

BANK INDONESIA



REPORT FOR THE FINANCIAL YEAR 1986/87

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SAMPIT, SEMARANG, SIBOLGA, SOLO, SURABAYA,
TASIKMALAYA, TEGAL, TERNATE, UJUNG PANDANG, YOGYAKARTA.

Position as per end of March 1987

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**GOVERNMENT COMMISSIONER AND
BOARD OF MANAGING DIRECTOR**



Dr. Arifin M. Siregar
Governor



A. J. Winoto S.
Government Commissioner



Teuku Mohamad Zahirsjah
Managing Director



Marjanto Danoesapoetro
Managing Director



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Managing Director



Hendrobudiyanto
Managing Director

NOTES, SYMBOLS AND SOURCE OF DATA

- r Revised figures
- * Provisional figures
- ** Incomplete figures
(i.e. compiled from incomplete data)
- ... Data not yet available
- 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 1986/87, Indonesia's economy encountered a very difficult situation, mainly as a consequence of the collapse of world oil prices. In addition, the low growth of world economy and higher level of protection imposed by several industrial countries, as well as sluggishness in domestic demand also aggravated the situation. The steep drop in oil prices brought about heavy pressures on the balance of payments and a sharp reduction in government revenues. However, due to a series of fundamental adjustment measures adopted by the Government, Indonesia's economy in 1986 experienced a favorable performance as reflected in higher economic growth over the preceding year and a tolerable rate of inflation. Moreover, further adverse impacts on the balance of payments could be overcome.

As a consequence of severe pressures on the balance of payments and in the absence of signs of short-term improvement in oil prices, the Government—while pursuing a cautious monetary policy—undertook a 31% rupiah devaluation vis-a-vis the US dollar on September 12, 1986 in order to avoid further deterioration in the balance of payments. In support of this measure, the Government also undertook a series of other fundamental policy measures, namely the October 25, 1986 and January 15, 1987 deregulation packages, which were mainly intended to encourage non-oil/gas exports and investment.

With respect to exports, these packages were aimed at enhancing the competitiveness of non-oil/gas export commodities in the international market. To achieve these objectives, the Government, among other measures, rationalized trade

procedures, provided duty exemption and drawback facilities, and established bonded zones. In addition, to improve efficiency in domestic production, non-tariff barriers were gradually replaced by a tariff system. These packages were also designed to encourage private investment, partly by relaxing import duties, suspending the collection of value-added tax, as well as by extending business licenses and by providing facilities to certain investors under the foreign direct investment scheme. Moreover, to attract capital inflows, the Government revoked the ceiling on reswaps to Bank Indonesia.

Partly as a result of the series of policies taken by the Government, Indonesia's economic output, as measured by gross domestic product (GDP) at 1983 constant prices, increased by 3.2% in 1986 compared with 2.3% in the previous year. This higher growth was mainly attributable to a recovery in the mining and quarrying sector, i.e., 4.2% growth compared with a decline of 5.5% in the preceding year. The trade sector also contributed to higher growth, by a rise of 3.0% in 1986 as against 1.7% in the preceding year.

The agricultural and manufacturing sectors in 1986 recorded lower growth, i.e., 2.5% and 5.5%, down from 4.2% and 8.3% the year before, respectively. The slowdown in the agricultural sector was closely associated with a deceleration in rice production, from 2.4% to 0.9%, mainly attributable to a decrease in harvested areas as a consequence of brown locust plague. However, it is worth noting that despite the reduced growth in rice production, self-sufficiency in rice was still maintained. Lower growth in the manufacturing sector was primarily brought about by a devalua-

tion in output of oil and liquefied natural gas (LNG), which was only partly offset by significant increases in the output of several major industries, such as, textiles, plywood, cement, and fertilizer.

In the external sector, the sharp drop in the world oil price, which fell below \$ 10.00 per barrel in August 1986, was the primary cause of the worsening Indonesia's balance of payments. Other external factors, such as, the continuing US dollar depreciation vis-a-vis several major currencies, the decline in world prices for primary commodities other than oil, the slower recovery in the world economy, and protectionism imposed by several industrial countries also contributed to the pressures on the balance of payments. However, due in large measure to the policies adopted by the Government, non-oil/gas exports showed a significant increase and total imports recorded a decline bringing about a trade balance surplus of \$ 2,246 million. Taking into account a significant reduction in the deficit on services, the current account deficit widened to \$ 4,051 million in 1986/87. However, due to a significant increase in net capital inflows, the overall balance of payments recorded a deficit of \$ 738 million; at the end of the reporting year, foreign exchange reserves held by the Central Bank decreased to \$ 5,103 million, an amount adequate to finance non-oil/gas imports for 6 months. Taking into account the foreign exchange held by foreign exchange banks, overall foreign exchange reserves reached \$ 9,130 million or the equivalent of more than 10 months of non-oil/gas imports.

In the reporting year, the value of total exports decreased by 26.4% to \$ 13,697 million due to a sharp decline of 44% in oil/gas exports. On the other hand, non-oil/gas export value increased appreciably, by 9.0%, mainly owing to increases in ex-

port volumes of textiles, timber and coffee.

In the reporting year, total imports decreased by 8.8% to \$ 11,451 million. This decline occurred in the imports of oil/gas as well as non-oil/gas companies which decreased by 15.3% and 7.2%, respectively. In the case of imports of oil/gas companies, the fall was mainly due to a drop of 43.7% in imports of the Arabian Light Crude oil, a development closely associated with the fall in world oil prices. The decline in imports by non-oil/gas companies primarily occurred in imports financed by general foreign exchange, by 4.6% to \$ 6,336 million. It may be added that by economic category, the share of raw materials and capital goods in total imports accounted for 58.8% and 23.8%, respectively.

The substantial pressures on the balance of payments made the Government's tasks in establishing monetary policy more difficult. Facing these pressures, the Government continued to carry out monetary policy in a way that encouraged growth in the economy and improved the balance of payments. In addition, policy was also aimed at maintaining price stability and enhancing the equitability of income distribution. To achieve these objectives, in the reporting year the Government undertook a cautious monetary policy of maintaining the level of interest rates on monetary instruments, such as, Bank Indonesia certificates (*Sertifikat Bank Indonesia* or SBI) and money market securities (*Surat Berharga Pasar Uang* or SBPU), which had declined appreciably in the preceding years.

In implementing monetary policy in this way, domestic liquidity reached Rp 28,491 billion, recording a rise of 17.9% compared with 24.3% in the previous year. The moderation in the growth in domestic liquidity occurred in quasi money, (which

declined from 30.9% to 24.1%) as well as in narrowly-defined money supply, M_1 , (from 16.5% to 9.8%). The lower growth in the M_1 was due primarily to the contractionary impulse of government finances that more than offset a significant expansionary effect of bank credit and foreign assets. In the case of the expansionary effect of foreign assets, it should be noted that this was mainly due to revaluation of those assets on account of the September 1986 rupiah devaluation. With the adoption of a cautious monetary policy coupled with tighter fiscal policy and sufficient supplies of consumer goods, domestic inflation was contained to the tolerable level of 8.83%.

In the government finance sector, the sharp decline in world oil prices constrained the Government's ability to provide funds for routine and development expenditures. To alleviate the negative impact of this development, the Government continued to increase domestic yields from the non-oil/gas sector and to economize on spending. While adhering to the principle of a balanced budget, the Government's total expenditures for fiscal year 1986/87 were budgeted at Rp 21,422 billion or 7.0% lower than that of the preceding year. In the event, government expenditures reached Rp 21,893 billion or 2.2% higher than the amount that had been budgeted, but still 4.1% lower than the outturn in the previous year.

Of total government revenues, which amounted to Rp 21,893 billion in 1986/87, Rp 16,141 billion originated from domestic sources with the remainder accruing from development receipts. Domestic revenues fell by 16.2% due mainly to a sharp decline in oil and gas receipts of 43.1%, while non-oil/gas receipts recorded a significant increase of 20.9%, due mainly to higher receipts from the value added tax. Consequently, the

share of non-oil/gas revenues rose from 42.1% to 60.7%. Development receipts also rose, by 61% to Rp 5,752 billion; program aid amounted to Rp 3,795 billion and project aid accounted for the remainder.

On the expenditure side, in 1986/87 actual government expenditures reached Rp 21,891 billion; routine and development expenditures amounted to Rp 13,559 billion and Rp 8,332 billion, respectively. Routine expenditures increased by 13.5% from the previous year, primarily owing to a rise in amortization and interest payments on foreign debt. It is worth noting that development expenditures, which are mainly used to finance economic sectors, decreased by 23.4%.

As a result of lower domestic receipts and higher routine expenditures, government savings dropped sharply by 64.6% to Rp 2,582 billion. Hence, the share of government savings in development expenditures decreased from 67.2% in the previous year to 31%.

In line with efforts to stimulate economic activity, in the reporting year bank credits recorded substantial increases. At the end of the reporting year, total bank credits reached Rp 27,852 billion, rising by 24.2% which was the largest increase since the introduction of banking deregulation on June 1, 1983. Of that amount, Rp 18,902 billion (67.9%) originated from state banks, whereas Rp 5,772 billion (20.7%) from private national commercial banks. Direct lendings by Bank Indonesia, a major portion of which was channeled through Bank Tabungan Negara (BTN) for financing house ownership credits, went up by 17.5% to Rp 1,173 billion. By economic sector, all bank credits increased significantly. Credits for manufacturing and agricultural sectors rose rapidly (by 24.5% and 20.4%, respectively), while credits for trade and services sectors expanded at an

appreciable rate (by 18.8% and 12.5%, respectively). In terms of the uses of these bank loans, credits for working capital rose by 24.6% as against 17.6% in the previous year and bank loans for investment increased by 23.2% compared with 12.2% the year before.

As in previous years, the Government continued to actively assist the economically-weak group by providing various credits, such as, small-scale investment credit (*Kredit Investasi Kecil* or KIK), permanent working capital credit (*Kredit Modal Kerja Permanen* or KMKP), credit to cooperatives, general rural credit (*Kredit Umum Pedesaan* or Kupedes), and house-ownership credit (*Kredit Pemilikan Rumah* or KPR). In addition, to develop small-scale business, the Government continued to assist banks in selecting projects for implementation and in improving their technical skills in project analysis. During the reporting year, various credits for the economically-weak group and other priority credits, such as, export credit, credit for private national estates, and credit for national contractors, increased by 10.1% to Rp 8,003 billion.

To increase domestic funds, the Government continued its efforts to mobilize funds from the public either through banks or through money and capital markets. With regard to the mobilization of funds through banks, the Government continued to suspend the collection of taxes on income earned from time and savings deposits. These efforts contributed to funds mobilized by banks, which rose by 15.4% to Rp 24,060 billion; of this amount demand deposits amounted to Rp 7,562 billion, time deposits Rp 14,912 billion, and savings deposits Rp 1,586 billion. During 1986/87, demand deposits (denominated in rupiah and foreign currency) rose by 7.4% as against a decrease of 2% during

the previous year. Despite a slight reduction in interest rates, time deposits (rupiah and foreign currency) rose appreciably, by 18.5%, but down from the 44.3% recorded during the previous year. Other public savings, consisting of national development savings scheme (*Tabungan Pembangunan Nasional* or Tabanas), haj pilgrimage expenses scheme (*Ongkos Naik Haji* or ONH), and rural savings scheme (*Simpanan Pedesaan* or Simpedes), rose significantly by 30.9%.

To promote the development of the money market, Bank Indonesia continued to improve the trading procedures of SBI and SBPU. The improvement in SBI trading procedures was carried out by changing the issuance frequency and amending the regulations on rediscount transactions. To encourage SBPU trading, issuers of SBPU were allowed to issue SBPU in larger denominations, namely up to Rp 5 billion. Partly through efforts to promote the money market, issues of SBIs and transactions in SBPU increased significantly. In the reporting year, SBI issues reached Rp 7,141 billion, a rise of 15.4%, whereas purchases and sales of SBPU by the securities house increased to Rp 33,170 billion and Rp 23,069 billion as against Rp 6,198 billion and Rp 1,305 billion in the preceding year.

With respect to funds mobilized through the capital market, in 1986/87 issues comprised 739.7 thousand stocks and 3.7 thousand bonds with a value of Rp 133.1 billion and Rp 404.7 billion, respectively. It is noteworthy that transactions of stocks and bonds in the secondary market totaled 1,567.5 thousand stocks and 17.7 thousand bonds worth Rp 2.3 billion and Rp 11.3 billion, respectively.

To diversify sources of development financing, the Government continued to

promote other financial institutions, including non-bank financial institutions (NBFIs) and leasing and insurance companies. In the reporting year, however, assets of NBFIs decreased by 15.4% to Rp 2,021 billion, mainly due to reduced assets of NBFIs of investment type despite an increase in assets of development type. Meanwhile, in 1986, the number of leasing companies rose by 10 to 79 and insurance companies increased by 6 to 101.

In the reporting year, to raise the role of banks in supporting development efforts, Bank Indonesia continued to encourage banks to improve their services and strengthen public confidence by increasing efficiency and professionalism. It is expected that under continued supervision and promotion, the soundness of banks will improve. In this connection, Bank Indonesia revised the capital adequacy formula of banks in order to ease the capital requirements of soundly operating banks and to reduce the tendency to extend large loans to single borrowers. Furthermore, to improve services to the public, as of April 1986 Bank Indonesia has allowed banks to accept joint accounts which previously were not permitted. Moreover, to improve and expand clearing activities, Bank Indonesia established local clearing branches in regions where previously there had been no Bank Indonesia office. In this regard, during 1986/87, 4 branches of state banks were designated to carry out local clearing activities, bringing the total number of local clearing branches to 23 offices. In addition, as in previous years, Bank Indonesia continued to provide technical assistance to regional development banks and to encourage mergers among private national banks.

In the meantime, with the merger of 4 private national commercial banks, at the

end of March 1987 the number of commercial, development and savings banks stood at 113 banks. The number of offices, comprising head, branch and sub-branch offices, increased by 92 to 1,561. It is noteworthy that in the reporting year, increased business activities of banks were reflected in a rise in total assets, by 18.8% to Rp 41,441 billion, and as a result of the efforts to enhance efficiency in the use of funds, the ratio of excess rupiah liquidity declined to 0.5% as against 1.3% in the previous year.

It may be concluded that 1986/87 was one of Indonesia's more difficult years, full of challenges for the economy. The collapse of world oil prices, coupled with other adverse external factors, brought about heavy pressures on the balance of payments. In addition, various internal structural weaknesses also inhibited the development of the economy. However, as a result of fundamental adjustment measures introduced by the Government, in the reporting year the economy continued to show its resilience. This was reflected in, among other things, the containment of the balance of payments deficit, the achievement of higher economic growth, and the maintenance of inflation at a tolerable level. Finally, although the economy is still confronted with challenges and obstacles, stronger economic foundations have been laid as a result of a series of fundamental policy measures adopted by the Government and Indonesia's economy may be expected to perform better in the coming years.

Governor
Bank Indonesia

Dr. Arifin M. Siregar

I. MONETARY POLICY AND DEVELOPMENTS

A. Monetary Policy

In the reporting year, the Indonesian economy passed through a difficult period as a consequence of severe pressures on the balance of payments and sluggish domestic demand. The pressures were primarily attributable to a sharp decline in oil prices and weak world economic growth coupled with structural weaknesses in the Indonesian economy.

With regard to the balance of payments, these pressures were reflected in a larger current account deficit and a decrease in foreign exchange reserves. The drop in oil prices led to a sharp decline in government revenues, which constrained the Government's ability to provide funds for current and development expenditures. Since government expenditures play a significant role in stimulating economic activity in the near term, a fall in government expenditures tended to depress economic activity.

To cushion the heavy pressures on the balance of payments, while simultaneously promoting economic activity, an equitable income distribution, and domestic price stability, the authorities encountered difficult choices in adapting monetary policy in the reporting year. An expansionary monetary policy achieved through a reduction in interest rates would encourage economic activity. However, this policy would also induce capital outflows which in turn would worsen the balance of payments. In addition, an expansionary monetary policy would bring about price increases, which would weaken the competitiveness of domestic products.

Facing this situation, the Government pursued a cautious monetary policy of maintaining the level of rates of interest on monetary instruments, which declined appreciably in preceding years. The policy was pursued in the fashion not only to encourage economic activity and fund mobilization, but also to support efforts to improve the balance of payments position. However, in view of the unexpected drop in oil prices to below \$ 10.00 per barrel in August 1986, the Government devalued the rupiah by 31% against the US dollar on September 12, 1986 in order to avoid a further deterioration in the balance of payments. Furthermore, the Government undertook the October 25, 1986 and the January 15, 1987 packages of deregulation measures to promote non-oil/gas exports as a follow up to the May 6, 1986 package. To encourage capital inflows, the Government also revoked the ceiling on swap facilities to Bank Indonesia.

On the basis of this monetary policy, the growth rates in domestic liquidity (M_2) and money supply (M_1) showed a decline in the reporting year reflecting government efforts to improve the balance of payments by maintaining domestic inflation at a relatively low level.

B. Money Supply and Factors Affecting Its Changes

In the reporting year, both domestic liquidity (M_2) and money supply (M_1) recorded relatively low growth rates while bank credits accelerated somewhat, thereby supporting economic growth. Despite a substantial devaluation of the rupiah in the

course of the reporting year, price inflation was maintained at a relatively low level, reflecting the low growth rate of the money supply.

At the end of 1986/87, domestic liquidity (M_2) reached Rp 28,491 billion, having increased by 17.9% compared with 24.3% in the preceding year (Table 1.1). Taking into consideration the inflation rate, domestic liquidity in real terms rose by 8.0% compared with 17.5% in the preceding year. The slow growth in domestic liquidity occurred in both the narrowly defined money supply (M_1) and quasi money. Excluding revaluation effects of Rp 1,447 billion of the quasi money due to the September 12, 1986 devaluation, domestic liquidity increased by only 11.99%

At the end of 1986/87, M_1 (comprising currency in circulation and demand deposits) amounted to Rp 11,500 billion, having increased by 9.8% as against 16.5% in the preceding year (Table 1.2). The lower growth in the money supply was mainly accounted for by a decline in the growth of currency in circulation which increased by 12.5% (to a level of Rp 5,673 billion) compared with 33.3% in the preceding year; demand deposits rose by 7.3% to Rp 5,827 billion as against 4.4% in the preceding year. These developments led to a decline in the share of demand deposits in money supply, from 51.8% to 50.7%. Meanwhile, money supply in real terms rose by only 0.6% compared with 10.2% in the preceding year (Table 1.3).

With regard to factors affecting the development of money supply, in the reporting year net foreign assets recorded a significant expansionary effect (of Rp 2,344 billion), mainly attributable to a revaluation

effect of Rp 6,079 billion resulting from the September devaluation measure (Table 1.4.) The domestic sector also contributed an expansionary effect due to a rapid increase in claims on entities, enterprises, and individuals despite a significant contractionary effect of the devaluation measure.

In the reporting year, government sector contributed to the money supply a contractionary effect of Rp 1,475 billion as against an expansionary impulse of Rp 1,142 billion in the preceding year. The contractionary effect in 1986/87 was mainly attributable to a revaluation (amounting to Rp 1,866 billion) of the government account, as a consequence of the change in the rupiah exchange rate.

Claims on entities, enterprises, and individuals contributed an expansionary effect of Rp 5,567 billion to money supply, compared with Rp 3,834 billion in the previous year. This expansionary effect was due to a rise in claims on official entities and public enterprises of Rp 640 billion, up from Rp 177 billion in the preceding year. The increased claims were mainly accounted for by the increasing role of the banking system in financing working capital and investments of official entities and public enterprises. Claims on private enterprises and individuals also rose in the reporting year, by Rp 4,927 billion as against Rp 3,657 billion in the preceding year. This increase in 1986/87 was due to an expansion of banking credits which amounted to Rp 4,573 billion. This expansion of banking credits was closely associated with a decline in lending rates and a revaluation effect (Rp 354 billion) stemming from the rupiah exchange rate adjustments.

Quasi money, which in the reporting year had a contractionary effect on money supply, increased by Rp 3,298 billion compared with Rp 3,234 billion in the preceding year. Excluding valuation adjustment of Rp 1,447 billion, quasi money rose by only Rp 1,851 billion.

Net other items contributed a contractionary effect of Rp 2,113 billion, mainly on account of the revaluation of Rp 3,121 billion due to the rupiah exchange rate adjustment. It should be added that this sector had a contractionary effect of Rp 1,326 billion in the preceding year.

C. Monetary Prospect for 1987/88

A series of fundamental measures adopted by the Government designed to encourage domestic production and promote non-oil/gas exports are expected to have a favorable impact on the growth of the Indonesian economy in 1987/88. In addition, the significant rise in oil prices since August 1986 is expected to improve national income and the balance of payments in 1987/88. Moreover, a rise in the prices of several major non-oil/gas commodities will contribute further to an improvement in the balance of payments.

Although world economic growth is projected to decline a little in 1987, a series of policies to promote domestic efficiency and non-oil/gas exports as well as the

improvement in oil prices since January 1987 are expected to contribute to a significant improvement in the balance of payments in 1987/88. In addition, the economic growth is expected to be moderate. However, since the trend of oil prices remains uncertain, in 1987/88 monetary policy will be aimed at fostering monetary stability that will be conducive to an improvement in the balance of payments while simultaneously raising economic growth, enhancing the equitability of income distribution, and maintaining reasonable price stability. Hence, the monetary policy in 1987/88 will continue to be directed toward maintaining a level of interest rates that is conducive to mobilization of funds, encouragement of investments, and prevention of capital outflows.

With regard to the factors affecting money supply, in 1987/88 net foreign assets are expected to have a greater expansionary effect on money supply owing to increases in both oil/gas and non-oil/gas exports. Government finance in 1987/88 is also expected to have an expansionary thrust since an increase in government revenues will in turn raise government expenditures by a significant amount. Meanwhile, due to a series of fundamental measures aimed at enhancing production and investment, demand for bank credits is expected to increase, bringing about a significant expansionary effect on the main measures of money supply in 1987/88.

TABLE 1.1.
DOMESTIC LIQUIDITY
(billions of rupiah)

End of period	Domestic liquidity ¹⁾			Money Supply ²⁾		Quasi Money ³⁾	
	Total	Changes (%)		Out-standing	% of total	Out-standing	% of total
		Annual	Quarterly				
1975	1,978	36.2		1,250	63.2	728	36.8
1975/76	2,262	42.8		1,428	63.1	834	36.9
1976	2,631	33.0		1,603	60.9	1,028	39.1
1976/77	2,844	25.7		1,815	63.8	1,029	36.2
1977	3,131	19.0		2,006	64.1	1,123	35.9
1977/78	3,275	15.2		2,111	64.5	1,164	35.5
1978	3,809 ⁴⁾	21.7		2,488	65.3	1,321 ⁴⁾	34.7
1978/79	4,155 ⁵⁾	26.9		2,800	67.4	1,355 ⁵⁾	32.6
1979	5,222	37.1		3,385	64.8	1,837	35.2
1979/80	5,803	39.6		3,797	65.4	2,006	34.6
1980	7,691	47.3		4,995	64.9	2,696	35.1
1980/81	7,906	36.2		5,214	65.9	2,692	34.1
1981	9,716	26.3		6,486	66.8	3,230	33.2
1981/82	10,151	28.4		6,775	66.7	3,376	33.3
1982	11,075	14.0		7,121	64.3	3,954	35.7
1982/83	12,247 ⁶⁾	20.6	10.6	7,379	60.3	4,868 ⁶⁾	39.7
1983/84							
June	12,970		5.9	7,505	57.9	5,465	42.1
September	13,836		6.7	7,716	55.8	6,120	44.2
December	14,663	32.4	6.0	7,569	51.6	7,094	48.4
March	15,759	28.7	7.5	8,055	51.1	7,704	48.9
1984/85							
June	16,450		4.4	8,183	49.7	8,267	50.3
September	16,742		1.8	7,961	47.6	8,781	52.4
December	17,937	22.3	7.1	8,581	47.8	9,356	52.2
March	19,447	23.4	8.4	8,988	46.2	10,459	53.8
1985/86							
June	20,426		5.0	9,428	46.2	10,998	53.8
September	21,650		6.0	9,414	43.5	12,236	56.5
December	23,153	29.1	6.9	10,104	43.6	13,049	56.4
March	24,168	24.3	4.4	10,475	43.3	13,693	56.7
1986/87							
June	24,470		1.2	10,355	42.3	14,115	57.7
September	26,663 ⁷⁾		9.0	11,192	42.0	15,471 ⁷⁾	58.0
December	27,661	19.5	3.7	11,677	42.2	15,984	57.8
March	28,491	17.9	3.0	11,500	40.4	16,991	59.6

1) Domestic liquidity (M₂) consists of narrow money and quasi money.

2) Money supply (M₁) consists of currency and demand deposits.

3) Quasi money consists of time and savings deposits in rupiah and foreign currency and demand deposits in foreign currency held by domestic private sector.

4) Includes valuation adjustments of foreign currency deposits amounting to Rp 83 billion.

5) Includes valuation adjustments of foreign currency deposits amounting to Rp 99 billion.

6) Includes valuation adjustments of foreign currency deposits amounting to Rp 620 billion.

7) Includes valuation adjustments of foreign currency deposits amounting to Rp 1,447 billion.

TABLE 1.2.
MONEY SUPPLY
(billions of rupiah)

End of period	Money Supply			Currency		Demand deposits	
	Total	Changes (%)		Out – standing	% of total	Out – standing	% of total
		Annual	Quarterly				
1975	1,250	33.3		625	50.0	625	50.0
1975/76	1,428	39.0		659	46.2	769	53.8
1976	1,603	28.2		781	48.7	822	51.3
1976/77	1,815	27.1		853	47.0	962	53.0
1977	2,006	25.1		979	48.8	1,027	51.2
1977/78	2,111	16.3		1,036	49.1	1,075	50.9
1978	2,488	24.0		1,240	49.8	1,248	50.2
1978/79	2,800	32.6		1,369	48.9	1,431	51.1
1979	3,385	36.1		1,552	45.9	1,833	54.1
1979/80	3,797	35.6		1,774	46.7	2,023	53.3
1980	4,995	47.6		2,153	43.1	2,842	56.9
1980/81	5,214	37.3		2,229	42.8	2,985	57.2
1981	6,486	29.8		2,557	39.4	3,929	60.6
1981/82	6,775	29.9		2,542	37.5	4,233	62.5
1982	7,121	9.8		2,934	41.2	4,187	58.8
1982/83	7,379	8.9		3,001	40.7	4,378	59.3
1983/84							
June	7,505		1.7	3,284	43.8	4,221	56.2
September	7,716		2.8	3,307	42.9	4,409	57.1
December	7,569	6.3	– 1.9	3,333	44.0	4,236	56.0
March	8,055	9.2	6.4	3,554	44.1	4,501	55.9
1984/85							
June	8,183		1.6	4,047	49.5	4,136	50.5
September	7,961		– 2.7	3,641	45.7	4,320	54.3
December	8,581	13.4	7.8	3,712	43.3	4,869	56.7
March	8,988	11.6	4.7	3,785	42.1	5,203	57.9
1985/86							
June	9,428		4.9	4,276	45.4	5,152	54.6
September	9,414		– 0.2	4,268	45.3	5,146	54.7
December	10,104	17.7	7.3	4,440	43.9	5,664	56.1
March	10,475	16.5	3.7	5,044	48.1	5,431	51.9
1986/87							
June	10,355		– 1.1	4,834	46.7	5,521	53.3
September	11,192		8.1	5,173	46.2	6,019	53.8
December	11,677	15.6	4.3	5,338	45.7	6,339	54.3
March	11,500	9.8	– 1.5	5,673	49.3	5,827	50.7

TABLE 1.3.
TOTAL AND INDEX OF MONEY SUPPLY AND
DOMESTIC LIQUIDITY

End of period	Domestic liquidity (billions of Rp)	Money supply (billions of Rp)	Price index ¹⁾ (April 1977 – March 1978 = 100)	Domestic liquidity in real terms (billions of Rp)	Money supply in real terms (billions of Rp)	Index of real domestic liquidity (March 1979 = 100)	Index of real money supply (March 1979 = 100)
1975	1,978	1,250	84.68	2,336	1,476	68.46	64.20
1975/76	2,262	1,428	88.26	2,563	1,618	75.12	70.38
1976	2,631	1,603	96.70	2,721	1,658	79.75	72.12
1976/77	2,844	1,815	98.95	2,874	1,834	84.23	79.77
1977	3,131	2,006	108.13	2,896	1,855	84.88	80.69
1977/78	3,275	2,111	108.93	3,007	1,938	88.13	84.30
1978	3,809 ²⁾	2,488	115.36	3,302	2,157	96.78	93.82
1978/79	4,155 ³⁾	2,800	121.77	3,412	2,299	100.00	100.00
1979	5,222	3,385	143.07	3,650	2,366	106.98	102.91
1979/80	5,803	3,797	147.14	3,944	2,581	115.59	112.27
1980	7,691	4,995	167.55	4,590	2,981	134.53	121.67
1980/81	7,906	5,214	172.14	4,593	3,029	134.61	131.76
1981	9,716	6,486	179.82	5,403	3,607	158.35	156.90
1981/82	10,151	6,775	189.63	5,353	3,573	156.89	155.42
1982	11,075	7,121	197.85	5,598	3,599	164.07	156.55
1982/83	12,247 ⁴⁾	7,379	205.99	5,945	3,582	174.24	155.82
1983/84							
June	12,970	7,505	216.19	5,999	3,471	175.82	150.98
September	13,836	7,716	219.61	6,300	3,513	184.64	152.81
December	14,663	7,569	221.53	6,619	3,417	193.99	148.63
March	15,759	8,055	233.42	6,751	3,451	197.86	150.11
1984/85							
June	16,450	8,183	238.69	6,892	3,428	201.99	149.11
September	16,742	7,961	238.98	7,006	3,331	205.33	144.89
December	17,937	8,581	241.63	7,423	3,551	217.56	154.46
March	19,447	8,988	242.07	8,034	3,713	235.46	161.50
1985/86							
June	20,426	9,428	251.23	8,130	3,753	238.28	163.24
September	21,650	9,414	250.38	8,647	3,760	253.43	163.54
December	23,153	10,104	252.20	9,180	4,006	269.05	174.24
March	24,168	10,475	256.07	9,438	4,091	276.61	177.95
1986/87							
June	24,470	10,355	260.20	9,404	3,980	275.62	173.12
September	26,663 ⁵⁾	11,192	267.44	9,970	4,185	292.20	182.04
December	27,661	11,677	275.27	10,049	4,242	294.52	184.51
March	28,491	11,500	279.49	10,194	4,115	298.77	178.99

1) Based on the Consumer Price Index; prior to March 1979 the index was based on the Cost of Living Index for Jakarta.

2) Includes valuation adjustment of foreign currency deposits amounting to Rp 83 billion.

3) Includes valuation adjustment of foreign currency deposits amounting to Rp 99 billion.

4) Includes valuation adjustment of foreign currency deposits amounting to Rp 620 billion.

5) Includes valuation adjustment of foreign currency deposits amounting to Rp 1,447 billion.

TABLE 1.4
FACTORS AFFECTING MONEY SUPPLY
(billions of rupiah)

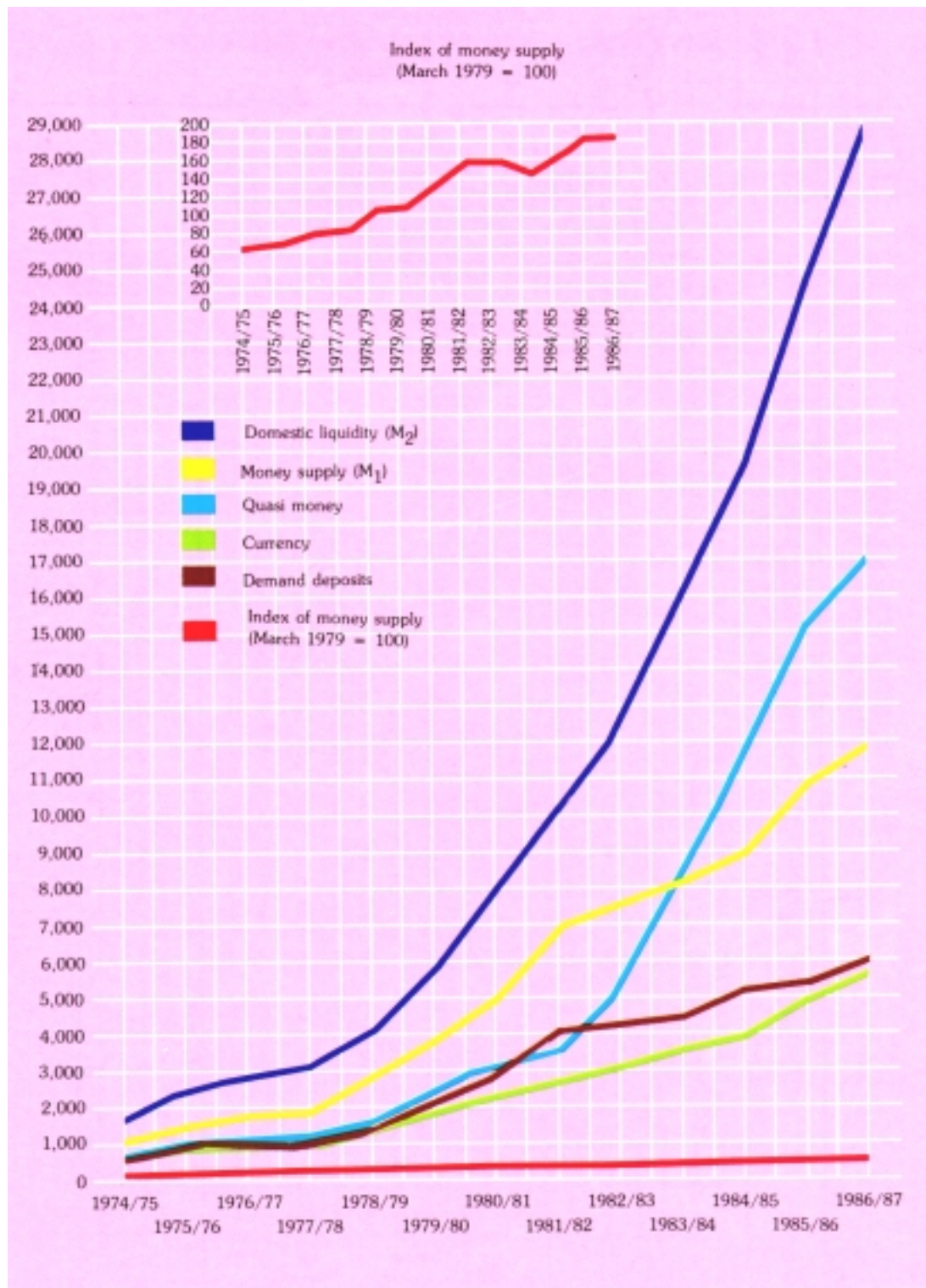
Items	1979/ 80	1980/ 81	1981/ 82	1982/ 83	1982/ 83 2)	1983/ 84	1984/ 85	1985/ 86	1986				1987		1986/ 87	1986/ 87 3)					
									I	II	III ³⁾	IV	I	87							
I. Net foreign assets	2,626	3,035	2,209	185	22	-1,128	-1,716	229	3,243	3,299	3,654	2,935	1,813	1,071	-26	-520	6,184	-3,797	477	-3,735	2,344
II. Central government	-1,221	-1,868	-1,871	-591	-164	129	706	486	-1,506	-2,335	-3,359	-3,004	-278	1,142	1,415	66	-1,629	646	-558	391	-1,475
III. Claims on entities, enterprises and individuals	809	1,667	1,837	2,349	2,604	2,949	2,745	3,039	2,435	2,636	3,836	3,465	3,847	3,834	470	980	1,599	1,748	1,240	5,212	5,567
1. Claims on official entities, and public enterprises	250	489	540	593	683	732	236	382	104	278	190	138	513	177	-445	210	353	135	-58	639	640
2. Claims on private enterprises and, individuals	559	1,178	1,297	1,756	1,921	2,217	2,509	2,657	2,331	2,358	3,646	3,327	3,334	3,657	915	770	1,246	1,613	1,298	4,573	4,927
IV. Time and savings deposits ¹⁾	-650	-859	-687	-535	-684	-724	-872	-1,492	-3,140	-2,836	-2,262	-2,755	-3,693	-3,234	-644	-302	-2,193	204	-1,007	-1,851	-3,298
V. Net other items	-567	-365	-71	83	-217	-591	-259	-1,658	-584	-88	-857	292	-166	-1,326	-844	-344	-3,124	1,684	-329	-1,008	-2,113
Money supply	997	1,610	1,417	1,491	1,561	635	604	604	448	676	1,012	933	1,523	1,487	371	-120	837	485	-177	1,025	1,025
— Currency	405	601	455	404	313	377	459	459	399	554	379	231	728	1,259	604	-210	339	165	335	629	629
— Demand deposits	592	1,009	962	1,087	1,248	258	145	145	49	122	633	702	795	228	-233	90	498	320	-512	396	396

1) Includes foreign currency deposits held by domestic private sector.

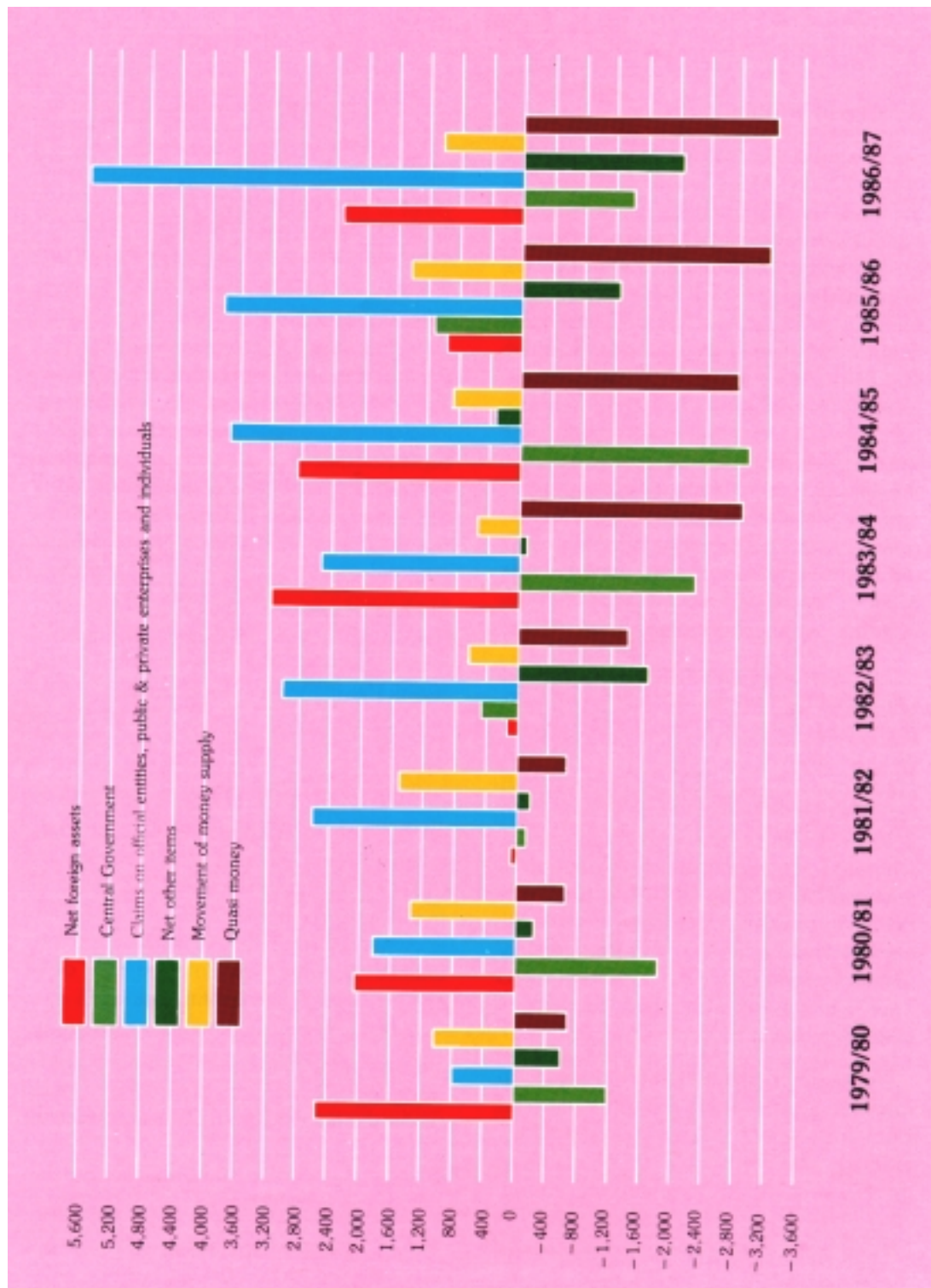
2) Includes increases from valuation adjustment of balances denominated in foreign currency due to March 30, 1983 rupiah devaluation.

3) Includes increases from valuation adjustments of balances denominated in foreign currencies due to rupiah devaluation on September 12, 1986, which amounted to Rp 6.079 billion of net foreign assets; Rp 1,866 of government sector. Rp 1 billion of claims on official entities and public enterprises; Rp 354 billion of claims on private enterprises and individuals; Rp 1,447 billion of time and savings deposits; and Rp 3,121 billion of net other items.

MONEY SUPPLY AND DOMESTIC LIQUIDITY



FACTORS EFFECTING MONEY SUPPLY



II. BANK CREDIT

A. Credit Policy

In order to alleviate the adverse impact of sluggish domestic economy, in 1986/87 the Government undertook policies designed to encourage banks to manage their liquidity more efficiently so as to expand their capability to extend loans. In addition, efforts to promote business activities of the economically-weak group continued to be implemented by improving procedures in channeling credits and unifying the terms of credits. In line with the aforementioned policies, which remained consistent with the June 1, 1983 Monetary Reform, credit extension was aimed at enhancing investment activities to promote labor intensive industries and non-oil/gas export commodities as well as developing the business activities of the economically-weak group.

To enhance the capabilities of banks in managing their funds and in assisting their prime customers, in March 1987 Bank Indonesia relaxed the overdraft facility with effect from April 1987.¹⁾ The overdraft facility extended to debtors was raised from 5% to 15% of the maximum credit, whereas the overdraft facility to depositors was raised from 10% to 15% of the effective balance at the time the overdraft occurred. The duration of overdraft, initially fixed for seven days, was extended to 15 days, while the interest rate to be charged was left to each bank's discretion.

To assist Bank Rakyat Indonesia in managing its funds, in the reporting year Bank

Indonesia provided special liquidity credit in the form of a prepayment of government subsidy in regard to, among others, the fertilizer and pesticide financing.

To promote non-oil/gas exports, in October 1986 Bank Indonesia reduced the self-financing requirement of export credits for companies under the foreign direct investment scheme (*Penanaman Modal Asing* or PMA) from 30% to 15% of total outlays.²⁾

In addition, to promote the competitiveness of national contractors entering international tenders, Bank Indonesia lowered the commitment fee on working capital credits. The size of the commitment fee, initially left to each bank's discretion, has been fixed at a maximum of 0.5% of the maximum credit since May 1986.³⁾

To attract investment and encourage the holding of national equity in PMA companies, since June 1986 state commercial banks and the state development bank (Bank Pembangunan Indonesia or Bapindo) have provided working capital credits to certain PMA companies. Three types of PMA companies are eligible for this credit : those in which 75% of their equity is owned by state or national private entities, those in which at least 51% of their equity is issued through the capital market, and those in which at least 51% of their equity is owned by state and/or national private entities and which have offered 20% of its shares through the capital market.⁴⁾

1) Bank Indonesia Circular Letter No. 19/3/BPPP, March 12, 1987.

2) Bank Indonesia Circular Letter No. 19/6/UKU, October 25, 1986.

3) Bank Indonesia Circular Letter No. 19/2/UKU, May 27, 1986.

4) Bank Indonesia Circular Letter No. 19/4/UKU, June 4, 1986.

In June 1986, the Government stipulated a regulation on investment credit designed to develop plantation estates under the smallholders' plantation nucleus estate scheme (*Perusahaan Inti Rakyat* or PIR) incorporated in the transmigration program (PIR Trans). This regulation was intended to increase output of plantation crops, raise farmers' income, and support the transmigration program. The investment credit is provided by national commercial banks of which financing is fixed at 35% of the total project cost. The lending rate to plantation estates is fixed at 16%, whereas that to farmers will be adjusted downward in accordance with the lending rate charged to the economically-weak group. The maturity of nucleus plantation credit is between 13 and 20 years including a grace period of 4-7 years; participant farmers receive between 9 and 13 years without a grace period. Bank Indonesia provides 55% of the credit in the form of liquidity credit with an interest rate of 6.5%.⁵⁾ In addition, since January 1987 credit extended to private plantation estates has been expanded not only to finance existing plantations under the former system of commercial use right (*Hak Guna Usaha* or HGU), but also for the expansion of plots surrounding the estates. Under the new HGU, activities eligible for financing under credit for private national plantation estates (*Perkebunan Swasta Nasional* or PSN) include intensification, rehabilitation, rejuvenation, and expansion of plantations so as to achieve economies of scale either in old plots or new estates.⁶⁾

To encourage the provision of credit to business activities of the economically-weak group (in particular as regards investment credit, working capital credit up to Rp 75 million, and working capital credit under Keppres No. 29/1984), since November 1986 Bank Indonesia has adjusted the provision of liquidity credits based on the outstanding credit of customers. Formerly, the provision of these liquidity credits was based on a total maximum amount available on a fiscal year basis. Particularly for working capital credit under Keppres No. 29/1984, handling banks are now allowed to extend credit without prior approval of the liquidity credit as long as the lending rate of this credit is equal to the interest rate fixed by Bank Indonesia. In addition, the liquidity credit may be applied pursuant to the letter of work order (*Surat Perintah Kerja* or SPK) or other identification letters regarding project implementation.⁷⁾ Furthermore, to develop smallscale enterprises, the Government continued to assist banks in selecting potential projects for implementation and in improving their technical skills in analyzing, projects as well as in providing concessionary credits.

B. Credit Developments

At the end of the reporting year, bank endings amounted to Rp 27,852 billion, having increased by 24.2% compared with 16.0% in the preceding year (Table 2.1). This increase was the highest since the June 1, 1983 Monetary Reform.

By group of banks, credits extended by deposit money banks (DMBs) rose by 24.5%

5) Bank Indonesia Circular Letter No. 19/3/UKU, June 4, 1986.

6) Bank Indonesia Circular Letter No. 20/2/UKU, April 7, 1987.

7) — Bank Indonesia Circular Lener No. 19/1/UKK, April 16, 1986.

— Bank Indonesia Circular Letter No. 19/2/UKK, November 4, 1986.

to Rp 26,679 billion (Table 2.4). At the end of March 1987, credits extended by state banks increased by 24.0% to Rp 18,902 billion, while those extended by private national commercial banks (*Bank Umum Swasta Nasional* or BUSNs) rose by 28.6% to Rp 5,772 billion. Credits extended by regional development banks (*Bank Pembangunan Daerah* or BPDs) increased by 24.2% to Rp 786 billion, while those extended by foreign banks increased by 13.7% to Rp 1,219 billion.

It is worth noting that direct credits of Bank Indonesia, mostly extended to state savings bank (*Bank Tabungan Negara* or BTN), rose by 17.5% to Rp 1,173 billion. This increase was mainly intended to encourage the extension of house-ownership credit (*Kredit Pemilikan Rumah* or KPR) in the effort to support low-cost housing construction.

In 1986/87, bank credits to all economic sectors recorded an increase (Table 2.1). Credits to the manufacturing sector - mainly for chemical and plastic products, textiles, paper, and wood and its products - rose rapidly by 24.5% (Rp 1,871 billion). Credits to the trade sector increased by 18.8% (Rp 1,344 billion), mainly to finance retail trade, purchase and collection of domestically traded goods, and exports of finished and semi-finished goods. Credits to the services sector rose by 12.5% (Rp 490 billion), mainly to finance low-cost housing construction, services business, electricity, and public transportation. Credits to the agricultural sector went up by 20.4% (Rp 372 billion), mainly to finance rubber, oil palm, sugarcane, and tobacco plantations; credits to the mining sector rose by 52.7% (Rp 136 billion), mainly for oil, earth gas, and coal

mines. Based on these developments, the share of credits to manufacturing remained at about 34.1%, while those to agricultural, trade, and services sectors declined to 7.9%, 30.5%, and 15.8%, respectively.

Based on uses, working capital credits increased by 24.6% to Rp 19,927 billion in the reporting year as against 17.6% in 1985/86. Working capital credits were mostly extended to trade (40.6%), manufacturing (31.4%), and services sectors (14.5%). Investment credits, which consist of commercial bank credits, small-scale investment credits (*Kredit Investasi Kecil* or KIK), and other investment credits, amounted to Rp 7,925 billion at the end of the reporting year, having increased by 23.2% as against 12.2% in the preceding year. The higher increase in investment credits was mainly due to an increase in credits to agricultural sector, especially plantation crops, textile industry subsector, and electricity. As regards the distribution of credits, the share of investment credits in the agricultural and manufacturing sectors increased to 17.0% and 41.0%, respectively, whereas that of the services sector declined to 19.2% (Table 2.2).

By scale of priority, high priority credits, such as, KIKs, KMKPs, cooperative credits, Kupedes, and export credits, rose by 7.7% to Rp 6,238 billion, whereas non-priority credits increased by 30.7% to Rp 20,441 billion (Table 2.4). Taking account of other priority credits, such as KPR and credit for smallholders, the total priority credits increased by 10.1% to Rp 8,003 billion.

Priority working capital credits rose by 2.8% reaching Rp 4,729 billion and priority investment credits rose by 26.6% reaching Rp 1,509 billion. Non-priority working

capital and non-priority investment credits rose by 32.6% to Rp 14,882 billion and 25.8% to Rp 5,559 billion, respectively. It is noteworthy that the priority credits extended by BUSNs increased rapidly (43.3%) reaching Rp 394 billion which was primarily due to a rise in export credits. In addition, foreign banks, which have been allowed to extend priority credits for exports since September 1985, recorded outstanding credits of Rp 70 billion at the end of March 1987 as against Rp 19 billion in 1985/86.

Outstanding KIKs showed a decline of 4.6% to Rp 311 billion compared with a decline of 8.4% in the preceding year. The value of approved applications rose by 11.5% to Rp 1,175 billion and the number of customers increased by 6.6% to 290 thousand at the end of the reporting year.

Outstanding KMKPs registered a decline of 1.2% to Rp 878 billion as against a decline of 4.5% in the preceding year. The value of approved applications rose by 19.6% reaching Rp 3,431 billion, while the number of customers increased by 7.8% to

2,214 thousand at the end of the reporting year (Table 2.3).

In addition to the priority credits extended by DMBs, there are also priority credits channeled through BTN known as KPR. It should be noted that the sources of funds to finance the KPR are obtained from Bank Indonesia refinancing facilities, self financing, and the government budget. At the end of 1986/87, the KPRs extended by BTN recorded an increase of 16.3% reaching Rp 1,391 billion and the number of customers increased by 9.0% to 363 thousand.

Finally, there are also credits channeled outside the banking sector, namely small credits for petty traders (*Kredit Candak Kulak* or KCK) and the KPR for the middle-income group which is channeled through PT Papan Sejahtera. The KCKs, which are intended to assist small traders and the low-income group, reached Rp 13 billion at the end of the reporting year. The outstanding KPRs channeled through PT Papan Sejahtera went up by 65.9% reaching Rp 68 billion with 4,673 customers.

