

Bank Indonesia

**Report for the Financial Year
1977/1978**

Bank Indonesia

Head office:

JAKARTA

Representatives:

KUALA LUMPUR

LONDON

NEW YORK

SINGAPORE

TOKYO

Branch offices:

AMBON, BANDA ACEH,

BANDUNG, BANJARMASIN, BENGKULU,

CIREBON, DENPASAR, JAMBI, JAYAPURA,

JEMBER, KEDIRI, KENDARI, KUPANG, MALANG,

MATARAM, MEDAN, MENADO, PADANG, PALEMBANG,

PALU, PEKANBARU, PONTIANAK, SAMARINDA, SEMARANG,

SOLO, SURABAYA, TELUKBETUNG, UJUNG PANDANG, YOGYAKARTA.

Cash offices:

BALI KPAPAN

LHOKSEUMAWE

PEMATANG SIANTAR

PURWOKERTO

SIBOLGA

TEGAL

TERNATE

Position as per end of March 1978.

NOTES, SYMBOLS AND SOURCE OF DATA

- r Revised figures
 - * Provisional figures
 - ** Incomplete figures
(i.e. compiled from incomplete data)
 - ... Data are not available yet
 - Nil or less than the last digit
 - () Partial data
 - x Break in comparability before and after the symbol
 - \$ United States Dollar
- Source of data: Bank Indonesia, unless mentioned otherwise.

INTRODUCTION

In 1977/1978 Indonesia's economy showed a better performance than in the previous year. The growth of the economy as indicated by the rate of increase of Gross Domestic Product (GDP) was slightly higher than in 1976. Despite slower growth in the world economy in 1977, the demand for Indonesia's export commodities remained strong. This development and the Government's measures to encourage exports resulted in a significant surplus in the balance of payments. Consequently, foreign exchange reserves, which started to show a large increase in 1976/1977, continued to rise in 1977/1978. With respect to government finance, an increase in government real expenditures was achieved without jeopardizing monetary stability. The management of budget and credit policy restrained the expansion of the money supply within the planned target. These policies and the maintenance of adequate stocks of essential commodities resulted in a lower rate of inflation.

Although economic conditions in 1977/1978 were generally better, there were some unsatisfactory developments which needed attention and required a solution. Production of foodstuffs continued to lag behind the planned target. Besides, there were indications that the rate of investment was below expectations, and in the absence of a revival of investment, this would unfavorably affect the rate of growth in the future. Considering the sluggishness in the economy of industrial countries since the

second half of 1977, the increase in demand for export commodities of developing countries in 1978 is expected to be less than in the previous year. This development became apparent in the prices of some of Indonesia's export commodities during the last few months of 1977/1978.

To meet the above problems, the Government has adopted several measures in recent years. In 1977/1978 the Government adopted measures to expand credits for small business and provide easier terms for these loans. In order to restrain the domestic cost of production and to stimulate domestic production and exports, lending rates were reduced and importers and exporters of certain commodities were permitted to use usance letters of credits. Furthermore in an effort to increase capital investments, the procedures for obtaining capital investment approvals through the Capital Investment Coordinating Board were improved and the Priority List (DSP) was revised.

In 1977, GDP at constant prices rose by 7.5%, an increase of 0.6 percentage point over the previous year. Almost all sectors of the economy experienced higher value added, reflecting increases in production. A significant rise in production was recorded in the mining and manufacturing sectors. Crude oil production increased by almost 12%, reaching 615 million barrels or 1.7 million barrels per day. Production of other minerals generally increased, notably coal by 36% and bauxite by 17%. In manufacturing, cement production rose by

45% reflecting the beginning of production of the new Nusantara Cement Plant in Cilacap and expanded capacity at the Cibinong Cement Plant. With the completion of PUSRI IV fertilizer plant, Urea fertilizer production increased by 144% to 990 thousand tons. Agricultural production, however, was unsatisfactory. Rice production in 1977 did not increase significantly and only reached 15.9 million tons, as a result of continued pest attacks and unfavorable weather. Since production of rice in the last few years has been below expectations and considering the increase in population, import of rice remained a necessity and reached a record level. Similarly, production of sugar and copra has not been sufficient to meet increased domestic consumption and consequently import of these commodities was required. However, other food crops performed well; production of corn and peanuts both rose by 18%. Due to higher domestic and foreign demand, production of timber also increased considerably. A significant increase in production was also recorded by other export commodities such as palm oil and tobacco, which rose by 14% and 17% respectively.

Indonesia's balance of payments showed a surplus of \$651 million in 1977/1978. It should be added that this figure does not include the increase in net foreign assets of foreign exchange banks which took place during the year. As a consequence of the balance of payments surplus, net foreign exchange reserves of Bank Indonesia amounted to \$ 2,208 million at the end of March 1978.

In 1977/1978 the value of exports rose by 18% to \$ 10,860 million. This increase was attributable to both oil and non-oil exports. The value of oil exports went up by 13% to \$ 7,191 million, as a result of an increase in volume and a price rise effective as of January 1, 1977. It should be added that liquefied natural gas produced by the Badak Plant (East Kalimantan) was exported for the first time in August 1977. Non-oil exports continued to rise to \$ 3,507 million or 22% above previous year. Significant increases in exports were achieved in coffee, tin, timber, tea and palm oil, mainly due to favorable prices in world markets. Besides the increase in prices, the higher export value of coffee and palm oil was also attributable to a higher volume. In addition, Urea fertilizer exports, which started in February 1977, also increased in value. Meanwhile, foreign exchange expenditures for imports and services rose in 1977/1978. Imports increased by 10% to \$ 7,866 million and the deficit in services account rose by 30% to \$ 3,684 million. The increase in imports was attributable to a higher volume of government project imports, and imports of rice (2.5 million tons) and sugar (497 thousand tons). Cement imports, however, decreased considerably as the result of increased domestic production. In the services account there were increases in transfer of profits and interest by non-oil foreign companies and investment income of foreign oil companies. However, the trade and service account showed an improvement as a result of higher exports as mentioned above. The deficit in this ac-

count decreased from \$ 802 million in 1976/1977 to \$ 690 million in 1977/1978.

The capital account showed a surplus of \$ 1,509 million, which was slightly below the previous year's figure. This was caused mainly by the partial prepayment of certain syndicate loans as part of the replacement financing exercise undertaken in order to obtain more favorable terms.

Government budgetary policy in 1977/1978 continued to be directed towards achieving faster economic growth, monetary stability and more equal distribution of income. Actual government budgetary expenditures and receipts increased to Rp 4,306 billion, which was 17% higher than the figure for the previous year. Government saving, defined as the difference between government domestic receipts and government routine expenditures, amounted to Rp 1,387 billion, which was 9% more than the previous year and accounted for 64% of development expenditures. Government expenditures, divided into routine and development expenditures, amounted to Rp 2,149 billion and Rp 2,157 billion so that they increased by 32% and 5%, respectively, over previous year. The higher routine expenditures were largely due to the payment of higher salaries for government employees and military personnel and aid to pensioners, which was intended to improve their living standards. Among the items of development expenditures, there were significant increases in financing for regional activi-

ties conducive to expansion of employment opportunities and more equal distribution of income. Examples of this sort of expenditures were the aid given to villages and provinces, the funds for construction of elementary school buildings and for reafforestation. In addition, measures towards a more equal distribution of income were continued by expanding Mini and Candak Kulak credit programs and the construction of markets for economically weak groups.

Government receipts reached Rp 4,309 billion. This increase was attributable to higher government domestic revenues, while government receipts from foreign project and program aid declined slightly. All sources of domestic revenues showed increases in 1977/1978. Receipts from oil corporation tax, which constituted a large part of domestic revenues (55%), increased by 20%. Other tax revenues also showed significant increases i.e. excise, withholding tax (MPO), non-oil corporation tax and sales tax rose by 39%, 36%, 33% and 25% respectively. The increase in domestic revenues reflects a higher level of production and income, the improvement of the taxation apparatus and the adjustment of tax base for excise to reflect current prices.

Developments in the monetary sector were satisfactory. Total liquidity (i.e. narrowly-defined money supply plus quasi-money) rose by 15% compared with 25% in the previous year, while the money supply increased by 16% compared with

27% in 1976/1977. This had a favorable impact upon the general price level without reducing the rate of economic growth.

The money supply at the end of 1977/1978 reached Rp 2,108 billion, which was Rp 292 billion higher than the previous year. As in the preceding year, the foreign sector had an expansionary effect of Rp 445 billion, reflecting the surplus in the balance of payments. The increase in bank credits to private enterprises and individuals had an expansionary impact of Rp 360 billion, which was slightly higher than in the previous year. Although the actual government budget was balanced in an accounting sense, government expenditures and receipts in 1977/1978 were such that there was a contractionary impact from government sector of Rp 247 billion. Credits extended by banks to government enterprises and institutions had a contractionary effect of Rp 88 billion in 1977/1978 compared with an expansionary effect of Rp 350 billion in 1976/1977. The contractionary effect in 1977/1978 was attributable to the decrease in credits to BULOG and PERTAMINA. Time and savings deposits continued to increase, providing a contractionary impact of Rp 135 billion.

The measures to restrain expansion of credits and other assets of deposit money banks which had been introduced in 1974/1975 were continued in 1977/1978. The ceiling on expansion of credits and other assets of banks for 1977/1978 was set at Rp462 billion or 21 % above the previous

year's figure. By the end of 1977/1978, actual expansion was Rp 381 billion, or 17% below the ceiling. This was a result of the continuation of selective credit policies and limited demand for loans in certain priority sectors.

The low rate of increase of the money supply and government's policy of maintaining adequate stocks of essential foodstuffs, were the main factors behind the decline in the rate of inflation from around 12% in 1976/1977 to 10% in 1977/1978. All groups of commodities included in the computation of the Jakarta cost of living index showed a smaller rate of increases.

As mentioned above, there were indications that capital investment did not materialize as expected. After more stable monetary conditions were achieved, the Government issued measures to encourage capital investment and to provide a better climate for business activities. In the monetary field, one of these measures was a lowering of shortterm and long-term lending rates, effective as of January 1, 1978. Interest rates for many categories of loan were significantly reduced, some by 10.5 percentage points. In addition, other terms on investment were softened by lengthening the duration and grace period of loans. In order to enable banks to reduce their lending rates, Bank Indonesia increased the proportion of a bank loan which is eligible for refinancing and reduced the interest rates on refinancing credits to a maximum of 6% a year. In addition, the reserves requirement, in Rupiah

and foreign exchange, was reduced from 30% to 15% of current liabilities.

In order to encourage production, the economically weak group of businessmen continued to receive special attention. With respect to bank lending, this assistance took the form of expanding Small Investment Credits (KIK) and Permanent Working Capital Credits (KM KP). In 1977/1978 the rates of interest for KIK and KM KP were reduced and their coverage was expanded. KIK and KM KP credits, which were introduced in early 1974, showed a rapid increase. At the end of 1977/1978 the approved KIK applicants amounted to 42 thousand and those of KM KP to 335 thousand.

In order to provide more encouragement for domestic (PMDN) as well as foreign (PMA) capital investments, the Government adopted measures which simplified the procedures for obtaining capital investment approvals and adjusted the Priority List. Since October 1977, the approval for capital investment can be obtained from the Capital Investment Coordinating Board, while previously it was processed by different departments, coordinated by the Capital Investment Coordinating Board. This change in procedures is expected to reduce the time required for obtaining approval. Furthermore, in February 1978 the DSP was revised to allow for shifts in priorities and expansion of activities open to domestic and foreign capital investment.

Corresponding to the above reduction in the lending rates of state banks, the deposit rates of these banks were also revised downward effective as of January 1, 1978. This and the previous (January 1977) reduction of deposit rates led to a mere 9% increase in time deposits in 1977/1978, amounting to Rp 687 billion, compared with a 41% increase in previous year. Meanwhile, TABANAS deposit, where rates were not changed in January 1978, continued to show a considerable increase, i.e. by 37% and amounted to Rp 169 billion at the end of 1977/1978.

The efforts to develop the money market by channelling funds through interbank loans showed satisfactory results. This is indicated by the increased transactions in the money market, which averaged Rp 93 billion per month in 1977/1978 compared with Rp 32 billion in the previous year. Similarly, the capital market began significant activities. P.T. Danareksa whose functions are to purchase stocks from corporations and to divide these into stock certificates of small denomination, bought some shares of Cibinong Cement Corporation and later issued share certificates of Rp 10,000.- denomination. In addition, a small number of Cibinong Cement shares was also traded in the capital market through security brokers.

During the last few years, measures on banking supervision were directed towards three main objectives, i.e. improving the financial condition of banks, reducing the

number of private commercial banks through merger and improving banking activities of the economically weak group. To improve bank's financial condition, the Government set more detailed criteria as a measure of bank condition. Correspondingly, banks which were not considered sound were given an opportunity to adopt measures for improvement until March 31, 1979. After this date special action will be taken on banks which fail to comply. To give more encouragement for merger among private commercial banks, the Government extended the tax deduction allowance for merged banks, and in addition provided greater access to loan refinancing facilities from Bank Indonesia. In order to induce indigenous ownership of banks, banks owned by indigenous Indonesians are also provided with other opportunities such as the possibility of becoming a foreign exchange bank and of opening new branches. Furthermore, several facilities are available to banks participating in developing indigenous business activities, such as larger refinancing facilities from Bank Indonesia.

As the consequent of the lower reserve requirement mentioned above, banks have had large excess reserves. But even in the short-term, the efforts of banks to adjust to the new requirement began to show results. This was indicated by a decline in excess reserves at the end of the reporting year. However, the amount of excess reserves was still large, which implies that they need more time to solve that problem.

From the above description, it can be concluded that despite some weaknesses, which have to be solved, Indonesia's economy in 1977/1978 showed satisfactory progress. As a result, it can be expected that the current achievements provide the basis for further economic growth, more stable monetary condition and a more equal distribution of income.

Governor of Bank Indonesia

RACHMAT SALEH

I. MONETARY DEVELOPMENTS

A. Monetary developments and measures

Since the beginning of PELITA I (First Five Year Development), monetary policy of the Government has constantly been directed towards the target of development plan, while at the same time maintaining internal monetary stability. This policy has been implemented primarily by planning and controlling the growth of domestic liquidity which comprises narrow money (cash and demand deposits) and quasi money (time and savings deposits). Control over the growth of domestic liquidity is exercised through the proper management of government finance and restriction on the growth of bank credit and other domestic assets, taking into account the monetary impact of the balance of payments.

For 1977/1978 total liquidity had been planned to grow at the same rate as in the previous fiscal year, i.e. by 25%, while the actual increase was only 15%. As part of the liquidity control, the maximum growth of total bank credit and other bank assets had also been limited to the previous year's increase of 21%, while the actual increase was 17%. This moderate increase in total liquidity had favourable effects on both price developments and economic growth. The rate of inflation decreased from 12% in 1976/1977 to only 10% in the reporting year, while real economic growth achieved a respectable rate of over 7%.

In spite of the improved economic and monetary situation, there were some indications that investment activities started to slacken. Therefore, the Government introduced a set of important measures at the end of December 1977, which was intended to stimulate the expansion of investment and export activities. The measures consist of a downward revision of lending rates and a relaxation of other lending terms, including Bank Indonesia's lending to banks, a decrease in interest rates on time deposits, an adjustment of the priority scale for various loan categories, a lowering of the minimum reserve requirement and an introduction of Usance L/C's for exports and imports of selected commodities.

The downward adjustment of lending rates and the relaxation of the other terms of lending referred to above) which applies to short term and investment credits, were designed to reduce domestic costs of production. In order to enable banks to charge lower lending rates the cost of loanable funds was correspondingly reduced through a reduction in deposit and discount rates, increased availability of Bank Indonesia's credit to banks and a lower minimum reserve requirement.

The new measures were also designed to expand business opportunities for entrepreneurs belonging to the economically—weak group. This was to be achieved through the improvements made in the terms of Small Investment Credit (KIK), Permanent

Working Capital Credit (KMKP) and several categories of loans to village cooperative units (BUUD/KUD). Furthermore, financial support through the "INPRES Pasar", "Mini Credit" and "Candak Kulak" credit programs has continued to expand.

B. Money supply and factors affecting money supply

At the end of 1977/1978 money supply amounted to Rp 2,108 billion, showing an increase of Rp 292 billion or 16% from its volume at the end of previous year. Compared with a Rp 387 billion or 27% increase during 1976/1977, the rate of increase registered in the reporting year is significantly lower. This is primarily attributable to a substantial reduction in net claims on state enterprises.

Money supply in real terms has shown an increasing trend since the beginning of PELITA 1. During the reporting period it registered an increase of 6%. This indicates a greater public confidence in domestic monetary developments and a wider use of money in economic activities, a phenomenon which has been observed over the last few years.

Some changes in the roles played by factors affecting money supply occurred in 1977/1978. Claims on state enterprises, which were substantially expansionary in previous years, became a contractionary factor in the reporting year. In contrast, the Government Blocked Account in 1977/1978 had an expansionary impact after having

been consistently contractionary in the years before. This account, it should be noted, is kept with Bank Indonesia to record the liability arising from medium-term and long-term syndicated borrowings made by the bank on behalf of the Government to repay PERTAMINA's foreign debts.

As presented in Table 4, expansionary influences on money supply were contributed by net foreign assets (Rp 445 billion), Blocked Account (Rp 149 billion) and net claims on private sector (Rp 360 billion). Contractionary influences came from net claims on Central Government (Rp 247 billion), net claims on state enterprises (Rp 88 billion), time and savings deposits (Rp 135 billion) and net other items (Rp 192 billion).

Net foreign assets in 1977/1978 added Rp 445 billion to money supply, compared with Rp 476 billion in the previous fiscal year. The monetary impact of Blocked Account, which essentially belongs to the external sector, is treated in the present statistics as a separate item. If this item were to be combined with net foreign assets to arrive at the actual impact of the external sector, the total impact of this sector would amount to Rp 594 billion.

Net claims on private enterprises and individuals, as in previous years, remained expansionary as a result of the expansion of bank credit to the private sector. The expansionary effect of Rp 360 billion in the reporting year was Rp 38 billion higher than in 1976/1977. Out of this Rp 360 billion, 31% or. Rp 110 billion represented an increase

in net claims on private sector during the fourth quarter of 1977/1978 (January through March 1978), reflecting the initial impact of the monetary measures taken at the end of December 1977.

Net claims on Central Government was contractionary by Rp 247 billion in 1977/1978. As in the previous year, this contractionary impact resulted from the accelerated increase in domestic revenues as well as from the savings made in some expenditure items.

Net claims on state enterprises had a contractionary impact amounting to Rp 88 billion in 1977/1978, as against an expansionary impact of Rp 350 billion in 1976/1977. This impact mainly reflected a decrease in net credit of Bank Indonesia to BULOG and PERTAMINA, amounting to Rp 66 billion and Rp 56 billion, respectively. The decrease in net claims on PERTAMINA was mainly attributable to a repayment of Rp 86 billion financed by government subsidy.

The volume of time and savings deposit continued to increase in 1977/1978 and had a contractionary effect of Rp 135 billion in 1977/1978. The increase in the reporting period was lower than the Rp 196 billion increase recorded in 1976/1977. This was mainly the result of a reduction in interest rates on time and savings deposits in January 1977 and again on time deposits in January 1978.

C. Prospects for 1978/1979

The monetary policy for 1978/1979 will continue to be geared to the achievement of a 7% to 8% economic growth target, with a rate of price inflation no higher than that achieved in 1977/1978. Consequently, total liquidity is projected to expand at a rate of around 20%, slightly faster than in 1977/1978.

The expansionary impact of the external sector in 1978/1979 is expected to be lower than in the reporting period. This expectation is based on the projection that the balance of payments surplus would not be as large as in 1977/1978, due to a slower increase in demand for oil exports which would not be fully offset by the expected increase in non-oil exports.

With the government budget operation assumed to have a neutral effect and the foreign sector projected to be much less expansionary, bank lending to the business sector is expected to provide the major driving force in stimulating investment and production. The credit expansion will, however, be kept within a limit considered compatible with monetary stability. Consequently, the imposition of credit ceilings is still considered necessary. In the first stage the Government has fixed the maximum expansion, which is about the same in absolute terms as in 1977/1978. In the course of the current year, adjustments will be made as dictated by economic and monetary developments.

TABEL 1 — DOMESTIC LIQUIDITY
(millions of Rupiahs)

End of year ¹⁾ / month	Total Rp	Domestic Liquidity ²⁾				Money Supply ³⁾		Quasi-Money ⁴⁾	
		Changes				Out-		Out-	
		Annual		Quarterly		standing Rp	% of Total	standing Rp	% of Total
		Rp	%	Rp	%				
1969	233,291	107,193	85.0			183,439	78.6	49,852	21.4
1969/1970	265,851	107,371	67.8			210,739	79.3	55,112	20.7
1970	330,405	97,114	41.6			250,284	75.8	80,121	24.2
1970/1971	365,075	99,224	37.3			270,167	74.0	94,908	26.0
1971	468,885	138,180	41.9			320,759	68.4	148,126	31.6
1971/1972	548,067	182,992	50.1			360,251	65.7	187,816	34.3
1972	694,969	226,084	48.2			474,611	68.3	220,358	31.7
1972/1973	768,935	220,868	40.2			530,291	69.0	238,644	31.0
1973	987,438	292,469	42.1			669,003	67.8	318,435	32.2
1973/1974	1,203,331	434,396	56.4			784,288	65.2	419,043	34.8
1974/1975									
June	1,255,487			52,156	4.3	825,657	65.8	429,830	34.2
September	1,373,862			118,375	9.4	873,455	63.6	500,407	36.4
December	1,452,242	464,804	47.1	78,380	5.7	937,524	64.6	514,718	35.4
March	1,584,240	380,909	31.7	131,998	9.9	1,027,092	64.8	557,148	35.2
1975/1976									
June	1,742,544			158,304	10.0	1,116,855	64.1	625,689	35.9
September	1,933,724			191,180	11.0	1,264,331	65.4	669,393	34.6
December	1,978,114	525,872	36.2	44,390	2.3	1,250,094	63.2	728,020	36.8
March	2,262,292	678,052	42.8	284,178	14.4	1,427,919	63.1	834,373	39.9
1976/1977									
June	2,314,236			51,944	2.3	1,432,751	61.9	881,485	38.1
September	2,566,199			251,963	10.9	1,607,519	62.6	958,680	37.4
December	2,631,251	653,137	33.0	65,052	2.5	1,602,959	60.9	1,028,292	39.1
March	2,844,836	582,544	25.8	213,585	8.1	1,815,439	63.7	1,029,397	36.3
1977/1978									
June	3,025,873			181,037	6.4	1,960,762	64.8	1,065,111	35.2
September	3,122,977			97,104	3.2	2,014,293	64.5	1,108,684	35.5
December	3,131,170	499,919	19.0	8,193	0.3	2,006,389	64.1	1,124,781	35.9
March	3,272,292	427,456	15.0	141,122	4.5	2,107,853	64.4	1,164,439	35.6

1) Fiscal year ends March 31.

2) Consists of narrow money and quasi money.

3) Consists of currency and demand deposits.

4) Consists of time and savings deposits as well as foreign exchange deposits held by domestic private sector.

TABLE 2 – MONEY SUPPLY
(millions of Rupiahs)

End of year ¹⁾ /month	Total	Money Supply				Currency		Demand Deposits	
		Changes				Out- standing	% of Total	Out- standing	% of Total
		Annual		Quarterly					
		Rp		Rp	%	Rp	%	Rp	
1969	183,439	69,545	61.1			115,698	63.1	67,741	36.9
1969/1970	210,739	79,889	61.1			126,295	59.9	84,444	40.1
1970	250,284	66,845	36.4			154,618	61.8	95,666	38.2
1970/1971	270,167	59,428	28.2			166,787	61.7	103,380	38.3
1971	320,759	70,475	28.2			199,355	62.2	121,404	37.8
1971/1972	360,251	90,084	33.3			210,275	58.4	149,976	41.6
1972	474,611	153,852	48.0			271,769	57.3	202,842	42.7
1972/1973	530,291	170,040	47.2			291,131	54.9	239,160	45.1
1973	669,003	194,392	41.0			374,968	56.0	294,035	44.0
1973/1974	784,288	253,997	47.9			421,071	53.7	363,217	46.3
1974	937,524	268,521	40.1			494,235	52.7	443,289	47.3
1974/1975	1,027,092	242,804	31.0			538,495	52.4	488,597	47.6
1975/1976									
June	1,116,855			89,763	8.7	548,435	49.1	568,420	50.9
September	1,264,331			147,476	13.2	653,896	51.7	610,435	48.3
December	1,250,094	312,570	33.3	−14,237	−1.1	625,341	50.0	624,753	50.0
March	1,427,919	400,827	39.0	177,825	14.2	659,238	46.2	768,681	53.8
1976/1977									
June	1,432,751			4,832	0.3	679,924	47.5	752,827	52.5
September	1,607,519			174,768	12.2	799,943	49.8	807,576	50.2
December	1,602,959	352,865	28.2	−4,560	−0.3	781,013	48.7	821,946	51.3
March	1,815,439	387,520	27.1	212,480	13.3	853,450	47.0	961,989	53.0
1977/1978									
June	1,960,762			145,323	8.0	924,353	47.1	1,036,409	52.9
September	2,014,293			53,531	2.7	970,905	48.2	1,043,388	51.8
December	2,006,389	403,430	25.2	−7,904	−0.4	979,094	48.8	1,027,295	51.2
March	2,107,853	292,414	16.1	101,464	5.1	1,035,811	49.1	1,072,042	50.9

1) Fiscal year ends March 31.

TABLE 3 — MONEY SUPPLY EXPRESSED IN SEPTEMBER 1966 PRICES

End of year ¹⁾ /month	Money supply (millions of Rp)	Price Index	Money supply expressed in September 1966 prices (millions of Rp)	Index of money supply expressed in September 1966 prices
1969	183,439	575	31,902	212
1969/1970	210,739	614	34,322	228
1970	250,284	626	39,981	266
1970/1971	270,167	662	40,811	271
1971	320,759	642	49,962	332
1971/1972	360,251	668	53,930	358
1972	474,611	807	58,812	391
1972/1973	530,291	806	65,793	437
1973/1974				
June	598,763	871	68,744	457
September	629,155	945	66,577	442
December	669,003	1,028	65,078	432
March	784,288	1,188	66,018	439
1974/1975				
June	825,657	1,251	66,000	438
September	873,455	1,282	68,132	453
December	937,524	1,370	68,432	455
March	1,027,092	1,427	71,976	478
1975/1976				
June	1,116,855	1,465	76,236	506
September	1,264,331	1,545	81,834	544
December	1,250,094	1,640	76,225	506
March	1,427,919	1,709	83,553	555
1976/1977				
June	1,432,751	1,779	80,537	535
September	1,607,519	1,870	85,964	571
December	1,602,959	1,873	85,582	568
March	1,815,439	1,916	94,752	629
1977/1978				
June	1,960,762	1,963	99,886	663
September	2,014,293	2,039	98,788	656
December	2,006,389	2,094	95,816	636
March	2,107,853	2,110	99,898	663

1) Fiscal year ends March 31.

TABLE 4 – FACTORS AFFECTING MONEY SUPPLY
(millions of Rupiahs)

	1974/ 1975	1975	1975/ 1976	1976	1976/ 1977	1977	1 9 7 7				1978	1977/1978	
							I	II	III	IV	I		
Net Foreign Assets	+	1,127	−588,512	−319,659	+345,028	+476,295	+568,455	+135,462	+215,137	+165,194	+52,662	+12,455	+445,448
1. Foreign exchange reserves	−	3,333	−407,271	−150,456	+304,488	+414,085	+511,376	+137,624	+156,679	+129,300	+87,773	−100,132	+273,620
2. Other foreign assets	+	4,460	−181,241	−169,203	+40,540	+62,210	+57,079	−2,162	+58,458	+35,894	−35,111	+112,587	+171,828
Government													
1. Central Government	+	25,010	+162,332	+25,110	−290,126	−340,383	−243,490	+2,350	−129,458	−116,972	−14,993	+14,291	−247,132
2. Claims on official entities and public enterprises ¹⁾	+	309,225	+926,038	+928,439	+401,878	+350,126	−9,762	+76,082	+20,444	+16,716	−135,685	+10,924	−87,601
3. Blocked Account		—	−415,000	−435,250	−51,375	−31,125	+67,289	—	+29,346	−16,303	+54,246	+81,666	+148,955
Claims on private enterprises and individuals	+	238,562	+298,399	+336,965	+361,450	+322,047	+325,578	+75,905	+88,245	+68,022	+93,406	+109,863	+359,536
Time and Savings deposits ²⁾	−	138,105	−213,302	−277,225	−300,272	−195,024	−96,489	−1,105	−35,714	−43,573	−16,097	−39,658	−135,042
Net other items ³⁾	−	193,015	+142,615	+142,447	−113,718	−194,416	−192,568	−76,214	−42,677	−19,553	−41,443	−88,077	−191,750
Money Supply	+	242,804	+312,570	+400,827	+352,865	+387,520	+419,013	+212,480	+145,323	+53,531	−7,904	+101,464	+292,414
− Currency	+	117,424	+131,106	+120,743	+155,672	+194,212	+213,664	+72,437	+70,903	+46,552	+8,189	+56,717	+182,361
− Demand deposits	+	125,380	+181,464	+280,084	+197,193	+193,308	+205,349	+140,043	+74,420	+6,979	−16,093	+44,747	+110,053

1) Offset against BULOG import deposits and aid counterpart funds.

2) Includes foreign currency deposits held by residents.

3) Includes import deposits.

MONEY SUPPLY AND DOMESTIC LIQUIDITY

Billions of
Rupiahs

5,000

4,000

3,400

3,200

3,000

2,800

2,600

2,400

2,200

2,000

1,800

1,600

1,400

1,200

1,000

800

600

400

200

0

1969/70 1970/71 1971/72 1972/73 1973/74 1974/75 1975/76 1976/77 1977/78

Billions of
Rupiahs

120

100

80

60

40

20

0

Money supply expressed in
September 1966 prices

69/70

71/72

73/74

75/76

77/78

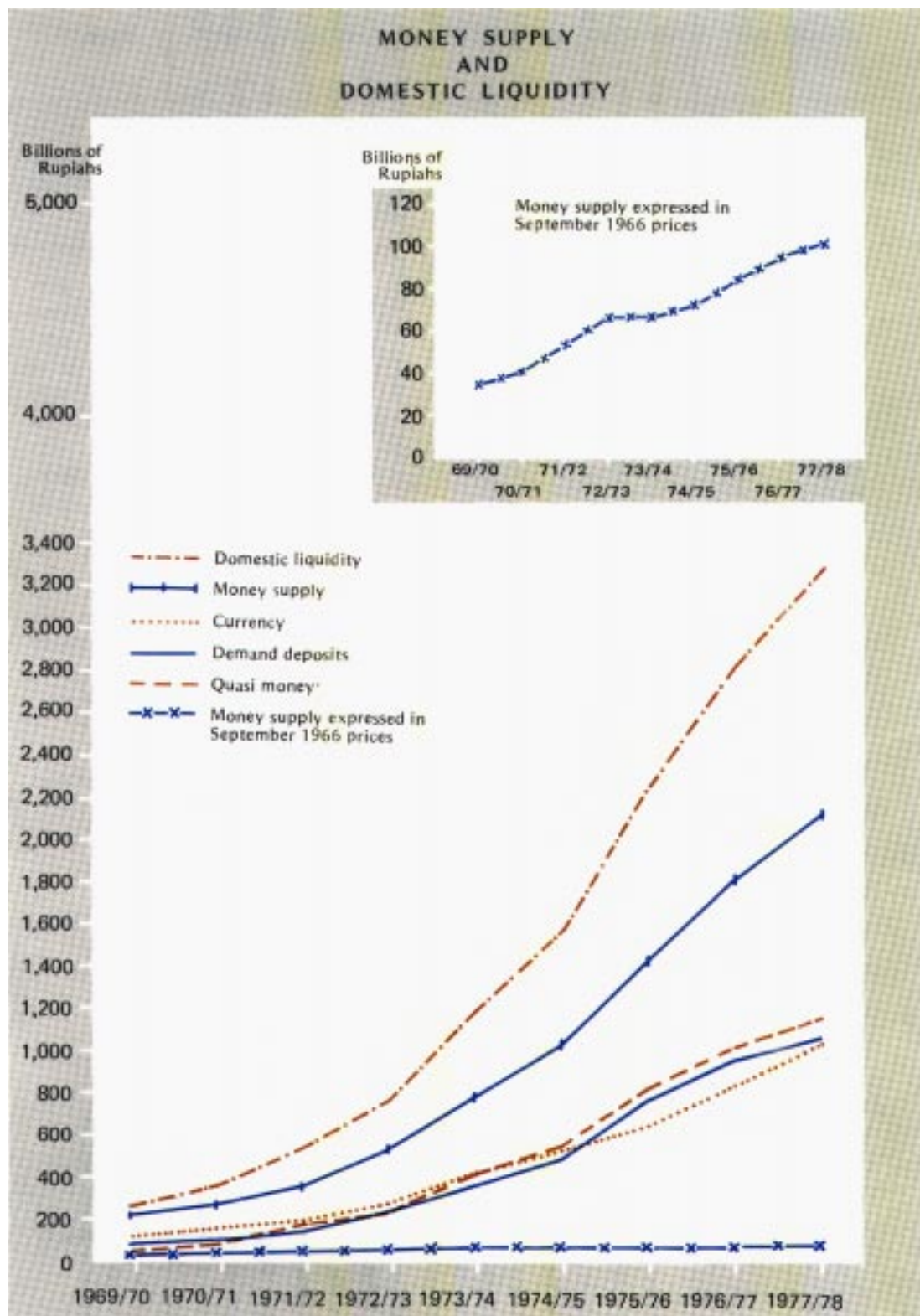
70/71

72/73

74/75

76/77

- Domestic liquidity
- Money supply
- Currency
- Demand deposits
- Quasi money
- Money supply expressed in September 1966 prices



FACTORS AFFECTING MONEY SUPPLY

Billions of
Rupiahs

1,600

1,400

1,200

1,000

800

600

400

200

0

-200

-400

-600

-800

- Central Government
- Claims on official
entities, public &
private enterprises
and individuals
- Net foreign assets
- Time & savings deposits
- Net other items
- Blocked account
- Movement of
money supply

1974/1975

1975/1976

1976/1977

1977/1978

II. BANK CREDIT DEVELOPMENT

A. Credit policy

Continuing the policies of previous years, in 1977/1978 restraints were imposed on credit and other assets of banks and policy was aimed at directing credit into priority sectors. Concurrently, the Government took measures on interest rates and other terms of lending in order to stimulate production through cost reduction and to further support the business activities of the economically-weak group.¹⁾ The measures consisted of a downward revision of bank lending rate, relaxation of terms of Bank Indonesia refinancing credits to banks and extension of repayment and grace periods for investment credits.

Changes in state bank lending rates and in the amount and interest rate of Bank Indonesia refinancing credits are presented in Table 5. The annual interest rates for short-term loans, which were previously in the range of 9% and 24%, were reduced to 9% - 21% effective from January 1, 1978. It should be noted, that the rates applicable to a number of loan categories were significantly reduced, by up to 10.5 percentage points. The interest rates on investment credits, which were already low, were further cut by 1.5 percentage point for categories I, II and IV. The rates of interest on Bank Indonesia refinancing credits for both short-term

and investment credits were also reduced from 3% - 10% to 3% - 6%. Refinancing credits to state banks were expanded and all types of loans were made eligible for refinancing by Bank Indonesia.

In addition to lower interest rates, more generous terms were allowed for repayment and grace periods of investment credits. The repayment period, which was previously not more than 5 years, including 2 years grace, was extended to 10 years including 4 years grace. As well, the maximum amount of loans in categories I, II, III and IV was increased from Rp 25 million, Rp 100 million, Rp 300 million and Rp 1,000 million respectively to Rp 75 million, Rp 200 million, Rp 500 million and Rp 1,500 million, respectively. Investment credit of more than Rp 1,500 million or loans with a repayment period of longer than 10 years, shall be granted only by BAPINDO (the State Development Bank). BAPINDO loans have a maximum repayment period of 15 years including 6 years grace.

The annual rates of interest on KIK and KMKP were brought down from 12% and 15% to 10.5% and 12%, respectively. The decrease was accompanied by a downward adjustment of the interest rates on Bank Indonesia refinancing credits for KIK and KMKP from 4% and 8% to 3% and 4%, respectively. Concurrently, the share of KMKP eligible for refinancing was increased from 70% to 75%. It should be noted, that uniform terms and conditions of KIKs and KMKPs were applied by all handling banks, including national private banks and local development banks.

1) Circular of Bank Indonesia No. SE 10/16/UPK, No. SE 10/17/UPK and No. SE 10/13/UPK, December 30, 1977.

In order to bring down the banks' cost of borrowed funds, the interest rates on time deposits with state banks were decreased along with the lending rates. For the same purpose, the minimum reserve ratio required to be maintained by banks was lowered from 30% to 15% of their current liabilities.

In an effort to increase the roles of private commercial banks and local development banks, the interest rate of refinancing credits to these banks was reduced from 10% to 7.5% per year in February 1978. The aforementioned banks enjoyed the same terms and conditions (i.e. with respect to amount and interest rate) of refinancing credits as the state banks, provided that they applied the state bank rates to their customers.²⁾

As mentioned earlier, the imposition of a ceiling on the expansion of credit and other bank assets was maintained in 1977/1978. The ceiling was initially fixed at 20% above the amount outstanding at the end of the previous financial year. After some adjustments, the ceiling was revised to 21 %, which was well below the 27% set for the preceding financial year.

Meanwhile, the policy of assisting small economically weak businessmen which has been implemented through KIK and KMKP, INPRES Pasar, Mini Credit and Candak Kulak Credit programs was continued and

the procedures, conditions and implementation were improved. Since June 1, 1977, the scope of KIK and KMKP has been extended; thenceforth indigenous professionals, like physicians and lawyers, are also eligible for such credits through all handling banks.³⁾ The KIK and KMKP programs were also expanded through increased participation, of national private banks and local development banks, with recourse to refinancing by Bank Indonesia.⁴⁾ Moreover, measures were taken for extension of loans to the low income group for purchase of low-cost houses.

B. Volume and allocation of credit

At the end of 1977/1978, credit outstanding amounted to Rp 4,094 billion, showing an increase of Rp 377 billion or 10% during 1977/1978, as against 24% or Rp 729 billion in 1976/1977. The smaller percentage increase during the reporting period was largely due to a decrease in Bank Indonesia's direct credits, particularly to PERTAMINA and PN PERTANI. Total bank credits (excluding Bank Indonesia's direct credits) increased by Rp 410 billion or 17% during the reporting period.

The distribution of credit by economic sectors, which includes both short-terms and investment credits, is presented in Table 6. Credit outstanding in the manufacturing, trade, services and agriculture sectors went up by Rp 187 billion (17%), Rp 142 billion

2) Circular of Bank Indonesia No. SE 10/20/UPK, January 20/ 1978.

3) Circular of Bank Indonesia No. SE 10/S/UPK, June 1, 1977.

4) Circular of Bank Indonesia No. SE 10/12/UPK, September 20, 1977.

(18%), Rp 78 billion (29%) and Rp 23 billion (8%), respectively, while total credit extended to the mining sector went down by Rp 55 billion (5%). The increase in credit to the services sector, the largest in percentage, was mainly accounted for by new credits extended to finance telecommunication projects, while the rise in credit to the trade sector mostly represented new credits to exporters and small traders (mainly under the KIK and KMKP schemes). A decrease in PERTAMINA's debt to Bank Indonesia explained most of the decline registered by credit outstanding in the mining sector. The shares of the economic sectors in total credit outstanding at the end of 1977/1978 remained approximately the same as in the previous year, i.e. 31%, 26%, 23%, 9% and 8% respectively for manufacturing, mining, trade, services and agriculture

Of the total credit outstanding on March 31, 1978, Rp 2,979 billion was denominated in Rupiah and Rp 1,115 billion in foreign exchange, each representing 73% and 27% as against 68% and 32% at the end of 1976/1977. Credit to PERTAMINA and Krakatau

Steel accounted for about 92% of credit denominated in foreign exchange and was mostly used for investment purposes.

Out of the Rupiah credit, 80% was short-term and 20% medium-term. Short-term credits were mostly extended for trade and manufacturing, comprising respectively 30% and 24% of the total. In the reporting period, medium-term or investment credit rose by Rp 135 billion or 29%, which was primarily accounted for by an increase in credit extended to the manufacturing, agriculture, trade and services sectors. The following data reveal that 49% of total investment credit outstanding was granted under the Bank Indonesia medium-term credit scheme, 9% under the KIK program, while the rest consisted of other investment credits.

