

BANK INDONESIA



REPORT FOR THE FINANCIAL YEAR 1987/88

BANK INDONESIA

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TASIKMALAYA, TEGAL, TERNATE, UJUNGPAJARAN, YOGYAKARTA

Position as per end of March 1988

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**GOVERNMENT COMMISSIONER AND
BOARD OF MANAGING DIRECTORS**



Prof. Dr. Adrianus Mooy
Governor



A.J. Winoto S.
Government Commissioner



Teuku Mohamad Zahirsjah
Managing Director



Marjanto Danoesapoetro
Managing Director



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Managing Director



Sujitno Siswowidagdo
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Managing Director

NOTES, SYMBOL, 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

PREFACE

I take pleasure in presenting the Annual Report of Bank Indonesia for the fiscal year 1987/88, which provides comprehensive information on domestic and external economic developments. It is my hope that the information contained in this report will be useful to the general public as well as government and private institutions.

We should be delighted that Indonesia has achieved a favorable economic outcome in 1987/88 despite challenging problems, such as speculation which threatened the domestic foreign exchange market, uncertain developments of exchange rates among world major currencies, and a world economy characterized by protectionist tendencies in several industrial countries. This favorable outcome was achieved mainly due to a series of deregulation and fundamental adjustment measures undertaken by the Government of Indonesia in recent years.

The Government's policies implemented during the reporting year included on-going prudent monetary and fiscal policies, management of a realistic rupiah exchange rate, and a series of deregulation measures. Results of these policy measures were evident in several favorable developments. By way of examples, there was a major increase in non-oil/gas exports; there was a significant improvement in the current account deficit and the overall surplus in the balance of

payments; relative stability was maintained in prices and the monetary sector; and, substantially larger funds were mobilized from the public through sustainable growth of Indonesian financial institutions.

These achievements in 1987/88 provide the Indonesian economy with a strong foundation for economic development during the last stage of Repelita IV. Based on the estimation of our capacity to promote growth and taking into consideration world economic growth, in 1988/89 the Indonesian economy is expected to achieve favorable growth. The success of policies and fundamental adjustment measures undertaken by the Government also represent important factors contributing to the maintenance of development momentum for the Indonesian economy.

Finally, it may be noted that completion of this annual report owes much to cooperation between Bank Indonesia, ministerial offices, and related government institutions.

Jakarta, December, 1988

A handwritten signature in black ink, consisting of a large, stylized 'A' followed by 'drianus Mooy' in a cursive script.

Prof. Dr. Adrianus Mooy
Governor of Bank Indonesia

I. INTRODUCTION

In 1987/88, the Indonesian economy continued to progress at a sustainable rate despite persistent pressures stemming from the external developments, including slower world economic growth, uncertain world oil prices, continued fluctuations of exchange rates among several major currencies, and protectionist measures in several industrial countries. This progress was attributable in large measure to the success of various fundamental adjustment measures taken by the Government during the past few years. These measures, which reflect more harmony between a top-down development strategy and a bottom-up approach, were designed inter alia to enhance efficiency in the production of domestic products, to encourage non-oil/gas exports, and to promote the role of the business sector and the community in the process of development.

Through coordinated monetary and fiscal policy, realistic management of the exchange rate, and a series of deregulation measures in several sectors, Indonesia's economy succeeded in coping well with internal and external challenges in 1987/88. This achievement was reflected in a substantial reduction in the external current account deficit and in an increase in private investment. Furthermore, owing to the prudent stance of monetary policy, stability was maintained in the financial sector, despite disruptive speculation in the foreign exchange market.

In the reporting year, the Government made particular efforts to pursue a cautious foreign borrowing policy as reflected in greater amounts of special assistance in the form of

program aid and local cost financing. It is worth noting that in taking on new foreign borrowings, which supplement development funds, the Government continued to place priority on soft terms and freedom from political ties while taking into consideration the nation's capacity to repay. In association with other policies, these loans are expected to encourage economic development and to promote non-oil/gas exports, which will reduce Indonesia's debt service ratio (DSR), thereby providing the means to repay the nation's obligations in a timely fashion.

A sharp rise in exports, particularly among non-oil/gas commodities, constituted one of the outstanding developments of Indonesia's economy in 1987/88. Impressive export performance not only supported Indonesia's efforts to improve the balance of payments but it also stimulated economic growth and helped distribute more evenly the fruits of development. These outcomes were occasioned not only by higher prices and volumes of major tradeable goods but also by growing diversity in the range of commodities exported—particularly manufacturing products using domestic raw materials and labor intensive technology—and through increased exports of handicrafts. Furthermore, as a result of improvements in Indonesia's competitiveness, several industries that initially supplied only the domestic market, have gradually shifted their orientation toward overseas markets.

With a view to further promoting non-oil/gas exports, encouraging investment, developing the capital market, and attracting foreign exchange through the tourism sector,

the Government undertook further deregulation in the reporting year, principally in the form of the December 24, 1987 policy package. This policy package, coupled with similar measures earlier in the year, served to increase Indonesia's economic resilience and its capacity to meet difficult challenges originating from internal and external sources.

In 1987, Indonesia's real output, measured by gross domestic product (GDP) in 1983 prices rose by 3.6%. This growth rate was a little below that of the preceding year (4.0%) owing mainly to a decline in oil production. Output growth in the oil/gas sector fell from 4.5% to -1.3%, whereas that of non-oil/gas sector rose from 3.9% to 4.9% reflecting a marked pick-up in business activity.

This favorable developments in the non-oil/gas sector mainly stemmed from impressive growth in export industries. Output of the non-oil/gas manufacturing subsector increased by 7.1% compared with 4.9% in the preceding year. Significant increases were recorded in several manufacturing products such as textiles, machines and electrical appliances, motor vehicle tires, palm oil, handicrafts, and plywood. In addition, output of trade and other services also accelerated appreciably from 4.3% and 4.2%, respectively in 1986 to 6.0% and 5.5% in 1987. This result was also due in part to increasing activity in the manufacturing sector which raised the demand for transportation, communication, and banking financial services. In 1987, the agricultural sector recorded a growth of 2.7% compared with 2.6% in the preceding year, reflecting higher growths in small-scale plantation crops and the forestry subsectors. The food crops subsector experienced a lower growth in 1987 due to the effects of the long drought and plant pests on rice production.

The oil/gas sector (comprising oil/gas mining and oil/LNG refining subsectors) experienced a reversal from 4.5% growth in 1986 to a decline of 1.3% in 1987. This drop was mainly attributable to lower output of crude and refined oil, which was only partly offset by a significant increase in the output of LNG and LPG. It is worth noting that the decrease in oil production was closely related to OPEC attempts to stabilize oil prices in the world market.

On the external side, Indonesia's balance of payments in the reporting year showed a favorable progress owing to the surge of non-oil/gas exports (41.2%) coupled with the improvement in oil prices. This progress was reflected in a significant narrowing of the current account deficit from \$4,051 million to \$1,707 million despite higher interest payments on foreign debt. The overall balance of payments recorded a significant surplus of \$1,585 million compared with a deficit of \$738 million in the year before. At the end of the reporting year, official foreign exchange reserves held by Bank Indonesia stood at \$6,688 million, an amount adequate to finance non-oil/gas imports for 6.8 months. Taking into account foreign exchange reserves held by foreign exchange banks, national foreign exchange reserves amounted to \$10,392 million or sufficient to finance non-oil/gas imports for 10.7 months.

In the reporting year, overall exports rose by 33.9% to \$18,343 million, comprising non-oil/gas exports of \$9,502 million and oil/gas exports of \$8,841 million. The surge in non-oil/gas exports (41.2%) was due to improved prices of several major export commodities and to higher export volumes. In addition, oil/gas exports also increased rapidly (by 26.9%) owing to a rise in average oil price

from \$12.50 in 1986 to \$17.56 per barrel in 1987. It is noteworthy that in the reporting year export earnings from non-oil/gas exceeded those of oil/gas for the first time since 1974/75.

Imports increased by 13.1% to \$12,952 million in the reporting year stemming from higher imports of oil/gas and non-oil/gas companies. Imports of oil/gas companies rose by 12.4% as a result of higher price and volume of imported arabian light crude (ALC) used to meet the needs of domestic refineries. Imports of non-oil/gas companies rose by 13.3% stemming from an increase in imports financed by general foreign exchange (15.6%) and imports under foreign capital inflows (43.2%). The significant increase in imports of non-oil/gas companies was closely associated with the pick-up in domestic economic activity, particularly for production for exports through certain government facilities.

In the reporting year, net capital inflows of the non-monetary sector narrowed by 29.3% to \$3,235 million. This was mainly attributable to a decline of 16.4% in gross official loan disbursements to \$4,575 million owing to a significant drop in new commercial loans, and a sharp increase in amortization costs especially as regards non-dollar external debt. Net private capital inflows increased significantly, mainly owing to higher capital inflows of foreign direct investment (PMA). It may be noted that in the reporting year the amount of local cost financing rose from \$503 million to \$1,266 million.

In the reporting year, the stance of monetary policy continued to be directed toward maintaining price stability and encouraging economic activity, expanding employment

opportunities, improving the distribution of income, as well as alleviating pressures on the balance of payments. To reach these goals, Bank Indonesia continued to control the money supply by means of open market operations. In order to enhance flexibility and effectiveness in this regard, Bank Indonesia improved trading procedures associated with Bank Indonesia certificates (*Sertifikat Bank Indonesia* or SBI) and money market securities (*Surat Berharga Pasar Uang* or SBPU); since July 1987, Bank Indonesia has sold short-term SBIs and purchased short-term SBPUs on the basis of a daily auction. In addition, the ceiling on SBPU purchases imposed by Bank Indonesia was changed from committed to uncommitted line.

Early in the reporting year, financial developments were marked by an outbreak of speculation in the foreign exchange market which adversely affected monetary stability and intensified pressures on the balance of payments. To fend off the speculative attack, the Government undertook a series of measures designed to tighten liquidity just before the middle of 1987. These measures included : raising interest rates on SBIs and discount facilities and rediscount rates on SBPUs; gradually lowering the rediscount ceiling on banks' SBPUs; and transferring deposits of some public enterprises from banks into SBIs.

In line with its adherence to prudent monetary policy, Bank Indonesia issued Rp27,124 billion of SBIs in the reporting year, which was 279.8% above the level of the preceding year. After lowering the ceiling on SBPUs around mid year 1987 in order to overcome the speculation in foreign exchange noted above, since July 1987 Bank Indonesia has purchased only a limited amount of SBPUs.

Despite pursuit of a tight monetary policy in response to the speculative attack of June 1987, money supply (M_1) grew by 9.8% during 1987/88 (reaching Rp12,626 billion), the same pace as during the preceding year. This growth reflected the Government's determination to adjust money supply to meet the needs of domestic liquidity while pursuing other monetary targets. Furthermore, domestic liquidity (M_2) increased considerably, by 25.2% (to Rp35,660 billion) compared with 17.9% in the preceding year. This pick-up in domestic liquidity was due to an acceleration in quasi money, which rose by 35.6% compared with 24.1% in the preceding year. With regard to factors affecting the money supply, net foreign assets, the government sector, and bank credits contributed expansionary effects while net other items contributed a contractionary effect. It should be noted that the expansionary effect of net foreign assets was mainly accounted for by an increase in non-oil/gas exports.

Despite the devaluation of September 1986 and the long drought in 1987/88, inflation in the reporting year was held to a tolerable rate owing in part to prudent monetary and realistic fiscal policies. The rate of inflation as measured by the consumer price index (CPI) declined from 8.83% in 1986/87 to 8.29% in the reporting year.

Government finances continued to come under pressure during the reporting year due in large part to the increasing debt service payments and to the sluggish and uncertain oil prices in the world market. To cope with these challenges, in 1987/88 the Government continued to economize on routine expenditures, to sharpen its priorities on development spending, and to raise domestic revenues by simplifying tax procedures,

broadening the tax base, and improving tax administration. In addition, the Government sought foreign funds for local cost financing of development projects and endeavored to raise non-tax revenues, inter alia, by enhancing the efficiency of state enterprises.

Following the long-established principle of a balanced budget, the Government's budget for fiscal year 1987/88 had been targeted at Rp22,783 billion or 6.4% higher than that for the preceding year. The outturn for fiscal year 1987/88 reached Rp26,961 billion or 23.2% higher than that for the preceding year. On the revenue side, non-oil/gas receipts again exceeded those of oil/gas; high non-oil/gas revenues stemmed from increased yields on several types of taxes and non-tax sources, whereas oil/gas revenues resulted from improved world oil prices. As concerns expenditures, the higher outturn was partly due to a rise in routine outlays, which include subsidies to local governments and personnel expenditures. Government savings (which constitute the balance between domestic revenues and routine expenditures) amounted to Rp3,321 billion or 28.6% higher than the preceding year.

As a result of rising activity in the private sector, bank credits increased by 26.0% during the reporting year (to Rp35,081 billion) compared with 24.2% in the preceding year. A major portion of these credits (72.9%) constitutes working capital credits, which rose by 28.3% to Rp25,560 billion; the remainder comprises investment credits which increased by 20.0% during the reporting year.

By group of banks, credits extended by state banks increased by 21.1% reaching Rp22,894 billion at the end of the reporting year. Credits extended by private national commercial

banks (*bank umum swasta nasional* or BUSNs) amounted to Rp8,210 billion, reflecting a considerable rise of 42.2% compared with 28.6% during the preceding year. Credits extended by regional development banks (*bank pembangunan daerah* or BPDs) and foreign banks also increased. It should be noted that direct credits from Bank Indonesia, which were mostly extended through the State Savings Bank (*Bank Tabungan Negara* or BTN) to finance the house-ownership credit program, increased by 24.7% to Rp1,463 billion in the reporting year.

Viewed by economic sector, bank credits extended to all sectors except mining, recorded increases. Credits to sectors of services and agriculture registered significant increases of 35.8% and 31.6%, respectively. More moderate expansion was recorded in the trade and manufacturing sectors (29.3% and 25.4%, respectively), whereas credits to the mining sector declined by 25.4%.

With a view to promoting development activity, improving the distribution of income, and expanding employment opportunities, the banking system continued to foster priority sector activities during the reporting year. For these purposes, various types of credits—especially those to export activities, to smallscale entrepreneurs (such as KIK/KMKP), and to cooperatives—were intensified. In the reporting year, the total credits to priority sectors rose by 31.0%, reaching Rp10,486 billion with the largest increase being recorded by export credits, which rose by 87.4% to Rp2,980 billion.

To achieve the objective of expanding domestic savings in order to meet the rising needs of development, the Government continued to encourage funds mobilization

from the public through the banking system, the money market, and the capital market. To raise funds through the banking system and the money market, the Government continued to promote the role of financial institutions by institutional improvements and by guiding interest rates so as to raise savings while encouraging investment. In this regard, starting July 1987 the Government offered a single interest rate of 15% on the National Development Savings Scheme (*Tabungan Pembangunan Nasional* or Tabanas), which was previously set at 15% for a balance of up to Rp1 million and 12% for amounts in excess of Rp1 million. In addition, the Government designated more banks to handle Tabanas and Taska and to issue certificates of deposits (CDs).

Partly through these efforts, total funds mobilized by banks increased by 28.7% to Rp30,970 billion during the reporting year. The largest increase (38.5%) was recorded in time deposits which reached Rp20,654 billion due in substantial measure to a rise in interest rates paid on time deposits. The average interest on rupiah deposits increased from around 15.3% in 1986/87 to 17.5% p.a. at the end of 1987/88.

Regarding the capital market, on December 24, 1987 the Government introduced a deregulation package that improved the following: securities emission through the bourse; the issuance of sight draft shares; the licensing procedures of institutions supporting the capital market; and, the establishment of a parallel bourse. With regard to securities emission, the Government relaxed the requirements regarding the profitability of companies intending to go public and simplified listing requirements (8 required documents were reduced to 3). In addition,

the license for companies intending to go public was guaranteed to be issued in no more than 30 days and licenses issued for institutions supporting the capital market were made valid without time limitation. In order to assist companies that are not able to list their shares on the Jakarta Stock Exchange, the Government established an over-the-counter market, also known as the parallel bourse.

With the objective of enhancing the role of banks in the economy, banking supervision is aimed at maintaining and improving sound banking practices as well as promoting efficiency and professionalism. In addition, Bank Indonesia continued to encourage mergers among private national banks. In this regard, the number of banks declined from 113 to 112 as 2 BUSNs merged during the reporting year. Consequently, the number of commercial banks declined from 81 to 80, while those of development and savings banks remained unchanged at 29 and 3, respectively. The number of bank offices (comprising head, branch, and sub-branch offices) increased by 79 to 1,640 offices. It is notable that owing to rising domestic economic output, activity of the deposit money banks in the reporting year showed substantial progress as reflected in the significant increase of 21.5% in banks' total assets, compared with 18.8% in the preceding year.

Finally, it may be concluded that various policies and fundamental adjustment measures taken by the Government during the past few years have contributed in a major way to improving the pace of Indonesia's economic development. In addition, the adjustment measures have increased the resilience of the Indonesian economy providing a stronger foundation from which to overcome difficult

challenges in the coming years. From this stronger foundation—and supported by further deregulation measures—the nation is more likely to sustain momentum of economic development sufficient to fulfil the rising aspirations of the Indonesian people. In the banking sector, efforts to mobilize private savings and to channel them to productive sectors will be continued by promoting efficiency and professionalism and by maintaining interest rates at attractive levels. Moreover, inflation will be held to a level desirable for a sound business climate through coordinated monetary, fiscal, and exchange rate policies, which are expected to promote growth, investment, production, and exports.

On this basis, non-oil/gas exports are expected to increase considerably in 1988/89 owing in large part to maintenance of Indonesia's competitive position. The increase in non-oil/gas exports is expected to be followed by a further diversification of export products—mainly manufactured goods—and to be supported by an improvement in the prices of several major non-oil/gas commodities in international markets. These developments, together with greater earnings from tourism are expected to more than offset higher interest payments. Consequently, the current account deficit is expected to narrow a bit further in fiscal year 1988/89. With regard to capital movements, inflows are expected to rise considerably, due in part to greater special assistance. These developments are expected to contribute to a significant surplus of the overall balance of payments in the coming year.

The following chapters describe in more detail, developments, policies, and objectives of the financial authorities in the reporting year. **Chapter II** describes the monetary

policies of the authorities, developments related to the money supply and the factors affecting its change, and monetary prospects for 1988/89. **Chapter III** presents credit policies and developments regarding banking credits, including those devoted to high priority sectors. Policies and developments related to funds mobilization will be described in **Chapter IV** as well as developments in the areas of capital market and monetary instruments. **Chapter V** describes policies on banking supervision and the development of banking and other financial institutions. Fiscal policy and realization of the government

budget 1987/88 as well as the budget for 1988/89 are presented in **Chapter VI**. World economic developments are presented in **Chapter VII** as are international relations and regional cooperation between Indonesia and multilateral institutions such as the IMF, World Bank, ADB, IDB, IGGI, and ASEAN. The report continues with a discussion on the balance of payments in **Chapter VIII** including the prospects for 1988/89. **Chapter IX** concludes the report with a discussion of macro economic developments covering domestic output, capital investment, inflation, population, and cooperatives.

II. MONETARY POLICY AND DEVELOPMENTS

A. Monetary Policy

Continued slow growth in the world economy coupled with uncertainty in the world oil market had an adverse impact on economic developments in Indonesia in 1987/88. The challenges encountered in the monetary sector included, inter alia, an outbreak of speculation in foreign exchange which put pressure on the balance of payments and caused interest rates to fluctuate markedly. In addition, the banking system was confronted with the dual problems of mobilizing more funds from the public while inducing greater business activity.

In order to overcome a speculative attack on the rupiah, Bank Indonesia pursued a tight monetary policy, especially during the first quarter of the reporting year. This policy was implemented by raising interest rates on Bank Indonesia certificates (*Sertifikat Bank Indonesia* or SBIs) and discount facilities, and the rediscount rates on money market securities (*Surat Berharga Pasar Uang* or SBPUs) as well as by gradually lowering the ceiling on SBPUs. To accelerate adjustment, the authorities transferred deposits of some public enterprises from banks into SBIs.

In the reporting year, Bank Indonesia continued to guide interest rates so as to encourage savings mobilization and investments. In addition, efforts were made to develop a secondary market for SBIs and SBPUs thereby providing greater opportunities for banks and non-bank financial institutions (NBFIs) to utilize the commercial papers as a source and use of funds.

In the reporting year, monetary policy continued to be aimed at maintaining price stability while alleviating pressures on the balance of payments. With a view to achieving these objectives, money supply and interest rates were controlled by means of monetary instruments working through open market operations. To conduct more flexible and effective open market operations, Bank Indonesia moved to improve the trading procedures associated with SBIs and SBPUs. For example, in order to provide greater flexibility in monetary management, in July 1987 Bank Indonesia began trading in short-term SBIs and SBPUs. In addition, with the objective of further enhancing the effectiveness of open market operations, sales of SBIs and purchases of SBPUs were conducted on the basis of a daily auction and the ceiling on SBPU purchases imposed by Bank Indonesia was changed from committed to uncommitted line. It may be noted that in order to control the growth rate of the money supply, the amount of SBIs and SBPUs traded by Bank Indonesia continued to be set at a level to meet the desired monetary target.

B. Money Supply and Factors Affecting Its Change

In the reporting year, monetary developments were characterized by much faster growth in domestic liquidity (M_2) than that in money supply (M_1). The growth in domestic liquidity was accounted for by higher rupiah deposit rates which generated large increases in quasi money relative to currency and demand deposits. The slower growth of M_1 was closely associated with the pursuit of

prudent monetary policy aimed at maintaining price stability and easing pressures on the balance of payments.

At the end of 1987/88, domestic liquidity (M_2) reached Rp35,660 billion, having increased by 25.2% up from 17.9% during the preceding year (Table 2.1). The increase in domestic liquidity was mainly attributable to quasi money reaching Rp23,034 billion, having rose by 35.6% compared with 24.1% in the preceding year. Taking into account the inflation rate, measured by consumer price index (CPI), real domestic liquidity rose by 15.2% compared with 8.0% during the preceding year.

Money supply (M_1), consisting of currency and demand deposits, reached Rp12,626 billion at the end of 1987/88, having increased at the same rate as the preceding year, i.e., 9.8% (Table 2.2). Currency (Rp5,873 billion) increased by 3.5% as against 12.5% in the preceding year while demand deposits (Rp6,753 billion) rose by 15.9% compared with 7.3% in the preceding year. The rapid increase in demand deposits was closely associated with enhancement of banking services to customers thereby raising the share of demand deposits in total money supply from 50.7% to 53.5%. The slower growth in currency was mainly attributable, to the tendency of the public to switch their funds into quasi money as a result of high rupiah time deposit rates. Measured in real terms, money supply rose by 1.1% compared with 0.6% in the preceding year.

Regarding the factors affecting money supply, in the reporting year net foreign assets contributed to an expansionary effect of Rp2,359 billion compared with Rp2,344 billion in the preceding year.

The government sector recorded a small expansionary effect of Rp95 billion¹⁾ compared with a contractionary effect of Rp1,475 billion in the preceding year. The expansionary effect in the government sector was due among others to the increase in routine expenditures, such as subsidies to local governments and personnel outlays.

Claims on entities, enterprises, and individuals had an expansionary effect of Rp8,200 billion in 1987/88, up from Rp5,568 billion in the preceding year. The higher expansionary effect was mainly attributable to an increase in claims on private enterprises and individuals of Rp7,667 billion compared with Rp4,927 billion in the preceding year. This significant increase in these claims stemmed mainly from a rise of Rp7,223 billion of loans extended to the business sector reflecting increasing private sector economic activity.

In the reporting year, quasi money rose by Rp6,043 billion compared with Rp3,298 billion in the preceding year. This significant increase was mainly accounted for by the response of savers to higher rupiah time deposit rates.

Net other items contributed a contractionary effect of Rp3,485 billion²⁾ compared with Rp2,114 billion in the preceding year.

1) Effective September 1987, certain foreign currency accounts (amounting to Rp1,725 billion) were reclassified from the government account to net other items. Taking into account the reclassification, the government sector would give an expansionary effect of Rp1,820 billion.

2) See footnote 1). Taking into account the reclassification of certain foreign currency accounts of Rp1,725 billion, the net other items would give a contractionary effect of Rp5,210 billion.

C. Monetary Prospects for 1988/89

In 1988/89, Indonesia's economy may encounter external challenges stemming from higher inflation and rising short-term interest rates although the world economy is likely to show a better improvement particularly in the industrial countries. In addition, the uncertain world oil market and Indonesia's heavy debt burden will continue to restrain the Government's capacity to finance development.

With a view to surmounting these challenges, efforts in the banking sector will continue to be directed at mobilizing funds and channelling them to productive uses through the banking sector. To this end, the authorities seek to enhance the efficiency and professionalism of the banking sector and to maintain interest rates at a level that is conducive to saving and investment, especially in export-related activities. The authorities also endeavor to keep inflation at a low level so as to create a more favorable climate for investment and to maintain a realistic exchange rate. Through these efforts, investment, production, and exports are expected to increase. Furthermore, a series of deregulation measures designed to enhance competitiveness and to encourage the diversification of Indonesian traceable goods, coupled with an improvement in the prices of some major export commodities, are expected to contribute toward a surplus in the overall balance of payments.

Considering those developments, during 1988/89 the money supply, both in narrow (M_1) and broad terms (M_2), is expected to grow at a more rapid pace than during the reporting year. However, through open market operations, monetary policy will continue to be aimed at maintaining a low inflation rate and realistic interest rates, which will maintain a sound investment climate and prevent capital outflows.

Viewed from factors affecting the money supply in 1988/89 the external sector is expected to contribute an expansionary effect to the money supply, although the amount is expected to be somewhat smaller than that in the reporting year. The government sector is also estimated to contribute an expansionary effect based on the assumption that the Government's financing needs will require another small drawdown in its deposits. Meanwhile, credit sector is expected to contribute an expansionary effect in a considerable amount due to increasing domestic economic activity which is expected to induce a higher demand for credit. To accommodate the higher demand for credit, the banking system is expected to promote greater mobilization of funds; such funds would finance productive activities, including the promotion of non-oil/gas exports, and support the pursuit of more equitable income distribution.

TABLE 2.1
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				
1978	3,809	21.7		2,488	65.3	1,321	34.7
1978/79	4,155	26.9		2,800	67.4	1,355	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	20.6		7,379	60.3	4,868 ⁴⁾	39.7
1983	14,663	32.4		7,569	51.6	7,094	48.4
1983/84	15,759	28.7		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		9.0	11,192	42.0	15,471 ⁵⁾	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
1987/88							
June	29,254		2.7	11,588	39.6	17,666	60.4
September	31,644		8.2	11,972	37.8	19,672	62.2
December	33,885	22.5	7.1	12,685	37.4	21,200	62.6
March	35,660	25.2	5.2	12,626	35.4	23,034	64.6

1) Domestic liquidity (M_2) consists of narrow money and quasi money.

2) Money supply (M_1) 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 the domestic private sector.

4) Includes valuation adjustments of foreign currency deposits amounting to Rp620 billion.

5) Includes valuation adjustments of foreign currency deposits amounting to Rp1,447 billion.

TABLE 2.2
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				
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	7,569	6.3	-1.9	3,333	44.0	4,236	56.0
1983/84	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
1987/88							
June	11,588		0.8	5,624	48.5	5,964	51.5
September	11,972		3.3	5,605	46.8	6,367	53.2
December	12,685	6.6	5.9	5,782	45.6	6,903	54.4
March	12,626	9.8	-0.5	5,873	46.5	6,753	53.5

TABLE 2.3
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)
1978	3,809	2,488	115.36	3,302	2,157	96.78	93.82
1978/79	4,155	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 ²⁾	7,379	205.99	5,945	3,582	174.24	155.82
1983	14,663	7,569	221.53	6,619	3,417	193.99	148.63
1983/84	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 ³⁾	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
1987/88							
June	29,254	11,588	285.79	10,236	4,055	300.00	176.38
September	31,644	11,972	290.49	10,893	4,121	319.26	179.25
December	33,885	12,685	300.75	11,267	4,218	330.22	183.47
March	35,660	12,626	303.52	11,749	4,160	344.34	180.95

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 Rp620 billion.

3) Includes valuation adjustment of foreign currency deposits amounting to Rp1,447 billion.

TABLE 2.4
FACTORS AFFECTING MONEY SUPPLY
(billions of rupiah)

Items	1980/ 81	1981/ 82	1982/ 83 ²⁾	1983/ 84	1984/ 85	1985/ 86	1986/ 87 ³⁾	1987				1988		1987/ 88					
								I	II	III	IV	I							
I. Net foreign assets	2,209	185	22	-1,128	229	3,243	3,299	3,654	2,935	1,813	1,071	1,841	2,344	477	-906	2,338	533	394	2,359
II. Central government	-1,871	-591	-164	129	486	-1,506	-2,335	-3,359	-3,004	-278	1,142	498	-1,475	-557	501	2,004 ⁴⁾	-409	-276	1,820 ⁴⁾
III. Claims on entities, enterprises, and individuals	1,837	2,349	2,604	2,949	3,039	2,435	2,636	3,836	3,465	3,847	3,834	4,797	5,568	1,241	2,596	1,395	1,743	2,466	8,200
1. Claims on official entities and public enterprises	540	593	683	732	382	104	278	190	138	513	177	253	641	-57	540	293	-46	-254	533
2. Claims on private enterprises and individuals	1,297	1,756	1,921	2,217	2,657	2,331	2,358	3,646	3,327	3,334	3,657	4,544	4,927	1,298	2,056	1,102	1,789	2,720	7,667
IV. Quasi money ¹⁾	-687	-535	-684	-724	-1,492	-3,140	-2,836	-2,262	-2,755	-3,693	-3,234	-2,935	-3,298	-1,007	-675	-2,006	-1,528	-1,834	-6,043
V. Net other items	-71	83	-217	-591	-1,658	-584	-88	-857	292	-166	-1,326 ⁴⁾	-2,628	-2,114	-331	-1,428	-3,347	374	-809	-5,210 ⁴⁾
Money supply movement	1,417	1,491	1,561	635	604	448	676	1,012	933	1,523	1,487	1,573	1,025	-177	88	384	713	-59	1,126
- Currency	455	404	313	377	459	399	554	379	231	728	1,259	898	629	335	-49	-19	177	91	200
- Demand deposits	962	1,087	1,248	258	145	49	122	633	702	795	228	675	396	-512	137	403	536	-150	926

1) Consists of time and savings deposits in rupiah and foreign currency and demand deposits in foreign currency held by the domestic private sector.

2) Includes valuation adjustment of March 30, 1983 rupiah devaluation.

3) Includes valuation adjustments of rupiah devaluation on September 12, 1986.

4) The significant change was due to the reconciliation of the foreign loan unused by the Government amounting to Rp1,725 billion which initially recorded at the government sector, since 1987 was transferred to net other items account.

CHART 1
MONEY SUPPLY AND DOMESTIC LIQUIDITY
(billions of rupiah)

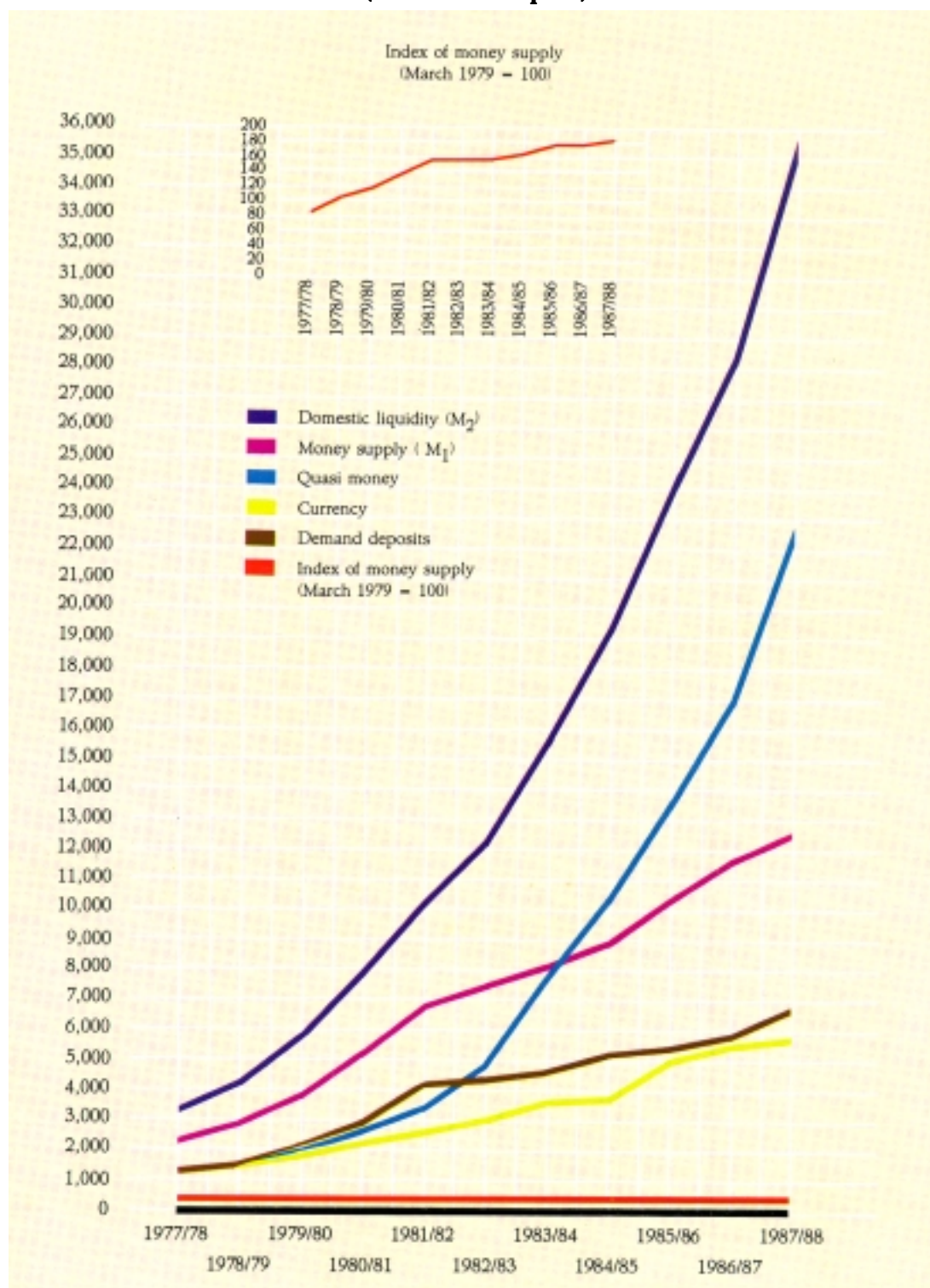
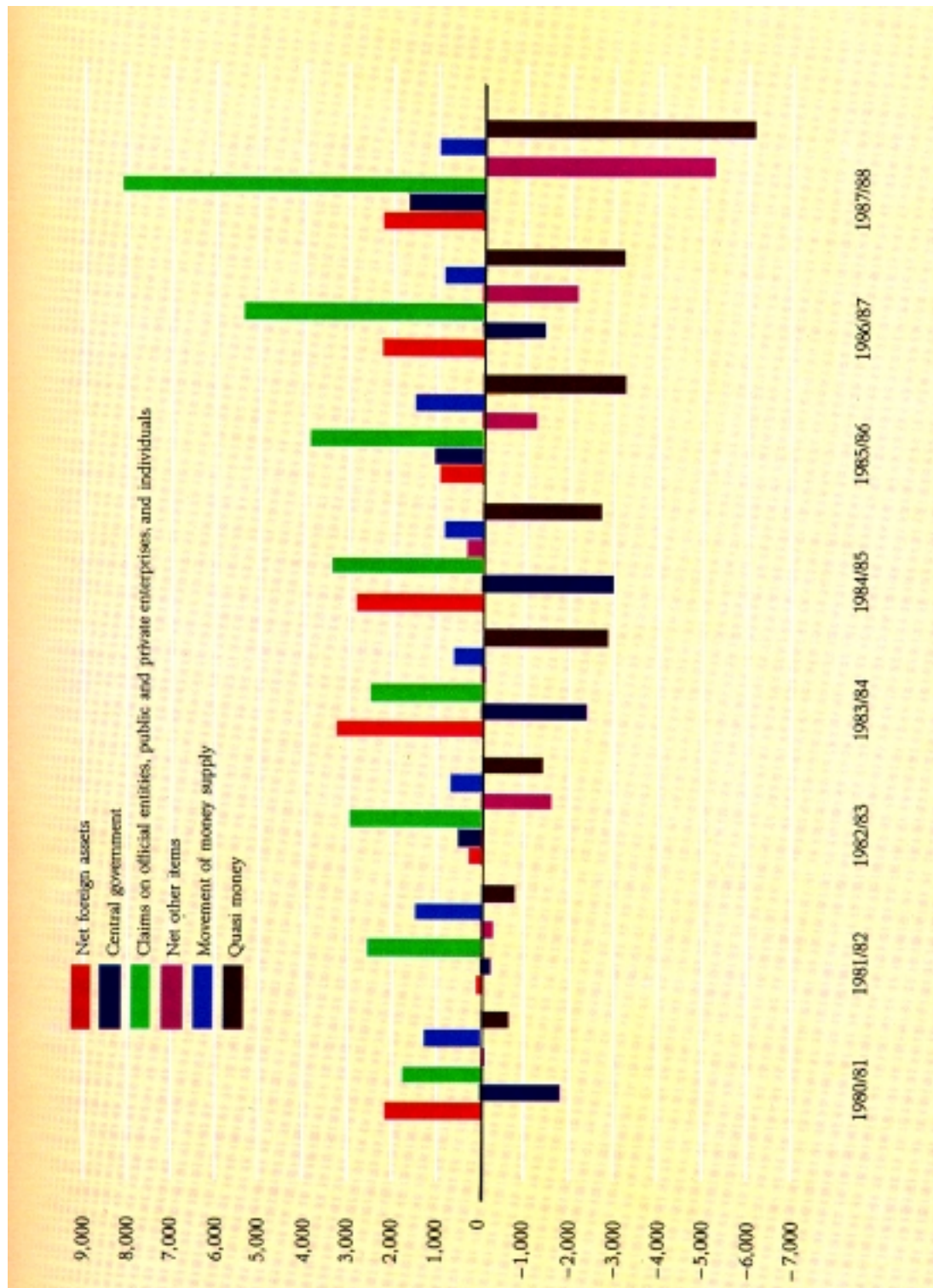


CHART 2
FACTORS AFFECTING MONEY SUPPLY
 (billions of rupiah)



III. BANK CREDIT

A. Credit Policy

In the reporting year, credit policy continued to be aimed at encouraging investment activities that are labor intensive, promoting the production of non-oil/gas export commodities, developing business activities of the economically-weak group, and extending house-ownership credits (*Kredit Pemilikan Rumah* or KPR). In this respect, the Government undertook several improvements to the regulations regarding export credits, credit insurance for small-scale investment credits (*Kredit Investasi Kecil* or KIK) and permanent working capital credits (*Kredit Modal Kerja Permanen* or KMKP), and rural development credits (*Kredit Umum Pedesaan* or Kupedes) as well as the criteria for the provision of working capital credits to companies under foreign direct investment schemes (*Penanaman Modal Asing* or PMA).

In the reporting year, the Government reduced subsidies on export of non-primary commodities in line with the bilateral agreement with the United States and in accordance with stipulation of the GATT Code on Subsidies and Countervailing Duties. In this regard, in April 1987 the Government amended the regulation concerning export credits by raising the interest rate on exports of non-primary commodities from 9.0% to 11.5% p.a. and reducing the share of refinancing facilities from Bank Indonesia from 70% to 50%. Meanwhile, the interest rate and the share of liquidity credit for primary export commodities were maintained at 9.0% p.a. and 70%.¹⁾ Also in the area of export financing,

starting January 1988 entrepreneurs/exporting companies eligible to obtain export credit facility were no longer required to hold export licenses: export identification number (*Angka Pengenal Ekspor* or APE), temporary APE (*APE Sementara* or APES), and limited APE (*APE Terbatas* or APET). According to the December 24, 1987 policy package, it is sufficient to hold only the general trading license (*Surat Izin Usaha Perdagangan* or SIUP) or a trading license issued by ministries or other government institutions.

The Government also improved the regulations on credit insurance premiums related to KIK/KMKP and claims to PT Askrindo on KIK/KMKP.²⁾ Previously, the premium rate for KIK/KMKP with maturity up to 5 years was fixed at 3.0% of the coverage and at 5.0% for those with maturity more than 5 years. However, starting July 1, 1987, the credit insurance premium—including for those with additional ceiling with or without a rescheduling period up to 8 years for KIK and 5 years for KMKP—was raised to 6.0%. In addition, additional credit insurance premium was not required for those KIK or KMKP rescheduled for a maximum of 2 years as long as the total period was not more than 10 years for KIK and 7 years for KMKP. Previously, the amount of credit insurance premium was borne equally by Bank Indonesia and the handling bank. However, starting July 1, 1987 the sharing has been changed so that 4.5% is borne by Bank Indonesia and 1.5% by the handling bank. Claims paid by PT Askrindo were previously

1) Bank Indonesia Circular Letters No. 20/1/UKU, April 1, 1987 and No. 20/3/UKU, November 13, 1987.

2) Bank Indonesia Circular Letter No. 20/2/UKU, June 18, 1987.

set at 75% of the KIK/KMKP customer's balance and 70% of the additional KIK/KMKP credits. Starting July 1, 1987 these have been unified at 70%.

Interest rate on liquidity credits for investment and working capital for rural general credits (*Kredit Umum Pedesaan* or Kupedes), which were previously fixed at 3.0% and 15.0% p.a. respectively, were changed effective October 1, 1987 to a single rate of 12.0%. Over the long-term, funds for Kupedes are intended to be mobilized from the rural community. However, until the financial system succeeds in mobilizing sufficient funds from the rural public, Bank Indonesia continues to provide liquidity credits in this area. However, as the World Bank participates in the financing of Kupedes starting on October 1, 1987, Bank Indonesia is no longer providing the liquidity credits. Furthermore, to promote economic activity in the rural areas, the Kupedes ceiling, previously fixed at the maximum of Rp2 million, has been increased to Rp3 million effective February 1, 1988.

To encourage foreign investors to invest in Indonesia, starting January 1988 the requirements to obtain working capital credits for PMA companies from state commercial banks and State Development Bank (*Bank Pembangunan Indonesia* or Bapindo) have been eased.³⁾ According to previous stipulations, a PMA company was eligible to obtain working capital credits if at least 75% of its shares were owned by Indonesian participants, or if 51% of its shares were sold through the stock market, or if 51% of its shares were owned by Indonesian participants as long as 20% of all shares were

sold through the stock market. Based on the new regulations, these requirements were eased to at least 51% of its shares are owned by Indonesian participants or at least 45% of its shares are owned by Indonesian participants as long as 20% of all shares are sold through the stock market.

To assist banks in managing doubtful and bad debts, stipulations on the classification of loans by collectibility were revised in the reporting year.⁴⁾ Credits classified as doubtful and bad may be rescued through rescheduling, reconditioning, or restructuring.

B. Credit Developments

At the end of the reporting year, bank credits reached Rp35,081 billion, having increased by 25.9% compared with 24.2% during 1986/87 (Table 3.1). This increase was mainly accounted for by the trade and industrial sectors. In trade sector, new credit was mainly extended to finance export credits.

During the reporting year, credits extended by deposit money banks (DMBs) recorded an increase of 26.0% reaching Rp33,618 billion. The state banks recorded an increase of 21.1% reaching Rp22,894 billion, while credits extended by private national commercial banks (*Bank-bank Umum Swasta Nasional* or BUSNs) increased rapidly, by 42.2% to reach Rp8,210 billion at the end of March 1988. Credits extended by regional development banks (*Bank-bank Pembangunan Daerah* or BPDs) rose by 26.5% reaching Rp994 billion; those extended by foreign banks increased by 24.7% reaching Rp1,520 billion at the end of the reporting year (Table.3.4).

3) Bank Indonesia Circular Letter No. 20/4/UKU, January 24, 1988.

4) Bank Indonesia Circular Letter No. 20/3/BPPP, June 20, 1987.

Direct credits of Bank Indonesia rose by 24.7%, reaching Rp1,463 billion in March 1988. This increase mainly took place in direct credits extended to non-bank financial institutions (NBFIs), which increased by 69.2% reaching Rp413 billion, and to the State Savings Bank (*Bank Tabungan Negara* or BTN), which increased by 12.8% reaching Rp1,007 billion. It should be noted that credits extended to BTN, which is mainly used to support the promotion of low-cost house ownership, constituted the largest part (68.8%) of Bank Indonesia's direct credits.

By economic sector, bank credits to all sectors increased, with the exception of the mining sector. Credits to the trade sector increased by Rp2,493 billion (29.3%) mostly due to the financing of exports, distribution, and retail trade. Credits to the manufacturing sector increased by Rp2,420 billion (25.4%), mostly extended to finance textile, wood and its product, chemical, and metal industries. Credits to the services sector considerably increased by Rp1,575 billion (35.8%), mainly to finance low-cost public housing, communication, public transportation, and real estate. Credits to the agricultural sector which rose by Rp694 billion (31.6%) were mostly extended for the development of plantation crops. Credits to the mining sector recorded a decline of 25.4% to Rp294 billion caused by large amount of repayments. In line with the rise in bank credits, the share of credits to the trade, services, and agricultural sectors increased during 1987/88, respectively from 30.5%, 15.8%, and 7.9% to 31.4%, 17.0%, and 8.2%. The share of credits to the manufacturing sector virtually unchanged during the year with its share remained the largest at 34.0%. The share of credits to the mining sector dropped from 1.4% to 0.8% during 1987/88.

Classified by use of credits, working capital credits (mainly utilized by the trade and manufacturing sectors) at the end of 1987/88 amounted to Rp25,560 billion, having increased by 28.3% compared with 24.6% in the preceding year. In line with this development, the share of working capital credits in the trade, manufacturing, and services sectors increased to 41.2%, 31.8%, and 15.0%, respectively. Investment credits reached Rp9,521 billion, rose by 20.1% compared with 23.2% in the preceding year. The share of investment credits to the agricultural and services sectors increased to 18.8% and 22.5%, respectively. It may be noted that the share of investment credits to the mining sector decreased from 4.7% to 2.4% during 1987/88. The share of investment credits to the manufacturing sector remained the largest (40%) among other economic sectors (Table 3.2).

By scale of priority, during the reporting year, credits extended by deposit money banks (DMBs) to priority sector rose by 31.5% (to Rp8,203 billion) compared with 7.7% in the preceding year, while those to non-priority sector increased by 24.3% to Rp25,415 billion. Of the priority credits, the working capital credits rose by 34.1% (to Rp6,340 billion) compared with 2.8% in 1986/87 and investment credits rose by 23.5% (to Rp1,863 billion). These rapid increases were closely associated with the efforts to promote non-oil/gas exports through the provision of export credits. It should be noted that during the reporting year, priority credits extended by BUSNs and foreign banks increased substantially by 106.3% and 85.7% to Rp813 billion and Rp130 billion, respectively. Regarding non-priority sector, working capital credits increased by 26.6% to Rp18,848 billion and investment credits increased by 18.1% to Rp6,567 billion.

At the end of the reporting year, outstanding credits under the KIK program stood at Rp311 billion. The value of approved applications and the number of customers increased by 10.6% and 4.8% to Rp1,301 billion and 304 thousand, respectively. Furthermore, the outstanding amount of KMKP increased by 7.3% (to Rp943 billion) compared with a decline of 1.2% in the preceding year. The value of KMKP approvals increased by 13.3% to Rp3,895 billion and the number of customers increased by 4.5% reaching 2.315 thousand (Table 3.3).

During the reporting year, KPR extended by BTN rose by 16.0% to Rp1,613 billion and the number of customers increased by 17.1% to 425 thousand. In addition, KPR extended

to middle-income group channelled through PT Papan Sejahtera increased by 94.1% to Rp132 billion and the number of customers increased significantly, by 93.6% to 9,048 at the end of March 1988. It may be added that small scale credits eligible for petty traders and low-income group (*Kredit Candak Kulak* or KCK) extended by village unit cooperatives (*Koperasi Unit Desa* or KUDs) reached Rp14 billion at the end of the reporting year.

Total priority credits, taking into account other types of priority credits, including those extended by BTN such as KPR-BTN and credits for student dormitories (*Kredit Asrama Mahasiswa* or KAM), reached Rp10,486 billion, or having increased by 31.0% over the preceding year (Table 3.4).