TABLE 2.1
BANK CREDITS IN RUPIAH AND FOREIGN CURRENCY
BY ECONOMIC SECTORS ¹⁾
(billions of rupiah)

Specification	March 31				June 30,	Sep. 30,	Dec. 31,	Mar. 31,
	1983 ²⁾	1984	1985	1986	1986	1986	1986	1987
Credits in rupiah	12,804	15,070	18,735	22,134	23,097	24,835	25,945	27,349
— Agriculture	1,154	1,305	1,390	1,825	2,003	2,016	2,097	2,197
— Mining ³⁾	1,215	670	379	258	338	393	394	394
— Manufacturing ⁴⁾	3,910	5,060	6,520	7,504	7,593	8,125	8,839	9,355
— Trade ⁵⁾	3,936	4,915	6,168	7,127	7,409	8,347	8,329	8,400
— Services ⁶⁾	1,937	2,389	3,277	3,784	3,935	3,936	4,130	4,188
— Others	652	731	1,001	1,636	1,819	2,018	2,156	2,815
Credits in foreign currency	901	1,065	601	296	319	437	457	503
— Agriculture	--	--	--	--	--	--	--	--
— Mining	--	--	--	--	--	--	--	--
— Manufacturing	692	654	478	133	152	179	166	153
— Trade	199	382	37	33	38	68	70	104
— Services	10	29	84	129	126	185	215	215
— Others	--	--	2	1	3	5	6	31
Total bank credits	13,705	16,135	19,336	22,430	23,416	25,272	26,402	27,852
— Agriculture	1,154	1,305	1,390	1,825	2,003	2,016	2,097	2,197
— Mining	1,215	670	379	258	338	393	394	394
— Manufacturing	4,602	5,714	6,998	7,637	7,745	8,304	9,005	9,508
— Trade	4,135	5,297	6,205	7,160	7,447	8,415	8,399	8,504
— Services	1,947	2,418	3,361	3,913	4,061	4,121	4,345	4,403
— Others	652	731	1,003	1,637	1,822	2,023	2,162	2,846

1) Excludes interbank credits, credits to Government and to non-residents, special liquidity credits and foreign currency component of project aid.

2) Includes increases due to the rupiah devaluation of March 30, 1983 amounting to Rp 251 billion, comprising Rp 190 billion for manufacturing, Rp 58 billion for trade, and Rp 3 billion for services.

3) Includes credits to Pertamina for financing its debt services. Since March 1979 credits in foreign currency to Pertamina have been converted into credits in rupiah and since November 30, 1984, some of these direct credits were transferred to state commercial banks.

4) Credits for the processing of agricultural products are classified under the manufacturing sector, following International Standard Industrial Classification (ISIC) 1968.

5) Includes restaurants and hotels.

6) Includes electricity; gas and water supply; transportation, warehousing and communication; and construction.

TABLE 2.2
BANK CREDITS
BY TYPES OF CREDITS AND ECONOMIC SECTORS¹⁾
(billions of rupiahs)

Specification	March 31				Jun. 30,	Sep. 30,	Dec. 31,	March 31,
	1983 ²⁾	1984	1985	1986	1986	1986	1986	1987
Working capital	8,686	10,659	13,599	15,995	16,630	17,953	18,786	19,927
— Agriculture	675	651	654	777	853	812	807	848
— Mining	32	37	33	36	42	25	26	25
— Manufacturing	2,601	3,315	4,391	5,058	5,154	5,501	5,907	6,256
— Trade	3,929	4,974	5,897	6,778	7,057	8,003	7,962	8,081
— Services	1,104	1,390	2,247	2,517	2,613	2,537	2,892	2,881
— Others	345	292	377	829	911	1,075	1,192	1,836
Investment credits³⁾	5,019	5,476	5,737	6,435	6,786	7,319	7,616	7,925
— Agriculture	479	654	736	1,048	1,150	1,204	1,290	1,349
— Mining	1,183	633	346	222	296	368	368	369
— Manufacturing	2,001	2,399	2,607	2,580	2,591	2,803	3,098	3,252
— Trade	206	323	308	381	390	412	437	423
— Services	843	1,028	1,114	1,396	1,448	1,584	1,453	1,522
— Others	307	439	626	808	911	948	970	1,010
Total bank credits	13,705	16,135	19,336	22,430	23,416	25,272	26,402	27,852
Agriculture	1,154	1,305	1,390	1,825	2,003	2,016	2,097	2,197
— Mining ⁴⁾	1,215	670	379	258	338	393	394	394
— Manufacturing ⁵⁾	4,602	5,714	6,998	7,637	7,745	8,304	9,005	9,508
— Trade ⁶⁾	4,135	5,297	6,205	7,160	7,447	8,415	8,399	8,504
— Services ⁷⁾	1,947	2,418	3,361	3,913	4,061	4,121	4,345	4,403
— Others	652	731	1,003	1,637	1,822	2,023	2,162	2,846

1) Excludes interbank credits, credits to Government and to non-residents, special liquidity credits and foreign currency component of project aid.

2) Includes increases due to the rupiah devaluation of March 30, 1983, amounting to Rp 251 billion, comprises Rp 190 billion for manufacturing, Rp 58 billion for trade, and Rp 3 billion for services.

3) Includes investment credits based on Decree of Board of Directors of Bank Indonesia No. Peng.1/DIR/1969, March 7, 1979.

4) Includes credits to Pertamina for financing its foreign debt services. Since the end of March 1979 credits in foreign currency to Pertamina had been converted to rupiah. Since November 30, 1984, Bank Indonesias direct credits to Pertamina partly have been transferred to state commercial banks.

5) Credits for the processing of agricultural products is classified under manufacturing, following International Standard Industrial Classification (ISIC) 1968.

6) Includes restaurants and hotels.

7) Includes electricity; gas and water supply; transportation, warehousing and communication; and construction.

TABLE 2.3
CREDITS TO THE ECONOMICALLY-WEAK GROUP
(millions of rupiah and thousands of customers)

Specification	March 31				Jun. 30, 1986	Sep. 30, 1986	Dec. 31, 1986	Mar. 31, 1987
	1983	1984	1985	1986				
1. Small Investment Credit (KIK)								
— Number of application approved (customers)								
— Value of application approved	220	241	256	272	275	280	283	290
— Outstanding credits	737	847	946	1,054	1,074	1,106	1,135	1,176
2. Permanent Working Capital Credits (KMKP)								
— Number of application approved (customers)								
— Value of application approved	414	387	356	326	322	319	305	311
— Outstanding credits								
3. KIK/KMKP (1 + 2)								
— Number of application approved (customers)								
— Value of application approved	1,526	1,685	1,871	2,053	2,086	2,120	2,147	2,215
— Outstanding credits	1,629	2,007	2,448	2,869	3,019	3,122	3,241	3,432
4. Kupedes ¹⁾	815	867	931	889	900	903	878	878
— Investment								
— Working capital	1,746	1,926	2,127	2,325	2,361	2,400	2,430	2,504
5. Working Capital Credits under Keppres 29/1984	2,366	2,854	3,394	3,923	4,093	4,228	4,376	4,606
6. Credits with maximum of Rp 75 million	1,229	1,254	1,287	1,215	1,222	1,222	1,183	1,189
— Investment	104	99	166	273	298	315	345	384
— Working capital	11	10	12	12	11	11	12	13
7. House Ownership Credits (KPR)	93	89	154	261	287	304	333	371
PT Papan Sejahtera	--	--	36	67	45	44	57	46
— Customers	--	9	79	185	227	255	290	324
— Outstanding credits	--	9	40	78	102	117	128	143
8. Kredit Candak Kulak (KCK)-	--	--	39	107	125	138	162	181
Customers	0.68	1.46	2.33	2.84	3.11	3.43	4.00	4.67
— Outstanding credits	7	19	33	41	45	49	58	68
9. Kredit Candak Kulak (KCK)-	11,901	12,956	14,045	15,271	15,687	15,956	15,990	15,990
Customers	8	10	12	12	12	14	13	13
— Outstanding credits	56	51	58	112	167	216	252	287
10. Credits for Teachers ²⁾								
11. Credits for Indonesian Students (KMI)	4	13	26	35	38	41	43	46
12. Credits for Cooperatives	241 ^r	278 ^r	271 ^r	300 ^r	314	325	278	275
— Investment	52	74	78	76	74	75	73	71
— Working Capital	189	204	193	224	240	250	205	204
13. Bimas ³⁾	184	176	161	145	142	141	139	137
14. Inpres Pasar	79	97	82	94	91	109	100	96
15. Pension Credits	27	26	28	35	42	46	44	45
16. Viability Credit up to Rp.75 million	99	64	67	89	100	100	99	98
17. Keppres No.14A/1980 credits	107	65	70	69	63	63	62	62
Sub total	2,145	2,161	2,376	2,672	2,806	2,940	2,963	3,070
18. House Ownership Credits (KPR)								
State Saving Bank (BTN)								
— Customers	148	196	241	333	339	343	349	363
— Outstanding credits	400	578	803	1,196	1,311	1,311	1,344	1,391
19. Credits for Student Dormitories	--	--	0.5	4.8	4.9	5.1	5.6	6.1
20. Perusahaan Inti Rakyat (PIR)								
Plasma	47	64	99	132	141	146	187	210
21. Rejuvenation rehabilitation and Extension of export plantation	106	129	139	148	145	144	154	158
Sub total	553	771	1,042	1,481	1,602	1,606	1,691	1,765
Total	2,698	2,932	3,418	4,153	4,408	4,546	4,654	4,835

1) Before January 1984 consisted of Mini and Midi credits, thereafter, consist of Kupedes and unpaid Mini and Midi credits.

2) For purchasing motorcycles.

3) Including credits for farm's enterprises.

TABLE 2.4
BANK CREDITS IN RUPIAH AND FOREIGN CURRENCY
BY PRIORITY AND NON-PRIORITY
(billions of rupiah)

Items	March 31				Jun. 30, 1986	Sep. 30, 1986	Dec. 31, 1986	Mar. 31 1987
	1983 ¹⁾	1984	1985	1986	1986	1986	1986	1987
1. State banks ²⁾	8,854	10,283	13,522	15,240	15,872	17,225	17,782	18,902
1.1. Priority	2,597	2,991	4,780	5,295	5,526	5,926	5,742	5,522
- Working capital	1,808	2,131	3,891	4,285	4,454	4,789	4,565	4,291
- Investment	789	860	889	1,010	1,072	1,137	1,177	1,231
1.2. Non-priority	6,257	7,292	8,742	9,945	10,346	11,299	12,040	13,380
- Working capital	3,675	4,330	5,135	5,708	5,907	6,420	6,923	8,067
- Investment	2,582	2,962	3,607	4,237	4,439	4,879	5,117	5,313
2. Private national commercial banks	1,354	2,151	3,269	4,487	4,715	5,108	5,506	5,772
2.1. Priority	93	116	160	275	318	328	349	394
- Working capital	44	56	97	189	220	204	212	252
- Investment	49	60	63	86	98	124	137	142
2.2. Non-priority	1,261	2,035	3,109	4,212	4,397	4,780	5,157	5,378
- Working capital	1,254	1,961	3,020	4,117	4,291	4,670	5,046	5,252
- Investment	7	74	89	95	106	110	111	126
3. Regional development banks	372	432	545	633	666	722	766	786
3.1. Priority	125	144	159	202	213	225	240	252
- Working capital	54	65	77	106	108	106	115	116
- Investment	71	79	82	96	105	119	125	136
3.2. Non-priority	247	288	386	431	453	497	526	534
- Working capital	207	244	326	353	372	412	436	436
- Investment	40	44	60	78	81	85	90	98
4. Foreign banks	737	977	1,062	1,072	1,060	1,095	1,204	1,219
4.1. Priority	--	--	--	19	24	33	48	70
- Working capital	--	--	--	19	24	33	48	70
- Investment	--	--	--	--	--	--	--	--
4.2. Non-priority	737	977	1,062	1,053	1,036	1,062	1,156	1,149
- Working capital	736	974	1,050	1,045	1,023	1,049	1,133	1,127
- Investment	1	3	12	8	13	13	23	22
5. Total (1 through 4)	11,317	13,843	18,398	21,432	22,313	24,150	25,258	26,679
5.1. Priority	2,815	3,251	5,099	5,791	6,081	6,512	6,379	6,238
- Working capital	1,906	2,252	4,065	4,599	4,806	5,132	4,940	4,729
- Investment	909	999	1,034	1,192	1,275	1,380	1,439	1,509
5.2. Non-priority	8,502	10,592	13,299	15,641	16,232	17,638	18,876	20,441
- Working capital	5,872	7,509	9,531	11,223	11,593	12,551	13,538	14,88
- Investment	2,630	3,083	3,768	4,418	4,639	5,087	5,341	5,559
6. Other priority credits ³⁾	553	771	1,042	1,481	1,602	1,606	1,691	1,765

1) Includes increases due to the rupiah devaluation of March 30, 1983, amounting Rp 251 billion.

2) - Excludes BTN.

- Credits to Bulog and Pertamina formerly direct credits of Bank Indonesia, have been transferred to state commercial banks since April and November 1984, respectively.

3) Not accounted as credits from deposit money bank.

III. MOBILIZATION OF FUNDS

A. Policy on Mobilization of Funds

In response to the sharp decrease in government revenues from oil/gas, the mobilization of funds from private domestic sources has become more important in supporting production and investment. In the reporting year, the Government continued to mobilize domestic funds by promoting financial institutions and by encouraging the development of money and capital markets. In this respect, the Government continued to implement policies undertaken in preceding years, such as: suspending the collection of taxes on income (*Pajak Penghasilan* or PPh) earned from time and savings deposits; promoting the development of financial institutions; and designating banks to handle Tabanas and Taska and issue certificate of deposits (CDs).

As part of the Bank Indonesia's policy to promote sound banking operations, banks are required to consider carefully their needs and capacity to repay when they utilize interbank call money to meet daily liquidity requirement. For this purpose, as in the preceding year, Bank Indonesia set the maximum amount of interbank call money that an individual bank could borrow. In addition, Bank Indonesia continued to stabilize interest rates on interbank call money by influencing transactions and discount rates of indirect monetary instruments, namely Bank Indonesia certificates (*Sertifikat Bank Indonesia* or SBIs), money market securities (*Surat Berharga Pasar Uang* or SBPU), and discount facilities.

To encourage development of the money market, in 1986/87 Bank Indonesia continued to expedite and promote the trading of commercial paper in the money market by

broadening the available denominations of SBPU and by improving the trading procedures for SBIs.

Previously, the available range of denominations of SBPU was between a minimum of Rp 25 million and a maximum of Rp 1 billion for all transactions. Since August 1986, however, issuers of SBPU have been granted a facility to issue SBPU with a maximum denomination of Rp 5 billion for transactions above Rp 5 billion.¹⁾

To encourage the SBI secondary market, Bank Indonesia improved the trading procedures for SBIs by changing the issuance frequency and by regulating rediscount transactions. The issuance of SBIs, which had been conducted on a daily basis since July 1985, has been carried out weekly since August 6, 1986. In addition, banks and non-bank financial institutions (NBFIs) are only allowed to discount at the prevailing market discount rate those SBIs that have a remaining maturity of 21 days or less to the securities house which can further rediscount those SBIs to Bank Indonesia. SBIs with a remaining maturity in excess of 21 days can only be discounted to the securities house at the prevailing market discount rate. Nevertheless, Bank Indonesia can also repurchase SBIs with remaining maturity exceeding 21 days at a discount rate determined by Bank Indonesia. It is worth noting that SBI trading can also be carried out in the Jakarta clearing house.²⁾

As was the case in the preceding year, the Government continued to encourage the

1) Bank Indonesia Circular Letter No. 19/3/UPG, August 6, 1986.

2) Bank Indonesia Circular Letter No 19/4/UPG, August 6, 1986.

development of capital markets. In this regard, as explained in Chapter II, in the reporting year the Government undertook efforts to encourage state commercial banks to provide working capital credit to foreign companies that had issued or had offered their securities through the capital market.³⁾

B. Banks' Funds Developments

In the reporting year, mobilization of funds from the public through the banking system showed favorable progress. Funds mobilized by banks in rupiah and foreign exchange rose by 15.4% reaching Rp 24,060 billion (Table 3.1). This amount comprised Rp 7,562 billion of demand deposits, Rp 14,912 billion of time deposits, and Rp 1,586 billion of savings deposits each of which increased significantly.

The increase in time and savings deposits mainly stemmed from the attractive interest rates on rupiah time and savings deposits as well as from the continued suspension of the collection of tax on income earned from those deposits.

The share of demand deposits declined from 33.8% at the end of March 1986 to 31.4% at the end of March 1987, whereas the share of time deposits increased from 60.4% to 62.0%. In the same period, the share of savings deposits rose from 5.8% to 6.6%.

1. Demand deposits

In 1986/87, the amount of demand deposits in rupiah and foreign currencies increased by 7.4% to Rp 7,562 billion. This increase occurred mainly in the rupiah value of foreign currency demand deposits

(46.6%) due to the September 12, 1986 rupiah devaluation.

1.1 Rupiah demand deposits

Rupiah demand deposits mobilized by banks in the reporting year increased by 1.3% to Rp 6,162 billion compared with 8.7% in the preceding year. This increase took place in the private national banks and foreign banks, namely 30.3% and 24.3%, respectively, while state banks recorded a decline of 5.6%.

1.2 Foreign currency demand deposits

In the reporting year, foreign currency demand deposits increased by 46.6% to Rp 1,400 billion compared with 39.8% in the preceding year. This increase occurred in all foreign exchange banks - state banks by 42.9%, private national banks by 84.0%, and foreign banks by 46.0%.

2. Time deposits

In the reporting year, the amount of time deposits in rupiah and foreign currencies increased by 18.5% to Rp 14,912 billion. This increase was due to a rise in rupiah time deposits that was partly offset by a decline in the foreign currency time deposits.

2.1. Rupiah time deposits

The amount of rupiah time deposits in 1986/87 rose by 26.0% to Rp 11,448 billion compared with 38.9% in the preceding year. This rise was attributable to increases in time deposits mobilized by state banks, private national banks, and regional development banks which rose by 29.4% to Rp 7,207 billion, 26.3% to Rp 3,462 billion, and 35.9% to Rp 178

3) Bank Indonesia Circular Letter No. 19/4/UKU, June 4, 1986.

TABLE 3.1
BANKING'S FUND¹⁾
(billions of rupiah)

End of period	Demand deposits			Time deposits			Savings deposits			Total
	Rupiah	Foreign currency	Sub total	Rupiah ²⁾	Foreign currency	Sub total	Tabanas & Taska	Others	Sub total	
1973	314	68	382	214	125	339	32	3	35	756
1974	453	107	560	359	222	581	44	4	48	1,189
1975	600	107	707	539	221	760	70	6	76	1,543
1976	837	150	987	762	218	980	109	5	114	2,081
1977	1,040	110	1,150	895	209	1,104	154	5	159	2,413
1978	1,318	218	1,536	931	356	1,287	192	9	201	3,024
1979	1,997	563	2,560	991	467	1,458	213	13	226	4,244
1980	3,356	1,090	4,446	1,279	372	1,651	292	22	314	6,411
1981	4,412	968	5,380	1,754	456	2,210	385	35	420	8,010
1982	4,295	1,101	5,396	2,198	784	2,982	446	44	490	8,868
1983 :										
March	4,323	1,591	5,914	2,407	1,330	3,737	484	55	539	10,190
June	4,328	1,613	5,941	3,003	1,097	4,100	461	130	591	10,632
September	4,545	1,649	6,194	3,748	1,173	4,921	484	60	544	11,659
December	4,365	1,666	6,031	4,441	1,341	5,782	532	52	584	12,397
1984 :										
March	4,634	1,716	6,350	4,912	1,437	6,349	576	62	638	13,337
June	4,575	1,669	6,244	5,399	1,488	6,887	582	106	688	13,819
September	5,018	1,783	6,801	5,517	1,750	7,267	593	45	638	14,706
December	5,279	1,686	6,965	6,022	1,757	7,779	670	84	754	15,498
1985 :										
March	5,601	1,587	7,188	6,545	2,181	8,726	700	74	774	16,688
June	5,779	865	6,644	7,373	2,601	9,974	726	121	847	17,465
September	5,908	872	6,780	8,436	2,594	11,030	794	72	866	18,676
December	6,456	971	7,427	8,888	2,839	11,727	936	84	1,020	20,174
1986 :										
January	6,343	886	7,229	9,209	2,991	12,200	991	80	1,071	20,500
February	5,919	911	6,830	9,184	2,123	12,397	1,035	107	1,142	20,369
March	6,086	955	7,041	9,089	3,501	12,590	1,059	153	1,212	20,843
April	5,982	956	6,938	9,243	3,093	12,336	1,084	184	1,268	20,542
May	5,680	949	6,629	9,675	2,916	12,591	1,062	213	1,275	20,495
June	6,010	939	6,949	9,886	2,774	12,660	1,045	200	1,245	20,854
July	5,882	943	6,825	10,245	2,493	12,738	1,045	156	1,201	20,764
August	5,748	868	6,669	10,479	2,642	13,121	1,059	146	1,205	20,995
September	6,478	1,428	7,906	10,779	3,668	14,447	1,075	142	1,217	23,570
October	6,376	1,388	7,764	10,808	3,287	14,095	1,119	155	1,274	23,133
November	6,572	1,386	7,958	10,833	3,229	14,062	1,159	171	1,330	23,350
December	6,753	1,404	8,157	10,525	3,442	13,967	1,218	169	1,387	23,511
1987 :										
January	6,446	1,442	7,889	10,891	3,594	14,485	1,250	176	1,426	23,800
February	6,406	1,415	7,821	11,056	3,561	14,617	1,258	239	1,497	23,935
March	6,162	1,400	7,562	11,448	3,464	14,912	1,286	300	1,586	24,060

1) Includes funds owned by Central Government and by non-residents.

2) Includes certificates of deposits.

TABLE 3.2
TIME DEPOSITS IN RUPIAH AND FOREIGN CURRENCY
BY GROUP OF BANKS¹⁾
(billions of rupiah)

End of period	State banks ²⁾			Private national banks ³⁾			Regional development banks			Foreign banks			Total		
	Rupiah	Foreign currency	Sub total	Rupiah	Foreign currency	Sub total	Rupiah	Foreign currency	Sub total	Rupiah	Foreign currency	Sub total	Rupiah	Foreign currency	Total
1973	163	81	244	17	2	19	2	--	2	32	42	74	214	125	339
1974	290	192	482	25	1	26	3	--	3	41	29	70	359	222	581
1975	454	192	646	38	3	41	3	--	3	44	26	70	539	221	760
1976	652	179	831	56	6	62	4	--	4	50	33	83	762	218	980
1977	737	165	902	77	7	84	5	--	5	76	37	113	895	209	1,104
1978	765	270	1,035	87	24	111	6	--	6	73	62	135	931	356	1,287
1979	775	312	1,087	123	23	146	7	--	7	86	132	218	991	467	1,458
1980	903	294	1,197	209	12	221	10	--	10	157	66	223	1,279	372	1,651
1981	1,093	307	1,400	382	16	398	19	--	19	260	133	393	1,754	456	2,210
1982	1,231	488	1,719	572	65	637	35	--	35	360	231	591	2,198	784	2,982
1983 :															
March	1,347	808	2,155	579	147	726	39	--	39	442	375	817	2,407	1,330	3,737
June	1,682	675	2,357	783	105	888	45	--	45	493	317	810	3,003	1,097	4,100
September	2,262	727	2,989	927	108	1,035	51	--	51	508	338	846	3,748	1,173	4,921
December	2,831	801	3,632	1,078	158	1,236	56	--	56	476	382	858	4,441	1,341	5,782
1984 :															
March	3,044	838	3,882	1,216	187	1,403	61	--	61	591	412	1,003	4,912	1,437	6,349
June	3,276	857	4,133	1,428	197	1,625	68	--	68	627	434	1,061	5,399	1,488	6,887
September	3,264	858	4,122	1,480	354	1,834	74	--	74	698	539	1,237	5,516	1,751	7,267
December	3,497	908	4,405	1,750	331	2,081	79	--	79	696	518	1,214	6,022	1,757	7,779
1985 :															
March	3,925	1,133	5,058	1,805	435	2,240	82	--	82	733	613	1,346	6,545	2,181	8,726
June	4,346	1,612	5,958	2,192	412	2,603	87	--	87	749	577	1,326	7,373	2,601	9,974
September	4,980	1,661	6,641	2,595	374	2,969	103	--	103	758	559	1,317	8,436	2,594	11,030
December	5,337	1,814	7,151	2,755	437	3,192	120	--	120	676	588	1,264	8,888	2,839	11,727
1986 :															
January	5,531	1,906	7,437	2,830	438	3,268	124	--	124	724	647	1,371	9,209	2,991	12,200
February	5,556	2,035	7,591	2,789	501	3,290	128	--	128	711	677	1,388	9,184	3,213	12,397
March	5,569	2,040	7,609	2,741	639	3,380	131	--	131	648	822	1,470	9,089	3,501	12,590
April	5,635	1,700	7,335	2,785	621	3,406	137	--	137	686	772	1,458	9,243	3,093	12,336
May	5,841	1,584	7,425	2,936	577	3,513	140	--	140	758	755	1,513	9,675	2,916	12,591
June	5,919	1,482	7,401	3,055	564	3,619	143	--	143	769	728	1,497	9,886	2,774	12,660
July	6,104	1,222	7,326	3,177	545	3,722	147	--	147	817	726	1,543	10,245	2,493	12,738
August	6,231	1,366	7,597	3,265	545	3,810	153	--	153	830	731	1,561	10,479	2,642	13,121
September	6,416	1,928	8,344	3,387	735	4,121	160	--	160	816	1,006	1,822	10,779	3,668	14,447
October	6,672	1,823	8,495	3,286	603	3,889	164	--	164	686	861	1,547	10,808	3,287	14,095
November	6,766	1,832	8,598	3,288	579	3,867	161	--	161	618	818	1,436	10,833	3,229	14,062
December	6,729	2,012	8,741	3,131	624	3,755	165	--	165	500	806	1,306	10,525	3,442	13,967
1987 :															
January	6,959	2,120	9,079	3,171	630	3,801	167	--	167	594	844	1,438	10,891	3,594	14,435
February	7,011	2,138	9,149	3,294	618	3,912	172	--	172	579	805	1,384	11,056	3,561	14,617
March	7,207	2,042	9,249	3,462	604	4,066	178	--	178	600	819	1,419	11,448	3,464	14,912

1) Includes certificates of deposits.

2) Includes Bapindo and State Savings Bank (BTN).

3) Includes private development banks and private savings banks.

TABLE 3.3
TIME DEPOSITS IN RUPIAH AND FOREIGN CURRENCY BY MATURITY
(billions of rupiah)

End of period	24 months			12 months			6 months			3 months			1 month ¹⁾			Others			Total		
	Rp FC ³⁾ Total			Rp FC Total			Rp FC Total			Rp FC Total			Rp FC Total			Rp FC Total			Rp FC Total		
	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total
1973	122	15	137	30	17	47	18	71	89	19	13	32	10	7	17	15	2	17	44	125	339
1974	204	30	234	51	31	82	30	122	152	32	23	55	16	13	29	26	3	29	359	222	581
1975	306	--	306	76	31	107	46	153	199	48	24	72	24	13	37	39	--	39	539	221	760
1976	523	--	523	112	6	118	53	182	235	42	11	53	28	19	47	4	--	4	762	218	980
1977	605	--	605	82	9	91	92	173	265	49	10	59	64	17	81	3	--	3	892	209	1,104
1978	612	--	612	97	14	111	104	255	359	42	38	80	73	49	122	3	--	3	931	356	1,287
1979	612	--	612	99	28	127	126	346	472	32	42	74	103	50	153	19	1	20	991	467	1,458
1980	679	--	679	128	13	141	183	293	476	100	36	136	168	28	196	21	2	23	1,279	372	1,651
1981	834	--	834	231	14	245	237	300	537	161	31	192	252	109	361	39	2	41	1,754	456	2,210
1982	966	1	967	322	21	343	275	420	695	195	58	253	358	282	640	82	2	84	2,198	784	2,982
1983 : March	950	1	951	335	36	371	282	719	1,001	256	116	372	483	455	938	101	3	104	2,407	1,330	3,737
June	896	1	897	457	36	493	475	585	1,060	452	92	544	650	382	1,032	73	1	74	3,003	1,097	4,100
September	784	1	785	800	44	844	658	605	1,263	555	131	686	834	391	1,225	117	1	118	3,748	1,173	4,921
December	683	1	684	1,265	51	1,316	843	698	1,541	605	145	750	934	445	1,379	111	1	112	4,441	1,341	5,782
1984 : March	591	--	591	1,620	50	1,670	891	719	1,610	632	187	819	1,010	479	1,489	168	2	170	4,912	1,437	6,349
June	480	--	480	1,980	65	2,045	1,167	675	1,842	821	177	998	832	569	1,401	119	2	121	5,399	1,488	6,887
September	408	--	408	2,267	90	2,357	1,165	558	1,723	725	265	990	833	836	1,669	119	1	120	5,517	1,750	7,267
December	396	--	396	2,352	110	2,462	1,132	538	1,670	877	317	1,194	1,062	789	1,851	203	3	206	6,022	1,757	7,779
1985 : March	379	--	379	2,778	138	2,916	1,171	560	1,731	955	461	1,416	1,101	1,022	2,123	161	--	161	6,545	2,181	8,726
June	398	--	398	3,328	173	3,501	1,264	648	1,894	1,041	593	1,634	1,177	1,185	2,362	183	2	185	7,373	2,601	9,974
September	442	--	442	3,689	188	3,877	1,461	369	1,830	1,357	498	1,855	1,312	1,538	2,850	175	1	176	8,436	2,594	11,030
December	536	--	536	9,327	223	4,150	1,504	320	1,824	1,403	521	1,924	1,329	1,774	3,103	189	1	190	8,888	2,839	11,727
1986 : January	593	--	593	4,120	246	4,366	1,579	362	1,941	1,467	531	1,998	1,276	1,851	3,127	174	1	175	9,209	2,991	12,200
February	610	--	610	4,255	292	4,547	1,551	392	1,943	1,384	378	1,962	1,221	1,950	3,171	163	1	164	9,184	3,213	12,397
March	631	--	631	4,319	285	4,604	1,579	408	1,987	1,340	689	2,029	1,094	2,119	3,213	126	--	126	9,089	3,501	12,590
April	639	--	639	4,469	312	4,781	1,546	389	1,935	1,192	674	1,866	1,261	1,717	2,978	136	1	137	9,243	3,093	12,336
May	639	--	639	4,685	320	5,005	1,607	396	2,003	1,280	661	1,941	1,304	1,538	2,842	161	1	161	9,675	2,916	12,591
June	642	--	642	4,759	333	5,092	1,672	367	2,039	1,365	593	1,958	1,258	1,480	2,738	190	1	192	9,887	2,774	12,661
July	642	--	642	5,006	336	5,342	1,603	388	1,991	1,486	602	2,088	1,292	1,166	2,458	216	1	217	10,245	2,493	12,738
August	648	--	648	5,059	336	5,395	1,692	373	2,065	1,574	579	2,153	1,357	1,354	2,711	149	--	149	10,479	2,642	13,121
September	651	--	651	5,163	309	5,472	1,776	350	2,126	1,663	638	2,301	1,369	2,369	3,738	157	2	159	10,779	3,668	14,447
October	661	--	661	5,030	461	5,491	1,721	449	2,170	1,562	667	2,229	1,267	1,709	2,976	567	1	568	10,808	3,287	14,095
November	674	--	674	5,188	450	5,638	1,792	444	2,236	1,589	640	2,229	1,437	1,694	3,131	153	1	154	10,833	3,229	14,062
December	671	--	671	5,227	468	5,695	1,767	431	2,198	1,448	725	2,173	1,280	1,817	3,097	132	1	133	10,525	3,442	13,967
1987 : January	676	--	676	5,633	409	6,042	1,686	462	2,148	1,446	786	2,232	1,270	1,934	3,204	180	3	183	10,891	3,594	14,485
February	667	--	667	5,679	424	6,103	1,643	427	2,070	1,566	793	2,359	1,312	1,916	3,228	189	1	190	11,056	3,561	14,617
March	640	--	640	5,786	407	6,193	1,583	425	2,008	1,767	782	2,549	1,459	1,849	3,308	213	1	214	11,448	3,464	14,912

1) Includes matured time deposits

billion, respectively; funds mobilized by foreign banks declined by 7.4% (Table 3.2).

In terms of maturity, a large increase occurred in 12-month time deposits. It is noteworthy that this large increase raised the share of 12-month time deposits to the relatively high level of 50.5% of all rupiah time deposits; their share stood at 47.5% in the preceding year (Table 3.3).

Interest rates on time deposits generally declined slightly. The interest rates offered by state banks in the reporting year remained unchanged, ranging from 13.0% to 15.0% p.a. The range in private national banks rose somewhat to 13.0% to 17.5% compared with 12.5% to 19.0% p.a. in the preceding year; the range offered by foreign banks widened to 9.5% to 18.0% as against 13.0% to 16.5% p.a. in the preceding year (Table 3.4).

2.2. Foreign currency time deposits

In the reporting year, the rupiah value of foreign currency time deposits declined by 1.0% to Rp 3,464 billion. This decline took place in foreign banks and private national banks by 0.5% and 5.5%, respectively. In terms of maturity, one-month time deposits recorded a decline of 12.7%, however, its share remained relatively high, namely 53.4% of the total foreign currency time deposits.

3. Savings deposits

Private savings, consisting of savings under the National Development Savings Scheme (*Tabungan Pembangunan Nasional* or *Tabanas*), the Time Insurance Savings Scheme (*Tabungan Asuransi Berjangka* or *Taska*), the Haj Pilgrimage Expenses Savings Scheme (*Tabungan Ongkos Naik*

TABLE 3.4
INTEREST RATES ON TIME DEPOSITS IN RUPIAH
AND FOREIGN CURRENCY
(per cent per annum)

Maturity	March 1986		March 1987	
	Rupiah	Foreign currency	Rupiah	Foreign currency
State banks				
— 1 month	13.00-13.50	5.00-6.50	13.00-13.50	4.00-5.90
— 3 months	13.50-14.25	5.05-6.75	13.50-14.25	4.15-5.80
— 6 months	14.50-14.50	5.05-7.00	14.50-14.50	4.34-5.85
— 12 months	15.00-15.00	5.05-6.95	15.00-15.00	4.40-5.59
— 24 months	14.00-15.00	—	14.00-15.00	—
Private national banks				
— 1 month	13.00-15.00	4.75-7.25	13.00-15.00	4.75-6.25
— 3 months	12.50-16.00	5.00-7.50	14.50-16.50	5.00-6.50
— 6 months	13.50-17.00	5.25-8.00	15.00-17.00	5.00-6.50
— 12 months	14.50-18.00	5.50-8.25	15.00-17.00	5.25-6.75
— 24 months	16.00-19.00	—	16.00-17.50	—
Foreign banks				
— 1 month	13.00-15.125	4.15-6.25	9.50-15.50	4.00-5.50
— 3 months	13.50-16.25	4.15-6.25	9.50-16.00	4.00-5.75
— 6 months	14.00-16.25	4.50-6.50	10.00-17.00	4.00-5.75
— 12 months	14.00-16.50	4.50-6.50	10.25-18.00	4.00-5.87

Haji or ONH), the Rural Savings Scheme (*Simpanan Pedesaan* or *Simpedes*), and other types of savings, in the reporting year continued to show favorable progress. This progress was reflected in a rise in the amount of savings and number of savings accounts, by 30.9% and 3.2% to Rp 1,586 billion and 17,964 thousand accounts, respectively.

3.1. Tabanas and Taska

In the reporting year, the amount of Tabanas mobilized by handling banks increased by 21.4% to Rp 1,286 billion. The number of Tabanas accounts rose by 11.3% to 16,729 thousand accounts at the end of March 1987. This increase was closely associated with continued government efforts to increase the number of handling banks and to intensify mobilization, especially among youths, students, and scouts. Meanwhile, the amount of Taska increased by 2.5% to Rp 646 million, whereas the number of Taska accounts declined by 11.7% to 16 thousand accounts (Table 3.5).

In the reporting year, the number of banks handling Tabanas and Taska increased by 3; there were another 2 private national banks and 1 more regional development bank. At the end of March, 1987 the total handling banks stood at 68, comprising 6 state commercial banks, 42 private national banks, and 20 regional development banks.

3.2. Ongkos Naik Haji or ONH savings deposits

The ONH savings deposit is a temporary savings account owned by prospective haj pilgrims used to finance the cost of the haj pilgrimage. As in the preceding year, the amount of ONH required for each prospective haj pilgrim was Rp 3,212

thousand.⁴⁾ The amount of ONH mobilized during the reporting year increased by 47.3% to Rp 167.5 billion with 52,154 prospective haj pilgrims compared with 35,401 in the preceding year.

C. Money Market Developments

1. Interbank call money

In the reporting year, the amount of transaction in the Jakarta interbank call money market declined by 2.8% to Rp 8,150 billion (Table 3.6). This decrease was closely associated with increasing transactions in money market securities, i.e., SBIs and SBPUs, and the availability of discount facilities from Bank Indonesia to overcome temporary mismatches of bank liquidities. In addition, the money market interest rate increased from 10.53% to 13.73%.

2. Certificate of Deposits (CDs)

At the end of March 1987, the amount of CDs issued by banks declined by 50.6% to Rp 120 billion. These lower CDs mainly occurred in the state commercial banks amounted to Rp 98 billion (Table 3.7). It is noteworthy that in the reporting year the number of banks authorized to issue CDs increased by 4, bringing about the total number of banks acting as issuers to 26, comprising 5 state commercial banks, 11 foreign banks, and 10 private national commercial banks.

3. Money market securities (Surat Berharga Pasar Uang or SBPU)

Trading of SBPUs made a satisfactory progress during the reporting year. The

4) Presidential Decree No. 6/1986, February 6, 1986.

TABLE 3.5
TABANAS AND TASKA SAVINGS DEPOSITS
(millions of rupiah)

End of period	Tabanas		Taska		Total	
	Number of savers ¹⁾	Out-standing	Number of savers ¹⁾	Out-standing	Number of savers ¹⁾	Out-standing
1973	2,862,264	32,486	11,794	84	2,874,058	32,570
1974	3,450,463	43,942	8,742	74	3,459,205	44,016
1975	4,108,173	70,048	9,380	115	4,117,553	70,163
1976	5,429,981	109,147	10,836	158	5,440,817	109,305
1977	6,864,401	153,591	8,735	138	6,873,136	153,729
1978	7,458,963	191,462	6,873	120	7,465,836	191,582
1979	7,996,389	212,560	5,880	112	8,002,269	212,672
1980	8,828,909	291,731	5,428	122	8,834,337	291,853
1981	9,480,647	384,255	12,704	168	9,493,351	384,423
1982	9,952,239	445,845	16,134	307	9,968,373	446,152
1983 : March	10,186,110	483,488	16,532	303	10,202,642	483,791
June	10,228,296	460,680	14,213	317	10,242,509	460,997
September	10,572,736	483,921	15,546	366	10,588,282	484,287
December	11,003,630	532,344	15,716	331	11,019,346	532,675
1984 : March	11,474,295	575,672	17,263	357	11,491,558	576,029
June	11,636,817	581,874	17,301	472	11,654,118	582,346
September	12,032,517	592,633	17,628	659	12,050,145	593,292
December	12,424,913	669,598	16,362	452	12,441,275	670,050
1985 : March	12,984,237	699,312	16,937	566	13,001,174	699,878
June	13,208,339	725,458	13,540	308	13,221,879	725,766
September	14,021,167	793,846	17,082	370	14,038,249	794,216
December	14,711,697	935,621	18,068	357	14,729,765	935,978
1986 : January	14,718,956	990,412	17,676	356	14,736,632	990,768
February	14,952,397	1,034,348	17,842	352	14,970,239	1,034,700
March	15,033,046	1,058,812	17,954	630	15,051,000	1,059,442
April	15,174,896	1,083,930	17,216	335	15,192,112	1,084,265
May	15,159,734	1,061,923	16,411	388	15,176,145	1,062,311
June	15,361,855	1,044,949	16,212	377	15,378,067	1,045,325
July	15,523,369	1,044,408	18,545	987	15,541,914	1,045,395
August	15,926,100	1,058,967	20,309	603	15,946,409	1,059,570
September	16,127,747	1,073,854	18,942	597	16,146,689	1,074,451
October	16,334,777	1,118,241	18,220	603	16,352,997	1,118,844
November	16,309,127	1,158,910	15,654	382	16,324,781	1,159,292
December	16,379,878	1,217,850	15,502	449	16,395,380	1,218,299
1987 : January	16,497,432	1,249,150	15,566	475	16,512,998	1,249,625
February	16,821,960	1,257,020	15,595	518	16,837,555	1,257,538
March	16,729,182	1,285,914	15,854	646	16,745,636	1,286,560

1) In units of accounts

TABLE 3.6
JAKARTA INTERBANK CALL MONEY

Period	Volume of transaction (billions of rupiah)	Weighted average of interest rates (per cent per annum)
1979 : January – March	527	12.79
April – June	358	13.21
July – September	413	12.97
October – December	497	13.96
1980 : January – March	367	14.73
April – June	207	13.67
July – September	265	10.52
October – December	525	12.55
1981 : January – March	671	15.95
April – June	842	16.56
July – September	980	18.02
October – December	901	14.49
1982 : January – March	957	17.13
April – June	1,314	17.99
July – September	1,388	17.49
October – December	1,087	16.35
1983 : January – March	1,458	17.88
April – June	1,570	10.53
July – September	2,557	10.54
October – December	3,007	13.72
1984 : January – March	3,474	18.08
April – June	3,216	16.05
July – September	4,164	25.74
October – December	1,396	11.36
1985 : January – March	1,775	11.19
April – June	1,446	10.63
July – September	2,731	8.42
October – December	2,103	10.42
1986 : January	712	12.12
February	692	12.65
March	703	15.22
January – March	2,107	13.32
April	698	14.62
May	569	13.55
June	573	12.75
April – June	1,840	13.71
July	582	12.39
August	680	12.22
September	566	12.87
July – September	1,828	12.48
October	756	12.55
November	642	12.91
December	849	14.75
October – December	2,247	13.48
1987 : January	903	16.66
February	623	14.20
March	709	13.65
January – March	2,235	15.02

TABLE 3.7
CERTIFICATES OF DEPOSITS¹⁾
(billions of rupiah)

End of period	State banks	Foreign banks ²⁾	Total
1973	24	8	32
1974	65	8	73
1975	71	11	82
1976	25	19	44
1977	23	31	54
1978	14	33	47
1979	14	19	33
1980	52	27	79
1981	55	26	81
1982	59	13	72
1983 : March	91	11	102
June	212	33	245
September	204	25	229
December	352	22	374
1984 : March	346	30	376
June	261	41	302
September	189	35	224
December	112	18	130
1985 : March	418	27	445
June	485	37	522
September	557	33	590
December	279	42	321
1986 : January	220	45	265
February	207	51	258
March	184	59	243
April	126	56	182
May	121	52	173
June	110	53	163
July	94	45	139
August	93	43	136
September	94	40	134
October	99	22	121
November	94	22	116
December	94	37	131
1987: January	86	40	126
February	93	35	128
March	86	34	120

1) Outstanding certificates of deposits represent the amount outstanding at the end of the previous period plus the amount sold and less the amount redeemed during the concerned period

2) Since March 1985, includes the outstanding certificates of deposits owned by private national commercial banks.

TABLE 3.8
INTEREST RATES ON CERTIFICATES OF DEPOSITS
(annual percentage rates)

Maturity	1986				1987
	March	June	September	December	March
2 weeks	7.00-10.00	7.00-11.00	7.00-11.00	7.00-11.00	7.00-11.00
1 month	12.00-14.50	12.00-13.55	11.30-13.35	11.60-12.35	11.60-15.00
3 months	12.50-14.75	12.50-14.40	11.40-14.40	11.85-14.40	11.85-15.50
6 months	13.00-15.50	13.00-15.00	11.30-15.00	11.50-15.00	11.00-15.75
12 months	13.00-16.00	13.00-16.50	10.70-16.10	11.10-16.10	11.10-16.10
24 months	11.50-17.40	11.50-17.40	11.50-17.40	11.50-17.40	11.50-17.40

purchase and sale of SBPUs by the securities house increased to Rp 33,170 billion and Rp 23,069 billion, respectively, compared with Rp 6,198 billion and Rp 1,305 billion in the preceding year. In the same period, matured SBPUs amounted to Rp 9,791 billion. Taking into account outstanding SBPUs in the amount of Rp 656 billion at the beginning of the reporting year, SBPUs held by the securities house at the end of March 1987 amounted to Rp 966 billion (Table 3.11). At the end of March 1987, the number of banks/NBFIs trading SBPUs through the securities house was 69.

4. Bank Indonesia certificate (Sertifikat Bank Indonesia or SBI)

In the reporting year, issuance of SBIs in gross terms amounted to Rp 7,141 billion, having increased by 15.4% (Table 3.9). Taking into account matured SBIs, the outstanding SBIs at the end of March 1987 amounted to Rp 161 billion. Of this amount, Rp 117 billion was held by banks/NBFIs and the remainder by the securities house. By group of buyers, state banks were by far the major buyers (93.3%) of SBIs. In the reporting year, SBIs discount rates for the

30-day and 90-day maturity remained unchanged, namely 14% and 15% p.a., respectively (Table 3.10).

5. Non-bank Financial Institution (NBFI) papers

Funds mobilized through the issuance of money market paper by NBFIs, especially in the form of promissory notes, registered a decline of 1.3% to Rp 986 billion. This decline was mainly attributable to lower business investments in NBFI paper.

D. Capital Market

Long-term funds mobilized through the capital market (which was reactivated in August 1977) recorded an increase in the reporting year. Stocks and bonds issued amounted to 739.7 thousand stocks and 3.7 thousand bonds with a value of Rp 1.2 billion and Rp 50 billion, respectively. At the end of March 1987, outstanding stocks and bonds issued amounted to Rp 133.1 billion and Rp 404.7 billion, respectively (Table II). The number of business entities issuing stocks and bonds to the public through the capital market remained

TABLE 3.9
ISSUANCE, REPAYMENT AND OUTSTANDING OF
BANK INDONESIA CERTIFICATES¹⁾
(millions of rupiah)

Period	Issuance		Repayment		Outstanding
	Per period	Accumulated amount	Per period	Accumulated amount	
1983/84	96,250		50,550		
February	50,950	50,950	— —	— —	50,950
March	45,300	96,250	50,550	50,550	45,700
1984/85	2,045,750		1,848,500		
April	54,950	151,200	45,200	95,750	55,450
May	31,450	182,650	55,350	151,100	31,550
June	16,750	199,400	31,400	182,500	16,900
July	19,300	218,700	16,800	199,300	19,400
August	21,450	240,150	27,350	226,650	13,500
September	5,350	245,500	11,550	238,200	7,300
October	321,400	566,900	55,500	293,700	273,200
November	404,350	971,250	319,950	613,650	357,600
December	223,500	1,194,750	368,350	982,000	212,750
January	326,750	1,521,500	340,000	1,322,000	199,500
February	266,550	1,788,050	280,750	1,602,750	185,300
March	353,950	2,142,000	296,300	1,899,050	242,950
1985/86	6,186,450		5,035,400		
April	239,200	2,381,200	294,950	2,194,000	187,200
May	20,500	2,401,700	202,950	2,396,950	4,750
June	2,700	2,404,400	4,750	2,401,700	2,700
July	222,250	2,626,650	2,700	2,404,400	222,250
August	343,550	2,970,200	226,750	2,631,150	339,050
September	407,200	3,377,400	339,050	2,970,200	407,200
October	927,150	4,304,550	407,200	3,377,400	927,150
November	973,150	5,277,700	916,150	4,293,550	984,150
December	896,050	6,173,750	914,200	5,207,750	966,000
January	829,700	7,003,450	731,550	5,939,300	1,064,150
February	660,000	7,663,450	595,650	6,534,950	1,128,500
March	665,000	8,328,450	399,500	6,934,450	1,394,000
1986/87	7,140,750		8,373,350		
April	1,014,100	9,342,550	560,000	7,494,450	1,848,100
May	1,268,300	10,610,850	872,000	8,366,450	2,244,400
June	818,850	11,429,700	1,006,500	9,372,950	2,056,750
July	1,027,300	12,457,000	691,400	10,064,350	2,392,650
August	321,750	12,778,750	1,163,750	11,228,100	1,550,650
September	278,500	13,057,250	694,000	11,922,100	1,135,150
October	1,093,700	14,150,950	755,400	12,677,500	1,473,450
November	578,500	14,729,450	755,850	13,433,350	1,296,100
December	228,350	14,957,800	778,250	14,211,600	746,200
January	344,400	15,302,200	545,850	14,757,450	544,750
February	127,000	15,429,200	392,000	15,149,450	279,750
March	40,000	15,469,200	158,350	15,307,800	161,400

1) The issuance of SBI started in February 1984.

TABLE 3.10
INTEREST RATES ON BANK INDONESIA CERTIFICATES¹⁾
(annual percentage rates)

Period	15 days	30 days	90 days
1983/84 :			
February	—	14.00	15.00
March	—	15.00	—
1984/85 :			
April	—	14.50-14.75	—
May	—	14.50	15.00
June	—	14.50	—
July	—	14.50	—
August	—	15.00	16.00
September	—	18.00	—
October	16.00	17.00-18.50	18.50
November	15.00-16.00	16.00-17.00	17.00-17.50
December	14.75	15.75-16.00	16.75-17.00
January	14.75	15.75	16.75
February	15.00	15.75-16.00	17.00
March	15.00	16.00	17.00
1985/86 :			
April	15.00	16.00	—
May	15.00	16.00	—
June	—	16.00	—
July	—	16.00	—
August	—	14.00-15.00	—
September	—	14.00	—
October	—	14.00	15.00
November	—	14.00	15.00
December	—	14.00	15.00
January	—	14.00	15.00
February	—	14.00	15.00
March	—	14.00	15.00
1986/87 :			
April	—	14.00	15.00
May	—	14.00	15.00
June	—	14.00	15.00
July	—	14.00	15.00
August	—	14.00	15.00
September	—	14.00	15.00
October	—	14.00	15.00
November	—	14.00	15.00
December	—	14.00	15.00
January	—	14.00	15.00
February	—	14.00	15.00
March	—	14.00	15.00

1) Started in October 1984 the 15-day SBI had been issued but since May 18, 1985 has been lifted.

TABLE 3.11
TRANSACTIONS OF MONEY MARKET SECURITIES
BY SECURITIES HOUSE
(millions of rupiah)

Period	Buying¹⁾	Selling²⁾	Maturity	Outstanding
1984/85 :	243,332	25,490	4,085	213,757
February	62,602	20,490	2,580	38,992
March	181,270	5,000	1,505	213,757
1985/86 :	6,197,792	1,304,734	4,450,801	656,014
April	84,530	115,080	50,868	132,339
May	91,400	132,740	7,110	83,889
June	159,294	121,390	32,498	89,295
July	196,053	206,985	51,430	26,933
August	453,809	153,253	236,170	91,319
September	196,427	128,314	102,649	56,783
October	275,517	90,693	120,458	121,149
November	604,028	24,229	478,437	222,511
December	902,071	102,784	580,415	441,383
January	977,554	180,974	896,043	341,920
February	1,220,609	48,292	952,450	561,787
March	1,036,500	—	942,273	656,014
1986/87 :	33,170,146	23,068,744	9,791,451	965,965
April	885,198	6,100	927,821	607,291
May	1,239,618	175,270	1,173,936	497,703
June	1,473,787	190,041	1,267,885	513,564
July	1,244,816	191,981	1,198,850	367,549
August	1,830,593	204,944	1,497,408	495,790
September	2,309,555	178,245	2,358,683	268,417
October	2,129,099	1,402,898	689,004	305,614
November	2,437,028	2,129,104	218,447	395,091
December	4,188,882	3,370,006	128,000	1,085,967
January	4,550,767	4,660,103	115,740	860,891
February	4,999,048	5,151,664	50,000	658,275
March	5,881,755	5,408,388	165,677	965,965

1) Includes repurchase from sales under Repurchase Agreement.

2) Includes sales under Repurchase Agreement.

unchanged at 27, consisting of 24 companies issuing stocks and 3 companies issuing bonds.

Stocks and bonds exchanged in the secondary market during the reporting year amounted to 1,567.5 thousand stocks valued at Rp 2.3 billion and 17.7 thousand bonds valued at Rp 11.3 billion.

In the reporting year, PT Danareksa issued

2,500 thousand fund certificates valued at Rp 25.0 billion. Up to the end of the reporting year, PT Danareksa had issued 7 types of fund certificates totaling 14.0 million certificates valued at Rp 140 billion and 3 types of share certificates totaling 1.4 million certificates worth Rp 12.8 billion. The total number of share certificates and fund certificates in circulation at the end of the reporting year was 14.2 million at a value of Rp 140.6 billion.