Investment credit extended under the Bank Indonesia scheme continued to increase during the reporting year, both in terms of amount approved and used. On an approval basis, it amounted to Rp 361 billion at the end of March, 1978, showing an

	Investment Credit (millions of Rupiahs)					
	1975/1976	1976/1977	1977/1978			
			I	II	III	IV
1. Investment credit under Bank Indonesia scheme ¹⁾	196,393	262,666	269,206	272,827	278,180	290,327**
2. K I K	25,533	39,605	43,425	46,600	50,462	52,704
3. Others	98,409	157,842	170,684	190,498	220,218	251,617
T o t a l	320,335	460,113	483,315	509,925	548,860	594,628

1) Governed by Bank Indonesia's Announcement No. Peng. 1/DIR/1969, dated March 1, 1969, and Bank Indonesia Circular Letter No. SE 1/170/UPK/KPr, dated March 8, 1969, including supplements and amendments. Includes Rupiah credits for aid-financed projects.

increase of 5% over its previous year's level. The amount used reached Rp 290 billion, indicating a 10% increase from the level at the end of 1976/1977. Out of the increase, Rp 13 billion was accounted for by new credits to the agricultural sector alone, representing a 33% rise in credit outstanding in that sector.

Banks which provide medium-term credits are eligible for Bank Indonesia refinancing. At the end of 1977/1978, refinancing amounting to Rp 248 billion had been approved, covering 69% of the loans approved. As some banks were holding excess reserves, however, the amount drawn by the banks amounted to only Rp 153 billion or 53%.

Government policy to assist economically—weak small businessmen has been pursued by continuing the credit programs under KIK, KMKP, Mini Credit, KCK and INPRES Pasar.

KIK outstanding rose by 33% in the reporting year and reached Rp 53 billion at the end of March 1978. Approvals of loans to 42,163 customers amounted to Rp 79 billion which included Rp 26 billion "Mass" KIK. The figures indicate a Rp 24 billion increase in value and a 11,422 increase in the number of customers.

Similar to KIK, KMKP outstanding continued to rise and reached Rp 65 billion at the end of 1977/1978. A total of Rp 49 billion in new credits was approved during 1977/1978, involving 151,489 customers,

bringing approvals and total number of customers to Rp 124 billion and 335,366, respectively.

In an effort to improve KIK administration, Bank Indonesia and the World Bank entered into a cooperation agreement on the Small Enterprises Development Project for which preparations were commenced in 1975. This project is primarily designed to assist banks in evaluating applications for small loans and in guiding small customers in their fund management. Under the agreement, the World Bank would provide \$ 40 million for research, technical assistance and additional KIK lendings.

In assisting small traders, the Government also implemented the "INPRES Pasar" program which was introduced in 1976. Under this program, investment credit at Government subsidized interest rates was made available to local governments for the construction or renovation of market places (pasar). In 1977/1978, the Government set aside Rp 25 billion for this purpose, which was in addition to the Rp 20 billion authorized in the previous year. The total amount used reached Rp 13 billion in the reporting year.

Good progress was also recorded by the Mini Credit program, which was introduced in 1974/1975. Credit under this scheme amounted to Rp 11.1 billion at the end of 1977/1978, an increase of 35% over the previous year. Out of this amount, Rp 9.3 billion (84%) was for working capital and Rp 1.8 billion (16%) for capital investment. The

amount made available from the government budget for this type of lending increased from Rp 4.2 billion at the end of 1974/1975 to Rp 14.2 billion at the end of 1977/1978.

Credit is also provided under the KCK (Kredit Candak Kulak) program, introduced in 1976/1977, to provide small cost loans to petty traders through BUUDs and KUDs. Loans under the program amounted to Rp 5 billion during 1977/1978, compared with only Rp 0.9 billion during the previous financial year. The area covered by KCK was expanded from 98 kabupatens and kotamadyas in 6 provinces in Java and Bali to 160 kabupatens and kotamadyas in 12 provinces including Sumatera, Sulawesi and West Nusatenggara. The number of BUUDs and KUDs participating increased from 533 to 1,500 at the end of the year under report.

In addition to the above programs, which were designed to assist small business, for the first time loans were made available in 1977/1978 to low income earners in certain occupations, such as government employees and military personnel, for the purchase of low-cost houses. This loan (KPR), which is channelled through Bank Tabungan Negara (the State Savings Bank), supports the Government's lowcost housing program. In line with this program, since January 20, 1978, state banks have also provided loans to contractors for the construction of such houses.⁵⁾

C. Ceillings on increase in net assets of banks

The ceiling on the expansion of credits and other assets of commercial banks for 1977/1978 was initially determined at Rp 438 billion which was a 20% increase over the amount outstanding at the end of March, 1977. Allowing for recent economic developments, the ceiling with respect to national private banks and foreign banks was increased by Rp 24 billion, so that the overall ceiling was Rp 462 billion, a 21% increase. Of this maximum expansion, Rp 186 billion was designated for program loans and Rp 276 billion for non-program loans and other assets. Program lending, which was mostly carried out by the state banks, included all types of credit extended under Government programs such as, KIK and KMKP, investment credit, BIMAS credit and food supply credits.

As in previous years, the actual increase in credit and other assets of commercial banks in 1977/1978 was below the ceiling set for that year, and amounted to Rp 381 billion or 83% of the ceiling. This was higher than in 1975/1976 and 1976/1977, when it was 75% and 80% of the ceiling, respectively. This was attributable to the stimulating measures taken by the Government at the end of December 1977, particularly the downward revision of lending rates and required reserve ratio. Nevertheless, the commercial banks as a whole were not able to reach the ceiling, due to the implementation of a selective credit policy and firmer control over lending operations. Inability of banks to achieve the ceiling was also attributable to larger loan repayments and to a slack demand for credit from certain sectors.

5) Circular of Bank Indonesia No. SE 10/19/UPK, January 20, 1978.

TABLE 5 — STATE BANK LENDING RATES AND REDISCOUNT RATES AND PERCENTAGE OF
REFINANCING FACILITIES PROVIDED BY BANK INDONESIA

	Bank lending rates (Annual)		Rediscount rates (Annual)		Percentage of loan refinancable by Bank Indonesia	
	Effective Jan.1, 1978	Before Jan.1, 1978	Effective Jan.1, 1978	Before Jan.1, 1978	Effective Jan.1, 1978	Before Jan.1, 1978
Short-term Credits						
— <i>Category I</i>						
1. Supply and distribution of rice, paddy & corn by BUUDs/KUDs	9	9	3	3	100	100
— <i>Category II</i>						
2. BIMAS and INMAS credits for rice and secondary crops	12	12	3	3	100	100
3. Collection and distribution of small-holders salt by BUUDs/KUDs and PN Garam and Working Capital Credit for PN Garam	12	12	4	6	75	80
4. Operation of wheat flour mills	12	12	4	6	75	70
5. Export and production of export goods	12	12	4	5	75	70
6. Production, import and distribution of fertilizer and insecticides for use by small-holders	12	12	4	6	75	85-80
7. Aid financed imports and distribution of non food commodities	12	12-18	4	6-10	75	100-50
8. Collection and distribution of agricultural produce, animal husbandry and fishery by BUUDs/KUDs and Cooperatives	12	15	4	10	75	70
9. Smallholders agriculture and handicraft	12	15-18	4	10	75	50-70
10. Smallholders animal husbandry, poultry farming and fishery	12	15-18	4	10	75	50-70
— <i>Category III</i>						
11. Manufacturing and service rendering industries						
a. Rice mills / hullers	13,5	15	6	10	70	70
b. Sugar mills	13,5	15	6	10	70	70
c. Coconut oil and palm oil	13,5	18	6	10	70	50
d. Textile	13,5	15	6	10	70	70
e. Agricultural equipment	13,5	18	6	10	70	50
f. Paper	13,5	18	6	10	70	50
g. Cement	13,5	18	6	10	70	50
h. Public transportation	13,5	15	6	10	70	70
i. Printing and publishing	13,5	18	6	10	70	50
j. Tourism	13,5	24	6	10	70	50
12. Other production activities	13,5	18	6	10	70	50
13. Import and distribution of supervised goods	13,5	18	6	10	70	50
14. Sugar stock	13,5	18	6	10	70	75
15. Domestic trade	13,5	18	6	10	70	50
16. Contractors of DIP, INPRES and local government financed projects and contractors of low-cost housing projects	13,5	21	6	10	70	20
— <i>Category IV</i>						
17. Other contractors	15	21	6	10	60	20
— <i>Category V</i>						
18. Imports and distribution of other import goods	18	24	6	—	40	—
— <i>Category VI</i>						
19. Others, n.i.e.	21	24	6	—	25	—
Investment Credits						
— <i>Category I</i>						
— <i>Category II</i>	10,5	12	3	4	80	80
— <i>Category III</i>	12	12	4	4	75	75
— <i>Category IV</i>	13,5	15	4	6	70	70
— <i>Category V</i>	13,5	15	4	6	65	65
— <i>Category VI</i>	10,5	12	3	4	80	80
— <i>Category VII</i>	12	15	4	8	75	70
Small Investment Credits (KIK)						
Permanent Working Capital Credits (KMKP)						

TABLE 6 – BANK CREDITS IN RUPIAH AND FOREIGN EXCHANGE ¹⁾
(millions of Rupiahs)

	1974/ 1975	1975/ 1976	1976/ 1977	1977/1978			
				I	II	III	IV *
Bank credits	1,756,446	2,988,719	3,717,646	3,826,111	3,918,617	3,942,137	4,094,253
- Agriculture ²⁾	121,284	259,995	285,643	301,100	273,153	269,981	308,838
- Mining ³⁾	99,604	806,615	1,099,261	1,084,254	1,113,877	1,061,734	1,044,591
- Manufacturing ⁴⁾	401,830	780,321	1,070,602	1,099,487	1,088,622	1,156,160	1,257,550
- Trade	613,340	789,822	811,020	853,690	936,238	911,174	953,140
- Service rendering industry	135,232	199,536	271,255	283,968	308,544	319,163	348,761
- Others	385,156	152,430	179,865	203,612	198,183	223,925	181,373
Credits in Rupiah⁵⁾	1,451,662	2,004,550	2,524,384	2,637,808	2,720,320	2,798,116	2,979,093
- Agriculture	121,284	251,787	273,963	289,320	267,688	264,422	308,516
- Mining	13,672	99,047	208,524	192,348	195,092	197,200	187,778
- Manufacturing	401,830	549,496	807,515	838,061	838,562	904,431	1,012,332
- Trade	590,664	766,302	792,720	840,546	922,399	897,699	942,914
- Service rendering industry	135,232	190,249	264,217	277,874	299,616	310,934	346,789
- Others	188,980	147,669	177,445	199,659	196,963	223,430	180,764
Credits in foreign exchange	304,784	984,169	1,193,262	1,188,303	1,198,297	1,144,021	1,115,160
- Agriculture ⁶⁾		8,208	11,680	11,780	5,465	5,559	322
- Mining	85,932	707,568	890,737	891,906	918,785	864,534	856,813
- Manufacturing ⁶⁾		230,825	263,087	261,426	250,060	251,729	245,218
- Trade	22,676	23,520	18,300	13,144	13,839	13,475	10,226
- Service rendering industry ⁶⁾		9,287	7,038	6,094	8,928	8,229	1,972
- Others	196,176	4,761	2,420	3,953	1,220	495	609

- 1) Excludes interbank credits, credit to Government, credits to non-residents and special liquidity credits.
- 2) Processing of agricultural products is classified under "manufacturing", following International Standard Industrial Classification (ISIC) 1968.
- 3) Includes credits to PERTAMINA for financing its foreign debt services.
- 4) Includes credits to PT Krakatau Steel.
- 5) Includes Investment Credits, Small Investment Credits (KIK) and Permanent Working Capital Credits (KMKP). Excludes foreign exchange component of project aid.
- 6) Included in other credits in foreign exchange.

**TABLE 7 — BANK CREDITS IN RUPIAH BY MATURITY
AND ECONOMIC SECTORS**
(millions of Rupiahs)

	1975/ 1976	1976/ 1977	1977/1978			
			I	II	III	IV
Short term credits	1,684,215	2,064,271	2,154,493	2,210,395	2,249,256	2,384,465 ^{*)}
— Agriculture	204,522	219,605	233,846	207,452	201,798	244,477
— Mining	91,292	200,197	183,343	186,037	188,698	178,909
— Manufacturing	394,379	579,984	589,129	576,979	621,135	700,844
— Trade	730,165	752,479	802,233	881,166	855,879	894,614
— Service rendering industry	127,488	139,496	150,132	166,640	165,793	194,720
— Others	136,369	172,510	195,810	192,121	215,953	170,901
Investment credits ¹⁾	320,335	460,113	483,315	509,925	548,860	594,628
— Agriculture	47,265	54,358	55,474	60,236	62,624	64,039
— Mining	7,755	8,328	9,005	9,055	8,502	8,869
— Manufacturing	155,117	227,531	248,932	261,583	283,296	311,488
— Trade	36,137	40,241	38,313	41,233	41,820	48,300
— Service rendering industry	62,761	124,721	127,742	132,976	145,141	152,069
— Others	11,300	4,934	3,849	4,842	7,477	9,863
T o t a l	2,004,550	2,524,384	2,637,808	2,720,320	2,798,116	2,979,093

1) Excludes foreign exchange component of project aid.

**TABLE 8 – INVESTMENT CREDITS BASED ON
BANK INDONESIA REGULATION¹⁾**
(millions of Rupiahs)

	1974/ 1975	1975/ 1976	1976/ 1977	1977 / 1978			
				I	II	III	IV**
Credit outstanding	142,679	196,393	262,666	269,206	272,827	278,180	290,307
1. By economic sectors							
– Agriculture	13,435	29,332	40,804	45,217	49,895	52,072	54,345
– Mining	147	5,143	4,278	3,778	3,778	3,278	3,278
– Manufacturing	72,381	81,860	96,942	100,340	100,264	105,754	112,697
– Service rendering industry	46,672	70,346	110,608	108,800	108,025	106,556	108,865
– Others	10,044	9,712	10,034	11,071	10,865	10,520	11,122
2. By source of funds	142,679	196,393	262,666	269,206	272,827	278,180	290,307
– Bank Indonesia	75,738	104,775	126,378	125,312	155,780	148,290	153,408
– State banks	62,993	87,785	133,140	140,972	116,189	129,033	136,042
– Government Budget ²⁾	3,948	3,833	3,148	2,922	858	857	857
Approved by banks	198,303	269,456	343,244	339,333	343,038	352,324	361,426
1. By economic sectors							
– Agriculture	19,012	35,869	48,348	52,280	59,214	61,824	63,430
– Mining	221	5,154	5,296	5,296	5,296	5,296	5,296
– Manufacturing	99,605	109,557	136,884	137,014	136,746	143,782	149,269
– Service rendering industry	65,916	103,741	137,156	128,655	126,317	125,920	127,403
– Others	13,549	15,135	15,560	16,088	15,465	15,502	16,028
2. By source of funds	198,303	269,456	343,244	339,333	343,038	352,324	361,426
– Bank Indonesia	130,308	179,568	229,970	228,414	236,323	240,302	247,713
– State banks	62,236	84,784	108,097	105,749	104,255	109,600	111,291
– Government Budget ²⁾	5,759	5,104	5,177	5,170	2,460	2,422	2,422

1) Based on Announcement of the Board of Directors of Bank Indonesia No. Peng.1/DIR/1969 dated March 7, 1969. Excludes Small Investment Credits (KIK) and foreign exchange component of project aid. Includes Rupiah cost of project aid.

2) Since 1971 the Government Budget no longer provides Rupiah financing for investment credits.

**TABLE 9 – SMALL INVESTMENT CREDITS (KIK), PERMANENT WORKING
CAPITAL CREDITS (KMKP) AND MINI CREDITS**
(millions of Rupiahs)

	1974/ 1975	1975/ 1976	1976/ 1977	1 9 7 7 / 1 9 7 8			
				I	II	III	IV
I. Small Investment Credits							
— Number of applica- tions approved	11,324	19,804	30,741	33,573	36,347	39,737	42,163
— Value of applications approved	18,768	34,090	55,269	61,453	67,797	74,186	79,249
— Credit outstanding	15,533	25,533	39,605	43,425	46,600	50,462	52,704
II. Permanent Working Capital Credits							
— Number of applica- tions approved	15,769	83,281	183,877	217,927	282,775	322,391	335,366
— Value of applications approved	17,914	40,756	74,786	88,935	101,771	114,990	124,036
— Credit outstanding	13,578	26,671	46,342	52,624	59,047	61,839	65,415
Total I + II							
— Number of applica- tions approved	27,093	103,085	214,618	251,500	319,122	362,128	377,529
— Value of applications approved	36,682	74,846	130,055	150,388	169,568	189,176	203,285
— Credit outstanding	29,111	52,204	85,947	96,049	105,647	112,301	118,119
III. Mini Credits	2,136	5,029	8,192	8,467	9,226	9,700	11,058
— Investment	331	1,063	1,474	1,283	1,458	1,588	1,825
— Working capital short term	1,805	3,966	6,718	7,184	7,768	8,112	9,233

**TABLE 10 – CEILING ON BANK LOANS AND OTHER ASSETS
OF COMMERCIAL BANKS**
(millions of Rupiahs)

	1974/1975	1975/1976	1976/1977	1977/1978
1. State banks				
– Base figure ¹⁾	984,180	1,218,545	1,538,598	1,773,536
– Ceiling	324,720	417,750	416,638	342,500
– Actual	291,237	320,053	320,393	264,039
– Ratio (%)				
– Ceiling/base figure	33.0	34.3	27.1	19.3
– Actual/base figure	29.6	26.3	20.8	14.9
– Actual/ceiling	89.7	76.6	76.9	77.1
2. National private banks				
– Base figure ¹⁾	117,238	135,362	185,614	246,650
– Ceiling	40,000	67,332	69,266	94,681
– Actual	18,124	50,075	61,953	93,807
– Ratio (%)				
– Ceiling/base figure	34.1	49.7	37.3	38.4
– Actual/base figure	15.5	37.0	33.4	38.0
– Actual/ceiling	45.3	74.4	89.4	99.1
3. Foreign banks				
– Base figure ¹⁾	142,043	154,679	161,176	185,357
– Ceiling	21,437	20,284	21,720	24,592
– Actual	12,670	6,497	24,508	23,610
– Ratio (%)				
– Ceiling/base figure	15.1	13.1	13.5	13.3
– Actual/base figure	8.9	4.2	15.2	12.7
– Actual/ceiling	59.1	32.0	112.8	96.0
4. Commercial banks				
– Base figure ¹⁾	1,243,461	1,508,586	1,885,388	2,205,543
– Ceiling	386,157	505,366	507,624	461,773
– Actual	322,031	376,625	406,854	381,456
– Ratio (%)				
– Ceiling/base figure	31.1	33.5	26.9	20.9
– Actual/base figure	25.9	25.0	21.6	17.3
– Actual/ceiling	83.4	74.5	80.1	82.6

1) Bank loans and other assets level at the end of last financial year.

Due to adjustments the base figure at the beginning of a financial year is not necessarily equal to the sum of the base figure and the actual in the preceding year.

III. MOBILIZATION OF FUNDS

Mobilization of private savings is one of the main functions of Bank Indonesia as the Central Bank and to achieve this, Bank Indonesia has taken measures to provide adequate incentive for the public to deposit their savings at banks in the forms of time, savings and other deposits. These measures which were adopted ten years ago, have been continuously adjusted to the changing conditions of the economy. The steps taken in the reporting period reflected a further adjustment to the current economic and monetary developments.

In 1977/1978 a further downward revision of interest rates on INPRES time deposits was made. The new rates, effective since January 1, 1978, were intended to bring down the cost of borrowed funds in line with lower bank lending rates and were designed to lower domestic costs of production. These adjustments took into account the objective of equal income distribution by maintaining the attractive rates for small depositors. It is, inter alia, for this consideration that the relatively high rates for TABANAS and TASKA have been left unchanged.

A new development in 1977/1978 worth noting was the resumption of stock exchange operations, which had virtually been halted since the late fifties. With the reactivation of the stock exchange, another facility was created for the mobilization of funds.

A. Time Deposits

INPRES time deposits, the major deposit liability of the banking system, increased by 9% in 1977/1978 to reach Rp 687 billion (Table 11). The percentage increase fell substantially short of the previous year's rate of 41%, which was mostly attributable to the downward revision of the INPRES deposit rates on January 13, 1977 and on January 1, 1978.¹⁾

Recent changes in deposit rates are set forth in the following table:

Maturity	Since Jan. 1, 1978	Since Jan. 13, 1977	Since Dec. 28, 1974
Less than			
3 months	— ¹⁾	3 %	6 %
3 months	— ¹⁾	6 %	9 %
6 months	6 %	9 %	12 %
12 months	9 %	12 %	15 %
18 months	—	—	21 %
24 months	15 % (up to Rp 2.5 millions) 12 % (excess over Rp 2.5 millions)	18 %	24 %

1) determined by depository banks.

The impact of the repeated rate reductions was reflected in the marginal decrease of 0.7% in total time deposits outstanding in the first quarter of 1978, as compared with a 3.0% increase in the previous corresponding period. The 9% growth in 1977/1978 was mainly accounted for by time deposit of the 24-month maturity which continued to ex-

1) Bank Indonesia Circular Letter No. SE 10/9/UPUM dated January 5, 1978.

pand at a respectable rate despite the decline in deposit rates. This was due to the fact that the interest rate on such deposits was still considered attractive relative to those on other types of deposits. The maturity composition of time deposits outstanding was left virtually unchanged, with the 24-month deposits accounting for 90% of the total.

In an effort to boost time deposits, since the adoption of stabilization measures in April 1974, the Government has been subsidizing interest paid by banks on INPRES time deposits. The subsidy was needed to enable the banks to offer attractive rates to depositors without excessive burden on their part.

As of January 1, 1978, the interest subsidy on 24-month deposits was set at 4.5% for deposits bearing 15.0% interest and 1.5% for deposits bearing 12.0% interest, bringing the interest paid by handling banks to 10.5%. In the reporting period a total of Rp 46 billion was received by handling banks in payment of the subsidy. With the new rates made effective since January 1, 1978, the subsidy payments in the coming years are expected to decline, thus reducing the burden on the Government budget.

B. Certificates of Deposit (CD)

Since their introduction in 1971 through the end of 1975/1976, CD sales by commercial banks showed a gratifying increase. As presented in Table 12, total CDs outstanding grew at an average annual rate of

218% during this period, indicating that it became one of the most attractive types of deposits for the public. However, due to excess liquidity, banks had to restrict their CD operations so that total CDs outstanding fell by 50%²⁾ in 1976/1977. The decline was recorded by state banks, which received continuing inflow of INPRES time deposits.

In contrast to the preceding year, 1977/1978 witnessed a respectable increase of 23% in total CDs outstanding, bringing it to a level of Rp 58 billion at the end of March 1978. The expansion was, however, recorded only by branches of foreign banks in line with their increased needs for funds to finance their lending operations. It should be noted, that the foreign banks' branches, unlike the state banks, are not included in the INPRES time deposit scheme. Furthermore, the rise in the banks' CD operations is attributable to recent declines in time deposit rates which have made CDs more competitive as an alternative investment outlet. In contrast, CDs outstanding at state banks continued to decline, albeit slightly, reflecting the availability of large excess reserves held by these banks.

The maturities of the CDs issued ranged from 1/2 to 12 months, while the annual interest rate ranged from 2.75% to 12.0%. The development of average CD interest rates in 1976/1977 and 1977/1978, weighted by

2) CL)s outstanding at the end of period represents the amount outstanding at the beginning of the period plus the amount sold and less the amount redeemed during the period.

amount issued and maturity period, is given in the following table:

1976/1977	
June	9.8%
September	7.6%
December	7.2%
March	6.9%
1977/1978	
June	5.9%
September	6.7%
December	7.5%
March	5.2%

The above figures show a decreasing trend in average CD interest rates since early 1976/1977, in line with the decline in time and savings deposit rates.

C. TABANAS and TASKA

TABANAS and TASKA schemes, which were introduced on August 20, 1971, continued to show a remarkable performance. The downward adjustment in the savings deposit rate on January 13, 1977, did not seem to have adverse effects on small savers' desire to hold savings deposits. Furthermore, as mentioned earlier, no changes in the rate were made in the reporting period.³⁾

In 1977/1978 TABANAS deposits went up by 37% to Rp169 billion. The number of depositors rose by 6% and reached 7 millions at the end of the financial year. This increase was substantially lower than in

1976/1977, when it grew by 52% or 2 million depositors. The impressive growth registered in 1976/1977 reflected the commencement of a savings program among civil servants.

In spite of the increase in savings deposits, the Government has not slackened its efforts to encourage the savings habit among youngsters, students and scouts under the PERATA P3 program and among civil servants. With respect to civil servants the result has been remarkable. In the reporting period, total savings deposits and the number of depositors increased by 78% and 13%, respectively. In the case of students and scouts, however, even though the total amount deposited remained on the increase, the number of depositors dropped by 6%. This reflects certain administrative charges and the recent introduction of less attractive lottery incentives.

Unlike TABANAS, TASKA savings deposits showed a decreasing trend in both amounts deposited and number of depositors. Total deposits fell by Rp 64 million or 34% and the number of depositors was down by 2,500 or 23%. The downward trend in part resulted from the significant cut in the TASKA deposit rate in January 1977. It is worth adding, however, that a new procedural arrangement has been introduced by the Government, effective as from July 20, 1977, in an effort to encourage TASKA deposits.⁴⁾

3) The present interest rate on TABANAS deposit is 15% for the balance up to Rp 200,000.—and 6% on any amount above Rp 200,000.—

4) Bank Indonesia Circular Letter No. SE 1 0/5/UPUM dated July 20, 1977.

D. Pilgrimage (ONH) Funds

To assist prospective haj pilgrims in providing their pilgrimage payment (ONH) in time, they have for several years been encouraged to make prepayments in full or in instalments at designated state banks. As these prepayments have been an important source of funds for receiving banks, which they could use to finance their lending operations before turning the funds over to the Government, a 3% discount is allowed to the prospective pilgrims making such prepayments. Bank Negara Indonesia 1946, Bank Rakyat Indonesia and Bank Ekspor Impor Indonesia have been designated by the Government to receive such funds, the third having been limited to the Irian Jaya province only.

The amount of ONH for the 1977/1978 was determined at Rp 905 thousand for those travelling by sea and Rp 816 thousand for those travelling by air, each representing a decrease of 2% and 8%, respectively, from the amounts required in the previous year. Total ONH funds in the 1977/1978 pilgrimage season was in the order of Rp 27 billion, collected from 32,468 pilgrims. The figures indicate a 17% increase in the total amount collected and a 28% increase in the number of pilgrims making prepayments, compared with the previous year.

E. Money and capital markets

1. Interbank money market

Since 1974/1975 Bank Indonesia has organized an interbank money market in Jakarta, which was initially intended to assist banks, which were short of funds to meet their clearing obligations. Under the initial arrangement, deficit banks borrowed from the surplus banks on a short term basis (i.e. no longer than 7 days) at a certain rate. However, in its later developments the money market expanded to include not only banks, but also non-bank financial institutions.

In 1977/1978, the total volume of transactions conducted in the money market reached a monthly average of Rp 93 billion, compared with only Rp 32 billion in the previous year. The marked increase reflected the existence of large excess funds with state banks coinciding with a tight cash position experienced by branches of foreign banks and private national banks. It should be noted, that the percentage increase in the volume of money market transactions was substantially higher than the increase in the volume of clearing transactions, i.e. 190% against 24%.

The annual rate of interest in the money market ranged from 5% to 29%, showing a

decrease from the range of 5.5% to 36.0% in the previous year. The decrease was related to the declining deposit rates offered by state banks. The actual rate of interest in the transactions between the state banks and branches of foreign banks ranged from 5% to 8% annually, while the highest interest rates, reaching 24% to 29% annually, occurred among national private banks.

2. Capital market

As mentioned in the last year's annual report, the Government has set up several institutions in an effort to promote the development of a capital market, which included the Capital Market Policy Council, the Capital Market Operation Board (BAPEPAM) and PT Danareksa, a national finance company.

The Capital Market Policy Council, an advisory body, was established to provide guidelines to BAPEPAM for the development of a capital market along the lines desired by the Government. In the reporting period this council ensured that the ban on trading securities outside the stock market (as provided for in the article 7 of Law No. 15, 1952) remained fully in force.⁵⁾ The reaffirmation was intended to support the Government's effort to promote the development of a capital market.

BAPEPAM, which is in charge of directing the operations of the stock market, has been engaged in a series of activities. In the reporting period it completed the assessment of PT Semen Cibinong in connection with the company's intention to sell its shares in the stock market. On the basis of the assessment, PT Semen Cibinong has been allowed a listing and sold a number of its shares in the stock market. Further, BAPEPAM organized a training program on January 10, 1978, for security brokers in an effort to expand their knowledge and skill in security trading.

PT Danareksa was established to encourage the spread of share ownership by purchasing shares offered in the market, against which it issues certificates of a lower nominal value. In the reporting period PT Danareksa purchased a number of PT Semen Cibinong's shares and issued certificates with a nominal value of Rp 10,000. - . By the end of March 1978 the certificates were traded in the market at the price of Rp10,334.— to Rp11,000.—per certificate, after starting with Rp 10,000.— in the first sales.

A small amount of PT Semen Cibinong shares were traded in the stock market through security brokers and recorded a market price ranging from Rp 10,400.—to Rp 11,000.

5) Decree of the Minister of Finance No. 122/KMK/01/1978, dated March 20, 1978.

TABLE 11 — TIME DEPOSITS ¹⁾
(millions of Rupiahs)

		24 months	18 months	12 months	6 months	3 months	less than 3 months	Total
1968	December			2,791	862	775	90	4,518
1969	March			10,835	3,732	1,179	44	16,390
	June			17,589	5,293	1,522	144	24,548
	September			22,144	6,147	1,393	139	29,823
	December			25,128	6,699	1,496	257	33,580
1970	March			29,518	3,607	1,410	297	34,832
	June			30,292	3,832	2,139	267	36,530
	September			33,116	3,970	3,014	545	40,645
	December			38,263	6,824	4,755	587	50,429
1971	March			45,024	6,824	7,356	534	59,738
	June			53,521	8,640	10,242	1,286	73,689
	September			70,251	10,145	9,176	790	90,362
	December			75,514	15,522	12,598	993	104,627
1972	March			82,140	25,580	17,845	551	126,116
	June			89,705	36,086	18,616	754	145,161
	September			101,402	37,058	10,910	802	150,172
	December			107,576	28,699	8,819	731	145,825
1973	March			105,200	32,993	8,483	2,486	149,162
	June			116,666	35,377	8,240	408	160,691
	September			120,339	23,747	5,921	1,689	151,696
	December			129,382	14,162	4,000	1,371	148,915
1974	March			129,722	9,331	3,621	1,229	143,903
	June	87,244	1,713	69,493	10,086	4,087	1,187	173,790
	September	138,004	5,343	50,199	8,430	2,553	1,531	206,060
	December	179,934	8,090	37,226	8,298	3,708	1,385	238,641
1975	March	210,602	10,177	29,637	10,243	5,062	2,828	268,549
	June	250,381	10,370	24,840	11,392	3,081	6,437	306,501
	September	293,781	10,905	26,995	9,895	3,387	363	345,326
	December	335,476	10,281	27,372	9,212	3,630	341	386,312
1976	March	394,169	7,059	29,397	11,524	3,997	363	446,509
	June	430,233	4,588	39,657	19,437	7,094	1,969	502,978
	September	471,197	3,759	47,445	24,115	8,048	1,709	556,273
	December	517,568	3,987	48,500	25,082	14,031	2,544	611,712
1977	March	543,283	3,596	48,540	24,433	9,144	1,534	630,530
	June	554,612	2,645	42,123	31,588	11,785	1,002	643,755
	September	577,807	2,349	33,933	43,486	8,490	592	666,657
	December	604,825	1,896	33,559	40,697	10,041	828	691,846
1978	January	604,420	1,511	32,963	34,524	7,977	118	681,513
	February	609,001	829	33,554	36,151	4,620	43	684,198
	March	615,913	599	34,621	34,308	1,425	52	686,918

1) According to Presidential Decree No. 28/1968.

TABLE 12 – CERTIFICATES OF DEPOSIT OUTSTANDING ¹⁾
(millions of Rupiahs)

	State Banks	Foreign Banks	Total
1971 : March		291	291
June		635	635
September	1,768	472	2,240
December	1,717	394	2,111
1972 : March	1,273	833	2,106
June	6,614	2,537	9,151
September	10,596	6,863	17,459
December	4,960	3,694	8,654
1973 : March	6,201	1,505	7,706
June	7,106	2,495	9,601
September	19,447	10,364	29,811
December	23,381	8,354	31,735
1974 : March	48,608	8,145	56,753
June	68,575	8,909	77,484
September	67,850	9,665	77,515
December	64,732	8,221	72,953
1975 : March	70,056	9,475	79,531
June	76,924	8,082	85,006
September	83,393	10,387	93,780
December	71,117	10,691	81,808
1976 : March	70,020	24,373	94,393
June	51,893	20,101	71,994
September	38,126	20,486	58,612
December	24,883	18,915	43,798
1977 : March	14,540	32,192	46,732
June	14,306	33,314	47,620
September	19,795	20,025	39,820
December	20,802	31,407	52,209
1978 : March	13,686	43,972	57,658

1) i.e. issuance minus redemption.

TABLE 13 – INTEREST/DISCOUNT RATES OF CERTIFICATES OF DEPOSIT
(annual percentage rates)

Maturity	1 9 7 7				1978
	March	June	September	December	March
1 week	5	5	5	5	2,5
2 weeks	3 – 6	3 – 7,5	3 – 7,5	3 – 7,5	2,75 – 5
1 month	3 – 7,6	3 – 7,6	3 – 7,6	3 – 7,6	3 – 6
2 months	6 – 7,56	6 – 7,56	6 – 7,56	6 – 7,56	3,25
3 months	6 – 9	3 – 9,5	3 – 9,5	3 – 9,5	3 – 7
4 months	8,16	8,16	8,16	8,16	3,75
5 months	8,28	8,28	8,28	8,28	4
6 months	6,5 – 11,3	6 – 10,5	6 – 10,5	6 – 10,5	4,25 – 8
9 months	8,76	8,76	8,76	8,76	4,75
12 months	8 – 12	8 – 12	8 – 12	8 – 12	5,25 – 12

TABLE 14 — TABANAS AND TASKA
(millions of Rupiahs)

	TABANAS		TASKA		Total	
	Number of accounts	Out- standing	Number of accounts	Out- standing	Number of accounts	Out- standing
1971 :						
September	232,429	1,197	6,595	6	239,024	1,203
December	867,239	4,992	19,967	36	887,206	5,028
1972 :						
March	1,503,475	11,017	23,648	77	1,527,123	11,094
June	1,963,345	16,606	26,458	127	1,989,803	16,733
September	2,225,832	21,100	26,251	145	2,252,083	21,245
December	2,389,105	25,680	17,876	99	2,406,981	25,779
1973 :						
March	2,560,275	30,373	14,991	86	2,575,266	30,459
June	2,715,525	30,107	13,437	92	2,728,962	30,199
September	2,813,561	30,514	12,790	96	2,826,351	30,610
December	2,870,603	32,465	11,782	84	2,882,385	32,549
1974 :						
March	3,019,497	36,777	11,135	78	3,030,632	36,885
June	3,187,563	37,038	9,827	83	3,197,390	37,121
September	3,359,453	40,024	9,055	92	3,368,508	40,116
December	3,450,148	43,984	8,755	74	3,458,903	44,058
1975 :						
March	3,649,896	54,205	8,658	84	3,658,554	54,289
June	3,839,773	57,544	8,355	94	3,848,128	57,638
September	3,987,346	63,044	9,200	112	3,996,546	63,156
December	4,110,872	70,131	9,349	114	4,120,221	70,245
1976 :						
March	4,325,387	81,873	10,288	127	4,335,675	82,000
June	4,663,625	90,225	10,628	151	4,674,253	90,376
September	5,171,102	98,672	11,101	157	5,182,203	98,829
December	5,429,981	109,147	10,836	158	5,440,817	109,305
1977 :						
March	6,566,385	123,117	10,402	188	6,576,787	123,305
June	6,695,269	135,643	9,060	158	6,704,329	135,801
September	6,871,073	143,474	8,727	151	6,879,800	143,625
December	6,864,401	153,592	8,735	138	6,873,136	153,730
1978 :						
March	6,960,491	169,274	7,911	123	6,968,402	169,397

IV. BANKING AND OTHER FINANCIAL INSTITUTIONS

A. Banking

1. Policy on banking supervision

For the past few years, the policy on banking supervision has been aimed at three major objectives, i.e. to promote a sound condition of banks, to reduce the number of national private banks through mergers and to promote indigenous enterprises and indigenous participation in the ownership of banks.

These objectives are reflected in a number of banking regulations issued by the Central Bank. Principal measures taken in 1977/1970 included the introduction of criteria for determining the soundness of a bank, measures to improve the efficiency of state banks and new conditions and requirements for dealing in foreign exchange, for establishing a branch office and for obtaining refinancing credit from Bank Indonesia.

Meanwhile, as a continuation of efforts to supervise rural banks in accordance with the law, in September 1977 Bank Indonesia transferred the supervision of those banks to Bank Rakyat Indonesia, while Bank Indonesia maintains the authority to issue rules and regulation.

For the first time in the history of Indonesia's national banking system, an adjustment was made in the level of re-

serve requirement to be maintained by banks. This adjustment was one part of the policy package announced at the end of December 1977, reflecting an adaptation to current economic and monetary developments and was intended to reduce the cost of bank funds. The major points in the new provisions included.¹⁾

- a. The minimum level of reserves legally required to be maintained by banks against their current liabilities, in Rupiah or foreign exchange, was decreased from 30% to 15% of the total current liabilities.
- b. In line with the reduction in the required reserve ratio, an adjustment was made in the portion of time and savings deposits which was subject to reserve requirement.
- c. The minimum required deposit to be maintained with Bank Indonesia was decreased from 10% to 5% of total current liabilities.
- d. The amount of foreign exchange reserves required to be deposited with Bank Indonesia against current liabilities in foreign exchange was reduced from 10% to 5% of total current liabilities to residents and from 30% to 15% of total current liabilities to

1) Decision of Bank Indonesia Board of Directors No. 10/108/Kep/Dir/UPPB and No. 10/109/Kep/Dir/UPPB and Bank Indonesia Circular Letter No. SE 10/12/UPPB and No. SE 10/13/UPPB, all dated December 30, 1977.

non-residents. Current liabilities to residents include all such liabilities in foreign exchange plus Rupiah import deposits, while current liabilities to non-residents include all such liabilities both in Rupiah and foreign exchange.

In line with the above changes in reserve requirement, Bank Indonesia also adjusted the interest rate on Rupiah or foreign exchange excess reserves deposited with Bank Indonesia. The payment of interest on these excess deposits up to 10% of total current liabilities was introduced in 1974 to compensate banks experiencing excess liquidity as the consequence of credit restriction imposed. Under the new provisions the maximum amount of those excess deposits subject to interest payment was increased to 15% of current liabilities and its rate reduced from 10% to 6% p.a.²⁾

Improvements were made in the procedure of determining the soundness of a bank, which was introduced in 1975 to promote sound development of banks. These improvements were intended to provide more clear-cut criteria, which are easier for the banks to follow in their efforts to improve their conditions. Under the previous procedure there were only two factors included in the evaluation, namely finan-

cial condition and compliance with banking regulations, while under the new procedure, an evaluation of earning assets was added.³⁾ In addition, a 50%, 20% and 30% weight was assigned to the respective factors, whereas in the previous procedure it was not explicitly stated.

The evaluation of financial condition of a bank covers its liquidity, profitability and solvency, each with a weight of 20%, 16% and 14%, respectively. A separate evaluation is made on earning assets, comprising loans and other earning assets which under the previous procedure was included in evaluation of financial condition. The separate treatment was considered necessary, because of its importance to the success of a bank. The assessment of operating procedures and compliance with banking regulations covers lending procedures, compliance with regular reporting, internal control and control against crossclearing practices.

In addition to the above weights given in evaluating bank condition, there are practices considered strictly prohibited, such as window dressing and “bank-in-bank” practices.

Furthermore, in September 1977 the Government gave an opportunity to banks considered “unsound” or “substandard” to

2) Decision of Bank Indonesia Board of Directors No. 10/129a/Kep/Dir/UPPB and No. 10/129b/Kep/Dir/UPPB and Bank Indonesia Circular Letter No. SE 10/18/UPPB and SE 10/19/UPPB, all dated March 10, 1978.

3) Decision of Bank Indonesia Board of Directors No. 10/63/Kep/Dir/UPPB and Bank Indonesia Circular Letter No. SE 10/S/UPPB, both dated August 31, 1977.

take steps for improvement until March 31, 1979.⁴⁾

After that date special action will be taken for banks failing to comply. In addition, the Government reiterated that no licence will be given for establishing new private national banks

In an effort to maintain strong incentives for mergers among private national banks, the Minister of Finance allowed the sixth extension of the availability of tax exemption facilities for merged banks up to March 31, 1979. No further extension is planned, implying that banks which merge after March 31, 1979, will be subject to general tax laws. The present tax privileges available for merged banks include exemption from corporation tax on profit from revaluation of assets, stamp duty on initial issue of shares to represent merged interest and from tax on interest, dividends and royalties. In addition to tax privileges, merged banks were also provided with additional facilities such as availability of additional Bank Indonesia refinancing credit, and opportunity to open new branches or sub-branches and to choose a domicile in cities, which have been declared as closed for new bank offices.

To support indigenous business activities and indigenous participation in the

ownership of national private banks, several facilities were provided such as availability of additional Bank Indonesia refinancing credit for national private banks under indigenous ownership engaged in promoting indigenous activities. In addition, indigenous ownership became a requirement for obtaining a licence to operate as a foreign exchange bank and for opening new branch offices.