TABLE 3.1
BANK CREDITS IN RUPIAH AND FOREIGN CURRENCY
BY ECONOMIC SECTOR ¹⁾
(billions of rupiah)

Specification	March 31					Jun. 30	Sep. 30	Dec. 31	Mar. 31
	1983	1984	1985	1986	1987	1987	1987	1987	1988
Credits in rupiah	12,804	15,070	18,735	22,134	27,349	29,778	30,947	31,869	33,962
– Agriculture	1,154	1,305	1,390	1,825	2,197	2,387	2,461	2,630	2,854
– Mining ²⁾	1,215	670	379	258	394	355	423	372	281
– Manufacturing ³⁾	3,910	5,060	6,520	7,504	9,355	9,824	10,292	10,508	11,374
– Trade ⁴⁾	3,936	4,915	6,168	7,127	8,400	9,539	9,881	10,065	10,821
– Services ⁵⁾	1,937	2,389	3,277	3,784	4,188	4,603	4,887	5,151	5,676
– Others	652	731	1,001	1,636	2,815	3,070	3,003	3,143	2,956
Credits in foreign currency	901	1,065	601	296	503	607	787	983	1,119
– Agriculture	--	--	--	--	--	7	7	26	37
– Mining	--	--	--	--	--	11	12	13	13
– Manufacturing	692	654	478	133	153	167	298	409	554
– Trade	199	382	37	33	104	146	173	182	176
– Services	10	29	84	129	215	251	277	309	302
– Others	--	--	2	1	31	25	20	44	37
Total	13,705	16,135	19,336	22,430	27,852	30,385	31,734	32,852	35,081
– Agriculture	1,154	1,305	1,390	1,825	2,197	2,394	2,468	2,656	2,891
– Mining	1,215	670	379	258	394	366	435	385	294
– Manufacturing	4,602	5,714	6,998	7,637	9,508	9,991	10,590	10,917	11,928
– Trade	4,135	5,297	6,205	7,160	8,504	9,685	10,054	10,247	10,997
– Services	1,947	2,418	3,361	3,913	4,403	4,854	5,164	5,460	5,978
– Others	652	731	1,003	1,637	2,846	3,095	3,023	3,187	2,993

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

2) Since November 30, 1984, Bank Indonesia's direct credits to Pertamina have been transferred to state commercial banks.

3) Includes credits for the processing of agricultural products.

4) Includes restaurants and hotels.

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

TABLE 3.2
BANK CREDITS
BY TYPE OF CREDIT AND ECONOMIC SECTOR ¹⁾
(billions of rupiah)

Specification	March 31					Jun. 30 1987	Sep. 30 1987	Dec. 31 1987	Mar. 31 1988
	1983	1984	1985	1986	1987				
Working capital	8,686	10,659	13,599	15,995	19,927	22,158	23,239	23,870	25,560
– Agriculture	675	651	654	777	848	943	972	966	1,097
– Mining	32	37	33	36	25	44	43	43	64
– Manufacturing	2,601	3,315	4,391	5,057	6,256	6,655	7,220	7,350	8,125
– Trade	3,929	4,974	5,897	6,779	8,081	9,250	9,649	9,812	10,528
– Services	1,104	1,390	2,247	2,517	2,881	3,200	3,381	3,559	3,840
– Others	345	292	377	829	1,836	2,066	1,974	2,140	1,906
Investment credits	5,019	5,476	5,737	6,435	7,925	8,227	8,495	8,982	9,521
– Agriculture	479	654	736	1,048	1,349	1,451	1,496	1,690	1,794
– Mining	1,183	633	346	222	369	322	392	342	230
– Manufacturing	2,001	2,399	2,607	2,580	3,252	3,336	3,370	3,567	3,803
– Trade	206	323	308	381	423	435	405	435	469
– Services	843	1,028	1,114	1,396	1,522	1,654	1,783	1,901	2,138
– Others	307	439	626	808	1,010	1,029	1,049	1,047	1,087
Total bank credits	13,705	16,135	19,336	22,430	27,852	30,385	31,734	32,852	35,081
– Agriculture	1,154	1,305	1,390	1,825	2,197	2,394	2,468	2,656	2,891
– Mining	1,215	670	379	258	394	366	435	385	294
– Manufacturing	4,602	5,714	6,998	7,637	9,508	9,991	10,590	10,917	11,928
– Trade	4,135	5,297	6,205	7,160	8,504	9,685	10,054	10,247	10,997
– Services	1,947	2,418	3,361	3,913	4,403	4,854	5,164	5,460	5,978
– Others	652	731	1,003	1,637	2,846	3,095	3,023	3,187	2,993

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

TABLE 3.3
VARIOUS CREDITS TO THE ECONOMICALLY-WEAK GROUP
(billions of rupiah and thousands of customers)

Items	March 31					Jun.	Sep.	Dec.	Mar.
	1983	1984	1985	1986	1987	30, 1987	30, 1987	31, 1987	31, 1988
1. Small-scale Investment Credit (KIK)									
— Number of application approved (customers)	220	241	256	272	290	290	291	295	304
— Value of application approved	737	847	946	1,054	1,176	1,207	1,233	1,269	1,301
— Outstanding credits	414	387	356	326	311	301	292	297	311
2. Permanent Working Capital Credits (KMKP)									
— Number of application approved (customers)	1,526	1,685	1,871	2,053	2,216	2,226	2,248	2,278	2,315
— Value of application approved	1,629	2,007	2,448	2,869	3,438 ^f	3,562	3,758	3,781	3,895
— Outstanding credits	815	867	931	889	879	900	909	903	943
3. KIK/KMKP (1 + 2)									
— Number of application approved (customers)	1,746	1,926	2,127	2,325	2,506	2,516	2,539	2,573	2,619
— Value of application approved	2,366	2,854	3,394	3,923	4,614 ^f	4,769	4,991	5,050	5,196
— Outstanding credits	1,229	1,254	1,287	1,215	1,190	1,201	1,201	1,200	1,254
4. Kupedes ¹⁾	104	99	166	273	383	410	421	429	462
— Investment	11	10	12	12	15	16	16	16	16
— Working capital	93	89	154	261	368 ^f	394	405	413	446
5. Working Capital Credits under Keppres No. 29/1984	--	--	36	67	46	27	54	69	54
6. Credits with maximum of Rp75 million	--	9	79	185	324	364	406	462	525
— Investment	--	9	40	78	143	158	170	186	208
— Working capital	--	--	39	107	181	206	236	276	317
7. Credits for Teachers (KPG)	56	51	58	112	283 ^f	308	306	304	306
8. Credits for Indonesian Students (KMI)	4	13	26	35	45	48	49	51	52
9. Credits for Cooperatives	241	278	271	300	275	332	314	284	340
— Investment	52	74	78	76	71	74	74	74	74
— Working capital	189	204	193	224	204	258	240	210	266
10. Credits for farm's enterprises (KUT) ²⁾	184	176	161	145	137	136	136	135	134
11. Inpres Pasar	79	97	82	94	96	90	88	91	92
12. Pension Credits	27	26	28	35	45	48	49	48	50
13. Viability Credit up to Rp75 million	99	64	67	89	100	100	100	100	100
14. Keppres No.14A/1980 credits	107	65	70	69	63	63	63	63	63
15. House Ownership Credits (KPR)									
State Savings Bank (BTN)									
— Customers	148	196	241	333	363	376	398	409	425
— Outstanding credits	400	578	803	1,196	1,391	1,428	1,483	1,557	1,613
16. Credits for Student Dormitories	--	--	0.5	4.8	6.1	4.5	4.5	4.5	4.6
17. Perusahaan Inti Rakyat (PIR) Plasma	47	64	99	132	210	272	263	304	339
18. Rejuvenation, rehabilitation, and extension of export plantation (PRPTE)	106	129	139	148	158	190	190	246	326
19. House Ownership Credits (KPR)									
PT Papan Sejahtera ³⁾									
— Customers	0.68	1.46	2.33	2.84	4.67	5.71	7.17	7.94	9.05
— Outstanding credits	7	19	33	41	68	82	96	115	132
20. Candak Kulak Credits (CKK) ³⁾									
— Customers	11,901	12,956	14,045	15,271	16,171 ^f	16,279	16,341	16,413	16,503
— Outstanding credits	8	10	12	12	14	14	14	14	14
Total	2,698	2,932	3,418	4,153	4,834^f	5,118	5,238	5,477	5,861

1) Prior to January 1984 was known as Mini and Midi credits.

2) Prior to 1985 was known as Bimas.

3) Extended by non-bank institutions.

TABLE 3.4
BANK CREDITS IN RUPIAH AND FOREIGN CURRENCY
BY PRIORITY
(billions of rupiah)

Specification	March 31				Jun. 30, 1987	Sep. 30, 1987	Dec. 31, 1987	Mar. 31, 1988
	1984	1985	1986	1987	1987	1987	1987	1988
1. State banks	10,283	13,522	15,240	18,902	20,497	21,229	21,676	22,894
1.1. Priority	2,991	4,780	5,295	5,522	6,273	6,779	6,905	6,941
– Working capital	2,131	3,891	4,285	4,291	5,075	5,526	5,514	5,426
– Investment	860	889	1,010	1,231	1,198	1,253	1,391	1,515
1.2. Non-priority	7,292	8,742	9,945	13,380	14,224	14,450	14,771	15,953
– Working capital	4,330	5,135	5,708	8,067	8,654	8,742	8,767	9,689
– Investment	2,962	3,607	4,237	5,313	5,570	5,708	6,004	6,264
2. Private national commercial banks	2,151	3,269	4,487	5,772	6,414	6,891	7,462	8,210
2.1. Priority	116	160	275	394	462	572	738	813
– Working capital	56	97	189	252	302	413	560	626
– Investment	60	63	86	142	160	159	178	187
2.2. Non-priority	2,035	3,109	4,212	5,378	5,952	6,319	6,724	7,397
– Working capital	1,961	3,020	4,117	5,252	5,817	6,175	6,561	7,223
– Investment	74	89	95	126	135	144	163	174
3. Regional development banks	432	545	633	786	852	912	961	994
3.1. Priority	144	159	202	252	274	295	304	319
– Working capital	65	77	106	116	128	142	152	158
– Investment	79	82	96	136	146	153	152	161
3.2. Non-priority	288	386	431	534	578	617	657	675
– Working capital	244	326	353	436	472	515	551	561
– Investment	44	60	78	98	106	102	106	114
4. Foreign banks	977	1,062	1,072	1,219	1,367	1,366	1,406	1,520
4.1. Priority	—	—	19	70	87	100	109	130
– Working capital	—	—	19	70	87	100	109	130
– Investment	—	—	—	—	—	—	—	—
4.2. Non-priority	977	1,062	1,053	1,149	1,280	1,266	1,297	1,390
– Working capital	974	1,050	1,045	1,127	1,258	1,245	1,280	1,375
– Investment	3	12	8	22	22	21	17	15
5. Total (1 through 4)	13,843	18,398	21,432	26,679	29,130	30,398	31,505	33,618
5.1. Priority	3,251	5,099	5,791	6,238	7,096	7,746	8,056	8,203
– Working capital	2,252	4,065	4,599	4,729	5,592	6,181	6,335	6,340
– Investment	999	1,034	1,192	1,509	1,504	1,565	1,721	1,863
5.2. Non-priority	10,592	13,299	15,641	20,441	22,034	22,652	23,449	25,415
– Working capital	7,509	9,531	11,223	14,882	16,201	16,677	17,159	18,848
– Investment	3,083	3,768	4,418	5,559	5,833	5,975	6,290	6,567

Note : Excludes other priority credits (KPR BTN, Credit for Student Dormitories, PIR Plasma, and PRPTE).

IV. MOBILIZATION OF FUNDS

A. Policy an Mobilization of Funds

In response to rising financial needs, mobilization of funds from the public has taken on heightened importance in recent years. To meet these needs, the role of financial institutions in encouraging the public to save was strengthened during the reporting year. In addition, the Government continued to improve the money and capital markets and suspend the collection of taxes on income (*Pajak Penghasilan* or PPh) earned from time and savings deposits while promoting the development of financial institutions.

To encourage the public to save, on July 1, 1987 Bank Indonesia introduced a uniform 15% p.a. interest rate structure for the National Development Savings Scheme (*Tabungan Pembangunan Nasional* or Tabanas).¹⁾ Previously, the interest rate on Tabanas was 15.0% p.a. for the effective balance up to Rp 1 million and 12.0% p.a. for the effective balance in excess of Rp 1 million. It is noteworthy that in the reporting year the Government continued to suspend the collection of PPh on income earned from rupiah and foreign currency time and other savings deposits owned by residents. In addition, efforts to develop financial institutions continued to be implemented by encouraging banks to handle Tabanas and the Time Insurance Savings Scheme (*Tabungan Asuransi Berjangka* or Taska) and to issue certificate of deposits (CDs).

To deepen the money market and to encourage banks and non-bank financial

institutions (NBFIs) to use promissory notes as sources of funds and short-term investments, in January 1988 the Government introduced the "Revolving Underwriting Facility" (RUF). Under this facility, the notes are issued with a maturity of 7, 14, 21, 30, 60, and 90 days which can be revolved for a maximum of 3 years, involving 3 parties : the issuer, the underwriter, and the panel tender/purchaser. PT Ficorinvest was authorized as issuer, the state commercial banks and the State Development Bank (*Bank Pembangunan Indonesia* or Bapindo) as underwriters, and banks and NBFIs as panel tenders/purchasers. To streamline the trading of these notes, Bapindo was designated as a dealing agent. During the early stages, the total value of notes outstanding under this facility may not exceed Rp40 billion, with a minimum value of Rp100 million and a maximum of Rp5 billion for a single issue.

To enhance the attractiveness of the capital market as a source of funds, in December 1987 the Government simplified certain procedures for issuing securities on the bourse. These simplifications also concerned the application for sight draft share issues and the licensing of institutions supporting the capital market. In addition, the Government permitted foreign investors to participate in securities trading and introduced a new provision regarding the establishment of a parallel or over-the-counter bourse.

As concerns new procedures for issuing stocks, companies previously required to have a proven track record of recent profits, since December 1987 have no longer been subject to this criteria. Instead, companies wishing to issue

1) Bank Indonesia Circular Letter No. 20/8/UPG, June 15, 1987.

stocks must simply be profitable. In addition, instead of 8 documents that were formerly required, companies need only produce a prospectus, an unqualified auditors report, and proper articles of association. Furthermore, the period for application approval of securities issued on the bourse is guaranteed to be no longer than 30 days from the date of application.²⁾ To encourage new and smaller companies to issue their securities on the bourse, the Government established an over-the-counter market, also known as a parallel bourse.³⁾ On this market, companies are allowed to issue stocks with more lenient requirements.

To expand transactions in the bourse and to attract more capital from abroad, foreign investors are allowed to purchase securities. To diversify types of securities, the Government allows companies to issue sight draft shares. Such shares may be issued in an amount up to 49% of the subscribed and fully paid-up capital.⁴⁾

To streamline securities trading in the bourse, business licenses to institutions supporting the capital market (i.e. underwriters, trustees, guarantors, securities brokers, securities traders, and the securities administration bureau) are given permanent business licenses. Fees for the supporting institutions, which were previously set at the maximum rate of 4% of nominal issues for underwriters and 1.25% of the total of bonds settlement and interest for trustees and guarantors, is now left to the parties discretion.⁵⁾

2) Minister of Finance Decree No. 859/KMK.01/1987, December 23, 1987.

3) Minister of Finance Decree No. 862-865/KMK.01/1987, December 23, 1987.

4) Minister of Finance Decrees Nos. 859/KMK.01/1987 and 862/KMK.01/1987, December 23, 1987.

5) Minister of Finance Decree No. 860/KMK.01/1987, December 23, 1987.

B. Banks Funds' Developments

During the reporting year, funds mobilized through the banking system—comprising demand, time, and savings deposits—rose by 28.7% (to Rp30,970 billion) compared with 15.4% in the preceding year (Table 4.1). This rapid increase was attributable to a substantial rise in rupiah time deposits, especially during June-December 1987 when the deposit rates were particularly high. In addition, the suspension of the collection of PPh on income earned from time deposits also constituted somewhat to the increase in time deposits.

In line with the relatively rapid growth in time deposits, its share in total bank deposits rose from 62.0% to 66.7% during 1987/88. By contrast, the shares of demand and savings deposits decreased from 31.4% and 6.6% to 27.4% and 5.9%, respectively.

1. Demand deposits

During 1987/88, total demand deposits rose by 12.2% to Rp8,481 billion. This increase was attributable to rupiah demand deposits, which increased by 16.7%; demand deposits in foreign currencies declined by 7.7%.

1.1. Rupiah demand deposits

During the reporting year, rupiah demand deposits mobilized by banks increased by 16.7% (to Rp7,189 billion) compared with 1.3% during the preceding year. This increase reflected the higher utilization of banking services which was attributable to the pick-up of business activities. There were rises in demand deposits in all groups of banks, namely regional development banks (*bank pembangunan daerah* or BPDs) (26.4%), private national banks (*bank swasta nasional* or BSNs)

TABLE 4.1
BANKING 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	
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	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 :										
March	6,086	955	7,041	9,089	3,501	12,590	1,059	153	1,212	20,843
June	6,010	939	6,949	9,886	2,774	12,660	1,045	200	1,245	20,854
September	6,478	1,428	7,906	10,779	3,668	14,447	1,075	142	1,217	23,570
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
April	6,417	1,437	7,854	11,686	3,382	15,068	1,290	351	1,641	24,563
May	6,452	1,465	7,917	11,926	3,426	15,352	1,256	379	1,635	24,904
June	6,469	1,631	8,100	11,798	3,645	15,443	1,213	353	1,566	25,109
July	6,682	1,442	8,124	12,815	3,537	16,352	1,171	265	1,436	25,912
August	6,677	1,426	8,103	13,786	3,440	17,226	1,152	224	1,376	26,705
September	6,911	1,302	8,213	14,491	3,414	17,905	1,176	243	1,419	27,537
October	7,071	1,324	8,395	14,866	3,446	18,312	1,205	263	1,468	28,175
November	7,167	1,286	8,453	15,299	3,560	18,859	1,240	281	1,521	28,833
December	7,441	1,355	8,796	15,366	3,541	18,907	1,332	296	1,628	29,331
1988 :										
January	7,411	1,323	8,734	15,955	3,708	19,663	1,365	322	1,687	30,084
February	7,445	1,303	8,748	16,290	3,835	20,125	1,378	375	1,753	30,626
March	7,189	1,292	8,481	16,656	3,998	20,654	1,402	433	1,835	30,970

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

2) Includes certificates of deposits.

(19.9%), state banks (14.9%), and foreign banks (7.5%). In reflection of these diverse movements, at end of 1987/88 the shares of demand deposits with BPDs and BSNs increased from 8.1% and 24.5% to 8.8% and 25.1%, respectively, while those with state and foreign banks declined from 62.4% and 5% to 61.5% and 4.6%, respectively.

1.2. Foreign currency demand deposits

During the reporting year, foreign currency demand deposits declined by 7.7% to Rp1,292 billion. By group of banks, the decline took place in state banks and BSNs of 14.8% and 16.5%, respectively. Foreign currency demand deposits at foreign banks increased by 7.5%.

2. Time deposits

During the reporting year, the outstanding amount of time deposits rose by 38.5% to Rp20,654 billion. This increase occurred in both the rupiah and foreign currency time deposits.

2.1. Rupiah time deposits

The amount of rupiah time deposits during 1987/88 rose by 45.5% (to Rp16,656 billion) compared with 26.0% in the preceding year. A large increase in rupiah time deposits during the reporting year was common to all banks: state banks rose by 39.7% to Rp10,070 billion, BSNs by 63.0% to Rp5,642 billion, BPDs by 28.2% to Rp228 billion, and foreign banks by 19.2% to Rp716 billion (Table 4.2).

By maturity, a large part of time deposits mobilized in 1987/88 were short-term, i.e., a maximum of one year, reflecting a shift in the pattern of time deposits maturity since the June 1, 1983 banking deregulation. Large increases were experienced by 3-month and

1-month time deposits by 84.3% and 157.1%, respectively; the 6-month and 12-month time deposits rose by 30.8% and 5.5%, respectively. Viewed in terms of shares, the proportion of 3-month and 1-month time deposits in total time deposits increased from 15.4% and 12.7% to 19.6% and 22.5%, respectively; 6-month and 12-month deposits decreased from 13.5% and 41.5% to 12.5% and 31.9%, respectively. The share of the 24-month time deposits stood at 6%, remained low as that in the preceding year (Table 4.3).

Interest rates on time deposits increased substantially during the reporting year. Rates offered by state banks rose to the range of 15.5%-19.0% compared with 13.0%-15.0% in the year before. Interest rates on the deposits at BSNs increased from the 13.0%-17.5% range to 16.0%-20.0%, while those offered by foreign banks were 15.0%-17.5% compared with 9.5%-18.0% in the preceding year (Table 4.4). It should be noted that the measures taken by the Government to overcome foreign exchange speculation in May and June 1987 drove the deposit rates up to 24.0% in July 1987. As speculation died out, the highest interest rate slowly declined during the last quarter of 1987 and to 20.0% at the end of March 1988. The weighted average of the rupiah deposit rate increased from 15.3% to 17.5% at the end of 1987/88.

2.2. Foreign currency time deposits

During the reporting year, foreign currency time deposits rose by 15.4% (to Rp3,998 billion) compared with a decrease of 1.0% in the preceding year. There were increases in all groups of banks: state banks rose by 5%, BSNs by 66.7%, and foreign banks by 3.7%. In terms of maturity, the 1-month, 3-month,

TABLE 4.2
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
1978	765	270	1.035	87	24	111	6	--	6	73	62	135	931	356
1979	775	312	1.087	123	23	146	7	--	7	86	132	218	991	467
1980	903	294	1.197	209	12	221	10	--	10	157	66	223	1.279	372
1981	1.093	307	1.400	382	16	398	19	--	19	260	133	393	1.754	456
1982	1.231	488	1.719	572	65	637	35	--	35	360	231	591	2.198	784
1983	2.831	801	3.632	1.078	158	1.236	56	--	56	476	382	858	4.441	1.341
1984 :														
March	3.044	838	3.882	1.216	187	1.403	61	--	61	591	412	1.003	4.912	1.437
June	3.276	857	4.133	1.428	197	1.625	68	--	68	627	434	1.061	5.399	1.488
September	3.264	858	4.122	1.480	354	1.834	74	--	74	698	539	1.237	5.516	1.751
December	3.497	908	4.405	1.750	331	2.081	79	--	79	696	518	1.214	6.022	1.757
1985 :														
March	3.925	1.133	5.058	1.805	435	2.240	82	--	82	733	613	1.346	6.545	2.181
June	4.346	1.612	5.958	2.192	412	2.603	87	--	87	749	577	1.326	7.373	2.601
September	4.980	1.661	6.641	2.595	374	2.969	103	--	103	758	559	1.317	8.436	2.594
December	5.337	1.814	7.151	2.755	437	3.192	120	--	120	676	588	1.264	8.888	2.839
1986 :														
March	5.569	2.040	7.609	2.741	639	3.380	131	--	131	648	822	1.470	9.089	3.501
June	5.919	1.482	7.401	3.055	564	3.619	143	--	143	769	728	1.497	9.886	2.774
September	6.416	1.928	8.344	3.387	735	4.121	160	--	160	816	1.006	1.822	10.779	3.668
December	6.729	2.012	8.741	3.131	624	3.755	165	--	165	500	806	1.306	10.525	3.442
1987 :														
January	6.959	2.120	9.079	3.171	630	3.801	167	--	167	594	844	1.438	10.891	3.594
February	7.011	2.138	9.149	3.294	618	3.912	172	--	172	579	805	1.384	11.056	3.561
March	7.207	2.042	9.249	3.462	604	4.066	178	--	178	600	819	1.419	11.448	3.464
April	7.294	1.990	9.284	3.554	610	4.164	181	--	181	657	782	1.439	11.686	3.382
May	7.398	2.018	9.416	3.711	631	4.342	180	--	180	637	777	1.414	11.926	3.426
June	7.165	2.091	9.256	3.786	732	4.518	180	--	180	667	822	1.489	11.798	3.645
July	7.539	2.082	9.621	4.310	689	4.999	181	--	181	786	765	1.551	12.816	3.536
August	8.280	2.047	10.327	4.595	669	5.264	187	--	187	724	724	1.448	13.786	3.440
September	8.668	2.064	10.732	4.921	638	5.559	201	--	201	701	712	1.413	14.491	3.414
October	8.926	2.074	11.000	5.037	653	5.710	197	--	197	686	719	1.405	14.866	3.446
November	9.272	2.123	11.395	5.129	688	5.817	203	--	203	695	749	1.444	15.299	3.560
December	9.283	2.044	11.327	5.212	739	5.951	206	--	206	665	759	1.424	15.366	3.541
1988 :														
January	9.712	2.130	11.842	5.314	790	6.104	212	--	212	717	788	1.505	15.955	3.708
February	9.827	2.119	11.946	5.523	889	6.412	220	--	220	720	827	1.547	16.290	3.835
March	10.070	2.143	12.213	5.642	1.007	6.649	228	--	228	716	848	1.564	16.656	3.998

¹⁾ Includes certificate of deposits.

²⁾ Includes Bapindo and state savings bank (BTN).

³⁾ Includes private development banks and private savings banks.

TABLE 4.3
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	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total	Rp	FC	Total
1978	612	--	612	97	14	111	104	255	359	42	38	80	73	49	122	3	--	3	931	356	1,287
	612	--	612	99	28	127	126	346	472	32	42	74	-103	50	153	19	1	20	991	467	1,458
	679	--	679	128	13	141	183	293	476	100	36	136	-168	28	196	21	2	23	1,279	372	1,651
	834	--	834	231	14	245	237	300	537	161	31	192	252	109	361	39	2	41	1,754	456	2,210
1981	966	1	967	322	21	343	275	420	695	195	58	253	358	282	640	82	2	84	2,198	784	1,982
1982	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
	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
	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
	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
1983	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
	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
	398	--	398	3,328	173	3,501	1,246	648	1,894	1,041	593	1,634	1,177	1,185	2,362	183	2	185	7,373	2,601	9,974
	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
1984	536	--	536	3,927	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
	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
	642	--	642	4,759	333	5,092	1,672	367	2,039	1,365	593	1,958	1,258	1,480	2,738	191	1	192	9,887	2,774	12,661
	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
1985	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
	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
	667	--	667	5,679	424	6,103	1,643	427	2,070	1,566	793	2,359	1,312	1,816	3,228	189	1	190	11,056	3,561	14,617
	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
1986	637	--	637	5,900	411	6,311	1,563	449	2,012	1,842	749	2,591	1,539	1,706	3,245	205	67	272	11,686	3,382	15,068
	651	1	652	5,862	408	6,270	1,618	436	2,054	1,912	750	2,662	1,681	1,829	3,510	202	2	204	11,926	3,426	15,352
	898	2	900	5,576	457	6,033	1,625	476	2,101	1,657	774	2,431	1,820	1,917	3,737	222	19	241	11,798	3,645	15,443
	697	4	701	5,363	462	5,825	1,372	394	1,766	2,208	853	3,061	2,991	1,804	4,795	184	20	204	12,815	3,537	16,352
1987	713	1	714	5,265	461	5,726	1,277	338	1,615	2,905	839	3,744	3,369	1,783	5,152	257	18	275	13,786	3,440	17,226
	719	1	720	5,384	471	5,855	1,266	330	1,596	3,727	744	4,471	3,170	1,850	5,020	225	18	243	14,491	3,414	17,905
	708	1	709	5,659	426	6,085	1,330	380	1,710	3,829	684	4,513	3,068	1,943	5,011	272	12	284	14,866	3,446	18,312
	732	5	737	5,840	482	6,322	1,454	408	1,862	3,670	695	4,365	3,369	1,957	5,326	234	13	247	15,299	3,560	18,859
1988	909	1	910	6,061	479	6,540	1,543	416	1,959	3,331	691	4,022	3,314	1,931	5,245	208	23	231	15,366	3,541	18,907
	1,094	3	1,097	6,138	487	6,625	1,684	440	2,124	3,392	735	4,127	3,433	2,017	5,450	214	26	240	15,955	3,708	19,663
	1,144	1	1,145	6,176	489	6,665	1,825	495	2,320	3,238	790	4,028	3,716	2,037	5,753	191	23	214	16,290	3,835	20,125
	1,239	--	1,239	6,106	486	6,592	2,071	508	2,579	3,257	837	4,094	3,751	2,164	5,915	232	3	235	16,656	3,998	20,654

1) Includes mature time deposits

TABLE 4.4
INTEREST RATES ON TIME DEPOSITS IN RUPIAH
AND FOREIGN CURRENCY
(percent per annum)

Maturity	March 1987		March 1988	
	Rupiah	Foreign currency	Rupiah	Foreign currency
State banks				
— 1 month	13.00–13.50	4.00–5.90	15.50–16.00	4.92–6.00
— 3 months	13.50–14.25	4.15–5.80	16.50–17.00	5.10–6.30
— 6 months	14.50–14.50	4.34–5.85	17.00–18.00	5.14–6.40
— 12 months	15.00–15.00	4.40–5.59	17.50–18.50	5.35–6.60
— 24 months	14.00–15.00	—	18.00–19.00	5.35–6.60
Private national banks				
— 1 month	13.00–15.00	4.75–6.25	16.00–17.00	5.75–7.00
— 3 months	14.50–16.50	5.00–6.50	17.00–18.00	5.75–7.50
— 6 months	15.00–17.00	5.00–6.50	18.00–19.00	5.75–7.50
— 12 months	15.00–17.00	5.25–6.75	18.00–20.00	6.00–7.50
— 24 months	16.00–17.50	—	18.00–19.50	—
Foreign banks				
— 1 month	9.50–15.50	4.00–5.50	15.00–16.50	4.00–5.50
— 3 months	9.50–16.00	4.00–5.75	15.20–17.00	4.25–5.50
— 6 months	10.00–17.00	4.00–5.75	16.00–17.00	4.25–5.50
— 12 months	10.25–18.00	4.00–5.87	16.50–17.50	4.25–5.50

6-month, and 12-month time deposits increased by respectively, 26.8%, 7.0%, 15.5%, and 19.4%. The share of 1-month foreign currency time deposits remained high, at 54.1% compared with 53.4% in the preceding year.

3. Savings deposits

During the reporting year, all types of savings deposits, comprising savings under Tabanas, Taska, the Haj Pilgrimage Expenses Savings Scheme (*Tabungan Ongkos Naik Haji* or ONH), the Rural Savings Scheme (*Simpanan Pedesaan* or Simpedes), and other types of savings, registered favorable increases. In addition, there were appreciable

risks in the number of accounts (13.8% to 20,446 thousand) and in the amount outstanding (15.7% to Rp1,835 billion).

3.1. Tabanas and Taska

At the end of the reporting year, the outstanding amount of Tabanas and Taska mobilized by banks rose by 8.9% to Rp1,402 billion. The number of savings accounts increased by 10.5% to 18,502 thousand (Table 4.5). This increase was due in part to the attractive rate of Tabanas. In addition, the number of banks designated to handle Tabanas and Taska expanded by 4 (3 BSNs and 1 BPD) to 72, consisting of 6 state banks, 45 BSNs, and 21 BPDs.

TABLE 4.5
TABANAS AND TASKA SAVINGS DEPOSITS
(billions 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
1978	7,458,963	191.5	6,873	0.1	7,465,836	191.6
1979	7,996,389	212.6	5,880	0.1	8,002,269	212.7
1980	8,828,909	291.7	5,428	0.1	8,834,337	291.8
1981	9,480,647	384.3	12,704	0.2	9,493,351	384.5
1982	9,952,239	445.8	16,134	0.3	9,968,373	446.1
1983	11,003,630	532.3	15,716	0.3	11,019,346	532.6
1984 : March	11,474,295	575.7	17,263	0.4	11,491,558	576.1
June	11,636,817	581.9	17,301	0.5	11,654,118	582.4
September	12,032,517	592.6	17,628	0.7	12,050,145	593.6
December	12,424,913	669.6	16,362	0.5	12,441,275	670.1
1985 : March	12,984,237	699.3	16,937	0.6	13,001,174	699.9
June	13,208,339	725.5	13,540	0.3	13,221,879	725.8
September	14,021,167	793.8	17,082	0.4	14,038,249	794.2
December	14,711,697	935.6	18,068	0.4	14,729,765	936.0
1986						
March	15,033,046	1,058.8	17,954	0.6	15,051,000	1,059.4
June	15,361,855	1,044.9	16,212	0.4	15,378,067	1,045.3
September	16,127,747	1,073.9	18,942	0.6	16,146,689	1,074.5
December	16,379,878	1,217.9	15,502	0.4	16,395,380	1,218.3
1987 : January	16,497,432	1,249.2	15,566	0.5	16,512,998	1,249.7
February	16,821,960	1,257.0	15,595	0.5	16,837,555	1,257.5
March	16,729,182	1,285.9	15,854	0.6	16,745,036	1,286.5
April	16,715,574	1,289.7	14,843	0.6	16,730,417	1,290.3
May	16,844,071	1,255.1	16,086	0.6	16,860,157	1,255.7
June	17,081,524	1,212.0	14,550	0.5	17,096,074	1,212.5
July	16,968,031	1,170.3	22,351	0.5	16,990,382	1,170.8
August	17,406,374	1,151.6	12,574	0.5	17,418,948	1,152.1
September	17,272,131	1,175.1	11,520	0.5	17,283,651	1,175.6
October	17,391,275	1,205.1	11,006	0.5	17,402,281	1,205.6
November	17,594,641	1,239.4	11,038	0.5	17,605,679	1,239.9
December	17,794,709	1,330.8	11,332	0.5	17,806,041	1,331.3
1988 : January	17,796,399	1,364.0	13,249	0.6	17,809,648	1,364.6
February	17,032,887	1,378.1	10,785	0.5	17,043,672	1,378.6
March	18,491,096	1,401.1	10,450	0.5	18,501,546	1,401.6

1) In units of accounts.

3.2. Haj pilgrimage (*Ongkos Naik Haji* or ONH) savings deposits

The ONH savings scheme constitutes savings of prospective haj pilgrims to cover their expenses in fulfilling the haj pilgrimage. The ONH which was fixed at Rp3,212 thousand in 1986/87 for each person, in the reporting year was raised by 41.9% to Rp4,560 thousands.⁶⁾ During the reporting year, ONH savings deposits rose by 45.3% to Rp243.4 billion for 53,367 prospective haj pilgrims compared with 52,154 in the year before.

3.3. Other types of savings

Other types of savings, which includes Simpedes, recorded a significant increase during 1987/88. At the end of the reporting year, the amount stood at Rp433 billion, 44.3% higher than a year earlier. During the reporting year, the amount of Simpedes rose by 92.5% to Rp206 billion, causing its share to other types of savings increased from 37.5% to 47.5%.

C. Money Market

1. Interbank funds

During the reporting year, the amount of interbank money market transactions conducted through the Jakarta Clearing House rose by 33.1% to Rp10,486 billion. The average interest rate on interbank funds also increased, from 13.7% in 1986/87 to 14.1% in 1987/88 (Table 4.6). Much of this increase was accounted for by the June-July 1987 period of tight liquidity, which was aimed at overcoming the foreign exchange speculation; the interbank rate rose briefly to 40% in the

first week of July 1987. The subsequent re-inflow of foreign exchange eased domestic liquidity, and the interbank rate declined to 9.0%-15.5% in September 1987.

2. Certificate of deposits (CDs)

Following a decline of 50% during fiscal year 1986/87, CDs jumped by 85.0% to reach Rp222 billion at end of March 1988 (Table 4.7). This increase was among others attributable to attractive rates offered on this instrument and also to the increase in the number of banks that issued the CDs. In the reporting year, 3 BUSNs were granted licenses to issue CDs, bringing the total number to 29 banks issuing CDs, consisting of 5 state banks, 11 foreign banks, 1 BPD, and 12 private national commercial banks (*Bank-bank Umum Swasta Nasional* or BUSNs). The interest rate paid on CDs rose from a range of 11.0%-17.4% at the end of March 1987 to 13.25% 21.50% at end of 1987/88.

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

In pursuing a cautious monetary policy, during the reporting year Bank Indonesia made only limited purchases of SBPUs. As of end of March 1988, there were no outstanding SBPUs compared with Rp966 billion at end of 1986/87.

4. Bank Indonesia certificates (*Sertifikat Bank Indonesia* or SBIs)

During the reporting year, SBIs issued by Bank Indonesia increased markedly (279.8%) to Rp27,124 billion during the reporting year (Table 4.9). The stock of outstanding SBIs stood at Rp810 billion at the end of March 1988 as compared with Rp161 billion a year earlier. By group of purchasers, state commercial banks

6) Presidential Decree No. 2/1987, January 26, 1987.

TABLE 4.6
JAKARTA INTERBANK CALL MONEY

Period	Volume of transaction (billions of rupiah)	Weighted average of interest rate (percent per annum)
1979 : January–December	1,795	13.24
1980 : January–December	1,364	12.91
1981 : January–December	3,394	16.31
1982 : January–December	4,746	17.29
1983 : January–December	8,592	12.90
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–March	2,107	13.32
April–June	1,840	13.71
July–September	1,828	12.48
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
April	778	13.58
May	628	15.14
June	839	23.50
April–June	2,245	17.72
July	810	16.25
August	622	13.25
September	799	11.77
July–September	2,231	13.81
October	849	11.75
November	936	11.67
December	827	12.18
October–December	2,612	11.86
1988 : January	1,081	12.28
February	1,054	13.55
March	1,263	14.47
January–March	3,398	13.49

TABLE 4.7
CERTIFICATES OF DEPOSITS¹⁾
(billions of rupiah)

End of period	State banks	Foreign banks ²⁾	Total
1978	14	33	47
1979	14	19	33
1980	52	27	79
1981	55	26	81
1982	59	13	72
1983	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 : March	184	59	243
June	110	53	163
September	94	40	134
December	94	37	131
1987: January	86	40	126
February	93	35	128
March	86	34	120
April	83	31	114
May	76	34	110
June	75	46	121
July	64	56	120
August	61	57	118
September	68	144	212
October	78	150	228
November	75	141	216
December	69	132	201
1988 : January	68	131	199
February	65	145	210
March	64	158	222

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 4.8
INTEREST RATES ON CERTIFICATES OF DEPOSITS
(percent per annum)

Maturity	1987				1988
	March	June	September	December	March
1 month	11.60–15.00	12.90–17.00	15.50–22.00	14.50–17.00	14.50–17.00
3 months	11.85–15.50	13.50–19.00	15.00–21.50	14.70–18.60	14.50–19.00
6 months	11.00–15.75	13.50–20.00	15.25–20.00	14.35–20.40	14.35–21.00
12 months	11.10–16.10	13.00–21.00	14.15–21.00	13.40–21.50	14.40–21.50
24 months	11.50–17.40	11.50–20.80	13.20–22.18	12.95–14.67	13.25–15.36

remained the largest buyers, having bought 90% of issued SBIs. The average discount rate on SBIs remained relatively unchanged from the preceding year, at 15% per annum (Table 4.10).

5. Non-bank Financial Institution (NBFI) papers

During the reporting year, funds mobilized through the issuance of money market papers by NBFIs, especially in the form of promissory notes, recorded an increase of 19.6% (to Rp1,179 billion) compared with 1.3% in the preceding year. The increase was mainly due to an increase in enterprises' investments in NBFI papers. It is noteworthy that most of the papers were issued by NBFIs of investment type.

D. Capital Market

Since the reactivation of the capital market in August 1977, up to the end of 1987/88, 27 business entities have gone public—comprising 24 companies issuing stocks and 3 companies issuing bonds. Although there were no new companies issuing bonds in the reporting year, the outstanding bonds recorded

an increase of Rp91 billion reaching Rp595.7 billion at end of March 1988, while the outstanding stocks remained unchanged at Rp133.1 billion.

The total stocks traded in the secondary market during the reporting year amounted to 2,457.4 thousand stocks valued at Rp4.8 billion, up from 1,672.7 thousand stocks valued at Rp2.9 billion in the preceding year.

In addition to trading stocks and bonds through the capital market, share certificates and fund certificates were issued by PT Danareksa. In the reporting year, 1,500 thousand fund certificates were issued with a combined value of Rp15 billion. Up to the end of the reporting year, PT Danareksa had issued 8 types of fund certificates totalling 15,500 thousand certificates at a total value of Rp155.0 billion and 3 types of share certificates totalling 1,420.3 thousand certificates worth Rp12.8 billion. In total, share certificates and fund certificates in circulation at the end of the reporting year stood at 15,690 thousand certificates with a value of Rp160.3 billion.

TABLE 4.9
ISSUANCE, REPAYMENT, AND OUTSTANDING OF
BANK INDONESIA CERTIFICATES ¹⁾
(billions of rupiah)

Period	Issuance		Repayment		Outstanding
	Per period	Accumulated amount	Per period	Accumulated amount	
1983/84	96	96	50	50	46
February – March	96	96	50	50	46
1984/85	2,046		1,849		243
April – June	103	199	132	182	17
July – September	46	245	56	238	7
October – December	950	1,195	744	982	213
January – March	947	2,142	917	1,899	243
1985/86	6,186		5,035		1,394
April – June	263	2,405	503	2,402	3
July – September	973	3,378	569	2,971	407
October – December	2,796	6,174	2,237	5,208	966
January – March	2,154	8,328	1,726	6,934	1,394
1986/87	7,141		8,374		161
April	1,014	9,342	560	7,494	1,848
May	1,268	10,610	872	8,366	2,244
June	819	11,429	1,006	9,372	2,057
July	1,027	12,456	691	10,063	2,393
August	322	12,778	1,164	11,227	1,551
September	278	13,056	694	11,921	1,135
October	1,094	14,150	756	12,677	1,473
November	579	14,729	756	13,433	1,296
December	228	14,957	778	14,211	746
January	345	15,302	546	14,757	545
February	127	15,429	392	15,149	280
March	40	15,469	159	15,308	161
1987/88	27,124		26,475		810
April	30	15,499	127	15,435	64
May	8	15,507	32	15,467	40
June	333	15,840	4	15,471	369
July ²⁾	1,938	17,778	762	16,233	1,545
August	2,652	20,430	2,792	19,025	1,405
September	3,034	23,464	2,655	21,680	1,784
October	3,524	26,988	3,972	25,652	1,336
November	4,191	31,179	3,803	29,455	1,724
December	2,796	33,975	3,649	33,104	871
January	2,629	36,604	2,299	35,403	1,201
February	2,862	39,466	2,667	38,070	1,396
March	3,127	42,593	3,713	41,783	810

1) The issuance of SBI started in February 1984.

2) Since July 23, 1987, the 7-day SBI has been put at auction.

TABLE 4.10
INTEREST RATES ON BANK INDONESIA CERTIFICATES¹⁾
(percent per annum)

Period	7 days	15 days	30 days	90 days
1983/84 :				
February – March	---	---	15.00	15.00
1984/85 :				
April – June	---	---	14.50–14.75	15.00
July – September	---	---	14.50–18.00	16.00
October – December	---	14.75–16.00	15.75–18.50	16.75–18.50
January – March	---	14.75–15.00	15.75–16.00	16.75–17.00
1985/86 :				
April – June	---	15.00	16.00	---
July – September	---	---	14.00–16.00	---
October – December	---	---	14.00	15.00
January – March	---	---	14.00	15.00
1986/87 :				
April – June	---	---	14.00	15.00
July – September	---	---	14.00	15.00
October – December	---	---	14.00	15.00
January – March	---	---	14.00	15.00
1987/88 :				
April	---	---	14.00	15.00
May	---	---	16.00	17.00
June	---	---	16.37	18.00
July	16.00 – 20.00	---	---	---
August	14.50 – 18.00	---	---	---
September	14.25 – 15.50	---	---	---
October	14.25 – 14.50	---	---	---
November	13.75 – 14.375	---	---	---
December	13.625 – 13.80	---	---	---
January	13.50 – 13.75	---	---	---
February	13.70 – 15.25	---	---	---
March	15.125 – 15.4375	---	---	---

1) The 15-day SBIs had been issued since October 1984, but since May 18, 1985 have been lifted. In addition, since July 23, 1987, the issuance of the 7-day SBIs has been started while the 30-day and the 90-day SBIs have been postponed temporarily.

TABLE 4.11
TRANSACTIONS OF MONEY MARKET SECURITIES
BY SECURITIES HOUSE
(billions of rupiah)

Period	Buying¹⁾	Selling²⁾	Maturity	Outstanding
1984/85 :	243.3	25.5	4.0	213.8
February – March	243.3	25.5	4.0	213.8
1985/86 :	6,197.8	1,304.8	4,450.8	656.0
April – June	335.2	369.2	90.5	89.3
July – September	846.5	488.6	390.2	56.8
October – December	1,781.6	217.7	1,179.3	441.4
January – March	3,234.7	229.3	2,790.8	656.0
1986/87 :	33,170.1	23,068.7	9,791.5	966.0
April	885.2	6.1	927.8	607.3
May	1,239.6	175.3	1,173.9	497.7
June	1,473.8	190.0	1,267.9	513.6
July	1,244.8	192.0	1,198.9	367.5
August	1,830.6	204.9	1,497.4	495.8
September	2,309.6	178.2	2,358.8	268.4
October	2,129.1	1,402.9	689.0	305.6
November	2,437.0	2,129.1	218.4	395.1
December	4,188.9	3,370.0	128.0	1,086.0
January	4,550.7	4,660.1	115.7	860.9
February	4,999.1	5,151.7	50.0	658.3
March	5,881.8	5,408.4	165.7	966.0
1987/88 :	19,996.9	18,937.1	2,025.8	—
April	6,155.1	6,430.4	95.3	595.4
May	5,957.2	5,401.6	190.7	960.3
June	5,392.7	5,769.3	69.2	514.5
July	2,349.2	1,335.8	1,520.4	7.5
August	125.9	—	131.6	1.8
September	16.8	—	18.6	—
October	—	—	—	—
November	—	—	—	—
December	—	—	—	—
January	—	—	—	—
February	—	—	—	—
March	—	—	—	—

1) Includes repurchase from sales under Repurchase Agreement.

2) Includes sales under Repurchase Agreement.

V. BANKING AND OTHER FINANCIAL INSTITUTIONS

A. Banking

1. Policy on banking supervision

In the reporting year, policies concerning banking supervision continued to be directed toward fostering sound banking practices as well as promoting efficiency and professionalism. While continuing the efforts of previous years in this area, some new steps were taken in the reporting year, including improvements in local clearing activities and banks' classifications of credit collectibility.

To enhance banking services and money market activity, since October 1, 1987 banks having excess reserves have been allowed to transfer these funds through inter-city clearing. As a first step, this opportunity was given to clearing members in Jakarta, Surabaya, and Bandung.¹⁾ As well, in April 1987 Bank Indonesia eased regulations regarding commercial banks' overdraft facilities to qualified customers.²⁾ The ceiling on overdraft facilities for credits was raised from 5% to 15% of the maximum credit; that for demand deposits was raised from 10% to 15% of the effective balance when the overdraft occurred. Moreover, the maximum period of overdraft settlement was extended from 7 to 15 days.

With respect to banking supervision, in the reporting year Bank Indonesia improved regulations on the classification of credits according to collectibility by extending the maximum period of interest arrears from 2 months to 3 months.³⁾

Furthermore, starting in the reporting year credits initially classified as doubtful or bad debts have been classified into credits eligible for rescheduling, reconditioning, or restructuring.

In order to diversify banking services and to support the Government's effort to improve tax collection, in the reporting year state commercial banks were designated to handle the payment of land and building taxes (*Pajak Bumi dan Bangunan* or PBB).⁴⁾

2. Banking developments

To strengthen the capital and enhance the efficiency of the banking system, merger continued to be encouraged among the private national banks. In the reporting year, 2 private national commercial banks (*bank umum swasta nasional* or BUSNs) merged, resulting in a decline in the total number of banks, from 113 to 112 during the reporting year. The total number of bank offices (comprising head, branch, and sub-branch offices) increased by 79 to 1,640 (Table 5.1).

With respect to group of banks, following the merger of the two BUSNs), the number of commercial banks at the end of 1987/88 decreased from 81 to 80 banks; there were 5 state commercial banks, 64 BUSNs), and 11 foreign banks. Meanwhile, the number of commercial bank offices increased from 1,265 to 1,331; this increase occurred in state commercial banks and BUSNs). The number of state commercial bank offices rose by 25 branch offices, including the promotion of 7

1) Bank Indonesia Circular Letter No. 20/28/INTERN, October 28, 1987.

