

BANK INDONESIA

REPORT FOR THE YEAR 1956 - 1957



REPORT

OF THE GOVERNOR OF BANK INDONESIA
FOR THE FINANCIAL YEAR 1956-1957

BANK INDONESIA

Head Office :

DJAKARTA

Branch Office :

AMSTERDAM

Agencies :

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SEMARANG, SOLO, SURABAJA, TJIREBON

SUMATERA

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KALIMANTAN

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MAKASAR, MENADO

MALUKU

AMBON

Report of the Governor

1. GENERAL REVIEW

Whereas in my previous report I was able to record favourable external factors, i.e. the upward price trend of Indonesian export produce, throughout last year the situation was different. Export markets, on which the economic development of Indonesia is so dependent, showed a downward tendency in the year under review. It is true that within the last months of 1956 there was a slight improvement because of stockpiling and/or speculative buying in connection with the Suez crisis, but when the conflict of arms ended, the interrupted fall was resumed.

For instance, the average price level of rubber, a product of vital importance to Indonesia, fell from 1955/1956 to 1956/1957 by no less than 25%.

The consequences of this unfavourable external development, together with internal causes, to which reference will be made later on, naturally enough did not fail to materialize. Export proceeds, after having increased from 1954 to 1955 by over Rp 1.2 billion, dropped by Rp 400 million. By itself this does not seem too serious. Imports were however drastically restricted in the years 1954 and 1955 in view of the then prevailing foreign exchange position. When export proceeds showed a rise in the course of 1955, it was understandable that imports were increased. Because local prices as regards production were on a high level, and due to a drastic revision in the import system and by making available more foreign exchange, imports began to rise, with the result that in the last months of 1955 substantial price falls could be noticed in various sectors. It was not before 1956 however, that the full impact of the liberalization of imports became apparent, as the following figures illustrate :

<i>Rp million</i>	<i>1954</i>	<i>1955</i>	<i>1956</i>
Imports	6650	6247	9389

In spite of my repeated warnings Government expenditure increased considerably while on the other hand no adequate rise of Government receipts occurred, with the result that the deficit for 1956 was larger than in 1955, (for figures see next pages). Because of this, and also in view of the inflationary effect in the private credit sector, imports assumed a larger size than was considered desirable and permissible in connection with the foreign exchange position. Total imports were also increased by substantially higher imports of rice (about Rp 1 billion). Thus, as a result of the liberalization measures, and the subsequent enormous inflationary tendencies expressing themselves in an insatiable import hunger, imports went more or less out of control, as the import figures mentioned above reveal.

This course of events, with 1956-export proceeds falling and imports increasing considerably, could only lead to a deterioration in the balance of trade. In 1955 foreign trade resulted in an appreciable surplus of nearly Rp 3.8 billion, whereas in 1956 the surplus was no more than Rp 218 million, a decline of over Rp 3.5 billion. The positive balance on current account amounted to Rp 1,184 million in 1955; in 1956 this balance changed into a deficit of Rp 1,788 million. Eventually, there was a loss of foreign exchange in 1956 of Rp 1,112 million, against a foreign exchange profit of Rp 1,015 million in 1955. Foreign exchange reserves totalled Rp 2,678 million per end 1955, Rp 1,566 million per end-1956, dwindling further to Rp 1,296 million per end-March 1957.

Naturally, the Government did not watch this course of events during the year under review with complacency. In order to stimulate falling exports, exporters were allowed as from August 1956 to retain a percentage of foreign exchange proceeds (varying for each product) which could be sold at free rates to foreign exchange users, particularly to importers of luxury and superluxury goods, and also to some other groups. From these export inducements called B.P.E. (export promotion certificates) such products as oil, tin and sugar were excluded. Apart from this increase in the cost of certain imports, importers were still obliged to pay the so-called T.P.I. levies for certain categories of goods. Furthermore, the monetary authorities gave directions to the banks gradually to restrict import credits.

For a detailed review of these measures in the field *of* exports and imports I refer to the relative chapters of this report.

The intention of the Government was clear: on the one hand to keep exports going and, if possible, improve them; on the other hand, to restrict imports by increasing costs by indirect means.

Prior to this, an appeal had been made to the International Monetary Fund in order to strengthen the foreign exchange position. The I.M.F. agreed to a purchase by Indonesia of an amount of U.S.\$ 55 million against rupiahs. Furthermore, the Government succeeded in arriving at an arrangement with the Government of the United States of America on the purchase of so-called S.A.C. goods (surplus agricultural commodities), including foodstuffs such as rice and wheatflour, badly needed in Indonesia, and cotton and tobacco. These purchases not only saved the Government foreign exchange to the amount of \$ 37 million in 1956 (the remaining \$ 60 million, out of agreed total purchases of \$ 97 million, to be spent in 1957), but also contributed substantially to the normal supply of these essential goods, resulting, favourably, in a stable internal price level at the same time. Without the assistance of IMF and S.A.C. purchases the foreign exchange position would have been even worse.

The disappointing export markets in 1956, after the rising trend in 1955 lead to an unfavourable trade balance and balance of payments, and to a weakening of the monetary reserves of the country.

The fiscal position of the Government was strengthened as a result of larger imports yielding indirect tax receipts (such as T.P.I.) and through the system of pre-payments. At the same time, obviously, import duties yielded more. T.P.I. receipts alone rose from about Rp 1.8 billion to nearly Rp 5 billion, representing increased receipts of about Rp 3 billion. The provisional results of Government revenue are as follows :

<i>Rp million</i>	<i>1955</i>	<i>1956</i>
Net revenue	10,307	15,733

With this improved revenue position, it is regrettable that expenditure was not kept under control. The relative provisional results are:

<i>Rp million</i>	<i>1955</i>	<i>1956</i>
Net expenditure	12,397	18,031

Net expenditure rose by no less than Rp 5.6 billion, so that the increase of receipts was completely nullified. Whereas the 1955-budget resulted in a deficit of Rp 2,090 million, in 1956 the deficit amounted to Rp 2,298 million notwithstanding the improvement of the fiscal position of the Government (the estimated deficit for 1956 was Rp 1,807 million).

A deficit on the budget always endangers the monetary position. Actually, the money supply in 1956 expanded again, to wit, from Rp 12,234 million in 1955 to Rp 13,393.5 million, an increase of Rp 1,159.5 million.

As the monetary analysis in chapter III shows, on balance the Government was responsible for an expansion of the money supply to the amount of Rp 2,267.4 million. In addition, the private sector contributed Rp 988.7 million to the inflationary creation of money. Money supply would have increased by Rp 3,256.1 million as a result of the inflationary factors emanating from the public and private sectors, were it not that the foreign sector had a deflationary effect to an amount of Rp 1,815.0 million, which, together with some other deflationary factors to an aggregate of Rp 281.6 million, eventually brought the monetary expansion to the above mentioned figure of Rp 1,159.5 million.

In the last quarter of the year covered by this report—i.e. the first three months of 1957—the Government was the main source of inflationary impulses. Because of the large cash deficits the public sector contributed to an increase of the money supply in said period by as much as Rp 995.7 million, or 44% of the change during the whole year 1956. The private sector brought about an inflationary effect of Rp 20.4 million, whereas the foreign sector and various other factors were deflationary to the amount of Rp 614.1 million and Rp 409.4 million respectively.

Consequently money supply at the end of March 1957 remained practically unchanged as compared with December 1956, amounting to Rp 13,386.1 million against Rp 13,393.5 million per end-1956.

It is obvious that the country is in a critical financial-monetary situation. The time is coming when the foreign exchange position will be unable to neutralize large scale money creation by the Government. Unless all available forces are marshalled to erect a dam against the inflationary tide, now emanating from the public sector, the full impact of the inflationary situation will make itself felt. Up to now, the internal price level has remained rather stable. Its defence may be called successful. With the liberalization of imports in 1955 local prices fell, which was an important factor for economic development. It is evident that the high level of imports in 1956—too high a level in view of the foreign exchange position (1955 : Rp 6,247.0 million; 1956 : Rp 9,389.0 million) —benefited the consumer, for in some sectors the large influx of goods forced many merchants to sell their stocks at below cost price. On balance money supply increased from 1955 to 1956 by Rp 1,159.5 million. On the other hand, imports were higher by Rp 3,142.0 million. As mentioned above, in the first three months of 1957 money supply did not change to any extent. On the other hand, imports continued.

The available price index numbers—see chapter VII of this report—indicate a certain stability. Textiles, constituting an important category of goods, remained available in abundance, partly owing to S.A.C.-purchases (white cambrics were quoted at Rp 407 per piece in December 1955, while the average quotation in 1956 was about Rp 344 per piece). Rice and other foodstuffs were available in reasonable measure. The terms of trade for the rural areas were favourable because the fall in rice and maize prices were compensated by cheaper textiles and salted fish.

Amidst its many difficulties, the Government can point to one bright spot, viz. the rather stable prices which have been maintained up till the present. In this connection it can be stated that to some extent the conversion of foreign exchange into import goods, is now benefiting the country.

Although the origin of the present difficulties must be sought in the short term fluctuations of export markets, which influenced the trade balance and balance of payments adversely, it must be stated that the situation took a turn for the worse through a series of events in the political field. The Suez conflict threatened to disturb the economy of Western Europe, while the events in Hungary and Poland had the same effect on the economy of both countries and even of Eastern Europe. Indonesia is a country with a interest in a high level of activity in industrial countries, because they are the markets for its produce, and because they are the suppliers of necessary import goods. True, Indonesia profited for a short period by rising prices of raw materials, but a continuation of the conflict would necessarily have meant that the terms of trade would turn against Indonesia, so that possible profits on exports would prove fictitious. Fortunately, however, the Suez crisis was of relatively short duration, and, as for Eastern Europe, trade with that area is not yet of sufficient volume to bear serious repercussions.

Since the end of 1956, Indonesia has been confronted with political difficulties of a most disturbing character which ultimately placed the country in a State of War and Siege. I refer here to the tensions between the Central Government and the regions outside Djawa. Naturally, political problems such as these are outside the scope of this report. Nevertheless, attention must be drawn to the fact that they have an impact on the economy of the country and a powerful bearing on the existing downward trend of economic life. They may even lead to irreparable losses for the country if they are not solved soon.

Firstly, the difficulties between the Central Government and the regions outside Djawa resulted in larger expenditure which could and can be financed only by way of borrowing from Bank Indonesia. Apart from this fact there is another namely the decline in export proceeds, part of which do not go to the Central Government, and, I fear, are paid-in only partially to the regional authorities. The difficulties, caused by lower export proceeds because of lower world market prices, are thus gravely aggravated. Significant in this respect is the fact that export applications are receding sharply.

Similar difficulties are met in regard to Government expenditure. The increase of expenditure at the beginning of 1957 alone would have confronted the present Government with tremendous problems. The receipts on which this expenditure was based, in particular indirect taxes and T.P.I.-levies, dwindled heavily. Instead of a decrease of expenditure there was on the contrary an increase, brought about by the prevailing tensions between the Central Government and the regional authorities outside Djawa. The Government was thereby forced to borrow increasingly from the Central Bank. Enlarged money supply from that cause, together with diminishing foreign exchange receipts, resulted in a constant fall of the gold-cover percentage, which per end-1955 amounted to 29.1%, per end-March 1956 to 26.8% to dwindle further per end-December 1956 to 21.9%, and per end-March 1957 to 17.6%.

It is evident that under these circumstances, there can be no question of a systematic, continuous development of the country. Even assuming that external factors improve, i.e. a rise in world market prices of Indonesian export commodities, this improvement cannot result in higher foreign exchange receipts and larger Government revenue; in other words, neither external nor internal monetary stability can be achieved. It stands to reason that continuous efforts must be made to improve export markets. This is a problem upon which I have commented time and time again, and is one which can be tackled only by international co-operation.

More than ever it is obvious that as long as political instability reigns in Indonesia, no economic policy directed towards the development of the country will and can be feasible; neither can those authorities concerned plan a financial-monetary policy in relation to this development. So far political stability has been greatly lacking. Recent events are merely a culmination of what has been present for a very long time. Firstly, there has been the frequent change of Cabinets, resulting in programmes once adopted being revised time and again. Secondly, a relatively short term of office of each Cabinet has precluded a steady, firm line of policy during its tenure of office. This difficulty could have been overcome had the various welfare ministries established between themselves and also in conjunction with other political and social ministries, a more permanent basis of

co-operation and co-ordination. The frequent changes in the number of ministries and services, as well as in personnel, have made such inter-departmental co-operation unworkable in practice, even on a technical level, except in a few minor cases.

In my opinion the political instability mentioned above has culminated during the year under review in the dramatic appearance of the conflicts between the Central Government and the regional authorities. Moreover, the confusion and mutual distrust were accentuated by the interference in this matter by the military authorities. Their justification for this was the failure of politicians striving for their own or party interests, rather than for the interests of the State.

The basic cause of lack of mutual understanding between the Central Government and the regional authorities, in my opinion, lies in the fact that the Central Government has paid too little attention to the desires and needs of the regions outside Djakarta, especially the regions outside Djawa. This neglect in its turn resulted from the fact that the political parties dominating Parliament, were too pre-occupied with feuds between themselves and the division of offices. Thus Parliament fell short of its duty, and by implication, the Government also, because it simply gave it self too little opportunity to consider the whole territory of Indonesia, with its manifold interests, needs, wants and desires.

Ultimately, the President deemed it his duty to help the country out of the existing impasse by forming himself a so-called "Extra parliamentary emergency Cabinet". Without going into the legal and political merits of his action, I gladly express the hope that his initiative has brought the country to the beginning of lasting political stability, simultaneously preserving the fundamentals of a democratic political system. It is up to the Central Government to do everything within its power without delay to meet the reasonable desires of those regions which have felt themselves so neglected.

Indonesia is a rich country. In the main, however, its wealth has not been developed. This wealth is located largely in the regions outside Djawa. The

necessary reclamation of these regions is an economic task, the importance of which stretches far beyond changes of Cabinets. If this task is firmly undertaken it will bring about, in a short time, a relaxation of the tense political situation and result also in economic relief; in the longer term, it will provide *the* solution to the problem of how to increase prosperity.

(1) The regions concerned seeing the long delayed activity of the Government, will be convinced that, at last, their proper desires are being taken seriously. This recognition will in turn contribute to the restoration of political peace.

(2) The export basis of Indonesia will be broadened with new mines coming into operation (e.g. iron, nickel, copper, bauxite), oil-fields coming into production, wood-cutting taken in hand, neglected rejuvenation of estate, as well as smallholders agricultural produce, being receiving attention.

(3) By earning more export proceeds the industrialization process will accelerate, resulting in a saving of foreign exchange and, moreover, in better insulating the country against short term fluctuations of export markets.

(4) Rice production essential for the country and important for the price structure, can be expanded substantially in regions outside Djawa, bringing about savings in foreign exchange as well as greater stability of prices.

(5) It is self-evident that by intensifying economic activity- Government receipts will increase, with favourable consequences for the budget and therefore, for monetary stability.

In other countries the poorer regions are used to feeling themselves “the indigents” of the Central Government. In Indonesia it is exactly the opposite: here the rich regions feel themselves neglected. In other countries the solution, economically, is more difficult. In the case of Indonesia, the solution lies in the neglected regions themselves, with their immeasurable resources; in other words, in theory the solution is simpler because in a sense it is not obscure.

Let the present political tension between centre and periphery result once and for all in the commencement of systematic, energetic and continuous approach to the economic development of the regions outside Djawa ! Their development is the key to the advancement of prosperity for Indonesia, including Djawa; at the same time conditions for the restoration of political stability will be improved.

It is obvious that while seeking to repair mutual understanding between the Central Government and the regional authorities, the latter—with all the autonomy to which they are entitled—nevertheless have to realise that is neither logical nor economically legitimate, to divide arithmetically budget revenue and foreign exchange receipts between them and the Central Government. Indonesia not only strives for political unity—we all particularly at this time wish to stress this point—, but also strives for economic unity; in other words, there is inter-dependency between the component parts. For instance the development of the regions outside Djawa will be largely dependent upon a labour force, skilled and unskilled, hailing mainly from Djawa. Furthermore, Djawa is an important market. As an example, a fertilizer plant in Sumatera will have to sell a considerable part of its output to Djawa.

There is more. There are all kinds of factors which influence a fair division of budget and foreign exchange spending :

- (1) The Government has certain central functions to perform requiring large sums of money, such as defence, justice, foreign affairs, communications etc.;
- (2) There are minus-regions, poorly endowed by nature, which must be subsidized.

When these factors are taken into account, doubtless a speedy restoration of mutual understanding between the Central Government and the outer regions will ensue. In many respects Indonesia has been directed introversively, i.e. on party interests and on Djakarta and Djawa; Indonesia is larger and wider than both; it has to live from now onwards more extroversively, free from prejudice, directing itself to the outer regions, where natural wealth is plentiful.

Coming near to the end of my general remarks, I should like to summarize the events in the economic field during the year under review. As I see them, the following are of principal importance.

In a world of prosperity, notwithstanding difficulties, business activity in the industrialized countries achieved an extraordinarily high level, prices of raw materials fluctuated downward again. This external factor influenced the trade balance and the balance of payments of Indonesia unfavourably.

True enough, in the first instance the budget was not under pressure because of increased income from higher imports, which had been made possible by higher foreign exchange receipts in 1955; but unfortunately, the trend was to increase expenditure, to such an extent that notwithstanding favourable receipts, there was a deficit. Only by using the monetary reserves was the increase in money supply kept down, but it must be kept in mind that the monetary reserves themselves dwindled alarmingly.

The financial-monetary and thereby the economic situation experienced a considerable deterioration when the regions outside Djawa became engaged in a kind of conflict with the Central Government. The country had to forego substantial foreign exchange receipts and moreover, budget expenditure increased rapidly. In other words the depressing effect of external factors such as the lower export market prices was aggravated considerably by internal political factors.

The economic, financial and monetary state of the country has become very grave indeed. More than ever before it is therefore of a vital importance to concentrate on two aims. Firstly, the budgetary equilibrium must be restored; in any event the budget deficit must be kept as small as possible. For this, it is urgent that the strictest retrenchment be practised, long term projects of the Government restricted wherever possible and, on the other hand, new sources of income, less dependent on foreign trade, be found. In addition to watching over the budget as a source of inflationary money creation, a sharp eye must be kept on the private

sector. Secondly, exports must be promoted. In this context thought must be given not only to stimulating existing exports, but also and even more so to measures which will fortify production sources and bring forth new ones.

When both of these targets have been fulfilled, then and only then, will industrialization really expand. In this connection the country should aim, first of all, at foreign exchange saving and/or foreign exchange earning industries, the former serving specifically the internal demand for consumer goods. When monetary stability has been achieved and export proceeds are plentiful, industrialization will make faster progress and will become less dependent on foreign credits.

An end must be made to “political” credits, under which for account of the budget (or the Central Bank) money is provided without sufficient investigation of the economic advantage of such credits. Moreover, this type of credit must be considered as asocial, because with the money of the State i.e. of the people, private interests are promoted, without benefiting the common good.

It is urgent to scrutinize the import and export system, simplified in 1955 but now far too intricate. Every system is meant to serve, but the B.P.E. system of August/ September 1956 combined with T.P.I.-levies, threatens to get the better of the flexible functioning of exports and imports.

The various measures in the strict economic, financial, and monetary field must henceforth not be palliatives; a following up and continuity are necessary if any new measures are to lead to real recovery.

Beside this however, there is above all, the urgent need for restoration Of political stability, the disturbance of which has brought the country to a serious financial-economic situation at present. Without this political stability mere economic measures can yield little result, because losses of foreign exchange receipts and budget expenditure will continue. Trust and mutual understanding are essential. It is the duty of the Central Government to look after the autono-

mous regions, and they for their part, must be prepared to negotiate reasonably and to practice self-restraint.

Next to solely political measures, the long expected development of the regions outside Djawa will contribute tremendously, especially in this period, to re-establish trust, to overcome misunderstandings, and to rebuild political stability.

The road is difficult, but not impassable.

II. INTERNATIONAL DEVELOPMENTS

Introductory

The business cycle in the highly industrialized regions of the world, such as the United States of America, Western Europe and some countries of Eastern Europe, among the latter mainly the Soviet Union, advanced again to a higher level in 1956 than in the preceding year. This means, generally speaking, that growth in the industrial centres is still continuing. Note must be made however, that the expansion in 1956 undeniably lost in vigour both in the United States and in Western Europe. To some extent, at any rate in Western Europe, this was due to a wilful intervention on the part of the governments concerned with the economic course of events. It could be observed namely, that the favourable business cycle created optimism, which in turn became a stimulus for overspending. The demand for means to finance the establishment of new enterprises or the modernizing of older ones increased in such a way that the monetary easiness brought about price increases. Should no measures have been taken, there would have been a possibility of the business cycle running aground on inflation. Therefore, although realizing that growth and expansion are worth pursuing, it was considered necessary to check overspending by curtailing the creation of money. The result was that the expansive development slowed down to some degree, thus establishing a better equilibrium between real production on the one hand, and money supply on the other hand. Another worry for the authorities concerned was that the favourable business cycle with its unmistakable inflationary tendencies, also brought about increases of costs, a.o. of such an important component as wages.

Regarding the developments in Eastern Europe, it can be stated that the industrial growth of the Soviet Union continued, as was the case in East Germany and Czechoslovakia. Difficulties however, arose in other East European countries. Moreover, in the Soviet Union as well as in the other countries bottlenecks occurred, such as bureaucracy, centralization, shortages or surpluses of labour etc., which had to be remedied.

When comparing the development of the business cycle in the United States of America and in Western Europe, one will observe that in the United States of America expansion reached its peak by the end of 1956, while the opposite was the case in Western Europe, where the peak was reached at the beginning of the year. Also remarkable is the fact that, generally speaking, demand in Western Europe remains active in every field, while in the United States of America in some sectors such as the motorcar industry, there are signs of a slight weakening.

The Suez canal crisis and the events in Poland and Hungary will have their full impact felt in the course of 1957 and thereafter.

Although, in general the favourable business cycle still prevailing in the industrial parts of the world is in itself very laudable, yet it is to be regretted that this propitious state of affairs did not yield important positive results for the less developed countries. Obviously, the well-known short term price fluctuations of raw materials are still lacking sufficient support, even at this high level of world economic activity. Naturally, if the favourable business cycle had not occurred, the economic situation of the less developed countries would have encountered greater difficulties.

United States of America

For the United States of America the year 1956 ended again with a favourable business cycle. The American G.N.P. passed the amount of \$ 400 billion and totalled \$ 412.4 billion against \$ 390 billion in 1955. All sectors contributed to this growth: consumers, business enterprise, the Government and foreign trade. Their respective spendings amounted to \$ 265 billion (1955: \$ 254 billion), \$ 65.4 billion (1955: \$ 60.6 billion), \$ 79.8 billion (1955: \$ 76.8 billion) and \$ 1.4 billion (1955:—\$ 0.5 billion). Relatively, investments increased most of all viz. by 8%, while the figures for private and government spending were 5,% and 4% respectively. In this context note must be made of a slight improvement in the percentage of unemployment

which fell from 4% in 1955 to 3.8%; this represents a decrease of the unemployed by 100,000 persons.

The results achieved in 1956 again belied the fear felt in some circles that the decline in growth of investments which started in the second halfyear of 1955 would continue, thus bringing about a new recession or stagnation. This does not mean that the American business cycle during 1956 experienced an overdose of vitality. The level of economic activity rose, but the advance occurred at a slower pace; expressed in real terms the growth of the G.N.P. was even rather moderate. The nominal gain from 1955 to 1956 amounted to 5.5% against 8.4% from 1954 to 1955. The actual increase after eliminating the influence of the price level, was only about 2.6% against over 7% from 1954 to 1955.

Although the G.N.P. in 1956 arrived ultimately at a higher figure than in the preceding year, on closer analysis it becomes evident that the slackening down in growth occurring in the second halfyear of 1955, continued, to give way for a steeper rise during the third and fourth quarter. From the fourth quarter 1955 to the first quarter 1956 the G.N.P. calculated on year basis, increased by \$ 1.5 billion (about 0.37%), from the first to the second quarter by \$ 4.9 billion (over 1%), from the second to the third quarter by \$ 5.5 billion (about 1.3%), whereas the rise from the third to the last quarter amounted to \$ 10 billion, or over 2.3%. Particularly, the amount for gross private investments rose rapidly. The slower progress in the first three quarters must be attributed inter alia to the motorcar production and sales, building construction and also to stockpiling. The index number of motorcar production (1947-1949 = 100) receded in the first halfyear continuously, and it was not until November and December that a strong recovery started "January: 171, March: 148, June: 120, September: 119, November: 148 and December 162). Building activity also continued to stall. Calculated on year basis the value of new constructions amounted in January 1956 to \$ 43,500 million, in November and December to \$ 44,386 million and \$ 44,748 million respectively. Finally, stockpiling calculated similarly on year basis, receded unabatedly, viz. from \$ 4.1. billion in the first quarter to \$ 3.5 billion in the second quarter, \$ 2 billion in the third quarter, to arrive at \$ 4 billion in the fourth quarter.

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	—
1951	120	3.1	115	111	185
1952	124	2.7	112	114	195
1953	134	2.6	110	114	193
1954	125	5.3	110	115	230
1955	139	4.2	111	115	305
1956 1st quarter	143	4.6	112	115	336
2nd quarter	142	4.1	114	116	348
3rd quarter	139	3.5	115	117	354
October	151	2.9	116	118	342
November	147	3.8	116	118	338
December	144	3.8	116	118	344
4th quarter	147	3.5	116	118	341

Source : Federal Reserve Bulletin

As the figures above illustrate, the motorcar industry and stockpiling advanced steeply from the third to the fourth quarter. It cannot be denied that a certain wavering in the American business cycle occurred during 1956 which was not overcome until the end of the year.

Partly this had to be attributed to an intentional slowing down of the development in view of inflationary tensions becoming increasingly manifest.

The favourable business cycle, continuing for years with only a mild recession in 1954, naturally brought about a considerable increase of purchasing power. Next, there was the important psychological factor of boom-optimism. Left alone, the urge would be for continuous expansion, far beyond the limit of savings. In fact, this has happened to some extent and therefore, the Government and the monetary authorities thought it their duty to introduce credit restricting measures in order to check in some measure the pressure towards unbridled expansion. The raising of the bankrate, open market policy, and other measures were designed in

order to temporize the development. For, the great danger of investments implemented at a too fast rate is that real production lags behind the purchasing power put into circulation, with the result that prices show a rising tendency. It is this price development that worries the authorities, because usually further price increases are created by way of increasing costs and/or wages. Thus two sources of inflation come into being: the creation of money and the rise of costs. Both appeared in the United States of America.

The tight money policy of the Federal Reserve System is aimed at combating the inflation brought about by the business cycle. In the financial monetary field enterprises covered their capital requirements by way of the issuing market after the internal means of financing, so to speak, were exhausted. This explains the firm tone on the stock exchange in New York. In addition to the issue of new shares, however, recourse had to be taken also to bank credit. In order to be able to meet the demand of business enterprise, banks liquidated part of their Treasury notes and bills by way of direct sales, or by letting Treasury paper expire. It is understandable that a vigilant government was perforced to act in a temporizing manner by restraining the creation of money. This partly explains why the growth of the American business cycle slowed down somewhat during 1956.

In each and every control of the business cycle the crucial problem is the psychological factor. Continuously hammering of the idea that prosperity is threatened with inflation, and therefore restrictions are necessary, may change the optimistic mood into a pessimistic one with all the gloomy consequences. To a certain extent the fall in quotations on the New York stock exchange in the first months of 1957 was related to this. The prevailing opinion was that the initial expectations regarding profits had been placed too high. This gave lead to sales, which fortunately did not bring about a disturbance of the market.

Beside the intentional disinflationary measures of the Government and some psychological influences, there was also a noticeable retention of demand. Such

was e.g. the case with the motorcar industry. Significant in this respect is the increase of savings from 6.1% of the disposable income in 1956 to 7.3% in 1957. Finally, there is still another circumstance which must be considered, viz. that every monetary policy is directed towards the aggregate demand, or in other words that all concerned receive equal treatment. This means that very likely restriction of credit is imposed in a certain sector where it would not have been necessary, or even where it is undesirable. In circles of the building industry in the United States of America voices become louder advocating a mitigation of credit restriction by way of raising the bankrate, because this adversely influences the yield of new constructions, and consequently new building itself.

As always and everywhere the difficulty is to discover the point at which inflation will not change into deflation. The American authorities are also facing this problem at present.

For the time being the opinion prevails that inflationary forces still need to be combated or anyhow checked. In his Report and also in his Budget Message President Eisenhower underlined this continuously. He called upon all sectors to reduce expenditure, by the Government, by consumers and by business enterprise. In view of the cost inflation he appealed to labour and enterprise for moderation, to the first in their wage claims and to the second with regard to investments and price increases.

As for the Government, the American budget for the fiscal year 1957/ 1958, if approved by Congress, will show a moderate surplus of \$ 1.8 billion. The budget provides the following overall picture (\$ million) :

	1955	1956	1957	1958
Net Revenue	60,390	68,165	70,628	73,620
Net Expenditure	64,570	66,540	68,900	71,807
	-----	-----	-----	-----
	-4,180	+1,626	+1,728	+1,813

The Government therefore states that for its part it does not contribute to inflation. Notwithstanding this fact, however, some anxiety is felt. Firstly, the level of the budget is substantially higher than in 1956/1957, viz. by about \$ 3 billion. The question arises what will happen if the estimated revenue does not materialize, for after all, tax revenue and other income depends on the business cycle. Should revenue turn out to be less than anticipated, there will be a deficit instead of a surplus. Furthermore, the high expenditure itself is viewed with anxiety. One wonders whether total expenditure of such magnitude, viz. \$ 71.8 billion, will not be inflationary, even if the budget is in balance.

TABLE 2 — BALANCE OF TRADE OF THE UNITED STATES (U.S. \$ million)			
	Exports	Imports	Surplus
1951	15,041	11,071	3,970
1952	15,206	10,785	4,421
1953	15,782	10,968	4,814
1954	15,110	10,295	4,815
1955	15,553	11,456	4,097
1956	18,995	12,690	6,305
1955 3rd quarter	3,764	2,812	952
4th quarter	4,128	3,104	1,024
1956 1st quarter	4,228	3,244	984
2nd quarter	4,917	3,156	1,761
3rd quarter	4,673	3,133	1,540
4th quarter	5,174	3,158	2,016

Source : International Financial Statistics

For the future of the American business cycle the budget policy is of great importance. If investments decline, the Government will have to face a choice between inflationary financing or unemployment. It looks as if in that case the Government will take recourse to all means to prevent and ultimately to combat a depression.

As matters appear at present, a depression seems rather unlikely, also in view of the obvious readiness on the part of the Government to intervene by making investments and by taking other measures of support. But beside this a provisional investigation regarding the investment plans of business enterprise has made it clear that in general

terms, no decrease will occur, albeit that the increase will be smaller. According to a provisional estimate investments on account of business enterprise made during the first quarter of 1957 and calculated on year bases, are about equal to the annual rate of 1956, viz. \$ 65.5 billion and \$ 65.4 billion respectively.

The development of the business cycle in 1957, judged from data available at present, seems to point in the direction whereby the factors of growth will be tempered, but will prove to be stronger still than the minus factors. Maintaining the business cycle on the present high level, without substantial growth, seems for the time being more likely than a turn. Naturally, this does not include any unforeseen influences which may arise from the political world situation. Furthermore, note must be made of the difficulties still prevailing in the agrarian sector of the American economy.

The United States of America can once again look back on a favourable year. The growth to a high G.N.P. hitherto unknown was contingent, however, on obvious symptoms of overspending, bringing about an inflationary effect which forced the Government to intervene. Moreover, demand for goods was not equally strong in all sectors.

The two-fold task of the American Government during the current year will be: a further control of inflationary forces, and simultaneously, careful observation of possible weak spots in the structure of demand. This implies that disinflationary measures will have to be applied with much discretion. The expectation is, that the business cycle in 1957 will stagnate to a certain degree on its high level.

Europe

Western Europe

After overcoming in 1953 the aftermath of the Korean crisis followed by the American recession of 1954, which passed practically unnoticed, the West Euro-

pean business cycle was able to acclaim further progress and growth in 1956. This was the fourth year in succession wherein economic development continued to expand.

The West European G.N.P. comprising figures of the O.E.E.C. member countries, amounted to \$ 221.7 billion according to provisional estimates and calculated on the basis of 1954 prices and exchange rates, against \$ 213.9 billion in 1955, \$ 201.7 billion in 1954 and \$ 192.3 billion in 1953 (the G.N.P. figures are based on market prices). Taking as a criterion the figure reached in 1956, economic activity has never been so brisk, even compared with the situation before the war, when in 1938 the G.N.P. calculated similarly on 1954 prices and exchange rates amounted to \$ 149.0 billion. Roughly speaking, it can be stated that Western Europe has surmounted definitely the economic consequences of World War II, and also that by now the period of reconversion and reconstruction has ended.

It would, however, be quite unrealistic to venture the opinion that the economic horizon in Western Europe is completely cloudless. In the first place, it is significant that the growth of the G.N.P. (expressed in prices of 1954) occurred at a slower pace. From 1953 to 1954 it rose by 4.9%, from 1954 to 1955 by 6%, whereas the increase from 1955 to 1956 was only 3.6%

The quarterly figures (seasonally adjusted) regarding industrial production illustrate the levelling-off of the growth of the West European business cycle :

1953 = 100	Year	I	II	III	IV
1953	100	97	99	101	103
1954	110	105	108	111	112
1955	120	117	118	121	122
1956	126 ¹⁾	123	128	126	126 ¹⁾

¹⁾ provisional

TABLE 3 — INDUSTRIAL PRODUCTION IN SOME EUROPEAN COUNTRIES (Index numbers : 1953 = 100)						
	1955	1956	1956			
			1st quarter	2nd quarter	3rd quarter	4th quarter
France	121	133	130	139	119	140
Western Germany	128	138	128	141	138	147
Italy	119	128	121	128	126	134
Netherlands	118	124	119	126	121	129
Belgium	116	123	120	127	116	126
Sweden	111	113	115	119	97	124
United Kingdom	113	113	116	114	105	116

Source : International Financial Statistics

In contrast to previous years when industrial activity increased from quarter to quarter, a levelling-off occurred in 1956 starting in the second quarter and although still maintaining itself on a level higher than ever before, industrial activity has practically come to a standstill. This demonstrates that the Suez canal crisis of the last months of 1956 could not have been the cause of the levelling-off of the West European business cycle because it already started long before. For the time being the shortage of oil supplies resulting from the closing of the Suez canal in November 1956, did not, or did not yet imply detrimental consequences for the development of the business cycle, at least not as far as 1956 was concerned. On aggregate Western Europe needs over 120 million metric tons of crude oil (1955), two-thirds of which goes via the Suez canal or through the pipelines of the Iraq Petroleum Company (I.P.C.). By the longer route via Cape of Good Hope and the destroying of the I.P.C. pipelines "member countries were, as a consequence, faced with the danger of a shortfall of crude oil supplies equivalent to around 40% of their total requirements of oil products for inland consumption and bunkers" (O.E.E.C. 8th Report).

The fact that, at any rate on short term, shortfall of crude oil did not seriously disorganize the economic machinery of Western Europe is due to a number of measures such as :

- 1) restrictions of use for not directly productive purposes;
- 2) higher imports from the United States of America; these imports amounted to 0.2 million tons per month (crude oil and oil products) just before the Suez canal crisis and reached a monthly figure of 2.5 million tons about January 1957; simultaneously, exports from Venezuela rose from 2 million tons per month to over 3 million tons;
- 3) co-operation between the West European countries within the O.E.E.C. frame which brought about a flexible distribution of the limited supplies;
- 4) the existence of stocks used for the maintenance of the economic apparatus.

Ultimately, about 80 % of the requirements for oil could be covered, whereby one has to take into consideration the fact that industrial activity started levelling-off as from the second quarter. The draining of the available oil stocks was such that in February 1957 the reserves fell back to about two weeks normal supply. Besides this, quite naturally, the balance of payments position deteriorated, in particular with regard to the dollar area whilst prices of oil and everything connected with it increased. Evenso, it was achieved on short term to maintain economic activity in its principal sectors, and in such a way that the figure of industrial production in the last quarter of 1956 in all probability will not be lower than in the second and third quarter. Apart from these measures, the exceptionally mild winter of 1956 was also a favourable factor.

On reading the above it should, however, not be taken for granted, that the Suez canal crisis had no further consequences. It was only on the short term that it did not seriously hamper economic activity.

If it is true that the closing of the Suez canal and of the I.P.C. pipelines had no or little influence on the development during the last quarter of 1956, then it is obvious that the other forces which brought about the levelling-off from the second quarter onward, must have had their origin elsewhere.

Firstly, an important seasonal influence must be mentioned. Whereas the winter of 1956/1957 could be called mild, the corresponding season of 1955/1956 formed its counterpart. The severe winter then affected agricultural production unfavourably and by way of difficulties in transport, industry also. The wheat crop 1956/1957 is estimated at 32,310,000 metric tons, against 38,172,000 metric tons in the preceding period. On the other hand, the barley crop fortunately was higher (1955/1956: 15,330,000 metric tons, 1956/1957: 19,590,000 metric tons), as a result of which the index number (pre-war = 100) of agricultural production was only slightly lower than before, viz. on estimate 130 for 1956/1957, against 131 for 1955/1956.

Leaving apart the climatological influences mentioned above which after all were of a incidental character, an explanation is still required concerning the stagnation of growth.

Informative are the figures collected by O.E.E.C. regarding the growth of G.N.P. on the one hand and national expenditure on the other hand. Thereby the G.N.P. is taken at constant prices, while national expenditure is expressed in current prices. Against the real growth of G.N.P. therefore, actual expenditure is put. The difference between both figures actually represents the inflationary or deflationary tension.

<i>Changes over preceding year</i>	<i>\$ billion</i>			<i>Percentage</i>		
	<i>1954</i>	<i>1955</i>	<i>1956</i>	<i>1954</i>	<i>1955</i>	<i>1956</i>
1. Aggregate monetary demand (national expenditure at current prices)	11.2	17.8	17.3	+6.0	+8.9	+7.5
2. Real output (G.N.P. at constant prices)	9.4	12.2	7.9			
3. Difference between 1 and 2	1.8	5.6	9.4			
4. Changes in net imports at current prices	— 0.7	0.3	0.4	+5.0	+6.0	+3.6
5. Average price increase	2.5	5.3	9.0	+1.3	+2.5	+4.0

The figures mentioned above reveal that the real growth of G.N.P. progressed at a slower pace than expenditure in the years concerned. In 1954 the discrepancy was only slight, in 1955 it was larger to show a further rise in 1956. In this way monetary demand exceeded the ready supply of goods, which at the expense of the monetary reserves was compensated to some extent by higher imports. Ultimately it followed as a matter of course, that the excessive monetary demand resulted in price increases. On the basis of the existing relationship between the volume of money and goods, the price level in 1954 did not increase to any extent, viz. by 1.3%; in 1955 the figure was 2.5% , but in 1956 : 4%.

It is evident that in 1956 there was over-expenditure in Western Europe, which was bound to lead to inflationary tensions. In the past year the West European business cycle apparently has reached a point whereby the still active demand could not be sufficiently satisfied by production plus imports. Obviously a state of full employment of the production factors was reached, with the result that the relative demand terminated merely in withdrawals from utilizations already made. This very clearly found its expression on the labour market. The unemployment figures in various West European countries scored lowtide records in 1956. Striking are the German figures revealing that in 1950 there were over 1.5 million unemployed; this number dropped to 1.2. million in 1953 and to 900,000 in 1955, while in 1956 there were about 750,000. A country with a still high unemployment figure is Italy, one of the few countries where full employment of the production factors has not been attained yet. In the United Kingdom the unemployment figure has increased slightly as compared with 1955, viz. 260,000 in 1956, against 243,000 in the preceding year.

Over-expenditure did not merely lead to inflationary tensions in the countries concerned, but also to distortions of the balance of payments. To begin with, mounting prices do not promote sales. Moreover, the excessive purchasing power discharges itself in two other ways on imports and exports. Firstly, it entails a greater propensity to import; secondly, it draws to itself part from the goods required for exports, with the result that the balance of payments comes under pressure by way of rising imports, as well as by diminishing exports. This course of events

was noticeable in the United Kingdom already in 1955, to be followed in 1956 by other countries among which France and the Netherlands; Germany remained the favourable exception.

Yet the overall result of the balance of payments of Western Europe (current transactions) still indicates a surplus, although it is evident that a deterioration has set in. In 1953 the surplus amounted to \$ 1.2. billion, in 1954 to \$ 1.7 billion, in 1955 to \$ 1.5 billion, while the balance for the first halfyear of 1956 showed a figure of \$ 150 million only. Consequently, gold and dollar reserves of various countries witnessed a decline. At the end of 1955 the reserves of France totalled nearly \$ 1.9 billion, whereas a year later the estimate was \$ 1.2 billion. The position of the Netherlands dropped also, to wit, from \$ 1 billion to \$ 0.9 billion. The British reserves decreased, after recovery in the first halfyear of 1955, viz. from about \$ 2.4 billion at the end of June 1956 to \$ 2.1 billion at the end of 1956. The German balance of payments continued to develop favourably, resulting in gold and dollar holdings totalling about \$ 3.2 5 billion per end-December 1956, against \$ 2.75 billion at the end of June of the same year and \$ 2.37 billion per end-1955.

Over-expenditure would have been even heavier if the governments concerned, warned by price increases and balance of payments results, had not taken measures. Telling proof in this respect was the action of the British Government, who in view of the large monetary demand already took steps towards control in 1955, continuing this in 1956. The measures aimed at restricting money supply by monetary regulations such as the raising of the bankrate, open market policy, the appeal to banks to restraint credits, in particular with regard to consumer credits which were also curtailed by requiring greater margins in cash. Finally, the fiscal weapon as well as the budget were also wielded wherever possible. Other countries followed suit. Over expenditure had to be checked on penalty of further price increases and balance of payments deficits or decreases of surpluses and therefore, of a disturbance of the economic process.

That the measures taken were not completely effective, was proved by the course of events mentioned above which continues to point to a discrepancy between

growth of real production on the one hand and of monetary demand on the other hand. A closer analysis of national expenditure shows that private expenditure continued to increase, albeit to a smaller extent than in 1955, viz. by 3.9% in 1956, against 5.7% in the preceding year. The same cannot be said concerning government expenditure, which increased in the absolute as well as in the relative sense in 1956, viz. from \$ 30.2 billion in 1955 to \$ 31.3 billion, representing a rise in percentage of 0.4% in 1955 against 3.5% in 1956. For a substantial part this has been caused by French war expenditure relating to North Africa. Investments too—one may add, fortunately— continued to increase, viz. from \$ 39.5 billion to \$ 41.8 billion, which means an advance by 6.4% against 11% in 1955. Expenditure for stockpiling decreased also; the change in 1955 amounted to \$ 3.2 billion, in 1956: \$ 2.9 billion.

The inadequacy of the measures taken by governments was brought about by various circumstances. Firstly, one has to bear in mind that the continuously favourable business cycle uninterrupted since 1953 —also in 1956— is by itself a source of ever-increasing purchasing power. This is similar to an augmentation of the factor M in the known equation of Fisher, whilst also the velocity of circulation (V) has apparently started to move. Obviously, favourable expectations of business enterprise (and of consumers) play a part in the demand for credit from money-creating institutions. The restrictions desired by the governments in various countries were aimed at diminishing the money supply. They had to begin with themselves, by restricting government expenditure. It is known that this has not always been successful, as for instance in France. Often credit restricting measures were crossed by various factors. In the United Kingdom an animated discussion took place on the efficiency of the bankrate weapon. It would lead too far to go deeper into this matter at this stage, but it was pointed out that the raising of the bankrate has not 'the same effect now as in the years when the supply of bills of exchange was plentiful. At present the financing of money requirements of the Treasury by way of issuing Treasury notes and bills, provides new supply to the money market, as governments do not refrain from borrowing, even when the rate of interest is high. To this the factor of high taxes must be added by which the cost of interest are partly shifted to the government.

Finally, the aim of the government to contract the money supply is hindered and crossed by continuous claims for wage increases, which bring about the well known cost inflation.

For all the reasons mentioned above the governments did not succeed in pushing back effectively over-expenditure in the various sectors of economic life. The only, and by itself important result was that over-expenditure did not assume larger proportions.

Thus the year 1956 ended with a business cycle still developing on a very high level, but with tensions contingent upon it, emanating from the state of full employment of the production factors on the one hand and over-expenditure on the other hand. For the present no slackness can be noticed, but production does not expand quickly enough to suffice demand. There is an inflationary situation which, beside the items money supply and velocity of circulation, is strengthened by wage increases.

In view of a strong demand it is to be expected that economic activity during 1957 will develop further on a high level. It is obvious that disinflationary measures must be continued, because otherwise the business cycle may be ruined through inflation. When taking these measures the governments in the various countries are faced with a difficult task, because disinflation should not go so far as to give rise to a deflationary situation which in turn may reverse the business cycle. The point in question is the dilemma of investments, which on the long term are necessary for the further growth of the economy, but on the short term have to be restricted temporarily such in view of inflationary tensions. In the United Kingdom where measures were already taken in 1955, restriction of expenditure has lead in some cases to unemployment, as is illustrated by the slightly increased unemployment figure of 1956. It is significant that in the new budget for the year 1957 some moderate tax decreases are taken into account which point to a relaxation in expenditure restrictions. The bankrate was also lowered slightly.

Fundamentally, the task of the various governments in Western Europe is focussed on the promotion of economic growth, while maintaining the monetary equilibrium, which presumes a situation free of inflation as well as of deflation.

During 1957 the impact of the Suez-canal crisis will be really felt. The oil stocks partly used must be replenished, which will impose a pressure on the balance of payments, particularly in regard to the dollar area. Moreover, price increases of oil and some other commodities must be taken into account. A new political crisis may unfavourably influence the business cycle in 1957, which notwithstanding all existing difficulties will otherwise, in all eventuality be on a high level.

At the conclusion of this survey on West European economy mention must be made of the fact that in Rome on March 25th, 1957, two treaties were initialled by the Ministers of Foreign Affairs of the countries of the Coal and Steel Community, namely the Benelux, Germany, France and Italy, viz. one treaty on the common efforts in the field of atomic energy (Euratom), and a second aiming at the establishing of a Common Market which will mutually abolish tariff walls and which will introduce one common tariff with regard to third countries (Euromarket). For the establishment of the Euromarket a period of 12 to 15 years is intended. At the insistence of France the so-called overseas territories are included. Between the countries of the Common Market and the other O.E.E.C.-countries the establishment of a free trade area is under study. The treaties are still to be ratified by the parliaments concerned. Moreover, the G.A.T.T. also will have to express its opinion regarding the proposed outside tariff. The countries of the Common Market themselves expect a substantial improvement in their economic situation in the future, but on the other side, it must be observed that the countries outside the Common Market in general raise objections against the outside tariff, especially when the overseas territories are to be included in the Common Market and therefore will enjoy a preferential position.

Eastern Europe

After a short period (1954) of some relaxation with regard to the investments in heavy industry the old path was trodden again in 1955. The year 1956 was entirely in the sign of the tried pattern, albeit that advantage was taken from experiences in the past, so that e.g. agriculture received more attention. Overconcentration on industrialization without adequate development of the agricultural sector brought some disadvantages to the fore which may be avoided in the future. A country such as the Soviet Union is so large, also from a point of view of population, i.e. qua labour and market potentials, that it is in a position to build up a closed economy, little dependent from abroad.

The year 1956 is the first year of the new five-year plan. According to figures published in the Economic Bulletin for Europe, Vol. 8—no 3, planned gross fixed investment exceeds actual results achieved during 1955. The percentage increase over actual investment in the corresponding period of the previous year is revealed in the tabulation given below.

	1955 (<i>actual</i>)	1956 (<i>plan</i>)	1956 (<i>actual</i>)
Soviet Union	6	15	10 ²⁾
Bulgaria	21	—12	not fulfilled
Czechoslovakia	1	21	13 (9 months)
Eastern Germany	12	40	27 („)
Hungary	— 5	22 ¹⁾	17 („)
Poland	3	8	not fulfilled
Rumania	11	21	not fulfilled
Albania	35	7 ²⁾	7

¹⁾ including agricultural investments

²⁾ first halfyear

The figures above show that planned total investment surpassed that of the preceding year, with the exception of Bulgaria. Relaxation was allowed in that country for the reason that there was none during 1954, as was the case in the other countries.

On the strength of achievements in 1956 it can be stated that as compared with 1955 appreciable progress was made, the Soviet Union taking first place, which country in all probability will fulfill the target set by planning. The same cannot be said of the other East European countries, in particular Czechoslovakia and Eastern Germany, as well as Poland and Rumania.

Some of the bottlenecks in the implementation of the plans with regard to 1956—beside bureaucracy from which these countries are suffering more and more, and for which a solution is now being sought—were the shortage of construction material (e.g. cement), the oil and energy problem (solid fuel) and finally, the labour factor.

Regarding the labour factor, it is rather curious that in some of the countries such as Eastern Germany and Czechoslovakia there seems to be over-employment, while in others such as Poland, Bulgaria and Hungary the contrary is the case. This is complicated by the known problem of urbanization, which entails dangers for agriculture, and also by the paramount difficulty—existing outside Eastern Europe as well—of increasing the number of miners. Efforts to overcome the labour shortage wherever apparent, are made by recruiting women labour and by deferring the pensionable age. Diametrically opposed measures were directed in Poland to combat under-employment. Important in connection with the labour problem are the attempts made to overhaul completely the wage system. The leading thought is to change the ratio between basic wages and total earnings in favour of the former, further to remunerate skilled labour better, in order to bring larger incentives to workers. Characteristic in this respect is the fact that improvements in the wage level sometimes bring about inflationary effects. An example of this is Poland, where the allocation of 5 billion zlotys for additional wage expenses and 300 million zlotys for pensions had to be raised twice till the level touched 9.3 billion zlotys and 890 million zlotys respectively.

Taking the difficulties mentioned into consideration it can be stated that industrial development, particularly in the Soviet Union, Eastern Germany and

Czechoslovakia made important progress, although the planned targets outside the Soviet Union were not always fulfilled.

In the sector of consumer industries restrictions were imposed intentionally after 1954 and partly also after 1955 in favour of the heavy industry.

Concerning agriculture, in some countries the grain crop was very good especially in the Soviet Union and Czechoslovakia. In the Soviet Union results in the other agrarian sectors were satisfactory also. To this course of events, as for the Soviet Union, the good crop in the newly reclaimed areas of Kazakhstan and Siberia contributed largely.

In the agricultural sector the Soviet Union is working out further plans and projects. Part of the wheat area in Georgia will be converted into a production area of wine, tea and subtropical fruits. In Uzbekistan and South Kazakhstan about 300,000 hectares of land are under preparation for growing cotton.

Similarly, cattle breeding makes progress in the Soviet Union and Czechoslovakia; milk production in the first named country improved considerably. Sales by collective farms increased by 38%. This result is said to be achieved by deliberately restricting the number of cattle according to fodder available so that undernourishment could be avoided.

Less favourable and at times definitely unfavourable were agricultural results in other East European countries, among which Hungary drew attention by bad crops of wheat, maize and sugar beet. Neither was the situation in Bulgaria satisfactory. Wheat, maize and cotton crops were disappointing.

Collectivization remains the target and was even expanded in some countries, but nevertheless many mitigations were introduced such as better allocation of means of production. It is expected that this will yield higher results.

In the same manner as important targets were set for industry, large volumes of trade were planned in 1956. In Hungary, mainly as a result of the export drive, trade turnover should have increased by 6%, in Eastern Germany by 15•% and in Bulgaria by 25•%, while for Czechoslovakia the figure was set at 20%. During the first halfyear of 1956 the results were rather satisfactory also because of a better allocation of raw materials to the export industries. In the second halfyear however, leaving alone the events in Poland and Hungary, results were not so satisfactory due to bad crops in Bulgaria, Rumania and Hungary and the lagging behind of coal production in Poland. It is obvious that the events in Poland and Hungary in the last quarter influenced trade movements adversely.

As to the direction of trade, inter-East European traffic increased in a relative sense less than trade with the West. The first increase amounted to a few per cent; the increase of trade of countries such as Eastern Germany, Poland and Bulgaria with the Western countries amounted to less than 24%, 39%, and 76•% respectively. With regions outside Europe efforts are made to improve trade relations inter alia by granting credits (Soviet Union, Czechoslovakia). If at some time credits will be used more in inter-East European trade, this will influence the volume favourably.

When reviewing economic development in Eastern Europe in the past year, it can be stated that the Soviet Union continues to make progress in the industrial field and also in the agricultural sector. In other countries the business cycle took a less favourable course. Bottlenecks appeared regarding labour supply, materials and organization. Moreover, the phenomenon of cost inflation became visible. One part of the economy receives little care, viz. the consumer industries. The events in Poland and Hungary, apart from other causes, undoubtedly had an economic background. It is obvious that the economy of both countries was affected adversely, as was the case also with their neighbour countries, in so far as the production of the latter was dependent on purchases from Poland and Hungary. Not before 1957 and after will it be possible to assess the full impact of the events in both countries on the economic developments in Eastern Europe.

Asia

General

Economic conditions continued to be favourable in most Asian countries during 1956. Generally speaking, industrial production was higher than in the preceding year while further progress was made regarding the implementation of development plans.

The overall output of crop year 1955/1956 surpassed previous records, although it should be kept in mind that increases in food production occurred mainly in Ceylon, the Chinese People's Republic, Taiwan and Japan; in India, Pakistan and Indonesia for example there were smaller crops caused inter alia by unfavourable weather conditions.

In order to assure an adequate food supply, in many development plans the emphasis lies on agriculture, while a major accent is laid also on the development of basic sectors as transport, irrigation and power. The problem of reducing unemployment is another item of consideration in some plans, particularly in those of India, Ceylon, the Philippines and Japan.

Meanwhile, mention must be made that in view of governments being more actively engaged in promoting economic development, inflationary tendencies gained in force in many countries. This is due mainly to the continuous growth of expenditure while on the other hand tax revenue and borrowing from the public tend to increase to a small extent only. As a matter of fact the increased expenditure involved deficit financing on a rather significant scale, resulting in a rise of the total effective demand. As in some countries bank credits to the private sector also showed a fairly rapid expansion, this brought about extra pressure. Although the inflationary effect was neutralized to some extent by eating into the foreign exchange reserves—thanks to foreign aid made available to a number of countries, balance of payments difficulties could be kept within reasonable limits—the increasing demand outweighed generally speaking the higher output, so that prices

TABLE 4 — OFFICIAL GOLD AND FOREIGN EXCHANGE HOLDINGS OF SOME ASIAN COUNTRIES (U.S. \$ million)							
	1953	1954	1955	1956			
				1st quarter	2nd quarter	3rd quarter	4th quarter
Indonesia	212	248	307	265	191	226	249 ¹⁾
Burma	211	124	92	115	113	128	121
Ceylon	114	169	204	213	222	221	221
India	1,765	1,782	1,791	1,814	1,700	1,539	1,374 ¹⁾
Japan	895	1,022	1,338	1,433	1,458	1,470	1,507
Pakistan	296	328	370	385	390	374	373
Philippines	240	207	155	152	166	169	161
Thailand	302	273	298	309	308	308	311
¹⁾ November							

Source : International Financial Statistics

moved in an upward direction. Price increases of imported goods caused inter alia by the inflationary trend in the industrialized countries in Western Europe and North America, contributed to this course of affairs.