The amount of refinancing credit available to national private banks and local development banks depends on the banks' soundness, its involvement in promoting indigenous economic activities and its ownership (indigenous or non-indigenous). Those in the "sound" category can obtain a larger amount of refinancing credit than those in the "fairly sound" condition, while those considered as "sub-standard" or "unsound" do not qualify for this facility. Furthermore, banks with indigenous ownership have an opportunity to obtain a larger amount of refinancing credit than those with non-indigenous ownership. Another distinction was made between merged banks and those which are not, the former having an opportunity to obtain a larger amount of refinancing credit than the latter. Among banks with indigenous ownership, a further distinction was made between those already engaged in promoting indigenous clients and those which are not. Banks which participate in promoting indigenous clients can obtain a larger amount of refinancing credit, which include refinancing of their medium-term lendings to indigenous cli-

4) Government policy on regulation of national private banks, dated September 20, 1977 and Bank Indonesia Circular Letter No. SE 10/S/UPPB dated September 20, 1977.

ents (including KIK and KMKP) up to the amount of their paid up capital. It should be added, that emergency credits are also available to banks in “sound” and “fairly sound” categories, whenever they encounter liquidity problems up to an amount equal to their respective paid-up capital.⁵⁾

In an effort to improve the efficiency of state banks, operating guidelines were prepared for each state bank covering accounting, auditing, loan procedure, foreign relation and personnel. For this purpose a working team was formed at each state bank and Bank Indonesia assisted in providing expert services and sending bank officers abroad for training.

The regulation on the licensing of foreign exchange banks was improved during the year under report.⁶⁾ The new regulation requires that the following conditions be met before a bank can operate as a foreign exchange bank:

- a. have been in operation at least five years after obtaining the licence to operate as a commercial bank from the Minister of Finance;
- b. be categorized as indigenously owned and at least 50% of its shares is stated in the statute as indigenously owned;

- c. be considered as “sound” at least during the last three years;
- d. be willing to increase their capital at least twice the amount paid up at the date of application for the licence with a minimum of 10% of the total paid-up capital of all national private banks;⁷⁾
- e. have been merged with at least six other banks for a bank which has branch offices and with no less than seven other banks for a bank which has no branch offices;
- f. have total assets amounting to not less than 5% of total assets of all national private banks in Indonesia during the last six months;
- g. agree to offer its shares to the public through the stock exchange;
- h. have branch offices in not less than four provinces, two of which are located outside Jawa.

Meanwhile, new provisions were also issued on the conditions for establishing a new branch office, which were also designed to encourage mergers, to improve the soundness of banks, to foster indigenous ownership of private national banks and to disperse bank offices more evenly over the country.⁸⁾ In addition, conditions were stipulated on banks organization, capital and management.

5) Decision of Bank Indonesia Board of Directors No. 10/70/Kep/Dir/UPK and Bank Indonesia Circular Letter No. SE 10/1 2/UPK, both dated September 20, 1977.

6) Decision of Bank Indonesia Board of Directors No. 10/71/Kep/Dir/UPPB and Bank Indonesia Circular Letter No. SE 1 0/6/UPPB, both dated September 20, 1977.

7) At the date of regulation, the minimum amount was fixed at Rp 6 billion, based on the total amount of capital of all national private banks at that date.

8) Decision of the Minister of Finance No. 5/ KMK.06/1978 dated January 4, 1978, and Bank Indonesia Circular Letter No. SE 10/6/UPPB dated February 2, 1978.

Until mid-1977 the supervision of rural banks, which comprise village banks, petty traders' banks and other similar banks was conducted by Bank Indonesia, while according to the law ⁹⁾ it should be done by the Bank Rakyat Indonesia (BRI) with guidelines provided by Bank Indonesia. Meanwhile, BRI has supervised Village Credit Associations (Bank Kredit Desa) which are classified as rural banks. Consequently, in 1977/1978 a new regulation was issued, which provided for the gradual transfer of supervisory authority on rural banks to BRI, which includes supervision on financial condition, ownership, management and procedures. ¹⁰⁾

2. Banking development

At the end of March 1978, there were 99 commercial banks in operation, compared with 101 in the preceding year, while the number of offices went up to 975 from 961. The decrease in the number of commercial banks resulted from a merger of some national private banks, while the rise in the number of bank offices was attributable to newly established offices of state and private national banks. These commercial banks consisted of 5 state banks, 83 national private banks and 10 branches of foreign banks and 1 joint venture bank.

The number of development banks remained at 28, which consist of 1 state de-

velopment bank, 26 local development banks and 1 private development bank. The number of offices of development banks rose from 142 to 152 during 1977/1978, as a result of the establishment of 12 new branch offices and the revocation of operating permit for 2 branches of local development banks.

The revocation of the operating licence of one savings bank brought the number of savings banks to 7, consisting of 1 state savings banks and 6 private savings banks. However, the number of savings bank offices remained 14 at the end of 1977/1978 as a result of the establishment of 1 new branch office of the State Savings Bank.

The number of rural banks, comprising village banks, paddy banks and petty traders' banks increased by 13 to reach a total of 5,928 banks at the end of the year under report. This increase reflected the 25 rural bank permits issued by the Minister of Finance and 12 permits revoked during the year.

It is worth mentioning that since August 1972 an opportunity has been opened for foreign banks to establish representative offices in Indonesia, which act as intermediaries between their offices abroad and their clients in Indonesia ¹¹⁾ In 1977/1978 the number of representative offices rose by 4 to reach 47 offices.

9) Law No. 21/1968 on Bank Rakyat Indonesia.

10) Decision of Bank Indonesia Board of Directors No 10/51/Kep/Dir/UPPB and Bank Indonesia Circular Letter No. SE 10/3/UPPB, both dated July 18, 1977.

11) Bank Indonesia circular letter No. SE 5/81/UPPB/PbB dated August 16, 1972 and Government Regulation No. 3/1968.

The performance of deposit money banks, which include commercial banks and development banks, can be measured by the development of total assets, funds acquired and credit outstanding. During the year under report these variables rose by 10%, 11 % and 17%, respectively, to reach

Rp 3,991 billion, Rp 2,631 billion and Rp 2,891 billion. The relative position of national private banks and branches of foreign banks showed a significant increase during 1977/1978, which is evident from their respective shares of the above variables as presented below (in percentage):

Group of Banks	Total Assets		Funds		Loans	
	1976/1977	1977/1978	1976/1977	1977/1978	1976/1977	1977/1978
State Banks	82.0	78.8	78.9	76.9	85.0	82.8
National Private Banks	9.7	12.1	11.0	13.1	8.6	10.0
Branches of Foreign Banks	8.3	9.1	10.1	10.0	6.4	7.2

The increased role of national private banks has been the result of government efforts to promote a sound development of such banks through the improvement in their condition and reduction in their number. The role of state banks as measured by the above variables, showed a slight decline, even though they still commanded an overwhelming share of Indonesian banking business.

Following the downward revision of bank reserve requirement, effective as of January 1, 1978, commercial banks have made a relatively quick adjustment in their reserve position. The monthly average Rupiah reserve positions of state banks, national private banks and branches of foreign banks during January—March 1978 were 22%, 42% and 20% of total current liabilities; respectively, compared with 34%, 46% and 31 %, respectively, during April— December 1977. Average reserve position of all banks was 25% dur-

ing January—March 1978 as against 35% during April—December 1977. The quick adjustment in the commercial banks' portfolio is more apparent, if reserve positions of the above groups of banks at the end of March 1978, which were 20%, 41 % and 14% respectively, are compared with the reserve positions at the end of December 1977, which were 34%, 48% and 29% respectively. The significant decline in reserve position during the 3- month period demonstrated a remarkable flexibility of commercial banks to a change in reserve requirement. Notwithstanding, excess reserves at the end of 1977/1978 were still large, i.e. Rp 139 billion or 7% of total current liabilities. More time will therefore be needed for the adjustment to be fully worked out.

In response to the reduction of required deposits with Bank Indonesia, commercial banks also reduced their deposits with Bank Indonesia. However, at the end of

1977/1978 total deposits for all banks were still above the amount required, on which Bank Indonesia paid a 6% interest. In 1977/1978 Bank Indonesia paid Rp 16.6 billion interest on these deposits.

More detailed figures on banking sector are presented in Tables 15 through 18.

B. Other financial institutions

1. Non-bank financial institutions

The number of non-bank financial institutions remained the same as in the previous year (12), consisting of 10 investment-type and two development type financial institutions. The functions of these non-bank financial institutions are essentially to acquire funds through issuance of securities for financing business enterprises and to act as intermediaries and underwriters in security issues. Development-type financial institutions channel funds to business enterprises mainly by extending medium and long-term loans and purchasing commercial paper issued by these enterprises, while investment-type financial institutions invest only in securities and commercial paper.

The volume of business of non-bank financial institutions as measured by the total funds acquired and invested, increased by 33% and 35% to reach Rp 136 billion and Rp 132 billion, respectively. The increase in investment was mainly loans extended and commercial

paper acquired, which rose by 53% and 38% respectively, while the increase in funds collected attributable to the issuance of commercial paper rose by 94%.

The activities of investment-type institutions were still limited to investment in short-term paper, while development-type institutions were engaged mainly in making medium and longterm loans for financing investment projects. In 1977/1978 total loans extended by development-type institutions increased by 54% compared with only 27% in 1976/1977. Total funds collected and commercial paper acquired by investment-type institutions rose by 42% and 96% respectively in 1977/1978.

2. Pawnshops

Pawnshops, another type of nonbank financial institutions, still play an important role in meeting contingencies of the low income group for cash loans. Simple procedure and convenience are two major factors making these institutions more popular among the low income group, although they have to pay a fairly high interest rate.

At the end of 1977 the number of government pawnshop offices remained the same as in the year before, i.e. 441 offices, which were scattered all over the country. Total loans extended in 1977 were 21% higher than in 1976.

Pawns redeemed reached a value of

Rp 44 billion, showing a 25% increase over the previous year. At the end of 1977 total loans outstanding amounted to Rp 13 billion, up by 16% from the amount outstand-

ing at the end of 1976. The increase was significantly lower than the previous year (32%), which was largely due to increased pawns redemptions. The lending activities

	1971	1972	1973	1974	1975	1976	1977
Number of offices	437	437	437	440	441	441	441
Total loans extended (million Rupiahs)	9,481	11,880	16,444	23,345	30,893	37,970	45,723
Redemption (million Rupiahs)	8,732	11,089	15,214	21,446	28,972	35,265	43,937
Loans outstanding (million Rupiahs)	2,623	3,414	4,644	6,543	8,464	11,169	12,955

Source : Pawnshop Service

of pawnshops are as follows:

3. Credit insurance

Small enterprises have difficulty in obtaining bank loans mainly because of their inability to provide adequate collateral. The banks for their part, are reluctant to extend credits, when the prospective borrowers are unable to provide collateral, because of the risk of default.

To overcome the situation, in 1971 the Government set up PT Asuransi Kredit Indonesia (PT ASKRINDO), which provides security for bank credits, particularly those granted to small businessmen. For that purpose, insurance policies are to be concluded between the lending banks and PT ASKRINDO, under which the risk of loss from default is transferred from the former to the latter.

The credit insurance is subject to cer-

tain conditions determined by PT ASKRINDO, including the amount of premium. In order to encourage bank lending under the KIK and KMKP schemes, PT ASKRINDO has been required by the Government to provide insurance cover for any KIK and KMKP extended by banks. The insurance premium, applicable to those particular credits was set at 3%, which was to be paid by lending banks and Bank Indonesia in proportion to their respective shares in the credits financed.

In 1977, PT ASKRINDO insured bank loans amounting to Rp 67 billion, received by 107 thousand small-and medium scale enterprises in various industries. Since the inception of PT ASKRINDO, the number of debtors insured reached 450 thousand covering Rp 219 billion Development of bank loans insured by PT ASKRINDO by economic sectors, is presented below (value in billions of Rupiahs and debtors thousands):

Economic Sectors	1972 – 1975		1976		1977	
	No. of Debtors	Value	No. of Debtors	Value	No. of Debtors	Value
1. Agriculture	69,7	14,2	69,7	17,7	40,5	15,4
2. Industry	10,3	13,4	5,0	7,5	3,7	5,7
3. Trade	64,3	31,0	33,6	27,6	32,9	28,9
4. Services	10,3	15,2	6,9	12,8	6,8	11,5
5. Others	53,1	8,0	24,3	5,1	22,8	5,0
T o t a l	207,7	81,8	139,5	70,7	106,7	66,5

Source : PT ASKRINDO

**TABLE 15 — NUMBER OF BANKS AND THEIR OFFICES
IN INDONESIA ¹⁾**

	March 1977	1977/1978		March 1978
	Number of banks/offices	Established	Licences revoked	Number of banks/offices
Commercial banks				
State banks				
— Number of banks	5	—	—	5
— Number of offices	679	7	1	685
National private banks				
— Number of banks	85	1	3	83
— Number of offices	261	10	1	270
Foreign banks				
— Number of banks	11	—	—	11
— Number of offices	21	—	1	20
Development banks				
State development banks				
— Number of banks	1	—	—	1
— Number of offices	11	—	—	11
Local development banks				
— Number of banks	26	—	—	26
— Number of offices	130	12	2	140
Private development banks				
— Number of banks	1	—	—	1
— Number of offices	1	—	—	1
Savings banks				
State savings banks				
— Number of banks	1	—	—	1
— Number of offices	7	1	—	8
Private savings banks				
— Number of banks	7	—	1	6
— Number of offices	7	—	1	6
Number of commercial banks, development banks and Savings banks				
— Number of banks	137	1	4	134
— Number of offices	1,117	30	6	1,141
Rural banks				
— Village banks	3,566	14	6	3,574
— Paddy banks	2,208	—	6	2,202
— Petty traders' banks	141	11	—	152
Total number of offices	7,032	55	18	7,069

1) Excludes representative offices.

TABLE 16 - CONSOLIDATED BALANCE SHEET OF DEPOSIT MONEY BANKS
MARCH 1977 - MARCH 1978
(millions of Rupiahs)

	March 1977				March 1978			
	State Banks	National Private Banks	Foreign Banks	Total	State Banks	National Private Banks	Foreign Banks	Total
Assets								
- Cash in hand	55,528	30,382	2,475	88,385	58,825	36,534	3,617	98,976
- Bank Indonesia	480,758	56,083	45,876	582,717	260,473	67,240	30,342	358,055
- Securities	29	41	—	70	29	143	—	172
- Domestic drafts	21,403	6,467	11,369	39,239	25,816	9,650	9,809	45,275
- Loans outstanding	1,870,699 ^r	210,886	99,369	2,180,954 ^r	2,203,843 [*]	285,712	144,050	2,633,605 [*]
- Foreign exchange assets								
- Loans	239,705	1,859	60,971	302,535	192,197	3,101	63,063	258,361
- Others	209,775	16,859	69,886	296,520	275,373	24,889	101,401	401,663
- Participation	6,684	1,901	—	8,585	7,777	1,959	—	9,736
- Premises, furniture and fixtures	28,840	20,805	6,372	56,017	31,966	26,433	6,390	64,789
- Other assets	62,975	8,024	4,691	75,690	87,477	29,729	3,083	120,289
T o t a l	2,976,396 ^r	353,307	301,009	3,630,712 ^r	3,143,776 [*]	485,390	361,755	3,990,921 [*]
Liabilities								
- Paid-up capital	51,317	46,974	12,633	110,924	51,531	59,229	12,581	123,341
- Reserves/Profit & loss account	62,959	14,875	6,417	84,251	164,083	20,769	8,075	192,927
- Borrowings	14,916	2,058	500	17,474	31,524	6,673	—	38,197
- Demand deposits	771,953	156,881	64,937	993,771	795,683	200,718	77,444	1,073,845
- Time and savings deposits	765,317	70,069	61,758	897,144	908,793	95,210	86,156	1,090,159
- Drafts payable	35,150	7,457	1,930	44,537	48,407	10,481	2,644	61,532
- Guarantee deposits	23,039	13,884	2,880	39,803	27,427	17,902	553	45,882
- Foreign exchange liabilities								
- Demand deposits	42,900	1,868	62,909	107,677	51,396	1,204	56,004	108,604
- Time and savings deposits	204,628	6,002	44,601	255,231	156,454	8,358	40,443	205,255
- Borrowings	7,467	1,487	473	9,427	2,698	4,238	472	7,408
- Others	88,749	4,459	37,333	130,541	83,026	8,700	54,341	146,067
- Bank Indonesia	667,862 ^r	11,703	799	680,364 ^r	616,506 [*]	12,603	293	629,402 [*]
- Other liabilities	240,139	15,590	3,839	259,568	206,248	39,305	22,749	268,302
T o t a l	2,976,396 ^r	353,307	301,009	3,630,712 ^r	3,143,776 [*]	485,390	361,755	3,990,921 [*]

TABLE 17 — MONTHLY AVERAGE RUPIAH LIQUIDITY POSITION OF BANKS
1977/1978
(millions of Rupiahs)

	April — December 1977				January — March 1978			
	State Banks 1)	National Private Banks 2)	Foreign Banks	Total	State Banks 1)	National Private Banks 2)	Foreign Banks	Total
Reserves	458,396	101,529	42,298	602,223	318,539	106,298	30,702	455,539
Current liabilities	1,364,508	220,002	136,718	1,721,228	1,442,244	252,008	152,497	1,846,749
Reserves as percentage of current liabilities	33.6%	46.1%	30.9%	35.0%	22.1%	42.2%	20.1%	24.7%
Minimum reserve requirement ³⁾	409,352	66,001	41,015	516,368	216,337	37,801	22,875	277,012
Excess/deficiency	49,044	35,528	1,283	85,855	102,202	68,497	7,827	178,526
Required reserves with Bank Indonesia	136,451	22,000	13,672	172,123	72,112	12,600	7,625	92,337
Reserves with Bank Indonesia	400,105	66,926	38,711	505,742	262,908	69,766	27,454	360,128
Excess/deficiency	263,654	44,926	25,039	333,619	190,796	57,166	19,829	267,791
Excess/deficiency as percentage of current liabilities	19.3%	20.4%	18.3%	19.4%	13.2%	22.7%	13.0%	14.5%

1) Includes BAPINDO.

2) Includes local development banks.

3) 30% of current liabilities by December 31, 1977 and
15% of current liabilities thereafter.

TABLE 18 – RUPIAH LIQUIDITY POSITION OF BANKS
(millions of Rupiahs)

	December 31, 1977				March 31, 1978			
	State Banks ¹⁾	National Private Banks ²⁾	Foreign Banks	Total	State Banks ¹⁾	National Private Banks ²⁾	Foreign Banks	Total
Reserves	475,966	108,529	41,649	626,144	299,232	100,985	21,939	422,156
Current liabilities	1,416,211	228,443	142,324	1,786,978	1,486,378	245,536	153,311	1,885,225
Reserves as percentage of current liabilities	33.6%	47.5%	29.3%	35.0%	20.1%	41.1%	14.3%	22.4%
Minimum reserve requirement ³⁾	424,863	68,533	42,697	536,093	222,957	36,830	22,997	282,784
Excess/deficiency	51,103	39,996	—/— 1,048	90,051	76,275	64,155	—/— 1,058	139,372
Required reserves with Bank Indonesia	141,621	22,844	14,233	178,698	74,319	12,277	7,666	94,262
Reserves with Bank Indonesia	421,756	73,255	38,293	533,304	244,717	64,284	18,323	327,324
Excess/deficiency	280,135	50,411	24,060	354,606	170,398	52,007	10,657	233,062
Excess/deficiency as percentage of current liabilities	19.8%	22.1%	16.9%	19.8%	11.5%	21.2%	7.0%	12.4%

1) Includes BAPINDO

2) Includes local development banks

3) 30% of current liabilities by December 31, 1977 and 15% of current liabilities thereafter.

TABLE 19 — CONSOLIDATED BALANCE SHEET OF NON-BANK FINANCIAL INSTITUTIONS
(millions of Rupiahs)

	1 9 7 7				1 9 7 8		
	March	June	September	December	January	February	March
Current Assets							
Cash and bank	2,385	1,319	1,028	1,214	2,238	1,620	1,579
Call money	463	356	358	1,040	731	558	461
Securities							
— Marketable shares and bonds	12	12	16	23	23	24	77
— Others	66,387	65,290	74,234	83,713	82,558	90,427	95,135
Loans and advances	712	594	827	1,277	1,245	1,166	1,179
Other current assets	8,671	6,982	5,517	6,348	6,389	6,091	6,071
Other Assets							
Securities							
— Non-marketable shares and bonds	1,125	1,322	1,545	1,611	1,747	4,396	4,411
— Others	13,838	13,537	14,720	17,434	19,641	17,173	15,544
Underwriting	—	—	—	—	—	—	—
Loans and advances	7,664	9,073	10,065	10,039	10,698	11,149	11,631
Equity participation	90	107	113	134	134	134	119
Fixed assets	840	841	854	859	923	919	938
Others	2,054	1,359	1,363	1,399	1,521	1,498	1,530
ASSETS = LIABILITIES	104,241	100,792	110,640	125,091	127,848	135,155	138,675
Current Liabilities							
Call money	725	685	845	1,850	2,475	2,475	50
Security issued	34,613	32,251	47,852	51,482	50,467	59,266	66,760
Borrowings	35,484	32,814	19,655	27,278	26,322	24,492	23,331
Other current liabilities	2,148	1,931	2,257	2,510	2,531	2,739	2,051
Other Liabilities							
Securities issued	—	2,796	881	—	351	343	339
Borrowings	9,358	7,812	16,193	17,963	20,962	20,930	20,490
Others	183	225	214	904	909	909	916
Subordinated Loan and Equity							
Subordinated loan	5,426	5,356	5,356	5,771	5,771	5,771	6,388
Paid-in capital	12,146	12,178	12,221	12,391	12,951	12,956	13,171
Reserves	1,783	2,495	2,673	2,300	2,351	2,332	2,140
Retained earnings	2,375	2,249	2,493	2,642	2,758	2,942	3,039

TABLE 20 – INVESTMENT AND SOURCES OF FUNDS
NON-BANK FINANCIAL INSTITUTIONS
(millions of Rupiah)

	March 1977			March 1978		
	Develop- ment type	Invest- ment type	Total	Develop- ment type	Invest- ment type	Total
I. Investment of funds						
— Call money	—	463	463	—	461	461
— Marketable securities	4,636	75,589	80,225	3,410	107,269	110,679
— Time deposits	2,375	5,295	7,670	1,670	1,675	3,345
— Loan outstanding	8,157	219	8,376	12,577	233	12,810
— Shares and bonds	741	396	1,137	1,251	3,237	4,488
— Equity participation	15	75	90	15	104	119
T o t a l	15,924	82,037	97,961	18,923	112,979	131,902
II. Sources of funds						
— Call money	—	725	725	—	50	50
— Securities	850	33,763	34,613	859	66,240	67,099
— Borrowings	6,735	38,107	44,842	9,258	34,563	43,821
— Subordinated loan	1,660	3,766	5,426	2,075	4,313	6,388
— Capital	7,602	8,702	16,304	7,654	10,696	18,350
T o t a l	16,847	85,063	101,910	19,846	115,862	135,708

**TABLE 21 — CONSOLIDATED BALANCE SHEET
OF NON-BANK FINANCIAL INSTITUTIONS**
(millions of Rupiahs)

	March 1977			March 1978		
	Develop- ment type	Invest- ment type	Total	Develop- ment type	Invest- ment type	Total
Current Assets						
Cash and bank	187	2,198	2,385	152	1,427	1,579
Call money	—	463	463	—	461	461
Securities						
— Marketable shares and bonds	—	12	12	—	77	77
— Others	4,636	61,751	66,387	3,283	91,852	95,135
Loans and advances	712	—	712	1,179	—	1,179
Other current assets	2,866	5,805	8,671	2,418	3,653	6,071
Other Assets						
Securities						
— Non-marketable shares and bonds	741	384	1,125	1,251	3,160	4,411
— Others	—	13,838	13,838	127	15,417	15,544
Underwriting	—	—	—	—	—	—
Loans and advances	7,445	219	7,664	11,398	233	11,631
Equity participation	15	75	90	15	104	119
Fixed assets	220	620	840	218	720	938
Others	317	1,737	2,054	282	1,248	1,530
ASSETS = LIABILITIES	17,139	87,102	104,241	20,323	118,352	138,675
Current Liabilities						
Call money	—	725	725	—	50	50
Securities issued	850	33,763	34,613	859	65,901	66,760
Borrowings	280	35,204	35,484	602	22,729	23,331
Other current liabilities	149	1,999	2,148	285	1,766	2,051
Other Liabilities						
Securities issued	—	—	—	—	339	339
Borrowings	6,455	2,903	9,358	8,656	11,834	20,490
Others	143	40	183	192	724	916
Subordinated loan and equity						
Subordinated loan	1,660	3,766	5,426	2,075	4,313	6,388
Paid-in capital	6,500	5,646	12,146	6,500	6,671	13,171
Reserves	669	1,114	1,783	852	1,288	2,140
Retained earnings	433	1,942	2,375	302	2,737	3,039

V. GOVERNMENT FINANCE

A. General

As in the previous years, in 1977/1978, the fourth year of PELITA II (the Second Five Year Development Plan), government budgetary policy remained geared toward achieving the three development objectives i.e. high economic growth, economic and monetary stability and the spreading of development in order to promote social justice. Meanwhile, the Government continued its efforts to enlarge the surplus of current revenues over routine expenditures and thereby reduce the role of external financing in development expenditures.

In 1977/1978 the Budget (planned revenues and expenditures) was balanced at Rp 4,247 billion, which was Rp 563 billion or 15% above the level of expenditures and revenues actually realized in 1976/1977. Actual revenues and expenditures in 1977 / 1978 were approximately 1 % higher than the budgeted amount and 17% above the actual amounts in the previous year. With the inflation rate of 10%, the increase in both real revenues and real expenditures was around 7% in 1977/1978.

As shown in the following table, in 1977/1978 total government revenues, divided into routine and development receipts and total expenditures, divided into routine and

Government Revenues and Expenditures (billions of Rupiahs)						
	1974/1975	1975/1976	1976/1977	1977/1978		1978/1979
	Actual	Actual	Actual	Budget	Actual	Budget
Routine revenue	1,754	2,242	2,906	3,484	3,536	3,970
Routine expenditure	1,016	1,333	1,630	2,079	2,149	2,371
Public saving	738	909	1,276	1,405	1,387	1,599
Development receipt	232	492	784	763	773	856
Total development fund	970	1,401	2,060	2,168	2,160	2,455
Development expenditure	962	1,398	2,054	2,168	2,157	2,455
Surplus (+)/deficit (—)	+ 8	+ 3	+ 6	0	+ 3	0

Source : Department of Finance

development expenditures, amounted to Rp 4,309 billion and Rp 4,306 billion, respectively.

Public saving, which represents the difference between routine revenues and routine expenditures, amounted to Rp 1,387 billion in 1977/1978, showing an increase of 9% compared with the previous year. This significant increase enabled the Gov-

ernment to finance a larger part of development expenditures from domestic sources. In 1977/1978, 64% of total development expenditures was financed by public saving, compared with only 23% in the first year of PELITA I (the First Five Year Development Plan).

For 1978/1979, the last year of PELITA II, a balanced Budget was set at Rp 4,826

billion, which constituted a 12% increase over 1977/ 1978 actual expenditure and revenue levels. Public saving is expected to reach Rp 1,599 billion or 15% higher than in the year under report. Government budgetary policy in 1978/1979 will continue to be based on the principle of the dynamic balanced Budget, and to aim at high economic growth and more even distribution of development benefits.

B. Government revenues

With respect to routine revenues, the Government has been seeking to create a tax climate which is more favorable for economic expansion, particularly through a gradual reduction of the income tax burden on certain preferred economic sectors. Besides, in order to raise larger revenues from domestic sources, the Government in 1977/1978 also took several measures on direct and indirect taxes. The measures on direct taxes include a lowering of the tax burden in the lower income brackets, an adjustment of MPO (i.e. withholding tax) rate for some export commodities and the expansion of the number of taxpayers. The major steps taken on indirect taxes during the year under report were an adjustment of the base prices for levying excises and a rise in tax rate for export of logs.

Total government revenues in 1977/ 1978 reached Rp 4,309 billion, which was 17% higher than in the previous year. It consisted of routine revenues amounting to Rp 3,536 billion and receipts from foreign aid of Rp 773 billion. Routine revenues

increased by 22%, while foreign aid receipts decreased by 1%. The increase in routine revenues was attributable to increases in direct taxes, indirect taxes and non-tax, which contributed Rp 2,511 billion (71%), Rp 881 billion (25%) and Rp 144 billion (4%), respectively, to the total routine revenues in 1977/1978 and increased by 23%, 19% and 21 % respectively, compared with the previous year.

Non-oil direct tax revenues consisting of income tax, corporation tax and withholding tax, amounted to Rp 563 billion, which was 32% higher than in the previous year.

Despite the reduction in income tax burden in several sectors, income tax revenues rose to Rp 105 billion, which was 24% above that in the previous year. This increase was attributable to an expansion of business activities as well as to a larger number of tax payers resulting from better tax apparatus.

As in the previous years, the income tax burden was alleviated by raising the level of non-taxable income and a corresponding upward adjustment in the levels of taxable income, defined as the amount in excess of non-taxable income. The annual non taxable income for a tax payer with a spouse and 3 children was increased from Rp 402,000.- in 1976 to Rp 450,000.- in 1977. The amount of taxable income subject to the lowest income tax rate, i.e. 10%, was also increased from Rp 100,000. to Rp 150,000.-, while the high-

est income tax rate, i.e. 50%, was applied to taxable income above Rp 8.4 million, instead of above Rp 7.5 million in the previous year.

Non oil corporation tax revenue rose to Rp 169 billion which was 33% higher than in the previous year. This was attributable to the progressive expiration of tax holidays accorded to companies under the foreign and domestic capital investment laws. Revenue from withholding tax, the major part of which represented a prepayment of corporation tax, rose by 36% to Rp 202 billion. This increase was partly attributable to the upward revision of withholding tax rates for several commodities such as coffee and logs as well as to the increased trade volume, particularly export and import.

In 1977/1978 oil tax revenues amounted to Rp 1,949 billion or 20% above the previous year. This increase was mainly due to a higher level of production as well as to a 10% increase in oil export prices in January 1977.

Revenue from land tax (IPEDA) increased by 25% to reach Rp 52 billion in 1977/1978. This was made possible by the improved cooperation between Directorate of IPEDA and local governments as well as by increased activities of tax collectors at the "kabupaten", "kotamadya", and "kecamatan" levels. Furthermore, the Government in 1977/1978 introduced an incentive to kabupatens by providing additional subsidy to those achieving their IPEDA tar-

get. It should be noted that IPEDA is a central government tax collected by and allocated to local governments for financing their development activities.

Revenue from other direct taxes, consisting mainly of property tax and tax on interest, dividend and royalties, also showed an increase. In 1977/1978 such revenue amounted to Rp 34 billion or 36% higher than in the preceding year.

Indirect taxes, which include sales tax, sales tax on import, excises and import duties, amounted to Rp 881 billion, an increase of 19% over the preceding year. This increase was lower than in the previous year, which was mainly attributable to smaller increase in revenue from import duties as a result of a shift in import pattern towards more essential goods.

Sales tax revenue amounted to Rp 203 billion or 25% higher than in the previous year. This increase was mainly due to the increased sales volume of companies operating under the domestic as well as foreign capital investment laws and intensified tax collection.

Compared with the preceding year, sales tax on imports showed an increase of 12% and reached Rp 115 billion in 1977/1978. The percentage increase was well below that of the previous year (41%), reflecting the lagged effects of the previous years exemption of commercial vehicles from import sales tax.

In 1977/1978, excise revenue

amounted to Rp 182 billion, an increase of 39% over the previous year. This was mainly the result of the upward adjustment of base prices for levying excises on sugar and tobacco products.

Import duty remained the largest part of indirect taxes, although its share (33%) decreased slightly from the previous year. Revenue from import duty increased by 12% in 1977/1978 and reached Rp 287 billion. However, the increase was lower than that in 1976/1977, attributable to the shifting of imports towards more essential goods subject to lower tariff rates.

In line with the high export performance in 1977/1978, both in volume and value, export tax revenue recorded a remarkable increase of 32% and reached Rp 81 billion. It should be added that in order to stimulate exports, steps were taken in the year under report, such as introduction of Usance L/C, efforts to reduce cost and an adjustment of export tax rates, which are expected to increase export tax revenue in the future.

The subsidy on domestic oil consumption, which was recorded as a negative receipt, was budgeted at Rp 18 billion, while the actual figure reached Rp 65 billion, due to the higher production costs and increased domestic oil consumption. In the year under report this subsidy was no longer classified as negative indirect tax revenue, but included in other routine expenditure.

Other indirect tax revenue, which com-

prised, among others, stamp duties and auction duties, amounted to Rp 13 billion, an increase of 17% over the previous year. This was achieved despite the recent exemption of import duties on agricultural products since April 1976 and reduction of stamp duties on capital and bank loans. This significant increase was due to the expanded business activities, particularly trade.

In 1977/1978 non tax receipts rose to Rp 144 billion or 21% above that in the preceding year. This amount included the 1976/1977 budget surplus of Rp 6 billion and receipts from the contribution for educational development (SPP) collected in 1977 amounting to Rp 18 billion. Profit of public enterprises contributed the largest share in total non tax receipts and increased by 3% in 1977/1978.

In the year under report, receipts from foreign aid, consisting of project aid and program aid, amounted to Rp 773 billion or slightly below the figure realized in the previous year. These receipts supplemented the funds available for development expenditures from public savings. Receipts from project aid showed a decrease of Rp 36 billion, while that from program aid increased by Rp 26 billion.

C. Government expenditures

Since the beginning of PELITA I, government policy has been directed toward expanding the role of development expenditure. This is reflected in the increased

shares of development expenditure in total expenditure, i.e. from 35% in the first year of PELITA I to 50% in 1977/1978.

Government routine and development expenditure amounted to Rp 2,149 billion and Rp 2,157 billion respectively, each increased by 32% and 5% over the preceding year. The increase in routine expenditure was mainly due to a significant rise in personnel expenditure and subsidies to autonomous regions. The increase in development expenditure was mostly used to accelerate regional development, which included the subsidy for the construction of primary school buildings and the subsidy for provincial development.

Personnel expenditure, the biggest routine expenditure item, showed a remarkable increase (40%) compared with the previous year and reached Rp 893 billion. This was due to a rise in minimum salary and adjustment of the officer allowance for civil servants and military personnel and an increase in the pension allowance.

Material expenditure rose to Rp 337 billion, which was 11% higher than in the previous year. The increase was mostly attributable to an increase in expenditure on defence and security as well as on natural disaster relief.

Subsidies to autonomous regions reached a total of Rp 478 billion, an increase of 53% over the preceding year. This increase was due to the increased salaries and allowances for government

officials attached to local administrations. Besides, the recruitment of new physicians, health officers, primary school teachers and the additional expenditures for replacing the SPP, which was abolished on January 1, 1978, also contributed to the increase.

Service on both domestic and foreign debts rose to Rp 228 billion, which was 21% higher than in the previous year, reflecting the increased stream of government debts created stream of reaching maturity.

Other routine expenditures increased by 14% over the previous year to reach Rp 172 billion. These expenditures covered the spending for the general election (Rp 15 billion), the subsidy on domestic oil consumption (Rp 65 billion), subsidy to PERTAMINA (Rp 86 billion) and others (Rp 6 billion).

Total development expenditure amounted to Rp 2,517 billion in 1977/1978 compared with Rp 2,054 billion in 1976/1977. Out of this total, Rp 745 billion was spent by central government departments and institutions, which was Rp 154 billion higher than in 1976/1977, reflecting increased capacity of the departments and institutions to absorb development expenditure.

Total expenditures for regional development, which comprised mainly development subsidies to kabupatens, provinces and aid for primary school development,

increased by 29% and reached Rp 366 billion in 1977/1978. Significant increases were recorded in primary school, provinces, reforestation and village subsidies, which reflected government efforts to spread the benefits of development and to stimulate popular participation in development.

Subsidy for development of villages amounted to Rp 23 billion, an increase of 17% compared with the previous year. This increase was attributable to an increased number of villages eligible for subsidy and a rise in the amount of subsidy from Rp 300 thousand to Rp 350 thousand. This subsidy was given to finance labor intensive projects carried out in villages and intended to stimulate the participation of village communities in their village development.

Subsidies to kabupatens, designed to create and expand employment opportunities through infrastructural projects undertaken by the local government, increased by 11% to reach Rp 69 billion in 1977/1978.

The increase was caused by a rise in the subsidy per capita from Rp 400.— in 1976/1977 to Rp 450.-- in 1977/1978 and in the minimum amount given to each kabupaten, from Rp 30 million to Rp 40 million.

The subsidy to provinces amounted to Rp 75 billion, a 23% increase compared with the previous year, due to a rise in the

minimum subsidy from Rp 1 billion to Rp 1.5 billion in 1977/1978. This amount excluded a subsidy of Rp 5.5 billion for Irian Jaya and Rp 3.5 billion for East Timor.

The subsidy for primary school, which represented the largest category of transfer payments to regional governments, reached Rp 85 billion in 1977/1978. It showed a substantial increase of Rp 28 billion or 48% over the level of 1976/1977, reflecting the increased number of new school buildings, renovation of existing ones, and more adequate provisions of instruction materials and reading books.

A. new improvement in public health care was the introduction of mobile health clinics and the renovation of existing public clinics. These efforts led to a 26% increase in expenditure for public health care, to reach Rp 26 billion in 1977/1978.

Expenditure for reforestation, initiated in 1976/1977 for restoring the critical areas in several kabupatens, amounted to Rp 25 billion, which was 53% higher than in the previous year. This was caused by an extension of the area covered by greening projects from 302 thousand hectares in 1976/1977 to 663 thousand hectares in the reporting period and by reforestation projects from 122 thousand hectares to 203 thousand hectares.

In assisting the economically-weak group, the Government also provides interest subsidy to local governments for the construction and renovation of market

places financed by bank loan known as INPRES Pasar. The total payment of this interest subsidy, which was first made in 1977/1978, amounted to Rp 1.2 billion.

Other development expenditures, which included fertilizer subsidy and capital participation in public enterprises amounted to Rp 309 billion, a decrease of 24% from the previous year. The fer-

tilizer subsidy amounted to Rp 32 billion, which was 70% less than the amount spent in 1976/1977, reflecting the fall in fertilizer imports in 1977/1978. Expenditure on capital participation also showed a decline of 23% to Rp 167 billion. This amount included an appropriation for Mini and KCK credits amounting to Rp 4 billion and Rp 2 billion, respectively.