2) Bank Indonesia Circular Letter No. 19/3/BPP, March 12, 1987.

3) Bank Indonesia Circular Letter No. 20/3/BPPP, June 20, 1987.

4) Bank Indonesia Circular Letter No. 20/4/BPPP, June 20, 1987, qq. Minister of finance Decree No. 1005/KMK.04/1985, December 28, 1985.

TABLE 5.1
NUMBER OF BANKS AND THEIR OFFICES
IN INDONESIA

Particulars	Mar 31, 1987	1987/88		Mar 31, 1988
	Number of banks/ offices	Estab- lished	Licenses revoked	Number of banks/ offices
Commercial banks				
State commercial banks				
— Number of banks	5	—	—	5
— Number of offices	780	18	—	798
Private national commercial banks				
— Number of banks	65	—	1	64
— Number of offices	464	48	—	512
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	228	10	—	238
Private development banks				
— Number of banks	1	—	—	1
— Number of offices	3	3	—	6
Savings banks				
State savings banks				
— Number of banks	1	—	—	1
— Number of offices	15	—	—	15
Private savings banks				
— Number of banks	2	—	—	2
— Number of offices	28	—	—	28
Number of commercial banks, development banks, and savings banks				
— Number of banks	113	—	1	112
— Number of offices	1,561	79	—	1,640
Rural credit banks ¹⁾				
— Village banks	3,550	—	8	3,542
— Paddy banks	2,063	—	—	2,063
— Petty traders' banks	175	2 ²⁾	—	177
— Employees' banks	1	—	—	1
Total number of banks	5,902	2 ²⁾	9	5,895
Total number of offices ³⁾	7,350	81	8	7,423

1) The number of banks is equivalent to the number of bank offices.

2) The permit to continue the activities obtained from Ministry of Finance by two petty traders' banks.

3) The number of offices comprises head, branch, and sub-branch offices.

sub-branch to become branch offices, and the number of BUSN offices rose by 29 branch and 20 sub-branch offices. Consequently, at the end of 1987/88 there were 798 state commercial bank offices, 512 BUSN offices, and 21 foreign bank offices.⁵⁾

At the end of the reporting year, the number of development banks remained unchanged at 29, consisting of 1 state development bank, 27 regional development banks (*bank pembangunan daerah* or BPDs), and 1 private development bank. With the opening of 10 BPD branch offices and 3 private development bank branch offices, the number of development bank offices increased to 266 offices.

In the reporting year, the number of savings banks remained at 3, consisting of 1 state savings bank and 2 private savings banks with 15 and 28 offices, respectively.

In other developments, the number of rural credit banks (comprising village banks, paddy banks, petty traders banks, and employees' banks) decreased from 5,789 to 5,783 banks at the end of the reporting year. The reduction was brought about by the revocation of the operation permits of 8 village banks; 2 petty traders banks obtained permit extension.

The activities of deposit money banks (DMBs) with regard to total assets, credits extended, and funds mobilized continued to show favorable developments. In the reporting year, total assets rose by 21.5% to Rp50,334 billion, credits extended by 26.0% to Rp34,135 billion, and funds mobilized by 27.2% to Rp34,881 billion (Table 5.2).

Based on total assets, the relative sizes of private national banks and BPDs increased, whereas those of other groups declined. With respect to credits extended, the shares of private national banks also recorded an increase, that of BPDs remained unchanged, while those of state banks and foreign banks declined. With regard to the amount of funds mobilized, the shares of state banks experienced an increase, of BPDs remained unchanged, while those of other groups declined (Table 5.3).

In the reporting year, the rupiah excess reserves increased from 0.5% in 1986/87 to 1.1% (Table 5.4). This increase accounted for by state banks and BPDs; private national and foreign banks registered declines in liquidity.

In the reporting year, efforts to promote BPDs continued to be conducted in the form of the second stage technical assistance. The technical assistance was implemented by supervising 5 BPDs (of Bengkulu, Southeast Sulawesi, Central Sulawesi, Maluku, and Irian Jaya) in implementing their operational manuals regarding management, credit system, reporting system, accounting, internal control, and personnel. Moreover, technical assistance for completing the operation manuals was provided for 4 BPDs (of South Sumatera, Yogyakarta, East Nusa Tenggara, and East Timor). The manuals include guidelines in accounting, reporting system, and internal control management.

In the meantime, efforts to improve demand deposit transactions and to enhance bank's services to the public continued to be conducted through the designation of state bank branch offices as organizers of local clearing, especially in regions where there is no Bank Indonesia office. Since local clearing

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

TABLE 5.2
CONSOLIDATED BALANCE SHEET OF DEPOSIT MONEY BANKS¹⁾
(billions of rupiah)

Items	March 31, 1987					March 31, 1988				
	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	430	115	111	14	670	455	119	138	16	728
Bank Indonesia	1,336	459	75	202	2,072	1,980	550	86	222	2,838
Securities	19	9	--	--	28	19	6	--	--	25
Domestic draft	446	312	98	62	918	1,083	713	103	117	2,016
Outstanding loans	18,634	5,481	775	990	25,880	22,097	7,927	981	1,182	32,187
Foreign exchange assets										
— Loans	800	207	--	198	1,205	1,461	188	--	299	1,948
— Others	6,465	1,002	2	864	8,333	5,675	1,333	1	811	7,820
Participations	93	13	1	1	108	123	17	1	1	142
Premises, furnitures, and fixtures	329	173	51	40	593	426	237	64	50	777
Other assets	992	289	139	215	1,635	1,338	135	184	196	1,853
ASSETS = LIABILITIES	29,544	8,060	1,252	2,585	41,441	34,657	11,225	1,558	2,894	50,334
LIABILITIES										
Paid up capital	51	324	113	32	520	50	394	129	37	610
Reserves/profit and loss account	1,696	312	80	32	2,120	1,757	386	86	31	2,260
Borrowings	2,731	216	22	37	3,006	2,959	254	32	89	3,334
Demand deposits	3,848	1,507	499	308	6,162	4,419	1,807	632	331	7,189
Time and savings deposits	8,257	3,603	249	600	12,709	11,260	5,816	307	716	18,099
Draft payable	289	103	25	26	443	466	88	24	25	603
Guarantee deposits	87	23	7	1	118	146	31	8	2	187
Foreign exchange liabilities										
— Demand deposits	829	96	--	446	1,371	706	77	--	495	1,278
— Time and savings deposits	2,042	604	--	818	3,464	2,144	1,007	--	848	3,999
— Borrowings	18	92	--	47	157	7	125	--	60	192
— Others	572	140	--	93	805	896	206	--	99	1,201
Bank Indonesia	7,638	665	226	58	8,587	7,421	858	304	83	8,666
Other liabilities	1,486	375	31	87	1,979	2,426	176	36	78	2,716

1) Consists of commercial and development banks.

TABLE 5.3
TOTAL ASSETS, FUNDS, AND OUTSTANDING LOANS
BY GROUP OF BANKS
 (percentage)

Group of banks	Assets			Loans			Funds		
	March			March			March		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
State banks	72.1	71.3	68.9	71.7	71.7	69.0	65.3	66.0	63.4
Private national banks	17.6	19.5	22.3	20.5	21.0	23.8	21.8	22.8	26.4
Regional development banks	3.4	3.0	3.1	2.9	2.9	2.9	3.5	2.9	2.9
Foreign banks	6.9	6.2	5.7	4.9	4.4	4.3	9.4	8.3	7.3

began in 1981/82, 33 branch offices have been registered as local clearing organizers.

In connection with the implementation of Presidential Decree No.29/1984 regarding the execution of construction projects and procurements of materials financed by the state budget, in the reporting year eligible banks and financial institutions were permitted to issue guarantees to expedite these activities. For this purpose, 90 banks were considered eligible, comprising 5 state commercial banks, 1 state development bank, 60 BUSNs, 23 BPDs, and 1 private development bank.⁶⁾

B. Other Financial Institutions

In accordance with established policy, efforts to promote the activities of other financial institutions continued to be conducted. These efforts are intended to create a better climate, which would encourage sound operation of those institutions and enhance their role in mobilizing and distributing funds

from and to the public. Other financial institutions include non-bank financial institutions, insurance companies, leasing companies, and pawnshops.

1. Non-bank financial institutions (NBFIs)

The policy to promote NBFIs continued to be directed toward enhancing the role of NBFIs in the development of money and capital markets and assisting enterprises through credits and equity participation.

During the reporting year, the number of NBFIs remained unchanged at 14, comprising 3 of development finance type, 9 of investment finance type, and 2 of other type. Favorable development of NBFI activities was reflected in the growth of total assets, investments, and funds mobilization. During the reporting year, total assets of NBFIs rose by 25.1% to Rp2,528 billion and investments rose by 25.4% to Rp2,394 billion. At the same time, funds mobilized, mostly through issuing securities, went up by 24.4% to Rp2,403 billion (Tables 5.5 and 5.6).

6) Minister of Finance Decree
 No. 205/KMK.013/1988, February 24, 198

TABLE 5.4
MONTHLY AVERAGE RUPIAH LIQUIDITY POSITION OF
DEPOSIT MONEY BANKS
(billions of rupiah)

Items	1986/87				1987/88					
	State banks	Private commercial banks	Regional dev. banks	Foreign banks	Total	State banks	Private commercial banks	Regional dev. banks	Foreign banks	Total
a. Reserves	1,361	437	148	120	2,066	1,721	542	171	120	2,554
b. Current liabilities	9,153	2,651	641	801	13,246	10,966	3,405	704	822	15,897
c. Reserves as percentage of current liabilities { (a : b) x 100 }	14.8	16.4	23.0	15.0	15.5	15.7	15.9	24.3	14.6	16.1
d. Minimum reserve requirement (15% x b)	1,373	398	96	120	1,987	1,645	511	106	123	2,385
e. Excess/deficiency (a - d)	- 12	39	52	--	79	76	31	65	- 3	169
f. Required reserves with Bank Indonesia (5% x b)	458	132	32	40	662	549	170	35	41	795
g. Reserves with Bank Indonesia	1,029	332	64	107	1,732	1,343	408	65	105	1,921
h. Excess reserves with Bank Indonesia (g - f)	571	200	32	67	870	794	238	30	64	1,126
i. Excess/deficiency as percentage of current liabilities { (h : b) x 100 }	6.2	7.5	5.0	8.4	6.6	7.2	7.0	4.3	7.8	7.1

TABLE 5.5
INVESTMENT AND SOURCES OF FUNDS OF
NON-BANK FINANCIAL INSTITUTIONS
(billions of rupiah)

Items	March 31, 1987			March 31, 1988		
	Develop- ment type ¹⁾	Invest- ment type	Total	Develop- ment type ¹⁾	Invest- ment type	Total
Investment of funds						
Call money	—	6	6	—	9	9
Marketable securities	201	1,446	1,647	269	1,694	1,963
Loans extended	231	—	231	368	—	368
Equity participation	6	11	17	7	35	42
Others	4	5	9	8	4	12
Total	442	1,468	1,910	652	1,742	2,394
Sources of funds						
Call money	—	39	39	—	76	76
Securities issued	137	900	1,037	181	1,073	1,254
Loans received	239	343	582	392	373	765
Subordinated loans	15	97	112	24	91	115
Capital	52	109	161	63	130	193
Total	443	1,488	1,931	660	1,743	2,403

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

Source : Ministry of Finance.

During the reporting year, total assets of NBFIs of investment finance type increased by 17.1% to Rp1,805 billion. Meanwhile, investments of this type of institution rose by 18.7% (to Rp1,742 billion) compared with a decrease of 23.9% in the preceding year. It may be noted that almost all of these investments were carried out by purchasing corporate securities. Funds mobilized also recorded a substantial increase, of 17.1% (to Rp1,743 billion) compared with a drop of 23.6% during the preceding year. These funds were mainly obtained from the issuance of money market securities.

NBFIs of development finance type and other type recorded a favorable improvement

during the reporting year. Total assets of these two types surged by 50.1% (to Rp723 billion) compared with 20.7% in the preceding year. Investments, mainly conducted through extending credits and purchasing securities, went up by 47.5% to Rp652 billion. Furthermore, a significant increase was also registered in the mobilization of funds, of 49.0% to Rp660 billion, mainly from credits obtained and securities issued.

2. Insurance companies

Insurance companies in Indonesia are classified into life, social, and indemnity insurance and reinsurance companies. In 1987, the number of insurance companies

TABLE 5.6
CONSOLIDATED BALANCE SHEET OF
NON-BANK FINANCIAL INSTITUTIONS
(billions of rupiah)

Items	March 31, 1987			March 31, 1988		
	Development type ¹⁾	Investment type	Total	Development type ¹⁾	Investment type	Total
Current assets						
Cash and banks	4	6	10	9	5	14
Call money	—	6	6	—	9	9
Marketable securities						
— Shares and bonds	1	69	70	1	44	45
— Others	176	1,338	1,514	233	1,591	1,824
Loans and advances	40	—	40	56	—	56
Other current assets	23	52	75	50	38	88
Other assets						
Non-marketable securities						
— Shares and bonds	4	1	5	4	9	13
— Others	24	39	63	35	59	94
Loans and advances	191	—	191	312	—	312
Equity participation	2	10	12	3	26	29
Fixed assets	10	10	20	14	11	25
Others	4	11	15	6	13	19
ASSETS = LIABILITIES	479	1,542	2,021	723	1,805	2,528
Current liabilities						
Call money	—	39	39	—	76	76
Securities issued	100	886	986	120	1,059	1,179
Loans received	21	342	363	45	335	380
Other current liabilities	26	38	64	50	39	89
Other liabilities						
Securities issued	36	14	50	61	14	75
Loans received	218	1	219	347	38	385
Others	11	16	27	13	23	36
Capital and subordinated loans						
Paid-in capital	32	20	52	33	27	60
Reserves	10	2	12	13	2	15
Retained earnings	10	87	97	17	101	118
Subordinated loans	15	97	112	24	91	115

¹⁾ Includes non-bank financial institutions for financing house ownership.
Source : Ministry of Finance.

TABLE 5.7
GROSS PREMIUMS, CLAIMS, AND INVESTMENTS
BY INSURANCE COMPANIES ^r
(billions of rupiah)

Type of insurance	Total assets			Gross premiums			Claims			Investments		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
Life insurance	319	409	566	173	158	329	144	335	271	221	279	413
Social insurance	790	1,051	1,456	179	272	376	57	68	149	734	966	1,284
Indemnity insurance and reinsurance ¹⁾	561	694	748	550	650	782	394	421	444	252	343	539
Total	1,670	2,154	2,770	902	1,080	1,487	595	824	864	1,207	1,588	2,236

1) Includes PT Askrindo and PT Asei.

Source : Ministry of Finance.

increased by 1 to 102 companies. The increase originated from the addition of one reinsurance company, resulting the total of 4 reinsurance companies at the end of 1987; moreover, the number of social, life, and indemnity insurance companies remained unchanged at 5, 25, and 68, respectively.

In 1987, efforts to promote insurance companies were aimed at enhancing public confidence and expanding the activities of such companies. In November 1987, the Government improved the policy on life insurance, particularly with regard to capital. To augment companies' capital base, paid-up capital of national life insurance companies was raised to a minimum of Rp1.5 billion, while that of joint-venture life insurance companies was raised to Rp4.5 billion.⁷⁾ Moreover, to strengthen public confidence, insurance companies are required to employ professional personnels.

7) Minister of Finance Decree No. 756/KMK.013/1987, November 24, 1987.

As was the case in the previous years, in 1986 the activities of insurance companies increased favorably as reflected in their increased assets, premiums, and investments. At the end of 1986, total assets of insurance companies reached Rp2,770 billion or increased by 28.6% above a year earlier. This increase was closely related to a rise in gross premium receipts of 37.7% reaching Rp1,487 billion. As well, investments rose by 40.8% to Rp2,236 billion and claims rose by 4.9% to Rp864 billion (Table 5.7).

PT Asuransi Kredit Indonesia (PT Askrindo), as one of the indemnity insurance companies, functioned primarily to provide insurance on small-scale investment credits (*Kredits Investasi Kecil* or KIK) and permanent working capitals credits (*Kredit Modal Kerja Permanen* or KMKP). Insurance coverage by PT Askrindo in 1987 amounted to Rp1,035.4 billion or 15.2% higher than that of 1986. Premiums totalled Rp32.8 billion, a rise of 43.9% over the preceding year, while claims decreased by 33.7% to Rp80.0 billion.

PT Asuransi Ekspor Indonesia (PT Asei), established in November 1985, provides export insurance and export credit guarantees. The premium charged on export insurance remained in the range of 0.2% to 4% of the export value and that on export credit guarantee ranged from 0.5% to 1% of the maximum credit. Coverage of guarantee borne by PT Asei is 85% of the loss. In 1987, insurance covered by PT Asei amounted to Rp3,148.3 billion; premiums and claims were Rp21.8 billion and Rp22.6 billion, respectively. Of these amounts, insurance coverage, premiums, and claims regarding export insurance were Rp106.1 billion, Rp0.8 billion, and Rp2.4 billion, respectively. Furthermore, insurance coverage, premiums, and claims with regard to export credit guarantees were Rp3,042.2 billion, Rp21.0 billion, and Rp20.2 billion, respectively.

Another financial institution engaged in indemnity insurance is the state corporation for the financial development of cooperatives (*Perusahaan Umum Pengembangan Keuangan Koperasi* or Perum PKK), with the main task of covering risk on credits extended by banks to cooperatives. In 1987/88, Perum PKK

covered insurance of Rp221.0 billion for banks' loans to cooperatives, amounting to Rp239.4 billion. The maximum premium charged on this type of guarantee remained at 2% of the guaranteed credit value.

3. Leasing companies

Leasing is one of the financing schemes 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 option to purchase the capital goods, based upon an agreed salvage value. During 1987, the number of leasing companies increased by 4 to 83 companies; there were 3 additional private national leasing companies and 1 new joint-venture leasing company. At the end of 1987, the leasing industry comprised 1 state company, 46 private national companies, and 36 joint-venture companies. During 1987, total assets of leasing companies increased substantially, by 45.3% to Rp1,552.0 billion, owing to the rise in the number of leasing companies and to an increase in the amount of financing; the value of leasing contracts increased from Rp645.5 billion in 1986 to Rp1,195.4 billion in 1987.

TABLE 5.8
DEVELOPMENT OF PAWNSHOP'S ACTIVITIES
(billions of rupiah)

Particulars	1981	1982	1983	1984	1985	1986	1987
Number of offices	463	471	473	474	479	479	480
Total loans extended	156	177	221	246	274	285	330
Redemption	144	175	210	239	271	280	319
Outstanding loans	42	44	55	62	65	70	81

Source : Perjan Pegadaian.

4. Pawnshops

The activities of pawnshops (*Perusahaan Jawatan Pegadaian* or *Perjan Pegadaian*) are intended to provide loans for persons in the low-income group facing financial difficulties. To enhance these services, in August 1987 the maximum loan extended to each borrower was raised from Rp200,000.00 to Rp300,000.00; the interest rate remained at 3-4% per month and a maximum period remained at 6 months.

In 1987, the, number of pawnshop offices throughout Indonesia increased by 1 to 480 offices. Activity of these institutions continued to rise as indicated by loans and repayments, which amounted to Rp330 billion and Rp319 billion (increases of 15.8% and 13.5%), respectively. As a consequence of these movements, outstanding loans went up by Rp11 billion to Rp81 billion at the end of December 1987 (Table 5.8).

VI. GOVERNMENT FINANCE

A. General

In recent years, the sluggish world economy, the low and uncertain international oil prices, and the depreciation of the US dollar have strained government finances. To counter the effects on Indonesia of this sometimes precarious economic situation, the Government took a series of policy initiatives beginning in 1983/84. These policy initiatives, especially in the area of taxation and expenditure restraint, together with improved prices for several major export commodities in 1987/88 contained the negative effects of external circumstances on government finances.

While continuing to follow the long-standing principle of a balanced budget, the Central Government's budget for 1987/88 fixed expenditures and revenues a little above that of the preceding year. On the side of revenues, the Government made efforts to raise domestic receipts and to obtain foreign funds for local cost financing of development projects. Domestic tax revenues were increased through intensification of the tax efforts, including improvements to tax administration, enhancement of skills of tax officers as well as through a broadening of the tax base. Policies to raise non-tax revenues were implemented by improving the efficiency of state-owned enterprises and by intensifying collection of charges on forest proceeds (*Iuran Hasil Hutan* or IHH) and on forestry exploitation rights (*Iuran Hasil Pengusahaan Hutan* or IHPH). Regarding routine expenditures, the Government made strong efforts to economize on purchases of goods and services. On the side of development expenditures, the Government focussed more sharply on its priority activities, while enhancing the effectiveness of funds utilization.

The 1987/88 budget was fixed at Rp22,783 billion or 6.4% higher than the budget for the preceding year. With regard to realizations, the outturn reached Rp26,961 billion representing a substantial increase of 18.3% over the amount budgeted, or 23.2% higher than the outturn for the preceding year. On the revenue side, this favorable outturn was mainly due to greater-than-expected non-tax receipts and to relatively high oil prices in the international market. As concerns expenditures, the outturn mainly reflected large increases in some items of routine expenditures, such as transfers to regions and personnel expenditures. It should be noted that taking into account the 1987/88 inflation rate of 8.29%, real budget outlays increased by 14.9% in 1987/88 compared with a decline of 12.9% in the year before.

In the reporting year, government savings (representing the difference between domestic revenues and routine expenditures) reached Rp3,321 billion or 28.6% above the outturn for the preceding year. These higher government savings raised the share of government savings in development financing to 35.0% compared with 31.0% in the preceding year (Table 6.1).

B. Government Revenues

In the reporting year, total government revenues (comprising domestic revenues and development receipts) reached Rp26,961 billion, or 18.3% higher than the amount budgeted and 23.1% above the outturn for the preceding year. Domestic revenues amounted to Rp20,803 billion or 20.7% higher than the amount budgeted and 28.9% higher than the

TABLE 6.1
GOVERNMENT REVENUES AND EXPENDITURES
(billions of rupiah)

Particulars	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89
					Budget	Actuals	Budget
I. Revenues	18,315	19,383	22,825	21,893	22,783	26,961	28,964
1. Domestic	14,433	15,905	19,253	16,141	17,236	20,803	21,803
2. Development	3,882	3,478	3,572	5,752	5,547	6,158	7,161
II. Expenditures	18,311	19,381	22,824	21,891	22,783	26,959	28,964
1. Routine	8,412	9,429	11,951	13,559	15,026	17,482	20,066
2. Development	9,899	9,952	10,873	8,332	7,757	9,477	8,898
III. Public savings (I.1 - II.1)	6,021	6,476	7,302	2,582	2,210	3,321	1,737
IV. Total development funds (I.2 + III)	9,903	9,954	10,874	8,334	7 757	9,479	8,898
V. Surplus(+)/deficit (-)	+4	+2	+1	+2	0	+2	0

Source : Ministry of Finance.

outturn for the preceding year. Development receipts, consisting of program and project aids, registered Rp6,158. billion or 11.0% higher than the amount budgeted and 7.1% higher than the actual of the preceding year (Table 6.2).

As was the case in the preceding year, oil/gas receipts in the reporting year were lower than those of non-oil/gas. Receipts originating from oil/gas reached Rp10,047 billion or 44.8% higher than the amount budgeted and 58.5% larger than the actual of the preceding year. Meanwhile, the actual non-oil/gas receipts (budgeted at Rp10,297 billion) reached Rp10,756 billion or 9.7% higher than the outturn for the preceding year. These relatively high non-oil/gas revenues were mainly attributable to several kinds of tax and non-tax revenues.

Receipts from several non-oil/gas taxes rose

relative to the preceding year, including income tax (*Pajak Penghasilan* or PPh), value-added tax (*Pajak Pertambahan Nilai* or PPN), sales tax on luxury goods (*Pajak Penjualan atas Barang Mewah* or PPnBM), excise duties, export tax, and land and building taxes (*Pajak Bumi dan Bangunan* or PBB); receipts from import duties declined. In total, receipts from taxes reached Rp8,779 billion or 1.4% higher than the outturn for the preceding year and 5.1% lower than the budget.

In the reporting year, non-tax receipts, consisting of profit remittances from public enterprises, contributions from forest exploitation, and other receipts, reached Rp1,977 billion or 88.5% higher than the budgeted amount and 72.4% higher than the outturn for the preceding year. The increase was due in part to intensified efforts in collecting the non-tax revenues and improved

TABLE 6.2
GOVERNMENT REVENUES
(billions of rupiah)

Particulars	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89
					Budget	Actuals	Budget
I. Domestic revenues	14,433	15,905	19,253	16,141	17,236	20,803	21,803
A. Oil and gas receipts	9,520	10,430	11,145	6,338	6,939	10,047	8,856
1. Oil	8,522	8,937	9,447	5,264	5,978	8,720	7,775
2. Gas	998	1,493	1,698	1,074	961	1,327	1,081
B. Non-oil and -gas receipts	4,913	5,475	8,108	9,803	10,297	10,756	12,947
1. Taxes on income	1,932	2,121	2,313	2,271	3,316	2,663	3,762
- Income tax	399	---	---	---	---	---	---
- Corporate tax	757	---	---	---	---	---	---
- Withholding tax (MPO)	628	---	---	---	---	---	---
- Tax on interest, dividends, and royalties (PBDR)	148	---	---	---	---	---	---
2. Value-added tax on goods and services and tax on the sales of luxurious goods	831	878	2,327	2,900	3,546	3,390	4,788
- Sales tax	575	637	---	---	---	---	---
- Sales tax on import	256	241	---	---	---	---	---
3. Import duties	557	530	607	960	662	938	1,068
4. Excise duties	773	873	944	1,056	1,076	1,106	1,332
5. Export tax	104	91	51	79	71	184	144
6. Land and building taxes	145	180	224	190	274	275	322
- Land tax (Ipeda)	132	157	167	---	---	---	---
- Property tax	13	23	57	---	---	---	---
7. Others	52	115	150	190	189	223	272
8. Non-tax receipts	519	687	1,492	1,147	1,049	1,977	1,259
9. Fuel-oil receipts	---	---	---	1,010	114	---	---
II. Development receipts	3,882	3,478	3,572	5,752	5,547	6,158	7,161
A. Program aid	15	69	69	1,957	121 ^r	728	1,163
1. Original	15	69	69	81	121	103	92
2. Local cost	---	---	---	1,876	---	625	1,071
B. Project aid	3,867	3,409	3,503	3,795	5,426 ^f	5,430	5,998
1. Original	3,867	3,409	3,503	3,795	4,419	5,430	5,998
2. Local cost	---	---	---	---	1,007	---	---
Total	18,315	19,383	22,825	21,893	22,783	26,961	28,964

Source : Ministry of Finance.

efficiency of public enterprises.

In 1987/88, the outturn of development receipts originating from foreign aids stood at Rp6,158 billion or 11.0% larger than the amount budgeted and 7.1% higher than the outturn for the preceding year. Development receipts derived from food aid program amounted to Rp103 billion, special assistance for local cost financing to Rp625 billion, and project aid to Rp5,430 billion. The higher outturn of development receipts over the budgeted amount was mainly attributable to special assistance for local cost financing.

C. Government Expenditures

Actual government expenditures, comprising routine and development expenditures, amounted to Rp26,959 billion in 1987/88, 18.3% higher than the budgeted amount and 23.2% higher than the actual of the preceding year (Table 6.3).

Routine expenditures consist of personnel outlays, goods expenditures, subsidies to local governments, debt service payments, and others. In the reporting year, the actual routine expenditures reached Rp17,482 billion or 16.4% higher than the budgeted amount and 28.9% higher than the actual of the preceding year.

It should be noted that other routine expenditures—which consist of fuel-oil subsidies, costs relating to the general election, and official correspondence—jumped to Rp515 billion in the reporting year, or 543.0% higher than the budgeted amount and 255.2% higher than the outturn for the preceding year. This sharp rise was mainly associated with fuel-oil subsidies of Rp402 billion which had not been included in the budget.

Owing to limited funding, development expenditures both in the forms of rupiah financing and project aid were allocated for on-going projects that were judged to be labor intensive with a large domestic multiplier effect and a low import content. In the reporting year, actual development expenditures registered Rp9,477 billion or 22.2% higher than the budgeted amount and 13.7% higher than the outturn for the preceding year. These expenditures were mainly used to finance economic development programs (55.3%), education and cultural programs (14.3%), and regional, business, and environment programs (14.2%).

D. Government Budget for Fiscal Year 1988/89

The government budget for fiscal year 1988/89—constituting the last fiscal year of Repelita IV—was fixed at a balanced amount of Rp28,964 billion or 27.1% higher than the budgeted amount for the preceding year. Domestic revenues were fixed at Rp21,803 billion or 26.5% higher than budgeted for the preceding year, consisting of receipts from oil/gas of Rp8,856 billion and from non-oil/gas of Rp12,947 billion. Development receipts were budgeted at Rp7,161 billion, consisting of food aid program of Rp92 billion, special assistance for local cost financing of Rp1,071 billion, and project aid of Rp5,998 billion. Routine expenditures were budgeted at the amount of Rp20,066 billion, mainly allocated for debt service payments for foreign loans of Rp10,608 billion. Government savings is expected to amount to only Rp1,737 billion or 21.4% lower than the budgeted amount for the preceding year. Development expenditures were budgeted at Rp8,898 billion or 14.7% higher than that in 1987/88.

TABLE 6.3
GOVERNMENT EXPENDITURES
(billions of rupiah)

Particulars	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89
					Budget	Actuals	Budget
I. Routine expenditures	8,412	9,429	11,951	13,559	15,026	17,482	20,066
1. Personnel expenditures	2,757	3,047	4,018	4,311	4,316	4,617	4,816
– Rice allowances	346	407	402	406	483	451	482
– Salaries and pensions	1,996	2,207	3,073	3,330	3,276	3,561	3,739
– Food allowances	261	271	300	288	315	299	323
– Other domestic personnel expenditures	88	90	161	177	118	176	141
– Overseas personnel expenditures	66	72	82	110	124	130	131
2. Material expenditures	1,057	1,183	1,367	1,366	1,175	1,329	1,333
– Domestic	1,007	1,134	1,310	1,293	1,086	1,239	1,222
– External	50	49	57	73	89	90	111
3. Subsidies to local governments	1,547	1,883	2,489	2,650	2,649	2,816	2,893
– Irian Jaya	42	203	241	240	215	224	237
– Others	1,505	1,680	2,248	2,410	2,434	2,592	2,656
4. Amortization and interest payments	2,103	2,776	3,323	5,058	6,806	8,205	10,648
– Domestic debt	30	39	20	—	40	39	40
– Foreign debt	2,073	2,737	3,303	5,058	6,766	8,166	10,608
5. Food stock expenditures	—	—	—	29	—	—	—
6. Others	948	540	754	145	80	515	376
II. Development expenditures	9,899	9,952	10,873	8,332	7,757	9,477	8,898
1. Departments/institutions including national defence and security	3,220	3,474	4,467	2,004	752	1,385	1,120
2. Regional development	1,447	1,526	1,503	1,466	1,183	1,334	1,373
– Subsidies to villages	92	93	99	86	99	102	112
– Subsidies to regencies (kabupaten)	194	195	189	188	226	263	267
– East Timor	5	4	7	7	5	5	6
– Subsidies to provinces	253	253	287	293	280	291	324
– Land tax (Ipeda/PBB)	132	157	167	171	247	223	261
– Development of primary schools	549	572	526	496	101	193	113
– Subsidies for reconstruction and development of shopping centers	11	25	4	11	3	3	3
– Public health centers	87	65	111	108	76	74	91
– Subsidies for afforestation and reforestation	59	61	43	31	16	16	16
– Subsidies for infrastructure development	65	101	70	75	130	164	180
3. Other development expenditures	1,365	1,543	1,400	1,067	396	1,328	407
– Subsidies on fertilizer	324	732	477	467	204	756	200
– Government capital participation	592	336	412	86	83	57	88
– Others	449	475	511	514	109	515	119
4. Project aid	3,867	3,409	3,503	3,795	5,426	5,430	5,998
– Original	3,867	3,409	3,503	3,795	4,419	5,430	5,998
– Local cost	—	—	—	—	1,007	—	—
Total	18,311	19,381	22,824	21,891	22,783*	26,959	28,964

Source : Ministry of Finance.

TABLE 6.4
DEVELOPMENT EXPENDITURES BY SECTOR
(billions of rupiah)

Particulars	1983/84	1984/85	1985/86	1986/87	1987/88		1988/89
					Budget	Actuals	Budget
1. Government	373	224	386	215	59	138	93
– State apparatus	317	164	278	190	45	118	72
– Law	56	60	108	25	14	20	21
2. National defence and security	526	702	590	554	510	514	555
3. Education and culture	1,335	1,421	1,687	1,365	1,180	1,359	1,270
– Education, youth, culture, and religion	1,032	1,231	1,413	1,184	1,021	1,181	1,076
– Science, technology, and research	303	190	274	181	159	178	194
4. Health, social welfare, role of women, population, and family planning	279	320	398	326	208	225	289
5. Housing and human settlement	221	224	335	337	412	431	438
6. Religion and manpower	511	482	742	331	173	218	244
– Religion	54	60	77	39	16	18	18
– Manpower and transmigration	457	422	665	292	157	200	226
7. Economy	5,478	5,266	5,422	3,881	3,984	5,243	4,593
– Agriculture and irrigation	913	1,699	1,138	890	1,181	1,937	1,296
– Manufacturing	512	603	963	465	230	215	244
– Mining and energy	2,299	1,148	1,673	1,176	1,129	1,206	1,218
– Transportation and tourism	1,528	1,428	1,484	1,131	1,288	1,598	1,655
– Information, press, and social communication	27	46	71	33	24	28	32
– Trade and cooperatives	199	342	93	186 ^f	132	259	148
8. Regional, business enterprises, and environment	1,176	1,313	1,313	1,323	1,231	1,349	1,416
– Regional, rural, and urban development	749	791	850	939	874	930	1,032
– Development of business enterprises	234	292	220	211	191	219	208
– National resources and environment	193	230	243	173	166	200	176
Total	9,899	9,952	10,873	8,332	7,757	9,477	8,898

Source : Ministry of Finance.

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

A. World Economic Developments

In 1987, the world economy continued to be marked by uncertainties that were manifested in, among others, on-going financial imbalances, wide swings in foreign exchange rates among several major currencies, and fluctuations of international interest rates. The financial imbalances were reflected in the large fiscal and current account deficits of the United States, and the substantial surpluses in the current accounts of Japan and the Federal Republic of Germany (the FRO). Wide swings in exchange rates were exhibited by the value of the US dollar, which declined markedly especially vis-a-vis the Japanese yen and the German mark. In addition, the fragility of the world financial system was underscored by the October 19 stock market crisis. The economies of developing countries were still confronted with constraints on the availability of external funds, high inflation rates, and large fiscal deficits. A more favorable development in world trade was the appreciable improvement in the prices of several primary commodities including oil.

To promote greater international stability, in recent years considerable efforts have been taken by the major industrial countries to coordinate their economic policies. In this regard, the United States took steps to reduce its fiscal and current account deficits, while Japan and the FRG sought to lower their current account surpluses by raising domestic demand. Efforts to improve the economies of developing countries included measures to

promote exports and improve domestic financial conditions through reductions in fiscal deficits. For all countries taken together, the economy grew by 3.2% in 1987 which was equal to that of the preceding year (Table 7.1).

In 1987, the average inflation rates measured by the consumer price index recorded increases over the preceding year in both the developed and developing countries. Higher inflation rates in major industrial countries were mainly attributable to increases in the average price of raw materials. In developing countries, the higher rates stemmed mainly from the depreciation of some countries' currencies and to more relaxed monetary policies. In the meantime, unemployment rates in developed countries declined, mainly due to the success of the United Kingdom, the United States, and Canada in generating new job opportunities.

1. Developed countries

In 1987, economic growth in member countries of the Organization for Economic Cooperation and Development (OECD) recorded an increase from 2.8% in 1986 to 3.1%. This improvement was attributable to the strengthening of economic policy coordination among the major industrial countries and to an increase in public demand. It should be noted that the October 19 crisis in the world stock markets did not have any discernible impacts on economic growth in 1987. Higher overall growth in the OECD countries was led by the seven major industrial countries. Higher growth rates were

TABLE 7.1
ECONOMIC GROWTH, CONSUMER PRICE INDEX,
AND UNEMPLOYMENT RATE
(percent per annum)

	Real Economic Growth			Consumer Price Index			Unemployment Rate		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
World¹⁾	3.4	3.2	3.2	--	--	--	--	--	--
OECD :	3.2	2.8	3.1	4.5	2.6	3.2	8.4	8.3	7.9
A. Seven major OECD countries	3.2	2.8	3.1	3.8	2.0	2.8	7.4	7.4	7.0
– Canada	4.3	3.3	3.9	4.0	4.2	4.4	10.5	9.6	8.9
– Fed. Rep. of Germany	2.0	2.5	1.7	2.2	- 0.2	0.2	8.3	8.0	7.9
– France ²⁾	1.7	2.1	1.9	5.8	2.7	3.1	10.2	10.5	10.6
– Italy ²⁾	2.9	2.9	3.1	8.6	6.1	4.6	9.6	10.3	11.0
– Japan	4.7	2.4	4.2	2.1	0.4	- 0.2	2.6	2.8	2.8
– United Kingdom ²⁾	3.6	3.3	4.5	6.1	3.4	4.2	11.7	11.8	10.4
– United States of America	3.0	2.9	2.9	3.5	1.9	3.7	7.1	7.0	6.2
B. Other OECD countries	3.3	2.7	3.1	5.8	4.8	4.1	12.1	11.6	11.4
Developing countries ²⁾	3.5	4.2	3.4	38.9	29.8	40.0	--	--	--
– Africa	3.7	2.1	2.3	13.2	15.3	15.8	--	--	--
– Asia	6.3	6.4	6.8	7.1	7.8	8.8	--	--	--
– Europe	2.4	4.1	2.5	25.4	24.8	30.3	--	--	--
– Latin America	3.5	3.9	2.5	143.5	88.3	131.2	--	--	--
– Middle East	- 1.1	2.2	- 0.5	12.2	11.4	14.7	--	--	--
– Non-oil exporting countries	4.4	4.8	4.2	51.6	37.4	49.3	--	--	--
– Oil exporting countries	0.7	2.4	0.5	5.0	7.5	11.6	--	--	--

1) Measured by GNP, GDP, and Net Material Product (NMP).

2) Measured by GDP.

Sources : – IMF, World Economic Outlook – Statistical Appendix, August 16, 1988.
– OECD, Economic Outlook No. 43, June 1988.

experienced by the United Kingdom, Italy, Japan, and Canada while the FRG and France experienced lower growth; the United States recorded the same growth as that in the preceding year. Among the seven major industrial countries, the highest growth rate was attained by the United Kingdom (4.5%) whereas the lowest was the FRG (1.7%).

The inflation rate in developed countries increased from 2.6% in 1986 to 3.2% in 1987. This higher inflation rate was closely associated with an increase in the average inflation rate in the seven major industrial

countries, from 2.096 to 2.8%. This increase was attributable to higher prices of imported goods and higher average wage rates. The highest inflation rate among the major industrial countries was experienced by Italy (4.6%), whereas the lowest was in Japan (-0.2%).

The overall unemployment rate in developed countries declined from 8.3% to 7.9% owing mainly to declines in the United States, the United Kingdom, and Canada. It is noteworthy that the unemployment rate in European OECD member countries remained high, i.e., 10.6%, while a decline from 7.4%

to 7.0% occurred in the seven major industrial countries. Among the seven major industrial countries, the highest unemployment rate was experienced by Italy (11.0%) while the was in Japan (2.8%).

In 1987, world trade was still marked by external imbalances as reflected in the large United States trade balance deficit and the trade balance surpluses of Japan and the FRG. Besides Japan and the FRG, Canada also experienced improvement in its trade balance; the United Kingdom, Italy, and France experienced deterioration. Taking into account developments in the services balance, among the seven major industrial countries only Japan and the FRG recorded improvements in their current accounts. It is worth noting that the largest deficit in current account continued to be recorded by the US, while the largest surplus was still registered by Japan (Table 7.2).

In 1987, economic growth in *Canada* increased from 3.3% to 3.9%. This increase was supported by the higher growth of domestic demand from 3.6% to 5.3%, which more than offset a deterioration in the net foreign balance from -10.0% to -18.1%. The higher growth of domestic demand was attributable to acceleration in private consumption (from 3.9% to 4.5%), government consumption (from 1.0% to 2.4%), and gross investment (from 5.1% to 9.8%). The higher growth of gross investment was mainly attributable to the growth of private investment of non-residential investment from 2.2% to 9.2% in 1987. Meanwhile, weakening of the net foreign balance was due to the higher growth of imports from 7.2% to 9.0% which mainly occurred in imports of machineries and equipments; exports only picked up from 4.7% to 5.6%.

The inflation rate in Canada increased from 4.2% to 4.4%. The unemployment rate declined from 9.6% to 8.9% resulting from expanded employment opportunities in the manufacturing and services sectors.

The trade surplus in 1987 widened from \$7.9 billion to \$8.8 billion. However, a deterioration in the services balance from a deficit of \$14.6 billion to \$16.0 billion contributed to a widening current account deficit from \$6.7 billion to \$7.2 billion.

In 1987, economic growth in *the Federal Republic of Germany* slackened from 2.5% to 1.7%. This lower growth was attributable to a deceleration in domestic demand from 3.6% to 2.5% and a weakening of the net foreign balance from -21.6% to -27.5%. Lower growth of the domestic demand was accounted for by a slowdown in private consumption, government consumption, and gross investment from 4.3%, 2.4%, and 3.2% to 3.1%, 1.5%, and 1.7%, respectively. Meanwhile, deterioration in the net foreign balance was due to a slight pick-up in growth of export of goods and services (from -0.2% to 0.8%) which only partly offset growth in import (from 3.7% to 4.8%).

In 1987, inflation increased moderately by 0.2% compared with a deflation of 0.2% in the preceding year mainly due to increases in prices of imported goods which was partly offset by the appreciation of the German mark. Meanwhile, the unemployment rate recorded a slight decline from 8.0% to 7.9%.

The trade balance surplus increased from \$55.9 billion to \$70.3 billion, owing to a larger rise in exports (from \$231.0 billion to \$278.6 billion) than imports (from \$175.1 billion to \$208.3 billion). Despite the widened deficit

TABLE 7.2
CURRENT ACCOUNT
IN DEVELOPED AND DEVELOPING COUNTRIES
(billions of dollars)

	Exports			Imports			Trade Balance			Services Balance ¹⁾			Current Account		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
Developed countries	---	---	---	---	---	---	-45.3	-6.2	-26.0	---	---	---	-54.1	-22.3	-53.5
— Canada	90.2	88.9	97.6	77.1	81.0	88.8	13.1	7.9	8.8	-13.5	-14.6	-16.0	-0.4	-6.7	-7.2
— Fed. Rep. of Germany	173.4	231.0	278.6	144.5	175.1	208.3	28.9	55.9	70.3	-15.7	-18.0	-26.0	13.2	37.9	44.3
— France	95.2	118.4	138.5	100.6	120.3	147.7	-5.4	-1.9	-9.2	5.2	4.8	4.7	-0.2	2.9	-4.5
— Italy	77.7	96.6	116.0	84.7	92.1	115.8	-7.0	4.5	0.2	2.8	-1.7	-0.9	-4.2	2.8	-0.7
— Japan	174.0	205.6	224.6	118.0	112.8	128.2	56.0	92.8	96.4	-6.8	-7.0	-9.4	49.2	85.8	87.0
— United Kingdom	100.2	106.5	130.2	103.0	118.9	145.9	-2.8	-12.4	-15.7	6.6	12.5	13.0	3.8	0.1	-2.7
— United States of America	214.4	224.4	250.8	338.8	368.7	410.0	-124.4	-144.3	-159.2	6.7	3.0	-1.5	-117.7	-141.3	-160.7
Developing countries	533.1	496.8	601.1	489.2	490.3	553.3	43.9	6.5	47.8	-68.2	-47.2	-47.5	-24.3	-40.7	0.3
— Non-oil exporting countries	378.3	398.0	480.1	390.1	403.0	470.1	-11.8	-5.0	10.0	-15.5	-8.4	-4.3	-27.3	-13.4	5.7
— Oil Exporting countries	154.8	98.8	121.0	99.1	87.3	83.2	55.7	11.5	37.8	-52.6	-38.8	-43.2	3.1	-27.3	-5.4

1) Includes grants.

Source : OECD, Economic Outlook No. 42, December 1987 and No. 43, June 1988.

in services from \$18.0 billion to \$26.0 billion, the current account surplus increased from \$37.9 billion to \$44.3 billion.

Economic growth in *France* decreased from 2.1% to 1.9% in 1987. Domestic demand decelerated from 3.2% to 2.4% while net foreign balance improved from -199.7% to -146.2%. The deceleration in domestic demand resulted from the lower growth of private consumption, gross investment, and government consumption gross, from 3.3%, 3.3%, and 2.7% to 2.3%, 2.9%, and 2.1%, respectively. The slowdown in private consumption was attributable to lower growth of real wages. The lower growth of gross investment occurred mainly in the government sector while the slowdown in government consumption was due to the limited spending. The net foreign balance recorded an improvement due to a rebound in exports (from -0.7% to 1.2%) and lower growth of imports (from 6.9% to 6.4%).

The inflation rate rose from 2.7% to 3.1% in 1987 owing mainly to higher prices of domestic oil, services, and housing. Meanwhile, the unemployment rate rose slightly from 10.5% to 10.6%, despite initiation to expand employment opportunities.

The deficit in trade balance increased markedly from \$1.9 billion to \$9.2 billion due to lower growth in exports compared with imports. Exports rose from \$118.4 billion to \$138.5 billion, while imports increased from \$120.3 billion to \$147.7 billion mainly due to greater imports of manufactured goods. Taking into account the services balance surplus which was virtually unchanged from the year before (\$4.7 billion in 1987 compared with \$4.8 billion in 1986) the current account shifted to a deficit of \$4.5 billion in 1987

compared with a surplus of \$2.9 billion in the preceding year.

In 1987, the economic growth of *Italy* accelerated from 2.9% to 3.1% owing mainly to higher growth in domestic demand that more than offset a weakening of the net foreign balance. Domestic demand accelerated from 3.0% to 4.4% due to more rapid expansion of private consumption, government consumption, and gross fixed investment, from 3.5%, 3.1%, and 1.4% to 4.3%, 3.4% and 5.2%, respectively. Meanwhile, the net foreign balance weakened from -19.2% to -73.5% due to rapid growth in imports of goods and services (10.0%), partly offset by limited expansion (3.6%) in exports of goods and services.

The rate of inflation decreased from 6.1% to 4.6% in 1987. This result was partly due to tighter monetary policy that limited growth of credits to the private sector. Meanwhile, the unemployment rate rose from 10.3% to 11.0%.

In 1987, the trade balance narrowed markedly from a surplus of \$4.5 billion to \$0.2 billion. Taking into account the deficit in services from \$1.7 billion to \$0.9 billion, the current account shifted from a surplus of \$2.8 billion to a deficit of \$0.7 billion.

Economic growth of *Japan* in 1987 picked up markedly from 2.4% to 4.2% due to greater strength in both domestic demand and net foreign balance. The increase in domestic demand was mainly attributable to gross investment and private consumption which accelerated from 6.0% and 3.2% to 10.3% and 3.9%, respectively; government consumption fell sharply from 6.5% to -0.5%. The increase in gross investment was mainly occurred in the private residential sector.

Regarding private consumption, the higher growth was brought about by higher real wages that resulted from an improvement in the terms of trade. Meanwhile, the strength in the net foreign balance reflected a rebound in exports of goods and services (3.5% in 1987 following -5.2% in 1986), which more than offset larger imports of goods and services (9.1% versus 2.8%). The rebound in exports was mainly attributable to the greater exports of capital goods to newly-industrialized countries in Asia.

The inflation rate declined from 0.4% in 1986 to -0.2% in 1987. This decline in the level of prices was due to continued appreciation of yen that pushed down the price of imported goods. Meanwhile, the unemployment rate remained unchanged at 2.8%.