While prices showed an appreciable rise—particularly in countries where crops were unfavourable, food prices increased sharply—money supply in contrast to the previous year rose at a relatively slower rate. As already mentioned, this was due mainly to the drawing on foreign balances in view of imports rising faster than exports.

The fact that gold and foreign exchange reserves of most countries could increase slightly or remain on the same level—with the exceptions of India and Indonesia where reserves dropped in no small measure—has to be seen in the light of the considerable volume of foreign assistance made available, not only for the implementation of development projects, but also in the form of foodstuffs and other surplus agricultural commodities.

Table 5 reveals that in general deficits on the balance of trade increased in 1956 as compared with 1955. Especially India who imported on a large scale capital goods for the development of its industry and Japan which country owing to accelerated raw materials requirements had a heavy import surplus, experienced

TABLE 5 — BALANCES OF TRADE OF SOME ASIAN COUNTRIES
(U.S. \$ million)

	1938			1953			1954			1955			1956		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
Indonesia	381	275	+ 106	840	765	+ 75	867	629	+ 238	932	604	+ 328	883	830	+ 53
Burma	181	79	+ 102	238	178	+ 60	251	204	+ 47	227	180	+ 47	240	197	+ 43
Ceylon	104	86	+ 18	329	338	+ 9	380	293	+ 87	407	307	+ 100	364	342	+ ' 22
Hong Kong	185	188	— 3	480	678	— 198	424	601	— 177	444	651	— 207	563	799	— 236
India	—	—	—	1,116	1,197	+ 81	1,182	1,297	— 115	1,276	1,413	— 137	1,269	1,711	— 442
Japan	767	759	+ 8	1,275	2,410	— 1,135	1,629	2,399	— 770	2,011	2,471	— 460	2,501	3,230	— 729
Malaya and Singapore	327	315	+ 12	987	1,058	— 71	1,016	1,026	+ 10	1,358	1,249	+ 109	1,361	1,357	+ 4
Pakistan	—	—	—	439	368	+ 71	359	348	+ 11	401	290	+ 111	339	351	— 12
Philippines	117	153	— 36	404	534	— 130	396	545	— 149	389	641	— 252	451	598	— 147
Thailand	89	57	+ 32	323	330	— 7	283	312	— 29	335	334	+ 1	335	362	— 27

Exports : f.o.b. ; imports : c.i.f.

Source : International Financial Statistics

substantial set-backs in their balance of trade. In the Philippines restrictive import measures and an increase in export volume brought about a reduction of the deficit on the trade balance of 40%.

TABLE 6 — EXPORTS OF ASIAN COUNTRIES (U.S. \$ billion)						
	1951	1952	1953	1954	1955	1956
a. Total world exports ¹⁾	76.5	73.7	74.7	77.5	84.1	93.1
b. Asian countries ²⁾	8.3	6.2	5.5	5.5	6.2	6.2
c. b in % of a	10.8%	8.4%	7.4%	7.1%	7.4%	6.7%
¹⁾ exclusive of China, USSR and some East-European countries ²⁾ Burma, Cambodia, Laos, Vietnam, Ceylon, Hong Kong, India, Indonesia, Malaya, Singapore, North-Borneo, Philippines, Pakistan, Siam, Taiwan and Thailand						

Source : International Financial Statistics

In order to improve their balance of trade position most Asian countries introduced export promotion measures, to wit, reductions in export duties, granting of export premiums, liberalization of export licences and quotas, establishing of export promotion councils, conclusion of barter or bilateral agreements etc. On the other hand imports, especially of non-essential consumer goods were restricted; only the inflow of capital goods and raw materials necessary for development projects was encouraged, while imports of essential consumer goods were generally allowed, such to ensure an adequate supply.

Aggregate exports of the Asian countries in 1956 were about similar to those in the preceding year totalling U.S. \$ 8,200 million. The proportional share of Asia in world exports, however, dropped from 7.4,% to 6.7% in 1956. About 30,% of the trade is within the Asian sphere, while the rest of the trade is largely with north-western European countries and the United States of America.

As to the production of primary export products it can be stated that production of rubber—one of the most important export commodities— was about 2% lower than in 1955, particularly due to a drop of production in Indonesia and South Vietnam. In view of this, exports also witnessed a decrease. Production of cotton

declined mainly in India because of heavy floods. As consumption showed an increasing tendency, exports were less than in the previous year. The overall production of tea, copra, coconut oil, sugar and raw jute was slightly higher, having a favourable influence on exports of these commodities.

The terms of trade for most countries depreciated as a consequence of falling export prices (i.a. the price of rubber) and a rising trend of import prices.

Movements in cost of living indexes can be seen from table 7.

TABLE 7 — COST OF LIVING INDEX OF SOME ASIAN COUNTRIES ¹⁾ (1953 = 100)							
	Burma	Ceylon	India	Japan	Pakistan	Philippines	Thailand
1951	109	99	99	89	88	111	82
1952	104	98	97	93	90	103	90
1953	100	100	100	100	100	100	100
1954	95	99	95	105	98	99	99
1955	97	99	90	104	94	98	105
1956 1st quarter	102	98	93	104	96	98	109
2nd quarter	117	99	98	106	96	100	110
3rd quarter	116	98	102	104	99	102	112
4th quarter	114	99	103	106	99	103	114
¹⁾ Average figures							

Source : International Financial Statistics

In practically all Asian countries cost of living showed a moderate tendency to rise, except in Ceylon. It has to be borne in mind, however, that one of the main reasons that the index numbers did not rise further was the considerable of foreign aid.

Various countries received loans from the Worldbank and the Eximbank, while under the Colombo Plan and the International Cooperation Administration economic and technical assistance was rendered. United States assistance in the form of imports of surplus agricultural commodities—the sales of these commodities are for local currency — became increasingly important in the year under review. To some countries Japanese war reparation payments mainly in goods and services, also brought some relief with regard to the balance of payments

position. Moreover, Russia entered the field by offering long term credits for specific development projects, inter alia to India and Indonesia. Meanwhile, the establishment can be reported of the International Finance Corporation, an organization which may bring some prospects for private foreign investment in Asian countries. Although several of these countries already have regulations to attract foreign capital, so far private foreign investment is negligible.

Table 8 reveals that money supply increased in all Asian countries during 1956. A comparison with the previous year indicates, however, that with the exception of Japan, the rise was moderate.

TABLE 8 — MONEY SUPPLY IN SOME ASIAN COUNTRIES (end of month figures in billions)								
	Indo- nesia	Burma	Ceylon	India	Japan	Pakistan	Philip- pines	Thailand
	Rupiah	Kyat	Rupee	Rupee	Yen	Rupee	Peso	Baht
1951 December	5.03	0.61	1.01	18.01	1,048.—	3.76	1.16	4.91
1952 December	6.60	0.63	0.90	17.13	1,265.—	3.23	1.20	4.93
1953 December	7.49	0.78	0.83	17.09	1,439.—	3.58	1.22	5.44
1954 December	10.96	0.86	0.96	18.32	1,463.—	3.86	1.23	6.06
1955 March	11.48	1.03	0.95	19.21	1,285.—	3.93	1.22	6.49
June	12.55	1.04	0.92	19.77	1,369.—	3.98	1.21	6.62
September	12.57	1.12	1.01	19.54	1,327.—	4.12	1.23	7.18
December	12.78	1.12	1.07	20.47	1,698.—	4.54	1.34	6.92
1956 March	11.80	1.39	1.05	21.84	1,547.—	4.73	1.38	7.01
June	11.76	1.37	1.06	21.89	1,642.—	4.67	1.42	...
September	12.41	1.34	1.06	21.09	1,711.—	4.56	1.45	...
December	13.89	1.31 ¹⁾	1.13	21.78	2,022.—	4.93	1.48 ¹⁾	...
Percent increase 1956	8.7	16.9	5.6	6.4	19.1	8.6	10.4	...
¹⁾ November								

Source : International Financial Statistics

In the following paragraphs a survey is given of the most important facts regarding development in the respective Asian countries during 1956.

Pakistan

The devaluation of the rupee as from August 1st, 1955, has shown favourable results especially in the remaining months of the year and in the first semester of

1956. This was particularly notable with regard to exports. In the first halfyear of 1956 the value of exports reached an amount of Rs 958 million being Rs 278 million higher than in the corresponding period of 1955. In the second halfyear however, the results were considerably less favourable, viz. Rs 682 million as compared with Rs 826 million in the same period of the previous year. Floods and transport difficulties were partly responsible for this downward trend. Especially exports of jute products have been stimulated to a considerable extent by the devaluation of the rupee, this in connection with the fact that Pakistan was placed in a better position to compete with India on the worldmarket. Consequently the Pakistan jute factories could operate again at full capacity.

Imports showed a less favourable development. Owing to the existing agricultural methods, which cannot possibly achieve such an increase of production as is needed by a rapidly growing population, Pakistan has become more and more dependent upon imports of foodgrains. This state of affairs is contrary to former years when surpluses were available for exports to foreign markets. The average yield per acre in Pakistan is one of the lowest in the world. In the year under review the unfavourable circumstance of serious floods which partly destroyed the crops came on top of this. It stands to reason, therefore, that imports in 1956 reached a considerably higher level than in the preceding year. In 1955 the total value of imports amounted to Rs 1,185 million as compared with Rs 1,598 million in 1956.

The fact that the gold and foreign exchange reserves eventually showed practically no change—in the previous year an increase of 13 % was registered — is due to a large extent to the American aid regarding imports of foodgrains.

Cost of living rose by about 4% while the money supply underwent an increase of 8%. The expansion of net Government's borrowing from banks contributed to this to a considerable extent, while credits to the private sphere showed an increase as well.

The five-year plan which was published in 1956 aims at developing the whole country equally. Most emphasis is being laid, however, on the boosting of

production, whereas for the time being less attention will be paid with regard to the development in the social sector, viz. education and hygiene. The results of the increase of the real product to be achieved first, will be used in due time to improve the standard of living. Total costs of the plan are estimated at \$ 2,436 million. Of this amount \$ 1,680 million will be spent in the public sector, i.e. 33 % on irrigation and soil improvement, 27 % on industry and power plants, 20% on transport and communication and another 20% on health, education and housing. It is expected that the total amount of expenditures viz. \$ 2,436 million can be financed as follows: \$ 1,554 million by Government and private savings, \$ 84 million by foreign investments and \$ 798 million by foreign loans and foreign aid. As to the raising of domestic savings the Government is confronted with great problems. Therefore it has to be taken into account that deficit financing will turn out to be unavoidable. Care will be taken, however, that this inflationary way of financing will be kept within narrow limits.

India

After a period of five years in which India enjoyed a favourable economic development, the year 1956 showed a turning point. On the whole it may be stated that the targets with regard to the first five year plan expiring at the end of March 1956, have been satisfactorily fulfilled. The financing of the implemented projects, which in the first place were aimed at the agrarian development of the country, did not lead to inflation in those years. Gold and foreign exchange reserves after an initial decrease in 1951 showed a practically constant level, while the cost of living too remained fairly stable with a declining tendency in 1954 and 1955. Wholesale prices showed an identical picture.

In 1956, however, an alarming change took place. Gold and foreign exchange holdings of the Reserve Bank of India which at the end of 1955 still stood at \$ 1,791 million and which in the course of the first quarter of 1956 could even rise to \$ 1,814 million, witnessed a sharp decline after this period. Eventually the gold and foreign exchange reserves appeared to have dropped by no less than 24% during the months of March through December 1956. The cost of living underwent

a rise of 10%, while the index number of wholesale prices showed an increase of 17% in the year under review.

The implementation of the second five-year plan aiming in the first place at the industrial reconstruction of the country started in April 1956.

The projected financing of the plan based on 1955/1956 prices is revealed by the following figures (Rs billion) :

loans from the domestic capital market	12
surplus on the current account of the budget	8
non-budgetary means	4
loans from the Central Bank	12
foreign aid	8
deficit possibly to be covered with foreign aid	4

total	48

From the above the conclusion may be drawn that 25% of the required means have to be obtained by deficit financing, which no doubt will cause a considerable expansion of the money supply. In this connection it may be stated that the volume of money increased during the year under review by 12%, notwithstanding the substantial depletion of the gold and foreign exchange reserves. It goes without saying that the implementation of the five year plan has also had an influence on the severe decline of the foreign exchange reserves. Apart from large quantities of capital goods from abroad, imports of consumer goods too showed an increase, this in consequence of the fact that the production, although showing an appreciable improvement lagged behind the money expansion, so that the increased purchasing power sought an outlet abroad. Finally attention has to be drawn to the deterioration of the terms of trade which especially took place in the first halfyear.

In order to cope with the unfavourable situation a supplementary budget was submitted by the Government at the end of November last in which drastic measures

were proposed to the effect to impose higher levies on capital increases and on dividends and further to raise the import duties on a number of luxury goods. At the same time measures have been taken to restrict imports by reducing the import quota of a considerable number of merchandise. It is expected that the result will be a reduction in the foreign exchange payments on imports by Rs 300 million during the first halfyear of 1957.

In 1956 the World Bank granted to India two loans of \$ 75 million and \$ 20 million respectively. Both loans are designed for financing the steel industry. So far India has received from the World Bank loans totalling \$ 234.7 million. A large part of these loans has, however, not yet been spent so far. With regard to the sale of agricultural surplus commodities by the United states it can be reported that with India too an agreement has been concluded. The total value of the goods concerned amounts to \$ 360.1 million (inclusive of part of the transportation expenses). Half of the goods is to be delivered in 1957 and 1958, the remainder in 1959, payments will be effected in rupees. Of the total purchase amount \$ 54 million will be considered as a grant and \$ 234 million as a loan for a period of 40 years. A part, viz. \$ 55 million, of this Rupees-loan is to be used for the financing of private industries, while an amount of \$ 82.1 million remains at the disposal of the United States, this for the payment of expenses in India and for the purchase of Indian goods.

Ceylon

In contrast to the years 1954 and 1955 the development of Ceylon's foreign trade has not been favourable in 1956. The value of exports decreased in the year under review by \$ 43 million to \$ 364 million, while imports, totalling \$ 307 million in 1955, rose by \$ 36 million. This development has to be attributed to a considerable extent to the deterioration of the terms of trade. On the one hand export prices suffered a setback of 10 % while on the other hand import prices showed an increase of about 5%. The large surplus, on a cash basis, as shown on the balance on goods and services, amounting to Rs 349 million and Rs 384 million

in the years 1954 and 1955 respectively, appeared to have practically vanished. The gold and foreign exchange reserves which in the preceding years showed such a considerable rise, increased all in all by only \$ 17 million to \$ 221 million as at the end of December last. This increase took place in the first halfyear.

Over the year as a whole the money supply rose by about 4%. This rather moderate increase indicates a reasonable monetary stability. Amongst other things it found expression in the level of the cost of living, which remained almost stable. This was, however, partly due to a decrease of import duties on consumer goods and subsidies on foodstuffs such as sugar and rice.

The coming into office of the new cabinet in 1956 resulted in a reconsideration of the economic policy of the Government. The six years program of the preceding Government will be replaced by a national plan, which includes the private sector as well. The new industrial policy concedes a larger place to the initiative of the Government. In consequence of this a number of projects for which it has first been tried to interest private individuals, will now be dealt with by the Government.

Besides the assistance under the Colombo plan, Ceylon has received for the first time this year American aid to an amount of \$ 5 million. In this connection it may be mentioned that in view of deliveries to the Chinese People's Republic of strategical goods falling under the embargo, so far Ceylon has not been eligible for American economic aid. The somewhat suppler attitude of the United States Government implies for Ceylon a welcome new source for obtaining foreign exchange. In the meantime an additional amount of \$ 7 million already has been authorised for 1957 such in behalf of economic and social development schemes.

B u r m a

Increased receipts attributable for the larger part to exports of rice on the one hand, and the restrictive import policy implemented by the Government as from 1955 onward on the other hand, did not fail to influence the balance of payments

favourably. Within the period January through September 1956 total gold and foreign exchange reserves increased by around U.S. \$ 39 million to \$ 155.5 million, as against a fall of \$ 26 million in the preceding year

Rice contracts recently concluded with various countries justify the expectation that exports of rice will show a further rise over the next few years to come. With India, inter alia, a new agreement was concluded providing for the sale of 2 million tons of rice in the years 1956/1960. The previous agreement covered the sale of 900,000 tons only for a five-year period.

Also in consequence of the above mentioned developments the money supply increased by kyats 190 million or nearly 17% since the end of 1955. Cost of living after an initial slight fall in the first half-year, subsequently showed a further upward trend, although the rise did not exceed an average of 12 %.

At the beginning of September last the Government introduced the budget 1956/1957 in which ordinary expenditure and capital expenditure were estimated by 14% and 36% higher as compared with the preceding budget-year. This increase is due to higher expenditure in the security and social sector while with regard to the capital account arrears of previous years have to be caught up and measures have to be taken to raise production particularly of agriculture, forestry and mining. Notwithstanding revenue is estimated higher also, based inter alia on expected higher custom receipts and tax receipts, the cash deficit still will be in the range of K 700 million or about 90% of the deficit of the preceding budget-year. It leaves little doubt that this will influence price trends unfavourably, especially so because for the time being foreign exchange reserves do not permit imports to be increased to such an extent that deflationary counter-forces can be generated adequately to make headway against the upward price tendency.

In order to check inflation at least to some extent, an agreement was concluded with the United States of America in February 1956 regarding the purchase of agricultural surplus commodities to the amount of U.S. \$ 21 million, to be refunded in kyats. In the meantime negotiations are under way on the utilisation of 80% of

this amount, which will be appropriated to Burma in the form of a loan. In May 1956 the World Bank granted two loans to a total amount of U.S. \$ 19.4 million.

Furthermore, is expected that within the near future an agreement will be concluded with the Exim-bank on a loan of U.S. \$ 25 million to be utilised mainly for economic development projects.

Finally, it deserves note that Japan has entered into an obligation to pay yearly to Burma in the frame of war reparations an amount of U.S. \$ 25 million in money, goods and services as from April 1955. Total war reparation payments will amount to U.S. \$ 250 million.

Next to providing for foreign capital by way of loans, the Government strives to improve the climate for foreign private investments in order to step up the economic development of the country in this way also.

Thailand

The principal products of Thailand are rice, rubber, timber and fish. The rice crop of 1955/1956 amounted to 7.4 million tons. Favoured by good weather conditions and also by improvements of the irrigation system, the 1956/1957 crop is estimated to exceed the previous one. It is expected therefore that Thailand will be in a position to export more rice in 1957. Production of rubber reached a peak by 133,000 tons in 1956, against an average year production of 42,000 tons before the war. For the purpose of safeguarding the continuity of rubber production in the future, the Government has established a fund for the financing of new plantings to an extent of 80,000 hectares which represents one-quarter of the total acreage planted with rubber. To provide the money for this fund an extra duty on exports of rubber will be levied in 1957. Output of timber fell in 1956 as compared with the production of 306,000 cubic meters in 1955. Fish production is estimated at 200,000 tons per year. In order to enlarge the capacity for preserving fish, the I.C.A. has assisted among other things in building a fish-cannery, as well as a

laboratory for the cold-storage of fish. Moreover, in addition to these projects a fish-oil factory will be constructed.

It can be reported that with regard to the industrial sector progress has been made. New factories such as cement factories, sugar mills, gunny mills and cotton mills were under construction or put into operation.

During the first four-year development plan (1952/1955) an amount of 800 million baht was spent on the extension and improvement of the road system. For the second plan period an amount of 3,000 million baht will be allocated for further extension and improvement of the road system. About 50% of this total will come from American aid. According to the second development plan, besides extension and improvement of the road system, an amount of 1,300 million baht will be allocated for purchasing rails, railroad equipment and railway carriages, and also for building and bridge construction. The expenditure involved will be financed from railway profits and a loan from the World Bank. Next to a loan for transport purposes, the World Bank in October 1956 granted a loan of U.S. \$ 3.4 million for the purchase of dredgers and other equipment for the improvement of the harbour of Bangkok, so that this harbour will be able to accommodate large ocean going vessels. With I.C.A. aid Thailand has improved its airfields and ordered three Constellation airplanes from the U.S.A. due for delivery in 1957.

The balance of trade indicates that during the first nine months of 1956 Thailand had a deficit to the amount of U.S. \$ 34 million, against a surplus of U.S. \$ 11 million in the corresponding period of the preceding year. This deterioration was due to a fall in exports of rice by about 21%, namely from 2,592 million baht during the first nine months of 1955 to 2,056 million baht in the corresponding period of 1956. In the last quarter of 1956 rice exports improved again to the effect that total rice exports in 1956 will turn out to have differed little from the 1955 level. Exports of rubber, tin and timber were about the same or slightly higher as compared with 1955. As a result of the deficit on the trade balance, the balance of payments over the first nine months showed a deficit of more than U.S. \$ 37 million, against a surplus of U.S. \$ 3 million in 1955.

The budget deficit for 1956 amounted to 1,175 million baht, whereas in 1955 a deficit occurred of 1,224 million baht. The inflationary effect resulting from this deficit was almost neutralized by imports so that the total amount of money supply increased only slightly. In the first four months of 1956 money in circulation was higher by 1%, as compared with the corresponding period of 1955. Because imports had to be restricted at the end of 1955, the volume of imports during 1956 was higher than in the preceding year with the result that the supply of goods increased. This increase of supply and a very satisfactory rice crop caused a fall in the general price level at the beginning of 1956, which in its turn brought about a somewhat lower cost of living. This trend continued until the middle of 1956. In the last quarter of the year, however, cost of living rose again.

Viet Nam, Cambodja and Laos

The new constitution of *South Viet Nam* entitles the President to a very strong right of veto. It seems that this is needed very much by South Viet Nam in view of the discords suffered in the interior. The results of measures taken against the armed rebel groups, have been satisfactory. Although at a rather slow pace, the new system of landreform is on the way. This system of landreform ordains that the maximum of holdings is limited to the acreage a farmer can cultivate.

The economic situation is still far from satisfactory. Rice production is very low still, although efforts are made to increase the acreage of irrigated ricefields. Low rice production forced the Government to forbid exports of rice since December 1955. The industrial sector showed some progress. In the monetary field there was a threat of inflation, notwithstanding the extensive aid of the United States of America.

As from July 1st, 1956 the Government opened a free foreign exchange market in Saigon for various services transactions, among other things to effectuate transfers of profits. For transactions in merchandise and some specific services the official rate of 35 plaster to 1 U.S. dollar is maintained. Furthermore there is a

system of blocked capital accounts. Blocked capital may be transferred from one foreign investor to another foreign investor. The use of this capital is supervised by the Government. With these measures it is hoped to restore the confidence of foreign investors.

In these efforts the Government encounters several difficulties. Because of political events in recent years, there is a tendency to disinvest, while much capital which originated partly from North Viet Nam is lying idle. Moreover, proceeds of exports are low on account of lack of ways and means to repatriate capital and transfer profits to abroad, while on the other hand the Government is forced to maintain restrictions. By themselves these restrictions influence foreign investments unfavourably.

As for the balance of trade during the period January-September 1956 imports totalled P 5,500 million, while exports amounted to P 1,100 million (at the moment rubber accounts for about 80% of total exports). In the corresponding period of 1955, imports and exports totalled P 6,600 million and P 800 million respectively.

The emphasis in development is laid on agriculture and light industries. To provide the means for financing development South Viet Nam receives aid from France and the U.S.A. French aid totalled 6,400 million francs in the years 1955 and 1956, while from the U.S.A. an amount of U.S. \$ 100 million was received in 1955. It was expected that American aid would reach U.S. \$ 195 million in 1956.

In contrast to South Viet Nam which has a long-term development plan, *North Viet Nam* is implementing a development plan of two years term only. The principal objects of this two-year plan are firstly, to recover from war damage and secondly, to lay the foundations for future economic development. In order to start economic development it is hoped that at the end of 1956 the production level of 1939 will be reached. The emphasis in development is laid on agriculture. In this connection North Viet Nam has received loans from China to the amount of 800 million Yuans and from Russia to the amount of 400 million Rubels.

Cambodja has a two-year plan for capital investments which is financed largely from abroad. The progress to be achieved includes the construction of a road connecting the capital with the port of Kompong Son. The 1956 rice crop was so large that the embargo on rice exports dating from 1955 could be abolished.

Cambodia and *Laos* renounced their claims on Japan for war reparations. For their part Japan will assist in the development of the said two countries. The Japanese Government has decided already to earmark 1,500 million Yens (about U.S. \$ 4 million) of their 1957 budget for economic aid to Cambodia. With regard to this Cambodia has voiced their desire that Japanese aid should be limited to technical assistance in the fields of agriculture and fisheries.

Japanese aid as requested by Laos will be in the form of technical assistance to agriculture and fisheries, and the generating of electrical power from the river Mekong. For this purpose Laos is prepared to receive 5,000 immigrants from Japan.

The civil war in Laos was ended by the conclusion of an agreement between the Laos government and the armed group of Pathet Lao on August 5th, 1956.

On the 25th of August 1956, the Kingdom *of* Laos concluded an agreement on “peace and independent policy” with the Chinese People’s Republic. Inter alia Laos undertook not to allow the establishment of foreign military bases or equipment dumps on its territory.

Philippines

The inflationary development of the Philippine economy which commenced in 1955 has continued during the year 1956. The volume of money amounting to P 1,227 million in 1954, increased in 1955—more particularly in the second semester—to P 1,336 million. In 1956 a further rise could be observed; as at the end of November last the money supply totalled P 1,484 million. This course of

affairs is partly due to the deficit financing by the Government. Net Government's borrowing from banks increased by 21% in the year under report. The granting of credits to the private sector too was augmented by 870. In 1955 credits to the Government showed an increase of 39% while the credit expansion in the private sector amounted to 18%. These figures reveal that net borrowing from banks in 1956, although still considerable, was substantially lower than in 1955. The fact that the monetary expansion in 1956 was relatively equal to that of 1955 has to be attributed to the circumstance that in 1955 the inflation sought an outlet abroad. In that year gold and foreign exchange reserves decreased by no less than 25%, whereas for 1956 an increase of 7% could be reported. In this connection it has to be noticed, however, that in 1956 a number of assets, viz. the balance of the Philippine-Japanese open account, has been included in the foreign exchange reserves while these assets formerly were not taken into consideration. The favourable development of the foreign exchange reserves has also to be seen in the light of the decreased imports as well as the increased exports. By increasing the import duties and by decreasing the allotments of foreign exchange with regard to non-essential goods, imports fell from \$ 641 million in 1955 to \$ 592 million in 1956. Thanks to the improved terms of trade and in consequence of increased production too exports went up from \$ 389 million in 1955 to \$ 451 million in 1956.

The cost of living showed a tendency to increase in 1956 such, i.e. in consequence of the higher prices of imported goods.

The so-called Roces-Salvador Act was promulgated in 1956. In this act it is stipulated that 90% of the foreign exchange available for imports has to be allocated to importers who are Philippine-born subjects and to American importers; the latter regulation has been made by virtue of the parity clause in the constitution. The remaining 10% are at the disposal of other importers. In 1956 Parliament also approved of the agreement regarding the Japanese reparation payments. The total amount, viz. \$ 550 million, has to be paid within a period of 20 years. Payments will be effectuated in principle by means of supplying capital goods and by rendering of services.

Taiwan (Formosa)

As mentioned already in my previous annual report the overriding problems Taiwan has to cope with are the rapid increase of population and the very high cost of defence. In view thereof the first four-year plan (1952/1955) was aiming at “self-supporting” and stabilization of the internal economy. The second aim has been achieved. The expectation is that within the second four-year plan period (1957/1960) the national income per capita will increase by 2%. One of the difficulties to be faced in the financing of the development plan, is the shortage of dollars. Generally speaking, Taiwan is experiencing difficulties in its balance of payments as a result of the deficit on its trade balance. The deficit on the balance of trade is usually round about U.S. \$ 70 million per year, which as a rule, is covered by U.S.A. aid. During the first eleven months of 1956 imports paid for by American aid, totalled U.S. \$ 90 million, against U.S. \$ 76 million in the corresponding period of 1955. For the purpose of enlarging exports the Government, beside changing the system of foreign exchange certificates, is granting loans to promote exports of tea and canned pineapple. In the import sector there are restrictions on imports of goods which are produced locally.

The 1955/ 1956 budget showed a deficit of Taiwan \$ 418 million. Total expenditure is divided over the following sectors: 80.1% for defence, 10.8% for government administration, 5.7% for economic and social purposes and 3.4% for miscellaneous.

During January-November 1956 the money supply increased by 13%. In the same period the price level rose by 41/2%. A further rise of prices may be averted because of higher imports to the amount of U.S. \$ 293 million, including American aid, during the first eleven months of 1956, against U.S. \$ 162 million in the corresponding period of 1955.

At the production side the rice crop-1956 totalled 1.8 million tons which means a rise of 6,%, as compared with the 1955-crop. In general, production in the agrarian

and fisheries sectors was higher in 1956 than in 1955. With the exceptions of cotton and sugar, the production of which decreased by 14% and 6% respectively, production in the industrial sector rose also in 1956 as compared with 1955.

J a p a n

The expansion of Japan's economy has continued in 1956, although in a somewhat slower tempo. This among other reasons is in consequence of "bottle necks" occurring in the supply of capital goods such as power, iron and steel and further by the decline of investment activities.

The export boom, which resulted in an increase of exports of 27%, has maintained itself in the year under review. In 1955 exports amounted to \$1,954 million as compared with \$ 2,402 million in 1956. Exports to the dollar area augmented by about \$ 340 million or 45% and those to countries effecting payments in sterling by \$ 200 million or 28%. On the other hand a rather strong decline set in, reaching \$ 90 million or some 20% in the exports to the so called "open account area", while this territory underwent a contraction. Japan, as a matter of fact, decided in 1956 to multilateralise its payment arrangements with foreign countries and more in particular with the open account area. The clearing system of Japan with Western Germany, Italy, the Argentine and Thailand has been replaced by an arrangement offering the opportunity of settling deficits in foreign currencies acceptable to both parties. Japan has the intention to conclude this kind of treaties also with other countries in replacement of the clearing arrangements still in force at present.

The increased exports and the still expanding home demand are leading to a considerable enhancement of imports. In particular imports of ores, cotton and wool increased considerably. Despite this fact foreign exchange reserves have grown to an appreciable extent, although considerably less than in 1955. In this latter year the total of gold and foreign exchange reserves increased by \$ 494 million to \$ 1,555 million, while during 1956 a further rise of \$ 293 million could be re-

ported. It has to be noted, however, that the net amount of deferred payments totalling \$ 140 million in 1955 and \$ 156 million in 1956 has not been taken into account.

The shortage of raw materials essential for the production of steel, nonferro metals and rayon yarns caused prices of these products to go up and this has to be considered as one of the principal causes of the increase of the index number of the wholesale prices with 7% in the first eleven months of 1956. The expense of living mounted with only 2%. This slight rise is in consequence of the satisfactory rice crop in 1955, which brought the price of rice down.

The Japanese industry is proceeding to an increasing extent to invest capital in overseas subsidiaries. At the end of 1956 capital invested abroad by Japanese industries amounted to \$ 21 million, spread over 96 overseas sales offices and 41 partly or entirely owned manufacturing subsidiaries in 23 countries. Moreover, Japanese enterprises have concluded contracts with foreign companies by which the former have undertaken to lend technical assistance. Of the 96 sales offices 58 have been established in the United States and 12 in South America. The investments in the manufacturing subsidiaries refer for the larger part to Latin America and to a lesser degree to South East Asia too.

In February 1956 Japan has concluded an agreement with the United States in regard to purchasing surplus agriculture commodities (S.A.C.) totalling an amount of \$ 65,8 million. Part of this sum, viz. the counter value in Yens of \$ 49,4 million, will be granted to Japan as a loan for a period of 40 years. The intention is to finance with this loan agricultural projects, power stations and other development schemes. Japan has also received from the Eximbank a loan of \$ 60 million for one year to be used for the purchase of cotton in the United States.

K o r e a

Since the end of the Korean war the budget of *South Korea* has met with difficulties emanating for the larger part from expenditure for the armed forces

and development, with the result that the budget shows continuous deficits. For this reason, South Korea is dependent of foreign assistance. Over the past six-year period (1950-1956) foreign aid received totalled about U.S. \$ 1,500 million. Apart from this aid South Korea receives dollars spent by United Nations' and American armed forces stationed in the country. These dollar earnings have a substantial meaning for the balance of payments. From 1953 until middle-1956 the exchange of hwans totalled U.S. \$ 122 million. In the same period, export proceeds amounted to U.S. \$ 94 million. Due to the devaluation of the currency from 180 hwan to 500 hwan per dollar as from August 1955, dollar-hwan transactions have dropped considerably. Receipts from sales of hwans to the United Nations' and American armed forces fell from U.S. \$ 34 million during the first half-year 1955 to U.S. \$ 9 million in the second half-year. In the first half-year 1956 dollar receipts amounted to about U.S. \$ 9 million.

The balance of payments has shown considerable deficits until now, resulting from deficits on the balance of trade. During the period January-August 1956 the deficit on the balance of trade amounted to about U.S. \$ 230 million. Owing to an increase of American aid gold and foreign exchange reserves were about the same at the end of 1956 as at the end of 1955, namely U.S. \$ 99 million.

Money supply during the year under report increased by 25,300 million hwans (27%), against 37,400 million hwans (64%) in 1955. The most important cause of this increase in money supply was the rise of credits granted by banks to private enterprise. In view thereof the Government has imposed direct credit control, whilst the minimum cash reserve to be held against the total of demand liabilities was raised from 15% to 25%. Nevertheless, bank credits to the private sector increased by 59,200 million hwans against an increase of 35,300 million hwans in the preceding year.

The increase of the money supply resulted in higher prices. On account of increased national production and larger imports on the basis of foreign assistance, the rise of the price level was relatively speaking not as much as in 1955.

National production measured in value was estimated to have risen by 6.4%, in the period 1954-1955. The rise of production was foremost in coal, power, textiles and other consumer goods. Production in the agrarian sector which represents 40% of total national production, increased slightly. Only the production of rice fell by 14%, brought about by typhoons in the lowlands and low temperatures shortly before harvest time in the mountains. As a result of the war South Korea has changed from a country with agricultural surpluses into a minus country. This bears an impact on the economic situation, especially because 70% of the population are farmers. To develop agriculture again an agricultural bank was established in May 1956, operating with a nominal capital of 3,000 million hwans of which 750 million hwans has been paid up. This bank has 162 branches and 388 sub-branches over the country.

Production of forestry and fisheries increased slightly also; mining production rose above the 1949-level. Regarding transport, several railroad tracks were completed. The volume of goods and passengers carried rose considerably.

North Korea completed its three-year (1953-1956) development period. In the industrial sector the target was reached. On the other hand, the same cannot be said concerning the agrarian sector; this means that North Korea is still a country unable to produce enough foodstuffs for its own needs. Therefore, the five-year development plan started in 1957, besides heavy industry, names as one of the other targets the aim of becoming self-supporting with regard to the production of foodstuffs. The investment of capital in the agrarian sector will be directed chiefly towards the construction of farm equipment, fertilizers and the improvement and extension of irrigation works.

Chinese People's Republic

Notwithstanding differences in reports on the Chinese People's Republic — some of these reports i.e. mention a lack of essential materials such as coal, oil, steel, cement and timber making itself more and more felt, so that there is an

imminent danger of bottle necks in various sectors—the general consensus is that in recent years China made satisfactory progress in the development of its industry. This can be seen from the following data.

Near Chungking a hydro turbine installation entirely constructed within the country, was put into operation with a capacity of 12,000 k.w. electricity. As well as the Chungking plant, also in Shanghai and Harbin electric power plants were built with capacities of 12,000 k.w. and 72,000 k.w. respectively. At Chinghai a powder milk plant commenced operation with a yearly production-capacity of 300,000 kilogramme powder milk. Beside powder milk this plant produces also butter and tinned milk. The capacity of the mineral oil plant in Sinkiang increased by 300%. The shipbuilding yard at Shanghai delivered from 1949 up to now 12 tug boats each powered with 2,000 H.P.

In addition to the industrial sector, communications improved too. The harbour at Tsamkong (Chanchiang) and the airport in Peking were enlarged and modernized. The new railroad, 466 miles long, which connects Amoy with the railway system in the interior, became operative in December 1956. The railroad in the province of Hunan, together with the track between Peking and Hankow, was extended so that they now form one connecting network. A new railroad of 440 kilometres length between Kweiyang and Kinchengkiang (Kwangsi) is under construction.

With regard to the agrarian sector mention can be made of the fact that in the year 1956 about 295,000 hectares of the wastelands in Sinkiang were converted into arable lands producing wheat, cotton, maize, rice and soya beans. The acreage of wasteland in Sinkiang which can be converted into arable land, is estimated at 6,500,000 hectares. It is expected that at the end of the third five-year plan (1967) 2,500,000 hectares of wasteland will be converted into farmland.

China's trade with Asian countries and the West increased substantially. Trade agreements were concluded with Eastern Germany, Czechoslovakia, France, Austria, Belgium, the United Kingdom and Uruguay.

During the month of September 1956 the National Congress of the Chinese Communist Party was held, being the first of its kind after the Yen-an Congress in 1945. At the Congress of September 1956 progress and weaknesses in the implementation of the first five-year plan (1953-1957) were discussed. Weaknesses as pointed out, were among other things that insufficient attention was paid to industrial development in areas near the coast, while these areas are producing 60% of all consumer goods in China. Further, it was said that too much attention was paid to the production of materials for building purposes instead of to the production of capital goods, whilst the wage level was very low. When discussing the second five-year plan the Government stated that within the period of three five-year plans industries will be established on a large scale, with heavy industry as the central point. Particular emphasis will be laid on the steel industry. In this context it is noteworthy that articles and news flashes in Chinese daily papers indicate that there may be changes in the second five-year plan. It looks as if there is some urge to shift the emphasis which was laid first on heavy industry, towards agriculture and light industries. The desire to bring about this change in the second five-year plan finds its cause in the planning in Eastern Europe, where there is a tendency to increase the production of consumer goods. Until now Eastern Europe has been the source for China's heavy equipment. Furthermore, China at present is experiencing a shortage of foodstuffs such as pork and edible oils and also of other consumer goods such as cloths, shoes, paper, bicycles and radios. This shortage is not caused by a drop in production, but by a rise in demand from the consumers side. In this connection it was reported that capital investment increased from 6,550 million Yuans in 1955 to 14,000 million Yuans in 1956. In 1956 the government engaged 2.5 million new workers.

The principal difficulty China is facing is that the increase of population outnumbers the increase of her production. The number of inhabitants amounting at present to more than 600 million, is growing yearly by 13 million. In view of an increase of population at the rate of 2.270 per year, the total of China's population at the end of the second five-year plan (1962) will amount to about 680 million.

British Colonies in South East Asia

As mentioned already in my previous annual report, the most important outcome of the conference held in London between *Malaya* and the United Kingdom during January 1956, was the prospect of self-government and independence of Malaya within the British Commonwealth. In a following conference during the last month of 1956 held also in London, agreement was reached, with one of the stipulations being that in order to meet their international obligations the United Kingdom will be entitled to keep armed forces in Malaya. The transfer of government is scheduled to be proclaimed on August 31st, 1957. From that date Malaya will be a member of the British Commonwealth having its own government.

In view of this the Malayan Minister of Finance has submitted the first draft-budget. This draft-budget for the year 1957 indicates a deficit of M \$ 145 million. To enable Malaya to meet this deficit there will be alterations in direct as well as in indirect taxes. The most important alterations are: income tax will be raised for the higher income group, there will be a new motor car tax, import duties and excise on domestic tobacco will be raised also. The Government anticipates from these changes an amount of M \$ 3 5 million in extra revenue, leaving the budget deficit at M \$ 110 million.

As also mentioned in my previous report, Malaya is, because of her rubber and tin exports, the largest dollar earner of the sterling area. Production of tin in Malaya rose by 1,000 tons in 1956, as compared with 1955, tin exports during the year under review were the highest since 1950. Rubber production in 1956 fell slightly in comparison with 1955 while exports of rubber totalling 983,000 tons, were less by 1%.

In the year 1956 the balance of trade showed a surplus of M \$ 13 million; in 1955 there was a surplus of M \$ 335 million. The substantial decrease for 1956 was due mainly to larger imports, while exports in 1956 remained at approximately the same level as in 1955.

Total expenditure estimates on account of the five-year plan (1956-1960), originally put at M \$ 1,560 million, were reduced to M \$ 1,138 million following debates in the Federal Legislative Council. This sum of M \$ 1,138 million is expected to be obtained to an amount of M \$ 1,127 million from long term internal loans, while the remainder has to be made up by drawing on treasury reserves, British aid and other sources.

The conference between Singapore and the United Kingdom held in London during April 1956, did not achieve any concrete results. The difficulties encountered during the discussions were mainly over the number of British armed forces to be stationed permanently in Singapore after the transfer of government.

The trade volume of Hong Kong rose by 12%, in 1956. Exports to Indonesia, Japan and Thailand increased while at the import side, imports from Japan and the Chinese People's Republic were higher. Imports from the latter country totalled more than HK \$ 1,000 million, thus reaching the highest level since World War II. Overall exports increased by 7%.

During the year under review Hong Kong's industry prospered. In 1956 as many as 488 new factories were established, against 372 in 1955.

The budget year 1956/57 is showing a budget surplus of about HK \$ 15 million. This satisfactory result was due chiefly to very high receipts from so called "luxury taxation", and also because real expenditure evidently was lower than originally estimated. For the budget year 1957/58 the deficit is estimated at an amount of HK \$ 54 million. Notwithstanding the outlook of this deficit the general feeling is that there is no reason for anxiety.

The three other British dependent territories in South East Asia are, *Brunei*, *Serawak* and *North Borneo*. At present the implementation of a five year development plan is under way in Brunei. Beside other projects, a highway is under construction which will connect the capital Brunei with the oil district of Serial

North Borneo is a region endowed with natural wealth, but lacking capital and labour. Over the last three years an amount of M \$ 53 million has been invested for development, while immigration from Indonesia has strengthened the labour force. Imports and exports were higher in 1956, as compared with 1955. Similarly as in previous years, rubber and timber were the principal export commodities.

Australia and New Zealand

Australia

In view of a high investment quota, viz. 25% — 30% of the G.N.P., Australia experienced a fast economic progress after World War II. This progress was financed largely by internal savings. Foreign capital inflow came mainly from the United Kingdom and North America; these two countries contributed to 70% and 20% respectively of total foreign investment.

Although in the years 1955 and 1956 inflationary tendencies gained in force and balance of payments difficulties occurred, the Government did not cut down capital expenditure. During the budget year 1956/1957 expenditure for investment purposes was even raised to an amount of £ A 109 million, the larger part of which was allocated for the development of power and industry. Since 1949 production of steel has doubled. Beside the steel industry, a rapid rise occurred in the motorcar industry, the manufacturing of electric locomotives, chemicals, television-sets, plastic articles and synthetic products. Many industrial goods previously imported are now produced locally, which means a saving of foreign exchange. Furthermore, exports of these products showed an increase. Notwithstanding these two facts, the shortage of foreign exchange in the industrial sector increased, such in view of expenditure on imports of raw materials, equipment and machinery for the development of industry rising faster than foreign exchange receipts from exports of industrial goods. It is therefore evident that export proceeds of agricultural produce form the principal basis for further economic development.

The rapid economic expansion did not fail to bring about the danger of inflation, manifesting itself in price increases. At first, business circles did not regard these price increases as something dangerous, because the standard of living also showed an upward trend; it was considered as logical, therefore, that the rapid development and resultant price increases would not endanger economic stability, provided they are kept under control. In view of this prevailing line of thought the Government considered it necessary to give a note of warning; in September 1955 regulations were issued to restrict credits. It soon became evident, however, that these measures could not prevent a worsening of the situation at the beginning of 1956, and thus the Government in March 1956 was obliged to increase company tax by 5%, whilst the purchase tax on various consumption articles such as gasoline, beer, liquors, tobacco, cigarettes etc., was also raised. The object of these new taxes was to avoid the effectuation of money contraction by way of decreasing capital investments, badly needed for further development.

In the frame of this tighter money policy the Government, beside introducing higher taxes, authorized banks to increase their interest rate to a maximum of 6%; interest on fixed deposits was raised by 1%.

The above mentioned measures had their impact felt on the labour market. Vacancies became less and the number of unemployed increased slightly; production of some industries showed a drop. These factors, however, must not be taken as a proof that the favourable business cycle is slackening. In this context it deserves note that the favourable development of the trade balance quite possibly will make entrepreneurs optimistic.

With regard to the balance of trade it can be stated that in the years 1954/1955 and 1955/1956 a deficit occurred of £ A 86 million and £ A 46 million respectively. An important factor which influenced the balance of trade in 1955/1956 was a change for the worse of the terms of trade. Export prices fell by an average of 8%, while import prices witnessed an average increase of 21/2%. This course of affairs contributed to a drop in gold and foreign exchange reserves by £ A 78 million to £

A 350 million. To meet the deficit on the balance of trade the Government increased import restrictions.

At the beginning of the budget year 1956/1957 export prices showed a favourable trend. Wool prices on the world market rose as a result of larger wool consumption, shortage of wool stocks and most probably on account of the Suez canal crisis. The price increase of wool in the year 1956/1957 is estimated at 10%—15% as compared with 1955/1956. Apart from higher wool prices there were other factors which also had a favourable influence, in particular increased exports of wheat flour to France, which country had to cope with a bad wheat crop. In the third quarter of 1956 the impact of import restrictions made its mark. At the end of said quarter the deficit on the balance of trade amounted to no more than £ A 2 million, against £ A 40 million in the corresponding period of 1955. Gold and foreign exchange reserves increased by £ A 9 million, whereas in the same period of 1955 a fall could be observed of £ A 55 million. The favourable development of the balance of payments enabled the Government to mitigate import restrictions at the beginning of 1957.

Obviously the Australian economy is very closely connected with the world wool situation (wool exports represented about 45% of total exports in the second halfyear of 1956). With the idea of avoiding too great a dependency from wool exports the Government strives to broaden the basis of exports. In this connection it can be stated that exports of steel, electric locomotives, agricultural machinery, bulldozers, etc. increased recently.

To maintain their competitive position on export markets the Federal Government has requested State Governments to freeze wages, for which reason two conferences were held, namely in August and November 1956. At the second conference an agreement was reached on this subject.

With regard to the budget the Government endeavours to reduce consumer and capital expenditure for the fiscal year 1956/1957. The draft budget shows a surplus which will be utilized for the financing of public works, such in order to prevent an increase of the inflationary effect.

Finally, it is worthy of note that production in 1955/1956 rose by 4% as compared with 1954/1955. Amongst others production of industrial goods increased by 2%, industrial output by 10%, foodstuffs by 3% and chemical products by 3%.

New Zealand

In a similar way as Australia, New Zealand's economy is largely influenced by export proceeds because these foreign exchange earnings are badly needed for imports of raw materials, fuel, fats and capital goods.

After a serious deterioration of the balance of payments position during the period 1954/1955, the situation improved slightly in the following months. This was due to the fact that the Government restrained import outlays, while at the same time exports showed a rising tendency, mainly attributable to the increase in worldmarket prices for some of the countries specific export commodities. At the end of 1956 the balance of payments had a small surplus. Meanwhile, it can be reported that in the first months of 1957 no further improvement of the external payments position took place, such in view of a rather sharp decline in prices of some export products (i.a. butter and beef), while secondly the existing credit restrictions did not cause a further decrease of imports; fortunately, world prices for wool, one of the most important export commodities, recorded an appreciable advance.

The balance of payments surplus over 1956 amounted to £ N.Z. 8.9 million, whereas in 1955 and 1954 a deficit occurred of £ N.Z. 26.5 million and £ N.Z. 16.6 million respectively. Foreign exchange receipts totalled £ N.Z. 324.3 million in 1956, or about 10% more than in the previous year. External payments on the other hand showed a decline of £ N.Z. 5.2 million to £ N.Z. 315.5 million.

Money supply rose during the years 1950—1956 from £ N.Z. 242 million to £ N.Z. 315 million. It has to be observed, however, that in 1955, and 1956 practically

no increase occurred, such in view of the enforced tight money measures of the Government; the New Zealand Bank rate was raised to 7%, while most other interest rates are at a very high level too. Cost of living showed an upward trend, to wit, from 108 in 1955 to 112 in 1956 (195 = 100) .

III. MONETARY DEVELOPMENT

Introductory

The monetary analysis as given in this report is different from those presented in previous annual reports.

In the first place the composition and number of institutions considered as money-creating bodies, from which the data for the computation of the monetary analysis are derived, underwent a change. Bank Industry Negara — taking into account the specific character of this bank—was superseded by Bank Rakjat Indonesia, which meanwhile has become a foreign exchange bank. Thus, as money-creating institutions with respect to this monetary analysis -are considered: the Government, Bank Indonesia, Bank Negara Indonesia, Bank Rakjat Indonesia and eleven (formerly nine) other foreign exchange banks. As mentioned in chapter V, the balance figures of these fourteen banks are used also with regard to the period from December 1954 onwards, even though at that time some of them had not attained the status of a foreign exchange bank. To avoid any misunderstanding mention must be made that the reason why only the foreign exchange banks are classified as money-creating institutions is a purely technical-administrative one. Up to now, namely, only these banks are capable to submit regular reports of the required standard to the authorities. From the above it follows that the other commercial banks which have not the status of a foreign exchange bank, are considered as common private enterprises. Since said banks are generally speaking of little importance, the exclusion of their balance figures from the monetary statistics does not involve any large scale error (about 2,%).

Also the table revealing the causes of changes in money supply (see table 9) underwent alterations. In its new composition this table illustrates more accurately the classification of the various factors which influence the money supply according to their economic sectors.

The public sector comprises the central Government, autonomous ressorts and Government enterprises and foundations.

The share as to which the central Government is responsible for affecting money supply can be derived from movements in the following items.

- a) The net debt of the Government with Bank Indonesia comprising the short term and long term debt of the Government with Bank Indonesia, Treasury notes and bills, as well as Government securities owned by Bank Indonesia and bank notes balances with Government payment-offices. It may be observed, that the prepayments from importers are no longer considered as a compensation item with regard to the debt of the Government. This has been done to show the part taken by the Government in real proportions.
- b) Credits granted by other foreign exchange banks, including also Treasury notes and bills as well as Government securities owned by these banks. It will be noted that if the relative item indicates a negative position, this means that on balance the Government granted credits to said banks.
- c) Currency issued by or on behalf of the Government, either in notes or coins.
- d) Net transfers from counterpart-accounts of E.C.A. and S.A.C. to the Treasury account .

Changes in the items “Autonomous ressorts” and “Government enterprises and foundations” indicate movements in their financial relationship with the foreign exchange banks. Government enterprises and foundations consist of enterprises enumerated by the I.B.W. Law and other enterprises and foundations, such as J.U.B.M. (Food Foundation), Copra Foundation in liquidation etc., owned by the Government. In conformity with the custom in other countries, Government enterprises and foundations are included in the public sector, because usually they are established with the object to be utilized as auxiliaries in pursuance of the Government’s task.

TABLE 9 — CAUSES OF CHANGES IN THE MONEY SUPPLY (Rp million)

	1955	1956	1st Qr 1956	2nd Qr 1956	3rd Qr 1956	4th Qr 1956
<i>A. Money creation for account of the public sector</i>						
I. Government (increase = +)						
a. Net debt with Bank Indonesia	+ 1,762	+ 2,302	— 346	+ 256	+ 770	+ 1,622
b. Credits granted by other banks	— 344	— 56	— 74	— 25	— 102	+ 145
c. Government notes and coins	+ 149	+ 90	+ 13	+ 29	+ 21	+ 27
d. Net transfers from the counter-part accounts to the Treasury's account	— 8	+ 176	+ 29	+ 90	+ 25	+ 32
Total	+ 1,559	+ 2,512	— 378	+ 350	+ 714	+ 1,826
II. Autonomous ressorts (increase = +)	— 11	— 7	— 2	— 1	— 4	—
III. Government enterprises and foundations (increase = +)	+ 207	— 238	— 255	+ 116	+ 40	— 139
Total A	+ 1,755	+ 2,267	— 635	+ 465	+ 750	+ 1,687
<i>B. Money creation for account of the private sector</i>						
I. Enterprises predominantly financed by the Government (increase = +)	+ 25	+ 20	+ 3	— 43	+ 51	+ 9
II. Other private enterprises and individuals (increase = +)	+ 950	+ 856	+ 548	+ 205	— 58	+ 161
III. Prepayments by importers (increase = —)	— 2,110	— 17	— 131	+ 136	+ 457	— 479
IV. Guarantee deposits (increase = —)	— 93	+ 98	+ 38	+ 21	+ 6	+ 33
V. Time deposits (increase = —)	— 59	+ 32	— 5	+ 79	— 36	— 6
Total B	— 1,287	+ 989	+ 453	+ 398	+ 420	— 282
<i>C. Money creation originated from changes in regard to relationship with other countries</i>						
I. Gold, claims in gold and foreign exchange holdings with Bank Indonesia and Foreign Exchange Fund (increase = +)	+ 799	— 1,048	— 456	— 680	— 95	+ 183
II. Foreign exchange holdings with other banks (increase = +)	+ 249	— 9	— 226	— 94	+ 70	+ 241
Movements in gold and foreign exchange holdings	+ 1,048	— 1,057	— 682	— 774	— 25	+ 424
III. Amounts credited to the counter-part accounts (increase = —)	— 11	— 457	+ 2	— 2	— 55	— 402
IV. I.M.F. (increase = —)	—	— 313	—	—	— 313	—
V. Rurni balances (increase = —)	— 3	+ 12	+ 23	+ 8	— 41	+ 22
Total C	+ 1,034	— 1,815	— 657	— 768	— 434	+ 44
<i>D. Miscellaneous causes</i>						
I. Capital, reserves and profit and loss accounts (increase = —)	— 259	— 258	— 135	— 69	+ 34	— 88
II. Inter-bank transitory accounts	— 117	— 42	— 228	+ 26	— 31	+ 191
III. Others	— 9	+ 18	+ 78	— 145	— 104	+ 189
Total D	— 385	— 282	— 285	— 188	— 101	+ 292
<i>E. Net change in money supply = A + B + C + D (increase = +)</i>	+ 1,117	+ 1,159	— 1,124	— 93	+ 635	+ 1,741
a. currency	+ 1,173	+ 725	— 981	+ 215	+ 295	+ 1,196
b. deposit money	— 56	+ 434	— 143	— 308	+ 340	+ 545

The “Private sector” shows the part taken by private enterprises and individuals with regard to changes in money supply. It is noteworthy that “Enterprises predominantly financed by the Government”, are in fact privately owned enterprises whose means of finance, however, for the larger part are obtained from the Government in the form of credits and such like. For this reason and also in conformity with the custom in other countries, this category of enterprises is classified under the private sector. Furthermore mention must be made that the item “Prepayments by importers” represents the total of prepayments (i.e. the countervalue of the foreign exchange amount) and T.P.I. deposited by importers with banks when applying for import licences. The banks are under obligation to forward the amounts thus received to the Foreign Exchange Fund.