IV. BANKING AND OTHER FINANCIAL INSTITUTION

A. Banking

1. Policy on banking supervision

In 1986/87 the policy on banking supervision continued to be directed toward fostering a sound and efficient banking system in order to enhance its role in supporting economic development. The steps undertaken during the reporting year were intended to achieve higher efficiency and professionalism in the banking sector so as to enable banks to operate soundly, thereby maintaining public confidence on the banking system. For this purpose, the formula for capital adequacy has been revised and banks have been permitted to accept joint accounts. In addition, efforts previously undertaken, such as, the provision of technical assistance to regional development banks, the expansion of local clearing activities, and the encouragement of merger among private national banks, continued to be implemented.

In assessing the soundness of a bank, one of the factors taken into account is solvency, the calculation of which is based on a capital adequacy formula introduced in 1977. In order to encourage the development of banking and to support a sound banking system, Bank Indonesia revised the formula in this reporting year. This revision was intended to ease the capital requirement of a soundly-operating bank and to reduce the tendency to extend large loans to either an individual customer or corporation. It should be added that this regulation is only applied to private national and regional development banks.

For these purposes, loans under the new formula are classified into three categories: loans covered by credit insurance; loans uncovered by credit insurance of which the outstanding amount per customer is up to 15% of the bank's net worth; and, loans uncovered by credit insurance of which the outstanding amount per customer is in excess of 15% of the bank's net worth. Assessment on the risk of these loans is still based on four categories: performing; substandard; doubtful; and bad debt. The capital adequacy for the first category ranges from 0.5% to 25%, the second from 2.5% to 100%, and the third from 20% to 100%.¹⁾ In assessing capital adequacy, risk associated with other items, such as, equity and miscellaneous assets, are also included. Under the previous formula, such a loan category was not taken into account and capital adequacy was fixed between 2.5% and 100%.

Along with the development of the business sector and with efforts to improve services to the public, since April 1986 banks have been permitted to accept joint accounts from several institutions, individuals and a combination of institutions and individuals.²⁾ Other efforts to enhance banking services include expanding local clearing activities in regions where there is no Bank Indonesia's branch office, and improving local clearing activities in Jakarta. Previously, the presentment, return, and settlement of

1) Bank Indonesia Circular Letter No. 19/6/UPPB, May 27, 1986

2) Bank Indonesia Circular Letter No. 19/1/UPPB, April 23, 1986.

clearing documents were conducted in the same day; under the new regulation, the presentment of clearing documents is conducted in the afternoon, whereas the return and settlement of clearing documents are carried out the following morning. This improvement is intended to provide more time for banks to examine and complete the clearing documents due to an increased volume of clearing documents. However, in order to avoid prejudicing the interest of customers, the transaction date is recorded on the same date as when the clearing document is submitted for clearing.³⁾

2. Banking developments

As a result of the merger of 4 private national commercial banks into 1 bank and the establishment of 1 private savings bank, the number of banks, comprising commercial, development, and savings banks, at the end of March 1987 decreased by 2 to 113 banks. The number of offices, consisting of head, branch, and sub-branch offices increased by 92 to 1,561 offices (Table 4.1).

With the merger of the 4 private national commercial banks, the number of commercial banks during 1986/87 decreased by 3 to 81 banks, comprising 5 state commercial banks, 65 private national commercial banks, and 11 foreign banks. Meanwhile, the number of commercial bank offices, consisting of head, branch, and sub-branch offices, increased from 1,216 to 1,265 offices. This increase occurred in state commercial banks and private national commercial banks. The number of state commercial banks rose by 20 branch

offices, including the promotion of 4 sub-branch to become branch offices and the number of private national commercial banks rose by 33 branch offices. Consequently, at the end of 1986/87 there were 780 state commercial bank offices, 464 private national commercial bank offices, and 21 foreign bank offices.⁴⁾

The number of development banks remained unchanged at 29, consisting of 1 state development bank, 27 regional development banks, and 1 private development bank. With the opening of 13 offices, regional development bank offices totaled 253 at the end of 1986/87.

At the end of the reporting year, the number of savings banks was 3, consisting of 1 state savings bank and 2 private savings banks. With an addition of 3 branch offices of state savings bank and 27 branch offices of private savings bank, the number of savings bank offices added up to 43.

In the reporting year, the number of rural credit banks, comprising village banks, paddy banks, petty traders banks and employees banks, decreased from 5,820 to 5,789. This reduction was a consequence of the revocation of the operation permits of 16 village banks and 15 paddy banks.

The activities of deposit money banks continued to show favorable developments. In the reporting year, the amount of assets rose by 18.8% to Rp 41,441 billion, the extension of loans by 25.5% to Rp 27,085 billion, and the mobilization of funds by 19.6% to Rp 27,430 billion (Table 4.2).

3) Bank Indonesia Circular Letter No. 19/27/UPG, March 10, 1987.

4) Besides those foreign bank branches, there were also 67 foreign bank representative offices.

TABEL 4.1
NUMBER OF BANKS AND THEIR OFFICES
IN INDONESIA

Particulars	Mar 31, 1986	1986/87		Mar 31, 1987
	Number of banks/ offices	Estab- lished	Licenses revoked	Number of banks/ offices
Commercial banks				
State banks				
— Number of banks	5	—	—	5
— Number of offices	764	16	—	780
Private national commercial banks				
— Number of banks	68	—	3	65
— Number of offices	431	33	—	464
Foreign banks/joint ventures				
— Number of banks	11	—	—	11
— Number of offices	21	—	—	21
Development banks				
State development banks				
— Number of banks	1	—	—	1
— Number of offices	22	—	—	22
Regional development banks				
— Number of banks	27	—	—	27
— Number of offices	215	13	—	228
Private development banks				
— Number of banks	1	—	—	1
— Number of offices	3	—	—	3
Savings banks				
State savings banks				
— Number of banks	1	—	—	1
— Number of offices	12	3	—	15
Private savings banks				
— Number of banks	1	1	—	2
— Number of offices	1	27	—	28
Number of commercial banks, development banks and savings banks				
— Number of banks	115	1	3	113
— Number of offices	1,469	92	—	1,561
Rural credit banks ¹⁾				
— Village banks	3,566	—	16	3,550
— Paddy banks	2,078	—	15	2,063
— Petty traders banks	175	—	—	175
— Employees banks	1	—	—	1
Total number of banks	5,935	1	34	5,902
Total number of offices	7,289	92	31	7,350

1) Number of banks/offices

The number of offices comprising head, branches, and sub-branch offices.

TABLE 4.2.
CONSOLIDATED BALANCE SHEET OF DEPOSIT MONEY BANKS¹⁾
(billions of rupiah)

Items	March 31, 1986					March 31, 1987				
	State banks	Private national commercial banks	Regional dev. banks	Foreign banks	Total	State banks	Private national commercial banks	Regional dev. banks	Foreign banks	Total
ASSETS										
Cash in hand	390	104	103	12	609	430	115	111	14	670
Bank Indonesia	1,807	343	134	190	2,474	1,336	459	75	202	2,072
Securities	18	12	1	—	31	19	9	—	—	28
Domestic draft	578	280	114	19	991	446	312	98	62	918
Outstanding loans	14,989	4,323	623	928	20,863	18,634	5,481	775	990	25,880
Foreign exchange assets										
— Loans	485	103	—	125	713	800	207	—	198	1,205
— Others	5,162	790	1	952	6,905	6,465	1,002	2	864	8,333
Participations	84	11	1	1	97	93	13	1	1	107
Premises, furniture and fixtures	290	139	39	25	493	329	173	51	40	593
Other assets	1,326	44	158	166	1,694	992	289	139	215	1,635
ASSETS = LIABILITIES	25,129	6,149	1,174	2,418	34,870	29,544	8,060	1,252	2,585	41,441
LIABILITIES										
Paid up capital	51	297	88	24	460	51	324	113	32	520
Reserves/profit and loss account	1,118	182	80	30	1,410	1,696	312	80	32	2,120
Borrowings	1,462	115	13	43	1,633	2,731	216	22	37	3,006
Demand deposits	4,109	1,157	572	243	6,086	3,848	1,507	499	308	6,162
Time and savings deposits	6,401	2,890	188	648	10,127	8,257	3,603	249	600	12,709
Draft payable	280	86	26	40	432	289	103	25	26	443
Guarantee deposits	94	20	11	2	127	87	23	7	1	118
Foreign exchange liabilities										
— Demand deposits	580	59	—	301	940	829	96	—	446	1,371
— Time and savings deposits	2,041	639	—	822	3,502	2,042	604	—	818	3,464
— Borrowings	13	43	—	18	96	18	92	—	47	157
— Others	412	100	—	81	593	572	140	—	93	805
Bank Indonesia	7,126	454	161	24	7,765	7,638	665	226	58	8,587
Other liabilities	1,442	107	35	115	1,699	1,486	375	31	87	1,979

1) Consist of commercial and development banks.

TABLE 4.3
THE SHARE OF GROUP OF BANKS
IN TOTAL ASSETS, FUNDS, AND OUTSTANDING LOANS
(percentage)

Group of banks	Assets			Loans			Funds		
	March			March			March		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
State banks	73.4	72.1	71.3	73.9	71.7	71.7	66.6	65.3	66.0
Private national banks	15.3	17.6	19.5	17.5	20.5	21.0	18.5	21.8	22.8
Regional development banks	3.5	3.4	3.0	2.9	2.9	2.9	3.9	3.5	2.9
Foreign banks	7.8	6.9	6.2	5.7	4.9	4.4	11.0	9.4	8.3

Based on assets, the share of private national banks increased, whereas that of other groups decreased. With respect to loans, the share of private national banks rose, regional development and state banks remained unchanged, whereas that of foreign banks declined. With regard to the fund mobilization, the share of state banks and private national banks increased, whereas those of other groups decreased (Table 4.3).

As an indication of the effective use of bank funds, the ratio of excess reserve went down from 1.3% in 1985/86 to 0.5% in the reporting year (Table 4.4). This decrease occurred in state banks, private national commercial banks, and regional development banks.

As in the previous years, during the reporting year efforts to promote regional development banks were continued, especially in the form of technical assistance, i.e., improving the operational manuals of each bank. The manuals include, among others, guidelines in organization, management, personnel, fund mobilization, and credits.

Efforts to expand and expedite transactions in demand deposits and to extend services to the public were continued, especially in a region where there is no Bank Indonesia office. During the reporting year, 4 branch offices of state banks were designated to handle local clearing activities, bringing the total local clearings to 33.

In connection with the implementation of the Presidential Decree No. 29/1984 regarding the execution of construction projects and procurement of materials financed by the state budget, in 1986/87 banks and financial institutions complying with certain requirements were permitted to issue bank guarantees in order to expedite the implementation of those projects. In this regard, 87 banks had been appointed to issue bank guarantees, consisting of 5 state commercial banks, 1 state development bank, 57 national private commercial banks, 23 regional development banks, and 1 private development bank.⁵⁾

5) Minister of Finance Decree No. 105/KMK.011/1986, February 24, 1986.

**MONTHLY AVERAGE RUPIAH LIQUIDITY POSITION OF
DEPOSIT MONEY BANKS
(billions of rupiah)**

Items	1985/86					1986/87				
	State banks	Private national commer- cial banks	Regional dev. banks	Foreign banks	Total	State banks	Private commer- cial banks	Regional dev. banks	Foreign banks	Total
a. Reserves	1,234	352	182	109	1,877	1,361	437	148	120	2,066
b. Current liabilities	7,991	2,087	675	789	11,542	9,153	2,651	641	801	13,246
c. Reserves as percentage of current liabilities (a : b) x 100	15.4	16.9	27.0	13.8	16.3	14.8	16.4	23.0	15.0	15.5
d. Minimum reserve requirement (15% x b)	1,199	313	101	119	1,732	1,373	398	96	120	1,987
e. Excess/deficiency (a - d)	35	39	81	— 10	145	— 12	39	52	0	79
f. Required reserves with Bank Indonesia	399	104	34	40	577	458	132	32	40	662
g. Reserve with Bank Indonesia	951	262	97	90	1,400	1,029	332	64	107	1,732
h. Excess reserves with Bank Indonesia (g - f)	552	158	63	50	823	571	200	32	67	870
i. Excess/deficiency as percentage of current liabilities (h : g) x 100	6.9	7.6	9.3	6.3	7.1	6.2	7.5	5.0	8.4	6.6

B. Other Financial Institutions

In the reporting year, efforts to promote the activities of other financial institutions, which include non-bank financial institutions, insurance companies, leasing companies, and pawnshops, continued to be implemented. These efforts were directed at enabling those institutions to operate soundly and at enhancing mutual support among them as well as between them and the banking system.

1. Non-bank financial institutions (NBFIs)

Since their establishment in 1972, NBFIs have been intended to support the development of money and capital markets and to expand the sources of funds for financing business activities. The policy on the promotion of NBFIs continued to be directed to enabling the NBFIs to operate soundly in line with their function. For this purpose, NBFIs are classified into three categories according to their activities, namely development finance type, investment finance type, and other types. NBFIs of development finance type mainly engage in extending medium- and long-term loans as well as equity participation in companies. Accordingly, these institutions are expected to encourage equity participation of the private sector. NBFIs of investment finance type primarily act as brokers in the issuance of securities and as underwriters in the sale of securities. NBFIs of other type are intended to meet certain needs of the public, such as extending loans to the medium-income group for house ownership.

At the end of the reporting year, the number of NBFIs remained at 14,

comprising 3 of development finance type, 9 of investment finance type, and 2 others. The activities of NBFIs in general developed somewhat unfavorably, as reflected in the decrease in total assets by 15.4% to Rp 2,021 billion, investments by 16.6% to Rp 1,910 billion, and fund mobilization by 16.6% to Rp 1,931 billion (Tables 4.5 and 4.6). These declines mainly occurred in assets, investments, and fund mobilization of the investment finance type despite increases in the activities of the development finance type. Total assets, investments, and fund mobilization of the investment finance type in the reporting year declined, respectively, by 22.6%, 23.9%, and 23.6% to Rp 1,542 billion, Rp 1,468 billion, and Rp 1,488 billion. In terms of placement of funds, the decrease was attributable to a decline in investment in securities, by 24.1% (Rp 459 billion) to Rp 1,446 billion. With respect to fund mobilization, the decrease was attributable to a decline in outstanding securities of 3.1% (Rp 29 billion) and to a decline in the outstanding borrowings of 58.7% (Rp 487 billion).

By contrast, NBFIs of development finance type exhibited more favorable developments in the reporting year. Total assets of development finance and other types went up by 20.7% to Rp 479 billion, primarily due to a rise in the placement of funds, by 22.4% to Rp 442 billion, the major portion of which stemmed from an increase in loans of 34.3% (Rp 59 billion). Significant progress was also registered in funds mobilized, as reflected in an increase in the amount of funds of 20.7% to Rp 443 billion at the end of March 1987. This increase was mainly generated by increased borrowings and issuance of securities.

TABLE 4.5
INVESTMENT AND SOURCES OF FUNDS OF
NON-BANK FINANCIAL INSTITUTIONS¹⁾
(billions of rupiah)

Items	March 31, 1986			March 31, 1987		
	Develop- ment type ²⁾	Invest- ment type	Total	Develop- ment type ²⁾	Invest- ment type	Total
Investment of funds						
Call money	—	11	11	—	6	6
Marketable securities	182	1,905	2,087	201	1,446	1,647
Loans extended	172	—	172	231	—	231
Equity participation	5	9	14	6	11	17
Others	2	5	7	4	5	9
Total	361	1,930	2,291	442	1,468	1,910
Sources of funds						
Call money	—	47	47	—	39	39
Securities issued	113	929	1,042	137	900	1,037
Loans received	197	830	1,027	239	343	582
Subordinated loans	10	57	67	15	97	112
Capital	47	85	132	52	109	161
Total	367	1,948	2,315	443	1,488	1,931

1) Excludes PT Sarana Bersama Pembiayaan Indonesia.

2) Includes non-bank financial institutions for financing house ownership.

2. Insurance companies

Insurance companies in Indonesia can be classified by type of business into 3 categories: life; social; and indemnity insurance and reinsurance companies. In 1986, the number of insurance companies increased by 6 to 101. This increase was registered by life and indemnity insurance companies, each of which rose by 3 reaching 23 and 70, respectively. The number of social insurance and reinsurance companies remained unchanged at 5 and 3, respectively.

Funds mobilized by insurance companies are primarily invested in time deposits and securities. In line with the progress in business, the activities of insurance companies showed favorable advancement as

reflected in their increased assets, premiums, and investments.

During 1985, assets of insurance companies rose by 23.8%, reaching Rp 2,154 billion at the end of that year. This increase was primarily attributable to a rise in gross premiums of 9.9% to Rp 891 billion; investments went up by 26.8% to Rp 1,588 billion, while claims rose by 8.9% reaching Rp 744 billion (Table 4.7).

PT Asuransi Kredit Indonesia (PT Askrindo), as one of the indemnity insurance companies, primarily functions to cover insurance on KIK/KMKP. Insurance provided by PT Askrindo during 1986 amounted to Rp 5,120.2 billion or 44.7% higher than that of the previous year. In line with this increase, premiums totaled Rp 138.6 billion or a rise

TABLE 4.6
CONSOLIDATED BALANCE SHEET OF
NON-BANK FINANCIAL INSTITUTIONS¹⁾
(billions of rupiah)

Items	March 31,1986			March 31,1987		
	Development type ²⁾	Investment type	Total	Development type ²⁾	Investment type	Total
Current assets						
Cash and banks	4	3	7	4	6	10
Call money	--	11	11	--	6	6
Marketable securities						
— shares and bonds	--	41	41	1	69	70
— Others	169	1,850	2,019	176	1,338	1,514
Loans and advances	27	--	27	40	--	40
Other current assets	21	47	68	23	52	75
Other assets						
Non-marketable securities						
— shares & bonds	4	3	7	4	1	5
— Others	12	15	27	24	39	63
Loans and advances	145	--	145	191	--	191
Equity participation	1	6	7	2	10	12
Fixed assets	9	10	19	10	10	20
Others	5	5	10	4	11	15
ASSETS = LIABILITIES	397	1,991	2,388	479	1,542	2,021
Current liabilities						
Call money	--	47	47	--	39	39
Securities issued	77	922	999	100	886	986
Loans received	8	829	837	21	342	363
Other current liabilities	20	33	53	26	38	64
Other liabilities						
Securities issued	36	7	43	36	14	50
Loans received	189	1	190	218	1	219
Others	9	11	20	11	16	27
Capital and subordinated loans						
Paid in capital	32	18	50	32	20	52
Reserves	8	17	25	10	2	12
Retained earnings	8	49	57	10	87	97
Subordinated loans	10	57	67	15	97	112

1) Excludes PT Sarana Bersama Pembiayaan Indonesia

2) Includes non-bank financial institutions for financing house ownership.

TABLE 4.7
GROSS PREMIUMS, CLAIMS AND INVESTMENTS
BY INSURANCE COMPANIES ¹
(billions of rupiah)

Type of insurance	Total assets			Gross premiums			Claims			Investments		
	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985
Life insurance	252	319	409	140	152	158	151	144	335	170	221	279
Social insurance	614	790	1,044	158	179	251	48	57	68	570	732	966
Indemnity insurance and reinsurance ¹⁾	515	631	701	448	480	482	249	482	341	194	299	343
Total	1,381	1,740	2,154	746	811	891	448	683	744	934	1,252	1,588

1) Includes PT Askrindo and PT Asei

Source : Ministry of Finance

of 19.6%. Claims increased by 1.7% to Rp 120.7 billion.

It should be noted that in November 1985, PT Asuransi Ekspor Indonesia (PT Asei) was established with the dual objectives of providing export insurance and export credit guarantees. With the establishment of this company, export insurance coverage and export credit guarantees, which was formerly undertaken by PT Askrindo, was transferred to PT Asei. Export insurance is intended to guarantee the risk of payments not being received from foreign importers, whereas export credit guarantee is intended to secure banks and other financial institutions in case domestic exporters fail to repay their loans. The premium charged on export insurance ranges from 0.2% to 4% of the export value and that on export credit guarantee ranges from 0.5% to 1% of the maximum credit; the coverage of guarantee borne by PT Asei is 85% of the loss. In 1986, insurance coverage provided by PT Asei reached Rp 2,463

billion, acquired premiums were Rp 15.8 billion, while claims amounted to Rp 25.1 billion.

Another financial institution engaged in indemnity insurance is the state corporation for the financial development of cooperative (Perusahaan Umum Pengembangan Keuangan Koperasi or Perum PKK), whose main function is to guarantee risk on loans extended by banks to cooperatives. In 1986/87, Perum PKK provided insurance of Rp 55.2 billion for loans amounting to Rp 66 billion. The maximum premium charged on this type of guarantee is 2% of the guaranteed loan value.

3. Leasing companies

Business activities of leasing companies have increased in importance in the economy since 1974 when they were first regulated. Promotion of the leasing industry is intended to provide financing alternatives and to

encourage private investment and industrialization. In addition, the leasing industry is also directed at attracting capital inflows from abroad. Leasing companies mainly deal as financing companies by providing capital goods for a certain period of time on the basis of scheduled payments. Upon termination of the period of contract, the lessee has the right to opt for purchase of the capital goods or for the extension of the leasing contract based upon salvage value. At the end of 1986, there were 79 leasing companies (up from 69 a year earlier), comprising 1 state, 43 national private and 35 joint venture companies. In addition to this rise in their number, financing by leasing companies also showed rapid growth. At the end of 1986, the value of financing, as reflected in the value of leasing contracts, stood at Rp 645.5 billion, up appreciably from Rp 471.9 billion a year before. The funds were mainly used to finance the manufacturing and transportation sectors as well as for the construction of office buildings.

4. Pawnshops

The activities of state pawnshops (Perusahaan Jawatan Pegadaian) are intended to provide loans for the low-income group facing financial difficulties. As in the previous year, the maximum loan extended to each borrower was Rp 200 thousand at an interest rate between 3.0% and 4.0% per month and a maximum period of 6 months.

At the end of 1986, the number of pawnshop offices remained unchanged at 479. However, the volume of business advanced somewhat as reflected in loans extended and repayments. In 1986, loans and repayments amounted to Rp 285 billion and Rp 280 billion, respectively, or 4% and 3.3% higher than that of the previous year. Consequently, outstanding loans went up by Rp 5 billion to Rp 70 billion (Table 4.8).

TABLE 4.8
DEVELOPMENT OF PAWNSHOP ACTIVITIES
(billions of rupiah)

Particulars	1980	1981	1982	1983	1984	1985	1986
Number of offices ¹⁾	450	463	471	473	474	479	479
Total loans							
extended	110	156	177	221	246	274	285
Redemption	103	144	175	210	239	271	280
Outstanding loans	30	42	44	55	62	65	70

1) In unit of account

Source : Perjan Pegadaian.

V. GOVERNMENT FINANCE

A. General

Based on the principle of a balanced budget, for the fiscal year 1986/87 the government budget was targeted at a lower level than that of the previous year. This lower level stemmed from an anticipated decline in world oil prices and significantly reduced government revenues. To compensate for lower revenues from oil sector, the Government made efforts to raise revenues from the non-oil sector and economized its routine and development expenditures. Efforts to increase revenues from non-oil sources were implemented through intensification and extensification of tax collections as well as through simplification of tax administration and through enhancement of tax compliance by

the public. To economize on routine expenditures, the Government imposed a freeze of the level of civil servants' salaries and reduced subsidies on fuel oils. In order to economize on development expenditures, the Government pursued a policy of expenditures only being used to finance the completion of on-going projects.

The government budget for the fiscal year 1986/87 was fixed at a level 7% lower than that of the previous year or in the amount of Rp 21,422 billion. However, the outturn for 1986/87 reached Rp 21,893 billion, i.e., 2.2% higher than the amount that had been budgeted, or 4.1% lower than the outturn for the preceding year. The higher outturn for the reporting year was mainly due to the increased development receipts as well as

TABLE 5.1
GOVERNMENT REVENUES AND EXPENDITURES
(billions of rupiah)

Particulars	1982/83	1983/84	1984/85	1985/86	1986/87		1987/88
					Budget	Actuals	Budget
I. Revenues	14,358	18,315	19,383	22,825	21,422	21,893	22,783
1. Domestic	12,418	14,433	15,905	19,253	17,833	16,141	17,236
2. Development	1,940	3,882	3,478	3,572	3,589	5,752	5,547
II. Expenditures	14,356	18,311	19,381	22,824	21,422	21,891	22,783
1. Routine	6,996	8,412	9,429	11,951	3,126	13,559	15,026
2. Development	7,360	9,899	9,952	10,873	8,296	8,332	7,757
III. Public savings (I.1 - II.1)	5,422	6,021	6,476	7,302	4,707	2,582	2,210
IV. Total development funds (I.2 + III)	7,362	9,903	9,954	10,874	8,296	8,334	7,757
V. Surplus(+)/deficit(-)	+ 2	+ 4	+ 2	+ 1	0	+ 2	0

Source : Ministry of Finance

non-oil/gas tax receipts. Measured in real terms - that is, adjusted for inflation - total revenues and expenditures declined substantially in the reporting year. Government savings, representing the difference between domestic revenues and routine expenditures, totaled only Rp 2,582 billion or approximately half the amount budgeted and about two-thirds of the outturn for the previous year. The reduction in government savings was accounted for by the lower domestic revenues originating in oil/gas sector and higher routine expenditures stemming mainly from a substantial increase in debt service payments on foreign loans. It is worth noting that the share of government savings in overall development financing was only 31% compared with 67.2% in the preceding year (Table 5.1).

B. Government Revenues

In the reporting year, government revenues, comprising domestic and development revenues, reached Rp 21,893 billion or 2.2% higher than the amount budgeted and 4.1% lower than the outturn in the previous year. Domestic revenues amounted to Rp 16,141 billion, i.e., 9.5% lower than the amount budgeted and 16.2% smaller than the outturn in the preceding year. Development revenues totaled Rp 5,752 billion or 60.3% higher than the amount budgeted and 61% higher than the outturn in the previous year.

Receipts from oil/gas, representing the major portion of domestic revenues since 1975, amounted to only Rp 6,338 billion, which was 34.9% smaller than the amount budgeted and 43.1% lower than the outturn in the previous year. The decline was mainly due to a drop in world oil prices.

Non-oil/gas receipts, which were budgeted at Rp 8,095 billion, reached Rp 9,803 billion in the reporting year or 20.9% higher than the outturn in the preceding year. The rise was attributable to increases in revenues originating from value-added tax, import duties, non-tax revenues, and net profit from oil operation.

During the reporting year, actual receipts from income tax totaled only Rp 2,271 billion or 21.2% lower than the amount budgeted and 1.8% smaller than receipts of the previous year. The lower receipts were closely related to sluggish domestic economic activity.

Actual revenues from value-added tax on goods and services and sales tax on luxurious goods reached Rp 2,900 billion or 35.3% higher than the amount budgeted and 24.6% higher than the outturn for the preceding year. This rise reflected the success of the Act No. 8 of 1983 on Value Added Tax and the improvement in tax administration as well as enhanced tax compliance of the public. It should be added that the share of value-added tax in non-oil/gas receipts rose to 29.6% from 28.7% in the preceding year.

Receipts from import duties reached Rp 960 billion in the reporting year or 65.5% higher than the budgeted amount and 58.2% higher than the outturn for the preceding year. This increase was ascribed to a rise in the number of imports of dutiable goods and to the impact of the September 12, 1986 devaluation.

In 1986/87, revenues from excise taxes (consisting of excises on tobacco, sugar, beer, and distilled alcohol) totaled Rp 1,056 billion or about the same as the amount

TABLE 5.2
GOVERNMENT REVENUES
(billions of rupiah)

Particulars	1982/83	1983/84	1984/85	1985/86	1986/87		1987/88
					Budget	Actuals	Budget
I. Domestic revenues	12,418	14,413	15,915	19,253	17,833	16,141	17,236
A. Oil and gas receipts	8,170	9,520	10,430	11,145	9,738	6,338	6,939
1. Oil	7,450	8,522	8,937	9,447	8,145	5,264	5,978
2. Gas	720	998	1,493	1,698	1,593	1,074	961
B. Non-oil and gas receipts	4,248	4,913	5,475	8,108	8,095	9,803	10,297
1. Taxes on income	1,707	1,932	2,121	2,313	2,881	2,271	3,316
– Income tax	289	399					
– Corporate tax	675	757					
– Withholding tax (MPO)	642	628					
– Tax on interest, dividends and royalties (PBDR)	101	148					
2. Value-added tax on goods and services and tax on the sales of luxury goods	708	831	878	2,327	2,143	2,900	3,546
– Sales tax	477	575)	637)				
– Sales tax on import	231	256)	241)				
3. Import duties	522	557	530	607	580	960	662
4. Excise duties	620	773	873	944	1,055	1,056	1,076
5. Export tax	82	104	91	51	79	79	71
6. Land and building taxes	112	145	180	224	284	190	274
– Land tax (Ipeda)	105	132	157	167			
– Property tax	7	13	23	57			
7. Others	62	52	115	150	119	190	189
8. Non-tax receipts	435	519	687	1,492	954	1,147	1,049
9. Fuel-oil receipts	–	–	–	–	–	1,010	114
II. Development receipts	1,940	3,882	3,478	3,572	3,589	5,752	5,547
A. Program aid	15	15	69	69	81	1,957	1,128
1. Original	15	15	69	69	81	81	121
2. Converted to rupiah	–	–	–	–	–	1,876	1,007
B. Project aid	1,925	3,867	3,409	3,503	3,508	3,795	4,419
Total	14,358	18,315	19,383	22,825	21,422	21,893	22,783

Source : Ministry of Finance

budgeted and 11.9% higher than the outturn in the previous year. Achievement of the budget target was attributable to the Government's efforts in collecting delinquent taxes and improving tax administration as well as to adjustments in the base rate of excise duties.

Receipts originating from export taxes in the reporting year which was also equal to

the budgeted amount, reached Rp 79 billion, having increased 54.9% relative to the outturn in the previous year. This increase stemmed from the higher value of non-oil/gas exports and from the September 1986 devaluation. It should be added that the policy on export tax in the reporting year continued to be directed toward the promotion of exports of finished goods.

Receipts from the land and building tax (*Pajak Bumi dan Bangunan* or PBB), which replaced the land tax (*Ipeda*), amounted to Rp 190 billion or 33.1% below the target. The lower receipts were closely related to slow progress in implementing the PBB Act, which has been effective since January 1, 1986. Meanwhile, efforts to raise receipts from PBB continued to be undertaken by enhancing cooperation between the central and local governments in the areas of administration, assessment, and collection of taxes as well as in the provision of government information services to tax payers.

Receipts from other direct taxes, such as stamps and auction duties reached Rp 190 billion or 59.7% over the amount budgeted and 26.7% higher than the outturn in the previous year. This rise was brought about by higher rates of stamp duties effective as from January 1, 1986.

During the reporting year, non-tax receipts, mainly comprising profits of public enterprises, contributions from forest exploitation, and royalties, amounted to Rp 1,147 billion, i.e., 20.2% above the amount budgeted. These higher receipts were due to increased profits of the banking sector. Despite this strong performance relative to the budgeted amount, the outturn for 1986/87 was still 23.1% lower than that in the preceding year.

In the area of oil subsidies, a sharp drop in the world price of oil - which was not passed on to domestic consumers - combined with increased efficiencies in refinery operations, resulted in a substantial improvement in oil subsidies extended to consumers. In sharp contrast to the budgeted subsidy of Rp 142 billion, domestic oil operations registered a net profit of Rp 1,010 billion in 1986/87.

In the reporting year, the outturn or development receipts originating from foreign aids donors reached Rp 5,752 billion or 60.3% above the amount budgeted and 61% higher than the outturn in the preceding year. Development receipts, comprising program aid and project aid, amounted to Rp 1,957 billion and Rp 3,795 billion, respectively. Program aid consisted of aid-in-kind in the amount of Rp 81 billion, and of aid that could be converted to rupiah amounting to Rp 1,876 billion. The share of foreign aid in government revenues went up from 15.6% to 26.3%; utilization of these funds continued to be directed toward high priority projects.

C. Government Expenditures

Actual government expenditures, comprising routine and development expenditures, reached Rp 21,891 billion in the reporting year or 2.2% higher than the budgeted amount and 4.1% lower than the outturn in the preceding year (Table 5.3).

Actual routine expenditures, including personnel and material expenditures, subsidies to local governments, and amortization and interest payments, and food stock expenditures reached Rp 13,559 billion or 3.3% higher than the amount budgeted and 13.5% above the outturn of the preceding year. This increase was mainly attributable to a rise in debt service payments for foreign loans.

In the reporting year, personnel outlays reached Rp 4,311 billion or 2.3% above the amount budgeted and 7.3% higher than the outturn in the previous year. This rise was mainly due to the recruitment of civil servants.

TABLE 5.3
GOVERNMENT EXPENDITURES
(billions of rupiah)

Particulars	1982/83	1983/84	1984/85	1985/86	1986/87		1987/88
					Budget	Actuals	Budget
I. Routine expenditures	6,996	8,412	9,429	11,951	13,126	13,559	15,026
1. Personnel expenditures	2,418	2,757	3,047	4,018	4,213	4,311	4,317
— Rice allowances	290	346	407	402	483	406	483
— Salaries and pensions	1,749	1,996	2,207	3,073	3,211	3,330	3,276
— Food allowances	255	261	271	300	313	288	315
— Other domestic personnel expenditures	78	88	90	161	117	177	118
— Overseas personnel expenditures	46	66	72	82	89	110	123
2. Material expenditures	1,041	1,057	1,183	1,367	1,367	1,366	1,175
— Domestic	1,007	1,007	1,134	1,310	1,297	1,293	1,086
— External	34	50	49	57	70	73	89
3. Subsidies to local government	1,315	1,547	1,883	2,489	2,640	2,650	2,649
— Irian Jaya	43	42	203	241	266	240	215
— Other	1,272	1,505	1,680	2,248	2,374	2,410	2,434
4. Amortizations and interestpayment	1,225	2,103	2,776	3,323	4,223	5,058	6,805
— Domestic debt	20	30	39	20	40	--	40
— Foreign debt	1,205	2,073	2,737	3,303	4,183	5,058	6,765
5. Foods stock expenditures	--	--	--	--	417	29	--
6. Others	997	948	540	754	266	145	80
II. Development expenditures	7,360	9,899	9,952	10,873	8,296	8,332	7,757
1. Departments/Institutions including national defence and security	3,261	3,220	3,474	4,467	2,088	2,004	752
2. Regional development	1,090	1,447	1,526	1,503	1,579	1,466	1,183
— Subsidies to villages	88	92	93	99	99	86	99
— Subsidies to regencies (kabupaten)	194	194	195	189	221	188	226
— East Timor	6	5	4	7	7	7	5
— Subsidies to provinces	253	253	253	287	280	293	280
— Land tax (Ipeda/PBB)	105	132	157	167	256	171	247
— Development of primary schools	267	549	572	526	417	496	101
— Subsidies for reconstruction and development of shopping centers	5	11	25	4	11	11	3
— Public health centers	80	87	65	111	115	108	76
— Subsidies for afforestation and reforestation	50	59	61	43	43	31	16
— Subsidies for infrastructure development	42	65	101	70	130	75	130
3. Other development expenditures	1,084	1,365	1,543	1,400	1,123	1,067	396
— Subsidie on fertilizer	420	324	732	477	672	467	204
— Government capital participation	337	592	336	412	207	86	83
— Others	327	449	475	511	244	514	109
4. Project aid	1,925	3,867	3,409	3,503	3,508	3,795	5,426
— Original	1,925	3,867	3,409	3,503	3,508	3,795	4,419
— In rupiah	--	--	--	--	--	--	1,007
Total	14,356	18,311	19,381	22,824	21,422	21,891	22,783

Source : Minstry of Finance

TABLE 5.4
DEVELOPMENT EXPENDITURES BY SECTOR
(billions of rupiah)

Particulars	1982/83	1983/84	1984/85	1985/86	1986/87		1987/88
					Budget	Actuals	Budget
1. Government	308	373	224	386	168	215	59
– State apparatus	242	317	164	278	127	190	45
– Law	66	56	60	108	41	25	14
2. National defence and security	477	526	702	590	554	554	510
3. Education and culture	833	1,335	1,421	1,687	1,316	1,365	1,180
– Education, youth, culture and belief in the Almighty God	704	1,032	1,231	1,413	1,146	1,184	1,021
– Science, technology and research	129	303	190	274	170	181	159
4. Health, social welfare, role of women, population and family planning	259	279	320	398	312	326	208
5. Housing and human settlement	151	221	224	335	332	337	412
6. Religion and manpower	486	511	482	742	436	331	173
– Religion	50	54	60	77	42	39	16
– Manpower and transmigration	436	457	422	665	394	292	157
7. Economy	3,661	5,478	5,266	5,422	3,848	3,881	3,984
– Agriculture and irrigation	931	913	1,699	1,138	1,106	890	1,181
– Manufacturing	506	512	603	963	489	465	230
– Mining and energy	1,165	2,299	1,148	1,673	1,037	1,176	1,129
– Transportation and tourism	876	1,528	1,428	1,484	1,063	1,131	1,288
– Information, press and social communication	51	27	46	71	41	33	24
– Trade and cooperatives	132	199	342	93	112	86	132
8. Regional, business enterprises and environment	1,185	1,176	1,313	1,313	1,330	1,323	1,231
– Regional, rural and urban development	711	749	791	850	939	939	874
– Development of business enterprises	281	234	292	220	202	211	191
– National resources and environment	193	193	230	243	189	173	166
Total	7,360	9,899	9,952	10,873	8,296	8,332	7,757

Sumber : Departemen Keuangan

Expenditures on materials totaled Rp 1,366 billion or about the same as the amount budgeted and the outturn for the previous year.

Subsidies to local governments amounted to Rp 2,650 billion in 1986/87 or 0.4% above the budget and 6.5% higher than the outturn in the preceding year. This increase

was principally due to the recruitment of additional elementary school teachers under the Presidential Instruction program as well as nurses and paramedics for public health centers.

Realization of expenditures on the principal and interest payments for foreign loans reached Rp 5,058 billion or 19.8%

higher than the amount budgeted and 52.2% above the outturn in the previous year. The increase was attributable to the September 1986 devaluation and the depreciation of the US dollar against other major currencies.

Due to funding constraints, the fund for food reserves, which was budgeted at Rp 417 billion, amounted to only Rp 29 billion in the reporting year.

Development expenditures in 1986/87 continued to be directed toward supporting the achievement of development targets, namely increasing production and employment opportunities through 8 development programs covering 18 sectors. Actual outlays amounted to Rp 8,332 billion or 0.4% higher than the amount budgeted and 23.4% lower than the outturn in the previous year (Table 5.4). It may be noted that a major portion of the outlays was used to finance economic programs (46.6%); smaller, but significant, amount were used for education and culture programs (16.4%), and regional, business and environment programs (15.9%)

D. Government Budget for Fiscal Year 1987/88

For the fiscal year 1987/88, the Government adopted firm adjustment measures in order to increase revenues and tighten expenditures. The measures to raise

revenues are expected to be implemented through efforts to increase receipts from taxation and the local cost component of foreign borrowings. On the side of routine expenditures, the Government continues to pursue its austerity policy mainly by reducing materials expenditures and continuing its freeze of government salaries. Regarding development expenditures, the Government continues to give priority to the completion of on-going projects. Overall, the government budget for the fiscal year 1987/88 is fixed at Rp 22,738 billion or 6.4% higher than that of the previous year.

Domestic revenues are targeted at Rp 17,236 billion, comprising receipts from oil/gas amounting to Rp 6,939 billion and non-oil/gas totaling Rp 10,297 billion. Development receipts are budgeted at Rp 5,547 billion, consisting of program aid amounting to Rp 1,128 billion and project aid Rp 4,419 billion.

Routine expenditures are budgeted at Rp 15,026 billion, a major portion of which is allocated for debt service payments on foreign loans (Rp 6,805 billion) and personnel outlays (Rp 4,317 billion). Consequently, government savings are estimated at Rp 2,210 billion or a decline of 14.4% compared with the outturn for 1986/87. Due to lower government savings, development expenditures are budgeted at Rp 7,757 billion or 6.9% lower than the outturn or 1986/87.

VI. WORLD ECONOMIC AND INTERNATIONAL MONETARY DEVELOPMENTS, INTERNATIONAL RELATIONS AND REGIONAL COOPERATION

A. World Economic Developments

In 1986, the world economy was characterized by a decline in growth, i.e., 3.2% compared with 3.3% in 1985 (Table 6.1). This lower growth in 1986 was due to a decline in growth in the developed countries that was partly offset by a slight acceleration in the output of developing countries. Lower growth in developed countries mainly reflected higher external imbalances in several industrial countries, the appreciation of the Japanese yen and German mark vis-a-vis the US dollar, and lower growth of exports. On the other hand, the higher growth of developing countries was contributed by significant growth in export volumes resulting from improved competitiveness of their products in world markets.

The average inflation rate (as measured by consumer price index) moderated in both developed and developing countries in 1986. The deceleration was affected by the falling prices of oil and other primary commodities and by domestic policies aimed at curbing inflation in most countries. Meanwhile, the overall unemployment rate in the developed countries remained relatively unchanged from the preceding year.

1. Developed countries

Economic growth rate of all member countries of the Organization for Economic Cooperation and Development (OECD), as measured by gross domestic product (GDP) or gross national product (GNP), declined to 2.5% in 1986 from 3.0% in the year

before. This slowdown was mainly attributed to increased external imbalances as reflected in the divergent movements in the current accounts of the United States, Japan and the Federal Republic of Germany, and the persistent protectionism imposed especially by several developed countries. In addition, uncertainties associated with exchange rates developments among the major currencies weakened the growth of private investment in several countries. The economic growth rates of the seven major OECD countries also showed a decline from 3.0% to 2.5%, with a decline common to all countries, except Italy and France. Among the seven major industrial countries, the highest growth rate was achieved by Canada, whereas the lowest occurred in France.

The inflation rate in developed countries decreased markedly, namely from 4.5% in 1985 to 2.6% in 1986, the lowest rate since 1980. The decrease was not only due to a drop in world oil prices and weakening prices of other primary commodities, but also was aided by government efforts since 1980 in several countries to curb inflation through fiscal and monetary policies. It can be added, the lowest inflation rate among major industrial countries was experienced by the Federal Republic of Germany, while the highest was recorded in Italy. The overall unemployment rate in developed countries slightly declined in 1986 from 8.4% to 8.3%. The unemployment rate in the seven major industrial countries remained unchanged at 7.4% in 1986. This was attributed to a slow improvement in the European employment situation offsetting

TABLE 6.1
ECONOMIC GROWTH, CONSUMER PRICES INDEX
AND UNEMPLOYMENT RATE
(Annual changes, in percentage)

	Real Economic Growth ¹⁾			Consumer Price Index			Unemployment Rate		
	1984	1985 ^r	1986	1984	1985 ^r	1986	1984	1985 ^r	1986
World	4.5	3.3	3.2	---	---	---	---	---	---
OECD	4.8	3.0	2.5	5.2	4.5	2.6	8.4	8.4	8.3
Seven major OECD countries	5.1	3.0	2.5	4.6	3.8	2.0	7.6	7.4	7.4
— United States of America	6.6	2.7	2.5	4.3	3.5	1.8	7.5	7.2	7.0
— United Kingdom	2.8	3.5	2.7	5.0	6.1	3.4	11.7	11.7	11.8
— Italy	2.8	2.3	2.7	10.8	8.6	6.1	10.3	10.1	10.9
— Japan	5.1	4.7	2.5	2.2	2.1	0.4	2.7	2.6	2.8
— Canada	5.0	4.0	3.1	4.3	4.0	4.2	11.3	10.5	9.6
— France	1.5	1.4	2.0	7.4	5.8	2.7	9.9	10.2	10.5
— Germany, Fed. Rep. of	3.0	2.5	2.4	2.4	2.2	-0.2	8.2	8.3	8.0
Others OECD Countries	3.3	3.1	2.5	6.3	5.8	4.9	12.1	12.1	11.6
Developing countries	4.1	3.3	4.0	38.0	39.4	29.0	---	---	---
— Africa	1.4	2.1	0.8	20.3	12.8	13.7	---	---	---
— Asia	8.0	6.4	6.3	7.2	7.6	7.8	---	---	---
— Europe	4.0	2.5	3.9	24.9	25.4	24.9	---	---	---
— Middle East	0.2	-1.1	1.2	14.8	14.8	11.7	---	---	---
— Latin America	3.6	3.5	4.4	128.6	149.0	86.5	---	---	---
— Oil Exporting countries	0.9	0.3	0.9	19.7	13.3	19.2	---	---	---
— Non-oil Exporting Countries	5.7	4.7	5.8	47.9	53.3	33.5	---	---	---

1) World economic growth measured by GNP, GDP, and Net Material Product (NMP), and for United Kingdom, Italy, France and the developing countries measured by GDP.
Source : — IMF, World Economic Outlook, October 1987.
— OECD, OECD Economic Outlook, June 1987.

rapid growth of employment in the United States and Canada. Among the seven major industrial countries, the lowest unemployment rate was recorded in Japan, while the highest was in the United Kingdom.

In 1986, international trade of industrial countries was characterized by imbalances as reflected in the widened US merchandise trade deficit and the increased trade surpluses of Japan and the Federal Republic of Germany. In addition, other major industrial countries experiencing improvements in their trade balance were Italy and France, while the United Kingdom

and Canada experienced deterioration. Taking into account the development of the services balance, Italy, Japan, France, and the Federal Republic of Germany among the seven major industrial countries recorded improvements in their current account. It is worth noting that the largest deficit in current account was still experienced by the US, while Japan continued to record the largest surplus (Table 6.2).

Canada's economic growth slackened from 4.0% to 3.1% in 1986 as a consequence of decreases in the growth of domestic demand and net foreign balance, from 4.6% and —4.7% to 3.5% and —8.5%, respectively.

TABLE 6.2
CURRENT ACCOUNT ¹⁾
IN MAJOR OECD COUNTRIES
(billions of dollars)

	Exports			Imports			Trade Balance			Service Balance			Current Account		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
1. United States of America	219.9	214.4	221.8	334.0	338.3	369.5	-114.1	-124.4	-147.7	6.7	6.7	7.1	-107.4	-117.7	-140.6
2. United Kingdom	93.7	100.2	106.8	99.5	103.0	118.9	-5.8	-2.8	-12.1	7.0	6.6	10.5	1.2	3.8	-1.6
3. Italy	72.8	77.7	98.6	78.9	84.7	95.9	-6.1	-7.0	2.7	3.1	2.8	2.4	-3.0	-4.2	5.1
4. Japan	168.3	174.0	205.6	124.0	118.0	112.9	44.3	56.0	92.7	-9.3	-6.8	-6.7	35.0	49.2	86.0
5. Canada	89.0	90.2	88.9	72.4	77.1	81.2	16.6	13.1	7.7	-14.6	-13.5	-14.0	2.0	-0.4	-6.3
6. France	92.5	95.2	118.8	96.6	100.6	120.4	-4.1	-5.4	-1.6	3.3	5.2	5.1	-0.8	-0.2	3.5
7. Germany, Fed. Rep. of	164.1	173.4	232.6	140.8	144.5	175.3	23.3	28.9	57.3	-17.0	-15.7	-21.5	6.3	13.2	35.8

1) Includes transfer payments.

Source : OECD Economic Outlook, No.41, June 1987

The sluggish domestic demand was mainly attributable to a decline in private consumption and gross fixed investment growth, from 5.0% and 6.1% to 4.0% and 2.6%, respectively. The slower growth of gross fixed investment was mainly attributed to a decrease in non- residential private investment growth, namely from 4.1% to -0.8%. Meanwhile, the slower growth of net foreign balance was reflected in the slower growth of both exports and imports of goods and services, namely from 5.8% and 7.796 to 3.1% and 5.1%.

The rate of inflation increased from 4.0% to 4.2% in 1986, partly due to the government policy to raise indirect taxes and to the depreciation of Canadian dollar. Unemployment rate decreased from 10.5% to 9.6% as a consequence of an increase in employment opportunities, particularly in services sector.

Trade account surplus declined from \$ 13.1 billion to \$ 7.7 billion in 1986. Coupled with the deterioration in services balance, the current account deficit widened from \$ 0.4 billion to \$ 6.3 billion.

In France, economic growth increased from 1.4% to 2.0% in 1986, due to an increase in domestic demand from 2.1% to 3.8%. The increase in domestic demand was mainly attributed to higher growth of private consumption and gross fixed investment, from 2.4% and 3.2% to 3.1% and 4.2%, respectively. The higher private consumption growth was mainly induced by higher real disposable income and the tax relief. In the meantime, higher growth of gross fixed investment was mainly attributable to an increase in non- residential private investment growth, namely from 5.2% to 6.4%. The lower

growth of net foreign balance was ascribed to a decline in export growth of goods and services, from 2.4% to 0.1% and an increase in import growth of goods and services, from 5.2% to 7.1%.

Inflation rate decreased remarkably, from 5.8% to 2.7% in 1986, due primarily to a fall in import prices. In addition, domestic policies, such as controlling public finance and appreciation of the French franc, also contributed to the low inflation rate. Unemployment rate in 1986 increased from 10.2% to 10.5% in spite of the government policies to enhance employment opportunities.

Trade balance deficit declined from \$ 5.4 billion to \$ 1.6 billion as a result of an increase in exports from \$ 95.2 billion to \$ 118.8 billion, although imports increased from \$ 100.6 billion to \$ 120.4 billion. Higher exports were primarily attributed to an improvement in external competitiveness, especially those of manufactured goods. Services balance surplus declined from \$ 5.2 billion to \$ 5.1 billion. Hence, the current account recorded a significant improvement, from a deficit of \$ 0.2 billion to a surplus of \$ 3.5 billion.

In 1986, the economy of the *Federal Republic of Germany* slackened in growth, from 2.5% to 2.4%, due to a drop in net foreign balance growth, from 25.7% to -22.3%, while domestic demand grew from 1.5% to 3.7%. The decrease in net foreign balance growth was primarily due to substantial weakening of export growth of goods and services from 7.3% to -0.5%, owing to a significant appreciation of the German mark, although import growth decreased from 4.7% to 3.2%. In the meantime, the increase in domestic demand

growth was induced by an increase in private consumption growth from 1.8% to 4.3% and an increase in gross fixed investment growth from -0.4% to 3.3%.

In contrast with other major industrial countries, Federal Republic of Germany recorded a deflation of 0.2% as against inflation of 2.2% in the previous year, which was mainly brought about by a decline in prices of imported goods. Unemployment rate declined from 8.3% to 8.0%, due to more labor absorption in the manufacturing sector.

Trade balance surplus increased from \$ 28.9 billion to \$ 57.3, billion, emanating from an increase in exports from \$ 173.4 billion to \$ 232.6 billion, even though imports rose from \$ 144.5 billion to \$ 175.3 billion. Services balance deficit increased from \$ 15.7 billion to \$ 21.5 billion. Hence, current account surplus rose from \$ 13.2 billion to \$ 35.8 billion.

In 1986, the economy of Italy grew by 2.7% compared with 2.3% in the preceding year, mainly attributed to higher growth of domestic demand from 2.4% to 3.2% despite the downturn growth of net foreign balance from 1.5% to -10.6%. The higher growth of domestic demand was reflected in an increase in private as well as government consumption growth from 1.9% and 2.5% to 3.2% and 2.9%, respectively. In the meantime, growth of gross fixed investment went down from 4.1% to 1.2%. The downturn growth of net foreign balance was attributable to higher growth of import of goods and services (5.2%) relative to that of export (3.0%).

The rate of inflation decreased remarkably in 1986 from 8.6% to 6.1%, partly owing to

a reduction in wholesale prices. In the meantime, unemployment rate went up from 10.1% to 10.9%.

In 1986, trade balance improved from a deficit of \$ 7.0 billion to a surplus of \$ 2.7 billion. Taking into account the services balance, a remarkable improvement was recorded in the current account, from a deficit of \$ 4.2 billion to a surplus of \$ 5.1 billion.

The economic growth of Japan in 1986 recorded a sharp decline from 4.7% to 2.5%, due mainly to a sharp decrease in net foreign balance growth from 29.8% to -33.3%, while domestic demand growth increased from 3.8% to 4.0%. The downturn growth of net foreign balance was primarily due to a significant appreciation of yen and the lower net foreign demand. On the contrary, higher growth of domestic demand was mainly augmented by increased government consumption growth from 2.8% to 6.6% and that of gross fixed investment from 5.6% to 6.5%.

