

BANK NEGARA INDONESIA (UNIT I)

**REPORT
FOR THE
FINANCIAL YEARS
1966 - 1967**

REPORT

OF

BANK NEGARA INDONESIA UNIT I ^{*)}

FOR THE FINANCIAL YEAR OF 1966 - 1967

*) The name of Bank Indonesia was changed into Bank Negara Indonesia Unit I by Presidential Decree No. 17 of 1965 and by Decision of the Minister of Central Bank Affairs No; Kep. 65/UBS/65.

P.N. PERTJETAHAN NEGARA R.I. DJAKARTA

BANK NEGARA INDONESIA

UNIT I

Head office :
DJAKARTA

Representative Offices :
LONDON
NEW YORK
TOKYO

Branch Offices:
AMBON, AMPENAN, BANDA ATJEH,
BANDJARMASIN, BANDUNG, BIAK, DJEMBER,
DJAMBI, JOGJAKARTA, KEDIRI, KUPANG, MAKASAR,
MALANG, MANOKWARI, MEDAN, MENADO, MERAUKE, PADANG,
PEKANBARU, PALEMBANG, PONTIANAK, SABANG, SAMARINDA,
SEMARANG, SOLO, SORONG, SUKARNAPURA, SURABAJA,
TELUKBETUNG, TJIREBON.

Position as per the end of 1967.

P R E F A C E

By Presidential Decree No.17/1965 concerning the establishment of an Integrated Bank, i.e. Bank Negara Indonesia., the state banks inclusive of Bank Indonesia were merged into the aforesaid Integrated Bank. Consequently the present Annual Report of the Central Bank which covers the calendar years 1966 and 1967 is called the "Annual Report of Bank Negara Indonesia".

Regarding the economic developments in Indonesia may be reported that after the event of September 30, 1960, fundamental changes were introduced both in the field of Politics and economics as stipulated in a series of Decisions taken by the MPRS (Provisional People's Consultative Congress) on July 5, 1966. The reassessment of the economic, monetary and development policy fundamentals were contained in the MPRS Decision No.XXIII/MPRS/1966 of July 5, 1966. The aforesaid Decision clearly distinguishes between a short run program dealing with stabilization and rehabilitation, and a long run program dealing with development.

Accordingly, the AMPERA Cabinet, inaugurated in July 1966 principally aimed at increasing the standard of living of the people, particularly with regard to food and clothing. The following order of priority is being used in the context of the programs on economic stabilization (control of inflation) and rehabilitation (rehabilitation of production).

- a) to control inflation
- b) to meet the demand for food,
- c) to rehabilitate economic infrastructure
- d) to increase exports,
- e) to meet the demand for textiles.

The order priorities applicable to the long run development program was determined as follows :

- a) agriculture
- b) infrastructure
- c) industry, mining and oil.

For the execution of its working program, the Government introduced measures in 3 stages , i.e. the measures of October 3, 1966, February 1967, and July 28,1967.

The October 1966 regulations contained the following policy principles :

- A revision of the credit policy of the banks with regard to the amount purpose and interest rate of loans; the credit policy became more selective with emphasis upon the production sector.
- The introduction of a Balanced Budget Policy to eliminate the major source of inflation.
- The introduction of the BE (Bonus Eksport = Export Bonus) system in the field of foreign trade to increase the earnings of exporters and to reduce Government interference.
- The policy to reschedule foreign debts and to request fresh loans to ease the pressures on Indonesia's balance of payments.
- With respect to membership in international institutions such as IMF and IBRD and other institutions as well as with respect to Foreign capital investment the policy aimed at eliminating Indonesia's economic isolation from the international economic community.
- The decontrol and the elimination of bureaucratic practices in order to reduce direct Government interference in economic routine operations and to create a democratic economic system.

In February 1967, a series of measures was taken to adjust rates and prices, whereas in July 1967 regulations were issued to consolidate and revise the BE system.

The impact of the abovementioned regulations upon the economy is reflected in the data available through 1967. The rate of inflation which was + 650% in 1967 could be reduced to +112%, although in the second half of 1967 the inflation rate had increased steeply as a consequence of a less successful harvest caused by protracted drought.

The increase in actual exports was satisfactory, likewise the import data indicate that the BE system to a certain extent had facilitated the inflow of goods which in turn had a favorable impact upon price developments. During the period under report, production in a few sectors increased slightly; however, inadequacy of capital and infrastructure was most perceptible and productivity in general was still low.

The present report attempts to present specified and aggregate data on the economic developments for the period ending 1967, as far as such data are available.

This 1966-1967 Annual Report could be published thanks to the kind cooperation of Government institutions, of banks as well as of individual persons to whom we express our sincere gratitude.

Djakarta, November 30, 1968
THE GOVERNOR BANK NEGARA INDONESIA

RADIUS PRAWIRO

I. NATIONAL INCOME

The Research and Statistical Development Center of the Central Bureau of Statistics and the National Income Committee in conjunction with BAPPENAS (National Planning Authority) succeeded in compiling the net national income as follows :

	At current prices (in billions of Rupiahs)	At 1960 prices (in billions of Rupiahs)
1963	3,263.1	403.6
1964	6,442.9	422.9
1965	23,581.4	436.3
1966	304,666.0	456.3
1967	...	...

Source : Central Bureau of Statistics.

From the above figures may be observed that national income at current prices annually increased by approximately 354% on the average, whereas national income in real terms based upon 1960 prices annually increased by about 3% only. This indicates clearly that the nominal increase in national income was caused by the galloping inflation raging in all fields of activities. Owing to the inflationary situation it was not surprising at all that the fixed income groups such as civil servants and laborers, were the groups in the community which suffered most.

Allowing for an annual population growth of 2,3% of the 1961 population, which according to the census was around 96.4 million, national income per capita would be as follows :

	At current prices (in Rupiahs)	At 1960 prices * (in Rupiahs)
1963	32,372.-	4,004.-
1964	62,431.-	4,099.-
1965	210,173.-	4,128.-
1966	2,649,270.-	4,213.-
1967	...	...

*) Revised figures.

Source : Central Bureau of Statistics.

It appears from the figures above that in spite of the substantial increase in per capita income, the increase based upon 1960 prices was fairly negligible.

The percentage distribution of national product specified according to field of activity at 1960 prices was as follows:

<i>Field of activity</i>	<i>1963 ¹⁾</i>	<i>1964 ¹⁾</i>	<i>1965 ¹⁾</i>	<i>1966 ²⁾</i>	1967
1. Agriculture, forestry, etc.	51.4	51.5	50.2	50.2	...
2. Mining and drilling	3.3	3.3	3.5	3.2	...
3. Industry	12.5	12.0	12.3	11.6	...
4. Construction (building)	1.9	1.8	1.8	1.8	...
5. Electricity and cooking gas	0.3	0.3	0.3	0.3	...
6. Transportation and communication	3.5	3.3	3.3	3.1	...
7. Wholesale & retail trade	16.9	17.3	17.8	16.9	...
8. Banks & other financial institutions	0.7	0.8	0.7	0.5	...
9. House rent	2.0	2.0	2.0	2.0	...
10. Government administration & defence	2.8	3.0	3.3	5.3	...
11. Services	5.8	5.7	5.7	5.6	...
12. Net domestic product	101.1	101.0	100.9	100.5	...
13. Net investment income	- 1.1	- 1.0	- 0.9	- 0.5	...
14. Net national product	100.0	100.0	100.0	100.0	...

1) Revised figures.

2) Provisional figures.

Source : Central Bureau of Statistics.

The table above reveals that during the period of 1963-1966 the contribution made by the agricultural sector towards the national product was the largest, viz. 50.8% on the average, followed by wholesale & retail trade (17.2%) industry (12.1%), services (5.7%), transportation and communication (3.3%) and other activities (10.9%).

However, in real terms—i.e. when the 1966 product is compared with the 1963 product -- the increase in the various activities during the aforesaid period was as follows : agriculture 10.6% only, wholesale and retail trade 12.9%, industry 5.4%, services 7.6%, transportation and communication 0.0 % and other activities combined 48.2%. A field of activities which demands attention is banks and other financial institutions, since it declined by 15.4%.

National Income specified according to Field of Activity at 1960 prices.

(in billion Rupiahs)					
Field of activity	1963	1964	1965	1966 ¹⁾	1967
1. Agriculture, forestry etc.	207.3	217.5	219.2	229.2	...
2. Mining and drilling	13.3	13.9	15.3	14.4	...
3. Industry	50.4	50.7	53.7	53.1	...
4. Construction (building)	7.6	7.7	7.9	8.1	...
5. Electricity & cooking gas	1.3	1.4	1.4	1.4	...
6. Transportation & communication	14.3	14.0	14.2	14.3	...
7. Wholesale & retail trade	68.3	73.4	77.8	77.1	...
8. Banks & other financial institutions	2.6	3.4	3.2	2.2	...
9. House rent	8.0	8.3	8.4	8.8	...
10. Government administration & defence	11.3	12.6	14.6	24.4	...
11. Services	23.6	24.2	24.9	25.4	...
12. Net domestic product	408.0	427.1	440.6	458.4	...
13. Net investment income	- 4.4	- 4.2	- 4.3	- 2.1	...
14. Net national product	403.6	422.9	436.3	456.3	...

¹⁾ Provisional figures.

Source : Central Bureau of Statistics.

Considered as a whole, national income increased by 13% during the period of 1963-1966 which an average rate of growth of 3.2% per annum.

II. MONETARY DEVELOPMENTS

Introduction

The monetary analysis in the current annual report is slightly modified. In the previous reports, due to several technical and administrative difficulties, the activities of the private commercial non- foreign exchange banks had not been taken into account; in the current report, however, the balance sheet figures of the said banks as from 1963 are included in the monetary analysis. Therefore, the monetary analysis in the current report is compiled based upon figures from the Government, Bank Negara Indonesia Unit I, the foreign exchange banks and the private commercial non-foreign exchange banks.

The money supply, specified into currency and deposit money with their respective percentages of total money supply may be observed in table 1. The difference between the figures of total money supply since 1963 in the present report on the one hand, and those in the reports of the preceding years on the other hand was mainly caused by the inclusion of the balance sheets of the private commercial non- foreign exchange banks as referred to above.

TABLE 1 - MONEY SUPPLY
(in million Rupiahs)

	Total	Movement	Currency	% of total	Deposit money	% of total
1960: December	48	+ 13	34	71	14	29
1961: December	68	+ 20	49	72	19	28
1962: December	136	+ 68	103	76	33	24
1963: December	278	+ 142	172	62	106	38
1964: December	725	+ 447	447	62	278	38
1965: December	2,591	+ 1,866	1,904	73	687	27
1966: March	5,771	+ 3,180	4,061	70	1,709	30
June	10,672	+ 4,901	7,962	75	2,710	25
September	15,338	+ 4,666	11,588	76	3,750	24
December	22,626	+ 7,288	14,874	66	7,752	34
Cumulative 1966		+ 20,035				
1967: March	24,617	+ 1,991	17,647	72	6,970	28
June	32,990	+ 8,373	22,660	69	10,330	31
September	39,177	+ 6,187	27,766	71	11,411	29
December	51,719	+ 12,542	34,585	67	17 134	33
Cumulative 1967		+ 29,093				

Moreover, table 2 also indicates the causes of changes in the money supply specified according to economic sectors, viz. the public sector, the private sector, the foreign sector, and miscellaneous. In the preceding annual reports, the activities of state enterprises and foundations were considered as official: in the current report, however, they are classified as private and are listed in the private sector. The change in the classification is designed to present a more realistic picture, since the activities of the state enterprises and foundations can hardly be regarded as Government activities; it is also in accordance with the policy of the AMPERA Cabinet which does not discriminate between state enterprises and private enterprises as stipulated in the Cabinet Presidium's Instruction No.15/EK/IN/10/1966 concerning the guidelines of the policy With respect to credit extension.

In addition to the above, table 3 presents the monetary balance sheet indicating the money supply and the reasons behind its movement; it is presented in the form of a balance sheet and is specified in accordance with the causes of changes in the money supply of table 2.

Causes of changes in the money supply

As may be observed in table I, the money supply in 1966 and 1967 was still increasing. The largest increase occurred in 1966, i.e. 773% which was higher than in the preceding years. In 1967, however, the increase in the money supply declined considerably, viz. by 129%.

The quarterly developments reveal that in 1966 the highest increase in the money supply took place in the first quarter, viz. by 133%. In the subsequent quarters of the same year the rate of increase declined, the quarterly increases were 85%, 44% and 48% in the second, third and fourth quarter, respectively.

During 1967, the rate of increase in the money supply was declining, i.e. by 8%, 34% 19%, and 32% in the first, second, third and fourth quarter, respectively.

The causes of changes in the money supply specified according to public, private, foreign, and miscellaneous sectors were as follows:

	<i>(in millions of Rupiahs)</i>			
	<i>1964</i>	<i>1965</i>	<i>1966</i>	<i>1967</i>
A. Public	+ 362	+ 1,125	+ 12,044	+ 11,842
B. Private	+ 122	+ 712	+ 5,513	+ 16,874
C. Foreign	- 12	+ 23	- 60	+ 715
D. Miscellaneous	- 25	- 124	+ 2,538	- 357

The figures above reveal that until the end of 1966 the public sector was the principal source of the increase in the money supply. In 1966, 60% of the increase of Rp. 20,035 million originated from the public sector. In 1967, the role of the aforesaid sector as the major source of increase became less important. Of the total increase in the money supply during the year concerned, 39% was attributable to the public sector. Unlike in previous years, in 1967 the increase in the money supply due to Government activities was lower than that of the private sector.

A favorable development took place in 1967, when the role of the public sector with respect to the increase in money supply became less important. This phenomenon was primarily a consequence of the execution of the Economic Stabilization and Rehabilitation Program as determined by the Provisional People's Consultative Congress in Decision No. XXIII/MPRS/1966 of July 5, 1966, regarding the reassessment of the bases of the Economic, Monetary and Development Policy. The policy concerned was initiated by the Government in the beginning of the last quarter of 1966, viz. with a series of Instructions and Decisions of the AMPERA Cabinet's Presidium on October 3, 1966.

The following order of priorities was established in the context of - Economic Stabilization and Rehabilitation Program:

- a. to check inflation;
- b. to meet the demand for food;
- c. to rehabilitate the economic infrastructure;
- d. to promote exports;
- e. to meet the demand for textiles.

In the current report, the public sector includes both the Central and the Local Governments. In the years under report the share of the Local Governments was not yet significant, therefore, almost the whole increase in the public sector was for account of the Central Government.

TABLE 2 - CAUSES OF CHANGES
(in million Rupiahs)

	1964	1965	1966	1967	1966				1967			
					1st. Qr.	2nd. Qr.	3rd. Qr.	4th. Qr.	1st. Qr.	2nd. Qr.	3rd. Qr.	4th. Qr.
A. Money creation on account of the public sector :												
I. Government :												
a. Net debt to Bank Negara Indonesia Unit I (increase = +)	+ 365	+1,366	+ 12,788	+15,795	+ 1,357	+ 4,009	+ 2,765	+ 4,657	+ 3,246	+ 5,697	- 1,022	+ 7,874
b. Balances with other banks (increase = -)	- 3	- 111	- 744	- 3,945	- 155	- 301	- 450	+ 162	- 574	- 1,000	- 502	- 1,869
c. Government notes and coins (increase = +)	-	-	-	-	-	-	-	-	-	-	-	-
Total	+ 362	+1,255	+12,044	+11,850	+ 1,202	+ 3,708	+ 2,315	+ 4,819	+ 2,672	+ 4,697	- 1,524	+ 6,005
II. Local governments (increase = +)	-	-	-	- 8	- 5	+ 2	+ 2	+ 1	- 3	- 2	+ 1	- 4
Total A	+ 362	+1,255	+12,044	+11,842	+ 1,197	+ 3,710	+ 2,317	+ 4,820	+ 2,669	+ 4,695	- 1,523	+ 6,001
B. Money creation on account of the private sector :												
I. Government enterprises and foundations (increase = +)	+ 82	+ 201	+ 3,159	+ 6,204	+ 749	+ 486	+ 674	+ 1,250	+ 605	+ 2,360	+ 1,932	+ 1,307
II. Private enterprises and individuals (increase = +)	+ 59	+ 569	+ 2,769	+17,855	+ 504	+ 924	+ 856	+ 485	+ 683	+ 2,294	+ 4,004	+10,874
III. Prepayments by importers (increase = -)	- 4	-	- 2	- 5,202	-	- 18	+ 18	- 2	- 18	- 54	- 198	- 4,932
IV. Guarantee deposits (increase = -)	- 7	- 36	- 183	- 152	- 61	- 68	- 36	- 18	+ 58	- 3	- 92	- 115
V. Time deposits (increase = -)	- 8	- 22	- 230	- 1,831	- 19	- 96	- 38	- 77	- 209	- 453	- 324	- 845
Total B	+ 122	+ 712	+ 5,513	+16,874	+ 1,173	+ 1,228	+ 1,474	+ 1,638	+ 1,119	+ 4,144	+ 5,322	+ 6,289
C. Money creation on account of changes in the foreign exchange position :												
I. Gold, claims in gold, foreign exchange holdings with Bank Negara Indonesia Unit I and Foreign Exchange Fund (increase = +)	- 16	+ 11	- 98	- 318	+ 6	- 3	- 84	- 17	+ 13	+ 22	+ 160	- 513
II. Foreign exchange holdings with other banks (increase = +)	+ 11	+ 12	+ 111	+ 87	+ 52	+ 76	+ 64	- 81	+ 102	+ 84	- 9	- 90
Movements in gold and foreign exchange holdings	- 5	+ 23	+ 13	- 231	+ 58	+ 73	- 20	- 98	+ 115	+ 106	+ 151	- 603
III. Amounts credited to counterpart accounts (increase = -)	- 4	- 2	+ 18	- 793	- 1	+ 3	+ 16	-	-	- 10	- 9	- 774
IV. I.M.F. (increase = -)	-	-	-	+ 1,647	-	-	-	-	+ 771	-	- 876	-
V. Non - resident Rupiah accounts (increase = -)	- 3	+ 2	- 91	+ 92	+ 1	- 4	- 26	- 62	+ 92	-	-	-
Total C	- 12	+ 23	- 60	+ 715	+ 58	+ 72	- 30	- 160	+ 978	+ 96	+ 1,018	- 1,377
D. Miscellaneous causes :												
I. Capital, reserves and profit and loss accounts (increase = -)	- 20	- 58	- 725	- 272	- 76	- 175	- 250	- 224	- 428	- 969	- 245	+ 1,370
II. Inter - bank difference account	- 1	- 119	+ 1,852	- 2,192	+ 367	- 66	+ 62	+ 1,489	- 1,552	+ 40	+ 167	- 847
III. Other	- 4	+ 53	+ 1,411	+ 2,127	+ 461	+ 132	+ 1,093	- 275	- 795	+ 367	+ 1,448	+ 1,106
Total D	- 25	- 124	+ 2,538	- 337	+ 752	- 109	+ 905	+ 990	- 2,775	- 562	+ 1,370	+ 1,629
E. Net change in money supply :												
= A+B+C+D	+ 447	+1,866	+20,035	+29,093	+ 3,180	+ 4,901	+ 4,666	+ 7,288	+ 1,991	+ 8,373	+ 6,187	+12,542
a. Currency	+ 275	+1,457	+12,972	+19,711	+ 2,158	+ 3,901	+ 3,627	+ 3,286	+ 2,773	+ 5,013	+ 5,105	+ 6,820
b. Deposit money	+ 172	+ 409	+ 7,064	+10,430	+ 1,022	+ 1,000	+ 1,040	+ 4,002	- 782	+ 3,360	+ 1,082	+ 6,770

The Government's item "net debt to Bank Negara Indonesia Unit I" includes advances from Bank Negara Indonesia Unit I which was increasing from Rp. 2,195 million at the end of 1965 to Rp. 18,790 million at the end of 1966 and Rp. 32,917 million at the end of 1967. This increase in advances from Bank Negara Indonesia Unit I was primarily required for the financing of the Budget deficit. The amount of net debt was also net of the first installment of the paid-in portion of the subscription to the Asian Development Bank (i.e. Rp. 115 million), since Indonesia officially joined the aforesaid bank by Act No. 8 of 1966 dated November 8, 1966. The paid-in portion of the subscription amounts to US \$ 12.5 million, of which 50% consists of convertible currency and the other 50% of rupiah, payable in five equal annual installments. Net Government debt to Bank Negara Indonesia Unit I moreover included Budget revenue from contributions to the Revolution Fund which amounted to Rp. 216 million in 1966.

In 1966 the deficit incurred on the Budget amounted to Rp. 16,725 million which was approximately 127 % of actual revenue. This substantial deficit on the 1966 Budget was inter alia caused by an increase in salary payments to Government personnel, an increase in expenditure for goods and services in connection with the adjustment of prices and rates, and the expenditure for the restoration of security following the September 30 affair.

In the framework of the Economic Stabilization and Rehabilitation Program, the Government attempted to achieve a balanced Budget in 1967. However, the Budget actuals at the end of the relevant year revealed that a deficit could not yet be avoided, although it was considerably reduced and amounted to Rp. 2,655 million or 3% of Budget revenue.

The amount of net BNI Unit I advances to the Government in 1967 was also net of Rp. 13,364 million used by BULOG¹⁾ (Badan Urusan Logistik = Body of Logistic Affairs) for the financing of rice purchases. If the expenditure for the financing of rice purchases would be included in the 1967 Budget, the Budget deficit would be higher, i.e. Rp. 16,019 million or 19% of Budget revenue.

1) In August 1966, BRUP was merged into KOLOGNAS (National Logistic Command) and in 1967 transformed into BULOG.

Besides, net BNI Unit I advances to the Government in 1967 included payments to the International Monetary Fund to an amount of Rp. 245.8 million for charges on account of drawings beyond the gold tranche; the payments, effected in February, August and November 1967 and amounting to US \$1.9 million, US \$.021 million and US\$ 0.25 million, respectively, were in connection with Indonesia's rejoining the aforesaid international financial institution. Moreover, the Government paid the second installment (Rp. 172 million) of the paid-in portion of its subscription to the Asian Development Bank.

It should be noted that in essence the monetary effect of the mutations resulting from the aforesaid payments to IMF and ADB was neutral. The effect ostensibly created in the public sector, viz. the increase in Central Bank advances to the Government was offset by the deflationary effect originating from the foreign sector due to the decline in the foreign exchange position on account of the payments referred to above.

Meanwhile, Budget revenue increased in 1966 and 1967, both in absolute terms and in relation to expenditure. In 1967, the amount of Budget revenue was approaching Budget expenditure. It may be noted that the role of foreign aid in this context was substantial, since the countervalue of such aid constituted Budget revenue which in 1967 amounted to Rp. 24,689 million or was approximately 29% of total Budget revenue.

The private sector, made up of state enterprises and foundations as well as private enterprises and individuals produced an inflationary effect of Rp. 5,513 million in 1966 and Rp. 16,874 million in 1967.

The increase in money supply attributable to the activities of the private sector went up from 28% in 1966 to 56%, in 1967. In 1967 the increase in money supply on account of the private sector was larger compared with the increase on account of the other sectors.

In 1966, the increase in the amount of credit granted to enterprises, state owned as well as private, was primarily caused by the high rate of inflation in the country. Rising prices and costs increased the cash requirements of the enterprises for the financing of their routine operations.

In accordance with the efforts of the Government to check inflation, towards the end of 1966, i.e. with the Instruction of the Cabinet Presidium No. 15/EK/IN/10/1966 dated October 3, 1966, the Government initiated a tight money policy. The lending rates applied by state banks were determined at 6 to 9% monthly; moreover, bank credits were to be confined to the most urgent activities.

Table 2 illustrates the positive impact of the credit policy of October 3 upon the credit operation of the banks. During the first quarter of 1967 the increase in money supply originating from business activities was lower than the preceding quarterly increases in 1966. However, the tight money policy appeared to have created new problems in the form of cash shortages which were most perceptible through out the community. Such cash shortages were the cause of bottlenecks and stagnation in domestic production. Consequently, since the beginning of the second quarter of 1967 the credit policy was amended, viz. the state banks gradually reduced their interest rates to 3- 5% with effect from June 1967, and relaxed the terms of credit. This change in credit policy was possible since inflation was gradually abating. Nevertheless, until the end of 1967 the credit policy was still based upon the Cabinet Presidium's Instruction of October 3, 1966, and changes had more the character of improvements of the policy envisaged in the aforesaid Cabinet Presidium's Instruction.

Due to the relaxations, i.e. the reduction of interest rates as well as the easing of credit terms, the amount of credits granted increased continuously since the second quarter of 1967. State enterprises and foundations caused an inflationary effect of Rp. 3,159 million in 1966 and Rp. 6,204 million in 1967, while private enterprises and individuals brought about an inflationary effect of Rp. 2,769 million in 1966 and Rp. 17,855 million in 1967.

The large increase in money supply attributable to the activities of private enterprises in the fourth quarter of 1967 was primarily caused by Bank Negara Indonesia Unit I advances to the Government at the end of 1967 on account of credits to importers for the financing of aid-BE imports (Rp. 8.2 billion).

In 1966, the items of guarantee deposits and time deposits increased lay Rp. 183 million and Rp. 230 million. respectively, which had a deflationary effect. The increase in prepayments by importers to an amount of Rp. 5,202 million in 1967 was deflationary

as a result of import guarantee deposits paid by importers primarily in connection with rice imports. Moreover, in 1967 guarantee deposits and time deposits also provided for a deflationary effect of Rp. 152 million and Rp. 1,831 million, respectively. The deflationary effect of importers' prepayments, guarantee deposits and time deposits slightly reduced the inflationary effect of credits granted to the private sector, particularly in 1967.

The foreign sector produced a deflationary effect of Rp. 60 million in 1966 and an inflationary effect of Rp. 715 million in 1967.

The gold and foreign exchange reserves increased by Rp. 13 million in 1966 and decreased by Rp. 231 million in 1967. Foreign exchange holdings of the Foreign Exchange Fund and Bank Negara Indonesia Unit I declined by Rp. 98 million in 1966 and Rp. 318 million in 1967. On the other hand, foreign exchange holdings of other banks increased by Rp. 111 million in 1966 and Rp. 87 million in 1967.

The decline in gold and foreign exchange reserves in 1967 was mainly caused by an increase in merchandise imports from US \$ 604 million in 1966 to US \$ 802 million in 1967, whereas exports amounted to US \$ 634 million in 1965, and US \$ 714 million and US \$ 770 million in 1966 and 1966 respectively. The aforesaid export figures include oil exports and overprice; the export excluding oil and overprice was US \$ 462 million in 1966 and US \$ 430 million in 1967.

In the course of the year under report, several measures in the field of foreign exchange regulations, credit facilities as well as export procedures were taken to promote exports. The share of foreign exchange at the disposal of exporters in the form of Export Bonus (BE) which since February 1966 was determined at 10%, 20% and 50% for category I, II and III exports, respectively, was increased to 50%, 75% and 90% effective October 3, 1966. Moreover, in July 1967, export commodities were reclassified into two categories, and the share of foreign exchange at the disposal of exporters became 75% for category A goods and 90% for category B goods. The interest payable for export credits—such credits were included in category I on the priority list for credit facilities—which October 1966 was determined at 6% a month, was reduced to 4% in April 1967, and finally became 3% as of July 1, 1967. The terms with respect to export credits were also relaxed. By virtue of the July 28, 1967, regulations the

export procedure was somewhat simplified which was particularly reflected by a reduction in the number of forms to be filled out.

Nevertheless, in 1967 actual exports exclusive of oil were less than in 1966 and were below the 1967 target which had been determined at US \$ 475 million. The decline in exports excluding oil in 1967 was particularly due to unfavorable world market prices of export commodities.

The balance on counterpart account generated by US aid in the framework of I.C.A. and Surplus Agricultural Commodities/PL 480 declined by Rp. 18 million in 1966, which added to the money supply. In 1967 the balance on the aforesaid account increased by Rp. 793 million and was therefore deflationary. The increase in 1967, however, was to a great extent attributable to a change in bookkeeping practices. Initially, PL 480 aid receipts during 1967 which amounted to Rp. 782 million were entered directly into the General Treasury Account and at the end of 1967 the total amount of aid received was then transferred from the General Treasury Account to the counterpart account.

The balance on the IMF account decreased by Rp. 1,647 million in 1967 as a consequence of the repurchases made in February 1967 and August 1967 each to an amount of US\$ 6.34 million and of payment for the gold subscription (US \$ 1.77 million) in connection with Indonesia's rejoining the said international institution on February 12, 1967. At the time of Indonesia's withdrawal from membership on August 17, 1965, Indonesia's net outstanding drawings amounted to US \$ 63.5 million repayable in 10 equal semi annual installments as of February 17, 1967. The inflationary effect shown by the item "IMF" was actually a correction of the reduction in gold and foreign exchange reserves on account of the aforesaid payments.

In 1966 the balance on non-resident rupiah accounts increased by Rp. 91 million which had a deflationary effect. Early in 1967 the balance on the said non-resident rupiah accounts decreased by Rp. 92 million and thenceforth this item was omitted from the balance sheet, since the outstanding balances were transferred to the item "current accounts". As a matter of fact, since March 1965 such non-resident rupiah accounts did not exist any longer, because according to a notification of the Bureau of Foreign Exchange Transactions (No. 7/U/BLLD/65 of March 20, 1965) the balances

on non-resident rupiah accounts were released; in other words: they could be withdrawn without permission from the Bureau of Foreign Exchange Transactions and had therefore the same characteristics as ordinary current accounts. The actual transfer, however, could only be effected in the first quarter of 1967.

Miscellaneous causes produced an inflationary effect of Rp. 2,538 million in 1966 and a deflationary effect of Rp. 337 million in 1967. Such causes include the item Capital, Reserves, and Profit and Loss accounts which increased by Rp. 725 million in 1966 and by Rp. 272 million in 1967 which had a deflationary effect. The inter-bank difference account showed an inflationary effect of Rp. 1,852 million in 1966 and a deflationary effect of Rp. 2,192 million in 1967. The aforesaid effects emerged from differences between the balance sheet figures of Bank Negara Indonesia Unit I and those of the other banks with respect to credits granted to the banks by Bank Negara Indonesia Unit I and with respect to deposits of the banks with Bank Negara Indonesia Unit I. The item "other" gave an inflationary effect of Rp. 1,411 million in 1966 and Rp. 2,127 million in 1967. The said item includes premises and inventory which produce,] an inflationary effect of Rp. 333 million and Rp. 731 million in 1966 and 1967, respectively, as well as sundry accounts of Bank Negara Indonesia Unit I and other banks which created an inflationary effect of Rp. 1,078 million in 1966 and Rp. 1,936 million in 1967.

Monetary balance sheet

The monetary development during the period under report may also be presented in the form of a balance sheet such as in table 3. As was mentioned before, unlike in the previous reports, the monetary balance sheet in the present report has not only been compiled on the basis of data from the Department of Finance and from the balance sheets of Bank Negara Indonesia Unit I and the foreign exchange banks, but on the basis of balance sheet data of the private commercial non- foreign exchange banks as well.

The assets side of the monetary balance sheet indicates the causes of changes in the obligations of the monetary authorities which are specified similar to the causes of changes in the money supply (table 2). The obligations of the monetary authorities are indicated on the liabilities side and consist of monetary and non-monetary obligations, i.e. claims not payable on demand and which therefore cannot be treated as money.

TABLE 3 - MONETARY
(in million

BALANCE SHEET
Rupiahs)

	1963	1964	1965	1966				1967			
				1st. Qr.	2nd. Qr.	3rd. Qr.	4th. Qr.	1st. Qr.	2nd. Qr.	3rd. Qr.	4th. Qr.
ASSETS:											
I. Net advances to Government :											
a. Advances from banks to Government (including prepayments from importers)	232	593	1,896	3,131	6,912	9,302	14,291	17,493	21,934	20,463	26,838
b. Treasury notes and bills and Government securities with banks	1	1	1	3	3	3	10	8	3	3	—
c. Currency notes and coins	2	2	2	2	2	2	2	2	2	2	2
minus:											
d. Currency with Government	5	4	51	86	159	233	411	939	679	732	1,099
Total I:	230	592	1,848	3,050	6,758	9,074	13,892	16,564	21,260	19,736	25,741
II. Advances from banks to:											
a. Local governments	—	—	—	C. 5	C. 3	C. 2	—	C. 3	C. 4	C. 3	C. 7
b. State enterprises and foundations	50	132	333	1,082	1,567	2,241	3,491	4,096	6,456	8,389	9,696
c. Private enterprises	42	94	640	1,125	1,953	2,770	3,178	3,652	5,493	9,173	19,201
Total II:	92	226	973	2,202	3,517	5,009	6,669	7,745	11,945	17,559	28,890
III. Gold and foreign exchange holdings	4	C 1	22	80	153	133	35	150	257	407	C. 196
IV. Sundry items	48	88	183	779	832	1,988	3,201	2,036	3,228	6,532	10,473
Total:	374	905	3,026	6,110	11,260	16,204	23,797	26,495	36,689	44,234	64,908
LIABILITIES:											
I. Currency :											
a. Bank notes	188	478	2,239	4,495	8,809	12,798	16,635	20,066	25,505	30,835	38,863
b. Currency notes	2	2	2	2	2	2	2	2	2	2	2
c. Coins	—	—	—	—	—	—	—	—	—	—	—
minus:											
d. Currency with Government	5	4	51	86	159	233	411	939	679	732	1,099
e. Currency with Banks	13	29	286	350	690	978	1,352	1,482	2,168	2,339	3,181
Total currency:	172	447	1,904	4,061	7,962	11,589	14,874	17,647	22,660	27,766	34,585
II. Deposit money	106	278	687	1,709	2,710	3,750	7,752	6,970	10,330	11,411	17,134
Total money supply:	278	725	2,591	5,770	10,672	15,339	22,626	24,617	32,990	39,177	51,719
III. Non - monetary liabilities	96	180	435	340	588	865	1,171	1,878	3,699	5,057	13,189
Total:	374	905	3,026	6,110	11,260	16,204	23,797	26,495	36,689	44,234	64,908

Therefore, total assets in the monetary balance sheet do not only indicate the causes of changes in the money supply, but mutations in non-monetary obligations as well. Such non-monetary obligations include time deposits, guarantee deposits, I.C.A., S.A.C./PL 480 counterpart funds, IMF accounts, nonresident rupiah accounts, capital, reserves and profit and loss accounts as well as transitory accounts in the balance sheets of the banks.

The liabilities side of the monetary balance sheet also shows the money supply specified into currency and deposit money. Total money supply amounted to Rp. 22,626 million at the end of 1966 and Rp. 51,719 million at the end of 1967.

Money supply

Money supply rose by Rp. 20,035 million and Rp. 29,093 million during 1966 and 1967, respectively. As explained earlier, in 1966 the Budget deficit was the main reasons of the increase in money supply. In 1967, however, the increase in money supply originating from credits to state as well as to private enterprises was larger than the increase on account of the Budget deficit. Besides the efforts of the Government to increase revenue from direct as well as indirect taxes, Budget revenue in the form of foreign aid counterpart funds contributed significantly to the reduction of the 1967 Budget deficit.

Expressed in percentages of total money supply such as in table 1, the percentages of deposit money as from 1963 in the current report are higher than in the previous report. Besides revised balance sheet figures of the banks, this phenomenon is mainly due to the inclusion of balance sheet data of the private commercial non- foreign exchange banks. In the present report, the amount of deposit money includes the current account balances of third parties and drafts payable as reported in the balance sheets of the private commercial non-foreign exchange banks. On the other hand, the cash holdings of the aforesaid banks have been deducted from total money supply.

In 1966, deposit money was 24 to 34%., of total money supply; in 1967 it was 28 to 34% of total money supply. Compared with the end of 1965, the percentage of deposit money during the years under report has increased slightly; it was, however, still below the percentage achieved at the end of 1963 and 1964.

Up to the present, in our country the amount of deposit money is less than the amount of currency in circulation. This phenomenon reflects our low income economy. Moreover, banking facilities, working and administrative procedures of the banks as well as the public's confidence in payments transactions by means of checks are factors which have had an impact upon the magnitude of deposit money.

The Central Bank took a few measures, designed to promote payments transactions by means of checks, inter alia by making it obligatory for the banks to screen prospective account holders and to participate in clearing operations centralized at the Central Bank. The first measure was meant as a prevention to reduce the number of overdrawn checks which adversely affected the public's confidence in payments transactions by means of checks. Centralized clearing would accelerate clearing operations at lower cost.

III. GOVERNMENT FINANCE

General

The Government economic and financial policy in 1966 was preceded by the issue of the President's Decree No. 26 of 1965 concerning the Government Economic and Financial Policy in 1966 which decreed that the principle of the Government Economic and Financial Policy in 1966 was to aim at production increase and economic self reliance.

Concerning the State Budget of Revenue and Expenditure, the President's Decree stipulated as follows:

1. The Routine Budget should be balanced.
2. The deficit on the Development Budget should not jeopardize the Monetary Budget.
3. Large scale economizing in the Routine and Development Budgets should be introduced.
4. The development of economic infrastructure should be given top priority.

As it was stated in the 1960-1965 Report, starting from 1965 the State Budget of Revenue and Expenditure would be compiled in the form of a Monetary Budget. This provision was still adhered to for 1966, while the State Budget of Revenue and Expenditure for 1967 was composed separately in the sense that it was not combined with the Credit Budget and the Foreign Exchange Budget in the form of a Monetary Budget.

The Budget estimates for 1965-1967 were as follows (in million Rupiahs):

<i>Expenditure</i>	<i>Master Budget</i>	<i>Supplementary Budget</i>	<i>Total</i>
1965	965	785	1,750
1966	6,630	16,770	23,400
1967	81,300	7,980*)	89,280
<i>Revenue</i>			
1965	671	150	821
1966	7,232	318	7,550
1967	81,300	2,850*)	84,150

*) Proposed supplementary budget.

TABLE 4 - THE BUDGET AND ITS REALIZATION
1965 - 1967
(in million Rupiahs)

	Expenditure			Revenue			Balance		
	1965	1966	1967	1965	1966	1967	1965	1966	1967
Master Budget	965	6,630	81,300	671	7,232	81,300	- 294	- 602	—
Supplementary Budget	785	16,770	7,980	150	318	2,850	- 635	- 16,452	- 5,130
Total	1,750	23,400	89,280	821	7,550	84,150	- 929	- 15,850	- 5,130
Realized	2,526	29,867	87,555	923	13,142	84,900	- 1,603	- 16,725	- 2,655
Difference	+ 776	+ 6,467	- 1,725	+ 102	+ 5,592	+ 750	- 674	- 875	+ 2,475

Source : Department of Finance.

Regarding the 1966 Budget may be explained that according to Act No. 22 of 1965, budget expenditure would be Rp. 6,630 million, while revenue would amount to Rp. 7,232 million, thereby creating a surplus of Rp. 602 million. This surplus was based on the revenue computation which stressed on revenue originating from petroleum profits on the one hand and a decline in expenditure as a consequence of the abolition of subsidies to state enterprises on the other.

It appeared, however, that the policy of the Government to abolish subsidies to state enterprises, particularly with respect to oil exploitation, impelled the relevant state enterprises to adjust the prices/rates of their products to their operational expenditure.

The policy of adjusting prices on the basis of cost accounting, particularly with regard to the gasoline price which was increased from Rp. 0.25 to Rp. 1.-, met with political resistance so that finally the price which had been increased was reduced to Rp. 0.50. The 1966 State Budget on Revenue and Expenditure therefore had to be reviewed and amended.

In the meantime actual Budget expenditure during a mere semester had exceeded the amount determined in the Budget. The AMPERA Cabinet which was inaugurated only on July 23, 1966, therefore estimated the 1966 Budget expenditure and revenue based on new and more realistic calculations which simultaneously included the Master Budget and the Supplementary Budget for 1966 in which the preparatory steps for the economic stabilization and rehabilitation program for 1967 were taken into consideration.

The State Budget of 1967 was a balanced Budget whereby expenditure was limited by the size of revenue.

This was intended to avoid the inflationary effect created by a Budget deficit in the framework of achieving monetary stability which was an important part of the AMPERA Cabinet's economic stabilization and rehabilitation program.

In practice it turned out that actual revenue and expenditure in 1967 also exceeded the Budget promulgated by an Act (the Master Budget) because when the Master Budget was compiled there were factors still unknown and which could therefore not be

taken into consideration. Consequently, it was later considered necessary to arrange for budgetary changes and adjustments in the form of a Supplementary Budget.

The figures of actual revenue and expenditure meanwhile gave the following picture (in million Rupiahs):

	<i>1965</i>	<i>1966</i>	<i>1967</i>
Expenditure	2,526	29,867	87,555
Revenue	923	13,142	84,900
Deficit (-)	-1,603	-16,725	- 2,655

It appeared that the figures on Budget execution during the last three years, with the exception of actual expenditure in 1967, were always higher than the original estimates. It also appeared that a Budget deficit in 1967 could not be avoided, with the result that the Budget of the last three consecutive years was in deficit. A complete picture of the development of Budget revenue and expenditure, estimated as well as actual, may be seen in table 4.

In 1966, the increase in actual expenditure was larger than the increase in actual revenue, the deficit in 1966 was therefore also higher compared with 1965.

On the other hand, in 1967 the increase in actual expenditure was below the increase in actual revenue; consequently, although there was still a deficit in 1967, it was lower than the amount incurred in 1966.

This was due to strenuous efforts on the part of the Government to eliminate the deficit in the shortest possible time, and though a deficit in 1967 was unavoidable, it was kept at a minimum.

In money terms, the Budget deficit in 1966 was the largest; however, compared with actual revenue and expenditure in the relevant year, the deficit since 1966 declined continuously, with a conspicuous drop in 1967. This development was an indication that during 1966 and 1967 there was an improvement in the Government finances, in the sense that the portion of Budget expenditure financed out of revenue was increasing. The development of the budget deficits compared with actual revenue and expenditure during 1965-1967 was as follows:

<i>Year</i>	<i>Deficit</i>	<i>% of revenue</i>	<i>% of expenditure</i>
1965	1,603	173.7	63.5
1966	16,725	127.3	56.0
1967	2,655	3.1	3.0

Government cash deficit

The Government cash deficit in the last two years was steadily increasing. The amount of the aforesaid cash deficit in 1966 and 1967 was Rp. 13,605 million and Rp. 13,860 million respectively. Therefore, compared with a cash deficit of Rp. 1,369 million in 1965, the deficit in 1966 and 1967 increased by Rp. 12,236 million (894%) and Rp. 255 million (2%) respectively. Consequently, in spite of its continuous increase, the 1967 increase in cash deficit was not as large as in 1966. It may be noted that a part of actual expenditure in 1967, i.e. Rp.11,508 million constituting advances for rice procurements and Rp. 1,074 million intended for advances of salary payments, was not charged to the Budget of the relevant year but to the 1968 Budget instead. Therefore, the actual Budget deficit of 1967, amounting to Rp. 2,655 million, was far below the cash deficit of Rp. 13,860 million. By Government cash deficit is meant the negative balance between actual Budget revenue and expenditure, plus or minus the movement in net domestic and net foreign debt of the Government, and plus or minus the movement in Treasury notes and bills with the private sector. It should be added that by lack of final data on Government long term foreign debt, such foreign debt was not included in the computation of the Government cash deficit. The development of Government cash deficit, as well as its components and sources of financing are summarized below.

The figures in table indicate that in 1966 and 1967 there was a deficit on the State Budget of Revenue and Expenditure amounting to Rp. 13,382 million and Rp. 13,850 million, respectively. Net Government borrowing from the domestic capital market in the aforesaid period decreased by Rp. 216 million and Rp. 16 million, respectively.

Treasury notes and bills held by the private sector meanwhile decreased by Rp. 7 million in 1966 and increased by Rp. 6 million in 1967. Therefore, the overall Government cash deficit in 1966 and 1967 was Rp. 13,605 million and Rp. 113,860 million respectively.

From table 5 also appears that similar to the preceding years, the major part of the Government cash deficit in 1966 as well as in 1967 was financed by advances from B.N.I. Unit I, i.e. Rp. 16,595 million in 1966 and Rp. 14,127 million in 1967.

TABLE 5 - GOVERNMENT CASH DEFICIT AND ITS FINANCING
(in million Rupiahs)

	1965	1966	1967
<i>Computation of the cash deficit:</i>			
Net Balance of Budget revenue and expenditure (deficit = -)	- 1,369	- 13,382	- 13,850
Net borrowing on capital market (increase = +)			
a). Internal origin	—	- 216	- 16
b). External origin	...	...	...
Movements in Treasury notes and bills with private sector (increase = +)	—	- 7	+ 6
Cash deficit (—)	- 1,369	- 13,605	- 13,860
<i>Financing of the cash deficit:</i>			
a) Advances from B.N.I. Unit I (increase = +)	+ 1,572	+16,595	+14,127
b) Movements in Treasury notes and bills with banks (increase = +)	—	+ 7	- 6
c) Movements in bank-notes balances with Government payment-offices (increase = +)	+ 1	+ 359	+ 688
d) Movements in currency issued by the Government (increase = +)	—	—	—
e) Movements in others debts of the Government to banks (increase = +)	- 204	- 3,356	- 949
Total :	+ 1,369	+13,605	+13,860

Sources : Department of Finance.
Bank Negara Indonesia Unit I.

Treasury notes and bills with banks increased by Rp. 7 million in 1966 and conversely decreased by Rp. 6 million in 1967. An increase of

Treasury notes and bills with banks signifies an increase in drawings by the Government from those banks. A decrease means the reverse.

Bank notes with Government payment offices increased by Rp. 359 million in 1966 and by Rp. 688 million in 1967, which means that the money supply declined by the same amounts.

The amount of currency issued by the Government was unchanged, as the only currency circulating since 1966 were bank notes. Other Government debts to banks

decreased by Rp. 3,356 million in 1966 and Rp. 949 million in 1967. It may therefore be concluded that the total Government cash deficit, both in 1966 and in 1967 was financed with advances from B.N.I. Unit I to the Government, which was inflationary financing.

Budget expenditure

Actual net Budget expenditure during the last two years indicated a continuous increase in terms of money and it was only due to strenuous economizing that expenditure in 1967 did not exceed the budget estimates.

The development of actual expenditure may be summarized as follows (in millions of rupiahs):

	<i>Budget estimates</i>	<i>Actual expenditure</i>	<i>Deviation</i>
1965	1,750	2,526	+ 776
1966	23,400	29,867	+ 6,467
1967	89,280	87,555	- 1,725

Actual Budget expenditure in 1966 and 1967 increased by Rp. 27,341 million (1,082%) and Rp. 57,688 million (193%) respectively compared with the expenditure in the preceding year.

In 1965 the increase was Rp. 1,845 million (271%) over the expenditure in 1964. Therefore, the rate of increase of 1,082% in 1966 was the highest.

The rate of increase which in 1967 was substantially reduced to 193 % and actual expenditure which did not exceed the Budget estimates for the relevant year indicated a favorable development with respect to the efforts of the Government towards the achievement of monetary stability.

Actual expenditure which did not deviate too much from the Budget estimates, viz. 128% in 1966 and 98% in 1967 gave the impression that the size of such expenditure started to be kept under control, particularly in 1967. It was accomplished due to a regulation in 1967 according to which the actual quarterly expenditure may not exceed the estimated Budget revenue in the relevant quarter. A comprehensive picture concerning the development of Government expenditure is given in table 6.

TABLE 6 - BUDGET EXPENDITURE ¹⁾
(in million Rupiahs)

	1965		1966			1967		
	Budget estimate ²⁾	Actual expenditure	Budget estimate	Actual expenditure	Actual expenditure 1966 minus actual expenditure 1965	Budget estimate	Actual expenditure	Actual expenditure 1967 minus expenditure 1966
Routine Budget	725	1,618	16,987	26,128	+ 24,510	71,954	70,024	+ 43,896
Personnel expenditure / pensions	430	667	5,275	14,861	+ 14,194	32,065	31,626	+ 16,765
Materiel expenditure	140	371	8,910	7,808	+ 7,437	21,487	20,349	+ 12,541
Subsidies to regional governments	37	39	...	1,713	+ 1,674	9,303	8,881	+ 7,168
West Irian	...	...	...	67	...	1,439	1,331	+ 1,264
Other regional governments	...	...	...	1,646	...	7,869	7,550	+ 5,904
Interest and installments on debts	14	33	168	487	+ 454	3,568	3,721	+ 3,234
Domestic	14	33	—	92	+ 59	723	1,248	+ 1,156
Foreign	—	—	168	395	+ 395	2,845	2,473	+ 2,078
Other routine expenditure	104	508	2,634	1,259	+ 751	5,531	5,447	+ 4,188
Subsidies	—	—	515	1,259	+ 1,259	1,093	963	— 296
Other	104	508	2,119	—	— 508	4,438	4,484	+ 4,484
Development Budget	240	446	3,300	3,739	+ 3,293	17,326	17,531	+ 13,792
Central government projects	240	446	3,300	3,739	+ 3,293	15,126	15,194	+ 11,455
Regional development	—	—	—	—	—	2,200	2,337	+ 2,337
Special Budget	P.M.	462	3,113	—	— 462	—	—	—
T o t a l :	965 + P.M.	2,526	23,400	29,867	+ 27,341	89,280	87,555	+ 57,688

¹⁾ Provisional figures,

²⁾ Data of the Master Budget only, since specified data of the Supplementary Budget are not available.

Source : Department of Finance,

Unlike in former reports, in which Budget expenditure was specified according to functional groups, in the current report expenditure is classified according to Budget items/types of expenditure, since data specified according to functional groups were not yet available.

From the aforesaid table may be observed that the major part of the additional Budget expenditure in 1966 and 1967 was routine expenditure. This is understandable since as from the September 30/ Communist Party's Movement at the end of 1965 the execution of the greater part of development projects was retarded/suspended except for economic infrastructure projects which required immediate completion.

Factors contributing to the aforesaid increase in expenditure were mainly:

- Price increases in general and adjustments of prices and rates on the basis of cost accounting principles which effected an increase in materiel expenditure and personnel expenditure.
- The salary increase of Government personnel as well as the increase in allowances inclusive of the additional allowance of 2 kg of rice in 1967 to add to their welfare.
- Expenditure for the restoration of security following the September 30/Communist Party's Movement.
- The effect of Government regulations such as the payment of an Export/Transfer Premium amounting to Rp. 9.75 for each US dollar of export proceeds) proceeds from invisibles surrendered to the Government.
- The provision of subsidies and additional working capital to public utilities which apparently could not yet be abolished.
- Rice purchases to secure an adequate national stock.
- Additional expenditure as a consequence of a change in the structure of the Cabinet and of State institutes.
- Payments on account of the Regional Export Premium.

The above mentioned facts indicate that routine expenditure does not only include personnel expenditure and materiel expenditure but also subsidies to state enterprises, incentives to promote production/export, subsidies to the provinces and for the supply of foodstuffs and textiles for public welfare.

Development expenditure apparently increased, in spite of economies and the emphasized priority on the completion of economic infrastructure projects. The reasons for the increase in development expenditure were among others:

- The rising cost of building material and services, so that the original estimated expenses for the projects became inadequate.
- Financial difficulties in 1965; therefore, payments on account of commitments which were chargeable to the 1965 Budget, were actually charged to the 1966 Budget.
- Expenses involved with the reception and transfer of personnel of retarded projects.
- Special projects which in view of their urgency and of a new arrangement effective since July 28, 1966, were included in the Development Budget.
- Expenditure on account of foreign debt repayments for projects under construction and for the countervalue of imports to complete the developments projects.

Although in money terms Budget expenditure continued to rise, with respect to a few items the Government nevertheless succeeded to economize, particularly in 1967, i.e. in regard to:

- Personnel expenditure (salaries and pensions) payable abroad. Materiel expenditure incurred abroad.
- Foreign debt repayments as a result of foreign debt rescheduling.
- The cancellation of expenditure with respect to the preparations for the elections.

Budget revenue

Similar to expenditure, actual Budget revenue in the last two years increased continuously and always exceeded the budget estimates. Actual Budget revenue during the aforesaid period developed as follows (in million rupiahs):

<i>Year</i>	<i>Estimated Budget Revenue</i>	<i>Actual Budget Revenue</i>
1965	821	923
1966	7,550	13,142
1967	84,150	84,900

Compared with the preceding year, Budget revenue in 1966 and 1967 increased by Rp. 12,219 million (1,324%) and Rp. 71,758 million (546%) respectively. In absolute terms, revenue increased continuously, however, in relative terms i.e. compared with

TABLE 7 - BUDGET REVENUE
1965 - 1967
(in million Rupiahs)

	1965			1966			1967		
	Budget estimate *)	Actual Revenue	Actual revenue 1965 minus actual revenue 1964	Budget estimate *)	Actual revenue	Actual revenue 1966 minus actual revenue 1965	Budget estimate *)	Actual revenue	Actual revenue 1967 minus actual revenue 1966
<i>Direct taxes :</i>	177	269	+ 197	920	1,790	+ 1,521	15,820	16,816	+ 15,026
1. Income tax	15	43	+ 15	300	640	+ 597	3,019	3,130	+ 2,490
2. Corporate tax	100	85	+ 44	500	611	+ 526	10,336	10,808	+ 10,197
3. Tax on land yield, subscription to regional development	1	3	+ 2	120	520	+ 517	2,000	2,137	+ 1,617
4. Other direct taxes	61	138	+ 136	P.M.	19	- 119	465	741	+ 722
<i>Indirect taxes :</i>	446	604	+ 432	4,462	10,744	+ 10,140	40,801	42,018	+ 31,274
1. Sales tax	100	101	+ 76	500	1,717	+ 1,616	4,716	5,069	+ 3,352
2. Excise	87	133	+ 92	800	2,220	+ 2,087	7,299	7,657	+ 5,437
3. Import duties	56	52	+ 18	842	3,689	+ 3,637	16,259	16,901	+ 13,212
4. Export tax, B.E. rate differential	—	—	—	P.M.	1,966	+ 1,966	10,617	10,602	+ 8,636
5. Stamp duty, levy on credits granted	13	20	+ 17	900	219	+ 199	—	722	+ 503
6. Contribution for luxury goods	4	16	+ 16	20	115	+ 99	—	220	+ 105
7. DWIKORA special obligatory contribution, contribution for trans Sumatra highway	10	57	+ 57	10	57	—	1,910	16	— 41
8. Duty on the transfer of motor vehicles	—	—	—	—	—	—	—	507	+ 507
9. Other indirect taxes	176	225	+ 156	1,390	761	+ 536	—	324	+ 437
<i>Other revenue :</i>	48	50	+ 11	135	608	+ 558	27,529	26,066	+ 25,458
1. Foreign loans	—	—	— 1	—	—	—	25,580	24,689	+ 24,689
2. Profit of state enterprises	10	5	+ 4	20	9	+ 4	18	19	+ 10
3. Revenue of Departments	10	9	—	20	540	+ 531	—	—	— 540
4. Central Bank/Bureau of Foreign Exchange Transactions/Foreign Exchange Fund	—	36	+ 8	75	59	+ 23	—	—	— 59
5. Other	28	—	—	20	—	—	1,931	1,358	+ 1,358
<i>Total revenue</i>	671	923	+ 640	5,517	13,142	+ 12,219	84,150	84,900	+ 71,758

*) Data of the Master Budget only. since specified data of the Supplementary Budget are not available

Source: Department of Finance.

revenue in the preceding year, the rate of increase in 1967 was lower. Nevertheless, the relative increase in revenue in 1966 and 1967 was still higher than the relative increase in expenditure for the same period. Therefore, the deficit in 1966 and 1967 compared with expenditure as well as revenue, had declined. Actual revenue in 1966 and 1967 were respectively 174% and 101% of the Budget estimates. To achieve the revenue target as determined in the 1966 Budget, on December 31, 1965 a Government Regulation in lieu of Act No. 2 of 1965 concerning the Government Policy on Budget Revenue was promulgated. As a matter of fact, it contained measures to tap new sources of Budget revenue and a modification of existing tax regulations which i.e. include:

- an authorization to the Minister of Budget Contributions to impose a surcharge on import duties;
- an increase in the rates of excise and other taxes;
- a new levy in the form of Revolution Stamps (contributions made on the delivery of goods).

Other efforts were i.e.:

- an increase in the gasoline and kerosene prices which later had to be reduced again;
- an increase in the prices and rates charged by state enterprises as a consequence of the application of cost accounting principles;
- the foreign exchange regulation of October 3, 1966, which provided the basis for a large increase in Budget revenue, viz. through the sale of export proceeds which were bought at the official rate of Rp. 10.- per US dollar and subsequently sold at the BE rate (BE rate differential/export tax).

In 1967 the efforts to increase Budget revenue were accompanied by attempts to intensify and to perfect the system and the administration of tax collection. Moreover, the following measures were taken:

- the customs valuation rate was adjusted from Rp. 10.- to Rp. 75.- per US dollar, which was later modified to Rp. 90.- and finally to Rp. 130,-;
- import duties were increased;
- new levies on selected import goods were introduced; the number of duty free import articles was reduced;

— imports were liberalized, this was expected to increase the imports of essential and semi-essential goods which were subject to higher customs duties.

In the process of implementation it appeared that the efforts of the Government towards an increase in revenue were not unsatisfactory, both in 1966 and in 1967. A complete picture of the development of Budget revenue is given in table 7. The table indicates that although in general all types of Budget revenue in 1966 increased, the major increase originated from indirect taxes, particularly sales tax, excise and customs duties. Moreover, profits from the sale of foreign exchange derived from exports i.e. the B.E. rate differential/export tax also appeared to be an important source of revenue. In 1967 the large increase in revenue still originated from indirect taxes, particularly import duties and excise due to an increase in the import duty rates and the adjustment of the customs valuation rate. Although the increase in revenue from sales tax (exclusive of oil) and from export tax/B.E. rate differential was not negligible, it did not reach the target determined in the Budget. This was due to a reduction in the percentage of sales tax in a few economic sectors for protective reasons as well as to the July 28, 1967 regulation which was designed to promote exports and provided for a larger share of B.E.'s to exporters and consequently reduced the foreign exchange proceeds surrendered to the Government (AMPERA Cabinet Presidium Decision No. 170/EK/KEP/7/ 1967 dated July 28, 1967 concerning the Revision of the Export Bonus Percentage). In 1967, proceeds from the sale of foreign exchange, derived from foreign aid were a major source of additional Budget revenue, although the amount was less than estimated, since the sales started only towards the end of the year. The increase in direct tax revenue was rather substantial due to intensified and improved collections. The largest increase in direct tax revenue originated from corporate tax, particularly derived from oil companies.

From the above mentioned explanation may be concluded that on the whole, Budget revenue during the last two years showed a favorable development, and through intensified collection as well as through an expansion of tax incidence both with respect to direct and to indirect taxes, Budget revenue is expected to increase further.

Government domestic debt

Government domestic debt outstanding during the period under re also tended to increase, the largest increase occurred in 1966.

The table below reveals that Government debt increased by Rp. 16,378 million in 1966 and Rp. 14,111 million in 1967, so that the amount of Government debt outstanding at the end of the aforesaid years was Rp. 19,311 million and Rp. 33,422 million respectively.

TABLE 8 - GOVERNMENT DEBT POSITION
(in million Rupiahs)

End of:	Consolidated debt	Floating debt	Total debt	Movements
1965	735	2,198	2,933	+ 2,291
1966	519	18,792	19,311	+ 16,378
1967	503	32,919	33,422	+ 14,111

Source : Department of Finance and B.N.I. Unit I.

TABLE 9 - FLOATING DEBT
(in million Rupiahs)

	1965	1966	1967
1. Debt to B.N.I. Unit I	2,195	18,790	32,917
2. Currency issued by Government	2	2	2
3. Debt to importers (prepayments to Foreign Exchange Fund)	—	—	—
4. Treasury bills and notes	1	—	—
Total :	2,198	18,792	32,919

Source : B.N.I. Unit I.

The increase in Government debt was entirely due to an increase in floating debt which increased by Rp. 16,594 million in 1966 and Rp. 14,127 million in 1967. Consolidated debt was reduced by Rp. 216 million in 1966 and Rp. 16 million in 1967 on account of redemption.

The increase in Government floating debt was entirely, due to an increase in advances from B.N.I. Unit I for the financing of the Budget deficit during the period under report. The aforesaid advances from B.N.I. Unit I increased by Rp. 16,595 million in 1966 and by Rp. 14,127 million in 1967. The change in other components of floating debt was negligible, except with regard to Treasury notes and bills which were reduced by Rp. 1 million in 1966, the other items were unchanged. Unlike floating debt which increased continuously, Government consolidated debt tended to decline. This happened because during the period under report the Government did not incur new debts, but on the contrary paid redemptions.

The table above shows that the decrease in Government consolidated debt was mainly due to the decline in the 3% loan against blocked accounts owing to redemptions of Rp. 209 million in 1966 and Rp. 9 million in 1967. The 6% 1959 lottery bonds decreased by Rp. 5 million each year during the period under report, while the former B.N.I. Bonds (1972 and 1974) decreased by Rp. 1 million respectively in each year.

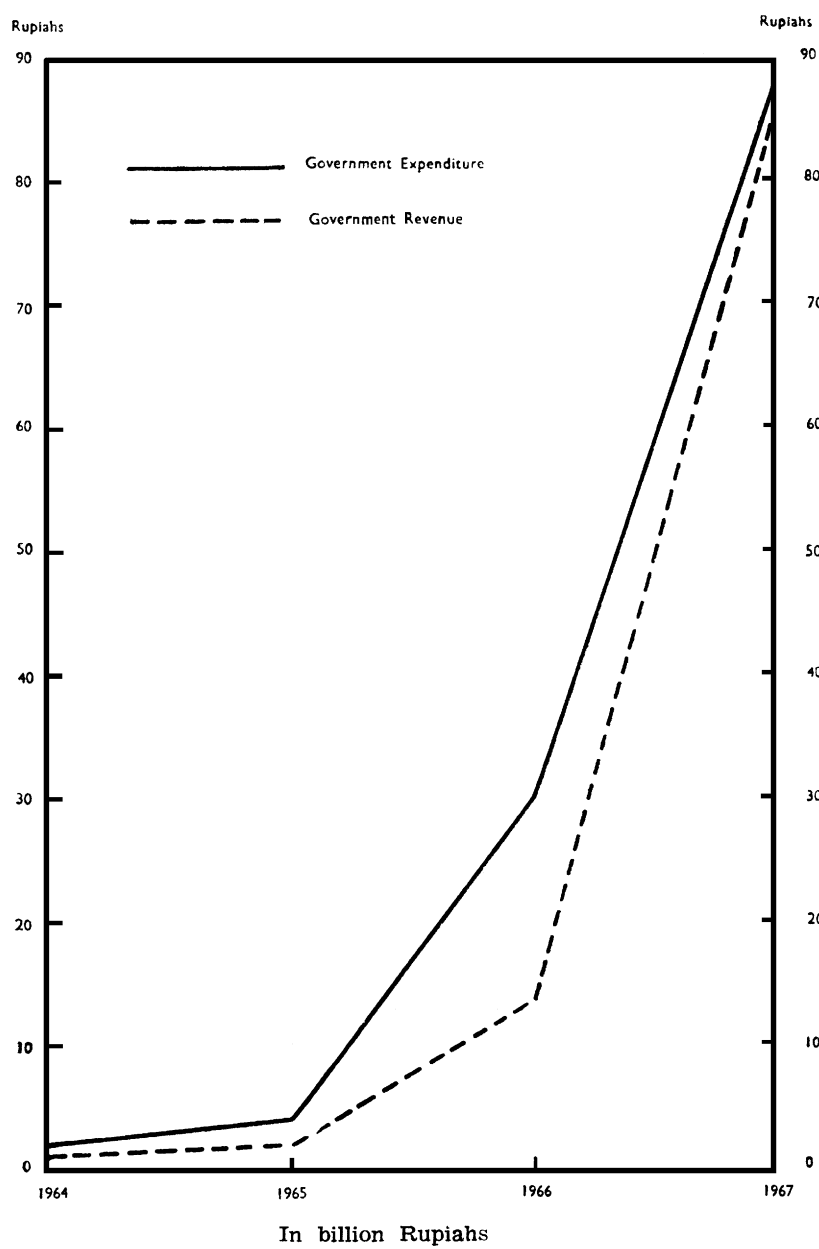
TABLE 10 - CONSOLIDATED DEBT
(in million Rupiahs)

	1965	1966	1967
1. 3% 1950 R.I. Loan	92	92	92
2. B.N.I. Unit I	3	3	3
3. 3½% 1959 Loan against blocked accounts	546	337	328
4. 6% 1959 Lottery Bonds	79	74	69
5. 15% 1964 Confrontation Loan	—	—	—
6. 6% 1965 Development Loan	1	1	1
7. Former BIN Bonds : 1972	7	6	5
1974	7	6	5
Total :	735	519	503

Source : Department of Finance and B.N.I. Unit I.

Other consolidated debt was either unchanged, or declined by an insignificant amount. Until the end of the year under report, the 3 1/2 % loan against deposits blocked in 1959 was still the major component of consolidated debt, i.e. Rp. 328 million, successively followed by the 3% 1950 loan of the Republic of Indonesia amounting to Rp. 92 million and the 6 % 1959 lottery bonds amounting to Rp. 69 million. Other loans amounted to Rp. 5 million or less.

CHART I — BUDGET EXECUTION



IV. BANKING

Introduction

In article 55 of the MPRS Decision No. XXIII/MPRS/66 was mentioned that in the framework of, safeguarding the state finances in general and the control and restoration of the banking system in particular, the immediate promulgation of an Act concerning the Principal Regulations on Banking and an Act concerning Central Banking was imperative. Pursuant to the MPRS decision the bills concerning the Principal Regulations on Banking, concerning Central Banking and concerning the respective state banks were therefore drafted in 1966 and 1967.

The aforesaid bills were submitted to Parliament by the Government and in 1967 they were put up for discussion. Until the end of 1967, of the three bills only the bill concerning the Principal Regulations on Banking was promulgated as Act No. 14/1967 and was declared effective as of January I, 1968, by the Minister of Finance. In the meantime, penciling the ratification of the Central Banking Act, in 1966 it was decided that Bank Negara Indonesia Unit I would again function as the Central Bank, whereas the other units of Bank Negara Indonesia as well as Bank Dagang Negara would operate in accordance with the old Acts regarding their establishment.

In the framework of providing greater opportunities to the private sector to mobilize funds within the community, the Decision of the Deputy Minister of Control of Private Banks and Capital No. 020/SK/DUPBMS/66 dated July 13, 1966 enabled again the opening of new bank offices (head offices as well as branch offices) in Djakarta, Surabaya, Medan, Palembang, Makasar, Semarang and Bandung, based upon the following conditions :

- 1) Paid-up capital should be not less than Rp. 3 billion (old money).
- 2) Moreover a time deposit must be paid to Bank Negara Indonesia Unit I; for head/branch offices in Djakarta, Surabaya and Medan it should amount to not less than Rp. 5 billion (old money) and for those in Makasar, Palembang, Semarang and Bandung it should be not less than Rp. 3 billion (old money).

The obligation of the deposit payment was meant as a “guarantee” that in the future the founders would sincerely assume responsibility for the bank they had established. The payment of the deposit was therefore subject to the following rule :

1. The deposit must be paid on behalf of one/several prospective stockholders of the bank and was not transferable.
2. The interest rate applicable to time deposits of not less than 1 (one) year was 12% per annum; the interest rate applicable to other time deposits would be determined on that basis; the said deposits were subject to extension for the duration of the bank's existence.

Furthermore, the Board of Directors of Bank Negara Indonesia Unit I issued Decision No. 2/13 Kep. Dir. dated October 5, 1966, which set forth the provisions for the establishment of new head/branch offices of banks in Jogjakarta, Sala, Tjirebon, Malang, Padang, Telukbetung, Tandjungkarang, Bandjarmasin, Pontianak and Menado, subject to the following conditions:

1. Paid-up capital should be not less than Rp. 1 million (new money) for the establishment of a head office plus an additional amount of Rp. 500,000 (new money) for a branch office.
2. Besides, for a head office, to Bank Negara Indonesia Unit I there must be paid Rp. 1 million (new money) as a time deposit.

With respect to the establishment of new head and branch offices of banks in towns other than those mentioned above and those listed in the Decision of the Deputy Minister of Control of Private Banks and Capital No. 020/SK/DUPBMS/66 it was stipulated that a paid-up capital of not less than Rp. 500 thousand (old money) was required to establish a new head office plus an additional amount of Rp. 250 thousand for a branch office.

In the framework of stimulating foreign investment in order to increase the resources for the financing of productive activities and to promote banking activities in Indonesia, by Instruction No. 31/EK/IN/5/1967 dated May 27, 1967, the Presidium of the Cabinet instructed the Minister of Finance and the Governor of the Central Bank to issue operating permits to a few foreign banks to operate in Indonesia in the field of international payments transactions, either as a branch office of an existing bank abroad or as a joint venture of a foreign bank and a national bank in Indonesia. The aforesaid instruction also limits the number of foreign banks and confines their location to Djakarta only.

Development of banking institutions

General

In 1966 and in 1967 there were no meaningful changes in the structure of banking institutions in Indonesia. From the point of view of their ownership, there were 3 (three) categories of banks in Indonesia, i.e. State owned, privately owned and jointly - owned by the (Regional) Government and private individuals.