The “Foreign sector” comprises movements in the money supply caused by changes in the gold and foreign exchange holdings of Bank Indonesia, the Foreign Exchange Fund and the foreign exchange banks, as well as by changes in other relations with abroad. Changes in the items “Amounts credited to counterpart-accounts”, “I.M.F.” and “Rurni” show the changes in the obligations of Indonesia towards other countries affecting the money supply. The counterpart-accounts reveal the countervalue of E.C.A. aid and S.A.C. imports from the U.S.A. The I.M.F. account comprises all relations between the I.M.F. and the Indonesian Government, while the Rurni account refers to blocked rupiah holdings of non-residents with banks.

The item “Miscellaneous causes” reveals the changes in capital, reserves and profit and loss accounts of the banks and their influence on the money supply, while the monetary effect of movements in transitory accounts of the foreign exchange banks is shown by the item “Inter-bank transitory accounts”.

To avoid misinterpretation, it must be stated that the indication “increase = +” implies that an increase of the relative item causes also an expansion of money supply, while “increase = —” indicates that an increase of the item is connected with a decrease of money supply.

Briefly summarized the changes in money supply in 1956 emanated from the following sectors (rupiah million) :

	1955	1956
A. Public sector	+ 1,755	+ 2,267
B. Private sector	— 1,287	+ 989
C. Foreign sector	+ 1,034	— 1,815
D. Miscellaneous causes	— 385	— 282
Total changes	+ 1,117	+ 1,159

The tabulation above reveals that money in circulation increased by Rp 1,159 million in 1956, against an increase of Rp 1,117 million in 1955.

In like manner as in the preceding year, the largest source which contributed to the monetary expansion was the public sector wherein the item "Net debt of the Government with Bank Indonesia" takes first place. With regard to this debt it can be stated that only in the first quarter of 1956 there was a decrease, such in view of the fact that during that period budget receipts were higher than expenditure. As from May 1956, however, budget expenditure began to exceed revenue so that the Government debt rose rapidly; the result was that the overall increase in 1956 totalled Rp 2,302 million. Credits granted by other banks to the Government dropped by Rp 56 million, thus causing a contraction of the money supply. Currency issued by or on behalf of the Government increased by Rp 90 million, while net transfers from the counterpart-accounts to the account of the Government, afterwards used for budget purposes, totalled Rp 176 million. On balance the Government in 1956 was responsible for an increase of the money supply by Rp 2,512 million.

With regard to the autonomous ressorts it can be reported that changes in their relations with foreign exchange banks resulted in a decrease of the money supply to the amount of Rp 7 million, bringing about a deflationary effect. On the strength of figures provided by the Ministry of Home Affairs, the Government

authorized in 1956 contributions/subsidies to the autonomous ressorts totalling Rp 3,115 million, namely Rp 2,734 million on ordinary account and Rp 381 million on capital account.

Credits granted by foreign exchange banks to Government enterprises and foundations decreased by Rp 238 million. It is worthy of note that at the end of December 1957 credits granted to the Copra Foundation and the Billiton Tin Company were higher as compared with end-December 1955, viz. by Rp 46 million and Rp 22 million respectively. On the other hand, credits to the J.U.B.M. (Food Foundation) were lower by Rp 209 million.

On balance the Government was responsible for an expansion of the money supply to the amount of Rp 2,267 million. Said amount constitutes the cash deficit of the Government (see chapter IV).

Movements in the "Private sector" in 1956 were the reverse of 1955 chiefly influenced by changes in the prepayments from importers deposited with banks. In 1955 the inflationary effect brought about by an increase of credits granted to various private enterprises and individuals (Rp 950 million) was entirely off-set by the deflationary effect caused by the increase of the importers prepayments, guarantee deposits and time deposits. In contrast, credits in 1956 rose by Rp 856 million whilst guarantee deposits and time deposits decreased, all of which resulted in a monetary expansion. Prepayments by importers were higher by Rp 17 million only. On balance the private sector brought about an increase of the money supply by Rp 989 million. Mention must be made that due to various measures taken to restrict imports—in August 1956 the B.D.P. office was even closed temporary—prepayments by importers declined substantially in the second and third quarter of the year. As to credits granted to private enterprises and individuals, the category of importers takes first place (see table 20). Said credits show to a large extent the same movements as the prepayments by importers.

The "Foreign sector" brought about a decrease in money supply in 1956 totalling Rp 1,815 million; a decline of foreign exchange reserves to an amount of

Rp 1,057 million contributed to this effect. As table 9 illustrates, gold and foreign exchange holdings dwindled fast in the first months of 1956 as a result of steeply increased imports. During the third quarter Indonesia received a loan from the International Monetary Fund to the amount of U.S. \$ 55 million, being Rp 627 million. It must be mentioned, however, that this buttressed the gold and foreign exchange position by no more than Rp 313.5 million, such in view of the fact that the remainder of the loan sum was booked to the credit of the “Gold” account whereas the item “Claim in gold on the Government” (also included in the total gold holdings) was debited. Meanwhile it must be stated that changes in gold and foreign exchange holdings as reported in this chapter do not correspond with the movements as mentioned in the analysis of the balance of payments presented in chapter VI, the reason being mainly that transitory items relating to clearing transactions are not taken into account.

Amounts credited to the counterpart-accounts increased in 1956 by Rp 457 million. This increase occurred mainly from the third quarter of the year onward, i.e. since the implementation of the purchases of surplus agricultural commodities (S.A.C.) from the U.S.A. The “I.M.F.” account was higher by Rp 313 million, while the “Rurni” account dropped by Rp 12 million. The item “Capital, reserves and profit and loss accounts of banks” increased by Rp 258 million, thus bringing about a decrease of the money supply; this was also the case with the “Inter-bank transitory accounts”. Finally the item “Sundry accounts” increased by Rp 18 million, causing an inflationary effect.

Monetary balance sheet

Alterations were also made with respect to the monetary balance sheet. As already mentioned, the figures are computed from the balance sheets of fourteen foreign exchange banks and from data provided by the Ministry of Finance. Similar to the previous monetary balance sheets, on the credit side the monetary liabilities of money-creating institutions are shown as well as the non-monetary liabilities of the foreign exchange banks. Apart from the overall money supply the ac-

TABLE 10 — MONETARY BALANCE SHEET (as at December 31; Rp million)							
	1954	1955	1956		1954	1955	1956
I. Net credits to Government:				I. Currency in circulation			
a) Credits from banks to Government (incl. prepayments from importers)	8,587	10,021	12,206	Total issued :			
b) Government notes and coins	626	776	865	a) Bank notes	7,270	8,474	9,175
c) Treasury notes and bills and Government securities with banks	208	255	295	b) Government notes	494	624	698
				c) Coins	132	152	166
					7,896	9,250	10,039
<i>minus :</i>				<i>minus :</i>			
d) Bank notes with Government	9,421	11,052	13,366	d) Bank notes with Government	145	202	221
				e) Notes and coins with banks	277	401	446
Total	9,276	10,850	13,145	Total	7,474	8,647	9,372
II. Credits from banks to private sector (incl. privately owned securities with banks)	3,005	4,169	4,842	II. Deposit money	3,643	3,587	4,021
III. Gold and foreign exchange holdings	1,710	2,756	1,701	Total money supply	11,117	12,234	13,393
IV. Sundry items	561	503	757	III. Non-monetary liabilities	3,435	6,044	7,052
	14,552	18,278	20,445		14,552	18,278	20,445

tual amount of currency brought into circulation by money-creating institutions and the amount kept as cash in hand by these institutions can be derived from the monetary balance sheet.

Money Supply

As stated above money supply increased by Rp 1,159 million in 1956, representing a rise in currency by Rp 725 million and an increase of deposits by Rp 434 million. In 1955 the increase was entirely in the currency sphere, whilst deposits decreased.

In table 11 revised figures on the money supply are given from 1954 onward; corrections were necessary in connection with the fact that the composition of banks considered as money-creating institutions was altered. When studying the movements in the money supply the conclusion may be drawn, however, that these

TABLE 11 — MONEY SUPPLY IN INDONESIA (Rp million)					
	Currency	Deposit money	Total money	% currency	% deposit money
1938 March (estimated)	240.0	180.0	420.0	57.1	42.9
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 December	7,473.7	3,642.8	11,116.5	67.2	32.8
1955 December	8,646.8	3,587.2	12,234.0	70.7	29.3
1956 March	7,665.7	3,443.9	11,109.6	69.0	31.0
June	7,881.0	3,136.1	11,017.1	71.5	28.5
September	8,175.7	3,476.4	11,652.1	70.2	29.8
December	9,372.4	4,021.1	13,393.5	70.0	30.0
1957 January	9,261.2	3,967.5	13,228.7	70.0	30.0
February	9,160.4	4,018.3	13,178.7	69.5	30.5
March	9,333.4	4,028.1	13,361.5	70.0	30.0

corrections do not prevent in too large an extent the opportunity of comparing figures relating to years before 1954 with those relating to years after 1954. As known, banking activities in Indonesia before 1954 related mainly to activities of the larger banks. Therefore, when adapting the composition of the money-creating institutions before 1954 to the changes since December 1954 mentioned above, the amount of deposits at that time does not carry much weight. With regard to currency it can be stated, that the alterations in the composition of money-creating institutions are neither of great significance, this because the currency issue is entirely in the hands of the Government and Bank Indonesia. The only factor which might influence the amount of currency in circulation after changing the composition mentioned above is the amount which banks tend to hold as cash balances. These balances, however, were not large.

On the strength of the above premise the conclusion is that during the past period the increase in money supply occurred for the larger part in the currency sphere. The principal reason for this was the cash deficit of the Government, being the main factor which influenced the money supply. With very little prospect of overcoming this cash deficit within a short time, one can expect that in the future an increase of the money supply is primarily to be found in the currency sector.

IV. PUBLIC FINANCE

General review

The change of Cabinet on March 26th, 1956 entailed among other consequences the re-examination of the draft-budget for 1956, previously approved by the former Cabinet. Apart from the fact that this was considered necessary for reasons of policy, the intention also was to include in the budget the full amount of expenditure planned for 1956 and related to the five-year plan.

In his relative Financial Note submitted to Parliament at the end of August 1956, the Minister of Finance stated that, although at the outset a deficit was apprehended in the range of Rp 3,800 million, this in view of supplementary estimates and extra expenditure for the five-year plan, nevertheless ultimately it had proved feasible to reduce the deficit on the revised budget to Rp 1,800 million, without hampering in too large a degree the development of the country. Though under the present circumstances there could be no question of approaching a balance between expenditure and revenue, the Minister opined that, anyhow, there was a change for the better in so far as the deficit could be kept by round Rp 800 million below the average deficit of the four preceding years.

Some idea of the revised budget expenditure and revenue, sub-divided into ordinary account and capital account, is provided by the following tabulation (Rp million).

	Ordinary account	Capital account	Total
Expenditure (gross)	15,624	4,377	20,001
Expenditure directly related to revenue	2,354	564	2,918
Expenditure (net)	13,270	3,813	17,083
Revenue (net)	14,713	563	15,276
Surplus or deficit	+ 1,443	— 3,250	— 1,807

Judging from the preliminary realization figures received since from the Ministry of Finance the inference however, is that the actual deficit in the year under review finally totalled in round figures Rp 2,300 million, or Rp 500 million more than the last estimates indicated. On the one hand this was due to higher expenditure in practically all sectors—especially expenditure on behalf of the Ministry of Defence and the Financial Service showed an increase—whilst on the other hand revenue proved to be rather disappointing due to lower receipts from excise and T.P.T., and also to lower receipts from import duties.

Mention has to be made that in contrast to previous years, the ordinary account showed a surplus so that the budget deficit must be attributed entirely to the capital account. Even though there has been some improvement with regard to the ordinary account, nevertheless, one has not to overlook the fact that the level of expenditure was higher than in previous years. Many times I have felt it my duty to call attention to this precarious course of developments. For, when notwithstanding the consciousness of the necessity to take retrenchment measures and efforts to improve the efficiency of Government Services, one has to notice how year after year ordinary expenditure soars increasingly—as known the ordinary expenditure (for the larger part consumption routine expenditure) constitutes a very substantial part of total budget expenditure—it is beyond doubt that sooner or later deficits will occur again for the mere reason that revenue cannot be raised unlimitedly. As in the near future the capital account will show a continuous and substantial deficit, among other reasons, because of the implementation of the five-year plan, it is obvious that if the level of expenditure of the ordinary account will not be reduced drastically, a further disturbance of the equilibrium in the monetary and economic sectors will have to be reckoned with, this in connection with the fact that generally speaking budget deficits can be financed only by inflationary means. Therefore, it seems to me urgent that henceforth a sharper and more efficient control should be kept on Government expenditure.

The provisional draft budget for 1957 was submitted to the Cabinet for approval by the former Minister of Finance early in March 1957. However, the change in Government taken place shortly thereafter has been the reason of the

discussions on the subject being necessarily postponed. Since, meanwhile, the new Minister of Finance has announced his intention to introduce the original draft budget for reconsideration, and important revisions can be deemed probable, I shall, for the time being, refrain from giving an analysis of the various budget items in this report. I only wish to express the hope that the revised draft budget can be submitted to the Cabinet at short notice, “hereafter Parliament will be enabled to strike a judgement on the financial-economical policy to be pursued by the Government. As a matter of fact, timely introduction of the draft budget for 1958, i.e. before the close of 1957, would be most welcome.

By Law No 3/1957—for the full text of this Law see Appendix F—a constitutional basis was provided to the Government policy of financing expenditure in the year 1956 by way of advances supplied by Bank Indonesia. In this way the Minister of Finance was authorised to exceed the maximum of advances allowed by article 19, pare (2) of the Bank Indonesia Act 1953, up to an amount of Rp 6,700 million. Whereas with regard to budget expenditure for the year 1957 the maximum enacted in this Law is equally valid (viz: 30 % of the revenue of the preceding budget year), this implies that the advances to be drawn from Bank Indonesia in 1957 may not exceed an amount of round Rp 5,500 million. Since it has not to be expected that imports will be maintained on the same high level as in 1956 such in consequence of the precarious foreign exchange position and therefore, a decrease of receipts from imports (T.P.I. levies, import duties) as well as from prepayments deposited by importers — these prepayments are booked in favour of the Government—will have to be faced and taking into account furthermore the total amount of advances when writing this report, it is obvious that the ceiling per end-1957 will have to be raised to at lest Rp 10,000 million.

Cash deficit of the Government

With reference to the monetary analysis dealt with in chapter III, the following is a further explanation of to what extent the deficit in connection with the financing of the Government’s household, has induced the creation of money. It

should be noted here that although there is no denying that dishoarding c.q. hoarding of secondary liquidities too must be looked upon as a phenomenon of a monetary nature, such has not been taken into consideration, since it is as yet impossible to figure out statistically the liquidity reserves available. As in previous annual reports, above deficit will be indicated as the Government's cash deficit.

As regards the computation of the cash deficit mention must be made, that the method followed previously, to wit, the addition of net movements in the Treasury account and cash balances with Government offices, has been abandoned. The reason for this was that it proved to be very hard especially for the outsider, to obtain a clear picture of the way in which various items were classified, particularly because the terminology used when dealing with public finance differed in some cases from the one used in the monetary analysis. Furthermore, in the latter some items such as the so-called non-compensative Government accounts were not accounted for in the public sector, whereas this did happen when reviewing public finance in chapter IV.

As starting point for the computation of the cash deficit are used the items AI, AII and AIII of the monetary analysis (see table 9). This has been done because a calculation of the deficit by starting from the difference between actual budget revenue and expenditure proved to be unfeasible for the time being, such in connection with the fact that said data keep their provisional character till well after the year-end. Thus, with the method of computation applied here, the difference between actual budget revenue and expenditure is calculated by subtracting from the cash deficit the net borrowing on the capital market, internal as well as external and borrowing from non-money-creating institutions, i.e. movements in Treasury bills and notes held by private enterprises or individuals; both factors are of known magnitude. Later on a comparison with the final results of revenue and expenditure will prove how far the figures used in the monetary analysis are in accordance with the data handled in the chapter "Public Finance". It goes without saying that only close contact and consultation with the Ministry of Finance regarding these matters will yield satisfactory results. In this context note must be made that judging from the provisional results of budget revenue and expenditure

as computed by said Ministry, and the data handled in the monetary analysis, the conclusion is that there are still some differences, caused by transitory items and also among others by dissimilarity of interpretation regarding certain revenue and expenditure items. These differences, however, are not of such an importance that they are to be considered as distorting, in the sense that the relation between the way of reviewing public finance on the one hand and the monetary analysis on the other hand, would be confusing.

Finally, mention must be made that it is the intention to investigate in how far it will be feasible from a statistical viewpoint, to separate completely the finances of the central Government and those of the lower public bodies, in order to obtain in this way a far deeper insight into the financial transactions of the Government apparatus.

Table 12 illustrates the computation of the cash deficit of the Government and how this deficit was financed. Note must be made that the monetary effect resulting from net Government outlays abroad amounting to Rp 596 million in the year under review, was left out of account. This concerns the inflationary effect of public finance which did not bring about a creation of money but caused an outflow of foreign exchange. In this connection it can be stated that the decrease of gold and foreign exchange reserves must be viewed as a result of the inflationary way of financing and not as a deflationary financing of the public sector.

The Government cash deficit totalled in the year under report Rp 2,267 million, or over Rp 500 million more than in 1955. On the strength of data mentioned in table 12 the conclusion can be drawn that budget revenue and expenditure resulted in a deficit of Rp 2,051 million. Net borrowing from internal as well as external capital markets was less by Rp 130 million and Rp 68 million respectively. Besides, there was a decrease of Treasury bills and notes with the private sector to the amount of Rp 18 million. Striking is the fact that after a surplus in the first quarter, budget expenditure was exceeding revenue in an ever increasing measure. The deficit of the last quarter constitutes about 80% of the total deficit.

TABLE 12 — GOVERNMENT CASH DEFICIT AND ITS FINANCING (Rp million)						
	1955	1956				
	Total	Total	1st quarter	2nd quarter	3rd quarter	4th quarter
<i>Computation of the cash deficit :</i>						
Net balance of budgetary revenue and expenditure (deficit = —)	— 1,501	— 2,051	+ 669	— 345	— 717	—1,658
Net borrowing on capital market: (increase = +)						
a. internal origin	— 41	— 130	— 2	— 113	— 6	— 9
b. external origin	— 208	— 68	— 16	— 9	— 33	— 10
Movements in treasury notes and bills with private sector (increase = +)	— 5	— 18	— 15	+ 1	+ 6	— 10
Cash deficit (—)	— 1,755	— 2,267	+ 636	— 466	— 750	—1,687
<i>Financing of the cash deficit :</i>						
a. Advances from Bank Indonesia (increase = +)	— 140	+ 2,420	— 397	+ 457	+ 1,444	+ 916
b. Prepayments from importers (increase = +)	+ 2,027	— 116	+ 188	— 255	— 630	+ 581
c. Net transfer from counterpart-accounts (increase = +)	— 8	+ 176	+ 29	+ 90	+ 25	+ 32
d. Movements in treasury notes and bills with banks (increase = +)	+ 22	— 5	+ 16	—	— 15	— 6
e. Movements in bank-notes balances with Government payment-offices (increase = —)	— 57	— 19	— 158	+ 69	— 5	+ 75
f. Movements in currency issued by the Government (increase = +)	+ 150	+ 90	+ 13	+ 29	+ 21	+ 27
g. Movements in other debts of the Government to banks (increase = +)	— 435	— 34	— 70	— 40	— 126	+ 202
h. Movements in balances of autonomous ressorts with banks (increase = —)	— 11	— 7	— 2	— 1	— 4	—
i. Movements in balances of Government enterprises and foundations with banks (increase = —)	+ 207	— 238	— 255	+ 117	+ 40	— 140
Total	+ 1,755	+ 2,267	— 636	+ 466	+ 750	+ 1,687

As to the financing of the cash deficit, borrowing by the Government from Bank Indonesia increased largely, because prepayments by importers fell on balance, in contrast to the preceding year when over Rp 2,000 million more was received from importers than required for refundment. Overall, the Government debt was higher by Rp 2,420 million. The largest increase occurred in the third quarter, chiefly because during that period (August) the issue of import licences

was temporarily suspended, bringing about an immediate fall of the balance of prepayments cashed on behalf of the Government. Although the normal issue of import licences was resumed in September 1956 and even though in the fourth quarter prepayments by importers showed a net increase of Rp 581 million, again heavy drawings on Bank Indonesia occurred; overall advances to the Government showed an increase of Rp 900 million in this quarter.

The item “Net transfer from counterpart-accounts” totalling Rp 176 million for the year under review, must be considered as a correction item as to the movements occurring in the Government debt with Bank Indonesia. This is so, because no deflationary effect can be attributed to the decrease of the Government debt account resulting from this transfer, since this decrease is brought about by a transfer which has a monetary irrelevant character. Only when the Government is actually spending these amounts the money supply will be influenced, namely in the upward direction. For information’s sake mention is made that the negative net transfer in 1955 totalling Rp 8 million relates to a transfer for the debit of the Government to the counterpart-accounts, such in connection with imports on behalf of the Government implemented under the I.C.A. arrangements. In this case therefore, an increase in the Government debt with Bank Indonesia occurred without having any monetary effect.

The fall in the amount of Treasury bills and notes held by banks indicates a decrease of borrowing by the Government from banks. As to the item “Bank notes balances with Government payment-offices”, the increase of these balances by Rp 19 million—in 1955 Rp 57 million—brought about a deflationary effect. On the other hand, notes and coin issued by or on behalf of the Government increased by Rp 90 million, or Rp 60 million less than in the preceding year. Since in the other relations between Government and banks there was a decrease of debt amounting to Rp 34 million, this caused a deflationary effect. Finally, the balances of autonomous ressorts and Government enterprises and foundations with banks showed a rise resulting in a deflationary effect to the amount of Rp 7 million and Rp 238 million respectively.

On the strength of the above the conclusion may be drawn, that taking into account the prepayments by importers and the net transfer from the counterpart-accounts, net borrowing by the Government from Bank Indonesia in the year under review increased by Rp 2,480 million, whereas by issuing Government notes and coin to the amount of Rp 90 million, the deficit was also financed in an inflationary way. On the other hand, due to various other factors there was a decrease of net borrowing by the Government from other money creating institutions totalling Rp 123 million, which decrease brought about a deflationary effect.

In the following paragraphs the actual budget expenditure and revenue in the year 1955 and 1956 will be reviewed.

Government expenditure

On the strength of data mentioned in table 13 the conclusion is that the actual cash deficit 1956 has been higher by Rp 208 million than the deficit in the preceding year. On the one hand net expenditure increased by Rp 5,634 million; against this, the rise of revenue was not larger than Rp 5,426 million.

TABLE 13 — BUDGETS 1955 AND 1956 AND PROVISIONAL RESULTS (Rp million)						
	Net expenditure		Net revenue		Balance	
	1955	1956	1955	1956	1955	1956
Budget	14,671	17,083	10,666	15,276	— 4,005	— 1,807
Provisional results	12,397	18,031	10,307	15,733	— 2,090	— 2,298
Difference	— 2,274	+ 948	— 359	+ 457	— 1,915	+ 491

Source : Ministry of Finance

Some idea of actual gross expenditure based on provisional figures and divided into various sectors, is provided by table 14. Striking is the fact that total actual expenditure came out to be higher by about Rp 750 million than estimated in the revised budget. To a large degree this is due to higher expenditure in the

economic, foreign and security sectors. Most of all, it was expenditure for the account of the Financial Service and the Ministries of Defence and Foreign Af-

TABLE 14 — GROSS GOVERNMENT EXPENDITURE (Rp million)					
	1955		1956		Difference between 1955 and 1956 out- turns
	Provisional estimate	Provisional outturn	Provisional estimate	Provisional outturn	
<i>General sector</i>					
High Colleges of State Finance	1,170.0 1,209.7	1,329.2 1,183.5	1,565.8 1,530.6	1,536.7 1,612.4	+ 207.5 + 428.9
Sub total	2,379.7	2,512.7	3,096.4	3,149.1	+ 636.4
<i>Security sector</i>					
Defence	2,900.0	3,937.5	4,075.0	4,378.9	+ 441.4
Justice	217.0	323.4	343.7	305.4	— 18.0
Home Affairs	2,330.6	2,940.8	3,841.9	3,658.9	+ 718.1
Sub total	5,447.6	7,201.7	8,260.6	8,343.2	+ 1,141.5
<i>Economic sector</i>					
Agriculture	502.0	519.4	668.9	675.7	+ 156.3
Economic Affairs	1,206.0	963.8	315.0	193.2	— 770.6
Financing Service	1,816.3	1,854.7	3,681.4	4,455.6	+ 2,600.9
Transport and Communica- tions	284.1	232.3	361.8	315.3	+ 83.0
Navigation	88.2	114.4	168.2	168.8	+ 54.4
Public Works/Energy	477.4	683.0	650.0	602.3	— 80.7
Sub total	4,374.0	4,367.6	5,845.3	6,410.9	+ 2,043.3
<i>Cultural sector</i>					
Information	138.5	154.6	270.2	221.9	+ 67.3
Education and cultural affairs	899.5	975.1	1,295.7	1,138.0	+ 162.9
Religious affairs	155.1	223.3	228.7	297.6	+ 74.3
Sub total	1,193.1	1,353.0	1,794.6	1,657.5	+ 304.5
<i>Social sector</i>					
Health	253.4	314.6	466.6	472.3	+ 157.7
Social affairs	195.8	228.6	292.2	273.1	+ 44.5
Labour	55.1	45.5	65.9	55.7	+ 10.2
Sub total	504.3	588.7	824.7	801.1	+ 212.4
<i>Foreign sector</i>	92.6	292.8	179.6	387.2	+ 94.4
Grand total	13,991.3	16,316.5	20,001.2	20,749.0	+ 4,432.5

Source : Ministry of Finance

fairs that were considerably above the budget figures, viz. approximately by Rp 775 million, Rp 300 million and Rp 210 million respectively. Against this, actual gross expenditure in the cultural and social sectors was less by Rp 140 million and Rp 25 million than the budget indicated. As for the general sector, actual expenditure was only slightly higher when compared with the estimates.

A comparison with the preceding year shows that actual gross expenditure was higher in all sectors, namely by a total of close on Rp 4,430 million. Expenditure for the account of the Financial Service and the Ministries of Home Affairs and Defence increased most of all. The Ministry of Economic

Government revenue

According to provisional data net Government revenue totalled Rp 15,733 million in the year under review, against Rp 10,307 million in 1955. The 1956 budget mentioned an amount of Rp 15,276 million, so that actual revenue came out about Rp 460 million above estimate.

The figures in table 15 show that revenue from direct taxes originally estimated at Rp 2,752 million, totalled Rp 3,115 million, or Rp 16 million less than in 1955. On the one hand, receipts from transition tax increased satisfactorily as compared with the preceding year, but on the other hand, receipts from company tax fell greatly. Concerning indirect taxes, it was particularly import duties which revealed a large increase as compared with 1955. This has however, to be viewed in the light of the restrictive import policy of the latter year. Against the budget, actual receipts from import duties fell short by around Rp 330 million. Even though export duties yielded more than estimated, nevertheless this revenue sector fell substantially in contrast with the previous year. Overall, indirect taxes yielded about Rp 910 million more than in 1955, whilst the amount estimated in the budget was almost reached. Provisional receipts from so-called I.B.W. enterprises were accounted for in conformity with the budget as it proved unfeasible to calculate

TABLE 15 — NET GOVERNMENT REVENUE (Rp million)				
	1954	1955	1956	
	Provisional outturn	Provisional outturn	Provisional outturn	Provisional estimate
A. Taxes				
1. <i>Direct taxes</i>				
Transition tax	805	945	1,169	883
Income tax	244	299	327	300
Company tax	1,330	1,804	1,569	1,500
Free sales tax	14	10	2	10
Other direct taxes	46	73	48	59
Sub total	2,439	3,131	3,115	2,752
2. <i>Indirect taxes</i>				
Turnover/sales tax	611	557	942	605
Import duties	995	1,105	1,872	2,200
Normal export duties	107	143	161	196
Other export duties	437	609	263	198
Excise	1,593	1,830	1,877	1,908
Other indirect taxes	214	193	235	231
Sub total	3,957	4,436	5,350	5,338
Total of A	6,396	7,567	8,465	8,090
B. Balances of Government enterprises	61	98	476	476
C. Sundries				
Foreign exchange certificates and T.P.I. levies	1,179	1,843	4,985	5,000
T.P.T. levies	296	337	212	400
Share of profits	121	144	75	166
Mining concessions	74	85	102	71
Court fines, etc.	15	18	18	12
L.A.A.P.L.N.	100	47	99	100
Miscellaneous	225	168	1,301	961
Total of C	2,010	2,642	6,792	6,710
Grand total	8,467	10,307	15,733	15,276

Source : Ministry of Finance

the actual net receipts. Note must be made that the figures for 1954 and 1955 represent the actual net receipts.

Revenue listed under "Sundries" amounted to Rp 6,792 million, or Rp 80 million more than originally estimated. Against 1955 these receipts were higher by Rp 150 million. To this increase T.P.I. receipts contributed largely. In this context the new import regulations which came into force at the beginning of September 1956, must be mentioned. I will refer again to this matter later on. Receipts from T.P.T. estimated at Rp 400 million, actually totalled Rp 212 million only, i.e.

Rp 125 million less than in the preceding year. Also profit shares for account of the Government showed a decrease as compared with the final 1955 figures as well as with the budget 1956. On the other hand, receipts from mining concessions increased satisfactorily. Receipts from L.A.A.P.L.N. (Foreign Exchange Institute) reached once again the level of about Rp 100 million. Revenue listed under "Miscellaneous" totalled Rp 1,301 million, or Rp 340 million more than estimated. In 1955 this item amounted to Rp 168 million only. For the sake of information I should like to mention that in the year under review the item "Miscellaneous" comprises inter alia the counter value of loans received from the Exim-bank to the amount of Rp 98 million, the entries of the I.C.A. counterpart-account totalling Rp 212 million and receipts of the liquidation of the Jajasan Perbekalan dan Persediaan (J.P.P. (Fund for supplies and stocks)) amounting to Rp 382 million.

Public debt

On the strength of data mentioned in table 16 it can be assumed that in the year under review total public debt increased from Rp 18,784 million to Rp 19,070 million. It is worthy of note however, that in consequence of the termination of the Round Table Conference agreements no further payments will be made on the outstanding R.T.C. debts to the Netherlands. When eliminating these amounts from the 1955 debt position, an increase of debt of Rp 2,249 million must be stated.

TABLE 16 — GOVERNMENT DEBT POSITION (Rp million)					
End of	Consolidated debt		Floating debt (internal)	Total debt	Movements
	External	Internal			
1951	4,463	1,511	1,797	7,771	— 973
1952	5,330	1,439	5,272	12,041	+ 4,270
1953	5,248	5,134	3,164	13,546	+ 1,505
1954	5,237	5,027	6,715	16,979	+ 3,433
1955	5,029	4,986	8,769	18,784	+ 1,805
1956	2,979	4,856	11,235	19,070	+ 236

Figures reveal that the increase of debt is due mainly to the heavily increased floating debt, particularly the debt to Bank Indonesia. The course of the floating debt is illustrated in table 17.

TABLE 17 — FLOATING DEBT (Rp million)						
End of	Debt to Bank Indonesia	Currency is- sued by the Government	Treasury bills and notes	Debt to im- porters (pre- payments to Foreign Ex- change Fund)	Claim on Foreign Ex- change Fund	Total floating debt
1951	1,359	405	136	—	—103	1,797
1952	4,730	421	130	588	—597	5,272
1953	1,471	501	197	1,028	— 33	3,164
1954	4,634	626	282	1,173	—	6,715
1955	4,494	776	299	3,200	—	8,769
1956 March	4,097	788	300	3,388	—	8,573
June	4,650	817	301	3,133	—	8,901
September	6,094	838	292	2,503	—	9,727
December	7,010	865	276	3,084	—	11,235
MOVEMENTS IN FLOATING DEBT IN 1956						
1st quarter	—397	12	1	188	—	—196
2nd quarter	553	29	1	—255	—	328
3rd quarter	1,444	21	— 9	—630	—	826
4th quarter	916	27	—16	581	—	1,508
Total	2,516	89	—23	—116	—	2,466

On aggregate, advances from Bank Indonesia to the Government rose by no less than Rp 2,516 million; the amount of notes and coins brought into circulation by or on behalf of the Government showed an increase of Rp 89 million. On the other hand, Treasury bills and notes issued were less by Rp 23 million, while the debt to importers decreased by Rp 116 million.

Also as a result of the abolishment of those parts of the R.T.C. debts which were taken over by Indonesia from the Netherlands-Indies Government and which from Indonesia's standpoint will be considered as debts made on behalf of the Netherlands warfare, the consolidated foreign debt diminished by Rp 2,050 million. On post-war loans from Australia, the United States of America (so-called surplus credit), the I.C.A. and the Netherlands a total amount of Rp 129 million

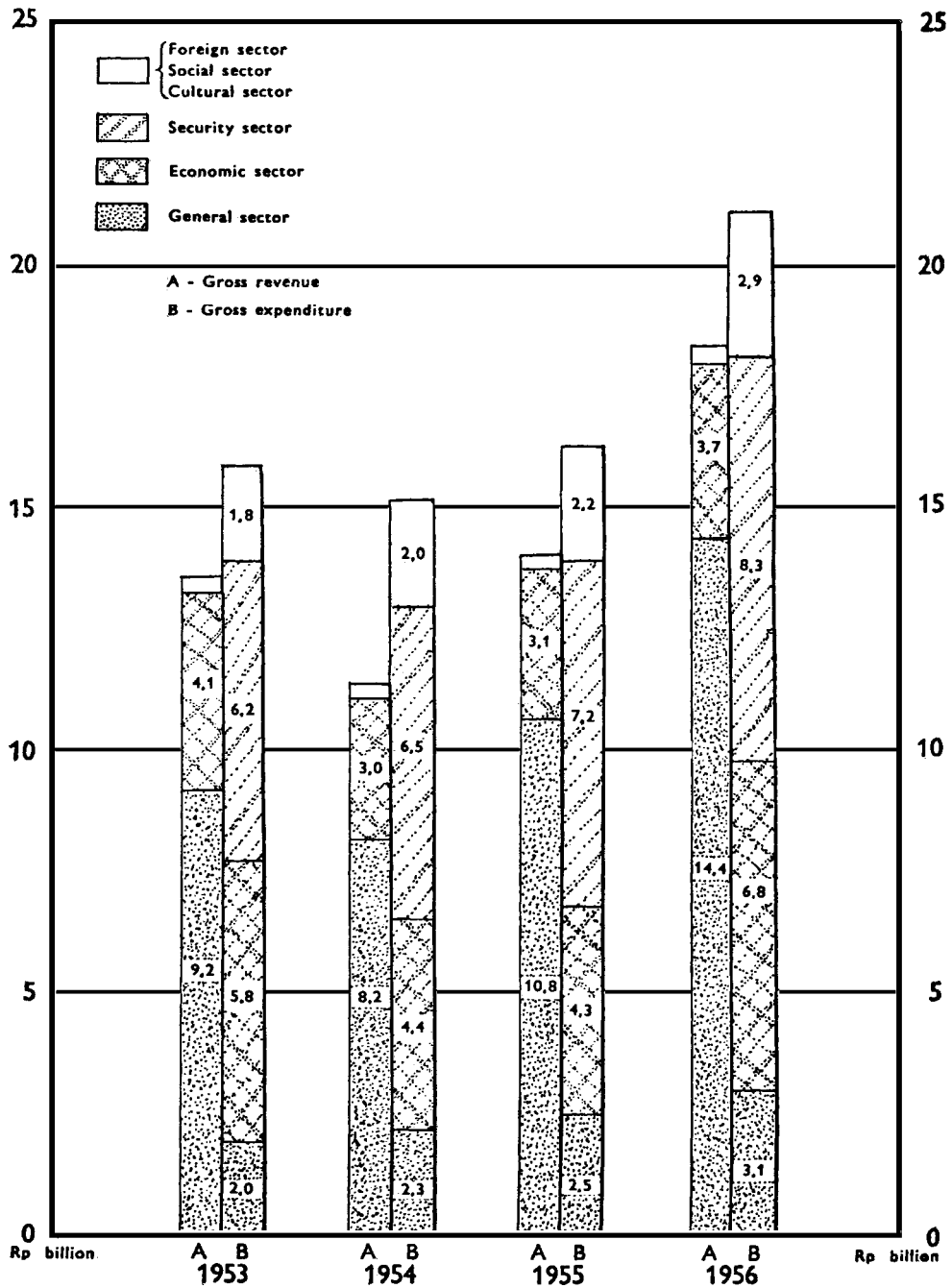
TABLE 18 — CONSOLIDATED DEBT (Rp million)								
	Debt as at the end of		Movements in 1956					Debt as at the end of 1956
	1954	1955	1st quarter	2nd quarter	3rd quarter	4th quarter	Total	
<i>External debt</i>								
1. <i>Prewar loans</i>								
Netherlands	2,086	1,982	—15	— 5	—1,962	—	—1,982	—
2. <i>Postwar loans</i>								
Australia	146	116	—29	—	—	—	— 29	87
Canada	35	—	—	—	—	—	—	—
United States								
(Surplus credit)	616	592	—	—	— 24	—	— 24	568
I.C.A.	196	196	—	— 5	—	— 6	— 11	185
Eximbank	718	764	13	28	— 8	28	61	825
Japan	684	684	—	—	—	—	—	684
Netherlands	756	695	—	— 32	— 1	—32	— 65	630
Total postwar loans	3,151	3,047	—16	— 9	— 33	—10	— 68	2,979
Total external consolidated debt	5,237	5,029	—31	— 14	—1,995	—10	—2,050	2,979
<i>Internal debt</i>								
1. Public loan 1950	1,189	1,148	— 2	— 17	— 6	— 9	— 34	1,114
2. Bank Indonesia	3,838	3,838	—	— 96	—	—	— 96	3,742
Total internal consolidated debt	5,027	4,986	— 2	—113	— 6	— 9	— 130	4,856
Total consolidated debt	10,264	10,015	—33	—127	—2,001	—19	—2,180	7,835

was redeemed; on reimbursements on the Exim-bank an amount of Rp 61 million net was received.

The internal consolidated debt decreased on aggregate by Rp 130 million to Rp 4,856 million. An amount of Rp 34 million was redeemed on the 3% Republic Indonesia 1950 loan; the consolidated debt to Bank Indonesia was reduced by approximately Rp 96 million. Against a reduction of the total consolidated debt in 1955 of Rp 249 million, there was therefore in 1956 a lowering of debt to the extent of Rp 2,180 million, including the outstanding R.T.C. debts to the Netherlands.

The course of actual budget expenditure and revenue in the years 1953 upto and including 1956, divided into sectors, is given in chart I.

CHART I — BUDGET RESULTS



V. BANKING AND CREDIT

Supervision of the credit system

Since the promulgation of Government Ordinance No 1 of 4th February 1955 on the supervision of the credit system until the end of the year under review, the number of applications by banks for licenses to operate general banking business increased rapidly. Data per end-December 1956 on the number and the regions of operations of commercial banks (joint stock banks) and of State banks are given in the following tabulation.

Region	Head Offices of Commercial Banks		Agencies & Sub- agencies of Commercial Banks		Total Commercial Banks
	<i>Private</i>	<i>State</i>	<i>Private</i>	<i>State</i>	<i>Private & State</i>
1. Djakarta-Raya	39	4	15	2	60
2. West Djawa	9	—	11	18	38
3. Central Djawa	17	—	35	31	83
4. East Djawa	7	—	41	33	81
5. Sumatera	10	—	34	32	76
6. Kalimantan	2	—	10	8	20
7. Sulawesi	5	—	9	12	26
8. Nusa Tenggara	2	—	8	6	16
9. Maluku + West Irian	—	—	—	4	4
	91	4	163	146	404

From the figures mentioned above it is evident that the majority of private commercial banks and State banks are operating in Djawa (262) and Sumatera (76.) Of the total of 91 private banks, 32 obtained a permanent licence to operate general banking business, 47 a temporary licence, whereas 12 have not yet obtained a licence at all. The last named category comprises banks whose applications for licences are still under consideration.

From the above it can be concluded therefore, that of all private owned commercial banks, 59 (i.e. the total of temporarily licensed banks and those whose licences are still under consideration) or 65% were not yet able to meet the requirement regarding the paid-up capital (Rp 2.5 million for commercial banks and Rp 0.5 million for savings banks) and/or other conditions as imposed by the Monetary Board. The large number of banks still unable to fulfil the conditions imposed on them is mainly due to the opportunity granted to banks already in operation before the promulgation of Government Ordinance No 1/1955, to continue business on a temporary licence valid for two years, during which period the conditions as imposed on them must be met (article 3, paragraph 2 of Government Ordinance No 1/1955). In this way there are by now a large number of small banks, the existence of which is contrary to the interests of solid banking, because trained personnel as well as capital—both very much in short supply in Indonesia—are splintered-up. Moreover, banks have to face sharp competition among themselves, which involves the possibility that they will not handle the credit system on a sound basis and consequently might endanger the interests of their creditors. From the fact that they are inclined to depend for all, or at least for the larger part of their operations on Government assistance, it is evident that those banks have only a limited amount of money at their disposal. If however, financial assistance by the Government does not go hand in hand with educative measures, it must be feared that the granting of assistance will lessen the eagerness of banks to perform business on their own strength and to rely on the consciousness of the public of the practical utility of a certain bank.

For information's sake note must be made that apart from the commercial banks mentioned above there are also 17 private savings banks in operation all over Indonesia.

Of the total of private banks and State banks, 14 banks have obtained the status of a foreign exchange bank.

The following is worth reporting on the supervision of the credit system as imposed by Government Ordinance No 1/1955.

In giving guidance to the credit-granting institutions mentioned above and with the object of promoting a sound development *of* these institutions, the Monetary Board taking into consideration the present level of development, laid down in its Decree No 25 of March 11th, 1957 (see Appendix G) various principles to serve as a working-basis for these institutions. These principles comprise certain directives to credit-granting institutions with regard to a sound and exact banking policy, to be followed in their banking operations.

Said Decree of the Monetary Board *inter alia* forbids credit-granting institutions :

1. to trade, with the exception of trade in stock and bonds and other negotiable papers, usually being traded by banks;
2. to establish or participate in the establishment of enterprises which do not belong to the field of operations of banks;
3. to manage enterprises which do not belong to the field of operations of banks;
4. to establish or manage warehousing and transport or insurance enterprises.

As known the above mentioned types of enterprises involve considerable risks for banks who enter into this kind of business, so that protection of the interests of creditors of the banks concerned may become illusory. Besides, the development of the banks themselves may be endangered.

In connection with the above, the first step towards the implementation of the task of supervision is an inquiry into and paying attention to the formulation of the aims of the banks as mentioned in their articles of association, because the way in which these aims are formulated indicates the future operations of the banks. Not until this first directive has been complied with by the credit-granting institutions concerned, will the second step be taken towards supervision and guidance connected with the practice of banking.

This supervision consists of :

- a) a passive method, by requiring from the credit-granting institutions concerned to submit regularly to Bank Indonesia all reports deemed necessary by the Central Bank, such as quarterly balance sheets, specifications of debtors and creditors, annual balance sheets and profit and loss accounts, in accordance with the enactments of articles 7 and 8 of Government Ordinance No 1/1 955;
- b) an active method, by controlling books and records of the creditgranting institutions concerned with the object of verifying the information and figures provided by them to Bank Indonesia in accordance with article 6 of Government Ordinance No 1/1955.

In order to implement the above mentioned task in a satisfactory manner, Bank Indonesia needs above all the necessary equipment, i.e. well-trained experts. Until now, however, these experts are not yet available, with the result that for the time being supervision is limited to the passive method; the active method can be applied only incidentally.

Credit facilities granted by foreign exchange banks

Credit policy in the past year was directed mainly towards the import sector and in particular towards “pre-financing” of imports. This relates to the financing of the pre-payments plus T.P.I. to be made by importers when applying for import licences and also to the financing of prepayments after the issue of a foreign exchange permit ; “post-financing” on the other hand comprises credit facilities for imports after arrival of the relative goods in Indonesia.

On January 23rd, 1956 Bank Indonesia ordered foreign exchange banks to stop the granting of post-financing credit facilities such in view of the fact that these credit facilities have the effect to strengthen the financial position of importers once the goods have arrived in Indonesia, with the result that importers are inclined to keep goods longer in their godowns for speculative purposes.

To foreign exchange banks, national banks and their own import relations, Bank Indonesia undertook to grant pre-financing credit facilities up to a certain percentage of the total pre-payments plus T.P.I. respectively of the pre-payments after issue of a foreign exchange permit to be made to the Foreign Exchange Fund. In the alterations made in this percentage, whereby the extent of import requirements was taken into consideration, lies the essence of the credit policy so far adopted.

The percentages with regard to said credit facilities were the following :

<i>To :</i>	<i>As from</i>	<i>Percentage of pre-payment plus T.P.I.</i>	<i>Percentage of pre-payment</i>
Foreign exchange banks	12- 4-1956	40%	
	1- 7-1956	25%	
	12-9-1956	0%	
National banks and ownclients	8-12-1955	50%	75%
	1- 7-1956	40%	60%
	1-10-1956	30%	45%
Importers of S.A.C. goods	19- 5-1956	50%	75%

Apart from facilities provided to banks as mentioned above, Bank Indonesia also fixed the maximum limit up to which banks were allowed to grant credits to their importers/clients. Consideration was given also to such questions whether the importer was a national or a foreign one, whether his enterprise was an independent import business, etc.

The combined balance sheet of Bank Indonesia and thirteen other foreign exchange banks is given in table 19. It must be observed that as compared with previous years various alterations have been made in this combined balance sheet, both in form and in composition.

This balance sheet represents the combined figures of fourteen foreign exchange banks as per December 31st, 1956. In order to allow comparisons, the

TABLE 19 — COMBINED FIGURES OF BANK INDONESIA, BANK NEGARA INDONESIA, BANK RAKJAT INDONESIA AND 11 FOREIGN EXCHANGE BANKS
(Rp million; end of period figures)

	1954 ¹⁾	1955 ¹⁾	1956					1954 ¹⁾	1955 ¹⁾	1956			
	Dec.	Dec.	March	June	Sept.	Dec.		Dec.	Dec.	March	June	Sept.	Dec.
Cash in hand	277	401	430	506	561	446	Capital, reserves, profit and loss account	967	1,226	1,361	1,430	1,396	1,484
Balances of foreign exchange banks with Bank Indonesia	1,235	601	449	293	998	546	Time deposits	153	212	218	139	174	180
Balances of foreign exchange banks with other foreign exchange banks	85	72	51	42	49	45	Government accounts	1,057	1,511	1,571	1,657	1,747	1,629
Treasury notes and bills	152	173	189	189	174	168	Rurni accounts	117	120	96	88	130	108
Securities	71	94	67	72	86	129	Guarantee deposits	150	311	300	300	361	349
Participations	30	30	32	32	34	33	Demand deposits and bills payable	3,643	3,587	3,444	3,136	3,476	4,021
Advances and domestic bills discounted	2,960	4,127	4,437	4,758	4,733	4,806	Debt of foreign exchange banks to other foreign exchange banks	85	72	50	41	49	45
Foreign bills and balances	932	1,320	1,061	1,010	900	1,236	Prepayments from importers	1,217	3,326	3,456	3,321	2,864	3,343
Premises and inventory	270	330	335	353	377	394	Sundry credit accounts	42	105	197	313	425	156
Sundry debit accounts	162	107	71	70	90	206							
Gold, claims in gold on the Government and convertible foreign exchange	6,174	7,255	7,122	7,325	8,002	8,009	Foreign Exchange Fund : foreign liabilities	7,431	10,470	10,693	10,425	10,622	11,315
Foreign Exchange Fund : foreign currency account	1,055	953	953	954	544	534	Debt of Bank Indonesia to other foreign exchange banks	1,738	1,555	1,528	1,676	1,854	1,987
Advances to the Government :	1,460	2,038	1,587	1,012	1,686	1,918	Banknotes issued	1,235	601	449	293	998	546
a. from Bank Indonesia	8,472	8,332	7,935	8,392	9,836	10,752	E.C.A. and S.A.C. counterpart accounts	7,270	8,474	7,667	7,861	8,194	9,175
b. from importers	1,173	3,200	3,388	3,133	2,503	3,083	I.M.F. and I.B.R.D. accounts	645	663	633	546	575	945
Claims in rupiah on the Government	171	171	171	171	314	314		186	186	186	186	642	642
	18,505	21,949	21,156	20,987	22,885	24,610		18,505	21,949	21,156	20,987	22,885	24,610

¹⁾ Adjusted figures

balance sheets of said banks per end-December 1954, end-December 1955 and per end of each quarter of 1956 are included also, although some banks at those dates had not yet attained the status of a foreign exchange bank.

Data in table 19 illustrate that in 1956 aggregate capital, reserves and profit and loss accounts of the foreign exchange banks increased by Rp 258 million, or 21%. Domestic creditors showed also an increase, to wit, by Rp 434 million (12%), whereas time deposits from private enterprises or individuals decreased by Rp 32 million, or 15%. Furthermore, attention must be drawn to the item "Pre-payments by importers", which became of great importance since the establishment of the B.D.P.. This item (22) represents the total amount of pre-payments received by banks from importers; on the other side pre-payments deposited with the Foreign Exchange Fund by banks are entered into item 13.6 under the heading "Advances to the Government: from importers". As a matter of fact total pre-payments received by the foreign exchange banks, Bank Indonesia excepted, at certain times showed larger balances than the amount paid-in at the Foreign Exchange Fund. In other words, the banks — for technical administrative reasons — received more from importers than they deposited with the Foreign Exchange Fund. When the level of imports rises or remains stable, as was generally the case during 1956, the symptom that the balance of pre-payments on the credit side exceeds the debit balance, assumes a permanent character. In this connection it can be stated that the difference between credit and debit balance which occurred with twelve foreign exchange banks (in the year under review Bank Rakjat Indonesia did not yet receive pre-payments), aggregating per end of the first, second, third and fourth quarter 1956 Rp 68 million, Rp 188 million, Rp 361 million and Rp 260 million respectively, undoubtedly constituted a very substantial source of money creation.

Credit granting by banks as illustrated by item 7 of the combined balance sheet, showed a continuous, fast rise during 1956 with the sole exception of end-September, notwithstanding the fact that Bank Indonesia as from July 1st, 1956 had endeavoured directly as well as indirectly to reduce bank credits, in the first place credits to the import sector. Said efforts of Bank Indonesia were hampered however, by the granting of credit facilities by the Ministry of Finance to private

TABLE 20 — CREDITS GRANTED BY BANK INDONESIA, BANK NEGARA INDONESIA AND 11 FOREIGN EXCHANGE BANKS ¹⁾ (Rp million; end of period)					
	1955 ²⁾	1956			
	December	March	June	September	December
A. <i>Government enterprises and foundations</i>	581	328	444	486	407
B. <i>Enterprises predominantly financed by the Government</i>	32	35	38	41	48
C. <i>Private business and individuals</i>					
Banks and credit institutions (excl. foreign exchange banks)	41	48	63	54	55
Insurance companies, savings institutions, pension funds	17	11	16	16	16
Rice mills	4	4	4	4	4
Domestic produce trade	83	89	79	89	83
Exporters	390	406	375	444	375
Importers	867	1,171	1,221	1,119	1,367
Sugar estates	364	319	353	376	318
Other agricultural estates	187	283	281	256	241
Industries	302	366	363	342	354
Storage and transport companies	44	58	69	66	69
Mining	4	2	2	28	3
Miscellaneous enterprises	419	409	413	429	460
Private persons	67	79	91	100	125
Sub total	2,789	3,245	3,330	3,323	3,470
Grand total	3,402	3,608	3,812	3,850	3,925
¹⁾ Excl. Bank Rakjat Indonesia ²⁾ Adjusted figures					

enterprises (including national private banks), either direct or via the intermediary of other banks. These credits totalled about Rp 540 million in the year under review.

As the specification of debtors in table 20 (excluding Bank Rakjat Indonesia) reveals, credit expansion during 1956 was brought about chiefly by the increase of credits granted to the import sector — resulting from the higher import level—and to the industrial sector. At the end of 1956 credits to exporters, importers, estates, industry and Government enterprises and foundations totalled Rp 375.3 million (9.6%), Rp 1,367.2 million (35%), Rp 559.2 million (14, %), Rp 353.5 million (9%) and Rp 407.2 million (10.4%) respectively. At the end of 1955 the relative figures were Rp 390.4 million (11.5%), Rp 867.0 million (25 %), Rp 551.4 mil-

TABLE 21 — CREDITS GRANTED TO PRIVATE ENTERPRISES AND INDIVIDUALS BY 7 FOREIGN AND 6 OTHER BANKS ¹⁾ (Rp million)								
Granted to	1955				1956			
	7 foreign banks		6 other banks		7 foreign banks		6 other banks	
	Total	%	Total	%	Total	%	Total	%
1. Exporters	295.5	18	94.9	8	285.4	16	89.9	5
2. Importers	450.4	27	416.6	37	612.0	35	755.2	44
3. Agricultural estates	393.3	24	158.1	14	368.9	21	190.3	11
4. Industries	158.9	10	143.5	13	158.3	9	195.2	11
5. Others	353.1	21	324.7	28	344.1	19	470.4	29
Total	1,651.2	100	1,137.8	100	1,768.7	100	1,701.0	100
a. Indonesians	458.3	28	952.7	84	643.9	36	1,497.1	88
b. Non-Indonesians	1,192.9	72	185.1	16	1,124.8	64	203.9	12
¹⁾ Exclusive of Bank Rakjat Indonesia								

lion (16%), Rp 302.4 million (9%) and Rp 581.1 million (17%). The proportional share of Indonesian enterprises and individuals rose from Rp 2,023.9 million (59,%) per end 1955 to Rp 2,596.1 million (66%) as at the end of 1956. Credits granted to Government enterprises and foundations per end-1956 were lower by Rp 173.9 million, as compared with end-1955. This resulted chiefly from a decrease of credits

TABLE 22 — LIQUIDITY POSITION OF 13 FOREIGN EXCHANGE BANKS ¹⁾					
End of	I	II	III	IV	$\frac{I + II}{III + IV} \times 100\%$
	Cash assets (Rp million)	Demand deposits with Bank Indonesia (Rp million)	Demand deposits (Rp million)	Other debts on demand (Rp million)	
1954 December	296.1	1,392.2	3,050.3	133.9	53.0
1955 December	420.4	692.4	3,205.2	232.3	32.4
1956 March	436.8	601.4	3,374.9	263.0	28.5
June	518.0	483.2	3,162.1	306.7	28.9
September	575.7	1,093.8	3,419.1	237.0	45.7
December	459.2	845.1	3,467.1	453.0	33.3
1957 January	485.3	1,215.0	3,583.5	405.6	42.6
February	509.9	984.3	3,611.7	379.9	37.4
March	538.8	915.4	3,725.7	238.3	36.7
¹⁾ Exclusive of Bank Indonesia					

to the J.U.B.M. (Food Foundation) by Rp 209 million; credits to the Copra Foundation in liquidation rose by Rp 46 million. Credits to exporters were less, due to the general fall of exports; moreover, export premiums granted to exporters allayed their financial burdens. In contrast, credits to the import sector increased by Rp 500.2 million.