Inflation rate in 1986 showed a significant decline from 2.1% to 0.4%, mainly due to lower import prices resulting from the yen appreciation. Unemployment rate rose slightly from 2.6% to 2.8% in 1986.

Trade balance surplus increased from \$ 56.0 billion to \$92.7 billion, contributed by an increase in exports from \$ 174.0 billion to \$ 205.6 billion and a decline in imports from \$118.0 billion to \$ 112.9 billion. The increase in exports was attributable to the export valued in dollar terms despite a decline in volume. In the meantime, services balance decreased from \$ 6.8 billion to \$ 6.7 billion, bringing forth a rise in current account surplus from \$ 49.2 billion to \$ 86.0 billion.

The economic growth of the *United Kingdom* in 1986 slowed down from 3.5% to 2.7%, mainly emanating from the lower growth of net foreign balance from 326.9% to -80.1%, while growth of domestic demand increased from 2.8% to 3.2%. The lower growth of net foreign balance was mainly contributed by a sluggish growth of export of goods and services from 5.8% to 3.0% and higher growth of imports from 3.1% to 5.8%. In the meantime, improvement in domestic demand growth was attributed to higher growth of private and government consumption from 3.6% and 0.2% to 4.7% and 1.2%, respectively, while that of gross fixed investments declined from 1.8% to 0.6%. The decline in the growth of gross fixed investment was partly attributed to a downturn growth in nonresidential private investment from 10.1% to -2.6%.

Inflation rate decreased from 6.1% to 3.4% in 1986, mainly due to a significant drop in oil prices. Meanwhile, unemployment rate in 1986 increased slightly from 11.7% to 11.8%.

Trade balance deficit widened from \$ 2.8 billion to \$ 12.1 billion, as a result of a substantial increase in imports from \$ 103.0 billion to \$ 118.9 billion despite an increase in exports from \$ 100.2 billion to \$ 106.8 billion. The increase in imports was mainly attributed to the deterioration in the competitiveness of domestic products, while the lower increase in exports was largely affected by the falling oil prices. Although the services balance surplus increased from \$ 6.6 billion to \$ 10.5 billion, the current account worsened from a surplus of \$ 3.8 billion to a deficit of \$ 1.6 billion in 1986.

The economic growth of the *United States* decelerated from 2.7% to 2.5% in 1986, due to lower growth of net foreign balance although

growth of domestic demand increased. The net foreign balance growth decreased from -29.4% to -36.6% as a consequence of higher growth of imports of goods and services (10.2%) relative to that of exports (2.5%). On the contrary, growth of domestic demand increased from 3.4% to 3.5% in 1986, mainly contributed by higher growth of private consumption from 3.5% to 4.1% due to an increase in real disposable income. In the meantime, growth of government consumption and private fixed investments decreased significantly from 6.8% and 7.7% to 3.5% and 1.9%, respectively. The slower growth of private fixed investment was mainly recorded in non-residential sector, namely from 9.3% to -1.0%.

Inflation rate in 1986 declined from 3.5% to 1.8%, mainly attributable to a drop in oil prices despite the dollar depreciation vis-a-vis other major currencies. Unemployment rate in 1986 moderated from 7.2% to 7.0%, mainly resulting from greater labor absorption in services sector.

With regard to foreign trade sector, trade balance deficit rose markedly from \$ 124.4 billion to \$ 147.7 billion, emanating from a significant increase in imports from \$ 338.8 billion to \$ 369.5 billion inspite of an increase in exports from \$ 214.4 billion to \$ 221.8 billion. The increase in imports was mainly attributable to a remarkable increase in import volume, especially petroleum products, resulting from the falling oil prices. Although services balance recorded an improvement, current account deficit continued to increase from \$ 117.7 billion to \$ 140.6 billion.

As was the case with the seven major OECD countries, in 1986 the economic growth of other OECD countries (17 countries) also decelerated from 3.1% to 2.5%. This deceleration was primarily attributable to a

significant decline in the growth of exports, resulting from downward prices. In the meantime, net foreign balance grew from 3.0% to 3.5%. Among the other OECD countries, the highest growth was achieved by Turkey (8.0%), whereas the lowest was recorded in New Zealand (-0.6%).

Inflation rate in the other OECD member countries also moderated, from 5.8% to 4.9%. Average inflation rate in those countries was lower than that of the major OECD countries. The lower inflation rate in the other OECD countries was mainly contributed by a decline in oil prices. Inflation rate declined in all of those countries, except Greece, Norway, Spain, and Australia. As was in the previous year, the lowest inflation rate was recorded in the Netherlands (0.3%), while the highest in Turkey (34.5%).

Unemployment rate in other OECD member countries in 1986 declined from 12.1% to 11.6%. The relatively low unemployment rates were recorded in Iceland (0.7%), Switzerland (0.8%), and Luxemburg (1.5%), while the relatively high unemployment rates were recorded in Spain (21.5%), Ireland (17.9%), and Turkey (15.1%).

In 1987, the economic performance of developed countries is projected to remain uncertain. The economic growth of developed countries in 1987 is estimated not to be better than the year before, due primarily to the persistent external imbalances among industrial countries, the remarkable US budget deficit, the misalignment of exchange rate of major currencies, the low prices of export commodities in the world market, and the persistent protection imposed by several industrial countries. Meanwhile, inflation and unemployment rates in developed countries are projected to decline in 1987.

2. Developing countries

The economic growth of *developing countries* in 1986 increased from 3.3% to 4.0%, which was closely associated with the higher exports, due to improvement in external competitiveness. In addition, the higher growth was also attributed to the adjustment measures adopted in several developing countries. Among the developing countries in the region group, higher increase in economic growth occurred in Western Hemisphere, the Middle East and Europe, while lower increase in growth was recorded in Asia, and Africa. However, despite the lower growth, Asia still recorded the highest level of growth as compared with the other group of developing countries.

Average inflation rate in developing countries declined sharply from 39.4% to 29.0%, largely attributable to the adoption of price control policy in Argentina, Brazil, Bolivia, and Israel whose average inflation rate fell from 300.0% to 120.0%. It should be added that the drop in inflation rate occurred in all regions, except Africa and Asia.

In 1986, the economic growth of *oil exporting developing countries* of OPEC members increased from 0.3% to 0.9%, mainly attributable to an increase in oil production. In addition, the growth of domestic demand also went up as a result of government efforts to induce higher growth of domestic investments. In the meantime, inflation rate rose from 13.3% to 19.2%. With regard to foreign sector, trade balance surplus fell from \$ 57.1 billion to \$ 15.3 billion, due to a higher decline in exports relative to that in imports, namely from \$ 156.1 billion and \$ 99.0 billion to \$ 102.0 billion and \$ 86.7 billion. The decrease in exports was mainly attributed to the sharp decrease in oil prices. Although,

services balance deficit decreased from \$ 53.7 billion to \$ 45.3 billion, current account deteriorated from a surplus of \$ 3.4 billion to a deficit of \$ 30.0 billion.

In 1986, the economy *non-oil exporting of developing countries* grew from 4.7% to 5.8% due to higher export volume growth. In the same period, inflation rate decelerated from 53.3% to 33.5%. In the international sector, trade balance deficit declined from \$ 10.7 billion to \$ 6.7 billion due to an increase in exports from \$ 378.5 billion to \$ 399.4 billion despite a rise in imports from \$ 389.2 billion to \$ 406.1 billion. In the meantime, services balance deficit decreased from \$ 16.6 billion to \$ 11.1 billion. Hence, the current account deficit declined from \$ 27.3 billion to \$ 17.7 billion.

The economic growth of developing countries is projected to decline in 1987. This is based on the expectations that the external condition would still be unfavorable as reflected in the sluggish foreign demand of developed countries, the limited capital inflows from developed countries to induce

investments, the heavier debt burden, and the persistent protection imposed by developed countries on export commodities from developing countries.

3. ASEAN countries

In 1986, real GDP growth of ASEAN countries increased from 0.6% to 1.7%, mainly contributed by the achievement of adjustment measures to induce their domestic demand as well as to promote exports. The measures comprised, among others; tax relieves, reduction in interest rates, management of realistic exchange rates, deregulation of industrial and trade sectors which successfully reduced production cost and expedited production activities. In the meantime, inflation rate decelerated from 7.1% to 4.0%, mainly attributed to the price control and a decrease in oil prices (Table 6.3). With respect to international trade sector, among the ASEAN countries, the Philippines, Singapore, and Thailand registered improvements in their trade account, whereas the other countries experienced the reverse. Taking into account services balance, the

TABLE 6.3
ECONOMIC GROWTH, AND CONSUMER PRICE INDEX
IN ASEAN COUNTRIES
(annual changes, in percentage)

Countries	Real Economic Growth			Consumer Price Index		
	1984	1985	1986	1984	1985	1986
ASEAN	4.9	0.6	1.7	16.0	7.1	4.0
1. Brunei Darussalam	4.0	1.0	4.0	3.0	2.0	0.7
2. Indonesia	6.1	1.9	2.8	8.8	4.3	8.8
3. Malaysia	7.0	-1.0	1.0	3.9	0.3	0.7
4. Philippines	-4.6	-3.8	0.1	50.3	23.1	0.8
5. Singapore	8.3	-1.8	1.9	2.6	1.3	-1.4
6. Thailand	6.0	3.7	3.8	0.9	2.4	1.9

Source : From various publications

TABLE 6.4
CURRENT ACCOUNT IN ASEAN COUNTRIES
(billions of dollars)

	Exports (fob)			Imports (fob)			Trade Balance			Services Balance			Current Account		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
1. Brunei Darussalam	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Indonesia	20.8	18.8 ^r	14.2	15.1	12.6	11.5	5.7	5.8	2.7	-7.7 ^r	-7.8 ^r	-6.7	-2.0 ^r	-2.0 ^r	-4.0
3. Malaysia	16.4	15.1 ^r	13.7	13.4	11.6	10.3	3.0 ^r	3.5 ^r	3.4 ^r	-4.7 ^r	-4.2 ^r	-3.7	-1.7	-0.7	-0.3
4. Philippines	5.4	4.6	4.8	6.1	5.1	5.0	-0.7	-0.5	-0.2	-0.6	0.5 ^r	1.2	-1.3	0.0 ^r	1.0
5. Singapore	22.7	21.5	21.3	26.7 ^r	24.5	23.6	-4.1	-3.0	-2.3	3.7	3.0 ^r	2.8	-0.4 ^r	0.0 ^r	0.5
6. Thailand	7.3	7.1	8.8	9.2	8.4	9.2	-1.9	-1.3	-0.4	-0.2 ^r	-0.2 ^r	0.4	-2.1	-1.6 ^r	0.0

Source : IFS, August 1987.

countries which had improvements in current account were Malaysia, the Philippines, Singapore, and Thailand, while the reverse occurred in Indonesia (Table 6.4).

B. International Monetary Developments

International monetary developments in 1986 were characterized by persistent weakening of US dollar against the other major currencies, heavier debt burdens of developing countries, net capital outflows from developing countries, unfavorable developments in international liquidity, and continued high interest rates in major industrial countries. These factors inhibited international monetary stability and world economic growth. To help address this situation, the major industrial countries have agreed to improve the coordination of their macro economic policy as had been confirmed in the Tokyo summit meeting in May 1986.

After reaching a peak in February 1985, the US dollar depreciated markedly vis-a-vis the currencies of most major industrial countries and the depreciation continued into 1987. The highest depreciation was against the German mark (20.8%), the Japanese yen (20.0%), and the French franc (15.0%). The sharp depreciation of the US dollar partly reflected a move toward convergence in growth, inflation, and financial conditions among the major industrial countries. The drop was also aided at times by official statements such as the so-called Plaza Agreement among the Group of Five countries (France, the Federal Republic of Germany, Japan, the United States and the United Kingdom) on September 22, 1985.

Debt burdens of the developing countries became more onerous in 1986, as the outstanding amount rose to \$ 1,094.9 billion

compared with \$ 1,009.1 billion in the preceding year. The debt service ratio (DSR), as measured by interest and amortization payments in relation to exports, increased from 20.5% in 1985 to 22.4% despite a reduction in interest rates in 1986. For the group of 15 heavily indebted developing countries,¹⁾ the DSR increased from 38.7% to 43.9%.

The average nominal short-term and long-term interest rates in major industrial countries declined somewhat in 1986, although they remained at a relatively high level, 6.9% and 7.5%, respectively. The decline in nominal short-term interest rates in several major industrial countries, such as Japan, the Federal Republic of Germany, and the United Kingdom, was closely associated with looser monetary policy as reflected in expansion of the money supply. The decline in nominal long-term interest rates was mainly based on a view that inflation would moderate owing to more cautious fiscal policies, such as those adopted by the United States and France and the low prices of oil and other primary commodities.

International liquidity, as reflected in total international reserves, recorded an increase, from SDR 437.5 billion at the end of 1985 to SDR 452.8 billion a year later.²⁾ There was a marked rise in reserves of the industrial countries (from SDR 254.8 billion to SDR 278.3 billion) that was partly offset by a decrease in developing countries (from SDR 161.9 billion to SDR 136.5 billion). The sharp drop in oil prices constituted the main cause of a decline in international liquidity of the

1) The group of heavily indebted countries comprised Argentina, Bolivia, Brazil, Chile, Columbia, Cote d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela, and Yugoslavia.

2) Estimated figures of the IMF.

oil exporting developing countries, from SDR 69.3 billion to SDR 51.9 billion at the end of 1986. Also, weakening prices of other primary commodities reduced international liquidity of the non-oil exporting developing countries, from SDR 92.6 billion to SDR 84.6 billion.

C. International Relations and Regional Cooperation

1. International Monetary Fund (IMF)

In 1986/87, Indonesia's transactions with the IMF comprised payments and remuneration. In the reporting year, Indonesia made payments on the Compensatory Financing Facility (CFF) and on the SDR allocation, namely SDR 2.6 million and SDR 15.0 million, respectively. On the other hand, Indonesia received remuneration amounting to SDR 3.0 million. Since there were no repayments made on the CFF facility, the amount outstanding remained unchanged from the preceding year, namely SDR 42.0 million.

2. World Bank group

World bank group consists of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). In the reporting year, the IBRD approved new loans to Indonesia amounting to \$ 1,066.6 million to finance projects in transportation and communication, housing, energy, agriculture, trade, education and health. The amount of these loans decreased a little relative to the preceding year (\$ 1,103.1 million). In addition to the new project loans just mentioned, in 1986/87 the IBRD also approved a Trade Policy Adjustment Loan amounting to \$ 300 million to finance general imports.

Up to the end of 1986/87, loans approved by IBRD reached \$ 9,758.4 million, of which \$ 4,941.3 million (50.6%) had been disbursed. The largest portion of the disbursed amount (67.9%) has been utilized for electricity, agriculture, and transportation and communication. At the end of the reporting year, outstanding loans amounted to \$ 4,092.7 million.

The maturity of IBRD loans, which depends on the type of projects, generally ranges from 7 to 30 years including a grace period of 3 to 10 years. The average interest rate for the period of July to December 1986 was 8.2% p.a. and decreased slightly to 7.9% p.a. for the period of January to June 1987.

Up to the end of 1986/87, loans approved by IDA remained at \$ 943.5 million; the funds have been used for financing 48 projects in agriculture, industry, transportation, electricity, and improvement of villages. Of the total amount of funds, \$ 887.3 million (94.0%) had been disbursed and outstanding loans at the end of the reporting year amounted to \$ 878.2 million. The maturity of the IDA loans is 40 years, including a grace period of 10 years, without interest charges but with a service fee of 0.75% p.a. charged on the amount disbursed.

The IFC provides financial assistance to the private sector in the forms of loans and equities. By the end of the reporting year, outstanding financial assistance amounted to \$ 173.5 million, comprising \$ 153.4 million in the form of loans and the remainder in the form of equities. Of the total financial assistance, \$ 45.4 million originated with the IFC's funds, whereas the remainder came from syndications. Financial assistance has been provided to 15 private companies in the industry, financial institution, and tourism sectors.

3. Asian Development Bank (ADB)

In 1986/87, the amount of loans approved by the ADB for Indonesia reached \$ 319.1 million, all of which originated with Ordinary Resources. The loans were utilized for financing 6 projects, namely irrigation (\$ 149.5 million), agriculture (\$ 70.0 million), communication (\$ 40.0 million), education (\$ 29.0 million), and Special Project Implementation Assistance (\$ 30.6 million). At the end of 1986/87, the total committed loans reached \$ 3,773.1 million, of which \$ 162.3 million was from Special Funds for financing 23 projects, and \$ 3,610.8 million from Ordinary Resources for 95 projects. Of the total loans approved, \$ 1,156.4 million has been disbursed comprising \$ 1,015.2 million under Ordinary Resources with the remainder under Special Funds.

The maturity of loans from Ordinary Resources ranges from 10 to 30 years, including 2 to 7 years of grace period. The interest charged on the Ordinary Funds was altered on July 1, 1986, from a fixed rate to a flexible rate. The interest rates for the period July - December 1986 stood at 6.86% compared with 9.65% for the period January - June 1986.

The maturity of loans from Special Funds ranges from 24 to 30 years, including 7 to 10 years of grace period, without interest charges but a service fee of 1% p.a. charged on the amount disbursed. It is noteworthy that since the end of June 1979, Indonesia has not been eligible for concessional loans from Special Funds.

4. Islamic Development Bank (IDB)

Up to the end of 1986/87, the financial assistance provided by IDB to Indonesia

amounted to ID 43.5 million,³⁾ consisting of ID 16.8 million in equity participation, ID 8.6 million for leasing, ID 3.1 million for installment sales, and ID 15.0 million for loans. Of this financial assistance, ID 16.8 million (38.5%) has been disbursed, comprising both loans (ID 5.2 million) and equity (ID 11.6 million).

5. Inter-Governmental Group on Indonesia (IGGI)

At the 29th IGGI meeting in The Hague on June 18-19, 1986, it was agreed that financial assistance amounting to \$ 2,519.4 million would be made available for Indonesia in 1986/87; bilateral assistance from donor countries amounted to \$ 838.4 million while multilateral financial institutions committed \$ 1,681.0 million. Up to the end of the reporting year, total IGGI loans approved amounted to \$ 43,749.1 million, of which \$ 30,374.5 million originated with donor countries and \$ 13,374.6 million from multilateral financial institution. Disbursed loans amounted to \$ 30,723.7 million (70.2%), consisting of \$ 23,864.9 million from donor countries and \$ 6,858.8 million from multilateral financial institutions.

6. Association of South East Asian Nations (ASEAN)

During the reporting year, economic cooperation among ASEAN countries continued to expand in the fields of trade, industry, finance, and banking. In addition, dialogues between ASEAN and several industrial countries continued to be conducted.

In the field of trade, the ASEAN Economic Ministers at their 18th meeting in Manila in

3) ID 1,00 (Islamic Dinar) = SDR 1,00.

August 1986 approved the establishment of the ASEAN Preferential Tariff Quota Scheme in order to improve the implementation of the ASEAN Preferential Trading Arrangement (PTA). This scheme provides a minimum of 25% special concessions on import duties to items classified as semi sensitive goods.

In the area of industry, the ASEAN Committee on Industry, Minerals and Energy (COIME) in its meeting of August 1986 in Manila approved several types of ASEAN Industrial Joint Venture (AIJV) productions, namely automotive components which would be produced on a joint-venture basis. To stimulate interest in joint-venture programs, the 18th ASEAN Economic Ministers meeting approved an increase in the minimum margin of tariff preference for AIJV products from 50% to 75%. Among the ASEAN industrial projects, successful projects included the ASEAN Urea Fertilizer Projects in Aceh, Indonesia, and in Bintulu, Malaysia.

In the financial field, the ASEAN Committee on Finance and Banking (COFAB) in its meeting in Bangkok in January 1986 discussed a proposal which was delivered by the ASEAN Economic Ministers to the central bank governors on the use of the ASEAN currencies as a medium of exchange for intra-ASEAN trades. In addition, the meeting also discussed the role of ASEAN Finance Corporation (AFC) in financing ASEAN projects and proposed implementation of the Intra-ASEAN Model of Double Taxation Convention as soon as possible in order to avoid double taxation among member countries. The ASEAN Swap Arrangement,

established in August 1977, was designed to provide short-term liquidity to member countries with temporary balance of payments financing needs. Pursuant to the agreement signed in January 1987, the ASEAN Swap Arrangement was extended for another 5 years with effect from August 5, 1987. It should be noted that the maximum amount of funds available under the scheme remained at \$ 200 million with each country being entitled to draw a maximum amount of \$ 80 million.

In a dialogue between ASEAN and the United States held in Singapore in May 1986, a memorandum on an ocean resources exploitation project was signed. This project would extend over 5 years and would be financed by the USA. In addition, financial assistance to the ASEAN Economic Research Unit was extended until December 1987. In the ASEAN - Japan Economic Ministers meeting held in Tokyo in July 1986, a discussion was held regarding efforts to promote trade, investment, and the transfer of technology from Japan to ASEAN countries.

The ASEAN - EEC foreign ministers meeting in Jakarta in October 1986 concluded the establishment of the ASEAN - European Community Joint Investment Committee which is an effort to encourage EEC investment in ASEAN countries.

The ASEAN - Canada Joint Cooperation Committee in its meeting in Bangkok in November 1986 approved the provision of funds by the Canadian International Development Agency to encourage private investment in ASEAN countries.

VII. INDONESIA'S BALANCE OF PAYMENTS

A. Balance of Payments Policy

1. General

In 1986/87, Indonesia's balance of payments encountered substantial pressures, mainly attributable to the sharp decline in world oil prices since January 1986 including an unexpected drop below \$ 10.00 per barrel in August 1986. In addition, the continuing depreciation of the US dollar, the decline in world prices of several major non-oil primary commodities, the slow recovery of the world economy, and higher levels of protection imposed by a number of industrial countries have also contributed to the pressures on the Indonesia's balance of payments.

In view of the severe pressures and in the absence of immediate signs of improvement in world oil prices, on September 12, 1986, the Government undertook a 31% rupiah devaluation against the US dollar in order to avoid further deterioration in the balance of payments. In support of this measure, the Government undertook fundamental adjustment policies on October 25, 1986 and January 15, 1987 as a follow up to the May 6, 1986 package.

The May 6, 1986 policy package was designed to enhance domestic efficiency and to improve the international competitiveness of non-oil/gas export commodities by easing import restrictions on certain inputs, by providing exemption and drawback on import duties, and by establishing bonded zones. The package was also intended to promote private investment through the provision of facilities to PMA companies. The October 25,

1986 policy package represented a further effort to enhance efficiency in domestic production and simultaneously promote non-oil/gas exports by gradually replacing the non-tariff barrier system with a tariff system, and by improving the stipulation on import duties and additional import duties. To attract capital inflows, the Government revoked the ceiling on reswap facilities and provided various facilities to PMA companies. The January 15, 1987 policy package was aimed at simplifying the procedure to import certain industrial goods and at improving further the regulation on import duties and additional import duties. Also, on October 2, 1986 in an effort to economize the use of foreign exchange earnings for more productive purposes, the Government raised the exit permit fee.

With regard to official capital inflows in 1986/87, the Government consistently adopted a prudent foreign borrowing policy with emphasis on concessional funds and considering its capacity to repay. To accelerate the implementation of developmental projects financed by foreign borrowings, the Government established a supervising team called the Team for the Effectiveness of the Realization of Development Projects with Foreign Funds (*Tim Pendencygunaan Pelaksanaan Proyek-proyek Pembangunan dengan Dana Luar Negeri* or P4DLN). In addition, to overcome the lack of rupiah local financing for on-going development projects, the Government made efforts to obtain not only higher local financing components, but also special concessional borrowings that could be converted to rupiah. To encourage private capital inflows, the Government continued to provide a number of incentives.

2. Foreign exchange system and exchange rate policy

As in the preceding years, the Government continued to implement an open foreign exchange system in order to promote investment activities, domestic production, and exports. In addition, the Government aimed at maintaining a realistic rupiah exchange rate in order to safeguard the competitiveness of Indonesian industry and to preserve public confidence in the rupiah, thereby impacting positively on the national economy.

In order to reduce pressures on the balance of payments that resulted mainly from the sharp drop in world oil prices, on September 12, 1986 the Government undertook a 31% rupiah devaluation against the US dollar. This measure was taken not only to enhance the competitiveness of non-oil/gas export commodities in world markets and to create a more attractive business climate for investors, but also to prevent capital outflows.

3. Export policy

In addition to the September 12, 1986 devaluation, the Government undertook a series of measures to promote the competitiveness of non-oil/gas export commodities in the international market. These measures included the policy packages of May 6, and September 12, 1986 and January 15, 1987 (all described above) as well as other supporting policies which covered trade, taxation, and credits.

With regard to trade procedures, exporters and non-exporting producers (whose products are to be exported according to contracts with exporters) are allowed to import raw materials without restriction by import licensing controls. To qualify for this exemption from import restrictions, at least 85% of the total

products are to be exported.¹⁾

In order to promote the export of finished products, in October 1986, the Government prohibited exports of certain raw materials such as rattan, raw skin and hides as well as sawn timber made of ramin, white meranti and agathis wood which were not in the form of wide boards.²⁾

To enhance the competitiveness of other exports, the number of commodities subject to quality control was extended to include black tea, certain types of natural rubber and coconut oil.³⁾ In addition, pure silver and gold were allowed to be exported with the requirement that a quality certificate be enclosed.⁴⁾

To expedite the export of certain strategic industrial products, the Government granted facilities to some strategic industrial companies, namely PT Industri Pesawat Terbang Nusantara (PT IPTN), PT Pabrik Kapal Indonesia (PT PAL Indonesia), PT Pindad, and Perum Dahana, to carry out their own exports.⁵⁾

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- 1) Minister of Trade, Minister of Finance and Governor of Bank Indonesia Joint Decrees:
- Nos: 135/Kpb/V/1986; 316/KMK.01/1986; and 160/M/SK/5/1986, May 6, 1986.
- Nos: 184/Kpb/VI/1986; 484/KMK.01/1986; and 227/M/SK/6/1986, June 4, 1986.
 - 2) Minister of Trade Decrees Nos: 274/Kp/X/1986, October 7, 1986; 305/Kp/X/1986, October 18, 1986; and 306/Kp/X/1986, October 18, 1986.
 - 3) - Minister of Trade Decree, No. 147/Kp/V/1986, May 9, 1986.
- Director General of Foreign Trade Decrees Nos: 2/DAGLU/Kp/IV/1986, April 17, 1986; 43/DAGLU/Kp/IV/1986, April 17, 1986; and 110/DAGLU/Kp/IX/1986, September 13, 1986.
 - 4) - Minister of Trade Decree No. 229/Kp/VIII/1986, August 9, 1986.
- Director General of Foreign Trade Decree No. 108A/DAGLU/Kp/IX/1986, September 9, 1986.
- Director General of General Mining Decree No. 632.K/2016/040000/1986 October 18, 1986.
 - 5) - Presidential Decree No. 66/1986, December 29, 1986.
- Minister of Trade Decree No. 19/Kp/I/1987, January 23, 1987.

Meanwhile, to expedite the flow of exports from bonded zones, the Government authorized the bonded zones operating agency to issue certificates of origin for products originating from the zones. In addition, the Nusantara Bonded Zone Agency was authorized to issue a limited trade permit to companies investing their capital in the zone.⁶⁾ It should also be noted that the previous stipulations on import and export activities as well as the processing and storage facilities in the bonded zones remained in effect.⁷⁾

With respect to taxation, the export tax on crude palm oil was reduced from 5% to 0% in line with the falling price of this commodity in the world market.⁸⁾ Also, the export tax on natural sand was reduced from 20% to 10% in order to promote its export.⁹⁾ In addition, to encourage exports of finished products, in November 1986, the Government raised export taxes on several types of processed rattan, various types of sawn timber in the form of wide boards, leather, and tengkawang kernel, tax rates that were previously fixed between 0% and 20%, were raised to approximately 5% to 30%.¹⁰⁾ In addition, the Government granted facilities to exporting and non-exporting producers, covering the exemption and drawback of import duties on imported inputs needed to produce export products.¹¹⁾

6) Minister of Trade Decrees Nos: 186/Kp/VI/1986, June 4, 1986; 226/Kp/VIII/1986, August 9, 1986; and 37/Kp/II/1987, February 13, 1987.

7) - Government Regulation No. 22/1986, May 6, 1986.
- Minister of Trade, Minister of Finance and Governor of Bank Indonesia Joint Decrees Nos: 138/Kpb/V/1986; 319/KMK.01/1986, and 19/7/Kep/GBI, May 6, 1986.

- Minister of Trade Decrees Nos: 141/Kp/V/1986, May 6, 1986 and 37/Kp/II/1987, February 13, 1987.

8) Minister of Finance Decree No. 549/KMK.011/1986, June 20, 1986.

9) Minister of Finance Decree no. 270/KMK.011/1986, April 19, 1986.

10) Minister of Finance Decrees Nos: 910/KMK.011/1986, October 24, 1986; 937/KMK.01/1986, November 4, 1986; and 148/KMK.011/1987, March 19, 1987.

11) Government Regulation No. 21/1986, May 6, 1986.

In the field of credits, to encourage non-oil/gas exports, the self-financing requirement of companies under PMA/Joint Venture obtaining export credits was reduced from 30% to 15% of the total financing.¹²⁾ Also, provision of the export certificate facility (*Sertifikat Ekspor* or SE), previously scheduled to be revoked on April 1, 1986, was extended until June 30, 1986.

4. Import policy

In the reporting year, the Government introduced an important import policy in the form of trade deregulation which altered gradually the non-tariff system such as the system of licensing, quota, import restrictions, and other restrictions, into a tariff system. Accordingly, the Government intended to use tariffs as the main instrument in import policy in order to increase the transparency of the trade system, to raise government revenues and simplify administration, and to provide more price certainty to consumers.

As noted above, imports of goods and raw materials used by exporters and nonexporting producers are not subject to import licensing controls, provided that the materials are used in heavily export oriented production. This exemption from import licensing control also covers construction equipment that is imported by producers and contractors implementing government projects financed by foreign borrowings. It is noteworthy that companies that export only part of their products are required to purchase domestic materials as long as the prices are not higher than those of imports. However, in case domestic producers are not able to supply those materials, the exporting producers are allowed to import without being subject to

12) Bank Indonesia Circular Letter No. 19/6/UKU, October 25, 1986.

import control.¹³⁾ An exemption from import procedures is also granted to certain strategic industrial companies.¹⁴⁾

Other deregulation measures taken by the Government include the relaxation of import control on 165 imported goods classified in 7 manufacturing groups. This relaxation permits the general importers (*importir umum* or IU) to import those goods.¹⁵⁾ Furthermore, the facility is applied to certain goods which are classified in the textile manufacturing group (92 items) and in the steel manufacturing group (11 items).¹⁶⁾

To encourage domestic industrial development, the Government continues to enforce import restrictions on 152 items of those seven manufacturing groups by appointing designated importers. These importers include: approved importers (*importir terdaftar* or IT); producer importers (*produsen importir* or PI); importer producers (*importir produsen* or IP); and, licensed-agents (*agen tunggal* or AT).¹⁷⁾ In addition, import regulations are still in effect for 386

goods of the textile manufacturing group and 89 goods of the steel manufacturing group. Furthermore, batik products are subject to import restrictions because most batik producers operate on a small scale and are considered to be in need of protection.¹⁸⁾

In related areas, imports of reactive color essence are still governed by import restrictions in the form of authorized importers, while piston rings can only be imported by registered importer producers. Moreover, the importation of several basic materials for the production of plastic is subject to import restrictions regarding volume and designated importers.¹⁹⁾

To protect domestic cotton production, the Government has stipulated that importers are obliged to purchase domestic cotton at a specified ratio relative to imported cotton. If there is a shortfall in domestic production, additional cotton may be imported, however, domestic purchase is required at the time of the subsequent harvest.²⁰⁾

In the area of taxation, the Government has provided facilities to enhance the competitiveness of non-oil/gas export commodities and to promote the use of domestic production. In this regard, facilities are provided for exemption from or drawback of duties and additional duties on imported goods and raw materials except fuels, lubricating oil and plant

13) - Minister of Finance, Minister of Trade and Governor of Bank Indonesia Joint Decrees Nos : 317/KMK.01/1986; 136/Kpb/V/1986; and 19/5/Kep/GBI, May 6, 1986.

- Minister of Trade, Minister of Finance and Minister of Industry Joint Decrees:

a. Nos : 135/Kpb/V/1986; 316/KMK.01/1986; and 160/M/SK/1986, May 6, 1986, and

b. Nos : 184/Kpb/V/1986; . 484/KMK.01/ 1986; and 227/M/SK/1986, June 4, 1986.

14) - Government Regulation No. 66/1986, December 29, 1986.

- Minister of Trade Decree No. 19/Kp/I/1987, January 23, 1987.

15) - Minister of Trade Decree No. 307/Kp/X/1986, October 25, 1986.

- Director General of Foreign Trade Decree No. 129/DAGLU/Kp/X/1986, October 25, 1986.

16) - Minister of Trade Decree No. 09/Kp/I/1987, January 15, 1987.

- Director General of Foreign Trade Decree No. 03/DAGLU/Kp/I/1987, January 15, 1987.

17) - Minister of Trade Decree No. 307/Kp/X/1986, October 25, 1986.

- Director General of Foreign Trade Decree No. 129/DAGLU/Kp/X/1986, October 25, 1986.

18) - Minister of Trade Decree No. 09/Kp/I/1987, January 15, 1987.

- Director General of Foreign Trade Decree No. 03/DAGLU/Kp/I/1987, January 15, 1987.

19) - Minister of Trade Decree No. 246/Kp/VIII/1986, August 26, 1986.

- Director General of Foreign Trade Decrees Nos : 95/DAGLU/Kp/VII/1986, July 14, 1986 and 02/DAGLU/Kp/I/1987, January 15, 1987.

20) Minister of Trade Decree No. 18/Kp/I/1987, January 23, 1987.

equipment.²¹⁾ The facilities were granted to exporting and non-exporting producers, contractors implementing government projects financed by foreign borrowings, and investors under PMA and PMDN schemes. In line with these facilities, the Government established the center for management of import tax exemptions and drawbacks (*Pusat Pengolahan Pembebasan dan Pengembalian Bea Masuk* or P4BM) to administer this program.²²⁾

To promote the competitiveness of manufactured goods in the domestic market, the Government expanded the range of imported goods whose tariffs were reduced. Meanwhile, in order to protect domestic industries, in the reporting year the Government also raised the duties and established additional duties on certain imported goods.²³⁾

Other taxation policies established in the reporting year were improvements to the system of value added tax (VAT) on imported goods. VAT on certain imported goods, such

as, livestock food and basic materials for livestock food, text books, and medical equipments, were borne by the Government. Facilities to suspend VAT payments were also granted to exporting producers, PT Inalum, and service companies under PMA and PMDN schemes.²⁴⁾ In addition, certain strategic industries were exempted from import duties, VAT, and sales tax on luxurious goods.²⁵⁾

5. Policy on services

As in preceding years, the policy on services taken in the reporting year was aimed at improving foreign exchange earnings and increasing the effectiveness of foreign exchange in productive purposes. To support the development of tourism as a source of foreign exchange, the Government eased visa regulations and expanded the network of international flights.

In the reporting year, improvements in visa regulations covered visa-free entry for the citizens of Taiwan and Malta, and for foreign businessmen. There were also changes in visa regulations regarding business visits and for citizens of Hong Kong.²⁶⁾ The international flight network was expanded with the opening of new routes from Jakarta to Los Angeles via Denpasar, Biak and Honolulu, from Kupang to Darwin,

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- 21) - Government Regulation No. 21/1986, May 6, 1986.
 - Minister of Finance, Minister of Trade and Governor of Bank Indonesia Joint Decrees:
 a. Nos: 314/KMK.01/1986; 133/Kpb/V/1986, and 19/3/Kep/GBI;
 b. Nos: 315/KMK.01/1986; 134/Kpb/V/1986, and 19/4/Kep/GBI;
 c. Nos: 317/KMK.01/1986; 136/Kpb/V/1986, and 19/5/Kep/GBI; and
 d. Nos: 318/KMK.01/1986; 137/Kpb/V/1986, and 19/6/Kep/GBI; May 6, 1986.
- 22) Minister of Finance Decrees Nos: 324/KMK.01/1986, May 6, 1986; 816/KMK.01/1986, September 19, 1986; and 1003/KMK.01/1986, November 26, 1986.
- 23) - Government Regulation No. 47/1986, October 25, 1986.
 - Minister of Finance Decrees:
 No. 632/KMK.01/1986, July 28, 1986;
 No. 660/KMK.05/1986, August 12, 1986;
 No. 748/KMK.01/1986, August 13, 1986;
 No. 915/KMK.05/1986, October 25, 1986;
 No. 1080/KMK.01/1986, December 31, 1986;
 No. 20/KMK.05/1987, January 15, 1987;
 No. 23/KMK.05/1987, January 15, 1987;
 No. 70/KMK.05/1987, February 3, 1987; and
 No. 71/KMK.05/1987, February 3, 1987.

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- 24) Minister of Finance Decrees Nos. 485/KMK.01/1986, June 4, 1986; 564/KMK.04/1986, June 30, 1986; and 325/KMK.01/1986, May 6, 1986.
- 25) - Presidential Decree No. 18/1986, May 9, 1986.
 - Minister of Finance Decrees Nos. 558/KMK.04/1986, June 24, 1986 and 596/KMK.05/1986, July 11, 1986.
- 26) - Minister of Justice Decrees Nos. M.04-IZ.01.02, 1986, November 4, 1986; M.05-IZ.01.02, 1986, December 1, 1986;
 M.02-IZ.01.02, 1986, August 1, 1986; and M.03-IZ.01.03, 1986, October 30, 1986.
 - Minister of Justice and Minister of Tourism, Post and Telecommunication Joint Decrees Nos. M.02-IZ.03.01, 1986 and KM.40/HM.702/MPPT-86, July 19, 1986.

and from Pontianak to Kuching. In addition, two airports and a seaport were established as main gates for foreign tourists, namely the Pontianak and Kupang airports as well-as the seaport of Semarang.²⁷⁾

To economize foreign exchange and to utilize funds for more productive purposes, in the reporting year the Government raised the exit permit fee from Rp 150 thousand to Rp 250 thousand for each person per trip.²⁸⁾

6. Policy on capital flows

In the reporting year, policy regarding capital flows covering government foreign borrowings and private capital emphasized efforts to utilize the capital more efficiently and to enhance government capital inflows. In the field of government foreign borrowings, efforts were made to accelerate the utilization of funds originating from abroad and to obtain borrowings with higher local financing components and special concessional borrowings that could be converted into rupiah. Also, the Government continued to pursue a prudent borrowing policy by giving priority to untied concessionary loans, by avoiding dependency on foreign countries, and by limiting the future burden on the balance of payments while utilizing the loans in line with the development plan.

To smooth the implementation of development projects and in line with the efforts to speed up the utilization of funds from abroad, the Government established the P4DLN team.³⁰⁾

In addition, the Government improved the disbursement and administration procedures associated with foreign loans and grants.³⁰⁾

In the field of private capital flows, the Government undertook a series of measures aimed at promoting investment activities. In an effort to create a more attractive business climate for foreign investors, the Government permitted PMA companies to extend their operations for 30 years after expansion approval. (Previously, PMA companies had been permitted to operate for 30 years commencing from their establishment).³¹⁾ To encourage the holding of national equity and to promote the development of capital market, companies under the PMA scheme that fulfilled certain requirements were eligible for treatment equivalent to those under the PMDN scheme.³²⁾ This allowed PMA companies to market their products domestically and to obtain working capital credit from commercial state banks and Indonesia's Development Bank (Bank Pembangunan Indonesia or Bapindo).³³⁾

Furthermore, PMA companies exporting all of their products or located in remote areas, or facing a high business risk, or investing at least \$ 10 million, were allowed to be established with 95% of their shares held by foreign partners. However, after 5 years of commercial operation, the national shares should be increased to at least 20%. In addition, to encourage PMA companies to reinvest their profits in Indonesia, PMA companies were allowed to purchase shares of existing PMA, PMDN and non PMA/PMDN

27) Presidential Decree No. 39/1986, August 28, 1986.

28) Minister of Finance Decree No.828/KMK.04/1986, October 2, 1986.

29) Presidential Decree No. 32/1986, July 29, 1986.

30) Minister of Finance and Minister of National Development Planning/Chairman of Bappenas Joint Decrees Nos. 48/KMK.012/1987 and KEP.004/Ket/I/1987, January 27, 1987.

31) Government Regulation No. 24/1986, May 6, 1986.

32) Presidential Decree No. 17/1986, May 6, 1986.

33) - Minister of Trade Decree No. 185/Kp/VI/1986, June 4, 1986.

- Decree of Board of Directors of Bank Indonesia No. 19/15/Kep/Dir, June 4, 1986.

companies.³⁴⁾

To strengthen the condition of PMDN companies that need additional capital, in the reporting year the Government permitted foreign investors to invest their capital in such PMDN companies. In order to encourage exports, foreign partners of PMA companies were allowed to increase their share to 95% in those cases where domestic partners were not able to provide their portion. However, within 5 years, the ratio of domestic to foreign shares must return to its previous position.³⁵⁾

To encourage foreign capital inflows, the Government revoked the ceiling on reswap facility to Bank Indonesia and adjusted the premium of swaps and reswaps. The premium rate on swaps charged by banks/NBFIs to their customers was left to each bank's/NBFI's discretion. However, the reswap premium to Bank Indonesia was set equal to the swap premium minus a certain percentage with a minimum of 8.0%.³⁶⁾

In order to provide greater opportunities to PMA companies, the Government improved the investment priority list (*Daftar Skala Prioritas* or DSP) of 1986. This improvement, provided for among other things, a wider sector to be open to PMA companies. In addition, PMA companies were allowed to invest their capital in sectors that were open for PMDN companies as long as they involved cooperative entities.³⁷⁾

To encourage foreign capital inflows, the Government supported efforts to establish

the Multilateral Investment Guarantee Agency (MIGA). The main purpose of MIGA is to guarantee non-commercial risk to investors from member countries investing their capital in other member countries.³⁸⁾

B. Balance of Payments Developments

1. General

The heavy pressures on the balance of payments that occurred in 1985/86 and persisted in the reporting year were mainly as a consequence of the collapse of world oil prices. However, due to a series of fundamental measures taken by the Government, accompanied by improvement in the world oil prices in the second semester of 1986/87, a substantial current account deficit was avoided.

In the reporting year, the current account deficit increased to \$ 4,051 million from \$ 1,832 million in the preceding year. Taking into account the net capital flows outside the monetary sector, the overall Indonesia's balance of payments recorded a deficit of \$ 738 million (Table 7.1).

2. Current account

In the reporting year, the current account deficit widened substantially from \$ 1,832 million to \$ 4,051 million, owing mainly to a sharp decline in oil/LNG exports of \$ 5,471 million; non-oil/LNG exports increased by \$ 556 million and imports of goods and services declined by \$ 2,696 million.

2.1. Exports

In 1986/87, total exports declined by 26.4% to \$ 13,697 million, mainly due to a sharp decline in oil/LNG exports of 44.0% to

34) - Presidential Decree No. 22/1986, May 31, 1986.

- Chairman of National Coordinating Agency for Capital Investment Decree No. 12/SK/1986, June 4, 1986.

35) Chairman of National Coordinating Agency for Capital Investment Decree No. 17/SK/1986, October 25, 1986.

36) Decree of Board of Directors of Bank Indonesia No. 19/45/Kep/Dir, October 25, 1986.

37) Presidential Decree No. 22/1986, May 31, 1986.

38) Presidential Decree No. 31/1986, July 18, 1986.

\$ 6,966 million, which was brought about by a drop in oil and LNG export values of 45.6% and 40.1%, respectively. On the other hand, non-oil/LNG exports went up by 9.0% reaching \$ 6,731 million, reflecting increases in several major export commodities. As a result of these developments, the share of oil/LNG exports in total exports continued to decline to 50.9% in 1986/87 from 66.8% the year before.

By country of destination, Japan and the United States were still the major buyers of Indonesia's export commodities, having shares of 43.5% and 20.3% of the total exports, respectively. The share of exports to ASEAN countries stood at 9.8% compared with 10.0% in the preceding year; Singapore still held first place (82.7%), followed by the Philippines (6.5%), Malaysia (6.3%), and Thailand (4.5%) (Table VIII).

2.1.a. Oil/LNG exports

Following the last quarter of 1985/86 decline in prices, in August 1986 world oil prices unexpectedly dropped below \$ 10 per barrel — to their lowest level in the last 10 years — owing to a glut in world markets. During the second half of 1986/87, world oil prices have recovered somewhat, but by the end of the year they remained well below the average price recorded in 1985/86.

In an effort to raise prices, OPEC held a meeting in Geneva in December 1986 when it was agreed to reduce production quotas and to establish new official prices, effective February 1987. The OPEC production quota was set at 15.8 million barrel per day (mbd), implying a decline of 2.3 million barrel (12.6%) from average OPEC production in 1986. This quota was effective until June 1987; the quotas for the third and the fourth quarter of 1987 were set at 16.2 mbd and 17.5 mbd,

respectively. In the meantime, the Arabian Light Crude (ALC) official price was set at \$ 18.00 per barrel.

In line with the result of the December 1986 OPEC meeting, Indonesia's production quota, which covered the period February until June 1987, was fixed at 1.133 mbd, a reduction of 60 thousand barrel per day. Production quotas for the third and fourth quarter of 1987 were set at 1.193 mbd and 1.312 mbd, respectively. In addition, in February 1987, the price of Minas crude oil was fixed at \$ 17.56 per barrel.

In 1986/87, the value of oil/LNG exports decreased substantially (by 44.0%) to \$ 6,966 million, mainly owing to a decline in the average oil export price of 52.5% to \$ 12.50 per barrel. The value of oil exports declined by 45.6% to \$ 4,798 million. The volume of oil exports increased by 13.4% reaching 383.6 million barrel as a consequence of an increase in oil production which was largely the result of a temporary easing of production quota control at the OPEC meeting in December 1985.

In the reporting year, the value of LNG exports also declined sharply, by 40.1% to \$ 2,168 million. This decline was due to a fall in the average LNG export price of 41.5% to \$ 2.73 per MMBTU which followed the falling world oil price. The volume of LNG exported in 1986/87 rose by 2.2% to 793 million MMBTUs, owing to the expansion of export markets to the Republic of Korea in the last quarter of the reporting year.

2.1.b. Non-oil/LNG exports

This sharp decline in oil/LNG exports has increased the importance of non-oil/LNG exports. However, expansion of non-oil/LNG exports were still hindered by persistent protection imposed by several industrial

TABLE 7.1
INDONESIA'S BALANCE OF PAYMENTS ¹⁾
(in millions of dollars)

Transaction	1982/83	1983/84	1984/85	1985/86	1986/87 *
A. Current Account	- 7,039	- 4,151	- 1,968	- 1,832	- 4,051
1. Merchandise	176	3,512	5,474	6,060	2,246
a. Exports, f.o.b	18,672	19,816	19,901	18,612	13,697
i. Oil & LNG	14,744	14,449	13,994	12,437	6,966
- Oil	(12,283)	(12,050)	(10,625)	(8,816)	(4,798)
- LNG	(2,461)	(2,399)	(3,369)	(3,621)	(2,168)
ii. Non-oil and non-LNG	3,928	5,367	5,907	6,175	6,731
b. Imports, f.o.b	- 18,496	- 16,304	- 14,427	- 12,552	- 11,451
i. Oil & LNG ²⁾	- 4,365	- 3,489	- 2,797	- 2,474	- 2,095
- Oil	(- 4,223)	(- 3,273)	(- 2,605)	(- 2,282)	(- 1,908)
- LNG	(- 142)	(- 216)	(- 192)	(- 192)	(- 187)
ii. Non-oil and non-LNG	- 14,131	- 12,815	- 11,630	- 10,078	- 9,356
2. Services	- 7,215	- 7,663	- 7,442	- 7,892	- 6,297
a. Oil & LNG ²⁾	- 3,213	- 3,589	- 3,381	- 3,840	- 2,287
- Oil	(- 2,272)	(- 2,761)	(- 2,175)	(- 2,530)	(- 1,464)
- LNG	(- 941)	(- 828)	(- 1,206)	(- 1,310)	(- 823)
b. Non-oil and non-LNG	- 4,002	- 4,074	- 4,061	- 4,052	- 4,010
B. Special Drawing Rights (SDRs)	- -	- -	- -	- -	- -
C. Capital Account, Excluding Reserves	5,880	5,974	2,726	2,360	4,575
1. Official Transfer & Capital, net	4,085	4,783	2,227	1,788	3,343
a. Official inflows	5,011	5,793	3,519	3,432	5,472
i. IGGI	2,905	4,255	3,189	2,751	3,475
- Program Aid	(21)	(84)	(52)	(38)	(48)
- Project Aid	(2,884)	(4,171)	(3,137)	(2,713)	(3,427)
ii. Non-IGGI (Project Aid)	2,106	1,538	330	681	1,997
b. Official Debt Repayment	- 926	- 1,010	- 1,292	- 1,644	- 2,129
- Pre July 1966 debts	- 125	- 89	- 32	- 36	- 123
- Post July 1966 debts	- 801	- 921	- 1,260	- 1,608	- 2,006
2. Miscellaneous Capital, Net	1,795	1,191	499	572	1,232
- Direct Investment	311	193	245	299	252
- Government Enterprises	1,484	998	254	273	980
D. Total (A through C)	- 1,159	1,823	758	528	524
E. Net Errors and Omissions	- 2,121	247	- 91	- 498	- 1,262
F. Reserves	3,280	- 2,070	- 667	- 30	738
1. Reserves position in the Fund	- 5	162	9	- 15	- 9
2. Short-term foreign liabilities	- -	- 1	- 1	- -	- -
3. Short-term foreign assets	3,285	- 2,231	- 675	- 15	747

1) The presentation based on the IMF standards is shown in Table VII.

2) Oil and LNG imports consists of oil and other imports by oil and LNG enterprises, while oil and LNG services cover payments of foreign contractors' share and net other service payments related to oil and LNG transactions.

TABLE 7.2
OIL EXPORTS BY COUNTRY OF DESTINATION¹⁾
(millions of barrels and millions of dollars)

Countries	1982/83		1983/84		1984/85		1985/86		1986/87	
	Barrels	\$	Barrels	\$	Barrels	\$	Barrels	\$	Barrels	\$
1. United States of America										
– Crude oil	68.9	2,396.0	97.1	2,859.5	83.5	2,435.9	99.2	2,610.2	94.8	1,168.9
– Oil products	2.1	69.5	16.4	448.2	14.2	388.5	8.6	210.6	13.4	162.3
Total	71.0	2,465.5	113.5	3,307.7	97.7	2,824.4	107.8	2,820.8	108.2	1,331.2
% Share	20.0	20.1	27.5	27.4	26.6	26.6	31.8	32.0	28.2	27.7
2. Japan										
– Crude oil	177.8	6,180.4	168.3	4,955.6	145.4	4,242.0	130.5	3,434.8	141.0	1,802.4
– Oil products	26.2	855.4	35.9	979.5	34.5	945.9	36.6	893.8	35.6	453.3
Total	204.0	7,035.8	204.2	5,935.1	179.9	5,187.9	167.1	4,328.6	176.6	2,255.7
% Share	57.4	57.3	49.4	49.3	49.0	48.8	49.4	49.1	46.0	47.0
3. Other Countries										
– Crude oil	75.4	2,619.9	91.2	2,686.2	86.8	2,534.0	59.6	1,568.3	94.0	1,146.9
– Oil products	5.0	162.0	4.5	121.4	3.0	791.1	3.8	98.7	5.0	64.9
Total	80.4	2,781.9	95.7	2,807.6	89.8	2,613.1	63.4	1,667.0	99.0	1,211.8
% Share	22.6	22.6	23.1	23.3	24.4	24.6	18.8	18.9	25.8	25.3
4. Total (1 + 2 + 3)										
– Crude oil	322.1	11,196.3	356.6	10,501.3	315.7	9,211.9	289.3	7,613.3	329.8	4,118.2
– Oil products	33.3	1,086.9	56.8	1,549.1	51.7	1,413.5	49.0	1,203.1	54.0	680.5
Total	355.4	12,283.2	413.4	12,050.4	367.4	10,625.4	338.3	8,816.4	383.8	4,798.7
% Share	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1) Based on f.o.b. value.