Act No. 14/67 concerning the Principal Regulations on Banking mentioned the existence of foreign banks and cooperative banks, and in 1967 the Government in principle permitted the establishment of branches of several foreign banks in Indonesia; however, until the end of the same year none had started operations. From the point of view of their function, there were actually no changes either, although in 1966 and 1967 there were several consolidations and perfections, i.e.

1. The confirmation that Bank Negara Indonesia Unit I would function again as the Central Bank, while the other units of Bank Negara Indonesia as well as Bank Dagang Negara would conduct their business in agreement with the old Acts by which the relevant banks had been established.
2. In Act No. 14/1967 it is mentioned that in accordance with their functions, banks are distinguished into :
 - a. The Central Bank, i.e. Bank Indonesia as referred to in the 1945 Constitution, and which would be further regulated in a separate Act.
 - b. Commercial banks, i.e. banks which with respect to the attraction of funds mainly, depend upon demand deposits and time deposits and which with respect to their operations emphasize on short term credits.
 - c. Savings banks, i.e. banks which with respect to the accumulation of funds mainly depend upon savings deposits and which invest their funds primarily in securities.
 - d. Development banks, i.e. banks which with respect to the attraction of funds mainly depend on savings deposits and/or the issue of medium and long-term securities, and mainly grant medium and long term credits in the field of development.
 - e. Village banks, market banks, employees banks and other banks placed on a par with them.

TABLE 11 - GROWTH OF STATE - OWNED COMMERCIAL BANKS IN 1965, 1966 AND 1967

	End of 1965															
	End of 1965					End of 1966					End of 1967					
	BKTN	BNI	BUNEG	BDN	Total	BNI Unit II	BNI Unit III	BNI Unit IV	BDN	Total	BNI Unit II		BNI Unit III	BNI Unit IV	BDN	Total
											Rural	Export Impct				
1. Djakarta Raya	8	56	4	3	71	19	81	4	4	108	18	2	61	5	4	90
2. West Jawa	29	29	2	2	62	25	33	4	3	65	22	3	33	4	3	65
3. Central Jawa	35	33	1	3	72	22	23	1	1	47	21	1	23	2	1	48
4. Jogjakarta	3	3	—	—	6	15	22	—	1	38	15	—	22	—	1	38
5. East Jawa	33	19	6	2	60	32	24	6	5	67	29	3	24	6	5	67
6. Atjeh	5	9	—	3	17	7	11	—	4	22	7	—	11	—	4	22
7. North Sumatra	13	11	1	4	29	9	12	2	4	27	8	1	12	4	4	29
8. West Sumatra	6	20	—	1	27	4	7	—	1	12	3	1	7	1	1	13
9. Riau	7	12	—	1	20	12	32	—	1	45	12	1	32	1	1	47
10. Djambi	5	2	1	1	9	4	5	1	1	11	3	1	5	1	1	11
11. South Sumatra	13	4	1	3	21	14	6	1	3	24	12	2	6	1	3	24
12. Lampung	4	4	1	1	10	8	4	1	1	14	7	1	4	1	1	14
13. West Kalimantan	4	5	1	—	10	4	7	1	1	13	2	2	7	1	1	13
14. Central Kalimantan	2	3	—	1	6	3	6	—	—	9	3	—	6	—	—	9
15. South Kalimantan	6	7	1	1	15	2	1	—	1	4	—	—	1	—	1	2
16. East Kalimantan	3	1	—	1	5	13	12	1	3	29	12	1	12	1	3	29
17. North Sulawesi	6	5	—	4	15	8	9	—	8	25	7	1	9	1	6	24
18. Central Sulawesi	4	3	—	1	8	4	3	—	—	7	4	—	3	—	3	10
19. South Sulawesi	8	4	1	1	4	10	14	1	2	27	9	1	14	1	2	27
20. South East Sulawesi	2	1	—	—	3	1	2	—	—	3	1	—	2	—	—	3
21. Bali	5	5	—	—	10	9	5	—	—	14	9	—	5	—	—	14
22. West Nusa Tenggara	4	3	—	—	7	5	5	—	1	11	5	—	5	—	1	11
23. East Nusa Tenggara	4	—	—	1	5	6	—	—	1	7	6	—	—	—	1	7
24. Maluku	1	2	—	—	3	2	4	—	1	7	2	—	4	—	1	7
25. West Irian																
	210	241	20	34	505	238	328	23	47	636	217	21	308	30	48	624

Source : Bank Negara Indonesia Unit I.

Since the stipulations mentioned in the relevant Act would take effect only as from January 1, 1968, actually until the end of 1967 there were no principal structural changes in the banking institutions in Indonesia

In a conference attended by representatives of the Central Bank, the State banks, the Regional Development Bank of Djakarta Raya which represented the regional development banks, and PERBANAS which represented the national private banks, on August, 19, 1967 a forum of banks was created and given the name of “Badan Musjawarah Perbankan” (BMP = Consulting Body *of* Banks). B.M.P. was created to achieve a sound and orderly banking system and to assist the Government in the economic / monetary field. In order to achieve the said goals B.M.P. would conduct :

- periodical consultations to solve banking problems;
- examinations/research on all banking operations and the effects of such operations;
- recommendations in the economic/monetary field which involve the banking business for submission to the Governor of the Central Bank;
- cooperation and coordination among the banks in the context of the execution of their duties.

The members of B.M.P. were representatives of bank / banking organizations and initially included 11 persons, i.e. each state bank (inclusive of Bank Negara Indonesia Unit I) was represented by one member, the Regional Development Bank of Djakarta Raya which represented the regional development banks was represented by one member, and the private national banks were represented by three members.

B.M.P. was not only established in Djakarta, but also in the provinces for the time being in each operation area of the branch managers of B.N.I. Unit I with the exception of West Irian. Until the end of 1967, 20 regional B.M.P.'s had been established, i.e.:

- | | |
|-----------------|---------------|
| 1. Ambon | 11. Malang |
| 2. Ampenan | 12. Medan |
| 3. Bandjarmasin | 13. Menado |
| 4. Bandung | 14. Padang |
| 5. Banda Atjeh | 15. Pekanbaru |
| 6. Djambi | 16. Palembang |
| 7. Djember | 17. Pontianak |
| 8. Jogjakarta | 18. Sala |
| 9. Kediri | 19. Semarang |
| 10. Makasar | 20. Tjirebon |

State-owned commercial banks

Until the end of 1967, there were still 4 (four) state-owned commercial banks, viz.:

1. Bank Negara Indonesia Unit II
2. Bank Negara Indonesia Unit III
3. Bank Negara Indonesia Unit IV and
4. Bank Dagang Negara.

Meanwhile, by Instruction No. 017/11/In/171967 of the Cabinet Presidium dated January 28, 1967, it was determined that the Export-Import Department of B.N.I. Unit II would be separated into a single and independent unit. Measures to implement the instruction had been taken and were completed at the end of the first quarter of 1967. In connection with the separation, the Government submitted 5 (five) bills regarding the state banks, i.e.:

1. a bill concerning Bank Rakjat Indonesia for the transformation of Bank Negara Indonesia Unit II (Rural).
2. a bill concerning Bank Ekspor-Impor Indonesia for the transformation of B.N.I. Unit II (EKSIM).
3. a bill concerning Bank Negara Indonesia 1946 for the transformation of B.N.I. Unit III.
4. a bill concerning Bank Bumi Daya for the transformation of B.N.I. Unit IV.
5. a bill concerning Bank Dagang Negara for the transformation of B.D.N.

In order to reintroduce the principle of cost accounting and efficiency in expanding the activities of state-owned commercial banks, by instruction of the Deputy Minister of Central Bank Affairs/Bank Negara Indonesia No. Instr. 1/DMUBS/ 66 dated April 21, 1966, it was decided to suspend the planning and preparations for the opening of new branch offices, with the understanding that branch offices for which preparations were mature, may be opened. Moreover, the activities of the existing branch offices were reassessed so that in 1967 several branch offices of state-owned commercial banks had to be closed down, since they did not comply with the afore mentioned principle of efficiency.

In 1967, state-owned commercial banks were again provided with the opportunity to establish branch offices; however, permission would only be given if and in so far as the opening of such branch offices was justified by the needs, both from the point of view of the bank itself to expand its business and from the point of view of the area in which the branch offices were to be located.

The development and the spread of the offices of state-owned commercial banks is illustrated in table 11 The aforesaid table reveals that :

- The number of B.N.I. Unit II offices increased from 210 at the end of 1965 to 238 at the end of 1966 and 240 at the end of 1967. The figure allows for the closing of one of its offices at Sangsang in 1967.
- The number of B.N.I. Unit III offices increased from 241 at the end of 1965 to 328 at the end of 1966, however, the number decreased to 308 at the end of 1967. The decline in the number of B.N.I. Unit II offices in 1967 was due to the liquidation of part of its branch offices in Djakarta.
- The number of B.N.I. Unit IV offices increased from 20 at the end of 1965 to 23 at the end of 1966 and 30 at the end of 1967.
- The number of Bank Dagang Negara offices increased from 34 at the end of 1965 to 47 at the end of 1966 and 48 at the end of 1967.

Private commercial banks

Through the month of July 1966, the notification of the Minister of Control of Private Banks and Capital No. 4 dated August 29, 1964 in which was stipulated that the cities of Djakarta, Bandung, Semarang, Surabaya, Medan, Palembang and Makasar were declared as closed cities with respect to the establishment of new private banks, both for their head offices and for their branch offices, was still in force.

In the month of July 1966, the Decision of the Deputy Minister of Control of Private Banks and Capital No. 020/SK/DUPBMS/1966 dated July 13, 1966, was issued which stipulated that the opportunity was provided again to establish head offices and branch offices of private banks in the aforementioned cities, the requirements with regard to capital, however, were high. Moreover, the Decision of the Board of Directors of B.N.I. Unit I No. 2/13 Kep. Dir. dated October 5, 1966, stipulated new requirements for the establishment of head offices and branch offices of private banks in other towns.

Due to the opportunity to establish head offices as well as branch offices of private banks in the cities mentioned above, 37 new private banks and 55 new branch offices of private banks were established in 1966 and 1967 while 21 representative offices were transformed into branch offices.

Meanwhile there were also private banks which had to close down in 1966 and 1967, viz. 3 head offices and 8 branch offices.

TABLE 12 - NUMBER OF OFFICES OF THE PRIVATE COMMERCIAL BANKS IN 1966 / 1967 CLASSIFIED ACCORDING TO THE SPHERE OF OPERATIONS OF THE BRANCH OFFICES OF BANK NEGARA INDONESIA UNIT I

	1965				1966				1967			
	Head offices	Branch offices	Representative offices	Total	Head offices	Branch offices	Representative offices	Total	Head offices	Branch offices	Representative offices	Total
1. Djakarta Raya and its environs	45	19	5	69	47	25	2	74	60	34	—	94
2. Ambon	—	1	—	1	—	2	—	2	—	2	—	2
3. Ampenan	—	—	—	—	—	—	—	—	—	1	—	1
4. Banda Atjeh	—	4	—	4	—	4	—	4	—	4	—	4
5. Bandjarmasin	4	3	4	11	4	6	6	16	4	8	—	12
6. Bandung	4	6	—	10	7	7	—	14	13	10	—	23
7. B i a k	—	—	—	—	—	—	—	—	—	—	—	—
8. Djambi	—	1	1	2	—	1	—	1	—	1	—	1
9. Djember	—	—	—	—	—	1	—	1	—	1	—	1
10. Jogjakarta	2	3	1	6	2	7	—	9	2	7	—	9
11. Kediri	—	—	—	—	—	—	—	—	—	1	—	1
12. Kupang	—	—	—	—	—	1	—	1	—	1	—	1
13. Makasar	4	10	—	14	4	10	—	14	5	10	—	15
14. Malang	—	6	—	6	—	6	—	6	1	8	—	9
15. Manokwari	—	—	—	—	—	—	—	—	—	—	—	—
16. Medan	8	9	2	19	8	11	2	21	9	16	—	25
17. Menado	3	5	5	13	3	6	5	14	3	11	—	14
18. Merauke	—	—	—	—	—	—	—	—	—	—	—	—
19. Padang	2	1	3	6	2	3	1	6	2	5	—	7
20. Pekanbaru	—	1	—	1	—	1	—	1	—	—	—	—
21. Palembang	2	4	—	6	2	4	—	6	2	3	—	5
22. Pontianak	—	2	—	2	1	3	1	5	1	4	—	5
23. Sabang	—	—	—	—	—	—	—	—	—	—	—	—
24. Sala	4	4	2	10	4	5	2	11	5	7	—	12
25. Samarinda	1	2	2	5	1	—	—	1	1	4	—	5
26. Semarang	2	14	2	18	2	16	—	18	2	17	—	19
27. Sorong	—	—	—	—	—	—	—	—	—	—	—	—
28. Sukarnapura	—	—	—	—	—	—	—	—	—	—	—	—
29. Surabaya	4	20	2	26	5	23	2	30	7	26	—	33
30. Telukbetung	1	3	—	4	2	4	—	6	2	5	—	7
31. Tjirebon	1	1	—	2	2	3	—	5	2	1	—	3
	87	119	29	235	96	149	21	266	121	187	—	308

Source : Bank Negara Indonesia Unit I.

The development and the spread of offices of private commercial banks can be observed in table 12.

If the figures of the aforementioned table are compared with the figures as at the end of 1965, it appears that the number of head offices of private commercial banks increased from 87 at the end of 1965 to 96 at the end of 1966 and to 121 at the end of 1967. The total number of branch offices of private commercial banks increased from 119 at the end of 1965 to 149 and 187 at the end of 1966 and 1967, respectively. The major part of those private bank offices was located in cities such as Djakarta, Surabaya, Semarang and Medan.

By virtue of Presidium Instruction No. 31/EK/5/1967, in 1967 permissions in principle, i.e. permissions to make arrangements for establishment, were given to 11 branches of foreign banks and one joint bank. Of all the banks which obtained such permission, until the end of 1967 none had commenced business.

Savings banks

With regard to their ownership, the savings banks could be distinguished into two types, i.e. the state owned savings bank and the privately owned savings banks.

There was only one State savings bank, namely Bank Negara Indonesia Unit V with 7 branch offices. One of those branch offices was located in West Irian. The number of branch offices of Bank Negara Indonesia Unit V was constant in 1966 and 1967.

As was the case with the private commercial banks, since July 1966 there was an opportunity to establish private savings banks in the cities. However, because of the then prevailing inflation it was very difficult to attract savings; therefore, no private savings banks were set up in 1966 and 1967. As a matter of fact, 2 private savings banks inclusive of 4 branch offices were even transformed into commercial banks. The private savings banks in 1965 consisted of 14 head offices and 14 branch offices. At the end of 1967 there were 12 head offices and 10 branch offices.

Development Banks

In regard of their ownership, the development banks could be classified into three groups, i.e.:

- the State-owned development bank;
- the privately-owned development bank;
- (development banks jointly owned by the Regional Government and private individuals (Regional Development Banks).

There was one State-owned development bank, i.e. the Development Bank of Indonesia with 20 branch offices. This number did not change in 1966 and 1967.

There was also one private development bank and since its establishment in 1962 until the end of 1967 it did not have a branch office. With the promulgation of the Act concerning the Principal Regulations on Banking, this private development bank, which had been established by an Act, had to be restored to its original status of a private corporate body.

The number of head offices of regional development banks until the end of 1967 did not change and was still 23. Since there were 25 provinces, it may be noted that two of them did not have established a regional development bank, i.e. the provinces of Central Sulawesi and Southeast Sulawesi; however, a branch office of the Regional Development Bank of South Sulawesi was established in each of the aforesaid provinces. In 1966 and 1967 three branch offices of the Regional Development Bank were established in Nusatenggara, so that the number of branch offices of the Regional Development Banks all over Indonesia became 21.

Secondary banks

Secondary banks include :

- Village banks
- Paddy banks
- Market banks
- Employees banks
- Co-operative banks
- Other banks which may be put on a par with the aforementioned banks.

In Act No. 14/67 concerning the Principal Regulations on Banking, it was stipulated that the regulations applicable to secondary banks would be provided for in a separate act; however, until the end of 1967 the said Act had not been promulgated, so that in regard of their legal status until the end of 1967 the secondary banks still consisted of two groups, i.e.:

TABLE 13 - NUMBER OF SECONDARY BANKS
IN INDONESIA

	1966	1967*)
1. Village banks	4,023	3,917
2. Paddy banks (lumbung desa)	2,691	2,854
3. Market banks	8	8
4. Cooperative banks	—	—
5. Personnel banks	—	—
6. Other similar banks	—	—
Total	6,722	6,779

*) Provisional figures

Sources: Bank Negara Indonesia Unit I.
Bank Negara Indonesia Unit II.

1. Those established and licensed on the basis of Government Gazette No. 357 of 1929 (secondary banks owned by the village).
2. Those established and licensed by the Minister of Finance on the basis of "besluit kwalifikasi".

The Central Bank data on the development or me number of secondary banks are reported in table 13.

Supervision of banks

Early in 1966, by Presidential Decrees No. 63 and No. 64 of 1966 the Perfectionized DWIKORA Cabinet" was inaugurated. In that Cabinet, under the Minister of Finance there were among others the Deputy Minister of the Central Bank and the Deputy Minister of Control of Private Banks and Capital, whose duties were similar to the previous ministers of those affairs. Therefore, at that time the dualism with respect to banking supervision and guidance as illustrated in the report for 1960 - 1965 was still in existence.

In the framework of reorganizing the structure of the Government in accordance with the 1945 Constitution, by virtue of Presidential Decree No. 163/1966 on the formation of the AMPERA Cabinet, among others the Minister as well as the Deputy Ministers of the Central Bank and of Control of Private Banks and Capital were omit-

ted from the aforementioned Cabinet and the Central Bank was established as one of the highest State Institutions outside the State Administration. Pursuant to this decision, banking supervision and guidance were practically completely with the Central Bank which meant a return of the legal basis of banking control to the 1953. Act concerning the Principal Regulations of Bank Indonesia and Government Regulation No. 1/1955. With respect to the Development Bank of Indonesia, the Decision of the Presidium Minister of Economic and Financial Affairs No. Kep. 32/Menku/IV/1967 stipulated that the daily supervision of the aforesaid banks was to be effected by the Minister of Finance and the Governor of the Central Bank.

As mentioned earlier, at the end of 1967 the Bill concerning the Principal Regulations on Banking was ratified and promulgated as Act No. 14/1967. In the aforementioned Act it was clearly stipulated that the supervision and guidance of all types of banks in Indonesia was entrusted to the Central Bank, while the authority to issue permits was with the Minister of Finance.

In 1966 the Central Bank took drastic measures with respect to the activities of the state banks. The members of the management of the state banks were screened, and firm actions were also taken against all officials involved in embezzlements and manipulations. In the context of such measures, the possibility to create confusion between the various investigating institutions which might adversely affect the development of the banking system in general, was carefully prevented.

In the interest of the development of the banking system, the solution of the problems in which banks were involved should be kept within reasonable proportions, whereby the provisions of the Act on Banker's Discretion should be taken into consideration.

Accordingly, without prejudice to the execution of the duties of the respective investigating institutions, it was considered necessary to coordinate to the best possible extent the institutions concerned and the Central Bank, so that an issue in which the banking system was involved would not be settled without regard to its main objective, i.e.: to guide the banks towards a sound development. In this context, by a Joint Decision of the Minister/Commander of the Police Force, the Attorney General and the Governor of Bank Negara Indonesia No. Kep. 10/GBNI/67 dated May 24, 1967, a Special Inspection Team of Bank Negara Indonesia was set up, the members of which

were officials of the Police Force, the Office of the Attorney General, the Central Bank and the other State Banks. The Team executed its duties energetically and the result of such activities was the reason why many of the issues in which the banks were involved, could be clarified and settled by the Court of Justice, followed up by administrative punishment of the bank officials by the management of the bank concerned. This process is presently still going on.

By a Joint Decision of the Commander of the Police Force, the Attorney General and the Governor of the Central Bank No. Poll 151/Sk/ Menpangak/1967, No. Kep. 102/DA/12/1967 and No. Kep. 21/GBNI/67 dated December 4, 1967, in the fourth quarter of 1967 the Special Inspection Team was given additional duties so that its activities also covered private banks and regional development banks. In the 1st quarter of 1968 it started to investigate the embezzlements which had taken place in several private banks. The investigation, entrusted by the private banks to the Special Inspection Team, revealed that the majority of the embezzlements were practices which may be defined as “a bank within a bank”, viz. certain individuals within the banks accepted and invested deposits from the public without entering them in the accounts of the bank. In this connection the Special Inspection Team distinguished two types of cases:

- a. Embezzlements whereby the formal requirements of the bank or those of the customer with respect to his relation with the bank complied with the conditions customary in banking, so that the bank as it were was also directly responsible for the embezzlement.
- b. Embezzlements whereby the formal requirements of the customer were not in compliance with the conditions customary in banking, so that one could say that only certain individuals within the bank were involved, while the bank itself could not be held directly, responsible.

Since the Special Inspection Team was entrusted with the investigation of criminal acts committed by the individuals as reported by the management of the banks concerned, the decision of these cases therefore was left to the judge in a session of the court.

Until now, efforts to prevent such embezzlements are still being carried out by the Central Bank through intensified supervision and guidance of the banks. Moreover, the Central Bank is also introducing a system designed to prevent such embezzlements.

In 1967 drastic measures were also taken against the private banks of which the attitude or activities had an adverse impact upon the development of the banking system in particular and upon the public in general. Besides submitting the results of the investigations to the respective banks accompanied by directives, instructions and warnings, at a certain time the Central Bank was necessitated to suspend a few bank from the clearing of interbank indebtedness. Since all such directives, instructions and warnings were ignored or inadequately complied with by the management of several banks, as a consequence, at a certain moment the banks concerned were unable to regulate and manage their liquid assets to the best possible extent. This may be concluded from the daily clearing transactions whereby the relevant banks could not settle their outstanding commitments resulting from the clearing of interbank indebtedness. Actually, settlements through clearing operations reflect a bank's management with respect to its liquid assets, so that the management of the banks in this regard may be evaluated from the results of the daily settlements through clearing operations. The effective regulations governing the clearing of interbank indebtedness are the rules of the game among the participants, and are based upon certain conditions. If such conditions are not fulfilled, the confidence of the participants in their mutual claims and debts will be lost. Since August 22, 1967, the Central Bank suspended 21 private banks from participation in clearing operations. As a consequence of the successive suspension of banks from clearing operations, a rush took place from the side of the public towards banks in general and towards those banks which were suspended in particular. This means that banks were confronted with a pressure on their liquidity which demanded an immediate solution. The suspension of the banks from participation in clearing operations was meant to force the said banks to act according to the rules of the game and to re-establish sound banking practices. Therefore, in order to solve the liquidity problem of the banks, the Central Bank introduced measures whereby the matter was judged from various angles, viz. from the point of view of the interest of the creditors, depositors of money with the banks and from the point of view of bank guidance which aimed at regaining the public's confidence in the banking system in general. The following measures were taken by the Central Bank:

- a. emergency liquidity credits were granted to banks which were suspended from clearing operations as well as to banks threatened by a liquidity problem by realistic standards and principles of accounting according to their latest balance sheet data. The granting of such credits was meant as an attempt to overcome the liquidity pressures at that time by encouraging the management of the relevant banks to increase the liquidity of their banks in the shortest possible time;

- b. the expansion of credit was suspended and the banks concerned were requested to withdraw their overdue loans;
- c. officers of the Central Bank were stationed at the relevant banks in order to provide the advice and guidance needed;
- d. attempts were made to get the banks to improve their organization and internal control and to get the commissioners of the respective banks to function as supervisors of the activities of the Board of Directors and its assistants;
- e. attempts were made to get the banks concerned to appoint an auditor to investigate and survey the bank in order that the Board of Directors of such a bank would be provided with a basis for the introduction of corrections in the bank.

The Central Bank introduced the aforesaid measures in order to transform the assistance into a basis for the internal improvements of the banks concerned, so that thenceforth we may expect to have a better banking system which operates according to the established rules of the game.

In 1966 and 1967, 380 banking inspections were carried out all over Indonesia, viz.:

	<i>Number of inspections:</i>		
	<i>1966</i>	<i>1967</i>	<i>Total</i>
— general inspection covering all the activities of the relevant banks	41	21	62
— special inspections to investigate/reveal certain facts with respect to the activities of the relevant banks	125	193	318
T o t a l	166	214	380

The inspection were conducted in Djakarta as well as in other cities.

In the framework of guiding the banks towards sound activities, the Central Bank issued several regulations in the following circular letters:

- Circular letters No. 2/124 UPP/SU dated December 3, 1966, and No. 2/151 UPP/SU dated December 15, 1966, on the execution/ Instruction of the Cabinet Presidium No. 15/EK/IN/10/1966 dated October 3, 1966. In the two circular letters it was determined that banks were prohibited to permit overdrafts. However, in the

event that such overdrafts existed, they were subject to a fine of 1% to per day. The purpose of the prohibition was that the banks would grant credits in accordance with their actual capacity and in conformity with the proper procedures. As a result of the aforementioned rule, the number of overdrafts with banks became much smaller than before.

- Circular letter No. 3/360 UPPB/PbB dated June 19, 1967, on the disposition of non-cash deposits. The great number of overdrawn checks as well as transfer orders very much increased the risk for the banks if cash payments to the debit of non-cash deposits would be allowed. Therefore, the Central Bank prohibited the banks to make cash payments to the debit of non-cash deposits.
- Circular letter No. 3/409/UPP/PbB dated July 6, 1967, on the regulation of liquidity. In 1967 it appeared that many banks were still unable to comply with the regulations governing the clearing of interbank indebtedness and the reason therefor was the unsound management of liquidity. Consequently, in this circular letter the Central Bank provided directives to the banks on how to operate in order to manage their liquidity carefully in conformity with sound banking practices.
- Circular letter No. 3/386 UPPB/PbB dated July I, 1967, on transfers. This circular letter was issued in order to regulate and to guide the banks with respect to the procedures on money transfers, since in practice undesired events frequently occurred, such as:
 - a. transfers were often not accompanied by a deposit so that the sending bank was unable to cover the paying bank; consequently, a liquidity problem arose at the bank receiving the transfer;
 - b. sometimes transfer so were effected not according to the procedures customary in banking, with the possible harmful effects upon the public.

Therefore the circular letter basically re-introduced sound transfer methods which would not create a liquidity problem for the receiving banks and would not be detrimental to the public in general.

- Circular letter No. 3/859 UPBB/PbB dated December 4, 1967, on inter-bank information and condensed financial statements of the banks. This circular letter contained a recommendation to the banks to intensify cooperation among state banks as well as private banks, particularly with respect to the exchange of information, the banks were moreover requested to compile and publish their condensed financial statement once every quarter. These measures would favorably effect the development of our banking system and would intensify social control of the banks.

Payments transactions checks

The attempts to promote payments transactions by checks very much attracted the attention of the Government c.q. the Central Bank. Various methods had been implemented in this respect, nevertheless, until then the amount of demand deposits was still below the amount of currency. There were external as well as internal reasons which explained why the attempts to promote payments by checks were not yet successful, i.e. the prevailing inflation and the weaknesses in the field of banking administration and operation. These frequently gave rise to embezzlements which reduced the public's confidence in the banking system. Therefore, besides the efforts which directly involved payments transactions by checks, in 1966 and 1967 efforts were also initiated to eliminate the reasons which hampered the development of payments transactions by checks.

In 1966 and 1967 several measures were introduced to promote payments transactions by checks, i.e.:

- Circular letter of the Deputy Minister of Control of Private Banks and Capital dated July 16, 1966 concerning transfer orders. In the said circular letter it was stipulated that the banks were obliged to issue transfer orders besides the existing payment orders. A transfer order is an instruction to transfer which means that the holder cannot cash it but has to deposit it with the bank to the credit of his account. Therefore, the obligatory use of transfer orders is expected to promote payments transactions by checks
- Circular letters No. 2/23 UPP/SU dated April 19, 1966, and No. 3/22 UPPB/PbB dated May 19, 1967, on the screening of prospective account holders and the checking with the black list. As a preventive measure in reducing the number of overdrawn checks, the banks were requested to screen prospective customers as far as their identity and address were concerned and also to check whether their names were not on the black list. In practice it appeared that if someone on the black list was accepted as a customer by another bank, he would continue to issue overdrawn checks. Therefore, the checking with the black list was very important for the banks to prevent overdrawn checks. The issue of the aforementioned instructions was also expected to end the opening of fictitious accounts which only served as a means for manipulations.
- Circular letter No. 2/49 UPP/SU dated July 12, 1966, on the issue of overdrawn checks by State banks, enterprises/institutions. To avoid misunderstanding and confusion, with

respect to the settlement of cases of this kind committed by State enterprises/institutions and banks (both State and private), the circular letter therefore emphasized that such institutions would receive equal treatment on account of their overdrawn checks; except, however, that their current accounts would not be liquidated.

- Circular letter No. 2/77 UPP/SU dated September 14, 1966, on the prohibition to use non-latin characters for the writing of checks, transfer orders and other negotiable documents. The circular letter was issued, since until then there were still customers of a few banks who used non-latin characters in filling out checks as well as transfer orders which caused difficulties on the part of the bank employees who served them, particularly if the ciphers were written in latin characters and the amount in words was written in other than latin characters. The circular letter indicated that after one month as of the date of that letter, checks or transfer orders written in characters other than latin would be rejected by the banks.
- Circular letter No. 3/448 UPPB/PbB of July 25, 1967, concerning checks drawn by banks upon the Central Bank. A few banks drew on their current account deposits with the Central Bank, in disregard of the available balance. Although the shortage may be offset by a balance in their favor resulting from the clearing of interbank indebtedness, or by a deposit on the same day, such checks are considered overdrawn. Therefore, pursuant to the aforesaid circular letter, such practices are prohibited and the checks will be rejected.
- Circular letter No. 3/24 UPPB/PbB dated March 2, 1967, on the clearing of interbank indebtedness centralized at the Central Bank. The circular letter was issued in connection with the execution of the decision of the Board of Directors of Bank Negara Indonesia Unit I No. 3/12 Kep./Dir. dated March 1, 1967, which stipulated that in Djakarta and in other cities a Clearing Institute would be established to execute the local clearing of interbank indebtedness centralized at the Central Bank. Centralized clearing of interbank indebtedness has several advantages over decentralized clearing, viz.:
 1. the execution of the clearing is speedier;
 2. overdrafts from a clearing bank to its sub-clearing bank could be avoided (it used to happen when clearing was not centralized);
 3. overdrawn checks which were to be cashed through the clearing could be directly detained by the Central Bank c.q. the Clear Institute;
 4. the cost of clearing could be reduced;
 5. the Central Bank could utilize the Clearing Institute as a tool to control and guide the banks in a manner which is speedier and more up to date.

- Circular letter No. 3/169 UPPB/PbB dated April 17, 1967, on the confirmation of several stipulations in the regulation concerning clearing and overdrafts. This circular letter only contained a summary of the contents of the regulations which had been issued until then, in order to remind the banks not to violate the established prohibitions.
- Circular letter No. 3/547 UPPB/PbB dated August 15, 1967 on the settlement of clearing balances and overdrafts of banks with the Central Bank. The circular letter stipulated that banks were prohibited to overdraw their accounts with the Central Bank, it stipulate the procedure for the settlement of balances resulting from the clearing of interbank indebtedness if the funds of the banks concerned were inadequate, and it stipulated the sanctions to be imposed upon the banks which were unable to offset their negative clearing balances according to the established procedure. By virtue of this circular letter, the Central Bank was able to implement the clearing of inter-bank indebtedness as a means to control and guide the banks.

The figures on the clearing of interbank indebtedness in Djakarta (table 14) indicate that since the centralization in the month of March 1967, the total volume of clearing transactions increased with regard to the number of instruments as

TABLE 14 - CLEARING TRANSACTIONS
(January through December 1967)

	Clearing Transactions		
	Number of documents	Nominal value (in thousand Rupiahs)	Real value*) (in thousand Rupiahs)
1967:			
January	205,865	19,724,965	6,760,956
February	213,517	21,599,652	6,196,701
March	294,911	29,345,907	8,114,700
April	284,893	30,842,319	8,473,022
M a y	395,674	50,371,481	13,867,554
June	399,547	54,723,508	14,599,527
July	441,899	64,969,647	16,988,356
August	424,697	68,541,300	17,009,909
September	257,558	40,956,206	9,206,245
October	287,976	47,949,418	10,055,286
November	327,303	61,801,170	10,726,030
December	289,891	63,734,894	11,238,977
*) Nominal value deflated with the cost of living index (base = 1957/1958 = cost of living index 100)			

Source: Bank Negara Indonesia Unit I

well as with regard to the nominal value. The average daily volume of transactions in March 1967 was 12,822 instruments of a nominal value of Rp. 1,275 million while in the month of February it was only 8,897 instruments of a nominal value of Rp. 900 million. In the subsequent months the figures continued to rise. The decrease in the month of September was a result of the suspension of a number of banks in the middle of 1967. The figure on the volume of clearing transactions deflated with the cost of living index still shows an increase, which means that the increase in the clearing of interbank indebtedness after February 1967 was effected by the change into centralized clearing at the Central Bank.

Development of banking activities

State-owned commercial banks

Total assets and liabilities on the combined balance sheet of the state-owned commercial banks as shown in table 15 increased substantially, i.e. from Rp. 13,788 million at the end of 1966 to Rp. 27,515 million at the end of 1967.

The rise in the balance sheet total was particularly due to the inflation. The aforesaid figures, after having been deflated with the Djakarta cost of living index (1957/1958 = 100; 1966 = 267,276; 1967 = 567,088; Source: Central Bureau of Statistics) become Rp. 5,159 million and Rp. 4,852 million as at the end of 1966 and 1967, respectively. The deflated figures indicate that the amount at the end of 1967 was lower than at the end of 1966.

The main source of the aforesaid nominal increase was the rise in demand deposits i.e. from Rp. 5,758 million at the end of 1966 to Rp. 15,288 million at the end of 1967. The rise in demand deposits did not constitute a significant real increase, since after being deflated with the cost of living index it only increased from Rp. 2,151 million to Rp. 2,695 million. Moreover, its share in the money supply increased only from 25.4% to 29%.

The second source of the nominal increase were credits granted to the state banks by the Central Bank, which rose from Rp. 1.480 million at the end of 1966 to Rp. 4,783 million at the end of 1967. In proportion to their total liabilities, credits from the Central Bank were 10.4,% and 16.1% respectively.

TABLE 15 - CONSOLIDATED BALANCE SHEET OF THE
STATE COMMERCIAL BANKS BNI UNIT II (RURAL &
EKSIM), BNI UNIT III, BNI UNIT IV, AND BDN
(in thousand Rupiahs)

ASSETS			LIABILITIES		
	December 1966	December 1967		December 1966	December 1967
1. Cash in hand	1,112,865	2,335,279	1. Paid-up capital	630	1,330
2. Bank Indonesia	2,114,302	4,181,339	2. Reserves profit/loss account	597,160	963,453
3. Foreign exchange banks	40,260	98,837			
4. Treasury paper	50	272	3. Loans	65,194	325,971
5. Securities	2,876	3,485	4. Time deposits	42,536	192,720
6. Domestic drafts	144,540	112,639	5. Balance on current account	5,758,445	15,288,153
7. Claims payable in Rupiah	4,086,560	14,693,560	6. Bank Indonesia	1,479,600	4,782,900
8. Drafts payable in foreign exchange	8,748	8,864	7. Foreign exchange banks	21,121	17,716
9. Balances abroad	37,215	283,379	8. Drafts payable	235,782	226,657
10. Deviation from form 15 (+/-)	-/- 17,572	-/- 8,498			
11. Claim on Foreign Exchange Fund on account of payment to BDP	—	6,113	9. Guarantee deposits	223,341	350,890
12. Other net claims on Foreign Exchange Fund (+/-)	111,973	206,940	10. Non resident Rupiah accounts	196	244
13. Participations	3,615	6,828	11. Prepayments by importers	—	6,162
14. Premises and inventory	300,386	681,108	12. Debt to Foreign Exchange Fund	28,078	40,128
15. Other	5,876,099	5,259,735	13. Foreign currency of third parties	8,784	266,736
			14. Other	5,361,050	5,406,963
Total:	13,821,917	27,870,023	Total:	13,821,917	27,870,023

Source : Balance sheet of the State commercial banks.

The item reserves and profit/loss account increased from Rp. 597 million at the end of 1966 to Rp. 963 million at the end of 1967. After having been deflated with the cost of living index, the increase in real terms appeared to be slight.

TABLE 16 - CONTRAVENTIONS OF THE PROVISIONS
MENTIONED IN POINTS "2" AND "5" OF REGULATION
No. 5/1960
OF THE MINISTER OF FINANCE

Months	Number of contravening state banks		Frequency of contraventions			
			1966		1967	
	1966	1967	Point "2" of regula- tion	Point "5" of regula- tion	Point "2" of regula- tion	Point "5" of regula- tion
January	1	—	—	1	—	—
February	2	—	1	1	—	—
March	2	—	5	—	—	—
April	1	—	—	1	—	—
May	2	—	2	5	—	—
June	2	—	7	4	—	—
July	3	1	5	3	1	—
August	1	—	4	4	—	—
September	2	2	4	4	1	1
October	1	2	4	4	4	8
November	1	2	2	3	5	7
December	1	1	—	2	4	1
T o t a l	19	8	34	32	15	17

Source: Liquidity reports.

Paid-up capital did not change and remained Rp. 1.3 million.

On the assets side, the largest item was loans outstanding. This item increased in proportion to its source of financing. At the end of 1966 the item showed the amount of Rp. 4,086 million while at the end of 1967 it became Rp. 14,693 million. These amounts respectively constitute 29% and 53.4% of the balance sheet total.

The second sizable item was liquid assets. Consisting of cash in hand, balances with the Central Bank and balances with foreign exchange banks, this item amounted to Rp. 3,267 million at the end of 1966 and Rp. 6,615 million at the end of 1967. If claims payable on demand—made up of balances on current account and drafts payable—are

compared with the said liquid assets (net of balances on current account of the foreign exchange banks with the state banks) we would arrive at a cash ratio of 54.1% and 42.5% respectively. This high cash ratio was i.e. caused by credits from the Central Bank which as mentioned above were a relatively large source of financing for the state banks. The high overall cash ratio at the end of the aforesaid years does not mean that the cash position of the individual banks and at any time of the year was that favorable, i.e. that it exceeded the required minimum cash ratio of 30%. This appears from table 16 which indicates the contraventions by state banks with respect to the regulations governing the required cash ratio in 1966 and 1967.

Private banks

The combined balance sheet figures of private banks for 1966 and 1967 as shown in table 17 include the data of 87 banks (in 1966) and 108 banks (in 1967) which submitted their reports regularly. The combined balance sheet total of the national private banks increased from Rp. 2,794 million at the end of 1966 to Rp. 8,311 million at the end of 1967. As had been the case with state banks, the increase was mainly caused by inflation. Moreover, this higher balance sheet total must be attributed to an increase in the number of private banks in 1967, viz. an addition of 21 head offices and 20 branch offices.

With respect to the source, the said increased balance sheet total primarily originated from demand deposits and time/savings deposits.

The balance of demand deposits at the end of 1966 was Rp. 1,635 million, i.e. Rp. 98 million with 3 foreign exchange banks and their 21 branch offices, and Rp. 1,537 million with 84 other commercial nonforeign exchange banks and their 149 branch offices. This means that the foreign exchange banks accounted for only 6% of these funds while the remaining 94% was attracted by other banks

At the end of 1967, demand deposits with foreign exchange banks increased by Rp. 80 million and became Rp. 178 million (+ 81.6%) while demand deposits with commercial non-foreign exchange banks increased by Rp. 1,787.42 million and became Rp. 3,324.57 million (+ 116.3%). Demand deposits with private banks in 1967 increased by Rp. 1,867 million and became Rp. 3,503 million, which was an increase of 111.2% over 1966. Deflated with the cost of living index, demand deposits with the said private banks amounted to Rp. 698 million at the end of 1966, and Rp. 617 million at the end of

1967. This indicates a decrease of Rp. 81 million. It should be noted that total demand deposits with private commercial banks at the end of 1966 and 1967 comprised only 7.2% and 6.6% of money supply, respectively.

In money terms, deposits and savings which could be attracted by private commercial banks in the two years under report were increasing. Deposits and savings with private foreign exchange banks amounted to Rp. 20 million at the end of 1966 and Rp. 133 million at the end of 1967, which indicated an increase of Rp. 113 million (+ 570.5%).

Time and savings deposits with private commercial non-foreign exchange banks amounted to Rp. 259 million at the end of 1966 and Rp. 1,713 million at the end of 1967, which was an increase of Rp. 1,454 million (+ 561.6 %). As a whole, the amount which could be attracted by private banks in 1967 increased by Rp. 1,567 million (+ 562.3%) over 1966.

Other liabilities, such as drafts and bills payable as well as loans were not very large, viz. Rp. 114 million at the end of 1966 and Rp. 601 million at the end of 1967.

The total amount of funds attracted from third parties by national private commercial banks for operational purposes was Rp. 2,028 million at the end of 1966 and Rp. 5,950 million at the end of 1967.

At the end of 1966, paid-up capital of private commercial banks amounted to Rp. 37 million, i.e. Rp. 0.14 million of private foreign exchange banks and Rp. 36 million of private non-foreign exchange banks. Until the end of 1966, private banks in general had not yet adjusted their paid-up capital to the provisions of Government Regulation No. 19/1964. At the end of 1967, paid-up capital of the private banks was increased to Rp. 258 million, viz. Rp. 100 million of the foreign exchange banks and Rp. 157 million of the other private banks. Besides, through the implementation of Government Regulation No. 19/1964 this rise was also caused by the paid-up capital of 26 new banks and 20 new branch offices in accordance with the Decision of the Deputy Minister of Control of Private Banks and Capital No. 020/SK/DUPBMS /1966 dated July 13, 1966.

The amount of loans granted by private foreign exchange banks increased from Rp. 76 million at the end of 1966 to Rp. 259 million at the by commercial non-foreign exchange banks increased also, viz, from Rp 1,030 million at the of 1966 to Rp3,707 million at the end of 1967, which was a rise of Rp2,677 million (+259%). The amount of loans granted by the national private commercial banks as a whole showed an increase, viz. from Rp1,106 million at the end of 1966 to Rp 3,966 million at the end of 1967, an increase of Rp. 2,860 million (+258.4%).

**TABLE 17 - CONSOLIDATED BALANCE SHEET OF
NATIONAL PRIVATE COMMERCIAL BANKS
FINANCIAL YEARS 1966-1967
(in million Rupiahs)**

I t e m s	1 9 6 6 ¹⁾			1 9 6 7 ²⁾		
	Foreign Exchange Banks	Non Foreign Exchange Banks	T o t a l	Foreign Exchange Banks	Non Foreign Exchange Banks	T o t a l
ASSETS:						
1. <i>Liquid assets:</i>						
a. Cash in hand and other liquid assets	17.13	248.99	266.12	21.01	528.36	549.37
b. Balance on current account with BNI. Unit I	7.49	213.93	221.42	50.17	710.92	761.09
c. Balance on current account with foreign exchange banks	32.29	334.39	366.78	10.08	108.08	118.16
d. Balance on current account with other banks	—	132.40	132.40	—	120.40	120.40
	56.91	929.81	986.72	81.26	1,467.76	1,549.02
2. <i>Domestic assets:</i>						
a. Loans outstanding	76.16	1,030.11	1,106.27	258.97	3,706.78	3,965.75
b. Bills payable	—	51.53	51.53	0.01	87.84	87.85
c. Securities	0.02	0.23	0.25	—	12.46	12.46
d. Treasury notes and bills	0.10	—	0.10	0.10	—	0.10
e. Participations	0.01	0.53	0.54	0.01	0.75	0.76
	76.29	1,082.40	1,158.69	259.09	3,807.83	4,066.92
3. <i>Foreign assets:</i>						
a. Bills payable in foreign exchange	—	—	—	0.02	—	0.02
b. Balances abroad	0.30	—	0.30	0.12	—	0.12
c. Deviation from form 15 (+/-)	0.15	—	0.15	0.04	—	0.04
d. Other net claims on Foreign Exchange Fund (+/-)	—	—	—	—	—	—
	0.45	—	0.45	0.18	—	0.18
4. <i>Premises and inventory:</i>	5.15	86.38	91.53	35.61	423.43	459.04
5. <i>Miscellaneous assets:</i>						
a. Import guarantee deposits	—	—	—	—	—	—
b. Other guarantee deposits	3.08	—	3.08	0.94	—	0.94
c. Other	34.92	519.55	554.47	308.34	1,926.96	2,235.30
	38.00	519.55	557.55	309.28	1,926.96	2,236.24
T o t a l:	176.80	2,618.14	2,794.94	685.42	7,625.98	8,311.40
LIABILITIES:						
6. <i>Claims payable on demand:</i>						
a. Balances on current account	98.02	1,537.15	1,635.17	178.00	3,324.57	3,502.57
b. Current account balances of banks	—	21.81	21.81	—	354.37	354.37
c. Bills payable	1.24	90.82	92.06	2.32	97.58	99.90
	99.26	1,649.78	1,749.04	180.32	3,776.52	3,956.84
7. <i>Other liabilities:</i>						
a. Time and savings deposits	19.85	258.87	278.72	133.10	1,712.77	1,845.87
b. Loans	0.38	0.18	0.56	1.17	140.99	142.16
c. Bank Negara Indonesia Unit I	—	—	—	5.00	—	5.00
d. Non-resident rupiah accounts	—	—	—	—	—	—
e. Other foreign currency accounts	0.01	—	0.01	—0.01	—	—0.01
	20.24	259.05	279.29	139.26	1,853.76	1,993.02
8. <i>Capital:</i>						
a. Paid-up capital	0.14	36.42	36.56	100.10	157.36	257.46
b. Reserves	14.29	9.76	24.05	25.38	63.22	88.60
	14.43	46.18	60.61	125.48	220.58	346.06
9. <i>Miscellaneous liabilities:</i>						
a. Import guarantee deposits	0.01	—	0.01	—	—	—
b. Other guarantee deposits	2.81	—	2.81	31.17	—	31.17
c. Other	40.05	663.13	703.18	209.19	1,775.12	1,984.31
T o t a l:	176.80	2,618.14	2,794.94	685.42	7,625.98	8,311.40

¹⁾ — Amounts expressed in new Rupiahs revalued at the rate of 1,000: 1
— Number of foreign exchange banks: 3
— Number of non-foreign exchange banks: 84

²⁾ — Number of foreign exchange banks: 3
— Number of non-foreign exchange banks: 105

Liquid assets of private commercial banks consisting of cash in hand, balances with the Central bank and balances with other banks amounted to Rp. 987 million at the end of 1966 and Rp. 1,549 million at the end of 1967. Based on the said amounts, the overall cash ratio of the private banks was 56,42% in 1966 and 39.2% in 1967.

From the above mentioned figures may be concluded that the overall cash ratio of the private banks during the two years under report exceeded the required minimum cash ratio of 30%. This does not mean, however, that none of the banks ever contravened the provisions of Regulations No.5/1960 of the Minister of finance, since the said cash ratio was on overall ratio. the frequency by which the said private banks contravened the second and fifth paragraph of the said regulations of the minister of Finance is reported in the following table :

**Frequency of contraventions of the provisions contained in paragraphs 2 and 5
of Regulations No. 5/1960 of the Minister of Finance**

Months	Frequency of contraventions			
	1966		1967	
	Par. 2	Par. 5	Par. 2	Par. 5
1. January	19	38	19	33
2. February	16	42	18	36
3. March	12	43	18	30
4. April	11	40	13	22
5. M a y	18	47	29	32
6. J u n e	19	41	20	21
7. J u l y	16	37	25	30
8. August	26	39	29	35
9. September	26	40	26	26
10. October	22	38	23	21
11. November	24	37	25	24
12. December	18	32	17	24
T o t a l	227	474	262	334

The table (on page 56) indicates that the number of contraventions of the provisions contained in paragraph 2 of Regulation No. 5/1960 of the Minister of Finance, i.e. the obligation to maintain a cash ratio of not less than 30% increased from 227 in 1966 to 262 in 1967, whereas the number of contraventions with respect to paragraph 5 of Regulation No. 5/1960 of the Minister of Finance, i.e. the obligation to maintain a certain minimum deposit with the Central Bank, decreased from 474 in 1966 to 334 in 1967.

Savings Banks

Bank Tabungan Negara (i.e. the State Savings Bank) as well as private savings banks attracted funds by accepting time deposits and savings deposits.

**TABLE 18 - SAVINGS DEPOSITS WITH THE STATE SAVINGS BANK
AND 14 PRIVATE SAVINGS BANKS ¹⁾**
(in thousand Rupiahs)

Year	State Savings Bank			14 Private Savings Banks			Total		
	Amount outstanding	Increase	%	Amount outstanding	Increase	%	Amount outstanding	Increase	%
1960	661	173	40	400	88	28	1,061	261	33
1961	828	167	25	488	88	22	1,316	255	24
1962	1,223	395	48	669	181	37	1,892	576	44
1963	1,601	378	31	847	178	27	2,448	556	29
1964	2,015	414	26	1,116	269	32	3,131	683	28
1965	4,292	2,227	111	1,773	657	59	6,065	2,884	92
1966	10,077	5,785	134	4,498	2,725	153	14,575	8,510	140
1967 ²⁾	22,069	11,992	119	10,870	6,372	142	32,939	18,364	126

¹⁾ Exclusive of savings in West Irian,

²⁾ Provisional figures,

Sources : State savings bank.
Private savings bank.

Table 18 indicates that the amount of savings with Bank Tabungan Negara and with private savings banks was Rp. 14,575 thousand and Rp. 32,939 thousand at the end of 1966 and 1967, respectively. In 1966 this was an increase of Rp. 8,510 thousand (+ 140,%) over 1965, while the increase in 1967 over 1966 amounted to Rp. 18,364 thousand (+ 126%).

In 1966 and 1967 the number of savings books issued by Bank Tabungan Negara was 2,857,588 and 2,810,059, respectively, while the amount of savings deposits in the said years was Rp. 10,077 thousand and Rp. 22,069 thousand, respectively. This indicates that the average savings balance per savings book was Rp. 3.53 in 1966 and Rp. 7.85 in 1967. Savings deposits with private savings banks, 14 in total, were Rp. 4,498 thousand in 1966 and Rp. 10,870 thousand in 1967.

Investments by Bank Tabungan Negara and by private savings banks amounted to Rp. 6,453 thousand (44% on the average) in 1966 and Rp. 30,834 thousand (94% on the average) in 1967. The funds entrusted to Bank Tabungan Negara were primarily in-

TABLE 19 - INVESTMENTS OF THE STATE SAVINGS BANK ¹⁾
AND 14 PRIVATE SAVINGS BANK
(in million Rupiahs)

Y e a r	State Savings Bank			14 Private Savings Bank			T o t a l		
	Amount invested	Increase	%	Amount invested	Increase	%	Amount invested	Increase	%
1960	611	113	23	356	132	59	967	245	34
1961	730	119	19	430	74	21	1,160	193	20
1962	1,040	310	42	585	155	36	1,625	465	40
1963	1,243	203	20	771	186	32	2,015	390	24
1964	921	- 322	- 26	1,045	274	35	1,966	- 49	- 2
1965	848	- 73	- 8	1,493	448	43	2,341	375	19
1966	534	- 324	- 38	5,929	4,436	297	6,453	4,112	176
1967 ²⁾	10,696	10,172	1,941	20,138	14,209	240	30,834	24,381	378
¹⁾ Exclusive of savings in West Irian ²⁾ Provisional figures									

Source : State savings bank.
Private savings bank.

vested in securities, deposits. Treasury notes and bills, loans to autonomous regions and other loans. Private savings banks mainly invested in short-term loans, Treasury notes and bills, securities and other loans.

From the figures of table 19 may be seen that total investments of Bank. Tabungan Negara in 1966 decreased by Rp. 324 thousand compared with 1965 and in 1967 increased by Rp. 10,172 thousand over the preceding year, whereas investments of private savings banks increased by Rp. 4,436 thousand in 1966 and Rp. 14,209 thousand in 1967.

The above illustrates that in the context of banking activities as a whole, the role of savings banks was not yet meaningful.

Savings in West Irian

Since its liberation, there were the following types of savings de its in West Irian:

- savings deposits with the former Netherlands Post Office Saving Bank (Postspaarbank);
- savings deposits after the liberation.

Both at the end of 1966 and 1967, savings deposits with the former Postspaarbank amounted to I.B. Rp. 65 thousand. At the end of 1966, the number of savings books issued by the former Postspaarbank was 2,743 and increased to 2,745 at the end of August 1967. In 1966 the number of savings books issued by the former Postspaarbank decreased by 5 books compared with 1965, while the two years under report showed an increase of 2 books.

The savings deposits and the number of savings account holders a: liberation were as follows:

	Savings deposits	Number of Savings books	Average deposit per savings book
End of 1965	I.B. Rp. 1,621,000.—	5,764	I.B. Rp. 281.23
End of 1966	„ 2,298,000.—	6,455	„ 356.—
End of 1967	„ 2,404,000.—	6,828	„ 352.08

Regional development banks

The combined balance sheet of the regional development banks (table 20) comprised 15 banks. This combined balance sheet indicates that total assets and liabilities of the regional development banks increased from Rp. 190 million at the end of 1966 to Rp. 950 million at the end of 1967. After having been deflated with the cost of living index, the increase in real terms was Rp. 71 million at the end of 1966 and became Rp. 167 million at the end of 1967.

With respect to their liabilities may be noted that the major part consisted of demand deposits and only a minor part of time deposits, viz.:

	1966	1967
— demand deposits	Rp. 130 million	Rp. 621 million
— time deposits	Rp. 30 million	Rp. 180 million

Other liabilities were negligible as compared to those just mentioned, whereas paid-up capital of the said banks only amounted to Rp. 0.6 million at the end of 1966 and Rp. 17.7 million at the end of 1967.

With respect to their assets, the largest item was loans outstanding which amounted to Rp. 67 million at the end of 1966 and Rp. 453 million at the end of 1967. Moreover, liquid assets were also large, viz. Rp. 98 million at the end of 1966 and Rp. 386 million at the end of 1967; therefore the overall cash ratio of the regional development banks at the end of the said two years was 73,1% and 62%, respectively.

From the figures above may be concluded that similar to savings banks - the role of regional development banks in the banking system was not yet meaningful.

TABLE 20 - COMBINED BALANCE SHEET OF THE REGIONAL DEVELOPMENT BANKS*)
(in thousand Rupiahs)

ASSETS			LIABILITIES		
	1966	1967		1966	1967
Cash in hand	36,345	122,794	Paid-up capital	696	17,756
Bank central	48,663	253,042	Bonds and loans	—	500
Other banks	13,504	12,545	Reserves	4,979	24,143
Credits granted	67,550	453,059	Demand deposits	130,009	621,891
Participations	37	16	Time deposits	30,261	180,702
Premises and inventory	6,516	35,986	Drafts and checks	4,096	—
Sundry account	17,727	72,903	Other banks	703	2,029
			Creditors	3,176	257
			Sundry account	16,422	103,070
Total:	190,342	950,348	Total:	190,342	950,348
*) Combined figures of 15 regional development banks					

Source : Balance sheets of the regional development Banks

P.N. Pegadaian (State Pawnshop Enterprise)

During 1966 and 1967 the activities of P.N. Pegadaian developed as follows :

1. Number of pawn shops

In 1966 there were 444 pawn shops which decreased to 441 in 1967. This was a 6% decline compared with the situation before the war (1940).

2. Pawning

The number of articles pawned in 1966 and 1967 declined steeply, viz. from 40 million in 1965 to 23 million in 1966 and 4 million in 1967.

TABLE 21 - THE AVERAGE AMOUNTS LOANED AND REDEEMED ON ACCOUNT OF PAWNED ARTICLES

Y e a r	P a w n e d			R e d e e m e d		
	Number of articles (millions)	Amounts loaned (million Rp.)	Average amount (Rupiah)	Number of articles (millions)	Amounts repaid (million Rp.)	Average amount (Rupiah)
1954	38	1,216	32,—	38	1,223	32.18
1955	42	1,606	38.24	38	1,423	37.45
1956	46	1,966	42.74	45	1,809	40.20
1957	46	2,042	44.39	45	2,081	46.24
1958	45	2,392	53.16	48	2,312	48.17
1959	40	3,928	98.20	40	3,231	80.78
1960	45	8,955	199,—	39	6,045	155.—
1961	49	12,156	148.08	47	10,968	233.36
1962	47	24,695	525.43	52	20,252	389.46
1963	49	33,802	689.84	45	30,567	679.27
1964	47	54,009	1,149.13	54	48,740	919.62
1965	40	148,157	3,703.93	44	138,663	3,151.43
1966	23	210,909	9,169.95	28	188,294	6,724.79
1967 *)	4	167,410	41,852.50	5	152,894	30,578.80
*) Provisional figures.						

Source : State Pawnshop Enterprise.

The amount loaned increased continuously through the end of 1966, whereas at the end of 1967 the amount decreased from Rp. 210,909 thousand at the end of 1966 to Rp. 167,410 thousand at the end of 1967, which was a decline of 21% in 1966 and 1967 the average loan granted per pawn was Rp. 11,241.65 and Rp. 41,852.25, respectively. At the end of 1967 the average loan had increased by Rp. 30,610.60 over 1966, although the number of pawns declined.

3. Redemptions

Similar to the number of articles pawned, the number of pawns deemed declined. In 1966 and 1967 the number of pawns ,decreased and became 28 lion and 5 million, respectively, as compared to 44 million in 1965.

Until the end of 1966, the amount of loans redeemed increased continuously. In 1967, however, it declined from Rp. 188,294 thousand in 1966 to Rp. 152,894 thousand which was a decrease of Rp. 35,400 thousand (- 19%).

Table 21 indicates that in 1966 and 1967 the average amount redeemed per pawn was Rp. 6,724.79 and Rp. 30,578.80 respectively, an increase of Rp. 23,854.01.

4. Outstanding loans

During 1966 and 1967, outstanding loans granted by P.N. Pegadaian were still increasing. The balance outstanding at the end of 1966 increased by Rp. 25,345 thousand (+ 90%) over 1965, viz. from Rp. 28,024 thousand to Rp. 53,369 thousand, and at the end of 1967 the balance increased by Rp. 14,516 thousand (+ 27%) over 1966, viz. from Rp. 53,369 thousand to Rp. 67,885 thousand.

Stock exchange

During the years under report , in addition to mounting inflation and general instability, developments in the domestic political and monetary economic conditions had a great impact on the capital market, in particular with regard to the trade in securities in Indonesia. Especially the measures taken by the Government in the financial/monetary field which were either directly or indirectly related to the trade in securities and stocks in general adversely affected such activities, so that apart from speculative transactions in 1966, the tone of the Djakarta Stock Exchange was generally slack and became even worse in 1967.

One of the principal reasons for this state of affairs was the impact of the Regulation on the Revaluation of the Rupiah at the rate of Rp. 1.- new currency to Rp. 1,000.- old currency (Presidential Decree No. 26 of 1965) effective as from December 13, 1965. Although the aforesaid regulation did not have any impact on the nominal value of the securities, and trade at the stock exchange as well as dividend payments etc. could be effected at their full value, the proceeds of the transactions had to be divided by 1,000, so that the effect upon the securities market was actually the same, in particular with regard to domestic bonds. After promulgation of the aforesaid regulations, the volume of transactions at the stock exchange started to decline and was confined to a

few securities at rates not much different from those quoted before the promulgation of the regulation on rupiah revaluation.

Similar circumstances were prevailing when the Stock-Exchange entered the period under report and they continued until mid-January 1966, when extraordinary activities became apparent in the domestic bonds sector. This turned out to be effected by rumors that the Government was in the process of planning to revalue the nominal value of domestic securities based on their respective year of issue and according to a sliding scale system. The said unofficial reports, widely circulating in stock exchange circles and among interested parties, gave rise to speculations in those circles especially with regard to 6% R.I. Lottery Bonds 1959 and the 12% 1964 Bank Indonesia Loan which were in high demand, so that within the period between February and September an extraordinary large volume of transactions in those securities was recorded with an average monthly turnover of Rp. 50.- million nominally. Meanwhile, the rates increased rapidly by 1,000 to 3,000% while in 1966 the annual volume of transactions was the highest achieved since the establishment of the Djakarta Stock Exchange in 1951.

The speculative fever subsided towards the end of 1966 so that the stock exchange slackened again through the end of 1967. This change in tone was related to pessimism which affected dealers in securities, particularly speculators, after the publication of the notification regarding the drawing out and payment of Lottery Bonds in 1966 which apparently would be effected on the old basis (Rp. 1,000.- old currency to Rp. 1.- new currency) including the prizes. Meanwhile, there were no indications that in the near future the Government would be able to revalue the Government bonds, and it was suspected that such revaluation would disappoint their holders, thereby having in mind the temporary measures in the field of life insurance regarding the revaluation of policies which all proved to be unsatisfactory.

Although the aforesaid suspicions appeared to be not much different from reality, Presidential Decree No. 32 of 1967, which determined the new nominal values of bonds issued by the Government and Bank Industri Negara surprised the public. It provoked severe reactions within as well as outside the stock exchange and affected the trade in securities as indicated in the last part of the first paragraph. Based upon the rate of revaluation referred to above (which was also applied by several State owned and private Banks with respect to the revaluation of their bonds), the nominal value of the undermentioned bonds per Rp. 1,000.- worth of old currency became as follows :

Rp. 100.- new currency, for 3% Republic of Indonesia Bonds 1950, 3% Bank Industri Negara bonds per 1969/1970/1971 and 5 1/2 % Bank Industri Negara bonds per 1972;

Rp. 50.- new currency, for 6% Republic of Indonesia Bonds 1959, 3 1/2 % Republic of Indonesia Consolidation Bonds 1959, and 5 1/2 % Bank Industri Negara bonds per 1974;

Rp. 10.- new currency, for 12% Bank Negara Indonesia bonds 1962

Rp. 5.- new currency, for 12% Bank Negara Indonesia bonds 1963

Rp. 2.50 new currency, for 15% Republic of Indonesia Confrontation

Bonds 1964 and 6% Republic of Indonesia Development Bonds 1964. (The new value of 12% Bank Indonesia Bonds 1964 - 1969 not yet determined).

Pursuant to the said regulation, savings deposits outstanding with Bank Negara Indonesia Unit V (the former State Savings Bank) were also revalued, at rates, however, which were twice as high as those applicable to bonds. It may also be noted that Treasury notes and bills were not yet revalued at all.

Measures introduced by the management of the Stock Exchange in connection with the above mentioned regulations were i.e. those published on May 3, 1967 (No. 16/67) i.e.:

- 1) until further notice, the trade and delivery of the relevant bonds in their existing form is permitted;
- 2) calculations of current interest and sales proceeds of such bonds should be based on the new nominal values (pro resto);
- 3) quotations and trade in domestic securities of which the nominal value had not yet been determined would be temporarily suspended. Other factors which to a certain extent contributed to the situation at the Stock Exchange during this period were the following :

- a. Inadequate attention and interest of the business community and the public in Indonesia in general for the capital market and the trade in securities.
- b. Diminished attention and activity on the part of institutional investors with regard to long-term investments through the Stock Exchange as a consequence of the situation described at the beginning of this report. The same observations apply to activities of banks/brokers at the stock exchange which were declining for similar reasons. They even started to shift their operations to the Foreign Exchange Bourse which was opened in May 1967, where they became concurrently brokers/jobbers. Frequently this resulted in unstable rates of securities since the market was dominated by only a few active brokers/banks.
- c. The increase in interest rates prevailing in the free market and applicable to private loans far exceeded the yield derived from investment in securities. The official interest rate of the Government Loan (Confrontation Loan, 19614) was only 15% annually, whereas the monthly interest rate for deposits with several banks (including State banks) at that time was 2 - 3% on the average.
- d. The sale of securities denominated in foreign currency for the benefit of the Sumatra Highway Authority pursuant to Presidential Decree No. 234, 1965, was given preferential treatment, e.g. with respect to Complementary Foreign Exchange (DP = Devisa Pelengkap). According to the general regulations effective at that time, not more than 30% of the sales proceeds may be retained; in the above mentioned case, however, retention of 50% was permitted. Therefore, in the years under report, a rush towards these securities at the stock exchanges abroad was unavoidable.

The progress achieved with respect to the negotiations between the Government of Indonesia and the Netherlands was one of the bright spots in the situation described above. The negotiations were held in order to restore the traffic of securities between the two countries which was suspended since 1959.

The said negotiations continued during the years under report and were approaching their end. The Association of Trade in Capital and Securities in Djakarta therefore lifted the prohibition against the trade in Netherlands shares (Nf) at the Djakarta Stock Exchange (Notification No. 43/66 dated September 28, 1966) and permitted the resumption of trade in such securities as from October 3 1966, i.e. subject to the conditions that :

- 1) the securities were accompanied by a certificate (rode stukken verklaring) from De Nederlandsche Bank;

**TABLE 22 - SALES AND QUOTATION ON THE DJAKARTA STOCK
EXCHANGE OF THE MOST IMPORTANT SECURITIES**

Securities (denominations) +)	Sales volume, highest and lowest quotations		
	1965 (old) Rupiahs	1966 (old) Rupiahs	1967 (old) Rupiahs
3% R.I. bonds 1950 (100,000)	12,800,000.- 85%-73%	—	—
idem (10,000/1,000/500)	18,795,000.- 125% 7 7%	649,000.- 4,000%-150%	} 959,500.- 30 ² / ₃ - 15% *)
idem (100)	144,300.- 120%-79%	11,100.- 2,000%-125%	
3 ¹ / ₂ % R.I. consolidation bonds 1959 (large)	2,272,650.- 87%-50%	1,178,312.50 1,000%-160%	
idem (small)	60,982.50 90%-50%	7,882.50 500%-160%	—
6% R.I. lottery bonds 1959 (5,000)	21,340,000.- 105%-95%	304,780,000.- 1,400%-310%	2,050,000.- 3,000%-3,000% 60%-40% *)
idem (certificates of 500)	361,000.- 100%-92%	48,761,000.- 1,000%-120%	1,000.- 500% - 500%
12% B.I. bonds 1954 (10,000)	74,090,000.- 100%-100%	366,240,000.- 160%-99%	11,850,000.- 600% - 160%
idem (5,000/1,000)	2,262,000.- 100%-100%	346,311,000.- 250%-99%	14,350,000.- 400% - 150%
3% B.I.N. bonds 1969 (pro resto)	1,760.- 76% - 76%	432,360.- 1,500%-800%	—
idem per 1970 (pro resto)	—	1,213,200.- 1,700%-1,000%	—
idem per 1971 (pro resto)	—	327,200.- 1,100%-800%	—
5 ¹ / ₂ % B.I.N. bonds 1972	15,000.- 90%-89%	—	—
5 ¹ / ₂ % B.I.N. bonds 1974	11,431,000.- 90%-86%	113,000.- 825%-300%	—
12% B.N.I. bonds 1962	15,149,000.- 101%-96%	3,004,000.- 310%-102%	—
12% B.N.I. bonds 1963	6,319,000.- 101%-98%	41,000.- 102 ¹ / ₂ % - 100%	—
4 ¹ / ₂ % bonds Hypotheekbank v. 1891	500.- 40%-40%	—	—
Shares, PT. Gunung Agung	5,000.- 270%-270%	—	—
Loans denominated in Nf 1.	f 101,700.- 70%-32%	—	—
Foreign shares	301 ¹ / ₂ -shares \$ 400- \$ 35 ¹ / ₂ shares	—	—

+) In former nominal value.

*) Quotation effective after the revaluation of the security concerned.

Source : Bank Negara Indonesia Unit I.

- 2) Stamp Duty had been paid;
- 3) the transactions were in accordance with the effective B.L.L.D. (Biro Lalu Lintas Devisa -- Bureau of Foreign Exchange Transactions) regulations.

As a consequence of the above mentioned development, foreign securities (except Netherlands Indies loans for which a solution had yet to be found) could be traded at the Djakarta Stock Exchange; however, during the years under report there were no transactions in such securities on account of several factors mentioned earlier, especially in d.

The impact of the activities of the Association of Trade in Capital and Securities upon the further development of the Djakarta Stock Exchange was of equal importance. Among others, a few policy decisions were taken with regard to the Association's organization as well as with regard to the procedures effective at the Djakarta Stock Exchange. The latter included the exemption of domestic securities which were listed and traded in category b at the stock exchange from the payment of Retribution and Duty on Securities as from August 3, 1966, an increase in the rate of commission for brokers / intermediating banks with a minimum of Rp. 5.- per transaction effective as from September 1, 1966, and an increase in the number of representatives from the Central Bank/Bank Negara Indonesia Unit I in the Association's board in the position of Chairman and Secretary.

In order to assist its members, a Second Upgrading Course was held for bank officers/brokers dealing in securities.

However, despite the above mentioned efforts and the increase in the turnover of securities during 1966 (about 7 times as large as in 1965), it should be said that during the years under report the money and capital market in Indonesia and particularly the trade in securities at the Djakarta Stock Exchange did not make adequate progress.