As table 21 illustrates, of credits granted particularly to private enterprises and individuals by thirteen foreign exchange banks (excluding Bank Rakjat Indonesia) per end-December 1956, seven foreign-owned banks took a proportional share of 51%, against 59 % per end-1955. Of aggregate credits granted by these seven foreign banks per end-December 1956, 36% was granted to Indonesian enterprises and individuals, against 28% per end-1955. The conclusion can be drawn that this increase resulted chiefly from higher credits to national importers. As to the spreading of credits, the foreign banks concentrated their credit operations

TABLE 23 — SPECIFICATION OF CURRENT ACCOUNTS FROM BANK INDONESIA BANK NEGARA INDONESIA AND 11 FOREIGN EXCHANGE BANKS ¹⁾ (Rp million ; end of period)					
	1955	1956			
	December	March	June	September	December
A. <i>Government enterprises and -foundations</i>	127.0	132.2	149.3	141.7	339.6
B. <i>Enterprises predominantly financed by the Government</i>	33.1	24.0	44.5	41.5	60.6
C. <i>Private business and individuals</i>					
Banks and credit institutions (excl. foreign exchange banks)	136.5	186.8	87.8	201.3	134.2
Insurance companies, savings institutions, pension funds	134.8	171.3	156.0	162.7	150.6
Rice mills	22.9	10.9	12.7	10.0	14.9
Domestic produce trade	66.9	70.1	70.6	52.3	70.7
Exporters	100.4	90.7	52.9	59.7	80.4
Importers	443.5	482.0	322.5	408.1	391.8
Sugar estates	43.1	61.7	70.8	61.4	69.6
Other agricultural estates	377.2	331.4	242.7	324.1	310.4
Industries	258.5	270.4	320.7	322.2	410.4
Storage and transport companies	102.1	84.9	76.0	100.6	84.0
Mining	17.0	4.2	3.1	7.2	2.5
Miscellaneous	578.9	435.0	463.3	443.3	539.5
Private persons	611.2	558.9	528.5	569.4	591.5
Sub total	2,893.0	2,758.3	2,407.2	2,722.3	2,850.5
Grand total	3,053.1	2,914.5	2,601.0	2,905.5	3,250.7
¹⁾ Excl. Bank Rakjat Indonesia					

for the larger part on the category of exporters, importers and estates, whereas the other banks laid the emphasis on the import sector. Striking is the large difference between aggregate credits granted by foreign banks on the one hand and by other banks on the other hand, to the export sector.

Table 22 reveals the liquidity position of thirteen foreign exchange banks (exclusive of Bank Indonesia). In this calculation liquidity is taken in a restricted sense because the comparison is made only between cash liquidities and demand liabilities.

State Banks

Bank negara Indonesia

In July 1956 the B.N.I. celebrated its 10th anniversary. The paid-up capital (Rp 100 million) did not experience any change during 1956. This applies also to working capital in the form of time deposits (Rp 225 million) provided by the Government.

The B.N.I. operates at present 15 branch-offices throughout Indonesia, and has one branch-office in Singapore.

The cadre training course covering a training period of two and a half years, supplied 28 graduates to date.

Total outstanding credits granted by the B.N.I. amounted to Rp 955 million at the end of 1956, against Rp 743 million per end-1955. Of the said total at the end of 1956 the category exporters and importers represented 37.5%, while the industrial, agrarian and transportation sectors taken together shared 28.6%. At the end of 1955 these percentages were 51%, and 28.2% respectively.

Bank Industri Negara

Compared with the figures as at the end of the year 1955, the financial means of Bank Industri Negara per end-1956 increased satisfactorily.

The paid-up capital and reserves increased from Rp 316 million to Rp 484 million during the year under review while fixed liabilities advanced also, to wit from Rp 338 million to Rp 460 million. Included in this last amount are Government deposits totalling Rp 178 million; the balance of Rp 282 million represents loans originating from holders of the so-called Rurni accounts (nonresidents' blocked rupiah accounts).

Credits outstanding rose from Rp 515 million at the end of 1955 to Rp 1,061 million, showing an increase of more than 100%. Of the latter amount Rp 101 million was granted to Government enterprises and foundations, Rp 294 million to mixed enterprises (Government and private), whilst Rp 665 million were advances to private enterprises and individuals.

For the larger part credit operations were directed towards the financing of industrial enterprises and sugar estates, viz. to the extent of 70 % and 15 %. It should be mentioned that credits were granted exclusively to Indonesian enterprises.

During the year under review participations also increased, to wit from Rp 128 million to Rp 162 million.

Bank Rakjat Indonesia

As from 1st January 1957 the B.R.I. was granted the status of a foreign exchange bank. It is expected that with the B.R.I. becoming a foreign exchange bank and having many branch-offices throughout Indonesia, the facilities will be available to provide more adequate and badly needed service regarding overseas transactions.

TABLE 24 — 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
1955	106.3	18	84.4	14	415.5	68	606.2
1956	94.1	12	108.4	14	574.4	74	776.9

Source : Bank Rakjat Indonesia

During the year under review the total amount of credits granted increased by Rp 171 million, as compared with an increase of Rp 126 million in the year 1955.

The monthly average of new loans amounted in the aggregate to Rp 127.8 million; repayments totalled on average Rp 113.7 million per month. Corresponding figures for 1955 were Rp 86 million and Rp 66 million.

Table 24 illustrates how credits granted by the B.R.I. were spread over the various sectors. Credits to the agrarian sector were less; on the other hand credits to the middle class group and current account loans increased uninterruptedly. Although in a relative sense (i.e. in relation to other sectors) credits to the fixed income group did not vary, the total amount of credits granted to this category in the absolute sense, was higher also.

Desa (village) banks decreased in number during 1956. The total amount of outstanding loans however, was larger at the end of 1956, as compared with the end of 1955.

Aggregate loans granted during the year under review amounted to Rp 232.9 million, whereas repayments totalled Rp 230.4 million. Mention must be made that during 1956 the average amount of loans granted per desa bank was Rp 50,000, against Rp 48,000 in 1955.

TABLE 25 — 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	2,230	15.0	50.1
1953 ¹⁾	4,373	49.2	150.9
1954 ¹⁾	4,604	57.5	200.2
1955 ¹⁾	4,657	65.1	223.8
1956	4,633	67.6	232.9
¹⁾ Adjusted figures			

Source : Bank Rakjat Indonesia

National private banks

As already reported at the beginning of this chapter, the total of commercial banks in Indonesia per end-December 1956 was 95 (including Bank Indonesia), operating 309 branches. Among these are 14 foreign exchange banks with 210 branches. Thus, the number of national private banks, nonforeign exchange banks, is 80 with 96 branches, which means that on average each bank has one branch only (Bank Industri Negara not included).

As the combined balance sheet of the national private banks in table 26 illustrates, the number of banks who submit well-drafted reports is 41 only; 39 banks do not submit reports yet. The reasons of this state of affairs are among other things the following.

The total of 80 national private banks comprises the number of corporations to whom licences have been issued to conduct banking business on the strength of Government Decree No 1/1955, either permanent or temporary licences, but included are also banks whose applications for licences are still under consideration. Actually, not all 80 banks are in operation. Besides, various new banks are

TABLE 26 — COMBINED FIGURES OF NATIONAL PRIVATE BANKS (end of period; Rp '000)				
	All reporting banks ¹⁾		20 largest banks	
	Dec. '55	Dec. '56 ²⁾	Dec. '55	Dec. '56 ²⁾
<i>Assets :</i>				
1. Cash	24,875	39,839	24,510	29,176
2. Balances with banks	56,034	118,245	54,864	102,124
3. Treasury notes and bills	340	372	340	372
4. Investment in securities	4,121	10,660	4,107	9,929
5. Debtors, domestic bills	205,141	533,014	201,957	483,423
6. Participations	638	2,896	638	2,331
7. Real estates	10,557	26,301	10,374	21,693
8. Sundry	98,352	237,208	98,326	229,096
Total	400,058	968,535	395,116	878,144
<i>Liabilities :</i>				
9. Capital	36,831	68,020	36,103	44,255
10. Reserves	3,740	18,091	3,636	17,259
11. Loan capital	—	60,004	—	43,750
12. Balances of other banks	29,854	48,187	29,847	46,175
13. Demand deposits, bills payable	168,723	277,272	164,804	249,100
14. Time deposits	74,893	101,288	74,857	92,564
15. Sundry	86,017	395,673	85,869	385,041
Total	400,058	968,535	395,116	878,144
¹⁾ End of December 1955 : 23 banks; end of December 1956 : 41 banks ²⁾ Provisional figures				

experiencing difficulties in organizing their administration, with the result that they are not able yet to submit well-drafted reports as required by Bank Indonesia.

A peculiarity in the banking world in 1956 were credits totalling large amounts, granted by the Government to banks or to certain enterprises via the intermediary of banks in the form of “advances”, “liquidity credits” and “open credits”.

Advances were granted by the Government to strengthen the financial means of the banks concerned. In 1956 an amount of Rp 3.5 million was advanced to

foreign exchange banks and Rp 54.4 million to national private banks. Similarly, liquidity credits were granted directly by the Government to banks with the object of passing them on to certain enterprises. Liquidity credits granted to foreign exchange banks totalled Rp 97.8 million in 1956 and to national private banks Rp 180.7 million. Apart from this, there are credits granted by Bank Indonesia to banks to be passed on to enterprises indicated by the Government, for which Bank Indonesia obtains guarantees in the form of Treasury notes and bills. Open credits were granted to a total amount of Rp 176.3 million to foreign exchange banks in 1956 and to Rp 85.0 million to national private banks.

In table 26 are included (a) the combined balance sheets of all national private banks reporting to Bank Indonesia and (b) the combined balance sheets of the 20 largest national private banks. Mention must be made that the composition of the 20 largest national private banks is not exactly the same per end-1956 as per end-1955.

It appears that the figures regarding the 20 largest banks do not differ much from the figures of all 41 banks, which indicates that the financial means of these remaining 21 banks are still very small.

With regard to the 20 largest national private banks the following is worth reporting.

Of the total of debits of the combined balance sheets the items "Balances with banks", "Debtors and domestic bills" and "Sundries" show substantial increases. The presumption is that the rapid increase of "Debtors and domestic bills" and "Balances with banks" was made feasible by "liquidity credits" and "risk bearing credits", as explained above.

On the credit side the items "Domestic creditors and bills payable" rose by 51%. As appears from the item "Sundries" (credit side), the presumption is that banks have entered into this item their liabilities concerning "liquidity credits" and "risk bearing credits".

TABLE 27 — SPECIFICATION OF DEBTORS (end of period; Rp '000)				
Sector	All reporting banks ¹⁾		20 largest banks	
	Dec. '55	Dec. '56 ²⁾	Dec. '55	Dec. '56 ²⁾
1. Trade	120,365	344,402	119,185	318,161
2. Industry	47,309	119,404	46,398	111,366
3. Transportation	4,235	8,853	4,115	6,438
4. Estate agriculture	3,122	11,207	2,745	7,418
5. Individuals	17,305	27,825	17,178	23,689
6. Sundry	10,890	9,037	10,427	5,850
Total	203,226	520,728	200,048	472,922
¹⁾ End of December 1955 : 23 banks; end of December 1956 : 41 banks				
²⁾ Provisional figures				

It is striking that aggregate capital of these 20 banks amounts to Rp 44.3 million only. The conclusion must be drawn therefore, that even from these 20 largest national private banks not all have complied with the condition imposed by Government Decree No 1/1955, that a bank must have at its disposal a paid-up capital to a minimum of Rp 2.5 million. A similar conclusion can be drawn when viewing the aggregate capital of 41 banks which totals Rp 68.0 million only. On the other hand, time deposits show an increase. It may be assumed however, that in this total are included also Government deposits.

TABLE 28 — SPECIFICATION OF CURRENT ACCOUNTS (end of period; Rp '000)				
Sector	All reporting banks ¹⁾		20 largest banks	
	Dec. '55	Dec. '56 ²⁾	Dec. '55	Dec. '56 ²⁾
1. Trade	42,853	93,066	40,714	81,698
2. Industry	12,797	11,567	12,784	8,761
3. Transportation	676	4,369	584	3,649
4. Estate agriculture	4,553	3,036	4,489	620
5. Individuals	36,170	44,643	35,747	40,484
6. Sundry	24,597	59,097	24,055	53,298
Total	121,646	215,778	118,373	188,510
¹⁾ End of December 1955 : 23 banks; end of December 1956 : 41 banks				
²⁾ Provisional figures				

As the figure of combined debtors of the 20 largest national private banks indicates (see table 27), the larger part of credits was granted to the trade sector (67%) and to the industrial sector (23%). Per end-1955 these percentages were 59,% and 23% respectively.

Finally, table 28 shows the current account balances with national private banks, according to economic sectors.

Pawnshop service

The number of pledges and articles redeemed, as well as the total amount of money loaned and repaid increased noticeably.

The number of pawnshops in operation was higher by 8 as compared with the previous year. Total outstanding loans rose from Rp 595 million per end 1955 to Rp 752 million at the end of 1956.

The average time during which pledges of category A (valued from Rp 0.50 to Rp 25.—) stood on deposit was 95 days, similar as in 1955.

TABLE 29 — PAWNSHOP SERVICE						
End of	Number of pawnshops	(million)				Outstanding loans (Rp)
		Pawning		Redemption		
		Number of pledges	Amounts loaned (Rp)	Number of articles redeemed	Amounts repaid (Rp)	
1940	468	50	88	45	85	33
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
1955	414	42	1,606	38	1,423	595
1956	422	46	1,966	45	1,809	752

Source : Pawnshop Service

Savings banks

The number of branches operated by Bank Tabungan Pos (General Post Office Savings Bank) amounted to 808 per end 1956, against 783 at the end of the preceding year. The number of savings books issued amounted to 796,279 per end-December 1956, while the average balance of savings per book amounted to Rp 282.61.

TABLE 30 — CREDIT BALANCES AT SAVINGS BANKS (Rp '000)			
End of	Post Office Savings Bank	Private savings banks	Total
1940	50,607	15,941	66,548
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
1955	188,710	25,182	213,892
1956	225,035	34,180	259,215

Deposits with the General Post Office Savings Bank and the six largest private savings banks were higher by Rp 45 million in 1956, against an increase of Rp 34 million in 1955.

Jajasan Lembaga Djaminan Kredit (L. D. K.)

In my previous report mention was made of Resolution Nr 2.110/M of the Minister of Economic Affairs dated February 28th, 1956, whereby the statutes of Jajasan Kredit underwent alterations, both with regard to principles and operating techniques. Besides changing the name from Jajasan Pemusatan Djaminan Kredit Rakjat (Jajasan Kredit) into Jajasan Lembaga Djaminan Kredit (L.D.K.), the purpose of L.D.K. was defined more clearly, factually as a credit guaranty board designed to act as guarantee for risks and liquidity with regard to applications for

credits approved by L.D.K. and channelled through banks by using wherever possible, the liquid means of the latter.

In the year under review however, the intended reorganization could not be carried out fully, because the transition from the previous set-up into a new organization as mentioned above takes, quite understandably, a considerable time. Therefore, all activities of L.D.K. in 1956 were still in the frame of the old set-up, with the exception of the composition of the Supervising Board and the Executive Board at the centre, which are already in conformity with the planned reorganization.

Table 31 shows the credits guaranteed by L.D.K. as developed from September 1952, classified in various sectors of enterprise, as well as arrears in redemptions of loans granted by the banks concerned. This table reveals that the number of credit applications to be guaranteed by L.D.K. did not differ largely in the year under review from the state of affairs in the preceding year; applications totalled 618 against 694 in 1955.

Whereas the number of applications for credit was slightly less than in the previous year, the amount of credit applied for doubled, viz. Rp 126 million in 1956 against Rp 73 million in 1955.

Of the credit applications entered, 120 were granted during 1956, or 20%. This percentage is also less as compared with the preceding year (23%), and indicates that L.D.K. was more cautious than in the preceding year, such to prevent an increase in arrears of redemptions. Furthermore, similarly as in 1955, in the year under review about 56% of total credits were granted to the industrial sector while about 29% went to enterprises falling under the Service for Internal Trade and General Economy.

As to the number of arrears mentioned in table 31 developments were also satisfactory. The increase in the number of arrears in redemption was definitely less in the year under review compared with the increase in the preceding year ; in

TABLE 31 — OPERATIONS OF JAJASAN LEMBAGA DJAMINAN KREDIT
(figures covering period of September 1952/ December 1956, including Branches of L.D.K.)

TABLE 31 — OPERATIONS OF JAJASAN LEMBAGA DJAMINAN KREDIT (figures covering period of September 1952/ December 1956, including Branches of L.D.K.)													
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 cre- dits reported about	Total (Rp '000)	As % of cre- dits reported about
General economic affairs	1,039	195,171	628	104,203	354	65,273	321	55,570	181	128	71	9,083	43
Industry	1,959	247,816	1,189	151,662	670	29,109	643	28,574	396	344	87	11,123	69
Co-operatives	285	27,133	107	7,750	164	11,142	155	9,765	82	44	54	2,083	45
Agricultural	7	1,517	1	600	—	—	—	—	—	—	—	—	—
“Jatra”	1	44,000	—	—	1	44,000	1	24,000	—	—	—	—	—
“Perrin”	1	29,000	—	—	1	16,000	1	8,100	—	—	—	—	—
Total	3,292	544,637	1,925	264,215	1,190	165,524	1,121	126,009	659	516	78	22,289	53

Source : Jajasan Lembaga Djaminan kredit

1956 the increase was 5% of total outstanding credits, against 9% in the year before.

However, when viewing the amount involved in arrears, it is evident that the decrease of the number of debtors in arrear did not result in an appreciable decrease of the total amount of arrears. Aggregate arrears were less by Rp 0.5 million as compared with the preceding year, when total arrears amounted to about Rp 6.3 million. This is proof that debtors in general are still too little aware, that they have to fulfil their obligations with regard to redemption of their loans in a disciplinary way, in accordance with the amounts agreed upon.

Stock Exchange

Similarly as in the preceding year, in 1956 too entrepreneurs in this country did not avail themselves of the intermediary of the Stock Exchange for procuring long term capital. True, in the year under review one issue was offered of Rp 100 million 3% debentures Bank Industri Negara 1956/1971, but the subscription to this issue was open solely to non-residents, holders of blocked rupiah accounts. In like manner as with previous B.I.N. loans, permission was granted to transfer the debentures on behalf of subscribers abroad; at the same time it was decided that interest and redemption of debentures held abroad will be transferable. B.I.N. debentures are officially quoted on the Amsterdam Stock Exchange.

Last year, like before, there was a marked tendency among institutional investors to sell their holdings of fixed interest bearing securities quoted on the Stock Exchange, and to utilize the proceeds for the issue of loans of a high-interest type as well as for mortgages. In this connection it is worthwhile mentioning that at the beginning of 1957 some issues of debenture loans by national enterprises were announced with an interest rate, varying from 10% to 24% per annum. These loans have not been quoted on the Stock Exchange yet. It seems to me that in order to avoid irregularities an institution should be created, to be charged with the task of registering all debenture loans issued outside the official Stock Exchange.

TABLE 32 — SALES AND QUOTATIONS ON THE DJAKARTA STOCK EXCHANGE OF THE MOST IMPORTANT SECURITIES						
	Sales (nominal value)		Highest price		Lowest price	
	1955	1956	1955	1956	1955	1956
	(Rp '000)					
3% R.I. bonds 1950	183,871	136,214	65	58 $\frac{1}{8}$	55 $\frac{1}{2}$	55 $\frac{1}{2}$
5% bonds Grand Hotel Preanger	13	3	100	85	80	60
3% B.I.N. bonds 1969	56,307	9,993	86	80 $\frac{3}{4}$	76 $\frac{3}{4}$	75 $\frac{3}{4}$
3% B.I.N. bonds 1970	—	51,232	—	79	—	75
3% B.I.N. bonds 1971	—	28,705	—	76 $\frac{1}{4}$	—	74 $\frac{1}{2}$
3 $\frac{1}{2}$ % Ned. Indië bonds 1935	7	65	78	78 $\frac{1}{4}$	76	60
3% Ned. Indië bonds 1937	53	19	79 $\frac{1}{2}$	80	76	60
3% Ned. Indië bonds 1937A	837	709	80 $\frac{1}{2}$	80	76	55
Escomptobank	3,888	2,257	475	467	270	398
Stroochoedenveem	223	205	710	660	410	180
Vereenigde Prauwenveren	933	554	700	480	325	235
Semarangsche Stoomboot en Prauwenveer	637	405	335	270	170	170
Tagalsche Prauwenveer	194	46	495	500	260	290
G.E.B.E.O.	415	302	1,035	860	465	350
Pandjic & Tandioongsari	348	596	420	300	175	145
	(Neth. Gld '000)					
H.V.A.	23	15	1,450	1,050	880	600
Nationale Handelsbank	116	115	1,700	1,000	850	520
Vereenigde Vorstenlandsche Cultuur Mij	53	62	625	300	140	140
Koninklijke Olie	102	66	5,750	1,050	3,000	3,200

As known already, since February 1955 an import tax is levied on securities imported into Indonesia (so-called T.P.I.-Efek) to the rate of 33 $\frac{1}{3}$ % of the rupiah value of the securities concerned. At the end of March 1977 the amount received as T.P.I.-Efek totalled in round figures Rp 40 million. The inference, therefore, is that during the period as from February 1955 to consisting for the larger part of 3 % B.I.N. debentures. Due also to April 1957, securities were imported to an actual value of Rp 120 million this relatively large import and to the lack of willingness to invest savings in securities—actually, only trade for the account of institutional investors is of some significance, whilst these investors prefer debentures to shares—striking advances of quotations did not occur. In table 32 the sales and quotations of some of the most important securities traded on the Djakarta Stock Exchange are mentioned. Note has to be made that sales of Indonesian stock, Government bonds and B.I.N. debentures excluded, totalled no more than Rp 7.9 million in the year under review, against Rp 10.4 million in the preceding year.

Finally, it must be recorded that as a consequence of the abolishment of the Round Table Conference agreements, Indonesia announced in February 1956 that

it was determined to discontinue payments of interest and redemption regarding pre-war loans 3 1/2% Netherlands Indies 1935, 3% Netherlands Indies 1937 and 3% Netherlands Indies 1937A. As the said loans were guaranteed by the Kingdom of the Netherlands, payment of interest and redemption is now made in Dutch currency; this applies also to bonds held in Indonesia, with the exception however, of bonds which as from December 3rd, 1956 are the property of the Republic of Indonesia or one of its agencies. The same line of conduct applicable to the three Netherlands Indies loans is pursued by Indonesia with regard to pre-war municipal loans.

VI. FOREIGN TRANSACTIONS AND ARRANGEMENTS

Introductory

Whereas in 1955 foreign exchange transactions of Indonesia with other countries resulted in a surplus to the amount of Rp 1,015 million—since 1951 no surplus had occurred—the balance of payments of 1956 once again showed a deficit which brought about a fall in the gold and foreign exchange holdings of the country by Rp 1,112 million.

This large deficit in the balance of payments was the more disappointing in view of the fact that in 1956 a substantial part of expenditures abroad could be financed by a drawing on the International Monetary Fund, by purchases under the Surplus Agricultural Commodities (S.A.C.) Arrangement, by loans from the Exim-bank and by credits from various European countries (the so-called “B” and “C” credits).

The drawing on the I.M.F. and the receipts made on account of the S.A.C. Arrangement as well as the loans mentioned, totalling together Rp 1,171 million, and furthermore the retrenchment carried out in the services sector during 1956—as will be stated below, the deficit in this sector was less by Rp 599 million in 1956 when compared with 1955—obviously were not sufficient to close the gap in the balance of trade caused chiefly by large payments for imports and only for a smaller part by diminished export proceeds. With imports totalling Rp 9,389 million in 1956 an import level was reached far above that of previous years.

The 1956 deficit nullified entirely the accruelement of gold and foreign exchange reserves achieved in 1955. Although this must be regretted—moreover, afterwards several factors occurred which could not be foreseen and which formed a great handicap for the improvement of the foreign exchange position, such as difficulties between the central and local governments—it would be wrong to assume that the large expenditure for imports was an irresponsible waste of for-

TABLE 33 — GOLD AND FOREIGN EXCHANGE HOLDINGS ¹⁾ (Rp million)								
End of	Gold holdings of Central Bank and Foreign Exchange Fund	Ready foreign exchange position of the Foreign Exchange Fund		Sub total	Bank balances abroad	Other foreign exchange holdings	Total	Total movement within year period
		Assets	Liabilities					
1951	1,103	563	— 251	1,415	659		2,074	+ 561
1951 ²⁾	3,309	1,691	— 753	4,247	1,977		6,224	
1952	2,777	123	— 874	2,026	1,557	— 26	3,557	— 2,667
1953 ³⁾	1,688	173	— 1,097	764	1,263	10	2,037	— 1,520
1954 ³⁾	1,055	1,460	— 1,738	777	856	30	1,663	— 374
1955	953	2,038	— 1,555	1,436	1,236	6	2,678	+ 1,015
1956	532	1,918	— 1,987	463	1,097	6	1,566	— 1,112
1955 March	952	1,778	— 1,714	1,016	929	6	1,951	+ 288
June	952	1,622	— 1,704	870	922	6	1,798	— 153
Sept.	952	1,799	— 1,667	1,084	1,007	7	2,098	+ 300
Dec.	953	2,038	— 1,555	1,436	1,236	6	2,678	+ 580
1956 March	953	1,587	— 1,527	1,013	1,046	5	2,064	— 614
June	953	1,012	— 1,676	289	955	6	1,250	— 814
Sept.	543	1,686	— 1,854	375	914	5	1,294	+ 44
Dec.	532	1,918	— 1,987	463	1,097	6	1,566	+ 272

¹⁾ Figures appearing in the above table differ from those mentioned in Chapter III in that foreign bills have been excluded because the respective data have been calculated on cash basis. For this reason bank balances abroad also show a difference. Finally, in Chapter III other foreign exchange holdings have been left out of account

²⁾ At the post-February 4, 1952 rate

³⁾ Revised figures

Source : Bank Indonesia

eign exchange. The increase of imports was certainly necessary in view of the following circumstances: firstly, the necessity to cover the shortage of goods sharply felt in 1955 which resulted from the policy of restricting imports as pursued in 1954 and the first halfyear of 1955; secondly, the necessity to stockpile goods in view of the tense world situation caused by the events around the Suez canal.

Meanwhile, with the appearance of the deficit in 1956, foreign exchange holdings of the country (including the foreign liabilities of the Foreign Exchange Fund) totalled at the end of the year no more than Rp 1,566 million, as table 33 reveals. Compared with end of the year figures of previous years, this amount was the lowest since the declaration of independence. Taking into consideration that this amount comprises also the working balances of foreign exchange banks—which must be considered as earmarked—it is obvious that every endeavour must be made to prevent any further deterioration in the foreign exchange position.

At the end of 1956 there were no indications that the fall of foreign exchange reserves could be halted in the first months of 1957. Moreover, the events at the end of 1956 in various regions of Sumatera and Sulawesi will certainly cause a further dwindling of the foreign exchange receipts of the country in 1957.

From the above it is evident that in the year 1957 Indonesia will face many difficulties in the economic and monetary field; above all, the weak foreign exchange position on entering the year, requires measures of retrenchment with respect to foreign exchange expenditure.

In view of the above my considered opinion is that at the present stage the implementation of development projects either of the Government or private enterprise, requiring long term expenditure, for the time being must be postponed unless there are special additional sources made available for this purpose.

Meanwhile, retrenchment of foreign exchange expenditure has its limits. Either to meet minimum needs of consumer goods or to supply badly needed raw materials, auxiliary goods or capital goods, such in order to keep the existing production machinery running, a minimum outlay of foreign exchange is necessary, which minimum can not be lowered without disturbing the internal economic situation.

In the services sector too there is no possibility of reducing expenditure to an unlimited extent. Apart from the risk of bringing about undesirable consequences for the economic life of the country in case expenditure on behalf of private enterprise would be restricted more still, there are in this sector various categories of expenditure, retrenchment of which is very difficult or hardly feasible at all. Among these are payments of interests and redemption on foreign loans, fulfilment of other obligations, minimum defrayment of our diplomatic posts abroad, etc. These minimum limits are the bottlenecks in any endeavour to tune up expenditure with foreign exchange income. Therefore, these efforts will succeed only if foreign exchange receipts do not fall below the level of the amount required to meet minimum expenditure.

Foreign exchange receipts—apart from external factors influencing our export proceeds—depend on the volume of exports which can be effectuated. As I mentioned earlier in this report the development of exports in 1957 will depend partly on the course of affairs in the various regions outside Djawa.

To overcome the economic and monetary difficulties to be faced in 1957, retrenchment must not be limited to foreign exchange expenditure only, but must also go hand in hand with an endeavour to reduce the money circulation in the country. In this connection it can be stated that in view of the fact that the increase of money supply up to now was caused chiefly by Government budget deficits, retrenchment of Government expenditure and/or increase of Government revenue are the foremost requirements for halting, or at least moderating the inflationary trends.

Here again, the problem is closely connected with a solution of the problems relating to the regions outside Djawa.

It is indisputable that a solution of said problems is a most important condition for overcoming the crisis which is facing us. More than in the past, wise and resolute measures of the Government and the monetary authorities are needed to achieve that economic and monetary development in 1957 will present a more satisfactory picture than the one we have now.

Balance of payments

Indonesia's balance of payments for the years 1955 and 1956 calculated on cash basis, is shown in table 34. The respective data afford a close insight into receipts and payments in foreign exchange as effectuated between Indonesia and the other countries in the world during said two years.

Before reviewing the developments of the balance of payments in 1956 as compared with 1955, note must be made that since January 1st, 1956, all oil companies—which are authorized to receive and make payments in foreign exchange

for their own exports and imports as well as for their service transactions — are under obligation to report the amounts received or paid in foreign currency. Such was not the case in 1955, as in that year this obligation did not apply to one of the oil companies. In view hereof it can be stated that all figures relating to the year 1956 are based on official reports.

As the meaning of the items entered into the balance of payments for each of the two years is similar—in the sense that each item represents receipts or payments of the same character—a comparison between figures relating to both years can be made directly.

When comparing the overall results of the balance of payments of 1956 with those of 1955, the difference appears to be not less than Rp 2,127 million (the year 1955 showed a surplus of Rp 1,015 million, while in 1956 a deficit occurred to the amount of Rp 1,112 million). When scrutinizing this substantial difference it appears that the cause has to be found entirely in the merchandise sector. Transactions with regard to this sector resulted in a deficit of such a magnitude that the surplus achieved in other sectors (services, donations and the capital sector) could cover only part of the deficit.

A comparison of the results (in Rp million) in the years 1956 and 1955 regarding the various sectors mentioned above reveals the following :

Merchandise	—	3,573
Services	+	599
Donations	+	2
Capital movements (incl. transitory items)	+	845
Total	—	2,127

The deterioration of the balance on merchandise in 1956 as compared with 1955, amounting to Rp 3,573 million, resulted mainly from smaller export proceeds (including accrument of non-monetary gold, the amount of which is insignificant) by Rp 431 million (1956: Rp 9,607 million; 1955: Rp 10,038 million) and from a rise in payments for imports by Rp 3,142 million.

Meanwhile it may be observed that from the fact that export proceeds in 1956 showed a decrease as compared with 1955, the conclusion must not be drawn that receipts in 1956 totalling Rp 9,607 million were low or lower than usual. As a matter of fact this total is still far beyond the level reached in the years 1953 and 1954 (Rp 8,602 million and Rp 8,807 million respectively).

Among the export commodities which chiefly caused the fall of receipts in 1956 as compared with 1955, are: *rubber* (—Rp 348 million), *tin* (—Rp 46 million), both of which experienced a price decline particularly in the first halfyear, *sugar* (—Rp 43 million) and *tapioca* (—Rp 53 million); of the two last named products the volume of exports dwindled also. Similarly, proceeds of *copra*, *tea* and *tobacco* were less, to wit, by Rp 74 million. Exports of *coffee* on the other hand showed a favourable trend; proceeds totalled Rp 332 million, or Rp 155 million more than in the preceding year.

Payments for imports amounted to Rp 9,389 million in 1956, exceeding the 1955-total by no less than Rp 3,142 million. Also in comparison with previous years (1954: Rp 6,650 million; 1953 : Rp 7,483 million), 1956 imports were substantially higher. The increase of imports by more than Rp 3,000 million as compared with 1955 was chiefly caused by the increase of imports of a few categories of goods such as rice, other foodstuffs (including groceries), textiles, machinery and materials for transportation purposes. In the tabulation below the total amounts are mentioned which were paid in 1955 and 1956 for imports of the above named categories of goods (in Rp million).

	1955	1956	<i>Increase in 1956 as compared with 1955</i>
Rice	99	1,192	+ 1,093
Other foodstuffs	474	832	+ 358
Textiles	1,743	2,375	+ 632
Machinery	717	1,376	+ 659
Transportation material	558	880	+ 322
Total	3,591	6,655	+ 3,064

The balance on services showed a deficit of Rp 2,023 million in 1956 (receipts were Rp 605 million, while payments amounted to Rp 2,628 million). Compared with 1955 this outcome represents a retrenchment on total payments in this sector by Rp 599 million. The decrease resulted chiefly from lower profit transfers, while transfers on behalf of foreign workers were also less. Payments: regarding these two categories totalled in 1956 Rp 682 million (1955: Rp 1,173 million) and Rp 536 million (1955: Rp 703 million) respectively; therefore, the total decrease in those two items amounted to Rp 658 million. Besides, the items "Investment income" witnessed a drop by about Rp 50 million due to the fact that interest on various loans received from the Netherlands were no longer paid, such in connection with the abrogation of the Round Table Conference agreements. Other items in the invisibles' sector showed an increase of about Rp 100 million in total.

Mention must be made that the decrease of profit transfers in 1956 amounting to Rp 491 million resulted from lower transfers of the oil companies by Rp 347 million, whilst transfers on behalf of other foreign enterprises diminished by Rp 144 million. In contrast to 1955 when there was a slight decrease in profit transfers (excluding transfers of oil companies) such as a consequence of the regulation imposing the obligation to deposit with Bank Indonesia, prior to any transfer, 40% of profits (see my previous annual report, page 98), the decrease of total profit transfers in the year under review was brought about entirely in pursuance of the policy of the monetary authorities to retard profit transfers in view of the foreign exchange position of the country. The postponement of transfers in this sector relates mainly to savings and other items mentioned in the regulations on the so-called "Foreign exchange packet".

Donations totalling Rp 9 million (1955: Rp 11 million) consisted of donations by I.C.A. (Rp 6 million) and donations received under the Colombo plan amounting to Rp 3 million.

Capital transactions showed important changes in 1956. Investments by oil companies totalled Rp 369 million, or Rp 76 million more than in the preceding year. Depreciations made by the oil companies and amounting to Rp 341 million

in 1956 were higher also (see debit item under heading 11.2 “Other long term capital movements”).

In the sector relating to Government capital transactions, item 13 “Long term capital” shows on balance a receipt of Rp 459 million which is substantially higher than in 1955 when the balance was Rp 67 million only. This total of Rp 459 million comprises in the first place Exim-bank loans amounting to Rp 94 million (1955: Rp 30 million), and “B” and “C” credits to the amount of Rp 30 million (1955: Rp 37 million). Furthermore, in this total an amount of Rp 336 million is included, being 80% of the amount received under the Surplus Agricultural Commodities Arrangement with the U.S.A., although receipts under this arrangement so far are not to be considered as a loan; the rupiah amount relating to this part—different from the 20% of total receipts under said arrangement, which is entered into item 14.2 “Other short term capital” (see credit side)—is up to now not at the immediate disposal of the U.S.A. Government.

In contrast to receipts entered into item 13, payments showed on balance a decrease as compared with 1955. Total payments in 1956 amounting to Rp 209 million (1955: Rp 247 million) consisted for the larger part (Rp 198 million) of redemptions on foreign loans. As a consequence of the abrogation of the Round Table Conference agreements with the Netherlands, redemptions of various loans to that country ceased in 1956. A relatively small amount (Rp 11 million) on the debit side represents part-payments of indemnifications to two electricity companies in connection with the nationalization of their enterprises.

The item “Short term capital” shows a total of Rp 627 million (U.S. \$ 55 million) as obligations to the I.M.F. and I.B.R.D. This amount represents the drawing made on I.M.F. in August 1956. In view of the fact that half of this amount (U.S. \$ 27.5 million) was used for the so-called “gold tranche”, the rupiah counterpart-value of the remainder (Rp 314 million) was entered as a debit item under the heading 14.2 “Other short term capital”. In item 14.2 is included also an amount of Rp 47 million, being part-payment of the contribution made by Indonesia for her membership of the International Tin Council.

TABLE 34 -- INDONESIA'S BALANCE OF PAYMENTS FOR 1955 AND 1956
(Rp million)

CURRENT TRANSACTIONS										
	Yearly totals						Halfyearly totals			
	1955			1956			1st hy. 1955	2nd hy. 1955	1st hy. 1956	2nd hy. 1956
	Credit (receipts)	Debit (payments)	Net credit or debit	Credit (receipts)	Debit (payments)	Net credit or debit	Net credit or debit	Net credit or debit	Net credit or debit	Net credit or debit
<i>A. Goods and Services</i>										
1. Exports and imports (exp: fob, imp: cif)	10,037	6,247	+ 3,790	9,607	9,389	+ 218	+ 1,429	+ 2,361	— 383	+ 601
1.2 Other	15	14	+ 1	—	—	—	+ 1	—	—	—
2. Non-monetary gold move- ment (net)	1	—	+ 1	1	—	+ 1	+ 1	—	—	+ 1
3. Foreign travel	8	89	— 81	11	121	— 110	— 70	— 11	— 89	— 21
4. Transportation	130	282	— 152	262	395	— 133	— 88	— 64	— 71	— 62
5. Insurance	21	163	— 142	24	168	— 144	— 73	— 69	— 73	— 71
6. Investment income	104	1,335	— 1,231	83	777	— 694	— 568	— 663	— 303	— 391
7. Government, not included elsewhere	60	157	— 97	66	191	— 125	— 45	— 52	— 56	— 69
8. Miscellaneous:										
8.1 Foreign workers	45	703	— 658	16	536	— 520	— 324	— 334	— 257	— 263
8.2 Other	108	370	— 262	142	440	— 298	— 121	— 141	— 165	— 133
Total goods and services	10,529	9,360	+ 1,169	10,212	12,017	— 1,805	+ 142	+ 1,027	— 1,397	— 408
<i>B. Donations</i>										
9. Private	4	—	+ 4	7	—	+ 7	+ 2	+ 2	+ 3	+ 4
10. Official	11	—	+ 11	10	—	+ 10	+ 5	+ 6	+ 4	+ 6
Total current transactions	10,544	9,360	+ 1,184	10,229	12,017	— 1,788	+ 149	+ 1,035	— 1,390	— 398
MOVEMENTS OF CAPITAL AND FOREIGN EXCHANGE AND GOLD HOLDINGS										
<i>C. Private</i>										
11. Long term capital:										
11.1 Oil companies' invest- ment	293	—	+ 293	369	—	+ 369	+ 270	+ 23	+ 217	+ 152
11.2 Other long term capital movements	29	317	— 288	8	374	— 366	— 197	— 91	— 289	— 77
12. Short term capital	20	12	+ 8	23	14	+ 9	+ 4	+ 4	— 8	+ 17
<i>D. Government</i>										
13. Long term capital	65	247	— 182	460	209	+ 251	— 15	— 167	— 23	+ 274
14. Short term capital:										
14.1 Liabilities to I.M.F. and I.B.R.D.				627		+ 627	—	—	—	+ 627
14.2 Other short term capital movements				182	361	— 179			+ 90	— 269
15. Foreign exchange and gold holdings:										
(increase= —, decrease= +)										
15.1 Foreign Exchange Fund			— 761			+ 552	— 216	— 545	+ 1,147	— 595
15.2 Foreign exchange banks			— 380			+ 139	— 117	— 263	+ 280	— 141
15.3 Other foreign exchange holdings			+ 24				+ 20	+ 4	+ 1	— 1
15.4 Gold with Bank Indo- nesia			+ 102			+ 421	+ 102			+ 421
Transitory items					35	— 35			— 25	— 10
			— 1,184			+ 1,788	— 149	— 1,035	+ 1,390	+ 398

Source : Bank Indonesia.

It was mentioned above that into the credit balance of item 14.2 was entered 20% of the amount received under the S.A.C. arrangement, namely the part which may be used (in rupiah) on short term by the Government of the U.S.A. This part constitutes Rp 84 million of the total of Rp 182 million entered as credit balance into item 14.2. Another substantial part of this total of Rp 182 million consists of receipts amounting to Rp 60 million, which resulted from a settlement of various financial matters between Indonesia and the Netherlands.

The movements in the overall financial relationship with other countries summarized above, resulted in a deficit for the year 1956 of Rp 1,112 million. Part of this deficit to the extent of Rp 421 million, was covered by sales of gold.

Table 35 illustrates payments transactions between Indonesia and specific monetary areas, classified in goods, services and capital. Mention must be made that in said table neither the share of the oil companies nor the transactions carried out by Indonesia with the International Monetary Fund are accounted for.

The net result (in Rp million) of payments transactions between Indonesia and the various monetary areas are summarized below.

	<i>1955</i>	<i>1956</i>
United States of America and Canada	+ 789	+ 618
E.P.U. countries (excl. the United Kingdom)	– 1,218	– 1,207
Sterling area	+ 624	– 758
Other countries	+ 332	– 710
	<hr/>	<hr/>
Total	+ 527	– 2,057

The tabulation above reveals that overall transactions with the U.S.A., Canada and the E.P.U. countries did not vary much in 1956 as compared with 1955. When however, a closer look is taken it is evident that the satisfactory positive results with the U.S.A. and Canada could be maintained only by way of substantial receipts from that area in the capital sector, in particular under the S.A.C. arrangement.

TABLE 35 — PARTIAL BALANCES OF PAYMENTS
(Rp million; excl. oil)

	U.S.A. + Canada						E.P.U.-area (excl. England)						£-area						Other						Total					
	1955			1956			1955			1956			1955			1956			1955			1956			1955			1956		
	C	D		C	D		C	D		C	D		C	D		C	D		C	D		C	D		C	D		C	D	
	(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)		(+)	(-)	
<i>Current transactions</i>																														
<i>A. Goods (incl. switch- transactions)</i>	1,816	854	+ 962	1,682	1,395	+ 287	2,150	2,253	— 103	2,347	2,859	— 512	2,174	1,291	+ 883	2,289	2,675	— 386	1,701	1,312	+ 389	1,093	1,725	— 632	7,841	5,710	+ 2,131	7,411	8,654	— 1,243
<i>B. Services (incl. donations)</i>	57	197	— 140	73	184	— 111	181	1,141	— 960	176	840	— 664	72	306	— 234	66	420	— 354	39	96	— 57	41	105	— 64	349	1,740	— 1,391	356	1,549	— 1,193
	1,873	1,051	+ 822	1,755	1,579	+ 176	2,331	3,394	— 1,063	2,523	3,699	— 1,176	2,246	1,597	+ 649	2,355	3,095	— 740	1,740	1,408	+ 332	1,134	1,830	— 696	8,190	7,450	+ 740	7,767	10,203	— 2,436
<i>Capital movement</i>																														
<i>C. Private</i>	5	7	— 2	9	1	+ 8	26	59	— 33	9	37	— 28	6	2	+ 4	4	4	—	—	—	—	—	—	—	37	68	— 31	22	42	— 20
<i>D. Government & banks</i>	28	59	— 31	519	85	+ 434	37	159	— 122	91	94	— 3	—	29	— 29	13	31	— 18	—	—	—	—	—	—	65	247	— 182	623	210	+ 413
	1,906	1,117	+ 789	2,283	1,665	+ 618	2,394	3,612	— 1,218	2,623	3,830	— 1,207	2,252	1,628	+ 624	2,372	3,130	— 758	1,740	1,408	+ 332	1,134	1,830	— 696	8,292	7,765	+ 527	8,412	10,455	— 2,043

Source : Bank Indonesia

With the E.P.U. countries, the total deficit was about the same in 1956 as in 1955 although merchandise transactions showed a worsening in results from Rp 103 million to Rp 512 million. This decrease was neutralized however, by diminished payments in the sectors of services and capital transactions by about Rp 300 million and Rp 100 million respectively.

What contributed chiefly to the large overall deficit was the change with regard to payments transactions with the Sterling area and “other countries”; against a surplus in 1955 a large deficit occurred in 1956. This course of affairs resulted entirely from the developments in the merchandise sector. Imports from the Sterling area amounted in 1955 to no more than Rp 1,291 million, whereas in 1956 they totalled Rp 2,675 million; exports to these areas on the other hand, increased by Rp 115 million only. Imports from “other countries” increased in 1956 by Rp 413 million, whilst exports to these countries showed a decline of Rp 608 million.

Balance of trade

From data mentioned in table 36 and provided by the Central Bureau of Statistics—the pertinent figures are computed on a transaction **basis**, whereas the figures of the balance of payments are calculated on cash basis—the conclusion must be drawn that the balance of trade of Indonesia deteriorated substantially, as compared with the previous year. On the one hand the value of imports increased by about Rp 2,867 million, or 41%, while on the other hand export proceeds fell by Rp 565 million, or 5%.

As a result of this course of events the overall surplus which in 1955 had amounted to about Rp 3,730 million, dwindled to Rp 300 million by the end of the year under review.

When looking into the causes of the fall in exports—a more detailed survey of developments of exports and imports and their composition will be given in the

TABLE 36 — 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
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	10,602	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
1955	10,620	6,888	+ 3,732	8,199	6,123	+ 2,076
1956	10,055	9,755	+ 300	7,495	9,000	— 1,505
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.

following pages—and taking the year 1956 as a whole, it was essentially the price of rubber which dropped.

On the import side, as a consequence of the disappointing rice crop, a quantity of rice had to be imported from abroad, far more in back than the volume of the preceding year.

When expressing total export proceeds in per cent of the total value of imports, there was a decrease of 51% in the year under review, viz. from 154% in 1955 to 103% in 1956.

Exports

In the year under review exports increased in volume by 846,000 tons, as compared with the preceding year. This rise resulted from larger quantities brought to export of various important export commodities, such as oil and oil products,

copra, palm oil and palm kernels, coffee and tea. Notwithstanding this increase in volume there was, however, no reason for gratification because the value of total exports fell by Rp 565 million. As already mentioned above, this unsatisfactory result was due to a large extent to the fall of rubber prices, which brought about a lower volume of exports of this very important export commodity and also lower export proceeds than in the preceding year. Chart II illustrates that the proportional share of rubber in total export proceeds fell from 46% to 40%.

From a viewpoint of the importance of various economic sectors according to their proportional share in exports, the volume and value of exports of agricultural commodities fell by 13% and 10% respectively, as compared with the preceding year. In contrast, the volume and value of mining products (excluding oil and oil products) rose by 26% and 20% respectively. As to value, in 1956 agricultural commodities constituted 88% of total export proceeds (excluding oil and oil products). In the preceding year this figure was 90%. In the agricultural export sector estate-grown products were higher in export volume by nearly 40,000 tons (5%) in comparison with 1955, but their export value decreased by about Rp 200 million (6%), for the larger part because of the fall of rubber prices. Smallholders-grown products were less by 200,000 tons (17%) in volume and by about Rp 500 million (13%) in value. This decrease resulted mainly from smaller exports of smallholders rubber and also from the near disappearance of tapioca exports. When comparing the 1956-export volume of agricultural commodities with the average annual export volume before the war, the decline is 50%.

In the year under review Asia took first place among the countries of destination of Indonesian exports with a total export value of Rp 3,896 million (39,%), followed by Europe with a total of Rp 3,823 million (38,%), and America with Rp 1,662 million (17,%). Iraq, India, Burma, Malaya and Penang excepted, Indonesian exports to Asian countries increased. In this way exports to Singapore were higher by about Rp 70 million, to the People's Republic of China by Rp 60 million, and to Japan by Rp 50 million. Among the European

TABLE 37 — VALUE OF EXPORTS (Rp million, including revenue from export duties)						
	1938	1953	1954	1955	1956 ¹⁾	1956 as % of 1955
Rubber.....	158	3,080	3,013	4,888	4,028	82.4
<i>of which: estate rubber.....</i>	84	1,561	1,156	1,931	1,712	88.7
<i>smallholders rubber.....</i>	71	1,519	1,857	2,957	2,316	78.3
Petroleum and petroleum products..	163	2,292	2,579	2,421	2,560	105.7
Tin and tin ore.....	34	926	700	683	726	113.8
Copra and copra cakes.....	43	728	657	483	513	106.2
Coffee.....	14	343	455	182	343	188.5
Tea.....	57	267	454	355	337	94.9
Tobacco.....	39	278	372	316	332	105.1
Palm oil and palm kernels.....	19	380	347	305	347	113.8
Sugar.....	45	111	255	210	191	91.0
Pepper and other spices.....	18	206	193	158	151	95.6
Tapioca and tapioca products.....	9	27	70	68	7	10.3
Forest products (timber, gums, resins)	7	54	66	84	60	71.4
Hard rope fibres.....	18	71	52	71	73	102.8
Ground nuts and groundnut oil....	4	38	50	12	5	41.7
Rattan.....	3	45	46	41	36	87.8
Pinang nuts.....	6	31	34	22	39	177.3
Hides and skins.....	4	25	22	17	17	100.0
Shells.....	1	15	17	14	10	71.4
Sago and sago products.....	1	20	13	9	8	88.9
Cattle.....	2	18	9	11	6	54.5
Coal.....	2	13	7	4	1	25.0
Soya beans.....	1	10	—	—	—	—
Total.....	648	8,978	9,411	10,354	9,790	94.6
Other export products.....	39	366	348	266	265	99.6
Total exports ²⁾	687	9,344	9,759	10,620	10,055	94.7
Total exports, excl. of petroleum and petroleum products ²⁾	524	7,052	7,180	8,197	7,494	91.4
¹⁾ Provisional figures						
²⁾ Excluding postal parcels, passengers' goods, ship's chandlery, gold and silver						

Source : C.B.S.

countries it was to the Netherlands only that exports increased noticeably, -viz. by Rp 281 million. Exports to America representing 23.6% of total exports in 1955, fell to 16.5% in 1956. This was closely related to the large stockpile already accumulated in the U.S.A. and to the decision of said country to reduce the volume of its stockpiling. The value of rubber exported to the U.S.A. which in 1955 totalled Rp 1,379 million, decreased to Rp 1,214 million in 1956. In this connection mention must be made, however, that as a large part of exports to Singapore refer to goods exported on a transit basis, actually the volume of rubber exported to the U.S.A. was considerably higher, so that the

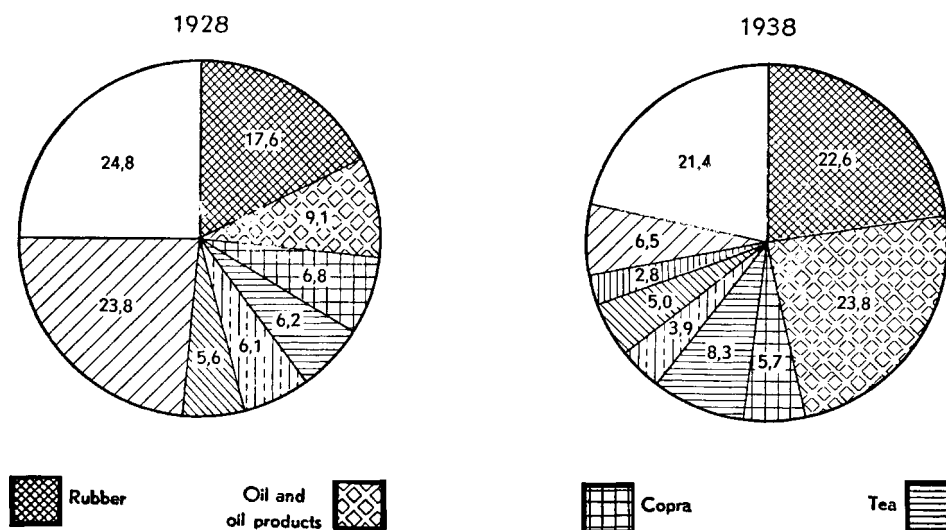
TABLE 38 — VOLUME OF EXPORTS (‘000 tons gross, unless otherwise stated)						
	1938	1953	1954	1955	1956 ¹⁾	1956 as % of 1955
Rubber (net).....	304	667	710	702	647	89.9
<i>of which: estate rubber</i>	157	288	238	237	234	93.7
<i>smallholders rubber</i>	147	379	472	465	413	88.8
Petroleum and petroleum products..	6,067	9,599	9,887	9,473	10,526	111.1
Tin and tin ore.....	27	48	49	46	45	97.8
Copra and copra cakes (net).....	659	414	434	389	394	101.3
Coffee (net).....	68	32	37	23	57	247.8
Tea (net).....	72	29	40	29	34	117.2
Tobacco (net).....	49	14	19	13	11	84.6
Palm oil and palm kernels (net)....	268	174	182	155	165	106.5
Sugar (net).....	1,175	92	210	174	167	113.6
Pepper and other spices.....	131	16	27	26	30	115.4
Tapioca and tapioca products	250	30	153	184	17	9.2
Forest products (timber, gums, resins)	429	164	179	183	58	31.7
Hard rope fibres (net).....	90	26	24	34	34	100.0
Ground nuts and groundnut oil....	33	13	18	5	2	40.0
Rattan.....	36	27	30	30	30	100.0
Pinang nuts.....	64	20	24	22	27	122.7
Hides and skins.....	6	1	1	1	1	100.0
Shells.....	1	2	2	2	2	100.0
Sago and sago products.....	28	45	34	24	23	95.8
Cattle.....	12	7	4	5	2	40.0
Coal.....	368	136	87	48	12	25.0
Soya beans.....	9	7	—	—	—	—
Total.....	10,146	11,563	12,151	11,568	12,284	106.2
Other export products.....	848	630	593	621	750	120.8
Total exports ²⁾	10,994	12,193	12,744	12,189	13,034	106.9
Total exports, excl. of petroleum and petroleum products ²⁾	4,927	2,594	2,857	2,716	2,508	92.3
¹⁾ Provisional figures						
²⁾ Excluding postal parcels, passengers' goods, ship's chandlery, gold and silver						

Source : C.B.S.

conclusion can be drawn that this country's share in total exports was more important.