TABLE 7.3
EXPORT PRICES OF SELECTED INDONESIAN CRUDE OIL
(\$ per barrel)

Type of crude oil	1983		1984		1985		1986				1987	
	March	April	Feb.	Augst.	Feb.	March	Jun.	Augst.	Sept.	Dec.	Jan.	Feb.
1. SLC/Minas	29.53	29.53	28.53	28.53	17.96	13.63	12.25	9.28	12.89	13.07	15.39	17.56
2. Duri	27.85	25.95	25.95	24.00	14.51	10.09	9.26	5.82	9.21	9.71	12.05	15.60
3. Cinta	28.25	28.25	27.25	26.00	23.39	17.42	10.70	8.93	9.32	11.89	12.48	17.10
4. Arimbi	28.35	28.35	28.35	28.35	23.08	16.16	12.29	8.95	11.84	11.78	12.92	--
5. Jatibarang/Cemara	27.80	27.80	26.55	26.35	--	--	--	--	--	--	--	--
6. Handil	29.50	29.50	28.00	27.80	20.02	14.03	12.05	8.40	12.25	14.30	15.45	17.61
7. Sepinggan/Yakin Mix	29.00	29.00	29.00	29.00	17.24	14.95	12.91	8.24	12.57	13.88	14.92	17.89
8. Salawati	28.70	28.70	27.40	27.40	--	--	--	--	--	--	--	--
9. P. Juata Sanga-sanga Mixed	29.00	29.00	29.00	29.00	20.58	16.35	12.81	8.63	12.58	13.88	15.16	--
10. Walio	28.75	28.75	27.75	27.75	20.31	15.47	11.63	7.68	11.71	13.32	14.60	17.86
11. Udang	22.70	28.70	27.45	27.45	20.49	14.28	11.32	6.83	11.35	13.05	14.45	17.21
12. Klamono	27.20	27.20	27.20	27.20	--	--	--	--	--	--	--	--
13. Arjuna	30.20	30.20	28.25	28.25	23.85	16.93	13.06	9.72	12.61	12.55	13.69	18.09
14. Bunyu/Sembakung	29.90	29.90	29.90	29.90	--	--	--	--	--	--	--	17.26
15. Attaka	30.95	30.95	28.65	28.65	18.59	15.85	13.81	9.14	13.47	14.78	15.82	--
16. Bakapai	30.95	30.95	28.65	28.65	18.59	15.85	13.81	9.14	13.47	14.78	15.82	18.79
17. Badak	30.95	30.95	28.65	28.65	25.14	17.58	12.14	8.51	11.33	13.36	14.53	18.79
18. Arun Condensate	30.95	29.00	29.00	29.00	17.67	14.93	12.89	8.22	12.55	13.86	14.90	18.35
19. NSC/Katapa	31.15	31.15	31.15	31.15	24.31	16.34	13.21	9.17	12.21	14.32	15.46	18.68
20. Lalang	--	28.70	27.45	27.45	23.26	15.53	12.21	8.18	11.75	13.50	14.70	17.85
21. SMC	--	--	27.40	27.20	23.12	23.12	11.55	7.90	11.80	--	--	--

Source : Ministry of Mines and Energy.

TABLE 7.4
LNG EXPORTS

Year	Value (millions of \$)	Volume (millions of MMBTU)	Price \$/MMBTU)
1982/83	2,461	478	5.15
1983/84	2,399	549	4.37
1984/85	3,369	778	4.33
1985/86	3,621	776	4.67
1986/87*	2,168	793	2.73

Source : Pertamina

countries and by weakening international prices of several major non-oil/LNG export commodities. In these circumstances, the Government undertook a series of policy measures in the areas of trade, taxation, and export quality control in order to enhance the competitiveness of non-oil/LNG export commodities. As a result of these efforts, in 1986/87, the value of non-oil/LNG exports increased by 9.0% reaching \$ 6,731 million, mainly reflecting a substantial increase in the export volume of several commodities.

As in preceding years, the major markets for Indonesia's non-oil/LNG export commodities in 1986/87 were the United States and Japan whose shares increased from 19.4% and 17.0% to 21.1% and 19.3%, respectively.

Timber

In the reporting year, timber still occupied first place among the non-oil/LNG export commodities; its share in the total non-oil/LNG exports increased from 19.5% to 23.1%. Timber exports, mostly in the forms of plywood and sawn timber, rose by 29.0% reaching \$ 1,556 million, due mainly to the increase in plywood exports of 31.7% to \$ 1,108 million; volume and price increased by 15.4% and 14.1%, respectively. The sawn timber exports also increased by 19.9% to \$ 415

million, resulting from increases in both price and volume, of 12.7% and 5.8%, respectively.

By country of destination, the United States (19.3%) and Japan (17.2%) continued to constitute the largest market for Indonesia's timber exports. Japan, which initially held third position, advanced to second place replacing Hong Kong, which dropped back to the third position (11.6%). Other major timber export markets were Singapore (10.4%), Taiwan (7.4%), and the United Kingdom (5.9%). It is noteworthy that the share of timber exports to Saudi Arabia and the People's Republic of China (PRC) increased, namely from 4.4% and 1.4% to 5.1% and 4.6%, respectively.

Coffee

In the reporting year, the share of coffee in the total non-oil/LNG exports increased from 10.6% to 11.9% so that coffee came to hold second position among Indonesia's non-oil/LNG exports, replacing rubber. Indonesia's coffee exports increased by 22.4% reaching \$ 803 million, brought about by an increase in both price and volume of exports, by 14.9% and 6.5%, respectively. This price increase was closely associated with the declining world coffee supply, mainly as a consequence of the failure of Brazil's coffee production to recover following the long drought in 1985. The increased volume of coffee exports was related to an increase in Indonesia's coffee production following the suspension of export quotas imposed by International Coffee Organization (ICO).

By country of destination, the United States remained the largest buyer of Indonesia's coffee with a share of 19.7%. Other major buyers were the Netherlands and the Federal Republic of Germany with shares of 17.7% and 9.1%, respectively.

TABLE 7.5
VALUE OF EXPORTS¹⁾
(millions of dollars)

I t e m s	1982/83	1983/84	1984/85	1985/86	1986/87*
A. Oil ²⁾	12,283	12,050	10,625	8,816	4,798
B. LNG	2,461	2,399	3,369	3,621	2,168
C. Non-oil and non-LNG	3,928	5,367	5,907	6,175	6,731
Timber	899	1,161	1,167	1,206	1,556
– Log	(310)	(267)	(135)	(2)	(3)
– Plywood	(324)	(579)	(696)	(841)	(1,108)
– Sawn timber	(255)	(302)	(320)	(346)	(415)
– Others	(10)	(13)	(16)	(17)	(30)
Rubber	615	984	856	709	730
Coffee	363	506	568	656	803
Palm oil	103	92	95	170	115
Animal and produce	251	276	219	271	363
– Shrimps	(204)	(206)	(183)	(226)	(305)
– Others	(47)	(70)	(36)	(45)	(58)
Tea	116	156	211	134	106
Foodstuffs	59	134	129	163	149
– Tapioca	(9)	(33)	(31)	(42)	(57)
– Others	(50)	(101)	(98)	(121)	(92)
Pepper	41	58	66	82	139
Tobacco	38	50	44	55	67
Copra cakes	38	33	18	35	33
Hides	25	27	40	37	42
Rattan	82	87	96	80	90
Textiles and textile products	157	290	418	571	750
Handicrafts	23	75	116	185	152
Electrical appliances	113	130	134	45	5
Urea fertilizer	21	50	31	108	120
Cement	9	11	14	23	42
Mining products	676	800	775	800	696
– Tin	(349)	(309)	(252)	(248)	(156)
– Copper	(115)	(89)	(132)	(133)	(155)
– Aluminum	(48)	(165)	(208)	(223)	(214)
– Nickel	(139)	(179)	(121)	(139)	(120)
– Others ³⁾	(25)	(58)	(62)	(57)	(51)
Miscellaneous	299	447	910	845	773
Total (A + B + C)	18,672	19,816	19,901	18,612	13,697

1) Based on f.o.b. value.

2) Crude oil and oil products include cross purchase/cross exchange for the years 1982/83 and 1983/84.

3) Includes natural sand, which for 1982/83 through 1986/87 were \$ 3.2 million, \$ 5.0 million, \$ 7.5 million, \$ 9.2 million, and \$ 8.6 million, respectively.

TABLE 7.6
VOLUME OF EXPORTS
(thousands of tons)

I t e m s	1982/83	1983/84	1984/85	1985/86	1986/87*
A. Oil (millions of barrels) ¹⁾	355	413	367	338	384
B. LNG (millions of MMBTU) ²⁾	478	549	778	776	793
C. Non-oil and non-LNG	31,830	37,164	40,071	81,605	74,947
Timber	5,101	5,843	5,201	4,636	5,249
– Log	(2,785)	(2,536)	(1,223)	(79)	(146)
– Plywood	(876)	(1,603)	(2,105)	(2,475)	(2,857)
– Sawn timber	(1,365)	(1,630)	(1,789)	(2,003)	(2,120)
– Others	(75)	(74)	(84)	(79)	(126)
Rubber	877	1,145	1,042	1,073	1,060
Coffee	239	298	308	292	311
Palm oil	315	279	175	504	662
Animal and produce	109	194	87	109	131
– Shrimps	(44)	(44)	(44)	(52)	(57)
– Others	(65)	(150)	(43)	(57)	(74)
T e a	68	85	91	102	93
Foodstuffs	599	1,199	1,166	1,418	1,099
– Tapioca	(107)	(299)	(418)	(534)	(481)
– Others	(492)	(900)	(748)	(884)	(618)
Pepper	34	51	34	25	31
Tobacco	19	28	23	21	28
Copra cakes	367	338	213	437	344
Hides	6	6	9	8	9
Rattan	89	83	101	92	108
Textiles and textile products	35	67	78	111	119
Handicrafts	6	18	30	79	36
Electrical appliances	1	1	1	1	1
Urea fertilizer	103	377	208	1,047	1,446
Cement	236	306	516	955	1,788
Mining products	22,315	25,233	28,985	68,204	59,278
– Tin	(27)	(24)	(22)	(23)	(24)
– Copper	(217)	(191)	(242)	(279)	(299)
– Aluminum	(32)	(112)	(153)	(219)	(190)
– Nickel	(922)	(721)	(955)	(917)	(1,343)
– Others ³⁾	(21,117)	(24,185)	(27,613)	(66,766)	(57,422)
Miscellaneous	1,547	1,613	1,803	2,491	3,154

1) Crude oil and oil products include cross purchase/cross exchange for the years 1982/83 through 1983/84.

2) MMBTU = Millions of BTU (British Thermal Unit).

3) Includes natural sand, which for 1982/83 through 1986/87 were 19,472 thousand tons, 21,398 thousand tons, 24,489 thousand tons, 64,134 thousand tons, and 54,781 thousand tons, respectively.

Textiles

In the reporting year, the share of textiles in total non-oil/LNG exports increased from 9.2% to 11.1%. Textile exports recorded a considerable increase of 31.3% (reaching \$ 750 million) due to a rise in both price and volume. The increase in volume was brought about by a rise in production occasioned by less restrictive export quotas to the United States. It should be noted that by the end of the reporting year, the export volume to the United States had almost filled its quota, which will expire in July 1987.

By country of destination, the United States remained the largest buyer of Indonesia's textiles with a share of 53.7%, followed by Singapore (6.4%), the Netherlands (4.0%), the Federal Republic of Germany (3.9%), Japan (3.9%), and Hong Kong (3.0%).

Rubber

In the reporting year, the share of rubber in total non-oil/LNG exports declined from 11.5% to 10.8% and its position among the non-oil/LNG export commodities shifted from second to fourth. Rubber exports increased by only 3.0% (to \$ 730 million) as a result of a rise in the unit price of Indonesian rubber of 4.2%; volume decreased by 1.2%, owing to lower demand for natural rubber in the world market. The decrease in demand for natural rubber resulted from an increase in its price relative to synthetic alternative, which benefited from the sharp drop in world oil prices.

By country of destination, the United States remained the largest market for Indonesia's rubber with a share of 46.0%. Other major buyers were Singapore (19.8%), the Soviet Union (5.6%), Canada (4.2%), the Federal Republic of Germany (3.1%), and Japan (3.1%).

Shrimp

In the reporting year, the share of shrimp in total non-oil/LNG exports increased from 3.7% to 4.5%. The value of shrimp exports rose by 35.0% to \$ 305 million, attributable to increases in price (of 23.0% reaching \$ 5,350 per ton) and in the volume (of 9.6% to 57 thousand tons). It is worth noting that the increase in volume was brought about by extensification of shrimpponds under the smallholders' nucleus shrimppond cultivation scheme (*Tambak Inti Rakyat* or TIR program), and the provision of business licenses to largescale cultivation operated by PMA/PMDN companies.

The largest market for shrimp exports was Japan (82.9%), while the other important markets were Singapore (5.0%), Hong Kong (2.9%), the Netherlands (2.6%), and the United States (1.6%).

Aluminum

In the reporting year, the share of aluminum in total non-oil/LNG exports recorded a slight decline from 3.6% to 3.2%. Aluminum exports declined by 4.0%, reaching \$ 214 million due to a decline in export volume of 13.2%, which was partly offset by a price increase of 10.5%.

By country of destination, Japan remained the largest buyer of Indonesia's aluminum exports (87.5%), while the other major buyer was the Netherlands (4.7%).

Tin

In the reporting year, the share of tin in total non-oil/LNG exports declined to 2.3% compared with 4.0% in the preceding year. Tin exports recorded a significant decrease of 37.1% to \$ 156 million although volume

increased by 4.3% to 24 thousand tons, an amount equal to the quota set by the Association of Tin Producing Countries (ATPC); the price of tin exports fell by about 40%. This price fall stemmed from inactivating of the International Tin Council (ITC) in managing the bufferstock operation, which caused a tin surplus of 82 thousand tons in the world market. To prevent further deterioration in tin prices, the ATPC imposed quotas on production and exports of member countries and persuaded the nonATPC countries (including Brazil and the PRC) to support this effort.

By country of destination, Singapore, the Netherlands, and Italy remained the largest buyers of Indonesia's tin exports; their shares were 69.8%, 16.8%, and 4.9%, respectively.

Urea fertilizer

In the reporting year, urea fertilizer exports increased by 11.1% to \$ 120 million, owing to an increase in volume of 38.196, while price decreased by 19.4%. The decrease in price was caused by price competition from other major producing countries, such as Saudi Arabia, Kuwait, and Qatar. The share of urea fertilizer in the total non-oil/LNG exports recorded a slight increase from 1.7% to 1.8%.

The major buyers of the Indonesia's urea fertilizer were the PRC (25.4%), Thailand (14.7%), the Philippines (11.9%), and India (8.7%).

Palm oil

In the reporting year, palm oil exports declined sharply by 32.4% reaching \$ 115 million, due mainly to a fall in price of 48.4%; volume increased by 31.3%

reaching 662 thousand tons. The drop in palm oil prices in the world market resulted from decreased consumption in the industrial countries — which was closely associated with the increasing consumption of soybean oil and other vegetable oils— and from increased supply from the major world producer (Malaysia) in the first semester of this reporting year. Measured in terms of value, the share of palm oil in the non-oil/LNG exports declined to 1.7% compared with 2.8% in the preceding year. The largest markets for palm oil were the Netherlands (37.6%), the United Kingdom (11.2%), the Federal Republic of Germany (12.8%), and Italy (10.0%).

Tea

In the reporting year, tea exports declined by 20.9% to \$ 106 million, due to a decline in volume of 8.8% to 93 thousand tons, which was a consequence of an increase in domestic consumption. Also, price decreased by 12.5%, owing to decline in world tea consumption. The share of tea in total non-oil/LNG exports decreased to 1.6% compared with that of 2.2% in the preceding year.

The major export destinations were the United States (17.3%) and the United Kingdom (14.9%). Other tea export markets included Pakistan (10.4%), Australia (9.2%), Jordan (8.6%), and the Netherlands (8.0%).

Other major export commodities

In the reporting year, other major export commodities comprised foodstuffs, pepper, tobacco, rattan, handicrafts, cement, copper, and nickel. Total exports of these eight commodities rose by 6.4% (to \$ 914 million) with major increases occurring in cement (82.6%), pepper (69.5%), tobacco (21.8%), copper (16.5%), and rattan (12.5%).

Increases in the exports of tobacco, rattan, and cement were attributable to increases in volume, namely by 33.3%, 17.4%, and 87.2%, while prices declined by 7.8%, 4.3%, and 2.5%, respectively. The increase in copper exports was due to increases in both volume and price of 7.2% and 8.7%, respectively. As a consequence of a reduction in world pepper supply, price increased by 36.8%, whereas volume rose by 24.0%.

Among those eight commodities, decreases were recorded in export value of foodstuffs (8.6%), handicrafts (17.8%), and nickel (13.7%). The decline in foodstuff and handicrafts exports stemmed from declines in volumes of 22.5% and 54.4%, respectively; the decline in nickel exports was caused by a decline in its average price of 41.0%.

2.2. Imports

The continued sluggishness in economic activity, the impact of tight fiscal policy, and the September 1986 devaluation constituted the major factors that led to a decline of 8.8% (to \$ 11,451 million) in the value of total imports in 1986/87. As in the last three years, declines were recorded both in imports of oil/LNG and non-oil/LNG companies, namely 15.3% and 7.2% to \$ 2,095 million and \$ 9,356 million, respectively (Table 7.7).

The decline in the value of imports by oil/LNG companies was mainly caused by a significant decline in imports by oil companies, i.e., 16.4% to \$ 1,908 million. This decline was mainly attributable to a decline in Arabian Light Crude (ALC) imports of 43.7% to \$ 385 million, which was closely associated with the fall in world oil prices. Imports by LNG companies recorded a slight decline of 2.6% to \$ 187 million.

A decline in imports of non-oil/LNG

companies was recorded by purchases financed through the general foreign exchange, foreign aid, and private capital inflows. General foreign exchange imports decreased by 4.6% to \$ 6,336 million, owing to declines in both program and general imports of 9.0% and 4.4% (to \$ 183 million and \$ 6,153 million) respectively. It should be noted that in order to satisfy domestic demand, sugar, which had not been imported for the last two years, was imported again in 1986/87 at a value of \$ 33 million.

Imports financed by foreign aid declined by 9.3% to \$ 2,501 million as a consequence of a reduction in project aid imports by 9.7% (to \$ 2,453 million). The decline in project aid imports was closely related to the austerity policy in financing government projects. During the reporting year, food aid program imports under PL-480 increased by 26.3% to \$ 48 million.

Imports by PMA, state, and private companies financed under foreign capital inflows also declined, by 23.9% to \$ 519 million. This was due to declines in imports by PMA companies of 8.4%, and imports by state and other private enterprises of 31.6%, to \$ 208 million and \$ 311 million, respectively.

Classified by economic category, the developments in imports were characterized by the large share of raw material imports, which reached 58.8% of the total imports. Meanwhile, the capital and consumption goods had shares of 23.8% and 17.4%, respectively (Table 7.8).

By country of origin, the largest portion of imports still originated from Asia, followed by Europe and the United States. Imports from Asia reached 56.9% of the total imports, mainly from Japan and other Asean

countries. The share of the European countries in total imports increased to 21.1%, whereas that of North American countries declined to 16.9%. Among the industrial countries, Japan and the United States still had the largest shares, i.e., 28.2% and 13.3% of total imports.

In the reporting year, the share of imports from ASEAN countries registered a significant increase, namely from 7.7% to 13.4%. Of the ASEAN countries, Singapore had the largest share in Indonesia's imports (87.5%), which was up slightly from the preceding year (87.1%). The share of imports from the Philippines also slightly increased to 3.9%, whereas imports from Thailand and Malaysia recorded small decreases to 4.8% and 3.8%, respectively.

2.3. Services account

In contrast to the preceding year, the deficit on services account narrowed significantly from \$ 7,892 million to \$ 6,297 million. There was a decline in services transactions of both oil/LNG and non-oil/LNG companies. As regards the oil/LNG account, the services transactions of both oil and LNG companies declined by 42.1% and 37.2% to \$ 1,464 million and \$ 823 million, respectively (Table 7.9). The lower services payments of oil companies was not only attributable to the lower outlays by Pertamina, but also to the lower services payments to foreign contractors stemming from reduced oil exports. The lower services payments of LNG companies were also affected by the lower services outlays to contractors.

TABLE 7.7
VALUE OF IMPORTS ¹⁾
(millions of dollars)

I t e m s	1982/83	1983/84	1984/85	1985/86	1986/87 *
A. Imports by oil and LNG enterprises	4,365	3,489	2,797	2,474	2,095
B. Imports by non-oil & non-LNG enterprises	14,131	12,815	11,630	10,078	9,356
1. General foreign exchange imports	8,431	8,082	7,927	6,640	6,336
– Program imports	(926)	(538)	(335)	(201)	(183)
– General Imports	(7,505)	(7,544)	(7,592)	(6,439)	(6,153)
2. Foreign aid imports	4,287	3,947	2,999	2,756	2,501
– Food aid program under PI 480 ²⁾	(18)	(36)	(49)	(38)	(48)
– Food aid program under non-PI 480 ²⁾	(3)	(48)	(3)	(– –)	(– –)
– Project Aid	(4,266)	(3,863)	(2,947)	(2,718) [†]	(2,453)
3. Imports under foreign capital inflows	1,413	786	704	682	519
– Direct investment	(299)	(217)	(206)	(227)	(208)
– Other foreign capital inflows	(1,114) ³⁾	(569)	(498)	(455)	(311)
C. Total (A + B)	18,496	16,304	14,427	12,552	11,451

1) Based on f.o.b.

2) Food aid imports which comprises rice and wheat. For 1985/86 and 1986/87, rice was not imported.

3) Imports by other private enterprises are not included.

In the reporting year, services payments of non-oil/LNG companies declined slightly by 1.0% to \$ 4,010 million. As in the preceding year, services payments for freight on imports decreased somewhat, due to a decline in imports. In the meantime, payments on investment income continued to increase, mainly attributable to higher interest payments on growing government debt, which increased by 24.2% to \$ 2,032 million. It should be noted that higher interest payments also resulted from the depreciation of US dollar.

The services account on travel, which normally shows a deficit, for the first time showed higher receipts over the outlays in the reporting year. This resulted from higher foreign exchange earnings from tourism, which increased by 25.0% reaching \$ 691 million. It should be noted that remittances from Indonesian laborers overseas, especially in Saudi Arabia, increased by 17.2% reaching \$ 75 million.

3. Capital movements of the non-monetary sector

In 1986/87, the net official capital inflows of the non-monetary sector increased from \$ 1,788 million to \$ 3,343 million, while inflows of private capital increased from \$ 572 million to \$ 1,232 million. Accordingly, net inflows of the non-monetary sector increased by 93.9% to \$ 4,575 million.

3.1. Official capital movements

In 1986/87, the official capital inflows registered a significant increase of 59.4% to \$ 5,472 million. At the same time, payments for amortization of the government debts increased by 29.5% to \$ 2,129 million. Hence, the net official capital inflows reached \$ 3,343 million, an increase of 87.0%.

Table 7.8
IMPORTS BY ECONOMIC CATEGORY
(percentage)

Year	Capital goods	Basic materials and auxiliaries	Consumer goods
1982/83	41.9	54.2	12.9
1983/84	40.4	45.1	14.5
1984/85	32.3	56.5	11.1
1985/86	31.3	55.4	13.3
1986/87*	23.8	58.8	17.4

3.1.a. Loans and external assistance

In the reporting year, the official capital inflows in the form of borrowings and grants received from the IGGI member increased by 26.3% to \$ 3,475 million. In addition, the non-IGGI loans, comprising soft loans and commercial loans, increased significantly by 193.2% to \$ 1,997 million. This increase was mainly due to disbursements of a special loan from the Exim Bank of Japan amounting to \$ 503 million, supplementary funds to finance the World Bank projects and increased disbursements of commercial loans amounting to \$ 877 million (Table 7.10). It should be noted that the commercial loans were utilized to finance development projects.

Classified in terms of conditions, foreign loans under the category of concessional borrowings (Official Development Assistance or ODA) increased by 80.5% to \$ 2,558 million, whereas those under non-ODA increased by 44.6% to \$ 2,914 million. It is noteworthy that the largest portion of the ODA loans and grants originated with IGGI members in the form of project aid (97.6%) with the remainder in the form of program aid. Official inflows in the form of grants amounted to \$ 115 million.

TABLE 7.9
SERVICE PAYMENTS (NET)
(millions of dollars)

I t e m s	1982/83	1983/84	1984/85	1985/86	1986/87*
1. Freight on imports	2,129	1,880	1,571	1,356	1,237
a. Oil	422	328	261	228	190
b. LNG	14	21	19	20	18
c. Non-oil and non-LNG	1,693	1,531	1,291	1,108	1,029
2. Other transportation	250	285	293	274	229
a. Oil	11	59	69	43	21
b. LNG	--	--	--	--	--
c. Non-oil and non-LNG	239	226	224	231	208
3. Investment income	3,130	3,934	3,698	3,814	3,153
a. Oil	1,472	1,973	1,243	1,222	740
b. LNG	625	466	766	884	381
c. Non-oil and non-LNG	1,033	1,495	1,689	1,708	2,032
4. Others	1,706	1,564	1,880	2,448	1,678
a. Oil	367	401	602	1,037	513
b. LNG	302	341	421	406	424
c. Non-oil and non-LNG	1,037	822	857	1,005	741
5. Total	7,215	7,663	7,442	7,892	6,297
a. Oil	2,272	2,761	2,175	2,530	1,464
b. LNG	941	828	1,206	1,310	823
c. Non-oil and non-LNG	4,002	4,074	4,061	4,052	4,010

3.1.b. Debt repayments

Amortization of official foreign borrowings in 1986/87 increased by 29.5% to \$ 2,129 million. Taking into account interest payments in the same period, the total debt service payments of government foreign debt in the reporting year increased by 26.9% to \$ 4,149 million. The higher burden of these payments was due to an increase in interest payments, larger amortization payments, and the depreciation of the US dollar against several other major currencies.

It should be noted that Debt Service Ratio

(DSR), defined as the ratio of principal and interest payments of official debts to gross export receipts, increased to 27.4% from 16.4% in the preceding year. This increase was due to the lower export receipts as a consequence of the falling oil prices in the world market.

3.1.c. Disbursed and outstanding external borrowings

At the end of March 1987, total outstanding external government debt increased by 21.3% to \$ 33,168 million, of which 60.6% was denominated in non-US dollar currencies (Table 7.11).

TABLE 7.10
GOVERNMENT FOREIGN DEBTS
(millions of dollars)

I t e m s	1982/83	1983/84	1984/85	1985/86	1986/87¹
1. IGGI	2,905	4,255	3,189	2,751	3,475
a. ODA	1,377	1,986	1,494	1,370	1,980
– Program aid	(21)	(84)	(52)	(38)	(48)
– Project aid	(1,356)	(1,902)	(1,442)	(1,332)	(1,932)
b. Non-ODA	1,528	2,269	1,695	1,381	1,495
2. Non-IGGI (project aid)	2,106	1,538	330	681	1,997
a. ODA	185	111	29	47	578 ¹⁾
b. Non-ODA	1,921	1,427	301	634	1,419
Total	5,011	5,793	3,519	3,432	5,472

1) Including loan from Exim Bank of Japan

With respect to the source of credits, the largest portion of new government debt (70.2%) originated with IGGI with the remainder coming from the non-IGGI sources. The IGGI borrowings comprised bilateral arrangements (73.4%) and multilateral arrangements (26.6%), the great majority of which originated with the International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank (ADB). The largest portion of non-IGGI borrowings (78.5%) was obtained from international commercial banks and foreign creditors, while the remainder was obtained through bilateral arrangements.

Classified in terms of conditions, IGGI borrowings under ODA and non-ODA terms amounted to \$ 13,037 million and \$ 9,202 million, respectively. Non-IGGI borrowings under ODA and non-ODA terms amounted to \$ 2,029 million and \$ 7,424 million, respectively. Accordingly, the total new official borrowings under ODA terms amounted to \$ 15,066 million and non-ODA terms amounted to \$ 16,626 million. It should be noted that foreign borrowings of state-owned

enterprises at the end of the reporting year stood at \$ 1,053 million.

3.2. Private capital movements

In the reporting year, net inflows of private capital, comprising capital inflows of government entities, PMA companies, and other private enterprises, increased by 115.4% to \$ 1,232 million. This rise was primarily due to an increase in net capital inflows of government entities which was closely associated with the expansion of LNG and LPG projects as well as shortterm capital inflows regarding the transactions in oil exports. Net capital inflows of private enterprises, including PMA companies, decreased by 26.2% to \$ 369 million.

4. Monetary movements

Official foreign exchange reserves decreased to \$ 5,103 million at the end of March 1987, the equivalent of 5.9 months of non-oil/LNG imports. Taking into account foreign exchange reserves held by foreign

TABLE 7.11
OUTSTANDING EXTERNAL DEBTS
END OF MARCH 1987
(millions of dollars)

Items	Position
I. Government debts	33,168
1. Old debts ¹⁾	1,476
2. New debts ²⁾	31,692
a. IGGI ²⁾	22,239
i. ODA ³⁾	(13,037)
– Program aid	2,180
– Project aid	10,857
ii. Non-ODA	(9,202)
b. Non-IGGI	9,453
– ODA ⁴⁾	(2,029)
– Non-ODA ⁵⁾	(7,424)
II. Debts of state enterprises	1,053
Total	34,221

1) Old debts are those obtained prior to July 1966.

2) IGGI borrowings are those obtained under commitment in the IGGI meeting.

3) Official Development Assistance (ODA) are loans provided by foreign governments (bilateral) and international agencies (multilateral) to the Government of Indonesia. The terms for bilateral and multilateral loans may be concessionary as well as non-concessionary.

4) Including special loan from Eximbank of Japan.

5) Non-ODA of non-IGGI borrowings are those mostly obtained bilaterally from foreign banks and creditors on commercial terms.

exchange banks, which in the reporting year declined by \$ 1,364 million to \$ 4,027 million, national foreign exchange reserves amounted to \$ 9,130 million at the end of March 1987, an amount adequate to finance non-oil/LNG imports for 10.6 months.

5. Exchange rate developments

During the period from the end of March, 1986 to just before the devaluation of September 12, 1986, the rupiah exchange rate had declined by 0.8% against the US dollar, by 13.8% against the Japanese yen, by 11.2% against the German mark, by 10.9% against the Netherlands guilder, by 5.5% against the French franc, by 0.5%

against the Singapore dollar, and by 0.3% against the British pound sterling. By contrast, the rupiah appreciated by 14.3% against the Australian dollar.

In an effort to enhance the competitiveness of traded goods and to prevent the negative effects of the collapse of world oil prices on the Indonesia's balance of payments, the Government devalued the rupiah by 31% against the US dollar on September 12, 1986, that is, from Rp 1,134.00 to Rp 1,644.00 per \$ 1.00.

The value of the rupiah against the US dollar remained unchanged from September 13, 1986 to the end of March 1987. During

this period, the rupiah depreciated by 6.1% against the Japanese yen, by 12.4% against the German mark, by 11.3% against the Australian dollar, by 10.8% against the French franc, by 8.4% against the British pound sterling, by 2.3% against the Singapore dollar, and by 2.2% against the Netherlands guilder.

C. Indonesia's Balance of Payments Prospects for 1987/88

On the basis of an assumption that the improvement in the world oil prices that has occurred since January 1987 will continue to prevail, Indonesia's balance of payments is projected to improve significantly in 1987/88. Also, earnings from LNG exports are expected to increase due to the increase in LNG price and due to the expansion of LNG market to the Republic of Korea.

Furthermore, despite slower growth in industrial countries in 1987/88, non-oil/gas exports are also expected to increase substantially owing to the positive impacts of the series of policy measures noted earlier to promote economic efficiency and to enhance the competitiveness of non-oil/gas export commodities.

Moreover, non-oil/gas imports in 1987/88 are estimated to increase only slightly, based upon the improved prospects for the

Indonesian economy and the impact of import policies taken by the Government in 1986/87. These policies reduced or eliminated duties on certain import goods and simplified the import procedures of certain manufacturing inputs.

The deficit on services account of the non-oil/gas sector is expected to widen somewhat as a consequence of higher interest payments on government debts and freight on imports.

On the basis of a substantial expansion in merchandise exports, weak growth in imports, and a moderate widening of the deficit on services, the current account, deficit is projected to narrow significantly in 1987/88.

Net capital inflows are projected to be lower in 1987/88 than in the preceding year. This decline is due primarily to higher amortization payments on government debt and lower disbursements of commercial borrowings.

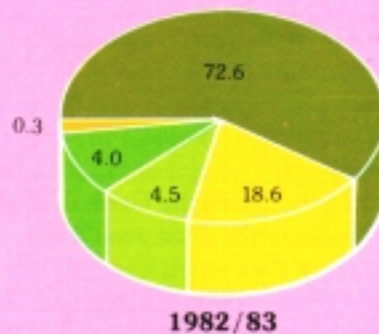
Although the net capital inflows are expected to be lower in 1987/88 than in the previous year, the surplus in the capital account is estimated to be much higher than the deficit in current account. Therefore, Indonesia's overall balance is expected to record a considerable surplus next year compared with a deficit in 1987/88.

PERSENTAGE OF EXPORTS BY COUNTRY OF DESTINATION

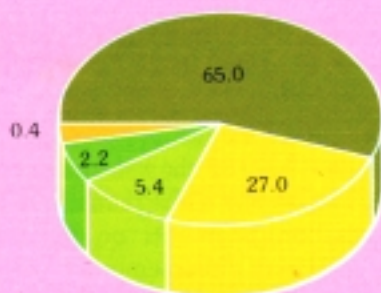
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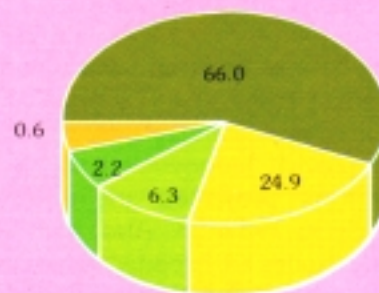
Source : Central Bureau of Statistics



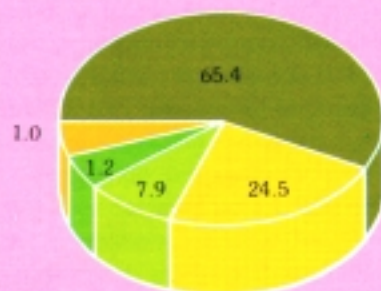
1982/83



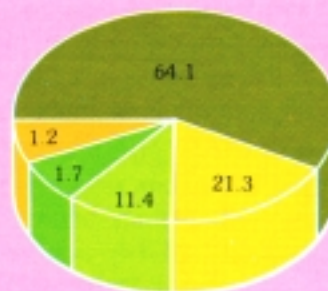
1983/84



1984/85



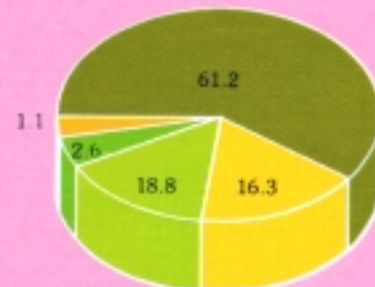
1985/86



1986/87

PERSENTAGE OF IMPORS BY COUNTRY OF ORIGIN

Notes



1982/83

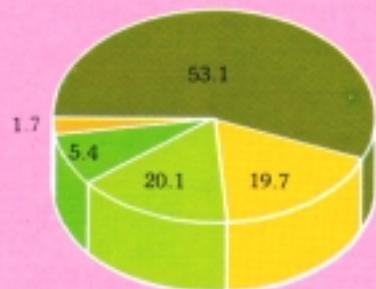
Source : Central Bureau of Statistics



1983/84



1984/85

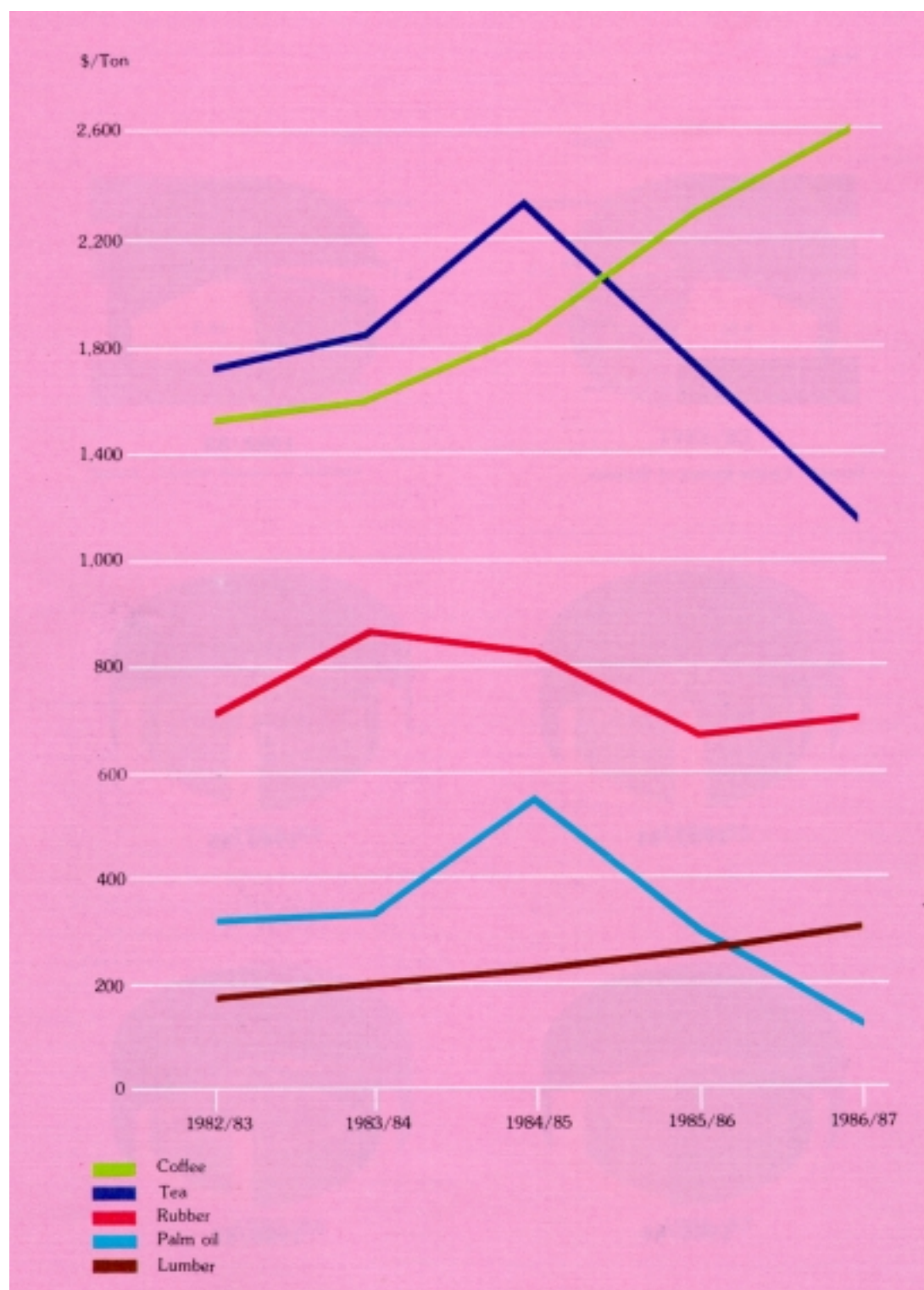


1985/86



1986/87

UNIT PRICES OF SELECTED EXPORT COMMODITIES



FOREIGN TRADE



VIII. PRODUCTION, PRICES, AND INFRASTRUCTURE

A. National Product

In 1986, the Indonesian economy faced severe challenges as a consequence of a sharp decline in world oil prices, slower world economic growth, and sluggishness in domestic demand. However, due to a series of fundamental adjustment measures taken by the Government, in 1986 the Indonesian economy achieved higher growth than in the preceding year. Measured from the side of production, this higher growth was mainly attributable to the mining and quarrying sector; as measured by expenditure, this increase was mainly accounted for by the volume of exports of goods and services.

Output of the Indonesian economy in 1986, measured by gross domestic product (GDP) at 1983 constant prices, rose by 3.2% compared with 2.3% in the preceding year (Table 8.2). Taking into account the population growth rate of 2.1%, real GDP per capita in 1986 grew by 1.1% compared with 0.2% in the preceding year.

Value added in the mining and quarrying sector, which in 1985 declined by 5.5%, rose by 4.2% in 1986. This increase was primarily attributable to a rise in oil production of 4.9% compared with a decrease of 6.5% in 1985. The increase in oil production was closely associated with the temporary relaxation on quotas of OPEC countries as a result of its meeting in December 1985. In addition, tin production increased by 10.1% compared with a decrease of 6.0% in the preceding year. Also, the trade sector grew by 3.0% compared with 1.7% in 1985, mainly stemming from the increase in the foreign trade sector.

The growth rate of the agricultural sector in 1986 declined, namely from 4.2% in 1985 to 2.5%. This decrease reflected lower growth in rice production (0.9% versus 2.4%) mainly brought about by brown locust plague. It is worth noting that growth in all agricultural sub-sectors declined, except forestry which improved from - 4.9% to - 1.1%. This improvement was mainly accounted for by an increase in plywood production.

As in the agricultural sector, the growth rate in the manufacturing sector also declined in 1986, to 5.5% from 8.3% the year before. This lower growth was primarily attributable to a lower value added by oil refineries and LNG, from 70.7% and 4.6%, to 36.1% and 0.2%, respectively. In addition, the growth in non-oil/gas manufacturing declined from 6.2% to 4.9%. Nevertheless, production in several manufacturing industries, such as cement, fertilizer, and basic metals increased significantly.

Furthermore, the growth rate of the banking and other financial intermediaries sector increased from 0.3% to 5.3%, transportation and communication from 0.9% to 1.3%, and services from 2.0% to 2.8%. Sectors which experienced lower growth rates were electricity, gas, and water supply which in 1986 grew only by 6.5%, ownership of dwelling by 3.5%, and public administration and defence by 2.5%. Output in the construction sector, which increased by 2.6% in 1985, recorded a decline of 0.2% in 1986 (Table 8.2).

Viewed on the basis of a broad classification, the oil/gas sector performed

well, recording growth of 4.8% in 1986 compared with a decline of 2.5% in 1985; non-oil/gas sector rose by 2.8% versus 3.6% in the preceding year. Higher growth in the oil/gas sector was due to a rise in the value added of oil and natural gas, i.e., 4.3% compared with a drop of 5.9% in 1985.

Based on current prices, in 1986 the share of the agricultural sector in total GDP increased from 23.7% to 25.8%, manufacturing sector from 13.5% to 14.4%, while that of mining sector decreased from 16.3% to 11.1%. It is worth noting that the share of most other sectors in GDP increased a little (Table 8.3).

From the expenditure approach, the higher economic growth in 1986 was mainly attributed to an increase in export volume of goods and services by 13.7% compared with a negative growth of 8.0% in the preceding year. This increase occurred in the most important export commodity, namely oil, which rose by 17.2% in 1986 (Table 8.5).

The growth rate of private consumption expenditures in 1986 increased from 2.4% to 3.3% and that of government consumption expenditures dropped from 7.5% to 0.1%. The increase in private consumption was closely associated with the increase in real income while the decrease in government consumption reflected adjustment efforts in response to a fall in government revenues. Gross domestic capital formation in the reporting year fell sharply, from 11.1% to -7.7%, reflecting lower development expenditures.

As a consequence of these developments, in 1986 the share of private consumption in GDP stood at 63.9%, government consumption 11.7%, exports 20.8%, imports

22.6% and gross domestic capital formation 26.2% (Table 8.6) .

In 1986, the terms of trade index declined by 26.2% compared with a decline of 0.6% in the preceding year. This was due to a decrease in the export price index of 18.7% and a rise in the import price index by 10.1% (Table 8.7). The deterioration in terms of trade brought about a shift in the growth of gross domestic income (GDY) from a rise of 2.2% to a decline of 3.8%.

The GDP at current prices in 1986 reached Rp 96,489 billion. With a mid-year population of 166.9 million, GDP per capita in 1986 stood at Rp 578,124.63, roughly unchanged from the preceding year.

B. Price Developments

In the reporting year, prices remained relatively stable despite the Government's decision to devalue the rupiah and to raise the floor price of paddy and transportation fares. The rate of inflation as measured by consumer price index (CPI) picked up in 1986/87 to 8.83% compared with 5.66% in the preceding year (Table 8.8). This tolerable rate was attributable to the pursuit of tight fiscal and cautious monetary policies that were supported by adequate supplies , of consumption goods.

In 1986/87, prices of the clothing group recorded the highest increase, of 11.43% compared with 3.38% in the preceding year. Meanwhile, prices of the miscellaneous and foodstuff groups increased by 10.59% and 9.61% compared with 4.95% and 6.12%, respectively. On the other hand, prices of the housing group showed a lower increase, i.e., 5.72% compared with 6.36% in 1985/86. Of the 8.83% price increase, 3.82% originated from the foodstuff, 2.27% from the

TABLE 8.1
GROSS DOMESTIC PRODUCT BY INDUSTRIAL CLASSIFICATION
(billions of rupiah)

Sector	At 1973 constant market prices		At 1983 constant market prices			
	1982	1983	1983	1984	1985	1986 [*]
— Agriculture, forestry, and fishery	3,670	3,846	17,696	18,431	19,209	19,687
— Farm food crops	(2,295)	(2,413)	(11,057)	(11,599)	(11,895)	(12,117)
— Others	(1,375)	(1,433)	(6,639)	(6,832)	(7,314)	(7,570)
— Mining and quarrying	940	957	13,968	14,789	13,981	14,572
— Oil and LNG	(769)	(778)	(13,346)	(14,204)	(13,369)	(13,396)
— Others	(171)	(179)	(622)	(585)	(612)	(636)
— Manufacturing	1,901	1,943	8,211	9,770	10,579	11,161
— Non-oil/LNG	(1,670)	(1,713)	(6,211)	(6,594)	(7,001)	(7,341)
— Oil refinery	(79)	(71)	(129)	(386)	(660)	(897)
— LNG	(152)	(159)	(1,871)	(2,790)	(2,918)	(2,923)
— Electricity, gas, and water supply	105	113	24	550	595	634
— Construction	758	804	4,597	4,394	4,508	4,498
— Trade and hotel	2,159	2,241	12,010	12,160	12,363	12,730
— Transport and communication	717	752	3,978	4,442	4,482	4,452
— Banking and other financial intermediaries	258	276	2,039	2,422	2,431	2,559
— Ownership of dwelling	377	400	1,962	2,072	2,145	2,221
— Public administration and defence	1,114	1,176	5,712	5,997	6,438	6,601
— Services	326	334	3,001	3,117	3,180	3,270
Gross Domestic Product	12,325	2,842	73,698	78,144	79,911	82,475
— Oil and LNG	(1,000)	(1,008)	(15,346)	(17,379)	(16,947)	(17,756)
— Non-oil/LNG	(11,325)	(11,834)	(58,352)	(60,765)	(62,964)	(64,719)

At current market prices					
	1982	1983	1984	1985	1986 [*]
— Agriculture, forestry, and fishery	15,062	17,696	20,334	22,412	24,922
— Farm food crops	(9,162)	(11,057)	(12,606)	(13,761)	(15,198)
— Others	(5,900)	(6,639)	(7,728)	(8,651)	(9,724)
— Mining and quarrying	12,153	13,968	15,98	15,404	10,741
— Oil and LNG	(11,648)	(13,346)	(15,409)	(14,741)	(10,007)
— Others	(505)	(622)	(577)	(663)	(734)
— Manufacturing	7,482	8,211	11,082	12,713	13,900
— Non-oil/LNG	(5,712)	(6,211)	(7,750)	(8,617)	(9,179)
— Oil refinery	(155)	(129)	(625)	(1,542)	(1,858)
— LNG	(1,615)	(1,871)	(2,707)	(2,554)	(2,323)
— Electricity, gas, and water supply	341	524	655	781	858
— Construction	3,769	4,597	4,757	5,302	5,243
— Trade and hotel	9,947	12,010	13,973	14,561	16,081
— Transport and communication	3,164	3,978	5,112	6,149	6,392
— Banking and other financial intermediaries	1,783	2,039	2,692	2,803	3,279
— Ownership of dwelling	1,731	1,962	2,276	2,443	2,631
— Public administration and defence	4,705	5,712	6,470	7,925	8,307
— Services	2,339	3,001	3,718	3,999	4,135
Gross Domestic Product	62,476	73,698	87,055	94,492	96,489
— Oil/LNG	(13,419)	(15,347)	(18,741)	(18,837)	(14,188)
— Non-oil/LNG	(49,507)	(58,351)	(68,314)	(75,655)	(82,301)

Source : Central Bureau of Statistics.

TABLE 8.2
PERCENTAGE CHANGE OF GROSS DOMESTIC PRODUCT
BY INDUSTRIAL CLASSIFICATION

Sector	At 1983 constant market price ¹⁾				
	1982	1983	1984	1985	1986
— Agriculture, forestry, and fishery	2.1	4.8	4.2	4.2	2.5
— Farm food crops	(1.5)	(5.1)	(4.9)	(2.6)	(1.9)
— Others	(3.2)	(4.2)	(2.9)	(7.1)	(3.5)
— Mining and quarrying	-12.1	1.8	5.9	-5.5	4.2
— Oil and LNG	(-16.5)	(1.2)	(6.4)	(-5.9)	(4.3)
— Others	(15.5)	(4.7)	(-5.9)	(4.6)	(3.9)
— Manufacturing	1.2	2.2	19.0	8.3	5.5
— Non-oil/LNG	(0.7)	(2.6)	(6.2)	(6.2)	(4.9)
— Oil refinery	(-2.5)	(-10.1)	(199.2)	(70.7)	(36.1)
— LNG	(9.4)	(4.6)	(49.1)	(4.6)	(0.2)
— Electricity gas, and water supply	17.4	6.9	5.0	8.1	6.5
— Construction	5.2	6.2	- 4.4	2.6	- 0.2
— Trade and hotel	5.7	3.8	1.3	1.7	3.0
— Transport and communication	5.9	5.0	11.7	0.9	1.3
— Banking and other financial intermediaries	11.7	7.0	18.8	0.3	5.3
— Ownership of dwelling	5.2	6.1	5.6	3.6	3.5
— Public administration and defence	3.6	5.5	5.0	7.4	2.5
— Services	2.2	2.5	3.9	2.0	2.8
Gross Domestic Product	2.2	4.2	6.0	2.3	3.2
— Oil and LNG	(-12.4)	(0.8)	(13.2)	(-2.5)	(4.8)
— Non-oil/LNG	(3.9)	(4.5)	(4.1)	(3.6)	(2.8)
At current market prices					
	1982	1983	1984	1985	1986
— Agriculture, forestry, and fishery	10.0	17.5	14.9	10.2	11.2
— Farm food crops	(17.1)	(20.7)	(14.0)	(9.2)	(10.4)
— Others	(3.9)	(12.5)	(16.4)	(11.9)	(12.4)
— Mining and quarrying	-8.1	14.9	14.5	-3.6	-30.3
— Oil and LNG	(-8.1)	(14.8)	(15.5)	(-4.3)	(-32.1)
— Others	(-7.2)	(32.2)	(-7.2)	(14.9)	(10.8)
— Manufacturing	5.9	9.7	35.0	14.7	9.3
— Non-oil/LNG	(1.9)	(8.7)	(24.8)	(11.2)	(12.8)
— Oil refinery	(-13.9)	(-16.8)	(384.5)	(146.4)	(20.5)
— LNG	(26.0)	(15.9)	(44.7)	(-5.6)	(-9.1)
— Electricity, gas, and water supply	16.6	54.0	25.0	19.2	9.9
— Construction	7.7	22.0	3.5	11.5	- 1.1
— Trade and hotel	13.3	20.7	16.4	4.2	10.4
— Transport and communication	33.5	25.7	28.5	20.3	4.0
— Banking and other financial intermediaries	26.8	14.4	32.0	4.1	17.0
— Ownership of dwelling	15.9	13.3	16.0	7.3	7.7
— Public administration and defence	11.9	21.4	13.3	22.5	4.8
— Services	11.4	28.3	23.9	7.6	3.4
Gross Domestic Product	7.5	18.0	18.1	8.5	2.1
— Oil and LNG	(-5.1)	(14.4)	(22.1)	(0.5)	(-24.7)
— Non-oil/LNG	(11.5)	(18.9)	(17.1)	(10.7)	(8.8)

1) In 1982 and 1983 measured by GDP at 1973 constant market prices.