TABLE 22 – GOVERNMENT REVENUES
(millions of Rupiahs)

	1974/1975	1975/1976	1976/1977	1977/1978		1978/1979
	Actual	Actual	Actual	Original Budget	Actual	Original Budget
I. Routine Revenues	1,753,663	2,241,850	2,905,990	3,484,200	3,535,454	3,970,000
1. Direct taxes	1,228,621	1,592,028	2,046,613	2,497,100	2,511,332	2,808,000
— Income tax	43,257	61,725	84,179	113,900	104,566	138,300
— Corporation tax	91,163	128,136	127,249	165,400	169,532	195,300
— Corporate tax on oil	973,100	1,249,059	1,619,400	1,947,300	1,948,700	2,067,400
— Withholding tax (MPO)	83,265	97,308	148,396	196,400	201,750	312,000
— Land tax (IPEDA)	27,977	34,600	42,150	42,500	52,473	57,500
— Others	9,859	21,200	25,239	31,600	34,311	37,500
2. Indirect taxes	458,397	539,413	740,903	898,200	880,505	1,042,700
— Sales tax	84,899	119,231	162,284	231,400	203,379	259,200
— Sales tax on imports	68,904	72,442	102,241	124,600	114,556	132,100
— Excises	74,402	97,307	130,658	169,900	181,859	225,100
— Import duties	160,635	174,011	257,407	311,000	286,944	326,200
— Export tax	70,300	61,600	61,700	67,000	81,250	82,400
— Net profit from oil	-15,933	-1,078	15,899	-18,200	—	—
— Others	15,190	15,900	10,714	12,500	12,517	17,700
3. Non-tax receipts	66,645	110,409	118,474	88,900	143,617	119,300
II. Development Receipts	232,046	491,639	783,800	763,100	773,368	856,300
1. Program aid	36,146	20,269	10,200	35,600	35,800	45,100
2. Project aid	195,900	471,370	773,600	727,500	737,568	810,200
T o t a l	1,985,709	2,733,489	3,689,790	4,247,300	4,308,822	4,826,300

Source : Department of Finance

TABLE 23 – GOVERNMENT EXPENDITURES
(millions of Rupiah)

	1974/1975	1975/1976	1976/1977	1977/1978		1978/1979
	Actual	Actual	Actual	Original Budget	Actual	Original Budget
I. Routine Expenditures	1,016,112	1,332,572	1,629,759	2,079,400	2,148,856	2,371,600
1. Personnel expenditures	420,124	593,946	636,583	886,900	893,237	1,027,400
– Rice allowances	59,513	111,877	114,853	125,300	126,251	131,200
– Salaries and pensions	301,706	399,977	424,761	670,500	672,886	797,200
– Food allowances	24,422	43,537	45,700	47,900	47,822	51,200
– Other domestic personnel expenditures	24,685	25,821	36,945	28,500	31,504	31,700
– External	9,798	12,734	14,324	14,700	14,774	16,100
2. Material expenditures	175,218	304,862	339,747	345,500	376,829	406,300
– Domestic	158,426	283,120	320,825	327,100	358,614	388,800
– External	16,792	21,742	18,922	18,400	18,215	17,500
3. Subsidies to local governments	201,906	284,454	313,000	460,400	478,355	522,300
– Irian Jaya	14,289	18,700	19,700	21,700	21,700	22,100
– Other local governments	187,617	265,754	293,300	438,700	456,655	500,200
Interest & instalments on debts	73,698	78,510	189,486	230,000	228,264	346,100
– Domestic	6,445	6,800	24,429	8,300	7,344	8,500
– Foreign	67,253	71,710	165,057	221,700	220,920	337,600
5. Others	145,166	70,800	150,943	156,600	172,171	69,500
II. Development Expenditures	961,817	1,397,727	2,054,485	2,167,900	2,156,848	2,454,700
1. Departments/Institutions	221,659	384,896	590,900	800,227	744,535	1,029,800
2. Department of Defence						
3. Regional development	158,279	234,245	285,030	359,724	366,164	424,800
– Subsidies to villages	11,400	15,929	19,794	23,174	23,174	24,000
– Subsidies to kabupaten/kotamadya	42,500	59,072	62,400	69,070	69,070	70,900
– Irian Jaya	4,000	5,500	5,000	5,500	5,500	5,500
– East Timor	—	—	—	3,500	3,500	3,500
– Subsidies to provinces	47,408	54,022	61,500	75,000	75,420	85,700
– IPEDA – rural development	27,977	34,600	42,150	42,500	52,473	57,500
– Primary schools	19,703	49,900	57,325	84,987	84,987	112,300
– "IKPRES Pasar"	—	—	15	5,200	1,247	2,500
– Public health centers	5,291	15,222	20,846	26,293	26,293	26,900
– "IKPRES Penghijauan dan Rehabilitasi"	—	—	16,000	24,500	24,500	36,000
4. Other development expenditures	385,979	307,216	404,955	280,449	308,581	188,900
– Subsidies on fertilizer	227,210	134,500	107,272	36,100	31,841	38,000
– Government capital participation	91,107	108,677	217,911	166,402	166,901	68,600
– Others	67,662	64,039	79,772	77,947	109,839	82,300
5. Project aid	195,900	471,370	773,600	727,500	737,568	811,200
T o t a l	1,977,929	2,730,299	3,684,244	4,247,300	4,305,704	4,826,300

Source : Department of Finance

VI. INTERNATIONAL ECONOMIC AND MONETARY DEVELOPMENTS

A. World economic conditions

World economic growth in 1977, which had been projected to be not less than in 1976, did not materialize as expected. The rate of economic growth in OECD countries was lower than in the preceding year. World economic conditions were still characterized by continuing uncertainty and lack of business confidence as reflected in the rates of inflation and unemployment. Prices continued to increase markedly, while the overall unemployment situation marginally declined. These conditions re-

sulted in a number of countries taking restrictive measures on the free entry of goods.

Growth of real GNP in OECD countries only increased by an average of 3.7% in 1977 compared with 5.4% in 1976 (see figures below). Only two major countries, i.e. the United States and Japan, achieved a growth rate in the order of 5%, while the others, notably the European OECD countries, achieved a rate of only 2% on the average.

In 1977, the overall rate of price increase in the industrial countries was 8.6%, the same as in the preceding year. Two European countries, Italy and United Kingdom,

Gross National Product and Consumer Price Index in OECD Countries ¹⁾

	Gross National Product					Percentage change				
						Consumer Price Index				
	1970–1974 (Average)	1975	1976	1977	1978 ²⁾	1970–1974 (Average)	1975	1976	1977	1978 ²⁾
OECD	3.7	–1.2	5.4	3.7	4.0	7.5	11.4	8.6	8.6	8.0
European OECD	4.0	–1.9	3.7	2.0	2.8	7.2	13.1	10.8	10.7	8.8
United States	2.5	–1.8	6.0	4.9	4.5	6.1	9.2	5.7	6.5	6.3
Japan	7.5	2.1	6.3	5.1	5.7	10.8	11.9	9.3	8.1	5.0
United Kingdom	2.7	–1.8	0.9	0.8	2.9	9.6	24.2	16.6	15.8	7.4
Germany, Fed. Rep. of	3.6	–3.2	5.6	2.5	3.1	5.6	6.0	4.5	3.9	3.5
France	5.3	–1.2	5.2	2.7	3.1	7.7	11.8	9.2	9.5	8.3
Italy	4.0	–3.5	5.6	1.7	2.6	9.1	17.0	16.8	19.3	13.0
Canada	5.0	0.6	4.9	2.6	4.5	5.9	10.8	7.5	8.0	7.5

1) Data for 1976 and earlier years are revised

2) Estimates.

Sources : — OECD Economic Outlook, December 1977
 — IMF documents 1976–1978
 — International Financial Statistics, 1978.

which had a sizable rate of inflation in 1976, did not yet succeed in reducing the rate. In 1977 the two countries recorded inflation rates of 19.3% and 15.8%, respectively.

In addition to low rates of growth and relatively high rates of inflation, the industrial countries were also plagued by a high rate of unemployment in 1977, i.e. 5.1%,

which was approximately the same as in 1976 (5.3%).

In 1977, the growth rate of the United States' economy was lower than in 1976. Real GNP increased by 4.9% compared with 6.0% in 1976. Exports increased by 5% while imports rose by 22% (including oil imports which increased by \$ 10 billion or 18%). This resulted in a \$ 20.2 billion deficit on current account as against only \$1.4 billion in 1976. This phenomenon also caused the deterioration of the US dollar rate vis-a-vis other currencies in international foreign exchange markets. The rate of inflation in 1977 was 6.5% compared with 5.7% in 1976 while the unemployment rate declined from 7.7% in 1976 to 7.0% in 1977.

Among the OECD countries, Japan achieved the highest rate of growth, i.e. 5.1% although this rate was lower than in 1976 (6.3%). Japan's trade balance indicated a surplus of \$ 17.5 billion and was one of the major reasons for the massive appreciation of the yen since early 1977. As a counteraction, the Government intervened in the foreign exchange market, restricted capital inflow and raised the reserve requirement with respect to balances on nonresident accounts. Meanwhile, the 6.3% inflation rate and the unemployment rate of 2.0% were about the same as in the preceding year.

The rate of economic growth in the federal Republic of Germany in 1977 was disappointing. Real GNP increased by 2.5%

as against 5.7% in the preceding year. The surplus on current account amounting to \$ 7.6 billion was approximately equal to that of the previous year. Capital outflow rose to \$ 5.3 billion in 1977, mainly on account of private direct investment. In 1977 the rate of inflation declined somewhat to 3.9% compared with 4.5% in the preceding year, while the rate of unemployment remained at around 4.5%.

With a growth rate of only 0.8%, the United Kingdom was the only OECD country with a practically stagnant GNP in 1977 as well as in 1976. This performance was due to the continuation of policies to curtail the growth of domestic demand so as to bring down the rate of inflation. The policies also succeeded in improving the current account position from a deficit of \$ 1.2 billion and \$ 0.3 billion in 1975 and 1976 respectively, to a surplus of \$ 1.9 billion in 1977. The improvement of the trade balance was followed by a rise in the free market rate of the pound sterling. The rate of inflation in 1977 was 15.8% compared with 16.6% in 1976, while the unemployment rate was 5.8% as against 5.4% in 1976.

Economic growth in France dropped from 5.2% in 1976 to 2.7% in 1977. However, France was successful in reducing the deficit on its current account to an amount of \$1.8 billion which was one third of the preceding year's deficit. This result was attributable to tight money policy and improved competitiveness of French products. On the other hand, the Government

did not succeed in combating inflation, as reflected in the 9.5% inflation rate recorded for 1977. The unemployment rate declined slightly and stood at 4.4% in 1977 as against 5.1% in 1976.

B. International monetary developments

During the year under report, international monetary developments were still gloomy following the recession of 1974 - 1975. On the one hand, Japan and the Federal Republic of Germany in particular had a sizable surplus on current account, while on the other hand, the United States suffered a massive deficit. This situation caused uncertainty in international foreign exchange markets, reflected in the weakening of the US dollar vis-a-vis currencies of other industrial countries.

In order to remedy the situation, concerted action was necessary to restore international trade and monetary equilibrium through the implementation of domestic policy measures, primarily by the major countries. Countries with a strong balance of payments position were expected to take expansionary measures, while countries with a weak balance of payments position were expected to take contractionary measures to adjust their current account balances. It was assumed that a more balanced world economic development would be a solid base for the promotion of world economic growth. Besides, adequate financial resources were also needed to enable the implementation of stabilizing measures by countries with

balance of payments difficulties. Consequently, actions were pursued to improve the international monetary system through the Interim Committee which was established by the International Monetary Fund. The eighth meeting of the Interim Committee held in April 1977 succeeded in solving a number of major issues, such as the creation of a Supplementary Financing Facility (SFF), and procedures for exchange arrangements.

The Supplementary Financing Facility was designed to enable the Fund to provide balance of payments assistance in far larger amounts and subject to a longer term of repayment than was possible under the Fund's existing facilities. Under this facility, 14 donor countries, i.e., 7 industrial and 7 OPEC countries, agreed to lend SDR 8.6 billion in several currencies.

The exchange arrangements would be implemented through the Amendment of the Fund's Articles of Agreement which took effect on April 1, 1978.

The amendment also provided for a decline in the role of gold in the international monetary system, a change in the characteristics of the "Special Drawing Right" (SDR) and an expansion of its possible use.

In line with the efforts of the Interim Committee, the Development Committee (established by IMF and IBRD) appealed to developed countries to accelerate their contributions under the \$ 7.6 billion IDA

Fifth Replenishment. The funds would be used for concessionary lending to developing countries. The resolution of the replenishment became effective in November 1 977.

C. Economic and financial development of ASEAN countries

The role of ASEAN in expanding economic, social and cultural cooperation among member countries was significantly enhanced after the Second Meeting of the Heads of Government, which was held in Kuala Lumpur in August 1977. In this meeting, a number of major decisions on economic and trade cooperation were made.

In the field of economic cooperation it was agreed to accord mutual priority in the supply of basic commodities and energy which, in the initial stage, included rice and crude oil. With regard to the establishment of five ASEAN industrial projects, it was agreed in principle to take steps leading to the establishment of joint ventures after completion of a feasibility study for each ASEAN industrial project. By the end of the year under report, only the feasibility study for the urea project in Indonesia had been completed. This project was estimated to cost \$ 296.0 million, to be covered by \$ 88.8 million equity participation and a loan of \$ 207.2 million. This urea plant would be established at Arun (Aceh) and would have an annual production capacity of 570 thousand tons.

In the context of trade cooperation, the Foreign Ministers signed the Preferential Trading Arrangements on February 24, 1977. The Arrangements basically provided for a 10 - 30% reduction of existing tariffs, and would apply to 71 items commencing January 1, 1978. Besides, the possibility was explored for the creation of a facility for the "Stabilization of Export Earnings" (STABEX) covering major exports of ASEAN countries.

A number of agreements were concluded under cooperation with developed countries. Japan agreed to provide \$ 1 billion for the financing of the five ASEAN industrial projects, to facilitate increased ASEAN exports to Japan, to jointly examine problems involved in the establishment of "STABEX", and to increase the amount of concessional loans for the next five years. Australia agreed to extend A\$ 10 million for support of joint development projects under the ASEAN-Australia economic cooperation program, and would increase its existing bilateral assistance from A\$ 90 million to A\$ 250 million. New Zealand agreed to assist ASEAN by providing greater access to the New Zealand market and to increase its development assistance.

After having considered the possibilities for financial and monetary cooperation, the Governors and Managing Directors of the ASEAN Central Banks and Monetary Authorities signed an "ASEAN Swap Arrange-

ment". This arrangement was designed to provide mutual relief to participating ASEAN member countries encountering shortterm liquidity problems. The arrangement i.e. provided for total resources of \$ 100 million, with \$ 20 million being contributed by each member country, and allowed a country to draw up to \$ 40 million.

In 1977, all ASEAN member countries experienced a positive growth, although at different rates.

Singapore's economic growth rate in 1977 was higher than of other ASEAN countries. Gross Domestic Product grew by 7.8% in 1977 compared with 7.0% in 1976. There was, moreover, an expansion of employment opportunities, as reflected in a reduction in the unemployment rate from 4.5% in 1976 to 3.9% in 1977. Export and import increased by 24% and 14%, respectively. Prices increased by 3.2% in 1977 compared with a decline of 1.9% in 1976. However, the rate of inflation in Singapore was the lowest among ASEAN countries.

In 1977, the increase in GNP of *Malaysia* dropped to only 7.7% from 11.3% in 1976. Agricultural output increased by only 2% on account of adverse weather. Industrial production increased by 12.0% during 1977, but this was below the 18.9% increase of the preceding year. The rate of unemployment declined slightly to 6.7% in 1977. Domestic prices increased by 4.7% in 1977 compared with 2.6% in 1976.

Philippine's real GNP growth in 1977 was 7.0% as against 6.4% in the preceding year. Mineral and industrial output increased substantially but the rate of increase of agricultural, forestry and fishery production declined. The rate of inflation was 8% in 1977 compared with 6% in the preceding year.

The growth rate of *Thailand* declined to 6.2% in 1977 from 8.2% in 1976. The drop was mainly caused by a fall in agricultural output due to unfavorable weather. However, sugar and rice exports increased in 1977. The value of exports rose by 17.3% but this rate was lower than the 35.1% increase of the previous year. The domestic price level went up by 7.2% in 1977 compared with 4.2% in the preceding year, following the abolition of price control on certain commodities.

D. Relations between Indonesia and international financial institutions

a. International Monetary Fund (IMF)

During the year under report, Indonesia conducted a number of transactions with the Fund including a repurchase obligation, and other transactions under the currency budget and SDR account. In addition, in the context of the Fund's disposal of gold, Indonesia received gold and profit from the Fund's gold sales.

As a result of the improved foreign exchange reserve and balance of payments

position, Indonesia was obliged to repurchase Rupiahs from the Fund with foreign currencies amounting to the equivalent of SDR 65 million. Following this transaction, the amount of Indonesia's foreign exchange reserves remained unchanged, as there was only a shift from foreign currencies into reserve position in the Fund.

The stronger foreign exchange reserve and balance of payments position was also a reason for Indonesia's inclusion in the currency budget. During the year under report, Indonesia was included three times for a total amount of SDR 39 million. This implied that up to the said amount, the Fund could use Rupiahs in transactions with other countries and Indonesia would be prepared to convert those Rupiahs into US dollars. In fact, the Fund only used Rupiahs to an amount equivalent to SDR 5 million in April 1977, for use by Pakistan. It should be noted that since August 1974 Indonesia had been included eight times in the Fund's currency budget for a total cumulative amount of SDR 80 million.

In the year under report the Fund did not issue an SDR allocation, so that Indonesia's total cumulative allocation remained at SDR 90.2 million. During the year under report, Indonesia was included four times in SDR Designation Plans, but SDRs received for currency only amounted to SDR 12.95 million. Consequently, the transactions caused SDR holdings to increase from SDR 12.0 million at the end of 1976/1977 to SDR 22.6 million at end of 1977/1978.

As mentioned in the previous Annual Report, the Fund would retribute 25 million troy ounces of gold in four stages. The second stage was implemented in the year under report. Under this transaction, Indonesia received 55,629 troy ounces of gold of a value of SDR 1,947,020. After completion of this transaction, Indonesia's reserve position in the Fund became SDR 67.9 million.

In addition to the restitutions mentioned above, the Fund was selling 25 million troy ounces of gold at free market prices. Part of the profits from these gold sales would be distributed to developing member countries on the basis of their quota share. Indonesia's share in the profit of actual gold sales amounted to \$10.5 million.

Under the Fund's sixth quota increase from SDR 29.2 billion to SDR 39.0 billion, Indonesia would increase its quota from SDR 260 million to SDR 480 million; this increase to be wholly paid in Rupiahs.

b. Bank Group

In the period from 1974 till the end of 1976/1977, Indonesia did not receive any credits from the *International Development Association* (IDA) which lends on concessional terms. As finances would become available under IDA Fifth Replenishment, and considering Indonesia's still low per capita income, since July 1977 the country became eligible again for IDA credits. In the year under report, IDA approved a \$ 40 million credit through Bank Indone-

sia for a small enterprises development project. Therefore, total IDA credits to Indonesia approved till end of 1977/1978 amounted to \$ 601.8 million. It may further be noted that under the IDA Fifth Replenishment, Indonesia should pay the Rupiah equivalent of \$168,400 in three equal annual instalments.

During the year under report, loans approved by the *International Bank for Reconstruction and Development (IBRD)* amounted to \$ 370.5 million for the financing of projects in the field of education, irrigation, development finance (BAPINDO), family planning, estate agriculture and electricity. Until the end of the reporting year, loans to Indonesia approved by IBRD therefore amounted to \$ 1,526 million which was an increase of 32% over the preceding year. The loans were subject to a repayment period of 15 to 30 years including 3 to 6 years grace and an annual interest rate between 7.25% and 8.85% per annum.

Under IBRD's capital increase from \$ 27 billion to \$ 34 billion, Indonesia would raise its subscription by \$ 168.8 million, i.e. from \$ 220.0 million to \$ 388.8 million (in terms of 1944 US dollars).

During the year under report, the *International Finance Corporation (IFC)* increased its investment (loan and equity participation) in one private company by \$ 1.5 million. Consequently, at the end of the reporting year, IFC investments (loans and equity participation) in 9 companies in Indonesia amounted to \$ 61.6 million.

In order to expand its financing activities, IFC increased its authorized capital from \$ 110 million to \$ 650 million. In this connection, Indonesia would increase its subscription by \$ 6.2 million to \$ 7.4 million.

c. Asian Development Bank (ADB)

Loans to Indonesia approved by ADB during the year under report amounted to \$1 36 million for the financing of five projects in the field of electricity, communication, irrigation, development finance (BAPINDO) and manufacturing industry. The loans, originating from Ordinary Resources, are subject to a repayment period of 10 to 30 years including 2 to 8 years grace and an annual interest rate between 7.5% and 9.1 %. Total loans extended to Indonesia, therefore, increased from \$ 376.65 million at the end of 1976/1977 to \$ 498.85 million at the end of this reporting year.

d. Islamic Development Bank (IDB)

The role of the Islamic Development Bank in development financing of member countries began to increase rapidly. Financial assistance extended by the Bank increased in one year from ID (Islamic Dinar) 30 million to ID 282 million at the end of the reporting year. The assistance was provided to 22 member countries in the form of loans, equity participation, foreign trade financing, leasing, and technical assistance.

In the Second Annual Meeting held in March 1978, proposals were submitted i.e. regarding the purchase of company stocks, financing of infrastructure projects, bufferstocks and export financing. On account of its specific characteristics, IDB emphasizes equity participation-. The Bank, in conjunction with the Government of Indonesia, was therefore exploring methods and procedures on channeling financial assistance to Indonesia.

Besides cooperation in development financing through the Islamic Development Bank, member countries of the Islamic Conference also enhanced their cooperation in the monetary field as manifested in the First Meeting of Central Banks in member countries of the Islamic Conference, which was convened in March 1978. The meeting i.e. decided to study further the procedures to increase the flow of capital among member countries for financing of trade and investment, the possibility of establishing an export import bank, the establishment and development of a capital market and of a center for exchange of economic information among members of the Islamic Conference. It was also decided that Central Bank Governors in member countries of the Islamic Conference would thenceforth convene an Annual Meeting in conjunction with the Annual Meeting of the Islamic Development Bank.

Inter Governmental Group on Indonesia (IGGI)

The 20th IGGI meeting, held in Amsterdam on April 5 - 6, 1977, agreed - to provide Indonesia with financial assistance amounting to \$ 2,094 million in 1977/ 1978. This figure formed the basis for loan agreements with the individual IGGI countries and disbursements were made under these loan agreements.

The aforementioned amount of \$ 2,094 million included \$ 200 million from non IGGI member countries such as East European and Middle Eastern countries. Therefore, the amount committed by IGGI member countries was \$ 1,894 million. Out of this amount, \$ 1,294 million constituted soft loans (ODA = Official Development Assistance) and \$ 600 million were less concessional loans. The greater part of less concessional loans (91%) constituted project aid and the remainder (9%) was food aid and technical assistance. Out of the total amount of soft loans, \$ 581 million was bilateral aid and \$ 713 million was multilateral assistance from international and regional institutions. Around 75% of the less concessional loans was extended by export credit institutions and the rest was credit granted by commercial banks.

During the year under report, loan agreements signed in the context of IGGI amounted

to \$1,331 million, so that, up to the end of March 1978, the total amount of loans agreed was \$ 9,349 million out of which \$ 6,076 million¹⁾ was disbursed. Consequently, undisbursed IGGI

loans amounted to \$ 3,273 million at the end of the year under report.

1) Gross disbursement

VII. INDONESIA'S BALANCE OF PAYMENTS

A. Balance of payments policy

Foreign trade and economic relations play an important role in the economy of Indonesia and as such are among the main factors in formulating Indonesia's economic policy. The main characteristics in Indonesia's foreign trade and balance of payments policy have been the continuing measures to boost export earnings, so that Indonesia could finance its import requirements and support the development of domestic manufacturing industry. The policies were also aimed at creating employment opportunities and directing imports towards priority sectors

In pursuing this policy, the Government has introduced new steps in the export-import front, which form an integral part of a series of economic measures undertaken towards the end of 1977. In order to strengthen the competitiveness of Indonesia's export commodities in the world market, certain commodities may thenceforth be exported on Usance L/Cs.¹⁾ Furthermore, certain commodities important for the domestic manufacturing industry could be imported under Usance L/Cs.²⁾ Several other measures were also taken

covering, inter alia, taxes, import duties and international trading arrangements for certain commodities.

With respect to the transfer of capital and services, the Government has issued a number of regulations affecting both oil and non-oil foreign private investment. In the oil sector, the Government has opened the opportunity of joint ventures between PERTAMINA and foreign contractors to enhance oil exploration and exploitation. To attract foreign private capital investment in the non-oil sector, the Government simplified the procedure of investment applications, restructured the institutional arrangements. Meanwhile, there were also modifications to the Priority List on investments which serve as a guidance for investors.³⁾

1. Export measures

As stated earlier, certain commodities may be exported under Usance L/Cs. Under this provision, export drafts with a maximum validity of 180 days from the date of shipment may be drawn. Merchandise eligible for export under this facility cover, inter alia, certain types of handicraft and agricultural, industrial and mineral products, the export of which still needs promotion.⁴⁾

1) Decision of the Board of Directors of Bank Indonesia No. 10/102/Kep/Dir/ULN dated December 30, 1977.
2) Decision of the Board of Directors of Bank Indonesia No. 10/103/Kep/Dir/ULN dated December 30, 1977.

3) Presidential Decree No. 53 and 54 of 1977, dated October 3, 1977.
4) Decree of the Minister of Trade No. 10/Kp/1/1978 dated January 10, 1978.

In order to promote the domestic wood processing industry and export of processed timber, the Government adjusted the rates of export tax and withholding tax on timber, and stipulated that only certain types of timber may be exported. The export tax on logs was increased from 10% to 20%, while the export tax on wood industry products and processed timber was reduced from 5% to 0%.⁵⁾ Furthermore, the export of types of high quality timber was prohibited.⁶⁾ Entrepreneurs engaged in the export of logs are subject to payment of MPO (i.e. a withholding tax in respect of corporation tax) amounting to Rp 25.— per \$ 1. - .⁷⁾ Moreover, holders of a Licence for Forest Exploitation and timber exporters shall pay Rp 415.00 per cubic metre on log exports for financing the development of a national timber transportation fleet and promotion of wood industries.

In order to improve the trade procedure and the quality of coffee for export, the Government introduced new regulations on the implementation of coffee exports. Coffee may only be exported by national trading companies, which are Registered Coffee Traders and holders of an Export Identification Number (Angka Pengenal Ekspor). The coffee to be exported should meet the standard requirements and is moreover subject to a quota imposed on each Registered Coffee Trader.⁸⁾

5) Decree of the Minister of Finance No. 10A/KMK. 06/1978 dated January 10, 1978.

6) Decree of the Minister of Trade No. 20/Kp/I/ 1978 dated January 26, 1978.

7) Decree of the Director General of Taxes No. Kep. 52/Pj—24/1978 dated January 12, 1978.

8) Decree of the Minister of Trade No. 04/KP/I/1978 dated January 4, 1978 and No.16/Kp/1/1978 dated January 24, 1978.

The possibility of entering new markets continued to be explored, in order to expand the marketing for Indonesian export commodities. In this connection, the Government introduced measures to boost exports of goods and services to the Middle East, inter alia, by allowing state-owned foreign exchange banks to extend bank guarantees denominated in foreign currency for Indonesian contractors who require such a guarantee to participate in international tenders.⁹⁾

2. Import measures.

In line with the efforts to expedite the flow of import commodities needed in domestic manufacturing industry, importers could avail themselves of the opportunity to import the relevant commodities on Usance L/Cs with a validity of not more than 180 days. This facility (an effort to boost domestic manufacturing industries) benefits importers and was initially only accorded to producer-importers with respect to the import of certain goods, i.e. raw materials' spare - parts and production equipment essentially needed in domestic manufacturing industry. This facility was later on expanded and was also accorded to companies holding a Restricted Importer Identification Number (APIT) and an Importer Recognition identification Number (TAPPI).¹⁰⁾

9) Presidential Decree No. 36/1977 dated July 20, 1977.

10) Circular Letter of Bank Indonesia No. SE 10/60 ULN dated March 15, 1978.

Unlike Merchant's L/Cs-- prohibited since May 17, 1977 ¹¹⁾ --the foreign exchange banks participate fully in transaction under Usance L/Cs and have the same responsibilities as they have in regular import transactions. Furthermore, the benefit of Merchant's L/C could only be enjoyed by subsidiary enterprises and/or merchants, who had family ties with sellers abroad, while Usance L/Cs can be used by a greater number of importers.

To guarantee the supply and to maintain the stability of the domestic copra and coconut-oil price in the period under report, the Government has given special facilities to PT Panca Niaga for copra and coconut-oil import of 5,000 tons each, which were exempted from payment of import duties and import sales tax. ¹²⁾ Since September 7, 1977, imports of copra and coconut-oil must have prior approval from the Ministry of Trade. ¹³⁾

New measures have been taken regulating the import of cloves through the Sabang freeport to customs areas in Indonesia. Foreign produced cloves entering the Indonesian customs area through Sabang shall be treated as normal imports and were subject to the regular procedures. ¹⁴⁾ Cloves grown in the Sabang area

require a Rupiah L/C when they enter the Indonesian customs area, but are exempted from import duties, if accompanied by an Export Declaration (PE), Certificate of Origin (SKA) and Clove Rehabilitation Contribution (SRC).

In an effort to encourage investments, new regulations were issued to improve import procedure under the Domestic as well as Foreign Capital Investment Laws.

With respect to imports under the Domestic Capital Investment Law, goods registered in the Master List should be imported under Banker's L/Cs with prior approval of the Capital Investment Coordinating Board (BKPM). ¹⁵⁾ Foreign exchange banks are not obliged to cover imports financed by foreign borrowing, subject to the condition that foreign suppliers or lenders indicate their willingness to bear the risk in case the importer fails to settle the payments of the L/C. ¹⁶⁾ Goods not registered in the Master List, but necessary in the process of production, may be imported without prior approval of the Ministry of Trade and BKPM, provided that they are Imported under a Banker's L/C. ¹⁷⁾

Foreign investors may import goods registered in the Master List without a Banker's L/C, provided that such imports

11) Decree of the Minister of Trade No. 146/Kp/V/77, dated May 17, 1977.

12) Decree of the Minister of Finance No. 238/KM.1/77, March 19, 1977.

13) Decree of the Minister of Trade No. 363 and 364/M/IX/77, dated September 7, 1977.

14) Decree of the Minister of Trade No. 263/Kp/IX/1977, dated September 23, 1977.

15) Decree of the Minister of Trade No.299/Kp/X/77, dated October 19,1977.

16) Circular Letter of Bank Indonesia No.SE 10/6/ULN dated June 8,1977.

17) Decree of the Minister of Trade No. 299/Kp/X/77, dated October 19, 1977.

are not financed out of funds in Indonesia. If financed out of funds in Indonesia, the goods shall be imported - under Banker's L/Cs, but no approval is needed from the Capital Investment Coordinating Board.¹⁸⁾ Goods not registered in the Master List shall be imported under Banker's L/C, but do not need approval from BKPM nor from the Ministry of Trade.¹⁹⁾

3. Bonded warehouse

Bonded Warehouse Indonesia (BWI), established in 1972, is an economic and trade institution in the Indonesian custom frontiers, and is designed to expedite the flow of goods in international trade. BWI provides entrepreneurs with facilities for import, export and production of goods and services. To achieve this aim; special measures were promulgated regulating custom matters, foreign exchange affairs, investments and export-import procedures.

In this reporting year, the Government has taken further steps to regulate the duties and functions of the bonded warehouse in Indonesia.²⁰⁾ The new measure-regulate, inter alia, the procedure of custom clearance of imports from the bonded warehouse into the Indonesian customs areas, and the payment mechanism and other import procedures to be met on the

departure of the goods from the bonded warehouse area. The prohibition to import certain goods into the Indonesian customs area applies also to the bonded warehouse, except if the goods are intended for re-export. Likewise, the prohibition to export certain goods from the Indonesian customs area is also effective in the bonded warehouse area.

Raw material and auxiliary goods, both from within and outside the Indonesian customs area, are exempted from excise, tax and other levies, provided that these goods are used for manufacturing production in the bonded area. The export proceeds of goods, processed from imported raw material and spare-parts financed by general foreign exchange, shall be fully surrendered to Bank Indonesia. However, only the value added must be surrendered, in case the goods are made out of raw material imported on a consignment basis or financed through foreign borrowings.

4. Policy on capital movement and services

a. Oil

As mentioned earlier, foreign contractors entering into joint ventures with PERTAMINA had been offered a new incentive to induce oil exploration and exploitation. Each party in this joint venture will have a 50% share in the capital invested, elevating PERTAMINA from the previous mere "landowner" position. The area offered were fields already explored by PERTAMINA. All of

18) Decree of the Minister of Trade No. 348/Kp/XI/77, dated November 24, 1977.

19) Decree of the Minister of Trade No. 348/Kp/XI/77) dated November 24, 1977.

20) Government Regulation No. 31 of 1977, dated July 23, 1977.

PERTAMINA's expenditures made for explorations in a certain field will be considered as PERTAMINA's initial investment. Foreign contractors shall pay the expenses during a certain period, ²¹⁾ amounting to not less than the amount initially spent by PERTAMINA. If the amount spent by the foreign contractor during that period exceeds PERTAMINA's initial expenditure, both parties will have to share the excess on an equal basis. This type of joint venture is more attractive to foreign contractors since the areas offered have good prospects and the investment risk is shared jointly.

Under the production sharing arrangement, PERTAMINA is entitled to 50% of the output. Of the remaining 50%, after deducting production costs, 85% will be due to the Government (including PERTAMINA's retention). As is the case with the regular production sharing contracts, under the joint venture arrangement the foreign contractors shall provide oil for domestic consumption on a proportional basis at the price of \$ 0.20 per barrel after the fifth year of commencing production. In the reporting year two contracts of this nature have been signed namely with Total Indonesia S.A. and Continental Oil Company (Conoco) Irian Jaya & Co. The two contracts cover the so-called Kepala Burung Blok B and Blok A, respectively, in Kepala Burung area of Irian Jaya.

21) In the two agreements which have been signed to date, the period mentioned was the first three years.

b. Non oil capital investment

In addition to the measures issued on oil sector investments mentioned above, measures to simplify investment procedure with respect to domestic and foreign private investments were also taken to enhance investment activities. ²²⁾ More detailed information is contained in the relevant chapter on Capital Investment.

B. Balance of payments developments

1. Main features

In 1977/1978 Indonesia's balance of payments continued its gratifying improvement. The balance of payments during the reporting year showed a surplus of \$ 651 million compared with \$ 1,001 million in the previous year (Table 24). As a result, net foreign exchange reserves reached \$ 2,208 million at the end of March 1978.

The above balance of payments surpluses do not include the increase in foreign assets of the foreign exchange banks amounting to \$ 326 million in 1977/1978 and \$ 48 million in 1976/1977. Taking those increases into account, the overall surplus in 1977/1978 and 1976/1977 would in fact be \$ 977 million and \$ 1,049 million respectively.

The balance of payments surplus was mainly attributable to receipts on account

22) Presidential Decree No. 53/1977 and 54/1977, dated October 3, 1977.

of exports and capital inflows which were higher than expenditures on imports, services and debt service payments.

The export of most commodities increased in value. In particular, exports of oil, coffee, tin, tea and palm oil increased markedly. In addition, the LNG plant established several years ago in Badak (East Kalimantan) commenced export in August 1977, while another project built in Arun (Aceh) was scheduled to start exporting in August 1978. Urea fertilizer exports, commenced in February 1977, continued to increase.

On the import side it should be noted that, besides the significant increase of sugar imports, the volume of rice imports reached its highest level in 1977/1978.

The improvements in Indonesia's economy and balance of payments and the more favorable international capital markets have enabled the Government to improve its foreign debt service position. The Government was able to replace a portion of certain syndicate bank loans received in 1975 by other loans on more favorable terms.

2. Current account

In the reporting year the current account showed a deficit of \$ 690 million. However, this is an improvement compared with the deficit of \$ 802 million incurred in 1976/1977. Similar to the preceding years, the balance of trade showed a

surplus, while the services account was in deficit. In 1977/1978 Indonesia recorded a surplus of \$ 2,994 million in its balance of trade which was 47% over the 1976/1977 level, whereas the services account showed a deficit of \$ 3,684 million or 30% higher than the previous year's level.

The improvement in the balance of trade was due to exports, which increased by a larger amount than imports. However, the deficit on the services account was larger than the surplus on the balance of trade, hence the overall current account was in deficit.

a. Balance of trade

As indicated earlier, the balance of trade showed a surplus in 1977/1978, which was attributable to a \$ 1,647 million increase in exports compared with a \$ 693 million increase in imports.

The following table sets out the balance of trade for the past few years (in millions of \$):

	Exports	Imports	Surplus (+) Defisit (—)
1973/1974	3,613	3,074	+ 539
1974/1975	7,186	5,097	+ 2,089
1975/1976	7,146	5,409	+ 1,737
1976/1977	9,213	7,173	+ 2,040
1977/1978	10,860	7,866	+ 2,994

a.1. Exports

In the reporting year, total exports amounted to \$ 10,860 million showing an increase of 18% over the 1976/1977 period (Table 25). The value of oil and non-oil ex-

ports both went up, by 16% and 22% respectively. The value of oil export included Liquefied Natural Gas (LNG) which was exported for the first time in August 1977. It should be emphasized that the increase in the value of exports was due to the favorable price levels in the international markets as well as to the increase in export volume of certain commodities.

Exports specified by country of destination revealed that, Japan held the lead (41%), followed by the United States of America (26%), while exports to the ASEAN countries represented 11 % of the total export value.

i. Exports of commodities other than oil and LNG

The value of exports other than oil and LNG in 1977/1978 increased by 22% to \$ 3,507 million. Increases occurred in almost all major commodities. The largest foreign exchange earners among the main export commodities were successively timber, coffee, rubber, tin, palm oil, animal produce and tea.

Among the countries of destination, Japan occupied the first place (20%) followed by the United States of America (14%) and Singapore (11 %). Meanwhile, exports to ASEAN countries during the reporting period was a mere 12% of the total export value.

Further details on the progress of certain major commodities are described below.

Timber.

As the leading contributor to foreign exchange earnings from export commodities other than oil and LNG, the export value of timber in 1977/1978 increased by only 7% compared with 68% in the previous year. However, the export value of timber in this reporting year reached \$ 943 million which represented the highest level to date.

The lower rate of increase was caused by the decline of timber imports by Japan as the main buyer of Indonesia's timber. As a result, the export volume of Indonesian timber decreased from 15,770 thousand tons in 1976/1977 to 15,651 thousand tons in 1977/1978.

The following figures summarize the value and volume of timber exports:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	720	15,704
1974/1975	615	12,434
1975/1976	527	11,385
1976/1977	885	15,770
1977/1978	943	15,651

Coffee

Coffee, which in the previous year was the third main export commodity after timber and rubber, went up to second place in 1977/1978, reaching \$ 626 million. Compared with the preceding year, the value of coffee exports rose by not less than 90%. This significant increase was related to the low coffee exports from Brazil, the

world's largest producer, which had not yet recovered from the 1975 frost damage.

Furthermore, since the last few years there was a shift in the pattern of world coffee consumption from Arabica to Robusta coffee, which constitutes the largest portion (94%) of Indonesia's coffee exports. It should be noted however, that besides the favorable world market price, the volume of coffee exports in 1977/1978 rose by 25% over the previous year and amounted to 179 thousand tons.

The development of the value and volume of coffee exports during the last five years is shown in the following table:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	79	96
1974/1975	92	105
1975/1976	112	142
1976/1977	330	143
1977/1978	626	179

Rubber

In 1977/1978 the export value of rubber went up by 5% to reach \$ 608 million only. Despite an 8% increase in the rubber price, the export volume declined from 892 thousand tons to 873 thousand tons. This decline was caused by domestic consumption which increased faster than production.

It is worth noting that nearly 90% of rubber exports was in the form of crumb rubber with the United States of America and European countries as the major buyers.

The development of value and volume of rubber export during the last five years was as follows:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	483	902
1974/1975	425	842
1975/1976	381	846
1976/1977	577	892
1977/1978	608	873

Tin

Similar to other export commodities, the value of tin exports also went up in 1977/1978 and increased by 40% to reach \$ 253 million. This increase is significant compared with the 14% rise achieved in the previous year. The considerable increase was attributable to the 47% price rise in 1977/1978 compared with the 11% price decline in the previous year.

The following table sets forth the development of tin export value and volume:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	89	279
1974/1975	184	303
1975/1976	142	417
1976/1977	147	415
1977/1978	202	438

Palm oil

The value of palm oil exports in the reporting year increased by a sizable 37% to reach \$ 202 million. This reflected increases in both volume and price, which rose by 6% and 30% respectively. The larger export volume was attributable mainly to an increase in the 1977 level of production.

The major part of palm oil, i.e. around 69% was exported to Iraq, the Netherlands, Pakistan, India and the United States of America.

The export value and volume of palm oil during the last five years was as follows:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	98	22
1974/1975	166	24
1975/1976	158	21
1976/1977	181	27
1977/1978	253	25

Animal produce.

The export value of animal produce, which stood sixth in rank among the Indonesian export commodities, amounted to \$ 179 million in the reporting year, an increase of 23% compared with the level in the previous. This meaningful increase was especially due to the rise in prices. Of the export value mentioned above, nearly 85% was accounted for by shrimp exports, a great part of which was exported to Japan and Taiwan.

The export value and volume of animal produce during the last five years can be seen from the figures below:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	90	84
1974/1975	92	76
1975/1976	105	70
1976/1977	146	82
1977/1978	179	78

Tea

In 1977/1978 the export value of tea reached a record level of \$ 120 million. This level of exports indicated a considerable increase of 88% against an already high increase of 28% registered in the previous year. The increase in the value of tea exports was due to the rise of tea prices, which was especially attributable to the quality improvement of Indonesian tea resulting in a better competitive position in the world market.

The development in the value and volume of tea exports during the last five years was as follows:

	Value (millions of \$)	Volume (thousands of tons)
1973/1974	31	46
1974/1975	50	51
1975/1976	50	60
1976/1977	64	64
1977/1978	120	60

ii. Exports of oil and liquefied natural gas (LNG)

With the exception of 1973/1974, oil exports continued to increase in recent years, both in value and in volume. In 1977/1978 Indonesia's oil exports reached 533 million barrels with a value of \$ 7,191 millions, indicating an increase of 8% and 13% respectively over the preceding year. The increase of export value was caused by a higher volume as well as by higher

oil prices which took effect as of January 1, 1977. ²³⁾

After allowing for expenditures on imports and services, especially those relating to oil-related foreign oil companies operations, net oil export earnings amounted to \$ 4,352 million compared to \$ 3,710 million in the previous fiscal year.

As had been noted in the previous report, in the OPEC meeting held on December 15, 1976 in Doha, 11 of the 13 participating countries including Indonesia agreed to an increase of 10% in the prices of oil effective as of January 1, 1977, and another 5% as of July 1, 1977. Two other countries, i.e. Saudi Arabia and the United Arab Emirates agreed to raise the oil export price by only 5% in 1977. However, the 11 member countries mentioned above refrained from increasing the oil price by another 5% as of July 1, 1977 as originally planned' while on the other hand' Saudi Arabia and the United Arab Emirates raised their price by another 5% as of July 1, 1977. Consequently thenceforth, oil prices among OPEC member countries have remained unified. In the OPEC meeting held on December 20, 1977, in Caracas (Venezuela) no agreement was reached to increase the oil price, although several countries proposed an increase of not less than 5%. However,

some other major oil producing member countries, namely Saudi Arabia, Iran and the United Arab Emirates supported by Kuwait and Qatar were determined to freeze the price until June 1978.