Among the reasons for the fall in exports are: the closing of the Suez canal, resulting in difficulties of transporting produce and also in higher freight charges and insurance rates, strikes in various harbours of Indonesia, and furthermore the evils of smuggling and pilfering produce which could not be combated effectively. Finally, it was obvious that the difference between local prices and export prices expressed in rupiah—I refer here to the symptom of disparity—showed an upward trend during the year under review. This symptom hampers regular ex-

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

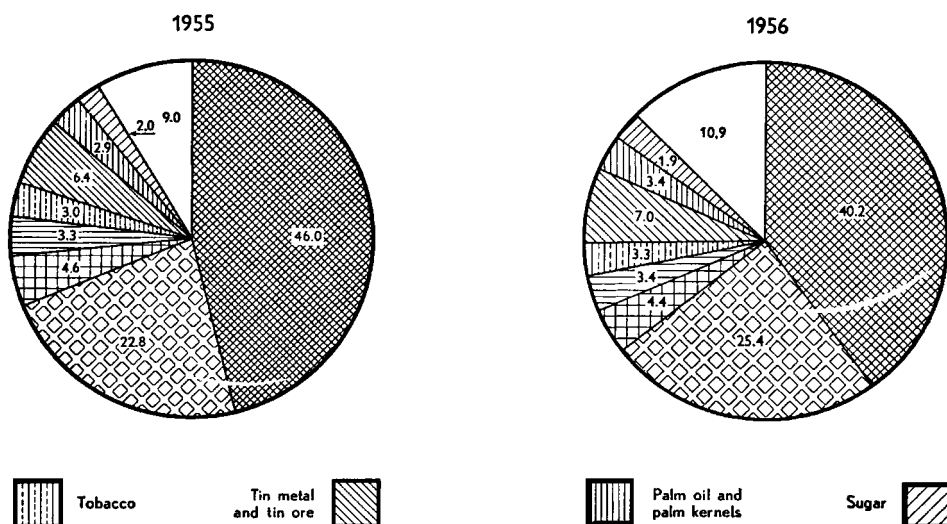


ports. Also the discrepancy between proceeds and cost prices of various export products taking a turn for the worse, discouraged in no small way the incentive to produce more agricultural products.

The measures taken by the Government during the year under review to promote exports—for a more detailed review see section “Foreign exchange system and measures”—were the following.

Because the export premium system introduced in October 1955 and linked with a simultaneous abolishment or diminishing of export duties clearly did not benefit exports, in August 1956 the premium system was superseded by the so-called B.P.E. system (Export Promotion Certificates system). According to the former export premium system a large part of export commodities initially was granted a premium of 10% of the f.o.b. export value. Afterwards the number of commodities eligible to receive a premium was enlarged, whilst the percentage of several export premiums was raised.

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



In principle, the B.P.E. system once more links imports with exports in the sense that in order to realize imports of various kinds of goods, importers have to buy and to submit foreign exchange certificates which are granted to exporters of several categories of export commodities and which are traded freely. Likewise the services sector was linked with exports, because payment for certain services, particularly for travelling abroad and what is called the “additional foreign exchange packet”, must be preceded by the handing over of B.P.E. certificates. After some alterations at the beginning of September 1956—in the B.P.E. certificates new style the foreign exchange value was expressed at the official rate, whereas the previous B.P.E. certificates were merely authorizations to buy foreign exchange—this system was continued for the time being, although it became evident that thereby the decline in exports could not be halted, particularly not in the agrarian sector.

Finally, it is noteworthy that in compliance with the Decree of the Monetary Board of end-March 1957, credit facilities were granted to national exporters. The total of these credits to be granted by Bank Indonesia and guaranteed by the Government was fixed provisionally at Rp 100 million.

TABLE 39 — EXPORTS BY DESTINATION (Rp million)					
	1938	1953	1954	1955	1956
<i>EUROPE</i>					
Netherlands and f.o.	137.49	2,103.87	1,882.49	1,674.78	1,955.59
United Kingdom and Irish Republic...	37.32	194.98	455.27	1,062.49	896.12
Germany.....	25.46	445.53	450.24	463.13	404.55
France.....	12.00	97.52	97.27	100.79	47.51
Belgium and Luxemburg.....	5.69	57.43	63.33	49.12	75.50
Italy.....	9.73	162.80	173.09	88.67	133.94
Denmark.....	10.09	30.92	25.96	28.88	22.44
Norway.....	5.38	60.39	25.00	25.29	22.87
Sweden.....	2.12	60.78	58.36	33.79	18.91
Other countries.....	10.15	92.74	114.11	338.59	215.43
Total exports to Europe.....	255.43	3,306.96	3,346.12	3,865.53	3,822.86
Percentage of total exports value..	37.2	35.4	34.3	36.4	38.0
<i>AMERICA</i>					
Canada.....	1.25	4.57	4.74	8.90	7.93
United States.....	97.88	1,929.95	1,635.63	1,865.36	1,611.22
Other countries.....	8.85	134.73	121.22	632.83	42.79
Total exports to America.....	107.98	2,069.25	1,761.59	2,507.09	1,661.94
Percentage of total exports value..	15.7	22.1	18.1	23.6	16.5
<i>AFRICA</i>					
Egypt.....	26.66	21.34	14.46	10.80	14.76
Portugese East Africa.....	0.59	34.64	19.16	19.74	14.68
Union of South Africa.....	5.28	29.32	31.70	30.07	21.82
Other countries.....	5.33	30.44	17.09	12.71	8.21
Total exports to Africa.....	37.86	115.74	82.41	73.32	59.47
Percentage of total exports value..	5.6	1.3	0.8	0.7	0.6
<i>ASIA</i>					
Iraq.....	2.53	20.20	9.86	2.33	0.84
India.....	} 5.15	64.52	8.00	32.06	29.55
Pakistan.....		—	—	5.78	7.65
Burma.....	0.11	1.59	7.17	27.87	19.22
Thailand.....	2.76	83.66	96.27	87.21	107.60
Malayan Union.....	3.51	155.11	143.63	135.76	89.82
Penang.....	7.72	120.78	234.94	173.08	168.51
Singapore.....	116.65	2,011.42	2,120.23	2,081.03	2,159.45
Indo-China.....	1.95	128.43	98.57	58.70	70.93
Hong Kong.....	13.49	129.92	455.66	29.07	37.57
China.....	9.88	—	26.38	71.08	133.51
Japan.....	21.43	423.61	571.13	788.25	840.20
Philippines.....	6.02	78.15	117.73	145.31	193.72
Other countries.....	9.90	34.09	19.62	11.53	37.05
Total exports to Asia.....	201.10	3,251.48	3,909.19	3,649.06	3,895.62
Percentage of total exports value..	29.1	34.8	40.1	34.4	38.7
<i>AUSTRALASIA</i>					
Australia.....	28.89	214.82	344.88	223.94	358.80
New Zealand.....	7.64	39.79	25.18	43.68	52.70
Oceania.....	0.26	20.15	20.29	15.35	16.38
Total exports to Australasia.....	36.79	274.76	390.35	282.97	427.88
Percentage of total exports value..	5.4	2.9	4.0	2.7	4.3
<i>Via free ports :</i>					
Sabang, Tandjung Uban and unknown.	47.89	325.55	269.39	242.08	186.84
Percentage of total exports value..	7.0	3.5	2.7	2.2	1.9
Grand Total.....	687.05	9,343.74	9,759.05	10,620.05	10,054.61

Source : C.B.S.

TABLE 40 — IMPORTS BY ORIGIN (Rp million)					
	1938	1953	1954	1955	1956
<i>EUROPE</i>					
Netherlands.....	106.17	1,006.79	750.33	807.60	1,038.11
United Kingdom and Irish Republic..	38.16	604.22	388.99	396.96	589.92
Germany.....	49.05	568.69	490.98	702.32	913.02
France.....	9.41	75.49	111.12	141.25	94.58
Belgium and Luxemburg.....	13.19	260.50	155.07	216.39	271.44
Italy.....	5.05	95.30	135.08	106.54	244.00
Czechoslovakia.....	4.75	32.38	88.53	197.93	69.56
Switzerland.....	4.42	68.30	71.50	63.05	78.08
Sweden.....	3.54	132.52	114.29	76.22	95.10
Spain.....	0.28	1.36	5.08	0.93	0.92
Other countries.....	5.77	139.19	213.52	351.78	190.83
Total imports from Europe.....	239.79	2,984.74	2,524.49	3,060.97	3,585.56
Percentage of total imports value..	50.1	34.8	35.2	44.4	36.9
<i>AMERICA</i>					
Canada.....	3.67	11.23	12.39	8.91	8.21
United States.....	60.21	1,539.37	1,034.87	1,088.79	1,609.07
Other countries.....	0.54	40.03	1.28	5.01	96.85
Total imports from America.....	64.42	1,590.63	1,048.54	1,102.71	1,714.13
Percentage of total imports value..	13.4	18.5	14.6	16.0	17.6
<i>AFRICA</i>					
Egypt.....	0.43	10.35	6.53	19.44	9.38
British East Africa.....	3.21	68.75	66.53	68.42	104.77
Union of South Africa.....	0.17	9.69	7.85	13.61	7.20
Other countries.....	0.59	8.96	33.89	9.53	36.67
Total imports from Africa.....	4.40	97.75	114.80	111.00	158.02
Percentage of total imports value..	0.9	1.1	1.6	1.6	1.6
<i>ASIA</i>					
Serawak, Brunai, Br. North Borneo..	1.68	331.25	67.95	36.22	43.39
India.....	11.17	216.38	160.96	325.70	184.62
Pakistan.....		0.97	—	0.40	8.67
Burma.....	7.20	476.98	347.45	172.40	512.05
Thailand.....	2.58	187.03	181.06	103.35	309.70
Malayan Union.....	0.30	12.99	9.67	6.76	13.33
Penang.....	4.28	0.53	2.12	2.61	0.97
Singapore.....	36.18	112.39	56.76	105.96	76.09
Indo-China.....	2.11	91.86	90.23	1.00	1.73
Hong Kong.....	6.47	623.63	430.16	363.24	536.43
China.....	8.25	24.27	40.32	113.19	344.04
Japan.....	71.83	1,447.01	1,559.03	985.98	1,521.17
Philippines.....	0.89	5.27	2.77	1.36	1.05
Other countries.....	1.40	168.50	376.72	240.44	492.14
Total imports from Asia.....	154.34	3,699.06	3,325.20	2,458.61	4,045.38
Percentage of total imports value..	32.3	43.1	46.4	35.7	41.6
<i>AUSTRALASIA</i>					
Australia.....	13.24	199.60	147.27	142.68	211.58
New Zealand and Oceania.....	0.05	0.49	0.07	0.10	0.08
Total imports from Australasia...	13.29	200.09	147.34	142.78	211.66
Percentage of total imports value..	2.8	2.3	2.0	2.1	2.2
<i>Via free ports:</i>					
Sabang, Tandjung Uban and unknown	2.22	11.52	11.29	11.60	10.68
Percentage of total imports value..	0.5	0.2	0.2	0.2	0.1
Grand Total.....	478.46	8,583.79	7,171.66	6,887.67	9,725.43

Source : C.B.S.

Imports

In the same way as for exports, import regulations were made with the object of :

- a) protecting the consumer, in such a manner that primary import goods could be bought by the population at the lowest price possible;
- b) protecting the industry so that goods manufactured in the country would be in a position to compete with imported goods, even to the extent that if local production of certain goods suffices, imports of such goods can be stopped temporarily;
- c) protecting the financial sources of the country, because in any case at present, the T.P.I. levies still are a substantial source of revenue to the Government.

With the aim of assisting national enterprises and importers, it was decided that as from July 1956 the T.P.I. on capital goods, raw materials and auxiliary goods imported on “indent-orders” could be paid after arrival of the relative documents. Besides, a list was published of import goods to be imported only by national importers.

On August 5th, 1956 the B.D.P. —pending the introduction of new import regulations— stopped with accepting P.I.I.’s (applications for import licenses) for an indefinite period. Excepted from this decision were imports under “B” and “C” credits, imports of surplus commodities from the U.S.A. in the frame of the S.A.C. arrangement, imports of books on I.M.G.-credit (Informational Media Guarantee), imports of rice, Government purchases and import of wheatflour from Australia complying with B.D.P. Decree No. C 118/228. Furthermore, besides the exceptions mentioned above the B.D.P. could consider the acceptance of P.I.I.’s regarding raw materials and auxiliary goods for enterprises already in operation, in order to prevent stagnation in the production process.

Next, on September 3rd, 1956 a new import regulation came into force based on a revision of the classification of T.P.I. categories. The classification comprising before 5 categories with T.P.I. levies of 0%, 50%, 100%, 200% and 400%, was altered into 9 categories with T.P.I. levies of 0%, 25%, 50%, 75%, 100%, 150%, 200% and 400%. Most essential goods (category b, such as rice, newsprint, studybooks, religious publications and cotton piecegoods remained exempted from T.P.I.

Apart from this new classification, all import goods were specified in the following manner :

- a. imports for which payments can be made without B.P.E. certificates (this comprises the larger part of all imports);
- b. imports to be effectuated with B.P.E. certificates; this regards imports of goods which can be produced locally in sufficient quantities (part of category III up to and including category V), and also luxury goods (category VI up to and including category IX).

With regard to goods classified under category b the amount of T.P.I. was reduced by 25% up to 100% respectively. A more extensive summary of the various categories and the T.P.I. percentages as explained above, is given in section "Foreign exchange system and measures".

In view of the fact that of various kinds of goods the local stock was considered as sufficient, the Government eventually decided to stop imports of these goods with the aim of improving the foreign exchange position. This measure was followed by a complete cessation of all imports on April 29th, 1957 for an indefinite period. On this the exceptions were the same as those when imports were stopped in August 1956.

According to figures of the Central Bureau of Statistics the total volume of imports in 1956 was 5,664,000 tons with a value of Rp 9,718 million, as compared with 3,257,000 tons with a value of Rp 6,863 million in 1955.

CHART III — IMPORTS

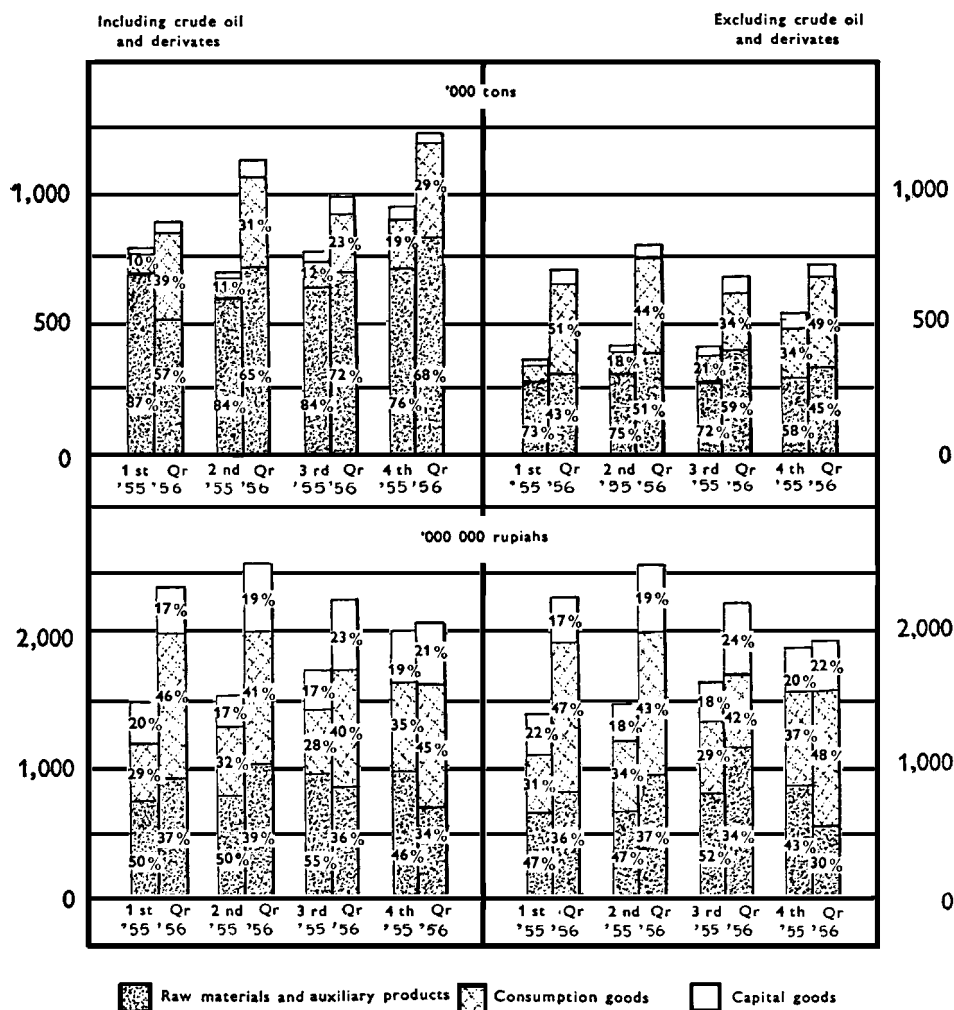


Table 41 shows imports divided into economic sectors. In contrast to the preceding year, imports of consumer goods in the year under review were larger than imports of raw materials and auxiliary goods. Excluding the oil-companies, imports of consumer goods in 1956 increased by no less than 92% as compared with the preceding year, viz. from Rp 2,077 million to Rp 3,997 million.

The increase of imports of consumer goods in the year under review resulted chiefly from higher imports of rice, in weight as well as in value; they were more

TABLE 41 — IMPORTS INTO INDONESIA										
	Value (Rp million)					Per cent share in total value of imports				
	1938	1953	1954	1955	1956	1938	1953	1954	1955	1956
<i>Total imports :</i>										
Consumer goods	207	3,740	2,686	2,133	4,050	43.3	43.6	37.5	31.1	41.7
Raw materials and auxiliary goods	154	3,232	3,048	3,451	3,775	32.2	37.6	42.6	50.3	38.8
Capital goods	117	1,612	1,425	1,279	1,893	24.5	18.8	19.9	18.6	19.5
<i>Imports excluding oil companies:</i>										
Consumer goods	205	3,691	2,645	2,077	3,997	43.7	48.1	41.6	34.1	44.8
Raw materials and auxiliary goods	148	2,537	2,447	2,926	3,234	31.4	33.1	38.5	48.0	36.5
Capital goods	117	1,441	1,266	1,096	1,683	24.9	18.8	19.9	17.9	18.7

Source : C.B.S.

by 636,200 tons or Rp 1,034.1 million than in the preceding year. Also imports of textiles rose substantially as Appendix H illustrates. Mention must be made that the increase of imports also has to be seen in the light of the S.A.C. arrangements.

Appendices H, I and J give specifications of imported consumer goods, raw materials and auxiliary goods, and capital goods. Imports of oil and oil products which in 1955 fell as compared with 1954, increased considerably in 1956, even above the 1954-level, to arrive at Rp 606,2 million. Among the imports of capital goods which increased foremost in 1956 were industrial equipment, motorcars, motorcycles and tires.

Table 40 gives a classification of imports according to countries of origin. It is worthy of note that imports from Europe increased by about Rp 520 million during the year under review, while imports from America were up by Rp 610 million. Also imports from Asian countries showed an increase amounting to no less than Rp 1,500 million; among other things imports from Japan increased by Rp 535 million (54%), imports from Burma by Rp 340 million (198%) and imports from the People's Republic of China by Rp 231 million (204,%). As to the

European countries, the Netherlands took first place because of substantially increased imports of consumer goods.

Terms of trade

For the sake of information note must be made that the way of calculating the index number of the terms of trade is based on the Paasche method, which has the advantage of using actual equations. In this way the actual value of exports and imports is compared with the value of exports and imports of a packet equal to that of the basis period. As basis period was selected the first year after World War II which can be considered as being about normal, viz. 1950. In the calculation of the price index number of exports, 31 products or categories of products were included together with one final item "other export products". Imports were di-

TABLE 42 — 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	102	131	77	
1953	90	119	76	
1954	86	108	80	
1955	98	108	91	
1956	92	105	87	
			monthly average	5 months' moving average
1956 January	107	121	82	88
February	99	120	82	88
March	111	116	95	89
April	94	108	87	86
May	100	100	100	86
June	79	116	68	84
July	89	108	82	84
August	87	105	82	79
September	95	108	87	81
October	85	112	76	82
November	91	115	78	...
December	92	109	84	...

vided into three categories, viz. consumer goods, raw materials and auxiliary goods, and capital goods, which categories comprise all goods imported together with one final item "others". For further elucidation of the general picture, besides the price index numbers of all exports (f.o.b.) and all imports (c.i.f.), also the partial index number of various important export and import goods are mentioned (see table 43).

The figures in table 42 reveal that the terms of trade deteriorated in the year under review, because the price index numbers of exports decreased in a relative sense, more than the price index numbers of imports.

One of the principal reasons for the fall in exports was rubber, which experienced a set-back in weight as well as in price per ton. Whereas in 1955 smallholders rubber and estate rubber exported, totalled 733,000 tons with a value of Rp 4,888 million, in 1956 rubber exports amounted to 676,000 tons only with a value of Rp 4,028 million. Therefore, against an average rubber price of Rp 6.67 per kilogram in 1955, the 1956-average price was only Rp 5.96 per kilogram. Consequently, the price index number of this important export commodity fell from 115 in 1955 to 104 in 1956. Similarly, the price index number of other important export products, such as copra, coffee, tea, pepper, and oil-products fell also. Only the price index number of tin in concentrates rose, but the export value of this commodity is no more than 7% of the total value of exports.

TABLE 43 — PRICE INDEX NUMBERS OF SOME MAIN EXPORT AND IMPORT COMMODITIES (1950 = 100)							
Exports (f.o.b.)	1954	1955	1956	Imports (c.i.f.):	1954	1955	1956
Rubber	73	115	104	Consumer goods	92	86	93
Copra	87	76	75	of which :			
Petroleum products	94	92	88	Rice	141	133	112
Tin ore	113	120	128	Wheat flour	104	91	92
				Cotton piece goods	92	87	80
				Raw and auxiliary materials	115	130	108
				Capital goods	138	121	126

The fall of the overall price index number of imports resulted from lower price index numbers of raw materials and auxiliary goods, and of various consumer goods, such as rice and textiles. As to rice, although imports in the year under review exceeded by far imports in the preceding year, nevertheless the average import price of this foodstuff fell by Rp 263 per ton. The price fall of rice on world markets resulted from higher production in the principal rice producing countries. The price of white rice first quality, after been quoted at £ 53 per ton at the end of December 1955, fetched no more than £ 50 per ton in December 1956. Similarly, the price of white rice 45% fell by £ 5 per ton in the same period.

The lower price index number of textiles was caused chiefly by a fall of the average price index number of cheaper quality cloth which arrived in large quantities from abroad in the year under review, viz. from 170 in 1955 to 107 in 1956.

When viewing the terms of trade from the monthly averages, it appears that June had the lowest figure. This was brought about because in said month prices of rubber and tin struck the lowest level of the year, while also prices of copra and tea were below the year-average.

That the terms of trade showed a decrease during the year under review can be seen also from the calculation of the s months' moving average which fell continuously.

Foreign exchange system and measures

In the 1955/1956 report (page 111—115) a survey was given of the Indonesian foreign exchange system and measures to March 1956 (incl.). In the next four months, no extraordinary measures were taken in this field.

As of August 6, 1956, however, the previous system of export premiums on “weak” produce was abolished and replaced by a system of export-premium certificates, styled *Bukti Pendorong Ekspor* (export stimulating certificate), abbrevi-

ated B.P.E., which after a first revision as of September 3, 1956, came to comprise the following.

Exporters of any Indonesian export produce, with the exception of petroleum (and derivatives), tin and sugar, are granted a B.P.E. The face value of this B.P.E., which is denominated in the foreign currency of the export concerned, ranges, for the time being, from 2% to 20% of the f.o.b.-value of the goods exported. B.P.E.'s may be traded in the market at a price fluctuating according to supply and demand. The validity of the certificates is 4 months only. Thereafter, in the 5th month after their issue, they may be cashed through the banks with the Foreign Exchange Fund for their nominal value at official middle rate, in as much as the holder would not have disposed of his B.P.E.'s in the market at a better rate before.

Demand for B.P.E.'s in the market principally originates with importers and travellers, as outlined hereafter.

As of September 3, 1956, *imports* into Indonesia have been categorized in 9 groups, viz.:

Group	I	: highly essentials
Group	II	: essentials
Group	III	: essentials
Group	IV	: semi essentials
Group	V	: semi essentials
Group	VI	: luxuries
Group	VII	: luxuries
Group	VIII	: super luxuries
Group	IX	: super luxuries

In order to import goods as classified in these 9 groups, importers must pay an import-levy, the so-called T.P.I. (Tambahan Pembayaran Impor). This T.P.I.-levy amounts to 0%, 25%, 50%, 75%, 100%, 150%, 200%, 300%, and 400% for the groups I up to IX respectively. Highly essential goods (group I), e.g. rice, pow-

dered milk for babies, airplane fuel (115/145 grade), newsprint, study books and scientific publications and raw cotton, remain exempted from T.P.I.

Apart from the above categorization, all import-goods were simultaneously classified in the following way :

- A. Imports which may be financed without B.P.E.-certificates (the main part of total imports).
- B. Imports which must be financed with B.P.E.-certificates. This regards imports of goods which are sufficiently produced in this country (part of groups III through V) and also the import of luxury goods (groups VI through IX).

For goods belonging to the above group B the T.P.I.-levies have been reduced by respectively 25%, 25%, 25%, 50%, 50%, 100% and 100%.

From time to time, the authorities may review the existing categorization by transferring certain goods from one (main-) group to another.

From the above it appears that demand for B.P.E.-certificates in the market (see above) will be exerted, i.a., by importers holding a licence for the import of goods belonging to main-group B.

The following is summary of aforementioned groups and T.P.I. percentages :

		<i>A</i>	<i>B</i>	Qualification
Group	I :	0%	*)	highly essentials
„	II :	25%	*)	essentials
„	III :	50%	25%	essentials
„	IV :	75%	50%	semi-essentials
„	V :	100%	75%	semi-essentials
„	VI :	150%	100%	luxuries
„	VII :	200%	150%	luxuries
„	VIII :	300%	200%	super-luxuries
„	IX :	400%	300%	super-luxuries

*) No goods of group I and II have been designated for B.P.E.-financing.

Some additional measures were taken in the field of imports, aiming at facilitating to some extent the inflow of such essential goods as industrial equipment and raw materials as well as machinery parts for assembling plants operating in Indonesia. As to the former category, the Monetary Board decided in July 1956 that the payment of the T.P.I., which levy is normally paid at the moment an import-application is filed with the B.D.P. (Bureau for Import Licences), may be effected later on, when the shipping documents, evidencing the payment and shipment of the relative equipment and raw materials to Indonesia, have arrived at the intermediating bank's office in Indonesia. With regard to the second group of imports mentioned, a T.P.I.- facility of somewhat smaller importance is being granted freely on individual application to the importers concerned, amounting to a deferment of payment of the T.P.I. levy from 4 to 9 months after issuance of the import-licence required. Both kinds of facilities, however, apply to Indonesian-owned companies c.q. Indonesian national importers only.

This enumeration of measures in the imports sector should not be concluded without mention being made of the development in the field of foreign medium term credits ("B"- and "C"-credits, see previous reports), in virtue whereof imports by the Government and private enterprises can be effectuated on a deferred payment basis. As of December 31, 1956, the total countervalue at official rates of outstanding Indonesian commitments of this category was Rp 643 million, the major part whereof (Rp 518 million) for account of the Government.

A substantial part of the relative goods and services having already been delivered and rendered, the payment thereof in instalments will take place in forthcoming years.

In the sector payments on services it should be reported that as of August 6, 1956, for some transfers of invisibles, financing with B.P.E. is required (see above). However, no transfer is made with both T.P.T.-payment (see previous reports) and financing with B.P.E. If a transfer is subject to T.P.T., it is exempted from B.P.E. and vice versa.

B.P.E. is required a.o. for transfers of travelling costs for non-governmental purposes, costs of study abroad, in case such study possibilities do exist in Indonesia too, and suchlike transfers.

Payment of T.P.T. remains required for almost all other transfers, i.e. profit transfers of companies operating in Indonesia, transfers of pensions and subsistence allowances, etc.

A few invisibles, however, are still exempted from both T.P.T. and B.P.E., i.e. expenses incidental to imports and exports, the so-called private foreign exchange quota (as far as the regular maximum is concerned) and all governmental transfers.

As to capital movements, a Foreign Investment Law has been drafted by the Government and submitted to Parliament in June, 1956. Pending its promulgation, however, foreign investments are treated along the provisional regulations which have been in force for many years now and have been described in previous Reports.

Trade and payments agreements with foreign countries

In the period under review, a number of payments agreements with foreign countries have been terminated as these agreements were no longer considered to be in the interest of Indonesia. As stated in my previous report, these agreements have fulfilled their purpose, as the mutual acquaintance of produce has been facilitated thereby and direct contacts have been made. Since then, mutual payments are made in internationally acceptable currencies and business is expected to remain at the same level or higher than before.

The terminated payments agreements were, in succession, the following: with Mexico (as of July 31, 1956), with Hungary, Roumania, Yugoslavia (all three as of October 1, 1956), with Czechoslovakia (as of November 17, 1956) and with

Eastern-Germany (as of December 12, 1956). At the same time new trade agreements were concluded or the existing trade agreements were extended.

For the time being, payments agreements with the following countries remain in force: with Japan, The People's Republic of China, Egypt and Poland.

International Monetary Fund, International bank for Reconstruction and Development and International Finance Corporation

It may be recalled that in August 1954 Indonesia effectuated its initial gold deposit with the I.M.F. to an amount of \$ 15.5 million, representing 10% of the country's net official holdings of gold and U.S. dollars. Thereupon, the I.M.F. allowed a drawing by Indonesia to an amount of \$ 15 million on the Fund within the so-called gold tranche of the country.

In June 1956, Indonesia repurchased from the Fund, in accordance with the relative articles of agreement, an amount in Rupiahs up to a countervalue of \$ 27.5 million, thus depositing the full 25% subscription part of its quatum (\$ 110 million) in gold and dollars. However, in August 1956, Indonesia made use again of its drawing facilities on the Fund, not only for \$ 27.5 million within the gold-tranche, but also for another \$ 27.5 million thereabove.

In the period under review, no steps were taken towards the establishment of an official I.M.F.-parity for the rupiah, although since August 1954 a provisional agreement exists as to a parity of U.S. \$ 1.— is Rp 11.40.

As to the relationship of Indonesia with the I.B.R.D. no developments are to be reported.

Shortly before the end of December 1956, Indonesia became a member of the I.F.C., which corporation has been established as an affiliate of the I.B.R.D. with the purpose of encouraging the growth of productive private enterprise, particularly

in the less developed areas of the world. Membership in the I.F.C. is open to countries which are members of the I.B.R.D. Subscriptions to the corporation's authorized capital stock of \$ 100 million are based on the members' quota of the paid-in capital stock of I.B.R.D. For Indonesia, the subscription to I.F.C. thus amounts to \$ 1,218,000.—.

VII. PRODUCTION, PRICES AND SOCIAL DEVELOPMENT

Food producing agriculture

Production and food situation

Rice production in 1956 was estimated at 7,101,000 tons, being 115,000 tons or 1.6% less than the 1955-crop. This decrease occurred chiefly in the regions outside Djawa. Similarly as was the case in 1955, the fall in production resulted from heavy rains which caused large floods damaging crops in East Sumatera, and also in West and East Djawa. Besides climatological disasters such as floods, soil erosion and typhoons, crop diseases in various forms and *mice* plagues continued to smite the farmers. The maize crop in various parts of East Djawa was damaged by hogs over an acreage of 3,000 hectares. Moreover, imports of fertilizers stagnated during the last months of 1956, in which period the planting season falls, with the result that many rice fields were tilled without fertilizers being added to the soil. The anxiety is therefore, that said shortage will have an unfavourable effect on the 1957-crop. The stagnation in imports of fertilizers was caused by political tensions in the Middle East and the Suez canal crisis which resulted in a shortage of shipping facilities. In this connection it is worthy of note that the yearly demand of Indonesia for fertilizers is about 200,000 tons at a cost of Rp 170 million.

TABLE 44 — MOST IMPORTANT FOOD CROPS IN DJAWA AND MADURA (*000 tons)						
	1937	1954	1955	1956	1956 as % of	
					1937	1955
Rice { irrigated	3,682	4,439	4,262	4,268	116	100
{ non-irrigated	223	192	145	122	55	84
Maize (kernels)	2,037	2,154	1,462	1,407	69	96
Cassava (roots)	7,637	6,430	6,519	6,432	84	99
Batatas (roots)	1,182	1,064	1,008	1,485	120	147
Ground nuts(peeled)	181	204	178	179	99	101
Soya beans (peeled)	269	362	306	307	114	100

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

TABLE 45 — MOST IMPORTANT FOOD CROPS IN OUTER ISLANDS (^{'000 tons})				
	1954	1955	1956	1956 as % of 1955
Rice { irrigated	2,231	2,230	2,149	96
{ non-irrigated	667	579	562	97
Maize (kernels)	567	509	492	97
Cassava (roots)	3,139	2,798	2,745	98
Batatas (roots)	1,048	889	1,009	113
Ground nuts (peeled)	43	29	35	121
Soya beans (peeled)	38	40	38	95

Source : Service for Indigenous Agriculture

Tables 44 and 45 reveal that in Djawa and also in the other regions production of maize and cassava fell in 1956 as compared with the preceding year. In contrast, production of batatas and groundnuts increased. Output of soyabeans was lower in the regions outside Djawa, but in Djawa the level of production remained about the same as in 1955.

In table 46 a review is given of the rice situation in Indonesia. Compared with 1955 the quantity available for local consumption was higher by 17%, totalling 8.2 million tons.

TABLE 46 — RICE SITUATION IN INDONESIA						
	Djawa and Madura		Other islands		Indonesia	
	1955	1956	1955	1956	1955	1956
(^{'000 ha})						
Harvested area						
Irrigated rice	3,925	4,076	1,592	1,614	5,517	5,690
Non-irrigated rice	264	224	789	778	1,053	1,002
(^{'000 tons of rice})						
Production of irrigated rice	4,262	4,468	2,230	2,148	6,492	6,616
Production of non-irrigated rice	145	122	579	562	724	684
Imports from abroad	21	508	104	307	125	815
Mutation of J.U.B.M.stocks	— 378	+ 22	— 11	+ 13	— 389	+ 35
Available for domestic consumption	4,050	5,120	2,902	3,030	6,952	8,150

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

Further particulars on production, exports and consumption of other foodstuffs are given in Appendix K. With the exception of maize, the quantity available for consumption in 1956 increased as compared with the preceding year. This increase was brought about by lower exports of cassava products and soyabeans, whereas maize and batatas were not exported at all. In 1955 exports of cassava products totalled 177,500 tons, against 16,100 tons in the year under review. Exports of soyabeans fell by 46% to 2,800 tons.

The acreage of irrigated rice fields at the end of 1956 was by 3% larger than in the preceding year; in contrast, the acreage of non-irrigated rice fields was less by 5%. With respect to other foodstuffs, the acreage planted with soyabeans was less by 4%, whilst there was an increase of the acreage under batatas by 34%, maize by 7%, groundnuts by 5% and cassava by 1%.

Government measures for the promotion of food production

The Government allocated an amount of Rp 37.5 million for the implementation of a plan to raise production of foodstuffs in 1957. The target of this plan is not to increase the planted acreage, but to improve the technique of planting by using high quality seedlings and various types of fertilizers next to improvements in the irrigation system, etc.. As a result of these measures a raise of production is expected in 1957, viz. of rice by 250,000 tons, maize by 44,000 tons, batatas by 816,000 tons and cassava by 524,000 tons.

In Krawang (West Djawa) a Government rice laboratory is under construction, which will cost Rp 3 million. Research activities of this laboratory will be concentrated on raising the quality and yield of paddy by experimenting with various kinds of paddy and seedlings of high quality; besides, the method of planting on irrigated rice fields will be intensified.

In the frame of the five-year plan (1956-1960) irrigation projects have been planned which are not merely restricted to irrigation but also relate to other targets such as combating the danger of floods, the control of rivers, prevention of droughts,

inland fisheries and the generation of electric power. In this connection the multipurpose irrigation project to be constructed at Djatiluhur near Purwakarta (West Djawa) may be mentioned. The dam which will lock a reservoir with a capacity of 3 billion cubic meters of water, sufficient to irrigate 250,000 hectares of rice fields, will involve expenditure to an amount of Rp 1 billion, and is expected to be completed by 1960. Other important irrigation projects are the Tjatjaban reservoir near Tegal (Central Djawa) which will be ready at the end of 1957 and the Sempor reservoir in Kebumen (also Central Djawa), with capacities of 90 million and 70 million cubic meters respectively and providing irrigation to acreages of 27,500 hectares and 25,000 hectares. Generally, the construction of the various irrigation projects is rather behind schedule, hampered as they are by financial difficulties and shortage of technical experts. Finally, in the frame of combating the danger of erosion, a beginning was made of planting fruit trees on waste lands in East Djawa and Madura.

Rice

The buying-up of paddy from crop-1956 by the J.U.B.M. (Food Foundation) in Djawa totalled 510,900 tons, or only 64% of what was planned, although the target was lowered from 1,100,000 tons in 1955 to 800,000 tons in 1956. The best results in buying-up were scored in East Djawa, although even there the target was fulfilled for about 79% only; in Central Djawa the implementation was far from satisfactory, as was the case in 1955. Besides unfavourable weather conditions, particularly rainfall which did not follow the usual pattern of the monsoon, floods and various rice diseases, it was the difference between the buying-up price of the Government and the free market price which was the principal cause of the failure of buying-up as planned. In Central Djawa for example, the official buying price was Rp 109 per ton, whereas every middleman was willing to pay Rp 150. In addition to this, the farmers preferred mostly to keep their paddy in store for the lean season (*patjeklik*) as they feared that the “rice injections” of the Government would not suffice to meet their needs in the period of shortage. There is indeed, a Government order prohibiting the hulling of paddy during the months March through October—i.e. during the season in which paddy is bought-up—but this did not prevent “black” hulling of paddy, bought-up from farmers at higher prices than the Government was prepared to pay.

The buying-up scheme for 1957 has not been altered and the targets set for the various regions are the same as in 1956, whilst the price following a new price schedule, has been raised by Rp 10 per quintal for paddy of good quality. However, dependent on the situation in the various regions, the Governors are authorized to increase the price up to a limit of maximum 20% above the standard price. This margin is meant to deter speculators from cornering the paddy of the farmers. The expectation is therefore, that the buying-up of paddy in 1957 will proceed more smoothly.

TABLE 47 — BUYING UP OF PADDY DURING 1956			
	Planning (tons)	Results as at end of December 1956	
		tons	as % of planning
Djawa Barat	250,000	144,529	57.8
Djawa Tengah	150,000	49,278	32.8
Djawa Timur	400,000	317,070	79.3
Djawa/Madura	800,000	510,877	63.8
Sulawesi	30,000	—	—
Total	830,000	510,877	61.5

Source : J.U.B.M.

As a result of the fast increase of population and the fact that rice is the principal food of the people, overall production of foodstuffs in Indonesia cannot meet local demand. Rice production in 1957 is estimated at about 7,500,000 tons, whereas 8,100,000 tons will be needed. Therefore, there will be a rice shortage of 600,000 tons which can be met only by way of imports. In consequence of this the Government has planned to import 700,000 tons of rice in 1957. It is noteworthy that the rice shortage can be reduced if the method of rice hulling would be directed towards quantity instead of quality, because with the prevailing method large quantities of rice are wasted. Attention should also be given to the possibility of increasing the production of other foodstuffs such as maize and cassava, so that the consumption of rice could be lowered. Finally, note must be made that of the rice to be imported as a surplus agricultural commodity from the U.S.A. the first deliv-

TABLE 48 — RICE POSITION OF J.U.B.M. (tons of rice)			
	1954	1955	1956
Initial stocks	432,000	506,000	117,000
Internally procured	439,000	300,000	250,000
Imports	253,000	125,000	815,000
	1,124,000	931,000	1,182,000
Sales	618,000	814,000	1,028,000
Final stocks	506,000	117,000	154,000

Source : J.U.B.M.

eries arrived in September last; about 175,000 tons of a total allocation of 250,000 tons were imported per end-1956.

Prices of hulled rice showed an upward trend during the first quarter of 1956, but in April coinciding with the beginning of the harvest season, a reaction set in and prices fell. During May through August prices were rather stable. With the beginning of the lean season in September rice prices rose again, but due to increased imports, mainly from the U.S.A. and Burma, a further rise in prices could be prevented and quotations dropped slightly. As for the regions outside Djawa, from April onward the prices in Kalimantan and Sumatera moved along parallel lines as in Djawa. Earlier, particularly in the first quarter, rice prices in said re-

TABLE 49 — RICE PRICES (Rp/kg)							
End of	Djawa country side	Djakarta	Surabaya	Palem- bang	Medan	Pontia- nak	Makasar
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 December	2.35	2.35	2.50	3.15	2.65	3.—	2.10
1955 December	3.48	3.43	2.70	3.60	4.60	5.50	3.45
1956 March	3.83	4.26	3.25	3.10	3.35	4.50	3.80
June	2.64	3.13	2.55	3.—	2.88	4.—	3.50
September	2.95	3.38	2.70	3.35	3.35	4.75	3.30
December	3.28	3.63	2.80	3.—	3.50	4.75	3.70

Source : C.B.S.

gions fell due to increased stocks. The highest price throughout Indonesia was quoted in Pontianak (West Kalimantan), where from July 1956 onward prices rose unabatedly because of transport difficulties. Per end-1956 rice prices in the various regions did not vary much and quotations fluctuated between Rp 2.75 lowest at Surabaya and Rp 3.20 highest at Makassar per kilogram of cheap quality, with the exception of Pontianak where Rp 4.75 was quoted.

At the end of 1956 the price level was generally lower than at the beginning of the year.

International rice situation

According to data published by the Foreign Agriculture Service of the Department of Agriculture of the United States of America, world rice production in 1956-1957 (August-July) was estimated at about 198,900 million tons which means a record level and an increase of 6,000 million tons or 3%, as compared with 1955-1956. Favourable weather conditions, and an increase of planted acreage in the producing countries in Asia (responsible for 93% of total world production), were the principal causes of this rise. Production in Thailand and Burma, both important rice-exporting countries was higher; the same occurred in the People's Republic of China where rice production rose from 66,100 million tons in 1955 to 69,000 million tons in 1956. In Japan, the largest rice-importing country, production fell, but nevertheless rice imports in 1957 were not increased because of sufficient stocks. Pakistan experienced damages in its rice crop to the extent of 1 million tons, caused by large floods in the past year. The 1957-crop however, is estimated to be 2.5 million tons higher. The third rice-exporting country, the United States of America, reduced its planted acreage for the second time—the first reduction occurred in the preceding year—whilst Italy and Spain also limited their production.

In view of this and also of the increase of production, chiefly in the Asian countries, together with the fact that wheat production in 1956-1957 will be higher also, the forecast is that world supply and demand of rice will be about in balance.

The price of white rice 100% first quality in Bangkok quoted £ 52.10 per ton in January 1956 and rose continuously in the following months till a level of £ 59.10 was reached in August; afterwards prices fell gradually to reach a level of £ so at the year-end.

A similar trend could be observed with regard to prices of lower qualities, e.g. broken rice, although here movements were more stable and large price fluctuations did not occur.

At the F.A.O. session, held in Rome during May 1956, the stabilization of international rice trade was discussed, as well as measures urgently needed for improvement of the trade. In this context various suggestions were put forward, such as the formation of bufferstocks, multilateral contracts and export quota as known in the International Tin Agreement. Moreover, there was also a suggestion to arrive at the standardization and fixation of qualities of rice in order to promote a regular production and sound practices in international rice trade.

Forestry

In the past year energetic efforts were made by the Forestry Service to re-forest waste lands lying idle by destructive woodfelling, rampant everywhere and causing the danger of floods in the rainy season. So far 45,000 to 46,000 hectares were re-forested at an expenditure of Rp 691 per hectare.

In the five-year plan provision is made for re-forestation and extension of forests with types of wood which can be applied in industry, particularly materials for paper mills, match factories, tanneries, building construction, chemistry, etc..

Apart from extension, targets are set also for :

- a) raising the efficiency of management;
- b) accomplishing an inventory of forests, together with technological research;
and
- c) extending technical and administrative training.

Other efforts to promote forestry, particularly as to woodfelling, aim at granting priority to families or individual workers belonging to a certain organization, such as a co-operative society or a limited company. In such cases the Forestry Service provides technical assistance whilst the Civil Service gives guidance.

Disturbances of law and order which in various regions did not show any abatement yet (Sulawesi, West Djawa, Atjeh), hampered considerably improvement in the year under review.

As known, there are at present 3 forestry-police schools (Medan, Ungaran and Makasar), but unfortunately, due to a shortage of teachers the number of pupils is severely restricted.

Livestock

In 1955 the number of livestock increased by 2% as compared with the preceding year. This figure does not include horses and buffaloes, both of which decreased. This however, is understandable when keeping in mind that the latter two types of animal husbandry are considered merely as auxiliaries in the farmer's economy. Buffalo meat and horse meat are not consumed by the population except in some regions, with the result that these two categories of livestock are not looked after very much.

Livestock slaughtered yearly all over Indonesia totals over two million animals. The consumption of meat per head is about 2.5 kilograms per year. Viewed from the angle of what normally is required in animal protein, this is far from sufficient. To increase the number of cattle for slaughter various efforts are being made by the Veterinary Service. In every Residency a stock-farm for breeding purposes has been established. There are four centres for stock breeding, viz. in Bukittinggi (West Sumatera), Purwokerto (Central Djawa), Djember (East Djawa) and Sumba (Nusa Tenggara). Artificial insemination is practiced wherever advantageous. Furthermore, a livestock hospital at Wonotjolo near Surabaya is under construction which, although not quite finished, could be put into operation in the past year. For this project the I.C.A. provided assistance.

TABLE 50 — LIVESTOCK (‘000 head)					
	Cows	Buffaloes	Horses	Goats and sheep	Pigs
1940	4,141	3,003	693	6,948	1,253
1951	4,447	2,785	529	7,305	1,116
1952	4,469	2,851	549	7,845	1,099
1953	4,624	2,867	593	7,948	985
1954	5,025	2,924	631	9,479	1,378
1955	5,243	2,850	591	9,695	1,449

Source : Veterinary Service

In the context of the efforts made to increase the number of cattle, the Veterinary Service is importing breeding cattle from abroad with the purpose of improving the breed. For this special purpose Rp 1 million was allocated to the Veterinary Service for the year 1957.

Exports of livestock, in particular of pigs and cattle, decreased in 1956. The reason was that prices of livestock in Singapore were relatively far beyond local prices. The number of pigs exported in 1956 was only 43 % of the 1955 total (8,730 against 20,145); exports of cattle were lower by over 40% (7,729 against 4,671).

In addition, breeding of livestock in East Djawa made better progress than in the other regions.

Fisheries

During the year under review overall production was higher by 6% as compared with the preceding year. Production of inland fisheries increased by 14%, production of sea fisheries by 1% only.

The higher production of inland fisheries was brought about by favourable weather conditions, and also because floods were not so serious. In total, inland

TABLE 51 — PRODUCTION OF FISHERIES (‘000 tons of fresh fish)								
	Sea fisheries				Inland fisheries			
	1941	1954	1955	1956	1941	1954	1955	1956
Djawa and Madura	...	71	99	131	37	65	77	84
Sumatera	...	132	133	146	24	48	53	51
Kalimantan	...	96	104	80	64	89	98	131
Indonesia Timur	...	102	76	63	22	25	31	30
Total	315	401	412	420	147	227	259	296

Sources : Sea Fisheries Service ; Inland Fisheries Service

fishery-grounds cover 10 million hectares, comprising marshes, lakes, pools, and ponds. Fish ponds covered a total acreage of 136,000 hectares in 1955 and produced 30,411 tons of fish.

World production of sea fish, as reported in the F.A.O.’s Yearbook of Fisheries Statistics, increased from 1948 to 1955 by 40%. Countries with the largest output were Japan, the United States of America, the Soviet Union and the People’s Republic of China.

On the strength of data provided by the Ministry of Agriculture, fish consumption in Indonesia amounts to 700,000 to 750,000 tons per year. This total is accounted for by local fish production and imports of fish. Thus the consumption of fish per capita is 8 kilograms, which quantity for personal consumption is considered as insufficient. In the frame of raising fish production the Service for Sea Fisheries is engaged in modernization and mechanization of fishery enterprises. If the set target will be fulfilled, it is estimated that by 1959 Indonesian sea fisheries will produce about 600,000 tons yearly. As known, this project and its implementation is largely supported by American I.C.A.-assistance. A project taken in hand, is the centre for sea fisheries at Kota Baru (Kalimantan). In 1957 a beginning will be made with another project in Ambon (Maluku).

Finally, in the frame of I.C.A.-assistance various dredgers were handed over to the Service for Inland Fisheries in the year under review. The use of this kind of outfit is tried out for the first time in Indonesia.

Agricultural export commodities

Rubber

Data published by the International Rubber Study Group reveal that in 1956 world production of natural rubber and synthetic rubber together totalled 3,083,500 long tons, being therefore higher by 85,000 long tons or 3%, as compared with the preceding year. World consumption also rose by 3%, viz. from 2,933,000 to 3,015,000 long tons. The rise in consumption related to both natural and synthetic rubber, but the higher production was due to the fast rise of production of synthetic rubber in the U.S.A. and Canada, viz. by 11% and 16% respectively. In contrast, production of natural rubber fell, for the larger part as a consequence of lower production in Indonesia, viz. by 46,000 long tons, or 5% less than in 1955. World stocks of natural rubber per end-1956 totalled 860,000 long tons against 985,000 long tons at the end of 1955. World stocks of synthetic rubber taken over the same dates, rose from 190,000 to 265,000 long tons. The increase occurred in the second halfyear of 1956, due to political tensions in the Middle East.

TABLE 52 — WORLD PRODUCTION AND CONSUMPTION OF SYNTHETIC RUBBER (‘000 long tons)							
Production	1954	1955	1956	Consumption	1954	1955	1956
United States	623	970	1,080	United States	637	895	874
Canada	86	104	121	United Kingdom	9	20	40
Western Germany	7	11	10	France	14	19	32
				Canada	30	40	48
				Western Germany	17	25	35
				Other countries	33	63	104
World total ¹⁾	716	1,085	1,211	World total ¹⁾	740	1,062	1,133
¹⁾ Exclusive of Russia							

Source : Rubber Statistical Bulletin

The proportional share of natural rubber in total world production in 1955 was 64%, but in 1956 the percentage fell to 61. The same happened to the proportional share of natural rubber in world consumption; here the percentage dropped from 64 to 62. When comparing 1956-consumption in the U.S.A. of synthetic

rubber on the one hand and natural rubber on the other hand, the outcome is : synthetic 61%, natural 39%. In 1955 these percentages were 58.5 and 41.5 respectively. It is quite evident from these figures that natural rubber is losing ground in the U.S.A., and also that the impact of synthetic rubber is gaining momentum. During 1956 the U.S.A. was still the largest consumer either of synthetic (77%) or natural rubber (30%). American consumption of rubber in 1957 is estimated at 1.5 million long tons, against 1,436,000 long tons in 1956. This forecast is based on the presumption that in 1957 the motorcar production in the U.S.A. will be higher than in the previous year. The fall in consumption figures of rubber in 1956 was due to lower demand of the motorcar industry.

Production of synthetic rubber in the U.S.A. and Canada showed a substantial increase, as mentioned above. In contrast, the fast expanding rubber industry in West Germany slowed down temporarily in 1956 as table 52 reveals.

TABLE 53 — WORLD PRODUCTION AND CONSUMPTION OF NATURAL RUBBER (^{'000} long tons)							
Production	1954	1955	1956	Consumption	1954	1955	1956
Indonesia	739	733	687	United States	596	635	562
Malaya	584	639	627	United Kingdom	239	246	193
Ceylon	94	94	95	France	127	134	135
Vietnam and Cambodia	78	93	90	Russia ¹⁾	0.4	24	127
Other countries	308	354	374	Other countries	802.6	831	805
World total	1,803	1,913	1,873	World total	1,765	1,870	1,882
¹⁾ Net imports directly procured from producing countries							

Source : Rubber Statistical Bulletin

Lower consumption of natural rubber in the Western countries in 1956, for the main part in the U.S.A. and the U.K.—due to lower sales of motorcars and also to increased use of synthetic rubber—was compensated by higher purchases of the Soviet Union and the People's Republic of China, rising from 74,000 long tons in 1955 to 215,000 long tons in 1956 (taken together). However, it is quite clear that consumption of synthetic rubber will continue to rise. This is the consequence of new developments in manufacturing techniques, such as the improve-

ment of butyl, as well as the recent discovery of poly-isoprene, putting the monopolistic position of natural rubber increasingly under pressure. As an example can be cited that natural rubber was used in the manufacturing of heavy duty truck tyres, but in the U.S.A. these tyres can nowadays be manufactured entirely of synthetic rubber, resistant to high temperatures. In order to face the ever-stronger competition of synthetic rubber, the way-out for natural rubber is in the first place, to bring production on a more efficient footing so that production cost will decrease. In this context, projects were drafted in Indonesia and Malaya for the rejuvenation of smallholders rubber trees by replanting high-quality seedlings. Apart from this, in Malaya and also in various countries in Europe research is constantly broadened in attempts to improve tapping methods and also to develop new appliances for natural rubber. As to stockpiling of natural rubber in the U.S.A., mention must be made that in view of the Suez crisis the Rubber Manufacturers Association submitted a proposal to the Office of Defence Mobilization in November last

TABLE 54 — RUBBER WORLD PRICES (R.S.S.I.)					
	Djakarta ¹⁾ Rp/kg f.o.b.	London Sh-d/lb c.i.f.	N w Ycrk U.S. \$ cts/lb	Singapore Str. \$ cts/lb f.o.b.	Colombo Rupee cts/lb
1938	0.49	0 $7\frac{7}{32}$ ²⁾	14.60	24.06 ²⁾	35.4
1951	10.05	4 $0\frac{3}{4}$	59.07	169.55	214.7
1952	7.77 $\frac{1}{2}$	2 $3\frac{29}{32}$	38.57	96.07	137.7
1953	6.45	1 $7\frac{22}{32}$	24.23	67.44	135.2
1954	4.97 $\frac{1}{2}$	1 $7\frac{13}{32}$	23.64	67.30	110.9
1955	11.31	2 $8\frac{7}{8}$	39.14	114.16	128.2
1956 January	12.—	2 $9\frac{9}{32}$	41.74	114.98	151.0
February	9.90	2 $5\frac{9}{32}$	36.46	102.64	151.0
March	8.50	2 $4\frac{3}{32}$	33.68	97.01	151.0
April	8.25	2 $2\frac{3}{8}$	31.77	90.56	151.0
May	7.55	2 $0\frac{3}{16}$	29.61	83.41	146.7
June	7.05	1 $11\frac{15}{16}$	30.54	83.29	141.0
July	9.—	2 $2\frac{23}{32}$	33.91	92.36	141.0
August	9.65	2 $4\frac{25}{32}$	35.65	99.95	141.0
September	8.70	2 $2\frac{7}{8}$	32.64	92.16	141.0
October	8.50	2 $3\frac{3}{32}$	32.61	93.09	141.0
November	9.55	2 $6\frac{9}{32}$	35.11	104.26	141.0
December	10.85	2 $8\frac{3}{16}$	36.86	112.39	141.0
1957 January	10.70	2 $4\frac{7}{32}$	33.23	98.64	141.0
February	8.95	2 $1\frac{11}{16}$	30.39	87.47	141.0
March	8.80	2 $1\frac{11}{16}$	31.83
¹⁾ At beginning of period ; ²⁾ spot					

Sources : Rubber Statistical Bulletin ; Daily Market Service

to raise the quantity of natural rubber in rotation (7,500 tons per month) and to prolong the period (60 days) during which drawings on the stockpile must be replaced. The object of this proposal was to prevent substantial rises of natural rubber prices as occurred previously. The Office of Defence Mobilization which channelizes and supervises purchases and sales of strategic materials, did not consider it urgent to reconsider its policy, but stated that if a shortage of shipping space would develop as a consequence of the Suez crisis, an extension of the period of replacement would be granted.