Source : Central Bureau of Statistics.

TABLE 8.3
PERCENTAGE DISTRIBUTION OF GROSS DOMESTIC PRODUCT
BY INDUSTRIAL CLASSIFICATION

Sector	At 1973 constant market prices		At 1983 constant market prices			
	1982	1983	1983	1984	1985	1986 [*]
— Agriculture, forestry, and fishery	29.8	29.9	24.0	23.6	24.0	23.9
— Farm food crops	(18.6)	(18.8)	(15.0)	(14.8)	(14.9)	(14.7)
— Others	(11.2)	(11.1)	(9.0)	(8.8)	(9.1)	(9.2)
— Mining and quarrying	7.6	7.4	18.9	18.9	17.5	17.7
— Oil and LNG	(6.2)	(6.1)	(18.1)	(18.2)	(16.7)	(16.9)
— Others	(1.4)	(1.3)	(0.8)	(0.7)	(0.8)	(0.8)
— Manufacturing	15.4	15.1	11.1	12.5	13.2	13.5
— Non-oil/LNG	(13.6)	(13.3)	(8.4)	(8.4)	(8.8)	(8.9)
— Oil refinery	(0.6)	(0.6)	(0.2)	(0.5)	(0.8)	(1.1)
— LNG	(1.2)	(1.2)	(2.5)	(3.6)	(3.6)	(3.5)
— Electricity, gas, and water supply	0.9	0.9	0.7	0.7	0.7	0.8
— Construction	6.2	6.3	6.2	5.6	5.6	5.5
— Trade and hotel	17.5	17.4	16.3	15.6	15.5	15.4
— Transport and communication	5.8	5.9	5.4	5.6	5.6	5.5
— Banking and other financial intermediaries	2.0	2.2	2.8	3.1	3.0	3.0
— Ownership of dwelling	3.1	3.1	2.7	2.7	2.8	2.7
— Public administration and defence	9.0	9.2	7.8	7.7	8.1	8.0
— Services	2.6	2.6	4.1	4.0	4.0	4.0
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0
— Oil and LNG	(8.1)	(7.9)	(20.8)	(22.2)	(21.2)	(21.5)
— Non-oil/LNG	(91.9)	(92.1)	(79.2)	(77.8)	(78.8)	(78.5)

	At current market prices				
	1982	1983	1984	1985	1986 [*]
— Agriculture, forestry, and fishery	24.1	24.0	23.4	23.7	25.8
— Farm food crops	(14.7)	(15.0)	(14.5)	(14.5)	(15.8)
— Others	(9.4)	(9.0)	(8.9)	(9.2)	(10.0)
— Mining and quarrying	19.5	18.9	18.4	16.3	11.1
— Oil and LNG	(18.6)	(18.1)	(17.7)	(15.6)	(10.4)
— Others	(0.9)	(0.8)	(0.7)	(0.7)	(0.7)
— Manufacturing	12.0	11.1	12.7	13.5	14.4
— Non-oil/LNG	(9.2)	(8.4)	(8.9)	(9.2)	(10.1)
— Oil refinery	(0.2)	(0.2)	(0.7)	(1.6)	(1.9)
— LNG	(2.6)	(2.5)	(3.1)	(2.7)	(2.4)
— Electricity, gas, and water supply	0.5	0.7	0.8	0.8	0.9
— Construction	6.0	6.2	5.5	5.6	5.4
— Trade and hotel	15.9	16.3	16.1	15.4	16.7
— Transport and communication	5.1	5.4	5.9	6.5	6.6
— Banking and other financial intermediaries	2.9	2.8	3.1	3.0	3.4
— Ownership of dwelling	2.8	2.7	2.6	2.6	2.7
— Public administration and defence	7.5	7.8	7.4	8.4	8.7
— Services	3.7	4.1	4.1	4.2	4.3
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
— Oil/LNG	(21.5)	(20.8)	(21.5)	(19.9)	(14.7)
— Non-oil/LNG	(78.5)	(79.2)	(78.5)	(80.1)	(85.3)

Source : Central Bureau of Statistics.

TABLE 8.4
EXPENDITURES ON GROSS DOMESTIC PRODUCT
(billions of rupiah)

Sector	At 1973 constant market prices		At 1983 constant market prices			
	1982	1983	1983	1984	1985	1986
— Private consumption	10,697	11,501	44,739	46,898	48,041	49,638
— Government consumption	1,776	1,759	8,077	8,353	8,975	8,988
— Gross domestic capital formation ¹⁾	3,637	3,921	21,669	18,875	20,976	19,354
— Exports of goods and non-factor services	1,444	1,535	20,448	20,562	18,915	21,504
Less :						
— Imports of goods and non-factor services	5,229	5,874	21,235	16,544	16,996	17,009
— Gross Domestic Product	12,325	12,842	73,698	78,144	79,911	82,475
— Net factor income from abroad	- 652	- 835	- 3,360	- 3,702	- 3,580	- 3,829
— Gross National Product	11,673	12,007	70,338	74,442	76,331	78,646
Less :						
Net indirect taxes	601	626	1,166	1,158	2,421	4,661
Less :						
Depreciation	808	837	3,658	3,879	3,967	4,094
— National income	10,268	10,544	65,514	69,405	69,943	69,891
At current market prices						
	1982	1983	1984	1985	1986	
— Private consumption	37,924	44,739	51,399	56,858	61,682	
— Government consumption	7,229	8,077	9,121	10,893	11,329	
— Gross domestic capital formation ¹⁾	17,406	21,669	22,177	24,907	25,293	
— Exports of goods and non-factor services	15,103	20,448	22,985	21,671	20,042	
Less :						
— Imports of goods and non-factor services	15,186	21,235	18,627	19,837	21,857	
— Gross Domestic Product	62,476	73,698	87,055	94,492	96,489	
— Net factor income from abroad	- 1,980	- 3,360	- 4,168	- 3,932	- 4,251	
— Gross National Product	60,496	70,338	82,887	90,560	92,239	
Less :						
Net indirect taxes	2,132	1,166	1,296	2,863	5,453	
Less :						
Depreciation	3,876	3,658	4,322	4,691	4,790	
— National income	54,488	65,514	77,269	83,006	81,996	

1) Includes stock changes.

Source : Central Bureau of Statistics.

TABLE 8.5
PERCENTAGE CHANGE OF EXPENDITURES
ON GROSS DOMESTIC PRODUCT
(percentage)

Sector	At 1973 constant market prices		At 1983 constant market prices		
	1982	1983	1984	1985	1986*
— Private consumption	3.4	7.5	4.8	2.4	3.3
— Government consumption	8.2	-0.1	3.4	7.5	0.1
— Gross domestic capital formation	13.0	7.8	-12.9	11.1	-7.7
— Exports of goods and non-factor services	13.9	6.3	0.6	-8.0	13.7
Less :					
— Imports of goods and non-factor services	8.2	12.3	-22.1	2.7	0.1
— Gross Domestic Product	2.2	4.2	6.0	2.3	3.2
— Net factor income from abroad	-3.1	28.0	10.2	-3.3	7.0
— Gross National Product	2.6	2.9	5.8	2.5	3.0
Less :					
Net indirect taxes	2.2	4.2	-0.7	109.1	92.5
Less :					
Depreciation	2.2	4.2	6.0	2.3	3.2
— National income	2.6	2.7	5.9	0.8	-0.1
At current market prices					
	1982	1983	1984	1985	1986*
— Private consumption	17.4	18.0	14.9	10.6	8.5
— Government consumption	12.0	11.7	12.9	19.4	4.0
— Gross domestic capital formation	0.5	24.5	2.3	12.3	1.5
— Exports of goods and non-factor services	-6.6	35.4	12.4	-5.7	-7.5
Less :					
— Imports of goods and non-factor services	7.5	39.8	-12.2	6.5	10.0
— Gross Domestic Product	7.5	18.0	18.1	8.5	2.1
— Net factor income from abroad	2.6	69.7	24.1	-5.7	8.1
— Gross National Product	7.6	16.3	17.8	9.3	1.9
Less :					
Net indirect taxes	21.7	54.7	11.2	120.9	90.5
Less :					
Depreciation	10.4	-5.6	18.2	8.5	2.1
— National income	7.0	20.2	17.9	7.4	-1.2

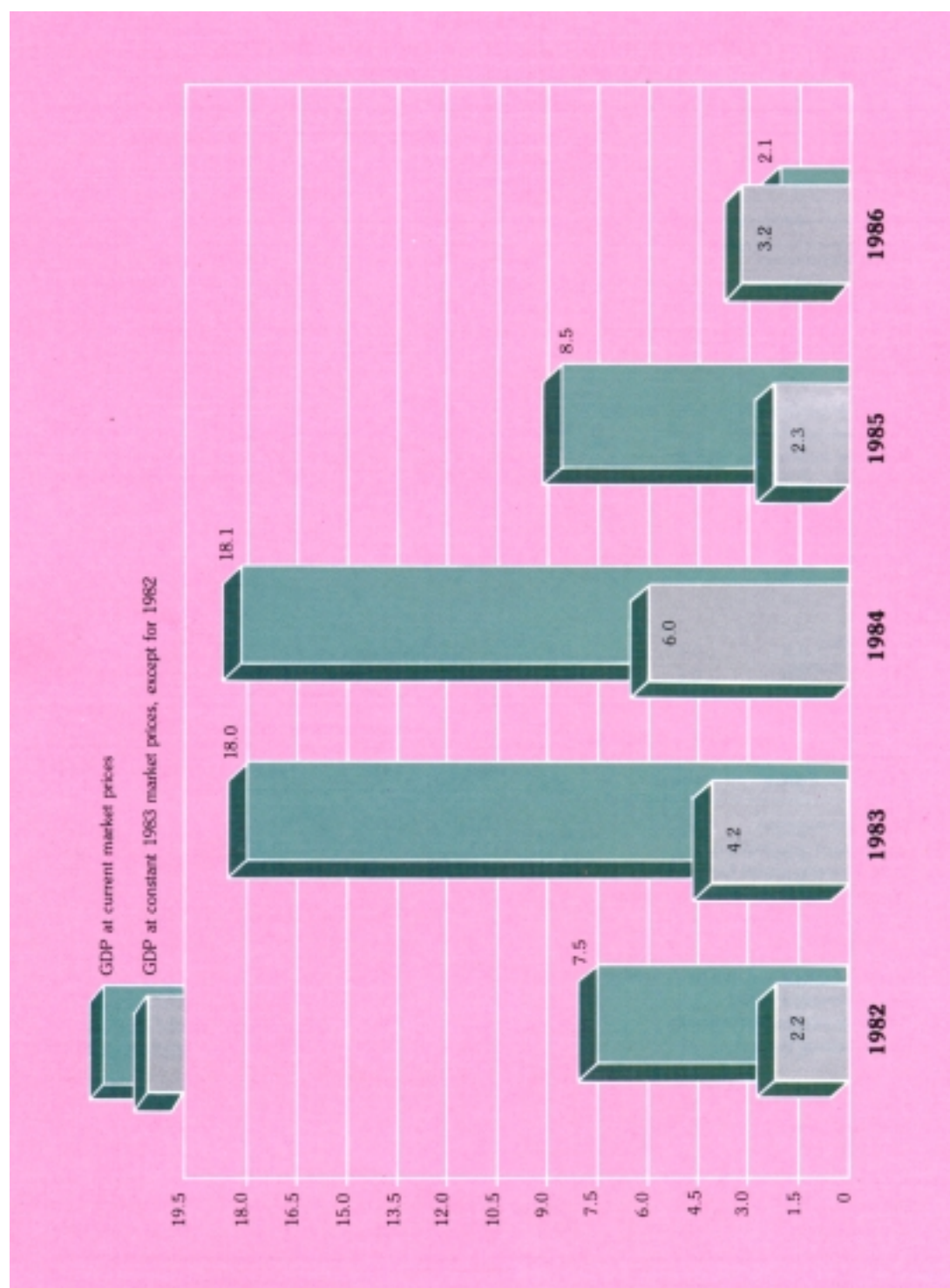
Source : Central Bureau of Statistics.

TABLE 8.6
PERCENTAGE DISTRIBUTION OF EXPENDITURES
ON GROSS DOMESTIC PRODUCT

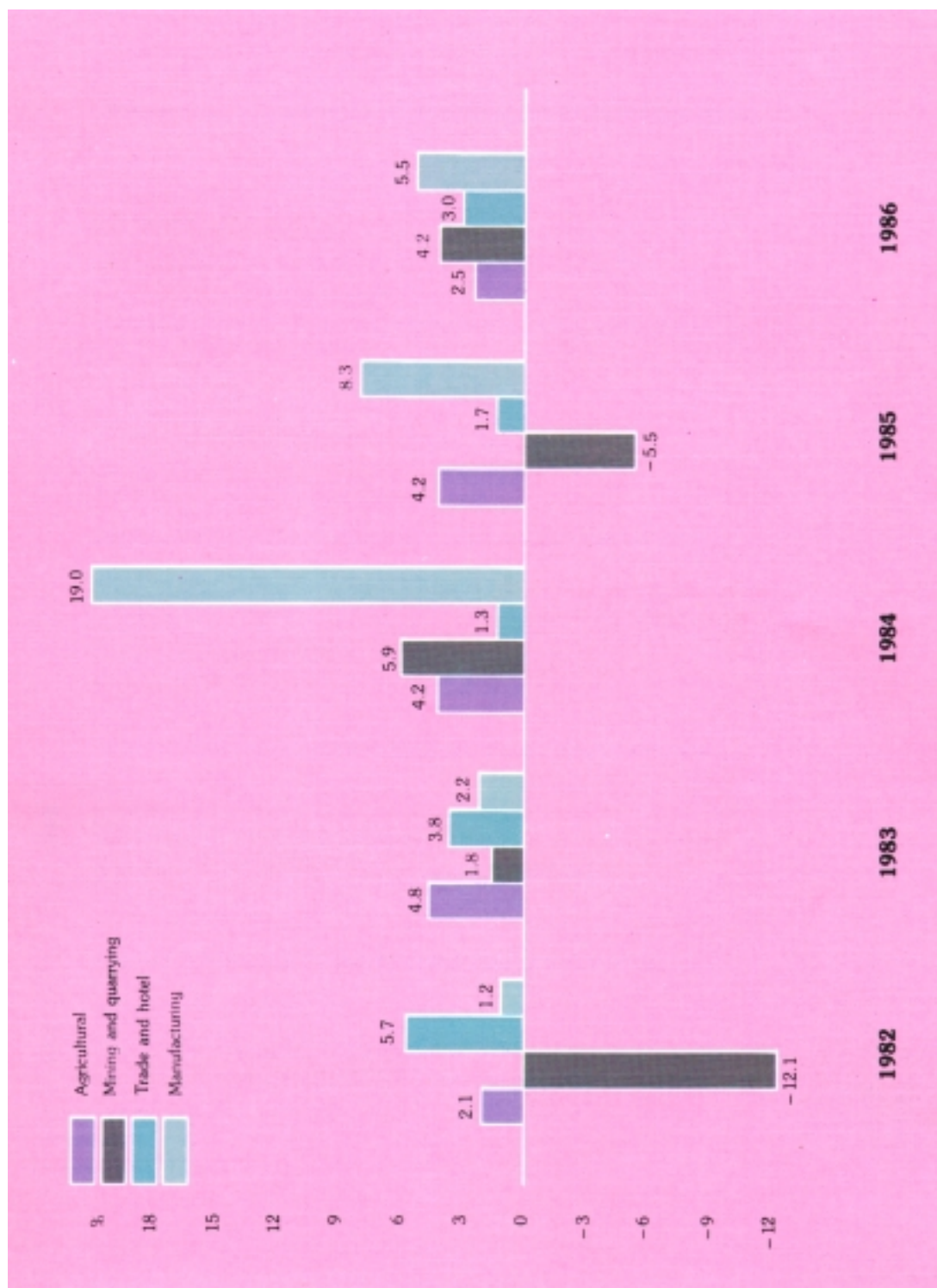
Sector	At 1973 constant market prices		At 1983 constant market prices			
	1982	1983	1983	1984	1985	1986*
— Private consumption	86.8	89.6	60.7	60.0	60.1	60.2
— Government consumption	14.4	13.7	11.0	10.7	11.2	10.9
— Gross domestic capital formation	29.5	30.5	29.4	24.2	26.2	23.5
— Exports of goods and non-factor services	11.7	11.9	27.7	26.3	23.8	26.1
Less :						
— Imports of goods and non-factor services	42.4	45.7	28.8	21.2	21.3	20.7
— Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0
— Net factor income from abroad	-5.3	-6.5	-4.5	-4.7	-4.5	-4.6
— Gross National Product	94.7	93.5	95.5	95.3	95.5	95.4
Less :						
Net indirect taxes	4.9	4.9	1.6	1.5	3.0	5.7
Less :						
Depreciation	6.5	6.5	5.0	5.0	5.0	5.0
— National income	83.3	82.1	88.9	88.8	87.5	84.7
At current market prices						
	1982	1983	1984	1985	1986*	
— Private consumption	60.7	60.7	59.0	60.2	63.9	
— Government consumption	11.6	11.0	10.5	11.5	11.7	
— Gross domestic capital formation	27.8	29.4	25.5	26.4	26.2	
— Exports of goods and non-factor services	24.2	27.7	26.4	22.9	20.8	
Less :						
— Imports of goods and non-factor services	24.3	28.8	21.4	21.0	22.6	
— Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	
— Net factor income from abroad	-3.2	-4.5	-4.8	-4.2	-4.4	
— Gross National Product	96.8	95.5	95.2	95.8	95.6	
Less :						
Net indirect taxes	3.4	1.6	1.5	3.0	5.6	
Less :						
Depreciation	6.2	5.0	5.0	5.0	5.0	
— National income	87.2	88.9	88.7	87.8	85.0	

Source : Central Bureau of Statistics.

**DEVELOPMENT OF GROSS DOMESTIC PRODUCT
AT CURRENT AND 1983 CONSTANT PRICES,
EXCEPT FOR 1982**



GROWTH OF SEVERAL IMPORTANT SECTORS IN GROSS DOMESTIC PRODUCT



PERSENTAGE DISTRIBUTOR OF GROSS DOMESTIC PRODUCT BY SECTOR AT CURRENT PRICES

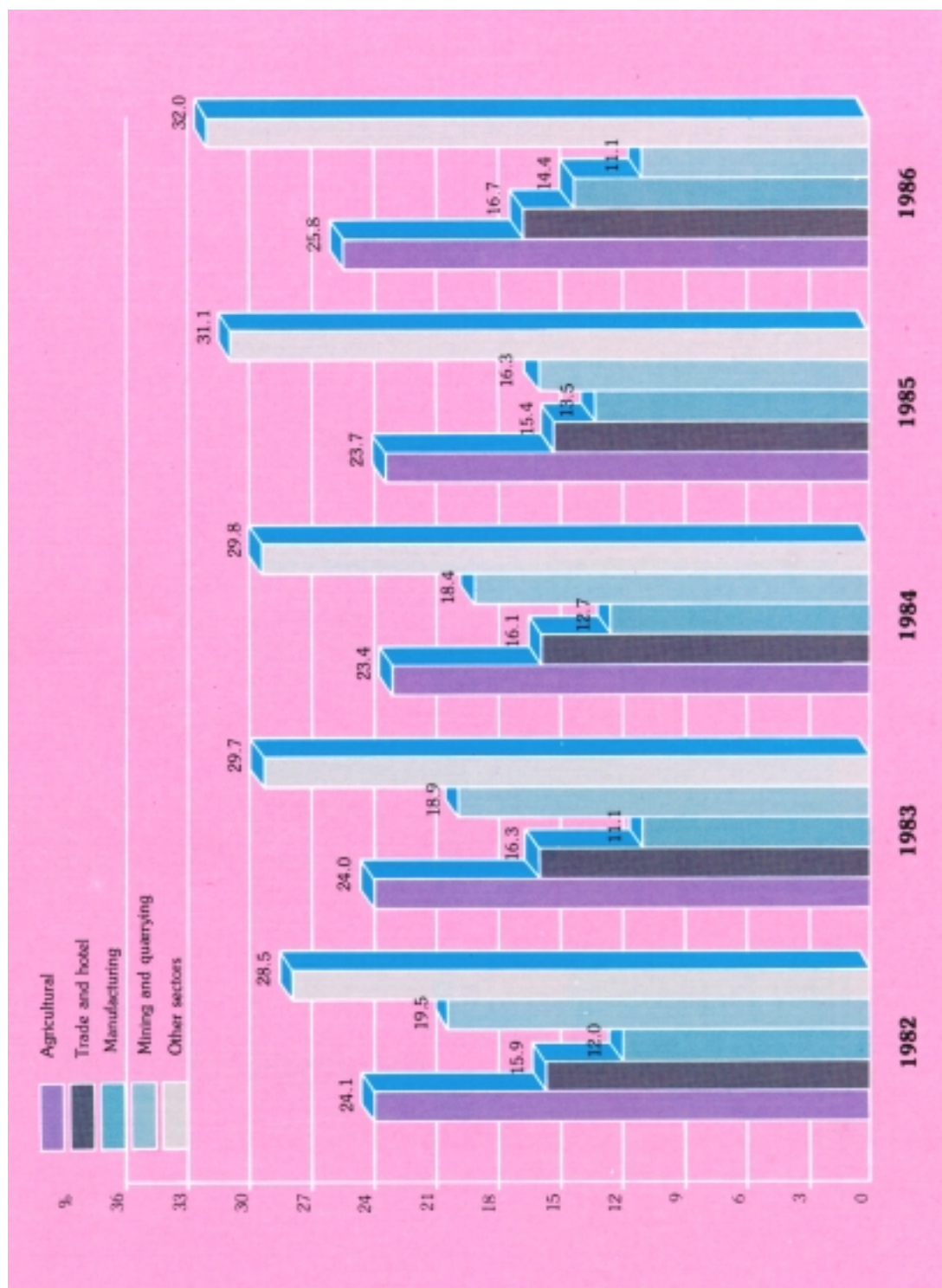


TABLE 8.7
TERMS OF TRADE EFFECT AND AND GROSS DOMESTIC INCOME
(billions of rupiah)

I t e m s	1982	1983	1984	1985	1986*
a. Exports at current market prices	15,103	20,448	22,985	21,671	20,042
b. Exports at 1983 constant market prices	19,000	20,448	20,562	18,915	21,504
c. Export price index [(a:b) × 100]	79.5	100.0	111.8	114.6	93.2
d. Imports at current market prices	15,186	21,235	18,672	19,837	21,857
e. Imports at 1983 constant market prices	20,323	21,235	16,544	16,996	17,009
f. Import price index [(d:e) × 100]	74.7	100.0	112.9	116.7	128.5
g. Import capacity [(a:f) × 100]	20,218	20,448	20,359	18,570	15,597
h. Term of trade index [(c:f) × 100]	106.4	100.0	99.0	98.2	72.5
i. Term of trade effect (g-b)	1,218	0	—203	—345	—5,907
j. GDP at 1983 constant market prices	71,275	73,698	78,145	79,911	82,475
k. Changes (%)	—	3.4	6.0	2.3	3.2
l. GDY at 1983 constant market prices	72,493	73,698	77,942	79,566	76,568
m. Changes (%)	—	1.7	5.8	2.2	—3.8

Source : Central Bureau of Statistics.

miscellaneous, 1.71% from the housing, and 1.03% from the clothing groups.

With respect to the foodstuff group, significant price increases were recorded in the subgroups of eggs, milk and dairy products (16.14%), spices (15.35%), and fresh fish (14.62%). In addition, the subgroup of grain, which has the biggest share in the foodstuff group, in the reporting year rose only by 2.85% . The low price increase in this subgroup was attributed to declines in the price of rice for several months, particularly in April 1986 (4.95%) and March 1987 (6.36%).

Furthermore, in the miscellaneous group, significant price increases were recorded in

the subgroups of transportation (13.02%) and recreation (11.65%). In the housing group, significant price increases were registered in the subgroups of household furniture (13.89%) and residential housing (7.94%), while in the clothing group substantial rise was recorded in the subgroups of men's clothing (12.81%) and children's clothing (11.62%).

During the reporting year, the average monthly price increase was 0.74% compared with 0.47% in 1985/86. Significant price increases occurred in September and October 1986, i.e., 2.81% and 2.03%, respectively, primarily attributed to the rupiah devaluation on September 12, 1986 and an increase in the

TABLE 8.8
CONSUMER PRICE INDEX FOR INDONESIA (COMPOSITE OF 17 CITIES)
(April 1977 through March 1978 = 100)

Period	Food-stuffs	Housing	Clothing	Miscellaneous	General Index	Change in the General Index (%)	
						Annually/ quarterly ¹⁾	Monthly
1984/1985						+ 3.64	
March	224.34	273.47	221.08	248.07	242.07		
1985/1986						+ 5.66	
June	232.52	287.11	225.74	255.49	251.23	+ 3.75	
September	228.07	288.07	227.32	258.40	250.38	- 0.34	
December	230.89	289.36	228.03	259.67	252.20	+ 0.72	
March	238.23	291.15	228.68	260.58	256.07	+ 1.53	
1986/1987						+ 8.83	
April	238.11	292.01	229.28	260.77	256.33		+ 0.10
May	244.45	292.50	230.90	261.95	259.59		+ 1.27
June	245.47	292.69	232.34	262.06	260.20	+ 1.60	+ 0.23
July	244.09	293.07	232.86	261.79	259.67		- 0.20
August	244.90	293.23	233.08	261.89	260.13		+ 0.18
September	252.03	299.81	243.43	268.69	267.44	+ 2.79	+ 2.81
October	260.54	302.35	249.25	271.54	272.88		+ 2.03
November	263.07	302.80	250.05	272.90	274.40		+ 0.56
December	263.94	302.85	250.38	274.98	275.27	+ 2.91	+ 0.32
January	263.76	304.15	253.32	277.00	276.24		+ 0.35
February	267.28	306.21	254.38	285.43	280.28		+ 1.46
March	261.84	308.16	256.06	289.44	279.49	+ 1.53	- 0.28

1) Annually/quarterly changes of the CPI is calculated on a cumulative basis as a summation of the monthly percentage changes.

Source : Central Bureau of Statistics.

price of rice in October 1986. A significant increase also occurred in February 1987 (1.46%), mainly attributed to the increase in transportation fares.

Wholesale price increased by 3.98% in 1986/87 compared with 4.30% in the preceding year. This low rate of price increase was attributable to a decline in the price of export commodities of 18.7%. In the meantime, prices of other commodities such as imports as well as agricultural, manufactured, and mining products increased by 14.06%, 9.64%, 9.22%, and 6.15%, respectively.

In the reporting year, the price of several non-oil export commodities increased markedly. The average prices of plywood, RSS I rubber, and Robusta coffee in Jakarta rose by 27.96%, 46.76%, and 21.21% to Rp 3,649.00 per piece, Rp 1,119.53 per kg, and Rp 2,618.75 per kg, respectively (Table 8.9).

C. Population

As in the previous years, the government policy on population continued to address the main problems, namely its high growth rate, imbalances in its distribution and age structure, and the limited employment

INDONESIA'S CONSUMER PRICE INDEX BY GROUP

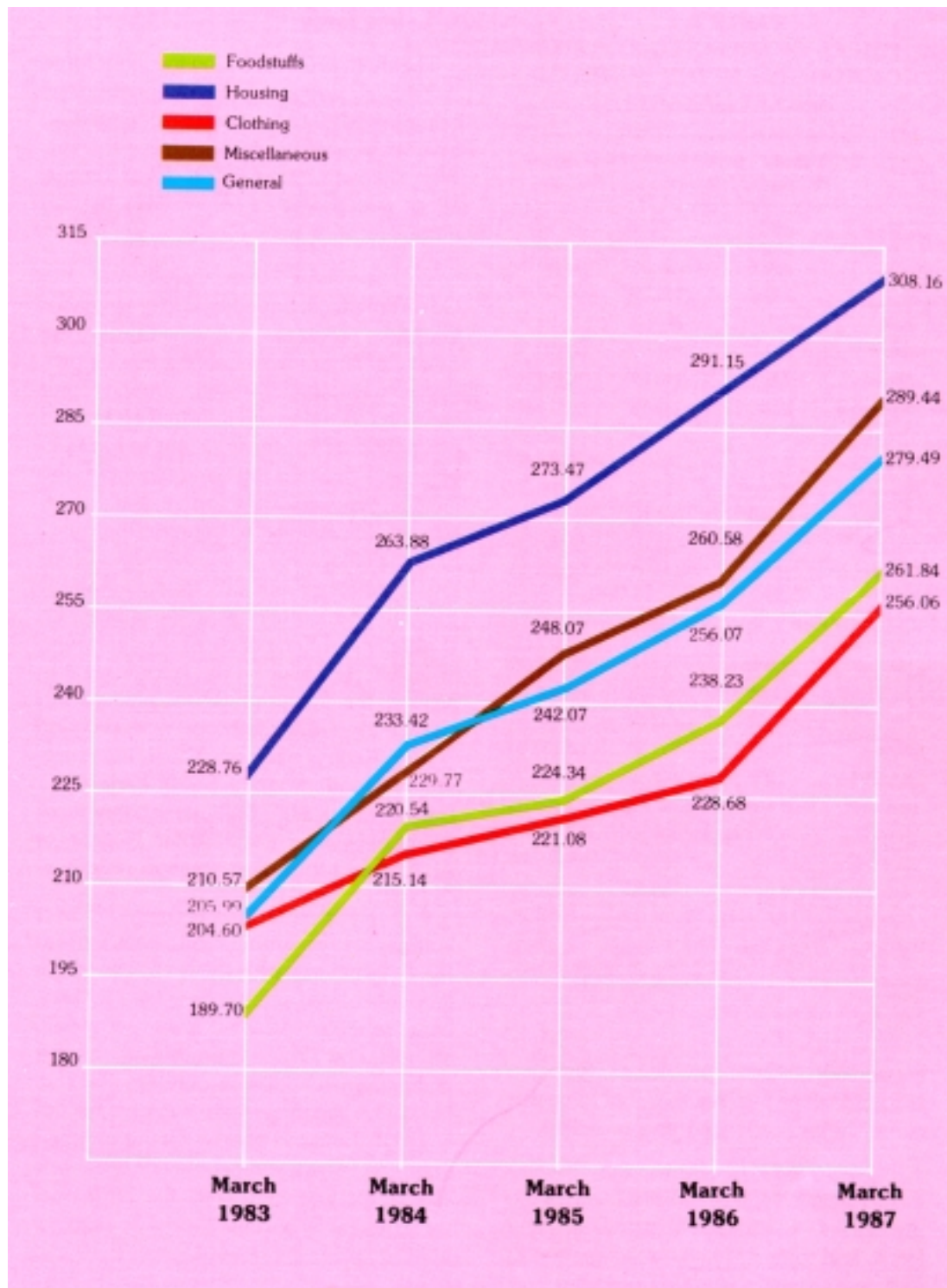


TABLE 8.9
PRICES OF SELECTED EXPORT
COMMODITIES IN THE DOMESTIC
MARKET (JAKARTA)

Period	Plywood (Rp/ piece)	Rubber RSS-1 (Rp/kg)	Coffee Robusta (Rp/kg)
1985/1986			
April	2,937	726.00	1,350.00
May	2,962	744.50	1,350.00
June	2,962	778.62	1,400.00
July	2,865	751.00	1,450.00
August	2,865	740.50	1,450.00
September	2,865	735.35	1,475.00
October	2,865	749.63	1,550.00
November	2,780	766.60	2,250.00
December	2,780	771.25	4,000.00
January	2,780	765.00	3,700.00
February	2,780	810.00	2,950.00
March	2,780	815.31	3,000.00
1986/1987			
April	3,062	778.50	2,700.00
May	3,062	794.50	2,500.00
June	3,097	807.75	2,300.00
July	3,097	832.00	2,200.00
August	3,075	853.50	2,300.00
September	3,316	1,122.50	3,400.00
October	3,658	1,382.50	3,400.00
November	4,023	1,350.00	2,875.00
December	4,274	1,334.00	2,500.00
January	4,274	1,389.50	2,750.00
February	4,375	1,393.00	2,300.00
March	4,475	1,396.19	2,200.00

Source : Central Bureau of Statistics.

opportunities and skill that needed improvement. Based on a population growth rate of 2.13%,¹⁾ total population at the end of 1986 was projected to reach 167.4 million.

1) The outcome of the intercensal population survey (Survei Penduduk Antar Sensus or Supas), October 1985.

This relatively high growth rate of the population has generated a large number of new entrants into the labor force. At the same time, the growth of employment opportunities was less than that of the labor force, leading to a rise in unemployment.

In addition, these problems were aggravated by the fact that the labor force was generally inexperienced and unskilled.

To solve these problems, the Government continued to expand employment opportunities, to improve the skills of labor force, and to encourage transmigration as well as the family planning program.

1. Labor force

The main problem facing the labor force in 1986/87 was employment opportunities being inadequate to absorb the increasing number of entrants into the labor market. With a growth rate of 4.0%, labor force in 1986 was projected to increase by 2.3 million to 66.4 million.

To overcome these problems, the Government continued to implement labor intensive programs and to improve the quality of labor force. Labor intensive programs were implemented, among other ways, by fostering the informal sector and promoting its existence in the Indonesian economic system by strengthening the linkage, between the informal and formal sectors. Meanwhile, to improve the quality of the labor force, the Government continued to carry out professional training through the vocational training program (*Balai Latihan Kerja* or BLK). Furthermore, in an effort to allocate the labor force efficiently, the Government maintained implementation of the interlocal work program (*Antar Kerja Lokal* or AKL), the

TABLE 8.10
LABOR MARKET
(persons)

Particulars	1982	1983	1984	1985	1986
Registered work seeking manpower	502,459	474,086	695,826	845,799	888,554
Vacancies	137,014	126,758	112,274	103,936	151,775
Occupied vacancies	96,009	94,931	74,359	72,880	120,954

Source : Ministry of Manpower.

interregional work program (*Antar Kerja Antar Daerah* or AKAD), the international work program (*Antar Kerja Antar Negara* or AKAN) and the transmigration program.

Job seekers registered at the manpower bourse in 1986 amounted to 888.6 thousand persons, of which 6.4% were graduates from universities, 64.1% from high schools, 12.2% from secondary schools, and 17.3% from primary schools and primary school drop-outs. On the other hand, the vacancies were available for only

151.8 thousand people. Of this number, only 120.9 thousand people (79.6%) were eligible for working, while the remainder were not, partly because their skills were not appropriate to the needs (Tables 8.10 and 8.11).

As regards minimum wages, which was designed to meet subsistent needs, the average of the highest and lowest wages recorded increases in 1986, of 27.6% and 21.4%, respectively (Table 8.12). Taking into account the inflation rate in 1986, the

TABLE 8.11
NUMBER OF REGISTERED WORK SEEKING PEOPLE
BY EDUCATIONAL LEVEL
(persons)

Educational attainment	1982	1983	1984	1985	1986
1. Illiterate and non-certificate primary schools	32,166	34,961	24,624	22,189	31,708
2. Primary schools	63,611	62,107	63,333	77,410	122,143
3. Junior high schools	70,938	49,928	80,289	91,476	108,692
4. Senior high schools	308,469	300,983	480,693	587,992	569,546
5. Universities	27,275	26,107	46,881	66,732	56,465
Total	502,459	474,086	695,826	845,799	888,554

Source : Ministry of Manpower.

TABLE 8.12
AVERAGE MONTHLY WAGE BY ECONOMIC SECTOR
(rupiah)

Sector	Average minimum wage		Average maximum wage	
	1985	1986	1985	1986
Plantation	38,688	43,861	320,979	487,919
Mining	95,896	102,999	690,147	988,727
Manufacturing	83,291	91,924	798,678	1,181,116
Construction	53,129	78,837	635,985	703,621
Electricity	60,901	80,608	517,672	551,809
Trade/bank and insurance	90,117	136,121	724,383	999,892
Transportation	85,724	110,756	612,592	732,898
Services	71,597	71,597	441,213	576,436
Others	55,500	55,500	368,880	368,880

Source : Ministry of Manpower.

average of both the lowest and highest wages increased in real terms by 11.6% and 17.2%, respectively.

2. Transmigration

The government policy on transmigration in the reporting year continued to be directed toward achieving a better distribution of population, increasing the income of the transmigrants, and utilizing national resources.

In the meantime, due to the limited funds available in 1986/87, the Government placed priority on the implementation of the spontaneous transmigration program (*transmigrasi swakarsa*) by emphasizing improvement of the quality of settlement areas, by providing more information and guidance to transmigrants as well as by strengthening the coordination among project officers.

As a result of the aforementioned efforts, in the reporting year the number of transmigrants settled increased by 3.9% reaching 172.9 thousand families or 15.2% over the target. Of this number, 126.5 thousand families were spontaneous transmigrants which implied an increase of 46.0% over the preceding year (Table 8.13).

As in the previous year, in an effort to develop plantation crops integrated in the smallholder's nucleus estate of the spontaneous transmigration program (PIR-*Khusus*), the Government altered the program into an improved scheme known as transmigration smallholder's nucleus estate scheme (*Perkebunan Inti Rakyat Transmigrasi* or PIR Trans). This scheme provided facilities for free housing, 0.5 hectare of land, and credits at a low interest rate.

TABLE 8.13
REALIZATION OF TRANSMIGRATION
(families)

Year	Target	Realization		
		General transmigration	Spontaneous transmigration	Total
1982/83	125,000	120,353	47,124	167,477
1983/84	150,000	61,431	14,867	76,298
1984/85	125,000	51,558	50,330	101,888
1985/86	135,000	79,682	86,665	166,347
1986/87	150,000	46,351	126,508	172,859

Source : Ministry of Transmigration.

3. Family planning

The government policy on family planning (*Keluarga Berencana* or KB) constituted a continuation and improvement of the policies implemented in the preceding years. The policy was carried out by providing family planning information services to the younger

generation and by encouraging the private sector and the public to participate in the national family planning program. In addition, services were improved and the supply of various types of contraceptives was supported by a regular pattern of supply and distribution.

To expand family planning services, the

TABLE 8.14
NUMBER OF HEALTH CLINICS, TARGET AND REALIZATION OF
NEW AND ACTIVE MEMBERS OF FAMILY PLANNING PROGRAM

Year	Number of health clinics	New members			Active members ¹⁾		
		Target	Realization	%	Target	Realization	%
1982/83	6,586	3,621,595	3,885,476	107,3	10,889,819	11,211,285	102.9
1983/84	7,064	4,002,860	5,246,184	131,1	12,719,000	14,422,511	113.4
1984/85	7,509	4,819,045	4,072,779	84,5	16,138,662	15,694,832	97.2
1985/86	8,073	5,284,176	5,067,713	95,9	16,749,000	15,319,158	91.5
1986/87	8,464	5,323,000	4,929,008	92,6	17,162,000	16,680,373	97.2

1) — Shows an outstanding members in the stated year, i.e :
new member in a year = active member in the previous year + new member - drop out (among other because of pregnancy).

Source : National Family Planning Coordinating Board.

Government had built 8,464 family planning clinics as of the end of the reporting year. With regard to KB participants, the number of active KB members rose by 8.9% reaching 16.7 million, while that of new members decreased by 2.7% to 4.9 million compared with 5.1 million in the preceding year (Table 8.14).

D. Investments

In the reporting year, the Government was confronted with a difficult situation as regards stimulating economic activity owing to the drop in the world oil prices.

To sustain economic activity in the reporting year, the Government undertook a series of fundamental measures (the May 6, 1986 and October 25, 1986 packages noted earlier) to create a business climate more conducive to investment activity. In addition, the Government revised the investment priority list (*Daftar Skala Prioritas* or DSP) and conducted promotion activities abroad to attract foreign investments.

The May 6, 1986 package provided, among other things, for tax and import duty incentives to PMA and PMDN companies. In addition, this policy also carried the stipulation to extend business license and the provision of PMDN facilities to certain PMA companies. The October 25, 1986 package was designed to encourage the exports of PMA and PMDN companies.

The DSP, which contains investment guidelines, was improved to provide broader opportunities for investors, either under PMA, PMDN or non-PMA/PMDN scheme, to invest in various fields of business activities. This DSP covered 1,429 business fields consisting of 1,354 open fields and 75 closed fields for new investments. Of these 1,354 open fields,

1,117 fields were only open for investments under PMDN and the remainder (237 fields) for the investments apart from the PMA/PMDN. Of the 1,117 open fields under PMDN, 926 fields were also eligible for PMA.

1. Foreign direct investment (PMA)

To create a more attractive business climate for foreign investors, in 1986/87 the Government suspended the collection of value added tax (VAT) on imported capital goods,²⁾ as well as granted drawback of import duties for certain imported inputs used in production by PMA companies.³⁾ Furthermore, the Government also established a number of new regulations, namely the extension of PMA operations for 30 years following the approval of its expansion,⁴⁾ and equal treatment afforded to certain PMA companies as that given to PMDN companies.⁵⁾ In addition, the Government encouraged PMA companies to reinvest their profits or invest their funds in other established companies, and allow foreign partners to hold a greater share in establishing certain PMA companies.⁶⁾ The Government also provided opportunities for foreign investors to invest in PMDN companies that required additional capital, either for export purposes or for improving the financial conditions of the concerned PMDN companies.⁷⁾ It may be added that to attract foreign capital inflows, the Government revoked the ceiling and adjusted the premium on swap facility to Bank Indonesia.⁸⁾

2) Minister of Finance Decree No 325/KMK.01/1986, May 6, 1986.

3) — Government Regulation No.21/1986, May 6, 1986.
— Minister of Finance, Minister of Trade, and Governor of Bank Indonesia Joint Decrees Nos. 318/KMK.01/1986; 137/Kpb/V/86; and 19/6/Kep/GBI, May 6, 1986.

4) See footnote 31) in Chapter VII.

5) See footnote 32) and 37) in Chapter VII.

6) See footnote 34) in Chapter VII.

7) See footnote 35) in Chapter VII.

8) See footnote 36) in Chapter VII.

TABLE 8.15
APPROVED FOREIGN DIRECT INVESTMENT PROJECTS BY SECTOR
(millions of dollars)

Sector	1982	1983	1984	1985	1986	Total ¹⁾	
						Value	Project
Agriculture, forestry and fishery	44.4	37.2	0.2	20.5	129.8	770.4	118
– Agriculture	9.0	9.8	0.2	9.0	125.9	311.1	53
– Forestry	32.4	6.5	–	0.2	–	345.2	44
– Fishery	3.0	20.9	–	11.3	3.9	114.1	21
Mining	–	–	–	–	–	1,584.6	14
Manufacturing	1,120.0	2,615.2	1,001.7	687.3	536.7	11,961.8	509
– Food	5.8	83.0	77.0	5.9	34.1	559.9	47
– Textile	25.5	11.6	1.2	6.8	9.0	1,217.6	60
– Wood	5.4	2.9	–	–	31.9	213.1	25
– Paper	0.2	722.3	–	25.1	46.8	525.1	14
– Chemical	317.0	182.8	95.7	337.8	293.8	2,601.3	148
– Non-metallic mineral	57.1	49.6	–	2.5	–	763.4	23
– Basic metal	3.4	835.7	609.1	65.0	39.4	3,569.6	25
– Metal product	705.6	716.4	210.0	244.2	81.7	2,476.3	161
– Others	–	0.9	8.7	–	–	35.5	6
Construction	11.0	43.5	17.0	122.3	64.7	348.2	79
Trade and hotels	17.0	78.0	84.0	–	–	388.1	15
Transportation	–	–	4.2	–	70.0	106.8	12
Housing and offices	204.2	106.3	–	–	–	510.3	30
Services	–	2.0	–	28.9	25.0	138.6	28
Total	1,396.6	2,882.2	1,107.1	859.0	826.2	15,808.8	805

1) After taking into account the cancelations and shifting of projects from foreign to domestic investment. Total from June 1967 through December 1986.

Source : Capital Investment Coordinating Board.

TABLE 8.16
APPROVED FOREIGN DIRECT INVESTMENT PROJECTS
BY PROVINCE
(millions of dollars)

Province	1982	1983	1984	1985	1986	Total ¹⁾	
						Value	Project
1. DKI Jakarta	861.2	775.1	269.1	257.5	258.2	3,655.9	288
2. West Jawa	421.3	1,307.5	758.3	450.2	422.2	5,593.0	231
3. Central Java	5.6	22.3	--	--	57.2	330.6	23
4. Yogyakarta	0.1	--	--	--	--	22.7	4
5. East Jawa	15.0	71.6	57.2	69.6	9.5	733.2	73
Java & Madura	1,303.2	2,176.5	1,084.6	777.3	747.1	10,335.4	619
6. D.I. Aceh	--	422.9	--	9.3	7.5	686.8	9
7. North Sumatera	7.9	44.1	--	5.1	50.0	1,943.2	39
8. West Sumatera	5.7	--	-13.7	1.4	--	61.0	5
9. Riau	11.0	180.0	21.1	58.1	0.8	529.5	27
10. Jambi	--	3.2	1.2	--	--	31.4	4
11. South Sumatera	2.7	6.1	--	--	1.1	45.9	14
12. Bengkulu	--	--	--	19.0	--	--	--
13. Lampung	--	2.5	--	3.6	2.3	80.7	7
Sumatera	27.3	658.8	8.6	77.5	61.7	3,378.5	105
14. West Kalimantan	0.8	--	--	--	--	21.9	6
15. Central Kalimantan	20.7	0.5	--	--	--	98.3	16
16. South Kalimantan	1.6	--	--	0.2	2.4	108.6	6
17. East Kalimantan	1.8	--	--	--	12.2	152.2	19
Kalimantan	24.9	0.5	--	0.2	14.6	381.0	47
18. North Sulawesi	--	--	--	--	--	81.3	3
19. Central Sulawesi	--	--	--	--	--	76.0	2
20. South Sulawesi	0.3	0.4	--	--	1.2	1,224.1	8
21. Southeast Sulawesi	--	--	--	--	--	18.5	2
Sulawesi	0.3	0.4	--	--	1.2	1,399.9	15
22. Bali	13.6	25.0	--	--	--	66.0	4
23. West Nusa Tenggara	--	--	--	--	--	--	--
24. East Nusa Tenggara	--	1.7	--	--	1.6	6.9	4
25. East Timor	--	--	--	--	--	--	--
26. Maluku	--	--	--	2.2	--	2.2	1
27. Irian Jaya	27.3	19.3	13.9	1.8	--	238.9	11
Total	1,396.6	2,882.2	1,107.1	859.0	826.2	15,808.8	805

1) After taking into account the cancelations and shifting of projects from foreign to domestic investment. Total from June 1967 through December 1986.

Source : Capital Investment Coordinating Board.

TABLE 8.17
APPROVED FOREIGN DIRECT INVESTMENT PROJECTS
BY COUNTRY OF ORIGIN
(millions of dollars)

Country	1982	1983	1984	1985	1986	Total ¹⁾	
						Value	Project
1. Europe	291.7	1,175.9	166.1	194.7	124.4	3,216.9	193
– United Kingdom	130.5	73.1	13.9	77.1	46.1	605.0	58
– Netherlands	24.5	92.1	43.9	11.6	23.3	685.2	52
– France	0.4	24.0	8.3	39.5	6.2	170.4	17
– Germany, Fed. Rep. of	61.8	109.5	17.0	65.5	16.5	501.3	30
– Belgium	–	803.1	–	1.0	–	920.4	13
– Switzerland	71.7	4.1	83.0	–	12.5	212.1	18
– Others	2.8	70.0	–	–	19.8	122.5	5
2. America	59.5	651.2	94.8	141.4	191.8	1,367.4	107
– United States of America	59.5	588.2	94.8	141.4	153.8	1,215.8	91
– Canada	–	–	–	–	11.0	19.3	2
– Panama	–	63.0	–	–	27.0	132.3	14
3. Asia	736.2	726.3	834.4	432.0	478.8	8,304.3	429
– Japan	467.1	548.4	112.1	127.1	328.9	5,251.4	221
– Hong Kong	194.7	125.8	706.1	53.4	9.6	1.8	6
– Thailand	–	–	–	–	4.0	17.9	5
– Singapore	35.2	24.4	16.2	–	101.5	313.6	34
– Philipines	10.3	–	–	2.8	2.3	14.9	6
– Malaysia	–	0.5	–	–	2.5	21.9	9
– Others	28.9	27.2	–	248.7	30.0	804.0	38
4. Afrika	–	–	–	–	–	20.2	2
– Liberia	–	–	–	–	–	20.2	2
5. Australia	10.6	1.7	2.7	36.1	13.9	292.9	32
6. Group of country	298.6	327.1	9.1	54.8	17.3	2,607.1	42
Total	1,396.6	2,882.2	1,107.1	859.0	826.2	15,808.8	805

1) After taking into account the cancelations and shifting of projects from foreign to domestic investment. Total from June 1967 through December 1986.

Source : Capital Investment Coordinating Board.

TABLE 8.18
IMPLEMENTATION OF FOREIGN CAPITAL INVESTMENT BY SECTOR
(millions of dollars)

Sector	1982	1983	1984	1985	1986	Total¹⁾
Agriculture, forestry & fishery	25.8	28.4	21.1	6.6	4.0	661.1
— Agriculture	5.8	6.7	4.1	3.7	4.0	118.9
— Forestry	11.0	15.9	16.3	- 2.7	--	423.6
— Fishery	9.0	5.8	0.7	0.2	--	118.6
Mining	32.2	110.0	46.1	31.0	265.0	1,027.8
Manufacturing	388.3	358.0	233.7	468.7	180.4	4,479.8
— Food	7.1	4.5	17.7	159.4	5.2	387.4
— Textile and leather	69.7	25.5	8.6	17.4	4.8	1,125.1
— Wood and wood products	29.7	13.7	13.2	11.9	--	96.6
— Paper and paper products	1.6	5.8	2.8	3.5	22.8	85.8
— Chemical and rubber	164.9	177.5	67.2	60.1	11.9	940.5
— Non metal minerals	53.0	36.7	25.1	7.7	1.5	450.8
— Basic metal	28.5	57.4	26.5	47.4	120.4	536.9
— Metal products	33.8	34.5	66.9	160.1	13.8	821.1
— Others	--	2.4	5.7	1.2	--	35.6
Construction	6.9	0.5	0.5	1.8	5.4	67.4
Trade and hotels	--	2.1	7.2	8.7	7.3	136.1
— Trade	--	0.4	--	--	--	13.7
— Hotels	--	1.7	7.2	8.7	7.3	122.4
Transportation and communication	--	--	2.4	1.0	--	54.4
— Transportation	--	--	0.2	1.0	--	16.4
— Communication	--	--	2.2	--	--	38.0
Services	6.1	17.9	77.0	80.0	27.9	330.5
— Service trade	6.1	17.9	77.0	80.0	27.9	312.1
— Other services	--	--	--	--	--	18.4
Others	--	--	--	--	--	114.6
Total	459.3	516.9	388.0	598.6	490.0	6,871.7

1) Total from June 1967 through December 1986.

Sources : — BKPM and Bea Cukai (Import)

— Monthly Bulletin of Foreign Exchange Banks (Cash in flows).

In 1986, the Government approved 50 new projects with intended investments under PMA of \$ 826.2 million compared with 49 projects at a value of \$ 859.0 million in the preceding year. The lower value of intended investments mainly occurred in the metal and construction industries, reaching only \$ 81.7 million and \$ 64.7 million compared with \$ 244.2 million and \$ 122.3 million in 1985. On the other hand, increases in investments were recorded in several fields, especially agricultural and timber industries, reaching \$ 125.9 million and \$ 31.9 million, respectively.