The higher oil export volume in the reporting year reflected the increasing demand of the industrial countries, namely Japan and the United States of America, the main buyers of Indonesian oil. Despite the rapid increase of domestic oil consumption, the foreign demand for Indonesia's oil could still be met through a rise in output. In 1977/1978, oil production reached 615 million barrels, which was 9% over the previous year's level, mainly caused by a higher output of companies under production sharing agreements.

As had been noted previously, LNG exports began in August 1977 after completion of the LNG plant in Badak. Net export receipts of LNG in 1977/1978 amounted to \$ 93 million after allowing for expenditure on imports and services related to the operation of the LNG project. LNG exports are expected to increase continuously in the coming years, especially after the completion of the LNG plant in Arun. To date, the only country of destination is Japan, but it is expected that in the future other countries will also import LNG from Indonesia.

23) Based upon OPEC's decision, the oil price should have been raised by 10%, but downward adjustments were made to Indonesia's oil export price due to reductions in the premiums commanded by certain crudest

A breakdown of export by country of destination indicates that the share of Indonesia's oil export going to Japan increased from 46% to 50%. On the other

Export prices of selected Indonesian crude oil
(\$ per barrel)

Selected Crude Oil	1972	1973		1974			1975	1976	1977	1978
	April	April	October	January	April	July	October	February	January	March
Minas	2.96	3.73	4.75	10.80	11.70	12.60	12.80	12.80	13.55	13.55
Arjuna	2.86	3.73	6.00	10.80	11.70	12.60	12.80	12.60	13.70	13.70
Cinta	2.96	3.73	6.00	10.80	11.70	12.60	12.40	12.40	13.15	13.15
Attaka	2.80 ¹⁾	3.73	6.00	10.80	11.70	12.60	12.80	12.80	14.10	14.10
Handil	---	---	---	---	---	12.60	12.40	12.40	13.30	13.30
Walio	---	5.00 ²⁾	6.00	10.80	11.70	12.60	12.10	12.00	13.00	13.00
Bekapai	---	---	---	---	---	---	---	12.80	14.10	14.10
Badak	---	---	---	---	---	12.60	12.80	12.80	14.10	14.10
North Sumatra	2.65	3.73	6.50	10.80	11.70	12.60	13.00	13.00	14.40	14.40

1) October 1972

2) July 1973

Source : Department of Mining

hand, the share to the United States of Amerika declined from 38% to 35%, whereas no significant changes took place with respect to other countries.

a.2.Imports

Total imports during 1977/1978 amounted to \$ 7,866 million of which \$ 6,376 million were non-oil and \$ 1,490 million oil-sector imports. During the reporting period, imports were 1 0% higher than the year before, mainly because of an 18% increase in non-oil imports (Table 28).

A breakdown of non-oil imports by source of financing indicates that \$ 3,915 million was financed by general foreign exchange and \$ 1,828 million was on account of official foreign borrowing. These

two categories covered 90% of non-oil imports compared with 75% in the preceding year. The balance was made up by imports under direct investment and Merchant's L/C. Imports financed by general foreign exchange rose by 55% over the comparable preceding period, following the prohibition of Merchant's L/C imports since May 1977, and an increase in imports under government programs.

In 1977/1978, imports under government programs amounted to \$ 962 million, of which \$ 805 million (84%) was financed by general foreign exchange and \$ 157 million (16%) by foreign aid. This was a 57% increase over the past year and was mainly caused by higher rice and sugar imports. The volume of rice imports rose from 1.4 million tons to 2.5 million tons at

Oil exports by country of destination
(millions of barrel and \$)

	1974/1975		1975/1976		1976/1977		1977/1978	
	Barrel	\$	Barrel	\$	Barrel	\$	Barrel	\$
1. United States	104.1	1,285.6	151.3	1,902.7	184.1	2,375.3	180.3	2,453.5
— % Share	25.6	25.4	35.9	36.1	37.2	37.4	33.8	34.1
— Crude Oil	102.3	1,262.0	143.5	1,820.9	181.5	2,344.1	173.9	2,370.1
— Products	1.8	23.6	7.8	81.8	2.6	31.2	6.4	83.4
2. Japan	253.6	3,183.8	207.0	2,600.8	229.5	2,932.5	265.8	3,565.7
— % Share	62.3	62.9	49.0	49.3	46.4	46.2	49.9	49.6
— Crude Oil	223.1	2,750.2	181.1	2,289.9	199.0	2,558.3	231.3	3,116.3
— Products	30.5	433.6	25.9	310.9	30.5	374.2	34.5	449.4
3. Other Countries	49.2	591.0	63.7	769.7	81.2	1,041.9	87.0	1,171.9
— % Share	12.1	11.7	15.1	14.6	16.4	16.4	16.3	16.3
— Crude Oil	44.8	537.4	56.8	697.4	77.0	989.6	78.8	1,065.1
— Products	4.4	53.6	6.9	72.3	4.2	52.3	8.2	106.8
4. Total	406.9	5,060.4	422.0	5,273.2	494.8	6,349.7	533.1	7,191.1
— % Share	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
— Crude Oil	370.2	4,549.6	381.4	4,808.2	457.5	5,892.0	484.0	6,551.5
— Products	36.7	510.8	40.6	465.0	37.3	457.7	49.1	639.6

the value of \$ 650 million. The higher volume of rice imports was necessary to maintain domestic supply, since the rice harvests during the reporting year were not as expected. Sugar imports in 1977/1978 rose from 190 thousand tons to 497 thousand tons with a value of \$ 141 million, particularly because the increase in consumption could not be met by the increase in domestic production. It is worth noting that cement imports declined significantly during the reporting year and went down by 60% to a level of \$ 21 million only. The drop was mainly the result of an increase in domestic production.

Foreign aid imports in this reporting

period amounted to \$ 1,828 million of which \$ 1,671 million (91 %) constituted imports related to government projects, while the balance was made up by government programmed food aid imports. Project aid imports were 19% higher than in 1976/1977 (Table 28)

In the meantime, imports under direct investments during the reporting year were down by 28% and amounted to \$ 547 million. The decline was attributable to a reduced capital inflow in following the completion of the LNG project in Badak and the near completion of the LNG project in Arun. On the other hand, the capital inflow under non-oil direct foreign investments increased.

A breakdown of imports by major economic groups indicates that, despite a decline of 3%, capital goods still held their first place with a 36% share of total non-oil imports. The second place was occupied by imports of consumer goods (32%) which ranked third in 1976/1977. This shift was attributable to a 25% increase in consumption goods imports, mainly on account of rice and sugar as noted earlier. The share of raw material imports was 31%, shifting it from the second place in the past year to the third in this reporting period, since the 15% increase in raw material imports was lower than the percentage increase of consumption goods.

Oil sector imports went down by 15% and amounted to \$ 1,490 million in the reporting period. This decrease was mainly caused by the smaller cost write-off available to the foreign companies, following the contract renegotiations.

The pattern of imports by country of origin did not show any significant change in 1977/1978. Imports from Asian countries still held the first rank accounting for 58%, followed by imports from European and American countries which constituted 22% and 15% of the total respectively, whereas the balance was made up by imports from Australia, New Zealand and some African countries. Japan was still the major country of origin with 28% of total imports, followed by the United States of America (12%), Singapore (8%) and West Germany (8%). ASEAN countries as a whole accounted for 14% of Indonesia's imports.

b. Services account

In the reporting period the services account recorded a deficit of \$ 3,684 million which was 30% over the previous year's level.

Expenditures on non-oil services rose by 16% which was caused by an increase in foreign investment income, transportation and travel such as haj pilgrimage.

Expenditures on profit remittances by non-oil foreign investors and interest payments on government as well as private external borrowings in 1977/1978 rose by 20% to reach \$ 865 million, while expenditure on investment income of foreign oil companies increased by 81 % to reach the amount of \$ 961 million. It should be noted that in the reporting year no changes were made in the production sharing arrangement between the Government and foreign contractors. However, the amounts to be split between the Government and the foreign companies were larger due to an increase in the output of foreign companies under production sharing contracts, the 7% increase in the oil prices and the reduction in the cost of production from not more than 40% to 25%.

3. Capital movements and monetary gold

a. Capital movements

Capital movements of the nonmonetary sector showed a surplus of \$ 1,509 mil-

lion. However, this amount was 7% lower than the surplus of the preceding year.

The main cause of this lower surplus was the Government sector which decreased by 16% to \$ 1,333 million in 1977/1978. The Government sectors included amortization of government foreign borrowings which in 1977/1978 amounted to \$ 761 million compared with only \$ 166 million in 1976/1977. The amortizations included partial prepayments of syndicated loans so as to enable the Government to arrange for replacement loans. The new borrowings were subject to softer terms, namely a longer repayment period and a lower rate of interest. The syndicated loans mentioned above were obtained in 1975 and 1976 from two syndicates of banks headed by Morgan Guaranty Trust and Bank of Tokyo, amounting to \$ 850 million and \$ 199 million respectively.

In the reporting year the aggregate capital inflow obtained from the member countries of the Inter Governmental Group on Indonesia (IGGI) as well as non-IGGI members amounted to \$ 2,094 million compared with \$ 1,749 million in 1976/1977.

Private capital movements in 1977/1978 showed a surplus of \$ 176 million compared with \$ 38 million in 1976/1977. This improvement was mainly due to a decline in PERTAMINA's foreign debt repayments from \$ 487 million in 1976/1977 to \$ 308 million in the reporting year.

b. Foreign exchange reserves and monetary gold

Gross foreign exchange reserves at the end of the reporting period amounted to \$ 2,281 million which was 27% higher than at the end of 1976/1977. Allowing for Bank Indonesia's short term liabilities and deposits of non-residents, at end of March 1978 net foreign exchange reserves were \$ 2,208 million or \$ 651 million higher than one year earlier.

It should be observed that the above figures exclude the reserve of foreign exchange banks. At end of March 1978 gross foreign exchange reserves of the foreign exchange banks amounted to \$ 913 million compared with \$ 684 million at end of the previous year, while their foreign liabilities amounted to \$ 480 million and \$ 577 million respectively. After deduction of foreign liabilities, net international reserves of the foreign exchange banks amounted to \$ 433 million and \$ 107 million at end of March 1978 and March 1977 respectively, indicating a rise of \$ 326 million during 1977/1978.

4. External debts

At end of March 1978, outstanding debts²⁴⁾ on account of external borrowings -- a supplement to the domestic source of development financing -- amounted to \$

24) Outstanding debt is defined as disbursement minus amortization.

11,505 million of which \$ 9,501 million were government's debts and \$ 2,004 million were debts of state enterprises. A specification of foreign debts outstanding follows below.

Foreign debt outstanding (millions of \$)	
	End of March 1978
I. Government	9,501
A. Old debts	2,075
B. New debts	7,426
1. IGGI	5,690
a. ODA	(4,003)
b. Non-ODA	(1,687)
2. Non-IGGI	1,736
a. ODA	(549)
b. Non-ODA	(1,187)
II. State enterprises	2,004
T o t a l	11,505

Of the outstanding government's debts, an amount of \$ 2,075 million was accounted for by old debts contracted prior to July 1966. The amount of outstanding new debts which amounted to \$ 7,426 million at end of March 1978 comprising borrowings from the IGGI member countries and non-IGGI members amounting to \$ 5,690 million and \$ 1,736 million respectively. Part of the IGGI borrowings were contracted on soft terms (ODA) which consisted of bilateral borrowings amounting to \$ 3,021 million and multilateral borrowings of \$ 982 million obtained from international and regional financial institutions, i.e. IBRD, IDA and ADB. Outstanding IGGI borrowings on semi-concessional terms (non ODA) amounted to \$ 1,687 million at the end of the reporting year, of which the large-

est portion were export credits. With regard to non-IGGI debts, the outstanding debt on soft term and on semi-concessional terms amounted to \$ 549 million and \$ 1,187 million, respectively, the latter amount including two syndicated bank loans contracted in 1975.

5. Balance of payments prospect for 1978/1979

The balance of payments for 1978/1979 is expected to show another surplus, although of a lower magnitude than in the past two years. The balance of payments surplus for 1978/1979 is estimated at around \$ 300 million.

However, it should be emphasized that these projections are based on conservative assumptions.

The value of total exports and imports is expected to increase by 2% and 7%, respectively. The modest increase of export receipts was based on the assumptions that there will be no increase in the price of oil and a slight decline in export volume. The increase in the aggregate export earnings is expected to originate from LNG and non-oil export commodities. The projected increase in imports is based on the past performance of private sector imports and on the Government's program and project aid imports. Expenditure on services are expected to go up by around 4%.

TABLE 24 — INDONESIA'S BALANCE OF PAYMENTS ¹⁾
(millions of \$).

	1974/1975	1975/1976	1976/1977	1977/1978
A. Goods and Services	- 138	- 854	- 802	- 690
1. Merchandise goods: Exports, f.o.b.	+ 7,186	+ 7,146	+ 9,213	10,860
Imports, f.o.b.	- 5,097	- 5,409	- 7,173	- 7,866
2. Non-monetary gold	-	-	-	-
3. Freight and insurance related to import	- 662	- 714	- 938	- 1,031
4. Other transportation	- 64 ^r	- 82 ^r	- 116 ^r	- 129
5. Travel	- 58	- 70	- 100	- 96
6. Investment income	- 1,256	- 1,268	- 1,249	- 1,826
6.1. Direct investment (oil)	(- 1,051)	(- 838)	(- 531)	(- 961)
6.2. Other	(- 205)	(- 430)	(- 718)	(- 865)
7. Government, not included elsewhere	- 16	- 30	- 40	- 44
8. Other services	- 171 ^r	- 427 ^r	- 399 ^r	- 558
Balance of goods and services (1 through 8)	- 138	- 854	- 802	- 690
Balance of goods (1 and 2)	+ 2,089	+ 1,737	+ 2,040	+ 2,994
Balance of services (3 through 8)	- 2,227	- 2,591	- 2,842	- 3,684
B. Grants	+ 62	+ 16	+ 74	+ 12
9. Private	-	-	-	-
10. Government	+ 62	+ 16	+ 74	+ 12
C.11. Special Drawing Rights (SDR)	-	-	-	-
Total (1 through 11)	- 76	- 838	- 728	- 678
D. Capital and Monetary Gold	+ 387	+ 1,191	+ 620	+ 858
<i>Non-monetary sector</i>	+ 378	+ 827	+ 1,621	+ 1,509
12. Private sector	- 131	- 1,075	+ 38	+ 176
12.1. Long term liabilities	- 144	- 1,089	+ 70	+ 226
a. Direct investment	(+ 538) ^r	(+ 454) ^r	(+ 287)	(+ 285)
b. Other	(- 682)	(- 1,543)	(- 217)	(- 59)
12.2. Long term assets	-	-	-	-
a. Direct investment	(-)	(-)	(-)	(-)
b. Other	(-)	(-)	(-)	(-)
12.3. Short term liabilities	+ 13	+ 14	- 32	- 50)
12.4. Short term assets	-	-	-	-
13. Government sector	+ 509	+ 1,902	+ 1,583	+ 1,333
13.1. Long term liabilities	+ 509	+ 1,902	+ 1,583	+ 1,333
13.2. Long term assets	-	-	-	-
13.3. Short term liabilities	-	-	-	-
13.4. Short term assets	-	-	-	-
<i>Monetary sector</i>	+ 9	+ 364	- 1,001	- 651
14. Central Bank	-	-	-	-
14.1. I.M.F. position (net)	- 65	+ 87	-	- 82
14.2. Short term liabilities (net)	-	+ 206	+ 31	- 164
14.3. Movement in foreign exchange holdings (- = increase)	+ 74	+ 71	- 1,032	- 405
14.4. Movement in monetary gold holdings (- = increase)	-	-	-	-
15. Foreign exchange banks	-	-	-	-
15.1. Short term liabilities (net)	-	-	-	-
15.2. Movement in foreign exchange holdings (- = increase)	-	-	-	-
Net errors and omissions	- 311	- 353	+ 108	- 180

1) Includes oil companies

TABLE 25 – VALUE OF EXPORTS (f.o.b.)
(millions of \$)

	1974/ 1975	1975/ 1976	1976/ 1977	I	II	III	IV	1977/ 1978
A. Non oil exports	2,033	1,873	2,863	931	891	891	794	3,507
Rubber	425	381	577	145	146	157	160	608
Coffee	92	112	330	257	156	117	96	626
Tin	166	158	181	56	49	75	73	253
Timber	615	527	885	220	244	258	221	943
Palm products	192	146	151	47	61	59	41	208
– Palm oil	(184)	(142)	(147)	(45)	(59)	(58)	(40)	(202)
– Palm kernels	(8)	(4)	(4)	(2)	(2)	(1)	(1)	(6)
Coconut products	22	32	36	8	7	10	8	33
– Copra	(—)	(3)	(—)	(—)	(—)	(—)	(—)	(—)
– Copra cakes	(22)	(29)	(36)	(8)	(7)	(10)	(8)	(33)
Tobacco	36	40	41	16	22	9	12	59
Pepper	22	25	55	12	21	13	16	62
Tea	50	50	64	39	36	27	18	120
Hides	9	12	23	5	4	5	5	19
Foodstuffs	77	54	62	15	17	16	13	61
– Tapioca	(30)	(17)	(10)	(1)	(4)	(5)	(3)	(13)
– Other foodstuffs	(47)	(37)	(52)	(14)	(13)	(11)	(10)	(48)
Nutmeg and mace	2	6	9	4	2	3	3	12
Animal and livestock products	92	105	146	45	48	42	44	179
Other spices	5	4	7	3	2	2	1	8
Mining products	130	99	139	36	23	25	26	110
– Copper	(102)	(74)	(95)	(23)	(15)	(15)	(21)	(74)
– Other mining products	(28)	(25)	(44)	(13)	(8)	(10)	(5)	(36)
Others	98	122	157	23	53	73	57	206
B. Exports of crude oil & products and LNG	5,153	5,273	6,350	1,855	1,781	1,891	1,826	7,353
T o t a l (A + B)	7,186	7,146	9,213	2,786	2,672	2,782	2,620	10,860

TABLE 26 — VOLUME OF EXPORTS
(thousands of tons)

	1974/ 1975	1975/ 1976	1976/ 1977	I	II	III	IV	1977/ 1978
A. Non oil exports (thousands of tons)								
Rubber	842	846	892	211	218	222	222	873
Coffee	105	142	143	53	49	42	35	179
Tin	24	21	27	6	6	7	6	25
Timber	12,434	11,385	15,770	3,503	3,870	4,303	3,975	15,651
Palm products	333	458	445	100	116	146	101	463
— Palm oil	(303)	(417)	(415)	(93)	(110)	(140)	(95)	(438)
— Palm kernels	(30)	(41)	(30)	(7)	(6)	(6)	(6)	(25)
Coconut products	236	396	375	62	64	98	77	301
— Copra	(—)	(34)	(—)	(—)	(—)	(—)	(—)	(—)
— Copra cakes	(236)	(362)	(375)	(62)	(64)	(98)	(77)	(301)
Tobacco	26	23	21	7	11	5	4	27
Pepper	14	17	33	6	10	8	7	31
Tea	51	60	64	16	16	15	13	60
Hides	5	5	8	1	1	1	2	5
Foodstuffs	1,381	965	967	194	261	226	194	875
— Tapioca	(455)	(234)	(133)	(12)	(58)	(69)	(45)	(184)
— Other foodstuffs	(926)	(731)	(834)	(182)	(203)	(157)	(149)	(691)
Nutmeg and mace	7	11	12	2	1	2	6	11
Animal and livestock products	76	70	82	20	19	20	19	78
Other spices	9	9	12	1	3	2	2	8
Mining products	2,737	2,058	2,511	807	543	421	464	2,235
— Copper	(222)	(189)	(230)	(54)	(37)	(37)	(60)	(188)
— Other mining products	(2,515)	(1,869)	(2,281)	(753)	(506)	(384)	(404)	(2,047)
Others	181	264	246	100	177	303	176	756
B. Exports of crude oil & products (millions of barrels)	427	422	495	138	131	136	128	533
C. Liquefied natural gas (trillions of BTU/ British Thermal Unit)	—	—	—	—	8	26	37	71

TABLE 27 – IMPORTS (c.i.f.) BY COMMODITY GROUP
(millions of \$)

	1974/ 1975	%	1975/ 1976	%	1976/ 1977	%	1977/ 1978	%	Percentage change (%) 1977/1978- 1976/1977
Consumer goods	923	21.9	793	17.1	1,233	28.5	1,543	32.2	+ 25.1
Raw material	2,103	49.8	1,192	25.8	1,304	30.2	1,503	31.4	+ 15.3
Capital goods	1,195	28.3	2,638	57.1	1,785	41.3	1,741	36.4	– 2.5
T o t a l	4,221	100.0	4,623	100.0	4,322	100.0	4,787	100.0	+ 10.8

Based on L/C Application

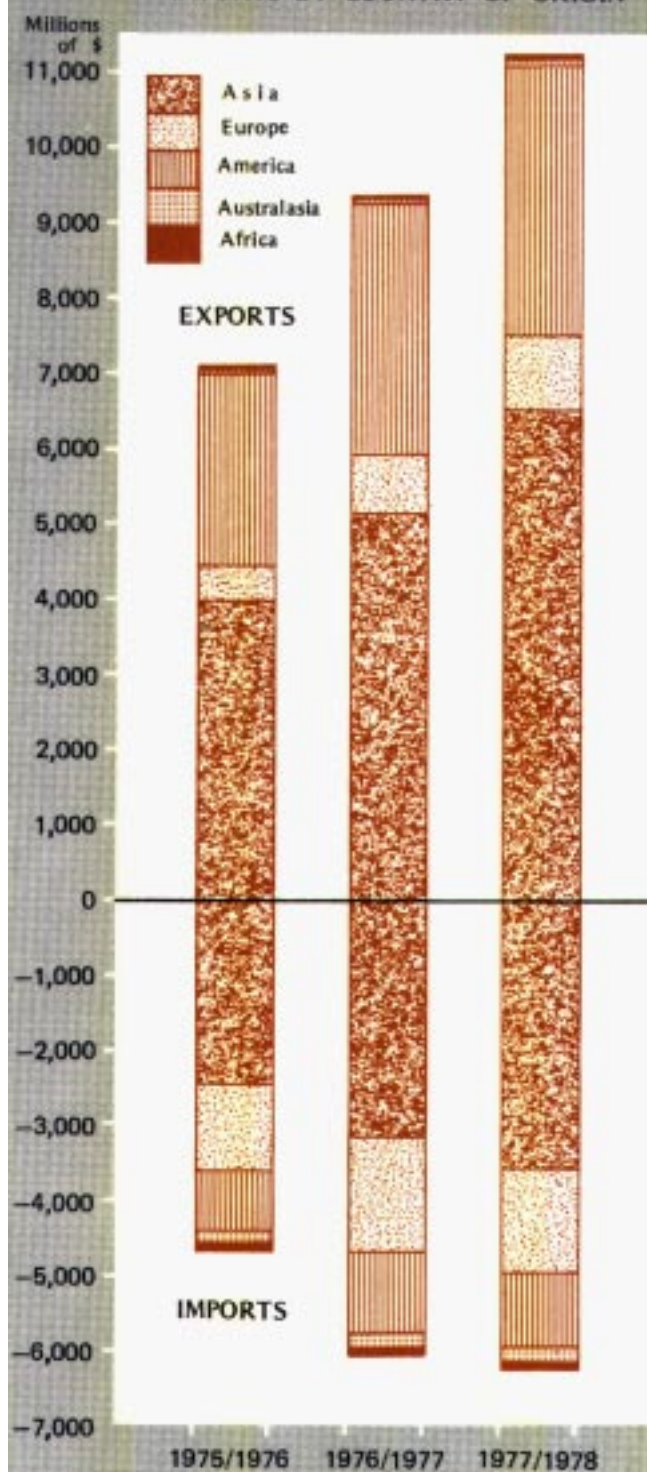
TABLE 28 – IMPORTS (f.o.b.)
(millions of \$)

	1974/ 1975	1975/ 1976	1976/ 1977	1977/ 1978	Percentage change (%) 1977/1978- 1976/1977
General foreign exchange imports	2,481	2,496	2,530	3,916	54.7
Aid foreign exchange imports	566	837	1,556	1,828	17.5
– Aid exchange	(77)	(31)	(2)	(—)	– 100.0
– Food aid	(84)	(11)	(50)	(38)	– 24.0
– PL 480 (Rice, wheat, cotton and yarn)	(9)	(28) ²⁾	(95) ²⁾	(119) ²⁾	25.3
– Project aid	(396)	(767)	(1,409)	(1,671)	18.6
Imports under direct investment ¹⁾	286	593	760	547	– 28.0
Imports under Merchant's L/C	489	553	574	85	– 85.2
T o t a l	3,822	4,479	5,420	6,376	17.6
Imports of oil companies	1,275	930	1,753	1,490	– 15.0
T o t a l	5,097	5,409	7,173	7,866	9.7

1) Includes LNG Company

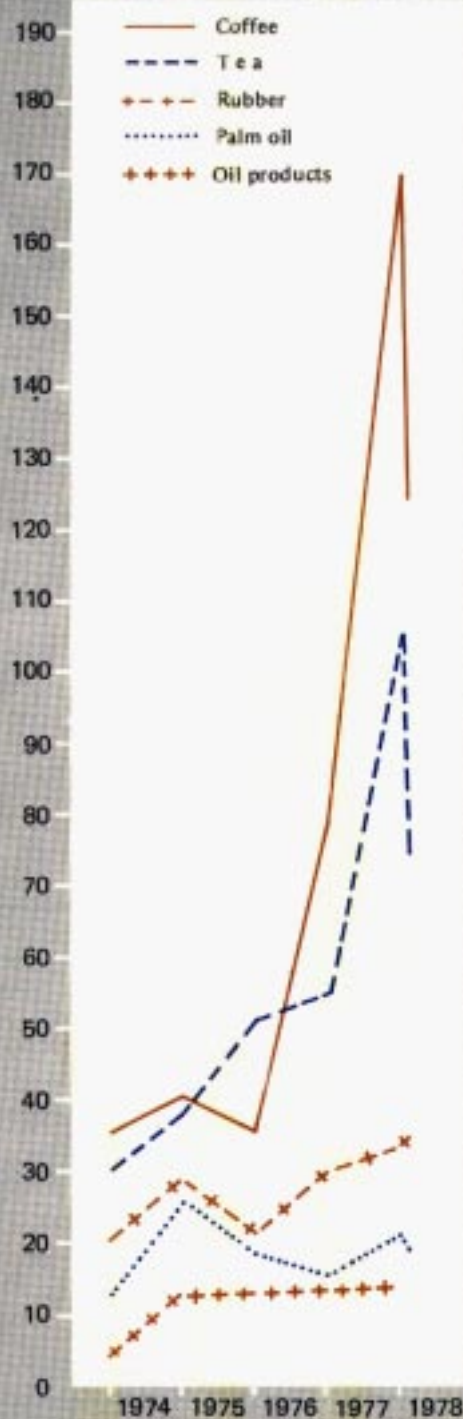
2) Excludes initial payments (GFX)

EXPORTS BY COUNTRY OF DESTINATION AND IMPORTS BY COUNTRY OF ORIGIN



PRICES OF SELECTED EXPORT COMMODITIES

\$/Cental *)

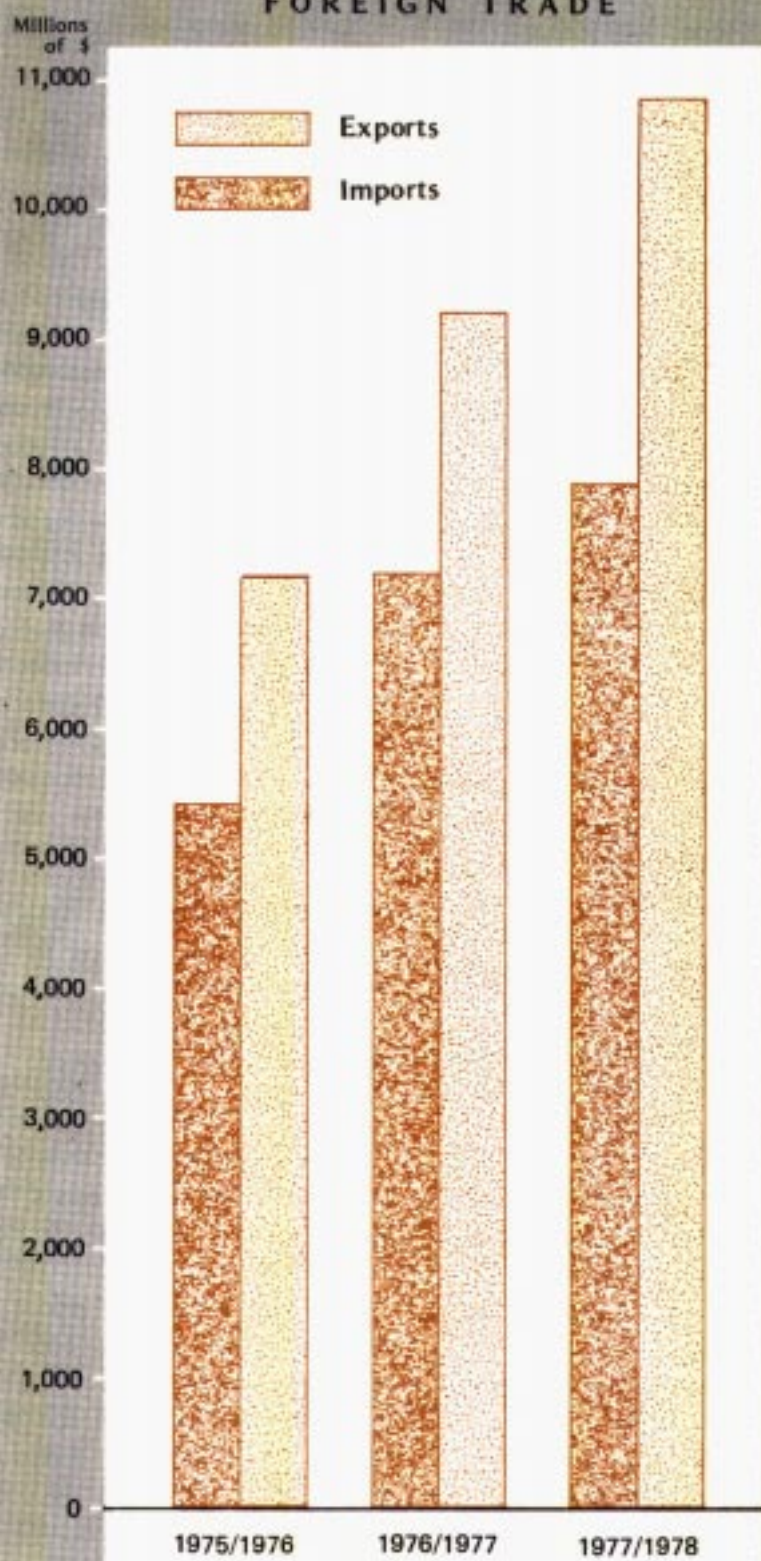


*) Except for oil and products in \$ per barrel

1 Cental = 45.36 kg = 100 pounds.

Source : Central Bureau of Statistics

FOREIGN TRADE



VIII. PRODUCTION, INFRASTRUCTURE AND PRICES

A. National income

Despite a slightly lower rate of growth of world economy in 1977, the growth of Indonesia's economy was satisfactory. Real GDP increased by 7.5% in 1977 compared with that of 6.9% in the preceding year. This was largely attributable to increased production in the mining sector and in the manufacturing sector following completion of a number of important projects plus a strong world demand for Indonesia's export commodities.

By industrial origin, the increase in 1977 GDP was closely related to higher production in mining and manufacturing, which was reflected respectively by 12.2% and 11.9% increases in value added. In mining, crude oil production also registered a significant increase of 11.8%. In manufacturing, production of Urea fertilizer and cement went up by 143.8% and 45.4% respectively due to enlarged production capacity. It may be mentioned that the increment in value added by the agricultural sector was only 3.4%. This was primarily due to rather marginal increase in rice production, although outputs of some agricultural commodities such as corn, palm oil, pepper and clove were considerably higher than the preceding year. The sluggish expansion in rice production was caused by unfavorable weather and damage to the crop by pests.

In 1977, GDP at current prices reached Rp 19,047 billion compared with Rp 15,467 billion in the previous year. With mid-year population estimates of 136.8 million in 1977 and 133.7 million in 1976, the corresponding per capita GDP figures came to Rp 139,232 (\$335) and Rp 115,684 (\$279).

Although the contribution of the agricultural sector to GDP still remains significant, its share has gradually decreased from 49.0% in the first year of the First Five Year Development Plan to 34.7% in 1977. As against that, the roles of mining and manufacturing, gained importance from 5.2% to 12.2% and from 8.8% to 11.9% respectively. This was the result of development activities during the Five Year Development Plan which imparted greater impetus to those sectors than agriculture.

In addition, the composition of GDP displays an encouraging feature. This is indicated by the increase in gross domestic investment from an average of 14.5% during the First Five Year Development Plan to 21.0% in 1977 (Table 30).

Since foreign investments in Indonesia exceeded Indonesia's investments abroad, Gross National Product (GNP) was smaller than GDP. In 1976 and 1977 GNP at current prices amounted to Rp 15,035 billion and Rp 18,420 billion respectively and calculated at mid-year estimates of the population, GNP per capita amounted to Rp 112,453 (\$271) in 1976 and Rp 134,649 (\$324) in 1977.

TABLE 29 — GROSS DOMESTIC PRODUCT BY SECTOR OF ORIGIN
(billions of Rupiahs)

Sector	1972	1973	1974*	1975*	1976*	1977*
I. At current market prices						
Agriculture, forestry and fisheries	1,837	2,710	3,497	4,003	4,812	5,968
— Farm food crops	(1,071)	(1,573)	(2,096)	(2,555)	(3,044)	(3,549)
— Others	(766)	(1,137)	(1,401)	(1,448)	(1,768)	(2,419)
Mining	491	831	2,374	2,485	2,930	3,694
Manufacturing	448	650	890	1,124	1,453	1,810
Electricity, gas and water supply	20	30	52	70	98	122
Construction	174	262	406	590	813	912
Transportation and communication	182	257	442	521	663	827
Trade, finance and other services	1,412	2,013	3,047	3,850	4,698	5,714
Gross Domestic Product	4,564	6,753	10,708	12,643	15,467	19,047
II. At constant 1973 prices						
Agriculture, forestry and fisheries	2,479	2,710	2,811	2,811	2,944	3,044
— Farm food crops	(1,415)	(1,573)	(1,681)	(1,696)	(1,756)	(1,771)
— Others	(1,064)	(1,137)	(1,130)	(1,115)	(1,188)	(1,273)
Mining	674	831	859	828	952	1,068
Manufacturing	564	650	755	848	930	1,040
Electricity, gas and water supply	26	30	37	41	46	52
Construction	222	262	320	365	384	405
Transportation and communication	229	257	288	303	343	388
Trade, finance and other services	1,873	2,013	2,199	2,435	2,557	2,773
Gross Domestic Product	6,067	6,753	7,269	7,631	8,156	8,770

Source : Central Bureau of Statistics

TABLE 30 — EXPENDITURE ON GROSS DOMESTIC PRODUCT
(billions of Rupiahs)

Types of expenditure	1972	1973	1974*	1975*	1976*	1977*
I. At current market prices						
Private consumption ¹⁾	3,401 ^r	4,791	7,259	8,744	10,464	12,845
Government consumption	414	716	841	1,254	1,590	2,069
Gross domestic investment	857	1,208	1,797	2,572	3,205	3,597
Exports of goods and non-factor services	754	1,354	3,105	2,851	3,430	4,119
Less : imports of goods and non-factor services ²⁾	862 ^r	1,316	2,294	2,778	3,222	3,583
Gross Domestic Product	4,564	6,753	10,708	12,643	15,467	19,047
Net factor income to abroad	-160 ^r	-245	-507	-556	-432	-627
Gross National Product	4,404 ^r	6,508	10,201	12,087	15,035	18,420
Less : net indirect taxes	236	328	447	519	307	795
Less : depreciation	296 ^r	439	696	822	1,006	1,238
National income	3,872	5,741	9,058	10,746	13,722	16,387
II. At constant 1973 prices						
Private consumption ¹⁾	4,276 ^r	4,791	5,454	5,679	6,031	6,277
Government consumption	561 ^r	716	641	836	897	1,040
Gross domestic investment	1,032	1,208	1,440	1,650	1,749	1,838
Exports of goods and non-factor services	1,123	1,354	1,403	1,267	1,425	1,579
Less : imports of goods and non-factor services ²⁾	925	1,316	1,669	1,801	1,946	1,964
Gross Domestic Product	6,067	6,753	7,269	7,631	8,156	8,770
Net factor income to abroad	-171	-245	-369	-360	-366	-391
Gross National Product	5,896	6,508	6,900	7,271	7,790	8,379
Less : net indirect taxes	294	328	352	371	399	429
Less : depreciation	394	439	472	496	531	570
National income	5,208	5,741	6,076	6,404	6,860	7,380

1) Residual

2) Balance of payment figures

Source : Central Bureau of Statistics

B. Capital investment

During the last few years, the amount of capital investments under the Domestic Capital Investment (PMDN) as well as the Foreign Capital Investment (PMA) scheme has been increasing. There were, nevertheless, some indications that the rate of increase thereof was less than that required to meet the projected rate of growth in the coming years. Accordingly, the Government has recently taken some important steps in the monetary sector as mentioned in Chapter I on monetary developments. In order to stimulate the growth of capital investment moreover, the Government has also issued some regulations, including, inter alia, the simplification of the procedure for approving capital investment applications and the amendments in the Priority List (DSP).

In connection with efforts to simplify the approval procedure, the Capital Investment Coordinating Board (BKPM) has been designated since October 1977 as the sole Government institution authorized to evaluate capital investment applications, approve domestic capital investments and recommend foreign capital investments for approval by the President ¹⁾. The above mentioned duties were previously discharged by the BKPM through a so-called "Coordinating Committee", whose membership included representatives of various technical Departments. The new pro-

cedure is expected to shorten the length of time needed for disposal of investment applications.

In the implementation of capital investment policy, the Priority List will be continuously reviewed and adjusted to suit economic and social developments, which serve as the basis for determining the relative importance of each economic activity. In this context, an adjustment was made in February 1978, consisting of a modification in the Priority List and an extension in the number of economic activities open for investment under the scheme from 831 to 1,114 ²⁾. Out of this total, 604 economic activities are open for domestic as well as foreign investment, the priority of 19 economic activities will be decided on a selective basis, whereas the remaining 491 activities are closed for foreign investment.

As is well-known, the Government stipulated in an Act in 1968, that foreign companies should wind up their trading activities by December 31, 1977 ³⁾. As a follow up of the above mentioned Act, the Government issued a regulation in December 1977 confirming termination of the said trading activities of foreign companies ⁴⁾. This cessation could be achieved in several ways, i.e. by transferring the ownership of the companies to nationally owned

1) Presidential Decree No 53/1977 and No 54/1977, dated October 3, 1977.

2) Decision of the Chairman of the Capital Investment Coordinating Board No. 2/1978, dated February 15, 1978,

3) Act No. 6/1968, dated July 3, 1968.

4) Government Regulation No. 36/1977, dated December 29, 1977.

companies, shifting their activities from trade to other sectors (manufacturing/ production), appointing nationally owned companies as their trading agents, or liquidating the foreign companies themselves.

1. Domestic capital investment

Intended domestic investments approved by the Government since the enactment of the Domestic Capital Investment Law in July 1968 through the end of 1977 amounted to Rp 2,594 billion, covering 2,778 projects. Of this amount, the largest share, amounting to Rp 1,700 billion or 66% of the intended investment, was absorbed by the manufacturing sector, with 2,029 or 73% of total projects. In the manufacturing sector, intended investments in textile industry, chemical industry and food industry amounted respectively to Rp 523 billion, Rp 275 billion and Rp 261 billion. Other sectors which attracted investors were forestry (Rp 249 billion), agriculture (Rp 164 billion) and real estate (Rp 147 billion).

It should be mentioned that the mining sector has not yet attracted many capital investors. This is mainly due to limited availability of technical know-how and capital and the slow yields thereof.

In terms of geographic distribution, most of the projects (i.e. numbering 700), are located in the Jakarta area. Other areas with a significant number of projects are successively West Java (592), East Java (334), Central Java (234), North

Sumatera (170) and East Kalimantan (141).

During 1977, the Government approved 208 domestic investment projects with an intended capital of Rp 581 billion. Compared with the preceding year, the number of projects as well as the amount of approved investments showed an increase of 42% and 108% respectively.

Meanwhile, the Government has been providing a wide variety of opportunities for domestic investment which is i.e. reflected in the number of economic activities open for investment under the Domestic Capital Investment Law as indicated in the Priority List of February 1978. In this connection it should be mentioned that there are 988 types of economic activities open for investment under the Domestic Capital Investment Law, compared with only 107 that are not. It is expected that, with the enlargement of economic activities open to domestic investment and the simplification of the approval procedure of capital investment applications, the amount of domestic capital investment will increase in the coming years. The trend in domestic capital investment over the last few years is shown in Table 31.