In 1987, the trade surplus widened from \$92.8 billion to \$96.4 billion. This was obtained through a strong increase in exports (from \$205.6 billion to \$224.6 billion) that offset continued growth in imports (from \$112.8 billion to \$128.2 billion). The increase in exports was attributable to both the volume and price of export goods measured in terms of the US dollar. The increase in imports was partly attributable to higher domestic demand, appreciation of yen, and trade liberalization policy. Taking into account the deficit in services account (from \$7.0 billion to \$9.4 billion), the surplus of the current account increased from \$85.8 billion to \$87.0 billion.

In 1987, the economic growth in *the United Kingdom* increased from 3.3% to 4.5%. This increase was due to strengthening of both domestic demand and net foreign balance. The growth in domestic demand increased a little from 3.9% to 4.1%, resulting mainly from a turn around gross investment growth from-

0.3% to 3.4% - as a result of higher private investment in the non-residential sector which more than offset the decline in growth of private consumption (from 6.0% to 4.9%). The improvement in net foreign demand reflected a pick-up of exports of goods and services (from 3.2% to 5.6%) that more than offset higher growth in imports of goods and services (7.5% versus 6.3% in the year before).

The inflation rate in 1987 rose from 3.4% to 4.2%, mainly due to an increase in real wages that raised production cost. At the same time, an increase in foreign inflation did not have significant impact on inflation owing to appreciation of the pound sterling. Meanwhile, the United Kingdom unemployment rate in 1987 recorded a decline from 11.8% to 10.4%

The trade balance deficit widened from \$12.4 billion to \$15.7 billion as a result of an increase in imports from \$118.9 billion to \$145.9 billion, which exceeded the rise in exports from \$106.5 billion to \$130.2 billion. Higher imports were mainly attributable to the appreciation of the pound sterling and a rise in domestic demand; growth in exports was hindered by the weak competitiveness of export goods in the international market. The surplus in services rose slightly from \$12.5 billion to \$13.0 billion. Hence, the current account reversed to a deficit of \$2.7 billion in 1987 from a surplus of \$0.1 billion in the preceding year.

Economic of *the United States* in 1987 increased by 2.9%. There was a marked improvement in net foreign balance, while growth of domestic demand declined somewhat. The improvement in the net foreign balance was due to an increase in exports of goods and services (12.8%) which more than offset an increase in imports of goods and

services (7.3%). Domestic demand declined as a consequence of a reduction in the growth rates of private consumption (from 4.2% to 1.9%), public consumption (from 3.8% to 2.3%), and private investment (from 1.8% to 0.7%). The decline in growth of private consumption was associated with lower growth of real income while lower public consumption was due to efforts to reduce the federal budget deficit. The lower growth of private investment was mainly occurred in residential sector (from 12.5% to 0%).

The inflation rate increased from 1.9% to 3.7% in 1987, owing to higher import prices of primary commodities, including oil, and the weakening of the US dollar. The unemployment rate declined from 7.0% to 6.2% mainly as a result of higher employment in the services sector.

In the external sector, the merchandise trade deficit rose from \$144.3 billion to \$159.2 billion. Such a widening deficit was attributable to the increase in imports from \$368.7 billion to \$410.0 billion that more than offset a rise in exports from \$224.4 billion to \$250.8 billion. The higher imports were mainly due to an increase in import prices of 10% in 1987, which resulted in part from rises in prices of oil and other primary commodities. As in the preceding year, the US dollar depreciation had no significant effects on the higher import. In the meantime, the services balance shifted from a surplus of \$3.0 billion to a deficit of \$1.5 billion, bringing about a rise in the current account deficit from \$141.3 billion to \$160.7 billion.

As was the case with the seven major OECD countries, the economic growth of *other OECD countries* (17 countries) in 1987 also increased, namely from 2.7% to 3.1%. The

highest economic growth among those countries was attained by Turkey, 7.4%, while the lowest was recorded by Denmark (-0.9%).

Unlike the seven major OECD countries, inflation rate in the other OECD member countries declined from 4.8% to 4.1%. The lower inflation was brought about by tighter monetary policy in some of those countries. In the meantime, unemployment rate remained virtually unchanged, i.e. 11.4% compared with 11.6% in 1986. As in the preceding year, the highest inflation rate was recorded in Turkey (38.9%), while the lowest was in the Netherlands (-0.5%).

In 1988, the economic growth of OECD countries is projected to record an improvement. The negative impacts of the October 1987 stock market crisis turned out to be less severe than previously anticipated as indicated by the recovery of stock prices to a realistic level, leading to the alleviation of the adverse impacts of the crisis. However, the economic growth of developed countries in 1988 would still be affected by the external imbalances, i.e., the huge fiscal deficit in the United States and the unstable value of currencies despite the strengthening of policy coordination among major industrial countries. In the meantime, inflation rate is expected to increase while unemployment rate is projected to decline slightly in 1988. To reduce the rate of inflation as well as to stabilize the exchange rates, international rates of interests are expected to rise slightly in 1988.

2. Developing countries

In 1987, the economic growth of *developing countries* was still characterized by unfavorable external as well as internal

factors. Those factors, included limited flows of foreign funds, higher inflation, and substantial fiscal deficit hindered the progress of structural policy adjustments. In addition, economic growth in developing countries was still adversely affected by the persistent protectionist measures adopted by several industrial countries. In more favorable developments, the prices of many primary commodities recorded significant improvements in 1987, resulting in improved terms of trade for the developing countries. A slight increase was recorded in the price of oil in the international market.

Economic growth of the developing countries declined from 4.2% to 3.4% in 1987, reflecting slower growth in both oil-exporting and non-oil exporting developing countries. By region, those experiencing lower growth were in the Middle East, Latin America, and Europe, while those in Asia experienced a slight increase (Table 7.1).

The average inflation rate in developing countries increased sharply from 29.8% to 40.0% in 1987. This increase was mainly attributable to expansionary monetary policies in some countries and to increases in prices of import goods resulting from depreciation of local currencies.

Economic growth of the *oil-exporting developing countries* declined from 2.4% to 0.5% in 1987. This decline was mainly due to lower oil production associated with OPEC efforts to improve oil prices. In the meantime, the inflation rate increased from 7.5% to 11.6% in 1987. On the external front, the trade surplus widened markedly from \$11.5 billion to \$37.8 billion; exports widened from \$98.8 billion to \$121.0 billion while imports declined from \$87.3 billion to \$83.2 billion.

The increase in exports was mainly due to the improvement in prices of oil and other primary commodities. Meanwhile, the services deficit widened from \$38.8 billion to \$43.2 billion. Hence, the deficit in the current account showed a substantial improvement from \$27.3 billion to \$5.4 billion.

In 1987, economic growth of *non-oil exporting developing countries* declined from 4.8% to 4.2%, attributed in part to lower production resulting from the long drought in several parts of the world, and to slower growth of investment. Inflation rate increased from 37.4% to 49.3%. On the external side, the trade balance showed a reversal from a deficit of \$5.0 billion to a surplus of \$10.0 billion. This improvement in the trade balance was due to an increase in exports (from \$398.0 billion to \$480.1 billion) which more than offset the rise in imports (from \$403.0 billion to \$470.1 billion). Meanwhile, the services deficit narrowed from \$8.4 billion to \$4.3 billion. Hence, the current account shifted from a deficit of \$13.4 billion to a surplus of \$5.7 billion.

The economic growth of the developing countries in 1988 is expected to encounter further pressures from several sources, including limited flow of financial resources, heavy debt burdens, and continuing protectionist measures in several developed countries. However, with expected price increases in the majority of primary commodities and further domestic adjustment measures, the economies of the developing countries are expected to improve slightly.

3. ASEAN countries

The growth of real GDP in ASEAN countries improved from 3.0% to 5.0% in

TABLE 7.3
ECONOMIC GROWTH AND CONSUMER PRICE INDEX
IN ASEAN COUNTRIES
(percent per annum)

Countries	Real Economic Growth			Consumer Price Index		
	1985	1986	1987	1985	1986	1987
ASEAN	0.9 ^r	3.0 ^r	5.0	6.6 ^r	2.8 ^r	4.9
1. Brunei Darussalam	1.0	4.0	2.0	1.9 ^r	0.7	1.7
2. Indonesia	2.5 ^r	4.0 ^r	3.6	4.3	8.8	8.9
3. Malaysia	-1.0	1.2 ^r	4.7	0.4 ^r	0.7	0.8
4. Philippines	-4.4 ^r	1.5 ^r	5.7	23.1	0.7 ^r	3.8
5. Singapore	-1.6 ^r	1.8 ^r	8.8	0.5 ^r	-1.4	0.5
6. Thailand	3.2 ^r	3.5 ^r	6.6	2.4	1.9	2.5

Sources : Various publications/reports.

1987. Higher growth was experienced in Singapore, the Philippines, Malaysia, and Thailand; Brunei Darussalam and Indonesia experienced declines. The highest growth was achieved by Singapore (8.8%), whereas the lowest was recorded by Brunei Darussalam (2.0%). This economic improvement in the ASEAN countries was mainly supported by the successful implementation of structural adjustment measures, particularly in promoting domestic demand in Singapore, Thailand, and the Philippines. In addition, efforts to improve competitiveness coupled with increases in export prices in the international market in 1987 have stimulated the economic growth of ASEAN countries.

The inflation rate in ASEAN countries increased from 2.8% to 4.9% in 1987. The increase occurred in all ASEAN countries mainly due to rises in the prices of oil and other primary commodities and demand pressures resulting from higher real incomes. The pickup in inflation mainly occurred in the Philippines and Singapore. The highest inflation rate was experienced by Indonesia

(8.9%) and the lowest by Singapore (0.5%) (Table 7.3).

On the external front, improvements of trade balances were experienced by Indonesia and Malaysia while improvements of services balance were recorded in Thailand, Malaysia, and Singapore. In accordance with these developments, Malaysia, Indonesia, and Thailand registered significant improvements in their current accounts (Table 7.4).

B. International Monetary Developments

International monetary developments in 1987 were characterized by continued depreciation of the US dollar vis-a-vis other major currencies, fluctuation of international interest rates, heavy debt burden of many developing countries, and low international liquidity of most developing countries. These factors have hampered the stability of international monetary system and in turn held down the growth rate of the world economy. Efforts to overcome this situation were conducted, inter alia, by strengthening the

TABLE 7.4
CURRENT ACCOUNT IN ASEAN COUNTRIES
(billions of dollars)

	Exports (f.o.b.)			Imports (f.o.b.)			Trade Balance			Services Balance			Current Account		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
1. Brunei Darussalam	...	...	...	...	...	...	...	...	...	...	...	...	2.3	1.5	1.5
2. Indonesia	18.5 ^r	14.4 ^r	17.2	12.7 ^r	11.9 ^r	12.7	5.8	2.5 ^r	4.5	-7.8 ^r	-6.6 ^r	-7.0	-2.0 ^r	-4.1 ^r	-2.5
3. Malaysia	16.4 ^r	15.1 ^r	17.6	11.6	10.3	11.8	4.8 ^r	4.8 ^r	5.8	-5.5 ^r	-5.1 ^r	-3.5	-0.7	-0.3	2.3
4. Philippines	4.6	4.8	5.7	5.1	5.0	6.7	-0.5	-0.2	-1.0	0.5	1.2	0.5	-0.0	1.0	-0.5
5. Singapore	21.5	21.3	26.9	24.5	23.6	30.0	-3.0	-2.3	-3.1	3.0	2.8	3.6	-0.0	0.5	0.5
6. Thailand	7.1	8.8	11.5	8.4	9.2	13.3	-1.3	-0.4	-1.8	-0.2	0.6 ^r	2.4	-1.5 ^r	0.2 ^r	0.6

Source : Various publications/reports.

policy coordination among the seven major industrial countries to stabilize their exchange rates.

In 1987, the US dollar continued to depreciate though not as sharply as in the preceding year. The average depreciation of the US dollar in 1987 was 17.2% against the German mark, 14.2% against the Japanese yen, and 13.2% against the French franc. To stabilize exchange rates, the major industrial countries made considerable efforts to enhance policy coordination through the Louvre Accord of February 1987. Furthermore, the coordination was reconfirmed at the Venice summit in June 1987 and in Washington, D.C., in September 1987.

Average short-term nominal interest rate in the major developed countries recorded a decline from 6.9% to 6.6% in 1987. Substantial declines were experienced by Italy (from 12.6% to 11.1%), the United Kingdom (from 10.9% to 9.6%), and Japan (from 5.1% to 3.9%). The decline in short-term nominal interest rates was closely associated with agreements among the major industrial countries to enhance monetary and economic policy coordination. In some countries, however, the interest rates increased, namely in France (from 7.7% to 8.1%) and the United States (from 6.5% to 6.9%). The increase in the interest rate in the United States reflected the efforts of monetary authorities to curb inflation and to stabilize the US dollar exchange rate. Meanwhile, the average long-term nominal interest rate increased from 7.5% to 7.8% in 1987. An increase in long-term nominal interest rates occurred in France, the United States, and Canada, from 8.4%, 7.7%, and 9.5% to 9.4%, 8.4%, and 9.9%, respectively. By contrast, countries experiencing declines in long-term nominal

interest rates were Italy and the United Kingdom, from 10.5% and 9.9% to 9.7% and 9.5%, respectively.

In 1987, many developing countries experienced increasingly heavy debt burdens. The total of foreign debts increased from \$1,101.8 billion to \$1,216.5 billion. Despite this rise, improvements in exports of both primary and manufactured commodities contributed to declines in the debt service ratio (DSR) (from 22.1% to 19.8%) and the ratio of total debt to total exports (from 168.8% to 158.3%) in 1987.

International liquidity measured by the level of official international reserves rose by SDR87.6 billion to SDR539.5 billion at the end of 1987. This increase occurred entirely in foreign exchange reserves of developed countries. Foreign exchange reserves of oil exporting developing countries declined by SDR2.8 billion to SDR49.1 billion, which was well below the decline in the preceding year (SDR17.4 billion), stemming mainly from an improvement in oil prices. Non-oil exporting developing countries experienced a rise in their foreign exchange reserves of SDR2.9 billion to SDR88.5 billion. This increase was experienced by newly-industrialized countries in Asia, especially Taiwan; reserves of most other countries declined.

C. International Relations and Regional Cooperation

1. International Monetary Fund (IMF)

In 1987/88, Indonesia's transactions with the IMF (the Fund) comprised drawdown of a Compensatory Financing Facility (CFF), purchase of SDRs, payment of charges, and remuneration.

In May 1987, Indonesia received a CFF from the Fund amounting to SDR462.9 million which was intended to alleviate pressures on the balance of payments stemming from a sharp decline in export earnings in 1986 which was beyond the Government's control to cope with. The facility was granted in association with a positive assessment by the IMF on the structural adjustments implemented by Indonesia. Taking into account a balance of SDR42.0 million in the 1983 CFF, the outstanding CFF amounted to SDR504.9 million at the end of 1987/88.

In the reporting year, Indonesia purchased SDRs in the amount of SDR21.4 million for fulfilling its obligations to the IMF. These obligations comprised charges amounting to SDR26.5 million due to the withdrawal of CFF and SDR13.9 million due to the allocation of SDR. Meanwhile, in the reporting year Indonesia received remuneration amounting to SDR1.6 million.

2. World Bank group

The World Bank group comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). It should be noted that during the reporting year progress was made towards the establishment of an institution known as the Multilateral Investment Guarantee Agency (MIGA). This agency is designed to promote productive investments in those developing countries that are members of MIGA by providing guarantees on non-commercial risk. Membership in MIGA is open to all IBRD member countries and Switzerland.

In the reporting year, the IBRD approved new loans to Indonesia in the amount of \$929.5 million for projects in rural development, irrigation, finance, forestry, communication, and manufacturing. Of this total, \$300 million was in the form of Trade Policy Adjustment Loans (TPAL) intended to promote export. During the reporting year, the amount of loans declined compared with an amount of \$1,066.6 million in the preceding year.

At the end of 1987/88, loans to Indonesia approved by the IBRD totalled \$10,687.9 million, of which \$6,513.8 million (60.9%) had been disbursed and utilized for electricity, irrigation, communication, agricultural, and rural development. It should be noted that the outstanding amount of IBRD loans to Indonesia stood at \$5,380.6 million at the end of the reporting year.

Maturity of IBRD loans depends on the type of the project, generally ranging from 7 to 30 years including a grace period of 3 to 10 years. The average interest rate on IBRD loans was 7.72% for the period of January-June 1988 compared with 7.76% for the period of July-December 1987. It may be noted that a commitment fee of 0.75% is charged for undisbursed loans.

Up to the end of 1987/88, IDA loans approved for Indonesia remained unchanged at \$943.5 million. Those loans were provided, inter alia, for projects in the fields of agriculture, industry, irrigation, transportation, and electricity. Of the total, \$899.9 million (95.4%) had been disbursed, while outstanding loans at the end of the reporting year amounted to \$865.1 million. The maturity on IDA loan is 40 years

including a 10-year grace period; IDA loans are not subject to interest, but have an administration fee of 0.75% p.a. of the disbursed amount.

The IFC provides financial assistance to private sectors in the forms of equities and loans. Up to the end of the reporting year, IFC had provided \$155.0 million to businesses in Indonesia, comprising \$134.9 million of loans and the remainder was in the form of equities. Of the total financial assistance, \$47.5 million originated from the IFC's funds, whereas the remainder came from syndicated loans. The financial assistance has been provided to 12 private companies in the sectors of manufacturing, financial institution, and tourism.

3. Asian Development Bank (ADB)

In 1987/88, approved loans by the ADB to Indonesia reached \$576.0 million. Of this amount, \$441.0 million originated from Ordinary Resources and \$135.0 million from the Asian Development Fund. The loans were provided for five projects, i.e., communication (\$150.0 million), non-oil export development (\$150.0 million), irrigation (\$120.0 million), electricity (\$96.0 million), and banking development (\$60.0 million). At the end of 1987/88, total committed loans stood at \$4,349.1 million, of which \$4,051.8 million originated from Ordinary Resources for financing 100 projects and \$297.3 million from the Asian Development Fund for 25 projects. Of the total loans approved, \$1,508.8 million (34.7%) has been disbursed. At the end of the reporting year, total outstanding ADB loans to Indonesia amounted to \$1,328.9 million.

The maturity of loans from Ordinary

Resources ranged from 10 to 25 years, including a grace period of between 3 and 8 years. Interest charges were set at 7.03% for the period of July-December 1987 were lowered to 6.59% for the period of January-June 1988. A commitment fee of 0.75% is charged for the undisbursed loans.

The maturity of loans from the Asian Development Fund ranges from 35 to 40 years, including 7 to 10 years of grace period. Loans originating from these special funds are not subject to interest charges but a service fee of 1.0% p.a. is placed on the amount disbursed. It may be noted that after being ineligible for loans from the Asian Development Funds since 1979, Indonesia was again declared eligible to receive Asian Development Fund in 1987.

4. Islamic Development Bank (IDB)

Up to the end of 1987/88, the financial assistance provided by the IDB to Indonesia amounted to ID43.5 million ¹⁾ consisting of ID16.8 million for equity participation, ID15.0 million for loans, ID8.6 million for leasing, and ID3.1 million for installment sales. Of this financial assistance, ID16.8 million (38.6%) has been disbursed, comprising loans of ID6.5 million and equity of ID10.3 million.

5. Inter-Governmental Group on Indonesia (IGGI)

At the 30th IGGI meeting in The Hague on June 17-18, 1987, it was agreed that new financial assistance amounting to \$3,193.8 million would be made available to Indonesia,

1) ID1.00 (Islamic Dinar) = SDR1.00.

consisted of bilateral assistance amounting to \$1,513.5 million and multilateral assistance of \$1,680.3 million. Up to the end of the reporting year, total approvals of IGGI loans amounted to \$51,284.9 million, of which \$35,871.7 million was in the form of bilateral loans and \$15,413.2 million was from multilateral financial institutions. Of the approved amount, \$36,959.6 million (72.1%) has been disbursed, consisting of \$28,969.5 million of bilateral loans and \$7,990.1 million from multilateral financial institutions. The loans from multilateral financial institutions included the loans from the ADB, IDA, IBRD, and International Fund for Agricultural Development (IFAD).

6. Association of South East Asian Nations (ASEAN)

During 1987/88, cooperation among ASEAN countries progressed steadily in the fields of trade, industry, and finance and banking. In addition, dialogues between ASEAN and several industrial countries continued to be expanded.

At the third summit meeting of the heads of government of ASEAN in Manila, December 1987, agreement was reached on several important economic decrees to be implemented over a period of five years. In the field of trade, there was an agreement to reduce the Exclusion List to 10% of traded commodities with a value of not more than 50% of the total trade value among ASEAN countries. It was further agreed to provide a Margin of Preference (MOP) at a minimum of 25% for commodities excluded from the Exclusion List and included in the Preferential Trading Arrangement (PTA); the MOP was also increased for some commodities listed in the PTA from 25% to 50%. In the

field of manufacture, non-ASEAN's equity participation in ASEAN Industrial Joint Venture (AIJV) projects was raised to 60% (which was previously limited to 49%) to be effective until the end of 1990. Furthermore, the MOP in AIJV projects was increased from 75% to 90%. In the field of finance and banking, it was agreed to establish an ASEAN Reinsurance Corporation (ARC) which would be located in Singapore and would commence operation on July 1, 1988.

In the reporting year, further cooperation in certain industrial fields encountered some obstacles. The ASEAN Fertilizer Project in Indonesia and Malaysia encountered financial difficulties, owing to the sluggish market and heavier debt burden to Japan due to the appreciation of the yen. Moreover, the Copper Factory Project in the Philippines could only produce plate, while the Hepatitis B Vaccine Project in Singapore and the Soda Ash Project in Thailand were cancelled for some economic reasons.

In the area of finance and banking, ASEAN ministers in their meeting in Singapore in July 1987 recommended the adoption of ASEAN currency in intra-ASEAN trade. The Philippines was the first country implemented this agreement by accepting the Brunei dollar, the Indonesian rupiah, and the Thailand baht. Furthermore, the ASEAN Committee on Finance and Banking (COFAB) in its April 19, 1987 meeting in Bangkok discussed cooperation between ASEAN and the ADB, and agreed on an Intra-ASEAN Model of Double Taxation Convention, which would avoid double taxation among the ASEAN countries. In the subsequent meeting in Pattaya (Thailand), October 1987, it was agreed to suspend the establishment of the Development Bank of ASEAN (DBA).

The ASEAN Swap Arrangement (ASA) has been extended to August 5, 1992. The maximum amount made available for the swap remained at \$200 million with a ceiling of \$80 million for each borrowing country.

Regarding the ASEAN-Japan Development Fund (AJDF), in December 1987 Japan agreed to provide assistance in the amount of \$2 billion to the ASEAN countries. The assistance was in the form of loans and investments, mainly to the private sector. These loans would be under the management of the Japan's Overseas Economic Cooperation Fund (OECF) and the Eximbank Japan.

Meanwhile, ASEAN also continued to make efforts to increase cooperation with the European Economic Community (EEC), the United States, and Canada with the objectives

of strengthening and promoting investment, trade, and transfer of technology . In the ASEAN-EEC Joint Cooperation Committee Meeting held in Jakarta in April 1987, evaluations were made on the role of Generalized System of Preference (GSP) in promoting exports of the ASEAN countries to the EEC and on the role of the Joint Investment Committee in encouraging European investment in the ASEAN countries. Furthermore, the meeting of ASEAN-United States held in Washington, D.C. in July 1987 established the ASEAN-USA Trade Council, functioning to provide recommendations to the Government to promote investment, trade, and transfer of technology. In July 1987, the ASEAN-Canada Business Council was established with the main objective of fostering the private sector's participation.

VIII. INDONESIA'S BALANCE OF PAYMENTS

A. Balance of Payments Policy

1. General

In 1987/88, Indonesia's balance of payments continued to come under pressure from such diverse sources as the continuing depreciation of the US dollar vis-a-vis several other major currencies, further protectionist measures in several industrial countries, and sluggish growth of the world economy. However, the pressures were moderated in 1987/88 as compared with the preceding year. This moderation of pressures was due in part to policy measures taken by the Government to enhance the competitiveness of Indonesian tradeable commodities and also to the improvement in the prices of oil and several other major export commodities.

In the reporting year, as in the previous years, the Government continued to adhere to a free foreign exchange system and to implement a managed floating exchange rate policy. It also undertook various deregulation measures with particular emphasis on the foreign sector. On December 24, 1987, the Government announced a policy package aimed at promoting non-oil/gas exports, attracting more foreign investment, and raising foreign exchange earnings from tourism. By these means, the Government expects to foster an attractive investment climate and to maintain the international competitiveness of Indonesian tradeable goods.

To promote non-oil/gas exports, in the reporting year the Government took several

measures. These included: abolishing the exporter's identification numbers; establishing an onshore container terminal; and simplifying the refund procedures of both value-added tax (*Pajak Pertambahan Nilai* or PPN) and sales tax on luxury goods (*Pajak Penjualan atas Barang Mewah* or PPnBM) payable on certain items used in the manufacture of export goods. On the side of imports, the Government revoked stipulations on import procedures of certain commodities, and it improved various regulations on import duties, additional import duties, and PPN in a continuation of policies of preceding years. With regard to the services sector, various measures were undertaken in the reporting year, including simplification of licensing procedures in the tourism sector, designation of new ports where visas could be obtained on arrival, and expansion of the number of tourist resorts.

On the capital account, the Government continued to encourage foreign capital inflows. With regard to official capital flows, the Government obtained additional special assistance in the form of program aid and local cost financing in accordance with its long-standing commitment to a prudent foreign borrowing strategy. Furthermore, to hold down the nation's debt burden, the Government reduced further the export credit facility in 1987/88. In the field of private capital flows, the Government, inter alia, eased regulations on foreign capital investment by relaxing the capital requirement, allowing the establishment of export companies and the purchase of shares on the bourse, and broadening the range of business open to foreign investors.

2. Exchange rate policy

In the reporting year, by continuously adhering to the principle of a free foreign exchange system and implementing a managed floating exchange rate, the Government was able to keep the value of the rupiah on a path that was consistent with national objectives. Policy was aimed at maintaining the competitiveness of Indonesian traceable goods and at encouraging net capital inflows through fostering public confidence in the value of the rupiah

3. Export policy

As a continuation of export policies implemented in previous years, on December 24, 1987 the Government announced a policy package covering trade procedures and taxation, and other measures to further support the promotion of non-oil/gas exports.

With regard to trade procedures, the Government simplified export arrangements by revoking several types of export Licenses, namely the exporter's identification number (*Angka Pengenal Eksportir* or APE), temporary APE, and limited APE. An entrepreneur could export by simply having either a business license (*Surat Izin Usaha Perdagangan* or SIUP) or a business permit obtained from related ministry or authorities. In the case of 13 export commodities (including textiles destined for countries covered by a quota, plywood, tin, coffee, nutmeg, pepper, and gold) the exports continued to be handled by approved exporters. It may be added that since the reporting year acknowledgement of approved exporters are given on a

permanent basis.¹⁾ Furthermore, the Government revoked stipulations on export procedures of 17 commodities, such as pigs, carcass, crude kapok seed oil, refined coconut oil, olein, tobacco, and cement.²⁾

It should be noted that the Government continued to exercise control over exports of 16 commodities, such as rice, crude palm oil, crude coconut oil, fry, and newsprint. These commodities could only be exported with the approval of the Minister of Trade or other officials assigned by the Minister. Moreover, the Government banned the exports of 16 other commodities, partly comprising lump rubber, certain types of aquarium fish, scrap iron, raw rattan, certain types of sawn timber, deluxe-wood products, and antique cultural articles.³⁾

To develop trade and to expedite the flows of trade with special packaging, the Government established a container terminal in the railway station of Gedebage, Bandung. The settlement of customs procedures for both exports and imports may be completed at this terminal⁴⁾

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- 1) - Minister of Trade Decrees Nos. 331/Kp/XII/87 and 332/Kp/XII/87, December 23, 1987.
- Director General of Foreign Trade Decision No. 392/DAGLU/Kp/87, December 23, 1987.
- Telex of Director General of Foreign Trade No. 003/DAGLU/KWT/I/88 January 7, 1988.
 - 2) Minister of Trade Decree No. 38A/Kp/II/88, February 12, 1988.
 - 3) - Minister of Trade Decree No. 38B/Kp/II/88, February 13, 1988.
- Director General of Foreign Trade Decision No.108/DAGLU/Kp/II/88, February 20, 1988.
- Telex of Director General of Foreign Trade No.003/DAGLU/KWT/I/88, January 7, 1988.
 - 4) - Presidential Decree No. 52/1987, December 22, 1987.
- Minister of Trade, Minister of Finance, and Governor of Bank Indonesia Joint Decrees Nos. 330/Kpb/XII/87; 847/KMK.01/87; and 20/16/Kep/GBI, December 23, 1987.
- Minister of Transportation and Telecommunication Decree No. KM.279/KA.101/PHB-87, December 23, 1987.

In addition, exporter producers that are authorized to issue a quality statement (*Surat Pernyataan Mutu* or SPM) for their own products are exempted from enclosing the SPM; they may simply attach a label stating that the item is “exempted from SPM”.⁵⁾ Furthermore, to control the quality of export commodities, all types of timber and its by products are subject to inspection by surveyors.⁶⁾

With regard to taxation, the Government simplified refund procedures on PPN and PPnBM on the purchase of goods and materials used in the manufacture of goods for exports. This simplification contained the provision that producer exporters and exporters meeting certain requirements are exempted from investigation concerning verification of tax payments. In this context, those exporters are simply required to issue promissory notes (*Surat Sanggup Bayar* or SSB) on PPN and PPnBM.⁷⁾ Also, additional export taxes formerly fixed at 1.67% on arabica coffee and 3.85% on robusta coffee were lowered to 0% following deterioration of coffee prices in the world market.⁸⁾

Having a bilateral agreement with the United States regarding the Code on Subsidies and Countervailing Duties in March 1985, the Government agreed to gradually remove export subsidies. With a view to maintaining the continuity of exports to the United States, in the reporting year the Government raised the interest rate on export credit for non-primary commodities.⁹⁾

4. Import policy

As regards import policy, in 1987/88 the Government abolished import licensing of certain commodities, eased requirements concerning exemption from import licensing, and amended certain custom duty rates on imported goods. Most of those policies were part of the Policy Package of December 24, 1987.

With respect to import licensing, the Government relaxed import licensing for certain commodities, including 28 classified in the food, beverage, and fruit groups, and 84 classified in 6 industrial groups. The commodities in the industrial groups comprised 61 commodities of metal industry, 11 commodities of heavy equipment industry, and 12 commodities of 4 other groups of industries.¹⁰⁾

In addition, the Government facilitated the import of final and raw/auxiliary goods exempted from import licensing for producers and broadened the definition of an exporting company. The facility involved a reduction in the percentage of goods to be exported from 85% to 65%, except garments. Presently, non-PMA/PMDN companies exporting at least 65% of their products are allowed to import machinery and equipment as well as goods classified in negative lists issued by related ministries or institutions.¹¹⁾

5) Minister of Trade Decree No. 108/Kp/V/87, May 6, 1987.

6) Minister of Trade Decree No. 107/Kp/V/87, May 1, 1987.

7) Minister of Finance Decree No. 851/KMK.011/1987, December 23, 1987.

8) Minister of Finance Decree No. 378/KMK.011/1987, June 11, 1987.

9) Bank Indonesia Circular Letters No. 20/1/UKU, April 1, 1987 and No. 20/3/UKU, November 13, 1987.

10) Minister of Trade Decrees No. 333/Kp/XII/87, December 23, and No. 62B/Kp/II/88, February 29, 1988.

11) - Minister of Finance, Minister of Trade, Minister of Industry, and Governor of Bank Indonesia Joint Decrees Nos. 846/KMK.01/1987; 328/Kpb/XII/87; 426/M/SK/12/1987; and 20/15/KEP/GBI, December 23, 1987.
- Minister of Finance Decree No. 850/KMK.01/1987, December 23, 1987.

In order to provide reasonable protection to domestic industries, 4 commodities of 2 groups of industries previously allowed to be imported by general importers, can only be imported by registered importers or importer producers.¹²⁾ Imports of raw materials for medicine and milk are also subject to import licensing through authorized importers.¹³⁾ Regarding compulsory linkage between imported and domestic purchases of cotton, implementation was postponed owing to improvements in the domestic cotton market and greater efficiency of the spinning industry.¹⁴⁾

In the area of taxation, the Government expanded the exemption from and the drawback on either duties or additional duties, as well as the suspension or restitution on both PPN and PPnBM on samples and goods flowing into or out of bonded zones. Companies under the non-PMA/PMDN schemes exporting all or part of their products became eligible for these facilities according to their export percentage.¹⁵⁾ Furthermore, the coverage of imported goods on which the PPN was borne by the Government was broadened to include food for cattle and poultry, newsprint, and equipment for blood transfusion.¹⁶⁾ In addition, the Government

exempted from duties, goods imported under the government program for research and development in order to support non-oil/gas exports.¹⁷⁾ Imports of containers were exempted from PPN and Income Tax Article 22, whereas imports of used containers were exempted from customs procedures.¹⁸⁾ In order to improve the services of the Center for Management of Import Tax Exemptions and Drawbacks (*Pusat Pengolahan Pembebasan dan Pengembalian Bea Masuk* or P4BM), the Government simplified the procedures for restitution of import duties, additional import duties, PPN, and PPnBM, by issuing SSB. Regarding PPN and PPnBM, the simplification was also applied on goods intended for export.¹⁹⁾

In the reporting year, with a view to improving efficiency in the manufacturing industry, the Government continued to reduce tariffs on particular import commodities. However, in order to protect domestic industry, the Government raised tariffs and levied additional import duties on selected goods.²⁰⁾

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- 12) - Minister of Trade Decrees No.333/Kp/XII/87, December 23, 1987 and No. 62B/Kp/II/88, February 29, 1988.
- Director General of Foreign Trade Decision No.391/DAGLU/Kp/XII/87, December 23, 1987.
 - 13) - Minister of Health Decree No. 02947/A/SK/IX/1987, September 24, 1987.
- Minister of Trade Decree No.01/Kp/I/88, January 6, 1988.
 - 14) - Minister of Trade Decree No. 292/Kp/XI/87, November 21, 1987.
- Director General of Foreign Trade Decision No. 356/DAGLU/Kp/XI/87, November 21, 1987.
 - 15) Minister of Finance Decrees Nos. 849/KMK.01/1987; 850/KMK.01/1987; and 854/KMK.01/1987, December 23, 1987.
 - 16) - Presidential Decree No. 37/1987, October 21, 1987.
- Minister of Finance Decrees No. 185/KMK.04/1987, April 1, 1987 and No. 870/KMK.01/1987, December 29, 1987.
- Director General of Taxation Circular Letter No. SE-12/PJ.3/1987, April 20, 1987.

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- 17) Minister of Finance Decree No. 390/KM.1/1987, September 18, 1987.
 - 18) - Presidential Decree No. 52/1987, December 22, 1987.
- Minister of Trade, Minister of Finance, and Governor of Bank Indonesia Joint Decrees Nos. 330/Kpb/XII/87; 847/KMK.01/1987; and 20/16/KEP/GBI, December 23, 1987.
- Minister of Finance Decree No. 853/KMK.01/1987, December 23, 1987.
 - 19) Minister of Finance Decrees No. 851/KMK.01/1987, December 23, 1987; Nos. 20/KMK.01/1988 and 21/KMK.01/1988, January 8, 1988; and No. 35/KMK.01/1988, January 13, 1988.
 - 20) Minister of Finance Decrees Nos. 257/KMK.05/1987 and 258/KMK.05/1987 May 4, 1987 No. 388/KMK.05/1987, June 24, 1987; No. 403/KMK.05/1987, June 27, 1987; No. 513/KMK.05/1987, August 24, 1987; No. 649/KMK.05/1987 October 20, 1987, No. 660/KMK.05/1987, October 23, 1987; No. 763/KMK.05/1987, November 28, 1987; No. 856/KMK.01/1987, December 23, 1987; and Nos. 229/KMK.05/1988, 230/KMK.05/1988, 231/KMK.05/1988 337/KMK.05/1988, 338/KMK.05/1988, and 341/KMK.01/1988, February 29, 1988.

5. Policy on services

In 1987/88, the policy pursued in the services sector was mainly directed toward raising foreign exchange earnings from tourism by encouraging more tourists to come and by persuading them to extend their length of stay in Indonesia. To achieve this objective, the December 24, 1987 policy package removed various licenses previously required in the tourism business. To establish and operate tourism facilities (including hotels, travel bureaus, restaurants, marine cruises, and tourist resorts) only two licenses were required, namely the provisional tourism business license (*Izin Sementara Usaha Pariwisata* or ISUP) and the permanent tourism business license (*Izin Tetap Usaha Pariwisata* or ITUP) issued by the Ministry of Tourism, Post, and Telecommunication.²¹⁾ It is worth noting that the Government also increased the number of tourist resorts (by adding Aceh, East Nusa Tenggara, West Nusa Tenggara, Riau, East Kalimantan, Maluku, and South Sumatera) in an effort to extend tourists' visits in Indonesia.

To expedite the flow of tourists from Singapore visiting Batam Island, the Government simplified procedures on immigration by issuing a special pass.²²⁾ Furthermore, the Government also designated Tanjung Pinang seaport and Sepinggan airport to issue visas on arrival.²³⁾ In addition, personal effects of reasonable amount carried by tourists were no longer required to be recorded in their passports.²⁴⁾

21) Presidential Instruction No. 7/1987, December 22, 1987.

22) Minister of Justice Decree No. M.01.1Z.01.02, 1987, November 26, 1987.

23) Minister of Justice Decree No. M.01-PW.09.01, 1988, January 21, 1988.

24) Director General for Customs and Excises Circular Letter No. SE-05/BC/1988, January 19, 1988.

6. Policy on capital flow

With a view to maintaining the continuity of development, Indonesia makes use of external funds in the forms of foreign borrowing (by the Government, state enterprises, and private borrowers) and foreign direct investment. In the reporting year, the Government continued to pursue a cautious foreign borrowing policy by placing priority on soft-term loans and free from political ties while taking into account the nation's capacity to repay. To attract foreign private capital inflows, the Government promoted the attractiveness of share ownership, simplified the procedures for industrial licensing, and expanded business sectors open for foreign investment.

As regards government foreign borrowings, the Government made efforts to acquire additional special assistance in the form of program aid and local cost financing. Such special assistance, which is on soft-terms, untied, and quick disbursing, was intended to alleviate pressures on the balance of payments and to ease the financial constraint on rupiah funds for financing government projects. In order to ease the burden of debt repayment, in the reporting year the Government continued to reduce commitments under the export credit facility which is less concessional terms and requires the borrower to import goods from the donor country.

With respect to foreign direct investment (PMA), the period of transfer of majority ownership from foreign to national partners—either for newly-established companies or for those undergoing expansion—was extended from 10 to 15 years commencing

from commercial production, with the possibility of a further extension for another 5 years. As well, those companies exporting at least 65% of their output were allowed to be established with a minimum of 5% shares of national partners; national ownership has to be raised to a minimum of 20% in 10 years commencing from commercial production.²⁵⁾ Under the previous regulations, to qualify for the same facility, foreign companies were required to export at least 85% of their output and to raise the national share ownership in 5 years. Furthermore, as part of the December 1987 deregulation package, it was stipulated that foreign companies situated in a bonded zone and exporting 100% of their output were allowed to be established with national share ownership of a minimum of 5% without any requirement to subsequently raise the share of national ownership.²⁶⁾

In addition, the requirements regarding share ownership of foreign direct investment (*Penanaman Modal Asing* or PMA) companies in order to qualify for equal treatment as those granted to domestic investment (*Penanaman Modal Dalam Negeri* or PMDN) have been eased. The relaxation included a reduction in the share of national ownership to 51%, or 45% provided that 20% of total shares was listed in the stock market.²⁷⁾ Under the previous regulations, to qualify for the same facilities, a minimum of 75% of the share ownership was to be held by national partners, or a

minimum of 51% was sold through the stock market, or a minimum of 51% was owned by national partners with at least 20% having been sold in the stock market. The facilities covered the permit to sell output in the domestic market and access to working capital credit extended by state-owned commercial banks and the State Development Bank (Bapindo).

With a view to improving the operations of foreign companies, in the reporting year the Government abolished the licensing requirement for limited domestic purchases. Foreign companies were thereby permitted to make domestic purchases as inputs for their production, by simply having either a SIUP or a business license obtained from the relevant ministry or other authorities: Under the previous regulations, to qualify for the same facility, foreign companies were required to have limited domestic purchases license and one of the licenses mentioned above. Furthermore, foreign companies that have obtained notice of Presidential approval and those ready for production are permitted to import by submitting master list to authorized surveyors without prior approval from the Capital Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* or BKPM).²⁸⁾ In order to allow greater opportunities for foreign companies, the Government revised the investment priority list (*Daftar Skala Prioritas* or DSP) by expanding business sectors open for foreign investment.²⁹⁾

25) Chairman of Capital Investment Coordinating Board Decree No. 5/SK/1987, December 23, 1987.

26) Chairman of Capital Investment Coordinating Board Decree No. 5/SK/1987, December 23, 1987.

27) - Presidential Decree No. 50/1987, December 22, 1987.
- Bank Indonesia Circular Letter No. 20/4/UKU, January 20, 1988.

28) - Chairman of Capital Investment Coordinating Board Decree No. 6/SK/1987 December 23, 1987.

- Minister of Trade Decree No. 335/Kp/XII/87, December 23, 1987.

29) Presidential Decree No. 15/1987, May 25, 1987.

To promote non-oil/gas exports, particularly in manufacturing industry, PMA companies were allowed to export their own products as well as those manufactured by other companies. In addition, the Government also allowed PMA companies to establish a joint-venture company especially engaged in exporting manufactured goods.³⁰⁾ Moreover, certain newly-established companies (either PMA or PMDN operating in industrial sector, whose outputs were destined for exports) were granted permanent licenses even if the sector was declared closed in the DSP. Other facilities covered exemption from licensing requirements for companies expanding their plants and diversifying their products, providing that those products were under the same industrial category.³¹⁾ Furthermore, PMA companies exporting at least 65% of their output were allowed more freedom in hiring foreign experts.³²⁾

In order to attract capital inflows, in the reporting year the Government allowed foreign investors to purchase securities on the stock market and on the over-the-counter bourse. Such purchases were previously prohibited.³³⁾

B. Balance of Payments Developments

1. General

In the reporting year, the Indonesia's balance of payments showed a favorable

developments compared with the preceding year. This was mainly attributable to a strong rise in non-oil/gas exports and significant increase in oil/gas exports as a consequence of the improvement in oil prices. Higher non-oil/gas export revenues were due to improved competitiveness that resulted from a series of adjustment policies and deregulation measures and to higher prices of several major commodities. It is worth noting that for the first time since 1974/75 the value of non-oil/gas exports exceeded that of oil/gas exports.

These favorable developments were reflected in a significant narrowing of current account deficit, from \$4,051 million to \$1,707 million, and in the surplus in the overall balance of payments amounted to \$1,585 million compared with a deficit of \$738 million in the preceding year (Table 8.1). Consequently, foreign exchange reserves held by Bank Indonesia rose substantially and stood at \$6,688 million at the end of March 1988.

2. Current account

In the reporting year, the current account deficit declined significantly, from \$4,051 million to \$1,707 million, despite an increase in interest payments stemming partly from the US dollar depreciation vis-a-vis several other major currencies. The reduction in current account deficit was accounted for by a considerable increase in the value of exports (\$4,646 million) which more than offset increases in expenditures on imports and net services, of \$1,501 million and \$801 million, respectively.

2.1. Exports

In 1987/88, Indonesia's exports increased

30) - Government Regulation No. 24/1987, December 22, 1987.
- Minister of Trade Decree No. 335/Kp/XII/87, December 23, 1987.

- Bank Indonesia Circular Letter No. 20/34/UIN, December 30, 1987.

31)- Government Regulation No. 13/1987, June 3, 1987.
- Presidential Decree No. 16/1987, June 10 1987.

32) Minister of Manpower Decree No. 1902/MEN/1987, December 23, 1987.

33) Minister of Finance Decree Nos. 859/KMK.01/1987 and 862/KMK.01/1987, December 23, 1987.

significantly by 33.9% to \$18,343 million. This increase was due to a sharp rise in non-oil/gas exports and to higher oil/gas exports.

Non-oil/gas exports experienced a rapid growth of 41.2% to \$9,502 million compared with an increase of 9.0% in the preceding year. The sharp rise of non-oil/gas exports was due to increases in prices of several major commodities in the world market, higher foreign demand, and improved competitiveness and more diversified Indonesian export commodities.

In the reporting year, oil/gas exports recorded an increase of 26.9% to \$8,841 million. Oil exports increased by 28.4% to \$6,159 million and LNG exports by 23.7% to \$2,682 million. The increase in oil exports was due to an improvement in world oil prices, while the increase in LNG exports was accounted for by rises in both volume and the average export price.

2.1.a. Non-oil/gas exports

In the reporting year, the value of non-oil/gas exports rose by 41.2% to \$9,502 million. This highly favorable result was due to considerable increases in the export value of several major commodities, such as timber, rubber, textiles, shrimps, handicrafts, aluminum, palm oil, rattan, and other manufacturing products (Table 8.2).

As in previous years, the Indonesian non-oil/gas exports were mainly destined to Japan and the United States. In 1987/88, the share of non-oil/gas exports to Japan increased from 19.3% to 21.9% while that to the United States declined from 21.1% to 19.4%. The shares of non-oil/gas exports

to ASEAN countries and the People's Republic of China (PRC) increased, respectively to 14.9% and 4.5% compared with 12.4% and 2.1% in the preceding year. By contrast, the share of non-oil/gas exports to the Netherlands declined from 6.8% to 5.4%.

Timber

In the reporting year, exports of timber—mostly comprising plywood and sawn timber—still occupied first place among non-oil/gas exports with a share of 25.9%. Timber exports increased rapidly, by 54.6% to \$2,461 million, due mainly to an increase in plywood exports of 58.6% to \$1,861 million. Sawn timber exports increased by 32.4% to \$540 million, due to rises in volume and price of 29.5% and 22.5%, respectively. The increase in export volume of plywood was attributable to higher productive capacity and to increasing demand from Japan and the PRC.

By country of destination, Japan and the United States remained the largest export markets for Indonesia's timber, with shares of 28.3% and 16.5%, respectively. Other timber export markets were the PRC (11.0%), Hong Kong (8.5%), Singapore (7.8%), and Taiwan (7.2%).

Rubber

In 1987/88, rubber exports increased by 40.3% to \$1,055 million, causing rubber's position among the non-oil/gas exports to improve from fourth to second with a share of 11.1%. This increase was mainly attributable to a price rise of 24.6% which was closely associated with higher foreign demand in industrial countries for natural

TABLE 8.1
INDONESIA'S BALANCE OF PAYMENTS ¹⁾
(millions of dollars)

Transaction	1983/84	1984/85	1985/86	1986/87	1987/88 [*]
A. Current Account	-4,151	-1,968	-1,832	-4,051	-1,707
1. Merchandise	3,512	5,474	6,060	2,246	5,391
a. Exports, f.o.b	19,816	19,901	18,612	13,697	18,343
i. Non-oil /gas	5,367	5,907	6,175	6,731	9,502
ii. Oil/gas	14,449	13,994	12,437	6,966	8,841
- Oil	(12,050)	(10,625)	(8,816)	(4,798)	(6,159)
- LNG	(2,399)	(3,369)	(3,621)	(2,168)	(2,682) ²⁾
b. Imports, f.o.b	-16,304	-14,427	-12,552	-11,451	-12,952
i. Non-oil/gas	-12,815	-11,630	-10,078	-9,356	-10,597
ii. Oil/gas ³⁾	-3,489	-2,797	-2,474	-2,095	-2,355
- Oil	(-3,273)	(-2,605)	(-2,282)	(-1,908)	(-2,190)
- LNG	(-216)	(-192)	(-192)	(-187)	(-165)
2. Services	-7,663	-7,442	-7,892	-6,297	-7,098
a. Non-oil/gas	-4,074	-4,061	-4,052	-4,010	-4,372
b. Oil/gas ³⁾	-3,589	-3,381	-3,840	-2,287	-2,726
- Oil	(-2,761)	(-2,175)	(-2,530)	(-1,464)	(-1,635)
- LNG	(-828)	(-1,206)	(-1,310)	(-823)	(-1,091)
B. Capital Account, excluding Reserves	5,974	2,726	2,360	4,575	3,235
1. Official Transfer & Capital, net	4,783	2,227	1,788	3,343	1,526
a. Official inflows	5,793	3,519	3,432	5,472	4,575
i. IGGI	4,255	3,189	2,751	3,978	4,368
- Food Aid	(84)	(52)	(38)	(48)	(30)
- Program Aid	(—)	(—)	(—)	(—)	(828)
- Project Aid	(4,171)	(3,137)	(2,713)	(3,930)	(3,510)
ii. Non-IGGI (Project Aid)	1,538	330	681	1,494	207
b. Official Debt Repayment	-1,010	-1,292	-1,644	-2,129	-3,049
- Pre-July 1966 debts	-89	-32	-36	-123	-84
- Post-July 1966 debts	-921	-1,260	-1,608	-2,006	-2,965
2. Miscellaneous Capital, net	1,191	499	572	1,232	1,709
- Direct Investment	193	245	299	252	544
- Government Enterprises	998	254	273	980	1,165
C. Total (A through B)	1,823	758	528	524	1,528
D. Net Errors and Omissions	247	-91	-498	-1,262	57
E. Reserves ⁴⁾	-2,070	-667	-30	738	-1,585
1. Reserves position in the Fund	162	9	-15	-9	-8
2. Short-term foreign liabilities	-1	-1	—	—	—
3. Short-term foreign assets	-2,231	-675	-15	747	-1,577

1) The presentation based on the IMF standard is shown in Table VII of the Appendices.