Since the enactment of the PMA Law in 1967 up to the end of 1986, approved investment reached \$ 15,808.8 million covering 805 projects. Of these, 75.7% was invested in manufacturing, 10.0% in mining, 4.9% in agricultural, and 9.4% in other sectors (Table 8.15). By regional distribution, most of the intended projects were located in Jakarta, West Jawa, and East Jawa. According to the value of intended investment, the largest value was invested in West Jawa followed by Jakarta and North Sumatra (Table 8.16). By country of origin, the largest amount of intended investments originated from Japan with a value of \$ 5,251.4 million, Hong Kong \$ 1,880.6 million, and the USA \$ 1,215.8 million (Table 8.17).

From June 1967 to the end of 1986, the amount of PMA realized reached \$ 6,871.7 million or 43.5% of the total intended investments. Of the realized amount, 65.2% was invested in manufacturing, 15.0% in general mining, and 6.2% in forestry sectors (Table 8.18).

2. Domestic investments (PMDN)

As was the case for PMA companies, in 1986/87 the Government also provided tax

incentives to PMDN in the forms of tax exemptions from VAT on imported capital goods⁹⁾ and drawback on import duties on certain imported inputs.¹⁰⁾

In 1986, approved intended investments totaled 316 projects at a value of Rp 4,416.7 billion, or an increase of 17.8% over the preceding year. Increases in intended investment were recorded in several fields of activities, mainly in general mining and agricultural sectors, by 137.0% and 109.0%, respectively. On the other hand, decreases in intended investments were mainly occurred in hotel and construction sectors, of 94.5% and 72.4%, respectively.

Since the enactment of PMDN Law in July 1968 until the end of 1986, intended investment under PMDN amounted to Rp 32,242.4 billion covering 4,057 projects. By field of activities, most of the intended investments were in manufacturing, agricultural, and mining sectors. By number of projects, the largest portion was in manufacturing, forestry, and agricultural sectors (Table 8.19).

By regional distribution, both in number and value of the approved projects, the largest portion was planned in West Jawa, Jakarta, and East Jawa. With respect to projects intended to be implemented outside Jawa, the largest portion was in East Kalimantan and North Sumatra (Table 8.20).

E. Agriculture

Agricultural policy in the reporting year continued to be aimed at reaching self-sufficiency in food, increasing foreign exchange earnings, and creating employment

9) See footnote 2) in this chapter.

10) See footnote 3) in this chapter.

TABLE 8.19
APPROVED DOMESTIC INVESTMENT PROJECTS BY SECTOR
(millions of rupiah)

Sector	1982	1983	1984	1985	1986	Total 1)	
						Value	Project
Agriculture	511,452	681,964	276,511	899,095	1,879,380	4,564,461	387
Forestry	182,523	152,663	18,763	36,498	20,715	782,898	440
Mining	453,606	578,080	7,811	37,566	89,042	1,308,617	61
Manufacturing	2,307,835	4,812,722	1,436,470	1,632,207	1,842,308	21,209,247	2,662
Construction	16,222	195,278	67,064	270,079	74,426	673,150	53
Hotel and tourism	70,246	255,250	214,098	311,539	17,035	1,174,271	153
Housing & offices	70,860	204,007	49,550	267,042	168,460	1,004,175	72
Other services	41,665	161,873	29,625	295,671	325,303	1,525,537	229
Total	3,654,409	7,041,837	2,099,892	3,749,697	4,416,669	32,242,356	4,057

1) After taking into account the cancelations and shifting of projects from foreign to domestic investment. Total from July 1968 through December 1986.

Source : Capital Investment Coordinating Board.

opportunities. Those efforts were carried out through intensification, extensification, diversification, and rehabilitation programs while taking into account the conservation of natural resources and preservation of the environment. In addition, the Government also raised the floor price of dry paddy¹¹⁾, and provided wider opportunities to investors in plantation estates and fisheries, especially oil palm plantation and shrimp cultivation.¹²⁾

In 1986, agricultural production still recorded a favorable performance though not as good as that in the preceding year. Food crop production in general increased, except cassava and sweet potatoes. Plantation crops, except pepper, recorded increases. Favorable development was also registered in livestock

and fishery. Furthermore, forestry production, which in the preceding year declined, in 1986 increased significantly.

1. Food crops

In 1986, efforts to increase major food crop production, namely rice and secondary crops, continued to be carried out through intensification, extensification, and diversification. The intensification was implemented through the mass intensification program (*Intensifikasi Massal* or Inmas), which was subsequently augmented by the special intensification program (*Intensifikasi Khusus* or Insus), and the special operation program (*Operasi Khusus* or Opsus). In addition, to promote the quality of the intensification program in the irrigated areas of Jatiluhur and North Coast of West Jawa (Jalur Pantura), in the planting year of 1987

11) Presidential Instruction No.4, December 1, 1986.

12) The May 6, 1986 package.

TABLE 8.20
APPROVED DOMESTIC DIRECT INVESTMENT BY PROVINCE
(millions of rupiah)

Province	1982	1983	1984	1985	1986	Total ¹⁾	
						Value	Project
1. DKI Jakarta	392,517	890,941	536,708	630,523	441,783	4,637,180	742
2. West Java	883,278	1,756,161	601,801	999,789	1,113,815	9,554,480	963
3. Central Java	174,212	1,330,622	130,341	245,500	205,500	2,504,580	343
4. D.I, Yogyakarta	3,751	26,847	6,600	35,781	43,553	162,857	67
5. East Java	409,100	873,551	294,524	405,746	321,299	3,738,743	524
Java Madura	1,862,858	4,878,122	1,569,974	2,317,339	2,125,950	20,597,844	2,639
6. D.I, Aceh	2,703	301,479	24,614	30,187	123,469	967,993	46
7. North Sumatera	227,120	331,420	116,823	86,945	427,596	1,611,480	197
8. West Sumatera	261,295	27,602	25,272	105,287	55,906	594,554	69
9. Riau	84,339	509,484	89,130	188,365	440,824	1,521,393	107
10. Jambi	10,655	21,060	15,681	40,288	250,091	396,216	52
11. South Sumatera	530,976	74,358	47,886	66,249	92,364	1,123,441	69
12. Bengkulu	1,269	8,814	4,989	52,998	46,774	133,626	17
13. Lampung	3,624	124,213	9,568	42,031	25,758	380,787	81
Sumatera	1,141,981	1,438,430	333,963	612,350	1,462,782	6,729,490	638
14. West Kalimantan	133,903	143,421	13,968	34,306	87,582	483,907	81
15. Central Kalimantan	42,434	8,550	6,858	3,870	22,378	242,298	91
16. South Kalimantan	33,494	16,237	5,531	111,580	59,359	434,441	68
17. East Kalimantan	224,439	137,303	62,869	511,340	318,365	1,827,438	213
Kalimantan	434,270	305,511	89,226	661,096	487,684	2,988,084	453
18. North Sulawesi	21,064	140,954	2,673	17,719	145,326	377,042	41
19. Central Sulawesi	184	43,791	1,190	7,016	11,756	138,579	25
20. South Sulawesi	140,107	39,105	57,489	47,228	86,699	484,197	102
21. Southeast Sulawesi	- 25,916	8,919	-	3,740	-	32,677	15
Sulawesi	135,439	232,769	61,352	75,703	243,781	1,032,495	183
22. Bali	- 6,181	78,303	11,590	16,042	22,115	214,070	40
23. West Nusa Tenggara	4,771	3,661	3,297	39,159	37,173	138,939	27
24. East Nusa Tenggara	23,591	3,457	3,642	7,327	4,823	53,034	13
25. East Timor	-	-	-	-	1,242	1,242	1
26. Maluku	37,351	48,424	3,370	16,510	23,119	279,795	50
27. Irian Jaya	20,329	53,160	23,478	4,171	8,000	207,367	23
Total	3,654,409	7,041,837	2,099,892	3,749,697	4,416,669	32,242,356	4,057

1) Total from July 1968 through December 1986.

Source : Capital Investment Coordinating Board.

TABLE 8.21
AGRICULTURAL PRODUCTION
(thousands of tons)

Products	1982	1983	1984	1985	1986*
1. Foodstuffs					
— Rice	22,837	24,006	25,932	26,542	26,784
— Corn	3,235	5,087	5,288	4,330	5,931
— Cassava	12,988	12,103	14,167	14,057	12,882
— Sweet potatoes	1,676	2,213	2,156	2,161	1,967
— Peanuts	437	460	535	528	614
— Soybeans	521	536	769	870	1,196
— Mung beans	123	176	187	200	216
2. Plantations crops					
— Rubber	900	1,007	1,033	1,055	1,060
• Smallholder	(586)	(673)	(704)	(720)	(729)
• Estate	(316)	(334)	(329)	(335)	(331)
— Copra	1,718	1,607	1,750	1,920	2,091
— Palm oil	884	982	1,147	1,243	1,269
— Palm kernels	157	165	247	258	265
— Granulated sugar	1,627	1,628	1,810	1,899	2,016
— Tea	94	110	126	127	136
• Smallholder	(17)	(23)	(24)	(30)	(31)
• Estate	(77)	(87)	(102)	(97)	(105)
— Coffee	281	305	315	311	396
• Smallholder	(262)	(287)	(291)	(288)	(373)
• Estate	(19)	(18)	(24)	(23)	(23)
— Tobacco	106	109	108	161	164
• Smallholder	(97)	(100)	(104)	(156)	(159)
• Estate	(9)	(9)	(4)	(5)	(5)
— Pepper	34	46	46	41	40
— Nutmeg	19	15	18	15	16
— Cloves	32	41	49	42	53
3. Livestock					
— Meat	629	650	742	808	861
— Eggs	297	319	355	370	432
— Milk ¹⁾	117	143	179	192	220
4. Forestry					
— Wood ²⁾	9,340	24,180	27,716	24,277	27,403
5. Fishery					
— Sea	1,490	1,682	1,713	1,822	1,923
— Inland	524	533	548	573	607

1) Millions of liters

2) Thousands of m³

Source : — Supplement to the Presidents Report to Parliament, August 15, 1987.
— Ministry of Agriculture.

the *super insus program* (Supra Insus) was to be implemented. As a result of the intensification efforts, average production per hectare of these crops showed increases. Meanwhile, the application of growth hormones was enhanced, particularly to paddy, corn, and soybeans.

The extensification program was carried out through the opening of new rice fields which in the reporting year reached 51.8 thousand ha. With respect to crop diversification, the Government continued to increase the production of secondary and horticultural crops.

1.1 Rice

In 1986, the production of rice increased by 0.9% to 26.8 million tons, although the harvested areas decreased by 0.1%, mainly due to the brown locust plague on 59.0 thousand ha. The increase in rice production in 1986 was attributable to the enhancement of intensification efforts as reflected in the increase of average production per ha, by 1.1% (Table 8.22). As a result of those efforts, domestic rice

TABLE 8.22
PADDY PRODUCTION, HARVESTED AREA
AND AVERAGE YIELD PER HA

Year	Output ¹⁾ (thousands of tons)	Harvested area (thousands of ha)	Average yield (tons/ha)
1982	22.837	8.988	2,54
1983	24.006	9.162	2,62
1984	25.932	9.764	2,66
1985	26.542	9.902	2,68
1986*	26.784	9.896	2,71

1) Equivalent of rice

Source : Supplement to the President's Report to Parliament, August 15, 1987

TABLE 8.23
NUMBER AND CAPACITY OF
PRODUCTION OF RICE MILLS

Year	Number of rice mills (thousands of units)	Capacity of production (millions of tons)
1982	59.0	19.3
1983	59.2	19.5
1984	59.6	21.6
1985	60.0	23.0
1986*	60.3	24.5

Source : Ministry of Agriculture

consumption, estimated at 26.6 million tons, was achieved in the reporting year.

To reduce the rate of rice loss, estimated between 12.0% and 21.0%, treatment during the post-harvest period was improved through supervision activities and provision of facilities. These efforts, among others, were carried out by adding new supervisors, huskers, and rice hullers. It may be noted that 300 units of rice mills with a capacity of 1.5 million tons were built in 1986, so that the number and total capacity of rice mills increased to 60.3 thousand units and 24.5 million tons, respectively (Table 8.23). To increase rice production and farmer's income, in the reporting year the Government raised the floor price of dry paddy from Rp 175.00 per kg to Rp 190.00 per kg.¹³⁾

1.2. Secondary crops

In 1986, the production of secondary crops, such as soybeans, corn, peanuts, and mung beans, increased by 37.5%, 37.0%, 16.3%, and 8.0%, respectively. The favorable increase in soybeans and corn was

13) Presidential Instruction No. 4, December 1. 1986.

TABLE 8.24
OUTPUT, HARVESTED AREA AND AVERAGE YIELD
OF SECONDARY CROPS

Particulars	1982	1983	1884	1985	1986*
Output (thousands of tons)					
— Corn ¹⁾	3,235	5,087	5,288	4,330	5,931
— Cassava	12,988	12,103	14,167	14,057	12,882
— Sweet potatoes	1,676	2,213	2,156	2,161	1,967
— Peanuts	437	460	535	528	614
— Soybeans	521	536	769	870	1,196
— Mung beans	123	176	187	200	216
Harvested area (thousands of ha)					
— Corn	2,061	3,002	3,086	2,440	3,052
— Cassava	1,324	1,220	1,350	1,292	1,135
— Sweet potatoes	220	280	263	256	234
— Peanuts	461	481	537	510	580
— Soybeans	608	640	859	896	1,197
— Mung beans	204	293	289	286	299
Average yield (quintal/ha)					
— Corn ¹⁾	15.7	16.9	17.1	17.8	19.4
— Cassava	98.1	99.0	105.0	108.8	113.5
— Sweet potatoes	76.2	79.0	82.0	84.4	84.1
— Peanuts	9.5	9.6	10.0	10.4	10.6
— Soybeans	8.6	8.4	9.0	9.7	10.0
— Mung beans	6.0	6.0	6.5	7.0	7.2

1) Equivalent of corn kernels

Source : Supplement of the President's Report to Parliament, August 15, 1987

attributable to government policy and farmer's participation in promoting soybean and corn cultivation as well as in increasing the application of growth hormones. These efforts were implemented to meet the increasing domestic needs of soybeans and corn, part of which had always been imported. Consequently, in the reporting year, the imports of soybeans and corn decreased by 49.3% and 30.8% to 153.5 thousand tons and 30.8 thousand tons, respectively. With respect to peanuts and mung beans, the increase in production was due mainly to the expansion of harvested areas and a rise in average production per hectare. Meanwhile, the production of cassava and sweet potatoes decreased by 8.4% and 9.0%, respectively, due to reduced harvested areas (Table 8.24).

2. Plantation crops

In the reporting year, government policy in promoting the development of plantation crops continued to emphasize smallholder's estates. These efforts were consistently carried out through intensification, extensification, diversification, and rehabilitation, in addition to the implementation of smallholder's plantation nucleus estates (*Perusahaan Inti Rakyat* or PIP-BUN) and project management unit (*Unit Pelaksana Proyek* or UPP).

In 1986, the production of plantation crops, except pepper, recorded increases. Meanwhile, the plantation areas reached 9,639 thousand ha, consisting of 8,362

thousand ha of smallholder's estates, 790 thousand ha of state estates, and 487 thousand ha of private estates.

2.1. Rubber

In 1986, rubber plantation areas covered 2.8 million ha, of which 82.6% was smallholder's estates and the remainder was state and private estates. Of the 2.8 million ha, 23.0% was not yet in production and 15.0% was no longer in production.

Rubber production in 1986 increased by 0.5% reaching 1,060 thousand tons, of which 729 thousand tons were produced by smallholder's estates, 216 thousand tons by state estates, and 115 thousand tons by private estates. The increased production was primarily brought about by increased domestic consumption. Furthermore, rubber exports declined by 5.0% to 1,027 thousand tons.

In 1986, the output of crumb rubber recorded an increase of 7.2% reaching 884 thousand tons and its share increased to 83.4% of the total rubber output (Table 8.25).

TABLE 8.25
SHARE OF CRUMB RUBBER
TO TOTAL OUTPUT OF
NATURAL RUBBER

Year	Crumb rubber (thousands of tons)	Share (percentage)
1982	657	73.0
1983	689	68.4
1984	825	81.5
1985	825	78.2
1986*	884	83.4

Source : Supplement to the President's Report to Parliament, August 15, 1987

2.2. Coconut

Coconut plantation areas in 1986 covered 3,182 thousand ha, most of which (98%) were smallholder's estates. Of those areas, around 20.0% was not yet in production and 6.0% was no longer in production.

In 1986 copra production rose by 8.9% reaching 2,091 thousand tons. The rise was mainly attributable to crop rejuvenation program using hybrid coconuts.

2.3. Oil palm

In promoting business opportunities for investors in oil palm plantation, the Government improved the PIR scheme by changing the ratio between nucleus and plasma areas at the first production stage, namely from 20:80 to 40:60.¹⁴⁾ In the previous ratio, a company opening a unit of nucleus area was required to create 4 units of plasma area for the community around the nucleus area. In the new ratio, a company opening 1 unit of nucleus area is only required to create 1.5 units of plasma area. However, after 10 years of operation, the plasma areas created have to reach 4 units.

Most oil palm plantations (91.0%) were cultivated by state and private estates. In 1986, the plantation areas increased by 2.8% to 578.6 thousand ha, of which 66.6% was state estates and 24.5% was private estates.

Palm oil output in 1986 rose by 2.1% reaching 1,269 thousand tons which was closely related to the intensification and extensification efforts. Of that amount, 923

14) The May 6, 1986 package.

thousand tons were produced by state estates and the remainder by private estates. Along with the increased production, palm oil exports rose by 25.9% reaching 590.0 thousand tons.

2.4. Sugarcane

In encouraging sugar production and raising farmer's incomes, in the reporting year the Government continued to improve the smallholder's sugarcane intensification program (*Tebu Rakyat Intensifikasi* or TRI), to increase production capacity of sugar mills, and to expand planting areas outside Jawa. In 1986, the acreage of sugarcane planting areas increased by 1.0% to 358 thousand ha, of which 215 thousand ha were under the TRI program.

Sugar production in 1986 went up by 6.2% reaching 2,016 thousand tons. It can be added, to meet the needs for the national stocks, in the reporting year the Government imported 162.5 thousand tons of sugar.

2.5. Tea

In the reporting year, efforts to promote tea production continued to be implemented through extensification, rejuvenation, and enhancement of guidance. In line with those efforts, tea production in 1986 reached 136 thousand tons or 7.1% higher than that in the preceding year. Of the output, 77.0% was produced by large estates all of which comprised black tea.

In 1986, tea plantation areas covered 134.4 thousand ha, of which 60.0% was cultivated by large estates and the remainder by smallholder's estates. In the reporting year, exports of black tea declined by 13.8% to 89.0 thousand tons.

2.6. Coffee

In the reporting year, efforts to promote coffee production continued to be carried out through rejuvenation and guidance. Through those efforts, coffee production in 1986 went up by 27.3% reaching 396 thousand tons.

Most coffee output was exported; in 1986 those exports reached 305.8 thousand tons or 1.9% above that in the preceding year. The increase in exports was closely related to the International Coffee Organization (ICO) stipulation providing a temporary easing of the quota system to its members.

In 1986, coffee plantation areas covered 928 thousand ha, almost all of which (94.0%) comprised smallholder's estates. Of the total areas, 25.0% had not yet produced and 9.0% was a longer in production.

2.7. Tobacco

Most of tobacco production (97.0%) was produced by smallholder's estates and the remainder by state and private estates. In 1986, tobacco production increased by 1.9% to 163.6 thousand tons. This increase was closely associated with the expanded areas of 1.0% to 297 thousand ha.

Exports of tobacco, consisting of the varieties of Deli, Vorstenlanden, and Besuki, went up by 15.6% reaching 24.4 thousand tons. To meet the needs of domestic cigarette industry, especially for Virginia variety, approximately 11.2 thousand tons of tobacco were imported in 1986.

2.8. Spices

Major spice plantations, including pepper, nutmeg, and clove, were mostly

(98.0%) cultivated by smallholder's estates. In 1986, the plantation areas of pepper, nutmeg, and clove increased by 3.4%, 11.8%, and 4.3% to 82.7 thousand ha, 66.5 thousand ha, and 685.6 thousand ha, respectively.

In 1986, pepper output decreased by 2.4% to 40.0 thousand tons. On the other hand, production of nutmeg and clove increased by 6.7% and 26.2% reaching 16.0 thousand tons and 53.0 thousand tons, respectively.

Exports of pepper went up by 14.2% to 30.6 thousand tons, whereas that of nutmeg declined by 22.7% to 6.1 thousand tons. Meanwhile, to meet domestic consumption, cloves of Zanzibar variety was still imported at the quantity of 3.5 thousand tons.

3. Livestock

To increase production as well as quality of livestock and its products, in 1986 the Government continued to implement various intensification and extensification programs. The intensification program was conducted through diversification of livestock (*Panca Usaha Ternak*), mass supervision to poultry business (*Penyuluhan Massal Peternakan Ayam*), development of smallholder's dairy farms, and improvement of poultry husbandry under PIR-Unggas scheme; the extensification program was conducted through the expansion of ranches outside Jawa.

Through those efforts, meat, egg, and milk production registered significant increases, by 6.6%, 16.8%, and 14.6% reaching 861 thousand tons, 432 thousand tons, and 220

TABLE 8.26
L I V E S T O C K
(thousands of heads)

	1982	1983	1984	1985	1986*
Cows	6,594	8,895	9,236	9,318	9,516
Buffaloes	2,513	2,398	2,743	3,245	3,496
Goats	7,891	10,970	11,947	9,629	10,738
Sheep	4,231	4,789	4,698	4,884	5,284
Horses	658	527	659	668	715
Pigs	3,587	4,211	5,112	5,560	6,216
Ducks	23,861	23,781	24,694	23,870	27,002
Cultivated chicken	26,312	28,102	29,559	31,875	38,689
Non-cultivated chicken	139,787	159,462	166,815	155,627	162,991

Source : Supplement to the President's Report to Parliament, August 15, 1987

million liters, respectively. Furthermore, livestock population in 1986 also showed a significant increase (Table 8.26).

4. Forestry

To promote the utilization of forest products, while at the same time conserving forest resources, the Government continued to exert efforts toward reforestation, afforestation, and supervision on forest exploitations.

In the reporting year, the acreage of reforestation increased by 51.6% reaching 60.8 thousand ha, whereas that of afforestation declined by 41.8% to 177.8 thousand ha (Table 8.27). The supervision on forest exploitation was carried out to ensure that companies holding forest exploitation rights (*Hak Pengusahaan Hutan* or MPH), would comply with their obligations as stipulated in the agreement. The number of HPH holders increased by 2 to 533, while the exploitation area increased by 0.1 million ha to 54.6 million ha.

In 1986, the output of timber, the most important forest product, rose by 12.9% reaching 27.4 million m³, a rise which was closely related to increasing domestic needs.

TABLE 8.27
REFORESTATION AND AFFORESTATION
(thousands of ha)

Year	Reforestation	Afforestation
1982/83	119.6	378.6
1983/84	97.1	305.1
1984/85	57.6	208.5
1985/86	40.1	305.4
1986/87	60.8	177.8

Source : Supplement to the President's Report to Parliament, August 15, 1987

TABLE 8.28
EXPORTS OF LOG, RATTAN,
RESIN AND COPAL
(thousands of tons)

	1984/85	1985/86	1986/87
Log	3,981.7	4,663.8	4,949.2
Rattan	91.3	90.9	97.5
Resin	1.7	0.8	1.0
Copal	6.1	10.0	5.5

Meanwhile, exports of processed timber, consisting of plywood and sawn timber, increase by 6.1% to 4.9 million tons. Export of other important forest products, such as, rattan and resin, rose by 7.3% and 25.0%, respectively, whereas those of copal decreased by 45.0% (Table 8.28).

5. Fishery

Efforts to increase fishery production in 1986 continued to be directed to raising the income of fishermen as well as increasing foreign exchange earnings. These efforts were conducted through motorizing traditional fishing boats and improving the productivity of fishery resources. In addition, to further promote the cultivation of shrimps through the smallholder's nucleus shrimppond cultivation scheme (*Tambak Inti Rakyat* or TIR), the Government stipulated the ratio between nucleus and plasma area at 40 : 60.¹⁵⁾

Fishery output in 1986 rose by 5.0% to 2,530 thousand tons, most of which (76.0%) were produced by sea fishery. The production of sea fishery increased by 5.5% to 1,923

15) The May 6, 1986 package.

thousand tons and that of inland fishery went up by 5.9% to 607 thousand tons.

In 1986, exports of shrimps, the most important commodity of the fishery industry, recorded an increase of 9.7% to 54.2 thousand tons.

F. Mining

In the reporting year, government policies on mining constituted a continuation of the policies taken in the previous years, namely to increase mining output and to diversify non-oil energy resources. Therefore, exploration and exploitation activities as well as development of mining technology continued to be pursued.

In the reporting year, production of several important mining products, such as, oil, natural gas, tin, and coal, showed increases. The increase in oil production was closely related to the result of the OPEC meeting in December 1985, which provided a temporary easing of production quota control to its members. Meanwhile, the increase in natural gas production, was mainly occasioned by an increase in domestic consumption. The rise in tin production was closely related to the abolition of export quotas for ITC members in April 1986, while the increase in coal production was due mainly to a rise in domestic demand. It may be added that the production of other mining products, such as, copper, nickel-ore, gold, and silver, registered increases, however, ferro-nickel and bauxite experienced decreases (Table 8.29).

1. Oil and natural gas

In the reporting year, policies taken in the field of oil and natural gas were still

aimed at finding new deposits despite a sharp decrease in world oil prices. Those policies were aimed at sustaining and increasing the production of oil and gas which so far have held an important role in the Indonesian economy. In line with the effort to find new deposits; exploration and exploitation of new wells were conducted in cooperation with foreign contractors under Production Sharing Agreements, Contract of Work Agreements, and Joint-venture Agreements.

In 1986, 4 new agreements were signed, consisting of 3 Production Sharing Agreements and 1 Joint-venture Agreement, bringing the total to 76 and 12 agreements, respectively. Of these agreements, 24 are in production. Meanwhile, the number of wells drilled was 157, of which 12 were drilled by Pertamina, 15 by contractors under Contract of Work Agreements, and 130 by contractors under Production Sharing Agreements.

In 1986/87, oil production increased by 2.3% to 499.0 million barrels or 1.367 million barrels per day, comprising 447.8 million barrels of crude oil and 51.2 million barrels of condensate. Of the 499.0 million barrels, 456.1 million barrels (91.4%) were produced by contractors under Production Sharing Agreements, whereas the remainder (8.6%) was produced by Pertamina and contractors under Contract of Work Agreements. Natural gas production in 1986/87 increased by 5.1% to 1,666.7 million MSCF. This was attributed to increased output of contractors under Production

Sharing Agreements by 5.6% to 1,411.7 million MSCF, Pertamina by 2.1% to 232.9 million MSCF, and contractors under Contract of Work Agreements by 4.7% to

TABLE 8.29
SELECTED MINING OUTPUT

I t e m s	Units	1982/83	1983/84	1984/85	1985/86	1986/87
1. Oil		459.0	517.6	507.1	487.7	499.0
— Crude oil	million barrels	(425.3)	(477.9)	(456.9)	(435.6)	(447.8)
— Condensate	million barrels	(33.7)	(39.7)	(50.2)	(52.1)	(51.2)
2. Natural gas	million MSCF ¹⁾	1,099.9	1,288.2	1,548.3	1,585.9	1,666.7
3. Tin	thousand tons	33.0	25.4	21.7	20.9	24.9
4. Coal	thousand tons	456.5	614.7	1,200.7	1,487.5	1,731.8
5. Copper	thousand tons	225.4	199.7	200.2	233.1	249.2
6. Nickel						
— Nickel ore	thousand tons	1,591.2	1,353.3	956.3	986.9	1,680.6
— Ferro nickel ²⁾	thousand tons	4.9	4.9	4.7	4.8	4.4
— Nickel matte ²⁾	thousand tons	13.9	21.0	22.2	20.1 ^r	31.8
7. Bauxite	thousand tons	721.0	841.9	1,009.6	712.8	636.4
8. Gold	kilograms	262.4	265.1	215.0	308.0	619.6
9. Silver	kilograms	3,134.0	1,684.0	2,171.0	2,179.0	5,786.0

1) MSCF = thousand SCF (Standard Cubic Feet)

2) Equivalent to nickel metal

Source : Supplement to the President's Report to Parliament, August 15, 1987

22.1 million MSCF. It is worth noting that the higher output was mainly associated with an increase in demand for natural gas as input in the production of LNG, LPG, and urea fertilizer, and also as fuel in cement and steel industries.

2. Tin

In order to promote exports of non-oil and gas, the Government continued to increase tin production. As a result, in 1986/87 tin production rose by 19.1% to 24.9 thousand tons, while exports increased by 3.0% to 24.0 thousand tons. In addition, domestic tin consumption increased by 39.3% to 1.2 thousand tons due to higher utilization of tin as input in domestic production.

It is worth noting that in efforts to stabilize and raise the price of tin in the international market, ATPC has imposed a one-year export quota to its members effective as from March 1, 1987. This effort was taken

to overcome falling tin prices due to the cessation of the ITC activities in managing tin bufferstocks.

3. Coal

In line with the policy to promote the utilization of coal as an alternative energy resource, efforts to increase coal production continued to be pursued by such measures as the expansion of Bukit Asam coal mine in South Sumatera and Ombilin coal mine in West Sumatera. In the reporting year, coal production increased by 16.4% to 1,731.8 thousand tons, of which 1,067.6 thousand tons were produced by Bukit Asam coal mine and the remainder by Ombilin coal mine.

In the reporting year, domestic demand for coal increased significantly, by 63.0% to 1,438.4 thousand tons. This was closely related to the higher utilization of coal as alternate source of energy in the cement industry and the steam power electrical

center (*Pusat Listrik Tenaga Uap* or PLTU). It may be added that a number of coal mines managed by foreign contractors in East and South Kalimantan have not yet reached the stage of commercial production.

4. Other mining products

Other important mining products were copper, nickel, bauxite, gold and silver. In the reporting year, the production of copper increased by 6.9% to 249.2 thousand tons owing mainly to a higher demand from Japan, of 16.2% to 247.7 thousand tons.

The production of nickel-ore, ferro-nickel, and nickel-matte is entirely intended for export. In the reporting year, the production of nickel-ore and nickel-matte increased by 70.3% and 58.2% to 1,680.6 thousand tons and 31.8 thousand tons, respectively. These significant increases were mainly caused by higher demand from Japan. On the other hand, the production of ferro-nickel decreased by 8.3% to 4.4 thousand tons which was mainly due to a decline in ferro-nickel prices in the world market. The production of bauxite as a basic material for aluminum, which was entirely exported to Japan, in the reporting year still experienced a decrease namely 10.7% to 636.4 thousand tons compared with a decrease of 29.4% in the preceding year. This lower production was closely related to the persistently low price of aluminum in the world market. In the reporting year, the production of gold and silver increased significantly, by 101.2% and 165.5% to 619.6 kg and 5,786.0 kg, respectively. The increases stemmed from higher exploitation activities carried out by the private sector. It may be added that there were 103 contracts in the form of joint-venture agreements involving 75 private national and 38 foreign enterprises.

G. Electric Power

The government policy on electricity is designed to enhance service to the community and to stimulate economic activity, especially in the manufacturing sector. To achieve those objectives, efforts were made to increase the installed capacity of electricity generating plants and to expand distribution networks in order to provide a sufficient amount of electricity and to improve the quality of service to the community.

The installed capacity of electricity generating plants of the State Electric Company (Perusahaan Umum Listrik Negara or PLN) in the reporting year increased by 27.6% to 6,168 MW (Table 8.30). This increase was closely associated with a higher installed capacity of steam-powered electrical centers (*Pusat Listrik Tenaga Uap* or PLTU) and gas-powered electrical centers (*Pusat Listrik Tenaga Gas* or PLTG).

In line with efforts to increase the installed capacity of electricity generating plants, PLN production in 1986 increased

TABLE 8.30
CAPACITY OF ELECTRIC POWER (PLN)
(MW)

Year	Generator					Total
	PLTD	PLTU	PLTA	PLTG	PLTP	
1980	522	756	378	896	--	2,522
1981	569	956	398	897	--	2,821
1982	635	1,356	425	879	30	3,343
1983	784	1,556	511	1,028	30	3,909
1984	839	2,086	536	1,072	30	4,563
1985	883	2,286	538	1,096	30	4,835
1986*	1,110	2,917	701	1,410	30	6,168

Source : State Electric Company

TABLE 8.31
PRODUCTION OF ELECTRIC POWER
(millions of KWH)

Year	Generated by PLN	Generated by non PLN ¹⁾	Total
1980	7,067	815	7,882
1981	8,229	1,502	9,731
1982	10,103	1,289	11,392
1983	12,111	1,281	13,392
1984	13,589	1,160	14,749
1985	14,810	1,003	15,813
1986*	17,224	922	18,146

1) Only those distributed to the community through PLN

Source : State Electric Power

by 16.3%. On the other hand, electricity produced by non-PLN decreased by 8.1%. In total, the production of electricity in 1986 increased by 14.8% (Table 8.31).

It may be noted that in order to enhance electricity services to rural communities, the Government continued to implement the electrification of village program (*Program Listrik Masuk Desa*). By February 1987, the number of villages benefiting from electricity services was 13,073, or 21.4% of all villages in Indonesia.

H. Manufacturing

To sustain the development of the manufacturing sector, in the reporting year the Government introduced several fundamental measures covering the May 6, 1986, October 25, 1986, and January 15, 1987 packages. Those policies, among others, were directed to enhancing the efficiency and exports of non-oil/gas commodities in manufacturing sector through the simplification of trade regulations on imports, exemption from and drawback on import duties¹⁶⁾, the reduction of import tariffs on certain commodities and

raw materials, as well as the provision of more efficient protection to domestic industries through the tariff system.¹⁷⁾ To encourage the utilization of domestic products and stimulate the creativity in design, the Government revised the deletion program for motor-vehicle assembling industry.¹⁸⁾ and simplified the procedures to obtain business licenses in the machine and electrical machine industry.¹⁹⁾ To encourage the development of the manufacturing sector, authority regarding the promotion and supervision of certain industries in mining and energy, agriculture, and health was transferred from the Ministry of Industry to each related ministry.²⁰⁾

The production of refinery industries, such as, fuel products and liquefied natural gas (LNG), continued to increase. The production of manufacturing industries, such as, plywood, cement, kretek cigarettes, textile, fertilizer, and those of basic metal industries also recorded increases. Output of several products, such as, production of four-wheeled and two-wheeled motor vehicles increased in 1986/87 after experiencing a decline in the preceding year. In addition, the production of TV sets, white cigarettes, and sewing machines continued to decline (Table 8.32).

16) — Minister of Finance, Minister of Trade, and Governor of Bank Indonesia Joint Decrees Nos. 315/Kpb/V/86, 316/KMK.01/1986, and 160/M/SK/5/1986, May 6, 1986 and Nos. 315/KMK.01/1986, 134/Kpb/V/86, and 19/4/Kp/GBI, May 6, 1986.

— Minister of Trade Decree No. 09/Kp/I/1987, January 15, 1987.

17) — Minister of finance Decree No. 915/KMK.05/1986, October 25, 1986.

— Minister of Trade Decree No. 307/Kp/X/1986, October 25, 1986.

18) Minister of Industry Decree No. 34/M/SK/2/1987, February 3, 1987.

19) Minister of Industry Decree No. 36/M/SK/2/1987, February 4, 1987.

20) Government Regulation No. 17 of 1986, April 2, 1986.

1. Fuel products

In the reporting year, the policy on refinery industries continued to be aimed at satisfying domestic consumption and reducing imports. The production of fuel reached 146.3 million barrels or an increase of 8.5% compared with 5.4% in the preceding year stemming from the optimum utilization of capacity of Cilacap, Balikpapan, and Dumai refineries. It may be added that the domestic fuel consumption in 1986 declined by 1.5% to 155.6 million barrels, brought about by the increased consumption in non-fuel energy.

2. Liquefied Natural Gas (LNG)

The government policy on LNG continued to be aimed at increasing production and expanding markets. To fulfill the LNG contract with the Republic of Korea, in the reporting year the Government completed construction of the sixth train in Arun with a production capacity of 1.5 million tons per year. Consequently, the total production capacity of LNG plants consisting of 10 trains, reached 1.6.2 million tons, of which 9.8 million tons was from Arun plant, and the remainder from Badak plant. In line with the increase in production capacity, LNG production rose by 0.2% to 15.0 million tons in the reporting year, consisting of 8.0 million tons from Arun plant and 7.0 million tons from Badak plant.

In 1986, LNG export increased by 2.1 to 783.3 million MMBTU which were destined to Japan, Republic of Korea, and the United States to the amount of 775.1 million MMBTU, 6.1 million MMBTU, and 2.1 million MMBTU, respectively.

To expand LNG market, in the reporting year the Government signed a sales contract

of 2.0 million tons of LNG per year with Taiwan.

3. Plywood and sawn timber

To maintain prices and to sustain plywood exports, in the reporting year the Government imposed a quota on plywood exports.²¹⁾ To encourage the domestic industry and exports of household furniture, the Government prohibited exports of sawn timber of ramin, white meranti and agathis in certain sizes.²²⁾

In the reporting year, the production of plywood and sawn timber increased significantly, by 14.9% and 4.9% to 5,302.0 thousand m³ and 9,900.0 thousand m³, respectively. In the meantime, exports of those two commodities also increased, by 15.4% and 5.8% to 2,857.0 thousand tons and 2,120.0 thousand tons, respectively.

4. Fertilizer

The government policy of developing the fertilizer industry as one of the main products in supporting the agricultural sector has been directed to satisfying increasing domestic demand as well as exports. To this end, in the reporting year the Government expanded the petrochemical plant in Gresik with an additional production capacity of 200 thousand tons p.a., bringing about a total production of 650 thousand tons p.a.

In line with the increased production capacity, in the reporting year the production of non-urea fertilizer increased

21) Minister of Trade Decree No. 128/Kp/IV/86, April 12, 1986.

22) Minister of Trade Decree No. 305/Kp/X/86, October 18, 1986.

by 10.9% to 1,656.2 thousand tons. The production of urea fertilizer also increased, by 11.5% to 3,999.9 thousand tons, whereas its exports rose significantly, by 38.1% to 1,446.0 thousand tons.

5. Cement

In support of the effort to encourage utilization of domestic cement and to increase its export, in the reporting year the production and exports of cement increased significantly, by 13.7% and 87.2% to 11,163.8 thousand tons and 1,788.0 thousand tons, respectively.

To meet its needs for certain types of cement, in 1986 the Government still imported cement to the amount of 6.3 thousand tons. It is noteworthy that up to the end of the reporting year there were 10 cement factories with total production capacity of 17.4 million tons p.a.

6. Paper

In the reporting year, the production of paper increased by 58.6% to 817.2 thousand tons, primarily brought about by the establishment of paper mill in West Jawa and the expansion of Unit IV paper mill of PT Kertas Leces in East Jawa with a production capacity of 70 thousand tons and 90 thousand tons p.a., respectively. Through these two mills, domestic needs, especially for writing and printing paper, have been fulfilled. Moreover, part of its production (50.0 thousand tons) was exported in 1986.

To fulfill the needs for certain types of paper (such as for money, cigarettes, long fibre pulp paper) in the reporting year 178.2 thousand tons of paper were imported. To meet the growing demand for kraft paper, a

kraft paper mill with a production capacity of 150 thousand tons p.a. in North Aceh is under construction.

7. Textiles

In the reporting year, the textile industry still faced domestic as well as overseas marketing problems. In the domestic market, demand for textiles was still weak, while exports continued to encounter protectionist measures imposed by importers such as the USA and West European countries. To overcome these problems, the Government continued to encourage modernization of machinery and improvement in product designs. Furthermore, to enhance the competitiveness of textile exports, several new measures were taken with the intention, among others, of simplifying export procedures²³⁾ as well as import procedures of certain imported inputs.²⁴⁾

As a result of these policies, in the reporting year textile production rose by 10.5% to 2,761.5 million meters, while exports increased by 25.4% to 139.2 million meters, respectively.

It is noteworthy that in the reporting year, the aromatic center in Plaju, South Sumatera, started the production of purified terephthalic acid with a capacity of 150 thousand metric tons p.a. It was expected that the needs for the raw materials of polyester and nylon could be met.

8. Motor-vehicle tires

In an effort to encourage production and

23) Minister of Trade Decree No. 147/Kp/V/86, May 9, 1986.

24) Minister of Trade Decree No. 307/Kp/X/86, October 25, 1986.

TABLE 8.32
SELECTED INDUSTRIAL PRODUCTION

Products	Units	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87*
1. Fuel products	million barrels	111.7	114.1	104.2	106.6	128.0	131.4	142.0
2. LNG	million MMBTU	445.8	470.3	481.0	569.3 ^f	783.7 ^f	788.5 ^f	811.8
3. Plywood and sawn timber								
— Plywood	thousand m ³	1,144.6	1,609.9	1,862.4	3,300.0 ^f	3,600.1 ^f	4,615.0 ^f	5,302.0
— Sawn timber	thousand m ³	7,400.0	7,80.00	8,000.0	8,180.0	8,786.0	9,437.0	9,900.0
4. Fertilizer								
— Urea fertilizer	thousand tons	1,985.1	2,006.7	1,961.0	2,255.0	2,910.0	3,588.8	4,000.0
— Non-urea fertilizer ¹⁾	thousand tons	649.0	773.7	787.0	991.0	1,306.0	1,493.6	1,656.2
5. Cement	thousand tons	5,851.8	6,844.2	7,650.0	8,078.1	8,813.3	9,817.4	11,163.8
6. Paper	thousand tons	232.0	246.6	296.9	369.2	402.6 ^f	515.2	817.2
7. Textile and weaving yarn								
— Textile	million meters	2,027.3	2,094.0	1,708.9	2,347.2	2,401.6 ^f	2,498.7 ^f	2,761.5
— Weaving yarn	thousand bales	1,184.0	1,233.0	1,370.0	1,662.0	1,781.6	1,872.2 ^f	2,147.8
8. Motor vehicle tires								
— Automobile tires ²⁾	thousand units	3,320.0	3,816.9	3,885.6	3,673.3	3,944.0	4,100.0	5,541.1
— Motorcycle tires ³⁾	thousand units	2,319.7	2,801.3	2,567.1	2,438.5	2,230.0	2,500.0	3,048.5
9. Basic metal industry								
— Sponge iron	thousand tons	281.8	384.5	391.0	541.0 ^f	756.0 ^f	1,086.0 ^f	1,283.0
— Steel ingot	thousand tons	397.1	436.1	693.5	882.6	901.0	1,023.0 ^f	1,144.0
— Reinforcing steel bar	thousand tons	640.5	671.0	743.8	724.0	649.0	671.0	716.0
— Wire rod	thousand tons	160.2	157.4	253.3	300.0 ^f	207.0	321.0	407.0
— Steel wire	thousand tons	143.2	159.7	128.3	110.0	150.0	99.0 ^f	115.0
— Steel pipe	thousand tons	153.8	243.0	282.5	246.7	239.6	258.6	259.5
— Galvanized iron sheet	thousand tons	294.2	301.6	316.7	332.3 ^f	253.0 ^f	274.0	195.0
— Aluminum plate	thousand tons	11.8	13.7	15.1	8.0	24.5	26.5	24.8
10. Transportation means industry								
— Automobiles	thousand units	170.1	209.9	188.4	155.8	153.7	139.8	162.5
— Motorcycle	thousand units	410.0	503.3	577.4	379.3	272.2	226.8	310.9
— Aeroplanes	units	12	17	21	6 ^f	8 ^f	8 ^f	5
— Helicopters	units	12	12	21	14 ^f	19 ^f	7 ^f	12
— Steel vessels	thousand BRT	27.5	28.9	21.1	7.9	21.0 ^f	18.2 ^x	7.7
11. Salt	thousand tons	690.0	285.8	799.9	620.0	370.0	761.5 ^f	318.0
12. Others								
— Clove cigarettes	billion pieces	50.5	55.6	59.1	68.2	79.7 ^f	84.1 ^f	95.5
— White cigarettes	billion pieces	33.4	28.4	27.1	28.1	27.1 ^f	24.0 ^f	21.0
— Coconut oil	thousand tons	610.0	480.8	442.1	381.7	267.1 ^f	396.0	400.0
— Cooking oil	thousand tons	278.9	326.4	326.2	342.0	605.1	490.0	453.7
— Laundry soap	thousand tons	213.0	207.8	213.0	199.0	160.0	161.4	162.3
— Detergent	thousand tons	54.4	63.9	66.8	75.5	118.0	144.6	160.5
— Toothpaste	million tubes	123.0	137.5	145.0	165.1	240.0	351.0	474.8
— Matches	million boxes	586.2	664.8	681.4	817.0	1,525.3	2,214.0	2,344.0
— Electric/telecommunication cords	thousand tons	19.1	18.7	20.1	21.0	52.1 ^f	58.1	58.7
— Light bulbs/TL bulbs	million units	33.8	36.5	30.4	45.4	53.2 ^f	86.0	100.2
— Radio and radio cassette recorder	thousand units	1,110.5	1,154.9	1,589.9	1,503.1	1,576.6	1,883.4	1,649.5
— Car radio cassette recorders	thousand units	616.6	672.0	355.9	288.4	460.6	353.0	306.4
— Black and white television sets	thousand units	531.4	643.6	421.1	433.4	435.7 ^f	510.0	455.3
— Color television sets	thousand units	98.7	203.3	232.4	189.4	337.1 ^f	240.0	245.2
— Refrigerators	thousand units	134.5	138.5	152.4	139.2	118.9 ^f	148.8	147.7
— Sewing machines	thousand units	525.4	551.6	393.5	290.2	253.0	170.5	127.5
— Storage batteries	thousand units	3,319.7	3,651.6	3,521.0	4,080.0	5,339.3 ^f	5,687.9	5,969.4
— Dry batteries	million units	526.7	553.6	576.6	633.6	771.8 ^f	952.1	1,003.0
— Sprayers	thousand units	134.2	154.3	159.7	170.0	188.3 ^f	229.5	242.6
— Hand tractors	units	877	1,074	1,271	1,065	1,001 ^f	973 ^f	1,891
— Diesel engines	thousand units	34.1	69.4	64.6	52.8 ^f	48.3 ^f	41.6	23.9
— Hullers	units	1,868	1,078	1,587	467	1,788 ^f	2,771	1,212

1) Until 1978/79 consisting of Z.A. and since 1979/1980 consisting of Z.A., TSP, and NPK.

Source : — Supplement to the President's Report to Parliament, August 15, 1987.
— Ministry of Industry.
— Ministry of Mining and Energy.

export of motor vehicle tires, the Government reduced import tariffs on tire cord in order to lower production costs.²⁵⁾

In the reporting year, the production of four-wheeled and two-wheeled motor vehicle tires increased by 35.1% and 21.9% reaching 5,541.1 thousand and 3,048.5 thousand, respectively, as a result of the increased domestic consumption of tires.

Exports of four-wheeled and two-wheeled motor vehicle tires increased from 279.5 thousand and 70.9 thousand to 406.0 thousand and 160.6 thousand, respectively. It can be noted that certain types of tires, such as, aircraft and off-road military vehicle tires, were still imported.

9. Basic metal

To lower the production costs of basic metal industries, the Government exempted duties on raw materials required for the production of steel billet and steel bar industries.²⁶⁾ To enhance competitiveness and to encourage the utilization of domestic steel products, the Government reduced import tariffs on inputs of steel products, which were not produced domestically, and stipulated that the importation of certain steel products were no longer subject to import restriction.²⁷⁾

In the reporting year, the production of several basic metal products increased significantly, such as, iron bars (26.8%), sponge iron (18.1%), steel wire (16.1%), steel billet (11.8%), and steel bars (6.7%), whereas

that of zinc and aluminum plates decreased. Exports of iron bars, sponge iron, and steel bars in 1986 amounted to 75.8 thousand tons, 66.3 thousand tons, and 20.0 thousand tons, respectively. In addition, with the completion of the cold rolling mill in Cilegon (West Jawa), the needs for thin steel plates, which was formerly imported, would be met.

10. Transport vehicles

In efforts to improve motor-vehicle industries, the Government continued to implement its policy of encouraging the domestic production of commercial vehicle and two-wheeled vehicle components by revising the deletion program for motorvehicle assembly industry.²⁸⁾ In line with the above policy, the Government exempted from duty on certain spare-parts and raw materials for motor-vehicle assembly.²⁹⁾ To sustain the above policy and in an effort to enhance the utilization of installed capacity and develop business creativity, the Government simplified the procedures to obtain business licenses for machine and electrical machine industries.³⁰⁾

The production of four-wheeled and two-wheeled motor vehicle industries, which had recorded declines in the previous few years, increased by 16.2% and 37.1% in the reporting year to 162.5 thousand units and 310.9 thousand units, respectively. These increases, among others, were closely associated with the government policy of providing a facility to civil servants to purchase four-wheeled and two-wheeled motor vehicles.³¹⁾

25) Minister of Finance Decree No.195/KMK.05/1986, October 25, 1986.

26) Minister of Finance Decree No. 273/KMK.05/1986, April 22, 1986.

27) Minister of Trade Decree No. 09/Kp/I/1987, January 15, 1987.

28) Minister of Industry Decree No. 34/M/SK/2/1987, February 3, 1987.

29) Minister of Finance Decree No. 71/KMK.05/1987, February 3, 1987.

30) Minister of Industry Decree No. 36/M/SK/2/1987, February 4, 1987.

31) Minister of Finance Decree No. S-1211/MK.0011/1985, November 1, 1985.

With respect to the aircraft manufacturing industry, in the reporting year the production of aircraft declined from 8 to 5 units, while that of helicopters increased from 7 to 12 units. Meanwhile, the production of steel ships declined by 57.7% to 7.7 thousand BRT.

11. Salt

To expedite the procurement of salt for domestic needs, the Government simplified the trade procedure to import table salt³²⁾ and exempted the duty on imported iodine and unprocessed salt.³³⁾ As a follow-up to the existing government policy on the iodine salt program, the Government stipulated a regulation which prohibited the production of bricked salt.³⁴⁾

In the reporting year, salt production declined by 58.2% to 318.0 thousand tons due to the implementation of iodine salt program and the prohibition on the production of brick salt. Since domestic needs for salt were estimated in the amount of 850 thousand tons, the importation of salt was required.

12. Other manufacturing products

In accordance with certain government policies in the manufacturing sector (such as the deregulation on trade procedures and promotion in the utilization of domestic products) the outputs of other manufacturing industries mostly increased.

Other manufacturing products which

recorded significant increases were, among others, hand tractors, toothpaste, lightbulbs/TL, kretek cigarettes, and detergents. In addition, several products increased in production, among others, diesel engines, sewing machines, car radio cassette recorders, white cigarettes, and cooking oil.

In the reporting year, a significant increase in exports was recorded in several other manufacturing products, namely dry batteries of 357.7% to 2,091 tons, lightbulbs/TL of 237.7% to 171.9 tons, radio and radio cassette recorders of 133.8% to 18 tons, and kretek cigarettes of 35.9% to 354.7 tons.

I. Transportation

The policy on transportation in the reporting year, which was a continuation of that in preceding years, was directed to enhancing transportation services and improving its quality, especially as regards domestic and foreign trade. Due to the September 1986 devaluation, transportation fares were selectively adjusted.³⁵⁾ Furthermore, efforts to increase the frequency and expansion of international flight network continued to be carried out in order to encourage the flow of foreign tourists.

In the reporting year, the output of most transportation services increased. In the field of passenger transportation, significant increases occurred in river, lake, ferry, and railway services, while in cargo transportation, substantial increases were recorded in the ocean-going and interisland shipping.

32) Minister of Trade Decree No. 307/KP/X/86, October 25, 1986.

33) Minister of Finance Decree No. 915/KMK.05/1986, October 25, 1986.

34) Director General of Multi Various Industries Instruction No. 1129/DJAI/VII/1986, July 22, 1986.

35) Minister of Communication Decree No. KM 12/Phb 301/Phb-87, January 20, 1987.

1. Land transportation

To encourage the expedition of cargo and passenger flows, in the reporting year, the Government completed the construction of 71 km of road and 182 m of new bridges, and also upgraded 11,150 km of road and 9,179 m of bridges. Improvement of these infrastructures was intended to keep up with the increasing number of land transport vehicles. In 1986, the number of buses, trucks, automobiles, and motorcycles rose by 20.0%, 5.2%, 5.4%, and 6.1%, respectively (Table 8.33).