2. Foreign capital investment

Unlike 1976, when the amount of intended foreign investments approved by the Government declined by 75%, the position during 1977 exhibited an expansion of 49% to reach \$ 670 million. However,

TABLE 31 — APPROVED DOMESTIC INVESTMENT PROJECTS BY SECTOR, 1968–1977
(billions of Rupiahs)

S e c t o r	Nov.1968–1974		1 9 7 5		1 9 7 6		1 9 7 7		T o t a l	
	Number of projects	Invest- ment plan	Number of projects	Invest- ment plan	Number of projects	Invest- ment plan	Number of projects	Invest- ment plan	Number of projects	Invest- ment plan
Agriculture	94	70.4	14	19.2	13	41.7	3	50.5	124	181.8
Forestry	259	171.5	13	7.3	7	5.1	55	65.2	334	249.1
Mining	13	50.0	—	—	—	—	—	—	13	50.0
Manufacturing	1,658	925.8	130	194.4	112	179.3	129	400.3	2,029	1,699.8
Construction	6	15.6	—	—	—	—	—	—	6	15.6
Hotel/Tourism	100	73.3	4	1.4	—	—	10	14.6	114	89.3
Housing/Offices	9	77.6	4	15.3	5	17.5	13	36.1	31	146.5
Other services	113	103.5	7	8.3	9	35.5	—2	14.1	127	161.4
T o t a l	2,252	1,487.7	172	245.9	146	279.1	208	580.8	2,778	2,593.6

Source : Investment Coordinating Board

TABLE 32 — APPROVED FOREIGN INVESTMENT PROJECTS BY SECTOR, 1967–1977
(millions of \$)

S e c t o r	1967–1973	1974	1975	1976	1977	1967–1977	
						Investment plan	Projects
Agriculture	99.7	2.6	1.0	8.2	41.1	152.6	55
Forestry	448.8	62.3	15.8	36.9	28.8	592.6	86
Fishery	25.5	19.3	13.6	5.8	4.9	69.1	17
Mining	652.5	69.0	507.2	3.6	200.0	1,432.3	13
— Metal	501.5	69.0	507.2	3.6	200.0	1,281.3	8
— Others	151.0	—	—	—	—	151.0	5
Manufacturing Industry	1,166.1	928.2	1,159.4	348.2	380.2	3,982.1	459
— Food	98.1	33.9	23.5	67.6	7.7	230.8	55
— Textiles & leather	542.8	358.3	31.2	24.2	91.9	1,048.4	68
— Wood & wood products	8.0	10.0	21.8	5.5	—	45.3	13
— Paper & paper products	14.6	1.0	18.5	66.2	9.7	110.0	14
— Chemical & rubber	180.4	76.1	60.4	35.7	78.2	430.8	126
— Non-metallic minerals	119.0	134.5	99.6	72.0	99.0	524.1	28
— Basic metals	55.6	246.0	875.6	12.0	18.4	1,207.6	26
— Metal products	143.3	65.0	28.8	65.0	75.3	377.4	120
— Others	4.3	3.4	—	—	—	7.7	9
Construction	49.2	26.8	10.4	1.2	3.4	91.0	61
Trade & hotels	121.5	43.0	21.3	14.2	0.6	200.6	16
— Wholesale trade	11.6	—	—	0.7	—	12.3	4
— Hotels	109.9	43.0	21.3	13.5	0.6	188.3	12
Transportation & Communications	29.5	3.0	20.3	4.0	5.0	61.8	20
— Transportation	23.4	3.0	16.9	4.0	—	47.3	19
— Communications	6.1	—	3.4	—	5.0	14.5	1
Services	116.4	122.2	9.5	27.3	6.0	281.4	55
— Trade services	99.4	122.2	9.5	27.3	6.0	264.4	41
— Other services	17.0	—	—	—	—	17.0	14
T o t a l	2,709.2	1,276.4	1,758.6	449.3	670.0	6,863.5	782

TABLE 33 — IMPLEMENTATION OF FOREIGN INVESTMENT PROJECTS BY SECTOR, 1967–1977
(millions of \$)

S e c t o r	1967–1973	1974	1975	1976	1977	1967–1977	
						Investment Value	Projects
Agriculture	24.5	4.5	3.2	8.0	12.5	52.7	42
Forestry	152.9	50.3	34.4	22.7	22.1	282.4	76
Fishery	26.1	21.9	11.3	8.5	2.8	70.6	14
Mining	172.1	44.3	40.4	42.4	20.1	319.3	11
Manufacturing Industry :	664.5	368.5	392.4	301.2	186.2	1,912.8	366
— Food	90.0	21.7	13.9	10.8	11.9	148.3	45
— Textiles & leather	285.6	157.7	181.8	91.8	27.9	744.8	54
— Wood & wood products	3.7	1.8	10.6	4.6	1.4	22.1	8
— Paper & paper products	12.4	1.5	0.7	3.3	9.6	27.5	10
— Chemical & rubber	95.5	50.8	45.9	45.7	28.0	265.9	109
— Non-metallic minerals	41.1	44.2	54.2	71.3	42.9	253.7	20
— Basic metals	20.1	17.7	43.3	30.7	27.8	139.6	21
— Metal products	107.7	72.2	41.1	42.4	35.4	298.8	91
— Others	8.4	0.9	0.9	0.6	1.3	12.1	8
Constructions	5.5	16.6	7.9	4.5	3.0	37.5	48
Trade & hotels	34.4	19.6	8.2	17.6	6.2	86.0	12
— Wholesale trade	9.8	—	0.1	0.2	—	10.1	3
— Hotels	24.6	19.6	8.1	17.4	6.2	75.9	9
Transportation & Communications	8.6	1.1	2.2	4.4	2.0	18.3	19
— Transportation	3.6	0.7	1.2	4.2	1.8	11.5	18
— Communications	5.0	0.4	1.0	0.2	0.2	6.8	1
Services	15.6	107.1	47.1	16.2	3.9	189.9	35
— Social and personal services	15.6	24.9	23.7	12.3	3.8	80.3	35
— Other services	—	82.2	23.4	3.9	0.1	109.6	—
T o t a l	1,104.2	633.9	547.1	425.5	258.8	2,969.5	623

this amount is lower than that in 1975 when approvals reached \$ 1,759 million (Table 32).

It is worthy of mention that the amount of intended foreign investment approved by the Government since January 1967 through the end of 1977 totalled \$ 6,864 million covering 782 projects. Of the said intended investments, 36% originated from Japan, 12% from Hongkong, 6% from the United States and 4% from the Philippines.

Since the implementation of projects generally takes relatively long periods of time, the amount of intended investments and their realizations- usually differ significantly. Implemented investments through the end of 1977 amounted to \$ 2,970 million for 623 projects. Out of this total, realized investments in the field of manufacturing amounted to \$ 1,913 million (64%) in 366 projects, followed by mining, with investments of \$ 319 million (11%) in 11 projects, and forestry, with \$ 282 million (10%) in 76 projects (Table 33). Within the manufacturing sector, the types of industries with a relatively large capital outlays are textile industry, metal industry and chemical industry.

After adjustment of the Priority List, there were 604 types of economic activities open for foreign investment, and 491 banned therefrom. Compared with the 1977 Priority List, the types of economic activities open for foreign investment increased by 203 or 51 %.

C. Agriculture

As is well-known, the agricultural sector has been assigned an important role in both the first and the second Five Year Development Plans. Accordingly, the Government's policy has been continually directed towards the development of this sector with the object of enlarging the production capability of farmers, so as to step up production and to expand employment opportunities. In addition, agricultural sector is expected to induce the growth of manufacturing industries and to increase foreign exchange earnings.

The Government's policy on foodstuffs has all along been aimed at the gradual achievement of self sufficiency. Besides, the policy on plantations has been directed towards expansion in production, especially that of smallholders, and to enlarge the variety of crops. In forestry, efforts have been made to utilize forests, especially of timber, for commercial purposes without neglecting the conservation of natural resources. Special attention has also been paid to small fishermen in order to improve fish-catching, pond-fish raising and marketing of their products.

1. Production of foodcrops

The Government's policy of production of foodcrops revolved round intensification programs through BIMAS and INMAS as well as extensification of crop areas. In consonance with the extension of crop areas under BIMAS and INMAS programs,

banking networks were extended to rural areas by enlarging the number of BRI village units. In 1977/1978, the number of these units increased from 3,113 to 3,270. To improve extension services to farmers, the Government also established stalls for distribution amongst them of agricultural inputs, particularly seeds, fertilizers and insecticides. With respect to extensification for rice crop, the Government expanded tidal irrigated land in Riau, Jambi, South Sumatera and Central Kalimantan, which reached the level of 280 thousand hectares at the end of 1977/1978.

In order to encourage farmers to expand their output, the Government raised in February 1978 the purchase price at village level of dried paddy from Rp 70. - / kg to Rp 74. - /kg and of rice from Rp 11 0. - /kg to Rp 119.50/kg. For farmers participating in INMAS scheme, credits have been made available from BRI for purchasing fertilizers and insecticides beginning from the crop season of 1977/1978. These credits bear an interest rate of 1 % per month and are repayable one month after the harvest or 7 months after these credits are granted.

In addition, expansion and renovation of rice mills and hullers were made, and at the end of 1977 there were 35 thousand rice mills and hullers with the capacity of 15 million tons a year. The number and the corresponding capacity thereof during the last few years were as follows:

Year	Number of rice mills and hullers (thousand units)	Annual rice production capacity (thousand tons)
1973	24.0	12.2
1974	29.0	13.5
1975	29.2	13.6
1976	31.7	14.2
1977*	34.7	14.9

Source : Department of Agriculture

In February 1978, the Government took steps to change the role of the BUUD (Village Unit Enterprises) and KUD (Village Unit Cooperatives) in order to make them more effective operationally. BUUD, which formerly acted as self-contained economic units, were transformed into an Organization for Supervising KUD. KUD which in the past were based on the acreage of rice crop (around 1,000 hectares), have now been organized on the basis of economic opportunities in several villages under a Kecamatan (local government above village level). Furthermore, KUD will function as self-contained economic units dealing with the maintenance of stocks and distribution and marketing of agricultural inputs and outputs and other related activities. Besides, the Minister of Finance and the Governor of Bank Indonesia were directed to take necessary steps in the fields of finance and banking to attain smooth expansion of KUD. Meanwhile, the number of BUUD and KUD was enlarged and their performance improved. They now consist of 4,042 units, of which 2,883 have the legal status of cooperatives.

a. Rice

In 1977, rice output did not expand as expected and only marginally increased from 15.8 million tons in 1976 to 15.9 million tons in 1977. This was caused by planthopper pest attack and unfavorable weather, and is furthermore reflected by almost constant harvested area of rice, i.e. 8,388 hectares in 1977 as against 8,369 hectares in 1976. Even in Jawa and Madura the principal rice producing area, the harvested area declined from 4,466 hectares to 4,392 hectares. The output, the harvested area and average yield per hectare in the last few years are shown below.

Year	Production (thousand tons)	Harvested area (thousand Ha)	Average yield ¹⁾ (q/ha)
1968	11,666	8,020	28.0
1969	12,249	8,014	29.4
1970	13,140	8,135	31.1
1971	13,724	8,324	31.7
1972	13,183	7,898	32.1
1973	14,607	8,403	33.4
1974	15,276	8,509	34.5
1975	15,185	8,495	34.3
1976	15,844	8,369	36.4
1977*	15,941	8,388	36.6

1) dried paddy

Source : Central Bureau of Statistics

Like the preceding year, the price of rice in 1977/1978 in several cities remained stable, although output did not increase as expected. This was attributable to governmental efforts directed at maintenance of adequate stocks of rice, mainly through substantial quantities of rice imports. In 1977/1978, rice imports amounted to 2.5 million tons compared with 1.4 million tons

in the previous year. It is worthy of mention here that the price of imported rice was relatively low, because of an estimated 4% increase in world rice production reaching 350 million ton in 1977. ⁵⁾

b. Secondary crops

Similar to rice, intensification measures through BIMAS and INMAS schemes were also applied to secondary crops. These schemes which were started in the planting season of 1972/1973 covering 10 thousand hectares, continued to increase to 977 thousand hectares in the planting season of 1977/1978.

Except cassava, outputs of secondary crops generally increased in 1977 because due to inadequate rainfall, areas unfit for rice production were used to grow these crops.

Corn output increased by almost 18% to reach 3,030 thousand tons in 1977. To expand production of corn and to augment income of farmers, the Government implemented a Pioneer Project on Purchasing of Corn in East Jawa in February 1978 at an appropriate base price for procurement. The base price for KUD purchases was initially Rp 39, - /kg at the farm and Rp 40, - /kg at KUD. KUD further sold it to BULOG or to the market. The base price for BULOG purchases from KUD was Rp 42.50/kg It

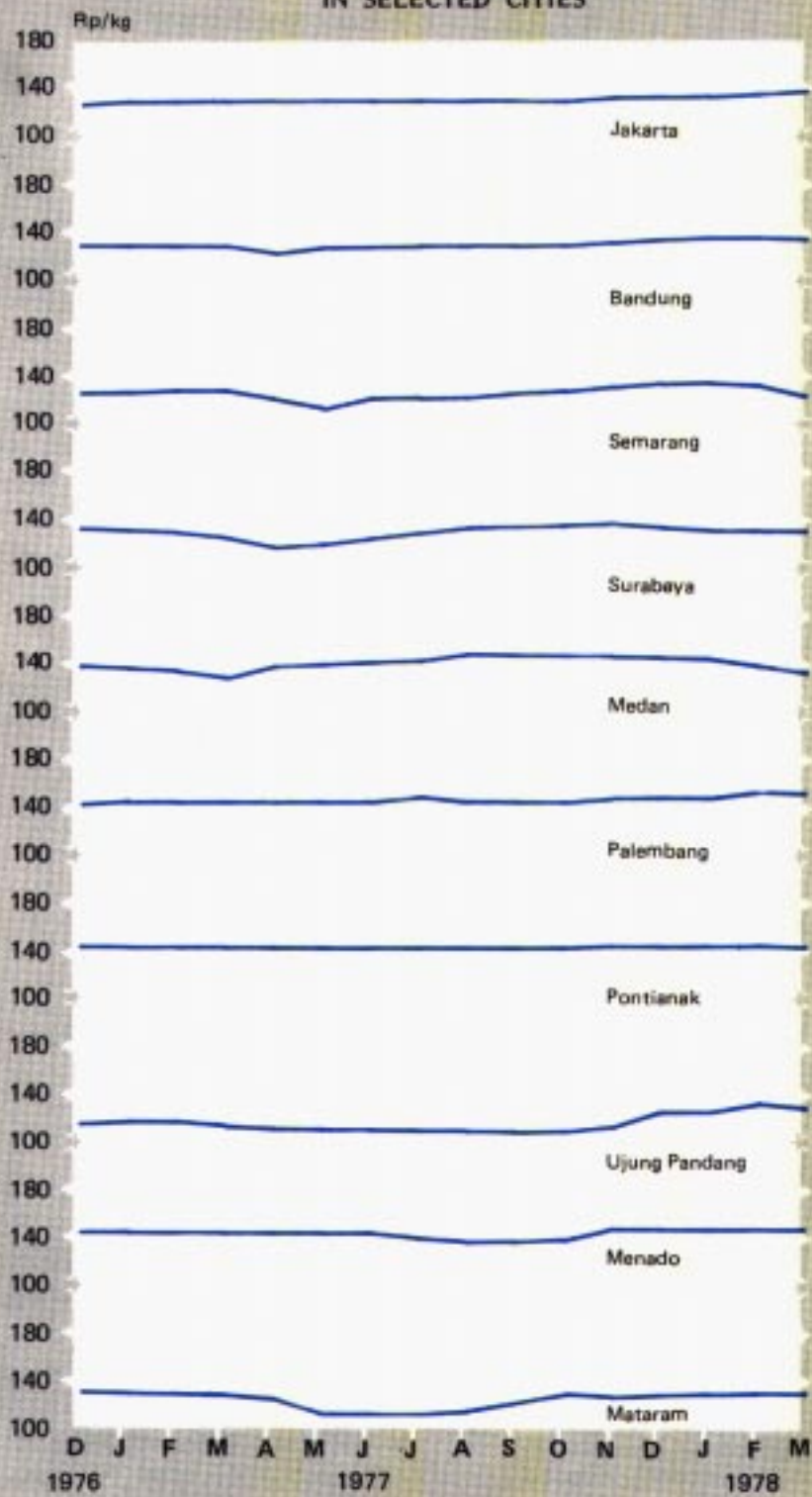
5) FAO, Monthly Bulletin of Agricultural Economics and Statistics, November, 1977.

TABLE 34 — PRICES OF MEDIUM QUALITY RICE IN SELECTED CITIES
(Average price in Rp/Kg)

		Jakarta	Bandung	Semarang	Surabaya	Medan	Palembang	Pontianak	Ujung Pandang	Menado	Mataram
1973	December	84.12	85.12	80.53	75.20	115.80	120.—	126.60	74.80	118.88	74.32
1974	December	90.76	88.42	88.27	89.99	108.07	101.22	115.62	100.—	120.—	74.97
1975	December	125.83	127.68	122.18	124.88	133.47	122.38	135.—	107.50	126.60	97.50
1976	January	126.87	125.18	125.71	126.28	129.66	129.13	134.80	112.20	134.80	101.10
	March	120.35	119.74	123.09	117.81	116.61	134.59	134.—	115.—	—	117.40
	J u n e	115.14	117.59	119.34	111.71	128.25	132.86	137.62	115.—	128.07	106.92
	September	121.91	125.18	128.43	125.84	125.—	139.66	140.—	120.—	140.—	123.10
	December	123.31	125.—	124.—	128.90	135.20	139.04	140.—	122.50	140.—	126.—
1977	January	126.13	125.—	124.79	127.97	133.12	142.44	140.—	125.—	140.—	126.—
	February	125.93	125.—	123.70	125.86	130.42	142.73	140.—	125.—	140.—	126.87
	March	126.02	124.42	116.63	121.13	127.28	142.50	140.—	119.50	140.—	126.76
	April	125.41	118.03	111.72	114.72	135.16	142.34	140.—	115.—	140.—	121.20
	M a y	125.66	124.—	118.50	118.75	138.76	142.34	140.—	115.—	140.—	111.40
	J u n e	125.93	126.34	120.—	122.71	135.—	142.13	140.—	113.46	139.23	110.—
	J u l y	126.32	127.02	120.—	125.84	137.72	147.10	140.—	109.—	136.50	110.92
	August	125.24	126.82	126.48	128.42	139.12	142.23	140.—	110.—	135.—	112.59
	September	125.—	125.—	128.02	131.20	139.20	142.33	140.—	110.—	135.—	119.60
	October	125.74	127.11	129.50	132.59	140.18	142.26	140.—	110.96	139.80	127.23
	November	132.69	132.64	132.48	136.50	144.42	146.47	142.40	117.60	145.—	124.88
	December	133.54	134.11	132.14	132.53	144.50	147.23	142.50	126.75	145.—	125.80
1978	January	134.91	134.79	131.01	128.78	143.94	146.36	142.50	125.—	145.—	126.—
	February	135.46	132.50	130.—	129.50	135.—	152.65	142.50	130.—	145.—	126.—
	March	137.78	130.—	120.—	129.—	130.—	150.—	142.50	125.—	145.—	127.50

Source : Body for Logistic Affairs

PRICES OF MEDIUM QUALITY RICE IN SELECTED CITIES



should be noted that this base price was applicable to dried corn at 14% water content. Farmers were free to sell their corn either to KUD or to others.

In 1977 output of sweet potatoes and peanut increased by 3% to reach 2,453 thousand tons and 18% to reach 403 thousand tons respectively, while soybeans pro-

duction rose marginally from 522 thousand tons to 527 thousand tons. Production of cassava slightly declined to 12,169 thousand tons, mainly due to increased planting of more profitable crops, notably corn.

The output, harvested area and average yield per hectare of secondary crops were as follows:

	Production (thousand tons)			Harvested area (thousand Ha)			Average yield (g/ha)		
	1975	1976	1977*	1975	1976	1977*	1975	1976	1977*
— Corn	2,903	2,572	3,030	2,445	2,095	2,550	11.9	12.3	11.9
— Cassava	12,545	12,191	12,169	1,410	1,353	1,356	89.0	90.1	89.7
— Sweet potatoes	2,433	2,381	2,453	311	301	315	78.2	79.1	77.9
— Peanut	380	341	403	475	414	506	8.0	8.2	8.0
— Soybeans	590	522	527	752	646	663	7.8	8.1	8.0

Source : Department of Agriculture

2. Plantation crops

In Indonesia's economy, plantation crops play an important role as foreign exchange earners as well as raw materials for domestic industries. In 1977, exports of plantation crops constituted around 49% of the total non-oil exports. A large part of those crops is produced by smallholders and the rest by estates. In 1977, output of plantation crops generally increased, except coffee which showed a decline.

a. Rubber

During the last few years production of

rubber did not progress satisfactorily. As in the previous years, rubber output increased by about 4% in 1977 and amounted to 818 thousand tons. This slow expansion mainly resulted from the condition of rubber trees, the majority of which was old.

In order to increase production, the Government has been making efforts to replant rubber trees, using high yielding seeds and applying better cultivation techniques. However, due to financial constraints the replanting efforts have not shown appreciable results. The trend of rubber production in the last few years was as follows (in thousand tons):

Year	Smallholder's rubber	Estate rubber	Total
1969	554	223	777
1970	571	238	809
1971	547	239	786
1972	567	236	803
1973	598	247	845
1974	571	249	820
1975	536	244	780
1976	540	246	786
1977*	570	248	818

Sources : — Department of Agriculture
— Central Bureau of Statistics

In order to assist agricultural estates to replant rubber trees, the banking system has provided credits to private national estates on concessional terms ⁶⁾, which include a grace period till the trees enter their productive age and self-financing on a smaller scale.

In order to enhance the competitiveness of Indonesia's natural rubber in the world market, efforts have been made to improve the quality of rubber, especially in the processing of smallholder rubber into crumb rubber.

Crumb rubber production in 1977 increased by 15% to 485 thousand tons, and constituted approximately 59% of Indonesia's total rubber production. The types of crumb rubber presently produced are SIR 5/5L, SIR 10, SIR 20 and SIR 50. The figures on crumb rubber production during the last few years are as follows (in thousand tons):

Year	Rubber	Crumb rubber	Share of crumb rubber in total output
1969	777	9	1.2
1970	809	34	4.2
1971	786	129	16.4
1972	803	291	36.2
1973	845	345	40.8
1974	820	374	45.6
1975	780	397	50.9
1976	786	423	53.8
1977	818	485	59.3

Sources : — Department of Agriculture
— Department of Trade
— Central Bureau of Statistics

As is well-known, most of Indonesia's rubber has been exported and thus it occupies an important place as foreign exchange earner. In 1977, exports of rubber increased by 11% to reach \$ 594 million. As foreign exchange earners rubber occupied a third position among non-oil export commodities after timber and coffee. The increase in the exports was attributable mainly to favorable rubber prices in the world market, as indicated by a rise in the price of the RSSI, from dollar cent 38.75 per lb at the end of 1976 to dollar cent 41.13 per lb at the end of 1977.

In 1976/1977 an agreement was reached between members of the Association of Natural Rubber Producing Countries (ANRPC), to maintain the stability of the natural rubber price, through adjustment. Of rubber exports to world demand. A plan was also drawn up to establish an international buffer stock amounting to about 100 thousand tons, which would be sold when rubber prices were increasing and be built up when prices were falling. It

6) Credits not only provided for rubber trees, but also for other estate commodities.

is expected that a stable price will be achieved without conflicts in interest of producer as well as consumer countries.

Meanwhile, the world production of natural and synthetic rubber, which was 11,515 thousand tons in 1976, increased by 4% to become 12,028 thousand tons.

Due to the improving economic conditions in the industrial countries, the world consumption of rubber increased from 11,470 thousand tons to 12,238 thousand tons or by 7%. World rubber production and consumption (in thousand tons) during the last five years were as follows:

Year	Rubber production			Rubber consumption		
	Natural	Synthetic	Total	Natural	Synthetic	Total
1973	3,505	7,758	11,263	3,403	7,575	10,978
1974	3,445	7,575	11,020	3,518	7,450	10,968
1975	3,315	6,855	10,170	3,368	7,028	10,396
1976	3,560	7,955	11,515	3,555	7,915	11,470
1977*	3,583	8,445	12,028	3,713	8,525	12,238

Source : IRSG, Rubber Statistical Billetin, Vol 32, No. 6 March, 1978

b. Copra

In the last few years, export of copra, which was formerly one of Indonesia's important export commodities declined and in 1977/1978 was no longer exported, and even began to be imported although in small quantities (Chapter VII on Balance of Payments). During the last 8 years, copra production increased only by an average of 3% annually.

The slow growth of copra output was mainly due to the low yield of the coconut trees, the majority of which is old. In addition, most of the coconut tree growers are smallholders, who have difficulties with replanting. Copra production in 1977 increased by less than 4% to reach 1,440 thousand tons.

The figures on copra output during the last few years are as follows (in thousand tons):

Year	Production
1973	1,280
1974	1,343
1975	1,370
1976	1,389
1977*	1,440

Source : Department of Agriculture

The governmental efforts to increase copra production primarily find expression through the replanting program using high yield hybrid seeds. For this purpose a number of seed stations were established in North Sulawesi, South Sulawesi, North Sumatera, Aceh, Lampung and West Jawa.

c. Palm oil

As in the previous years, expansion, replanting and better cultivation of palm trees were continued, which was possible because most of the crop is cultivated by large estates.

As a result, palm oil production during the last few years increased significantly. In 1977 production of palm oil increased by 14% to reach 496 thousand tons. Figures on production of palm oil during the last few years are as follows (in thousand tons):

Year	Production
1973	290
1974	351
1975	411
1976	434
1977*	496

Source : Central Bureau of Statistics

As in the past, a large part of palm oil was exported and only the residue was used by domestic industries. In this connection it may be mentioned that exports of palm oil increased significantly by 40% to reach \$ 193 million in 1977, while in 1976 it registered a decrease. The increased export in 1977 was mainly attributable to the favorable prices of palm oil in the world market, which rose by 32% to an average of \$ 594 per long ton.

d. Sugar

In consonance with the trend of the last few years, sugar production increased in

1977. The figures on sugar production (in thousand tons) are as follows:

Year	Production
1973	820
1974	1,025
1975	1,030
1976	1,056
1977*	1,107

Source : Central Bureau of Statistics.

Despite the increased production, sugar output was not adequate to meet the domestic consumption, making it necessary to import a large quantity of sugar. Import of sugar in 1977 reached 360 thousand tons compared with 175 thousand tons in the preceding year. The significant expansion in import volume was due to the increasing consumption of sugar as a raw material for food and beverages industries and also to the Government's effort to build a larger domestic stock of sugar.

In order to reduce imports, the Government continually attempted to increase sugar production. Since 1975/1976 it has implemented an Intensification Program for small growers of sugar-cane (TRI program), which was also intended to increase their incomes ⁷⁾.

It is expected that through this program the sugar-cane cultivation would be gradually transferred from the sugar factories to smallholders, so that by the end of the second Five Year Development Plan it would be entirely in the hands of the latter.

7) Presidential Decree No 9, dated April 22, 1975.

This program which has been continuously enlarged, covered a cultivated area of 58,197 hectares in 1977/1978 or 57% over that in 1976/1977. The size attained so far, nevertheless, fell below the targeted area of 72,583 hectares.

The total area under sugar-cane covered approximately 200 thousand hectares. Besides the TRI program, efforts to increase sugar production were also carried out through rehabilitating and expanding the production capacity of the existing sugar factories.

It may be added that besides sugar-cane produced by sugar factories, there is also brown sugar produced by smallholders which is extracted from either sugar-cane or palms. Brown sugar production in 1977 amounted to 250 thousand tons, compared with 267 thousand tons in the preceding year.

e. Tea

Tea, one of the most important export commodities, is mainly produced by estates which account for 80% of the total thereof. Besides, tea grown by smallholders is only used for domestic consumption. In order to increase production, the Government rehabilitated and expanded tea plantations of estates and smallholders, the result of which is shown in the following figures (in thousand tons):

Year	Smallholder's tea	Estate tea	Total
1973	14	53	67
1974	14	50	64
1975	15	55	70
1976	13	60	73
1977*	17	64	81

Sources : — Central Bureau of Statistics
 — Department of Agriculture

It is noteworthy that exports of tea in 1977 increased considerably, i.e. by 120% over that of the preceding year to reach \$ 121 million. Besides a considerable price rise of about 100%, the said increase was also caused by a 10% expansion in export volume. The price increase, in turn, was caused by an expansion in the world demand for tea which was closely related to the switching of consumption from coffee to tea. In addition, the rise in price of Indonesian tea was also caused by an improvement in its quality. It may be added that the main countries of destination of Indonesia's tea exports were the United States, Australia, the Netherlands, Egypt and Iraq.

f. Coffee

Most of Indonesia's coffee production (about 90%) originated from smallholders. Coffee production in 1977 reached about the same level as in 1976, i.e. 183 thousand tons. As in the previous years Indonesia was the sixth largest coffee producer in the world after Brazil, Colombia, Ivory Coast, Mexico and Uganda.

The figures on coffee production (in thousand tons) during the last 5 years are as follows:

Year	Smallholder's coffee	Estate coffee	Total
1973	140	10	150
1974	143	16	159
1975	157	15	172
1976	170	15	185
1977*	166	17	183

Sources: — Central Bureau of Statistics
— Department of Agriculture

Most of the coffee production was destined for export, which continued to increase during the last few years. Exports of coffee in 1977 increased by a considerable 154% to become \$ 534 million. This performance was due to a 144% and an 18% increase in coffee price and export volume, respectively. The increase in the world coffee price was a consequence of the crop failure in Brazil, the main coffee producing country. This crop failure still had its effect on the world coffee supply, and also resulted in a switch of world coffee consumption from Arabica to Robusta, which constituted most of Indonesia's coffee exports.

g. Tobacco

Most of tobacco production, i.e. about 87%, originated from smallholders. The Government's efforts to increase production and to improve the quality of tobacco were i.e. implemented through expansion of the cultivated area and improvement of cultivation techniques.

Tobacco production in 1977 increased by 17% to reach 103 thousand tons, compared with an average annual increase of 5% during the 3 preceding years. Besides the above governmental efforts, this increase was also attributable to favorable weather conditions. The figures on tobacco production (in thousand tons) during the last few years are as follows:

Year	Smallholder's tobacco	Estate tobacco	Total
1973	67	10	77
1974	69	9	78
1975	74	9	83
1976	76	12	88
1977*	90	13	103

Sources : — Central Bureau of Statistics
— Department of Agriculture

Furthermore, it may be mentioned that tobacco exports in 1977 increased by 43% over that of the preceding year, to reach \$ 57 million. This increase was caused by higher price and expanded volume which rose by 15% and 24%, respectively. Moreover, tobacco was shipped according to both the general export procedure and on consignment basis. General exports were mainly destined for the United States, the Netherlands, Spain, France and North Africa, whereas exports on consignment to Bremen were sold in the Tobacco Exchange through auctions and under private contracts.

h. Spices

Almost all types of spices such as pepper, nutmeg and cloves are cultivated by smallholders. Production of these com-

modities increased significantly in 1977. Most of the pepper and nutmeg is exported, whereas almost all clove production is used domestically.

Pepper production, consisting of black pepper and white pepper, increased by 56% in 1977 to reach 39 thousand tons. Pepper export in that year amounted to 40 thousand tons with a total value of \$ 66 million. The value of exports increased by 39%, while its value rose only by 5%. The price of white pepper in New York rose from \$ 1.05/lb at the end of 1976 to \$ 1.46/lb at the end of 1977, while that of black pepper increased from \$ 1.02/lb to \$ 1.22/lb, thereby adding to earnings.

However, *nutmeg* production in 1977 amounted to 14 thousand tons, which was almost the same as that of the preceding year, while the volume export declined by 40% to only 7 thousand tons. Despite that, the value of exports increased by 12% to reach \$ 11 million in 1977, resulting from higher prices in the world market.

In 1977 *clove* production increased by 51% to reach 26 thousand tons. The higher production resulted from the Government's extensification program and the use of high yielding Zanzibar seeds introduced several years ago. The production, however, fell short of domestic demand, therefore necessitating the Government to import cloves. As a result of increased production during the last 3 years its imports, however, declined from 25 thousand tons in 1975 to 10 thousand tons in 1976 and 4 thousand tons in 1977.

3. Forestry

Besides serving needs of raw material for domestic industry, forestry is an important source of foreign exchange. The important forestry product is timber, which is mainly exported. Other forestry products are rattan, resin, copal and tengkawang seeds, which are consumed domestically as well as exported. Due to the importance of this sector, that the exploitation of forestry was enhanced without neglecting the conservation of natural resources.

Timber production in 1977 reached 22 million cubic meters, an increase of 4% compared with the previous year. The increase in production was mainly caused by higher demand from the main importing countries, such as Japan and South Korea, which was reflected by a 7% increase in export volume in 1977. The production of timber during the last few years was as follows:

Year	Production (thousand m ³)
1973	25,800
1974	23,280
1975	16,296
1976	21,427
1977*	22,360

Source : Department of Agriculture

In order to conserve natural resources, the Government's reforestation and greening efforts, which were started several years ago, were continued on an increasing scale during the year under report. The results achieved are as follows (in thousand hectares):

Year	Forestation	Greening
1973/1974	53.4 ^r	104.5 ^r
1974/1975	48.8 ^r	52.5 ^r
1975/1976	89.8 ^r	80.6 ^r
1976/1977	160.8	267.7
1977/1978*	188.4	619.2

Source : Department of Agriculture

	Volume (thousand tons)			Value (million \$)		
	1975	1976	1977	1975	1976	1977
Rattan	45.9	65.0	79.9	3.4	9.1	18.2
R e s i n	5.5	5.5	4.7	1.0	0.7	0.6
C o p a l	1.9	3.4	5.2	0.1	0.5	0.8
Tengkawang seed	1.8	0.3	1.6	0.2	0.1	0.9

At the end of 1977/1978, 359 companies had obtained Forest Exploitation Rights with a total area of 34 million Ha and involving planned investments of \$ 1,002 million and Rp 500 million. The above figures included domestic capital investment as well as foreign capital investment.

In August 1977, The Government obligated each timber exporter holding Forest Exploitation Right, to pay Rp 415.— for every cubic metre of logs exported, with the objective of collecting fund to develop timber industry and timber fleet.

A greater part of timber exports originated from Kalimantan and Sumatera, i.e. 75% and 19% respectively. The timbers exported includes, i.e. meranti, keruing, ramin and agathis with destinations to Japan, South Korea, Taiwan and Singapore. Export of other forest products, such as rattan, copal and tengkawang seeds, increased significantly in value as well as in volume. The development of other forest products was as follows:

The increased export of forest products

was attributable to the expansion of demand from several importing countries, such as Singapore and Hongkong.

4. Fishery

Government policy on fishery has been directed toward improving the activities of small-fishermen without neglecting the preservation of fishery resources. For this purpose steps have been taken by way of construction and reconstruction of the required facilities such as public fish auctions, fish ponds, hatcheries and fish fry market. Besides credits for purchasing fish catching equipment, outboard-motors and motorized boats were also made available to small fishermen and fish breeders under the Small Investment Credit (KIK) and Permanent Working Capital Credit (KMKP) programs.

In order to increase fishery production for export, the Government provided the opportunity for investment in fishery, under the Domestic as well as the Foreign Capital Investment Laws.

The above mentioned efforts resulted

in a significant increase in fishery production during the last 5 years, both of fresh water fish as well as sea fish. The average production increase during that period was about 5% per annum, which was higher than the planned 4% increase stipulated in the second Five Year Development Plan. The position of fishery production during the last few years was as follows (in thousand tons):

The export proceeds of fishery prod-

Year	Sea fishery	Inland fishery	Total
1973	889	389	1,278
1974	949	388	1,337
1975	997	393	1,390
1976	1,043	405	1,448
1977*	1,099	427	1,526

Source : Department of Agriculture

ucts during the last few years showed a promising trend as indicated by the following figures:

It may be mentioned that 73% of the

Year	Volume (thousand tons)				Value (million \$)
	Shrimps	Fresh fish	Others	Total	
1973	28.8	5.9	17.5	52.2	68.2
1974	32.7	7.1	15.1	54.9	92.3
1975	24.2	4.7	11.9	40.8	88.2
1976	30.1	7.0	15.8	52.9	131.3
1977*	29.8	11.0	15.1	56.0	158.3

export value of fishery products in 1977 was derived from frozen shrimps and fish. The main countries of destination of fishery exports were Japan, Taiwan and South Korea.

D. Mining

In recent years, the role of mining as a source of foreign exchange and government revenue, and as a contributor to national income formation has gained in importance. Accordingly, the Government has continuously been endeavouring to increase mineral output.

In view of the importance of this sector, only state enterprises are authorized to extract certain minerals considered vital and of strategic importance, whereas other minerals, such as quartz, kaolin, sulphur and manganese can be mined by local government and private enterprises. However, due to limited availability of capital and know-how needed to exploit certain vital minerals, the Government has permitted foreign companies to invest their capital under contracts of work and production sharing contracts.

As mentioned in the previous annual report, the Government had introduced measures to increase capital investments for extracting non-oil minerals, which later became known as the "Third Generation Contracts of Work in the Field of Mining"⁸⁾

In 1977/1978, the Government issued new regulations on capital investments which in particular referred to the oil sector, i.e. regarding the possibility of estab-

8) Government Regulation No. 21/1976, dated August 23, 1976.

lishing joint ventures between PERTAMINA and foreign oil companies. These regulations are designed to increase oil exploration activities.

1. Crude oil

In the year under report, oil production increased by about 9% and reached 616 million barrels or about 1.69 million barrels per day on the eve rage.

The said increase was mainly due to the discovery of new oil-wells, i.e. at the Sembakung field (South-east Kalimantan) and Platform Rama-D (offshore, South-east of Sumatera). Crude oil production during the last few years was as follows (in millions barrels):

Year	Total	Average per day
1973/1974	508.4	1.39
1974/1975	485.5	1.33
1975/1976	497.9	1.36
1976/1977	568.3	1.56
1977/1978	616.4	1.69

Source : Department of Mining

In 1977, 135 oil wells were drilled, compared with 196 in 1975 and 148 in 1976. The decline is mainly attributable to diminished exploration activities of foreign oil companies in the immediate past.

To stimulate oil exploration, since 1976/1977, the Government has been providing a number of incentives to foreign contractors operating under contracts of work or under production sharing contracts. In order to enhance oil exploration even further, in the year under report, the Govern-

ment has opened a way for establishment of joint ventures between PERTAMINA and foreign oil companies. In this context, two agreements were signed during 1977/1978 between PERTAMINA and foreign contractors, i.e. Conoco from the United States and Total Indonesia from France.

In 1977/1978, the volume of crude oil exports amounted to 484 million barrels, which was higher by 6% over the preceding year. About 80% of crude oil production was exported to Japan and the United States of America. In addition to crude oil, Indonesia exported refinery products, i.e. wax, waxy residue, naphta and fuel oil, to a total volume of 49 million barrels in 1977/1978. This was 32% more than that of the previous year.

Besides exports, part of the crude oil output was used as raw material by domestic refineries which produced fuels and other products. The domestic consumption of fuels increased continuously, i.e. by 15% annually, reaching 101.6 million barrels in 1977, compared with 88.9 million barrels in the previous year. The domestic demand for fuels was partly met by domestic production and partly by imported fuels.

At present, there are 9 refineries with a total capacity of 526 thousand barrels per day. Part of the crude oil used by these refineries is imported, in view of the fact that the price of imported crude oil is lower than that of Indonesian crude oil, due to a difference in quality. The growth in production of fuels and other refinery products is shown in Table 35.

TABLE 35 — REFINERY PRODUCTS OF INDONESIA ¹⁾
(in barrels)

	1975	1976	1977
Aviation gas (Avgas)	179,381	130,438	113,151
Aviation turbo (Avtur)	920,296	837,430	732,545
Motor gas (Mogas)	15,758,564	13,008,762	15,754,948
Kerosene	22,425,398	20,577,854	30,255,824
Automotive diesel oil (ADO)	16,366,590	14,697,587	21,887,386
Industrial diesel oil (IDO)	4,536,297	4,847,988	5,401,750
Fuel oil	11,820,114	14,679,037	20,974,973
Naphta	3,409,050	3,240,493	7,901,346
Waxy residu	32,163,018	36,050,566	41,485,437
Petro chemical gasoline (P.Ch.G.)	13,595	—	—
White spirits	371	—	538
Super benze	135	12	151
Solvent	184,811	161,804	189,678
Jute batching oil (JBO)	(19,310)	19,414	19,377
Liquefied petroleum gas (LPG)	336,152	291,229	299,308
Cokes	200,555	153,219	190,474
Residue	123,519	528,321	(418,917)
Propylene	—	—	—
Waxes	283,799	267,449	324,878
Asphalt	326,182	283,025	502,001
Lube oil	30,672	13,928	23,804
Intermediate	1,939,267	1,342,974	2,389,206
Fuel gas	871,080	519,800	1,278,244
Losses and own use	1,509,708	2,046,234	3,684,275
T o t a l	113,379,244	113,697,564	152,990,377

1) Includes products refined abroad

Source : Department of Mining

In contrast to the preceding year, the domestic price of fuels was kept constant during 1977/1978, i.e. Rp 90.— per litre for super, Rp 70.— for avtur, avgas and premium, Rp 25.— for automotive diesel oil, Rp 22.— for industrial diesel and fuel oil, and Rp 18.— for kerosene. As the production cost of fuels exceeded their price, the Government paid Rp 65 billion as subsidy during the reporting year.

