact that the factors prevailing in the goods sphere and those prevailing in the money sphere did not cause any mutual stresses in 1954 is evidenced by the relatively stable wholesale and retail prices.

Briefly it may be established that West European economy succeeded in 1954 in achieving greater activity and by so doing in obtaining full employment while maintaining monetary equilibrium. Such at least was the general picture offered by the great majority of the countries. Now the question is how they managed to do so, especially when considering the success in the light, or rather in the shadow, of American recession. Did this recession not affect the economic developments in Western Europe? By no means! What Europe did, was closely watching the developments in the United States, for though they now no longer feared a minor recession they were fully aware that an American crisis could not be localized.

But besides its psychological effect, America's recession did also have material consequences for West European economy. To maintain or in any case to support their production the United States had to find outlets, and where the vast inland market could no longer absorb their goods it was only natural for them to try to find markets abroad, in other words there sprang up a tendency to expand exports, and this expansion actually took place. On the other hand, with a decrease in the G.N.P. and in national income

TABLE 3 — INDUSTRIAL PRODUCTION IN SOME EUROPEAN COUNTRIES (Index numbers: 1948 = 100)							
	1952	1953	1954	1st quarter	1954		
					2nd quarter	3rd quarter	4th quarter
France	114	112	119	122	129	115	133
Western Germany ¹⁾	128	139	155	143	153	154	172
Italy	116	127	139	133	136	137	145
Netherlands	106	117	127	121	128	124	135
Belgium	112	112	120	114	120	117	127
Sweden	103	104	108	111	115	94	117
United Kingdom	101	106	113	115	113	106	120
Yugoslavia	96	106	...	98	120	125	...

Source : O.E.E.C.; Economic Survey of Europe

respectively, imports also decreased which caused in principle the balance of trade with the United States to be adversely affected. The balance of goods, which in 1953 in respect of Western Europe had left the United States a surplus of \$ 694 million, resulted in 1954 in a positive balance of \$ 1,448 million.

Economic conditions in Western Europe had changed to such an extent however that the deficit could easily be borne. Virtually, it was no longer an overall deficit, but rather a decrease in the surpluses of the balances of payments. Gold and dollar reserves increased in 1953 by over \$ 2 billion, in 1954 by \$ 1.5 billion. Eventually therefore, the effect of America's recession resulted in a smaller accretion of surpluses on the balances of payments, but there was no longer any question whatsoever of a dollar crisis as presented itself in 1952, when the gold and dollar reserves decreased by \$ 1.7 billion in spite of the fact that stringent restrictions were then still operative on importation from the United States, while in 1954 these restriction' had been alleviated. Admittedly, American military expenditure and aid represented a vast amount (approximately \$ 2 to 2.5 billion in 1954), but the corresponding sum was of the same magnitude in 1952, when Western Europe was confronted with a deficit on the balance of payments to the tune of approximately \$ 2 billion in current account. The degree of improvement in the economy of Western Europe, as far as its trade transactions with the United States are concerned, appears from the following data:

(\$ million)	1953	1954
Exports to U.S.A. (goods and services)	4,837	4,930
Unilateral remittances from U.S.A.	1,376	1,262
Dollar receipts	6,213	6,192
Capital transactions	284	51
Net dollar receipts	5,929	6,141
Imports from U.S.A. (goods and services)	4,279	4,922
Balance	1,650	1,219
Sundries, errors and omissions	433	253
Net Balance	2,083	1,472

The above amounts include off shore purchases and grants, but not the military transfers under grants (representing sums of some \$ 4 billion in 1953 and approximately \$ 3 billion in 1954). The ultimate result was positive notwithstanding the effect of the recession in the United States, though the surplus was smaller than in 1953.

Unlike in 1952, the potential strength of West European economy including the afflux of dollars proved to be sufficiently great to absorb and to offset the less favourable developments in the United States of 1954. The outlets called for by its growing economic activity Western Europe found primarily in its own markets and furthermore in its increasing trade with Eastern Europe and with overseas countries, except the United States. Thus, to cope with an increasing supply Western Europe succeeded in finding new actual spending power. The intra-West European exchange of goods expanded thanks to intensified liberalization. On an average the liberalization percentage as on December 31st, 1954 was 83.3 against 76.6 in 1953. This average was the resultant of percentages varying from 0 (Turkey) to 99.7 (Italy). The weak group comprised besides Turkey Iceland (29%) and France (64.6,%) the stronger comprised besides Italy Portugal, the Netherlands, Switzerland, Sweden and Germany (over 90%). As will be explained hereunder in more detail, the exchange of goods with Eastern Europe increased thanks inter alia to a shift of the accent in the economic development of that area.

Finally, the improvement of economy in Western Europe as such and the stabilized conditions in the United States were helpful in making exports of underdeveloped countries win through the stage of constantly weakening markets, so that their import-

(\$ million)	1952	1953	1954 (provisional)
<i>Exports from EPU-countries to :</i>			
Member countries	13,133	13,540	14,927
Remainder of E.P.U.-area	7,106	6,811	7,331
of which:			
<i>Overseas territories</i>	3,928	3,697	3,792
<i>Non-participating sterling area</i>	2,899	2,889	3,349
<i>Indonesia</i>	279	225	190
Eastern Europe	697	647	806
Dollar area	2,969	3,409	3,243
of which:			
<i>U.S.A.</i>	1,868	2,109	1,877
<i>Canada</i>	501	609	538
<i>Central America</i>	290	291	318
<i>Dollar countries of South-America</i>	288	371	469
Non-\$-countries of South-America	1,140	911	1,080
Other countries	2,212	2,245	2,347
World total	27,257	27,563	29,734

ing capacity and consequently also West European exports could increase. Naturally there were exceptions to this rule, such as for instance Indonesia, whose imports decreased de facto in 1954 but whose foreign exchange reserves strengthened which was indicative of an increased potential.

The greater part of West European trade appears to have been carried on within its own sphere (about 50% when considering European countries only, but about 66 % when including the so-called associate members). Within the framework of the growth of West European economy the ideas were generated about the further liberalizations of trade and the creation of convertibility of currencies. The expectation expressed now and then that 1954 would witness the establishment of convertibility did not come true, but it is known that in the circles of the E.P.U extended for another year, the drafting of regulations for the liberalization of currency is being continued.

When examining which production sector increased most, it will be seen that the motor car and the chemical industries showed the largest expansions. There is no doubt but the German recovery from the damage suffered during the war contributed to this development.

Unlike the United States, the West European economy does not form a unit. Its components are greater in number (the individual countries) and its cohesion is for the time being rather poor, though voices in favour of integration are becoming louder and louder. Neither geographically (Southern Europe and North-Western Europe) nor on the point of class of product (industry for consumption and that for making durable consumers goods and capital goods) Is the development similar. This makes the maintenance of a high level of economic activity and the raising thereof to higher levels a more difficult task than in the United States. Through the greater diversity it is also more difficult to say what the future will have in store.

Full employment combined with maintenance of monetary equilibrium, continues to be the aim. Full employment implies further expansion, inter alia in connection with the growth of the population. The monetary authorities will have to see to internal and external stability, without being too rigid in so doing and without overshooting the mark in their endeavours to keep inflationary forces under control, as otherwise unemployment would be caused. The building activity is still offering possibilities of stimulating

the further economic development, while in addition fiscal and monetary measures can lead to optimum spending power. The fact that ample foreign exchange reserves are available is a fortunate concurrent. Probably it will be possible for the economic situation to improve further or to be maintained in 1955, which does not mean that there will be no problems. The United Kingdom was confronted with a weak sterling rate of exchange in the first three months of 1955, which compelled the Bank of England to increase the rate of discount, so as to bring about some contraction of credit and to stimulate the demand for sterling, while on the other hand it was authorized to take up sterling offered, so that sterling became de facto convertible vis-a-vis the dollar. In other countries the problem of wages is calling for attention.

Eastern Europe

To remedy the one-sided agrarian structure of the prerevolution years, the U.S.S.R. made industrializations a point of its policy, laying the accent on heavy industries. This policy was after the war also adopted by the other East European countries. The results obtained in this respect are considerable. Industrial development in the U.S.S.R. and the East European countries was also on the increase during 1954.

U.S.S.R.		1940	1953	1954	1955
Electricity	billion k. Wh.	166	320	346	372
Coal and lignite	million tons	48	133	147	163
Crude oil		31	52	58	70
Crude steel		18	38	41	44
Cement		6	16	19	25
Timber	million m ³	119	180	200	253

This development of the heavy industry was not being kept pace with by the growth in the sectors of finished articles and agriculture, as a result of which there were stresses and bottlenecks, for which it was tried to make further provisions in 1954. The U.S.S.R. reduced its defense expenditure by about 10% (1953: 110,200 million rubles; 1954: 100,300 million rubles). The savings thus obtained were in the main utilised to expand the production of finished articles. Much attention was also being paid to agriculture, comprising the plans for opening up new land in central Asia and Siberia. To improve

the level of consumption the retail prices, after having been reduced by 10 % already in 1953, were reduced by another 4%. Further the burdens of the farmers were lightened (by increasing the prices of the produce delivered and by reducing taxes), causing their income to increase, as did the real wages of the workers (5% in 1954; 10 % in 1953).

<i>Eastern Europe (excl. USSR)</i> (million tons or million k. Wh.)	Prewar	1953	1954 (target)
Coal (hard coal equivalent)	138.2	196.6	210.5
Crude oil	6.9	11.0	12.0
Electricity	30.3	58.6	65.8
Iron ore (gross weight)	3.7	6.2	7.2
Crude steel	6.8	12.5	13.8
Sulphuric acid (net weight)	0.8	1.2	...
Cement	7.7	11.7	13.5

In the other countries of Eastern Europe measures were taken which boiled down to reducing the discrepancy between investment and consumption sectors. Multi-year projects were put off temporarily, the direction of heavy industry was bent to some extent to the production of durable consumer goods, light industry was being paid more attention to and last but not least agriculture was provided with machines, fertilizers, insecticides and other stimuli in the financial sector. Within the framework of aiming at a more harmonious development of heavy industries and the production of raw materials on the one hand, and of industries for finished articles and agricultural industry on the other, it was tried to mitigate the stresses by imports both from neighbouring countries in Eastern Europe itself as from other countries. It was the warping of economic development, which was underlying the wish for expansion of trade with countries outside the area itself.

Of little importance before the war, intra-East European trade, which the mainland of China has joined, has since increased however, and thus a still expanding market sprang up between Eastern Europe, including the U.S.S.R., and China. Both short term and long term credits were granted to stimulate this exchange of goods. In 1954 the reparations payable by Eastern Germany to the U.S.S.R. ended. This implies that an exporting potential of some \$ 500 million was freed. Furthermore, agreements were made in 1954 according to which the U.S.S.R. shares in semi-state organizations formed

after the war in Bulgaria, Hungary and Rumania—to the exclusion of Sovrompetrol, controlling the Rumanian oil industry—should be repurchased by the industries concerned. Payment is to be effected during a period of an unspecified number of years. This will result in export surpluses to the U.S.S.R.

Trade between Western and Eastern Europe, including the U.S.S.R., increased in 1954 (period ending September 30th) by approximately 22%. The largest shares on the part of Western Europe, both in respect of imports and exports, had Finland and the United Kingdom. On the part of Eastern Europe the U.S.S.R. and Poland were the countries having the greatest shares.

It is too early at this stage to examine the consequences of the increasing value which since 1955 has again been attached to the development of heavy industry. In principle, this might have either a diminishing or enlarging effect on the trade outside Eastern Europe's own sphere. The former effect would be obvious, but the latter is also possible if it would be the object to have the supply of consumer goods taken care of by countries abroad, via imports, which would entail the use of foreign exchange reserves.

Asia

General

The position of the Asian countries as regards international payments appears on the whole to have improved in 1954. The gold and foreign exchange reserves of the countries enumerated in table 4 increased by nearly \$ 100 million to \$ 4,133 million in 1954, representing a rise by 2.4%. The exports of the countries shown in table 5 (exclusive of Indo-China and Thailand, whose figures were still unknown at the time of writing this report) increased by 6.8%; the imports of these countries (excluding Indo-China) were down by 2.9,%. From the data of the International Monetary Fund, which are published in International Financial Statistics, it can be computed that the above countries' share in the aggregate gold and foreign exchange assets (exclusive of I.M.F., E.P.U. and B.I.S.) remained unaltered (8.4 %). The share in total world exports appears to have increased from 8.1 to 8.4%, while the share in world imports has decreased from 10.2 to 9.6%.

TABLE 4 — OFFICIAL GOLD AND FOREIGN EXCHANGE HOLDINGS OF SOME ASIAN COUNTRIES (U.S. \$ million)							
	1951	1952	1953	1954			
				1st quarter	2nd quarter	3rd quarter	4th quarter
Burma	159	198	211	195	182	139	124
Ceylon	217	163	114	130	151	154	168
India	1,888	1,729	1,765	1,828	1,809	1,782	1,782
Indonesia	511	314	212	189	157	208	248
Japan	924	1,101	895	740	734	844	971
Pakistan	505	295	296	335	299	290	328
Philippines	244	236	240	241	246	238	207
Thailand	359	352	302	291	265	265	273

Source : International Financial Statistics

A closer examination shows that the development of trade and payments in the various Asian countries has been very different. The leading rice exporters Burma, Thailand and Viet Nam, Laos and Cambodia, went through a difficult year owing to the further fall of the rice price. Their outlook for the year 1955 is not too promising either, since the production of rice in the other Asian countries continues to show a tendency to increase and some factors, favourable to these countries, which presented themselves in 1954, such as Japan's poor rice crop and the building-up of food supplies in India, are not likely to recur to an equal extent in 1955. It must be noted that the policy pursued in the other Asian countries, aiming at expansion of the rice production, as well as the economic policy of these countries in general, which it is known has a strongly autarchic element, may from an angle of interregional and international division of labour have disadvantages and may, failing the setting-in of a marked improvement of prosperity, lead to restraint of trade. Naturally these tendencies constitute an obstacle to the intensification of mutual economic relations between Asian countries, over which a growing interest has been displayed of late. The problem of multilateral settlement of debts payable and receivable by one Asian country with another has meanwhile been dealt with in 1954 within the framework of the E.C.A.F.E. Having regard to the small portion of interregional trade that can be settled in this way, it was considered that the creation of a payments union for South-East-Asia would for the time being be premature.

TABLE 5 - BALANCES OF TRADE OF SOME ASIAN COUNTRIES
(U.S. \$ MILLION)

	1938			1951			1952			1953			1954		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Indonesia	381	275	+ 106	1,292	873	+ 419	934	948	— 14	820	753	+ 67	856	629	+ 227
Burma	181	79	+ 102	212	137	+ 75	264	192	+ 72	238	177	+ 61	241	204	+ 37
Ceylon	104	86	+ 18	400	327	+ 73	315	358	— 43	329	338	— 9	380	293	+ 87
Hong Kong	185	188	— 3	780	856	— 76	510	663	— 153	480	678	— 198	424	601	— 177
India	—	—	—	1,611	1,793	— 182	1,295	1,695	— 400	1,116	1,197	— 81	1,181	1,231	— 50
Indo-China	81	56	+ 25	135	304	— 169	116	450	— 334	96	395	— 299	96	343	— 247
Japan	767	759	+ 8	1,358	1,995	— 637	1,273	2,028	— 755	1,275	2,410	— 1,135	1,629	2,399	— 770
Malaya and Singapore	327	315	+ 12	1,984	1,554	+ 430	1,280	1,265	+ 15	987	1,058	— 71	1,016	1,026	— 10
Pakistan	—	—	—	763	530	+ 233	532	611	— 79	439	349	+ 90	359	324	+ 35
Philippines	117	153	— 36	410	541	— 131	352	482	— 130	392	501	— 109	405	541	— 136
Thailand	89	57	+ 32	373	272	+ 101	333	300	+ 33	322	336	— 14	273	320	— 47

Source : International Financial Statistics

The raw material producing countries Malaya, Indonesia and Ceylon were in 1954 in a position to benefit by a considerable increase in the prices of rubber and tea, which contributed towards strengthening these countries' gold and foreign exchange reserves. Less favourable was the trend of the prices of jute and cotton (Pakistan, India), which declined and did not recover until in the last few months of 1954. The increased export proceeds of Japan and India are mainly due to increased export volumes, which also applies to the Philippines (sugar and copra). On the other hand, Taiwan's export volumes (sugar and rice) decreased.

The year 1954 has once again clearly demonstrated how strongly the trend of the prices of only a few export products can affect the economic position of the majority of Asian countries; especially the rubber producing countries became aware again of their great dependence upon the trade cycles in the U.S.A. The fact that the economic downcome which started in that country in 1953, confined itself to a minor recession and that meanwhile a revival has set in the last quarter of 1954, that in other words a certain degree of trade cycle control was successful and a depression was averted, is also to be considered of great importance to the Asian countries. The fact that the so much feared reaction of this recession on Europe's economy was not forthcoming, was also a cheering circumstance.

The food position showed a further improvement in 1954, due to increased production of food. The cost of living, shown in table 7 for a number of countries, decreased in general as a result of the lower price of rice. However, in Indonesia the cost of living increased in consequence of the enforced import restrictions, and of inflationary tensions. In the rice exporting countries the fall in the price of rice affected public revenue more greatly than the incomes of producers or the cost of living of consumers.

The production of the manufacturing and mining industries, on the whole, showed an increase. Exceptions hereto are as far as mining is concerned the Philippines and as regards the manufacturing industry probably Indonesia, as a result of the increased shortage of raw materials. Industrial development is everywhere promoted by a certain degree of protection. A very important problem in this industrial development is, in fact, the introduction of a cost cut reduction, which is in general only feasible with the aid of a better technique and, consequently, with additional investments.

Expansion of investments—the basic problem which the Asian countries are confronted with—can only be effected by either higher domestic savings and greater propensity for investments, or increased foreign loans and aid or increased foreign investments. Though practically all underdeveloped Asian countries now have development plans which, as stated in the foregoing, have an autarchic tendency, great differences both as regards feasibility of planning and mode of implementation are to be observed in the individual countries. Of the democratic countries India and Pakistan are considerably ahead of the other countries, whilst besides considerable progress has been made in the Chinese People's Republic, though of course, considering the entirely different approach, this is not quite comparable with the progress made in the democratic countries. It has been found that in the last few years there has been a considerable increase in domestic savings in India, while a further feature worthy of notice is the growing significance which is being attached there to the carrying out of community projects. Also in the third report of the Colombo Plan attention is drawn to the importance of voluntary community co-operation activities, especially for such areas as offer only limited possibilities of levying taxes on account of low incomes.

TABLE 6 — PRICES OF MAJOR EXPORT COMMODITIES OF THE COUNTRIES OF SOUTH-EAST ASIA						
Commodity	Country	Per cent of exports in 1952		Prices in U.S. \$ ct/lb		
		World	Country's	1952	1953	1954
Cotton	Pakistan	13	50	46.80	33.40	35.80
Sugar	Philippines	10	26	5.11	5.45	5.35
Copra ¹⁾	Philippines	48	33	5.58	8.30	6.98
	Indonesia	24	6	6.21	8.56	7.87
Jute	Pakistan	47	40	10.40	9.00	...
Manila hemp	Philippines	93	12	13.93	13.82	9.84
Rice	Burma	31	74	6.61	6.88	6.25
Rubber ¹⁾	Malaya	40	48	31.40	22.00	22.00
	Indonesia	38	44	27.90	20.60	24.60
	Ceylon	7	25	33.70	32.40	28.60
Tea ¹⁾	India	46	14	47.50	48.90	59.90
	Ceylon	41	48	45.20	50.10	68.20
Tin ¹⁾	Malaya	35	13	118.20	89.40	86.90
	Indonesia	23	10	122.00	92.00	90.70
¹⁾ Owing to disparity in computation (on account of varying quality, inclusion or exclusion of duties, etc.) prices of the same commodity from different countries cannot be compared						

Source : International Financial Statistics

New private foreign investments in Asia have practically not been made in recent years, one of the reasons for this being, no doubt, the lack of a favourable investment climate in most countries. Foreign aid, comprising that of the F.O.A., the Colombo Plan, the Eximbank and the World Bank, has played a more important role and it is to be hoped that it will continue to be on the increase in the future to span the gap between the cost of expenditures for economic development and the funds available. It must be

TABLE 7 — COST OF LIVING INDEX OF SOME ASIAN COUNTRIES							
	Burma 1948=100	Ceylon 1948=100	India 1948=100	Japan 1950=100	Pakistan 1950=100	Philippines 1949=100	Thailand 1950=100
1950	115	105	103	100	100	103	100
1951	112	109	107	116	104	112	111
1952	107	108	105	121	106	105	124
1953	104	110	108	130	118	101	136
1954 1st quarter	96	109	104	138	118	99	141
2nd quarter	103	110	104	138	115	99	141
3rd quarter	105	109	103	137	116	101	129
4th quarter	97	109	101	136	116	101	128

Source : International Financial Statistics

considered of importance in this connection that the U.S.A. government is paying attention to a development plan for Asia, on which it is expected approximately \$ 500 million will be expended in 1955, over and above the economic and military aid already being given on behalf of Asia. Further, in 1954 the General Assembly of the United Nations sanctioned in principle the creation of the Special United Nations Fund for Economic Development (Surfed), while the World Bank has been requested to draft regulations for an International Finance Corporation (I.F.C.), whose activities, unlike those of the Snuffed, will mainly be in the sphere of private foreign investments. It may be expected that these two institutions will also play their roles in the development of the Asian countries.

More extensive foreign aid should not only be deemed of great import; with a view to expediting economic development give the limited real resources which the underdeveloped countries have at their disposal, but also with a view to maintaining and where applicable restoring monetary equilibrium in the Asian countries. On the whole it may

be said that more attention was given to the maintenance of monetary stability in the Asian countries in 1954, in some countries attendant with a relatively great economic progress. The conclusion seems justified, also for the Asian countries, that economic development in the countries which pursue a sound monetary policy made considerably greater progress than in the countries which resort to excessive budget deficits with resultant, in some cases seriously disturbed monetary equilibrium. Very rough indications about the monetary situation are given in the tables 7 and 8 dealing with cost of living and money in circulation. This will be reverted to in greater detail when the various countries are dealt with hereinafter.

Pakistan

In addition to political difficulties, which provisionally ended in September 1954, Pakistan also went through serious economic difficulties in 1954. In East Pakistan there were labour troubles as an aftermath of the political commotion, while both East Bengal and Punjab were swept by serious inundations. The drastic import restrictions introduced in 1953 after the foreign exchange reserves had been trenched upon to a considerable extent, led to a shortage of consumer goods and to an increase of the prices of import commodities in 1954. Thanks to a considerable extension of American aid, it was possible in the first half year of 1955 to liberalize importation.

TABLE 8 — MONEY SUPPLY IN SOME ASIAN COUNTRIES (end of month figures in millions)								
	Burma	Ceylon	India	Indonesia	Japan	Pakistan	Philippines	Thailand
	Kyat	Rupee	Rupee ¹⁾	Rupiah	Yen ¹⁾	Rupee	Peso	Baht
1950 December	551.7	911	18.3	4,392	789	2,972	1,148	3,968
1951 December	605.6	1,006	17.7	5,132	1,048	3,764	1,053	4,907
1952 December	634.9	896	16.8	6,719	1,265	3,232	1,089	4,932
1953 March	845.0	899	18.5	6,276	1,175	3,346	1,100	4,995
June	878.9	880	17.4	7,204	1,207	3,389	1,046	5,062
September	821.4	824	16.7	7,467	1,227	3,379	1,047	5,145
December	779.8	827	17.2	7,642	1,439	3,567	1,105	5,438
1954 March	980.5	810	18.5	8,014	1,277	3,703	1,124	5,686
June	947.2	856	20.0	8,814	1,262	3,682	1,082	5,420
September	922.8	881	17.7	9,785	1,221	3,586	1,091	5,681
December	859.2	957	18.3	11,084	1,463	3,838	1,100	...
Per cent increase 1954	10.2	15.7	6.4	45	1.7	7.6	—0.5	...
In billions								

Source : International Financial Statistics

The volume of U.S.A. aid for the current fiscal year, ending in June 1955, has been fixed at \$ 105 million; in addition a sum of \$ 55 million is made available for military purposes. Besides the point four technical assistance and the emergency flood relief, support is also likely to be given in the execution of the six-year plan, one of the forms of support being the supply of American surplus stocks, partly as a gift and partly against payment in rupees.

The proceeds from exports did not reach the level of 1953. Only in the fourth quarter of 1954 did an improvement set in, connected with the rise in prices of jute and cotton, which two products yielded more than 80% of the aggregate proceeds from exports. As a result of the introduced import restrictions the balance of trade was still showing a surplus. The official gold and foreign exchange reserves as at the end of December 1954 were Rs 32 million higher than a year before.

Both the planning and the carrying out of economic development projects are proceeding most satisfactorily. The planning comprises the building-up of a jute and textile industry (the partition of 1947 deprived Pakistan of its jute mills) as well as the establishment of power, chemical, cement, paper and sugar plants, so as to broaden the basis of Pakistan's economy. Much has been achieved already in the sphere of industrialization. The target for the end of June 1957 of 6,000 looms for the jute industry which, working on full capacity, can produce 200,000 tons of jute fabrics, for instance, will be completed as early as in the middle of 1955. Six of the planned twelve jute mills are productive already; the rest will be put into operation in 1955. Considerable progress has also been achieved in the textile industry, where the number of spindles increased from 177,000 in 1949 to 1,316,000 as at the end of 1954. Inland investments in industrial undertakings in 1953/1954 were of approximately the same volume as the total amount of these investment in the preceding five years. In addition, considerable foreign aid was obtained within the framework of the Colombo Plan. To encourage private foreign investments new arrangements were published at the end of 1954, whereby foreign investors were allowed to hold a majority interest in approved industries; before that time their holding was only allowed to amount to 49% of the total capital. For capital invested after September 1954 more liberal facilities have been granted, especially as regards transfer of profit and repatriation of capital.

India

India could in 1954 reap the fruits of the work done in the preceding years. Towards the close of the year 1953 it became clear that the period of scarcity was at an end and 1954 showed a further improvement in the supply of goods. Favourable weather conditions have admittedly been contributive, but nevertheless this improvement has to a considerable extent been due to increased economic activity, both in the agricultural and the industrial sphere, and to the on the whole successful execution of the first five-year plan, started with in 1951, which is filling such a central role in India's economic expansion.

Tea culture had in 1954 the benefit of the considerable price increase. Other important products, such as cotton and jute, rice and wheat, showed a tendency to fall. The export of jute displayed a decline as a result of growing competition, i.a. from Pakistan. On the other hand, production and exports of other industrial products increased.

Agricultural crops have increased by approximately 20 %, in the last three years. Besides to a more intensive use of artificial fertilizer, the adoption of Japanese cultivating methods, the carrying-out of community projects and especially the construction of irrigation works, these increased crops are also due to the reclamation of new areas. A further expansion is being expected to result from an improvement in the rural credit system.

The industrial production index, which had increased from 108 to 133 in the period from 1951 to the end of 1953, further increased to 147 in November 1954 (1948 = 100). The total increase during the first three years of the plan is about 35 %. With British, American, German and Russian assistance the steel production, which has hitherto been lagging behind, will be considerably stepped up in the next few years.

An interesting feature is that this economic expansion was attended with a remarkable monetary stability. There was no question of an inflationary situation, while the condition of India's balance of payments and the volume of the gold and foreign exchange reserves in the second half year made it possible to liberalize imports. The indices of wholesale prices as well as of cost of living showed a slightly downward tendency during 1954.

Capital expenditure for the five-year plan is in area of the planning. Although it is intended to further increase investments during the last few years of the plan, it must be doubted whether the entire plan can be executed in time. It is expected that for the financing of these investments deficit financing will have to be resorted to in a higher degree than hitherto; if kept within reasonable limits seeing the import liberalization and the growing production, this need not entail an inflationary threat. Of the total expenditure during 1951 to 1954 of Rs 885 crores a sum of Rs 535 crores could be financed out of public and private savings; about Rs 132 crores was obtained in the form of foreign aid. The deficit of Rs 218 crores led to an increase of the floating debt by Rs 50 crores and to depletion of the public cash holdings by Rs 146 crores, the balance being covered by the sale of securities. Thus domestic savings have, it appears, played a most important role in the financing already; the further extension and mobilization thereof is being paid great attention to.

That banking can play its part here is self-explanatory. The creation of the State Bank of India, primarily aiming at an improved system of 'agricultural credits' can at the same time promote the mobilization of rural savings. Another creation to be mentioned is that of the Industrial Credit and Investment Corporation of India, in which various banks and insurance companies have participated and which will be able to contribute towards the financing of private investments.

Ceylon

The year 1954 was favourable for Ceylon. The foreign exchange reserves, which had reached a nadir in November 1953, have steadily increased in 1954.

The balance of trade was active practically throughout the year, unlike in the years 1952 and 1953. Public finance yielded a cash surplus and the cost of living showed a high degree of stability.

The improvement in the balance of trade and the balance of payments was to a considerable extent due to improved terms of trade; especially the tea price increased substantially. In addition there were the loans granted by the United Kingdom and the World Bank, which are used for carrying out various development projects, as is the aid received within the framework of the Colombo Plan. A ten-year 3 1/4% internal Gov-

ernment loan of Rs 7 crores was oversubscribed. The attraction of private foreign capital however is still being hampered by the prevailing immigration regulations for foreigners.

Ceylon succeeded in 1953 in limiting its public expenditure, which had reached a high level during the Korea boom and constituted a threat in respect of the foreign exchange reserves. The budget expenditure for the year 1954/ 1955 has been projected, as far as total volume is concerned, on approximately the same level as in the preceding year, but is more strongly focussed on investment outlays, while the Government's consumptive expenditure has been further curtailed. Export duty on tea has been increased several times since May. The small deficit of Rs 48 million appearing in the new budget is amply covered by the facilities to draw on the U.K. loan of Rs 64.5 million, so that no inflationary pressure will be exerted by it. Thus, as the Minister of Finance put it, the stage of economic development with financial stability was reached.

In October agreement was reached with the Chinese People's Republic regarding continuation of the rubber/rice barter. The quantities were maintained at 50,000 tons rubber and 270,000 tons rice, but the prices, especially that of rice, were fixed at a lower level. In addition to this trade with China, Ceylon hopes it will be helped by the U.S.A. in its further economic development; a development not only aiming at renewal and extension of the existing production apparatus (i.e. rubber rehabilitation schemes), but also at broadening the now still so narrow economic basis.

Burma

The decrease in the gold and foreign exchange reserves of Burma since the middle of 1953 is to be attributed to the decline of the terms of trade, the high capital expenditure for reconstruction, the maintenance of large private imports and the redemption of foreign debt to the United Kingdom and, partly, to India. Negotiations with the World Bank are going on about a loan to be granted, in which connection a mission of the bank visited Burma recently. In November the peace treaty with Japan was signed, the war damage receivable was fixed at a value of \$ 250 million, while furthermore it was made possible for Japan to participate in Burmese development projects.

The decline of the terms of trade is mainly due to the fall in the price of rice, which commodity forms about 80% of the overall proceeds from exports. Thanks to an intensive campaign carried on by the Government during the second half year total exports of rice in 1954 were even larger than those of 1953. In an effort to further raise rice exports, the state monopoly for export has been abandoned and private exporters have been given freedom of action again.

The reduced profits out of the rice monopoly had their repercussions on the financing of the development projects; deficit-financing was resorted to in a higher degree. To reduce the state's deficit the excise duties on spirits, cigarettes and sugar were increased, while it is also considered to reduce investment outlays, since with a view to inflationary consequences upholding it at present rate could do more harm than good. Much will depend on whether or not the World Bank will grant a loan.

In March 1955 all open general import licences were withdrawn, as a result of which it became possible to gain full control of imports. Although this measure has meanwhile been alleviated for a number of import articles, it may nevertheless be expected that imports will more than before be confined to necessities.

Thailand

Notwithstanding the import restrictions enforced in 1953, the balance of trade, as in 1953, for 1954 again resulted in a deficit. As in the case of Burma, this is accounted for by the decrease in the price of rice. Owing to the Government adhering too long to the policy of keeping up the selling prices of rice, the export volumes dropped from 1.3 million tons in 1953 to 1.0 million tons in 1954. In Thailand too it has meanwhile been decided, in view of the difficulties being encountered, to return rice trade to private enterprise. Though Thailand has besides rice other important export commodities such as tin and rubber, still approximately 50% of all export proceeds is accounted for by rice. Tin exports decreased as compared with 1953, but there was a considerable increase in rubber exports in the second half year of 1954.

The high public expenditure and the reduced public revenue, the latter largely originating from the rice trade, in 1954 again led to a considerable budget deficit; the budget for 1955 shows a deficit of over Tical 1,200 million. The import restrictions introduced

in 1954 enlarged the danger of inflation. For this reason a tight money policy was pursued, which has led to a tight money market. A bright spot is the increased foreign aid, being rendered both as mutual defense aid and within the framework of the F.O.A. After a sum of \$ 8.5 million was supplied last year for road construction, the F.O.A. will in the current year make available an amount of \$ 3 6.7 million for the development of power projects and telecommunication. Industrial development is being hampered by lack of fuel, power plants and technical personnel. The Government's activity in the sphere of investments is especially focussed on the development of power plants and on the improvement of transport facilities.

Viet Nam, Cambodia and Laos

The termination of the war—the cost of which amounted for France, the U.S.A. and the associated States, to about \$ 9,000 million—and the Geneva conference in July 1954, ceding the territory north of the 17th parallel to the Viet Minh and making the States south of that parallel sovereign, have not yet brought about the restoration of circumstances which may be considered favourable to the so necessary rehabilitation.

In the beginning of 1955 there was food scarcity in northern Viet Nam, owing to protracted drought and to the devastations of seven years of war. Moreover upwards of 70,000 farmers and farm hands fled to the south, which by the way aggravated the difficulties there, especially originating from lack of unity. Meanwhile in northern Viet Nam, in analogy with the Chinese People's Republic, as a first measure approximately 30,000 hectares land have been expropriated, with and without compensation.

In the rehabilitation of the Southern States aid from the U.S.A. will play a prominent part; a sum of \$ 300 million is being spoken of in this connection.

After prolonged negotiations between France and the three Southern States a number of agreements have been concluded, which terminated as from the year 1955 the economic union of the said States which had existed since 1950. Each of the States now has its own foreign exchange centre, customs organization, bank of issue and monetary unit. The monetary units will have the same parity vis-a-vis the French franc, while the interstate exchange of goods will be governed by mutual preferential duties and tariff exemptions for transit goods.

Further, each State has the Mekong River as *fluvius liberum*, while certain sectors of the port of Saigon, situated in Viet Nam, have been assigned to Cambodia and Laos as free port. In the course of 1955 economic agreements will be concluded between these three States and France.

Philippines

The gold and foreign exchange reserves, which had fluctuated only slightly in the preceding years, went down in 1954, especially in the fourth quarter, to the low level of 1949 mainly as a result of additional textile imports. Not only the exchange of merchandise, but also that of invisibles resulted in a deficit. Though American spendings in the Philippines are showing a downward tendency, they are still of sufficient volume to offset the deficit on the balance of trade. The proceeds from exports showed an upward tendency in 1954. Considering the renewal of the trade agreement with the U.S.A., no extraordinary difficulties are being expected in the sales to foreign markets; the Bill Act of 1946 was, at the request of the Philippines, altered in respect of various items, but the duty-free trade on a basis of reciprocity was continued.

Economic activity showed, on the whole, a further increase in 1954. Of the important export commodities copra, sugar and timber again displayed an enhanced production. The production of food crops likewise increased; the index figure of industrial production rose from 112.9 in 1953 to 122.7 in 1954. On the other hand, the production of the mining and housebuilding industries showed in general a fairly strong decline, while also the production of tobacco and abaca diminished. In financial respect 1954 was again characterized by a high degree of stability. Since 1950 the money supply and the cost of living have remained practically unaltered. The state's cash position improved in 1954 due to higher receipts from taxes on the one hand, and a lag of state expenditure on the other hand. The credits granted by banks increased by nearly 8% while savings bank deposits and fixed deposits rose by nearly 14%.

It may be expected that while proceeding with the carrying-out of the development projects due attention will as hitherto be given to maintenance of the achieved monetary stability.

Taiwan (Formosa)

Taiwan's balance of trade for 1954 showed a deficit of U.S. \$ 12.4 million. Export proceeds decreased from approximately \$ 120 million in 1953 to \$ 98 million in 1954, while the value of imports increased by \$ 10 million to \$ 110 million. The deficit is mainly due to diminished exports of sugar and rice, resulting from reduced export quotas fixed under the International Sugar Agreement, and from the slump in the rice market. About 60% of all export proceeds is accounted for by sugar exports.

The country's economic structure being so highly dependent upon export, rationalization is one of the fundamental problems Taiwan is confronted with. Other problems this country has to face are connected with the high expenditure for defense, the rapid growth of population (unemployment) and the limited natural resources.

The considerable progress made in various fields of activity during the past years (since 1949 industrial production more than doubled and agricultural production increased by more than one-third) has been attended in the last few years with a sound monetary development, which has since 1952 resulted in only a moderate increase in prices, a certain degree of stability in the cost of living and a diminishing increase in the money supply. The considerable aid rendered by the U.S.A. has played a prominent part herein. However, the increased belligerent activities in respect of the Chinese People's Republic, which started in 1954, have led to a larger deficit on the budget and aggravated monetary tensions.

Japan

Japan's austerity policy, started in 1953, aiming at strengthening the position to compete in foreign markets, which was deemed necessary in view of the decreased American military expenditure in Japan, was continued all through 1954.

This policy has led to considerably curtailed imports, which was made possible by eating into available stocks. More difficult to ascertain is in how far this deflation policy contributed towards the large expansion of **exportation** in 1954. Hitherto it seems there has been no appreciable reduction in cost of production, though on the other hand mention is being made of quality improvement. Various protective measures and the

so-called trade-link system have, together with liberalized importation into the sterling area and increased volume of trade in general, helped in bringing about a temporary expansion of exports. One of the forms protection has assumed is that of subsidies to shipbuilding and heavy industries, financed out of the profits from monopolies on a number of imported commodities, such as bananas, pine apples and sugar, making it possible for offers to be below costprice.

The balance of payments for 1954 resulted in an overall surplus of \$ 99 million, against a deficit of \$ 193 million in 1953. Receipts increased by approx. \$ 200 million, expenditure decreased by about \$ 100 million. Due to diminished U.S.A. military expenditure the dollar account has shown a deficit since October 1953. With a view to reducing this dollar shortage negotiations about a tariff-cutting agreement were conducted with the U.S.A. early in 1955. Liberalized importation into the sterling area put in 1954 an end to the sterling payments crisis prevailing up to then. The gold and foreign exchange reserves had by the end of 1954 again reached a level of approx. \$ 1,000 million, after they had decreased in May 1954 to some \$ 800 million. This total, however, also includes a frozen part of some \$ 250 million, comprising the debts receivable from Indonesia and Korea.

The tight money policy pursued by the country has at home led to a decrease in wholesale prices. The cost of living has remained stable. After industrial production had diminished from March to August, it rose again from that time to beyond the level of the corresponding period in 1953. Unemployment figures, however, did not yet show any amelioration. Thus, though on the whole the economic and monetary policy adopted led in 1954 already to sounder conditions, especially in monetary respect, the prevailing opinion is that this policy should be adhered to, if more permanent results are to be obtained. Since it is to be expected that the American spendings will decrease still further, which will weaken the country's balance of payments position, more intensive rationalization and raised labour productivity are being deemed essential to be able to maintain the present level of exports. Furthermore, early in 1955 the outline of a six-year plan was approved of, aiming at an expansion of Japanese economy and a high degree of autarchy while maintaining equilibrium in monetary respect and in the balance of payments.

Chinese People's Republic

Although information about China's economic development is scanty and practically no quantitative data whatsoever are available, yet a few publications make it possible to form a rough picture of it, from which the conclusion can be drawn that since the creation of the Chinese people's government in October 1949 there has been a considerable rise in production, a restoration of monetary stability, a progressive socialization, and an increasing dependence upon the U.S.S.R.

The years 1951/52 brought the completion of the rehabilitation of the production apparatus, which had been severely devastated by world and civil war. In 1953 the first five-year plan for economic development was approved of, the main object of which being the development of heavy industries. This has led to scarcity of the first necessities of life—which partly serve as payment for imported machines—in view of which a system of rationing and price control has been introduced. The first five-year plan aims at setting-up *casu quo* renewal of 600 large industrial plants, the majority of which will have to be completed in 1958. For 141 projects, mainly basic industries, assistance will be rendered by the U.S.S.R. The remaining projects mainly include plants for textiles, chemicals, light machines and sugar. It seems that, in general, the quantities of the targets for 1954 have materialized, but that the expectations as regards quality, costprice and labour productivity proved too high-strung.

The number of state-managed industries has greatly increased. The railways and the heavy industries were almost entirely in the hands of the state in 1952 already, as were banking and foreign trade. By then the socialization of light industries, wholesale and retail trade had not proceeded that far. Education is adapted to the projected development (the number of technical students, for instance, increased from 19% in 1946 to 35% of the total number in 1952). Further, the efficiency of the state administration seems to have improved considerably.

Agricultural production, too, has strongly increased. It was stimulated in the first few years by extending the tenure of land, which was made possible by expropriation. Since then tillage has to an increasing extent been done by mutual teams, which promotes communal use of cattle and implements, thus improving efficiency. The autonomy of the landowner in respect of the use of his land is already considerably curtailed by

these teams, or by the production co-operatives and their leaders; the final object is the establishment of large mechanised collective farms. It is expected that by the end of the first five-year plan more than 50% of the acreage under cultivation will be tilled by cooperative organisation, by collective and by state-managed farms. As the hoarding of gold and precious metals and the purchase of land are prohibited, the supply of textile goods into the country side has been intensified, so as to constitute a stimulus for increasing the production and selling available surpluses.

Since May 1950 the run-away inflation has been put and kept under control. As early as 1951, thanks to higher taxes, a more efficient collection of taxes and a rapid increase of the revenues of the state-managed industries, the budget resulted in a surplus. The rehabilitation and extension of transport system and production apparatus and the improved public administration have likewise contributed towards the monetary stability.

China's foreign trade, too, has undergone considerable changes. About 80 % of this trade is directed to the U.S.S.R. and Eastern Europe. Imports shifted from consumer goods to raw materials and capital goods. The tensions brought about by the industrialisation plan are being mitigated by foreign (U.S.S.R.) economic and technical aid.

British Colonies in South-East Asia

Both the increase in the rubber price as the improved security favourably influenced Malaya's position in 1954. The successful fight against terrorism in 1954, the end to which for that matter is not yet in sight, has made it possible to reduce the emergency expenditure in the national budget for 1955 by 18 %. The deficit on the 1955 budget has been estimated at \$ 148 million, which though \$ 74 million lower than the original estimate for 1954, nevertheless still represents 27 % of all revenue. The improvement as compared with 1953 is the result of both curtailment of expenditure and increase of revenue. The two main sources of revenue are the export duties on rubber and tin, which have both risen.

Tin production reached a post-war record level in 1954. Malaya has meanwhile joined the International Tin Agreement, of which a certain degree of price stability is expected but which owing to insufficient backing has not been ratified yet.

Especially due to the price increase of rubber during the second half of 1954, the balance of trade also showed an improvement as compared with the preceding year. However, the entrepot trade suffered a decline.

Within the framework of the development programme and pending the report of the World Bank, which sent a mission to Malaya early in 1954, the appropriations made for 1955 only comprise those for railway and telecommunication projects. It is expected that the World Bank will inter alia make recommendations regarding measures to be taken to enlarge the rubber industry's ability to face competition. It must further be noted that Malaya's development programme is largely financed out of loans, both internal and external. An internal 20-year 4 3/4% loan issued in 1954 was oversubscribed.

Hong Kong's foreign trade displayed a further deterioration in 1954, which was mainly due to the decreased volume of trade with China. It is common knowledge that the United Nations' embargo on the export of strategic goods to China has dealt a heavy blow to the entrepot trade. Though this embargo has been lifted for various classes of goods, an expansion of trade failed to present itself. Hong Kong, however, managed to compensate the decline of its entrepot trade to a considerable extent by expanding its industry.

Within a period of 10 years this colony has succeeded in developing from a purely trade centre into a trade and industrial centre, whereby the textile industry in particular displayed a large expansion. Nearly 30% of all exports is made up of locally produced goods. The low company tax has probably made a not inconsiderable contribution towards this rapid industrialization.