Similarly, in the money market which is better known as the market for call money, renewals and loans upon collateral of securities, there were no dealings during the period under report.

In order to complete this report, just by way of comparison, table 22 is presented which summarizes the trade turnover of securities at the Djakarta Stock Exchange from 1965 through 1967.

V. CREDIT

General

As was elaborated in the Bank Indonesia report for the financial years of 1960 - 1965, the Government restricted credits selectively as well as quantitatively. Selective credit policy was primarily implemented through priorities to specific sectors in order to direct the supply of bank credit towards activities aimed at: increasing production and exports.

Until the end of the period under report, the quantitative restrictions were based upon the Regulation of the Minister of Finance No. 5/1960 regarding the establishment of a minimum ratio of 30% between liquid assets and claims payable on demand, applicable to all credit institutions; 10% of the aforesaid liquid assets should be deposited on a current account with Bank Indonesia.

Banks which did not comply with the provisions referred to above were liable to a fine in the form of interest payments, effective and payable 3 months after the aforesaid Regulation of the Minister of Finance had been in force. The rate of interest was i.e. determined as follows:

- the fine on account of contraventions during a period not exceeding 3 consecutive calendar months which was initially determined at 1% annually, was subsequently amended to 4% annually;
- the fine on account of contraventions during a period exceeding 3 consecutive months which was initially determined at 9% annually was later increased to 12% annually.

Within the framework of the efforts to check inflation, the Government implemented a selective credit policy as an effort to increase production and exports. In 1965, the allocation of credit to the Government and to the private sector was determined at 60% and 40% respectively, and the allocation according to economic sectors, viz. production and “other”, was determined at 80% and 20%, respectively.

Later, on January 17, 1966, the Decision of the Minister of central Bank Affairs No. 6/UBS/66 was issued which amended the percentage of credit allocations accord-

ing to economic sectors. Since the aforesaid decision came into force it was also determined that not less than 85% of the volume of credit granted by the state banks out of their own funds should be directed towards the production of export commodities and exports, while the balance was available for domestic trade and imports. Moreover, not less than 85% of such credits should be granted to the state sector, including cooperatives, while 40% was to be directed towards the private sector according to the following specifications:

- with respect to production and to production of export commodities, not less than 55% should be allocated to the state sector and the balance to the private sector;
- with respect to domestic trade, not less than 90% should be allocated to the state sector and the remainder to the private sector.

Private banks were subject to the stipulation that not less than 50% of the volume of credits granted should be directed to production and to production of export commodities while the remainder may be directed to domestic trade and imports.

Moreover, towards the end of 1966 the Government, in its efforts to check inflation and to increase production, introduced new policies in the field of credit as provided for in the Instruction of the Cabinet Presidium No. 15/EK/IN/101 1966 dated October 3, 1966.

Based upon the above mentioned Cabinet Instruction, the Government introduced a selective credit policy whereby credits were granted to specific economic sectors according to a certain order of priority determined by the Government. One of the main provisions of the said Presidium Instruction was the increase in the interest rate applicable to credits granted by state banks until 6% to 9% monthly. This was a very drastic increase over the previous rate.

Nevertheless, the credit policy referred to above actually did not restrict credits quantitatively, viz. a restriction by means of credit ceilings which should not be exceeded.

In the context of the earlier mentioned Presidium Instruction the Central Bank issued executive regulations, among which the application of the interest rate to the economic sectors according to the order of Priority determined by the Government.

In accordance with the ranges of the interest rate established by the said Instruction, the Central Bank determined the interest rate to be imposed by state banks upon credits for production of foodstuffs (category I A) at 6% monthly. Credits for production of export commodities and exports, production of textiles, for transportation and other types of production (category I B) were subject to a monthly interest rate of 7 1/2 %. For other sectors (category II) primarily for the distribution of the 9 domestically produced essential commodities, the interest rate for bank credit was determined at 9% monthly. The banks were requested to allocate not less than 90% of the total amount of credit granted out of their own funds to categories I A and I R and not more than 10% to category II.

In the aforesaid Presidium Instruction it was also stipulated that the banks were obliged to restrict their credits only to very urgent undertakings, to abolish discrimination between state enterprises and private enterprises, to apply orderly credit procedures by means of credit agreements and to restrict export credits to such exports of which the bank was convinced that they could be materialized.

It was moreover stipulated that banks were prohibited to grant long term loans, to grant credits for unsound undertakings and to permit overdrafts.

In 1967 the Central Bank issued credit regulations with respect to specific fields, i.e. for the production of export commodities and for imports.

In order to provide the sectors of production and industry with the opportunity to rehabilitate their productive capacity and since inflation was abating, the Government gradually refined the aforesaid Presidium Instruction of October 3, 1966; in principle, however, the Government continued to use the Instruction as an operational basis.

The refinements were primarily concerned with the reduction of interest rates payable for credits and with changes in the order of priority with regard to credits.

By Instruction of the Cabinet Presidium No. 19/EK/IN/4/1967 dated April 5, 1967, the interest rate for credits was reduced from 6% - 9% a month to 4% - 7% a month. Accordingly, the Central Bank determined an interest rate of 4% - 5% a month for category I and of 5% - 7% a month for category II, whereas the order of priority with respect to credits according to economic sectors was unchanged.

Afterwards, by virtue of Presidium Instruction No. 39/EK/IN/6/ 1967, dated June 16, 1967, the interested rate payable for credits was reduced again from 4% - 7% monthly to 3% - 5% monthly; the rates were effective as from early July 1967, and were applicable to the following categories:

1. Category I:

3% interest a month:

- a. production and distribution of the 9 essential commodities including production and distribution of products from:
 - the foodstuffs industry (rice milling, sugar milling, salt making and edible/cooking oil production;
 - the textile industry (spinning, knitting, weaving);
- b. agriculture and animal husbandry;
- c. production of export commodities;
- d. exports;
- e. pharmaceutical industry and pharmaceutical products;
- f. transportation industry and distribution of spare parts for public transportation;
- g. maritime industry;
- h. paper industry;
- i. handicraft;
- j. mining
- k. other production/industries.

2. Category II:

4% interest a month.

Trade and other services not included in the above mentioned category I.

3. Category III:

5% interest a month:

Other activities not included in categories I and II above with the understanding that import credits were still prohibited.

Moreover, since the interest rates of the banks should be uniform, the credit commission charged by the state banks was determined as follows:

- for categories I and II: not more than 1%.
- for category III: not more than 2%.

This commission was to be charged on the basis of the credit ceiling at the time of signing the credit agreement, so that for the first month (as from the time the credit concerned was granted) the amount of interest plus credit commission may not exceed the highest percentage of interest permitted (all in).

Within the framework of the rehabilitation of domestic productive capacity, particularly with regard to state enterprises which had been adversely affected by the implementation of the above mentioned Presidium Instruction of October 3, 1966, the Central Bank issued several regulations in the field of credit.

The Central Bank's Circular Letter of July 19, 1967, which was sent to all the Ministers of the AMPERA Cabinet contained provisions regarding investment credit to state enterprises for the rehabilitation of existing productive equipment. Such investment credit for the rehabilitation of state enterprises was subject to a monthly interest payment of 1 1/4%

Besides, certain credits were subject to an interest rate lower than the aforesaid rate viz. 1% monthly, i.a. credits for fertilizers, pharmaceuticals and sprays.

Towards the end of 1967, the scope of liquidity credits from the Central Bank to state owned commercial banks, initially only granted on account of export credits, was thenceforth expanded. By virtue of a letter from the Central Bank dated November 23, 1967, liquidity credits may also be granted to state-owned commercial banks on the basis of credits to the production sector such as:

- a. production of the 9 essential commodities, including:
 - foodstuffs industry (rice milling, salt making and edible/cool oil production;
 - textile industry (spinning, knitting, weaving, finishing/printing and batik industry);

- b. agriculture and animal husbandry;
- c. transportation enterprises;
- d. maritime industry.

Applications for liquidity credits on account of credits to other sectors, if any, would be taken into consideration on a case by case basis.

In order to stimulate exports, on April 18, 1967, export credit facilities were provided whereby the percentage of the advances to be granted by banks to exporters was increased from 40 to 60, i.e. subject to the following conditions:

- the foreign exchange contract should have been concluded by the exporter concerned;
- on the basis of such foreign exchange contract, the goods, ready for export should be available in the warehouse and be at the disposal of the bank.

On May 9, 1967 the said export credit facilities were expanded again from a maximum of 60% to a maximum of 75%. The conditions with respect to export credits were basically unchanged.

However, as from June 8, 1967, banks were given the opportunity to grant credits to selected exporters without the prior conclusion of a foreign exchange contract, viz. to exporters who complied with the following conditions:

- the exporters should be bona fide;
- they should have exported a certain kind of agricultural produce/export product continuously, i.e. for a period of not less than 2 consecutive years;
- the export performance, volume should be sufficiently large, i.e. in proportion to the amount of credit and the export target/schedule of the exporter concerned.

Consequent upon the implementation of the economic regulations issued on July 28, 1967, the aforementioned conditions of export credits were modified again, viz. exporters who did not comply with the above mentioned conditions were eligible for export credits to an amount not exceeding 50% of the value of commodities ready for

export which were at the disposal of the bank. Subsequently, as from December 26, 1967, liquidity credits to state-owned commercial banks could also be granted on account of credits for the purchase of export commodities which were the single crop in a particular region. Such credits could not be granted without restriction, but should be granted selectively, viz. confined to customers whose bona fides and reliability were beyond doubt.

Initially, the Presidium Instruction of October 3, 1966, determined that banks were not permitted to grant credits for import financing.

In order to promote aid-BE sales, on August 2, 1967, bona fide importers were eligible for credit to the amount of the counter value payable on account of letters of credit opened after July 28, 1967. Such credit was granted according to standards customary in banking; consequently, it should be bankable, which means that this credit was not granted automatically. The facilities offered were as follows:

- with respect to import articles listed in category I (non-consumer goods): not more than 65 % of the counter value of the aid-BE's;
- with respect to import articles listed in category II (consumer goods): not more than 40% of the counter value of the aid-BE's;
- the term of repayment should not exceed 3 (three) months, subject to a monthly interest rate of 3%,.

Credit supervision

As was explained earlier in this report, in compliance with article 55 of the Decision of the Provisional People's Consultative Congress of the Republic of Indonesia No. XXIII/MPRS/1966 regarding the "Reassessment with respect to the Foundations of the Economic, Financial and Development Policies", Act No. 14 of 1967 concerning the Principal Regulations on Banking was promulgated and became effective on December 30, 1967.

Actually, when the 1953 Act concerning the Principal Regulations on Bank Indonesia was drafted and ratified by Parliament, it was also decided that Bank Indonesia would gradually relinquish its commercial activities and concentrate upon its duties as a Central Bank in the strict sense.

Article 7 of the aforesaid 1953 Act concerning the Principal Regulations on Bank Indonesia inter alia stipulated that:

1. the Bank shall regulate the currency unit of Indonesia to the best possible extent for the welfare of country and people and shall thereby attempt to achieve its stability;
2. the Bank is in charge of the money supply in Indonesia insofar as it concerns bank notes, facilitates the use of demand deposits in Indonesia and promotes foreign payments relations;
3. the Bank shall promote a sound development of credit and banking affairs in Indonesia in general and national credit and banking affairs in particular;
4. the Bank shall supervise credit affairs.

By virtue of the above mentioned Act it was decided that Bank Indonesia shall really supervise and guarantee that the monetary policy of the Government be implemented effectively.

As an implementation of the 1953 Act concerning the Principal Regulations on Bank Indonesia, Government Regulation No. 1/1955 of 1955 concerning the Supervision of Credit Affairs had been issued, article 3 of which mentioned that:

“On behalf of the Monetary Council, the Central Bank shall supervise credit institutions, in existence or as yet to be established in Indonesia, with respect to the solvability and liquidity of such credit institutions and in the interest of their creditors; supervision should be effected in a sound manner and on the basis of appropriate policy principles”.

It appeared, however, that the transformation of Bank Indonesia into a Central Bank did not proceed as expected, since:

- a. the Central Bank in Indonesia developed from a commercial bank;
- b. at that time, the duties of a Central Bank were not yet sufficiently known in Indonesia.

The aforesaid facts could be understood, because the purpose of the Government of the Netherlands Indies with regard to the establishment of banks in its colony was exclusively to facilitate commercial activities. As from 1961, within the framework of the attempts to transform Bank Indonesia into a Central Bank, firm measures were

taken by closing the accounts of all private customers maintained with the Central Bank. Moreover, by virtue of Presidential Decree No. 508/1961 a State Commission was established to examine banking problems in Indonesia.

With the issue of the Instruction of the Deputy Minister of Central Bank Affairs/ Governor of Bank Negara Indonesia No. Instr. 2/DM.UBS/66 dated May 18, 1966, the duties of Bank Negara Indonesia Unit I in the field of credit supervision became more pronounced. The Underlying principles of this instruction were:

- a. Within the framework of the monetary policy of the Government, as explained by the Deputy Minister of Economic, Financial and Development Affairs on April 12, 1966, certain operations of Bank Negara Indonesia in general and those of Unit I in particular should be reorganized;
- b. As a first step, the aforesaid reorganization should affect a few parts of banking activities, to be followed later by the reorganization of other parts.

One of the important articles of the said Instruction of the Deputy Minister of Central Bank Affairs with respect to credit supervision was article 3, i.e.:

- a. Credit supervision should forthwith be intensified again.
- b. Such supervision should aim at two objectives:
 - to assure that credits are directed towards the expansion of production, distribution and export;
 - to prevent the granting of credits on the same collateral so as to assure the efficient use of liquidity.

It was necessary to issue the above mentioned instruction since it appeared that Bank Negara Indonesia Unit I until then was not yet able to supervise credit in a manner as was expected. Moreover, it was realized that the use of funds collected by the banks was not sufficiently directed towards the proper objectives.

Within the framework of the aforesaid attempts to reorganize, the main duties of credit supervision were determined as follows:

- a. To examine and supervise credit operations of the banks within the framework of the implementation of the credit policy;
- b. To examine and supervise credits granted by the Central Bank;
- c. To release and to collect trade information.

By reassigning the function of Central Bank to Bank Negara Indonesia Unit I, the duties in regard to the commercial operations of Bank Negara Indonesia Unit I could gradually be relinquished.

As a first step, on August 9, 1967 an instruction was issued which withdrew the authority of branch offices of the Central Bank to grant credits.

Within the same month, conditions were established with respect to liquidity credits to be granted to private commercial banks in an emergency.

Liquidity credits were to be granted in an emergency to private banks who were confronted with liquidity difficulties and were suspended from participation in clearing operations as well as to private banks who may possibly have to cope with liquidity difficulties as a consequence of the earlier mentioned measures against the banks referred to above. On account of such liquidity credits, private banks were expected to rejoin clearing operations and to comply with their obligations properly.

First of all, the banks concerned were exempt from Regulation No. 5, 1960 of the Minister of Finance, by being permitted to reduce their cash ratio to 10% for a period of 3 months.

Liquidity credit would be granted only if this dispensation proved to be inadequate. The term of repayment of such credit was not longer than 3 months, subject to a monthly interest rate of 5%. Private banks who availed themselves of liquidity credits were required to fulfill a few conditions, viz. they were not permitted to grant new credits or of her facilities resulting in fresh commitments for themselves, they should attempt to withdraw outstanding credits, they were subject to audit inspection, and were moreover not allowed to purchase new office equipment.

Banks which might encounter liquidity difficulties as a result of the suspension from participation in clearing operations of the earlier mentioned banks were eligible for liquidity credit through replying of the credits granted to their bona fide customers. The conditions were similar to those applicable to emergency liquidity credits granted to banks confronted with liquidity difficulties and to banks who were suspended from participation in clearing operations.

The scope of liquidity credits to private banks was afterwards expanded; viz. it was not only granted in case of emergency as referred to above, but also in “normal” circumstances.

This regular liquidity credit was designed to direct the credit operations of private banks as much as possible to the economic sectors to which the Government had given priority.

In order to be eligible for such liquidity credit, the private banks concerned should in the very first place be sound banks.

Furthermore, within the framework of attracting funds from the public, in November 1967 the Central Bank offered the opportunity to open time deposit accounts with state commercial banks subject to a monthly interest rate of not more than 4%, and for a period of not less than 3 months.

The funds originating from such time deposits could be freely used by the state commercial banks, in the sense that credits granted out of such funds were not subject to the limitation (not higher than 10%) applicable to credits classified in the sector “other”.

It was expected that in the process of its specialization to act as the Central Bank, Bank Negara Indonesia Unit I would be able to supervise credit operations in a manner which assured that outstanding credits would be rightly used instead of misused for speculative purposes.

Development of bank credits

At the end of 1965, 1966 and 1967, bank credits amounted to Rp. 953.6 million Rp. 6,705.6 million and Rp. 30,746.4 million, respectively. Therefore, credits increased by Rp. 5,752.0 million (603%) in 1966 and by Rp. 24,040.8 million (359%) in 1967.

Although in money terms the increase in 1967 was far higher than in 1966, in percentages it was just the other way around. The development of bank credits during the aforesaid 2 years could not be dissociated from other monetary indicators such as the cost of living index, the money supply and other indicators whose developments have been described in the preceding chapters.

The specification of the above mentioned bank credits according to state banks and private banks, Government sector and private sector, as well as according to objects as at the end of 1966 and 1967 was as follows:

Commercial banks,	<i>End of 1966</i>	<i>End of 1967</i>
State owned	Rp. 5,599.3 mln. (84%)	Rp. 26,780.6 mln. (85%)
Private	Rp. 1,106.3 mln. (16%)	Rp. 3,965.8 mln. (13%)
T o t a l	Rp. 6,705.6 mln. (100%)	Rp. 30,746.4 mln. (100%)
	<i>End of 1966</i>	<i>End of 1967</i>
Government sector	Rp. 4,143.5 mln. (62%)	Rp. 17,672.2 mln. (57%)
Private sector	Rp. 2,562.1 mln. (38%)	Rp. 13,074.2 mln. (43%)
T o t a l	Rp. 6,705.6 mln. (100%)	Rp. 30,746.4 mln. (100%)
	<i>End of 1966</i>	<i>End of 1967</i>
Production	Rp. 4,241.6 mln. (63%)	Rp. 13,631.8 mln. (44%)
Export	Rp. 1,222.8 mln. (18%)	Rp. 4,958.9 mln. (16%)
Other	Rp. 1,241.2 mln. (19%)	Rp. 12,155.7 mln. (40%)
T o t a l	Rp. 6,705.6 mln. (100%)	Rp. 30,746.4 mln. (100%)

The funds which the banks were able to collect in 1966 and 1967 as a source of bank credit are reported in table 23.

The funds of the banks increased by Rp. 7,366.9 million (994%) in 1966 and by Rp. 13,515.7 million (167%) in 1967.

TABLE 23 - DEPOSITS OF STATE BANKS *)
AND PRIVATE COMMERCIAL BANKS
(in million Rupiahs)

End of:	State Banks		Private Banks		Total
	Amount outstanding	%	Amount outstanding	%	
1965	573.6	77	167.8	23	741.4
1966	6,101.8	75	2,006.5	25	8,108.3
1967	16,033.5	74	5,590.5	26	21,624.0

*) Exclusive of the Central Bank

Sources : State Commercial Banks.
Private Banks.

The specification of the amount of credit granted by state banks (exclusive of the Central Bank) and private banks out of their own funds and out of liquidity from the Central Bank was as follows:

<i>Out of own funds</i>		<i>Out of Central Bank liquidity</i>	
1965	Rp. 348.0 million	Rp.	302.6 million
1966	Rp. 3,657.8 million	Rp.	1,479.6 million
1967	Rp. 13,574.7 million	Rp.	4,782.9 million

The amount of credit granted by state banks (exclusive of the Central Bank) and private banks out of their own funds increased by Rp. 3,309.8 million (951%) in 1966 and by Rp. 9,916.9 million (271%) in 1967. It may thus be concluded that borrowings as well as lendings of state banks (exclusive of the Central Bank) and private banks increased comparatively in the course of the last 2 years.

Although the credit policy effective at that time stipulated that in principle the banks should grant credits out of their own funds, liquidity credit would be provided by the Central Bank on account of credits granted to sectors which were given priority by the Government.

Development of credits granted by State commercial banks

During the period under report, the amount of credit granted by state commercial banks including BNI Unit I increased continually, viz. from Rp. 828.3 million at the end of 1965 to Rp. 5,599.3 million at the end of 1966 and Rp. 26,780.6 million at the end of 1967, which was an increase of Rp. 4,771.8 million in 1966 and Rp. 21,181.3 million in 1967.

Although credits granted by other state banks increased substantially, those granted by BNI Unit I recorded the largest increase.

The increase in the amount of lendings of state commercial banks exclusive of BNI Unit I was generally equal to the increase in the amount of borrowings of the banks concerned. The loanable funds of state commercial banks increased from Rp. 573.6 million at the end of 1965 to Rp. 6,101.7 million at the end of 1966 and Rp. 16,033.5 million at the end of 1967. The greater part of such funds consisted of demand deposits which amounted to Rp. 5,758.4 million at the end of 1966 and Rp. 15,288.2 million at the end of 1967, while the balance consisted of time deposits, drafts payable and loans. The increase in demand deposits with state commercial banks during the above mentioned 2 years was due to the increase in the number of customers of the banks concerned.

In 1966 and 1967, the increase in Central Bank credits which consisted of direct credits and liquidity credits was as follows:

	<i>1966</i>	<i>1967</i>
a. Direct credit :	+ Rp. 1.21.1 million	+ Rp. 10.574.3 million
b. Liquidity credit :	+ Rp. 1.232.1 million	+ Rp. 3.549.6 million
Total :	+ Rp. 2.442.2 million	+ Rp. 14.123.9 million

In principle, direct credits could be defined as credits granted directly by the Central Bank to its non-bank customers. The increase in direct credits during 1966, as revealed above, was closely related to the efforts of the Government to promote the export activities of state trading enterprises which at that time were dependent upon Central Bank financing.

TABLE 24 - DEPOSITS OF STATE COMMERCIAL BANKS *)
(in million Rupiahs)

End of:	Demand deposits		Time deposits		Other		Total
	Amount outstanding	%	Amount outstanding	%	Amount outstanding	%	
1965	530.8	92.5	35.7	6.2	7.1	1.3	573.6
1966	5,758.4	94.4	42.5	0.7	300.9	4.9	6,101.8
1967	15,288.2	95.3	192.7	1.2	552.6	3.5	16,033.5

*) Exclusive of the Central Banks.

Source : State commercial banks.

Moreover, at the end of 1966, the balance of 1965 credits outstanding on account of development projects was still large, viz. Rp. 472.1 million, although since the second quarter of 1966 several of such credits were gradually suspended or withdrawn.

The increase in direct credits during 1967 was i.a. caused by credits to P.N. PERTANI for the supply of fertilizer, insecticides and sprays, in anticipation of the 1967 dry season and the 1967/1968 rainy season, and amounted to Rp. 966.9 million and Rp. 1,472.0 million, respectively.

Furthermore, credits in the form of advances to the 1967 Development Budget for the financing of development projects within the purview of certain departments and state enterprises, also contributed to the increase in direct Central Bank credits in the relevant year. However, the said credits which amounted to Rp. 2,641.0 million on December 29, 1967, were transferred to the General Treasury Account.

Moreover, at the end of 1967, the Central Bank advanced the Government an amount of Rp. 8,215.2 million, since importers were permitted to postpone the payment of the countervalue on account of aid-BE imports.

For a clear picture of the development of direct credits, see table 25.

Liquidity credits were defined as credits granted by the Central Bank to credit institutes. Although in principle bank credits should so far as possible be financed out of the banks' own funds, it appeared, however, that the amount of liquidity credits was still increasing during 1966 and 1967.

TABLE 25 - CREDITS GRANTED BY THE CENTRAL BANK
1966 - 1967
(in million Rupiahs)

End of:	Direct credits		Credit to banks		Total
	Amount outstanding	%	Amount outstanding	%	
1965	302.6	50	303.0	50	605.6
1966	1,512.7	50	1,535.1	50	3,047.8
1967	12,087.0	70	5,084.7	30	17,171.7

Source : Bank Negara Indonesia Unit I.

The Central Bank granted liquidity credits not only on account of export credits granted by the relevant banks, but also on account of financing of the production sector. Liquidity credits to state commercial banks in 1967 are specified in table 26 below.

Table 26 reveals that the increase in liquidity credits during 1966 was primarily on account of Central Bank credits to BNI Unit IV, i.e. for the financing of sugar production and estate agriculture, whereas liquidity credits to BNI Unit II at the end of 1966 decreased compared to the end of 1965, because the aforesaid credits which had initially been reserved for the financing of B.P.U.P. during 1965/1966 were transferred to the General Treasury Account at the end of the second quarter of 1966.

Similar to 1966, the increase in liquidity credits during 1967 was primarily on account of an increase in the financing of sugar production and estate agriculture. Moreover, together with the reassessment of the duties of BNI Unit I as the Central Bank, the scope of liquidity credits was expanded and included other banks as well.

The development of credits granted by state commercial banks in 1966 and 1967, specified according to Government and private sectors is presented in table 27.

The above mentioned table illustrates how credits granted by state commercial banks to the state sector as well as to the private sector increased in 1966 and 1967, viz. by Rp. 3,496.1 million and Rp. 13,528.7 million to the state sector and by Rp. 1,274.9 million and Rp. 7,652.6 million to the private sector, respectively.

TABLE 26 - CENTRAL BANK CREDITS TO BANKS
1966 - 1967
(in million Rupiahs)

End of:	BNI Unit II	BNI Unit III	BNI Unit IV	BDN	Private banks and other	Total
1965	151.4	0.5	143.2	7.5	0.4	303.0
1966	14.1	42.4	1,415.7	7.4	55.5	1,535.1
1967	330.8	207.0	4,120.4	124.7	301.8	5,084.7

Source : Bank Negara Indonesia Unit I.

In 1966 the major part of the credits granted by state commercial banks to the state sector was effected by the Central Bank, and i.a. included direct credits to state trading enterprises for export financing to an amount of Rp. 513.5 million and liquidity credits to BNI Unit IV on account of credits for operational expenses of the sugar industry and agricultural estates to an amount of Rp. 1,415.7 million, both were approximately 51% of the total amount of credits granted by state commercial banks to the state sector in the relevant year.

Similar to 1966, credits granted by state commercial banks in 1967 were mainly Central Bank credits to BNI Unit IV for the financing of sugar production and estate agriculture as well as direct credits the form of advances to the Government for the financing of projects in the framework of the 1967 Development Budget.

**TABLE 27 - CREDITS GRANTED BY THE STATE BANKS
TO THE STATE AND PRIVATE SECTORS**
1966 - 1967
(in million Rupiahs)

End of:	Sector				Total
	State		Private		
	Amount outstanding	%	Amount outstanding	%	
1965	647.4	78	180.9	22	828.3
1966	4,143.5	74	1,455.8	26	5,599.3
1967	17,672.2	66	9,108.4	34	26,780.6

Sources : Bank Negara Indonesia Unit I.
State commercial banks.

The increase in credits to the state sector during 1967 was also due to Central Bank advances on account of the counter value payable by importers for aid-BE imports and on account of fertilizer imports by P.N. PERTANI.

Although in 1966 and 1967 the amount of credit granted by state commercial banks to the state sector increased continually, since the beginning of the second quarter of 1967 the rate of increase was declining. This phenomenon was closely related to the Government policy in the field of credit as provided for in the Instruction of the Cabinet Presidium No. 15/EK/IN/10/1966 dated October 3, 1966, to the effect that as far as credit is concerned, no priority would be accorded to the state sector.

The amount of credit granted by state commercial banks to the private sector in 1966 and 1967 was still increasing, both in absolute as well as in relative terms.

This phenomenon was due to the fact that state commercial banks in general, exclusive of BNI Unit I, laid more emphasis on the private sector with respect to credits granted out of their own funds.

The development of state commercial bank credits specified according to economic sectors, i.e. production, export and other, is presented in table 28. The production sector i.a. comprised foodstuffs production (including the agricultural sector), textile production, infrastructure, industries, mining and estate agriculture. The export sec-

**TABLE 28 - CREDITS GRANTED BY STATE BANKS SPECIFIED
ACCORDING TO ECONOMIC SECTORS
1966 - 1967
(in million Rupiahs)**

End of:	Production		Export		Other		Total
	Amount outstanding	%	Amount outstanding	%	Amount outstanding	%	
1965	595.7	72	185.9	22	46.6	6	828.2
1966	3,751.5	67	1,119.9	20	727.9	13	5,599.3
1967	12,319.1	46	3,749.3	14	10,712.2	40	26,780.6

Sources : Bank Negara Indonesia Unit I.
State commercial banks.

tor included production of export commodities and exports, while “other” inter alia included domestic trade, aid-BE imports of consumer and non-consumer goods as well as other goods not included in the above mentioned categories.

Compared with the end of 1965, at the end of 1966 credits for production, export and “other” increased by 530%, 502% and 1462% respectively, while in 1967 the increase for each of the aforesaid sectors was 228% 235% and 1372% respectively.

As mentioned earlier, the increase in state commercial bank credits in 1966 was on account of an increase in credits for the financing of sugar production and estate agriculture granted by BNI Unit IV by means of Central Bank liquidity.

In 1967, the increase in credits for the above mentioned sector was not only due to the financing of sugar production and estate agriculture, but due to the financing of fertilizer imports as well.

The increase in credits for the export sector in 1966 was i.a. due to the efforts of the Government to stimulate the export activities of state trading enterprises and in 1967 due to an increase in credits to the private sector on account of export financing.

Although in 1966 the percentage increase in credits for the sector “other” was substantial, the absolute increase was negligible compared with the increase in credits for production and export.

Credits for the sector “other” increased considerably in December 1967. This phenomenon was due to Central Bank advances to the Government at the end of December 1967, since importers were permitted to postpone payments on account of aid-BE imports (Rp. 8,215.2 million). Such advances caused state commercial bank credits to the, sector “other” to become 40% of their total credit outstanding at the end of 1967.

Development of credits granted by private commercial banks.

The development of credits granted by private commercial banks in 1966 and 1967 may be observed in table 29.

**TABLE 29 - CREDITS GRANTED BY PRIVATE COMMERCIAL
BANKS 1966 - 1967**
(in million Rupiahs)

End of:	Production		Export		Other		Total
	Amount outstanding	%	Amount outstanding	%	Amount outstanding	%	
1965	33.1	26.4	5.5	4.4	86.8	69.2	125.4
1966	490.1	44.3	102.9	9.3	513.3	46.4	1,106.3
1967	1,312.7	33.1	1,209.6	30.5	1,443.5	36.4	3,965.8

Source : Balance sheets and liquidity reports of private commercial banks

In comparison with the position at the end of 1965, private commercial bank credits increased by Rp. 981 million (784%) in 1966. The increase in 1967 was Rp. 2,860 million (258 %) over the end of 1966.

The increase in private commercial bank credits during the years under report wads not only caused by an increase in loanable funds as referred to earlier, but also by an increase in the number of private banks during the last two years. As reported in chapter V, the number of head offices and branch offices of private commercial banks increased from 87 at the end of 1965 to 96 at the end of 1966 and 121 at the end of 1967.

The aforesaid circumstances resulted in an expanded role of private commercial banks with regard to borrowing as well as to lending operations. At the end of 1965, private commercial bank credits comprised 13% of total bank credit.

In 1966 this amount increased by a monthly average of 17% and through August 1967 increased further by an average of + 22 %.

At the end of August 1967, a few private banks were suspended from participation in clearing operations on account of cash shortage; thenceforth, lending and borrowing operations of private commercial banks generally receded until approximately October 1967. As from November 1967 a revival set in so that credits outstanding at the end of 1967 reached an amount of Rp. 3,965.8 million.

With regard to its allocation could be said that at the end of 1966 approximately 90% of total private commercial bank credits was granted to the sectors of production and “other”. The increase which occurred in the said year was mainly on account of an increase in credits to the aforementioned sectors, it amounted to Rp. 883.5 million or was 90% of the increase in total private commercial bank credit at the end of the relevant year. On the other hand, private commercial bank credits to the export sector in 1966 were insignificant in comparison to the other sectors.

In 1967 the amount of private commercial bank credits to the export sector were increasing continually, so that the allocation of such credits to production, export and “other” was different from 1966. The allocation of private commercial bank credits as at the end of 1967 was as follows:

Production	:	Rp. 1,312.7 million (33%)
Export	:	Rp. 1,209.6 million (31%)
Other	:	Rp. 1,443.5 million (36%)

The figures above reveal that the percentage allocation of credits to production, export and other activities was almost equal.

The development of the loanable funds of private commercial banks in 1966 and 1967 is illustrated in table 30.

The aforesaid table indicates that the loanable funds of private commercial banks during the years under report increased from Rp. 167.8 million at the end of 1965 to Rp. 2,006.5 million at the end of 1966 and Rp. 5,590.5 million at the end of 1967. This signifies that loanable funds increased by Rp. 1,838.7 million (1096%) and Rp. 3.584 million (179%) in 1966 and 1967 respectively.

Generally, the development of loanable funds was closely related to the development of lending operations. Therefore, the aforesaid increase in loanable funds caused private commercial bank credits in 1966 and 1967 to increase by 784% and 258 % respectively.

TABLE 30 - DEPOSITS OF PRIVATE COMMERCIAL BANKS
1966 - 1967
(in million Rupiahs)

End of:	Demand deposits		Time deposits		Other		Total
	Amount outstanding	%	Amount outstanding	%	Amount outstanding	%	
1965	146.4	87.2	14.4	8.6	7.0	4.2	167.8
1966	1,635.2	81.5	278.7	13.9	92.6	4.6	2,006.5
1967	3,502.6	62.7	1,845.9	33.0	242.0	4.3	5,590.5

Source : Balance sheets and liquidity reports of private commercial banks.

Credit operations of other banks

Bank Pembangunan Indonesia (BAPINDO = Development Bank of Indonesia).

The borrowing and lending activities of BAPINDO did not become apparent until the middle of 1966, viz. since the promulgation of the Decision of the DWIKORA Cabinet Presidium No. Aa/B/27/66 dated February 15, 1966, concerning "The Expansion of the Scope of Duties of Bank Pembangunan Indonesia in the General Field of the State Sector".

Subsequently, Decision of the Cabinet Presidium No. 127/U/Kep./ 5/1967 dated May 26, 1967, amended the preceding Presidium Decision and declared BAPINDO as a commercial bank in the field of industry for the state sector as well as for the private sector by permitting it to deal in demand deposits, time deposits and to promote payments through the banking system.

The credit policy of BAPINDO was the same as implemented by the other commercial banks, viz. it was pursuant to Cabinet Presidium Instruction No. 15/EK/IN/10/1966 dated October 3, 1966, and subsequent instructions which were improvements of the first instruction and all of its executive regulations.

BAPINDO could start its lending activities not before the end of 1966 and credits at the end of the said year were only Rp. 79.3 million. Of this amount, Rp. 22.0 million was granted by the head office of BAPINDO and Rp. 57.3 million by its branch offices.

The greater part of the credits granted by the head office was for the export sector, viz. Rp. 13.5 million. The balance was for the production and distribution of foodstuffs and for the rehabilitation and consolidation of industries, respectively to an amount of Rp. 4.7 million and Rp. 3.8 million.

Only in 1967, when BAPINDO was truly able to function as a commercial bank, could its lendings increase by Rp. 506.6 million to amount to Rp. 585.9 million.

Of the Rp. 585.9 million at the end of 1967 mentioned above' Rp. 255.2 million was granted by the head office and Rp. 330.7 million by the branch offices.

With respect to the allocation according to economic sectors could be reported that the amount of Rp. 255.2 million granted by the head office of BAPINDO as at the end of 1967 was allocated as follows:

— Production and distribution of foodstuffs	: Rp. 28.2 million
— Production and distribution of textiles	: Rp. 21.7 million
— Purchase of export commodities	: Rp. 27.2 million
— Transportation	: Rp. 23.5 million
— Industries under rehabilitation and consolidation:	Rp. 85.7 million
— Other	: Rp. 68.9 million
Total	Rp. 255.2 million

It should further be reported that by virtue of the Decisions of the Minister of Finance No. Kep. 136/Men.Keu/1967 dated July 14, 1967, and No. Kep. 178/Men.Keu/1967 dated August 18, 1967, BAPINDO was designated as the consignee for the processing of S.A.C. PL 480-PA IV 34-403 raw cotton by spinning mills within the purview of P.N. Sandang, PAPUSKOPDA (Pinda Sandang) and private enterprises. By means of Central Bank liquidity credit, BAPINDO could make credits available to aforesaid spinning mills for the financing of cotton processing. Until the end of 1967, actual liquidity credits for the above mentioned purpose amounted to Rp. 7.8 million and was granted to the Senajan Spinning mill.

As was the case with the other commercial banks, BAPINDO's loanable funds mainly originated from demand and time deposits. At the end of 1966, demand depos-

its outstanding with BAPINDO amounted to Rp. 116.3 million. The amount increased steadily during 1967 and became Rp. 393.6 million at the end of the year, which means that in 1967 demand deposits increased by Rp. 277.3 million over the end of 1966.

Moreover, in 1967 time deposits also developed favorably, i.e. from Rp. 42.3 million at the end of 1966 to Rp. 117.3 million at the end of 1967 which was an increase of Rp. 75.0 million.

Therefore, BAPINDO's loanable funds consisting of demand deposits and time deposits amounted to Rp. 158.6 million and Rp. 510.9 million at the end of 1966 and 1967, respectively.

Bank Tabungan Negara (B.N.I. Unit V)

The principal activities of Bank Tabungan Negara (State Savings Bank) were the mobilization of funds and savings. Due to the impact of the monetary measures taken by the Government in December 1965, the aforesaid activities did not become apparent again until 1967. Within the framework of stimulating such activities, the mobilization of savings funds in the form of savings deposits and time deposits was intensified.

Moreover, the scope of credit operations was enlarged, particularly in regard of short term credits. It was expected that as a result from the above, B.N.I. Unit V would thenceforth be able to operate on the basis of cost accounting principles. In the context of the efforts to mobilize funds, by virtue of Presidential Decree No. 32 jo. No. 116, 1967, savings balances were revalued in order to raise public confidence in savings institutions.

For the aforesaid purpose the Central Bank had made liquidity credit available to an amount of Rp. 30 million, of which amount Rp. 10.9 million was used until the end of December 1967. Moreover, B.N.I. Unit V made a few investments, i.a. in a housing project in Kebajoran Baru and an office building project in Malang. The completed buildings were afterwards put up for sale to the public on a commercial basis. For the financing of this building construction, Bank Tabungan Negara received liquidity aid from the Central Bank. Until the end of 1966 such aid amounted to Rp. 22.4 million, and increased to Rp. 40.5 million at the end of 1967.

The credit operations of B.N.I. Unit V did not start until 1967. The greater part of such credits was granted by B.N.I. Unit V in Djakarta. Until the end of 1967 they amounted to Rp. 67.9 million, and were granted to the following economic sectors:

a. *Production:*

— Foodstuffs	Rp. 2.8 million
— Textiles	Rp. 2.1 million
— Industry	Rp. 41.2 million

b. <i>Domestic Trade and other</i>	Rp. 21.8 million
------------------------------------	------------------

T o t a l	Rp. 67.9 million
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Savings mobilized by Bank Tabungan Negara amounted to Rp. 10.1 million and Rp. 22.1 million at the end of 1966 and 1967, respectively. In addition to ordinary savings, in 1967 time deposits could be attracted to an amount of Rp. 96.1 million.

Consequently, the aggregate funds consisting of savings and time deposits amounted to Rp. 118.2 million at the end of 1967.

VI. FOREIGN TRANSACTIONS AND ARRANGEMENTS

Indonesia's balance of payments

First of all it should be noted that in the present report several modifications were introduced with respect to the presentation of the balance of payments.

The said modifications resulted in the following differences:

- 1) In the preceding reports the balance of payments and its components was expressed in Rupiahs based upon the exchange rate of US \$ 1.- = Rp. 45.-; in the current report, however, it is expressed in US dollars. This change was adopted exclusively on the basis of practical considerations, for the rate of Rp. 45.- per US dollar was no longer realistic. Moreover, since the promulgation of the regulations on transferable (negotiable) BE and DP, a fluctuating exchange rate system was effective in Indonesia.
- 2) In order to adjust the balance of payments to the systematics of the International Monetary Fund which had been subject to modifications since July 1966, as from the present report the balance of payments presentation will be different from the preceding reports.

The essential differences between the present and the former presentations are as follows:

- a. Differences in the concept of current account. The concept of current account which in the preceding reports included the items exports, imports, services and transfer payments, is abolished in the present report.
The International Monetary Fund decided to abolish the concept of current account since there was no common consensus among its member countries concerning the items which it should include.
- b. Differences with regard to the classification of items included in the movements of capital and monetary gold (in the preceding reports indicated as "movements of capital, gold and foreign exchange holdings").

In the preceding reports such items were classified into two categories, viz.:

- 1) "Private, excluding banks", which reflected the mutations with regard to private capital exclusive of banks.
- 2) "Government and banks", which reflected the mutations with regard to capital of the Government, the Central Bank and other banks (inclusive of mutations in gold and foreign exchange holdings as well as mutations in the I.M.F. position).

In the present report the classification of the said items is based upon the criterion whether such capital movements with respect to foreign transactions have a monetary impact upon Indonesia's economy. On the basis of the said criterion, the movements of capital are distinguished into two categories, viz.:

- 1) The non-monetary sector which reflects the movements of capital in the private sector (exclusive of private foreign exchange banks) and the Government sector.
 - 2) The monetary sector which reflects the movements of capital on the part of financial institutions in regard to international payments transactions, and which consists of the Central Bank and the foreign exchange banks.
- c. Differences regarding the method in which the balance of payments surplus or deficit is expressed:

"in the preceding reports the balance of payments deficit or surplus was reflected by the net movement of foreign exchange and monetary gold holdings, whereas in the present report the balance of payments deficit or surplus is reflected by the net capital movement of the monetary sector which includes the net movement of foreign exchange and monetary gold holdings as well as of the short term liabilities (with a period of repayment not exceeding one year) of the above mentioned financial institutions (including the movements in the I.M.F. position)".

The development of Indonesia's balance of payments during the period under report is to be followed from table 31.

During the period under report, Indonesia's balance of payments was each year constantly in deficit, as reflected by the capital movements of the monetary sector, i.e. US \$ 12 million in 1965, US \$ 11 million in 1966 and US \$ 13 million in 1967. The said figures reveal that the deficit in 1967 was slightly higher than in 1965 and 1966.

TABLE 31 - BALANCE OF PAYMENTS OF INDONESIA
(in million U.S. dollars)

	1965	1966	1967
<i>A. Goods and services:</i>	- 248	- 132	- 279
1. Merchandise goods: Exports f.o.b.	+ 634	+ 714	+ 770
Imports, f.o.b.	- 595	- 604	- 802
2. Non-monetary gold	-	-	-
3. Freight and insurance related to imports	- 60	- 63	- 86
4. Freight, other	- 11	- 7	- 9
5. Travel	- 8	- 18	- 4
6. Investment income	- 95	- 47	- 63
b. 1 Direct investment income	(- 66)	(- 40)	(- 62)
b. 2 Other	(- 29)	(- 7)	(- 1)
7. Government, not included elsewhere	- 52	- 35	- 23
8. Other services	- 61	- 72	- 62
Balance of goods and services (1 through 8)	- 248	- 132	- 279
Balance of goods (1 and 2)	+ 39	+ 110	- 32
Balance of services (3 through 8)	- 287	- 242	- 247
<i>B. Transfer payments</i>	+ 24	+ 15	+ 28
9. Private	-	-	-
10. Government	+ 24	+ 15	+ 28
Total (1 through 10)	- 224	- 117	- 251
<i>C. Capital and monetary gold</i>	+ 259	+ 126	+ 276
Non-monetary sector:	+ 247	+ 115	+ 263
11. Private sector	+ 18	+ 34	+ 84
11.1 Long term liabilities	+ 18	- 16	- 6
a. Direct investments	(+ 18)	(- 16)	(- 8)
b. Other	(-)	(-)	(+ 2)
11.2 Long term assets	-	+ 50	+ 62
a. Direct investments	(-)	(-)	(- 2)
b. Other	(-)	(+ 50)	(+ 64)
11.3 Short term liabilities	-	-	+ 28
11.4 Short term assets	-	-	-
12. Government sector	+ 229	+ 81	+ 179
12.1 Long term liabilities	+ 6	+ 51	+ 184
12.2 Long term assets	-	-	-
12.3 Short term liabilities	+ 223	+ 30	- 5
12.4 Short term assets	-	-	-
Monetary sector:	+ 12	+ 11	+ 13
13. Central Bank	-	-	-
13.1 I.M.F. (net)	-	-	- 14
13.2 Short term liabilities (net)	-	-	+ 4
13.3 Movement in foreign exchange holdings (— = increase)	+ 24	+ 4	+ 1
13.4 Movement in monetary gold holdings (— = increase)	-	-	-
14. Foreign exchange Banks	-	-	-
14.1 Short term liabilities (net)	-	-	-
14.2 Movement in foreign exchange reserves (— = increase)	- 12	+ 7	+ 22
Net errors and omissions	- 35	- 9	- 25

Source: Bank Negara Indonesia Unit I.

The aforesaid deficits were financed as follows:

1. the deficit in 1965 was financed by a reduction of US \$ 12 million in the foreign exchange reserves which was the net result of a decrease in the foreign exchange holdings of the Central Bank (US\$ 24 million) and an increase in the foreign exchange holdings of the foreign exchange banks (US \$ 12 million);
2. the deficit in 1966 was also financed by a decrease in the foreign exchange reserves, viz. a decrease in the foreign exchange holdings of the Central Bank (US \$ 4 million) and of the foreign exchange banks (US \$ 7 million);
3. whereas in 1967 the deficit was financed by a net increase in short term liabilities of the Central Bank to an amount of US\$ 4 million, and a decline in the foreign exchange holdings of the Central Bank and the foreign exchange banks amounting to US\$ 1 million and US \$ 22 million, respectively, after deduction of US \$14 million on account of repurchases to the International Monetary Fund.

It should be noted that the amount of US \$ 4 million constituting net Central Bank receipts of short term foreign credits as reflected by the movement in the item "short term liabilities", were net receipts of short term credits (with a repayment period of not more than 12 months) based on bank acceptances for the financing of rice imports. Actually, aggregate receipts of such credits amounted to US \$ 22 million, however, at the same time there was a foreign exchange expenditure of US \$ 18 million for repayment of such credits which had been received by the Central Bank in 1966 and 1967 and were due in 1967.

The movements of the gold and foreign exchange reserves are specified in table 32.

The balance of payments deficits during the years under report resulted from the following developments.

The balance of trade which in 1965 and 1966 was in surplus of US \$ 39 million and US \$ 110 million, respectively, showed a deficit of US \$ 32 million in 1967.

Actually, exports increased during the period under report. Exports in 1967 amounted to US \$ 770 million which was an increase of 21 % and 8% over 1965 and 1966, respectively.

The continuous increase in exports during the period under report was attributable to the economically favorable climate in 1966 and 1967 which started near the end of 1965. The said climate resulted inter alia from the termination of the confrontation against Malaysia, the resumption of trade relations with Singapore and Malaysia, and the measures taken in the field of foreign trade within the framework of the Government's stabilization and rehabilitation program. Nevertheless, the inflationary pressures which still persisted, although at a decreasing rate, and the declining world market prices of Indonesia's export commodities in general and of rubber in particular, were difficult problems which confronted Indonesia's exports in the period under report.

The measures taken by the Government designed to increase exports in the period under report had two objects, viz. the simplification of the export procedure and the provision of incentives to exporters and to regions which were producing export commodities.

Exporters were provided with an incentive in the form of an export premium amounting to Rp. 9,750.— (old currency) per US dollar of export proceeds surrendered to the Foreign Exchange Fund, which was added to the transaction value of Rp. 250.— (Old currency) per US dollar received by the exporters from the Foreign Exchange Fund (regulation of December 21, 1965).

The said incentive to exporters was later enlarged by assigning a certain percentage of the export proceeds in the form of foreign exchange, the so-called BE (Bonus Ekspor = Export Bonus) to the exporters which they could use for the financing of imports (Regulation of February 11, 1966). Initially, such BE's were not negotiable, however, subsequent regulations made them transferable.

Besides providing exporters with an incentive, in 1966 and 1967 the Government issued regulations designed to provide an incentive to producers of export commodities, i.e. by deciding that part of the export proceeds in foreign exchange be allocated to the regions producing such export commodities (initially called BED, Bonus Ekspor Daerah = Regional Export Bonus), later changed into ADO (Alokasi Devisa Otomatis = Automatic Foreign Exchange Allocation).

TABLE 32 - GOLD AND FOREIGN EXCHANGE HOLDINGS
(in million US dollars)

End of:	Gold holdings of Central Bank and Foreign Exchange Fund	Ready foreign exchange position of the Foreign Exchange Fund		Sub Total	Bank's balances abroad	Grand Total	Quarterly and annual movements
		Assets	Liabilities				
1961	44	89	11	122	158	280	- 134
1962	45	63	14	94	46	140	- 140
1963	37	21	74	- 16	63	47	- 93
1964	4	21	74	- 49	58	9	- 38
1965	4	17	94	- 73	70	- 3	- 12
1966	4	19	100	- 77	63	- 14	- 11
1967	4	2	84	- 78	41	- 37	- 23
1965 : March	4	15	77	- 58	76	18	+ 9
June	4	20	79	- 55	79	24	+ 6
September	4	22	85	- 59	80	21	- 3
December	4	17	94	- 73	70	- 3	- 24
							- 12
1966 : March	4	13	108	- 91	43	- 48	- 45
June	4	13	100	- 83	37	- 46	+ 2
September	4	27	102	- 71	37	- 34	+ 12
December	4	19	100	- 77	63	- 14	+ 20
							- 11
1967 : March	4	13	94	- 77	53	- 24	- 10
June	4	16	92	- 72	51	- 21	+ 3
September	4	15	92	- 73	46	- 17	- 6
December	4	2	84	- 78	41	- 37	- 10
							- 23

Source : Bank Negara Indonesia Unit I.

The relevant Governments of the Provinces producing the export commodities were authorized to decide upon the use of such foreign exchange for the economic improvement of their regions.

In 1966 and 1967, the efforts of the Government to promote exports were successful.

On the other hand, however, during the period under report imports increased also.

The value of imports which in 1965 amounted to US \$ 595 million increased to US \$ 604 million and US \$ 802 million in 1966 and 1967, respectively, which was 2% and 35% above the level of 1965.

In 1966, the increase in the export value exceeded the increase in imports which resulted in a surplus of US \$ 110 million on the balance of trade, in 1967, however, the increase in exports was far below the increase in imports, the result was therefore a balance of trade deficit of US \$ 32 million.

The continuous increase in imports during the period under report was in accordance with the stabilization and rehabilitation program of the Government, viz. to accelerate the inflow of goods in order to combat inflation.

In 1967, the large increase in imports was enabled by the receipt of foreign credit/aid in sufficiently large amounts.

Out of a f.o.b. value of imports of US \$ 802 million in the said year US\$ 381 million was financed by foreign credit/aid, viz.:

by foreign credit/aid through the BE-system	US \$ 143 million
by BE without cover	US \$ 129 million
by the unused portion of project aid	US \$ 62 million
by US credits under PL 480	US \$ 27 million
by credits on the basis of bank acceptances (for rice imports)	US \$ 20 million

The financing out of other sources was as follows:

by export BE's	US \$ 144 million
by DP and free foreign exchange	US \$ 144 million
by foreign exchange of the Foreign Exchange Fund	US \$ 57 million
by ADO's	US \$ 32 million
by other means of financing	US \$ 6 million

Moreover, imports of oil companies amounted to US \$ 68 million.

It should be noted that in line with its policy to arrive at a proper use of foreign exchange, the Government gradually abolished the administrative procedure with respect to the allocation of foreign exchange and left such allocation to the interaction of

supply and demand. In this context, on October 3, 1966, the Government determined that export BE's which were not yet barred by the statute of limitations were negotiable. Therefore, a realistic exchange rate would be the result.

Moreover, the regulations of October 3, 1966, determined that foreign credits/aid were made available for the import of goods at the BE rate. This implied that the foreign exchange originating from such foreign credits/aid was freely sold by the Government to the public through the Central Bank. In other words it was not allocated through an administrative procedure as heretofore. In this context the Central Bank determined the selling rate of aid-BE's which was adjusted to the developments in the foreign exchange market, in particular to the export-BE market.

The Government indirectly supervised the use of BE's originating from exports as well as from foreign credits/aid by determining the types of commodities importable by means of BE's. The commodities included in the "BE commodity list" were consumer goods, capital goods and raw materials/auxiliary goods which were of public interest.

Luxury goods may not be imported by means of BE's and should be financed by DP's (Devise Pelengkap = Complementary Foreign Exchange) or free foreign exchange.

The balance of services in 1967 showed a deficit of US \$ 247 million, which was US \$ 5 million more than in 1966 but US\$ 40 million less than the deficit in 1965.

In 1965 through 1967, net expenditure on account of freight and insurance related to imports was increasing continuously, primarily as a result of the increase in imports during the same period.

Besides freight and insurance related to imports, the main items of the balance of services for the period under report were investment income and "Government, not included elsewhere". In 1967, net investment income was minus US \$ 63 million which was US \$ 16 million more than in 1966 but US \$ 32 million less than in 1965; it was almost entirely on account of profit transfers of oil companies which amounted to US \$ 62 million.

Foreign aid receipts during the period under report were as follows:

In 1965 US \$ 24 million from Japan (reparations)

In 1966 US \$ 15 million from Japan (reparations)

In 1967 US \$ 28 million from:	Japan	US \$ 6 million
	Netherlands	US \$ 14 million
	Australia	US \$ 6 million
	United Kingdom	US \$ 2 million

During the period under report, capital movements in the non monetary sector developed as follows:

Net receipts of the private sector increased continuously from US \$ 18 million in 1965 to US \$ 34 million and US \$ 84 million in 1966 and 1967, respectively.

Capital receipts and expenditure of the private sector in 1966 and 1967 consisted primarily of depreciation of oil companies and repatriation of capital through imports by means of DP and free foreign exchange. Moreover, in 1967 there was a net receipt of short term credits amounting to US \$ 28 million on account of BE imports without cover.

The development of the Government sector was erratic. In 1965 there were net receipts of US \$ 225 million, however, in 1966 the said amount declined rapidly to US \$ 81 million, and increased again to US \$ 179 million in 1967. The sufficiently large ,net receipts of capital of the Government sector in 1965 consisted primarily of short term credits on account of imports on deferred payment. After 1965, in order to regulate the economy, the Government suspended the issue of permits for the import of goods on deferred payment.

With regard to the Government sector, in 1966 the principal donor countries were France (US \$ 16 million), Japan (US \$ 25 million) and the Soviet Union (US \$ 13 million), while those in 1967 were the United States of America (US \$ 55 million), West Germany (US \$ 40 million), Italy (US \$ 13 million), Japan (US \$ 50 million), the Netherlands (US \$ 21 million), Yugoslavia (US \$ 10 million) and India (US \$ 13 million).

Meanwhile, since April 18, 1966, the Government of Indonesia was purchasing agricultural products again from the United States in the context of Public Law 480, known as SAC. The previous PL 480 imports were effected pursuant to title I of PL 480; they were paid in rupiahs and part of such rupiahs was lent to the Government of Indonesia. However, the agreements for PL 480 imports since April 18, 1966, were concluded on the basis of title IV of PL 480 which provided for long term credits payable in US dollars.

Balance of trade

During the period of 1965-1967, according to the data from the Central Bureau of Statistics there was a deficit on Indonesia's balance of trade (including petroleum), except in 1966. The deficit on the balance of trade (including petroleum) in 1965 and 1967 amounted to US\$ 11.0 million and US \$ 77.0 million respectively, whereas the surplus in 1966 amounted to US \$ 105 million. The deficit on the balance of trade excluding petroleum in 1965, 1966 and 1967 was US \$ 270 million, US \$ 90 million and US \$ 301 million respectively (table 33).

Compared with 1964, Indonesia's balance of trade in 1965 and 1967 deteriorated considerably, the deficit in 1967 was even the largest ever recorded since a number of years. This decline was the result of a decrease in exports on the one hand and an increase in imports on the other.

TABLE 33 - BALANCE OF TRADE OF INDONESIA *)
(in million US dollars)

Year	T o t a l			Excluding oil companies		
	Exports	Imports	Balance	Exports	Imports	Balance
1964	725	622	+ 103	457	613	- 156
1965	707	718	- 11	435	705	- 270
1966	678	573	+ 105	475	565	- 90
1967	658	735	- 77	422	723	- 301

*) Exports f.o.b.; imports c.i.f.

Source : Central Bureau of Statistics.

One of the main factors which effected the decline in the value of exports and the increase in imports was the price development abroad. The prices of nearly all export commodities were declining while prices of imports were increasing, particularly of consumer goods which made up the bulk of imports in 1967.

Besides on account of price developments, the decline in exports was due to a decrease in the production of export commodities, quality deterioration, shortage of raw materials/auxiliary goods and equipment, the condition of the infrastructure which was hampering the export process, financial difficulties as a result of inflation and the like. The increase in imports was also due to a decrease of production on the one hand and an increase in effective demand on the other; consequently, a large volume of imports was necessary to close the gap.

The surplus on the balance of trade (including petroleum) in 1966 was ,due to the decline in imports particularly of raw materials/auxiliary goods and capital goods as a consequence of the slow down in the production of industrial enterprises.

Exports

In comparison with the preceding years, the volume of exports (excluding petroleum and petroleum derivatives) during the period of 1965-1967 was subject to fluctuations. Exports in 1965 increased compared with the preceding year, while there was a large increase in 1966 and a decline in 1967 (table 34).

In 1965 the volume of exports was 2,365 thousand tons which was an increase of 115 thousand tons over 1964 (exports in 1964 were 2,250 thousand tons). In 1966 there was an increase of 1,500 thousand tons or 64% over the preceding year. Exports in 1967 amounted to 2,741 thousand tons which was a decline of 1,214 thousand tons (29%) compared with 1966. The development of exports in 1966 was mainly on account of an increase in the export of goods other than the 14 export commodities with established markets which in the said year was 2,481 thousand tons and in 1964, 1965 and 1967 was 786 thousand tons, 935 thousand tons and 1,374 thousand tons, respectively.

TABLE 34 - VOLUME OF EXPORTS *)
(in thousand tons)

Commodities	1965	1966	1967
1. Rubber :	709	680	642
— estate	221	238	210
— smallholder's	488	442	432
2. Petroleum and petroleum products	17,524	14,426	18,562
3. Tin (tin in concentrate and tin ore)	19	12	22
4. Copra	124	119	112
5. Copra cakes	126	143	165
6. Coffee	108	98	137
7. Tea	44	37	30
8. Sugar	78	28	—
9. Tobacco	13	13	12
10. Palm oil	126	177	131
11. Palm kernels	33	31	38
12. Pepper	12	21	37
13. Hard rope fibers	2	4	9
14. Rattan	36	21	32
Total	18,954	15,810	19,929
15. Other export products	935	2,481	1,374
Total exports	19,889	18,291	21,303
Total exports excluding petroleum and petroleum products	2,365	3,865	2,741

*) Provisional figures

Source : Central Bureau of Statistics

The fluctuations in exports during the period of 1965-1967 would be different if petroleum and petroleum derivatives were taken into account. In 1964, 1965, 1966 and 1967 exports of petroleum and petroleum derivatives were 17,555 thousand tons, 17,524 thousand tons, 14,426 thousand tons and 18,562 thousand tons, respectively. From the said figures it was apparent that the export volume of petroleum and petroleum derivatives in 1966 was exactly lower than in the preceding years as well as in 1967.

Consequently, in 1965 total exports increased by 84 thousand tons 1% over 1964, and in 1966 decreased by 1,598 thousand tons compared with 1965 (8 %) . Exports in 1967 increased to 21,303 thousand tons, which was an increase of 3,012 thousand tons (16%) over the year before.

Therefore, exports exclusive of petroleum and petroleum derivatives increased during 1965-1967, except in 1967 when there was a decline; conversely, exports including petroleum and petroleum derivatives declined through 1966 and increased again in 1967.

TABLE 35 - VALUE OF EXPORTS *)
(in million US dollars)

Commodities	1965	1966	1967
1. Rubber :	222	223	167
— estate	86	91	63
— smallholder's	136	132	104
2. Petroleum and petroleum products	272	203	236
3. Tin (tin in concentrate and tin ore)	38	31	51
4. Copra	18	20	13
5. Copra cakes	4	5	3
6. Coffee	31	33	35
7. Tea	17	17	10
8. Sugar	3	1	—
9. Tobacco	19	24	15
10. Palm oil	27	33	23
11. Palm kernels	4	4	4
12. Pepper	9	13	18
13. Hard rope fibers	—	1	1
14. Rattan	2	1	1
Total	666	609	577
15. Other export products	41	69	81
Total exports	707	678	658
Total exports excluding petroleum and petroleum products	435	475	422

*) Provisional figures

Source : Central Bureau of Statistics.

Exclusive of petroleum and petroleum derivatives the value of exports in 1965 amounted to US \$ 435 million which was a decline of US \$ 22 million in comparison with the preceding year, while in 1966 there was an increase of US \$ 40 million over 1965. Exports in 1967 decreased again by US \$ 53 million and amounted to US \$ 422 million (table 35).

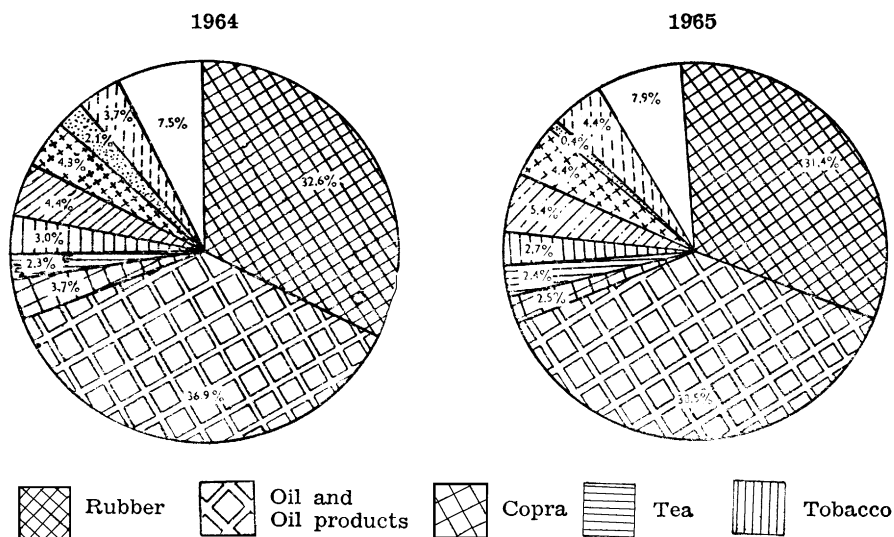
Exports in 1965 including petroleum and petroleum derivatives were US \$ 17 million (2.3%) lower than in 1964 (such exports amounted to US \$ 724 million in 1964); in 1966 and 1967 there was a further decline of 4.1% and 3% and in the said years exports therefore amounted to US \$ 678 million and US \$ 658 million, respectively.

Generally speaking, the said development of exports was mainly, due to declining world market prices for nearly all our export commodities, particularly those produced by agricultural estates. Other reasons were a decline in output, deterioration of quality and a shortage of raw materials/auxiliary goods and equipment, inadequate maintenance of the infrastructure particularly with respect to land and sea transportation, large price disparities, financial difficulties, etc.

The decline in the world market price of *natural rubber* was primarily on account of competition from synthetic rubber and also from natural rubber produced by other countries, in particular by Malaysia and Thailand who increased their supply. Moreover, mention should be made of the rubber released from stockpile by the United States of America which caused a further decline of the rubber price. Exclusively in the case of Indonesia there were other factors which caused a decline in export proceeds from rubber, viz. a decline in quantity as well as in quality produced, particularly with regard to smallholder's rubber.

It is therefore necessary to plan for production increase, rejuvenation of rubber trees, and upgrading of the finished as well as of the semifinished product. Moreover, quality standards should be established, which means that a quality control of rubber exports should be introduced in order to increase exports and to attract importers abroad.

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



There was a continuous decline in the export proceeds from small holder's rubber which in 1964, 1965, 1966 and 1967 amounted to US \$ 137 million, US \$ 136 million, US \$ 132 million and US \$ 104 million, accompanied by an export volume of 418 thousand tons, 488 thousand tons, 442 thousand tons and 432 thousand tons, respectively. The said decline further explained the decline in total exports.

In 1965-1967 the price of natural rubber (RSSI) in the New York market developed as follows:

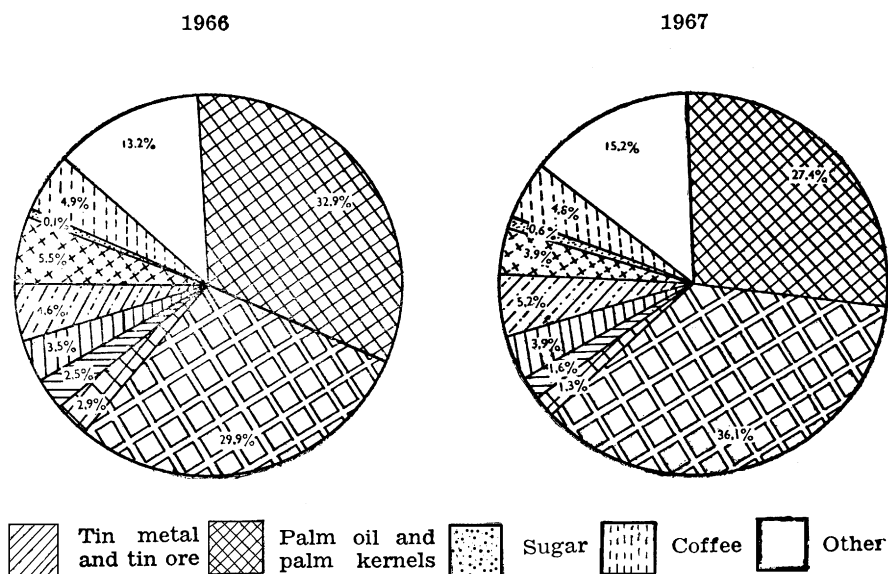
1965 - 25.70 US \$ cents/lb

1966—23.60 US \$ cents/lb

1967 —20.60 US \$ cents/lb

Source: International Financial Statistics.

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



The quotations above reveal that world market prices were steadily declining during the period of 1965-1967; the price in 1967 was even the lowest ever recorded in recent years. It should be mentioned that the price quoted in December 1967 was 17.50 US \$ cents./lb which was 45% of the price in 1960 (38.50 US \$ cents/lb),

The annual percentage changes in the value and volume of as rubber exports were as follows:

	Value	Volume
1955	- 13%	- 8 %
1966	+ 6 %	+ 7.6%
1967	- 31 %	- 12 %

Note: +) increase
-) decrease

TABLE 36 - EXPORTS BY COUNTRY OF DESTINATION
(in million US dollars)

Country of destination	1965	1966	1967*)
<i>Europe</i>			
United Kingdom and Republic of Ireland	6	16	18
Germany	54	77	45
France	6	13	5
Belgium and Luxemburg	10	14	6
Netherlands	92	94	56
Italy	9	9	4
Denmark	2	1	1
Norway	2	1	1
Sweden	1	—	—
Other	34	45	22
Total exports to Europe	216	270	158
Per cent of total export value	30.5%	39.8%	33.2%
<i>America</i>			
Canada	—	—	—
United States	153	139	78
Other	6	5	2
Total exports to America	159	144	80
Per cent of total export value	22.5%	21.2%	16.7%
<i>Africa</i>			
Egypt	1	—	—
Portugese East Africa	—	—	—
Union of South Africa	—	—	—
Other Countries	2	1	1
Total exports to Africa	3	1	1
Per cent of total export value	0.4%	0.2%	0.2%
<i>Asia</i>			
Iraq	—	1	1
India	2	—	—
Pakistan	1	6	2
Burma	3	—	—
Thailand	3	4	4
Malaysia	—	—	1
Penang	—	—	—
Singapore	6	18	29
Vietnam	—	—	—
Hongkong	9	14	9
China	40	9	—
Japan	112	121	117
Philippines	18	22	17
Other	2	3	2
Total exports to Asia	196	198	182
Per cent of total export value	27.7%	29.2%	38.2%
<i>Australia</i>			
Australia	56	55	44
New Zealand	1	2	1
Oceania — Hawaii	8	4	8
Total exports to Australia	65	61	53
Per cent of total export value	9.2%	9%	11.3%
Via free ports: Sabang, Tandjung Uban and ports not specifically mentioned	68	4	2
Per cent of total export value	9.7%	0.6%	0.4%
Grand total	707	678	476

*) January — September 1967

Source : Central Bureau of Statistics

As clearly explained above, the world market price fluctuations adversely affected the foreign exchange proceeds from rubber which previously accounted for more than 60% of total export proceeds (excluding petroleum and petroleum derivatives) and in 1966 and 1967 became less than 50% of export earnings.

In order to increase foreign exchange receipts, the decline in rubber exports forced us to pay more attention to other export commodities, such as copra, tobacco, coffee, etc. and even to export commodities without established markets, e.g. handicraft products, animal hides, etc.