2) Includes LPG exports amounting to \$54 million.

3) Oil/gas imports consist of oil and other imports by oil/gas enterprises, while oil/gas services cover payments of foreign contractors' share and net other services payments related to oil/gas transactions.

4) Negative is for surplus and positive is for deficit.

TABLE 8.2
VALUE OF EXPORTS¹⁾
(millions of dollars)

I t e m s	1983/84	1984/85	1985/86	1986/87 ²⁾	1987/88 [*]
A. Non-oil/gas	5,367	5,907	6,175	6,731	9,502
Timber	1,161	1,167	1,217	1,592	2,461
– Log	(267)	(135)	(2)	(3)	(3)
– Plywood	(579)	(696)	(848)	(1,156)	(1,834)
– Sawn timber	(302)	(320)	(349)	(408)	(540)
– Others	(13)	(16)	(18)	(25)	(84)
Rubber	984	856	714	752	1,055
Coffee	506	568	659	753	496
Palm oil	92	95	170	114	213
Animal and produce	276	219	274	380	466
– Shrimps	(206)	(183)	(228)	(317)	(368)
– Others	(70)	(36)	(46)	(63)	(98)
Tea	156	211	134	106	119
Foodstuffs	134	129	164	141	195
– Tapioca	(33)	(31)	(42)	(52)	(93)
– Others	(101)	(98)	(122)	(89)	(102)
Pepper	58	66	82	152	155
Tobacco	50	44	55	78	65
Copra cakes	33	18	35	34	40
Hides	27	40	37	45	59
Rattan	87	96	80	99	162
Textiles and textile products	290	418	577	632	972
Handicrafts	75	116	187	142	281
Electrical appliances	130	134	45	5	7
Urea fertilizer	50	31	109	97	101
Cement	11	14	23	47	47
Iron steel	4	15	36	51	213
Paper	6	21	22	44	111
Mining products	800	775	800	726	1,057
– Tin	(309)	(252)	(248)	(156)	(143)
– Copper	(89)	(132)	(133)	(144)	(186)
– Aluminum	(165)	(208)	(223)	(201)	(245)
– Nickel	(170)	(121)	(139)	(112)	(146)
– Gold	(—)	(—)	(—)	(61)	(286)
– Others ²⁾	(67)	(62)	(57)	(52)	(52)
Miscellaneous	437	874	755	741	1,227
B. Oil ³⁾	12,050	10,625	8,816	4,798	6,159
C. LNG	2,399	3,369	3,621	2,168	2,682⁴⁾
Total (A + B + C)	19,816	19,901	18,612	13,697	18,343

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

2) Includes natural sand, which for 1983/84 through 1987/88 were \$5.0 million, \$7.5 million, \$9.2 million, \$8.6 million, and \$10.4 million, respectively.

3) Includes crude oil and oil products and in 1983/84 also includes cross purchase/cross exchange.

4) Includes LPG exports amounting to \$54 million.

TABLE 8.3
VOLUME OF EXPORTS
(thousands of tons)

I t e m s	1983/84	1984/85	1985/86	1986/87 ¹	1987/88 ²
A. Non-oil/gas	37,164	40,071	81,605	74,743	62,520
Timber	5,843	5,201	4,670	5,509	6,718
– Log	(2,536)	(1,223)	(79)	(168)	(146)
– Plywood	(1,603)	(2,105)	(2,495)	(2,949)	(3,820)
– Sawn timber	(1,630)	(1,789)	(2,017)	(2,267)	(2,473)
– Others	(74)	(84)	(79)	(125)	(279)
Rubber	1,145	1,042	1,082	1,064	1,198
Coffee	298	308	294	310	274
Palm oil	279	175	504	569	704
Animal and produce	194	87	109	128	183
– Shrimps	(44)	(44)	(52)	(58)	(91)
– Others	(150)	(43)	(57)	(70)	(92)
T e a	85	91	102	93	98
Foodstuffs	1,199	1,166	1,418	981	2,323
– Tapioca	(299)	(418)	(534)	(439)	(833)
– Others	(900)	(748)	(884)	(542)	(1,490)
Pepper	51	34	25	33	35
Tobacco	28	23	21	27	30
Copra cakes	338	213	433	348	384
Hides	6	9	8	10	6
Rattan	83	101	92	116	135
Textiles and textile products	67	78	111	128	188
Handicrafts	18	30	79	40	68
Electrical appliances	1	1	1	1	2
Urea fertilizer	377	208	1,047	1,212	1,138
Cement	306	516	955	2,012	2,018
Iron steel	91	108	199	243	791
Paper	19	39	46	167	206
Mining products	25,233	28,985	68,204	59,654	42,223
– Tin	(24)	(22)	(23)	(24)	(22)
– Copper	(191)	(242)	(279)	(271)	(290)
– Aluminum	(112)	(153)	(219)	(177)	(152)
– Nickel	(721)	(955)	(943)	(1,288)	(1,455)
– Gold	(—)	(—)	(—)	(—)	(—)
– Others ¹⁾	(24,185)	(27,613)	(66,740)	(57,894)	(40,304)
Miscellaneous	1,503	1,656	2,205	2,098	3,798
B. Oil (millions of barrels) ²⁾	413	367	338	384	355
C. LNG (millions of MMBTU) ³⁾	549	778	776	793	894

1) Includes natural sand, which for 1983/84 through 1987/88 were 21,398 thousand tons, 24,489 thousand tons, 64,134 thousand tons, 54,781 thousand tons, and 37,996 thousand tons, respectively.

2) Includes crude oil and oil products and in 1983/84 also includes cross purchase/cross exchange.

3) MMBTU = Millions of British Thermal Unit.

rubber used as inputs in the manufacture of medical equipments. It should be noted that most of Indonesia's rubber exports (81.4%) comprises crumb rubber.

By country of destination, the United States remained the largest export market for rubber with a share of 45.0%. Other buyers were Singapore (19.7%), the PRC (5.2%), the Soviet Union (3.4%), and Canada (3.3%).

Textiles

In the reporting year, textile exports occupied third rank in the total non-oil/gas exports with a share of 10.2%. Textile exports increased considerably by 53.8% reaching \$972 million, mainly attributed to rises in exports of textile products (103.1%) and garments (39.2%).

By country of destination, the United States remained the largest buyer of Indonesia's textiles with a share of 45.6%, followed by the Netherlands (6.4%), the Federal Republic of Germany (5.9%), Singapore (5.6%), the United Kingdom (4.7%), Japan (3.6%), and Hong Kong (3.4%).

Coffee

In the reporting year, the share of coffee exports in total non-oil/gas exports decreased to 5.2% so that its rank shifted from second to fourth. Coffee exports, which are almost all robusta variety (93.2%), decreased by 34.1% to \$496 million due to declines in both volume and price. Lower coffee prices were brought about by excess supply in the world market resulting from recovery of Brazil's coffee production.

Meanwhile, in order to improve coffee prices, in October 1987, the International Coffee Organization (ICO) allocated export quotas to its members; for coffee year 1987/88 Indonesia obtained 4.75% of the global quota equivalent to 154,235 tons. The quota caused a decline in Indonesia's export volume. In the reporting year, the share of coffee exports to non-quota countries increased to 28.0% compared with 23.3% in the year before.

By country of destination, Japan and the United States were the largest buyers for Indonesia's coffee, with shares of 25.1% and 17.7%, respectively. Other markets were Algeria (9.3%), the Federal Republic of Germany (9.1%), the Netherlands (7.7%), and Hungary (5.8%).

Shrimp

In the reporting year, the share of shrimp in total non-oil/gas exports stood at 3.9% occupying fifth rank. Shrimp exports, which are virtually all of the white and tiger varieties (98.0%), increased by 16.1% to \$368 million, due to an increase in volume of 56.9% which reflected expanded shrimp pond cultivation. In the meantime, price declined owing to increasing supply from new producing countries, such as the PRC.

The largest market for Indonesian shrimp exports was Japan (77.8%); while the other markets were Singapore (5.4%), Hong Kong (3.6%), and France (2.9%).

Handicrafts

In the reporting year, the share of handicrafts in total non-oil/gas exports

amounted to 3.0%. Handicrafts exports—which included wood handicrafts and knitting handicrafts—increased significantly, by 97.9% to \$281 million. This was mainly attributable to the rise in volume of 70.0% owing to increased competitiveness in the world market and various government policies in promoting exports, especially those related to small-scale industries.

The major markets for handicraft exports were Japan (18.8%), Singapore (12.1%), and the United States (10.3%). Other markets were Italy (7.1%), the United Kingdom (6.7%), the Netherlands (6.5%), the Federal Republic of Germany (4.7%), Australia (4.6%), Thailand (3.4%), and Hong Kong (3.3%).

Aluminum

In the reporting year, the share of aluminum in total non-oil/gas exports stood at 2.6%. Aluminum exports increased by 21.9% to \$245 million, due to a rise in price of 41.9% as a consequence of higher demand for aluminum in the industrial countries and lower supply from producing countries. Volume decreased by 14.1%, mainly as a consequence of inadequate electric input from hydro-powered electric center (*Pusat Listrik Tenaga Air* or PLTA) at the Asahan project (North Sumatera).

The largest market for Indonesian aluminum exports was Japan with a share of 90.6%. Other market was Singapore (6.5%).

Palm oil

In the reporting year, the share of palm oil in total non-oil/gas exports stood at 2.2%. Palm oil exports increased by 86.8% reaching \$213 million, brought about by increases in both

price and volume. The price rose by 51.3% resulting from lower supply from Malaysia, the largest world palm oil producer, and increases in demand from the major buyers (India and the PRC). Volume also increased, by 23.7%, due mainly to higher exports to India (185.7%). It is worth to note that the price had decreased by 40.6% in the preceding year.

The largest export market was the Netherlands (43.0%), followed by India (11.1%), the United Kingdom (9.4%), Italy (8.8%), and Kenya (8.7%).

Rattan

In the reporting year, although the share of rattan exports in total non-oil/gas exports was 1.7%, its exports increased strongly by 63.6% to \$162 million owing mainly to higher value added of exported rattan since the Government banned the exports of raw rattan in October 1986. It should be noted that Indonesia had been the world's largest supplier of raw rattan for several years prior to the ban.

The largest markets for rattan exports were Hong Kong (34.5%), Taiwan (29.2%), and Singapore (12.2%).

Tin

The share of tin in total non-oil/gas exports declined to 1.5%. In the reporting year, tin exports decreased by 8.3% to \$143 million, despite a price increase of 0.5%. Lower tin exports were brought about by a decline in volume of 8.8% resulting from a one year quota arrangement by the Association of Tin Producing Countries (ATPC) since March 1, 1987. Based on the ATPC policy, in 1987/88

Indonesia was subject to an export quota of 24.5 thousand tons out of a total export quota of 96 thousand tons. It is noteworthy that the export quota was imposed in efforts to overcome unfavorable tin prices in the world market.

Indonesia's major tin export market was Singapore (82.9%), followed by the Netherlands (13.0%) and the Federal Republic of Germany (1.5%).

Tea

In the reporting year, the share of tea in total non-oil/gas exports stood at 1.2%. Tea exports, which are largely black tea (82.3%), increased by 12.3% to \$119 million compared with a decrease of 20.9% in the preceding year. The increase in exports in 1987/88 was attributable to a price increase of 5.3%, which was closely related to the decrease in supply of tea in the world market from other major tea producers, India and Srilanka.

The major destinations for Indonesia's tea were Jordan (13.4%), Pakistan (12.3%), and the Soviet Union (11.3%). Other markets were Singapore (9.1%), Australia (8.1%), the United States (8.0%), and the Netherlands (5.7%).

Other major export commodities

Other major export commodities consisted of gold, steel, foodstuffs, copper, pepper, paper, nickel, tobacco, and cement. In the reporting year, total exports of these nine commodities rose by 69.2% to \$1,404 million; increases were recorded in gold (368.9%), steel (317.6%), paper (150.0%), foodstuffs (38.3%), nickel (30.4%), copper

(29.2%), and pepper (2.0%). The increases in the exports of gold, steel, foodstuffs, and pepper were brought about by rises in volume of 260.9%, 225.5%, 136.8%, and 6.0%, respectively. The increases in the exports of paper, copper, and nickel were mainly due to price increases of 104.9%, 20.7%, and 14.9%, respectively.

Exports of cement remained unchanged at \$47 million, while tobacco decreased by 16.7% due to a price drop of 25.0%.

It should be noted that the exports of other commodities (miscellaneous) recorded a strong increase of 65.6% to \$1,227 million, which covers chemical products, glass products, sport shoes, furniture, plastic articles, vehicle components, and ocean floating constructions, as well as several new export products, such as paint finishes, nails, bicycles, and aluminum pipes.

2.1.b. Oil/gas exports

In order to stabilize world oil prices, OPEC at its June 1987 Vienna meeting agreed to a production quota of 16.6 million barrels per day at a standard price for arabian light crude (ALC) of \$18.00 per barrel for the second semester of 1987. Furthermore, at the December 1987 meeting in Vienna, OPEC agreed to reimpose the prevailing quota and its standard price for the first semester of 1988. In line with the OPEC accord, the production quota for Indonesia from June 1987 through the first semester of 1988 was set at 1.190 million barrels per day at the standard price for Indonesia's Minas crude oil of \$17.56 per barrel.

In the reporting year, the Indonesia's oil exports increased from \$4,798 million to

TABLE 8.4
OIL EXPORTS BY COUNTRY OF DESTINATION¹⁾
(millions of barrels and millions of dollars)

Countries	1983/84		1984/85		1985/86		1986/87		1987/88	
	Barrels	\$	Barrels	\$	Barrels	\$	Barrels	\$	Barrels	\$
1. United States of America	113.5	3,307.7	97.7	2,824.4	107.8	2,820.8	108.2	1,331.2	87.6	1,532.3
Share (%)	27.5	27.4	26.6	26.6	31.8	32.0	28.2	27.7	24.7	24.9
– Crude oil	97.1	2,859.5	83.5	2,435.9	99.2	2,610.2	94.8	1,168.9	79.3	1,400.8
– Oil products	16.4	448.2	14.2	388.5	8.6	210.6	13.4	162.3	8.3	131.5
2. Japan	204.2	5,935.1	179.9	5,187.9	167.1	4,328.6	176.6	2,255.7	209.8	3,592.0
Share (%)	49.4	49.3	49.0	48.8	49.4	49.1	46.0	47.0	59.1	58.3
– Crude oil	168.3	4,955.6	145.4	4,242.0	130.5	3,434.8	141.0	1,802.4	152.3	2,651.6
– Oil products	35.9	979.5	34.5	945.9	36.6	893.8	35.6	453.3	57.5	940.4
3. Other Countries	95.7	2,807.6	89.8	2,613.1	63.4	1,667.0	99.0	1,211.8	57.5	1,035.1
Share (%)	23.1	23.3	24.4	24.6	18.8	18.9	25.8	25.3	16.2	16.8
– Crude oil	91.2	2,686.2	86.8	2,534.0	59.6	1,568.3	94.0	1,146.9	57.0	1,014.0
– Oil products	4.5	121.4	3.0	791.1	3.8	98.7	5.0	64.9	0.5	21.1
4. Total (1+2+3)	413.4	12,050.4	367.4	10,625.4	338.3	8,816.4	383.8	4,798.7	354.9	6,159.4
Share (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
– Crude oil	356.6	10,501.3	315.7	9,211.9	289.3	7,613.3	329.8	4,118.2	288.6	5,066.4
– Oil products	56.8	1,549.1	51.7	1,413.5	49.0	1,203.1	54.0	680.5	66.3	1,093.0

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

TABLE 8.5
EXPORT PRICES OF SELECTED INDONESIAN CRUDE OIL
(dollars per barrel)

Type of crude oil	1983/84			1984/85			1985			1986				1987		
	Mar.	Apr.	Feb.	Aug.	Feb.	Mar.	Jun.	Aug.	Sep.	Dec.	Jan.	Feb.	Aug.			
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	17.56			
2. Duri	27.85	25.95	24.00	24.00	14.51	10.09	9.26	5.82	9.21	9.71	12.05	15.60	16.10			
3. Cinta	28.25	28.25	26.00	26.00	23.39	17.42	10.70	8.93	9.32	11.89	12.48	17.10	17.20			
4. Arimbi	28.35	28.35	28.35	28.35	23.08	16.16	12.29	8.95	11.84	11.78	12.92	--	16.94			
5. Jatibarang/Cemara	27.80	27.80	26.55	26.35	--	--	--	--	--	--	--	--	16.55			
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	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	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	--	17.66			
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	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	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	18.09			
14. Bunyu/Sembakung	29.90	29.90	29.90	29.90	--	--	--	--	--	--	--	17.26	17.26			
15. Ataka	30.95	30.95	28.65	28.65	18.59	15.85	13.81	9.14	13.47	14.78	15.82	--	18.79			
16. Bekapai	30.95	30.95	28.65	28.65	18.59	15.85	13.81	9.14	13.47	14.78	15.82	18.79	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	18.79			
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	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	18.65			
20. Lalang	--	28.70	27.45	27.45	23.26	15.53	12.21	8.18	11.75	13.50	14.70	17.85	17.85			
21. SMC	--	--	27.40	27.20	23.12	23.12	11.55	7.90	11.80	--	--	--	--			

Source : Ministry of Mining and Energy.

\$6,159 million, exported mainly to Japan (58.3%) and to the United States (24.9%) (Table 8.4). The increase in oil exports was fully accounted for by a rise in the average price of 40.5% to \$17.56 per barrel; the volume declined from 383.6 million barrels to 358.7 million barrels in line with the OPEC efforts to stabilize the world oil prices.

LNG exports also increased markedly in the reporting year, by 23.7% to \$2,682 million; \$2,350 million was destined to Japan while \$332 million to South Korea. This increase in LNG exports was due to increases in both volume and the average LNG export price. The export volume increased by 8.7% to 894 million MMBTU, mainly contributed to the higher LNG exports to South Korea. The average LNG export price increased by 7.7% to \$2.94 per MMBTU, due mainly to improvements in oil prices (Table 8.5).

In the reporting year, LPG exports amounted to \$54 million. Historically, Indonesia's LPG exports have been low; however, a long-term sales contract with Japan for 1.95 million tons per year is expected to give a significant boost to Indonesia's balance of payments. The first shipment was planned to be implemented in late 1988.

Indonesia's balance of payments. The first shipment was planned to be implemented in late 1988.

2.2. Imports

In the reporting year, the value of total imports increased by 13.1% reaching \$12,952 million, comprising both imports of non-oil/gas and oil/gas companies. The

TABLE 8.6
LNG EXPORTS

Year	Value ¹⁾ (millions of \$)	Volume (millions of MMBTU)	Price (\$/MMBTU)
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
1987/88 *	2,682 ²⁾	894	2.94

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

2) Includes LPG exports amounting to \$54 million.

Source : Pertamina.

increase in imports of non-oil/gas companies was closely associated with the pick-up in business activity and the efforts to promote non-oil/gas exports (Table 8.7).

The increase in imports of non-oil/gas companies was registered by imports under general foreign exchange and foreign capital inflows; by contrast, imports financed by foreign aid declined. Imports financed by general foreign exchange increased by 15.6% to \$7,608 million owing to increases in import programs—which included imports of wheat and sugar — and general imports of \$36 million and \$989 million, respectively.

In the reporting year, imports under foreign capital inflows rose by 43.2% to \$742 million. The increase took place in imports by PMA companies which rose by 38.7% to \$330 million, and in imports by state and other private enterprises with an increase of 47.1% to \$412 million. The increase in imports by PMA companies was mainly attributable to government facilities designed to promote non-oil/gas exports. Larger increases in imports by state and other private enterprises were mainly due to the expansion of LNG refineries by

TABLE 8.7
VALUE OF IMPORTS ¹⁾
(millions of dollars)

I t e m s	1983/84	1984/85	1985/86	1986/87 ^r	1987/88 [*]
A. Imports by non-oil/LNG enterprises	12,815	11,630	10,078	9,356	10,597
1. General foreign exchange imports	8,082	7,927	6,640	6,583	7,608
– Program imports	(538)	(335)	(201)	(183)	(219)
– General imports	(7,544)	(7,592)	(6,439)	(6,400)	(7,389)
2. Foreign aid imports	3,947	2,999	2,756	2,255	2,247
– Food aid program under PL 480 ²⁾	(36)	(49)	(38)	(48)	(23)
– Food aid program under non-PL 480 ²⁾	(48)	(3)	(0)	(0)	(0)
– Project aid	(3,863)	(2,947)	(2,718)	(2,207)	(2,224)
3. Imports under foreign capital inflows	786	704	682	518	742
– Direct investment	(217)	(206)	(227)	(238)	(330)
– Other foreign capital inflows	(569)	(498)	(455)	(280)	(412)
B Imports by oil and LNG enterprises	3,489	2,797	2,474	2,095	2,355
C. Total (A+B)	16,304	14,427	12,552	11,451	12,952

1) Based on f.o.b.

2) Food aid imports which a.o. comprises rice and wheat. For 1985/86, 1986/87, and 1987/88 rice was not imported.

Pertamina in Badak, East Kalimantan to increase exports of LNG to Taiwan.

Imports financed by foreign aid, comprising both program and project aid, registered a slight decline due to the lower imports under program aid, especially under PL-480 (from \$48 million to \$23 million).

TABLE 8.8
IMPORTS BY ECONOMIC CATEGORY
(percentage)

Year	Capital goods	Basic materials and auxiliaries	Consumer goods
1983/84	40.4	45.1	14.5
1984/85	32.3	56.5	11.2
1985/86	31.3	55.4	13.3
1986/87	30.0	46.0	24.0
1987/88 [*]	30.0	49.0	21.0

In the meantime, project aid imports increased slightly from \$2,207 million to \$2,224 million. It is noteworthy that the increase in imports under project aid was financed by soft-term loans.

Imports by oil/gas companies recorded an increase of 12.4% to \$2,355 million. The increase was due to rises in both volume and price of ALC, bringing about an increase in ALC imports of 32.5% reaching \$510 million.

Classified by economic category, the share of raw/auxiliary materials—which constituted the largest item in total imports—increased from 46.0% to 49.0% (Table 8.8). This increase was due partly to the simplification of import procedures and the exemption from or reduction of import

TABLE 8.9
SERVICES PAYMENTS (NET)
(millions of dollars)

I t e m s	1983/84	1984/85	1985/86	1986/87	1987/88 *
1. Freight on imports	1,880	1,571	1,356	1,237	1,401
a. Non-oil/gas	1,531	1,291	1,108	1,029	1,166
b. Oil	328	261	228	190	219
c. LNG	21	19	20	18	16
2. Other transportation	299	293	274	229	226
a. Non-oil/gas	226	224	231	208	220
b. Oil	73	69	43	21	6
c. LNG	0	0	0	0	0
3. Investment income	3,934	3,698	3,814	3,153	3,825
a. Non-oil/gas	1,495	1,689	1,708	2,032	2,588
b. Oil	1,973	1,243	1,222	740	890
c. LNG	466	766	884	381	347
4. Others	1,550	1,880	2,448	1,678	1,646
a. Non-oil/gas	822	857	1,005	741	398
b. Oil	387	602	1,037	513	520
c. LNG	341	421	406	424	728
5. Total	7,663	7,442	7,892	6,297	7,098
a. Non-oil/gas	4,074	4,061	4,052	4,010	4,372
b. Oil	2,761	2,175	2,530	1,464	1,635
c. LNG	828	1,206	1,310	823	1,091

duties for a number of commodities. The share of capital goods in total imports has remained relatively unchanged over the last four years whereas the share of consumption goods declined from 24.6% to 21.1% in the reporting year.

By country of origin, the largest portion of imports still originated from countries in the Asian, European, and American continents. The share of imports from Asian countries in total imports was 55.2%, while European countries 23.696, and American countries 15.3% (Table IX). Among these countries, Japan and the United States still had the largest shares, namely 28.7% and 11.1% of total imports, respectively.

Imports from the ASEAN countries showed a decline from 13.4% to 7.8% of total imports. Among the ASEAN countries, Singapore continued to record the largest share, i.e., 67.5% of imports from ASEAN countries, whereas the shares of imports from Malaysia, Thailand, and the Philippines were 18.0%, 9.2%, and 5.3%, respectively.

2.3. Services account

In the reporting year, the deficit in services account widened by \$801 million to \$7,098 million. Larger net payments were recorded in services transaction of both oil/gas and non-oil/gas companies (Table 8.9). The services payments of non-oil/gas

companies increased by 9.0% to \$4,372 million, mostly reflecting in increases in freight on imports and investment income of 13.3% and 27.7% to \$1,166 million and \$2,594 million, respectively. Rising payments on investment income was mainly due to higher interest payments on government debt of 17.4% to \$2,372 million, partly resulting from the US dollar depreciation vis-a-vis several other major currencies. Meanwhile, the surplus on travel showed a significant increase in the reporting year, from \$157 million to \$477 million. This was mainly attributable to a rise in foreign exchange earnings from tourism of 45.0% to \$1,002 million.

The services payments of oil/gas companies rose by 19.2% to \$2,726 million comprising increases in service payments of oil companies of 11.7% to \$1,635 million and of LNG companies of 32.6% to \$1,091 million. Increased service payments of oil/gas companies was mainly due to higher service payments to foreign contractors resulting from higher oil/gas exports.

3. Capital movements in the non-monetary sector

In 1987/88, net capital inflows of the non-monetary sector, consisting of net official and private capital, narrowed substantially by 29.3% to \$3,235 million. This was due to a decrease in net official capital inflows of \$1,817 million, whereas net inflows of private capital increased by \$477 million (Table 8.1).

3.1. Official capital movements

In 1987/88, the official capital inflows declined by 16.4% to \$4,575 million,

mainly caused by a sharp drop in commercial loans, of 85.9% to \$200 million. Meanwhile, amortization payments on the government debts increased by 43.2% to \$3,049 million. Accordingly, the net official capital inflows in the reporting year amounted to \$1,526 million, a decline of 54.4% relative to the preceding year.

3.1.a. Loans and external assistance

In the reporting year, the Government disbursed loans (including grants) from the IGGI members amounting \$4,368 million or a rise of 9.8% compared with the preceding year (Table 8.10). This was accounted for by an increase in disbursed concessional loans (Official Development Assistance or ODA) of 43.3% to \$2,837 million. These larger disbursements were mainly due to improvements in project implementation by the Team for the Effectiveness of the Realization of Development Projects with Foreign Funds (*Tim Pendayagunaan Pelaksanaan Proyek-proyek Pembangunan dengan Dana Luar Negeri* or P4DLN). Of these disbursed loans, \$1,266 million was in the form of special assistance from the World Bank, ADB, Japan, and the Netherlands. It is worth noting that the remainder of special assistance committed from the Exim bank Japan — constituting counterpart funds to World Bank projects— was disbursed in the amount of \$346 million in the reporting year. Disbursements of non-IGGI loans declined significantly, by 86.2% to \$207 million, mainly due to reduced disbursements of commercial loans, from \$1,419 million to \$200 million.

Classified in terms of condition, foreign loans under the category of concessional

TABLE 8.10
GOVERNMENT FOREIGN DEBTS
(millions of dollars)

I t e m s	1983/84	1984/85	1985/86	1986/87	1987/88 *
1. IGGI	4,255	3,189	2,751	3,978	4,368
a. ODA	1,986	1,494	1,370	1,980	2,837
– Food aid ¹⁾	(84)	(52)	(38)	(48)	(30)
– Program aid ²⁾	(0)	(0)	(0)	(0)	(828)
– Project aid	(1,902)	(1,442)	(1,332)	(1,932)	(1,979)
b. Non-ODA	2,269	1,695	1,381	1,998 ³⁾	1,531 ³⁾
2. Non-IGGI (project aid)	1,538	330	681	1,494	207
a. ODA	111	29	47	75	7
b. Non-ODA	1,427	301	634	1,419	200
Total	5,793	3,519	3,432	5,472	4,575

1) Borrowings under food aid program.

2) Special loans under concessional terms to assist government program.

3) Includes loans from Eximbank Japan.

TABLE 8.11
DISBURSED AND OUTSTANDING EXTERNAL DEBTS
end of March 1988
(millions of dollars)

Items	Position
I. Government debts	38,386
1. Old debts ¹⁾	1,568
2. New debts	36,818
a. IGGI	27,382
i. ODA	(16,214)
– Food aid	2,554
– Program aid	828
– Project aid	12,832
ii. Non-ODA	(11,168)
b. Non-IGGI	9,436
– ODA	(1,621)
– Non-ODA ²⁾	(7,815)
II. Debts of state enterprises	874
Total	39,260

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

2) Including special loans from Eximbank Japan.

borrowings (ODA), including special assistance, increased from \$2,055 million to \$2,844 million, whereas those under non-ODA dropped from \$3,417 million to \$1,731 million.

It should also be noted that the largest portion (69.8%) of the ODA loans and grants from the IGGI members were in the form of project aids, and the remainder were in the form of program aids. In the reporting year, the Government obtained grants of \$165 million.

3.1.b. Debt repayments

Amortization payments on official foreign borrowings rose by 43.2% to \$3,049 million in the reporting year. Taking into account interest payments, the debt service payments increased by 30.7% to \$5,421 million. These larger debt service payments was not only due to higher payments on mature principal, but also as an impact of the US dollar depreciation against several other major currencies. It should be noted that the debt service ratio (DSR)—defined as the ratio of principal and interest payments on official debts to export receipts—declined from 30.3% to 29.5% due to improvements in merchandize exports. Taking into account exports of services, the DSR in the reporting year declined from 27.4% to 27.1% due to increased earnings from the tourism sector as well as the merchandize exports.

3.1.c. Disbursed and outstanding external borrowings

At the end of March 1988, the outstanding external government debts increased by 15.7% reaching \$38,386

million (Table 8.11). This was caused by larger disbursements of debt and by the depreciation of the US dollar against several other major currencies.

With respect to source of credit, the largest portion of new government debt (74.4%) originated from IGGI donors. These comprised bilateral arrangements (76.0%) and multilateral arrangements (24.0%), mainly originating from IBRD and ADB. The largest portion of non-IGGI borrowings (77.5%) was obtained from international commercial banks and other foreign creditors; while the remainder was obtained through bilateral arrangements.

Classified in terms of condition, IGGI borrowings under ODA and non-ODA terms amounted to \$16,214 million and \$11,168 million, respectively. Non-IGGI borrowings under ODA and non-ODA terms amounted to \$1,621 million and \$7,815 million, respectively. Hence, total official borrowings since July 1966 under ODA terms amounted to \$17,835 million, while non-ODA debt was \$18,983 million. It should also be noted that total outstanding foreign borrowings of state-owned enterprises at the end of March 1988 amounted to \$874 million.

3.2. Private capital movements

In the reporting year, net inflows of private capital—comprising capital flows of PMA companies, state-owned enterprises, and other private enterprises—increased by 38.7% to \$1,709 million. This was mainly due to an increase in capital inflows of PMA companies and state enterprises. The increase in capital inflows of PMA companies was attributable to the higher

amount of PMA approvals, while the increase in capital inflows of state enterprises was closely attributable to the expansion of LNG and LPG projects and the construction of para-xylene refineries in Cilacap (Central Jawa).

4. Monetary movements

In the reporting year, the deficit in the current account declined significantly, while net inflows in the capital account recorded a considerable increase. Overall Indonesia's balance of payments in 1987/88 showed a reversal to a substantial surplus of \$1,585 million compared with a deficit of \$738 million in the year before. Consequently, official foreign exchange reserves held by Bank Indonesia rose substantially, reaching \$6,688 million at the end of March 1988, an amount adequate to finance non-oil/gas imports (c&f) for 6.8 months.

Taking into account foreign exchange reserves held by foreign exchange banks, amounting \$3,704 million, national foreign exchange reserves at the end of March 1988 reached \$10,392 million, equivalent to 10.7 months of non-oil/gas imports (c&f).

5. Exchange rate developments

In the reporting year, the Government continued to follow a managed floating system in order to maintain a realistic exchange rate of the rupiah. In pursuit of this policy, the authorities tracked the rupiah relative to several major world currencies with a view to supporting business activity, maintaining the competitiveness of Indonesia's traded goods in the international market, while supporting the public confidence in the value of the

rupiah in order to prevent the capital outflows and to attract foreign capital inflows. At the end of March 1988, the rupiah exchange rate depreciated by 1.0% against the US dollar, by 15.0% against the Japanese yen, by 9.4% against the Dutch guilder, by 8.7% against the German mark, by 7.1% against the French franc, by 14.9% against the British pound sterling, by 6.9% against the Singapore dollar, and by 6.3% against the Australian dollar.

C. Indonesia's Balance of Payments Prospects for 1988/89

Indonesia's balance of payments in 1988/89 is expected to show further improvement, mainly on the basis of prospect for growth of non-oil/gas exports. There is expected to be further diversification of export products, increasing competitiveness owing to on-going and further deregulations, and higher prices for several major commodities. In addition, oil/gas exports in 1988/89 are forecast to remain roughly unchanged relative to the reporting year; a decline in oil exports from an anticipation of declining oil prices is expected to be offset by higher LNG and LPG exports as a consequence of greater export volumes to Japan.

Non-oil/gas imports in 1988/89 are also estimated to rise as a result of expanding domestic activity and various deregulation measures in the import sector. Meanwhile, oil/gas imports are expected to decline, mainly as a consequence of lower international oil prices. In addition, net non-oil/gas services payments are expected to rise in 1988/89 owing mainly to higher interest payments and freight costs that are only partly offset by greater earnings from tourism.

Based on those assumptions, the higher earning from exports relatively to that of imports and services is expected to bring about a lower current account deficit in 1988/89 as compared with that of the reporting year.

In the area of capital flows, gross official disbursements are expected to rise in 1988/89 as a result of a considerable amount of additional special assistance. Net private capital inflows are also expected to rise due to government policies aimed at

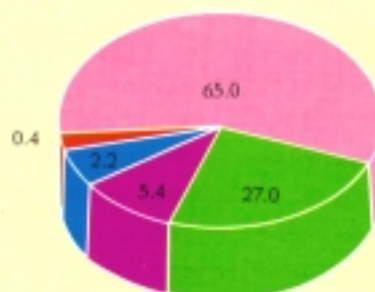
encouraging foreign capital inflows. Nevertheless, net inflows on capital account are expected to narrow slightly owing to higher debt repayments.

In summary, the capital account surplus in 1988/89 is expected to be somewhat greater than the deficit on current account. Consequently, the overall Indonesia's balance of payments in 1988/89 is expected to continue to register a surplus, although not as large as that of the reporting year.

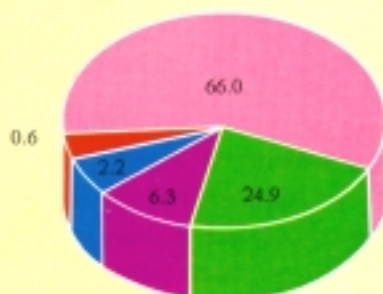
CHART 3
PERCENTAGE OF EXPORTS BY COUNTRY OF DESTINATION



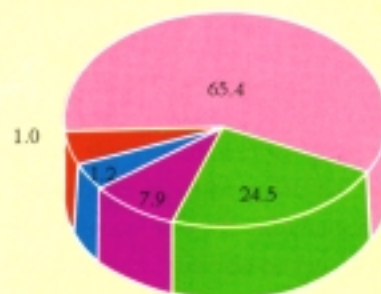
Source : Central Bureau of Statistics



1983/84



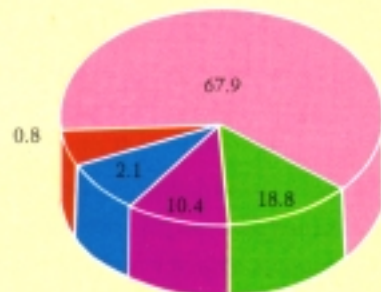
1984/85



1985/86



1986/87

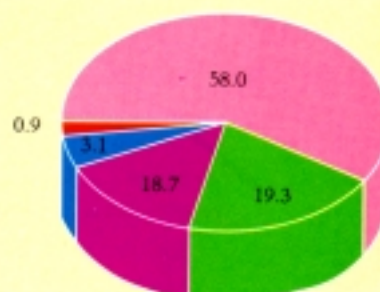


1987/88

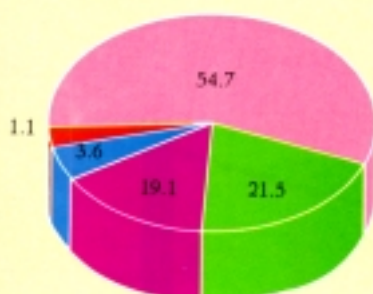
CHART 4
PERCENTAGE OF IMPORTS BY COUNTRY OF ORIGIN



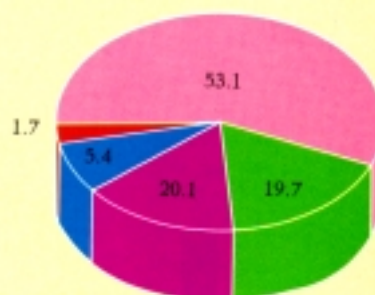
Source : Central Bureau of Statistics



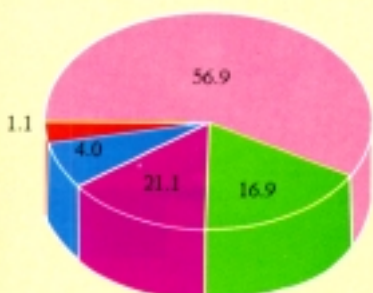
1983/84



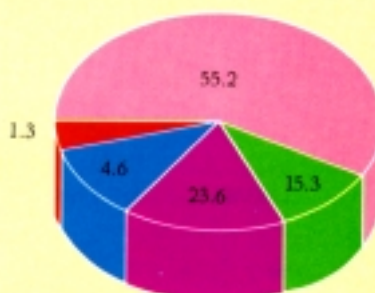
1984/85



1985/86



1986/87



1987/88

CHART 5
UNIT PRICES OF SELECTED EXPORT COMMODITIES
 (dollar per ton)

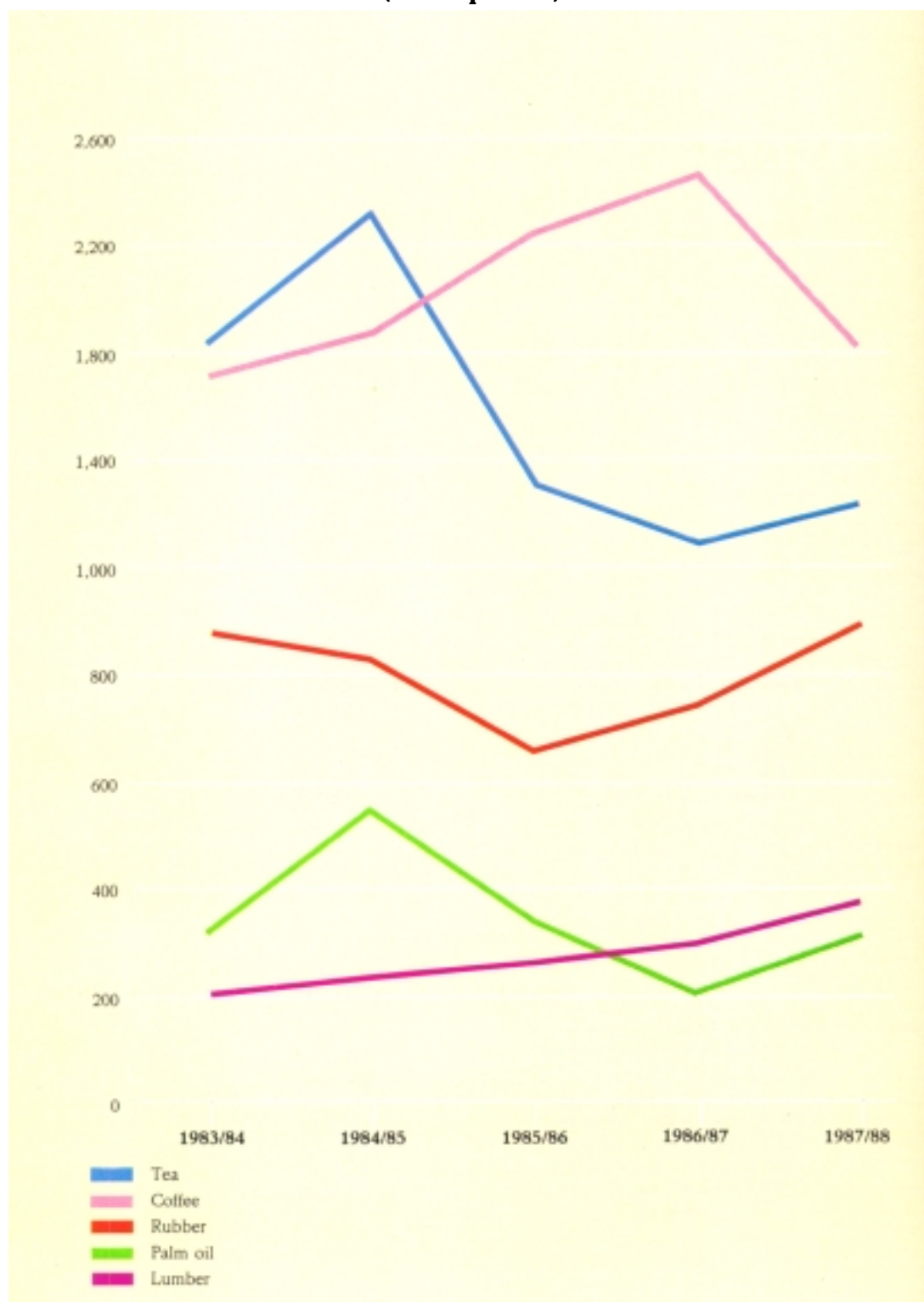


CHART 6
FOREIGN TRADE
(millions of dollars)



IX. NATIONAL PRODUCT, INVESTMENT, PRICES, POPULATION, AND COOPERATIVES

A. National Product

Owing in substantial measure to a sweeping series of adjustments introduced by the Government in recent years and supported by business activity, the Indonesian economy recorded reasonable growth in 1987 despite a slowdown in the world economy. Real growth in 1987 was marked by a substantial pick-up in the non-oil/gas sector, especially in the industrialized export sector. Moreover, as a result of favorable shifts in Indonesia's terms of trade (which stemmed from price improvements in oil and some other primary commodities) gross domestic income (GDY) registered a significant increase in 1987.

In 1987, the growth rate of gross domestic product (GDP) in constant 1983 prices declined a little, to 3.6% from 4.0% in 1986 (Table 9.2) owing mainly to a downturn in the mining sector. Taking into account population growth of 2.1%, real GDP per capita in 1987 rose by 1.5% compared with 1.9% in the preceding year.

Economic growth in 1987 was supported by activity in the agricultural, manufacturing, trade, public administration, and services sectors. Value added of agriculture accelerated slightly from 2.6% to 2.7%; substantially higher growth of the smallholders' estate and forestry subsectors were almost fully offset by lower growth in the other subsectors. The higher growth of the smallholders' estates subsector was due to increased production of tea, coffee, and rubber; higher output in the forestry subsector stemmed from increases in the

production of timber and rattan. As concerns lower growth in the other subsectors, foodstuffs slowed to 1.9% in 1987 from 2.5% in 1986, owing among others to lower growth in the production of rice (1.6% versus 1.8% in 1986), due to the long drought and plant pests.

As the leading growth sector in the 1987, manufacturing grew by 7.8% in 1987. Compared with 4.7% in the preceding year. Manufacturing products accounting for this pick-up in growth were plywood, electrical appliances, palm oil, textiles, and tires. Most of these products benefitted from the series of policies undertaken in recent years by the Government in order to increase non-oil/gas exports.

Higher growth in 1987 was also recorded in the trade, public administration, and services sectors which increased by 6.0%, 7.3%, and 5.5% in 1987, respectively compared with 4.3%, 6.3%, and 2.8% in the preceding year. The increase in the trade sector was closely related to higher activity in the manufacturing sector. The increase in the government sector stemmed from an increase in the number of both central and local government employees, while that of the services sector was mainly attributable to the transportation, communication, and financial services subsectors.

Value added of the mining sector, which recorded an increase of 4.6% in 1986, experienced a drop of 3.7% in 1987. This outcome was accounted for by lower production of several major mining commodities such as oil, nickel, and bauxite.

TABLE 9.1
GROSS DOMESTIC PRODUCT BY SECTOR
(billions of rupiah)

Sector	At 1983 constant market prices				
	1983	1984	1985	1986	1987 *
Agriculture, forestry, and fishery	17,696	18,431	19,209	19,707	20,230
— Farm food crops	(11,057)	(11,599)	(11,895)	(12,187)	(12,419)
— Others	(6,639)	(6,832)	(7,314)	(7,520)	(7,811)
Mining and quarrying	13,968	14,789	13,981	14,630	14,091
— Oil and LNG	(13,346)	(14,204)	(13,369)	(13,974)	(13,393)
— Others	(622)	(585)	(612)	(656)	(698)
Manufacturing	8,211	9,770	10,678	11,181	12,054
— Non-oil/LNG	(6,211)	(6,594)	(7,001)	(7,340)	(7,859)
— Oil refinery	(129)	(386)	(759)	(918)	(927)
— LNG	(1,871)	(2,790)	(2,918)	(2,923)	(3,268)
Electricity, gas, and water supply	524	550	595	646	715
Construction	4,597	4,394	4,508	4,609	4,803
Trade and hotel	12,010	12,160	12,456	12,996	13,774
Transportation and communication	3,978	4,442	4,482	4,631	4,848
Banking and other financial intermediaries	2,039	2,422	2,431	2,565	2,678
Ownership of dwelling	1,962	2,072	2,145	2,221	2,299
Public administration and defence	5,712	5,997	6,455	6,862	7,366
Services	3,001	3,117	3,180	3,270	3,449
Gross Domestic Product	73,698	78,144	80,120	83,318	86,307
— Oil and LNG	(15,347)	(17,379)	(17,046)	(17,815)	(17,588)
— Non-oil/LNG	(58,351)	(60,765)	(63,074)	(65,503)	(68,719)

Sector	At current market prices				
	1983	1984	1985	1986	1987 *
Agriculture, forestry, and fishery	17,696	20,334	22,413	24,696	29,208
— Farm food crops	(11,057)	(12,606)	(13,761)	(14,966)	(17,647)
— Others	(6,639)	(7,728)	(8,652)	(9,730)	(11,561)
Mining and quarrying	13,968	15,986	15,404	10,274	15,045
— Oil and LNG	(13,346)	(15,409)	(14,741)	(9,496)	(14,070)
— Others	(622)	(577)	(663)	(778)	(975)
Manufacturing	8,211	11,082	12,904	13,585	15,952
— Non-oil/LNG	(6,211)	(7,750)	(8,617)	(9,719)	(12,032)
— Oil refinery	(129)	(625)	(1,863)	(1,897)	(1,799)
— LNG	(1,871)	(2,707)	(2,424)	(1,969)	(2,121)
Electricity, gas, and water supply	524	655	781	907	1,019
Construction	4,597	4,757	5,302	5,314	6,087
Trade and hotel	12,010	13,973	14,697	16,284	19,252
Transportation and communication	3,978	5,112	6,051	6,408	7,405
Banking and other financial intermediaries	2,039	2,692	2,802	3,281	4,001
Ownership of dwelling	1,962	2,276	2,443	2,632	2,901
Public administration and defence	5,712	6,470	7,925	8,307	8,912
Services	3,001	3,718	3,999	4,135	4,757
Gross Domestic Product	73,698	87,055	94,721	95,823	114,519
— Oil and LNG	(15,347)	(18,741)	(19,028)	(13,361)	(17,990)
— Non-oil/LNG	(58,351)	(68,314)	(75,693)	(82,461)	(96,529)

Source : Central Bureau of Statistics.