Both North Borneo and Serawak benefited by the increased rubber price. Copra exports of North Borneo were higher than in 1953, while Serawak had very good crops of pepper and ilipe nuts. Both areas had a budget surplus in 1954. In North Borneo attention is being devoted to replanting schemes for rubber and to the development of light industries and agriculture—in which effort however a shortage of labour is being faced with — while Serawak's new development plan for the years 1955/1960 has as its main projects: increasing the rice production, developing greater diversity of exportable goods, improving transport and expansion of social services.

III. MONETARY DEVELOPMENTS

Introductory

The way in which the internal monetary situation developed in 1954 was very bad indeed. While on the one hand the inflationary forces—as there are in the first place the cash deficit of the Government and furthermore the credit granting of the banks - expanded, on the other hand the compensating influence emanating so strongly in the preceding years from the deficit on the balance of payments, waned considerably in 1954, mainly as a result of the import restrictions introduced in May last in view of the depleted gold and foreign exchange reserves. This in the end resulted in 1954 in increased internal creation of money with resultant increased effective demand, which was considerably greater than in 1953. Not only this primary inflationary effect, but also the secondary inflationary effect (the multiplier) must have gained in force, because as a result of the import restriction only a smaller proportion of the newly created spending power could find an outlet abroad, causing the remaining part to be concentrated more than before on the domestic market.

Though the real economic factors justifying an increased money supply, such as larger production and a growth in the number of business and family households, again showed some increase in 1954, it is evident that the expansion by no less than 46%, not to speak of the multiplier effect, which took place in the volume of money, was out of all proportion. As a matter of fact, this excessive creation of money led to increasing disequilibrium between spending power and supply of goods, having resulted inter alia in a considerable advance in prices and in cost of living, in greater tension between prices and wages and in increasing disparity between internal and external price levels.

The most important cause of this serious interference with internal monetary equilibrium, which in turn greatly contributed towards farther going interference with the material equilibrium in the balance of payments, was again the cash deficit of the Government, which was nearly Rp 500 million more in 1954 than in 1953 and totalled some Rp 3,500 million. When comparing this actual trend with the scheme outlined in the Financial Paper of 1952, aiming at restoring equilibrium in the monetary position and in the balance of payments in 1956 by gradually reducing the budget deficit on the

one hand, and by controlled depletion of the foreign exchange reserves on the other hand, it is most obvious how far our country is still remote from these targets. Admittedly, the planned depletion of the foreign exchange reserves has wellnigh been materialized, but the aim thereby envisaged, viz. Restoration in the direction of internal and external monetary equilibrium, has by no means been achieved; on the contrary: it seems to be remoter than ever. It is because the gold and foreign exchange reserves have meanwhile been reduced to a bare minimum, so that restoration of equilibrium can no longer be combined with further trenching upon them, that a situation has been created which will offer most serious impediments to such restoration. More than ever before, therefore, it is now an urgent necessity to weaken the effect of inflationary factors, which should primarily be brought about by reducing the cash deficit of the Government, while furthermore expansion of credit granting by banks—however small its inflationary effect may be relatively—should be curbed as much as possible.

It is very much to be regretted that these urgent problems were not paid any attention to in the Financial Paper of 1954 and that neither was a fiscal policy pursued in 1954 which actually led to the reduction of the aggregate demand bent on purchasing, either by reducing total Government expenditure, or by increasing Government revenue—at least in so far as increasable with the aid of internal measures. The measures which were actually taken in this sphere, comprising the increased prepayments to the Foreign Exchange Fund to be made by importers, have lost their deflationary effect, since the Government now regards these payments as additional revenue and they are, in fact, expended again; the direct controls, such as the planned trenching upon the foreign exchange reserves as such, the enforced restriction of imports and the controlled distribution of basic materials, the controlled prices and wages (the success of which, as a matter of course, depends on the degree of efficiency of the Government organizations) are, looked at from the monetary angle, merely means of combating symptoms. They do not in the long run constitute any positive contribution towards the necessary reduction of effective demand. Mitigation of the now prevailing stresses can only be achieved by reducing the total of expenditures.

The question may be asked whether such a reduction of the expenditures as required from a monetary point of view, would be compatible with an economic policy aiming at deliberately promoting the further economic development. For certain quarters, also in our country, are propagating these very Government deficits and/or this

very expansion of credit granting by banks—a widening therefore of the effective demand—as the expedients to ensure expansion of production. These expedients, which are in times of depression (with lack of demand owing to too small a spending power) doubtless recommendable in some fully developed industrial countries (with production plants lying idle and skilled labour being unemployed), cannot however in my opinion bring about any positive result under the circumstances in which Indonesia finds itself. There is in our country no idle industrial capacity on account of inadequate purchasing power, no unemployment of skilled labour; there is on the contrary considerable shortage of these real resources and of good entrepreneurs, despite the fact that for years on end there has been relatively too great a spending power. Experience of the last few years of inflation has clearly demonstrated that excessive creation of purchasing power has not caused the real resources to be used to better advantage. Only mining (oil) and food industry have exhibited a fairly large production expansion, which however can decidedly not be attributed to any turning the inflation to advantage.

On the other hand, the too great creation of money, as result of impeded exportation and increased urge for importation, did lead to the creation of a new bottleneck for further economic development, viz. a shortage of spendable gold and foreign exchange reserves. My view is that a policy aiming at restoration of internal and external monetary equilibrium, and a policy pursuing the object of promoting economic development, need not in the present Indonesia be in conflict with each other, but that on the contrary continued excessive creation of money will to a considerable extent be impedimental to the materialization of the two objects.

It is only natural that owing to the existing discrepancy between total expenditures and available supply of goods not only the use of real resources to better advantage, but also the transfer thereof from the private to the Government sector is being seriously thwarted. The continued existence of a fair-sized Government cash deficit and the non-pursuance of a fiscal policy aiming at restricting the aggregate purchasing power, intensifies the “competition” between private entrepreneurs and the Government in respect of gaining control of the —relatively small—available quantity of real resources. This entails a constant increase in the price of these real resources (capital goods, raw materials and labour). Besides to the resultant aggravation of the balance of payments difficulties, this leads to the necessity for the Government to spend increasingly large amounts for the financing of a given (development) programme.

In this connection it must furthermore be noted that there has been no feature in the Government policy as yet aiming at accelerating economic development. The increased deficit of the Government budget in 1954 can decidedly not be identified with a deliberate deficit-financing policy, but is rather the result of inadequate control of the levels of total expenditure and total revenue.

First and foremost, every effort is to be made to curb the inflationary factors, since the near future is causing very great concern in monetary respect. Any expansion of total outlays, either in the Government or in the private sector, interfering further with the equilibrium to the value of the volume of goods and services becoming available in the same period of time, even though they are investment expenditure, should be avoided. Only increased investment expenditure attended with reduced consumptive spendings can be deemed justified.

The necessity of a decrease of the cash deficit in 1955 is evident. Maintenance of the cash deficit at the same level as in 1954 would, with a view to the expectable abatement of the deflationary counterforces, in all probability generate still greater inflationary effects, both primary and secondary. It is to be hoped that the policy pursued by the Government in 1955 will more than in 1954 be focussed on curbing the causes of inflationary stresses.

As it is to be expected that also in the years to come the greater part of the Government cash deficit will have to be financed out of advances raised from the Bank Indonesia, it might be useful in this connection to draw attention to article 19 (2) of the Bank Indonesia Act 1953, providing that the total advances to the Government shall not exceed the limit of 30% of Treasury revenues in the budget year preceding the year in which the advances are applied for.

Differences in opinion as to what is to be understood by “revenues of the Treasury”, of which concept the law does not give a more precise definition, have made it difficult for this article to be strictly adhered to; nevertheless it was established in the course of 1954 that even when applying a strongly watered-down concept of revenues, the above limit would be exceeded which would make it a statutory necessity to ask for Parliament’s sanction to increase this limit. This increase, to an amount of Rp 2,500 million—based on a first estimate of the budget deficit for 1955— has meanwhile been

submitted for approval, bringing the maximum to Rp 7,100 million as at the end of 1955. Although it is doubtful whether this increased limit will prove sufficient, in my view a fixed limit is in any case to be preferred over a variable one.

It may be recalled to memory that legislators incorporated the article in question in the Bank's charter because of the non-existence of sufficient safeguards against arbitrary actions on the part of the Government in the sphere of public expenditure. Though it must be stated that the incorporation of this regulation has been of no avail to prevent the Government appeals to the central bank from going on unabatingly, yet this fact must not lead to the conclusion that it should thus have lost its value. For by (yearly) fixing a set limit, Parliament can, despite the too late arrival of the budget, exercise control on public expenditure.

The reduction of the Government deficit, now so absolutely necessary, will of course to an appreciable extent only be achievable by Government measures. Normally such a reduction is being laid down in the budget. But if, as in our country, the presentation of the budget and the discussions of this budget in Parliament are seriously delayed, the restrictive nature of the budget is of no avail. On the other hand.. the first thing the now proposed increase by Rp 2,500 million of the limit referred to ,above for advances to the Government in 1955 calls for is the sanction of Parliament, so that it may be expected that when discussing this matter the monetary policy of the Government will be subjected to a closer study. The fixed increase by Rp 2,500 million will moreover constitute a test case for the question as to in how far the Government in full earnest intends to actually confine the total deficit for 1955 to this figure.

Monetary balance sheet

As stated in previous annual reports, the monetary balance sheet—which is compiled on the basis of the consolidated balance sheet of the Bank Indonesia, the Bank Negara Indonesia, the Bank Industri Negara and seven non-Indonesian foreign exchange banks operating in this country as well as on the basis of the data supplied by the Government regarding the volume of money brought into circulation by or on behalf of the Government—in its present compilation, does not pretend to be complete, for completeness could only be claimed when also the balance sheet figures of the other money-creating organisations established here, comprising the Bank Rakjat Indonesia and the private banks, were in-

cluded. However, since these balance sheet data are either not at all or only on a limited scale, and often with considerable delay, produced and moreover quantitatively of relatively small importance, it has so far been necessary, for practical reasons, to abstain from incorporating them. This is illustrated by the consolidated quarterly figures of some twenty national private banks, showing that the creditor figures (inclusive of bills payable) as at the end of December 1954 did not make up more than about 6% of the sum of the demand liabilities of the ten banks referred to in the monetary balance sheet.

TABLE 9 — MONETARY BALANCE SHEET (as at December 31; Rp million)							
	1952	1953	1954		1952	1953	1954
Currency issued by the Government (less bank note balances with Government pay-offices)	255	340	480	Currency in circulation:			
Advances of Bank Indonesia to the Government	4,730	5,309	8,472	a) bank notes	4,209	5,030	7,2
Treasury notes and bills with banks	63	114	153	b) Government notes	320	367	4
Domestic, non-Government credits granted by banks				c) coin	106	133	1
Gold and foreign exchange holdings	2,445	2,394	2,826	<i>minus</i>			
Sundry items	1,799	2,025	1,758	Cash balances with :			
	481	416	759	a) banks	—115	—152	—2
				b) Government	—171	—160	—1
					4,349	5,218	7,5
				Demand deposits :			
				domestic creditors	2,255	2,269	3,4
				Money supply	6,604	7,487	10,9
				Non-monetary liabilities of banks	3,169	3,111	3,4
	9,773	10,598	14,448		9,773	10,598	14,4

Sources : Combined figures of Bank Indonesia, Bank Negara Indonesia, Bank Industri Negara and seven foreign private banks; Ministry of Finance

As appears from table 9, the composition of the monetary balance sheet in the present report differs to some extent from the one given in previous annual reports in that the so-called *runi* (blocked rupiah accounts of non-residents) balances of individuals and banks, together forming the item foreign creditors, no longer appear under demand deposits. This was done while the balances in question, considering the foreign exchange regulations now in force, are virtually no demand liabilities, i.e. are no free deposits subject to check, and cannot consequently be regarded as money according to the generally accepted definition of money. The *runi* balances have now been included in the item non-monetary liabilities of banks. So as to make the volume of money put into circulation in 1954 and preceding years comparable, the necessary alterations have also been made in table 11; omitting these corrections would have given an incorrect (coloured) picture of the movements which took place in 1954 in the money supply.

For greater clarity it should be mentioned that the item currency issued by the Government, appearing on the debtor side of the balance sheet, represents the amount of notes and coin issued by the Government minus the bank note balances in Government hands a similar procedure was adopted In preceding years.

A more detailed survey of the various causes of the changes in the money supply is given in table 10.

On the strength of these data the monetary trend during 1954 may be pictured as follows. The money circulation has constantly risen as from the end of 1953. A striking feature is that the rate of this rise showed an increasingly stronger upward tendency in each consecutive quarter of the year. In total the increase amounted to *Rp 3,474* million or over 46% of the money supply at the beginning of the year (in 1953 *Rp 882* million, equalling about 13 %).

Of the factors causing the expansion of the money supply **the first to** be mentioned is the budget deficit, since it was this very factor that to a considerable extent contributed towards the creation of money. The Government's inflationary cash deficit in 1954, see table 12, totalled *Rp 3,342* million (*Rp 2,452* million in 1953). This cash deficit was financed (1) by increase of the Government debt to the Bank Indonesia by *Rp 3,162* million— this increase was especially high in the second quarter, also as a result of more extensive budget expenditure—, (2) by issue of treasury notes and bills with banks to a sum of *Rp 39* million and (3) by increased supply (*Rp 141* million) of Government notes and coin. It must be noted that the compulsory prepayments, to be made by importers, rose by *Rp 143* million in 1954—in this connection attention may be drawn inter alia to the enhancement fixed for these prepayments as on July 12th 1954—which cash receipts naturally caused a corresponding reduction of the inflationary cash deficit of the Government. Taking into account that the Government's net outlays abroad have totalled *Rp 775* million, up to which value the inflationary effect was neutralised, the direct internal inflationary effect of public finance has amounted to *Rp 2,567* million.

Increase in the volume of money also occurred in 1954 by extension of the credits advanced to semi-Government institutions, comprising the Jajasan Urusan Bahan Makanan the Jajasan Kopra and the Jajasan Kredit, and to private enterprise, by *Rp 433* million in all (in 1953 a credit contraction of *Rp 5 0* million) . As to *Rp 160* million the

TABLE 10 — CAUSES OF CHANGES IN THE MONEY SUPPLY (Rp million)						
	1953		1954			
	Total	Total	1st quarter	2nd quarter	3rd quarter	4th quarter
A. Government Finance						
(1) Government debt with Bank Indonesia	+ 580	+ 3,162	+ 867	+ 1,073	+ 849	+ 373
(2) Treasury bills with banks	+ 53	+ 39	+ 1	0	+ 38	0
(3) Currency issued by the Government (less bank note balances with Government pay-offices)	+ 85	+ 141	— 85	+ 37	+ 54	+ 135
	+ 718	+ 3,342	+ 783	+ 1,110	+ 941	+ 508
Adjustment item: Profit on gold	+ 1,734	—	—	—	—	
Total A	+ 2,452	+ 3,342	+ 783	+ 1,110	+ 941	+ 508
B. Domestic credits granted by banks to:						
(1) Semi-Government institutions	— 272	+ 160	+ 232	+ 19	— 126	+ 35
(2) Private business and individuals (inclusive of participations and discounting of bills)	+ 222	+ 273	— 20	+ 46	— 49	+ 296
Total B	— 50	+ 433	+ 212	+ 65	— 175	+ 331
C. Foreign exchange holding						
(1) Gold holding with Bank Indonesia	— 1,025	— 596	— 293	— 102	— 201	0
(2) Ready foreign exchange position of the Foreign Exchange Fund	— 237	+ 608	— 139	— 251	+ 666	+ 332
(3) Foreign bills and balances of banks	— 298	— 281	— 183	— 70	— 116	+ 88
Total C	— 1,560	— 269	— 615	— 423	+ 349	+ 420
Grand total (A + B + C)	+ 842	+ 3,506	+ 380	+ 752	+ 1,115	+ 1,259
D. Miscellaneous causes						
(1) Margin deposits with banks	— 63	— 79	— 51	— 37	+ 18	— 9
(2) E.C.A., I.M.F. and I.B.R.D. funds	+ 34	+ 218	+ 3	+ 9	+ 194	+ 12
(3) Capital and reserves of banks	+ 319	+ 75	+ 13	+ 20	+ 42	0
(4) Time deposits	+ 34	+ 9	— 6	+ 17	— 24	+ 22
(5) Claims of the Government on the Foreign Exchange Fund	— 280	— 32	+ 6	— 32	+ 11	— 17
(6) Foreign creditors (Rurni)	+ 40	— 32	— 4	— 29	— 3	+ 4
(7) Sundry accounts	— 124	— 127	+ 42	— 24	— 97	— 48
Total D	— 40	+ 32	+ 3	— 76	+ 141	— 36
E. Money supply	+ 882	+ 3,474	+ 377	+ 828	+ 974	+ 1,295
Grand total (D + E)	+ 842	+ 3,506	+ 380	+ 752	+ 1,115	+ 1,295

said increase was due to credit expansion in the semi-Government sphere owing to rice imports in the first quarter of 1954. In the purely private sector the amount of credit outstanding showed a rise of Rp 273 million, which rise is however chiefly to be associated with the price increases presenting themselves in the fourth quarter for the commodities intended for export and home trade and the difficulties in transporting these articles (floods, etc.), owing to which it was frequently necessary to hold larger stocks. More detailed comments on the credit granting by banks will be given in chapter V.

The gold and foreign exchange reserves were down by Rp 269 million during 1954, which decline exerted a deflationary effect. Against the preceding year, when the decrease in the gold and foreign exchange holdings totalled Rp 1,560 million, this deflationary effect is considerably smaller—I shall revert to this when discussing the balance of payments—which is mainly due to the drastic import restrictions introduced in the third and fourth quarters on the one hand and the improved terms of trade on the other. A closer study of the movements in the gold and foreign exchange reserves in the course of 1954 shows that the Bank Indonesia's gold holdings (inclusive of the balances in convertible foreign exchange and the claim on the Government on account of gold deposited on its behalf with I.M.F. and I.B.R.D.) suffered an overall decline of Rp 596 million. In this connection attention must be drawn to the fact that in the third quarter the Government raised a sum of U.S. \$ 15 million from the International Monetary Fund within the scope of the so-called gold tranche, which sum was removed from the item gold holdings and added to the assets of the Foreign Exchange Fund. This is one of the factors which made it possible for the ready foreign exchange position of the Foreign Exchange Fund to improve to the extent of a total of Rp 608 million. The item foreign bills and bank balances showed a decrease of Rp 281 million. Considering the Government spendings abroad of Rp 775 million, referred to in the foregoing, it may be stated that there was actually an increase by Rp 506 million of the foreign exchange reserves in the semi-Government and private sectors, which was being attended with a rise in the money supply.

Among the other factors having influenced the volume of money are, in conclusion, to be mentioned the miscellaneous causes which item is composed of the non-monetary liabilities of banks. On the one hand, there were deflationary movements owing to increases of the items E.C.A., I.M.F. and I.B.R.D.-accounts, capital and reserves of banks and time deposits by Rp 218, Rp 75 and Rp 9 million respectively, while on the other hand inflationary tendencies resulted from the decreases of the items:

margin deposits with banks, Government claims on the Foreign Exchange Fund, foreign creditors (rurnis) and sundry accounts by Rp 79, Rp 32, Rp 32 and Rp 127 million respectively. Thus, when considering the overall effect of the miscellaneous causes, the conclusion is reached at that this item generated a deflationary effect to the extent of Rp 32 million.

It may be inferred that inflationary influences still predominate over deflationary effects. A comparison of the monetary trends in the years 1954 and 1953 even shows that in 1954 the inflationary tendencies were considerably stronger than in the preceding year. This must primarily be attributed to the strongly increased creation of money on behalf of the Government, while also the credit granting to the private sector was appreciably extended. On the other hand deflationary factors were less active, which found expression besides in a smaller decrease of the gold and foreign exchange reserves in an increase of the non-monetary liabilities of banks.

As far as their influence on the economic developments are concerned, the predominantly inflationary forces clearly manifested themselves in an upward pressure on the price level, such as a result of the discrepancy between total effective demand for goods and supply of goods.

Money supply

Table 11 illustrates that the increase in the total money supply was approximately Rp 3,474 million in 1954, against Rp 882 million in the preceding year. Whereas in 1953 the increase in the volume of money had been practically confined to the currency sphere, in 1954 both currency in circulation and deposits increased in volume to an approximately equal extent, viz. by 45 and 50% respectively. As at the end of 1954 the aggregate money supply was composed of 68.8% currency and 31.2% deposits; the corresponding figures in 1953 were 69.7 and 30.3%.

A closer study of the component parts of the money supply shows that in the first quarter of 1954 currency in circulation underwent only a relatively slight increase, not to be considered abnormal. But in the months April and May a considerably larger increase could be recorded. As in previous years, this is to be ascribed to payments of Lebaran bonuses and the buying-up of paddy by the Government. A fairly regular increase by on

an average Rp 180 million per month took place in the period July through November. The strong rise in December, finally, is accounted for by the comparatively large dispositions of Government institutions, usually taking place by the end of the year, and by the extension of credit facilities in the private sector.

The trend of movements in the sphere of deposits was rather irregular in the period January-March. A similar tendency was displayed in the second quarter; the increase in deposits by over Rp 300 million in June was most probably largely due to the restricted issue of import licenses, causing large repayments to be made to importers of

TABLE 11 — MONEY SUPPLY IN INDONESIA (Rp million)					
End of	Currency	Deposits	Total money	% currency	% deposits
1938 March (estimated)	240.0	180.0	420.0	57.1	42.9
1950 December	2,581.6	1,726.3	4,307.9	59.9	40.1
1951 December	3,328.1	1,705.8	5,033.9	66.1	33.9
1952 December	4,349.2	2,254.6	6,603.8	65.9	34.1
1953 December	5,217.7	2,268.8	7,486.5	69.7	30.3
1954 January	5,256.8	2,396.1	7,652.9	68.7	31.3
February	5,233.0	2,323.7	7,556.7	68.0	32.0
March	5,334.9	2,528.7	7,863.6	67.8	32.2
April	5,534.3	2,384.2	7,918.5	69.9	30.1
May	6,123.2	2,265.7	8,388.9	73.0	27.0
June	6,115.4	2,576.3	8,691.7	70.4	29.6
July	6,289.3	2,763.7	9,053.0	69.5	30.5
August	6,417.1	2,985.2	9,402.3	68.3	31.7
September	6,570.4	3,095.8	9,666.2	68.0	32.0
October	6,841.4	3,147.1	9,988.5	68.5	31.5
November	7,037.8	3,315.5	10,353.3	68.0	32.0
December	7,542.3	3,418.9	10,961.2	68.8	31.2

their prepayments effected at an earlier date in favour of the Foreign Exchange Fund. A wellnigh similar explanation can be given for the rise in July. The increase in deposits during the period August-September and, though to a lesser extent, in the last quarter of 1954, is most likely also to be seen in the light of the import restricting measures of the Government. For it was these measures which caused depletion of stocks in certain sectors of private enterprise along with an accumulation of funds, which resulted in an increase of the current account with banks.

IV. PUBLIC FINANCE

General review

The 1954 budget was not presented to Parliament until in the beginning of September last. In the Financial Paper accompanying that budget which, different from the preceding one, did unfortunately not contain more detailed comments on the country's financial position, nor an outlined financial policy for the years to come, the Minister of Finance intimated that the deficit would have to be figured at some Rp 2,600 million, which was appreciably higher than the deficit of Rp 1,200 million initially estimated early in 1954. It has meanwhile been found however, that the eventual deficit will come somewhere in the neighbourhood of Rp 3,600 million, owing to the fact that total revenue fell short of the estimate and supplements were found to be necessary for various ministries in view of their respective budgets of expenditure.

The 1955 budget bill which was submitted for approval to the Cabinet at the end of January will, it is hoped, be ready to be presented to Parliament in June 1955. The deficit for 1955 is provisionally estimated at Rp 2,500 million. This was one of the factors which prompted the Government to ask Parliament to sanction the limit for the advances of the Bank Indonesia to the Government—according to article 19 (2) of the Bank Act this limit is bound to 30% of Treasury revenue in the budget year preceding the year in which the advances are raised—to be increased to a sum of Rp 7,100 million

In the sphere of public finance the following events call for mention.

Between the Government and two petroleum companies a new agreement has been concluded, superseding the old so-called let-alone-agreement. The new agreement provides that the oil companies in question, i.e. the Caltex and the Stanvac, shall monthly prepay one-twelfth part of the tax payable by them. It may be observed that this measure can of course only temporarily bring about some alleviation, but that it will not solve future financial difficulties.

Revenue out of the levy (T.P.T.) of 66 $\frac{2}{3}$ % imposed by Emergency Law No 5/1954 on transfer overseas of invisibles totalled according to tentative data some Rp 296

million (provisional estimate Rp 700 million). Importers' prepayments—as at July 12th raised from 75% 100% (for raw materials for industrial purposes and for capital goods from so to 75%) —displayed, after a decline in the first six months, a net advance of some Rp 500 million during July through December 1954, despite the introduced import restrictions. As at the end of December 1954 the prepayments totalled Rp 1,173 million, against Rp 1,028 million as at the end of 1953. Revenue on account of the imposed extra import levy (T.P.I.) amounted to approximately Rp 1,180 million in 1954, that is over Rp 90 million more than originally estimated.

A bill which the Government presented to Parliament early in July 1954 on a further increase of excise duties did not meet with a favourable reception, because various parties in Parliament did not under the prevailing circumstances consider such increase compatible with the interest of the consumer, especially so in so far as products such as sugar and kerosine are concerned. Though not referring to the period under review, it may here be stated that an increased excise duty on gasoline was introduced early in May 1955, causing its price in Djakarta to increase from Rp 1.04 to Rp 1.80 a litre.

Having regard to the country's financial position, the Government has decided to adopt only on a limited scale the new 1955 salary scheme for civil servants, proposed by the so-called salary committee. This will cause the additional expenditure to be “only” about Rp 600 million instead of over Rp 2 billion. As a transitionary measure, 5% of the transition tax 1954 for civil servants has been borne by the Government. On June 30th, 1954 the measure of economy announced by the Government in 1953, to pension off civil servants over 55 years old unless they are indispensable, became operative. In how far this latter measure has meanwhile been implemented and in what degree it has led to economy, is unknown yet.

The Company Tax Bill 1953 passed Parliament by the end of November 1954, after the adoption of a modified amendment. As regards the rates I may for the sake of brevity refer to my previous annual report. The additional revenue out of the new tax rates is estimated at approximately Rp 200 million for 1954.

For partially covering the budget deficit and for redeeming older State loans the Government introduced a bill to Parliament on the issue of a new State loan to the amount of Rp 300 million. The interest of this loan, to be issued in 1955, will be 4% its currency will be 20 years.

Parliament also passed the National Loan 1946 bill., Increasing the proposed redemption percentage of 5 to 10, (calculated from the nominal amount of the loan), with the proviso that 50% will have to be redeemed in one sum and the total loan within five budget years, first redemption in 1954.

Worth mentioning is furthermore the repeal of the decree of December 15th, 1954 of the Minister of Finance on the temporary abrogation of the extra export duty on heave rubber. By decree of February 1st, 1955 an extra export duty of 10% has again been made payable as from March 1st, 1955. All this was based on the trend of rubber world quotations in the period October 1954 through January 1955. On January 1st, 1955 the general export duty on rubber had been reintroduced already.

Cash deficit of the Government

The movements on the Treasury's account with the Bank Indonesia over 1954 resulted in a deficit of Rp 3,904 million. Since the cash balances of the various Government institutions increased by a total of Rp 371 million, the aggregate cash deficit of the Government for 1954 can be figured at Rp 3,533 million, which is Rp 486 million more than in 1953.

TABLE 12 — GOVERNMENT CASH DEFICIT AND ITS FINANCING (Rp million)						
	1953		1954			
	Total	Total	1st quarter	2nd quarter	3rd quarter	4th quarter
<i>Computation of the deficit</i>						
Movements in Treasury Account	2,701	3,904	1,257	1,261	936	450
Decrease of Government cash and balances	346	—371	—693	—266	181	407
Total	3,047	3,533	564	995	1,117	857
<i>Financing of the deficit</i>						
Debt increase with Bank Indonesia	579	3,163	866	1,074	849	374
Issue of notes and coin	84	141	— 85	37	54	135
Issue of Treasury bills and notes	67	85	— 1	20	56	10
Prepayments by importers	440	144	—171	—180	153	342
Decrease in current account balances of various Government services	143	—	— 45	44	5	— 4
Profit on gold	1,734	—	—	—	—	—
Total	3,047	3,533	564	995	1,117	857

While in 1953 the cash deficit could be covered as to some 57% out of the profit from the revaluation of gold and as to 14% out of the compulsory prepayments by importers, the part filled by these incidental receipts was of much smaller importance in 1954, for the said prepayments showed a net advance of only Rp 144 million in 1954, as against Rp 440 million in 1953. These phenomena—after taking into account the increased issue of Government notes and coin and of treasury paper representing a total of Rp 226 million in 1954 (Rp 151 million in 1953) and furthermore the decrease in the balances of various Government offices in 1953 by Rp 143 million, which balances on the whole did not show any appreciable movements in 1954 —caused the debt of the Government to the Bank Indonesia to increase considerably more in 1954 than in the preceding year. This increase of debt was Rp 3,163 million, against Rp 579 million in 1953.

.In consequence, the inflationary effect of public finance was much greater this year.

Of the total cash deficit of Rp 3,533 million which accumulated in 1954, Rp 190 million—i.e. importers' prepayments amounting to Rp 144 million and treasury bills issued to non-bankers amounting to Rp 46 million—has been financed in a deflationary way, so that the gross inflationary effect of public finance for 1954 can be figured at Rp 3,343 million. After elimination of the rounding differences (Rp 1 million) this total is equal to the inflationary force of public finance arrived at in the monetary analysis by computations from the angle of finance. The inflationary effect for 1953, computed in a similar way, was Rp 2,450 million.

In the gross inflationary effect referred to above, the monetary-neutralising effect of Government deficit in respect of foreign countries has been discounted as yet. By deducting this, the primary internal inflationary effect is obtained, which was Rp 2,568 million for 1954, that is Rp 983 million more than in the preceding year. As far as the external Government cash deficit is concerned, it may be added that expenditure abroad (Rp 1,470 million) was approximately Rp 135 million lower, than in 1953, while receipts from abroad (Rp 695 million) showed a decrease by Rp 45 million.

Budgets

The originally estimated budget deficit for 1954 amounted to Rp 2,591 million, which was Rp 807 million more than the estimated deficit for 1953. Over against a higher assessment of net revenue by Rp 573 million stood that net expenditure surpassed the 1953 level as well, namely by Rp 1,380 million.

TABLE 13 — BUDGETS 1953 AND 1954 AND PROVISIONAL RESULTS (million Rp)						
	Net expenditure		Net revenues		Balance	
	1953	1954	1953	1954	1953	1954
Budget	9,374	10,754	7,590	8,163	— 1,784	— 2,591
Provisional outturn	11,947 ¹⁾	12,069	9,707	8,467	— 2,240 ¹⁾	— 3,602
Difference	+ 2,573	+ 1,315	+ 2,117	+ 304	— 456	— 1,011
¹⁾ excluding transitory items 1952 to a total of Rp 700 million						

Source : Ministry of Finance

The higher estimate for net revenue is in the first place due to the insertion of a revenue item of Rp 500 million ex E.C.A.-counterpartfunds. This item has been allowed for in the 1954 budget as new capital income, anticipating a decision of the U.S.A. government (the realization of this revenue could not be accomplished). Furthermore, the estimated reimbursements on the Eximbank loan were included in the 1954 budget as a separate net capital income component, in contrast to previous years. These reimbursements were assessed at Rp 380 million in 1953 and Rp 350 million in 1954. Net revenue on the ordinary service was for 1954 estimated at about Rp 275 million lower.

As to the expenditure budget it can be observed that estimates of net expenditure chargeable to the ordinary and capital services increased by Rp 1,035 and 345 million respectively as compared with 1953; the share of capital outlays in overall expenditure thus rose from 13% in 1953 to 14% in 1954. But in this respect allowance has to be made for what has been written above as regards the Eximbank loan. If in 1953 the same mode of accounting should have been followed as in 1954, net capital expenditure would in 1954 have displayed a decline of Rp 35 million.

TABLE 14 — GROSS GOVERNMENT EXPENDITURE (Rp million)					
	1953		1954		Difference between 1953 and 1954 out- turns
	Provisional estimate	Provisional outturn	Provisional estimate	Provisional outturn	
<i>General sector</i>					
High Colleges of State	1,094.7	1,131.2	1,197.1	1,249.7	+ 118.5
Finance	871.9	884.9	1,047.7	1,027.7	+ 142.8
Sub total	1,966.6	2,016.1	2,244.8	2,277.4	+ 261.3
<i>Security sector</i>					
Defense	2,879.9	3,875.9	3,000.0	3,327.4	— 548.5
Justice	178.1	190.0	257.6	243.4	+ 53.4
Home Affairs	1,692.5	2,178.2	1,639.9	2,911.9	+ 733.7
Sub total	4,750.5	6,244.1	4,897.5	6,482.7	+ 238.6
<i>Economic sector</i>					
Agriculture	514.9	460.6	555.5	498.9	+ 38.3
Economic Affairs	1,445.3	1,142.6	775.5	1,345.2	+ 202.6
Financing Service	1,945.6	1,423.9 ¹⁾	2,309.2	1,413.2	— 10.7
Transport and Communications	324.9	371.0	421.1	424.5	+ 53.5
Navigation	113.8	155.7	99.8	138.0	+ 17.7
Public Works/Energy	514.3	581.1	500.0	570.7	— 10.4
Sub total	4,858.8	4,134.9	4,661.1	4,390.5	+ 255.6
<i>Cultural sector</i>					
Information	133.4	152.5	150.3	172.8	+ 20.3
Education and cultural affairs	752.0	857.5	750.2	856.1	— 1.4
Religious affairs	142.2	178.0	163.1	209.0	— 31.0
Sub total	1,027.6	1,188.0	1,063.6	1,237.9	+ 49.9
<i>Social sector</i>					
Health	297.1	224.5	328.7	314.0	+ 89.5
Social affairs	134.2	154.2	189.3	193.1	+ 38.9
Labour	84.4	51.0	67.7	72.9	+ 21.9
Sub total	515.7	429.7	585.7	580.0	+ 150.3
<i>Foreign sector</i>	96.9	203.8	109.2	172.1	— 31.7
Grand total	13,216.1	14,216.6	13,561.9	15,140.6	+ 924.0
¹⁾ excluding the entry re revaluation profit on gold amounting to Rp 1,734 million					

Source : Ministry of Finance

Nearly 63% of the ordinary net budget expenditures, totalling Rp 9,199 million in all, went to the security sector (which comprises Home Affairs) against 67% in 1953 (overall net expenditure in 1953 Rp 8,164 million). The lion's share of the estimated net capital outlays related to the economic sector, namely over 77% in 1954 against 76% in 1953.

The provisional outturn reveals that the actual budget deficit for 1954 came to Rp 3,602 million, or over Rp 1 billion more than originally estimated. In 1953 the deficit—discounting the transitory items 19 5 2 to a total of Rp 700 million—amounted to Rp 2,240 million, thus exceeding estimates by Rp 456 million. Since the Ministry of Finance has again not been in a position to prepare a specification of actual net revenues, only a brief review of gross expenditures is given.

Table 14 reveals that overall actual gross expenditure has exceeded estimates by Rp 1,579 million. A striking feature is that the estimate for the security sector, comprising the Ministries of Defence, Justice and Home Affairs, was surpassed by not less than Rp 1,635 million. This is mainly to be contributed to higher outlays of Home Affairs. The actual gross expenditures in the economic sector and in the social sector on the other hand remained by approximately Rp 250 million and Rp 85 million respectively below the original estimates.

When comparing 1954 with 1953, actual gross expenditure in the general, the economic and the security sector proves to have for either sector increased by about Rp 250 million. The cultural and the social sectors also expended more, the foreign sector being the only one which displayed a small decline. On the aggregate, actual gross expenditure in 1954 outweighed 1953 expenditure by Rp 924 million.

Government resources

As could be calculated from provisional data, the received net resources amounted in 1954 to around Rp 8,451 million which signified a decline by Rp 1,256 million as compared with 1953 (see table 15). They exceeded by Rp 1,140 million the 1954 estimate. Yield of taxes and sundry receipts surpassed estimates by Rp 727 million and Rp 558 million respectively, while receipts from the exploitation of Government industries, as referred to in the Indonesian Industries Law, lagged behind estimates by Rp 145 million.

Of the direct taxes, company tax produced, as in 1953, a substantial surplus; over against an estimate of Rp 750 million stood an actual outturn of Rp 1,330 million, which surpassed last year's by around Rp 250 million. This is principally to be attributed to the introduction of new tax levies as well as to the payment agreements concluded with oil companies. The yield from other direct taxes also surpassed the 1953 total. Transition tax for instance increased by 23 %, exceeding estimates by around Rp 300 million. Income tax rose by 7%.

TABLE 15 — GOVERNMENT RESOURCES (Rp million)				
	1952	1953	1954	
	Provisional outturn	Provisional outturn	Provisional outturn	Provisional estimate
A. Taxes				
1. <i>Direct taxes</i>				
Transition tax	648	655	805	500
Income tax	183	229	244	190
Company tax	896	1,083	1,330	750
Free sales tax	66	22	14	—
Other direct taxes	30	38	46	41
Sub total	1,823	2,027	2,439	1,481
2. <i>Indirect taxes</i>				
Turnover/sales tax	628	634	611	630
Import duties	1,396	1,283	995	1,050
Normal export duties	147	101	107	72
Other export duties	1,672	912	437	684
Excise	1,180	1,355	1,593	1,044
Other indirect taxes	109	189	214	708
Sub total	5,132	4,474	3,957	4,188
Total of A	6,955	6,501	6,396	5,669
B. Balances of Government industries	293 ¹⁾	205 ¹⁾	61	206 ¹⁾
C. Sundries				
Foreign exchange certificates and T.P.I. levy	2,082	1,914	1,179	1,087
T.P.T.	—	—	296	p.m.
Share of profits	123	87	121	109
Mining concessions	68	114	74	92
Court fines, etc.	8	14	15	10
L.A.A.P.L.N.	—	530	100	p.m.
Miscellaneous	155	342	209	138
Total of C	2,436	3,001	1,994	1,436
Grand total	9,684	9,707	8,451	7,311

¹⁾ Estimate

Source : Ministry of Finance

Indirect taxes' yield displayed an overall decline of Rp 517 million as compared with 1953. Comparison with the budget figure reveals that the actual outturn lagged behind estimates by approximately Rp 230 million. I would in this respect mention that among the other indirect taxes two excess revenue items have been inserted in the budget, totalling Rp 600 million. These items are not further explained. Revenue from turnover/sales tax wellnigh came up to estimates but remained by Rp 23 million below the 1953 level. On account of the import restrictions, import duties yielded in 1954 about Rp 290 million less. Though the above was allowed for when drafting the budget, yet actual outturn came Rp 55 million below estimates. A not insignificant decline was also suffered by revenue from additional export duties, consequent upon the fall in world prices for various export produce during 1953 and the first half of 1954, and the resultant reduction and/or exemption from the export duties imposed on some of these produce. Excise yielded around Rp 240 million more as compared with 1953, chiefly due to increased receipts from tobacco excise. Overall excise yields surpassed estimates by around Rp 550 million.

As against 1953, the resources classified under Sundries yielded approximately Rp 1 billion less. This is to a large extent attributable to lower yields from TPI-levies. The (decreased) receipts of the Foreign Exchange Institute appearing in table 15 regard, in contrast to the amount given for 1953, only the returns for the period under review. As mentioned before, TPT-levies yielded Rp 296 million.

Public debt

The aggregate public debt rose from Rp 13,385 million to Rp 16,834 million during 1954, representing an increase of 26%. In 1953 the increase of debt was Rp 1,509 million, equalling about 13%.

Owing to a considerable rise of the debt to the Bank Indonesia, the proportion of the floating debt increased in the course of 1954 from about 22 to 39%. The currency brought into circulation by the Government showed a decrease in the period January-April, but increased again to a relatively considerable extent thereafter. The item treasury bills displayed a regular extension. The debt to importers on the other hand decreased in the first six months of 1954 not inconsiderably, viz. by Rp 350 million, which decrease was however replaced again in the second half year by an increase of some Rp 500 million. An insight into the composition of floating debt and the movements thereof is given by table 17.

TABLE 16 — GOVERNMENT DEBT POSITION (Rp million)					
End of	Consolidated debt		Floating debt (internal)	Total debt	Movements
	External	Internal			
1949	3,882	—	3,012	6,894	+ 1,400
1950	3,792	1,540	3,302	8,634	+ 1,740
1951	4,463	1,511	1,672	7,646	— 988
1952	5,330	1,439	5,107	11,876	+ 4,230
1953	5,248	5,134	3,003	13,385	+ 1,509
1954	5,237	5,027	6,570	16,834	+ 3,449

The aggregate consolidated debt showed a decrease by Rp 118 million in 1954. This decrease is for the greater part (about 90%) to be attributed to a reduction of internal consolidated debt, i.e. the 3% R.I. 1950 loan, which reduction is exclusively the result of adjustment entries; in 1954 no R.I. bonds were bought in.

TABLE 17 — FLOATING DEBT (Rp million)						
At the end of	Debt to Bank Indonesia	Currency and notes put into circulation by the Government	Treasury bills and notes	Debt to importers (pre-payments to Foreign Exchange Fund)	Claim on Foreign Exchange Fund	Total floating debt
1951 December	1,359	280	136	—	— 103	1,672
1952 December	4,730	256	130	588	— 597	5,107
1953 December	1,471	340	197	1,028	— 33	3,003
1954 March	2,337	255	196	857	— 39	3,606
June	3,410	292	216	678	— 7	4,589
September	4,260	346	271	831	— 17	5,691
December	4,634	481	282	1,173	—	6,570
MOVEMENTS IN FLOATING DEBT IN 1954						
1st quarter	+ 866	— 85	— 1	— 171	— 6	+ 603
2nd quarter	+ 1,073	+ 37	+ 20	— 179	+ 32	+ 983
3rd quarter	+ 850	+ 54	+ 55	+ 153	— 10	+ 1,102
4th quarter	+ 374	+ 135	+ 11	+ 342	+ 17	+ 879
Total	+ 3,163	+ 141	+ 85	+ 145	+ 33	+ 3,567

In respect of the external consolidated debt it may be stated that an amount of Rp 105 million was redeemed on the prewar loans, while the total of postwar loans increased by Rp 94 million, on the one hand by reimbursements on the Eximbank loan, resulting in the receipt of the countervalue of Rp 218 million, against which there were on the other hand redemptions on foreign loans to a value of Rp 124 million.

TABLE 18 — CONSOLIDATED DEBT (Rp million)								
	Debt as at the end of		Redemption in 1954 (—) and new loans in 1954 (+)					Debt as at the end of 1954
	1952	1953	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	
<i>External debt</i>								
1. <i>Prewar loans</i>								
Netherlands	2,293	2,191	— 16	— 4	— 11	— 74	— 105	2,086
2. <i>Postwar loans</i>								
Australia	203	174	— 28	—	—	—	— 28	146
Canada	106	70	—	— 17	—	— 18	— 35	35
United States (surplus credit)	658	635	+ 4	—	— 23	—	— 19	616
E.C.A.	196	196	—	—	—	—	—	196
Eximbank	350	500	—	+ 104	+ 103	+ 11	+ 218	718
Japan	684	684	—	—	—	—	—	684
Netherlands	840	798	—	— 21	—	— 21	— 42	756
Total postwar loans	3,037	3,057	— 24	+ 66	+ 80	— 28	+ 94	3,151
Total external consolidated debt	5,330	5,248	— 40	+ 62	+ 69	— 102	— 11	5,237
<i>Internal debt</i>								
1. Public loan 1950	1,439	1,296	— 107	—	—	—	— 107	1,189
2. Bank Indonesia	—	3,838	—	—	—	—	—	3,838
Total internal consolidated debt	1,439	5,134	— 107	—	—	—	— 107	5,027
Total consolidated debt	6,769	10,382	— 147	+ 62	+ 69	— 102	— 118	10,264

V. BANKING AND CREDIT

Supervision of the credit system

In January 1955, Government Ordinance No 1 bearing upon the supervision of the credit system as referred to in article 7, paragraph of the Bank Indonesia Act 1953, was promulgated. The ordinance (attached to this report as appendix F) formally provides for and extends over all banks and savings banks operating in our country the supervision, which in actual practice had already been exercised to a certain degree and on the basis of voluntariness and mutual understanding over a number of banks and since 1932 also over savings banks. Only a few special credit institutions are (as yet) exempted from this supervision.