During the first five months of 1956 world rubber prices showed a downward trend because of the lower demand for rubber from the motorcar industry in the U.S.A. In June prices improved and quotation on the New York market for R.S.S. I-quality began to rise from U.S. \$ cts 30.50 per lb c.i.f. to U.S. \$ cts 35.50 in August. This was followed by a reaction and during the following two months prices fell, but in November the market became lively again— by that time the Suez crisis flared up—”hereafter prices followed their upward trend till quotations reached U.S. \$ cts 37 at the end of December. The reasons for these higher prices were the following: international political controversies changing for the worse, the closing of the Suez canal, the American unwillingness to change their stockpiling policy, increased purchases by the Soviet block and also speculative buying. The high price-level at the end of 1956 obviously could not last and during the first two months of 1957 prices fell continuously till a level of U.S. \$ cts 30.25 was reached in February last. This downward trend was caused by substantially increased production of synthetic rubber, and also by the fact that expected higher sales of the American motorcar industry of new models were not met. Mention must be made that in connection with the rationing of oil and gasoline, the restriction of production in various British motorcar factories, in some cases up to 40%, also had a downward effect on the demand for rubber. Prices of R.S.S. I-quality at the Djakarta market followed the trend of world market prices.

Table 55 shows that production of estate rubber in Indonesia fell by about 2,900 net tons or 1%, as compared with the preceding year. Exports of estate rubber were less also by 1%. Total rubber exports decreased further; in volume

they fell by 7% to 678,000 gross tons, proceeds were less by 17 %, totalling Rp 4,039 million. The fall in exports was caused chiefly by diminished exports of smallholders rubber, in volume as well as in proceeds, which could not be offset by higher proceeds during the last quarter of 1956 resulting from favourable world market prices.

TABLE 55 — PRODUCTION AND EXPORTS OF ESTATE RUBBER (net tons)		
	Production	Exports
1938	175,066	156,758
1951	226,107	205,173
1952	299,197	297,534
1953	309,098	293,134
1954	288,054	244,280
1955	266,283	237,308
1956	263,402	234,443

Source : C.B.S.

As to countries of destination of estate rubber, in 1956 the U.S.A. was again the foremost buyer with 92,600 tons, or 37% of total estate rubber exports (1955: 94,600 tons, or 37%); other important buyers were the United Kingdom, the Netherlands, West Germany and Japan. Overall, rubber exports to Eastern Europe increased in 1956, although slightly, as compared with 1955. On June 6th, 1956 the Government announced that it “would take within short time measures to open the possibility for sales to the People’s Republic of China and to other countries which are in need of rubber”. After the embargo was thus lifted, 1,400 tons were exported to the People’s Republic of China till end-December last.

Of total exports of smallholders rubber in 1956 143,600 tons or 34% were shipped to Singapore (1955: 132,900 tons or 28%). The United States of America and the United Kingdom took second and third place with 98,500 tons and 87.800 tons respectively. Rubber exports to Mexico and Brazil which amounted in 1955

to 58,100 tons and 42,100 tons respectively (for the larger part smallholders rubber) fell heavily in the year under review, namely, to 3,000 tons and 1,200 tons.

Furthermore, it is worthy of note that according to the new export regulations which came into force on September 3rd, 1956, exporters were granted B.P.E. (Export promotion certificates) to the amount of 5% of the f.o.b. value, expressed in foreign currency, for sheet rubber processed in factories, latex, rubber powder and cuttings; remilling products and unsmoked sheets were granted a B.P.E. of 270. Until said data rubber did not receive an export premium because it was classified as a "strong" product.

TABLE 56— EXPORTS OF SMALLHOLDERS' RUBBER FROM THE PRINCIPAL PRODUCTION AREAS (tons of dry rubber)					
	1938	1953	1954	1955	1956
Kalimantan Barat	30,354	74,216	75,038	77,895	74,166
Kalimantan Selatan and Timur	27,390	48,791	53,737	69,627	52,664
Palembang	23,964	87,556	86,447	84,950	77,645
Sumatera Timur	20,280	40,599	64,350	58,243	35,019
Djambi	22,206	45,469	54,277	57,244	56,283
Tapanuli	4,044	4,639	3,666	6,077	9,254
Lampung	5	17,696	33,940	15,288	28,883
Other areas	18,353	62,465	107,342	95,552	79,432
Total reported exports	146,596	381,431	478,797	464,876	413,346

Source : C.B.S.

Table 56 summarizes rubber exports from various important production areas. From the figures mentioned in this table it appears that Palembang was again the principal production area in 1956, as was the case in the past years; second place was taken by West Kalimantan. With the exception of Tapanuli and Lampung, exports from other areas showed decreases in the year under review as compared with 1955, in particular East Sumatera and South and East Kalimantan. Regarding proceeds, the proportional share of Palembang in total export proceeds of smallholders rubber in 1956 was 19.5%; percentages for West Kalimantan, Djambi and South and East Kalimantan were 17.5 %, 14.1% and 13,% respectively.

TABLE 57 — EXPORTS OF SMALLHOLDERS' RUBBER ACCORDING TO QUALITIES (dry rubber)								
	Volume (tons)				Value (Rp '000)			
	1955	%	1956	%	1955	%	1956	%
Sheets	199,215	42.9	155,809	37.7	1,391,634	47.1	958,506	41.4
Blankets and barkcrepe	198,747	42.7	191,654	46.3	1,263,530	42.7	1,038,397	44.8
Scraps	4,528	1.0	2,387	0.6	15,214	0.5	7,737	0.3
Slabs	62,386	13.4	63,496	15.4	286,644	9.7	310,958	13.5
	464,876	100	413,346	100	2,957,022	100	2,315,598	100

Source : C.B.S.

The composition of exports of smallholders rubber according to qualities (see table 57) clearly underwent changes. The proportional shares taken by blankets and barkcrepe increased as a result of the prohibition imposed by the Government on exports of slabs from South Sumatera; consequently slabs are now processed exclusively in the remilling plants of that region. The proportional share of sheets, especially unsmoked sheets, decreased. In the category smoked sheets a shift occurred from higher to lower qualities. The shares of R.S.S. III, IV, and V in total exports of sheets in 1955 were 13%, 36% and 48% respectively, against 5%, 27% and 64% in 1956. From these figures it is evident that the share of R.S.S. V has increased. As reasons for this shift in exported sheets can be named among others: the slight difference in price between sheets of good and low quality, and secondly, the possibility of "undergrading", although controls on exports were tightened.

To improve the situation of smallholders rubber plots, replanting and new planting will be promoted within the frame of the five-year plan which will take about 10 years (1956-1965) and involve expenditure to an amount of Rp 877 million. The acreage to be renewed will cover 260,000 hectares or 20% of the total acreage. For the period 1956-1957 a beginning has been made with replanting 623 hectares at the cost of Rp 29 million. In this plan for remand new planting, the emphasis will be laid on improving the quality of the trees; simultaneously with an increase of production, costs will show a decrease so that the heavy competition of synthetic rubber can be met.

Copra

According to data provided by the “Jajasan Kopra dalam likwidasi” (Copra Fund in liquidation), copra bought-up in 1956 totalled 339,100 net tons, which is 7% less than in the preceding year.

TABLE 58 — PURCHASE OF COPRA BY JAJASAN KOPRA (’000 net tons)				
	Indonesia Timur	Kalimantan Barat	Other areas	Total
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
1955	309.7	56.1	—	365.8
1956	281.3	44.2	13.6	339.1

Source : Jajasan Kopra

As table 58 illustrates, purchasing decreased in the buying-up areas of East Indonesia as well as in West Kalimantan. The fall in East Indonesia was caused by difficulties in the field of financing and transportation, which had already started at the beginning of 1955. When payments to coconut growers came well-nigh to a halt they sold their copra invoices to middlemen at discounts sometimes up to 30%. Unsatisfactorily shipping communications between the islands, together with lack of coordination resulted in the piling-up of large quantities of copra throughout various parts of East Indonesia. In an attempt to overcome these difficulties, the Ministry of Economic Affairs drafted in the middle of 1956 a scheme comprising among other things the abolishment of the Copra Fund, and its replacement by a corporation guaranteeing representatives and interested parties from the producing areas that, whilst maintaining the system of single-selling, their interests would be fully observed. In conformity with this plan, the Copra Fund was abolished on July 12th, 1956 (Co-operation Day), and in its place a Committee was formed charged with the task of preparing a Central (Mother) Co-operative Copra Organisation (so-called P.P.I.K.K.). For the time being the buying-up of copra would still

be handled by the Copra Fund in liquidation. During the following months it became evident that the difficulties in the field of finance could not be dealt with yet. This led to the decision of the Copra Working Conference convened by the Ministry of Economic Affairs and held from 10th December till 12th December 1956, to settle the debts of the Copra Fund to the coconut growers (at the end of November last totalling Rp 84 million). Another decision was that in the frame of moulding the Copra Fund, the P.P.I.K.K. and the B.P.K.K. (Regional Preparatory Board for Copra Co-operation) were united into one co-operative system. The canalizing of financial resources needed for the buying-up of copra, should go exclusively via the Heads of Provinces, or the Heads of Regencies and Residencies, jointly with the Chairman of the B.P.K.K. At the same conference it was stipulated that the working methods of the P.P.I.K.K. should be in conformity with its position in the new set-up, so that matters of general interest should be decided by the Committee members of the P.P.I.K.K. jointly. To this should be added that the central agency shall provide further cash on the basis of f.o.b. prices, but no decision has been arrived at yet on the manner in which, or the moment when, implementation of the above will start. The decision on how profits will be divided, will rest with the B.P.K.K. concerned. Single-buying and single-selling of copra and other coconut products will be entrusted to this Board also.

TABLE 59 — EXPORTS OF COCONUT PRODUCTS (net tons)			
	Copra	Copra cakes	Coconut oil
1938	554,481	91,861	20,020
1951	542,234	67,143	—
1952	346,138	85,803	980
1953	309,504	112,562	62
1954	298,079	139,188	550
1955	234,396	154,852	1,248
1956	260,438	133,733	2,255

Source : C.B.S.

Exports of copra amounted to 260,400 net tons in 1956, and were therefore 11% higher than in the preceding year. Export proceeds were higher too and increased from Rp 402.7 million to Rp 441.9 million. The share in exports of the

Copra Fund in liquidation was 170,100 net tons, or 65% of total exports. In contrast to copra, exports of copra cakes fell by 14%, but exports of coconut oil, nearly all of which are directed to the Netherlands, displayed an increase of 80%. Exports of copra to the Netherlands in 1956 amounted to 40,100 tons, or twice as much as in 1955. Exports to Denmark, France and Belgium/Luxemburg showed notable advances. On the other hand, purchases from Germany, Sweden and Norway were less; Czechoslovakia did not buy any copra from Indonesia in 1956. Principal buyer of copra was Singapore (63,300 tons), followed by the Netherlands, whilst the third place was taken by the Chinese People's Republic, which recently came to the fore as an important buyer. The fall in exports of copra cakes to several countries, mainly to Singapore and France, could not be compensated by increased exports to the Netherlands and the United Kingdom. On world markets of copra Indonesia was under pressure from the Philippines, which country offers better assorted copra, but recently demand arose from various South American countries (Argentina, Bolivia and Chile). It is expected that with the opening of these new markets, the situation on world markets will soon improve.

During 1956 the Copra Fund in liquidation sold about 111,800 tons of copra to local coconut oil factories, against 242,000 tons in 1955. There are no figures available yet on the stocks held by the Copra Fund in liquidation at the end of December 1956.

On world markets copra prices showed an upward trend during the period January-April 1956, which continued until the end of April when the price level touched £ 70 5s per long ton for Straits copra c.i.f. Europe in London; later a reaction set in and prices dwindled. It was not before August 1956 that prices recovered, and by the end of October prices started to rise steeply as a consequence of the Suez Canal dispute, to reach a quotation of £ 69 10s at the end of the year.

Provisional estimates put world production of oils and fats in 1956 at 30.5 million tons, surpassing the production figure of 1955 (28.8 million tons) by 6 % and the average pre-war production by more than 25%. World consumption of oils

and fats is also increasing. Taking into consideration that stocks in importing countries are comparatively low, the conclusion may be drawn that next-year total exports will still remain on a high level. Consequently, it is expected that copra prices on world markets will remain sufficiently high in the months to come.

During the first quarter of the year copra prices on the free market in Djakarta showed a reverse trend as compared with prices on world markets. Quotations which at the end of January amounted still to Rp 230 per quintal copra 95% dry, dwindled since to Rp 205 at the end of March, and the latter quotation did not change from April through October 1956. In November however, prices started to rise slowly and per end-November and end-December quotations arrived at Rp 210 and Rp 225 per quintal respectively. Buying-up prices fixed at Rp 140 per quintal by the Copra Fund in liquidation for East Indonesia—in West Kalimantan the price is in general Rp 5 lower—did not undergo any change during 1956. Prices of coconut oil in Djakarta showed during the year 1956 a tendency to fall; during the first two and a half months the price was Rp 4 per litre, then fell slowly to Rp 3 in August 1956 and remained unchanged on this level until the end of November. The selling price of copra to oil factories was Rp 205 per quintal during the whole of the year under review.

Palm oil

The production of palm oil and palm kernels in 1956 decreased as compared with the preceding year. Albeit that the fall was no more than 1%, nevertheless the overall situation in production displayed a downward tendency. The reason is a recurrence of decline in labour productivity; as known, the level of 1954 was somewhat higher than in preceding years. The monthly average of production during 1956 was 13,700 tons of palm oil and 3,400 tons of palm kernels. These figures are below the monthly averages of 1954 and 1955.

Exports of palm oil as well as of palm kernels in 1956 were higher by 8% and 3% respectively. Proceeds in foreign exchange of both commodities taken together

TABLE 60 — 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
1951	121,147	29,965	106,151	29,344
1952	146,351	38,647	124,808	37,072
1953	160,494	42,381	135,849	43,238
1954	168,701	43,344	147,168	43,157
1955	165,806	41,949	116,309	38,757
1956	164,920	41,389	125,156	40,034

Source : C.B.S.

totalled Rp 346.3 million, representing an increase of 68 % as compared with the preceding year. From reports received it is presumed that higher receipts resulted from an upward trend of world prices of palm oil.

Principal buyers of palm oil during the year under review were the Netherlands (72,132 tons), Japan (24,492 tons), Germany (7,869 tons) and the Philippines (5,831 tons). Exports to the Netherlands were higher by 29%, but exports to Japan and Germany fell. Worth noting is the increased quantity of palm oil exported to Italy, which over the past year showed a relatively strong rise and the re-appearance of Denmark as a buyer of Indonesian palm oil. The largest quantity of palm kernels was exported to Japan. It is an important fact that within the frame of the export drive, palm oil and palm kernels were not granted export premiums. In the B.P.E. system the premium for palm oil as well as palm kernels was fixed at 5 %.

The average price of palm oil during 1956 was higher than in 1955; world prices quoted at the middle of January 1956 were 11,650 B. frs per long ton, followed by an upward trend until the middle of May to reach 13,350 B. frs per long ton. By the middle of December however, prices had fallen to 12,800 B. frs per long ton. Price trends of palm kernels were almost identical. In January 1956 London prices were quoted at £ 50 10s per long ton, while at the middle of December the price was £ 54 0s per long ton.

In view of future market prospects there is no reason for anxiety so far as palm oil products are concerned. It has to be regretted however, that in many years past no visible attempts have been made to extend the acreage planted with palm oil trees.

Fibres

Production as well as exports of *hard fibres* did not change to any extent during 1956. Efforts to raise the production level were few. There is ample evidence that all estates are struggling with financing problems. In my previous annual report mention has been made of the fact that the wage level was a reason for anxiety; similar difficulties were encountered during 1956. Wages displayed a further upward trend during the year under review, with the result that the costs of production were higher too. The change in the percentage of the export premium per March 1st, 1956, namely from 10% to 25 %, brought little else than the possibility to hold on to the present position. Equally, the granting of an export premium in the frame of the B.P.E. - system, to the amount of 20% of the f.o.b. export value, did not yield any favourable results to date.

TABLE 61 — PRODUCTION AND EXPORTS OF HARD FIBRES (net tons)		
	Production	Exports
1938	95,000 ¹⁾	90,079
1951	16,581	15,545
1952	32,182	28,148
1953	27,809	26,510
1954	31,330	23,971
1955	35,600	33,795
1956	35,328	33,542
¹⁾ Partly estimated since the majority of the estates did not report		

Source : C.B.S.

As table 61 illustrates, the larger part of the hard fibres production is destined for exports. In 1956 the principal buyer was Japan (8,961 tons), with the Nether-

lands second (2,300 tons). Exports to the U.S.A., Germany and Australia fell back. Presumably, the matter is that said countries are paying more and more attention to fibres from Africa.

Foreign exchange earned by exports of hard fibres totalled Rp 73.2 million in 1956. This represents an increase of 1%, as compared with 1955. The volume of exports amounted to 34,000 tons or 1 % less than in the preceding year. In this connection it can be reported that production in Djawa was less by 17% (2,064 tons), whereas on the other islands production increased by 8 % (1,791 tons).

At the end of January 1956 world market prices of B.E.A. sisal were quoted at £ 90. per ton; per end December 1956 prices stood at £ 76. per ton. Compared with the preceding year prices showed an obvious tendency to drop. Exports of kapok in 1956 totalled 97% of the export volume of 1955. This fall was due mainly to the fact that South Viet Nam, Cambodia and Laos came to the fore as serious competitors of Indonesia as kapok producing countries. This can be seen

TABLE 62 — EXPORTS OF KAPOK PRODUCTS (net tons)		
	Kapok	Kapok seeds
1938	15,445	7,123
1951	5,381	10,534
1952	5,290	14,126
1953	5,405	2,881
1954	4,580	19,073
1955	2,879	11,897
1956	2,792	9,683

Source: C.B.S.

from the quantities exported to various countries, such as the Netherlands and the United States. In 1955 exports to the Netherlands represented 40,% of the total export volume of Indonesian kapok; in the year under review however, this percentage was only 25,%. The U.S.A. also bought less kapok from Indonesia, and apparently paid attention to kapok from Equador.

In 1956 the efforts made by the Kapok Fund and aimed at boosting the export volume of kapok, as well as controlling the trade, (the latter with the purpose of combating speculation which inflicts losses upon the farmers), did not meet yet with much success. In the frame of this plan it is the intention to arrive at the founding of a limited company which will be entrusted with the implementation.

Mention must be made that as long as the Government holds on to a policy of fixed prices, all efforts to encourage and increase exports are difficult to realize. Prices as they are now, are considered to be too high.

The export premium of kapok was raised from 10% to 15% per May 1 st, 1956. With the introduction of the B.P.E. export-system kapok was granted a premium of 15 % of the f.o.b. value.

In 1956 average quotations of Quality C Semarang were slightly below the 1955-level; at the beginning of February 1956 the highest price of the year was quoted, namely Rp 1,985 per quintal. London quotations of Java average quality were £ 0 3s 2d per lb at the beginning of January 1956 and £ 0 2s 9d per lb at the beginning of December last.

The acreage planted with kapok increased in 1956 in North and South Sumatera and Nusa Tenggara by 135 hectares (of which 10 hectares were planted by estates and 125 hectares by smallholders). The expectation is that these new plantings will come into production during 1960.

Cinchona

Production of cinchona bark fell by 15% in 1956 as compared with 1955. On the other hand, the volume of exports increased by 25%, with the result that proceeds also were higher by 29%. During the year under review receipts in foreign exchange totalled Rp 4.9 million, against Rp 3.8 million in the preceding year. From this it can be concluded that the price level of cinchona bark during 1956

was slightly higher than in 1955. Exports of quinine were nil during the year under review.

TABLE 63 — PRODUCTION AND EXPORTS OF CINCHONA PRODUCTS (net tons)			
	Production (dry bark)	Exports	
		Cinchona bark	Quinine
1938	10,955	6,957	182
1951	9,080	7,576	57
1952	3,803	2,619	2
1953	1,204	454	3
1954	1,797	617	1
1955	2,656	1,207	1
1956	2,249	1,508	—

Source: C.B.S.

The acreage planted with cinchona trees did not increase over recent years. Up to this year estates still under production cover approximately 10,000 hectares. Compared with the situation before the war, this represents a decrease of about 40%.

In view of the substantial difference between cost of production and proceeds, the cinchona estates are still facing difficulties. Although cinchona was granted an export premium of 10 % of the f.o.b. value as from 24th October 1955, and afterwards within the framework of the B.P.E. system a premium of 15% from November 1st, 1956 onward, it is evident that this does not suffice all estates concerned. Furthermore, it is worthy of note that in view of the rise in production of synthetic substitutes, the prospects of world demand for cinchona are rather dim. These various reasons have brought about the decline in cinchona production over the past period.

Forest products

The output of timber receded in 1956 as compared with 1955. Production of timber for construction purposes fell by 12%, whilst other kinds of wood showed

TABLE 64 — 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
1951	1,594	1,140	368	75	3,177
1952	1,898	1,342	560	56	3,856
1953	1,991	1,556	377	57	3,981
1954	1,735	1,374	478	86	3,673
1955	2,089	1,468	368	119	4,044
1956	1,901	1,504	327	171	3,903

Soucer : Forestry Service

a slighter decrease. The Sumatera timber production was less by 391,000 cubic metres. Total timber production in 1956 dropped by 620,000 cubic metres (minus 15%). This state of affairs does not correspond with estimates of the Forestry Service. On the basis of wood felled during the first halfyear, the forecast was that production in 1956 would at least have equalled the 1955 volume.

During 1956 imports of triplex cases fell substantially by 35%. Weighted imports of paper and newsprint on the other hand, were higher by 125% and 36% respectively.

TABLE 65 — TIMBER FELLING ACCORDING TO TYPES (‘000 m ³ , rough timber equivalent)				
	Lumber	Fire-wood	Charcoal	Total
1939	2,009	1,667	358	4,034
1951	1,544	1,271	362	3,177
1952	1,994	1,565	297	3,856
1953	1,880	1,795	306	3,981
1954	1,919	1,411	343	3,673
1955	2,054	1,610	380	4,044
1956	2,014	1,471	418	3,903

Source : Forestry Service

TABLE 66 — IMPORTS AND EXPORTS OF THE PRINCIPAL KINDS AND PRODUCTS OF WOOD (tons)						
	Imports			Exports		
	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
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
1955	4,800	1,168	9,763	8,411	140,190	12,615
1956	3,100	2,633	13,322	8,703	40,500	1,585

Source : C.B.S.

As for weighted exports of the principal types of wood, only exports of teakwood showed an increase of 3% as compared with 1955. Exports of other types of wood amounted in 1956 to no more than 29% of the quantity exported in the preceding year, while exports of firewood totalled only 1,585 tons. Compared with the situation in previous years, 1956-exports of the two last named categories of wood showed a decline which gives rise to some anxiety. Presumably, the main reason is the increase of illegal wood felling by the population. Moreover, natural disasters as experienced by several regions in 1956, hampered wood felling. Considering the total volume of wood exported during 1956, the estimates of the Forestry Service were obviously too optimistic. According to these estimates the quantity expected to be exported in 1956 should have exceeded the 1955 volume by 10%. The estimates mentioned were based on export figures of wood up to August 1956, and on monthly export trends.

Proceeds in foreign exchange derived from all timber exports totalled Rp 15.6 million in 1956, against Rp 24.4 million in 1955. This means a decrease of 35%.

As table 67 reveals, exports of *copal* and *damar* fell in 1956 by 19% and 11% respectively. Exports of *rattan* decreased also, but to a lesser degree. Damar is exported mainly to Singapore and Japan. Prices in 1956 were higher than in 1955;

TABLE 67 — EXPORTS OF FOREST BY-PRODUCTS (gross tons)			
	Copal	Damar	Rattan
1938	11,828	8,017	36,068
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	29,464
1955	5,604	6,136	30,350
1956	4,547	5,451	30,097

Source : C.B.S.

generally speaking, price quotations were fairly stable. Copal prices on the other hand, showed a downward trend as compared with 1955.

The quantity of rattan exported during 1956 amounted to 30,097 tons. Principal buyers were Singapore and Hong Kong.

Total proceeds of these three categories of forest products (copal, damar and rattan) amounted to Rp 73.6 million in 1956, against Rp 86.6 million in 1955, representing a fall of 15%.

S u g a r

In 1956 the production of sugar totalled in round figures 785,400 net tons or 78,400 tons less than originally estimated on April 1st, 1956. Less favourable weather conditions, namely rainfall during the dry season which affected the grade of sugar in the standing crop, slow milling on account of labour troubles, together with thefts of sugar cane which were rampant still, were the principal reasons for smaller production. On the strength of provisional data the production of 52 sugar mills for the year 1957 is estimated at 855,000 tons; the planted acreage amounts to about 52,000 hectares. Small holders cane is estimated to cover a total acreage of about 27,000 hectares.

In the sugar campaign - 1956, 51 sugar mills were in production, with an acreage of about 50,000 hectares, whilst smallholders cane covered about 26,000 hectares. It is noteworthy that several sugar mills in Central Djawa are facing difficulties with regard to obtaining lands, because farmers in that region do not want to lease their lands but prefer to grow rosella, tobacco or other agricultural produce, the reason being that the yields of these crops provide them with a higher income than when leasing their lands. There is some anxiety that consequently sugar production will drop in the future.

TABLE 68 — PRODUCTION AND EXPORTS OF SUGAR				
	Estates		Overall	
	Planted area (ha)	Yield per ha (qt crystal)	Production (net tons, tel quel)	Exports (net tons)
1938	84,829	164	1,400,340	1,175,292
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	210,327
1955	51,495	128	851,012	174,087
1956	50,077	119	785,434	166,944

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

According to data provided by N.I.V.A.S. about 170,690 gross tons of sugar were sold for exports in 1956, including a carry-over of 37,460 tons from crop-1955. Home consumption required a total of 645,960 gross tons; monthly sales therefore, averaged 53,810 tons, which means an increase of 4,900 tons or 10% as compared with 1955. This increase in consumption has to be attributed mainly to the growth of the population, the larger demand for sugar from the sugar-using industries, the relatively low sugar price as compared with prices of other food-stuffs and the tendency to consume more sugar in connection with the increased wage level. The selling price of N.I.V.A.S. which on October 1st, 1956 was fixed at Rp 281.50 per quintal for quality S.H.S. and Rp 271,50 per quintal for quality H.S., was lowered on November 1st, 1956 to Rp 271,50 and Rp 261,50 respec-

tively. From January through September 1956 the prices for the above named qualities were Rp 267.50 and Rp 257.50 respectively.

Table 69 illustrates that the volume of sugar exported during 1956 fell as compared with 1955. Japan remained the principal buyer, although the amount bought was substantially less. Exports to Burma and Singapore decreased also, whilst Rumania did not import any sugar from Indonesia during the year under review. On the other hand, South Viet Nam and Ceylon became more prominent as buyers of Indonesian sugar.

TABLE 69 — SUGAR EXPORTS OF INDONESIA				
Destination	Volume (‘000 tons)		Value (Rp million)	
	1955	1956	1955	1956
Japan	119.0	75.9	138.9	85.5
China	16.5	27.0	21.1	35.3
Burma	20.6	15.9	26.3	19.2
Thailand	—	2.5	—	3.0
Singapore	3.3	1.7	3.9	1.7
Indo China	—	12.2	—	12.6
Ceylon	—	19.6	—	22.0
Hong Kong	1.0	7.8	1.3	8.2
Rumania	10.0	—	13.3	—
Other countries	3.7	4.3	4.8	4.0
Total	174.1	166.9	209.6	191.5

Source : C.B.S.

During 1956/1957 world production of sugar was higher by 121,000 tons than in 1955/1956. World consumption also showed an increase namely by 711,000 tons.

As for price trends on sugar world markets, it can be stated that during the period January through October 1956 there were no fluctuations to any marked degree and prices were stable. At the beginning of November last however, prices soared suddenly and continued to rise during November and December. At the end of October 1956 the spot-price of Cuba raws New York quoted still U.S. \$ cts

TABLE 70 — WORLD PRODUCTION OF SUGAR (‘000 tons tel quel)					
	Pre-war average	1953/1954	1954/1955	1955/1956	1956/1957
Djawa	1,172	620	718	851	785
Philippines	882	1,301	1,244	1,107	1,100
Rest of Asia	2,340	2,616	3,344	3,613	3,877
Asia	4,394	4,537	5,306	5,571	5,762
United States	1,630	2,275	2,368	2,110	2,150
Cuba	2,835	4,890	4,530	4,740	5,150
Rest of America	4,978	8,848	9,377	9,082	9,319
America	9,443	16,013	16,275	15,932	16,619
Europe	8,970	14,089	12,568	13,868	14,130
Africa	1,111	1,908	2,054	2,194	2,166
Australia	881	1,465	1,484	1,352	1,361
World total	24,799	38,012	37,687	38,917	40,038

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

3.25 per lb f.a.s., then moved to rise until some reaction interfered at the end of November, which was followed again by an upward trend till at the end of the year a price level was reached of U.S. \$ cts 4.93. Among the reasons which caused this rise can be mentioned: a decrease of stock in Cuba and England, an increase of consumers' demand particularly in Germany, and a lower sugar beet crop in Europe. To this can be added that the political tensions in the Middle East during the last months of the year were of influence also on world sugar prices. It can therefore be predicted that in view of the bullish factors mentioned above, prices will continue to show an upward trend during the first quarter of 1957.

In connection with said price rise, the International Sugar Council in compliance with the International Sugar Agreement decided at their meeting in London on 14th December last to increase the export quota of member-countries for the year 1957 by 5%, or from a total of 4,351,375 tons to 4,573,375 tons. Simultaneously, to Indonesia to whom an export quota of 350,000 tons had been allotted for 1957, an extra reserve of 50,000 tons was assigned for the year 1958. As known, price limits are fixed by the International Sugar Agreement, i.e. a minimum price of U.S. \$ cts 3.2 5 and a maximum price of U.S. \$ cts 4.3s per lb f.a.s. for Cuba

TABLE 71 — WORLD CONSUMPTION OF SUGAR (’000 tons tel quel)					
	Pre-war average	1953/1954	1954/1955	1955/1956	1956/1957
United States	6,062	7,563	7,636	7,750	7,850
Rest of America	2,603	5,705	5,902	6,099	6,185
America	8,665	13,268	13,538	13,849	14,035
United Kingdom	2,323	2,481	2,699	2,725	2,750
France	1,092	1,158	1,233	1,300	1,325
Germany	1,869	1,940	2,010	2,030	2,060
Rest of Europe	5,975	9,542	9,288	10,115	10,335
Europe	11,259	15,221	15,230	16,170	16,470
India and Pakistan	1,379	2,030	2,110	2,235	2,290
Rest of Asia	2,395	3,136	3,425	3,875	4,010
Asia	3,774	5,166	5,535	6,110	6,300
Africa	874	1,890	1,969	2,105	2,130
Australia	451	661	668	680	690
World total	25,023	36,206	36,940	38,914	39,625

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

raws New York. Whenever the average spot-price during 15 market days stays constantly below the minimum price, the Council has to reduce export quota up to the set limit of 80% of the basis-quota (90% if the export quota concerned are smaller than 50,000 tons). If it should happen that in a similar period the average spot-price rises above the maximum price, the Council must raise the export quota. Furthermore, world demand on the “free market” for sugar during 1957, estimated on November 1st, 1956 by the Statistical Committee at 5,325,000 tons, was later, at the end of December 1956 reconsidered and put at 5,650,000 tons. On the strength of present expectations the conclusion can be drawn that in 1957, supply and demand on the free world market will be approximately in balance.

T e a

In 1956 tea production totalled about 42,500 tons representing a fall of 4% as compared with the previous year. This decrease was due to lower output in

Djawa to the extent of 1,500 tons. Buying-up of wet leaf from smallholders dropped also by 2,000 tons, being 38% less than in 1955.

TABLE 72 — PRODUCTION AND EXPORTS OF TEA (net tons)			
	P r o d u c t i o n		Exports
	Total	Of which from bought-up leaf	
1938	80,538	12,206	71,921
1951	46,513	12,484	40,630
1952	37,277	6,679	31,831
1953	37,040	5,695	29,289
1954	46,930	8,208	40,415
1955	43,995	5,452	29,087
1956	42,629	3,406	34,470

Source : C.B.S.

Table 72 reveals that weighted tea exports increased by 18% in 1956 as compared with 1955; export proceeds, however, were lower by 5%, decreasing from Rp 355 million to Rp 336 million. World prices of tea moved on a higher level in 1956 than in 1955; as from July onward until December 1956 they even showed a continuous tendency to rise. Therefore the conclusion may be drawn that the fall in export proceeds is due mainly to a shift in the quality of tea exported, while furthermore, although control was tightened, there is the possibility still of “undergrading”.

Regarding the countries of destination it can be stated that the Netherlands purchasing about 13,960 net tons evidently maintained its position as principal buyer in 1956; Australia, the United Kingdom and the U.S.A. are other important buyers. Tea exports to Singapore fell by about 50% as compared with 1955.

Coffee

During 1956 total production of estate-grown coffee amounted to about 12,800 tons or 21% less than in the preceding year. This fall was due to the decrease of

production in Java where weather conditions were unfavourable, whilst thefts were often rampant. In the year under review the average production per month amounted to 1,060 tons, against 1,340 tons in 1955. Although no exact figures are available, the rough estimate is that in 1956 production of smallholders coffee totalled about 55,000 tons, representing an increase of 22% over the year 1955. This is the highest production figure since 1950. The increase of the production of smallholders coffee was brought about mainly by a larger crop in Sumatra.

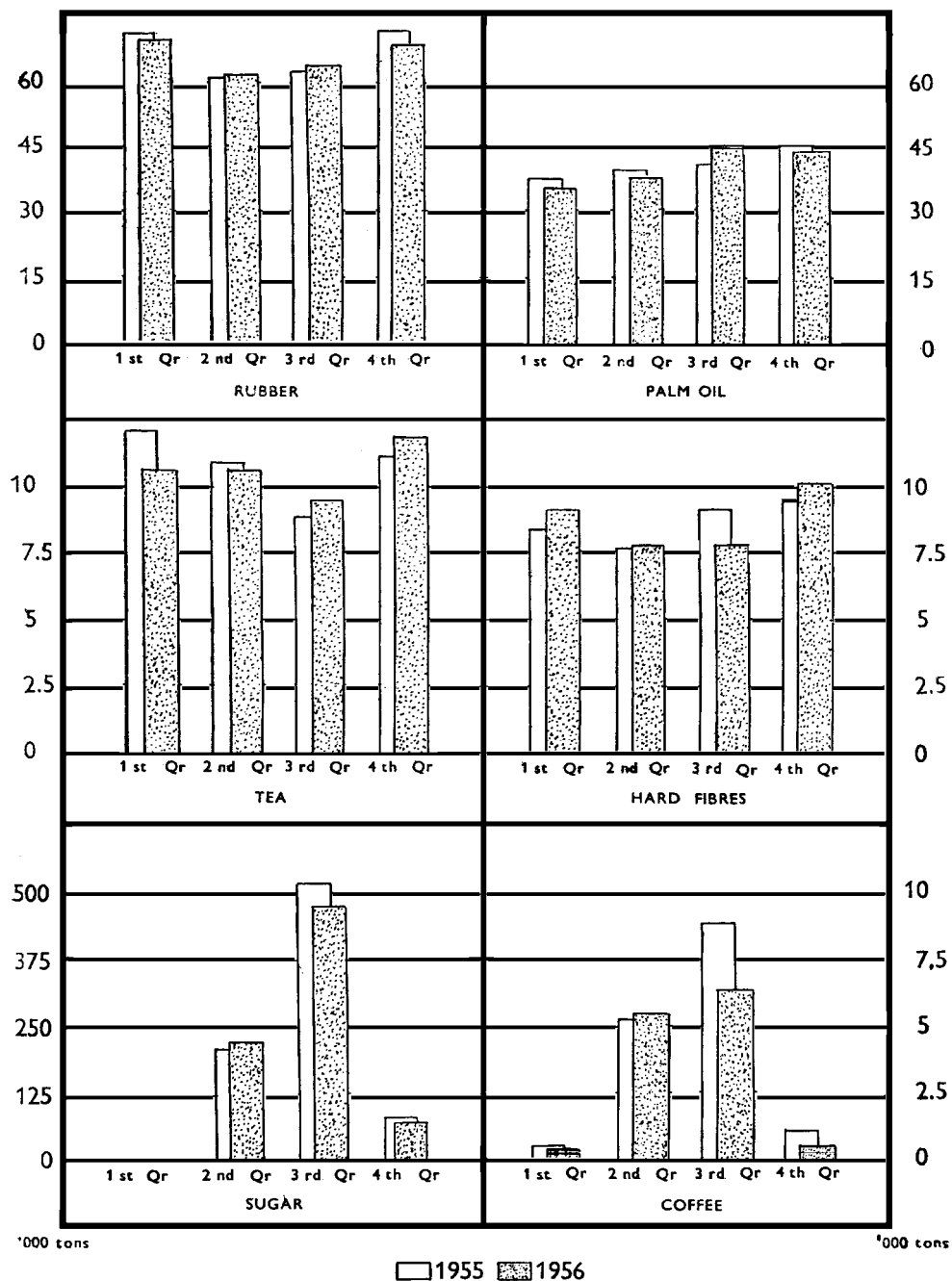
TABLE 73 — PRODUCTION AND EXPORTS OF COFFEE (net tons)			
	P r o d u c t i o n		Exports
	Estates	Smallholders ¹⁾	
1938	45,572	68,690	68,962
1951	12,050	27,000	24,777
1952	13,246	33,600	18,414
1953	22,380	39,900	32,895
1954	14,445	42,800	36,927
1955	16,052	45,000	23,170
1956	12,783	55,000	57,373
¹⁾ Partly estimated			

Sources : C.B.S; Gijselman & Steup

Total exports of coffee showed a rise of 153% as compared with the preceding year (see table 73). Export proceeds were higher also and increased from Rp 181 million to Rp 341 million. One of the reasons why exports of coffee improved considerably, was the large carry-over of crop-1955 and also the satisfactory world prices of coffee resulting from the failure of the 1956/ 57 crop in Brazil. On the strength of the new export regulation which came into force on September 3rd, 1956, exporters obtained B.P.E.-certificates to the amount of 10% of the f.o.b. value, expressed in foreign currency. Previous to the mentioned date no export premium was granted to exporters because coffee was classified among the so-called stronger products.

New York coffee quotations started an upward trend in February 1956 and advanced uninterruptedly till they reached their peak at the end of August last

CHART IV — PRODUCTION OF ESTATE AGRICULTURE



with quotations of U.S. \$ cts 59.75 per lb \$ contract first future. After some reaction per and-September, prices moved steadily around the U.S. \$ cts 58/lb mark.

World consumption of coffee increased. Reasons for higher consumption were among other things the decline of the purchasing power of money in general, which involved a rise of wage levels, making people more inclined to spend a larger part of their earnings on luxury consumer goods, such as coffee. Moreover there was an increase of the consumption of soluble coffee, particularly in the United States of America and Europe.

Even though the developments mentioned above favoured producing countries including Indonesia, it must be kept constantly in mind that competition on world markets is getting keener, not only from Brazil and Middle American countries but recently also from several African countries, such as Angola, the Belgian Congo and Kenya, who are today coming quite to the fore as coffee producers.

Concerning countries of destinations the Netherlands no longer take first place as formerly. At present Singapore is the principal buyer with 18,850 net tons. Italy and the United Kingdom bought more than in the preceding year.

C o c o a

In 1956 production of cocoa showed an increase of 242 tons or 20% more as compared with 1955. When reviewing production during the last seven years, it can be stated that production figures over 1956 are nearing the prewar level.

Exports amounted to 542 tons, displaying an increase of 152 tons over last year's exports. Export proceeds totalled Rp 3.8 million, against Rp 3.1 million in 1955. Although weighted exports increased by 39%, nevertheless proceeds rose by 20%, only, due to the fact that world cocoa prices dropped during 1956.

TABLE 74 — PRODUCTION AND EXPORTS OF COCOA (net tons)		
	Production	Exports
1938	1,584	1,572
1951	908	284
1952	806	521
1953	1,300	226
1954	1,164	597
1955	1,227	390
1956	1,469	542

Source : C.B.S.

Generally speaking, cocoa prices abroad worsened considerably. New York quotations of Loco Bahia per end-December 1955 were U.S. \$ cts 30.35 per lb, but dropped to U.S. \$ cts 26.25 per lb as at the end of January 1956. At the end of December, 1956 quotations were U.S. \$ cts 23.60 per lb.

In addition,, it is worthy of note that during 1956 the acreage planted with cocoa trees increased in the East part of Indonesia. Evidently the nature of the soil in Sulawesi, Maluku and Nusa Tenggara is suitable for the cultivation of cocoa. It is expected that in the next years production of cocoa will increase further.

T o b a c c o

The tobacco crop harvested during the year under review is estimated to be a better one than in the preceding year. This was brought about by extension of the planted acreage in various regions such as East Djawa and also in Central Djawa. Reports of the Service for Indigenous Agriculture indicate that the acreage planted with Virginia tobacco and Java tobacco in East Djawa increased to 27,800 hectares and 49,100 hectares respectively in 1956, against about 18,600 hectares and 34,300 hectares in 1955. Weather conditions also favoured the tobacco crop during the year under review; the only exceptions

were Solo and Jogjakarta where the weather was unfavourable. In these two regions 40% of the tobacco crop failed.

From reports received the conclusion can be drawn that the growing of Virginia tobacco is preferred above other kinds of tobacco. This is understandable because the demand for Virginia tobacco is apparently on the increase. Another reason is that it is easy for the farmer to grow it; the tillage need not be intensive. In the regions of Solo and Jogjakarta this development is resulting in a gradual pressure on the acreage cultivated with so-called "Vorstenlanden" tobacco. In this connection it is worthy of note, that the culture of the latter type of tobacco has fallen back, which course of affairs gives reason for anxiety as people- are losing interest in the culture of this crop. "Vorstenlanden" tobacco is intended mainly for exports.

TABLE 75 — PRODUCTION AND EXPORTS OF TOBACCO (net tons)			
	Estate production		Exports
	Deli	Djawa	
1938	13,786	20,924	49,204
1951	3,128	4,804	13,008
1952	2,601	5,231	10,010
1953	3,630	6,760	14,458
1954	3,268	4,185	19,193
1955	3,457	3,548	12,897
1956	3,700 ¹⁾	4,300 ¹⁾	11,493
¹⁾ Estimated			

Source : C.B.S.

Table 75 illustrates the production of estate-grown tobacco in weight. During the year under review the production of Deli (Sumatera) was estimated at 3,700 tons and, of Djawa at 4,300 tons. The increase was 243 tons (+ 7%) and 752 tons (+ 21 %) respectively as compared with the previous year. According to figures of the Board of the Foundation of Smallholders Estates of the Republic of Indonesia

(Perrin), Indonesia can produce every year about 3,000 tons of krosok tobacco, 500 tons cigar tobacco of the Besuki type, 10,000 tons “Vorstenlanden” tobacco and 4,000 tons of Deli cigar tobacco.

In 1956 exports of tobacco in weight decreased by 11,%. But as world prices of tobacco were high, their value was higher by Rp 15.4 million or 5% (export proceeds in 1955 as revised, were Rp 316.4 million). Tobacco from Deli and Djawa are still well liked abroad. However, it should not be overlooked that competition from foreign tobacco's and especially from various sorts of artificial leaf-tobacco such as the so-called homogenized tobacco leaf, is making itself felt more and more. Mid-1956 tobacco grown by the N.V. “Tabakbau Tjinta Radja” made a price of F1 15.70 per in/kg on the Amsterdam-market, whereas yields of the N.V. “Verenigde Deli Maatchappijen” and the N.V. “Senembah” were favourable too as compared with the preceding year.

When the regulation on the system of export premiums came into force per October 24th, 1955, initially no export premium was granted to tobacco, although export duties were abolished entirely. On May 5th, 1956 an export premium of 10% was granted to “Vorstenlanden” tobacco of crop year 1956/ 1957. With the introduction of the B.P.E.-export system the premium for all sorts of tobacco was fixed at 8%, while on February 18th, 1957 the percentage of B.P.E. for Besuki tobacco (krosok) was raised from 8% to 10%.

Similarly as in previous years the Netherlands were the principal buyer of Indonesian tobacco. On the other hand, Japan did not buy any tobacco from Indonesia in the year under review.

As a matter of interest it is worthy of note that in the trade agreement between Indonesia and the Soviet Union signed on August 12th, 1956, Indonesian tobacco is mentioned among other export products. This had not occurred before.

Imports of tobacco increased in 1956 by 7,600 tons (+ 50%) at a value of Rp 55 million. Included herein is the realization of a purchase of American Surplus

Agricultural Commodities (S.A.C.). In my previous annual report mention was made that during 1956 up to July 1957 tobacco imports on S.A.C. basis would amount to 10,500 tons. According to plan 8,800 tons of Virginia tobacco will be imported during 1957; 6,000 tons of this tobacco will consist of American S.A.C. tobacco.

In order to stimulate the tobacco industry in Indonesia the Government is making the following efforts. In accordance with the revival of the Tobacco Board (successor to the pre-war “Krosok Centrale”) the Emergency Act No 12/1954 has been finalised into an Act of Parliament. As known, this Act stipulates the obligations of tobacco manufacturers and exporters regarding their contributions to be paid to the Tobacco Board. Furthermore, on July 23rd, 1956 the Government opened a course for tobacco experts in Surabaya. The object is to improve the quality of the Indonesian tobacco production in the future.

Spices

Exports of pepper increased by 41% in 1956. In particular, the volume of exported white pepper reached a total higher than the prewar level. Table 76 reveals that in 1938 11,350 tons of white pepper were exported which was 351 tons below the total quantity exported in the year under review. Exports of black pepper rose also, to wit, by 1,082 tons or 16%. As pepper prices abroad dropped continuously—the price of Muntok white pepper in Singapore fell from Str \$ 136 per picol at the end of January to Str \$ 125 per picol at the end of December 1956—export proceeds decreased as well during the year 1976, namely from Rp 112.0 million in 1955 to Rp 101.9 million in 1956. The unabated downward trend of prices may have an unfavourable influence on pepper production in the years to come. Because of this unsatisfactory situation, farmers in Bangka neglected their pepper trees and consequently many plantings decayed during the year under review. Pepper exports were directed mainly towards Singapore and the United Kingdom; in 1956 exports to these destinations increased by 136% and 48% respectively. Exports over the past year to the United States totalled 1,549 tons, against 536 tons in 1955. On

TABLE 76 — 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
1951	736	2,618	3,354	3,117	3,818
1952	2,413	4,741	7,145	3,179	3,203
1953	4,679	2,926	7,605	3,725	6,302
1954	7,645	5,279	12,924	4,821	6,372
1955	7,088	6,647	13,735	4,860	6,841
1956	11,701	7,729	19,430	4,474	6,443

Source : C.B.S.

quotations it is worth reporting that in the context of the export drive, pepper was granted an export premium of 5,% as from October 24th, 1955. Later on, in the frame of the B.P.E. system the premium was fixed at 10% of the f.o.b. value.

Exports of nutmeg and mace fell by 8 % each. However, since prices abroad were favourable during 1956, proceeds were higher by 51% and increased from Rp 23.1 million in 1955 to Rp 34.9 million. The larger part of exports went to the Netherlands and Singapore.

Cassia exported during 1956 totalled a mere 6,443 tons, or 94% of the volume exported in 1955. Foreign exchange proceeds amounted to Rp 14.3 million in the year under review, against Rp 11.4 million in 1955.

Production of cloves during 1956 was estimated at 1,000 to 1,200 tons. In 1955 the output was approximately the same. The demand for cloves in the year under review rose to 13,000 tons, against 12,000 tons in 1955. In order to meet the demand which exceeded by far the local production, a quantity of 12,000 tons was imported in 1956, whereas in 1955 no more than 6,500 tons were imported. The higher consumption of cloves is brought about by the increase of smoking of the so-called rokok kretek (spiced cigarettes).

Mining

Oil

Crude oil production increased in 1956 as compared with 1955. This does not imply however, that the rise of production relates to the whole of the oil industry; B.P.M. and S.V.P.M., for instance, suffered decreases due to the fact that their oil fields are in decline.

To increase the output of its oil fields, B.P.M. is making preparation in East Kalimantan to increase the number of wells; this is combined with a project to construct a pipe line from Tandjung in South Kalimantan to Balikpapan in East Kalimantan over a distance of 250 kilometres. The *Cost* involved in these expansion projects will amount to U.S. \$ 55 million. At present there are in South Kalimantan 27 oil wells, but this is still far from what is required in view of the extensive projects which B.P.M. is undertaking. The oil wells operated by B.P.M. in Kalimantan are in Sanga-sanga, Tarakan Sambodja and Tandjung (South Kalimantan), whilst operations in a part of the island Bunju are carried out by N.I.A.M.

There are 5 refineries in Indonesia, one of them in Balikpapan. Besides the crude oil from Kalimantan, also crude oil from East Djawa is refined in the B.P.M. plant at Balikpapan. More than half of the crude oil refined in this plant comes from Teluk Parsia and for a part also from Miri in British North Borneo. The larger part of the oil refined by B.P.M. at Balikpapan is exported to Singapore and sold from this port to Western and other countries.

Besides three units for oil refinery B.P.M. operates at Balikpapan a candle and oxygen factory.

Like B.P.M., Caltex has also an extension plan. This plan comprises the construction of a pipe line to connect the oil region of Minas with Strait Malacca, furthermore intensive exploitation of two oil field areas and the construction of an oil harbour in South Sumatera.

TABLE 77 — PRODUCTION, IMPORTS AND EXPORTS OF OIL AND OIL PRODUCTS (’000 tons)					
	Crude oil			Oil products	
	Production	Imports	Exports	Imports	Exports
1938	7,398	—	68	158	5,999
1951	7,445	1,495	—	73	6,725
1952	8,523	2,211	599	102	7,284
1953	10,225	2,279	2,086	103	7,688
1954	10,775	2,131	2,303	92	7,618
1955	11,730	2,626	3,028	185	6,445
1956	12,730	2,564	4,411	230	6,115

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

Exports of crude oil rose by more than 1,000,000 tons during the period under review; on the other hand, imports fell by about 150,000 tons. In contrast, exports of oil products decreased, whilst imports increased; this resulted from much higher home consumption, which is related to the increase of the number of motorcars and to larger stocks of spare parts.

Home consumption of gasoline and also of kerosene increased in 1956, as compared with 1955. The large consumption of kerosene is a.o. related to the fact that this fuel, in competition with firewood, charcoal, gas, or electricity, is still the cheapest.

Up to now no Mining Law has been enacted yet (in August 1956, the State Committee for Mining submitted a draft legislation on oil mining, but this draft has not lead to legislation). The Mining law in force at present, is the old Mining Law dating from the year 1890, amended various times. At present operations of oil companies are based on four categories of rights conceded to them :

- a) concessions to explore and drill experimentally;
- b) concessions for six years;
- c) concessions for forty years;
- d) concessions (the older ones) for seventy-five years.

TABLE 78 — DOMESTIC CONSUMPTION OF PETROL AND KEROSENE (millions of litres)		
	Petrol	Kerosene
1938	190.0	322.2
1951	505.2	384.0
1952	558.8	461.6
1953	605.8	593.3
1954	685.7	740.9
1955	694.1	894.4
1956	733.8	976.7

Source : Ministry of Economic Affairs

In October 1956 the Indonesian Government decided to recognize Tambang Minyak Sumatera Utara (North Sumatera Oil Industries) and therefore, not to return the oil fields concerned to B.P.M. In the year under review Tambang Minyak Sumatera Utara put a new oil pumping station into operation, the third in North Sumatera. The first and second oil pumping stations are at Medan. Until the present T.M.S. could supply 25% of the demand for gasoline in North Sumatera.

Tin

Production and exports of tin in concentrates fell in 1956. The decrease of tin production was 3,315 long tons. Tin production in 1956 comprised production by government-owned enterprises at about 20,000 long tons and by private enterprise at about 10,000 long tons. Estimates made during 1957 indicate that this year's production will not differ much from the figures planned. Production for 1957 is estimated at about 30,000 long tons, while the 1956 production totalled 30,053 long tons. Meanwhile data on production and proceeds in January and February 1957 indicate a decrease, as compared with the corresponding period of 1956. A reason given by the Ministry of Economic Affairs for the decrease is obsolete digging equipment, and also because usually, during the first two months of every

year the labour force being chiefly Chinese, have not returned yet from their villages where they celebrate their special holidays.

TABLE 79 — 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
1951	30,986	30,750	1
1952	35,003	34,601	15
1953	33,822	32,732	224
1954	35,861	33,940	994
1955	33,368	31,768	196
1956	30,053	31,159	716

Source : International Tin Study Group, Statistical Bulletin; Ministry of Economic Affairs

Exports of tin in concentrates fell by 609 long tons in the period under review, such in view of the lower production. Exports of tin metal were higher in 1956, as compared with 1955, Japan being the foremost country of destination.

In June 1956 the Pakistan Government for the first time, bought tin from Indonesia. The expectation is that more purchases will follow. The agreement between Indonesia and the U.S.A. was again prolonged.

TABLE 80 — WORLD PRODUCTION AND CONSUMPTION OF TIN (*000 long tons)									
Production of tin in concentrates					Commercial consumption				
	1953	1954	1955	1956		1953	1954	1955	1956
Malaya	56.4	60.9	61.2	62.3	United States	54.0	54.4	59.8	60.7
Indonesia	33.8	35.9	33.4	30.1	United Kingdom	18.9	21.7	22.9	22.2
Bolivia	34.8	28.8	27.9	26.8	Other countries	61.6	66.4	71.8	77.6
Belgian Congo	15.3	15.1	15.0	14.5					
Other countries	36.7	36.8	39.5	41.3					
Total	177.0	177.5	177.0	175.0	Total	134.5	142.5	154.5	160.5

Source : International Tin Study Group, Statistical Bulletin

According to figures of the International Tin Study Group world production of tin totalled 175,000 long tons in 1956, against 177,000 in 1955; consumption totalled 160,500 long tons, against 154,500 long tons in the preceding year. As to tin in concentrates, the U.S.A. were as usual the largest consumers.