On account of the allocation of *coffee* stamps by the International Coffee Organization (I.C.O.) the world market price of coffee could be kept under control. Indonesia as a coffee exporting country whose ration of stamps was below its requirement—and who moreover had to cope with retarded communication — was rather adversely affected by this system, since it resulted in accumulated stocks of coffee bound for export which could not be shipped due to insufficiency or delayed receipt of coffee stamps.

Nevertheless, in the period of 1965-1967 our coffee exports increased steadily. In 1965, 1966 and 1967 they amounted to US \$ 31, US \$ 33 and US \$ 35 million, respectively, which was an average annual increase of 6%.

Since 1964, export proceeds from tea were constant, except in 1967 when they amounted to US \$ 10 million; compared with the tea exports of US \$ 17 million in the preceding years, it was a decline of 70%. The decline was mainly due to the fall in the world market price of tea in 1967 besides a decline in volume.

Palm oil exports amounted to US \$ 27 million in 1965, increased to US \$ 33 million in 1966 and declined to US \$ 23 million in 1967 which was approximately 15% below the level of 1965.

Unlike palm oil, the export of palm *oil kernels* during the 1965-1967 period was unchanged, i.e. US \$ 4 million.

With regard to palm oil (and tapioca), mention should be made of the decision of the European Common Market to impose a discriminatory common external tariff in the form of trade barriers in mid 1967.

The said common external tariff was originally planned to take effect in 1970, but the implementation would be advanced to 1968; with regard to several commodities, in particular palm oil and tapioca it was even effective as from July 1, 1967. Consequently, it benefited the producer countries who were associate members of the European Common Market, particularly the African countries. On the other hand, Indonesia as the largest exporter to E.C.M. member countries was most adversely affected, since it would reduce our export proceeds, in particular from palm oil and tapioca.

The palm oil imports of the E.C.M. member countries (in thousands of metric tons) developed as follows:

<i>Year</i>	<i>Export volume</i>	<i>From associated member countries</i>	<i>From Nigeria</i>	<i>From Indonesia</i>	<i>From other countries</i>
1961	266	116	29	110	11
1962	228	118	22	75	13
1963	263	124	38	89	12
1964	295	157	36	91	11
1965	264	101	51	92	20
1966	276	113	38	102	23

Due to the drop in exports of the Congo (Kinshasha) which was the largest supplier among the associated members of the E.E.C. and due to the political disturbances in Nigeria in 1967, Indonesia's position was better established.

Because of the aforesaid trade barriers imposed by the E.E.C. the entrepreneurs (importers, processors as well as seed crushers) were under pressure; on the other hand, however, the associated members would certainly defend the preferential treatment which is most beneficial to them.

The shortage of palm oil supplies was also perceptible in the United Kingdom and necessitated the Board of Trade to postpone the effective date of the 10% non-preferential duty on palm oil produced outside the Commonwealth countries from July 27 to September 7, 1967.

It was a different matter with tapioca, since it involved the problem of protection of a number of commodities (barley and oats) produced by E.C.M. member countries themselves, moreover, the quality ratio between tapioca and barley was approximately 70 : 100.

In this context Indonesia had endeavored to postpone the said tariff increase, and recommended the following solutions to the problem:

- postponement of the tariff increase;
- payment of compensation for the loss incurred by Indonesia;
- allocation of a tariff contingent;
- conclusion of trade agreements with E.C.M. member countries which, however, until the end of the period under report did not produce any results.

In 1965, copra exports amounted to US \$ 18 million, which was a decline of US \$ 6 million or 25% compared with the preceding year. In 1966 copra exports increased (although to a level lower than in 1964), to US \$ 20 million (+ 11%), but in 1967 declined again appreciably by US \$ 7 million (35%) compared with the preceding year.

In connection with the export, drive, the Government issued a series of regulations designed to provide greater incentives to exporters. The said regulations provided for a simplification of procedures as well as for a percentage of the export proceeds which exporters were entitled to in the form of BE (Bonus Ekspor = Export. Bonus), while the balance should be sold to the Foreign Exchange Fund at the conversion rate of Rp. 10.000 (old currency) per US dollar. The said conversion rate was made up of the Rupiah Transaction Rate of Rp. 250.- (old currency) to which an Export Premium of Rp. 9,750.- (old currency) was added. For the purpose of determining the BE percentages, export commodities were classified into 3 categories.

- | | |
|----------|---|
| Category | I : export commodities with established markets (such as rubber, copra, pepper, tea, tin and tobacco) estimated to comprise 90% of total exports. |
| Category | II : export commodities without established markets (such as coffee, capok, essential oils) estimated to comprise 8 % of total exports. |
| Category | III : other commodities estimated to comprise 2% of total exports. |

Since the introduction of the BE system in February 1966, the BE percentages were increased a few times in order to provide greater incentives to exporters.

In February 1966 exporters were entitled to the following percentages of BE:

Category	I : 10% of export proceeds
Category	II : 15% of export proceeds
Category	III : 50% of export proceeds

In May 1966, the BE percentages were increased to:

Category	I : 20% of export proceeds
Category	II : 60% of export proceeds
Category	III : 100% of export proceeds

At the same time, the composition of the categories was slightly changed, since coffee from Category I as well as a number of commodities from Category III were moved to Category II. Moreover, the provinces in which the export commodities were produced and the provinces in which the ports were located from where the commodities were shipped, were entitled to a percentage of BE which was called. BED (Bonus Ekspor Daerah = Regional Export Bonus). The said BED amounted to 10% of the export proceeds from Category I and Category II goods to be deducted from the amount of foreign exchange sold to the Foreign Exchange Fund. The percentage of such BE's allocated to the provinces was unchanged through the end of 1967. The Government adopted this policy in order to provide the provinces concerned with an incentive to stimulate the export of commodities produced within their regions.

In October the BE percentages were increased again as follows:

Category	I : 50% of export proceeds
Category	II : 75% of export proceeds
Category	III : 90% of export proceeds

The provinces of origin of the export commodities and the provinces from where the export commodities concerned were shipped, were entitled to 10 % of the export proceeds derived from all types of commodities including those in Category III; the name of the allocation was changed into ADO (Alokasi Devisa Otomatis = Automatic Foreign Exchange Allocation) .

In July 1967, exports were reclassified into 2 categories, viz.:

- | | |
|----------|---|
| Category | A : made up of rubber, copra, pepper, tin, coffee, diamonds, palm oil, palm oil kernels and leaf tobacco. |
| Category | B : other export commodities. |

Exporters received 75% and 90% of export proceeds in the form of BE's for export of commodities in Category A and B, respectively; 10% of export proceeds from commodities in both categories was allocated to the provinces as AD (Alokasi Devisa = Foreign Exchange Allocation), while 15% of the export proceeds of Category A commodities had to be surrendered to the Foreign Exchange Fund without rupiah compensation.

Export proceeds were determined/calculated on the basis of the delivery price viz. the net f.o.b. price. The amount in excess of the delivery price, i.e. the overprice, may be retained by the exporters as DP (Devise Pelengkap - Complementary Foreign Exchange), or be sold to foreign exchange banks or in the free market. DP's originating from this overprice could be freely owned and used for the financing of any imports.

Table 35 shows that actual exports in 1966 (exclusive of petroleum and petroleum derivatives) increased by US \$ 40 million or 9% over the preceding year; conversely, in 1967 there was a decline of US \$ 35 million (11%) compared with 1966.

For a correct assessment of the impact of the aforesaid regulations upon exports, a number of factors should be observed which were directly related to the development of exports, viz. the f.o.b. prices of export commodities, the determination of the delivery prices, the development of foreign exchange rates in the free market and of production costs of export commodities as well as the simplification of export procedures.

Measures designed to encourage exports will only be successful if they are applied in a conducive environment viz. in which production costs are not increasing and other costs are not increasing either as a consequence of the simplification of export procedures, thus resulting in stable f.o.b. prices. Similarly, the determination of the delivery price should be sufficiently realistic in order to protect exporters against losses incurred on account of price disparity.

With regard to foreign exchange, the increase of the foreign exchange rate in the free market provided exporters with a major incentive to earn foreign exchange through an increase in exports.

During 1965-1967, petroleum exports were erratic. Such exports increased from US \$ 267 million in 1964 to US \$ 272 million in 1965, and decreased by US \$ 69 million in 1966 which was 25% below the level of the preceding year. In 1967 petroleum exports increased again to US \$ 236 million, i.e. an increase of US \$ 33 million (16%) over 1966. The low foreign exchange earnings from oil were due to an increase in domestic requirements which was not accompanied by an increase in production (production even declined) and by declining world market prices of petroleum as a consequence of keen competition among producing countries.

In order to obtain a better picture of the, developments referred to above, the following data on the export of petroleum and petroleum derivatives during the 1965-1967 period are reported below:

	<i>Value</i>	<i>Volume</i>
1964	US \$ 267 million	17,555 thousand tons
1965	US \$ 272 million	17,524 thousand tons
1966	US \$ 203 million	14,462 thousand tons
1967	US \$ 236 million	18,552 thousand tons

TABLE 37 - IMPORTS OF INDONESIA
(including oil companies)

	Value (in million US dollars)			Per cent of total import value		
	1965	1966	1967	1965	1966	1967
Consumer goods	231	229	322	32.2	40.0	43.8
Raw materials/auxiliary goods	266	184	239	37.0	32.1	32.5
Capital goods	221	160	174	30.8	27.9	23.7
Total	718	573	735	100.0	100.0	100.0

Source : Central Bureau of Statistics.

Imports

In comparison with 1964, imports during the 1965-1967 period increased considerably except in 1966. Imports in 1965 amounted to US \$ 718 million, which was an increase of US \$ 96 million or 15% over 1966 (imports in 1966 amounted to US \$ 622 million). In 1966 there was a decline of US \$ 145 million or 21% conversely, in 1967 imports increased again to US \$ 735 million, i.e. an increase of US \$ 162 million or 28% over 1964 (table 38).

The import pattern of 1966 and 1967 was still consumption oriented, since consumer goods accounted for the major part of total imports and amounted to US \$ 229 million (40.0%) and US \$ 322 million (43.8%), respectively. Similarly, consumer goods imports in 1964 were US \$ 247 million, i.e. 39.7% of total imports which amounted to US\$ 622 million. In 1965, however, imports of raw materials/auxiliary goods were US \$ 266 million and accounted for the major part (i.e. 37 %) of total imports, while imports of consumer goods were only US \$ 231 million or 32.2% of total imports which in 1965 amounted to US \$ 718 million.

In 1965, raw materials/auxiliary goods made up the major part of total imports; in 1964, conversely, such imports amounted to US \$ 170 million and accounted for only 27.3% of total imports.

In 1966, imports of raw materials/auxiliary goods amounted to US \$ 184 million (32.1 % of total imports), and increased to US \$ 239 million (32.5% of total imports) in 1967. Since 1964 capital goods imports were never a major part of total imports; in 1965 through 1967 their share in total imports was even the lowest, viz. US \$ 221 million (30.8%), US \$ 160 million (27.9%) and US \$ 174 million (23.7%), respectively, whereas in 1964 such imports amounted to US \$ 205 million (33.0%).

The large imports of consumer goods in 1966 and 1967 were marked by sizable imports of rice, wheat flour and textiles intended to create social economic and political stability after the turmoil brought about by the September 30/Communist Party's Movement at the end of 1965, and to replenish the depleted domestic rice supplies which resulted from protracted drought. In 1966 and 1967, rice imports increased consider-

ably, and according to the data of the Body of Logistic Affairs were 237 thousand tons (US \$ 32 million) and 346 thousand tons (US \$ 57 million), respectively. Since rice imports in 1965 were 189 thousand tons (US \$ 20 million), the aforesaid increases in 1966 and 1967 were 25% and 83%. Imports of wheat flour in 1966 and 1967 increased by 25% and 32.5% respectively in comparison with 1965. Imports of dyed fabrics and white shirting amounted to US \$ 40 million and US \$ 42 million in 1966 and 1967, respectively, which was an increase of 111% and 121% over 1965.

Imports of raw materials/auxiliary goods during the 1965-1967 period were erratic. There was a large increase in 1965 in comparison with 1964, viz. from US \$ 170 million to US \$ 268 million (+ 57%), whereas in 1966 such imports declined to US \$ 184 million (- 31 %), and increased again by US \$ 55 million (+ 30%) in 1967.

The specification of raw materials/auxiliary goods imports in 1965 disclosed that cotton yarn accounted for the largest share, viz. US \$ 46 million, followed by fertilizer, paper, and petroleum and petroleum derivatives, which amounted to US \$ 15 million, US \$ 14 million and US \$ 13 million, respectively. The said composition remained unchanged in 1966; however, there was a decline in the imports of nearly all goods except cloves which increased from US \$ 4 million to US \$ 15 million. The import of yarn declined by 43% in 1966 compared with the preceding year; similarly, imports of fertilizer, paper and oil decreased by 27%, 21% and 38 %, respectively.

The waiting attitude Oil the part of importers with regard to the position and the direction of the Government policy as well as the priorities granted by the Government to the import of foodstuffs and textiles caused imports to decline in 1966.

Imports of raw materials/auxiliary goods in 1967 increased in comparison with 1966 although the amount was less than in 1965 while the composition of the goods was modified. Fertilizer imports were the largest and amounted to US \$ 21 million, i.e. an increase of 91% over the preceding year; paper imports increased by 45% whereas the import of cotton yarn declined further by 58%. On the other hand, imports of cloves and clove stalks increased further by 100% while the import of gunny bags increased by 167% over the preceding year.

CHART III — IMPORTS

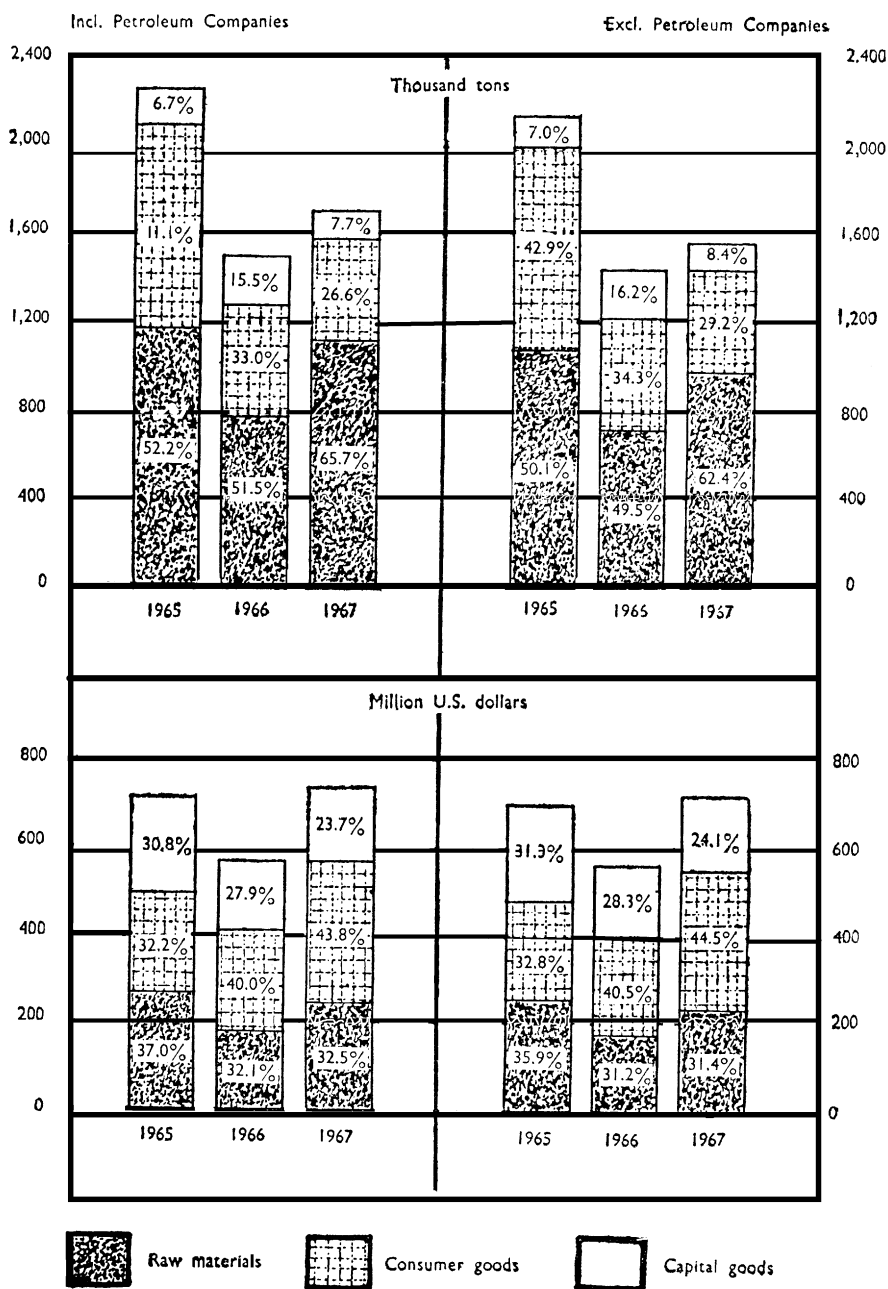


TABLE 38 - IMPORTS BY COUNTRY OF ORIGIN
(in millions of US dollars)

	1965	1966	1967*
<i>Europe</i>			
United Kingdom and Republic of Ireland	27	13	19
West Germany	62	48	65
East Germany	4	3	4
France	11	10	6
Belgium and Luxemburg	3	3	2
Netherlands	23	25	37
Italy	31	30	12
Czechoslovakia	15	8	1
Switzerland	3	2	3
Sweden	2	1	1
Spain	—	—	—
Other	47	31	178
Total imports from Europe	228	174	328
Per cent of total import value	31.75%	30.4%	47.53%
<i>America</i>			
Canada	1	—	1
United States	65	51	42
Other	3	—	7
Total imports from America	69	51	50
Per cent of total import value	9.57%	8.9%	7.32%
<i>Africa</i>			
Egypt	2	1	1
British East Africa	—	—	3
Union of South Africa	—	—	—
Other	4	6	5
Total imports from Africa	6	7	9
Per cent of total import value	0.92%	1.2%	1.25%
<i>Asia</i>			
Serawak, Brunai, British Kalimantan	—	—	—
India	4	7	7
Pakistan	13	9	7
Burma	40	13	3
Thailand	52	26	6
Malaysia	—	—	1
Penang	—	—	—
Singapore	—	1	14
Indo-China	1	—	2
Hongkong	14	49	53
China	99	60	39
Japan	183	142	138
Philippines	—	1	1
Other	5	1	21
Total imports from Asia	411	309	292
Per cent of total import value	57.17%	53.9%	42.34%
<i>Australia</i>			
Australia	4	4	11
New Zeland & Oceania	—	—	—
Total imports from Australia	4	4	11
Per cent of total import value	0.56%	0.7%	1.57%
Via free ports: Sabang, Tandjung Uban, and ports not specifically mentioned	—	28	—
Per cent of total import value	0.3%	4.9%	—
Total imports of Indonesia	718	573	690

*) January - October 1967

Source : Central Bureau of Statistics.

From the share of raw materials/auxiliary goods in total imports of 1967 may be concluded that the Government policy was fairly stabilized and was moving in the direction of increased production, in particular of foodstuffs.

Capital goods import during the 1965-1967 period were erratic. In 1966 such imports declined by US \$ 61 million or 28% in comparison with 1965; in 1967, however, they increased by US \$ 14 million or 9%. The composition of capital goods imports in 1966 was not different from 1965, motorcars and motorbikes comprised the largest share and amounted to US \$ 58 million in comparison with US \$ 68 million in 1965. In 1967, imports of the said goods declined to US \$ 17 million, i.e. a decrease of 70%. Similarly, the import of automobile and motorcycle types in 1966 declined by US \$ 10 million or 48%, and in 1967 declined further by 73% in comparison with the preceding year. Imports of machinery and equipment in 1966 was 26,% less than in 1965, but increased again by 25% in 1967.

In 1966, imports were classified into 4 (four) categories, viz.:

Category	I	: essential commodities, e.g. rice, pharmaceuticals and text books,
Category	II	: raw materials and auxiliary goods, semi-finished products and capital goods which are foreign exchange earning,
Category	III	: raw materials/auxiliary goods and semi-finished products used for the production of goods intended for domestic consumption,
Category	IV	: other goods.

Besides, there was a list of commodities of which the import was prohibited and/or restricted and for which a special permission from the Minister of Trade was required.

The import of the commodities mentioned above may be financed by 4 (four) types of foreign exchange, viz. BE's originating from exports and consisting of exporter's BE's and regional BE's (BED/ADO), DP's (Devise Pelengkap = Complementary Foreign Exchange) and foreign exchange out of the Foreign Exchange Fund.

Exporter's BE's were used for the financing of imports included in the BE list which mainly consisted of goods in Categories I through III and of a few goods in Category IV, while regional BE's (BED/ADO) were used for the financing of imports listed in Categories I through III. DP's i.e. foreign exchange originating from "overprice", may be used for the financing of all types of imports included in Categories I through IV. The use of foreign exchange out of the Foreign Exchange Fund was subject to a licence from the BLLD (Biro Lalu Lintas Devisa = Bureau of Foreign Exchange Transactions).

As of July 1967, the aforesaid import classification was abolished and the respective categories were integrated into 1 (one) BE list. This BE list was divided into 2 (two) categories viz.:

- 1) non-consumer goods;
- 2) consumer goods.

Besides, there was a category of goods importable by means of aid BE's which broadly consisted of very essential and essential goods included in the BE list agreed upon by the creditor countries.

Early 1966, a new type of imports was introduced, i.e. "BE imports without cover". Such imports were not subject to the conventional import procedure whereby the foreign exchange required for the financing of imports should be available. The payment for such imports was deferred and would be effected by means of export BE's of the relevant importers. Opening of Letters of Credit was unnecessary, since the Government did not provide any guarantee to the exporters abroad as far as payment was concerned. The goods which may be imported through the said system were classified into 4 (four) categories, viz.:

1. foodstuffs
2. textiles;
3. spare parts;
4. other commodities, subject to the following ratio for each import transaction:
 - * 30% for import of foodstuffs;
 - * 30% for import of textiles;
 - * 30% for import of spare parts;
 - * 10% for import of other commodities.

Moreover, in order to maintain sound relations in trade it was determined that such imports should be paid not later than six months as from the date of shipment, while payments thereafter could not be made by means of BE exchange.

The types of commodities which could be imported were those included in the BE list. The implementation of this import system was entirely left to the domestic importers and the exporters abroad, the system was therefore most attractive to importers with established relations abroad as was reflected by the considerable increase of such imports: Import Applications in 1967 amounted to US \$ 160.5 million compared with only US \$ 24.6 million in 1966. Most of the goods imported by means of BE without cover were consumer goods.

The above explanation clearly indicates the direction of the Government policy in the field of imports, viz. with regard to consumer goods imports, priority was given to foodstuffs and textiles; with regard to raw materials/auxiliary goods imports, priority was given to items for increasing the production of export commodities and of goods for domestic consumption; the same applied to capital goods imports.

Terms of trade

The method employed for the computation of the terms of trade in the present report is the same as in the preceding years, viz. by using as weights: the volume of goods exported and imported in the relevant year; the value of exports and imports in a specific period were compared with the value of exports and imports in a base year. Exports were made up of 31 commodities (commodity groups) to which a residual item "Other export commodities" was added while imports were made up of 3 categories, viz. consumer goods, raw materials/auxiliary goods, and capital goods. Each of the aforesaid categories consisted of a number of commodities and a residual item "Other"; consequently, imports as a whole included 30 types of import articles with a residual item in each category.

It should further be pointed out that unlike in the preceding reports, the terms of trade in the present report were computed on the basis of export and import values expressed in US dollars while 1950 served as the base year.

The export and import price indices as well as the terms of trade are reported in table 39. Moreover, in order to provide a better picture of the developments, the price index numbers of selected export and import articles are presented in table 40

The price index numbers in table 39 reveal that the terms of trade in 1966 increased in comparison with the preceding year, viz. from 41 to 44. The increase was primarily attributable to a decline in the import price index and a slight increase in the export price index. The import price index declined from 141 in 1965 to 134 in 1966, while the export price index increased slightly from 58 in 1965 to 59 in the succeeding year. The development of the price index for selected export commodities in 1966 was generally unfavorable. Except for rubber (which was unchanged) the price indices of all other commodities such as copra, petroleum and petroleum derivatives as well as tin were lower than in 1965. However, since the price index of a few other commodities of minor importance was slightly higher than in the preceding year, the general export price index in 1966 was not much different from 1965.

On the other hand, the decline in the import price index from 141 to 134 was primarily a consequence of the decline in the price index of capital goods from 205 in 1965 to 101 in 1966. The price index of raw materials/auxiliary goods in 1966 was practically unchanged in comparison with the preceding year, viz. 288 in 1966 against 287 in 1965. The price index for consumer goods increased notably from 58 in 1965 to 129 in 1966. This substantial increase was primarily due to the increase in the indices of

TABLE 39 - TERMS OF TRADE
(1950 = 100)

	Price indices		Terms of trade
	Exports (f.o.b.)	Imports (c.i.f.)	
1963*)	65	115	56
1964*)	64	110	58
1965	58	141	41
1966	59	134	44
1967	51	165	31
1967:			
January	54	116	47
February	62	122	51
March	49	151	32

*) Revised figures.

TABLE 40 - PRICE INDICES OF MAIN IMPORT
AND EXPORT COMMODITIES
(1950 = 100)

Exports (f.o.b.)	1963*)	1964*)	1965	1966	1967	Imports (c.i.f.)	1963*)	1964*)	1965	1966	1967
Rubber	83	71	62	62	51	Consumer goods, of which:	67	60	58	129	208
Copra	44	42	44	42	30	Rice	107	113	152	154	188
Petroleum and petroleum products	73	63	64	53	53	Wheat flour	93	118	110	95	101
Tin & tin ore	82	152	261	233	211	Cotton fabrics (dyed, etc.)	64	82	98	96	85
						Raw/auxiliary materials	104	245	287	288	268
						Capital goods	272	136	205	101	187

*) Revised figures

practically all consumer goods, except wheat flour and cotton fabrics (which declined). The price index of rice, one of the main consumer items, increased also although slightly, viz. from 152 in 1965 to 154 in the subsequent year.

In 1966 the price index of costumer goods increased notably, and the price index of raw materials/auxiliary goods was practically stable. Nevertheless, on account of the considerable decline in the price index of capital goods as the largest component, the general import price index in 1966 was lower than in 1965.

Consequently, the improved terms of trade in 1966 was primarily attributable to the decline in the import price index, particularly in regard to capital goods.

The increase in the terms of trade attained in 1966 could not be maintained in the following year: the terms of trade in 1967 declined from 44 to 31. This decline was not only due to a decrease in the export price index, but to an increase in the import price index as well. The export price index declined from 59 in 1965 to 51 in 1967, while the import price index increased from 134 in 1966 to 165 in 1967.

The said decrease in the export price index was primarily attributable to a price decline of a few major export commodities such as rubber, copra and tin. The rubber price index declined from 62 in 1966 to 51 in 1967, while the price indices of copra and tin which were 42 and 233 in 1966, declined to 30 and 211 respectively.

On the other hand, the increase in the import price index was primarily due to an increase in the price indices of consumer goods arid capital goods.

The index of consumer goods which was 129 in 1966, increased to 208 1967. This substantial increase resulted from the price increases of nearly all consumer goods, in particular of essential consumer goods such as rice and wheat flour. The price indices of rice and wheat which in 1966 were 154 and 95, respectively, increased to 188 and 101 in 1967. Similarly, the price index of capital goods increased from 101 in 1966 to 187 in the subsequent year.

Consequently, the decline in the terms of trade in 1967 was not only due to a decline in the export price index, but to an increase in the import price index as well, primarily on account of capital goods and essential consumer goods.

Foreign exchange system and measures in the field of foreign change

1. 1966

Export

The export policy of the Government particularly aimed at providing incentives to exporters in order to increase the volume of exports.

The following enumeration of export regulations issued in 1966 may give a clear picture of the incentives thus provided:

Presidential Decree No. 4 of 1956 dated February 11, 1966, concerning the BE (Bonus Ekspor = Export Bonus).

Export commodities were divided into the three following categories:

- | | | |
|----------|-----|--|
| Category | I | : Export commodities/produce comprising approximately 90% of total export proceeds, e.g.: rubber, copra, tobacco. |
| Category | II | : Export commodities/produce comprising approximately 8% of total export proceeds, e.g.: cattle, spices, foodstuffs. |
| Category | III | : Export commodities/produce comprising approximately 2% of export proceeds, e.g.: forestry products, essential oils, products of handicraft and industry. |

Exporters had to sell the total foreign exchange earnings from exports to the Foreign Exchange Fund at the Rupiah Transaction Rate of Rp. 250.- to which an Export Premium of Rp. 9,750.- per US dollar was added.

Besides, exporters received the following percentages of BE for ports of commodities in the aforesaid categories:

- | | | |
|----------|-----|--------|
| Category | I | : 10%. |
| Category | II | : 15% |
| Category | III | : 50% |

Decision of the Presidium of the DWIKORA Cabinet of the Republic of Indonesia No. Aa/E/74/66 dated May 24, 1966, concerning the revision of the BE percentages.

The BE percentages for each category were changed and became:

Category	I	: 20 % .
Category	II	: 60 % .
Category	III	: 100%

50% of the BE's of each category was designated for the import of items needed by the Provinces where the relevant export commodities were produced and was called BED (Bonus Ekspor Daerah -- Regional Export Bonus).

Therefore, two types of BE were known, viz.:

BEE	=	BE for Exporters.
BED	=	BE for Provinces.

Exporters should sell their export proceeds, net of BE, to the Foreign Exchange Fund at the Rupiah Transaction Rate of Rp. 250.- to which an Export Premium of Rp. 9,750.- per US dollar was added.

Import

The following policy was adopted with regard to imports:

On the basis of Presidential Regulation No. 4 of 1966 concerning BE's it was determined by Decision of the DWIKORA Cabinet No. Aa/D/23/ 1966 dated February 11, 1966, that BE's may only be used for imports of selected items, viz. those included in the commodity list of the Import Plan (Rentjana Impor Barang).

In the interest of domestic economic stabilization and development it was necessary to accelerate the inflow of the said goods. Therefore, the Minister of Trade, the Minister of Finance and the Governor of Bank Negara Indonesia issued a Joint Decision regarding BE imports without

No. 107/SK/VIII/1966/No. 497/MK/66
cover, i.e. of August 29. 1966
Kep. 9/GBNI/66

Pursuant to the said Joint Decision, importers were given the opportunity to finance imports of the aforementioned items by means of BE's to be acquired afterwards.

On the basis of the Decision of the Provisional People's Consultative Congress No. XXIII/MPRS/1966 dated July 5, 1966, concerning the Reassessment of the Biased Financial Economic and Development Policy, the Government formulated the economic policy in the form of a Stabilization and Rehabilitation Program. The executive regulations of the said program were generally referred to as the October 3, 1966 Regulations.

This Stabilization and Rehabilitation Program aimed at:

- a) control of inflation;
- b) adequate supplies of foodstuffs;
- c) rehabilitation of economic infrastructure;
- d) encouragement of export activities;
- e) adequate supplies of textiles.

With respect to the economic stabilization and rehabilitation process, the Government emphasized upon supervision rather than direct control of economic activities.

It was therefore necessary to switch from a system of direct control to a system of indirect control by means of several devices. With respect to foreign exchange transactions, the Government policy was formulated in the following regulations:

Decision of the Presidium of the Cabinet No. 48/Kep./10/1966 dated October 5, 1966, concerning the change in the BE percentages.

The BE percentages for the relevant categories were changed and became:

Category	I	: 50 %.
Category	II	: 75 %.
Category	III	: 90%

Exporters should sell their export proceeds, net of BE, to the Foreign Exchange Fund at the Rupiah Transaction Rate of Rp. 250.- to which an Export Premium of Rp. 9,750.- per US dollar was added. Ten per cent of the relevant export proceeds was allocated as ADO to the Provinces concerned for which they should pay to the Foreign Exchange Fund: the Rupiah Transaction Rate of Rp. 250.- to which was added an Import Contribution (Iuran Impor) of Rp. 9,750.- per US dollar.

Another policy introduced by the Government in connection with the October 3, 1966 Regulations was the following :

Decision of the Presidium of the Cabinet No. 50/EK/KEP/10/1966 concerning the Use of Foreign Exchange from the Foreign Exchange Fund and from Foreign Aid for Commodity Imports and Services.

Foreign exchange obtained by the Foreign Exchange Fund derived from exports of merchandise and invisibles as well as from foreign loans or other aid was made available at the BE rate for the payment of goods and services.

On the basis of the aforesaid Decision, on October 24, 1966, a Joint Notification was issued by the Minister of Trade and the Governor of Bank Negara Indonesia concerning the sale of BE's derived from foreign aid for the financing of imports, thenceforth called aid-BE's. Such aid BE's would be sold through the head office as well as the branch offices of Bank Negara Indonesia Unit I.

The first aid-BE's originated from a loan from India to the amount of Rp. 100 million; the sale started on November 15, 1966, and was for the time being confined to Bank Negara Indonesia Unit I in Djakarta.

As a consequence, since the introduction of the said October 3, 1966 Regulations, the system of foreign exchange rations/allocations to Departments and other Government institutions as well as to the private sector was abolished.

II. 1967

The economic policy of the Government in 1967 aimed at perfecting the economic policy initiated in the preceding year. Therefore, the Government introduced a series of measures generally known as the July 28, 1967 Regulations which covered the policies in the field of exports, imports and invisibles.

Export

In order to encourage export activities, by Decision of the Cabinet Presidium No. 170/EK/KEP/7/1967 dated July 28, 1967, the Government changed the classification of export commodities from three categories into two, viz. Category A and Category B. Category A was composed of 9 major export commodities such as rubber, copra, leaf tobacco, coffee, pepper, palm oil, palm kernels, diamonds and tin. Category B was composed of other export commodities not included in Category A with the exception of gold and silver, both in ore and refined.

Export proceeds from Category A commodities were allocated as follows:

75% to exporters in the form of BE;
15% to the Foreign Exchange Fund;
10% to the Provinces in the form of ADO.

The allocation of proceeds from Category B commodities was as follows:

90% to exporters in the form of BE;
10% to the Provinces in the form of ADO.

The commodities belonging to Categories A and B were estimated to account for 80% and 20% of total export proceeds, respectively. Check-prices continued to be determined for commodities in Category A, whereas commodities in Category B were not

subject to check prices and may be sold at whatever price they could fetch. For commodities in Category A, the check-prices were based on the date of the L/C opening abroad.

Besides the changes above, the export procedure was simplified. The S.I.P. and S.P.-3 forms as well as the foreign exchange contract were abolished and only one form would thenceforth be used instead, viz. the E-3 form. This E-3 form had been revised and it combined the contents of the former E-3 and A.V.I. (Aangifte Van Inlading = Declaration of Loading) forms. Moreover, the Government ended the payment of rupiah counter value to exporters.

The Government considered it necessary to revise a few executive measures of the July 28, 1967 Regulations for a better assurance of the results which the said regulations were designed to achieve. In this context, on November 22, 1967, a Joint Decision (No. Kep. 19/G.B.N.S./67) on the Export Declaration form was issued by the Minister of Trade, the Minister of Finance and the Governor of Bank Negara Indonesia/the Central Bank.

To assure the timely execution of export contracts, exporters had to report the contracts concluded with buyers abroad on an Export Declaration form for submission to the foreign exchange banks. Since the said obligation was established, the determination of check-prices for Category A commodities was no longer based upon the date of the L/C opening abroad, but on the date of submission of the Export Declaration.

Meanwhile, the integration of the E-3 and the A.V.I. forms was temporarily postponed.

Import

The following measures were taken in order to improve the import policy.

The import procedure was simplified, i.e. importers were permitted to open L/C's without prior submission of PP's (Pernyataan Impor = Import Declaration). Submission of PP's was only required in the case of non-consumer goods imports by means of BE without cover. In order to facilitate aid-BE sales, the Central Bank by Decision of

the Board of Directors of Bank Negara Indonesia No. 3/16/KEP/DIR dated May 4, 1957, established the Foreign Exchange Bourse in Djakarta, at No. 13 Djalan Merdeka Selatan. Besides aid-BE's, export BE's, DP's, ADO's and other forms of foreign exchange were traded at the Foreign Exchange Bourse.

Afterwards, pursuant to Instruction of the Presidium of the AMPERA Cabinet No. 46/EU/IM/7/1967 dated July 28, 1967, the sale of aid-BE's which was initially only confined to the Foreign Exchange Bourse in Djakarta, was also entrusted to the state-owned foreign exchange banks and their branch offices. Aid-BE's could be sold to importers/exporters as well as to other interested parties who did not need to be registered importers.

The Regulations of July 28, 1967, moreover provided the following facilities in connection with aid-BE purchases:

- a) 75% of the amount payable on account of aid-BE purchases intended for non-consumer goods imports may be deferred (which implied a down payment of 25 %);
- b) 50% of the amount payable on account of aid-BE purchases intended for consumer goods imports may be deferred (which implied a down payment of 50 %) .

It appeared, however, that the facilities mentioned above did not have the desired effect, i.e. payments of the deferred portion were slow and there were moreover speculative elements involved in the aid-BE purchases. Therefore, Bank Negara Indonesia Unit I issued Notification No. 38/DIR/ 67 of December 4, 1967, which stipulated that:

1. No extension of payment was permitted for any purchases of aid BE's. Purchases should be followed by payment of 100% rupiah counter value before the aid-BE's were surrendered to the relevant buyers.
2. Only registered importers were permitted to buy aid-BE's. Interested parties who were no registered importers yet were requested to contact the Department of Trade.
3. Buyers of aid-BE's were required to ,show their tax clearance for 1967 to the official in charge at the Foreign Exchange Bourse/state owned foreign exchange bank, viz. by submitting the assessment list together with the evidence of tax payment.

Invisibles

Pursuant to Decision of the Cabinet Presidium No. 164/EK/KEP/7/ 1967 dated July 17, 1967 concerning the use of BE's for payment of invisibles, export BE's may be used for payment of invisibles as mentioned below. According to the former system, such payments were effected by means of foreign exchange out of the Foreign Exchange Fund and subject to a licence from the Bureau of Foreign Exchange Transactions viz.:

- a. Additional freight/ imports financed by means of BE's
- b. Insurance premiums for imports paid for by means of BE's.
- c. Hire purchase of, ships or purchase on installments as well as costs of sailing, which were formerly paid out. of the Foreign Exchange Fund reserves.
- d. Subscriptions to international institutions organizations.
- e. Survey expenses with respect to projects determined by the Government.
- f. Medical expenses for Government personnel, inclusive of travel and living expenses abroad for the persons concerned.
- g. College expenses for students/delegates studying abroad on contract with the Department of Education and Culture.
- h. Fees for postal and telegraphic services.
- i. Rent for I.B.M. machinery and the like.
- j. Transfer payments effected by foreign companies on the basis of Act No. 1 of 1967 on Foreign Capital Investment, and transfers effected by foreign companies formerly taken over by the Government and which were returned to their original owners pursuant to the Instruction of the Cabinet Presidium No. 28/U/IN/12/1966, with due regard to the relevant executive regulations.

Foreign Exchange Bourse

In the framework of the economic rehabilitation and stabilization efforts - particularly with respect to the foreign exchange policy - the Government, based upon the regulations of October 3, 1966, which were further revised by the regulations issued on July 28, 1967, continued to maintain the BE system in the export and import policy which contained elements of decontrol with respect to foreign exchange transactions.

As a consequence of the aforesaid policy, a type of foreign exchange was created which was not subject to control by the Government and which could be traded freely.

In this connection, the need for a better organized market for the trade in such foreign exchange made itself felt; it became necessary to create and maintain a Foreign Exchange Bourse.

Based upon the considerations mentioned above, on May 8, 1967, Bank Negara Indonesia Unit I opened the Foreign Exchange Bourse at No. 13 Djalan Merdeka Selatan in Djakarta. The motive and purpose of having a Foreign Exchange Bourse were the gradual development of a sound foreign exchange market. Therefore, the Central Bank should have an institute to supervise the trade in foreign exchange and - should the need arise - intervene in order to stabilize the foreign exchange rate.

As members of the Bourse, the Central Bank appointed all foreign exchange banks state-owned and private as well as a few brokers who until then were actively engaged in the BE and DP trade, viz. the Bureau of Export Stabilization of the Exporters Association of Indonesia, P.T. APERDI, P.T. PERDANAS and the Indonesian Brokers Association.

In the first stage, while awaiting further guidance, the members of the Bourse were free to conclude transactions in behalf and for account of their clients/principals at place assigned by the Management of the Bourse—much in the same way as at a stock exchange.

For the time being, except the rules of conduct governing the Bourse, the Board of Directors of Bank Negara Indonesia Unit I observed developments without issuing binding regulations with respect to the trade in BE, DP, etc.

In its initial stage, the Foreign Exchange Bourse only centralized the institutes which were actively engaged in the trade in BE, DP, etc., and thus had the character of a trade center.

Although the Foreign Exchange Bourse did not yet develop as desired, it succeeded in quoting BE and DP rates which could serve as indicative rates for interested parties.

The Bourse was, moreover, in a position to collect data such as on the volume of the BE and DP transactions concluded at the Bourse as well as other information required to follow the development of the rates and the volume of BE and DP transactions in general

It must be added that—in line with the prevailing Government policy with regard to foreign exchange transactions—the Foreign Exchange Bourse should be developed into an institute with a social economic function such as in a few countries which are implementing a policy of decontrol with respect to their foreign exchange transactions. However, such a development requires research and further adjustment of the terms and conditions with respect to the trade in foreign exchange.

During the period under report, BE's, DP's as well as aid-BE's traded at the Foreign Exchange Bourse.

Trade in export-BE and DP exchange

From the developments of the trade in export-BE and DP exchange may be concluded that there was not much difference between the effective rates quoted inside and outside the Bourse.

In the period under report, the sales turnover of export-BE and DP exchange at the Bourse amounted to US \$ 25.4 million and US \$ 2.4 million, respectively.

Since the establishment of the Foreign Exchange Bourse, the BE and DP rates developed as follows:

Rp.	85.-	per	US	dollar	since	January 1, 1967
„	90.-	„	„	„	since	February 10, 1967
„	95.-	„	„	„	on	May 11, 1967
„	97.-	„	„	„	on	May 12, 1967
„	112.-	„	„	„	since	May 13, 1967
„	115.-	„	„	„	on	May 16, 1967

As was generally known, during the period under report the BE and DP rates were increasing.

Disregarding short-term fluctuations, it may be concluded that three times during the period under report there was an increase in rates followed by a period of relative stability. As a result of the first increase, in the months of June and July 1967 the rate was between Rp. 137.- and Rp. 138.- per US dollar.. Thereafter the export-BE rate started to increase till it reached the second stage of relative stability between Rp. 146.- and Rp. 149.- per US dollar in August and September 1967. Finally, early October 1967, the export-BE rate started to increase further until it reached the third stage between Rp. 150.- and Rp. 235.- per US dollar in the period of October through December 1967.

The development of the DP rate took much the same course; in disregard of minor short-term fluctuations it was increasing in three stages. In the first stage the rate was between Rp. 149.- and Rp. 155. per US dollar (May through July 1967), in the second stage the rate was between Rp. 164.50 and Rp. 167.- per US dollar (August through October 1967) and in the third stage the rate was between Rp. 167.- and Rp. 260.- per US dollar (November and December 1967).

	Export-BE		D P	
	Rate	Turnover ('000 US \$)	Rate	Turnover ('000 US \$)
1967				
May	135 — 144	880.-	127½ — 152	240.-
June	135½ — 138	3,753.4	147 — 150	360.9
July	135½ — 138	11,633.5	149 — 155	359.3
August	135½ — 151	1,594.5	153 — 168	241.2
September	139 — 150	1,216.1	160 — 167	370.9
October	146 — 152	1,765.4	156 — 167	612.2
November	150 — 215	1,066.8	166½ — 233½	144.-
December	160 — 235	3,506.9	215 — 260	125.9
	135 — 235	25,416.6	217½ — 260	2,454.4

AID-BE SALES IN 19

	Amount in US dollars	Amount in Rupiahs		
		Cash paid 10%, 25%, 50%, 100%	Acceptance credits outstanding	T o t a l
I. Creditor countries				
1. India	13,201,314.99	292,797,351.64	912,190,903.78	1,204,988,255.42
2. Netherlands	33,060,068.12	1,846,214,523.04	2,086,255,336.50	3,932,469,859.54
3. West Germany	28,326,364.11	1,380,046,493.86	1,958,790,671.75	3,338,837,165.61
4. U.S.A.	34,143,183.93	2,001,837,238.86	2,348,659,422.01	4,350,496,660.87
5. Japan	57,972,130.87	3,415,076,802.91	4,273,071,204.10	7,688,148,007.01
6. Australia	5,824,000.-	452,143,362.75	334,559,055.17	786,702,417.92
7. France	1,000,000.-	36,163,647.11	94,826,452.86	130,990,099.97
	173,527,062.02	9,424,279,420.17	12,008,353,046.17	21,432,632,466.34
II. Acceptance credits paid		9,424,279,420.17	12,008,353,046.17	21,432,632,466.34
		4,700,814,066.73(+)	4,700,814,066.73(-)	
III. Transferred to the General Treasury Account.		14,125,093,486.90	7,307,538,979.44	21,432,632,466.34
		14,125,093,486.90		14,125,093,486.90
IV. Balance outstanding on Januari 1, 1968.			7,307,538,979.44	7,307,538,979.44

Aid-BE sales

During the period under report, aid-BE's were sold at the following rates:

The total volume of aid-BE sales in the period under report was US \$ 173,527,062.02; the proceeds amounted to Rp. 21,432,632,466.34 of which Rp. 14,125,093,486.90 was paid.

A table on the volume of DP, export-BE and aid-BE transactions concluded at the Foreign Exchange Bourse finally completes this report.

Foreign trade and payment agreements

I. 1966

1. East European countries

In 1966 the Government did not conclude any trade or payment agreements, neither were the existing agreements prolonged.

2. India

The trade agreement with India, signed in April 1963 and effective for a period of three years, was renewed on December 28, 1966, for a period of two years.

3. Pakistan

In July 1964, a trade agreement with Pakistan was signed which provided for special arrangements should the need arise.

On January 11, 1965, Protocol I concerning a deferred payment credit from the Government of Pakistan, was signed. Protocol II regarding a payment agreement through clearing accounts was signed in March 1965 and was since then prolonged twice, viz. until June 30, 1966, and until December 31, 1966, respectively. A technical commission

from Indonesia which visited Pakistan in September 1966, proposed not to prolong Protocol II and to pay the clearing balance indebted by Indonesia in installments. However, Pakistan did not accept the proposal and suggested to prolong Protocol II until June 30, 1961.

4. The Philippines

On August 27, 1966, a Supplementary Agreement between the Governments of Indonesia and the Philippines was signed. This Supplementary Agreement i.e. contained a clause regulating payments through clearing accounts with a swing balance of US 1 million.

The said Supplementary Agreement became effective as from the date of signing and was automatically considered prolonged for a period of one year unless three months before the expiry date either one of the parties expresses in writing its desire to terminate the agreement.

5. Singapore

The end of the confrontation was followed by measures to normalize the relations between Indonesia and Singapore. On September 10, 1966, Agreed Minutes on Trade, Shipping and Banking were signed

II. 1967

1. Malaysia

The end of the confrontation against Malaysia in August 1966, was followed by efforts to normalize the relations between Indonesia and Malaysia. On January 28, 1967, a Record of Understanding was signed regarding trade and economic cooperation in which mutual agreement was achieved with respect to the major trade aspects of economic and maritime cooperation.

As a follow-up of the said Record of Understanding, on May 11, 1967, a Basic Arrangement on Trade and Economic Cooperation was signed which provided for the establishment of a Joint Commission as a forum for cooperation, particularly with regard to trade and economics.

2. Singapore

On February 18, 1967, a Memorandum of Understanding on Basic Points governing Trade and Economic Relations was agreed by the Governments of Indonesia and Singapore; the said Memorandum also provided for the establishment of a Joint Commission.

The Joint Commission convened in 2 sessions, viz. on March 24, 1967, in Singapore and on June 30, 1967, in Djakarta; a few main topics concerning the trade relations and economic cooperation between the two countries were discussed.

3. Poland

A clearing agreement with Poland, effective as from August 7, 1955, was terminated on June 20, 1967, and replaced by payments in effective currency, since the clearing system did not concur with the prevailing Government policy of decontrol in the field of economics.

The aforesaid change in the method of payments did not affect the trade agreement concluded on August 1, 1958, because at that time the clearing agreement was concluded separately between the Central Banks of both countries.

4. Bulgaria

The long term trade agreement between Indonesia and Bulgaria, signed on May 5, 1961, was prolonged until December 31, 1967. The said trade agreement would be implemented through the BE system.

5. South Korea

On July 27, 1967, a Joint Statement between the Governments of Indonesia and South Korea was signed in Djakarta.

The said Joint Statement expressed the desire of the two parties to strengthen their economic and trade relations, inclusive of relations in the field of fishery, agriculture, forestry, woodworking industry, mining, shipping, banking and payments.

As a follow-up of the said Joint Statement, on November 15, 1967, a Korean delegation composed of industrial entrepreneurs of South Korea arrived in Djakarta. The purpose of this visit was a further exploration towards cooperation between Indonesia and Korea in the fields of forestry, fishery, mining and industry, and to interchange experience in the field of foreign investment.

6. The Netherlands

In December 1967 a Netherlands Government economic delegation arrived in Indonesia. During its stay in Indonesia, the said delegation surveyed the economic situation in several regions and held discussions and negotiations both with Ministers and with a Team of Indonesia. The interest was focused upon foreign investment (the problem of guarantees to foreign investors), shipping, agriculture, etc. At the end of the visit. Agreed Minutes of Discussions were signed, and a mixed commission was to be established which would convene alternately in Indonesia and in the Netherlands.

7. The United Arab Republic

In January 1967, Indonesia proposed to terminate the clearing agreement with the U.A.R. for substitution by a system of effective payments in convertible currency.

8. The Philippines

The Supplementary Agreement between the Government of Indonesia and the Philippines, signed on August 27, 1966, inter alia contained a provision concerning payments through clearing accounts.

Since such a payment system was not in line with our current economic policy, the Indonesian side proposed to substitute this clearing system by payments in effective currency.

International financial institutions

International Monetary Fund

On February 21, 1967, Indonesia officially rejoined the International Monetary Fund with a quota amounting to US \$ 207 million. As set forth in the annual report for the period of 1960- 1965, Indonesia's net outstanding drawings at the moment of withdrawal from membership in the International Monetary Fund (I.M.F.) on August 17, 1965, amounted to US \$ 63.5 million which according to the agreement on the settlement of all accounts had to be repaid in ten equal semi-annual installments as from February 17, 1966.

When Indonesia rejoined the Fund, the above mentioned provisions became ineffective and those of "Membership Resolution No. 21-12" were established as terms of membership.

These terms stipulated inter alia that:

1. Indonesia's quota has been established at US \$ 207 million of which Indonesia shall pay in gold 10% of its gold and foreign exchange reserves in order to finance its gold subscription and the balance constituting the part to be financed in local currency shall be paid in rupiahs on the basis of a rate as determined.
2. Indonesia has to pay to the Fund in gold or in convertible currency acceptable to the Fund, all the charges due as from August 17, 1965, up to the date Indonesia rejoined the Fund.
3. Not later than February 17, 1967, and August 17, 1967, Indonesia should repay (repurchase) in gold or in convertible currency acceptable to the Fund, an amount of US \$6.34 million.
4. Settlement of the balance of the debt amounting to US \$ 50.76 million will be decided by the Board of Executive Directors of the Fund after August 17, 1967, but not later than 12 months as from the date Indonesia rejoined the Fund.

In connection with the stipulations mentioned above, the following payments to the Fund were made in the years dealt with in this report:

February 1967	: US \$10.01 million consisting of US \$ 6.34 million for the first installment, US \$ 1.77 million for gold subscription and US \$ 1.9 million for charges.
August 1967	: US \$ 6.55 million consisting of US \$ 6.34 million for the second installment and US \$ 0.21 million for charges.
November 1967	: US \$ 0.25 million for charges.

As was the case before withdrawal from the Fund, Indonesia is presently a member which is subject to article XIV of the Fund's Articles of Agreement, i.e. a member which is considered still to be in a period of transition, and therefore permitted to impose restrictions on current international transactions.

It should be indicated that during the 1966 annual meeting in Washington D.C., the Board of Governors of the Fund adopted a resolution concerning Indonesia's membership in the Fund, and in 1967 Indonesia attended the annual meeting in Rio de Janeiro as a full member.

In the years under report, the Fund has provided technical assistance and has sent missions to consult with the Government of Indonesia.

International Bank for Reconstruction and Development

By virtue of the same Act which regulates Indonesia's membership in the Fund (Act No. 9 of 1966, dated November 8, 1966, and Act No. 2 of 1967, dated January 10, 1967), Indonesia rejoined the International Bank for Reconstruction and Development (I.B.R.D.) on April 13, 1967, with a subscription of US \$ 220 million. No arrangements about debts and claims, such as with the Fund, had to be made with the Bank, since during its membership Indonesia never contracted a loan.

During the period under report, the Bank sent missions to Indonesia in order to survey several fields of economic activities. It may be added that since the 1967 annual meeting in Rio de Janeiro, the Government of Indonesia has taken action to join the

International Finance Corporation and the International Development Association, and has ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

Asian Development Bank

By virtue of Act No. 8 of 1966, dated November 8, 1966, on November 24, 1966, Indonesia officially became a member of the Asian Development Bank (A.D.B.) with a capital subscription of US \$ 25 million, of which US \$ 12.5 million constitutes paid-in capital and the other half consists of callable shares.

The amount of US \$ 12.5 million constituting paid-in capital shall be paid in five equal annual installments, 50 %of each installment is payable in convertible currency and the other 50% in rupiahs. During the period under report, two installments were paid, each amounting to US \$ 2.5 million and specified as above. During this period, the A.D.B. also sent missions to Indonesia take surveys in the field of agriculture.

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VII. PRODUCTION, PRICE LEVEL AND SOCIAL DEVELOPMENTS

Food producing agriculture

Production and supply of foodstuffs

Data for 1965 through 1967 on the production of the main foodstuffs in Indonesia are indicated in table 41.

According to the aforesaid figures, foodstuff production (with the exception of sweet potatoes) in 1966 was higher than in the year before, viz. on account of the following increases: paddy 570,570 tons (3.4%), maize 937,228 tons (41.1%), cassava 973,221 tons (7.9%), ground nuts 24,651 tons (10.3%), and soya beans 15,901 tons (4.4%), whereas the production of sweet potatoes declined by 238,076 tons (- 9.5%). The level of production in 1966, however, was below the targets which had been determined for the respective crops; the said targets for 1966 were as follows (figures in parentheses are percentages of target achieved): paddy 21,800,000 tons (80.6%), maize 3,934,000 tons (81.9%), cassava and sweet potatoes 15,500,000 tons (100.8%), ground nuts 348,000 tons (75.6%), and soya beans 458,000 tons (81.9%).

Factors which affected the 1966 level of production favorably so that it became higher than in the preceding year were the following:

- 1) Weather conditions were generally favorable, although there were droughts in several areas.
- 2) Pests could be controlled on account of intensive campaigns during the preceding year.
- 3) The BIMAS (Bimbingan Massal—Mass Guidance) project, which in the 1965/1966 rainy season and in the 1966 dry season covered an area of 172,488 hectares and 172,529 hectares, respectively, had also a favorable impact upon the increase in paddy production.

However, the attempts to increase production in order to achieve the targets which had been determined, met with the following difficulties:

- 1) Financial resources were limited and frequently could not be realized.
- 2) Fertilizers and chemicals for control of pests and diseases were not available in sufficient quantities.
- 3) The impact of the September 30/Communist Party's Movement of end 1965 was still perceptible in 1966.
- 4) Natural disasters, i.e. floods in a few areas and the eruptions of the Gunung Kelud in East Djawa and the Gunung Awu in Lombok.

Besides the above mentioned factors, the area under cultivation for the various crops in 1966 had also an impact. The area under cultivation for paddy, maize, ground nuts and soya beans in the year concerned was respectively expanded as follows (figures in parentheses indicate the area under cultivation in 1966): + 556,913 hectares (7,781,616 hectares), + 961,419 hectares (3,503,100 hectares), +53,163 hectares (404,771 hectares) and +73,114 hectares (661,488 hectares); the area under cultivation for cassava and sweet potatoes, however, was reduced by 228,017 hectares (1,523,909 hectares) and 9,320 hectares (412,105 hectares), respectively. The reduction of cassava land had been offset by an increase in the average yield per hectare, viz. from approximately 71.00 quintals per hectare (in 1965) to 87.61 quintals per hectare (in 1966); whereas the reduction of the area under cultivation for sweet potatoes was accompanied by a decline in the average yield per hectare, viz. from approximately 60.0 quintals per hectare to 55.18 quintals per hectare, so that in 1966 the production of cassava was higher and the production of sweet potatoes was lower than in the preceding year.

With the exception of paddy, foodstuff production in 1967 declined. The production of maize, cassava, sweet potatoes, ground nuts and soya beans declined by 260,184 tons (- 8.1%), 430,576 tons (- 3.2%), 114,163 tons (- 5.0%), 21,298 tons (- 7.9%) and 12,015 tons (- 3.2%), respectively, whereas the production of paddy increased by 359 430 tons or 2.1%.

The production achieved the following percentages of the targets determined for 1967: paddy 80.7%, maize 98.6%, cassava 96%, sweet potatoes 60%, ground nuts 69.5% and soya beans 75%.

The decline in foodstuff production in 1967, both compared with the year before and with the targets that had been determined was mainly effected by:

TABLE 41 — PRODUCTION OF THE MOST IMPORTANT
FOODSTUFFS

(in thousand tons)

	1963	1964	1965 ¹⁾	1966 ¹⁾	1967 ²⁾
<i>Djawa and Madura</i>					
Paddy:					
on irrigated fields	8,063	7,905	...	8,484	9,456
on non-irrigated fields	482	508	...	471	394
<i>Total of paddy</i>	8,545	8,413	...	8,955	9,850
Maize	1,750	2,889	...	2,336	2,083
Cassava	8,724	9,103	...	10,367	9,300
Sweet potatoes	1,572	2,293	...	1,173	1,170
Ground nuts	184	200	...	206	196
Soya beans	296	329	...	311	319
<i>Other than Djawa and Madura</i>					
Paddy:					
on irrigated fields	5,223	6,085	...	6,761	6,302
on non-irrigated fields	1,488	1,694	...	1,854	1,778
<i>Total of paddy</i>	6,711	7,779	...	8,615	8,080
Maize	608	880	...	884	877
Cassava	2,851	3,120	...	2,984	3,620
Sweet potatoes	1,442	1,638	...	1,101	990
Ground nuts	47	61	...	57	46
Soya beans	57	63	...	64	44
<i>Indonesia</i>					
Paddy:					
on irrigated fields	13,286	13,990	14,802	15,245	15,758
on non-irrigated fields	1,970	2,202	2,198	2,325	2,172
<i>Total of paddy</i>	15,256	16,192	17,000	17,570	17,930
Maize	2,358	3,769	2,283	3,220	2,960
Cassava	11,575	12,223	12,377	13,351	12,920
Sweet potatoes	3,014	3,931	2,512	2,274	2,160
Ground nuts	231	261	239	263	242
Soya beans	353	392	359	375	363

¹⁾ Provisional figures, revised. The 1965 data for *Djawa and Madura* and for *Other than Djawa and Madura* are under revision.

²⁾ Estimates.

Source: Directorate of Smallholder's Agriculture.

- 1) Droughts and a long dry season in 1967.
- 2) A price ratio between output (particularly of paddy) and current input (particularly of fertilizer) early in 1967, which was disadvantageous to the producing farmers.

In addition to both factors mentioned above, difficulties with respect of financing, inadequate supply of current input (fertilizers, chemicals, etc.), irrigation and transportation affected production intensely.

Because of the drought and the long dry season during the second half of 1967, the production of paddy grown on dry fields declined by approximately 20% compared with the year before, whereas paddy production in the 1966/1967 rainy season showed a satisfactory increase. On the whole, paddy production in 1967 exceeded the level in the preceding year, since the rainy season crop accounted for the major part.

The production of other foodstuffs was also most affected by the dry season, which is reflected in the decline of the area under cultivation (except for sweet potatoes) in 1967 in comparison with the preceding year. With respect to maize, cassava, ground nuts and soya beans, the aforesaid reduction was 855,100 hectares, 73,909 hectares, 15,501 hectares and 40,747 hectares, respectively. The area under cultivation for sweet potatoes, on the other hand, increased by 3,895 hectares, since the farmers who used to grow maize and rice shifted to sweet potatoes on account of the long dry season.

With respect to the production of maize may be reported that generally speaking the potential to increase production has not yet been utilized. The average yield achieved in 1967 was approximately 11.18 quintals per hectare; although higher than the average yield in the preceding years (9.19 quintals per hectare in 1966, and 9.00 quintals per hectare in 1965), it was still below the level which in fact could be achieved (3 to 4 tons per hectare), if more intensive methods of production were implemented, viz, the use of high yielding seeds, fertilizers, pest control and irrigation. Besides the technical aspects of production, the marketing problem with respect to maize should be given adequate attention. According to the experience in preceding years, domestic marketing of maize was not sufficiently profitable for the farmers, and therefore adversely affected their intention to increase the production of maize. As far as export is concerned, the problem of adequate means of processing in order to supply an export quality which complies with foreign demand, still requires a solution.

The production of pulses was not much affected on account of difficulties hampering the increase in production, particularly inadequate irrigation in the soya bean and ground nut producing centers which, besides an insufficient supply of high yielding seeds and chemicals for control of pests and diseases, had an adverse impact upon a more regular crop rotation between rice and catch crops.

Tubers were produced in fairly adequate quantities and, in case of a shortage of the main food item (rice), were a valuable substitute.

Other factors which had a favorable impact upon the increase in production particularly of rice were, inter alia, the expansion of the Government conducted BIMAS project.

Measures taken by the Government to increase the production of foodstuffs

The actions taken by the Government during the period under report in order to increase the production of foodstuffs must be viewed in connection with the political and security conditions prevailing during that period as a consequence of the events that occurred before, particularly the September 30/Communist Party's Movement in 1965. The consequences of this event deeply disturbed every aspect of the country's political life and internal security, which also impaired the fields of economy and public finance, thereby affecting the bases of the development plan which were established before. On the other hand, the food situation demanded the main attention of the Government because the population continued to increase at a high rate. As is generally known, the problem of food shortage, especially of rice, is since a long time still unsolved. In Indonesia's economic structure, rice is of the utmost importance, not only as the staple food but also as a "price-leader" for other commodities.

These conditions—on the one hand the very limited resources of the Government and on the other hand the pressing need for food—caused the Government to give priority to quick yielding efforts, that is to say, to a short term program designed to increase the production of foodstuffs (especially of rice), besides preparing the foundations for a long term agrarian development.

The Department of Agriculture in the short-term program for the increase of rice production during 1965 through 1967 laid stress upon intensification efforts by means of a system called Bimbingan Massal (BIMAS = mass guidance); this is one of the activities in the framework of a development program for the whole agrarian sector known as the “Pantja Karya Agrarian Program”, comprising:

- 1) The “pantja usaha” (five efforts).
- 2) Control of the produce.
- 3) Processing of the produce.
- 4) Marketing of the produce.
- 5) Community development.

The “Pantja Usaha” comprises a system of intensification, in which are introduced:

- a. a well-managed irrigation system;
- b. the use of high yielding seeds;
- c. the use of fertilizers;
- d. control of pests and plant diseases;
- e. implementation of the proper agricultural methods.

These five efforts are basically an application of scientific and technological methods to obtain the highest and the most efficient possible yield from a given area of irrigated ricefields (sawahs).

Having in mind the economically weak position of the Indonesian farmer, as well as the conventional methods applied in agriculture, the new methods mentioned above could not be expected to be implemented automatically. Therefore, the aforesaid system had to be accompanied by instructions, i.e. guidance to the farmers by an expert team.

Moreover, the Government provided current input (fertilizers, seeds, insecticides) on credit repayable after the harvest, to farmers who were unable to pay cash. The “Pantja Usaha”-system accompanied by the instructions and the supply of current input as explained above is known as the “BIMAS”-system.

Since its resources were limited, the Government could not do much about the other program items of the “Pantja Karya Pertanian”, such as control, processing and marketing of the output as well as community development.

Since the introduction of the BIMAS-system, the output showed a satisfactory increase. The system was launched in 1962 with the help of students from the Faculty of Agriculture to propagate the “Pantja Usaha Tani” in the villages during one month preceding the sowing season. Thereafter, in 1964/1965, the system was even more activated, and became known as “Demonstrasi Massal” (= mass demonstration). Because of its positive results i.e. an increase in production (an average of 74.72 quintals of fresh paddy per hectare compared with 31.98 quintals per hectare on ordinary irrigated rice fields), since 1965/1966 the system was expanded and proclaimed as a principal effort of the Government to increase paddy production, known as “BIMAS”. The development of the BIMAS project from 1964/1965 through 1967 was as follows:

<i>Season</i>	<i>Planned planted area in hectares</i>	<i>Actual planted area in hectares</i>
Rainy season 1964/1965	11,000	9,985 (90%)
Total 1964/1965	11,000	9,985 (90%)
Rainy season 1965/1966	150,000	172,488 (114%)
Dry season 1966	200,000	172,529 (86%)
Total 1965/1966	350,000	345,017 (98%)
Rainy season 1966/1967	480,000	463,090 (96%)
Dry season 1967	15,000 *)	10,855 (67%)
Total 1966/1967	495,000	473,945 (94%)

*) Originally planned: 600,000 ha.

Source: Department of Agriculture

The above figures show that the BIMAS area (planned as well actual) expanded impressively. In 1964/1965 the actual area under cultivation was 9,985 hectares, whereas in the two successive years the actual BIMAS area was increased to 345,017 hectares and 473,945 hectares respectively. As a matter of fact in 1966/1967 the area under the BIMAS project could have been much larger, if the initial plan of the Government to bring the 1967 dry season crop (which involved an area of 600,000 hectares) under the BIMAS project could be implemented.

The plan with respect to the area in the said season was necessarily modified and adapted to the existing potential i.e. to 15,000 hectares, particularly because of the limited supply of fertilizers and chemicals. Compared with the BIMAS project in the dry season of 1966 which covered 172,529 hectares, the actual area of 10,855 hectares in the corresponding season of the following year was much smaller. This was a reflection of the many problems and difficulties that had to be solved by the Government for a successful implementation of the BIMAS program, among others

1) Technical factors

- a. A poor irrigation system, particularly the water management irrigation to prevent floods in the rainy season and droughts the dry season.
- b. Difficulties in transportation frequently delayed the timely arrival of fertilizer and chemicals.
- c. A shortage of current input.

2) Non-technical factors

- a. A price ratio between output and current input which is disadvantageous to the farmer, and which is therefore not an intent and a stimulus for the farmer to increase production.
- b. Difficulties with respect to the financing of the BIMAS project both with regard to source, amount and financing procedure.

The Department of Agriculture planned the following activities the 1967/1968 rainy season and the 1968 dry season plantings:

<i>Activities</i>	<i>Area (in hectares)</i>	<i>Estimated yield of paddy (in tons per hectare)</i>
BIMAS		
1967/1968 rainy season	500,000	4.9
1968 dry season	413,500	4.9
BIMAS Baru		
1967/1968 rainy season	250	6.0
1968 dry season	21,500	6.0
INMAS (Intensifikasi Massal)		
1967/1968 rainy season	500,000	3.5
1968 dry season	200,000	3.5
Source: Department of Agriculture		

The above program reveals that besides an expansion of the BIMAS project, the INMAS (Intensifikasi Massal = Mass Intensification) and the BIMAS Baru system will be introduced. By INMAS is meant a system of mass guidance (such as BIMAS), however, except the available officers, neither special instructors nor productive credits are made available, although the Government ,still guarantees adequate supply of current input available against cash payment. The INMAS is executed on land that is previously successfully used by the BIMAS project, therefore the farmers are adequately trained, are familiar with the more advanced agricultural methods, and moreover had the benefits from the application of intensive methods. By BIMAS Baru is meant the dissemination of a new high yielding paddy variety (Peta Baru 5 and Peta Baru 8) through the BIMAS system.

In attempting to increase the production of foodstuffs in the long run, the Government stresses upon an intensification program, viz. bringing land under cultivation in regions outside Java—with a view to the potentials and adequate supply of land in the aforesaid regions—such as exploitation of dry land, irrigated rice fields and floating rice fields.

The aforesaid efforts are to be executed by the Department of Public Works, next to these executed by the Department of Agriculture (B.P.U. MEKATANI). Since its establishment in 1963 the activities of B.P.U. MEKATANI are directed to:

- 1) the management of state-owned agricultural estates which grow foodstuffs, rubber or other crops, as well as the management of state farms;
- 2) bringing new land under cultivation for smallholder's agriculture.
- 3) lease of agricultural equipment;
- 4) bringing tidal land into cultivation for third parties (installation of tertiary channels).