The banking system in Indonesia falls apart into two groups: the national banks and the foreign banks. While the supervision's general object is to give the central bank the opportunity to guard to the best of its ability over a sound money and credit system, the present ordinance also aims at promoting the development of the still infant national banking system.

It stands to reason that an uncontrolled expansion of the number of small, financially weak banks is not only contrary to the promotion of a sound national banking system, but moreover considerably hampers an efficiently working supervision. During the past few years some tens of small banks were established. Because of this, article 2 of the aforementioned ordinance now stipulates that banks can only be founded if possessing a minimum paid up capital of Rp 2.5 million, while for the banks which were in existence when the ordinance came into force but which did not then possess the required minimum capital, transitional measures have been drafted. Only banks which can fulfil these and/or other conditions, if any, will receive a permission to operate as credit institution.

The banks which are at present operating show a very great diversity, not only as to financial strength but as much with regard to field of activity, banking standards and efficiency. This entails that not all institutions can be treated alike as regards for instance the standards to be applied and the statistical material to be periodically supplied. This circumstance hampers an efficient supervision and a close co-operation between central

bank and other banks. In addition to the aforementioned conditions, which are necessary with a view to a really sound development, the ordinance provides moreover for the possibility to assist newly established banks with improving their administration and organisation.

The ordinance aims in particular at promoting a sound development of the credit system and at protecting creditors by way of superintending the solvency and liquidity of the banks. In this connection the best endeavours should be applied to attain to good banking standards and in so doing to further develop the banking habit in this country.

Besides the development of sound banking practices, the ordinance furthermore provides for pursuing a credit policy by way of exercising a quantitative control—i.e. by fixing a limit to overall credit advances, either or not in proportion to the respective bank's assets or in proportion to its demand liabilities— or by exercising a qualitative control through the prohibition *casu quo* restriction of the granting of specified forms of credits or of credits to a certain industrial sector which would exceed the determined amount limit. Furthermore directives can be given about the rate of interest.

In determining a credit policy the problem to be solved is how to distinguish between sound and excessive credit creation. In an inflationary period as Indonesia now experiences, the danger of excessive credit creation and consequent intensification of monetary tensions is naturally great. For the considerable Government cash deficit leads to increases in the money supply, part of which flows into the banks, making credit expansion feasible. But a too strict credit contraction on the other hand nourishes the danger that, as the very consequence of the prevailing inflation and the soaring prices, insufficient financial means will come available for maintaining the present production level. Contraction of credit advances to the private sector as such might signify that real resources are being pushed into a less productive direction.

In my opinion a sound credit policy should with regard to the current production be tuned to the maintenance of the prevailing actual production level. With regard to the financing of the further economic development such policy should be focussed on the availability of exploitative real resources. I see as a primary problem the finding of these real resources (entrepreneurs, skilled labour, capital goods, raw materials). If these would come available, the financial means would have to be found to exploit them.

Though it can be appreciated that in the still capital lacking Indonesian society the Government has tried to stimulate the rise of a number of young national banking institutions by granting working capital through general purpose credits, the utmost discretion is to be considered in the granting of such long term credits to said young banks, not only in the interest of a sound development of those banks but also while the policy thus pursued in actual fact contrasts with the basic idea of the aforementioned Government Ordinance No 1: the promotion of a healthy credit system in our country.

Credit facilities granted By banks

It appears from the figures embodied in table 19 that the credits granted to semi-Government institutions and private enterprise by the Bank Indonesia' the Bank Negara Indonesia, the Bank Industri Negara and seven private foreign exchange banks operating in this country, extended in 1954 by Rp 433 million. In 1953 there was a credit contraction of some Rp 50 million.

As stated in chapter III, on the one hand credits granted to semi-Government institutions showed an increase by Rp 160 million— in 1953 they decreased by no less than Rp 272 million—while on the other hand in the purely private sphere, including the participations and the discounting of bills, the credit advances also expanded, namely by Rp 273 million (Rp 222 million in 1953).

An insight into how the credits were divided over the different sectors of trade and industry is offered by table 20. It must be noted that credits in the form of participations and discounting of bills have been left out of consideration in this table.

The credits granted to semi-Government institutions showed especially in the first quarter of 1954 a not inconsiderable increase, due also to rice imports on behalf of the J.U.B.M. and to stagnation in copra exports. In the period July through September the stocks of imported rice decreased again, making it possible for the outstanding credits to be reduced. The eventual expansion of credits granted in the semi-Government sphere was nearly 100% as compared with 1 95 3.

In the private sphere a credit contraction could be recorded in the categories of importers, sugar plantations and other plantations. In all other categories however credit granting expanded.

The decrease in credits granted to importers is largely to be attributed to the import restricting regulations promulgated by the Government. When these restrictions were mitigated to some extent in the last quarter of 1954, the volume of credit increased again by some Rp 70 million. As regards the sugar plantations it may be observed that after a decrease in the first quarter of 1954, there was an increase in the volume of credit granted in the period May-September, such in view of the financing of the sugar campaign. Looked upon over the whole year, the volume of credit in this sector contracted by a total of Rp 46 million (in 1953 Rp is million)

One of the reasons for the diminished credit requirements were the higher proceeds and the smoother sales, mainly resulting from sugar exports, inter alia to Japan. In the other plantations category too these factors more or less affected the volume of credit, causing it to decrease by Rp 63 million; in this connection attention may be drawn to the increase of world prices of a number of commodities, such as rubber and tea.

A considerable increase was recorded in the volume of credit to industrial and other enterprises; this increase amounted to Rp 127 and Rp 109 million respectively in 1954, against Rp 64 and Rp 30 million in the preceding year. Besides by a growth in the number of enterprises, the said credit expansion can be accounted for by a rather strong increase in cost prices. The credits granted to exporters showed an increase by Rp 102 million in 1954, against Rp 5 million in 1953. An explanation for this increase can inter alia be found in the advanced prices of produce, such as rubber and tea, which advances took place in the last quarter of the year in particular. As far as the rubber export is concerned, possibly the re-introduction of the general export duty as from January 1st, 1955 was also a reason for the tendency arising among traders to buy up as large supplies of rubber as possible in the last month of 1954, so as to be able to export them still in time. Finally, in respect of the category domestic produce trade it may be observed that the increase in the volume of credit by Rp 48 million is due, besides to the advance in prices at home, also to the deficient transport facilities in certain areas owing to floods, as a result of which frequently larger stocks than normally had to be carried and financed.

TABLE 19- COMBINED FIGURES OF BANK INDONESIA, BANK NEGARA INDONESIA, BANK INDUSTRI NEGARA AND SEVEN FOREIGN PRIVATE BANKS

	1952	1953				1954					1952	1953				1954			
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.		Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
Cash in hand	115	161	128	138	152	138	177	216	208	Private capital and reserves invested in Indonesia	662	722	839	860	984	997	1,017	1,059	1,059
Balances of the other banks with Bank Indonesia	515	773	499	576	760	713	815	1,405	1,176	Domestic creditors	2,255	2,484	2,052	2,255	2,269	2,529	2,576	3,096	3,419
Treasury notes and bills	63	64	60	108	114	115	115	153	153	Foreign banks' accounts (Rurni)	—	—	—	—	—	—	—	—	—
Investments in securities	30	30	50	52	51	50	50	58	58	Non-residents' accounts (Rurni)	115	128	132	128	155	151	122	119	122
Debtors, internal commercial bills and participations	2,445	2,238	2,604	2,460	2,394	2,605	2,669	2,495	2,826	Time deposits	85	81	117	107	119	113	131	107	130
Foreign bills and balances	1,557	1,358	1,375	1,152	1,261	1,078	1,008	892	980	Sundry credit accounts	1,725	1,445	1,194	1,096	1,239	1,244	1,182	1,350	1,345
Foreign exchange certificates on account of foreign exchange bought	65	—	—	—	—	—	—	—	—		4,842	4,860	4,334	4,446	4,766	5,034	5,028	5,731	6,075
Real estate	41	62	60	68	199	207	216	221	232										
Sundry debit accounts	137	94	124	174	165	166	190	242	299										
	4,968	4,780	4,900	4,728	5,096	5,072	5,240	5,682	5,932										
Gold and bullion, balances in convertible foreign exchange and claim on the Government on account of gold deposited on its behalf with I.M.F. and I.B.R.D.	892	788	2,364	1,851	1,651	1,358	1,256	1,055	1,055	Foreign Exchange Fund, foreign liabilities	874	766	719	881	1,097	1,314	1,592	1,612	1,738
Foreign exchange certificates on account of gold bought	208	104	—	—	—	—	—	—	—	Debt of Bank Indonesia to the other banks in Indonesia	515	773	499	576	759	713	815	1,405	1,177
Foreign Exchange Fund, foreign currency account	223	343	103	175	210	289	316	1,002	1,461	Bank notes in circulation	4,209	4,601	4,960	4,971	5,030	5,218	6,000	6,440	7,270
Advances of Bank Indonesia to the Government	4,730	5,836	3,742	4,729	5,309	6,176	7,248	8,098	8,472	E.C.A. counterpart account	581	590	597	609	614	616	623	634	645
Claim in rupiahs on the Government on account of payments made on its behalf to I.M.F.	—	—	—	—	—	—	—	171	171	Special Account re Profit on Gold I.M.F. and I.B.R.D. accounts	—	261	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—		—	—	—	—	—	—	2	186	186
	11,021	11,851	11,109	11,483	12,266	12,895	14,060	16,008	17,091		11,021	11,851	11,109	11,483	12,266	12,895	14,060	16,008	17,091

TABLE 20 — LOANS AND ADVANCES GRANTED BY BANK INDONESIA, BANK NEGARA INDONESIA, BANK INDUSTRI NEGARA AND SEVEN FOREIGN PRIVATE BANKS (Rp million)					
To :	1953	1954			
	December	March	June	September	December
<i>A. Semi Government institutions</i>	162	393	412	286	321
<i>B. Private business and individuals</i>					
Banks and credit-institutions	50	67	77	73	60
Insurance companies and savings banks	7	4	4	6	4
Rice hulling works	7	7	7	9	8
Domestic produce trade	55	51	43	73	103
Exporters	257	291	320	282	359
Importers	516	487	425	389	457
Dock and transport companies	111	114	117	125	127
Sugar plantations	490	418	454	460	444
Other plantations	219	184	164	141	156
Industrial enterprises	239	318	317	320	366
Other enterprises	130	127	178	176	239
Individuals	15	14	17	13	16
Sub-total	2,096	2,082	2,123	2,067	2,339
Grand total	2,258	2,475	2,535	2,353	2,660

To gain an insight into the division of the credits over Indonesian and non-Indonesian enterprises/individuals, since the middle of 1954 the respective banks' specifications of debtors have been split up into these two categories of debtors. A comparison of the figures as at the end of June and December 1954 shows that of a total of outstanding credits (participations and bill-discounting being again left out of consideration) amounting to Rp 2,535 million as at the end of June, approximately Rp 1,547 million (61%) had been granted to Indonesian and Rp 988 million (39%) to non-Indonesian enterprises/individuals. As at the end of December the total of outstanding credits was Rp 2,660 million, of which Rp 1,692 million (64%) was granted to Indonesian and Rp 968 million (36%) to non-Indonesian enterprises/individuals. It must be noted that the Indonesian sphere includes the semi-Government institutions. The credits granted to purely private Indonesian enterprises/individuals amounted to Rp 1,136 million as at the end of June, and to Rp 1,371 million as at the end of December.

State Banks

Bank Negara Indonesia

The status of this bank, which at the outset was created to be bank of issue but has never functioned as such, was re-established by Emergency Law No 2/1955 of February 4th, 1955. The task imposed by the new law upon the bank consists inter alia in rendering assistance in promoting national prosperity and the building up of national economy in the sphere of trade in general and export-import in particular. To that end the bank's activities will comprise the granting of short term and long term credits to traders, in particular exporters and importers, the receiving of monies on deposit and on current account, the transacting of negotiable instruments and the exercising of other general banking business. The B.N.I. will not be allowed in principle to participate in the capital of other enterprises, unless such should be necessary for the sake of development of the country or the country's economy, or otherwise by express permission of the Minister of Finance. The capital of the bank has been fixed at Rp 300 million and the new financial year is considered to have started on January 1st, 1955. At the end of 1954 the current account balances of third parties, including semi- Government institutions, totalled Rp 286 million, against Rp 215 million at the end of the preceding year.

The outstanding credits granted by the B.N.I. as at the end of 1954 totalled Rp 610 million, which was Rp 88 million more than as at the end of 1953. About 38% and 50% respectively of these credits had as at the said dates been granted to the categories importers and exporters.

Bank Industri Negara

This bank was established by Emergency Law No 5/1952, with retrospective effect as from April 4th, 1951. Its purpose is to render assistance in a general sense in the development of manufacturing, mining and agricultural (mainly sugar-making) industries. In so doing it is allowed to grant long term credits, to participate in the capital of industries eligible therefor and to supply technical personnel. The bank's capital amounts to Rp 500 million, half of which is fully paid up now.

Besides this amount, the B.I.N. has also at its disposal Rp 187 million in the form of deposits from the Government and Rp 100 million on account of the first and second issue of the 3% 15 year B.I.N. loan meanwhile issued. As is known, the subscription to this loan is only open to non-residents of Indonesia who are holders of blocked rupiah credit balances. For the reader's information it may be added that these rumi holders, besides by utilizing their credit balances, have in many cases also exercised their right of subscription with monies obtained from sales of 3% R.I. bonds 1950 and/or immovables.

As at the end of 1954 the volume of outstanding credits totalled Rp 426 million, of participations Rp 90 million (at the end of 1953 Rp 351 and Rp 84 million respectively). A considerable portion—approximately 80%—of the credits is benefiting sugar and manufacturing industries.

Bank Rakjat Indonesia

Outstanding loans showed in 1954 the very small rise of only Rp 20.1 million as compared with 1953, against in 1953 as compared with 1952 Rp 204.6 million. The retrenchment of advances in 1954 has influenced this development.

TABLE 21 — CREDITS GRANTED BY BANK RAKJAT INDONESIA (Rp million)							
End of	In the agrarian sphere		To people with fixed income		Middle class and current account loans		Total amount
	Amount	%	Amount	%	Amount	%	
1938	11.0	41	10.2	38	5.5	21	26.7
1951	63.5	49	10.9	8	55.8	43	130.2
1952	88.0	35	21.4	8	146.3	57	255.7
1953	98.2	21	59.6	13	302.5	66	460.3
1954	92.6	19	66.6	14	321.1	67	480.4

Source : Bank Rakjat Indonesia

The average amount advanced on loan per month was in 1954 Rp 66 million against in 1953 Rp 71.2 million. Monthly repayment figures for the same periods were Rp 63.9 and Rp 54.3 million respectively. Credits granted in the agrarian sphere showed again an, if only small, decline in favour of the other sectors. Compared with 1953 this decline amounted to 2% as at the end of 1954, while the increase of credit facilities to the fixed

income, and the middle class and current accounts groups was for each group 1 %. These per cent changes were in 1953 far more striking, namely a decline of 14% and increases of 5 and 9% respectively. This important shift in the credit granting picture seen in the course of a longer period is revealed clearly when comparing the percentages given for 1938 and 1954 in table 21.

The reopening of desa banks in Djawa and Sumatera progressed during 1954, though at a slower pace than in 1953 because the supply of capital by the Government did not materialise according to plan and repayments did not pass off as smoothly as in 1953. During 1954, 231 desa banks were opened, against 2,179 in 1953; credits granted increased by Rp 49.3 million (in 1953 Rp 100.8 million). The average amount of outstanding credits per bank rose in 1954 to approximately Rp 43,000 (Rp 34,000 in 1953, Rp 29,000 in 1938).

TABLE 22 — DESA BANKS			
	Number of banks in operation	(Rp million)	
		Loans outstanding (end of period figures)	Loans issued during year
1938	7,114	3.9	20.7
1951	1,769	6.0	28.7
1952 ¹⁾	2,230	15.0	50.1
1953	4,409	49.2	150.9
1954	4,640	57.5	200.2
¹⁾ Adjusted figures			

Source : Bank Rakjat Indonesia

National private banks

On the basis of the combined figures of twenty national private banks (see table 23) I would mention the following features. Capital and reserves increased during 1954 by 49 % , while fixed liabilities decreased by 35%. Domestic creditors and bills payable, time deposits and sundry credit accounts rose considerably as compared with 1953, namely to 205, 504 and 271% respectively. On the debtor side only treasury notes and bills fell somewhat.

TABLE 23 — COMBINED FIGURES OF TWENTY NATIONAL PRIVATE BANKS (Rp '000)					
	December 31st			December 31st	
	1953 ¹⁾	1954		1953 ¹⁾	1954
Cash in hand	14,254	26,480	Capital and reserves	19,200	28,661
Balances with other banks	34,056	72,604	Fixed liabilities	40,087	26,091
Treasury notes and bills	434	340	Domestic creditors and		
Investments in securities	3,066	3,979	bills payable	93,300	192,725
Debtors, domestic bills and			Time deposits	14,728	74,208
participations	103,248	222,584	Sundry credit accounts	19,335	79,482
Real estate	6,498	11,054			
Sundry debit accounts	25,094	64,126			
	186,650	401,167		186,650	401,167
¹⁾ Adjusted figures					

Though cash in hand and balances with other banks went up appreciably, liquidity as a whole decreased from 52 to 51% due to the important increase in domestic creditors and bills payable. Table 24 gives a picture of the credit facilities granted by the national private banks. The total amount of advances as at the end of December 1954 increased from Rp 102 million to about Rp 199 million. Trade occupies again the most important place but decreased as compared with 1953 from 74 to 57% as at the end of December 1954. In the industrial sector the absolute amount advanced on loan admittedly rose, but expressed as percentage of end-December 1953 it remained wellnigh unchanged. The transportation sector witnessed, in absolute figures, a small, the other sectors on the other hand appreciable increases.

TABLE 24 — DEBTOR SPECIFICATION OF TWENTY NATIONAL PRIVATE BANKS (Rp '000)		
	December 31st	
	1953 ¹⁾	1954
Trade	75,727	114,966
Industry	15,156	30,221
Transportation	3,936	4,347
Estate agriculture	3,163	9,430
Individuals	2,823	17,200
Sundry	1,246	23,039
Total	102,051	199,203
¹⁾ Adjusted figures		

It appears that in comparison with the credit amount advanced in the private sector by the ten banks mentioned in the second paragraph of this chapter, the amount advanced by the twenty national private banks accounts for 7.1,% of the overall amount advanced on loan (in 1953 3.6,%). From the foregoing the conclusion is reached at that the national private banks expanded their business activities during the year under review. The public seems no longer hesitant to entrust its money to these banks.

Pawnshop service

As inter alia indicated by the steadily increasing number of pawnshops, loans channeled to the population through these institutions continue to play an important role. Though loans were up by 13% over 1953, redemptions for the first time during the postwar years exceeded the amount of loans granted, which resulted in a decline in the total amount outstanding at the year-end of Rp 7 million or approximately 2% from the end-1953 level.

The average time during which pledges stood on deposit was 83 days, against 81 days in the previous year, while the average amount loaned per article came to Rp 35 in 1954, against Rp 30 in 1953.

TABLE 25 — PAWNSHOP SERVICE						
End of	Number of pawnshops	(million)				
		Pawning		Redemption		Outstanding loans (Rp)
		Number of pledges	Amounts loaned (Rp)	Number of articles redeemed	Amounts repaid (Rp)	
1940	468	50	88	45	85	33
1950	354	16	268	15	216	82
1951	370	29	516	25	431	167
1952	388	34	773	33	690	250
1953	398	36	1,076	36	952	384
1954	410	38	1,216	38	1,223	377

Source : Pawnshop Service

Savings banks

The figures revealing the Post Office Savings Bank's activities showed a further upward trend during the year under review. Deposits at the end of the year increased by over Rp 36 million or 34% as compared with 1953, while the number of savings centres increased further by 16, bringing the total to 755 at the year-end. At the end of December 1954 904,441 savings books had been issued, signifying an addition of over 132,000 new books as compared with the 1953 total. The average deposit came to approximately Rp 175 per book.

TABLE 26 — CREDIT BALANCES AT SAVINGS BANKS (Rp '000)			
End of	Post Office Savings Bank	Private savings banks	Total
1940	50,607	15,941	66,548
1950	50,030	11,918	61,948
1951	65,311	11,840	77,151
1952	91,034	13,001	104,035
1953	122,842	18,448	141,290
1954	158,910	21,227	180,137

More depositors could be recruited from army and police circles. The number of merchant's accounts, which are subject to great fluctuations, is still relatively large. They are now discouraged as much as possible by referring applicants to commercial banks. The capital built up from savings is loaned inter alia to autonomous territories for the financing of their economic development plans.

Deposits of the six private savings banks referred to in table 26 were up by 15% over 1953.

Jajasan Pemusatan Djaminan Kredit Rakjat (Jajasan Kredit)

In the year under review the credit, which the Bank Indonesia accorded to the Jajasan Kredit under Government guarantee, was raised by Rp 5 million so that the credit limit is now fixed at Rp 93 million. However, it has not been necessary so far to make use of the credit expansion since the restrictive credit policy, which had started as early as by the end of 1953 and according to which only applications for loans lodged by

enterprises in the production sector are being considered and requests for credit having an obviously inflationary nature (i.e. consumptive credits) are being rejected in principle, has up to the present been continued in every respect by the board of the Jajasan Kredit Pusat. This may be illustrated by the fact that of the 87 applications for credit put before the Jajasan Kredit Pusat in 1954, covering a total of Rp 51.7 million only 15 applications to a total of Rp 1.8 million were approved. Entirely in line with this restrictive policy is also to be considered the resolution passed by the aforementioned board to the effect that the limit for the credits granted or to be granted to the various Jajasans Kredit Daerah, provisionally fixed by the decree No 10911/M dated August 22nd, 1952 of the Minister of Economic Affairs, should not be increased any further but that only the amount of the paid-up redemptions on the credits granted by them should be put at their disposal for granting fresh loans.

It is evident that this resolution must be a stimulus to the boards in question not only to promote regular and earliest possible redemption of credits already granted, but also to adopt a sound and cautious credit policy, based on the principle of only allowing such loans as can reasonably be deemed certain that they will be repaid in regular instalments, so that the working capital available can be made the most profitable use of.

That such a stimulus was in fact not superfluous can be clearly seen from the figures appearing in table 27 which give a picture, besides of the trend of credit granting by the Jajasan Kredit in the period September 1952 to the end of 1954, of the in general still very considerable arrears in the redemptions of the loans granted. After a clearer insight into the arrearage had been gained, thanks to a reporting system of the controlling banks now much improved in point of completeness, the board recently proceeded to persuade a number of unwilling debtors to pay with the aid of the court. So far it has been decided to effect recovery by suing at law in 103 cases, with the remarkable result that only in one case it proved necessary to put the court's judgment into execution; in the other cases it mostly did not even come to a judgment of the court, the relative loans being redeemed before that stage, either in full or down to the portion contractually due.

It may therefore be expected that, with a continued cautious credit policy, the further carrying-through of the recovery measures referred to above will undoubtedly lead to an appreciable, in fact most essential, improvement in the arrearage in respect of redemption of the loans granted.

TABLE 27 — ACTIVITIES OF JAJASAN KREDIT
(figures covering period of September 1952/ December 1954; including Jajasan Kredit Daerah)

Sectors of activity	Credit applications						Credits in administration with the controlling banks		Reported arrears in the accorded redemptions				
	Received		Rejected		Granted				Number of credits reported about	Number of arrears		Amount of arrears	
	Number	Amount (Rp '000)	Number	Amount (Rp '000)	Number	Amount (Rp '000)	Number	Amount (Rp '000)		Total	As % of credits reported about	Total (Rp '000)	As % of credits reported about
General economic affairs	713	134,501	388	57,320	275	57,895	240	48,801	204	121	59	2,726	23
Industry	1101	118,662	563	68,156	510	21,853	486	21,280	437	322	74	7,011	43
Co-operatives	164	19,430	38	4,917	122	8,038	113	7,161	94	25	27	720	17
"Jatra"	1	44,000	—	—	1	44,000	1	24,000	—	—	—	—	—
"Perrin"	1	29,000	—	—	1	16,000	1	8,100	—	—	—	—	—
Total	1980	345,593	989	130,393	909	147,786	841	109,342	735	468	64	10,457	32

Source : Jajasan Kredit

Stock Exchange

As a capital market, that is as a centre where savings are offered on long term conditions to commercial and industrial organizations or institutions requiring funds for extension or renewal, the Stock Exchange is as yet of hardly any importance. Ordinary issues either of the Government or of private enterprise, apart from the Rp 80,000 issue of shares of N.V. Grand Hotel Preanger, did not take place in 1954. Admittedly, the Bank Industri Negara issued two blocks of debenture bonds of Rp 50 million nominal each under a 3 % 15-year debenture loan as on May 1st and December 1 st, 1954 respectively, but subscription to this loan was solely open to non-residents of Indonesia, holders of blocked rupiah balances. Since non-residents, holders of these B.I.N. debentures, were thus offered a not unattractive investment and were furthermore granted the facility of exporting the bonds after issue and of having interest and redemption on this loan transferred at the official rate of exchange to their country of residence, the issue met with lively interest. The bonds can be transacted on the Stock Exchange in Djakarta as well as in Amsterdam. Till the end of December prices in this country varied between 75 and 85%, while in Amsterdam the debentures were sold at fl. 111 to 129.50 per Rp 1,000 nominal.

TABLE 28 — SALES AND QUOTATIONS ON THE DJAKARTA STOCK EXCHANGE OF THE MOST IMPORTANT SECURITIES						
	Sales (nominal value)		Highest price		Lowest price	
	1953	1954	1953	1954	1953	1954
	(Rp '000)					
3% R.I. bonds 1950	240,527	180,819	55½	58 ⁷ / ₈	39 ³ / ₈	50
5% bonds Grand Hotel Preanger	50	39	97	98	95	80
3% B.I.N. bonds 1954	—	8,065	—	85	—	75
3½% Ned. Indië bonds 1935	—	12	—	79	—	—
3% Ned. Indië bonds 1937	—	38	—	80	—	75
3% Ned. Indië bonds 1937A	—	231	—	85	—	79
Escomptobank	3,869	4,072	325	308	255	257
Stroohoedenveem	208	236	390	425	320	360
Vereenigde Prauwenveren	452	565	315	380	170	260
Semarangsch Stoomboot en Prauwenveer	667	708	229	245	190	153
Tagalsch Prauwenveer	68	226	225	270	175	185
G.E.B.E.O.	352	749	265	470	190	240
Pandjie & Tandjoongsari	743	518	260	242	185	160
	(Neth. Gld '000)					
H.V.A.	16	25	665	875	450	680
Nationale Handelsbank	92	89	675	1,500	535	730
Vereenigde Vorstenlandsche Cultuur Mij	98	62	100	135	65	75
Koninklijke Olie	111	89	2,000	4,650	1,650	1,990

The total turnover on the Djakarta Stock Exchange amounted to approximately Rp 200 million nominal in 1954, against Rp 250 million in 1953. The lion's share was again taken by the 3% Republik Indonesia 1950 bonds; sales covered Rp 181 million nominal, against Rp 236 million in the preceding year. This recession by 23% is mainly due to a decreased supply. Owing to the demand being in excess of the supply, the prices went up from 55 to 58 7/8%; in the course of the first quarter of the year prices could even rise to over 60%.

In the middle of 1954 the drawings of prewar Netherlands currency municipal loans were resumed, while the three Government loans, viz. 3 1/2% Netherlands Indies 1935, 3% Netherlands Indies 1937 and 3% Netherlands Indies 1937A, were included in the quotations of the Djakarta Stock Exchange in August 1954.

The turnover in shares is still very small. Owing to the "thin" market, many of the listed shares are more or less of an unlisted nature and subject to large price fluctuations. Especially the more popular shares displayed a not inconsiderable price increase in the past year and also in the first few months of 1955, which was mainly due to the higher dividends paid, the attendant increased interest of institutional investors in these shares and the inflationary conditions prevailing in this country.

VI. FOREIGN TRANSACTIONS AND ARRANGEMENTS

Introductory

The alarming deterioration of the balance of payments position and of the volume of gold and foreign exchange reserves, which had presented itself since the second half year of 1952, continued during the first half year of 1954 at an increased rate. Only in the second part of 1954 did this trend draw to a close, primarily due to drastic restriction of imports and moreover to some increase in value and volume of exports and an improvement in the terms of trade.

It is obvious that, in so far as this turn of the tide was the result of tightened-up import restrictions, there is no question of a recovery towards a “natural” equilibrium in the balance of payments. According as the authorities—from sheer necessity or not—proceed to further restraint of international trade and payments, the balance of payments position and the trend of the gold and foreign exchange reserves lose their value as a criterion for answering the question as to in how far a material restoration of equilibrium has been achieved.

Since the balance of payments position of a country is in the first place affected by internal monetary conditions and the international trade cycle, it must be stated that in 1954 Indonesia, owing to deteriorating internal monetary conditions did decidedly not come closer to a material restoration of equilibrium in its balance of payments. Due to failure to take efficacious measures in the fiscal and monetary fields also aiming at this restoration, farther-going direct interference with the external exchange of goods became inevitable to avoid at least a further depletion of the seriously shrunk holdings of gold and foreign exchange.

That this coincided with some increase of exports and an improvement of the terms of trade, can be considered as a fortunate accidental which caused the further import restrictions, which had become necessary as a consequence of the inflation and which resulted in an economy in foreign exchange expenditure, to be attended with larger foreign exchange earnings. Thanks to this development the gold and foreign exchange reserves, which had decreased from Rp 2,025 to Rp 976 million from the end of 1953 to the end of July 1954, increased again to Rp 1,758 million as at the end of 1954 (vice table 29).

Therefore, however gratifying the accretion of the reserves during the latter semester of 1954, yet it must not be lost sight of that our country still finds itself in great balance of payments difficulties which will continue to present themselves as long as their cause, viz. the disturbance of internal monetary equilibrium, has not been removed. Until then, unless there should be a new Korea boom and/or larger foreign aid, it will be inevitable for the now existing foreign exchange restrictions to be maintained, so as to come at least to an artificial equilibrium in the balance of payments.

TABLE 29 — GOLD AND FOREIGN EXCHANGE HOLDINGS (Rp million)								
End of	Gold holding of Central Bank and Foreign Exchange Fund	Foreign exchange position of the Foreign Exchange Fund		Sub total	Bills and balances of banks	Other foreign exchange holdings	Total	Total movement within year period
		Assets	Liabilities					
1950 Dec.	791	391	— 289	893	620		1,513	
1951 Dec.	1,103	563	— 251	1,415	659		2,074	— 561
1951 Dec. ¹⁾	3,309	1,691	— 753	4,247	1,977		6,224	
1952 Dec.	2,777	123	— 874	2,026	1,557	— 26	3,557	— 2,667
1953 Dec.	1,688	173	— 1,097	764	1,261	147	2,172	— 1,385
1954 Mar.	1,395	253	— 1,315	333	1,078	— 85	1,326	— 846
June	1,293	279	— 1,592	— 20	1,008	— 35	953	— 373
Sept.	1,055	1,002	— 1,612	445	892	84	1,421	+ 468
Dec.	1,055	1,460	— 1,738	777	980	— 14	1,743	+ 322

¹⁾ At the post-February 4, 1952 rate

Source : Bank Indonesia; Ministry of Finance

Experience of the last few years has furthermore again proved to what high extent our economy depends on the trade cycle abroad. Leaving foreign aid out of consideration again, these fluctuations can with a given rate of exchange only be met if our country has adequate gold and foreign exchange reserves at its disposal. The severe decline in these reserves during the past period however, is chiefly due to internal monetary developments, causing the demand for imports to be stimulated and the export to become difficult, in other words: the decline of the reserves did not serve to absorb temporary difficulties in respect of foreign payments originating from abroad but resulted from internal (monetary) disturbances.

Having regard to their present low level, strengthening of these reserves must be considered as an urgent necessity, if these reserves are to be able again to perform their buffer function, i.e. the absorption of temporary fluctuations in international payments. To what considerable economic disturbances too small a volume of reserves may lead, was clearly demonstrated in 1954, when as a result of the unavoidable intensification of import restrictions, a shortage not only of certain essential foodstuffs (milk and bread), but also of industrial raw materials sprang up.

To avoid misunderstanding, I would here emphasize that I do not consider reinforcement of the gold and foreign exchange reserves as a target in itself, but as a precondition to arrive at a sound economic development. A development according to plan is only possible, both for the state as for private enterprise, if a country has sufficient reserves to meet the temporary fluctuations in international payments, so that disturbances in its internal economy can as much as possible be avoided. Recurrence of what has taken place of late years—namely that whenever there were relatively ample reserves they were treasured upon quickly to such an extent that not only had all kinds of (development) projects started in boom spirits after only few years to be untimely stopped or seriously delayed owing to lack of foreign exchange, but the means of production already available could neither be made use of in full—should be avoided. This implies that the possibility of expending the available reserves should be made dependent on the volume of the reserves. On the other hand, a policy aiming at reinforcement or preservation, as the case may be, of the available reserves will have as a consequence that recovery towards monetary equilibrium is becoming more difficult. Therefore, these different objects should all be weighed one against another. As to in how far this can be more or less harmoniously realized, will in a high degree be determined by the further internal monetary developments.

The question may be asked whether the reserves available as at the end of 1954 should not be considered to be sufficiently adequate to finance, while maintaining an iron stock for emergency cases, temporary differences between payments to and receipts from abroad. Such differences could occur both from a temporarily receding foreign demand as from a monetarily desired temporary increase in purchases abroad. Since the volume of the required reserves depends on various factors, such as the relative importance of foreign trade to a country, the foreign aid receivable and the stage of development a country has reached—richer countries will, as a matter of fact, in general

maintain larger reserves than poorer countries, where the need of expansion of the means of production is greater—the question is difficult to answer. Another point of very great importance here is the degree of foreign **exchange** control exercised by a country and in how far that country intends to alleviate or abolish such control. It may be stated, however, that there should be a certain relation between the aggregate internal spending power and the gold and foreign exchange reserves of a country, even though this relation is not so close as it was at the time of the gold standard. For on the one hand overall import requirements, given a certain propensity to import, are determined by the level of the national income, i.e. the aggregate spending power (M.V.). On the other hand, a regular supply of import commodities is greatly dependent on the volume of foreign exchange reserves. Therefore, for answering the question as to whether the volume of the reserves is to be considered adequate or not, the relation between the total money supply (M) and the available foreign exchange reserves could be used as a rough standard, at least if the income velocity (v) is not subject to too great fluctuations. This relation is shown hereunder for a number of Asian countries:

	Indonesia	Pakistan	Ceylon	Philippines	Burma	Thailand
1950	31	42	100	52	103	153
1951	38	44	103	47	125	161
1952	53	30	86	43	148	119
1953	32	28	66	43	129	117
1954	26	29	84 ¹⁾	43 ²⁾	69	103 ³⁾

1) November 1954 2) October 1954 3) September 1954.

It appears from these figures not only to what large extent this relation has deteriorated in our country during the last few years, but also that it in general compares unfavourably with those of the other Asian countries included in the statement, where foreign trade as in Indonesia, is playing an important part. Reinforcement of these reserves is therefore at this stage already an urgent requirement. Further, the foregoing leads to the conclusion that if the inflationary development should continue owing to which internal circulation of money, national money income and propensity to import would further increase, a proportional reinforcement of the reserves will be essential to prevent the reserves position from suffering a relative decline; that consequently a more than proportional reinforcement of these reserves is required before there can be any question of a (relative) improvement of the international payments position.

Summarising I would state that the maintaining of appreciable foreign exchange reserves must be seen as a *conditio sine qua non* for an as large as possible continuity of the economic machinery. Our country is extremely sensitive to trade cycles. The safeguarding of an economic stability is only feasible if a country has at its disposal a monetary *masse de manoeuvre* in the form of foreign exchange which can be resorted to in case of short term disturbances in the international trade cycle.

It is common knowledge that a statutory limitation of the Bank's demand liabilities has been incorporated in article 16 of the Bank Indonesia Act 1953; one-fifth part thereof should be covered by gold, convertible foreign exchange or the right to draw on the I.M.F. Here too a relation has been established between money supply on the one hand, and foreign exchange reserves on the other hand, albeit that not the totals of these two magnitudes are involved. It will be clear from the foregoing that I do not consider this relation as a mere atavism. Though I am fully alive to the fact that now a much smaller importance must be attached to such a limitation as a criterion for monetary and economic policy than at the time of the gold standard, I am also fully convinced that the limitation of the Bank Indonesia's demand liabilities incorporated in this relation, in view of the close interrelation in this country between internal monetary development and position of the balance of payments, is of avail even without gold standard. Approach of the limit referred to in article 16 is an alarm signal which should certainly not be disregarded.

Balance of payments

In the balance of payments as shown in table 30, the current transactions have been represented on a cash basis. This entails some divergences from the balance of payments as composed in my previous annual report. The transactions of the non-accountable oil companies have, as in 1953, been estimated so that in principle all foreign transactions are being represented. The trading of these companies has been incorporated under Merchandise, all other transactions have been embodied under Miscellaneous: Oil companies. When comparing the years 1953 and 1954 it must be borne in mind that since the beginning of 1954 the so-called let-alone-agreement has remained operative with only one oil company. Owing to the increased number of accountable oil companies the balances of a few balance of payments items of 1954 are as such no longer comparable with the 1953 balances. In particular the items Investment income, Foreign workers, Miscellaneous (receipts) and Oil companies have displayed some movement.

The current account of the 1954 balance of payments, comprising not only the goods and services and the investment income but also the donations received, showed a deterioration by Rp 1,101 million in the first half year, followed by a recovery of Rp 667 million in the second half year, thus in the end resulting in a deficit of Rp 434 million, against Rp 1,208 million in 1953. In how far the exchange of goods, services and capital income have contributed towards this result, can be seen from the following abridged tabulation:

	1953	1954		Total
	Total	First halfyear	Second halfyear	
Exports	+ 8,647	+ 4,050	+ 4,770	+ 8,820
Imports	— 7,483	— 3,924	— 2,726	— 6,650
Balance of trade	+ 1,164	+ 126	+ 2,044	+ 2,170
Balance of investment income	— 621	— 457	— 347	— 804
Balance of other services	— 1,787	— 781	— 1,050	— 1,831
Total of goods and services	— 1,244	— 1,112	+ 647	— 465
Donations	+ 36	+ 11	+ 20	+ 31
Total current account	— 1,208	— 1,101	+ 667	— 434

After a decrease in the first half year, export proceeds increased rather considerably in the second half year, so that for the whole year they were Rp 173 million in excess of 1953. In a much higher degree however, viz. by Rp 833 million as compared with 1953, the decrease in the payments for imports appears to have contributed towards the overall increase of the balance of trade. The above tabulation illustrates clearly that it was mainly this import restriction, enforced in the second half year of 1954, which led to the improvement in the balances of trade and services and in the overall current account. For payments for investment income as well as those for the other services showed a further increase in 1954.

The increase in the payments for investment income (profit, interest, dividend, etc.), already partly accounted for above when mentioning the oil companies, is also due to a considerable transfer of profit, actually chargeable to 1953, not being effected until in January 1954. The interest service of the Government loans called for approximately 15 %, of the total expenditure in either year.

As far as payments for services are concerned, the cause of the rise in the net payments for miscellaneous services and in the cost of foreign workers has also been drawn attention to in the foregoing. The outlays for freight and insurance together decreased on the other hand by about Rp 100 million, while furthermore some Rp 100 million was economized on Government expenditure (n.i.e.).

The counteritems of the income movements in the current account are shown on the capital and gold/foreign exchange record.

In the long term capital movements in the private sphere the predominant part was in 1954, as in 1953, played by stock transactions. In either year payments were, due to the nationalization of some enterprises, in excess of the receipts from the sale of foreign stock while also disinvestments of foreign enterprises were in excess of new investments from abroad. As regards the investments it must be noted that re-investments out of undivided profit, which are beyond a doubt of far greater importance than the direct new foreign investments, are not incorporated in this calculation owing to lack of data. Consequently, both stock transactions and registered investments resulted in a decrease of the foreign debt position. The short term capital movements in the private sphere (net credit grantings, and the like) also led to a slight improvement in the foreign debt position.

	1953		1954		
	Total		First halfyear	Second halfyear	Total
Balance of goods and services	— 1,244	—	1,112	+ 647	— 465
Balance of capital transactions	+ 17	—	58	— 35	— 93
Redemption of public foreign debt	— 232	—	182	— 47	— 229
Total deficit/surplus on balance of payments	— 1,459	—	1,352	+ 565	— 787
<i>Financed through:</i>					
Donations	+ 36	+	11	+ 20	+ 31
External loans	+ 150	+	104	+ 114	+ 218
Movements in gold/foreign exchange holdings	+ 1,385	+	1,219	— 790	+ 429
Total	+ 1,571	+	1,334	— 656	+ 678
Errors and omissions	— 112	+	18	+ 91	+ 109

TABLE 30 - INDONESIA'S BALANCE OF PAYMENTS FOR 1953 AND 1954
(provisional figures Rp million)

CURRENT TRANSACTIONS														
	General balance of payments						Total balances				Balances in U.S. dollars and gold			
	1953			1954			1953		1954		1953		1954	
	Credit	Debit	Balance	Credit	Debit	Balance	1st halfyear	2nd halfyear	1st halfyear	2nd halfyear	1st halfyear	2nd halfyear	1st halfyear	2nd halfyear
<i>A. Goods and services</i>														
1.1 Merchandise	8,620	7,483	+ 1,137	8,807	6,650	+ 2,157	+ 854	+ 283	+ 114	+ 2,043	+ 614	+ 221	+ 87	+ 620
1.2 Merchandise abroad (net)	27	—	+ 27	13	—	+ 13	+ 6	+ 21	+ 12	+ 1	— 182	— 210	— 193	— 16
2. Non-monetary gold movement	5	—	+ 5	3	—	+ 3	+ 4	+ 1	+ 2	+ 1	+ 4	+ 1	+ 2	+ 1
3. Foreign travel	11	101	— 90	7	85	— 78	— 30	— 60	— 25	— 53	— 4	—	—	— 6
4. Transportation (excl. freight on imports)	94	244	— 150	117	205	— 88	— 102	— 48	— 41	— 47	— 2	+ 4	+ 5	+ 1
5. Insurance	43	191	— 148	36	147	— 111	— 87	— 61	— 47	— 64	— 4	— 12	— 2	— 8
6. Investment income	20	641	— 621	107	911	— 804	— 312	— 309	— 457	— 347	— 32	— 48	— 215	— 259
7. Government, not included elsewhere	60	244	— 184	65	151	— 86	— 110	— 74	— 43	— 43	— 36	— 16	— 17	— 14
8. Miscellaneous														
8.1 Oil companies	—	628	— 628	—	656	— 656	— 296	— 332	— 319	— 337	+ 30	+ 48	—	—
8.2 Foreign workers	43	569	— 526	50	605	— 555	— 239	— 287	— 251	— 304	— 16	— 11	— 15	— 37
8.3 Other	138	204	— 66	31	291	— 260	— 29	— 37	— 57	— 203	+ 12	+ 23	— 84	— 119
Total goods and services	9,061	10,305	— 1,244	9,236	9,701	— 465	— 341	— 903	— 1,112	+ 647	+ 384	—	— 432	+ 163
<i>B. Donations</i>														
9. Private	5	—	+ 5	7	—	+ 7	+ 2	+ 3	+ 3	+ 4	+ 2	+ 2	+ 2	+ 2
10. Official	31	—	+ 31	24	—	+ 24	+ 15	+ 16	+ 8	+ 16	+ 15	+ 16	+ 7	+ 9
Total current transactions	9,097	10,305	— 1,208	9,267	9,701	— 434	— 324	— 884	— 1,101	+ 667	+ 401	+ 18	— 423	+ 174
CAPITAL AND MONETARY GOLD														
<i>C. Private</i>														
11. Long term capital	32	14	+ 18	15	90	— 75	+ 25	— 7	— 57	— 18	+ 56	+ 1	— 4	+ 9
12. Short term capital	14	15	— 1	10	28	— 18	—	— 1	— 1	— 17	+ 3	+ 1	+ 2	—
<i>D. Government and banks :</i>														
13. Long term capital	150	232	— 82	218	229	— 11	— 37	— 45	— 78	+ 67	+ 49	+ 101	+ 104	+ 114
14. Short term capital :														
14.1 Foreign Exchange Fund	173	—	+ 173	—	646	— 646	— 135	+ 308	+ 389	— 1,035	+ 88	— 124	— 324	— 529
14.2 Foreign exchange banks	296	—	+ 296	281	—	+ 281	+ 182	+ 114	+ 253	+ 28	— 84	— 66	+ 169	+ 129
14.3 Other foreign exchange holdings	—	173	— 173	161	—	+ 161	— 71	— 102	+ 182	— 21	+ 129	+ 126	+ 202	— 21
14.4 Foreign currency conversions	—	—	—	—	—	—	—	—	—	—	— 974	— 659	— 85	— 78
15. Monetary gold :														
15.1 Bank Indonesia	1,025	—	+ 1,025	596	—	+ 596	+ 359	+ 666	+ 395	+ 201	+ 359	+ 666	+ 395	+ 201
15.2 Foreign Exchange Fund	64	—	+ 64	37	—	+ 37	+ 53	+ 11	—	+ 37	+ 53	+ 11	—	+ 37
Total movement of capital and monetary gold	1,754	434	+ 1,320	1,318	993	+ 325	+ 376	+ 944	+ 1,083	— 758	— 321	+ 57	+ 459	— 138
Errors and omissions	—		— 112			+ 109	— 52	— 60	+ 18	+ 91	— 80	— 75	— 36	— 36

On the whole, Indonesia's foreign assets/liabilities position naturally suffered a further deterioration in 1954, which finds expression in the depletion of the gold and foreign exchange reserves. After a very serious decrease during the first six months, these reserves increased again in the second half year as a result of the import restrictions and the increased export proceeds. For the whole year 1954 the reduction amounted to Rp 429 million; in 1953 it had been Rp 1,3 85 million.