TABLE 9.2
PERCENTAGE CHANGE OF GROSS DOMESTIC PRODUCT
BY SECTOR

Sector	At 1983 constant market prices				
	1983 ¹⁾	1984	1985	1986	1987 *
Agriculture, forestry, and fishery	4.8	4.2	4.2	2.6	2.7
— Farm food crops	(5.1)	(4.9)	(2.6)	(2.5)	(1.9)
— Others	(4.2)	(2.9)	(7.1)	(2.8)	(3.9)
Mining and quarrying	1.8	5.9	-5.5	4.6	- 3.7
— Oil and LNG	(1.2)	(6.4)	(-5.9)	(4.5)	(- 4.2)
— Others	(4.7)	(-5.9)	(4.6)	(7.2)	(6.4)
Manufacturing	2.2	19.0	9.3	4.7	7.8
— Non-oil/LNG	(2.6)	(6.2)	(6.2)	(4.9)	(7.1)
— Oil refinery	(-10.1)	(199.2)	(96.4)	(20.9)	(0.9)
— LNG	(4.6)	(49.1)	(4.6)	(0.2)	(11.8)
Electricity, gas, and water supply	6.9	5.0	8.1	8.6	10.7
Construction	6.2	- 4.4	2.6	2.2	4.2
Trade and hotel	3.8	1.3	2.4	4.3	6.0
Transportation and communication	5.0	11.7	0.9	3.3	4.7
Banking and other financial intermediaries	7.0	18.8	0.3	5.5	4.4
Ownership of dwelling	6.1	5.6	3.5	3.5	3.5
Public administration and defence	5.5	5.0	7.6	6.3	7.3
Services	2.5	3.9	2.0	2.8	5.5
Gross Domestic Product	4.2	6.0	2.5	4.0	3.6
— Oil and LNG	(0.8)	(13.2)	(-1.9)	(4.5)	(- 1.3)
— Non-oil/LNG	(4.5)	(4.1)	(3.8)	(3.9)	(4.9)

Sector	At current market prices				
	1983	1984	1985	1986	1987 *
Agriculture, forestry, and fishery	17.5	14.9	10.2	10.2	18.3
— Farm food crops	(20.7)	(14.0)	(9.2)	(8.8)	(17.9)
— Others	(12.5)	(16.4)	(11.9)	(12.5)	(18.8)
Mining and quarrying	14.9	14.5	-3.6	- 33.3	46.4
— Oil and LNG	(14.8)	(15.5)	(-4.3)	(- 35.6)	(48.2)
— Others	(32.2)	(-7.2)	(14.9)	(17.4)	(25.3)
Manufacturing	9.7	35.0	16.4	5.3	17.4
— Non-oil/LNG	(8.7)	(24.8)	(11.2)	(12.8)	(23.8)
— Oil refinery	(-16.8)	(384.5)	(297.7)	(1.8)	(- 5.2)
— LNG	(15.9)	(44.7)	(-10.5)	(- 18.8)	(7.7)
Electricity, gas, and water supply	54.0	25.0	19.3	16.2	12.2
Construction	22.0	3.5	11.5	0.2	14.6
Trade and hotel	20.7	16.4	5.2	10.8	18.2
Transportation and communication	25.7	28.5	18.4	5.9	15.6
Banking and other financial intermediaries	14.4	32.0	4.1	17.1	21.9
Ownership of dwelling	13.3	16.0	7.3	7.7	10.2
Public administration and defence	21.4	13.3	22.5	4.8	7.3
Services	28.3	23.9	7.6	3.4	14.6
Gross Domestic Product	18.0	18.1	8.8	1.2	19.5
— Oil and LNG	(14.4)	(22.1)	(1.5)	(- 29.8)	(34.6)
— Non-oil/LNG	(18.9)	(17.1)	(10.8)	(8.9)	(17.1)

1) Measured by GDP at 1973 constant market prices.

Source : Central Bureau of Statistics.

Based on the oil/gas and non-oil/gas classification, in 1987 the growth of the non-oil/gas sector rose from 3.9% to 4.9%, while that of the oil/gas sector dropped from 4.5% to -1.3%. This decrease mainly stemmed from a decline in the oil refining and mining subsectors (from 20.9% and 4.5%, respectively to 0.9% and -4.2%); these were only partly offset by a substantial increase in LNG refining (from 0.2% to 11.8%).

As regards the composition of output (measured in current prices), in 1987 the shares of the mining sector and the banking and other financial institutions sectors rose from 10.7% and 3.4%, respectively to 13.1% and 3.5%. The shares of other sectors experienced declines (Table 9.3).

From the expenditure side, economic growth in 1987 was mainly due to an improvement in the external sector as reflected in a rise of 6.1% in exports of goods and services; imports increased by 3.8%. The increase in exports was due to an improvement in the competitiveness of export industries and price increases of several primary commodities, including plywood, rubber, palm oil, shrimp, rattan, and textiles. The domestic sector registered similar growth in 1987 as the preceding year (3.0%); higher growth in private consumption expenditures (from 3.3% in 1986 to 5.0% in 1987) was fully offset by lower government consumption (-0.2% versus 2.8%) and gross domestic capital formation (-0.3% in 1987 compared with 2.0% in the preceding year). Private consumption expenditures were buoyed up by rising real income while government consumption was constrained by the availability of financing. The decline in capital formation was due to liquidation of

stocks, by 19.7%, whereas gross fixed domestic investment increased by 4.4% (Table 9.5).

As concerns the composition of expenditures (measured in current prices), the shares of exports and gross domestic capital formation increased, from 22.1% and 24.6% to 26.0% and 26.3%, respectively. Meanwhile, the shares of private and government consumption experienced declines from 63.2% and 11.8% to 60.6% and 10.3%, respectively (Table 9.6).

In 1987, gross domestic income (GDY) rose substantially faster than GDP, by 5.5% (up from 1.2% in the preceding year) compared with 3.6% for GDP (Table 9.7). There was a notable improvement in the Indonesia's terms of trade resulting from the recovery of oil and several non-oil/gas commodity prices in the international market.

GDP at current prices rose to Rp14,519 billion in 1987. Based on a mid-year population of 169,850 thousand, GDP per capita in 1987 increased by 17.1% to Rp674 thousand.

1. Agriculture

In the reporting year, policies in the agricultural sector continued to be directed toward maintaining the rice self-sufficiency and reaching self-sufficiency in other food crops, increasing foreign exchange earnings, creating employment opportunities, and augmenting farmers' incomes. In its implementation, several major obstacles were encountered, including reduced fertile areas and high rates of rice loss. The reduced fertile areas

was attributable to the increasing conversion from agricultural to non-agricultural purposes. The high rate of rice loss was caused by poor post-harvest treatment.

In the reporting year, the Government enhanced efforts in the area of intensification, extensification, diversification, and rehabilitation programs, while taking into consideration conservation of natural resources and preservation of the environment. In order to increase farmers' incomes and food production, the Government raised floor prices of paddy and secondary crops.¹⁾ In addition, guidance was improved by emphasizing more on productivity.

In 1987, the overall agricultural production registered an increase. Food crop production experiencing increases were rice and cassava. Meanwhile, other subsectors experiencing rises were plantation, livestock, forestry, and fishery.

1.1. Food crops

In 1987, government policy on increasing food crop production continued to be directed toward maintaining self-sufficiency in rice and reaching self sufficiency in other food crops such as soybean and corn. Efforts at intensification were implemented through improvements to the intensification scheme, especially by altering the mass intensification program (*Intensifikasi Massal* or Inmas) to the special intensification program (*Intensifikasi Khusus* or Insus) and super insus program (*Supra Insus*). In the planting year 1987, Supra Insus with a more

sophisticated technology was implemented in many areas, such as, the irrigated areas of North Coast Jatiluhur (*Jalur Pantura*) of West Jawa, Central Jawa, East Jawa, and South Sulawesi. In addition, the application of growth hormones was encouraged, particularly to paddy, corn, and soybeans. Owing in part to these intensification schemes, average production of food crops per hectare recorded increases.

The extensification program was also carried out through the opening of new rice fields which at the end of the reporting year reached 72.3 thousand hectares. Meanwhile, the food crop diversification program was implemented through the cultivation of more suitable catch-crops.

Despite a decrease of 0.8% in paddy harvested areas mainly due to a long drought, in 1987 rice production rose by 1.6% to 27,453 thousand tons. Higher rice production was due to the intensification program as reflected in an increase in average production per hectare of 2.6% (Table 9.9). In line with the higher rice production, the domestic demand for rice in the reporting year, which was estimated at 27.1 million tons, could still be fulfilled.

To reduce the rate of rice loss, which is considered relatively high, the Government continued to intensify guidance and provide more suitable post-harvest facilities, by providing supervisors, huskers, and rice hullers. It should also be added that 400 rice milling units with a total capacity of 1.5 million tons were built in 1987, bringing the number of rice milling units to 60.7 thousand units and total capacity to 26.0 million tons, respectively (Table 9.10). To raise farmers' incomes and rice production,

1) Presidential instruction No. 6/1987, October 15, 1987.

TABLE 9.3
PERCENTAGE DISTRIBUTION OF GROSS DOMESTIC PRODUCT
BY SECTOR

Sector	At 1983 constant market prices				
	1983	1984	1985	1986	1987 *
Agriculture, forestry, and fishery	24.0	23.6	24.0	23.7	23.4
— Farm food crops	(15.0)	(14.8)	(14.9)	(14.6)	(14.4)
— Others	(9.0)	(8.8)	(9.1)	(9.1)	(9.0)
Mining and quarrying	18.9	18.9	17.5	17.6	16.3
— Oil and LNG	(18.1)	(18.2)	(16.7)	(16.8)	(15.5)
— Others	(0.8)	(0.7)	(0.8)	(0.8)	(0.8)
Manufacturing	11.1	12.5	13.3	13.4	14.0
— Non-oil/LNG	(8.4)	(8.4)	(8.7)	(8.8)	(9.1)
— Oil refinery	(0.2)	(0.5)	(1.0)	(1.1)	(1.1)
— LNG	(2.5)	(3.6)	(3.6)	(3.5)	(3.8)
Electricity, gas, and water supply	0.7	0.7	0.7	0.8	0.8
Construction	6.2	5.6	5.6	5.5	5.7
Trade and hotel	16.3	15.6	15.5	15.6	16.0
Transportation and communication	5.4	5.6	5.6	5.6	5.6
Banking and other financial intermediaries	2.8	3.1	3.0	3.1	3.1
Ownership of dwelling	2.7	2.7	2.7	2.7	2.7
Public administration and defence	7.8	7.7	8.1	8.2	8.5
Services	4.1	4.0	4.0	3.9	4.0
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
— Oil and LNG	(20.8)	(22.2)	(21.3)	(21.4)	(20.4)
— Non-oil/LNG	(79.2)	(77.8)	(78.7)	(78.6)	(79.6)

Sector	At current market prices				
	1983	1984	1985	1986	1987 *
Agriculture, forestry, and fishery	24.0	23.4	23.7	25.8	25.5
— Farm food crops	(15.0)	(14.5)	(14.5)	(15.6)	(15.4)
— Others	(9.0)	(8.9)	(9.2)	(10.2)	(10.1)
Mining and quarrying	18.9	18.4	16.3	10.7	13.1
— Oil and LNG	(18.1)	(17.7)	(15.6)	(9.9)	(12.3)
— Others	(0.8)	(0.7)	(0.7)	(0.8)	(0.8)
Manufacturing	11.1	12.7	13.5	14.2	13.9
— Non-oil/LNG	(8.4)	(8.9)	(9.2)	(10.1)	(10.5)
— Oil refinery	(0.2)	(0.7)	(1.6)	(2.0)	(1.6)
— LNG	(2.5)	(3.1)	(2.7)	(2.1)	(1.8)
Electricity, gas, and water supply	0.7	0.8	0.8	0.9	0.9
Construction	6.2	5.5	5.6	5.6	5.3
Trade and hotel	16.3	16.1	15.4	17.0	16.8
Transportation and communication	5.4	5.9	6.5	6.7	6.5
Banking and other financial intermediaries	2.9	2.8	3.1	3.4	3.5
Ownership of dwelling	2.7	2.6	2.6	2.7	2.5
Public administration and defence	7.8	7.4	8.4	8.7	7.8
Services	4.1	4.1	4.2	4.3	4.1
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
— Oil and LNG	(20.8)	(21.5)	(20.1)	(13.9)	(15.7)
— Non-oil/LNG	(79.2)	(78.5)	(79.9)	(86.1)	(84.3)

Source : Central Bureau of Statistics.

TABLE 9.4
EXPENDITURES ON GROSS DOMESTIC PRODUCT
(billions of rupiah)

Sector	At 1983 constant market prices				
	1983	1984	1985	1986	1987 *
— Private consumption	44,739	46,898	48,041	49,638	52,116
— Government consumption	8,077	8,353	8,991	9,241	9,226
— Gross domestic capital formation ¹⁾	21,669	18,875	21,169	21,600	21,525
— Exports of goods and non-factor services	20,448	20,562	18,915	21,637	22,951
Less :					
Imports of goods and non-factor services	21,235	16,544	16,996	18,798	19,511
— Gross Domestic Product	73,698	78,144	80,120	83,318	86,307
— Net factor income from abroad	-3,360	-3,702	-3,580	-3,651	-4,428
— Gross National Product	70,338	74,442	76,539	79,667	81,879
Less :					
Net indirect taxes	1,166	1,158	2,427	4,529	3,624
Less :					
Depreciation	3,658	3,879	3,977	4,136	4,284
— National Income	65,514	69,405	70,135	71,002	73,971
	At current market prices				
	1983	1984	1985	1986	1987 *
— Private consumption	44,739	51,399	56,858	60,591	69,439
— Government consumption	8,077	9,121	10,893	11,326	11,764
— Gross domestic capital formation ¹⁾	21,669	22,177	25,136	23,606	30,154
— Exports of goods and non-factor services	20,448	22,985	21,671	21,165	29,776
Less :					
Imports of goods and non-factor services	21,235	18,627	19,837	20,867	26,614
— Gross Domestic Product	73,698	87,055	94,721	95,823	114,519
— Net factor income from abroad	-3,360	-4,168	-3,932	-4,053	-6,039
— Gross National Product	70,338	82,887	90,789	91,770	108,480
Less :					
Net indirect taxes	1,166	1,296	2,870	5,209	4,836
Less :					
Depreciation	3,658	4,322	4,702	4,757	5,685
— National Income	65,514	77,269	83,217	81,804	97,959

1) Includes stock changes.

Source : Central Bureau of Statistics.

TABLE 9.5
PERCENTAGE CHANGE OF EXPENDITURES
ON GROSS DOMESTIC PRODUCT

Sector	At 1983 constant market prices				
	1983 ¹⁾	1984	1985	1986	1987 [*]
— Private consumption	7.5	4.8	2.4	3.3	5.0
— Government consumption	-0.1	3.4	7.6	2.8	-0.2
— Gross domestic capital formation	7.8	-12.9	12.1	2.0	-0.3
— Exports of goods and non-factor services	6.3	0.6	-8.0	14.4	6.1
Less :					
Imports of goods and non-factor services	12.3	-22.1	2.7	10.6	3.8
— Gross Domestic Product	4.2	6.0	2.5	4.0	3.6
— Net factor income from abroad	28.0	10.2	-3.3	2.0	21.3
— Gross National Product	2.9	5.8	2.8	4.1	2.8
Less :					
Net indirect taxes	4.2	-0.7	109.6	86.6	-20.0
Less :					
Depreciation	4.2	6.0	2.5	4.0	3.6
— National Income	2.7	5.9	1.0	1.2	4.2
	At current market prices				
	1983	1984	1985	1986	1987 [*]
— Private consumption	18.0	14.9	10.6	6.6	14.6
— Government consumption	11.7	12.9	19.4	4.0	3.8
— Gross domestic capital formation	24.5	2.3	13.3	-6.1	27.7
— Exports of goods and non-factor services	35.4	12.4	-5.7	-2.3	40.7
Less :					
Imports of goods and non-factor services	39.8	-12.2	6.5	5.2	27.5
— Gross Domestic Product	18.0	18.1	8.8	1.7	19.5
— Net factor income from abroad	69.7	24.1	-5.7	3.1	49.0
— Gross National Product	16.3	17.8	9.5	1.1	18.2
Less :					
Net indirect taxes	54.7	11.2	121.5	81.5	-7.2
Less :					
Depreciation	-5.6	18.2	8.8	1.2	19.5
— National Income	20.2	17.9	7.7	-1.7	19.7

1) Measured by GDP at 1973 constant market prices.

Source : Central Bureau of Statistics.

TABLE 9.6
PERCENTAGE DISTRIBUTION OF EXPENDITURES
ON GROSS DOMESTIC PRODUCT

Sector	At 1983 constant market prices				
	1983	1984	1985	1986	1987 *
— Private consumption	60.7	60.0	60.0	59.6	60.4
— Government consumption	11.0	10.7	11.2	11.1	10.7
— Gross domestic capital formation	29.4	24.2	26.4	25.9	24.9
— Exports of goods and non-factor services	27.7	26.3	23.6	26.0	26.6
Less :					
Imports of goods and non-factor services	28.8	21.2	21.2	22.6	22.6
— Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
— Net factor income from abroad	-4.5	-4.7	-4.5	-4.4	5.1
— Gross National Product	95.5	95.3	95.5	95.6	94.9
Less :					
Net indirect taxes	1.6	1.5	3.0	5.4	4.2
Less :					
Depreciation	5.0	5.0	5.0	5.0	5.0
— National Income	88.9	88.8	87.5	85.2	85.7
	At current market prices				
	1983	1984	1985	1986	1987 *
— Private consumption	60.7	59.0	60.0	63.2	60.6
— Government consumption	11.0	10.5	11.5	11.8	10.3
— Gross domestic capital formation	29.4	25.5	26.5	24.6	26.3
— Exports of goods and non-factor services	27.7	26.4	22.9	22.1	26.0
Less :					
Imports of goods and non-factor services	28.8	21.4	21.0	21.8	23.2
— Gross Domestic Product	100.0	100.0	100.0	100.0	100.0
— Net factor income from abroad	-4.5	-4.8	-4.2	-4.2	5.3
— Gross National Product	95.5	95.2	95.8	95.8	94.7
Less :					
Net indirect taxes	1.6	1.5	3.0	5.4	4.2
Less :					
Depreciation	5.0	5.0	5.0	5.0	5.0
— National Income	88.9	88.7	87.9	85.4	85.6

Source : Central Bureau of Statistics.

CHART 7
DEVELOPMENTS OF GROSS DEMESTIC PRODUCT
AT CURRENT AND 1983 CONSTANT MARKET PRICES
(percentage)

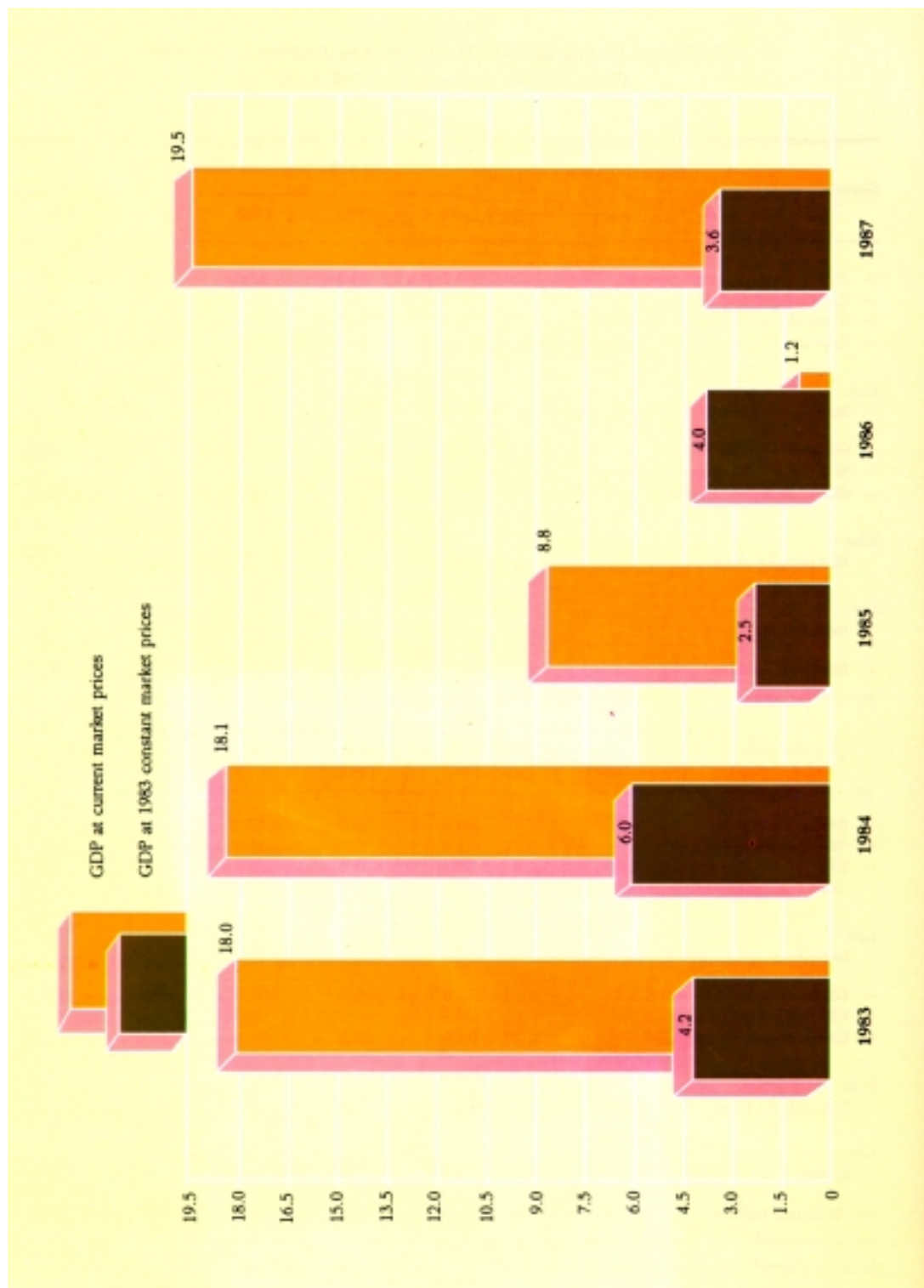


CHART 8
GROWTH OF SEVERAL IMPORTANT SECTORS
IN GROSS DOMESTIC PRODUCT
(percentage)



CHART 9
PERCENTAGE DISTRIBUTION OF GROSS DOMESTIC PRODUCT
BY SECTOR AT CURRENT PRICES

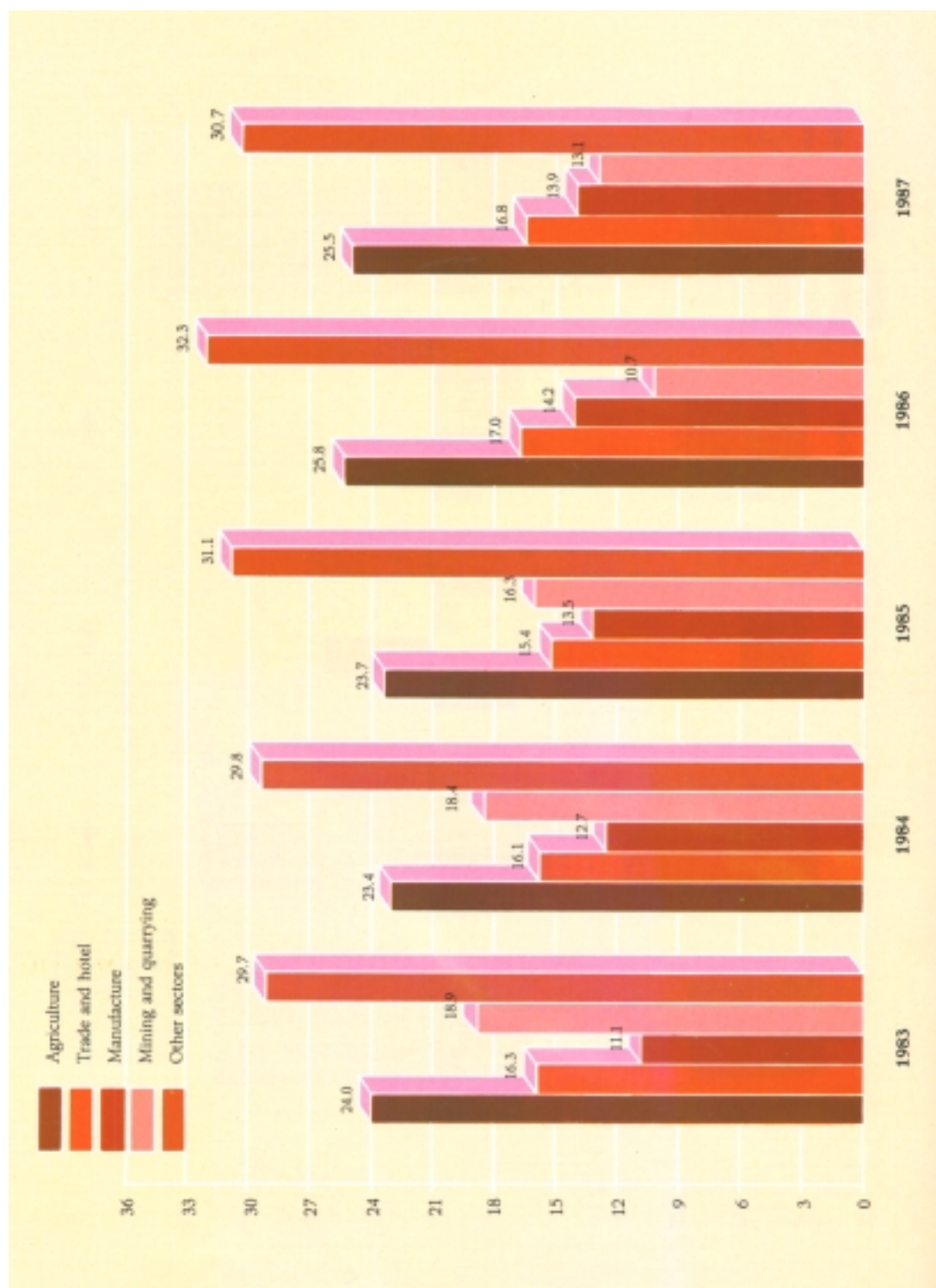


TABLE 9.7
TERMS OF TRADE EFFECT AND GROSS DOMESTIC INCOME
(billions of rupiah)

I t e m s	1983	1984	1985	1986	1987
a. Exports at current market prices	20,448	22,985	21,671	21,165	29,776
b. Exports at 1983 constant market prices	20,448	20,562	18,915	21,637	22,951
c. Export price index [(a:b) x 100]	100.0	111.8	114.6	97.8	129.7
d. Imports at current market prices	21,235	18,672	19,838	20,867	26,614
e. Imports at 1983 constant market prices	21,235	16,544	16,996	18,798	19,511
f. Import price index [(d:e) x 100]	100.0	112.9	116.7	111.0	136.4
g. Import capacity [(a:f) x 100]	20,448	20,359	18,570	19,068	21,830
h. Terms of trade index [(c:f) x 100]	100.0	99.0	98.2	88.1	95.1
i. Changes of terms of trade index (%)	--	-1.0	-8.0	-10.3	7.9
j. Terms of trade effect (g-b)	0	-203.0	-345.0	-2,569.0	-1,121.0
k. GDP at 1983 constant market prices (k + j)	73,698	78,145	80,120	83,318	86,307
l. Changes of GDP at 1983 constant market prices (%)	3.4	6.0	2.5	4.0	3.6
m. GDY at 1983 constant market prices (k + j)	73,698	77,942	79,775	80,749	85,186
n. Changes of GDY at 1983 constant market prices (%)	1.7	5.8	2.4	1.2	5.5

Source : Central Bureau of Statistics.

on February 1, 1988 the Government raised the floor price of dry paddy from Rp190.00 to Rp210.00 per kg.²⁾

In 1987, the production of *secondary crops* decreased with the exception of cassava. The significant declines occurred in the production Of peanuts (18.4%) and corn (14.0%). The lower production was due mainly to lower harvested areas as a result of the long drought.

The production of cassava rose by 8.8% as a result of improvements in the intensification program and larger harvested areas (Table 9.11). To raise farmers' incomes and production of

secondary crops, on January 1, 1988 the Government raised the floor prices of corn, soybeans, and mung beans.³⁾

1.2. Plantation crops

In the reporting year, government policy on promoting the development of plantation estates continued to emphasize on production from smallholders' estates mainly through the scheme of smallholder's plantation nucleus estates (*Perusahaan Inti Rakyat Perkebunan* or PIR-Bun). The development of private plantations was also encouraged by providing more opportunities for investors, especially in the area of oil palm.

2) Presidential Instruction No. 6/1987, October 15, 1987.

3) Presidential Instruction No. 6/1987, October 15, 1987.

TABLE 9.8
AGRICULTURAL PRODUCTION

Products	1983	1984	1985	1986	1987 *
1. Foodstuffs					
– Rice	24,006	25,932	26,542	27,014	27,453
– Corn	5,087	5,288	4,330	5,920	5,093
– Cassava	12,103	14,167	14,037	13,312	14,479
– Sweet potatoes	2,213	2,156	2,161	2,091	1,905
– Peanuts	460	535	528	642	524
– Soybeans	536	769	870	1,227	1,151
– Mung beans	176	187	200	213	206
2. Plantations crops					
– Rubber	1,007	1,033	1,055	1,109	1,132
• Smallholder	(673)	(704)	(720)	(763)	(801)
• Estate	(334)	(329)	(335)	(346)	(331)
– Copra	1,607	1,750	1,920	2,114	2,002
– Palm oil	982	1,147	1,243	1,350	1,411
– Palm kernels	165	247	258	266	274
– Granulated sugar	1,628	1,810	1,899	1,894	2,128
– Tea	110	126	127	136	157
• Smallholder	(23)	(24)	(30)	(31)	(32)
• Estate	(87)	(102)	(97)	(105)	(125)
– Coffee	305	315	311	339	357
• Smallholder	(287)	(291)	(288)	(316)	(332)
• Estate	(18)	(24)	(23)	(23)	(25)
– Tobacco	109	108	161	164	115
• Smallholder	(100)	(104)	(156)	(159)	(108)
• Estate	(9)	(4)	(5)	(5)	(7)
– Pepper	46	46	41	40	49
– Nutmeg	15	18	14	15	15.5
– Cloves	41	49	42	55	57
3. Livestock					
– Meat	650	742	808	860	927
– Eggs	319	355	370	432	495
– Milk ¹⁾	143	179	192	220	227
4. Forestry					
– Wood ²⁾	24,180	27,716	24,277	27,403	31,089
5. Fishery					
– Sea	1,682	1,713	1,822	1,923	2,029
– Inland	533	548	573	607	638

1) Millions of liters.

2) Thousands of m³.

Sources : – Supplement to the President's Report to Parliament, August 16, 1988.
– Ministry of Agriculture.

TABLE 9.9
PADDY PRODUCTION, HARVESTED
AREA, AND AVERAGE YIELD PER HA

Year	Output ¹⁾ (thousands of tons)	Harvested area (thousands of ha)	Average yield (tons/ha)
1983	24,006	9,162	2.62
1984	25,932	9,764	2.66
1985	26,542	9,902	2.68
1986	27,014	9,989	2.70
1987*	27,453	9,908	2.77

1) Equivalent of rice.

Source : Supplement to the President's Report to Parliament,
August 16, 1988.

As a result of these efforts, both area and production of plantation crops registered increases in 1987. Plantation areas rose by 4.1% to 10,445 thousand hectares, comprising 9,076 thousand hectares of smallholders' estates, 831 thousand hectares of state estates, and 538 thousand hectares of private estates. In addition, relatively large increases in production were recorded for tea, coffee, sugarcane, and pepper.

In 1987, *rubber* plantation areas increased by 4.7% to 3.0 million hectares, of which 82.5% was in the form of smallholders' estates; the remainder comprised state and private estates. Of the 3.0 million hectares, 23% was not yet in production and 15% was no longer in production. Rubber production in 1987 rose by 2.1% reaching 1,132 thousand tons, of which 801 thousand tons were produced by smallholders' estates, 198 thousand tons by state estates, and 133 thousand tons by private estates. Higher production was due to increased domestic and overseas demand. It should be noted that 75.7% of total production is in the form of crumb

rubber, which decreased by 3.1%, reaching 857 thousand tons (Table 9.12).

Area devoted to *coconut* plantation rose by 2.0% in 1987 reaching 3,175 thousand hectares, of which 98% was smallholders' estates. Of these coconut plantation areas, 18% was not yet in production and 5% was no longer in production. In 1987, copra production decreased by 5.3% (to 2,002 thousand tons) owing to plant pests.

Oil palm plantation areas rose sharply in 1987, by 16.6% reaching 708 thousand hectares. The significant increase was in line with government policy on stimulating the development of oil palm plantation through PIR-Bun. Palm oil production in 1987 recorded an increase of 4.5% reaching 1,411 thousand tons. Of this amount, 1,026 thousand tons was produced by state estates and the remainder by private estates. The higher production was mainly due to larger harvested areas.

To encourage sugar production and to raise the income of sugarcane farmers, in the reporting year the Government continued to encourage implementation of

TABLE 9.10
NUMBER AND CAPACITY OF
PRODUCTION OF RICE MILLS

Year	Number of rice mills (thousands of units)	Capacity of production (millions of tons)
1983	59.2	19.5
1984	59.6	21.6
1985	60.0	23.0
1986	60.3	24.5
1987*	60.7	26.0

Source : Ministry of Agriculture.

TABLE 9.11
OUTPUT, HARVESTED AREA, AND AVERAGE YIELD
OF SECONDARY CROPS

Particular	1983	1984	1985	1986	1987*
Output (thousands of tons)					
— Corn ¹⁾	5,087	5,288	4,330	5,920	5,093
— Cassava	12,103	14,167	14,057	13,312	14,479
— Sweet potatoes	2,213	2,156	2,161	2,091	1,905
— Peanuts	460	535	528	642	524
— Soybeans	536	769	870	1,227	1,151
— Mung beans	176	187	200	213	206
Harvested area (thousands of ha)					
— Corn	3,002	3,086	2,440	3,143	2,619
— Cassava	1,220	1,350	1,292	1,170	1,198
— Sweet potatoes	280	263	256	253	216
— Peanuts	481	537	510	601	547
— Soybeans	640	859	896	1,254	1,090
— Mung beans	293	289	286	293	276
Average yield (quintal/ha)					
— Corn ¹⁾	16.9	17.1	17.7	18.8	19.5
— Cassava	99.0	105.0	109.0	113.8	120.9
— Sweet potatoes	79.0	82.0	84.0	82.7	88.2
— Peanuts	9.6	10.0	10.4	10.7	9.6
— Soybeans	8.4	9.0	9.7	9.8	10.6
— Mung beans	6.0	6.5	7.0	7.3	7.5

1) Equivalent of corn kernels.

Source : Supplement of the President's Report to Parliament, August 16, 1988.

the smallholders' sugarcane intensification program (*Tebu Rakyat Intensifikasi* or TRI), to establish new sugar mills and increase the capacity of existing sugar mills, and to expand planting areas outside Jawa. In 1987, sugarcane planting areas went up by 9.6% reaching 368 thousand hectares, of which 237 thousand hectares was under the TRI program. As the result of these efforts, in 1987 sugarcane production experienced an increase of 12.3% to 2,128 thousand tons, which was sufficient to meet domestic consumption.

Tea production in 1987 rose appreciably, by 15.4% reaching 157 thousand tons. Of this amount, 80% was produced by state and private estates in the variety of black tea. In 1987, tea plantation areas stood at 127 thousand

hectares, of which 60% was cultivated by state and private estates and the remainder by smallholders' estates.

Efforts to promote the production of *coffee* in the reporting year continued to be pursued through rejuvenation and guidance. In line with these efforts, in 1987 coffee plantation areas went up by 0.8% reaching 943 thousand hectares, of which 95% was smallholders' estates. Of these coffee plantation areas, 25% was not yet in production and 9% was no longer in production. As a result of promotion efforts, production of coffee in 1987 increased by 5.3% reaching 357 thousand tons, mainly intended for exports.

Most *tobacco* production (95%) was produced by smallholders' estates and the

TABLE 9.12
SHARE OF CRUMB RUBBER IN TOTAL
OUTPUT OF NATURAL RUBBER

Year	Crumb (thousands of tons)	Share (%)
1983	689	68.4
1984	825	79.9
1985	825	78.2
1986	884	79.7
1987*	857	75.7

Source : Supplement to the President's Report to Parliament,
August 16, 1988.

remainder by state and private estates. In 1987, tobacco production decreased by 29.9% to 115 thousand tons due mainly to the unfavorable rainy season. It may be added that in 1987 tobacco plantation areas covered 199 thousand hectares.

Major *spice* plantations, including pepper, nutmeg, and cloves, were mostly cultivated by smallholders' estates. In 1987, the plantation areas of pepper, nutmeg, and clove increased by 4.9%, 1.8%, and 2.4%

reaching 85.1 thousand hectares, 64.1 thousand hectares, and 679.3 thousand hectares, respectively. In 1987, production of pepper, clove, and nutmeg increased by 22.5%, 3.6%, and 3.3%, respectively.

1.3. Livestock

To increase livestock population and production, in the reporting year the Government continued to promote supervision of livestock business, spread of good breeds of livestock, and a healthy environment for livestock.

Supervision of livestock business was conducted, inter alia, for milch cow, cattle, and poultry. The spread of good breeds of livestock was directed to areas where livestock population was not great, particularly to areas outside Jawa where animal husbandry promised good yields. The promotion of a healthy environment for livestock was aimed at reducing the mortality rate of livestock by managing

TABLE 9.13
L I V E S T O C K
(thousands of heads)

	1983	1984	1985	1986	1987 *
Cows	8,895	9,236	9,318	9,516	9,564
Buffaloes	2,398	2,743	3,245	3,496	3,251
Goats	10,970	11,947	9,629	10,738	10,094
Sheep	4,789	4,698	4,884	5,284	5,187
Horses	527	659	668	715	667
Pigs	4,211	5,112	5,560	6,216	6,020
Ducks	23,781	24,694	23,870	27,002	26,032
Cultivated chicken	28,102	29,559	31,875	38,689	46,353
Non-cultivated chicken	159,462	166,815	155,627	162,991	172,392

Source : Supplement to the President's Report to Parliament, August 16, 1988.

treatment for contagious veterinary diseases and by sterilizing areas not yet infected by such diseases.

In 1987, the production of meat, eggs, and milk experienced increases of 7.8%, 14.6%, and 3.2% reaching 927 thousand tons, 495 thousand tons, and 227 million liters, respectively. Livestock population declined in 1987, except cattle and chicken (Table 9.13).

1.4. Forestry

In the reporting year, policies regarding the forestry sector continued to be directed toward optimizing the utilization of forest products while conserving forest resources through promoting reforestation and afforestation. Moreover, control and supervision of forest exploitation continued to be carried out so as to ensure companies holding forest exploitation rights (*Hak Pengusahaan Hutan* or HPH) would comply with their obligations as stipulated in their agreement with the Government. In addition, efforts to prevent forest destruction caused by shifting cultivation continued to be enhanced by providing knowledge and skill to migrating farmers to become regular farmers.

In the reporting year, the acreage of reforestation covered 15.8 thousand hectares and afforestation 72.7 thousand hectares. The number of HPH holders remained unchanged at 538, while exploitation areas increased by 0.8 million hectares to 55.4 million hectares.

In 1987, the output of *timber* recorded a substantial increase of 13.4% reaching 31.1 million cubic meters. Another important forest product for export and domestic use

was *rattan*. Production of rattan up to the reporting year has been done almost entirely using raw rattan collected from uncultivated areas. To promote production and conservation, efforts have been carried out by cultivating rattan. It may added that other forest products included *resin* and *copal* were partly exported.

1.5. Fishery

In 1987, efforts to increase fishery production continued to be directed to raising the incomes of fishermen and increasing foreign exchange earnings. These efforts were conducted through motorizing traditional fishing boats and improving the cultivation of in-land fisheries. The production of shrimp, one of the most important export commodities, was promoted through the shrimppond intensification scheme, (*Intensifikasi Tambak* or Intam) and the smallholders' nucleus shrimppond cultivation scheme (*Tambak Inti Rakyat* or TIR).

Fishery output in 1987 rose by 5.4% to 2,667 thousand tons, most of which (76.1%) originated from sea- fishery. Output of sea-fishery increased by 5.5% to 2,029 thousand tons primarily brought about by success in motorizing traditional fishing boats. Meanwhile, production of in-land fishery went up by 5.1% to 638 thousand tons, mainly due to the expansion of cultivated areas.

2. Mining and energy

2.1. Mining

Government policies on mining were directed toward optimizing the utilization of

TABLE 9.14
SELECTED MINING OUTPUT

I t e m s	Units	1983/84	1984/85	1985/86	1986/87	1987/88 *
1. Oil		517.6	507.1	487.7	499.0	472.5
— Crude oil	million barrels	(477.9)	(456.9)	(435.6)	(447.8)	(415.0)
— Condensate	million barrels	(39.7)	(50.2)	(52. 1)	(51.2)	(57.5)
2. Natural gas	million MSCF ¹⁾	1,288.2	1,548.3	1,582.0	1,657.7	1,771.3
3. Tin	thousand tons	25.2	21.7	20.9	24.9	27.3
4. Coal	thousand tons	614.7	1,200.7	1,487.5	1,731.8	1,987.6
5. Copper	thousand tons	199.7	200.2	233.1	249.2	254.4
6. Nickel						
— Nickel ore	thousand tons	1,353.3	956.3	986.9	1,680.6	1,782.1
— Ferro-nickel ²⁾	thousand tons	4.9	4.7	4.8	4.4	4.0
— Nickel matte ²⁾	thousand tons	21.0	22.2	20.1 ^F	31.8	25.1
7. Bauxite	thousand tons	841.9	1,009.6	712.8	636.4	654.2
8. Gold	kilograms	265.1	215.0	308.0	619.6	710.6
9. Silver	kilograms	1,684.0	2,171.0	2,179.0	5,786.0	5,178.0

1) MSCF = thousand Standard Cubic Feet.

2) Equivalent to nickel metal.

Source : Supplement to the President's Report to Parliament, August 16, 1988.

mineral resources for national development through increasing exports and government revenues as well as providing inputs for domestic industries. To these ends, exploration and exploitation activities continued to be pursued.

In the reporting year, production of several important mining products, such as natural gas, tin, and coal, experienced increases whereas oil declined. The increase in natural gas production was mainly due to increased utilization of natural gas for the production of LNG, LPG, urea fertilizer, and for fuel for certain domestic industries. The increase in tin production was partly a response to improved tin prices in the international market while the rise in coal production was mainly due to higher utilization of coal as fuel in steam-powered electric centers (*Pusat Listrik Tenaga Uap* or PLTUs) and in several other domestic

industries. On the other hand, the decline in oil production was in line with OPEC attempts to stabilize oil prices in the international market. Among other mining products, the production of copper, nickel ore, bauxite, and gold registered increases, whereas ferro-nickel, nickel matte, and silver declined (Table 9.14).

Oil and natural gas

In the reporting year, government policies on oil and natural gas continued to be aimed at optimizing the utilization of existing oil/gas resources while finding new deposits to ensure continuity and raise the production of oil/gas. Exploration and exploitation of new wells were conducted by Pertamina and in cooperation with foreign contractors under Production Sharing Agreements, Contract of Work Agreements, and Joint-venture Agreements.

In 1987, seven new oil agreements were signed, all of which were Production Sharing Agreements, raising the total number of Production Sharing Agreements to 83; the number of Joint-venture Agreements was unchanged at 12, bringing the total number of oil contracts to 95. Of these 95 contracts, 24 were in production. In 1987, the total number of wells drilled was 82, of which 6 were drilled by Pertamina, 9 by contractors under Contract of Work Agreements, and 67 by contractors under Production Sharing Agreements. It is worth noting that of these 67 wells drilled by contractors under Production Sharing Agreements, 44 were drilled off-shore.

In 1987/88, oil production declined by 5.3% to 472.5 million barrels (1.29 million barrels per day), consisting of 415.0 million barrels of crude oil and 57.5 million barrels of condensate. Of the 472.5 million barrels, 446.4 million barrels (94%) were under the Production Sharing Agreements⁴⁾ while the remainder were under Pertamina and Contract of Work Agreements. The lower production was in line with OPEC attempts to stabilize oil prices in the international market.

In 1987/88, natural gas production increased by 6.9% to 1,771.3 million MSCF. The increase took place in the output of contractors under Production Sharing Agreements which rose by 5.7% to 1,491.9 million MSCF; Pertamina output rose by 11.4% to 259.4 million MSCF, while output of contractors under Contract of Work Agreements decreased by 9.5% to 20.0 million MSCF. Increased natural gas production mainly resulted from increasing

demand for natural gas to be used as inputs in the production of LNG, LPG, and urea fertilizer and also as fuel in domestic cement and steel industries.

T i n

To overcome the drop in price of tin in the international market, the Association of Tin Producing Countries (ATPC) has imposed a one-year-export quota to its members effective as from March 1, 1987. According to the ATPC policy, Indonesia was allocated 24.5 thousand tons or 25.5% of the total ATPC quota of 96.0 thousand tons. As a result of the ATPC quota policy, the world's tin surplus in 1987 declined from 77 thousand tons to 48 thousand tons bringing about a rise in the price of tin. Furthermore, on March 1, 1988 ATPC reimposed another one-year quota by raising the total quota by 6.1% reaching 101.9 thousand tons to meet increased demand for tin in the international market. Based on the to 29 thousand tons or 28.5% of the total quota.

In the reporting year, tin production went up by 9.6% to 27.3 thousand tons. The higher production was a response to the higher price of tin in the international market; domestic tin consumption decreased by 25.5% to 0.9 thousand tons due to the higher domestic unit price of tin.

C o a l

Efforts to increase coal production as an alternative energy source continued to be pursued by the Government and the private sector. As a result, in 1987/88 coal production increased significantly, by 14.8% to 1,987.6 thousand tons. Of this

4) Includes oil produced under Joint-venture Agreements.

amount, 68% was produced by the Bukit Asam coal mine in South Sumatera, which production increased by 26.5%, to 1,350.7 thousand tons; the remainder was produced by Ombilin coal mine in West Sumatera, which experienced a production decline of 4.1% to 636.9 thousand tons.

As a result of greater use of coal as fuel in several PLTUs and cement industries, domestic coal consumption sharply increased by 55.6% reaching 1,640 thousand tons.

Other mining products

Other important mining products comprised copper, nickel, bauxite, gold, and silver. In the reporting year, copper production increased by 2.1% to 254.4 thousand tons closely related to the improvement in copper prices in the international market.

In 1987/88, the production of nickel ore rose by 6.0% to 1,782.1 thousand tons, whereas that of ferro-nickel and nickel matte decreased by 9.1% and 21.1% to 4.0 thousand tons and 25.1 thousand tons, respectively. The increase in the production of nickel ore followed rising in foreign demand while declines in the production of ferro-nickel and nickel matte were due to plant failures.

Bauxite production, which experienced a decline in the preceding year, recorded an increase of 2.8% to 654.2 thousand tons. The increase was primarily due to higher demand from Japan, the only buyer of Indonesian bauxite.

Gold which had been predicted to have good prospects attracted great interest on

the part of foreign and domestic investors. In line with this, up to the end of the reporting year, 103 contracts had been signed under joint-venture agreements, of which 60 contracts were signed in 1987.

Gold production in the reporting year increased by 14.7% to 710.6 kg owing to increased gold mining conducted by private sector. On the other hand, production of silver declined by 10.5% to 5,178 kg due to depletion of silver content in existing mines.

2.2 Electric power

In the reporting year, electrical developments continued to be directed toward increasing electric generating capacity to stimulate economic activity and to enhance social welfare. In line with this objective, efforts to increase installed capacity of electric generating plants continued to be conducted mainly through developing hydro-powered electric sources and expanding distribution networks. Also, the Government enhanced electricity services to villages.