2. Natural gas

To date, natural gas as a source of energy, foreign exchange and government revenue has not yet been fully tapped and most of it has been flared at the field. However, it is expected that the role of natural gas will gain in importance after completion of the LNG plants in Badak (East Kalimantan) and Arun (Aceh) which will export their products, and of some industrial projects which will use natural gas as fuel and as raw material.

Natural gas produced in 1977 amounted to 543 million mscf (mile standard cubic feet), i.e. 74% higher than in the preceding year. This output included 57 million mscf of LNG from the Badak plant which commenced production in August 1977. The use of natural gas will increase significantly, when the earlier mentioned Badak plant reaches its full production capacity and the other project in Arun starts producing.

To date, LNG has been exported to Japan only. It is expected that in the fu-

ture, it will also be exported to some other countries.

3. Tin

During 1977/1978, production of tin-in-concentrate was 26 thousand tons or increased by 13% compared with the previous year. This increase was attributable to an expansion of off-shore mining.

The production of tin-in-concentrate during the last years was as follows (in thousand tons):

Year	PT Timah	PT Kobatin	PT BHPI	Total
1973/1974	22.6	...	—	22.6
1974/1975	24.7	...	—	24.7
1975/1976	24.2	0.8	...	25.0
1976/1977	22.1	1.0	0.2	23.3
1977/1978	23.8	2.2	0.3	26.3

Source : Department of Mining

Almost all tin production was exported. Since the annual capacity of the tin-smelter in Muntok was increased from 15 thousand tons to 33 thousand tons, tin was exported as from April 1976 only in the form of metal instead of concentrate.

Tin is mined by PT Timah on the islands of Bangka and Belitung, by PT Kobatin on-shore and off-shore on the South-East coast of Bangka island and by PT Broken Hill Proprietary Indonesia (BHPI) on Belitung. PT Kobatin, a joint venture of PT Timah and Australia Kajuara Mining Corp, has been in operation since 1973, while PT BHPI is a foreign company

which commenced production in 1975. Moreover, another foreign company, i.e. Billiton Maatschappij Indonesia (BEMI), is conducting off-shore exploration in Pulau Tuh.

4. Nickel

In the year under report, nickel ore production rose to 1,317 thousand tons which was 1 2% higher than that of the previous year. Nickel ore output exhibited the following trend over the past few years (in thousand tons):

Year	Production
1973/1974	989.9
1974/1975	781.1
1975/1976	751.2
1976/1977	1,177.4
1977/1978	1,316.7

Source : Department of Mining

In 1977/1978, nickel ore exports amounted to 714 thousand tons, compared with 925 thousand tons in 1976/1977. Almost all nickel ore was shipped to Japan, under a long term (10 years) sales contract in effect since 1973.

At present, there are two nickel smelting plants in operation, i.e. one of PT Aneka Tambang located in Pomalaa, South-East Sulawesi, which produces ferro-nickel, and another of PT INCO located in Soroako, South Sulawesi, which produces nickel-matte. In 1976 and 1977, production of ferro-nickel amounted to 16,887 tons and 21,514 tons, respectively, while exports in those years were 13,288 tons

and 22,517 tons. To date, the nickel-matte plant is in trial operation.

Meanwhile, PT Pacific Nickel Indonesia has planned the establishment of a nickel metal plant on the island of Gag (Irian Jaya) with an annual capacity of 60 thousand tons. The project is a joint venture between the Government of Indonesia and a number of foreign companies (American, Canadian and Dutch) at an estimated cost of \$ 978.5 million. The plant is scheduled for completion in 1983.

5. Bauxite

To date, bauxite has been mined by PT Aneka Tambang in Riau. In the year under report, production of bauxite reached 1,222 thousand tons which was 17% higher than the previous year. Bauxite production in the last years was as follows in thousand tons):

Year	Production
1973/1974	1,204.7
1974/1975	1,284.2
1975/1976	935.8
1976/1977	1,048.5
1977/1978	1,221.8

Source : Department of Mining

Bauxite has not yet been used domestically as raw material for the production of alumina. Therefore, the whole output of this mineral has been exported. In 1977/1978, the value and volume of bauxite exports amounted to \$ 9 million and 1,152 thousand tons respectively and the sole country of destination was Japan. Bauxite

was exported under a long term (i.e. 10 years) sales contract with Japan in effect since 1974, which provides for an annual export of 1.2. million tons.

In order to enable domestic processing of bauxite, an aluminium smelting plant with an annual capacity of 225 thousand tons is being constructed in Asahan. The plant is scheduled for completion in 1981 and is part of the Asahan project, a joint venture between the Government of Indonesia and a number of Japanese companies. Moreover, the construction of an alumina smelting plant on the island of Bintan with an annual capacity of 600 thousand tons was planned and is also scheduled for completion in 1981. The plant will be managed by PT Aneka Tambang at an estimated cost of around \$ 400 million, and will produce alumina to serve as raw material for the Asahan aluminium smelting plant.

6. Coal

During the year under report, coal production rose by 36% and amounted to 249 thousand tons. The increase in output was in line with the higher level of domestic use, especially as additional agent for the ferro-nickel smelting plant in Pomalaa, the expanded tin smelting plant in Muntok, and the expanded cement plant in Indarung.

Coal production during the test five years was as follows (in thousand tons):

Year	Production
1973/1974	145.9
1974/1975	171.6
1975/1976	204.0
1976/1977	183.3
1977/1978	248.5

Source : Department of Mining

Coal is currently being mined by PN Tambang Batubara in Bukit Asam and Ombilin with reserves of approximately 100 million tons. There are moreover two foreign companies which completed explorations, i.e. Shell Mijnbouw NV which discovered coal reserves of around 10,000 million tons in Bukit Asam and PT Rio Tinto Bethlehem Indonesia which discovered around 100 million tons in Jambi. Total coal reserves, therefore, amount to approximately 10,200 million tons.

7. Copper

As in the previous year, output of copper concentrate registered a decline. In 1977/1978, production fell by 12% and amounted to 187 thousand tons. This decline in output was in response to lower world market prices. Consequently, in 1977/1978 the value and volume of copper concentrate exports decreased by 22% and 28%, respectively. It may be mentioned that to date, the whole output of copper concentrate has been exported.

Copper concentrate production during the last few years was as follows (in thousand tons):

Year	Production
1973/1974	163
1974/1975	208
1975/1976	214
1976/1977	212
1977/1978	187

Source : Department of Mining

Copper is currently mined by PT Freeport Indonesia Inc. in the mountain range of Ertzberg (Irian Jaya). There are also a number of companies engaged in copper exploration, i.e. PT Aneka Tambang which is exploring the area at Mt. Gede (West Jawa), Sangkarobi (South Sulawesi) and Gorontalo (North Sulawesi).

8. Iron

Production of iron concentrate, which is one of the raw materials for steel and cement production, increased by 6% to 317 thousand tons in 1977/1978, after a decline of 13% in the preceding year.

Iron concentrate production developed as follows (in thousand tons):

Year	Production
1973/1974	322
1974/1975	344
1975/1976	346
1976/1977	300
1977/1978	317

Source : Department of Mining

To date, iron ore has been mined on the South coast of Central Jawa. The Government of Indonesia in conjunction with the New Zealand Government has completed a study regarding the possibility of iron ore mining on the South coast of Yogyakarta

in order to increase output. Iron ore from that area is planned to be processed into pellet-iron and further into sponge- iron as a raw material for steel production.

Only a small part of the iron concentrate output was used domestically to meet the demand of cement factories, while the major part was exported. In 1977/1978, exports amounted to 263 thousand tons with a value of \$ 2.2 million. The main buyer of iron concentrate to date is Japan.

9. Gold and silver

Gold and silver are mined by PT Aneka Tambang, in Cikotok and Cirotan area (West Jawa). In the year under report gold and silver output declined by 28% and 11% respectively and amounted to 252 kgs and 2,788 kgs. The decline was mainly due to the lower gold and silver contents of the ore. In order to increase production, exploration in the area around the mines is currently in process.

Gold and silver production during the last few years was as follows (in kgs):

Year	Gold	Silver
1973/1974	327	8,462
1974/1975	260	6,129
1975/1976	327	4,224
1976/1977	351	3,138
1977/1978	252	2,788

Source : Department of Mining

All gold and silver ore was smelted and purified by PT Aneka Tambang Unit Pemurnian Logam Mulia and used domestically.

E. Manufacturing industry ⁹⁾

As in the previous years, the policy with respect to industry during the reporting year was mainly designed to support the agriculture sector, and to develop the construction material and textile industry. The result of these efforts was reflected in the increase of almost all manufacturing output such as fertilizer, cement, textiles and motor vehicle tires (Table XX) The aforesaid production increase was i.e. attributable to rehabilitation and expansion of existing plants and establishment of new ones which enlarged the available production capacity. The efforts were financially supported by the Development Budget which amounted to Rp 130 billion in the year under report. Moreover, various types of industries were provided with investment credits amounting to Rp 106 billion which was 11% more than in the previous year. Bank Indonesia also provided credits called KIK and KMKP to help small investors.

As mentioned earlier, a series of measures taken at the end of 1977 were also designed to develop the manufacturing industries. The steps were calculated to reduce production costs through low interest rates on loans and Usance L/Cs primarily for imports of raw materials, semi manufactured goods, spare-parts and other considered important for domestic production.

As stated in connection with capital investment at the end of 1977, intended domestic capital investment in manufacturing industry amounted to Rp 1,700 billion for 2,029 projects and constituted 66% of total thereof under the Domestic Capital Investment Law. Foreign Capital Investments in manufacturing industry amounting to \$ 3,982 million covered 459 projects and constituted 58% of the corresponding aggregate, under the Foreign Capital Investment Law of which realization reached \$ 1,913 million on 366 projects.

1. Textile industry

It was pointed out in the previous annual report, that one of the difficulties faced by the domestic textile industry was the competition in marketing vis-a-vis increased textile imports. In order to overcome this difficulty, therefore, the Government has introduced a number of measures, such as imposition of higher import duties and import restrictions on selected items of textiles which could be produced domestically. As the result, textile imports in 1977/1978 declined to about 77 million meters, while domestic production increased by 90 million meters to 1,333 million meters. In addition, production of weaving yarn rose by approximately 9% to 678 thousand bales. Actually, textile production could be increased further

to match the rise in demand and more so because production was still below the existing capacity. The increase in textile output was accompanied by additional production equipment as shown below:

9) The classification of manufacturing industry is in accordance with the functions of the Directorates General of the Department of Industry.

	Unit	1973/74	1974/75	1975 /76	1976/77	1977/78
1. Spindles	piece	729,620	869,660	1,238,500	1,394,268	1,465,000
2. Falsetwisting	set	44	142	147	180	197
3. Mechanized weaving						
looms	piece	53,691	57,774	60,372	61,469	65,067
4. Non-mechanized weaving						
looms	piece	50,000	55,000	60,000	60,000	60,000
5. Knitting machines	piece	7,377	7,706	7,965	8,109	8,246

Source : Department of Industry

2. Chemical industry

The policy to develop the chemical industry, which was accorded priority in the First and Second Five Year Development Plans, showed encouraging results as reflected by higher rates of expansion of output of fertilizer, cement, motor vehicle tires, paper and salt.

a. Fertilizers

Fertilizer (Urea) production increased significantly by 144% to reach 990 thousand tons in the year under report. The marked increase was primarily due to the completion of the PUSRI IV fertilizer plant, commissioned in September 1977 with an annual production capacity of 570 thou-

sand tons. With this addition, there were 5 fertilizer plants at the end of 1977/1978 viz, PUSRI I, II, III & IV and Petro Kimia with a total annual capacity of 1,665 thousand tons of Urea and 150 thousand tons of Ammonium Sulphate. It is worthy of note that the production capacity of fertilizers is capable of further expansion and by 1981 is expected to become 3,375 thousand tons of Urea and 610 thousand tons of other types (i.e. Ammonium Sulphate, TSP, NPK, DAP). This projection is inclusive of the capacity of 570 thousand tons of the fertilizer plant at Aceh to be established under ASEAN cooperation.

The production capacity of fertilizer plants (in existence and to be constructed) is shown below:

	Location	Product	Annual capacity (thousand tons)		Commencement of production
I. Existing plants					
PUSRI	I	Palembang	Urea	100	1963
	II	Palembang	Urea	380	1974
	III	Palembang	Urea	570	1976
	IV	Palembang	Urea	570	1977
Petro Kimia	East Jawa	Urea	45		1972
		Ammonium Sulphat		150	1972
	T o t a l		1.665	150	
II. Under construction/expansion					
Petro Kimia	East Jawa	TSP		330	Apr. 1979
		DAP		80	Apr. 1979
		NPK		50	Apr. 1979
PT Pupuk Kujang	West Jawa	Urea	570		Dec. 1979
Kaltim I	East Kali- mantan	Urea	570		1981
A c e h	DI Aceh	Urea	570		1981
	Total		1.710	460	
	Grand total		3.375	610	

Source : Department of Industry

In 1977/1978, domestic fertilizer consumption increased by about 6% over the previous year. The level of production in the reporting year and the availability of large stocks enabled larger exports of fertilizer. During the year under report, 361 thousand tons of Urea was exported to ASEAN countries, India, Pakistan, Sri Lanka, New Zealand and Australia.

b. Cement

During the year under report, cement output was higher by 45% over the preceding year and became 2,879 thousand

tons. The result was achieved because of expansion of the Cibinong cement plant and construction of a cement factory i.e. PT Semen Nusantara in Cilacap. At the end of 1977/1978, the total annual capacity amounted to 3,750 thousand tons. Expansion and construction of cement plants was still in process as shown by the following figures:

Despite a sharp increase in output, fairly large imports of cement were still needed to meet the increase in domestic demand. However, the quantity imported declined from 1,738 thousand tons in 1974

	Location	Annual capacity (thousand tons)		Commencement of production		
I. Existing plants						
1. PT Semen Gresik	East Jawa	250		1959		
		125		1961	1st	expansion
		125	500	1972	2nd	expansion
2. PT Semen Padang	West Sumatera	120		1971		
		100		1973	1st	expansion
		110	330	1976	2nd	expansion
3. PT Semen Tonasa	South Sulawesi	120	120	1968		
4. PT Semen Cibinong	West Jawa	500		1975		
		700	1,200	1977	1st	expansion
5. PT Indocement	West Jawa	500		1975		
		500	1,000	1976	1st	expansion
6. PT Semen Nusantara	Central Jawa	600	600	1977		
			3,750			
II. Under expansion						
1. PT Semen Gresik	East Jawa		1,000	1978	3rd	expansion
2. PT Indocement	West Jawa		1,000	1978	2nd	expansion
3. PT Semen Padang	West Sumatera		600	1979	3rd	expansion
4. PT Semen Tonasa	South Sulawesi		500	1979	1st	expansion
III. Under construction						
1. PT Semen Batu Raja	South Sumatera		500	1979		
2. PT Semen Cirebon	West Jawa		500	1979		

Source : Department of Industry

to 1,433 thousand tons in 1976 and was only 590 thousand tons in 1977.

c. Motor vehicle tires

As mentioned in the previous annual report, the 4 big tire manufactures were Good Year, Dunlop, Intirub and Bridgestone. During the year under report, they expanded their aggregated annual capacity from 2,380 thousand pieces to 2,490 thousand pieces. Individually, the capacities of the tire factories referred to above were as follows:

Name of Factory	Location	Annual capacity (thousand units)	
		1976	1977
Good Year & Dunlop	Bogor	1,200.0	1,280.7
Intirub	Jakarta Palembang)	720.0	720.0
Bridgestone	Jakarta	460.0	488.0
Others	Jakarta	--	1.3
T o t a l		2,380.0	2,490.0

Source : Department of Industry

Following the expansion in capacity, the output of automobile tires increased by about 24% to 2.3 million pieces. The marked growth in output was attributable

to the Government's policy which prohibited the import of tires of particular sizes, and also required the automobile assembling industry to use domestically produced components ¹⁰⁾, inclusive of tires, since 1977.

During the year under report, efforts were also made to expand sales abroad of automobile tires. The result thereof was, however, limited to nominal exports of flape bladder to Australia.

Motorcycle tire production also developed favorably during the year under report. The output of motorcycle tires rose by about 60% over the preceding year and came to 2,429 thousand pieces during the year under report. The increase synchronized closely with the enlarged use of motorcycles which rose by approximately 21% over the previous year. Among the 9 motorcycle tire producers there were 3 of a significant size who accounted for 80% of the total production.

d. Paper

Following the expansion in the existing paper factories and the completion of new ones, paper production increased by about 53% to 84 thousand tons in 1977/1978.

However, this production could only partially meet Indonesia's needs for the reporting year estimated to be at about 356 thousand tons. Consequently, the Government continued its efforts to increase paper production, both through expansion of existing factories and by establishment of new ones. In this context, the Government has been providing opportunities to private entrepreneurs to establish paper factories under the Foreign Capital Investment and Domestic Capital Investment Laws.

During the year under report, the capacity of 8 factories was expanded, and 8 new factories were built, which increased the total capacity of paper plants to reach 128 thousand tons at the end of the year. With the exception of three plants, these factories are located in Jawa. As wood is one of the raw materials for paper production and is in abundant supply outside Jawa, the Government has been directing the establishment of paper factories in places outside Jawa as reflected in the Priority List for foreign and domestic investments of February 1978. The list i.e. indicated that paper factories producing cardboard, writing paper, and wrapping paper may only be established outside Jawa. The capacity of paper factories and types of paper produced in 1977/1978 are shown below:

10) Decree of the Minister of Industry No. 307/M/SK/1976, dated August 2, 1976.

		Location	Production Capacity (tons)	Type of paper
I. Existing factories				
1.	PN Kertas Padalarang	West Jawa	5,900	Writing, heavy printing, cigarette paper
2.	Perum Kertas Gowa	South Sulawesi	15,000	Writing, printing, wrapping paper
3.	Perum Kertas Basuki Rachmat	East Jawa	13,000	Printing paper
4.	PN Kertas Leces	East Jawa	24,000	Writing, wrapping paper, tissue paper
5.	PN Kertas Blabak	Central Jawa	7,200	Writing, printing paper
6.	PT Deli Tua Paper Mill	North Sumatera	1,200	Cigarette paper
7.	PT Impama	Jakarta	1,500	Tissue paper
8.	PT Surya Kertas	East Jawa	9,000	Writing, wrapping paper
		T o t a l	77,600	
II. New factories				
9.	PT Sumber Indrajaya	Aceh	4,000	Writing, printing, wrapping paper
10.	PT Bekasi Teguh	West Jawa	12,000	Cardboard
11.	PT Pindo Deli	West Jawa	7,000	Printing and writing paper
12.	PT Karya Tulada	West Jawa	2,400	Cardboard
13.	PT Euraka Aba	East Jawa	3,000	Writing, wrapping paper, cardboard
14.	PT Papyrus Saldi	West Jawa	4,800	Writing paper, cardboard
15.	PT Unipa Daya	West Jawa	3,000	Writing, printing paper, cardboard
16.	PT Saraswati Sakti	East Jawa	14,000	Writing, printing, wrapping paper
		T o t a l	50,200	
		Grand total	127,800	

Source : Department of Industry

e. Salt

Most of the output i.e. around 65% originated from smallholders and the rest was produced by PN Garam. About 75% of total production was used for cooking, 7% for industrial use, and the remainder for preservation and other purposes. In 1977/1978, salt production increased by about 40% over the previous year to become 786 thousand tons. The increase was primarily due to a protracted dry season which was beneficial to the salt industry. The expanded production made salt imports (like

those of 1976/1977) unnecessary, although it had a dampening effect on the market and even caused a sharp drop in the price of smallholder's salt.

In September 1977, the Government introduced a regulation which put PN Garam in charge of the supply and distribution of salt, in order to maintain the level of production and distribution of salt at a price attractive for producers and reasonable for consumers. In this context the Government determine a floor price and a ceiling price at any time it considered de-

sirable. These floor and ceiling prices serve as an indicator to PN Garam; smallholders' salt was bought when its market price approached the floor price, and was sold when its market price approached the ceiling price set by the Government.

Salt production during the last few years develop as follows (in thousand tons):

Year	Smallholders	PN Garam	Total
1973/1974	--	86	--
1974/1975	--	70	--
1975/1976	94	53	147
1976/1977	350	210	560
1977/1978	494	292	786

Source : Department of Industry

It may be added that as in the previous year, the iodisation program under cooperation with UNICEF was pursued and through the end of this reporting year covered 162 thousand tons or 95% of the target.

3. Metal and machinery industry

The development of the metal and machinery industry was encouraging during the year under report. In general the output of various branches of this industry such as motor assembling and electronics was on the increase.

The *metal industry* which included basic metal industry, non-ferro metal industry and metal goods industry, showed an encouraging development although to a lesser extent than other types of industry.

This group of industries produced various items such as electric cord of which output increased by 39% to 13 thousand tons; production of galvanized iron sheets increased by 23% to 185 thousand tons, and production of steel pipes rose by 12% to 120 thousand tons during 1977/1978. On the other hand, output of reinforcing steel dropped by 19% to 240 thousand tons, mainly on account of a sluggish demand for the domestically produced item, and available stocks of imported reinforcing steel.

During the same period of time, the output of a number of items produced by the *machinery industry* increased significantly. Production of rice hullers increased by 72% to 1,723 units, sewing machines by 32% to 528 thousand units and assembling of hand tractors rose by 47% to 44 units.

Compared with the previous year, *automobile assembling* increased by 24% to 93 thousand units, while motorcycle assembling increased by 13% to 301 thousand units. The increase in automobile assembling particularly referred to commercial cars, i.e. due to a Government regulation which abolished and reduced import duties and import sales tax on components of commercial cars.¹¹⁾ On the other hand, import duties on components of passenger cars were increased. More-

11) Decrees of the Minister of Finance No. Kep. 912/MK/111/7/1976 dated July 21, 1976 and No. Kep. 919/MK/11/7/1976 dated July 22, 1976.

over, in order to stimulate domestic production of components, the Government instructed that, as far as possible, automobile and motorcycle assemblers should use domestically produced components.¹²⁾

In 1977/1978 the *shipbuilding industry* did not show significant progress. Steel vessels produced, only reached about 13 thousand DW tons or dropped by about 29% compared with the previous year. This situation was primarily due to limited sales which until then depended on orders from state-owned shipping lines. Besides, national private shipping lines which were expected to expand the market for the ship building industry were coping with limited finances. In order to enlarge their fleet, they were inclined to buy used-ships abroad which were still in good condition and of which the price was far lower than of new ships. It may be mentioned that the Government introduced a number of measures to stimulate the domestic shipbuilding industry, i.e. by providing bank credit. However, these measures have not as yet show tangible results, as the performance of the shipbuilding industry also depended on the development of shipping in general.

During 1977/1978 PT Nurtanio assembled 7 *small aircraft* and 6 *helicopters*, which made total production since 1975 to-date as 12 aircraft and 19 helicopters. Because of the increased domestic use

of aircraft, this industry is expected to develop fast in the future. The possibility of exporting domestically assembled aircraft to certain countries was also kept under constant view.

Assembling of *electronics* particularly television sets and radio cassette recorders, increased sharply during the year under report. Compared with the previous year, production of the two items rose by 147% and 68% to 526 and 548 thousand sets, respectively. The increase was i.e. attributable to the operation of the domestic satellite communication system "PALAPA" which expanded the telecommunications network. Sales of electronics were expected to rise further, mainly on account of rural electrification and export promotion.

4. Miscellaneous industries and handicraft

During 1977/1978, a number of industries under the jurisdiction of the Directorate General of Miscellaneous industries and handicraft showed somewhat similar performance as in the previous year. There was a general increase in production, except of cooking oil, cigarettes and matches. Among the items whose production increased, detergent and soap output rose markedly, i.e. by 15% and 11%, respectively. On the other hand there was a sharp decrease in the production of matches which dropped by 34% to 505 million boxes. This fall was mainly due related to 3 factories which suspended production

12) Decrees of the Minister of Industry No. 307/M/SK/8/1977 dated August 2, 1976 and No. 08/M/SK/I/1977 dated January 11, 1977

because of marketing problems. Production figures of these industries are given in Table XX.

F. Electric power and gas

The Government made numerous efforts such as increasing the production capacity and extensions in the area of electricity distribution, particularly through rural electrification programs, in order to increase the output and use by consumers of electric power and gas.

The rural *electrification* program was implemented by utilizing high voltage networks which passed through particular rural areas. In areas not covered by electric networks, the demand for electricity was met by microhydro power generating stations and low capacity diesel generators.

In 1977, electric power output increased by about 13% to become 4,548 million KWH, out of which 756 million KWH was generated outside the framework of PLN (the State Electricity Corporation) .

Electric power generation (in million KWH) during the last few years is shown below:

Year	Generated by PLN	Purchased by PLN	Total
1973	2,288.5	644.0	2,952.5
1974	2,567.2	678.8	3,246.0
1975	2,893.6	776.9	3,670.5
1976	3,362.9	677.9	4,040.8
1977	3,792.0	756.0	4,548.8

Source : PLN

The increased output was achieved through rehabilitation and installation of electric power generators of which the capacity was increased by 52% to become 1,857 thousand KW.

The progress of installed capacity (in thousand KW) during the last few years was as follows:

Electric Generator	1973	1974	1975	1976	1977
Diesel generated	230	264	267	316	447
Steam generated	225	250	250	250	250
Hydro generated	279	279	279	321	322
Gas generated	42	126	171	333	838
	776	919	967	1,220	1,857

Source : PLN

In line with the development of electric power generators, 15 electric power stations were constructed to raise their total number to 50 at the end of 1977, with a capacity of 1,148 thousand KW or twice their original capacity. Moreover, distribution stations, and transmission and distribution network were also constructed.

It may be mentioned that in order to meet consumer demand for electric power, a number of gas generated electric power generators were constructed in Jakarta, Palembang, Medan and Ujung Pandang. It is noteworthy that the output of some of the electric generators owned by PLN in certain regions was not yet fully utilized because of lack of adequate transmission and distribution networks. However, the output of a number of electric generating stations in certain other areas was short of demand, and PLN was, therefore,

obliged to buy electric power from other producers.

As mentioned in the previous annual report, the State Gas Corporation has been producing *gas* for use as fuel. Efforts to increase its output in order to match the growth in demand met with several obstacles, because a higher sales volume required expansion of pipelines to consumers. Moreover, the usability of existing pipelines was declining because of their age. This situation was reflected in the output of gas which in 1977 increased to 79 million cubic meters, compared with sales of only 66 million cubic meters. The output and sales of gas (in million cubic meters) during the last few years showed the following trend:

Year	Output	Sales to		Total
		Households	Enterprises	
1973	38.7	18.0	10.6	28.6
1974	56.9	17.8	27.5	45.3
1975	71.0	16.6	42.9	59.5
1976	75.2	16.0	45.6	61.6
1977	78.5	16.5	49.2	65.7

Source : State Gas Corporation

G. Communications

In view of Indonesia's extensive territory, the Government has always been trying to augment the availability and use of transportation and communication facilities, such as land, sea and air transportation as well as telecommunication.

During the year under report, these

services generally improved. However, a number of problems were still encountered e.g. in the field of land transportation, infrastructure was inadequate and vehicles short of requirements while sea transportation had to cope with insufficient harbor facilities and bottlenecks in the sailing schedules. Air transportation faced the problem of over-capacity caused by excessive air fares relative to other means of transportation.

1. Land transportation

In order to impart greater efficiency in the use of roads as one of the infrastructures in land transportation, the Government has been continuously maintaining, repairing and reconditioning existing roads and bridges and building new ones. This was reflected in the construction of 695 km of roads and 5,285 m of bridges during the last 5 years.

The implementation of government program in this sphere is closely related to the increase in demand for transportation services as is reflected, i.e. in the increase of the land transportation vehicles. In 1977 the number of commercial vehicles namely buses and trucks increased by 19% and 24% respectively. Passenger cars and motorcycles also increased by about 14% and 22% respectively. The progress in the means of land transport over the past 5 years was as follows (in thousands):

Year	Buses	Trucks/cargo vehicles	Passenger cars	Motor cycles
1973	30.4	141.1	307.7	720.0
1974	31.4	166.4	337.7	945.0
1975	35.9	189.5	378.0	1,151.0
1976	39.8	222.3	420.5	1,407.0
1977	47.2	274.8	477.5	1,719.5

Source : Department of Communications

Railroad services, which declined during the last few years, increased again in 1977. Passengers carried increased by 10% to 22 million persons, and cargo transported went up by 24% to 4 million tons. This development resulted, i.e., through improvement and addition of railway transportation facilities and increasing efficiency of operation schedules. The position of railway transportation during the last few years was as follows:

Year	Passengers (millions)	Passengers/km (millions)	Goods (thousand tons)	Goods Ton/Km (millions)
1973	29.4	2,727.0	5,040	1,069.0
1974	25.4	3,466.3	4,540	1,116.2
1975	23.9	3,534.2	3,871	955.3
1976	20.1	3,371.0	3,321	701.0
1977	22.0	3,553.0	4,156	889.4

Source : Department of Communications

In order to expand the use of railway transportation, PJKA (State Railway Corporation) entered into cooperation agreements with a number of enterprises such as the State Plantations in North Sumatera, PUSRI fertilizer plant and Cibinong cement plant for transportation of their output.

2. Sea transportation

With respect to sea transportation, services have mainly been provided by the national merchant fleet, pioneer sailings and the ocean going fleet as well as the ant fleet. Measures to develop sea transportation services were gradually introduced by repairing existing vessels, acquisition of new ones and by improving harbor facilities.

In 1977, inter-island sea transportation maintained by the national merchant fleet, did not show a significant increase with respect to cargo transportation i.e. from 3,543 thousand tons in 1976 to 3,583 thousand tons in 1977. This performance was a consequence of the fleet's reduction from 319 vessels in 1976 to 316 in 1977, caused by scrapping of old vessels without adequate replacement. The progress of the national merchant fleet in the recent past was as follows:

Year	Total vessels	Capacity (thousand DWT)	Cargo Transportation (thousand tons)
1973	267	285	2,375
1974	300	272	2,682
1975	305	312	3,096
1976	319	330	3,543
1977	316	311	3,583

Source : Department of Communications

In 1974, pioneer sailings were commenced to expedite and accelerate transportation among isolated regions which were generally unattractive for shipping companies. In 1974 pioneer sailings

started with 4 vessels which were increased to 20 vessels in 1977. This fleet was operated to call on small ports in certain regions as indicated below:

Small ports in	Number of vessels	
	1976	1977
West coast of Sumatera	3	3
Riau (Pulau Tujuh)	1	1
West and East Nusa Tenggara	2	2
South and South-East Sulawesi	2	2
North and Central Sulawesi	3	3
Maluku	4	5
Irian Jaya	4	4
Total	19	20

Source : Department of Communications

In 1977, the ocean going fleet began to show an increase in services provided, after a rather disappointing development during the last few years. As such, cargo transportation increased by 8% to reach 5,891 thousand tons mainly on account of enhanced international trading activities. The development of the ocean going fleet and the services provided during the last few years were as follows:

Year	Total	Cargo	
		Capacity (thousand DWT)	Transportation (thousand tons)
1973	41	387	9,917
1974	45	339	9,094
1975	47	412	6,185
1976	50	450	5,462
1977	54	491	5,891

Source : Department of Communications

3. Air transportation

The number of airplanes in operation by scheduled airlines grew from 133 in 1976 to 143 in 1977 as shown below:

Year	Type of Airplanes			Total
	Piston engined	Turboprop	Turbojet	
1973	14	25	16	55
1974	29	53	23	107
1975	20	60	32	112
1976	20	61	46	133
1977	31	56	56	143

Source : Department of Communications

Efforts have gradually been made to increase the number of turbojet- engined airplanes in operation so as to increase service through shorter flight hours for a given distance.

Along with the development of the fleet, the transportation network and flight frequency were improved. To enlarge the scope of the air transportation network, the Government has been developing, for the last few years, a pioneer air transportation service to connect isolated regions which are difficult to reach by other means of transportation. In this connection, 20 Twin Otter airplanes were operated by PT Merpati Nusantara Airlines and pioneer airports were built to a total number of 88 in 1977. Early in 1978, Jeddah, Zurich and Brussels were added to the international flight schedule.

The above mentioned efforts had a favorable impact upon air transportation which increased significantly. Compared with 1976, passengers and cargo carried in 1977 increased by 21% to 3,373 thousand and by 14% to 33 thousand tons, respectively. Despite this increase, the airlines still faced an overcapacity as men-

tioned before. In 1977, the used capacity for passengers and cargo carried was 62% (3,242 million passengers/km) and 60% (294 million ton/km) compared with 56% (2,119 million passengers/km) and 52% (197 million ton/km) in the previous year.

4. Postal and giro services

The main objective of the policy in the sector of postal and giro services was the development and expansion of the postal and giro. To this end, the construction of auxiliary post offices was stepped up and their areas of operation were extended to the local governments above village level) inclusive of the transmigration areas. Moreover, efforts have been continuously made to expedite postal deliveries.

The implementation of the policy showed gratifying results, as reflected in the increase of postal and giro services. In 1977 postal deliveries increased by 16%, post parcels by 10%, postal drafts by 23% and postal giro and cheques by 40%.

Postal and Giro Services, also assisted Bank Tabungan Negara (State Savings Bank) in its operations. Postal and Giro Services during the past 5 years were as follows:

Postal and Giro Services	1973	1974	1975	1976	1977
Regular/express delivery (millions)	177	187	200	201	237
Post parcels (thousands)	495	614	794	772	848
Postal drafts (billion Rp)	46	63	81	99	122
Postal giro and cheques (billion Rp)	204	326	426	471	661
Savings with the State Savings Bank (billion Rp)	1	2	4	7	11
Number of Post Offices					
Central Post Offices	199	196	174	178	185
Sub Post Offices	135	138	147	155	169
Auxiliary Post Offices	820	830	875	890	923

Source : Department of Communications

5. Telecommunication

Progress in telecommunication was gratifying, especially after the use of the PALAPA Domestic Satellite Communication System (SKSD). The system was designed to improve and expand telephone, telex and other communications network.

In 1977, telephone capacity (automatic and manual) increased by a significant 23% to reach 325,613 subscribers. Out of this total, 67% were automatic telephones which increased by 36% over the preceding year. This substantial increase in automatic telephones was mainly caused by the addition of automatic telephone ex-

changes to meet the increase in the public's demand for telephones. Manual telephone connections, on the other hand, increased by only 3% in the same period. Since 1977 the capital cities of all provinces have been linked through the Long Distance Direct Connection (SLJJ).

The development of the number of telephone exchanges and their capacity during the last few years was as follows:

Year	Automatic		Manual ¹⁾	
	Telephone Exchanges	Capacity	Telephone Exchanges	Capacity
1973	34	115,500	504	101,920
1974	37	126,000	507	104,042
1975	39	144,100	507	99,562
1976	52	160,600	507	103,886
1977	54	218,320	506	107,293

1) i.e. through operators

Source : Department of Communications

It may also be noted that, besides the satellite telecommunications system, the microwave transmission network system, troposcatter system, and other transmission systems were still in use which basically complement each other in developing inter-regional communication. The East Indonesia Microwave network was completed and expected to start operation in 1978.

6. Tourism

Various efforts have been made to develop tourist attractions and to enhance tourist promotion in Indonesia and abroad in order to expand tourist trade. Efforts to attract more foreign tourists were made

through establishment of promotion centers and rendering of tourist facilities, such as issue of visas upon arrival and operation of charter flights.

The growth of world tourism and the aforementioned efforts of the Government resulted in a greater flow of foreign tourists to Indonesia during the last few years; the number of foreign tourists rose from 270 thousand in 1973 to 487 thousand in 1977. The following figures reveal the increasing number of foreign tourists in recent years (in thousands):

	Total foreign tourists
1973	273.3
1974	313.5
1975	366.5
1976	401.2
1977	486.8

Source : Department of Communications

Most of the foreign tourists came from the United States, Australia and Singapore. Their main destinations were Jawa, Bali and Sumatera.

In 1977 a total of 50 thousand hotel rooms were available for tourists. Out of this total, 30,734 rooms were in Jawa, while 3,902 and 3,597 were in Bali and North Sumatera, respectively.

H. Prices

The cost of living index based on prices of 62 goods and services in Jakarta which usually serves to measure the rate of in-

flation, showed a gratifying development during the last few years. The rate of increase thereof, which was 47.4% in the last year of PELITA I, declined during the first four years of REPELITA 11 to 20.1%, 19.8%, 12.1% and 10.1% respectively (Table 36). The decline reflected the degree of success achieved through the Government's stabilization program, involving well-calculated fiscal and monetary measures and adequate supplies of certain essential commodities, particularly rice. It may be mentioned that the 10.1 % increase in the general cost of living index in 1977/1978 was the combined result of increases of 10.6%, 9.9%, 6.5% and 10.0% respectively in the sub-indices relating to Foodstuffs, Housing, Clothing and Miscellaneous components. In the Foodstuffs component the price of rice which has the largest weight in the index, rose by 4.3%, i.e. due to an increase in the floor price of rice fixed by the Government. The increase in the index for Housing was mainly caused by higher rentals, while the price of nearly all items in the Clothing component went up. The increase in the index of the Miscellaneous component was mainly attributable to the price increase of clove cigarettes.

Similar to the preceding year, price increases in the first half of 1977/1978 were higher than in the second half and were mainly due to the price increases in the Foodstuffs and Clothing components in connection with the Idul Fitri festivities.

Based upon the price index of 9 essential commodities¹³⁾, prices increased by 4.4% during 1977/1978. (Table 37). The increase was, among others, attributable to price increases of rice (4.1%)¹⁴⁾, cooking oil (12.5%), granulated sugar (13.6%), washing soap (8.9%) and batik (9.6%).

During the year under report, domestic prices of export commodities (in Jakarta) generally increased, although at a lower rate than those in the preceding year. The price of tea and white pepper, nevertheless, increased significantly (Table 38).

In 1977/1978, the average price of RRSI rubber in the domestic market went up by 4.4% to become Rp 290.97/kg. This rise was attributable to a larger domestic use of rubber, mainly for tire manufacturing. The increase was moreover also caused by the world market rubber price) which rose from an average of 40.31 dollar cents to 41.32 dollar cents/lb.

The impact of the 1975 crop failure in Brazil upon the domestic price of coffee was still discernible. The average price of Robusta coffee in Jakarta rose by 3.3% to Rp 1,162.29/kg.

As mentioned in the previous annual report, the world market tea price increased significantly following an increase in the demand for tea due to the partial shift in consumption from coffee to tea. The

13) Consists of rice, salted fish, cooking oil, sugar, salt, kerosene, washing soap, textile and batik (low grade).

14) The price increase of rice in 9 essential commodities differs from that in the cost of living index due to time difference in quotation.