From the above tabulation, showing how the aggregate deficit of the balance of payments was financed, it appears that the receipts in the form of donations and loans totalled Rp 186 million in 1953 and Rp 249 million in 1954. Of the donations, the official ones (F.O.A., Colombo Plan) were ranking foremost; the loans were drawings on the credit granted by the Eximbank. With that bank a supplementary agreement was made on August 10th, 1954, for a loan of U.S.\$ 14 million for the purpose of building the cement factory in Gresik (eastern Djawa). Thus a destination has been found for over \$ 83 million of the \$ 100 million credit line. In addition to the restriction on imports and the increased proceeds from exports, the larger drawings on the Eximbank in 1954 contributed to some extent to making the total depletion of foreign exchange reserves in that year smaller than in 1953. It must be noted that the gold reserves also embody the payments in gold to be made under the membership of the I.M.F. and the I.B.R.D., while the foreign exchange holdings also include the reserves of a number of foreign companies. In the monetary analysis given elsewhere in this report, the movements in these latter reserves have been discounted.

In the setup of the balance of payments as given in table 30 the net movements in the U.S. \$ trade and payments transactions have been shown separately. It transpires from these data that the 1953 surplus in current account turned into a deficit in 1954. The recovery during the second half of 1954 was much more limited than that of the general balance of payments, which was mainly due to a decrease in the surplus on the balance of trade, to the higher expenditure for services, in particular of the investment income and the other services. (As a matter of fact, owing to the profit transfer booked in January which actually referred to 1953, mentioned in the foregoing, the U.S. \$ record of 1954 is "de-coloured"). That the gold and dollar depletion in 1954 was nevertheless considerably smaller than in 1953, is mainly accounted for by the fact that the purchase of other currencies, in particular of currencies derived from sterling, with U.S. dollars had strongly decreased in 1954 and by an increased volume of U.S. dollars obtained under the Singapore agreement.

Trade transactions in Straits dollars, in sterling and in Netherlands guilders displayed an appreciable improvement in 1954 as compared with 1953. The import restrictions filled an important part here. Transactions in E.P.U. currency resulted in a deficit which differed only slightly from that in 1953. On the other hand, the deficit of trade transactions in other currencies decreased considerably in 1954 owing to a relatively strong increase of the exports to Hong Kong. Trade with Japan expanded further in 1954. Especially imports from Japan continued to increase very considerably during the first six months of 1954. Settlement of the debts payable to Japan on account of the trade deficit, which amounted to nearly Rp 1,100 million for the years 1953 and 1954 together, did not take place in the year under review, as the matter of reparations payable by Japan has not yet been finalized.

Balance of trade

According to data of the Kantor Pusat Statistik (Central Bureau of Statistics), which will be made use of in the present and following sections, aggregate proceeds from exports in 1954 increased by 4.4% over 1953, while the outlays for imports decreased by over 16,%. The considerably increased balance of trade surplus is largely due

TABLE 31 -- INDONESIA'S BALANCE OF TRADE (Rp million)						
	T o t a l			Oil companies not included		
	Exports ¹⁾	Imports ²⁾	Balance	Exports ¹⁾	Imports ²⁾	Balance
1938	687	478	+ 209	524	470	+ 54
1950	3,038	1,673	+ 1,365	2,478	1,416	+ 1,062
1951 ³⁾	4,908	3,318	+ 1,590	4,205	3,041	+ 1,164
1951 ⁴⁾	14,724	9,954	+ 4,770	12,615	9,123	+ 3,492
1952	10,652	10,806	— 154	8,471	9,690	— 1,219
1953	9,343	8,584	+ 759	7,052	7,652	— 600
1954	9,759	7,172	+ 2,587	7,180	6,372	+ 808
¹⁾ F.o.b.; excluding postal parcels, passengers' goods, ship's chandlery, gold and silver ²⁾ C.i.f.; excluding postal parcels, passengers' goods, gold and silver ³⁾ Rate : U.S. \$ 1 = Rp 3.80 ⁴⁾ Rate : U.S. \$ 1 = Rp 11.40						

Source : C.B.S.

to the intensified restriction in the issue of import licenses, enforced since May 1954. The trade surplus, which was only Rp 416 million for the first six months, reached a level of Rp 2,171 million in the last half of the year. Exports as percentage of imports advanced from barely 107% in the first quarter of 1954 to approximately 189% in the fourth quarter.

While the decrease in imports which started in 1952 continued also in 1954 the decrease in the proceeds from exports ceased. This is accounted for by the on the whole favourable trend of international trade conditions with an attendant further increase of world trade, more particularly world imports.

Exports

The monthly average value of exports was Rp 8 13 million in 1954, against Rp 779 million in 1953. Contributive towards this rise were mainly the commodities petroleum, tea, sugar, tobacco and coffee. The export value of rubber remained on the whole practically unaltered; that of tin and copra displayed a decline (see table 32).

CHART Ia — PROPORTIONAL SHARES OF THE PRINCIPAL PRODUCTS IN THE VALUE OF EXPORTS

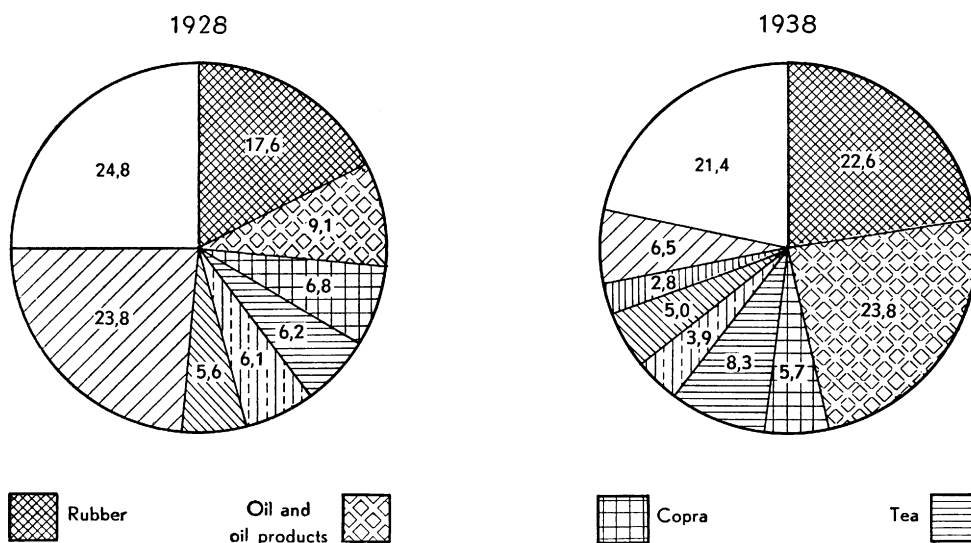
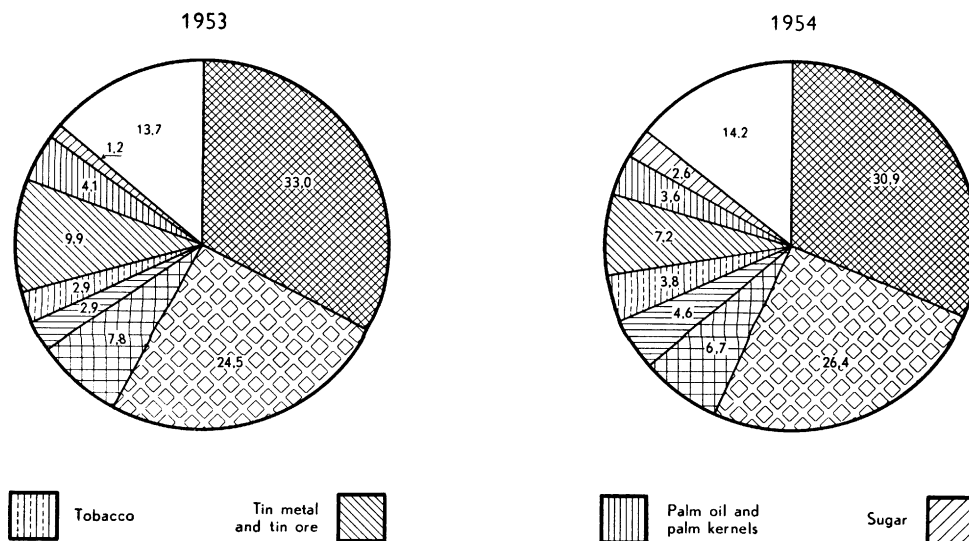


CHART 1b — PROPORTIONAL SHARES OF THE PRINCIPAL PRODUCTS
IN THE VALUE OF EXPORTS



Quantitatively exports in 1953 totalled about 12.2 million tons and in 1954 upwards of 12.7 million tons, so that there was an increase of approximately 4.5%. Table 33 also includes the quantity variations in respect of the most important export produce as compared with the preceding year. The trend of the export prices will be discussed in the section Terms of trade.

The share of agricultural produce in the total value of exports showed an increase again for the first time since 1951. It was nearly 65% against 62.5% in 1953 and over 77 % in 1951. The share of mining products of course showed a trend in opposite direction.

Table 34 reveals a few, in general minor shifts in the destination of the exports. Most important are a decrease of (direct) exports to America, mainly the U.S.A., and an increase to Asian countries, chiefly Hong Kong and, to a lesser extent, Japan. The drop to the U.S.A. reflects the effect of the recession which presented itself in that country. Due to an increase of exports during the last six months this decrease, as compared with 1953, was confined to Rp 300 million; as against 1952 however the decline was no less than Rp 1 billion, which clearly exhibits the influence of U.S.A. trade cycles. The ad-

TABLE 32 — VALUE OF EXPORTS (Rp million, including revenue from export duties)						
	1938	1951	1952	1953	1954 ¹⁾	1954 as % of 1953
Rubber	158	2,483	4,778	3,080	3,013	97.8
<i>of which : estate rubber</i>	84	817	2,258	1,561	1,156	74.1
<i>smallholders rubber</i>	71	1,666	2,520	1,519	1,857	122.3
Petroleum and petroleum products ...	163	703	2,181	2,292	2,579	112.5
Tin and tin ore	34	308	981	926	700	75.6
Copra and copra cakes	43	503	641	728	657	90.2
Coffee	14	81	206	343	454	132.4
Tea	57	139	267	267	454	170.0
Tobacco	39	87	265	278	372	133.8
Palm oil and palm kernels	19	144	346	380	347	91.3
Sugar	45	4	2	111	255	229.7
Pepper and other spices	18	57	243	206	183	88.8
Tapioca and tapioca products	9	24	3	27	68	251.9
Forest products (timber, gums, resins) .	7	27	59	54	66	122.2
Hard rope fibres	18	29	118	71	52	73.2
Ground nuts and groundnut oil	4	23	4	38	50	131.6
Rattan	3	14	29	45	44	97.7
Pinang nuts	6	4	35	31	34	109.7
Hides and skins	4	26	46	25	22	88.0
Shells	1	6	13	15	17	113.3
Sago and sago products	1	18	18	20	13	65.0
Cattle	2	6	20	18	9	50.0
Coal	2	3	10	13	7	53.8
Soya beans	1	—	—	10	—	—
Total	648	4,689	10,265	8,978	9,396	104.7
Other export products	39	219	387	366	363	99.2
Total exports ²⁾	687	4,908	10,652	9,344	9,759	104.4
Total exports, excl. of petroleum and petroleum products ²⁾	524	4,205	8,471	7,052	7,180	101.8
¹⁾ Provisional figures						
²⁾ Excluding postal parcels, passengers' goods, ship's chandlery, gold and silver						
Source : C.B.S.						

vance in the share of Hong Kong is the result of the barter transactions made with that area in 1954, while the measures taken in Japan to ensure better equilibrium in the balance of trade with Indonesia account for the increase of the exports to that country.

The value of exports to Singapore was practically of the 1953 magnitude. During the last six months of the year however this value decreased as a result of the prohibition promulgated in July to export the better grades of rubber, coffee and tea. The object was to gain higher proceeds from exports by eliminating entrepot trade. A similar measure was taken in May 1954 in respect of copra exports to the Netherlands. These

TABLE 33 — WEIGHT OF EXPORTS (‘000 tons gross, unless otherwise stated)						
	1939	1951	1952	1953	1954 ¹⁾	1954 as % of 1953
Rubber (net)	304	755	745	667	710	106.4
<i>of which : estate rubber</i>	157	205	293	288	238	82.6
<i>smallholders rubber</i>	147	550	452	379	472	124.5
Petroleum and petroleum products ..	6,067	6,725	7,883	9,599	9,887	103.0
Tin and tin ore	27	45	51	48	49	102.0
Copra and copra cakes (net)	659	590	429	414	433	104.6
Coffee (net)	68	23	19	32	38	118.8
Tea (net)	72	40	32	29	40	137.9
Tobacco (net)	49	13	10	14	20	142.9
Palm oil and palm kernels (net)	268	122	157	174	182	104.6
Sugar (net)	1,175	6	1	92	210	228.2
Pepper and other spices	131	10	13	16	24	150.0
Tapioca and tapioca products	250	99	1	30	146	486.7
Forest products (timber, gums, resins)	429	95	156	164	179	109.1
Hard rope fibres (net)	90	14	28	26	24	92.3
Ground nuts and groundnut oil	33	21	1	13	18	138.4
Rattan	36	22	21	27	29	107.4
Pinang nuts	64	7	22	20	24	120.0
Hides and skins	6	4	2	1	1	100.0
Shells	1	3	2	2	2	100.0
Sago and sago products	28	40	36	45	34	75.6
Cattle	12	8	8	7	4	132.7
Coal	368	116	108	136	87	77.2
Soya beans	9	—	—	7	—	—
Total	10,146	8,758	9,725	11,563	12,141	104.9
Other export products	848	976	579	630	603	95.7
Total exports ²⁾	10,994	9,734	10,304	12,193	12,744	104.5
Total exports, excl. of petroleum and petroleum products ²⁾	4,927	3,009	2,421	2,594	2,857	110.1
¹⁾ Provisional figures						
²⁾ Excluding postal parcels, passengers' goods, ship's chandlery, gold and silver						
Source : C.B.S.						

measures were however little successful, if not a downright failure. Much high grade rubber and tea are exported to Singapore as lower grade, and our copra still finds its way to European markets via the Netherlands.

The creation of the N.V. Karet in southern Sumatera, which is being discussed in greater detail in the section Rubber of the present report is one of the means for improving the quality of smallholders rubber for export. Contributive work towards a similar purpose might also be done by the central organisations for other smallholders produce, more in particular kapok and tobacco

TABLE 34 — EXPORTS CLASSIFIED ACCORDING TO COUNTRIES OF DESTINATION (Rp million)					
	1938	1951	1952	1953	1954
EUROPE					
Netherlands and f.o.....	137.49	1,011.82	2,277.70	2,103.87	1,882.49
United Kingdom and Irish Republic .	37.32	305.70	292.19	194.98	455.27
Germany	25.46	148.97	386.76	445.53	451.24
France	12.00	73.74	89.52	97.52	97.27
Belgium and Luxemburg	5.69	53.14	86.74	57.43	63.33
Italy	9.73	40.81	117.71	162.80	173.09
Denmark	10.09	29.50	55.34	30.92	25.96
Norway	5.38	15.10	27.78	60.39	25.00
Sweden	2.12	16.59	17.66	60.78	58.36
Other countries	10.15	18.80	147.03	92.74	114.11
Total exports to Europe	255.43	1,714.17	3,498.43	3,306.96	3,346.12
Percentage of total exports value.	37.2	34.9	32.8	35.4	34.3
AMERICA					
Canada.....	1.25	1.60	14.44	4.57	4.74
United States	97.88	810.19	2,698.25	1,929.95	1,635.63
Other countries	8.85	28.40	122.49	134.73	121.22
Total exports to America	107.98	840.19	2,835.18	2,069.25	1,761.59
Percentage of total exports value.	15.7	17.1	26.6	22.1	18.1
AFRICA					
Egypt	26.66	12.92	17.77	21.34	14.46
Portuguese East Africa	0.59	5.02	21.27	34.64	19.16
Union of South Africa	5.28	20.52	46.47	29.32	31.70
Other countries	5.33	11.42	16.93	30.44	17.09
Total exports to Africa	37.86	49.88	102.44	115.74	82.41
Percentage of total exports value.	5.6	1.0	1.0	1.3	0.8
ASIA					
Iraq	2.53	6.96	8.12	20.20	9.86
India	} 5.15 }	14.99	17.70	64.52	8.00
Pakistan		1.47	2.91	—	—
Burma	0.11	0.07	0.77	1.59	7.17
Thailand	2.76	20.00	73.26	83.66	96.27
Malayan Union	3.51	36.86	144.37	155.11	143.63
Penang	7.72	245.40	141.01	120.78	234.94
Singapore	116.65	1,438.38	2,632.39	2,011.42	2,120.23
Indo-China	1.95	26.65	120.92	128.43	98.57
Hong Kong	13.49	19.42	31.09	129.92	455.66
China	9.88	0.40	0.40	—	26.38
Japan	21.43	155.17	283.02	423.61	571.13
Philippines	6.02	29.58	89.19	78.15	117.73
Other countries	9.90	13.93	13.72	34.09	19.62
Total exports to Asia.....	201.10	2,009.28	3,558.87	3,251.48	3,909.19
Percentage of total exports value.	29.1	40.9	33.4	34.8	40.1
AUSTRALASIA					
Australia	28.89	125.05	266.47	214.82	344.88
New Zealand	7.64	17.65	52.41	39.79	25.18
Oceania	0.26	5.62	14.88	20.15	20.29
Total exports to Australasia	36.79	148.32	333.76	274.76	390.35
Percentage of total exports value.	5.4	3.1	3.1	2.9	4.0
<i>Via free ports :</i>					
Sabang, Tandjung Uban and unknown	47.89	146.16	322.81	325.55	269.39
Percentage of total exports value.	7.0	3.0	3.1	3.5	2.7
Grand Total	687.05	4,908.00	10,651.5	9,343.74	9,759.05

Source : C.B.S.

TABLE 35 — IMPORTS CLASSIFIED ACCORDING TO COUNTRIES OF ORIGIN (Rp million)					
	1938	1951	1952	1953	1954
<i>EUROPE</i>					
Netherlands	106.17	394.77	1,417.15	1,006.79	750.33
United Kingdom and Irish Republic .	38.16	212.53	775.15	604.22	388.99
Germany	49.05	183.39	709.95	568.69	490.98
France	9.41	54.20	99.82	75.49	111.12
Belgium and Luxemburg	13.19	84.07	259.42	260.50	155.07
Italy	5.05	60.53	214.04	95.30	135.08
Czechoslovakia	4.75	11.66	30.90	32.38	88.53
Switzerland	4.42	20.59	65.65	68.30	71.50
Sweden	3.54	30.74	126.86	132.52	114.29
Spain	0.28	0.63	30.74	1.36	5.08
Other countries	5.77	43.50	151.37	139.19	213.52
Total imports from Europe	239.79	1,096.61	3,881.05	2,984.74	2,524.49
Percentage of total imports value.	50.1	33.1	35.9	34.8	35.2
<i>AMERICA</i>					
Canada	3.67	15.82	68.35	11.23	12.39
United States	60.21	668.32	1,852.63	1,539.37	1,034.87
Other countries	0.54	21.29	340.20	40.03	1.28
Total imports from America	64.42	705.43	2,261.18	1,509.63	1,048.54
Percentage of total imports value.	13.4	21.2	20.9	18.5	14.6
<i>AFRICA</i>					
Egypt	0.43	6.36	6.06	10.35	6.53
British East Africa	3.21	43.09	94.74	68.75	66.53
Union of South Africa	0.17	2.07	8.59	9.69	7.85
Other countries	0.59	20.60	39.98	8.96	33.89
Total imports from Africa	4.40	72.11	149.37	97.75	114.80
Percentage of total imports value.	0.9	2.2	1.3	1.1	1.6
<i>ASIA</i>					
Sarawak, Brunai, Br. North Borneo ..	1.68	106.03	373.47	331.25	67.95
India	11.17	104.64	219.98	216.38	160.96
Pakistan	0.11	0.11	1.33	0.97	—
Burma	7.20	99.11	343.78	476.98	347.45
Thailand	2.58	126.38	565.13	187.03	181.06
Malayan Union	0.30	5.48	14.42	12.99	9.67
Penang	4.28	3.29	2.04	0.53	2.12
Singapore	36.18	146.64	191.78	112.39	56.76
Indo-China	2.11	32.82	142.03	91.86	90.23
Hong Kong	6.47	171.42	899.36	623.63	430.16
China	8.25	9.50	22.57	24.27	40.32
Japan	71.83	581.46	1,453.45	1,447.01	1,559.03
Philippines	0.89	1.49	7.00	5.27	2.77
Other countries	1.40	12.73	125.05	168.50	376.72
Total imports from Asia	154.34	1,401.10	4,361.39	3,699.06	3,325.20
Percentage of total imports value.	32.3	42.2	40.3	43.1	46.4
<i>AUSTRALASIA</i>					
Australia	13.24	40.57	149.50	199.60	147.27
New Zealand and Oceania	0.05	1.04	0.63	0.49	0.07
Total imports from Australasia...	13.29	41.61	150.13	200.09	147.34
Percentage of total imports value.	1.8	1.3	1.4	2.3	2.0
<i>Via free ports :</i>					
Sabang, Tandjung Uban and unknown	2.22	0.70	3.15	11.52	11.29
Percentage of total imports value.	0.5	—	0.2	0.2	0.2
Grand Total	478.46	3,317.56	10,806.27	8,583.79	7,171.66

Source : C.B.S.

A factor which had a detrimental effect on normal export trade was the disparity, set in 1953 already and widened in 1954, between local and world prices for Indonesian export commodities. As cause of this development must be mentioned the fact that in 1974 the Ministry of Economic Affairs granted on a large scale permits for concluding barter and parallel transactions — whereby the exporter was being entitled, frequently up to 100%, to a counterimport transaction— and for preferential export transactions which it was allowed to conclude at prices often far below world market level. Only the export value calculated at the approved price benefits the country; the excess benefits the trader who, by disposing of the thus obtained currency at free rate of exchange, is being put in a position to outbid the normal export trade and, by so doing, to boost local prices. Such transactions have moreover a price decreasing effect on world markets since the favoured exporter is in a position to invoice below world price level. The counterimport referred to above is furthermore mostly paid too much for, while frequently being of inferior quality. These transactions have therefore led for the country to extra loss of foreign exchange and deterioration of its competitive position, for the consumer to price increases, or a lowered standard of living. As the sole positive resultant can be put forward here: the windfall profit of the traders in question.

Although parallel transactions have meanwhile, in 1955 been confined to only a number of weak export commodities, while the privilege of counterimports has been reduced from 10 to 30% of the export value, the disparity as regards some strong commodities (see above) has not become smaller so far. A more rigid control over the issue of export licenses and over the export prices approved by the K.P.U.E. in general, is urgently required. Only such a measure combined with a more intensified fight against ordinary smuggle, which must also have assumed an increasing volume in 1954, can lead to restoration of normal trade. And only with a normal export trade will it be possible for a solid class of Indonesian exporters to develop.

Imports

The indonesianisation of import trade was one of the problems being in the lime-light during 1954. Postulating that indonesianisation should be most vigorously tackled, it must nevertheless not be lost sight of that a sound development in this direction will only be attainable by being unsparing in efforts, by gaining experience, by building up sound and well-conducted enterprises and by strengthening the financial position of these enterprises by internal financing.

Looked upon from this angle, there is much room for doubt whether the Government policy pursued in this sphere prior to the recent alteration in the Cabinet, may lead to permanent positive results. That policy in fact aimed at granting foreign exchange allocations to any one having registered as an importer, though it was common knowledge that the vast majority of these "importers," (about 4,000) never comes to doing real import business, but transfers the import licenses obtained to real, mostly foreign importers. The creation of this group, typically labelled as brief-case- importers, resulted in both an increase of cost of distribution and of prices, and an impediment to the development of the bonafide Indonesian import houses since the greater part of the foreign exchange allocations issued falls into other hands.

One of the phenomena the above entails is the increased irregularity and unsmoothness with which imported goods are supplied, which is besides to uneven granting of licenses, to an equally great extent to be attributed to inadequate expertness. According as the foreign exchange pool to be divided grows smaller, the factor of expertness and market know-how comes to weigh heavier, as was clearly demonstrated in the fourth quarter of 1954. One of the consequences of the unsatisfactory supply of the market in that period (and not the cause thereof, as it is sometimes claimed) was an intensification of speculative trade, which led to often very considerable price increases.

It is obvious that Indonesia's interests are only served by the creation of a bonafide Indonesian import apparatus. The same applies to the internal distribution machinery, in respect of which also forced efforts to arrive at indonesianisation were made in 1954. It must be evident that import and distribution apparatus cannot be built up by the issue of licenses and/or allocations to persons whose activity remains confined to illegal disposal of these allocations. To ensure the sound development of an Indonesian import and distribution machinery it must be deemed essential to resort not only to rigorous screening, but also to a revision of the system of allocations, which ought to be based upon the ability and financial capacity of those concerned. By the end of 1954 the first steps in this direction were taken, the results of which cannot yet be judged at this stage.

The manipulations in respect of the import and distribution of various basic materials, which increased in connection with the import restrictions, have prompted the Government to declare various important import commodities, comprising textiles, cambrics and cloves, to be controlled goods and to concentrate the import thereof in the

Jajasan Perbekalan dan Persediaan (J.P.P.). In importing use is made of the activities of national importers as handling agents, whereas various of the imported goods have to be passed on to wholesale dealers nominated by the J.P.P. The margins of profit for importers, wholesale dealers and retailers, are fixed by price decrees. As to textiles this scheme failed of its purpose, viz. the elimination of unwished for manipulations. Early in 1955 therefore the scheme was revised; part of all textile imports was returned to private enterprise while the distribution, against prices fixed by the Price Control Bureau, was released. This new (so-called B.I.T.-) regulation, see elsewhere, aims on the one hand at having the Treasury benefit to a large extent by the enormously increased margin between landed cost and retail price, while it is on the other hand hoped that injections with J.P.P.-textiles will keep down the soaring tendency of prices.

At an earlier date already it had been made possible again for a single scarce import article (flour) to be imported on a basis of free fight. In the beginning of 1955 this form of normal import trade was extended to embrace a few more commodities, including cement and fertilizers.

The import data of the K.P.S. for 1954 show that the restrictions mainly affected consumer goods, while though to a lesser extent also the import value of raw materials and capital goods decreased. As a result, the per cent break down of the aggregate imports over these three classes shows for 1954 a further increase of the raw materials share and a continued fall in the proportion of consumer goods, which tendency has been presenting itself since 1952 already (see table 36).

Appendices J, K and L give more detailed data regarding the importation of the commodities of these three classes, revealing that the decrease in imports of rice, wheat flour, cotton piece goods, writing paper, diesel engines, machinery, agricultural implements, motor bicycles and bicycles, assumed very great proportions. Imports of cement on the other hand increased strongly, while imports of cotton yarns also displayed a further advance.

The relative changes in comparison with the preceding year in the origin of imports are in so far in line with the changes in the destination of exports that imports from the U.S.A. decreased and from Asia increased. The absolute figures display a decline practically all along the line, which was inter alia very considerable for imports

from the U.S.A. and the United Kingdom. Though the strongly rising trend of imports from Japan during the first six months of 1954 came to a stop in the second half year (see the paragraph on Exports) the overall figure still exceeded the 1953 total.

TABLE 36 — IMPORTS INTO INDONESIA										
	Value (Rp million)					Per cent share in total value of imports				
	1938	1951	1952	1953	1954	1938	1951	1952	1953	1954
<i>Total imports :</i>										
Consumer goods	207	1,701	5,377	3,740	2,699	43.3	51.3	49.8	43.6	37.6
Raw and auxiliary materials	154	1,148	3,440	3,232	3,048	32.2	34.6	31.8	37.6	42.5
Capital goods	117	469	1,989	1,612	1,425	24.5	14.1	18.4	18.8	19.9
<i>Imports excluding oil companies :</i>										
Consumer goods	205	1,654	5,293	3,691	2,658	43.7	54.4	54.6	48.1	41.7
Raw and auxiliary materials	148	967	2,682	2,537	2,447	31.4	31.8	27.7	33.1	38.4
Capital goods	117	422	1,716	1,441	1,266	24.9	13.8	17.7	18.8	19.9

Source : C.B.S.

The tight foreign exchange position Indonesia finds itself in at present, calls for economically justified utilization of this foreign exchange. Rightly it has meanwhile been decided that the foreign exchange available for imports in 1955 should primarily be used for importing basic materials, so as to keep the production machinery going and maintain the level of employment. The curtailment of consumer goods imports required therefor, will in particular have to be materialised by restriction of the importation of luxury and semiluxury articles. The importation of capital goods for renewal and for extension, if any, will greatly depend on the credit facilities obtainable from abroad.

For this purpose negotiations were entered into with a number of West European countries during 1954, which have meanwhile resulted in the conclusion of some multi-year credit agreements. The terms of the credits in general extend over a period of from 4 to 5 years. In addition to this credit scheme for the sake of the importation of capital goods, by the end of 1954 the possibility was created to import, on a modest scale, certain basic materials, such as cotton yarns, chemicals, electric articles and assembly parts, on a 12 months' term of credit. It is self evident that these credits too, which

naturally create a debt in foreign currency payable within a rather short period, ought to be utilised in an economically justified manner, preferably by investment in such projects as will be earning or saving foreign exchange within a short period. As in the case of the allocation of import licenses, the allocation of these credits should only be granted to efficiently working undertakings, so as to eliminate waste and unwished for manipulations.

But the possibility of attracting credits from abroad may not fog reality. The principal source for financing the economic development must be the own foreign exchange earnings and the still too futile volume of available gold and foreign exchange holdings forms a bottleneck for a further economic development. Credits are only of a supplementary nature and neither can nor may supersede the own resources.

Terms of trade

The unfavourable trend which the terms of trade had in the last four months of 1953, was maintained during the first few months of 1954. In February the terms of trade had gone down to 63 (1950 = 100), against an average of 76 for 1953. From that time there was a gradual amelioration to 90 in October and December, causing the average for the year 1954 to reach 80.

The price index number for exports appears on the whole to have remained below the 1953 level, despite the recovery which set in during the second half of 1954. The improved terms of trade in 1954 were consequently the result of the relatively stronger decline of the price index number for imports. While the decline of export prices coincided in the first few months of the year with an increase of import prices, there was from that time on practically a continuous fall of the index of import prices.

Of the most important export produce, shown in table 38, only the prices of petroleum and petroleum products displayed an increase. Copra prices declined slightly, those of tin very considerably. This latter phenomenon is due to the expiration of the tin agreement with the U.S.A. for 1952 and 1953, which had been concluded at very high prices, while the price of the agreement made for 1954 was based on the meantime strongly decreased market price. The price index number for rubber also showed a slight decline, unlike not only the strongly increased inland prices but also the trend of exter-

TABLE 37 — TERMS OF TRADE FOR INDONESIA (1950 = 100)				
	Price index numbers		Terms of trade	
	Exports (f.o.b.)	Imports (c.i.f.)		
1951	144	138	104	
1952	101	131	77	
1953	90	119	76	
1954	86	108	80	
			monthly average	5 months' moving average
1954 January	82	118	69	70
February	79	127	63	71
March	88	108	81	75
April	82	104	79	76
May	86	102	84	81
June	84	109	77	80
July	89	107	84	80
August	87	118	74	82
September	88	107	83	82
October	90	99	90	83
November	87	108	80	84
December	90	99	90	87

nal rubber quotations, which were on approximately the same level throughout 1953 and 1954. The lastmentioned divergent trend can be accounted for by the increased share of smallholders rubber in overall exports as also by the conclusion of the istimewa contracts, referred to in the section Exports, at prices frequently showing great disparity with world quotations.

Of the import commodities the consumer goods showed the strongest decline; the price indices for raw materials and especially for capital goods decreased to a considerably lesser extent. The price index for weaving yarns showed a slight increase.

Though in February 1955 rubber prices declined to some extent and also some other export produce (coffee and tea) showed a reaction, the terms of trade maintained a level higher than the average for 1954 in the first few months of 1955.

TABLE 38 — PRICE INDEX NUMBERS OF SOME MAIN EXPORT AND IMPORT COMMODITIES (1950 = 100)							
Exports (f.o.b.)	1952	1953	1954	Imports (c.i.f.)	1952	1953	1954
Rubber	110	79	73	Consumer goods	114	110	92
Copra	75	95	87	<i>of which :</i>			
Petroleum products	100	86	94	Rice	122	162	141
Tin ore	153	155	113	Wheat flour	125	125	104
				Cotton piece goods	106	94	92
				Raw and auxiliary materials	143	118	115
				Capital goods	116	139	138

Foreign exchange system and measures

As stated before, in May 1954 a drastic quantitative restriction of imports was resorted to. For all non-Government imports, to begin with, a foreign exchange quota of a maximum of Rp 50 million a week was fixed which could afterwards—also as a result of the increase in export proceeds in consequence of the rise in price of a number of export commodities, especially rubber and tea—gradually be raised. At the same time a more rigid control on the issue of licenses for foreign exchange for import purposes was introduced.

In the middle of July the prepayments to be effected by importers into the Foreign Exchange Fund on the issue of a provisional import license, were increased from 50% (since October 1953) to 75% for the importation of basic materials and capital goods for industrial purposes, and from 75% (since April 1953) to 100% for all other imports.

In line with the aim of having exports, whenever possible, move direct to the country of ultimate destination it has been prohibited since July 1954 to export high grade rubber and estate coffee and, tea to Singapore.

In August, with a view to economise on foreign exchange in the insurance sector, the regulation was promulgated that importers should no longer obtain foreign exchange allocations for transferring premiums for the freight insurance of their imports. These insurances had from that time to be covered with the insurance companies operating in Indonesia.

In connection with the large number of cancellations of foreign exchange contracts covering exports, especially to Hong Kong, the penalty clause of 10% of the value of such a contract, already in force in respect of exports to Singapore and Malaya, was declared to be applicable to Hong Kong as well as from November 1st, 1954. At the same time the provision was made that whenever an exporter had concluded a foreign exchange contract covering an export consignment to Hong Kong *casu quo* Singapore/Malaya he was immediately to hand to the bank concerned a promissory note, signed by him or on his behalf, amounting to 15 % of the value of the contract. In case of nonfulfilment of the obligations arising under the contract this amount too should be forfeited in favour of the Foreign Exchange Fund. Exports to other destinations are for the time being exempt from this penalty clause, but should the necessity arise, then these provisions could integrally, i.e. irrespective of the destination of the exports, be made applicable to individual exporters.

In the system of parallel transactions adopted for some considerable time past to promote exports and of which use was being made especially in the trade with Hong Kong and the countries of Eastern Europe with which trade and monetary agreements had been concluded, drastic changes were introduced in January 1955 causing the parallelism of the transaction to be lost and giving the whole arrangement the aspect of an additional export inducement. Parallel transactions are no longer allowed to be made in their original form, i.e. in the form of imports from and exports to a given country to an equal amount without discrimination of export commodities, but have been replaced by a parallel scheme under which exporters of specified weak produce obtain a right to an import allocation for goods likewise specified, up to an amount varying according to the produce exported from 10 to 30 % of the export proceeds. This counterimport can irrespective of the country of destination of the export or of the currency earned be obtained from any country in the currency set therefor.

In this connection it must be noted that towards the end of 1954 a payment arrangement was made with Mexico in order to accommodate barter transactions of private enterprise with that country. The object was to set trade between Indonesia and Mexico going, for which reason the arrangement remained outside the scope of the new parallel transaction scheme.

As from February 11th, 1955, the inducement in respect of exports of smallholders rubber was withdrawn, seeing the strong position of rubber on the world market. For the other export produce coming within the inducement scheme the system remained unaltered.

A measure of a more fiscal nature was the introduction on February 19th of the levy of 33%% on the import of securities from abroad (TPI—Efek), causing part of the profit which the consignees when selling the securities at Djakarta quotations received over the official currency rate of exchange ratio, to benefit the public funds.

Likewise of a fiscal nature is the arrangement introduced on February 25 th, according to which the issue of import licenses for certain classes of textile was made dependent on the surrender to the Central Bureau for Imports of a so-called textile import certificate (bukti impor tekstil— B.I.T.). For obtaining such a certificate those concerned are to submit, along with their importation offer, a bid in terms of percentages of the c. & f. import value. After the allocation has been granted, which is judged on the basis of both offer and bid together, the importer in question can take receipt of the B.I.T. from the Bank Indonesia against payment of the amount of his bid.

During the year under review Indonesia received various offers from foreign countries for credit facilities—mainly intended as suppliers' credits— from exporters, from Government bureaux for the promotion of exports and from banks such with a view to expanding the exports from the country concerned to Indonesia. These credit arrangements principally refer to the importation of capital goods into our country. Countries from which such credit offers were received are: France, the Netherlands, Germany, Sweden and Italy. For administrative purposes these suppliers' credits were categorised into B credits for the Netherlands, and C credits for the other countries.

A different form of credits from abroad, though for a shorter term, was found in the system of long term payments (A-credits) under which importers were allowed to order certain basic materials from abroad on the condition that the supplier should be willing not to receive payment for his goods until 12 months after delivery. This system has been made applicable to only a limited number of classes of goods and for only a limited amount of money.

As it had not always been found possible to obtain B or C credit facilities for all vital imports in the sphere of capital goods, a D arrangement was introduced in March 1955, putting importers of urgently required technical articles and capital goods intended for keeping the already existing industrial machinery going (machine parts and tools), in a position to import such goods against cash payment abroad on the condition that besides the usual prepayments an additional payment, amounting to 25% of the rupiah countervalue of the imported goods, is made to the Foreign Exchange Fund.

Finally, mention must be made of the new foreign exchange arrangements entered into during the year under review with two of the foreign petroleum companies, viz. the Stanvac group and Caltex, for a period of four and five years respectively. This has put an end to the so-called let-alone-agreements of these companies. On the ground of the special nature of the oil companies the new arrangements contain a general license of the LAAPLN to:

- (1) effect payments in foreign exchange for the importation of goods and for obligations on account of invisibles in so far as required for the development and the maintenance of their organisations in Indonesia;
 - (2) retain earnings in foreign exchange from exports or other sources;
- such on the condition that
- (a) up to a certain minimum amount new investments will be made or foreign exchange will be handed over to the Foreign Exchange Fund;
 - (b) yearly a foreign exchange budget is submitted for approval;
 - (c) monthly a report is submitted on the foreign exchange earnings retained and the foreign exchange expended by virtue of the general license.

The rupiah requirements of the oil companies, in so far as not covered by the proceeds from the sale of oil and oil products in Indonesia, is to be met through the transfer of foreign exchange to the Foreign Exchange Fund. They are not allowed to contract loans in rupiah.

Payment arrangements with foreign countries

In the course of 1954 new monetary agreements were concluded with Czechoslovakia and Hungary superseding the agreements which had been in force since 1951 and 1952 respectively. Monetary agreements were also concluded with Rumania with effect as from July 1st, 1954, with the Chinese People's Republic as from September 1st, 1954, and with Egypt beginning March 2nd, 1955.

As regards Eastern Germany a payment arrangement of limited scope was entered into by the two central banks with effect as from July 1st, 1954. A similar arrangement was made with the Banco de Mexico for the financing of a barter transaction.

The other monetary agreements with non-E.P.U.-countries, viz. Poland, Yugoslavia and Japan, were extended by one year.

International Monetary Fund and International Bank for Reconstruction and Development

On April 15th, 1954, by signing the Articles of Agreement of the I.M.F. and I.B.R.D., Indonesia became a member of both institutions.

By virtue of a resolution adopted at the 8th Annual Meeting of the I.M.F. in September 1953, which opened for Indonesia the possibility of engaging in exchange transactions with it before the par-value of the rupiah would have been officially agreed upon, our country submitted on May 10th, 1954, a request for the purchase of U.S. \$ 15 million, thus within the gold payment of \$ 15. 5 million effected when membership was acquired. This transaction was approved of on August 12th, 1954, whereby the parity of the rupiah against the U.S.-dollar was provisionally fixed by the I.M.F. at 11.40, i.e. the present official rate of exchange. The final I.M.F. par-Value of the rupiah against gold is still to be agreed upon with the I.M.F.

VII. PRODUCTION, PRICES AND SOCIAL DEVELOPMENT

Food-producing Agriculture

Production and food situation

Apart from cassava and batatas which yielded 68,000 tons and 178,000 tons respectively less, the production of food crops in Djawa further increased in 1954. Overall rice production is estimated to surpass the previous year's by over 400,000 tons. The maize crop was exceptionally high in 1954 due to the 1953 wet monsoon crop having been ingathered only in the beginning of 1954. Ground nuts and soya beans yielded 38,000 tons and 86,000 tons respectively more than in 1953. On the whole the planted and harvested acreages were enlarged in 1954 as compared with 1953. Moreover, efforts to intensify the output were successful; production could be appreciably stepped up and in general a higher yield per hectare could be obtained in 1954 (rice, maize, ground nuts, soya beans).

TABLE 39 — MOST IMPORTANT FOOD CROPS IN DJAWA AND MADURA (‘000 tons)						
	1937	1952	1953	1954	1954 as % of	
					1937	1953
Rice { irrigated	3,682	3,886	4,120	4,471	121	109
{ non-irrigated	223	114	141	193	87	137
Maize (kernels)	2,037	1,204	1,303	2,084	102	160
Cassava (roots)	7,637	5,088	6,468	6,400	84	99
Batatas (roots)	1,182	1,260	1,231	1,053	89	86
Ground nuts (peeled)	181	128	164	202	112	123
Soya beans (peeled)	269	266	275	361	134	131

Sources : C.B.S. ; Service for Indigenous Agriculture

In the islands outside Djawa and Madura production offered the same picture: an overall increase but for batatas. The rising rubber price exerted in the past year little influence on the rice production since the great rise started when the crop was standing.

Rice imports could be further reduced in 1954 and totalled 253,000 tons or 58,000 tons less than in 1953.