In the reporting year, the installed capacity of electric generating plants of the state electric company (*Perusahaan Umum Listrik Negara* or PLN) increased by 8.6% to 6,733 MW (Table 9.15). This increase was mainly due to the completion of electric generating plants at water-powered electric centers (*Pusat Listrik Tenaga Air* or PLTAs) of Saguling III and IV in West Jawa (each with a capacity of 175 MW), at geothermal-powered electric centers (*Pusat Listrik Tenaga Panas Bumi* or PLTPs) of Kamojang II and III in West Jawa (each with a capacity of 55 MW), and at PLTUs of Bukit Asam I and II in South Sumatera (each with a capacity of 65 MW).

TABLE 9.15
CAPACITY OF ELECTRIC POWER (PLN)
(MW)

Year	Generator					Total
	PLTD	PLTU	PLTA	PLTG	PLTP	
1983	784	1,556	511	1,028	30	3,909
1984	839	2,086	536	1,072	30	4,563
1985	883 ^r	2,487 ^r	536 ^r	1,097 ^r	30	5,033 ^r
1986	1,326	2,487	1,240	1,117	30	6,200
1987*	1,259	2,617	1,600	1,117	140	6,733

Source : State Electric Company (PLN).

In line with this increase in installed capacity, the production of PLN in 1987 rose by 19.6% (Table 9.16). It may be added that in addition to this electricity produced by PLN, there is also electricity produced by non-PLN sources which is distributed by PLN. In 1987, non-PLN electricity distributed by PLN declined by 0.2%. Overall, electricity production in 1987 rose by 18.6% to 21,514 million KWH.

In the reporting year, the Government continued to implement its village electrification program. The number of villages benefiting from electricity services increased by 3,556 to 16,929 villages or 27.6% of all villages throughout Indonesia.

TABLE 9.16
PRODUCTION OF ELECTRIC POWER
(millions of KWH)

Year	Generated by PLN	Generated by non-PLN ¹⁾	Total
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
1987*	20,595	920	21,515

1) Only those distributed to the community through PLN.

Source : State Electric Company (PLN).

It may be added that to further increase power supply in the coming years, a number of new electric generating plants are under construction. These included Cirata PLTA and Suralaya PLTU Unit III (West Jawa) and Gresik PLTU Unit III and IV (East Jawa) with capacities of 500 MW, 400 MW, and 200 MW, respectively. Those plants are expected to be completed in 1988/89.

3. Manufacturing

In accordance with the objective of building a stronger domestic industrial structure, the Government continued to develop upstream, down-stream and small-scale industries as well as to promote export programs of industrial commodity. In this regard, in the reporting year the Government introduced various policies regarding industrial licenses, simplifications in industrial licensing procedures, and simplifications in regulations relating to sole agents and trade procedures of certain export commodities.

Policies regarding industrial licenses stated the procedures for obtaining permanent and expansion licenses for any industry, excluding the small-scale industry group. These regulations were aimed at supervising and promoting the manufacturing sector, while taking into consideration maintenance of natural resources and avoidance of industrial pollution.⁵⁾ Moreover, to encourage industrial activities in undertaking diversification, rehabilitation, modernization, expansion, and establishment of new businesses, the Government simplified licensing procedure for certain type of

5) Government Regulation No. 13/1987, June, 1987.

industries⁶⁾ by providing permanent license which would be valid as long as an enterprise is in production. As well, an enterprise holding a permanent license was no longer required to obtain an expansion license when undertaking expansion, diversification, rehabilitation, and/or modernization in its activities. Furthermore, to develop certain industrial commodities as well as to safeguard consumers' interest, the Government stipulated that the sole agency scheme would only be effective for certain motor vehicles and heavy machinery industries, whereas electronic instruments and household electrical appliances were no longer under the sole agency scheme.⁷⁾ Also, in order to increase and expedite exports of industrial commodities, the Government abolished export regulations on certain commodities such as cement, automobile tires, and processed timber.⁸⁾

Production of manufacturing sector generally recorded increases. Relatively large increases took place in the production of textiles, plywood, paper, and motor vehicle tires. Meanwhile, fuel oils and LNG productions continued to show increases.

Fuel oils

As was the case in the preceding year, policies on the oil refinery industry

continued to be aimed at fulfilling domestic needs for fuel oils and reducing the dependency on imports. This aim was attained through increasing the utilization of production capacity of domestic refineries.

In 1987, the production of fuel oils reached 155.3 million barrels, representing an increase of 6.4% compared with 4.5% in the preceding year. Domestic consumption of fuel oils increased by 2.4% to 154.9 million barrels due to a higher consumption in the manufacturing and transportation sectors.

Liquefied natural gas (LNG)

Government policies on LNG continued to be aimed at increasing the production and enlarging marketing of LNG. To fulfill LNG contracts with Taiwan for 1990 deliveries, in the reporting year the Government built a fifth train in Badak plant with a capacity of 1.5 million tons (79.4 MMBTU) p.a. LNG production in the reporting year rose by 11.5% to 905.4 million MMBTU, of which 541.3 million MMBTU constituted the output of Arun plant and 364.1 million MMBTU of Badak plant. The increase in LNG production was closely related to wider LNG marketing, particularly to South Korea.

By the addition of the fifth train in Badak plant, the total production capacity of LNG refineries (consisting of 11 trains) would reach 936.3 million MMBTU, of which 518.4 million MMBTU is from the Arun plant and the remainder from the Badak plant.

Plywood and sawn timber

In the reporting year, the Government's efforts to optimize the utilization and to

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- 6) - Presidential Decree No. 16/1987, June 10, 1987.
 - Minister of Industry Decree No. 154/M/SK/1987, June 11, 1987.
 - Minister of Agriculture Decree No. 338/KPTS/MK. 050/6/1987, June 11, 1987.
 - Minister of Mining and Energy Decree No. K/08/M/PE/1987, June 11, 1987.
 - Minister of Health Decree No. VI/1987, June 11, 1987.
 - 7) Minister of Industry Decree No. 428/SK/12/1987, December 23, 1987.
 - 8) Minister of Trade Decrees No. 331/KP/XII/1987, December 23, 1987 and No. 38A/KP/II/88, February 12, 1988.

safeguard exports of timber and its products were conducted through greater quality control on all types of export timber.⁹⁾ Moreover, to improve efficiency in marketing — domestically or overseas—the Government also regulated exports of sawn and processed timber.¹⁰⁾

In the reporting year, production of plywood rose by 19.0% reaching 6,160.0 thousand cubic meters while sawn timber rose by 2.9% reaching 10,183.0 thousand cubic meters. Exports of plywood and sawn timber recorded increases of 30.9% and 5.5% to 3,860 and 2,391 thousand tons, respectively. The increase in export of plywood and sawn timber were due to higher overseas demand, particularly from Japan and the People's Republic of China. It may be added that the number of plywood plants reached 97, comprising 76 domestic investment (*Penanaman Modal Dalam Negeri* or PMDN) companies and 21 joint-venture companies, with a total capacity of 7.8 million cubic meters p.a.

Fertilizer

Government policies on developing the fertilizer industry were mainly directed toward the fulfillment of rising domestic demand for fertilizer. To attain the aim, in the reporting year Urea Fertilizer Plant Unit III in East Kalimantan and TSP Fertilizer Plant Unit Petrochemical in Gresik, East Jawa (with capacities of 570 and 500 thousand tons p.a., respectively) were under construction.

In the reporting year, production of urea and non-urea fertilizer recorded slight increases. The production of urea fertilizer increased by 2.2% to 4,046.0 thousand tons and that of non-urea fertilizer rose by 1.2% to 1,765.3 thousand tons. It may be added that exports of urea fertilizer (mainly to ASEAN countries) declined by 7.6% to 1,120 thousand tons, owing in part to declines in fertilizer prices in the international market and the need to satisfy domestic demand.

Cement

Owing to rising domestic demand for cement, the Government continued to develop the cement industry. Also, to improve marketing overseas, in the reporting year the Government abolished export regulations on cement.¹¹⁾

In 1987/88, production of cement increased significantly, by 12.6% reaching 12,419.0 thousand tons. The rise was due in part to domestic consumption, which rose by 4% to 9,997 thousand tons, primarily in the construction sector. In the reporting year, exports of cement (mainly destined to ASEAN countries) recorded a decline of 0.7% to 1,998 thousand tons.

Paper

In accordance with Government's efforts to encourage the usage of processed wood as the basic material for the paper industry, in the reporting year several pulp paper mills were built and expanded. These included the short-fiber pulp paper mill in

9) Minister of Trade Decree No. 107/Kp/V/1987, May 1, 1987

10) Minister of Trade Decree No. 119/Kp/V/1987, May 18, 1987.

11) Minister of Trade Decrees No. 331/Kp/XII/87, December 23, 1987 and No. 38A/Kp/II/88, February 12, 1987.

North Sumatera which was built with a capacity of 165 thousand tons and a paper mill in Riau, which was enlarged from 100 thousand tons to 200 thousand tons p.a. Moreover, to support development of the domestic paper industry, the Government raised import duties and additional import duties on several types of paper.¹²⁾

In the reporting year, paper production went up by 26.8% to 905.7 thousand tons due to increased domestic consumption and expanded exports of certain paper products. To meet needs for long-fiber pulp, which was still imported, a plant in Cilacap, Central Jawa (with a capacity of 130 thousand tons p.a.) was under construction. Furthermore, to supply cement packing paper, a craft paper plant in Aceh with a capacity of 150 thousand p.a. has been built.

Textiles

In the reporting year, the textile industry developed favorably due to the success of a series of policies undertaken by the Government to boost non-oil/gas exports. Progress was reflected in increases in textile production of 5.9% reaching 2,925.6 million meters and in textile exports of 33.6% reaching 171 thousand tons. Moreover, to reduce uncertainty among producers and to promote exports, the Government improved trade procedure and quota system regarding textile exports.¹³⁾

To meet the demand for non-cotton fiber raw material, efforts were made to develop

the production of rayon, a cotton substitute. Accordingly, a rayon plant in North Sumatera with a capacity of 54 thousand tons p.a. was under construction in the reporting year and is expected to be in production by the end of 1988.

Motor vehicle tires

To promote the development of the tire industry, especially exports of motor vehicle tires, in the reporting year the Government abolished certain regulations regarding exports of motor vehicle tires.¹⁴⁾ Meanwhile, to expand exports of motor vehicle tires, efforts to improve marketing, particularly to the Middle East and Europe were enhanced. The result of these efforts was reflected in a significant increase in production to meet higher foreign demand.

Production of two-wheeled motor vehicle tires in the reporting year rose by 28.0%, reaching 3,958.5 thousand while that of four-wheeled rose by 4.0%, reaching 5,136.1 thousand. Meanwhile, exports of the two- and four- wheeled motor vehicle tires increased sharply by 252.0% and 83.8% to 1,611.7 tons and 9,118.3 tons, respectively. It may be added that to meet domestic demand for certain tires, imports of aircraft tires and heavy motor vehicle tires were still exercised.

Basic metal

As was the case in the preceding year, the Government continued to foster the development of basic metal industries through enhancing the competitiveness and providing protection on certain steel

12) Minister of Finance Decree No. 856/KMK.01/1987, December 23, 1987.

13) - Minister of Trade Decree No. 332/Kp/XII/87, December 23, 1987.

- Director General of Foreign Trade Decision No. 392/Daglu/Kp/XII/87, December 23, 1987.

14) Minister of Trade Decree No. 38A/Kp/II/88, February 12, 1988.

products. In order to accomplish those aims, the Government placed additional import duties on certain types of steel products¹⁵⁾ and relaxed the importation of inputs for certain steel industries to ensure the availability of iron and steel for domestic industries.¹⁶⁾ In addition, to expand foreign markets, concrete steel bar was no longer subject to export regulation.¹⁷⁾ Furthermore, efforts to diversify products of basic metal industries were continued to be pursued.

In the reporting year, the production of several basic metal industries rose significantly, including steel ingot (20.4%), concrete steel bar (25%), and wire rod (9.6%). There were declines in the production of steel pipe and galvanized iron sheet.

It may be added that as a result of the Government's efforts to enhance the competitiveness of basic metal products in the international market, exports of several basic metal products rose sharply in the reporting year; cold rolled plate and malleable cast steel increased by 164.2% and 86.0%, reaching 391.4 thousand tons and 96.5 thousand tons, respectively.

Transportation means

In the reporting year, assembling industries of motor vehicles (either four- or two-wheeled) declined appreciably. The production of four- and two-wheeled motor vehicle declined by 1.4% and 20% to 160.3 thousand units and 249.6 thousand units,

respectively, owing to the sluggish domestic demand. In the reporting year, exports of motor vehicles and components to several Asian countries were begun.

The production of aircrafts and helicopters in the reporting year was 3 and 11 units compared with 5 and 12 units in the preceding year. PT Industri Pesawat Terbang Nusantara sold 15 units of CN 235 aircraft to Merpati Nusantara Airlines and the same type of aircrafts are expected to be marketed in the United States in 1988. The production of other transportation means such as steel boats increased by 133.8%, reaching 18.0 thousand BRT, after experiencing a decline in the preceding year.

S a l t

In a continuation of policies in previous years and to meet domestic demand for salt, the Government simplified import regulation on iodine and unprocessed salt in the reporting year.¹⁸⁾

Unlike in 1986/87, salt production in the reporting year jumped by 229.4%, reaching 1,255.0 thousand tons. This increase was due primarily to favorable climatic conditions during the salt-producing season. It may be added that to meet the increasing demand for purified salt, importation of such salt was still needed.

Other manufacturing products

As a result of the Government's efforts to enhance the international competitiveness of manufacturing products in recent years,

15) Minister of Finance Decrees Nos. 660/KMK.05/1987, October 23, 1987 and 856/KMK.01/1987, December 23, 1987.

16) Minister of Trade Decree No. 333/Kp/XII/87, December 23, 1987.

17) Minister of Trade Decrees No. 331/Kp/XII/87, December 23, 1987 and No. 38A/Kp/II/88, February 12, 1988.

18) Minister of Trade Decree No. 333/Kp/XII/87, December 23, 1987.

several other manufacturing products recorded favorable progress.

In the reporting year, other manufacturing products recording significant increases were, among others, color TV sets (161.0%), refined coconut oil (73.7%), huller (63.0%), and hand tractors (58.7%). Other manufacturing products experiencing declines were, among others, white cigarettes, laundry soap, toothpaste, and radio and radio cassette recorders (Table 9.17).

4. Transportation, tourism, postal services, and telecommunication

4.1. Transportation

Development of land, sea, and air transportation was directed toward expediting flows of passengers, cargo, services, and information. To expedite the flow of cargo destined for exports, in the reporting year the Government named Gedebage terminal in West Jawa as an on-shore container terminal. In addition, the Government specified working procedures and management at the terminal as well as the means of transportation to reach the nearest port.¹⁹⁾

In the reporting year, transportation services generally registered increases. In the field of passenger transportation, significant increases took place in overseas air transportation as well as river, lake, and ferry transportation. In cargo transportation, substantial increases were recorded in rail and overseas air transportation.

4.1.a. Land transportation

To facilitate the supply of ferry transportation services, the Government simplified licensing procedures for businesses in the field of ferry transportation.²⁰⁾ Licenses, which previously had been valid for 5 years, are now valid without time limitation.

To expedite the flow of cargo and passengers, construction and improvement of land infrastructure continued to be pursued. In the reporting year, 567 km of roads were completed, of which 39 km were toll roads; 13,400 km of road and 5,772 m of bridges were upgraded. These improvements infrastructure were aimed at keeping up with the increasing number of motor vehicles. In 1987, the number of buses, cargo vehicles, passenger cars, and motorcycles recorded significant increases (Table 9.18).

In the meantime, improvements to rail transportation aimed at meeting the increasing role of trains as passenger and cargo carriers. In the reporting year, passengers and cargo transported rose by 0.9% and 18.3%, respectively.

Improvements to river, lake, and ferry transportation were mainly carried out by constructing quays and terminals, and providing more facilities for safety passage. The efforts were aimed at enhancing services and expediting passenger and cargo flows. In the reporting year, passengers and cargo transported by river, lake, and ferry transportation were up by 10.0% and 4.0%, respectively.

19) - Presidential Decree No. 52/1987, December 22, 1987.
- Minister of Trade, Minister of Finance, and Governor of Bank Indonesia Joint Decrees Nos. 330/ Kpb/XII/87, 847/ KMK.01/87, and No. 20/16/Kep. GBI, December 23, 1987.
- Minister of Communication Decree No. KM.278/ HK.602/ Phb, December 23, 1987.

20) Minister of Communication Decree No. KM.213/PR 301/ Phb-87, September 17, 1987.

TABLE 9.17
SELECTED INDUSTRIAL PRODUCTION

Products	Units	1983/84	1984/85	1985/86	1986/87	1987/88 *
1. Fuel oils	million barrels	106.6 ^r	128.0 ^r	131.4 ^r	142.0 ^r	155.3
2. LNG	million MMBTU	569.3	783.7	788.5 ^r	811.8	905.4
3. Plywood and sawn timber						
– Plywood	thousand m3	2,566.0	4,249.1 ^r	4,715.0 ^r	5,175.0 ^r	6,160.0
– Sawn timber	thousand m3	8,180.0	8,786.0	9,437.0	9,900.0	10,183.0
4. Fertilizer						
– Urea fertilizer	thousand tons	2,255.0	3,044.0 ^r	3,690.0	3,957.0	4,046.0
– Non-urea fertilizer ¹⁾	thousand tons	991.0	1,383.0	1,533.0	1,744.0	1,765.3
5. C e m e n t	thousand tons	8,147.1 ^r	8,893.5 ^r	9,900.8 ^r	11,028.5 ^r	12,419.0
6. P a p e r	thousand tons	369.2	452.7 ^r	515.9 ^r	714.3 ^r	905.7
7. Textile and weaving yarn						
– Textile	million meters	2,347.2	2,401.6 ^r	2,498.7 ^r	2,761.5	2,925.6
– Weaving yarn	thousand bales	1,662.0	1,781.6	1,877.2 ^r	2,147.8	2,275.7
8. Motor vehicle tires						
– Automobile tires	thousand units	3,673.3	3,944.0	4,085.9 ^r	4,935.0 ^r	5,136.1
– Motorcycle tires	thousand units	2,438.5	2,230.0	2,312.9 ^r	3,093.0 ^r	3,958.5
9. Basic metal industry						
– Sponge iron	thousand tons	541.0 ^r	756.0 ^r	1,086.0 ^r	1,283.0	1,377.0
– Steel ingot	thousand tons	882.0 ^r	901.0	1,023.0	1,144.0	1,377.0
– Concrete steel bar	thousand tons	724.0	649.0	671.0	716.0	895.0
– Wire rod	thousand tons	300.0 ^r	207.0	321.0	407.0	446.0
– Steel wire	thousand tons	110.0	150.0	99.0 ^r	115.0	120.0
– Steel pipe	thousand tons	246.7	211.3	258.5 ^r	259.5	244.0
– Galvanized iron sheet	thousand tons	332.3 ^r	253.0 ^r	274.0	195.0	186.0
– Aluminum plate	thousand tons	8.0	24.5	26.5	24.7 ^r	29.0
10. Transportation means industry						
– Automobiles	thousand units	155.8	153.7	139.7	162.5	160.3
– Motorcycles	thousand units	379.3	272.2	226.8	310.9	249.6
– Aeroplanes	units	6.0	8.0	8.0	5.0	3.0
– Helicopters	units	24.0 ^r	19.0 ^r	7.0 ^r	12.0	11.0
– Steel vessels	thousand BRT	7.9	20.9 ^r	18.2 ^r	7.7	18.0
11. S a l t	thousand tons	620.0	370.0	761.5 ^r	318.0	1,255.0
12. Others						
– Clove cigarettes	billion pieces	68.2	79.7 ^r	84.1 ^r	96.3 ^r	112.3
– White cigarettes	billion pieces	28.1	27.1 ^r	24.0	21.2 ^r	21.5
– Refined coconut oil	thousand tons	381.7	267.1 ^r	396.0	256.5	445.6
– Olein	thousand tons	342.0	605.1	490.0	587.8	663.7
– Laundry soap	thousand tons	199.0	160.0	161.4	162.3	162.9
– Detergent	thousand tons	75.5	118.0	144.6	160.5	159.2
– Toothpaste	million tubes	165.1	240.0	351.0	474.8	503.0
– Matches	million boxes	817.0	1,525.3	2,214.0	2,364.0	2,360.0
– Electric/telecommu- nication cords	thousand tons	50.0	52.1 ^r	58.1	58.7	58.8
– Light bulbs/TL bulbs	million units	45.4	53.2 ^r	86.0	87.7	91.6
– Radio and radio cassette recorders	thousand units	1,503.1	1,576.6	1,883.4	1,649.8	1,080.1
– Car radio cassette recorder	thousand units	288.4	460.6	353.0	306.4	238.8
– Black and white television sets	thousand units	433.4	435.7 ^r	510.0	455.3	
– Color television sets	thousand units	189.4	337.1 ^r	240.0	245.2	640.0 ²⁾
– Refrigerators	thousand units	139.2	118.9 ^r	148.8	147.7	159.0
– Sewing machines	thousand units	290.2	253.0	170.5	127.5	136.7
– Storage batteries	thousand units	4,080.0	5,339.3 ^r	5,687.9	5,844.8	6,150.6
– Dry batteries	million units	633.6	771.8 ^r	952.1	1,000.0	1,000.6
– Sprayers	thousand units	170.0	188.3 ^r	229.5	242.6	248.6
– Hand tractors	units	1,065.0	1,091.0 ^r	973.0 ^r	1,891.0	3,000.0
– Diesel engines	thousand units	52.8 ^r	48.3 ^r	41.6	23.9	31.5
– H u l l e r s	units	467.0	1,788.0	2,771.0	1,212.0	1,976.0

1) Consists of Z.A., TSP, and NPK.

2) Including black and white television sets.

Sources :- Supplement to the President's Report to Parliament, August 16, 1988.

– Ministry of Industry.

TABLE 9.18
DEVELOPMENT OF LAND TRANSPORTATION VEHICLES
AND OUTPUT OF SEVERAL LAND TRANSPORTATION SERVICES
(thousands)

	Units	1983/84	1984/85	1985/86	1986/87	1987/88
Land Transportation Vehicles						
— Buses	units	160.3	184.3	228.2	291.1	334.3
— Cargo vehicles	units	717.9	809.5	884.4	880.7	1,012.8
— Passenger cars	units	869.9	841.7	997.3	1,034.6	1,190.0
— Motorcycles	units	4,135.7	4,687.9	4,760.7	5,366.3	6,178.3
Output of Railway Transportation Services						
— Passengers	person x km	47,430	47,100	47,500	49,630	50,062
— Passenger – km (thousand)	person x km	6,313	7,260	7,051	7,327	7,744
— Cargo	ton	5,400	6,258	6,890	7,680	9,083
— Cargo – ton – km (thousand)	ton x km	951	1,094	1,341	1,458	1,901
Output of River, Lake, and Ferry Transportation Services						
— Passenger	persons	18,005	22,727	24,926	37,804	41,583
— Cargo	tons	4,753	5,621	4,855	6,112	6,355

Source : Supplement to the President's Report to Parliament, August 16, 1988.

4.1.b. Sea transportation

In the reporting year, improvement in the field of sea transportation continued to be directed toward creating an integrated and efficient shipping system through, among others, the scrapping vessel policy. In line with the policy, the number of interisland vessels and pioneer sailing ships decreased by 5.8% and 33.3% to 244 and 14 vessels, respectively; the number ocean-going vessels and traditional shipping ships remained unchanged (Table 9.19).

In general, the output of sea transportation services in the reporting year showed an increase. Substantial increase occurred in traditional shipping (9.8%) and ocean-going transportation (5.0%), reaching 3,004 thousand tons and 16,471 thousand tons, respectively.

4.1.c. Air transportation

Policies on air transportation continued to be directed toward enhancing the services and increasing flight frequencies to provide smooth, orderly, safe, and efficient air transportation. Efforts to accomplish these aims were mainly carried out through rehabilitating airport infrastructures and equipment. Meanwhile, to enhance service to certain remote areas, the Government reduced flight fares for these areas.²¹⁾

In 1987, the number of aircrafts (turbojet or turbo-prop) operated under scheduled airlines remained the same as in 1986. However, the number of domestic and foreign passengers showed relatively large increases

21) Minister of Communication Decrees Nos. KM 193/PR 303/Phb-87 and KM 195/PR 303/Phb-87, August 19, 1987.

TABLE 9.19
NUMBER OF VESSELS AND THEIR SAILING SERVICES

Types of shipping	Units	1983/84	1984/85	1985/86	1986/87	1987/88
1. Ocean-going transportation						
— Number of vessels	units	51	48	48	35	35
— Capacity	thousand DWT	732	624	447	447	447
— Cargo	thousand tons	18,965	18,965 ^f	12,905	15,687	16,471
2. Interisland shipping						
— Number of vessels	units	397	356	275	259	244
— Capacity	thousand DWT	487	455 ^f	414	391	379
— Cargo	thousand tons	7,458	7,252	8,083	8,514	8,306
3. Local shipping						
— Number of vessels	units	1,049	992	1,036	992	1,036
— Capacity	thousand BRT	130	122	131	144	154
— Cargo	thousand tons	2,481	2,521	2,679	2,746	2,918
4. Traditional shipping						
— Number of vessels	units	3,511	3,490	3,641	3,641	3,641
— Capacity	thousand BRT	195	198	198	194	194
— Cargo	thousand tons	2,876	2,299	2,550	2,736	3,004
5. Pioneer sailing services						
— Number of vessels	units	30	25	23	21	14
— Capacity	thousand DWT	16	13	12	12	9
— Cargo	thousand tons	31	21	38	40	40

Source : Supplement to the President's Report to Parliament, August 16, 1988

of 11.1% and 16.0% to 6,160 thousand and 1,489 thousand, respectively. Meanwhile, the domestic and foreign cargoes also increased by 19.1% and 33.3% to 71.1 thousand tons and 47.6 thousand tons, respectively (Table 9.20).

4.2. Tourism, postal services, and telecommunication

In the reporting year, improvements to tourism, postal services, and telecommunication continued to be pursued. In the field of tourism, improvement was directed toward increasing foreign exchange earnings through simplifying several regulations regarding tourism and its infrastructures. Im-

provements in the field of postal and postal account services were directed toward enhancing services to the community through better mechanization system. Meanwhile, improvements in telecommunication services were carried out by increasing the availability of communication devices and facilities.

4.2.a. Tourism

Efforts to promote tourism as a source of foreign exchange earnings continued to be conducted by expediting and encouraging tourist arrivals. The efforts were carried out by deregulating the establishment of business

activities, in the tourism sector,²²⁾ providing special facilities for tourists from Singapore to Batam island,²³⁾ and increasing the number of tourist resorts. Moreover, supervision and improvement in domestic tourism were conducted by enhancing tourism services and promoting tours for the community, especially among the youth. It may be added that marketing—particularly abroad—continued to be aimed at increasing tourists from Japan, Australia, Western Europe, and the United States.

In 1987, the number of foreign tourists visiting Indonesia increased by 28.5% to 1,060,347 persons. By nationality, the six most important nations were Singaporean (20.6%), Japanese (13.0%), Australian (11.4%), Malaysian (8.6%), British (7.3%), and American (6.7%).

Tourist accommodations, such as hotels and travel agents, showed a significant improvement in the reporting year. Up to the end of 1987, the number of star-rated hotels increased by 21.0% to 340 with 26,931 rooms; the number of travel agents rose by 19.0% to 596. Moreover, the number of tourist resort areas increased by 7 (namely Aceh, West Nusa Tenggara, East Nusa Tenggara, Riau, East Kalimantan, Maluku, and South Sumatera) for a total of 17.

4.2.b. Postal and postal account services

Improvements in postal and postal account services in the reporting year continued to be aimed at expanding services to remote areas and enhancing the quality of services. To improve postal services, the

Government standardized the type of paper as well as the size and form of envelopes.²⁴⁾

To expand the coverage of postal and postal account services, 24 post offices, 56 subsidiary post offices, and 141 auxiliary post offices were built in 1987, bringing the total number to 311, 514, and 1,921 offices, respectively (Table 9.22). In accordance with this progress, the number of districts reached by postal services increased by 59 to 3,492 districts or 98.6% of the total number of districts throughout the country. Meanwhile, Express Mail Services (EMS) coverage has increased from 10 to 29 countries.

Through these efforts, postal and postal account services increased significantly—postal letters by 6.6%, postal drafts by 13.4%, postal accounts and cheques by 21.0%, and savings by 4.2%; postal parcels declined by 7.6% (Table 9.23).

4.2.c. Telecommunication

Improvements in telecommunication services continued to be aimed at expanding the communication networks and enhancing the quality of domestic and international services. To this end, new facilities and increased capacity of telecommunication equipments (such as central telephone, telex, and earth station) were added.

In 1987, the number of central telephones increased by 1.4% to 714 with a total capacity of 912,022 line units, or rose by 7.6% over the preceding year (Table 9.24). Of this capacity, 759,127 line units have

22) Presidential Instruction No. 7/1987, December 22 1987.

23) Minister of Justice Decree No. 01.IZ.01.02/1987 November 26, 1987.

24) Director General of Postal and Telecommunication Decision No. 43/Dirjen/1987, May 22, 1987.

TABLE 9.20
AIR TRANSPORTATION FLEET AND
THE OUTPUT OF THEIR SERVICES

Fleet/output	Units	1983/84	1984/85	1985/86	1986/87	1987/88 *
Fleet	units	198	195	175	177	177
Turbo jet		83	86	86	75	75
Turbo-prop		112	109	89	102	102
Output						
– Passenger	thousand persons	6,335	6,394	6,781	6,831	7,649
Domestic flights		5,286	5,448	5,515	5,547	6,160
International flights		1,049	946	1,266	1,284	1,489
– Cargo	thousands tons	78.2	80.3	89.0	95.4	118.7
Domestic flights		49.8	49.1	53.7	59.7	71.1
International flights		28.4	31.2	35.3	35.7	47.6

Source : Supplement to the President's Report to Parliament, August 16, 1988.

been in operation so that the telephone density became 1 line unit for 200 persons. Services of long distance direct dialing network (*Sambungan Langsung Jarak Jauh* or SLJJ) rose by 4.5% covering 117 cities. The long distance telephone network (*Sambungan Telepon Jarak Jauh* or STJJ)

rose by 6.1% to 729 line units, public telephones rose by 12.9% to 4,636 line units, motor vehicle telephone network rose by 40.1% to 6,321 line units, and international direct dialing network (*Sambungan Langsung Internasional* or SLI) rose by 19.8% covering 127 countries.

TABLE 9.21
NUMBER OF FOREIGN TOURISTS
VISITING INDONESIA
(persons)

Year	Number of tourists	Increase (%)
1983	639,000	7.9
1984	700,910	9.7
1985	749,351	6.9
1986	825,035	10.1
1987	1,060,347	28.5

Sources : – Directorate General of Tourism.
– Central Bureau of Statistics.

In the meantime, other telecommunication facilities such as the central telex increased by 5.9% to 36 ctx and its capacity rose by 6.8% to 17,300 line units and general telex offices rose by 6.9% to 260 offices. Furthermore, the coverage of services of international telex rose to 30 countries, telegram to 17 countries, birofax to 29 countries, and package data communication network to 22 countries. At the end of 1987, the number of earth stations which function as supporting apparatus for satellite communications rose by 0.8% reaching 126 units.

B. Investments

The Government's efforts to create a more attractive climate for private investment continued to be implemented in the reporting year. These efforts were carried out mainly through the deregulation measures of December 24, 1987 and revision of the Investment Priority List (*Daftar Skala Prioritas* or DSP), in addition to the improved promotion of investment, especially abroad.

The December 24, 1987 policy package, which constituted a continuation of previous years' policies, included the simplification of licensing procedures and regulations and the provision of tax incentives. Simplification of licensing procedures and regulations was taken, *inter alia*, by facilitating licensing procedures in the field of tourism²⁵⁾ and relaxing regulations regarding the capital market;²⁶⁾ the provision of tax incentives was carried out by postponing the collection of value-added tax as well as sales tax on luxury goods from non-PMA/PMDN companies.²⁷⁾ Furthermore, procedures for obtaining exemption from import duties and postponement of value-added taxes for PMA/PMDN companies were simplified. In addition, starting in the reporting year, the Government allowed joint-venture companies to conduct export trading and to hire foreign experts.

To stimulate investments, in the reporting year the Government revised the DSP.²⁸⁾ In

the new DSP, the classification of business fields was simplified by grouping similar types of businesses into broader classifications, primarily in the manufacturing and mining sectors. The new 1987 DSP provides a broader opportunities for investors, since approximately 30 business fields previously closed were opened for new investment. The 1987 DSP covered 1,043 business fields, consisting of 1,007 open fields and 36 closed fields for new investments. Of these 1,007 open fields, 868 fields were open for investments under PMDN and 139 fields for the investments apart from the PMA/PMDN. Of the 868 open fields for PMDN, 659 fields were also eligible for PMA.

1. Foreign direct investments (*Penanaman Modal Asing* or PMA)

To improve the business climate for foreign investors, in the reporting year the Government permitted PMA companies to conduct export trading and gave broader opportunities to employ foreign experts; the requirements for PMA companies to be, treated the same as those of PMDN companies were also simplified. Moreover, beginning in the reporting year, certain PMA companies could be established with a smaller portion of national equity participation.

In addition to their own products, in the reporting year PMA companies were permitted to export products of other companies. Moreover, the Government also permitted PMA companies to establish special companies to conduct export trading of manufacturing products.²⁹⁾ PMA companies

25) - Presidential Instruction No. 7/1987, December 22, 1987.
- Minister of Manpower Decree No. KEP/1897/MEN/ 1987, December 23, 1987.

26) Minister of Finance Decree No. 859/KMK.01/1987, December 23, 1987.

27) Minister of Finance Decree No. 850/KMK.01/1987, December 23, 1987.

28) Presidential Decree No. 15/1987, May 25, 1987.

29) - Government Regulation No. 24/1987, December 22, 1987.
- Minister of Trade Decree No. 335/KP/XII/87, December 23, 1987.
- Bank Indonesia Circular Letter No. 20/34/ULN, December 30, 1987.

TABLE 9.22
NUMBER OF POST OFFICES

Types of post offices	1983	1984	1985	1986	1987 *
Main post office	211	233 ^f	264	287	311
Subsidiary post office	284	328	390	458	514
Auxiliary post office	1,218	1,351	1,635	1,780	1,921

Source : Directorate General of Post and Telecommunication.

TABLE 9.23
POSTAL ACCOUNTS AND POST SERVICES

Types of services	1983	1984	1985	1986	1987 *
Postal letters (millions)	348	392	449	446	475.5
Postal parcels (thousands)	1,173	1,051 ^f	1,200	1,229	1,135.4
Postal drafts (billions of rupiah)	226.8 ^f	259.6 ^f	290.4	333.4	378.0
Postal accounts and cheques (billions of rupiah)	2,569.4	3,398.4	3,754.5 ^f	3,761.1	4,550.3
Savings (billions of rupiah)	81.1	98.4	115.8 ^f	137.2	143.0

Source : Directorate General of Post and Telecommunication.

TABLE 9.24
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)
1983	170	576,797	509	89,336	679	666,133
1984	175	601,390	508	96,426	683	697,779 ^f
1985	182	674,488	510 ^f	104,890	692	779,378
1986	195	728,000	509	110,555	704	838,555
1987*	211	794,976	503	117,046	714	912,022

Source : Directorate General of Post and Telecommunication.

with a majority of their products destined for export were given more freedom in hiring foreign experts.³⁰⁾

Requirements of national equity participation for PMA companies to receive equal treatment as PMDN companies were eased by reducing the requirement of national ownership to 51%, or 45% with a provision that 20% of the total shares are sold in the capital market.³¹⁾ Moreover, the Government extended the period of increasing national stock ownership relative to foreigners, and relaxed the regulation regarding the establishment of certain PMA companies.³²⁾

Besides the aforementioned policies, in the reporting year the Government simplified licensing procedures for capital investment and continued to facilitate tax facilities. Licensing procedures were simplified by eliminating several pre-condition for investments;³³⁾ tax facilities were facilitated by simplifying the procedures for postponing payments of value-added tax and sales tax on luxury goods³⁴⁾ and extending the period of exempting imported basic materials from import duties.³⁵⁾

In 1987, investment approvals increased significantly, reaching \$1,457.1 million (130 projects) compared with \$826.2 million (50

projects) in the preceding year. The increase in investment approvals, primarily took place in the field of industry, which reached \$852.3 million compared with \$536.7 million in 1986. In addition, larger increase in investment approvals were also recorded in the fields of transportation and hotels, reaching \$213.0 million and \$196.0 million.

Since enactment of the PMA Law in 1967 up to the end of 1987, approved investments have totalled \$17,006.6 million covering 940 projects. Of these, 73.0% was invested in manufacturing, 10.1% in mining, 5.1% in agriculture, forestry, and fishery, and 11.8% in other sectors (Table 9.25). By regional distribution, most of the intended projects were located in Jakarta, West Jawa, and East Jawa. According to the value of intended investments, the largest value was invested in West Jawa, followed by Jakarta and North Sumatera (Table 9.26). By country of origin, most of the intended investments originated from Japan with a value of \$5,650.7 million (33.2%), Hong Kong \$1,875.9 million (11.0%), and the United States \$1,243.6 million (7.3%) (Table 9.27).

As regards the implementation of PMA since 1967 up to 1987, the amount of realized PMA has amounted to \$7,595.0 million or 44.7% of total investment approvals. Of the realized amount, 65.5% was invested in manufacturing, 15.1% in mining, 5.7% in forestry, and 13.7% in other sectors (Table 9.28).

2. Domestic investments (*Penanaman Modal Dalam Negeri* or PMDN)

In the reporting year, the Government simplified licensing procedures regarding investment and facilitated tax incentives to

30) Minister of Manpower Decree No. KEP-1902/MEN/ 1987, December 23, 1987.

31) Presidential Decree No. 50/1987, December 23, 1987.

32) Chairman of Capital investment Coordinating Board Decree No. 5/SK/1987, December 23, 1987.

33) Chairman of Capital investment Coordinating Board Decree No. 6/SK/1987, December 23, 1987.

34) - Minister of Finance Decree No. 187/KMK.04/1987, April 6, 1987.
- Bank Indonesia Circular Letter No. 20/8/ULN, July 6, 1987.

35) Minister of Finance Decree No. 855/KMK.01/1987, December 23, 1987.

PMDN companies. Simplification of the licensing procedures was implemented by abolishing certain requirements, while facilitation of tax incentives covered suspension of the collection of value-added tax and sales tax on luxury goods and import duty incentives on imported raw/auxiliary materials.

In simplifying licensing procedures related to capital investment, in the reporting year the Government eliminated the requirement of having a limited exporter's identification number, as well as a limited domestic purchasing license and a limited domestic trading license.³⁶⁾ Meanwhile, to facilitate certain PMDN companies' exemption from value-added tax and sales tax on luxury goods, the Government simplified the procedures of paying those taxes on imported capital goods.³⁷⁾ Furthermore, import duty exemption facilities on imported raw/auxiliary materials inputs (introduced for PMDN companies in the preceding year) have been extended to cover longer periods of time.³⁸⁾

In 1987, investment approvals rose significantly, reaching Rp10,265.0 billion (566 projects) compared with Rp4,416.7 billion (316 projects) in the preceding year. Higher approvals were mainly recorded in the field of industry, reaching Rp5,518.1 billion compared with Rp1,842.3 billion in 1986. Meanwhile, relatively large increases in approvals were also registered in the fields of agriculture, forestry, and fishery (reaching Rp3,525.5 billion) and transportation (reaching Rp367.8 billion).

Since enactment of PMDN Law in July 1968 up to the end of 1987, PMDN investment approvals have amounted to Rp43,442.0 billion covering 4,496 projects. By value of and number of projects, most of these investments were in the manufacturing and the agricultural, forestry, and fishery sectors (Table 9.29). Furthermore, by regional distribution, both in number and value of approved projects, the major portion was in West Jawa, Jakarta, and East Jawa; outside Jawa, relatively large portion was in East Kalimantan and North Sumatera (Table 9.30).

C. Prices

Inflation as measured by consumer price index (CPI) registered 8.29% in the reporting year, down from 8.83% in 1986/87 (Table 9.31). This lower rate of inflation was due in large part to prudent monetary and fiscal policies undertaken by the Government, supported by adequate supplies of consumption goods and services.

On the basis of group of goods the largest price increase took place in the foodstuffs group, 13.93%, compared with 9.61% in the preceding year. All other major groups, namely housing, clothing, and miscellaneous groups, recorded lower price increases, namely 4.69%, 5.80%, and 3.58% compared with 5.72%, 11.37%, and 10.59% in 1986/87. Based on the share of each group, of the 8.29% inflation rate in the reporting year, 5.79% originated from the increase in food prices, 1.20% from housing, 0.73% from miscellaneous, and 0.57% from clothing.

Within the foodstuffs group, large increases were recorded in the grain

36) See footnote 33) in this chapter.

37) See footnote 34) in this chapter.

38) See footnote 35) in this chapter.

TABLE 9.25
APPROVED FOREIGN DIRECT INVESTMENT PROJECTS BY SECTOR
(millions of dollars)

Sector	1983	1984	1985	1986	1987 *	Total ¹⁾ 1967 through 1987	
						Value	Project
Agriculture, forestry, and fishery	37.2	0.2	20.5	129.8	133.3	871.3	114
– Agriculture	9.8	0.2	9.0	125.9	116.7	453.6	60
– Forestry	6.5	--	0.2	--	4.6	298.0	33
– Fishery	20.9	--	11.3	3.9	12.0	119.7	21
Mining	--	--	--	--	--	1,725.0	118
Manufacturing	2,615.2	1,001.7	687.3	536.7	852.3	12,417.7	533
– Food	83.0	77.0	5.9	34.1	54.2	616.2	43
– Textiles	11.6	1.2	6.8	9.0	117.9	1,207.1	58
– Wood	12.9	--	--	31.9	44.8	348.3	43
– Paper	722.3	--	25.1	46.8	108.6	531.0	14
– Chemical	182.8	95.7	337.8	293.8	208.8	2,632.1	159
– Non-metallic mineral	49.6	--	2.5	--	251.3	883.2	27
– Basic metal	835.7	609.1	65.0	39.4	6.9	3,410.9	20
– Metal product	716.4	210.0	244.2	81.7	56.9	2,760.6	163
– Others	0.9	8.7	--	--	2.9	28.3	6
Construction	43.5	17.0	122.3	64.7	42.2	411.4	88
Hotel	78.0	84.0	--	--	196.0	583.7	19
Transportation	--	4.2	--	70.0	213.0	395.8	13
Housing and offices	106.3	--	--	--	--	488.4	26
Services	2.0	--	28.9	25.0	20.3	113.3	29
Total	2,882.2	1,107.1	859.0	826.2	1,457.1	17,006.6	940

1) From June 1967 through December 1987, after taking into account the cancelations and shifting of projects from foreign to domestic investment.

Source : Capital Investment Coordinating Board.

TABLE 9.26
APPROVED FOREIGN DIRECT INVESTMENT PROJECTS
BY PROVINCE
(millions of dollars)

Province	1983	1984	1985	1986	1987 *	Total ¹⁾ 1967 through 1987	
						Value	Project
1. DKI Jakarta	775.1	269.1	257.5	258.2	440.4	3,824.1	284
2. West Jawa	1,307.5	758.3	450.2	422.2	605.8	5,839.5	234
3. Central Jawa	22.3	--	--	57.2	32.3	418.7	26
4. Yogyakarta	--	--	--	--	--	1.0	1
5. East Jawa	71.6	57.2	69.6	9.5	208.3	1,082.3	78
Jawa & Madura	2,176.5	1,084.6	777.3	747.1	1,286.8	11,165.6	623
6. D.I. Aceh	422.9	--	9.3	7.5	--	633.2	10
7. North Sumatera	44.1	--	5.1	50.0	109.1	2,259.4	48
8. West Sumatera	--	-13.7	1.4	--	1.5	62.1	11
9. Riau	180.0	21.1	58.1	0.8	--	442.5	24
10. Jambi	3.2	1.2	--	--	--	23.9	7
11. South Sumatera	6.1	--	--	1.1	2.1	149.9	19
12. Bengkulu	--	--	19.0	--	--	--	7
13. Lampung	2.5	--	3.6	2.3	2.0	76.5	9
Sumatera	658.8	8.6	77.5	61.7	114.7	3,647.5	135
14. West Kalimantan	--	--	--	--	--	8.4	23
15. Central Kalimantan	0.5	--	--	--	9.1	100.5	32
16. South Kalimantan	--	--	0.2	2.4	8.1	94.3	14
17. East Kalimantan	--	--	--	12.2	1.0	232.1	38
Kalimantan	0.5	--	0.2	14.6	18.2	435.3	107
18. North Sulawesi	--	--	--	--	25.0	102.7	11
19. Central Sulawesi	--	--	--	--	--	1.0	5
20. South Sulawesi	0.4	--	--	1.2	1.0	1,233.2	18
21. Southeast Sulawesi	--	--	--	--	--	15.9	2
Sulawesi	0.4	--	--	1.2	26.0	1,352.8	36
22. Bali	25.0	--	--	--	1.4	96.8	6
23. West Nusa Tenggara	--	--	--	--	--	--	2
24. East Nusa Tenggara	1.7	--	--	1.6	10.0	12.2	6
25. East Timor	--	--	--	--	--	--	--
26. Maluku	--	--	2.2	--	--	12.4	8
27. Irian Jaya	19.3	13.9	1.8	--	--	284.0	17
Total	2,882.2	1,107.1	859.0	826.2	1,457.1	17,006.6	940

1) From June 1967 through December 1987, after taking into account the cancelations and shifting of projects from foreign to domestic investment.

Source : Capital Investment Coordinating Board.

TABLE 9.27
APPROVED FOREIGN DIRECT INVESTMENT PROJECTS
BY COUNTRY OF ORIGIN
(millions of dollars)

Country	1983	1984	1985	1986	1987 *	Total ¹⁾ 1967 through 1987	
						Value	Project
1. Europe	1,175.9	166.1	194.7	124.4	607.0	3,884.4	242
– Belgium	803.1	--	1.0	--	7.1	88.2	11
– Fed. Rep. of Germany	109.5	17.0	65.5	16.5	330.6	867.2	35
– France	24.0	8.3	39.5	6.2	42.0	154.7	14
– Netherlands	92.1	43.9	11.6	23.3	122.8	850.9	57
– Switzerland	4.1	83.0	--	12.5	--	173.2	15
– United Kingdom	73.1	13.9	77.1	46.1	12.7	560.0	73
– Others	70.0	--	--	19.8	91.8	1,190.2	37
2. America	651.2	94.8	141.4	191.8	106.2	1,410.2	115
– Canada	--	--	--	11.0	--	--	--
– Panama	63.0	--	--	27.0	26.7	166.6	16
– United States of America	588.2	94.8	141.4	153.8	72.6	1,243.6	99
3. Asia	726.2	834.4	432.0	478.8	707.4	8,676.9	431
– Hong Kong	125.8	706.1	53.4	9.6	134.9	1,875.9	109
– Japan	548.4	112.1	127.1	328.9	531.8	5,650.7	222
– Malaysia	0.5	--	--	--	1.0	27.5	10
– Phillipines	--	--	2.8	2.3	2.8	16.1	8
– Singapore	24.4	16.2	--	101.5	6.0	298.5	34
– Thailand	--	--	--	--	--	26.0	4
– Others	27.2	--	248.7	30.0	30.9	782.2	44
4. Australia	1.7	2.7	36.1	13.9	2.5	216.9	84
5. Group of countries	327.1	9.1	54.8	17.3	34.0	2,818.2	68
Total	2,882.2	1,107.1	859.0	826.2	1,457.1	17,006.6	940

1) From June 1967 through December 1987, after taking into account the cancelations and shifting of projects from foreign to domestic investment.

Source : Capital Investment Coordinating Board.