In connection with the financial difficulties of the Government, the large scale opening up of new arable land was necessarily limited to the available resources, even more so at the beginning of 1966 and 1967.

Shortage of financial resources as well as the weak position of the farmers (social economically as well as with respect to skill), limit their ability to avail themselves of the opportunity to mechanize their farming, as expected by the Government. On the other hand, inadequate experience with respect to large scale mechanization in agriculture,

next to insufficient research and surveying in the regions is also a reason why the extensification of agriculture as a whole was not as successful as expected.

The activities of the Department of Public Works with respect to irrigation works are most meaningful to support the program designed to increase foodstuffs production, which includes expansion of irrigated fields, dry fields, rehabilitation of rice field irrigation, as well as measures to prevent floods. In 1967 the activities executed with respect to rehabilitation, extensification and expansion of paddy cultivation on dry fields were as follows:

<i>Provinces</i>	<i>Expansion of wet paddy fields (ha)</i>	<i>Rehabilita- tion of wet paddyfields (ha)</i>	<i>Expansion of dry paddy fields (ha)</i>	<i>Flood control (ha)</i>
1. Atjeh	---	1,868	---	... *)
2. North Sumatra	660	240	---	4,500
3. West Sumatra	1,760	693	---	200
4. South Sumatra	---	2,400	180	850
5. Lampung	1,825	6,571	2,450	---
6. West Djawa	2,447	54,311	3,750	3,600
7. Central Djawa	2,772	31,830	250	9,000
8. Jogjakarta	1,502	14,860	---	---
9. East Djawa	225	121,856	1,270	9,500
10. Bali	45	1,182	---	200
11. West Nusa Teng- gara	420	8,402	---	---
12. South Sulawesi	---	17,511	4,620	1,000
13. Central Sulawesi	30	---	---	2,000
14. North Sulawesi	518	1,338	---	---
15. South Kalimantan	---	---	---	2,250
16. East Kalimantan	---	---	---	3,000
In total :	12,204	263,062	12,520	36,100

*) In the form of efforts to control natural calamities.
Source : Directorate General of Irrigation.

Also may be noted the progress achieved with respect to the development of the multipurpose project "Djatiluhur", one of the infra structure investments of the Government. Trough the month of December 1967, the stage of the completed work was as follows:

- Main canal	95%
- Complementary canal, East	92%
- Complementary canal, Center	74%
- Complementary canal, West	21%

In 1967, the main canal was filled on a trial basis which means that, although not perfect, the main and secondary canals can be put to work, particularly to achieve the target for the 1968 dry season crop. According to plan, with the functioning of the aforesaid project, dry rice land is expected to expand by 160 thousand hectares in the initial stage.

Moreover, the activities of the Directorate of River and Swamp Control, such as the opening up of floating rice fields through canalization in the tidal areas of South Kalimantan, Central Kalimantan, West Kalimantan and South Sumatra, were meaningful. In a period of rice shortage such as faced at the time, the system of floating rice fields had a favorable impact upon the food shortage.

The floating rice fields opened up in South and Central Kalimantan as at the end of 1967 were estimated at more than 107 thousand hectares; 40 to 50 thousand hectares were opened up by the Canalization Project (Department of Public Works) and the remainder by the population. In South Sumatra approximately 10 thousand hectares of floating rice fields were opened up.

In addition to the above, the Government undertook measures to lay the foundations for long-run agrarian development, e.g. activities to acquire foreign assistance (both technical and financial foreign assistance) such as given by the International Bank for Reconstruction and Development (I.B.R.D.), the Asian Development Bank (A.D.B.), etc. besides activities related to research, surveys, domestically held seminars, such as the Agro Economic Survey, the Seminar on 5-year agricultural development etc. The Technical Assistance Mission of the A.D.B. in its report on a survey undertaken in Indonesia during the months of October through December 1967, analyzed the main difficulties faced by the Government in the field of agriculture and submitted recommendations for its solution. Before that, in the months of October/November 1966, an I.B.R.D. team had also conducted a survey and would render assistance, particularly for financing the rehabilitation of drainage/ irrigation.

A notable result of research are the new stocks of high-yielding seeds developed by the Research Institute in Bogor. Besides the nine existing high-yielding varieties that had been cultivated domestically (i.e. Bengawan, Sigadis, Remadja, Djelita, Dara, Syntha, Dewitara, Arimbi and Bathara) since 1965 the results of cross-breeding abroad (by the International Rice Research Institute) were introduced, two of which showed most satisfactory results, viz. IR-5 and IR-8, which in Indonesia are named Peta Baru 5 and Peta Baru 8 (PB-5 and PB-8).

Experiments with PB-5 were carried out on experimental plots in the 1967 dry season with the following dose of fertilizers : 120 kilograms of N, 60 kilograms of P and 60 kilograms of K per hectare, produced 4.6 to 7.6 tons of paddy whereas with PB-8 the result was 4.6 to 7.8 tons. Experiments with PB-5 and PB-8 at the "Muara" experimental plot in Bogor with the same dose of fertilizer resulted in an average yield of 7 tons and 7.7 tons per hectare, compared with 5.2 tons per hectare achieved with the former high-yielding seed (Syntha).

In the light of these very satisfactory results, the Government intends to introduce these new species of high-yielding seedcorn with the peasants in the beginning of the dry season of 1968. In order to provide this seedcorn in sufficient quantities its cultivation has, in the initial stage, among others been undertaken by:

1. The Central Institute of Agricultural Research.
2. The Institute of Sanghyang Sri in Sukamandi.
3. Experimental gardens.
4. The efforts of individuals.

The Government, in its efforts to increase production, has found it necessary to give an incentive to the peasant in order to make him production-minded; this incentive consists of a minimum price for paddy at the level of the crop growers, i.e. a fixed ratio between output and current input (fertilizers, insecticides, etc.). The formula, used to calculate the minimum price, often called "the peasant's formula" ("rumus tani"), is composed as follows:

$$P = \frac{11/2 \text{ a.b.}}{2} \text{ in which}$$

P = the minimum paddy price received by the peasants;

a = the price of the Urea fertilizer (c & f);

b = the effective BE rate;

2 = the "conversion rate" of the harvested paddy into rice;

1/2 = costs of distribution of fertilizer until it reaches the peasants.

Another factor requiring much attention is the availability of the necessary current input (fertilizer, pesticides, insecticides, etc.) in adequate quantities and at the proper time. The quantity of the Urea fertilizer annually required by the peasants amounts to approximately 250,000 tons; of this volume P.N. PUSRI can only provide about 25% Approximately 60% of the entire output of P.N. PUSRI is appropriated for smallholders agriculture and the remainder for estate agriculture.

	<i>Production of Urea</i> (in tons)	<i>Available for smallholders agriculture</i> (in tons)
1964	103,500	79,997
1965	94,000	54,566
1966	93,000	± 56,000
1967	93,337	± 56,000

Source: Department of Agriculture.

During the last five years the imports of fertilizer to be used for smallholders agriculture were as follows (in tons):

	1963/1964	1964/1965	1965/1966	1966/1967	1967/1968 *)
N	62,620	15,185	17,900	20,145	39,240
P ₂ O ₅	30,955	14,425	5,170	3,205	15,650
K ₂ O	1,051	3,080	950	600	140
N + P ₂ O ₅ + K ₂ O	94,626	32,690	24,020	23,950	55,030
US \$	16,562,170	6,955,655	6,700,000	6,375,000	9,259,600

*) Provisional figures.

Source. Department of Agriculture.

Rice

Domestic purchases of rice by the Government during the period 1965 through 1967 were as follows:

<i>Year</i>	<i>Target (tons)</i>	<i>Actual purchases (tons)</i>	<i>(%)</i>
1965	525,000	318,270	60.6
1966	780,000	641,290	82.2
1967	597,000	503,704	84.4

Source : B.U.L. (Body of Logistic Affairs)

Several difficulties were encountered in connection with the aforesaid rice purchasing activities, part of them were of a general character for which a solution was not yet found, such as difficulties with respect to transportation, financing and determination of the rice price, part of those were of a specific character and prevailed during the years when the purchases were made, such as: disturbance of the security in 1965 (the September 30/ Communist Party's Movement) and a long dry season affecting the output in 1967, which had also an impact upon the volume of rice actually purchased in the aforesaid years.

Before 1966, the Government procured rice through the Badan Pelaksana Urusan Pangan (B.P.U.P. = Bureau for the Providing of Foodstuffs). By decision of the President of the Republic of Indonesia No. 87 of 1966, dated April 26, 1966, there was established a "Komando Logistik Nasional" (KOLOGNAS — National Command for Logistics) which was entrusted the task to implement the general economic policy of the Government, especially with respect to the supply and distribution of daily necessities, by means of:

- a. determining an executive program;
- b. conducting the execution in the sense of coordinating, synchronizing and integrating, as well as supervising the results of the efforts by the public and private entities active in this field.

In this connection it was, inter alia, decided by Decision of the President of the Republic of Indonesia, No 106 of 1966 dated May 19, 1966, to transfer the duties and responsibility of the Dewan Bahan Makanan (Board of Foodstuffs) to KOLOGNAS. As a consequence of this transfer, the B.P.U.P. thenceforth became an executive unit of KOLOGNAS.

In the course of 1967, KOLOGNAS was liquidated by virtue of Decision No. 15/B/1967 of the M.P.R.S. Decision of the Presidium of the Cabinet, No. 114/U/Kep./5/1967 dated May 10, 1967, transferred the activities and responsibility of KOLOGNAS to a newly established entity viz. the Body of Logistic Affairs (B.U.L. = Badan Urusan Logistik), the main duties of which are:

- 1) to coordinate the activities of the entities, engaged in the supply and distribution of essential commodities, or in a field of activity closely related thereto;
- 2) to supply and distribute rice in accordance with the regulations established by the Government, particularly to civil servants, personnel of state enterprises and the armed forces;
- 3) to execute the instructions from the Chairman of the Presidium with respect to logistic affairs.

Since 1964, the Government has adopted a simpler method with respect to rice procurement than that followed in the preceding years, viz. it purchases rice on commercial principles based upon a contract with a supplier concluded at the market price. This implies that the Government as from 1964, does not pay for the paddy directly to the peasants, but it pays to the suppliers for the rice delivered free warehouse as indicated by the Government. Because of this new system, the rice mills played a bigger role and in fact became the principal supplier of the Government.

Difficulties arising during the implementation which could also affect the actual purchases of paddy according to this system were inter alia:

- 1) The suppliers/rice-mills were generally unable to conclude long-term contracts because, as a consequence of the prevailing inflation, prices kept changing.
- 2) Differences of opinion between the Government and the suppliers about the calculations of the contract price both with respect to the forth coming months as well as to the current contracts.
- 3) As the Government bought at market prices, the suppliers tended to postpone delivery after a rise in prices has occurred.
- 4) Another factor impeding the rice procurements was the frequent delays in financing.

- 5) if the supplier was a cooperative society, its financial position was weak, therefore its ability to make large-scale purchases during the harvest season was limited and it was often lagging behind the increases in the market price; consequently, it could not meet its contractual obligations.

Besides the rice procurement system mentioned above, another system was introduced in 1966 with respect to the rice purchases in 1967, which system was connected with the Government program for the increase of paddy output through BIMAS. According to this system, the Government—at that time through KOLOGNAS—granted a loan to the BIMAS-project during the sowing season in 1966 (approximately in September 1966), thus pre-financing the rice requirements for 1967. The amount of the advance payment was based upon the volume of milled rice that BIMAS would be able to sell to KOLOGNAS after the harvest and was subject to an interest rate mutually agreed by KOLOGNAS and BIMAS. BIMAS utilized this loan to provide productive credits to the farmers granted in the form of fertilizers, insecticides and irrigation as well as in cash as a subsistence allowance, totalling an amount of Rp. 3,100.- per hectare of irrigated rice field.

After the harvest, the farmers concerned repaid the loans in paddy to the value of Rp. 3,100.-; it was calculated that 250 kg paddy was the equivalent of Rp. 3,100.

BIMAS the debtor responsible for the repayment of the loan, delivered the milled rice to KOLOGNAS.

It was expected that this manner of cooperation would be mutually advantageous. The farmers would not feel financially injured, since part of the milled rice to be delivered to KOLOGNAS resulted from an increase in production—obtained by implementing better means and methods of production—whereas to KOLOGNAS it would guarantee a sufficient supply of milled rice.

However, a host of difficulties was met during the implementation of this system, inter alia :

- 1) Difficulties in obtaining repayment of the loans from the peasants.
- 2) The paddy received from the farmers had to be processed into milled rice by BIMAS and further delivered to KOLOGNAS.

This involved much labor and high costs on the part of BIMAS and many difficulties arose, such as with respect to the supply of transportation equipment, storage, milling, etc.

- 3) The difficulties mentioned above made it hard to supply the rice from BIMAS at the time and the place required by KOLOGNAS in order to fulfil its program of rice distribution, the outlines of which had already been established.

Having in mind all the difficulties and problems mentioned above, the Government decided that as from the month of January 1967 the purchase of rice would not be directly connected to the program concerning the financing of BIMAS.

The target of rice purchases for 1965 was determined at 525 thousand tons, the area where the purchases were to be made covered 8 regions (Provinces) whereas in 1966 the target was raised to 780 thousand tons to be purchased in an area covering 21 regions. The increase of the target and the expansion of the area in which the purchases were made, were accompanied by an increase in the volume of rice actually bought, viz. from 318,270 tons (in 1965) to 641,290 tons (in 1966).

**TABLE 42 — VOLUME OF RICE UNDER
GOVERNMENT CONTROL**

(in tons)

	Domestic purchases	Import	Total
1963	442,555	1,066,779	1,509,334
1964	341,510	1,016,515	1,358,025
1965	318,270	189,271	507,541
1966 ¹⁾	641,290	221,318	862,608
1967 ¹⁾	503,704	346,488	850,192

¹⁾ Provisional figures.

Sources : BPUP (Badan Pelaksana Urusan Pangan)
BUL (Badan Urusan Logistik)

By experience, those regions where paddy procurements by the Government were practiced for a long time gave a better performance than the regions which had only recently been included in the program. For that reason the Government determined a more realistic target for 1967, viz. 597 thousand tons, and limited the area where the purchases were to be made to 10 regions which by experience had, shown better results. The volume of rice actually bought in 1967 was 503,704 tons or 84.4 % of the target for that year. Besides the difficulties indicated above, the crop of rice planted on dry fields failed as a consequence of the long dry season, and these were the reasons why the procurement-target for the year concerned could not be achieved.

In the economic structure of Indonesia, rice, besides its position as the staple food, also functions as a “price leader” for other commodities. Therefore the Government considers it necessary to keep a certain volume of rice at its disposal both in order to safeguard the supply of rice to the civil servants/the armed forces—which require about 600,000 tons annually—and as a stock to cope with natural calamities, rice shortages before harvest time, etc. The aforesaid stock of rice is obtained through domestic purchases and through imports. The volume of rice at the disposal of the Government is shown in table 42.

World market supply of rice

Although the world output of paddy showed an upward trend during the eight years preceding 1965, the equilibrium between supply and demand was not much affected because on the other hand the world population continuously increased. As from 1965 however, the gap between supply and demand has been widening. The reason therefor is the growth of population at a rate which was higher than the rate of progress achieved in increasing the production of rice. Besides, weather conditions and floods often inflicted considerable damage to the crops in the producing countries.

In 1964/1965 the world output of paddy amounted to approximately 263.6 million tons (table 43). Compared with the average production achieved during the period between 1948/1949 - 1952/1953 (166.4 million tons), it was an increase of 97.2 million tons, or about 58.4%. The rise should be attributed to climatic conditions which affected the harvests in nearly all rice growing countries most favorably, except for declines in Italy, Iraq and the Congo. Countries which could more than double their out-

**TABLE 43 — PADDY OUTPUT OF THE MAIN
PRODUCING COUNTRIES**

(in thousands of tons)

	1948/49- 1952/53	1964/1965	1965/1966	1966/1967 ¹⁾
<i>Asia</i>				
Burma	5,481	8,508	8,055	8,097
Cambodia	1,633 ²⁾	2,500	2,376	2,283
Ceylon	479	1,054	757	...
Taiwan	1,682	2,794	2,920	2,960
India	33,383	58,551	45,921	55,000 ⁵⁾
Indonesia ⁶⁾	9,495	12,628	13,245	14,103
Iran ⁵⁾	424	860	860	900
Iraq	203	184	198	182
Japan	12,736	16,343	16,116	16,552
South Korea	2,567	5,344	4,731	5,900 ⁵⁾
Laos	540 ²⁾	735	740	623
Malaysia	554 ³⁾	921	...	...
Nepal	...	2,201	2,207	...
Pakistan	12,399	17,780	17,795	17,800 ⁵⁾
Philippines	2,767	3,992	4,073	4,148
Thailand	6,846	9,624	9,588	11,800
South Vietnam	2,469 ³⁾	5,185	4,822	4,336
People's Republic of China	58,188 ²⁾
<i>Europe</i>				
France	46	122	100	112
Italy	723	624	509	616
Portugal	115	181	139	159
Spain	280	398	350	385
U.S.S.R.	202 ⁴⁾	471	570	710
<i>America</i>				
Cuba	106	160 ⁵⁾
Dominican Republic	65	137	150	146
Mexico	173	274	333	335 ⁵⁾
Panama	84 ⁴⁾	128	156	...
United States	1,925	3,319	3,460	3,858
Argentina	152	268	165	...
Brazil	3,025	7,580	5,072	...
Colombia	248	547	673	700
Ecuador	127	167	157	185 ⁵⁾
Guyana	101	264	279	294 ⁵⁾
Peru	205	284 ⁵⁾	300 ⁵⁾	...
<i>Africa</i>				
Madagascar	829	1,312	1,200	1,400
Sierra Leone	274 ²⁾	331	310	...
United Arab Republic	971	2,036	1,862	2,000 ⁵⁾
<i>Oceania</i>				
	90	170	200	230
World total ⁷⁾	166,400	263,600	255,400	266,900

1) Provisional figures.

2) 4-year average

3) 3-year average.

4) 1950/1951.

5) Unofficial figures.

6) Data different from those of the
Department of Agriculture.

7) Including other countries.

Source: Food & Agriculture Organization.

put were i.e. Greece (+ 190%), France (+ 165%), Guyana (+ 161%), Brazil (+ 151%), Colombia (+ 121%) and Ceylon (+ 120%).

Unlike the year before, the world output of paddy in 1965/1966 declined by 3.1% to approximately 255.4 million tons. The decrease was due to unfavorable weather in Asia, Africa as well as in Europe. A heavy decline was noted in Tanganyika (- 37%), Brazil (- 33 %), Ceylon (- 28 %), Portugal (- 23 %) and India (- 22 %) . Too little rain and an extraordinary dry season in India very much affected the area under cultivation as well as the average yield per hectare. The area under cultivation, 36.4 million hectares in 1964/1965, was reduced to 35.0 million hectares in the following year, whereas the output dropped from 58.6 million tons to 45.9 million tons, a fall of 12.7 million tons or of approximately as much as 1 1/2 times the volume of the worlds rice imports in 1965 (7.3 million tons).

A marked decline was also noted in South Korea in consequence of a drought which affected that country, whereas in South Vietnam both the area under cultivation and the average yield per hectare declined considerably during the last years, mainly in consequence of the war prevailing in that country. In West Europe, the drought in 1965/1966 caused a decline in production both in Italy and in other producing countries. In 1965/1966

a better output was achieved by the countries in Central and South America (except Brazil, Argentina and Equador), the USSR, Australia and several countries in Asia. Indonesia, Taiwan and the Philippines showed an increase in production; besides favorable weather conditions, programs designed to increase paddy output through expanding the area under cultivation and increasing the average yield per hectare had positive results.

In 1966/1967 the world output of paddy showed an increase again viz. it became approximately 266.9 million tons or increased by + 4.5%. With the exception of South Vietnam, Cambodia, Laos and Iraq, the countries in Asia showed a better production. As a consequence of the war and of heavy rains which damaged the crops in the lowlands of the Mekong-delta, the output of paddy in South Vietnam could not yet be increased. It is estimated that in India, the biggest rice producing and rice consuming country, the output of paddy in 1966/1967 will be 55 million tons compared with 45.9

million tons in the preceding year. The aforesaid output is still below the peak level achieved in 1964/1965 (58.6 million tons) and in relation to its requirements, India still suffers from a shortage of foodstuffs. Thailand recorded an increase of 2.2 million tons (+ 23%), i.e. from 9.6 million tons in 1965/1966 to 11.8 million tons in the following year. South Korea and the USSR also showed a rather significant rise (+ 25%), their output became 5.9 million tons and 0.7 million tons respectively.

From the location of the rice-producing and rice-consuming countries may be concluded that they are mainly grouped together in Asia. In terms of quantity, the countries in Asia are producing approximately 60% of the world's paddy output. Domestic requirements exceeding the level of their own production converted a few of them into rice importing countries.

As far as the upward trend of the paddy output in the rice-exporting and rice-importing countries is concerned, a relatively better progress is achieved by the group of exporting countries as a consequence of the progress achieved with respect to the efforts during the last years to increase the production of paddy, not only in Taiwan and Korea but also in the USA, the UAR, Brazil and Australia.

In the world market, the demand for rice is increasing steadily, mainly because of:

- 1) a high rate of population growth;
- 2) higher consumption per capita in, developing countries reflecting higher standard of living;
- 3) the urbanization in the rice producing countries which shows an upward trend;
- 4) a tendency to substitute the main food item consisting of traditional foodstuffs - not rice - (such as maize, sorghum etc.) for rice, which primarily occurred in Africa.

The high demand for rice in the world market is evidenced by the following facts:

- a) a shortage of rice in most consuming countries, such as India, Indonesia, Ceylon, Malaysia, Hongkong, Singapore, Japan, etc.;
- b) a steady increase in the world market price of rice during the last years;
- c) the annual increase of rice imported by the consuming countries.

The facts mentioned above basically show that the increase in the world production of rice is lagging behind the increase in demand, especially in the countries of South East Asia.

The tables on the world's exports and imports of rice (table 44 and 45) reveal that the trade in rice is primarily concentrated in the countries of the "Far East", where the exports and imports are approximately 60% of the total volume of rice traded. The main rice exporting countries ranged according to the average volume of rice traded during the period of 1961-1963 are the following: Burma, Thailand, the USA, the People's Republic of China, the UAR, Cambodia, South Vietnam (which in the last years became a rice importing country), Italy and Pakistan, whereas the main rice importing countries are: Indonesia, India, Ceylon, Malaysia, Hongkong, Pakistan, Cuba, the USSR, Japan, Singapore and the Philippines. Rice imports of Indonesia, Malaysia and Pakistan in 1965 were much lower than in the preceding years, however, this decline was set off by higher imports of other countries, such as India, Japan, the Philippines and South Vietnam, so that the world demand for rice remained high. In each of the countries mentioned above, the increase in the volume of imports was a consequence of several factors. India e.g. suffered from a chronic shortage of foodstuffs which was estimated at approximately 7 to 8 million tons of rice a year, or about as much as the world's total rice exports. It is therefore impossible to cover India's food shortage with rice imports only, other foodstuffs, primarily wheat, have to be imported in addition.

India's total rice imports in 1965 covered only 10% of its total food shortage. Also for this reason the supply of other foodstuffs, (wheat in particular) affected the world market position of rice, both as a direct substitute for rice (such as in India, Pakistan, etc.) and in connection with the wheat imports of the People's Republic of China that affected its volume of rice—substituted by wheat—exportable to other countries. Japan and the Philippines need more rice because of a higher level of consumption per capita and since rice is also used for industrial purposes, for cattle fodder etc. South Vietnam, traditionally a rice exporting country lately became—in consequence of the war prevailing in that country—a rather significant importer of rice, mainly from the USA within the framework of the P.L. 480 program.

**TABLE 44 — RICE EXPORTS SPECIFIED ACCORDING TO
MAIN EXPORTING COUNTRIES**
(in thousands of tons)

C o u n t r i e s	1961 - 1963 Average	1964	1965
<i>The Far East</i>			
Burma	1,661	1,394	1,357
Cambodia	245	487	469
Taiwan	79	128	257
South Korea	23	13	19
Pakistan	123	135	149
Thailand	1,419	1,898	1,851
South Vietnam	187	49	—
Other	26	25	30 ¹⁾
T o t a l	3,763	4,129	4,132
People's Republic of China	519	807 ²⁾	721
North Korea ¹⁾	13	5	5
North Vietnam ¹⁾	9	11	10
<i>Other Countries</i>			
France	13	4	10
Italy	170	63	93
Spain	60	66	81
U.S.A.	1,028	1,352	1,549
Brazil	65	12	237
Guyana	86	79	101
Surinam	21	13	21
United Arab Republic	250	527	330
Madagascar	34	28	11
Australia	60	63	66
Other	123	106	99
T o t a l	1,910	2,313	2,598
World total ³⁾	6,214	7,260 ²⁾	7,470

¹⁾ Unofficial estimates.

²⁾ Revised figures.

³⁾ Including other countries not indicated above.

Source : Food & Agriculture Organization.

**TABLE 45 — RICE IMPORTS SPECIFIED ACCORDING TO
MAIN IMPORTING COUNTRIES**
(in thousands of tons)

C o u n t r i e s	1961 - 1963 Average	1964	1965
<i>The Far East</i>			
Brunei	6	6	7
Ceylon	427	658	530
Taiwan	22	28	10
Hongkong	364	356	341
India	438	645	783
Indonesia	1,066	1,016 ²⁾	190
Japan	175	415 ²⁾	959
South Korea	40	—	—
Malaysia	411	500	354
Pakistan	223	87 ²⁾	60
Philippines	148	299	569
Singapore	175	162	192
South Vietnam	15	—	242
Other	202	239	286
T o t a l	3,712	4,411	4,523
<i>Other Countries</i>			
France	61	57	82
West Germany	116	122	128
Netherlands	38	50	27
United Kingdom	112	109	116
Other Countries in West Europe	109	132	124
U.S.S.R.	176	359	190
Other Countries in East Europe	236	266	28
Cuba	191	236	280 ¹⁾
Arab Countries	222 ¹⁾	180 ¹⁾	260 ¹⁾
Ivory Coast	34	58	78
Madagascar	1	5	73
Mauritius	68	68	68
Senegal	110	185	179
Other	807	934	859
T o t a l	2,281	2,811	2,746
World total	5,993	7,222	7,269

1) Unofficial estimates.

2) Revised figures.

Source : Food & Agriculture Organization.

In 1965 there were also a few changes in the position of the rice exporting countries, viz.:

- 1) Burma, traditionally the most important rice exporting country, was superseded by Thailand. The reason therefor is a relatively slow growth of Burma's paddy output on the one hand and a continuous increase in domestic consumption on the other.
- 2) The position of the USA as an exporting country is becoming more and more important on account of the progress achieved in the efforts to increase its output of paddy. Therefore, the volume of its rice exports, both commercial and non commercial (through its P.L. 480 program), is increasing every year.
- 3) The position of the People's Republic of China as a rice exporting country (due to its policy to import wheat—which is cheaper—for domestic consumption and to export the domestically produced rice of a higher price) with an export volume comprising approximately 10% of the world's total export of rice, is also becoming more important.
- 4) Several countries, such as Taiwan, Brazil and Australia, emerged as new exporting countries. In the last years, output of paddy in Taiwan and Australia improved and exceeded the domestic consumption which enabled the aforesaid countries to export the surplus, whereas Brazil, with its high potential output of paddy will also become a supplier in the years to come.

Although definite figures concerning the export of the respective countries are not yet available, the world rice exports in 1966 are estimated at approximately 7 million tons, which is less than the volume traded during the preceding year, as a consequence of the decline in the output of rice in 1965/1966. There was a very strong demand for rice in 1966, whereas the capacity to export was limited because the domestic consumption of the rice exporting countries increased also. This caused a steady and significant increase of the rice price in the world market, as may be seen from the following table:

World market price of rice

(Thailand: white, 5 - 7% broken, f.o.b. Bangkok)
in £/ton

1966		1967	
January	50.2	January	65.5
February	52.0	February	...
March	60.0	March	...
April	56.5	April	73.5
May	59.0	May	77.0
June	60.0	June	86.0
July	60.5	July	86.0
August	62.0	August	84.0
September	63.0	September	90.0
October	64.7	October	90.0
November	59.0	November	96.0
December	63.5	December	92.0

Source: F. A. O.

Furthermore, although in 1966/1967 the producing countries were generally able to improve their paddy output, it is expected that the world demand and world export of rice in 1967 will continue to be at the same high level, inter alia because of the following reasons:

- a) Various rice consuming countries—in the first place India as the biggest rice consuming country—did not yet manage to increase their output to a normal level.
- b) In several countries the supply available for export declined since the volume of rice required for domestic consumption in these countries increased.
- c) The persistence of pressures in the world market of wheat caused by a further reduction in the supply of the main exporting countries as well as less favorable harvests in the countries in West Europe and Asia during the preceding year.

Forestry

According to the data of the Directorate General of Forestry, in the period under report the output of timber showed a marked increase over the preceding year, both specified according to the kinds of wood and according to the producing regions (table 46 and 47).

TABLE 46 — TIMBER OUTPUT IN VARIOUS AREAS
(in thousand m³ rough timber equivalent)

Year	Djava and Madura	Sumatra	Kalimantan	Sulawesi	Maluku/ West Irian	Nusa Tenggara	Indonesia
1962	1,572	1,381	340	19	—	48	3,360
1963	1,633	1,494	318	53	—	49	3,547
1964	1,479	1,300	267	50	34	101	3,231
1965	1,275	1,317	98	18	4	88	2,800
1966 ¹⁾	1,386	1,470	440	30	15	106	3,447
1967 ¹⁾	1,353	1,432	415	59	17	149	3,425

¹⁾ Estimates based upon statistical analysis.

Source : Directorate General of Forestry.

The increase in output is mainly due to a greater number of operating licences for forest exploitation, granted both to national and to foreign companies. Particularly after the promulgation of the Act on Foreign Investment many foreign entrepreneurs were interested in investing their capital in the field of forestry, whereas many of the entrepreneur who had started operations before the promulgation of this Act increased their invested capital.

Compared with the preceding year, the output in 1967 showed a slight decline (+ 22 thousand M3). This decline was i.e. caused by the continuous rainfall in a few regions during the first half of 1967, especially in Kalimantan (Borneo) and by stagnations in the marketing of the timber, both in the domestic market and abroad in addition to other difficulties and obstacles, such as:

- a) the ever increasing prices of the essential commodities, fares and wages/salaries;
- b) an increase in the rate of sea freight, which aggravated the difficulties in the marketing of forest produce, especially in Kalimantan (Borneo) where the major part of the output has to be sold outside that region;
- c) a poor condition of the infra-structure and of the means of production;
- d) bottlenecks in the financing;
- e) the many thefts of timber.

TABLE 47 — TIMBER OUTPUT SPECIFIED ACCORDING TO KIND
(in thousand m³ rough timber equivalent)

Year	Lumber	Fire Wood	Charcoal	Total
1962	2,018	1,039	303	3,360
1963	1,961	1,218	368	3,547
1964	1,870	1,020	341	3,231
1965	1,685	930	185	2,800
1966 ¹⁾	1,923	1,161	363	3,447
1967 ¹⁾	1,928	1,133	364	3,425

¹⁾ Estimates based upon statistical analysis.

Source : Directorate General of Forestry.

About the domestic marketing of forest produce may be said that thus far teakwood has been sold by the Government, c.q. P.N. PERHUTANI, by means of public auctions, to Government institutions and through private contracts. With respect to the other kinds of wood (non teakwood) for the major part felled outside Djawa, the sawmills have their own logging activities, whereas the sawmills in Djawa are purchasing timber from regions other than Djawa, particularly from Kalimantan.

The domestic market for timber was in general slack, since during the period under report many building activities were suspended. Other impeding factors were the rising costs of transportation and the difficulties in financing caused by the tight money policy of the Government. The shipping of timber from Kalimantan to Djawa was e.g. hampered by the high costs of transportation which caused the price of timber at the time of arrival in Djawa to exceed the price of timber grown in Djawa itself.

As far as timber exports are concerned, in 1966 the export of teakwood and several other kinds of timber showed an increase of 5,149 tons and 69,595 tons respectively, compared with the exports in the preceding year. In 1967 through the month of June, the export of teakwood amounted to 12,256 tons and the export of other kinds of timber to 152,455 tons (table 48).

**TABLE 48 — IMPORTS AND EXPORTS OF THE PRINCIPAL PRODUCTS
AND KINDS OF WOOD**
(in tons)

	I m p o r t			E x p o r t		
	Triplex board and cases	Wood pulp	News print	Teak	Other kinds of timber	Fire wood
1963	3,649	1,539	63,618	5,989	107,107	1,638
1964	2,376	969	29,572	7,711	62,072	—
1965	7,134	1,342	28,565	9,679	123,806	—
1966 ¹⁾	1,708	1,826	16,090	14,828	192,401	24
1967 ¹⁾	12,256	152,455 ²⁾	—

1) Provisional figures.

2) January - June.

Source : Central Bureau of Statistics

Hitherto, Europe and Hongkong are the principal foreign markets for teakwood from Indonesia. However, teakwood sales to Europe showed a decline caused by the recession in Europe, by the war in the Middle East and by a shift in the market demand with respect to assortment as well as quality. The demand in Europe shifted from logs to conversion but Indonesia was not yet able to fulfill the incoming orders as the capacity of sawmill was still very limited. In the middle of 1967, the export of teakwood to Hongkong (which was for the major part re-exported to the People's Republic of China) suffered a severe setback because as a consequence of a political issue between China and Hongkong, the latter suddenly stopped buying from Indonesia. Fortunately, P.N. PERHUTANI succeeded in finding other buyers so that the export of teak logs as from the middle of the year began to recover. On the basis of orders already received it is expected that the situation in 1968 will be better because the Hongkong market can absorb lower grade teak logs, which means a solution to the problems encountered by P.N. PERHUTANI in the European market. In other countries, such as in the USA, Japan and Singapore, Malaysia, Indonesian teakwood encounters heavy competition from large-sized logs, principally from Thailand and Burma. Up till now the only market for timber other than teak, mainly originating from Kalimantan, is Japan. Recently this country imported very much timber of the same kinds as exported by Indonesia, from the Philippines, Sabah and Serawak where exploitation has been mechanized and the timber is of a better quality.

Early in 1967 there occurred a kind of rush from the side of Japan with respect to timber imports which resulted in an undesirable situation as from the middle of that year, such as an excess of supply congestion in the ports, ships that could not be unloaded immediately, a fall in prices, losses on the part of dealers and buyers who became very selective especially with regard to quality and size.

Besides timber wood, firewood and coal, other kinds of forest produce also must be noted as a significant source of foreign exchange, even more than timber. The most important among these products are rattan, dammar and copal (table 49).

Concerning projects for forest exploitation may be noted that as from 1963 through 1967, 15 Licences for Forest Exploitation have been issued, one of which has been cancelled. Of these projects, those which are actually being realized are the forest ex-

TABLE 49 — EXPORTS OF ADDITIONAL FOREST PRODUCE
(in tons)

	C o p a l	D a m m a r	R a t t a n
1963	3,113	8,248	29,832
1964	2,046	5,885	37,839
1965	1,808	5,308	34,626
1966	2,127	4,224	20,780
1967 ¹⁾	2,207	6,601	32,231

¹⁾ Provisional figures.

Source : Central Bureau of Statistics.

exploitation projects in Kalimantan, jointly carried out by the B.P.U. PERHUTANI (Indonesia) and foreign (Japanese) companies on the basis of production sharing, i.e.:

- 1) B.P.U. PERHUTANI - Forest Development Corporation (F.D.C) in East Kalimantan
- 2) B.P.U. PERHUTANI - Mitsui Overseas Forestry Development Corporation Ltd. (MOFDECO) in Central and South Kalimantan.

As for the development of the project with F.D.C. can be noted that during the period under report 2 new units have been established viz. unit IV and unit V, both of them in 1967. Therefore, 5 out of the 7 planned units have already been established as from 1964 up till 1967. Total credits to these five units amount to US \$16 million.

The development of the production of the F.D.C. projects is as follows:

<i>Production (m³)</i>	<i>1964</i>	<i>1965</i>	<i>1966</i>	<i>1967</i>	<i>Total</i>
Planned	9,000	59,000	219,000	496,000	783,000
Actual	3,000	14,020	49,860	61,548	129,228
a) logging	3,000	14,020	49,860	61,800	128,680
b) milling	—	—	—	548	548
<i>Exports (m³)</i>					
Planned	6,300	42,660	173,900	396,800	619,660
Actual	—	10,088	46,260	56,895	113,243
<i>Export value</i>					
(US \$) Net	—	138,583.70	480,404.96	426,637.87	1,045,575.53

The production of this production sharing project with F.D.C. did not reach the planned targets; the reasons therefor are inter alia:

- a. the very heavy rainfall, especially in the first quarter of 1967, which disturbed the process of production;
- b. difficulties in the rupiah financing during good weather conditions, whereas money was often made available at improper times;
- c. the productivity of the technical equipment did not concur with the productivity foreseen in the planning;
- d. a shortage of rice for the employees and laborers.

Concerning tile development of the joint project with "MOFDECO" can be noted that this project was founded on the same principles as the F.D.C. project. The project is located in Pulau Laut (Unit I) in South Kalimantan where it covers an area of + 40 thousand hectares, and in Sampit (Unit II) in Central Kalimantan covering + 9 thousand ha. The credit available for the development of these two units amounts to + US \$ 5 million. Until the end of 1967, Unit I could not yet produce or export, whereas Unit II at the end of 1967 had already produced logs to a volume of two thousand m³ which, according to plan, should also have been exported at the end of that year; for several reasons, however, the export was delayed until 1968.

In order to project the teak forests in particular, and to enforce the rules and regulations governing the field of forestry pursuant to decision No. Pol 137/Sk/Mk/1966, No.6/M P/1966 jointly taken by the Minister/Police Commander in Chief and the Minister of Agriculture, next to the forest police in existence, units of the Special Forest Police were created in the areas of the teak forests in the regions of Pati, Semarang and Pekalongan; the aforesaid units consist of the available officers of PERHUTANI, who were given the required training and were further instructed by officers of the Police Force. Headed by officers of the Police Force, the Special Forest Police takes preventive as well as repressive measures to safeguard the forests, such as investigating and prosecuting contraventions of the regulations on forestry, inclusive of taking the matter into court. The officers of the Police Force have been attached to/are tactically subordinate to the Administrator concerned. Therefore, maintenance of security is expected to be more intense. A direct consequence presently perceptible, is the sharp decline of large scale timber thefts by means of trucks.

Concerning the reforestation and the afforestation of bare land and the planting of woodland carried out by PERHUTANI in Central and East Djawa, the following data are available:

in 1965 : 38,881 ha
in 1966 : 42,031 ha
in 1967 : 45,047 ha

Although the P.N. PERHUTANI since its establishment has been making efforts to reforestation idle land, apparently these efforts cannot balance the speed of deforestation. Several reasons therefor may be indicated inter alia the unlawful use of land and the failure of Plantings.

As for The imports of wood products, the imports of wooden chests and of newsprint in 1966 showed a decline of 76% and 44% respectively, whereas the import of wood pulp increased by 36% (table 48).

Live-stock

Based on figures of the Directorate General of Animal Husbandry, cows in 1967 numbered approximately 8 million, waterbuffaloes approximately 3 million, horses 675 thousand, goats and sheep 11 million and pigs 5 million. Data for 1965 and 1966 are not available (table 50). In order to obtain accurate data concerning the number of cattle at the end of 1967, preparations will be made for a cattle survey and census to be carried out by the Directorate General of Animal Husbandry in cooperation with the Central Bureau of Statistics. This cattle survey and census will be executed by means of samplings all over Indonesia from January to March 1968.

Among the efforts to increase the output of animal husbandry in the following years may be reported that the Five Year Agrarian Development Plan (1969-1973) also provides for a 5 year plan for live-stock transmigration. Till now, live-stock in Indonesia is unequally distributed. Therefore it is intended to establish new centers for cattle breeding in the outlying districts, by means of cattle transmigration and the creation of cattle breeding centers in order to guarantee the supply of live-stock for the whole region. An equal distribution has also a favorable impact upon the quality and the quantity of

TABLE 50 --- LIVE-STOCK
(in thousand heads)

	Cows	Buffaloes	Horses	Goats and Sheep	Pigs
1963 ¹⁾	6,938	2,836	753	11,040	2,990
1964	6,638	2,936	852	11,050	3,040
1965 ²⁾
1966 ²⁾
1967 ³⁾	8,059	2,958	675	11,146	5,434

1) Revised figures.

2) Data not available.

3) Provisional figures.

Source : Directorate General of Animal Husbandry.

live-stock since each head of cattle will have more grass at its disposal. Presently, much pastureland is not used at all by lack of cattle, whereas in regions where live-stock is abundant, good pastureland is getting scarce.

In addition to transmigration of cattle as a means to raise the quality and the quantity, selection and castration of substandard bulls are also practiced in order to prevent breeding of inferior stock.

The estimated production of meat, milk and eggs in the period under report is illustrated by the following figures:

	<i>Meat</i> (<i>'000 tons</i>)	<i>Milk</i> (<i>million liters</i>)	<i>Eggs</i> (<i>millions</i>)
1963	248.1	30.4	1,490.8
1964	377.9	34.0	1,610.1
1965	502.6	38.1	1,738.9
1966	668.4	42.7	1,878.8
1967	891.4	48.0	2,035.4

Source : Seminar of the Five Year Developmentent Plan 1969 - 1973, Department of Agriculture.
Directorate General of Animal Husbandry.

These figures prove that during the period under report the production of milk showed a satisfactory increase, although it could not yet meet the domestic demand. The impeding factors are the continuously increasing costs for fodder whereas the buying capacity of the population is more and more declining. The production of meat and eggs in the period under report also showed an optimistic increase.

The export of cattle from Indonesia is primarily bound for Hongkong, the Philippines and Singapore. According to the figures of the Central Bureau of Statistics, the export of cattle in 1965 was 37,539 heads comprising 20,453 Cows 10,736 waterbuffaloes and 6,350 pigs. In 1966, the export of cattle declined by 14% and was only 32,199 heads, consisting of 23,496 cows, 4,353 waterbuffaloes and 4,350 pigs. This decline was, inter alia, caused by the revaluation of the old Rupiah which was replaced by the new Rupiah; in a sense this adversely affected the exporter's activities with respect to the purchase of cattle in Nusatenggara for export. Besides, transportation by sea was not as easy as expected.

The export in 1967 apparently declined seriously by 11,635 heads (-36%) and only recorded 20,564 heads, viz. 9,700 cows, 10,614 waterbuffaloes alia 250 pigs. The decline in the aforesaid year was primarily caused by the suspension of export from Bali in connection with the outbreak of the "Djembrana disease" in this region. Fortunately, in 1967 prices in the Hongkong market were on the average better than the year before so that the decline in foreign exchange was less than the decline in the export volume.

Early in 1965, a disease broke out among cows and waterbuffaloes in the region of Djembrana, Bali; the disease spread rapidly and claimed many victims. After investigation by a few teams, the disease was strongly suspected to be render pest. In March 1967, the Food and Agriculture Organization and the neighboring countries were informed of the disease. However, there was no common consent in declaring the "Djembrana disease" as render pest.

After the F.A.O. had informed its member nations about this "Djembrana disease" in Bali, the Government of Hongkong, since the beginning of March 1967, prohibited the import of cows from Bali. Until the end of 1967, the said prohibition was not yet revoked although all traces of the "Djembrana disease" had been wiped out.

The Government of Hongkong was still waiting for advice from the F.A.O. before taking a final decision about the revocation of the prohibition to import cattle from Bali.

In consequence of reports received at the end of 1967 and the beginning of 1968 about the outbreak of a cattle disease in the region of Portuguese Timor, the Government of Hongkong, awaiting further information, promulgated a regulation-prohibiting the import of cattle from the whole island of Timor, including the Indonesian part of the island. This was the second regulation prohibiting the import of cattle from Indonesia. Since some time, the Government of Indonesia is taking steps towards revocation of the aforesaid prohibitions. As a result of the discussions between officials of both governments, a delegation of the Government of Hongkong visited Indonesia and based upon the result of this visit, the revocation of the prohibition, which had been in force for nearly one year, may be taken into consideration. Meanwhile, the Government of Hongkong stipulated that if in the near future the said prohibition is to be revoked, thenceforth all cattle for export to Hongkong should be provided with a health certificate before shipment. Particularly with respect to cattle exported from Bali, the Hongkong Government stipulated another condition, viz. that the cattle from that region should be in quarantine for 28 days. Moreover, cattle exported from Bali which is obviously in good health should be transported directly from the place of quarantine to the ship. The cattle should be in good health during the period in quarantine. It was also stipulated that cattle exported from Bali be immunized against rinderpest, 90 days before shipment to Hongkong.

For Indonesia, the biggest market for cattle in Asia is Hongkong where the People's Republic of China is competing. Therefore, any obstacle in Indonesia hampering an increase in cattle exports will give the People's Republic of China the opportunity to dominate the Hongkong market. For that reason, any inflexible regulations which basically only hamper Indonesia's exports, particularly of cattle, should be revoked immediately. Taking into account the potential of Indonesia with respect to cattle and the potential market for meat in the future, it is possible that the export of cattle and meat will substitute other export products of which the world market price has declined and that are therefore less profitable.

The Five Year Agrarian Development Plan (1969-1973), provides for the following 4 categories of projects in the field of animal husbandry, viz.:

1. the A-projects (foodstuffs), comprising 15 projects in the field of food production and food conservation;
2. the B-projects (export products), comprising 7 projects in the field of exports;
3. the C-projects (infrastructure), comprising 11 projects in the field of education/training, industry and facilities with respect to trade and to public security;
4. the D-projects (increase of production capacity), comprising 10 projects in the field of research, safeguarding of production and improvement of production.

Fishery

The production of inland fishery which in 1965 and 1966 was 437 and 482 thousand tons respectively, was estimated at only 470 thousand tons in 1967. Approximately 75 %of the aforesaid output originated from public waters ,such as marshes, rivers and lakes which according to estimates cover approximately 12 million hectares of Indonesian territory. Bearing in mind the potential of this vast extent of public waters, the production of inland fishery could actually be increased by means of:

TABLE 51 — PRODUCTION OF FISHERIES
(in thousand tons of fresh fish)

	Sea Fishery	Inland Fishery	T o t a l
1963	559	376	935
1964	590	403	993
1965 ¹⁾	661	437	1,098
1966 ¹⁾	720	482	1,202
1967 ¹⁾	638	470	1,108

1) Provisional figures.

Sources : Directorate of Sea Exploitation.
Department of Agriculture.

- a. extermination of echornia which greatly hamper fishing and block the streams to the fishing grounds;
- b. improvement of river transportation between the producing and consuming regions;
- c. providing an adequate supply of fishgear (fishing-rods, fishingnets, salt, etc.)

Besides from public waters, freshwater fish originates from fishponds, irrigated ricefields (together with paddy), pools and irrigation-reservoirs. In 1966, the fishponds in Djawa, Madura, South Sulawesi and Atjeh— which are the main regions in this respect — were estimated at 140 thousand hectares, with an average yield of 150 to 200 kg/hectare. The said average yield recently showed a tendency to decline because of constant alluvial deposits since the rivers empty their muddy waters into these ponds. Waterpumps are needed to improve the water supply of the ponds.

The extent of rice-fields, ponds, irrigation-reservoirs and lakes for fishbreeding in 1966 is estimated to cover 150 thousand hectares. These fishbreeding ponds should regularly be provided with fry from fishbreeding centers.

The output of sea fishery in 1965 through 1967 is reported on page 171. The said figures show a decline of approximately 82 thousand tons in 1967 compared with the preceding year and 23 thousand tons compared with 1965. The decline of the production during the last year was i.a effected by a disproportional change in the price ratio between the current input and output. The prices of fishing gear increased by 5 to 10 times during 1967 whereas the price of fresh fish increased only by about 3 times. The limited foreign exchange resources did not enable the Government any longer to allocate sufficient foreign exchange for the import of the implements needed by the fishermen; whereas the fishing gear presently available in the market was imported by private firms, and prices were beyond the purchasing power of the fishermen.

Another factor affecting the breeding and catching of fish are the attempts to catch fish by means of explosives thereby simultaneously endangering the fish-breeding grounds.

According to the available data, the number of fishermen operating in the Indonesian waters in 1966 was approximately 891 thousand and in 1967 approximately 865 thousand. The number of fishing equipment, sailing boats, motorized proas and motor-

boats used in 1966 was 668 thousand, 251 thousand and 3 thousand respectively, whereas in 1967 the figures were 723 thousand, 260 thousand and 4 thousand, indicating an average increase of 6.7%, 3.5% and 18.5% respectively with regard to productive equipment.

The level of production, both of inland and sea fishery as shown by the above figures was still below the quantity demanded. The output of fish in 1965, 1966 and 1967 was 1,098 thousand tons, 1,202 thousand tons and 1,108 thousand tons respectively. Based upon an annual minimum protein intake of approximately 17 kg of fish per capita (besides meat, etc.) Indonesia's requirement in the years concerned ranged between 1,819 - 1,909 thousand tons.

In order to increase fish output to keep pace with the quantity demanded which is increasing annually (the population growth is estimated at 2 to 3 per cent per annum), the Government *inter alia* attempted to promote training in the field of fishbreeding, to introduce more up-to-date fish catching techniques and equipment such as diesel engines for motorboats, to construct proas of the "kolek/kementing" type, to stimulate the establishment of fishery cooperatives, to provide instructions and information to fishermen, to move the transmigrating fishermen to new fishing regions, to dredge the river estuaries, to construct piers where the proas of the fishermen can moor, etc., although the execution is limited by the Government's financial capacity. The aforesaid efforts were undertaken by the Sea and Inland Fishery Services in the Regions, the Fishery Institutes as well as by P.N. PERIKANI.

In connection with the plan of the Government to increase the output of sea-fish and to introduce modern methods for the catching of fish, in 1961 the B.P.U. PERIKANI was founded as a legal entity with branches in the producing regions. In 1965, the B.P.U. PERIKANI was liquidated (Decision of the Minister of Fishery No. 22/Men. Ik/II/65, of February 19, 1965), whereas its branches were transformed into State Fishery enterprises called P.N. PERIKANI. In the ensuing development, the status of several of these State Fishery enterprises was changed, e.g..

1. P.N. PERIKANI Jakarta Raya was merged into P.N. Hasil Laut (Decision No. 311/Men. Ik/II/1965).
2. P.N. Perkapalan „Badjo”, Djuana, formerly part of P.N. PERIKANI Djawa Tengah (Central Djawa) became a separate entity as P.N. Perkapalan Badjo (Decision No. 95/Men. Ik/II/1965).

3. P.N. PERIKANI Ternate, formerly a separate entity, was merged into P.N. PERIKANI Sulawesi Utara/ Tengah (Decision No. 259/Men Ik/ II/1965).
4. P.N. PERIKANI Kalimantan Selatan, Kotabaru, was transferred to the Regional Government of the Province of South Kalimantan (Decision No. 19/DD. PKL/I/ 1966).
5. All activities of P.N. PERIKANI Djawa Tengah were centralized in Tegal (Decision No. 319/Men. Ik/II/1965)
6. P.N. PERIKANI Djawa Timur and all its activities were temporarily suspended (Instruction of the Director General of Sea Exploitation No. DD 1/188/67).

As a consequence of the above mentioned development the “PERIKANI” enterprises under the jurisdiction of the Directorate General of Fishery and Related Services were the following:

1. P.N. PERIKANI Sumatra Utara, Belawan
2. P.N. PERIKANI Riau, Tandjung Pinang
3. P.N. Hasil Laut, Djakarta
4. P.N. PERIKANI Djawa Tengah, Tegal
5. P.N. Perkapalan Badjo, Djuana
6. P.N. PERIKANI Djawa Timur, Surabaya (suspended)
7. P.N. PERIKANI Sulawesi Selatan/Tenggara, Makasar
8. P.N. PERIKANI Sulawesi Utara/Tengah, Aertembaga
9. P.N. PERIKANI Maluku, Ambon.

The activities and the field or operations of P.N. PERIKANI comprise:

- a. fishery proper;
- b. processing and conservation;
- c. providing of facilities for repair/docking of ships;
- d. transportation of the catch.

In 1967 the fish output of P.N. PERIKANI was only approximately 1,664 tons, a very meagre result in view of its equipment and the extent of its operations. The ice factories of P.N. Hasil Laut and P.N. PERIKANI Djawa Tengah were not yet able to supply the required quantity of ice for fishery. The production of canned fish managed

PRODUCTION OF SEA FISHERY
(in tons)

	1963	1964	1965 1)	1966 1)	1967 1)
1. Atjeh	12,023	19,541	25,825	32,440	31,000
2. North Sumatera	42,447	44,036	50,026	55,007	52,000
3. West Sumatera	6,167	3,220	4,000	15,060	16,000
4. Riau	115,000	120,000	130,000	143,000	146,000
5. Djambi	2,094	2,504	3,004	3,500	5,000
6. South Sumatera } 7. Lampung }	30,000	23,442 4,574	32,734 3,835	35,000 4,800	30,000 4,000
8. Djakarta Raja	2,096	2,115	2,318	2,400	2,800
9. West Djawa	29,021	30,410	40,467	41,500	28,000
10. Central Djawa	28,051	29,500	21,396	34,400	25,000
11. East Djawa	58,492	96,796	98,000	94,800	40,000
12. West Kalimantan	45,000	19,639	40,300	32,200	31,800
13. Central Kalimantan	14,756	10,992	10,065	13,200	13,000
14. South Kalimantan	12,513	15,446	17,000	21,300	19,500
15. East Kalimantan	11,900	13,222	19,864	21,900	20,000
16. North Sulawesi	21,689	22,597	19,404	24,200	25,500
17. Central Sulawesi } 18. South Sulawesi }	85,000		4,500	6,000	5,500
19. South East Sulawesi }			88,000	96,000	88,000
		90,000	4,000	6,000	3,500
20. Bali	2,024	2,169	2,046	2,120	2,500
21. West Nusa Tenggara	14,894	12,876	14,789	14,390	15,500
22. East Nusa Tenggara	5,053	6,088	7,750	7,530	7,600
23. Maluku	15,750	16,768	16,144	19,819	20,000
24. West Irian	5,000	4,070	5,150	4,700	6,000
Total of Indonesia	558,970	590,000	660,617	720,236	638,200

1) Provisional figures.

Source : Directorate of Sea Exploitation.

by P.N. PERIKANI Maluku, Ambon, was adversely affected by shortage of raw materials and by marketing difficulties, whereas a shipyard managed by P.N. PERIKANI Riau and P.N. Perkapalan Badjo, Djuana, was only limited to the making of hulls. In general, the fishery enterprises which were commercially operated as separate units met with various obstacles in consequence of:

1. inadequacy of capital;
2. means of production which required rehabilitation, whereas financial resources were lacking;
3. marketing difficulties;
4. managerial and organizational weaknesses.

Till 1967, P.N. PERIKANI already owned 98 boats with a total capacity of 1,573 tons. In the framework of plans for the expansion and intensification of their activities, several state enterprises are cooperating or will cooperate with national as well as foreign private firms, such as:

1. P.N. Hasil Laut, Djakarta, is cooperating with P.T. Gondokusumo with respect to the marketing of fresh fish.
2. The cooperation between P.N. PERIKANI Aertembaga and Yugoslavia is being discussed.
3. The possibility of cooperation between P.N. PERIKANI Maluku, Ambon and Toyo Menka Kaisha Ltd Japan, is also under discussion.
4. P.N. PERIKANI Djawa Timur Surabaya. is cooperating with C.V. Bobby L., Surabaya.

Export crops *R u b b e r*

The production of estate rubber in 1966 showed a decline of approximately 5,352 tons, viz. from 227,763 tons in 1965 to 222,411 tons in the following year. The decline in production was i.e. caused by current replanting and by insufficient use of fertilizers. Besides, there were comparatively still too many old trees. In addition to the facts men-

tioned above, the production of private estates suffered from inadequate maintenance. According to estimates, the production in 1967 would reach 215,366 tons, a decline of 7,045 tons against the volume produced in the preceding year, whereas the target had been set at 217,000 tons. For 1968, the production target was determined at 219,266 tons.

For the reasons mentioned above, to which must be added that rejuvenation on a regular basis was started only as late as 1961, the production of estate rubber up to 1970 may be expected to stay within the range of 210 to 230 thousand tons a year.

The production of smallholder's rubber in 1966 showed an increase of approximately 18 thousand tons compared with the preceding year viz. from 510 thousand tons in 1965 to 528 thousand tons in the following year. Production in 1967 was estimated to be about the same as in 1966 viz. + 530 thousand tons, whereas the target for 1968 was determined at only 500 thousand tons.

Fluctuations in the production of rubber were mainly caused by price-fluctuations and by the possibility of smuggling. When rubber prices were high, the trees were ruth-

TABLE 52 — PRODUCTION AND EXPORTS OF ESTATE RUBBER
(in tons)

	Production	Export
1963	216,413	203,347
1964	231,691	240,754
1965	227,763	220,544
1966	222,411	238,019
1967 ¹⁾	215,366	106,381 ²⁾

¹⁾ Provisional figures.

²⁾ January - June.

Source : Central Bureau of Statistics.

lessly tapped, but when rubber prices were low in comparison to the prices of food-stuffs, farmers shifted to food crops, since most smallholders grow foodcrops as well. In spite of the rejuvenation and the extension of the area under cultivation, the production of smallholders rubber in the following years will probably stay at a level of about 500 thousand tons a year because the new plantations cannot yet be tapped.

Contrary to price movements in the world market, the price for rubber in the domestic market rose continuously. At the end of December 1965, the quotation for R.S.S. I. in Djakarta was Rp. 5.25 per kg, but at the end of 1967 it was as high as Rp. 46 per kg. The price increase must primarily be attributed to a rise in the costs of production

As a result of the decline of prices in the world market in relation to the price increase in the-domestic market, exporters were faced with a widening price disparity. For this reason and because the cash position of the State Enterprises became continuously more difficult, more and more rubber of export quality was sold in the domestic market.

A Government Regulation in the field of import and export dated July 28, 1967, somewhat reduced local sales, but production costs soared again as prices of rice and other commodities subject to rationing moved upward since the beginning of the last quarter of 1967. At the end of November 1967, the B.E.-rate started to rise, thereby more or less offsetting the price increases of foodstuffs (costs of production). The B.E.-rate which neared Rp. 250.- for each US \$ stimulated exports, whereas local sales became less attractive. Other factors affecting export activities in the period under report were difficulties in transportation, the bad condition of the roads connecting production centers with the harbors and a serious shortage of storage space.

Concerning the export of smallholders rubber can be noted that in 1966 West Kalimantan was still the main export region, successively followed by North Sumatra, South Sumatra, Djambi, Lampung and South and East Kalimantan (table 53). However, if exports of South Sumatra and Djambi are taken together, it appears that this region was the biggest producer and exporter of smallholders rubber. In 1966, the export volume of each region declined somewhat, so that the recorded export in that year was less than in the preceding year. The same applies to 1967; although the available data

**TABLE 53 — EXPORTS OF SMALLHOLDER'S RUBBER FROM
THE PRINCIPAL PRODUCTION AREAS**

(in tons)

	1965 ¹⁾	1966	1967 ²⁾
West Kalimantan	97,335	87,741	29,805
South and East Kalimantan	38,476	35,456	16,227
North Sumatera	89,924	82,190	37,888
R i a u	16,836	11,796	3,754
West Sumatera	27,813	23,335	9,300
South Sumatera	81,908	76,742	41,843
D j a m b i	67,675	67,057	32,665
Lampung	51,900	43,604	21,153
Other areas	17,167	13,885	9,096
Total reported exports	489,034	441,806	201,731

¹⁾ Revised figures.

²⁾ January - June.

cover only the first half of the year, it seems justified to estimate that exports for the whole year will not exceed those of the preceding year. The reasons for the decline in the export volume of smallholders rubber were approximately the same as for estate rubber, to which must be added the smuggling to abroad and the departure of the Chinese who were traditionally handling the collecting trade in export commodities in the interior of Kalimantan. As regards the quality of estate rubber, especially of Government-owned estates, 79% of the sheets produced could be qualified as R.S.S. I and 50% of the crepe produced as "crepe I". Smallholders still produced about 65% blankets and 35% sheets, a shift from blankets to smoked sheets was not yet in evidence. Efforts to improve the grades were being made, at least with respect to blanket grades. Problems to be solved in raising the quality of smallholder's rubber were mainly of a social-economic character and centered around trade procedures. Till then, the variety and quality of the smallholder's rubber as well as the methods of production

depended highly upon the price level and price structure in the local market. In those regions where the position of the remilling industry was very strong such as in South Sumatra, the production of sheets was crowded out by slabs. This can easily be understood since the remillers were doing their utmost best to obtain raw material from the producing farmers. This raw material consisted of slabs, so that the production of sheets from latex by the smallholders would endanger the continuity of the remillers's production. Moreover, for the smallholders themselves, the processing of slabs is easier than the processing of sheets.

In order to meet the challenges of synthetic rubber and the decline in the world market price of natural rubber, several steps should be taken, viz:

1. measures to reduce the costs of production;
2. measures to improve the quality of the product;
3. measures to stimulate the domestic consumption of rubber.

The cost of production can be reduced through consistent rejuvenation with high-yielding seeds. New planting should be seriously taken into consideration. Production could also be raised by more intensive tapping, by using stimuli, etc. In the year under report, replanting was much hampered by the lack of capital.

The improvement of quality includes the improvement of the conventional products (sheets, crepe, etc.) and the application of new processing methods to obtain uniform grades as well. This would open up new and wide prospects in the coming years, especially where natural rubber has to compete with synthetic rubber which is produced in ever increasing quantities of ever better quality.

As a first step, crumb rubber mills will be founded in two places in Indonesia, namely in Bekiun (ex P.N. Karet II, North Sumatra) and in Sukamadju (ex P.N. Karet XI, West Java). Preparations were started in 1965/1966 but the plans could not materialize because of financial difficulties. In general, the rubber manufacturing industries in the USA and in Europe welcomed this variety of rubber. Countries presently producing crumb rubber are Malaysia, Vietnam, the Ivory Coast, West Africa and Liberia. The sales price of crumb rubber made from estate latex is higher than that of R.S.S. I and if made from scraps and lumps, it may exceed the price of brown crepe or approach the price of R.S.S. III.

**TABLE 54 — WORLD PRODUCTION AND CONSUMPTION OF
NATURAL RUBBER**

(in thousand long tons)

P r o d u c t i o n	1965 ¹⁾	1966	1967 ²⁾
Malaya	870	925	933
Indonesia	706	704	750
Ceylon	116	129	141
Thailand	213	204	211
Vietnam	60	48	...
Other countries	378	690	...
World Total	2,343	2,400	2,455 ³⁾
C o n s u m p t i o n	1965 ¹⁾	1966	1967 ²⁾
United States	515	554	498
J a p a n	198	213	...
United Kingdom	184	181	...
West Germany	155	155	139 ²⁾
France	121	125	...
Canada	43	47	45
Other countries	1,167	1,285	...
World Total	2,383	2,560	2,460 ³⁾

1) Revised figures.

2) Provisional figures.

3) Estimates.

Source : Rubber Statistical Bulletin.

**TABLE 55 — WORLD PRODUCTION AND CONSUMPTION
OF SYNTHETIC RUBBER
(in thousand long tons)**

P r o d u c t i o n	1965 ¹⁾	1966	1967 ²⁾
United States	1,765	1,970	1,912
Canada	197	200	197
United Kingdom	153	191	...
West Germany	136	182	170
France	146	161	...
J a p a n	159	228	...
Other countries	456	398	...
World Total	3,012	3,330	3,408 ³⁾
C o n s u m p t i o n	1965 ¹⁾	1966	1967
United States	1,540	1,666	1,630
Canada	96	107	108
United Kingdom	180	190	...
West Germany	205	209	197 ²⁾
France	145	166	...
J a p a n	173	219	...
Other countries	634	688	...
World Total	2,973	3,245	3,313 ³⁾

1) Revised figures.

2) Provisional figures.

3) Estimates.

Source : Rubber Statistical Bulletin

In order not to be lagging too much behind the other crumb rubber producing countries, these facts are reason enough to pay closer attention to the establishment of crumb rubber mills in due course.

For a rubber producing country, Indonesia uses relatively very little rubber for industrial purposes. Therefore, the establishing of new factories using rubber as raw material should be accelerated. It is really an anomaly that Indonesia, after Malaysia the biggest rubber producer, is importing manufactured products of rubber, even more so if such products are made of synthetic rubber.

According to statistical data of the International Rubber Study Group, the production of both natural and synthetic rubber increased every year, although the production of natural rubber did not increase as fast as that of synthetic rubber, since the production of natural rubber is subject to nature, whereas synthetic rubber is a man-made product, and its output is therefore easier to regulate. The world production of natural rubber in 1965 through 1967 is successively as follows: 2,343 thousand long tons, 2,400 thousand long tons and 2,455 thousand long tons (table 54). Presently, the main natural rubber producing countries are Malaysia, Indonesia, Thailand and Ceylon. The production increase in Malaysia is the result of regular rejuvenation carried out on a large scale since 1951.

Every year the production of synthetic rubber shows a significant increase, viz. as follows: 3,012 thousand long tons (1965), 3,330 thousand long tons (1966) and 3,408 thousand long tons (1967). In all synthetic rubber producing countries, the production figures increased continuously with the USA in the lead, successively followed by Canada, the United Kingdom, West Germany, Japan and France (table 55). Japan is one of the

<i>Year</i>	<i>World production of natural and synthetic rubber</i>	<i>Share of natural rubber</i>	<i>Share of synthetic rubber</i>
	(in thousands of long tons)	(percentages)	(percentages)
1965	5,355	43.7	56.3
1966	5,730	41.9	58.1
1967	5,863	41.9	58.1

countries where the production of synthetic rubber developed tremendously. In 1965, Japan was third among the synthetic rubber producing countries, in 1966 it was second with an output of 228 thousand long tons.

By expressing the world output of natural and synthetic rubber in percentages of the world production of rubber as a whole, it becomes clear that the share of natural rubber is declining in favor of synthetic rubber.

With respect to consumption, the use of natural rubber from 1965 through 1967 was successively: 2,383 thousand long tons, 2,560 thousand long tons and 2,460 thousand long tons, with the USA as the main consuming country, followed by Japan, the United Kingdom, West Germany and France. World consumption of synthetic rubber in 1965, 1966 and 1967 amounted to 2,973 thousand long tons, 3,245 thousand long tons and 3,313 thousand long tons, respectively. The main consumers were the USA, Japan, West Germany, the United Kingdom, France and Canada. In 1965, Japan only ranked fourth as a consumer of synthetic rubber, in 1966 it increased its consumption and became second after the USA.

According to the data of the International Rubber Study Group, the world market price of natural rubber in 1966 and 1967 showed a decline (table 56). In the New York market, the highest price was quoted in March 1966, viz. US \$ cents 25.71 per lb. In the following months the price declined persistently and reached its lowest point in November 1967 at US \$ cents 17.62 per lb. In the London market, the lowest quotation in the 1966-1967 period was recorded in October 1967, namely 1 sh 2 3/4 d per lb, whereas in January 1966 the price for the same unit was still 1 sh 8 5/8 d.

Factors that caused the decline in the price of natural rubber were mainly of a short-term character such as:

- a. a general recession in most consumer countries in West Europe and North America;
- b. strikes in the rubber manufacturing industries in the USA;
- c. release of rubber from the US stockpile;
- d. the closing of the Suez Canal which caused an increase in sea freight and a reduction in the frequency of sea transportation were some of the factors responsible for a decline in the demand for rubber by the USSR;
- e. a gradual decline of rubber imports by the People's Republic of China;
- f. manipulations which caused the rubber price to decline even further.

Among the actions taken in order to prevent the world market price of natural rubber from a further decline, from October 2 through 4, 1967, a special meeting was held in Kuala Lumpur—not under the auspices of the IRSG — of the rubber producing countries. At this meeting, several decisions were taken, among which:

TABLE 56 — RUBBER PRICES
(R.S.S. I)

	Djakarta Rp/kg	London sh-d/lb c.i.f.	New York US. \$ cts/ lb	Singapore Str. \$ cts/ lb	Colombo Rupee cts/ lb
1963	0.20 ¹⁾	1 9 13/32	26.26	72.42	92.7
1964	0.42 ¹⁾	1 8 1/4	25.24	68.14	89.5
1965	1.54	1 8 3/4	25.69	70.02	91.4
1966 ¹⁾					
January	7.19	1 8 5/8	24.71	70.10	93.1
February	7.03	1 8 29/32	25.54	70.34	93.1
March	7.77	1 8 13/16	25.71	69.84	92.3
April	7.78	1 8 1/8	24.53	67.31	90.4
May	9.84	1 8 13/32	24.20	68.69	91.5
June	14.10	1 7 5/8	23.66	65.70	88.5
July	13.50	1 7 5/16	23.46	64.64	88.7
August	14.52	1 6 15/16	23.03	63.60	87.8
September	17.79	1 5 29/32	22.19	59.69	84.6
October	22.83	1 6 5/8	21.95	62.69	88.0
November	20.19	1 6 9/16	22.34	62.73	87.3
December	19.50	1 6 3/32	22.02	60.27	85.3
1967 ²⁾					
January	19.50	1 5 12/16	21.55	59.15	84.5
February	20.31	1 5 3/16	20.67	56.78	81.2
March	23.61	1 5 1/32	20.67	56.68	81.1
April	25.44	1 5 7/32	20.77	57.10	81.9
May	28.13	1 4 29/32	20.72	56.08	80.1
June	32.70	1 5 9/32	21.84	57.07	81.6
July	34.81	1 4 3/4	20.63	55.36	79.3
August	35.60	1 3 7/8	19.35	52.04	73.8
September	36.25	1 3 11/32	18.87	50.66	72.1
October	36.44	1 2 3/4	18.38	50.22	71.3
November	35.60	1 3 1/8	17.62	49.20	74.0
December	43.33	1 5	17.64	49.63	...