TABLE 40 — MOST IMPORTANT FOOD CROPS IN OUTER ISLANDS (‘000 tons)				
	1952	1953	1954	1954 as % of 1953
Rice { irrigated	1,897	2,206	2,231	101
non-irrigated	490	563	666	118
Maize (kernels)	432	512	584	114
Cassava (roots)	2,448	2,100	3,043	145
Batatas (roots)	1,031	945	885	94
Ground nuts (peeled)	47	59	71	120
Soya beans (peeled)	20	32	40	125

Source : Service for Indigenous Agriculture

The quantity of rice available for consumption is shown in table 41, which reveals an increase of 7% over 1953. The other food crops—batatas apart—were also available in larger quantities as can be seen from appendix M.

The favourable food situation allowed for higher exports of maize, ground nuts and tapioca; exports of soya beans were cut down as much as possible with a view to improving the national diet. In order to be able to cope with food shortages, which might result from the inundations which occurred in the last few months of 1954 and in

TABLE 41 — RICE SITUATION IN INDONESIA						
	Djawa and Madura		Other islands		Indonesia	
	1953	1954	1953	1954	1953	1954
(‘000 ha)						
Harvested area						
Irrigated rice	3,768	3,897	1,612	1,646	5,380	5,543
Non-irrigated rice	249	260	836	899	1,085	1,159
(‘000 tons of rice)						
Production of irrigated rice	4,120	4,471	2,206	2,231	6,326	6,702
Production of non-irrigated rice	141	193	563	666	704	859
Imports from abroad	p.m.	p.m.	p.m.	p.m.	311	253
Increase of J.U.B.M. stocks	p.m.	p.m.	p.m.	p.m.	— 86	— 96
Available for domestic consumption	4,261	4,664	2,769	2,897	7,255	7,718

Sources : C.B.S.; Service for Indigenous Agriculture; J.U.B.M.

the beginning of 1955 in various parts of our country, the exportation of maize, soya beans, ground nuts, tapioca flour and gapek has been temporarily discontinued with effect as from March 18th, 1955. But on the whole the flood damage proved smaller than originally feared. In Djawa less than 1 % of all cultivated areas was frustrated; in Kalimantan only 3,700 of the 22,000 flooded hectares sustained serious damage. Destructions were most severe in Djambi, where the total damage. The favourable food situation allowed for higher exports of maize, ground nuts and tapioca; exports of soya beans were cut down as much as possible with a view to improving the national diet. In order to be able to cope with food shortages, which might result from the inundations which occurred in the last few months of 1954 and in the beginning of 1955 in various parts of our country, the exportation of maize, soya beans, ground nuts, tapioca flour and gapek has been temporarily discontinued with effect as from March 18th, 1955. But on the whole the flood damage proved smaller than originally feared. In Djawa less than 1% of all cultivated areas was frustrated; in Kalimantan only 3,700 of the 22,000 flooded hectares sustained serious damage. Destructions were most severe in Djambi, where the total damage to houses, live-stock and food supplies is estimated at Rp 54 million; here also rice stocks were lost in the floods.

While in various regions the 1955 crop, delayed by the floods, will be harvestable later than usual, prospects yet promise well since the crop on the whole stands satisfyingly.

Government measures for promoting the food production

The improvement of desa rural irrigation works, the combating of the danger of erosion and diseases as well as agricultural enlightenment were proceeded on the same lines. In southern Kalimantan Rp 5 million were expended for the construction of some experimental polders following the framework of the Schophuys plan; the polders are hoped to be ready in the first half of 1955. The construction of a number of bigger irrigation works in Djawa made satisfactory progress; for desa irrigation works Rp 11 million were expended against Rp 12.7 million in 1953. This amount will in 1955 be further decreased to Rp 10 million in view of the unfavourable position of public finance.

TABLE 42 — BUYING UP OF PADDY DURING 1954			
	Planning (tons)	Results as at end of December 1954	
		tons	as % of planning
Djawa Barat	300,000	224,781	74.9
Djawa Tengah	193,000	137,855	71.4
Djawa Timur	500,000	430,600	86.1
Djawa/Madura	993,000	793,236	79.9
Sulawesi	60,000	35,300	58.8
Total	1,053,000	828,536	78.7

Source : J.U.B.M.

The land surface planted with high quality paddy could be extended and aggregated 1,700,000 hectares as at the end of 1954. The acreage under green fertilizer was also enlarged and covered about 55,000 hectares at the year-end. The importation of artificial fertilizer could not be maintained owing to the precarious foreign exchange position, which resulted in a considerable shortage during the first months of 1955, while stagnation in the importation of phosphor trenched upon the available stock of arsenic.

The number of farm tractors made available by the Government has been distributed as follows: Djawa 48, Sumatera 57, Kalimantan 42, Sulawesi 21, Nusa Tenggara 16, Maluku 9. With F.O.A. aid seven new tractors arrived in the first months of 1955.

Rice

No basic changes were made during 1954 in the buying-up policy and the internal organization of the Jajasan Urusan Bahan Makanan (Food Fund). The Rice Ordinance 1948 remained in force, the system of licences for interregional rice transports too. The total hulling capacity was again entirely reserved for the Government; an amount of Rp 75 million was expended on hulling wages (inclusive of storage and insurance) in 1954 against in the preceding year Rp 70 million, whereby it is to be taken into account that these wages increased somewhat.

TABLE 43 — RICE POSITION OF J.U.B.M. (tons of rice)			
	1952	1953	1954
Initial stocks	72,000	346,000	432,000
Internally procured	276,000	400,000	439,000
Imports	650,000	311,000	253,000
Sales	998,000	1,057,000	1,124,000
	652,000	625,000	596,000
Final stocks	346,000	432,000	528,000

Source : J.U.B.M.

As a result of the indonesianisation aspiration of the Government it has been stipulated by Government Ordinance No 42 of June 1954 that the ownership of all hulling works belonging to the licenced capacity industries must be taken over by Indonesian citizens within nine months after the date of promulgation.

In the past year the losses sustained by J.U.B.M. on 1952 and 1953 sales were squared; they appear to have totalled Rp 189 million in all. The internally procured stocks and the 1954 imports are now sold without loss.

The buying up of paddy in 1954 was 39,000 tons, or 1%, higher than in the previous year but lagged by 21% behind the original estimate mainly because the insecure situation in Sulawesi (which before used to supply entire East-Indonesia) made it possible for only 59% of the planning to be realized. Of the total rice imports in 1954,

TABLE 44 — RICE PRICES (Rp/kg)							
End of	Djawa country side	Djakarta	Surabaia	Palem- bang	Medan	Pontia- nak	Makasar
1950 December	1.45	1.23	1.53	1.50	2.70	2.75	1.13
1951 December	3.19	2.94	3.07	3.—	3.—	3.10	2.40
1952 December	2.45	2.38	2.20	2.85	2.40	3.30	1.88
1953 December	2.43	2.31	2.20	2.75	2.50	2.90	1.80
1954 March	2.24	2.38	2.—	3.10	2.20	2.80	1.88
June	1.69	2.13	1.80	2.75	2.30	2.75	1.88
September	2.08	2.15	2.20	2.90	2.45	2.80	1.88
December	2.35	2.35	2.50	3.15	2.65	3.—	2.10

Source : C.B.S.

amounting to 253,000 tons, 152,000 tons were delivered under old contracts, while the rest was imported under new contracts; as at the end of 1954 850 tons were still sailing. Because of the favourable crop, sales were also lower than in 1953 so that at end- December 1954 J.U.B.M. stocks surpassed by 96,000 tons the end-1953 figure, covering already over 80% of the normal year sales. The first months of 1955 however witnessed, especially in the territories outside Djawa, a pressure on the available stocks which was encountered by increased allocations; for the regions ravaged by inundations over 50,000 tons were reserved. In order to be able to face unforeseen circumstances it has been decided to continue in 1955 the importation of rice.

Rice market prices displayed in 1954 the usual seasonal fluctuations. In the countryside they were at the end of the year below the 1953 level, in the towns on the other hand above it.

International rice situation

The direct prospects for rice exporting countries have not improved. The available export quantities for 1955 will at least equal those of 1954. But while in 1954 Japan and India still had to import large quantities of rice, inter alia in connection with crop failure in Japan and extra stock-piling in India, in 1955 these countries will probably curtail their imports considerably. The production in the other important rice consuming countries, furthermore, keeps on increasing so that surplus stocks will most likely further accumulate. The large world stocks of wheat may also unfavourably influence the rice demand.

After a further decline during the first half of 1954, the price of rice fairly steadied itself in the second part of the year.

Forestry

Due to the still ongoing deforestation—which especially in central Djawa assumes already disastrous proportions—the heavy rains of the past year have in various regions led to serious inundations. The combating of both illegal felling and illegal cultivation encounters strong opposition from occupants which manifests itself not only in a refusal to quit the occupied land but also in destruction of new forest planting.

The area covered by reforestation in 1954 was around 49,000 ha, or about 1,000 ha less than in 1953.

When reforesting, the Djawatan Kehutanan now tunes the choice of timber varieties to the development of industry, i.a. the paper making.

The saw mills of the N.V. Bruynzeel Dajak—the biggest in Asia—were taken over by the Government during the past year. The mills have suffered losses in the last few years due to heavy investments.

Stock - breeding

At present Indonesia has 62 cattle breeding stations, of which especially those in eastern Djawa have already achieved good results. One more artificial insemination centre was added to the existing number, bringing the total to 7. The quality of cattle is being gradually further improved by imports, if only on a limited scale owing to foreign exchange shortage, of Danish and Frisian bloodstock, and in order to improve nutrition standards special attention is paid to dairy cattle which in fact has suffered most from

TABLE 45 — LIVE-STOCK (‘000 head)					
	Cows	Buffaloes	Horses	Goats and sheep	Pigs
1940	4,599	3,176	711	7,891	1,267
1950	4,261	2,734	510	6,576	1,201
1951	4,551	2,759	529	7,305	1,116
1952	4,469	2,851	549	7,845	1,099
1953	4,624	2,867	593	7,938	985

Source: Veterinary Service

the war. In the future central Djawa, with good soil conditions, will be given priority with regard to the breeding of dairy cattle. Total milk production is still small; according to very incomplete data from the Djawatan Kehewan (Veterinary Service) it amounts to 40,000 litres a year. Up to the present, Indonesia counts only three milk-centres which are located at Djakarta, Bandung and Malang, at Bojolali (central Djawa) another centre is still in the course of construction.

Poultry rearing will inter alia be improved by the importation of pedigree cocks. Poultry stocks comprise round 80 million chickens and 17 million ducks. Our country now possesses 47 incubators. Good progress can be reported in the field of combating diseases: Indonesia is now for instance able to meet its own demand for vaccine against the much feared newcastle disease.

On the basis of data provided by the Djawatan Kehewanan, the year consumption of meat can be estimated at 350,000 tons, of eggs at 175,000 tons.

Fishing

Production results of sea fisheries were favourably influenced by climatic factors and could increase by 7% in 1954. The number of motorized vessels enlarged by 52, standing at 799 as at the end of the year compared with 96,843 sailing vessels.

The fresh water fisheries on the other hand sustained damage by the incessant rains and resultant floods. In Kalimantan and Sumatera the increased price of rubber is likely to have played a role as well in that both pisciculture and fishing were neglected owing to people switching over to rubber tapping. The production decline is estimated at 6%.

TABLE 46 — PRODUCTION OF FISHERIES (‘000 tons of fresh fish)								
	Sea fisheries				Inland fisheries			
	1941	1952	1953	1954	1941	1952	1953	1954
Djawa and Madura	...	69	71	71	37	40	53	65
Sumatera	...	158	131	132	24	48	64	48
Kalimantan	...	41	75	96	64	97	100	89
Indonesia Timur	...	97	98	102	22	23	25	25
Total	315	365	375	401	147	208	242	227

Sources: Sea Fisheries Service ; Inland Fisheries Service

Sea and fresh water fisheries together yielded 628,000 tons or 11,000 tons more than in the previous year. Net imports reached the equivalent of 97,000 tons of fresh fish, so that this year 725,000 tons in all were available for consumption, or approximately 9.4 kilogramme per caput.

Via the Foreign Operations Administration two carriers with deep-freezing chambers and a number of experts were put at Indonesia's disposal, while a small group of civil servants were sent to the United States for training.

Fisheries had also to contend with shortage of material (i.a. canvas and fishing yarn) during the first months of 1955. Both canvas and yarn come under the group of controlled goods; they were however very insufficiently supplied.

Agricultural export commodities

Rubber

Figures published by the International Rubber Study Group indicate that world consumption of synthetic and natural rubber together were down in 1954 by approximately 25,000 long tons or 1% compared with the preceding year, while world production also decreased, namely by round 140,000 long tons or 5 %. These developments wellnigh restored the balance between supply and demand. Overall world stocks of natural rubber were round 862,500 long tons as at the end of 1954, against 830,000 long tons in 1953; the corresponding figures for synthetic rubber were 175,000 and 200,000 long tons respectively.

A closer analysis of the rubber situation in 1954 reveals that both decreases are almost exclusively attributable to a decline in the consumption and in the production of synthetic rubber in the U.S.A. I would in this respect point to the decline of about 150,000 tons in the quantity of synthetic rubber varieties which the American industries used to consume, while on the other hand the drastic restriction in the manufacture of GR-S caused the production of this kind of rubber in 1954 to drop by nearly 200,000 tons as compared with 1953.

World production of synthetic rubber — out of the total the U.S.A. account for about 90%—receded by round 220,000 tons; in 1953 amounting to 936,000 tons, it fell back to 716,000 tons in 1954. World consumption decreased by approximately 135,000 tons.

TABLE 47 — WORLD PRODUCTION AND CONSUMPTION OF SYNTHETIC RUBBER (‘000 long tons)							
Production	1952	1953	1954	Consumption	1952	1953	1954
United States	799	848	623	United States	807	785	636
Canada	74	81	86	United Kingdom	5	5	9
Western Germany	5	7	7	France	11	13	14
				Canada	34	36	30
				Western Germany	9	11	15
				Other countries	19	22	33
World total ¹⁾	878	936	716	World total ¹⁾	885	872	737
¹⁾ Exclusive of Russia							

Source : Rubber Statistical Bulletin

The recessionary trend in natural rubber production, which had started in 1951, came to a stop in the second half of 1954- ia because of the prices rising very steeply after the end of June which incited especially the small holders to an increased activity of tapping - so that eventually a total production of 1,803,000 tons could be reached, or nearly 80,000 tons more (Indonesia participating by about 65%) than in 1953.

Rubber world consumption in 1954 shifted to anot insignificant extent from synthetic to natural rubber- in 1953 natural rubber accounted for 65% and in 1954 for 70% of the overall rubber consumption- by which development Indonesia has greatly benefited, judging from the increase in the production of smallholder rubber having taken

TABLE 48 — WORLD PRODUCTION AND CONSUMPTION OF NATURAL RUBBER (‘000 long tons)							
Production	1952	1953	1954	Consumption	1952	1953	1954
Indonesia	750	692	745	United States	454	553	597
Malaya	584	574	584	United Kingdom	197	207	229
Ceylon	97	99	94	France	113	108	123
Vietnam and Cambodia	63	75	74	Russia ¹⁾	123	42	0.4
Other countries	296	285	306	Other countries	563	718	788.6
World total	1,790	1,725	1,803	World total	1,450	1,628	1,738
¹⁾ Net imports directly procured from producing countries							

Source : Rubber Statistical Bulletin

place in the country. The drawing of optimistic conclusions for the future should however be done cautiously seeing that in 1954 some exceptional factors-as for instance the very low prices of natural rubber in the first four months- could favourably influence the demand for natural rubber, factors indeed which have meanwhile lost their force. I may in the respect for instance point to the fact that soon after the price increases for natural rubber in the U.S.A had started in April 1954, voices could be heard advertising for the stepping up again of the GR-S production. Figures compiled by the International Rubber Study Group concerning the production and consumption of synthetic rubber during the first two months of 1955 reveal an increase by 22% and 35% respectively if compared with the corresponding period 1954 ; the production and consumption of natural rubber were up by 10 and 7% respectively. It is expected that the return of 24 synthetic rubber factories to private enterprise may exercise further pressure on the costprice of the synthetic product .

Furthermore it is also to be borne in mind that as for instance in Indonesia and Malaya, part of the rubber plantations, and in particular the smallholdings are aged and decayed so that production can be effected only at relatively high cost. In Indonesia little attention has been devoted up till now to the rejuvenation of planted areas. As for Malaya, the Rubber Investigation Mission headed by Sir Francis Mudie has published a report in September 1954, which recommends a replanting scheme for the strengthening of the competitive position of natural rubber. It is self-evident that this state of affairs has given to synthetic rubber the best competitive prospects.

As stated above, rubber world prices during the first quarter of 1954 staged a decline, but recovered in April, and strongly improved during the months May through December. The c.i.f.-price of R.R.S. I in New York, for instance, was up by about 35%, rising from U.S.\$ cts 20 per lb to U.S.\$ cts 27 per lb. The increase continued until mid-February, reaching then U.S.\$ cts 35 per lb. In the second half of February and in March there was again a fall. At the end of March 1955 the price stood at U.S.\$ cts 30 1/2 per lb

Prices on the domestic market outran the parity of foreign quotations. As causes for this development can be mentioned: the issue of so-called preferential licences, the barter and parallel transactions, the inducement system for smallholders rubber, and the smugglings, while rumours about extensive rubber purchases by the U.S.S.R. and the Chinese People's Republic, and partly fear for devaluation, encouraged speculations.

TABLE 49 — RUBBER WORLD PRICES (R.S.S.I)					
	Djakarta ¹⁾ Rp/kg f.o.b.	London Sh-d/lb c.i.f.	New York U.S. \$ cts/lb	Singapore Str. \$ cts/lb f.o.b.	Colombo Rupee cts/lb
1938	0.49	0 7 ⁷ / ₃₂ ²⁾	14.60	24.06 ²⁾	35.4
1950	1.40	2 7 ²¹ / ₃₂	41.10	108.18	155.4
1951	10.05	4 0 ³ / ₄	59.07	169.55	214.7
1952	7.77 ¹ / ₂	2 3 ²⁹ / ₃₂	38.57	96.07	137.7
1953	6.45	1 7 ²² / ₃₂	24.23	67.44	135.2
1954 : January	4.97 ¹ / ₂	1 4 ⁵ / ₈	20.23	55.88	110.8
February	4.85	1 4 ⁹ / ₃₂	19.99	54.73	110.8
March	4.70	1 4 ³ / ₁₆	20.18	54.80	110.8
April	4.77 ¹ / ₂	1 5 ¹⁵ / ₁₆	22.07	60.52	110.8
May	6.00	1 6 ⁷ / ₁₆	22.06	62.45	110.8
June	6.30	1 7 ¹ / ₄	23.01	65.51	110.8
July	5.75	1 8 ⁹ / ₁₆	24.13	69.93	110.8
August	5.80	1 7 ²⁵ / ₃₂	23.29	67.18	110.8
September	6.00	1 8 ¹⁵ / ₃₂	24.03	69.47	110.8
October	7.25	1 10 ¹³ / ₃₂	26.56	76.40	110.8
November	7.45	1 11 ²⁹ / ₃₂	28.09	81.81	110.8
December	7.70	2 1 ⁹ / ₃₂	29.88	86.15	112.2
1955 : January	11.50	2 4 ¹³ / ₁₆	33.85	98.96	125.4
February	9.70	2 5	34.91	99.11	127.4
March	9.60	2 1 ³ / ₄	31.04	88.12	111.5
¹⁾ at beginning of period					
²⁾ spot					

Sources : Rubber Statistical Bulletin ; Daily Market Service

In order to realize the highest possible export proceeds (exports of blankets instead of slabs), to provide rubber remillers and rubber merchants with sufficient employment, to stabilize the prices of smallholders rubber, and in general to improve the rubber growers' standard of living, the N.V. Karet Sumatera Selatan was founded in southern Sumatera in the beginning of September 1954. Fifty-one per cent of its capital was furnished by the Government and the rest by private persons interested, in casu remillers. The company aims at buying up the total slab production in southern Sumatera — the Government prohibited the exportation of slabs here—and selling it to the remillers. The remilling factories in Singapore especially have protested against this course of affairs, because they cannot order their basic material from Sumatera now and consequently were in many cases forced to carry on business on a decreased capacity. Some local peasant organization too have, at least in the very beginning, criticized the foundation of the company and the prohibition of exporting slabs. Their argument was that a sound competition last to the buying-up of slabs was now out of the question with the

company acting as sole buyer and determining the buying-up prices one-sidedly owing to which prices can be kept artificially low to the benefit of remillers but not of peasants. The results attained thus far by the N.V. Karet were not unsatisfactorily. On account of the rising trend of rubber world prices, the buying-up price for slabs was also increased. In the period December 1954/February 1955 it went steadily up from Rp 520 to Rp 690 per quintal, whereupon it was lowered again. The remilling factories in southern Sumatera now give employment to about 4,000 workers. On an average around 13,000 tons of slabs could per month be bought up during the first quarter of 1955; the maximum monthly slab production in southern Sumatera is at present estimated at round 16,000 tons.

By the heavy rainfall during the last quarter of 1954 the rubber plantations in southern Sumatera as elsewhere were fairly heavily damaged. Furthermore the regrettable fact has to be mentioned that in Sumatera Timur vast acreages of estate plantations were wilfully damaged — in all round 40,000 young trees were uprooted by malevolents—while latex thefts were intensifying towards the end of 1954.

Overall estate production appear to have reached a total of round 281,000 tons in 1954 or 21,500 tons less than in 1953. Since exports of estate rubber in 1954 dropped by approximately 47,000 tons compared to 1953 and domestic consumption is likely to have remained fairly stable, while in all probability no or only to a very moderate extent changes in stockpiling occurred, the conclusion can be reached at that round 25,000 tons of estate rubber have been exported as smallholders rubber as a consequence of the special export transactions referred to earlier in this paragraph. In 1955 the parallel

TABLE 50 — PRODUCTION AND EXPORTS OF ESTATE RUBBER (net tons)		
	Production	Exports
1938	175,066	156,758
1950	177,938	175,528
1951	226,107	205,173
1952	294,449	293,063
1953	306,782	288,209
1954	287,551	237,975

Source : C.B.S.

transactions are to be restricted, while the inducement system was abolished as from February 11th, 1955. In connection with the favourable world price trend for rubber, the Government also determined to reintroduce as from January 1st, 1955, the general export duty on rubber, and as from March 1st, 1955, the extra export duty of 10%.

Proceeds obtained from estate rubber exports amounted in 1954, according to official statistics, to about Rp 1,160 million, against Rp 1,560 million in the previous year. Export proceeds from smallholders rubber totalled round Rp 1,860 million in 1954, thus exceeding the 1953 amount by Rp 340 million. As in 1953, over 55% of all exports of estate rubber were shipped to the U.S.A., while Germany with 11% of all exports ranked second as a buying country. The principal buyer of smallholders rubber was Malaya; about 195,000 tons, or 42%, were during 1954 shipped to Singapore (1953: round 194,000 tons or 51%). But exports to the U.S.A. (97,000 tons) and Hong Kong (75,000 tons) were also appreciable. Noteworthy is that during 1953 no smallholders rubber at all was exported to Hong Kong.

Table 51 gives a survey of exports of smallholders rubber according to the principal production areas in Indonesia. These figures reveal that, as in the preceding years, the greatest share in these exports was supplied by Sumatera Selatan (Palembang and the Lampongs), in 1954 followed in rank by Sumatera Timur. Though Sumatera Selatan still attained this year the highest export proceeds figure, its significance declined in a relative

TABLE 51 — EXPORTS OF SMALLHOLDERS' RUBBER FROM THE PRINCIPAL PRODUCTION AREAS (tons of dry rubber)					
	1938	1951	1952	1953	1954
Kalimantan Barat	30,354	68,375	82,135	73,719	74,125
Kalimantan Selatan and Timur	27,390	67,157	56,831	48,978	53,568
Palembang	23,964	89,193	87,413	87,466	86,446
Sumatera Timur	20,280	82,406	63,230	60,399	85,345
Djambi	22,206	60,621	52,320	45,468	54,276
Tapanuli	4,044	16,991	10,699	4,616	3,492
Lampung	5	43,330	33,323	17,544	34,036
Other areas	18,353	121,897	66,106	40,586	80,351
Total reported exports	146,596	549,970	452,057	378,776	471,639

Sources : C.B.S. ; Rubber Statistical Bulletin

sense; in 1954 it accounted for 21.1% out of the total export proceeds against 24.6% in the preceding year. Sumatera Timur's export proceeds from smallholders rubber on the other hand increased from 15.9% to 18.2%, Kalimantan Barat's share dropped from 21.5 to 16.6%.

Table 52 gives an insight into the qualitative composition of smallholders rubber exports in 1953 and 1954.

TABLE 52 — EXPORTS OF SMALLHOLDERS' RUBBER ACCORDING TO QUALITIES (dry rubber)								
	Weight (tons)				Value (Rp '000)			
	1953	%	1954	%	1953	%	1954	%
Sheets	162,434	42.9	211,178	44.7	718,256	47.3	965,133	52.0
Blankets and barkcrepe	115,655	30.5	136,240	28.9	505,970	33.3	554,310	29.9
Scraps	2,818	0.7	3,707	0.8	9,662	0.6	10,199	0.5
Slabs	97,869	25.9	120,514	25.6	285,063	18.8	327,104	17.6
	378,776	100	471,639	100	1,518,951	100	1,856,746	100

Source : C.B.S.

As percentage of overall smallholders exports, sheets exports in 1954 increased by 1.8% compared to 1953, while exports of blankets (inclusive of barkcrepe) were down by 1.6%; the exported quantities of scraps and slabs remained wellnigh the same. Export proceeds from sheets in 1954 accounted for 52,% of overall export proceeds, i.e. 4.7% more than in 1953. The other smallholders rubber varieties yielded less than in 1953.

Copra

According to data received from the *Jajasan Kopra* (Coprafund), the quantity of copra bought up by this institution in 1954 dropped by 13% as compared with the 1953 figure. Table 53 reveals that, relatively, this decrease has been of about equal magnitude in the two principal buying up regions, viz Indonesia Timur and kalimantan barat.

Copra exports dwindled as well; 9,235 tons were less exported than in 1953. The share of the jajasan Kopra in overall exports came to round 184,000 tons, or 63%. Exports of copra cakes on the other hand increased by approximately 30%, while of coconut oil 615 tons were more exported than in 1953.

TABLE 53 — PURCHASE OF COPRA BY JAJASAN KOPRA (’000 net tons)				
	Indonesia Timur	Kalimantan Barat	Other areas	Total
1950	325.9	59.7	12.8	398.4
1951	487.6	75.1	—	562.7
1952	364.5	51.4	—	415.9
1953	406.0	55.3	—	461.3
1954	351.8	50.0	—	401.8

Source : Jajasan Kopra

Though exports of copra to the Netherlands showed a not significant fall in 1954, this country is still the principal buyer, followed in rank by Malaya, Germany and Japan; copra cakes were mainly exported to Malaya and Germany.

TABLE 54 — EXPORTS OF COCONUT PRODUCTS (net tons)			
	Copra	Copra cakes	Coconut oil
1938	554,481	91,861	20,020
1950	291,183	55,010	204
1951	542,234	67,143	1
1952	342,389	83,395	980
1953	303,907	107,113	2
1954	294,672	138,876	617

Source : C.B.S.

Copra sales by Jajasan Kopra to the domestic coconut oil industry amounted to some 218,000 tons in 1954, against 197,000 tons in 1953. Stocks held by this fund as at the end of December 1954 wellnigh equalled the end 1953 figure.

In order to meet the wishes of the copra producing regions, the Government has in principle agreed to a reorganisation of the Jajasan Kopra. At a conference held in December 1954 by the respective Government departments with representatives of the various copra producers, the Minister of Economic Affairs indicated some directives along which the desired reorganisation is to be effected. These stipulated inter alia that a decentralization, democratization and rationalization shall be carried through. To this respect, the composition of the managing board, consisting of twenty-nine members, is to be thus altered that the majority of the members will be taken from representatives

of copra producers; on the executive board, consisting of five members, will sit three representatives of copra producers. Within the scope of the decentralization plans referred to above, an important part of the Jajasan Kopra's activities in the Minahasa region (northern Sulawesi) has meanwhile been transferred to the Jajasan Kelapa Minahasa (a local coconut fund). Copra producing circles consider the reorganisation measures in many respects still insufficiently far-reaching. Amongst other things the wish has been intimated that at least part of the Jajasan Kopra's revenues be put at the disposal of the copra producing regions on behalf of the financing of economic projects.

Copra world prices showed a downward trend during January through November 1954 owing to a falling demand. The ample stocks of palm oil and palm kernels in the U.S.A. were partly responsible for this. The average London quotation for Straits copra c.i.f. Europe stood at round £ 71 per long ton in November 1954 (£ 93 in January 1954). In December last, mainly as a result of increased consumption of oils and fats in the winter months, a recovery was staged which enabled the price to reach £ 74.10/O again as at end-December. After a further, if slight, increase in January 1955, the price gradually fell back again to £ 68 per long ton in the months February and March. How copra world prices will further develop will of course to a large extent depend on the supply of other oils and fats, while the surplus stocks in the U.S.A. also play an important role in this respect. I would mention that according to estimates the total production of oils and fats in 1954 is about 25 million tons, or round 1 million tons more than the 1953 and 0.5 million more than the 1952 production figure. Although world consumption shows a rising tendency, exports are likely to outrun imports by approximately 350,000 tons.

A wellnigh same tendency as on the world market has been observable on the free market in Djakarta. Here the price fell from Rp 230 per quintal in January 1954 to Rp 190 per end-December 1954. In the months January and February 1955 the price could recover somewhat, only to drop again in the beginning of March to Rp 190 per quintal. The buying-up prices fixed by the Jajasan Kopra for Indonesia Timur—on an average lying Rp 5 per quintal below those for Kalimantan Barat—were decreased in the period January/ April 1954 from Rp 150 to Rp 120 per quintal, but were afterwards increased to Rp 130. The price of coconut oil remained on about the same level during 1954, viz. Rp 3.20 per kilogramme. The price at which the Jajasan Kopra at the outset sold copra to the domestic oil factories amounted to Rp 190 per quintal; it was decreased to Rp 180 in the middle of May, on which level it has since been kept.

Palm oil

Production of palm oil and palm kernels in 1954 came to 168,200 tons and round 43,260 tons respectively which was 7,600 and 900 tons more than in 1953. As in the previous year, this production increase is again to a large extent attributable to improved labour productivity, while weather conditions were favorable as well.

TABLE 55 — PRODUCTION AND EXPORTS OF PALM OIL AND PALM KERNELS (net tons)				
	P r o d u c t i o n		E x p o r t s	
	Palm oil	Palm kernels	Palm oil	Palm kernels
1938	226,668	48,036	220,752	47,439
1950	126,491	30,775	119,936	28,409
1951	121,146	29,965	106,151	29,344
1952	146,351	38,647	120,172	37,065
1953	160,569	42,377	132,171	41,576
1954	168,636	43,319	140,062	42,407

Source : C.B.S.

Exports showed the same tendency as the production. Compared with 1953 the volume of exports of palm oil rose by 6% in 1954, of palm kernels by about 2%. Since the average export proceeds per ton suffered a relatively steeper decline, the total export proceeds of palm oil and palm kernels in 1954 lagged behind the 1953 figures by Rp 23 million and Rp 10 million respectively. Converted into rupiahs, the foreign exchange earnings from palm oil in 1954 amounted to Rp 291 million and from palm kernels to Rp 56 million.

By far the greatest part, namely 66% and 60% respectively of the palm oil and palm kernels exports was shipped to the Netherlands. But Germany and Japan also rank foremost among the principal buyers.

World prices of palm oil have in general followed a fairly steady line during the first quarter of 1954. In the months March through October they suffered a slight reaction, which was however followed by a recovery during November and December. At the end of December 1954 prices had risen about 10% above the end- 1953 level. Palm kernels however have suffered steady decline during January through September. The revival which started in the last quarter of the year failed to restore the price to the December 1953 level.

Fibres

The production of hard fibres increased in 1954 by 10% over 1953, and thus almost reached the 1952 level again.

TABLE 56 — PRODUCTION AND EXPORTS OF HARD FIBRES (net tons)		
	Production	Exports
1938	approx. 95,000 ¹⁾	90,079
1950	7,025	6,089
1951	16,581	15,545
1952	32,182	28,086
1953	27,435	26,140
1954	30,733	23,723

¹⁾ Partly estimated since the majority of the estates did not report

Source : C.B.S.

Partly as a consequence of increased domestic consumption exports however dwindled by about the same percentage. The monthly average export figure was in 1954 1980 net tons against 2,180 tons in 1953. Exports to the U.S.A. and the Netherlands in 1954, totalling 7,400 tons and 2,630 tons respectively, fell short of 1953 by approximately 30%. Exports to Germany fell also slightly' while on the other hand Japan's significance as a buyer of hard fibres came to stay.

World prices for sisal and hemp have suffered a steady decline during 1954, which would justify the conclusion that the expected balance between supply and demand has not yet been reached.

Exports of kapok fell in 1954 by about 4% as compared with the preceding year, but an appreciable increase can be reported in the exported quantity of kapok seeds. Japan still ranks first amongst the buyers of these seeds.

After a rise in the first quarter of 1954, kapok world prices settled again on the level of end-1953 during the months June-November. The last two months of the year witnessed a slight recovery, reflected in a c.i.f. London price of 3/6 sh per lb for average Djawa kapok. The price development on the domestic markets was somewhat irregular—speculative ten-

TABLE 57 — EXPORTS OF KAPOK PRODUCTS (net tons)		
	Kapok	Kapok seeds
1938	15,445	7,123
1950	7,612	10,075
1951	5,491	10,534
1952	4,974	13,977
1953	4,746	2,831
1954	4,580	19,073

Source : C.B.S.

dencies will have keen of influence here — which made the price for quality C Semarang fluctuate between Rp 900 and Rp 1,275 per quintal. In the period January March 1955 a reaction could be observed: in this period prices fell from about Rp 1,300 to Rp 1,200 per quintal. The declining trend of prices is inter alia to be seen in connection with the shortage of ticking, owing to which less mattresses, pillows, etc. can be made. The speculative trade also shrunk since the decreased demand made fairly large stocks remain at hand.

TABLE 58 — PRODUCTION AND EXPORTS OF CINCHONA PRODUCTS (net tons)			
	Production (dry bark)	E x p o r t s	
		Cinchona bark	Quinine
1938	10,955	6,957	182
1950	5,708	2,425	63
1951	9,080	7,576	57
1952	3,803	2,619	2
1953	1,115	448	13
1954	1,770	617	1

Source : C.B.S.

Cinchona

The production of bark in 1954 increased by 50 % as compared with 1953, while exports rose by 37%.

The exported quantity of quinine amounted to only 1 net ton in 1954, against over 3 tons in 1953. Given the unfavourable competitive position of the natural product in regard to the synthetically prepared quinine, the cinchona cultivation in Indonesia is not likely to be considerably extended in the near future.

Forest products

The production of wood and charcoal surpassed in 1954 the original estimate but remained as regards wood all along the line below the 1953 level.

TABLE 59 — TIMBER FELLING ACCORDING TO TYPES (‘000 m ³ rough timber equivalent)				
	Lumber	Fire-wood	Charcoal	Total
1939	2,010	1,667	357	4,034
1950	1,319	1,355	171	2,845
1951	1,332	1,271	362	2,965
1952	1,706	1,526	283	3,515
1953	1,644	1,652	262	3,558
1954	1,452	1,359	305	3,116

Source : Forestry Service

On Djawa, the production of firewood decreased in favour of constructional timber, which is to be attributed to better grading methods. Remarkable is the increase in imports of triplex cases and newsprint (170 and 39% respectively) vis-a-vis a drop to about one-sixth of wood pulp imports. Exports of djati went up by 21% of the other varieties however exports dwindled. Overall, the decrease was about 20,000 tons or 11%.

TABLE 60 — TIMBER FELLING IN THE VARIOUS AREAS (‘000 m ³ , rough timber equivalent)					
	Djawa and Madura	Sumatera	Kalimantan	Indonesia Timur	Total
1939	1,810	1,570	562	92	4,034
1950	1,610	760	403	72	2,845
1951	1,594	969	330	72	2,965
1952	1,901	1,074	503	37	3,515
1953	2,161	1,018	336	43	3,558
1954	1,735	909	441	16	3,116

Source : Forestry Service

TABLE 61 — IMPORTS AND EXPORTS OF THE PRINCIPAL KINDS AND PRODUCTS OF WOOD (tons)						
	I m p o r t s			E x p o r t s		
	Triplex cases	Wood pulp	News print	Teak	Other kinds of timber	Fire wood
1938	23,586	500	6,196	13,281	304,073	84,536
1950	4,344	3,206	6,953	4,767	84,898	21,049
1951	5,436	1,765	10,105	5,227	86,941	17,273
1952	3,212	2,002	5,287	3,267	143,553	32,588
1953	1,770	1,751	7,610	4,879	149,891	21,528
1954	4,790	303	10,554	5,915	134,583	16,338

Source : C.B.S.

After having displayed a decline for four subsequent years, exports of copal in 1954 rose by about 40% as compared with 1953. Damar exports also went up in 1954, namely by 12%. The principal buying country for copal was Japan, for damar Malaya. While copal world prices showed an upward trend during 1954, damar quotations remained fairly stable with a declining trend towards the year-end. The exported quantity of rattan stood in 1954 at a monthly average of 2,500 tons, or 11,% more than in 1953. About 55% of all exports was directed to Hong Kong and Malaya; exports to the Netherlands and Germany increased not unimportantly. The aggregate export proceeds from copal, damar and rattan amounted to Rp 31.6 million, against Rp 30.9 million in 1953.

TABLE 62 — EXPORTS OF FOREST BY-PRODUCTS (gross tons)			
	Copal	Damar	Rattan
1938	11,828	8,017	36,068
1950	7,472	4,462	26,612
1951	7,201	3,448	23,066
1952	4,667	4,217	20,526
1953	4,253	5,033	26,979
1954	5,951	5,644	29,364

Source : C.B.S.

Sugar

As provisionally estimated, the 1954 crop did reach a quantity of 718,000 tons. Fifty- two sugar factories, covering an acreage of 48,999 hectares, joined the campaign. The area under smallholders cane covered approximately 13,450 hectares. Out of the total production, milled smallholders cane (inclusive of a very small quantity of bought up cane) proved to account for 117,820 tons.

TABLE 63 — PRODUCTION AND EXPORTS OF SUGAR				
	Estates		Overall	
	Planted area (ha)	Yield per ha (qt crystal)	Production in net tons (tel quel)	Exports (net tons)
1938	84,829	164	1,400,340	1,175,292
1950	30,352	91	277,158	2,458
1951	43,016	97	427,793	6,326
1952	47,680	91	457,972	1,568
1953	46,105	122	619,521	101,490
1954	49,256	120	717,742	219,441

Sources : C.B.S. ; N.I.V.A.S. ; A.S.S.I.

According to recent data, exports ex 1954 crop came to round 190,000 tons until the end of March 1 955 — Government export target total 220,000 tons—while 425,000 tons were sold for domestic consumption. At end-December 1954 these quan-

TABLE 64 — SUGAR EXPORTS OF INDONESIA IN 1954		
Destination	Weight (‘000 tons)	Value (Rp million)
Japan	167.5	193.2
Iran	0.1	0.1
China	7.7	9.4
Burma	10.3	12.2
Thailand	1.0	1.2
United Kingdom	0.5	0.6
Singapore	32.3	39.3
Total	219.4	256.0

Source : N.I.V.A.S.

ties stood at 184,000 tons and 294,800 tons respectively. The average local consumption for 1954 can be calculated at 42,500 tons per month, against 41,000 tons in 1973 and 36,700 tons in 1952.

Among the buying countries of sugar, Japan ranks first, followed by Singapore. Japan has obtained the International Sugar Council's permission to import from Indonesia 150,000 tons of sugar during 1954 and following two years. It moreover obtained afterwards permission for the importation of 35,000 tons of so-called black sugar from Indonesia, which could comprise special molasses sugar. For the 1955 calendar year Japan has requested the International Sugar Council for a considerable increase of the already allocated import quota of Djawa sugars. Table 64 gives a classification of the various countries of destination. Because of the increased volume of exports which will most likely result in a lower middle price for the 1954 crop, and as a reaction to a binding P4P recommendation to raise the wages and improve the social provisions in the sugar industry, the Government as a support to producers has agreed to the increase as from July 1st, 1954, of the local NIVAS selling price of crystal sugar ex 1954 crop by Rp 15 per quintal to Rp 265 per quintal (average quality S.H.S.), inclusive of Rp 27 excise and Rp 5 war risk premium, but exclusive of the 5% sales tax.

As in 1953, it was also determined for 1954 that exemption would be granted of the current 8% export duty. Rumours about an intended increase of excise and the hoarding of stocks by merchants in anticipation of the general rise in prices as at July 1st, 1954, occasioned in various regions fairly steep price increases. In order to check such undesirable price movements, a new price control decree has been issued by the Minister of Economic Affairs in the beginning of November 1954, which contains binding provisions for a more accurate reporting system of all sugar transactions having taken place, so that it will be possible to detect irregularities in the established quota system and to take the necessary steps.

Since for crop year 1954/1955 the ground rent regulations were again published in good time while almost no labour difficulties of any significance occurred, the planting of the crop could be proceeded with according to plan. The planted area of factories covers round 5 1,360 hectares, the area under smallholders cane about 21,000 hectares. Provisional rough estimates suggest that the 1955 crop— 53 factories will join in the campaign—will yield about 850,000 tons. If so, and taking into account an average local demand of 43,000 tons per month, exports can be put at about 330,000 tons.

TABLE 65 — WORLD PRODUCTION OF SUGAR (’000 tons tel quel)					
	Pre-war average	1951/1952	1952/1953	1953/1954	1954/1955
Djawa	1,172	428	458	620	718
Philippines	882	976	1,033	1,301	1,275
Rest of Asia	2,340	2,712	2,875	2,459	2,517
Asia	4,394	4,116	4,366	4,380	4,510
United States	1,630	1,779	1,927	2,275	2,380
Cuba	2,835	7,225	5,159	4,890	4,500
Rest of America	4,978	7,969	8,438	8,848	8,975
America	9,443	16,973	15,524	16,013	15,855
Europe	8,970	11,457	11,428	14,089	13,320
Africa	1,111	1,567	1,760	1,908	2,012
Australia	881	868	1,076	1,465	1,516
World total	24,799	34,981	34,154	37,855	37,213

Source : N.I.V.A.S.

With regard to the cane plantations undertaken by smallholders I can observe that in the regions where the population of old has made cane growing their living and therefore are sufficiently skilled already, the yields were not unfavourable. But yields from the “new” sugar cane smallholdings were still disappointing. Given the results of the milling of cane by the smallholders themselves (the quality and yield of the thus produced sugars were rather bad), efforts are made to have the indigenous cane again as much as possible milled *casu quo* processed into sugars of better quality by the nearest factories.

Table 65 gives data about the world production of sugar. Please note that the figures given in this and the following table are the most recently revised figures available, while the data concerning Indonesia regard the crop (=calendar) year.

Compared with 1953/1954 the production during 1954/1955 appears to have declined by 640,000 tons. World consumption on the other hand increased by 500,000 tons.

TABLE 66 — WORLD CONSUMPTION OF SUGAR (‘000 tons tel quel)					
	Pre-war average	1951/1952	1952/1953	1953/1954	1954/1955
United States	6,062	7,152	7,406	7,563	7,600
Rest of America	2,603	5,244	5,325	5,705	5,760
America	8,665	12,396	12,731	13,268	13,360
United Kingdom	2,323	2,095	2,104	2,481	2,600
France	1,092	1,100	1,175	1,258	1,300
Germany	1,869	1,775	1,850	1,940	1,915
Rest of Europe	5,975	8,255	8,775	9,542	9,555
Europe	11,259	13,225	13,904	15,221	15,370
India and Pakistan	1,379	1,615	1,725	2,030	2,110
Rest of Asia	2,395	2,615	2,926	3,082	3,205
Asia	3,774	4,230	4,651	5,112	5,315
Africa	874	1,764	1,832	1,890	1,926
Australia	451	708	629	661	685
World total	25,023	32,323	33,747	36,152	36,656

Source : N.I.V.A.S.

World prices have in 1954 fluctuated around the lowest level fixed in the International Sugar Agreement, namely U.S.\$ cts 3.25 per lb f.a.s. for Cuba raws; the lowest quotation came to 3.05 cts, the highest to 3.40 cts. At the conference of the International Sugar Council held in London in September 1954 the problem of supply and demand on the free world sugar market could not be brought to a satisfactory solution. It is true that the assessment of free markets' demand for 1954 could be brought from 3,864,000 metric tons (estimate as at May 1954) to 4,330,000 tons, but with an estimated available quantity of 4,584,000 tons the supply remained to exceed demand by round 254,000 tons.