TABLE 9.28
IMPLEMENTATION OF FOREIGN CAPITAL INVESTMENT BY SECTOR
(millions of dollars)

Sector	1983	1984	1985	1986	1987 *	Total ¹⁾
Agriculture, forestry, and fishery	28.4	21.1	6.6	4.0	18.1	679.2
– Agriculture	6.7	4.1	3.7	4.0	10.9	129.8
– Forestry	15.9	16.3	2.7	--	7.2	430.8
– Fishery	5.8	0.7	0.2	--	--	118.6
Mining	110.0	46.1	31.0	265.0	121.5	1,149.3
Manufacturing	358.0	233.7	468.7	180.4	504.1	4,983.9
– Food	4.5	17.7	159.4	5.2	23.1	410.5
– Textiles and leather	25.5	8.6	17.4	4.8	14.5	1,139.6
– Wood and wood products	13.7	13.2	11.9	--	2.9	99.5
– Paper and paper products	5.8	2.8	3.5	22.8	--	85.8
– Chemical and rubber	177.5	67.2	60.1	11.9	81.0	1,021.5
– Non-metal minerals	36.7	25.1	7.7	1.5	5.0	455.8
– Basic metal	57.4	26.5	47.4	120.4	338.5	875.4
– Metal products	34.5	66.9	160.1	13.8	39.1	860.2
– Others	2.4	5.7	1.2	--	--	35.6
Construction	0.5	0.5	1.8	5.4	66.6	134.0
Trade and hotel	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	17.9	77.0	80.0	27.9	13.0	343.5
– Services in trade	17.9	77.0	80.0	27.9	13.0	325.1
– Other services	--	--	--	--	--	18.4
Others	--	--	--	--	--	114.6
Total	516.9	388.0	598.6	490.0	723.3	7,595.0

1) From June 1967 through December 1987.

Sources : – Capital Investment Coordinating Board and Directorate General of Customs and Excise (import).
– Monthly Bulletin of Foreign Exchange Banks (cash inflows).

TABLE 9.29
APPROVED DOMESTIC INVESTMENT PROJECTS BY SECTOR
(billions of rupiah)

Sector	1983	1984	1985	1986	1987 *	Total ¹⁾	
						Value	Project
Agriculture, forestry and fishery	834.6	295.3	935.6	1,900.1	3,525.5	9,129.4	962
– Agriculture	457.8	232.6	725.2	1,599.9	2,325.2	6,062.5	370
– Forestry	152.6	18.8	36.5	20.7	640.1	1,832.3	425
– Fishery	224.2	43.9	173.9	279.5	560.2	1,234.6	167
Mining	578.1	7.8	37.6	89.1	289.7	1,688.9	76
Manufacturing	4,812.7	1,436.5	1,632.2	1,842.3	5,518.1	27,138.7	2,900
– Food	195.2	91.8	91.3	215.5	456.5	2,192.9	515
– Textile	104.1	126.0	97.0	262.5	1,288.7	3,054.8	579
– Wood	174.2	48.4	62.0	126.8	696.1	2,111.9	376
– Paper	533.2	10.6	15.8	41.1	365.6	2,346.9	177
– Chemical	830.6	273.9	957.7	813.5	2,084.1	6,540.6	515
– Non metallic minerals	2,047.9	213.5	177.8	17.2	132.2	4,964.1	202
– Basic metal	70.7	562.5	25.1	221.1	74.3	3,200.4	101
– Metal products	852.6	109.8	201.8	141.7	410.4	2,283.2	402
– Others	4.2	--	3.7	2.9	10.2	443.9	33
Construction	195.3	67.1	270.1	74.4	49.6	621.8	62
Hotel	255.2	214.1	311.5	17.0	138.8	1,355.8	171
Transportation	96.0	5.5	127.4	102.4	367.8	1,121.2	128
Housing and offices	204.0	49.5	267.0	168.5	173.9	1,446.8	127
Services	65.9	24.1	168.3	222.9	201.6	939.4	70
Total	7,041.8	2,099.9	3,749.7	4,416.7	10,265.0	43,442.0	4,496

1) From June 1967 through December 1987, after taking into account the cancelations and shifting of projects from foreign to domestic investment.

Source : Capital Investment Coordinating Board.

subgroup (25.18%), nuts (18.30%) and fresh fish (14.55%). The high price increases in grain and nuts were closely associated with the increase in the floor prices of paddy and secondary crops stipulated by the Government³⁹⁾ and the decrease in rice production. Within the housing group, moderate price increases were recorded in residential housing (7.24%) and house keeping (4.97%). Regarding the miscellaneous group, relatively large price increases were registered in education (9.23%) and recreation (6.38%), while within the clothing group, moderate rises were recorded in the subgroups of children's clothing (7.80%) and men's clothing (6.21%).

In the reporting year, the average monthly price increase was 0.69% compared with 0.74% in 1986/87. The highest increase took place in May 1987 (1.85%) which was closely related to the Idul Fitri. High increases also occurred in October and November 1987 (1.37% and 1.75% respectively) primarily due to the timing of the Government's increase in the floor prices of paddy/rice and secondary crops.

Wholesale price developments as measured by the average wholesale price index (WPI) registered an increase of 18.18% in the reporting year compared with 3.98% in the preceding year. This steep rise was due to higher prices for export commodities (34.83% compared with the drop of 18.70% in the preceding year); the price of oil/gas exports rose by 43.84% and non-oil/gas exports increased by 21.83%. Other commodities experiencing substantial

price increases were import commodities (15.22%), manufacturing commodities (13.28%), agricultural commodities (12.12%), and mining commodities (5.51%) (Table 9.32). Domestic prices of non-oil/gas export commodities that experienced large increases in the reporting year included RSS-1 rubber (40.07%), plywood (36.20%), black pepper (19.03%), and tea (10.57%); the price of robusta coffee declined by 4.54% (Table 9.33).

D. Population

The main problem concerning population in Indonesia is the high growth rate of population. This problem continued to be aggravated by imbalances in the age structure and regional distribution, low skill levels, inadequate employment opportunities, and low level of income.

To cope with these problems, the Government improved policies relating to population adopted in previous years. These policies covered family planning program, which aims at controlling population growth, and transmigration program, which is designed to have a better distribution of population and labor force. In addition, the Government sought to enhance the quality of life by promoting health, education, and skill. Furthermore, in order to re-allocate the labor force in foreign and domestic markets, the Government continued to implement the interlocal work program (*Antar Kerja Lokal* or AKL), the interregional work program (*Antar Kerja Antar Daerah* or AKAD), and the international work program (*Antar Kerja Antar Negara* or AKAN).

Based on population growth rate of 2.1%, total population at the end of 1987 was es-

39) Presidential Instruction No. 6/1987, October 15, 1987.

TABLE 9.30
APPROVED DOMESTIC INVESTMENT BY PROVINCE
(billions of rupiah)

Province	1983	1984	1985	1986	1987 *	Total ¹⁾ 1968 through 1987	
						Value	Project
1. DKI Jakarta	890.9	536.7	630.5	441.8	776.7	5,304.7	755
2. West Jawa	1,756.2	601.8	999.8	1,113.8	3,853.7	13,973.4	1,191
3. Central Jawa	1,330.6	130.3	245.5	205.5	565.5	3,055.8	339
4. D.I. Yogyakarta	26.8	6.6	35.8	43.5	28.3	159.5	61
5. East Jawa	873.6	294.5	405.7	321.3	499.1	4,181.1	556
Jawa & Madura	4,878.1	1,570.0	2,317.3	2,126.0	5,723.3	26,674.5	2,902
6. D.I. Aceh	301.5	24.6	30.2	123.5	25.1	1,022.7	48
7. North Sumatera	331.4	116.8	86.9	427.6	348.6	2,057.7	202
8. West Sumatera	27.6	25.3	105.3	55.9	43.4	630.0	80
9. Riau	509.5	89.1	188.4	440.8	642.2	1,791.0	124
10. Jambi	21.1	15.7	40.3	250.0	308.2	787.0	51
11. South Sumatera	74.4	47.9	66.2	92.4	346.7	1,601.9	120
12. Bengkulu	8.8	5.0	53.0	46.8	82.2	234.2	20
13. Lampung	124.2	9.6	42.0	25.8	125.7	730.0	88
Sumatera	1,438.4	334.0	612.4	1,462.8	1,949.1	8,854.5	733
14. West Kalimantan	143.4	14.0	34.3	87.6	457.4	1,022.3	121
15. Central Kalimantan	8.5	6.9	3.9	22.4	11.3	240.4	84
16. South Kalimantan	16.2	5.5	111.6	59.4	81.2	486.7	78
17. East Kalimantan	137.3	62.9	511.3	318.4	436.8	2,265.7	173
Kalimantan	305.5	89.2	661.1	487.7	986.7	4,015.1	456
18. North Sulawesi	141.0	2.7	17.7	145.3	103.4	409.0	45
19. Central Sulawesi	43.8	1.2	7.0	11.8	272.7	384.7	42
20. South Sulawesi	39.1	57.5	47.2	86.7	117.9	649.3	109
21. Southeast Sulawesi	8.9	--	3.7	--	16.0	503.0	10
Sulawesi	232.8	61.3	75.7	243.8	510.0	1,946.0	206
22. Bali	78.3	11.6	16.0	22.1	107.1	334.5	55
23. West Nusa Tenggara	3.7	3.3	39.2	37.2	11.4	93.1	29
24. East Nusa Tenggara	3.4	3.6	7.3	4.8	21.6	18.2	20
25. East Timor	--	--	--	1.2	--	1.2	2
26. Maluku	48.4	3.4	16.5	23.1	67.6	324.5	55
27. Irian Jaya	53.2	23.5	4.2	8.0	888.2	1,180.2	38
Total	7,041.8	2,099.9	3,749.7	4,416.7	10,265.0	43,442.0	4,496

1) From July 1968 through December 1987, after taking into account the cancelations and shifting of projects from foreign to domestic investment.

Source : Capital Investment Coordinating Board.

TABLE 9.31
INDONESIAN CONSUMER PRICE INDEX
(COMPOSITE OF 17 CITIES)
(April 1977 through March 1978 = 100)

Period	Food-stuffs	Housing	Clothing	Miscellaneous	General Index	Change in the General Index (%)	
						Annual/quarterly ¹⁾	Monthly
1983/84						+8.76	
March	220.54	263.88	215.14	229.77	233.42		
1984/1985						+4.31	
March	224.34	273.47	221.08	248.07	242.07		
1985/1986						+5.66	
March	238.23	291.15	228.68	260.58	256.07		
1986/1987						+8.83	
June	245.47	292.69	232.34	262.06	260.20	+1.60	
September	252.03	299.81	243.43	268.69	267.44	+2.79	
December	263.94	302.85	250.38	274.98	275.27	+2.91	
March	261.84	308.16	256.06	289.44	279.49	+1.53	
1987/88						+8.29	
April	261.85	308.35	257.11	289.87	279.75		+0.09
May	270.84	309.24	265.35	291.16	284.92		+1.85
June	271.83	310.43	266.11	291.65	285.79	+2.25	+0.31
July	272.85	311.02	266.43	293.73	286.89		+0.38
August	272.52	311.73	267.42	294.52	288.45		+0.54
September	279.21	312.72	268.39	295.13	290.49	+1.63	+0.71
October	285.95	314.61	269.47	297.55	294.47		+1.37
November	294.43	320.26	269.98	297.77	299.63		+1.75
December	296.14	321.45	270.35	297.91	300.75	+3.49	+0.37
January	279.63	321.65	270.66	299.08	301.75		+0.33
February	300.64	322.36	270.63	299.67	303.34		+0.53
March	300.53	322.90	270.23	299.94	303.52	+0.92	+0.06

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

Source : Central Bureau of Statistics.

TABLE 9.32
INDONESIAN WHOLESALE PRICE INDEX ¹⁾
(1983 = 100)

Sector	1983/84	1984/85	1985/86	1986/87	1987/88	1987/88 against 1986/87
						(percentage changes)
1. Agriculture	104	114	120	132	148	12.12
2. Mining and quarrying	102	111	119	127	134	5.51
3. Manufacturing	103	109	117	128	145	13.28
4. Imports	107	115	121	138	159	15.22
5. Exports	108	113	109	89	120	34.83
– Oil and LNG	107	113	109	73	105	43.84
– Non-oil/LNG	109	114	116	142	173	21.83
6. General index	106	112	117	121	143	18.18

1) Average figures in the respective fiscal year.

Source : Central Bureau of Statistics.

TABLE 9.33
PRICES OF SELECTED EXPORT COMMODITIES
IN JAKARTA MARKET

Period	Plywood ¹⁾ (Rp/piece)	Rubber RSS-1 (Rp/kg)	Coffee Robusta (Rp/kg)	Black pepper (Rp/kg)	Tea (Rp/kg)
1985/1986					
June	2,962	778.62	1,400	3,800	1,500
September	2,865	735.35	1,475	4,000	1,200
December	2,780	771.25	4,000	4,350	1,200
March	2,780	815.31	3,000	4,400	1,000
Average	2,852	762.81	2,161	3,918	1,167
1986/1987					
June	3,097	807.75	2,300	4,300	1,000
September	3,316	1,122.50	3,400	6,250	1,250
December	4,274	1,334.00	2,500	8,200	1,400
March	4,475	1,344.00 ^r	2,200	7,100	1,300
Average	3,649	1,115.18^r	2,619	5,958	1,183
1987/1988					
April	4,475	1,353.00	2,400	7,100	1,300
May	4,527	1,384.00	2,500	7,100	1,300
June	4,754	1,406.00	2,300	7,000	1,300
July	4,907	1,496.50	2,200	7,200	1,300
August	4,907	1,351.00	2,250	7,400	1,300
September	5,000	1,618.00	2,450	7,500	1,300
October	5,000	1,606.00	2,500	7,500	1,300
November	5,250	1,560.50	2,600	7,500	1,300
December	5,250	1,566.00	2,650	7,250	1,300
January	5,250	1,712.50	2,600	6,750	1,300
February	5,250	1,698.00	2,750	6,400	1,350
March	5,072	1,713.00	2,800	6,400	1,350
Average	4,970	1,562.04	2,500	7,092	1,308

1) Pieces of 122 X 244 cm.

Source : Central Bureau of Statistics.

timated to have reached 171.6 million. The higher growth rates of the population in earlier years resulted in rapid growth of the labor force which contributed to an unemployment problem.

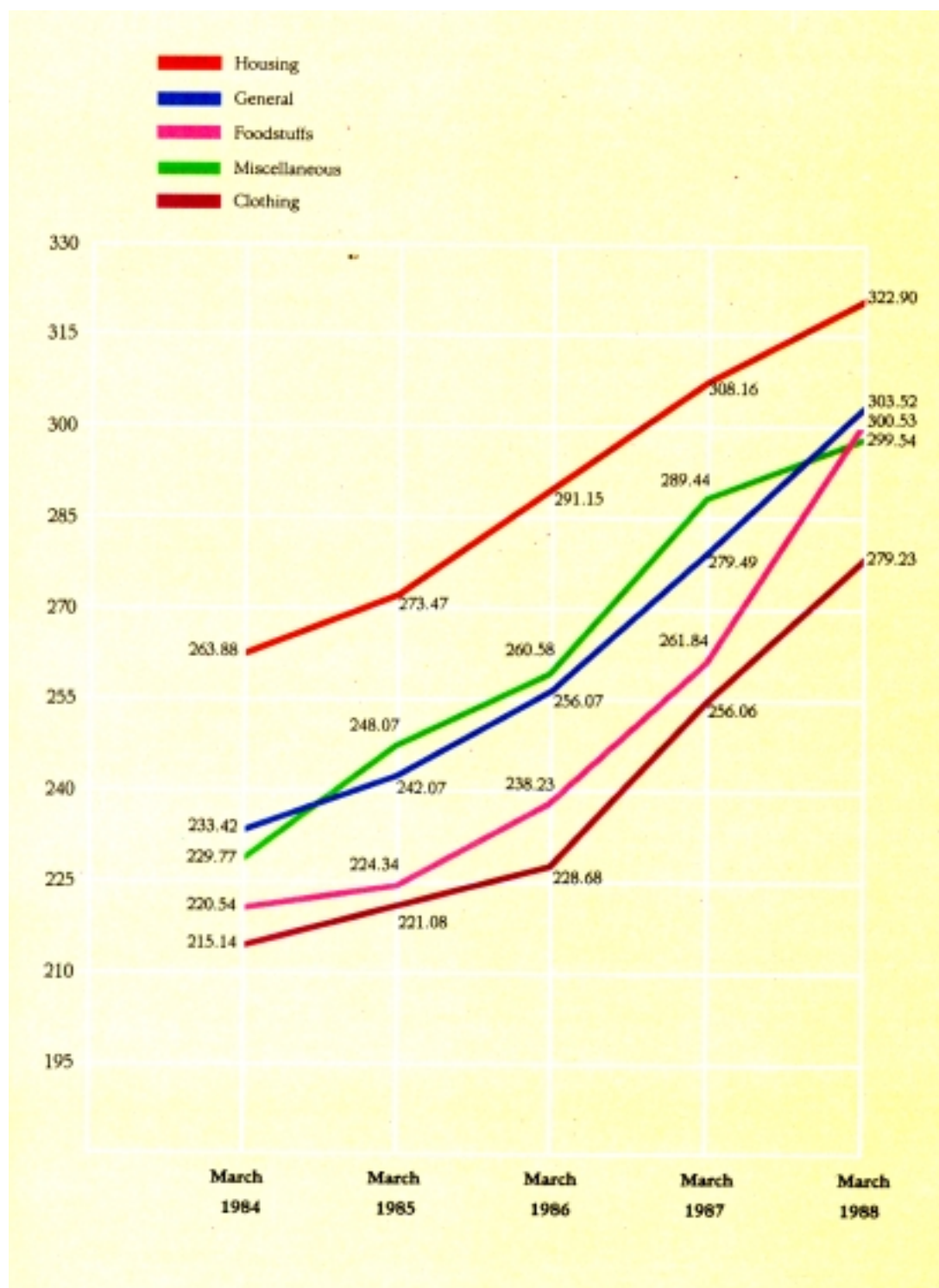
1. Labor force

The rapid growth of the labor force, which could not be matched by an expansion in employment, has been the major problem

facing Indonesia's labor force. This situation has been aggravated by low skill levels and unequal regional distribution. On the basis of an estimated 4% growth in the labor force, in 1987 the total labor force was projected to increase by 2.7 million to 69.1 million.

With a view to overcoming these problems, the Government continued its previous endeavors, namely to expand employment opportunities, to improve the

CHART 10
INDONESIA'S CONSUMER PRICE INDEX
BY GROUP OF GOODS AND SERVICES



distribution of those opportunities across regions, to improve supervision and work safety of the labor force, and to promote functioning of the labor market. Regarding the distribution and expansion of employment opportunities, the Government continued to implement labor intensive projects, to encourage the development of small-scale and traditional undertakings, and to foster the growth of the informal sector. To improve the quality of the labor force, through vocational programs, the Government undertook training for new entrants to improve their skills and provided protection for those already employed, thereby raising their productivity and welfare. Promotion of functioning of the labor market was directed at improving the placement, distribution, and utilization of the labor force either through the manpower bourse or AKL, AKAD, and AKA programs.

As a result of these efforts, in 1987 total employment rose by 3.8% reaching 67.5 million workers. It is worth noting that in 1987 placement of job seekers through the manpower bourse totalled 114,662 persons or 76.8% of the vacancies (Table 9.34). In 1987, registered job seekers in the manpower bourse totalled 929,963 persons, of which 4.8% were graduates of universities, 55.2% of senior high schools, 16.7% of junior high schools, and 23.2% of elementary schools including drop-outs (Table 9.35).

In 1987, there was an improvement in labor welfare as reflected in a rise in the minimum and maximum average wages, respectively by 12.6% and 17.1% (Table 9.36). Taking into account the inflation rate, the minimum and maximum average wages

measured in real terms rose by 3.7% and 8.2%, respectively.

2. Transmigration

The government policy on transmigration in the reporting year continued to be aimed at achieving a better standard of living, promoting regional development, and expanding employment opportunities. Furthermore, the transmigration program was also directed toward restructuring the utilization, occupation, and ownership of land, either in the original or destination location.

To achieve these objectives, the Government continued to encourage the spontaneous transmigration program (*Transmigrasi Swakarsa*) and the official transmigration program by providing counselling and guidance especially on the spontaneous transmigration program and by enhancing interdepartmental coordination. Moreover, facilities with regard to permits, communications between the location of origin and of destination, and provision of facilities at the location of destination were given more attention.

In the reporting year, the aforementioned efforts showed desirable results as reflected in an increase in the number of spontaneous transmigrants of 11.3% to 140,813 families. By contrast, the official transmigration program experienced a decrease of 50.1% to 13,134 families (Table 9.37).

3. Family planning

In the reporting year, the government policy on family planning (*Keluarga Berencana* or KB) constituted a continuation

TABLE 9.34
LABOR MARKET
(persons)

Particular	1983	1984	1985	1986	1987 *
Registered as work seekers	474,086	695,826	845,799	888,554	929,963
Vacancies	126,758	112,274	103,936	151,775	149,337
Occupied vacancies	94,931	74,359	72,880	120,954	114,662

Source : Ministry of Manpower.

TABLE 9.35
NUMBER OF REGISTERED WORK SEEKING PEOPLE
BY EDUCATIONAL LEVEL
(persons)

Educational attainment	1983	1984	1985	1986	1987 *
1. Illiterate and non-certificate primary	34,961	24,624	22,189	31,708	44,951
2. Primary school	62,107	63,339	77,410	122,143	171,195
3. Junior high school	49,928	80,289	91,476	108,692	155,639
4. Senior high school	300,983	480,693	587,992	569,546	513,217
5. Universities	26,107	46,881	66,732	56,465	44,961
Total	474,086	695,826	845,799	888,554	929,963

Source : Ministry of Manpower.

TABLE 9.36
AVERAGE MONTHLY WAGE BY ECONOMIC SECTOR
(rupiah)

Sector	Average minimum wage			Average maximum wage		
	1985	1986	1987	1985	1986	1987
Plantation	38,688	43,861	46,362	320,979	487,919	513,054
Mining	95,896	102,999	145,973	690,147	988,727	1,084,653
Manufacturing	83,291	91,924	98,627	798,678	1,181,116	1,359,182
Construction	53,129	78,837	96,356	635,985	703,621	1,144,859
Electricity	60,901	80,608	80,608	517,672	551,809	551,809
Trade/bank and insurance	90,117	136,121	159,142	724,383	999,892	1,193,838
Transportation	85,724	110,756	115,509	612,592	732,898	923,062
Services	71,597	71,597	71,597	441,213	576,436	576,436
Others	55,500	55,500	55,500	368,880	368,880	368,880

Source : Ministry of Manpower.

of policies implemented in the preceding years. The policy was directed toward improving mother-and- child's welfare so as to encourage small families and reducing the population growth through birth control. These efforts, among others, were conducted through providing family planning information to the younger generation and encouraging the private sector and the public to actively participate in the national KB 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 support the KB program, in the reporting year the number of hospitals providing KB services continued to rise. Total number of KB clinics rose by 4.9% to 8,878 and the number of active and new KB participants increased by 9.6% and 2.0% to 18.3 million and 5.2 million, respectively (Table 9.38). It is worth noting that in the reporting year execution of the KB program reached 92.9% of the target

owing to smaller numbers of younger married couples joining the program, especially those in Jawa and Bali.

E. Cooperatives

The policy on cooperatives, either village cooperative units (*Koperasi Unit Desa* or KUD) or non-KUD, in the reporting year continued to be directed toward intensifying the operation and supervision of cooperatives in order to promote business development and activities among the economically-weak group. Efforts to intensify the operations of cooperatives were carried out by improving skills through education and training as well as enhancing coordination among cooperatives and between the cooperatives and other enterprises. In support of these activities, Bank Indonesia continued to extend credits to cooperatives. In supervising the institutions, the Government also continually provided guidance and information services.

TABLE 9.37
REALIZATION OF TRANSMIGRATION
(families)

Year	Target	Realization		
		General transmigration	Spontaneous transmigration	Total
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
1987/88	165,000	23,134	140,813	163,947

Source : Ministry of Transmigration.

TABLE 9.38
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	%
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
1987/88	8,878	5,579,207	5,185,674	92.9	18.160,000	18,309,634	100.8

1) Shows an outstanding numbers in the stated year, i.e :
new member in a year = active member in the preceding year + new member – drop out (among others because of pregnancy).

Source : National Family Planning Coordinating Board.

Partly as a result of previous policies, in 1987 the number of cooperatives increased by 2.4% to 31,162 units, comprising 7,470 KUDs (up by 1.6%) and 23,692 non-KUDs (up by 2.6%). Meanwhile, the number of cooperative members rose by 18.3% to 25.5 million people, consisting of 16.6 million KUD members (up by 6.1%) and 8.9 million non-KUD members (up by 51.6%). In addition, members' deposits, which is one of the sources of cooperatives' capital, rose by 5.0% to Rp435.7 billion; turnover of the cooperatives increased by 52.4% to Rp2,218.0 billion.

As was the case in preceding years, KUDs' role in supporting economic activities in villages covered the procurement and marketing of foods, distribution of the means of agricultural production, and trade in products of plantations, livestock, and handicrafts. In addition, KUDs also participated in the distribution of electricity and credits.

In the reporting year, the procurement and marketing of paddy/rice conducted by KUDs decreased by 7.1% and 7.7% to 1.3 million tons and 1.2 million tons, respectively. These decreases were mainly due to higher market prices of paddy/rice which encouraged farmers to sell their paddy/rice directly to the open market. With respect to these operations, 1,759 KUDs were involved. As concerns distribution of the means of agricultural production, 1,478 KUDs distributed 491.1 thousand tons of fertilizer and 210 KUDs distributed 87.3 thousand liters of pesticide.

The activities of KUDs in promoting smallholders' estates included the marketing of copra and cloves. In 1987, the number of cooperatives and KUDs taking part in this operation totalled 140 and 164 units, with marketing volume of 26.6 thousand tons of copra and 6.1 thousand tons of cloves, respectively.

As regards smallholders' livestock, cooperatives distributed the means of production and marketed livestock products. In 1987, the number and the business turnover of cooperatives participating in the smallholders' livestock subsector rose by 1.0% and 3.5% to 499 units and Rp92.7 billion, respectively. In accordance with these, in 1987 the number of milch cows owned and milk distributed by the cooperative members went up by 2.7% and 1.6% to 105.4 thousand cows and 307.4 million liters.

To assist the development of smallholders' handicraft and small-scale industry, cooperative links have been established among cooperatives and between cooperatives and other business entities in the fields of procurement of basic materials and marketing. As a result of the Government's efforts to develop the small-scale industry and smallholders' handicraft cooperatives (*Koperasi Industri Kecil dan Kerajinan Rakyat* or Kopinkra), 278 new cooperative units were established in 1987. The number of cooperatives taking part in smallholders' handicraft activities rose by 27.5% to 1,288 units with 277.0 thousand members and the value of turnover of Rp392.2 billion (up by 15.0%).

In the meantime, participation of the cooperatives in the distribution of electricity to villages continued to develop favorably. By the end of the reporting year, the number of cooperatives distributing electricity to villages increased by 50.6% reaching 890 units. These cooperatives distributed electricity to 1,199,744 houses covering 2,807 villages or 4.6% of all villages in Indonesia.

In the reporting year, the operation of cooperatives distributing credits, particularly petty traders' credits (*Kredit Candak Kulak* or KCK) increased moderately. The number of cooperatives distributing KCKs went up by 9.2% to 5,981 units; the value of such credits and the number of KCKs' customers increased by 4.2% and 2.7% to Rp234.5 billion and 16.4 million customers, respectively.

It may be added that at the end of the reporting year bank credits extended to cooperatives amounted to Rp339.6 billion comprising Rp73.5 billion of investment credits and Rp266.1 billion of working capital credits. The above credits were mainly extended to KUDs and non-KUDs in the amounts of Rp302.5 billion and Rp37.8 billion, respectively.

APPENDICES

APPENDIX A

MANAGEMENT OF BANK INDONESIA as of March 31, 1988

Government Commissioner : A.J. Witono S.

BOARD OF MANAGING DIRECTORS

Governor : Prof. Dr. Adrianus Mooy
Managing Director : Teuku Mohamad Zahirsjah, S.H.
Managing Director : Marjanto Danoesapoetro, S.E.
Managing Director : Drs. Binhadi
Managing Director : Sujitno Siswowodagdo, 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	: W.T. Pandjaitan, S.E.
Bureau of Banking Research and Development	: Hendarno Hendarmin, S.E.
Cooperatives and Small Credit Department	: Ir. Achmad Darsana Hardjakusumah
Currency Circulation Department	: Thamrin Soerawisastra, S.H.
Economics and Statistics Department	: Dr. Kilian Sihotang
Foreign Exchange Department	: Paul Soetopo T., S.E., M.A., MAPE
General Credit Department	: Siswanto, S.E.
General Services Department	: Hartono, S.H.
Internal Control Department	: R. Soegiono
International Department	: Haryono, S.H.
Legal Department	: M.H. Sitindjak, S.H.
Money Market and Clearing Department	: Dr. Syahril Sabirin
Personnel Department	: Ekotjipto, S.H.
Private Banks Promotion and Supervision Department	: Ibrahim Zarkasi, S.E.
Secretariat Department	: Mrs. Indrawati Soewarso, S.H.
State Banks Promotion and Supervision Department	: Soehaimi Saleh, S.E.

REPRESENTATIVES

Kuala Lumpur and Singapore	: Sugiono, S.E.
London	: Ir. Mansjurdin Nurdin
New York	: Djamalius Luddin, S.E.
Tokyo	: Sutedja Trisnaatmadja, S.H.

REGIONAL COORDINATORS

Coordinator of Bank Indonesia for West Jawa	: Dr. Heru Soepraptomo, S.E.
Coordinator of Bank Indonesia for Central Jawa and Yogyakarta	: Suparman Wijaya, S.H.
Coordinator of Bank Indonesia for East Jawa	: Drs. Bistok Hutasoit
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	: Onang Sunaryono, S.E.
Cirebon	: Muchtar Suriadihardja, S.E.
Denpasar	: Mohamad Kurdi, S.E.
Dili	: Moeljono, S.E.
Jambi	: M. Tonggur Naibaho, S.E.
Jayapura	: Drs. Sudarto Wirjodarmodjo
Jember	: Urip Koendarto, S.H.
Kediri	: Soediono, S.E.
Kendari	: Muchammad Sjarief, S.H.
Kupang	: Drs. Djumiran Indrojatmoko
Lhokseumawe	: Nasihun
Malang	: Syahriar Lathief
Mataram	: Abdul Muis Hamid, S.E.
Medan	: Kamaruddin
Menado	: Djedi
Padang	: Soekisman
Padang Sidempuan	: Mohamad Saih, Bc. Hk.
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	: Pirngadi Siswowijoto, S.E.
Semarang	: Suparman Wijaya, S.H.
Sibolga	: R. Ating Rahmat Roessamsiputra
Solo	: Drs. Tontowi Djauhari L.
Surabaya	: Drs. Bistok Hutasoit
Tasikmalaya	: Moh. Idroes Koedoes, B.A.
Tegal	: A.L. Tobing
Ternate	: R.D.J. Makatita
Ujung Pandang	: Irfano Chamra, S.E., M.P.A.
Yogyakarta	: Sri Hastjarja, P., S.E.

APPENDIX B

TABLE I
INTEREST RATE AND SELF-FINANCING REQUIREMENT OF
BANK INDONESIA'S REFINANCING FACILITY
(percentage)

Items	Interest charged by handling banks to customers p.a.	Minimum ratio of customer's self financing requirement in total cost of project	Ratio and interest rate of BI's refinancing facility	
			Ratio	Interest p.a.
I. Working capital credits				
1. Bimas credits	12	—	100	3
2. Permanent Working Capital Credits (KMKP)	12	—	55	3
3. Credits to Bimas for production, imports and distribution of fertilizer and insecticide	12	25	75	3
4. Credits to Private National Plantation (PSN)	12	30	75	3
5. Credits to cooperatives (for members and for the purchase of essential commodities)	12	—	90	3
6. Export credits	freely determined by respective handling bank ¹⁾	15 ²⁾	70 ³⁾	3
7. Credits to national contractors	9	50-70	70 ³⁾	3
8. Credits to villages (Kupedes)	18	—	100	12 ⁴⁾
9. Working Capital Credit through Rp75 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	—	100	3
II. Investment credits				
1. Small Investment Credits (KIK)	12	—	55	3
2. Plantation credits :				
a. Nucleus Smallholder Estates (PIR)	12	—	80	3
b. PIR Trans ⁵⁾	16	35	55	6.5
c. Rejuvenation, Rehabilitation, and Expansion of Export Plants (PRPTE)	12	—	80	3
d. Private National Plantation (PSN)	12	10 ⁶⁾	85	3
3. New rice fields ⁷⁾	12	—	100	3
4. Investment credits through Rp75 million	12	10	80	3
5. Credits to cooperatives (for members and for the purchase of essential commodities)	12	—	90	3
6. Credits to villages (Kupedes)	12	—	100	3
7. Mini credits	12	—	100	3
8. Midi credits	12	—	100	3
III. Others				
1. House Ownership Credits (KPR)	5-9	10-20	90	3
2. Credits for Indonesian Students (KMI)	6	—	100	3
3. Credits for Student Dormitories	5	—	80	3

¹⁾ An interest of 9% and 11.5% p.a. would be applied each on credits to finance primary and non-primary commodities of which exports have been realized.

²⁾ Prior to October 1986, 30% for PMA companies.

³⁾ 95% for state development bank (Bapindo).

⁴⁾ Before October 1987, an interest rate of 3% p.a. has been applied, excluding reserve for risk.

⁵⁾ Applicable to nucleus estates. For credits extended to plasma estates transferred to farmers, the rate will be adjusted as that charged to economically-weak group.

⁶⁾ For new project and extension of existing plantation areas reaching minimum economies of scale, self financing is set at 30%.

⁷⁾ Prior extension credit to farmer, this credit scheme provided by Bank Indonesia as direct credit to the Ministry of Agriculture.

TABLE II
PLACEMENT OF SHARES AND BONDS
IN THE CAPITAL MARKET

Enterprises	Date of go public/ issuance permit	Shares / bonds issued		
		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 Jakarta		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 Prodenta Indonesia	10.09.1984	221,000	1,450	320
II. Bonds		298,245		595,718
PT Jasa Marga		248,700		393,718
– 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)		(20,000)
– 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)
– Issuance X	05.28.1987	(5,250)		(60,000)
– Issuance XI	10.24.1987	(3,700)		(40,000)
Bank Pembangunan Indonesia		38,495		135,000
– Issuance I	01.29.1983	(32,650)		(25,000)
– Issuance II	08.28.1986	(3,745)		(50,000)
– Issuance III	03.14.1988	(2,100)		(60,000)
PT Papan Sejahtera		11,050		67,000
– Issuance I	04.16.1983	(6,280)		(6,000)
– Issuance II	08.29.1985	(3,490)		(30,000)
– Issuance III	11.19.1987	(1,280)		(31,000)
Total I + II		59,017,837		728,821

TABLE III
PLANNED AND ACTUAL GOVERNMENT REVENUES AND EXPENDITURES
DURING REPELITA I, 1969/70 – 1973/74
(billions of rupiah)

Particular	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 II, 1974/75 - 1978/79
(billions of rupiah)

Particular	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)

Particular	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	23,750
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 IV, 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	Budget	Repelita	Actuals
Domestic revenues	16,149	15,905	19,794	19,253	24,283	16,141	29,582	20,803	35,660	21,803	125,468	93,905
Routine expenditures	10,101	9,429	12,043	11,951	14,583	13,559	17,725	17,482	21,520	20,066	75,972	72,487
Government savings	6,048	6,476	7,751	7,302	9,700	2,582	11,857	3,321	14,140	1,737	49,496	21,418
Foreign aid	4,411	3,478	5,098	3,572	5,715	5,752	6,687	6,158	7,476	7,161	29,387	26,121
a. Project aid	(4,371)	(3,409)	(—)	(3,503)	(—)	(3,795)	(—)	(5,430)	(—)	(5,998)	(—)	(22,135)
b. Program aid	(40)	(69)	(—)	(69)	(—)	(1,957)	(—)	(728)	(—)	(1,163)	(—)	(3,986)
Development funds	10,459	9,954	12,849	10,874	15,415	8,334	18,544	9,479	21,616	8,898	78,883	47,539
Development expenditures	10,459	9,952	12,849	10,873	15,415	8,332	18,544	9,477	21,616	8,898	78,883	47,532
a. Rupiah	(6,088)	(6,543)	(—)	(7,370)	(—)	(4,537)	(—)	(4,047)	(—)	(2,900)	(—)	(25,397)
b. Project aid	(4,371)	(3,409)	(—)	(3,503)	(—)	(3,795)	(—)	(5,430)	(—)	(5,998)	(—)	(22,135)
Surplus(+)/deficit(—)	—	+2	—	+1	—	+2	—	+2	—	—	—	+7

Source : Ministry of Finance.

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

Items	1983/84	1984/85	1985/86	1986/87	1987/88*
A. Balance of goods and services	-4,151	-1,968	-1,832	-4,051	-1,707
1. Merchandise goods, exports f.o.b	19,816	19,901	18,612	13,697	18,343
imports f.o.b	-16,304	-14,427	-12,552	-11,451	-12,952
2. Freight and insurance on imports	-1,880	-1,571	-1,356	-1,237	-1,401
3. Other transportation	-299	-293	-274	-229	-226
4. Travel	-93	-72	-28	157	477
5. Investment income	-3,934	-3,698	-3,814	-3,153	-3,825
5.1. Oil and LNG sector	(-2,439)	(-2,009)	(-2,106)	(-1,121)	(-1,237)
5.2. Direct investment and others	(-1,495)	(-1,689)	(-1,708)	(-2,032)	(-2,588)
6. Government, not included elsewhere	-114	-118	-124	-125	-130
7. Other services	-1,343	-1,690	-2,296	-1,710	-1,993
Balance of goods (1)	3,512	5,474	6,060	2,246	5,391
Balance of services (2 through 7)	-7,663	-7,442	-7,892	-6,297	-7,098
B. Grants	113	69	110	115	165
8. Private	--	--	--	--	--
9. Government	113	69	110	115	165
C. Current account (A + B)	-4,038	-1,899	-1,722	-3,936	-1,542
D. Capital Movements	3,791	1,990	2,220	5,198	1,485
D.1. Other than reserves	5,861	2,657	2,250	4,460	3,070
10. Direct investment and other long-term capital movements	5,502	2,419	1,868	3,440	1,983
10.1. Direct investment	193	245	299	252	544
10.2. Bonds	368	--	300	--	--
a. Government	368	--	300	--	--
b. Private	--	--	--	--	--
10.3. Other long-term capital movements	4,941	2,174	1,269	3,188	1,439
a. Government	4,302	2,158	1,378	3,228	1,361
b. Private	639	16	-109	-40	78
11. Short-term capital movements	359	238	382	1,020	1,087
11.1. Government	--	--	--	--	--
11.2. Private	359	238	382	1,020	1,087
D.2. Reserves	-2,070	-667	-30	738	-1,585
12. Monetary gold	95	228	-111	-178	-138
13. Special Drawing Rights	226	-10	-42	17	35
14. Reserves position in the Fund	162	9	-15	-9	-8
15. Foreign exchange	-2,553	-893	138	908	-1,474
16. Others	--	-1	--	--	--
E. Errors and Omissions (between C and D)	247	-91	-498	-1,262	57

1) - The presentation basically follows the Fund.
- Positive is for credit and negative is for debit.

TABLE VIII
EXPORTS BY COUNTRY OF DESTINATION
(millions of dollars)

Country	1983/84	1984/85	1985/86	1986/87	1987/88
Europe	1,185	1,359	1,456	1,544	1,899
Share	5.4%	6.3%	7.9%	11.4%	10.4%
Belgium and Luxemburg	33	65	52	98	128
Denmark	4	5	3	7	14
Fed. Rep. of Germany	267	236	282	328	388
France	48	56	76	95	112
Italy	134	169	151	150	184
Netherlands	281	379	398	445	534
Norway	2	1	3	8	9
Sweden	7	8	11	15	23
United Kingdom and Rep. of Ireland	217	153	199	199	253
Others	192	287	281	199	254
 America	 5,956	 5,349	 4,498	 2,880	 3,453
Share	27.0%	24.9%	24.5%	21.3%	18.8%
Canada	37	44	53	61	101
United States of America	4,733	4,342	4,145	2,745	3,292
Others	1,186	963	300	74	60
 Africa	 98	 138	 180	 161	 147
Share	0.4%	0.6%	1.0%	1.2%	0.8%
 Asia	 14,326	 14,173	 12,001	 8,722	 12,446
Share	65.0%	66.0%	65.4%	64.4%	67.9%
Hong Kong	198	306	356	340	424
India	69	34	43	64	56
Iraq	6	2	3	3	4
Japan	9,768	10,135	8,446	5,885	7,981
Malaysia	68	96	73	84	118
Pakistan	26	45	50	19	25
Philippines	253	194	188	86	80
Singapore	3,068	1,972	1,487	1,096	1,576
Thailand	58	100	94	59	104
Others	812	1,289	1,261	1,086	2,078
 Australasia	 484	 465	 212	 225	 379
Share	2.2%	2.2%	1.2%	1.7%	2.1%
Australia	208	299	123	154	346
New Zealand and Oceania	276	166	89	71	33
Total	22,049	21,484	18,347	13,532	18,324

Source : Central Bureau of Statistics.

TABLE IX
IMPORTS BY COUNTRY OF ORIGIN
(millions of dollars)

Country	1983/84	1984/85	1985/86	1986/87	1987/88 *
Europe	2,685	2,579	1,981	2,439	2,943
Share	18.7%	19.1%	20.1%	21.1%	23.6%
Belgium and Luxemburg	116	102	99	106	148
Cekoslovakia	6	10	3	16	9
Democratic Rep. of Germany	7	3	3	4	15
Fed. Rep. of Germany	680	919	576	789	874
France	588	367	289	309	389
Italy	106	114	101	172	249
Netherlands	262	282	181	217	310
Spain	161	78	87	47	77
Sweden	111	105	102	120	114
Switzerland	83	88	73	121	138
United Kingdom and the Rep. of Ireland	349	281	341	380	326
Others	216	230	126	158	294
America	2,780	2,902	1,936	1,957	1,909
Share	19.3%	21.5%	19.7%	16.9%	15.3%
Canada	184	330	201	212	336
United States of America	2,451	2,433	1,549	1,533	1,380
Others	145	139	186	212	193
Africa	135	151	168	124	164
Share	0.9%	1.1%	1.7%	1.1%	1.3%
Asia	8,369	7,393	5,221	6,576	6,874
Share	58.0%	54.7%	53.1%	56.9%	55.2%
Burma	52	18	1	1	1
Hong Kong	86	64	62	101	106
India	31	49	16	29	38
Japan	3,486	3,162	2,689	3,267	3,576
Malaysia	50	102	33	59	175
Pakistan	51	11	31	33	35
Philippines	106	15	27	61	52
Rep. of China	189	214	264	353	408
Singapore	2,913	1,624	663	1,356	657
Thailand	130	66	38	74	90
Others	1,275	2,068	1,397	1,242	1,736
Australasia	454	482	528	471	565
Share	3.1%	3.6%	5.4%	4.0%	4.6%
Australia	382	408	454	396	489
New Zealand and Oceania	72	74	74	75	76
Total	14,423	13,507	9,834	11,567	12,455

Source : Central Bureau of Statistics.

ASEAN Industrial Joint Venture (AIJV) is a joint-venture manufacturing enterprise established by at least two ASEAN member countries with equal equity participation.

ASEAN Swap Arrangement (ASA) is an agreement among the ASEAN countries to provide short-term liquidity to member countries with a temporary balance of payments financing need. The maximum amount made available for the swap is \$200 million with a ceiling of \$80 million for each borrowing country.

Compensatory Financing Facility (CFF) is 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 member's control.

Contract of Work Agreement (Perjanjian Karya) 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. The production sharing is fixed in terms of US dollars with a share of 85 : 15, for Pertamina and the foreign contractor, respectively.

Credit for cooperatives is a priority credit channeled by banks to cooperatives and further extended to cooperatives' members for the provision of currently high-priority goods such as rice, secondary crops, smallholders' sugarcane, and cloves. The terms and conditions of this credit are the same as those of KIK and KMKP.

Direct Credit is a credit extended by Bank Indonesia to official entities and state enterprises or financial institutions in order to assist in the implementation of priority development programs, such as the construction of low-cost

housing and provision of the national food stock.

Discount Facility is a Bank Indonesia short-term credit for commercial banks facing liquidity problems. Discount Facility I is provided to banks which encounter daily liquidity problems and 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) plus quasi money, which constitutes the total liabilities of the monetary system to the community.

Economically-weak Group is a group comprising either individual entrepreneurs including farmers, fishermen, and craftsmen or corporate bodies. Net assets, excluding homestead, do not exceed Rp100 million for those engaging in manufacturing and construction and Rp40 million for those engaging in trade, services, and other sectors. With regard to corporate bodies, 75% of the shares shall be held by the concerned individual entrepreneurs or 50% of the management shall be actively conducted by those entrepreneurs.

Forest Exploitation Right (Hak Pengusahaan Hutan or HPH) is a right to exploit a certain plot of forest, including wood cutting, forest maintenance and preservation, and product processing and marketing according to the HPH plan and prevailing regulations.

IGGI (Inter-Governmental Group on Indonesia) is a group of aid donors to 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.

Installment Sale is financial assistance provided by the Islamic Development Bank, constituting a sale contract on goods of which the ownership is automatically granted to the buyer. The purchasing price of the goods plus a maximum mark-up of 10% is to be repaid in installments.

Intra-ASEAN Model of Double Taxation Convention is a convention on a taxation model applicable to transactions of any ASEAN country as a guide to avoid double taxation.

Joint-venture Agreement (Perjanjian Kerjasama Patungan) is 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. The production sharing is set such that the first 50% is taken by Pertamina and the remainder is divided according to the formula noted below in the Production Sharing Contract.

KIK (Kredit Investasi Kecil) 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 for 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.

KUD (Koperasi Unit Desa) or village unit cooperative 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 rural general credit is a type of credit designed to encourage the development of small-scale entrepreneurs in rural areas.

Liquidity Credit is a refinancing facility of Bank Indonesia to finance banks' loans to borrowers or to assist banks in the event of liquidity problems.

Money Supply ($= M_1$) comprises currency and demand deposits, which constitute the cash liabilities of the monetary system to the community.

Margin of Preference (MOP) is a percentage discount on prevailing tariffs applicable to certain goods.

P4BM (Pusat Pengolahan Pembebasan dan Pengembalian Bea Masuk), or the center for management of import tax exemptions and drawbacks, was established on July 1, 1986 as part of the May 6, 1986 policy package. Initially, this institution only dealt with the drawbacks/exemptions on import goods used in the processing of export commodities. However, with the December 24, 1987 policy package, it also includes drawbacks on sales tax on luxury goods and the postponement of value-added tax.

PIR (Perusahaan Inti Rakyat), or smallholders' nucleus estate, is a scheme for

developing smallholders' business by assigning more-established agricultural estates as nucleus to provide guidance in cultivating, managing, processing, and marketing their products. This scheme is carried out in plantations (PIR-Bun), poultry farms (PIR-Unggas), and fisheries (*Tambak Inti Rakyat*).

PMA (Penanaman Modal Asing) is a foreign direct capital investment scheme subject to prevailing Indonesian law, with the risk of investment being fully borne by the capital owner.

Production Sharing Agreement (Perjanjian Bagi Hasil) is a 20-year agreement between Pertamina and foreign contractors to share oil production. Under this agreement, the management is handled by Pertamina while the operational risk is undertaken by contractors. The production sharing is fixed in kind (oil) after production costs have been subtracted from total production (up to a maximum of 40% of the total production) with a share of 85 : 15, for Pertamina and the foreign contractor, respectively.

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 NBFIs and may be traded among them or be discounted to the 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, which may be traded among banks or NBFIs. In addition, banks and NBFIs may discount the SBPUs to the securities house and the securities house may, in turn, rediscount them to Bank Indonesia. The securities house is an NBFIs designated to execute the trading of its own or its customers' SBPUs.

Tabanas (Tabungan Pembangunan Nasional) or National Development Savings Scheme is 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 associated with life insurance. Depositors are guaranteed that in the event of death prior to maturity of the scheme, the amount of money rightfully due at maturity (12 months) would revert to the depositor's heir, despite the depositor having failed to deposit the total amount of savings due under the scheme. Persons aged from 5 to not-more-than 55 years are eligible for the Taska scheme. Monthly installment payments must be made in amounts specified on the Taska savings card.

Team for Effectiveness of the Realization of Development Projects with Foreign Funds (Tim Pendencyagunaan Pelaksanaan Proyek-proyek dengan Dana Luar Negeri or Tim P4DLN) was established in accordance with Presidential Decree No. 32/1986 to enhance the implementation of development projects financed by foreign funds.