1) Revised figures.

2) Provisional figures.

Sources: Antara.
Rubber Statistical Bulletin.
Bulletin Ekonomi Keuangan.

- 1) to cooperate in order to achieve stability in the world market price of natural rubber by means of coordinating the production and marketing of natural rubber;
- 2) to establish the "Association of Natural Rubber Producing Countries" with a permanent joint secretariat.

Copra

Data concerning the sales of copra by the I.K.K.I. (Induk Koperasi Kopra Indonesia = Central Copra Cooperative of Indonesia) during the period under review were not yet available because the reports from the regions had not yet been received. Nevertheless, the figures on copra sales are expected to show a continuous decline, since generally the copra cooperatives at that time were lacking sufficient capital to absorb the output of the copra farmers. In 1965, the copra sales by the I.K.K.I. amounted to only 57.6 thousand tons, a decline of 17.4 thousand tons (- 22%) compared with the preceding year.

Regarding the development of the copra cooperatives in Indonesia may be reported that through 1966 the number of Joint Cooperatives and Central Copra Cooperatives increased, whereas the number of primary cooperatives and their individual members showed a significant decline. The decrease in the number of primary copra cooperatives and in the individual memberships of copra cooperatives was i.e. effected because the copra farmers had the feeling that they did not benefit sufficiently from the cooperatives. This, in turn, was caused by the circumstances that the farmers often received payment in vouchers from the cooperatives, while payments in cash were frequently delayed. Besides, a Decision of the Minister of Trade which, under certain circumstances, allowed the farmers to sell their copra to parties other than cooperatives also more or less "alienated" the farmers from the local copra cooperatives.

TABLE 57 — COPRA SALES BY I.K.K.I.
(in thousand net tons)

	East Indonesia	West Kalimantan	Other areas	T o t a l
1963	53.5	18.1	11.4	83.0
1964	35.8	9.7	29.5	75.0
1965	...	...	...	57.6
1966	...	...	...	...

Source : I.K.K.I. (Central Copra Cooperative of Indonesia).

Since copra and other coconut products are essential commodities for the people and affect various interests which are not always converging, i.e. the interest of the copra farmers as producers, the interest of the population in general as consumers, the interest of various domestic industries and the interest of the export trade to earn foreign exchange, copra is hitherto regulated and supervised by the Government c.q. the Department of Trade. Therefore, several regulations were issued but frequently only resulted in confusion and inflexibility in copra production and trade, due to their uncertain and bureaucratic executive procedures.

By Decision of the Minister of Trade No. 064/SK/VI/1966 dated June 30, 1966, copra was still regulated (and supervised) by the Government c.q. the Minister of Trade and Cooperatives. In the villages, copra was collected by the primary cooperatives according to their ability. If a cooperative proved to be capable enough it could be designated as the sole collector in its region. In principle, exporters and interinsular traders were prohibited to enter into direct contact with the primary cooperatives and were at most permitted to contact the central cooperative. In order to achieve an equilibrium between the use of copra, its price and its rationing, a "Copra Team" composed of the Governor and the regional officials in the field of trade and cooperatives was established in each copra-producing province.

TABLE 58 — DEVELOPMENT OF COPRA COOPERATIVES

	Number of Joint Copra Cooperatives	Number of Central Copra Cooperatives	Number of Primary Copra Cooperatives	Number of Members of Copra Cooperatives
1963	14	84	1,534	162,193
1964	15	86	1,618	184,604
1965	19	88	1,865	159,529
1966	20	105	1,785	140,311
1967	...	...	...	...

Source : I.K.K.I. (Central Copra Cooperative of Indonesia).

Based on the reports of these Copra Teams, the Minister of Trade and Cooperatives periodically estimated the volume of copra for local use for interinsular trade and for export. Periodically the Copra Teams published the purchasing price of copra. Pursuant to the regulations mentioned above, cooperatives, state trading companies as well as bonafide private trading companies were permitted to be active in the field of interinsular trade as well as export of copra. Meanwhile, for the benefit of regional development, the local Governments were still given the opportunity to impose a levy on copra amounting to not more than 10% of the copra price off warehouse.

In accordance with the new policy of the Government in the framework of the rehabilitation and stabilization of the economy, with respect to the copra trade new regulations were required that were in line with the aforesaid policy of the Government. Therefore, on January 27, 1967, a Decision of the Minister of Trade No. 009/SK/I/1967, concerning the new trade procedures with respect to copra was issued to substitute a preceding decision of the Minister of Trade.

As is well known, the former regulations on the trade procedures with respect to copra were designed to protect the small copra farmers. By designating the copra cooperatives as the principal buyers of copra. In fact, however, the copra cooperatives were generally not able to fulfill their duties satisfactorily in regard to the collecting trade, primarily because of inadequacy or unavailability of finances to absorb the copra of the farmers.

The main purpose of the new regulation was, besides stimulating the purchase of copra from the copra farmers at a proper price, to secure copra products (cooking oil, soap, etc.) for the domestic market by means of expediting the supply of copra to the factories which require copra as raw material, without adversely affecting the export drive. For a successful result of the new policy, a single line of command was required, and in this context the Department of trade was the only institution deciding on the trade policy of copra without interference from other institutions.

In the regions where primary copra cooperatives were established, the collecting of copra is done by these cooperatives as far as they were able to do so. However, in regions where primary cooperatives were not yet established or were not yet able to fulfill their duty as collecting traders, the designated exporters and interinsular traders

were allowed to buy copra directly from the copra farmers with permission from the Head of the local Representative Office of the Department at Trade.

Based on a proposal of the Governor/Head of the Province in conjunction with the local Representative Office of the Minister of Trade, the Minister of Trade — or an official designated by the Minister of Trade—periodically estimated the volume of copra required for local use, for interinsular trade and for export. For the benefit of regional development, the governments of the provinces were given the opportunity to levy a tax on copra amounting to not more than 10% of the copra price off warehouse.

The following can be reported concerning the development of copra and copra cakes exports. During the last three years, the export of copra declined, i.e. as a consequence of a slack copra market in Europe and an excess supply of copra from other exporting countries (particularly the Philippines); therefore, the world market price of copra declined in the second half of 1966 as illustrated by the following figures:

<i>Copra Prices ¹⁾</i>			
(US \$/2240 lb)			
	1965	1966	1967
January	214	221	187
February	230	215	186
March	240	198	187
April	254	191	179
May	263	184	185
June	264	187	204
July	224	188	207
August	212	185	195
September	208	170	198
October	215	172	224
November	219	165	250
December	215	184	262

¹⁾ European ports : Philippine bulk, nearest forward shipment, c.i.f.

Source : F.A.O. Monthly Bulletin.

Other factors causing copra exports to decline were:

- a) insufficient transportation equipment both with respect to land- and to sea-transportation;
- b) damaged or inadequate infrastructure in the copra-producing regions,

TABLE 59 — EXPORTS OF COCONUT PRODUCTS

(in tons)

	C o p r a	Copra cakes
1963	108,500	92,662
1964	175,468	157,803
1965	123,811	125,816
1966	119,908	142,796
1967 ¹⁾	112,239	165,286

1) Provisional figures.

Source : Central Bureau of Statistics.

- c) too much interference by other bodies, other officials or other elements which lengthened the marketing channels and resulted in:
- undesired price increases;
 - longer terms of delivery, which may be harmful to the quality of the copra;
 - a decline in the production of copra.

Since the copra centers were mostly located in the outport regions where Conference liners did not call, most of the copra was exported by foreign chartered ships; consequently, the importers or traders in Europe knew far ahead of time how much copra was estimated to enter the European market, so that they were able to squeeze the price, since— as is commonly known—shipment by chartered vessels can hardly be kept secret. This obviously affected Indonesia's position adversely.

In several instances, palm kernels may be substituted for copra. It is therefore advisable to use more palm oil rather than copra for domestic purposes, so that a copra surplus could be exported. Another reason is, that the member nations of the European Common Market (to which the major part of Indonesia's palm oil exports is directed) impose a higher tax on palm oil

In the period under review, the main countries of destination with respect to copra exported by Indonesia were the following :

- in 1966, the Netherlands (48,251 tons), the USA (19,615 tons) and West Germany (15,902 tons);
- in 1967 (through June), the Netherlands (22,532 tons), Singapore (5,737 tons) and West Germany (3,866 tons).

Copra cakes were mainly exported to the following countries:

- in 1966, West Germany (82,037 tons), the Netherlands (46.448 tons) and Belgium/Luxemburg (6,807 tons);
- in 1967 (through June), West Germany (32,859 tons) and the Netherlands (23,823 tons).

Export proceeds from copra (based upon a rate of US \$ 1 = Rp. 10.-) in the years under report amounted to Rp. 204.3 million in 1966; Rp. 133.3 million in 1967, whereas the proceeds from the export of copra cakes in the same period amounted to Rp. 56.4 million and Rp. 31.0 million, respectively.

Palm oil

TABLE 60 — PRODUCTION AND EXPORTS OF PALM OIL AND PALM KERNELS
(in 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
1963	148,345	32,557	109,768	31,289
1964	160,649	34,256	133,191	33,024
1965 ¹⁾	156,649	32,468	125,898	32,855
1966 ¹⁾	159,259	31,042	177,084	31,523
1967 ¹⁾	171,359	34,526	55,768 ²⁾	19,248 ²⁾

¹⁾ Provisional figures.

²⁾ January - June.

Sources : Central Bureau of Statistics.
Department of Plantations.

In the period of 1965-1967 the production of palm oil showed a satisfactory development. The year 1965 recorded a production of 156,649 tons whereas in 1966 and 1967 the production of palm oil increased in volume to 159,259 tons and 171,359 tons respectively, a rise by 2% and 8%. In the meantime, the production of palm kernels in 1965 still recording 32,468 tons, fell off a little in 1966, recording a volume of 31,042 tons (-4%), but increased again to 34,526 tons (+ 11%) in 1967

The increase in the production of palm oil in the period under review must be attributed to:

- 1) Favorable weather conditions. In 1966, the rainfall in North Sumatra (the main palm oil producing region) showed a more regular course than in the preceding year; this favorably affected the production of palm oil. In 1967 the same conditions prevailed.
- 2) The composition of the plantations according to the age of the trees had improved as a consequence of more systematic replantings as from 1962.

The two factors above had a positive effect although production met with various difficulties such as recorded below:

a) Labor.

Cultivation of palm oil trees generally requires a manpower of 70 persons per 100 hectares, whereas the manpower at present available is not more than 55 to 62 persons per 100 hectares. This condition will have an impact upon expansion, replanting and other routine work.

b) Fertilizers.

The quantity of fertilizer available did not cover the requirements so that fertilizing was insufficient. This is a disturbing situation since the shortage of fertilizers is prevailing for a long time and may result in a decline of production and of the resisting power the trees against diseases.

c) Pests and diseases.

Pests which most often were damaging the palm oil trees in 1966 and 1967 were caterpillars ("ulat api" and "ulat kantong"), while the most frequently occurring disease is caused by a fungus at the roots of the trees, particularly in places with a high

groundwater level. A vehement attack of caterpillars of the “ulat kantong”-variety which initially showed an explosive character could be overcome in 1967 so that the production of palm oil could be maintained at the same level.

The palm oil trees of the present age composition are the result of replantings with the Tenera variety and the Tenera/Dura hybrid, which produce kernels with a high oil content. This is the reason why the slight increase in the production of palm oil in 1966 was not accompanied by an increase in the output of palm oil kernels, the latter even declined somewhat. In 1967 the higher production of palm oil was indeed accompanied by an increase in the production of palm kernels, the latter increase, however, was comparatively lower.

In 1965 and 1966, the area for the cultivation of palm oil trees expanded as follows:

<i>Year</i>	<i>Plantations in the productive age (ha)</i>	<i>Plantations below the productive age (ha)</i>	<i>Total area (ha)</i>
1963	90,493	15,550	106,043
1964	87,799	19,877	107,676
1965*)	92,694	15,155	107,849
1966*)	93,387	16,294	109,681
1967	...	...	...

*) Provisional figures.

Source : Department of Plantations.

In order to increase production efficiently, the age composition of the trees needed improvement; therefore, yearly rejuvenation by means of high-yielding seeds of not less than 4% of the total area, as planned by the Department of Plantations, had to be accelerated, so that the targets could be achieved in the years under report. Besides by replantings, the quantity and the quality of the product was also increased by means of rehabilitating the factories and by establishing new factories. Early in 1967, the palm oil factory Bahdjambi (North Sumatra), a new and modern factory, was completed, whereas the palm oil factory Karang Inoueng (Atjeh) was nearing its completion.

Exports of palm oil, amounting to 125,898 tons in 1965, reached a volume of 177,084 tons (+41%) in the following year, whereas the export of palm kernels declined from 32,855 tons in 1965 to 31,523 tons (-4%) in the following year. The export volume, both of palm oil

and of palm kernels, is closely related to the level of production, as this type of estate agriculture produces primarily for export. Until the end of June 1967, the export of palm oil and palm kernels recorded 55,768 tons and 19,248 tons respectively.

Although the marketing/export of palm oil to date did not meet with fundamental difficulties, it should be noted that recently competition became more severe, both from other palm oil producing countries and from countries producing other kinds of vegetable oils. Besides, the high discriminating tariff imposed on palm oil from Indonesia by the member countries of the European Common Market affected its competitive position in the aforesaid countries unfavorably.

In 1966, the average world market price of palm oil declined compared with 1965, viz. from an average of £ 88.8 to an average of £ 84.1 per long ton. The downward trend continued in 1966 through the third quarter of 1967. The price of palm oil quoted in January 1967 was £ 84.8 per long ton, in May the price declined again and recorded £ 81.2 per long ton, whereas in August it increased slightly and became £ 82.5 per long ton.

As was the case with palm oil, the average price of palm kernels also declined in 1966 in comparison to the preceding year, viz. from an average of £ 65.0 to £ 56.4 per long ton. The decline continued in 1967. January 1967 recorded £ 54.2 per long ton, May showed a decline and recorded a price of £ 53.7 per long ton; the price rose again and reached £ 58.8 per long ton in the following month of August.

Export earnings from palm oil amounted to Rp. 1,228.6 million in 1965, Rp. 334.0 million in 1966 and Rp. 103.9 million in 1967 through the month of June; whereas the earnings from palm kernels recorded for the above periods amounted to Rp. 188.1 million, Rp. 37.9 million and Rp. 19.4 million, respectively.

The principal countries of destination with respect to the export of palm oil in 1985 were successively: the Netherlands (63,669 tons), the People's Republic of China (14,400 tons) and Japan (10,300 tons). In 1966 and in 1967 through the month of June, the Netherlands was still the main country of destination for the export of palm oil from Indonesia, with a volume of 63,900 tons and 19,902 tons respectively. In 1966, the USA and West Germany took over the second and third place, each of them absorbed

an export volume of 26,415 tons alia 22,430 tons respectively; whereas in 1967, Belgium/Luxemburg and Japan took the second and third place, taking for their account an export volume of 9,841 and 6,568 tons respectively.

In 1965, the main buyers of palm kernels from Indonesia were successively: the Netherlands (9,487 tons), West Germany (9,025 tons) and Japan (8,553 tons). In 1966 and in 1967 through the month of June, the order of the principal buyers of palm kernels from Indonesia was different, viz.: Japan with a volume of 11,028 tons (1966) and 5,807 tons (1967), the Netherlands with a volume of 8,074 tons (1966) and 5,701 tons (1967) and West Germany with a volume of 5,759 tons (1966) and 2,917 tons (1967).

The above figures indicate clearly that with the termination of the dispute between Indonesia and the Netherlands regarding West Irian, the Netherlands resumed their former position as a major buyer of oil palm produce from Indonesia, whereas the People's Republic of China, which in 1965 was second after the Netherlands as a buyer of palm oil, in the following years apparently did not buy any more oil palm produce from Indonesia, as a consequence of the alienation in the political relations between Indonesia and the People's Republic of China after the September 30/Communist Party's Movement at the end of 1965.

Fibers

According to the data of the Central Bureau of Statistics, in 1966 the production of hard fibers showed an increase of 3,165 tons (+ 70% over the preceding year, viz. from 4,499 tons (1965) to 7,664 tons (1966). The production in 1967 is expected to increase further. Unlike hard fibers, the production of cotton developed unsatisfactorily. According to data of the Department of Plantations, the output in 1966 was 242 tons, in the following year, however, it dropped by about 49% to 120 tons. The target set for 1967 was 463 tons. The decline in the production of cotton was i.e. due to the fact that plantings which were expected to yield 240 kg per hectare, actually yielded only 68 kg per hectare because of several obstacles such as: drought occurring in consequence of a long dry season, pests and plant diseases, and inadequate fertilizing. Besides, the ratio between the sales price of cotton and the costs of production was unfavorable so

that farmers preferred to plant foodcrops or export crops (such as soybeans) rather than cotton. As far as ramie is concerned, its cultivation is still in the stage of development so that it can not yet be expected to show satisfactory results.

In the period under review, the export of hard fibers progressed well, in 1965 it recorded an export volume of 2,463 tons, which in the following year increased by about 68% to 4,142 tons, to increase further to 8,996 tons (+ 117%) in 1966 The principal countries importing hard fibers in 1966 were the USA, West Germany and the Netherlands, with a volume of 1,095 tons, 605 tons and 450 tons, respectively. In 1967 through June, the export of hard fibers to the Netherlands recorded 2,042 tons, to West Germany 1,025 tons and to the USA 651 tons. The export of capok in the period under review amounted to 2,690 tons in 1966 and 2,075 tons in 1967, the principal buyer was the USA with an import volume of 2,206 tons in 1966 and 599 tons in the first six months of 1967.

Cinchona

TABLE 61 — PRODUCTION AND EXPORTS OF HARD FIBERS (in tons)		
	Production	Exports
1963	4,334	2,915
1964	3,578	1,497
1965	4,499	2,463
1966 ¹⁾	7,664	4,142
1967 ¹⁾	6,464 ²⁾	8,996
¹⁾ Provisional figures. ²⁾ January - September.		

Source: Central Bureau of Statistics.

CHART IV - OF OUTPUT OF AGRICULTURAL ESTATES

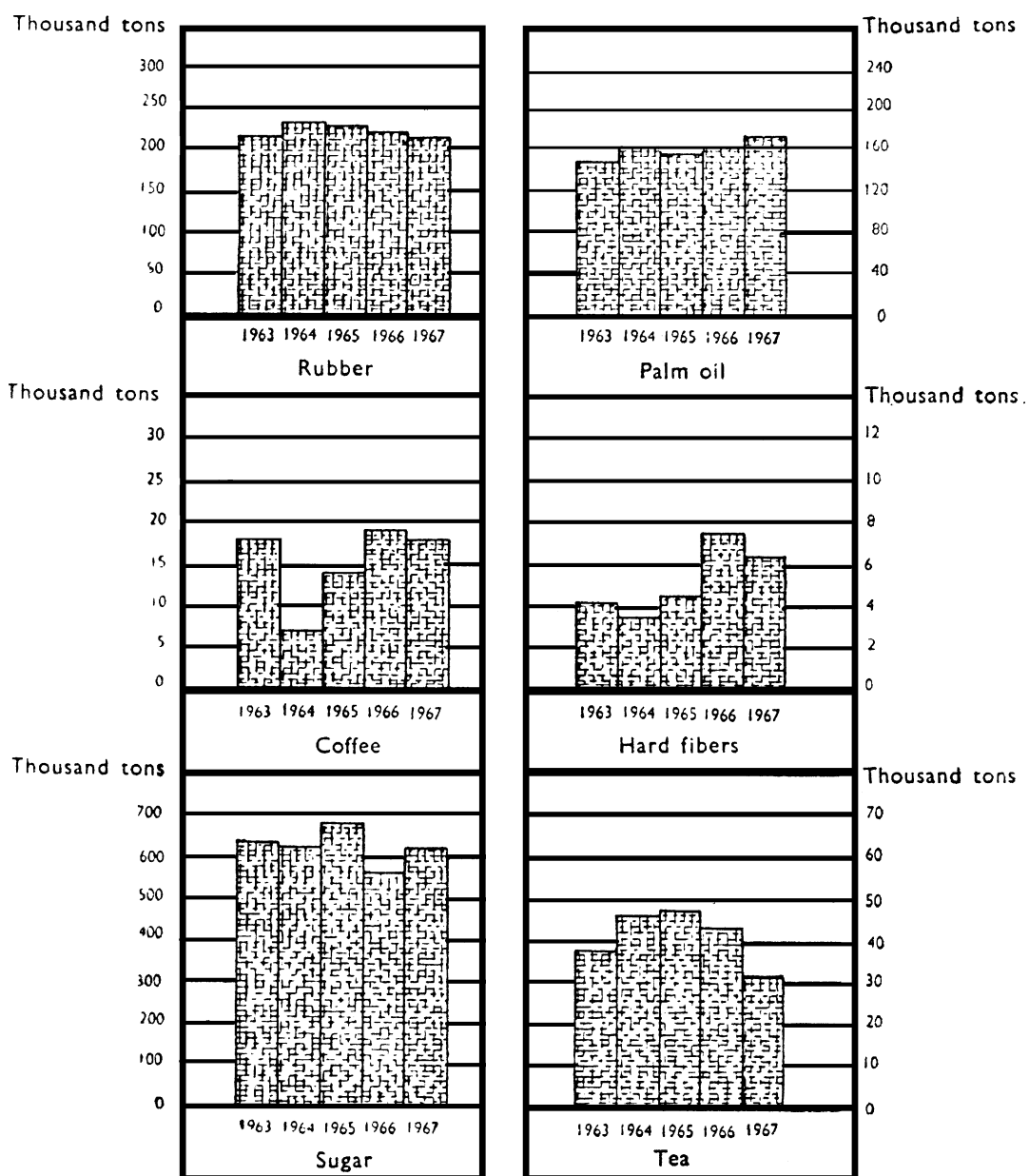


TABLE 62 — EXPORTS OF CAPOK PRODUCTS
(in net tons)

	Capok	Capok seeds
1963	2,492	9,655
1964	2,562	...
1965	1,453	...
1966 ¹⁾	2,690	...
1967 ¹⁾	2,075	12,159

¹⁾ Provisional figures.

Until 1960, the sales price of cinchona bark was very low indeed, so that the cinchona plantations, both which are owned by the state and by private farmers, could not properly be maintained because the proceeds of dry bark could not cover the costs of intensive maintenance.

The quinine factory in Bandung purchased dry bark as raw material for its production of quinine salt for further processing into medicines for the domestic market and/or for export.

In 1960, the price of quinine salt started to rise again. Consequently, the demand for cinchona bark increased substantially which resulted in large-scale felling of cinchona trees. If the cinchona trees are continuously felled without new trees being planted, the cinchona tree may finally disappear from the Indonesian flora. The decline in the production of cinchona bark is evident from the reduction of the area under cultivation of cinchona trees, as may be seen below:

<i>Year</i>	<i>Area under cultivation of cinchona trees (in hectares)</i>	<i>Area producing cinchona bark (in hectares)</i>
1963	3,500	2,900
1964	3,500	2,300
1965 ¹⁾	2,402	2,085
1966	1,867	1,466
1967 ²⁾	1,671	1,211

1) Revised figures.

2) January through June.

Source : B.P.U.-P.P.N. Aneka Tanaman.
Central Bureau of Statistics.

To preserve the cinchona trees, since early in 1964 P.P.N. Aneka Tanaman started rejuvenation with high yielding seeds. According to plan, during the 3 years ending 1966 cinchona plantings will cover an area of 200 hectares and in 1967 and 1968 they will cover 100 hectares in each year.

TABLE 63 — PRODUCTION AND EXPORTS OF CINCHONA
PRODUCTS
(in tons)

Year	Production of dry bark	E x p o r t	
		Cinchona bark	Quinine
1963	2,431	1,505 ¹⁾	118 ¹⁾
1964	2,079	1,415 ¹⁾	151 ¹⁾
1965	1,705	497 ¹⁾	123 ¹⁾
1966 ²⁾	1,389	1,205	82
1967 ²⁾	1,072 ³⁾	1,629	1

1) Revised figures.

2) Provisional figures.

3) January-July.

Source: Central Bureau of Statistics

Although as from 1960 the cinchona land was continually shrinking, the production of cinchona bark rose again in 1963 compared with the preceding year in response of a rise in the world market demand for quinine. With the increase in foreign demand, the production in 1964 and 1965 should have increased as well; production, however, declined (table B3). This decline was i.e. caused by:

- a) a Government Decree according to which as from September 1, 1964, the export of cinchona bark is prohibited on the ground that the export of quinine is much more profitable than the export of drybark.
- b) the low purchase price of dry bark paid by P.N. Farmasi Bhinneka Kina Farma.

As a consequence of the regulation mentioned above, in 1965 the export volume of cinchona bark dropped. The aforesaid prohibition was not properly implemented, licences for the export of cinchona bark were still issued from time to time, which caused an increase in the number of thefts of cinchona bark in the cinchona plantations and widespread indiscriminate felling of cinchona trees among the smallholders. In the following years, the export volume of cinchona bark increased. Countries importing cinchona products are the Netherlands, Belgium, Luxemburg, France, West Germany and the United Kingdom.

Sugar

In the period under report, the output of sugar decreased in Comparison to the output of 1965 (table 64). The said decrease in output which occurred in 1966 was i.e. caused by the following factors:

- a) the long dry season of 1965 affected the sugar cane plantings;
- b) inadequate supply of fertilizers;
- c) the September 30/Communist Party's Movement at the end of 1965 which affected all fields of activity, e.g. the plantations could not be kept up and supervised to the best possible extent.

In the following year, the output of sugar increased again by 63,831 tons (+ 0.6%) in consequence of an expansion in acreage planted with sugar cane by the sugar mills, and of good weather conditions in 1966.

Other factors which also explained why the sugar output remained low were: difficulties concerning the lease of land; the unsatisfactory condition of the irrigation system; insufficient supply of current input (particularly fertilizers), etc. The lease of land did not proceed well, because the land owners and the sugar mills often could not agree on the rent, so that the mills were compelled to lease land of inferior quality or land which was not suitable for the type of sugar cane usually planted by the mills. Delayed transfer of the leased land also affected the sugar cane crop adversely. Inadequate rehabilitation of irrigation works caused the sugar-cane crop to suffer from imperfect irrigation. Moreover, obsolete machinery, most of which is bought before the second world war, also hampered the production of sugar.

TABLE 64 — ACREAGE OF SUGAR PLANTINGS AND PRODUCTION OF SUGAR

Year	Acreage of cane plantings worked (ha)			Production (tons)		Production of granulated sugar (qt/ha)	
	Factory cane	Small-holders cane	Total	Total	Of which State sugar enterprises	Factory cane	Small-holders cane
1963	70,537	11,756	82,293	650,284	631,598	82.0	61.4
1964	65,884	22,460	88,344	648,561	624,980	80.4	52.5
1965	71,030	16,378	87,408	775,950	686,095	96.6	54.9
1966 ¹⁾	67,546	12,000	79,546	605,389	562,449	82.4	36.3
1967 ¹⁾	69,347	9,684	79,031	669,220	626,901	88.8	43.7

1) Provisional figures.

Source : B.P.U.-P.P.N. Gula (Central Administrative Board of the State Sugar Plantations)

Concerning the system of land lease may be reported that in the 1966/1967 crop year, payment of the rent (amounting to 25% of the sugar output per hectare) was effected as follows: 60% in the form of sugar, and the remainder in cash based upon the sugar price received by the mill. For the 1967/1968 crop year, the rent will be paid entirely in cash, viz. between Rp. 12,500.—And Rp. 35,000,- per hectare. Land lease is one of the most difficult problems faced by the sugar industry.

TABLE 65 — SUGAR EXPORTS OF INDONESIA

(in tons)

Country of Destination	1963	1964	1965 ¹⁾	1966 ²⁾	1967 ²⁾
South Vietnam	27,090	—	—	—	—
South Korea	827	—	—	—	—
United Kingdom	19,040	20,701	—	—	—
I r a n	16,696	15,773	—	—	—
People's Republic of China	10,630	17,485	19,936	—	—
Ceylon	—	15,707	—	—	—
France	—	10,539	—	—	—
I r a q	—	8,099	—	—	—
Union of South Africa	—	6,000	—	—	—
J a p a n	—	9,754	29,349	12,687	—
Pakistan	—	—	13,192	7,929	—
Other countries	31,863	1,440	7,083	7,008	—
T o t a l	106,146	105,498	69,650	27,524	—

¹⁾ Revised figures²⁾ Provisional figures

Source : Central Bureau of Statistics

In regions with good land, the farmers demand a high rent, by comparing the earnings which they could have obtained, had they planted their land with rice or some other crop. The output of sugar in the forthcoming years largely depends on the land that can be leased from the farmers, and on the weather conditions at that time.

There were 55 sugar mills on the island of Java, three of which were privately owned and their management had been handed over to BPU - PPN Gula, viz.: "Pakis Baru", "Redjo Agung" and "Krebet Baru". Mills in need of immediate repair were rehabilitated by the Government which imported the necessary spare parts. Besides, the

TABLE 66 — WORLD PRODUCTION OF SUGAR
(in thousand tons)

	1963	1964	1965 ²⁾	1966 ³⁾	1967
Indonesia ¹⁾	652	650	809	640	...
Philippines	1,501	1,733	1,659	1,443	...
Rest of Asia	5,656	6,789	8,231	8,816	...
A s i a	7,809	9,172	10,699	10,899	...
U.S.A.	3,417	3,998	3,767	3,670	...
C u b a	3,821	4,590	6,082	4,867	...
Rest of America	11,628	12,278	15,050	14,303	...
America	18,866	20,866	24,899	22,840	...
Europe	18,813	22,969	23,414	23,497	...
Africa	3,400	3,382	3,490	3,941	...
Australia (Oceania)	3,000	3,288	2,389	2,752	...
World Total	51,888	59,677	64,891	63,929	...

¹⁾ Data differ from those of BPU-PPN Gula (Central Administrative Board of the State Sugar Plantations)

²⁾ Revised figures

³⁾ Provisional figures

Source : International Sugar Council

“Balai Penyelidikan Perusahaan Perkebunan Gula” (= Research Institute for Sugar Industry) in Pasuruan, one of the oldest institutions of its kind, continued its research in the field of sugar cane cultivation and processing of sugar. The construction of the sugar mill “Tjot Girek” in Atjeh, financed with a loan from Poland, was nearing its completion (70%) at the end of 1967. If the financing goes well, particularly with respect to the planting of sugar cane in 1968, this mill is expected to start operations in

TABLE 67 — SUGAR PRICES IN LONDON AND NEW YORK

	London Sh / cwt	New York US. \$ cts/lb		London Sh / cwt	New York US. \$ cts/lb
1965					
January	23 8	2.42	July	17 4	1.78
February	22 8	2.25	August	16 3	1.69
March	25 2	2.63	September	14 10	1.55
April	23 9 1)	2.41	October	15 2	1.59
May	23 0	2.15	November	14 1	1.48
June	20 10	1.97	December	13 9	1.41
July	20 4	1.94	1967		
August	19 3	1.79	January	13 3	1.35
September	19 9	1.84	February	16 6	1.72
October	20 9	2.03	March	15 9	1.61
November	18 9	1.81	April	19 9	2.09
December	20 4	1.96	May	24 0	2.59
1966			June	24 8	2.52
January	22 11	2.47	July	18 9	1.90
February	22 0	2.45	August	16 11	1.68
March	21 0	2.17	September	16 11	1.80
April	20 3	2.09	October	18 11	2.15
May	20 1	2.09	November	- 2)	2.32
June	17 2	1.72	December	24 3	2.17

1) Revised figures

2) On November 18, 1967, the Pound Sterling devalued from £ 1 = \$ 2.80 to £ 1 = \$ 2.40

Source : International Sugar Council.

1970 (the initial plan was 1968). The construction of the Bone sugar mill in South Sulawesi, which according to plan should have started operation in the middle of 1967, was retarded for financial reasons. This mill is financed with a loan from Czechoslova-

kia; like the Tjot Girek mill it has a productive capacity of about 25,000 tons a year. The construction of the Makariki sugar mill (on the island of Ceram) established on the basis of a production sharing agreement with Japan was also retarded, it was even contemplated to move the machinery to Djatiroto (East Java).

The export of sugar from Indonesia showed a downward trend. The year 1966 recorded an export volume of 27,524 tons, which was only about 40% of the export volume in 1965 (69,650 tons) and 26% of the export volume in 1964 (105,498 tons). In 1966, Indonesia even started to import sugar, viz. a volume of 23,966 tons and in 1967 through the month of June, sugar imports reached 34,333 tons already (table 65). As for the export of molasses may be reported that in 1966 its export volume recorded 202,911 tons and rose to 233,633 tons (+ 15%) in the following year. The increase was primarily due to a price increase of molasses from an average of US \$ 15.60 per ton in 1966 to an average of US \$ 27.50 per ton in the following year. The most important buyer of molasses from Indonesia was Japan.

The drop in sugar exports during the period under review was caused by a decline in output and also by a continuous increase of domestic demand. Moreover it should be noted that the world market price of sugar steadily declined, especially in 1966, as a consequence of a sugar surplus in the world market (table 66). The low quotation of the sugar price and a world market which was steadily narrowing in consequence of protective measures taken by the countries in order to protect their own domestic sugar industry, made the export of sugar less profitable. Indonesia's exports of sugar even never reached the quota determined by the International Sugar Council, viz. 350,000 tons to which is added a reserve stock of 50,000 tons. The aforesaid quota did not yield financial benefits such as e.g. the sugar export quota allotted by the USA to the Philippines.

Early 1966, the price of sugar in the London market still quoted 22 sh 11 d per cwt.; this price, however, continuously declined till only 13, sh 3 d at the beginning of 1967, thereafter it was subject to fluctuations, with the highest price quoted at 24 sh 8 d per cwt in June 1967. Sugar prices in the New York market showed more or less the same trend (table 67).

Tea

Tea in Indonesia is produced by estates (black tea) and by smallholders who primarily produce green tea. The output of black tea is mainly exported, whereas nearly the whole output of green tea is consumed domestically.

TABLE 68 — PRODUCTION AND EXPORTS OF TEA
(in thousand tons)

Year	Production		Exports
	Estates ¹⁾	Smallholders	
1963	38.7	38.6	31.6
1964	46.2	41.2	40.0
1965	47.0	42.3	36.5
1966	43.0	42.3	37.0
1967 ²⁾	31.6	46.0	29.6

¹⁾ Includes fresh tea leaves purchased from smallholders averaging 2.5 to 3 thousand tons annually.

²⁾ Provisional figures.

Sources : Central Bureau of Statistics
Department of Plantations

In 1966, weather conditions were favorable for tea cultivation it was a “wet” year. Nevertheless, as a consequence of inadequate fertilizing, the output of estate-grown tea in that year declined by about 4 thousand tons compared with the preceding year, viz. from 47 thousand tons to 43 thousand tons. The output of green tea in 1966 was about the same as in the preceding year, i.e. 42.3 thousand tons. According to the provisional data from the Department of Plantations, the output of estategrown tea in 1967 reached a volume of about 32 thousand tons only this was i.e. caused by the introduction of selective picking in that year (only the young end-leaves were picked) in order to improve the quality and by so doing to earn a higher price. The decline in output caused by

this selective picking was estimated at 15% to 20%. Moreover, the reduction in the output was also affected by insufficient use of fertilizer, a long dry season and night-frost in the estates of Pengalengan (table 68).

The output of green tea in 1967 is estimated to reach 46 thousand tons, which is an increase over the preceding year. The increase must be attributed to an expansion of the acreage under production.

Upgrading the quality of tea is very important for the following reasons:

- 1) An increase in the output of other tea producing countries as a consequence of enlarged tea plantings in the existing producing countries (with the exception of Indonesia) such as India, Ceylon, the USSR and the People's Republic of China, and the emergence of new tea producing countries, particularly in Africa and South America (Argentina).
- 2) The discovery of high yielding hybrids with an annual yield of about 2 tons per hectare (in Indonesia the yield ranges between 0.65 to 1 ton per hectare annually). Tea shrubs in India and Ceylon are systematically substituted by these new hybrids and in Africa they are applied in new plantings.
- 3) A shift in the world's preference towards tea of a better quality.

In order to improve the quality of Indonesia's tea besides selective picking, mills were rehabilitated and new mills were established.

In many tea producing countries (including India which is the biggest producer) the output of tea in 1966 and 1967 showed an increase over the preceding year. Ceylon on the other hand, which ranks second among the tea producing countries, had a decline in its production caused by a long dry season.

The volume of Indonesia's tea export in 1966 was nearly the same as in the preceding year, viz. about 37 thousand tons; in 1967, however it recorded only 29.6 thousand tons. The steady increase of the domestic cost of production on the one hand, and the drop of tea prices in the world market on the other hand, put Indonesia's tea exports in a difficult position. This was intensified by an increase in the output of the principal tea-producing countries which were able to satisfy a large part of the demand for tea of the consuming countries. However, the difficulties could somewhat be reduced by the issue of regulations designed to promote the export and to improve the quality of tea.

In 1966 the principal countries of destination for tea from Indonesia were the Netherlands (19,814 tons), Australia (6,236 tons), the USA (5,239 tons) and Belgium/Luxemburg (2,057 tons). During the first half of 1967 (annual figures were not yet available), the Netherlands imported 9,450 tons of tea from Indonesia, Pakistan 2,723 tons, Australia 1,246 tons, the United Kingdom 879 tons, the USA 737 tons and other countries 1,604 tons.

In consequence of the closing of the Suez Canal, the Australian tea market, which had always been an important market for tea from Indonesia, was flooded with tea from Ceylon and India. Therefore, the price of tea in Australia dropped, whereas in Europe the sales price was affected by an increase in freight of approximately 10%.

In 1966 the world market price of tea in Colombo with respect to the "B.O.P. high grown" variety was subject to fluctuations; the highest price was quoted in March viz. Rs. 2.13/lb and the lowest in June viz. Rs. 1.64/lb. The price at the end of that year was Rs. 1.93/lb. In 1967 the lowest quotation was recorded in June, viz. Rs. 1.54/lb, thereafter the price started to increase and was Rs. 1.99/lb at the end of the year. In London

TABLE 69 — PRODUCTION AND EXPORTS OF COFFEE
(in tons)

Year	Production		Exports
	Estates	Smallholders	
1963	18,379 ³⁾	126,552	80,892 ³⁾
1964	7,396 ³⁾	80,227	62,362
1965	14,070 ³⁾	92,288 ¹⁾	108,286 ³⁾
1966	19,473	106,902 ¹⁾	97,530
1967 ¹⁾	20,305 ²⁾	117,000 ²⁾	136,821

¹⁾ Provisional figures.

²⁾ Target figures.

³⁾ Revised figures.

Sources : Department of Agriculture.
Central Bureau of Statistics.

the quotation for the variety “plain tea” declined continuously in 1966; early in that year the price was still 3 sh 2 d to 3 sh 4 d per lb, at the end of the year, however, it dropped to only 2 sh/lb. In the following year, the price of tea was subject to fluctuations, the lowest quotation was 2 sh 2 d per lb in January and the highest at the end of that year, viz. 3 sh/lb.

Coffee

In 1965, the acreage planted with coffee by smallholders covered 252 hectares, with an output of 92 thousand tons; in the following year both acreage and output increased and became 277 thousand hectares and 107 thousand tons, respectively. The increase in output was caused by the larger area and moreover by the absence of harmful pests and plant diseases. The area of the coffee estates in 1965 and 1966 was practically unchanged, i.e. around 39 thousand hectares; the output, however, increased from 14 thousand tons to 19 thousand tons. Only in some places, white lice from the shadow trees attacked the Robusta coffee plants but could easily be exterminated by lopping the shadow trees. In several areas the Arabica coffee trees were also affected by white lice, but as soon as the rains came, this pest disappeared. Data concerning the production of coffee in 1967 were not yet available; the targets set for that year were 117 thousand tons for smallholder's coffee and about 20 thousand tons for estate-grown coffee.

Coffee exports in 1966 were about 98 thousand tons, 43 tons of which was exported to the USA, 10 thousand tons to Italy, 9 thousand tons to France, 9 thousand tons to the Netherlands and 8 thousand tons to Belgium/Luxemburg. Of this export volume, about 20 thousand tons consisted of estate-grown coffee and 78 thousand tons of smallholder's coffee. In 1967, the export approximated 137 thousand tons, of which 23 thousand tons was estate coffee and 114 thousand tons came from smallholder's. In the first half of 1967 (annual figures were not yet available), exports to the USA totaled 14 thousand tons, to France 5 thousand tons and to Italy, the Netherlands and Belgium/Luxemburg about 2 thousand tons each.

During the last two years, the domestic coffee price rose continuously, viz. in the case of Robusta Lampung coffee from Rp. 14.- per kg early in 1966 to Rp. 33.- per kg in the middle and Rp. 36.- per kg at the end of 1966. In the middle of 1967 this price dropped slightly to Rp. 34.- per kg, only to rise again to Rp. 46.- per kg at the end of 1967.

In order to bring the quality of smallholder's coffee to the same level as the export quality of Brazilian coffee, machinery for the upgrading of coffee by means of a modern drying system was introduced in the Lampungs so that the drying process can be accelerated and be made independent of sunshine.

Concerning the world market supply of coffee must be mentioned, that since 1954 consumption did not keep up with production. The world stock which at that time was about one fifth of the world output, increased in 1965/1966 and exceeded the annual world output or became 1 1/2 times as much as the volume required for consumption. Consequently, prices dropped, which inflicted great losses on the part of the producing countries. In order to prevent such severe price fluctuations, in 1962 an International Coffee Agreement was concluded between the coffee producing and the coffee consuming countries which involved a major part of the world coffee trade. The Agreement starts from an export quota system. Each producing country which is a member of the International Coffee Organization (I.C.O.) is allotted an export quota, whereas it was prohibited to the consumer countries—members of the said organization—to import coffee which had been exported not according to the regulations of the Agreement. If the export volume of a certain country exceeds its export quota, then its quota for the following year will be reduced. Exports to countries which are non members of the organization, however, do not affect the quota of the exporting country, provided

World market prices of coffee
(Brazilian Santos No. 4 in US \$ cents/lb.)

	1966	1967
January	43.1	38.6
February	42.2	38.1
March	41.7	37.8
April	41.6	38.3
May	40.9	39.3
June	40.6	39.0
July	40.5	38.2
August	40.4	37.6
September	40.2	37.3
October	39.8	36.4
November	39.6	36.5
December	39.3	36.8

Source. F.A.O. Monthly Bulletin.

that such coffee is intended for domestic consumption by the importing country and not for re-export to other countries. Initially, the system was implemented by means of a certificate of origin, of which one copy had to be sent to the I.C.O. in order to keep this institution informed of the developments of the world trade in coffee, thus enabling it to take such measures as considered necessary. It appeared, however, that the certificates of origin were misused and therefore the I.C.O. meeting held in September 1966 decided to introduce export stamps issued by the I.C.O. These had to be attached to the certificates of origin. This regulation came into force in April 1967.

As indicated in the following table on coffee prices, the export restrictions imposed by the I.C.O., which are intended to stabilize the world market price of coffee, succeeded in limiting the decline in the coffee price although they could not prevent a decline; on the other hand, however, they increased the stocks in the producing countries.

In South Sumatra for instance, tens of thousands tons of coffee could not be exported by insufficiency in the number of export stamps. In the preceding years, it was attempted to export to non-member countries such as Japan and Singapore. Later, however, it appeared that these countries re-exported this coffee to other countries which were members of the I.C.O.; consequently, the I.C.O. treated these exports as part of Indonesia's quota and Indonesia was fined a reduction of its quota for 1967/1968. Indonesia's annual quota is 1,090,412 bags of 60 kg each.

In 1967/1968 it was fined and the actual quota became 1,068,230 bags. In order to balance the world demand and supply in 1967/1968, the quotas of all producing countries were increased, as a consequence, in the aforesaid year Indonesia was entitled to export 1,163,223 bags. The coffee export quota for 1966/1967 was 1,131,046 bags. By way of comparison may be mentioned that the annual quota of Brazil is 16,788,857 bags and the annual quota of Colombia is 5,606,807 bags.

The world output of coffee in 1964 was 3,530 thousand tons, it increased to 4,530 tons in the following year and decreased again to 3,930 tons in 1966. The decline in the production figures for 1966 was caused by a drop in the output of Brazil and Colombia, the two biggest coffee producing countries in the world. Brazil cut down part of its coffee trees in order to regulate its production and several other Latin American coun-

tries also started to substitute their coffee trees by other estate crops. In 1965, the coffee output of Brazil was 1,832 thousand tons, in the following year it declined to 1,366 thousand tons, while Colombia in those years had an output of 492 thousand tons and 468 thousand tons respectively. On the other hand the application of high yielding seeds caused an increase in the output of several countries.

It is the responsibility of the I.C.O. to stimulate the world consumption of coffee in order to absorb the high level of production. In Indonesia, domestic sales are still limited to coffee of a fairly low quality because the population in general does not yet consume coffee of export quality. Therefore, measures have to be taken to convince the I.C.O. that Indonesia's quota has to be increased and that the stamps must be sent at the proper time. Moreover, exports to non-member countries of the I.C.O. should be promoted, with the understanding that these countries have to guarantee that they will not re-export such coffee to other member countries. The possibility of exporting soluble coffee or "instant coffee" must also be given adequate thought, whereby the preferences of the public in the various countries should be taken into consideration.

Cocoa

In 1965 the producing cocoa acreage covered 3,768 hectares; in the following year this acreage was reduced to 2,712 hectares. The rehabilitation and rejuvenation of the

TABLE 70 — PRODUCTION AND EXPORTS OF COCOA
(in tons)

	Production	Exports
1963	616	47
1964	669	201
1965	663 ¹⁾	20
1966 ²⁾	691	248
1967 ²⁾	380 ³⁾	275 ⁴⁾

¹⁾ Revised figures

²⁾ Provisional figures

³⁾ January - July

⁴⁾ January - June

Sources : Department of Plantations
Central Bureau of Statistics

“Siluwak Sawangan” plantation in Semarang was one of the reasons for this reduction. Since 1962, the cocoa production developed steadily and was approximately 660 tons in each year (table 70).

Cocoa exports increased, it was 248 tons in 1966 and reached 275 tons in the first six months of 1967. The main countries importing cocoa from Indonesia were the Netherlands and West Germany which in 1966 imported 90 tons and 123 tons, and in the first half of 1967 imported 219 tons and 56 tons, respectively.

The world output of cocoa in 1966/1967 totaled 1,331 thousand tons, in 1967/1968 it is estimated to decline by about 3% to become 1,293 tons.

<i>Cocoa Production</i> (in '000 tons)		
	<i>1966/1967</i>	<i>1967/1968</i> ¹⁾
Africa	964.6	916.0
North America	76.1	78.9
South America	257.4	261.8
Asia	33.0	36.3
	<hr/> 1,331.1	<hr/> 1,293.0

¹⁾ Estimates.

Source: Het Financiële Dagblad.

Ghana was the main producer of cocoa with an output of 381.4 thousand tons in 1966/1967 and about 400 thousand tons in the following year. Its exports in 1966/1967 were about 262 thousand tons. Ranking second and third in the row of cocoa producing countries were Nigeria and the Ivory Coast, with an output of 268 thousand tons and 150 thousand tons respectively in 1966/1967 and of 220 thousand tons and 130 thousand tons respectively in 1967/1968. The world output of cocoa in 1964/1965 was abundant, it created a huge surplus which caused a drop in the world market price of cocoa. This surplus, however, could speedily and wholly be sold because in 1965/1966 the output of the principal producing countries, in particular of Ghana and Nigeria, declined as a consequence of bad weather and inadequate maintenance of the plantations following the drop in the world market price of cocoa in the preceding year. The development in the production of the aforesaid main cocoa-producing countries caused

an upward trend in the cocoa prices of the following years. Price quotations of cocoa for the period under review were as follows:

<i>Cocoa Prices</i>		
(US \$/100 pounds)		
	<i>1966</i>	<i>1967</i>
January	22.43	27.90
February	22.46	30.43
March	23.13	30.16
April	29.34	29.34
May	28.26	28.26
June	25.36	28.43
July	27.23	27.98
August	26.67	28.62
September	23.64	30.57
October	24.42	30.75
November	23.54	29.26
December	25.85	31.07

Source: International Financial Statistics

The upward trend in prices since the fourth quarter of 1967 was i.e. caused by armed clashes in Nigeria which affected its production and export of cocoa. With the intention to prevent severe price fluctuations of the cocoa price, in 1967 the world's major cocoa exporting and importing countries met several times in Geneva to establish some kind of a buffer stock. However, to date no agreement has been reached, i.e. concerning the problem of the preferential rights of the African countries which are associated members of the European Common Market.

Tobacco

Tobacco which constitutes an insignificant part of Indonesia's export volume if only judged by tonnage, nevertheless contributes 5 to 10% to the foreign exchange earnings from estate agriculture. In 1965 the volume of tobacco from Indonesia produced by the state enterprises (P.P.N. — Perusahaan Perkebunan Negara) showed a most significant increase. It appeared that the world production of tobacco for cigars, a.o. the Italian Sub-Tropical tobacco, also reached a large volume in 1965. This large output was the main reason why the 1966 auctions in Bremen were slack. The average

price for tobacco from P.P.N. Tembakau, auctioned at the Bremen Tobacco Exchange through the marketing agency "Deutsch Indonesische Tabak Handelsgesellschaft" (D.I.T.H.) declined considerably with respect to all varieties. The well-known Deli tobacco only quoted an average price of D.M. 10.90 per 1/2 kg against D.M. 20.82 per 1/2 kg in 1965, Besuki tobacco only D.M. 3.08 per 1/2 kg against D.M. 5.32 per 1/2 kg in 1965 and "Vorstenlanden" tobacco D.M. 2.84 per 1/2 kg (in 1965 it quoted D.M. 4.14 per 1/2 kg). The price development of the well-known types of Indonesian tobacco originating from the P.P.N. Tembakau estates and auctioned through the D.I.T.H. is shown in the following list:

Auction year	Average price per ½ kg		
	Deli	Besuki	Vorstenlanden
1959 (1958 crop)	D.M. 22.49	D.M. 4.40	D.M. 4.93
1960 (1959 crop)	D.M. 15.47	D.M. 3.04	D.M. 2.58
1961 (1960 crop)	D.M. 17.30	D.M. 4.53	D.M. 3.25
1962 (1961 crop)	D.M. 24.03	D.M. 4.49	D.M. 4.43
1963 (1962 crop)	D.M. 19.26	D.M. 5.90	D.M. 4.34
1964 (1963 crop)	D.M. 18.90	D.M. 4.99	D.M. 4.53
1965 (1964 crop)	D.M. 20.82	D.M. 5.32	D.M. 4.14
1966 (1965 crop)	D.M. 10.90	D.M. 3.08	D.M. 2.84
1967 (1966 crop)	D.M. 12.96	D.M. 4.06	D.M. 3.50

Source: D.I.T.H.

The prices in 1966 were the lowest ever recorded since 1959, i.e. the year of the first tobacco auction in Bremen, however, the quantity of tobacco auctioned in 1966 was the largest achieved in the period of eight years since the auctions were held in Bremen.

According to the data from the Tobacco Institute, the export of tobacco in 1966 totaled 315,212 bales weighing about 30,000 tons and was composed of:

Sumatra/Deli tobacco	42,018 bales
Java/Besuki tobacco	216,701 bales
Java/Vorstenlanden tobacco	29,134 bales
Soppeng tobacco	637 bales
Other varieties	26,722 bales
Total	315,212 bales

Of this volume, 215,874 bales were sold at the auction in Bremen and fetched D.M. 127,019,000.specified as follows:

TABLE 71 — PRODUCTION AND EXPORT OF TOBACCO
(in net tons)

	Produced by BPU-PPN Tembakau				Exports
	Deli	Besuki	Vorsten- landen	Virginia	
1938	13,786	20,924 (Djawa)		...	49,204
1958	2,025	3,141	512	1,405	22,059 ¹⁾
1959	2,313	3,486	845	2,057	15,802
1960	1,996	2,681	779	1,179	22,293
1961	1,638	3,343	1,014	1,869	19,884
1962	2,347	2,748	832	2,441	19,632
1963	2,134	3,550	1,372	2,436	18,153
1964	2,478	1,696	1,173	1,965	27,451
1965	3,289	3,794	2,089	2,401	19,267
1966	2,792	3,166	1,735	2,867	30,098
1967	...	...	...	...	21,116

¹⁾ Data supplied by the Central Bureau of Statistics

Sources : BPU-PPN Tembakau (for production figures)
Tobacco Institute (for export figures)

Deli tobacco earned 52%, Besuki tobacco 27% and Vorstenlanden tobacco 9% of the total proceeds in foreign exchange, while 12% came from tobacco of inferior type and quality which was mostly sold by private contracts.

(A) Through auctions at the Tobacco Exchange :

Sumatra /Deli tobacco	41,375 bales for	D.M.	66,322,000,-
Java/Besuki tobacco	68,726 bales for	D.M.	33,972,000,-
Java/Vorstenlanden tobacco	27,516 bales for	D.M.	11,708,000,-

Total through auctions 137,617 bales for D.M. 112,002,000,-

(B) Not through auctions/by private contract :

	78,257 bales for	D.M.	15,017,000,-
Total (A + B)..... :	215,874 bales for	D.M.	127.019,000,-*)

*) Proceeds calculated on the basis of pro-forma invoices.

Source : Tobacco Institute (Lembaga Tembakau).

Of all the tobacco sold through auctions, 104,470 bales worth + D.M. 100.4 million originated from PPN Tembakau estates and were offered through the D.I.T.H.. This means that in 1966 the state sector earned + 89% of the proceeds from auctions of Indonesian tobacco or 79% of Indonesia's proceeds from tobacco sales in Bremen (including sales by private contracts).

The quality of Indonesian tobacco auctioned in 1966 (from the 1965 crop) was generally good. Taken as a whole, the Deli 1965 crop was of good quality, although not as good as the 1964 crop. The same holds true for Besuki and Vorstenlanden tobacco, the quality of which did not differ much from that of the 1964 crop; only the sorting—often still variable — and the combustibility could be better. It may therefore be said that the low prices fetched in the 1966 auction year were not caused by inferiority of the tobacco but by other factors, among which:

- overproduction of tobacco in 1965, both in Indonesia and in other tobacco-producing countries;
- the tight-money policy in several West-European countries;
- the dealers and cigar manufactures in West-Europe apparently had sufficient stocks of tobacco;
- the possibility that the downward trend in the consumption of cigars in 1965 will continue through 1966.

With a buyers market prevailing in 1966, tobacco of inferior quality was difficult to sell. The tobacco of inferior quality originated often from private exporters/entrepreneurs. Also the quality of Soppeng tobacco, a new variety cultivated on state-owned estates in South Sulawesi, was still graded as low. Moreover, this tobacco was not yet known in the market, so that it was difficult to sell.

In 1967 the export of tobacco from Indonesia totaled 223,346 hales, weighted 21,000 tons, and was made up of:

Sumatra/Deli tobacco	35,842 bales
Java/Besuki tobacco	144,042 bales
Java/Vorstenlanden tobacco	25,087 bales
Soppeng tobacco	2,124 bales
Other varieties	16,251 bales
<hr/>	
Total	223,346 bales

In 1967 tobacco sales in Bremen totaled 283,3'33 bales, which exceeded the export volume since the tobacco sold in 1967 included the volume left over from 1966. A specification of the 1967 sales of Indonesian tobacco in Bremen shows the following figures:

(A) Through auctions at the Tobacco Exchange :		
Sumatra/Deli tobacco	: 35,607 bales for D.M.	68,700,920.-
Java/Besuki tobacco	: 65,212 bales for D.M.	37,596,462.-
Java/Vorstenlanden tobacco	: 23,259 bales for D.M.	11,708,148.-
Soppeng tobacco	: 498 bales for D.M.	86,000.-
Total through auctions	: 124,576 bales for D.M.	118,091,530.-
(B) Not through auctions/ by private contracts		
	: 158,817 bales for D.M.	23,943,000.-
Total (A + B)	: 283,393 bales for D.M.	142,034,530.-*)

*) Proceeds calculated on the basis of pro-forma invoices.

Source : Tobacco Institute (Lembaga Tembakau).

Since the proceeds were D.M 142,034,530.- the 1967 export target for tobacco, determined at US \$ 25 million or the equivalent of D.M. 100 million, was exceeded. The figures show that Deli tobacco made up 48% of the sales proceeds in foreign exchange, Besuki tobacco 27% Vorstenlanden tobacco 8%, while 17% came from tobacco of inferior quality or type.

From the tobacco sold through auctions, 83,734 bales worth D.M. 1017 million originated from state-owned estates, which means that the state-sector earned + 85% of the proceeds from auctions of Indonesian tobacco or + 70% of Indonesia's proceeds from tobacco sales in Bremen.

The tone of the tobacco auctions in 1967 was better than in 1966, although prices were still on the low side compared with the auctions before 1966. This phenomenon was one of the consequences of the overproduction in 1965 which in 1967 was still flowing into the market. In 1967, the volume of tobacco sold by private contracts was twice as large as in 1966, whereas the proceeds only rose by + 60%. The reason therefor was that much of the tobacco sold by private contracts in 1967 originated from the 1965 crop, or sometimes even from the 1964 or 1963 crop, the quality of which had declined very much.

An improvement in the auctions prices is evident if the auctions in 1967 which comprised 124,5776 bales and fetched D.M. 118.530,- are compared with the auctions in 1966 which comprised 137,617 bales and fetched D.M. 122,002,000-. This may be explained by the following factors:

- the volume of the 1966 crop was smaller than the 1965 crop;
- the tobacco of the 1966 crop was of a better quality than the 1965 crop;
- the conditions in the Middle East were also a factor which had their impact upon the increase of the tobacco price.

Until 1967, the Netherlands cigar manufacturers and dealers were still the biggest buyers of Indonesian tobacco in Bremen. Judged from its purchases in 1967, the Netherlands was the most important buyer, since its purchases constituted approximately 65% of all proceeds from Indonesian tobacco auctioned at the Tobacco Exchange in Bremen, followed by Germany (+14%), Denmark (+ 12%), the United Kingdom, Switzerland and other countries.

Among the competitors of Indonesian tobacco, primarily of Deli tobacco, the tobacco from Cameroon must be mentioned as a potentially dangerous competitor, not particularly because of its quality but because of its low price. It should also be added that the sales procedure of Cameroon tobacco in the Paris tobacco market is very attractive for prospective buyers.

An important factor which favorably affects the position of tobacco from Cameroon is, that as an associate member of the European Common Market, its tobacco is exempt from the external tariff imposed upon Indonesian tobacco. Meanwhile, the production of Cameroon tobacco shows a steady annual increase and its price is low in comparison to Indonesian tobacco.

Another competitor is H.T.L. (Homogeneous Tobacco Leaves), which is pulverized tobacco of inferior quality made into imitation tobacco leaves which at present is frequently used as binder for cigars, Italian Subtropical tobacco and American shade-grown tobacco. When in 1966 the price drop affected all types of tobacco, the Sub-Tropical tobacco from Italy could not be marketed at all. One of the main agricultural estates was thus forced to end its activities in Italy.

Spices

The export volume of *pepper* in 1965 was 12,287 tons, which was only about half the volume of the preceding year. In 1966 the export volume increased again to 20,715 tons, approximately worth US \$ 13.4 million, 8,433 tons or 41% of which was exported to the USA. The second important buyer was the United Kingdom with 2,031 tons, successively followed by Japan (1,584 tons) and West Germany (1,492 tons). In 1967, the export volume of pepper reached 37,241 tons of a value of + US \$ 18 million. This is the largest export volume of pepper achieved since 1960. In 1967, for the first time since Indonesia's confrontation against Malaysia, Singapore re-entered the market for Indonesian pepper and at once resumed its position as the main buyer with a volume of 11,417 tons. (actually, the Singapore purchases, were bigger, since part of the exported pepper bound for Japan was unloaded in Singapore). In the same year Japan, with a volume of 8,245 tons, took the second place, while the USA was moved to the third place with a volume of 7,553 tons, successively followed by the United Kingdom (2,453 tons), West-Germany (2,129 tons) and the Netherlands (1,815 tons).

In the international pepper trade there was a conspicuous difference between sea freight from Singapore to New York on the one hand and from Indonesia to New York

TABLE 72 — EXPORTS OF SPICES
(in gross tons)

	P e p p e r			Nutmeg and mace	Cinnamon
	White	Black	Total		
1963	4,529	23,421	27,950	4,566 ¹⁾	9,568 ¹⁾
1964	4,344	18,885 ¹⁾	23,229 ¹⁾	5,495	8,623
1965 ¹⁾	2,172	10,115	12,287	3,900	7,108
1966 ²⁾	2,544	18,171	20,715	4,161	4,342
1967 ²⁾	4,714	32,527	37,241	4,585	4,269

¹⁾ Revised figures.

²⁾ Provisional figures.

Source : Central Bureau of Statistics.

on the other, viz. the freight from Singapore was US \$ 54.14 per ton, while the freight from Pandjang, the main port for Indonesia's pepper exports, amounted to US \$ 93.75 per ton, a difference of about 42%. This weakened the competitive position of Indonesia in the pepper consuming countries. At the initiative of the Indonesian pepper dealers, an agreement was reached with the foreign shipping companies to reduce the sea freight for pepper from Indonesia to the USA, although not as much as desired by Indonesia. Since then, the freight from Pandjang to New York, effective in the last quarter of 1967, amounted to US \$ 77.50 per ton.

In 1965 through 1967, the price of black pepper in the New York market declined. In 1965 the price per lb was about 45 - 49 US \$ cents, it declined in 1966 to 41-44 US \$ cents and dropped still further in 1967 to 29-34 US \$ cents. On the other hand, the domestic prices showed an increase. In the middle of 1966 the pepper price recorded in Djakarta was about Rp. 7.50 per kg, it increased to Rp. 20.- per kg at the end of 1966 and reached about Rp. 100.- per kg at the end of 1967.

The export volume of nutmeg and mace showed an increase in 1966 and 1967. In 1966, the Netherlands with an import of 1,315 tons was the most important buyer, successively followed by the USA (903 tons), France (324 tons) and others. In 1967, Singapore was back in the market for nutmeg from Indonesia with an import of 617 tons, whereas purchases by the Netherlands declined to 672 tons. In 1967, the biggest buyer was the USA (908 tons). In that year, France increased its import to 527 tons and the same may be said of Hongkong and the United Kingdom, each of then imported 172 tons and 146 tons respectively in 1966, and increased these volumes to 474 tons and 324 tons respectively in 1967.

In the period of 1965 through 1967, the world market price of nutmeg showed a downward trend. In the middle of 1965, nutmeg recorded about Str. \$ 370.- per picul in Singapore; at the end of 1965 and early in 1966 it increased sharply and quickly with a peak of Str. \$ 590.- per picul in March and April 1966. At that stage a decline set in, the price drop continued and became even more conspicuous in 1967; the price quoted at the end of 1967 was only Str. \$ 220.- per picul.

Exports of *cassia vera* declined in 1966 and 1967 in comparison to the preceding years. The main importer of cassia was the USA which in 1966 and 1967 successively

absorbed 3,242 tons or 75% and 3,281 tons or 77% of Indonesias cassia vera exports in those years. Other big importers were the Netherlands and Hongkong which in :1966 imported 494 and 331 tons, and in 1967 imported 231 and 214 tons respectively. West Sumatra and the regency of Kerintji in the Province of Djambi are the most important producing regions of cassia vera in Indonesia.

Data from the Department of Plantations reveal that the acreage under *clove* is expanding steadily viz: 50,692 hectares in 1963, 61,250 hectares in 1964, 65,584 hectares in 1965, 70,500 hectares in 1966 and 73,000 hectares in 1967.

The output also increased continuously: 7,946 tons (1963), 13,724 tons (1964), 13,761 tons (1965) 16,590 tons (1966) and 19,000 tons (1967). The figures for 1965 are revised, whereas those for 1966 are 1967 are provisional. The satisfactory development of the clove cultivation was i.e. caused by good prices of clove in the domestic market and by the guidance and instructions of the Agricultural Service.

Mining

In its efforts to develop the mining sector in order to accelerate economic development, the Government promulgated an Act concerning Principal Regulations on Mining (Act No. 11 of 1967 dated December 2, 1967), thereby revoking the Government Regulation on Mining in lieu of Act No. 37 of 1960 dated October 14, 1960. According to the new Act, minerals are divided into three categories, viz.:

- a) strategic minerals;
- b) vital minerals;
- c) minerals not included in category a or b.

Strategic minerals are those minerals which are strategically important for the defence/security of the country or which have a strategic position in the economic system of the country, whereas vital minerals are those minerals upon which the majority of the population is dependent. The other minerals which are not considered to have a direct impact upon the majority of the population due to their characteristics as well as to the insignificance of their deposits make up the third category. A Government Regulation which specifies the minerals included in each of these categories has not yet been promulgated. However, the Government intends to include in category a such minerals

as: petroleum, thorium, radium, uranium, other radio-active minerals, tin, nickel and cobalt; in category b e.g.: coal, iron, copper, gold, platinum, silver, diamonds, sulphur and iodine; and in category c inter alia: magnesium, gypsum, quartz, precious stones, marble, limestone, etc. Minerals of the a-group may only be mined by the Central Government or by the Central Government in cooperation with the Government of the Region concerned, and those of the b-group may be mined by the Government Region concerned and by private or joint enterprises, whereas the regulating of the minerals in the c-group is at the discretion of the Provincial Governments. The Minister of Mining may designate a third party, national as well as foreign, as a contractor for the execution of such activities which the Government entities or the State enterprises concerned in their function of legal mining authority are not (yet) able to undertake.

The main conceptual difference between the former concession and the present mining licence is that the holder of such licence is only authorized to carry out mining activities without obtaining tenure rights on the mine which he is exploiting. A project with straight foreign investment in the mining sector which has been approved by the Government is e.g. the copper mining project in West Irian, carried out by the Freeport Sulphur Corporation from the USA, with an invested capital of US \$ 76.5 million. According to plan, this project will start producing in 1971.

Petroleum.

By Government Regulation in lieu of Act No. 44 of 1960, dated October 26, 1960, on the exploitation of petroleum and natural gas it has been determined that petroleum and natural gas shall only be mined by the State through the State enterprises. Foreign companies can therefore only operate as a contractor of a State enterprise or of the State. Based on the aforesaid Government Regulation, the following contracts of work were concluded in the period under review:

- 1) On August 18, 1966, a contract between P.N. PERMINA and the Independent Indonesian American Petroleum Company (IIAPCO) for off-shore exploration and exploitation of petroleum and natural gas in an area at the West side of the Java Sea.
- 2) On October 6, 1966, a contract between P.N. PERMINA and the Japan Petroleum Exploration Co. Ltd. (JAPEX) for off-shore exploration and exploitation of petroleum and natural gas near Bunju and Mahakam.

- 3) On October 20, 1966, a contract between P.N. PERMINA and the Refining Associates (Canada) Ltd. (REFICAN) for off-shore exploration and exploitation of petroleum and natural gas near South East Kalimantan, exclusive of Pulau Laut and the small islands in its environment.
- 4) On November 22, 1966, a contract between P.N. PERMINA and the Kyushu Oil Co. Ltd. (KYUSHU) for off-shore exploration and exploitation of petroleum and natural gas near South Kalimantan exclusive of the islands located within the area covered by the contract.
- 5) On November 26, 1966, a contract between P.N. PERMINA and the Asamera Oil Indonesia Ltd. for on-shore exploration and exploitation of petroleum and natural gas in North Sumatra.
- 6) On April 1, 1967, a contract between P.N. PERMINA and the Australian Drilling Company, P.T.Y. Ltd. (A.D.C.) for the exploration and exploitation of petroleum and natural gas in the area off the coast of East Djawa/Madura.
- 7) On May 12, 1967, a contract between P.N. PERMINA and the Continental Overseas Oil Company (CONTINENTAL) for the exploration and exploitation of petroleum and natural gas on the shore of the Barito basin in South Kalimantan.

Since April 1966, P.N. PERMINA has been divided into 5 unites, to explore and to exploit oil fields in the following regions:

- Unit I : North Sumatra and Atjeh.
- Unit II : Djambi, South Sumatra and Lampung.
- Unit III : Djawa and Madura exclusive of Tjepu.
- Unit IV : Kalimantan including Tarakan and Bunju.
- Unit V : East Indonesia, Sulawesi, Maluku and West Irian.