The hope that the visible surplus could be eliminated by partners voluntarily reducing their export quota failed to materialise. I may in this respect recall that when the International Sugar Agreement came into force it was found out that the export quota total greatly exceeded the free world market's demand. Consequently the quota were reduced by 15 % (for the participating countries with an export quota of 50,000 tons or less 10%), whereupon in May 1954 it was determined to increase this reduction to 20%. But neither the expectation of the International Sugar Council expressed after its meet-

ing in November last that the balance between supply and demand could be restored during the first months of 1955 if only the 20% reduction be maintained, nor the fact that Cuba announced its incapability of realising its 1954 export quota, could bring sugar circles in better than pessimistic spirits.

All told, the International Sugar Agreement has had but little success so far. Only the introduced restrictions have more or less succeeded in preventing a further collapse of the sugar world price level.

Given the ready foreign markets for Djawa sugars and the favourable export prices realized thus far, Indonesia's not entering into the Sugar Agreement has not yet turned out to be to its detriment.

Tea

Compared with the previous year, the tea production in 1954 showed an Increase by approximately 24%. This increase, which was relatively largest in Djawa, is inter alia due to an extension of the area under estate cultivation during the past years, to a more successful combating of diseases and insectpests, and lastly to a better labour productivity on various estates.

An even stronger increase could be witnessed with exports; with over 40,200 net tons in 1954, they compare to 28,900 tons in 1953, a 40% increase. As a result of the steeply risen world prices, export proceeds also increased satisfactorily. Over against an amount of Rp 265 million in 1953 stood a total yield in 1954 of round Rp 450 million.

TABLE 67 — PRODUCTION AND EXPORTS OF TEA (net tons)			
	P r o d u c t i o n		E x p o r t s
	Total	Of which from bought-up leaf	
1938	80,538	12,206	71,921
1950	35,384	12,187	27,931
1951	46,513	12,484	40,630
1952	37,277	6,679	31,872
1953	36,778	5,810	28,900
1954	46,900	8,365	40,228

Source : C.B.S.

The principal buyer is here again the Netherlands, despite the fact that their significance as a buying country, relatively, has fairly considerably dwindled in 1954. For during 1954 only 35% of all tea exports were shipped to the Netherlands, against 44% in 1953. Exports to Singapore and Hong Kong showed a striking rise. It appeared that part of the quantities of tea, and especially the better qualities, which are exported to the two latter countries is eventually transhipped to the United Kingdom. Since such re-exports in general constitute a loss of foreign exchange for Indonesia, the Government has proceeded to subject exports of tea to a stricter control.

World tea production for 1954 has roughly been estimated at 1,306 million lbs, world consumption at 1,324 million lbs. The comparable figures for 1953 were 1,286 and 1,305 million lbs respectively.

The steep price increases on the world market have to be seen in the light of the above production and consumption estimates. I would observe that the considerably larger world demand for tea has partly been influenced by the ending of the tea and sugar rationings in the United Kingdom and in general by the intensive propaganda for tea consumption as a reaction to the relatively high coffee and cocoa prices. Worse crop results (inter alia caused by floods in the Indian production centres) also seem to have contributed to the diminished supply. The average price of Good M.B.O.P. quality in Colombo rose in 1954 from Rs 2.20 per lb in the beginning of the year to Rs 3.30 per lb as at the end of December. A corresponding price increase could be observed on the Djakarta market, where the Good M.B.O.P. price rose from Rp 6 to Rp 11 per half kilo.

Meanwhile a reaction has set in on the world market since February 1955, consequent upon which the prices in Djakarta have fallen as well.

Coffee

While the production of estate coffee increased last year by almost 80% as compared with 1952, it suffered in 1954 a decline of approximately 37%. On an average 670 tons per month were more produced in 1953 over 1954.

Thanks to a not inconsiderable increase of the production of smallholders coffee, overall coffee exports experienced a satisfactory rise. The area under indigenous cultiva-

tion now covers round 97,000 hectares which means an extension by 10% as compared with 1953. Inter alia by the application of more intensive methods for instructing the population, the new coffee plantations were far better attended to in 1954.

The monthly average export figure for 1954 came to round 3,100 net tons, against 2,700 tons in 1953, signifying an increase of 15%.

Italy is still the principal buyer of Indonesian coffee with almost 10,000 tons per year, followed by Malaya and the Netherlands. The quantities of coffee shipped to the two latter countries in 1954 amounted to approximately 8,300 and 5,400 gross tons respectively. Exports to the United Kingdom and Hong Kong have, relatively, increased strongest. The U.S.A. and France lost some of their significance in this respect.

After having showed a steeply rising tendency in the first and a steady development in the second quarter of 1954, world coffee prices constantly declined in the period July through October. During November they recovered somewhat, only to decline again in December so that the price fell wellnigh back to the end-1953 level, viz. U.S. \$ cts 65 per lb for New York S contract 1st future. The price development on the Djakarta market followed suit, with this difference that here the price as at the end of December 1954 (Rp 1,200 per quintal W.I.B.coffee) remained about 20% ,above the end- 1953 quotation.

Given the expected further decline in world coffee prices—I may in this respect recall the introduction of a new system of export premiums in Brazil as at the end of

TABLE 68 — PRODUCTION AND EXPORTS OF COFFEE (net tons)			
	P r o d u c t i o n		E x p o r t s
	E s t a t e s	S m a l l h o l d e r s ¹⁾	
1938	45,572	68,690	68,962
1950	11,111	28,000	13,467
1951	12,055	27,000	24,777
1952	13,248	33,600	18,413
1953	21,847	39,900	32,223
1954	14,196	42,800	37,336
¹⁾ Partly estimated			

Sources : C.B.S; Gijsselman & Steup

January 1955, which system enables exporters to supply the world markets with specified commodities, inter alia coffee, against considerably lower prices—a lower export yield has to be reckoned with for 1955. In 1954 export proceeds came to about Rp 450 million, in 1953 to Rp 340 million.

Cocoa

Cocoa production—out of the total central Djawa accounts for 85%—lagged in 1954 behind the 1953 total by approximately 90 tons or 7%. It is however a hopeful symptom that especially the smallholdings, outside Djawa included, are promising well and are constantly being extended. In Halmaheira and northern Sulawesi for instance, areas of 300 and 200 hectares are under cocoa cultivation at present, yielding 60 and 40 tons per year respectively. The Government renders support by making available cocoa beans and giving instructions for the planting; the combating of diseases furthermore has the full attention of the Djawatan Pertanian Rakjat (Service for Indigenous Agriculture). The area under cocoa in Indonesia can at present be estimated at approximately 4,750 hectares, of which 20% is newly planted and not yet producing.

Table 69 gives an insight into production and exports of cocoa.

TABLE 69 — PRODUCTION AND EXPORTS OF COCOA (net tons)		
	Production	Exports
1938	1,584	1,572
1950	858	429
1951	908	284
1952	763	521
1953	1,220	226
1954	1,162	597

Source : C.B.S.

Cocoa world prices have shown a steady rise during the first halfyear of 1954, which can be attributed to a disequilibrium between production and consumption. Since mid-1954 however a noticeable buyer's resistance (finding expression in the switching over to consumption of cheaper qualities *casu quo* substitute cocoa, the marketing of

bonbons instead of pure chocolates, etc.) has manifested itself everywhere, eventually resulting in falling prices. The quotation on the New York market loco Bahia thus dropped in the period July/December from U.S.\$ cts 66.55 to U.S.\$ cts 46.90 per lb. The end-1953 price amounted to U.S.\$ cts 49.40 per lb.

Tobacco

The 1953 crop, which was for the greater part sold in 1954 On the Amsterdam tobacco market, was according to postwar standards ample, both for Sumatera as for Djawa. Insufficient rainfall during the planting season caused the tobacco to be in general of mediocre quality. These two factors combined resulted in prices dropping below the 1953 level, so that for the majority of the cultivation companies the final outcome was disappointing. The following figures, which are partly based on estimates, give a survey of the quantities Sumatera and Djawa tobaccos ex crop 1952 and 1953 sold in the Netherlands, and their yields:

	1952	1953
quantity	10,000 tons	15,700 tons
average yield per kg	fl 13.90	fl. 9.40
total yield	fl. 139,000,000	fl. 147,580,000

The Sumatera 1954 crop is expected to yield qualitatively a better product compared to 1953, but the quantity is estimated to be 20% less. This is i.a. attributable to many lost working hours on account of a three day strike on various Deli estates (during the April harvest) immediately preceding a number of official holidays, while heavy downpours coupled with stormwinds frustrated part of the autumn crop.

The tendency of tobacco company businesses being concentrated, which has been rife since the recent world war, proceeded. In August last the N.V. Tobacco Company Arendsburg was taken over by the N.V. United Deli Companies, so that of the tens of tobacco companies operating in Sumatera before the war, only three are left now, namely the N.V. United Deli Companies, the N.V. Senembah Company and the much smaller Tobacco Company A.G. "Tjinta Radja", with registered office in Zurich.

In Besuki and Djawa too, sustained rains damaged many tobacco acreages and seed beds, so that a smaller harvest than normal will have to be reckoned with. It is for instance expected that the Besuki 1954 crop will reach half the 1953 figure amounting to round 10,000 tons; as regards the quality reports vary widely. Thanks to the acreage having been steadily extended, the Vorstenlanden crop will in 1954 most probably surpass the preceding year's, though the quality will be the same. As to the other varieties of Djawa tobacco: Lumadjang, Banjumas, Kedu and Rembang, little can be stated definitely just now. The quantities offered on foreign tobacco markets—mainly Amsterdam—still have fallen considerably short of the prewar amounts, while it is doubtful whether the prices realized have satisfied sellers.

Because of the country's precarious foreign exchange position the importation of foreign tobaccos has been greatly reduced in the second half of 1954 while a further drastic curtailment will be carried through in 1955. The Government is now engaged in encouraging the population of the various autonomous territories to undertake especially the cultivation of Virginia tobacco for the domestic cigarette industry. The results attained thus far seem to be fully satisfying. According to provisional figures the overall domestic production of Virginia tobacco will come to round 6,000 tons this year against 5,000 tons in 1953. It is hoped that in 1955 production can be stepped up to 8 - 9,000 tons. The cigarette industry's yearly requirement of Virginia tobacco can be calculated at 12,000 tons.

TABLE 70 — PRODUCTION AND EXPORTS OF TOBACCO (net tons)			
	Estate production		Exports
	Deli	Djawa	
1938	13,786	20,924	49,204
1950	4,250	2,794	12,700
1951	3,116	4,804	13,008
1952	2,539	5,281	9,812
1953	3,630	6,760	13,618
1954	3,300 ¹⁾	7,200 ¹⁾	19,165
¹⁾ Estimated			

Source : C.B.S.

Overall exports of cut and leaf tobacco in 1954 amount to round 19,200 tons, in 1953 to 13,600 tons. Export proceeds for these years were Rp 372 and 279 million respectively.

The Netherlands, as stated above, hold the foremost place as a buying country. Over 95% of all exports were shipped to that country in 1954. Other buyers are inter alia the United States, Indo-China and Germany.

Imports of foreign tobacco varieties (leaf and stem) into Indonesia in 1954 totalled 7,040 tons with a value of Rp 104 million (1953: 9,160 tons, value Rp 124 million).

When considering the future possibilities of selling Indonesian tobacco, the development of the situation in the Netherlands' cigar industry has to be closely watched; though the consumption per caput is still not nearly so high as in prewar days, the past few years could again witness an increase. Another counting factor in this respect which has to be thoroughly taken into consideration is the competition which is to be expected from foreign-grown tobaccos to an ever increasing extent. Several West-European countries — and the United States as well—already consume at present home-grown products, while also the so-called “Italian” Sumatera tobacco already finds a constantly expanding, if still very moderate market. It stands to reason that the superior qualities, such as produced by the big Deli estates, are far less hindered by the competition of the aforementioned foreign-grown tobaccos as are the inferior varieties. It is therefore of paramount importance for the Indonesian tobacco cultivation that the best possible attention is constantly paid to the growing of a high quality product.

Spices

As is illustrated by table 71, the volume of pepper exports in 1954 exceeded the 1953 total by about 80 %. This rise, to a large extent attributable to favourable weather conditions, regards the exported quantity of both white and black pepper. The principal buyers appeared to be Malaya and the United Kingdom; exports of white pepper to the U.S.A. increased, of black pepper on the other hand decreased considerably. Owing to the steady decline in pepper world prices—Singapore quotations for black Lampong pepper for instance fell back from Str.\$ 290 to Str.\$ 132, for white Muntok pepper from Str.\$ 330 to Str.\$ 206 per picul—export proceeds dropped by over Rp 32 million in spite of the strongly increased volume.

Exports of nutmegs and mace experienced a satisfying increase. The rupiah equivalent of the foreign exchange earned in this respect amounted to round Rp 24 million, comparing to Rp 17 million in 1953. Malaya and the Netherlands were the main buying countries.

TABLE 71 — EXPORTS OF SPICES (gross tons)					
	P e p p e r			Nutmegs and mace	Cassia
	White	Black	Total		
1938	11,350	44,199	55,549	4,811	2,505
1950	926	6,359	7,285	3,283	5,319
1951	736	2,618	3,354	3,117	3,818
1952	2,194	4,768	6,962	2,942	3,193
1953	4,265	2,966	7,231	2,962	5,566
1954	7,648	5,279	12,927	4,566	6,372

Source : C.B.S.

As against 1953, exports of cassia increased by approximately 14% in 1954. Since world prices for cassia have risen as well, export proceeds could increase by Rp 1.5 million. A large part of all exports was shipped to the Netherlands.

Although no exact data are as yet available, I can mention that the production of cloves is expected also to have stepped up during 1954. According to estimates production may come to round 5,000 tons or about 1,000 tons more than in 1953. The average domestic consumption amounts to approximately 14,000 tons per year. In 1954, 7,700 tons were imported with a value of round Rp 94 million, against 3,300 tons in 1953, value Rp 71 million. As a consequence of the import restrictions, the production of cloves is greatly stimulated.

Mining

Progress has been made with the revision of the mining legislation, resulting in a draft bill being presented to the Cabinet by the specially appointed committee early in 1955. As this report goes to press, no particulars about the contents of the bill have yet been published.

The Bank Industri Negara is reported to have entered the field of mining by establishing a subsidiary company, the N.V. Perusahaan Pembangunan Pertambangan (Mining Development Company Ltd.), which has already started investigations with the object of looking into the possibilities of gold winning and into the production of manganese, sulphur and bitumen.

Petroleum

In 1954 new agreements were concluded with the Caltex and Stanvac companies covering periods of five and four years respectively. Profits will now be transferred monthly on the basis of the oil companies' estimates of profits made during the respective month as will be approved by the tax officials; corrections follow at the year-end. The agreement with Stanvac has been tied down to a new investment scheme totalling U.S.\$ 70 to 80 million, while Caltex will have to submit to the Foreign Exchange Fund US-dollars and other acceptable foreign currency to a total amount of U.S. \$ 60 million during the 5-year contracted term.

After having been pushed to the background for a while, the controversy regarding the B.P.M.-concessions in northern Sumatra came again to the political fore in the middle of 1954. The appointment of a governmental supervisor in April 1954 gave rise to labour unrest and frictions with local authorities, which led to on-the-spot investigations by the Economics, Finance and Labour Sections of Parliament. Though the reports delivered by these sections in general seem to tend towards nationalization, it has on the other hand become clear that without substantial investments improvement of the refining works will be possible only to a limited extent, while the quality of the benzine will then remain poor. Though the urgency of a quick Government decision with regard to the status has been emphasized by all three sections, the Government has made no decision so far, but has instead taken provisional measures to safeguard the production. An amount of Rp 10 million to proceed with the most urgent rehabilitation work has been voted, Rp 7 million of which has meanwhile been made available.

Overall crude oil production in 1954 stepped up by 5% as compared with 1953 and now stands at 148% of the 1938 level.

Exports of crude oil in 1954 rose 10% above the year-ago level; exports of oil products showed an increase of only 1%. Though petroleum exports to the United States during the second half of 1954 showed a marked increase as compared with the first six months, the year total lagged 214,000 tons or 11% behind the 1953 figure. Over against this however stood exports of 206,000 tons to Japan and of 239,000 tons to the Philippines, where a Caltex refinery was put into operation in Batangas in December last.

Export proceeds from crude oil and oil products stood at Rp 2,585 million in 1954 against Rp 2,292 million in 1953.

TABLE 72 — PRODUCTION, IMPORTS AND EXPORTS OF PETROLEUM AND PETROLEUM PRODUCTS (‘000 tons)					
	Crude oil			Petroleum products	
	Production	Imports	Exports	Imports	Exports
1938	7,398	—	68	158	5,999
1950	6,816	1,575	8	69	6,091
1951	8,093	1,495	—	73	6,725
1952	8,523	2,211	599	95	7,284
1953	10,225	2,279	2,086	99	7,513
1954	10,775	2,131	2,303	88	7,584

Sources : C.B.S. ; Ministry of Economic Affairs

Petroleum imports (for refinement purposes) fell 6% below the 1953 level, whilst the import of oil products declined by 11 %. With regard to imports of crude oil to be refined, a shift in countries of origin could be observed in 1954. Imports from British North Romeo dwindled by approximately 76% to about 400,000 tons from over 1.6 million tons in the previous year. Imports from Iraq on the other hand showed a steep rise and increased from 558,800 tons in 1953 to around 1.5 million tons in 1954.

The upward trend in domestic consumption of benzine and kerosene continued throughout 1954. At the year-end consumption had advanced by 13 % and 25 % respectively from the 1953 level.

The increase in benzine consumption is attributable to the ever increasing Dumber of motorized vehicles. Consumption of kerosene has risen as a consequence of the

TABLE 73 — DOMESTIC CONSUMPTION OF BENZINE AND KEROSENE (millions of litres)		
	Benzine	Kerosene
1938	190.0	322.2
1950	446.0	325.0
1951	505.2	384.0
1952	558.8	461.6
1953	605.8	593.3
1954	685.7	740.9

Source : Ministry of Economic Affairs

price control which caused kerosene to be cheaper than wood, charcoal, gas and electricity. A request made by the oil companies to allow a price increase was turned down on the ground that such a measure would be contrary to the public interest.

Tin

The production of tin in concentrates rose 6% over the 1953 level, while exports showed an increase of 4%. Exports were chiefly directed to the Netherlands (37,386 tons) and the United States (10,867 tons). Exports of tin metal, though still negligibly small, were nearly 3 1/2 times as high as in 1953.

The world production of tin during the past year remained somewhat below the 1953 level, while consumption was up by 5%.

TABLE 74 — PRODUCTION AND EXPORTS OF TIN (long tons)			
	Production of tin in concentrates	Exports	
		Tin in concentrates	Tin metal
1938	29,728	13,699	7,207
1950	32,102	31,349	4
1951	30,986	30,750	1
1952	35,003	34,601	15
1953	33,822	32,732	224
1954	35,862	33,941	994

Source : International Tin Study Group, Statistical Bulletin

By June 1954 the international tin agreement drafted at Geneva in November 1953 had achieved sufficient backing to become valid. The ratification was however delayed (in Indonesia a bill bearing upon this ratification was introduced in Parliament only in February last), so that the formation of the planned bufferstock had to be postponed resulting in world prices experiencing a reaction during the last months of 1954.

TABLE 75 — WORLD PRODUCTION AND CONSUMPTION OF TIN (^{'000} long tons)									
Production of tin in concentrates					Commercial consumption				
	1951	1952	1953	1954		1951	1952	1953	1954
Malaya	57.2	56.8	56.3	60.7	United States	56.9	45.3	54.0	54.7
Indonesia	31.0	35.0	33.8	35.9	United Kingdom	23.9	22.6	18.6	21.2
Bolivia	33.1	32.0	34.8	28.8	Other countries	59.2	62.6	58.9	61.7
Belgian Congo	13.7	13.8	15.3	12.8					
Other countries	32.5	32.9	35.8	36.3					
Total	167.5	170.5	176.0	174.5	Total	140.0	130.5	131.5	137.6

Source : International Tin Study Group, Statistical Bulletin

Other factors exerting a downward pressure on prices were the increase in Asian production in the second half of the year and the uncertainty as to the renewal of the American tin contracts which expired in the first quarter of 1955. This uncertainty is partly related to the question whether or not the big American smelter in Texas will be closed down in the middle of 1955.

TABLE 76 — AVERAGE TIN PRICES (£/long ton)			
	London - cash	New York - prompt	Singapore ex-works
1950	744.6	764.5	723.5
1951	1,077.3	1,026.5	1,040.3
1952	964.4	963.4	945.4
1953	731.7	766.1	714.9
1954	719.4	734.5	695.0
1954 January	654.8	678.6	623.6
July	756.6	772.3	735.9
December	705.1	708.6	687.4

Source : International Tin Study Group, Statistical Bulletin

Other mining products

Coal production in 1954 could be maintained on the same level as the previous year's, but exports fell by 36% despite Government efforts to find better markets.

The Government intends to modernise the Bukit Asam and Umbilin mines within the scope of its general industrialisation plans. It is expected that as a result of this modernisation the Bukit Asam mine production can be expanded from 600,000 to 1.5 million tons per year. The plans further include the building of a briquettes factory at Tandjung Enim with a planned capacity of 360,000 tons per year, to replace the old factory at Tandjung Priok.

Bauxite production in 1954 rose 15% from the 1953 level. Though exports during the second half of 1954 were but small, the year total exceeded the level of the two preceding years on account of higher demand from Europe (i.a. the Netherlands) and Japan in the first half of the year.

Manganese production suffered a severe setback; output dropped by 36% compared to 1953 and fell back to 11,418 tons. Exports declined even more heavily and fell by 63% to 11,437 tons.

The production of iodine reached as at the end of December a total of 10,807 kilogrammes, showing an increase of 13% over 1953.

TABLE 77 — PRODUCTION AND EXPORTS OF BAUXITE AND COAL (‘000 gross tons)				
	P r o d u c t i o n		E x p o r t s	
	Bauxite	Coal	Bauxite	Coal
1938	245	1,456	274	368
1950	531	804	550	62
1951	644	868	611	116
1952	344	959	220	108
1953	150	897	162	136
1954	173	900	247	67

Sources : C.B.S. ; Ministry of Economic Affairs

The production of salt was again satisfactory in 1954. Exports could be stepped up; 53,000 tons were exported to Japan during the year under review against about 30,000 tons in 1953. Domestic salt consumption is estimated at 3 kilogrammes per head per year. The desirability of continuing the Government monopoly with regard to salt production will be examined by a specially appointed committee.

Industry

The very unfavourable factors described in my previous annual report as pressing upon industrial development, prevailed unabatedly all through 1954. The labour problems lasted; a higher production efficiency was in general out of the question which fact strengthened big business' tendency towards mechanization. Big and middle-sized industrial concerns, in so far as registered with the Djawatan Perindustrian, employed together round 530,000 workers.

The already precarious raw material position aggravated by the deficiency of foreign exchange. Irregular supplies—even where imports had increased over 1953—strongly hampered business planning. Many middle-sized and small businesses were unable to

TABLE 78 — INDEX NUMBERS OF IMPORTS OF INDUSTRIAL RAW MATERIALS (1950 = 100)				
	1940	1952	1953	1954
Breweries : malt (inclusive of flour and extract)	—	207	264	294
Printing works : paper	67	102	106	111
Paint industry : zinc white	151	74	98	66
red lead	298	99	155	44
Weaving mills : cotton weaving yarns	85	53	84	94
Batik works : grey shirtings, sheetings and supers	61	45	61	33
bleached cambrics and shirtings	261	231	284	277
wax (various kinds)	83	20	38	19
Krettek works : cloves	64	57	30	70
Construction shops : sheet iron	257	170	264	352
bar iron	157	120	110	137
profile iron	212	103	192	136
Building industry : cement	111	171	137	201
Miscellaneous : caustic soda	104	118	96	112

Source : C.B.S.

maintain a steady production tempo and several had to retrench it or even close down their business (textile works, clove cigarette and biscuit factories). While production of big business may have increased somewhat, production of small and medium industrial businesses will very likely have dropped to a greater extent. Industrialization therefore did not make progress in 1954. Over against the setting up of new businesses stands the closing down of existing ones while the newly established firms likewise have to contend with raw material shortage. The recently founded nail factory in Semarang, for instance, works only at half-power. The foreign exchange planning for 1955 can for the time being only provide for the maintenance, not for the expansion of the present productive capacity.

Since the foreign exchange budget could neither provide for the importation of capital goods required by industry, at the end of 1954 the system of B and C credits (already referred to in Chapter VI of this report) was introduced. In principle only industries working with domestic capital, thus having no transfer privilege, are allowed to make use of these credits. In the priority scheme published in December 1954 by the Djawatan Perindustrian as principal criterion was taken the distinction between industries fully owned by autochthonous Indonesians and other industries. But foreign exchange saving or foreign exchange earning undertakings in non-national hands are also allowed to avail themselves of these facilities for the renovation of their equipment.

TABLE 79 — LICENSED CAPACITY OF CONTROLLED INDUSTRY					
Industrial group	Unit	End of 1953	End of 1954		
			Total	Djawa	Other islands
Printing works	'000 m ² printing/hr	2,622	2,777	2,424	353
Rice milling works	h.p.	54,733	56,607	41,009	15,598
Spinning mills	spindles	67,000	98,000	94,000	4,000
Weaving mills }	hand looms	67,746	75,435	71,419	4,016
	machine looms	12,994	12,480	12,219	261
Knitting mills	knitting machines	545	700	674	26
Textile printing works	machines	8	18	18	—
Cigarette works	'000 cigarettes/minute	199	199	178	21
Ice works	tons/month	34,498	34,399	22,676	11,723
Frying pan works	tons/month	521	510	441	69
Rubber remilling works	'000 tons/year	158	158	2	156
Dock-companies	'000 tons/month	5,723	5,682	3,910	1,772

Source : Ministry of Economic Affairs

The difficulties of kretek and textile factories and batik works are still accentuated by the stagnating domestic raw materials distribution. Even though the distribution of cloves, yarns and cambrics has been returned to Government departments since October 1954—in April 1954 all textile's basic materials had been put on the list of controlled goods already—the distribution of cloves still leaves much to be desired. Clove prices fluctuated markedly and a number of kretek factories had to be closed down. The textile sector suffered moreover from speculative tendencies on the local markets, which were focussed in particular on cambrics and cotton weaving yarns. Weaving mills lacked yarns even though imports in 1954—while showing an erratic picture all through the four quarters—surpassed the 1953 total.

The licenced capacity of printing works, rice hulling works and various kinds of textile works increased as can be seen from table 79; the capacity remained even or declined slightly for other industrial groups.

The indonesianisation aim of the Government inter alia found expression in a number of foreign enterprises being compelled to effect the importation of their raw materials or the sale of their finished products through the intermediary of national entrepreneurs. Difficulties were experienced in obtaining foreign exchange licences and/or supplies of domestic raw materials. These difficulties have inter alia led to the Philips radio plant in Surabaya closing down business, the production now being concentrated on the Philips' Bandung premises. The works in Surabaya have meanwhile been taken over by national enterprise. The General Motors assembling plant for motorcars at Tandjung Priok has also been on the verge of closing down. It is now in Government hands and will be financed by the Bank Industri Negara. It remains the object to surrender it also to private national enterprise in due time. In order to promote the assembling branch of industry, the importation of complete radios and sewing machines has been prohibited. It is thus hoped that within a period of five years the assembling industry will be able to undertake the production as well.

The inadequate number of Indonesian entrepreneurs and of skilled labour, makes it seem wise policy to have the taking over of private foreign enterprise done at a slower pace.

TABLE 80 — MAIN WEAVING MILLS								
		Number of mills		Yarn consumption (tons)	Production			
		Total	In operation		Sundry (1000 metres)	Slendang	Sarong	Towels
						('000 pieces)		
1951		46	42	4,393	22,829	237	2,889	538
1952		72	61	6,056	29,118	113	3,224	1,863
1953		76	67	8,600	42,829	71	3,579	2,779
1954		73	65	9,200	46,145	14	3,925	2,611
1954	1st quarter	73	65	2,212	11,747	1	1,036	638
	2nd "	73	65	1,985	9,998	0	874	604
	3rd "	72	66	2,399	11,644	3	973	626
	4th "	72	65	2,604	12,756	10	1,042	743

Source : C.B.S.

The realization of the industrial projects under direct Government supervision failed to come up to the original planning not only on account of poor management and lack of experience but also by the state of public administration which accounts for untold administrative and financial bother. Only in the printing sector the plans could be materialized; the set object of six new printing works could even be extended to seven. Various short term projects— remilling works, the spinning mill at Tjilatjap—which had to be realized as at the end of 1952, were not yet or only partly completed per end -1954. The long term projects fared not better. The setting up of a caustic soda factory at Waru and a gunny bags factory at Surabaya proceed but slowly. The intended erection of a paper mill at Takengon (Atjeh) will probably have to be postponed indefinitely on account of insecurity prevailing in Atjeh. Other projects have not yet begun at all. The dessicated coconut factory at Sukur (Minahasa) makes losses presumably due to insufficient care being given to the sale of this product.

The foundation of central processing and production units (induks) also experiences considerable delay, while the already existing induks have incurred losses so far. Beside inadequacy of technical and managerial knowledge and absence of an efficiently working distribution apparatus, it is especially the cumbersome method of working of the Government offices which has caused this state of affairs. All along the line the sales aspect has been neglected.

Because ordered machinery did not come in time (they now seem to arrive, if gradually) and credit facilities were but inadequately granted to the small scale industries which are characterized by lack of capital and liquid resources, the confidence of these small entrepreneurs has been seriously undermined. The Government has announced that in 1955 the mechanization of small scale industry will again be faced.

Furthermore a five-year plan is being drafted for the setting up of so-called basic industries, while for central Djawa a separate five-year plan exists for the foundation of various light industries (textiles, soda, carbon paper, matches, hardboard, leather). On account of the density of population and the unemployment problem prevailing there, central and eastern Djawa will be given priority.

By putting into operation the power stations of Antjol II and Karet, and of the Tjilakki works, the electricity supply for western Djawa made progress. In 1954 a number of electricity companies were nationalized.

In summing up I reach the conclusion that apart from the unfavourable influence exerted by the foreign exchange shortage and the irregular supplies of raw material on the production of especially the middle-sized and small scale industries, the Government policy as regards foreign big business in many instances greatly added to hamper the production activities of these concerns as well.

It would seem wise policy if, in addition to the drafting of a five-year plan for our country's industrial and economic development as is entrusted to the planning bureau, the Government would focus its attention and its activities in the first place on the maintenance and the putting to better use of the existing production apparatus.

Transport

Road traffic

The plans for constructing new motorways in Sumatera and Sulawesi will have to be postponed for the time being on account of the weak state of public finances. It looks as if in the near future the accent will have to be put on improvement rather than on extension of the now round 75,000 kilometres covering road system.

Apart from the lack of modern equipment and the often inadequate supplies of bitumen, the repair works on the roads are in some regions hampered by terrorist activities. Heavy rains and floods also delayed road repairs and improvements considerably.

The Government has projected plans to have all bus and truck services taken over as soon as possible by national companies; foreign enterprise will however be allowed to carry on business until the expiration dates of their licenses. Consequent upon the lack of accessories resulting from the restriction in imports, many bus and truck companies have to contend with difficulties. In central Djawa, for instance, about 20% of all buses are of necessity laid up already. It is obvious that apart from the financial losses which this situation entails for the companies, in the long run stagnation must arise in the transport of commodities from the interior, with all the consequences annexed to it.

Railways

The length of tracks in use with the Djawatan Kereta Api and the Deli Spoorweg Maatschappij changed hardly if compared with the previous year.

The figures of table 81 show that the volume of both passengers and freight carried by the Djawatan Kereta Api increased satisfactorily in 1954, namely by about 14 and 12% respectively. It has to be taken into account that during the last quarter of 1954 many regions in Djawa and Sumatera suffered from floods, which have badly influenced the D.K.A.'s eventual financial results. The returns from passenger and freight traffic amounted to Rp 307 and Rp 300 million respectively, against Rp 263 and Rp 278 million in 1953.

Though the D.K.A.'s financial results have noticeably improved, its net loss is still considerable. It is expected that this loss will come to Rp 45 million for 1954, or Rp 20 million less than in the previous year. Factors which have badly influenced the carrying on of business were inter alia the antiquated equipment, the low quality of fuel, competition of motor-buses and trucks, the overstaffed formation (compared to before the war the staff formation is about twice as large) and the destructions by gangs.

TABLE 81 —RAILWAY TRAFFIC				
	Passengers carried (‘000)		Freight carried (‘000 tons)	
	Djawatan Kereta Api	Deli Spoorweg Maatschappij	Djawatan Kereta Api	Deli Spoorweg Maatschappij
1938	48,083	4,117	6,915	844
1950	103,634	3,400	4,437	943
1951	99,321	4,450	4,816	1,120
1952	93,428	3,807	4,287	1,191
1953	107,828	3,553	4,884	1,257
1954	122,208 ¹⁾	3,460 ¹⁾	5,398 ¹⁾	1,280 ¹⁾
¹⁾ Provisional figures				

Sources : Djawatan Kereta Api ; Deli Spoorweg Maatschappij

In the beginning of January 1955 the Minister of Transport and Communications announced that in the course of the past few years the following orders had been placed abroad: 127 locomotives (of which 27 diesel-electric), 398 passenger coaches and 1,000 goods vans, to an aggregate value of round Rp 535 million. Part of this rolling-stock has meanwhile arrived in Indonesia and already been put into service with good result.

In order to carry up the number of Indonesian experts in this field, the Academy Djawatan Kereta Api was opened in September 1954 in Bandung, for which first year 30 students matriculated.

According to provisional data the volume of passenger traffic of the Deli Spoorweg Maatschappij was down by 2% as compared with 1953, while the volume of freight traffic increased by 4%. Figures about the financial results in 1954 of the company were not yet available at the time of writing this review.

Shipping

Also with regard to shipping, the Government programme can but be carried out at long term owing to the weak state of public finances. The Government inter alia plans the indonesianisation of the interinsular and coastal shipping, and extension of the Indonesian share in interoceanic shipping. The interinsular traffic will gradually be solely entrusted to the N.V. Pelajaran Nasional Indonesia (Pelni) with exclusion of all other national shipping

companies. The coastal shipping will be maintained by bonafide national private undertakings, the interoceanic shipping by both Government and private enterprise. The total number of national shipping companies is now estimated at 65,25 of which are registered. Of these 25 only some five companies would carry on business on an economic basis.

The financial results of the Pelni, which company owns 39 vessels with a displacement of 22,700 B.R.T., have not been very satisfying so far. Against losses in 1952 and 1953 of round Rp 6.5 and 13 million respectively, an even higher loss is estimated for 1954. The majority of the private national companies (with a total displacement of about 25,000 B.R.T.) have still to contend with shortage of capital.

According to available data— tramp shipping, though constituting an important part of the total operations, not included—the fleet of the Koninklijke Paketvaart Maatschappij N.V. consisted of 100 own and 5 chartered ships, having a total displacement of approximately 190,000 B.R.T. With these ships the K.P.M. maintains 44 regular routes, covering round 182,000 nautic miles. During 1954, 701,000 passengers and 3,312,000 metric tons of freight were carried by the K.P.M., or 11% and 9% respectively less than in 1953.

In the beginning of 1954 a commencement was made for intensifying the cadre training. The opening of a modern academy of navigation in Djakarta, which could accommodate 600 students, can be expected before long. An increasing number of persons is sent abroad for training (inter alia under auspices of the U.N.O.).

Government ordinance No 61/1954 stipulates that the licences for dock companies—these companies come under the licenced capacity group—are to be renewed. New licences will only be supplied to companies working with national capital and fully owned by Indonesians. As a transitional measure temporary licences may be issued so as to enable foreign companies to adapt themselves to this new regulation.

Airways

As is illustrated by table 82 both passenger and freight traffic of the Garuda Indonesian Airways N.V. (G.I.A.) increased satisfactorily during 1954. It is expected that G.I.A. will close its 1954 financial year without losses.

The length of the inland air routes, which covered about 23,000 kilometres as at the end of 1953, could be extended to round 27,500 kilometres by putting into service several new airports, including Pontianak, Benkulen and Rengat. As at the end of December 1954 the inland air transport system covered 31 places. The discussions for extending G.I.A.'s foreign air communication with Singapore- Bangkok-Manila to Hong Kong have had no result as yet.

TABLE 82 — AIR TRANSPORT BY GARUDA INDONESIAN AIRWAYS			
	Aircraft kilometres flown (‘000)	Freight and mail (tons)	Passengers carried
1950	9,300	14,500	288,000
1951	9,200	15,500	291,000
1952	9,600	14,700	284,000
1953	10,400	15,400	296,000
1954	12,390	15,800	308,000

Source : G.I.A.

The G.I.A. now has at its disposal 8 Convairs-340, 8 Convairs-240, 14 Douglas D.C.-3's and 14 De Havilland Herons. Since its workshops are equipped with the most modern instruments and machinery, the G.I.A. is in a position to have its aircraft wholly revised in Indonesia.

In order to be able to replace the expatriate staff of civil aviation services as soon as possible — at present about 17% of G.I.A.'s staff consists of foreigners—keen attention is paid to the training of airline pilots and aircraft technicians. In addition to training overseas, more foreign instructors (i.a. from India) will be engaged to train young pilots. In February 1954 a secondary technical air school was set up in Djakarta. Since mid-1954 courses have been opened for the training of stewards and airhostesses, assistant technicians and clerical staff.

Price and wage levels

Prices

The weighted index numbers of nineteen foodstuffs displayed after a decline in the first half of the year also in the smaller towns all along the line a markedly upward tendency, surpassing as at the end of December the 1953 level. For Djakarta this increase was 11%, for Medan and Makasar even 17. The index number for twelve food-

stuffs in the countryside of Djawa and Madura on the other hand, which showed the normal seasonal fluctuations with a deeper fall in the middle of the year than in the corresponding period of 1953, lagged as at end- December 1954 5% behind the 1953 level. An analysis of the twelve commodities reveals that the general decline principally resulted from a heavy fall in prices in the sector of staple produce (pounded rice -4 %, maize -17%, cassava -28 % and batatas -11%) while salt and coconut oil also dropped in price, namely by 6 and 1 % respectively. "Luxury" articles as meat (+ 16,%), salted fish (+ 14%) and eggs (+ 4%) on the other hand rose in price, as did ground nuts, soya beans and coconuts.

The index number of forty-four import goods also increased considerably on account of the imposed import restrictions to which the foreign exchange deficiency necessitated; this number surpassed the 1953 level by 23%, with relatively the greatest rise in the textiles sector (49%). Not only the prices of the better quality textiles but, after a decline in the first half of the year, also those of the cheap kinds soared alarmingly in the second semester. Local market price index numbers for cheap clothing material in the desas of Djawa and Madura for instance showed at the year-end an increase for printed shirtings, striped twills and white/black means of 42, 33 and 50% respectively,

TABLE 83 — INDEX NUMBERS OF FOOD PRICES AND OF COST OF LIVING					
	Foodstuffs (July 1938 = 100)				Cost of living (July/December 1950 = 100)
	Twelve foodstuffs	Nineteen foodstuffs			European middle class
	Country- side of Djawa	Djakarta	Medan	Makasar	Djakarta
1950 December	2,029	1,693	2,754	1,693	101
1951 December	4,335	2,936	2,958	2,651	138
1952 December	3,611	2,644	2,652	2,315	143
1953 December	3,511	2,934	2,903	2,435	171
1954 March	3,116	2,865	2,808	2,512	170
June	2,690	2,887	3,004	2,542	173
September	3,064	2,929	3,225	2,643	180
December	2,334	3,256	3,405	2,857	221

Sources : C.B.S.; Bank Indonesia

over 1953. Availing of the services of the Jajasan Perbekalan dan Persediaan during the last quarter of 1954 for the distribution of import textiles—which especially in the beginning caused domestic trade to be stagnated—failed to check the unfavourable price development. In the first quarter of 1955 prices again rose sharply. In this respect mention must also be made of the “intensifying of speculative transactions resulting from scarcity and unsmooth distribution.

The increase in prices of import goods was naturally reflected in the cost of living index of especially a family living according to European standards (see table 83). As basis for calculation was taken a budget composed by the Bank Indonesia. This number showed during 1954 a rise of 29%. Especially in the last quarter an important increase was staged, inter alia attributable to the shortage of tinned milk and the price of bread having soared owing to lack of flour. When the flour position eased again in the first months of 1955 the index number dropped, only to go up again in March on account of a general price increase of clothing and foodstuffs. The cost of living index of an unskilled worker in Djakarta, having risen as well, was left out of table 83 at the request of Kantor Pusat Statistik because of incompleteness of data.

The index number of the fob prices of eighteen export commodities (see table 84) exceeded as at end-December by 26% the end-1953 level, whereby relatively the greatest increase occurred in the group of smallholders produce (32%), though it remained below the 1952 level. Estate agricultural produce on the other hand did exceed

TABLE 84 — PRICE INDEX NUMBERS OF EXPORT AND IMPORT COMMODITIES (1938 = 100)								
	Exports (fob-prices) (weighted index numbers)				Imports (wholesale prices) (unweighted index numbers)			
	18 export products	of which :			44 import commodities	of which :		
		4 estate products and tin	10 small- holders' products	3 forest products		6 food- stuffs	10 kinds of textiles	13 che- mical products
1952 December	1,605	1,522	1,668	3,332	2,245	2,555	2,503	2,095
1953 December	1,208	1,195	1,188	3,391	2,402	3,157	2,574	2,265
1954 March	1,266	1,210	1,292	3,534	2,500	3,196	2,671	2,357
June	1,318	1,226	1,385	3,422	2,665	3,276	3,009	2,444
September	1,385	1,381	1,364	3,001	2,798	3,324	3,438	2,539
December	1,528	1,558	1,479	2,818	2,956	3,414	3,843	2,783

Source : C.B.S.

this level by 30% striking price increases were recorded for tea, coffee, palm oil and during the second half year for rubber (please turn to the respective paragraphs of this chapter). When comparing the price levels of end-1953 and end-1954 it has to be taken into account that for 1953 December signified a nadir, for 1954 a zenith. Prices of forest products, still rising a little in the beginning of the year, fell after the first quarter and came 17 % below the end-1953 level as at end-December 1954.

Wholesale prices of hulled rice, maize, copra, coffee, rubber, tea, sugar, wheat flour, pepper, kapok and citronella oil, which showed varying tendencies during the first halfyear improved afterwards all along the line; only copra index number dropped, only to go up again in March on account of a gen price increase of clothing and foodstuffs. The cost of living index of an unskilled worker in Djakarta, having risen as well, was left out of table 83 at request of Kantor Pusat Statistik because of incompleteness of data.

The index number of the fob prices of eighteen export commodities table 84) exceeded as at end-December by 26% the end-1953 level, when relatively the greatest increase occurred in the group of smallholders produce (32 %), though it remained below the 1952 level. Estate agricultural produce on the other hand did exceed this level by 30%; striking price increases were recorded for tea, coffee, palm oil and during the second half year for rubber (please turn to the respective paragraphs of this chapter). When comparing the price levels of end- 1953 and end-1954 it has to be taken into account for 1953 December signified a nadir, for 1954 a zenith. Prices of forest ducts, still rising a little in the beginning of the year, fell after the first quarter and came 17 % below the end1953 level as at end-December I 954.

TABLE 85 — FREE MARKET QUOTATIONS AT DJAKARTA (in rupiah)					
	Gold (gramme)	U.S. \$	Pound Sterling	Dutch Gld.	Malayan \$
1952 December	34.75	22.—	50.—	4.—	6.50
1953 December	39.75	26.—	63.—	6.60	8.10
1954 April	39.—	24.—	64.—	6.80	7.80
December	51.50	35.—	90.—	9.10	11.30

Wholesale prices of hulled rice, maize, copra, coffee, rubber, tea, sugar, wheat flour, pepper, kapok and citronella oil, which showed varying tendencies during the first halfyear improved afterwards all along the line; only copra and rice eventually dropped below the 1953 level. As to export produce this development was not only connected with increased world prices but was as much the result of the inflationary effect of the increased volume of money as of various introduced measures such as the barter and parallel transactions, the granting of inducement, etc. (see the paragraph on Exports).