TABLE 81 — AVERAGE TIN PRICES (£/long ton)			
	London - cash	New York - prompt	Singapore ex-works
1951	1,077.3	1,026.5	1,040.3
1952	964.4	963.5	945.4
1953	731.7	766.1	714.9
1954	719.4	734.5	695.0
1955	740.2	757.8	721.3
1956	787.7	809.2	761.3
1956 January	814.2	838.6	785.0
December	806.1	832.1	785.4

Source : International Tin Study Group, Statistical Bulletin

Development of tin prices in 1956 showed that after the highest spot price in London had been quoted at the end of 1955—the highest New York prices for “prompt” and Singapore “ex works” were quoted in January 1956—there was a continuous fall during the first half-year of 1956. In the months of July through October tin prices showed a rise from about £ 750.— to £ 890.—per long ton. After middle-November however, quotations dropped again. During the first months of 1957 the lowest quotation was £ 754 per long ton and the highest quotation \$ 802 per long ton, whereas in 1956 the lowest price amounted to £ 750 per long ton and the highest to £ 890 per long ton. One of the reasons for the fall in the first months of 1957 was because the U.S.A. abstained from buying for stockpiling, whereas in 1956 purchases for stockpiling were still effectuated.

Other mining products

Production of *bauxite* increased in 1956, as compared with 1955. This rise in production resulted from demand from Japan, Western Germany and Australia. The present capacity is 600,000 tons, but this volume is not reached yet because

CHART V — MINING PRODUCTION

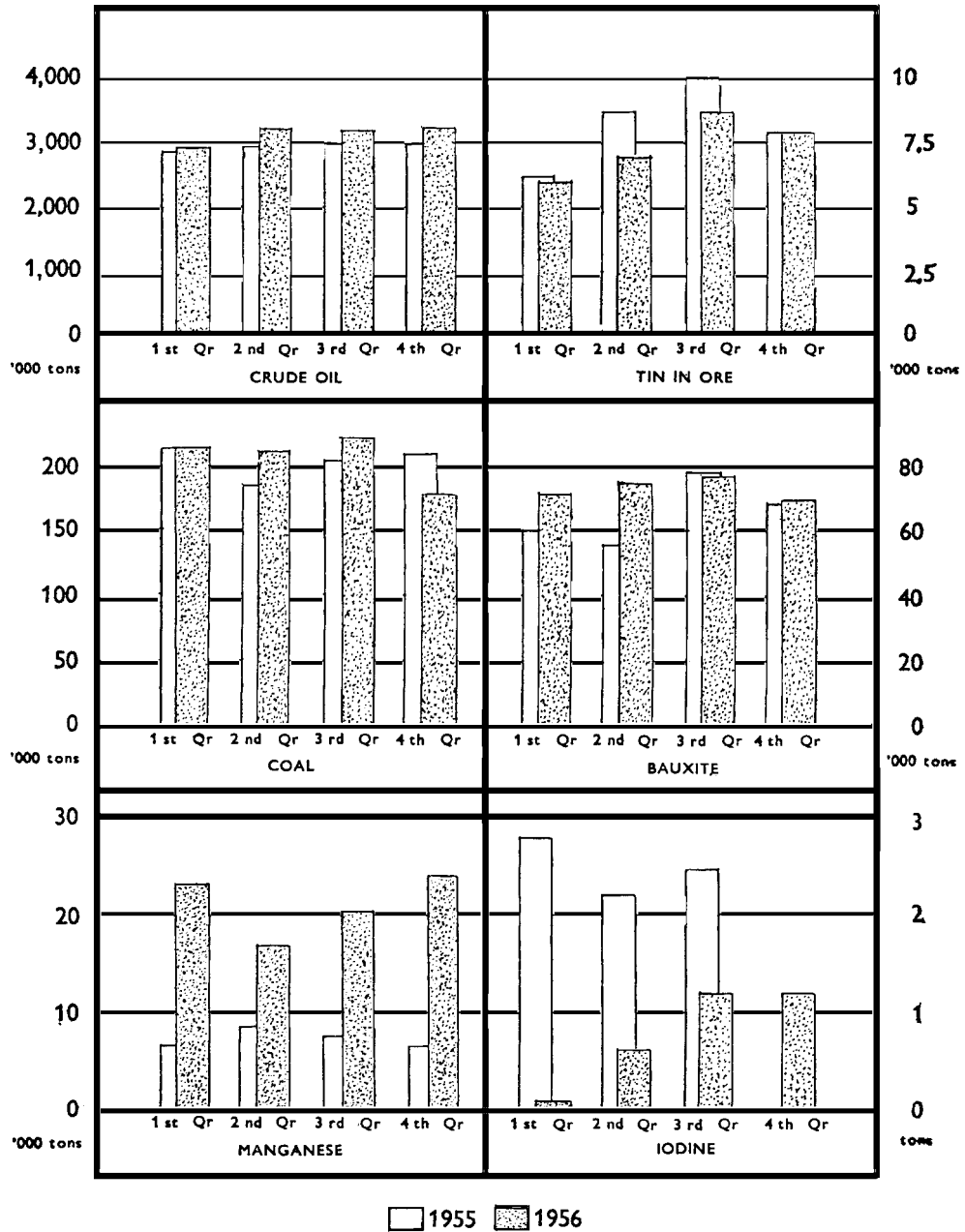


TABLE 82 — PRODUCTION AND EXPORTS OF BAUXITE AND COAL (*000 gross tons)				
	P r o d u c t i o n		E x p o r t s	
	Bauxite	Coal	Bauxite	Coal
1938	245	1,457	274	368
1951	642	868	611	116
1952	344	969	220	108
1953	150	897	162	136
1954	173	900	247	87
1955	264	813	263	47
1956	303	829	313	12

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

production is kept in step with delivery contracts concluded. Production is in the hands of private enterprises. Exports of bauxite totalled 313,000 tons in 1956, against 263,000 tons in 1955. Exporters were also private enterprises inter alia the N.I.B.E.M. who shipped bauxite to Japan (50%), Western Germany via the Netherlands (40%) and Australia (10%).

Production of *coal* increased from 813,000 tons in 1955 to 829,000 tons in 1956. This rise resulted from higher output of the Bukit Asam, Batu Panggal, Loa Bukit and Batu Piring mines. However, besides mines with increased production, there are also mines the production of which fell, such as the Umbilin, Parapatan and Sigitan mines. Exports of coal fell substantially because the larger part of production is for home consumption.

Production of *iodine* rose steeply in the third quarter of 1956 after the factory had been modernized and totalled 1,216 kilograms, against 135 kilograms in the first and second quarter of the year respectively.

Production and exports of *manganese* increased in 1956, as compared with 1955. Exports were directed mainly to the United Kingdom, the Netherlands, France and Japan.

Industry

Notwithstanding various difficulties such as labour unrest, shortage of raw materials, rationing, lack of finance, etc., industry in Indonesia made progress since 1950. Quite definitely, overall production rises year by year, although arrivals of raw materials from abroad necessary for the industry, fluctuated widely. Sometimes the situation was so that during a quarter practically no raw materials required by industry were imported whereas during another quarter large quantities flowed in. These fluctuations in imports of raw materials obviously did not influence production, so that the conclusion can be drawn that stocks were sufficient to cover the period when there were no imports of industrial raw materials.

It can be stated that progress in the industrial sector continued in 1956. By itself this gives reason for satisfaction, but it must be kept in mind that the Indonesian industry is by no means strong enough to face competition of foreign-made goods and therefore, protection and financial aid from the Government is still needed.

In February 1956 the Monetary Board decided to establish a special fund with a capital of Rp 100 million. The object of this fund is to grant credits under the so-called "medium term" credit arrangement to national private enterprises engaged in industrial projects, which enterprises: have not enough rupiah capital at their disposal to finance guarantees required by Bank Indonesia in connection with its guarantee obligations to foreign creditors. Liquidity difficulties were experienced by enterprises in the last quarter of 1955, such as a result of pre-payments to be made when importing goods. Their position became worse in the first quarter of 1956 because of unfavourable market conditions. The downward trend on the market was caused among other things by the substantial inflow of goods imported from abroad, so that prices showed a decline. The existence of many enterprises was threatened, while some had to close down. This situation prompted the Industrial Council to urge the Government to lighten the extra import duties on imports of raw materials and auxiliary goods, and also to protect the home market.

TABLE 83 — INDEX NUMBERS OF IMPORTS OF INDUSTRIAL RAW MATERIALS (1950 = 100)				
	1940	1954	1955	1956
Breweries : malt (inclusive of flour and extract)	—	294	315	279
Printing works : paper	67	111	142	163
Paint industry : zinc white	151	66	165	103
red lead	298	44	118	117
Weaving mills : cotton weaving yarns	85	94	117	134
Batik works : grey shirtings, sheetings and supers	61	33	50	44
bleached cambrics and shirtings	261	277	251	258
wax (various kinds)	83	19	—	228
Kretek works : cloves	64	70	62	117
Construction shops : sheet iron	257	352	253	349
bar iron	157	137	202	126
profile iron	212	136	197	136
Building industry : cement	111	201	244	275
Miscellaneous : caustic soda	104	112	205	113

Source : C.B.S.

In the third quarter of the year the new B.P.E.-system, as well as the new classification of goods subject to T.P.I.-levies were introduced (September 3rd, 1956). The expectation is that as a result of these measures, local industries will obtain the protection needed against competition by imported goods.

Apart from the revision of the B.P.E.-system, the Government gave assistance to the local spinning mills which experienced difficulties because of stiff market conditions, particularly with regard to yarns quality 20/S. The result was that godowns were fully packed, even to the extent that there was no more space to store the cotton to be imported, and needed for the spinning of yarns. Besides difficulties of storage space in connection with the unfavourable market conditions, there were financial difficulties also. The shortage of cash could be met by the granting of credits by banks to spinning mills for their cotton imports. As to the difficulties in marketing, a solution was sought by a "linking" system for imports of yarns, coming into force per February 1st, 1957. By this system an importer is only allowed to import the quantity mentioned in his license, if he buys a quantity equal to 20% of his import license, from a national spinning mill at Semarang or Tjilatjap.

As reported above, progress in the industrial sector continued in 1956. This was evident also from the establishment of new factories. In July 1956 a new Government-owned plant of soda and chlorine was put into operation at Waru (East Djawa). The production of this plant will suffice local demand, and may even make exports possible. In June 1957 construction of a cement factory at Gresik (East Djawa) was completed, built on loans of the Exim-bank totalling U.S. \$ 1 5 million; the annual production capacity amounts to 250,000 tons cement, or 50% of Indonesia's total demand. In Tjilatjap and Semarang spinning mills were put into operation with capacities of 3 0,000 and 10,000 spindles respectively. In Pematang Siantar (near Medan) a spinning mill for rami-fibre was put into operation with a capacity of 6,000 spindles. Rami yarn will be used also as material for textile factories in Indonesia. The expectation is that in this way the textile factories will operate fully with yarns manufactured by Indonesian spinning mills.

The aim is that with large scale industries as mentioned above, the primary needs of Indonesia will not depend anymore on foreign supplies. In this context, clothing material is most essential, so that the development of the textile industry is given special attention. This refers equally to spinning, weaving, finishing and knitting mills.

The large weaving mills (table 84) increased their production. With regard to the category sundry and towels, production was higher too, as compared with 1955; production of selendangs and sarongs showed some decrease. The consumption of yarns fell slightly.

Besides the larger mills mentioned above, many smaller mills and factories were put into operation during the period under review, such as a cotton processing mill in, Asembagus (Situbondo), match factories at Pematang Siantar and Notog (near Purwokerto), factories of motorcar and bicycle tires at Tegal and Palembang, a factory of gramophone records at Surakarta, a sereh-oil factory at Donggala (Sulawesi), a ceramic plant and a factory of ironmongery in the Pati Residency, a hosery mill at Batu (Malang), etc.

TABLE 84 — 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	8,601	42,829	71	3,669	2,779
1954	73	65	9,200	46,145	14	3,925	2,611
1955	72	68	10,318	50,027	10	3,465	2,829
1956	70	65	10,296	52,958	1	3,257	3,020
1956 1st quarter	70	67	2,553	13,575	1	902	769
2nd "	70	66	2,374	12,305	—	714	694
3rd "	70	65	2,573	13,003	—	787	705
4th "	70	64	2,796	14,075	—	814	852

Source : C.B.S.

At present the number of smaller industrial enterprises with a labour force of at least 10 workers, is estimated at 15,600. Total workers employed are estimated at 500,000. In last mentioned total the labour force employed in enterprises with less than 10 workers is not included.

As table 85 illustrates the licensed capacity of controlled enterprises, generally speaking, increased in 1956. A closer look at various industrial enterprises reveals the following facts.

In the *textile mills* there is a tendency to change handwork for machines. This trend may be caused very well by the gradual rise of the wage level. Furthermore, it is evident that the eagerness to establish or expand textile mills is larger when stock of yarns are small, and smaller when stocks of yarns are large. This can be explained by the fact that when imports of yarns are low, textile prices show an upward tendency, not merely because local production in a relative sense drops, but also because during a period when foreign exchange is scarce, imports of yarns as well as imports of textiles decrease. Moreover, textile mills are given the opportunity to buy yarns up to a limited quantity at the official price which improves the possibility to operate at profit.

TABLE 85 — LICENSED CAPACITY OF CONTROLLED INDUSTRY					
Industrial group	Unit	End of 1955	End of 1956		
			Total	Djava	Other islands
Printing works	'000 m ² printing/hr	2,854	2,994	2,565	429
Rice milling works	h.p.	57,509	57,024	41,287	15,737
Spinning mills	spindles	98,966	120,366	116,256	4,110
Weaving mills	hand looms	78,857	84,935	78,429	6,506
	machine looms	12,697	11,477	11,161	316
Knitting mills	knitting machines	772	970	944	26
Textile printing works	machines	18	18
Cigarette works	'000 cigarettes/minute	218	220	192	28
Ice works	tons/month	32,900	32,897	20,255	12,642
Frying pan works	tons/month	530	510	441	69
Rubber remilling works	'000 tons/year	169	171	2	169
Dock-companies	'000 tons/month	5,655

Source : Ministry of Economic Affairs

In general, *spinning* mills are not in a position to make profits in this way. This is caused by competition of foreign yarns, imported as essential goods and therefore practically not liable to import duties. In the above mention was made already of the difficulties in selling 20/S yarns on the local market; these difficulties were met by the Government by introducing the “linking” system.

Printing-works received many orders. In connection herewith there is a certain tendency to enlarge in a relative sense, the printing capacity more than imports of paper, with the result that the printing capacity is not fully utilized. Although, generally speaking, good profits are made, this over-capacity constitutes towards the community a loss in foreign exchange, in interest and depreciation.

The *cigarette industry* progressed. Related herewith is a shift in taste of the public from smoking so-called kretek to Virginia cigarettes. Moreover, because of high import duties, foreign made cigarettes well-nigh disappeared from the market. Also as a result of the high wage level there is a trend to change from kretek to cigarette manufacturing which can be done mechanically.

Ice factories are enjoying a good period. Demand for ice is large, even to the extent that notwithstanding extension and production at full capacity, demand can-

not be met. That the number of new ice factories is small, finds its cause in the very limited amount of foreign exchange made available for purchasing machinery.

There is little willingness to construct new *rice-hulling mills*, because of the small profit which these plants yield. The capacity of all rice-hulling mills totals about 1 million tons of paddy. As the amount of paddy bought-up by the Jajasan Urusan Bahan Makanan (Food Foundation) is far less than 1 million tons, the mills operating under the J.U.B.M. are working below their capacity.

Transport

Road traffic

Because road repairs, particularly in the regions outside Djawa became most urgent, the Ministry of Public Works and Energy allocated an amount of Rp 200 million for this purpose. Development of new network of roads was postponed for the time being. Consequently, plans for the construction of new roads in Sumatera and Sulawesi were put off entirely. Road repairs and maintenance of roads (including bridges) proceeded, generally speaking, more in Djawa than in the outer regions. Besides, with the purpose of stimulating production of materials as replacements for imports and needed for road construction, an amount of Rp 50 million was allocated. Asphalt winning on the island of Buton (Sulawesi) carried out by the Government made good progress. Production reached a daily average of 40 tons, that is more than 14,000 tons per year. In 1955 the annual production amounted to about 5,000 tons only.

Within the frame of Colombo-plan assistance, 88 buses were expected to arrive from Australia in the year under review, but only 55 were delivered up to the end of the year. Of this total 26 buses were put into operation.

As to the routes of bus-transport enterprises in 1956 the Service for Road Traffic issued a regulation limiting the interprovincial routes to a maximum of

175 kilometers. The number of motor trucks to be operated by one enterprise was limited also, viz. to 15. The object of these measures is to enable the economically weaker enterprises to participate in this line of business. In 1957 a number of 408 truck chassis (financed by credits of the Exim-bank) arrived, to be used in the regions outside Djawa.

Note must be made that in 1957 Indonesia will receive a loan from the I.C.A. to be utilized for road repairs and road rehabilitation projects in various regions, inter alia for improving the road connection between Tarutung and Bukittinggi in Sumatera.

Rail ways

In contrast to previous years when there was a continuous rise, in the year under review the total of passengers and freight carried by Djawatan Kereta Api (State Railways) fell by 11 % and 4% respectively, as compared with 1955. It was reported that this decrease resulted from reduced frequency on various routes because of shortage of coal. Receipts however, increased by 11 %. In 1955 receipts totalled Rp 744.6 million; in 1956 total receipts amounted to Rp 828.5 million. Passengers and freight carried by the Deli Spoorweg Mij. decreased by 5 % and 6% respectively as compared with the previous year. This was mainly due to interrupted railway communications caused by severe floods in the Deli-Serdang district (Sumatera Timur) in November 1956.

Exploitation of railways in Sumatera was receiving appreciable attention. Repairs on the rack-railway in central Sumatera were completed. In 1957 locomotives and a number of passenger carriages for this rack-railway arrived. For South Sumatera 23 passenger carriages, 110 goods vans and 160 coal vans are on order. According to planning, in the future only Diesel locomotives will be used in Djawa; the steam engines in use at present, will be transferred to Sumatera, because coal is easily available there.

TABLE 86 — RAILWAY TRAFFIC				
	Passengers carried (¹ 000)		Freight carried (¹ 000 tons)	
	Djawatan Kereta Api	Deli Spoorweg Maatschappij	Djawatan Kereta Api	Deli Spoorweg Maatschappij
1938	48,083	4,117	6,915	844
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	122,238	3,475	5,340	1,305
1955	147,010	4,394	5,822	1,352
1956	131,924 ¹⁾	4,173	5,577 ¹⁾	1,271
¹⁾ Provisional figures				

Sources : Djawatan Kereta Api; Deli Spoorweg Maatschappij

Railroad tracks in Atjeh (exploitation North Sumatera) with a length of 500 kilometers, can be operated safely over 250 kilometers only.

As to the rolling stock of D.K.A., 95 new locomotives are expected to arrive in Indonesia in 1957.

The Government does not have definite plans yet on the nationalization of the foreign-owned Deli Spoorweg Mij. The Ministry of Communications has drafted recently a system to supervise this railway company.

Shipping

The fleet of the Koninklijke Paketvaart Mij. which still serves the interinsular connections in Indonesia, consisted per end-1956 of 74 freighters with a total displacement of 116,516.68 B.R.T. and 26 passenger ships with a total displacement of 78,464.33 B.R.T. The capacity of national shipping enterprises totalling 30 companies, and intended to replace said foreign company, amounts, up to the present to about 30% (+ 65,000 B.R.T.) of the K.P.M. tonnage only. For this purpose the Government included into the five year plan a project for expanding

further national shipping by about 150,000 B.R.T. The intention is to implement this project fully within 10 years.

Reconstruction and improvement of various of the larger harbours, such as Tandjong Priok, Belawan, Semarang and Bandjarmasin were entrusted on February 11 th, 1956 to a French concern. These works will involve expenditure totaling Rp 2,000 million. During the year under review many discussions were held in Parliament on the status of the ports which intend to form Government enterprises under the I.B.W. Law (Indonesian Government Enterprises Law).

Other developments aiming at promoting communications by sea, included the creation of a Directorate General for Sea Transport, charged with the task of guiding and assisting national shipping companies, including the Pelni. Concerning legislation, the draft of a Government Regulation on the licensing of new ships was completed. In the frame of extending the merchant fleet 11 ships were ordered from abroad with a total displacement of 13,930 13.R.T. In this context it is noteworthy that the Monetary Board prohibited to order from abroad vessels of less than 750 B.R.T. The object of this measure is to protect the shipbuilding yards of Indonesia.

Airways

Table 87 shows that the aircraft kilometers flown by Garuda Indonesian Airways increased by 3% as compared with the preceding year. The airways system served by G.I.A. was extended also from 30,000 kilometers to 33,000 kilometers. Freight and passengers carried rose by 9% and 10% respectively.

The composition of the G.I.A. fleet did not change in the year under review; it still consists of 8 Convairs 340, 8 Convairs 240, 14 Dakota's and 14 Heron's. The Heron aircrafts however, were gradually withdrawn from operation since the middle of 1956, because they proved to be un-economical. For the shorter routes they were replaced by Dakota's. In the frame of expanding the G.I.A. fleet the

TABLE 87 — AIR TRANSPORT BY GARUDA INDONESIAN AIRWAYS			
	Aircraft kilometres flown (’000)	Freight and mail (tons)	Passengers carried
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
1955	13,325	17,677	40 ,000
1956	13,715	19,294	442,000

Source : G.I.A.

Government ordered to purchase medium distance aircrafts viz. 3 Electro (turbo/prop) airplanes and 3 Convairs 440. It is hoped that this purchase can be arranged with loans from the Exim-bank.

It must be mentioned that the political events in various regions (Sumatera, Sulawesi and others) had an unfavourable effect on the 1956-results of G.I.A..

In 1956 the training system of G.I.A. supplied personnel consisting of 149 operational staff, 213 technicians and 149 commercially trained employees.

Prices and wages

P r i c e s

The weighted index number of prices of 12 foodstuffs in the countryside of Djawa and Madura which had shown a continuous upward trend since the middle of 1954 and through all the year 1955, reached its highest point in March 1956. Afterwards a reaction set in and the index number fell by 18%. This resulted from the price fall of rice, coinciding with the new harvest season, and also because at that time large quantities of rice were imported. The downward price trend continued during April and May, but in June when harvesting was almost over, rice prices began to rise again. The price increase became steeper when the patjeklik

(period of scarcity) made its entry in September. However, with the arrival of more and larger quantities of imported rice during the third quarter of 1956, chiefly from the U.S.A. (surplus rice) and from Burma, further price increases could be prevented, and in November rice prices fell slightly. Concerning other foodstuffs, such as coconut oil, salt and buffalo meat, prices remained rather stable during 1956 and did not fluctuate more than 7%. Prices of soya beans and groundnuts went up during the first half-year 1956 because of the fall in production during 1955, but this was followed by a downward trend. Prices of maize and cassava (ketela pohon and ketela rambat) increased during the first quarter of 1956, but subsequently fell gradually until the end of the year. The index number at the end of December 1956 was 1970 lower as compared with the index number per end-December 1955, but the average index number of 1956 was 26% higher than in 1955.

TABLE 88 — INDEX NUMBERS OF FOOD PRICES					
	1953 = 100	Djakarta 1953 = 100			
	Twelve foodstuffs	Nineteen foodstuffs			
	Country-side of Djawa	Djakarta	Makasar	Medan	Pontianak
1951	92	89	86	103	113
1952	117	94	87	96	117
1953	100	100	87	100	114
1954	97	106	94	111	120
1955	127	141	135	167	171
1956	153	161	161	168	186
1956 March	176	177	164	172	187
June	141	154	160	160	178
September	145	157	155	162	189
December	150	157	162	169	189

Source : C.B.S.

Similar as was the case with the price index number of 12 foodstuffs in the country-side, the weighted index number of prices of 19 foodstuffs in various large towns in Indonesia was influenced mainly by the local rice price. During the first quarter of 1956 the index number in Djakarta and Makasar rose, but it dropped in Medan and Pontianak. In the second quarter the index number in said cities fell, but began to move upwards at the beginning of July until November, to fall slightly

later on. Although the index number per end-December 1956 was lower than at the end of December 1955, still the average index number for 1956 was higher, as compared with the average index number for 1955.

CHART VI — INDEX NUMBERS OF PRICES OF 19 FOODSTUFFS

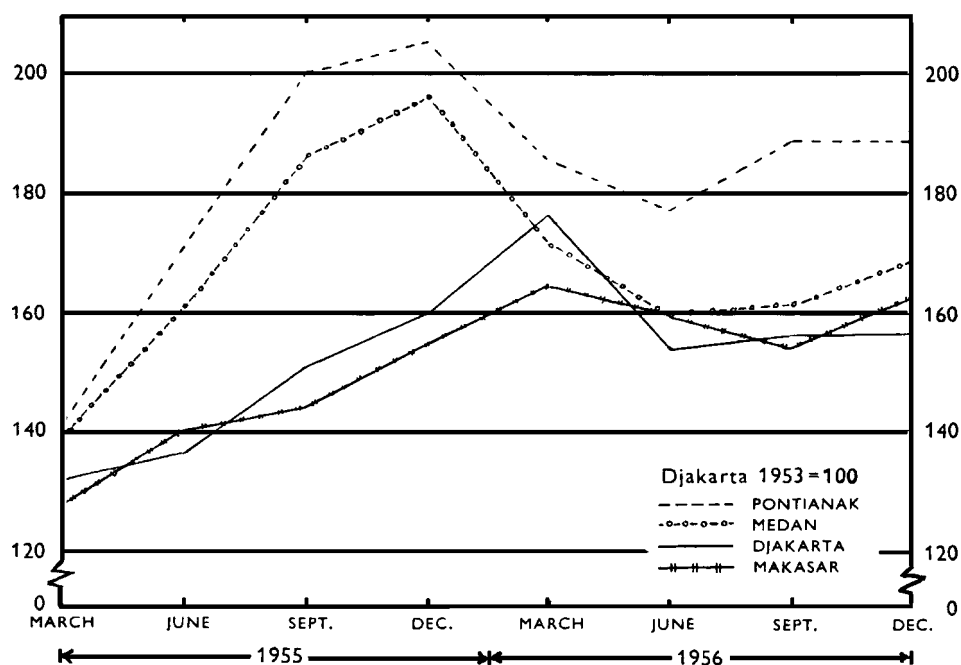


Table 89 reveals that the weighted index number of f.o.b. prices of 18 export commodities showed a continuous downward trend during the first five months of 1956, but in the beginning of June there was an improvement and prices rose step by step. This price increase was caused by the mounting political tensions in the Middle East and related in particular to rubber and tea. The price index number of these 18 export commodities was 3% higher per end-December 1956 than at the end of December 1955, but the average index number for 1956 was 5% lower than for 1955.

TABLE 89 — PRICE INDEX NUMBERS OF EXPORT AND IMPORT COMMODITIES (1953 = 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
1951	125	101	132	78	99	67	109	99
1952	127	123	130	94	94	84	89	90
1953	100	100	100	100	100	100	100	100
1954	100	87	100	104	109	110	110	109
1955	125	121	128	81	145	144	169	151
1956	120	117	123	77	136	146	118	137
1956 March	117	116	119	75	135	147	122	141
June	105	107	105	80	131	138	115	140
September	121	117	126	75	136	146	116	135
December	134	127	142	75	139	157	118	130

Source : C.B.S.

With regard to the unweighted index number of wholesale prices of 44 import articles, there was with the exception of metal articles, a continuous downward trend during the first halfyear 1956 brought about by simplifying and liberalizing the import system as from September 1955, with the result that local stocks increased substantially. In June 1956 prices of imported goods, with the exception of chemical products, started to rise slightly, so that by the end of the year the index number was 3 % higher as compared with end-December 1955, but the average index number for 1956 was 9% lower than the average index number for 1955.

The position of the farmer at the end of the year could still be called good and the "terms of trade" were still favourable, because the price fall of his produce could be more than equalized by the price fall of various articles of his requirement imported from abroad. Compared with 1955, proceeds of rice and maize fell by 7% and 13% respectively, but prices of textiles, such as printed shirting, yeans and striped twills were lower by 21%, 8%, and 3%, respectively, whilst the price of dried salted fish was lower by 2%.

Quotations of foreign currency on the curb market in Djakarta did not change to any extent in the first quarter of 1956. In April quotations of foreign currency

fell suddenly by 20%; they rose again in May and remained stable up to and including July. After a slight fall in August, quotations did not fluctuate much until the end of the year. Gold prices on the curb market moved well-nigh along similar lines as the quotations of foreign currency mentioned above. After having increased and then decreased during the first five months of 1956, gold prices rose gradually from June onward from Rp 46 to Rp 49.50 in December 1956 per gram.

TABLE 90 — 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 December	51.50	35.—	90.—	9.10	11.30
1955 December	52.—	33.50	85.—	9.—	11.—
1956 December	49.50	31.—	80.—	8.—	10.25

Wholesale prices of hulled rice and maize in Djakarta followed the same trend during the year under review as the prices in the countryside. Concerning price trends of other produce, with the exception of quotations of tea which rose continuously, prices of all products fell in the period March up to and including May 1956. Afterwards there was an improvement, which continued in an upward trend till the end of the year.

Price quotations of tea, Robusta coffee, cassava flour, kapok, white pepper and hulled rice at the end of 1956 were by 107%, 47%, 17%, 8% and 3% respectively above the price level of the end of 1955; in contrast, prices of rubber and maize each were lower by 18%. Local prices of white sugar S.H.S. and sun-dried copra 95% were stable throughout the year under review.

W a g e s

In general, minimum wages in force in various sectors of enterprise in Djawa at the beginning of January 1956—unfortunately, more recent figures are not avail-

able yet—showed an increase, as compared with the preceding year. This trend is illustrated by the figures mentioned in table 91. To a large extent this trend was due to steeply increased prices of foodstuffs. Considering that cost of living continued to rise in the year under review—in particular in the first quarter this increase was striking after which a fall occurred, however, not in such a measure that the 1955 level was reached—it should not be surprising, if wages in the industrial enterprises in the beginning of this year (1957) are on a slightly higher level again.

TABLE 91 — MINIMUM DAILY WAGES IN VARIOUS INDUSTRIES IN DJAWA			
	Beginning of		
	1954	1955	1956
Estate agriculture	Rp 3.50 à 4.50	Rp 4.50	Rp 4.25 à 4.80
Food and beverages	„ 3.50 „ 4.50	„ 3.50 à 4.50	„ 4.— „ 4.50
Mining	„ 6.—	„ 6.—	„ 6.70
Tobacco industry	„ 4.50	„ 4.50	„ 4.50
Sugar and rice factories	„ 4.— „ 4.50	„ 4.50 „ 5.85	„ 4.50 „ 6.25
Chemical industry	„ 3.50 „ 5.—	„ 3.50 „ 5.—	„ 4.50 „ 6.—
Leather industry	„ 3.50 „ 4.—	„ 3.50 „ 4.—	„ ...
Furniture industry	„ 3.50 „ 4.50	„ 3.50 „ 4.50	„ 3.50 „ 4.50
Textile industry	„ 2.50 „ 4.50	„ 3.50 „ 4.50	„ 4.— „ 5.—
Transport companies	„ 5.— „ 7.—	„ 5.— „ 7.—	„ ...
Metallurgic industry	„ 5.25 „ 6.—	„ 5.30 „ 6.—	„ 5.50 „ 6.25
Ship-building	„ 5.30 „ 6.25	„ 5.30 „ 6.25	„ ...
Coconut oil industry	„ 3.50 „ 4.—	„ 6.—	„ 7.—
Ice factories	„ 4.— „ 4.50	„ 4.50	„ 4.50 „ 6.75

Source : Labour Control Service

Concerning trends of minimum wages in the agricultural estate sector in Djawa and South Sumatera, there was practically all over a rise of wages albeit that the rise was less marked than in the preceding year. Table 92 illustrates the course wages took during the past year, expressed both in money and in kind. From this tabulation it is obvious that total real wages in Sumatera were substantially higher than in Djawa.

On the strength of various data—confer the section “Labour affairs” in this report—the inference is that pressure from the side of trade unions to achieve improvement in the welfare of workers by way of wage increases, continued una-

TABLE 92 — MINIMUM WAGES IN ESTATE AGRICULTURE (rupiahs per day)					
	End of				
	1941	1953	1954	1955	1956
D J A W A					
<i>Sugar industry</i>					
Absolute wage in money	0.275	4.—	4.—	4.50	4.50
in kind	—	2.70	3.80	4.10	4.20
Total percentage	0.275 100%	6.70 2,436%	7.80 2,836%	8.60 3,127%	8.70 3,164%
Nominal wage per net working day percentage	0.275 100%	8.15 2,964%	9.49 3,451%	10.47 3,807%	10.65 3,873%
<i>Perennial crops</i>					
Absolute wage in money	0.275	3.50	3.50	3.50	4.25
in kind	—	1.80	2.16	2.65	2.65
Total percentage	0.275 100%	5.30 1,927%	5.66 2,058%	6.15 2,236%	6.90 2,509%
Nominal wage per net working day percentage	0.275 100%	6.45 2,345%	6.89 2,505%	7.48 2,720%	7.60 2,764%
SUMATERA SELATAN					
<i>Perennial crops</i>					
Absolute wage in money	0.35	3.75	3.75	3.75	4.25
in kind	—	5.80	6.64	7.60	7.60
Total percentage	0.35 100%	9.55 2,729%	10.39 2,969%	11.35 3,243%	11.85 3,386%
Nominal wage per net working day percentage	0.35 100%	11.62 3,320%	12.64 3,644%	13.81 3,945%	13.88 3,966%

Source : Labour Control Service

batedly. Admitting that striving for a reasonable “living wage” is justified indeed, particularly in view of the still prevailing inflationary situation, nevertheless I deem it my duty to give a warning in this respect. Because, in particular in a country such as Indonesia where cost of labour in general constitutes one of the principal cost components, a rise of labour cost, if not accompanied by an incline of productivity which is at least as large as the rise of labour cost, will lead increasingly to higher prices and thus intensify tensions. In that case, the aimed welfare improvement will prove to be of a very temporary character, whilst on the

other hand, the capability of the country to compete internationally is influenced unfavourably by raising the domestic price level. When the negotiated wage increases surpass the rise in productivity—which unfortunately enough, applies to many sectors of enterprise, particularly to agricultural estates—the disturbed equilibrium relating to the development of wages and productivity will enhance the inflationary tendencies already emanating from the budget deficit of the Government and other factors; in other words, besides a budget inflation there will be a wage inflation. Finally, it can be stated that it does not seem likely that for the future a further rise of prices of raw materials can be counted upon. If therefore, under these circumstances the necessary anti-inflationary measures are neglected and no halt is made with respect to the continuous rise of wages and prices, the repercussion on the export sector will not fail to make itself felt.

Labour Affairs

Labour legislation

A draft bill to replace the Emergency Law No 16/1951 on the settlement of labour disputes, the substitution of which has been deferred for several years, was approved by Parliament on March 13th, 1957. Another bill approved by Parliament referred to the ratification of the I.L.O. Convention No 98 which became Law No 18/1956. This Convention comprises the fundamental right to organize labour and to discuss labour affairs.

Furthermore, a draft bill was presented to Parliament for the ratification of I.L.O. Convention No 100 on the equality of wages for men and women carrying out labour of the same kind.

It is noteworthy that in view of the five-year plan, the field of labour legislation will soon be adjusted to the implementation of this plan.

Labour disputes and strikes

Generally speaking, the labour situation in 1956 showed an improvement in comparison with the preceding year. Compared with the years before 1955, however, there is no reason for complacency. The figures mentioned in table 93 reveal that more labour disputes occurred in the year under review than in the preceding year. Presumably, many disputes could be settled or are procuring a settlement (official data on the settlement of labour disputes were not available yet when writing this report). The willingness on the part of most enterprises (employers) to take into account the appeal of the Minister of Labour made in the year under review, that all employers should be aware of the vested right of employees to receive yearly a Lebaran (end of the Moslim fast) bonus, has proved to be very beneficial with regard to the settlements of claims for bonuses. As a result the number of labour disputes leading to strikes decreased noticeably, as compared with the preceding year. The number of workers involved in strikes, however, increased owing to the fact that the largest and most frequent strikes occurred on the big agricultural estates with large labour forces, as e.g. the strikes on the rubber estates of the AVROS-organisation in East Sumatera. The sectors which experienced most of the labour unrest were, as previously, the agricultural and industrial sectors.

TABLE 93 — LABOUR DISPUTES IN 1956					
Economic sector	Number of disputes	Workers involved	Nature of disputes	Number of disputes	Workers involved
Agriculture, forestry, stock-breeding, fishing	766	983,392	Wages	1,087	892,125
Mining	51	215,214	Working hours	17	21,283
Industry	1,389	1,112,218	Employment	1,141	586,943
Building & contracting	119	24,702	Other working conditions :		
Public utilities	11	4,391	a. Social security	96	168,303
Trade	232	70,060	b. Special Lebaran bonus	133	99,527
Transport, docks and communications	222	91,526	c. Others	240	263,231
Services	195	13,106	Labour Movements/Labour Agreements	240	452,631
			Miscellaneous	31	30,566
Total	2,985	2,514,609	Total	2,985	2,514,609

Source : Ministry of Labour

The establishment of a foundation for productivity and manpower (see my Annual Report 1955/1956) by the Ministry of Labour is intended to improve the social welfare of the labour class. The foremost aim is to obtain a living wage for every worker. In view thereof the Ministry of Labour will undertake a kind of research which is usually called a „family living study”, with the assistance of I.L.O. experts.

TABLE 94 — STRIKES			
	Strikes	Strikers	Man hours lost
1951	541	319,030	3,719,914
1952	349	132,963	878,911
1953	280	419,580	4,812,090
1954	319	157,582	2,385,730
1955	469	238,872	4,097,803
1956	390	262,639	3,011,810

Source : Ministry of Labour

Indonesian delegates participated: in the 39th I.L.O. Conference at Geneva held from June 16th to June 28th, 1956. The principal subjects for discussion were the reports of delegates of various countries on the implementation of agreements and recommendations of I.L.O. in the countries concerned. In the 133rd session of the Governing Body of I.L.O. the Indonesian Charge d’Affaires in Bern took part also. At this session the possibilities to diminish working hours were discussed.

Additionally Indonesian labourers sent representatives to the 4th Training Centre of I.L.O. held at Mysore, India, in November last.

Unemployment

Judging by the figures provided by the Djawatan Penempatan Tenaga (Labour Exchange) total unemployed registered in 1956 increased as compared with

the preceding year. During 1955 the number of registered applicant, totalled 164,230 (including women), against 169,942 in the year under review. In 1955 20,534 unemployed (men and women) found employment, but in 1956 the figure did not rise higher than 17,168, which means a decline. This state of affairs is due to the fact that in the majority of enterprises, and similarly in other fields of activity, there was much demand for workers with specialized training and experience, whereas, generally speaking, the people who register themselves at the labour exchange do not possess any particular qualifications.

Co-operatives

The co-operative spirit is gaining more and more ground in Indonesia as can be seen from the rapid growth of newly established co-operative organizations. Both the number of co-operatives as well as of their members rose by about 4% during the year under review. At the end of the preceding year the total number of members amounted to 1,938,000 persons, while in 1956 there were 2,022,800 members. The progress achieved in this field has to be attributed to the great efforts made by Djawatan Koperasi (Service for Cooperatives) in giving information and guidance. It can be stated that—with the exception of Denmark—the development of co-operatives in Indonesia is making more progress at present than in any other country.

TABLE 95 — NUMBER OF CO-OPERATIVE SOCIETIES (as at December 31)				
	1955 ¹⁾		1956	
	Total	Registered	Total	Registered
Central co-operative associations	143	10	145	13
Desa co-operatives	3,873	113	4,085	180
Credit co-operatives	4,319	770	4,824	855
Lumbung co-operatives	642	—	358	—
Production co-operatives	1,344	99	1,349	121
Consumer co-operatives	821	36	840	39
Other co-operatives	304	6	300	7
	11,446	1,034	11,901	1,215
¹⁾ Revised figures				

Source : Service for Co-operatives

As regards the training of cadres, mention can be made that up till the end of 1956 Djawatan Koperasi organized 43 permanent and 22 mobile cadretraining courses, while 600 other courses were carried out, attended by about 26,000 trainees. In order to furnish the means of finance for these courses, since 1951 the co-operatives deposited 5% of their net annual profits in a special fund; at the end of the year under report the amount thus collected totalled 9.1 million. The Ministry of Justice planned to reconsider the regulations concerning co-operatives and to promulgate a new law. As from January 1st, 1957, it is no longer allowed to establish legal co-operatives, pursuant to Official Gazette 1933 No 108.

TABLE 96 — CO-OPERATIVE SOCIETIES IN THE VARIOUS AREAS		
	End of	
	1955	1956
Djakarta Raya	116	251
Djawa Barat	2,481	2,747
Djawa Tengah	2,342	2,550
Djawa Timur	2,845	2,984
Djawa	7,784	8,532
Sumatera Selatan	314	317
Sumatera Tengah	874	830
Sumatera Utara	642	714
Sumatera	1,830	1,861
Kalimantan	502	575
Sulawesi	974	717 ¹⁾
Rest of Indonesia	356	216 ¹⁾
Total	11,446	11,901 ¹⁾
¹⁾ Provisional figures		

Source : Service for Co-operatives

The capital of co-operatives contributed by the members in the form of entrance fees, compulsory contributions, voluntary and other savings (which have the character of demand deposits), amounted to Rp 394 million at the end of the year under review. In the preceding year, aggregate capital amounted to Rp 268.6 million, so that in 1956 an increase of 47% was achieved. Furthermore, mention can be made of the fact that total credits granted amounted to Rp 372 million, whereas the amount of borrowed money totalled Rp 543 million. The overall turno-

ver (comprising the granting of credits and the sale of goods) amounted to Rp 2,139 million; in the preceding year this amount was Rp 1,857 million only.

Again the attention was focused on credit co-operatives and desa (village) co-operatives. This is evident from data provided by Djawatan Koperasi, which show larger increases viz. by 11% and 5% respectively, than in the other groups. The number of co-operatives recognized by the Government and granted standing in law increased also during the year under report, to wit, by 115%.

Means of finance for the Pusats (central co-operative associations) consisting of savings, reserves and other assets amounted to Rp 46.6 million at the end of the year; for the primary co-operatives this figure was Rp 304.7 million.

VIII. ACTIVITIES OF THE BANK

With regard to the Bank's operations I would primarily refer to the Balance Sheet as at March 31st, 1957, attached to the report as appendix A, to the Profit and Loss Account for the financial year 1956/1957, shown in appendix B, and to the survey of the main items of the weekly abridged balance sheets, given in appendix E. 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.....
Rp 518,356,456.19

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, 1957, to:

Gold coin

21,159,470.036 kg fine at Rp 12,796.05 Rp 270,757,636.56

Gold button

17,389,649.121 kg fine at Rp 12,796.05 Rp 222,518,819.63

<i>Convertible foreign exchange balances</i>	Rp	—.—
<i>Claim on the Government on account of gold deposited</i>		
<i>on its behalf with: I.M.F.</i>	Rp	—.—
<i>I.B.R.D.</i>	Rp	25,080,000.—

	Rp	518,356,456.19

against on April 1st, 1956	Rp	953,353,506.09
Thus the Bank's monetary reserves decreased by	Rp	434,997,049.90

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/Nr 5, the deposits in gold required for these memberships were effected by Bank Indonesia in the name of the Republic of Indonesia on April 7th, 1954, up to the value of \$ 15,500,030.70 and \$ 2,200,000.— respectively on the basis of \$ 35.— per troy ounce fine. On June 22, 1956 a fresh deposit was made with the I.M.F., \$ 11,999,969.30 of which must be considered as a supplement to the obligatory gold deposit to the extent of \$ 27,500,000.—, which amount constitutes 25% of the quota of the Republic of Indonesia. 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 reendorsed to Bank Indonesia by virtue of the provisions of article 3 of Law 1954/Nr 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 at the outset amounted to Rp 201,780,349.98 and increased during the year under review, on account of above mentioned supplementary deposit, to Rp 362,580,000.— based on the rate of U.S. \$ 1.— = Rp 11.40. Since the month of August 1954, the Government, by virtue of its drawing rights, has taken up dollars from the I.M.F. and transferred

these to the Foreign Exchange Fund in order to strengthen this Fund's ready dollar reserves. Inasmuch as the amounts drawn remained within the gold trench deposited, the claim in gold of Bank Indonesia on the Government decreased by these amounts taken up and were replaced by equivalent sums which appear in the balance sheet under the heading "Claim in rupiahs on the Government on account of payment on its behalf to I.M.F."

At the outset of the year under review the counter-value of the Government's drawings concerned amounted to Rp 171,000,000.—, but at the end it exceeded considerably the gold trench deposited with the I.M.F. (as explained elsewhere in this report). Consequently the claim in gold on the Government as at March 31st, 1957, comprises merely the counter-value of the deposit with the I.B.R.D. to the amount of Rp 25,080,000.—. On the other hand as per this date the claim in rupiahs amounted to Rp 313,500,000.—.

FOREIGN EXCHANGE FUND, FOREIGN EXCHANGE ACCOUNT	
	Rp 1,440,787,975.95
FOREIGN EXCHANGE FUND, FOREIGN LIABILITIES.....	
	Rp 1,879,642,776.62

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, 1957.

This heading comprises the following items :

Gold and convertible foreign exchange holdings	Rp 1,390,177,341.87
Other foreign exchange holdings	Rp 50,610,634.08

	Rp 1,440,787,975.95
	=====

On March 31st, 1957, the Foreign Exchange Fund's gold holding amounted to nil, since all gold received by the Fund is always immediately 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, 1957 amounting to Rp 1,390,177,341.87 in total—are also part of the monetary reserves of the Bank as referred to in article 16 of the Bank Indonesia Act 1953.

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, 1957, 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 “U.S. \$-Account” with the Bank of Japan, Tokyo, on the so-called “A-Account” with the Netherlands Bank and on the Sterling-Account with the People's Bank of China, Peking.

Elsewhere in this report the movements in assets and liabilities of the Foreign Exchange Fund during the calendar year 1956 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 legislator 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.

Pursuant to the aforementioned article 16, paragraph 3 juncto article 22 of the Bank Indonesia Act, the Monetary Board has in extraordinary circumstances the power to determine that from this regulation can be deviated for a period not exceeding three months, up to a limit to be fixed thereupon.

Based on this power, the Monetary Board by Decree No 17, dated July 12th, 1956, reduced the obligatory cover to 15% for the period as of July 11, 56 through October 11, 1956.

After being able to revoke said reduction as from October 3rd, 1956, by Decree No 22, dated October 3, 1956, the Monetary Board considered it necessary to determine by Decree No 23, dated February 2nd, 1957, that also for the period of January 30, 1957 through April 30, 1957, the demand liabilities of the Bank were to be covered for 15% only.

The demand liabilities, a specification of which is given in table 97, increased during the period of April 1st, 1956 to March 31st, 1957 by around Rp 1,931.9 million. Against these liabilities, totalling as at March 31st, 1957 Rp 11,253,011,689.92, 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.B.R.D. to an aggregate of Rp 518,356,456.19, and

TABLE 97 – DEMAND LIABILITIES AND MONETARY RESERVES OF THE BANK (Rp '000)									
			Bank notes	Deposits	Drafts and transfers payable	Total of liabilities	Monetary Reserve		
							Amount	As%	
1956	March	31	7,667,366	1,648,165	5,586	9,321,117	2,487,038	26.68	
	April	25	7,563,840	1,530,197	11,464	9,105,501	2,150,688	23.62	
	May	30	7,878,104	1,421,325	22,967	9,322,396	2,029,563	21.77	
	June	27	7,796,189	1,458,868	6,892	9,261,949	1,994,032	21.53	
	July	25	7,822,464	1,505,153	4,546	9,332,163	1,742,005	18.66	
	August	29	7,860,489	1,750,799	6,589	9,617,877	2,018,937	20.99	
	September	26	8,045,922	2,300,948	7,289	10,354,159	2,057,687	19.87	
	October	31	8,177,980	1,930,947	8,916	10,117,843	2,348,428	23.21	
	November	28	8,288,364	2,128,546	13,170	10,430,080	2,454,167	23.53	
	December	26	8,639,532	2,220,790	20,023	10,880,345	2,383,281	21.90	
	1957	January	30	9,134,662	2,330,158	5,924	11,470,744	2,278,403	19.86
		February	27	9,107,744	1,962,720	47,890	11,118,354	2,207,010	19.85
March		31	9,318,903	1,920,118	13,990	11,253,011	1,908,534	16.96	

as holdings of the Foreign Exchange Fund to an aggregate of Rp 1,390,177,341.87, totalling in all Rp 1,908,533,798.06 or 16.96% of the aforementioned demand liabilities.

Based on the legal minimum ratio (15%) the monetary reserves should come to a book value of Rp 1,687,951,753.50, so that the surplus reserves as at April 1st, 1957, amounted to Rp 220,582,044.56.

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 337,590,350.70 should be held in Indonesia.

The gold holding of the Bank actually present in this country as at April 1st, 1957 represented an amount of	Rp 360,107,983.91
the aforementioned claim on the Government on account of gold deposited on its behalf with I.B.R.D. amounted to	Rp 25,080,000.—
and the Foreign Exchange Fund's generally convertible foreign exchange holdings to	Rp 1,390,177,341.87

or in all	Rp 1,775,365,325.78
	=====

CONSOLIDATED ADVANCES TO THE GOVERNMENT	
	Rp 3,648,498,750.—

This account was opened on July 1st, 1953 by virtue of article 42 (1) of the Bank Indonesia Act 1953, at an initial amount of RP 3,838 million. Provisions regarding interest and redemption are laid down in Decree Nr 198989/ U.M.I. of September 17th, 1954, of the Minister of Finance, and read 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 redemption 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 subsequent redemption instalments;
- (d) interest and redemption will be effected annually on ;March 31st the latest.

By Decree of the Monetary Board Nr Sekr/D.M./25 Confidential of June 29, 1955 it has been further stipulated that henceforward the 3% interest will be split up as follows :

1/2% to be accounted for in the Profit and Loss Account of Bank Indonesia;
 2 1/2% to be used for redemption on consolidated advances and therefore to be omitted from the Profit and Loss Account.

In consequence thereof annual redemptions on the consolidated advances are being made since March 31st, 1956.

The balance of the consolidated advances stood after the first redemption made on March 31st, 1956, at	Rp 3,742,050,000.—
and decreased by the redemption made on March 31st, 1957 to the amount of 2 1/2% of this sum, by	Rp 93,551,250.—

leaving a balance as at March 31st, 1957 of	Rp 3,648,498,750.—
	=====
ADVANCES TO THE GOVERNMENT	Rp 7,894,164,995.73

The above balance constitutes the amount of advances on current account as per March 31st, 1957, granted to the Government since July 1st, 1953 by virtue of article 19 of the Bank Indonesia Act 1953.

During the course of the year an amount of Rp 5,058,000,000.— was passed to the credit of the Government account by the Foreign Exchange Fund, representing proceeds from payments made by importers to foreign exchange banks on behalf of *Bukti Tambahan Pembayaran Impor* (T.P.I.) to obtain import licences (as lastly provided for in L.A.A.P.L.N. Publication B Nr 680, dated March 8th, 1956).

Furthermore, proceeds from *tambahan Pembayaran Impor Efek* (T.P.I.E.) were entered in favour of the Government aggregating Rp 23,000,000.—, levied on bonds and stocks imported into Indonesia at the rate of 331/3 % of the official quotation on the Stock Exchange (as lastly provided for in L.A.A.P.L.N. Publication A Nr 62 dated February 19th, 1955).

Finally, Rp 171,000,000.— was included representing receipts from *Tambahan Pembayaran Transfer* (T.P.T.) paid with foreign exchange banks in pursuance of Emergency Law Nr 5/1954 dated March 2nd, 1954.

When considering the debit balance on the Government account, it has to be remembered that pre-payments by importers (as lastly provided for in L.A.A.P.L.N. Publication B Nr 680 of March 8th, 1956) entered into this account and aggregating Rp 3,228,000,000.— as at March 31st, 1957, will have to be refunded when actual payment for foreign exchange is due. 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 it.

For the rest I refer to Chapter IV of this report in which the 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 313,500,000.—

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 9,318,903,493.—

Movements in cash position

Table 98 presents a breakdown by offices of the outflow and inflow of bank and Government notes and coin during the period April 1st, 1956 up to and including March 31st, 1957. The net outflow of bank notes which was considerably higher than in the previous year amounted to Rp 1,651.5 million (Rp 186.7 mil-

TABLE 98 — OUTFLOW FROM AND INFLOW INTO THE BANK'S OFFICES (bank notes and Government notes; Rp '000)			
	1954/1955	1955/1956	1956/1957
Djakarta	— 150,750	+ 963,196	+ 205,181
Bandung	— 379,268	— 346,248	— 495,524
Jogjakarta	— 204,486	— 257,462	— 269,463
Kediri	— 146,602	— 155,458	— 163,428
Malang	— 378,098	— 211,209	— 252,586
Semarang	+ 13,991	+ 255,651	+ 316,002
Solo	— 52,440	— 60,970	— 83,486
Surabaya	+ 43,381	+ 251,531	+ 59,675
Tjirebon	— 6,648	+ 31,736	+ 86,788
Total Djawa offices	— 1,260,920	+ 470,767	— 596,841
Medan	— 353,616	— 269,433	— 165,316
Padang	+ 31,817	+ 185,499	+ 30,750
Palembang	— 333,690	— 369,205	— 419,317
Total Sumatera offices	— 655,489	— 453,139	— 553,883
Bandjermasin	— 170,912	— 91,613	— 158,373
Pontianak	— 133,843	— 40,560	— 47,616
Total Kalimantan offices	— 304,755	— 132,173	— 205,989
Makassar	— 248,020	— 155,377	— 204,715
Menado	+ 2,136	+ 42,338	— 8,634
Total Sulawesi offices	— 245,884	— 113,039	— 213,349
Ambon, Maluku	—	+ 5,639	— 80,186
Total offices outside Djawa	— 1,206,128	— 692,712	— 1,053,407
Grand total	— 2,467,048	— 221,945	— 1,650,248
— = outflow + = inflow			

lion in the period 1955/1956). Replacement orders for notes taken in on account of wear and tear or for other reasons (133 million pieces valued at Rp 2,396 million as against 139 million pieces valued at Rp 1,220 million in 1955/1956) were again necessary and such to a greater extent than in the preceding year.

The outflow and inflow per month of bank notes as registered by the Bank's offices revealed the same peaks as signalled in previous years, to wit in April/May (due to buying up of paddy and to Lebaran bonuses) and at the close of the year, the last mentioned peak this very year being extremely high.

In the previous year it was decided in pursuance of article 12 of the Bank's Statutes to demonetise and withdraw from circulation all banknotes of the Rp 1,000 denomination (Java Bank emission 1946). The period of change expired on June 4th, 1956. As from this date the notes can only be changed at the Bank's head-office, though the branch offices—after having obtained authorisation—will render assistance in forwarding and converting notes free of charge if so requested.

TABLE 99 -- BREAK DOWN OF THE CIRCULATION OF BANK NOTES AND GOVERNMENT NOTES						
Denomination	March 31, 1940		March 31, 1956		March 31, 1957	
	Amount in Rp '000	% of total	Amount in Rp '000	% of total	Amount in Rp '000	% of total
Rp 1,000.—	20,920	9.9	855,112	10.3	1,552,532	15.4
„ 500.—	7,181	3.4	741,470	8.9	1,022,861	10.2
„ 100.—	42,352	20.1	2,678,545	32.2	3,439,511	34.2
„ 50.—	13,693	6.5	1,222,409	14.7	1,327,704	13.2
„ 25.—	30,167	14.3	967,061	11.6	885,75	8.8
„ 10.—	52,698	25.0	767,993	9.2	735,251	7.3
„ 5.—	43,795	20.8	432,858	5.2	399,894	4.0
„ 2.50	—	—	277,633	3.4	318,065	3.1
„ 1.—	—	—	335,442	4.0	346,243	3.5
„ 0.50	—	—	42,108	0.5	29,426	0.3
Total	210,806	100.0	8,320,631 ¹⁾	100.0	10,057,240 ²⁾	100.0
¹⁾ Rp 7,667 million in bank notes and Rp 653 million in Government notes ²⁾ Rp 9,319 million in bank notes and Rp 738 million in Government notes						

The right to claim conversion of notes that until then have not been tendered becomes extinct on June 4th, 1986.