The improvement in railway services was directed to meeting the increasing demand for passenger and cargo services. To expedite railway transportation, in the reporting year the Government completed the rehabilitation of 350 km of railways and 300 bridges. Furthermore, 80 passenger cars and 1,796 freight cars were added. In the reporting year, the passengers and freight transported increased by 1.9% and 13.6%, respectively (Table 8.34).

Efforts to improve river, lake, and ferry

transportation were primarily carried out by increasing the facilities of quays and terminals and dredging channels. These efforts were aimed at improving shipping services and expediting passenger and cargo flows. In the reporting year, passengers and cargoes transported increased by 26.1% and 15.7%, respectively (Table 8.35).

2. Sea transportation

Efforts to improve sea transportation remained directed at creating an integrated shipping system. To enhance the quality of services to passengers, since January 1, 1985 the Government has implemented a policy of scrapping vessels reaching the age of 25 or more. As a consequence of this policy, in the reporting year the number of vessels recorded decreases-ocean-going vessels by 27.1%, local shipping by 11.0%, pioneer sailing by 8.7%, and interisland shipping by 5.8%. However, traditional shipping vessels increased by 4.3% (Table 8.36).

Although the number of vessels decreased, the output of the sea transportation services

TABLE 8.33
NUMBER OF LAND TRANSPORTATION VEHICLES
(thousands of units)

Year	Buses	Truck/cargo vehicles	Passanger cars	Motor cycle
1981	112.1	590.5	722.4	3,197.3
1982	134.4	657.1	791.0	3,764.4
1983	160.3	727.9 ^r	865.9 ^r	4,135.7
1984	192.4 ^r	803.5 ^r	936.3 ^r	4,493.1 ^r
1985	231.5	845.3 ^r	987.0 ^r	4,765.1 ^r
1986*	277.8	889.3	1,040.4	5,055.7

Source : Supplement to the President's Report to Parliament, August 15, 1987

TABLE 8.34
OUTPUT OF RAILWAY TRANSPORTATION SERVICES

Year	Passanger transportation		Cargo transportation	
	Passangers (thousands)	Passangers-km (millions)	Cargo (thousands of tons)	Cargo-ton-km (millions)
1981/82	39,951	6,080	5,310	1,016
1982/83	43,279	6,271	5,310	1,063
1983/84	70,437 ^r	4,054 ^r	3,306 ^r	737 ^r
1984/85	45,679	6,357 ^r	5,465	1,223
1985/86	47,425	7,061	6,980	1,382
1986/87*	48,317	7,521	7,931	1,575

Source : Supplement to the President's Report to Parliament, August 15, 1987

TABLE 8.35
OUTPUT OF RIVER, LAKE AND FERRY
TRANSPORTATION SERVICE

Year	Passangers transported (thousands)	Cargo transported (thousands of tons)
1982/83	14,796	3,979
1983/84	16,715	3,988
1984/85	23,579	5,129
1985/86	24,742	4,714
1986/87	31,209	5,456

Source : Supplement to the President's Report to Parliament, August 15, 1987

increased significantly: ocean-going by 21.6% to 15,687 thousand tons; interisland shipping by 5.3% to 8,514 thousand tons; and traditional shipping by 7.3% to 2,736 thousand tons.

3. Air transportation

The policy on air transportation continued to be aimed at enhancing air transportation services and expanding flight networks, primarily by increasing the facilities and by rehabilitating infrastructure.

In line with efforts to encourage the flow of foreign tourists, flight frequencies were increased, particularly to European countries, by 13 flights in a week compared with 4 in the preceding year. Furthermore, the expansion of international flight networks was carried out by opening such new lines as Denpasar - Honolulu - Los Angeles. In addition, in the reporting year regional flights between Kupang - Darwin and Pontianak - Kuching were also opened.

The number of aircraft operated by scheduled airlines totaled 183 compared with 175 in the preceding year. Meanwhile, the number of turbo-prop and turbo-jet aircrafts increased by 6 and 2, respectively (Table 8.37).

With respect to infrastructure, in the reporting year several airports were upgraded so as to accommodate larger aircrafts. Through these improvements, of the 168 airports, 5 could handle B-747 aircraft, 9 could accommodate DC-10 and A-300 aircraft, 18 could handle DC-9 aircraft, and 37 could handle F-28 aircraft.

In 1986/87, domestic and overseas air

TABLE 8.36
NUMBER OF VESSELS AND THEIR SAILING SERVICES

Types of shipping	Units	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87*
1. Ocean-going transportation							
— Number of vessels	units	61	61	51	48	48 ^r	35
— Capacity	thousand DWT	802	807	732	624	447	447
— Cargo	thousand tons	17,637	18,465	18,964	18,965 ^r	12,905	15,687
2. Interisland shipping							
— Number of vessels	units	361	397	397	356 ^r	275 ^r	259
— Capacity	thousand DWT	425	503	503	449 ^r	412 ^r	391
— Cargo	thousand tons	5,952	5,353	7,458	7,252 ^r	8,083 ^r	8,514
3. Local shipping							
— Number of vessels	units	997	1,114	1,049	982 ^r	1,036	922
— Capacity	thousand BRT	120	172	131 ^r	122	132	144
— Cargo	thousand tons	2,271	2,445	2,481 ^r	2,521 ^r	2,679	2,746
4. Traditional shipping							
— Number of vessels	units	3,346	3,486	3,511	3,759 ^r	3,490 ^r	3,641
— Capacity	thousand BRT	179	180	181	202 ^r	198 ^r	194
— Cargo	thousand tons	1,959	2,155	2,876	2,493 ^r	2,550	2,736
5. Pioneer sailing services							
— Number of vessels	units	35	36	30	25	23	21
— Capacity	thousand DWT	23	20	16	13	12	12
— Cargo	thousand tons	98	97	31	21	38	40

Source : Supplement to the President's Report to Parliament, August 15, 1987

TABLE 8.37
AIR TRANSPORTATION FLEET

Year	Type of airplanes		Total
	Turbo-jet	Turbo-prop	
1981	75	89	164
1982	82	82	164
1983	86	112	198
1984	86	109	195
1985	86	89 ^r	175 ^r
1986*	88	95	183

Source : Supplement to the President's Report to Parliament, August 15, 1987

TABLE 8.38
OUTPUT OF AIR TRANSPORTATION SERVICES

Year	Passangers carried (thousands of persons)		Cargo carried (thousands of tons)	
	Domestic flights	International flights	Domestic flights	International flights
1981	5,588	1,159	50.5	20.6
1982	5,551	1,083	56.0	22.7
1983	5,286 ^r	1,049 ^r	49.8	28.4
1984	5,448	946	49.1	31.2
1985	5,515 ^r	1,266	53.7	35.3
1986*	5,547	1,284	59.6	35.7

Source : Supplement to the President's Report to Parliament, August 15, 1987

passengers increased by 0.6% and 1.4%, respectively, whereas domestic and overseas air cargoes increased by 11.0% and 1.1%, respectively (Table 8.38).

J. Tourism, Postal Services, and Telecommunication

In the reporting year, policies on tourism, postal services and telecommunication continued to be directed toward increasing foreign exchange earnings, expediting communication services and expanding employment opportunities. In the field of tourism, a number of new regulations on visa, hotel, and travel services were introduced. In line with efforts to increase foreign exchange earnings, overseas flight networks were expanded and entrance gates for foreign tourists were added.

With respect to the postal sector, services continued to be enhanced by expanding postal service areas, especially to remote areas, and by improving the quality of postal letter services. Telecommunication services were also upgraded by expanding the number of international and national networks as well as by increasing the capacity of central automatic telephone exchanges.

1. Tourism

Efforts to promote tourism, as one of the sources of foreign exchange earnings, were conducted by expediting and increasing tourist flows. Accordingly, in the reporting year, the Government improved facilities covering visa free-entry for Taiwan and Malta citizens,³⁶⁾ and for foreign businessmen³⁷⁾ and changed visa regulations regarding business visits³⁸⁾ and Hong Kong citizens.³⁹⁾ In addition, since December 1986, the Government has provided in-flight

immigration services on the Tokyo - Jakarta - Denpasar route.

Efforts to attract tourists were also implemented by opening new air routes to the USA, Australia, and Malaysia. Furthermore, Pontianak and Kupang airports as well as Semarang harbor were designated as entrance gates for foreign tourists.⁴⁰⁾ In the reporting year, the Government adopted a new regulation concerning the operation and classification of hotels,⁴¹⁾ as well as licenses for travel agents.⁴²⁾ In addition, previous efforts continued to be carried out in the areas of development of infrastructure and facilities for tourism, promotion activities conducted through Indonesian embassies, and cooperation in tourism with international tourist institutions.

In 1986, the number of tourists visiting Indonesia increased by 10.1% to 825,035 persons or 98.1% of the target. Compared with the preceding year, the amount of foreign exchange earnings increased by 20.1% to \$ 590.5 million (Table 8.39). In terms of foreign exchange earned, tourists from Japan (18.0%), Australia (10.3%), and the USA (9.6%) were the largest contributors.

To improve services rendered to the increasing number of foreign tourists, the

36) Minister of Justice Decrees Nos. M.04-IZ.01.02, November 4, 1986 and M.05- IZ.01.02, December 1, 1986.

37) Minister of Justice Decree No. M.02-IZ.01.02, August 1, 1986.

38) Minister of Justice Decree No. M.03-17.01.03, October 30, 1986.

39) Minister of Justice and Minister of Tourism, Postal and Telecommunication Joint Decrees Nos. M.02-IZ.03.01 and KM.40/HK.702/MPPT-86, July 19, 1986.

40) Presidential Decree No. 39, August 28, 1986.

41) Minister of Tourism, Postal, and Telecommunication Decree No. KM.37/PW.304/MPPT-86, June 7, 1986.

42) Minister of Tourism, Postal, and Telecommunication Decree No. KM.63/PW.102/MPPT-86, October 4, 1986.

TABLE 8.39
NUMBER OF FOREIGN TOURISTS
VISITING INDONESIA

Year	Number of tourists	Tourists' spending (millions of dollars)
1980	561,178	289.0
1981	600,151	309.1
1982	592,046	358.9
1983	639,000	439.5
1984	700,910	519.7
1985	749,351 ¹⁾	525.3 ¹⁾
1986*	825,035 ¹⁾	590.5 ¹⁾

1) Central Bureau of Statistics.

Source : Directorate General of Tourism.

Government promoted hotel business by classifying hotels, primarily in 10 tourist areas. At the end of 1986, 281 hotels with 22,999 rooms were classified as starred hotels; the number of travel agents increased by 7.3% to 502.

2. Postal and postal account services

Improvements in postal and postal account services continued to be aimed at enhancing the quality of services and expanding services to remote areas. Accordingly, 23 post offices, 68 subsidiary post offices, and 145 auxiliary post offices were built in 1986 so that the total number reached 287, 458, and 1,780, respectively (Table 8.40).

In the meantime, the number of districts reached by postal services increased by 2.8% to 3,433 or 97.0% of the total number of districts; transmigration areas that could be covered increased by 19.5% to 619 locations or 81.1% of total transmigration locations. Meanwhile, Express Mail Services (EMS), covering 10 countries, was established so as to boost fast postal service with foreign

countries. Through these efforts, the production of postal and postal account services increased - postal packages by 2.4%, postal drafts by 0.1%, postal accounts and checks by 0.2%, and postal savings by 18.5% (Table 8.41).

3. Telecommunication

To enhance domestic telecommunication services, the Government made efforts to increase the operation and capacity of STO. Furthermore, several types of communication systems were improved to increase international telecommunications. Such systems are, among others, the sea cable communication system (*Sistim Komunikasi Kabel Laut* or SKKL) connecting South East Asia - Middle East - West Europe and the international direct dialing network (*Sambungan Langsung International* or SLI) outside Jakarta. In addition, the B2P Palapa Satellite was launched in the reporting year to replace the B1 Palapa Satellite. This replacement was intended to assure continuity of telecommunication services throughout the country.

In 1986, central telephone exchanges increased by 1.6% to 704 and their capacity rose by 7.6% to 838,555 line units. These line units covered 2,044 districts (57.8%) or an increase of 2.2% compared with that of the preceding year (Table 8.42). Increased services occurred in the long distance direct dialing network (*Sambungan Langsung Jarak Jauh* or SLJJ) by 3.7% to 112 cities, SLI by 17.8% reaching 106 countries, the long distance telephone network (*Sambungan Telepon Jarak Jauh* or STJJ) by 47.1% to 687 line units, public phones by 11.7% to 4,106 line units, and the motor vehicle telephone network (*Sambungan Telepon Kendaraan Bermotor* or STKB) by 122.4% to 4,513 line units. Other telecommunication facilities also

TABLE 8.40
NUMBER OF POST OFFICES

Types of post offices	1981	1982	1983	1984	1985	1986*
Main post office	198	200	211	234	264	287
Subsidiary post office	232	253	284	328	390	458
Auxiliary post office	1,091	1,163	1,218	1,351	1,635	1,780

Source : Directorate General of Post and Telecommunication

TABLE 8.41
POSTAL ACCOUNTS AND POST SERVICES

Types of services	1981	1982	1983	1984	1985	1986*
Postal letters (millions)	273	299	348	392 ^f	449 ^f	446
Postal parcels (thousands)	1,213	1,230	1,173	1,049 ^f	1,200	1,229
Postal drafts (billions of rupiah)	301.9	177.4 ^f	116.8 ^f	259.6 ^f	290.4	333.4
Postal accounts and cheques (billions of rupiah)	1,997.9	2,208.4	2,569.4	3,398.4	3,769.7	3,761.1
Savings (billions of rupiah)	44.4	58.1	81.1	98.4	115.8 ^f	137.2

Source : Directorate General of Post and Telecommunication.

TABLE 8.42
NUMBER AND CAPACITY OF TELEPHONE EXCHANGES

Year	Automatic		Manual		Total	
	Telephone exchanges	Capacity (line units)	Telephone exchanges	Capacity (line units)	Telephone exchanges	Capacity (line units)
1981	150	545,500	569	74,130	619	619,630
1982	164	557,963	500	86,579	664	644,542
1983	170	576,797	509	89,336	679	666,133
1984	175	601,390	508	96,426	683	697,816
1985	182	674,488	511	104,890	693	779,378
1986*	195	728,000	509	110,555	704	838,555

Source : Directorate General of Post and Telecommunication.

registered increases, including the central telex (STX) by 13.3% to 34 STX and its capacity by 17.5% to 16,200 line units, General Telex (Gentex) offices by 19.8% to 242 offices, and telegraph offices by 0.9% to 664 offices. Meanwhile, the services of international telecommunications reached 29 countries, birofax 21 countries, and package data communication network (*Sambungan Komunikasi Data Paket* or SKDP) 19 countries.

K. Cooperatives

In the reporting year, the policy on cooperatives continued to be aimed at enhancing the role and capability of this institution. In this regard, the Government provided more opportunities for cooperatives to conduct joint-venture business with national private enterprises. This effort was implemented by providing the PMDN facilities to national private enterprises that involved cooperatives in their business activities.⁴³⁾ In association with this effort, the cooperatives have made progress in several economic activities, such as, trade, handicraft industries, and electricity.

In 1986, the number of cooperatives increased by 8.3% to 30,446 units, comprising 7,350 village cooperatives units (*Koperasi Unit Desa* or KUD) and 23,096 non-KUD. In line with the increased number of cooperatives, cooperative membership also rose, by 6.4% to 21.6 million; there were 15.7 million KUD members and 5.9 million non-KUD members. In addition, funds accumulated from the deposits of cooperative members increased by 133.0% to Rp 414.9 billion. However, their turnover decreased by

34.4% to Rp 1,452.9 billion, brought about by declining activity, especially in the agricultural sector.

The role of KUDs in the agricultural sector was primarily reflected in their participation in food supply and marketing. In the reporting year, the number of KUDs participating in the procurement of paddy/rice declined by 4.3% to 1,992 units and the amount of rice purchased declined by 8.0% to 1,362.9 thousand tons. This decrease in purchase was due to an increase in the market prices of paddy/rice which encouraged farmers to sell their paddy/rice directly to the market.

In an effort to support agricultural production, KUDs carried out the distribution of fertilizers and pesticides. In the reporting year, 2,192 KUDs distributed 448.6 thousand tons of fertilizer and 751 KUDs distributed 360.4 thousand liters of pesticide.

To promote its business activities, KUDs participated in the marketing of output of smallholders' estate product, livestock, fishery, and handicrafts. In the smallholders' estate sub-sector there were 194 KUDs marketing 57.8 thousand tons of copra and 125 KUDs marketing 2.7 thousand tons of cloves.

In the smallholders' livestock sub-sector, cooperatives were engaged in various activities covering the distribution of intermediate inputs for farming, such as, farming equipments, food and medical supplies for livestock. In addition, cooperatives also conducted the marketing of dairy products. In 1986, the number of cooperatives and their members actively engaged in smallholders' livestock subsector, remained unchanged, namely 494 units and 53.9 thousand members; their turnover

43) Supplement to the Presidential Decree No. 22, May 31, 1986.

declined by 3.3% to Rp 89.6 billion. The number of livestock cooperatives handling milk cows and marketing milk also remained unchanged, namely 161 units. In the reporting year, the number of cooperatives actively engaged in smallholders' fishery sub-sector remained almost unchanged, namely 669 units with 153.4 thousand members, whereas the their turnover reached Rp 88.8 billion.

The smallholders' handicraft cooperatives continued to develop as reflected in the rise of the number of the cooperatives by 28% to 1,010 units with 199.9 thousand members. The favorable developments was also reflected in an increase in their turnover, by 41.6% to Rp 341.0 billion.

The KUD activities in distributing electricity to villages were conducted, among

other way, through cooperation with PLN. In 1986/87, 617 KUDs of 20 provinces acted as electricity distributors to 907,714 houses covering 1,644 villages.

In 1986, credit extended by KUDs to petty traders in villages in the form of KCK steadily increased, although the number of KUDs channeling KCK decreased by 2.0% to 5,476 units. The decrease was attributable to the new classification of KUDs channeling the KCK.

At the end of March 1987, bank credits extended to cooperatives amounted to Rp 349, billion, comprising Rp 75 billion of investment credits and Rp 274 billion of working capital credits. The above credits were extended to KUDs and non-KUDs in the amount of Rp 290 billion and Rp 59 billion, respectively.

APPENDICES

APPENDIX A

BANK INDONESIA CONDENSED BALANCE SHEET as per March 30, 1987 (billions of rupiah)

ASSETS		LIABILITIES
1. Gold and Foreign Assets	9,336	1. Monetary Liabilities
a. Gold and foreign exchange	9,165	a. Currency in circulation
b. Other foreign assets	171	b. Deposit money banks' demand deposits
2. Claims on Public Sector	2,925	c. Private sector demand deposits
a. Central Government	1,996	2. Foreign Liabilities ¹⁾
b. Claims on official entities and public enterprises	929	3. Government Deposits
3. Claims on Deposit Money Banks	8,969	4. Capital and Reserves
4. Other Claims	323	5. Other Liabilities
5. Other Assets	7,046	
	28,599	28,599

1) Includes IMF current account in rupiah

BANK INDONESIA
PROFIT AND LOSS ACCOUNT 1)
as per March 30, 1987
(billions of rupiah)

EXPENDITURES		REVENUES
EXPENSES		
– Personnel, material, operational	124	– Interest 1,253
– Currency issues	72	– Commission –
– Miscellaneous	450	– Miscellaneous 224
– Depreciation	248	
	<u>894</u>	
PROFIT		
– Profit before tax	583	
TOTAL	<u>1,477</u>	TOTAL
		<u>1,477</u>

1) As submitted to the Government.

APPENDIX B

MANAGEMENT OF BANK INDONESIA as of March 31, 1987

Government Commissioner : A.J. Witono S.

BOARD OF MANAGING DIRECTORS

Governor : Dr. Arifin M. Siregar
Managing Director : Teuku Mohamad Zahirshah, S.H.
Managing Director : Marjanto Danoesapoetro, S.E.
Managing Director : Drs. Binhadi
Managing Director : Sujitno Siswowidagdo, S.E.
Managing Director : T.M. Sjakur Machmud, S.H.
Managing Director : R. Rachmad
Managing Director : Drs. Hendrobudiyanto

GENERAL MANAGERS

Administration and Organization Department	: Soerojo, S.E. Akt.
Budget Department	: Sjamsuddin Sudjaja
Bureau of Banking Research and Development	: Hendarno Hendarmin, S.E.
Cooperatives and Small Credit Department	: Ir. Achmad Darsana Hardjakusumah
Currency Circulation Department	: Herwitno Sukardi, S.E.
Economics and Statistics Department	: Dr. Syahril Sabirin
Foreign Exchange Department	: Harjadi Danuwinoto, S.E.
General Services Department	: Hartono, S.H.
General Credit Department	: Ir. Mansjurdin Nurdin
Internal Control Department	: R. Soegiono
International Department	: Haryono, S.H.
Legal Department	: Mrs. Indrawati Soewarso, S.H.
Money Market and Clearing Department	: Sjahrizal, S.H.
Personnel Department	: Ekotjipto, S.H.
Private Banks Promotion and Supervision Department	: Sutedja Trisnaatmadja, S.H.
Secretariat Department	: Suparman Wijaya, S.H.
State Banks Promotion and Supervision Department	: Soehaimi Saleh, S.E.

REPRESENTATIVES

Kuala Lumpur and Singapore	: Sugiono, S.E.
London	: N.A.L. Mailangkay, S.E.
New York	: Djamalius Luddin, S.E.
Tokyo	: A. Sulaiman Gandabrata, S.E.

REGIONAL COORDINATORS

Coordinator of Bank Indonesia for West Jawa	: Dr. Heru Soepraptomo, S.E.
Coordinator of Bank Indonesia for East Jawa	: Drs. Bistok Hutasoit
Coordinator of Bank Indonesia for Central Jawa and Yogyakarta	: Dadang Soerman, S.E.
Coordinator of Bank Indonesia for North Sumatra	: Kamaruddin

BRANCH MANAGERS

Ambon	: Bahrulkifli, S.H.
Balikpapan	: Sutomo Sunartadirdja, S.E.
Banda Aceh	: Mahmud Arsin
Bandar Lampung	: Judjono Gandasubrata, S.E.
Bandung	: Dr. Heru Soepraptomo, S.E.
Banjarmasin	: Suryono Joyoprayitno, S.E.
Bengkulu	: Bachtaruddin, S.E.
Cirebon	: Muchtar Suriadihardja, S.E.
Denpasar	: Mohd. Kurdi, S.E.
Dili	: Moeljono, S.E.
Jambi	: M. Tonggur Naibaho, S.E.
Jayapura	: Drs. Sudarto Wirjodarmodjo
Jember	: Soesantoro, S.E.
Kediri	: Soediono, S.E.
Kendari	: Muchammad Sjarief, S.H.
Kupang	: Ibrahim Saad
Lhokseumawe	: Abdul Muis Hamid, S.E.
Malang	: Djedi
Mataram	: Drs. Hari Soeseno Hadipranoto
Medan	: Kamaruddin
Menado	: A.F. Tumiwa
Padang	: Soekisman
Padang Sidempuan	: Drs. Abdul Kadir Hadi
Palembang	: Darwis Idroes, S.E.
Palu	: J.B.B. Soeharmanto Padmowidjojo, S.E.
Pekanbaru	: C. Korompis, S.E.
Pematang Siantar	: Warjoto
Pontianak	: R. Soetrisno
Purwokerto	: Moh. Makruf Saleh, S.H.
Samarinda	: Wahono
Sampit	: Drs. Tontowi Djauhari L.
Semarang	: Dadang Soerman, S.E.
Sibolga	: R. Ating Rahmat Roessamsiputra
Solo	: Sri Hastjarja Poerwasoeparta, S.E.
Surabaya	: Drs. Bistok Hutasoit
Tasikmalaya	: Moh. Idroes Koedoes, B.A.
Tegal	: Drs. Djumiran Indrojatmoko
Temate	: R.D.J. Makatita
Ujung Pandang	: Soedharnindhito, S.H.
Yogyakarta	: Aibar Durin, S.H.

APENDIX C

TABLE I
INTEREST RATE AND SELF-FINANCING REQUIREMENT OF
BANK INDONESIA'S REFINANCING FACILITY
(percentage)

Items	Interest charged by handling bank to customers p.a.	Minimum ratio of customers self financing requirement to total cost of project	Ratio and interest rate of BI's refinancing nancing facility	
			Ratio	Interest p.a.
I. Working capital credits				
1. Bimas credits	12	0	100	3
2. Permanent Working Capital Credits (KMKP)	12	0	55	3
3. Credits to Bimas for production, import and distribution of fertilizer and insecticide	12	25	75	3
4. Credits to National Private Plantation (PSN)	12	30	75	3
5. Credits to cooperatives (for members and for the purchase of essential commodities)	12	0	90	3
6. Export credits	freely determined by respective handling bank ¹⁾	2)	3)	3
7. Credits to national contractors	9	50-70	70 ⁴⁾	3 ⁵⁾
8. Credits to villages (Kupedes)	18	0	100	3
9. Working Capital Credit through Rp 75 million	15	10	70	3
10. Keppres 29/1984	15	10	70	3
11. Credits to farmers through KUDs for the intensification of paddy/ secondary crops	12	0	100	3
II. Investment credits				
1. Small Investment Credits (KIK)	12	0	55	3
2. Plantation credits :				
a. Nucleus Smallholders Estate (PIR)	12	0	80	3
b. PIR Trans ⁶⁾	16	35	55	6.5
c. Rejuvenation, Rehabilitation and Expansion of Export Plant (PRPTE)	12	0	80	3
d. National Private Plantation (PSN)	12	10 ⁸⁾	85	3
3. New rice fields ⁷⁾	12	0	100	3
4. Investment credits through Rp 75 million	12	10	80	3
5. Credits to cooperative (for members and for the purchase of essential commodities)	12	0	90	3
6. Credits to villages (Kupedes)	12	0	100	3
7. Mini credits	12	0	100	3
8. Midi credits	12	0	100	3
III. Others				
1. House Ownership Credits (KPR)	5-9	10-20	90	3
2. Credits for Indonesian Students (KMI)	6	0	100	3
3. Credits for Student Dormitories	5	0	80	3

1) An interest of 9% p.a. would be applied on credits of which exports have been realized.

2) 15% for national enterprises; 30% (before October 1986) and 15% (since October 1986) for PMA companies.

3) Fixed at 70% for state commercial banks, private commercial national banks, regional development banks and foreign banks and 95% for state development bank (Bapindo).

4) 95% for Bapindo.

5) Excludes reserve for risk.

6) The above regulation are related with plantation enterprise while smallholder estate financing is provided entirely by credit. For credits transferred to farmers, the 16% interest rate will be reduced to the rate of interest charged to economically weak group.

7) Prior extension credit to farmer, this credit scheme provided by Bank Indonesia as direct credit to the Ministry of Agriculture.

8) For new projects and extension of existing plantation areas reaching minimum economies of scale, own financing is set at 30%.

TABLE II
PLACEMENT OF SHARES AND BONDS
IN THE CAPITAL MARKET

Enterprises	Shares / bonds issued			
	Date of issuance permit (go public)	Number of issuance	Initial price share/bond	Value (millions of rupiah)
I. Shares		58,719,592		133,103
PT Semen Cibinong		557,096		7,022
— Emission I	08.06.1977	(342,116)	10,000	(3,421)
— Emission II	05.10.1982	(214,980)	16,750	(3,601)
PT Centex		700,000		3,558
— Emission I	05.04.1979	(116,000)	5,500	(638)
— Emission II	09.24.1983	(584,000)	5,000	(2,920)
PT BAT Indonesia	10.19.1979	6,600,000	2,500	16,500
PT Tificorps	12.29.1979	1,100,000	7,250	7,975
PT Richardson Vicks Ind.		420,000		1,260
— Emission I	06.03.1980	(280,000)	3,000	(840)
— Emission II	12.15.1982	(50,000)	3,000	(150)
— Emission III	12.20.1983	(30,000)	3,000	(90)
— Emission IV	12.03.1986	(60,000)	3,000	(180)
PT Goodyear Indonesia	11.10.1980	6,150,000	1,250	7,688
PT Merck Indonesia	06.23.1981	1,680,000	1,900	3,192
PT Multi Bintang Indonesia	10.27.1981	3,520,012	1,570	5,526
PT Unilever Indonesia	11.16.1981	9,200,000	3,175	29,210
PT Sepatu Bata		1,950,000		2,486
— Emission I	02.06.1982	(1,200,000)	1,275	(1,530)
— Emission II	01.09.1985	(288,000)	1,275	(367)
— Emission III	12.24.1986	(462,000)	1,275	(589)
PT Unitex	05.12.1982	733,500	1,475	1,082
PT Sucaco	06.05.1982	4,800,000	1,100	5,280
PT Bayer Indonesia	06.16.1982	2,324,100	1,325	3,079
PT Panin Bank		4,800,000		16,917
— Emission I	10.28.1982	(1,637,500)	3,475	(5,690)
— Emission II	05.18.1983	(3,162,500)	3,550	(11,227)
PT Squibb Indonesia	02.12.1983	972,000	1,050	1,021
PT Aj Panin Putra	04.30.1983	1,020,000	2,950	3,009
PT Sari Husada		1,409,720		2,612
— Emission I	06.04.1983	(1,000,000)	1,850	(1,850)
— Emission II	07.16.1984	(192,000)	1,850	(355)
— Emission III	02.23.1987	(217,720)	1,870	(407)
PT Pan Union Insurance	08.13.1983	765,000	1,150	880
PT Regnis Indonesia	11.21.1983	523,500	1,540	806
PT Pfizer Indonesia	12.21.1983	600,000	1,425	855
PT Delta Djakarta		389,088		1,148
— Emission I	12.23.1983	(347,400)	2,950	(1,025)
— Emission II	07.08.1985	(41,688)	2,950	(123)
PT Hotel Prapatan	12.29.1983	1,665,976	1,050	1,749
PT Jakarta Int'l Hotel	12.30.1983	6,618,600	1,500	9,928
PT Prodentia Indonesia	10.09.1984	221,000	1,450	320
II. Bonds		285,915		404,718
PT Jasa Marga		239,750		293,718
— Issuance I	01.15.1983	(200,000)		(23,718)
— Issuance II	09.10.1983	(13,500)		(40,000)
— Issuance III	12.23.1983	(3,600)		(40,000)
— Issuance IV	12.23.1983	(3,600)		(20,000)
— Issuance V	12.23.1983	(3,600)		(20,000)
— Issuance VI	12.12.1984	(3,600)		(40,000)
— Issuance VII	12.12.1984	(2,900)		(30,000)
— Issuance VIII	11.27.1985	(3,700)		(40,000)
— Issuance IX	12.23.1985	(5,250)		(60,000)
Bank Pembangunan Indonesia		36,395		75,000
— Issuance I	01.29.1983	(32,650)		(25,000)
— Issuance II	08.28.1986	(3,745)		(50,000)
PT Papan Sejahtera		9,770		36,000
— Issuance I	04.16.1983	(6,280)		(6,000)
— Issuance II	08.29.1985	(3,490)		(30,000)
Total I + II		59,005,507		537,821

TABLE III
PLANNED AND ACTUAL GOVERNMENT REVENUES AND EXPENDITURES
DURING REPELITA I, 1969/70-1973/74
(billions of rupiah)

Particulars	1969/70		1970/71		1971/72		1972/73		1973/74		Total	
	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals
Domestic Revenues	228	244	276	344	324	428	374	590	428	968	1,630	2,574
Routine expenditures	204	217	243	288	281	349	319	438	357	713	1,404	2,005
Government savings	24	27	33	56	43	79	55	152	71	255	226	569
Foreign aid	99	91	120	120	180	136	209	158	225	203	833	709
— a. Project aid	(36)	(25)	(45)	(41)	(95)	(45)	(124)	(62)	(140)	(114)	(440)	(288)
— b. Program aid	(63)	(66)	(75)	(79)	(85)	(91)	(85)	(96)	(85)	(89)	(393)	(421)
Development funds	123	118	153	176	223	215	264	310	296	458	1,059	1,278
Development expenditures	123	118	153	169	223	196	264	298	296	451	1,059	1,233
— a. Rupiah	(87)	(93)	(108)	(128)	(128)	(151)	(140)	(236)	(156)	(337)	(619)	(945)
— b. Project aid	(36)	(25)	(45)	(41)	(95)	(45)	(124)	(62)	(140)	(114)	(440)	(288)
Surplus (+)/deficit (-)	--	--	--	+7	--	+19	--	+12	--	+7	--	+45

Source : Ministry of Finance.

TABLE IV
PLANNED AND ACTUAL GOVERNMENT REVENUES AND EXPENDITURES
DURING REPELITA III, 1974/75-1978/79
(billions of rupiah)

Particulars	1974/75		1975/76		1976/77		1977/78		1978/79		Total	
	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals
Domestic revenues	1,363	1,754	2,074	2,242	2,277	2,906	2,608	3,535	3,089	4,266	11,411	14,703
Routine expenditures	961	1,016	1,294	1,333	1,428	1,630	1,630	2,149	1,905	2,744	7,218	8,871
Government savings	402	738	780	909	849	1,276	978	1,386	1,184	1,522	4,193	5,832
Foreign aid	214	232	192	492	208	784	218	773	224	1,036	1,056	3,316
— a. Project aid	(--)	(196)	(--)	(472)	(--)	(774)	(--)	(737)	(--)	(988)	(--)	(3,166)
— b. Program aid	(--)	(36)	(--)	(20)	(--)	(10)	(--)	(36)	(--)	(48)	(--)	(150)
Development funds	616	970	972	1,401	1,057	2,060	1,196	2,159	1,408	2,558	5,249	9,148
Development expenditures	616	962	972	1,398	1,057	2,054	1,196	2,156	1,408	2,556	5,249	9,126
— a. Rupiah	(--)	(766)	(--)	(926)	(--)	(1,280)	(--)	(1,419)	(--)	(1,568)	(--)	(5,960)
— b. Project aid	(--)	(196)	(--)	(472)	(--)	(774)	(--)	(737)	(--)	(988)	(--)	(3,166)
Surplus (+) / deficit (-)	--	+8	--	+3	--	+6	--	+3	--	+2	--	+22

Source : Ministry of Finance.

TABLE V
PLANNED AND ACTUAL GOVERNMENT REVENUES AND EXPENDITURES
DURING REPELITA III, 1979/80-1983/84
(billions of rupiah)

Particulars	1979/80		1980/81		1981/82		1982/83		1983/84		Total	
	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals
Domestic revenues	5,440	6,697	6,090	10,227	6,804	12,213	7,526	12,418	8,412	14,433	34,272	55,988
Routine expenditures	3,446	4,062	3,845	5,800	4,294	6,978	4,767	6,996	5,308	8,412	21,660	32,248
Government savings	1,994	2,635	2,245	4,427	2,510	5,235	2,759	5,422	3,104	6,021	12,512	23,740
Foreign aid	1,494	1,381	1,647	1,494	1,840	1,709	2,019	1,940	2,237	3,882	9,237	10,406
— a. Project aid	(1,429)	(1,316)	(--)	(1,430)	(--)	(1,664)	(--)	(1,925)	(--)	(3,867)	(--)	(10,202)
— b. Program aid	(65)	(65)	(--)	(64)	(--)	(45)	(--)	(15)	(--)	(15)	(--)	(204)
Development funds	3,488	4,016	3,892	5,921	4,350	6,944	4,778	7,362	5,341	9,903	21,849	34,146
Development expenditures	3,488	4,014	3,892	5,916	4,350	6,940	4,778	7,360	5,341	9,899	21,849	34,129
— a. Rupiah	(2,059)	(2,698)	(--)	(4,486)	(--)	(5,276)	(--)	(5,435)	(--)	(6,032)	(--)	(23,927)
— b. Project aid	(1,429)	(1,316)	(--)	(1,430)	(--)	(1,664)	(--)	(1,925)	(--)	(3,867)	(--)	(10,202)
Surplus (+) deficit (-)	--	+2	--	+5	--	+4	--	+2	--	+4	--	+17

Source : Ministry of Finance.

TABLE VI
PLANNED AND ACTUAL GOVERNMENT REVENUES AND EXPENDITURES
DURING REPELITA III, 1984/85-1988/89
(billions of rupiah)

Particulars	1984/85		1985/86		1986/87		1987/88		1988/89		Total	
	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals	Repelita	Actuals
Domestic revenues	16,149	15,905	19,794	19,253	24,282	16,141	28,319	17,236	33,542	--	121,662	--
Routine expenditures	10,101	9,429	12,043	11,951	14,583	13,559	16,891	15,026	20,494	--	73,308	--
Government savings	6,048	6,476	7,751	7,302	9,700	2,582	11,428	2,210	13,048	--	48,354	--
Foreign aid	4,411	3,478	5,098	3,572	5,715	5,752	6,687	5,547	7,476	--	29,387	--
— a. Project aid	(4,371)	(3,409)	--	(3,503)	--	(3,795)	--	(4,419)	--	--	--	--
— b. Program aid	(40)	(69)	--	(69)	--	(1,957)	--	(1,128)	--	--	--	--
Development funds	10,459	9,954	12,849	10,874	15,415	8,334	18,115	7,757	20,524	--	77,741	--
Development expenditures	10,459	9,952	12,849	10,873	15,415	8,332	18,115	7,757	20,524	--	77,741	--
— a. Rupiah	(6,088)	(6,543)	--	(7,370)	--	(4,537)	--	(3,338)	--	--	--	--
— b. Project aid	(4,371)	(3,409)	--	(3,503)	--	(3,795)	--	(4,419)	--	--	--	--
Surplus (+) / Deficit (—)	--	+2	--	+1	--	+2	--	--	--	--	--	--

Source : Ministry of Finance.

TABLE VII
INDONESIA'S BALANCE OF PAYMENTS ¹⁾
(millions of dollars)

Items	1982/83	1983/84	1984/85	1985/86	1986/87*
A. Goods and services	- 7,039	- 4,151	- 1,968	1,832	- 4,051
1. Merchandise goods, exports f.o.b	18,672	19,816	19,901	18,612	13,697
imports f.o.b	- 18,496	- 16,304	- 14,427	- 12,552	- 11,451
2. Freight and insurance on imports	- 2,129	- 1,880	- 1,571	- 1,356	- 1,237
3. Other transportation	- 250	- 285	- 293	- 274	- 229
4. Travel	- 248	- 93	- 72	- 28	157
5. Investment income	- 3,130	- 3,934	- 3,698	- 3,814	- 3,153
5.1. Oil and LNG sector	(- 2,097)	(- 2,439)	(- 2,009)	(- 2,106)	(- 1,121)
5.2. Direct investment and others	(- 1,033)	(- 1,495)	(- 1,689)	(- 1,708)	(- 2,032)
6. Government, not included elsewhere	- 114	- 114	- 118	- 124	- 125
7. Other services	- 1,344	- 1,357	- 1,690	- 2,296	- 1,710
Balance of goods and services (1 through 7)	- 7,039	- 4,151	- 1,968	- 1,832	- 4,051
Balance of goods (1)	176	3,512	5,474	6,060	2,246
Balance of services (2 through 7)	- 7,215	- 7,663	- 7,442	- 7,892	- 6,297
B. Grants	108	113	69	110	115
8. Private	--	--	--	--	--
9. Government	108	113	69	110	115
C. Special Drawing Right (SDRs)	--	--	--	--	--
D. Total (A + B + C)	- 6,931	- 4,038	- 1,899	- 1,722	- 3,936
E. Capital Movements	9,052	3,791	1,990	2,220	5,198
E.1. Other than reserves	5,772	5,861	2,657	2,250	4,460
10. Direct investment and other long-term capital movements	5,138	5,502	2,419	1,868	3,440
10.1. Direct investment	311	193	245	299	252
10.2. Bonds	315	368	--	300	--
a. Government	315	368	--	300	--
b. Private	--	--	--	--	--
10.3. Other long-term capital movements	4,512	4,941	2,174	1,269	3,188
a. Government	3,662	4,302	2,158	1,378	3,228
b. Private	850	639	16	- 109	- 40
11. Short-term capital movements	634	359	238	382	1,020
11.1. Government	--	--	--	--	738
11.2. Private	634	359	238	382	1,020
E.2. Reserves	3,280	- 2,070	- 667	- 30	738
12. Monetary gold	- 102	95	228	- 111	- 178
13. Special Drawing Rights	48	226	- 10	- 42	17
14. Reserves position in the Fund	- 5	162	9	- 15	- 9
15. Foreign exchange	3,339	- 2,553	- 893	138	908
16. Others	--	--	- 1	--	--
F. Errors and Omissions (between D and E)	- 2,121	247	- 91	- 498	- 1,262

- 1) - The presentation basically follows the Fund.
- Positive is for credit and negative is for debit.

TABEL VIII
EXPORTS BY COUNTRY OF DESTINATION
(millions of \$)

Country	1982/83	1983/84	1984/85	1985/86	1986/87
Europe					
Belgium and Luxemburg	21	33	65	52	98
Denmark	9	4	5	3	7
France	46	48	56	76	95
Germany, Fed. Rep. of	250	267	236	282	328
Italy	113	134	169	151	150
Netherlands	263	281	379	398	445
Norway	2	2	1	3	8
Sweden	5	7	8	11	15
United Kingdom and Rep. of Ireland	129	217	153	199	199
Others	134	192	287	281	199
Total	972	1,185	1,359	1,456	1,544
Share	4.5%	5.4%	6.3%	7.9%	11.4%
America					
Canada	19	37	44	53	61
United States of America	3,287	4,733	4,342	4,145	2,745
Others	683	1,186	963	300	74
Total	3,989	5,956	5,349	4,498	2,880
Share	18.6%	27.0%	24.9%	24.5%	21.3%
Africa	59	98	138	180	161
Share	0.3%	0.4%	0.6%	1.0%	1.2%
Asia					
Hongkong	148	198	306	356	340
India	9	69	34	43	64
Iraq	4	6	2	3	3
Japan	10,954	9,768	10,135	8,446	5,885
Malaysia	60	68	96	73	84
Pakistan	26	26	45	50	19
Philippines	243	253	194	188	86
Singapore	3,265	3,068	1,972	1,487	1,096
Thailand	26	58	100	94	59
Others	808	812	1,289	1,261	1,051
Total	15,543	14,326	14,173	12,001	8,687
Share	72.6%	65.0%	66.0%	65.4%	64.1%
Australasia					
Australia	590	208	299	123	154
New Zealand and Oceania	264	276	166	89	71
Total	854	484	465	212	225
Share	4.0%	2.2%	2.2%	1.2%	1.7%
Others	--	--	--	--	35
Share	--	--	--	--	0.3%
Grant Total	21,417	22,049	21,484	18,347	13,532

Source : Central Bureau of Statistics.

TABLE IX
IMPORTS BY COUNTRY OF ORIGIN
(millions of dollars)

Country	1982/83	1983/84	1984/85	1985/86	1986/87
Europe					
Belgium and Luxemburg	112	116	102	99	106
Czechoslovakia	7	6	10	3	16
France	608	588	367	289	309
Germany, Democratic Rep. of	7	7	3	3	4
Germany, Federal Rep. of	1.114	680	919	576	789
Italy	120	106	114	101	172
Netherlands	206	262	282	181	217
Spain	153	161	78	87	47
Sweden	90	111	105	102	120
Switzerland	265	83	88	73	121
United Kingdom and Rep. of Ireland	477	349	281	341	380
Others	229	216	230	126	158
Total	3.388	2.685	2.579	1.981	2.439
Share	18,8%	18,7%	19,1%	20,1%	21,1%
America					
Canada	163	184	330	201	212
United State of America	2.656	2.451	2.433	1.549	1.533
Others	124	145	139	186	212
Total	2.943	2.780	2.902	1.936	1.957
Share	16,3%	19,3%	21,5%	19,7%	16,9%
Africa	206	135	151	168	124
Share	1,1%	0,9%	1,1%	1,7%	1,1%
A s i a					
Burma	30	52	18	1	1
China, Rep. of	242	189	214	264	353
Hongkong	68	86	64	62	101
India	180	31	49	16	29
Japan	4.418	3.486	3.162	2.689	3.267
Malaysia	65	50	102	33	59
Pakistan	14	51	11	31	33
Philippines	217	106	15	27	61
Singapore	3.114	2.913	1.624	663	1.356
Thailand	222	130	66	38	74
Others	2.497	1.275	2.068	1.397	1.242
Total	11.067	8.369	7.393	5.221	6.576
Share	61,2%	58,0%	54,7%	53,1%	56,9%
Australasia					
Australia	381	382	408	454	396
New Zealand and Oceania	94	72	74	74	75
Total	475	454	482	528	471
Share	2,6%	3,1%	3,6%	5,4%	4,0%
Grant Total	18.079	14.423	12.507	9.834	11.567

Source : Central Bureau of Statistics.

APPENDIX D

GLOSSARY

ASEAN Preferential Tariff Quota Scheme is a proposal to create tariff and quota for ASEAN products which have been excluded from Preferential Trading Arrangements. Member countries will be expected to enter bilateral negotiations to accord tariff preferential to items considered semi-sensitive to their domestic industries. The minimum margin of tariff preference will be set at 25%, while the quota level will be set on the basis of an agreed percentage of a member country's total imports of the product concerned.

BFF (Bufferstock Financing Facility) is an IMF facility provided to its members to meet their contributions to approved international commodity agreements for financing stabilization operations under international bufferstock schemes.

CFF (Compensatory Financing Facility) is a financial assistance provided by the IMF to its members experiencing balance of payments difficulties resulting from temporary export shortfalls due largely to factors beyond the members' control.

Cooperative Credit is a high-priority credit channeled by banks to cooperatives which is further extended to cooperative members for the provision of goods of high priority currently including rice, secondary crops, smallholders' sugarcane, and cloves. The terms and conditions of this credit are the same as those of KIK and KMKP.

Currency Budget constitutes a quarterly IMF program fixing member countries' currencies which fulfill the requirements to be used in the operational budget program. In that program a member experiencing balance of payments improvements is obliged either to conduct early repurchase on loans received from the IMF or to set aside

part of its foreign exchange reserves in exchange for its currency held by the IMF.

Designation Plan is a quarterly IMF program which designates certain countries as participants to receive specified amounts of SDRs from other participants and to provide the latter with equivalent amounts of freely usable currency.

Direct Credit is a credit extended by Bank Indonesia to official entities, state enterprises or financial institutions in order to assist the implementation of high priority activities, such as the construction of low-cost housing and provision of national food-stock.

Discount Facility is a Bank Indonesia's short-term credit for commercial banks facing liquidity problems. Discount Facility I is provided to banks which encounter daily liquidity problems while Discount Facility II is provided to banks which encounter liquidity problems arising from investment credit activities.

Domestic liquidity ($= M_2$) consists of money supply (M_1) and quasi money constituting the liability of the monetary system to the community.

Early Repurchase is the earlier repayment on facilities obtained from the IMF since a member country has achieved an improvement in its balance of payments.

Economically-weak group is a group comprising either individual entrepreneurs including farmers, fishermen and craftsmen or a corporate body. The net assets, excluding homestead, do not exceed Rp 100 million for those engaging in manufacturing and construction and Rp 40 million for those engaging in trade, services, and other sectors. With regard to corporate body, 75% of the shares shall be held by the economically-weak group or 50% of the

management of the corporation is actively conducted by the economically-weak group.

Eksportir Produsen (exporting producer) is an enterprise licensed to produce and export its own production.

HPH (Hak Pengusahaan Hutan) or Forest Exploitation Right is a right to exploit a certain plot of forest, including wood cutting, maintaining and preserving the forest and processing and marketing the forest products according to the HPH plan and prevailing regulations.

IGGI (Inter-Governmental Group on Indonesia) is a group of aid donors of Indonesia comprising governments and international institutions. The group, established in 1967, conducts regular meetings to assess Indonesia's needs for credits. Aid donors include Australia, Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, New Zealand, Switzerland, the United Kingdom, the United States, the Asian Development Bank, the International Monetary Fund, the United Nations Development Program, and the World Bank. The observers include Austria, Denmark, Finland, Norway, Spain, and representatives of the Organization for Economic Cooperation and Development, the European Economic Community, and the United Nations Children's Emergency Fund.

KIK (Kredit Investasi Kecil) or small-scale investment credit, is a small-scale investment credit (medium- or long-term), designed to assist indigenous small-scale entrepreneurs or enterprises on special terms and conditions for financing their investment on rehabilitating, modernizing, expanding, or founding new projects.

KMKP (Kredit Modal Kerja Permanen) or permanent working capital credit, is a credit on special terms and conditions with simple procedures, especially designed to assist indigenous small-scale entrepreneurs or enterprises for financing their working capital needs.

Kontrak Bagi Hasil or Contract of Production Sharing Agreement is a 20-year agreement between Pertamina and foreign contractors to share oil production. Under this agreement, the management is handled by Pertamina and the operational risk is undertaken by contractors, while the production sharing is fixed in kind (oil) after the production cost has been subtracted from the total production (maximum 40% of the total production) with a share of 85 : 15.

Kontrak Karya or Contract of Work Agreement is a 30-year contract between Pertamina and foreign oil contractors. Under this contract, the management and the operational risk are undertaken by the contractor, while the production sharing is fixed in terms of money (the US dollar) with a share of 85 : 15.

Kontrak Kerjasama Patungan or Joint Cooperation Contract Agreement is a cooperation in the field of oil between Pertamina and foreign contractors in a region that has been explored by Pertamina. Under this contract, the management is handled by Pertamina and the operational risk is undertaken by both parties, while the production sharing is set such that the first 50% is taken by Pertamina and the remainder is divided according to the formula of Production Sharing Contract.

KUD (Koperasi Unit Desa) or Village Cooperative Unit is a primary cooperative established by farmers. This cooperative is primarily entrusted with distributing farm inputs, channeling credits to farmers, and marketing farm products.

Kupedes (Kredit Umum Pedesaan) or general rural credit is a type of credit designed to encourage the development of small-scale entrepreneurs in rural areas as a replacement of mini and midi credits.

KUT (Kredit Usaha Tani) is a type of working capital credit provided by banks through KUD to farmers who are executing the paddy or secondary crops intensification programs. This credit replaces the Bimas credit which was terminated on April 1, 1985.

Liquidity credit is a refinancing facility of Bank Indonesia to finance banks' loans to borrowers or to assist banks in case of liquidity problems.

Money supply ($= M_1$) comprises currency and demand deposits constituting the cash liabilities of the monetary system to the community.

PMA (Penanaman Modal Asing) or foreign direct investment scheme is a direct foreign capital investment subject to prevailing Indonesian laws with the risk of investment being fully borne by the capital owner.

Quasi money consists of time and savings deposits in rupiah and foreign currency and demand deposits in foreign currency held by domestic private sector.

Repo's or Repurchase Agreement is a securities trading agreement in which the seller will repurchase the securities on a predetermined date.

SBI (Sertifikat Bank Indonesia) or Bank Indonesia certificate is a certificate of deposits issued by Bank Indonesia that may be sold to banks or non-bank financial institutions (NBFIs) and can be traded among them or be discounted to securities house. The securities house may in turn rediscount them to Bank Indonesia.

SBPU (Surat Berharga Pasar uang) or money market securities is a short-term securities issued by a business entity or bank that may be traded among banks or NBFIs. Furthermore, banks and NBFIs may discount their SBPUs to the securities house and the securities house may in turn rediscount them to Bank Indonesia. Securities house is a non-bank financial institutions designated to execute the trading of its own or its customers' money market securities (SBPUs). Also, it is permitted to rediscount these SBPUs to bank Indonesia.

Special Funds are ADB resources comprising contributions made by member countries (for the Bank's concessional lendings and technical assistance activities) and capital set aside for concessional lendings.

Tabanas (Tabungan Pembangunan Nasional) or national development savings scheme is essentially a savings scheme which is not restricted as to maturity and amounts deposited and withdrawn. Tabanas is acceptable as collateral for bank loans.

Taska (Tabungan asuransi berjangka) or time insurance savings scheme constitutes a savings scheme which is tied up with life insurance and guarantees the depositors that in the event of his demise prior to the maturity of the scheme, the amount of money which would be rightfully his at maturity (12 months) would revert to his heir, in spite of the fact that the depositor concerned has as yet failed to deposit the total amount of savings due under the terms of the savings scheme. People aged 5 to not more than 55 years are eligible for the TASKA scheme. Monthly installment payments must be made regularly and for amounts as specified by the TASKA savings card.