TABLE 86 — MINIMUM WAGES IN ESTATE AGRICULTURE (rupiahs per day)					
	End of				
	1941	1951	1952	1953	1954
D J A W A					
<i>Sugar industry</i>					
Absolute wage in money	0.275	4.—	4.—	4.—	4.—
in kind	—.—	3.05	2.70	2.70	3.80
Total percentage	0.275 100%	7.05 2,564%	6.70 2,436%	6.70 2,436%	7.80 2,836%
Nominal wage per net working day	0.275	8.58	8.15	8.15	9.49
percentage	100%	3,120%	2,964%	2,964%	3,451%
<i>Perennial crops</i>					
Absolute wage in money	0.275	3.—	3.—	3.50	3.50
in kind	—.—	1.80	1.60	1.80	2.16
Total percentage	0.275 100%	4.80 1,745%	4.60 1,673%	5.30 1,927%	5.66 2,058%
Nominal wage per net working day	0.275	5.84	5.60	6.45	6.89
percentage	100%	2,124%	2,036%	2,345%	2,505%
SUMATERA SELATAN					
<i>Perennial crops</i>					
Absolute wage in money	0.35	3.25	3.25	3.75	3.75
in kind	—.—	6.61	5.80	5.80	6.64
Total percentage	0.35 100%	9.87 2,820%	9.05 2,586%	9.55 2,729%	10.39 2,969%
Nominal wage per net working day	0.35	12.01	11.01	11.62	12.64
percentage	100%	3,431%	3,146%	3,320%	3,644%

Characteristic of the monetary situation was ,the enormous rise in price of gold in contrast with a fairly stable world price; at the end of the year it had increased by 77 % over 1953, the upward trend continuing all through the first months of 1955. The curb market rates of various foreign currencies (table 8 5) displayed the same tendency, with the pound sterling relatively lagging somewhat behind the other currencies.

Wages

On account of the at present on the whole still stable prices of foodstuffs, the wage level showed but little change during the year under review. Minimum basic wages remained practically the same. Only in industries where the money income has somehow been coupled to the development of the cost of living, some compensation was effected. On the plantations larger food packets were sometimes supplied; and the price increases of the wage in kind led to a slight rise of the nominal income. In general however the tensions between prices and wages worsened during 1954, more especially in the fourth quarter, so that actual wages decreased. This tendency continued into the first months of 1955.

TABLE 87 — MINIMUM DAILY WAGES IN VARIOUS INDUSTRIES IN DJAWA			
	Beginning of		
	1952	1953	1954
Estate agriculture	Rp 3.— a 4.—	Rp 3.— a 4.—	Rp 3.50 a 4.50
Food and drink industry	„ 2.75 „ 3.—	„ 3.75	„ 3.50 „ 4.50
Mining	„ 6.—	„ 6.—	„ 6.—
Tobacco industry	„ 2.— „ 4.—	„ 4.50	„ 4.50
Sugar and rice factories	„ 2.50 „ 3.50	„ 4.30	„ 4.— „ 4.50
Chemical industry	„ 2.50	„ 3.— „ 4.50	„ 3.50 „ 5.—
Leather industry	„ 2.50 „ 3.50	„ 3.50	„ 3.50 „ 4.—
Furniture industry	„ 3.50	„ . . .	„ 3.50 „ 4.50
Textile industry	„ 2.50 „ 4.—	„ 2.50 a 4.—	„ 2.50 „ 4.50
Transport companies	„ 3.— „ 5.—	„ . . .	„ 5.— „ 7.—
Metallurgic industry	„ . . .	„ 4.— a 5.50	„ 5.25 „ 6.—
Ship-building	„ . . .	„ 4.— „ 5.50	„ 5.30 „ 6.25
Coconut oil industry	„ . . .	„ 3.— „ 3.50	„ 3.50 „ 4.—
Ice factories	„ . . .	„ 4.—	„ 4.— „ 4.50

Source : Labour Control Service

The relative stability of wages of the past period was certainly striking and constituted a happy circumstance since otherwise the difficulties in the economic and monetary fields would only have intensified. But the question remains whether this stability can be maintained if the inflationary situation would continue and involve also the prices of essentials—rice, textiles, salt, edible oil, fish, etc.— in the upward movement of the other prices. Then the demand pulls resulting from the budget deficits, will induce cost pushes, generating a renewed inflation spiral of wages and prices.

Several trade unions, especially those united in the Kongres Buruh Seluruh Indonesia (All Indonesia labour congress), have in the beginning of 1955 already emphatically insisted on restoring the equilibrium between wages and prices, simultaneously advocating a better price stabilisation.

It is obvious that under these circumstances the Government task of limiting the deficit as much as possible, is certainly not made easier.

Labour matters

Legislation

On June 12th, 1954, the Collective Labour Agreement law was promulgated (Official Gazette No 69/1954). By virtue of this law collective labour agreements, which have to be in writing, can in principle be entered into for a period of two years, which period may be extended by another year. The Minister of Labour is entitled to extend a labour contract valid for a certain branch of an industrial sector or parts thereof, to the entire sector after consultation with parties interested. In the implementation prescriptions of Government Ordinance No 49/1954 it has furthermore been decreed that one copy of each collective labour agreement is to be sent to the Ministry of Labour for registration.

On July 1st, 1954, supplementary provisions were made in Government Ordinance No 21/1954 (Official Gazette No 37/1954) with respect to an annual 12-day holiday on full salary for workers employed with certain specified private undertakings, the number of which can be amplified by the Minister of Labour.

Parliament was also submitted a bill intended to supersede Emergency Law No 16/1951 concerning the settlement of labour disputes. The new bill will limit the number of conflicts which can be put before authorities to disputes between employers and trade unions only. Conflicts with individual workers or with groups outside the trade unions will no longer be considered. The P4P committee will in future become a mere body of appeal with regard to the binding decisions of the regional committees which have legally been declared executory. Other differences with the original Emergency Law are:

- (a) composition of the local committees out of representatives of Government (Ministries of Labour, Economic Affairs, Communications), employers and employed, in equal numbers,
- (b) replacement of the so-called cooling-off term of three weeks which is to be considered before a strike may be called, by the obligation to submit formal proof that consultation tool; place, or of the impossibility to open negotiations with opponents.

Finally, a bill re Lebaran bonuses is being drafted whereby the financial strength of the various undertakings will be taken into due account. The supposition that the number of disputes dealing with this bonus will thus recede appears optimistic to me.

Labour disputes and strikes

The number of labour disputes increased in the year under review, but actual strikes were less called. The majority of disputes occurred in the industrial sector, followed by agriculture, trade and transportation. Individual dismissals, general wage and other general demands were the main reasons for conflict.

A strike menace lasted all through the last quarter of 1954 in estate agriculture owing to difference of opinion about additional bonus payments for 1953. A strike had been prohibited in this case by a binding P4P decision pending the results of investigations made into the matter by an enquiry committee. On February 4th, 1955, a binding P4P decision finally settled this dispute by determining that employers had to make the additional payments. Remarkable is that estates have difficulties in concluding collective labour contracts owing to an ever increasing disintegration within the trade union sys-

TABLE 88 — LABOUR DISPUTES SETTLED IN 1954					
Economic sector	Number of disputes	Workers involved	Nature of disputes	Number of disputes	Workers involved
Agriculture, forestry, stock-breeding, fishing	443	440,555	Labour contracts	179	158,804
Mining	51	77,755	General demands	441	321,934
Industry	1,103	829,133	Special Lebaran bonus	133	105,351
Building & contracting	52	9,529	Bonuses	101	34,191
Public utilities	9	1,541	Social security	57	63,589
Trade	234	250,382	Wages (incl. overtime)	516	595,867
Transport, docks and communications	192	88,700	Working hours	23	23,156
Services	136	9,331	Mass-dismissals	115	51,528
			Individual dismissals	604	320,285
			Miscellaneous	51	32,221
Total	2,220	1,706,926	Total	2,220	1,706,926

Source : Ministry of Labour

tem (the number of unions keeps on extending but co-ordination is far to seek), while moreover the trade unions suffer from lack of activity or unwillingness to get things straight.

The number of disputes not having led to strike increased from 1,729 in 1953 to 2,220 in 1954, while the number of workers involved rose from 1,178,546 to 1,706,926. The number of actual strikes also went up but here the number of workers involved remained appreciably below the 1953 figure, as is revealed by table 89. The same goes for the working hours lost though the latter still exceeded the 1952 level.

There are indications that the difficulties which the industrial sector, and more especially the smaller enterprises, have to face stimulate the tendency to resort to piece-work as a means of averting the financial pressure of the obligatory social provisions.

TABLE 89 — STRIKES			
	Strikes	Strikers	Man hours lost
1950	144	490,539	7,784,271
1951	541	319,030	3,719,914
1952	349	132,963	878,911
1953	266	411,446	4,352,418
1954	306	141,707	1,700,659

Source : Ministry of Labour

Unemployment

The number of unemployed registered with the Djawatan Penempatan Tenaga (Employment Bureau) totalled 60,067 in 1954 (60,824 in 1953) ; out of this total 19,610 persons could be given a job (22,224 in 1953). The Government aims at enlarging working opportunities in the countryside in order to check the trek to the towns.

Co-operative systems

The number of corporate body co-operatives—a co-operative becomes a corporate body only if the Djawatan Koperasi considers it sufficiently viable —amounts to 9% of all organization operating at present (8% in 1953). Interest appears to be focussed on desa and credit co-operatives which groups displayed a considerable extension during the past year, namely by 26 and 27%. respectively, generating an increase in the overall number of co-operatives by 12% even though all other groups decreased. Correspondingly, the most appreciable increase of memberships occurred with desa co-operatives (230,000 new members) and, if to a lesser degree (82,000), with credit co-operatives. Membership of all other forms of co-operatives declined. The increase in the total number of memberships amounting to 1,640,028 as against 1,431,977 at end-1953, was thus smaller than in 1953 when it came to approximately 400,000.

The capital contributed by members in the form of entrance fees, obligatory contributions, voluntary savings and other kinds of demand deposits stood at Rp 146.5

TABLE 90 — NUMBER OF CO-OPERATIVE SOCIETIES (as at December 31)				
	1953		1954	
	Total	Registered	Total	Registered
Central co-operative associations	125	22	130	24
Desa co-operatives	2,705	87	3,413	124
Credit co-operatives	2,453	467	3,113	529
Lumbung co-operatives	731	16	678	14
Production co-operatives	1,473	62	1,356	71
Consumer co-operatives	888	24	768	22
Other co-operatives	251	37	236	41
	8,626	715	9,694	825

Source : Service for Co-operatives

million at end-1954, or Rp 89.33 per caput (1953 Rp 91.9 million and Rp 64.18 respectively). Total returns (comprising credit facilities and purchases and sales from and to members) amounted to Rp 1,416.5 million in the year under review. Reserves increased from Rp 11.3 million to Rp 27.3 million in 1954.

TABLE 91 — CO-OPERATIVE SOCIETIES IN THE VARIOUS AREAS		
	End of	
	1953	1954
Djawa Barat	2,046	2,171
Djawa Tengah	1,333	1,808
Djawa Timur	2,257	2,632
Djawa	5,636	6,611
Sumatera Selatan	371	309
Sumatera Tengah	861	846
Sumatera Utara	268	408
Sumatera	1,500	1,563
Kalimantan	403	384
Sulawesi	550	721
Rest of Indonesia	537	415
Total	8,626	9,694

Source : Service for Co-operatives

Figures supplied by the Djawatan Koperasi show that especially the induks and centres, similarly to the desa and production co-operatives, are dependent on borrowed capital. In proportion to the aggregate amount of own means —formed by reserve funds and contributions of members, as described above—and fixed liabilities, the induks and centres depend for 69%, and the desa co-operatives for 44%, on external means. For the production cooperatives this percentage is 43, for the credit co-operatives only 17. Overall liabilities came to Rp 156.7 million at the end of 1954, against to Rp 83.1 million in 1953. Over against it stood receivable debts to a total amount of Rp 200.6 and Rp 99.8 million respectively.

VIII. ACTIVITIES OF THE BANK

With regard to the Bank's state of affairs and activities, I would primarily refer to the Balance Sheet as at March 31st, 1955, attached to this report as appendix A, to the Profit and Loss Account for the financial year 1954/1955, shown in appendix B, and to the survey of the main items of the weekly abridged balance sheets, given in appendix C. In addition to these and by way of explanation the following may be stated.

Balance Sheet

Issue Department

GOLD COIN AND BULLION, BALANCES IN CONVERTIBLE FOREIGN EXCHANGE AND CLAIM ON THE GOVERNMENT ON ACCOUNT OF GOLD DEPOSITED ON ITS BEHALF WITH I.M.F. AND I.B.R.D.

The addition to this item of the claim on the Government on account of gold deposited on its behalf with I.M.F. and I.B.R.D. is founded on article 16 of the Bank Indonesia Act 1953, providing that apart from gold and holdings in generally convertible foreign currencies also the right to draw on the I.M.F. and the I.B.R.D., which has been or will be endorsed to the Bank by virtue of law, may be included as reserve against the Bank's demand liabilities.

The abovementioned holdings amounted as at March 31st, 1955, to:

Gold coin:

30,439.730,413 kg fine at Rp12,796.05	Rp	389,508,312.36
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Goldbullion:

41,603.112,949 kg fine at Rp 12,796.05	Rp	532,355,513.45
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Convertible foreign exchange balances	Rp	---
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Claim on the Government on account of gold deposited

on its behalf with: I.M.F	Rp	5,700,349.98
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I. B. R. D.	Rp	25,080,000.—
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	Rp	952,644,175.79
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against on April 1st, 1954	Rp	1,357,960,169.08
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Thus the Bank's monetary reserves decreased by	Rp	405,315,993.29
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By virtue of Indonesia's accession to the International Monetary Fund and the International Bank for Reconstruction and Development as provided for by Law 1954/No5, the for these memberships required deposits in gold with both institutions in the name of the Republic of Indonesia were effected by the Bank Indonesia on April 7th, 1954. So long as the legal endorsement (as provided for in article 16 of the Bank Indonesia Act 1953) of the right to draw on the I.M.F. and the I.B.R.D. consequent upon the membership has not taken place, and in so far as the Government will be entitled to reclaim this gold, which on receipt would have to be re-endorsed to the Bank Indonesia by virtue of the provisions of article 3 of Law 1954/No 5, the deposited gold is substituted in the Bank's books as a claim in gold on the Government. This latter claim has been added to the reserves held as coverage for the Bank's demand liabilities by virtue of article 16 of the Bank Indonesia Act 1953.

The aforementioned claim in gold on the Government has at the outset amounted to Rp 201,780,349.98 on the basis of \$ 35 per troy ounce fine. In August 1954 the Government cashed U.S. \$ 15 million with the I.M.F. within the scope of this gold trench, and transferred the amount to the Foreign Exchange Fund for strengthening this Fund's ready dollar reserves. Consequently, the Bank's claim in gold on the Government decreased by Rp 171 million, which amount now appears separately on the Bank's balance sheet under the heading "Claim in rupiahs on the Government on account of payment on its behalf to I.M.F.", which item will be annotated elsewhere in this review.

Over and above this an amount of \$ 24 million with a countervalue of Rp 273,600,000 was also added to the Foreign Exchange Fund's ready dolar reserves in the course of the year under review.

FOREIGN EXCHANGE FUND FOREIGN EXCHANGE ACCOUNT Rp 1,778,194,636.99
FOREIGN EXCHANGE FUND, FOREIGN LIABILITIES Rp 1,714,374,876.22

The items included under the heading "Foreign Exchange Fund, foreign exchange account", constitute the gold and cash foreign exchange holdings of the Foreign Exchange Fund, calculated at the official mean rates ruling on March 31st, 1955. The Fund's gold holding (amounting as at March 31st, 1954 to Rp 36,714,930) was fully transferred to the Bank.

In consultation with the Monetary Board, the gold and generally convertible foreign exchange holdings of the Foreign Exchange Fund — as at March 31st, 1955 amounting to Rp 1,357,745,696 in total—also are part of the monetary reserves of the Bank as referred to in article 16 of the Bank Indonesia Act 1953. The ready position of other foreign currencies amounted to Rp 420,448,940.99.

The items comprised under “Foreign Exchange Fund, foreign liabilities”, constitute the countervalue in Indonesian currency, calculated at the official mean rates ruling on March 31st, 1955, of the debts of the Foreign Exchange Fund on account of credits taken up under current monetary agreements with foreign countries. These items consist almost exclusively of the Fund's debts on the so- called “A-Account” with the Netherlands Bank and on the “U.S.S-Account” with the Bank of Japan, Tokyo.

In chapter VI of this report the movements in assets and liabilities of the Foreign Exchange Fund during the calendar year 1954 have already been discussed in detail. For brevity's sake I would refer to the relative paragraphs.

Demand liabilities of the Bank and its monetary reserves

The desirability for Indonesia to have at its disposal a purchasing power reserve constituted by gold and generally convertible foreign exchange, has been laid down by the legisla-

TABLE 92 — DEMAND LIABILITIES AND MONETARY RESERVES OF THE BANK (Rp '000)								
			Bank notes	Deposits	Drafts and transfers payable	Total of liabilities	Monetary reserve	
							Amount	as %
1954	March	31	5,217,520	1,434,245	81,792	6,733,557	1,581,557	23.49
	April	28	5,331,530	1,443,938	27,548	6,803,016	1,473,894	21.66
	May	26	5,736,407	1,260,002	55,314	7,051,723	1,540,934	21.85
	June	30	5,937,711	1,534,480	7,495	7,479,686	1,544,128	20.64
	July	28	6,030,805	1,892,377	5,736	7,928,918	1,692,252	21.34
	August	25	6,211,540	2,301,861	6,359	8,519,760	1,764,076	20.71
	September	29	6,321,335	2,222,095	7,600	8,551,030	1,829,871	21.40
	October	27	6,525,424	2,234,420	6,322	8,766,166	1,937,210	22.10
	November	24	6,789,230	2,174,561	82,273	9,046,064	2,016,408	22.29
	December	29	7,053,903	2,107,932	85,109	9,246,944	2,079,406	22.49
1955	January	26	7,370,558	1,993,558	82,043	9,446,159	2,175,230	23.03
	February	23	7,464,097	1,950,654	82,116	9,496,867	2,230,444	23.48
	March	31	7,480,701	2,145,251	99,580	9,725,532	2,310,390	23.76

tor in paragraph 1 of article 16 of the Bank Indonesia Act 1953. In the relative paragraph the total amount of these monetary reserves is coupled to the volume of the currency and deposit money supply in Indonesia, namely through the stipulation that the monetary reserves must come to at least 20% of the Bank's demand liabilities. Rp 9,725,532,262.28, stood as holdings of the Bank gold, convertible foreign exchange balances and a claim of the Bank on the Government on account of gold deposited on its behalf with I.M.F. and I.B.R.D. to an aggregate of Rp 952,644,175.79, and as holdings of the Foreign Exchange Fund to an aggregate of Rp 1,357,745,696, totalling in all Rp 2,310,389,871.79 or 23.76% of the aforementioned demand liabilities. Based on the legal minimum ratio (20%), the monetary reserves should come to a book value of Rp 1,945,106,452.46, so that the surplus reserves, amounting as at April 1st, 1954 to Rp 234,845,324.94 increased to Rp 365,283,419.33, as at April 1st, 1955.

By virtue of paragraph 2 of article 16 of the Bank Indonesia Act 1953 at least one-fifth of the legal minimum reserves or Rp 389,021,290.49 should be held in Indonesia. The gold holding of the Bank actually present in this country as at April 1st, 1955 represented an amount of	Rp	386,149,698.30
the aforementioned claim in gold on the Government amounted to	Rp	30,780,349.98
and the Foreign Exchange Fund's generally convertible foreign exchange holdings to	Rp	1,357,745,696.—
or in all	Rp	1,774,675,744.28

CONSOLIDATED ADVANCES TO THE GOVERNMENT

This account, opened by virtue of article 42 (1) of the Bank Indonesia Act 1953 at an amount of Rp 3,838 million, underwent no change during the year under review. The provisions regarding rate of interest and redemption of this long term loan, laid down in Decree No 198989/U.M.I. dated September 17th, 1954 of the Minister of Finance, are as follows:

- (a) the rate of interest amounts to 3% per annum;
- (b) the redemption will be effected within 40 years, starting as from 1957;
- (c) extraordinary redemptions will inter alia be effected from the proceeds of loans to be issued for this special purpose, in which case those extra redemptions will be settled pro rata parse with the next redemption instalments;
- (d) interest and redemption will be annually effected on March 31st at the latest.

ADVANCES TO THE GOVERNMENT

The balance of this account, amounting to Rp 5,076,173,831.52 as at March 31st, 1955, constitutes the total amount of advances on current account granted to the Government since July 1st, 1953 by virtue of article 19 of the Bank Indonesia Act 1953.

In the course of the year, the Foreign Exchange Fund could credit this Government account by Rp 1,194.2 million of T.P.I.-proceeds, while as proceeds of the T.P.I.E. (Tambahan Pembayaran Impor Efek) levy (see appendix H, Publication A No 62 dated February 19th, 1955 of L.A.A.P.L.N.) an amount of round Rp 1.6 million could be credited to the Government account. Furthermore, the balance includes an amount of around Rp 322.6 million as returns up till March 31st, 1955 from the levy on invisibles (T.P.T.), received via the foreign exchange banks.

When considering the debit balance on the Government account, it has to be remembered that the prepayments by importers (as lastly provided for in L.A.A.P.L.N. Publication A No 56 dated July 11th, 1954) amounting to around Rp 1,123.8 million as at March 31st, 1955, and in the first instance credited to this account, will have to be refunded when actual payments for foreign exchange are effected by those importers. So long as imports remain at the same level, this factor will hardly affect the Government debit balance, but a decline in imports will increase same.

For the rest I may suffice by reverting to Chapter IV of this report in which this subject is discussed in greater detail.

CLAIM IN RUPIAHS ON THE GOVERNMENT ON ACCOUNT OF PAYMENT
ON ITS BEHALF TO THE I.M.F..... Rp 171 million

This item has been discussed in the foregoing under the heading "Gold coin and bullion, balances in convertible foreign exchange and claim on the Government on account of gold deposited on its behalf with I.M.F. and I.B.R.D. ".

BANK NOTES IN CIRCULATION Rp 7,480,701,318.25

Movements in cash position

Table 93 gives details about the per office outflow and inflow of bank and Government notes and coin during the period April 1st, 1954/March 31st, 1955. The net outflow in bank notes which surpassed in magnitude all previous years, amounted to Rp 2,263 million (1953/1954 Rp 616.2 million). The replacement of notes taken in on account of wear and tear or for some other reason (141 million pieces to a total amount of Rp 1,055 million against in 1953/1954 119 million pieces to an amount of Rp 811.6 million) again necessitated the Bank to place supplementary orders which considerably exceeded those of past financial years.

TABLE 93 — OUTFLOW FROM AND INFLOW INTO THE BANK'S OFFICES bank notes and Government notes; Rp '000)			
	1952/1953	1953/1954	1954/1955
Djakarta	— 66,209	+ 314,965	— 150,750
Bandung	— 329,679	— 293,163	— 379,268
Jogjakarta	— 82,152	— 91,070	— 204,486
Kediri	— 84,111	— 91,268	— 146,602
Malang	— 314,395	— 296,144	— 378,098
Semarang	— 31,148	— 4,096	+ 13,991
Solo	— 62,140	— 41,879	— 52,440
Surabaia	+ 151,672	+ 173,099	+ 43,381
Tjirebon	+ 88,752	+ 79,082	— 6,648
Total Djawa offices	— 729,410	— 250,474	— 1,260,920
Medan	— 92,897	— 86,061	— 353,616
Padang	— 19,020	+ 56,225	+ 31,817
Palembang	— 198,723	— 161,370	— 333,690
Total Sumatera offices	— 310,640	— 191,206	— 655,489
Bandjarmasin	— 109,931	— 60,896	— 170,912
Pontianak	— 20,668	— 25,918	— 133,843
Total Kalimantan offices	— 130,599	— 86,814	— 304,755
Makasar	— 165,922	— 194,031	— 248,020
Menado	— 14,620	— 1,865	+ 2,136
Total Sulawesi offices	— 180,542	— 195,896	— 245,884
Total offices outside Djawa	— 621,781	— 473,916	— 1,206,128
Grand total	— 1,351,191	— 724,390	— 2,467,048
— = outflow			+ = inflow

TABLE 94 — BREAK DOWN OF THE CIRCULATION OF BANK NOTES AND GOVERNMENT NOTES						
Denomination	March 31st, 1940		March 31st, 1954		March 31st, 1955	
	Amount (Rp '000)	% of total	Amount (Rp '000)	% of total	Amount (Rp '000)	% of total
Rp 1,000.—	20,920	9.9	567,297	10.1	988,982	12.3
„ 500.—	7,181	3.4	399,981	7.1	608,765	7.6
„ 100.—	42,352	20.1	1,505,256	26.7	2,242,750	27.8
„ 50.—	13,693	6.5	847,361	15.1	1,251,423	15.5
„ 25.—	30,167	14.3	719,560	12.8	1,032,289	12.8
„ 10.—	52,698	25.0	662,750	11.7	821,765	10.2
„ 5.—	43,795	20.8	369,011	6.6	461,778	5.7
„ 2.50	—	—	222,089	3.9	294,676	3.7
„ 1.—	—	—	247,519	4.4	291,406	3.6
„ 0.50	—	—	91,726	1.6	67,824	— .8
Sub-total	210,806	100.0	5,632,550	100.0	8,061,658	100.0
Miscellaneous	—	—	—8,000 ¹⁾	—	—8,000 ¹⁾	—
Total	210,806	—	5,624,550 ²⁾	—	8,053,658 ³⁾	—
¹⁾ This amount has been written of on request of the Ministry of Finance, being the amount of Government notes in the denominations of Rp 0.50 up to Rp 2.50 which are expected not to come forward anymore ²⁾ Rp 5,218 million in bank notes and Rp 407 million in Government notes ³⁾ Rp 7,481 million in bank notes and Rp 573 million in Government notes						

The per month outflow of bank notes from and inflow into the Bank's offices have followed in former years almost the same seasonal trend, namely an outflow peak in May/June—due to buying up of paddy and to Lebaran bonuses — followed by inflows in July/August, subsequently a gradually increasing efflux, culminating at the years' end, whereupon a downward tendency set in again until the new paddy buying season. In the period under review wellnigh the same trend could be witnessed except that the outflow peak in May/June stood considerably higher with a — small — reflux in only the following month. While the denominations of Rp 5, 10 and 100 of the new 1952 emission were brought into circulation in the previous year (publications in the Berita Negara dated July 3rd, 1953, and December 18th, 1953), the issue of the other denominations, namely Rp 25, 50, 500 and 1,000, followed in the period under review (publications in the Berita Negara dated June 8th, 1954, August 13th, 1954, November 23rd, 1954 and January 25th, 1955).

A breakdown of the circulation of bank notes and Government notes is given in table 94. The shift in the composition of the circulation from lower to higher denominations, as already previously signalised, continued. The per cent share of the denominations of Rp 0.50 to Rp 10, both inclusive, in the total paper money circulation as at March 31st of the years 1951 to and including 1954 amounted to 46.7, 37.3, 30.5 and 28.2 respectively; at the same date in 1955 it had receded by 4.2 to 24. The corresponding percentages for the denominations of Rp 25 and Rp 1,000 were 53.3, 62.7, 69.5, 71.8 and 76 respectively. Yet, according to prewar standards and taking into account the depreciation of the money value since then, it still appears that a relatively smaller percentage of high denominations is in circulation now as compared with before the war.

Government notes

Until May 29th, 1954, currency notes were brought into circulation solely by the Bank Indonesia for account of the Government. By virtue of Government Ordinance No 38 dated May 19th' 1954 (Official Gazette 1954 No 63) currency notes have since been put into circulation by the Government itself or on its request by the Bank for account of the Government. The administration (including the keeping of the account with respect to the printing of notes) is taken care of by the Bank. The Government account is credited for outflows and debited for reflux.

As from May 29th, 1954 the footnotes on the abridged weekly balance sheet, mentioning the currency note supply put into circulation, were replaced by official publications in the Berita Negara, as was the custom before the war.

The circulation of Government notes as at March 31st, 1955, is made up of an amount of round Rp 227.5 million in denominations of Rp 5 and Rp 10 (issued by virtue of Emergency Law No 21 of June 2nd 1950) and of an amount of Rp 330.7 million in denominations of Rp 1 and Rp 2.50, issued by virtue of Government Ordinance No 20/1953, the Decree of the Minister of Finance No 103141/U.U. based on this ordinance, and Government Ordinance No 38 dated May 19th' 1954, (see appendix G) with the Decree of the Minister of Finance No 82490/U.M.I. based upon it.

The amounts mentioned above do not include the subsidiary notes in the denominations of 10 and 25 cents as issued by virtue of the Ordinance dated November 20th,

1947, which as stated in Emergency Law No 2 dated January 4 th, 1954 shall lose their legal tender quality on the day as will be decreed by the Minister of Finance.

CURRENT ACCOUNT BALANCES (OF THE GOVERNMENT)

Under this heading stands an amount of Rp 494,868,240.80 as the "Special Account re ECA Aid". This amount represents the still unspent part of the countervalue in rupiahs of the ECA aid received by Indonesia via the Netherlands during the American fiscal year 1948/1949. Since March 31st, 1954 the amount has remained unchanged.

The counterpartfunds relating to ECA aid directly received by Indonesia, which was only partly notified as at March 31 st, 1955, come under the heading "Sundry Accounts" on the credit side of the balance sheet.

CURRENT ACCOUNT BALANCES (OF I.M.F. AND I.B.R.D.)

The specification of this item is as follows:

International Monetary Fund, Account No I	Rp	183,588,250.02
This amount includes the Rp 171 million counter value of U.S. \$ 1 5 million (at the rate of 11.40) purchased with I. M. F. in August 1954; the remaining amount of Rp 12,588,250.02 was deposited by Indonesia on account of its I.M.F. membership as from April 1954		
International Monetary Fund, Account No 2	Rp	13,634.76
This amount also regards the I.M.F.-membership.		
International Bank for Reconstruction and Development	Rp	2,213,755.--
Initially the Government deposited an amount of Rp 2,257,200, being part of the quota in I.B.R.D. shares allotted to Indonesia on account of its membership as from April 1954. Thereupon payments were made on behalf of the I.B.R.D., leaving as at March 31st, 1955 the balance of Rp 2,213,755.		
Total as at March 31st, 1955	Rp	185,815,639.78

Banking Department

FOREIGN BILLS AND BALANCES Rp 400,398,270.55

This heading comprises inter alia cash balances with correspondents abroad in connection with import credits opened (mainly for account of ministries and Government institutions), as well as foreign bills en route. These items, relating to Publication A No 39 of L.A.A.P.L.N., have been valued at the official mean rates of the respective currencies.

In this matter I would observe that the Bank does not maintain an independent foreign exchange position, since its cash foreign exchange holding is offset by forward contracts with clients, whilst all other forward contracts with clients are counterbalanced by corresponding contracts concluded between the Bank and the Foreign Exchange Fund.

Also included under this heading is the working capital furnished to our Amsterdam Branch, valued at the official rate.

CASH

Subsidiary coins..... Rp 362,987.96

The nominal value of the stocks of bank and Government notes held at the Bank's offices is neither given under this heading nor under the heading "Bank notes in circulation", since such notes are not actually in circulation.

BILLS DISCOUNTED AND ADVANCES ON COLLATERAL, PAYABLE IN RUPIAHS

The decrease in advances to semi-Government institutions as compared with March 31st, 1954 is mainly the result of the following items. The credit under Government pledge granted to the Jajasan Kopra, which in connection with transportation problems had to finance larger stocks, was increased; the debit balance as at March 31st, 1955 amounted to round Rp 85.3 million against Rp 35.3 million in 1954. Under the credit granted to the J.U.B.M. for financing rice imports an amount of round Rp 3.9 million

was drawn as at March 31st, 1955 against in 1954 Rp 253.1 million. The debit balance of Jajasan Kredit amounted at that same date to round Rp 34 million, against Rp 39,2 million at the corresponding date in 1954.

TABLE 95 — DOMESTIC CREDITS GRANTED BY THE CENTRAL BANK (Rp '000)						
At March 31st	Government	Government „Pounds Sterling Loan 1932”	Semi-government institutions	Banks	Private sector	Total
	1	2	3	4	5	2+3+4+5
1950	2,158,416	10,366	16,705	14,667	47,653	89,391
1951	2,376,553	9,568	14,169	82,342	70,348	176,427
1952	1,730,143	8,771	1,807	29,542	200,166	240,286
1953	5,836,517	—	269,083	26,321	216,004	511,408
1954	6,190,154 ¹⁾	—	328,182	35,939	180,888	545,009
1955	8,914,174	—	138,022	45,069	134,698	317,789

¹⁾ Including Rp 3,838 million as consolidated advance

Bank loans to private enterprise and individuals showed a decline of round Rp 46.2 million as compared with the figure at March 31st, 1954, mainly as a result of a credit contraction in the sectors of tobacco and sugar cultivation.

INVESTED CAPITAL, RESERVE FUND, SPECIAL RESERVE AND PENSION AND PROVIDENT FUND

All securities mentioned hereunder, in so far as they are officially quoted on the Djakarta or any foreign stock exchange, have been valued at the list price as at March 31st, 1955, or lower but in no case above par. The book value of the securities not officially quoted on a stock exchange are based on conservative estimates. In so far as the real value of the securities calculated in this way is denominated in foreign currency, such currency has been converted at the official rate.

The Investment of the Bank's Capital in securities amounting as at March 31st, 1954, to.....	Rp	24,965,302.--
increased owing to purchase and transfer of securities from other investment deposits of the Bank, by.....	Rp	801,167.39
	Rp	<u>25,766,469.39</u>
decreased owing to redemptions, by	Rp	847,347.92
decrease in value of securities as at March 31st, 1955, passed to the debit of the Reserve Fund, by	Rp	<u>489,916.72</u>
Balance as at March 31st, 1955	Rp	<u>24,429,204.75</u>

By virtue of article 17 (1) of the Bank Act, the Bank is entitled to invest its entire capital of Rp 25 million.

The investment of the Reserve Fund in securities amounting on March 31st, 1954 to.....	Rp	17,439,124.--
Increased owing to purchase of securities, by.....	Rp	4,642,787.25
increase in value of securities as at March 31st, 1955, passed to the credit of the Reserve Fund, by.....	Rp	<u>244,478.75</u>
	Rp	<u>22,326,390.--</u>
decreased owing to redemptions, by	Rp	<u>879,100.--</u>
Balance as at March 31st, 1955	Rp	<u>21,447,290.--</u>

By virtue of article 17 th 1) of the Bank Act, the Bank is entitled to invest its Reserve Fund.

The investment of the Special Reserve in securities amounting as at March 31st, 1954 to	Rp	85,720,960.--
increased owing to purchase of securities, by	Rp	49,918,198.50
increase in value of securities as at March 31st, 1955, passed to the credit of the Special Reserve, by	Rp	<u>1,257,036.--</u>
	Rp	<u>136,896,194.50</u>
and decreased owing to redemptions by	Rp	<u>12,227,282.50</u>
Balance as at March 31st, 1955	Rp	<u>124,668,912.--</u>

By virtue of article 17 (1) of the Bank Act, the Bank is entitled to invest its Special Reserve.

The Investment of the Pension & Provident Fund amounting on March 31st, 1954, to:

Securities ..	Rp	12,298,509.--		
Mortgages	Rp	<u>528,849.12</u>	Rp	12,827,358.12
increased owing to				
purchase of securities and re-investment				
of money redeemed, by	Rp	3,097,005.99		
advances on security of promissory				
notes, granted during 1954/1955, by	Rp	252,631.52		
increase in value of securities as at				
March 31st, 1955, by	Rp	<u>605,620.14</u>	Rp	<u>3,955,257.65</u>
			Rp	16,782,615.77
decreased owing to				
sale and/or redemption of securities, by	Rp	3,116,654.13		
redemption received on mortgages	Rp	483,393.90		
redemption received on abovementioned				
advances on collateral	Rp	<u>102,000.--</u>	Rp	<u>3,702,048.03</u>
Balance as at March 31st, 1955			Rp	<u>13,080,567.74</u>
of which: : Securities	RP	2,884,481.-		
Mortgages	Rp	45,455.22		
Advances on collateral	Rp	150,631.52		

PREMISES AND INVENTORY Rp 12,554,167.62

This amount embraces the multiplication accrescence of RP 16,837,875.32 originating from the revaluation (by virtue of the Revalorization Decree 1953) of premises and inventory in so far as present on April 1st, 1949 (the so-called revalorization date). Then the maximum fiscal depreciation was applied to the market value of those assets per April 1st, 1949 (following article 3 (3) of the Depreciation Decree 1953) covering the year under review and the two preceding financial years.

Premises built or purchased after April 1st, 1949 were by virtue of article 9 (2) of the Depreciation Decree 1953 depreciated to the site value; inventory bought after April 1st, 1949 was written down to Rp 1 per building.

Our Amsterdam office building and its inventory appear in the books at their fiscal residual value, converted at the official rate of the Netherlands guilder.

SUNDRY ACCOUNTS

The specification of this heading is as follows:

Sundry debtor accounts ...	Rp	17,645,153.46
Government payment orders and bills, and stamp duties	Rp	1,138,909.74
Miscellaneous	Rp	11,505,502.76
Assets of our Amsterdam Branch	Rp	65,428,584.48
		<hr/>
Total as at March 31st, 1955	Rp	95,718,150.44

The last item comprises the countervalue, calculated at the official rate, of the assets as at March 31st, 1955 of our Amsterdam office—excluding building and furniture—in so far as they are not offset by the balances of the so-called small A-account and the Working Capital Account already included under “Foreign Bills and Balances”.

CAPITAL

By virtue of article 4 of the Bank Indonesia Act 1953 the Bank's capital amounts to Rp 25 million. All that is known about the fate of the bill which inter alia has to provide for an increase of this capital to Rp 50 million is, that the first discussions in Parliament have revealed wide differences of opinion about some articles.

RESERVE FUND

The Reserve Fund amounting as at March 31st, 1954 to increased owing to.....	Rp	21,208,810.04
transfer on account of statute barred dividends of The Java Bank respecting to its financial years 1947/1948 and 1948/1949, by	Rp	2,465.--
transfer of increase in value as at March 31st, 1955 of the Fund's investments (article 17 (2) of the Bank Act), by ...	Rp	244,478.75
		<hr/>
		Rp 21,455,753.79

and decreased owing to

booked decrease in value as at March 31st, 1955 of the investments of the Capital (article 17 (2) of the Bank

Act) by.....

Rp 489,916.72

Carry forward

Rp 20,965,837.07

Brought forward

Rp 20,965,837.07

(The interest accrued on the investments of Capital and Reserve Fund, amounting to Rp 1,113,808.91 and Rp 584.920.46 respectively, was credited to the Profit and Loss Account by virtue of article 17 (2) of the Bank Act)

transfer to the debit of the Profit and Loss Account of

Rp 4,034,162.93

Balance as at March 31st, 1955

Rp 25,000,000.--

By virtue of article 34 (5) of the Bank Act, 20% of the profits after allocation to the Special Reserve, is yearly to be paid into the Reserve Fund until it will equal the amount of the authorized capital. Article 5 (2) of the aforementioned Act stipulates that the Reserve Fund is intended to cover losses, if any, suffered on the Bank's capital.

SPECIAL RESERVE

The Special Reserve as referred to in article 6 of the Bank Act amounted as at March 31st 1954, to

Rp 123,411,986.26

It increased owing to

transfer by reason of booked increase in value of the investments of the Special Reserve as at March 31st, 1955 (article 17 (2) of the Bank Act.), by

Rp 1,257.03.--

(The interest accrued on these investments, amounting to Rp 3,897,484.06, was credited to the Profit and Loss Account by virtue of article 17 (2) of the Bank Act)

transfer from "Multiplication accrescence of premises and inventory" (see before), by

Rp 16,837,875.32

transfer from the Profit and Loss Account (article 34 (5) of the Bank Act), by

Rp 10,900,000.--

Balance as at March 31st, 1955

Rp 152,406,897.58

In my preceding annual reports the necessity has been stressed more than once that the Special Reserve should be strengthened. The results of the past financial year have made it again possible to follow suit by transferring to the Special Reserve an amount of Rp 10.9 million against Rp 7.4 million for the period April through June 1953 and Rp 37.5 million for the period July 1953 through March 1954.

At the coming into effect of the bill providing for the increase of the Bank's capital to Rp 50 million, it will be necessary to transfer an amount of Rp 25 million from the Special Reserve to Capital account.

After the abovementioned allocation of Rp 10.9 million from the profits of the financial year under review and the transfer of an amount of Rp 25 million to Capital account, the Special Reserve will appear in the books by an amount of Rp 127,406,897.58.

PENSION AND PROVIDENT FUND

The Pension & Provident Fund, amounting as at			
March 31st, 1954 to .	Rp		13,498,239.--
increased during April 1954/March 1955 owing to received			
contributions less refunds, by	Rp		723,902.84
interest on mortgages, on advances in current account on			
collateral, and on securities, by ..	Rp		673,489.81
payments received and other revenues on account of rein-			
surance of pensions, by	Rp		2,839,035.95
booked increase in value of the Fund's stock holding as at			
March 31st, 1955, by	Rp		605,620.14
transfer from the General Expense Account of the cash			
value of the Fund's liabilities on account of subsistence al-			
lowances granted, by	Rp		76,412.--
allocations from			
the General Profit and Loss Account	Rp	62,036.15	
the Amsterdam Branch's Profit and	Rp	1,451,588.46	
Loss Account			Rp 1,513,624.61
			Rp 19,930,324.30

Rp 14,910,000

185

TABLE 96 — TRANSFER AND CLEARING OPERATIONS						
Financial year	Local transfers (no clearing) at the offices of the Bank in Indonesia		Transfers (mail and telegraphic) between the offices of the Bank in Indonesia		Clearing between banks in Indonesia	
	Number	Amount (Rp '000)	Number	Amount (Rp '000)	Number	Amount (Rp '000)
1939/1940	150,424	866,511	—	390,415	1,039,940	2,281,908
1940/1941	152,982	1,253,617	—	681,978	1,024,544	3,056,171
1949/1950	82,102	4,156,170	41,043	2,676,401	496,275	9,688,704
1950/1951	74,275	5,875,004	58,222	6,296,565	660,204	18,610,495
1951/1952	102,425	9,580,507	68,626	9,650,634	863,446	27,649,722
1952/1953	100,666	15,702,618	74,584	11,104,574	927,747	33,113,988
1953/1954	104,367	17,304,788	78,733	11,618,737	1,006,797	37,531,390
1954/1955	104,676	16,622,458	84,646	13,969,067	1,176,585	46,472,754

intermediary of the Bank Indonesia. The total number of bank offices which has joined the clearing in nine towns of Indonesia amounted as at the end of the year under review to 62, 11 of which by way of sub-clearing. Fourteen joined the so-called central settlement of debts system via the Bank Indonesia, in force in four nonclearing towns.

RESERVE FOR COMPANY TAX

On March 31st, 1954, this reserve amounted to..... Rp 122,882,902.50
It increased owing to transfer from the Profit and Loss Account for the period April 1954/March 1955 for payment of company tax, by..... Rp 103,000,000--

Rp 225,882,902.50

and decreased owing to payment of company tax of :
The Java Bank

for April 1952/March 1953..... Rp 40,000,000--

for April 1953/June 1953..... Rp 15,000,000--

Bank Indonesia

for July 1953/March 1954..... Rp 60,000,000-- Rp 115,000,000.--

bringing the balance on March 31st, 1955 to Rp 110,882,902.50

SUNDRY ACCOUNTS

Under this heading appear the counterpart funds relating to the American aid allocated to and already received by Indonesia since the American fiscal years 1950/1951 (ECA), 1951/1952 (TCA), 1952/1953 (TCA) and 1953/ 1954 (FOA). Of the total amount of Rp 159,723,636.06

only a part had been notified as at March 31st, 1955.