A breakdown of the circulation of bank notes and Government notes is given in table 99. The shift in the composition of the circulation from lower to higher denominations, as already previously signalled, continued. The percent 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 1956 amounted to 46.7, 37.3, 30.5, 28.2, 24 and 22.3% respectively; at the same date in 1957 it had further receded to 18.2. The corresponding percentages for the denominations of Rp 25 and Rp 1,000 were 53.3, 62.7, 69.5, 71.8, 76, 77.7 and 81.8 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 Bank Indonesia for account of the Government. By virtue of Government Ordinance Nr 38 dated May 19th, 1954 (Official Gazette 1954 Nr 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, totalling as at March 31st, 1957 Rp 738,000,000.— is made up of the following amounts and denominations :

- Rp 184,000,000.— in denominations of Rp 5 and Rp 10 (issued by virtue of Emergency Law Nr 21 of June 2nd, 1950),
- Rp 348,000,000.— in denominations of Rp 1 and Rp 2.50 (issued by virtue of Government Ordinance Nr 20/1953 of May 11th, 1953, Official Gazette Nr 34/1953, and the Decree of the Minister of Finance Nr 103141/U.U. dated May 12th, 1953, based upon this ordinance, as well as Government Ordinance Nr 38 dated May 19th, 1954 and the Decree, based thereupon, of the Minister of Finance Nr 82490/U.M.I. of May 27th, 1954);
- Rp 206,000,000.— in denominations of Rp 1 and Rp 2.50 issued by virtue of Government Ordinance Nr 22 dated July 23rd, 1955 as published in the Official Gazette Nr 46/1955, and the Decree, based thereupon, of the Minister of Finance Nr 155033/U.M.I., dated July 28th, 1955.

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. By Decree Nr 244449/U.M.I. dated November 8th, 1956, which was based on Emergency Law Nr 2 dated January 4th, 1954, the Minister of Finance determined that these notes shall lose their legal tender quality on January 1st, 1957. From this date until June 30th, 1957, exchange against legal currency can be obtained from Public Treasuries or Post Offices, as well from other Government offices designated by the Minister of Finance. After the latter date no compensation whatsoever shall be granted.

CURRENT ACCOUNT BALANCES (OF THE GOVERNMENT)

Rp 439,871,677.85

This heading relates to the "Special Account No 1
re E.C.A. aid" to the amount of Rp 282,438,540.80

representing the still unspent part of the rupiah equivalent of E.C.A. aid received by Indonesia via the Netherlands during the American fiscal year 1948/1949.

On March 31st, 1956 the balance of this account amounted to Rp 448,468,240.80

During the year under report from these funds was spent on behalf of :

Extension of the "Faculty of Medicine"	Rp	22,500,000.—	
Anti malaria operations	Rp	37,759,700.—	
Rehabilitation Centre for disabled people, Solo	Rp	5,496,000.—	
Foundation for fighting foot-and mouth-disease	Rp	24,500,000.—	
"Ministry of Agriculture"-project	Rp	47,439,900.—	
Construction of houses for "Technical Teachers Training Centre"	Rp	7, 500.000.—	
Translation and printing of books on "Public Administration"	Rp	1,000,000.—	
Radiophone project of the State Police	Rp	6,500,000.—	
Construction of go-downs for the State Police	Rp	7,065,000.—	
Construction of a mess for the State Police	Rp	6,270,000.—	Rp 166,029,700.—
		-----	-----
leaving a balance, as at March 31st, 1957 of	Rp		282,438,540.80

Also included under this heading is “Special Account No 2 re I.C.A. aid” to the amount of Rp 157,433,137.05 comprising the notified but not yet spent counterpart funds of I.C.A., as well as T.C.A. and F.O.A. aid, directly allocated to Indonesia in the American fiscal year 1950/1951 up to and including 1954/1955.

The balance here of appeared in the former report under the heading “Sundry Accounts” on the credit side of the balance-sheet and amounted at the beginning of the year under report to Rp 114,822,945.40

During the year under review these counterpart funds increased :

by notification	Rp	39,610,191.65
by an adjustment item	Rp	3,000,000.—

bringing the balance on March 31st, 1957 to	Rp	157,433,137.05

During the year under review no notified funds were used for payment of projects approved of by the designated officials.

The counterpart funds relating to E.C.A., T.C.A. and F.O.A. aid directly received by Indonesia which were not yet notified as at March 31st, 1957 come, as previously, 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.) Rp 641,728,649.79

The specification of this item is as follows :

<i>International Monetary Fund, Account No 1</i>	Rp	639,557,482.48
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This amount can be analysed as follows :

deposit in rupiahs to the amount of	Rp	940,500,000.—	
(being 75% of the quota of the Republic of Indonesia), to be reduced by the relative demand note issued by the Government to the amount of ...	Rp	927,900,000.—	Rp 12,600,000.—
increased by the counter-value of the Government's net drawing of U.S. \$ 55,000,000.— (at the rate of 11.40)			Rp 627,000,000.—

			Rp 639,600,000.—
decreased :			
by the counter-value of some payments to I.M.F. in U.S. \$	Rp	6,117.52	
by transfers to I.M.F., Account No 2	Rp	36,400.—	Rp 42,517.52
		-----	-----
Balance as at March 31st, 1957	Rp		639,557,482.48
<i>International Monetary Fund, Account No 2</i>	Rp		15,536.51
On this account are entered the items which have no direct concern with monetary transactions.			
<i>International Bank For Reconstruction and Development, Account "A".....</i>	Rp		2,155,630.80

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 a balance, as at March 31st, 1956, of Rp 2,155,630.80.

Banking Department

FOREIGN BILLS AND BALANCES Rp 520,348,940.35

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 290,681.82

The nominal value of the stocks of bank and Government notes held at the Bank's offices is neither 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 Rp 1,004,448,924.12

The considerable increase in advances to semi-Government institutions as compared with March 31st, 1956 relates for about Rp 233.3 million to credits made available to several joint enterprises and subsidiary enterprises of Bank Industri Negara. The debit balance of Jajasan. Kopra amounted as at March 31st, 1957, to Rp 104.5 million against Rp 82.3 million a year earlier.

On the credit granted to Jajasan Urusan Bahan Makanan to finance imports of rice an amount of round Rp 64.1 million was drawn as at March 31st, 1957; a year earlier the debit balance stood at nil. The debit balance of Jajasan Lembaga Djaminan Kredit amounted to Rp 43.8 million against Rp 38.1 million in 1956.

The decrease in credits to banks during the year under report relates mainly to a decline in credits granted to a few State-banks.

TABLE 100 -- DOMESTIC CREDITS GRANTED BY THE CENTRAL BANK (Rp '000)						
At March 31st	Advances to the Government	Consolidated advances to the Government	Semi-Govern- ment institu- tions	Banks	Private sector	Total
	1	2	3	4	5	3 + 4 + 5
1953	5,836,517	—	269,083	26,321	216,004	511,408
1954	2,352,154	3,838,000	328,182	35,939	180,888	545,009
1955	5,076,174	3,838,000	138,022	45,069	134,698	317,789
1956	4,266,862	3,742,050	191,902	259,700	283,500	735,102
1957	7,894,165	3,648,499	545,101	182,759	276,589	1,004,449

Last year still existing debtor-balances of foreign banks were redeemed as at March 31st, 1957. On the other hand however, credits to national banks increased by about Rp 66.1 million.

As for credits to private enterprises the decrease in the sectors import and industry was set off by an increase in the sector sugar estates. For the rest refer-

ence may be made to the discussion on granting of credits in general elsewhere in this report.

INVESTED CAPITAL, RESERVE FUND, SPECIAL RESERVE AND PENSION
FUND Rp 249,575,956.37

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, 1957, or lower. Securities not officially quoted on a stock exchange have been valued at 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, 1956 to Rp 24,996,237.95

increased:

by purchases and transfers of securities from other
investment deposits of the Bank Rp 2,326,239.88

Rp 27,322,477.83

decreased:

by redemptions Rp 1,763,600.—

by sales and transfer of securities from other investment
deposits of the Bank Rp 561,415.77

by decrease in value of securities as at March 31st, 1957,
passed to the debit of the Reserve Fund to the amount of Rp 6,397,472.76

Balance as at March 31st, 1957 Rp 18,599,989.30
=====

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

The decrease in value of securities mainly relates to securities, of which the payment of interest and redemptions by the Indonesian Government c.q. by the Provinces or Municipalities concerned has been suspended in connection with the abrogation of the R.T.C.-Agreements, as set out in the foregoing.

As far as these payments had been guaranteed by the Netherlands they are subject to the restriction made by the Government of the Netherlands, according to which bonds belonging to the Republic of Indonesia or to any of its organs on or at any time after December 3rd, 1956, shall not be paid for account of the Netherlands.

For this reason the securities concerned have been valued "pro memoria".

The <i>Investment of the Reserve Fund in securities</i> amounting as at March 31st, 1956 to	Rp	22,818,562.—
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increased :

by purchases and transfer of securities from other investment deposits of the Bank	Rp	2,607,537.50
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by increase in value of securities as at March 31st, 1957, passed to the credit of the Reserve Fund to the amount of	Rp	115,092.90
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	Rp	25,541,192.40

decreased :

by redemptions and by transfer of securities to other investment deposits of the Bank	Rp	541,245.—
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Balance as at March 31st, 1957	Rp	24,999,947.40

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By virtue of article 17 (I) 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, 1956 to Rp 152,091,431.20

increased :

by purchases and transfer of securities from other investment deposits of the Bank Rp 47,497,425.48

by increase in value of securities as at March 31st, 1957, passed to the credit of the Special Reserve, amounting to Rp 345,807.72

Rp 199,934,664.40

decreased :

by redemptions and transfer of securities to other investment deposits of the Bank Rp 32,476,227.—

Balance as at March 31st, 1957 Rp 167,458,437.40
=====

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

The *investment of the Pension Fund* amounting at March 31st, 1956, to:

Securities..... Rp 18,495,036.30

Mortgages..... Rp 35,636.96

Advances in current account

against promissory notes Rp 176,703.09 Rp 18,707,376.35

increased :

by purchases and transfer of securities from other investment deposits of the Bank,

and re-investment of money redeemed	Rp	22,800,239.95	

	Rp	41,507,616.30	

decreased :			
by sales and/or redemption of securities, and transfer of securities to other investment deposits of the Bank	Rp	2,068,360.21	
by redemptions received on mortgages.....	Rp	14,222.32	
by decrease of advances in current account against promissory notes	Rp	107,070.16	
by decrease in value of securities as at March 31st, 1957	Rp	800,381.34	Rp 2,990,034.03
		-----	-----
Balance as at March 31st, 1957 t o	Rp	38,517,582.27	

be specified as follows :

Securities	Rp	38,426,534.70;
Mortgages	Rp	21,414.64;
Advances in current ac- count against promissory notes	Rp	69,632.93.

PREMISES AND INVENTORY Rp 22,144,362.—

With the exception of some purchased existing houses, premises have been valued at the site value; inventory, with exception of the inventory of some houses, has been written down to Rp 1 per building. The exceptions refer to assets which

are fiscally not considered as “new investments” and which consequently must be written of in annual installments.

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.

The above amount of Rp 22,144,362.— includes :

1. outlays for new buildings not yet completed (inclusive of their site value) to the amount of Rp 5,960,135.10;
2. the remainder, i.e. Rp 5,393,814.47, of the positive multiplication difference caused by the revaluation of offices, houses and inventory existing on April 1st, 1949 (the so-called “moment of adjustment”), after having made allowance for the maximum depreciation as provided for in the Revalorisation Decree 1953 for the year under review and the four preceding financial years.

SUNDRY ACCOUNTS	Rp	100,588,574.13
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The specification of this heading is as follows :

<i>Sundry debtor accounts</i>	Rp	15,669,011.15
<i>Government payment orders and bills, and stamp duties</i>	Rp	1,597,468.23
<i>Miscellaneous</i>	Rp	10,618,163.41
<i>Assets of our Amsterdam Branch</i>	Rp	72,703,931.34
<hr/>		
Total as at March 31st, 1957	Rp	100,588,574.13
<hr/>		

The last item comprises the countervalue, calculated at the official rate of the assets as at March 31st, 1957 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	Rp	25,000,000.—
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By virtue of article 4 of the Bank Indonesia Act 1953 the Bank’s capital amounts to Rp 25 million. On discussing in 1954 the draft bill which inter alia had to provide for an increase of the capital to Rp 50 million, Parliament on the whole appeared to consider such a raise of the capital desirable. However, it does not look as if the necessary amending bill will soon be accomplished.

RESERVE FUND	Rp	25,000,000.—
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The balance of this account amounting as at March 31st, 1956 to	Rp	25,000,000.—
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increased :

by transfer on account of statute barred dividends of The Java Bank over its financial year 1950/1951	Rp	900.—
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by transfer of increase in value as at March 31st, 1957 of the investment of the Reserve Fund, pursuant to Article 17 (2) of the Bank Act	Rp	115,092.90
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decreased by :

transfer of decrease in value as at March 31st, 1957 of the investments of the Capital, pursuant to Article 17 (2) of the Bank Act	Rp	6,397,472.76
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(The interest accrued on the investments of Capital and Reserve Fund, amounting to Rp 630,671.— and Rp 988,065.16 respectively, was credited to the Profit and Loss Account, pursuant to Article 17 (2) of the Bank Act.)

transfer to the debit of the Profit and Loss Account	Rp	6,281,479.86

Balance as at March 31st, 1957	Rp	25,000,000.—
		=====

In pursuance of Article 34 (5) of the Bank Act, 20% of the profits after allocation to the Special Reserve, is paid annually into the Reserve Fund until it equals the amount of the authorised capital. Article 5 (2) of the aforementioned Act stipulates that the Reserve Fund is intended to cover losses, if any, incurred on the Bank's capital. The decrease in value of the investments of the Capital have been explained already in the foregoing.

SPECIAL RESERVE	Rp	213,522,853.70
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The Special Reserve as referred to in article 6 of the Bank Act amounted as at March 31st, 1956 to	Rp	174,677,045.98
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increased :

by increase in value of the investments of the Special Reserve as at March 31st, 1957 (article 17 (2) of the Bank Act)	Rp	345,807.72
--	----	------------

(the interest accrued on these investments, amounting to Rp 6,658,609.07 was credited to the Profit and Loss Account, pursuant to Article 17 (2) of the Bank Act.)

by transfer to the debit the Profit and Loss Account (article 34 (5) of the Bank Act)	Rp	38,500,000.—

Balance as at March 31st, 1957	Rp	213,522,853.70
		=====

In previous 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 38.5 million against Rp 22.7 million in the third financial year 1955/1956. At the coming into effect of the bill on 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 the Capital Account. After the abovementioned allocation of Rp 38.5 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 188,522,853.70.

PENSION FUND	Rp	50,533,000.—
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The balance as at March 31st, 1956	Rp	39,683,000.—
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increased by :

contributions received, less refunds	Rp	961,418.30
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interest on mortgages, advances in current account against promissory notes and securities	Rp	1,574,567.58
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payments received, and other revenues from re-insurance of pensions	Rp	3,520,203.21
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indemnification paid by the Netherlands Government to compensate for contributions payable by participants and taken over by the Bank (Pension Fund) during the Japanese occupation	Rp	93,811.35
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allocations from :

the Profit and Loss Ac- count	Rp	10,908,910.70
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Branch Office at Amster- dam	Rp	1,607,641.38	Rp	12,516,552.08
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Rp	58,349,552.52

decreased by :			
pensions and subsistence al- lowances paid.....	Rp	1,776,067.92	
additional allowances (pur- suant to article 56) paid under the Regulations come into force on August 1st, 1955	Rp	82,111.92	
single premiums paid for pen- sion reinsurances, less refunds	Rp	5,157,967.34	
decrease in value of the in- vestment as at March 31st, 1957	Rp	800,381.34	
sundries	Rp	24.—	Rp 7,816,552.52
		-----	-----
Balance as at March 31st, 1957	Rp	50,533,000.—	=====

In accordance with article 35 (2) of the Bank Act, this balance sets off the cash value amount of liabilities undertaken and predictable, towards the staff, exclusive of pension liabilities taken over by insurance companies. The obligations not accomodated with insurance companies include also the obligation to grant additional allowances.

CURRENT ACCOUNT BALANCES

(NON-GOVERNMENT)	Rp	1,920,117,734.88
DRAFTS ON OWN OFFICES	Rp	13,990,462.04

Balances of clearing banks accounted for an amount of around Rp 753 million (last year Rp 568 million) of the total of non-Government current account balances, which in the aggregate increased by Rp 272 million, as compared with March 31st, 1956.

Giro transfer

The development of the giro system during April 1st, 1956 up to and including March 31st, 1957, is shown in table 101. It should be noted that these figures do not apply to the whole transfer system in Indonesia because the columns "Local transfers (no clearing)" and "Transfer (mail and telegraphic)" only represent the figures of the Bank's own offices and not the figures of the other banks in Indonesia as well. The trend of the various figures shows clearly that the transfer system increased again; the average amount per transaction also exceeds the 1955/1956 level.

TABLE 101 — 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 and "central settlement" 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
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
1955/1956	100,663	22,421,894	87,390	16,152,649	1,328,695	64,716,607
1956/1957	91,772	25,028,745	87,686	17,434,126	1,484,407	78,081,317

In the year under review more banks joined the clearing system. Bank Rakjat Indonesia, Bank Nusantara Ltd. and Bank Umum Nasional Ltd. enlarged the number of their offices partaking in the sub-clearing by one each, while two offices of Bank Siliwangi Ltd. were admitted to the subclearing. Also joining the sub-clearing, both with one office were Bank Niaga Ltd., Djakarta and Bank Perhubungan Nasional Ltd., Djakarta.

The total number of bank offices participating in the clearing in nine towns of Indonesia amounted as at the end of the year under review to 85, 32 of which by

way of sub-clearing. Twenty joined the so-called central settlement of debts system via Bank Indonesia, in force in five non-clearing towns.

RESERVE FOR COMPANY TAX	Rp	92,230,145.—
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On March 31st, 1956, this reserve amounted to	Rp	71,009,645.—
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It increased by :
transfer from the Profit and Loss Account for the fourth
financial year 1956/1957 for company tax due

	Rp	87,230,145.—
--	----	--------------

	Rp	158,239,790.—
--	----	---------------

and decreased by payment of company tax of Bank
Indonesia on the third financial year 1 955 /1956

	Rp	66,009,645.—
--	----	--------------

bringing the balance on March 31st, 1957 to

	Rp	92,230,145.—
		=====

SUNDRY ACCOUNTS	Rp	1,052,102,233.71
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Under this heading appear the counterpart funds relating to the American aid allocated to and already received by Indonesia during the American fiscal years 1950/1951 (ECA), 1951/1952 and 1952/1953 (TCA), 1953/1954 and 1954/1955 (FOA) and 1955/1956 (ICA), for which notification has not yet been obtained.

At the outset of the year under report the total here of
amounted to

	Rp	69,569,278.61
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This amount increased during above mentioned
period by the counter-value of U.S. dollars received by
Indonesia within the framework of ICA-aid

	Rp	23,973,772.70
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whereas on account of notification an amount of Rp 39,610,191.65
 was transferred to “Special Account No 2 re ICA-aid”
 (as already discussed under the heading “Current
 Account Balances” (of the Government)),

reducing the balance as at March 31st, 1957, to Rp 53,932,859.66

This heading further comprises :

U.S. Surplus Commodities Sales Account Rp 625,472,375.73
 on which account was paid the countervalue of the
 surplus agricultural products (S.A.C.) delivered by
 U.S.A. to Indonesia by virtue of U.S. Public Law 480.

Treasurer of the U.S. (IMG-funds) Rp 1,200,980.45
 on which account is paid the countervalue of the Ameri-
 can “informational media” (mainly books and
 magazines) delivered to Indonesia by virtue of the agree-
 ment dated September 15 th, 1955, pursuant to
 the U.S. “IMG-program”.

Sundry accounts of the Foreign Exchange Fund in
rupiahs Rp 28,818,451.05

Liabilities of our Amsterdam Branch, valued at official
 rate Rp 79,524,031.62

Miscellaneous Rp 263,153,535.20

Total as at March 31st, 1957 Rp 1,052,102,233.71

Profit and Loss Account

The Bank's gross income over the fourth financial year 1956/1957 was considerably higher than in the preceding year, to wit by about Rp 54.4 million.

The item "Interest on bills and on foreign balances, profit on exchange, on coin and bullion and on sundries" increased by Rp 17.9 million. This rise can be explained as follows. Interest on discounts was less by Rp 3.8 million on account of a smaller turnover of bills discounted, which decline was offset however by a rise of Rp 3.5 million in interest on foreign balances (for an amount of about Rp 2.1 million due to interest paid by the Amsterdam branch office to the head-office on the so-called small A-account). In addition there was, caused by considerably larger turnovers in exchange business, an increase of Rp 18.6 million in profit on exchange (notwithstanding the raise as per July 1st, 1956 in the share to be paid to the Foreign Exchange Fund of the margin between the Bank's selling rates (import side) and the official mean rates) .

TABLE 102 — RECAPITULATION OF THE CREDIT ITEMS OF THE PROFIT AND LOSS ACCOUNT (Rp '000)		
	Financial year	
	1955/1956	1956/1957
In terest on bills discounted and on foreign balances, profit on exchange, on coin and bullion and on sundries	30,427	48,287
Interest on advances : <i>to the Government</i>	155,994	168,359
<i>to others</i>	25,793	43,022
Commission	28,388	35,933
Interest on securities	7,837	8,277
Profit of the Branch Office in Amsterdam	1,049	—
Total	249,488	303,878

The item "Interest on advances to the Government" amounting to Rp 168.4 million (against Rp 156 million in 1955/1956) represents interest to the amount of Rp 18.7 million (Rp 19.2 million in the previous year) on consolidated advances to the Government, made in pursuance of article 42 of the Bank Act (the decrease

of Rp 0.5 million emanating from the regulation mentioned on page 193) and interest to the amount of Rp 149.7 million (Rp 136.8 million in the previous year) at the rate of 3% per annum, on the interest bearing part of the floating debt of the Government, in pursuance of article 19 of the Bank Act. The last mentioned interest items reflect the much increased average debit-balance of the Government during the period under review.

The item "Interest on advances to others" of Rp 43 million (Rp 25.8 million in the preceding year) represents interest on advances in current account to semi-Government institutions, private enterprises and banks; this Rp 17.2 million increase reflects the credit expansion in the two first mentioned sectors during the period under review.

The increase in the item "Commission" of Rp 7.5 million results from higher turnovers, particularly in the import sector.

The item "Interest on securities" comprises, in accordance with article 17 (2) of the Bank Act, interest accrued on securities of the Invested Capital. Reserve Fund and Special Reserve.

On the debit side of the Profit and Loss Account the balance on "General expense account" was higher, mainly due to a higher year average of personnel expenditure necessitated by the higher cost of living as compared with the preceding year, while also the staff formation was enlarged. In addition expenditure on stationary increased by about Rp 1.2 million, while cost of transportation and sundry expenses were higher by about Rp 1.6 million and Rp 1.2 million respectively.

The item "Groundtax, upkeep and insurance of buildings" experienced a decrease of approximately Rp 0.6 million, which can be ascribed mainly to reduced maintenance activities.

Pursuant to the Depreciation Decree 1953 the item "Depreciation of buildings" comprises the maximum fiscal depreciation allowed for in article 3 (3) to

the amount of Rp 1.6 million, based on the market value as at April 1st, 1949 (the so-called “moment of adjustment”), as well as depreciation on the site value (as far as allowed in accordance with article 9 (2) of the said Decree) to the amount of Rp 2.0 million on account of enlargements c.q. rebuildings effectuated and buildings bought during the year under review.

The increase in the item “Depreciation of inventory” is due to the application of the allowed maximum fiscal depreciation on amounts which during the year under review were necessarily spent on the renovation of transport material, office inventory and furniture.

TABLE 103 — RECAPITULATION OF THE DEBIT ITEMS OF THE PROFIT AND LOSS ACCOUNT (Rp '000)		
	Financial year	
	1955/1956	1956/1957
General expenses	44,785	55,141
Ground tax, upkeep and insurance of buildings	3,686	3,098
Depreciation of buildings	2,543	3,673
Depreciation of furniture	4,895	13,512
Depreciation of printing cost of bank notes	31,500	25,300
Depreciation of bad and doubtful debts	—	14
Bank notes paid ex issues already withdrawn from circulation	—	—
Transfer to Pension Fund	19,142	10,909
Transfer to Reserve as provision for new buildings	15,000	20,000
Transfer to Reserve for Company Tax	61,519	87,230
Loss of the Branch Office in Amsterdam	—	157
Net profits (including transfers to Reserve Fund and Special Reserve)	66,418	84,844
Total	249,488	303,878

The item “Depreciation of printing costs of banknotes” to the amount of Rp 25.3 million represents the costs paid for or budgeted for orders on banknotes during the year under review.

“Reserve as provision for new buildings” has been earmarked for the construction of a new head-office annex Djakarta-Gambir branch office at Djalan Thamrin, Djakarta, a new office building for our Surabaya branch, a new office

which will be opened at Djember and for enlargement of several office buildings and housing facilities in various places. Furthermore, plans are being prepared to extend the number of branch offices all over the archipelago in order to promote finance.

The remaining outlays, depreciations and reservations, in so far as they need explanation, have already been dealt with elsewhere in this report.

Normal operating results of the Bank's branch office in Amsterdam showed a small decline as compared with the third financial year 1955/1956, whereas, moreover, the amount of interest paid to the head office on the balance of the so-called small A-account was considerably higher (mainly due to a higher rate of interest).

Consequently the result was a loss of about Rp 0.16 million, in contrast with a profit of about Rp 1 million in the third financial year 1955/1956.

NET PROFIT	Rp	84,844,069.93
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The various entries referred to above resulted on balance in a *net profit* of Rp 84,844,069.93 which by virtue of article 34 (5) of the Bank Indonesia Act 1953 is to be divided as under :

Transfer to Special Reserve	Rp	38,500,000.—
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Of the balance, amounting to	Rp	46,344,069.93
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20% is transferred to the Reserve Fund (with as ultimate maximum the amount required to bring the Reserve Fund to a total of Rp 25 million, so as to equal the Bank's capital), or	Rp	6,281,479.86
so that the share of the net profit available for the Treasury amounts to	Rp	40,062,590.07

IX. PERSONALIA

Management of the Bank

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

By decree of the President of the Republic of Indonesia No 7, dated January 21, 1957, Dr. Sjafruddin Prawiranegara, whose term of office as Governor of the Bank expired on July 15th, 1956 was re-appointed to the said function as per January 2nd, 1957, for a period of five years.

For completeness' sake, the formation as at March 31st, 1957 is summarised in appendix C of this report.

DJAKARTA, July 15th, 1957

The Governor of Bank Indonesia,

SJAFRUDDIN PRAWIRANEGARA

Appendices

Liabilities

Djakarta, June 4, 1957
Governor and Managing Directors of Bank Indonesia :
SJAFRUDDIN PRAWIRANEGARA
LOEKMAN HAKIM
INDRA KASOEMA
DARMAWAN MANGOENKOESEMO
T. R. B. SABARUDIN

APPENDIX B

PROFIT AND LOSS ACCOUNT

FOR THE 4 TH FINANCIAL YEAR 1956-1957

GENERAL EXPENSE ACCOUNT		Rp 55,140,918.10	INTEREST ON BILLS DISCOUNTED AND ON FOREIGN BALANCES,		
GROUND TAX, UPKEEP AND INSURANCE OF BUILDINGS		" 3,097,645.70	PROFIT ON EXCHANGE, ON COIN AND BULLION AND ON		
DEPRECIATION OF BUILDINGS		" 3,673,015.05	SUNDRIES		Rp 48,286,456.21
DEPRECIATION OF FURNITURE		" 13,511,997.64	INTEREST ON ADVANCES : TO THE GOVERNMENT	Rp 168,359,362.81	
DEPRECIATION OF PRINTING COSTS OF BANK NOTES		" 25,300,000.—	TO OTHERS	" 43,021,916.28	.. 211,381,279.09
LOSSES ON CREDITS		" 13,962.61	COMMISSION 35,932,671.73
TO PENSION FUND		" 10,908,910.70	INTEREST ON SECURITIES 8,277,345.23
TO RESERVE AS PROVISION FOR NEW BUILDINGS		" 20,000,000.—			
TO RESERVE FOR COMPANY TAX		" 87,230,145.—			
LOSS OF OUR BRANCH OFFICE IN AMSTERDAM		" 157,087.53			
NET PROFITS :					
To Special Reserve	Rp 38,500,000.—				
To Reserve Fund	" 6,281,479.86				
Share of the Treasury	" 40,062,590.07	.. 84,844,069.93			
		Rp 303,877,752.26			Rp 303,877,752.26

Provisionally approved by the Monetary Board at its meeting of June 22nd, 1957 and sanctioned by the Government of the Republic of Indonesia in Cabinet on June 28th, 1957.

Djakarta, June 4, 1957
Governor and Managing Directors of Bank Indonesia :
STAFRUDDIN PRAWIRANEGARA
LOEKMAN HAKIM
INDRA KASOEMA
DARMAWAN MANGOENKOESOEMO
T. R. B. SABARUDIN

APPENDIX C

BANK INDONESIA

Management as at March 31st, 1957

Board of Management

Dr SJAFRUDDIN PRAWIRANEGARA,
Governor

Dr LOEKMAN HAKIM, Managing Director
and 1st. Deputy Governor

Dr INDR A 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

Dr KHOUW BIAN TIE, 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</i> drawn 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 of 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 CURRENT ACCOUNT AGAINST :

<i>Bills of Exchange</i>	3	%
<i>Promissory Notes</i>	6 1/2	%
<i>Government Auction Promissory Notes</i>	3	%
<i>Securities</i> : Bonds of the Government of Indonesia as well as of autonomous provinces and municipalities in Indonesia.....	3	%
Bonds issued by mortgage banks established and operating in Indonesia	3	%
All other bonds	3 1/2	%
Shares	4	%
<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	%

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	Banknotes in circulation	Deposits of: the Government (including Special Accounts), I.M.F. and I.B.R.D.	Foreign bills and balances with correspondents abroad	Discounts and advances on collateral, paya- ble in rupiahs	Invested capital, reserve fund, special reserve and pension fund	Deposits, drafts and transfers payable	Govern- ment notes in circulation
1956													
4 April	953,354	1,600,685	3,838,000	4,217,689	171,000	1,545,075	7,609,776	634,257	494,698	660,281	218,560	1,700,029	661,063
11 "	953,354	1,522,698	3,838,000	4,398,025	171,000	1,582,230	7,626,244	634,257	597,044	695,405	218,936	1,889,956	670,770
18 "	953,354	1,377,851	3,742,050	4,365,886	171,000	1,587,672	7,638,003	634,257	608,992	729,757	220,003	1,621,007	664,519
25 "	953,354	1,257,059	3,742,050	4,138,030	171,000	1,579,663	7,563,840	634,257	614,610	919,588	220,257	1,541,661	664,266
2 May	953,356	1,282,044	3,742,050	4,172,400	171,000	1,599,957	7,583,509	596,498	548,473	945,209	220,272	1,550,644	674,105
9 "	953,356	1,283,402	3,742,050	4,461,327	171,000	1,599,299	7,792,928	596,498	520,369	939,462	220,184	1,602,112	684,673
16 "	953,356	1,229,011	3,742,050	4,417,355	171,000	1,662,531	7,916,244	596,498	611,490	1,083,106	220,203	1,541,405	693,772
23 "	953,352	1,085,392	3,742,050	4,495,142	171,000	1,573,501	7,975,443	596,498	595,832	1,157,002	220,052	1,545,997	693,523
30 "	953,352	1,119,010	3,742,050	4,365,065	171,000	1,624,022	7,878,104	596,498	550,792	1,140,577	221,019	1,444,292	694,407
6 June	953,358	1,142,052	3,742,050	4,421,434	171,000	1,626,719	7,845,421	596,498	544,503	1,077,647	221,392	1,479,606	693,129
13 "	953,358	1,101,868	3,742,050	4,588,000	171,000	1,601,823	7,866,846	596,498	549,507	897,564	224,036	1,420,151	700,802
20 "	953,358	1,089,040	3,742,050	4,666,908	171,000	1,639,695	7,855,065	541,559	524,563	837,515	224,342	1,429,165	699,699
27 "	954,128	1,078,806	3,742,050	4,663,677	171,000	1,713,101	7,796,189	541,559	575,466	863,740	225,223	1,465,760	711,769
4 July	954,131	999,632	3,742,050	4,565,648	—	1,690,090	7,776,410	370,556	570,053	975,058	225,610	1,470,936	713,232
11 "	954,131	954,471	3,742,050	4,717,495	—	1,656,924	7,840,077	364,054	586,725	871,338	226,208	1,456,508	714,400
18 "	954,137	912,268	3,742,050	4,828,143	—	1,629,519	7,897,908	341,554	527,338	842,086	226,620	1,451,318	711,552
25 "	954,226	827,873	3,742,050	4,893,057	—	1,658,994	7,822,464	341,553	519,666	899,101	226,778	1,509,699	707,275
1 August	954,279	829,250	3,742,050	4,632,593	—	1,682,155	7,790,907	341,551	477,754	1,173,807	219,129	1,484,248	707,522
8 "	619,258	1,466,256	3,742,050	4,701,804	313,502	1,702,176	7,832,377	968,551	499,065	1,239,006	225,268	1,563,344	708,177
15 "	544,642	1,544,817	3,742,050	4,813,007	313,502	1,675,739	7,878,119	968,551	445,362	1,143,918	233,184	1,485,889	709,963
22 "	544,642	1,536,760	3,742,050	5,040,362	313,502	1,766,108	7,914,537	968,551	503,932	1,091,796	233,481	1,584,980	709,258
29 "	544,763	1,512,829	3,742,050	5,163,403	313,502	1,788,626	7,860,489	968,551	467,692	1,121,526	235,345	1,757,388	711,022
5 September	544,260	1,482,842	3,742,050	5,567,551	313,502	1,791,105	7,960,780	968,551	534,384	1,083,264	236,604	2,049,877	720,141
12 "	544,272	1,503,439	3,742,050	6,217,440	313,502	1,824,751	8,030,450	968,551	502,094	924,351	238,367	2,432,927	714,633
19 "	543,795	1,563,389	3,742,050	6,270,073	313,502	1,853,508	8,125,622	968,551	476,332	933,448	241,100	2,382,104	720,694
26 "	543,654	1,621,353	3,742,050	6,260,619	313,502	1,873,175	8,045,922	968,551	444,633	800,649	242,684	2,308,237	720,596
3 October	543,298	1,747,827	3,742,050	5,974,239	313,502	1,831,355	8,064,686	968,551	398,802	855,692	240,988	2,151,436	721,531
10 "	543,338	1,783,774	3,742,050	5,980,089	313,502	1,896,657	8,172,380	961,486	407,023	921,718	241,773	2,056,020	720,246
17 "	543,385	1,783,214	3,742,050	5,941,304	313,502	1,895,903	8,242,728	961,486	453,603	943,041	242,194	1,991,721	723,048
24 "	542,625	1,862,073	3,742,050	5,773,973	313,502	1,886,613	8,195,891	961,486	405,122	973,614	243,687	1,910,144	725,559
31 "	542,631	1,825,653	3,742,050	5,826,205	313,502	1,853,016	8,177,980	961,486	399,994	987,410	243,780	1,939,863	724,375
7 November	541,882	1,883,189	3,742,050	5,910,745	313,502	1,885,983	8,246,750	961,486	407,294	1,009,466	247,361	1,968,978	719,953
14 "	541,399	1,905,443	3,742,050	6,020,742	313,502	1,832,329	8,319,227	961,486	393,646	928,273	247,044	1,993,522	718,269
21 "	540,518	1,912,993	3,742,050	6,091,520	313,502	1,844,074	8,329,717	961,486	423,628	952,417	247,287	2,057,300	718,649
28 "	538,343	1,977,744	3,742,050	6,104,416	313,502	1,824,834	8,288,364	961,429	375,894	960,457	247,489	2,141,716	717,038
5 December	538,198	1,988,535	3,742,050	6,228,850	313,502	1,868,790	8,352,342	924,163	395,456	948,502	248,154	2,197,849	719,133
12 "	535,084	1,958,545	3,742,050	6,194,127	313,502	1,893,089	8,477,076	924,163	444,692	1,061,947	253,544	2,109,907	719,969
19 "	534,553	1,915,568	3,742,050	6,351,647	313,502	1,911,969	8,594,058	924,163	452,478	1,061,087	254,195	2,071,086	717,756
26 "	534,368	1,895,417	3,742,050	6,624,610	313,502	1,929,810	8,639,532	924,163	436,548	1,083,208	255,185	2,240,813	718,386
1957													
2 January	533,680	1,916,704	3,742,050	6,861,033	313,502	1,986,759	8,846,297	924,163	477,501	997,247	255,754	2,177,535	720,066
9 "	532,762	1,802,373	3,742,050	6,992,817	313,502	1,872,611	8,996,607	924,163	524,514	984,580	245,499	2,148,563	727,443
16 "	529,958	1,796,746	3,742,050	6,993,113	313,502	1,889,473	9,101,029	924,163	525,164	1,015,616	251,985	2,011,107	726,760
23 "	529,621	1,784,485	3,742,050	7,226,516	313,502	1,860,810	9,185,925	924,163	485,251	999,772	251,985	2,110,878	725,881
30 "	529,617	1,784,339	3,742,050	7,227,966	313,502	1,867,387	9,134,662	924,166	615,838	1,076,788	251,985	2,336,082	736,246
6 February	526,250	1,772,357	3,742,050	7,338,563	313,502	1,886,119	9,202,496	924,166	615,494	1,069,340	257,908	2,342,025	737,955
13 "	525,845	1,739,569	3,742,050	7,350,560	313,502	1,887,240	9,214,862	924,166	619,770	1,036,174	256,883	2,273,175	738,987
20 "	524,979	1,704,590	3,742,050	7,321,948	313,502	1,873,525	9,237,667	924,166	556,531	927,003	256,965	1,963,103	739,020
27 "	524,981	1,720,408	3,742,050	7,059,086	313,502	1,877,259	9,107,744	924,166	527,217	1,152,633	257,263	2,010,610	735,144
6 March	524,981	1,643,034	3,742,050	7,123,560	313,502	1,883,869	9,111,118	924,166	547,670	1,113,146	257,176	1,993,936	735,449
13 "	522,329	1,561,012	3,742,050	7,535,574	313,502	1,869,304	9,179,319	924,166	540,307	995,291	255,558	2,124,011	738,307
20 "	519,903	1,542,234	3,742,050	7,571,221	313,502	1,869,408	9,216,002	924,166	496,141	990,204	256,488	2,000,626	735,922
27 "	518,356	1,515,868	3,742,050	7,699,721	313,502	1,871,949	9,195,891	1,081,600	478,736	967,530	256,412	2,051,833	737,161

APPENDIX F

LAW ON THE POWER GRANTED TO THE MINISTER OF FINANCE TO DRAW ADVANCES WITH BANK INDONESIA EXCEEDING THE LIMIT FIXED BY ARTICLE 19 SECTION 2 OF THE BANK INDONESIA ACT 1953

(Law Nr 3 of February 19th, 1957; Government Gazette 1957 Nr 16)

THE PRESIDENT OF THE REPUBLIC OF INDONESIA,

Considering:

that in view of the budget drawn up for the year 1956 indicating a deficit of Rp 1,800 million, and of the Government debt with Bank Indonesia as at January 1st, 1956 already amounting to Rp 4,494 million, it is deemed necessary that the Minister of Finance be authorised to draw advances with Bank Indonesia exceeding the limit fixed by article 19 section 2 of the Bank Indonesia Act 1953 (Law Nr 11/1953, Government Gazette 1953 Nr 40);

In view of:

article 89 and article 111 of the Provisional Constitution of the Republic of Indonesia;

With the consent of Parliament;

H a s r e s o l v e d :

To enact:

**LAW ON THE POWER GRANTED TO THE MINISTER OF FINANCE
TO DRAW ADVANCES
WITH BANK INDONESIA EXCEEDING THE LIMIT FIXED BY ARTI-
CLE 19 SECTION 2 OF
THE. BANK INDONESIA ACT 1953 (LAW Nr 11/1953).**

Article 1

The Minister of Finance is authorised, for expenditure as has been provided for in the budget for 1956, to draw advances with Bank Indonesia exceeding the limit fixed by article 19 section 2 of the Bank Indonesia Act 1953, to an amount by which the debt of the Government with the said Bank at the end of the year 1956 may total the sum of Rp 6,700 million, with the proviso that this maximum will be diminished by such receipts as will be obtained from new measures to be taken in 1956 by the Government.

Article 2

This Law will come into force on the day of its promulgation and retrospective from January 1st, 1956.

APPENDIX G

DECREE OF THE MONETARY BOARD No 25 DATED MARCH 11th, 1957

THE MONETARY BOARD,

Considering :

- a. that it is necessary to define general conditions to be complied when issuing licences for the operations of credit institutions;
- b. that the establishment of general conditions as above referred to a, must concur with the object of promoting a solid credit system, based on sound principles of banking policy;

With regard to :

- a. article 7, paragraphs 3, 4 and 5 of the Bank Indonesia Act 1953 and article 2, paragraph 2 juncto article 9, paragraphs 1 and 2 Government Ordinance No 1/1955;
- b. the Decree of the Monetary Board of March 4th, 1957,

H a s r e s o l v e d :

To define the following general conditions for the establishment operation of credit institutions :

First : Permanent licences for the operation of banks or savings banks as referred to in article 2, paragraphs 1 and 2 of Government Ordinance No 1 /1955

will be issued by the Minister of Finance only when the credit institutions concerned, apart from having paid up the required minimum working capital, have complied with the following general conditions :

- a. Said credit institutions do not and shall not enter into business of the following kinds :
 1. trade, with the exception of trade in stock and bonds and other negotiable papers considered as pertaining to general bank business;
 2. establishing or participating in the establishment of enterprises not pertaining to banking;
 3. management of enterprises not pertaining to banking;
 4. establishing or managing wharfage and warehouse companies, transport or insurance enterprises;
- b. participation of banks in other enterprises is allowed only if such participation is financed with that part of the bank funds by which the paid-up capital plus free reserves exceed the obligatory minimum working capital of Rp 2,500,000.—.

Second : If the interest of the development of a certain bank is sufficiently cogent, it is possible to deviate from the conditions mentioned in the first paragraph, subject to prior consent of the Managing Board of Bank Indonesia, in accordance with the special regulations established by the Monetary Board, and provided also that the operations concerned shall not be contrary to a sound credit system and the principles of solid banking;

Third : In order to ensure that the determined minimum working capital shall always be available to meet the real needs of the credit institutions, the following conditions are laid down :

- (1) credits on terms longer than one year may be granted only out of that part of the paid-up capital plus free reserves by which they exceed the determined minimum working capital, with due regard to points 5 and 6 of this paragraph;
- (2) individual credits referred to above sub (1) shall not exceed 10% of the total of the paid-up capital plus free reserves, unless said credits are granted under Government guarantee, or under guarantees which in the opinion of the Managing Board of Bank Indonesia, can be considered as the equivalent of such;
- (3) No more than maximum 50% of the total amount of the paid-up capital plus free reserves shall be utilized for properties, the construction of buildings and the purchase of properties for the own use of said credit institutions;
- (4) the acquisition of mortgages or immovables not essential to the conducting of business of credit granting institutions as mentioned above sub (3), may be effected only with that part of the paid-up capital plus free reserves by which the total exceeds the determined minimum working capital;
- (5) branch offices of banks may be opened only if the total of the paid-up capital plus free reserves exceed the minimum working capital of Rp 2,500,000.— by such an amount that at least Rp 500.000.— can be applied as working capital of each branch to be established;
- (6) branch offices of savings banks may be opened only if the total of the paid-up capital plus free reserves exceed the minimum working capital of Rp 500.000.— by such an amount that at least Rp 100.000.— can be applied as working capital of each branch to be established;

Fourth : As long as the credit institutions do not comply with the conditions regarding the minimum working capital, they are not allowed to divide profits by way of paying annual dividends of more den 6% on fully paid-up shares;

Fifth : Credit institutions having branches in operation previous to the coming into force of this decree and not complying yet with the conditions mentioned in paragraph Three sub (5) and (6) above, are required to meet the conditions referred to within two years at the most after the coming into force of this decree, unless it is otherwise decided by the Minister of Finance, in consultation with the Managing Board of Bank Indonesia.

Sixth : This decree comes into force on the day of signature.

APPENDIX H

IMPORTS OF CONSUMER GOODS INTO INDONESIA

	Gross weight ('000 tons)			Value (Rp million)				
	1938	1954	1955	1956	1938	1954	1955	1956
Meat and canned meat products	1.8	0.4	0.5	0.5	0.8	4.5	5.5	5.8
Milk and related products	19.9	19.5	20.1	39.6	5.3	76.7	83.5	157.0
Butter and margarine	6.1	0.1	0.2	0.1	4.2	1.0	1.7	0.6
Cheese	1.2	0.1	0.2	0.7	0.7	3.4	2.1	5.4
Fish, dried or salted, Asiatic varieties	61.6	37.1	22.5	28.2	11.0	88.2	38.8	64.6
Rice	334.2	258.8	127.0	763.2	22.1	558.0	246.6	1,280.7
Wheat flour	85.3	108.4	120.1	196.9	7.7	140.2	135.5	223.1
Fruits (incl. marmalades, jams, etc.)	7.2	10.4	9.3	11.3	1.8	16.9	13.1	19.8
Vegetables	13.9	5.2	3.2	4.9	2.5	9.6	6.4	9.6
Spirits, distilled and undistilled	11.5	3.4	4.4	3.0	4.5	15.1	18.3	14.9
Tobacco and tobacco products	1.6	0.1	0.1	0.2	1.9	1.6	1.5	2.6
Sugar and related products	2.7	0.6	0.6	1.0	0.6	3.1	3.1	4.0
Coffee, tea, cocoa and chocolate	2.6	0.2	0.3	0.1	1.8	1.7	3.2	1.2
Kerosene	27.5	1.1	0.1	5.0	1.1	0.4	0.2	1.7
Sewing cottons	1.1	1.3	1.6	1.5	2.7	32.5	39.7	35.9
Cotton piece goods :								
dyed	11.1	16.7	13.8	18.5	12.7	343.7	255.4	331.8
printed	5.6	13.6	8.8	13.9	8.0	333.7	216.8	285.8
coloured woven	7.9	3.6	2.3	2.9	8.9	56.9	34.1	41.1
Cotton singlets and mesh shirts	2.7	2.7	1.7	4.4	3.2	58.7	30.6	81.4
Other clothing	3.8	0.7	0.4	1.1	6.9	16.2	12.2	24.5
Table and kitchen ware of earthenware and china	14.5	12.9	10.0	45.4	1.9	21.1	18.4	83.2
Sundry household articles of glass	5.4	6.4	5.5	14.9	1.0	13.3	11.0	28.0
Sundry household articles of metal	3.3	23.9	4.2	3.0	1.8	100.1	15.0	14.4
Matches	2.3	4.7	6.6	5.1	1.0	20.0	28.4	27.2
Wireless sets and sewing machines	1.7	7.1	3.8	9.9	2.8	56.4	34.1	76.3
Bicycles	0.8	1.9	0.4	0.9	0.8	26.1	5.2	12.3
Bicycle tyres	0.7	2.0	1.7	5.9	0.6	21.7	16.1	63.0
Other consumer goods	141.2	47.5	73.8	93.4	88.4	665.3	856.7	1,154.6
Total	779.2	590.4	443.2	1,275.5	206.7	2,686.1	2,133.2	4,050.5
Of which oil companies	27.5	7.0	8.8	13.0	1.1	40.8	56.6	53.2
Total excl. oil companies	751.7	583.4	434.4	1,262.5	205.6	2,645.3	2,076.6	3,997.3

Source : C.B.S.

APPENDIX I

IMPORTS OF RAW MATERIALS AND AUXILIARY GOODS INTO INDONESIA

	Gross weight (^{'000 tons})			Value (Rp million)				
	1938	1954	1955	1956	1938	1954	1955	1956
Dyestuff, prepared from coal tar	2.2	2.5	3.5	4.3	4.3	60.6	84.4	94.8
Fertilizers	122.4	104.5	147.6	183.8	7.5	79.7	116.0	142.7
Cloves and clove stems	5.7	7.7	6.8	12.8	3.7	94.4	72.5	130.6
Cases	23.9	4.8	4.8	3.1	3.8	14.7	15.8	10.5
Gunny bags	55.8	24.5	29.9	19.3	10.2	67.8	91.7	57.6
Cotton yarns	9.1	14.3	18.0	20.5	10.1	233.5	272.4	297.4
Cotton piece goods :								
unbleached	7.3	4.6	6.9	6.1	6.7	71.5	91.8	81.1
bleached	19.8	16.8	16.9	15.7	25.9	338.5	313.9	317.4
Paper and manufactures thereof	54.1	69.9	89.0	102.6	6.9	176.1	278.4	239.5
Building cement	121.0	290.6	356.8	396.1	1.6	91.9	114.7	129.3
Iron and steel rolled products	114.3	111.4	104.7	112.1	14.8	246.6	207.2	262.6
Iron roofing material and accessories	20.2	4.3	4.6	7.8	4.0	15.1	19.3	29.7
Tin plates and sheets	27.5	9.7	23.2	20.3	7.2	21.8	50.3	47.4
Nails, tacks and spikes	14.7	17.2	30.0	20.5	2.1	28.2	54.9	39.8
Mineral fuels (other than petroleum products)	84.2	38.7	33.8	43.9	1.5	10.2	11.5	20.4
Kerosene, gasoline and lubricating oils	93.3	35.5	116.2	143.6	3.5	8.7	46.4	51.9
Oil and other oil products ¹⁾	37.5	2,178.6	1,340.2	2,650.6	1.5	510.6	350.1	606.2
Other raw and auxiliary materials	243.9	255.0	355.3	454.9	39.1	977.6	1,259.2	1,216.3
Total ¹⁾	1,056.9	3,190.6	2,688.2	4,218.0	154.4	3,047.5	3,450.5	3,775.2
Of which oil companies ¹⁾	142.3	2,284.8	1,547.0	1,451.5	6.7	601.0	524.4	491.0
Total excl. oil companies	914.6	905.8	1,141.2	2,766.5	147.7	2,446.5	2,926.1	3,284.2
¹⁾ Of which oil for re-export	—	2,131.0	1,267.0	2,564.0	—	435.5	235.8	483.9

Source : C.B.S.

APPENDIX J

IMPORTS OF CAPITAL GOODS INTO INDONESIA

	Gross weight (*000 tons)				Value (Rp million)			
	1938	1954	1955	1956	1938	1954	1955	1956
Iron and steel structures	2.4	1.0	2.3	3.3	0.6	3.9	8.5	14.4
Electric cables	2.8	3.0	3.0	5.2	1.1	22.4	27.2	43.2
Office machines	0.3	0.3	0.4	0.7	1.1	17.5	21.7	43.2
Motor vehicles	13.6	12.6	14.6	22.4	12.1	152.5	182.5	279.0
Motor vehicles'tyres and tubes	0.9	0.4	0.6	6.2	1.1	6.8	9.9	101.9
Stationary internal combustion engines	2.2	2.7	3.3	5.6	2.5	53.6	67.2	108.8
Textile machinery	3.4	2.0	1.8	6.0	1.4	17.2	20.3	69.9
Mining machinery	14.7	1.4	0.9	4.1	10.5	19.9	15.0	40.4
Other industrial machinery	4.5	10.9	9.8	22.9	2.8	167.7	120.3	236.1
Other capital goods	121.9	91.0	88.5	94.1	84.2	963.6	806.6	955.6
Total	166.7	125.3	125.2	170.5	117.4	1,425.1	1,279.2	1,892.5
Of which oil companies	—	18.3	21.5	28.6	—	158.5	183.3	209.8
Total excl. oil companies	166.7	107.0	103.7	141.9	117.4	1,266.6	1,095.9	1,682.7

Source : C.B.S.

APPENDIX K

PRODUCTION, EXPORTS AND CONSUMPTION OF INDONESIA'S FOODCROPS

Maize	1954	1955	1956
Area harvested : Djawa and Madura (ha) Other islands	2,000,000 518,000	1,577,000 465,000	1,703,000 472,000
Indonesia	2,518,000	2,042,000	2,175,000
Production : Djawa and Madura (tons of kernels) Other islands	2,154,000 556,000	1,462,000 509,000	1,407,000 498,000
Indonesia	2,720,000	1,971,000	1,895,000
Exports	16,521	9,982	—
Available for consumption	2,703,479	1,961,018	1,895,000

Cassava and cassava products	1954	1955	1956
Area harvested : Djawa and Madura (ha) Other islands	866,000 205,000	876,000 202,000	899,000 194,000
Indonesia	1,071,000	1,078,000	1,093,000
Production : Djawa and Madura (tons, dry) Other islands	1,607,000 785,000	1,630,000 700,000	1,608,000 686,000
Indonesia	2,392,000	2,330,000	2,294,000
Exports	143,128	177,464	16,077
Available for consumption	2,248,872	2,152,536	2,277,923

Batatas	1954	1955	1956
Area harvested : Djawa and Madura (ha) Other islands	174,000 110,000	176,000 103,000	260,000 114,000
Indonesia	284,000	279,000	374,000
Production : Djawa and Madura (tons, dry) Other islands	266,000 262,000	254,000 225,000	371,000 252,000
Indonesia	528,000	479,000	623,000
Exports	—	—	—
Available for consumption	528,000	479,000	623,000

Source : Service for Indigenous Agriculture

Ground nuts	1954	1955	1956
Area harvested : Djawa and Madura (<i>ha</i>)	270,000	253,000	264,000
Other islands	54,000	45,000	49,000
Indonesia	324,000	298,000	313,000
Production : Djawa and Madura (<i>tons, peeled nuts</i>)	204,000	178,000	179,000
Other islands	43,000	29,000	35,000
Indonesia	247,000	207,000	214,000
Exports	21,623	5,281	2,834
Available for consumption	225,377	201,719	211,166

Soya beans	1954	1955	1956
Area harvested : Djawa and Madura (<i>ha</i>)	478,000	462,000	447,000
Other islands	48,000	53,000	50,000
Indonesia	526,000	515,000	497,000
Production : Djawa and Madura (<i>tons, dry</i>)	362,000	306,000	307,000
Other islands	38,000	40,000	38,000
Indonesia	400,000	346,000	345,000
Exports	154	—	—
Available for consumption	399,846	346,000	345,000

Source : Service for Indigenous Agriculture