Crude oil processed in the two main refineries in Pladju and Balikpapan yielded the following oil derivatives:

1. Aviation gasoline (avgas).
2. Aviation turbine fuel (avtur).
3. Motor gasoline/benzine.
4. Kerosene/petroleum.
5. Automotive diesel oil/high speed diesel oil.
6. Industrial diesel oil/diesel fuel.
7. Fuel oil.

**TABLE 73 — PRODUCTION, IMPORTS AND EXPORTS OF OIL AND
OIL PRODUCTS**
(in thousand tons)

		Crude Oil		Oil products	
	Production	Imports	Exports	Imports	Exports
1963	22,275 ¹⁾	1,246	9,550	216	5,669
1964	23,004 ²⁾	—	13,940	67	3,615
1965	23,999 ²⁾	—	13,100	93 ¹⁾	4,424 ¹⁾
1966 ²⁾	23,240	—	11,198	56	3,229
1967 ²⁾	25,311	—	12,897	...	3,625

¹⁾ Revised figures.

²⁾ Provisional figures.

Sources : Department of Mining.
Central Bureau of Statistics.

The production of crude oil in 1967 was approximately 25.3 million tons, an increase of 2.1 million tons (9.1%) over the preceding year. Mining operations did not meet with difficulties, but the transportation facilities, both with respect to road transportation and to sea transportation (including the harbors) were inadequate. Exploration in off-shore areas was still in its initial stage.

With regard to oil prices it should be noted that early in January 1966, by Decision of the Minister of Petroleum and Natural Gas No. 216/ M/MIGAS/1966 dated December 30, 1965, new sales prices were determined, viz.: avgas Rp. 1.-, avtur Rp. 1.-, gasoline Rp. 1.-, kerosene Rp. 4.-, automotive diesel oil Rp. 0.80, industrial diesel oil Rp. 0.40 and fuel oil Rp. 0.20 per liter, respectively. Moreover, P.N. PERTAMIN activated its distribution by taking over (purchasing) in June 1964, all marketing assets ex-P.T. SHELL, P.T. STANVAC and P.T. CALTEX. Domestic sales of petroleum products did not change much, according to the available data it was approximately 1 million tons of gasoline, 1.4 million tons of kerosene and 1.7 million tons of fuel oil annually (table 73).

Later, the oil prices were increased again by Decree of the Presidium of the Cabinet No. 40/EK/KEP/2/1967 dated February 10, 1967. Thenceforth the sales prices of petroleum products were as follows: avgas Rp. 4.-, avtur Rp. 4.-, gasoline Rp 4.-, kerosene Rp. 1.75, automotive diesel oil Rp. 3.50, industrial diesel oil Rp. 1.25 and fuel oil Rp. 1.- per liter, respectively.

By Decision of the Presidium of the Cabinet No. 171/EK/KEP/8/ 1967 dated August 3, 1967, the price of kerosene was revised. Since that date, the price of kerosene sold by the state petroleum enterprise was determined at Rp. 1.60 per liter off depot/plant of the state petroleum enterprise inclusive of an additional Government tax of Rp. 0.05. The freight from the depot/plant of the state petroleum enterprise to the consumers and the profit margin for the distributors would be determined by the Governor/the Head of the Province concerned respectively for the whole region or part thereof. The last mentioned price is thus the highest retail price.

TABLE 74 — DOMESTIC SALES OF OIL PRODUCTS
(in thousand tons)

Year	Gasoline	Kerosene	Fuel oil, etc.
1963	1,194	1,454	1,321
1964	1,095	1,239	1,830
1965	1,275	1,341	2,191
1966	1,087	1,302	1,783
1967	1,288	1,655	1,677

Source : Department of Mining.

By Decision of the Minister for Petroleum and Natural Gas No. 5/ M/MIGAS/1966 dated January 4, 1966, P.N. PERMIGAN (in Tjepu) was liquidated and transformed into the Center for education and training in the field of petroleum and natural gas industry (PUSDIKLAP MIGAS), organically a part of the Institute of Petroleum and Natural Gas (Lembaga Minyak dan Gas Bumi). Later by Decision of the Director General of Petroleum and Natural Gas No. 91/ DD/MIGAS/66 jo. No. 347/DD/ MIGAS/66, the Academy of Petroleum and Natural Gas was established in Tjepu.

Exports of crude oil in 1966 declined slightly but increased again in the following year; the same applies to exports of petroleum products. Since the production of petroleum products could cover the domestic requirements, the import of such products showed a downward trend (table 74).

Tin

The production of tin in 1966 was approximately 12,771 tons or 2,162 tons (-14%) lower than in the preceding year. The decline in output was i.e. caused by inadequacy of foreign exchange to replace machinery and spare parts in the preceding year and by problems with respect to technical skill and transportation.

TABLE 75 — PRODUCTION AND EXPORT OF TIN
(in metric tons)

Year	Production	Exports
1963	13,124	12,210
1964	16,606	14,051
1965	14,933	13,641
1966	12,771	9,883
1967	13,808	14,048

Source : Departmen of Mining.

Rehabilitation and expansion were started in 1966, and production increased again in the following year to 13,808 tons, which was 1,037 tons (8%) more than in the preceding year. The machinery which had arrived from abroad consisted of:

- a) a dredger (the Bangka I) of :18 cubic feet for off-shore mining;
- b) 10 dredgers which can be dismantled each of 5 cubic feet, for mining in the coastal area;
- c) diesel-engines as driving power of sand pumps and jigs in open pit mines.

TABLE 76 — WORLD PRODUCTION AND CONSUMPTION OF TIN
(in thousand long tons)

<i>Countries</i>	Production ¹⁾				
	1963	1964	1965	1966	1967
Malaysia	59.9	60.0	63.7	68.9	72.1
Bolivia	22.2	24.2	23.0	25.5	26.9
Thailand	15.6	15.6	19.0	22.6	22.4
Indonesia ³⁾	12.9	16.3	14.7	12.5	13.6
Nigeria	8.7	8.7	9.5	9.5	9.3
Congo	7.1	6.5	6.2	6.9	7.0
Other countries	14.9	15.8	15.9	17.6	19.7
T o t a l	141.3	147.1	152.0	163.5	171.0
<i>Countries</i>	Consumption ²⁾				
	1963 ⁴⁾	1964	1965	1966	1967
United States	55.2	58.6	58.6	60.2	57.7
United Kingdom	20.6	19.3	19.3	18.4	17.4
Japan	15.9	17.9	17.2	18.6	19.9
West Germany	11.2	12.4	11.7	10.8	11.1
France	11.1	11.0	10.1	10.3	10.4
Other countries	48.4	49.1	48.3	48.0	50.5
T o t a l	162.4	168.3	165.2	166.3	167.0

¹⁾ Tin in concentrate.

²⁾ Primary tin metal.

³⁾ Figures differ from those of the Department of Mining.

⁴⁾ Revised figures.

Source : International Tin Council.

TABLE 77 — AVERAGE TIN PRICES

Year	London-Cash £/long ton	New York-Prompt \$ cts/lb.	Straits-ex-works Straits \$/picul
1963	909.7	116.64	455.40
1964	1,239.4	157.72	619.42
1965	1,412.7	178.17	702.80
1966	1,295.8	164.02	645.23
1967	{ 1,205.6 ¹⁾ 1,353.3 ²⁾	153.41	600.10
January	1,198.5	153.88	600.35
February	1,201.1	154.38	603.24
March	1,203.8	153.71	602.02
April	1,216.2	153.33	604.28
May	1,218.7	153.11	604.13
June	1,221.9	154.94	609.28
July	1,220.2	154.39	609.32
August	1,194.5	152.50	601.25
September	1,185.4	151.02	593.19
October	1,190.5	151.99	595.10
November (1 - 18)	1,214.9	155.25	601.60
November (20 - 30) ³⁾	1,357.2	154.66	591.31
December	1,351.4	152.59	581.49

¹⁾ January 1-November 18.

²⁾ November 20-December 31.

³⁾ In its sixth meeting, the International Tin Council determined a floor price of £ 1,283 and a ceiling price of £ 1,633 per long ton.

Source : International Tin Council.

In 1967 the production of tin concentrate reached only about 75% of the mining capacity; it might be increased further i.e. through improved working methods by means of dredgers and better processing methods in order to extract a high percentage from fine ore. Good results may be expected from off-shore areas and from the known primary deposits in Bangka and Biliton.

Data on production over the last three years by the State tin enterprises are as follows (in metric tons):

	1965 *)	1966	1967
T.T. Bangka	8,778.14	7,767.66	8,644.10
T.T. Belitung	5,401.85	4,262.59	4,508.80
T.T. Singkep	753.06	741.23	655.46
	<u>14,933.05</u>	<u>12,771.48</u>	<u>13,808.36</u>

*) Revised figures.

Source: Department of Mining.

The world output of tin showed a continuous increase, viz. from 152,100 tons in 1965 to 163,600 tons (+ 7%) and 171,100 tons (+ 5%) in 1966 and 1967, respectively. The consumption of tin on the other hand did not change much; it increased by only 0.7% (from 165,100 tons to 166,300 tons) in 1966 and by 0.4% (from 166,300 tons to 166,900 tons) in 1967. This caused a decline in the world market price of tin as indicated in table 77. In 1966, the export of tin declined by 28% and increased again by 42% to a volume of 14,048 tons in the following year. Therefore, in the sixth meeting of the members of the International Tin Council (I.T.C.) which was held in London in November 1967, the meeting supported the Chairman of the I.T.C. to confine the activities of the Buffer Stock Manager, viz. to suspend the tin sales temporarily. The said meeting also determined the floor price and the ceiling price of tin, viz. £ 1,283 per long ton and £ 1,633 per long ton respectively.

Other minerals

Indonesia has vast reserves of lignite and coal which cannot be made into cokes, but only very limited reserves of coal suitable for processing into low grade cokes.

The three coal mining enterprises which are still operating are the State Coal Mines "Bukit Asam" (TABA) in South Sumatra, "Ombilin" in West Sumatra and "Mahakam" in East Kalimantan. Since a long time the output of these three mines shows a downward trend as may be seen from the following data:

Production of coal (in '000 tons)			
	1965	1966	1967
Bukit Asam coal mine	257	185	122
Ombilin coal mine	93	100	66
Mahakam coal mine	40	34	20
Total	390	319	208

Source: Department of Mining.

**TABLE 78 — PRODUCTION, IMPORTS AND EXPORTS OF
BAUXITE AND COAL**

(in thousand tons)

Year	Production		Imports ¹⁾ Coal	Exports	
	Bauxite	Coal		Bauxite	Coal
1963	506	591	11	573	2
1964 ²⁾	648	446	—	656	4
1965 ²⁾	688	391	1	577	—
1966 ³⁾	701	320	5	698	—
1967 ³⁾	912	208	32	932	6

¹⁾ No imports of bauxite.

²⁾ Revised figures.

³⁾ Provisional figures.

Source : Department of Mining.

The decline in output was i.e. caused by:

- a) obsolete equipment and insufficiency of spare parts;
- b) inferior quality of the coal;
- c) competition from diesel oil;
- d) transportation problems;
- e) inadequacy of finances.

The main buyers of coal, viz. the State Railway Company (P.N. Kereta Api), the State Electricity Company (Perusahaan Listrik Negara) and shipping companies reduced their purchases because they shifted to diesel oil which is more economical than coal. Consequently, the domestic market was dwindling, whereas exports met with heavy competition of better quality coal from other countries. Since the last few years, the production of coal was adapted to the volume of coal which might be sold; consequently, production costs increased and the sales proceeds did not cover the costs of production so that the enterprises concerned had to be subsidized.

The production and export of bauxite showed an upward trend. The production increased from 688 thousand tons in 1965 to 701 thousand tons and 912 thousand tons in 1966 and 1967, respectively (table 78). The mining of bauxite proceeded well and practically did not encounter major difficulties in the field of production except the

need for training of technical and managerial skill. It is still possible to find new deposits outside the areas which are presently known. The export volume increased from 577 tons in 1965 to 698 tons and 932 tons in 1966 and 1967 respectively. There is an export contract with Japan which provides for an annual export of 800,000 tons till 1971.

The production of *nickel* also proceeded well and showed a significant increase as may be seen from the following figures:

Production of Nickel (in metric tons)			
1963	45,528	1966	117,402
1964	49,226	1967	170,601
1965	102,002		

Source : Department of Mining.

The production increase since 1965 occurred since the cooperation with Japan (the Sulawesi Nickel Development Corporation) on the basis of a production sharing agreement.

The only state owned *gold* and silver mining enterprise in operation is located in Tjikotok (South Banten). Because of its obsolete equipment, production of the mine declined in 1966; however, after rehabilitation had been started with the installation of new machinery and with the introduction of technological improvements to extract gold and silver from gold and silver-ore more profitably, production increased again in 1967.

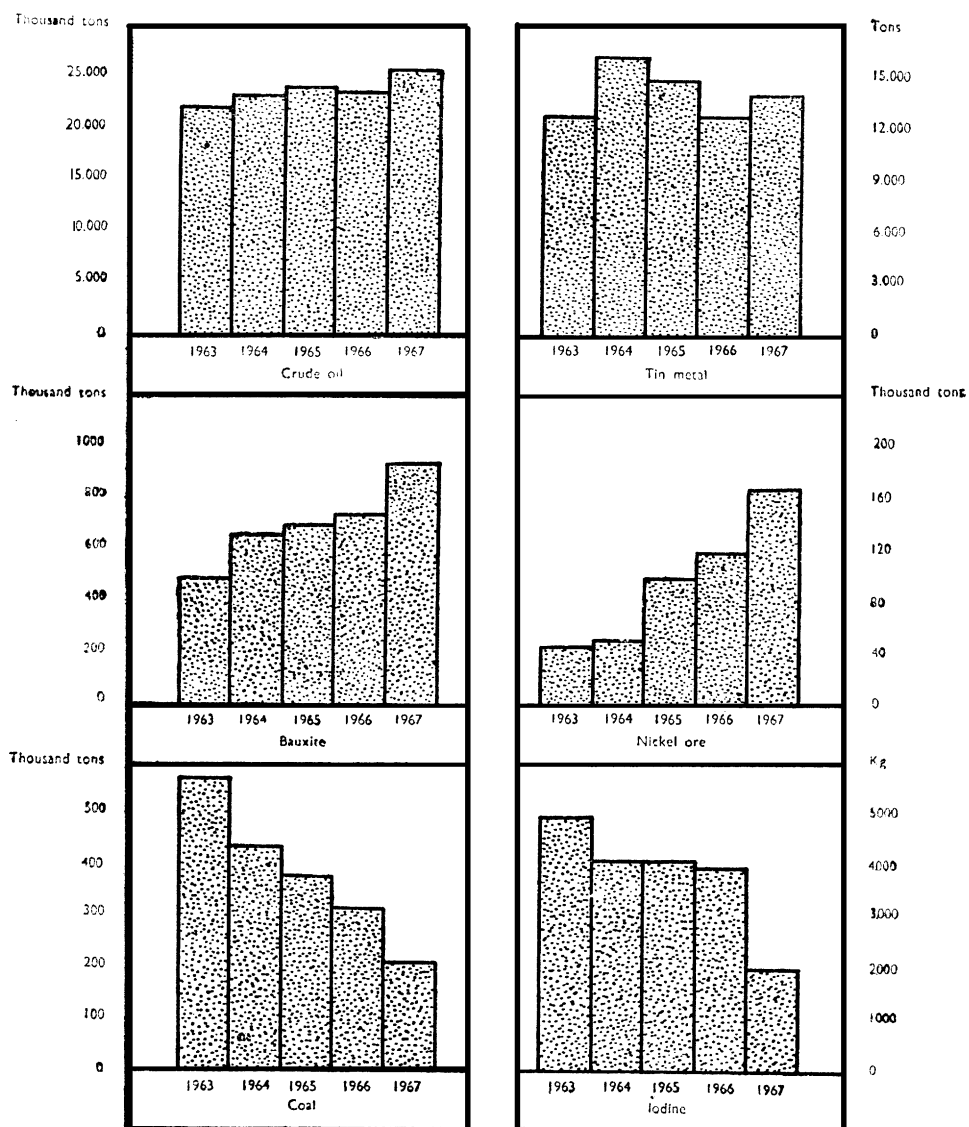
**Production of P.N. Tambang Emas Tjikotok
(in kg)**

<i>Year</i>	<i>Gold</i>	<i>Silver</i>
1965	209.076	9,293.817
1966	128.190	6,867.181
1967	241.138	9,610.852

Source : Department of Mining.

As a result of the said improvements, the useful effect of the extraction of gold could be increased from 80% to 89% and of silver from 65% to 73.9%. The gold mine P.N. Logas (near Pekanbaru) was under rehabilitation and was not yet in operation.

CHART V-MINERAL PRODUCTION



In addition to the two State owned gold mining enterprises mentioned above, in several regions the local population mined gold on a small scale by means of washing basins, as a side job. In several regions, such as the mountain range of the Bukit Barisan from Atjeh to Lampung, Central Kalimantan and West Irian, which have not yet been sufficiently explored, the prospects for gold mining seem good.

Other mineral are *diamonds* which are found in two regions, viz. in Landak and Sanggau in West Kalimantan, and Martapura and Pleihari in South Kalimantan. *Phosphate* rock is found at places scattered throughout the limestone mountains in West, Central and East Djawa. Until now, the mountainous regions containing limestone outside Djawa have never been subject to careful investigation. In connection with the drive for the increase in the production of foodstuffs, phosphate with a P_2O_5 content of 28% is very important as fertilizer. Sublimation of *sulphur* as a product of volcanic activities is generally scattered in remote places. In several regions, irregularly scattered deposits of *manganese* ore were found, too small to warrant a fully mechanized exploitation. A production increase could be achieved through the application of semi-mechanized methods by means of compressors, explosives, water pumps, jack-hammers, etc. In Djawa, many wells with briny water contain a solution *iodine* of approximately 150 mg per liter water. Extraction of iodine from briny water is only profitable if the iodine content is not less than 40 mg per liter. Iodine is mined in East Djawa by P.N. Farmasi Bhinneka Kina Farma. Since the production of iodine has declined, the export is suspended and the whole output is processed into medicines for domestic use by P.N. Farmasi Bhinneka Kina Farma.

The output of iodine produced by the said State enterprise was as follows:

<i>Year</i>	<i>(in tons)</i>
1963	5.0
1964	4.1
1965	4.1
1966	4.0
1967	2.0

Source : P.N. Bhinneka Kina Farma.

TABLE 79 - OUTPUT OF INDUSTRIAL STATE ENTERPRISES

I n d u s t r y	Uni	1963	1964	1965	1966	1 9 6 7	
						Actual output	Annual target
I. Building material							
1. Cement	metric ton	429,450	438,647	389,468	323,425	299,530 ¹⁾	370,000
2. Iron and steel construction	—, —	8,408	7,245	...	...	...	...
II. Chemical industry							
1. Paper	—, —	11,033	11,388	11,122	9,866	7,402	10,500
2. Oxygen	cubic meter	2,017,288	2,177,572	2,132,467	1,604,888	1,465,878	1,700,000
3. Nitrogen	—, —	7,202	5,563	6,862	5,408	5,772	...
4. Compressed air	—, —	17,564	16,445	15,940	10,610	4,992	...
5. Precious metal (pure gold)	kg.	137.4	181.9	209.1	128.2	241.1	200.0
6. Precious metal (pure silver)	kg.	8,672.2	7,891.7	9,293.8	6,867.2	9,610.8	10,000.0
7. Precious metal (pure platinum)	kg.	4.0	...	...	...	...	...
8. Glasses and bottles	piece	11,807 ²⁾	6,976 ²⁾	9,001 ²⁾	b:8,559,111 gl:1,536,921	b:3,128,794 gl:1,154,414	...
9. Carbon dioxide	kg.	671,445	641,266	620,700	473,496	249,747	600,000
10. Salt	metric ton	449,000	53,000	252,000	...	100,000	120,000
11. Caustic Soda	—, —	1,678	1,815	1,585	1,550	1,252	1,800
III. Ship building industry							
1. Dockyards (steel ships)	D.W. ton	1,680	1,200	3,000	1,195	...	...
IV. Automotive industry and parts							
1. Motorcars (assembling)	piece	598	1,306	892	1,253	550	904
2. Tyres	—, —	138,119	148,003	123,468	70,737	25,169	78,000
3. Batteries	—, —	370	1,565	...	...	...	...
V. Electric industry							
1. Radio sets	—, —	8,128	9,570	11,613	16,433	25,500	31,000
2. Bulbs	—, —	6,637,943	4,110,447	6,933,168	4,944,283	7,748,025	8,000,000

¹⁾ January through November 1967.²⁾ In metric tons.

b. = bottles

gl. = glasses

Sources : Department of Basic Industry, Light Industry and Power.
General Management Board of the State Mining Enterprises.

Industry

In 1966 and in the years before, industrial production showed a downward trend. The decline became even more striking in 1965 and 1966, primarily in consequence of an increase in the rate of inflation. The supply of raw materials and spare parts declined annually, because the amount of foreign exchange allocated for the import of such goods became smaller and smaller. Besides a shortage of raw materials, most of the equipment was already obsolete or not well maintained. For the aforesaid reasons the domestic industries, particularly the light industries, could operate at only 20 % or 30% of capacity, although there were some companies which managed to operate at 70% of capacity. The only exceptions to this declining trend were the radio and lightbulb industry which increased from year to year. Production data with respect to several state enterprises in the field of industry are shown in table 79.

The unstable political and economic situation at the end of 1965 and early in 1966 had an unfavorable impact both upon production and upon the activities in the field of industrial development. Moreover, the new economic regulations promulgated on October 3, 1966, ended the over protection by the Government, especially of government industries. This protection was given in the form of allocations of foreign exchange and raw materials at official prices far below the actual market price. With the abolition of this protection it appeared that until then many companies were operating inefficiently and could only survive because they were able to gain profits due to the disparity between official and market prices. The heavy pressures on the industries—which were used to produce on the basis of allocations—in adapting themselves to the market forces were even aggravated when at the end of 1966 a flow of imported goods started to enter into the market. The market for domestically produced articles, which suffered from a decline in effective demand, was narrowed again by the competition from imported goods. Besides having to face the competition from imported goods, several state enterprises felt the impact of a heavy competition from goods produced by the local population, such as salt. P.N. Garam had difficulties with regard to transportation, because only 30% of the loading capacity of its fleet was left since many of its ships and barges were out of order.

Another difficulty encountered by the industrial sector was the shortage of funds. The opportunity to acquire foreign exchange at a very low official rate had disappeared;

the intensified tax collection and the low capital turnover of the industrial enterprises exerted pressure on the finances of the enterprises. The tight money policy of the Government aggravated the liquidity problems of the enterprises because this policy kept the possibility to obtain bank loans between narrow limits. It was difficult to obtain a loan from a state bank and the interest rate for the industrial sector - which was reduced to a rate of 4% to 7% a month - was considered too high by industrial entrepreneurs. It was even harder for them to obtain money from other sources, as the interest rate charged outside the banking system was about 15% to 20% a month.

Another difficulty of the industrial enterprises, particularly of the state enterprises, was the great number of employees. This problem became more serious with the decline in the productive activities of the enterprises in recent years. Nevertheless, in the period under report there were no wholesale dismissals for fear of their social effects and due to the regulation which prohibited (hampered) wholesale dismissals without prior consultation with the Department of Labor.

Investments in light industry, as far as carried out, were insignificant; and only intended to continue current projects. This low level of development activity was indeed foreseen by the Government who considered 1966 as the year in which the economic units inclusive of the industrial units had to be consolidated. The chemical industry apparently only maintained its level of operations. Only the 'Letjes' paper mill in East Djawa undertook expansion on a limited scale and assuming that there are no financial difficulties in the near future, in the middle of 1968 the capacity of this mill will be three times as big as in 1965. The other development plans in the field of chemical industry were generally hampered by inadequacy of rupiah financing as well as foreign exchange financing.

In the sector of heavy industry, the construction of the steel plant in Tjilegon being built with a loan from the USSR was necessarily suspended by unavailability of rupiah financing. The main technical problems of this project which demand a solution are the water supply and the infrastructure facilities. Only 25% of the construction of this project is completed, although 85% of the required machinery has arrived at the site of the project. Not more than 5% of all this machinery was installed. There was also a bottleneck in the construction of a lightbulb factory in Semarang financed with a loan from Hungary, only 50% of the factory is completed although most of the machinery

has arrived at the site. Three other projects, viz. a steel plant in Lampung, a steel plant in Kalimantan and an aluminium project in Asahan had the same trouble. Inclusive of the 5 projects mentioned above there are 10 projects financed by foreign loans in the field of heavy industry of which the construction is necessarily slowed down or suspended. In the field of the chemical industry there are 8 of such projects, i.e. the petro-chemical project in Gresik, financed with a loan from Italy amounting to - US \$ 56,100.000 - and a fertilizer project (superphosphate) in Tjilatjap, financed with a loan from the USSR. In the field of light industry there is one plywood project in Paloppo financed with Japanese reparations which is temporarily suspended and 7 projects based on production sharing had the same fate. The bottlenecks in the construction were mainly due to the fact that the simultaneous execution of such a large number of big projects demanded a financial capacity, an organization, expert and experienced skill and an infrastructure which exceeded the national economic potential at that time. Moreover, the economic utility and benefit of several of the aforesaid projects are most doubtful. In many cases this is the result of inadequate technical and economic research in the planning stage.

Early 1964, agreements were concluded between several countries and Indonesia for cooperation in regard of projects financed by loans in the form of production sharing. Basically, such a loan is repayable with part of the sales proceeds from the output of the project. By the middle of 1965, most of these agreements were officially approved by the Government but the outbreak of the September 30/Communist Party's Movement hampered the execution of these projects. Consequently, not any of the eight projects based on production sharing under the jurisdiction of the former Department of People's Industry could be completed in 1966. The difficulties with respect to production sharing revolved i.e. around the following problems:

- a) inadequate research facilities, i.e. insufficient reliable data and information;
- b) the weak financial position of the Indonesian partner did not permit the financing of a project in the industrial sector.

A loan in the form of production sharing did not show more advantages in the sense that it is more profitable for the Indonesian party than a conventional foreign loan; production sharing might even prove to be a heavier burden than a conventional loan. With the promulgation of Act No. I/1967 on Foreign Capital Investment, sugges-

tions were made to change the working basis of the above mentioned production sharing projects into joint enterprises between the foreign and the Indonesian party, or even into direct foreign investments. As much as 20 projects on the basis of production sharing in the field of light industry, for which plans were being drafted, were cancelled. In the field of the chemical and heavy industries there were no projects based on production sharing.

The liquidity problem was still perceptible in 1967 because the Government maintained its tight- money policy, and the allocations from the State Budget for the financing of state enterprises were very limited, whereas the enterprises themselves did not have adequate reserves. For this reason, the rehabilitation of these production units did not proceed well, although there was ample opportunity to import raw materials and spare parts through the B.E. system.

An increase in the price of fuel and electricity in February 1967 added to the costs of production. The higher costs of production were also caused by inefficiencies as a consequence of the sub-normal level of production of the enterprises, the proportionally higher rate of increase in the expenses for wages in kind and an excess of labor in many enterprises.

Although the private sector of the industry was generally more flexible than the government sector because previously it had not been pampered with too many facilities by the Government, it had also to overcome many difficulties in adapting itself to the new economic situation. Several private enterprises were even compelled to suspend their operations for the time being, e.g. a few factories producing bicycle tires, textile mills and one food cannery in East Djawa. Meanwhile there were indications that private entrepreneurs were very much interested to invest their capital in assembling plants for tractors, motorcycles and radio and television sets. The great interest in this field probably resulted from a high demand for these particular goods, whereas the required investments are relatively low.

In order to protect and stimulate industrial activity, in 1966 and 1967 the Government took several protective measures, i.e.:

- the abolition or reduction of sales tax on domestically manufactured goods, particularly the elimination of double taxation;
- an increase of import duties and other levies on imported consumer goods that can also be produced domestically;
- a reduction of import duties on raw materials, semi finished goods and capital goods required by the domestic industry;
- the availability of attractive financing facilities from the state banks for the import of capital goods by means of aid-BEs.

The said measures are still subject to perfection and until now they have not yet produced satisfactory results.

Regarding the development activities in 1967 may be mentioned that the 1967 budget of the Department of Basic and Light Industries and Power in accordance with the Government's policy of rehabilitation and stabilization was compiled on the basis of the following order of priority:

- a) rehabilitation of existing industries;
- b) rehabilitation of infrastructure facilities which stimulate the aforesaid existing industries;
- c) completion of quick yielding projects and of other projects which are expected to be completed in 1967;
- d) expenditure to prevent the retarded projects from destruction.

The 1967 development budget of the Department of Basic and Light Industries and Power amounted to only Rp.1,141,289,598.- which must be allocated to the production units according to the following Directorates General, viz.:

— Directorate General of Basic Industry	Rp.	133,244,563.-
— Directorate General of Chemical Industry	„	380,000,000.-
— Directorate General of Light Industry	„	15,400,000.-
— Directorate General of Power and Electricity	„	612,645,035.-
Total		Rp. 1,141,289,598.-

The above figures show that the highest priority has been given to electrification. The allocation from the development budget for the Directorate General of Light Industry is small since the majority of the enterprises in the field of light industry is privately owned.

Finances available for the industrial sector in 1967 were limited indeed and were, moreover, not furnished in time, which seriously hampered the physical progress of the projects concerned. It cannot be said that the activities for the rehabilitation and consolidation in the industrial sector in 1967 were successful, as most of the enterprises did not yet operate at normal capacity.

For economic development to be accomplished within a short time, substantial funds are needed which cannot entirely be furnished by domestic capital, either from the Government or from individuals. The Government has therefore adopted the policy of attracting foreign investments, i.e. risk bearing capital and not in the form of loans which to the people and the country constitute a burden of debt that has to be repaid in the future. This Government policy is embedded in Act No.1 of 1967 dated January 10, 1967 (Act on Foreign Capital Investment). It is expected that by means of foreign investments, more natural resources in Indonesia may be made profitable, new fields of activity may be opened up for the labor force in Indonesia which is continuously increasing in number, and an opportunity will be created to acquire experience and skill directly in the fields of modern techniques, technology, organization and management. Evidently, domination of foreign capital such as known during the colonial period must be avoided. Vital enterprises remain closed for foreign capital. In order to have as much domestic capital as possible to join the aforesaid foreign investments, in the executive regulations of the Act mentioned above the Government offers attractive incentives to foreign investors who are willing to cooperate with domestic capital in the form of a joint enterprise. Some figures on the applications for foreign capital investment which had been approved by the Technical Team for Foreign Investment until the end of February 1968, inclusive of those which had been approved by the Government, are indicated on page 233.

(1) Projects classified according to amounts of invested capital

Economic activity	US \$ 2.5 million or more		From US \$ 1 million to US \$ 2.5 million		Less than US \$ 1 million		Total	
	Number	Amount in millions of US \$	Number	Amount in millions of US \$	Number	Amount in millions of US \$	Number	Amount in millions of US \$
Industry	4	31.40	7	8.65	8	1.91	19	41.96
Mining	1	76.50	—	—	—	—	1	76.50
Fishery	2	5.-	3	4.30	—	—	5	9.30
Forestry	2	5.50	1	1.11	—	—	3	6.61
Communications	1	6.10	—	—	—	—	1	6.10
Transportation	—	—	—	—	1	0.14	1	0.14
Other	1	2.50	—	—	3	0.50	4	3.-
Total	11	127.-	11	14.06	12	2.55	34	143.61

(2) Projects grouped according to types of investment.

Economic activity	Straight Investments		Joint Enterprises		Total	
	Number	Amount in millions of US \$	Number	Amount in millions of US \$	Number	Amount in millions of US \$
Industry	9	19.91	10	22.05	19	41.96
Mining	1	76.50	—	—	1	76.50
Fishery	2	4.-	3	5.30	5	9.30
Forestry	1	2.50	2	4.11	3	6.61
Communications	1	6.10	—	—	1	6.10
Transportation	—	—	1	0.14	1	0.14
Other	—	—	4	3.-	4	3.-
Total	14	109.01	20	34.60	34	143.61

Source: Technical Team for Foreign Investment.

The aforesaid lists reveal that:

- The total amount of capital to be invested is US \$ 143.61 million, nearly half of which originates from Freeport Sulphur, the company which is going to exploit a copper mine in West Irian.
- The majority of the investments is in the industrial sector, viz. 19 enterprises out of a total of 34.
- There are more joint enterprises than straight investments, viz. 20 joint enterprises against 14 straight investments.
- Exclusive of the investment of Freeport Sulphur, proportionally about the same amount of capital is to be invested in joint enterprises as in straight investments, viz. 34.60: 32.51.

In order to stimulate foreign investments, also in 1967 those foreign enterprises which had been taken over by the Government were returned to their former owners. In so doing, the Department of Basic and Light Industries and Power adopted the following policy:

- (a) The agreements on the return of the enterprises should always contain stipulations with respect to the substitution of foreigners by Indonesian nationals, also in the top management of the enterprises.
- (b) A foreign enterprise shall not dismiss employees who, when the enterprise was managed by the Government, had been engaged as regular employees.
- (c) The foreign enterprises are to provide on-the-job-training in Indonesia as well as abroad, in order to increase the ability of the Indonesian employees.
- (d) The foreign enterprises should provide facilities for research, primarily in order to explore the possible use of locally available raw materials for processing in their respective fields of activity.

Out of 11 foreign enterprises managed by the Department of Basic and Light Industries and Power, 9 have been returned to their former owners, i.e. Unilever Indonesia P.T. Good Year Tire and Rubber Coy., P.T. Bata Indonesia, P.T. Prodenta, P.T. Faroka, Heineken's Bier P.T., British American Tobacco Ltd. Indonesia, P.T. Fraser & Neave, and P.T. Filma. With respect to two other enterprises, viz. Dunlop and National Carbon Company Java Ltd. (Eveready), preparations and discussions for their return are now underway. A substantial part of the foreign enterprises thus returned expressed its desire to invest for the rehabilitation and expansion of their enterprises.

TABLE 80 — MAIN WEAVING MILLS

	Number of mills		Yarn Consump- tion (tons)	Production			
	To which question- naire was sent	Mills re- sponding to question- naire		Sundries ('000 m)	Blankets	Sarongs	Towels
						('000 pieces)	
1959	65	62	7,451	40,499	43	1,818	2,246
1960	63	60	9,946	64,608	75	961	1,388
1961	61	60	10,398	64,156	182	1,919	2,245
1962	61	60	10,280	60,580	153	1,943	2,188
1963	61	60	9,506	54,641	115	2,082	1,734
1964	61	60	8,777	47,504	67	2,404	1,587
1965	61	58	7,817	39,768	40	1,953	1,316
1966	61	60	7,273	36,906	54	1,863	1,350
1967 *)							
1 st Qtr	61	58	1,748	9,624	17	476	347
2 nd Qtr	61	59	1,783	9,735	14	498	334
3 rd Qtr	61	59	1,821	10,407	27	494	342

*) Provisional figures.

Source : Central Bureau of Statistics.

TABLE 81 - IMPORT INDICES OF INDUSTRIAL RAW MATERIALS
(1950 = 100)

	1965 ²⁾	1966 ²⁾	1967 ¹⁾
Beer breweries : malt (including flour and extract)	64	41	47
Printing works : paper	202	125	75
Paint industry : zinc white	97	59	20
	48	8	234
Weaving mills : cotton yarn	279	129	39
Batik industry : gray shirting, sheeting and supers	27	49	63
	183	198	135
	—	—	—
Krettek industry : cloves	42	62	56
Engineering works : sheet iron	204	158	164
	167	243	58
	155	68	18
Building industry : cement	239	105	71
Miscellaneous : caustic soda	—	166	83

¹⁾ January-June.

²⁾ Provisional figures.

Source : Central Bureau of Statistics.

Especially with respect to the textile industry, the following data must be mentioned:

<i>Year</i>	<i>O u t p u t</i>	
	<i>Yarn</i> (in bales of 400 lbs)	<i>Textile</i> (in meters)
1966	46,003	250.6 million
1967	100,000	225.0 million

Source: Department of Textile and Cottage Industries.

Although later in 1965/early in 1966 the construction of six new spinning mills with 150,000 spindles was completed, the production of yarn declined from 77,569 bales in 1965 to 46,003 bales in 1966 since raw cotton was in short supply. The weaving mills too had a decline in their output, likewise caused by a scarcity of imported raw materials such as cotton, yarn and material for finishing, so that the weaving and knitting mills could only operate at an average capacity Of 35% per shift.

In 1967, a substantial volume of raw cotton imports arrived, therefore the domestic production of yarn could increase by more than 100%. On the other hand, the figure for textile production was even lower than in 1966. This decline is explained by the heavy competition from imported textiles which flooded the Indonesian market. Imports in the field of textiles are estimated as follows:

<i>Year</i>	<i>Import</i>	
	<i>Yarn</i> (in bales of 400 lbs)	<i>Textile</i> (in meters)
1966	129,100	497.3 million
1967	52,478	543.7 million

Domestically manufactured textiles able to compete with imported textiles were the typically Indonesian products such as batiks, sarongs and lurik.

Clothing, its raw material as well as fabrics for the production of clothing largely originates from imports. The prices for clothing will therefore follow the BE-rate. It is a fact, however, that in 1967 the rate of increase in textile prices was lower than the rate of increase in the BE rate, viz. if it is assumed that the price index of textiles on January 1, 1967 was 100, it became 237 on January 1, 1968 whereas during the same period the BE-rate increased from 90 to 270. The rate of increase in textile prices in 1967 was also less than the rate of increase in the prices of the other 9 essential commodities. The market supply of textiles in 1967 was considered to be more than sufficient. Therefore, no special arrangements were made with respect to textiles for Lebaran, such as had been done in the preceding years; in this year neither allocations for certain functional groups nor supplies especially imported by the Government for the public in general were necessary.

At present the textile industry in Indonesia is facing two kinds of problems, viz. problems of a structural character and problems which are only temporary.

Problems of a structural character are:

1. Domestically produced raw material, both natural and synthetic fibers, is not yet available or is not yet produced in sufficient quantities.
2. The various branches of the textile industry are not well balanced, the potential of the spinning and finishing sectors is much smaller than of the weaving sector.

3. The existing weaving mills are small and are scattered all over the place so that they cannot benefit from economies of scale, many of them do not even have equipment that makes one complete unit of production.

Problems of a temporary character are i.a.:

1. Shortage of working capital or an amount of working capital which is too limited, among others as a consequence of the abolition of raw material allocations which were made available at prices far below the market price.
2. Competition from imported textiles, whereas production costs are rising.
3. A declining productivity caused by inefficiencies, since the enterprises are operating far below their normal capacity.
4. The mental attitude of the producer who was accustomed to earn high profits easily due to raw material allocations at very low official prices and sales proceeds at high market prices.

The problems of a structural character can only be solved in the long run by means of a well directed development policy.

Several measures have been taken to overcome the temporary difficulties, i.a.:

A reduction of the interest rate on loans and easier obtainable bank loans for the production sector, inclusive of the textile producing sector. This measure was designed to alleviate the shortage of working capital. These efforts, however, have not yet been successful because the amount of loans made available was only a fraction of the amount actually needed; the interest rate, moreover, was still considered too high for the enterprises in the production sector.

In order to cope with the competition from imported textiles, surcharges on certain imported textiles were increased by 100%, whereas imported yarns were subject to an excess profit tax of 100%. On the other hand, in order to strengthen the competitive position of domestically produced clothing material, since March 1967 the sales tax on fabrics was reduced from 20% to 10% and since November 1967, fabrics and batiks were even entirely exempt from sales tax. A tax of 5% was still levied on knitting products. Another protective measure was the prohibition to import textiles which are considered as typically Indonesian, such as batik, sarongs, lurik, textiles with batik prints, etc.

Regarding the progress of the development in the field of the textile industry may be noted that the Bandjaran spinning mill near Bandung, with a capacity of 30,000 spindles, started to operate as from September 1967. With this new spinning mill the capacity of the spinning industry in Indonesia has become + 424,000 spindles.

By Government Regulation No. 6/1967 dated July 24, 1967, the P.N. Sandang was founded which consisted of 7 spinning mills and 2 weaving mills, viz.:

- | | | |
|---|---|---------------------------|
| 1. Senajan spinning mill in Djakarta | : | capacity 30,000 spindles; |
| 2. Tjipadung spinning mill in Bandung | : | capacity 30,000 spindles; |
| 3. Setjang spinning mill in Magelang | : | capacity 30,000 spindles; |
| 4. Lawang spinning mill in Lawang | : | capacity 15.000 spindles; |
| 6. Grati spinning mill in Pasuruan | : | capacity 30,000 spindles; |
| 6. Tohpati spinning mill in Bali | : | capacity 15.000 spindles; |
| 7. Bandjaran spinning mill in Bandjaran | : | capacity 30,000 spindles; |

1. Makateks weaving mill in Makassar
2. Madurateks weaving mill in Madura

The construction of the spinning mill in Bekasi, which according to plan should be completed for 75% at the end of 1967, apparently could only be completed for 65%. Similarly, the spinning mill in Palembang which was expected to achieve a stage of completion of 70%, could reach only 60%. The delay in the construction of the two spinning mills was i.e. caused by bottlenecks in their financing; therefore, the costs which meanwhile had increased again, could not be defrayed.

The spinning mill in Bekasi, which will have a capacity of 30,000 spindles, is built by means of a loan from an Italian company. Shipment of machinery and equipment to an amount of US \$ 5,969,996.49 (c & f). constituting 99% of the total amount of the loan has been effected.

The spinning mill in Palembang is being built with a loan from the Democratic Republic of Germany and will have a capacity of 30,000 spindles. Shipment of machinery and equipment to an amount of E 1,799,249/17/03 (c & f), which is approximately 92% of the total amount of the loan, has been effected.

If the rupiah financing is adequate, the two spinning mills are expected to be completed in 1968.

Serious thought and the necessary efforts should be devoted to the domestic production of raw materials for the textile industry. Several alternatives are possible in this respect; however, it should be decided carefully which raw material deserves priority.

Until now, cotton has been the principal raw material for the textile industry in Indonesia. Nearly all spinning mills in Indonesia use cotton as raw material. Till now, the domestic output of cotton is far from sufficient. Several efforts undertaken to date towards the cultivation of cotton have indicated that the productivity of cotton cultivation in Indonesia (= 2 tons/ha) is very low in comparison with the big cotton producing countries (5 to 8 tons/ha). Moreover, proceeds from cotton-growing are not as high as from other crops, so that the cultivation of cotton is not attractive for the farmers. Careful research is required into the problems concerning the cultivation of cotton, both from the agrarian- technical and from the social-economic point of view.

Besides cotton, the production of other fibers must be taken into consideration, e.g. rayon fibers and polyester fibers such as tetoron and dacron, etc. Presently, there is a pilot project for the fabrication of rayon in Bandung with a capacity of 0.5 tons a day. Research is being conducted on several kinds of wood to be used for the fabrication of rayon fibers. In order to be able to continue the rayon project, these efforts must be accompanied by other activities in the field of basic chemical industry.

A petrochemical industry is required for the fabrication of polyester fibers. The principal raw material, i.e. mineral oil, is sufficiently available in Indonesia; the problem, however, is the substantial amount of capital required to build a petrochemical factory. As long as synthetic fibers cannot be produced domestically, the spinning of yarns from imported synthetic fibers may be started.

With respect to the supply of raw material for the textile industry, experiments and farming of silkworms were also undertaken by a few parties. At present, the silk production is not yet significant. A great deal of research on silk farming was conducted by the Department of Agriculture/Directorate General of Forestry as well as by several universities. In Lembang "Lembaga Pembibitan Sutera Alam" (Institute for the Cultivation of Natural Silk) was established. Besides for domestic consumption silk may also become an export product.

Electric Power

The tables show that many of the diesel and steam generators were not in working order so that the actual capacity in 1966 was only 69% of the installed capacity. If specified according to the various territories of operation, it appears that the actual capacity of many regions outside Djawa was only 30%-70% of the installed capacity. Such a deplorable situation could i.e. arise because since 1960 the allocations of foreign exchange for the import of spare parts were most inadequate. In several places, such as Banda Atjeh, logistical problems must be added to the aforementioned difficulties, i.e. the lack of storage space for fuel. In consequence in this alarming state of affairs, many towns had severe black outs. If we compare the number of days when there was electricity available with the number of days when electricity was cut off, for several towns we would get the following ratios: Bukittinggi 1:4, Medan 1:5, Bandjarmasin 1:6, and Makasar even 1:12.

The difficulties on the island of Djawa had a different character. Here they revolved around the problems concerning the inadequate facilities to transmit and to distribute the electric power potential. Consequently, applications for new installations could not yet be complied with and the voltage in the residential areas became very low, i.e. 60 to 90 volt instead of 120 to 130 volt. Of all the provinces in Djawa, the situation is most serious in Central Djawa, especially in the dry season, since the water volume of the Rawa Pening/Kali Tuntang, the main source of hydro-electric power in Central Djawa, is substantially reduced.

The attempts to overcome the difficulties with respect to the electric power supply i.e. include the dislocation of diesel-engines to those towns where black outs were most frequent. E.g. a diesel engine with a capacity of 2,500 KW was moved from Kebajoran Baru, Djakarta, to Makasar; diesel engines of the Djatiluhur project were moved to Bandjarmasin, Djambi and other places. Of the gas turbine generated electric power project consisting of 3 gas turbines of 12,500 KW each, of which two were initially intended for Djakarta, one unit was moved to Medan (installation completed in 1967), another unit to Palembang (according to plan to be completed in January 1968), while the third unit, intended for Semarang, was expected to start its trial operation in the first quarter of 1968. It is expected that with completion of the Central Gas Turbine generated Electric Power Stations, the severe black-outs in Medan and Palembang will be reduced.

The following table illustrates the supply of electricity in 1966 and 1967.

1 9 6 6

Capacity	<i>Diesel-generated</i>		<i>Steam-generated</i>		<i>Hydro-generated</i>		<i>Total</i>	
	Number of engines	KW	Number of engines	KW	Number of engines	KW	Number of engines	KW
Installed capacity	493	178,018	18	125,194	67	282,599	578	585,811
Out of order	69	37,365	7	18,182	1	800	77	56,347
Potential capacity	424	140,653	11	107,012	66	281,799	501	529,464
Actual capacity	...	...	...	...	...	...	...	367,800

1 9 6 7

Capacity	<i>Diesel-generated</i>		<i>Steam-generated</i>		<i>Hydro-generated</i>		<i>Total</i>	
	Number of engines	KW	Number of engines	KW	Number of engines	KW	Number of engines	KW
Installed capacity	516	181,511	18	125,194	67	282,599	601	589,304
Out of order	85	44,134	7	18,182	1	800	93	63,116
Potential Capacity	431	137,377	11	107,012	66	281,799	508	526,188
Actual Capacity	...	...	...	...	...	...	...	404,190

Source : State Electricity Company.

Installed capacity and actual capacity in 1965, 1966 and 1967

Terri- tory of opera- tion	Region	<i>Installed capacity in KW</i>			<i>Actual capacity in KW</i>		
		<i>1965</i>	<i>1966</i>	<i>1967</i>	<i>1965</i>	<i>1966</i>	<i>1967</i>
I.	North Sumatra	24,240	24,415	24,365	10,100	9,100	12,900
II.	South Sumatra (Palembang, Djambi and Lampung)	21,926	22,276	22,526	11,500	10,000	11,950
III.	West Kalimantan	4,127	4,322	4,322	2,500	2,580	3,100
IV.	Central and South Kalimantan	7,229	7,229	7,842	3,520	2,370	4,450
V.	North Sulawesi	7,122	7,122	7,372	5,500	5,530	5,800
VI.	South Sulawesi	11,062	14,232	14,457	2,930	3,300	4,650
VII.	Maluku	4,192	4,192	4,292	1,280	1,100	1,400
VIII.	Nusa Tenggara	5,363	5,513	6,513	3,060	3,000	4,790
IX.	East Java	122,771	122,771	122,771	85,400	85,450	89,300
X.	Central Java	63,793	63,793	63,893	38,500	39,500	50,480
XI.	Eastern part of West Java	271,322	293,802	293,802	179,200	198,500	204,530
XII.	Western part of West Java and Djakarta						
XIII.	Atjeh						
XIV.	West Sumatra and on shore Riau	3,742	3,742	3,742	1,900	1,820	2,350
		12,402	12,402	13,407	5,050	5,550	8,490
Total		559,336	585,811	589,304	350,440	367,800	404,190

Source : State Electricity Company.

Besides dislocation of engines, spare parts were imported.

The following data with respect to the generating of electric power can be mentioned.

Taking into account the change in the electricity rates to an average of Rp. 0.16/ KWH in October 1966, it was estimated that the operation of the State Electricity Company in 1966 would show a deficit, viz.:

Proceeds from the delivery of electric power	Rp. 244,000,000,-
Operational expenses	Rp. 481,705,000,-
Operational deficits	Rp. 237,705,000,-

Output of electricity in Mwh in 1965, 1966 and 1967

Territory of operation	Region	<i>Delivered to consumers</i>		
		<i>1965</i>	<i>1966</i>	<i>1967</i>
I.	North Sumatra	51,998	51,486	51,288
II.	South Sumatra (Palembang, Djambi and Lampung)	67,372	63,152	57,042
III.	West Kalimantan	10,704	11,014	12,022
IV.	Central and South Kalimantan	12,441	10,388	10,166
V.	North Sulawesi	16,838	14,484	15,170
VI.	South Sulawesi	27,829	21,594	23,499
VII.	Maluku	5,162	4,649	4,777
VIII.	Nusatenggara	10,451	9,233	10,815
IX.	East Java	236,740	252,196	248,127
X.	Central Java	140,794	135,558	190,169
XI.	Eastern part of West Java	255,151	266,680	224,947
XII.	Western part of West Java and Djakarta	336,617	349,462	311,306
XIII.	Atjeh	6,654	6,885	7,677
XIV.	West Sumatra and on shore Riau	25,073	21,728	26,623
	Total	1,203,824	1,218,509	1,193,628

Source: State Electricity Company.

To offset this deficit, in 1966 a subsidy of only Rp. 105,875,750. could be made available by the Government.

In February 1967, the electricity rates were increased and became 12 times as high as the old rates, meaning, an average rate of Rp. 2.-/ KWH. At the same time, however, the prices and the rates of other goods and services increased also, which had an impact upon the operational expenses of the State Electricity Company and caused a deficit which was estimated at Rp. 1,168,389,000.- viz.:

Proceeds from the delivery of electric power	Rp. 2,332,446,000,-
Operational expenses	Rp. 3,500,835,000,-
Operational deficits	Rp. 1,168,389,000,-

Actually, the operational deficit in 1967 had been anticipated, because the State Electricity Company initially proposed a raise of 15 to 17 times the rate of 1966 so as to be able to balance its budget, but the Government only permitted an increase of 12 times the rate of 1966. Although at first sight this twelve fold rise seems a heavy burden for the consumer, the said new rate actually first in a system of “welfare economics” in the sense that it protects the small consumers — the social institutions and the individual households — which make up a relatively numerous group, whereas the consumers in the production and the commercial sector, a relatively much smaller group, have to pay a high rate. Or in other words, the structure of the basic rate in 1967 for the use of electricity is such so as to establish relatively low rates for social, household and general purposes and relatively high rates for use in the production and commercial sector.

In consequence of the deficit which could not be covered by the limited Government subsidies, the outlay for the maintenance of equipment had to be curtailed which resulted in capital consumption.

The following must be mentioned with regard to the development of the projects in the electrification sector:

1. The Djatiluhur multi-purpose project

This project, situated South of Purwakarta (West Djawa), is at present the biggest multi-purpose project in Indonesia. The project was planned in 1955, its execution was started in 1957, it was inaugurated on August 26, 1967 and given the name of “Pusat Listrik Tenaga Air dan Waduk Ir. H. Djuanda” (Ir. H. Djuanda Hydro-Electric Power Station and Water Reservoir).

The costs of the project were about US \$ 137 million, which does not yet include the rupiah expenses. In 1967 alone, Rp. 301.86 million was channeled from the Development Budget for the completion of the project.

The purposes of this project include:
— Irrigation; as the water reservoir has a capacity of 3 billion m³, it is expected that ricefields to an extent of 240,000 hectares can be irrigated.

- Generating of electric energy.
- Water supply for Djakarta to be used for drinking water and for cleaning the city.
- Flood prevention, especially in the region of the lower course of the Tjitarum river.
- An increase in the output of inland fishery.
- A recreation center.

With regard to the use of the Djatiluhur project in connection with electrification must be mentioned that 4 hydro-electric units of 25,000 KW can already be used, whereas the installation of the fifth unit is nearing its completion. It is expected that at the end of 1967 the output of electric energy which can be fed into the transmission and distribution network will have increased to 300 million KWH, which constitutes about 45% of the total capacity of the aforesaid hydro-electric power station (P.L.T.A.). Before the total capacity of 700 million KWH of the P.L.T.A. can be used, another US \$ 16.5 million must be invested for the extension and perfection of the transmission and distribution networks in West Djawa. As long as those networks are not yet completed, potential electric energy of 400 million KWH cannot be used, which means that electric energy with a value of $400 \text{ million} \times \$ 0.02 = \text{US } \$ 8 \text{ million}$ is annually wasted.

With respect to its function in connection with irrigation, the water reservoir in Djatiluhur is designed to catch and to store water during the rainy season, and to release water in the dry season. With regard to its function as an electric power station this implies that P.L.T.A. Djatiluhur produces electric energy in only a small quantity or not at all during the rainy season, whereas during the dry season the production of electric energy is at its peak. Consequently, it is quite possible that during the rainy season a system of alternating black-outs has to be applied. In order to overcome this difficulty, a complementary project consisting of 2 steam-generated electric power stations (P.L.T.U.) in Tandjung Priok must forthwith be constructed.

2. The Steam-generated Electric power Station (P.L.T.U.) in Tandjung Priok' Units III dan IV

In Tandjung Priok, units I and II of the P.L.T.U., each with a capacity of 25,000 KW, are already operating. Units III and IV, each with a capacity of 75,000 KW, will be complementary to P.L.T.A. Djatiluhur, in the sense that these units will substitute P.L.T.A. Djatiluhur in its function as an electric power generator during the rainy season. The construction of Units III and IV requires an investment of US \$ 19.7 million and about

1,700 million in rupiahs. When completed, both units together can generate electric energy of 900 million KWH with a value of about Rp. 1,710,000,000.-. The construction of this project was impeded when in 1965 the Japanese contractor stopped working at present, efforts are made to restore the said contractual engagement.

3. The 3-K projects

These projects include the Riam-Kanan Project in South Kalimantan and the Karang-Kates and Kali-Konto projects near the Brantas river and a tributary river of the Brantas, not far from the city of Malang. The aforesaid 3-K projects are multi-purpose projects and were initially constructed in the framework of the Japanese Reparations. In connection with electrification, P.L.T.A. (hydro-electric power station) Riam-Kanan will constitute the basis for the electrification of South Kalimantan, whereas the Karang-Kates and Kali-Konto projects will guarantee the stability and continuity of the electric energy supply in East Java.

The construction of P.L.T.A. Riam-Kanan started in 1961 and is planned to be completed in 1969. According to the original contract it required an investment in foreign exchange of US \$ 10,308,000.-. Inclusive of the completion of the diversion tunnel, US \$ 4,240,000.- out of this amount has been spent. Its electric power capacity will be 2 X 10,000 KW in the first stage, to become 3 X 10,000 KW in the 2nd stage

Construction work on the Karang-Kates and Kali-Konto projects started in 1962 and is planned to be completed in 1970/1972.

The Government has decided to attempt to complete the three projects according to their initial time schedules. The total amount of capital still required for the completion of the three projects is estimated at US \$ 61, 900,000.- inclusive of the local costs expressed in US dollars.

4. The P.L.T.U. (steam-generated electric power) Projects in Makasar and Palembang

Both projects are being built in the framework of cooperation with Yugoslavia. These P.L.T.U. projects got first priority from the Government because Makasar is the town most heavily afflicted by alternating black-outs. According to plan, one of the two

steam-generated units in Makasar with a capacity of 12,500 KW could be completed at the end of 1968. The possibility to reach this target is, however, called in question, due to delays in the delivery of equipment from abroad.

5. The P.L.T.U. project in Semarang

This project commands attention as the basis project for the electrification of Central Java, because the electric energy generated by Rawa Pening is insufficient. Initially, this project would be built in 1962 with a loan from the EXIM Bank of the USA. Due to the estrangement in the relations between Indonesia and the USA in the following years, work on the said P.L.T.U. was postponed. Not until 1966 the contract was revalidated and in July 1967 the second stage of the final survey took place.

As mentioned above, an electric power station generated by gas turbines (P.L.T.G.) with a capacity of 12,500 KW is at present being built in Semarang in order to overcome temporarily the serious shortage of electric power.

6. The Asahan P.L.T.A. project

This project is situated in the river basin of the Asahan river near Sigura-gura in North Sumatra. The hydro-electric power station to be built there will have a capacity of 4 X 40,000 KW. The Asahan project is connected with the aluminium production, since the raw material for this industry, bauxite, can be found at the island of Bintan, whereas P.L.T.A. Asahan will supply the required electric power. Work on the project started in 1961 and was planned to be completed in 1970. The costs of the project were initially defrayed out of a loan from the USSR. In the middle of 1966, the technical experts of the USSR left Indonesia and since then the work on the project was slowed down. The situation at that moment was: + 60% of the preparatory work was completed, whereas the main work had not even started. Afterwards, it appeared that several foreign companies were interested in the project as an object for investment. Several of these companies have already carried out feasibility studies at their own expense.

7. Electrification projects for the rural area.

In the framework of the efforts to distribute electricity equally, several activities have been undertaken, i.e. by providing several places with diesel-generated electric power units; this work is being carried out since 1959. The execution of this plan met with difficulties in supplying the necessary fuel, which often made the operation of these units expensive; another difficulty was the lack of spare parts. In order to overcome the difficulty with respect to fuel, plans have been made for the construction of micro hydro-electric power stations (P.L.M.H.) in the rural areas, following the example of Tjibinong, which since 1962 is in the possession of such a P.L.M.H. built in the framework of cooperation with Yugoslavia. As a P.L.M.H. is operated by water power, these projects are only suitable for regions with a good irrigation system. The financing of such projects could conceivably be done cooperatively by the State Electricity Company, the regional government and the prospective consumers. For the electrification of the villages, it is necessary to develop centers for education and information with respect to the electrification of the villages; one such center will be built in Karangasem, on the island of Bali. Plans have been made to order several P.L.M.H. units in 1968.

Communications

According to Presidential Decision No. 170 of 1966, the Department of Communications includes 3 Directorates General, viz.:

- 1) the Directorate General of Postal Connections and Telecommunication;
- 2) the Directorate General of Road Transportation;
- 3) the Directorate General of Air Transportation.

The policy concerning transportation in general aimed at the following: to supply transportation facilities for road transportation, transportation by air and by mail/telecommunication with the highest possible frequency at the lowest possible costs, so as to warrant a well working transportation system for passengers as well as for goods, money and news, which will benefit the people to the best possible extent, both from the economic, military, political and social points of view.

Having in mind the State's financial resources which did not allow for large scale investments, and since moreover the projects in the field of transportation are generally

slow-yielding, a policy has been adopted according to which the operation of the transportation system should not wholly depend on the Government.

Consequently:

- a) in the field of road transportation, private national entrepreneurs were given the opportunity to provide transportation along the main roads and to establish workshops for repair and assembling of motor vehicles;
- b) in the field of air transportation, national enterprises were given the opportunity to operate local airlines. The foreign airline companies were given the opportunity to extend their flights to selected places in order to attract foreign tourists;
- c) telecommunication may be developed/improved through cooperation with foreign countries;
- d) the railway transportation and the mail service were operated by the Government itself, through improving and developing the P.N.K.A. (State Railway Enterprise) and the P.N. Pos dan Giro (State Enterprise of Postal Connections and Postal Check and Transfer System), in conjunction with other countries.

Road transportation

The condition of the main roads in 1967 was as follows:

Roads maintained by the Government :	good	20%
	fair	29%
	bad	43%
	very bad	8%
Provincial roads :	good	15%
	fair	35%
	bad	41%
	very bad	9%

The rehabilitation of roads and bridges in 1967 included big and small projects, and the results achieved were as follows: in West Djawa. 95% of the rehabilitation work on roads and bridges was completed, in Central Djawa 7% and in East Djawa 80% According to estimates, in the regions outside Djawa 70% of the rehabilitation work was completed.

A project for the reconditioning of roads was executed in Djawa only, whereas in the regions outside Djawa it will be started in the following years. These road-reconditioning projects were carried out in West Djawa (approximately 80% completed), in Central Djawa (about 85% completed) and in East Djawa (about 95% completed). The economically important road development projects continued in 1967 were the following:

1. Kalimantan road project, viz.:
 - a. a road of 116 km from Balikpapan to Samarinda (East Kalimantan),
 - b. a road of 125 km from Tandjung to Kuaro (South Kalimantan),
2. Takengon road project, connecting Bireuen with Takengon (Atjeh),
 - a. road of 110 km,
3. East Nusa Tenggara road project, which has been divided into three stages, viz:
 - a. First stage:

a) from Ende to Maumere	148 km
b) from Kupang to Kafemanu	196 km
 - b. Second stage:

a) from Kafemanu to Motain	118 km
b) from Ende to Badjawa	138 km
c) from Maumere to Larantuka	136 km
d) from Waingapu to Waikabubak	136 km
 - c. Third stage:

a) from Badjawa to Reo	177 km
b) from Waikabubak to Waikelo	47 km
c) from Waingapu to Molele	65 km

In the first stage, six bridges between Ende and Badjawa and two bridges between Maumere and Larantuka were repaired.

4. Djakarta Raya road project. for the reconditioning of the main roads in Djakarta.
 Besides the repair of roads and bridges, the airstrip of Tuban airport was also improved (Bali Airport project).

The operation of transportation along the main roads in the regions was given into the hands of the private enterprises, coordinated by the Government. In its function as coordinator, the Government could make plans designed to improve the service

with respect to communication and transportation in accordance with the economic development of the region in question. The costs had to be defrayed by the respective enterprises, to which in certain cases credit facilities were provided.

The condition of the vehicles was not very satisfactory, since many of them were not in running condition caused by a shortage of spare parts.

Regarding the maintenance of motor vehicles, a legal basis is under preparation consisting of regulations for the implementation of Act No. 3 of 1965, specifically concerning the maintenance of motor vehicles.

Difficulties with respect to transportation along the main roads were:

- the prevailing rates were often below the operational costs;
- an inadequate supply of spare parts;
- no coordination yet between the civic mission of the Armed Forces and the main-road transportation organizations.

The number of vehicles in running condition owned by P.N (State Enterprise) DAMRI was 300 buses and 65 trucks. This number does not include the vehicles available in West Irian.

Early in 1967, P.N. DAMRI planned a transportation schedule of 16,6 million km/bus and 3 million km/truck; it appeared, however, that only 12 million km/bus or + 72% and 1.6 km/truck or + 53% of the targets could be realized. The reasons why the targets could not be achieved were :

- the bad condition of the roads which i.a caused broken springs, breaks in the chassis and other damages;
- a shortage of spare parts;
- most of P.N. DAMRI's vehicles were of an age at which they should actually be abandoned.

In 1967, P.N. DAMRI still had a deficit, primarily caused by price increases. In order to repair its vehicles, P.N. DAMRI started ordering spare parts from Australia.

Railroad transportation

During 1966, P.N. Kereta Api (State Railway Enterprise) still had the following principal problems:

- a shortage of liquid assets;
- difficulties in rupiah financing for payment of the counter value of foreign loans;
- a shortage of spare parts which could not yet be overcome, so that the use of locomotives (particularly of diesel locomotives) was not yet satisfactory;
- inadequate funds to cover the costs of maintenance.

Notwithstanding these difficulties, as from 1967 P.N.K.A. had to be self-supporting on the basis of a balanced budget, and the Government allowed it to adjust its transportation rates. The principle of financial independence forced P.N.K.A. to finance all its requirements such as operational expenses as well as the outlay for rehabilitation and development out of its own resources. In the initial stage, one of the difficulties was the lack of working capital, P.N.K.A. was even burdened by debts. In consequence, current operation as well as rehabilitation were carried out within the limits of its monthly proceeds. However, P.N.K.A.'s performance of activities and its financial position were better than in the preceding years thanks to the adjustment of transportation rates; monthly proceeds could cover part of the expenditure and left more scope for action.

The main purpose of P.N.K.A. was to improve the transportation service both for passengers and for cargo. The transportation of goods in 1967 exceeded the target of 2.0 million tons, the actual performance in that year through September was + 2.1 million tons. The target for passenger transportation was set at 80 million persons, whereas in 1967 the actual number of passengers carried was estimated at only about 75.3 million. Compared with 1966, the said figures indicate a decline (table 82).

Besides financial difficulties to ensure continuity of operations, during 15 years the requirements of material and spare parts could not be adequately fulfilled. However, in spite of various difficulties some progress may be noted with the addition of a few trains in Java as well as in Sumatra; although from the economic point of view it was still less than expected since the volume of freight was below expectations. The additional trains operating as from June 1, 1967 were the following:

TABLE 82 — RAILWAY TRANSPORTATION

Year	Passengers (in thousands of persons)	Cargo ¹⁾ (in thousands of tons)
1963 ²⁾	146,564	4,064
1964	135,214	3,793
1965	136,987	3,536
1966 ³⁾	95,153	2,950
1967 ⁴⁾	58,320	2,100
¹⁾ Ordinary cargo (excluding parcels and personal baggage). ²⁾ Revised figures. ³⁾ Provisional figures. ⁴⁾ Provisional figures; January-September.		

Source : State Railway Enterprise

- 1) The "Bima" between Djakarta and Surabaya via Jogja a night express train with first and second class sleeping cars.
- 2) The night express Tandjungkarang - Palembang v.v.
- 3) The express trains Medan - Tandjungbalai v.v.; Medan Rantau Prapat v.v. and Medan Pematangsiantar v.v.
- 4) The extra trains Banda Atjeh - Sigli v.v. and Sigli Besitang v.v.
- 5) The freight express Djakarta - Surabaya v.v.
- 6) The freight express Djakarta - Merak v.v.

About the passenger fares and freight rates may be noted that in January 1966 they were increased to ten times their former level, but later reduced again by 20% In February 1967, the price of passenger tickets was raised again to five times, which caused a decline in the number of passengers from 8 million in January 1967 to 6 million in March 1967; this decline manifested itself particularly on medium length routes such as Surabaya - Malang or Djakarta - Bogor, because of the competition from buses.

In order to comply with the demand of Parliament, viz. that a reduction be granted to the low income groups and also in order to adjust with the bus-fares, the minimum fare was reduced since April 1967. On December 15, 1967 the freight was adjusted to a

level which appeared to be too high and caused a decline in cargo transportation of nearly 50%, so that alleviating measures were required without changing the basic rate.

The rehabilitation/development of P.N.K.A. was mainly focused on railways and the condition of bridges, which was far from satisfactory. The condition of the railways in Atjeh for instance cannot be justified any longer from the technical point of view, they should be rehabilitated entirely.

Besides railroad transportation, P.N.K.A. is also providing ferry services, i.e. between the islands of Djawa and Sumatra, Djawa and Madura as well as Djawa and Bali.

Sea Transportation

By Presidential Decision No. 170 of 1966, the Department of Maritime Affairs was established to substitute the Department of Sea Transportation, the Department of Maritime Industries and the Department of Fishery of the DWIKORA Cabinet. In carrying out its duties, the Department of Maritime Affairs is divided into three Directorates General, viz.:

- 1) the Directorate General of Sea Transportation;
- 2) the Directorate General of Maritime Industries;
- 3) the Directorate General of Sea Exploitation.

In the framework of abolishing control and bureaucracy in the field of sea transportation and in order to increase efficiency and to unify the interests of the entrepreneurs and the customers in the field of shipping, by Presidential Decision No. 114 of 1987, the “Badan Pengendalian Lalu Lintas Muatan Antar Pulau (BAPELUMA — Interinsular Freight Supervising Agency) and the Biro Pengapalan Indonesia (BIPALINDO = Shipping Bureau of Indonesia) were liquidated and the Badan Angkutan Laut Indonesia (B.A.L.I. = Sea Transportation Agency of Indonesia) was established and assigned the following duties:

- a) to maintain, to sustain and to develop a national fleet and to increase the efficiency of its utilization;
- b) to serve as a forum for the cooperation between entrepreneurs and customers in the field of shipping;
- c) to serve as a consultative agency to the Government with respect to the determination and the execution of the shipping and trade patterns.

TABLE 83 — SHIPS, INDONESIAN OWNED AND CHARTERED
(100 B.R.T. and over)

Shipping lines	Indonesian owned					
	1965		1966 ¹⁾		1967	
	Number of ships	Tonnage (Dwt.)	Number of ships	Tonnage (Dwt.)	Number of ships	Tonnage (Dwt.)
P.N. PELNI	86	144,000	...	...	83	139,361
Private (Coastal shipping)	143	151,000	...	...	156	152,773
P.N. Djakarta Lloyd	36	374,000	...	...	26	226,886
Private (Ocean shipping)	13	29,000	...	...	21	156,613
	278	698,000	...	...	286	675,633
	Chartered ²⁾					
P.N. PELNI	20	73,271	...	...	4	17,027
Private (Coastal shipping)	2	10,984	...	...	—	—
P.N. Djakarta Lloyd	19	192,310	...	...	...	...
Private (Ocean shipping)	2	20,084	...	...	6	44,598
	43	296,649	...	...	10	61,625
¹⁾ Data not available. ²⁾ Monthly average.						