This heading further comprises:

Sundry accounts of the Foreign Exchange Fund in rupiahs	Rp	3,221,589.96
Liabilities of our Amsterdam Branch, valued at official rate	Rp	65,045,906.40
Miscellaneous	Rp	81,857,046.55

Total as at March 31st, 1955	Rp	309,848,178.97
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Profit and Loss Account

The Bank's operating results for its second financial year (1954/1955) considerably surpassed those of 1953/1954. Though "Profit on exchange" declined by around Rp 3.2 million owing to a drop in the turnover of exchange business, yet the item "Interest on bills and on foreign balances, profit on exchange, on coin and bullion and on sundries" as a whole went up, thanks to an increase by around Rp 7.8 million in interest accrued on foreign balances (inclusive of the amount received from our Amsterdam Branch as interest on our Head- office's so-called small A account in its books, which interest payment regards the period June 1st, 1950 through March 31 st, 1955) .

TABLE 97 — RECAPITULATION OF THE CREDIT ITEMS OF THE PROFIT AND LOSS ACCOUNTS (Rp '000)		
	Financial year	
	1953/1954	1954/1955
Interest on bills discounted and on foreign balances, profit on exchange, on coin and bullion and on sundries	39,545	44,717
Interest on advances	136,487	215,486
Commission	30,088	17,883
Interest on securities	3,350	5,596
Profit of Amsterdam Branch	354	—
Total	209,824	283,682

The item "Interest on advances" amounting to Rp 215.5 million (1953/ 1954 financial year Rp 136.5 million) includes Rp 193.8 million (1953/1954 Rp 108 million) as interest charged to the Government account, and Rp 21.7 million (1953/1954 Rp 28.5 million) as interest on advances to semi-Government institutions, to private enterprise and to individuals.

The interest charged to the Government during the period under review amounted to 3% per annum on the consolidated advances (article 42 of the Bank Act), or Rp 115.1 million (July 1953/March 1954 Rp 86.4 million), and another 3% per annum or Rp 78.6 million (1953/1954 Rp 21.6 million) on the interest bearing debit balance (article 19 of the same Act).

The relative decrease in the remaining interest profits reflects the receded volume of credit facilities granted to semi-Government institutions and private enterprise during the period under review.

The lower (by Rp 12.2 million) profits under "Commission" are the result of decreased turnovers, especially in exchange business.

TABLE 98 — RECAPITULATION OF THE DEBIT ITEMS OF THE PROFIT AND LOSS ACCOUNT (Rp '000)		
	Financial year	
	953/1954	1954/1955
General expenses	35,965	36,973
Ground tax, upkeep and insurance of buildings	1,751	2,331
Depreciation of buildings	3,764	6,452
Depreciation of furniture	3,481	2,790
Depreciation of printing cost of bank notes	7,696	34,145
Depreciation of bad and doubtful debts	3	—
Bank notes paid ex issues already withdrawn from circulation	234	—
Transfer to Pension and Provident Fund	3,201	62
Transfer to Reserve as provision for new buildings	15,000	10,300
Transfer to Reserve for Company Tax	78,825	103,000
Loss of Amsterdam Branch	—	4,873
Net Profits (including transfers to Reserve Fund and Special Reserve)	59,904	82,756
Total	209,824	283,682

The item "Interest on securities" also includes, by virtue of article 17 (2) of the Bank Act, the interest accrued on the securities of the Invested Capital, Reserve Fund and Special Reserve. On the debit side of the Profit and Loss Account, was the increase in the item "General Expense Account" mainly due to higher expenditure in respect to personnel, resulting from (1) further increased number of employees, (2) periodical rise in wages, and (3) additional salary adjustments in consequence of the further increased cost of living during the year under review. Expenditure on office requisites and stationery rose by Rp 0.3 million.

The item "Ground tax, upkeep and insurance of buildings" went up by Rp 0.6 million due to higher prices of building materials and rises in wages.

The item "Depreciation of buildings" comprises to an amount of Rp 4.9 million the according to article 3 (3) of the Depreciation Decree 1953 determined maximum fiscal depreciation to the market value as at April 1st, 1949 for the year under review as well as for the two preceding years; furthermore it includes by virtue of article 19 (2) of the abovementioned decree an amount of Rp 1.5 million as depreciation to the site value of the rebuildings effected in the year under review.

The rise by around Rp 26.4 million of the item "Depreciation of printing cost of bank notes" resulted from the very considerable outflow of notes and the strongly increased supplementary orders which had to be placed. In the period under review some bank note denominations could be printed in Djakarta with the N.V. Pertjetakan Kebajoran. The costprice of these notes will prove to surpass the amounts usually paid, inter alia due to the various levies now imposed on paper imports. "Reserve as provision for new buildings" are funds set aside for the construction of a new head-office building, a new office building for our Surabaja branch, an office building in Ambon and new staff housing in the various towns. Furthermore plans are in discussion to open new branch-offices in the towns where the Bank has no office yet so that a smooth supply of money will be secured.

The normal results of our Amsterdam Branch for 1954/1955 lagged behind the 1953/1954 outcome because of a decline in its business activity which led to decreased returns from commission. Last year's net result was unfavourably affected by a payment of additional tax assessment in the Netherlands, while the 1954/1955 financial year brought

a loss mainly on account of the payment of the interest referred to above, accrued in favour of our Head-Office on the so-called small A-account.

The remaining outlays, depreciations and provisions on reserve have in so far as necessary already been explained elsewhere in this chapter.

NET PROFIT

The various entries referred to above resulted on balance in a net profit of.....

which by virtue of article 34 (S) of the Bank Indonesia Act 1953 is to be divided as under:	Rp	82,755,912.52
---	----	---------------

Transfer to Special Reserve.....

Of the balance, amounting to.....	Rp	10,900,000.--
-----------------------------------	----	---------------

20% is transferred to the Reserve Fund (with as ultimate	Rp	71,855,912.52
--	----	---------------

maximum the amount required to bring the Reserve Fund to a total of Rp 2 5 million, so as to equal the Bank's capital), or

so that the share of the net profit available for the Treasury	Rp	4,034,162.93
--	----	--------------

amounts to.....

	Rp	67,821,749.59
--	----	---------------

IX. PERSONALIA

Management of the Bank

In the year under report no changes occurred with regard to the formation of the Managing Board and of the Bank's representatives abroad.

For completeness' sake, the formation as at March 31st, 1955, which has been maintained up till today, is summarized in appendix C of this report.

DJAKARTA, July 29th, 1955

APPENDICES

APPENDIX A

BALANCE SHEET AS AT MARCH 31, 1955

Assets

Liabilities

[illegible]

Provisionally approved by the Monetary Board,
Djakarta, June 25, 1955
ONG ENG DIE, Chairman

Djakarta, June 8, 1955
Governor and Managing Directors of Bank Indonesia :

**SJAFRUDDIN PRAWIRANEGARA
LOEKMAN HAKIM
INDRA KASOEMA
DARMAWAN MANGOENKESOEMO
T. R. B. SABARUDIN**

APPENDIX B

PROFIT AND LOSS ACCOUNT

FOR THE 2 ND FINANCIAL YEAR 1954-1955

GENERAL EXPENSE ACCOUNT		Rp 36,973,160.69	INTEREST ON BILLS DISCOUNTED AND ON FOREIGN BALANCES,		
GROUND TAX, UPKEEP AND INSURANCE OF BUILDINGS		„ 2,331,048.33	PROFIT ON EXCHANGE, ON COIN AND BULLION AND ON		
DEPRECIATION OF BUILDINGS		„ 6,451,635.69	SUNDRIES		Rp 44,716,812.84
DEPRECIATION OF FURNITURE		„ 2,789,557.20	INTEREST ON ADVANCES		„ 215,486,142.76
DEPRECIATION OF PRINTING COSTS OF BANK NOTES		„ 34,145,206.88	COMMISSION		„ 17,883,397.—
PAYMENT OF BANK NOTES EX ISSUES ALREADY CALLED IN		„ 475.—	INTEREST ON SECURITIES		„ 5,596,213.43
TO PENSION AND PROVIDENT FUND		„ 62,036.15			
TO RESERVE AS PROVISION FOR NEW BUILDINGS		„ 10,300,000.—			
TO RESERVE FOR COMPANY TAX		„ 103,000,000.—			
LOSS OF OUR BRANCH OFFICE IN AMSTERDAM		„ 4,873,533.57			
NET PROFITS :					
To Special Reserve	Rp 10,900,000.—				
To Reserve Fund	„ 4,034,162.93				
Share of the Treasury	„ 67,821,749.59	„ 82,755,912.52			
		Rp 283,682,566.03			Rp 283,682,566.03

Provisionally approved by the Monetary Board
Djakarta, June 25, 1955
ONG ENG DIE, Chairman

Djakarta, June 8, 1955
Governor and Managing Directors of Bank Indonesia :
SJAFRUDDIN PRAWIRANEGARA
LOEKMAN HAKIM
INDRA KASOEMA
DARMAWAN MANGOENKOESEMO
T. R. B. SABARUDIN

APPENDIX C

BANK INDONESIA

Management as at March 31st, 1955

Board of Management

Dr SJAFRUDDIN PRAWIRANEGARA,
Governor

Dr LOEKMAN HAKIM, Managing Director
and 1st Deputy Governor

Dr INDRA KASOEMA, Managing Director
and 2nd Deputy Governor

Ir DARMAWAN MANGOENKOESOEMO,
Managing Director

T. R. B. SABARUDIN, Managing Director

Branch Office in Amsterdam

P.A. VAN GARDEREN, Delegate for Europe
and Managing Director of the Branch office

KHOUW BIAN TIE, econ. drs, Delegate
for Europe

Representative in New York

D. BIERSTEKER

APPENDIX D

INTEREST TARIFF OF BANK INDONESIA IN FORCE. AS FROM JULY 1st, 1953

DISCOUNTS :

<i>Bills of Exchange</i> with at least three signatures (minimum interest ten days)	3	%
<i>Bills of Exchange and acceptances</i> with two signatures, accepted by persons, firms or companies established in Indonesia (minimum interest ten days)	5 1/2	%
<i>Promissory Notes</i> with two signatures, accepted by persons, firms or companies established in Indonesia (minimum interest ten days)	6	%
<i>Bills of Exchange drawn</i> against credits opened by the Bank (minimum interest eight days)	4 1/2	%
N.B. <i>Bills of Exchange, Promissory Notes, etc.</i> , of a currency exceeding ninety days or which are to be considered as extended debt and have, therefore, a currency exceeding ninety days, 1/2 % more.		
<i>Government Auction Promissory Notes</i> if payable in places where the Bank has its own office (with a minimum of Rp 1.—)	3	%
<i>Ditto</i> , if payable elsewhere in Djawa or Madura (with a minimum of Rp 1.25)	3	%
<i>Ditto</i> , if payable elsewhere outside Djawa or Madura (ten days additional interest with a minimum of Rp 1.50)	3	%
<i>Bills of Exchange</i> in local currency payable abroad (minimum interest ten days)	3	%

LOANS AND ADVANCES IN ACCOUNT CURRENT AGAINST :

<i>Bills of Exchange</i>	3	% ¹⁾
<i>Promissory Notes</i>	6 1/2%	¹⁾
<i>Government Auction Promissory Notes</i>	3	% ¹⁾
Securities : Bonds of the Governments of Indonesia and/or the Netherlands, as well as of autonomous provinces and municipalities in these territories		
	3	% ²⁾
Bonds issued by mortgage banks established and operating in Indonesia and/or the Netherlands		
	3	% ²⁾
All other bonds		
	3 1/2	% ²⁾
Shares		
	4	% ²⁾
<i>Gold and silver</i>	3	%
<i>Sugar, rice, oils and fats</i>	4 1/2	%
<i>Other export produce</i>	5	%
<i>Import Commodities</i>	5	%

1) With a minimum of 1/2 of the highest amount in the hands of the Bank at any one time during the month for which interest is charged.

2) With due observance of the provisions of Article 30 of the General Conditions pertaining to current accounts kept with the Bank.

APPENDIX E

SURVEY OF THE PRINCIPAL ITEMS OF THE WEEKLY ABRIDGED BALANCE SHEETS (Rp '000)

Date	Gold coin and bullion, balances in convertible foreign exchange and claim on the government on account of gold deposited on its behalf with I. M. F. and I. B. R. D.	Foreign Exchange Fund, foreign exchange account	Consolidated advances to the Government	Current advances to the Government	Claim in rupiahs on the Govern- ment on account of payments made on its behalf to I.M.F.	Foreign Exchange Fund, foreign liabilities	Bank notes in circulation	Deposits of the Government (including Special Accounts)	Foreign bills and balances with correspondents abroad	Bills discounted, loans and advances	Invested capital, reserve fund, special reserve and pension fund	Deposits, drafts and transfers payable	Govern- ment notes in circulation
<i>1954</i>													
7 April	1,357,960	266,098	3,838,000	2,392,432	—	1,339,082	5,168,313	509,677	541,275	545,360	138,138	1,589,932	397,871
14 "	1,357,960	273,243	3,838,000	2,448,845	—	1,381,001	5,223,388	509,677	529,683	580,517	138,137	1,605,086	402,170
21 "	1,357,960	230,114	3,838,000	2,392,781	—	1,436,978	5,261,215	509,677	589,690	525,089	138,123	1,410,592	403,764
28 "	1,324,408	242,397	3,838,000	2,535,575	—	1,451,810	5,331,530	509,677	555,790	581,237	138,006	1,456,677	397,134
5 May	1,324,583	215,478	3,838,000	2,687,618	—	1,471,086	5,337,837	509,677	530,783	590,139	137,782	1,573,887	399,000
12 "	1,324,583	234,545	3,838,000	2,893,434	—	1,479,855	5,539,851	497,125	501,684	603,807	137,784	1,570,660	400,753
19 "	1,324,583	226,055	3,838,000	2,797,505	—	1,464,195	5,590,518	497,125	507,529	607,029	137,790	1,434,703	398,710
26 "	1,290,383	312,231	3,838,000	2,790,159	—	1,469,398	5,736,408	497,125	488,472	615,621	137,790	1,313,059	403,876
1 June	1,290,404	310,522	3,838,000	2,998,236	—	1,504,203	5,790,449	497,125	482,512	581,301	137,779	1,395,719	408,895
9 "	1,290,404	379,154	3,838,000	3,118,483	—	1,548,151	5,966,045	497,125	464,567	597,338	137,778	1,367,170	465,064
16 "	1,290,404	284,441	3,838,000	3,230,806	—	1,548,762	6,034,091	497,125	432,541	619,788	137,800	1,296,763	475,732
23 "	1,256,204	316,425	3,838,000	3,419,553	—	1,591,345	5,969,181	497,125	401,944	594,352	137,804	1,446,042	481,125
30 "	1,256,206	315,452	3,838,000	3,410,643	—	1,591,842	5,937,711	497,125	388,476	568,714	137,808	1,539,718	475,380
7 July	1,256,206	337,537	3,838,000	3,538,770	—	1,587,099	5,955,812	497,125	442,162	591,121	137,911	1,701,757	476,808
14 "	1,256,206	331,612	3,838,000	3,626,258	—	1,599,086	6,039,461	497,125	416,219	620,844	137,091	1,753,348	480,225
21 "	1,256,206	387,913	3,838,000	3,725,110	—	1,646,435	6,071,812	497,125	371,481	651,920	137,092	1,809,982	484,312
28 "	1,255,724	489,133	3,838,000	3,676,049	—	1,647,039	6,030,805	497,125	348,252	638,538	136,878	1,895,855	490,314
4 August	1,293,418	494,478	3,838,000	3,788,095	—	1,624,288	6,091,024	497,125	329,037	654,595	136,906	2,019,545	491,728
11 "	1,293,418	535,988	3,838,000	3,828,282	—	1,580,217	6,171,155	509,725	341,496	664,853	136,998	2,074,341	495,820
18 "	1,122,923	722,473	3,838,000	3,824,276	171,000	1,584,371	6,233,044	680,725	347,374	670,269	136,868	2,041,308	498,929
25 "	1,088,723	800,061	3,838,000	3,868,673	171,000	1,612,824	6,211,540	680,725	321,190	716,984	136,903	2,122,364	503,937
1 September	1,088,892	833,560	3,838,000	3,952,893	171,000	1,581,826	6,197,467	680,725	296,955	644,377	136,881	2,193,803	505,584
8 "	1,088,908	840,421	3,838,000	3,986,707	171,000	1,598,876	6,250,639	680,725	317,058	657,509	181,508	2,206,160	507,496
15 "	1,089,068	875,510	3,838,000	4,055,893	171,000	1,560,815	6,309,658	680,725	317,825	668,800	182,484	2,305,027	507,947
22 "	1,054,868	966,307	3,838,000	4,031,829	171,000	1,605,799	6,345,618	680,725	378,933	615,865	182,484	2,250,710	518,039
29 "	1,054,876	983,549	3,838,000	4,175,288	171,000	1,613,923	6,321,335	680,725	359,152	424,239	182,484	2,214,839	520,660
6 October	1,054,876	979,974	3,838,000	4,120,880	171,000	1,614,784	6,376,223	680,725	531,612	534,265	182,348	2,371,851	520,867
13 "	1,054,876	1,062,351	3,838,000	4,032,309	171,000	1,616,781	6,449,655	680,725	467,815	543,779	182,649	2,254,684	516,991
20 "	1,054,876	1,134,394	3,838,000	4,173,333	171,000	1,632,724	6,515,701	680,725	393,770	490,534	182,485	2,238,396	517,530
27 "	1,055,081	1,153,597	3,838,000	4,151,776	171,000	1,629,421	6,525,424	680,725	352,515	503,062	182,485	2,225,886	518,923
3 November	1,055,081	1,236,175	3,838,000	4,265,829	171,000	1,649,793	6,564,927	680,725	345,535	510,030	182,460	2,342,472	523,744
10 "	1,055,081	1,238,423	3,838,000	4,380,227	171,000	1,664,103	6,653,235	680,725	372,614	479,503	182,460	2,354,814	525,847
17 "	1,055,081	1,267,088	3,838,000	4,492,813	171,000	1,668,594	6,770,237	680,725	337,843	490,927	182,459	2,332,584	526,776
24 "	1,055,081	1,292,780	3,838,000	4,411,295	171,000	1,672,971	6,789,230	680,725	333,716	483,567	182,223	2,241,978	529,667
1 December	1,055,149	1,354,419	3,838,000	4,307,208	171,000	1,681,804	6,754,036	680,725	282,564	497,273	182,494	2,194,871	531,746
8 "	1,055,149	1,379,965	3,838,000	4,336,835	171,000	1,679,996	6,860,520	680,725	385,766	508,160	182,615	2,263,745	535,834
15 "	1,055,228	1,397,572	3,838,000	4,485,880	171,000	1,691,910	6,954,907	680,725	378,248	528,999	182,578	2,330,654	537,040
22 "	1,055,228	1,427,266	3,838,000	4,559,642	171,000	1,693,759	7,050,265	680,725	341,774	494,915	182,638	2,252,971	541,050
29 "	1,055,228	1,414,714	3,838,000	4,477,484	171,000	1,719,039	7,053,903	680,725	383,106	500,182	181,806	2,193,041	541,556
<i>1955</i>													
5 January	1,055,228	1,461,289	3,838,000	4,585,315	171,000	1,747,109	7,161,329	680,725	388,672	465,698	181,506	2,184,721	540,052
12 "	1,055,228	1,457,508	3,838,000	4,652,117	171,000	1,721,583	7,243,853	680,725	399,431	465,285	181,503	2,200,143	541,731
19 "	1,055,228	1,508,548	3,838,000	4,764,903	171,000	1,712,995	7,395,950	680,725	337,476	468,696	181,519	2,148,575	547,442
26 "	1,055,243	1,562,958	3,838,000	4,617,992	171,000	1,694,051	7,370,558	680,725	313,859	467,979	181,827	2,075,601	547,149
2 February	1,055,243	1,588,470	3,838,000	4,522,271	171,000	1,709,878	7,350,495	680,727	308,338	477,442	182,025	2,014,715	548,070
9 "	1,055,243	1,570,423	3,838,000	4,618,667	171,000	1,670,428	7,455,247	680,727	321,728	441,432	182,065	2,006,198	554,246
16 "	1,055,243	1,589,749	3,838,000	4,657,607	171,000	1,693,455	7,471,115	680,727	351,488	453,059	182,213	2,060,765	558,448
23 "	1,055,243	1,583,066	3,838,000	4,719,572	171,000	1,696,488	7,464,097	680,727	339,679	393,283	182,242	2,032,771	565,764
2 March	1,055,248	1,594,687	3,838,000	4,828,530	171,000	1,681,993	7,399,686	680,727	331,346	377,820	182,250	2,209,403	560,540
9 "	1,055,244	1,655,522	3,838,000	4,938,624	171,000	1,671,586	7,449,152	680,706	319,727	384,313	182,249	2,335,700	566,562
16 "	1,055,244	1,717,442	3,838,000	4,936,569	171,000	1,766,890	7,513,015	680,684	348,879	391,684	182,007	2,263,221	573,958
23 "	952,644	1,775,064	3,838,000	4,936,123	171,000	1,708,902	7,495,169	680,684	339,264	356,731	182,007	2,242,978	571,336
31 "	952,644	1,778,195	3,838,000	5,046,696	171,000	1,714,375	7,428,153	680,684	404,691	314,351	182,009	2,271,682	570,413

APPENDIX F

GOVERNMENT ORDINANCE BEARING UPON THE SUPERVISION OF THE CREDIT SYSTEM

(Ordinance No 1 of January 15th, 1955; Gazette of Indonesia 1955 No. I)

THE PRESIDENT OF THE REPUBLIC OF INDONESIA,

Considering :
that in the interests of a healthy credit system based upon the doctrines of good banking, as well as of the solvability and liquidity of the credit institutions operating in Indonesia, it is desirable to lay down regulations regarding the supervision of the credit system;

In view of :
Article 7, paragraph s, of the Bank Indonesia Act 1953 (Law No 11/1953; Gazette of Indonesia 1953 No 40);

Having heard the Cabinet Council in its 8 9th session on December 23rd, 1954;

H a s r e s o l v e d :

To establish :

GOVERNMENT ORDINANCE BEARING UPON THE SUPERVISION OF THE CREDIT SYSTEM

Article 1

For the purpose of this ordinance the expressions set forth below have the following meanings :

- a. credit institutions : commercial banks and saving's banks
- b. commercial banks : all enterprises and institutions, without regard to their legal form, which publicly offer or to a substantial extent make it their

business to accept monies on deposit or in current account and which engage in the granting of credits on private account

- c. savings banks : all enterprises and institutions, without regard to their legal form, which devote themselves exclusively to the purpose of encouraging saving and with that object accept monies on deposit on such terms that the possibility of calling these monies is subject to limiting provisions;
- d. the Bank : the Bank Indonesia.

Article 2

1. From the date of promulgation of this ordinance a credit institution can be founded and name itself 'commercial bank' or 'savings bank' only with a written permission of the Minister of Finance, having heard the Managing Board of the Bank Indonesia.

2. Permission shall only be granted if the paid-up capital of a commercial bank or savings bank amounts to at least Rp 2,500,000 and Rp 500,000 respectively and provided that the conditions drafted by the Monetary Board are complied with.

Article 3

1. Already operating credit institutions are required to apply for a permission as referred to in the first paragraph of article 2 within three months after the promulgation of this ordinance.

2. In case those credit institutions fail to meet the conditions as referred to in the second paragraph of article 2, the Minister of Finance, in consultation with the Bank, can grant them a provisional permission to operate as a credit institution.

3. A provisional permission as referred to in the preceding paragraph will cover a period of at most two years. Should, after expiration of the period determined in the provisional permission, the credit institution concerned still fail to fulfil the conditions referred to in the second paragraph of article 2, then the permission can be extended only with the approval of the Monetary Board.

Article 4

1. In case a permission as referred to in the first paragraph of article 2, or a provisional permission as referred to in the second paragraph of article 3 be denied or, according to the provisions of the first paragraph of article 12, be repealed, the credit institution concerned is entitled to lodge an appeal with the Monetary Board within 14 days after receipt of the information of refusal or repeal of the permission or provisional permission.

2. The Monetary Board shall pronounce final judgment in this respect.

Article 5

On behalf of the Monetary Board, the Bank shall supervise the credit institutions set up or still to be set up in Indonesia in the interests of the solvability and the liquidity of these credit institutions, and of a healthy credit system based upon the doctrines of good banking.

Article 6

1. The Bank is entitled to demand all those data and gather all those information from the credit institutions which it will deem necessary for the execution of the task as referred to in article 5 of this ordinance.

2. Every credit institution is required to supply the data and information which is sought from it in pursuance of the first paragraph of this article within a period to be determined by the Bank.

3. Every credit institution is required when so requested to put the Bank, or such person as requests information of it by order of the Bank, into a position as to convince itself of the accuracy of the information supplied in the light of the institution's books and records, and to afford all possible help in case of such investigation of books and records.

4. The person who has under his control the books and records mentioned in the third paragraph of this article is required, when so requested, to make these immediately available to the Bank or to the Bank's nominee.

5. Information obtained by virtue of this article with regard to individual credit institutions will not be published and will be confidential subject to the provisions of article 10.

Article 7

1. Every credit institution is required to deliver to the Bank annually, within a period to be fixed by the Bank, a balance sheet with profit and loss account, in a form to be determined and annotated as will be requested by the Bank.

2. The Bank may provide that the documents which are to be delivered to it by virtue of the first paragraph of this article, are to be previously examined by an auditor to be designated by the Bank. This auditor shall state the result of his examination in a report.

3. A declaration of approval by the auditor on the documents referred to in the second paragraph of this article will be considered to convey complete approval unless such declaration would carry the words 'subject to reserve'. A declaration of complete approval will be taken both to convey that the documents submitted by the credit institutions have been drawn up in accordance with good business practice, as to cover the existence of the assets and liabilities in conformity with the valuation and descriptions given of the items.

Article 8

1. Within the periods laid down for that purpose, every credit institution is required to deliver to the Bank periodical statements containing such data regarding its business as will be deemed useful by the Bank.

2. The form in which the statements mentioned in the preceding paragraph are to be drawn up and the periods within which they must be delivered, will be determined by the Bank.

Article 9

1. The Bank is authorized to convey to the credit institutions general instructions for the conduct of their business in connection with the execution of the Bank's task in pursuance of article s of this ordinance.

2. With regard to the granting of credits by these credit institutions the instructions as referred to in the first paragraph of this article may contain the following:

- a. provisions regarding the maximum extent of the credits granted or of specified portions of such assets, whether or not in relation to the deposited funds or to specified portions of such funds;
- b. prohibition or limitation of the granting of specified types or forms of credits, or of credits exceeding a specified amount, or prohibition of the granting of specified types or forms of credits or of credits exceeding a specified amount, without the previous approval of the Bank;
- c. provisions regarding the minimum and/or maximum debit interest chargeable to credit takers.

3. In pursuance of the second paragraph, sub (a), of this article, the Bank is entitled to dictate that a part—to be fixed by the Bank—of the liquid resources of every credit institution be deposited with the Bank, be invested in treasury bills or be tied up otherwise.

4. The Bank is authorized to set by general instruction a period within which all instructions given by the Bank are to be carried out and also, if so required, to prolong such period for all or one or more of the credit institutions.

Article 10

1. If the Bank, in the light of the facts set forth in the documents and statements which are delivered in pursuance of article 7, first paragraph, and article 8, first paragraph, or in the light of the information which comes into its possession in pursuance of article 6, detects signs of a development which in its opinion is or might become dangerous to the solvability or the liquidity of a credit institution, it may draw the attention of the credit institution thereto. If necessary, the Bank shall accompany such notification with an advice, with full statement of reasons, to change within a certain period the course of conduct in such respects as shall be expressly stated.

2. When giving an advice as referred to in the first paragraph of this article, the Bank may lay down a period within which such advice is to be carried out or within which an answer with full statement of motives regarding the advice should be submitted. If within such period the advice has not been carried out, *casu quo* no satisfactory answer has been received by the Bank, the Bank, after having given the credit institution the opportunity of being heard, may proceed to publish the advice in the *Berita Negara*.

3. The publication as referred to in the second paragraph of this article shall, if the credit institution to which the advice was given so requests, imply the publication of the correspondence which passed between the Bank and such credit institution in connection with the advice.

Article 11

1. In case of a decision regarding publication as referred to in article 10, the Bank may give notice of such decision to the credit institution concerned at least twenty days before the intended publication will be effected.

2. Within fourteen days after the despatch of such notification the credit institution concerned may appeal against such decision to the Monetary Board, which Board pronounces final judgment. The lodging of an appeal suspends the publication.

Article 12

1. Should a credit institution not or too late fulfil the obligations resulting from or imposed on it by virtue of this ordinance, the Minister of Finance, after consultation with the Monetary Board, shall be entitled to withdraw the permission as referred to in the first paragraph of article 2, or the provisional permission as referred to in the second paragraph of article 3, in which case the provisions of article 4 become applicable.

2. If a decision for the withdrawal of permission as mentioned in the preceding paragraph has been confirmed and therefore cannot be revised anymore, the Minister of Finance shall publish such decision in the Berita Negara and the newspapers to be indicated by him.

Article 13

This ordinance shall not be applicable to :

- a. desa banks, desa lumbungs and rural credit institutions;
- b. co-operative credit institutions;
- c. pawnshops;
- d. pasar banks;
- e. other credit institutions to be indicated by the Minister of Finance

Article 14

This ordinance will come into force on the day of its promulgation.

APPENDIX G

GOVERNMENT ORDINANCE BEARING UPON THE ADDITIONAL ISSUE OF CURRENCY NOTES

(Ordinance No 38 of May 19th' 1954; Gazette of Indonesia 1955 No 587)

THE PRESIDENT OF THE REPUBLIC OF INDONESIA,

Considering:

- a. that it is urgently necessary, in order to meet the want for legal tender in the Republic of Indonesia, to supplement the circulation of the currency notes in the denominations of Rp 2.50 and Rp 1;
- b. that in this connection Government Ordinance No 20/1953 (Gazette of Indonesia 1953 No 34) has to be modified and/or amplified;

In view of :

- a. article 109 of the Provisional Constitution of the Republic of Indonesia, and article 5 of the Currency Law 1951 (Gazette of Indonesia 1951 No 95 juncto 1953 No 77);
- b. Government Ordinance No 20/1953 (Gazette of Indonesia 1953 No 34);

Having heard the Cabinet Council in its 50th meeting on May 11th, 1954;

Has resolved :

To establish :

GOVERNMENT ORDINANCE BEARING UPON THE ADDITIONAL ISSUE OF CURRENCY NOTES

1. Government Ordinance No 20/1953 (Gazette of Indonesia 1953 No 34) shall be modified and amplified as follows :
 - a. In article 1 the amount of “Rp 175,000,000 (One hundred and seventy-five million rupiahs)” is to be augmented by Rp 200,000,000 (Two hundred million rupiahs) thus becoming Rp 375,000,000 (Three hundred and seventy five million rupiahs) in all.
 - b. Article 3 has to be read as follows :
 1. The Minister of Finance is authorized to have the aforementioned currency notes, if necessary, be brought into circulation through the intermediary of the Bank Indonesia;
 2. The Minister of Finance shall publish monthly in the Berita Negara the volume of currency notes brought into circulation.
- II. This Government Ordinance will come into operation on the day as shall be determined by the Minister of Finance.

APPENDIX H

PUBLICATION A No 62 OF THE FOREIGN EXCHANGE INSTITUTE DATED FEBRUARY 19th, 1955

THE MANAGEMENT OF THE FOREIGN EXCHANGE INSTITUTE *(Lembaga Alat-alat Pembayaran Luar Negeri);*

In view of article 5 paragraph I of the Foreign Exchange Ordinance of 1940 (N.E.I. Gazette No 20, of 1940), as also article 13 para, 1*d* of the Foreign Exchange Decree of 1940 (N. E. I. Gazette No 291 of 1940), as further modified and amplified;

Having perused the resolutions contained in Publication A No 42 dated May 7th, 1952;

H a s r e s o l v e d :

- Firstly : to attach to the already issued general and/or special permits for the importation of securities ¹⁾ as referred to in paragraph 1*d* of article 13 of the Foreign Exchange Decree the condition that the foreign exchange banks-security depositaries which give their intermediary with the importation of stocks and bonds on behalf of the Foreign Exchange Fund shall collect from owners/parties interested a so-called T.P.I.-Efek (= a levy) amounting to 33 1/3% of the securities' value calculated at the latest official quotations on the Djakarta Stock Exchange of the stocks and bonds imported into Indonesia;
- Secondly : that this resolution shall take effect on the day of its promulgation;
- Thirdly : that this resolution shall not be applicable to securities which are sailing to Indonesia under the required permit;
- Fourthly : that this resolution shall be published in the Berita Negara.

1) Securities in the sense of the existing foreign exchange regulations imply (Article I, pare. 7, of the Foreign Exchange Ordinance 1940): applications in bonds and stocks records shares, bonds, mortgage bonds, participating shares and suchlike valuable papers with the relative talons, coupons and coupon sheets for dividends.

APPENDIX I

PUBLICATION A No 63 OF THE FOREIGN EXCHANGE INSTITUTE DATED FEBRUARY 25TH, 1955

THE MANAGEMENT OF THE FOREIGN EXCHANGE INSTITUTE

(Lembaga Alal-alat Pembayaran Luar Negeri);

In view of article 5 paragraph 1 of the Foreign Exchange Ordinance of 1940 (N.E.I. Gazette No 205 of 1940), as also article 4 of the Foreign Exchange Decree of 1940 (N.E.I. Gazette No 291 of 1940), as further modified and amplified:

H a s r e s o l v e d :

to order :

- Firstly : that for the importation of such textiles as will be further specified by Kantor Pusat Urusan Import (office regulating imports) and which need not be imported via Jajasan Persediaan dan Perbekalan (office regulating imports and distribution), a Bukti Impor Tekstil (B.I.T. = textile import certificate) is required;
- Secondly : that as a consequence of the above, the provisions sub (2) of Publication A No 56 dated July 11th, 1954 have to be such amplified that to obtain a definite foreign exchange license as referred to in article 20 of the Foreign Exchange Decree of 1940 a textile import certificate has to be presented;
- Thirdly : that the Bank Indonesia shall provide these certificates against cash payment;
- Fourthly : that the K.P.U.I. shall publish directives for obtaining these certificates;
- Fifthly : that this resolution shall take effect on the day of its publication;
- Sixthly : that this resolution shall be published in the Berita Negara.

APPENDIX J

IMPORTS OF CONSUMER GOODS INTO INDONESIA								
	Gross weight ('000 ons)				Value (Rp million)			
	1938	1952	1953	1954	1938	1952	1953	1954
Meat and canned meat products	1.8	0.7	0.2	0.6	0.8	5.4	1.4	2.8
Milk and related products	19.9	42.5	18.7	19.5	5.3	185.6	88.9	76.7
Butter and margarine	6.1	0.2	0.1	0.1	4.2	2.1	1.1	1.0
Cheese	1.2	0.4	0.1	0.4	0.7	3.2	1.2	3.4
Fish, dried or salted, Asiatic varieties	61.6	40.2	34.1	37.1	11.0	123.5	93.8	88.2
Rice	334.2	765.8	371.5	258.8	22.1	1,556.3	916.2	558.0
Wheat flour	85.3	145.1	137.8	108.4	7.7	224.5	214.1	140.2
Fruits (incl. marmalades, jams, etc.)	7.2	9.9	10.9	7.9	1.8	20.4	17.9	10.0
Vegetables	13.9	4.4	4.7	5.2	2.5	11.7	11.2	9.6
Spirits, distilled and undistilled	11.5	9.4	3.8	3.4	4.5	36.2	16.9	15.1
Tobacco and tobacco products	1.6	0.5	0.2	0.5	1.9	8.0	3.4	0.9
Sugar and related products	2.7	0.9	0.8	0.6	0.6	4.9	3.8	3.1
Coffee, tea, cocoa and chocolate	2.6	0.6	0.2	0.1	1.8	5.8	2.0	1.7
Kerosene	27.5	6.5	8.3	1.1	1.1	1.8	2.8	0.4
Sewing cottons	1.1	0.9	1.0	1.3	2.7	30.5	30.0	32.5
Cotton piece goods :								
dyed	11.1	17.8	23.2	16.7	12.7	412.5	466.7	343.7
printed	5.6	5.7	14.2	13.6	8.0	161.0	376.3	333.7
coloured woven	7.9	4.7	4.2	3.6	8.9	97.3	67.4	56.9
Cotton singlets and mesh shirts	2.7	5.2	3.3	2.7	3.2	145.7	76.7	58.7
Other clothing	3.8	11.9	7.8	2.7	6.9	329.5	207.7	26.7
Table and kitchen ware of earthenware and china	14.5	66.6	14.0	12.9	1.9	130.3	23.6	21.1
Sundry household articles of glass	5.4	4.4	4.6	6.4	1.0	14.8	9.7	13.3
Sundry household articles of metal	3.3	18.1	3.6	23.9	1.8	94.9	18.8	100.1
Matches	2.3	6.6	5.1	4.7	1.0	46.8	28.3	20.0
Wireless sets and sewing machines	1.7	4.2	3.5	7.1	2.8	66.2	47.5	56.4
Bicycles	0.8	10.1	6.4	1.9	0.8	133.9	85.7	26.1
Bicycle tyres	0.7	0.2	0.6	2.0	0.6	2.5	7.7	21.7
Other consumer goods	141.2	129.0	64.6	48.6	88.4	1,521.9	919.1	677.0
Total	779.2	1,312.5	747.5	591.8	206.7	5,377.2	3,739.9	2,699.0
Of which oil companies	27.5	18.9	15.6	7.0	1.1	84.2	48.7	40.8
Total excl. oil companies	751.7	1,293.6	731.9	584.8	205.6	5,293.0	3,691.2	2,658.2

Source : C.B.S.

APPENDIX K

IMPORTS OF RAW AND AUXILIARY MATERIALS INTO INDONESIA								
	Gross weight (’000 tons)				Value (Rp million)			
	1938	1952	1953	1954	1938	1952	1953	1954
Dyestuff, prepared from coal tar	2.2	1.7	2.6	2.5	4.3	40.4	52.2	60.6
Fertilizers	122.4	84.4	100.9	30.0	7.5	83.6	84.9	24.1
Cloves and clove stems	5.7	6.2	3.3	7.7	3.7	130.9	71.3	94.4
Cases	23.9	3.2	1.8	4.8	3.8	11.5	5.2	14.6
Gunny bags	55.8	20.7	28.2	24.5	10.2	89.6	80.8	67.8
Cotton yarns	9.1	8.2	12.9	14.3	10.1	162.7	206.9	233.5
Cotton piece goods :								
unbleached	7.3	6.6	8.9	4.6	6.7	131.9	137.0	71.5
bleached	19.8	17.9	22.5	16.8	25.9	470.4	477.4	338.5
Paper and manufactures thereof	54.1	74.0	74.2	69.9	6.9	263.8	193.6	176.1
Building cement	121.0	246.7	199.4	290.6	1.6	88.3	69.2	91.7
Iron and steel rolled products	114.3	115.4	132.3	111.4	14.8	245.4	281.1	246.6
Iron roofing material and accessories	20.2	25.3	12.8	4.3	4.0	104.5	46.3	15.1
Tin plates and sheets	27.5	5.8	13.3	9.7	7.2	18.5	39.1	21.8
Nails, tacks and spikes	14.7	8.7	24.4	17.2	2.1	20.2	44.4	28.2
Mineral fuels (other than petroleum products)	84.2	62.2	56.6	38.7	1.5	19.2	15.3	10.2
Kerosene, gasoline and lubricating oils	93.3	1.5	12.4	7.4	3.5	0.9	5.1	3.0
Oil and other oil products ¹⁾	37.5	2,263.9	2,324.3	2,214.1	1.5	484.1	522.1	519.3
Other raw and auxiliary materials	243.9	288.5	250.4	322.1	39.1	1,073.9	900.3	1,030.5
Total ¹⁾	1,056.9	3,240.9	3,282.2	3,190.6	154.4	3,439.8	3,232.2	3,047.5
Of which oil companies ¹⁾	142.3	2,447.3	2,422.1	2,284.8	6.7	758.2	694.7	601.0
Total excl. oil companies	914.6	793.6	860.1	905.8	147.7	2,681.6	2,537.5	2,446.5
¹⁾ Of which oil for re-export	—	2,210.8	2,278.6	2,131.0	—	448.6	489.7	435.5

Source : C.B.S.

APPENDIX L

IMPORTS OF CAPITAL GOODS INTO INDONESIA								
	Gross weight (‘000 tons)				Value (Rp million)			
	1938	1952	1953	1954	1938	1952	1953	1954
Iron and steel structures	2.4	8.3	2.9	1.0	0.6	34.7	12.7	3.9
Electric cables	2.8	2.6	2.7	2.3	1.1	24.3	20.3	15.3
Office machines	0.3	1.2	0.3	0.3	1.1	66.5	15.8	17.5
Motor vehicles	13.6	23.5	15.4	11.7	12.1	291.7	196.6	143.7
Motor vehicles’tyres and tubes	0.9	3.4	1.4	0.4	1.1	61.8	23.2	6.7
Stationary internal combustion engines	2.2	6.5	5.1	2.7	2.5	126.8	100.0	53.6
Textile machinery	3.4	1.7	2.9	2.0	1.4	21.0	31.6	17.2
Mining machinery	14.7	3.0	2.9	1.4	10.5	32.4	29.7	19.9
Other industrial machinery	4.5	9.6	8.6	10.9	2.8	138.5	127.8	167.7
Other capital goods	121.9	135.9	95.8	92.6	84.2	1,191.6	1,053.9	979.6
Total	166.7	195.7	138.0	125.3	117.4	1,989.3	1,611.6	1,425.1
Of which oil companies	—	37.1	25.7	18.3	—	272.9	187.7	158.5
Total excl. oil companies	166.7	158.6	112.3	107.0	117.4	1,716.4	1,423.9	1,266.6

Source : C.B.S.

APPENDIX M

PRODUCTION, EXPORTS AND CONSUMPTION OF INDONESIA'S FOODCROPS ¹⁾

Maize	1952	1953	1954
Area harvested : Djawa and Madura (<i>ha</i>) Other islands	1,794,000 438,000	1,499,000 470,000	1,998,000 502,000
Indonesia	2,232,000	1,969,000	2,500,000
Production : Djawa and Madura (<i>tons of kernels</i>) Other islands	1,204,000 433,000	1,303,000 512,000	2,084,000 584,000
Indonesia	1,637,000	1,815,000	2,668,000
Exports	1	38	17,168
Available for consumption	1,636,999	1,814,962	2,650,832

Cassava and cassava products	1952	1953	1954
Area harvested : Djawa and Madura (<i>ha</i>) Other islands	769,000 158,000	868,000 174,000	866,000 185,000
Indonesia	927,000	1,042,000	1,051,000
Production : Djawa and Madura (<i>tons, dry</i>) Other islands	1,272,000 612,000	1,617,000 525,000	1,600,000 761,000
Indonesia	1,884,000	2,142,000	2,361,000
Exports	986	29,601	145,666
Available for consumption	1,883,014	2,112,399	2,215,334

Batatas	1952	1953	1954
Area harvested : Djawa and Madura (<i>ha</i>) Other islands	217,000 118,000	216,000 109,000	174,000 110,000
Indonesia	335,000	325,000	284,000
Production : Djawa and Madura (<i>tons, dry</i>) Other islands	315,000 258,000	308,000 236,000	263,000 221,000
Indonesia	573,000	544,000	484,000
Exports	—	—	—
Available for consumption	573,000	544,000	484,000

¹⁾ Revised figures under 'other islands' were received from Service for Indigenous Agriculture

Ground nuts	1952	1953	1954
Area harvested : Djawa and Madura (<i>ha</i>)	222,000 55,000	240,000 52,000	270,000 57,000
Indonesia	277,000	292,000	327,000
Production : Djawa and Madura (<i>tons, peeled nuts</i>) Other islands	128,000 47,000	164,000 59,000	202,000 71,000
Indonesia	175,000	223,000	273,000
Exports	717	10,545	16,016
Available for consumption	174,283	212,455	256,984

Soya beans	1952	1953	1954
Area harvested : Djawa and Madura (<i>ha</i>)	393,000 24,000	422,000 35,000	478,000 48,000
Indonesia	417,000	457,000	526,000
Production : Djawa and Madura (<i>tons, dry</i>) Other islands	266,000 20,000	275,000 32,000	361,000 40,000
Indonesia	286,000	307,000	401,000
Exports	—	6,866	154
Available for consumption	286,000	300,134	400,846