TABLE 36 — COST OF LIVING INDEX IN JAKARTA
(September 1966 = 100)

	Food-stuffs	Housing	Clothing	Others	General Index	Change (%)	
						Annual/ Quarterly	Monthly
1975							
March	1,615	1,323	772	1,472	1,427		
1975/1976						19.8	
June	1,632	1,546	780	1,529	1,465	2.7	
September	1,760	1,591	808	1,524	1,545	5.5	
December	1,896	1,665	836	1,561	1,640	6.2	
March	1,986	1,695	846	1,635	1,709	4.2	
1976/1977						12.1	
June	2,052	1,857	885	1,708	1,779	4.1	
September	2,150	1,997	930	1,800	1,870	5.1	
December	2,146	2,057	934	1,800	1,873	0.2	
March	2,199	2,144	944	1,826	1,916	2.3	
1977/1978						10.1	
April	2,214	2,151	947	1,876	1,935		1.0
May	2,256	2,163	948	1,890	1,963		1.4
June	2,251	2,181	958	1,890	1,963	2.5	—
July	2,291	2,186	970	1,915	1,993		1.5
August	2,304	2,245	980	1,918	2,007		0.7
September	2,342	2,245	997	1,959	2,039	3.9	1.6
October	2,345	2,289	1,001	1,960	2,045		0.3
November	2,373	2,320	1,001	1,960	2,063		0.9
December	2,412	2,326	1,002	2,001	2,094	2.7	1.5
January	2,413	2,331	1,002	2,007	2,096		0.1
February	2,413	2,352	1,002	2,008	2,098		0.1
March	2,432	2,356	1,005	2,008	2,109	0.7	0.5

Source : Central Bureau of Statistics

TABLE 37 — PRICE INDEX OF 9 ESSENTIAL COMMODITIES
(October 1966 = 100)

		Index	Change (%)	
			Annual/Quarterly	Monthly
1975				
	March	1,257		
1975/1976				
	June	1,193	— 5,1	
	September	1,336	12.0	
	December	1,482	10.9	
	March	1,506	1.6	
1976/1977				
	June	1,471	— 2.3	
	September	1,507	2.4	
	December	1,505	— 0.1	
	March	1,520	1.0	
1977/1978				
	April	1,514		—0.4
	May	1,526		0.8
	June	1,525	0.3	—0.1
	July	1,529		0.3
	August	1,530		0.1
	September	1,523	— 0.1	—0.5
	October	1,526		0.2
	November	1,564		2.5
	December	1,570	3.1	0.4
	January	1,581		0.7
	February	1,583		0.1
	M a r c h	1,587	1.1	0.2

Source : Central Bureau of Statistics

TABLE 38 – PRICES OF SELECTED EXPORT COMMODITIES (JAKARTA)
(Rupiah/kg)

	Rubber RSS I	Coffee Robusta	White Pepper	Black Pepper	BOP T e a	Copra
1975						
March	178.35	245.82	526.25	362.30	310.78	94.51
1975/1976						
June	175.02	259.29	411.51	285.74	310.78	70.34
September	183.19	436.60	470.06	331.64	310.78	82.65
December	205.76	452.16	482.10	338.57	310.78	88.65
March	243.59	507.00	455.37	379.82	301.64	89.18
1966/1977						
June	299.84	781.25	442.50	401.35	380.00	126.55
September	266.68	835.00	559.00	453.12	480.00	153.75
December	273.50	1,500.00	665.00	654.38	480.00	178.75
March	278.29	2,090.00	1,000.00 ^r	888.12 ^r	800.00	215.50 ^r
1977/1978						
April	271.30	1,937.50	956.25	766.88	900.00	227.50
May	269.90	1,540.00	824.00	695.41	900.00	220.81
June	268.02	1,212.50	796.25	668.29	850.00	193.75
July	268.14	1,106.25	813.75	581.25	800.00	188.75
August	272.72	1,120.00	814.00	571.00	800.00	197.50
September	301.73	1,050.00	893.75	588.12	700.00	201.65
October	305.58	918.75	936.25	612.50	700.00	207.46
November	318.23	1,035.00	996.00	660.15	650.00	205.00
December	302.66	1,037.50	968.75	672.50	586.67	210.80
January	301.43	1,090.00	1,022.00	704.00	600.00	212.52
February	305.50	1,037.50	975.50	708.75	600.00	214.72
March	306.47	862.50	917.50	666.75	600.00	224.06

Source : Central Bureau of Statistics

situation still affected the development of domestic tea prices. The average price of tea (BOP quality) in Jakarta during 1977/1978 rose by 58.2% to Rp 723.89/kg.

Compared with 1976/1977, the average domestic price of white pepper during 1977/1978 increased by 48.4% to Rp 909.50/kg, while the average price of black pepper was quoted at Rp 656.58/kg which showed an increase of 18.8% over the preceding year. This price increase was caused by the strong world market demand for Indonesian pepper.

I. Wages and salaries

As is known, no regulation has been issued to date to determine a nationwide minimum wage for all economic sectors. The effective regulations only stipulate minimum wages for specific economic sectors in certain regions.

As a follow-up of the efforts, to regulate minimum wages, the Government has till now established Regional Wage Councils in 22 provinces. The main task of these Councils is to study the minimum wage level considered reasonable for their respective regions, and recommend their assessments to the Central Government for approval. It may be mentioned that as of 1977, a number of decisions on minimum wages have been implemented, some of which apply to all economic sectors in certain regions, i.e. Central Jawa, North Sumatera and Jambi. The minimum daily wages per laborer in the above men-

tioned regions were fixed at Rp 175. - , Rp 430— and Rp 350. - , respectively. A number of decisions were also made regarding minimum wages for certain economic sectors in some of the other regions.

It may be added that the average wage paid by enterprises, engaged in various economic activities, who employ a fairly large number of workers serves as an indicator to monitor changes in wages/salaries. On the basis thereof, the minimum and maximum wages increased by 11% and 26% respectively during the period from October 1976 through October 1977. These rates of increase were higher than the 9% increase in the price level during the same period as reflected by the cost of living index.

The average wages and salaries (in Rupiah) paid by various economic sectors in October 1976 and Oktober 1977 are shown below:¹⁵⁾

J. Manpower

Based on the results of the 1971 population census and a 2.3% estimated annual rate of population growth, the labor force in 1977 was projected at 47 million, compared with 46 million in the preceding year.

In view of the growing labor force, the Government has been continuously try-

15) Not including certain allowances, such as for housing, transportation and medical care.

	Average		Average	
	Minimum	Wages	Maximum	Wages
	Oct. '76	Oct. '77	Oct. '76	Oct. '77
Agricultural estates	10,060	12,866	140,991	170,151
Mining	49,560	54,168	320,142	385,213
Manufacturing industry	24,441	26,803	267,781	312,708
Construction	24,000	25,881	185,609	217,317
Electricity	14,262	14,262	89,595	89,595
Trade	30,161	33,775	261,668	380,838
Communications	24,771	32,212	149,670	179,383
Services	27,263	27,263	285,878	285,878
Others (civil servants)	14,300	16,280	192,800	241,200
Average	24,313	27,057	199,348	251,365

Source : Department of Manpower, Transmigration and Cooperatives

ing to create and expand employment opportunities through augmentation of development activities. The said activities are mainly directed towards labor intensive sectors, such as construction of infrastructure and regional development projects, and the development of small and handicraft industries. Besides, the implementation of the transmigration program as an effort to spread the labor

force and to create new employment opportunities, has been continuously improved. It may be added that an effort has been made to increase activities in various economic sectors by improving the terms applicable to credits granted to entrepreneurs, particularly under the Small Investment Credit (KIK) and Permanent Working Capital Credit (KMKP) schemes.

APPENDICES

APPENDIX A

BANK INDONESIA CONDENSED BALANCE SHEET as per March 31, 1978 (millions of Rupiahs)

ASSETS			LIABILITIES	
FOREIGN EXCHANGE ASSETS			CURRENCY IN CIRCULATION	
a. Gold and foreign exchange ¹⁾	950,114			1,162,435
b. Other foreign assets	1,421,059		FOREIGN EXCHANGE LIABILITIES	
		2,371,173	a. Foreign liabilities ¹⁾	30,263
CLAIMS ON GOVERNMENT			b. Others	812,691
a. Advances to Government	156,836			842,954
b. Transactions/payment on account of membership in International Financial Institutions			DEPOSITS AND OTHER LIABILITIES	
— in gold	7,011		a. Government	310,149
— in rupiahs	10,710		b. Aid counterpart funds	562,256
		17,721	c. International Financial Institutions	27,268
c. DICS Promissory Notes	75		d. Third parties	
		174,632	— Banks	329,273
LOANS			— Others	43,732
a. Financial Institutions ²⁾	640,883			373,005
b. Others	332,995			1,272,678
		973,878	CAPITAL AND RESERVES	103,257
PREMISES, FURNITURE AND FIXTURES		21,276	OTHER LIABILITIES	259,926
OTHER ASSETS		100,291		
Total		3,641,250	Total	3,641,250

1) Regarded as a component of international reserves

2) Bank and non-Bank.

BANK INDONESIA
PROFIT AND LOSS ACCOUNT
as per March 31, 1978
(millions of Rupiahs)

EXPENDITURES		REVENUES	
— Personnel/Material/Operational	24,398	— Interest	160,713
— Currency issue	7,872	— Commission	201
— Miscellaneous	71,935	— Miscellaneous	9,344
— Donation to Pension Fund	300		
— Depreciation	21,630		
	126,135		
PROFIT			
— Profit before tax	44,123		
Total	170,258	Total	170,258

APPENDIX B

MANAGEMENT OF BANK INDONESIA

As per March 31, 1978

Government Commissioner : Soegiono

BOARD OF MANAGING DIRECTORS

Governor : Rachmat Saleh
Managing Director : Marathon Wirija Mihardja
Managing Director : Soeksmono Besar Martokoesoemo
Managing Director : Arifin Mohamad Siregar
Managing Director : Durmawel Ahmad
Managing Director : J.E. Ismael
Managing Director : M. Djoko Soedomo
Managing Director : Kamardy Arief

GENERAL MANAGERS

Office of the Board	: Soetomo
International Department	: T.M. Zahirjah
Foreign Exchange Department	: W. Kidarsa
Loan Department	: R.P. Soema di Pradja
	Credit Planning and Credit
Supervision Department	: H.P. Toar
Bank Supervision Department	: Abdullah Ali
Money and Capital Market Department	: Sutadi
Issue Department	: Nandang Komar
Economics and Statistics Department	: R. Paryono
Legal Department	: Darmadji Hardjakusumah
Administration and Organization	
Department	: R. Soejatno Soemardjo
Budget Department	: P. Siregar
Internal Control Department	: Lulu Prawira Subrata
Personnel Department	: Rachmad
General Services Department	: A.U. Laoh

REPRESENTATIVES

Kuala Lumpur and Singapore	: Muljana Wiraatmadja
London	: Marjanto Danoesapoetro
New York	: Achmad Effendie
Tokyo	: R. Soejoto

BRANCH MANAGERS

Ambon	: Azwahin
Banda Aceh	: Sugiono
Bandung	: Suparto Wignyasubrata
Banjarmasin	: Tom Hartono
Bengkulu	: R. Husni Djojoseputro
Cirebon	: Sutedja Trisnaatmadja
Denpasar	: Saenan Soesanto
Jambi	: Soetrisno
Jayapura	: A.A. Ngurah Alit Mahawan
Jember	: Kamaruddin
Kediri	: Purtomo
Kendari	: Thamrin Soerawisastra
Kupang	: Usman Sugiarto
Malang	: R. Poewarso Djokojoewono
Mataram	: Muhamad Zain Sidin
Medan	: Mahfud Jakile
Menado	: Ph. K. Intama
Padang	: R. Suyatno
Palembang	: A. Sulaeman Gandabrata
P a l u	: R. Saptadi Baroto
Pekanbaru	: R. Soetrisno
Pontianak	: Muchtar Abdullah
Samarinda	: Sofjan Lumad
Semarang	: Bambang Susilo
Solo	: Sahrudin Siata
Surabaya	: R. Sujanto
Telukbetung	: Abdul Kadir Hadi
Ujung Pandang	: Achmad Sirod
Yogyakarta	: Isbianto Poerwodinoto

CASH OFFICE MANAGERS

Balikpapan	: Samidjo
Lhokseumawe	: M. Junus Abdurachman
Pematang Siantar	: Purwoko
Purwokerto	: Judjono Gandasubrata
Sibolga	: Jatno Soesilarto
T e g a l	: Aibar Durin
Ternate	: R. Muhammad Komar

TABLE I — AREA AND POPULATION OF MAIN ISLANDS

	A r e a		Number of population			
	(thousands sq. km)	%	1971 ¹⁾		1977 ²⁾	
			(million persons)	%	(million persons)	%
Jawa & Madura	132.2	6.9	76.1	63.8	87.1	63.0
Sumatera	473.6	24.9	20.8	17.4	25.0	18.1
Sulawesi	189.2	9.9	8.5	7.1	10.1	7.3
Kalimantan	539.5	28.3	5.2	4.4	6.1	4.4
B a l i	5.6	0.3	2.1	1.8	2.5	1.8
Irian Jaya	422.0	22.2	0.9	0.8	1.1	0.8
Other islands	142.5	7.5	5.6	4.7	6.4	4.6
Indonesia	1,904.6	100.0	119.2	100.0	138.3	100.0

1) 1971 Census

2) Estimated figures

Source : Central Bureau of Statistics

TABLE II — INVESTMENT CREDITS
BASED ON BANK INDONESIA REGULATION
(millions of Rupiahs)

	1974/ 1975	1975/ 1976	1976/ 1977	1977/1978			
				I	II	III	IV **
Credit outstanding	126,098	168,829	221,550	223,066	218,270	219,956	230,306
1. By economic sectors							
— Agriculture	9,545	16,338	18,966	20,675	20,824	21,773	23,826
— Mining	147	5,143	4,278	3,778	3,778	3,278	3,278
— Manufacturing	61,404	67,740	79,254	80,168	76,204	79,210	84,596
— Service rendering industry	46,672	70,346	110,608	108,800	108,025	106,556	108,865
— Others	8,330	9,262	8,444	9,645	9,439	9,139	9,741
2. By source of funds							
— Bank Indonesia	61,454	81,369	92,337	88,400	112,134	101,711	105,407
— State banks	60,696	83,627	126,065	131,744	105,278	117,388	124,042
— Government Budget	3,948	3,833	3,148	2,922	858	857	857
Approved by banks	177,071	224,825	290,829	276,560	274,204	282,683	291,785
1. By economic sectors							
— Agriculture	12,139	17,955	20,421	23,467	25,640	28,250	29,856
— Mining	221	5,154	5,296	5,296	5,296	5,296	5,296
— Manufacturing	86,837	84,430	114,081	104,739	103,171	109,400	114,887
— Service rendering industry	65,916	103,741	137,156	128,655	126,317	125,920	127,403
— Others	11,958	13,545	13,875	14,403	13,780	13,817	14,343
2. By source of funds							
— Bank Indonesia	111,827	138,416	183,848	178,196	181,256	184,589	192,000
— State banks	59,485	81,305	101,804	93,194	90,488	95,672	97,363
— Government Budget ²⁾	5,759	5,104	5,177	5,170	2,460	2,422	2,422

1) Excludes foreign exchange component and Rupiah financing of project aid.

See Table III and IV.

2) Since 1971 the Government Budget no longer provides rupiah financing for investment credits.

TABLE III – INVESTMENT CREDITS FOR RUPIAH (LOCAL)
COST OF PROJECT AID
(millions of Rupiahs)

	1974/ 1975	1975/ 1976	1976/ 1977	1977/1978			
				I	II	III	IV *
Credit outstanding	16,581	27,564	41,116	46,140	54,557	58,224	60,001
1. By economic sectors							
— Agriculture	3,890	12,994	21,838	24,542	29,071	30,299	30,519
— Mining	—	—	—	—	—	—	—
— Manufacturing	10,977	14,120	17,688	20,172	24,060	26,544	28,101
— Service rendering industry	—	—	—	—	—	—	—
— Others	1,714	450	1,590	1,426	1,426	1,381	1,381
2. By source of funds							
— Bank Indonesia	14,284	23,407	34,041	36,912	43,646	46,579	48,001
— State banks	2,297	4,157	7,075	9,228	10,911	11,645	12,000
— Government budget	—	—	—	—	—	—	—
Approved by banks	21,232	44,631	52,415	62,773	68,834	69,641	69,641
1. By economic sectors							
— Agriculture	6,873	17,914	27,927	28,813	33,574	33,574	33,574
— Mining	—	—	—	—	—	—	—
— Manufacturing	12,768	25,126	22,803	32,275	33,575	34,382	34,382
— Service rendering industry	—	—	—	—	—	—	—
— Others	1,591	1,591	1,685	1,685	1,685	1,685	1,685
2. By source of funds							
— Bank Indonesia	18,481	41,152	46,122	50,218	55,067	55,713	55,713
— State banks	2,751	3,479	6,293	12,555	13,767	13,928	13,928
— Government budget	—	—	—	—	—	—	—

**TABLE IV – INVESTMENT CREDITS FOR FOREIGN EXCHANGE COMPONENT
OF PROJECT AID**
(millions of Rupiahs)

	1974/ 1975	1975/ 1976	1976/ 1977	1977/1978			
				I	II	III	IV *
Credit outstanding	79,032	100,521	131,618	134,462	168,041	184,184	200,760
1. By economic sectors							
— Agriculture	21,927	29,227	28,707	27,727	29,555	30,445	34,129
— Mining	9,637	11,268	10,571	9,901	10,623	9,862	10,038
— Manufacturing	33,970	42,527	71,584	75,783	104,412	118,658	130,494
— Service rendering industry	8,789	11,088	9,364	9,404	11,588	11,582	12,046
— Others	4,709	6,411	11,392	11,647	11,863	13,637	14,053
2. By source of funds	79,032	100,521	131,618	134,462	168,041	184,184	200,760
— Bank Indonesia	78,571	100,395	130,940	112,116	144,289	155,129	168,638
— State banks	461	126	678	22,346	23,752	29,055	32,122
— Government Budget	—	—	—	—	—	—	—
Approved by banks	116,141	161,161	259,917	287,165	367,004	445,281	538,790
1. By economic sectors							
— Agriculture	40,037	49,291	54,309	54,309	58,431	57,914	70,043
— Mining	13,800	12,895	13,443	13,443	14,725	14,725	16,164
— Manufacturing	50,401	51,187	142,475	169,723	224,909	289,807	350,213
— Service rendering industry	8,123	30,613	31,923	31,923	40,418	50,818	64,655
— Others	3,780	17,175	17,767	17,767	28,521	32,017	37,715
2. By source of funds	116,141	161,161	259,917	287,165	367,004	445,281	538,790
— Bank Indonesia	116,141	161,161	259,917	287,165	364,358	442,635	536,144
— State banks	—	—	—	—	2,646	2,646	2,646
— Government Budget	—	—	—	—	—	—	—

TABLE V – MONTHLY AVERAGE RUPIAH LIQUIDITY POSITION OF BANKS
1976/1977 and 1977/1978
(millions of Rupiahs)

	1976/1977				1977/1978			
	State Banks 1)	National Private Banks 2)	Foreign Banks	Total	State Banks 1)	National Private Banks 2)	Foreign Banks	Total
Reserves	378,716	81,365	34,234	494,315	423,432	102,721	39,399	565,552
Current liabilities	1,117,992	170,430	114,413	1,402,835	1,383,942	228,003	140,663	1,752,608
Reserves as percentage of current liabilities	33,8%	47,7%	29,9%	35,2%	30,6%	45,1%	28,0%	32,3%
Minimum reserve requirement 3)	335,398	51,129	34,324	420,851	361,099	58,951	36,480	456,530
Excess/deficiency	43,318	30,236	–90	73,464	62,333	43,770	2,919	109,022
Required reserves with Bank Indonesia	111,799	17,043	11,441	140,283	120,366	19,650	12,160	152,176
Reserves with Bank Indonesia	328,608	55,655	31,059	415,322	365,807	67,636	35,897	469,340
Excess/deficiency	216,809	38,612	19,618	275,039	245,441	47,986	23,737	317,164
Excess/deficiency as percentage of current liabilities	19,4%	22,7%	17,2%	19,6%	17,7%	21,0%	16,9%	18,1%

1) Includes BAPINDO

2) Includes local development banks

3) 30% of current liabilities by December 31, 1977 and 15% of current liabilities thereafter.

TABLE VI – MONTHLY AVERAGE FOREIGN EXCHANGE LIQUIDITY POSITION OF BANKS
1976/1977 AND 1977/1978
(thousand of \$)

	1976/1977 ^r				1977/1978			
	State Banks	National Private Banks	Foreign Banks	Total	State Banks	National Private Banks	Foreign Banks	Total
Reserves	335,595	43,073	205,482	584,150	316,006	66,323	251,666	633,995
Current liabilities	335,665	54,048	350,599	740,312 ^r	337,145	92,164	432,887	862,196
Reserves as percentage of current liabilities	100.0%	79.7%	58.6%	78.9%	93.7%	72.0%	58.1%	73.5%
Minimum reserve requirement ¹⁾	100,700	16,214	105,180	222,094	50,571	13,824	64,933	129,328
Excess/deficiency	234,895	26,859	100,302	362,056	265,435	52,499	186,733	504,667
Required reserves with Bank Indonesia	55,277	7,671	42,247	105,195	28,937	8,301	37,099	74,337
Reserves with Bank Indonesia	72,474	8,262	47,777	128,513	51,259	10,658	53,352	115,269
Excess/deficiency	17,197	591	5,530	23,318	22,322	2,357	16,253	40,932
Excess/deficiency as percentage of current liabilities.	5.1%	1.1%	1.6%	3.1%	6.6%	2.6%	3.7%	4.7%

1) 30% of current liabilities by December 31, 1977 and 15% of current liabilities thereafter.

TABLE VII – MONTHLY AVERAGE FOREIGN EXCHANGE LIQUIDITY POSITION OF BANKS
1977/1978
(thousands of \$)

	April – December, 1977				January – March, 1978			
	State Banks	National Private Banks	Foreign Banks	Total	State Banks	National Private Banks	Foreign Banks	Total
Reserves	322,101	65,000	227,231	614,332	316,006	66,232	251,666	633,904
Current liabilities	287,078	79,805	395,660	762,543	337,145	92,164	432,887	862,196
Reserves as percentage of current liabilities	112.2%	81.5%	57.4%	80.6%	93.7%	71.9%	58.1%	73.5%
Minimum reserve requirement ¹⁾	86,123	23,942	118,698	228,763	50,572	13,824	64,933	129,329
Excess/deficiency	235,978	41,058	108,533	385,569	265,434	52,408	186,733	504,575
Required reserves with Bank Indonesia	37,652	10,269	48,151	96,072	20,221	6,334	26,047	52,602
Reserves with Bank Indonesia	55,039	11,618	60,196	126,853	39,921	7,776	32,818	80,515
Excess/deficiency	17,387	1,349	12,045	30,781	19,700	1,442	6,771	27,913
Excess/deficiency as percentage of current liabilities	6.1%	1.7%	3.0%	4.0%	5.8%	1.6%	1.6%	3.2%

1) 30% of current liabilities by December 31, 1977 and 15% of current liabilities thereafter.

TABLE VIII – FOREIGN EXCHANGE LIQUIDITY POSITION OF BANKS
(thousands of \$)

	December 31, 1977				March 31, 1978			
	State Banks	National Private Banks	Foreign Banks	Total	State Banks	National Private Banks	Foreign Banks	Total
Reserves	303,197	57,980	224,345	585,522	285,525	67,131	235,451	588,107
Current liabilities	313,335	83,237	417,100	813,672	326,901	94,767	394,767	816,435
Reserves as percentage of current liabilities	96.8%	69.7%	53.8%	72.0%	87.3%	70.8%	59.6%	72.0%
Minimum reserve requirement ¹⁾	94,001	24,971	125,130	244,102	49,035	14,215	59,215	122,465
Excess/deficiency	209,196	33,009	99,215	341,420	236,490	52,916	176,236	465,642
Required reserves with Bank Indonesia	40,828	10,685	50,783	102,296	21,438	6,418	24,041	51,897
Reserves with Bank Indonesia	66,088	12,511	65,824	144,423	36,588	7,737	28,529	72,854
Excess/deficiency	25,260	1,826	15,041	42,127	15,150	1,319	4,488	20,957
Excess/deficiency as percentage of current liabilities	8.1%	2.2%	3.6%	5.2%	4.6%	1.4%	1.1%	2.6%

1) 30% of current liabilities by December 31, 1977 and 15% of current liabilities thereafter.

TABLE IX — DEVELOPMENT EXPENDITURE BY SECTOR
(billions of Rupiahs)

Sector ¹⁾	1974/ 1975	1975/ 1976	1976/ 1977	1977/ 1978	1978/ 1979 (Budget)
— Agriculture and Irrigation	301.8	257.0	356.1	380.0	413.1
— Industry and Mining	70.7	124.1	194.9	139.0	221.5
— Electric power	79.0	127.7	218.1	223.3	266.2
— Communication and Tourism	123.5	311.6	428.8	354.8	388.7
— Trade and Cooperatives	4.2	3.5	9.5	7.9	11.1
— Manpower and Transmigration	4.5	11.9	27.1	60.7	121.9
— Regional development	135.9	172.9	190.0	250.6	271.1
— Religion	3.0	2.5	5.5	7.5	9.5
— Education, National culture and Development of young generation	47.2	113.7	135.5	210.6	269.1
— Health, Family planning and Social welfare	25.3	37.7	48.2	71.4	87.2
— Housing and Water supply	6.5	13.3	30.4	89.5	59.5
— Law & Order and Law Enforcement	1.9	4.6	7.4	10.9	14.1
— Defense and National security	22.7	35.8	59.5	56.3	115.6
— Information and Communication	2.7	17.1	46.5	10.8	11.8
— Science and Technology, Research and Statistics	11.2	17.1	24.8	37.6	46.9
— Government apparatus	23.9	31.8	47.0	55.9	65.2
— Government capital participation	97.8	115.4	225.2	190.0	82.2
T o t a l	961.8	1,397.7	2,054.5	2,156.8	2,454.7

1) Sectors specification based on REPELITA II.

Source : Department of Finance

**TABLE X – DEVELOPMENT EXPENDITURE BY SECTOR
EXCLUDING PROJECT AID
(billions of Rupiahs)**

S e c t o r ¹⁾	1974/ 1975	1975/ 1976	1976/ 1977	1977/ 1978	1978/ 1979 (Budget)
– Agriculture and Irrigation	275.5	214.0	249.4	234.5	311.9
– Industry and Mining	6.6	47.7	57.6	43.6	53.6
– Electric power	40.5	38.0	52.9	59.4	80.8
– Communication and Tourism	81.3	85.1	125.0	141.9	190.1
– Trade and Cooperatives	3.6	2.9	9.4	7.3	9.9
– Manpower and Transmigration	4.3	11.3	26.1	50.9	110.3
– Regional development	135.5	172.5	188.5	242.7	263.1
– Religion	3.0	2.5	5.5	7.5	9.5
– Education, National culture and Development of young generation	39.4	106.4	130.2	181.1	247.4
– Health, Family planning and Social welfare	17.9	30.8	42.3	56.6	65.5
– Housing and Water supply	5.4	10.5	27.5	61.4	41.2
– Law & Order and Law Enforcement	1.9	4.6	7.4	10.9	14.1
– Defense and National security	22.7	35.8	59.5	56.3	65.0
– Information and Communication	2.3	7.0	10.2	7.4	8.1
– Science and Technology, Research and Statistics	11.0	16.7	24.5	35.0	42.6
– Government apparatus	23.9	31.8	47.0	55.9	61.7
– Government capital participation	91.1	108.7	217.9	166.9	68.7
T o t a l	765.9	926.3	1,280.9	1,419.3	1,643.5

1) Sectors specification based on REPELITA II.

Source : Department of Finance

TABLE XI – ACTUAL PROJECT AID
(billions of Rupiahs)

S e c t o r ¹⁾	1974/ 1975	1975/ 1976	1976/ 1977	1977/ 1978	1978/ 1979 (Budget)
— Agriculture and Irrigation	26.3	43.0	106.7	145.5	101.2
— Industry and Mining	64.1	76.4	137.3	95.4	167.9
— Electric power	38.5	89.7	165.2	163.9	185.3
— Communication and Tourism	42.2	226.5	303.8	212.9	198.5
— Trade and Cooperatives	0.6	0.6	0.1	0.6	1.3
— Manpower and Transmigration	0.2	0.6	1.0	9.8	11.6
— Regional development	0.4	0.4	1.5	7.9	7.9
— Religion	—	—	—	—	—
— Education, National culture and Development of young generation	7.8	7.3	5.3	29.5	21.7
— Health, Family planning and Social welfare	7.4	6.9	5.9	14.8	21.7
— Housing and Water supply	1.1	2.8	2.9	28.1	18.3
— Law & Order and Law Enforcement	—	—	—	—	—
— Defense and National security	—	—	—	—	50.6
— Information and Communication	0.4	10.1	36.3	3.4	3.8
— Science and Technology, Research and Statistics	0.2	0.4	0.3	2.6	4.4
— Government apparatus	—	—	—	—	3.5
— Government capital participation	6.7	6.7	7.3	23.1	13.5
T o t a l	195.9	471.4	773.6	737.5	811.2

1) Sectors specification based on REPELITA II.

Source : Department of Finance

TABLE XII — INDONESIA'S BALANCE OF PAYMENTS
(millions of \$)

	1974/ 1975	1975/ 1976	1976/ 1977	1977/ * 1978
A. Current account	— 138	— 854	— 802	— 690
— Oil and LNG (net)	2,638	3,138	3,710	4,445
— Non - oil	—2,776	—3,992	—4,512	—5,135
a. Exports, f.o.b.	(2,033)	(1,873)	(2,863)	(3,507)
b. Imports, c & f	(—4,341)	(—5,090)	(—6,167)	(—7,241)
c. Services	(— 468)	(— 775)	(—1,208)	(—1,401)
B. Official transfer & capital	660	1,995	1,823	2,106
— Program aid	180	74	147	157
— Project aid	480	872	1,676	1,949
— Cash loans	—	1,049	—	—
C. Official debt repayments (principal)	— 89	— 77	— 166	— 761
D. Miscellaneous capital	— 131	—1,075	38	176
— Direct investment	538	454	287	285
— Trade credits	13	14	— 32	— 50
— Others	— 682	—1,543	— 217	— 59
E. Total (A through D)	302	— 11	893	831
F. Net errors and omissions	— 311	— 353	108	— 180
G. Monetary movement	+ 9	+ 364	—1,001	— 651

TABLE XIII — EXPORTS BY COUNTRY OF DESTINATION
(millions of \$)

C o u n t r y	1974/1975	1975/1976	1976/1977	1977/1978
E u r o p e				
Netherlands	166	158	272	387
Belgium and Luxemburg	11	12	16	24
Denmark	8	9	31	49
United Kingdom and the Republic of Ireland	23	36	54	88
I t a l y	16	33	81	110
Germany, Federal Republic of	171	131	209	248
N o r w a y	2	2	5	5
France	18	15	36	60
S w e d e n	4	2	3	6
O t h e r	58	54	88	57
Total export to Europe	477	452	795	1,034
Percentage of total exports	6.4%	6.4%	8.5%	9.2%
A m e r i c a				
United States of America	1,546	1,969	2,728	2,967
Canada	33	10	18	25
O t h e r s	461	643	596	602
Total export to America	2,040	2,622	3,342	3,594
Percentage of total exports	27.3%	36.9%	35.7%	31.9%
A f r i c a				
Egypt	—	1	4	16
Portugese East Africa	—	—	—	—
Union of South Africa	—	—	—	—
O t h e r s	20	3	16	15
Total export to Africa	20	4	20	31
Percentage of total exports	0.3%	0.1%	0.2%	0.3%
A s i a				
Burma	15	3	—	—
Hongkong	25	27	26	32
India	5	8	9	34
Iraq	—	14	16	50
Japan	3,940	3,008	3,854	4,597
Malaysia	82	56	17	20
Thailand	7	3	1	7
Pakistan	44	33	35	54
Philippines	4	33	128	154
Singapore	555	609	729	1,083
O t h e r s	187	202	362	489
Total export to Asia	4,864	3,996	5,177	6,520
Percentage of total exports	65.3%	56.3%	55.2%	57.9%
A u s t r a l a s i a				
Australia	24	24	30	74
New Zealand	1	1	3	2
Oceania — Hawaii	30	—	—	—
Total export to Australasia	55	25	33	76
Percentage of total exports	0.7%	0.3%	0.4%	0.7%
O t h e r s ¹⁾	2	3	4	5
Percentage of total imports	—	—	—	—
Total import of Indonesia	7,458	7,102	9,371	11,260

1) Includes exports via free port

Source : Central Bureau of Statistics

TABLE XIV – IMPORTS BY COUNTRY OF ORIGIN
(millions of \$)

C o u n t r y	1974/1975	1975/1976	1976/1977	1977/1978
E u r o p e				
Netherlands	107	138	257	183
Belgium and Luxemburg	44	63	87	46
Czechoslovakia	2	12	3	16
United Kingdom and the Republic of Ireland	169	146	202	231
Italy	55	80	67	50
Germany, Federal Republic of	359	365	519	490
Germany, Democratic Republic of	1	—	3	2
France	86	85	231	182
Spain	2	2	3	13
Sweden	16	15	25	20
Switzerland	32	40	39	50
Other	152	191	67	100
Total import from Europe	1,025	1,137	1,503	1,383
Percentage of total imports	23.1%	24.4%	25.0%	22.3%
A m e r i c a				
Canada	45	62	66	58
United States of America	638	704	980	780
O t h e r	18	23	26	105
Total import from America	701	789	1,072	943
Percentage of total imports	15.8%	16.9%	17.8%	15.2%
A f r i c a				
Egypt	—	—	—	—
Portugese East Africa	17	101	46	17
Union of South Africa	—	—	—	—
O t h e r	95	—	8	46
Total import from Africa	112	101	54	63
Percentage of total imports	2.5%	2.2%	0.8%	1.0%
A s i a				
Burma	21	31	85	80
Hongkong	122	51	68	62
India	25	79	104	62
Japan	1,326	1,422	1,568	1,729
Pakistan	54	12	24	20
Philippines	12	15	15	23
Malaysia	16	19	19	21
Thailand	86	33	203	319
China	186	169	97	155
Singapore	288	356	613	480
O t h e r	303	278	370	644
Total import from Asia	2,439	2,465	3,166	3,595
Percentage of total imports	54.9%	52.8%	52.7%	58.0%
A u s t r a l a s i a				
Australia	149	156	196	189
New Zealand and Oceania	15	17	22	30
Total import from Australasia	164	173	218	219
Percentage of total imports	3.7%	3.7%	3.6%	3.5%
O t h e r s	—	—	—	—
Percentage of total imports	—	—	—	—
Total import of Indonesia	4,441	4,665	6,013	6,203

Source : Central Bureau of Statistics.

TABLE XV — UTILIZATION OF FOREIGN LONG TERM BORROWING ¹⁾
(millions of \$)

Country/Creditor	1974/1975	1975/1976	1976/1977	1977/1978
United States of America	96	1,005	440	239
Netherlands	19	145	138	115
Belgium	1	17	110	24
Denmark	3	2	—	56
India	—	—	—	2
United Kingdom	9	76	118	54
Iran	—	1	39	49
Japan	276	257	171	349
Germany, Federal Republic of	16	64	174	151
Canada	33	22	15	189
Korea	—	—	—	46
Norway	—	—	—	102
France	38	65	189	259
Saudi Arabia	—	—	7	25
Switzerland	—	1	—	—
New Zealand	—	1	1	—
Yugoslavia	—	—	3	100
A D B	26	29	30	33
IDA — IBRD	81	294	210	301
CCC Credit	—	—	29	—
Syndicate Banks	—	—	75	—
T o t a l	598	1,979	1,749	2,094

1) Represents the amount disbursed.

TABLE XVI — G R A N T S
(millions of \$)

C o u n t r y	1974/1975	1975/1976	1976/1977	1977/1978
Australia	16	3	60	3
United States of America	—	—	—	—
Netherlands	16	5	1	—
Belgium	3	—	—	1
Japan	8	—	—	5
Germany, Federal Republic of	4	—	—	—
United Kingdom	1	—	—	—
Italy	—	2	3	1
Canada	—	3	10	—
France	4	3	—	1
E E C	10	—	—	1
T o t a l	62	16	74	12

TABLE XVII — AGRICULTURAL PRODUCTION
(thousand tons)

	1973	1974	1975	1976	1977 *
1. Foodstuffs					
— Rice	14,607	15,276	15,185	15,845	15,941
— Corn	3,690	3,011	2,902	2,572	3,030
— Cassava	11,185	13,031	12,545	12,190	12,169
— Sweet potatoes	2,387	2,470	2,432	2,381	2,453
— Peanuts	290	307	380	341	403
— Soybeans	541	589	590	522	527
2. Forestry ¹⁾					
— Timber	25,800	23,280	16,296	21,427	22,360
3. Fishery	1,278	1,337	1,390	1,448	1,526
— Sea					
— Inland					
4. Estate					
— Rubber	845	820	780	786	818
a. Smallholder	(598)	(571)	(536)	(540)	(570)
b. Estate	(247)	(249)	(244)	(246)	(248)
— Copra	1,280	1,343	1,370	1,389	1,440
— Palm oil	290	351	411	434	496
— Palm kernels	64	74	84	82	92
— Sugar	1,024	1,275	1,253	1,323	1,357
a. Smallholder	(204)	(250)	(223)	(267)	(250)
b. Estate	(820)	(1,025)	(1,030)	(1,056)	(1,107)
— T e a	67	64	70	74	80
a. Smallholder	(14)	(14)	(15)	(13)	(17)
b. Estate	(53)	(50)	(55)	(61)	(63)
	150	159	172	185	183
	(140)	(143)	(157)	(170)	(166)
	(10)	(16)	(15)	(15)	(17)

1) Thousand M³

Sources : Central Bureau of Statistics
Department of Agriculture

TABLE XVIII – LIVESTOCK POPULATION
(thousand of heads)

	1973	1974	1975	1976	1977 *
– Cows	6,637	6,380	6,242	6,237	6,167
– Buffaloes	2,489	2,415	2,432	2,284	2,222
– Sheep	3,547	3,403	3,374	3,603	3,710
– Goats	6,793	6,517	6,315	6,904	7,119
– Horses	645	600	627	631	647
– Pigs	2,768	2,906	2,707	2,947	2,976
– Ducks	11,124	13,620	14,123	15,182	16,032
– Cultivated chicken	2,173	3,450	3,903	4,878	5,807
– Non cultivated chickens	82,207	89,650	94,572	97,504	101,686

Source : Attachment to the speech of the President RI, August 16, 1975, 1976, 1977 and 1978

TABLE XIX – PRODUCTION OF MEAT, EGG AND MILK
(thousand tons)

	1973	1974	1975	1976	1977 *
– Meat	379.4	403.1	435.0	448.7	468.9
– Egg	81.4	98.1	112.2	115.6	122.5
– Milk	35.0	56.9	51.1	58.0	60.5

Source : Attachment to the speech of the President RI August 16, 1975, 1976, 1977 and 1978

TABLE XX — INDUSTRIAL PRODUCTION

	Units	1973/ 1974	1974/ 1975	1975/ 1976	1976/ 1977	1977/ 1978
Textile industry						
Textiles	million meters	926.9	974.0	1,017.1	1,247.0	1,332.5
Yarn	thousand bales	316.2	364.0	445.4	622.9 ^r	678.3
Chemical industry						
Urea fertilizer	thousand tons	115.7	209.1	387.4	406.0 ^r	990.0
ZA fertilizer	thousand tons	122.8	129.1	113.8	105.2	93.3
Cement	thousand tons	818.1	828.9	1,241.4	1,979.3	2,878.6
Paper	thousand tons	47.1	43.2	46.7	54.4 ^r	83.5
Salt	thousand tons	86.0 ¹⁾	70.0 ¹⁾	147.2	560.0	786.0
Automobile tyres	thousand units	1,351.5	1,704.0 ^r	1,796.0 ^r	1,883.3	2,339.1
Motor cycle tyres	thousand units	188.0	792.4	1,000.0	1,520.0	2,429.4
Miscellaneous Industries and Handicrafts						
Bicycle tyres	thousand units	5,880.0	6,279.0	7,129.0	7,297.0	7,400.0
Bicycle tubes	thousand units	4,584.0	4,923.0 ^r	5,775.0 ^r	6,240.0 ^r	6,800.0
Coconut oil	thousand tons	264.5	265.0	268.4	276.2	276.3
Cooking oil	thousand tons	28.7	29.4	30.6	32.6	31.3
Laundry soap	thousand tons	131.3	148.9	164.6	175.5	194.9
Detergent	thousand tons	6.6 ²⁾	7.0 ²⁾	34.9	33.4 ^r	38.5
Clove cigarettes	million units	30,221.0	30,600.0	33,300.0	37,900.0	40,900.0
White cigarettes	million units	20,376.0	21,865.0	23,500.0	22,637.0	23,100.0
Matches	million boxes	556.0	707.0	780.0	772.0	506.1
Tooth paste	million tubes	32.0	46.0	107.8	103.6	104.4
Metal and machinery industry						
Metal industry						
Reinforcing steel bars	thousand tons	110.0	115.0	202.0	296.3	240.0
Wire steel	thousand tons	30.0	30.0	43.4	84.6	98.0
Galvanized iron sheet	thousand tons	70.0	70.0	145.0	156.0 ^r	185.0
Electric cord	thousand tons	7.0	7.0 ^r	9.0	9.0	12.5
Steel pipe	thousand tons	80.0	94.0	97.0	107.0	120.0
Engines						
Diesel engines	thousand units	2.0	8.0	8.0	24.5	25.2
Hand tractors	units	—	—	30.0	30.0	44.0
Sprayers	thousand units	40.0	20.0	15.0	20.0	15.3
Sewing machines	thousand units	500.0	400.0	320.0	400.0	484.0
Hullers	units	3,500.0	3,500.0	3,000.0	1,000.0	830.0
Motor vehicle assembling						
Automobiles	thousand units	36.0	65.6	78.9	75.3	83.9
Three wheel vehicles	thousand units	—	1.1	3.7	4.8	5.3
Motor cycles	thousand units	150.0	251.0	300.0	267.6	271.8
Batteries	thousand units	140.0	180.0	220.0	480.0	575.0
Shipyards						
Steel vessels	thousand tons	—	17.8	15.0	18.5	13.2
Aircraft industry						
Airplanes	units	—	—	2.0	3.0	7.0
Helicopters	units	—	—	—	13.0	6.0
Electrical appliances & electronics industry						
Dry batteries	million dozens	11.0	12.0	20.0	35.0	36.9
Black & white television sets	thousand units	71.0	135.0	165.5	210.0	460.0
Color television sets	thousand units	—	—	—	2.8	22.0
Radio sets	thousand units	900.0	1,000.0	1,071.0	1,100.0	1,000.0
Radio cassette recorder	thousand units	—	160.0	227.0	325.0	547.6
Light bulbs/TL tubes	million units	13.5	18.9	21.5	26.0	25.8

1) Exclude small scale industry production

2) Exclude detergent cream

Source : Department of Industry