Source : Maritime Department.

The Indonesian Shipowners Association (I.N.S.A.) was the only organization considered suitable to represent the national shipping companies and to defend their interests; this body also served as an advisory body to the Minister of Maritime Affairs in the execution of his task with respect to shipping, in order to create a well managed economy with emphasis on the public interest.

In the field of shipping, two Decisions of the Minister of Maritime Affairs were promulgated, viz. Decision No. D.P. 12/19/12 and 13, dated September 6, 1967, concerning operation of domestic and international shipping routes, and Decision No. D.P. 1/15/19 dated September 8, 1967, concerning shipping licences for short distance ocean routes. Moreover, permission for the time of one year was given to foreign ships operating a regular liner service, to load and unload their cargo in Indonesian harbors, in order to promote regular international trade. By virtue of a Decision of the Minister of Maritime Affairs No. Plb1/3/4 dated June 26, 1967 and No. Plb/1/3/15 dated August 2, 1961, in order to fulfill the requirements of trade, the designation of the sea ports and the coastal harbors declared open to foreign trade particularly with respect to certain goods, was renewed. Moreover, in the field of sea transportation, in order to expedite distribution, the Departments which were involved in sea transportation were giving special attention to:

- improvement of the export harbors, inclusive of embankment and storage facilities, etc.;
- intensification of the dredging of harbors and river-estuaries;
- improvement of repair and docking facilities;
- increasing the efficiency of the national fleet;
- improvement of the water ways and safety devices such as beacons, light-houses, etc.

The dredging of harbors and river estuaries which burdened the Government did not proceed as desired. The whole fleet consisted of 27 dredgers, but only 12 were actually operating since 10 dredgers were under repair, 2 other were seriously damaged and 3 were abandoned. The 1967 target with respect to dredging was determined at 11.7 million m³, the volume actually dredged was 10.8 m³.

The rehabilitation of harbors did not make much headway because of financial difficulties. In 1967, the rehabilitation of ships included only 30% of the number of ships and about 24% of the total tonnage. The reasons why the rehabilitation of ships met with difficulties were i.a.:

- unavailability of financial resources for rehabilitation, and finances for the maintenance of ships were most inadequate;
- a variety of procedures and regulations so that the repair of ships could not be carried out directly and without complications.

The performance of the shipping sector was about 75% of the target. In comparison with the preceding year, this was a decline for which the following factors were responsible:

- a) an increase in the use of foreign ships, both liners and tramps;
- b) uncertainty with respect of the foreign trade pattern, particularly after Singapore emerged as a buyer of Indonesia's export goods.

Efforts to increase the performance in the field of shipping were concentrated upon the provision of better service and better guarding of cargo.

The execution of safety measures in the field of navigation still met with many difficulties because in nearly all harbors the safety devices such as beacons, buoys and lighthouses were in a bad condition, and the supplies of essential equipment/fuel were below the minimum requirement.

The fleet of P.N. PELNI numbered 83 ships (139,361 dwt). Besides in inter-insular shipping, P.N. PELNI is also engaged in ocean shipping, i.e. to Singapore, Thailand and Pakistan. As from February 15, 1967, P.N. PELNI increased its rates 2 1/2 fold, which was one of the reasons why its turnover declined. In order to restore the volume of cargo to its former level, and also in order to reduce prices, primarily those of the nine essential commodities the Government later on instructed the following freight reductions:

- a) a cut of 40% for the transportation of the nine essential commodities;
- b) a cut of 20% for the transportation of other goods, both percentages to be taken from the freight effective on February 15, 1967.

P.N. Djakarta Lloyd has 26 ships (226,886 dwt) and is engaged in around the world shipping, to Europe, Hongkong, Japan and Australia. Apparently, this "Around the World Service" proceeds well, particularly with an increase in cargo from the USA; the "Australia Service" primarily transports goods from Australia.

Air Transportation

In order to promote air transportation, in 1967 a telecommunication network between the airports was planned, which was also named "Aeronautical Fixed Telecommunication Network" (A.F.T.N.). This project, to be executed in the framework of the Colombo Plan (c.q. the Government of Australia) would include 10 airports. Besides, navigation facilities and telecommunication facilities between ground stations and aircraft were also established, which include the projects at Kemajoran and Tuban (Bali) .

Activities in the field of meteorology and physics aimed at providing better service and assistance both to aerial navigation and to other institutions outside the Department of Communications. Assistance from the World Meteorological Organization was received for the establishment of a telecommunication network between several meteorological stations.

TABLE 84 - TRANSPORTATION SERVICE PROVIDED BY PN GARUDA					
		1964	1965	1966	1967*)
1. Output	'000 ton- km	89,300	108,500	113,600	115,355
2. Sales	'000 ton- km	54,500	61,100	53,600	49,444
3. Percentage of load	%	61	57	47	43
4. Flying hours	hours	37,755	35,287	30,565	28,179
5. Distance covered	thousand km	13,344	13,532	12,314	11,576
6. Number of passengers	persons	420,221	419,104	353,375	323,953
7. Cargo	tons	4,304	3,864	4,317	3,967
8. Mail	tons	987	939	1,486	568
*) January through October					

Source : P.N. Garuda Indonesian Airways.

Cooperation was established with the Fokker Company of the Netherlands for the establishment of an aircraft industry; whereas Thai International Airlines extended its flights to Denpasar in order to promote tourism in Indonesia. PANAM also carried out a survey to the same end. Besides, licences were issued to several foreign airline companies permitting them to extend/change their flight routes, viz.:

- Malaysia Singapore Airlines : Singapore - Djakarta - Sydney, v.v.;
Penang:- Medan, v.v.;
- Lufthansa : Frankfurt - Djakarta, v.v.;
- PANAM : South Pacific route via Djakarta;
- Philippine Airlines : Manila - Denpasar.

In order to provide better service to the public, besides the existing State-owned airline companies, national private entrepreneurs were given the opportunity to establish new airline companies; one such company, P.T. Air Indonesia, has been operating as from November 1, 1967.

In the period of 1965 - 1967, the composition of the fleet and the number of pilots of P.N. Garuda developed as follows:

	<i>Type of aircraft</i>	<i>1965</i>	<i>1966</i>	<i>1967</i>
1.	Dakota	18	16	16
2.	Convair-340	8	8	8
3.	Convair-440	3	3	3
4.	Lockheed Electra	3	3	2
5.	Convair-990A jet	3	3	3
6.	D.C.-8 jet	—	1	1
	Number of aircraft	35	34	33
	Number of pilots	295	324	331

On the average, only 19 of the 33 airplanes owned by P.N. Garuda, were actually operating (+ 58%). The main cause was the inadequacy of spare parts. In 1966, the number of the Dakota's was reduced by two planes because of the accident near Palembang on January 1, 1966. In 1967, one of the Lockheed Electra's was destroyed in the accident on Mapanget Airport in Manado on February 16, 1967.

In 1966, several data on performance showed a decrease, because several cities formerly included in the flight routes were struck off the list, such as Canton, Pnompenh, Paris, Prague and Frankfurt. This was done for reasons of efficiency and in accordance with the policy of the Government at that time. A decline in the performance with respect to local flights was mainly caused by the domestic political situation and the disturbances in consequence of the September 30 Communist Party's Movement.

On the international routes P.N. Garuda made use of one DC-8 and three Convairs-990A, the other planes were used on the local routes. As from April 1967, flights to Tokyo were entirely carried out with DC-8 aircraft (three times a week) before that time, the route was flown two times a week with a DC-8 and once a week with a Convair-990A. In consequence of the situation in the Middle East since June 9, 1967 the flights to Europe through Cairo were directed via Athens.

During 1966/1967, the domestic flights included the islands of Sumatra, the Riau Archipelago, Jawa, Kalimantan, Sulawesi, Maluku, Nusa Tenggara and West Irian whereas the international flights included:

- | | |
|--------|--|
| Asia | : 1. Djakarta - Singapore - Kualalumpur v.v.
2. Djakarta - Singapore - Bangkok - Hongkong - Tokyo v.v.
3. Djakarta - Manila - Hongkong - Tokyo v.v.
4. Djakarta - Hongkong v.v.
5. Medan - Penang v.v. |
| Europe | : 1. Djakarta - Singapore - Bangkok - Bombay - Karachi - Cairo (Athens) - Amsterdam v.v.
2. Djakarta - Singapore - Bangkok - Karachi - Cairo (Athens) - Rome - Amsterdam v.v. |

In January 1966, P.N. Garuda increased its rates to four times the rates effective in the preceding month and since November 1966, these rates were increased again to four times.

The fleet of P.N. Merpati Nusantara numbered 20 airplanes, of which an average of 15 planes were in operation (75%). The 1967 target was 6,671 flying hours, 5,870 flying hours were actually achieved. The result achieved in 1967 was 1.5 million tons-km, whereas the target was 2.1 million tons-km. Reasons for not being able to reach the target were:

- a shortage of pilots able to fly the Dakotas;
- inadequacy of spare parts;
- difficulties to obtain fuel in certain regions
- an increase of operational costs.

Provisional data show that the proceeds of P.N. Angkasa Pura (the Airport) Kemajoran in 1967 exceeded the target, in consequence of an increase in their rates such as storage fee, rent, airport charges etc. Landing costs were paid in US dollars by the international airlines and in rupiahs by the domestic airlines.

The activities of P.N. Tjandradimuka in 1966 comprised the following:

- a. Regular maintenance of the fleets of the Akademi Penerbangan Indonesia (Aviation Academy of Indonesia) and the Central Bank (Beechcraft);
- b. Inspection/repair of the airplanes of the Tjot Girek Sugar Mill (Cessna 185-C), the Police Force (Aero Commander) and P.N. Merpati Nusantara (Porter Pilatus PC-6);
- c. Overhaul of the engines and frames of the airplanes of the State-owned agricultural estates and the Army;
- d. Light repairs of the airplanes of the Aeroclub and other institutions.

Performance improved somewhat in 1966 in comparison with the preceding year, however, it was still far below the existing capacity. Of the performed services, 54.3% was carried out by order of the Central Bank, 34.3% by order of the Army and 11.4% by order of other customers. The major part of the work still consisted of the line maintenance service, which took 14,800 man hours (90%) while work in the shops took 1,700 man hours (10%). P.N. Tjandradimuka was not yet able to guarantee the completion of a certain repair or overhaul within a given period, since there was a shortage of spare parts, whereas the import procedure was time consuming. This was the reason (to which some other have to be added) why the customers felt inclined to send their airplanes to workshops abroad. Since May 1, 1967, P.N. Tjandradimuka suspended its operations and is now in liquidation.

P.T. Air Indonesia connected the following cities: Medan, Sabang, Banda Atjeh (three times a week), Medan, Pekanbaru, Padang twice a week), and Medan, Pekanbaru, Rengat (once a week) with a Douglas DC-47

Tourism

In the years preceding this report, tourism in Indonesia could not develop satisfactorily. The internal political situation made it impossible for Indonesia to implement the recommendations and resolutions of the "United Nations Conference on international

Travel and Tourism” with the purpose to improve world tourism. Not before the “International Tourist Year 1967” could Indonesia start paying proper attention to these recommendations and resolutions and initiate their implementation.

On December 7, 1966, the Lembaga Pariwisata Nasional (National Tourist Institute) was established, a Government institution engaged in tourism and representing the Government in any matters related to tourism.

In February 1967 the Joint Tourist Promotion Board” was established which aims at attracting tourists from abroad to Indonesia through better tourist facilities including coordinated service and cooperation between the enterprises closely related to tourism. Its membership was still limited to P.N. Garuda, P.T Hotel Indonesia International and P.N. Nitour. In 1967 too the Government participated in activities towards the establishment of international cooperation in the field of tourism within the framework of the Association of South East Asian Nations (ASEAN), the members of which were Indonesia, Malaysia, Singapore, the Philippines and Thailand. Moreover, the Government may benefit from its membership in the Pacific Area Travel Association (PATA) and the International Union of Official Travel Organizations (I.U.O.T.O.) to stimulate the activities in the field of research with regard to the promotion of tourism in Indonesia.

With respect to hotel accommodation for foreign tourists may be noted that in 1965 on the islands of Djawa and Bali there were about 2,500 rooms available, which increased to approximately 3,000 in the following year. Hotels of international standards still under construction are Hotel Banteng and Hotel Kartika, with a capacity of 400 and 300 rooms, respectively; both are located in Djakarta. According to plan they should be completed in 1969, depending upon the available finances.

In consequence of the September 30/Communist Party Movement the number of tourists visiting Indonesia declined in 1966, but the situation recovered in the following year, with an estimated number of 21 thousand visitors. If the average tourist stays 5 days in Indonesia and spends US \$ 40.- daily, revenue from tourism in 1967 will be about US 4 million.

Transportation facilities are very important for tourism. In 1967, 11 foreign airlines made stops in Indonesia, viz.: Aeroflot, Czechoslovakian Airlines, Japan Airlines,

Pan American World Airways, Qantas Empire Airways, Royal Dutch Airlines (K.L.M.) Thai International Airlines, Union Transports Aeriens, Air India International, Malaysian Singapore Airlines and Lufthansa. In the middle of 1967, Malaysian Singapore Airlines and Pan American World Airways extended their flights from Indonesia to Australia, so that thenceforth 4 foreign airline companies maintained the connection between these two countries (the other two were Qantas Empire Airways and Union Transports Aeriens). Other developments in the field of air transportation were the following:

- a) Permission was granted to Thai International Airlines for straight flights to Denpasar. According to plan, these flights would commence early 1968.
A similar permission was given to Philippines Airlines.
- b) Malaysian Singapore Airlines started their flights to Medan International Airport.
- c) Foreign air planes chartered for flights to Bali were permitted to make a stop of 24 hours.
- d) A survey was carried out to explore the possibilities of an airline from Australia via Portuguese Timor to Bali v.v

With respect to road transportation, early 1967 the Government introduced a new transportation service with the “Bima’, express train between Djakarta and Surabaya. Moreover, improvements were made with respect to surface transportation between the islands of Djawa and Bali inclusive of the ferry-service between Banjuwangi and Gilimanuk. The number of privately operated buses also increased, they operated frequently between Surabaya and Banjuwangi as well as between Gilimanuk and Denpasar.

In 1967, the activities of the Government with regard to tourist promotion were only limited to the islands of Djawa and Bali, by means of restoring attractive objects such as the temple of Borobudur. Other important measures to attract tourists were i.a.:

- a.) to abolish the monopoly of P.N. Nitour as the sole institution for the handling of foreign guests, and to stimulate private travel bureaus to participate in such activities:
- b) to raise the sum of money an Indonesian traveler is allowed to take abroad from US \$ 100. to US \$ 500.-;
- c) to provide private enterprises with the opportunity to be active in the foreign exchange market in order to facilitate the exchange foreign currency in the tourist centers.
- d) to permit foreign capital investors:

- to establish new hotels and/or modernize and enlarge the exist accommodation;
- to cooperate with private Indonesian capital in the form of a “joint venture” in the field of domestic air transportation, especially regard of feeder lines.

Postal service, postal check and Transfer system, and Telecommunications

In 1966, P.N. Pos dan Giro (State Enterprise of Postal Service and Postal Check and Transfer System) had a deficit and a liquidity problem. Besides, P.N. Pos den Giro, which availed itself of the services of transportation companies, had difficulties with respect to interinsular transportation (particularly to Kalimantan, Maluku and West Irian) caused by inadequate cargo space. In March 1967 there were difficulties in regard of air transportation to Makasar, Menado and Ambon.

An increase in the average rate by 17 1/2 times effective as from February 15, 1967 resulted in a decline of mail traffic by about 60%. The decline, however, was only reflected in the postal communications of the private sector, whereas official correspondence by postal service maintained the same level and even tended to increase. As from July I, 1967 several postal rates for domestic service were reduced again by about 40%.

The results achieved by P.N. Pos den Giro in 1967 in their attempts to serve the public to the best possible extent were as follows:

- a) expansion of the Express Postal Service to the main cities, both in Djawa and on the other islands;
- b) as from January 1, 1967, it is possible to send commercial documents per registered express mail;
- c) in order to accelerate mail traffic, the services of the night buses and of other private transportation enterprises were utilized;
- d) the activities of the Postal Check and Transfer System were enlarged i.a. by opening six new offices.

Similar to P.N. Pos dan Giro, P.N. Telekomunikasi had financial difficulties. Nevertheless, the following improvements in the field of development were achieved:

- 9,000 units of automatic telephone extensions were installed; moreover, 90% of an expansion of 3,000 line units and 20% of another expansion of 9,000 line units was completed:

- the connection between Djakarta - Makasar with respect to the transmission and switching of cables was completed, whereas the connections between Djakarta - Medan and Djakarta - Bandjarmasin were in the process of completion;
- 40 telex extensions were installed in the city of Djakarta;
- 60% of the facilities in regard of intercontinental telegraphic transmission was completed.

An increase in the rates of P.N. Telecommunication, effective as from February 15, 1967, initially caused a decline in turnover of about 30%, but already in March 1967, a recovery could be noted.

Some other obstacles encountered by P.N. Pos dan Giro and P.N. Telecommunication were the following:

- a theft of 27.3 tons (416 km) of cables in the first half of 1967 inflicted considerable damage and paralyzed several extensions;
- obsolete equipment and facilities which should have been abandoned; inadequacy and untimely arrival of spare parts;
- obstacles with respect to the financing of operational routine and development expenditure.

Prices and wages

Prices

In 1966, prices of goods and services were generally higher than in the preceding year. During the said year, prices in nearly the whole economic sector increased rather steeply. The price development was caused by economic factors such as the slow growth in output, distribution bottlenecks, transportation difficulties, etc., as well as by non-economic factors as reflected in the unstable socially-political conditions which were a consequence of the political unrest during 1965 through the middle of 1966. In 1967, however, the Government policy was focused upon efforts to rescue the national economy, particularly to reduce the rate of inflation. Therefore, price developments were much better than in the preceding year. The aforementioned price developments are reflected in the cost of living index, the price indices of selected essential commo-

TABLE 85 — PRICE INDICES OF FOODSTUFFS

Year	12 foodstuffs (1953 = 100)	F o o d s t u f f s							
	Rural area of Djawa ¹⁾	Djakarta		Makasar		Medan		Pontianak	
		(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
1963	3,541	3,264	1,612	2,194	1,514	3,379 ²⁾	1,913	3,812	2,210
1964	7,379	7,037	3,300	...	2,690	...	2,281	...	3,449
1965	25,306	30,782	13,382	...	10,231 ²⁾	...	12,403	...	9,461
1966	278,543	327,053	153,180	...	104,344	...	107,696	...	147,081
1967	...	...	412,867	...	337,573 ³⁾	...	387,836 ⁴⁾	...	385,962 ⁵⁾
<p>(1) Index figures for 19 foodstuffs (Djakarta 1953 = 100); series discontinued.</p> <p>(2) Cost of living index/price index of 62 consumer goods (March 1957 — February 1958 = 100); average figures.</p> <p>1) Based upon 220 markets in the rural area of Djawa.</p> <p>2) Revised figures.</p> <p>3) 7 - month average.</p> <p>4) 11 - month average.</p> <p>5) 6 - month average.</p>									

Source : Central Bureau of Statistics.

ties and of selected export/import goods in the domestic market, as well as in the foreign exchange rates.

From table 85 may be seen that the price index numbers of 12 foodstuffs in the rural area of Djawa (base: 1953 = 100) rose from 25,306 in 1965 to 278,543 (+ 1,001%) in the following year. During the same period; the price index numbers of 19 foodstuffs in Djakarta rose from 30,782 to 327,053 (+ 962%). The cost of living index for Djakarta which comprises 62 items (foodstuffs, other commodities/services) in 1965 was 13,382 on the average, in 1966 and 1967 it rose to 153,180 (+ 1,045%) and 412,867 (+ 170%), respectively. It may therefore be said that prices of consumer goods were still increasing, although at a rate much lower than in the preceding year. However, in 1967 the monthly developments of the cost of living were not yet stable. The increase of the price index numbers during the first quarter of 1967 was still rather high, viz. 10.7% a month on the average. This was primarily caused by the adjustment of several rates and prices (gasoline, kerosene, transportation, electricity, drinking water etc.) ordered by the

		<i>Djakarta</i>	<i>Makasar</i>	<i>Medan</i>	<i>Pontianak</i>
1965	December	2.37	...	2.-	...
1966	January	4.37	3.75	1.80	3.-
	February	6.25	3.75	2.42	...
	March	7.50	3.50	2.80	4.30
	April	8.87	4.62	3.20	4.50
	May	7.-	4.50	5.-	...
	June	7.81	5.15	6.20	8.50
	July	8.43	5.31	6.10	...
	August	10.-	5.50	7.79	12.-
	September	10.63	6.56	12.-	...
	October	13.75	6.25	14.-	...
	November	13.75	6.25	11.50	...
	December	15.63	6.80	10.50	...
1967	January	16.86	6.88	13.-	...
	February	21.88	8.75	13.-	13.-
	March	20.-	7.50	14.-	...
	April	17.50	8.75	15.-	...
	May	17.50	9.50	18.-	...
	June	18.75	9.50	22.-	...
	July	20.63	11.50	20.-	18.-
	August	21.88	...	...	...
	September	30.-	11.25	32.-	37.50
	October	35.-	12.75	44.-	37.-
	November	46.25	...	44.-	33.-
	December	47.50	...	33.-	...

... = Not reported.

Source : Badan Urusan Logistik (Body of Logistic Affairs).

Government and effective as from February 15, 1967. The price increase of the said daily necessities manifested itself in other towns as well. In Makasar, Medan and Pontianak the increase was 920%, 768% and 1,454% respectively (data for 1967 were not yet complete).

Rice, which constitutes 49.3% of the expenditure for food or about 31% of the total cost of living, was subject to continuous price increases during 1966. In Djakarta in 1966 the price of low quality rice, such as "Tumbuk Bulu No. 2" increased by 307% or 26% per month on the average, viz. from Rp. 2.20 per kg at the end of 1965 to Rp. 8.95 per kg at the end of the following year.

The reasons for this increase were i.a.: the low level of output in comparison with demand, obstacles with respect to rice imports and the small volume of such imports as a consequence of inadequate foreign exchange impediments in regard of distribution and transportation as well as other reasons originating from inflation.

In 1967, the rice price was still increasing especially in the last quarter of that year which was i.e. caused by:

- a) a decline in the dry season crop in consequence of an exceptionally long drought;
- b) a small volume of rice imports;
- c) the prohibition to transport rice out of certain regions;
- d) the forthcoming Christmas New Year and Lebaran celebrations.

The price of "Tumbuk Bulu No. 2" rice in Djakarta which in December 1966 quoted Rp. 8.95 per kg, rose to Rp. 32.50 (+ 263%) in December of the following year. The price of first quality rice in several other cities during the period under report was as follows (in rupiahs per kg):

Besides food, prices of clothing and housing increased dramatically. At the end of December 1965, textile prices in the Djakarta market were as follows: white shirting (ex import), Rp. 7.- per meter; printed shirting, Rp. 8.- per meter and cotton yarn 30/S, Rp. 3,000.- per bale. In December of the following year, the prices increased and became: white shirting, Rp. 22.50 (+ 221 %); printed shirting, Rp. 27.50 (+ 244%) and cotton yarn, Rp. 17,000(+467%). The prices at the end of 1967 for these goods were: White shirting, Rp. 45.- (+ 100%); printed shirting, Rp. 50.- (+ 82%) and cotton yarn in the second week of December Rp. 35,000 (+ 105%).

	<i>Units</i>	<i>1965</i>	<i>1966</i>	<i>1967</i>
Rice	liter	2.20	7.-	26.-
Salted fish	kg	3.40	35.-	76.43
Cooking oil	bottle	1.75	24.67	38.71
Granulated sugar	kg	1.45	20.-	22.79
Salt	briquet	0.17	2.50	7.50
Kerosene	bottle	0.70	1.05	3.64
Laundry soap	bar	1.10	14.-	21.14
Printed shirting	meter	5.25	25.-	40.-
Batik	piece	13.50	106.25	207.14

Source : Central Bureau of Statistics.

The price development of the 9 essential commodities is illustrated by the figures on page 267 (amounts in rupiahs) as at the end of the year.

About the price development of several important export goods may be reported as follows. On the whole, prices of export goods in Djakarta tended to increase. Nevertheless, developments in 1967 were better in comparison with the situation in 1966. The price of rubber (R.S.S.I.) which at the end of December 1965 quoted Rp. 5.25 per kg in Djakarta, at the end of 1966 and 1967 jumped to Rp. 19.25 and Rp. 46.- per kg, respectively. During the same period, the price of Lampung Robusta coffee increased from lip. 4.75 to Rp. 38.- and lip. 45.- per kg at the end of 1966 and 1967 respectively. The increase of the rubber price was primarily caused by the prevailing obstacles in the production sector and moreover by an increase in the rates for services and distribution. Unlike the rubber price which steadily increased from month to month, the coffee price showed a fluctuating trend. The downward trend of the coffee price as from July 1967 was i.e. caused by the forthcoming coffee harvest and also by the difficulties in several regions concerning International Coffee Organization stamps which hampered the export of coffee.

Prices of imported goods were also increasing during the period under report. The price of automobile tires (750 x 20/10 ply) for instance was in December 1965 only Rp. 590.- a piece, at the end of the following year the price increased to Rp. 1,400 a piece (+ 137%) and rose further to Rp. 5,420.- (+ 287%). The price of cement which at the end of 1965 quoted only Rp. 23.- per-bag of 50 kg, jumped to Rp. 250.- (+ 987%) at the end of the following year; this price could be maintained until the end of 1967. During the same period, the price of gunny bags increased from Rp. 10.- a piece (end 1965) to Rp. 40.- (+300%) and Rp. 50.- a piece (+ 25%) at the end of 1966 and 1967, respectively.

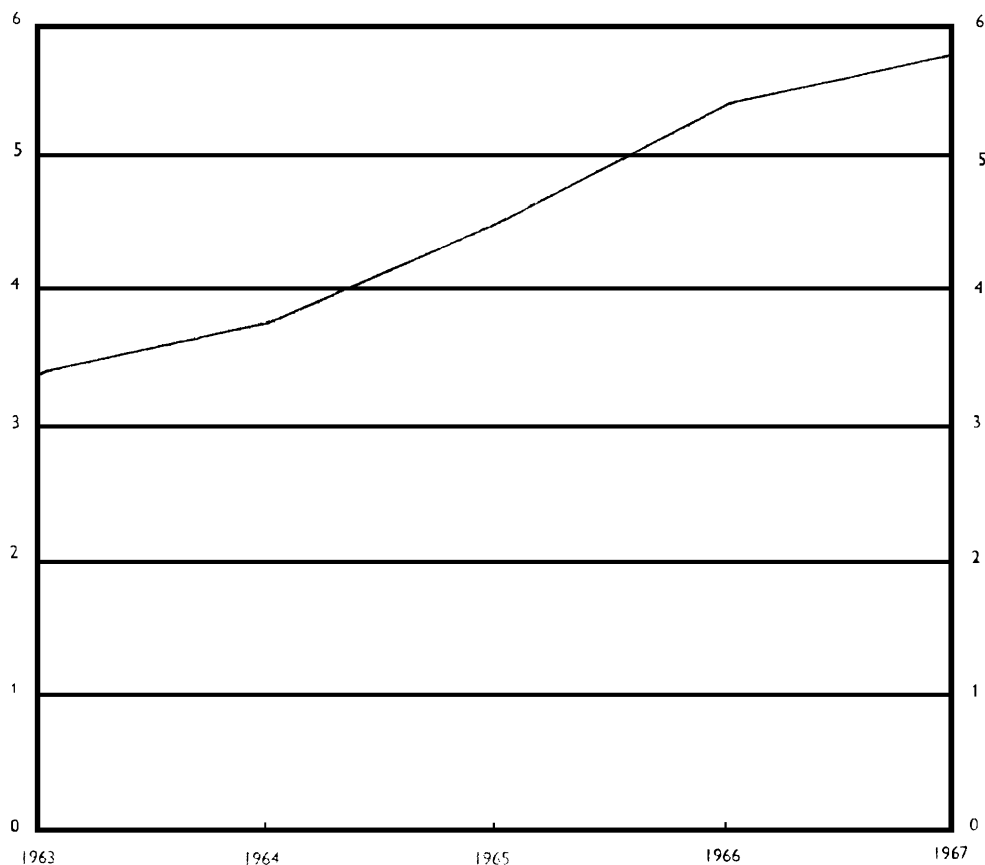
TABLE 86 — COST OF LIVING INDEX BASED UPON
62 GOODS AND SERVICES

(Djakarta, March 1957 - February 1958 = 100)

	Category and number of goods and services				
	Food (29)	Housing (6)	Clothing (12)	Other (15)	General (62)
<i>Djakarta</i>					
1965 January	6,936	3,469	12,090	6,740	6,968
1966 January	58,851	42,443	65,378	49,497	56,020
April	97,901	41,149	108,093	117,388	96,036
July	145,762	115,876	235,641	138,931	149,009
October	217,453	155,939	427,255	274,920	238,630
December	248,521	166,056	386,172	340,519	267,276
1967 January	271,348	216,084	387,984	366,245	291,748
April	352,780	316,221	337,635	447,819	364,005
July	366,414	328,924	409,013	461,363	382,437
October	493,111	351,395	471,781	497,877	476,858
December	611,908	413,329	535,595	514,054	567,088
<i>Makasar</i>					
1965 January	4,410	2,533	10,382	6,034	4,997
1966 January	40,032	22,723	47,207	35,732	38,034
1967 January	224,657	143,806	344,530	491,035	272,260
April	243,786	251,225	352,183	540,791	305,222
July	297,352	329,631	474,275	785,739	400,424
October	...	...	...	...	...
December	...	...	...	...	...
<i>M e d a n</i>					
1965 January	6,095	2,826	12,127	7,146	6,439
1966 January	36,383	36,448	54,169	43,552	39,144
1967 January	256,239	198,989	346,057	594,840	330,682
April	266,760	289,863	329,505	651,047	341,108
July	298,118	301,139	369,954	691,656	372,738
October	424,761	374,988	443,735	774,701	481,590
December	478,672	427,556	506,049	776,150	526,990
<i>Pontianak</i>					
1965 January	8,709	3,637	12,288	6,018	8,002
1966 January	38,520	23,845	56,964	53,827	41,158
1967 January	335,100	214,648	417,172	418,772	343,595
April	337,794	315,666	464,574	576,506	387,521
July	...	...	...	...	...
October	...	...	...	...	...
December	...	...	...	...	...

Source : Central Bureau of Statistics.

CHART VI — PRICE INDICES OF 62 FOOD ARTICLES IN DJAKARTA



Free market quotations of foreign exchange rates (US \$) in Djakarta showed the same trend, with quotations at the end of 1965, 1966 and 1967 of Rp. 36.-, Rp. 122.- and Rp. 290.- per US \$ respectively, which means an increase of 239% (in 1966) and 138% (in 1967). Meanwhile, gold quoted Rp. 62.50, Rp. 201 and Rp. 430.- per gram, which was an increase of 222% in 1966 and of 114% in the following year.

It may thus be concluded that price developments in 1967 were generally better than in the preceding year. The cost of living index, the prices of basic necessities, of import/export goods, the exchange rates and the gold price all increased at a lower rate than in 1966.

With respect to the price policy of the Government can be noted that the Government will refrain as much as possible from direct price intervention. Regulations on prices and rates promulgated during the period under report were i.a.:

- 1) Decree of the President No. 26 of 1965 dated November 22, 1965 regarding the Financial Economic Policy in 1966, in which it was i.e. determined that state enterprises should operate on the basis of cost accounting and prices would be based on the costs of production to which a fair profit may be added, whereas prices of goods under Government control would be determined.
- 2) Instruction of the Presidium of the Cabinet No. 14/EK/IN/10/66 dated October 3, 1966, which i.e. determined that prices/rates of goods and services of petroleum products, services provided by the State Electricity Company, the state owned enterprises for local/city transportation and the state enterprise for the supply of drinking Water would be determined by the Ministers concerned after prior approval from the Presidium of the Cabinet.
- 3) Instruction of the Presidium of the Cabinet No. 21/EK/IN/11/66 dated November 2, 1966, in the attachment of which it is i.a. explained that the Government, in the framework of decontrol and of abolition of bureaucracy, has decided that the authority to determine prices and rates of goods and services produced by state enterprises is with the management of the enterprises concerned, except in the case of petroleum products, electric power, local city transportation and drinking water. The principle to be followed with regard to the determination of prices and rates is that they should be adapted to the costs of production, that continuity of the production process be guaranteed, that waste and luxury be avoided and the prices be kept as low as possibleZ
- 4) Decision of the Presidium of the Cabinet No. 33/EK/KEP/2/67 dated February 6, 1967, with respect to the increase in rates of road transportation, electric power and communication.
- 5) Decision of the Presidium of the Cabinet No. 40/EK/KEP/2/67 dated February 10, 1967, which determined the new prices of petroleum products.
- 6) Decision of the Presidium of the Cabinet No. 41/EK/KEP/2/1967 dated February 10, 1967, concerning the increase in rates of road transportation and of drinking water.

**MINIMUM AND MAXIMUM WAGES PAID BY SELECTED TYPES OF ENTERPRISES
PER LABORER (WITH WIFE AND 2 CHILDREN)
(In Rupiahs)**

	January 1966						January 1967					
	Minimum			Maximum			Minimum			Maximum		
	In cash	In kind	Total	In cash	In kind	Total	In cash	In kind	Total	In cash	In kind	Total
<i>Estate agriculture</i>												
1. PPN in Sumatra	30	251	281	1,041	187	1,228	90	799	889	10,258	1,873	12,131
2. PPN in Java	30	141	171	1,041	187	1,228	90	413	503	3,423	644	4,067
<i>Petroleum</i>												
1. PN PERTAMIN	232	256	488	3,211	256	3,467	970	694	1,664	9,729	694	10,423
2. PT STANVAC	189		523	3,965	302	4,267	893	1,176	2,069	15,956	1,320	17,276
<i>Manufacturing industry</i>												
1. Unilever	149	120	269	3,799	—	3,799	898	1,637	2,535	21,592	15	21,607
2. B.A.T.	...	...	...	...	...	...	996	202	1,198	12,072	3,602	15,674
<i>Building industry</i>												
1. Biro ASRI	120	—	120	350	—	350	1,300	—	1,300	1,500	—	1,500
2. PN Hutama Karya	45	147	192	476	147	623	386	463	849	4,672	463	5,135
<i>Electricity</i>												
1. State Electricity Company	45	119	164	173	119	292	872	—	872	2,227	—	2,227
<i>Transportation</i>												
1. PN Garuda	...	...	...	...	...	...	516	912	1,428	4,682	912	5,594
2. Qantas	194	140	334	1,702	140	1,842	1,266	532	1,798	17,434	532	17,966
<i>Services</i>												
1. Hotel Indonesia	108	194	302	500	194	694	529	721	1,250	3,802	—	3,802
<i>Government service</i>												
	25	120	145	212	120	332	142	438	580	1,538	438	1,976

Source : Department of Labor.

Wages

In 1966 and 1967, wages (in cash as well as in rice) were increased in order to keep up with the increase in the cost of living. The minimum wage in the agricultural estates on the island of Djawa which was determined at Rp. 3.- a day or Rp. 90.- a month, was raised to Rp. 6.- a day or Rp. 180.- a month in 1967.

In 1966, the cash salaries of Government personnel were raised twice, viz. in January 1966 to five times the salary of the preceding month and in July 1966 again to three times. In 1967 too, salaries were raised twice, viz. in January to twice the amount received in the preceding month and in April 1967 again 1 1/2 times.

With respect to wages in rice, as from June 1966 members of the Armed Forces received 18 kg of rice a month per person (previously 8 kg), whereas government personnel continued to receive monthly 8 kg per person. As from April 1967, the monthly rice ration of Government personnel was increased to 10 kg per person. The data on page 271 enable us to compare the wages paid by selected enterprises.

In order to implement the decisions of the Madjelis Permusjawaratan Rakjat Sementara (the Provisional People's Consultative Congress) with respect to a more democratic system of wages and social security, a Basic Pattern of Wages (Pola Dasar Pengupahan) has been designed for private enterprises which provides i.e. for a sound, well balanced wage system both within the enterprises as well as between similar enterprises. This Basic Pattern also provides for payments on the basis of performance without negligence of the financial ability of the enterprise concerned and keeping in mind some specific peculiarities in Indonesia, e.g. with respect to family allowances, food rations etc. This Basic Pattern has been incorporated in the wage system of several foreign private companies and is obviously successful.

Labor Affairs

Legislation

Salaries of Government personnel particularly of those paid according to the 1961 Salary Regulation for Government Personnel (PGPN - 1961) were disproportional in comparison with salaries paid by state enterprises and Government projects. The Gov-

ernment therefore considered it necessary to increase the income of Government personnel and of other Government officials as well as of pensioners and beneficiaries of other allowances similar to pensions.

The increases during 1966 and 1967 were the following:

<i>Increases on the basis of, preceding salary/pens</i>	<i>Effective as from:</i>
a) five times as much	January 1966
b) three times as much	July 1966
c) two times as much	January 1967
d) 1 1/2 times as much	April 1967

The aforesaid increases were also applicable to foreigners in Government service such as mentioned in Government Regulation No. 10/1951, but did not apply to receivers of salary payable in West Irian rupiahs as well as to personnel posted abroad c.q. who receive their salary in foreign currency.

For employees of state enterprises, Government Regulation No. 23, 1967 concerning the "Principal Regulations with respect to Salaries of employees of State enterprises" was promulgated.

Besides cash incomes, food (rice) allowances of Government personnel were increased as follows:

- 1) Pursuant to a Decision of the Presidium of the DWIKORA Cabinet No. Aa/C/5/1966, as from January 1966 the rations of rice became:

a) Members of the Armed Forces	: 18 kg p.p./monthly
b) Civil personnel of the Armed Forces	: 8 kg p.p./monthly
c) Government personnel	: 8 kg p.p./monthly
d) Personnel of private enterprises	: 8 kg p.p./monthly
- 2) On the basis of a Decision of the Presidium of the Cabinet No. 68/U/KEP/3/1967, as from April 1967 the food (rice) allowances were determined as follows:

a) Members of the Armed Forces	: 18 kg p.p./monthly
b) Civil personnel of the Armed Forces	: 10 kg p.p./monthly

- | | | |
|--|---|-------------------|
| c) Government personnel | : | 10 kg p.p/monthly |
| d) Personnel of private enterprises | : | 10 kg p.p/monthly |
| e) Wives/husbands and children of the persons
in the above mentioned categories | : | 10 kg p.p/monthly |

Furthermore, the following regulations on labor matters were Promulgated:

- 1) Instruction of the Minister of Labor No. 2/Instruksi/67 dated January 18, 1967, on the "Prohibition against wholesale dismissals by State Enterprises without consulting the Department of Labor".
The purpose of the Instruction was not to prohibit a priori any wholesale dismissals, but to prohibit such dismissals without or without prior consultation with the Department of Labor.
- 2) Instruction of the Minister of Labor No. 3/Instruksi/67 dated January 20, 1967 concerning the "Rules for the transfer of Government Personnel".
The instruction was issued since it often happened that a Government officer posted with one of the Departments also worked, or attempted to work, outside his own Department (e.g. with a State Enterprise, a private enterprise or with another Government entity) without approval or even without knowledge of the Head or the Department concerned.
- 3) Instruction of the Presidium of the Cabinet No. 11/U/IN/2/1967 dated February 16, 1967, on the "Efficient use of Government Personnel".
The said instruction was intended to lay the foundation for an increase in the efficiency of the Go- Government apparatus to the best possible extent and within the limitations of time, equipment, finances and human resources.

Labor Disputes

Since the inauguration of the Ampera Cabinet, the number of labor disputes declined somewhat and in several sectors even did not occur at all. This was due to the information and explanation of the Government in regard of the principles of labor relations in enterprises. In the period before the September 30/Communist Party's Movement, the said relations became a political instrument and the concept of class struggle was exaggerated. Moreover, there were other factors which reduced the number of labor disputes, viz. the slackness in a few economic activities, branches of indus-

try. The difficulty to find other employment made workers cautious with respect to the launching of a strike or the initiating of a dispute against their employers. In 1967, only 64 labor disputes occurred, against 433 and 152 disputes in 1965 and 1966, respectively. A notable dispute arose between the STANVAC Petroleum Company and the labor unions in the oil industry about the drawing up of a Collective Labor Agreement. This dispute was solved with the achievement of a Labor Agreement effective for two years and which i.e. included stipulations about general working conditions. Other labor disputes which could be solved satisfactorily were those between:

- CALTEX Pacific Indonesia and the labor unions in the oil industry;
- Faroka and the labor union in the cigarette industry;
- British American Tobacco Co. and the labor union in the cigarette industry.

Unemployment

According to estimates of the Department of Labor, in 1967 the population of Indonesia was 113.2 million. Of this number, about 74.5 million comprised the manpower, i.e. anybody able to work —whether or not for an employer—and who can provide services/produce goods demanded by the community. The labor force, i.e. the people who were actively employed and/or were trying to find employment, was estimated at 41.0 million (table 87). In 1966, the number of unemployed was estimated at about 10 to 12% of the labor force, and in the following year this number rose and became 13 to 15% The estimates were based upon the number of dismissals, both wholesale and on an individual basis, by private and state enterprises. The suspension with respect to the engagement of new personnel in a few branches of industry and offices also added to the number of unemployed.

The number of people looking for employment registered with the Department of Labor is reported in table 88. These figures, however, do not give a complete and accurate picture, since only an insignificant part of people in search of employment were registered with the Department of Labor.

Particularly in the agrarian sector the population growth will add to the number of underemployed, mainly because of the disproportional density of population on the island of Djawa vis-a-vis the other islands, viz. + 65% of the population of Indonesia

**TABLE 87 - PROJECTED GROWTH OF
POPULATION, MANPOWER AND LABOR
FORCE ¹⁾**
(in million persons)

	Population ²⁾	Manpower	Labor force
1963	101.9	67.0	37.0
1964	104.2	68.6	37.8
1965	107.1	70.5	38.8
1966	110.1	72.1	39.9
1967	113.2	74.5	41.0

¹⁾ No family planning assumed.
Exclusive of West Irian.

²⁾ Population growth: 2.8% annually from 1965
through 1967, and 2.3% before 1965

Source : Department of Labor.

lives on the island of Djawa which comprises only 1/13 of Indonesia's territory. According to estimates, about 12 to 14 million people were underemployed, and this number will undoubtedly increase in the following years if employment opportunity in other sectors is not enlarged or if transmigration to other regions cannot proceed as planned.

The university graduates estimated at 9,000 in 1967, deserve special attention; this number will increase persistently in the future. The distribution of the available university graduates, both geographically, occupationally and according to Departments, is disproportional. Transfer to the regions meets with difficulties since it involves expenses for transportation and housing. During January through November 1967, university graduates in need of employment were registered; there was a number of 1,584 university graduates in the field of:

a) religion and spiritual care	7	persons
b) culture	48	persons
c) science and techniques	332	persons
d) social sciences	1,191	persons
e) not clearly defined	6	persons
T o t a l	1,584	persons.

**TABLE 88 - NUMBER OF UNEMPLOYED
PERSONS REGISTERED AT THE DEPART-
MENT OF LABOR**

	Registered	Employed	Vacancies
1963	127,769	51,006	79,598
1964	104,714	37,739	40,671
1965	98,755	35,500	38,553
1966	93,239	29,035	32,811
1967*)	20,712	8,353	9,434

*) January - July.

Source : Department of Labor.

The above mentioned figures reveal that 80% of the total number were graduates in social sciences and only 20%, in sciences and techniques. Especially in order to employ university graduates, an Official Movement for the Employment of University Graduates was launched which duties were to register the newly graduated, to inquire with offices about the need for university graduates and to compile a plan for their employment.

In the framework of the efforts to place laborers in the regions, in 1966 a number of 5,525 families (= 22,295 persons) was moved to Government estates outside the islands of Djawa and Madura. In the first quarter of 1967, 618 families were moved (= 1,940 persons). The decline early in 1967 was i.e. caused by the rising cost of transportation. However, the aforesaid efforts to find employment opportunities outside the islands of Djawa and Madura will be continued.

In order to overcome disguised unemployment/underemployment among the farmers on the island of Djawa, several infrastructure projects as well as the "Padat Karya" project were initiated with the purpose to recruit disguised unemployed farmers for activities that may increase the standard of living of the local population. In the periods between harvests, manpower, equipment and disguised unemployed are mobilized and as an incentive the farmers are given free foodstuffs acquired through foreign aid.

The first effort of this kind was started in Demak - called Padat Karya Demak Pilot Project - for the digging of canals. The first stage of this project was completed in the period from May through September 1967, the second stage in the period from the end of September through October 1967, and the third stage will be carried out in 1968.

The benefits from such projects are the following:

- 1) they provide the farmers with additional income in the periods between rice harvests;
- 2) part of the infra structure may thus be constructed by the village community;
- 3) the financing is not inflationary and does not burden the state budget;
- 4) the employment opportunity will reduce urbanization and promote public security in the rural area.

In 1966 there were 1,074 foreigners to whom a labor permit was provided; in 1967 this number increased to 1,489 (+ 38%). The increase was i.a. caused by:

- a) information given by the Dinas Penempatan Tenaga Asing (= Service for the Employment of Foreign Personnel) to enterprises, Government institutes and foreign representative offices concerning the implementation of Act No. 3/1958 (Act on the Employment of Foreign Personnel);
- b) cooperation with other institutions, particularly with the Directorate General of Immigration, in controlling the entry of foreigners into Indonesia;
- c) the need for experts in the framework of the implementation of the Act on Foreign Capital Investment.

The aforesaid foreigners were made up of different nationals; the highest percentage consisted of Chinese (25%), successively followed by Americans (17%), Japanese (10%) and West Germans (7%).

In the attempts to solve the problem of foreign nationals, in particular of foreign Chinese, the following steps were taken by the Service for the Employment of Foreign Personnel:

- 1) The maintenance of a tight control on the entry of foreigners who wish to work in Indonesia. In accordance with the Decision of the Presidium of the Cabinet No. 37/U/IN/6/1967 on the Principal Policy Governing the Solution of the Chinese Problem, only experts are allowed to apply for a labor permit and a staying permit.
- 2) Large enterprises such as P.T. CALTEX Pacific Indonesia, P.T. STANVAC Indonesia and other were requested by the Service for the Employment of Foreign Person-

nel to draft a plan for the recruiting of foreign personnel/for the substitution of foreigners by Indonesians.

- 3) In order to assist the Government in the implementation of Act No. 1/1967 on Foreign Capital Investment, the Service for the Employment of Foreign. Personnel, in conjunction with other institutions is attempting to facilitate the entry of foreign experts to meet the demand for expert skill.

APPENDICES

APPENDIX A

PROVISIONAL *) CONDENSED BALANCE SHEET OF BANK NEGARA INDONESIA UNIT I AS OF DECEMBER 31, 1966 (in thousand Rupiahs)					
ASSETS				LIABILITIES	
GOLD AND GOLD BULLION	Rp.	190		FOREIGN EXCHANGE FUND: FOREIGN LIABILITIES	Rp. 79,260**)
FOREIGN EXCHANGE FUND: FOREIGN ASSETS	"	26,602**)		BALANCES OF THIRD PARTIES:	
BALANCES WITH CORRESPONDENT BANKS ABROAD	"	81,437**)		— International financial institutions	Rp. 21,101
ADVANCES TO THE GOVERNMENT:				— Current accounts:	
— Current	Rp.	18,789,491		in rupiahs	" 5,654,593
— Consolidated	"	2,900		in foreign currency	" 131,633
	"	18,792,391		BANK NOTES ISSUED	Rp. 5,807,327**)
CLAIM ON THE GOVERNMENT ON ACCOUNT OF MEMBERSHIP IN INTERNATIONAL FINANCIAL INSTITUTIONS	"	16,513		1964/1960 BANK INDONESIA BONDS	" 16,634,972
ADVANCES AND DISCOUNTS	"	3,100,196		PENSION AND PROVIDENT FUND	" 3,000
PREMISES AND INVENTORY	"	59,693		TRANSFERS BETWEEN OWN OFFICES	" 322
INVESTMENTS IN SECURITIES	"	652		CAPITAL, RESERVES AND PROFIT	" 6,678
MISCELLANEOUS ASSETS	"	683,948		MISCELLANEOUS LIABILITIES	" 153,069
					" 76,994
	Rp.	22,761,622			Rp. 22,761,622

*) Under examination by the State Audit Directorate

**) \$ 1 = Rp. 0.25

S. E. & O.

PROVISIONAL *) CONDENSED BALANCE SHEET OF BANK NEGARA INDONESIA UNIT I AS OF DECEMBER 31, 1967 (in thousand Rupiahs)				LIABILITIES	
ASSETS					
GOLD AND GOLD BULLION		Rp.	190	FOREIGN EXCHANGE FUND: FOREIGN	
FOREIGN EXCHANGE FUND: FOREIGN ASSETS		"	45,308**)	LIABILITIES	
BALANCES WITH CORRESPONDENT BANKS		"	6,766,550**)	BALANCES OF THIRD PARTIES:	
ABROAD		"		— International financial institutions	
ADVANCES TO THE GOVERNMENT:				— Time deposits	
— Current		Rp. 35,931,121		— Current accounts:	
— Consolidated		" 2,900		in rupiahs	
CLAIM ON THE GOVERNMENT ON ACCOUNT		"	35,934,021	in foreign currency	
OF MEMBERSHIP IN INTERNATIONAL				BANK NOTES ISSUED	
FINANCIAL INSTITUTIONS		"	214,884	1964/1969 BANK INDONESIA BONDS	
ADVANCES AND DISCOUNTS		"	11,479,073	PENSION AND PROVIDENT FUND	
PREMISES AND INVENTORY		"	218,178	TRANSFERS BETWEEN OWN OFFICES	
INVESTMENTS IN SECURITIES		"	652	CAPITAL, RESERVES AND PROFIT	
MISCELLANEOUS ASSETS		"	2,376,653	MISCELLANEOUS LIABILITIES	
		Rp.	57,035,509		
				Rp. 57,035,509	
*) Under examination by the State Audit Directorate					
**) \$ 1 = Rp. 0.25.					

S. E. & O.

APPENDIX B

BANK NEGARA INDONESIA UNIT I (PROVISIONAL) PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 1966 (in thousand Rupiahs)			
EXPENDITURE		REVENUE	
— Operational expenses	Rp. 189,340	— Interest	Rp. 541,470
— Cost of making banknotes	" 174,937	— Commissions	" 125,693
— Miscellaneous expenses	" 42,499	— Miscellaneous revenue	" 25,488
— Depreciation of premises and inventory	" 5,000		
— Dotation to Pension Fund	" 500		
	<hr/>		
	Rp. 412,276		
 PROFIT			
Taxable profit (provisional)	Rp. 280,375		
	<hr/>		
	Rp. 692,651		<hr/>
			Rp. 692,651

S.E. & O.

BANK NEGARA INDONESIA UNIT I (PROVISIONAL) PROFIT AND LOSS ACCOUNT FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 1967 (in thousand Rupiahs)			
EXPENDITURE		REVENUE	
— Operational expenses	Rp. 920,011	— Interest	Rp. 2,695,560
— Cost of making banknotes	" 401,903	— Commissions	" 375,673
— Miscellaneous expenses	" 63,227	— Miscellaneous revenue	" 101,035
— Depreciation of premises and inventory	" 22,000		
— Dotation to Pension Fund	" 5 00		
	<hr/>		
	Rp. 1,407,641		
PROFIT			
Taxable profit (provisional)	Rp. 1,764,627		
	<hr/>		
	Rp. 3,172,268		Rp. 3,172,268

S.E. & O.

APPENDIX C

MANAGEMENT OF BANK NEGARA INDONESIA UNIT I As per December 31, 1967

BOARD OF DIRECTORS

Radius Prawiro	:	Governor
Soehardi	:	Managing Director/Deputy Governor
M. Djoeana Koesoemahardja	:	Managing Director/ Deputy Governor
R. Hertatijanto	:	Managiig Director/Deputy Governor
Rachmat Saleh	:	Managing Director/Deputy Governor
R.A.Kartadjoemena	:	Managing Director
Marathon Wirija Mihadja	:	Managing Director
Pranowo Soewandi	:	Managing Director
Soeksmono Besar Martokoesoemo	:	Managing Director

REPRESENTATIVES

R. Sulaksana Suparto	:	Representative for Europe in London
J.A. Sereh	:	Representative in New York
R.S. Natalegawa	:	Representative in Tokyo

- I. SECRETARIATE OF THE BOARD OF MANAGING DIRECTORS
Martoyo Koento : Head
R. Soewignjo Soerjokoesoemo : Deputy
- II. CREDIT DEPARTMENT
D. Wisaksana : Head
- III. CREDIT PLANNING AND CREDIT SUPERVISION DEPARTMENT
M. Djoko Soedomo : Head
A.C. Tjahjadi : Deputy
- IV. FOREIGN DEPARTMENT
Markoem Djojohadisoeparto : Head
D.U. Budiman : Deputy
Muljana Wiraatmadja : Deputy
- V. FOREIGN EXCHANGE FUND DEPARTMENT
T. Surjawidjaja : Head
- VI. CASH DEPARTMENT
Dhoemadi Singowigoeno : Head
R. Soejatno Soemardjo : Deputy
- VII. BANK SUPERVISION DEPARTMENT
Eddy Suwardi : Head
Abdullah Ali : Deputy
- VIII. ACCOUNTING, ORGANIZATION AND INTERNAL AUDIT DEPARTMENT
E.J. Hartoko : Acting Head
P. Siregar : Deputy
- IX. ECONOMIC RESEARCH DEPARTMENT
E.A. Sie Dhian Ho : Head
- X. PERSONNEL DEPARTMENT
Soekarsono : Head
- XI. GENERAL SERVICE DEPARTMENT
R.M. Soemirat Soerjodarmodjo : Head
A.U. Laoh : Deputy

APPENDIX D

REGULATION / ACTS ON MONEY AND BANKING (1966 - 1967)

1966

Withdrawal of the Republic of Indonesia from membership in International Monetary Fund

Act No. 1 of 1966 (Official Gazette No. 10 of 1965).

The said Act promulgated the withdrawal of the Republic of Indonesia from membership in the International Monetary Fund and the International Bank for Reconstruction and Development by revocation of Act No.5. of 1954.

Membership of the Republic of Indonesia in the Asian Development Bank

The said Act promulgated the approval concerning the membership of the Republic of Indonesia in the Asian Development Bank, the implementation of which would be regulated according to the Agreement Establishing the Asian Development Bank.

The Republic of Indonesia's rejoining the IMF (International Monetary Fund) and IBRD (International Bank for Reconstruction and Development)

Act No. 9 of 1966 (Official Gazette No. 36 of 1966).

The said Act promulgated the approval concerning the Republic of Indonesia's rejoining the IMF and IBRD as decided in the Annual Meeting. The approval would be implemented pursuant to article 9 of the Articles of Agreement of the IMF and Resolution No. 7 of the IBRD concerning membership.

The 1967 Budget

Act No. 14 of 1966 (Official Gazette No.44 of 1966).

The said Act promulgated the 1967 Budget on Revenue and Expenditure.

Limitation of the right to claim compensation for the types of currency which ceased to be legal tender

Decree of the President No. 1 of 1966 (Official Gazette No. 4 of 1966)

The said Decree stipulated that notwithstanding the provisions in article 12 paragraph (6) of the 1953 Act concerning the Principal Regulations on Bank Indonesia, the right to claim compensation for bank notes in dominations of Rp. 10,000 and Rp. 5,000 would expire on February 25, 1966. Bank notes and currency notes as well as coins in denominations not exceeding Rp. 2,500 continued to be legal tender until further notice from the Government.

Payments expressed in new rupiahs

Circular letter of the State Minister of Economics and Finance No. EK/194/C/23/66 of August 20, 1966.

Since the issue of the new rupiah in December 1965 until the issue of the said circular letter, old rupiahs and new rupiahs were circulating side by side. The amount of old rupiahs in circulation had been, substantially reduced, whereas new rupiahs were circulating evenly throughout Indonesia. In order to eliminate such dualism, the private sector was instructed to use the new rupiah for accounting purposes and for the expression of prices and rates of goods and services as from October 1 :1966.

Postponement of the date of issue of the new rupiah i.n the Province o f West Irian

Decision of the AMPERA Cabinet Presidium No. 31/ EK/KEP 9/1966, effective as from September 15, 1966.

The said Decision determined that the date of issue of the new rupiah (Decree of the President No. 27 of 1965) in the Province of West Irian was postponed.

The West Irian Rupiah which was legal tender pursuant to Decree of the President No. 2 of 1963 continued to be legal tender in the Province of West Irian.

Reduction of the period to claim compensation for the types of currency which ceased to be legal tender

Decision of the Cabinet Presidium No. 128/EK/KEP/12/1966, effective as from December 30, 1966.

The said Decision promulgated that the period to claim compensation for banknotes in denominations not exceeding Rp. 2,500 which ceased to be legal tender on December 31, 1966, was reduced to December 31, 1967, after which date the right to claim compensation would expire.

The date when the types of currency mentioned in article & paragraph (2) of Decree of the President No. 27 of 1965 ceased to be legal tender

Decision of the Cabinet Presidium No. 56/EK/KEP/10/1966, effective since October 7, 1966.

According to the said Decision, as from December 31, 1966, bank notes, currency notes as well as coins in denominations not exceeding Rp. 2,500 would cease to be legal tender.

Payments on account of compensations referred to above were exempt from Contribution to the Revolution Fund.

Permission for the establishment of new banks

Notification of the State Minister of Economics and Finance No. EK/740/1966 of December 15, 1966.

The AMPERA Cabinet neither had a Minister of Private Banks and Capital nor a Minister of Central Bank Affairs.

Therefore, applications for Government approval to establish banks or to open branch offices of banks should be addressed to the Minister of Finance, whereas only the Minister of Finance was authorized to close banks or branch offices of banks. The

aforesaid provisions were effective until the promulgation of the Central Bank Act and the Act concerning the Principal Regulations on Banking.

Procedure to apply for permission to establish banks/open branch offices of banks

Notification of the Minister of Finance No. D.15.1.1.32 of December 15, 1966

The Minister of Finance notified that:

1. Permissions to establish banks or to open branch offices of banks would only be granted by the Minister of Finance.
2. Operating permits granted after the inauguration of the AMPERA Cabinet on July 25, 1966, by authorities other than the Minister of Finance were considered to be in the process of application.

The competent officials of the Directorate General of Finance of the Department of Finance in Djakarta were instructed to settle the aforesaid matter.

Deposits originating from funds intended for the purchase of SPP's (Surat Pendorong Produksi = Production Promotion Certificate)

Decision of the Minister of Central Bank Affairs No. Kep. 15/UBS/66.

By virtue of the said Decisions, Bank Negara Indonesia Unit I in Djakarta was authorized to accept deposits which were repayable after three years and for which the interest would be paid semi-annually. The regulation was applicable to moneys originating from funds intended for the purchase of SPP's at the SPP call on May 11, 1965. Deposit Certificates would be issued against such deposits. The said Deposit Certificates were not endorsable and could neither be used as collateral for a loan from Bank Negara Indonesia. The deposits were due on January 1, 1969.

Bank Pembangunan Indonesia (Development Bank of Indonesia)

1. Amendment and supplement of Act No. 21 Prp. of 1960 concerning Bank Pembangunan Indonesia (Official Gazette No. 65 of 1960), as amended and supplemented by Government Regulation in lieu of Act No. 17 of 1962 (Official Gazette No. 91 of 1962).

Decree of the President No. 2 of 1966 (Official Gazette No. 14 of 1966) which became effective on February 16, 1966.

Based upon the said Decree, article 4 of Act No. 21 Prp. of 1960 which had been amended and supplemented by Government Regulation in lieu of Act No. 17 of 1962, was further amended and supplemented as follows:

Article 4.

1.
 - a. The Basic Capital of the Bank amounts to one hundred ten million rupiahs and is separate state property.
 - b. The Basic Capital of the Bank does not consist of shares.
2. The Bank may add to its finances through:
 - a. The Overall Development Fund composed of the profit shares of state enterprises and which are intended for the Bank as determined in article 18 paragraph (2) a of Act No. 19 Prp. 1960 (Official Gazette No. 59 of 1960, Supplement to the Official Gazette No. 1989) concerning state enterprises.
 - b. Other funds to be determined by the Government.
 - c. Operational profits mentioned in article 6b through e
3. The Basic Capital as referred to in paragraph (1) of this article may be increased by Government Regulation.

II. The inclusion of commercial banking activities for the state sector into the duties of Bank Pembangunan Indonesia

Decision of the Cabinet Presidium No. Aa/D/27/1966.

According to the said Decision, Bank Pembangunan Indonesia was assigned to engage in commercial banking activities for the state sector by:

- a. acceptance of moneys on current account and time deposits and by intensification of payments transactions through banks;
- b. granting productive credits for activities of the state sector.

III. (Consolidation of the position of Bank Pembangunan Indonesia and of the Development Council as the supreme management institute of Bank Pembangunan Indonesia)

Decision of the Prime Minister of the Republic of Indonesia No. 21/ PM/1966.

By virtue of the said Decision of the Prime Minister of the Republic of Indonesia, as from March 27, 1966, Bank Pembangunan Indonesia was structurally within the jurisdiction of the Ministry of Finance and subordinate to the Development Council.

As from March 27, 1966, according to paragraph 9 of Act No. 21 Prp. of 1960 concerning Bank Pembangunan Indonesia, the Development Council was composed as follows:

- | | | |
|----------------|---|--|
| Chairman | : | The Deputy Prime Minister of Economics, Finance and Development. |
| Vice Chairman: | : | The Minister of Finance. |
| Members | : | 1. The Minister of National Development Planning Affairs. |
| | | 2. The Chairman of the Supreme Audit Council. |
| | | 3. The Governor of Bank Negara Indonesia. |

Dissolution of the Banking Pioneer Corps

Decision of the Deputy Minister of Central Bank Affairs No. Kep.4/ DMUBS/ 66.

The said Decision promulgated the dissolution of the Banking Pioneer Corps and the transfer of its duties to Bank Negara Indonesia Unit II.

Savings deposits with commercial bank exempted from the payment of Stamp Duty

Circular letter of the Director general of Taxation, Head of the Directorate of Indirect Taxes No. BM 3-1-18 of June 17, 1966

The said decision promulgated the dissolution of the Banking Pioneer Corps and the transfer of its duties to Bank Negara Indonesia Unit II.

Saving deposits with commercial banks exempted from the payment of Stamp Duty

Pursuant to the said circular letter of the Director General of Taxation, Head of the Directorate of Indirect Taxes, the commercial banks who were actively engaged in the collection of savings were exempt from the payment of Stamp Duty on account of deposits and withdrawals of savings registered in the savings pass-books of their customers.

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Amendment of Act No. 9 of 1966 concerning Indonesia's rejoining the IMF and IBRD

Act No. 2 of 1967 (Official Gazette No. 2 of 1967).

Pursuant to the said Act, article 2 of Act No. 9 of 1966 was amended as follows:

"The approval as mentioned in article 1 would be implemented according to the provisions of the Articles of Agreement of the International Monetary Fund and of the International Bank for Reconstruction and Development, as well as according to the provisions of Resolution No. 21-12 of the International Monetary Fund Resolution No. 223 of the International Bank for Reconstruction and Development, both of which regulate Indonesia's membership".

Foreign capital investment

Act No. 1 of 1967 (Official Gazette No. 2 of 1967).

In this Act, capital is defined as:

- a. foreign exchange which is not a part of Indonesia's official foreign exchange reserves and which will be used for the financing of an enterprise in Indonesia;
- b. equipment of enterprises, inclusive of new foreign enterprises, and material imported into Indonesia, as far as such goods are not financed out of Indonesia's official foreign exchange reserves;
- c. profit shares of enterprises which according to this Act may be transferred to abroad but which are used for the financing of enterprises in Indonesia instead.

Duties of Bank Pembangunan Indonesia

Cabinet Presidium Decision No. 127/U/KEP/5/1967, effective as from May 26, 1967.

In the said Decision, Bank Pembangunan Indonesia was designated as a commercial bank to serve the state/private industrial sector by accepting demand deposits and time deposits and by promoting payments transactions through banks. Moreover, the Bank would grant medium and long-term loans for the state/private industrial sector by means of deposits, the issue of medium and long-term securities and the rendering of services.

Issue of operating permits to foreign banks

Instruction of the Cabinet Presidium No. 31/EK/IN/ 5/1967, effective as from May 27, 1967.

The Minister of Finance and the Governor of Bank Negara Indonesia/ the Central Bank were instructed to immediately issue operating permits to foreign banks engaged in international transactions in Indonesia which were either joint enterprises between foreign banks and national banks or branch offices of existing banks.

Authority of Bank Negara Indonesia/the Central Bank to designate foreign exchange banks

Decision of the Cabinet Presidium No. 128/EK/KEP/5/1967, effective as from May 27, 1967.

Pursuant to the said Decision, in the execution of its authority as contained in paragraph 1 sub paragraph 6 of Act No. 32 of 1964, BNI/ the Central Bank may designate banks other than state banks, as foreign exchange banks.

Amendment of Act No. 21 concerning Bank Pembangunan Indonesia

Instruction of the Cabinet Presidium No. 32/U/IN/5/1967, effective as from May 30, 1967.

The Minister of Finance was instructed to compose, in conjunction with the Governor of Bank Negara Indonesia, a committee for the drafting of a bill on Bank Pembangunan Indonesia to revise the effective Act. The said committee should include members from Bank Pembangunan Indonesia, the Department of Industry and Development and from Economics and Finance. The said committee should complete its assignment within one month by submitting a bill containing a revision of Act No. 21. of 1960.

Committee for the drafting of a bill on Bank Pembangunan Swasta (Private Development Bank)

Instruction of the Cabinet Presidium No. 33/U/IN/57/1967, effective as from May 30, 1967.

Instruction to the Minister of Finance to compose forthwith, in conjunction with the Governor of Bank Negara Indonesia, a committee for the drafting of a bill on Bank Pembangunan Swasta to substitute the effective Act No. 12 of 1962. The said committee should include members from Bank Pembangunan Indonesia as well as from private banks and industry.

Submission of offers or applications for foreign credits

Instruction of the Cabinet Presidium No. 03/EK/IN/1/1967, effective as from January 19, 1967.

The interested Ministers were instructed to pass offers or applications for foreign credits to the Minister in charge of the field of activity or the project concerned for submission to the Committee of Foreign Credit Policy, Bank Negara Indonesia, Djl. Thamrin, Djakarta.

Ministers/Commanders of the Armed Forces should submit their offers or applications through the Staff of Defence and Security. The Presidium Minister of Defence and Security was invited to attend the discussions of the Committee regarding credits for the Armed Forces. The Ministers concerned, including the Ministers/Commanders of the Armed Forces, had to report their credits outstanding as at January 1, 1967, for submission to the Committee not later than the end of February 1967.

Credit policy

Instruction of the Cabinet Presidium No. 10/EK/IN/2/1967, effective as from February 6, 1967.

The Minister of Finance and the Governor of Bank Negara Indonesia were instructed to adhere to Instruction of the Cabinet Presidium No. 15/ EK/IN/11/1966, whereby:

- the monthly interest rate of 6-9 % should be maintained; the order of priority with respect to credits, however, may be modified;
- the sectors in need of credit should be examined;
- the burdensome charges on credits should be abolished;
- the banking service should be improved, the processing of credit applications should be accelerated and the administrative procedure be simplified.

(Note: for interest rates see Instruction of the Cabinet Presidium No. 19/EK/IN/4/1967 of April 5, 1967).

Change in the status of P.N. Pegadaian (Pawnshop) from a state enterprises into a Government Service within the jurisdiction of the Department of Finance

Decision of the President of the Republic of Indonesia No. 76 of 1961, effective as from May 27, 1967.

By virtue of the said Decision, the status of P.N. Pegadaian which pursuant to Decree of the President No. 180 of 1965 was under the aegis of the Central Bank, was changed into a Government Service under the Jurisdiction of the Department of Finance. Financial as well as other matters resulting from the change in status of P.N. Pegadaian would be regulated by the Minister of Finance in conjunction with the Governor of Bank Negara Indonesia/the Central Bank.

Issue of banknotes in denominations of Rp. 500, and Rp.1.000

Decision of the Cabinet Presidium No. 43/EK/KEP/2/1967 effective as from February 10, 1967.

According to the said Presidium Decision, Bank Negara Indonesia was permitted to issue banknotes in denominations of Rp. 500 and Rp. 1,000 as from February 15, 1967, subject to the following conditions:

- the issue of banknotes in denominations of Rp. 500 and Rp. 1,000 should be limited and only be intended to accelerate trade;
- the decision with regard to the design and series of the aforesaid banknotes was left at the discretion of the Governor of Bank Negara Indonesia.